

Tuesday, September 18, 2018

FX Themes/Strategy/Trading Ideas

- After trailing lower for most of the day, the dollar bounced late Monday after the Trump administration unveiled 10% tariffs on another additional USD200bn worth of Chinese imports with effect from 24 September 2018.
- Expect risk appetite to begin the day on an unsteady footing with S&P futures in the red and with investors on the lookout for any retaliation out of Beijing. Note that the US administration has already preempted any retaliation, threatening additional tariffs on a further USD267bn worth of imports in that eventuality.
- Intra-day, despite the option market being less than excitable at this juncture, continue to expect the cyclicals to bear the brunt of negative global sentiment (and the JPY to outperform) while on a relative basis, the balance of news flow should continue to see crosses like the EUR-AUD and GBP-AUD lifting (in spite of somewhat supportive rhetoric from the RBA meeting minutes this morning). On this front, continue to look for the European complex to outperform on the back of more supportive central bank (and yield curve) dynamics.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** inched higher on Monday and we expect the Index to continue to climb (i.e., heightening negativity) while still remaining in Risk-Neutral territory.

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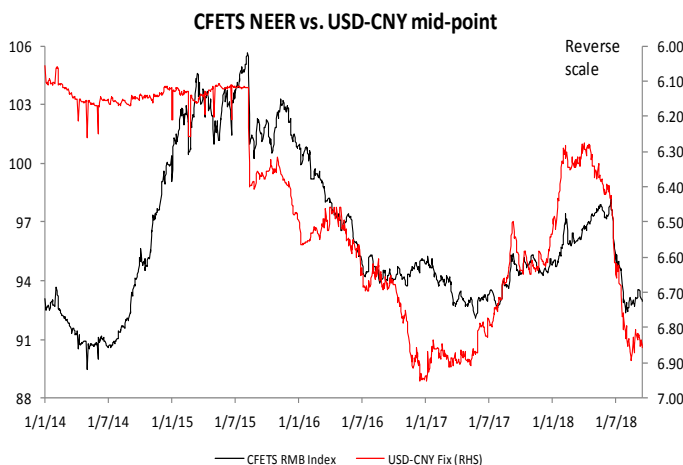
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Asian FX

- With Asia equities off to a slight negative start in reaction to latest Sino-US headlines, expected sentiment in the region to be fragile (implied remain nervous) intra-day. Going ahead, remain on the lookout for a further escalation of global trade tensions and this uncertainty should continue to keep investors on their toes. As noted previously, if risk aversion becomes pervasive, expect the northern currencies (KRW, TWD, SGD) to display further relative vulnerability.
- Net portfolio flows in Asia meanwhile continue to paint a negative backdrop for regional assets although the THB may remain a relative outperformer. Meanwhile, for the region at large, net portfolio outflows are still attempting to deepen, further eroding underlying support for respective FX and bond markets.
- **SGD NEER:** This morning, the SGD NEER gapped lower to sub +1.00% levels but has since rebounded. If global risk appetite levels continue to curdle, we do not expect the SGD NEER to stray too far north of the +1.00% threshold. At current levels, NEER-implied USD-SGD thresholds are flat to a touch higher relative to Monday. Expect the pair to remain range bound in the interim.
- **CFETS RMB Index:** USD-CNH also bounced above 6.8800 in early Asia on Tuesday although the USD-CNY mid-point came in largely as expected at 6.8554 from 6.8509 yesterday. This took the CFETS RMB Index lower to 92.92 compared to 92.98 on Monday. Structurally, in the event that the Index is flat lined (as opposed to its recent gentle drift higher) in the face of escalating trade tensions with the US, expect the USD to impart a greater northbound impact on the Renminbi's bilateral exchange rates.



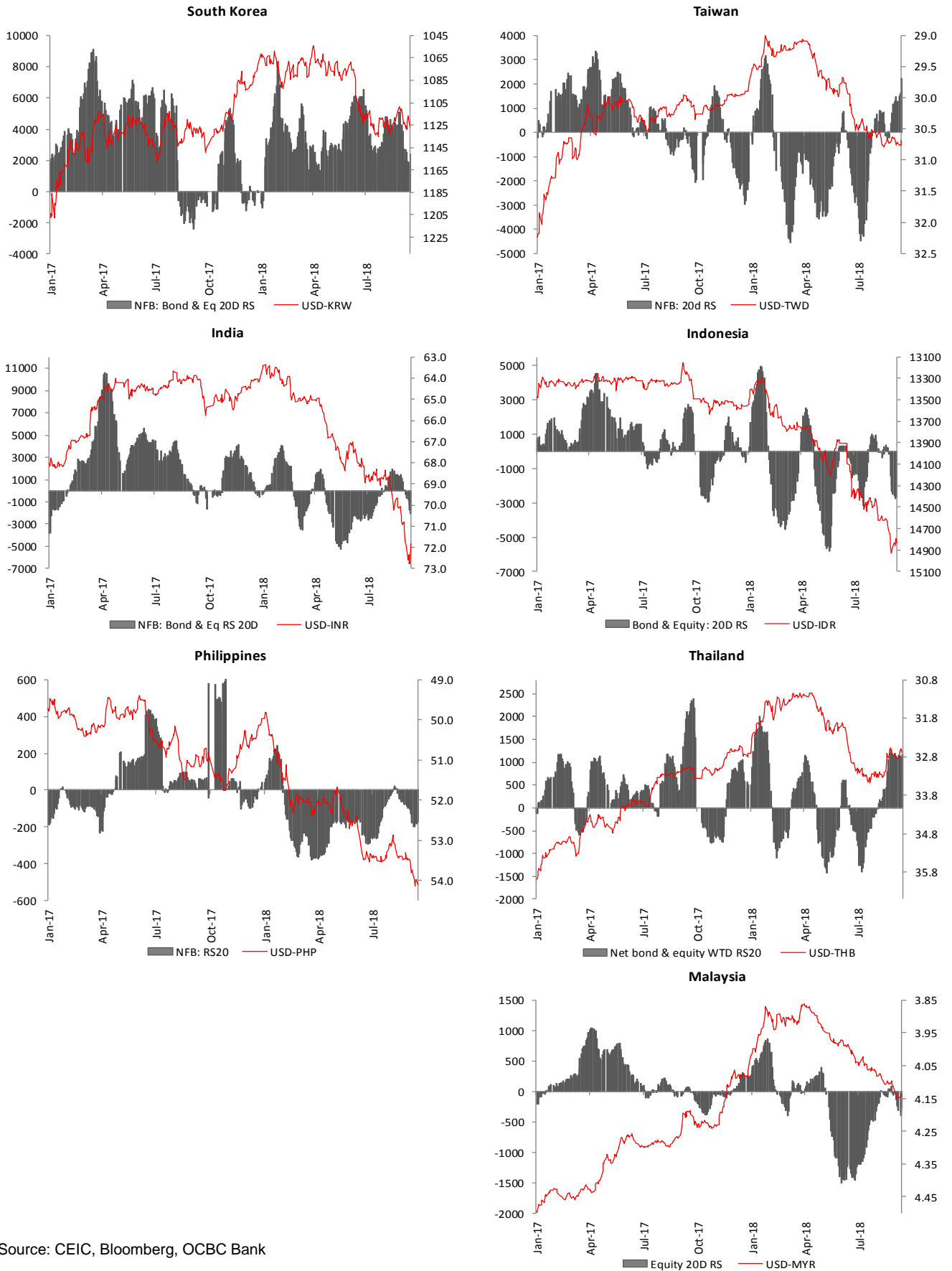
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔	Some stability in FX is still expected in the near term but note the heightened realized volatility of the fixings all through the summer coupled with the slightly uncomfortable firming of the CFETS RMB Index. The FX vol curve has softened but this belies the riskies continuing to lean in favor of the USD. Firm CPI readings may be expected to keep the yield curve supported.
USD-KRW	↔	Weaker than expected unemployment print may douse rate hike expectations; BOK board member warns against rate hikes on tepid inflation. Expect back-end yields for KTBs (and NDIRS) to continue to lead the way lower. Net portfolio inflows continue to decay. Watch Moon-Kim summit on Tuesday.
USD-TWD	↔	Expect to track North Asian trends in general; flow dynamics remain supportive despite EM concerns.
USD-INR	↑	Stress on the INR and govies may be expected to persist but this may be tempered by potential for a rate hike (despite the softer than expected Aug CPI) and administrative measures from the authorities. Current account concerns for India plus the larger EM overhang may continue to see outsized vulnerability of the INR relative to the neutral net portfolio flow environment. FX measures announced on Friday did not surprise prior expectations; net bond/equity outflows continue to deepen.
USD-SGD	↔	Pause in broad USD momentum cap near term advances in the pair; balance of considerations may now tilt towards external uncertainties in the MAS's October decision.
USD-MYR	↑	BNM static in September; MYR remains vulnerable in line with its peers. Reported net equity outflows neutral. On a related note, expect SGD-MYR to continue to attempt to lift, especially with 3.00 now having been violated.
USD-IDR	↔/↑	IDR may remain exposed to EM jitters on the back of C/A deficit concerns and foreign reserve slippage, as well as exposure to foreign ownership of local paper. Note expectations for BI to hike in September again (another inter-meeting hike would not be totally unexpected). NDF points, especially in the front-end, are already reflecting elevated levels, potentially discouraging fresh short term USD longs and pushing interest out towards the back-end in the forward/forwards if investors remain bearish on the IDR. Net bond outflows continue apace. On a related note, 10y govies may not relinquish the 8.50% handle convincingly just yet.
USD-THB	↔/↓	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support, top aide to Thai PM also signalled possible rate hike before year-end; inflow momentum still strong. Despite still strong bond inflows, expect implicit upside pressure on govie and NDIRS curves to continue to materialize. BOT expected to be static this week at 1.50%.
USD-PHP	↑	BSP rate hiked 50 bps in August, as expected by some quarters; BSP retains a hawkish stance, ready to hike further if inflation remains out of control. Already heightened implied costs may deter new short term PHP bears in the NDF outright in the absence of fresh EM distress.

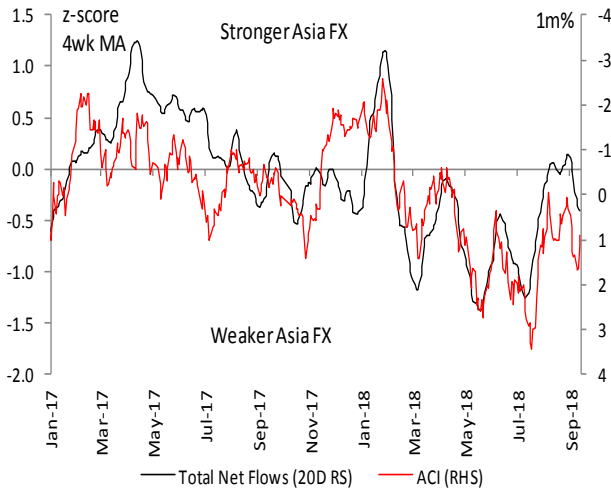
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



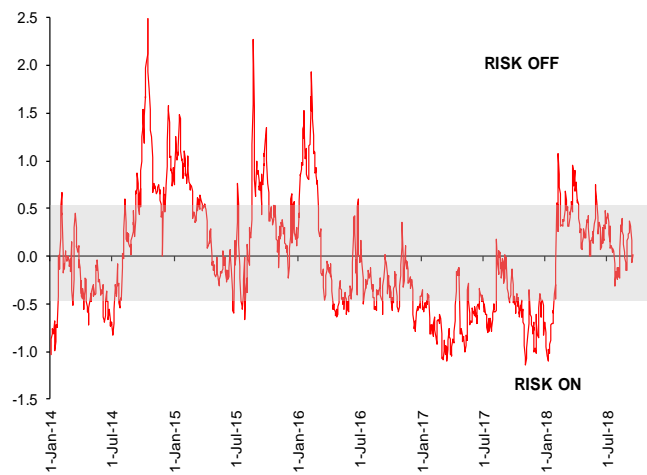
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.473	0.354	-0.722	-0.018	-0.416	-0.570	-0.505	0.076	0.617	0.130	-0.951
THB	0.756	-0.242	0.353	-0.585	-0.278	-0.301	-0.494	-0.388	0.321	0.493	0.241	-0.759
CHF	0.677	-0.734	0.033	-0.686	0.296	-0.184	-0.647	-0.507	-0.471	0.401	-0.338	-0.610
CAD	0.527	0.146	0.312	-0.349	-0.427	-0.426	-0.052	-0.262	0.686	0.245	0.442	-0.522
CNY	0.354	0.398	1.000	-0.325	-0.574	-0.429	0.112	-0.156	0.159	-0.178	0.853	-0.491
SGD	0.279	0.555	0.553	-0.106	-0.642	-0.312	0.275	-0.053	0.690	-0.079	0.728	-0.347
CNH	0.130	0.484	0.853	-0.180	-0.463	-0.359	0.312	-0.035	0.400	-0.169	1.000	-0.242
KRW	0.089	0.485	0.578	-0.488	-0.908	-0.477	0.108	-0.351	0.425	-0.367	0.475	-0.256
AUD	0.063	-0.781	-0.473	-0.221	0.673	0.048	-0.529	-0.244	-0.616	0.342	-0.682	0.025
TWD	0.051	0.514	0.407	-0.205	-0.851	-0.252	0.309	-0.139	0.355	-0.515	0.278	-0.119
NZD	-0.089	-0.735	-0.558	-0.026	0.803	0.216	-0.384	-0.068	-0.602	0.270	-0.637	0.199
IDR	-0.157	0.677	0.192	0.246	-0.594	-0.093	0.459	0.248	0.619	-0.228	0.407	0.110
MYR	-0.172	0.772	0.228	0.219	-0.746	-0.047	0.471	0.238	0.566	-0.244	0.461	0.066
INR	-0.222	0.863	0.412	0.238	-0.753	-0.064	0.514	0.274	0.631	-0.491	0.547	0.118
PHP	-0.390	0.868	0.515	0.188	-0.872	-0.142	0.539	0.154	0.287	-0.708	0.412	0.198
USGG10	-0.473	1.000	0.398	0.472	-0.685	-0.026	0.742	0.311	0.312	-0.686	0.484	0.352
JPY	-0.570	0.742	0.112	0.677	-0.242	0.263	1.000	0.534	-0.100	-0.689	0.312	0.605
GBP	-0.743	0.819	0.294	0.559	-0.487	0.131	0.653	0.382	0.160	-0.698	0.427	0.585
EUR	-0.951	0.352	-0.491	0.779	0.184	0.498	0.605	0.552	-0.145	-0.551	-0.242	1.000

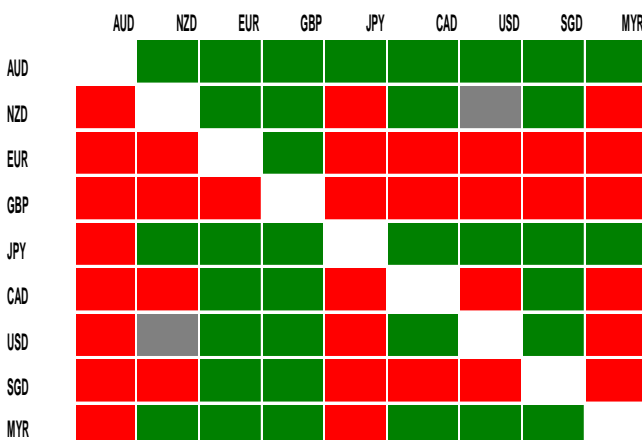
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1606	1.1679	1.1700	1.1724
GBP-USD	1.2987	1.3100	1.3147	1.3165	1.3171
AUD-USD	0.7085	0.7100	0.7176	0.7200	0.7311
NZD-USD	0.6500	0.6501	0.6582	0.6600	0.6680
USD-CAD	1.2893	1.3000	1.3054	1.3079	1.3100
USD-JPY	111.00	111.38	111.92	112.00	112.13
USD-SGD	1.3686	1.3700	1.3728	1.3800	1.3809
EUR-SGD	1.5988	1.6000	1.6033	1.6052	1.6058
JPY-SGD	1.2207	1.2209	1.2266	1.2288	1.2300
GBP-SGD	1.7774	1.8000	1.8048	1.8080	1.8100
AUD-SGD	0.9761	0.9800	0.9851	0.9900	1.0005
Gold	1161.40	1188.26	1197.90	1200.00	1209.92
Silver	13.91	14.10	14.12	14.20	14.96
Crude	68.60	68.61	68.63	68.70	70.50

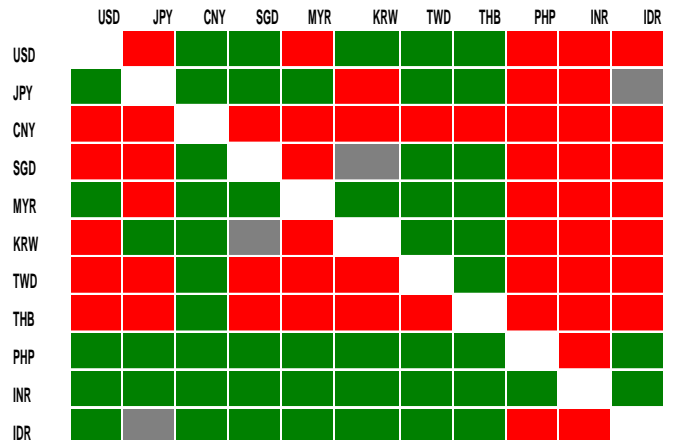
Source: OCBC Bank

G10 FX Heat Map



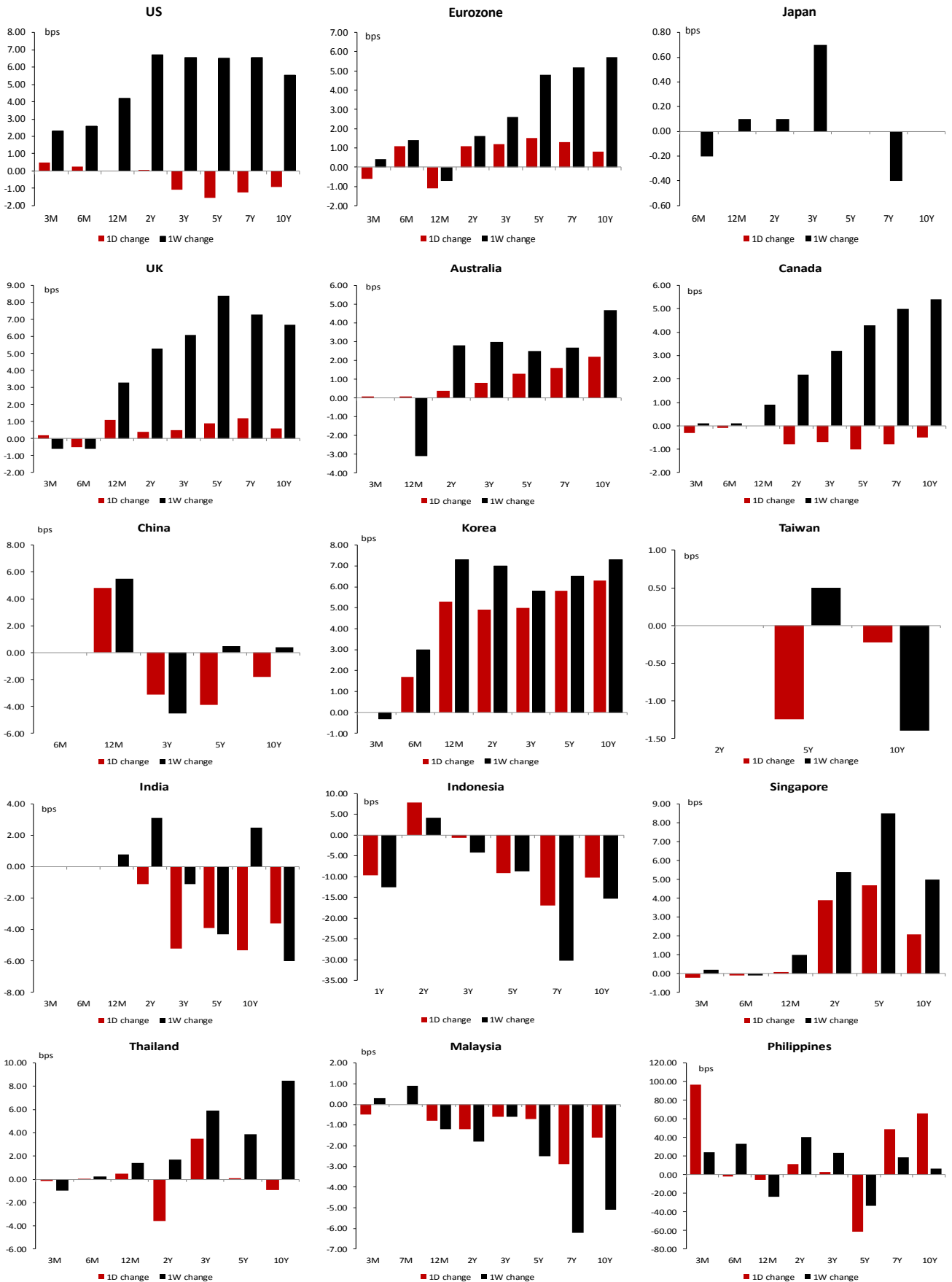
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Recommendations

	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
1	04-Sep-18		S	AUD-USD	0.7190	0.7020 0.7275	Vulnerability to contagion, static RBA	
2	11-Sep-18		B	GBP-USD	1.3056	1.3325 1.2920	Positioning ahead of BOE MPC and positivity from Brexit news flow	
	STRUCTURAL							
	-		-	-	-	-	-	-
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	07-Sep-18	12-Sep-18	B	USD-CAD	1.3137	1.3020	USD resilience, NAFTA uncertainty	
2	10-Sep-18	13-Sep-18	S	USD-JPY	111.05	111.95	Risk of further global market uncertainty	
* realized								

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