

Wednesday, September 19, 2018

FX Themes/Strategy/Trading Ideas

- Despite renewed Sino-US trade tensions (Beijing responded with USD60bn of tariffs), risk appetite recovered off early day lows with markets also trading off divergent themes.
- Meanwhile, the cyclical currencies outperformed across the board on Tuesday on the back of positive global equities, with investors implicitly assuming that the Chinese authorities would loosen the tap in terms of monetary stimulus if trade tensions begin to have a material impact on growth.
- With the US curve lifting (10y UST breached 3.05%), the USD climbed most notably against the JPY with the EUR also backing slightly lower. This rate differential dynamic may remain largely confined to USD-JPY space at this juncture, with investors distracted by risk appetite and global trade tension fluctuations. At this juncture, the latter may continue to play out, keeping the USD slightly off balance with respect to the EUR, GBP (EU Summit in Austria today), AUD, and CAD.
- The **BOJ MPC** today and the accompanying forward guidance will be closely scrutinized for further indication/confirmation of any stealth tapering. This may have implications for the USD-JPY's time path in the coming sessions, given the FOMC next week.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped south within Risk-Neutral territory on Tuesday and global EM and equity sentiment bounced higher. Note that relative short-term EM vs. DM vol behavior continues to suggest that acute nervousness with respect to EM space may be depleting, although the risks of any recurrence of risk aversion may continue rest within EM.

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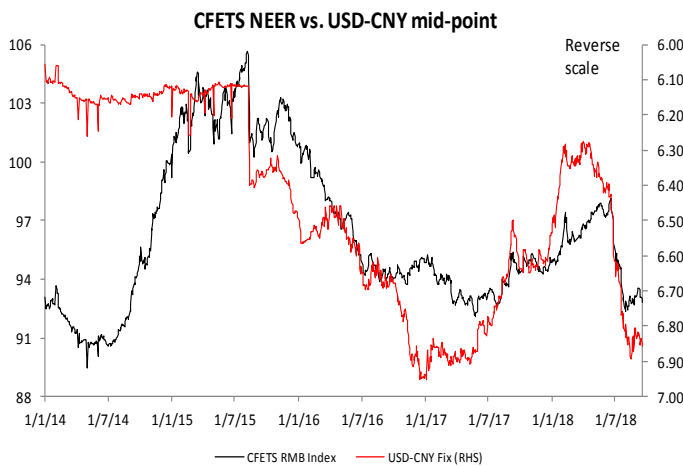
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Asian FX

- A slight Risk-On environment (note firmer EM equities overnight) , coupled with a softer USD-CNH from overnight, may keep the Asian pairs relatively suppressed at the onset of the global day today.
- Net portfolio flows in Asia may be demonstrating some semblance of stabilization. Implicit net inflow support for South Korea, Taiwan, and Thailand (BOT to be static today at its MPC) persist, while net outflows for Indonesia, India, and the Philippines are attempting to bottom out.
- **Indonesia:** On Tuesday, the Trade Minister indicated that the government is planning to require some resource exporters to convert their export earnings and to retain export earnings onshore for at least 6 months.
- **SGD NEER:** The SGD NEER this firmer is firmer on the day relative to its perceived parity at around +1.10% although the +1.20% threshold may continue to limit. NEER-implied USD-SGD thresholds are essentially flat on the day. For the USD-SGD, initial support is expected into 1.3695 before the 55-day MA (1.3680). Top side resistance is expected into 1.3750.
- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in largely as expected at 6.8569 from 6.8554 yesterday. This took the CFET RMB Index yet lower to 92.81 compared to 92.92 on Tuesday. Expect investor concern towards broader renminbi depreciation to heighten if the Index continues to bleed lower towards 92.10 to 92.30.



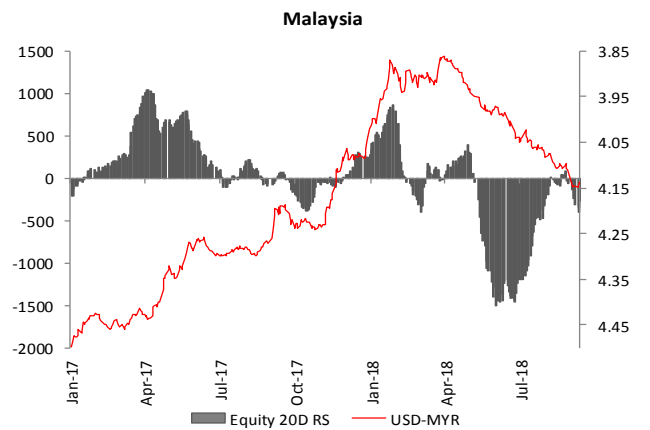
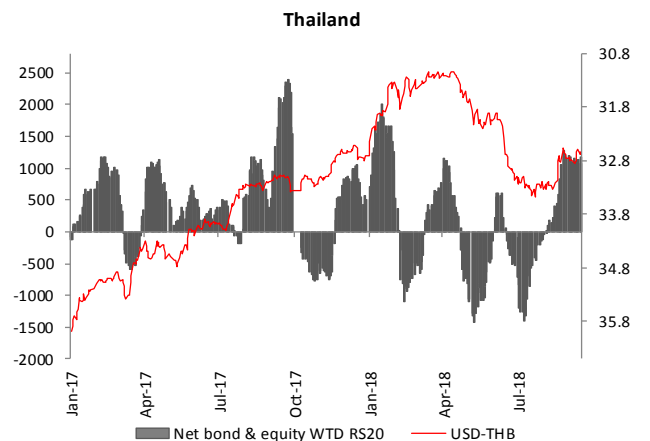
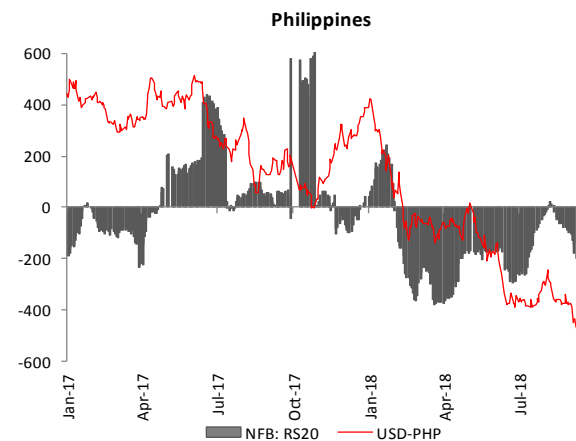
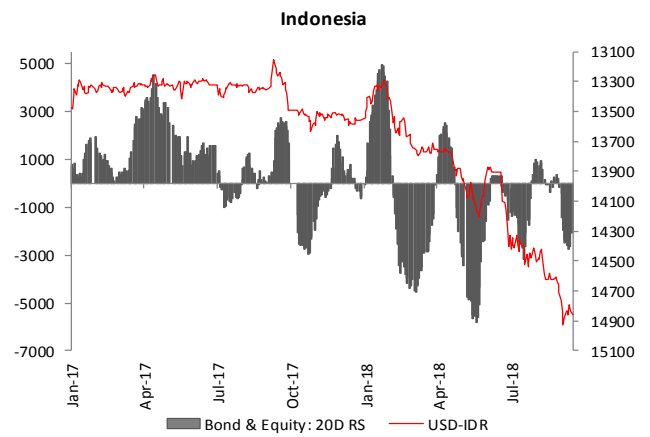
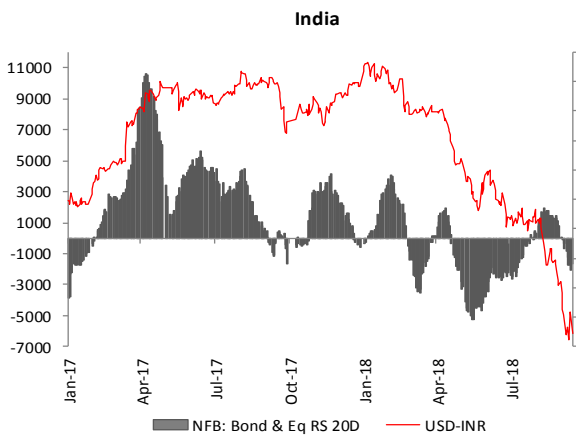
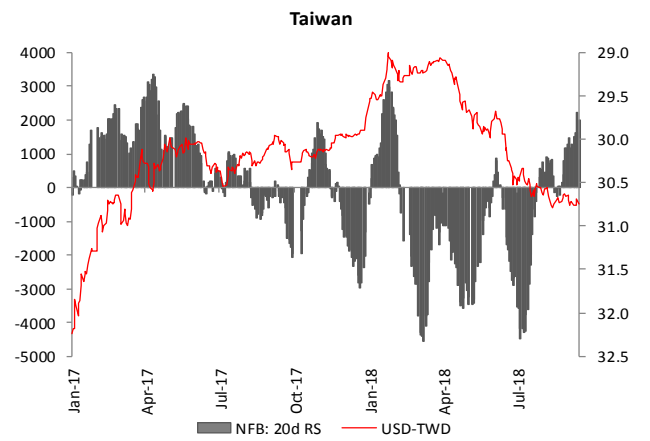
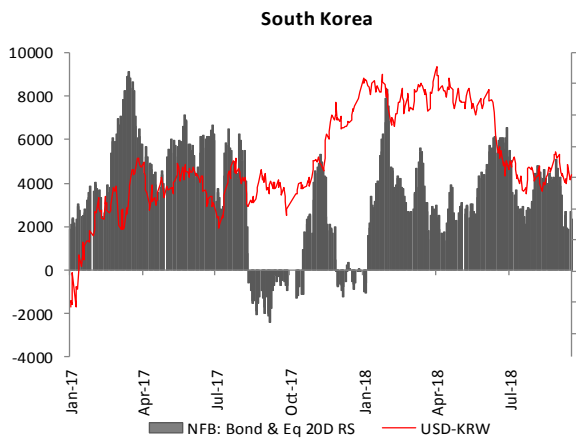
Source: OCBC Bank, Bloomberg

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. Investors awaiting potential new administrative measures.
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). 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

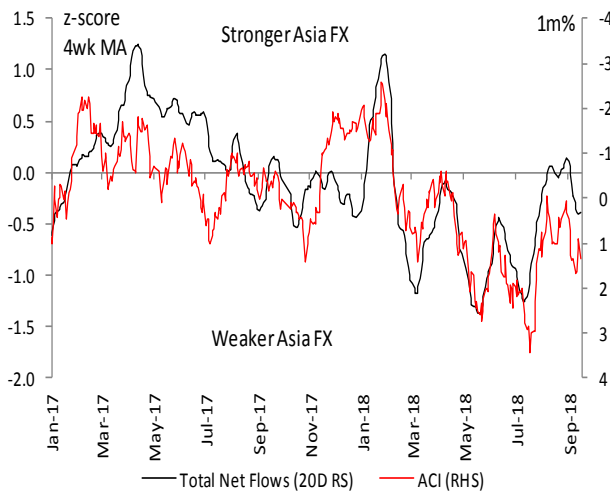
USD-Asia VS. Net Capital Flows



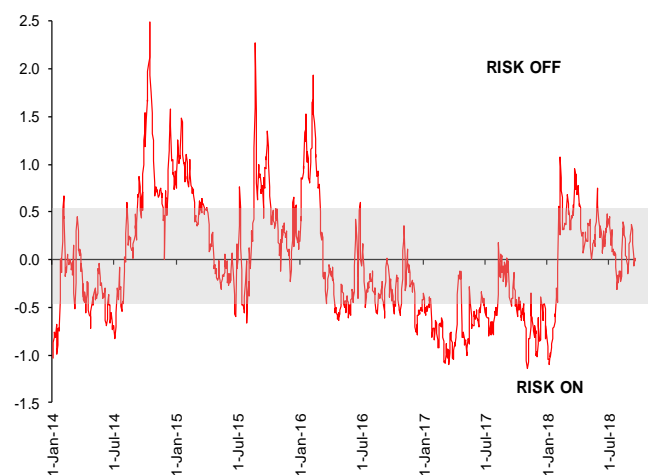
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

FX Sentiment Index



Source: OCBC Bank



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.537	0.283	-0.739	0.036	-0.366	-0.620	-0.587	0.089	0.643	0.157	-0.950
THB	0.773	-0.358	0.261	-0.614	-0.191	-0.239	-0.560	-0.435	0.324	0.537	0.185	-0.766
CHF	0.694	-0.739	-0.024	-0.706	0.334	-0.138	-0.680	-0.599	-0.436	0.444	-0.305	-0.624
CAD	0.595	-0.063	0.254	-0.381	-0.363	-0.384	-0.201	-0.328	0.683	0.288	0.385	-0.572
SGD	0.329	0.399	0.539	-0.105	-0.625	-0.308	0.187	-0.056	0.689	-0.073	0.705	-0.390
CNY	0.283	0.443	1.000	-0.260	-0.593	-0.445	0.193	-0.096	0.143	-0.226	0.854	-0.433
CNH	0.157	0.445	0.854	-0.143	-0.476	-0.370	0.310	0.036	0.388	-0.197	1.000	-0.274
KRW	0.110	0.452	0.590	-0.435	-0.909	-0.487	0.134	-0.275	0.411	-0.390	0.425	-0.284
AUD	0.023	-0.627	-0.470	-0.224	0.665	0.053	-0.443	-0.255	-0.612	0.339	-0.661	0.056
TWD	-0.008	0.547	0.436	-0.141	-0.858	-0.275	0.371	-0.075	0.332	-0.545	0.298	-0.072
NZD	-0.077	-0.654	-0.566	-0.053	0.804	0.229	-0.378	-0.118	-0.589	0.289	-0.636	0.191
IDR	-0.193	0.657	0.227	0.279	-0.611	-0.116	0.484	0.284	0.593	-0.268	0.423	0.139
MYR	-0.215	0.730	0.278	0.267	-0.763	-0.084	0.519	0.343	0.536	-0.307	0.450	0.097
INR	-0.303	0.878	0.453	0.310	-0.765	-0.113	0.602	0.340	0.548	-0.548	0.551	0.184
PHP	-0.439	0.871	0.544	0.251	-0.873	-0.181	0.602	0.222	0.246	-0.734	0.425	0.247
USGG10	-0.537	1.000	0.443	0.516	-0.685	-0.093	0.817	0.453	0.238	-0.708	0.445	0.401
JPY	-0.620	0.817	0.193	0.694	-0.307	0.170	1.000	0.621	-0.117	-0.715	0.310	0.616
GBP	-0.762	0.860	0.347	0.592	-0.521	0.064	0.735	0.518	0.122	-0.726	0.379	0.600
EUR	-0.950	0.401	-0.433	0.787	0.138	0.459	0.616	0.607	-0.153	-0.571	-0.274	1.000

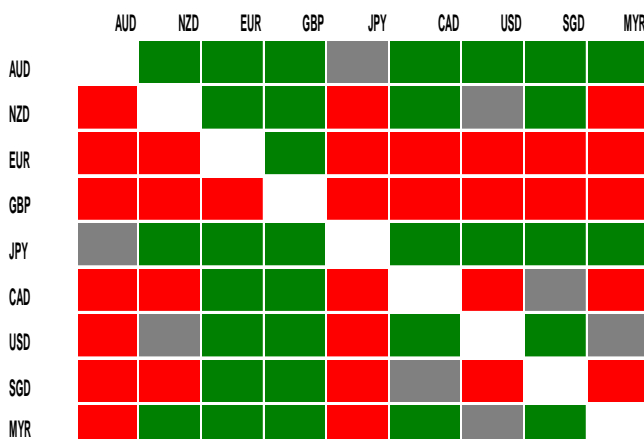
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1606	1.1660	1.1700	1.1725
GBP-USD	1.2986	1.3100	1.3148	1.3176	1.3196
AUD-USD	0.7085	0.7200	0.7219	0.7300	0.7309
NZD-USD	0.6500	0.6501	0.6576	0.6600	0.6676
USD-CAD	1.2888	1.2900	1.2979	1.3000	1.3073
USD-JPY	111.39	112.00	112.31	112.34	112.39
USD-SGD	1.3687	1.3700	1.3712	1.3800	1.3808
EUR-SGD	1.5885	1.5936	1.5987	1.6038	1.6089
JPY-SGD	1.2189	1.2200	1.2207	1.2208	1.2287
GBP-SGD	1.7774	1.8000	1.8027	1.8080	1.8100
AUD-SGD	0.9761	0.9800	0.9899	0.9900	1.0003
Gold	1161.40	1189.03	1198.70	1200.00	1208.79
Silver	13.91	14.00	14.08	14.10	14.96
Crude	68.54	69.60	69.66	69.70	70.64

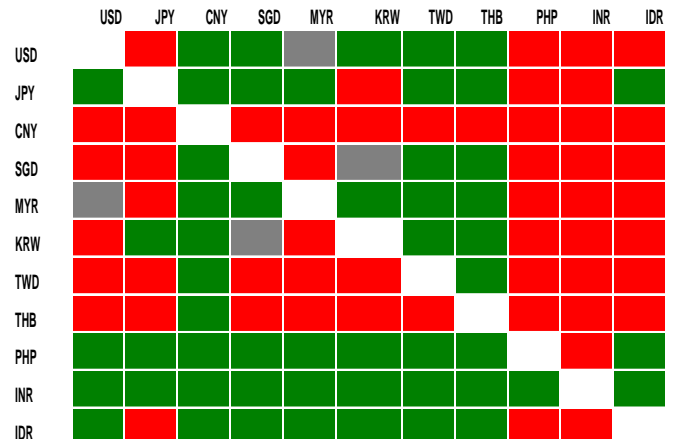
Source: OCBC Bank

G10 FX Heat Map



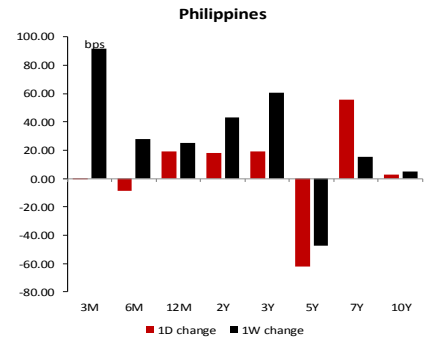
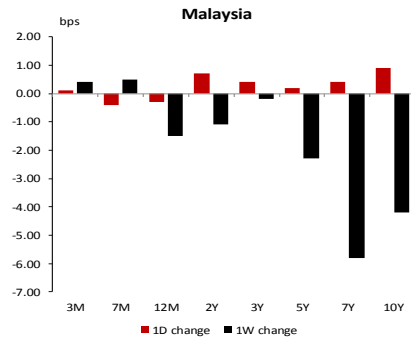
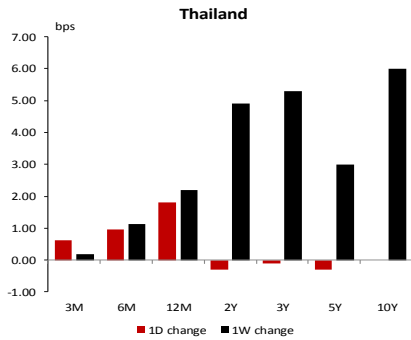
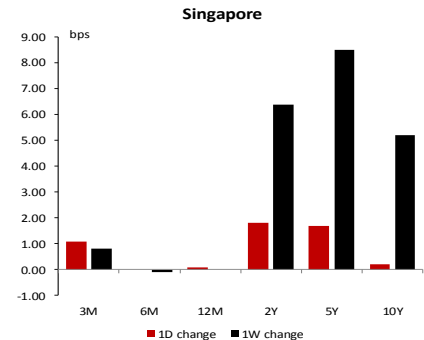
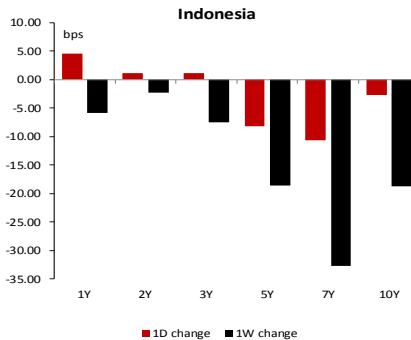
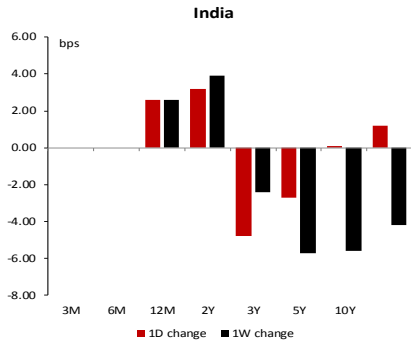
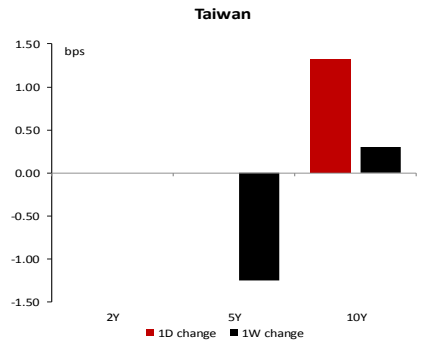
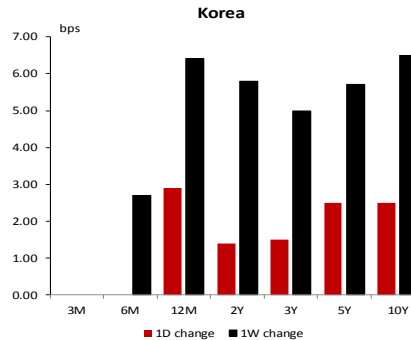
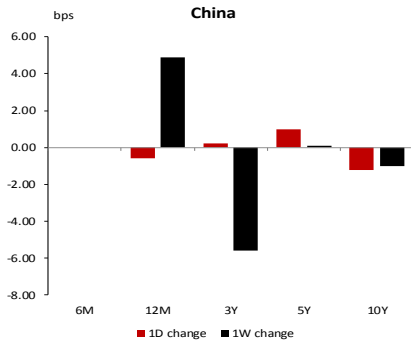
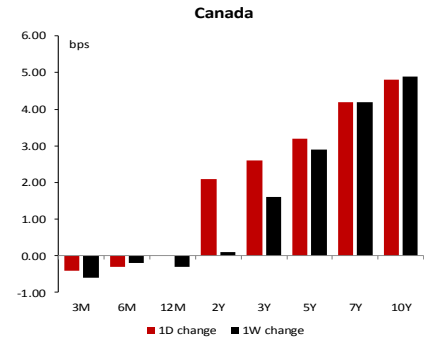
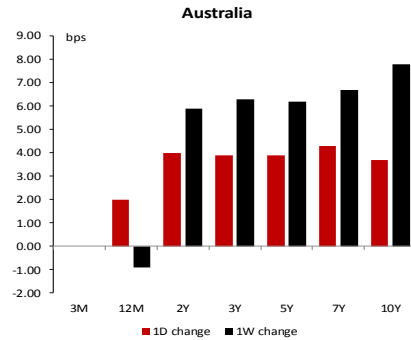
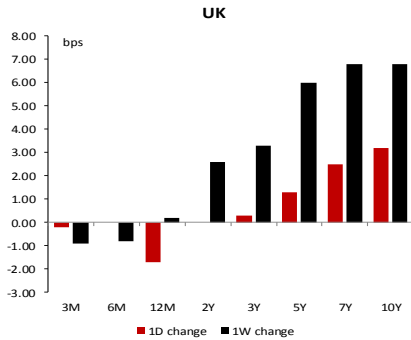
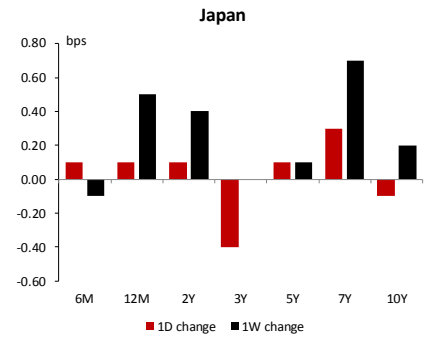
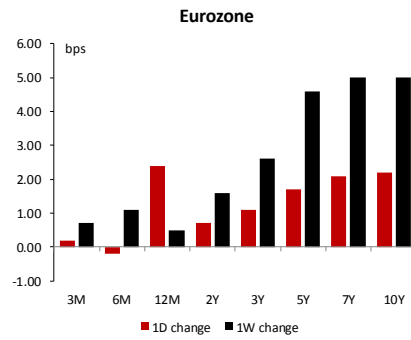
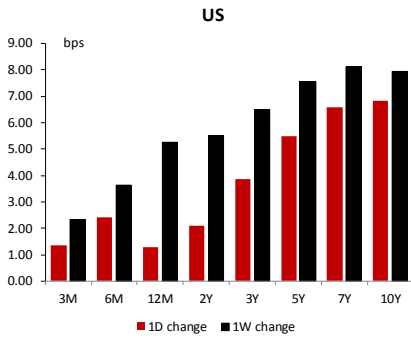
Source: OCBC Bank

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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