DAILY FX OUTLOOK

OCBC Bank

Monday, September 24, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar firmed marginally against the majors on Friday with the GBP taking a significant hit as Brexit-related headlines soured. Over the weekend, news emerged that China had canceled joint military and trade talks with the US. This shook the USD-JPY and AUD-USD pairs lower (with USD-CNH a touch higher), and is expected to keep investors focused on Sino-US trade tensions this week (US tariffs on China imports go into effect today). In the European complex, any further curdling of Brexit-related developments may continue to weigh on the pound (and potentially also the EUR) at the onset of the week.

- This week, the **FOMC** on Wednesday is expected to see any rate hike as widely expected, and may be instrumental for subsequent dollar directionality (watch for forward guidance with respect to the dot plots, terminal rate, UST curvature). Watch also for follow-up comments from Kaplan and Powell (both Thu) and Williams (Fri).

- The **FXSI (FX Sentiment Index)** on Friday ticked lower once again within Risk-Neutral territory but pending further headline risks, we'd not expect an aggressive move into Risk-On territory just yet. **Overall, the rebound in risk appetite witnessed last week we think may be done, with investors likely sidelined pending headline risks from Sino-US trade talks and FOMC as the week progresses**.

- **CFTC** data showed large non-commercial accounts added to their net long dollar bias in the latest week but leveraged accounts trimmed instead their implied net long dollar positioning in aggregate. Elsewhere, asset manager accounts again reduced their implied short dollar bias in the same period. At this juncture, note that pro-dollar sentiments within the investment community may be shifting to the structural players, as the short term players back off for now. **Keep watch on the shifting emphasis between near term issues (risk sentiments, trade) and structural factors (US economic outperformance, rate differentials) for dollar directionality for now.**

- Apart from the Fed, watch ECB's Draghi (1300 GMT) today, before a number of appearances by Praet throughout the week, and BOE's Haldane and Carney (both Thu). In Asia, watch also for BOJ July meeting minutes (2350 GMT) and comments by Kuroda (Tue). Meanwhile, the **RBNZ** is also expected to remain static at 1.75% late Thursday. On the data front, watch for German IFO (0800 GMT) today. Later in the week, highlights include German CPI (Thu) and US GDP and PCE inflation (Fri).

Treasury Research & Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- **In Asia, Sino-US headline risks and an expected pause in the consolidation of risk appetite may exert negative pressure on EM Asian currencies. How the CFETS RMB Index and the USD-CNY mid-points (we expect continued stability) will be guided this week may also determine regional sentiment.**

- Note a slew of Asian central bank meetings this Thursday. The **BSP** is expected to hike its benchmark rates by 50bps on Thursday, while the **CBC** is expected to keep its benchmark rate unchanged at 1.375% on Thursday. Meanwhile, **Bank Indonesia** is expected to hike its benchmark rate by 25bps to 5.75%.

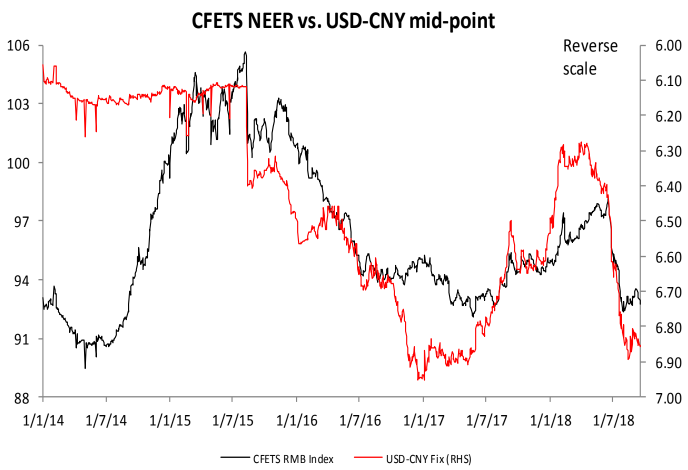
- In the Asian complex, apart from the policy meetings, investors may keep an eye out for the China's Caixin PMI readings (Fri) for the region's macro pulse.

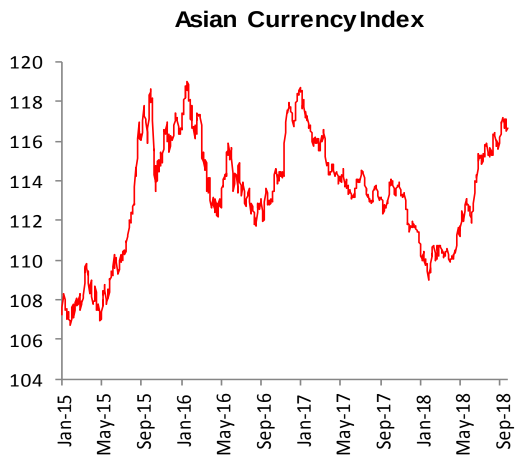
- In terms of **portfolio flows**, strong inflows into North Asia and Thai bonds continue to provide a backstop for the KRW, TWD and THB for now. Meanwhile, the INR may not be as fortunate with outflow momentum continuing to pile up.

- **EPFR** data showed implied net equity outflows for Asia (excl Japan, China) halving in the latest week while net implied bond outflows also reduced drastically. This would be in line with the pick-up in Asian asset markets (and FX) in the past week. North Asia is out for a long weekend today and expect the Asian session to kick off on a quiet (if slightly cautious) for the regional currencies.

- **SGD NEER**: The SGD NEER eased from the highs of Friday, standing at around +1.31% above its perceived parity (1.3838) this morning on firmer NEER-implied USD-SGD thresholds. Intra-day range for the USD-SGD may be bookended by the +1.10% (1.3688) and +1.5% (1.3634) thresholds.

- **CFETS RMB Index**: China out for public holiday.





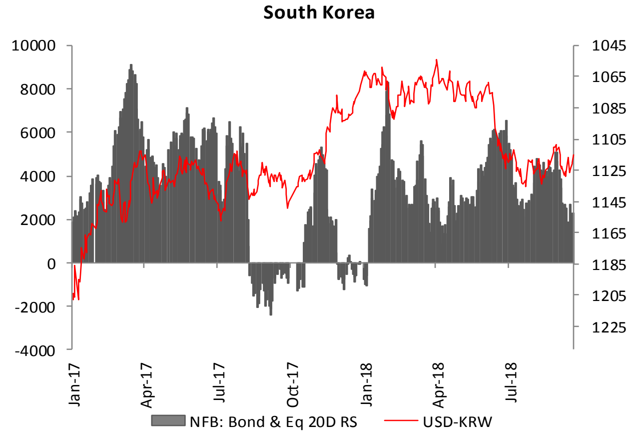
Source: OCBC Bank, Bloomberg

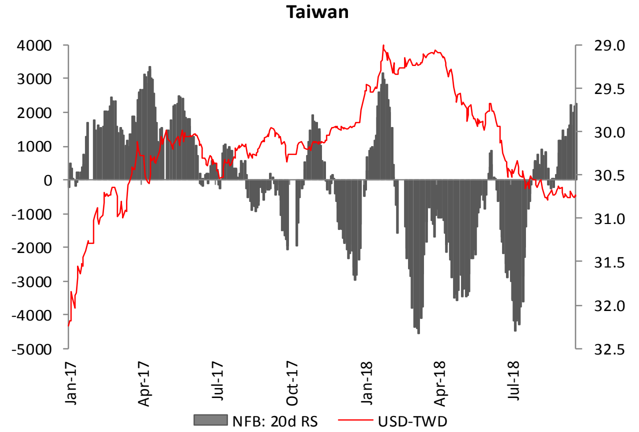
Short term Asian FX/bond market views

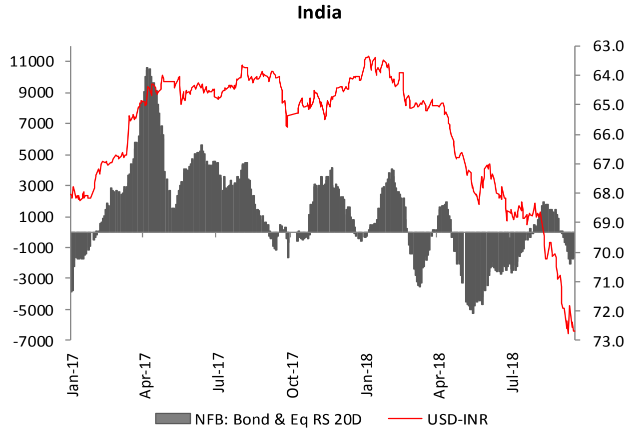
Currency	Bias	Rationale
USD-CNH	↔/↓	Some stability in FX is still expected in the near term. Premier Li indicates no intent for competitive devaluation. Note however softening CFETS RMB Index of late. The FX vol curve has softened but this belies the riskies continuing to lean in favor of the USD. Firm CPI readings may be expected to keep the yield curves supported.
USD-KRW	↔/↓	Weaker than expected unemployment print may douse rate hike expectations; BOK board member warns against rate hikes on tepid inflation. Onshore govie and NDIRS curves taking cues from G3 curves.
USD-TWD	↓	Expect to track North Asian trends in general; flow dynamics remain supportive amid recovering EM sentiment.
USD-INR	↔/↑	Govie yields are easier as risk aversion dissipates. Monitor 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.Latest FX measures 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. NEER may remain afloat above +1.00% if risk appetite remains supported.
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 attmept to lift, especially with 3.00 now having been violated. Govie curve capitulating lower in line with the region.
USD-IDR	↔/↓	Bounce in global investor sentiment is benefitting the IDR and local govies. Note however potential for expectations for BI to hike in September again. Net bond outflows are compressing.
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. Govie and NDIRS curves holding relatively steady to softer.
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.

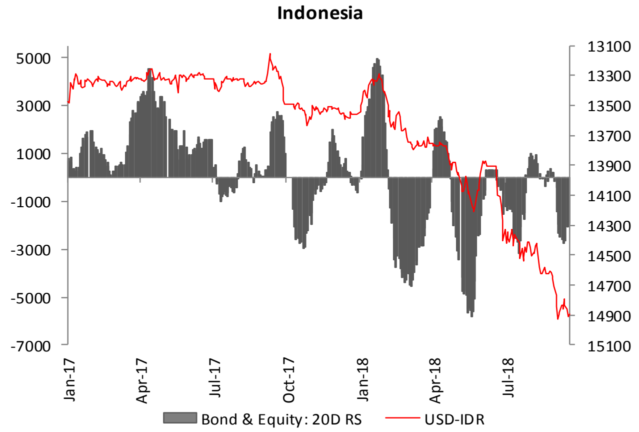
Source: OCBC Bank

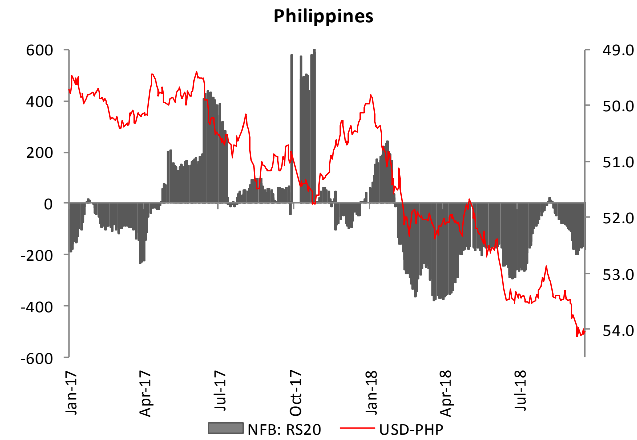
USD-Asia VS. Net Capital Flows

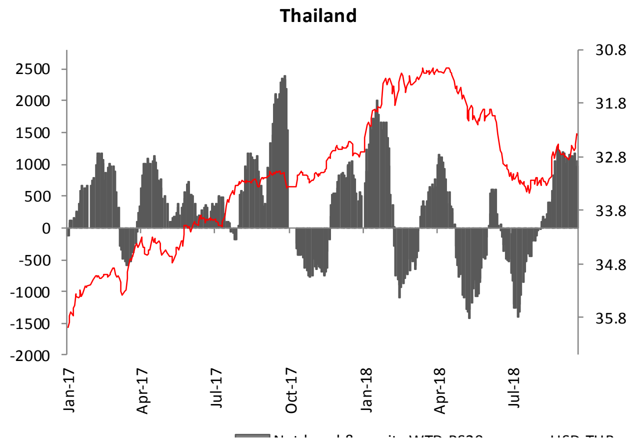


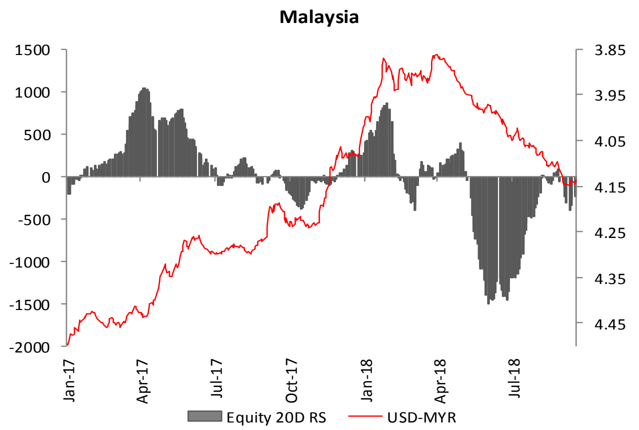






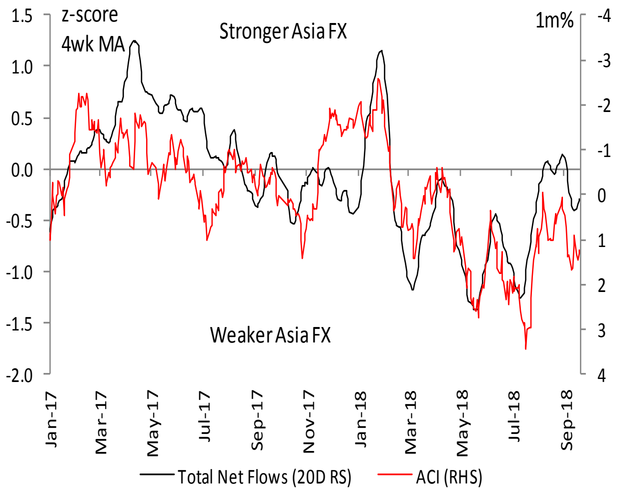






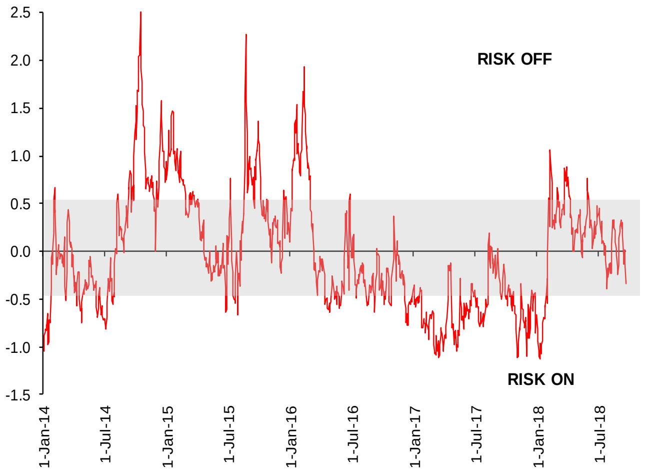
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1.000	-0.568	-0.058	-0.775	-0.067	-0.321	-0.722	-0.600	0.661	0.769	0.200	-0.957
CAD	0.852	-0.378	0.106	-0.776	-0.314	-0.540	-0.579	-0.653	0.812	0.579	0.370	-0.847
THB	0.834	-0.615	-0.037	-0.807	-0.208	-0.283	-0.736	-0.565	0.795	0.705	0.224	-0.805
SGD	0.775	-0.079	0.422	-0.736	-0.585	-0.606	-0.392	-0.552	0.745	0.395	0.632	-0.863
CHF	0.674	-0.664	-0.444	-0.505	0.263	0.060	-0.686	-0.498	0.194	0.556	-0.360	-0.569
CNH	0.200	0.392	0.845	-0.244	-0.573	-0.445	0.186	-0.029	0.388	-0.091	1.000	-0.345
IDR	0.164	0.449	0.592	-0.200	-0.700	-0.453	0.275	-0.003	0.325	-0.099	0.574	-0.274
MYR	0.141	0.523	0.670	-0.206	-0.877	-0.436	0.280	0.047	0.296	-0.122	0.633	-0.320
TWD	0.052	0.403	0.467	-0.435	-0.871	-0.508	0.150	-0.271	0.312	-0.275	0.273	-0.193
KRW	0.043	0.481	0.611	-0.465	-0.952	-0.495	0.157	-0.261	0.419	-0.345	0.464	-0.232
INR	-0.013	0.770	0.849	-0.165	-0.874	-0.418	0.507	0.083	0.211	-0.474	0.728	-0.197
CNY	-0.058	0.686	1.000	0.011	-0.712	-0.224	0.488	0.204	0.045	-0.470	0.845	-0.119
PHP	-0.451	0.841	0.775	0.144	-0.802	-0.170	0.623	0.192	-0.204	-0.737	0.435	0.248
USGG10	-0.568	1.000	0.686	0.470	-0.537	-0.055	0.891	0.475	-0.426	-0.832	0.392	0.413
NZD	-0.635	-0.142	-0.624	0.645	0.767	0.584	0.224	0.450	-0.564	-0.190	-0.683	0.772
AUD	-0.641	-0.079	-0.605	0.633	0.701	0.513	0.251	0.437	-0.631	-0.218	-0.743	0.772
JPY	-0.722	0.891	0.488	0.743	-0.212	0.111	1.000	0.644	-0.682	-0.784	0.186	0.680
GBP	-0.740	0.821	0.604	0.525	-0.436	-0.008	0.761	0.476	-0.425	-0.767	0.357	0.575
EUR	-0.957	0.413	-0.119	0.818	0.263	0.399	0.680	0.578	-0.698	-0.684	-0.345	1.000

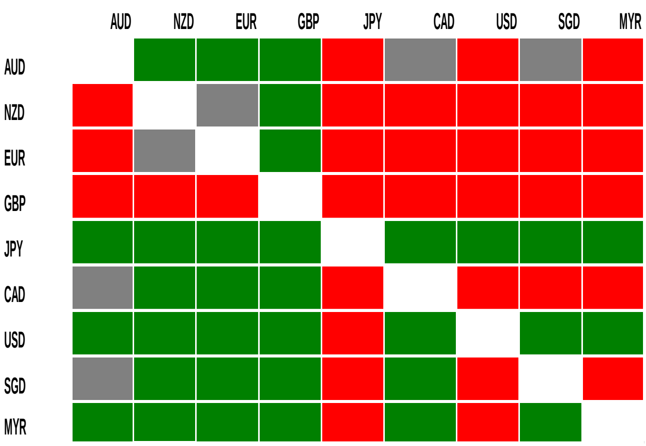
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1610	1.1700	1.1742	1.1772	1.1800
GBP-USD	1.2981	1.3000	1.3078	1.3100	1.3241
AUD-USD	0.7085	0.7200	0.7270	0.7300	0.7302
NZD-USD	0.6600	0.6671	0.6677	0.6700	0.6787
USD-CAD	1.2885	1.2900	1.2928	1.3000	1.3058
USD-JPY	111.40	112.00	112.59	112.80	112.87
USD-SGD	1.3607	1.3619	1.3661	1.3688	1.3700
EUR-SGD	1.6000	1.6002	1.6040	1.6060	1.6081
JPY-SGD	1.2099	1.2100	1.2133	1.2200	1.2210
GBP-SGD	1.7767	1.7800	1.7866	1.7900	1.8104
AUD-SGD	0.9772	0.9900	0.9931	0.9994	1.0000
Gold	1161.40	1191.11	1195.80	1200.00	1206.23
Silver	13.91	14.20	14.27	14.30	14.83
Crude	68.60	71.50	71.53	71.60	71.68

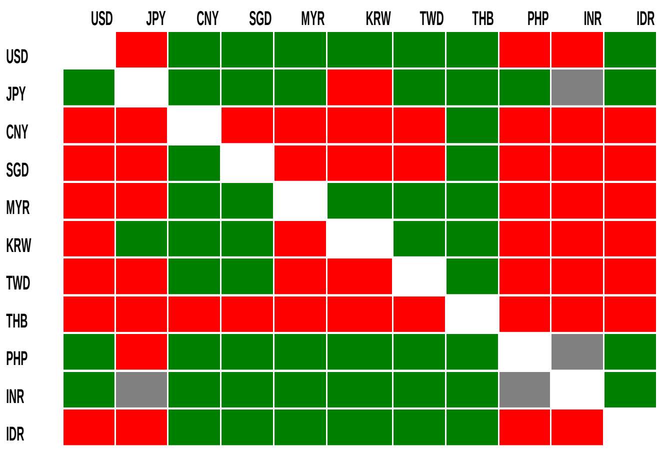
Source: OCBC Bank

G10 FX Heat Map



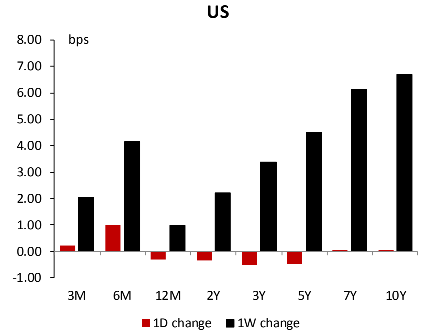
Source: OCBC Bank

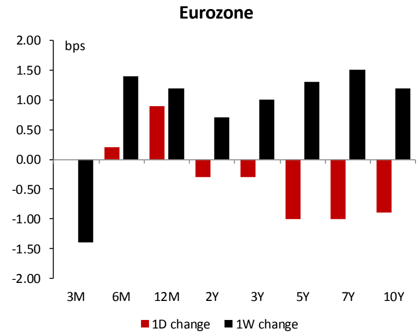
Asia FX Heat Map

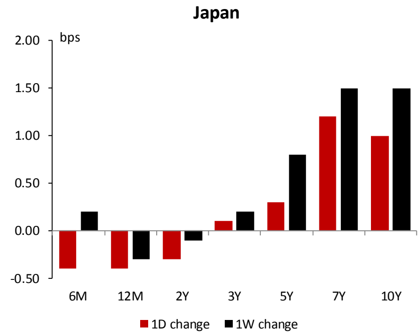


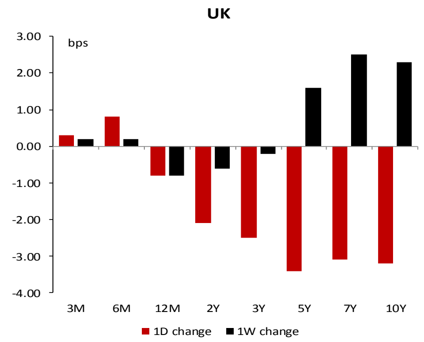
Source: OCBC Bank

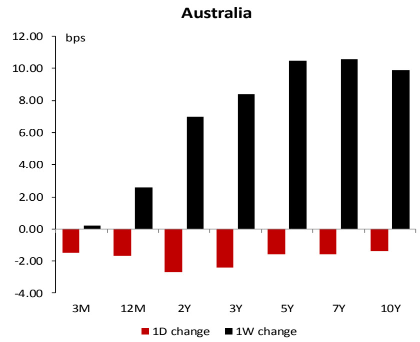
Government bond yield changes

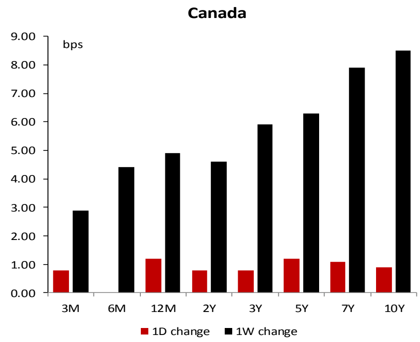


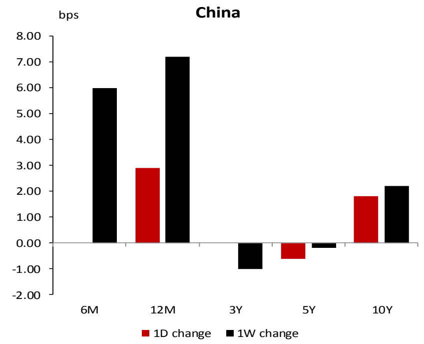


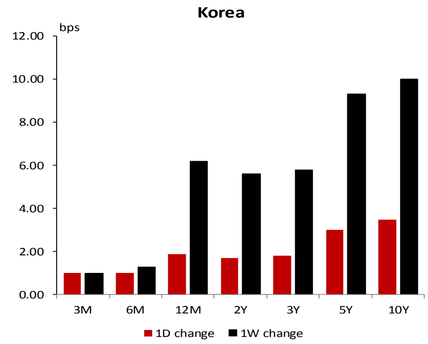


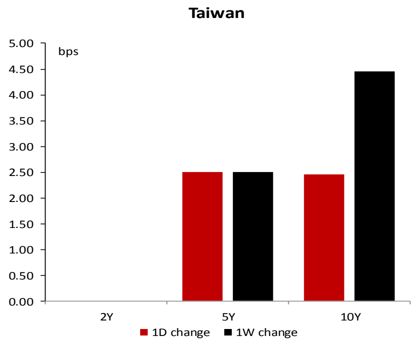


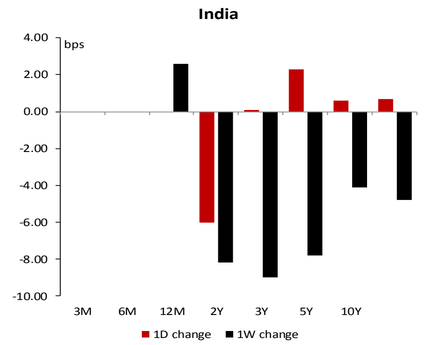


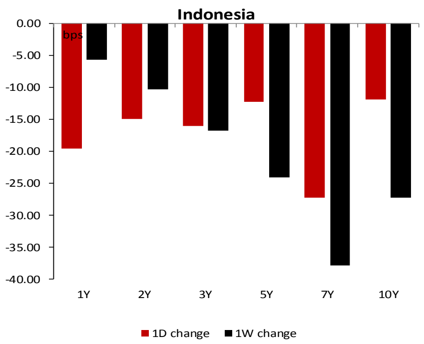


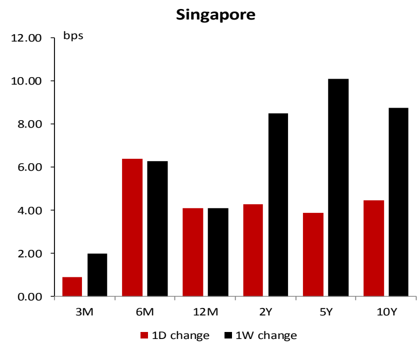


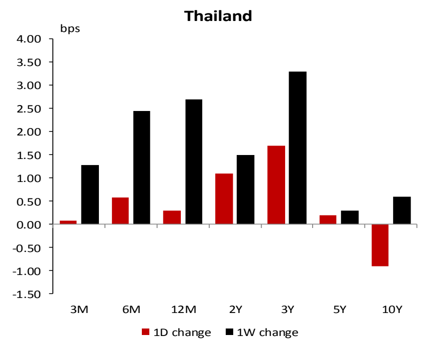


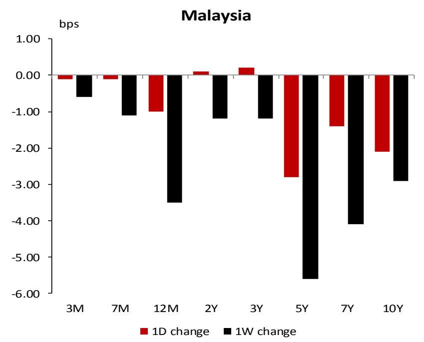


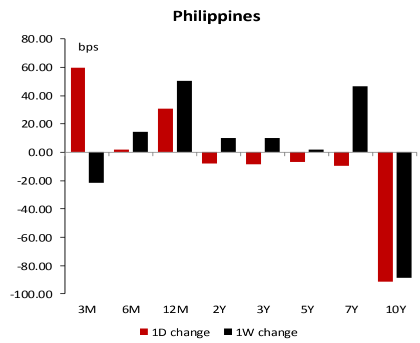












FX Trade Recommendations

	Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale
	TACTICAL						
1	11-Sep-18	B	GBP-USD	1.3056	1.3325	1.2920	Positoning ahed of BOE MPC and positivty from Brexit news flow
2	20-Sep-18	B	EUR-USD	1.1702	1.1900	1.1600	Risk appetite recovery, rate differentials on back burner
	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	
3	04-Sep-18	19-Sep-18	S	AUD-USD	0.7190	0.7275	Vulnerability to contagion, static RBA	

* realized

Co.Reg.no.:193200032W