

Tuesday, September 25, 2018

FX Themes/Strategy/Trading Ideas

- The USD ended mixed on Monday despite yet higher UST yields but with global equities in the red, the cyclicals largely underperformed across the board.
- Despite ongoing trade issues, the **FXSI (FX Sentiment Index)** continued to test lower within Risk-Neutral territory on Monday. Nevertheless, we caution that global price action may continue to be headline driven (not just on the trade front) in the coming sessions.
- The **EUR-USD** meanwhile blipped briefly above 1.1800 following uncharacteristically hawkish comments from the ECB's **Draghi** (who described the acceleration in underlying inflation as "relatively vigorous"), although the pair subsequently relapsed. Note that the bund yields however still ended the day firmer. Note however that his projection of 1.8% for core inflation in 2020 is in line with the ECB's current projections.
- **BOJ MPC** minutes this morning remained sufficiently accommodative and this should continue to keep the JPY on the back foot barring another spike in risk aversion.
- Going ahead, the **USD** may potentially be subject to ongoing domestic political static from Rosenstein and Kavanaugh headlines. **Pending further directionality from the FOMC meeting, we stay supported on the EUR-USD and USD-JPY and look for range trading conditions for the AUD-USD. On other fronts, GBP-USD remains a minefield of headline risks and with significant option-related nervousness being priced in.**
- Comments from Kuroda (0530 GMT) expected today, followed by the BOE's Vlieghe (0840 GMT), before multiple appearances from the ECB's Praet (0810, 1045, 1230 GMT) and Coeure (1440, 1600 GMT).

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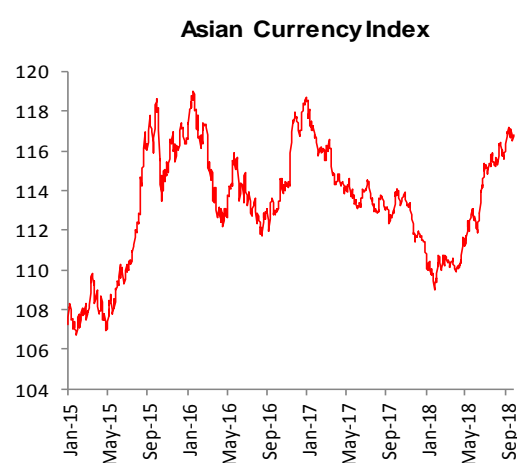
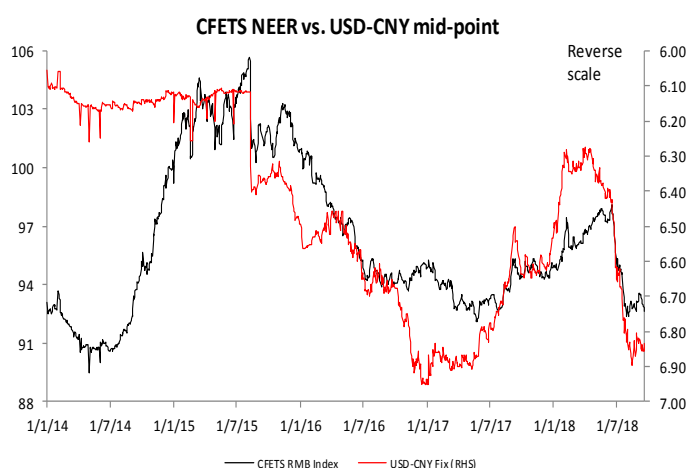
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Asian FX

- USD-CNH ended on a firmer plane overnight but is slightly easier early Tuesday in Asia. Meanwhile, the firmer crude complex may also exact an additional toll on Asian sentiment (and particularly for currencies like the INR).
- In terms of actual net portfolio flows, data running to last Friday showed intrinsic support for the KRW and TWD, while net outflow pressures may continue to impinge on the INR. Elsewhere, net outflows for Indonesia continue to attempt to compress. On the flip side, we are detecting a slight tapering off in bond inflows for Thailand, providing cause for pause for THB outperformance.
- **India:** Uncertainty may continue to swirl around the NBFCs in India, keeping investors on their toes and asset markets (cash as well as implied) nervous.
- **Hong Kong:** Expect the liquidity squeeze to persist for in the near term with the tight liquidity (T/T forwards, Hibor) ahead of the FOMC likely to keep spot suppressed in the interim.
- **SGD NEER:** The SGD NEER remains elevated, standing at around +1.36% above its perceived parity (1.3847) this morning on firmer NEER-implied USD-SGD thresholds. Intra-day range for the USD-SGD may be bookended by the +1.20% (1.3683) and +1.5% (1.3643) thresholds. At this juncture, further topside on the SGD NEER may be limited.
- **CFETS RMB Index:** The USD-CNY mid-point fix came in higher, as we had expected, at 6.8440 from 6.8357 previously. In addition, the CFETS RMB Index is essentially static at 92.66.



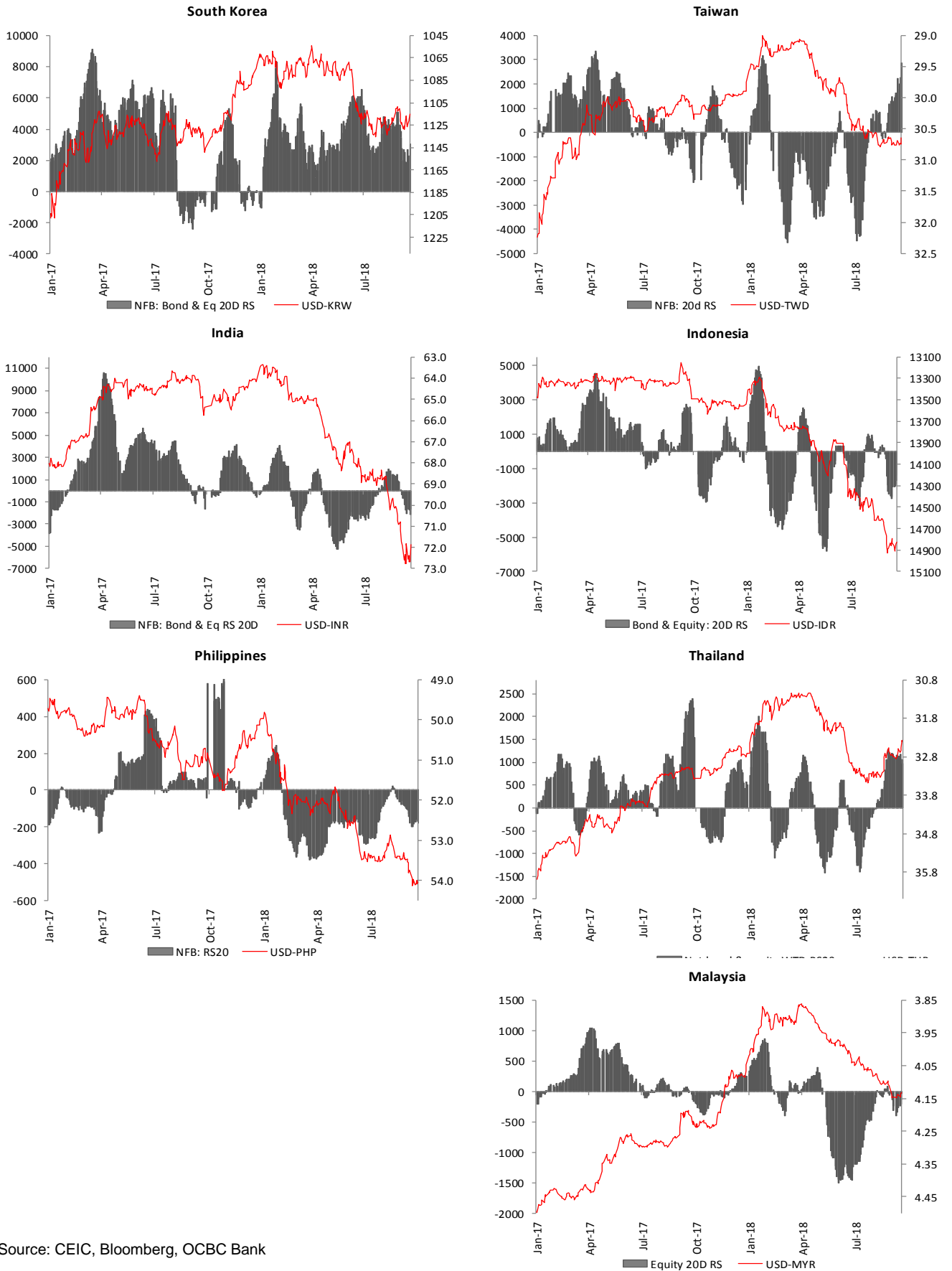
Source: OCBC Bank, Bloomberg

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 attempt 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	↓	Govie and NDIRS curves firming slightly with BOT MPC members shifting towards an eventual hike. We note however a lack of immediate inflation risks. Note however that the BOT governor noted that there is current no shift to a hawkish stance.
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 tilted higher.

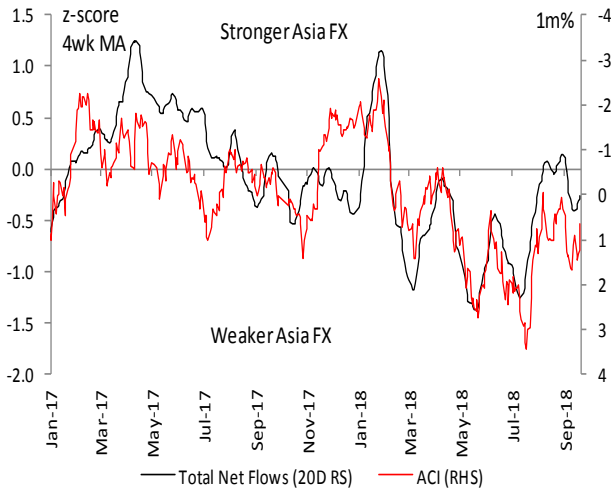
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



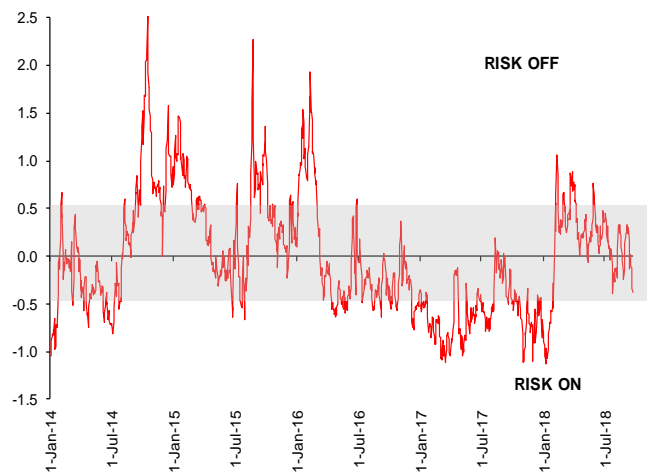
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1.000	-0.663	-0.058	-0.796	-0.058	-0.430	-0.755	-0.649	0.672	0.796	0.076	-0.960
THB	0.853	-0.666	-0.037	-0.825	-0.191	-0.397	-0.772	-0.630	0.797	0.739	0.135	-0.829
CAD	0.838	-0.438	0.106	-0.780	-0.307	-0.546	-0.613	0.816	0.594	0.302	0.302	-0.828
SGD	0.780	-0.216	0.422	-0.752	-0.566	-0.626	-0.429	-0.561	0.754	0.439	0.529	-0.859
CHF	0.654	-0.681	-0.444	-0.529	0.261	-0.039	-0.649	-0.454	0.221	0.578	-0.417	-0.543
MYR	0.149	0.449	0.670	-0.208	-0.873	-0.392	0.235	0.023	0.298	-0.101	0.590	-0.315
IDR	0.105	0.463	0.592	-0.149	-0.697	-0.325	0.305	0.068	0.292	-0.140	0.585	-0.205
CNH	0.076	0.464	0.845	-0.170	-0.563	-0.283	0.300	0.136	0.337	-0.154	1.000	-0.196
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
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
INR	-0.125	0.781	0.849	-0.058	-0.852	-0.228	0.552	0.203	0.145	-0.522	0.740	-0.058
PHP	-0.515	0.860	0.775	0.227	-0.755	0.030	0.675	0.327	-0.254	-0.767	0.472	0.340
NZD	-0.609	-0.031	-0.624	0.650	0.758	0.569	0.214	0.403	-0.573	-0.222	-0.633	0.735
AUD	-0.619	0.006	-0.605	0.633	0.695	0.498	0.245	0.398	-0.637	-0.240	-0.688	0.738
USGG10	-0.663	1.000	0.686	0.528	-0.499	0.148	0.920	0.638	-0.456	-0.853	0.464	0.553
JPY	-0.755	0.920	0.488	0.767	-0.197	0.301	1.000	0.727	-0.682	-0.812	0.300	0.726
GBP	-0.764	0.818	0.604	0.550	-0.430	0.089	0.768	0.519	-0.445	-0.775	0.402	0.613
EUR	-0.960	0.553	-0.119	0.835	0.241	0.497	0.726	0.642	-0.707	-0.722	-0.196	1.000

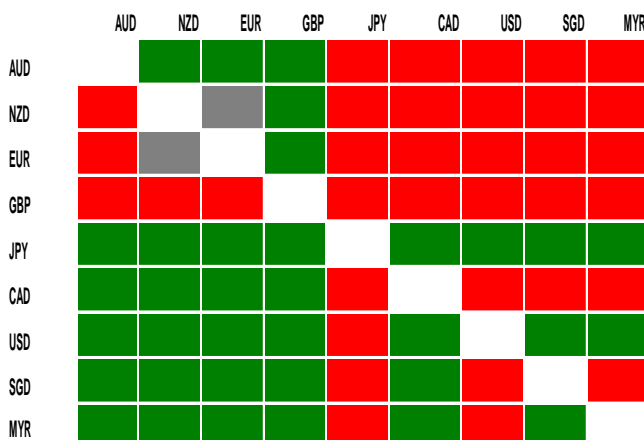
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1612	1.1700	1.1738	1.1780	1.1800
GBP-USD	1.2981	1.3100	1.3107	1.3200	1.3248
AUD-USD	0.7091	0.7200	0.7245	0.7298	0.7300
NZD-USD	0.6501	0.6600	0.6638	0.6668	0.6700
USD-CAD	1.2885	1.2900	1.2959	1.3000	1.3054
USD-JPY	111.40	112.00	112.84	112.98	113.00
USD-SGD	1.3607	1.3622	1.3662	1.3688	1.3700
EUR-SGD	1.6000	1.6003	1.6037	1.6068	1.6100
JPY-SGD	1.2072	1.2100	1.2108	1.2200	1.2211
GBP-SGD	1.7769	1.7900	1.7906	1.8000	1.8104
AUD-SGD	0.9779	0.9800	0.9898	0.9900	0.9988
Gold	1161.40	1191.68	1196.60	1200.00	1205.45
Silver	13.91	14.20	14.25	14.30	14.75
Crude	68.69	72.20	72.23	72.26	72.30

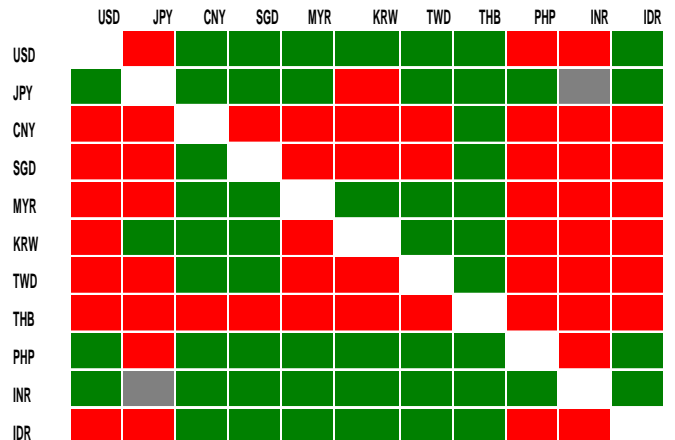
Source: OCBC Bank

G10 FX Heat Map



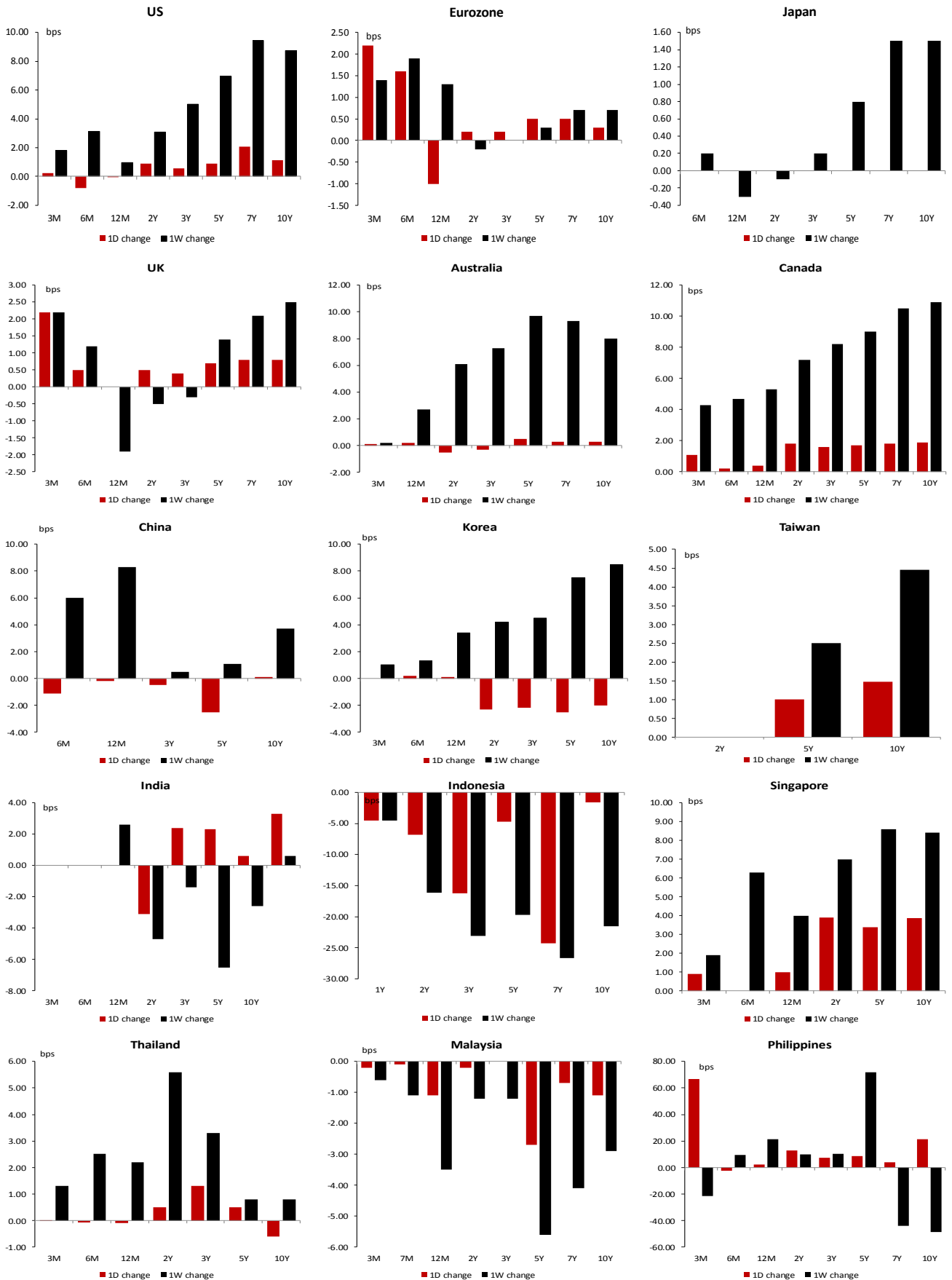
Source: OCBC Bank

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	Positioning ahead of BOE MPC and positivity 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								

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