

Wednesday, September 26, 2018

FX Themes/Strategy/Trading Ideas

- Despite the yet firmer UST curve (10y briefly above 3.10%), the USD closed mixed to slightly softer again on Tuesday as the 2-day FOMC got underway. The EUR-USD managed to inch higher slightly despite the ECB's Praet dousing the earlier comments from Draghi, and perhaps drawing some support from supportive Italian political headlines.
- The cyclicals meanwhile also continued to underperform across the board while the GBP-USD pushed higher again despite less than encouraging Brexit-related news flow and the opmarket already loaded heavily for bear.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** continued to drill lower within Risk-Neutral territory on Tuesday and may well drift into Risk-On territory in due course.
- The DXY may in the interim continue to contemplate the 94.00 support pending the outcome of the FOMC. Barring any unduly hawkish outcome from the FOMC (dot plots, intended terminal rate, forward guidance), if risk appetite continues to improve, we'd expect the USD to continue to be on the defensive within G10 space.
- Ahead of the FOMC this week and if investor uncertainty remains under containment, we reiterate to think that firmer US yields may continue to translate into a firmer **USD-JPY** from a tactical perspective. From a spot ref of 112.89 on Tuesday, we target 114.65 and place a stop at 112.00.

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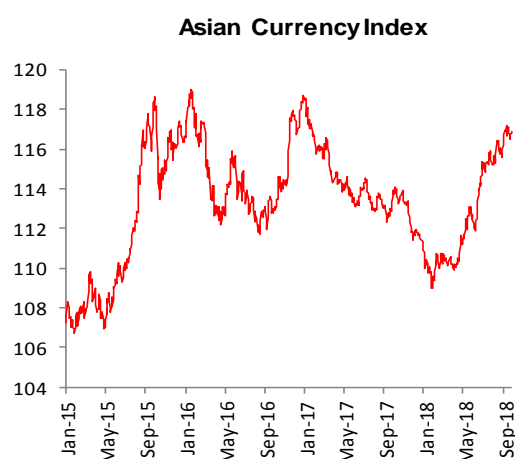
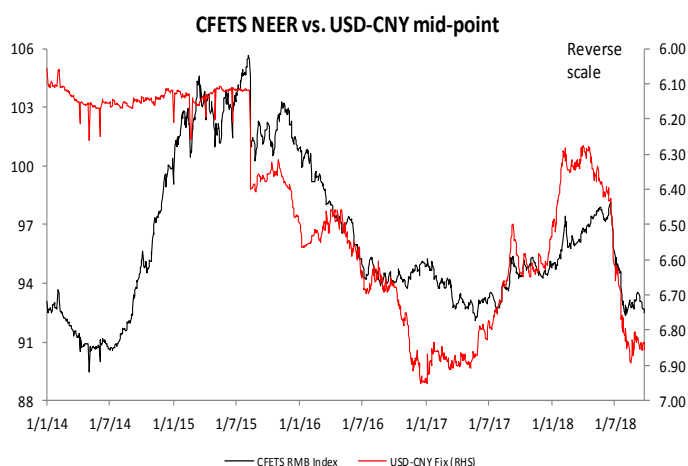
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Asian FX

- In recent weeks, firmer curves in the majors have tagged their Asian counterparts in sympathy (partially suspending arguments pertaining to interest rate parity conditions, relative macro underpinnings, and real interest rates).
- Asian FX however has reacted to a different dynamic since mid-August, retreating against the USD amid ongoing Sino-US trade tensions and the re-pricing in EM.
- Pending the FOMC, the market’s preference may be to retain an inherently long bias (spot, points and gamma) in Asia, especially for the likes of INR, IDR, and PHP.
- On the net portfolio front, net inflows remain supportive of the KRW and TWD, while net inflow momentum for the THB is moderating. Elsewhere, outflow pressure for the INR and PHP is persisting, although this is compressing for the IDR.
- **SGD NEER:** The SGD NEER is firmer this morning at around +1.41% above its perceived parity with NEER-implied USD-SGD thresholds a touch higher on the day. In the interim, retain a top heavy bias for USD-SGD with points likely to continue leaning left if investors increasingly price in another slope steepening next month. Next key support expected at the 100-day MA 1.3593).
- **CFETS RMB Index:** The USD-CNY mid-point rose less than expected to 6.8571 this morning from 6.8440 on Tuesday. This however still took the CFETS RMB Index lower to 94.49 from 92.66, continuing its recent drip lower.



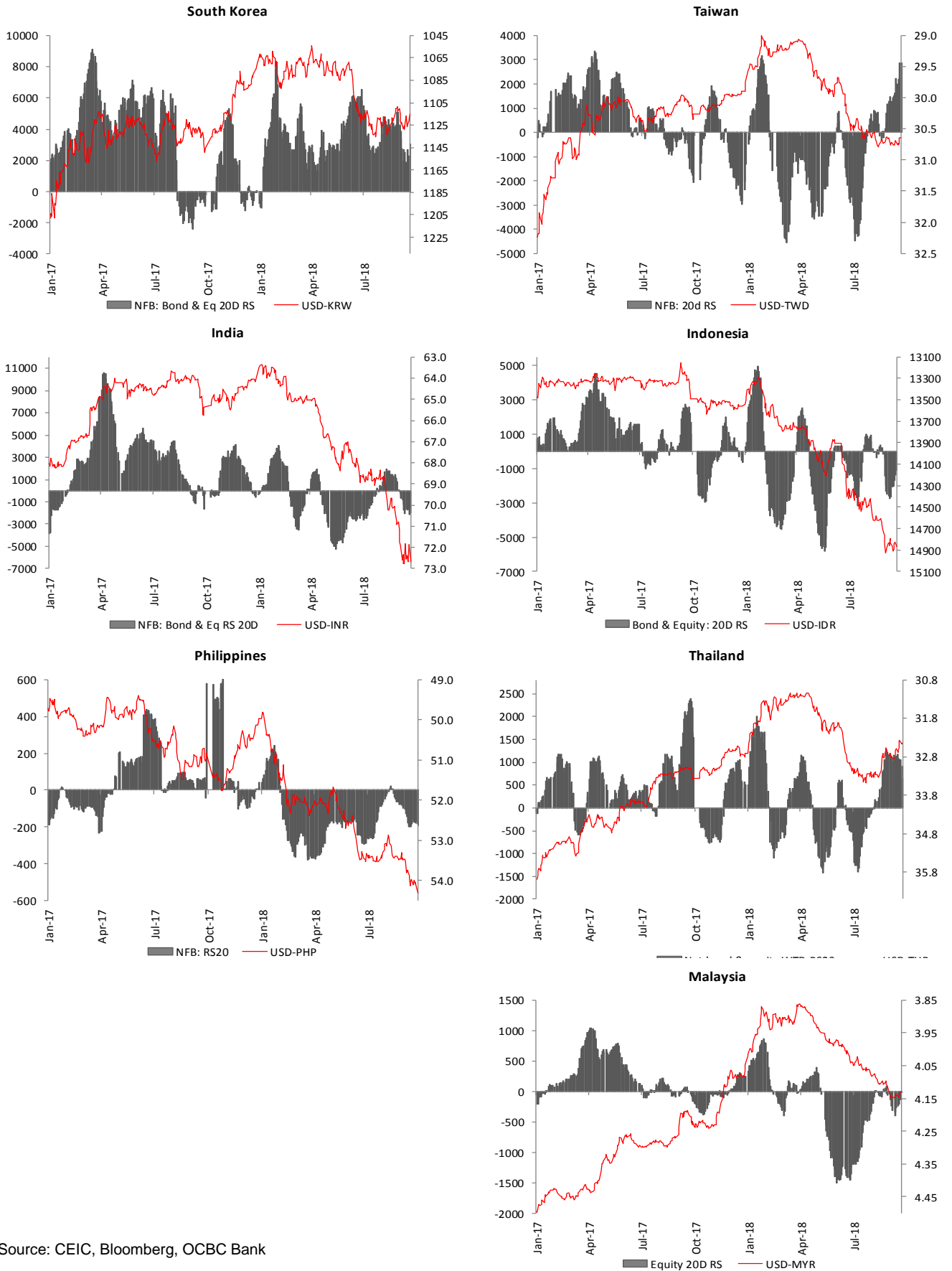
Source: OCBC Bank, Bloomberg

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.

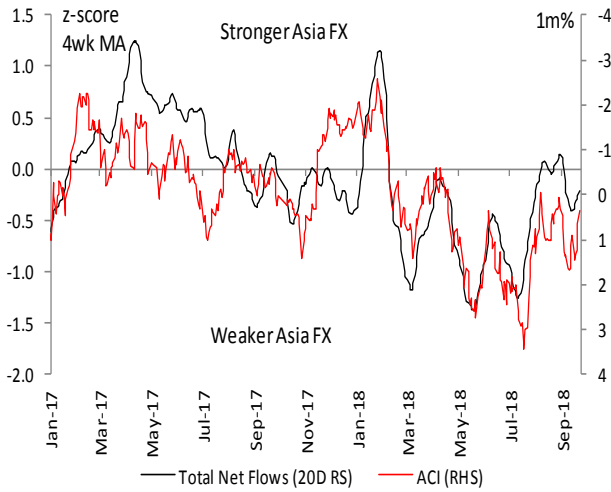
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



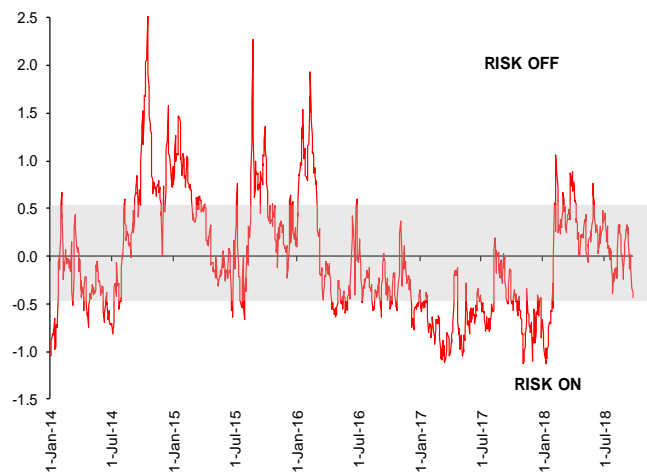
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.703	-0.160	-0.805	-0.056	-0.513	-0.787	-0.696	0.669	0.818	0.000	-0.965
THB	0.880	-0.733	-0.134	-0.834	-0.182	-0.477	-0.817	-0.708	0.790	0.765	0.000	-0.862
CAD	0.831	-0.456	0.048	-0.787	-0.303	-0.552	-0.569	-0.614	0.821	0.608	0.263	-0.815
SGD	0.785	-0.264	0.330	-0.762	-0.555	-0.636	-0.461	-0.579	0.758	0.471	0.470	-0.853
CHF	0.652	-0.673	-0.466	-0.543	0.257	-0.102	-0.632	-0.458	0.235	0.589	-0.429	-0.544
TWD	0.212	0.136	0.260	-0.487	-0.774	-0.635	-0.107	-0.463	0.334	-0.067	0.141	-0.346
MYR	0.100	0.459	0.652	-0.186	-0.872	-0.302	0.261	0.069	0.288	-0.123	0.597	-0.248
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
IDR	0.012	0.509	0.625	-0.088	-0.679	-0.166	0.374	0.174	0.252	-0.209	0.607	-0.090
CNH	0.000	0.498	0.852	-0.121	-0.552	-0.159	0.356	0.200	0.305	-0.205	1.000	-0.102
CNY	-0.160	0.719	1.000	0.082	-0.680	-0.028	0.551	0.321	0.004	-0.524	0.852	0.019
INR	-0.214	0.792	0.861	0.013	-0.828	-0.082	0.588	0.290	0.103	-0.562	0.751	0.061
PHP	-0.574	0.879	0.798	0.285	-0.699	0.195	0.724	0.437	-0.282	-0.793	0.505	0.430
AUD	-0.609	0.035	-0.545	0.635	0.692	0.484	0.256	0.396	-0.641	-0.257	-0.654	0.714
NZD	-0.611	0.016	-0.549	0.657	0.752	0.561	0.246	0.417	-0.580	-0.251	-0.589	0.724
USGG10	-0.703	1.000	0.719	0.560	-0.463	0.292	0.929	0.688	-0.465	-0.869	0.498	0.612
JPY	-0.787	0.929	0.551	0.769	-0.176	0.440	1.000	0.774	-0.662	-0.832	0.356	0.769
GBP	-0.797	0.849	0.640	0.578	-0.410	0.213	0.806	0.602	-0.457	-0.797	0.446	0.670
EUR	-0.965	0.612	0.019	0.838	0.224	0.582	0.769	0.694	-0.695	-0.754	-0.102	1.000

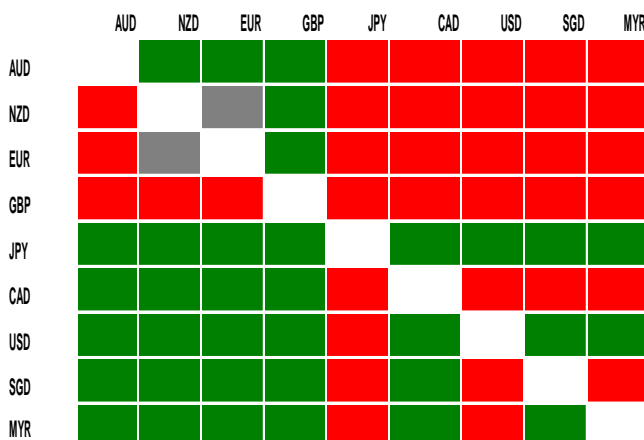
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1615	1.1700	1.1765	1.1795	1.1800
GBP-USD	1.2985	1.3100	1.3179	1.3200	1.3275
AUD-USD	0.7094	0.7200	0.7278	0.7296	0.7300
NZD-USD	0.6600	0.6666	0.6675	0.6700	0.6702
USD-CAD	1.2885	1.2900	1.2946	1.3000	1.3049
USD-JPY	111.41	112.00	112.92	113.00	113.03
USD-SGD	1.3607	1.3622	1.3651	1.3688	1.3700
EUR-SGD	1.6000	1.6004	1.6061	1.6085	1.6100
JPY-SGD	1.2047	1.2072	1.2090	1.2100	1.2212
GBP-SGD	1.7774	1.7900	1.7992	1.8000	1.8105
AUD-SGD	0.9784	0.9900	0.9936	0.9979	0.9986
Gold	1192.37	1200.00	1200.60	1204.98	1206.91
Silver	13.91	14.30	14.40	14.40	14.65
Crude	71.66	71.95	72.20	72.62	72.78

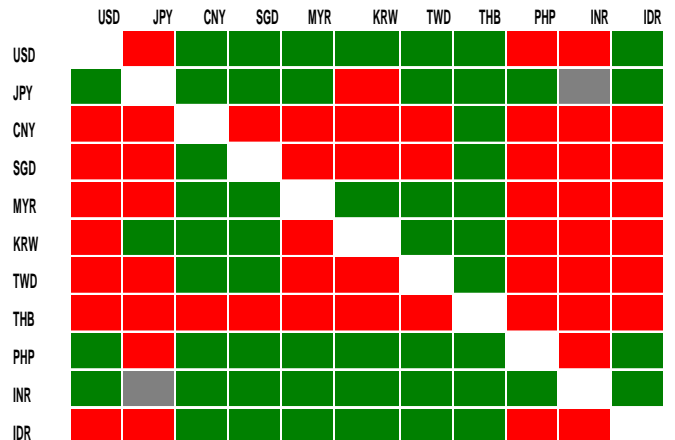
Source: OCBC Bank

G10 FX Heat Map



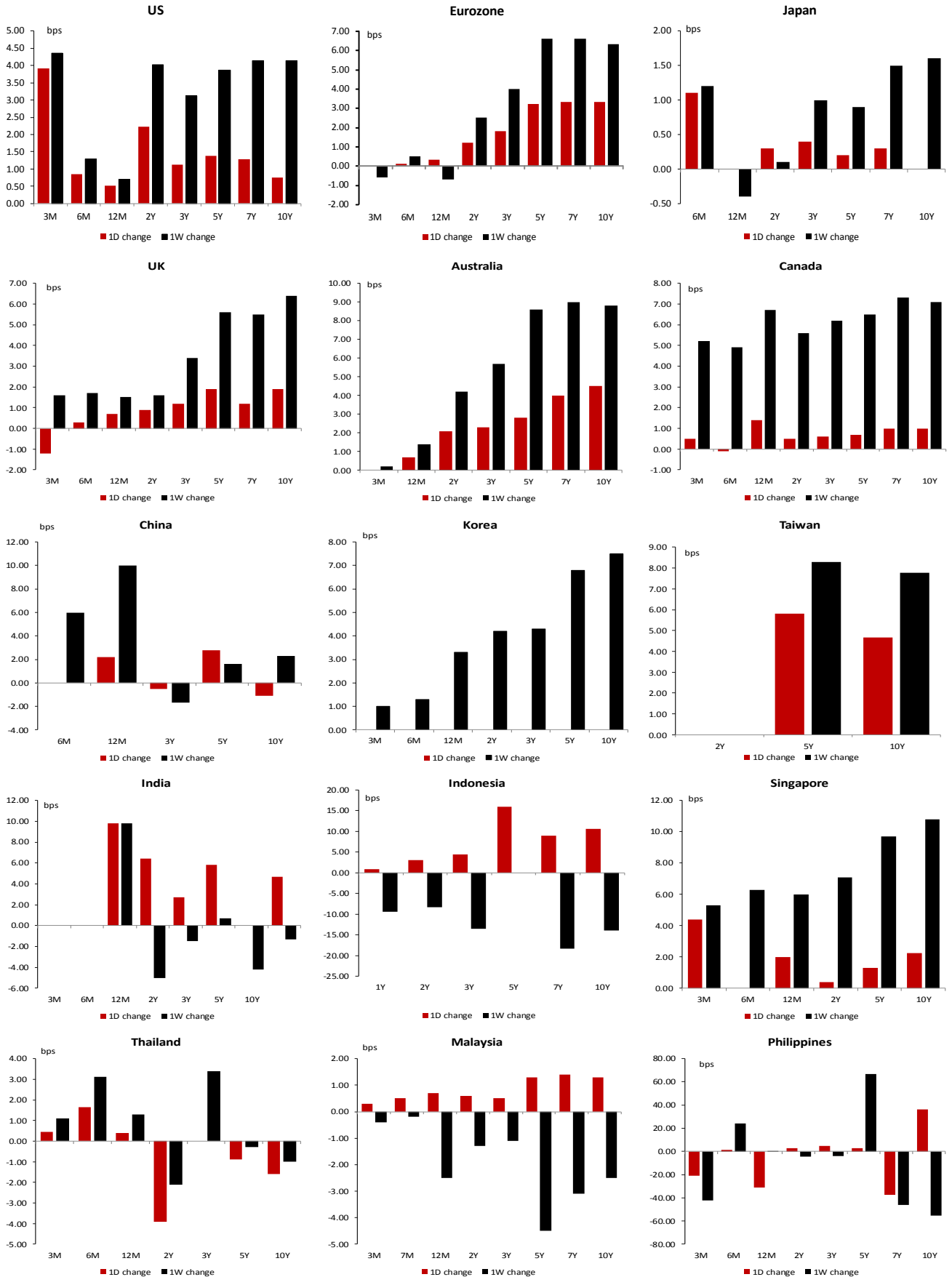
Source: OCBC Bank

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			
3	20-Sep-18	B	USD-JPY	112.89 114.65 112.00	USD-JPY responsive to firmer US rates			
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	-0.89
2	10-Sep-18	13-Sep-18	S	USD-JPY	111.05	111.95	Risk of further global market uncertainty	-0.81
3	04-Sep-18	19-Sep-18	S	AUD-USD	0.7190	0.7275	Vulnerability to contagion, static RBA	-1.18
* realized, excl carry								

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