

Thursday, November 01, 2018

**FX Themes/Strategy/Trading Ideas**

- Largely supportive US data releases (Oct ADP and 3Q ECI better than expected, Chicago PMI underperformed expectations) saw the USD continuing to pull higher against the EUR. The **DXY** closed above 97.00, backed by a firmer UST curve (note other major global govie curves also saw yields rising) as the 10y yield surpassed 3.150%.
- Following softer than expected official China PMIs earlier in the global day, the cyclicals (AUD, NZD, CAD) ended lower against the USD and trailed their G10 counterparts. This was in spite of improving risk appetite levels (positive EZ/US equities). On this front, the **FX Sentiment Index (FXSI)** dipped notably within Risk-Off territory.
- The **JPY** meanwhile outperformed against the dollar and on the crosses with although the USD-JPY eventually tracked lower as the SPX weakened from intra-day highs into the close. Post the **BOJ MPC**, Kuroda noted that risks to the economy and prices are skewed to the downside, exhibiting little signs of hawkishness. Meanwhile, the November asset purchase program plan but was not perceived to be telegraphing any change of policy intent.
- **GBP-USD** however bounced higher ahead of the BOE on Thursday and after Britain's Brexit secretary stated that a deal could be in place by end-November. Early Thursday in Asia, the GBP-USD popped higher again on a media report that a financial services agreement had been tentatively reached with the EU. The BOE MPC and Inflation Report (1200 GMT) with consensus mixed with regards to the extent of policy hawkishness. Expect better clarity for the GBP post the headline risks today.
- For today, look to the string of global manufacturing PMIs (China Caixin at 50.1 versus est. 50.0) for further macro cues, including the US October ISM (1400 GMT). **Although suspicions that long dollar positioning may be getting saturated (and investors are already long gamma) in the near term, if positive risk appetite fizzles again, stay top heavy on the EUR-USD, range trade the AUD-USD, and collect dips in the USD-JPY.**

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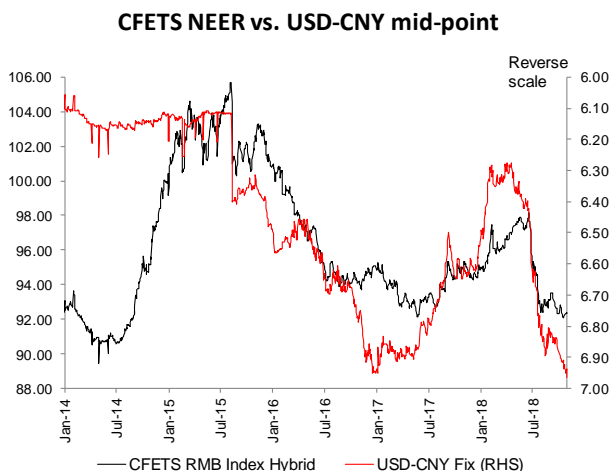
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### Asian FX

- A strong positive start to Asian equities (and slumping crude overnight) may keep the dollar at bay against the Asian currencies during the Asian session. Pending risk appetite gyrations, the USD may once again flex higher against the CNH, KRW, SGD and INR.
- Elsewhere, the **THB** received a boost on Wednesday on the back of a significantly larger than expected Sep current account surplus. We think this optimism may be misplaced given that the outsized surplus was on the back of a significant moderation in import growth. Exports meanwhile clocked a surprise -5.5% yoy contraction.
- Net portfolio flows in Asia meanwhile sees moderating outflow momentum for South Korea but still deepening outflow momentum for Taiwan and Malaysia. Elsewhere, outflows for India are also attempting to compress but seem to deepening slightly for Indonesia and the Philippines. Thailand is still experiencing minor outflows.
- **SGD NEER:** On the heels of the disappointing Sep industrial production numbers last week, Sep monetary aggregates released yesterday also denoted a deceleration in pace. The SGD NEER meanwhile is slightly firmer on the day at +1.34% above its perceived parity (1.4017). NEER-implied USD-SGD thresholds are easier, and expect a 1.3810-1.3875 range.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher, by less than expected, at 6.9670 from 6.9646 on Wednesday, with the counter-cyclical factor likely implemented today. The CFETS RMB Index eased slightly again to 92.35 from 92.36 in response. Note that a Politburo statement yesterday drew attention to increasing downward pressure on the economy. This may signal a shift in the government's approach in supporting the economy, from piecemeal policy tweaks to more comprehensive solutions in the near term.



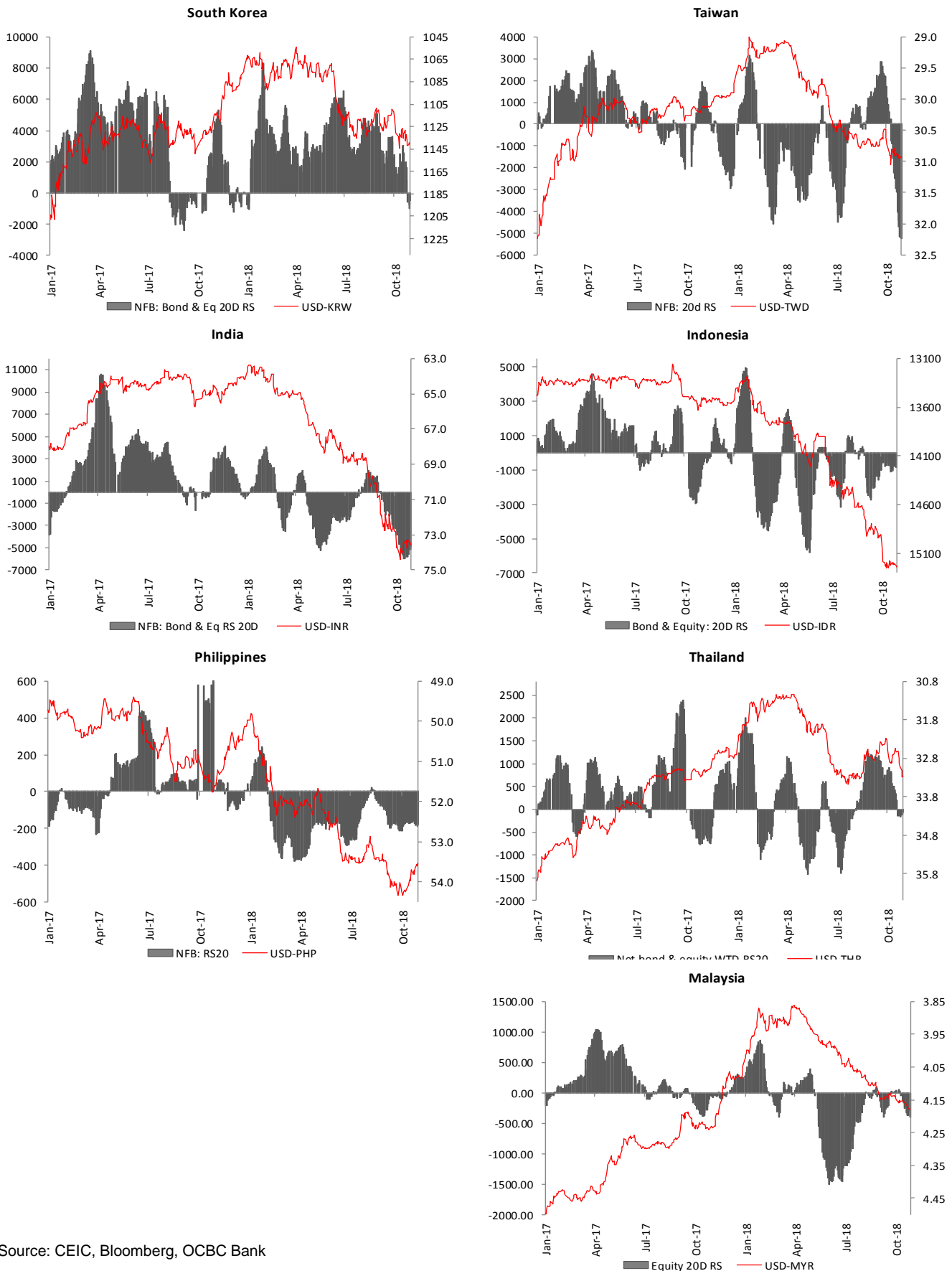
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↑	3Q GDP numbers “disappointed ” but despite expectations of official macro support, markets continue to angle for renminbi weakness and a soft interest rate curve. State Council and the PBOC announced further measures to ensure adequate funding. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. Latest CPI/PPI prints do not portend heightened price pressures (especially core), with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not pretend aggressive monetary stimulus. October official PMIs disappoint, Caixin manufacturing PMI static.
USD-KRW	↑	BOK remained static as expected in October with the official economic prognosis downgraded as expected. 3Q GDP and Sep industrial production readings came in lower than expected. BOK governor notes that further cuts are not appropriate and the Bank will consider a hike in November. His latest comments however seem to suggest some wavering from his previous hawkishness. Yield curves remain soft. Net inflow momentum which persisted since the start of the year evaporated and flipped into net outflows.
USD-TWD	↔/↑	CBC remained static at its policy meeting in Spetember and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Equity outflows remain significant.
USD-INR	↔	Bonds may find some near term reprieve from import curbs, lower crude, and friendlier CPI and trade deficit readings. RBI surprised markets by remaining static in October with the central bank lowering its inflation forecasts. Policy meeting minutes not perceived to be unduly hawkish, front to belly of curves outperforms. Tensions between the government and the RBI governor may add near term uncertainties. Govies rally further with larger than expected RBI November OMO. However, perceived govt-RBI tension undermined INR and govies somewhat on Wed.
USD-SGD	↑	MAS steepens the NEER’s slope again in October. NEER may remain afloat above +1.00% if risk appetite stays supported. Govie and IRS curves continue to take cues from offshore, local govies should continue to outperform their US counterparts.
USD-MYR	↔/↑	The mid-term review of the 11th Malaysia Plan saw growth forecasts downgraded and with the previous plan to achieve a balanced budget by 2020 scuppered, replaced by an projected -3.0% deficit. Sep CPI readings significantly softer than expected. BNM static in September. Budget announcement this week to be closely watched with respect to fiscal consolidation (govie weakness may have stabilized).
USD-IDR	↔	Inherent stress in the local bond market underscores background investor nervousness. BI notes that rate hikes were motivated by the need to maintain market stability, remained static in October. The DNDF market is due to come online on 01 Nov 18. Continued compression in net bond outflows giving govies a breather.
USD-THB	↑	BOT MPC members mulling a policy normalization timetable. We note however a lack of immediate inflation risks, and latest export and manufacturing prints remained soft. This may delay the start of policy normalization. Govie yields remain underpinned.
USD-PHP	↔/↓	BSP hiked another 50bps in September; BSP retained a hawkish stance. However, Finance Secretary and asst BSP governor note subsequently that inflation should subside in the coming months. Sep monetary aggregates moderate. Govie yields consolidating lower.

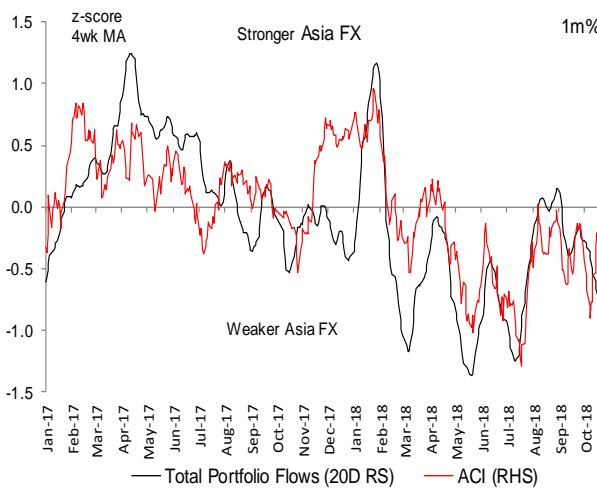
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



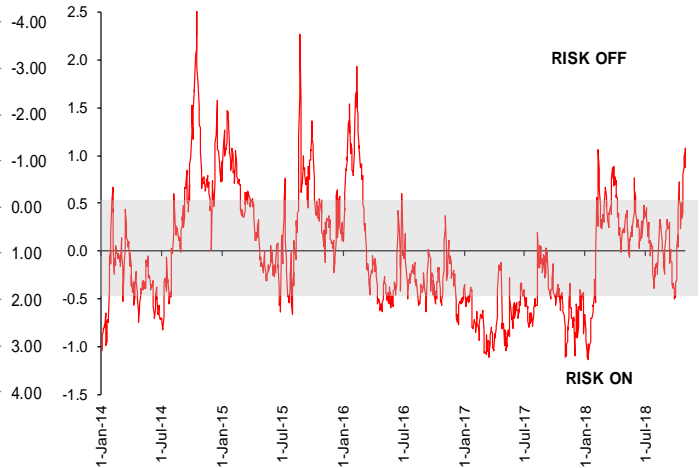
Source: CEIC, Bloomberg, OCBC Bank

**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	-0.297	0.943	-0.551	-0.532	-0.809	0.013	-0.73	0.41	0.507	0.838	-0.988
SGD	0.943	-0.402	1	-0.512	-0.516	-0.779	0.416	-0.724	0.24	0.526	0.966	-0.941
CHF	0.901	-0.048	0.92	-0.678	-0.712	-0.814	-0.178	-0.826	0.553	0.659	0.89	-0.919
IDR	0.838	-0.221	0.966	-0.791	-0.804	-0.786	-0.438	-0.878	0.67	0.793	1	-0.868
CNH	0.795	-0.28	0.815	-0.859	-0.884	-0.866	-0.498	-0.867	0.773	0.85	0.889	-0.817
MYR	0.719	0.285	0.733	-0.358	-0.414	-0.457	-0.046	-0.439	0.37	0.381	0.659	-0.751
THB	0.65	-0.047	0.61	-0.661	-0.72	-0.631	-0.44	-0.58	0.673	0.694	0.714	-0.671
JPY	0.649	-0.032	0.721	-0.878	-0.878	-0.759	-0.621	-0.897	0.848	0.896	0.859	-0.684
CAD	0.452	0.025	0.225	-0.77	-0.84	-0.58	-0.592	-0.66	0.82	0.814	0.56	-0.51
INR	0.318	0.123	-0.05	-0.761	-0.872	-0.496	-0.765	-0.683	0.836	0.863	0.577	-0.376
KRW	0.234	0.33	-0.129	-0.586	-0.72	-0.281	-0.625	-0.47	0.662	0.685	0.484	-0.302
USGG10	0.013	0.154	0.416	0.758	0.777	0.319	1	0.559	-0.82	-0.813	-0.438	0.062
TWD	-0.054	0.373	-0.233	0.084	-0.026	0.106	-0.066	0.179	0.092	0.085	-0.057	0.041
CNY	-0.064	-0.478	0.078	-0.099	-0.032	-0.138	-0.072	-0.21	-0.06	0.068	0.028	0.101
PHP	-0.149	0.494	-0.325	0.098	-0.04	0.165	-0.159	0.192	0.082	0.057	-0.08	0.114
NZD	-0.297	1	-0.402	0.381	0.219	0.444	0.154	0.292	-0.296	-0.226	-0.221	0.266
AUD	-0.49	-0.355	-0.605	0.427	0.458	0.327	0.21	0.397	-0.463	-0.419	-0.497	0.539
GBP	-0.753	0.379	-0.809	0.814	0.781	0.834	0.418	0.908	-0.635	-0.761	-0.884	0.766
EUR	-0.931	0.523	-0.924	0.482	0.421	0.74	-0.112	0.648	-0.287	-0.389	-0.727	0.905
	-0.988	0.266	-0.941	0.595	0.586	0.784	0.062	0.749	-0.457	-0.554	-0.868	1

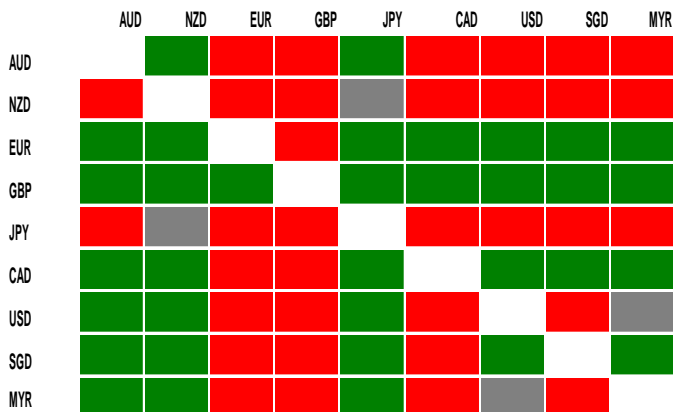
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1302	1.1339	1.1400	1.1571
GBP-USD	1.2696	1.2800	1.2847	1.2900	1.3015
AUD-USD	0.7042	0.7100	0.7113	0.7145	0.7166
NZD-USD	0.6442	0.6500	0.6557	0.6574	0.6600
USD-CAD	1.3021	1.3100	1.3147	1.3170	1.3190
USD-JPY	112.00	112.31	112.86	113.00	113.49
USD-SGD	1.3748	1.3800	1.3835	1.3868	1.3873
EUR-SGD	1.5640	1.5670	1.5688	1.5700	1.5907
JPY-SGD	1.2241	1.2256	1.2259	1.2300	1.2352
GBP-SGD	1.7582	1.7700	1.7775	1.7800	1.7893
AUD-SGD	0.9741	0.9800	0.9840	0.9847	0.9852
Gold	1200.00	1206.30	1218.10	1238.60	1247.35
Silver	13.80	14.00	14.30	14.44	14.87
Crude	64.81	65.10	65.14	65.20	67.48

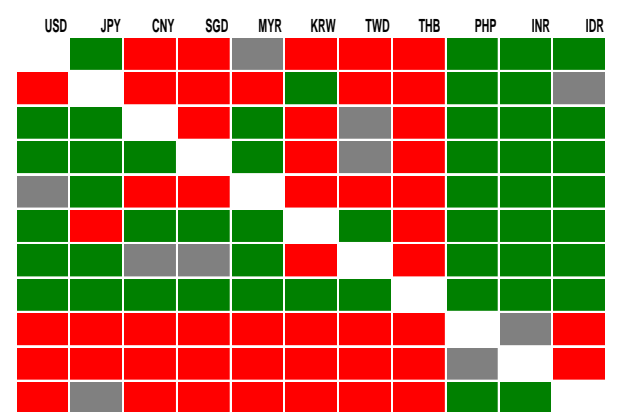
Source: OCBC Bank

**G10 FX Heat Map**



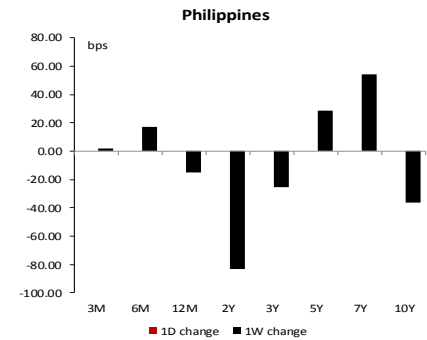
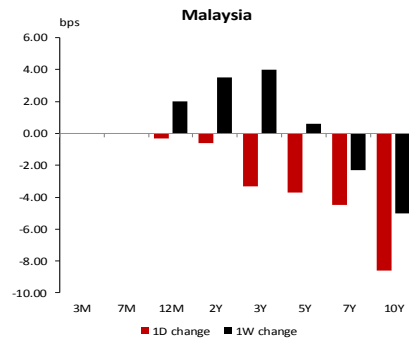
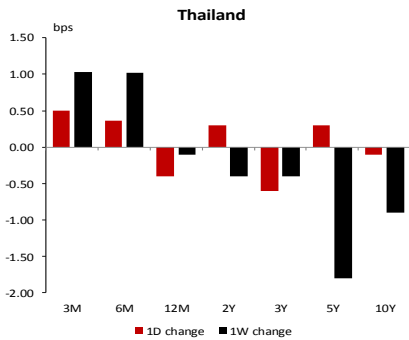
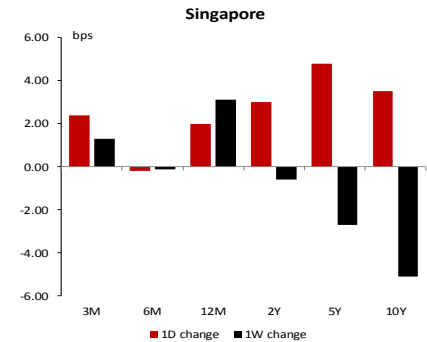
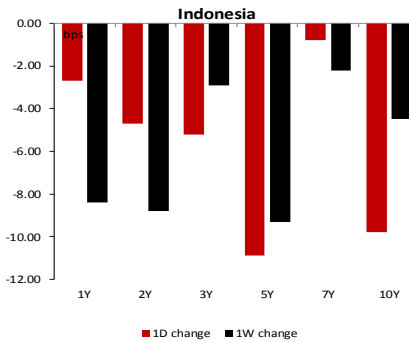
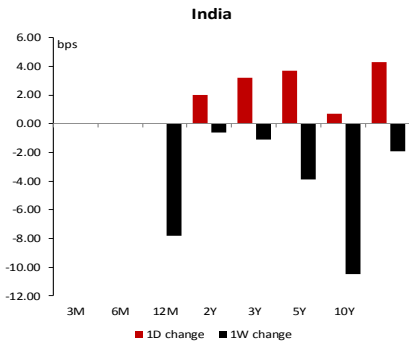
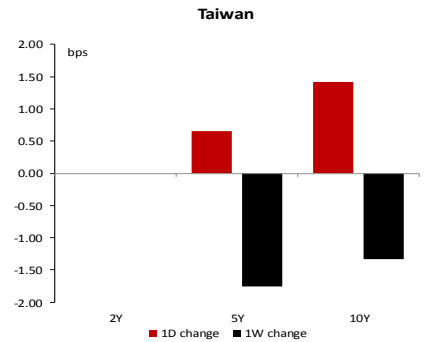
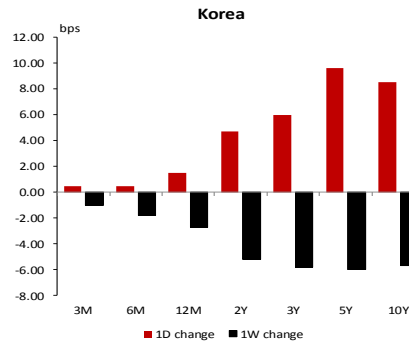
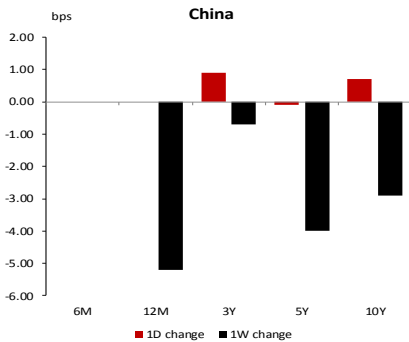
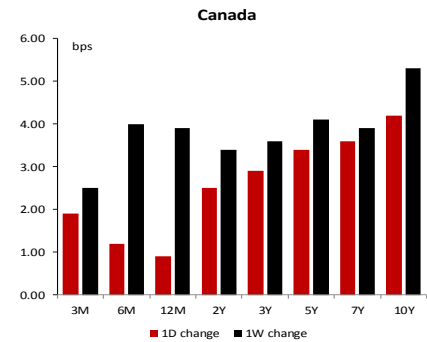
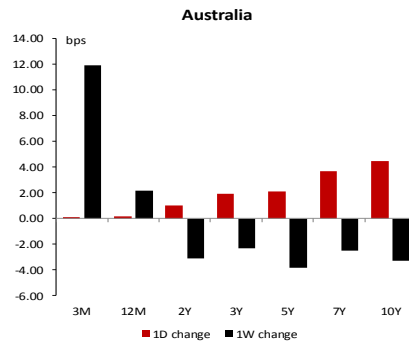
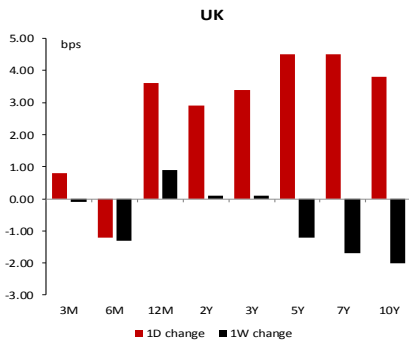
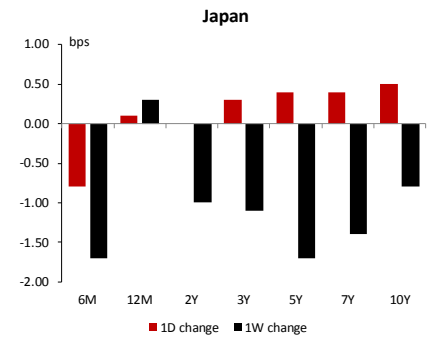
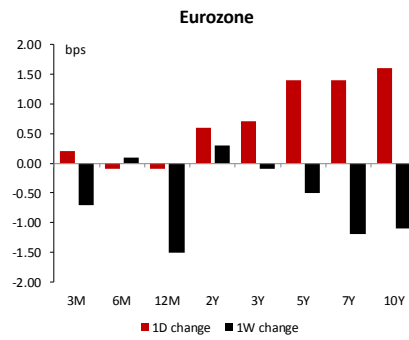
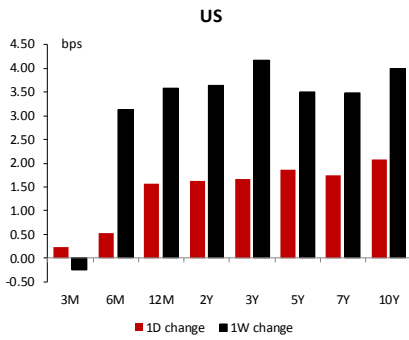
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



### FX Trade Recommendations

	Inception		B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale
<b>TACTICAL</b>								
1	22-Oct-18		S	EUR-USD	1.1520	1.1320	1.1620	Italian fiscal risks, ECB unlikely to surprise on the hawkish front
2	23-Oct-18		B	3M USD-THB	32.780	33.500	32.400	Vanishing net inflows, firmer USD, fragile risk appetite
3	30-Oct-18		B	USD-SGD	1.3840	1.4015	1.3750	Resilient DXY, fragile risk appetite, proxy CNH trade
<b>STRUCTURAL</b>								
	-		-	-	-	-	-	-
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%) <sup>+</sup>
1	03-Oct-19	10-Oct-18	S	EUR-CAD	1.4845	1.4975	Contrasting dynamics between USMCA and Italy	-0.88
2	20-Sep-18	11-Oct-18	B	USD-JPY	112.89	112.00	USD-JPY responsive to firmer US rates	-0.79
3	11-Sep-18	24-Oct-18	B	GBP-USD	1.3056	1.2920	Positioning ahead of BOE MPC and positivity from Brexit news flow	-1.04
* realized, excl carry								

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