

Monday, December 03, 2018

## FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar climbed on Friday even as UST yields slumped (10y yield <3.000% with the curve bear flattened) as investors prepped for the weekend G20 meeting. The **FXSI (FX Sentiment Index)** inched lower within Risk-Off territory on Friday and may be expected to slip further towards Risk-Neutral territory into the beginning of the week.
- **CFTC** data meanwhile showed large non-commercial accounts increasing their net long dollar bias in aggregate in the latest week while asset manager accounts reduced slightly their net implied short dollar bias. Meanwhile, leveraged accounts also increased their net long dollar bias in the same period. **The entire complex essentially was caught wrong footed last week as the data pre-dated Powell last Wed and the FOMC minutes last Thursday.**
- Over the weekend, **China** and the **US** declared a cease and halted any additional tariffs pending trade talks to reach a compromise within 90 days. According to the White House, China has also agreed to immediately purchase a “very substantial” amount of agricultural, energy, industrial and other products. Additional US tariffs that were supposed to kick in on 1 Jan 2019 will be put on hold.
- This saw the dollar gap lower in Asia early Monday with the **AUD-USD** (RBA expected to be static on Tue) jumping and the **USD-CNH** collapsing. Expect investor sentiment to be given a positive boost at the onset of the week and this may jump start positivity for the cyclicals (especially the AUD) as well as Asian currencies (and equities, with the S&P E-Mini spiking higher). **In the interim, before this positivity fizzles out again, we’d remain heavy on the EUR (note Nov core CPI was cooler than expected) and the GBP versus the likes of the AUD, while the JPY-crosses may be expected to be underpinned on the improvement in risk appetite levels.**
- Note that aggregated back-end interest rate differential support for the broad dollar has been stalling into the end of last week and the latest piece of positive Sino-US headlines may keep the DXY heavy and centered around 96.80-97.. In the interim, note that the **re-pricing of the Fed** remains underway and all eyes are expected to be on Fed chair **Powell**, who is expected to testify before the Joint Economic Committee (likely Thu)
- Elsewhere, the **GBP** may remain under the weather this week and ahead of the 11 Dec 18 parliament vote. Note that over the weekend, the Labour Party had also threatened to launch contempt proceedings against PM May.

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4037

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

**Terence Wu**

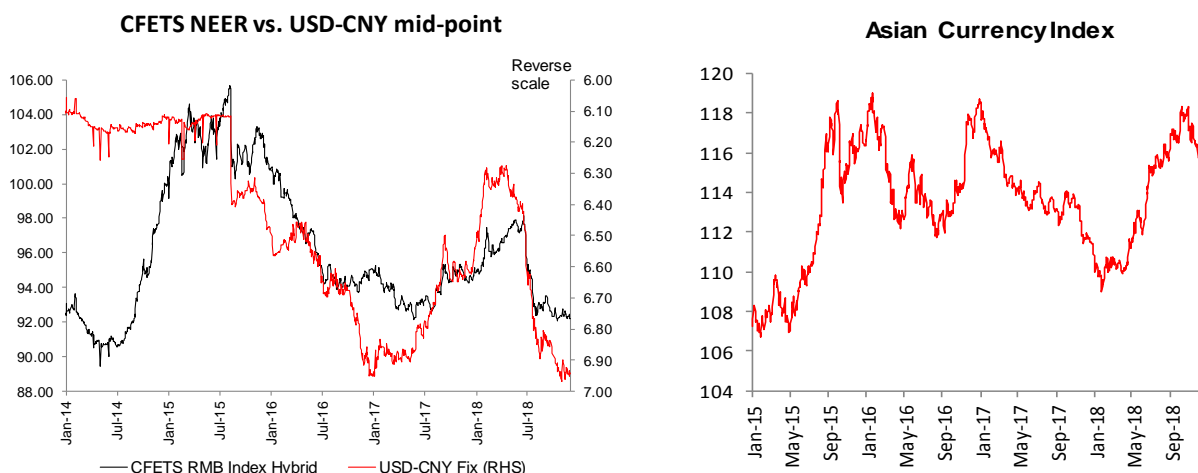
+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

- On the data front, watch for global PMIs throughout the week and US NFP and hourly earnings (Fri). As the Fed move to a more data-dependent path, key US indicators may generate more attention than previous. Apart from the RBA rate decision (Tue), watch also for the BOC decision (Wed). Note also the heavy Fed schedule this week, including Clarida (1130 GMT), Williams (1415 GMT) and Brainard (1530 GMT) today.

## Asian FX

- USD-CNH gapped lower early Asia on Monday following the weekend Xi-Trump news with the pair trading around 6.9110 in early trade. Expect the likes of the KRW and TWD to mirror the renminbi complex and if the improvement in risk appetite levels persists beyond the next 36-48 hours, expect the southern currencies like the IDR and the INR to also gain further traction. Apart from a more supported tone for Asian FX intra-day, expect also the regional rates environment to take cues from the drop in Treasury futures early on Monday.
- On the **EPFR** front, implied net inflows into Asian (excl Japan, China) markets moderated slightly in the latest week but note the strengthening seen on a 4-week rolling sum basis. Net implied bond outflows from the region also compressed significantly in the latest week and on a 4-week rolling basis. Overall, we continue to note the improving investor posture towards the region.
- RBI decision expected on Wednesday.
- SGD NEER**: Note that we have revised our in-house SGD NEER model, and will present the readings from the revised model from this week. The revised SGD NEER stands at +1.85% above its perceived parity (1.3947), after nudging the +2.00% top end of the estimated upper boundary early Asia on broad USD weakness. In the interim, expect the 1.3670/80 region to support the USD-SGD, with the top-side capped at 1.3727 (100-day MA).
- CFETS RMB Index**: Despite the progress in the trade talks, the **USD-CNY** mid-point was still set higher at 6.9431 compared to 6.9357 on Friday. The CFETS RMB Index, meanwhile, stayed static at 92.18.



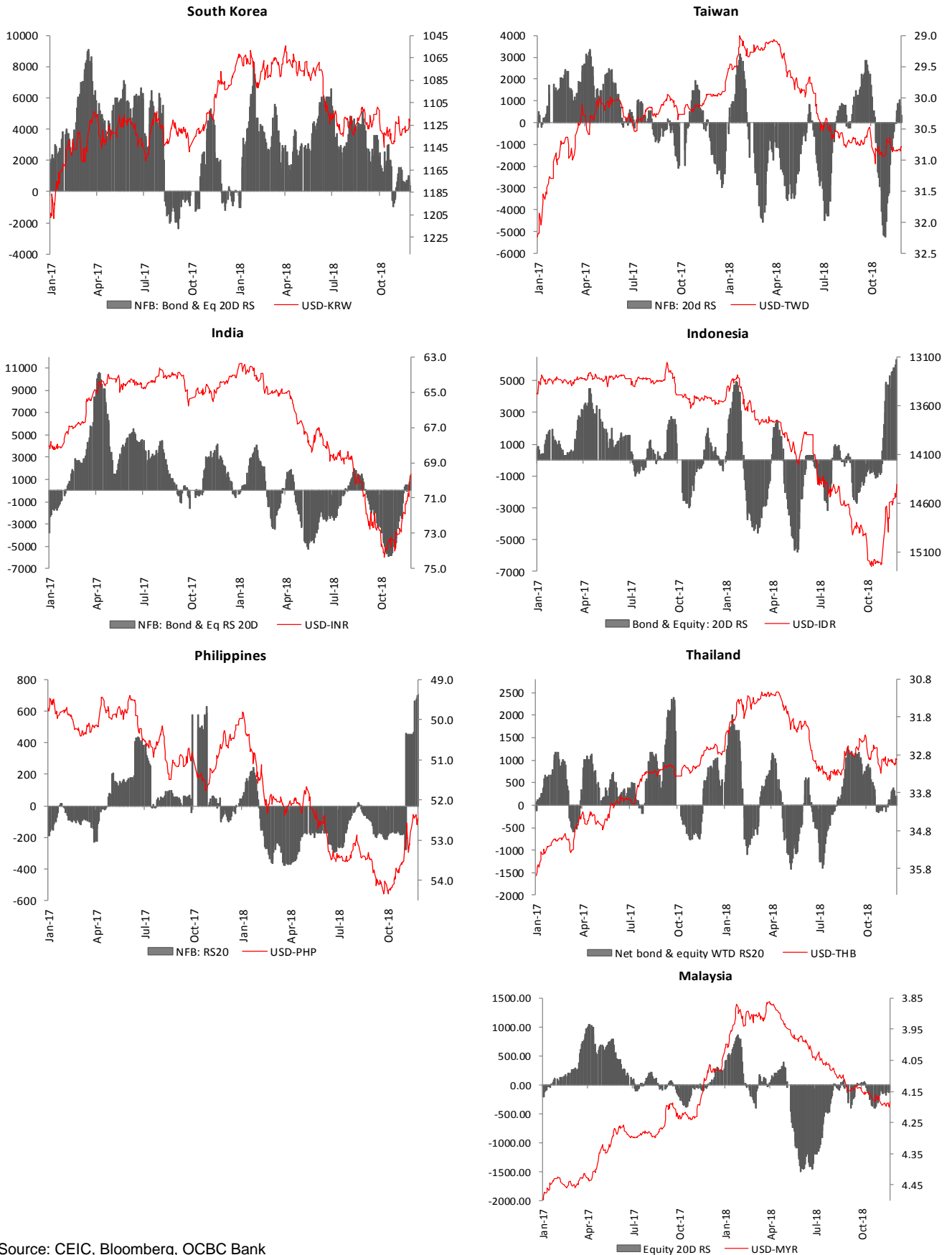
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	3Q GDP numbers “disappointed”. PBOC’s quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. PBOC states that the 7.00 level for USD-CNY “isn’t that crucial”. October CPI/PPI prints remain subdued, with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not pretend aggressive monetary stimulus. November official PMIs disappoint. Oct trade and industrial production numbers outperformed, while retail sales underperformed.
USD-KRW	↔/↓	BOK hiked 25bps as expected in November with the hike characterized as a one-off dovish hike by markets. 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 its November meeting this week.
USD-TWD	↔/↓	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Some CBRC members looking towards policy normalization to afford the authority eventual downside wiggle room.
USD-INR	↓	Political risk ahead with state elections scheduled for end-Nov and early Dec. Thawing relations between the RBI and government expected to assuage markets. 3Q GDP and Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance
USD-SGD	↔/↓	MAS steepens the NEER’s slope again in October. NEER may remain afloat above +1.00% if risk appetite stays supported. 3Q GDP numbers disappoint.
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. BNM static in November, highlighting the drag from the fiscal front. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in).
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds, with govie yields easing again (bull flattening) despite the surprise BI rate hike in November. The hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, with the BI expected to stay pre-emptive and ahead of the curve in 2019. BI’s intervention on the IDR and bond markets apparently ceased in the past couple of weeks. Note equity inflows are also consistently picking up momentum alongside bond inflows.
USD-THB	↔/↓	BOT unchanged at Nov MPC, but saw 3 dissenters in favour of rate hike, suggesting an inclination towards a Dec hike, rather than Feb. Nevertheless, any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Despite the BOT looking to downgrade 2018 growth forecast, the governor appears to be preparing the ground for a rate hike in his latest comments..
USD-PHP	↔/↓	BSP hiked rates by another 25 bps in its Nov meeting, aiming to rein in on inflation and pre-empt second round effects. Official rhetoric continues to point towards lower inflation prints in the coming months, although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending.

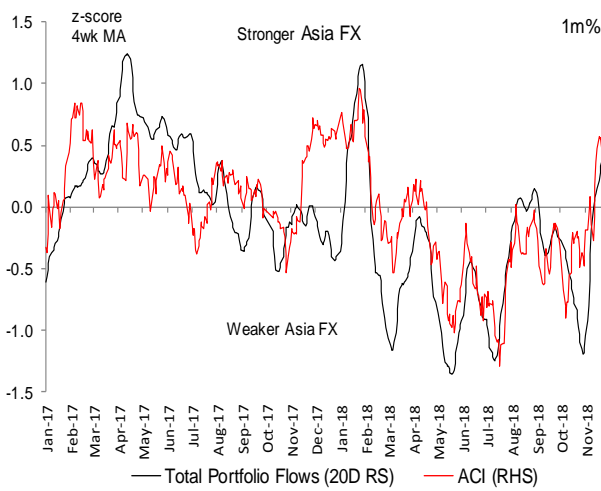
Source: OCBC Bank

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



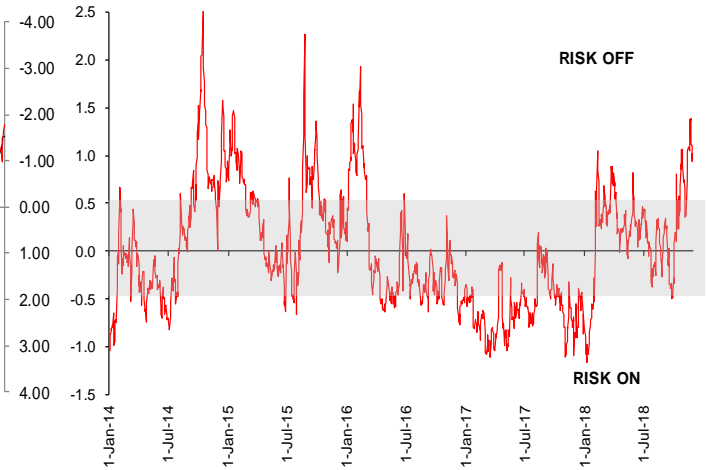
Source: CEIC, Bloomberg, OCBC Bank

### 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	-0.342	0.747	-0.274	-0.306	-0.623	0.496	-0.486	0.192	0.286	0.788	-0.919
CNH	0.788	-0.167	0.868	-0.234	-0.23	-0.534	0.4	-0.378	0.141	0.204	1	-0.778
CNY	0.747	-0.312	1	-0.171	-0.209	-0.526	0.295	-0.438	0.133	0.295	0.868	-0.729
CAD	0.746	-0.666	0.705	-0.503	-0.297	-0.83	0.145	-0.814	0.323	0.679	0.72	-0.577
SGD	0.528	0.408	0.601	-0.047	-0.405	0.101	0.419	0.273	0.225	-0.425	0.659	-0.728
THB	0.51	-0.082	0.557	-0.51	-0.567	-0.387	0.044	-0.181	0.516	0.224	0.541	-0.522
JPY	0.496	0.385	0.295	0.542	0.377	-0.017	1	0.122	-0.473	-0.335	0.4	-0.618
TWD	0.347	-0.575	0.538	-0.762	-0.645	-0.594	-0.382	-0.576	0.619	0.62	0.423	-0.276
MYR	0.343	-0.595	0.425	-0.67	-0.551	-0.547	-0.294	-0.587	0.673	0.601	0.22	-0.221
KRW	0.256	-0.012	0.424	-0.55	-0.741	-0.169	-0.145	-0.047	0.546	0.066	0.374	-0.368
CHF	0.227	0.717	0.176	0.449	0.009	0.512	0.617	0.646	-0.111	-0.786	0.195	-0.514
NZD	0.012	-0.724	0.017	-0.109	0.161	-0.481	-0.216	-0.633	-0.116	0.684	-0.172	0.199
PHP	-0.016	0.732	0.184	0.483	0.09	0.65	0.362	0.71	-0.054	-0.756	0.064	-0.28
IDR	-0.196	0.675	-0.046	0.043	-0.326	0.661	-0.013	0.681	0.402	-0.697	-0.082	-0.049
INR	-0.219	0.917	-0.22	0.129	-0.349	0.825	0.059	0.901	0.365	-0.93	-0.203	-0.07
AUD	-0.304	-0.441	-0.275	0.277	0.543	-0.108	-0.172	-0.302	-0.421	0.437	-0.492	0.471
USGG10	-0.342	1	-0.312	0.61	0.248	0.824	0.385	0.914	-0.291	-0.945	-0.167	0.061
GBP	-0.534	0.887	-0.399	0.611	0.268	0.791	0.231	0.81	-0.331	-0.863	-0.289	0.289
EUR	-0.919	0.061	-0.729	0.162	0.307	0.401	-0.618	0.248	-0.184	-0.011	-0.778	1

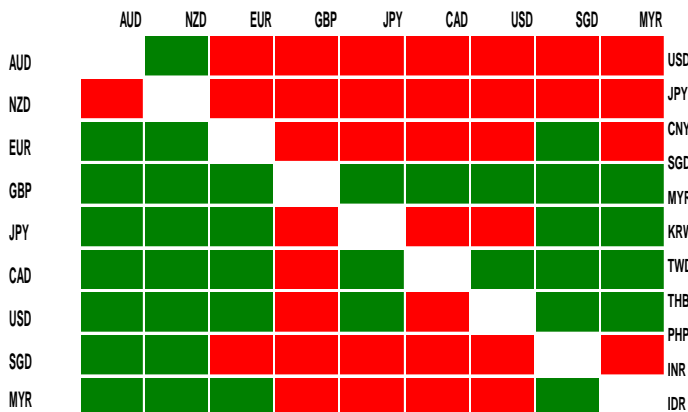
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1244	1.1300	1.1349	1.1400	1.1442
GBP-USD	1.2696	1.2700	1.2771	1.2800	1.2964
AUD-USD	0.7300	0.7353	0.7359	0.7384	0.7400
NZD-USD	0.6863	0.6900	0.6907	0.6911	0.6923
USD-CAD	1.3108	1.3200	1.3217	1.3300	1.3333
USD-JPY	113.00	113.10	113.58	114.00	114.21
USD-SGD	1.3677	1.3685	1.3687	1.3700	1.3765
EUR-SGD	1.5504	1.5515	1.5534	1.5600	1.5719
JPY-SGD	1.2023	1.2037	1.2050	1.2100	1.2172
GBP-SGD	1.7400	1.7436	1.7480	1.7500	1.7845
AUD-SGD	1.0000	1.0032	1.0072	1.0100	1.0120
Gold	1203.41	1215.30	1223.70	1236.50	1239.30
Silver	13.92	14.20	14.24	14.30	14.45
Crude	49.41	53.70	53.73	53.80	64.11

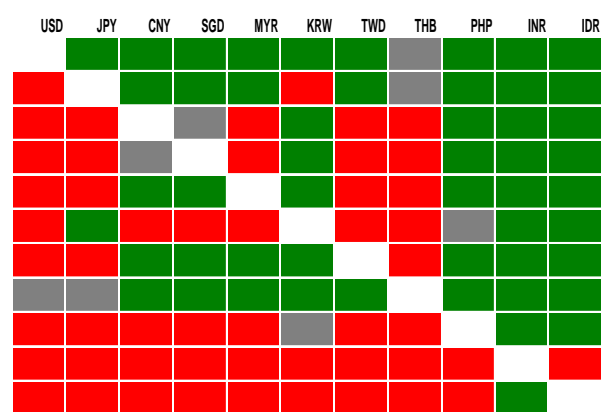
Source: OCBC Bank

### G10 FX Heat Map



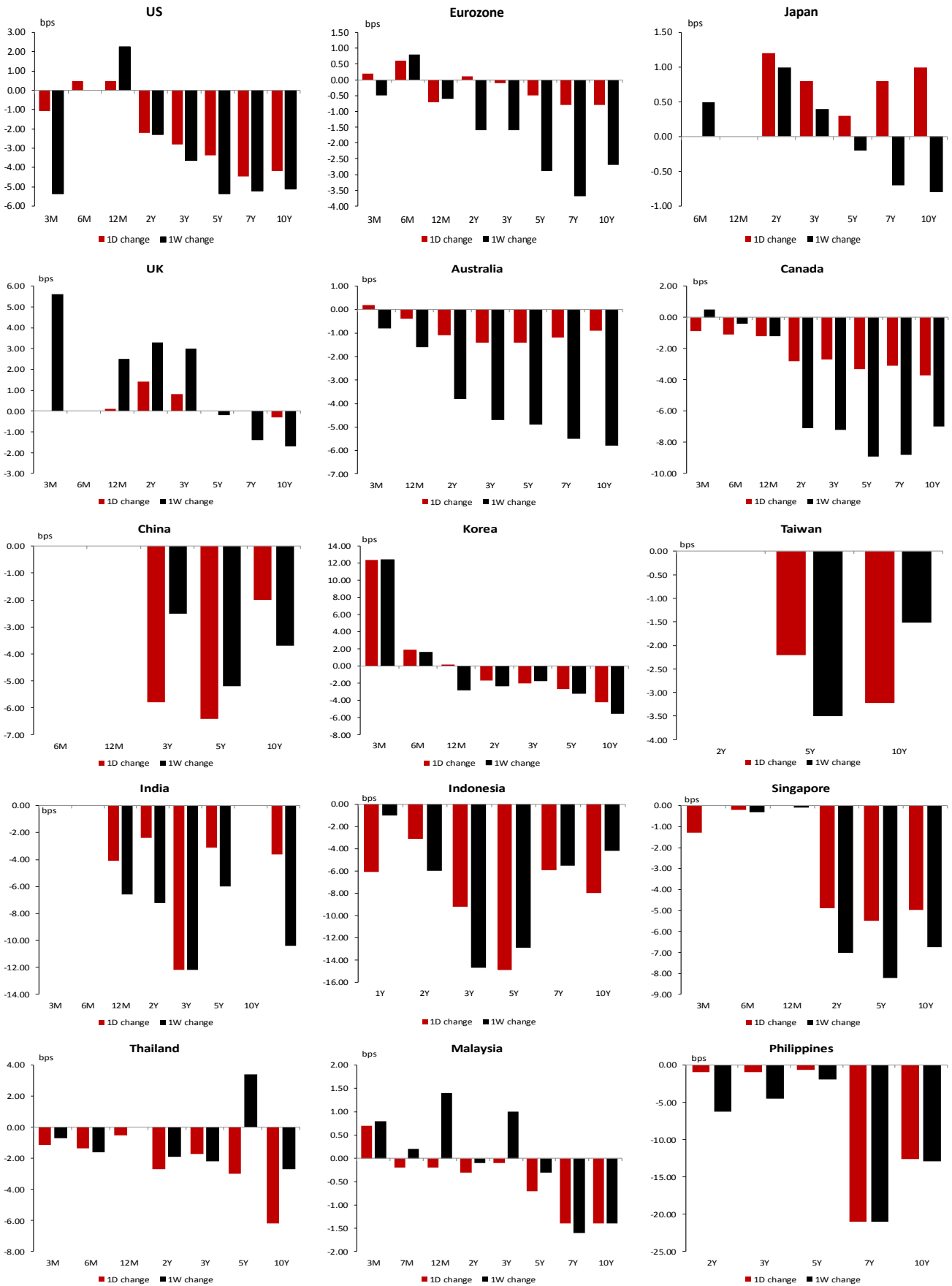
Source: OCBC Bank

### 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	23-Oct-18	B	3M USD-THB	32.780 33.500 32.400	Vanishing net inflows, firmer USD, fragile risk appetite		
<b>STRUCTURAL</b>							
-	-	-	-	-	-		
<b>RECENTLY CLOSED TRADE IDEAS</b>							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	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
2	22-Oct-18 01-Nov-18	S	EUR-USD	1.1520	1.1420	Italian fiscal risks, ECB unlikely to surprise on the hawkish front	+0.87
3	30-Oct-18 02-Nov-18	B	USD-SGD	1.3840	1.3750	Resilient DXY, fragile risk appetite, proxy CNH trade	-0.65
4	08-Nov-18 12-Nov-18	B	AUD-USD	0.7286	0.7200	Improving risk appetite post US midterms	-1.18
5	13-Nov-18 14-Nov-18	S	EUR-USD	1.1230	1.1035 1.1330	Italian fiscal uncertainty, USD underpinned by FOMC prospects	-0.89
6	09-Nov-18 16-Nov-18	B	USD-JPY	113.88	113.00	Rate differential support for the USD, especially post-FOMC	-0.77
* realized, excl carry							

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