

Thursday, October 04, 2018

FX Themes/Strategy/Trading Ideas

- The DXY was propelled above 96.00 (USD universally higher across G10) on Wednesday as US yields surged (UST curve bear steepened with the 10y > 3.18%) after Fed chair Powell continued with his positive rhetoric for a second day running.
- On other fronts, despite slightly positive headlines from the Italian fiscal situation and the pickup in EZ equities, the EUR-USD eventually relapsed from intraday highs and sank below 1.1500.
- On the Fed, Powell noted that the expansion in the US economy “can continue for quite some time” and the Fed may well raise rates above “neutral” amidst the “remarkably positive set of economic circumstances”. Although he added that “We may go past neutral. But we’re a long way from neutral at this point, probably”. In addition to Powell, note also slightly hawkish rhetoric from the Fed’s Evans and Mester, although Harker and Barkin were slightly more restrained.
- On our end, latest Fed-speak we think were not designed to incite heightened expectations of more rate hikes beyond what was suggested in the dot plots (ED spreads have been playing catch-up). Given that Fed officials have on occasion addressed the Philips curve (or rather, the lack of responsiveness of the Philips curve), they may have in fact been trying to egg the back-end higher. Given that TIPS (and other inflation-protected securities in the other majors) have been largely moribund, this may be a hard sell for the back-end (no pun intended).
- On the data front, note that the Sep non-manufacturing ISM jumped to a more than expected 61.6 from 58.5 the previous month. Meanwhile, the Sep ADP also surprised on the upside at +230k.
- Positive EZ/US equities saw risk appetite levels improving but as noted previously, the US yield and USD complex may continue to hold sway at this juncture. **In our view, a heavy EUR-USD (EZ still provides a convenient fragile back story) and positive USD-JPY (yield differential dynamics) may remain favored plays in the current environment.**

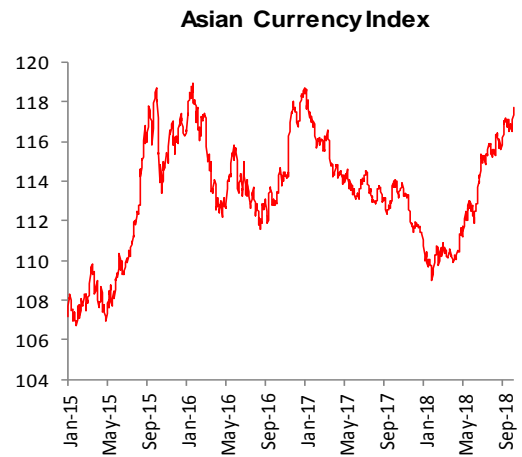
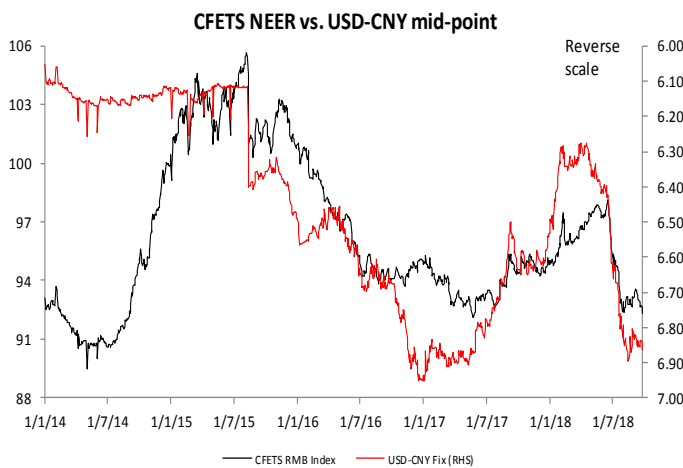
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- With the USD-CNH brushing towards 6.9000 overnight and with crude yet higher again, expect USD-Asia (and associated implieds) to track higher in unison.
- With the major curves also in on the action overnight (including JGBs), expect regional yields to also gain in tandem. Structurally, the jump in US yields may further heighten the re-pricing of, and appetite for, EM assets. Again, given the lack of acute inflation impetus across most of the region, the bellies across several regional govie curves are underperforming instead this morning.
- **SGD NEER:** The SGD NEER continued to drip lower on Wednesday in the wake of the broad USD move. Currently, the Index is around +1.04% with NEER-implied USD-SGD thresholds continuing to lift higher. Expect a near term anchor for the USD-SGD to be centered around 1.3800 amidst inherent upside risks.
- **CFETS RMB Index:** China is away for holidays this week.



Source: OCBC Bank, Bloomberg

Short term Asian FX/local market views

Currency	Bias	Rationale
USD-CNH	↔/↑	Expect inherent buoyancy in the pair stemming from the broad dollar complex. 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 riskier 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 dampen rate hike expectations; BOK governor notes that monetary accommodation needs to be reduced. Finance Minister warns of further potential weakness in labor markets.
USD-TWD	↔	Expect to track North Asian trends in general; flow dynamics remain supportive amid recovering EM sentiment. CBC remained static at its policy meeting in September and is expected to remain so into 2019.
USD-INR	↑	Monitor potential for rate hikes this Friday. Current account concerns for India plus the larger EM overhang may continue to see outsized vulnerability of the INR. 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. USD-MYR expected to test the 4.15 resistance but firmer global crude may serve to temper. Local curves also expected to firm in sympathy with the US lead.
USD-IDR	↑	Bounce in global investor sentiment is benefitting the IDR and local govies. BI hiked another 25bps as expected in September. Authorities preparing further incentives for exporter repatriation and bond investments.
USD-THB	↔	BOT MPC members mulling a policy normalization timetable. We note however a lack of immediate inflation risks. Note however that the BOT governor noted that there is currently no shift to a hawkish stance.
USD-PHP	↔/↑	BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher. Slower growth and firmer inflation prospects weigh on sentiment.

Source: OCBC Bank

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	USD-JPY	112.89	114.65	112.00	USD-JPY responsive to firmer US rates	
3	03-Oct-19	S	EUR-CAD	1.4845	1.4590	1.4975	Contrasting dynamics between USMCA and Italy	
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
4	20-Sep-18	28-Sep-18	B	EUR-USD	1.1702	1.1600	Risk appetite recovery, rate differentials on back burner	-0.87
* realized, excl carry								

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
