

Wednesday, December 05, 2018

FX Themes/Strategy/Trading Ideas

- Our skepticism at the onset of the week was vindicated as market euphoria lasted all of 36 hours. Doubts over the efficacy of the Trump-declared Sino-US trade war ceasefire (more convoluted and conflicting comments from Trump and his staffers, but also some positives from China on Tuesday) and crumbling US equities saw the USD bouncing from intra-day lows to end marginally higher on the day within G10 space with the DXY ending largely unchanged around 96.965.
- Meanwhile, **GBP-USD** had a volatile session (note ongoing Brexit debate in Parliament this week) and eventually ended a touch lower on the day as it mirrored a strong flow of Brexit headlines during the session. The **AUD-USD** was initially underpinned in Asia on Tuesday after the RBA sounded a touch more sanguine but the pair eventually decayed as risk aversion hit in NY. This morning, the AUD-USD was scythed lower following softer than expected 3Q GDP prints.
- With US equities wiping out, risk aversion meanwhile saw the JPY outperforming on the crosses while the CAD and AUD trailed their counterparts. Despite comments from the Fed's Williams, front-end of the UST curve inverted further (and the 2/10s continued to flatten to a new 11-year low) while a safety bid saw the 10y yield dipping briefly below 2.900%. Note companion govie curves in the majors also slipped in yields. Meanwhile, the **FXSI (FX Sentiment Index)** bounced higher within **Risk-Off** territory.
- At this juncture, note some ongoing moderation in optimism in the Xi-Trump outcome, resulting in the turn in risk sentiments after the improvement in the early week. On the Fed front as well, Williams' comments overnight also appeared to lean against Powell. Overall, we may expect some consolidation in the dollar intra-day
- With front-end (1M) vols still at a discount to realized, expect EUR-USD to remain range bound (despite Rome open to compromise on the fiscal front). Elsewhere, continue to expect the GBP-USD to remain top heavy (front-end vols holding up despite falling realized), while the likes of the AUD and JPY (vol premia for the latter is not spiking) will remain reactive to risk appetite gyrations intra-day.

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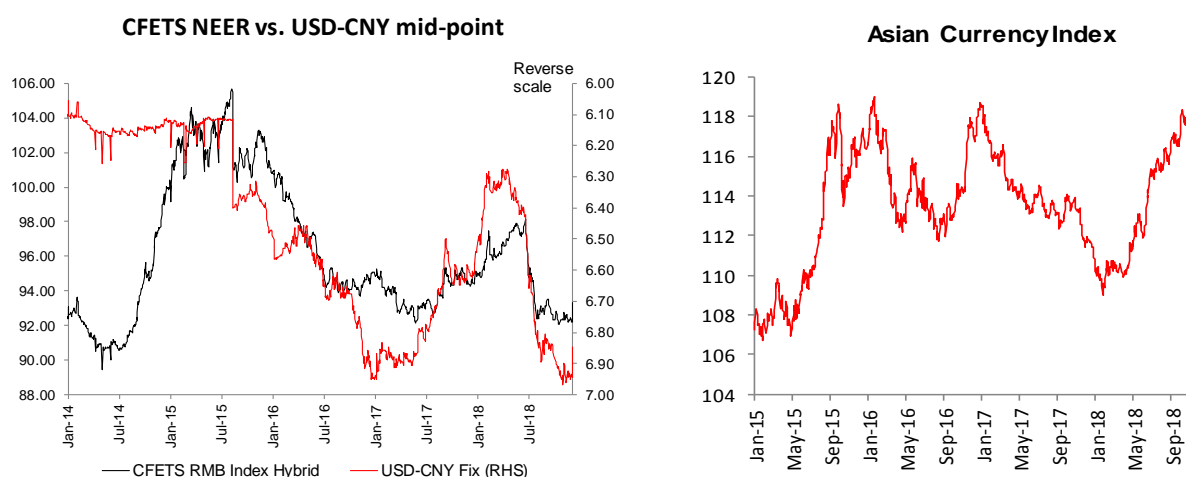
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Asian FX

- EM equities in aggregate also weakened on Tuesday with EM FX (notably ZAR, TRY) also retreating against the USD. With Asian equities off to a negative start early Wednesday, expect USD-Asia to trade flat to firmer intra-day. However, with the latest episode of uncertainty primarily emanating from the US, outsized weakness in Asian FX may not fully materialize.
- Major global yields are likely to continue to act as a refrigerant on Asian bond (and NDIRS/IRS) yields in the current environment (especially with scant risks of acute inflation) with the long end also leading the way lower (in yields).
- In terms of **portfolio flows** in Asia, note that upward inflow momentum in South Korea, Taiwan and Thailand appears to be losing steam, although they remain in positive territory. We continue to look to India and Indonesia for positives, with inflow momentum still building strongly in the interim. Going forward, barring an unlikely outright collapse positivity on the Sino-US trade front, we continue to look for further uptick in net inflows into Asia.
- **SGD NEER:** The revised SGD NEER is largely static at around +1.94% above its perceived parity (1.3929), with NEER-implied USD-SGD thresholds essentially round-tripped with the broad USD to stay largely static compared to yesterday. Stay top heavy on the pair with an initial ceiling at 1.3700.
- **CFETS RMB Index:** The **USD-CNY** mid-point was set lower again, by more than expected (CCF likely triggered), at 6.8476 compared to 6.8939 on Tuesday. The CFETS RMB Index pushed higher again to 93.30, compared to 92.71 previously. Note that the mid-point has been fixed lower than market expectations (and with larger than usual daily deviation) for two consecutive sessions.



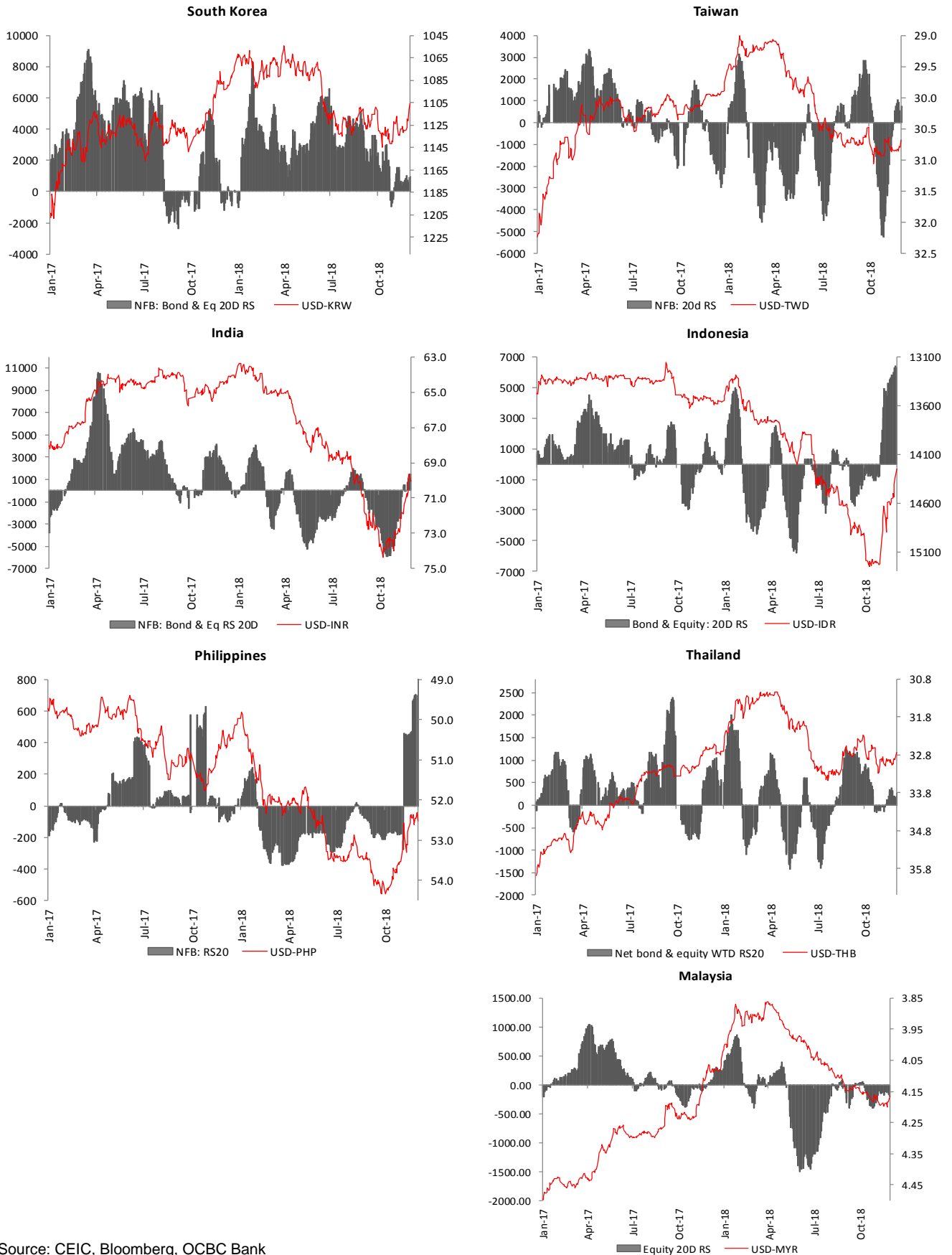
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↓	Beijing finally acknowledges latest Xi-Trump 90-day truce for tariffs. 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. 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. Softer govt yields continue to be a staple.
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. Nov CPI prints also in-line to softer. KTB and NDIRS yields continue deflating.
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. RBI expected to be static in Dec, with govie and NDIRS curves soggy.
USD-SGD	↓	MAS steepens the NEER’s slope again in October. NEER remains near its upper boundary. 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 further on the week. The Nov 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 shows an inclination towards a Dec hike, rather than Feb. Any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Latest global yield developments may however erode any urgency to normalize monetary policy. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Nov CPI dipped back below the BOT’s target range, potentially complicating the Dec rate hike outlook again.
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 (Nov CPI cooler than expected), although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending.

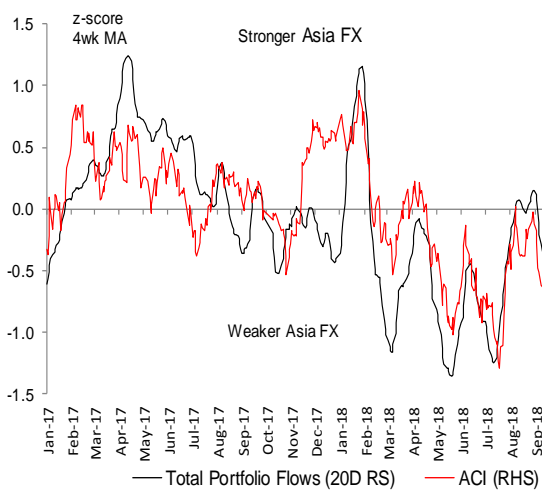
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



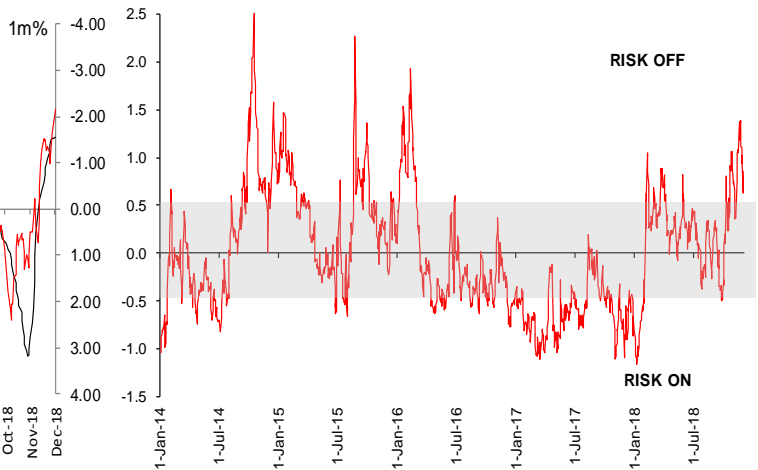
Source: CEIC, Bloomberg, OCBC Bank

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	-0.356	0.457	-0.222	-0.147	-0.629	0.501	-0.492	0.125	0.298	0.492	-0.914
CNH	0.731	-0.55	0.556	-0.501	-0.269	-0.813	0.129	-0.779	0.324	0.667	0.501	-0.572
CNY	0.501	0.281	0.136	0.55	0.371	-0.032	1	0.099	-0.48	-0.314	0.123	-0.614
CAD	0.492	0.277	0.93	-0.364	-0.58	-0.279	0.123	-0.069	0.367	0.053	1	-0.453
SGD	0.477	0.545	0.682	-0.177	-0.572	0.147	0.3	0.319	0.365	-0.431	0.778	-0.632
THB	0.457	0.02	1	-0.322	-0.569	-0.271	0.136	-0.218	0.362	0.117	0.93	-0.521
JPY	0.434	0.2	0.702	-0.566	-0.721	-0.247	-0.036	-0.051	0.61	0.113	0.763	-0.427
TWD	0.328	-0.48	0.576	-0.785	-0.687	-0.511	-0.393	-0.557	0.669	0.534	0.489	-0.28
MYR	0.268	-0.37	0.566	-0.706	-0.663	-0.435	-0.307	-0.478	0.73	0.485	0.431	-0.204
KRW	0.217	0.695	0.202	0.381	-0.078	0.521	0.591	0.654	-0.044	-0.79	0.233	-0.509
CHF	0.201	0.26	0.635	-0.593	-0.842	-0.056	-0.192	0.06	0.634	-0.026	0.703	-0.299
NZD	0.039	-0.791	-0.243	0.041	0.402	-0.48	-0.133	-0.634	-0.271	0.661	-0.507	0.175
PHP	-0.031	0.741	0.291	0.345	-0.124	0.655	0.347	0.718	0.075	-0.755	0.2	-0.282
IDR	-0.217	0.723	0.217	-0.101	-0.524	0.64	-0.031	0.696	0.513	-0.67	0.184	-0.054
INR	-0.241	0.909	0.063	-0.006	-0.414	0.823	0.02	0.901	0.44	-0.924	0.06	-0.068
AUD	-0.28	-0.572	-0.458	0.372	0.675	-0.154	-0.101	-0.346	-0.526	0.44	-0.692	0.429
USGG10	-0.356	1	0.02	0.427	-0.065	0.802	0.281	0.882	-0.1	-0.913	0.277	0.06
GBP	-0.541	0.898	-0.115	0.476	0.013	0.787	0.174	0.81	-0.182	-0.854	0.117	0.276
EUR	-0.914	0.06	-0.521	0.153	0.226	0.399	-0.614	0.244	-0.168	-0.012	-0.453	1

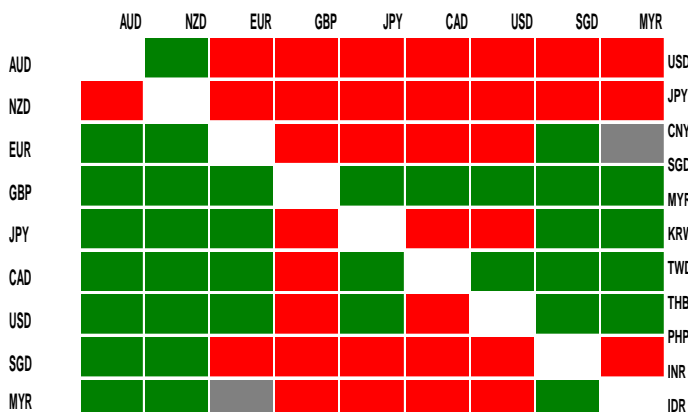
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1246	1.1300	1.1367	1.1400	1.1434
GBP-USD	1.2696	1.2700	1.2736	1.2800	1.2954
AUD-USD	0.7185	0.7300	0.7358	0.7367	0.7393
NZD-USD	0.6900	0.6938	0.6948	0.6952	0.7000
USD-CAD	1.3104	1.3117	1.3187	1.3200	1.3328
USD-JPY	113.00	113.10	113.32	114.00	114.21
USD-SGD	1.3600	1.3652	1.3654	1.3659	1.3700
EUR-SGD	1.5493	1.5500	1.5521	1.5600	1.5711
JPY-SGD	1.2023	1.2024	1.2048	1.2100	1.2171
GBP-SGD	1.7309	1.7364	1.7391	1.7400	1.7831
AUD-SGD	1.0000	1.0030	1.0046	1.0076	1.0100
Gold	1202.66	1216.21	1234.70	1238.51	1239.30
Silver	13.94	14.30	14.39	14.40	14.45
Crude	48.00	50.00	53.50	62.99	64.27

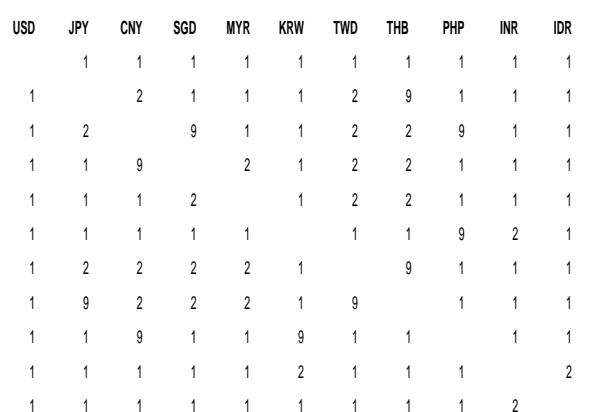
Source: OCBC Bank

G10 FX Heat Map



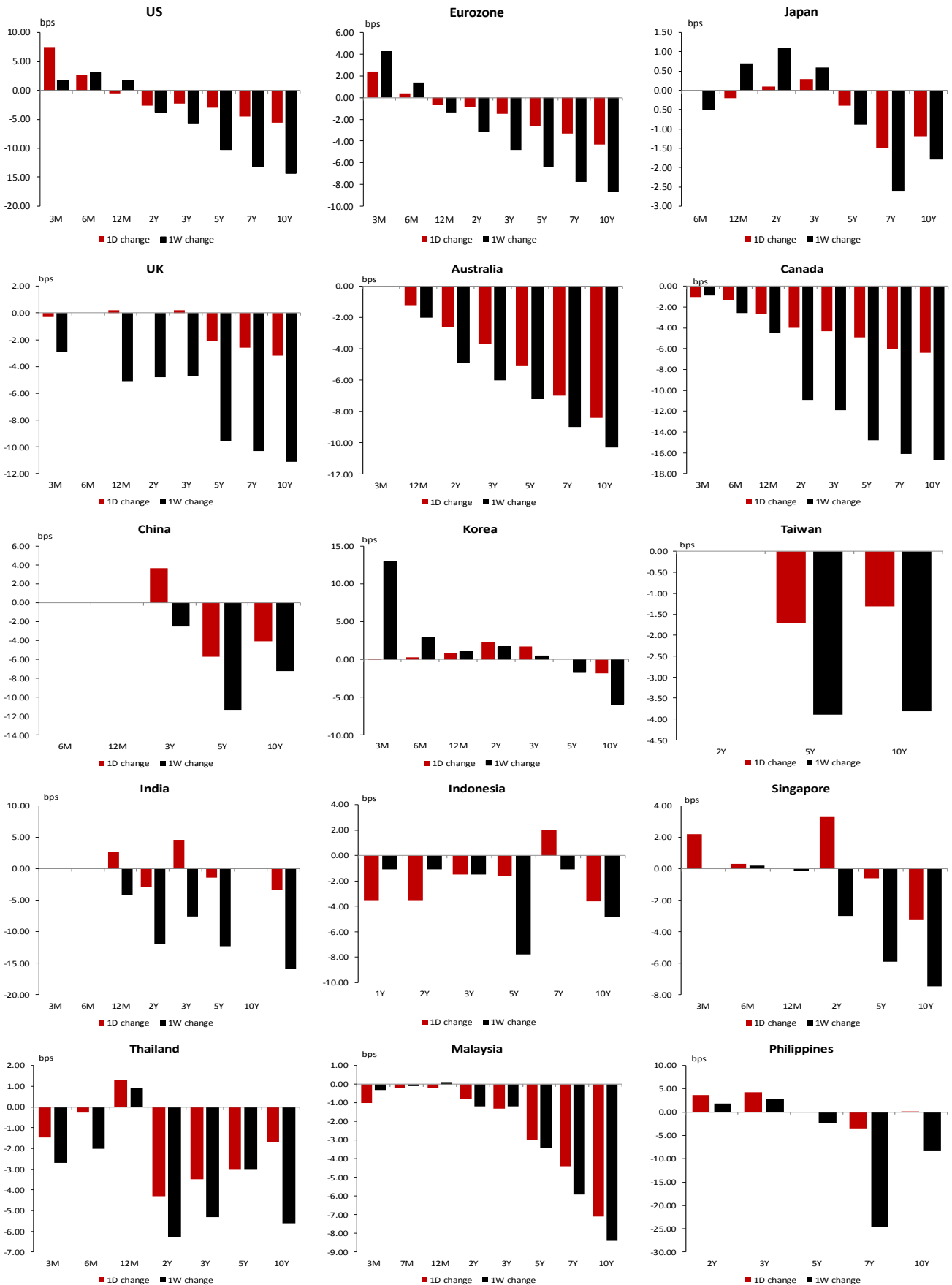
Source: OCBC Bank

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		
TACTICAL								
1	23-Oct-18	B	3M USD-THB	32.780	33.500 32.400	Vanishing net inflows, firmer USD, fragile risk appetite		
STRUCTURAL								
	-	-	-	-	-	-		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	08-Nov-18	12-Nov-18	B	AUD-USD	0.7286	0.7200	Improving risk appetite post US midterms	-1.18
2	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
3	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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