

Friday, December 07, 2018

FX Themes/Strategy/Trading Ideas

- With UST yields continuing to drill lower (10y UST hitting a low of 2.826%), the greenback weakened in NY against the EUR, GBP, and JPY, with the AUD and NZD even managing to bounce off intra-day lows. Overall, the DXY sagged to sub-96.80 levels. With global growth concerns and investor appetite cautious (note Huawei news flow) still circulating, note the underperformance of the antipodeans and the CAD (BOC's Poloz remained dovish while WTI fell through 52.00) across G10 space while the JPY and CHF shone on the crosses.
- Curve-wise, the ongoing inversion and bull steepening of the UST curve (front to belly sectors outperforming the back-end) we think will continue to provide food for thought as markets re-price FOMC (and global) prospects for 2019. With the exception of the ECB's Sep 2019 meeting, market implied probabilities for rate hikes at the major central banks around their key meeting dates continues to be slashed lower. To this end, note that major global govie yield curves also softened overnight.
- The Fed's Bostic noted that the Fed is within "shouting distance" of neutral and did not telegraph any strong intent by the Fed to drift substantially above neutral. The Fed's Kaplan on Thursday also revealed little urgency for significantly tighter monetary policy. Note that early Friday, a wire report also alleged that Fed officials may be considering a shift in their forward guidance to a wait-and-see stance.
- Negative global equities, led by Europe, contributed to an overall risk-off tone. Our **FXSI (FX Sentiment Index)** continues to hold within the Risk-Off zone.
- **Ahead of the November NFP numbers today at 1330 GMT (+200k), markets may continue to diverge with respect to the USD. Look potentially for USD vulnerability (against the EUR and JPY) but the cyclicals may remain soggy instead on the back of global growth and trade tensions.**

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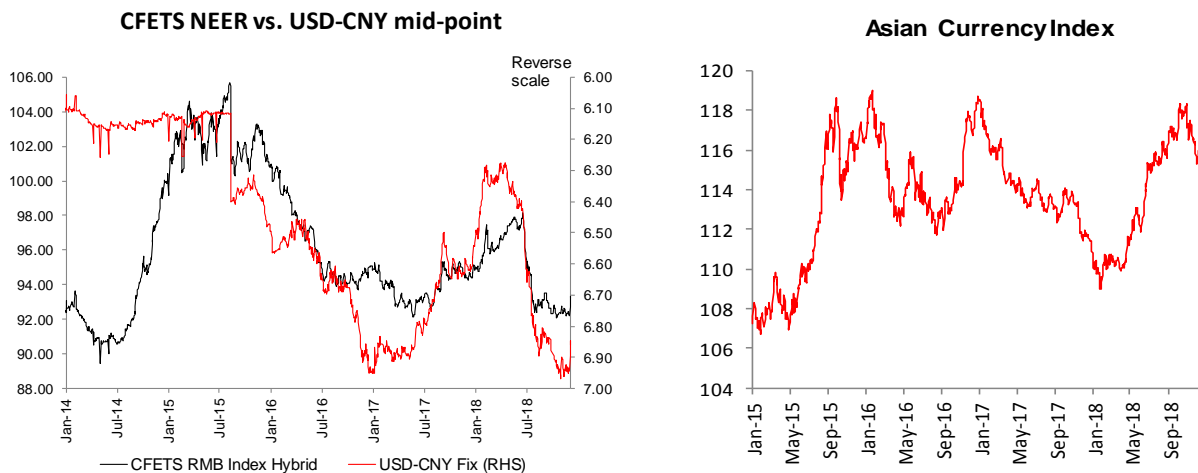
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Asian FX

- USD-Asia may remain book-ended by partial USD vulnerabilities on the one and global macro-slowdown/risk appetite gyrations (watch the INR and IDR) on the other. Upside lift for the regional pairs may be sheltered somewhat by the relatively more restrained renminbi complex but invariably, some stress is also manifesting in the fwd/fwds, especially for the likes of the IDR. Regional govie yields meanwhile continue to head south in tandem with the gravitational pull from the yields in the majors, especially with regional central banks now beginning to dial back hawkish overtones.
- On the flow front, recent market uncertainty is translating to some hesitation in the region. South Korea's net inflows are moderating (net equity flows hovering in minor negative territory) with Taiwan flipping into a net outflow environment. India however is still maintaining its inflow position largely on the back of net equity inflows. For Indonesia, bond inflows remain strong while overall flows for Thailand have continued to improve on both the bond and equity fronts.
- **SGD NEER:** The revised SGD NEER is essentially static around +1.89% above its perceived parity (1.3952), with NEER-implied USD-SGD thresholds also remaining static. The USD-SGD's push higher yesterday stopped just short of the 100-day MA (1.3727), before reversing back south of 1.3700. Continue to eye these levels into the US NFP.
- **CFETS RMB Index:** The **USD-CNY** mid-point was set higher this morning, as expected, at 6.8664 compared to 6.8599 on Thursday. The CFETS RMB Index eased further to 93.18, compared to 93.27 previously.



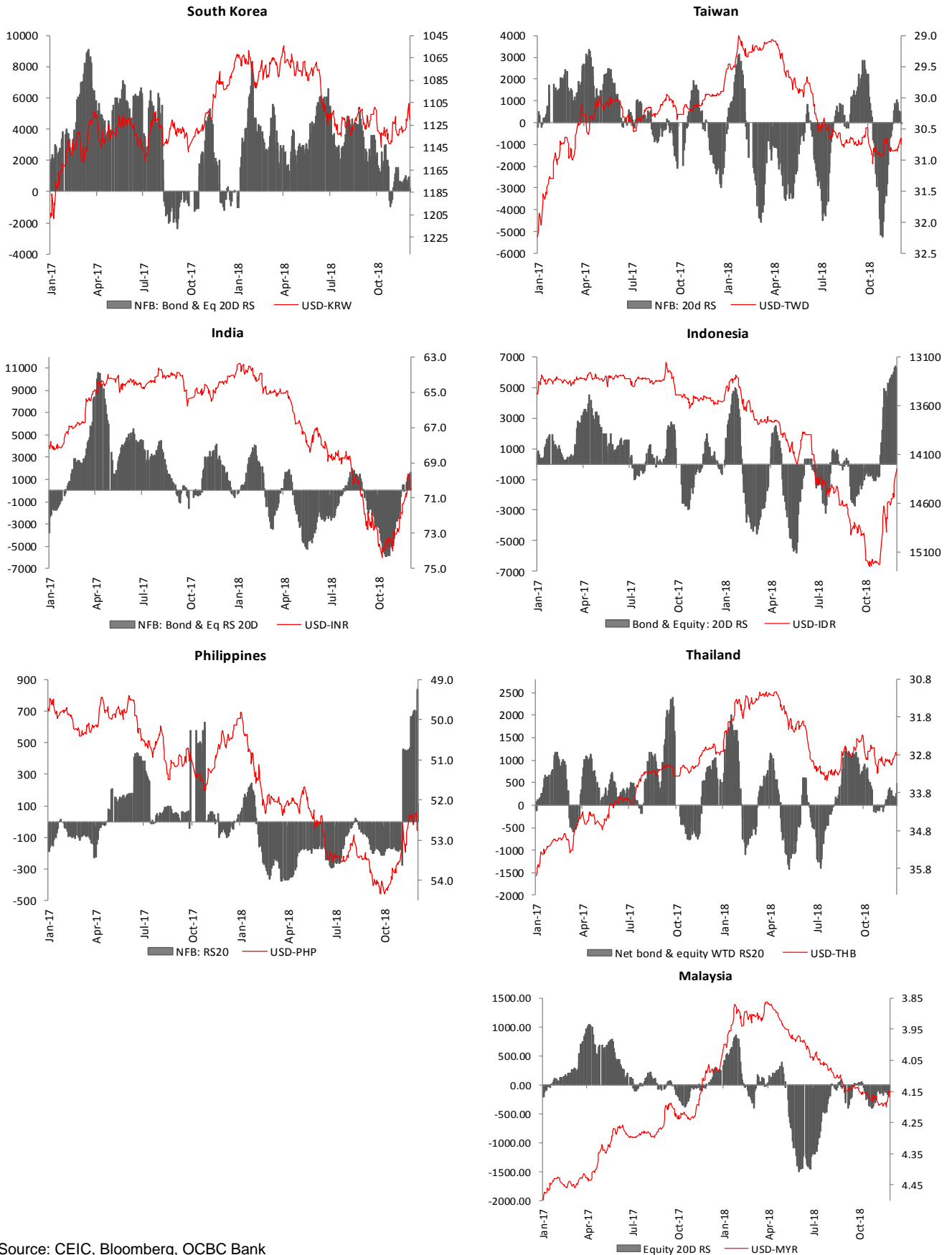
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↓	Beijing finally acknowledges latest Xi-Trump 90-day truce for tariffs, and starting to act on the deal. 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 CBC members looking towards policy normalization to afford the authority eventual downside wiggle room.
USD-INR	↔/↓	3Q GDP and Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance. RBI static in Dec, with accompanying rhetoric signaling a pull back of rate hike expectations if inflation does not materialise (inflation forecasts revised lower). Govie and NDIRS curves extend declines post-RBI. A hesitant OPEC and softening crude may underpin the INR and govt bonds going forward.
USD-SGD	↓	MAS steepens the NEER's slope again in October. With the NEER remains near its upper boundary, expect declines in the pair to track downside in the broad USD, and not as a result of explicit SGD strength. 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, although profit-taking by onshore banks caused curves to turn firmer 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. Note equity inflows are also consistently picking up momentum alongside bond inflows. BI resumes intervention at the FX and bond markets.
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.

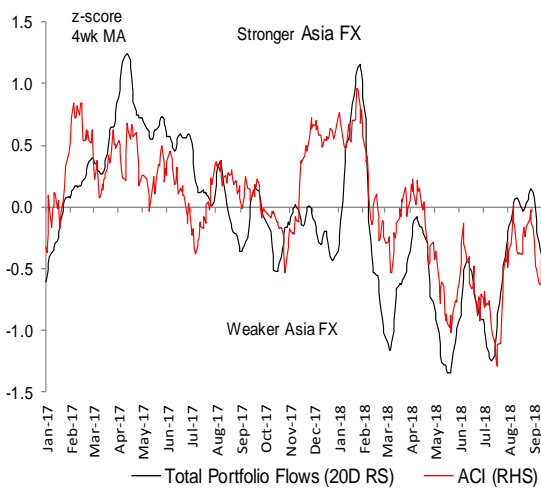
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



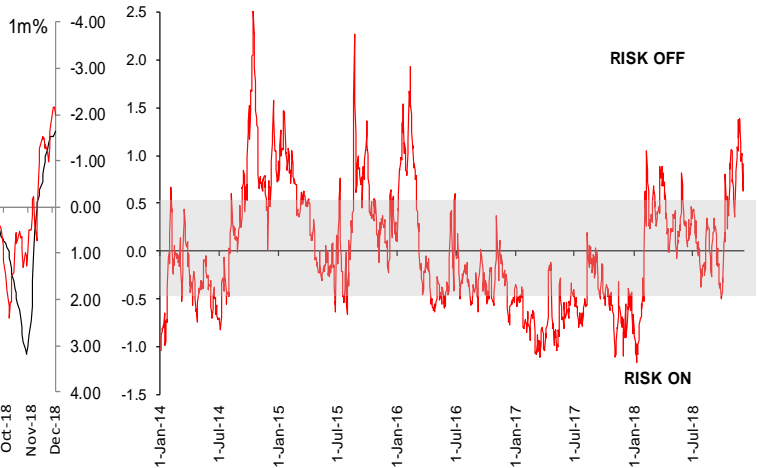
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1	-0.345	0.113	-0.227	-0.057	-0.618	0.403	-0.493	0.133	0.309	0.17	-0.91
CNH	0.632	-0.73	-0.186	-0.497	-0.109	-0.772	-0.239	-0.767	0.408	0.719	-0.255	-0.377
CNY	0.403	0.501	0.401	0.555	0.181	0.086	1	0.266	-0.545	-0.443	0.485	-0.539
CAD	0.3	0.371	0.815	-0.358	-0.715	-0.09	0.257	0.305	-0.104	0.811	-0.376	
SGD	0.29	0.667	0.798	-0.065	-0.629	0.232	0.53	0.397	0.145	-0.533	0.828	-0.532
THB	0.231	-0.108	0.604	-0.648	-0.749	-0.396	-0.169	-0.404	0.493	0.331	0.563	-0.214
JPY	0.178	0.702	0.32	0.406	-0.095	0.562	0.679	0.694	-0.141	-0.817	0.386	-0.488
TWD	0.17	0.571	0.974	-0.12	-0.596	0.008	0.485	0.16	0.019	-0.274	1	-0.296
MYR	0.113	0.55	1	-0.062	-0.59	0.032	0.401	0.108	-0.022	-0.256	0.974	-0.226
KRW	0.102	-0.818	-0.546	-0.033	0.494	-0.5	-0.385	-0.67	-0.105	0.706	-0.62	0.156
CHF	0.09	0.285	0.827	-0.395	-0.68	-0.153	0.134	-0.131	0.282	0.044	0.765	-0.121
NZD	0.055	0.453	0.802	-0.376	-0.841	0.062	0.133	0.14	0.327	-0.228	0.778	-0.218
PHP	-0.039	0.557	0.203	0.348	-0.161	0.627	0.33	0.686	0.052	-0.69	0.162	-0.269
IDR	-0.224	-0.45	-0.415	0.32	0.714	-0.141	-0.144	-0.275	-0.431	0.401	-0.431	0.4
INR	-0.254	0.732	0.447	-0.032	-0.596	0.629	0.139	0.699	0.343	-0.685	0.42	-0.024
AUD	-0.262	0.827	0.307	0.055	-0.457	0.814	0.149	0.898	0.307	-0.91	0.295	-0.058
USGG10	-0.345	1	0.55	0.434	-0.231	0.734	0.501	0.827	-0.256	-0.89	0.571	0.058
GBP	-0.548	0.861	0.267	0.494	-0.132	0.78	0.343	0.82	-0.252	-0.861	0.309	0.265
EUR	-0.91	0.058	-0.226	0.147	0.148	0.375	-0.539	0.211	-0.151	-0.01	-0.296	1

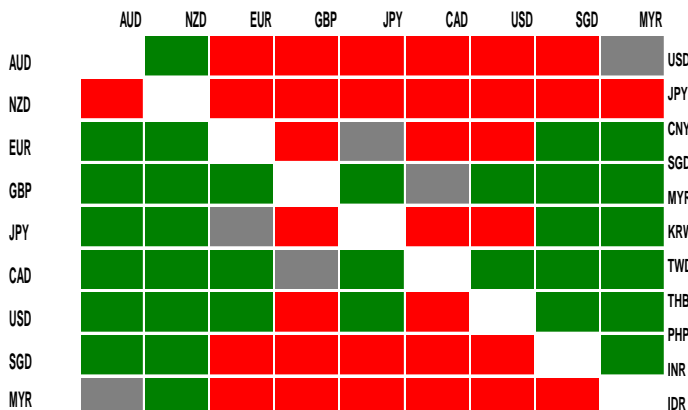
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1248	1.1300	1.1376	1.1400	1.1416
GBP-USD	1.2666	1.2700	1.2776	1.2800	1.2934
AUD-USD	0.7185	0.7200	0.7225	0.7300	0.7362
NZD-USD	0.6800	0.6857	0.6884	0.6900	0.6950
USD-CAD	1.3300	1.3389	1.3391	1.3400	1.3445
USD-JPY	112.00	112.39	112.73	113.00	113.07
USD-SGD	1.3627	1.3643	1.3693	1.3700	1.3766
EUR-SGD	1.5473	1.5500	1.5577	1.5600	1.5700
JPY-SGD	1.2039	1.2100	1.2147	1.2175	1.2200
GBP-SGD	1.7304	1.7400	1.7494	1.7500	1.7805
AUD-SGD	0.9874	0.9891	0.9893	0.9900	1.0025
Gold	1200.03	1219.10	1239.10	1244.40	1245.20
Silver	13.95	14.40	14.41	14.46	14.50
Crude	49.41	51.20	51.29	51.30	59.77

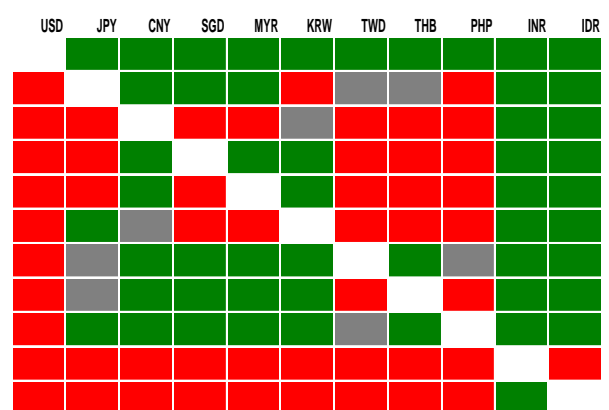
Source: OCBC Bank

G10 FX Heat Map



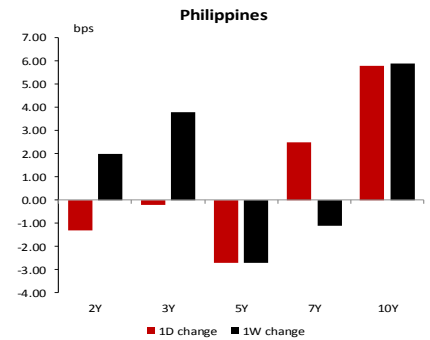
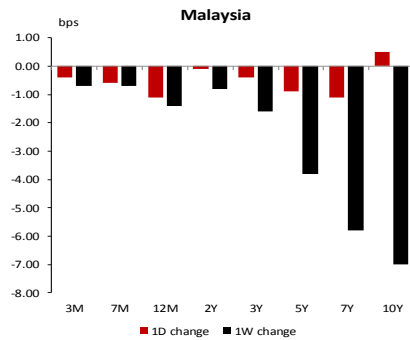
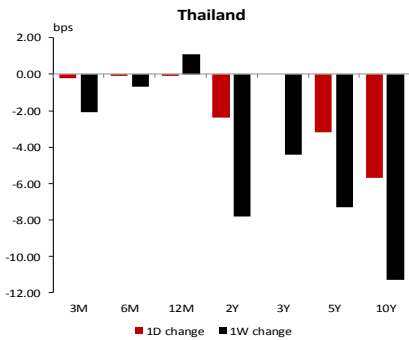
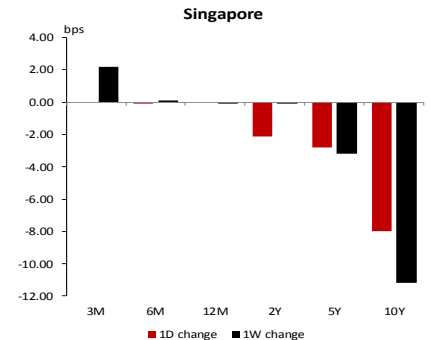
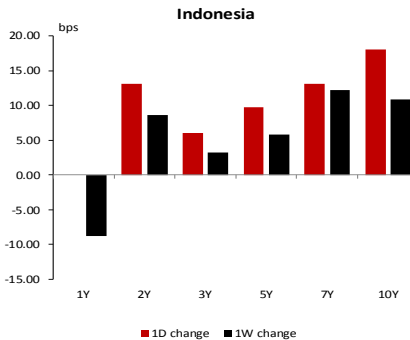
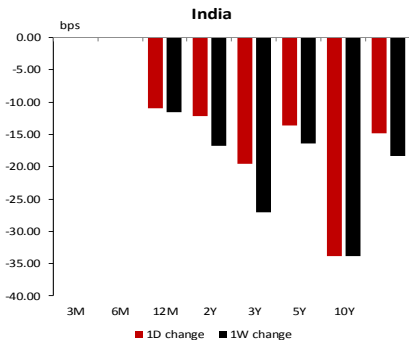
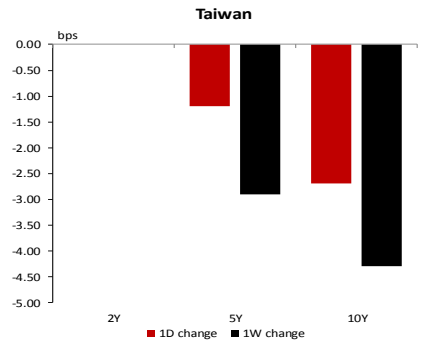
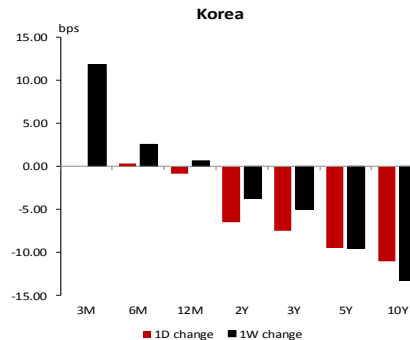
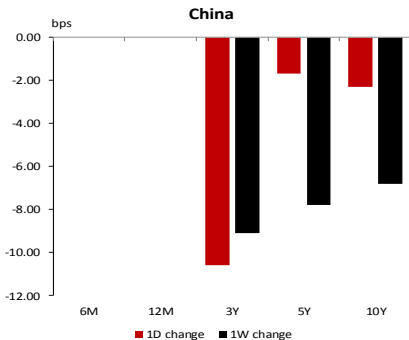
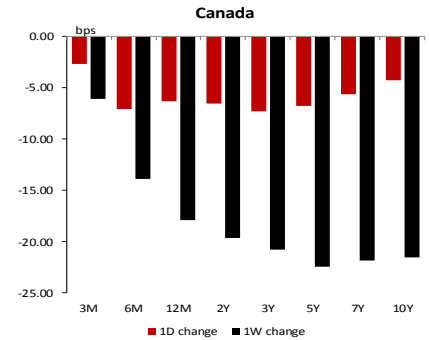
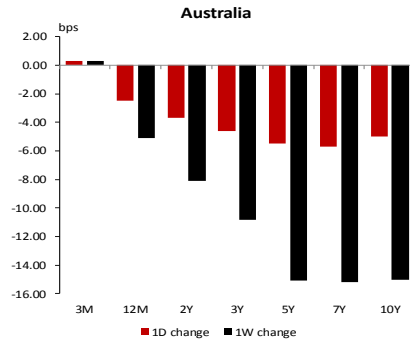
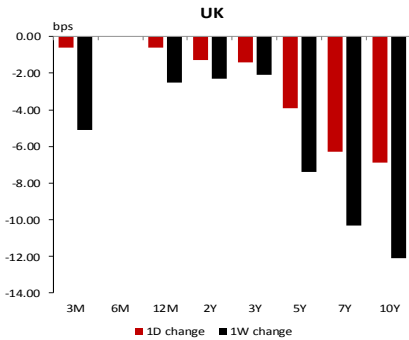
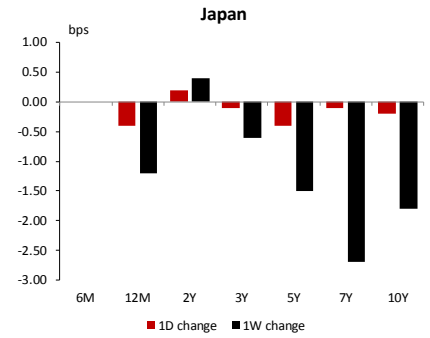
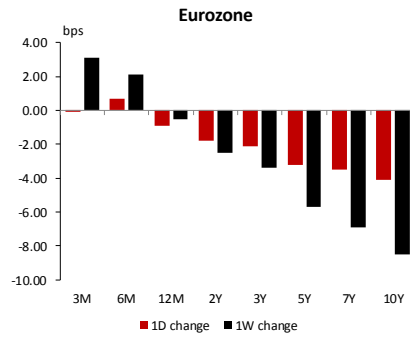
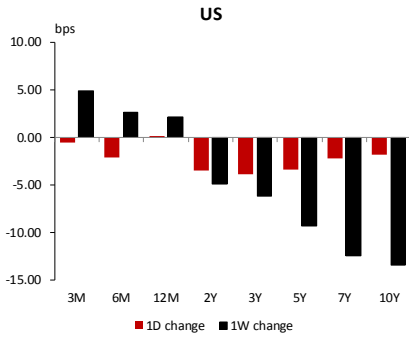
Source: OCBC Bank

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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