

Friday, November 09, 2018

## FX Themes/Strategy/Trading Ideas

- The greenback popped higher post-FOMC, with strong gains against the EUR and GBP. The DXY settled north of 96.70. US Treasury yields also firmed, with the belly leading the way. Also on Thursday, companion govie curves (apart from US Treasuries) in the other majors also saw yields rising likely on the back of improved investor sentiment. Thus, despite negative US equities, the **FX Sentiment Index (FXSI)**, continued to slip within Risk-Neutral territory.
- The Fed continues to be a constant factor supporting the dollar (at least till the end of the year) after the **FOMC statement** reiterated the “further gradual increases” stance, and further acknowledged that the unemployment rate “has declined”, cementing expectations for a December rate hike. Markets notably disregarded the sentence stating that, “...growth of business fixed investment has moderated from its rapid pace earlier in the year”. The remainder of the statement was virtually verbatim in terms of the economic prognosis.
- Elsewhere, apart from the USD, the **EUR** also underperformed against its G10 peers. The European macro outlook continues to be viewed favorably at this juncture, although Draghi’s latest comments strongly caveated that view with a reiteration that they will be flexible with monetary policy, and there is optionality in their guidance. Note that the ECB’s guidance came across as wishy-washy, in contrast to the consistent message from the Fed. Apart from Draghi, also note the ongoing EU-Italy tensions, with the European Commission cutting its forecasts for Italian growth, and both sides essentially accusing each other of using incomplete analysis for projections.
- Italy is scheduled to submit revised budget numbers by next Tuesday. On the Brexit front, a series of developments early next week involving the UK Cabinet and Parliament is expected. **Thus, expect some volatility ahead for the European complex early next week.**
- At this juncture, it appears that the weak-dollar sentiments post-midterms had dissipated faster than expected, with the markets likely to re-focus on rate differentials and relative central bank positioning on a multi-session horizon. **Overall, bias would be fade the EUR on the crosses (especially against the likes of the AUD).**
- With risk appetite on the mend post the US midterms, and with our short term valuation model and technicals in sync, we think that the **AUD-USD** may have scope for a further tactical upswing. From a spot ref of 0.7286 on Thursday, we target 0.7455 and place a stop at 0.7200.

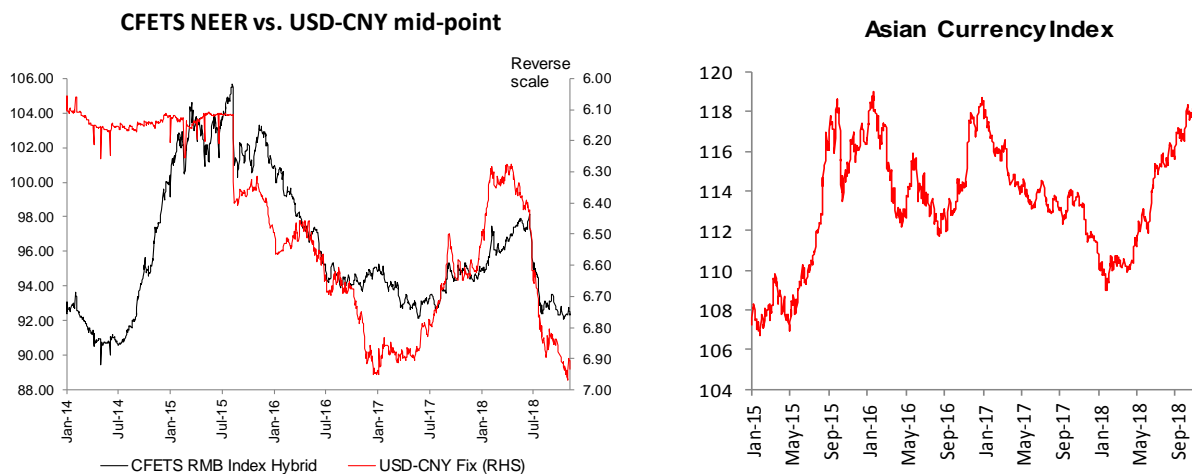
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### Asian FX

- With the DXY likely providing some lift to USD-Asia intra-day, Asian govie yields may be expected to take very short term cues from the majors into the end of the week although we note that structurally, the continued slide in crude (WTI<61.00 overnight) may temper excessive bond bearishness.
- Net portfolio inflows for South Korea have moderated a touch but nevertheless have shown a decent flip to a net inflow environment from a week ago. Taiwan meanwhile continues to show good compression of net outflows. **Indonesia meanwhile is still printing a strong pickup in net inflows (primarily from net bond inflows)**. Elsewhere, Thailand remains essentially in a net neutral flow environment. On aggregate terms, bond inflow momentum across Asia picked up firmly over the past week, after being essentially static since September. Aggregated equity outflow momentum persists, but is compressing quickly as well.
- **SGD NEER:** The SGD NEER is softer at +1.35% above its perceived parity (1.3951). The NEER-implied USD-SGD thresholds firmed with the rebound in the dollar overnight. Look for an intra-day range between 1.3745 and 1.3786.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher, by less than expected, at 6.9329 compared to 6.9163 yesterday. The counter-cyclical factor appeared to have kicked in in response to the dollar bounce. The CFETS RMB Index firmed slightly to 92.37 from 92.34 in response.



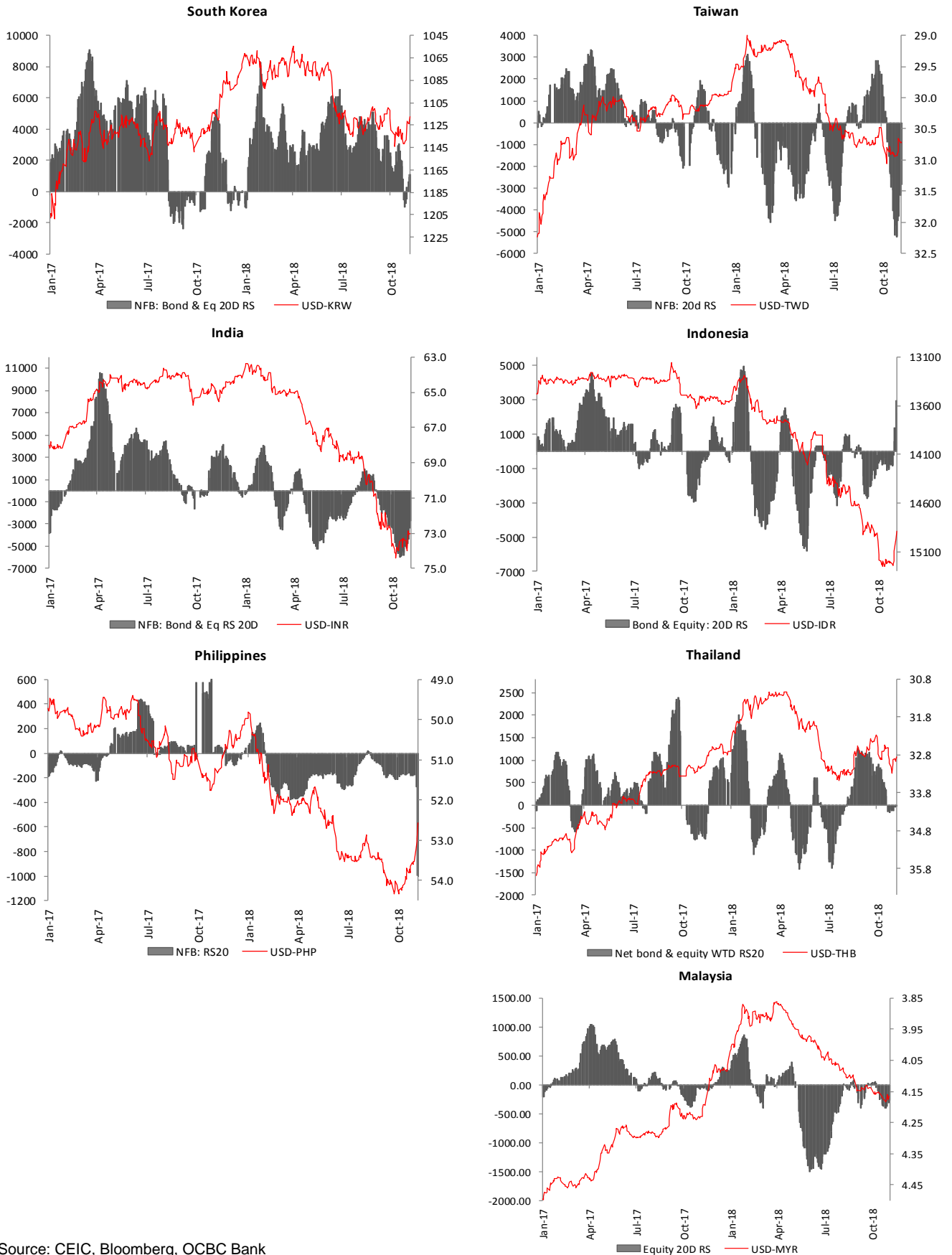
Source: OCBC Bank, Bloomberg

### 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. PBOC states that the 7.00 level for USD-CNY “isn’t that crucial”. 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, Oct trade numbers performed better than expected.
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 have lifted with cues from US rates and with 1 BOK voting dissenter warning of a widening yield gap with the US.
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. Equity outflows compressing nicely.
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, and lowering its inflation forecasts. Policy meeting minutes not perceived to be unduly hawkish. Watch for the next RBI board meeting on 19 <sup>th</sup> Nov 18 for further resolution of the tiff between the RBI and the government. In the interim, curves remain softer.
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 November, highlighting the drag from the fiscal front. A frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in) will be expected to exert downside pressure on the MYR and govies.
USD-IDR	↓	BI notes that rate hikes were motivated by the need to maintain market stability, remained static in October. Ongoing strong demand from foreigners for ID govt bonds. Note the latest flip to a net inflow position for portfolio flows, driven mainly by bond inflows, and curves softer in reaction.
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.
USD-PHP	↓	BSP hiked another 50bps in September. Official rhetoric continues to point towards lower inflation prints in the coming months. Sep monetary aggregates moderate. 3Q GDP prints below expectation on slower consumer spending.

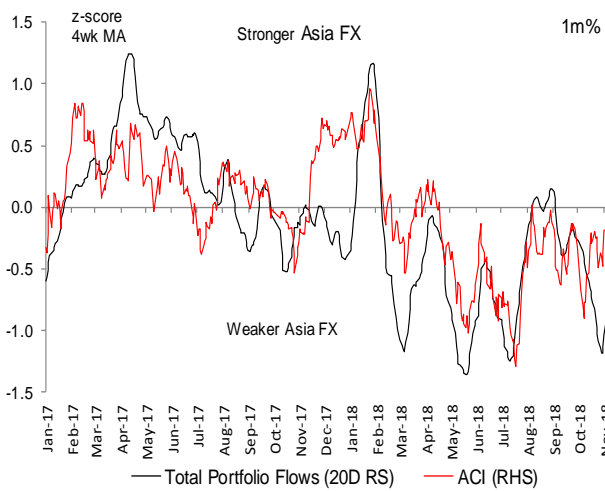
Source: OCBC Bank

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



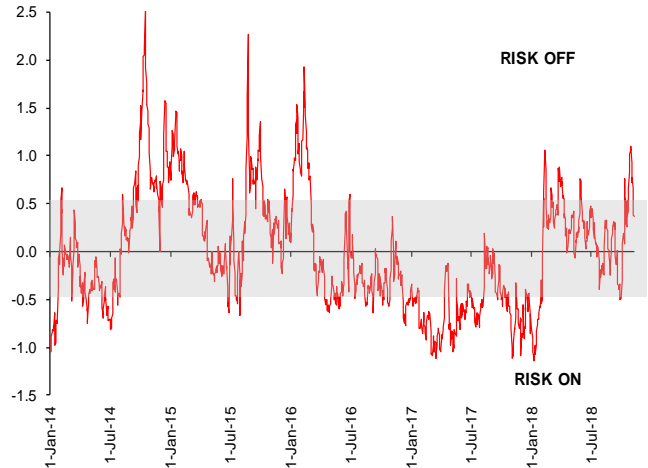
Source: CEIC, Bloomberg, OCBC Bank

### 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	-0.168	0.648	-0.516	-0.404	-0.82	0.541	-0.714	0.135	0.183	0.659	-0.989
SGD	0.897	0.2	0.443	-0.254	-0.153	-0.917	0.786	-0.878	-0.181	-0.155	0.422	-0.911
CHF	0.809	0.178	0.465	-0.305	-0.124	-0.807	0.649	-0.744	0.013	-0.034	0.454	-0.807
IDR	0.795	-0.424	0.647	-0.68	-0.675	-0.726	0.29	-0.574	0.334	0.378	0.588	-0.8
CNH	0.705	-0.526	0.562	-0.689	-0.576	-0.604	0.146	-0.341	0.508	0.369	0.55	-0.68
MYR	0.659	-0.436	0.962	-0.489	-0.626	-0.255	0.034	-0.125	0.296	0.517	1	-0.635
THB	0.648	-0.455	1	-0.468	-0.597	-0.27	0.036	-0.109	0.293	0.508	0.962	-0.63
JPY	0.541	0.692	0.036	0.295	0.368	-0.772	1	-0.848	-0.566	-0.638	0.034	-0.568
CAD	0.381	-0.652	0.757	-0.545	-0.548	0.064	-0.385	0.37	0.61	0.724	0.713	-0.29
INR	0.233	0.715	-0.3	0.393	0.424	-0.617	0.837	-0.832	-0.683	-0.754	-0.235	-0.324
KRW	0.058	0.716	-0.481	0.478	0.502	-0.518	0.767	-0.733	-0.672	-0.811	-0.412	-0.17
USGG10	-0.005	-0.846	0.36	-0.609	-0.753	0.203	-0.711	0.5	0.754	0.833	0.302	0.096
TWD	-0.168	1	-0.455	0.797	0.846	-0.135	0.692	-0.41	-0.815	-0.834	-0.436	0.088
CNY	-0.174	-0.75	0.303	-0.5	-0.728	0.422	-0.759	0.651	0.714	0.844	0.267	0.221
PHP	-0.254	-0.704	0.241	-0.441	-0.495	0.614	-0.838	0.759	0.621	0.802	0.204	0.299
NZD	-0.324	-0.588	0.262	-0.276	-0.407	0.568	-0.737	0.797	0.66	0.674	0.196	0.41
AUD	-0.372	-0.268	0.199	0.18	-0.1	0.405	-0.482	0.66	0.25	0.224	0.103	0.382
GBP	-0.608	-0.451	-0.189	-0.092	-0.121	0.849	-0.882	0.946	0.438	0.527	-0.204	0.636
EUR	-0.841	0.565	-0.805	0.77	0.751	0.465	-0.03	0.269	-0.441	-0.632	-0.81	0.78
	-0.989	0.088	-0.63	0.488	0.38	0.83	-0.568	0.754	-0.088	-0.13	-0.635	1

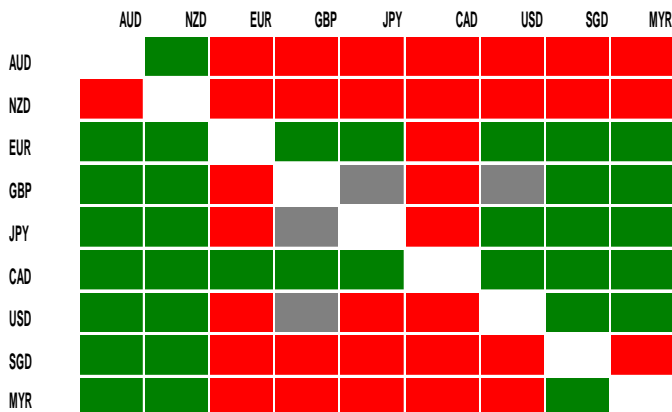
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1302	1.1355	1.1400	1.1540
GBP-USD	1.3000	1.3034	1.3055	1.3100	1.3253
AUD-USD	0.7161	0.7200	0.7243	0.7285	0.7300
NZD-USD	0.6581	0.6700	0.6741	0.6779	0.6800
USD-CAD	1.3038	1.3100	1.3169	1.3183	1.3200
USD-JPY	112.58	113.00	113.86	114.00	1.1420
USD-SGD	1.3711	1.3757	1.3766	1.3800	1.3859
EUR-SGD	1.5600	1.5617	1.5631	1.5700	1.5875
JPY-SGD	1.2003	1.2055	1.2091	1.2100	1.2219
GBP-SGD	1.7900	1.7929	1.7972	1.8000	1.8059
AUD-SGD	0.9851	0.9900	0.9971	1.0000	1.0001
Gold	1209.77	1217.03	1221.50	1237.35	1239.30
Silver	14.30	14.32	14.37	14.40	14.43
Crude	60.30	60.40	60.43	60.50	67.39

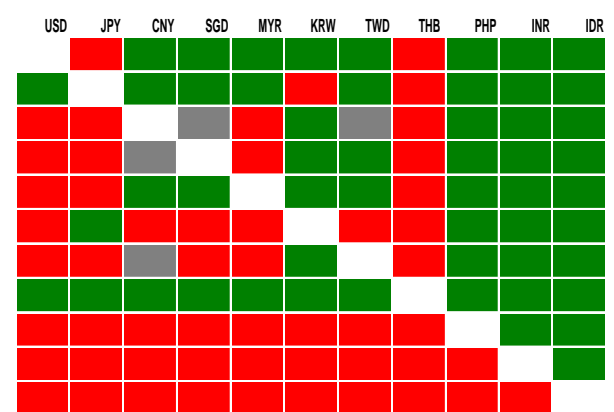
Source: OCBC Bank

### G10 FX Heat Map



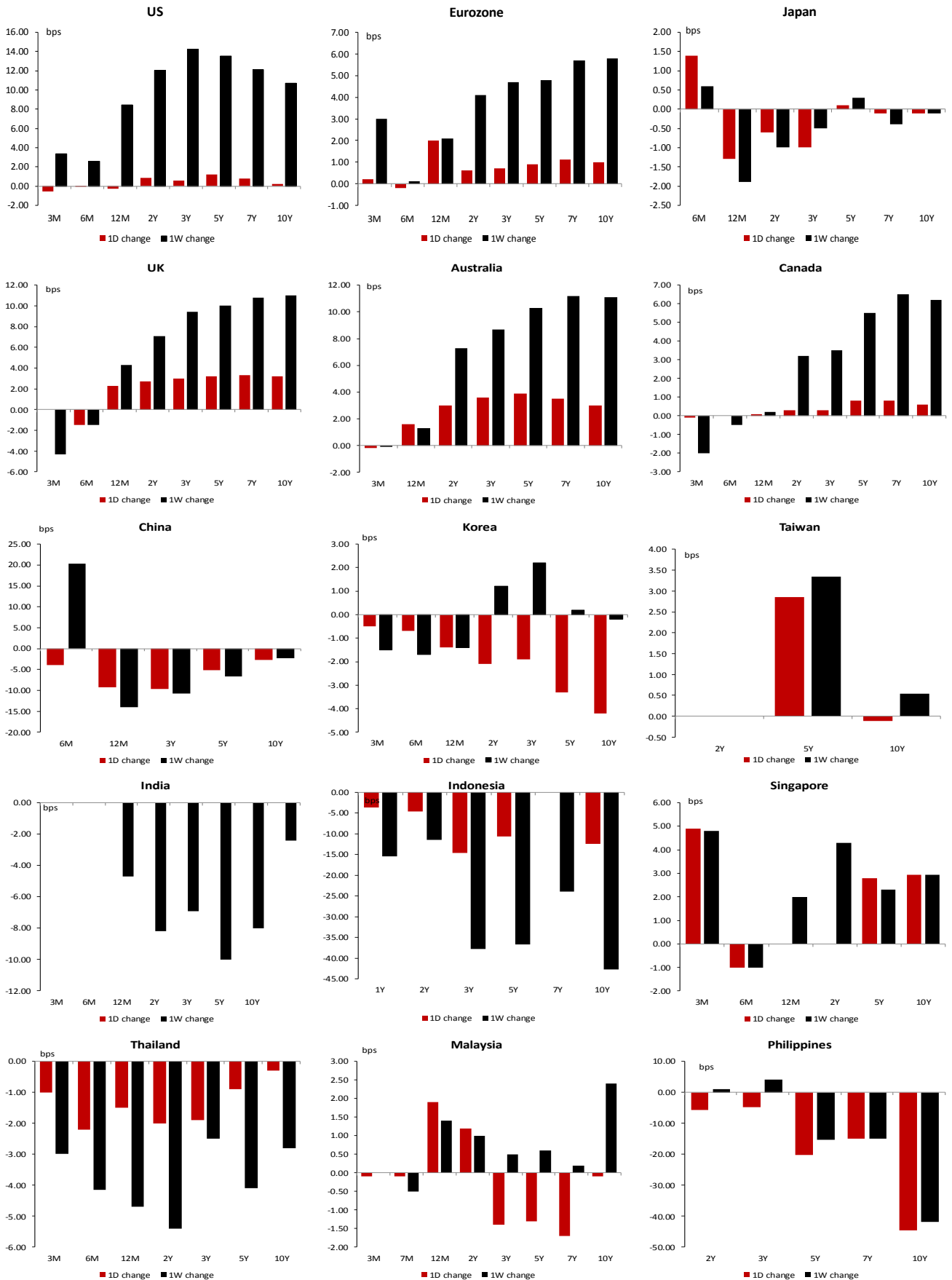
Source: OCBC Bank

### 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			
2	08-Nov-18	B	AUD-USD	0.7286 0.7455 0.7200	Improving risk appetite post US midterms			
<b>STRUCTURAL</b>								
-	-	-	-	-	-			
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
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
4	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
5	30-Oct-18	02-Nov-18	B	USD-SGD	1.3840	1.3750	Resilient DXY, fragile risk appetite, proxy CNH trade	-0.65
* realized, excl carry								





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