

Tuesday, December 11, 2018

FX Themes/Strategy/Trading Ideas – Tis but a scratch?

- The GBP led the way lower (gilts rallied) against the USD (and underperformed across G10 space) on Monday after PM May postponed the scheduled parliamentary vote on the Brexit deal. In response, the EU's Tusk stated that neither withdrawal agreement nor the Irish backstop would be renegotiated. At this juncture, markets will be awaiting the reaction from the EU Summit on 13-14 Dec, where Brexit will be discussed.
- GBP uncertainty fueled a dollar bounce across the board, with UST yields and US equities also managing to stabilize. Overall, this permitted the DXY to reclaim the 97.00 handle.
- The risk appetite environment continues to deteriorate with the **FXSI (FX Sentiment Index)** heading deeper into Risk-Off territory for the 5th consecutive session. Notably, European and EM risk premiums continue to push wider and expect investors to remain increasingly nervous.
- Going forward, continue to expect a bifurcation of the broad dollar prospects, as the FOMC-related concerns and sinking risk sentiments pull in opposite directions, with overall directionality dependent on the market flavor of the moment.
- At this juncture, amid mounting uncertainty on multiple fronts, expect investors to continue bench FOMC-related concerns for now and instead flock to the USD. On this front, expect the GBP (beyond the short term, note that the vol surface continues to lean against the pound) to remain the prime casualty, with EUR-GBP seen continually biddish.
- On the data front today, keep an eye on the German Zew survey (1000 GMT) as another indicator ahead of the key ECB meeting on Thursday, and the US PPI (1330 GMT) as a precursor to the CPI release tomorrow. In particular, we want to keep a lookout for whether the ECB will sing to the recent tune at the Fed and BOC, and deviate from its previously communicated policy normalization path into 2019.

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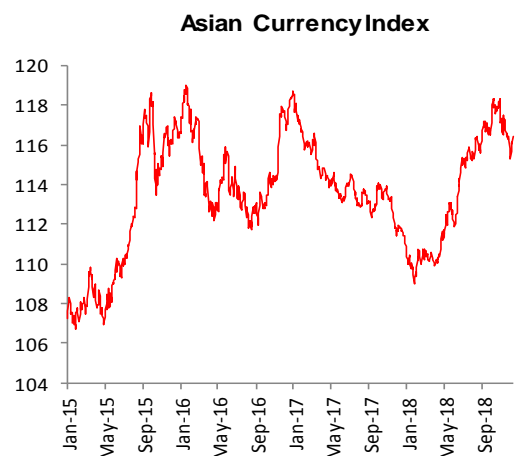
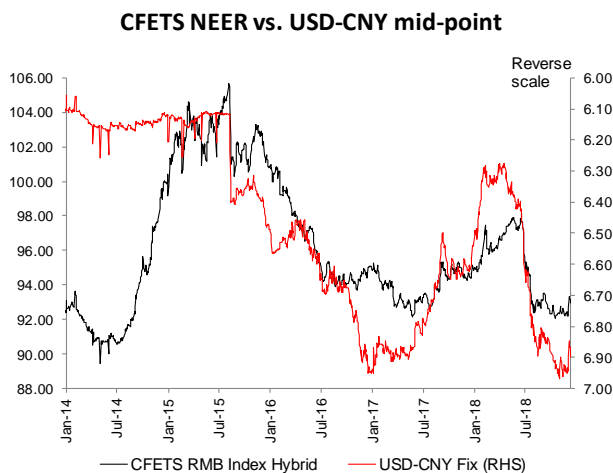
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Asian Markets

- Expect little in the way of differentiation at this juncture as negativity permeates EM/Asia in the short term.** EM equities in aggregate still stepped lower on Monday with EM FX also in retreat. Expect investor caution to be near unanimous in the region (negative Asian equities early Tuesday) with the northern complex under the weight of the China slowdown/trade tensions, while the southern markets are also buckling under the ongoing stress in EM. Except for India and Indonesia, expect regional govie curves to flatten from the back-end as investors re-price Fed/global growth and inflation prospects.
- INR** (and govies) may be expected to remain under negative pressure following the surprise resignation of RBI governor Patel and amid gathering uncertainty ahead of the 2019 elections. State election results are also due on Tuesday and investor skittishness uncertainty is expected to continue to weigh on sentiment.
- Asian portfolio flows** continue to unravel with South Korea and Taiwan dipping into a net outflow environment. India thus far continues to print minor inflows but the latest RBI and political headlines may incite a flip back into outflow territory in the short term. Elsewhere, hitherto strong bond inflows for **Indonesia** have reversed course fairly abruptly (net bond outflows for the past 4 sessions), significantly crimping the net inflow environment.
- SGD NEER:** The SGD NEER stepped higher this morning, at around +1.96% above its perceived parity (1.3996). NEER-implied USD-SGD thresholds are broadly firmer. With the Asian complex negatively pressured, the USD-SGD may be biased higher on an intra-day basis. Expect the 55-day MA (1.3760) to attract, with the 100-day MA (1.3729) providing support on the downside.
- CFETS RMB Index:** The **USD-CNY** mid-point was set higher, by less than expected, at 6.8996 compared to 6.8693 on Monday. We think the counter-cyclical factor may have been activated this morning in response to overnight dollar strength. The CFETS RMB Index stepped lower to 92.98, compared to 93.15 previously.



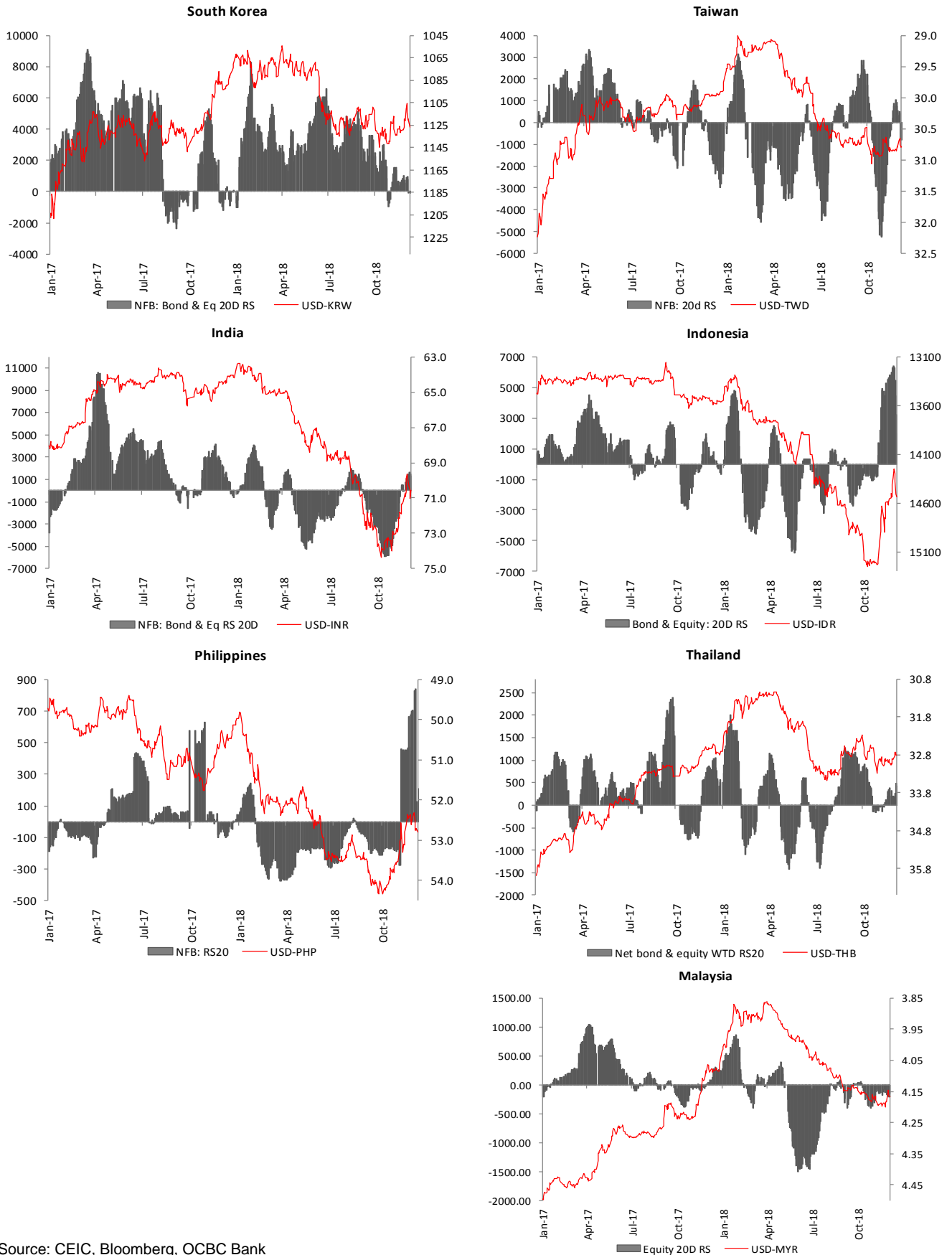
Source: OCBC Bank, Bloomberg

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. Nov CPI/PPI prints underperform - curves 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 gove and NDIRS 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 (despite inversion at the front-end) 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). Brewing political uncertainty ahead of the 2019 elections and surprise departure of the RBI governor to weigh on the INR and bonds.
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. SGS and IRS yields track US yields lower with the belly to back-end outperforming.
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	↔	Note recent outflow pressure for bonds, underpinning govie yields. 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 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. Govie yields touch softer but lag softening IRS yields.
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. BSP expected to stand pat in December.

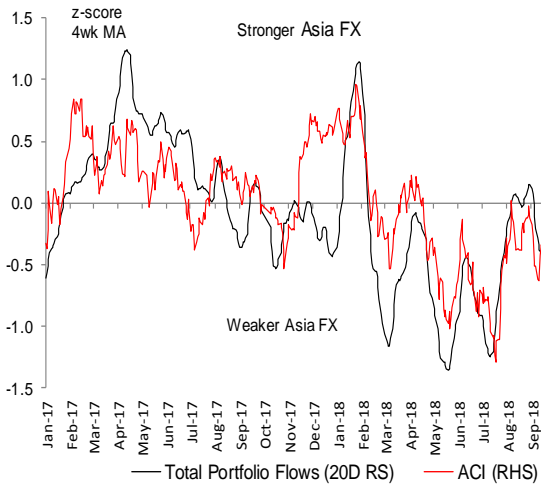
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



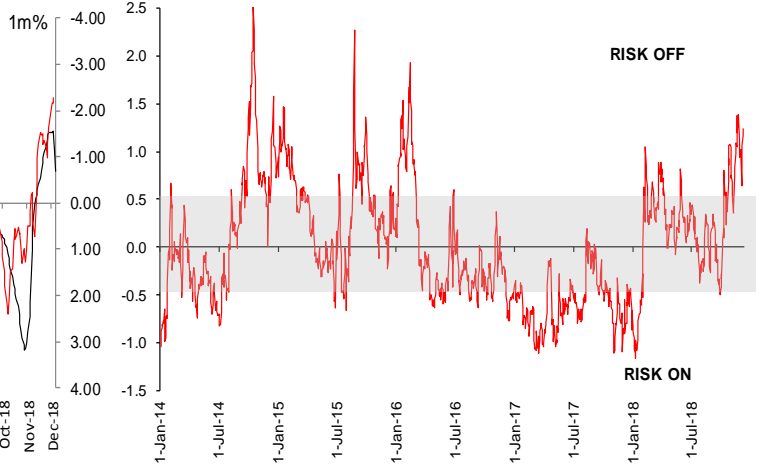
Source: CEIC, Bloomberg, OCBC Bank

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	0.06	0.124	0.174	0.03	-0.348	0.695	-0.09	-0.136	-0.176	0.196	-0.865
JPY	0.695	0.46	0.462	0.499	0.137	-0.141	1	0.082	-0.479	-0.383	0.456	-0.722
PHP	0.398	0.188	0.175	0.159	-0.267	0.482	0.343	0.545	0.244	-0.576	0.171	-0.576
SGD	0.395	0.713	0.79	-0.08	-0.593	0.239	0.514	0.487	0.131	-0.647	0.831	-0.603
CHF	0.375	0.762	0.405	0.392	0.002	0.457	0.598	0.701	-0.193	-0.893	0.384	-0.693
CAD	0.368	-0.698	-0.363	-0.411	-0.176	-0.532	-0.079	-0.588	0.497	0.618	-0.279	-0.132
THB	0.219	0.828	0.878	-0.14	-0.628	0.021	0.448	0.29	0.017	-0.435	0.893	-0.364
CNH	0.196	0.73	0.979	-0.022	-0.511	0.008	0.456	0.194	-0.103	-0.388	1	-0.312
CNY	0.124	0.765	1	0.118	-0.455	0.061	0.462	0.226	-0.213	-0.416	0.979	-0.239
INR	0.071	0.593	0.365	-0.15	-0.51	0.674	0.141	0.831	0.322	-0.769	0.363	-0.341
USGG10	0.06	1	0.765	0.276	-0.205	0.396	0.46	0.614	-0.284	-0.794	0.73	-0.336
IDR	0.056	0.569	0.536	-0.2	-0.695	0.502	0.189	0.627	0.372	-0.674	0.542	-0.295
KRW	0.05	0.614	0.8	-0.263	-0.766	0.215	0.252	0.362	0.191	-0.484	0.812	-0.205
MYR	-0.101	0.751	0.919	0.075	-0.487	0.133	0.362	0.243	-0.206	-0.419	0.88	-0.049
TWD	-0.128	0.534	0.796	-0.338	-0.772	0.102	0.103	0.181	0.221	-0.272	0.8	-0.018
GBP	-0.205	0.794	0.495	0.222	-0.177	0.431	0.197	0.515	-0.135	-0.727	0.449	-0.146
NZD	-0.301	-0.727	-0.716	0.29	0.621	-0.1	-0.35	-0.407	-0.235	0.559	-0.796	0.526
AUD	-0.382	-0.008	-0.221	0.645	0.794	0.076	-0.074	-0.068	-0.683	0.129	-0.351	0.429
EUR	-0.865	-0.336	-0.239	-0.143	0.044	0.09	-0.722	-0.217	0.019	0.457	-0.312	1

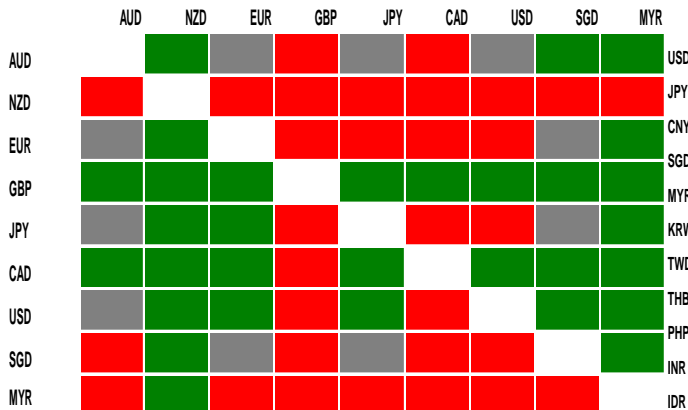
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1285	1.1300	1.1367	1.1400	1.1408
GBP-USD	1.2500	1.2507	1.2577	1.2589	1.2600
AUD-USD	0.7165	0.7184	0.7197	0.7200	0.7362
NZD-USD	0.6800	0.6853	0.6881	0.6900	0.6941
USD-CAD	1.3151	1.3300	1.3398	1.3400	1.3417
USD-JPY	112.39	113.00	113.02	113.04	113.99
USD-SGD	1.3658	1.3700	1.3732	1.3767	1.3792
EUR-SGD	1.5483	1.5600	1.5609	1.5700	1.5703
JPY-SGD	1.2039	1.2100	1.2149	1.2179	1.2200
GBP-SGD	1.7200	1.7236	1.7270	1.7300	1.7780
AUD-SGD	0.9800	0.9849	0.9882	0.9890	0.9900
Gold	1202.73	1221.46	1245.50	1249.80	1250.98
Silver	14.20	14.30	14.50	14.65	14.92
Crude	49.41	51.10	51.17	51.20	57.38

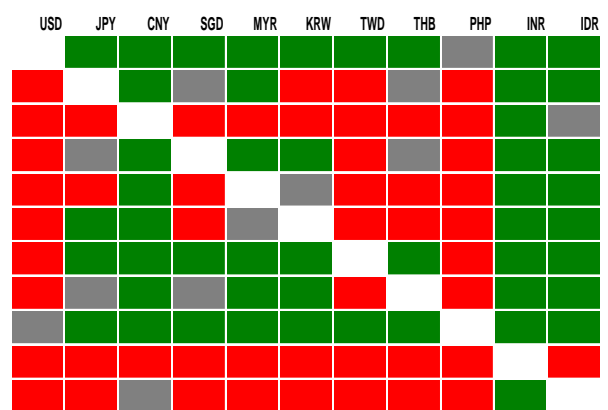
Source: OCBC Bank

G10 FX Heat Map



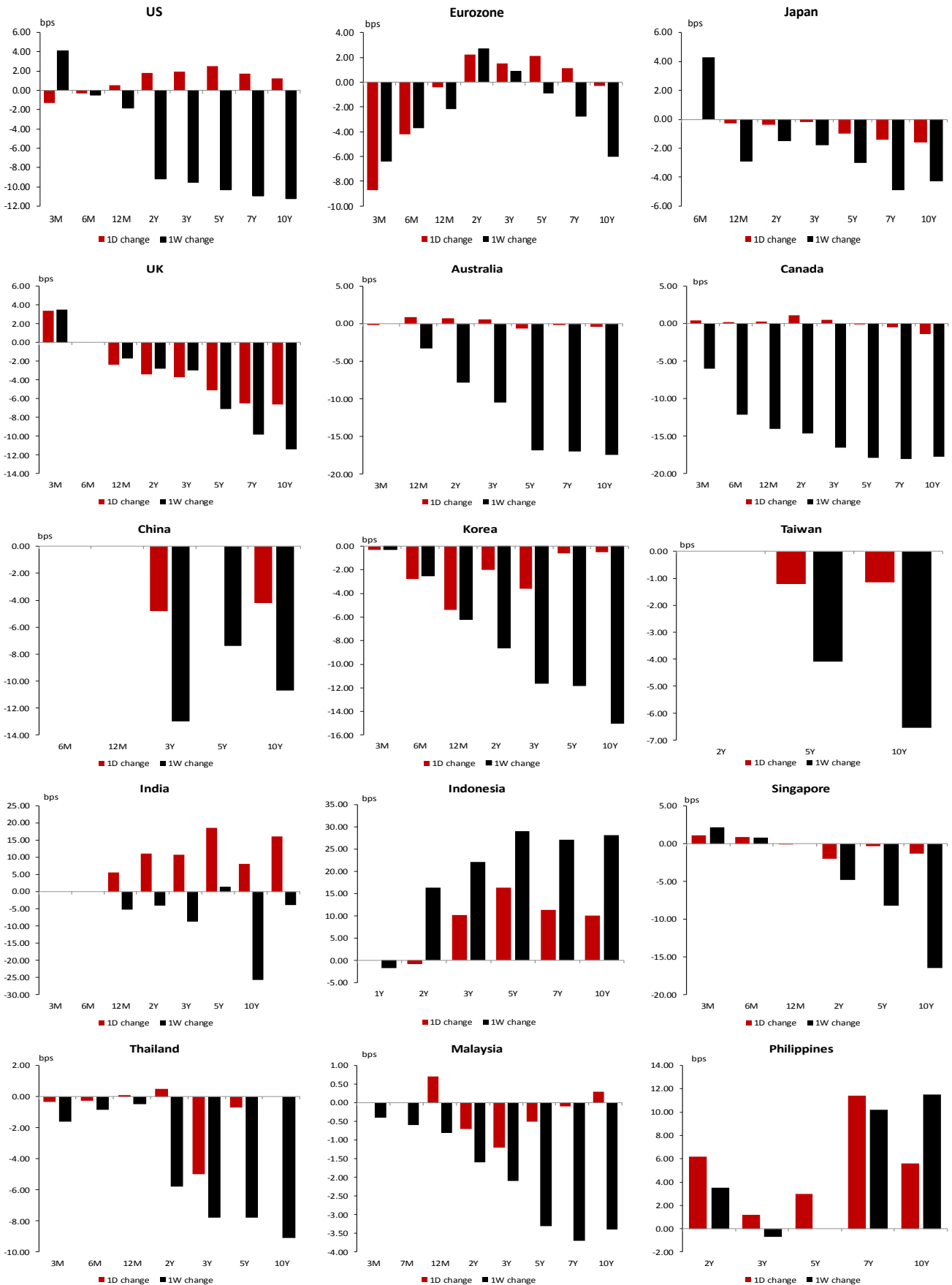
Source: OCBC Bank

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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