

Friday, December 14, 2018

FX Themes/Strategy/Trading Ideas

- The dollar ended largely unchanged against the majors on Thursday with the EUR-USD a touch lower following the ECB council meeting. Elsewhere, the SNB also remained static (with inflation forecasts downgraded) as widely expected but with the SNB's Jordan stating that there is room to cut rates if necessary. On other fronts, USD-JPY also gained as global trade tensions continued to be kept at bay.
- However, note front-end bund (and UST) yields dipped on Thursday despite some upside recovery at the back-end. In the near term, the global back-end (yields) may continue to stabilize (including in China) in tandem with the guidance provided by the US curve. **However, we'd increasingly focus on the potential for volatility in the global front-end as we head into 2019, especially if global central bank expectations surrounding policy normalization continues to get re-jigged. To this end, note that short-end (TU) Treasury futures remain poised to head higher at this juncture.**
- As expected, the **ECB** terminated its asset purchase program with Draghi describing the risks surrounding the economy as "broadly balanced" but "moving to the downside". Growth and inflation projections for 2019 were also lowered as expected. Meanwhile, rhetoric surrounding reinvestment of maturing bonds (timeframe remains noncommittal) and prospects for an eventual rate hike (to be kept static through summer 2019) were not materially altered.
- In spite of slightly shaky EZ/US, the **FXSI (FX Sentiment Index)** still managed to edge marginally lower within Risk-Off territory on Thursday. The Index has demonstrated an improvement of risk appetite levels over the past week but investors are likely to remain inherently cautious into the end of the year, especially with the FOMC next week.
- **In the European complex and post ECB, we'd expect the EUR-USD to be slightly top heavy into the end of the week, with GBP-USD still trapped in a range pending any further headline risks from the EU Summit.**
- **Despite some containment on the global trade friction front at this juncture, upside for the AUD-USD may remain fleeting (Nov CBA PMIs deteriorated from the prev month). Elsewhere, continue to expect the USD-JPY to grind higher on implicit rate differential support and with outlook readings from the latest Tankan dipping.**

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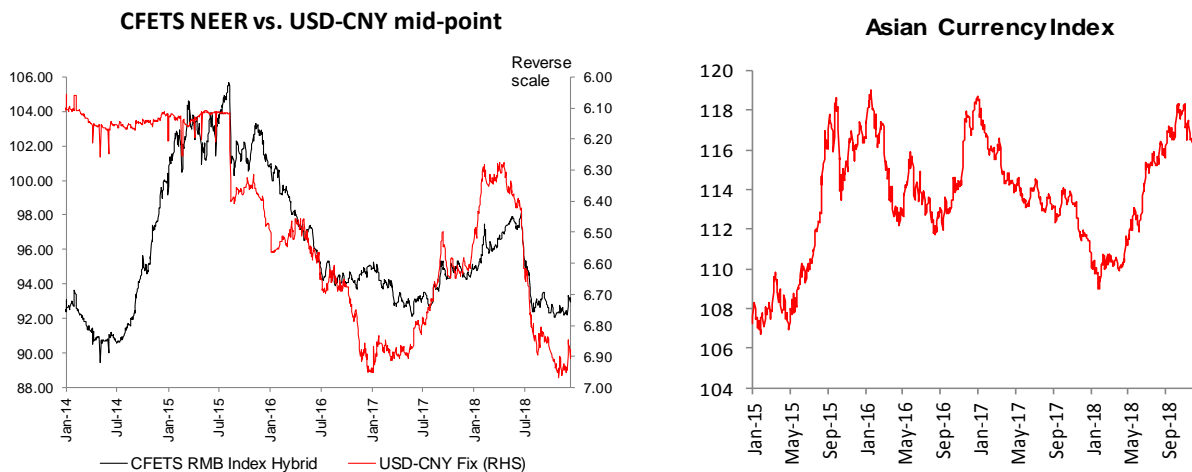
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Asian Markets

- Wobbly Asian equities early Friday coupled with overnight price action may see USD-Asia on a supportive tone intra-day.
- On the **Asian net portfolio flow** front, strong net bond inflows continued to be registered for South Korea while Taiwan remains laden by recent net equity outflows. In the south, latest outflows (bond and equities) are finally manifesting in the data for India, with the net inflow environment (on a rolling sum basis) moderating. As mentioned previously, the net inflow environment for Indonesia has compacted significantly of late, largely under the weight of net bond outflows. The environment in Thailand remains relatively more staid, with net inflows incrementally higher – underscoring the recent outperformance of the THB.
- **SGD NEER:** The SGD NEER is a touch softer on the day at around +1.97% above its perceived parity (1.3985). NEER-implied USD-SGD thresholds are also firmer on the day. A discretionary bias for USD-SGD may continue to remain absent with the 55-day MA (1.3763) limiting while 1.3660 should support intra-day.
- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a higher than expected 6.8750 from 6.8769 yesterday. This resulted in the CFETS RMB Index gaining to 93.283 from 93.193 on Thursday. **Structurally, for 2019, we expect back-end CNH vols (6M for e.g.) to continue realizing higher as authorities continue to ensure the renminbi’s valuation remains synced with underlying fundamentals..**



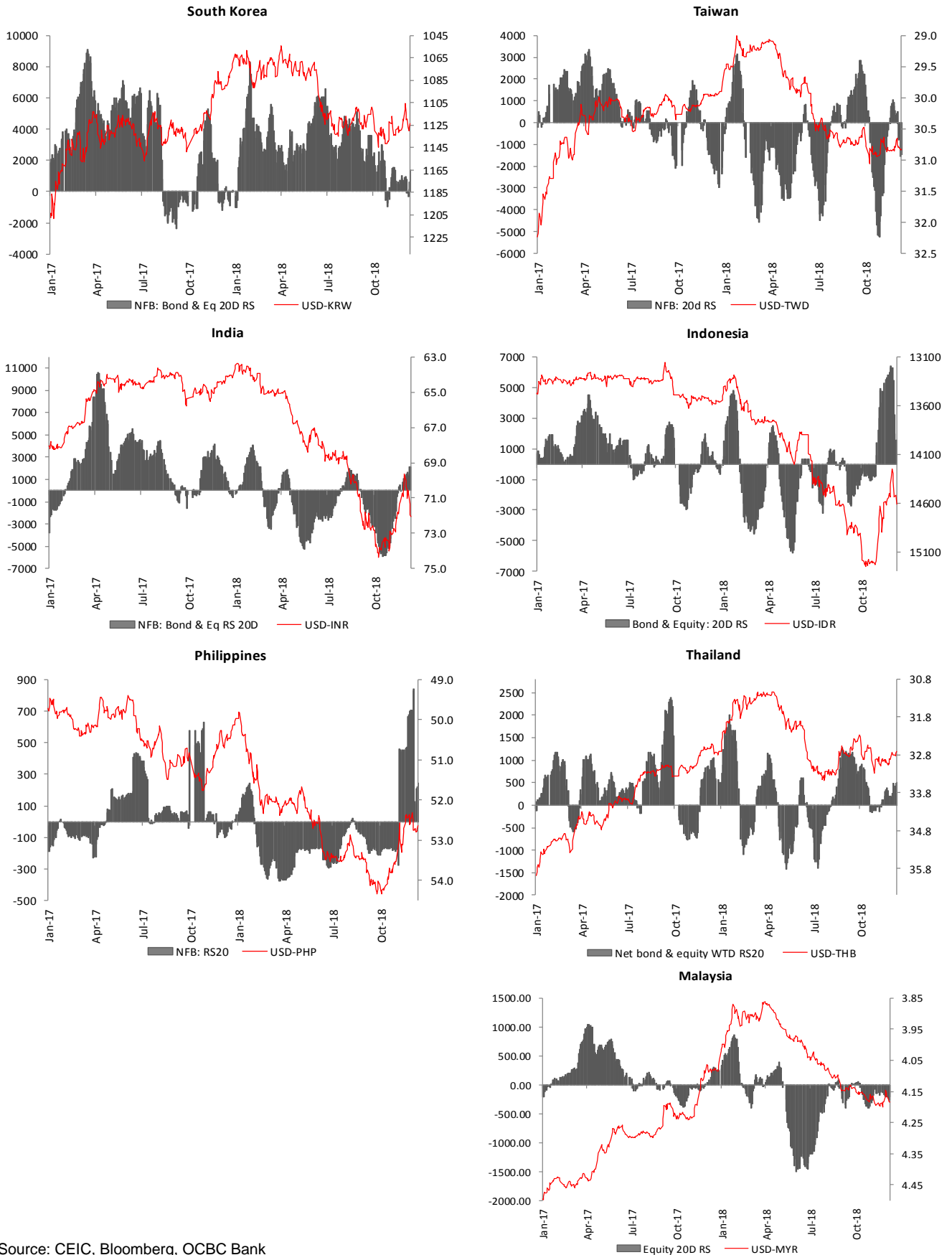
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	Beijing taking actions (soybeans) to implement the Xi-Trump trade truce, adding to market positivity over a thawing of tensions. 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 and official PMI prints underperform. Nov monetary aggregates indicate some stabilization after the recent deterioration but govie and NDIRS curve may remain soggy.
USD-KRW	↔	BOK hiked 25bps as expected in November with the hike characterized as a one-off dovish hike by markets. 3Q GDP and Oct industrial production readings came in lower than expected. Nov CPI prints also in-line to softer.
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	↔	A miss on Nov CPI adds on to the softer than expected 3Q GDP print. 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, after the loss in three key state elections, ahead of the 2019 nationwide elections. First comments by new RBI governor served to allay fears on RBI independence, but suggest some dovish inclinations.
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 continue to fluctuate with US yields.
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. General elections scheduled for 24 Feb 2019, with clarity on this front possibly supporting investor confidence in Thai equities and bonds.
USD-PHP	↔	BSP remained static at their policy meeting in December as expected with the central bank highlighting receding inflation pressures (inflation forecast revised lower). 3Q GDP prints below expectation on slower consumer spending. BSP expected to stand pat in December.

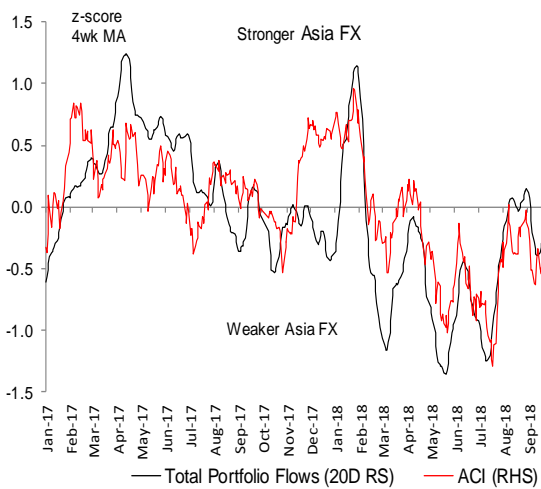
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



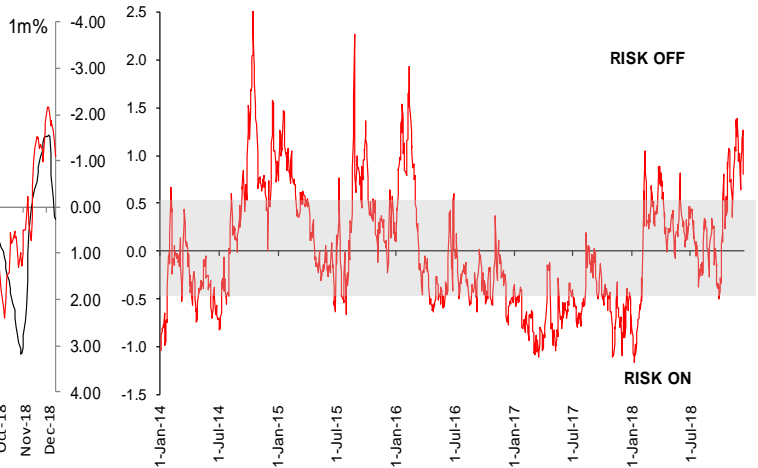
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXE	CNH	EUR
DXY	1	-0.199	-0.056	-0.032	-0.027	-0.616	0.67	-0.462	-0.062	0.118	-0.007	-0.842
JPY	0.67	0.228	0.318	0.374	0.156	-0.284	1	-0.152	-0.461	-0.26	0.247	-0.666
PHP	0.501	-0.759	-0.442	-0.526	-0.25	-0.564	0.084	-0.649	0.544	0.662	-0.405	-0.249
SGD	0.217	-0.002	0.017	0.01	-0.289	0.309	0.248	0.342	0.305	-0.374	-0.027	-0.4
CHF	0.2	0.644	0.78	-0.161	-0.636	0.047	0.394	0.247	0.118	-0.494	0.789	-0.413
CAD	0.166	0.705	0.389	0.448	0.114	0.375	0.436	0.579	-0.313	-0.851	0.368	-0.527
THB	-0.007	0.765	0.98	0.103	-0.421	-0.024	0.247	0.101	-0.2	-0.291	1	-0.171
CNH	-0.026	0.522	0.705	-0.336	-0.771	0.082	0.2	0.239	0.221	-0.362	0.672	-0.095
CNY	-0.036	0.27	0.136	-0.35	-0.525	0.458	0.05	0.608	0.394	-0.573	0.097	-0.099
INR	-0.056	0.797	1	0.225	-0.364	0.043	0.318	0.16	-0.295	-0.358	0.98	-0.105
USGG10	-0.065	-0.655	-0.698	0.317	0.58	0.073	-0.185	-0.159	-0.187	0.435	-0.747	0.283
IDR	-0.099	0.851	0.89	0.076	-0.419	0.002	0.191	0.169	-0.153	-0.351	0.899	-0.126
KRW	-0.108	0.473	0.438	-0.302	-0.715	0.356	0.089	0.501	0.402	-0.534	0.413	-0.095
MYR	-0.128	0.731	0.863	0.053	-0.472	0.082	0.336	0.196	-0.193	-0.401	0.817	0.005
TWD	-0.142	0.486	0.731	-0.348	-0.766	0.038	0.067	0.113	0.234	-0.205	0.728	0.032
GBP	-0.199	1	0.797	0.381	-0.068	0.349	0.228	0.52	-0.4	-0.736	0.765	-0.089
NZD	-0.319	0.212	-0.053	0.795	0.805	0.302	-0.059	0.202	-0.742	-0.135	-0.111	0.309
AUD	-0.41	0.812	0.541	0.389	0.04	0.435	-0.023	0.508	-0.275	-0.695	0.527	0.028
EUR	-0.842	-0.089	-0.105	-0.033	0.044	0.401	-0.666	0.207	0.029	0.196	-0.171	1

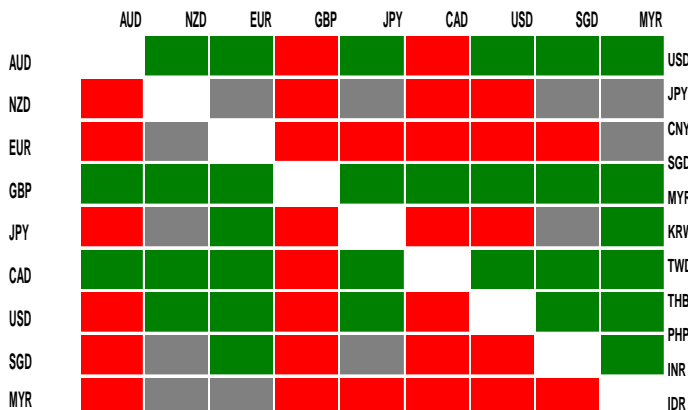
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1290	1.1300	1.1356	1.1398	1.1400
GBP-USD	1.2539	1.2600	1.2627	1.2700	1.2890
AUD-USD	0.7154	0.7164	0.7183	0.7192	0.7200
NZD-USD	0.6709	0.6758	0.6797	0.6800	0.6846
USD-CAD	1.3177	1.3300	1.3372	1.3400	1.3431
USD-JPY	113.00	113.01	113.47	113.99	114.00
USD-SGD	1.3661	1.3700	1.3728	1.3761	1.3778
EUR-SGD	1.5481	1.5500	1.5590	1.5600	1.5686
JPY-SGD	1.2023	1.2032	1.2098	1.2100	1.2177
GBP-SGD	1.7191	1.7300	1.7334	1.7400	1.7738
AUD-SGD	0.9832	0.9833	0.9861	0.9897	0.9900
Gold	1211.73	1224.01	1241.70	1249.80	1251.85
Silver	14.46	14.70	14.73	14.74	14.80
Crude	49.41	52.30	52.37	52.40	55.95

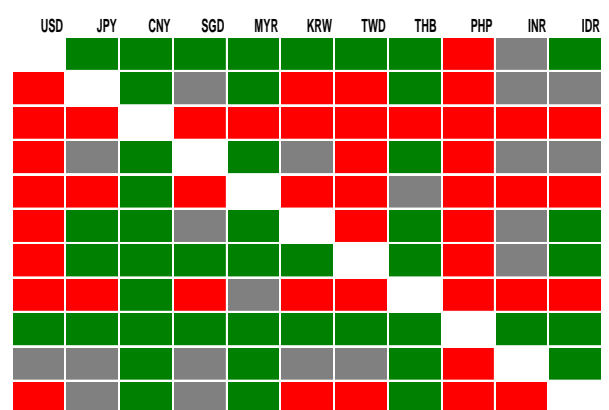
Source: OCBC Bank

G10 FX Heat Map



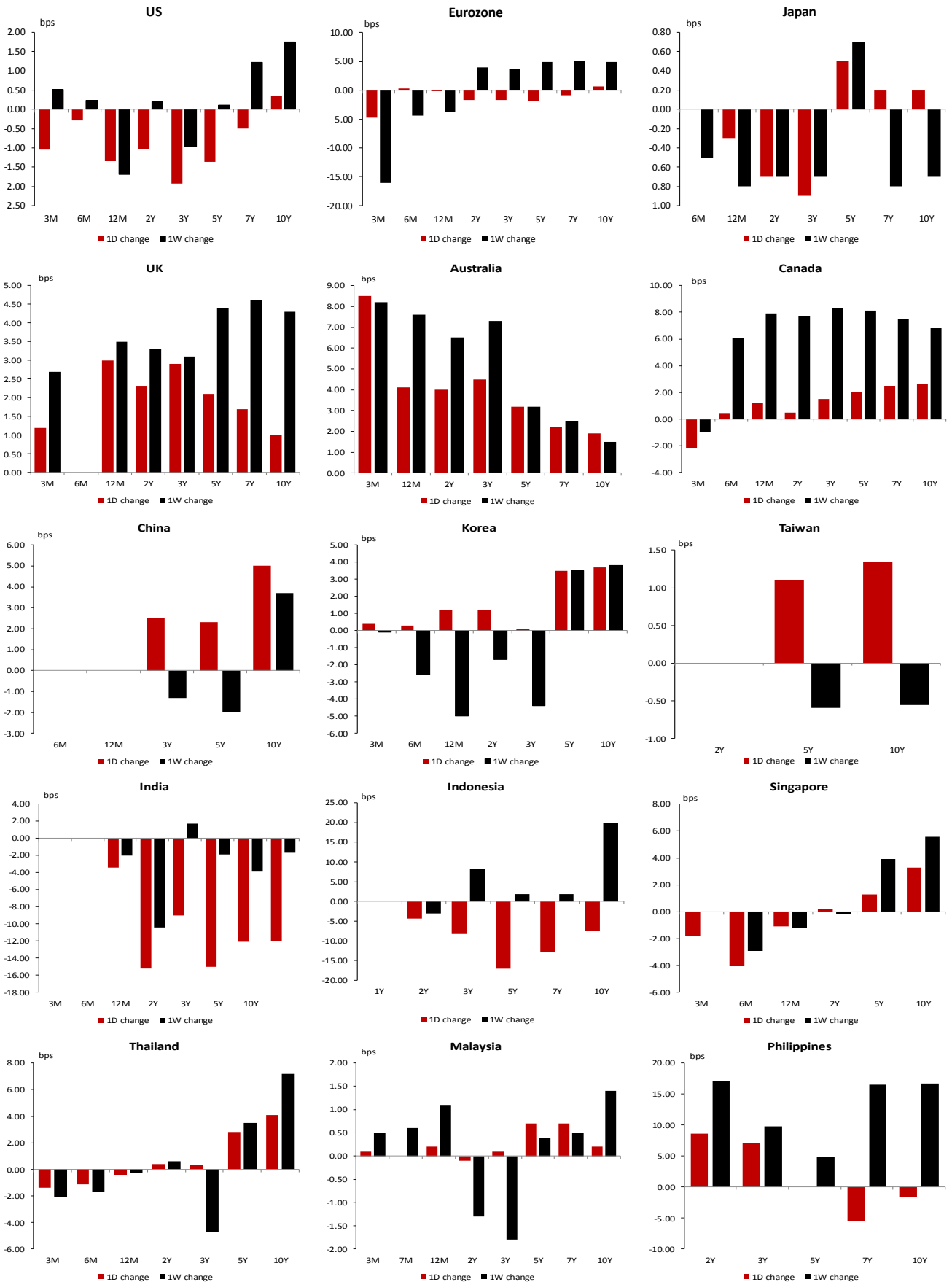
Source: OCBC Bank

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	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
2	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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