

Monday, October 15, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar retraced higher against the majors on Friday as global equities and investor sentiment recovered. On the latter, the **FX Sentiment Index (FXSI)** slipped back into **Risk-Neutral** territory from Risk-Off territory.
- Apart from Brexit-related baggage, the **EUR** was also weighed as Draghi's inflation rhetoric was turned down a notch, with softer EZ yields also another source of negativity for the common currency (Italian budget headline risks at the onset of the week). Watch comments from a range of ECB speakers, led by de Guindos (1800 GMT), Praet and Weidmann (both Wed), this week for potentially more clarity on the ECB's interest rate path.
- **GBP-USD** tripped lower early Monday in Asia after weekend talks reportedly ended with an impasse and with no other scheduled talks ahead of the **EU Summit** (17-18 October), expect investor demeanor towards the GBP in the interim to remain skeptical to say the least.
- This week, **Sino-US trade tensions** may continue to be on investors' radar screens. All eyes are expected to be on the **US Treasury's Report** on foreign exchange practices of major trading partners with President Trump warning of further tariffs on China over the weekend.
- Thus, unlike last week, when US equities were at the epicenter of global uncertainty, we run the risk of more pervasive and endemic investor pessimism from several fronts this week. **As such, we still favor the greenback pending further news flow this week.**
- On the **CFTC** front, large non-commercial accounts increased their net implied long dollar bias in aggregate in the latest week while asset manager accounts also pared their net short dollar bias. Net of JPY positioning, leveraged accounts meanwhile also increased their net long dollar bias in the latest week. Leveraged accounts also increased significantly their net JPY shorts in the same period. In sum, investors were essentially wrong footed with respect to the dollar for most of last week before seeing some respite by late Friday.
- The schedule for Fedspeak is heavy this week, with Sep FOMC minutes (Wed) release also in the mix. Watch for Bullard (Thu, voter in 2019) and Quarles (Thu, permanent voter) in particular, as investors look to continue its re-assessment of Fed rate hike expectations next year in light of recent equity upheavals. Elsewhere, central bank speakers are headlined by BOJ's Kuroda (Thu and Fri) and BOE's Carney (Fri).

Treasury Research &
Strategy

Emmanuel Ng

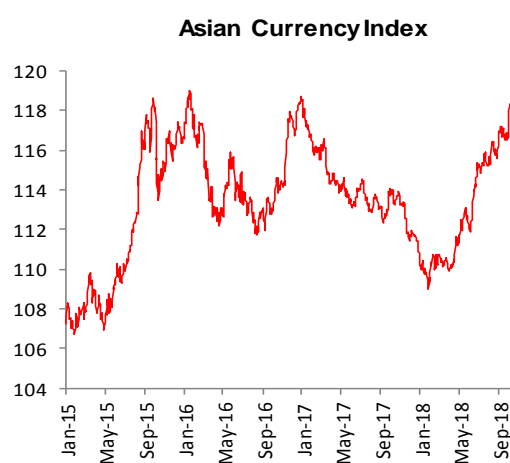
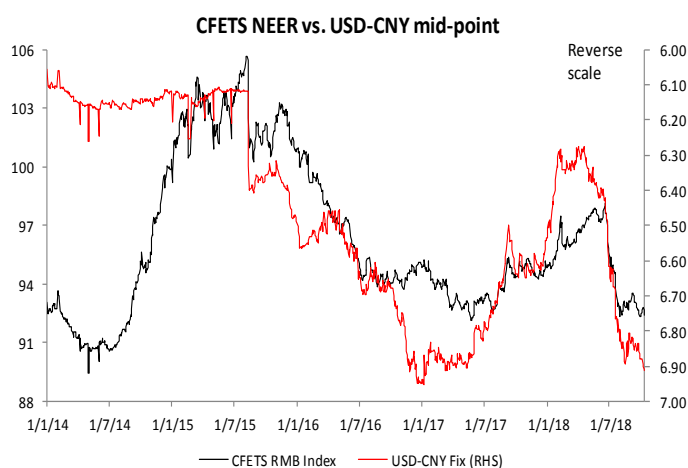
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Asian FX

- Global EM equities also rebounded on Friday but early Asian equity weakness on Monday may keep investors cautious. In relation to potential negative impacts from global trade tensions (China's trade numbers are expected to deteriorate from hereon despite better than expected September headlines), the PBOC governor over the weekend indicated that China retains "plenty of monetary policy instruments in terms of interest rate policy, in terms of RRR", if needed. He added further that "the downside risks from trade tensions are significant".
- **EPFR** data indicated a swing to an implied net outflow for Asian stocks (excl Japan, China) and increased net implied bond outflows in the latest week. In terms of **Asian net portfolio flows**, outflows from North Asia eased in the latest reading, although equity and bond outflows from India shows no signs of improvement. Overall, with Asian equities opening in the red, expect the portfolio flows environment to remain challenging this week.
- **SGD NEER**: The SGD NEER eased to +1.08% above its perceived parity (1.3937) this morning, after hitting a high beyond +1.30% post MAS MPS on Friday. The NEER-implied USD-SGD thresholds were firmer as the dollar regained its footing on Friday. With ongoing risk concerns, expect the USD-SGD to drift higher this week, with the 1.3820/40 region perhaps providing some interim resistance.
- **CFETS RMB Index**: The USD-CNY mid-point this morning came in higher again, within expectations, at 6.9154, compared to 6.9120 previously. The CFETS RMB Index eased further to 92.25, compared to 92.38, compared to 92.64 at Friday's fix.



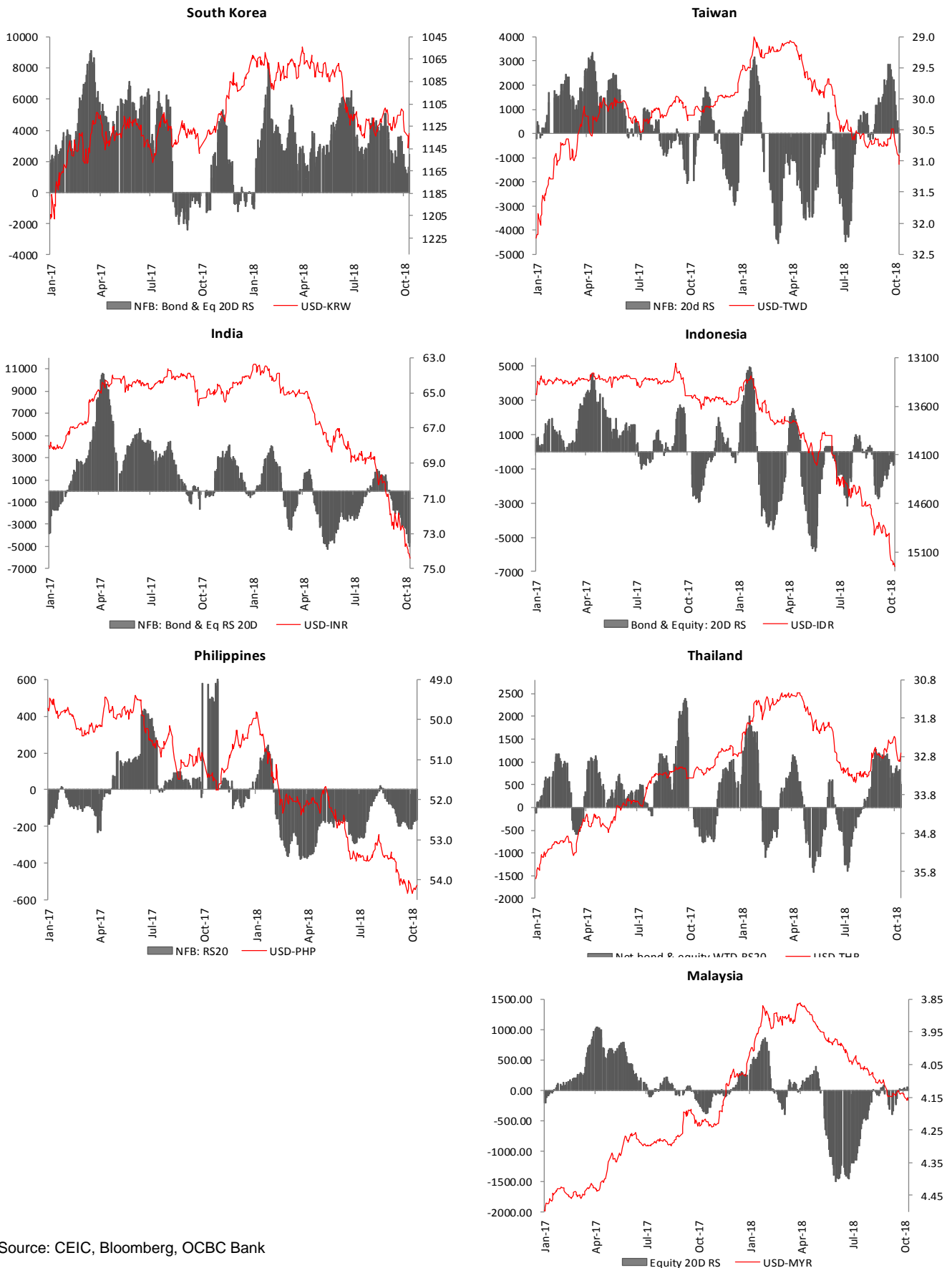
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

| Currency | Bias | Rationale |
|----------|------|---|
| USD-CNH | ↔ | Expect inherent buoyancy in the pair stemming from the broad dollar complex. CNH forwards and short term vol surface angling for firmer USD ahead. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. |
| USD-KRW | ↔/↑ | Markets are imputing a slightly hawkish tint at this Thursday's BOK meeting, with markets essentially even split on whether the central bank will hike this week or in November. Curves are nevertheless softer on the week in tandem with G3 counterparts. |
| USD-TWD | ↔/↑ | Latest bout of risk aversion has afflicted North Asia. CBC remained static at its policy meeting in September and is expected to remain so into 2019. |
| USD-INR | ↔/↑ | INR (and bonds) may find some near term reprieve from import curbs but risks from EM jitters and crude remain apparent. RBI surprised markets by remaining static in October with the central bank lowering its inflation forecasts. Current account concerns for India plus the larger EM overhang may continue to see outsized vulnerability of the INR. Investors awaiting potential new administrative measures (including enticing NRI inflows). |
| USD-SGD | ↔/↑ | Pause in broad USD momentum cap near term advances in the pair; balance of considerations may now tilt towards external uncertainties in the MAS's October decision. NEER may remain afloat above +1.00% if risk appetite remains supported. |
| USD-MYR | ↔/↑ | Government reveals intent to plug its fiscal deficit via new taxes. BNM static in September; MYR remains vulnerable in line with its peers. Local curves also expected to firm in sympathy with the US lead. |
| USD-IDR | ↔/↑ | Inherent stress in the local bond market underscores background investor nervousness. BI notes that rate hikes were motivated by the need to maintain market stability. The DNDF market is due to come online next month. BI hiked another 25bps as expected in September. Authorities preparing further incentives for exporter repatriation and bond investments. |
| USD-THB | ↔/↑ | BOT MPC members mulling a policy normalization timetable. BOT official notes that the economy is capable of absorbing a rate hike. We note however a lack of immediate inflation risks. |
| USD-PHP | ↔/↓ | BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher. Slower growth and firmer inflation prospects weigh on sentiment. |

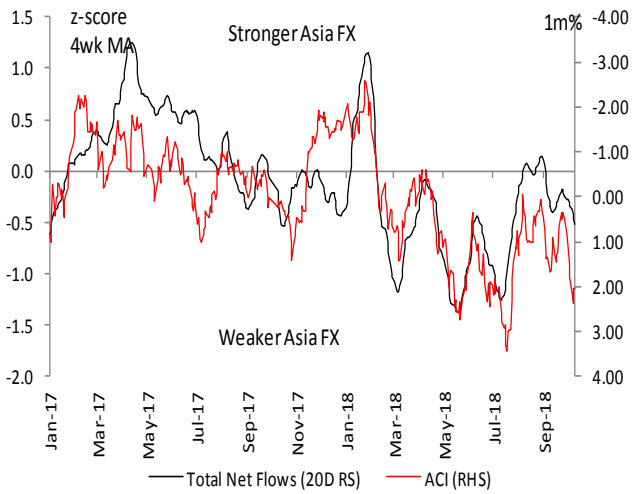
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



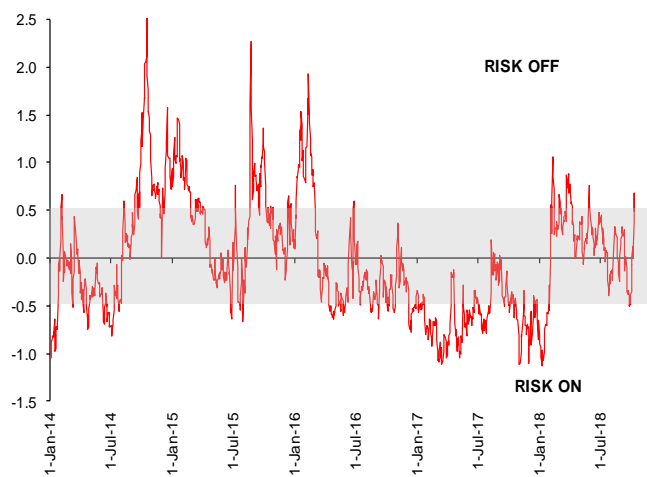
Source: CEIC, Bloomberg, OCBC Bank

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 | 0.735 | 0.866 | -0.262 | -0.531 | 0.821 | 0.504 | 0.753 | 0.332 | 0.524 | 0.789 | -0.992 |
| SGD | 0.94 | 0.807 | 0.904 | -0.475 | -0.681 | 0.862 | 0.39 | 0.688 | 0.53 | 0.615 | 0.854 | -0.947 |
| CHF | 0.881 | 0.846 | 0.87 | -0.488 | -0.761 | 0.717 | 0.165 | 0.52 | 0.568 | 0.724 | 0.825 | -0.91 |
| IDR | 0.866 | 0.859 | 1 | -0.578 | -0.721 | 0.887 | 0.173 | 0.693 | 0.659 | 0.637 | 0.972 | -0.864 |
| CNH | 0.79 | 0.869 | 0.906 | -0.66 | -0.878 | 0.772 | 0.146 | 0.482 | 0.729 | 0.765 | 0.83 | -0.82 |
| MYR | 0.789 | 0.698 | 0.972 | -0.483 | -0.638 | 0.734 | 0.124 | 0.506 | 0.557 | 0.607 | 1 | -0.804 |
| THB | 0.766 | 0.857 | 0.862 | -0.63 | -0.87 | 0.735 | 0.058 | 0.462 | 0.727 | 0.761 | 0.815 | -0.798 |
| JPY | 0.735 | 1 | 0.859 | -0.378 | -0.663 | 0.808 | 0.301 | 0.6 | 0.466 | 0.502 | 0.698 | -0.746 |
| CAD | 0.604 | 0.703 | 0.777 | -0.732 | -0.901 | 0.456 | -0.287 | 0.121 | 0.763 | 0.889 | 0.706 | -0.666 |
| INR | 0.504 | 0.301 | 0.173 | 0.474 | 0.269 | 0.631 | 1 | 0.835 | -0.421 | -0.347 | 0.124 | -0.426 |
| KRW | 0.486 | 0.689 | 0.835 | -0.622 | -0.817 | 0.356 | -0.292 | 0.065 | 0.697 | 0.771 | 0.679 | -0.537 |
| USGG10 | 0.351 | 0.641 | 0.539 | -0.793 | -0.922 | 0.296 | -0.447 | -0.11 | 0.822 | 0.839 | 0.474 | -0.45 |
| TWD | 0.242 | 0.383 | 0.469 | -0.03 | -0.155 | 0.473 | 0.328 | 0.399 | 1.105 | -0.017 | 0.438 | -0.203 |
| CNY | 0.162 | 0.5 | 0.468 | -0.728 | -0.861 | 0.12 | -0.516 | -0.229 | 0.781 | 0.783 | 0.263 | -0.244 |
| PHP | -0.142 | 0.023 | 0.452 | -0.611 | -0.427 | -0.324 | -0.678 | -0.567 | 0.595 | 0.405 | 0.309 | 0.083 |
| NZD | -0.529 | -0.108 | -0.083 | -0.456 | -0.304 | -0.469 | -0.778 | -0.663 | 0.447 | 0.254 | -0.192 | 0.463 |
| AUD | -0.85 | -0.84 | -0.86 | 0.537 | 0.786 | -0.649 | -0.112 | -0.437 | -0.607 | -0.756 | -0.818 | 0.878 |
| GBP | -0.863 | -0.828 | -0.898 | 0.536 | 0.764 | -0.7 | -0.179 | -0.479 | -0.609 | -0.699 | -0.839 | 0.884 |
| EUR | -0.992 | -0.746 | -0.864 | 0.331 | 0.595 | -0.804 | -0.426 | -0.709 | -0.396 | -0.592 | -0.804 | 1 |

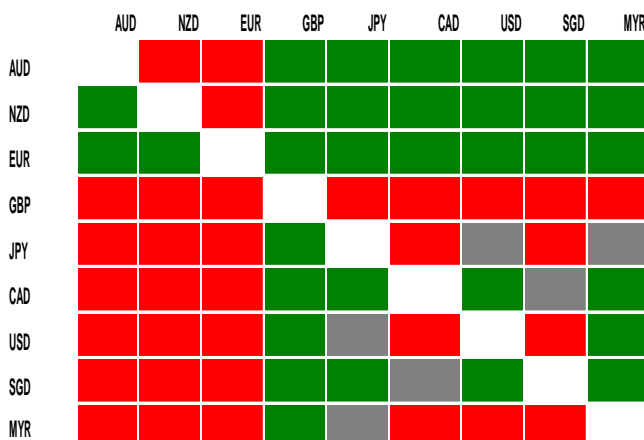
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1432 | 1.1500 | 1.1550 | 1.1585 | 1.1600 |
| GBP-USD | 1.2985 | 1.3100 | 1.3110 | 1.3200 | 1.3272 |
| AUD-USD | 0.7041 | 0.7100 | 0.7109 | 0.7200 | 0.7225 |
| NZD-USD | 0.6425 | 0.6500 | 0.6504 | 0.6597 | 0.6600 |
| USD-CAD | 1.3000 | 1.3019 | 1.3020 | 1.3088 | 1.3100 |
| USD-JPY | 111.87 | 112.00 | 112.10 | 113.00 | 114.40 |
| USD-SGD | 1.3700 | 1.3722 | 1.3788 | 1.3800 | 1.3873 |
| EUR-SGD | 1.5898 | 1.5900 | 1.5925 | 1.5998 | 1.6000 |
| JPY-SGD | 1.2234 | 1.2267 | 1.2299 | 1.2300 | 1.2336 |
| GBP-SGD | 1.7819 | 1.8000 | 1.8077 | 1.8100 | 1.8106 |
| AUD-SGD | 0.9737 | 0.9800 | 0.9801 | 0.9900 | 0.9914 |
| Gold | 1198.34 | 1200.00 | 1218.10 | 1218.19 | 1224.60 |
| Silver | 14.54 | 14.60 | 14.67 | 14.70 | 14.83 |
| Crude | 69.99 | 72.10 | 72.11 | 72.20 | 76.43 |

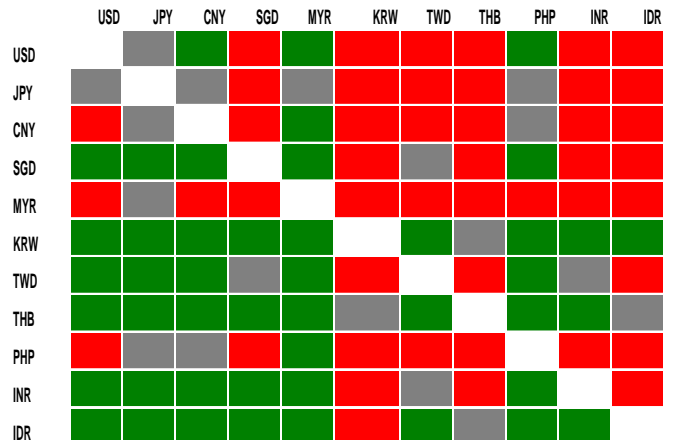
Source: OCBC Bank

G10 FX Heat Map



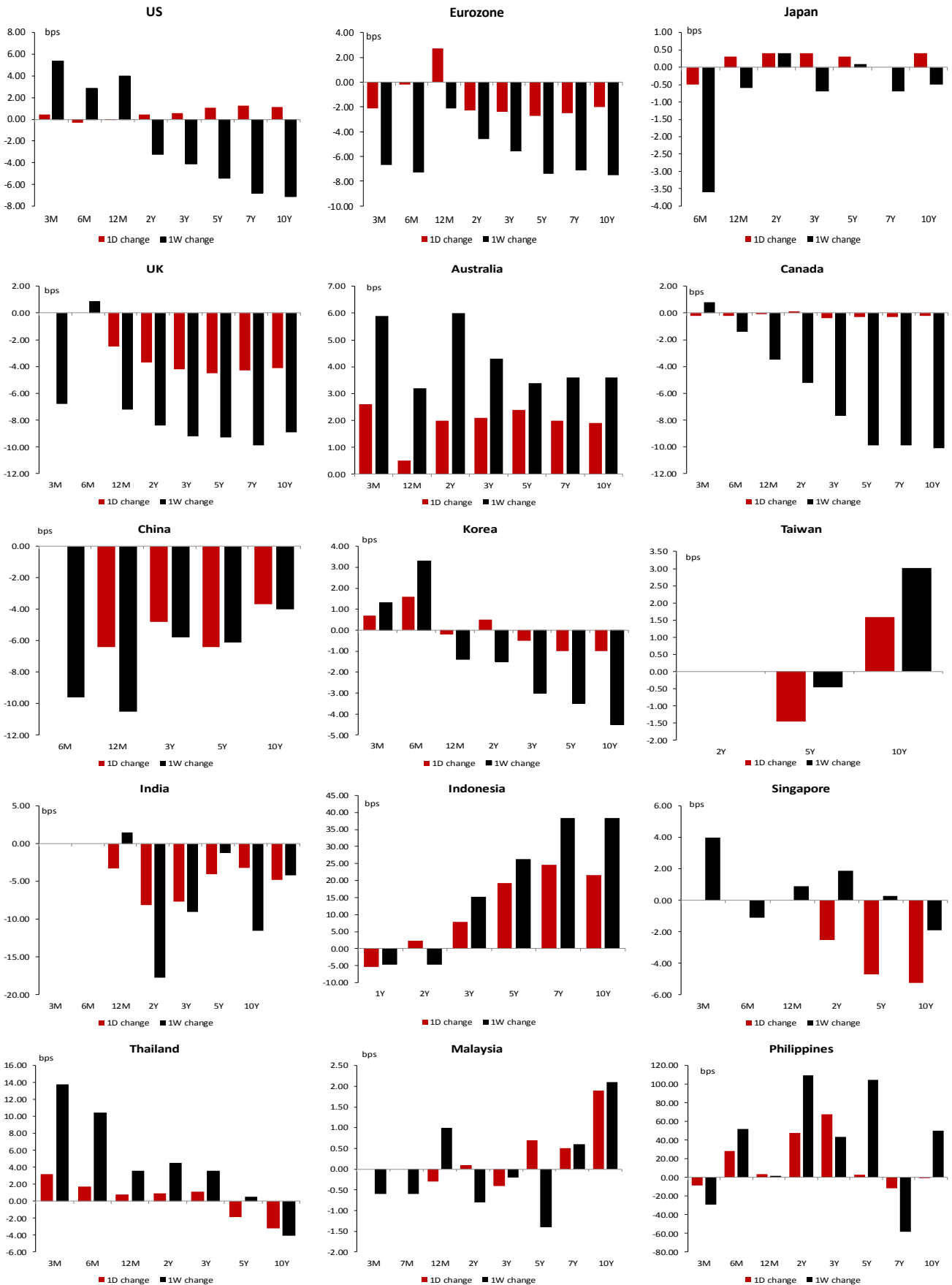
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Recommendations

| Inception | B/S | Currency | Spot | Target Stop/Trailing Stop | Rationale | | | |
|------------------------------------|-----------|-----------|----------|---------------------------|---|-----------|---|-------|
| TACTICAL | | | | | | | | |
| 1 | 11-Sep-18 | B | GBP-USD | 1.3056 1.3325 1.2920 | Positioning ahead of BOE MPC and positivity from Brexit news flow | | | |
| STRUCTURAL | | | | | | | | |
| - | - | - | - | - | - | | | |
| RECENTLY CLOSED TRADE IDEAS | | | | | | | | |
| Inception | Close | B/S | Currency | Spot | Close | Rationale | P/L (%) [*] | |
| 1 | 04-Sep-18 | 19-Sep-18 | S | AUD-USD | 0.7190 | 0.7275 | Vulnerability to contagion, static RBA | -1.18 |
| 2 | 20-Sep-18 | 28-Sep-18 | B | EUR-USD | 1.1702 | 1.1600 | Risk appetite recovery, rate differentials on back burner | -0.87 |
| 3 | 03-Oct-19 | 10-Oct-18 | S | EUR-CAD | 1.4845 | 1.4975 | Contrasting dynamics between USMCA and Italy | -0.88 |
| 4 | 20-Sep-18 | 11-Oct-18 | B | USD-JPY | 112.89 | 112.00 | USD-JPY responsive to firmer US rates | -0.79 |
| * realized, excl carry | | | | | | | | |

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