

Tuesday, October 16, 2018

**FX Themes/Strategy/Trading Ideas**

- The dollar reversed lower (softer Sep US retail sales figures and the US fiscal deficit numbers a convenient excuse) against the majors after starting the Asian session firm on Monday.
- The **EUR-USD** pushed higher despite the passage of the Italian budget (EU's response awaited, likely within the coming 2 weeks) and negative regional German election headlines from the weekend. Note some firm commentary from ECB speakers, with de Guindos expecting inflation to be "bolstered" going forward, and Vasiliauskas suggested that rate hike discussions may start mid-2019, and a decision taken by autumn "if needed". On a related note, the **GBP-USD** also managed to lift despite renewed Brexit concerns.
- Elsewhere, **USD-CAD** slumped with the 3Q overall business outlook survey sounding sufficiently positive, cementing expectations for another hike by the BOC this month. NZD-USD also jumped late Monday following warmer than expected 3Q CPI inflation prints.
- On the risk appetite front, the **FX Sentiment Index (FXSI)** inched slightly lower within **Risk-Neutral** territory but it may not require much to tip the markets into Risk-Off zone once again.
- **With little fresh positive impetus for the broad dollar from the rate differential front, investors may continue to look outside of the US complex for cues. To this end, as mentioned yesterday, headline risks this week abound, and we note that XAU, CHF, and JPY may remain supported amidst short term dollar vulnerability.**
- The ability for the 95.00 support on the DXY to hold thus far provides a slight consolation. Nevertheless, expect this support level to be continually probed, especially if US equities continue to be soggy. The next support for the DXY is expected towards 94.87 in the event of a sustained breach.

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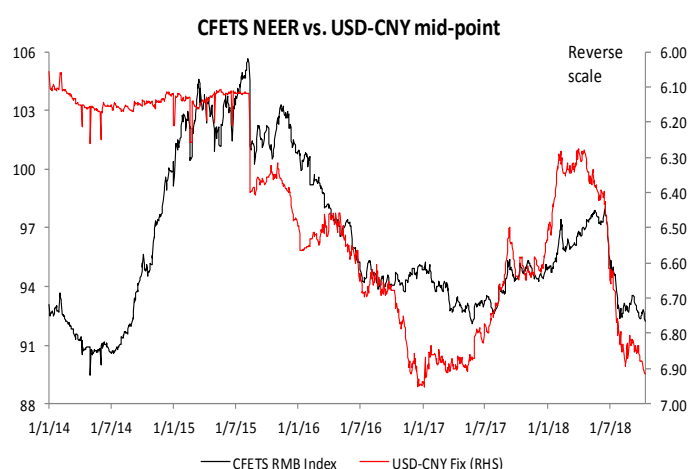
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## Asian FX

- EM equities wavered and eased slightly on Monday and under the shadow of a negative Wall Street overnight, downside for USD-Asia may prove limited if Asian equities remain in the red.
- On the net portfolio front in Asia, net inflows for South Korea are stabilizing while Taiwan has not surprisingly dipped significantly into a net outflow situation. Net outflows for India continue to deepen although net outflows for Indonesia are still compressing. Elsewhere, net inflows for Thailand had continued to moderate into the end of last week.
- **SGD NEER:** The SGD NEER firmed to +1.20% above its perceived parity (1.3916) this morning. The NEER-implied USD-SGD thresholds were softer alongside the broad dollar vulnerability. Intra-day movements may be marked by the +1.00% (1.3779) and +1.40% (1.3725) thresholds.
- **CFETS RMB Index:** The USD-CNY mid-point this morning came in lower, within expectations, at 6.9119, compared to 6.9154 previously. The CFETS RMB Index eased further to 92.15, compared to 92.25 on Monday. **The CFETS RMB Index has fallen for 6 consecutive sessions and if the 92.00 floor is breached, we look to initiate a structural long USD-CNH.**



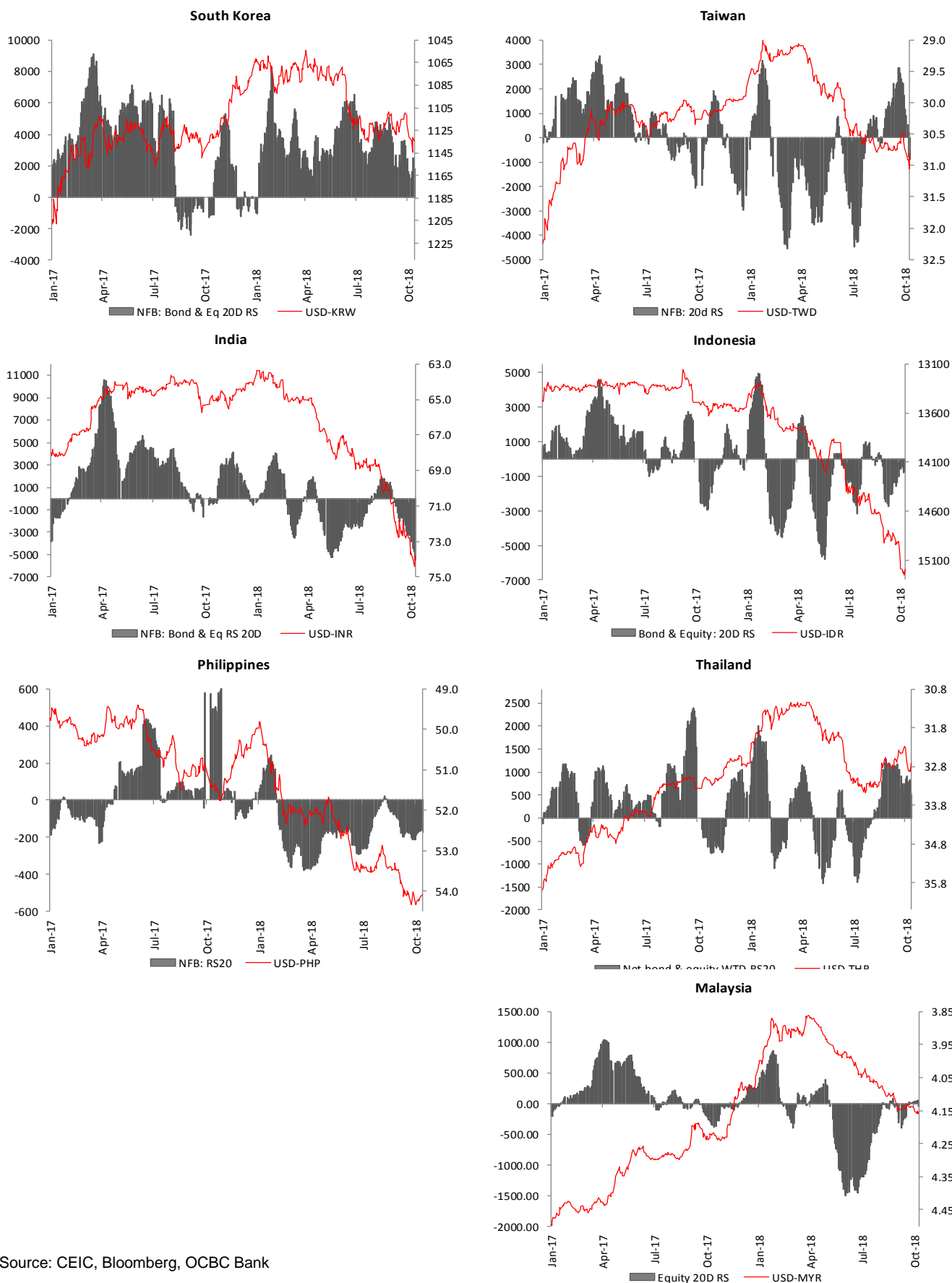
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

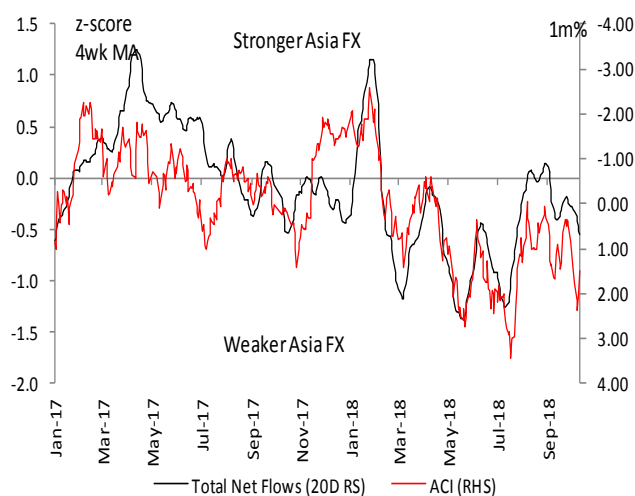
Currency	Bias	Rationale
USD-CNH	↔	Although DF forward point and short term vols surface are calmer, note that the authorities are explicitly cognizant of the downside growth risks from global trade tensions. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns.
USD-KRW	↔/↓	Markets are imputing a slightly hawkish tint at this Thursday's BOK meeting, with markets essentially evenly 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 with firmer CPI and trade deficit readings also a contributory factor. RBI surprised markets by remaining static in October with the central bank lowering its inflation forecasts. 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, although some support may be had from firmer oil prices. 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 expects a USD-IDR range between 14,800-15,200, versus the current spot value at 15215.
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

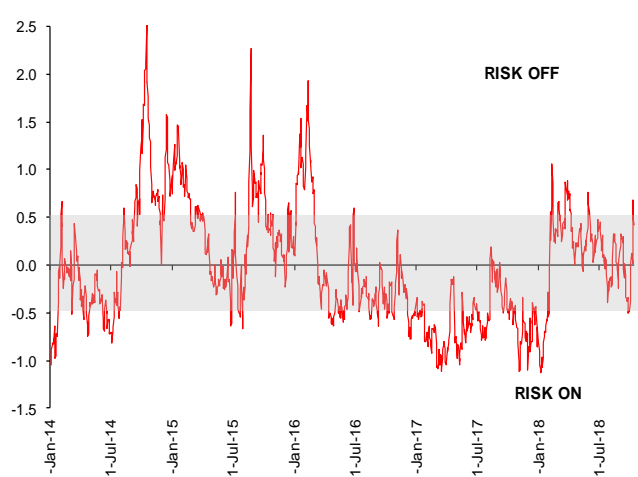
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

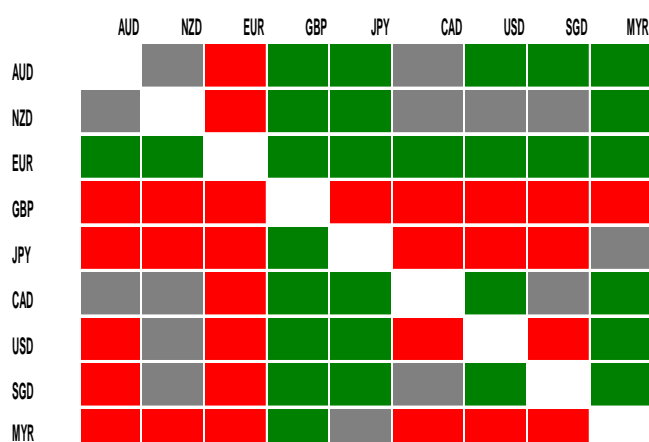
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.728	0.856	-0.246	-0.531	0.804	0.481	0.752	0.321	0.498	0.735	-0.989
SGD	0.929	0.808	0.909	-0.485	-0.681	0.863	0.321	0.666	0.543	0.621	0.837	-0.945
CHF	0.876	0.846	0.87	-0.481	-0.761	0.719	0.132	0.507	0.567	0.71	0.797	-0.909
IDR	0.856	0.864	1	-0.623	-0.721	0.896	0.035	0.663	0.691	0.672	0.972	-0.863
CNH	0.767	0.865	0.914	-0.691	-0.878	0.786	0.034	0.434	0.754	0.786	0.845	-0.807
MYR	0.753	0.857	0.869	-0.642	-0.87	0.749	-0.021	0.429	0.739	0.768	0.819	-0.794
THB	0.735	0.702	0.972	-0.561	-0.638	0.751	-0.01	0.436	0.611	0.656	1	-0.772
JPY	0.728	1	0.864	-0.395	-0.663	0.81	0.275	0.588	0.48	0.513	0.702	-0.744
CAD	0.582	0.707	0.793	-0.751	-0.901	0.492	-0.303	0.102	0.784	0.896	0.703	-0.654
INR	0.486	0.689	0.835	-0.622	-0.817	0.356	-0.292	0.065	0.697	0.771	0.679	-0.537
KRW	0.481	0.275	0.035	0.555	0.269	0.494	1	0.815	-0.493	-0.431	-0.01	-0.381
USGG10	0.324	0.643	0.578	-0.799	-0.922	0.348	-0.466	-0.128	0.835	0.849	0.483	-0.436
TWD	0.233	0.348	0.401	0.059	-0.155	0.409	0.366	0.408	0.031	-0.082	0.343	-0.183
CNY	0.164	0.515	0.509	-0.734	-0.861	0.174	-0.557	-0.245	0.792	0.796	0.333	-0.257
PHP	-0.168	0.01	0.448	-0.592	-0.427	-0.284	-0.656	-0.584	0.594	0.419	0.296	0.1
NZD	-0.519	-0.091	-0.074	-0.449	-0.304	-0.429	-0.781	-0.67	0.451	0.273	-0.111	0.442
AUD	-0.848	-0.835	-0.846	0.497	0.786	-0.642	-0.135	-0.443	-0.584	-0.72	-0.746	0.873
GBP	-0.855	-0.829	-0.9	0.53	0.764	-0.705	-0.137	-0.462	-0.61	-0.692	-0.816	0.882
EUR	-0.989	-0.744	-0.863	0.331	0.595	-0.799	-0.381	-0.698	-0.398	-0.579	-0.772	1

Source: Bloomberg

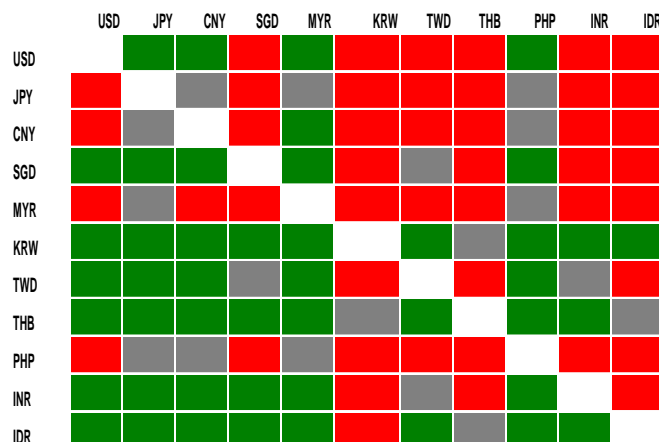
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1432	1.1500	1.1583	1.1586	1.1600
GBP-USD	1.2990	1.3100	1.3151	1.3200	1.3275
AUD-USD	0.7041	0.7100	0.7137	0.7200	0.7220
NZD-USD	0.6425	0.6500	0.6575	0.6595	0.6600
USD-CAD	1.2893	1.2900	1.2982	1.3000	1.3017
USD-JPY	111.87	112.00	112.03	113.00	114.45
USD-SGD	1.3700	1.3724	1.3752	1.3800	1.3873
EUR-SGD	1.5850	1.5900	1.5929	1.5999	1.6000
JPY-SGD	1.2236	1.2268	1.2275	1.2300	1.2351
GBP-SGD	1.7828	1.8000	1.8085	1.8100	1.8106
AUD-SGD	0.9737	0.9800	0.9814	0.9900	0.9908
Gold	1198.95	1200.00	1227.10	1227.26	1232.30
Silver	14.53	14.70	14.75	14.80	14.86
Crude	70.04	71.80	71.86	71.90	76.30

Source: OCBC Bank

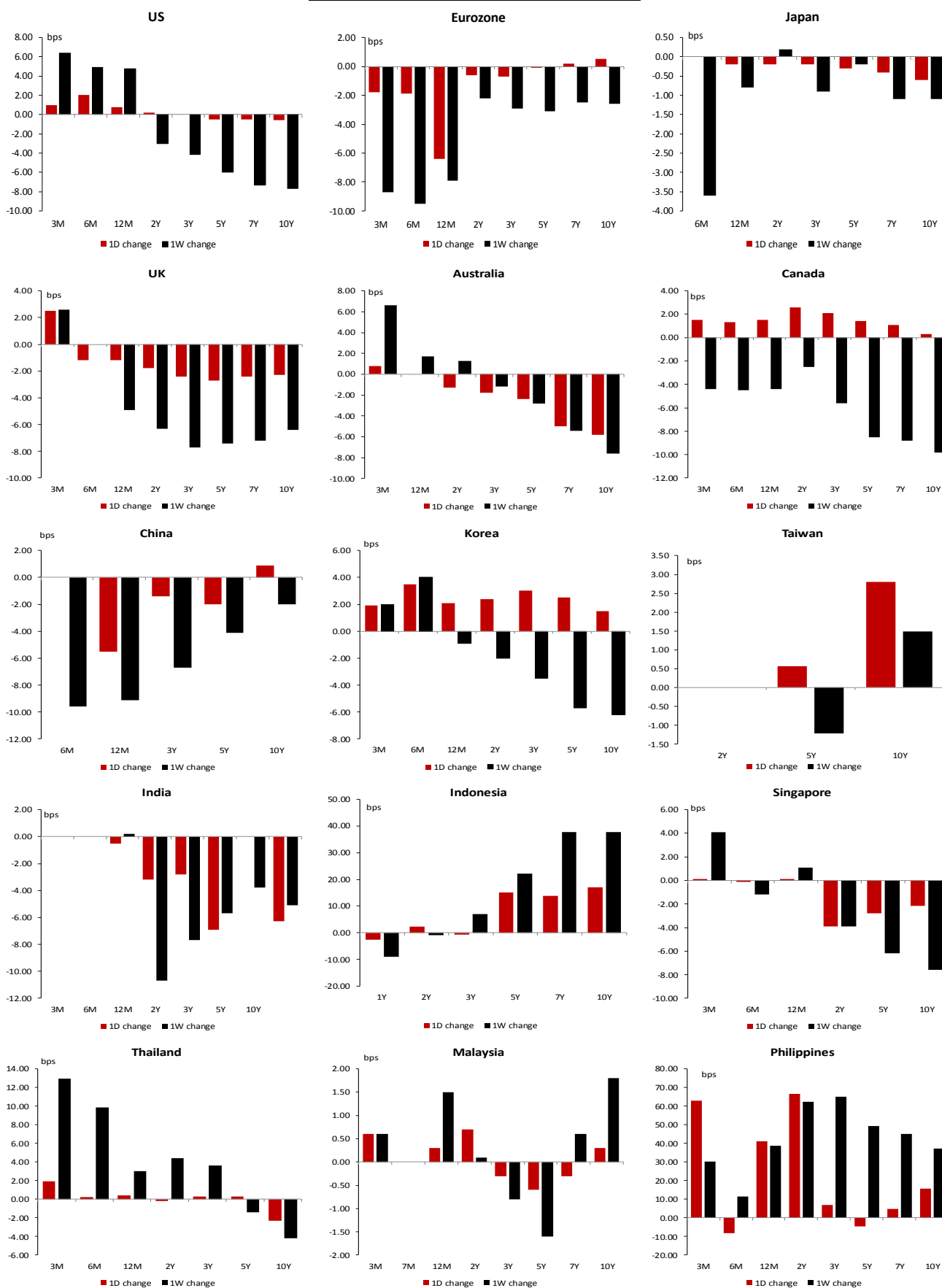
**G10 FX Heat Map**

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	
	<b>TACTICAL</b>							
1	11-Sep-18		B	GBP-USD	1.3056	1.3325 1.2920	Positoning ahead of BOE MPC and positivty from Brexit news flow	
	<b>STRUCTURAL</b>							
	-		-	-	-	-	-	-
	<b>RECENTLY CLOSED TRADE IDEAS</b>							
	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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