

Wednesday, October 17, 2018

FX Themes/Strategy/Trading Ideas

- The greenback stuttered lower as investor sentiment stabilized (positive EZ/US equities) with the JPY and CHF also underperforming across G10 space. **Overall, little significant catalysts were detected apart from bottom fishing as investors gathered their wits after the recent negativity.** On the risk appetite front, the **FX Sentiment Index (FXSI)** softened again within Risk-Neutral territory on Tuesday.
- Note however that **EUR-USD** failed to lift significantly despite some (slight) Italian positivity and the narrowing Italian-bund spread.
- Meanwhile, the **GBP-USD** popped briefly above 1.3200 following warmer than expected August wage data, despite still hostile Brexit rhetoric from the EU camp. Note however that investors on this front are not letting up in terms of caution with respect to the **GBP** (read: vulnerability), a notable and we think justified posture given the potential cliff that is Brexit.
- With risk appetite levels having recovered slightly, the **AUD-USD** may remain supported despite mixed signals (RBA minutes highlighted the supportive growth impetus from the softer AUD but the RBA's DeBelle noted that the unemployment rate may fall faster than expected).
- **The DXY continues to mull its 95.00 support after another brief foray below on Tuesday, perhaps giving remnant dollar bulls a finger-hold to cling onto. Nevertheless, the buck may potentially remain on the losing end regardless of risk appetite fluctuations.** Look for the FOMC minutes (1800 GMT) may potentially impart additional positive impetus for the dollar. Going forward, we may need to see another leg higher in UST yields for the dollar to pull out of its recent malaise.
- In the interim, despite a plethora of headline risks in the near term, markets remain less than excitable with vol premia continuing to compress as realized vols underperform (including for CNH and INR) with associated riskies also leaning away from the USD.

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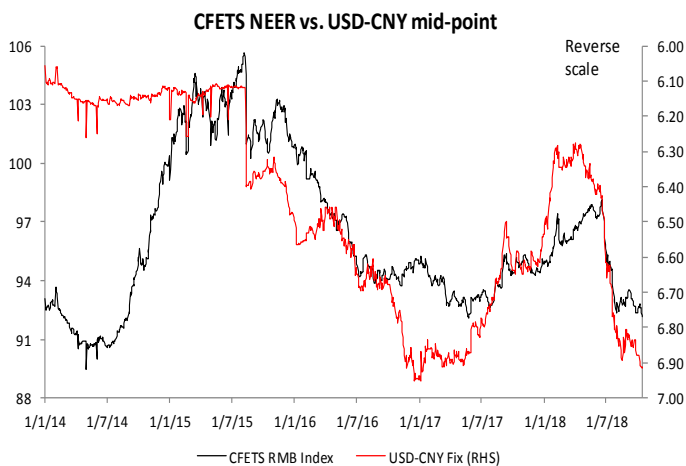
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Asian FX

- EM FX clawed higher overnight in tandem with global and EM equities and this may be expected to keep USD-Asia suppressed into today’s session.
- In terms of **Asia net portfolio flows**, apart from a slight uptick in inflow momentum for South Korea, and a compression of outflow momentum in Indonesia, the rest of EM Asia has continued to see deterioration in the flow picture. At this juncture, the equity outflow momentum, on aggregate terms, is worsening towards historically extended levels, with no imminent signs of a turn in sight.
- **SGD NEER**: The SGD NEER stood at +1.25% above its perceived parity (1.3917) this morning, easing from a high of +1.33% seen yesterday. The NEER-implied USD-SGD thresholds were effectively static. Expect the pair to trade with a heavy tone alongside the vulnerable dollar intra-day, though some initial support may be had at the 50-day MA level (1.3726).
- **CFETS RMB Index**: The USD-CNY mid-point this morning came in lower at 6.9103, compared to 6.9119 previously. The corresponding CFETS RMB Index stood marginally above the 92.00 floor, coming in at 92.06, compared to 92.15 previously. We continue to keep a close watch on the CFETS RMB Index. A morning fix that come in below 92.00 would indicate the demise of the “floor” at that level. That may herald further downside extensions for CFETS RMB Index.



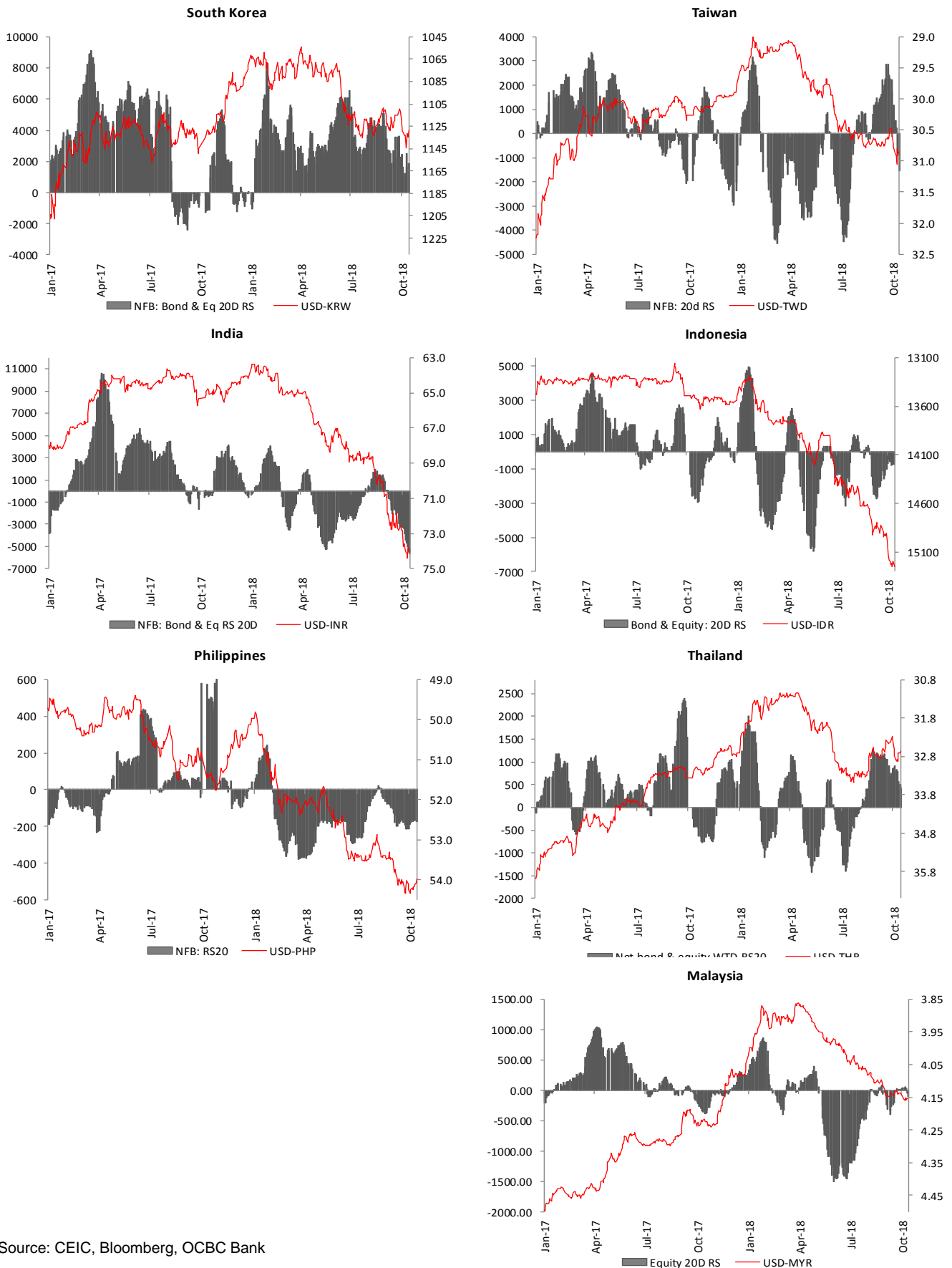
Source: OCBC Bank, Bloomberg

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. Latest CPI/PPI prints do not portend heightened price pressures (especially core), with curves still seen suppressed.
USD-KRW	↔/↓	Markets are imputing a slightly hawkish tint at this Thursday's BOK meeting (NDIRS curve has firmed), 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	↔/↓	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) curve has steepened from the back-end but may be over reaching given still mild inflation prospects. >>>
USD-INR	↔/↓	INR (and bonds) may find some near term reprieve from import curbs with friendlier crude, 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 stays supported.
USD-MYR	↔/↓	Government reveals intent to plug its fiscal deficit via new taxes. BNM static in September.
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 in 2019.
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. Onshore/offshore curves are steady to a touch easier in tandem with the majors.
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.

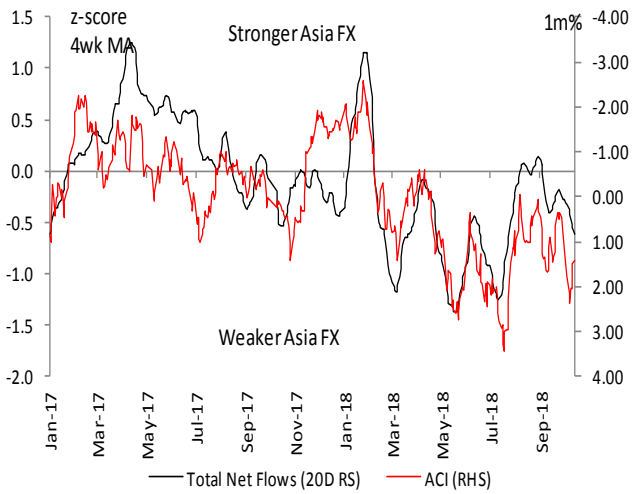
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



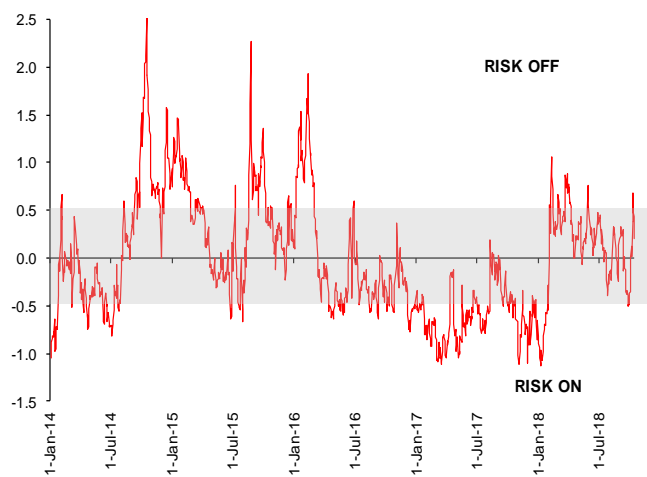
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1	0.723	0.853	-0.244	-0.47	0.79	0.498	0.752	0.321	0.49	0.748	-0.988
SGD	0.922	0.813	0.913	-0.508	-0.686	0.869	0.295	0.637	0.555	0.638	0.854	-0.939
CHF	0.877	0.843	0.864	-0.478	-0.702	0.712	0.145	0.509	0.567	0.701	0.789	-0.907
IDR	0.853	0.871	1	-0.64	-0.76	0.898	-0.001	0.651	0.695	0.687	0.973	-0.867
CNH	0.752	0.858	0.866	-0.643	-0.833	0.746	-0.037	0.42	0.741	0.765	0.813	-0.796
MYR	0.751	0.866	0.918	-0.709	-0.885	0.797	-0.013	0.403	0.759	0.798	0.853	-0.803
THB	0.748	0.71	0.973	-0.586	-0.709	0.764	0.007	0.431	0.622	0.675	1	-0.784
JPY	0.723	1	0.871	-0.415	-0.658	0.815	0.238	0.568	0.491	0.529	0.71	-0.746
CAD	0.573	0.714	0.802	-0.763	-0.899	0.515	-0.335	0.078	0.788	0.901	0.718	-0.655
INR	0.498	0.238	-0.001	0.574	0.413	0.432	1	0.825	-0.507	-0.455	0.007	-0.376
KRW	0.487	0.69	0.819	-0.615	-0.776	0.362	-0.3	0.059	0.697	0.761	0.672	-0.54
USGG10	0.323	0.645	0.576	-0.795	-0.881	0.356	-0.471	-0.132	0.836	0.843	0.487	-0.44
TWD	0.204	0.255	0.268	0.147	0.087	0.28	0.405	0.403	-0.03	-0.166	0.211	-0.132
CNY	0.164	0.531	0.533	-0.749	-0.859	0.213	-0.577	-0.255	0.799	0.807	0.37	-0.27
PHP	-0.173	0	0.379	-0.56	-0.385	-0.29	-0.613	-0.57	0.578	0.391	0.233	0.119
NZD	-0.512	-0.062	-0.04	-0.47	-0.353	-0.375	-0.803	-0.665	0.465	0.302	-0.06	0.404
AUD	-0.847	-0.823	-0.827	0.479	0.679	-0.623	-0.143	-0.444	-0.575	-0.696	-0.734	0.863
GBP	-0.856	-0.83	-0.9	0.535	0.723	-0.706	-0.139	-0.458	-0.615	-0.692	-0.82	0.884
EUR	-0.988	-0.746	-0.867	0.342	0.565	-0.796	-0.376	-0.688	-0.405	-0.582	-0.784	1

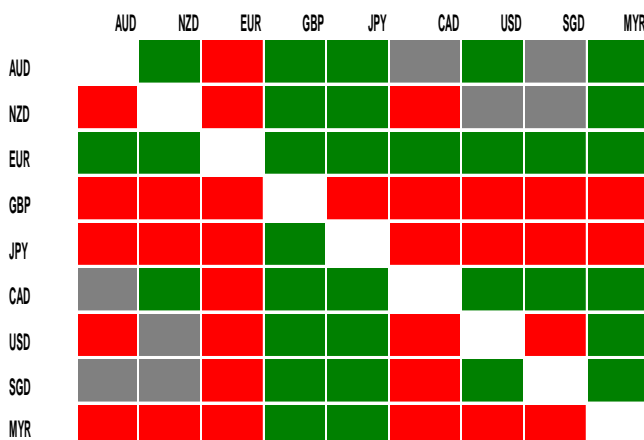
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1432	1.1500	1.1564	1.1585	1.1600
GBP-USD	1.2996	1.3100	1.3177	1.3200	1.3282
AUD-USD	0.7041	0.7100	0.7136	0.7200	0.7214
NZD-USD	0.6425	0.6500	0.6586	0.6591	0.6600
USD-CAD	1.2895	1.2900	1.2950	1.3000	1.3014
USD-JPY	111.90	112.00	112.40	113.00	114.43
USD-SGD	1.3700	1.3727	1.3749	1.3800	1.3873
EUR-SGD	1.5850	1.5870	1.5900	1.5950	1.5998
JPY-SGD	1.2003	1.2200	1.2232	1.2237	1.2266
GBP-SGD	1.8100	1.8107	1.8117	1.8200	1.8298
AUD-SGD	0.9737	0.9800	0.9811	0.9900	0.9902
Gold	1198.96	1200.00	1227.30	1227.31	1232.30
Silver	14.52	14.60	14.63	14.70	14.85
Crude	70.10	72.00	72.03	72.10	76.28

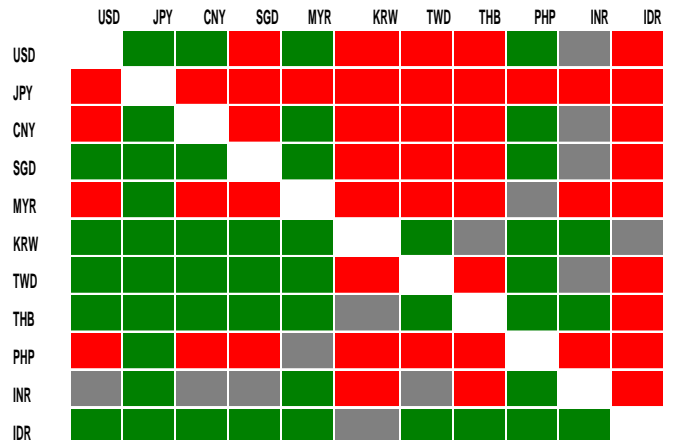
Source: OCBC Bank

G10 FX Heat Map



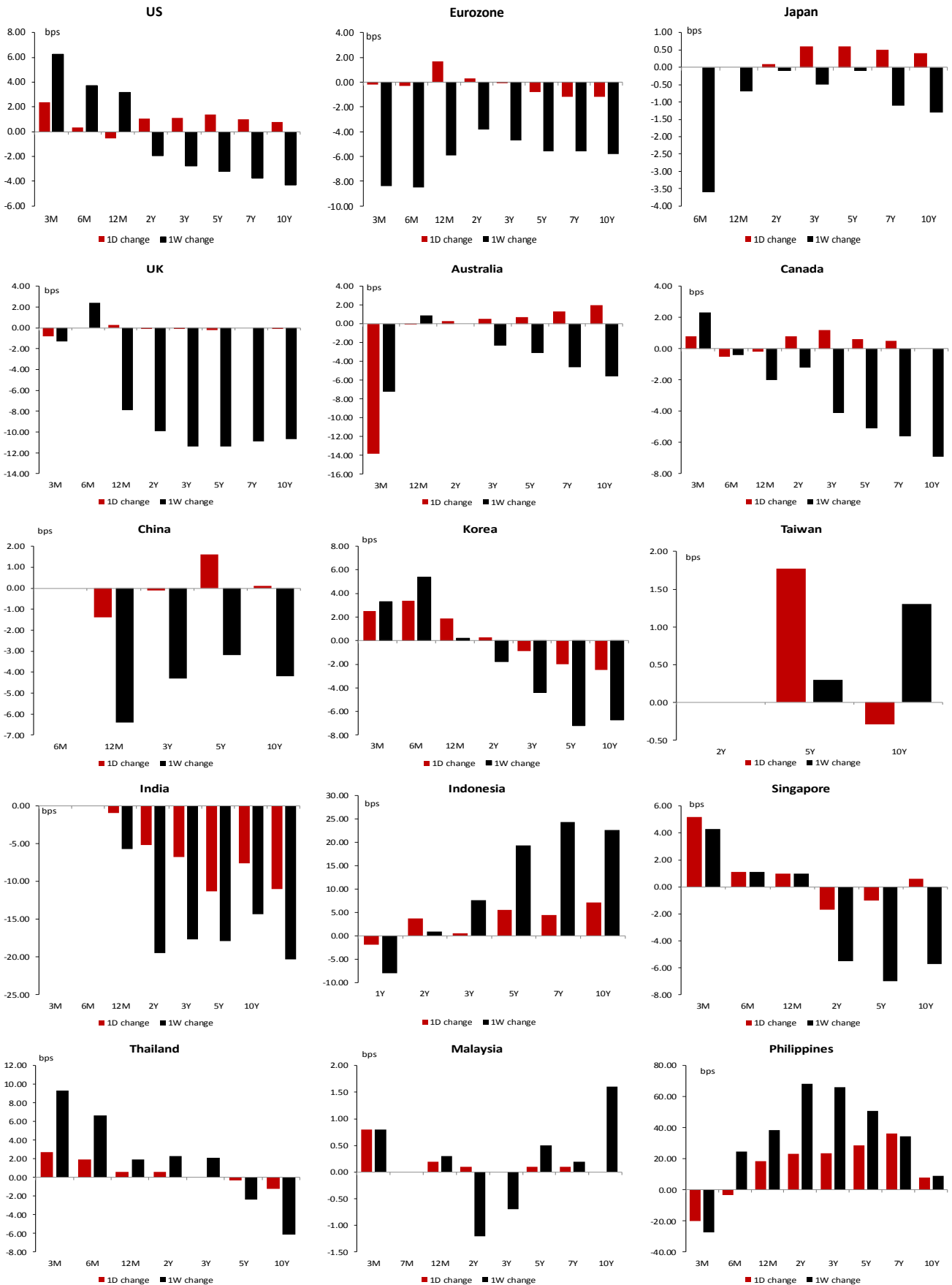
Source: OCBC Bank

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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