

Monday, November 19, 2018

FX Themes/Strategy/Trading Ideas –The week ahead

- The majors left the USD behind on Friday with cautionary comments from the Fed's vice chair Clarida and Kaplan outweighing the relatively more bullish rhetoric from the Fed's Evans. Softer UST yields (bull steepened) on Friday and this underscores the weakened rate differential underpinnings for the USD for much of the month to date.
- **CFTC** data showed synchronicity in positioning in the latest week. Large non-commercial accounts pared their net implied long dollar bias in the latest week while asset manager accounts increased their net short dollar bias. Meanwhile, leveraged accounts also reduced their net long dollar bias in aggregate. Note also the net short positioning for the antipodean currencies has been pared considerably. Both asset managers and leveraged accounts reduced their net AUD shorts. In the NZD space, although the leverage accounts largely maintained their level of short positioning, asset managers have reduced their short positioning to close to neutral levels.
- The **FXSI (FX Sentiment Index)** continued to inch higher on Friday within **Risk-Off** territory, with the Index significantly higher on the week as EM risk premia widened.
- On this front, we continue to have no shortage of potential fuses, ranging from the pointed comments from US VP Pence with respect to China to Italian fiscal risks to Brexit news flow (leadership challenge against PM May, parliamentary approval for draft Brexit agreement still pending). Amidst a holiday shortened week (Thanksgiving on Thursday), investors, apart from trading off idiosyncratic factors, will attempt to strike a balance between a soggy greenback and the potential for a further souring of risk appetite levels. **Overall, expect some scope for the DXY to consolidate lower towards the 96.00 floor in the near term.**
- **Tactically, apart from a slightly weaker constitution for the USD, we'd remain heavy on a cross like the GBP-AUD given contrasting dynamics, while a whiff of investor caution at the onset of the week may keep the JPY-cross suppressed.**
- In the US, expect to hear from the Fed's Williams (1545 GMT). UMich sentiments (Wed) and preliminary Nov PMIs (Fri) are the data highlights. Elsewhere, Kuroda is scheduled today (0330 GMT), and a series of ECB and RBA speakers peppered throughout the week. In particular, also watch the BOE's Carney, Haldane and others in a parliamentary testimony (Tue).

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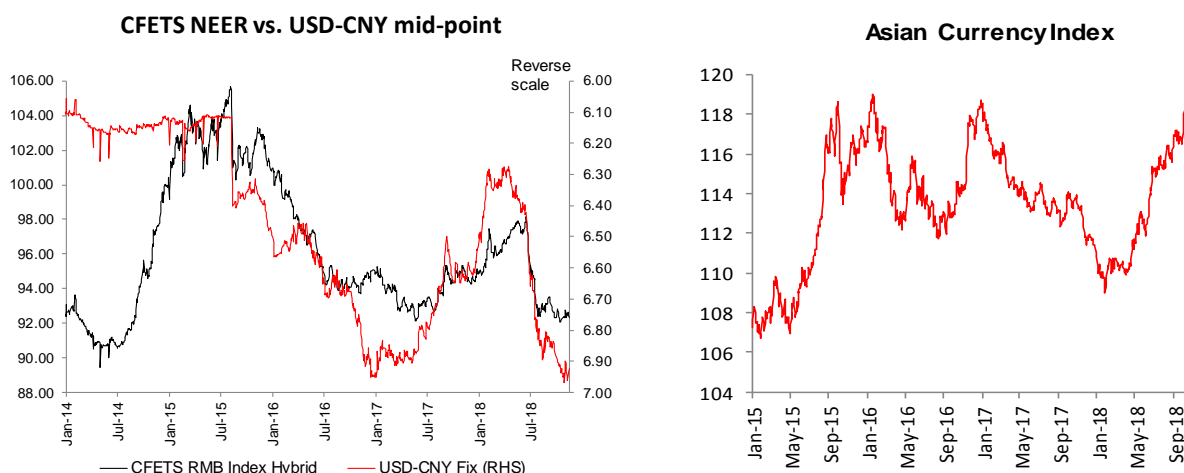
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Asian FX

- Asian FX may feed on USD vulnerability at the onset of the week but this may be countered somewhat by the recent less than encouraging data flow out of the region lower than expected 3Q GDP readings out of Malaysia and Thailand).
- Meanwhile, **actual net portfolio flows within Asia** indicate a slight uptick in net inflows for South Korea but the overall flow balance is essentially neutral to a small positive. Net outflows for Taiwan and India have compressed nicely while net inflows for Indonesia remain at significantly positive levels. Elsewhere, Thailand is also experiencing an attempted pick up in net inflows.
- EPFR numbers may however warrant further caution ahead.** Implied net equity inflows into Asia (excl. JP, CN) dropped sharply in the latest week while net bond outflows in Asia also deepened. On a more aggregated basis, note that implied net equity inflows into EM (emerging markets) moderated in the latest week, while net implied bond outflows from EM also increased slightly.
- SGD NEER:** The SGD NEER softened to +1.38% above its perceived parity (1.3927). NEER-implied USD-SGD thresholds continued to soften in line with the broad dollar. Singapore NODX came in stronger than expected on Friday. Risk factors aside, stay top heavy on the pair between the 55-day MA (1.3760) and 1.3700.
- CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set lower, ny more than expected, at 6.9245 compared to 6.9377 on Friday. Despite the lower fix, the CFETS RMB Index eased further to 92.31 from 92.48 previously.



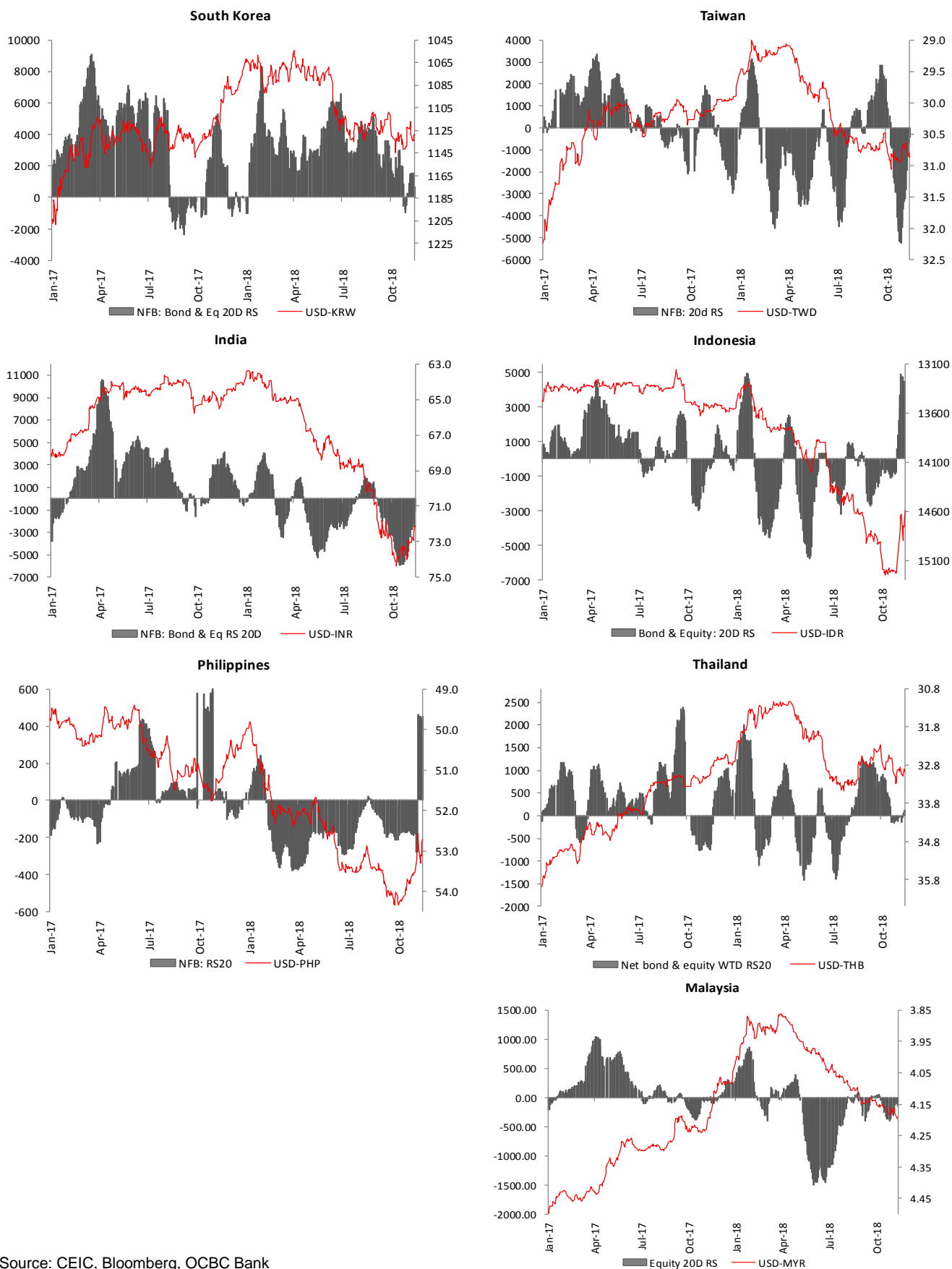
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

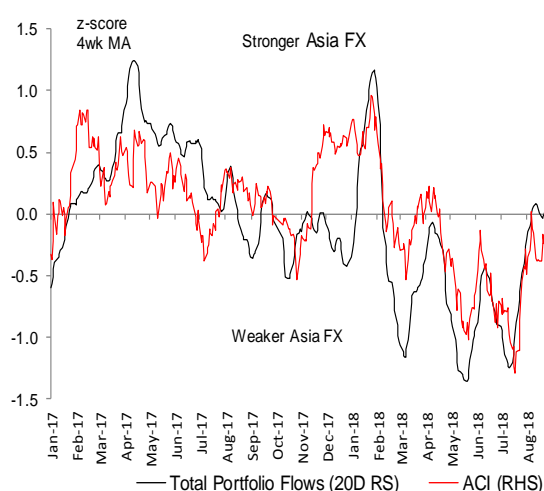
Currency	Bias	Rationale
USD-CNH	↔	3Q GDP numbers “disappointed”. PBOC’s quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. PBOC states that the 7.00 level for USD-CNY “isn’t that crucial”. October CPI/PPI prints remain subdued, with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not pretend aggressive monetary stimulus. October official PMIs disappoint, Caixin manufacturing PMI static, Oct trade and industrial production numbers outperformed, while retail sales underperformed. Govie and NDIRS yields remain soggy.
USD-KRW	↔	BOK remained static as expected in October with the official economic prognosis downgraded as expected. 3Q GDP and Sep industrial production readings came in lower than expected. BOK governor notes that further cuts are not appropriate and the Bank will consider a hike in November. His latest comments however seem to suggest some wavering from his previous hawkishness. With the global economic prognosis wavering, govie and NDIRS yields softening on the week, led by the back-end.
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 CBRC members looking towards policy normalization to afford the authority eventual downside wiggle room. Rate environment softening in line with the North Asian complex.
USD-INR	↔/↓	Bonds may find some near term reprieve from import curbs, lower crude, and friendlier CPI and trade deficit readings. Watch for the next RBI board meeting on 19 th Nov 18 for further resolution of the tiff between the RBI and the government, with RBI independence possibly at stake. In the interim, curves (govie and NDIRS yields lower on the week, led by the belly) remain softer. Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance and putting rate cuts back on the table.
USD-SGD	↔	MAS steepens the NEER’s slope again in October. NEER may remain afloat above +1.00% if risk appetite stays supported. Govie and IRS curves continue to take cues from offshore, local govies should continue to outperform their US counterparts.
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. Sep CPI readings significantly softer than expected. BNM static in November, highlighting the drag from the fiscal front. A frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in) will be expected to exert implicit downside pressure on the MYR and govies.
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds. Govie and NDIRS yields may consolidate in the near term after the recent softening. BI unexpectedly hiked in its Nov meeting, in what is possibly a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path. New moves to ease foreign investment rules and tighten export revenue repatriation rules to shore up CA.
USD-THB	↔	BOT MPC members mulling a policy normalization timetable. BOT unchanged at Nov MPC, but saw 3 dissenters in favour of rate hike. Voting pattern appears to suggest that members are inclined to a hike in Dec hike, rather than Feb. However, softer-than-expected 3Q GDP may put pressure on this accelerated timeline. Nevertheless, any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Govie and NDIRS yields to find near term support on the BOT MPC.
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. 3Q GDP prints below expectation on slower consumer spending.

Source: OCBC Bank

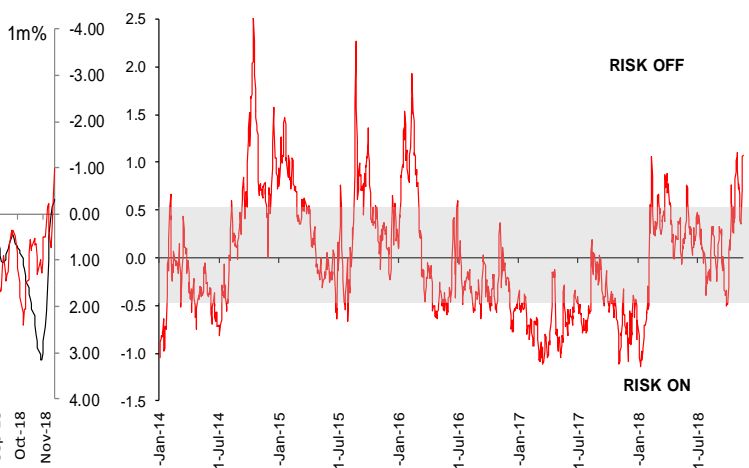
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1	-0.138	0.581	-0.198	-0.164	-0.657	0.494	-0.404	0.103	0.157	0.54	-0.961
SGD	0.804	0.244	0.261	0.163	0.219	-0.754	0.778	-0.539	-0.288	-0.221	0.2	-0.852
CHF	0.722	0.004	0.388	0.154	0.223	-0.809	0.708	-0.753	-0.32	-0.024	0.224	-0.769
IDR	0.611	-0.567	0.511	-0.269	-0.187	-0.734	0.255	-0.666	0.073	0.493	0.26	-0.612
CNH	0.583	-0.507	0.677	-0.557	-0.697	-0.19	-0.12	0.042	0.46	0.414	0.704	-0.518
MYR	0.581	-0.445	1	-0.382	-0.596	-0.131	-0.039	0.078	0.401	0.358	0.92	-0.535
THB	0.54	-0.316	0.92	-0.491	-0.737	0.062	-0.144	0.309	0.559	0.257	1	-0.498
JPY	0.525	-0.23	0.808	-0.622	-0.715	0.202	-0.221	0.472	0.659	0.255	0.88	-0.493
CAD	0.494	0.575	-0.039	0.638	0.651	-0.748	1	-0.667	-0.692	-0.461	-0.144	-0.535
INR	0.212	-0.596	0.629	-0.725	-0.879	0.225	-0.564	0.413	0.721	0.555	0.682	-0.201
KRW	0.131	0.056	-0.298	0.572	0.69	-0.807	0.638	-0.93	-0.725	-0.084	-0.506	-0.163
USGG10	0.087	-0.76	0.637	-0.736	-0.851	0.333	-0.688	0.444	0.764	0.653	0.654	-0.046
TWD	0.022	0.117	-0.44	0.638	0.718	-0.722	0.592	-0.861	-0.778	-0.169	-0.616	-0.043
CNY	-0.138	1	-0.445	0.761	0.709	0.04	0.575	0.072	-0.637	-0.876	-0.316	0.074
PHP	-0.183	-0.167	0.414	-0.557	-0.747	0.744	-0.663	0.874	0.727	0.243	0.579	0.238
NZD	-0.187	-0.372	0.273	-0.685	-0.713	0.74	-0.795	0.841	0.779	0.259	0.407	0.241
AUD	-0.205	-0.283	0.383	-0.6	-0.678	0.772	-0.753	0.835	0.753	0.216	0.497	0.233
GBP	-0.232	0.065	0.323	-0.302	-0.558	0.708	-0.553	0.842	0.495	-0.231	0.485	0.258
EUR	-0.451	0.741	-0.625	0.692	0.693	-0.005	0.395	-0.148	-0.633	-0.772	-0.596	0.335
	-0.961	0.074	-0.535	0.173	0.12	0.663	-0.535	0.43	-0.073	-0.066	-0.498	1

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1256	1.1400	1.1410	1.1484	1.1500
GBP-USD	1.2696	1.2800	1.2837	1.2900	1.3027
AUD-USD	0.7172	0.7300	0.7319	0.7338	0.7361
NZD-USD	0.6610	0.6800	0.6864	0.6884	0.6889
USD-CAD	1.3044	1.3100	1.3159	1.3200	1.3253
USD-JPY	111.88	112.00	112.67	112.85	113.00
USD-SGD	1.3700	1.3701	1.3735	1.3759	1.3800
EUR-SGD	1.5541	1.5600	1.5672	1.5700	1.5803
JPY-SGD	1.2045	1.2100	1.2191	1.2192	1.2200
GBP-SGD	1.7529	1.7600	1.7631	1.7700	1.7923
AUD-SGD	0.9950	1.0000	1.0052	1.0075	1.0100
Gold	1202.32	1211.41	1222.40	1239.30	1243.28
Silver	13.95	14.30	14.38	14.40	14.43
Crude	54.75	57.20	57.23	57.30	67.14

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		1	1	1	2	2	2	2	2
NZD			1	1	2	2	2	2	2
EUR	1	1		9	1	2	1	1	1
GBP	1	1			1	2	1	1	1
JPY	2	2	1	1		1	9	1	9
CAD	2	2	2	2	1		2	1	1
USD	2	2	1	1	9	2		1	2
SGD	2	2	1	1	1	1	1		2
MYR	2	2	1	1	9	1	2	2	

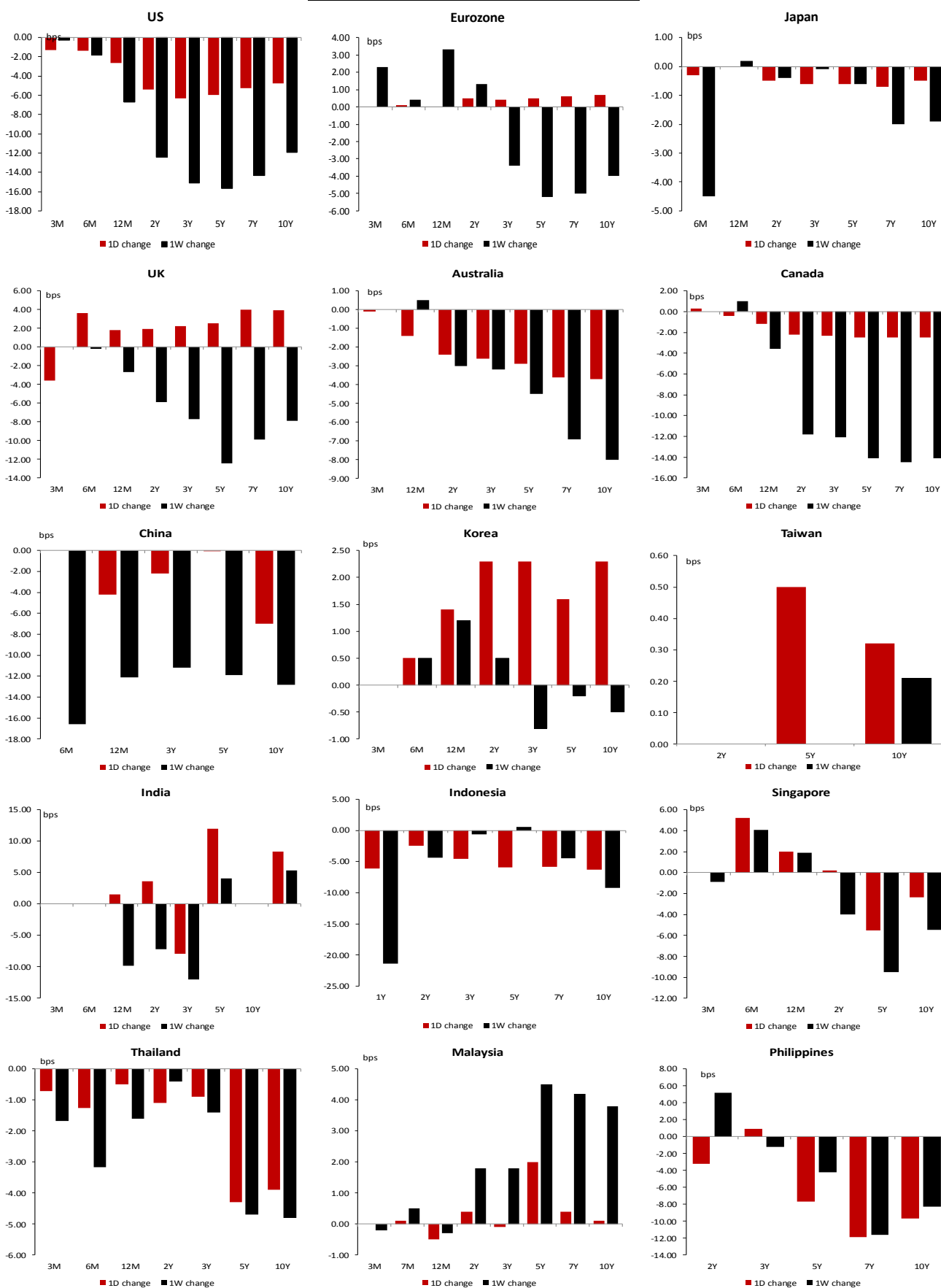
Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		9	1	1	2	1	1	2	1	1	1
JPY			2	1	9	1	2	2	1	1	1
CNY	1	2		9	1	1	2	2	1	1	1
SGD	1	1	9		2	1	9	2	1	1	1
MYR	2	9	1	2		1	1	2	1	1	1
KRW	1	1	1	1	1		1	1	2	2	1
TWD	1	2	2	9	1	1		2	1	1	1
THB	2	2	2	2	2	1	2		1	1	1
PHP	1	1	1	1	1	2	1	1		1	1
INR	1	1	1	1	1	2	1	1	1		1
IDR	1	1	1	1	1	1	1	1	1	1	

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		
2	09-Nov-18	B	USD-JPY	113.88	115.55 113.00	Rate differential support for the USD, epecially post-FOMC		
	STRUCTURAL							
	-	-	-	-	-	-		
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	11-Sep-18	24-Oct-18	B	GBP-USD	1.3056	1.2920	Positoning ahed of BOE MPC and positivty from Brexit news flow	-1.04
2	22-Oct-18	01-Nov-18	S	EUR-USD	1.1520	1.1420	Italian fiscal risks, ECB unlikely to surprise on the hawkish front	+0.87
3	30-Oct-18	02-Nov-18	B	USD-SGD	1.3840	1.3750	Resilient DXY, fragile risk appetite, proxy CNH trade	-0.65
4	08-Nov-18	12-Nov-18	B	AUD-USD	0.7286	0.7200	Improving risk appetite post US midterms	-1.18
5	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
* realized, excl carry								

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