DAILY MARKET OUTLOOK

OCBC Bank

Friday, October 19, 2018

FX Themes/Strategy/Trading Ideas

- US equities (especially tech) tanked again overnight and resulting risk aversion boosted the greenback (and JPY) across the board. US Treasuries (initially tracking bunds) caught a bid on safe haven flows with the 10y yield down below 3.18% while crude (WTI) retraced below 69.00 with commodities (except XAU and iron ore) at large also slipping.

- In addition, prevailing static surrounding Saudi Arabia (US Treasury Secretary Mnuchin has canceled his attendance at an investment conference in Riyadh next week) also diluted risk appetite.

- The **EUR-USD** meanwhile was also weighed after the European Commission stated that the Italian budget draft indicated a "particularly serious non-compliance" with the Stability and Growth Pact (of the EMU). The 10y Italian-bund spread widened further (unfortunately, bund yields also tracked USTs) and Rome has until next Monday to respond.

- The **DXY** has continued to recover this week, first from the afterglow of the FOMC minutes and then on the back of risk aversion on Thursday. This underscores our prevailing preference to side with the greenback in the near term, and beyond 96.00, look towards 96.16 and then 96.359.

- Overall, stay heavy on the **EUR-USD** on Italian fiscal risks, while the likes of the **AUD** may remain vulnerable on a host of factors including weak global equities, dimmer global economic prognosis, and generalized risk aversion. By extension, expect the **JPY-crosses** to remain suitably top heavy if risk appetite continues to curdle.

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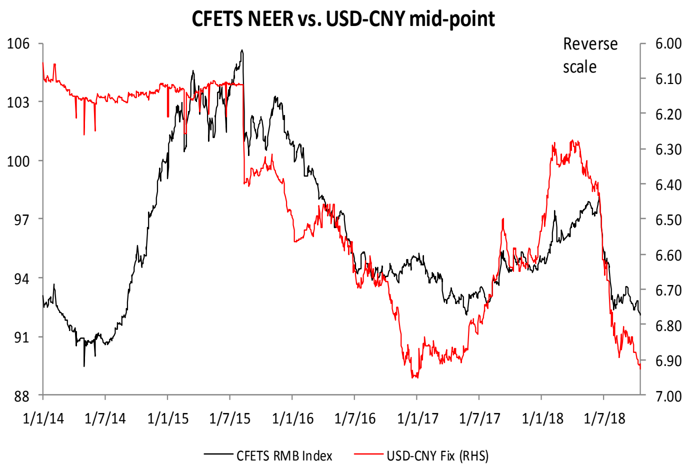
Asian FX

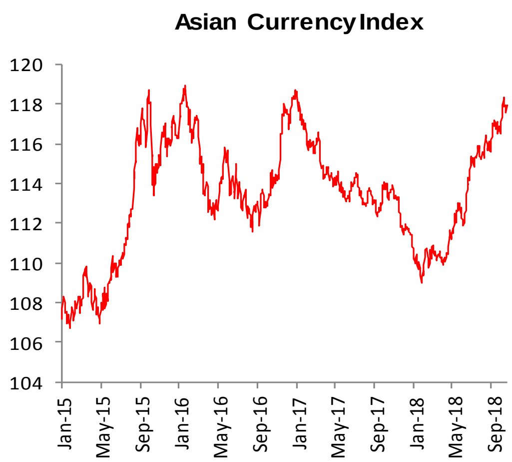
- USD-CNH rose above 6.9400 but continued to be repelled from the 6.9500 ceiling overnight in the face of the broad dollar's climb. Note that slightly more pointed language with respect to **China** in this week's US Treasury's semi-annual report has also fueled speculation that the authorities would continue to be more amenable to a slightly softer profile for the renminbi complex. China's 3Q GDP numbers are due this morning may continue to be a source of headline risk.

- In the Asian session therefore, expect investor jitters to remain apparent (especially if China shares slump for a 2nd consecutive session). While regional FX are expected to be shaky with respect to the USD and the **ACI (Asian Currency Index)** to climb, expect selected Asian curves (China, South Korea, India) to continue to thaw (softer yields).

- **SGD NEER**: After falling to the +1.00% level late Thursday, the SGD NEER has rebounded since and is a touch softer at 1.18% above its perceived parity this morning. NEER-implied USD-SGD thresholds higher in tandem with the USD complex. Into the end of the week, look to bounce any dips within 1.3780-1.3840.

- **CFETS RMB Index**: This morning, the **USD-CNY** mid-point came in lower than again at 6.9387 from 6.9275 on Thursday. With the CCF obviously in play again, this saw the CFET RMB Index firming slightly to 92.15 from 92.10 yesterday.





Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↑	Core veiw 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. Latest aggregate financing numbers, after adjusting for the new methodology, do not protend aggressive monetary stimulus.
USD-KRW	↔/↑	BOK remained static in October with the official economic prognosis downgraded as expected.In addition, no official urgency for a Novemebr hike was noted. Curves are nevertheless softer on the week in tandem with G3 counterparts.
USD-TWD	↔	CBC remained static at its policy meeting in Spetember and is expected to remain so into 2019. Govie (and NDIRS) curve has steepend 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	↔	The mid-term review of the 11th Malaysia Plan saw gowth forecasts downgraded and with the previous plan to achieve a balnce budget by 2020 scuppered, replaced by an projected -3.0% deficit. Wach for the bidget announcemtn in November. 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

FX Trade Recommendations

	Inception	Close	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale	P/L (%)*
	TACTICAL								
1	11-Sep-18		B	GBP-USD	1.3056	1.3325	1.2920	Positoning ahed of BOE MPC and positivty 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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