

Monday, October 22, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite still shaky EZ/US equities and firmer UST yields, the dollar retreated against the majors on Friday with the EUR and GBP firming as Brexit tensions eased. On this front, the EU's Barnier noted that a deal was 90% done, while another report (not officially validated) indicated that PM May was willing to make a concession on the regards to the Irish border.
- Elsewhere, the CAD however weakened after softer than expected Aug retail sales numbers and Sep CPI readings. The **Bank of Canada** is still expected to hike 25bps on Wednesday but perhaps tone down its inflation rhetoric.
- Going ahead, **Italian** budget concerns (and Brexit-related static) may remain on the deck despite Moody's only cutting Italy's credit rating by 1 notch on Friday. The European Economic Affairs Commissioner Moscovici attempted to soothe tensions on Friday but Rome's response to the EU today while S&P's verdict on Italy (expected on Friday) remain potential flashpoints this week.
- Apart from the plethora of Fed speak this week, the **ECB policy meeting** on Thursday may also be pivotal, with markets looking to Draghi for further clarity (especially with respect to the core inflation outlook).
- The **FX Sentiment Index (FXSI)** consolidated lower within Risk-Neutral territory on Friday still managed to track lower within Risk-Neutral territory but note that the Index is softer on the week (i.e., increased caution).
- On the **CFTC** front, large non-commercial accounts pared their net implied long dollar bias in aggregate in the latest week while asset manager accounts increased their net short dollar balance. Meanwhile, leveraged accounts also reduced their net long dollar bias in the latest week. Leveraged net JPY shorts were also pared by leveraged accounts but this was eventually met with a firmer USD-JPY into the latter part of the week.
- **Despite the positioning data above, expect investors to continue to favor the USD on dips as inherent and underlying risks from multiple fronts continue to circulate.** In addition, with the global macro outlook continuing to be called into question (China 3Q GDP numbers a latest reminder), expect the cyclicals (AUD, NZD, CAD) to bear additional baggage at this juncture.

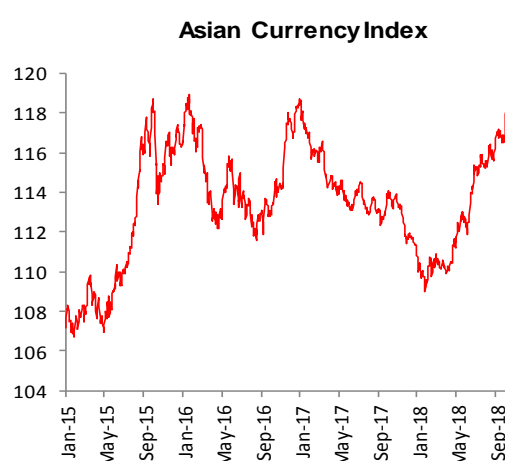
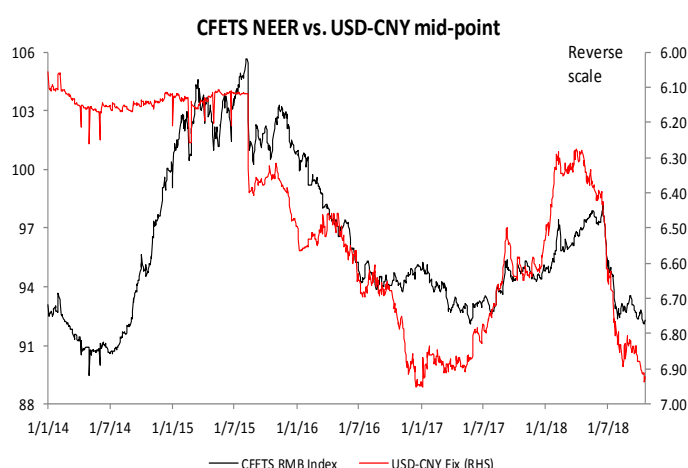
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Asian FX

- Global EM equities managed to end higher on the day on Friday despite disappointing China 3Q GDP headlines (and amid the chorus of supportive official Chinese assurances) earlier in the global day. Outright positivity towards Asia may remain lacking at this juncture.
- The only bright spots in Asia with respect to actual **net portfolio flows** can be found in South Korea and Indonesia. The data denote a pickup in net inflows for South Korea but deepening outflows for Taiwan. Similarly, India continues to suffer from deepening outflows while net outflows for Indonesia continue to compress. Elsewhere, net inflows for Thailand continue to slide on the back of net equity outflows.
- On the EPFR front, implied capital flows into Asia (excl China, Japan) flipped to an inflow in the latest week while net bond outflows out of Asia (excl China, Japan) deepened. **On the latter, net bond outflows are at elevated levels and may continue to leave regional bond markets vulnerable as the foreign bid vanishes.** With regards to **China**, EPFR-implied net equity inflows into China remain at healthy levels while bond inflow appetite has fizzled.
- SGD NEER:** The SGD NEER is a touch firmer at +1.23% above its perceived parity this morning with NEER-implied USD-SGD thresholds softer from Friday. Expect the 55-day MA (1.3727) to offer concrete support on dips, with the upside still governed by 1.3830.
- CFETS RMB Index:** This morning, the **USD-CNY** mid-point printed a largely as expected 6.9236 from 6.9387 last Friday. This saw the CFET RMB Index gaining further to 92.26 from 92.15.



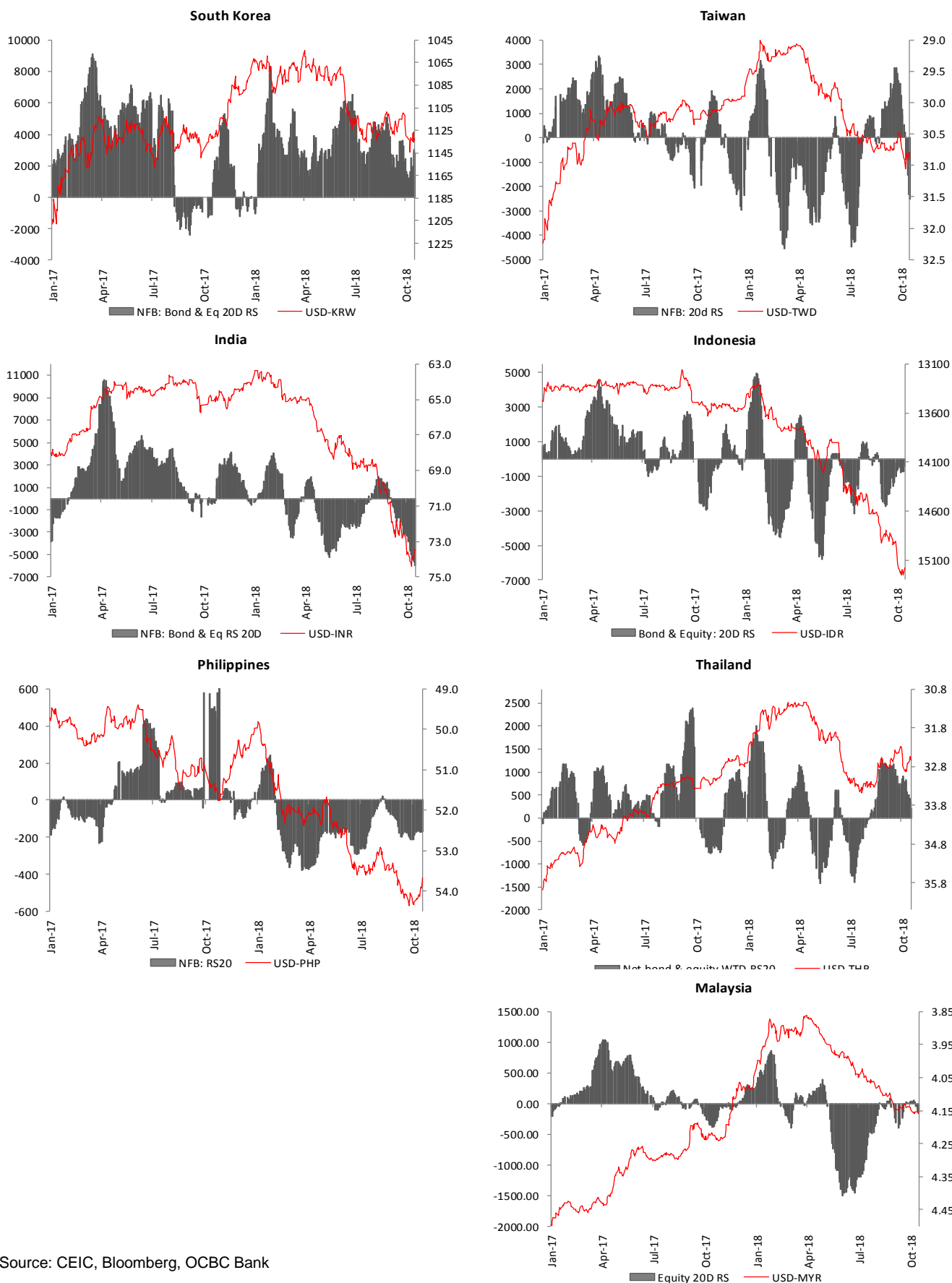
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

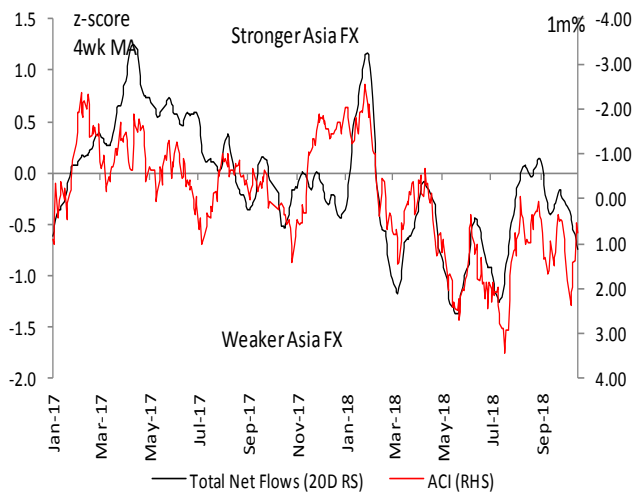
Currency	Bias	Rationale
USD-CNH	↔	3Q GDP numbers “disappointed” but despite expectations of official macro support, markets continue to angle for renminbi weakness and a soft interest rate curve. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. Latest CPI/PPI prints do not portend heightened price pressures (especially core), with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not pretend aggressive monetary stimulus.
USD-KRW	↔/↓	BOK remained static as expected in October with the official economic prognosis downgraded as expected. In addition, no official urgency for a November hike was noted. 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

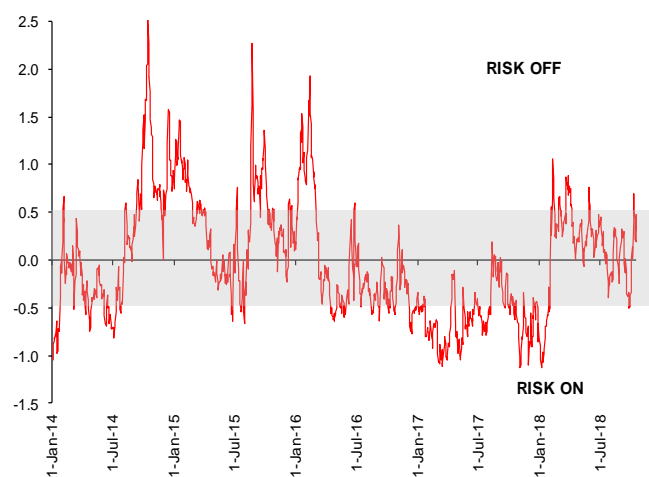
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

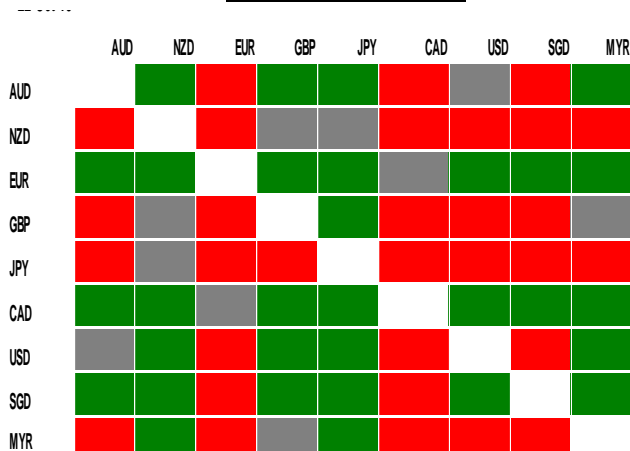
	DX	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1	0.696	0.86	-0.229	-0.45	0.699	0.187	0.094	0.253	0.501	0.67	-0.984
SGD	0.919	0.784	0.87	-0.531	-0.722	0.708	-0.101	-0.117	0.532	0.737	0.775	-0.952
CHF	0.86	0.87	1	-0.569	-0.752	0.726	-0.46	-0.302	0.554	0.775	0.973	-0.889
IDR	0.85	0.893	0.898	-0.442	-0.66	0.742	-0.099	0.061	0.524	0.669	0.713	-0.887
CNH	0.696	1	0.87	-0.43	-0.684	0.668	-0.153	-0.095	0.465	0.639	0.684	-0.736
MYR	0.675	0.849	0.828	-0.708	-0.887	0.666	-0.43	-0.203	0.754	0.863	0.749	-0.746
THB	0.67	0.684	0.973	-0.658	-0.772	0.463	-0.493	-0.479	0.614	0.792	1	-0.724
JPY	0.644	0.824	0.741	-0.574	-0.765	0.741	-0.318	0.12	0.692	0.765	0.647	-0.716
CAD	0.586	0.728	0.834	-0.803	-0.911	0.435	-0.581	-0.436	0.827	0.907	0.81	-0.654
INR	0.473	0.751	0.628	-0.436	-0.566	0.431	-0.293	0.036	0.593	0.564	0.513	-0.519
KRW	0.411	0.739	0.702	-0.781	-0.874	0.356	-0.645	-0.411	0.856	0.855	0.654	-0.488
USGG10	0.408	0.739	0.668	-0.778	-0.875	0.386	-0.619	-0.378	0.846	0.848	0.607	-0.48
TWD	0.187	-0.153	-0.46	0.829	0.703	0.156	1	0.749	-0.793	-0.69	-0.493	-0.076
CNY	0.052	0.278	0.491	-0.687	-0.544	-0.37	-0.709	-0.84	0.668	0.523	0.574	-0.091
PHP	-0.34	-0.299	-0.547	0.593	0.584	0.01	0.464	0.732	-0.437	-0.59	-0.692	0.371
NZD	-0.503	0.044	-0.261	-0.476	-0.368	-0.241	-0.687	-0.306	0.543	0.3	-0.014	0.413
AUD	-0.678	-0.792	-0.644	0.309	0.51	-0.674	-0.019	-0.29	-0.452	-0.509	-0.431	0.713
GBP	-0.814	-0.899	-0.896	0.49	0.683	-0.685	0.129	0.019	-0.566	-0.668	-0.695	0.849
EUR	-0.984	-0.736	-0.889	0.335	0.555	-0.74	-0.076	-0.051	-0.354	-0.594	-0.724	1

Source: Bloomberg

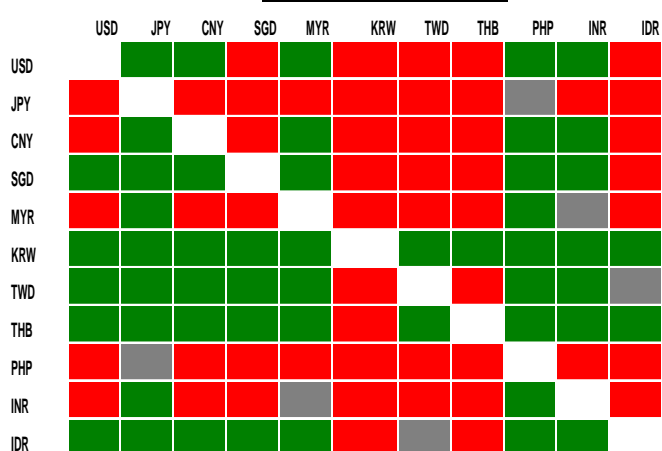
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1432	1.1500	1.1508	1.1584	1.1600
GBP-USD	1.3000	1.3005	1.3064	1.3100	1.3243
AUD-USD	0.7041	0.7100	0.7110	0.7197	0.7200
NZD-USD	0.6500	0.6582	0.6591	0.6600	0.6676
USD-CAD	1.3011	1.3100	1.3101	1.3140	1.3175
USD-JPY	111.98	112.00	112.58	113.00	114.41
USD-SGD	1.3700	1.3725	1.3772	1.3800	1.3873
EUR-SGD	1.5776	1.5800	1.5849	1.5881	1.5900
JPY-SGD	1.2003	1.2200	1.2234	1.2236	1.2254
GBP-SGD	1.7853	1.7900	1.7992	1.8000	1.8091
AUD-SGD	0.9719	0.9737	0.9792	0.9800	0.9879
Gold	1200.00	1200.35	1225.30	1232.30	1235.84
Silver	14.54	14.60	14.68	14.70	14.85
Crude	68.08	69.20	69.25	69.30	69.68

Source: OCBC Bank

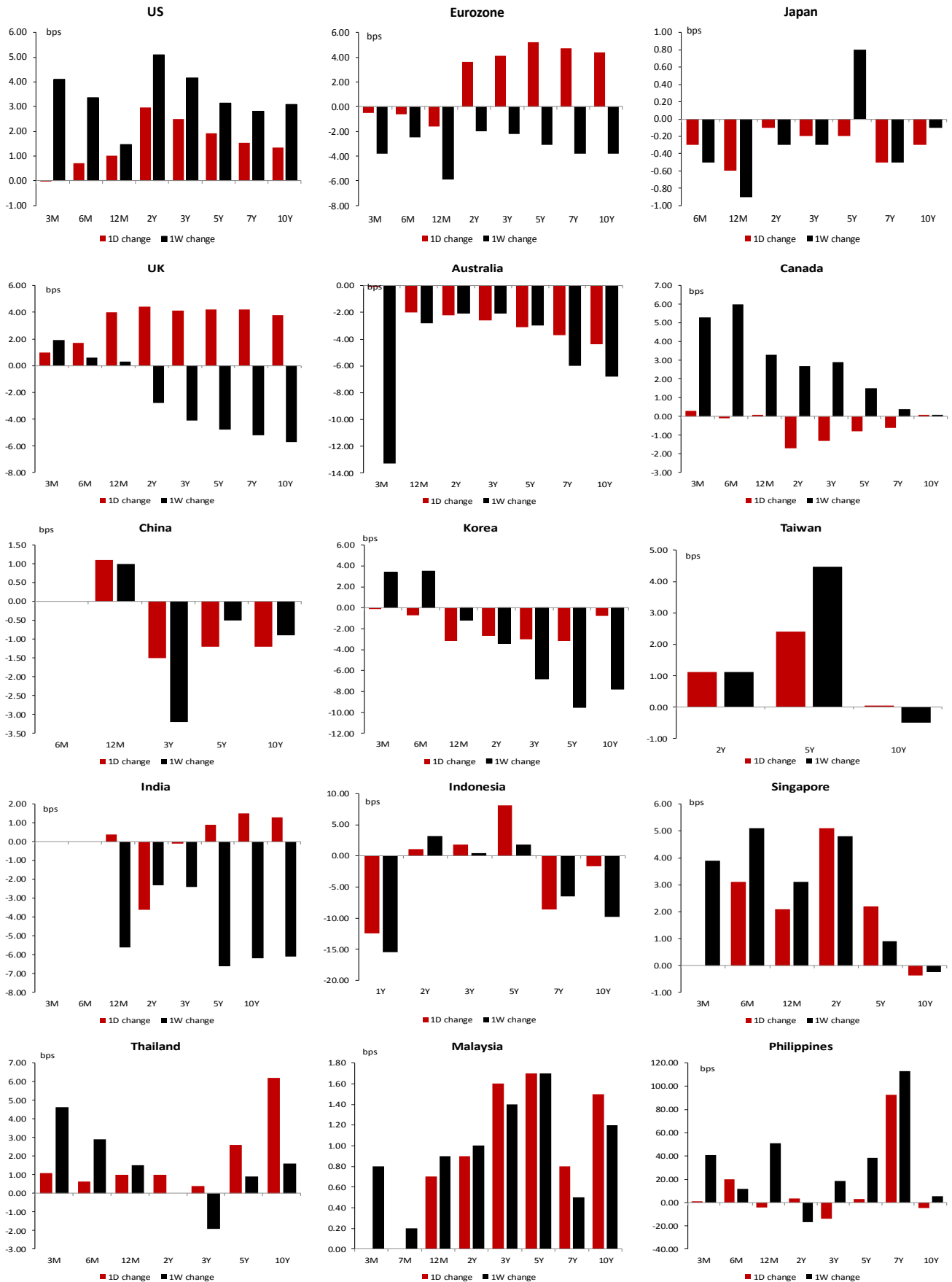
G10 FX Heat Map

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	Positoning ahead 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-18	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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