

Wednesday, October 24, 2018

FX Themes/Strategy/Trading Ideas

- The sea of red in global equities (note US stocks gapped lower at the open but bounced to end lower on the day by the close) kept the JPY underpinned across the board on Tuesday as investor sentiment deteriorated. Meanwhile, the USD traded mixed across G10 space (note positive comments from the Fed's Bostic) with UST yields bouncing off intra-day lows to end softer on the day.
- Despite the official EC rejection of the Italian budget, the EUR-USD found some stability on a report indicating some flexibility from the Italian front with respect to the 2019 budget, although we note that the Italian-bund spread remained elevated. Meanwhile, the GBP-USD also found some reprieve after a report noted that the EU may offer Britain a UK-wide customs union. Be on the lookout for further headline risks as PM May addresses Parliament later today.
- In the very short term, the direction of causality in asset markets may continue to stem from the US equity front in the near term and this has translated especially well for the **USD-JPY** intra-day in the current environment. **Thus, markets may continue to trade the pair off the SPX, with risk aversion considerations fading slightly at this juncture.**
- In the interim, the **DXY** may continue to contemplate the 96.00 ceiling with the 200-week MA (95.792) still expected to be a near term anchor. Inherent vulnerability in EUR and GBP space may continue to manifest while the cyclicals may benefit if positive risk appetite levels manage to gain further traction. Risk appetite levels remain fairly steady this morning with the **FX Sentiment Index (FXSI)** drifting into **Risk-On** territory from Risk-Neutral on Tuesday.
- With implied EPFR flows having collapsed into negative territory and actual net portfolio flows slipping into a net outflow environment, we think **USD-THB** may have headroom on the upside. This would be especially so if the dollar complex continues to pull higher and market sentiment remains fragile. We therefore go long USD-THB on Tuesday via the 3M forwards, targeting 33.50 and looking to exit at 32.40.

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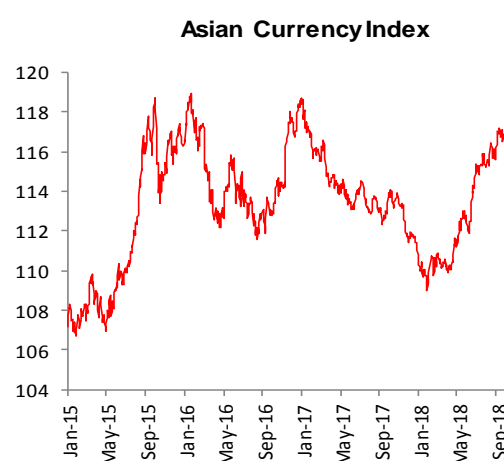
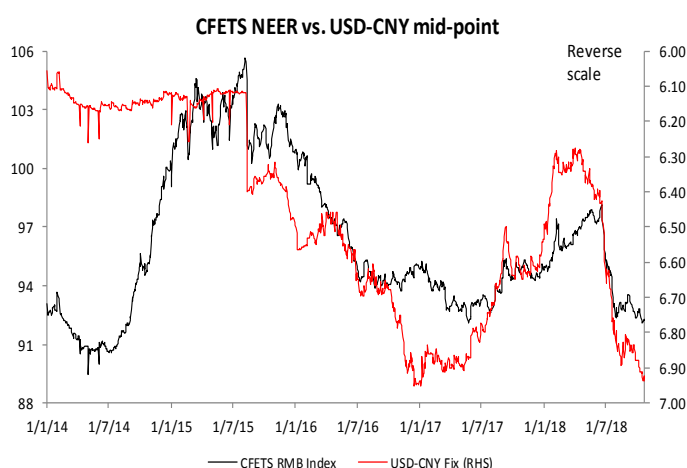
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Asian FX

- An attempt at stabilization in global equities (cash and futures) early Wednesday morning (EM equities in aggregate overnight also climbed off opening lows) is expected to continue to keep the USD at bay during Asian hours. WTI tumbling to the 66.00 floor on Tuesday may also bolster investor sentiment.
- **Bank Indonesia** kept its benchmark rate unchanged as we expected on Tuesday with the central bank easing off on the hawkish rhetoric and reverting to data watching. The central bank is also expecting slower growth into 3Q 18 and a marginally wider current account deficit.
- On the flow front, South Korea's **net portfolio inflows** are attempting to stabilize while Taiwan's net outflows remain at extended levels. Meanwhile, the deep net outflow environment for India continues to persist, and in Indonesia, minor outflow pressure is still being clocked. As noted yesterday, net flows for Thailand have flipped to an outflow balance.
- **SGD NEER:** The SGD NEER is higher on the day this morning (despite softer than expected Sep CPI readings) at around +1.38% above its perceived parity with NEER-implied USD-SGD thresholds softer from yesterday. Expect range bound conditions in the interim with 1.3750-1.3830.
- **CFETS RMB Index:** The **USD-CNY** mid-point printed higher than expected at 6.9357 from 6.9338 yesterday; the CFETS RMB Index essentially remained steady at 92.24.



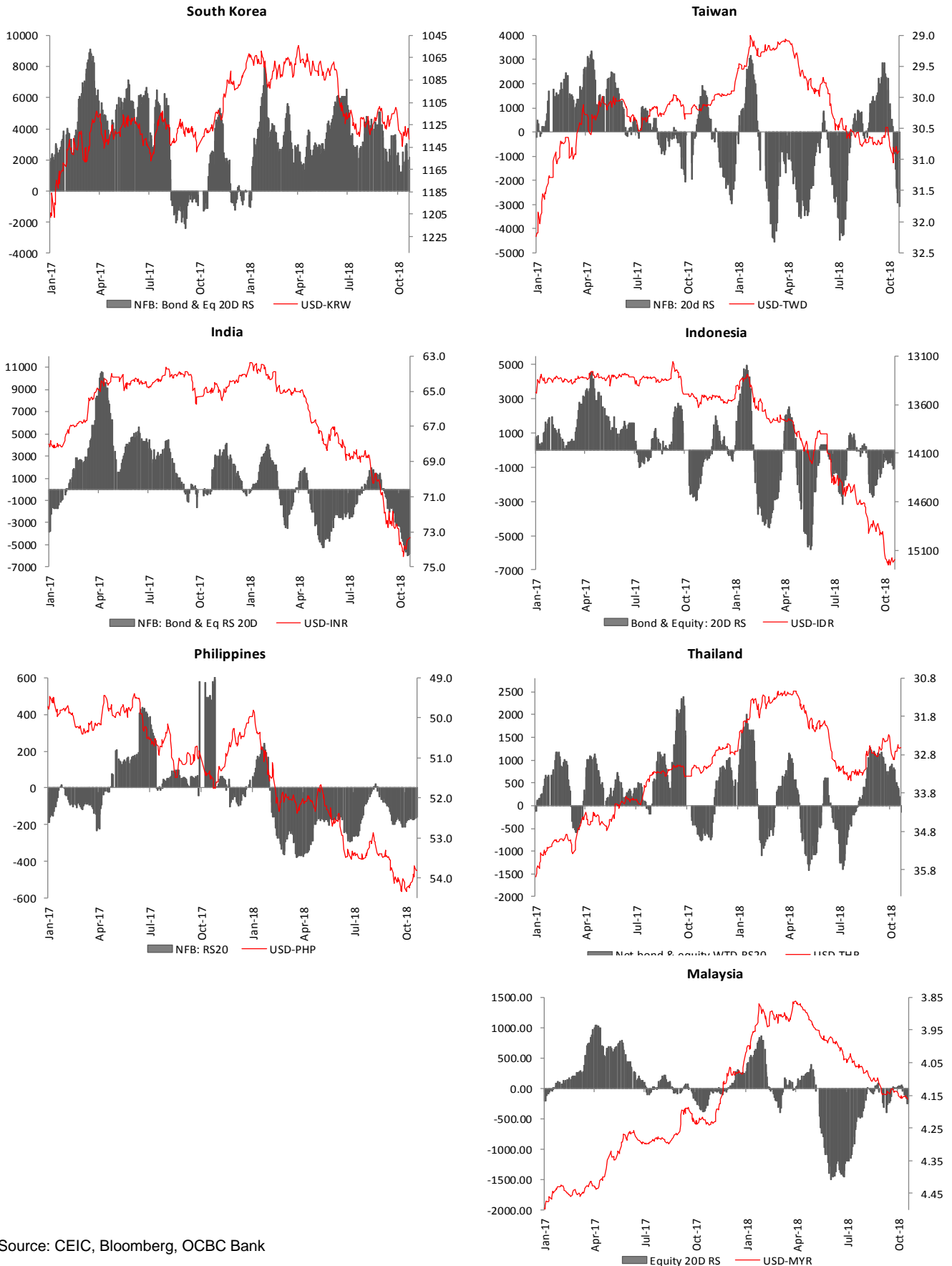
Source: OCBC Bank, Bloomberg

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. State Council and the PBOC announced further measures to ensure adequate funding on Monday. 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. BOK governor notes that further cuts are not appropriate and the Bank will consider a hike in November. Yield curves remain soft.
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. CBC governor ambivalent on the benchmark rate.
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. Policy meeting minutes not perceived to be unduly hawkish, front to belly of curves outperforms.
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, curves bear flattens.
USD-MYR	↔	The mid-term review of the 11th Malaysia Plan saw growth forecasts downgraded and with the previous plan to achieve a balance budget by 2020 scuppered, replaced by an projected -3.0% deficit. Watch for the budget announcement in November. BNM static in September. Govie yields firmer, led by the back-end.
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, remained static in October. The DNDF market is due to come online on 01 Nov 18. Back-end govie yields have come off in the past week but investors may remain cautious.
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. Back-end of govie curve is firmer on the week.
USD-PHP	↔/↓	BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher. Finance Secretary indicates that inflation should subside in the coming months.

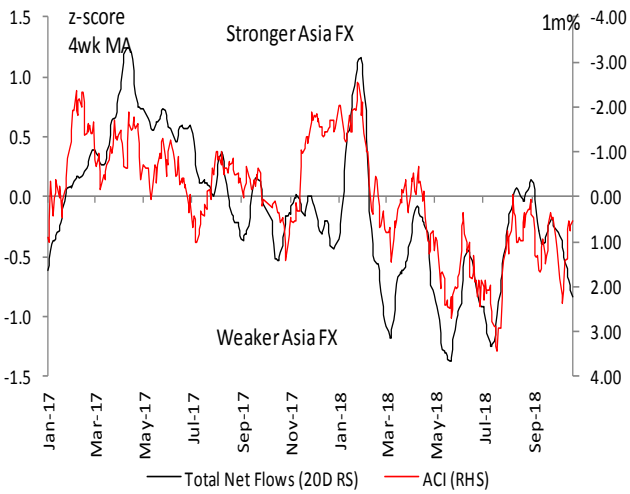
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



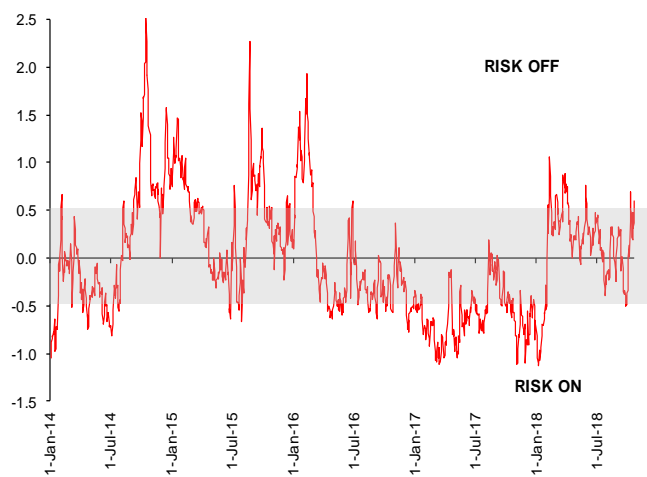
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1	0.681	0.888	-0.352	-0.516	0.538	0.111	-0.181	0.331	0.571	0.731	-0.985
SGD	0.921	0.778	0.871	-0.578	-0.742	0.597	-0.126	-0.241	0.567	0.752	0.783	-0.956
CHF	0.888	0.832	1	-0.639	-0.758	0.535	-0.402	-0.468	0.573	0.788	0.973	-0.907
IDR	0.833	0.897	0.872	-0.468	-0.666	0.667	-0.116	-0.047	0.543	0.667	0.707	-0.875
CNH	0.731	0.653	0.973	-0.72	-0.798	0.302	-0.499	-0.602	0.652	0.822	1	-0.77
MYR	0.687	0.843	0.804	-0.714	-0.883	0.581	-0.443	-0.278	0.765	0.851	0.748	-0.756
THB	0.681	1	0.832	-0.458	-0.683	0.6	-0.152	-0.125	0.486	0.635	0.653	-0.725
JPY	0.66	0.676	0.851	-0.84	-0.918	0.261	-0.576	-0.602	0.835	0.922	0.848	-0.705
CAD	0.618	0.82	0.667	-0.551	-0.741	0.691	-0.325	0.035	0.685	0.721	0.607	-0.695
INR	0.56	0.757	0.709	-0.507	-0.61	0.321	-0.337	-0.214	0.628	0.613	0.618	-0.59
KRW	0.465	0.724	0.694	-0.792	-0.882	0.263	-0.655	-0.472	0.866	0.861	0.675	-0.531
USGG10	0.445	0.715	0.643	-0.778	-0.879	0.286	-0.631	-0.435	0.85	0.85	0.618	-0.509
TWD	0.196	0.29	0.585	-0.741	-0.601	-0.411	-0.7	-0.828	0.697	0.595	0.632	-0.215
CNY	0.111	-0.152	-0.402	0.804	0.706	0.192	1	0.671	-0.794	-0.686	-0.499	-0.019
PHP	-0.474	-0.305	-0.644	0.677	0.639	0.121	0.464	0.795	-0.502	-0.661	-0.75	0.483
NZD	-0.605	-0.037	-0.485	-0.194	-0.159	-0.111	-0.508	0.109	0.338	0.069	-0.242	0.517
AUD	-0.635	-0.804	-0.602	0.277	0.477	-0.647	-0.007	-0.203	-0.431	-0.463	-0.419	0.678
GBP	-0.826	-0.891	-0.901	0.541	0.706	-0.577	0.158	0.175	-0.598	-0.692	-0.72	0.86
EUR	-0.985	-0.725	-0.907	0.426	0.601	-0.599	-0.019	0.183	-0.412	-0.64	-0.77	1

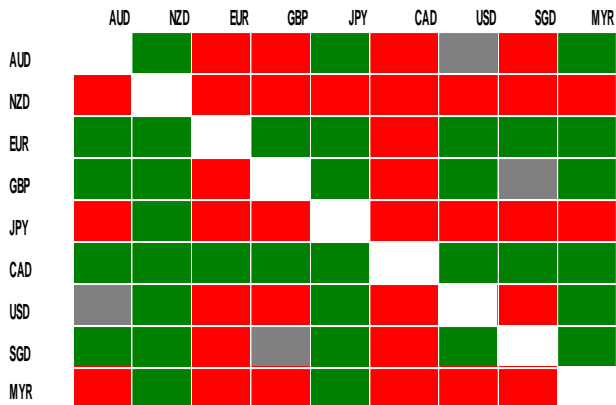
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1421	1.1432	1.1465	1.1500	1.1588
GBP-USD	1.2906	1.2922	1.2979	1.3000	1.3014
AUD-USD	0.7015	0.7041	0.7093	0.7100	0.7190
NZD-USD	0.6425	0.6500	0.6557	0.6581	0.6600
USD-CAD	1.3000	1.3010	1.3084	1.3100	1.3132
USD-JPY	112.00	112.05	112.53	113.00	114.40
USD-SGD	1.3700	1.3725	1.3777	1.3800	1.3867
EUR-SGD	1.5768	1.5782	1.5795	1.5800	1.5905
JPY-SGD	1.2200	1.2240	1.2243	1.2247	1.2300
GBP-SGD	1.7800	1.7866	1.7880	1.7900	1.8086
AUD-SGD	0.9718	0.9733	0.9771	0.9800	0.9870
Gold	1200.00	1201.31	1233.40	1237.80	1241.46
Silver	14.66	14.73	14.80	14.89	14.95
Crude	55.10	60.45	66.40	69.92	77.09

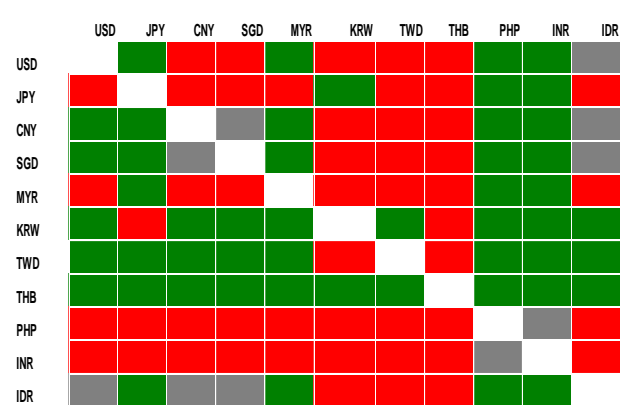
Source: OCBC Bank

G10 FX Heat Map



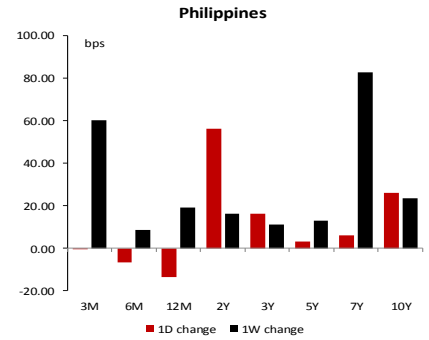
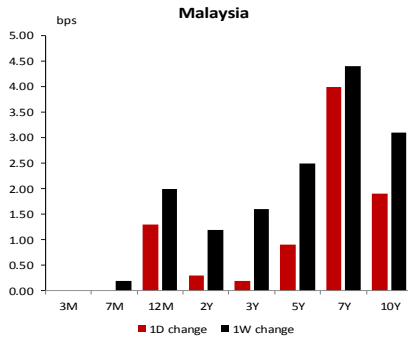
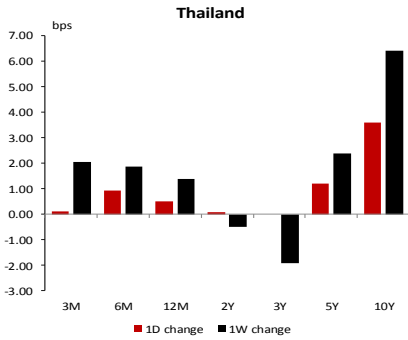
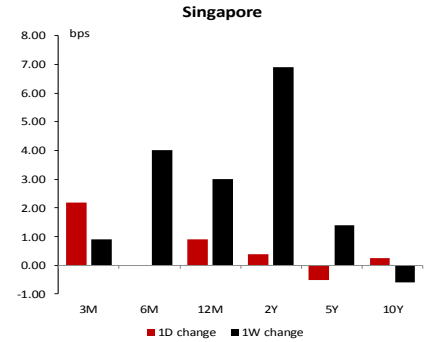
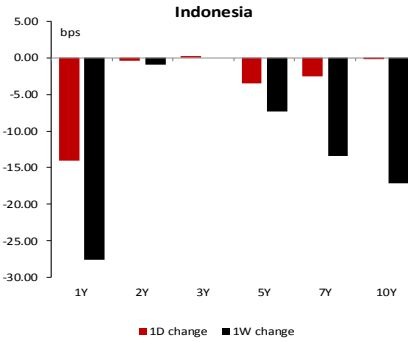
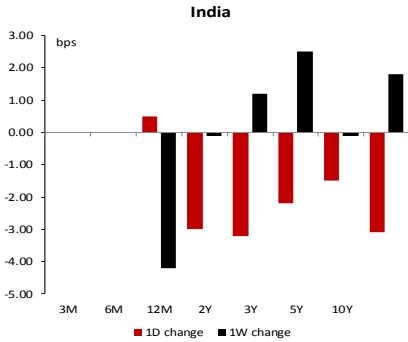
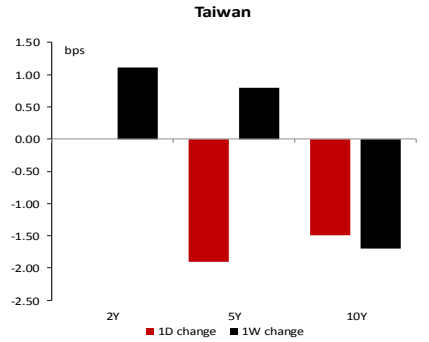
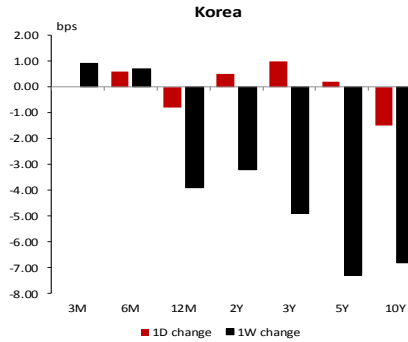
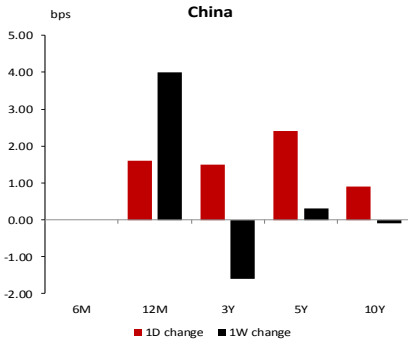
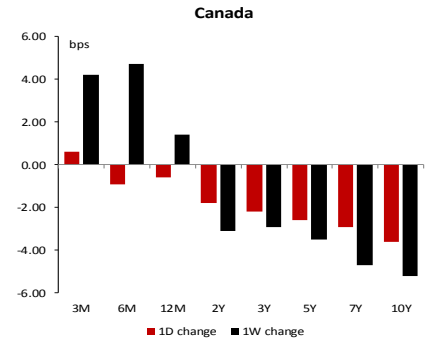
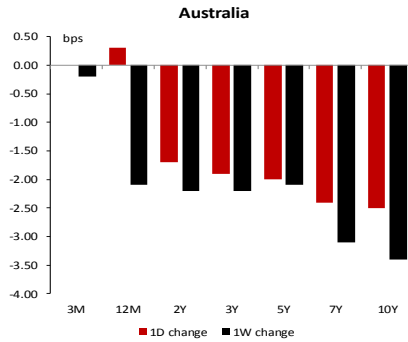
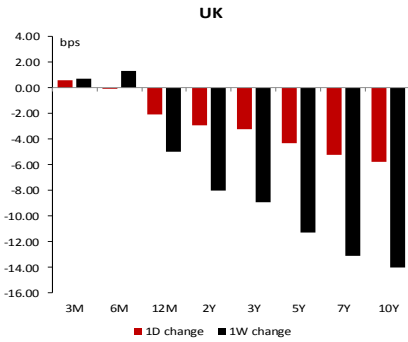
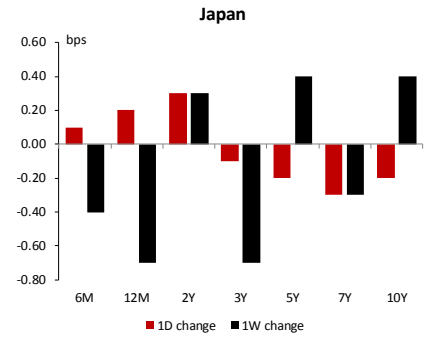
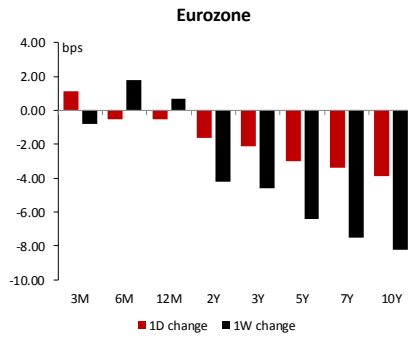
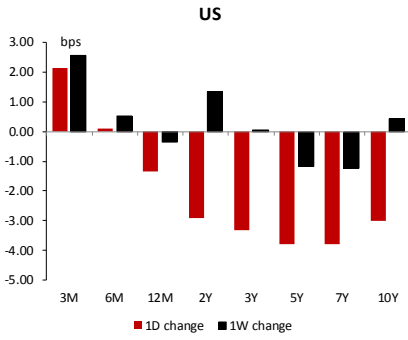
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Recommendations

Inception	B/S	Currency	Spot/Outright	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		
2	22-Oct-18	S	EUR-USD	1.1520	1.1320 1.1620	Italian fiscal risks, ECB unlikely to surprise on the hawkish front		
3	23-Oct-18	B	3M USD-THB	32.780	33.500 32.400	Vanishing net inflows, firmer USD, fragile risk appetite		
STRUCTURAL								
-	-	-	-	-	-	-		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%) ⁺	
1	20-Sep-18	28-Sep-18	B	EUR-USD	1.1702	1.1600	Risk appetite recovery, rate differentials on back burner	-0.87
2	03-Oct-19	10-Oct-18	S	EUR-CAD	1.4845	1.4975	Contrasting dynamics between USMCA and Italy	-0.88
3	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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