

Monday, November 26, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar continued to grind higher against the majors on Friday as risk appetite continued to sour. The EUR was additionally undermined by disappointing November PMIs while weekend headlines indicating some wiggle room for tweaks on the Italian fiscal front DPM Salvini failed to offer the common currency any implicit lift early Monday in Asia. UST yields softened on Friday (risk aversion and also underperforming Nov PMIs), led by the back-end with the other major global curves also behaving in a similar fashion as long-end yields eased and led the way lower.
- Negative US equities and slumping crude (WTI veered close to the 50.00 floor) sapped risk sentiments further. Our **FXSI (FX Sentiment Index)** pushed higher again within the Risk-Off zone, setting another year-to-date high.
- Over the weekend, EU leaders agreed to a **Brexit** deal with Britain but PM May still has to clear the hurdle that is the House of Commons in the coming weeks, beginning with a schedule appearance on Monday. Note almost non-existent follow through for the GBP-USD as the pair gapped higher in early Asia on Monday before quickly relapsing to Friday's closing levels (and then some). Market speculation centers around a potential UK Parliament vote on the 10th or 11th of December before the EU Summit 13-14 December.
- This week, all eyes will be watching the **G20** meeting starting Friday, specifically, the much touted Xi-Trump meeting. Needless to say, expect accompanying headlines this coming weekend to have a bearing on global perceptions on trade tensions and risk appetite. Expect the **DXY** to continue to hold within 96.00-98.00 multi-session as markets search for clues in the busy week ahead. **In the very short term, we'd prefer to stay with the greenback at the onset of the week.**
- While the **FOMC minutes** are only due on Thursday, the calendar is filled with central bank appearances this week (starting with the ECB's Draghi and the BOE's Carney today) and with the Fed's Clarida on Tuesday and Fed chair Powell on Wednesday. Given the recent shakeout in market-implied odds of central bank rate hikes, expect central bank speak to assume a greater significance this week.
- **Structurally, despite recent background macro uncertainty, the cyclicals (specifically, the AUD) have outperformed (in no small part due to the comfort from the China policy backstop) the EUR and the GBP in recent weeks and this dynamic may persist barring unduly negative Xi-Trump headlines from this coming weekend.**

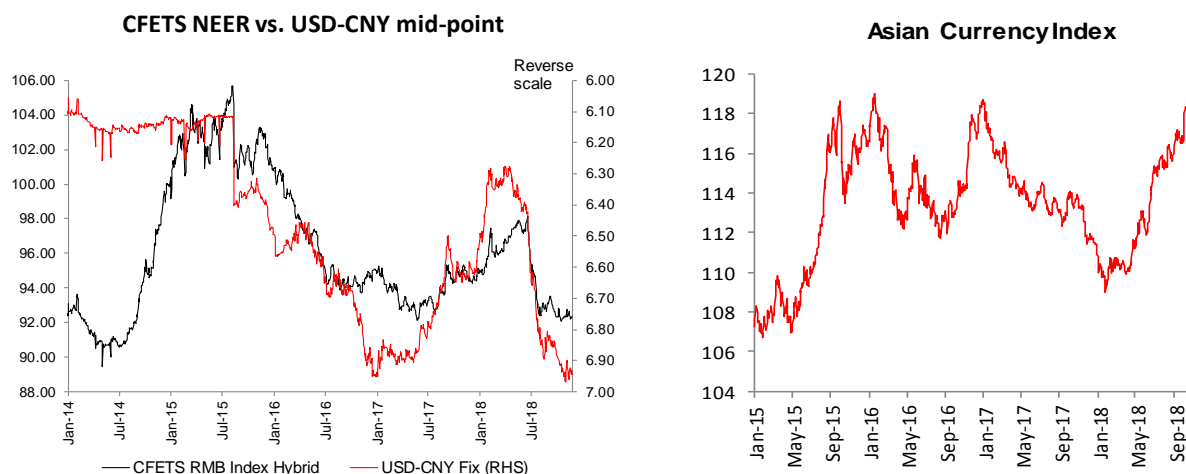
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- Expect USD-Asia to start the week on a supported note with domestic yields likely also taking the cue from softer global long-ends from last Friday. The Asian calendar this week includes **India's 3Q GDP** on Friday, while the **BOK MPC** is expected by the market to yield a 25bps hike. **China** also releases its official **November PMIs** on Friday.
- **EPFR** data showed net implied equity inflows into Asia (excl. Japan, China) jumping higher significantly in the latest week while net implied bond inflows also moderated. From a broader context, implied inflows into EM equities remained healthy but moderated slightly in the latest week, while net outflows from EM bonds also shrank. On the **Asian portfolio flow** front, inflow momentum into Taiwan and Thailand is still attempting to edge higher. Meanwhile, inflow momentum into Korea is consolidating near neutral level.
- **From a medium term perspective, another layer of global uncertainty of late has been the emergence the market's notable (and abrupt) re-pricing of the Fed's rate hike trajectory for 2019. We think this will have significant ramifications on the topology of Asian asset markets in the coming months. If watered-down FOMC expectations do indeed stick, expect less impetus for Asian central banks to attempt to maintain implicit interest rate parity conditions, and if coupled with calmer risk appetite conditions, may well incite renewed inflows into Asian bond and equity markets, under shelter of a vulnerable USD.**
- **SGD NEER:** The SGD NEER stands firmer at around +1.52% above its perceived parity (1.3962), with NEER-implied USD-SGD thresholds are largely firmer. The USD-SGD remains stuck between the 55-day MA (1.3757) and the 100-day MA (1.3722), despite the firmer USD overnight. The inability to break through may disappoint the USD-SGD bulls. Expect the pair to retain its current range, ahead of further directionality stemming from the Xi-Trump summit.
- **CFETS RMB Index:** The **USD-CNY** mid-point was set higher, within expectations, at 6.9453 compared to 6.9306 on Friday. Despite the higher fix, the CFETS RMB Index stood static at 92.32.



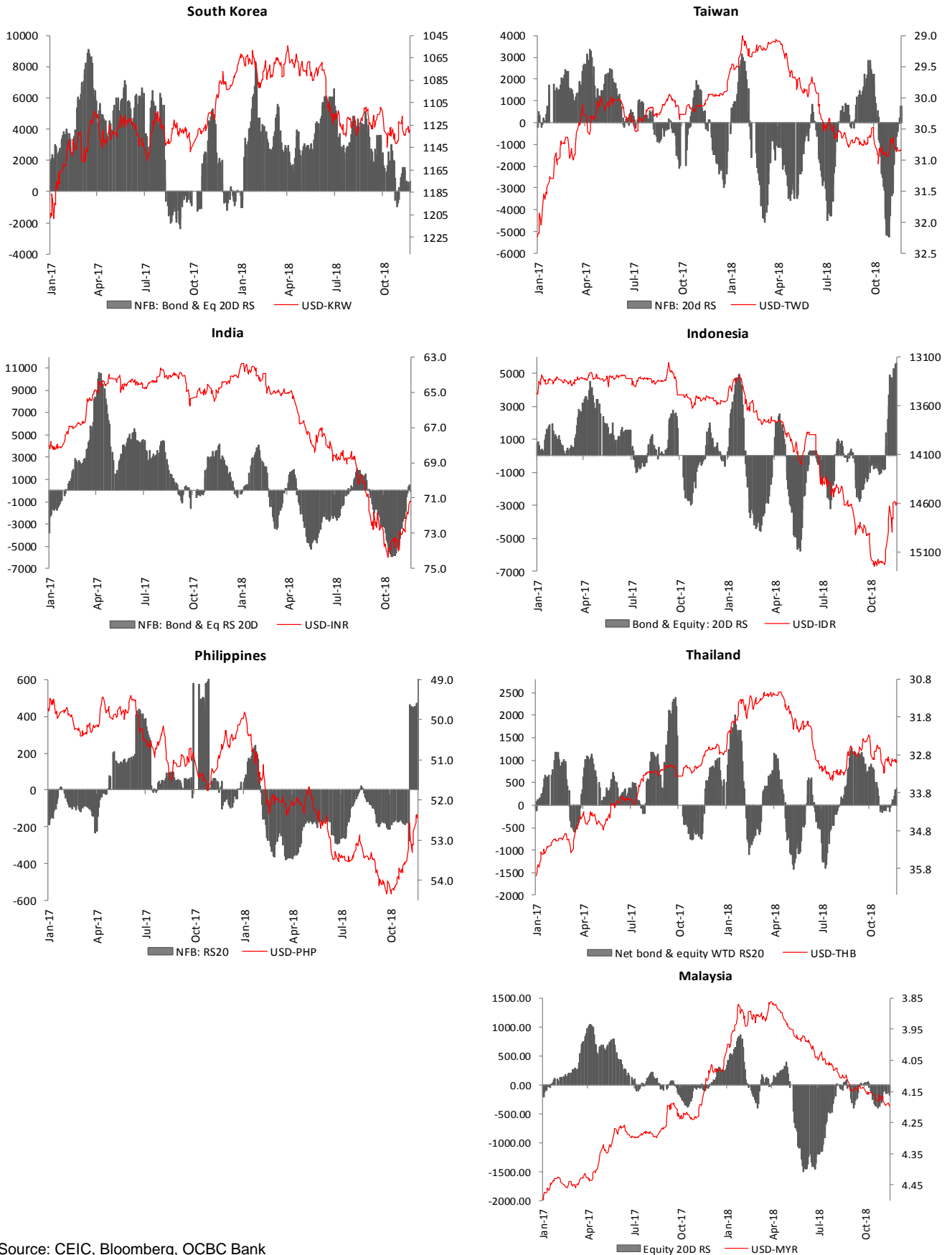
Source: OCBC Bank, Bloomberg

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 its November meeting this week. Back-end of KTB and NDIRS leading the way lower in terms of yields.
USD-TWD	↔	CBC remained static at its policy meeting in Spetember 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.
USD-INR	↓	Political risk ahead with state elections scheduled for end-Nov and early Dec. Thawing relations between the RBI and government expected to assuage markets. Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance. In the interim, softer inflation and an RBI expected to be on hold supported demand for Indian govies. Expect curves (govie and NDIRS yields) to remain soft.
USD-SGD	↔/↓	MAS steepens the NEER’s slope again in October. NEER may remain afloat above +1.00% if risk appetite stays supported. 3Q GDP numbers disappoint. Curves at the front end remain supported.
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. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in). MGS yields remain underpinned.
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds with govie yields easing again (bull flattening) despite the surprise BI rate hike in November. The hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, in order to maintain the rate spread. New moves to ease foreign investment rules and tighten export revenue repatriation rules to shore up the CA. Note equity inflows are also consistently picking up momentum alongside bond inflows.
USD-THB	↔	BOT unchanged at Nov MPC, but saw 3 dissenters in favour of rate hike, suggesting an inclination towards a Dec hike, rather than Feb. Nevertheless, any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Despite the BOT looking to downgrade 2018 growth forecast, the governor appears to be preparing the ground for a rate hike in his latest comments. Govie and NDIRS yields softer on the week.
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 and a plateau with respect to policy tightening. 3Q GDP prints below expectation on slower consumer spending.

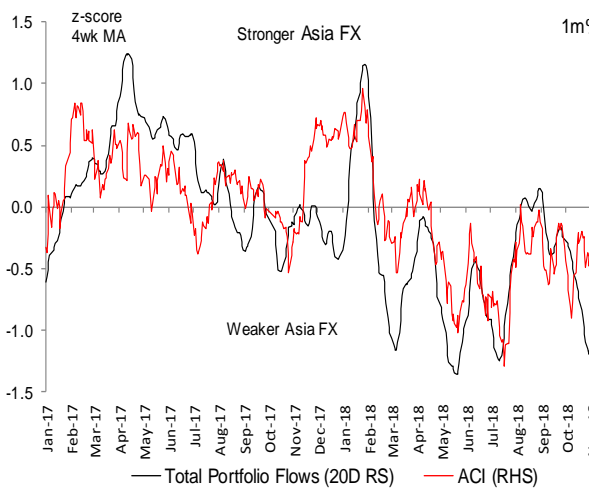
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



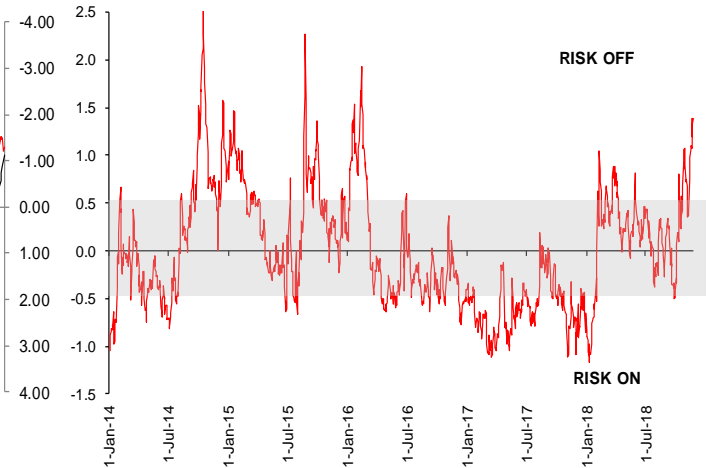
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.184	0.66	-0.263	-0.356	-0.428	0.381	-0.244	0.323	0.103	0.642	-0.927
CNY	0.66	-0.318	1	-0.314	-0.688	-0.196	0.004	-0.001	0.461	0.148	0.936	-0.625
SGD	0.642	-0.207	0.936	-0.353	-0.75	-0.058	-0.021	0.15	0.56	0.037	1	-0.611
CAD	0.626	0.115	0.735	-0.189	-0.67	0.259	0.083	0.506	0.51	-0.255	0.814	-0.682
AUD	0.614	-0.454	0.395	-0.429	-0.085	-0.8	0.19	-0.748	0.211	0.415	0.321	-0.538
THB	0.604	-0.353	0.81	-0.492	-0.88	0.01	-0.198	0.208	0.719	0.196	0.819	-0.517
MYR	0.44	-0.791	0.47	-0.557	-0.349	-0.636	-0.146	-0.626	0.413	0.703	0.268	-0.309
CHF	0.427	0.644	0.306	0.481	0.005	0.328	0.64	0.489	-0.135	-0.694	0.313	-0.636
JPY	0.381	0.619	0.004	0.637	0.468	-0.105	1	-0.091	-0.543	-0.518	-0.021	-0.51
KRW	0.376	-0.432	0.665	-0.507	-0.842	0.057	-0.396	0.238	0.66	0.247	0.644	-0.378
TWD	0.358	-0.704	0.682	-0.712	-0.857	-0.169	-0.558	-0.024	0.757	0.505	0.633	-0.27
PHP	0.177	0.438	0.551	0.094	-0.495	0.687	0.069	0.838	0.347	-0.55	0.567	-0.331
INR	0.129	0.501	0.307	0.075	-0.427	0.705	0.021	0.879	0.318	-0.686	0.408	-0.261
IDR	0.068	0.184	0.261	-0.254	-0.623	0.634	-0.331	0.804	0.611	-0.349	0.372	-0.125
NZD	-0.136	-0.282	-0.319	0.122	0.582	-0.625	0.212	-0.799	-0.473	0.404	-0.492	0.188
USGG10	-0.184	1	-0.318	0.815	0.503	0.579	0.619	0.583	-0.56	-0.924	-0.207	-0.015
AUD	-0.358	-0.086	-0.506	0.343	0.74	-0.411	0.226	-0.623	-0.661	0.245	-0.683	0.384
GBP	-0.502	0.75	-0.548	0.743	0.665	0.343	0.455	0.217	-0.673	-0.68	-0.52	0.301
EUR	-0.927	-0.015	-0.625	0.122	0.272	0.323	-0.51	0.153	-0.233	0.103	-0.611	1

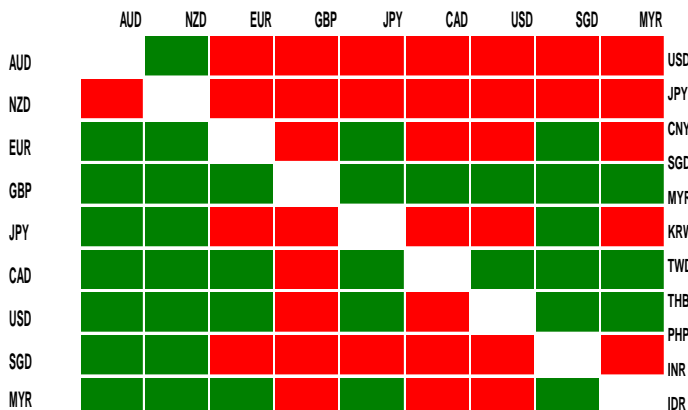
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1252	1.1300	1.1336	1.1400	1.1473
GBP-USD	1.2696	1.2800	1.2808	1.2900	1.3001
AUD-USD	0.7179	0.7200	0.7247	0.7300	0.7338
NZD-USD	0.6634	0.6700	0.6788	0.6800	0.6875
USD-CAD	1.3065	1.3200	1.3214	1.3297	1.3300
USD-JPY	112.98	113.00	113.25	114.00	114.11
USD-SGD	1.3685	1.3700	1.3745	1.3760	1.3800
EUR-SGD	1.5522	1.5538	1.5581	1.5600	1.5745
JPY-SGD	1.2053	1.2100	1.2136	1.2180	1.2200
GBP-SGD	1.7518	1.7600	1.7604	1.7700	1.7888
AUD-SGD	0.9878	0.9900	0.9961	1.0000	1.0040
Gold	1202.44	1213.36	1223.30	1239.30	1240.74
Silver	13.93	14.20	14.28	14.30	14.45
Crude	50.10	50.70	50.71	50.80	66.51

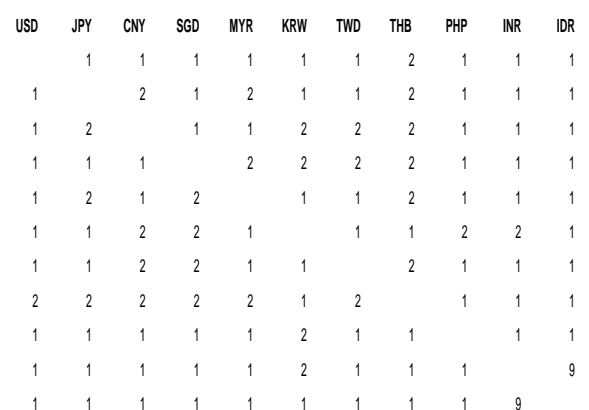
Source: OCBC Bank

G10 FX Heat Map



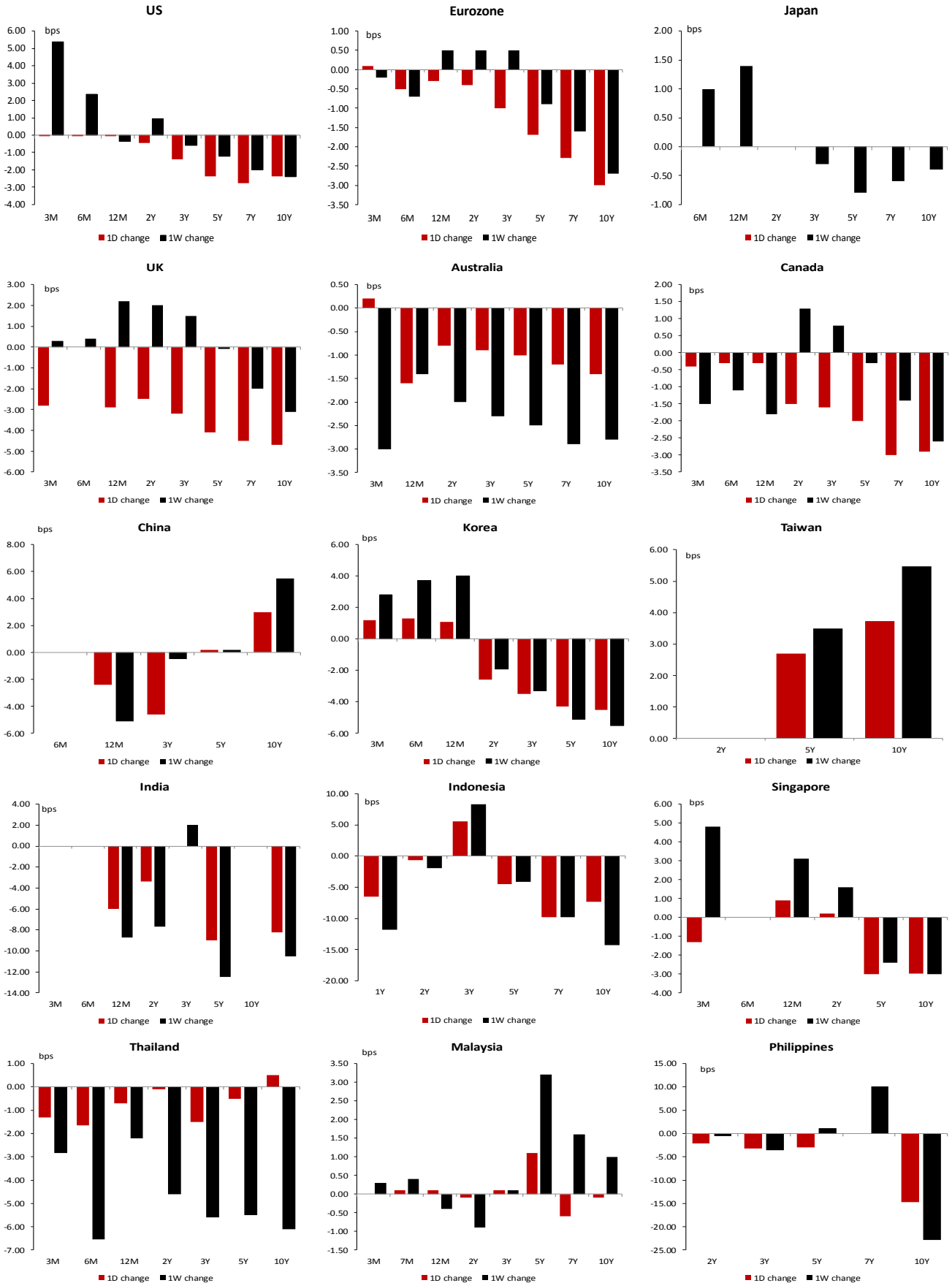
Source: OCBC Bank

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	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	11-Sep-18 24-Oct-18	B	GBP-USD	1.3056	1.2920	Positioning ahead of BOE MPC and positivity 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
6	09-Nov-18 16-Nov-18	B	USD-JPY	113.88	113.00	Rate differential support for the USD, especially post-FOMC	-0.77
* realized, excl carry							

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
