

Monday, October 01, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite firmer US yields (10y UST yield >3.06%), the dollar diverged on Friday, gaining against the EUR (simmering Italian budget concerns with Italian-bund spread blowing out), GBP, and JPY, while trailing the CAD and the antipodeans. Nonetheless, note that the DXY managed to surface above 95.00. On other fronts, CAD received a major boost following a better than expected July GDP prints and background Nafta optimism.
- On the **CFTC** front, large non-commercial accounts maintained their net long dollar balance in the latest week while leveraged accounts increased their net implied long dollar bias in the latest week. Meanwhile, asset manager accounts increased their net implied short dollar bias in the same period.
- The **FXSI (FX Sentiment Index)** ticked higher on Friday but the Index remains at the border between the **Risk-Neutral/Risk-On** territories. This improvement in risk appetite levels may however continue to stymie any attempt to arrive at a coherent and unified view of the USD in general.
- **Outside of heightened implied USD funding costs in the majors and notwithstanding the spike in the DXY index, the tussle between firmer US rates and risk appetite gyrations may continue to leave the dollar without significant traction in terms of overall directionality.**
- **Look instead towards idiosyncratic influences, especially in Europe, as investors refocus away from the US-centric drivers, and expect some divergence between the major pairs to persist.**
- Going ahead, stay with a buoyant **USD-JPY** with the investment community leaning against the JPY. Large non-commercial, leveraged accounts and asset managers all increased their respective net shot JPY positioning the latest week.
- The calendar remains heavy this week, with the RBA policy decision (Tue) and a slew of appearances by central bankers, headlined by Powell (Tue and Wed), scheduled. Today, watch for Fed's Bostic (1300 GMT) and Rosengren (1615 GMT) among others. In Asia, expect also the RBI to hike its policy parameters on Friday. On the data front this week, global PMIs (from 0715 GMT today) will allow us to take the pulse of global growth, before heading into US nonfarm payrolls on Friday.

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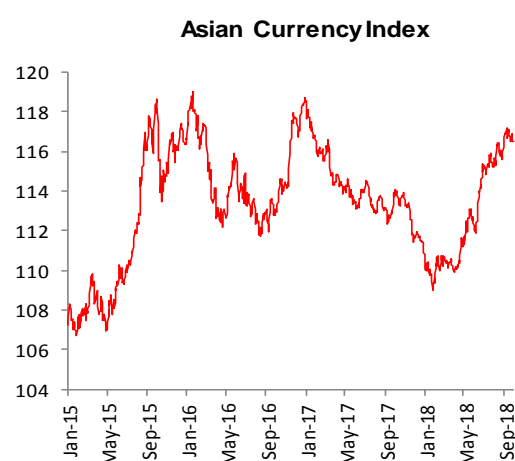
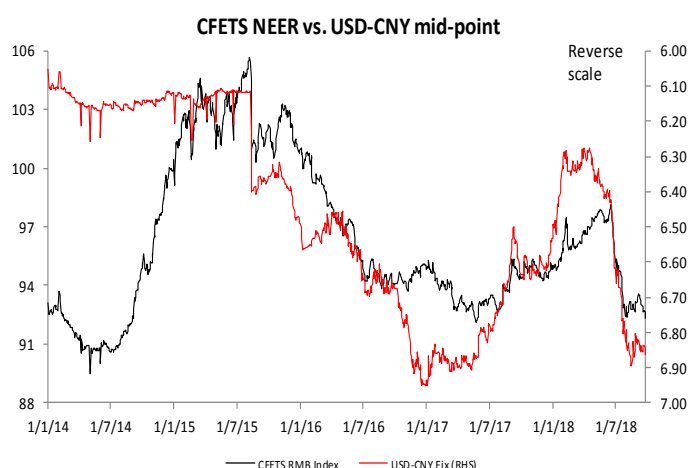
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Asian FX

- EM FX traded mixed on Friday and the regional pairs may remain book-ended by a resilient USD in the majors and better support risk appetite levels in EM/Asia. On this front, we expect spot outperformance from the likes of the KRW, TWD, and THB.
- Note that China's NBS and Caixin manufacturing PMIs released over the weekend underperformed prior market expectations and should temper any outright macroeconomic optimism.
- **EPFR** data meanwhile showed an increase in net implied bond outflows for Asia (excl Japan, China) on reported outflows for Thailand, South Korea, and India. Meanwhile, net implied equity outflows narrowed slightly but remained significant.
- Actual net portfolio flows meanwhile remain supportive of the KRW, while inflow momentum is moderating for TWD and THB. India meanwhile remains under implicit negative pressure from the perspective of net outflows, although net outflow pressure on the IDR on a rolling basis has moderated significantly of late.
- **SGD NEER:** The SGD NEER this morning is relatively softer at round +1.41% above its perceived parity (1.3880) with NEER-implied USD-SGD thresholds higher on the day. Expect some resistance as spot pushes against the 55-day MA (1.3686), before the 1.3700 handle. Expect initial downside supports at 1.3660, before 1.3645.
- **CFETS RMB Index:** China is away for holidays this week.



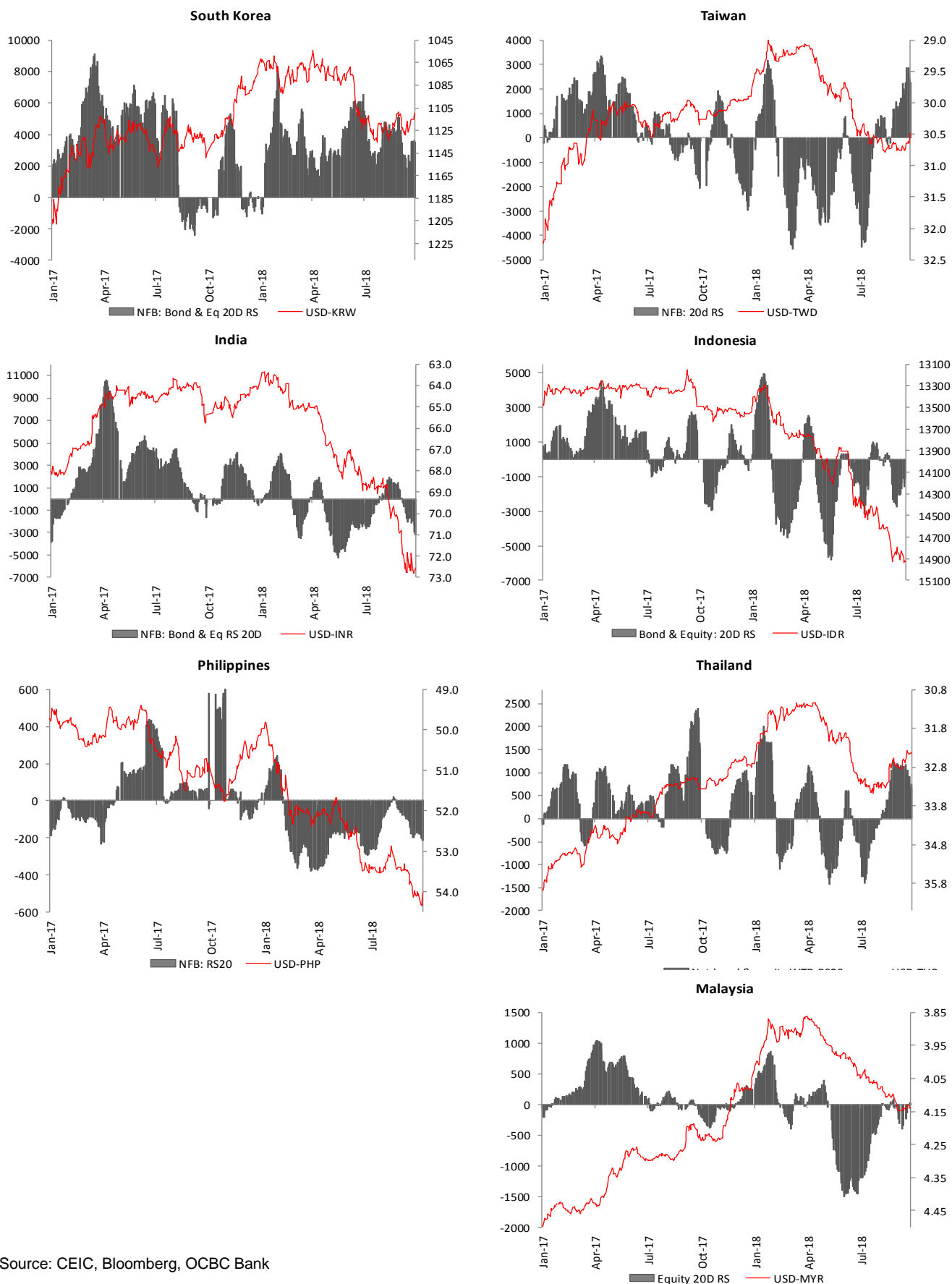
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

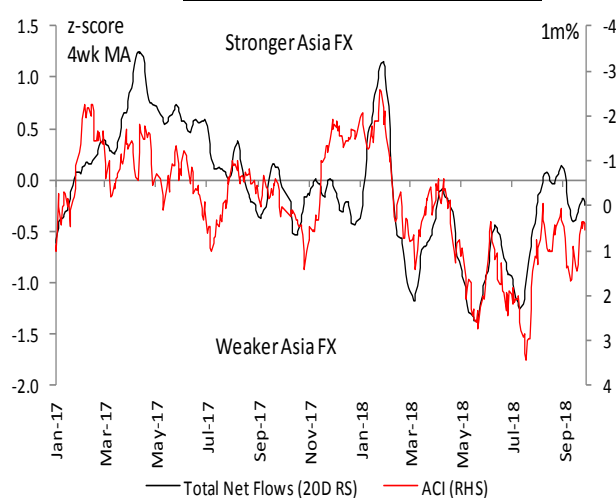
Currency	Bias	Rationale
USD-CNH	↔	Some stability in FX is still expected in the near term. Premier Li indicates no intent for competitive devaluation. Note however softening CFETS RMB Index of late. The FX vol curve has softened but this belies the riskies continuing to lean in favor of the USD. Firm CPI readings may be expected to keep the yield curves supported.
USD-KRW	↓	Weaker than expected unemployment print may douse rate hike expectations; BOK governor notes that monetary accommodation needs to be reduced. Onshore govie and NDIRS curves softer on the week.
USD-TWD	↓	Expect to track North Asian trends in general; flow dynamics remain supportive amid recovering EM sentiment. CBC remained static at its policy meeting in September.
USD-INR	↔/↑	Govie and ND yields are easier as risk aversion dissipates. Monitor potential for rate hikes this Friday. Current account concerns for India plus the larger EM overhang may continue to see outsized vulnerability of the INR relative to the neutral net portfolio flow environment. Latest FX measures did not surprise prior expectations; net bond/equity outflows continue to deepen. Investors awaiting potential new administrative measures.
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 remains supported.
USD-MYR	↔/↓	BNM static in September; MYR remains vulnerable in line with its peers. Reported net equity outflows neutral. On a related note, expect SGD-MYR to continue to attempt to lift, especially with 3.00 now having been violated. Govie curve capitulating lower in line with the region.
USD-IDR	↔	Bounce in global investor sentiment is benefitting the IDR and local govies. BI hiked another 25bps as expected in September. Authorities preparing further incentives for exporter repatriation. Net bond outflows are compressing.
USD-THB	↓	Govie and NDIRS curves softer on the week. BOT MPC members shifting towards an eventual hike. We note however a lack of immediate inflation risks. Note however that the BOT governor noted that there is currently no shift to a hawkish stance.
USD-PHP	↔/↑	BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher.

Source: OCBC Bank

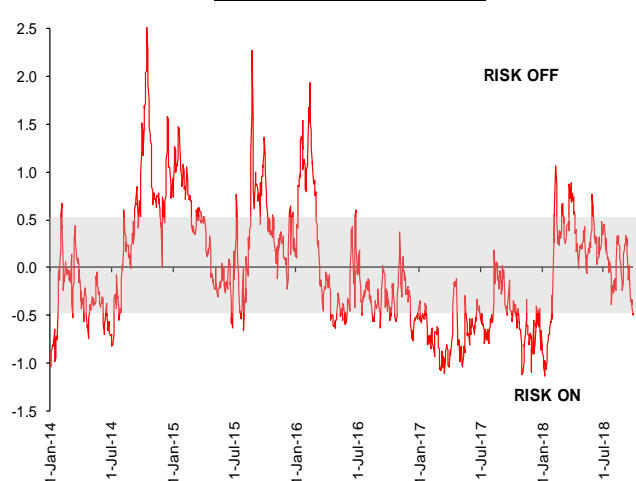
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

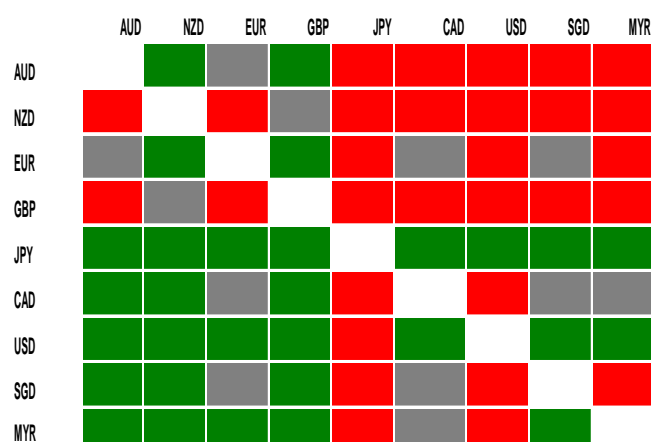
	DX	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1	-0.663	-0.244	-0.72	-0.107	-0.417	-0.395	-0.34	0.605	0.76	0.108	-0.974
SGD	0.775	-0.804	-0.375	-0.906	-0.427	-0.738	-0.788	-0.807	0.793	0.803	-0.089	-0.788
CHF	0.736	-0.137	0.22	-0.335	0.012	0.146	0.219	0.266	0.209	0.285	0.439	-0.72
THB	0.709	-0.885	-0.526	-0.892	-0.446	-0.668	-0.913	-0.824	0.812	0.836	-0.301	-0.694
CAD	0.602	-0.846	-0.382	-0.817	-0.087	-0.573	-0.786	-0.763	0.842	0.773	-0.159	-0.554
MYR	0.306	-0.258	-0.082	-0.765	-0.691	-0.614	-0.339	-0.569	0.608	0.295	-0.093	-0.39
CNH	0.108	0.461	0.835	-0.009	-0.056	0.205	0.555	0.361	-0.005	-0.408	1	-0.126
IDR	0.084	0.067	0.237	-0.013	0.287	0.262	0.301	0.332	0.125	-0.025	0.262	0.028
TWD	0.045	-0.428	-0.485	-0.506	-0.62	-0.763	-0.742	-0.786	0.405	0.424	-0.468	-0.098
KRW	-0.161	-0.252	-0.095	-0.631	-0.88	-0.629	-0.62	-0.762	0.547	0.103	-0.226	0.061
CNY	-0.244	0.694	1	0.368	-0.075	0.527	0.703	0.583	-0.402	-0.721	0.835	0.211
JPY	-0.395	0.867	0.703	0.825	0.365	0.757	1	0.914	-0.766	-0.812	0.555	0.411
INR	-0.56	0.766	0.755	0.391	-0.385	0.365	0.608	0.481	-0.373	-0.75	0.597	0.502
USGG10	-0.663	1	0.694	0.825	0.109	0.674	0.867	0.81	-0.791	-0.901	0.461	0.628
NZD	-0.737	0.63	0.142	0.825	0.585	0.646	0.63	0.679	-0.611	-0.673	-0.068	0.788
PHP	-0.741	0.834	0.762	0.552	-0.201	0.564	0.687	0.615	-0.535	-0.871	0.467	0.663
AUD	-0.748	0.608	0.046	0.843	0.563	0.557	0.586	0.651	-0.694	-0.577	-0.197	0.789
GBP	-0.852	0.803	0.523	0.633	-0.182	0.313	0.543	0.397	-0.624	-0.817	0.212	0.775
EUR	-0.974	0.628	0.211	0.759	0.225	0.47	0.411	0.368	-0.611	-0.73	-0.126	1

Source: Bloomberg

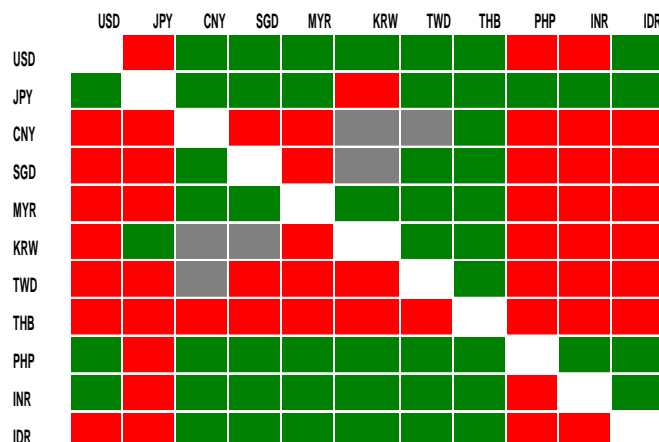
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1500	1.1527	1.1594	1.1600	1.1610
GBP-USD	1.2983	1.3000	1.3031	1.3100	1.3267
AUD-USD	0.7098	0.7200	0.7219	0.7286	0.7300
NZD-USD	0.6501	0.6600	0.6615	0.6656	0.6695
USD-CAD	1.2814	1.2818	1.2833	1.2869	1.2900
USD-JPY	111.52	113.00	113.90	113.93	113.96
USD-SGD	1.3617	1.3689	1.3690	1.3700	1.3801
EUR-SGD	1.5800	1.5870	1.5872	1.5893	1.5900
JPY-SGD	1.2000	1.2003	1.2019	1.2100	1.2215
GBP-SGD	1.7772	1.7800	1.7839	1.7900	1.8103
AUD-SGD	0.9785	0.9800	0.9882	0.9900	0.9968
Gold	1180.00	1186.48	1191.60	1200.00	1202.50
Silver	14.58	14.60	14.64	14.70	14.73
Crude	68.97	73.50	73.57	73.60	73.73

Source: OCBC Bank

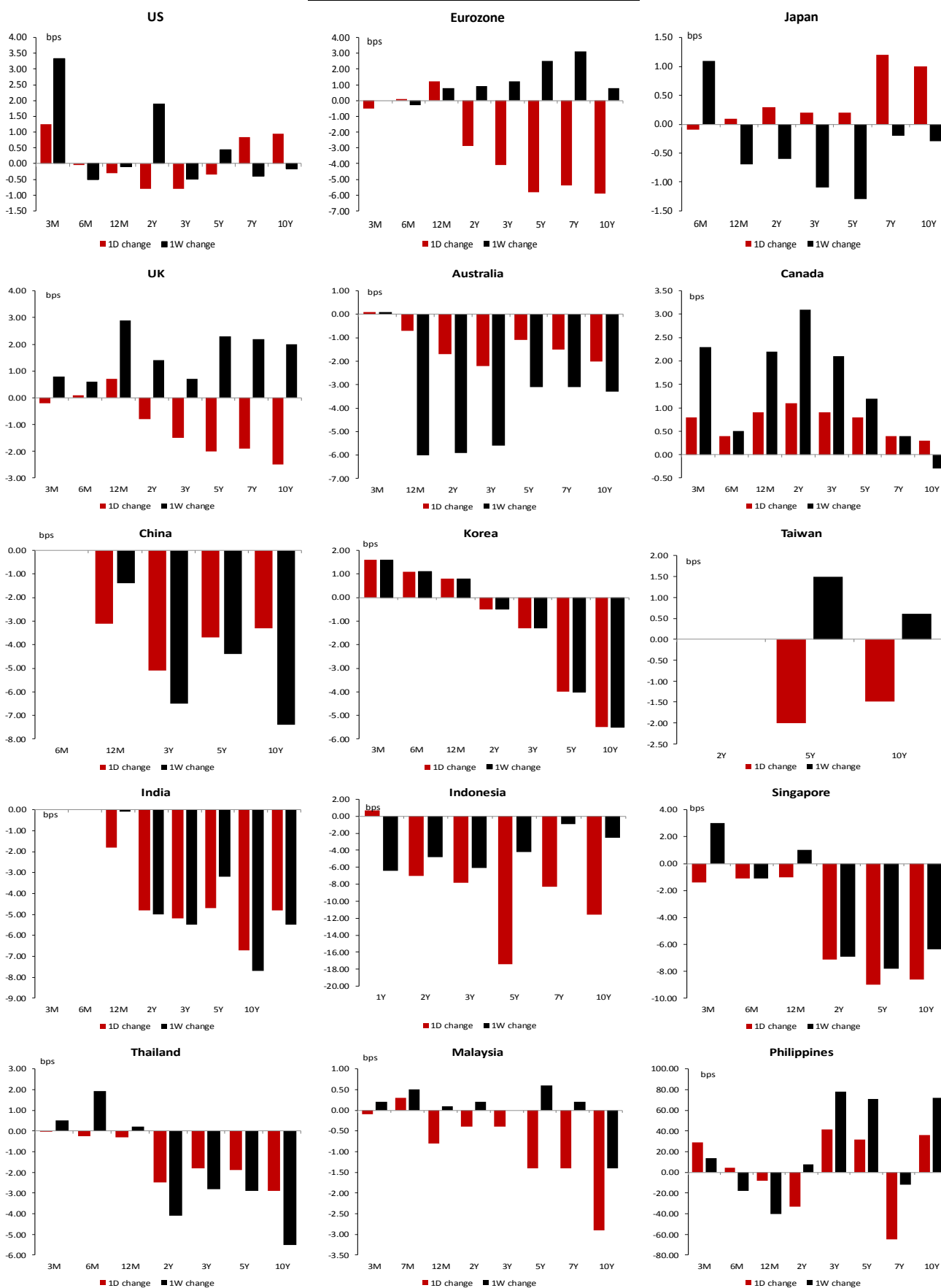
G10 FX Heat Map

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	Positioning ahead of BOE MPC and positivity from Brexit news flow	
3	20-Sep-18		B	USD-JPY	112.89	114.65 112.00	USD-JPY responsive to firmer US rates	
	STRUCTURAL							
	-		-	-	-	-	-	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	07-Sep-18	12-Sep-18	B	USD-CAD	1.3137	1.3020	USD resilience, NAFTA uncertainty	-0.89
2	10-Sep-18	13-Sep-18	S	USD-JPY	111.05	111.95	Risk of further global market uncertainty	-0.81
3	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
* realized, excl carry								

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