DAILY MARKET OUTLOOK

OCBC Bank

Tuesday, October 02, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Yet firmer US yields (10y UST > 3.08%) kept the dollar underpinned (if largely stable) against the majors on Monday. The **EUR** also continued to trail its peers given another round of mixed to softer manufacturing PMI prints, and the continued negativity surrounding the Italian fiscal situation. On this front, note the frosty reception from the European Commission and we fear that negativity may continue to brew (Italian-bund spreads are still bloating) despite still relatively suppressed short-end vols and relatively compressed vol premia.

- On other fronts, the **GBP-USD** briefly blipped higher before relapsing again following a report indicating that the UK government may propose a compromise on the Irish border issue with respect to Brexit.

- The **CAD** however stood out and outperformed across the board on the back of the late Sunday trilateral trade deal amongst US-Canada-Mexico in the form of the USMCA (United States-Mexico-Canada Agreement).

- Amid positive global equities, the **FXSI (FX Sentiment Index)** drifted into **Risk-On** territory on Monday from Risk-Neutral territory, a first since February. This may prove mildly supportive for the likes of the AUD but the **RBA** meeting outcome (0430 GMT) may impart a greater impact (we look for any heightened caution on the macro prognosis).

- More broadly speaking, **the broad dollar may have finally latched onto supportive rate differentials (for now) in the last few sessions and this may see risk appetite considerations relegated to the background at this juncture**, permitting the **DXY** to subsist above the 95.00 handle.

- In the interim, stay long **USD-JPY** in this environment and we look for a heavy on a **EUR-CAD** profile in the near term.

- On the calendar today, watch for comments from the Fed's Powell (1645 GMT) and Kaplan (1800 GMT), BOE's Haldane (0845 GMT) and ECB's Villeroy (1430 GMT).

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Asian FX

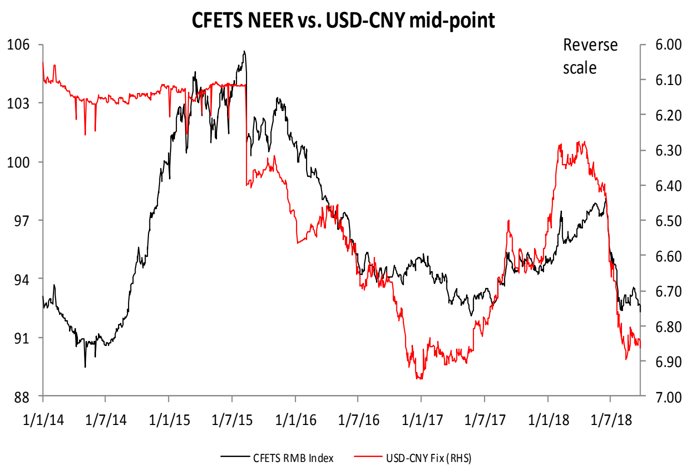
- The greenback may continue to hold the upper hand in Asia despite the apparent pick up in global risk appetite levels (note however that EM equities ended essentially muted/ lower overnight), with crude also continuing to climb.

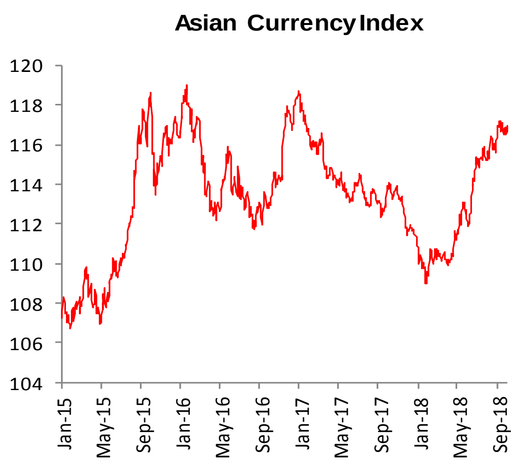
- Net portfolio flows meanwhile show moderating inflow momentum for the KRW, TWD, and THB, while outflow momentum for India, Indonesia, and Philippines continue to manifest.

- Apart from a supported USD-Asia, we'd still retain a preference to be long points in the fwd/fwds. In addition, despite slightly soggy implications from the global macro environment, the pull higher from US Treasury yields may be expected to re-exert itself on regional govie yields, and concomitantly, on regional ND and deliverable rates.

- **SGD NEER**: With the sharp bounce higher in the USD-SGD, the SGD NEER is significantly softer at around +1.14% above its perceived parity this morning, compared to as high as +1.54% early Monday. Note that NEER-implied USD-SGD thresholds are also higher this morning, and the forwards have ceased leaning to the left (short-end vol surface also remains less than excitable with implieds tracking the softer realized) at this juncture and we'd prefer to trade supported within the 55-day MA (1.3688) and 1.3750.

- **CFETS RMB Index**: China is away for holidays this week.





Source: OCBC Bank, Bloomberg

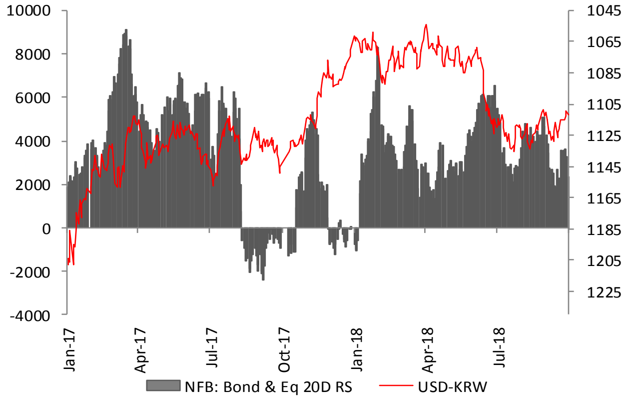
Short term Asian FX/bond market views

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 accomodation 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 Spetember.
USD-INR	↔/↑	Govie and ND yields are easier as risk aversion dissipates. Monitor potential for ratehikes 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 attmept 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 repatiration. 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 currenlt no shift to a hwakish stance.
USD-PHP	↔/↑	BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher.

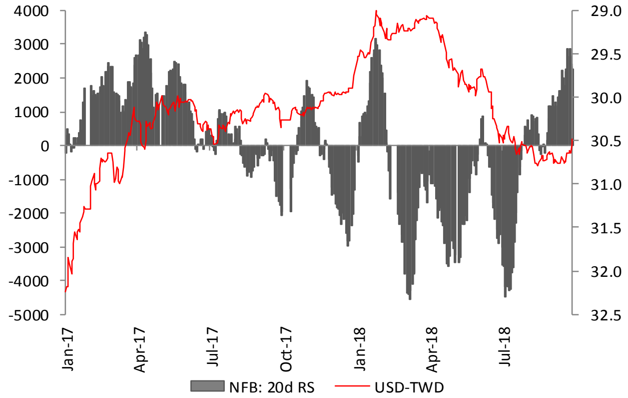
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

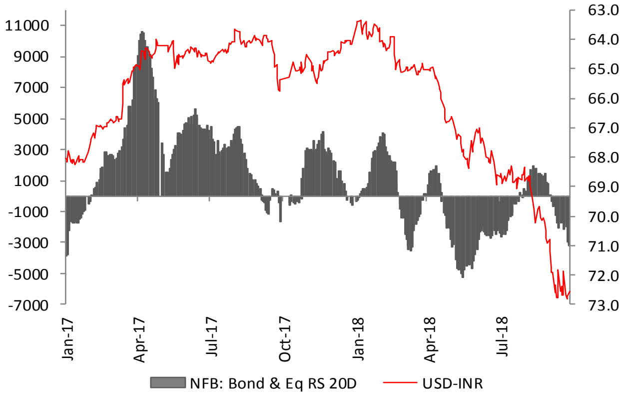
South Korea



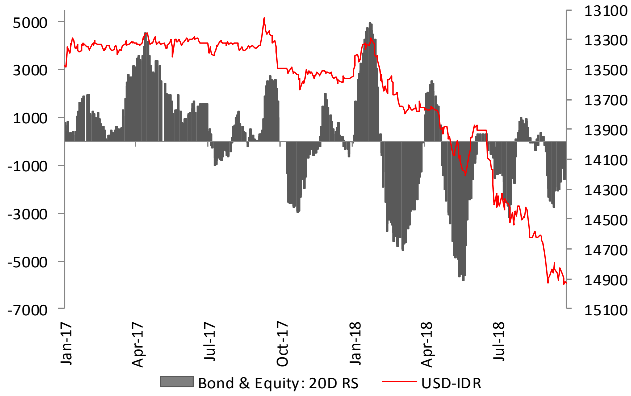
Taiwan



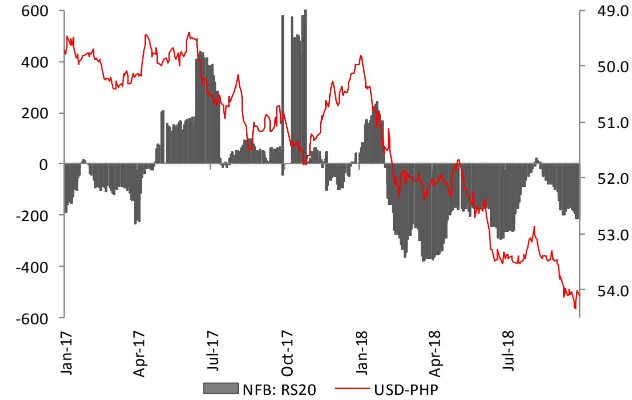
India



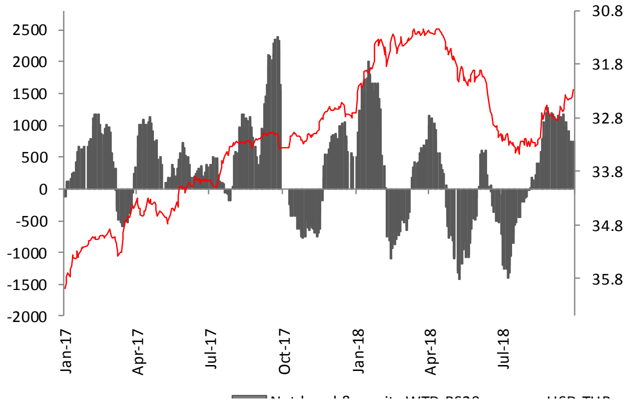
Indonesia



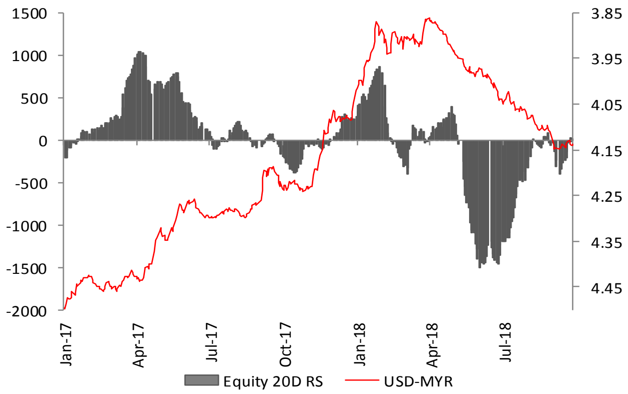
Philippines



Thailand

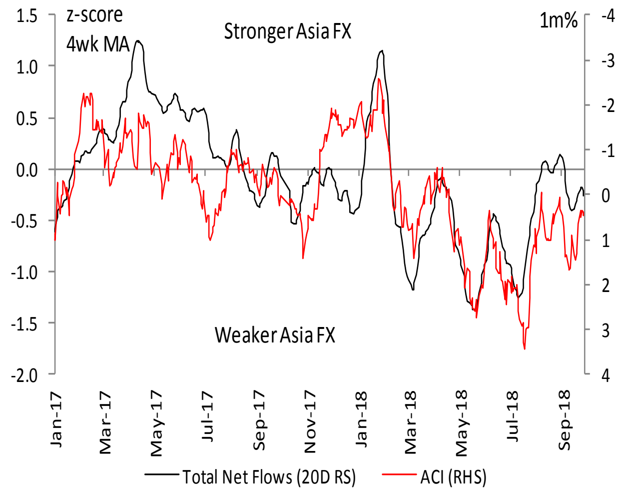


Malaysia



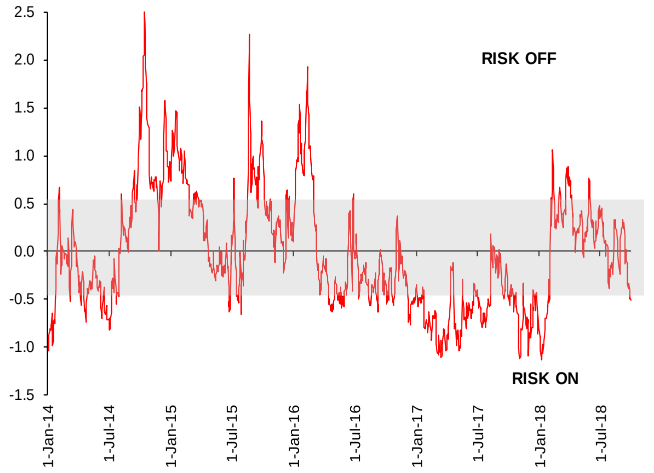
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXEX	CNH	EUR
DXY	1	-0.526	-0.244	-0.584	-0.069	-0.179	-0.21	-0.065	0.514	0.683	0.202	-0.976
SGD	0.801	-0.724	-0.375	-0.856	-0.419	-0.588	-0.615	-0.537	0.768	0.786	-0.005	-0.807
CHF	0.754	0.031	0.22	-0.123	0.078	0.395	0.395	0.503	0.067	0.157	0.538	-0.753
THB	0.52	-0.886	-0.526	-0.899	-0.457	-0.734	-0.929	-0.85	0.811	0.819	-0.405	-0.5
CAD	0.381	-0.852	-0.382	-0.829	-0.138	-0.679	-0.829	-0.822	0.828	0.753	-0.297	-0.318
MYR	0.285	-0.238	-0.082	-0.76	-0.693	-0.562	-0.268	-0.415	0.614	0.301	-0.076	-0.36
CNH	0.202	0.515	0.835	0.1	-0.004	0.365	0.624	0.499	-0.082	-0.435	1	-0.231
IDR	0.136	0.116	0.237	0.047	0.304	0.326	0.356	0.382	0.078	-0.058	0.316	-0.032
TWD	-0.093	-0.497	-0.485	-0.574	-0.596	-0.835	-0.803	-0.85	0.453	0.45	-0.563	0.057
JPY	-0.21	0.872	0.703	0.836	0.382	0.813	1	0.928	-0.762	-0.789	0.624	0.203
KRW	-0.219	-0.301	-0.095	-0.677	-0.873	-0.684	-0.624	-0.738	0.58	0.167	-0.277	0.138
CNY	-0.244	0.694	1	0.368	-0.075	0.527	0.703	0.583	-0.402	-0.721	0.835	0.211
INR	-0.435	0.785	0.755	0.462	-0.323	0.474	0.657	0.564	-0.422	-0.758	0.642	0.376
USGG10	-0.526	1	0.694	0.838	0.138	0.684	0.872	0.788	-0.801	-0.901	0.515	0.478
PHP	-0.681	0.832	0.762	0.556	-0.182	0.524	0.663	0.564	-0.543	-0.873	0.476	0.602
AUD	-0.688	0.605	0.046	0.827	0.567	0.505	0.562	0.564	-0.694	-0.581	-0.152	0.716
NZD	-0.704	0.607	0.142	0.81	0.589	0.578	0.565	0.545	-0.612	-0.676	-0.064	0.742
GBP	-0.823	0.763	0.523	0.588	-0.184	0.228	0.477	0.277	-0.598	-0.8	0.188	0.743
EUR	-0.976	0.478	0.211	0.616	0.179	0.216	0.203	0.066	-0.516	-0.65	-0.231	1

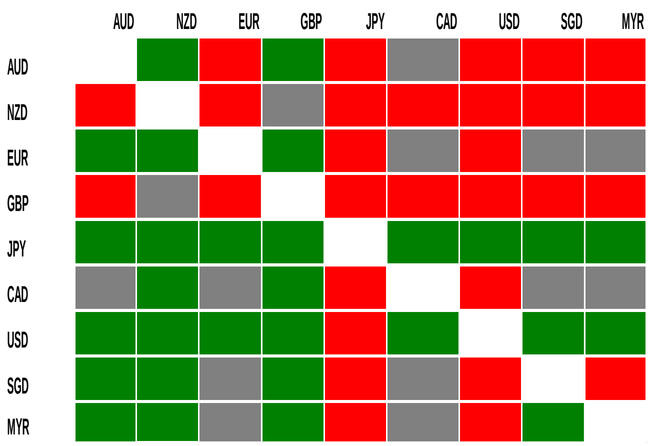
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1523	1.1526	1.1572	1.1600	1.1607
GBP-USD	1.2981	1.3000	1.3039	1.3100	1.3253
AUD-USD	0.7101	0.7200	0.7227	0.7282	0.7300
NZD-USD	0.6505	0.6600	0.6605	0.6652	0.6696
USD-CAD	1.2790	1.2800	1.2807	1.2870	1.2900
USD-JPY	111.57	113.00	113.93	114.00	114.06
USD-SGD	1.3691	1.3700	1.3729	1.3798	1.3800
EUR-SGD	1.5800	1.5863	1.5888	1.5892	1.5900
JPY-SGD	1.2000	1.2003	1.2051	1.2100	1.2216
GBP-SGD	1.7772	1.7900	1.7901	1.8000	1.8103
AUD-SGD	0.9785	0.9900	0.9922	0.9969	0.9975
Gold	1180.00	1185.62	1187.10	1200.00	1202.41
Silver	13.91	14.50	14.56	14.59	14.60
Crude	75.17	75.50	75.54	75.60	75.77

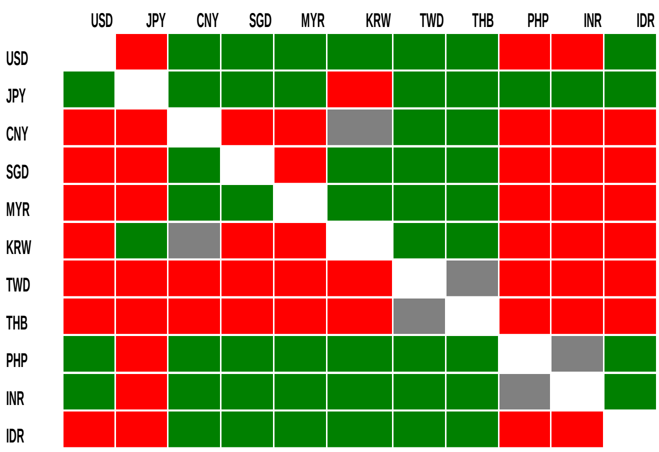
Source: OCBC Bank

G10 FX Heat Map



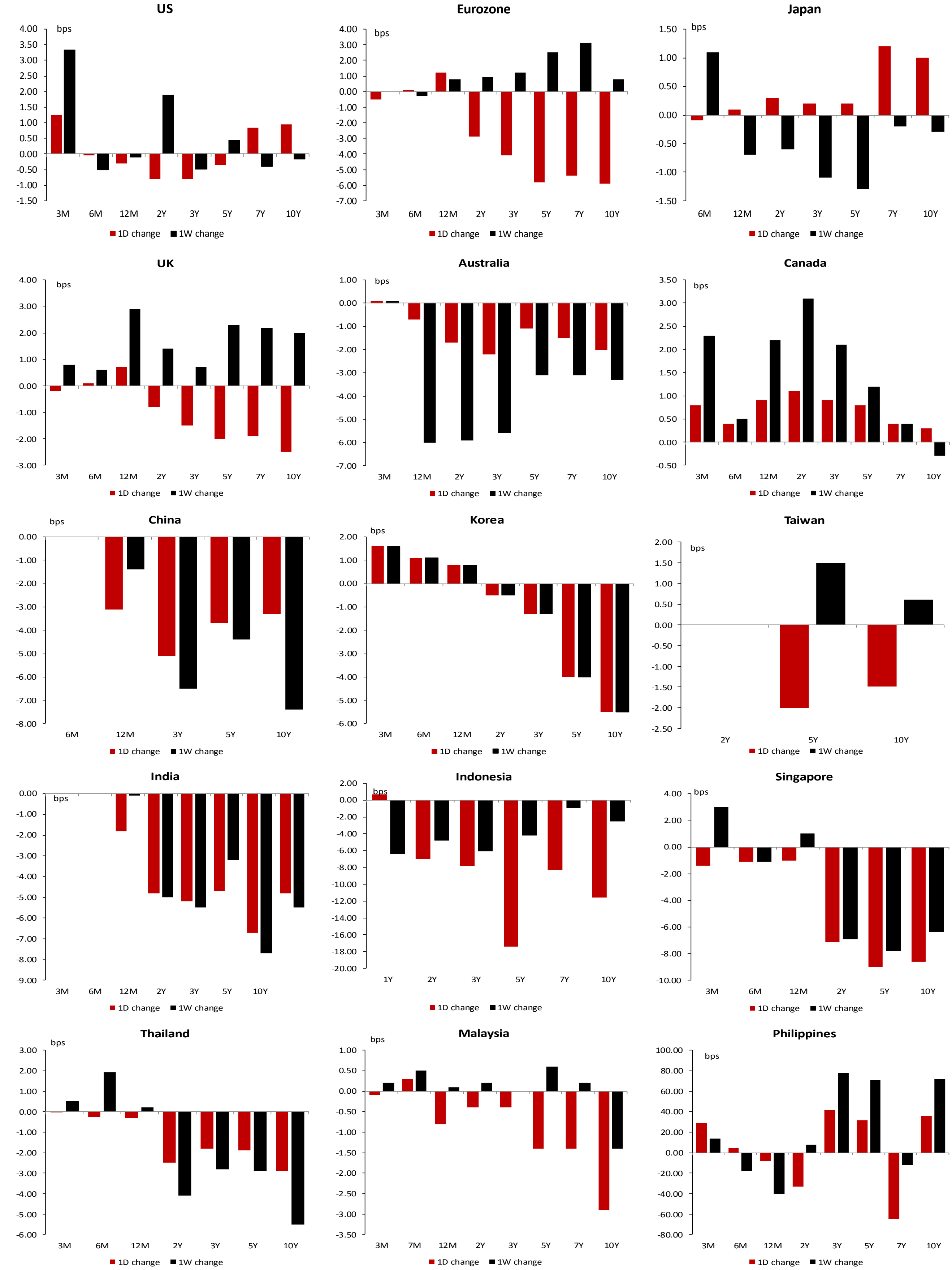
Source: OCBC Bank

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 ahed of BOE MPC and positivty 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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