

Thursday, September 06, 2018

FX Themes/Strategy/Trading Ideas

- Despite global equity weakness, the greenback (and JPY) reversed lower after starting the day on the front foot during the Asia and early London sessions, as risk appetite stabilized somewhat into the end of the global day. This apparent improvement in risk appetite was afforded by a report indicating that the Germany and the UK had backed away from key Brexit demands (a German official subsequently threw cold water on the report).
- Markets however may not be out of the woods in terms of possible EM contagion. Even though Argentine equities stabilized overnight, the rest of EU/Latam equities continued to slip. Also, watch for any emerging headlines with respect to Sino-US trade negotiations after the public comment period ends today. Note the AUD and CAD's continued underperformance against their peers.
- Elsewhere, pending further price discovery, we are looking to be long **USD-CAD** with NAFTA talks having re-started and with the Bank of Canada (BOC) meeting overnight a non-mover. Any further disappointments from the NAFTA negotiations will continue to dampen rate hike expectations. Nevertheless, for now, we expect the BOC to return to the rate hike path in October, tracking the Fed's expected September rate hike.
- **Overall, markets are likely to treat yesterday's lull as a brief respite. Outside the risk appetite space, we note that aggregated rate differentials continue to favor the broad dollar at this juncture.**
- On the calendar, watch for German factory orders (0600 GMT), US services and composite PMIs (1345 GMT), ISM non-manufacturing index (1400 GMT), and also the ADP employment change (1215 GMT) as a precursor for non-farm payrolls tomorrow.
- In terms of central bank comments, stay tuned for ECB's Lautenschlaeger (1145 GMT), Fed's Williams (1400 GMT), BOC's Wilkins (1830 GMT) and RBNZ's Orr (2130 GMT).

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

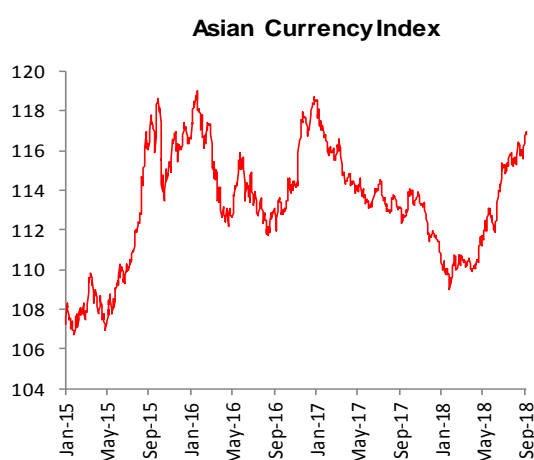
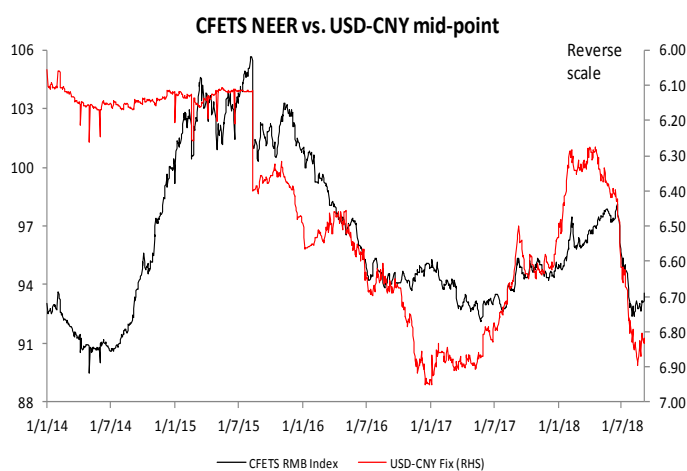
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- Global market stress will likely continue to manifest in EM and Asia, with the Asian bourses opening in the red. Our **FXSI (FX Sentiment Index)** is still edging higher (denoting increased caution) while remaining in Risk-Neutral zone.
- **In terms of relative performance within the region, the North-South divide may persist, although this gap may narrow if broad dollar dynamics continue to strengthen.**
- Within the South Asian space, with sentiment already weighed by the specter of inflation and recent net equity outflows, expect the PHP to join the ranks of the IDR and INR if EM/Asia sentiment deteriorates appreciably once again. In the interim, expect regional central banks to remain on hand to temper market volatility if needed.
- In terms of **Asian portfolio flows**, note that the latest reading showed equity outflows across Asia, with the exception of India. At this juncture, stay cautious on the possibility that the slow bleed from Asian equities may pick up pace if contagion fears continue to build.
- **SGD NEER:** The SGD NEER stood at +0.82% above its perceived parity level (1.3861) this morning. The NEER-implied USD-SGD thresholds eased as we got a breather from broad dollar strength. Expect the +0.70% (1.3775) and +1.00% (1.3733) thresholds to limit the intra-day moves in the USD-SGD. Nevertheless, we remain on the lookout for any break-out in the USD-SGD in-line with the DXY index.
- **CFETS RMB Index:** The USD-CNY mid-point was set lower, by less than our expectations, at 6.8217 compared to 6.8266 on Wednesday. The CFETS RMB Index is effectively static at 93.54.



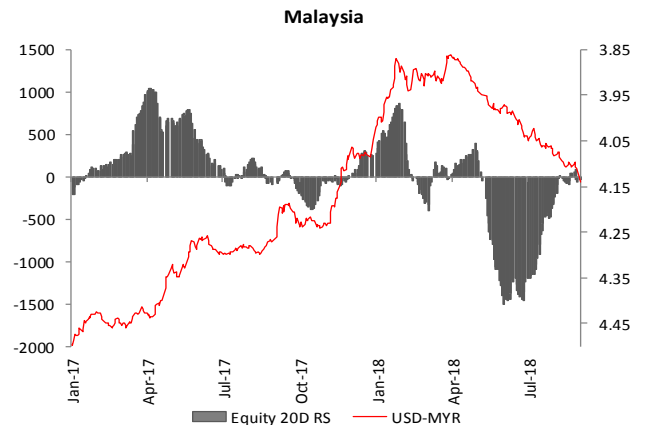
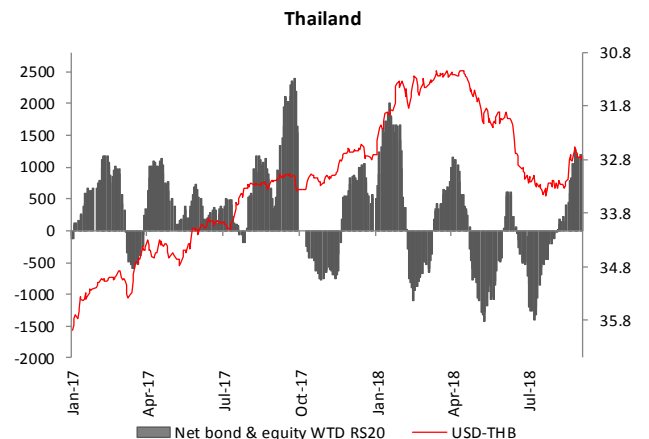
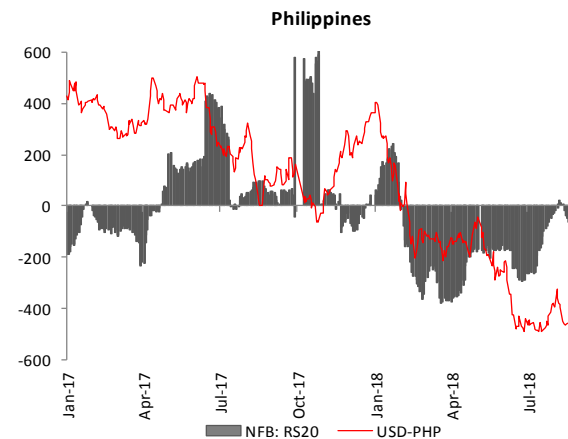
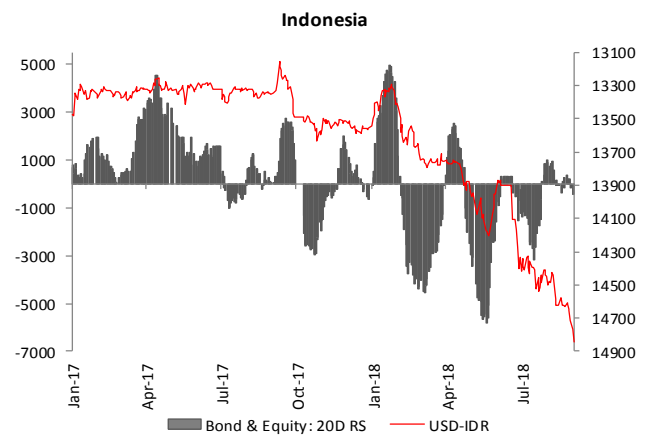
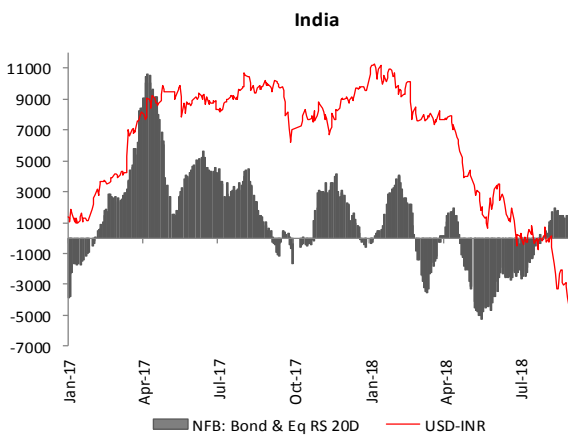
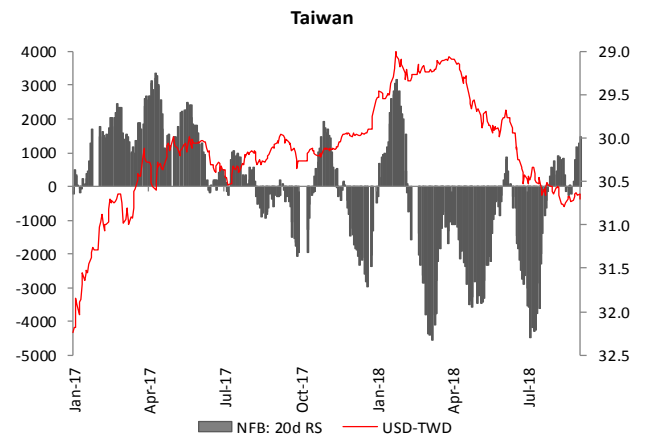
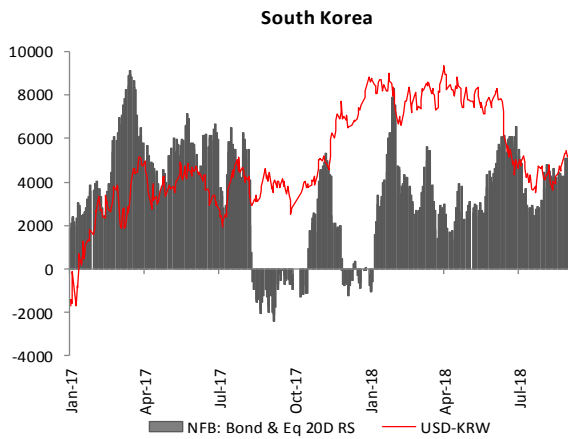
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	Inability to break through the 6.8000 level may set the stage for a range-bound trading between 6.80-6.90; no signs of immediate progress in Sino-US trade talks with the public comment period for the proposal to implement tariffs on US\$200bn worth of imports to end on 5 Sep, new round of tariffs may hit by end-Sep
USD-KRW	↔	Expect to track RMB movements; weaker than expected unemployment print may douse rate hike expectations; BOK held rates unchanged with subsequent rhetoric sounding dovish again. Expectations for a rate hike by BOK before year-end may have to be trimmed
USD-TWD	↔	Expect to track RMB movements; flow dynamics still fluid with no clear directionality
USD-INR	↑	Net inflow momentum in a rolling 20D basis starting to moderate; hit by renewed EM jitters led by Argentina; limited RBI offers north of 71.00
USD-SGD	↔	Pause in broad USD momentum cap near term advances in the pair; another firm core inflation print to fuel speculation for a tightening move by the MAS in October, do not rule out this possibility yet. Near term, the SGD is not out of the woods yet, still demonstrating a responsiveness to the firmer dollar dynamic
USD-MYR	↑	Economic indicators pointing south; BNM expected to be on hold until 2019; with 4.08 and 4.10 resistances quickly broken, there appears to be little catalyst for MYR strengthening; equity outflows eased. On a related note, expect SGD-MYR to continue to attempt to lift, especially with 3.00 now having been violated.
USD-IDR	↑	IDR may remain exposed to EM jitters due to widening CA deficit and high percentage of foreign ownership in government bonds. NDF points, especially in the front-end are already reflecting elevated levels, potentially discouraging fresh short term USD longs, potentially pushing interest out towards the back-end in the forward/forwards if investors remain bearish on the IDR.
USD-THB	↔/↓	2Q GDP firmer than expected; Bank of Thailand striking a new hawkish tone should provide support, top aide to Thai PM also signalled possible rate hike before year-end; inflow momentum still strong
USD-PHP	↑	BSP rate hiked 50 bps in August, as expected by some quarters; BSP retains a hawkish stance, ready to hike further if inflation remains out of control

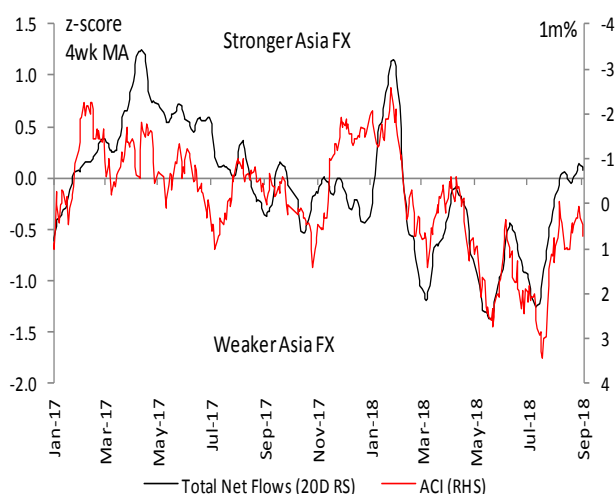
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



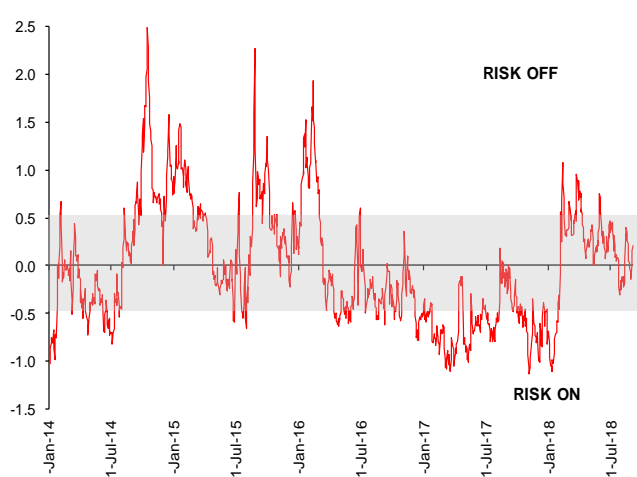
Source: CEIC, Bloomberg, OCBC Bank

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	1.000	-0.048	0.840	-0.861	-0.666	-0.732	-0.401	-0.760	0.519	0.881	0.736	-0.992
KRW	0.873	0.093	0.745	-0.916	-0.612	-0.555	-0.337	-0.696	0.316	0.690	0.543	-0.859
CNY	0.840	-0.123	1.000	-0.739	-0.681	-0.795	-0.397	-0.678	0.631	0.819	0.872	-0.844
THB	0.799	0.433	0.627	-0.837	-0.397	-0.395	-0.240	-0.711	0.038	0.714	0.506	-0.822
CNH	0.736	-0.053	0.872	-0.637	-0.431	-0.574	-0.165	-0.442	0.671	0.684	1.000	-0.732
CHF	0.726	0.160	0.542	-0.901	-0.381	-0.433	-0.469	-0.798	-0.093	0.511	0.324	-0.762
SGD	0.721	-0.025	0.735	-0.482	-0.619	-0.615	0.015	-0.333	0.771	0.758	0.798	-0.668
TWD	0.586	-0.518	0.636	-0.300	-0.802	-0.775	-0.172	-0.396	0.755	0.523	0.480	-0.531
CAD	0.574	0.156	0.519	-0.524	-0.594	-0.443	0.013	-0.292	0.520	0.632	0.507	-0.514
PHP	0.027	-0.656	0.233	0.291	-0.481	-0.442	0.063	0.121	0.612	0.127	0.236	0.027
USGG10	-0.048	1.000	-0.123	-0.048	0.321	0.441	0.464	0.085	-0.315	-0.023	-0.053	0.047
MYR	-0.128	-0.328	-0.021	0.428	-0.375	-0.225	0.272	0.307	0.514	0.008	0.021	0.199
AUD	-0.208	0.189	-0.310	-0.116	0.339	0.303	-0.290	-0.184	-0.741	-0.362	-0.457	0.137
IDR	-0.219	-0.278	-0.097	0.525	-0.265	-0.084	0.325	0.457	0.490	-0.041	-0.023	0.289
INR	-0.242	-0.350	-0.051	0.612	-0.268	-0.150	0.298	0.507	0.594	-0.014	0.036	0.311
JPY	-0.401	0.464	-0.397	0.497	0.385	0.570	1.000	0.592	-0.172	-0.508	-0.165	0.466
NZD	-0.673	0.115	-0.560	0.413	0.508	0.548	0.049	0.293	-0.742	-0.703	-0.671	0.628
GBP	-0.913	0.116	-0.700	0.824	0.653	0.750	0.402	0.825	-0.378	-0.727	-0.556	0.897
EUR	-0.992	0.047	-0.844	0.883	0.640	0.727	0.466	0.784	-0.481	-0.891	-0.732	1.000

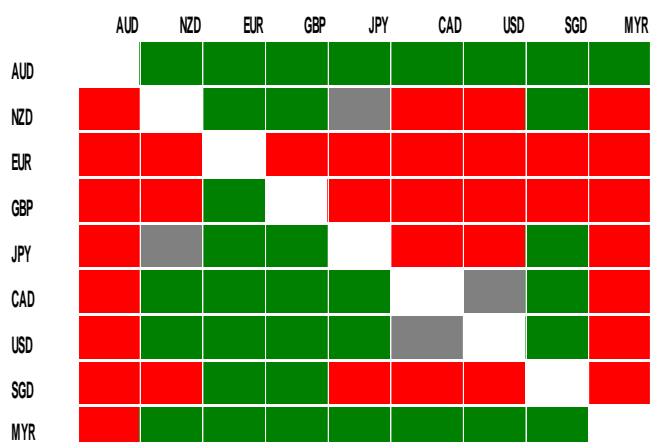
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1617	1.1647	1.1700	1.1746
GBP-USD	1.2664	1.2900	1.2923	1.3000	1.3013
AUD-USD	0.7156	0.7200	0.7202	0.7300	0.7352
NZD-USD	0.6532	0.6600	0.6606	0.6700	0.6717
USD-CAD	1.3090	1.3100	1.3171	1.3200	1.3208
USD-JPY	111.00	111.25	111.29	111.77	112.00
USD-SGD	1.3667	1.3700	1.3745	1.3800	1.3811
EUR-SGD	1.5998	1.6000	1.6008	1.6022	1.6092
JPY-SGD	1.2285	1.2300	1.2350	1.2400	1.2475
GBP-SGD	1.7455	1.7700	1.7763	1.7785	1.7800
AUD-SGD	0.9839	0.9857	0.9899	0.9900	1.0047
Gold	1161.40	1174.28	1199.70	1200.00	1217.60
Silver	13.98	14.10	14.13	14.20	15.27
Crude	65.26	68.50	68.56	68.60	69.40

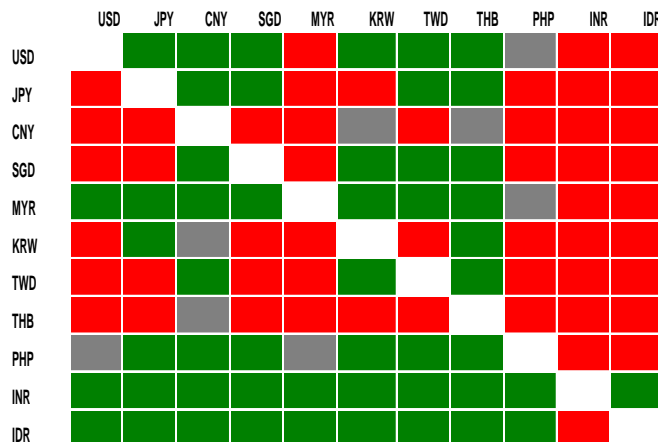
Source: OCBC Bank

G10 FX Heat Map



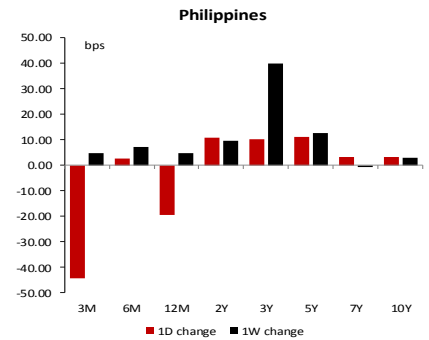
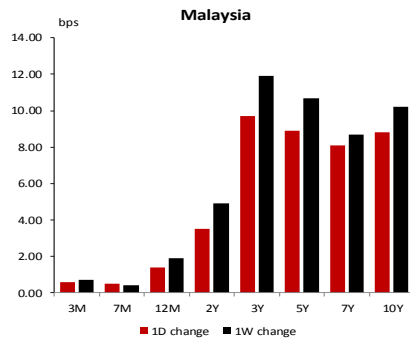
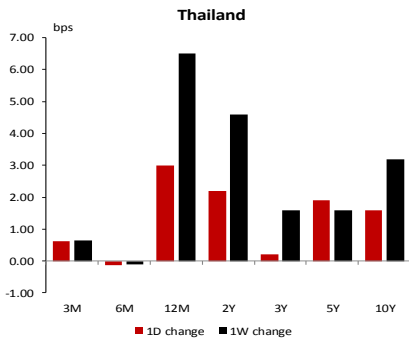
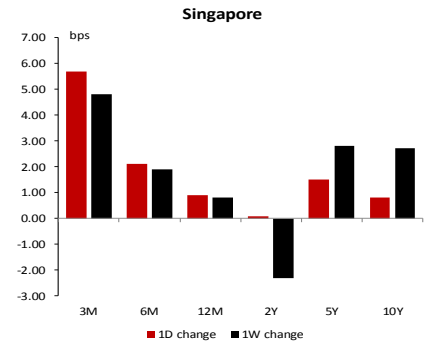
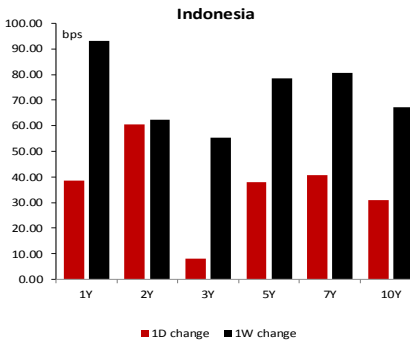
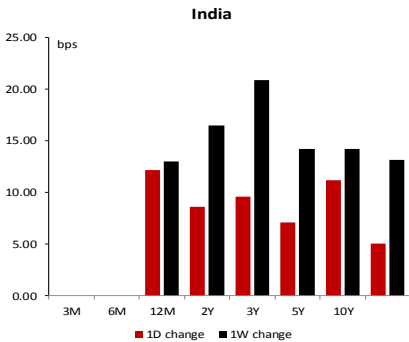
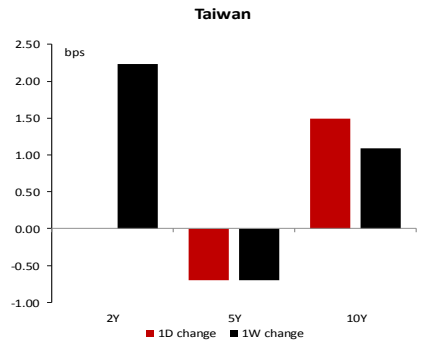
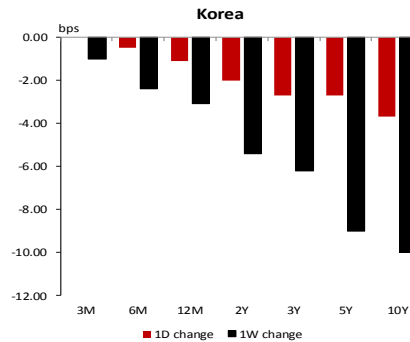
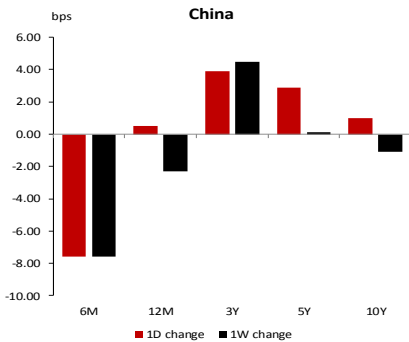
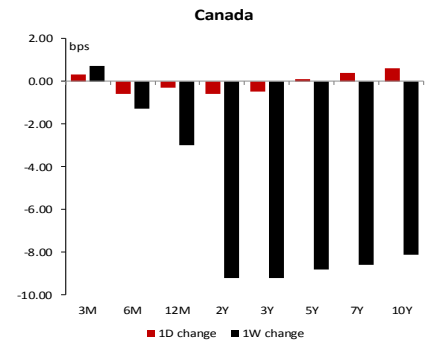
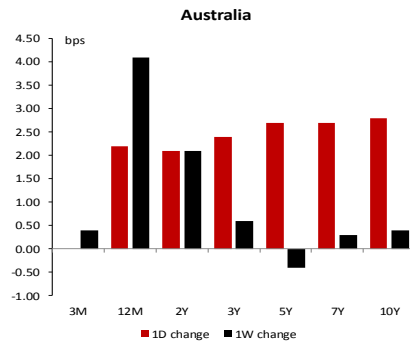
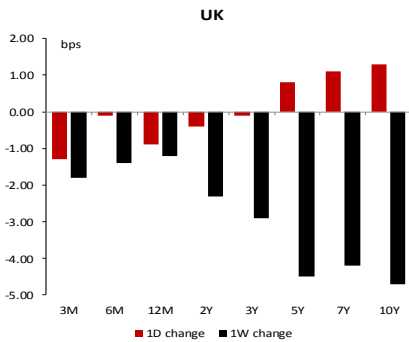
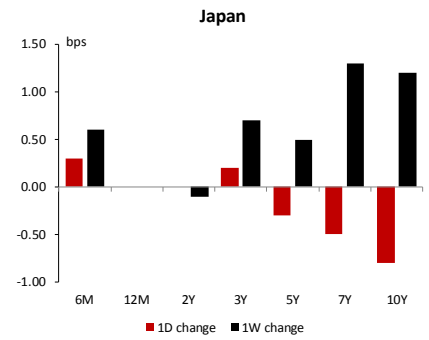
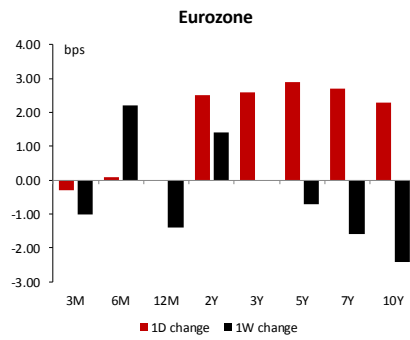
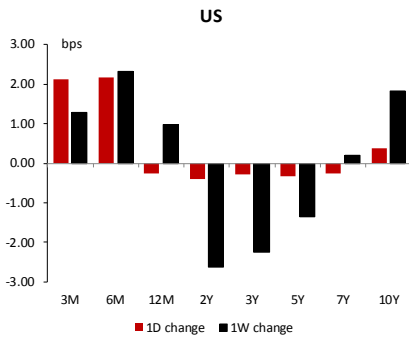
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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).
