

Tuesday, September 11, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Supportive US August NFP numbers lifted the UST yield curve and broad dollar on Friday. Apart from EUR weakness, the antipodeans in particular trailed the USD on the back of ongoing global trade tensions and we remain negative on the AUD.
- **From a yield differential perspective, Friday's US labor market numbers continue to bolster underpinnings for FOMC rate hike expectations and USD resilience. On this front, note that the TY is now looking increasingly bearish as we begin a new week.**
- On the **CFTC** front, large non-commercial positioning in aggregate saw a slight dip in the implied net long dollar bias in the latest week but asset manager accounts pared slightly their implied short dollar bias. Meanwhile, leveraged accounts also reduced slightly their overall implied net long dollar bias in the latest week. Nonetheless, note that implied net dollar longs for this class of accounts remain essentially at cyclical highs.
- On the risk appetite front, note that the **FXSI (FX Sentiment Index)** continued to climb within Risk-Neutral territory for the 6th consecutive session on Friday and the Index continues to run the risk of bleeding into Risk-Off territory this week.
- The highlights on the data calendar this week include industrial production in UK (0830 GMT), Germany (0900 GMT) and Eurozone (Wed), Australia business conditions (Tue), US CPI (Thu) and retail sales (Fri).
- On the central bank front, watch for BOE and ECB policy decisions (Thu), and the Fed Beige Book (Wed). Today will see comments from Bostic (1600 GMT), before a swathe of central bank speakers over the week, headlined by Fed's Brainard (Wed) and BOE's Carney (Thu).
- With the broad dollar still in the ascendant and the Bank of Canada torn between NAFTA uncertainties (which remain unresolved) and the need to address solidifying inflation pressures, USD-CAD may have scope to test higher in the near term. From a **USD-CAD** spot ref of 1.3137 on Friday, we target 1.3365 and leave a stop at 1.3020.

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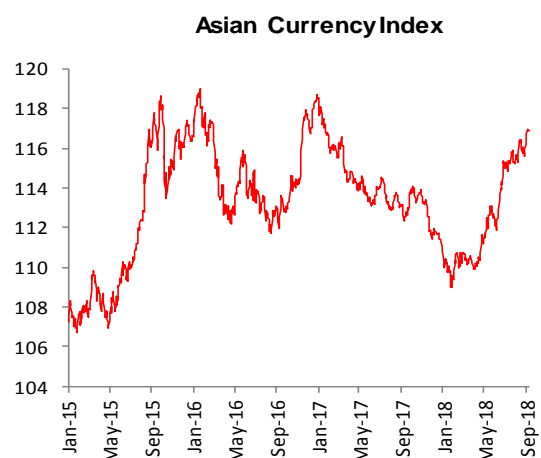
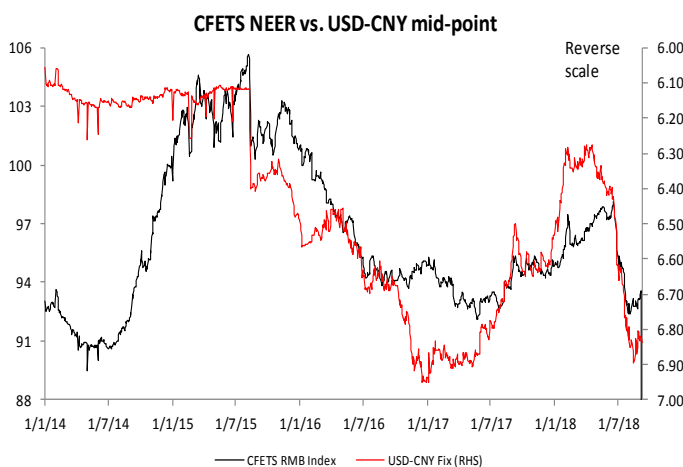
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Asian FX

- With US President Trump still continuing to spew rhetoric on the tariff front with respect to China, US-Sino trade tensions are expected to remain front and center within global markets this week, as we await the expected announcement on further tariffs on US\$200bn of Chinese goods and any other further provocations. Watch global equities as a key barometer.
- **EPFR** flow data for the latest week denote a reduction of net implied inflows in Asian (ex Japan, China) equities in the latest week but jump in net implied outflows for Asian bonds. On both fronts however, this represents a 3rd consecutive week of net outflows for bonds and equities in the region.
- **In terms of actual net portfolio flows in the region, sharp bond outflows are finally manifesting significantly in the bond market while rolling net bond and equity flows have collapsed to neutral, leaving INR and govies vulnerable to further weakness. Overall, despite fairly elevated carry and vols, Asian markets may remain vulnerable to a fresh bout of negative global sentiment.**
- On the Asian data calendar this week, watch for India CPI and industrial production (Wed) and China retail sales and industrial production (Fri).
- **SGD NEER:** The SGD NEER eased further at the start of this week, coming in softer at around +0.65% above its implied parity (1.3891) this morning with NEER-implied USD-SGD thresholds higher. We remain constructive on the pair, and look to add on dips to 1.3740.
- **CFETS RMB Index:** The USD-CNY mid-point came in largely as expected at 6.8389 from 6.8212 on Friday. This took the CFETS RMB Index lower to 93.49 from 93.52 yesterday. With the USD-CNY spot above the 6.8500 handle again, watch for another potential test of the 6.9000 handle this week.



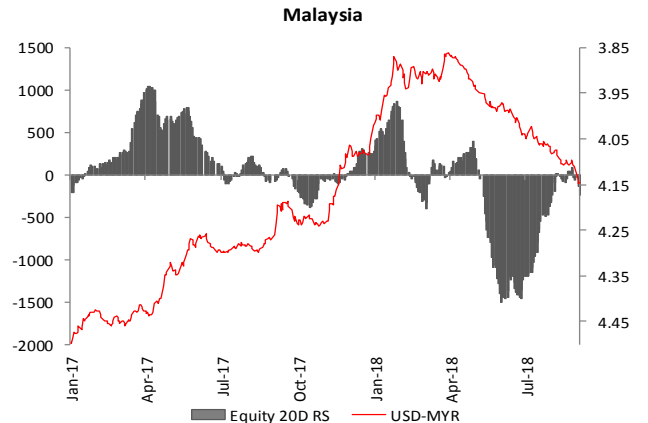
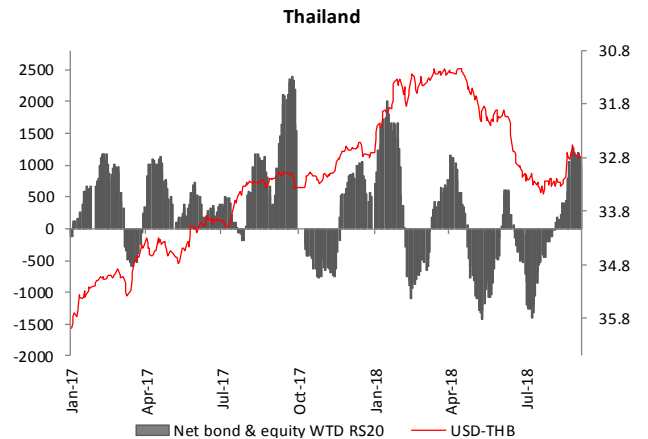
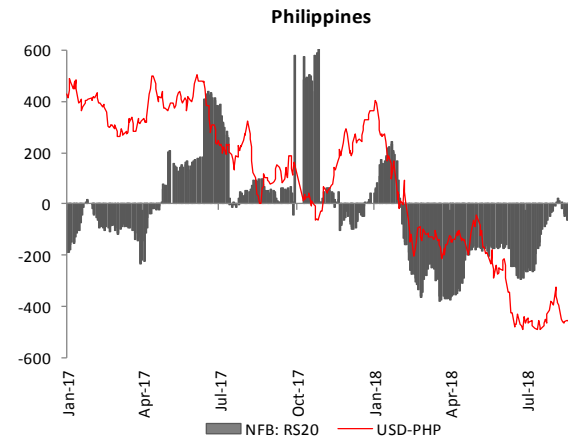
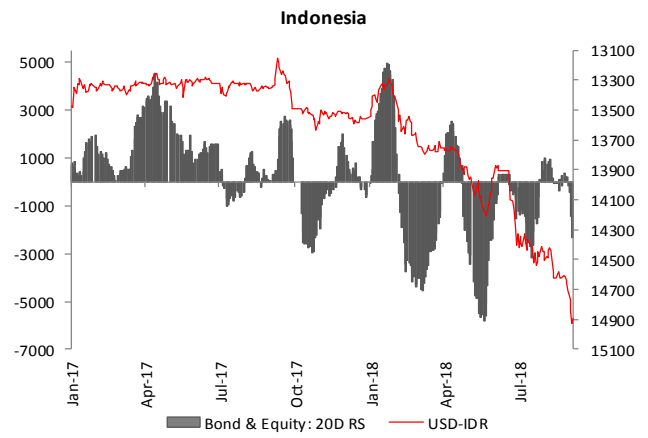
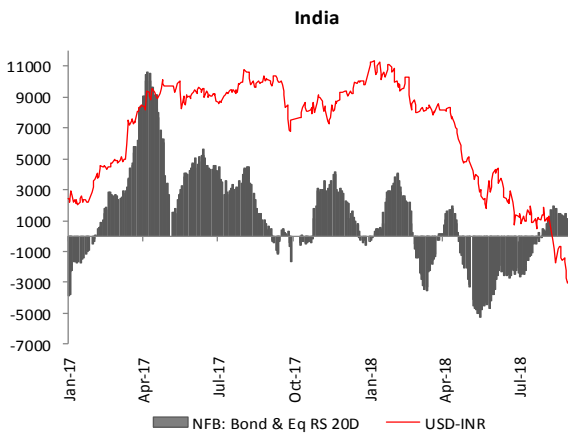
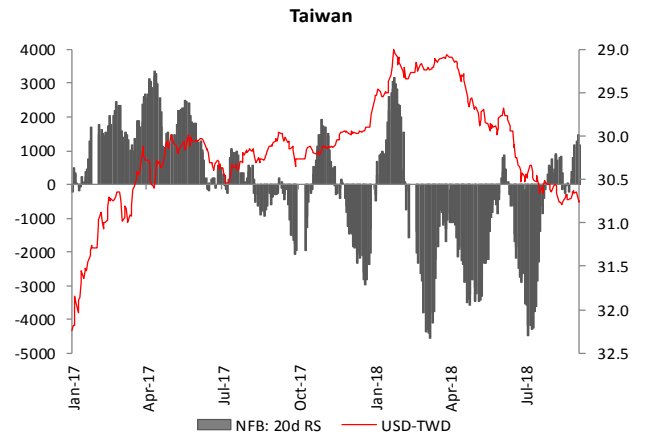
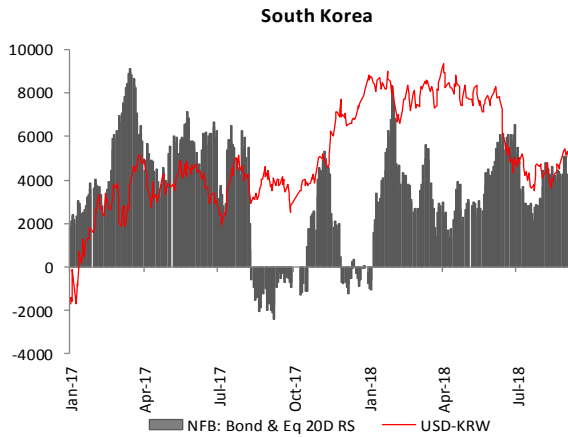
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market 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. USD-INR may continue to threaten 72.00, with govies still seen under downside pressure
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	↑	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.
USD-IDR	↔/↑	IDR may remain exposed to EM jitters due to C/A deficit concerns and a high percentage of foreign ownership in government bonds. Note expectations for BI to hike in September again (another inter-meeting hike would not be totally unexpected). 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. On a related note, 10y govies may not relinquish the 8.50% handle convincingly just yet.
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. Already heightened implied costs may deter fresh short term PHP bears in the NDF outright in the absence of fresh EM distress.

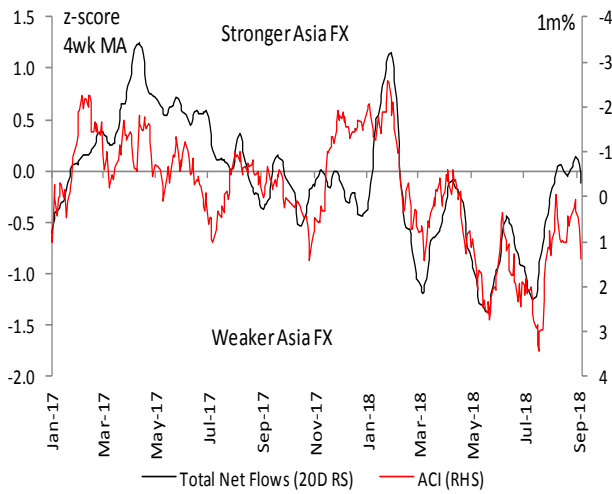
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



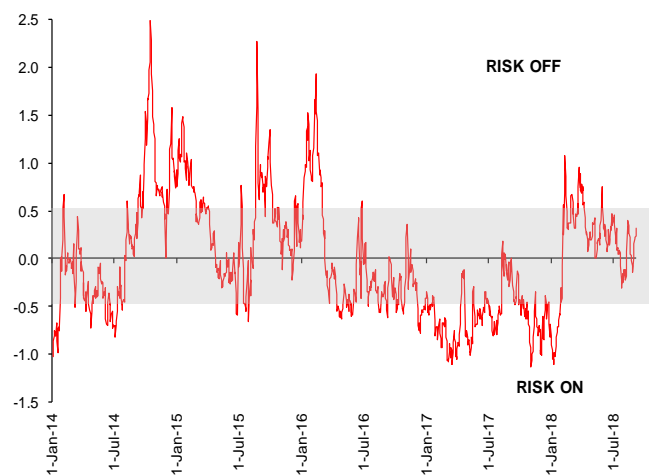
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.055	0.892	-0.898	-0.596	-0.774	-0.342	-0.808	0.370	0.881	0.709	-0.992
THB	0.948	0.088	0.865	-0.827	-0.636	-0.800	-0.324	-0.810	0.324	0.890	0.639	-0.948
KRY	0.892	0.037	1.000	-0.863	-0.515	-0.783	-0.366	-0.751	0.468	0.818	0.879	-0.905
KRW	0.822	0.202	0.784	-0.918	-0.771	-0.800	-0.368	-0.783	0.488	0.629	0.588	-0.833
CHF	0.806	-0.386	0.712	-0.836	-0.344	-0.658	-0.453	-0.777	-0.096	0.669	0.345	-0.792
TWD	0.787	0.163	0.695	-0.749	-0.761	-0.744	-0.116	-0.740	0.486	0.564	0.540	-0.758
CNH	0.709	0.238	0.879	-0.687	-0.409	-0.554	-0.111	-0.457	0.632	0.628	1.000	-0.723
SGD	0.629	0.614	0.663	-0.529	-0.672	-0.552	0.036	-0.382	0.774	0.594	0.774	-0.631
CAD	0.494	0.473	0.469	-0.465	-0.750	-0.531	-0.048	-0.337	0.706	0.475	0.517	-0.480
USGG10	0.055	1.000	0.037	0.122	-0.201	0.025	0.388	0.108	0.616	0.053	0.238	-0.061
AUD	-0.091	-0.766	-0.135	-0.041	0.368	0.048	-0.331	-0.132	-0.686	-0.116	-0.428	0.098
PHP	-0.217	0.396	-0.133	0.180	-0.512	-0.055	0.133	0.113	0.530	-0.293	0.062	0.190
MYR	-0.300	0.536	-0.290	0.352	-0.374	0.078	0.314	0.294	0.462	-0.272	-0.056	0.307
JPY	-0.342	0.388	-0.366	0.529	0.381	0.572	1.000	0.590	-0.095	-0.460	-0.111	0.415
INR	-0.354	0.602	-0.289	0.442	-0.280	0.135	0.331	0.391	0.561	-0.241	0.028	0.354
IDR	-0.359	0.512	-0.353	0.444	-0.211	0.211	0.380	0.434	0.367	-0.270	-0.134	0.380
NZD	-0.538	-0.654	-0.529	0.456	0.657	0.469	-0.007	0.292	-0.794	-0.555	-0.634	0.543
GBP	-0.904	0.133	-0.745	0.853	0.532	0.756	0.313	0.815	-0.166	-0.748	-0.479	0.873
EUR	-0.992	-0.061	-0.905	0.912	0.613	0.793	0.415	0.826	-0.389	-0.889	-0.723	1.000

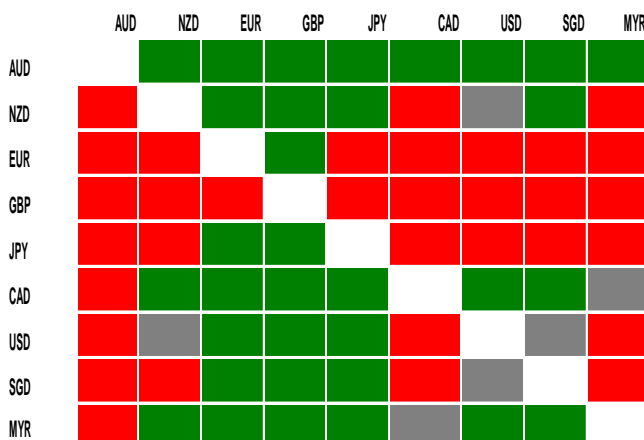
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1345	1.1500	1.1553	1.1600	1.1612
GBP-USD	1.2685	1.2900	1.2923	1.3000	1.3003
AUD-USD	0.7100	0.7102	0.7107	0.7200	0.7341
NZD-USD	0.6508	0.6514	0.6516	0.6600	0.6708
USD-CAD	1.3090	1.3100	1.3182	1.3200	1.3226
USD-JPY	110.00	110.19	110.95	111.00	111.24
USD-SGD	1.3673	1.3800	1.3804	1.3819	1.3827
EUR-SGD	1.5877	1.5900	1.5948	1.5997	1.6000
JPY-SGD	1.2291	1.2400	1.2442	1.2488	1.2500
GBP-SGD	1.7778	1.7800	1.7839	1.7883	1.7900
AUD-SGD	0.9800	0.9802	0.9810	0.9900	1.0037
Gold	1161.40	1175.27	1194.80	1200.00	1213.23
Silver	13.96	14.00	14.07	14.10	15.22
Crude	65.37	68.00	68.09	68.10	69.18

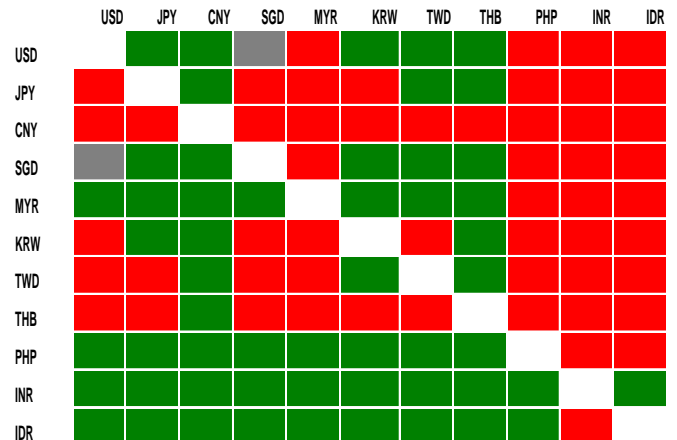
Source: OCBC Bank

G10 FX Heat Map



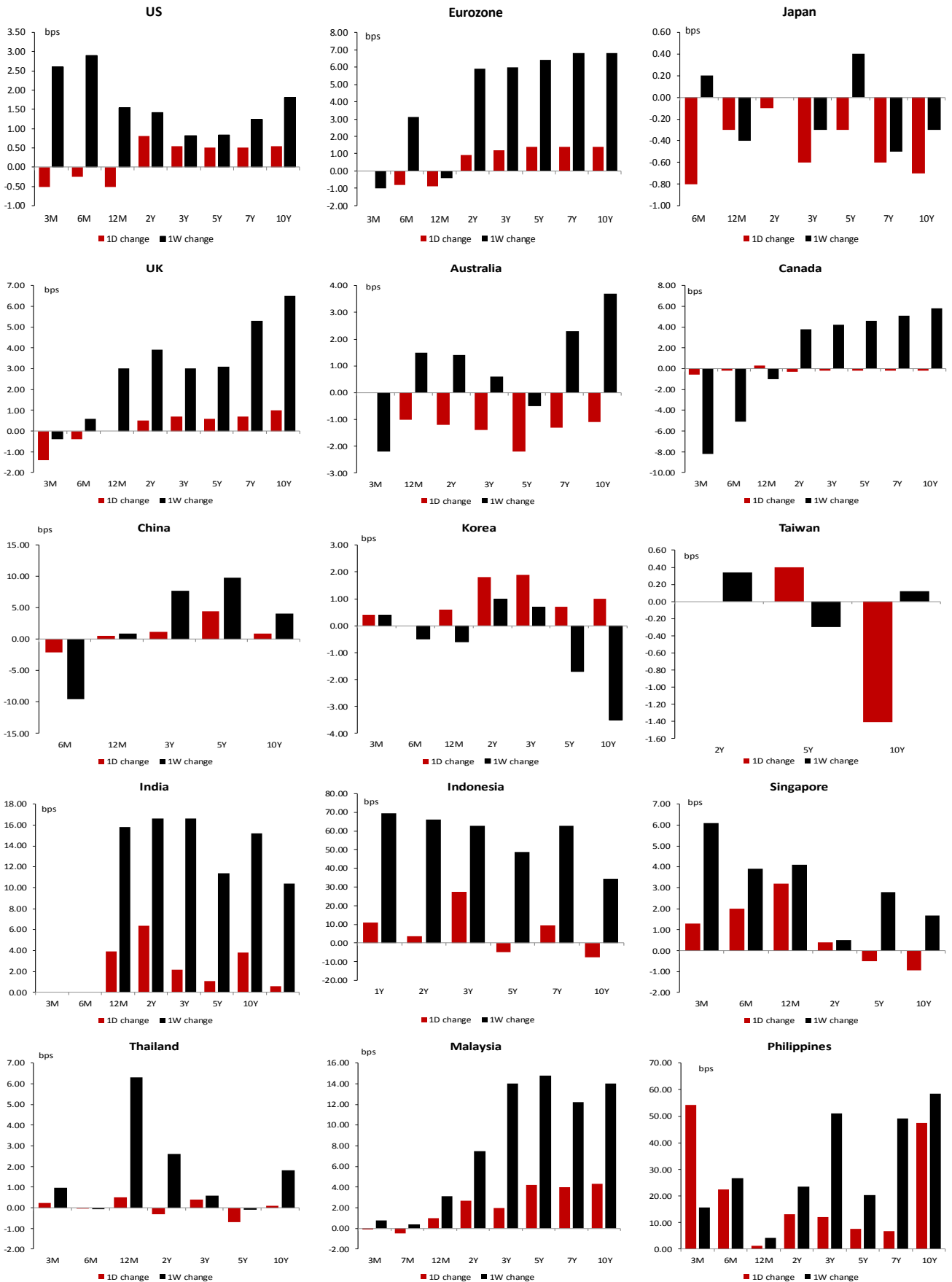
Source: OCBC Bank

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	04-Sep-18	S	AUD-USD	0.7190 0.7020 0.7275	Vulnerability to contagion, static RBA		
2	07-Sep-18	B	USD-CAD	1.3137 1.3365 1.3020	USD resilience, NAFTA uncertainty		
STRUCTURAL							
-	-	-	-	-	-		
RECENTLY CLOSED TRADE IDEAS							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%) [*]
-	-	-	-	-	-	-	-
* realized							

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