DAILY FX OUTLOOK

OCBC Bank

Thursday, September 13, 2018

FX Themes/Strategy/Trading Ideas

- Improving risk appetite (positive EZ/US equities) saw the dollar slipping across G10 space with the cyclicals leading the pack higher. Despite a softer EZ curve and chatter indicating that the ECB is set to publish lower growth forecasts and ongoing Italian political uncertainty, the EUR still managed to pop smartly higher by late NY. On the US front, the UST curve flatter despite softer than expected US August PPI readings and conflicting comments from the Fed's Brainard and Bullard.

- **Overall risk sentiment was aided on several fronts, perhaps most importantly over the prospects of renewed US-Sino trade talks.** Elsewhere on the trade front, a Mexican official also noted that the US and Canada may be moving closer to a compromise with regards to NAFTA. In Europe, we note decreased odds of a mutiny within the Conservatives in the UK, and the EU's Juncker also coming across as less combative and more conciliatory with respect to the Bexit process.

- **These developments led our FXSI (FX Sentiment Index) lower within the Risk-Neutral zone, away from the outright Risk-Off territory. In particular, US-Sino trade tensions (together with potential EM contagion) had been a driver of negative risk sentiments. Barring a boiling over of fears in the EM space, a positive response to Mnuchin's trade invitation to China may see risk aversion ease in the near term.**

- Look to the ECB (1145 GMT) and the BOE (1100 GMT) meetings today (as well as US August CPI (1230 GMT)) for policy cues today. At this juncture, we do not expect a significant shift in policy stance at both the ECB and BOE. Meanwhile, investors may attempt to edge the USD lower (except for the GBP, short-end vols have capitulated lower) pending further news flow in the global session.

- Our 07 Sep 18 idea to be long **USD-CAD** at 1.3137 was stopped out on Wednesday at 1.3020 as the broad dollar wavered, NAFTA negativity paused, and crude continued to climb.

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Asian FX

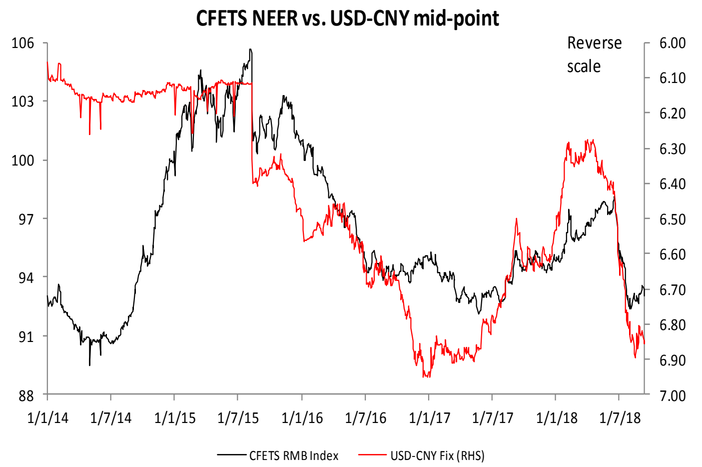
- USD resilience in Asia should be dented by the significant drop in the USD-CNH overnight and with EM equities/FX attempting to stabilize for the 2nd consecutive session. However, positive investor sentiment may be tempered by crude's continued climb overnight. Intra-day, expect markets to continue to look to news flow (and potential contagion) out of the EM complex, with the Turkish central bank expected to hike rates today. Relative vol surface behavior continues to indicate that the epicenter of global uncertainty continues to be within EM.

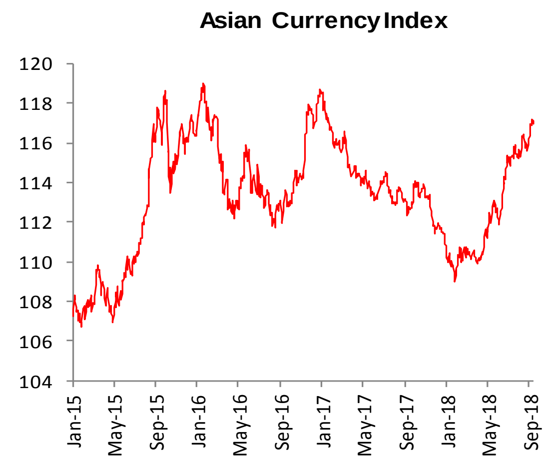
- **Potential measures and heightened rhetoric from the likes of the RBI and Bank Indonesia, coupled with the soggy dollar complex at the start of the session, may whittle away at the regional Asian FX spot pairs, NDFs, and associated FX vols.** However, this may not be expected to extend out too much out along the curve or materially topple the current implied USD skews if investor skepticism persists.

- On the net portfolio flow front in the Asia, although the situation in South Korea is attempting to consolidate, note sustained negative pressure for outflows in India and Indonesia. Meanwhile, inflow momentum in Taiwan and Thailand remain supported. At this juncture, we would expect little lasting respite for the upside bias for southern govie bond yields, especially for the middle to back-end.

- **SGD NEER**: The SGD NEER firmed again this morning, coming in at around +1.02% above its implied parity (1.3854). NEER-implied USD-SGD thresholds slipped alongside the weaker dollar overnight. At this juncture, expect the +0.90% (1.3731) and +1.20% (1.3690) thresholds to bookend the pair intraday. Note that the SGD NEER has been drifting higher again this week, alongside a pause in overall risk aversion.

- **CFETS RMB Index**: The USD-CNY mid-point came in higher, as largely expected, at 6.8488 from 6.8546 on Wednesday. This took the CFETS RMB Index lower again to 93.07 from 93.21 yesterday.





Source: OCBC Bank, Bloomberg

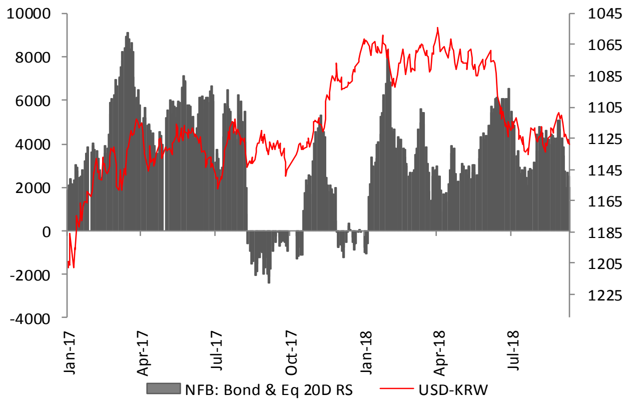
Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	Some stability in FX is still expected in the near term but note the heightened realized volatility of the fixings all through the summer coupled with the slightly uncomfortable firming of the CFETS RMB Index. 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 curve supported.
USD-KRW	↔	Weaker than expected unemployment print may douse rate hike expectations; BOK board member warns against rate hikes on tepid inflation. Expect back-end yields for KTBs (and NDIRS) to continue to lead the way lower.
USD-TWD	↔	Expect to track North Asian trends in general; flow dynamics remain supportive despite EM concerns
USD-INR	↑	Stress on the INR and govies may be expected to persist but this may be tempered by potential for a rate hike (despite the softer than expected Aug CPI)and administrative measures from the authorities. 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.
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; near term, the SGD is not out of the woods yet, still demonstrating a responsivenss 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 attmept to lift, especially with 3.00 now having been violated.
USD-IDR	↔	IDR may remain exposed to EM jitters on the back of C/A deficit concerns and foreign reserve slippage, as well as exposure to foreign ownership of local paper. 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. Bond inflows remain significant, yielding a buffer for FX and govies.
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 new short term PHP bears in the NDF outrights in the absence of fresh EM distress.

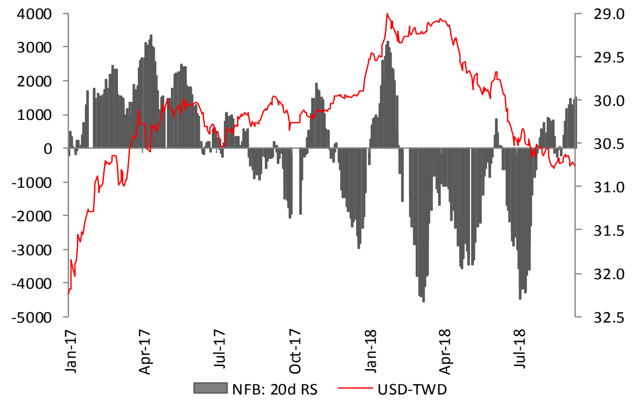
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

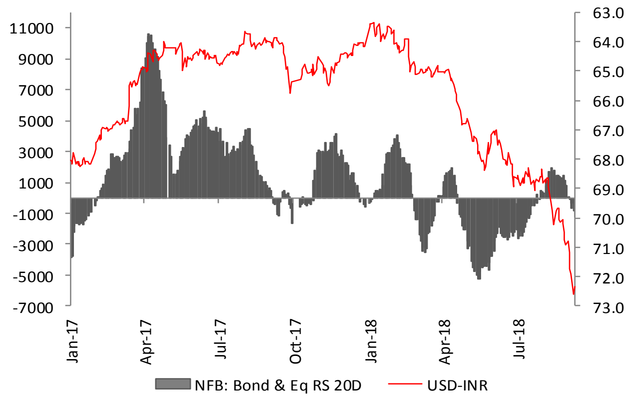
South Korea



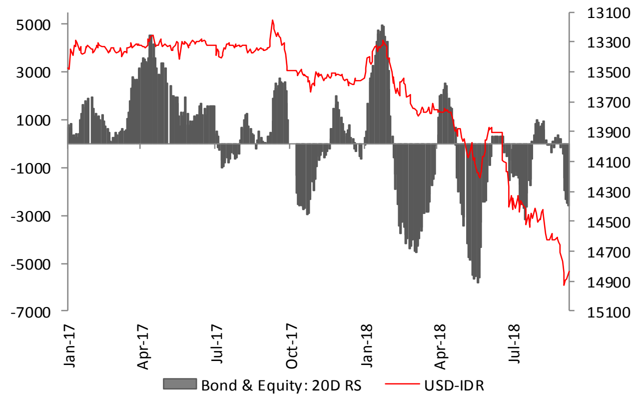
Taiwan



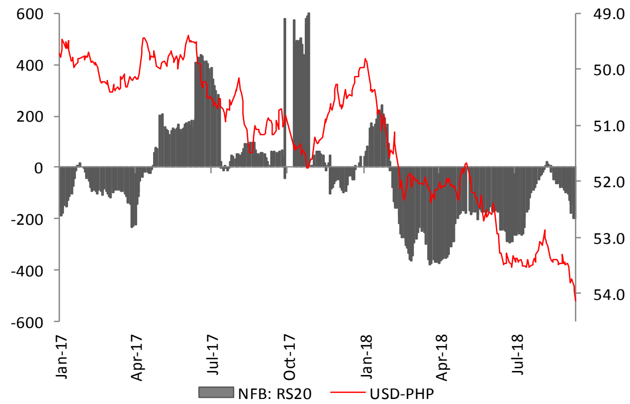
India



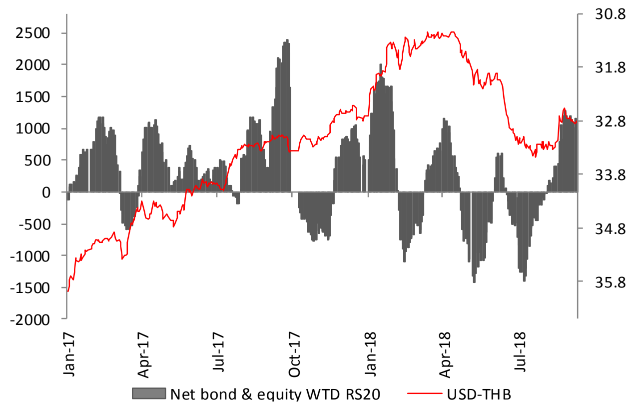
Indonesia



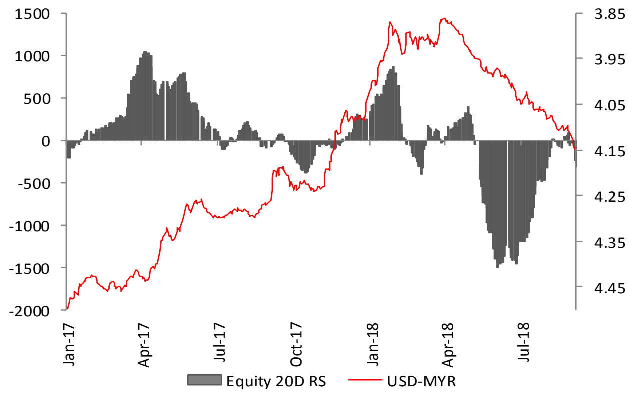
Philippines



Thailand

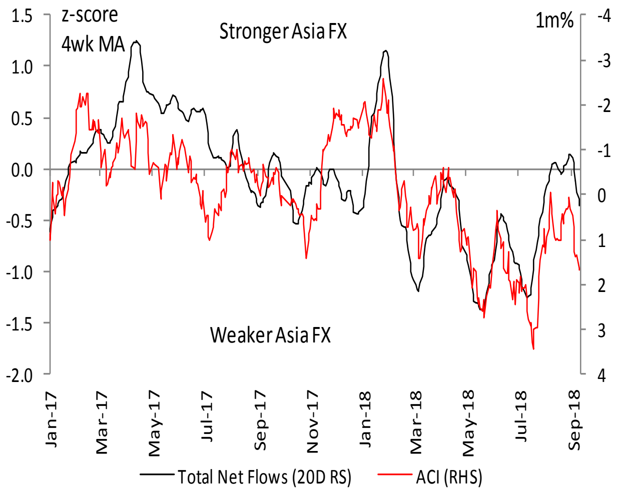


Malaysia



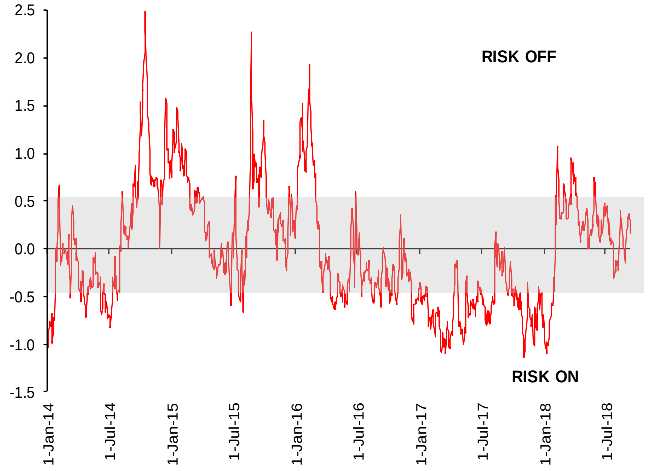
Source: CEIC, Bloomberg, OCBC Bank

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	1.000	-0.170	0.824	-0.889	-0.303	-0.801	-0.353	-0.812	0.240	0.816	0.653	-0.987
THB	0.937	0.005	0.839	-0.825	-0.417	-0.778	-0.323	-0.774	0.304	0.779	0.619	-0.945
CNY	0.824	0.116	1.000	-0.800	-0.484	-0.719	-0.246	-0.652	0.395	0.576	0.864	-0.849
CHF	0.818	-0.463	0.615	-0.831	-0.074	-0.686	-0.497	-0.806	-0.245	0.655	0.294	-0.805
CNH	0.653	0.160	0.864	-0.611	-0.376	-0.527	-0.026	-0.426	0.587	0.414	1.000	-0.668
TWD	0.616	0.359	0.665	-0.615	-0.784	-0.552	0.038	-0.531	0.468	0.206	0.499	-0.620
KRW	0.599	0.352	0.723	-0.707	-0.874	-0.586	-0.152	-0.536	0.395	0.128	0.473	-0.657
SGD	0.548	0.500	0.641	-0.434	-0.648	-0.458	0.136	-0.310	0.787	0.298	0.770	-0.560
CAD	0.490	0.167	0.420	-0.402	-0.553	-0.520	-0.046	-0.407	0.709	0.319	0.508	-0.462
AUD	0.030	-0.793	-0.205	-0.127	0.595	-0.086	-0.472	-0.262	-0.698	0.220	-0.425	-0.006
USGG10	-0.170	1.000	0.116	0.260	-0.594	0.224	0.549	0.372	0.500	-0.386	0.160	0.127
PHP	-0.297	0.766	0.057	0.218	-0.772	0.253	0.303	0.322	0.427	-0.578	0.094	0.227
INR	-0.318	0.811	0.066	0.352	-0.636	0.214	0.406	0.377	0.648	-0.502	0.258	0.284
NZD	-0.327	-0.713	-0.498	0.253	0.766	0.253	-0.220	0.065	-0.741	-0.082	-0.567	0.358
MYR	-0.340	0.686	-0.207	0.318	-0.506	0.207	0.343	0.443	0.572	-0.320	-0.033	0.307
JPY	-0.353	0.549	-0.246	0.539	0.042	0.580	1.000	0.610	-0.010	-0.518	-0.026	0.419
IDR	-0.360	0.608	-0.266	0.410	-0.377	0.257	0.376	0.421	0.509	-0.348	-0.060	0.358
GBP	-0.846	0.524	-0.511	0.795	-0.057	0.743	0.422	0.797	0.018	-0.815	-0.329	0.795
EUR	-0.987	0.127	-0.849	0.911	0.357	0.804	0.419	0.810	-0.278	-0.808	-0.668	1.000

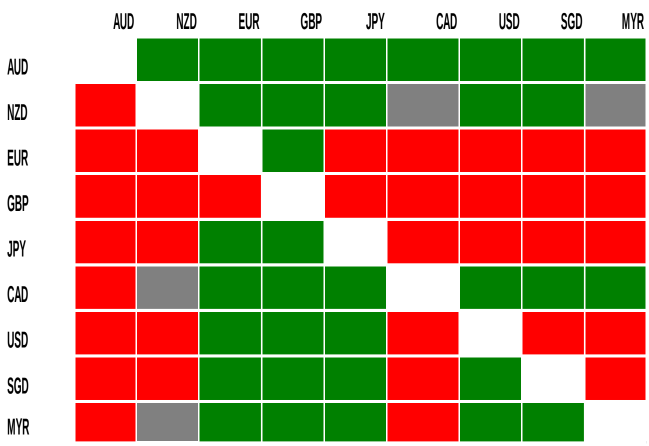
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1610	1.1635	1.1700	1.1732
GBP-USD	1.2995	1.3000	1.3044	1.3087	1.3092
AUD-USD	0.7085	0.7100	0.7186	0.7200	0.7328
NZD-USD	0.6500	0.6501	0.6558	0.6600	0.6695
USD-CAD	1.2895	1.3000	1.3004	1.3083	1.3100
USD-JPY	111.00	111.29	111.36	111.87	111.89
USD-SGD	1.3677	1.3700	1.3716	1.3800	1.3806
EUR-SGD	1.5879	1.5900	1.5960	1.5998	1.6000
JPY-SGD	1.2289	1.2300	1.2317	1.2400	1.2455
GBP-SGD	1.7772	1.7800	1.7891	1.7900	1.7995
AUD-SGD	0.9761	0.9800	0.9857	0.9900	1.0021
Gold	1178.33	1200.00	1204.40	1213.53	1214.63
Silver	13.91	14.10	14.19	14.20	15.05
Crude	68.91	69.80	69.85	69.90	71.14

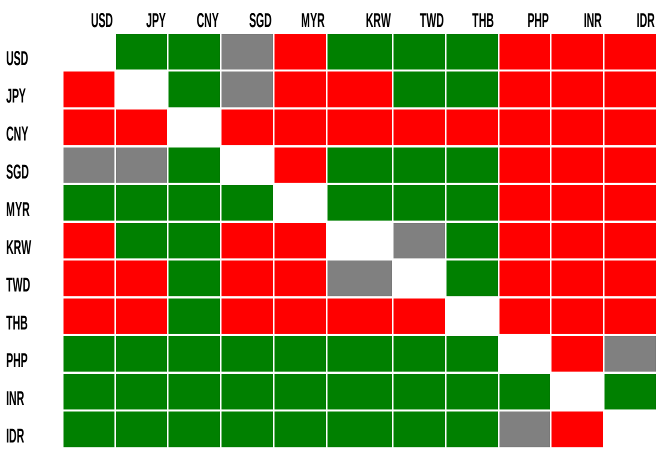
Source: OCBC Bank

G10 FX Heat Map



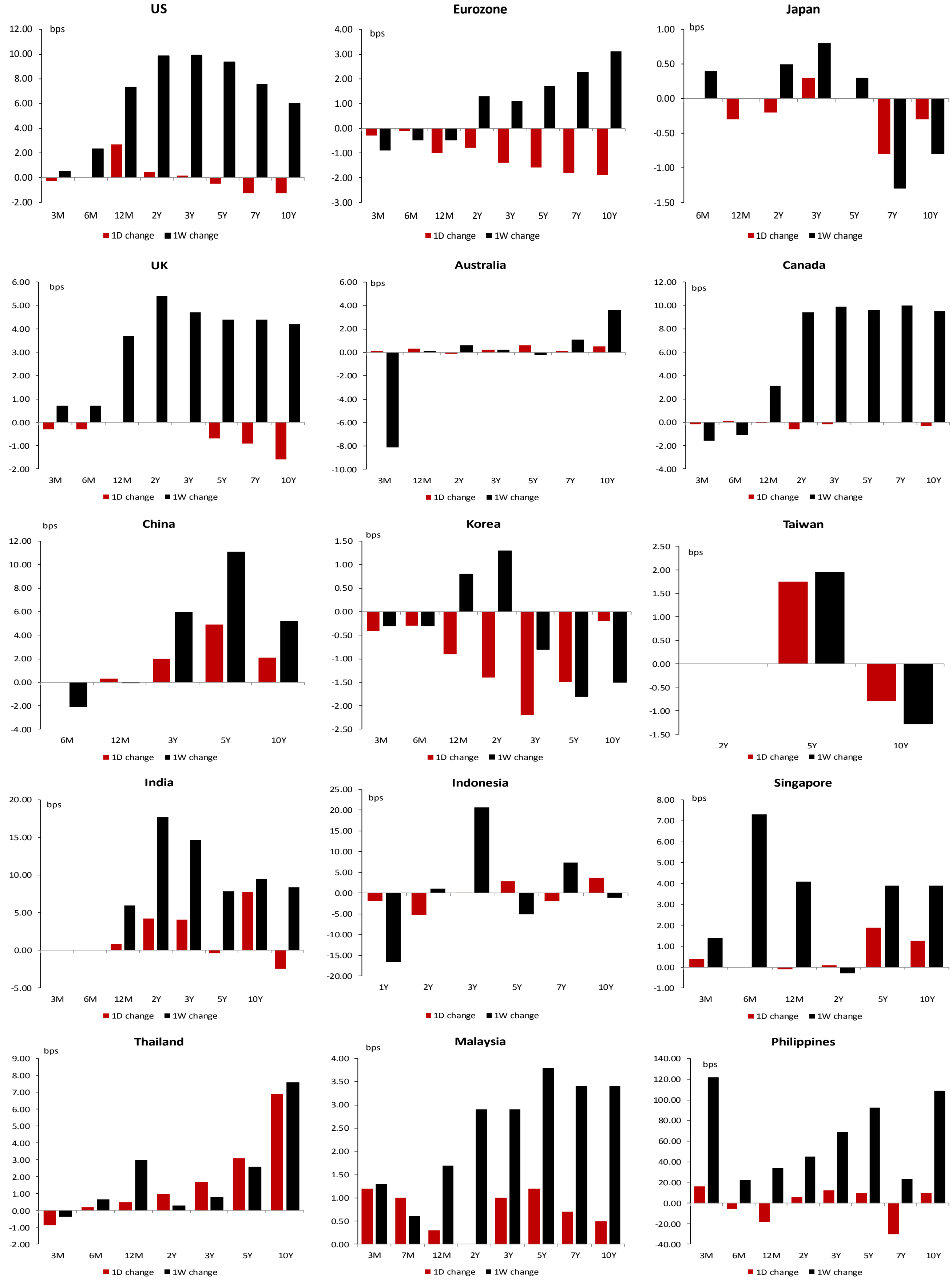
Source: OCBC Bank

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	10-Sep-18		S	USD-JPY	111.05	109.25	111.25	Risk of further global market uncertainty
3	11-Sep-18		B	GBP-USD	1.3056	1.3325	1.2920	Positoning ahed of BOE MPC and positivty from Brexit news flow
	STRUCTURAL							
	-		-	-	-	-	-	-

	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
	RECENTLY CLOSED TRADE IDEAS							
1	07-Sep-18	12-Sep-18	B	USD-CAD	1.3137	1.3020	USD resilience, NAFTA uncertainty	

* realized

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