

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 Brexit 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.

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4037

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

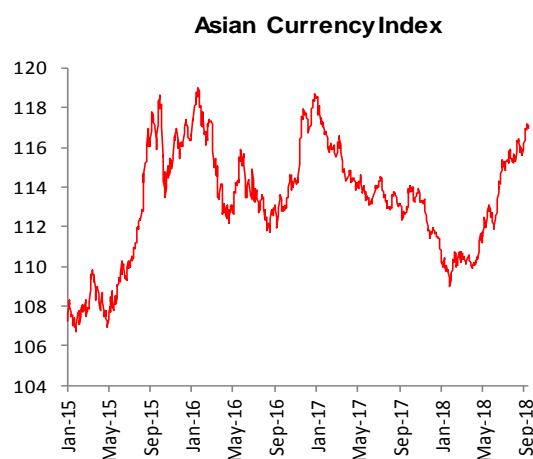
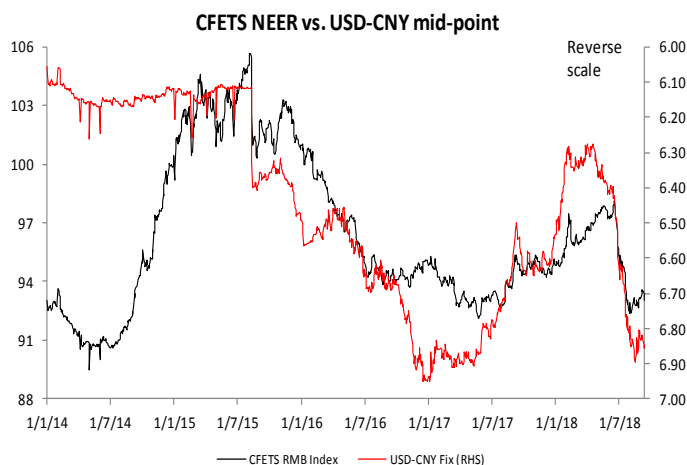
**Terence Wu**

+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## 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 2<sup>nd</sup> 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.



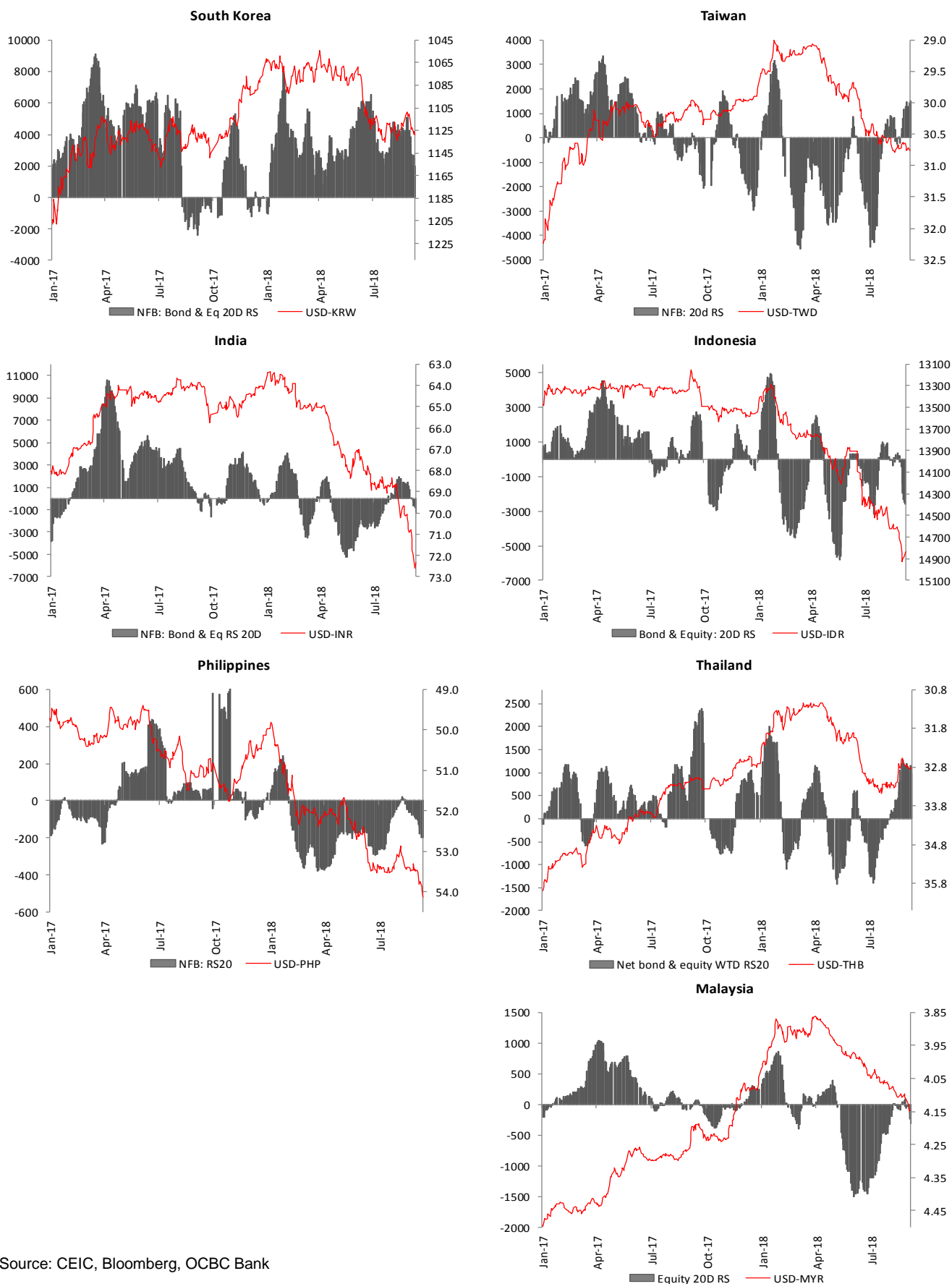
Source: OCBC Bank, Bloomberg

### **Short term Asian FX/bond market views**

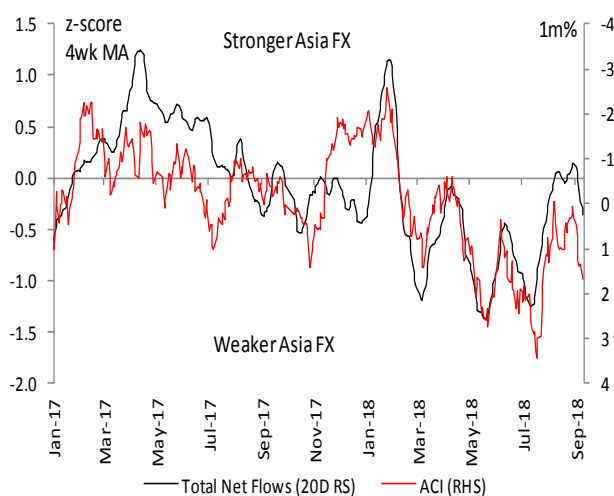
Currency	Bias	Rationale
USD-CNH	↔/↓	Some stability in FX is still expected in the near term but note the heightened realized volatility of the fixings all through the summer coupled with the slightly uncomfortable firming of the CFETS RMB Index. The FX vol curve has softened but this belies the riskies 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 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 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 outright in the absence of fresh EM distress.

Source: OCBC Bank

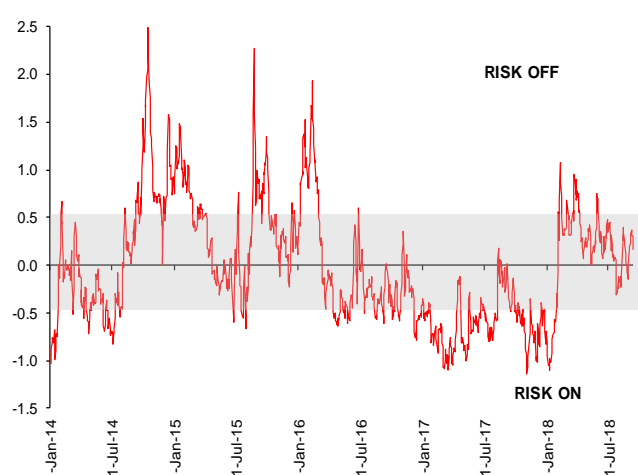
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

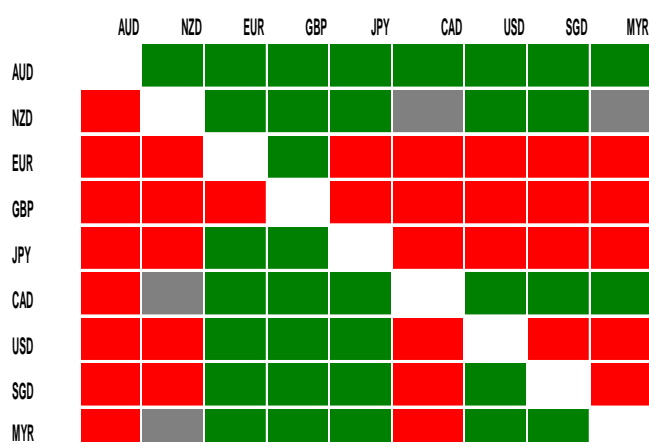
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.170	0.824	-0.889	-0.303	-0.801	-0.353	-0.812	0.240	0.816	0.653	-0.987
THB	0.937	0.005	0.839	-0.825	-0.417	-0.778	-0.323	-0.774	0.304	0.779	0.619	-0.945
CNY	0.824	0.116	1.000	-0.800	-0.484	-0.719	-0.246	-0.652	0.395	0.576	0.864	-0.849
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

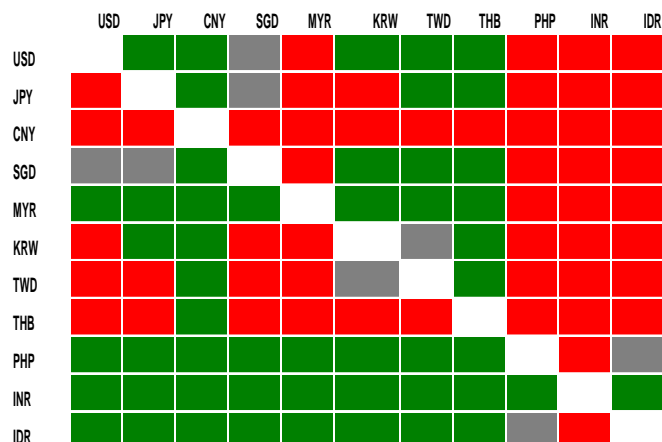
**Technical support and resistance levels**

	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

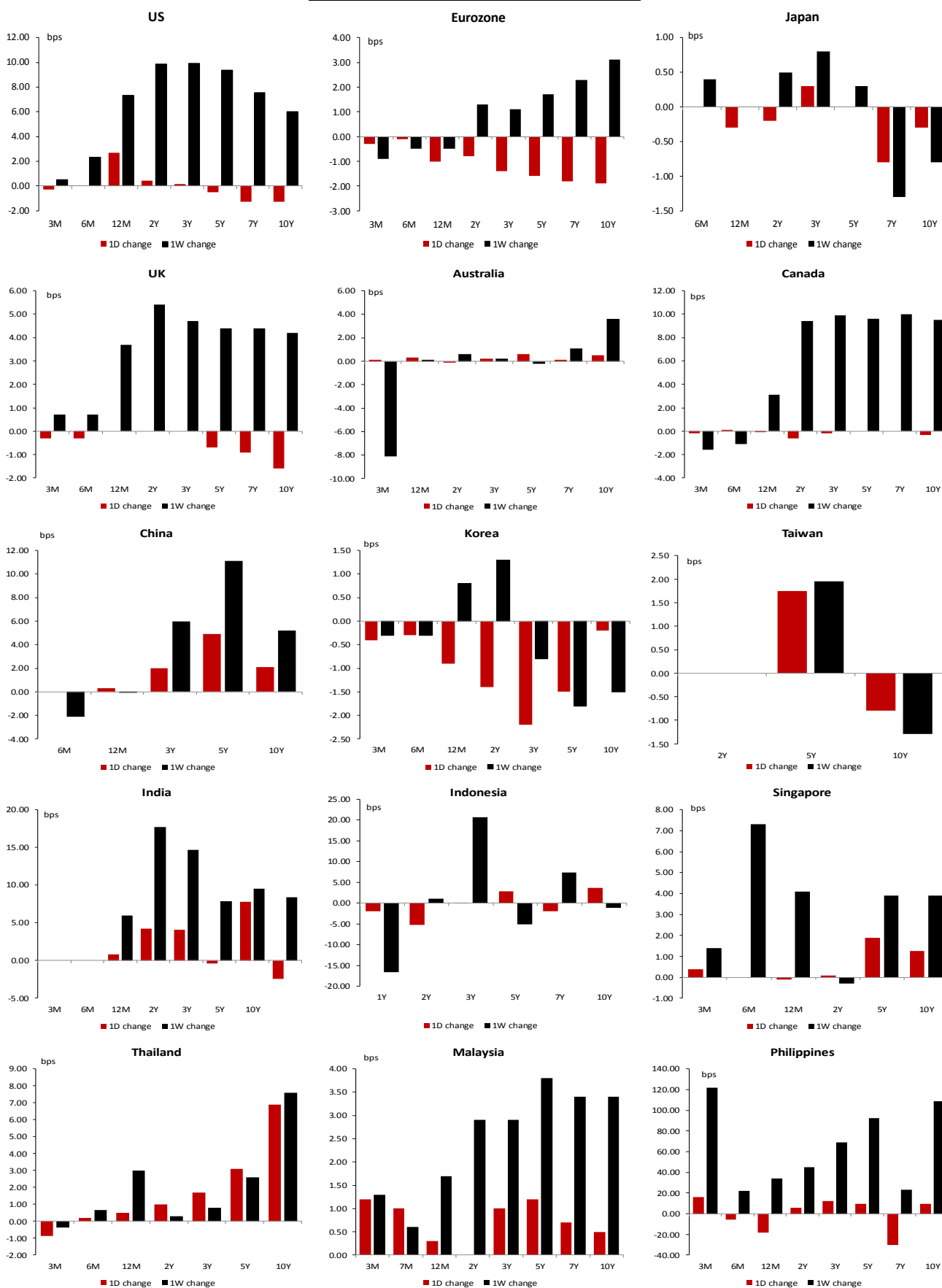
**G10 FX Heat Map**

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 ahead of BOE MPC and positivty from Brexit news flow		
	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	
* realized								

---

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).

---