

Thursday, September 20, 2018

**FX Themes/Strategy/Trading Ideas**

- With global equities climbing on the back of decreased concerns over global trade tensions, the greenback trailed the majors on Wednesday with the antipodeans and CAD outperforming across the board. Remarks from the BOJ's Kuroda disappointed the hawks out there on Wednesday although this did not add explicit negative pressure on the JPY.
- Going ahead, our short term model indicates that the recent recovery in the **AUD-USD** has been on the back of a flushing out of prior bearish sentiment. Expect this pair to remain relatively supported in the near term.
- Elsewhere, our models also indicate that the **USD-JPY** (post BOJ MPC) may continue to exhibit some discretionary directionality towards the upside on the back of investor re-positioning and yield differential dynamics.
- On other fronts, the **EUR**, **GBP**, and **CAD** may remain cluttered by Brexit/NAFTA headlines intra-day, keeping price action choppy (but perhaps intrinsically positive against the USD).
- On the sentiment front, the **FXSI (FX Sentiment Index)** slipped further south (compressing EM risk premiums) for the 2<sup>nd</sup> consecutive session on Wednesday with the Index still within Risk-Neutral territory.
- Our 04 Sep 18 idea to be short **AUD-USD** (spot ref: 0.7190) was stopped out on Wednesday at 0.7275 as global risk appetite levels continued to recover.

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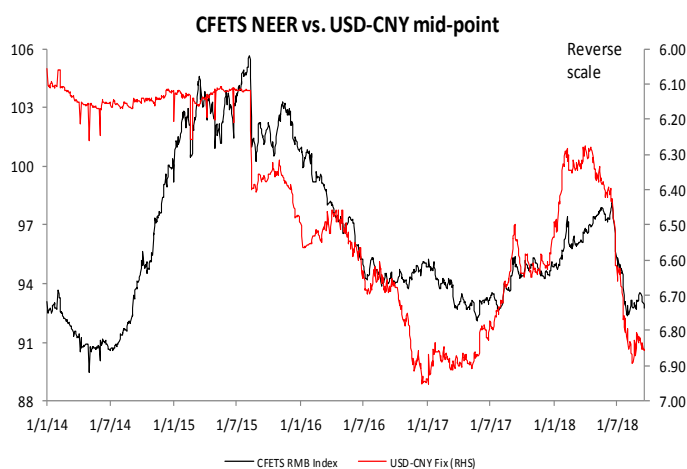
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### Asian FX

- Boosted by further gains in EM equities and global sentiment, EM FX overnight also lifted against the USD with Asian markets likely to continue to bask in improved investor appetite today. As such, expect USD-Asia to remain top heavy in the Asian session with the associated implieds also depressurizing.
- On the net portfolio front, net inflows remain supportive of the KRW, TWD, and THB, while outflow pressure is attempting to stabilize (India) or compress (Indonesia and Philippines).
- **SGD NEER:** The SGD NEER remains relatively static at around +1.12% above its perceived parity (1.3836) this morning. NEER-implied USD-SGD thresholds are softer on the day and the pair may look to test below its 55-day MA (1.3680) is risk appetite continues to recover.
- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in slightly higher than we'd expected at 6.8530 from 6.8569 yesterday, a curious development a day after Premier Li indicated that China would not turn to competitive devaluation. In addition, the CFETS RMB Index continued to edge lower to 92.74 from 92.81 yesterday.



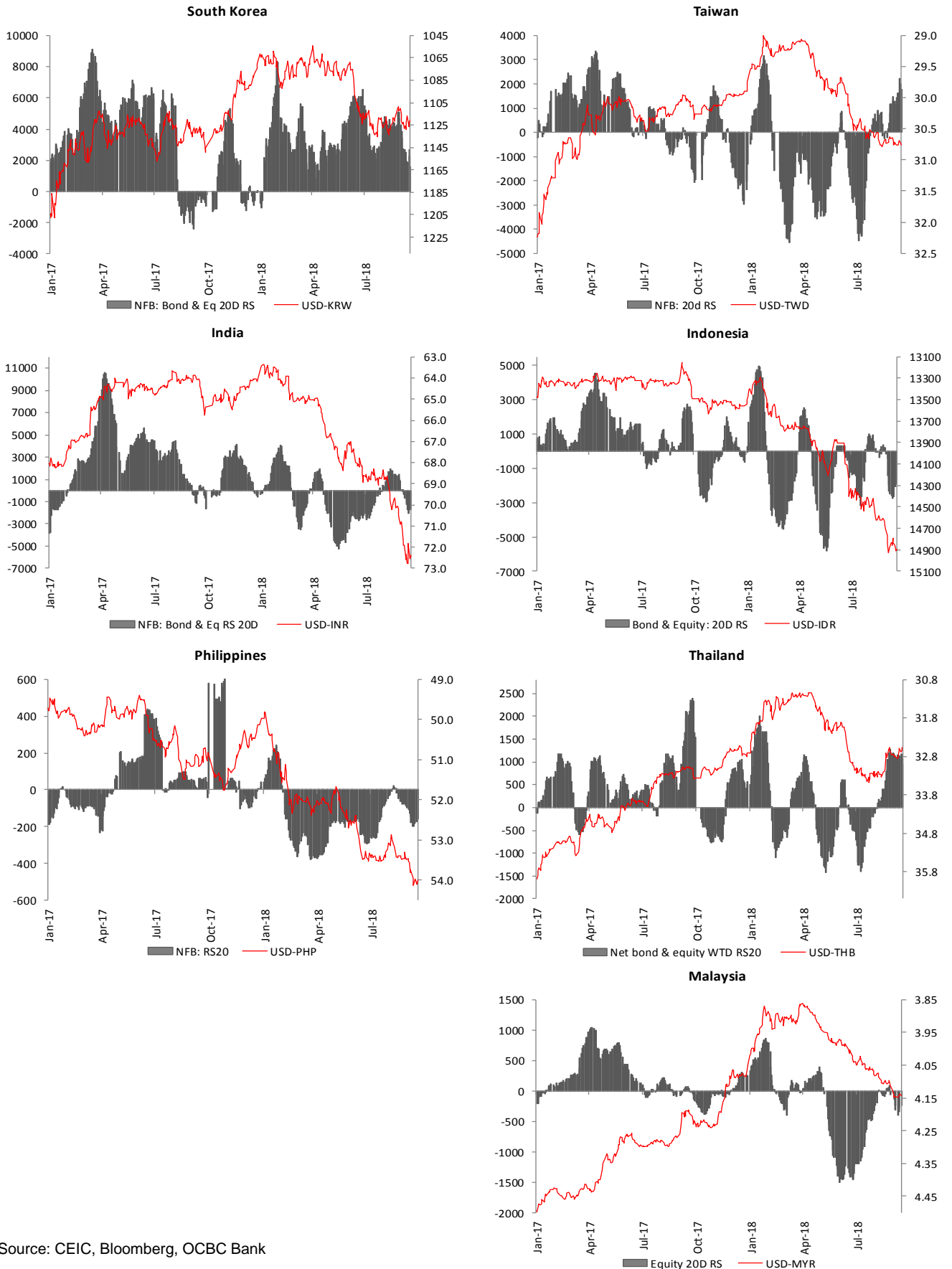
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔	Some stability in FX is still expected in the near term. 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 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. Net portfolio inflows continue to decay. Watch Moon-Kim summit on Tuesday.
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. FX measures announced on Friday 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.
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). Net bond outflows continue apace. 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. Despite still strong bond inflows, expect implicit upside pressure on govie and NDIRS curves to continue to materialize. BOT static at 1.50% in September.
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.

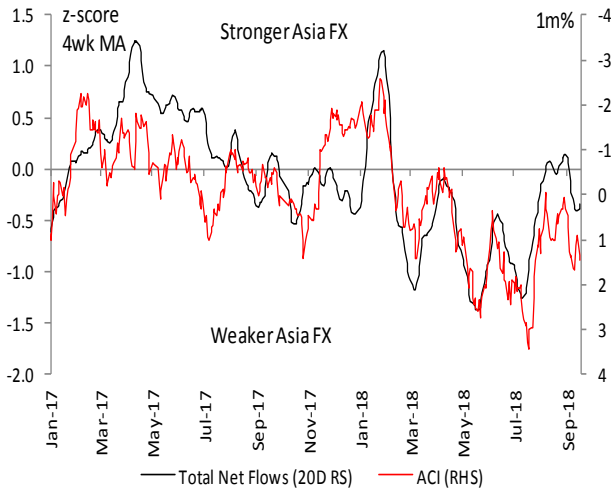
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



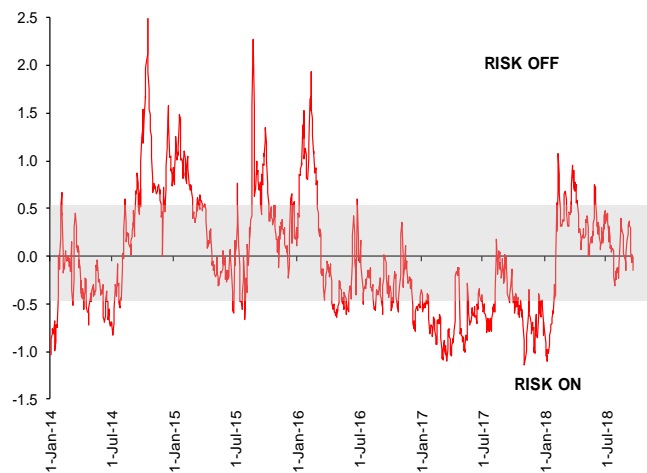
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.544	0.200	-0.706	0.033	-0.206	-0.552	-0.535	0.271	0.564	0.242	-0.932
CAD	0.729	-0.226	0.224	-0.460	-0.363	-0.419	-0.342	-0.503	0.720	0.391	0.351	-0.700
THB	0.719	-0.552	0.133	-0.561	-0.251	-0.025	-0.595	-0.553	0.590	0.435	0.163	-0.641
CHF	0.589	-0.695	-0.136	-0.656	0.378	0.068	-0.574	-0.475	-0.339	0.301	-0.283	-0.489
SGD	0.454	0.293	0.553	-0.169	-0.626	-0.380	0.104	-0.159	0.677	-0.007	0.696	-0.540
CNH	0.242	0.390	0.886	-0.182	-0.477	-0.448	0.273	0.014	0.349	-0.178	1.000	-0.398
CNY	0.200	0.485	1.000	-0.193	-0.604	-0.415	0.316	0.014	0.142	-0.362	0.886	-0.391
KRW	0.060	0.444	0.582	-0.388	-0.921	-0.471	0.192	-0.189	0.398	-0.530	0.435	-0.261
TWD	-0.014	0.537	0.454	-0.149	-0.859	-0.321	0.404	-0.062	0.280	-0.601	0.298	-0.093
IDR	-0.077	0.631	0.327	0.206	-0.647	-0.270	0.429	0.221	0.469	-0.179	0.422	-0.023
MYR	-0.079	0.706	0.376	0.220	-0.799	-0.223	0.459	0.279	0.406	-0.256	0.433	-0.089
AUD	-0.194	-0.459	-0.538	-0.100	0.690	0.196	-0.272	-0.026	-0.597	0.203	-0.650	0.296
NZD	-0.204	-0.501	-0.592	-0.015	0.806	0.295	-0.269	0.016	-0.556	0.263	-0.611	0.336
INR	-0.225	0.850	0.545	0.251	-0.805	-0.262	0.570	0.291	0.403	-0.507	0.547	0.050
PHP	-0.418	0.851	0.609	0.211	-0.894	-0.314	0.604	0.196	0.119	-0.746	0.398	0.173
USGG10	-0.544	1.000	0.485	0.518	-0.706	-0.174	0.842	0.575	0.031	-0.719	0.390	0.366
JPY	-0.552	0.842	0.316	0.660	-0.341	-0.003	1.000	0.635	-0.311	-0.668	0.273	0.515
GBP	-0.753	0.861	0.431	0.569	-0.549	-0.065	0.726	0.550	-0.044	-0.713	0.344	0.551
EUR	-0.932	0.366	-0.391	0.757	0.175	0.313	0.515	0.492	-0.326	-0.447	-0.398	1.000

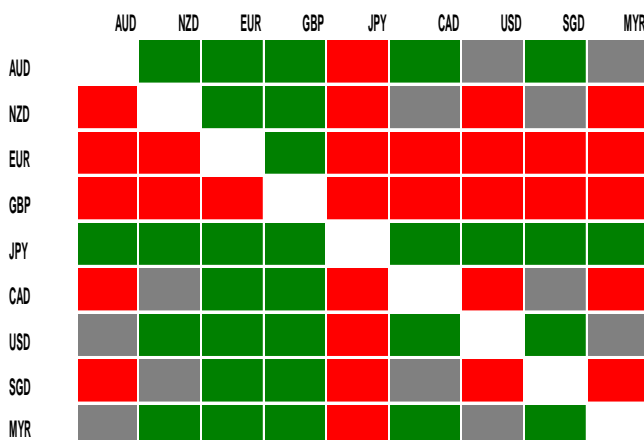
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1606	1.1683	1.1700	1.1725
GBP-USD	1.2985	1.3100	1.3147	1.3200	1.3208
AUD-USD	0.7085	0.7200	0.7261	0.7300	0.7307
NZD-USD	0.6501	0.6600	0.6644	0.6674	0.6700
USD-CAD	1.2888	1.2900	1.2921	1.3000	1.3067
USD-JPY	111.38	112.00	112.15	112.42	112.45
USD-SGD	1.3607	1.3620	1.3682	1.3688	1.3700
EUR-SGD	1.5887	1.5937	1.5986	1.6036	1.6085
JPY-SGD	1.2099	1.2144	1.2200	1.2209	1.2289
GBP-SGD	1.7773	1.7900	1.7988	1.8000	1.8084
AUD-SGD	0.9762	0.9900	0.9935	1.0000	1.0001
Gold	1189.38	1200.00	1206.50	1208.14	1211.21
Silver	13.91	14.10	14.19	14.20	14.86
Crude	71.38	71.60	71.67	71.70	71.81

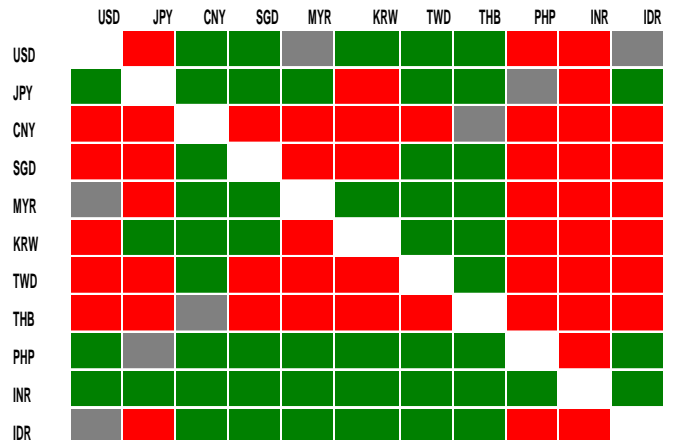
Source: OCBC Bank

**G10 FX Heat Map**



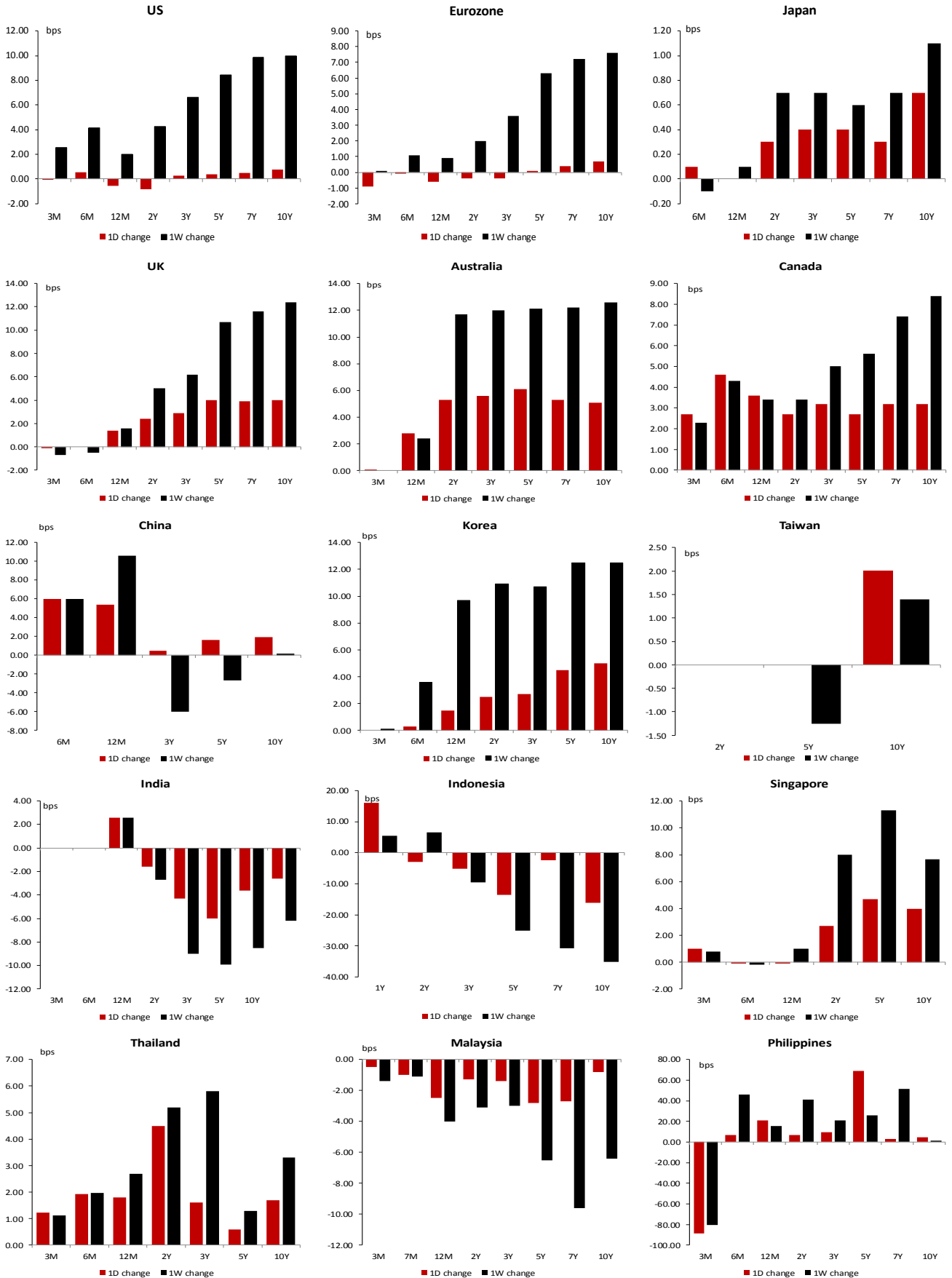
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



### FX Trade Recommendations

	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	<b>TACTICAL</b>							
1	04-Sep-18		S	AUD-USD	0.7190	0.7020 0.7275	Vulnerability to contagion, static RBA	
2	11-Sep-18		B	GBP-USD	1.3056	1.3325 1.2920	Positioning ahead of BOE MPC and positivity from Brexit news flow	
	<b>STRUCTURAL</b>							
	-		-	-	-	-	-	-
	<b>RECENTLY CLOSED TRADE IDEAS</b>							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%) <sup>*</sup>
1	07-Sep-18	12-Sep-18	B	USD-CAD	1.3137	1.3020	USD resilience, NAFTA uncertainty	
2	10-Sep-18	13-Sep-18	S	USD-JPY	111.05	111.95	Risk of further global market uncertainty	
3	04-Sep-18	19-Sep-18	S	AUD-USD	0.7190	0.7275	Vulnerability to contagion, static RBA	
* realized								

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