

Friday, September 21, 2018

FX Themes/Strategy/Trading Ideas

- The dollar and JPY dropped across the board on Thursday as risk appetite rebounded and concerns about global trade tensions continued to recede. The positive US data feed (better than expected Sep Philly Fed and weekly initial claims) also failed to generate lift for the greenback.
- Swiftly recovering investor sentiments were noted across different asset classes, with the US leading global equity gains and a sell-off in US Treasuries. The **FXSI (FX Sentiment Index)** dropped significantly within Risk-Neutral territory, towards the Risk-Off zone, with EM risk premiums continuing to compress. At this juncture, improving risk sentiments are weighing on the dollar and JPY as haven currencies.
- On the back of better than expected UK Aug retail sales numbers, even GBP-USD skated higher to near 1.3300 despite the less than effusive reception by EU leaders towards PM May at the EU Summit in Austria.
- Despite the 10y UST yield briefly touching 3.094 yesterday and still supportive yield differential dynamics, the risk for the DXY to further deteriorate to its 200-day MA (92.58) may remain non-trivial despite the FOMC next week (and the recent firming of Libor).
- For today, outside of a still positive trajectory for USD-JPY, expect investors to remain loaded against the dollar with short-end vols still soggy (despite some upticks for EUR and GBP).
- Note that other fundamental drivers (rate differentials and Fed expectations for example) remain supportive of the dollar, but they have been placed on the backburner in favour of risk sentiments. Nevertheless, we urge caution when adding dollar shorts given the especially shifty nature of risk sentiments of late and potential headline risks emanating from the FOMC meeting next week.
- If global risk appetite levels continue to consolidate higher and the dollar continues to fail to gain broad based traction from the rate differential perspective ahead of the FOMC next week, we expect the **EUR-USD** to potentially search higher. From a spot ref of 1.1702 on Thursday, we target 1.1900 and leave a stop at 1.1600.

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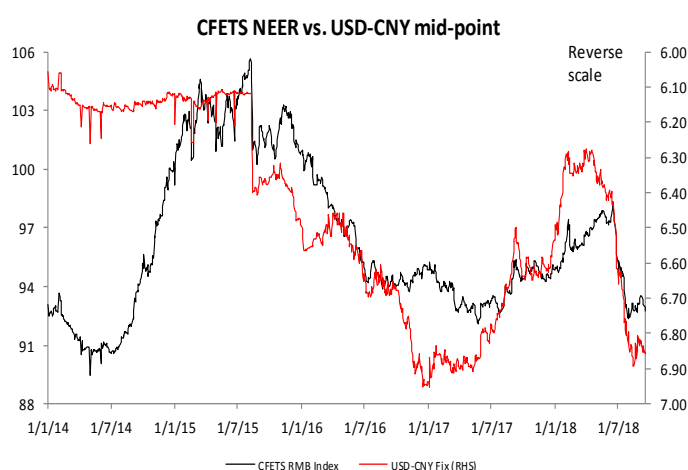
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Asian FX

- EM FX (including ARS and ZAR) also mostly firmed against the greenback on Thursday with the USD-CNH slipping below 6.8400 overnight. Headlines indicating China's plans to cut import tariffs may also continue to fuel positive sentiment. Expect regional spot to edge lower, with front-end implied negativity (points and vols) dissipating rapidly.
- Meanwhile, the net portfolio flow environment remains intrinsically supportive in Asia, with net inflows underpinning the KRW, TWD, and THB, while net outflows for India, Indonesia, and the Philippines should continue to compress.
- **Indonesia:** Finance Minister Sri Mulyani Indrawati noted that repatriated export earnings would be utilized to meet forex supply.
- **SGD NEER:** The SGD NEER turned higher this morning, standing at around +1.25% above its perceived parity (1.3815) this morning. NEER-implied USD-SGD thresholds are again softer on the back of dollar weakness overnight. Intra-day range may be guided by the +1.10% (1.3665) and +1.4% (1.3624) thresholds
- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in lower, as we had expected, at 6.8357 from 6.8530 yesterday. In addition, the CFETS RMB Index continued to edge lower to 92.66 from 92.74 yesterday.



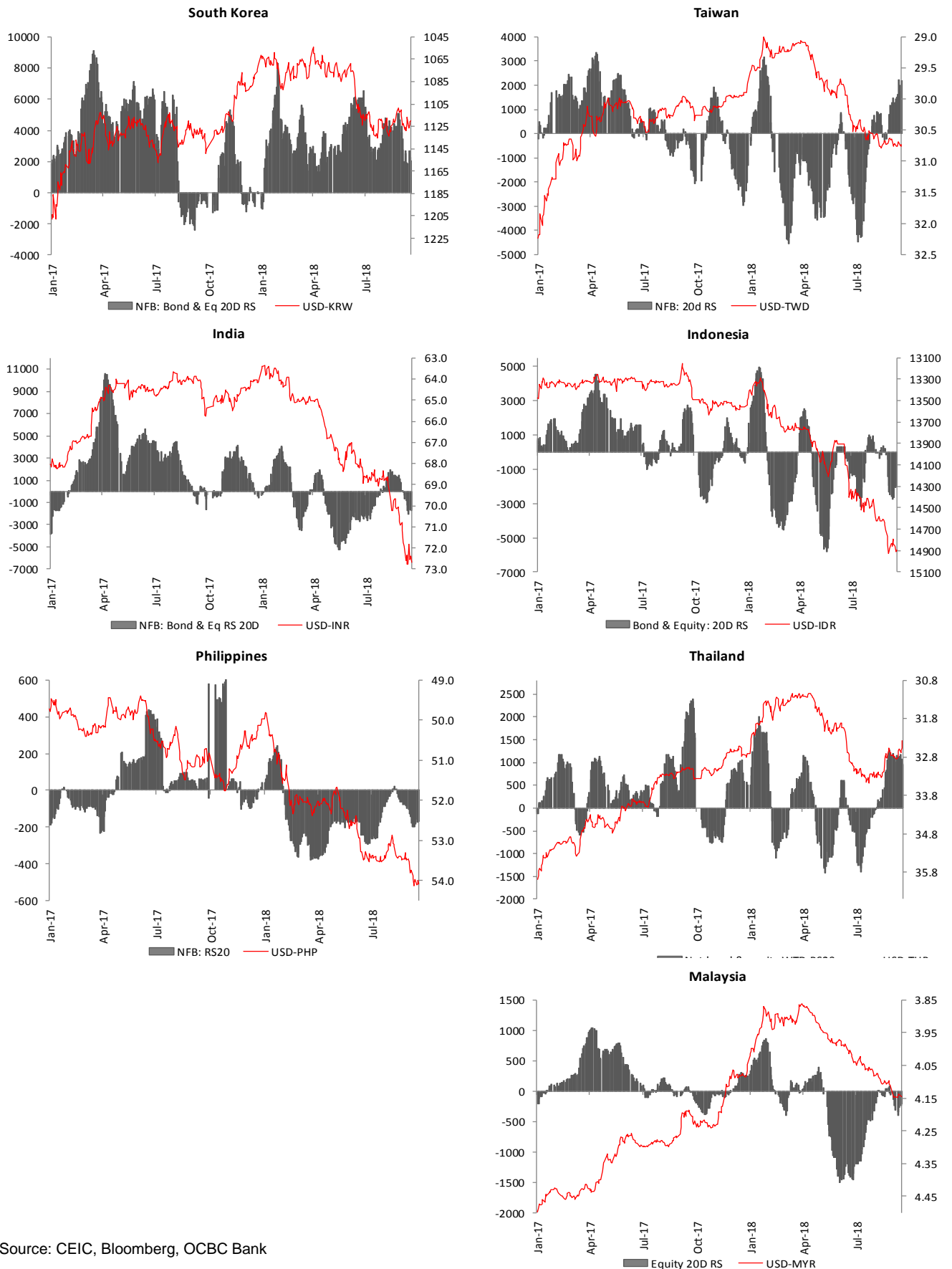
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

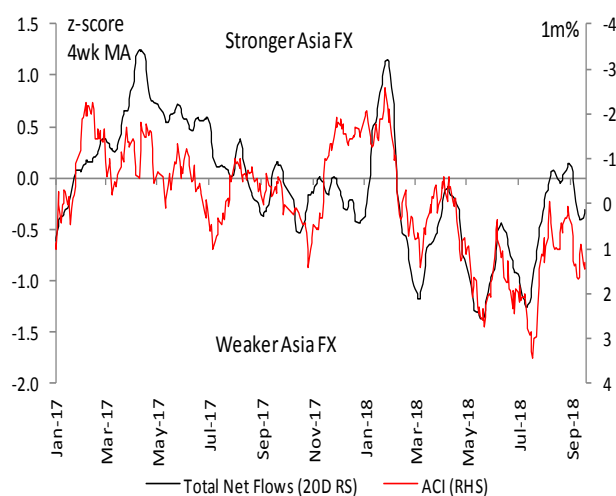
Currency	Bias	Rationale
USD-CNH	↔/↓	Some stability in FX is still expected in the near term. Premier Li indicates no intent for competitive devaluation. Note however softening CFETS RMB Index of late. The FX vol curve has softened but this belies the riskies continuing to lean in favor of the USD. Firm CPI readings may be expected to keep the yield curves supported.
USD-KRW	↔/↓	Weaker than expected unemployment print may douse rate hike expectations; BOK board member warns against rate hikes on tepid inflation. Onshore govie and NDIRS curves taking cues from G3 curves.
USD-TWD	↔/↓	Expect to track North Asian trends in general; flow dynamics remain supportive amid recovering EM sentiment.
USD-INR	↔/↑	Govie yields are easier as risk aversion dissipates. Monitor 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. Latest FX measures 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. NEER may remain afloat above +1.00% if risk appetite remains supported.
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. Govie curve capitulating lower in line with the region.
USD-IDR	↔/↓	Bounce in global investor sentiment is benefitting the IDR and local govies. Note however potential for expectations for BI to hike in September again. Net bond outflows are compressing.
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. Govie and NDIRS curves holding relatively steady to softer.
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

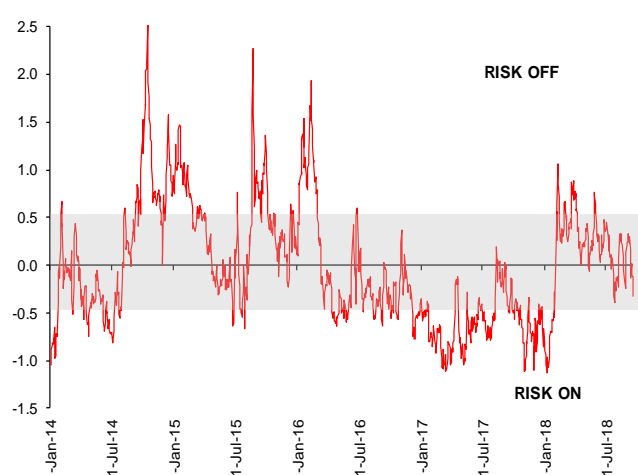
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

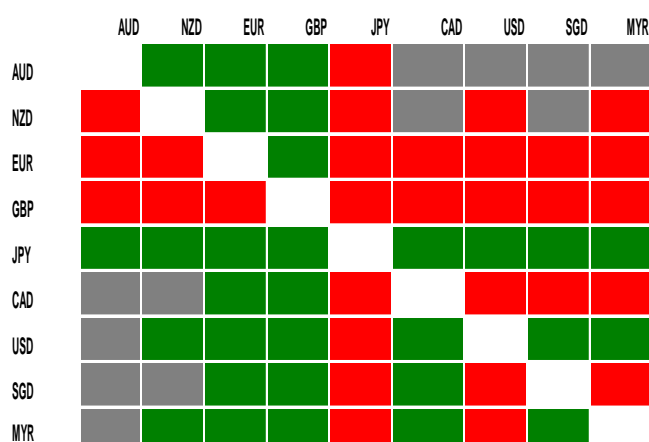
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.652	0.129	-0.780	0.051	-0.262	-0.677	-0.585	0.383	0.700	0.316	-0.964
THB	0.847	-0.635	0.086	-0.703	-0.129	-0.142	-0.723	-0.561	0.630	0.624	0.268	-0.819
CAD	0.771	-0.331	0.195	-0.572	-0.292	-0.482	-0.473	-0.563	0.746	0.514	0.410	-0.771
CHF	0.705	-0.765	-0.180	-0.675	0.366	0.094	-0.623	-0.506	-0.200	0.393	-0.126	-0.614
SGD	0.617	0.044	0.544	-0.385	-0.578	-0.522	-0.190	-0.369	0.717	0.234	0.690	-0.703
CNH	0.316	0.243	0.897	-0.279	-0.468	-0.532	0.103	-0.142	0.363	-0.050	1.000	-0.447
CNY	0.129	0.491	1.000	-0.142	-0.614	-0.397	0.363	0.046	0.126	-0.347	0.897	-0.295
KRW	0.036	0.426	0.585	-0.354	-0.923	-0.480	0.187	-0.220	0.371	-0.467	0.430	-0.193
TWD	-0.055	0.518	0.480	-0.163	-0.861	-0.378	0.372	-0.103	0.232	-0.536	0.255	-0.058
IDR	-0.072	0.591	0.396	0.114	-0.676	-0.391	0.322	0.132	0.429	-0.136	0.383	-0.058
MYR	-0.088	0.628	0.452	0.126	-0.838	-0.353	0.345	0.193	0.375	-0.192	0.401	-0.080
INR	-0.173	0.840	0.608	0.120	-0.831	-0.415	0.485	0.178	0.413	-0.450	0.531	-0.058
AUD	-0.370	-0.277	-0.583	0.131	0.683	0.375	-0.007	0.162	-0.649	-0.035	-0.665	0.487
NZD	-0.401	-0.286	-0.603	0.180	0.769	0.440	-0.021	0.180	-0.571	0.015	-0.627	0.524
PHP	-0.487	0.860	0.595	0.312	-0.853	-0.222	0.643	0.276	0.029	-0.738	0.340	0.294
USGG10	-0.652	1.000	0.491	0.576	-0.619	-0.144	0.868	0.546	-0.092	-0.753	0.243	0.527
JPY	-0.677	0.868	0.363	0.685	-0.321	-0.032	1.000	0.600	-0.437	-0.715	0.103	0.640
GBP	-0.842	0.887	0.411	0.666	-0.478	0.018	0.806	0.581	-0.184	-0.791	0.161	0.720
EUR	-0.964	0.527	-0.295	0.805	0.136	0.335	0.640	0.557	-0.435	-0.600	-0.447	1.000

Source: Bloomberg

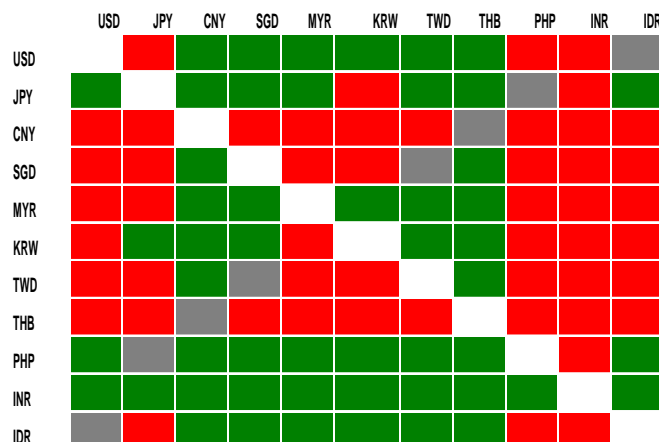
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1770	1.1779	1.1785	1.1800
GBP-USD	1.2988	1.3200	1.3268	1.3272	1.3298
AUD-USD	0.7085	0.7200	0.7291	0.7300	0.7305
NZD-USD	0.6600	0.6673	0.6682	0.6700	0.6727
USD-CAD	1.2885	1.2900	1.2910	1.3000	1.3062
USD-JPY	111.39	112.00	112.62	112.63	112.67
USD-SGD	1.3607	1.3612	1.3645	1.3687	1.3700
EUR-SGD	1.6002	1.6066	1.6073	1.6081	1.6100
JPY-SGD	1.2100	1.2115	1.2116	1.2119	1.2200
GBP-SGD	1.7776	1.8100	1.8104	1.8107	1.8146
AUD-SGD	0.9765	0.9900	0.9948	0.9997	1.0000
Gold	1200.00	1207.37	1208.00	1210.92	1217.00
Silver	13.91	14.20	14.26	14.30	14.83
Crude	68.58	69.50	70.20	71.24	71.81

Source: OCBC Bank

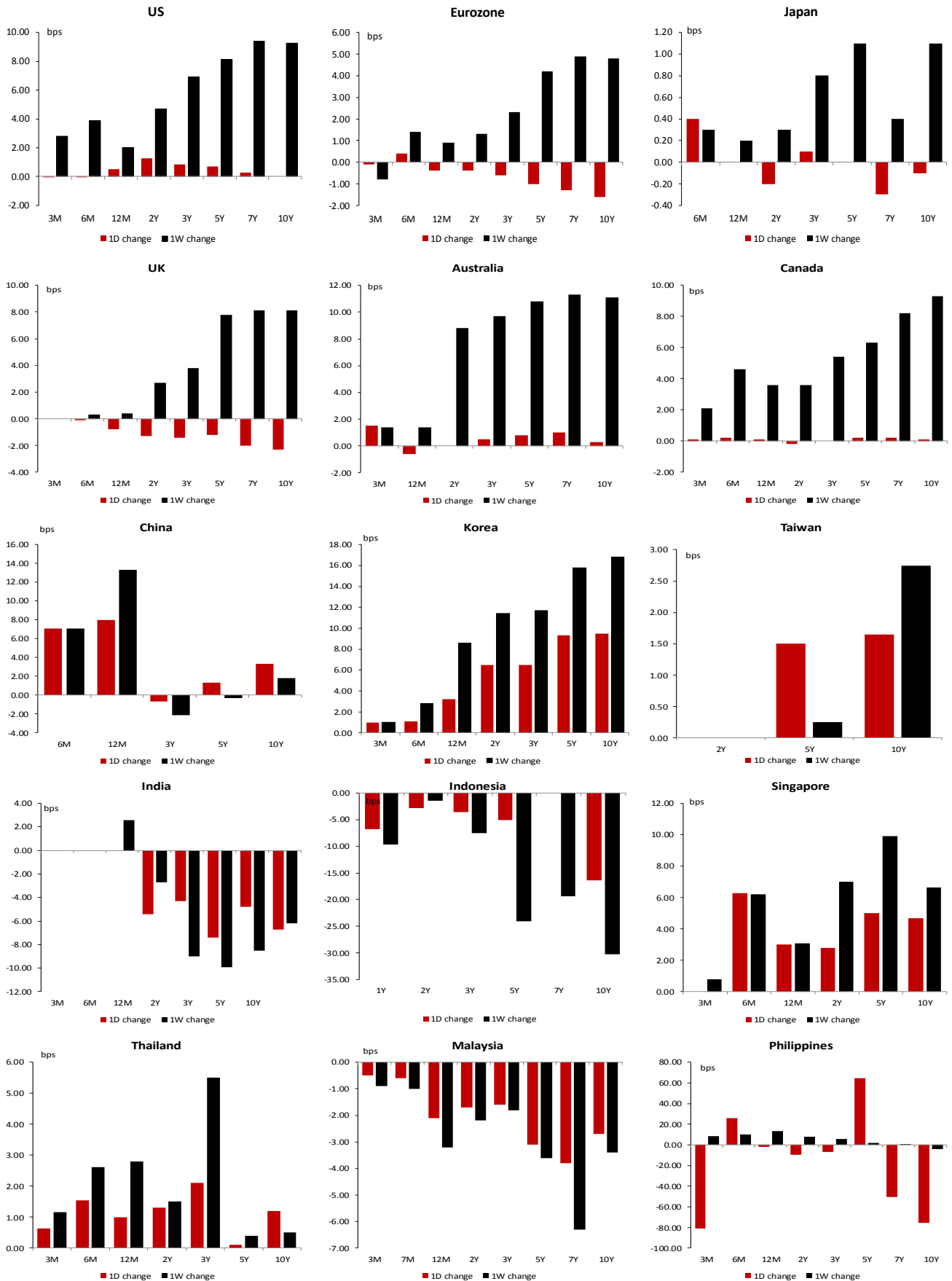
G10 FX Heat Map

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	
	TACTICAL							
1	11-Sep-18		B	GBP-USD	1.3056	1.3325 1.2920	Positoning ahead of BOE MPC and positivty from Brexit news flow	
2	20-Sep-18		B	EUR-USD	1.1702	1.1900 1.1600	Risk appetite recovery, rate differentials on back burner	
	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	
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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