

Thursday, September 27, 2018

FX Themes/Strategy/Trading Ideas

- The broad dollar ended mixed (UST curve bull flattened and US equities slid late session) across G10 space post-**FOMC** as the Fed removed the term “accommodative” from their accompanying statement (the rest of the statement was verbatim from the previous) following the expected 25bps hike. On other fronts, the EUR trailed its counterparts while the JPY outperformed its peers on some backwash relative to price action from the previous few sessions. USD-CAD meanwhile climbed past 1.3000 as NAFTA-related headlines soured.
- Fed chair **Powell** subsequently clarified that the removal of the “accommodative” reference did not constitute a steepening of the Fed’s policy stance but that “policy is proceeding in line with our expectations”, describing the current posture as gradual with little risks of upside inflation risks at this juncture.
- The updated dot plots continue to project another hike this year, followed by another three hikes next year. This served to cement existing expectations, rather than presenting any new insights. Therefore, **the dollar may continue to spin its wheels in the mud given that the outcome proved to be less hawkish than some quarters in the market had expected.**
- **More importantly, market participants are now likely to refocus on global developments beyond US-centric drivers.** Going ahead, investor sights may fall on any shifts in stance (however slight) in the other major central banks, sustained headline risks from global trade tensions, and their subsequent impact on risk sentiments, and on a structural basis, the re-pricing of EM assets.
- In this context, note that the **RBNZ** remained static at its policy meeting as expected on Wednesday, continuing to warn of downside risks. Meanwhile, the **FXSI (FX Sentiment Index)** continued populate the Risk-Neutral space just above the outright Risk-On territory. At this juncture, market indicators of risk continues to discount the seemingly worsening rhetoric coming from both the US and Chinese fronts.
- A heavy central bank schedule expected today, with comments from a slew of speakers. Highlights include Kuroda (0635 GMT), Draghi (1330 GMT), Carney (1400 GMT) and Poloz (2145 GMT). Watch also for ECB “minutes” (0800 GMT) and BOJ Summary of Opinions (2350 GMT). On the data front, watch for German CPI (1200 GMT), US GDP (1230 GMT) and Japan industrial production (2350 GMT).

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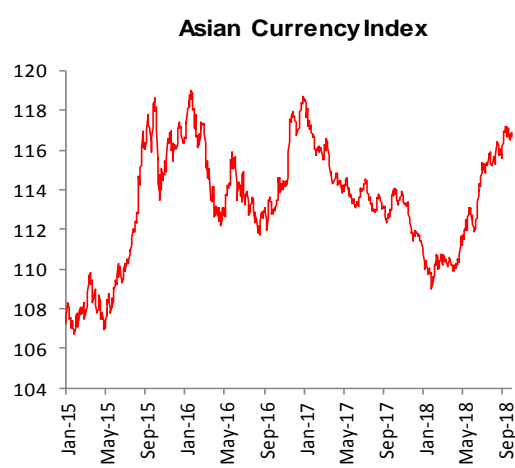
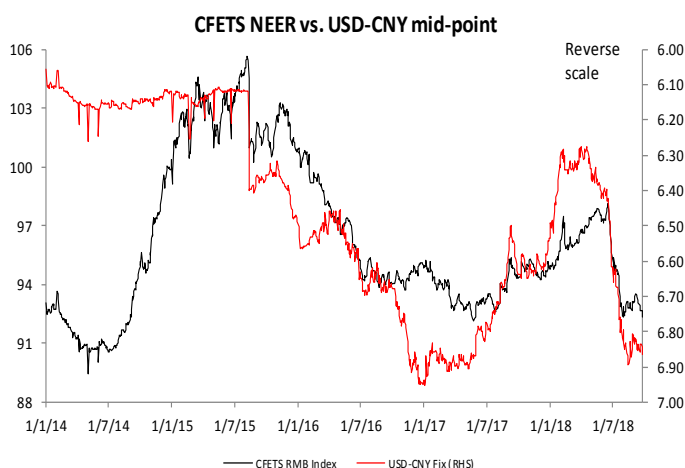
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Asian FX

- Asian central bank policy meetings today include the CBC, Bank Indonesia and BSP, with the latter two central banks expected to hike policy rates under duress. In the interim, expect the regional pairs to take their cues from the slightly firmer USD-CNH (note less than cordial comments from Trump administration overnight) and not ascribe any particular dollar resilience to the FOMC.
- The net portfolio flow environment in Asia remains largely stable, although inflow momentum for the TWD and THB may be pausing in the near term. The INR and PHP meanwhile remain under implicit negative pressure from outflows while outflows out of Indonesia continue to compress.
- **SGD NEER:** The SGD NEER is softer this morning at around +1.39% above its perceived parity (1.3843), after puncturing through the +1.50% threshold briefly yesterday. Continue to expect a downside bias, especially if the broad dollar continues to slide. In the interim, the +1.50% threshold (1.3639) may continue to provide a temporary base on the USD-SGD, before potentially giving way to a deeper retracement to the 100-day MA (1.3596).
- **CFETS RMB Index:** The USD-CNY mid-point was set higher, within expectations, at 6.8642 this morning from 6.8571 on Wednesday. The CFETS RMB Index shifted lower to 92.34 from 92.49. At this juncture, note that the CFETS RMB Index has bled to a level near the critical 92.00 handle, despite the USD-CNY spot still kept on either side of 6.8500. Going forward, we remain on the watch for potential further moves by the PBoC to contain the RMB complex.



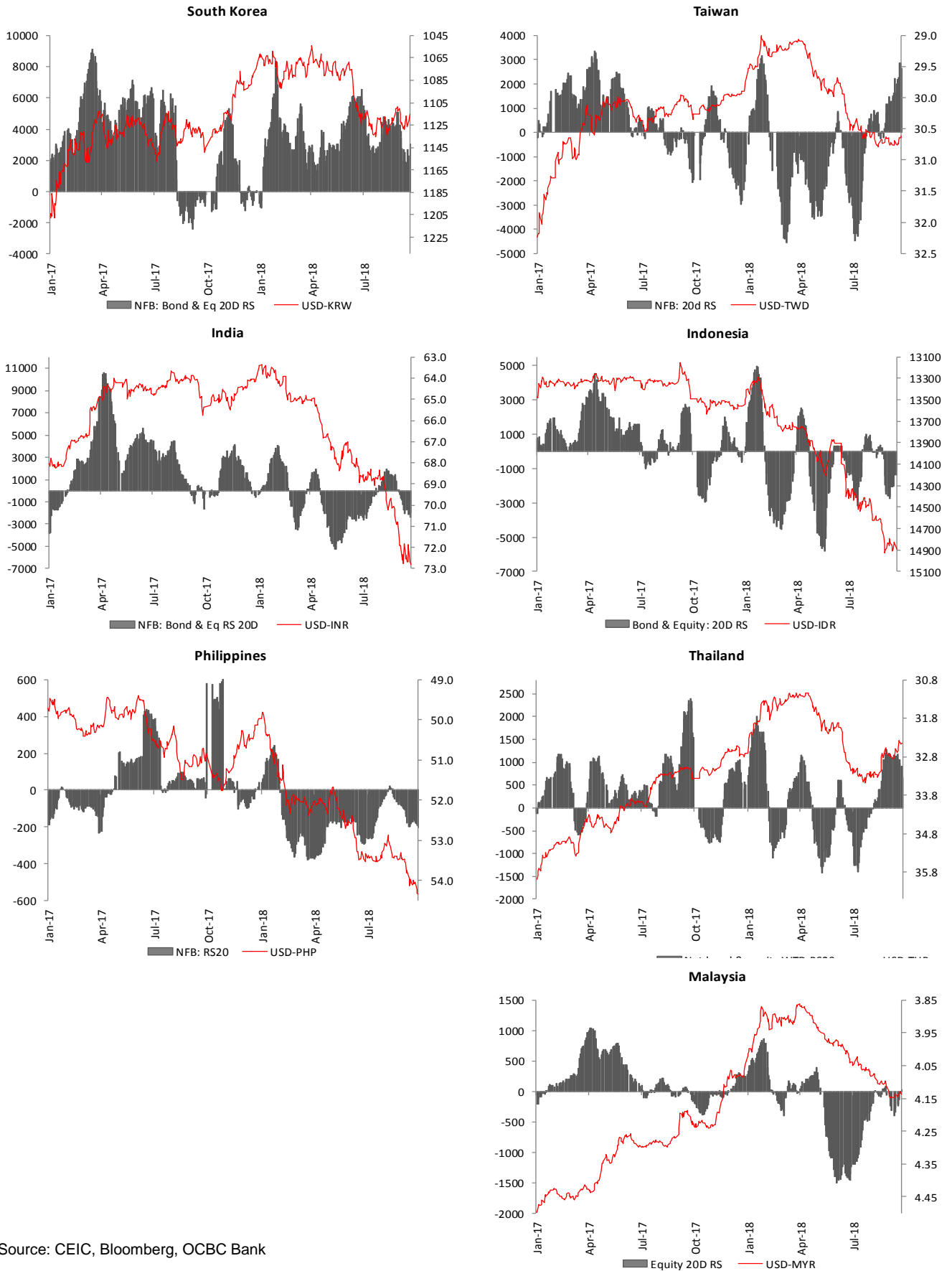
Source: OCBC Bank, Bloomberg

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 governor notes that monetary accomodation needs to be reduced. 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. Authorities preparing further incentives for exporter repatiration. Net bond outflows are compressing.
USD-THB	↓	Govie and NDIRS curves firming slightly with BOT MPC members shifting towards an eventual hike. We note however a lack of immediate inflation risks. Note however that the BOT governor noted that there is currentl no shift to a hwakish stance.
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 tilted higher.

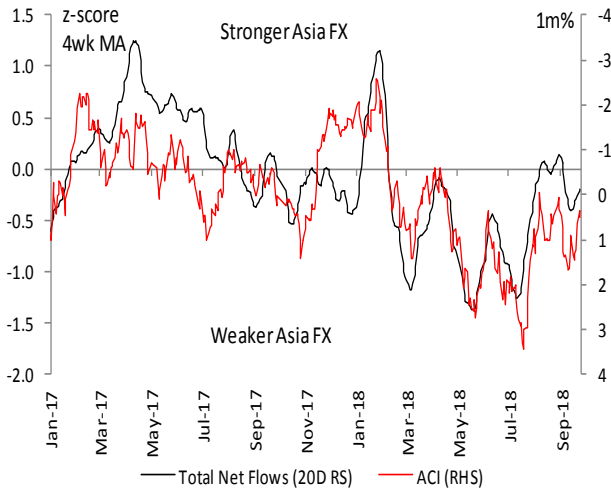
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



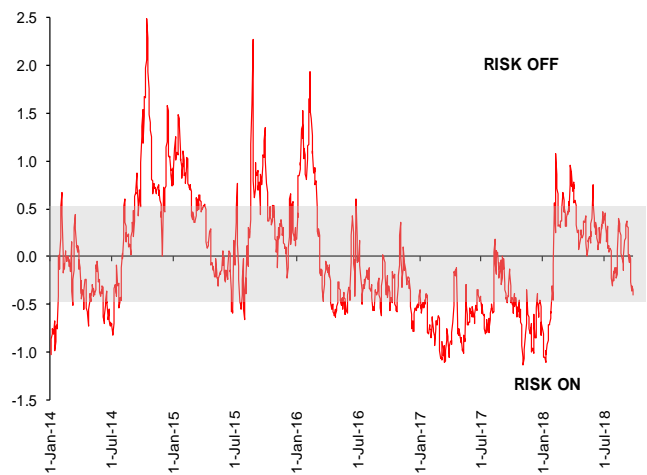
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1	-0.733	-0.272	-0.793	-0.074	-0.555	-0.81	-0.712	0.662	0.835	-0.066	-0.967
THB	0.887	-0.787	-0.274	-0.829	-0.177	-0.51	-0.853	-0.729	0.768	0.793	-0.106	-0.864
SGD	0.856	-0.429	0.1	-0.83	-0.506	-0.662	-0.611	-0.696	0.737	0.568	0.248	-0.906
CAD	0.788	-0.479	-0.014	-0.799	-0.28	-0.527	-0.553	-0.561	0.818	0.6	0.252	-0.761
CHF	0.729	-0.643	-0.368	-0.594	0.141	-0.199	-0.625	-0.457	0.374	0.626	-0.247	-0.644
TWD	0.285	0.066	0.138	-0.488	-0.796	-0.683	-0.199	-0.524	0.334	0.04	0.079	-0.407
MYR	0.096	0.4	0.568	-0.257	-0.856	-0.244	0.215	0.036	0.243	-0.125	0.479	-0.227
KRW	0.074	0.392	0.595	-0.481	-0.955	-0.471	0.062	-0.321	0.393	-0.343	0.388	-0.246
IDR	-0.037	0.469	0.584	-0.112	-0.619	-0.062	0.367	0.186	0.187	-0.252	0.512	-0.018
CNH	-0.066	0.453	0.857	-0.15	-0.454	-0.021	0.359	0.237	0.233	-0.274	1	-0.013
CNY	-0.272	0.711	1	0.103	-0.571	0.155	0.589	0.399	-0.081	-0.598	0.857	0.155
INR	-0.302	0.784	0.841	0.024	-0.788	0.028	0.596	0.308	-0.001	-0.623	0.698	0.171
PHP	-0.612	0.882	0.825	0.293	-0.638	0.267	0.753	0.494	-0.271	-0.814	0.554	0.478
NZD	-0.675	0.154	-0.362	0.706	0.725	0.577	0.383	0.529	-0.551	-0.329	-0.409	0.774
AUD	-0.693	0.203	-0.363	0.725	0.66	0.497	0.414	0.525	-0.627	-0.343	-0.47	0.782
USGG10	-0.733	1	0.711	0.575	-0.39	0.389	0.924	0.684	-0.551	-0.893	0.453	0.653
JPY	-0.81	0.924	0.589	0.76	-0.101	0.525	1	0.782	-0.699	-0.853	0.359	0.801
GBP	-0.829	0.842	0.641	0.588	-0.336	0.31	0.809	0.618	-0.53	-0.821	0.421	0.72
EUR	-0.967	0.653	0.155	0.831	0.225	0.609	0.801	0.72	-0.679	-0.779	-0.013	1

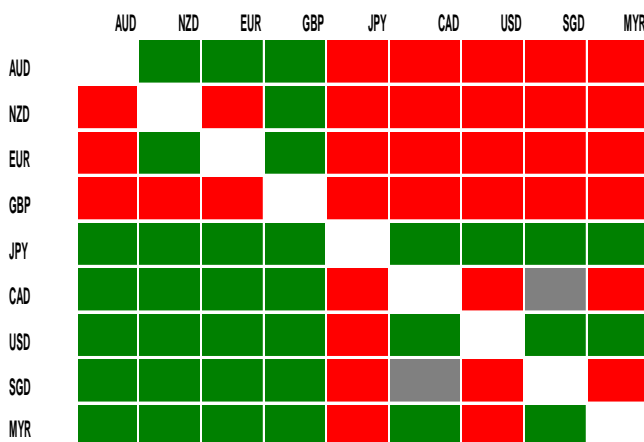
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1616	1.1700	1.1749	1.1780	1.1800
GBP-USD	1.2988	1.3100	1.3151	1.3200	1.3284
AUD-USD	0.7096	0.7200	0.7262	0.7294	0.7300
NZD-USD	0.6501	0.6600	0.6651	0.6664	0.6699
USD-CAD	1.2885	1.3000	1.3040	1.3046	1.3100
USD-JPY	111.41	112.00	112.77	113.00	113.14
USD-SGD	1.3607	1.3618	1.3647	1.3687	1.3700
EUR-SGD	1.6000	1.6004	1.6034	1.6084	1.6100
JPY-SGD	1.2072	1.2100	1.2103	1.2200	1.2213
GBP-SGD	1.7776	1.7900	1.7948	1.8000	1.8104
AUD-SGD	0.9786	0.9900	0.9910	0.9972	0.9982
Gold	1161.40	1191.63	1196.50	1200.00	1204.22
Silver	13.92	14.40	14.48	14.49	14.50
Crude	68.84	72.40	72.47	72.50	72.78

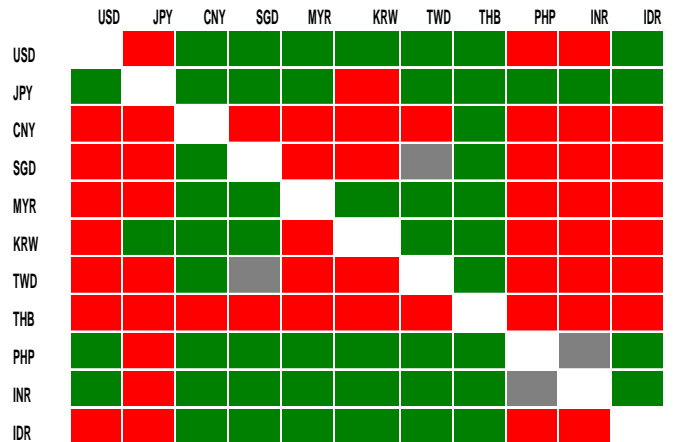
Source: OCBC Bank

G10 FX Heat Map



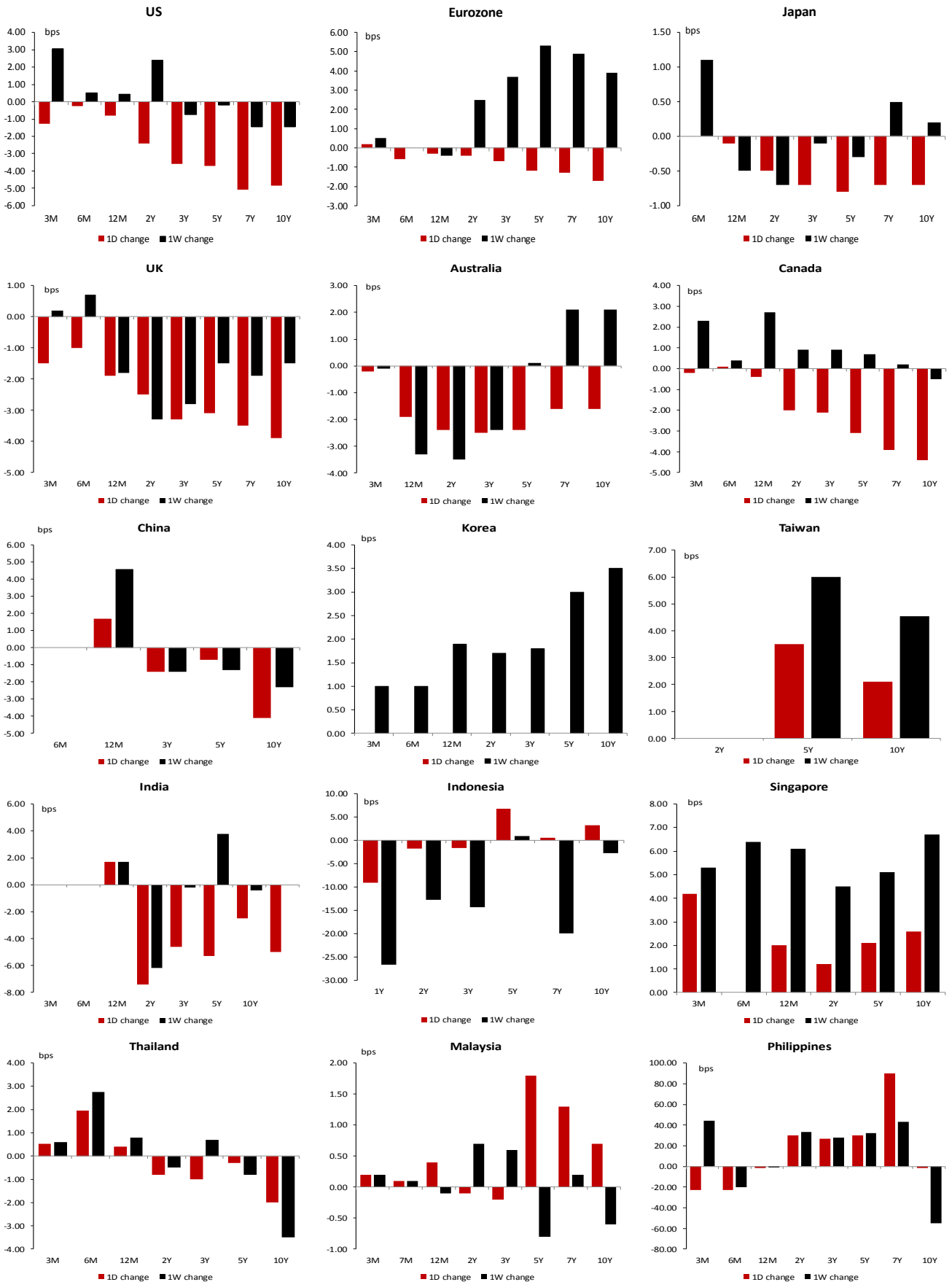
Source: OCBC Bank

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	Positioning ahead of BOE MPC and positivity 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			
3	20-Sep-18	B	USD-JPY	112.89 114.65 112.00	USD-JPY responsive to firmer US rates			
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	-0.89
2	10-Sep-18	13-Sep-18	S	USD-JPY	111.05	111.95	Risk of further global market uncertainty	-0.81
3	04-Sep-18	19-Sep-18	S	AUD-USD	0.7190	0.7275	Vulnerability to contagion, static RBA	-1.18
* realized, excl carry								

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