

Friday, September 28, 2018

FX Themes/Strategy/Trading Ideas

- A day after the FOMC, firmer US yields (curve bear flattened) and EUR negativity (Italian fiscal uncertainty) pulled the USD broadly higher against the majors on Thursday. Meanwhile, Fed chair Powell's comments from late Thursday fed both the hawks and doves. Elsewhere, the CAD outperformed its peers after the USTR indicated that a trilateral Nafta pact was still an objective.
- Beyond cited quarter-end flows (note the sharp move higher implied USD funding), rate differential dynamics however continue to weigh against the greenback but this may be muddled by idiosyncratic risks in the assorted major currencies. Expect market indecision to persist into the end of the week given the divergent behavior of rates and FX markets at this juncture.
- In the near term, despite key technical levels being broken in some of the majors, short-end vol surfaces remain less than excitable. To this end, the EUR may remain under implicit pressure if the overhang from the Italian budget issue continues to be protracted. Amidst a top-heavy tone intra-day, watch key support towards the 55-day MA (1.1618) for the **EUR-USD**.
- Elsewhere, the **GBP-USD** had been slightly overcooked on the upside relative to its short term implied valuations and going ahead, may remain subject to Brexit-related headlines. Expect a more consolidative range between the 55-day MA (1.2997) and 100-day MA (1.3136).
- **USD-JPY** meanwhile has remained our favored play for any inherent USD positivity, especially with the 200-week MA (113.24) having been breached overnight.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** veered yet lower within Risk-Neutral territory and the Index may well drift into Risk-On territory by early next week barring another episode of global uncertainty.

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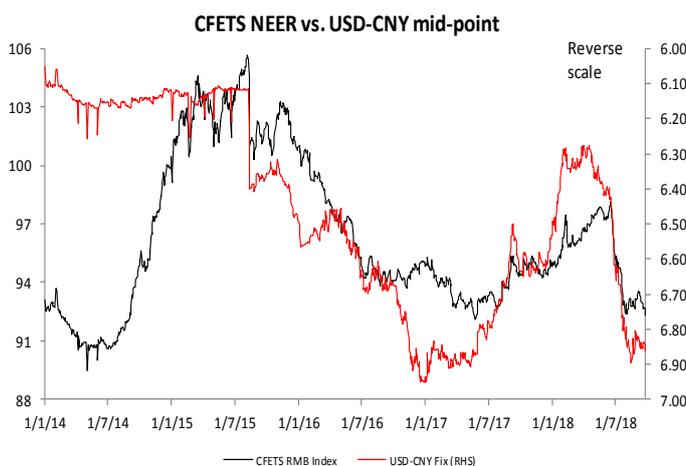
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Asian FX

- On the flow front, latest readings from net portfolio inflows remain supportive of the KRW and TWD, while implicit outflow pressure is still manifesting for the INR, PHP, and IDR. Notably, net inflow pressure (bonds, specifically) for the THB continues to wane. Into the end of the week however, a slightly firmer USD complex may still dominate although recovering risk appetite levels may blunt USD resilience.
- On Thursday, **Bank Indonesia** and the **BSP** hiked their respective policy rates as widely expected. While the **CBC** remained static, also as expected. Going ahead, investors we think may persist in the hunt for crisis alpha, continuing to focus on current account deficit economies.
- **SGD NEER**: The SGD NEER this morning is relatively firmer again at round +1.50% above its perceived parity with NEER-implied USD-SGD thresholds higher on the day. Expect initial resistance towards the 55-day MA (1.3685) while downside support may materialize into 1.3635 during the Asian session.
- **CFETS RMB Index**: This morning, the USD-CNY mid-point came in at a lower than expected 6.8792, indicating that perhaps the CCF was in play. Meanwhile, the CFETS RMB Index remained steady at 92.35.
- e 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.



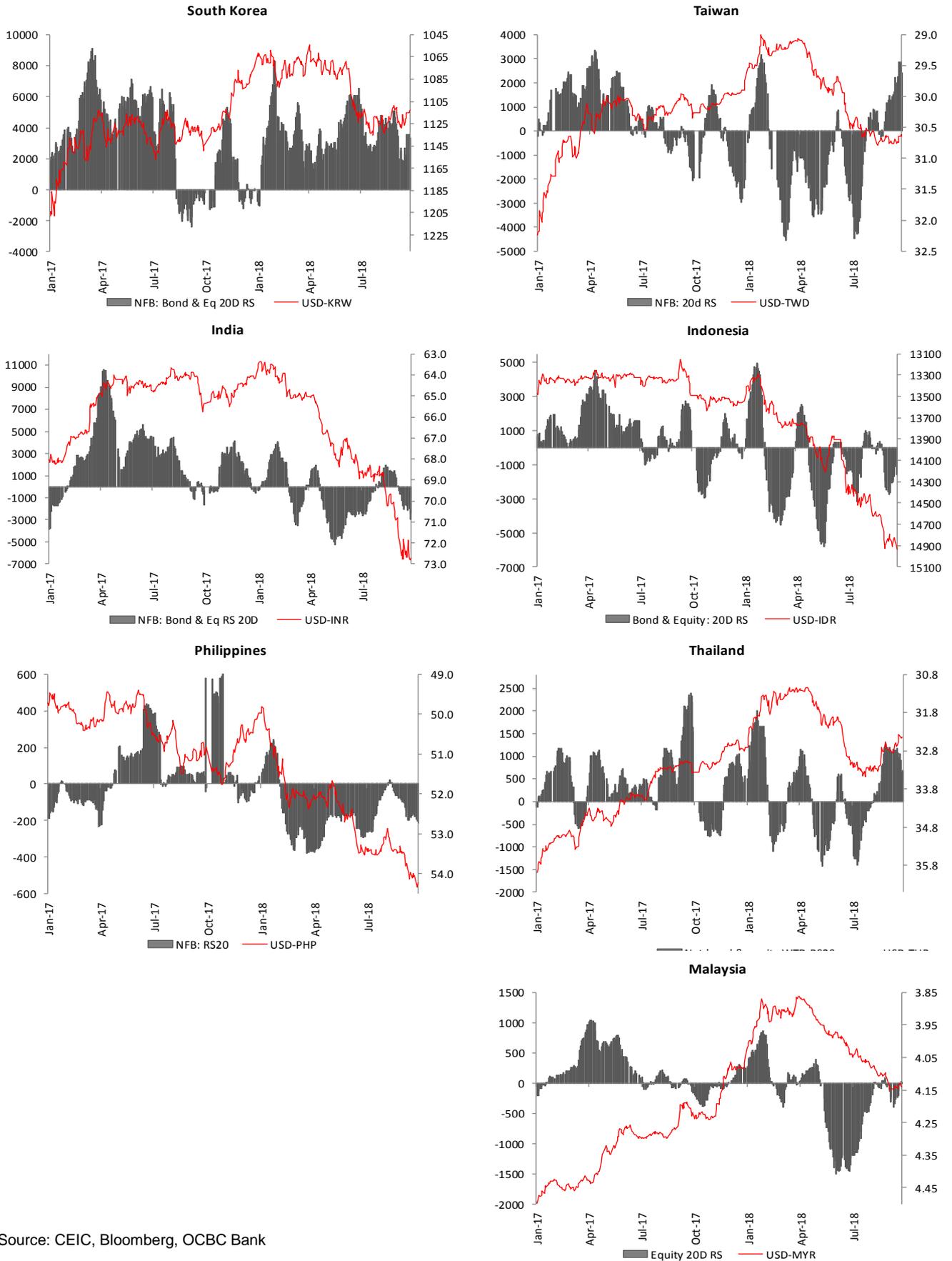
Source: OCBC Bank, Bloomberg

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.CBC remained static at its policy meeting in Spetember.
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 attmpt 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. BI hiked another 25bps as expected in September. 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 currentlt no shift to a hwakish stance.
USD-PHP	↑	BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher.

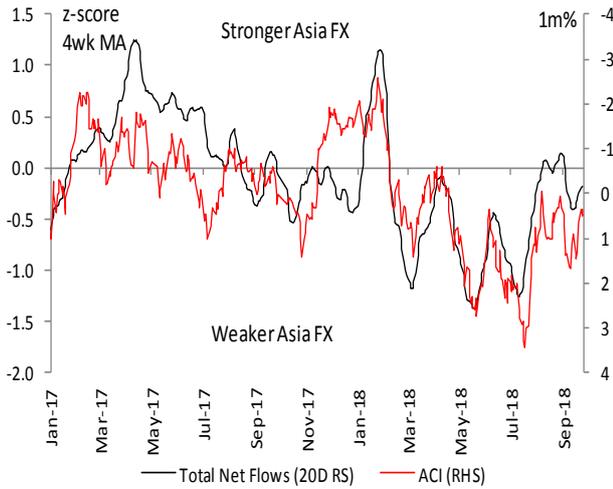
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



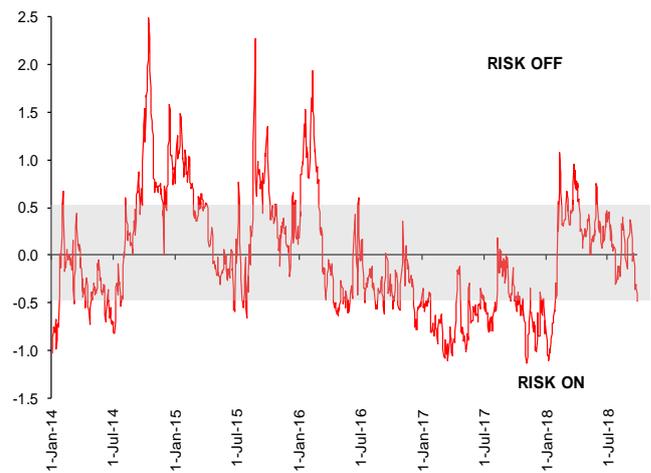
Source: CEIC, Bloomberg, OCBC Bank

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	-0.667	-0.262	-0.764	-0.07	-0.509	-0.577	-0.548	0.646	0.77	0.051	-0.97
SGD	0.839	-0.532	-0.161	-0.89	-0.451	-0.719	-0.658	-0.776	0.747	0.624	0.055	-0.879
CAD	0.827	-0.545	-0.141	-0.811	-0.217	-0.523	-0.514	-0.586	0.806	0.591	0.151	-0.797
THB	0.82	-0.84	-0.509	-0.843	-0.159	-0.56	-0.894	-0.782	0.763	0.826	-0.26	-0.79
CHF	0.732	-0.335	0.061	-0.479	0.033	-0.047	-0.092	-0.041	0.352	0.426	0.29	-0.68
MYR	0.205	0.321	0.302	-0.395	-0.845	-0.36	0.143	-0.128	0.235	-0.107	0.207	-0.304
TWD	0.196	-0.116	-0.25	-0.513	-0.69	-0.722	-0.449	-0.665	0.339	0.232	-0.26	-0.284
CNH	0.051	0.443	0.832	-0.131	-0.272	0.048	0.472	0.283	0.137	-0.382	1	-0.083
KRW	-0.009	0.245	0.26	-0.555	-0.935	-0.562	-0.167	-0.51	0.398	-0.214	0.07	-0.144
IDR	-0.02	0.45	0.469	-0.119	-0.514	-0.039	0.385	0.167	0.118	-0.315	0.358	0.018
CNY	-0.262	0.723	1	0.187	-0.383	0.293	0.692	0.485	-0.235	-0.722	0.832	0.198
INR	-0.362	0.811	0.765	0.054	-0.73	0.047	0.612	0.286	-0.122	-0.716	0.58	0.274
JPY	-0.577	0.88	0.692	0.753	-0.003	0.574	1	0.809	-0.715	-0.869	0.472	0.603
PHP	-0.63	0.89	0.794	0.332	-0.544	0.317	0.762	0.505	-0.372	-0.869	0.484	0.53
USGG10	-0.667	1	0.723	0.598	-0.316	0.421	0.88	0.678	-0.612	-0.907	0.443	0.617
NZD	-0.69	0.233	-0.141	0.777	0.685	0.634	0.41	0.591	-0.554	-0.377	-0.262	0.772
AUD	-0.747	0.296	-0.145	0.81	0.601	0.553	0.424	0.591	-0.638	-0.386	-0.33	0.816
GBP	-0.847	0.811	0.541	0.611	-0.247	0.312	0.69	0.526	-0.615	-0.823	0.26	0.764
EUR	-0.97	0.617	0.198	0.81	0.195	0.571	0.603	0.585	-0.657	-0.726	-0.083	1

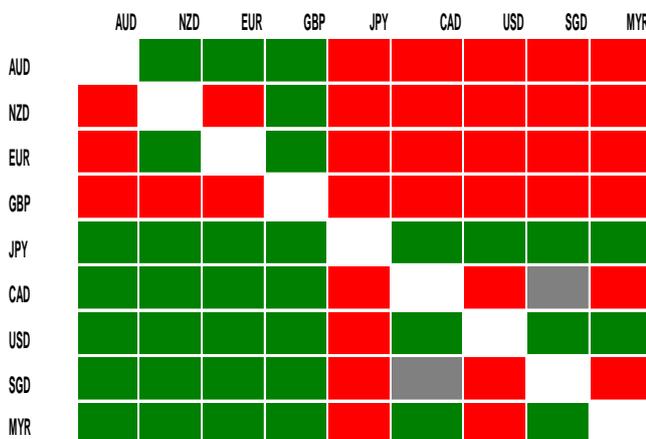
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1613	1.1648	1.1700	1.1789
GBP-USD	1.2985	1.3000	1.3082	1.3100	1.3278
AUD-USD	0.7098	0.7200	0.7214	0.7289	0.7300
NZD-USD	0.6501	0.6600	0.6611	0.6659	0.6694
USD-CAD	1.2885	1.3000	1.3024	1.3044	1.3100
USD-JPY	111.46	112.51	113.55	114.60	115.64
USD-SGD	1.3607	1.3619	1.3674	1.3688	1.3700
EUR-SGD	1.5898	1.5900	1.5927	1.6000	1.6003
JPY-SGD	1.2000	1.2036	1.2042	1.2100	1.2214
GBP-SGD	1.7774	1.7800	1.7888	1.7900	1.8104
AUD-SGD	0.9784	0.9800	0.9865	0.9900	0.9969
Gold	1100.00	1174.70	1182.10	1184.93	1200.00
Silver	13.95	14.30	14.33	14.40	14.42
Crude	68.89	72.20	72.25	72.30	72.78

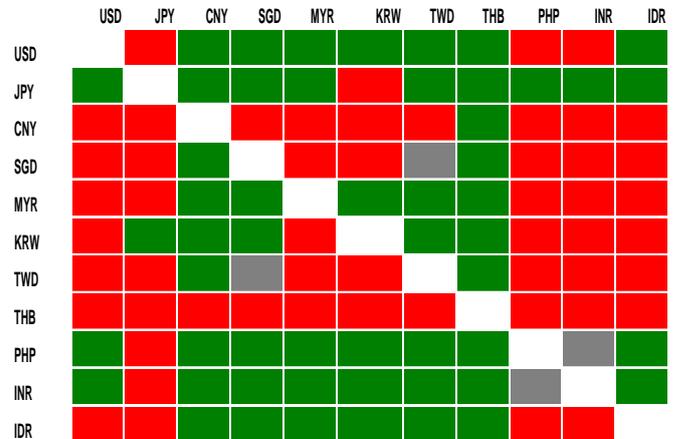
Source: OCBC Bank

G10 FX Heat Map



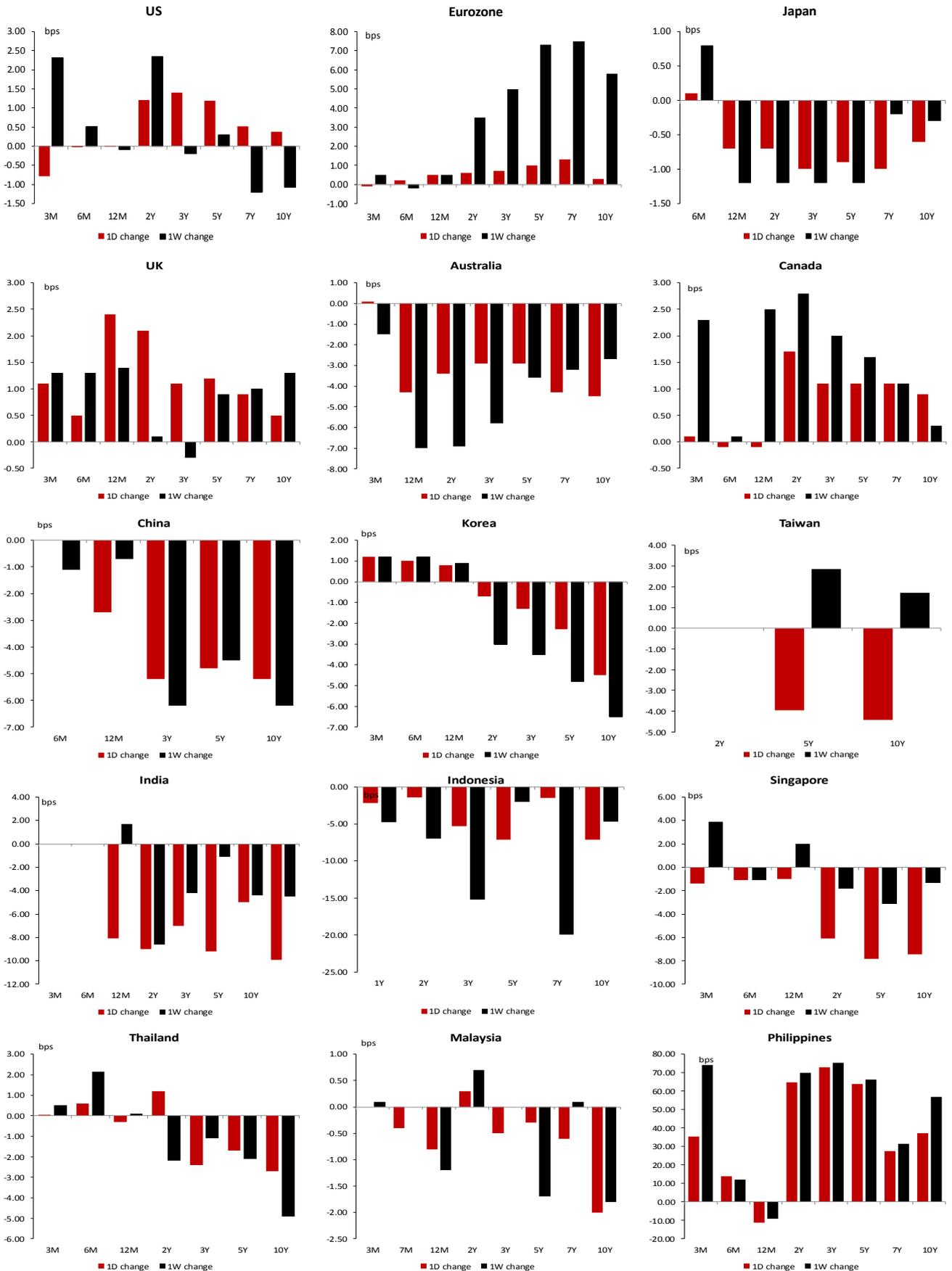
Source: OCBC Bank

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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