

Wednesday, October 03, 2018

**FX Themes/Strategy/Trading Ideas**

- Negative global equities soured investor sentiment and pulled the USD higher across the board on Tuesday, although some retracement subsequently occurred as calmer heads prevailed.
- The **EUR** meanwhile continued to be weighed by Italian (and larger EZ) concerns with the BTPs-bund spread still pushing wider. Elsewhere, the **RBA** left its benchmark rate unchanged as expected but deteriorating risk appetite saw the antipodeans underperforming across G10 space with the JPY also rising against its peers.
- Note also that the **GBP**, apart from slipping against the USD (GBP-USD <1.3000) also underperformed across G10 space as Brexit headlines remained a festering mess (watch for evolving headlines amid the ongoing Conservative Party conference with PM May due to speak).
- In the near term, the USD may derive some relative security with **Fed chair Powell**, in broad ranging remarks on Tuesday, indicating a “remarkably positive outlook” for employment and inflation. Adding that steady low inflation and very low employment reflect “extraordinary times”.
- Overall, Powell did not intend to signal any additional hawkish bias but with the rest of the global complex crumbling, the USD may remain the de facto go-to currency for now.
- On the strategy front, given the diametrically opposed dynamics, we look to a tactical short **EUR-CAD**. From a spot ref of 1.4845 on Wednesday, we target 1.4590 and place a stop at 1.4975.

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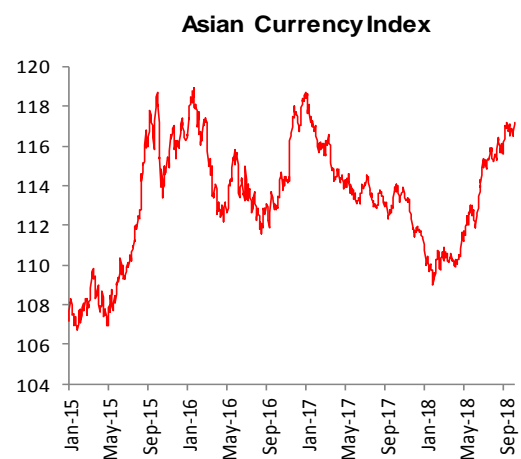
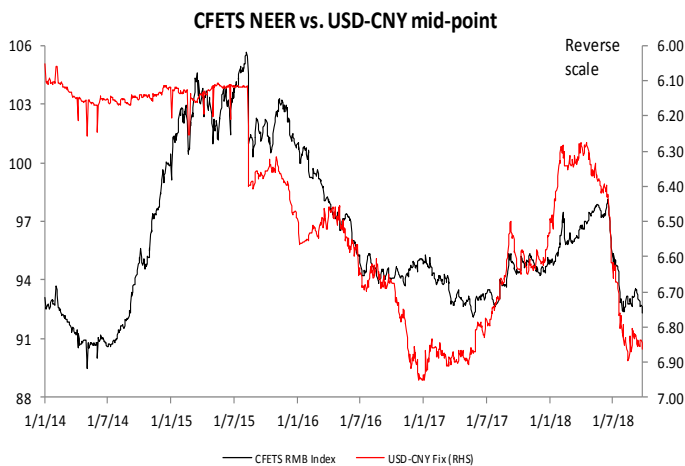
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## Asian FX

- EM/FX equities tripped lower on Tuesday and expect Asian FX (and the respective implieds) to remain on the back foot against the USD. The CNH complex meanwhile is not doing the region any favors with spot briefly breaching 6.9000 on Tuesday. Overall, we look for the **Asian Currency Index (ACI)** to continue to tilt higher intra-day.
- **SGD NEER:** The SGD NEER slipped briefly below +1.10% on Tuesday at the height of USD strength but the basket has recovered slightly to around +1.20% currently. Given the current USD environment, NEER-implied USD-SGD thresholds are higher on the day and expect good support towards 1.3700 (55-day MA situated at 1.3691) with 1.3790 a first resistance.
- We expect the MAS to stand pat at next week's MPS (Monetary Policy Statement), although we think that the odds only marginally favor this base case scenario. The alternate scenario is for another slope steepening although this will likely be another non-hawkish tightening. Anecdotally, markets are already loaded (but not seemingly excitable) for next week's MPS and expect external drivers to impart more bias on local FX/rates instead. For further details, please refer to **OCBC FX Viewpoint: MAS MPS Preview – Stand pat?, 02 Oct 18.**
- **CFETS RMB Index:** China is away for holidays this week.



Source: OCBC Bank, Bloomberg

### Short term Asian FX/local 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. Finance Minister warns of further potential weakness in labor markets.
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 and is expected to remain so into 2019.
USD-INR	↔/↑	Govie and ND yields are easier as risk aversion dissipates. Monitor potential for ratehikes this Friday. 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 attmept 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 and bond investments.
USD-THB	↔/↓	BOT MPC members mulling a policy normalization timetable. 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 hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher. Slower growth and firmer inflation prospects weigh on sentiment.

Source: OCBC Bank

### FX Trade Recommendations

	Inception	B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale		
	<b>TACTICAL</b>							
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	USD-JPY	112.89	114.65 112.00	USD-JPY responsive to firmer US rates		
3	03-Oct-19	S	EUR-CAD	1.4845	1.4590 1.4975	Contrasting dynamics between USMCA and Italy		
	<b>STRUCTURAL</b>							
	-	-	-	-	-	-	-	
	<b>RECENTLY CLOSED TRADE IDEAS</b>							
	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
4	20-Sep-18	28-Sep-18	B	EUR-USD	1.1702	1.1600	Risk appetite recovery, rate differentials on back burner	-0.87
* realized, excl carry								

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