

Tuesday, December 04, 2018

## FX Themes/Strategy/Trading Ideas – Revised FX forecasts

- Except against the GBP, the greenback ended lower on Monday in the wake of the weekend Sino-US headlines and as risk appetite recovered. Overall, the **DXY** settled below 97.00 and the Index may continue to wobble in the near term. Elsewhere, the GBP continued to underperform across G10 space amid sustained market nervousness surrounding the upcoming 11 Dec 2018 Parliamentary vote.
- Significantly positive global equities and compression in global risk premiums saw the **FXSI (FX Sentiment Index)** falling significantly within **Risk-Off** territory on Monday. Another incremental dip today may potentially take the Index into **Risk-Neutral** territory.
- The US 2/10s flattened significantly as the 10y UST yield crashed below 2.970%. Note also that the 2/5s and 3/5s inverted, and bearing in mind that the belly (5y) typically is where investors pin their implied reckoning of the prognosis of the economic prospects, perhaps this is a signal of fading confidence in the US economy's outperformance. Beyond the short term. At this juncture, we think the re-pricing of the Fed (for 2019) is not done as yet, with the 1y ED spread still depressed. Although global yields edged lower on Monday, note also that aggregated rate differentials with respect to the dollar continue to denote moderating intrinsic USD support.
- Going ahead, details of the weekend Xi-Trump dinner remain scant from Beijing, with detail so far only from the White House and markets now run the risk of China eventually not corroborating the declarations from the US front. **To this end, the capitulation of the latest uptick in positive risk appetite may be abrupt.** In the interim, expect the EUR and GBP to retain a significant amount of baggage, with markets expected to remain engaged (tentatively) in risk-on trades.
- Unscheduled remarks from Fed's Powell continue to show his positive reading on the US labour market and the economy, a view reinforced by stronger than expected ISM manufacturing data yesterday. European PMIs mixed, but with the key economies printing better than expected figures. On the central bank calendar today, expect RBA's decision (0330 GMT), and comments from BOE's Carney (0915 GMT) and Vlieghe (1800 GMT), and Fed's Williams (1500 GMT).

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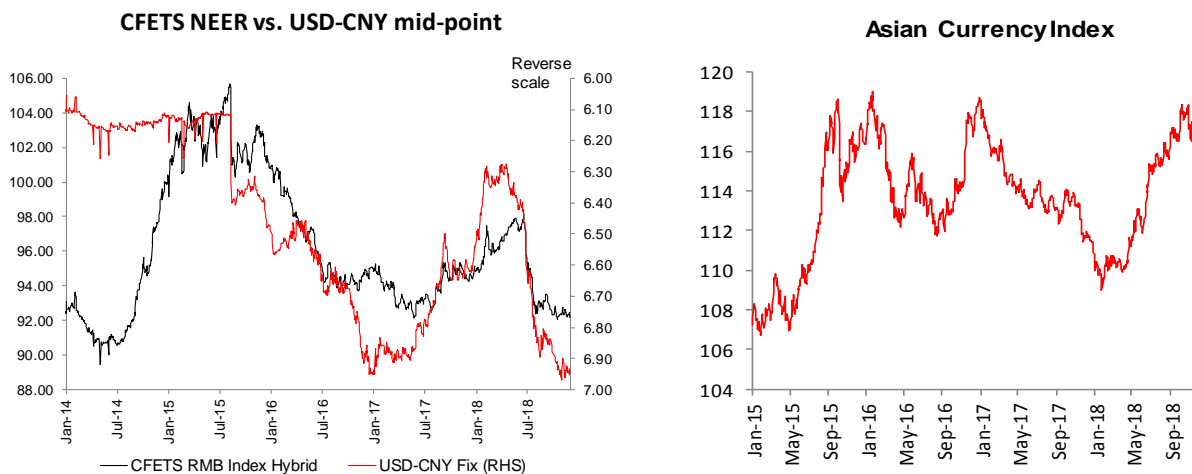
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### Asian FX

- The renminbi complex led the way higher on Monday while crude gapping up above 53.00 proved to be a drag on the INR (while the MYR benefitted partially) despite the near ubiquitous revival in investor sentiment in the region. Asian equities got off to a hesitant start early on Tuesday and downside for USD-Asia may be slightly more tentative intra-day.
- On the net portfolio inflow front in Asia, we expect a further pickup in net inflows in the near term. In the interim, South Korea and Taiwan continue to maintain a positive inflow balance. Meanwhile, Indonesia continues to experience very strong bond inflows while net inflows for India have also been improving (net bond inflows moderating but net equity inflows improving). Elsewhere, the positive flow environment for Thailand has been moderating slightly (bond inflows moderating, net equity outflows compressing).
- **SGD NEER:** The revised SGD NEER stands at +1.94% above its perceived parity (1.3927), with NEER-implied USD-SGD thresholds easing lower. Expect the USD-SGD to be beholden to the broad dollar and the renminbi movements going ahead, with the 1.3654 providing some support on an intra-day basis. With the SGD NEER at elevated levels, we do not expect disproportionate SGD strength going forward.
- **CFETS RMB Index:** The **USD-CNY** mid-point was set lower, by more than expected, at 6.8939 compared to 6.9431 on Monday. The CFETS RMB Index, in response, firmed significantly to 92.71, compared to 92.18 previously. At this juncture, expect the renminbi to stay supported so long as the market positivity from the Xi-Trump meeting persists. **Meanwhile, short-end CNH vols have understandably dipped (compressing the vol premia) after the weekend, but we note that the riskies remain resolutely ‘southbound’ for the pair.**



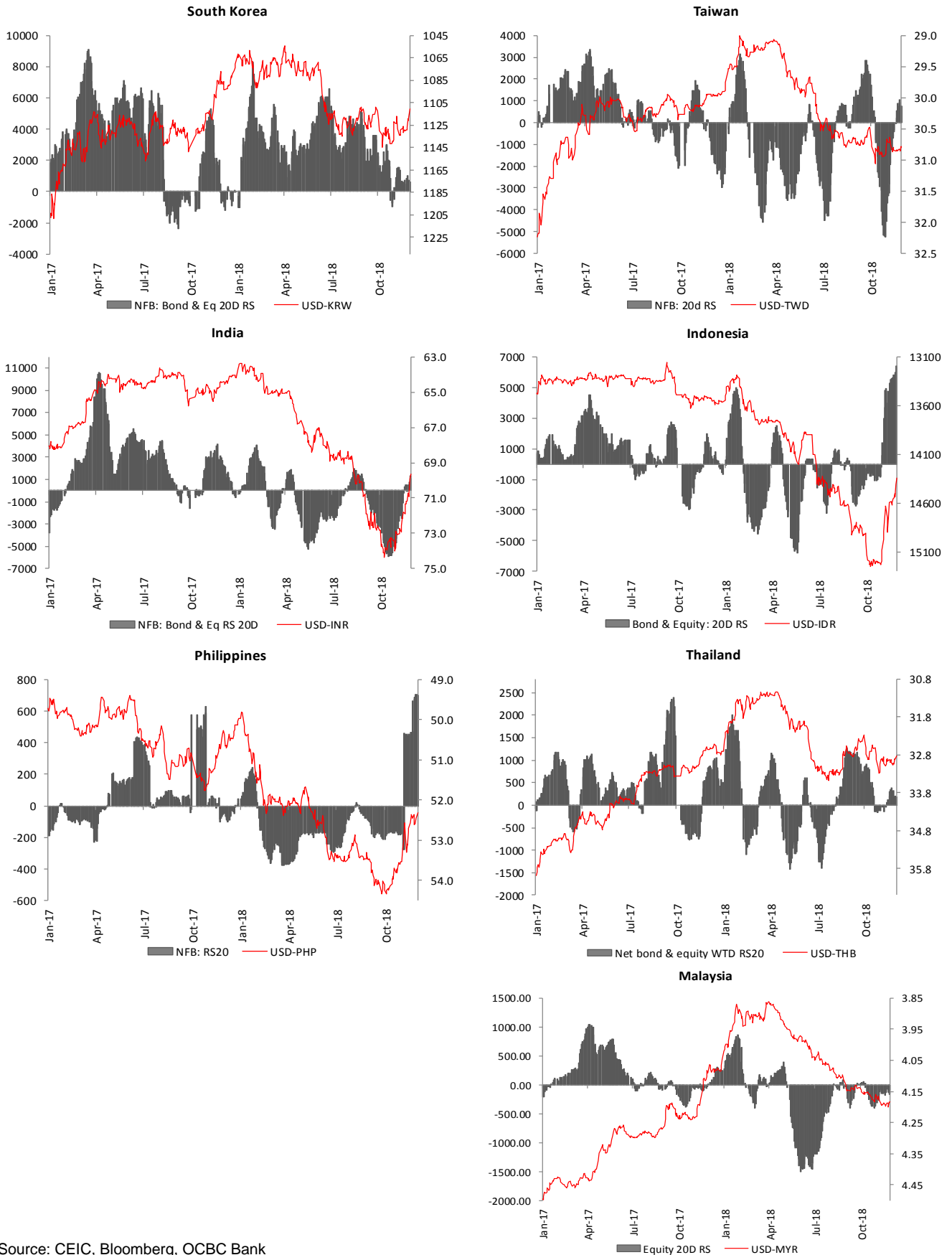
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	3Q GDP numbers “disappointed”. PBOC’s quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. PBOC states that the 7.00 level for USD-CNY “isn’t that crucial”. October CPI/PPI prints remain subdued, with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not pretend aggressive monetary stimulus. November official PMIs disappoint. Oct trade and industrial production numbers outperformed, while retail sales underperformed.
USD-KRW	↔/↓	BOK hiked 25bps as expected in November with the hike characterized as a one-off dovish hike by markets. 3Q GDP and Sep industrial production readings came in lower than expected. Nov CPI prints also in-line to softer.
USD-TWD	↔/↓	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Some CBRC members looking towards policy normalization to afford the authority eventual downside wiggle room.
USD-INR	↓	Political risk ahead with state elections scheduled for end-Nov and early Dec. Thawing relations between the RBI and government expected to assuage markets. 3Q GDP and Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance, with a hold expected in the Nov meeting. Govie yields firmer on the week.
USD-SGD	↔/↓	MAS steepens the NEER’s slope again in October. NEER may remain afloat above +1.00% if risk appetite stays supported. 3Q GDP numbers disappoint.
USD-MYR	↔/↓	The mid-term review of the 11th Malaysia Plan saw growth forecasts downgraded and with the previous plan to achieve a balanced budget by 2020 scuppered, replaced by an projected -3.0% deficit. BNM static in November, highlighting the drag from the fiscal front. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in).
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds, with govie yields easing further on the week. The Nov hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, with the BI expected to stay pre-emptive and ahead of the curve in 2019. BI’s intervention on the IDR and bond markets apparently ceased in the past couple of weeks. Note equity inflows are also consistently picking up momentum alongside bond inflows.
USD-THB	↔/↓	BOT unchanged at Nov MPC, but shows an inclination towards a Dec hike, rather than Feb. Any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Nov CPI dipped back below the BOT’s target range, potentially complicating the Dec rate hike outlook again.
USD-PHP	↔/↓	BSP hiked rates by another 25 bps in its Nov meeting, aiming to rein in on inflation and pre-empt second round effects. Official rhetoric continues to point towards lower inflation prints in the coming months, although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending.

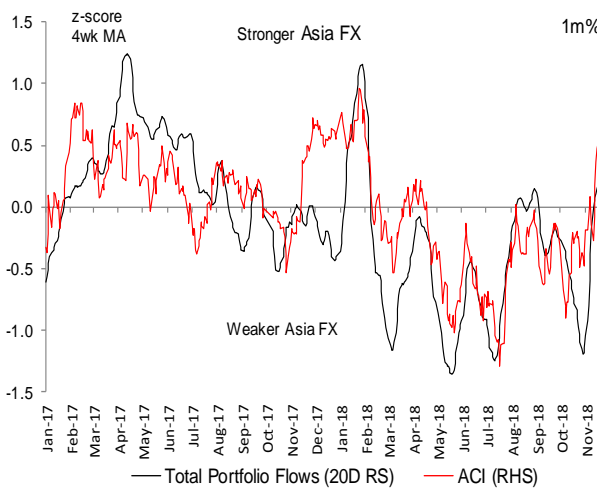
Source: OCBC Bank

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



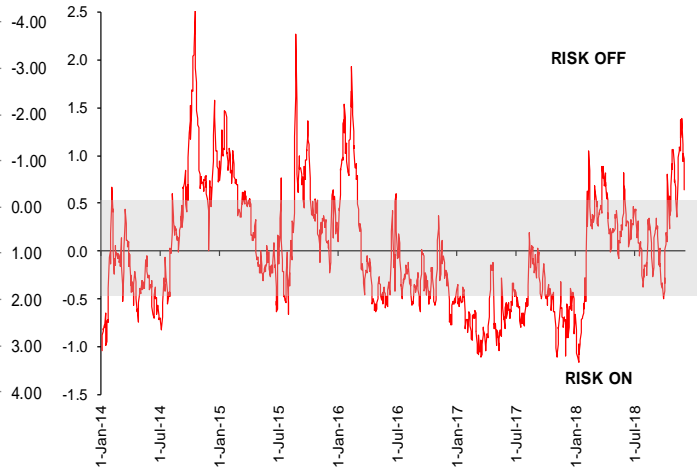
Source: CEIC, Bloomberg, OCBC Bank

**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	-0.356	0.457	-0.222	-0.147	-0.629	0.501	-0.492	0.125	0.298	0.492	-0.914
CNH	0.731	-0.55	0.556	-0.501	-0.269	-0.813	0.129	-0.779	0.324	0.667	0.501	-0.572
CNY	0.501	0.281	1	0.136	0.55	0.371	-0.032	1	0.099	-0.48	-0.314	0.123
CAD	0.492	0.277	0.93	-0.364	-0.58	-0.279	0.123	-0.069	0.367	0.053	1	-0.453
SGD	0.477	0.545	0.682	-0.177	-0.572	0.147	0.3	0.319	0.365	-0.431	0.778	-0.632
THB	0.457	0.02	1	-0.322	-0.569	-0.271	0.136	-0.218	0.362	0.117	0.93	-0.521
JPY	0.434	0.2	0.702	-0.566	-0.721	-0.247	-0.036	-0.051	0.61	0.113	0.763	-0.427
TWD	0.328	-0.48	0.576	-0.785	-0.687	-0.511	-0.393	-0.557	0.669	0.534	0.489	-0.28
MYR	0.268	-0.37	0.566	-0.706	-0.663	-0.435	-0.307	-0.478	0.73	0.485	0.431	-0.204
KRW	0.217	0.695	0.202	0.381	-0.078	0.521	0.591	0.654	-0.044	-0.79	0.233	-0.509
CHF	0.201	0.26	0.635	-0.593	-0.842	-0.056	-0.192	0.06	0.634	-0.026	0.703	-0.299
NZD	0.039	-0.791	-0.243	0.041	0.402	-0.48	-0.133	-0.634	-0.271	0.661	-0.507	0.175
PHP	-0.031	0.741	0.291	0.345	-0.124	0.655	0.347	0.718	0.075	-0.755	0.2	-0.282
IDR	-0.217	0.723	0.217	-0.101	-0.524	0.64	-0.031	0.696	0.513	-0.67	0.184	-0.054
INR	-0.241	0.909	0.063	-0.006	-0.414	0.823	0.02	0.901	0.44	-0.924	0.06	-0.068
AUD	-0.28	-0.572	-0.458	0.372	0.675	-0.154	-0.101	-0.346	-0.526	0.44	-0.692	0.429
USGG10	-0.356	1	0.02	0.427	-0.065	0.802	0.281	0.882	-0.1	-0.913	0.277	0.06
GBP	-0.541	0.898	-0.115	0.476	0.013	0.787	0.174	0.81	-0.182	-0.854	0.117	0.276
EUR	-0.914	0.06	-0.521	0.153	0.226	0.399	-0.614	0.244	-0.168	-0.012	-0.453	1

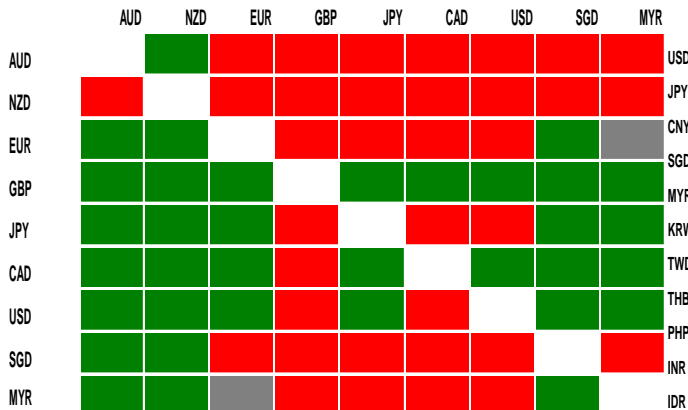
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1246	1.1300	1.1367	1.1400	1.1434
GBP-USD	1.2696	1.2700	1.2736	1.2800	1.2954
AUD-USD	0.7185	0.7300	0.7358	0.7367	0.7393
NZD-USD	0.6900	0.6938	0.6948	0.6952	0.7000
USD-CAD	1.3104	1.3117	1.3187	1.3200	1.3328
USD-JPY	113.00	113.10	113.32	114.00	114.21
USD-SGD	1.3600	1.3652	1.3654	1.3659	1.3700
EUR-SGD	1.5493	1.5500	1.5521	1.5600	1.5711
JPY-SGD	1.2023	1.2024	1.2048	1.2100	1.2171
GBP-SGD	1.7309	1.7364	1.7391	1.7400	1.7831
AUD-SGD	1.0000	1.0030	1.0046	1.0076	1.0100
Gold	1202.66	1216.21	1234.70	1238.51	1239.30
Silver	13.94	14.30	14.39	14.40	14.45
Crude	48.00	50.00	53.50	62.99	64.27

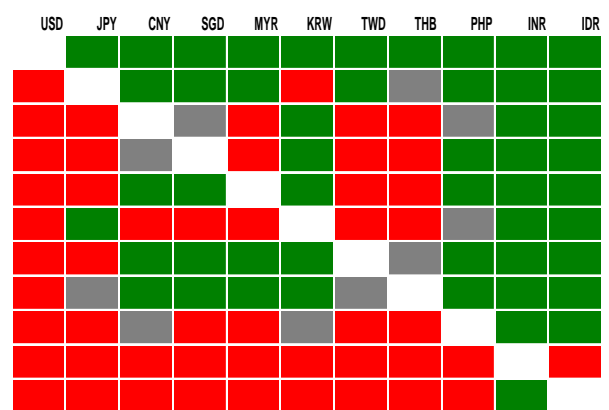
Source: OCBC Bank

**G10 FX Heat Map**



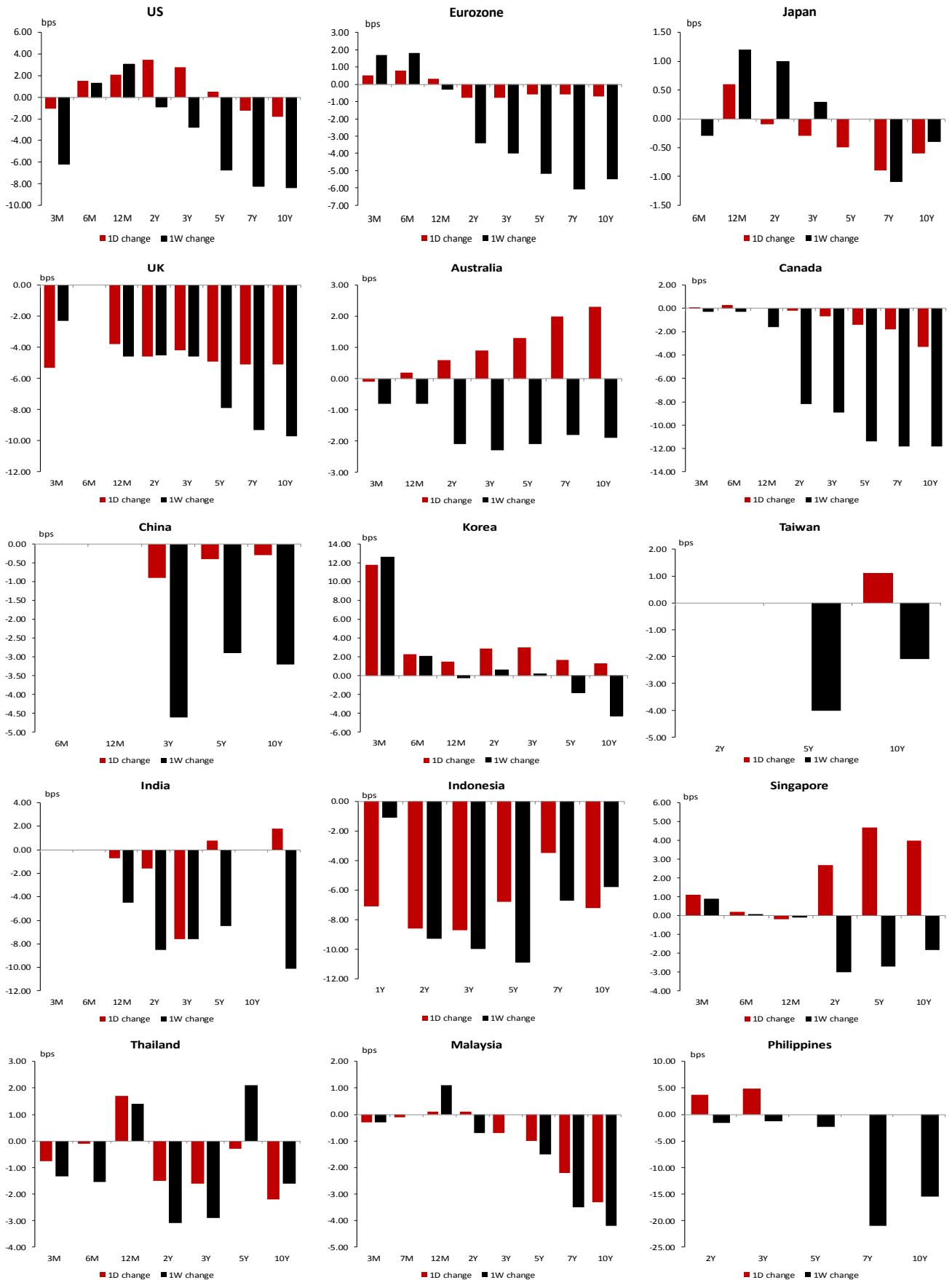
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



### FX Trade Recommendations

Inception	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	23-Oct-18	B	3M USD-THB	32.780	33.500 32.400	Vanishing net inflows, firmer USD, fragile risk appetite		
<b>STRUCTURAL</b>								
	-	-	-	-	-	-		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	08-Nov-18	12-Nov-18	B	AUD-USD	0.7286	0.7200	Improving risk appetite post US midterms	-1.18
2	13-Nov-18	14-Nov-18	S	EUR-USD	1.1230	1.1035 1.1330	Italian fiscal uncertainty, USD underpinned by FOMC prospects	-0.89
3	09-Nov-18	16-Nov-18	B	USD-JPY	113.88	113.00	Rate differential support for the USD, especially post-FOMC	-0.77
* realized, excl carry								

**Revised FX Forecasts (correct as of 03 Dec 2018)**

	<b>Spot</b>	<b>Dec-18</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>
<b>USD-JPY</b>	113.49	113.80	114.29	112.76	111.22	109.69
<b>EUR-USD</b>	1.1364	1.1406	1.1322	1.1557	1.1792	1.2026
<b>GBP-USD</b>	1.2781	1.2604	1.2669	1.2944	1.3219	1.3495
<b>AUD-USD</b>	0.7367	0.7445	0.7425	0.7513	0.7601	0.7689
<b>NZD-USD</b>	0.6913	0.6993	0.6989	0.7093	0.7196	0.7299
<b>USD-CAD</b>	1.3204	1.3307	1.3283	1.3034	1.2786	1.2537
<b>USD-CHF</b>	0.9976	0.9907	0.9958	0.9831	0.9704	0.9578
<b>USD-SGD</b>	1.3673	1.3617	1.3643	1.3553	1.3462	1.3372
<b>USD-CNY</b>	6.8984	6.8600	6.8916	6.8010	6.7104	6.6198
<b>USD-THB</b>	32.80	32.70	32.86	32.44	32.01	31.59
<b>USD-IDR</b>	14229	14050	13968	13886	13805	13723
<b>USD-MYR</b>	4.1722	4.1616	4.1810	4.1281	4.0752	4.0224
<b>USD-KRW</b>	1110.65	1102.00	1109.33	1098.33	1087.33	1076.33
<b>USD-TWD</b>	30.743	30.630	30.622	30.389	30.156	29.922
<b>USD-HKD</b>	7.8209	7.8200	7.8091	7.7982	7.7873	7.7764
<b>USD-PHP</b>	52.31	51.80	51.47	51.15	50.82	50.49
<b>USD-INR</b>	70.15	69.15	68.56	67.98	67.39	66.80
<b>EUR-JPY</b>	128.97	129.80	129.40	130.31	131.15	131.91
<b>EUR-GBP</b>	0.8891	0.9050	0.8937	0.8928	0.8920	0.8912
<b>EUR-CHF</b>	1.1336	1.1300	1.1274	1.1362	1.1443	1.1518
<b>EUR-SGD</b>	1.5538	1.5532	1.5447	1.5663	1.5874	1.6081
<b>GBP-SGD</b>	1.7475	1.7163	1.7284	1.7543	1.7796	1.8045
<b>AUD-SGD</b>	1.0073	1.0138	1.0130	1.0182	1.0233	1.0282
<b>NZD-SGD</b>	0.9453	0.9522	0.9536	0.9613	0.9688	0.9761
<b>CHF-SGD</b>	1.3706	1.3745	1.3701	1.3785	1.3872	1.3961
<b>JPY-SGD</b>	1.2047	1.1966	1.1937	1.2019	1.2104	1.2191
<b>SGD-MYR</b>	3.0515	3.0562	3.0646	3.0460	3.0272	3.0081
<b>SGD-CNY</b>	5.0453	5.0378	5.0514	5.0182	4.9846	4.9505



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