

Monday, November 05, 2018

FX Themes/Strategy/Trading Ideas – The week ahead and refreshed FX forecasts

- The dollar rose slightly across G10 space on Friday on renewed Sino-US trade concerns while supportive US Oct NFP numbers (headline at a better than expected +250k) and a higher US curve also granted the greenback further traction. The EUR was also undermined slightly in the wake of reports indicating that the ECB may be considering further TLTROs for banks.
- The GBP-USD popped higher early Monday in Asia following a media report indicating that Britain would remain in the customs union (with concessions). Note that the Cabinet is set to meet on Tuesday for further Brexit discussions. This report was subsequently dismissed as ‘speculation’ by the PM’s office, dragging the cable back down to the familiar 1.3000 region.
- This saw the **DX** bouncing off intra-day lows near 96.00 and permitted another weekly close above the 200-wk MA (95.843) near 96.52. **Technically, this sets up the Index for further potential upside (note however some expectation of a near term pullback in the short term), especially with aggregated rate differentials continuing to move in favor of the USD.**
- On the **CFTC** front, large non-commercial accounts increased their net implied long dollar bias in the latest week while asset manager accounts also pared their implied short dollar bias in aggregate. Meanwhile, leveraged accounts moderated their implied long dollar bias in the latest week (although this may have been reversed into the end of last week).
- Negative US equities contributed to a firming of the **FX Sentiment Index (FXSI)** on Friday, with the Index inching higher within **Risk-Off** territory. Going ahead, the US mid-term elections (polls indicate prospects for the Democrats re-taking the House; Republicans to retain control of the Senate) on Tuesday and we think will continue to keep investors on their toes, although the short-end vol surface is not particularly excitable at this juncture.
- Apart from uncertainty surrounding the US mid-terms and the string of global services/composite PMIs this week, Chinese President Xi’s speech later today kicks off a week of potential headliners. The RBA meets on Tuesday while the RBNZ’s policy meeting is due late Wednesday. Elsewhere, the FOMC on Thursday is not expected to yield any fireworks. **Govies in the majors sold off on Friday but central bank guidance (outside of the Fed) this week (including also an expected chorus of ECB appearances) may continue to result in US Treasuries underperforming their counterparts.**

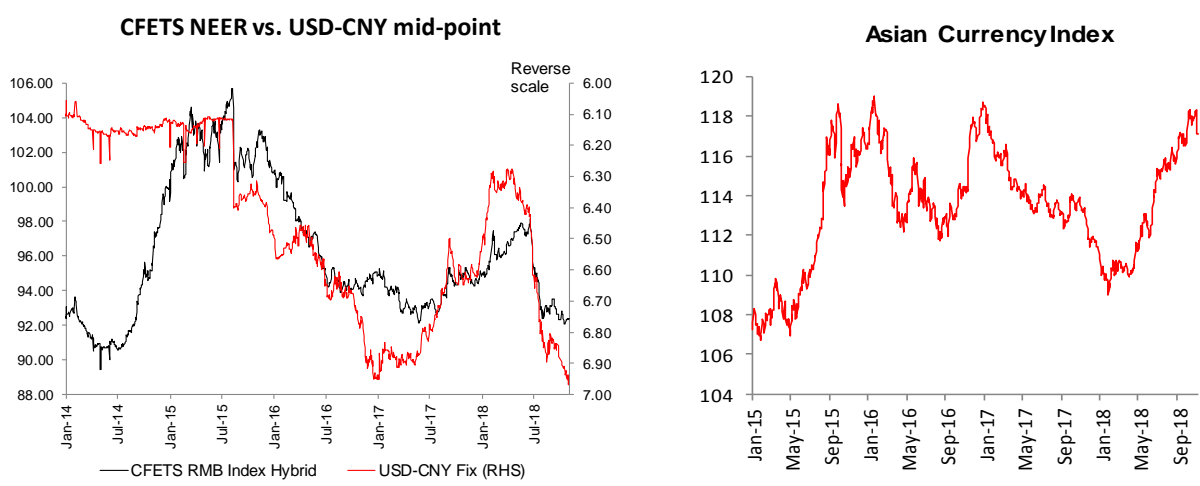
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- USD-Asia however tracked USD-China lower on Friday and the renminbi complex may continue to drive a wedge between USD-Asia and a potentially firmer DXY in the short term. Notably, the short term vol surfaces for several of the Asians have significantly expunged USD bullishness at this juncture. As an added positive for Asia, note also that crude continues to slide since early October.
- EPFR numbers meanwhile denote a jump in net implied equity inflows for Asia (excl Japan, China), with implied net equity inflows for China moderating slightly from the previous week. Meanwhile, net implied bond outflows from Asia (excl Japan, China) deepened slightly in the latest week, with net outflows for China also increasing slightly.
- Asian net **portfolio flows** meanwhile indicate a compression in minor net outflows for South Korea, while deep net outflows for Taiwan are attempting to compress. Meanwhile, Indonesia has flipped to a net inflow environment but outflows for India seem to be deepening again. Thailand and Malaysia meanwhile continue to maintain minor outflows.
- **SGD NEER:** The SGD NEER is holding largely lower on the day at around +1.37% above its perceived parity (1.3942) with NEER-implied USD-SGD thresholds higher from last Friday. In the interim, expect USD-SGD to stay suppressed, and any departure from the 55-day MA (1.3743) may encourage the pair towards the 100-day MA (1.3702).
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set lower than expected at 6.8976 compared to 6.9371 last Friday. This caused the CFETS RMB Index to jump to 92.75 from 92.31.



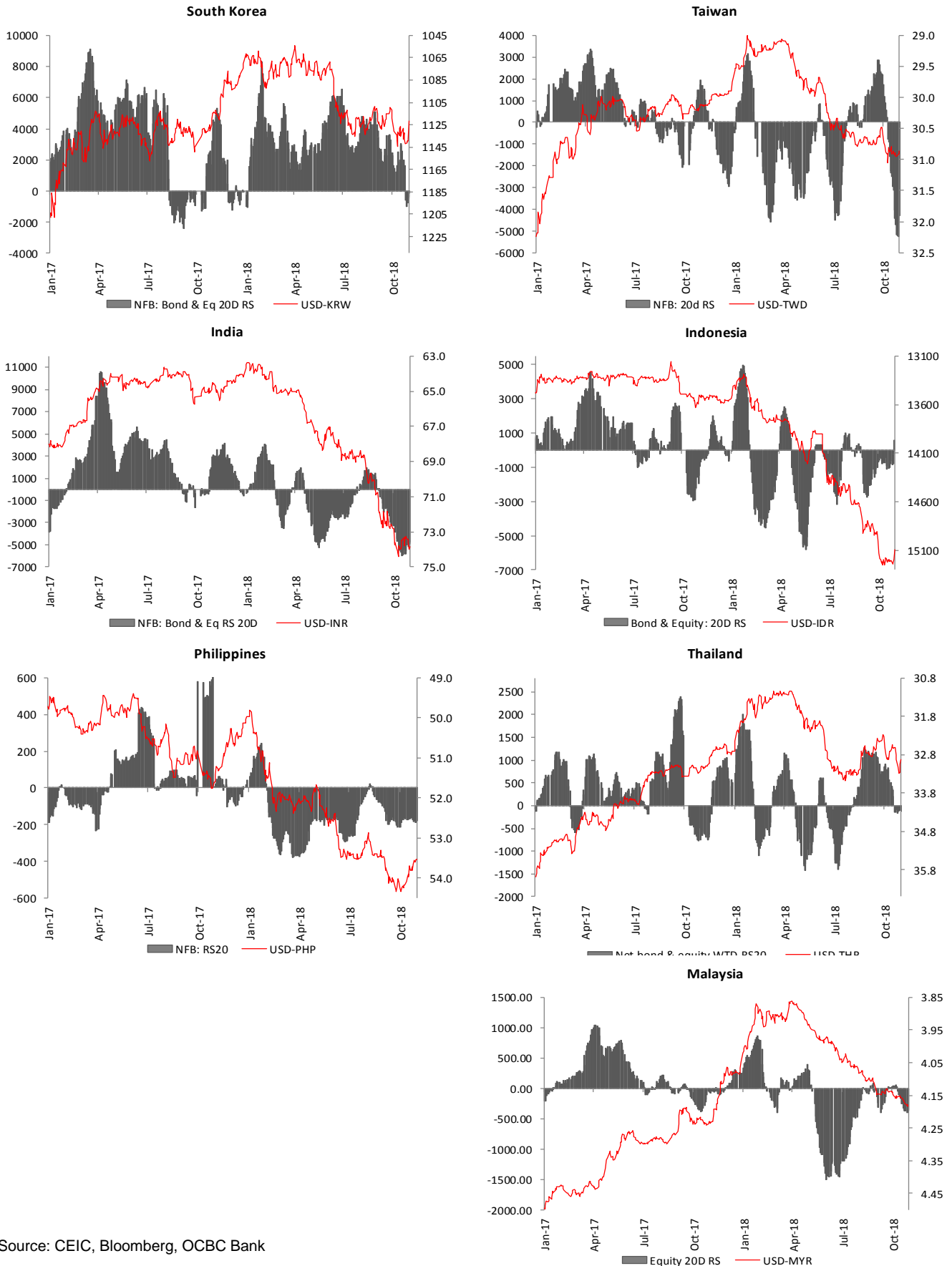
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	3Q GDP numbers “disappointed ” but despite expectations of official macro support, markets continue to angle for renminbi weakness and a soft interest rate curve. State Council and the PBOC announced further measures to ensure adequate funding. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. Latest CPI/PPI prints do not portend heightened price pressures (especially core), with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not pretend aggressive monetary stimulus. October official PMIs disappoint, Caixin manufacturing PMI static.
USD-KRW	↔/↓	BOK remained static as expected in October with the official economic prognosis downgraded as expected. 3Q GDP and Sep industrial production readings came in lower than expected. BOK governor notes that further cuts are not appropriate and the Bank will consider a hike in November. His latest comments however seem to suggest some wavering from his previous hawkishness. Yield curves remain soft. Net inflow momentum which persisted since the start of the year evaporated and flipped into net outflows.
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. Equity outflows remain significant.
USD-INR	↔/↓	Bonds may find some near term reprieve from import curbs, lower crude, and friendlier CPI and trade deficit readings. RBI surprised markets by remaining static in October with the central bank lowering its inflation forecasts. Policy meeting minutes not perceived to be unduly hawkish, front to belly of curves outperforms. Perceived gov-RBI tension undermined INR and govies somewhat on Wednesday, but OMO purchases by RBI pushed yields lower by Thursday.
USD-SGD	↔/↓	MAS steepens the NEER's slope again in October. NEER may remain afloat above +1.00% if risk appetite stays supported. Govie and IRS curves continue to take cues from offshore, local govies should continue to outperform their US counterparts.
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. Sep CPI readings significantly softer than expected. BNM static in September. A frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in) will be expected to exert relative downside pressure on the MYR and govies.
USD-IDR	↔/↓	Inherent stress in the local bond market underscores background investor nervousness. BI notes that rate hikes were motivated by the need to maintain market stability, remained static in October. Continued compression in net bond outflows giving govies a breather.
USD-THB	↔	BOT MPC members mulling a policy normalization timetable. We note however a lack of immediate inflation risks, and latest export and manufacturing prints remained soft. This may delay the start of policy normalization. Curves softened post weaker than expected Oct CPI.
USD-PHP	↓	BSP hiked another 50bps in September; BSP retained a hawkish stance. However, Finance Secretary and asst BSP governor note subsequently that inflation should subside in the coming months. Sep monetary aggregates moderate. Govie yields consolidating lower.

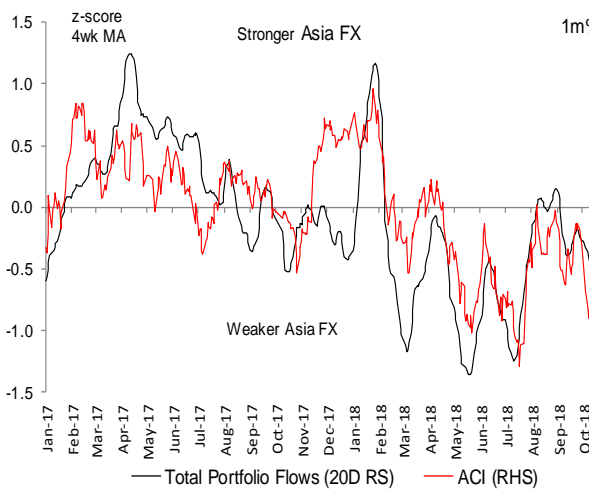
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



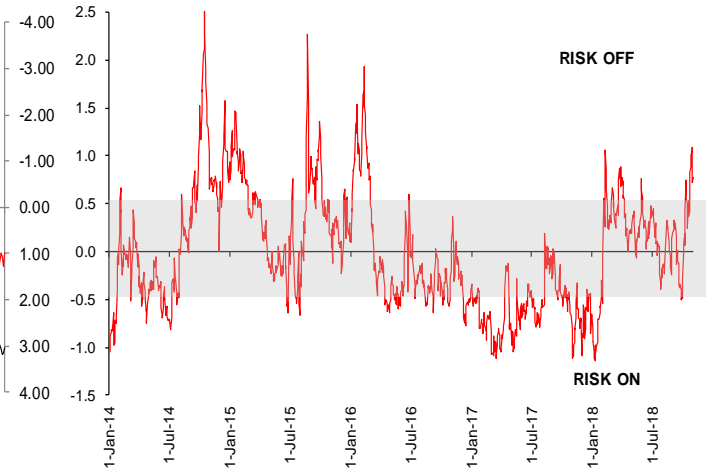
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.364	0.704	-0.585	-0.536	-0.838	0.481	-0.735	0.317	0.516	0.644	-0.992
SGD	0.923	-0.241	0.586	-0.543	-0.477	-0.895	0.563	-0.832	0.198	0.396	0.489	-0.921
CHF	0.832	-0.658	0.691	-0.691	-0.756	-0.827	0.194	-0.655	0.463	0.64	0.635	-0.829
IDR	0.741	-0.371	0.526	-0.732	-0.553	-0.819	0.152	-0.773	0.625	0.501	-0.718	
CNH	0.704	-0.452	1	-0.408	-0.547	-0.43	0.154	-0.299	0.278	0.569	0.964	-0.695
MYR	0.658	-0.52	0.554	-0.395	-0.424	-0.52	0.269	-0.228	0.353	0.376	0.529	-0.645
THB	0.644	-0.563	0.964	-0.51	-0.635	-0.458	-0.039	-0.224	0.349	0.636	1	-0.631
JPY	0.481	0.531	0.154	0.3	0.326	-0.285	1	-0.278	-0.495	-0.348	-0.039	-0.456
CAD	0.452	-0.251	0.764	-0.082	-0.154	-0.212	0.172	0.199	0.162	0.237	0.72	-0.439
INR	0.227	0.108	-0.249	-0.284	-0.156	-0.459	0.242	-0.742	-0.086	0.038	-0.259	-0.234
KRW	0.142	-0.704	0.391	-0.484	-0.682	-0.349	-0.405	0.089	0.626	0.667	0.44	-0.123
USGG10	-0.024	-0.474	0.296	-0.229	-0.509	-0.01	-0.379	0.193	0.49	0.522	0.227	0.048
TWD	-0.087	0.316	-0.625	0.132	0.197	-0.137	0.271	-0.415	-0.343	-0.357	-0.627	0.068
CNY	-0.235	-0.3	0.399	0.075	-0.231	0.367	-0.38	0.554	0.201	0.254	0.3	0.245
PHP	-0.295	0.067	0.138	0.425	0.222	0.484	-0.081	0.757	-0.076	-0.094	0.112	0.323
NZD	-0.364	1	-0.452	0.834	0.875	0.51	0.531	0.288	-0.82	-0.769	-0.563	0.375
AUD	-0.369	0.153	0.082	0.494	0.273	0.462	-0.052	0.704	-0.171	-0.257	-0.07	0.369
GBP	-0.802	0.594	-0.809	0.75	0.782	0.818	-0.106	0.904	-0.432	-0.739	-0.854	0.788
EUR	-0.932	0.561	-0.798	0.71	0.729	0.772	-0.243	0.65	-0.449	-0.71	-0.801	0.916
	-0.992	0.375	-0.695	0.578	0.526	0.826	-0.456	0.739	-0.298	-0.488	-0.631	1

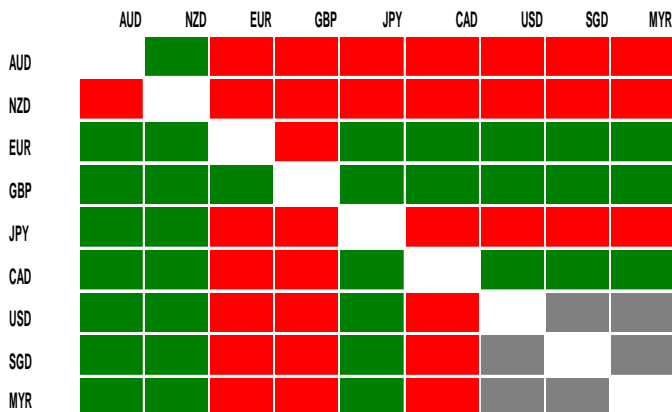
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1302	1.1388	1.1400	1.1562
GBP-USD	1.2696	1.2900	1.2989	1.3000	1.3023
AUD-USD	0.7100	0.7162	0.7185	0.7196	0.7200
NZD-USD	0.6575	0.6600	0.6635	0.6655	0.6696
USD-CAD	1.3024	1.3100	1.3105	1.3170	1.3182
USD-JPY	112.38	113.00	113.18	113.33	114.00
USD-SGD	1.3732	1.3751	1.3754	1.3800	1.3862
EUR-SGD	1.5603	1.5632	1.5665	1.5700	1.5898
JPY-SGD	1.2003	1.2100	1.2153	1.2162	1.2200
GBP-SGD	1.7582	1.7800	1.7866	1.7900	1.7907
AUD-SGD	0.9800	0.9848	0.9883	0.9896	0.9900
Gold	1200.00	1208.19	1234.10	1239.30	1248.78
Silver	14.45	14.70	14.73	14.80	14.90
Crude	62.52	62.60	62.68	62.70	67.47

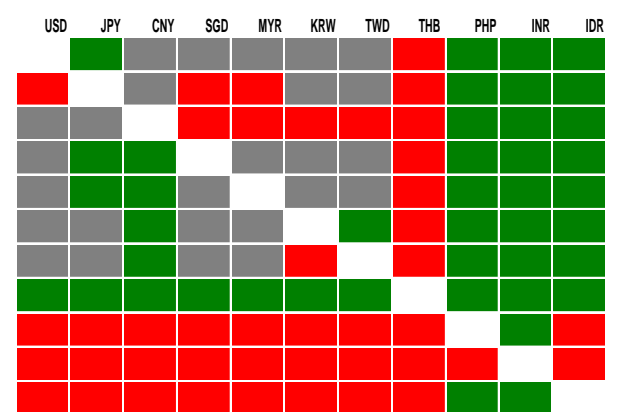
Source: OCBC Bank

G10 FX Heat Map



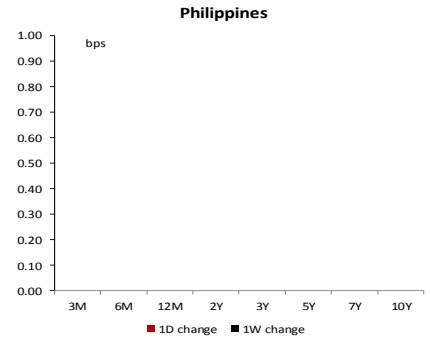
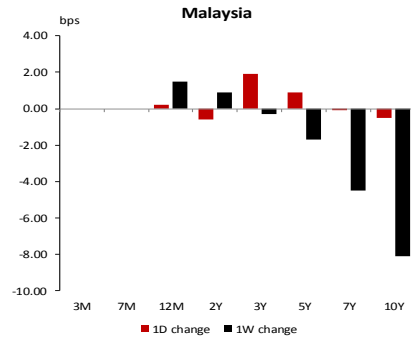
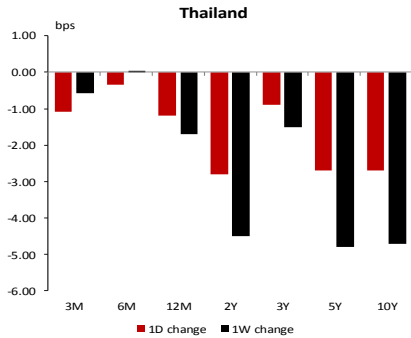
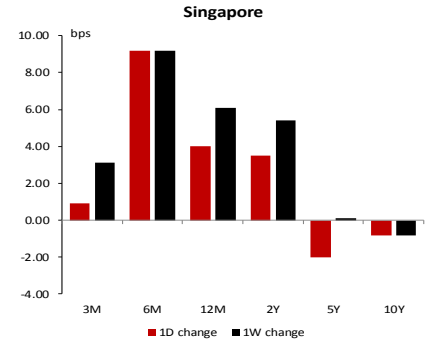
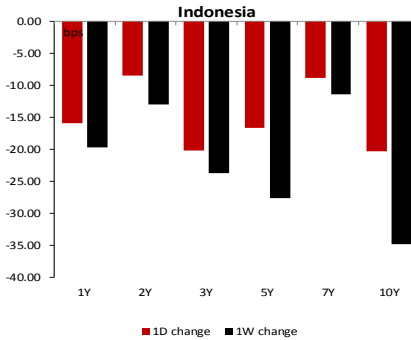
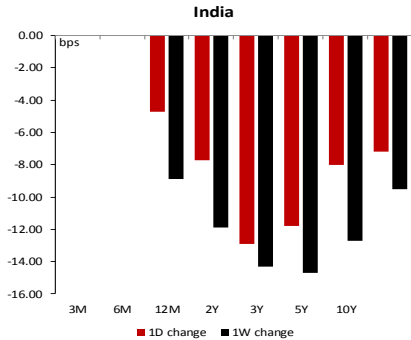
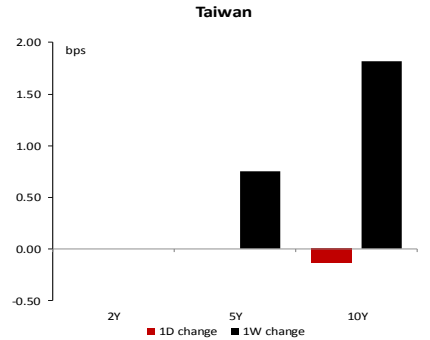
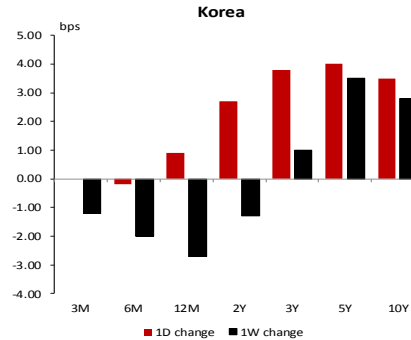
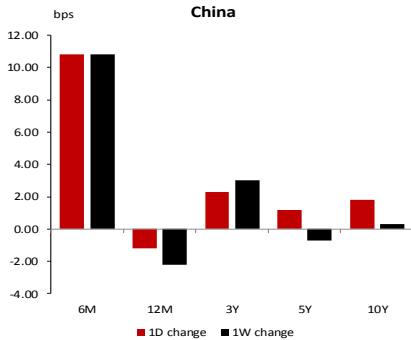
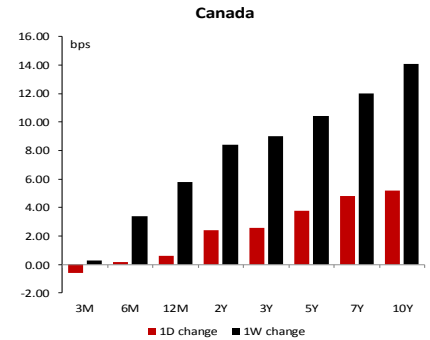
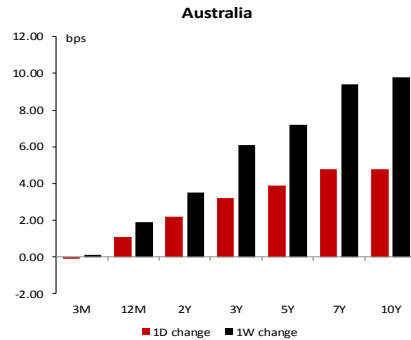
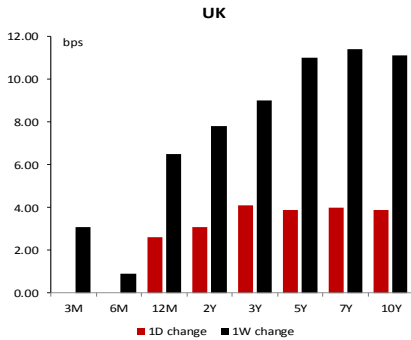
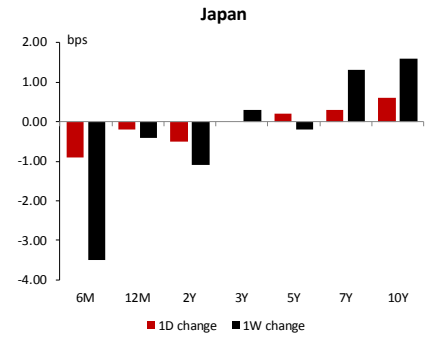
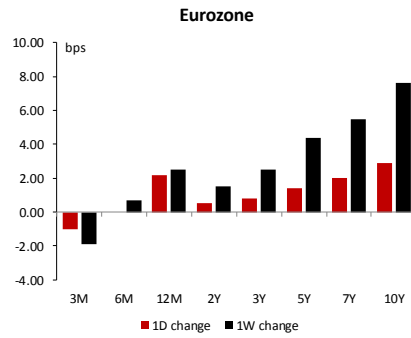
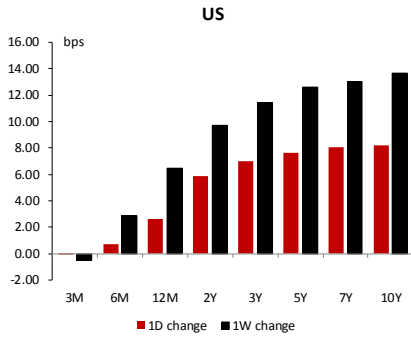
Source: OCBC Bank

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		
TACTICAL								
1	23-Oct-18	B	3M USD-THB	32.780	33.500 32.400	Vanishing net inflows, firmer USD, fragile risk appetite		
2	30-Oct-18	B	USD-SGD	1.3840	1.4015 1.3750	Resilient DXY, fragile risk appetite, proxy CNH trade		
STRUCTURAL								
-	-	-	-	-	-	-		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	03-Oct-19	10-Oct-18	S	EUR-CAD	1.4845	1.4975	Contrasting dynamics between USMCA and Italy	-0.88
2	20-Sep-18	11-Oct-18	B	USD-JPY	112.89	112.00	USD-JPY responsive to firmer US rates	-0.79
3	11-Sep-18	24-Oct-18	B	GBP-USD	1.3056	1.2920	Positioning ahead of BOE MPC and positivity from Brexit news flow	-1.04
4	22-Oct-18	01-Nov-18	S	EUR-USD	1.1520	1.1420	Italian fiscal risks, ECB unlikely to surprise on the hawkish front	+0.87
* realized, excl carry								

Refreshed FX Forecasts (correct as of 1 Nov)

	Spot	Nov-18	Dec-18	Mar-19	Jun-19	Sep-19
USD-JPY	112.89	114.05	114.48	114.87	113.11	110.50
EUR-USD	1.1340	1.1231	1.1191	1.1197	1.1428	1.1740
GBP-USD	1.2843	1.2675	1.2638	1.2667	1.2917	1.3242
AUD-USD	0.7124	0.7050	0.7015	0.6993	0.7123	0.7308
NZD-USD	0.6580	0.6515	0.6485	0.6478	0.6617	0.6807
USD-CAD	1.3145	1.3253	1.3279	1.3268	1.3102	1.2881
USD-CHF	1.0066	1.0140	1.0173	1.0175	1.0040	0.9860
USD-SGD	1.3826	1.3882	1.3904	1.3949	1.3814	1.3594
USD-CNY	6.9666	6.9996	7.0220	7.0706	6.9698	6.7989
USD-THB	33.07	33.37	33.51	33.53	32.89	32.02
USD-IDR	15181	15250	15295	15386	15227	14982
USD-MYR	4.1830	4.2135	4.2305	4.2308	4.1616	4.0704
USD-KRW	1138.65	1150.00	1154.00	1152.67	1137.00	1117.50
USD-TWD	30.923	31.080	31.140	31.067	30.767	30.417
USD-HKD	7.8396	7.8500	7.8500	7.8389	7.8222	7.8056
USD-PHP	53.54	53.18	53.04	52.80	52.64	52.48
USD-INR	73.84	73.23	73.87	73.94	73.11	72.28
EUR-JPY	128.02	128.09	128.10	128.61	129.26	129.73
EUR-GBP	0.8830	0.8861	0.8855	0.8839	0.8847	0.8866
EUR-CHF	1.1415	1.1388	1.1384	1.1393	1.1474	1.1576
EUR-SGD	1.5679	1.5591	1.5559	1.5618	1.5786	1.5960
GBP-SGD	1.7758	1.7595	1.7571	1.7668	1.7843	1.8001
AUD-SGD	0.9849	0.9787	0.9754	0.9755	0.9840	0.9935
NZD-SGD	0.9098	0.9044	0.9016	0.9036	0.9140	0.9253
CHF-SGD	1.3736	1.3690	1.3668	1.3709	1.3759	1.3787
JPY-SGD	1.2247	1.2172	1.2146	1.2143	1.2213	1.2302
SGD-MYR	3.0254	3.0352	3.0426	3.0331	3.0127	2.9942
SGD-CNY	5.0385	5.0422	5.0503	5.0690	5.0456	5.0013

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