

Friday, October 05, 2018

**FX Themes/Strategy/Trading Ideas**

- The broad dollar consolidated on Thursday although the cyclicals continued to underperform across the board as global equities tanked. This still left the DXY sitting above 95.50 with the 10y UST yield breaking above 3.20% to 3.232%. In addition, US economic prints continue to show resilience, with initial jobless claims coming in at a lower than expected (+207k), and factory orders also beating expectations.
- The past couple of sessions underlined the shiftiness of risk sentiments in recent weeks, with our **FX Sentiment Index** (FXSI) now back in the middle of Risk-Neutral zone, after touching the Risk-On boundary early week. Going forward, this should favor the dollar and JPY.
- Despite less than hawkish comments from the ECB's Coeure, the EUR-USD managed to firm slightly as bunds (10y at >0.50%) underperformed USTs. Nevertheless, aggregate yield differentials between the dollar and the rest of the G7 currencies widened further (both in the short- and long-end), thus providing further implicit support for the dollar.
- Given the current positive nervousness towards the USD, tonight's US NFP numbers (1230 GMT) may prove crucial in determining prospects for further US curve steepening and the time path of the DXY. On structural note, given the continued darkening clouds on the global macro horizon, expect investors to remain suspicious towards the antipodeans.
- In a nutshell, in line with our short term models, we'd favor a top heavy EUR-USD and GBP-USD profile while bouncing any dips in the USD-JPY. As alluded to above, markets may not hesitate to fade upticks in the AUD-USD and take the pair lower in a hurry. Elsewhere, USD-CAD may be a stand out at this juncture and remain on a slightly slippery slope given the recent positivity attached to the loonie.
- On the calendar today, watch for the ECB's de Guindos (1100 GMT), and the Fed's Kaplan (1630 GMT) and Bostic (1640 GMT). German factory orders (0600 GMT) and Canadian employment data (1230 GMT) also on tap.

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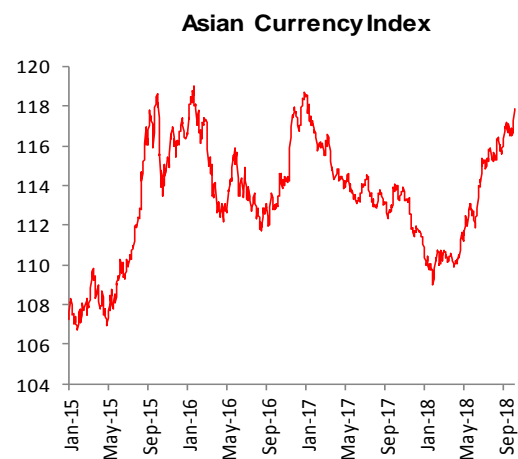
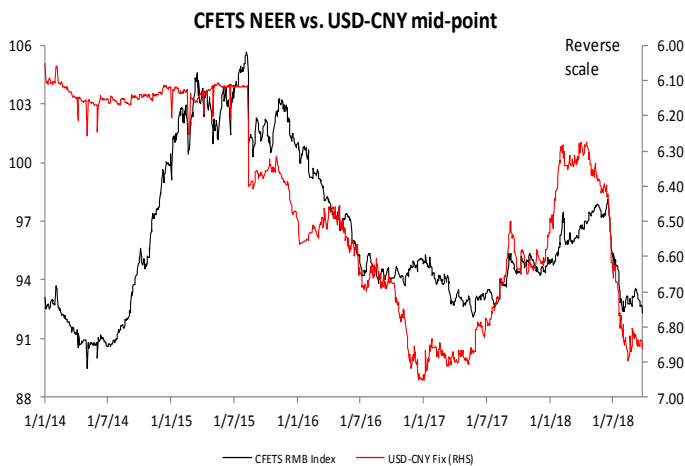
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## Asian FX

- EM FX remained under the weather on Thursday against the USD with EM equities in aggregate also sliding. In this environment, expect investors to remain inherently on the long side with respect to the USD ahead of the NFP. Regional rates meanwhile remain susceptible to US (and the other majors) curve developments, with idiosyncratic macro/inflation dynamics on the backburner for now.
- Net portfolio flows meanwhile denote waning inflow momentum for South Korea, Taiwan, although inflows for Thailand seem to be bouncing. India meanwhile remains under implicit negative pressure amidst net outflow momentum, while on a brighter note, net outflows for Indonesia and Philippines are compressing.
- The **RBI** today is expected to hike its benchmark repo and reverse repo rates by 25bps while leaving the CRR unchanged.
- **SGD NEER**: The SGD NEER dipped briefly below +1.0% by late NY but has since bounced slightly to around +1.04% this morning in Asia. NEER-implied USD-SGD thresholds are steady to a touch firmer and expect the pair to bounce on dips within 1.3785-1.3850 intra-day.
- **CFETS RMB Index**: China is away for holidays this week.



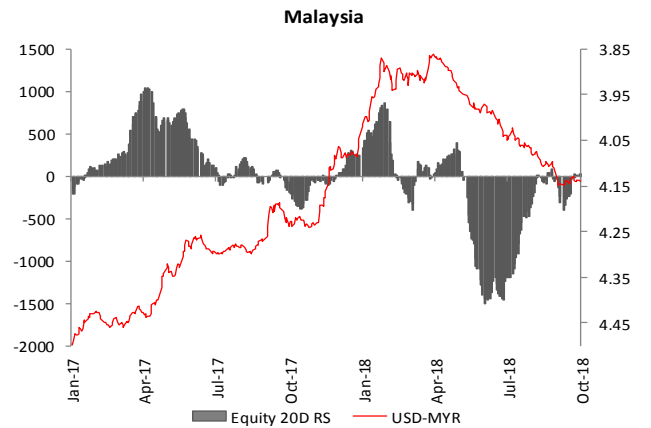
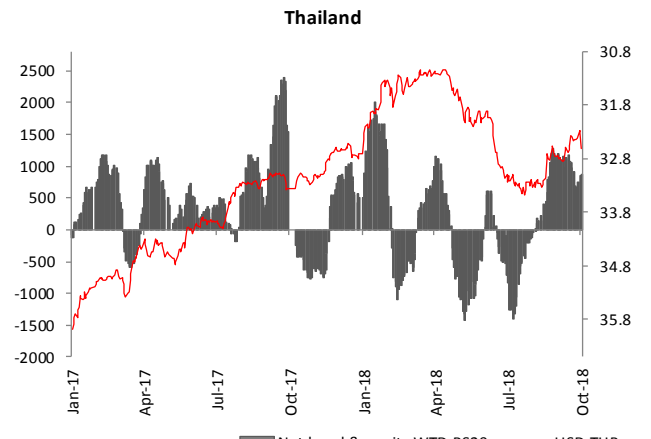
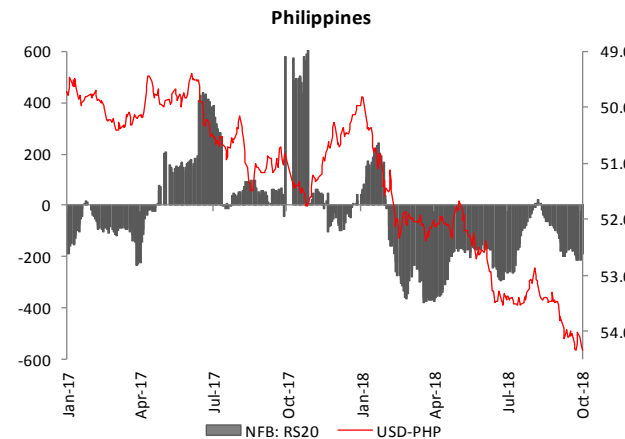
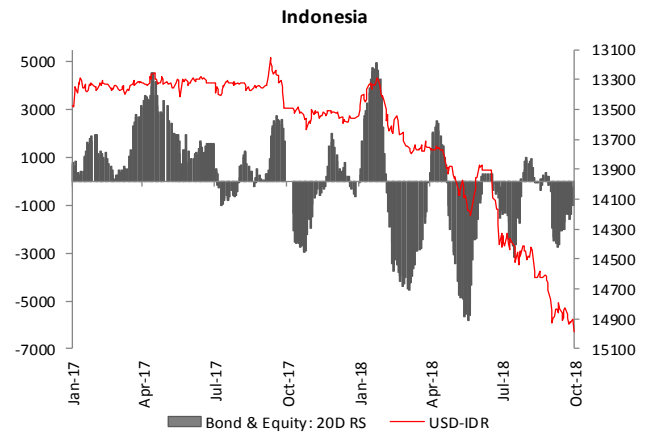
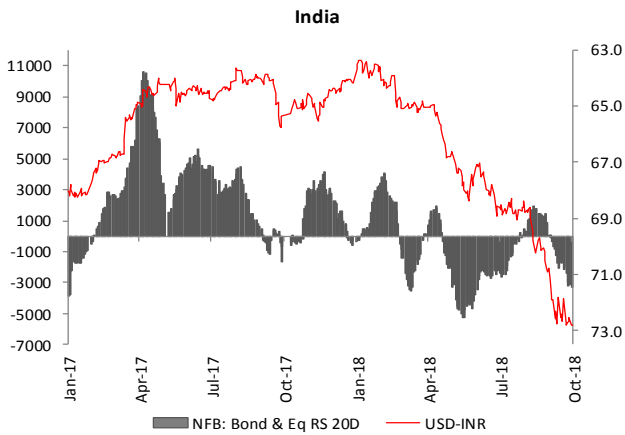
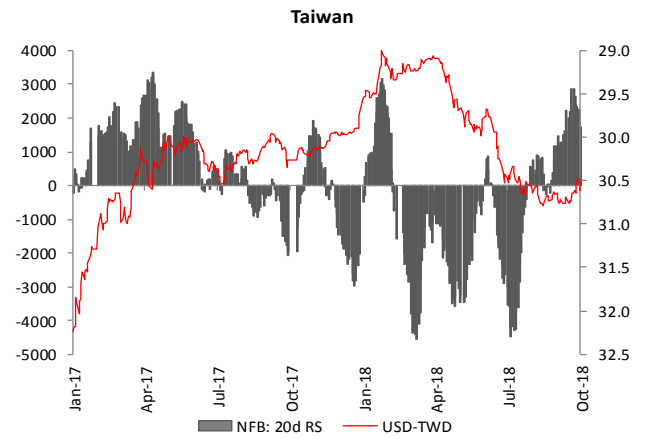
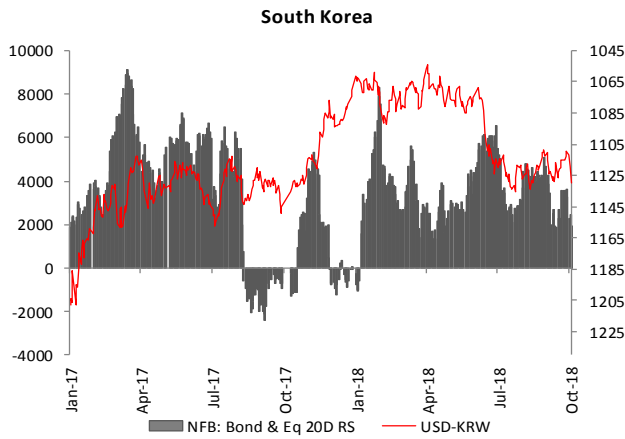
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↑	Expect inherent buoyancy in the pair stemming from the broad dollar complex. 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 risks continuing to lean in favor of the USD. Firm CPI readings may be expected to keep the yield curves supported.
USD-KRW	↔/↑	BOK governor notes that monetary accommodation needs to be reduced. Finance Minister warns of further potential weakness in labor markets. However, Sep CPI prints were warmer than expected.
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 September and is expected to remain so into 2019.
USD-INR	↑	Monitor potential for rate hikes this Friday. Current account concerns for India plus the larger EM overhang may continue to see outsized vulnerability of the INR. 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. USD-MYR expected to test the 4.15 resistance but firmer global crude may serve to temper. Local curves also expected to firm in sympathy with the US lead.
USD-IDR	↑	BI hiked another 25bps as expected in September. Authorities preparing further incentives for exporter repatriation 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 currently no shift to a hawkish 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

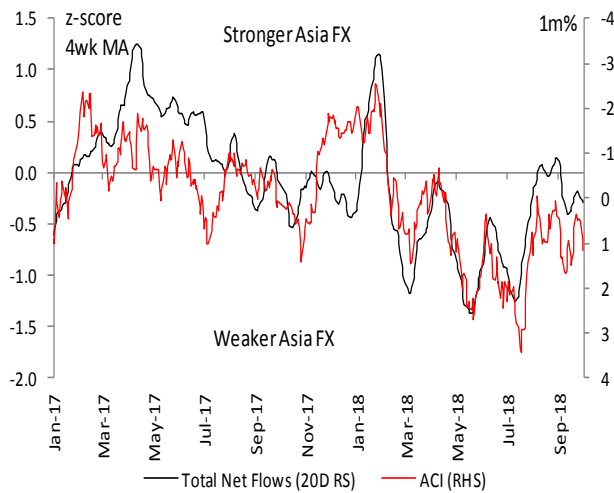
### USD-Asia VS. Net Capital Flows



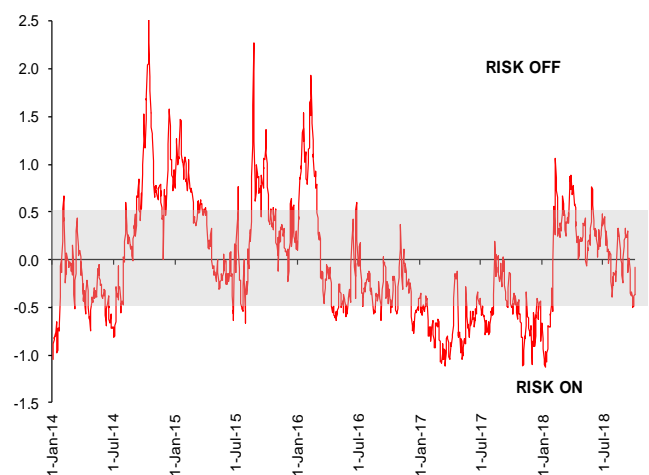
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

**FX Sentiment Index**



Source: OCBC Bank



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.035	-0.181	-0.285	-0.331	0.365	0.157	0.259	0.339	0.488	0.463	-0.981
SGD	0.852	-0.229	-0.412	-0.583	-0.562	0.046	-0.081	0.002	0.604	0.666	0.327	-0.869
CHF	0.846	0.404	0.262	0.116	-0.235	0.733	0.637	0.704	-0.002	0.034	0.715	-0.863
IDR	0.609	0.529	0.109	0.2	-0.243	0.745	0.619	0.679	0.059	-0.038	0.582	-0.577
CNH	0.463	0.579	0.812	0.21	-0.109	0.6	0.701	0.641	-0.074	-0.334	1	-0.524
MYR	0.413	-0.36	-0.479	-0.713	-0.628	-0.248	-0.37	-0.303	0.631	0.614	-0.163	-0.435
THB	0.268	-0.775	-0.52	-0.909	-0.455	-0.623	-0.838	-0.763	0.807	0.816	-0.4	-0.225
JPY	0.157	0.902	0.677	0.793	0.169	0.873	1	0.947	-0.613	-0.675	0.701	-0.248
CAD	0.114	-0.831	-0.358	-0.834	-0.03	-0.731	-0.819	-0.816	0.742	0.708	-0.369	-0.003
INR	0.11	0.839	0.668	0.46	-0.373	0.705	0.754	0.719	-0.265	-0.601	0.693	-0.166
KRW	0.037	-0.174	-0.366	-0.614	-0.862	-0.271	-0.484	-0.419	0.62	0.336	-0.17	-0.102
USGG10	-0.035	1	0.621	0.744	0.005	0.773	0.902	0.836	-0.571	-0.752	0.579	-0.021
TWD	-0.135	-0.48	-0.617	-0.609	-0.535	-0.616	-0.737	-0.71	0.508	0.531	-0.563	0.123
CNY	-0.181	0.621	1	0.368	0.127	0.527	0.677	0.583	-0.402	-0.655	0.812	0.169
PHP	-0.287	0.792	0.695	0.564	-0.165	0.588	0.683	0.627	-0.442	-0.795	0.504	0.213
NZD	-0.782	0.129	0.175	0.563	0.693	-0.03	0.02	-0.024	-0.513	-0.572	-0.389	0.826
AUD	-0.8	0.111	0.08	0.556	0.667	-0.097	-0.008	-0.049	-0.554	-0.489	-0.468	0.836
GBP	-0.822	0.399	0.422	0.415	0.043	-0.105	0.157	0.016	-0.441	-0.683	-0.092	0.744
EUR	-0.981	-0.021	0.169	0.273	0.399	-0.382	-0.248	-0.347	-0.303	-0.444	-0.524	1

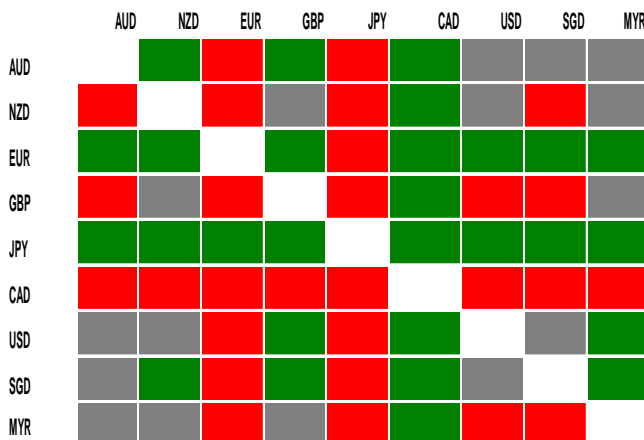
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1467	1.1500	1.1510	1.1596	1.1600
GBP-USD	1.2971	1.3000	1.3020	1.3100	1.3235
AUD-USD	0.7059	0.7063	0.7067	0.7100	0.7261
NZD-USD	0.6463	0.6468	0.6469	0.6500	0.6633
USD-CAD	1.2875	1.2900	1.2927	1.3000	1.3019
USD-JPY	111.75	113.00	113.89	114.00	114.55
USD-SGD	1.3703	1.3800	1.3809	1.3821	1.3829
EUR-SGD	1.5822	1.5890	1.5894	1.5900	1.6001
JPY-SGD	1.2003	1.2100	1.2124	1.2200	1.2220
GBP-SGD	1.7789	1.7900	1.7979	1.8000	1.8095
AUD-SGD	0.9751	0.9753	0.9758	0.9800	0.9950
Gold	1180.00	1185.96	1197.20	1200.00	1200.71
Silver	13.91	14.50	14.60	14.60	14.66
Crude	74.00	74.50	74.80	76.63	76.90

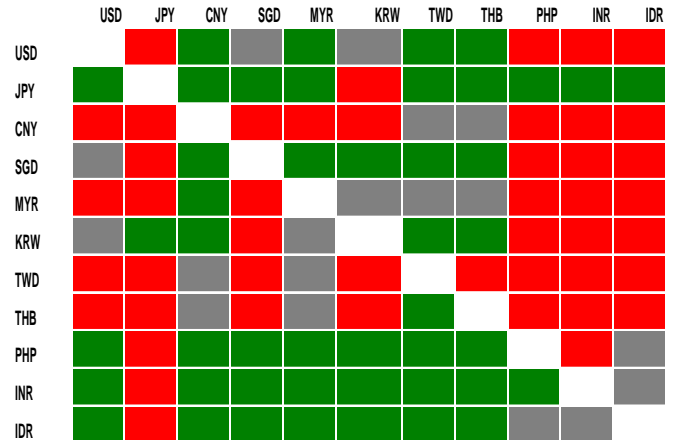
Source: OCBC Bank

**G10 FX Heat Map**



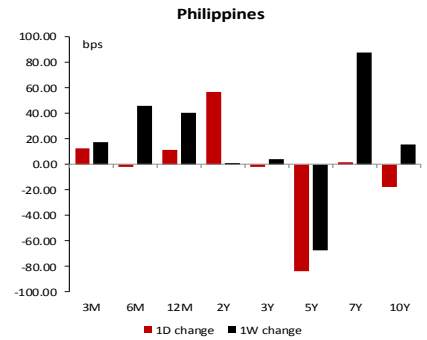
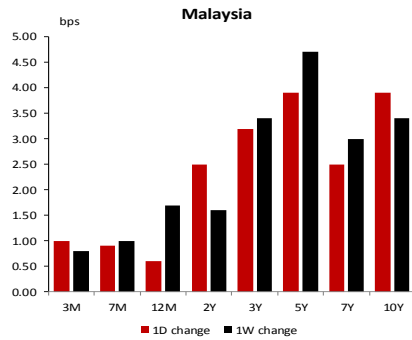
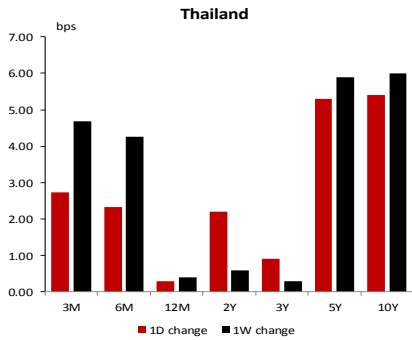
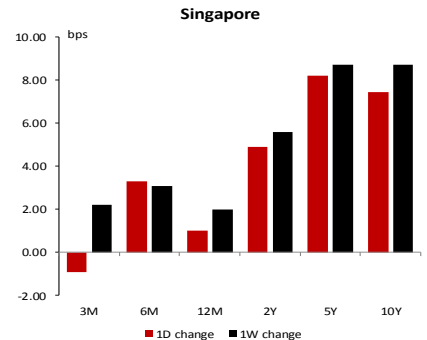
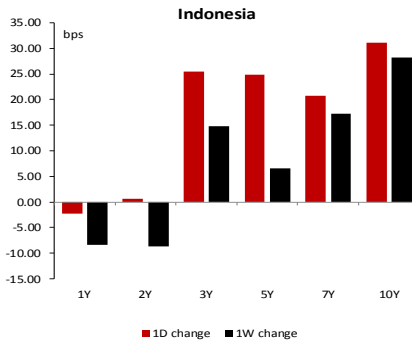
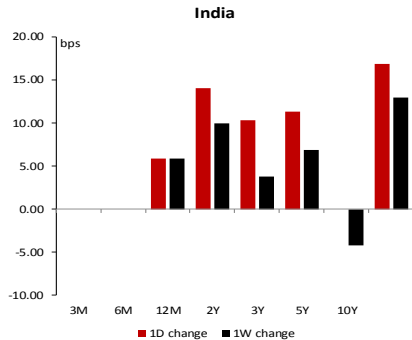
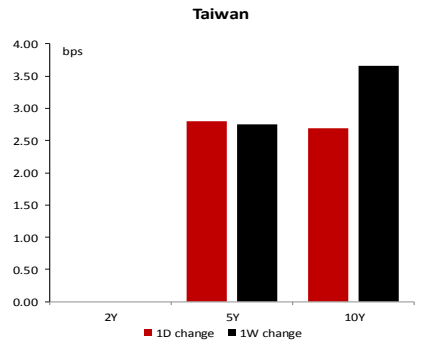
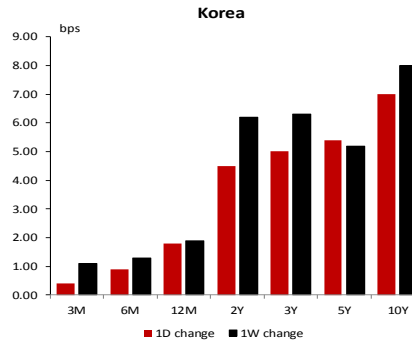
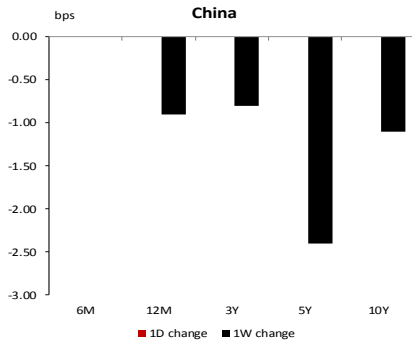
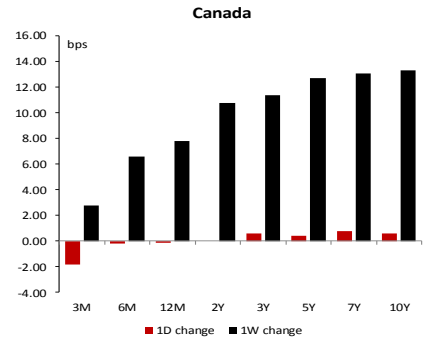
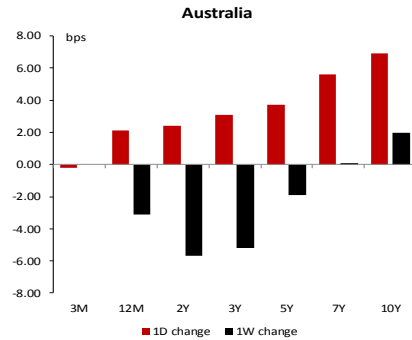
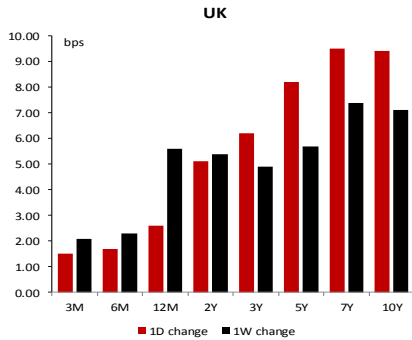
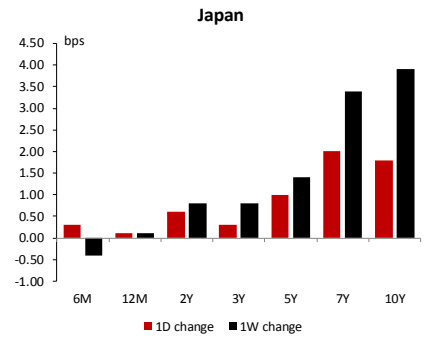
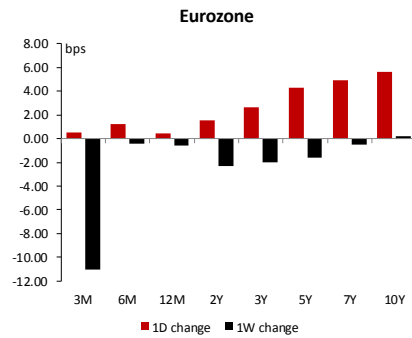
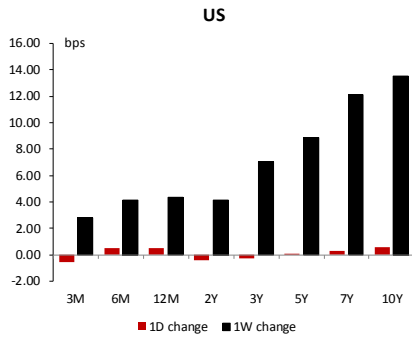
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



**FX Trade Recommendations**

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<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	
3	20-Sep-18	B	USD-JPY	112.89	114.65	112.00	USD-JPY responsive to firmer US rates	
<b>STRUCTURAL</b>								
-	-	-	-	-	-	-		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%) <sup>+</sup>	
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
2	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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