

Thursday, December 06, 2018

FX Themes/Strategy/Trading Ideas

- The dollar diverged within G10 space on Wednesday amidst a NY holiday. The EUR was buoyed by a wire report indicating that ECB officials are beginning to explore liquidity withdrawal options for the medium term, with Nov PMIs also firmer than expected. The GBP also managed to recover some lost ground against the USD. Meanwhile, the cyclicals (AUD, NZD, CAD) continued to slide lower. USD-JPY meanwhile also recovered from previous day's lows, and the DXY eventually ending in familiar territory around 97.07.
- The **FXSI (FX Sentiment Index)** pushed deeper into the Risk-Off territory, continuing its reversal after moving towards the Risk-Neutral zone early week.
- As mentioned yesterday, the AUD was sabotaged (note softer copper) by disappointing 3Q GDP numbers, and failed to garner any traction despite Chinese officials acknowledging the trade tariff ceasefire reached during the G20 meeting. Notably, USD-CAD surged past 1.3350 to near 1.3400 after a dovish statement from the **Bank of Canada** (policy rate unchanged at Wednesday's meeting). Investors slashed odds of future rate hikes after the central bank noted that "there may be additional room for non-inflationary growth". Watch for Poloz's scheduled appearance later today (1335 GMT) for further cues.
- US Treasury futures are still looking underpinned (and S&P futures negative) early Thursday in Asia and with WTI back at sub-53.00 levels, expect markets to trade off growth deceleration concerns and shaky risk appetite levels. **In the interim, expect EUR-USD to remain range bound, GBP-USD to be top heavy in a range (pending headline risks), while investors may attempt to pull the AUD and CAD lower against the buck. Also, expect USD-JPY to attempt to drip lower if rate differential arguments continue to bite.**
- Essentially, the **BOC's Poloz** did the heavy lifting for the **Fed's Powell** overnight and it should at least be slightly disconcerting that the BOC and Fed are now singing the same song. On the US front, curve flattening (or the inversion left of the belly) we think is increasingly a manifestation (and reflection) of global macro realities (that already had been festering all of 2018). **Overall, the eventual US synchronization with the slower global economic track (which may on its own already incite volatility) may continue to produce price dislocations into the remaining weeks of the year.**

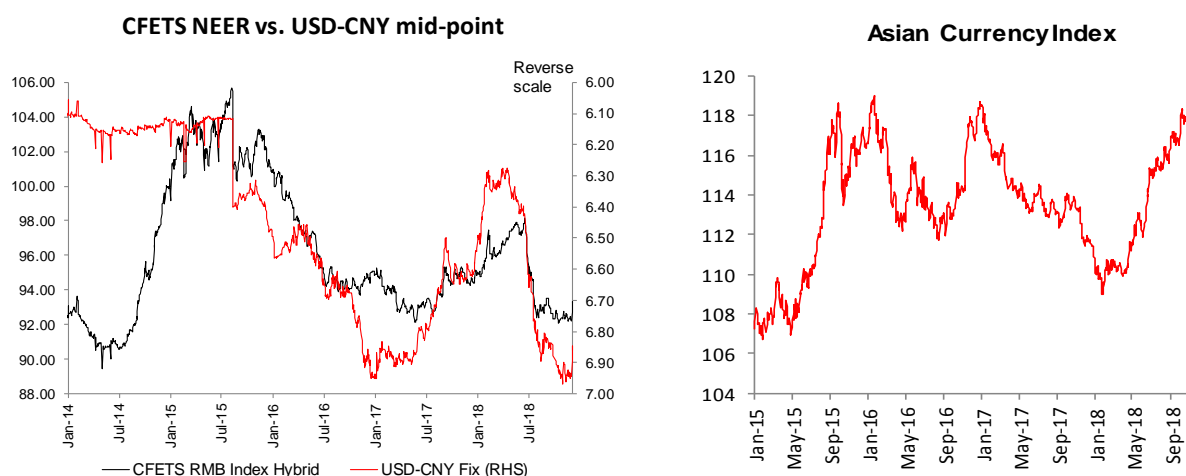
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Asian FX

- Expect USD-Asia to remain partially underpinned on the back of still fragile risk appetite levels (with fwd/fwds also leaning mildly to the right). Meanwhile, long end govie yields in the region (especially heavy weights like China, India, South Korea) may be expected to shadow their counterparts in the majors.
- **Structurally, if Asian central banks are freed of the shackles of the hitherto hawkish Fed in the coming months, monetary postures may increasingly be more reflective of the underlying realities.** Note that already the Bank of Korea, and the RBI (and even the BSP) have already capitulated in their forward guidance. To this end, the Bank of Thailand may be next, although Bank Indonesia may still remain slightly more vigilant on the back of risk appetite considerations. **On a medium term horizon, barring a widespread EM rout, search for yield considerations may once again favor EM/Asia.**
- In terms of **portfolio flows** in Asia, bond inflow momentum continues to step lower in the likes of South Korea and Thailand, at a time when the equity flow offset is not looking to pick up strongly, especially in South Korea. Therefore, net inflow momentum for these countries looks somewhat anaemic (but mildly improving) for now. In Taiwan as well, equity inflow momentum is looking to take a breather. Overall, strong (and getting stronger) bond inflow momentum into Indonesia continues to carry net portfolio inflows into Asia.
- **SGD NEER:** The revised SGD NEER softened to around +1.88% above its perceived parity (1.3953), with NEER-implied USD-SGD thresholds firmer on the day. If the pair's ascent today manages to break through the 1.3700 mark, expect the 100-day MA (1.3726) to provide further resistance.
- **CFETS RMB Index:** The **USD-CNY** mid-point was set higher this morning, within expectations, at 6.8599 compared to 6.8476 on Tuesday. The CFETS RMB Index is marginally softer at 93.27, compared to 93.30 previously.



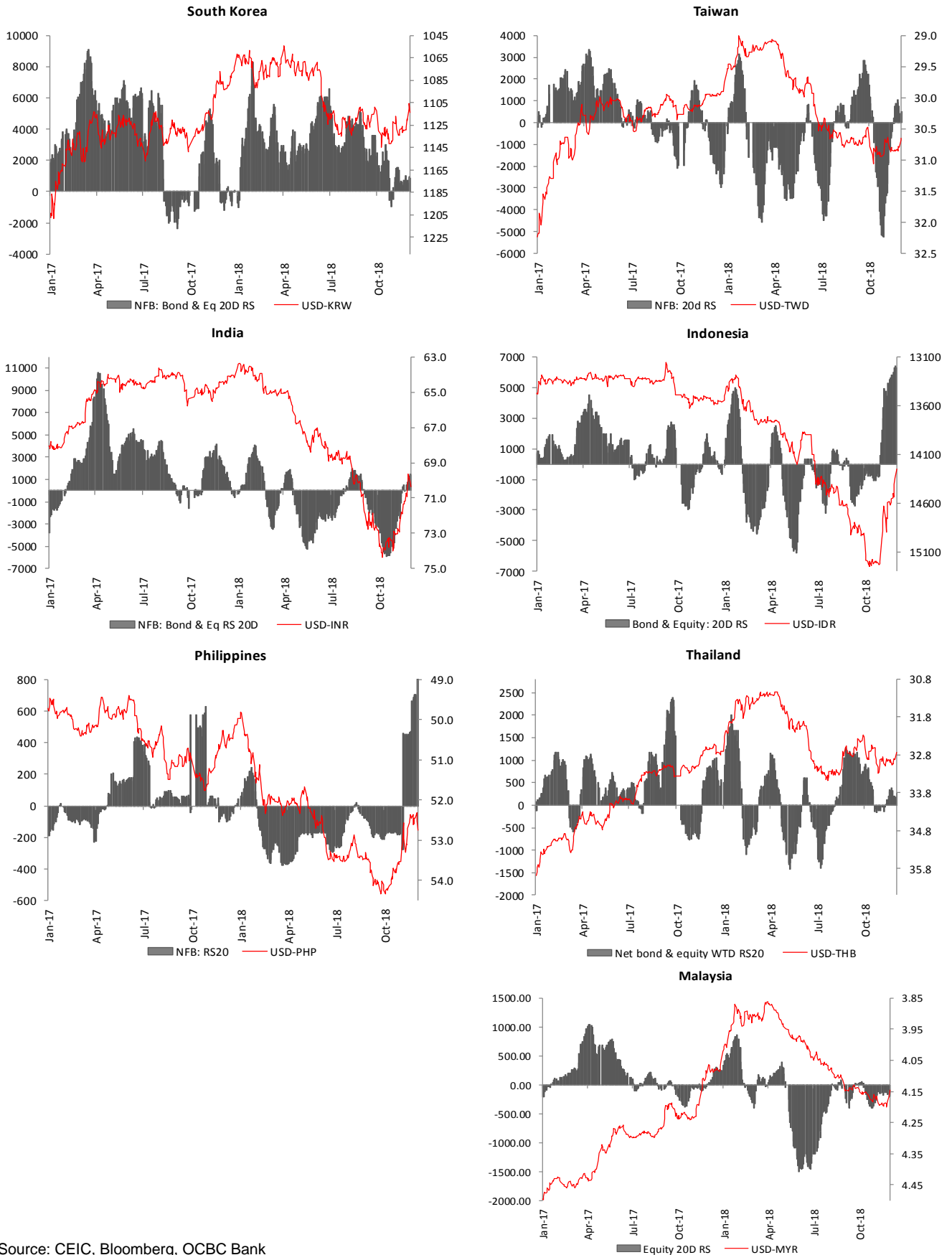
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↓	Beijing finally acknowledges latest Xi-Trump 90-day truce for tariffs, and starting to act on the deal. 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. 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. Softer gove yields continue to be a staple.
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. KTB and NDIRS yields continue deflating.
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 CBC members looking towards policy normalization to afford the authority eventual downside wiggle room.
USD-INR	↔/↓	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. RBI static in Dec, with accompanying rhetoric signaling a pull back of rate hike expectations if inflation does not materialise (inflation forecasts revised lower). Govie and NDIRS curves extend declines post-RBI.
USD-SGD	↓	MAS steepens the NEER's slope again in October. With the NEER remains near its upper boundary, expect declines in the pair to track downside in the broad USD, and not as a result of explicit SGD strength. 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, although profit-taking by onshore banks caused curves to turn firmer 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. 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. Latest global yield developments may however erode any urgency to normalize monetary policy. 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 (Nov CPI cooler than expected), although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending.

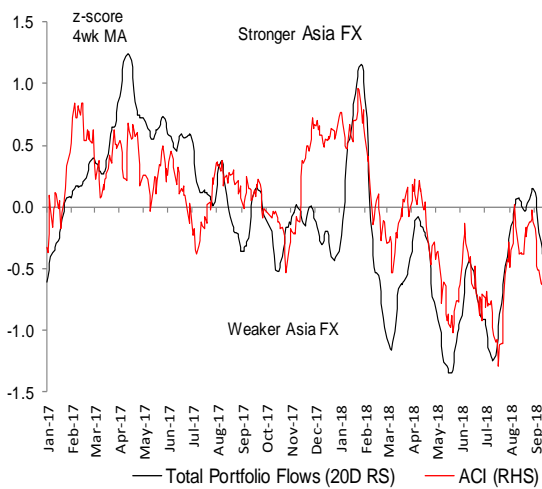
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



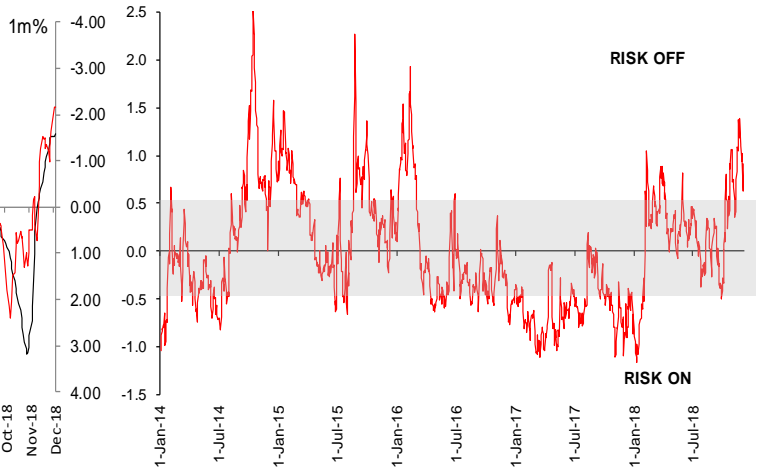
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1	-0.378	0.116	-0.229	-0.059	-0.636	0.424	-0.507	0.138	0.328	0.176	-0.911
CNH	0.713	-0.674	-0.057	-0.509	-0.048	-0.772	-0.049	-0.763	0.345	0.685	-0.166	-0.505
CNY	0.424	0.429	0.335	0.551	0.142	0.01	1	0.187	-0.509	-0.375	0.4	-0.541
CAD	0.309	0.297	0.801	-0.405	-0.786	-0.157	0.187	-0.03	0.388	-0.024	0.798	-0.372
SGD	0.296	0.648	0.787	-0.099	-0.684	0.192	0.494	0.371	0.216	-0.503	0.834	-0.495
THB	0.231	-0.111	0.639	-0.651	-0.755	-0.402	-0.174	-0.408	0.503	0.339	0.599	-0.216
JPY	0.184	0.666	0.251	0.39	-0.148	0.531	0.624	0.669	-0.071	-0.797	0.294	-0.482
TWD	0.176	0.513	0.972	-0.182	-0.685	-0.068	0.4	0.103	0.121	-0.196	1	-0.246
MYR	0.116	0.492	1	-0.115	-0.673	-0.039	0.335	0.049	0.071	-0.181	0.972	-0.216
KRW	0.106	-0.82	-0.52	-0.007	0.54	-0.477	-0.334	-0.652	-0.165	0.692	-0.611	0.123
CHF	0.087	0.212	0.815	-0.458	-0.752	-0.218	0.054	-0.191	0.393	0.127	0.748	-0.104
NZD	0.054	0.444	0.809	-0.399	-0.874	0.038	0.1	0.119	0.373	-0.202	0.786	-0.212
PHP	-0.039	0.626	0.224	0.354	-0.157	0.653	0.362	0.711	0.047	-0.737	0.183	-0.426
IDR	-0.227	-0.541	-0.476	0.31	0.71	-0.174	-0.248	-0.342	-0.418	0.467	-0.528	0.272
INR	-0.255	0.768	0.448	-0.044	-0.617	0.632	0.124	0.703	0.381	-0.7	0.421	-0.02
AUD	-0.268	0.864	0.289	0.032	-0.487	0.815	0.118	0.901	0.362	-0.931	0.276	-0.049
USGG10	-0.378	1	0.492	0.427	-0.316	0.721	0.429	0.829	-0.176	-0.879	0.513	0.092
GBP	-0.554	0.884	0.238	0.485	-0.156	0.776	0.317	0.817	-0.224	-0.867	0.315	0.29
EUR	-0.911	0.092	-0.216	0.158	0.16	0.403	-0.541	0.254	-0.174	-0.033	-0.246	1

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1246	1.1300	1.1345	1.1400	1.1420
GBP-USD	1.2659	1.2700	1.2723	1.2800	1.2938
AUD-USD	0.7185	0.7200	0.7225	0.7300	0.7362
NZD-USD	0.6800	0.6858	0.6864	0.6900	0.6946
USD-CAD	1.3300	1.3369	1.3394	1.3400	1.3450
USD-JPY	112.00	112.46	112.76	113.00	113.09
USD-SGD	1.3627	1.3646	1.3693	1.3700	1.3766
EUR-SGD	1.5470	1.5500	1.5534	1.5600	1.5704
JPY-SGD	1.2038	1.2100	1.2143	1.2173	1.2200
GBP-SGD	1.7289	1.7400	1.7421	1.7500	1.7809
AUD-SGD	0.9882	0.9890	0.9893	0.9900	1.0027
Gold	1200.59	1217.96	1238.10	1241.40	1243.24
Silver	14.40	14.46	14.46	14.50	14.62
Crude	49.41	52.50	52.55	52.60	60.77

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD	1	1	1	2	2	2	2	2	2
NZD	1	1	1	2	2	2	2	2	2
EUR	1	1	2	2	2	2	1	1	1
GBP	1	1	2	1	1	1	1	1	1
JPY	2	2	2	1	1	1	1	1	1
CAD	2	2	2	1	1	1	2	1	1
USD	2	2	2	1	1	2	1	1	1
SGD	2	2	1	1	1	1	1	1	9
MYR	2	2	1	1	1	1	1	9	9

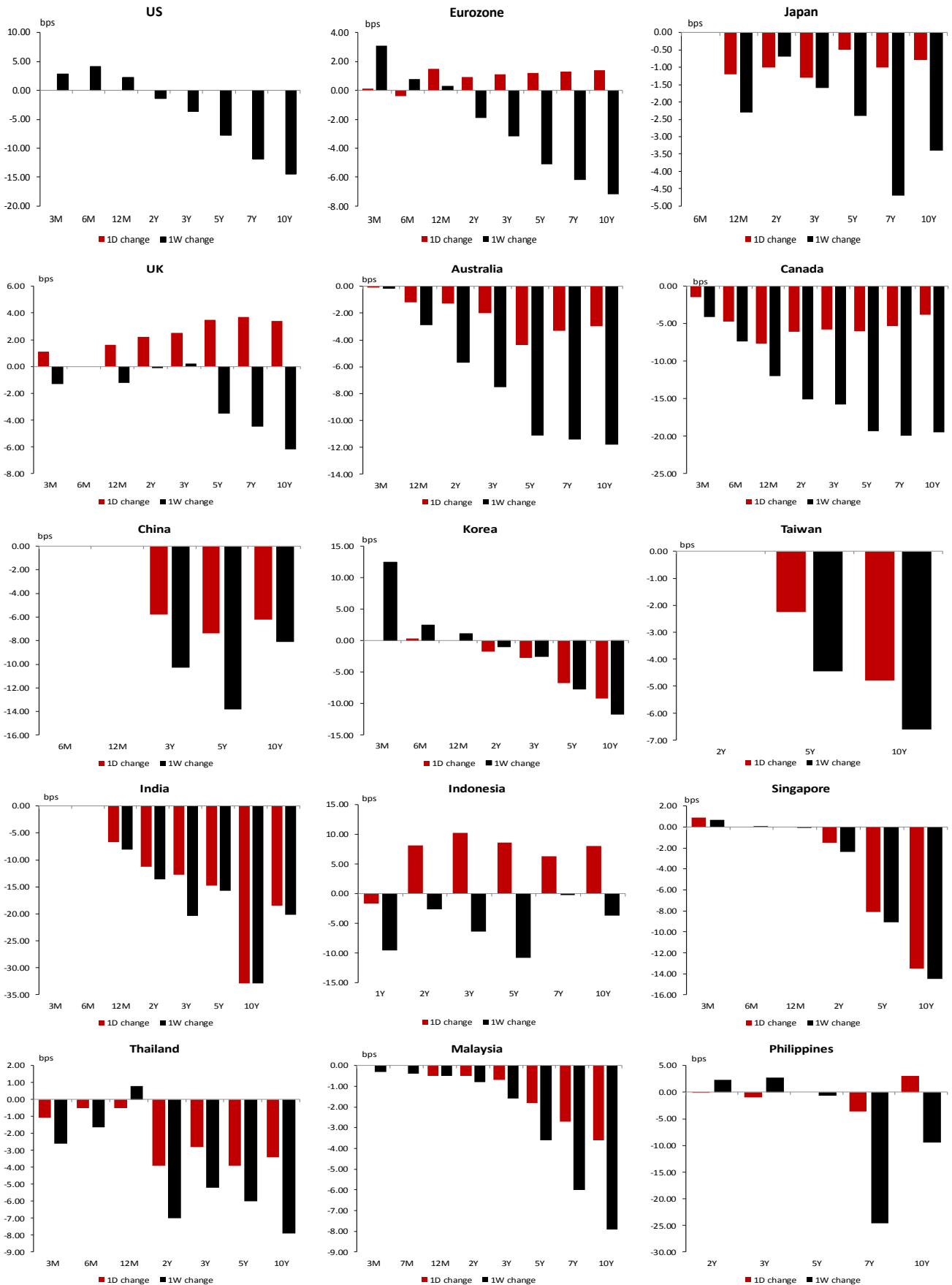
Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD	1	1	1	1	1	1	1	1	1	1	1
JPY	1	1	2	1	1	1	9	1	9	1	1
CNY	1	2	1	1	1	1	2	2	2	1	1
SGD	1	1	1	9	1	2	2	9	1	1	1
MYR	1	1	1	9	1	2	2	9	1	1	1
KRW	1	1	1	1	1	1	1	1	1	2	1
TWD	1	9	2	2	2	1	1	9	9	1	1
THB	1	1	2	2	2	1	9	9	1	1	1
PHP	1	9	2	9	9	1	9	9	1	1	1
INR	1	1	1	1	1	2	1	1	1	1	2
IDR	1	1	1	1	1	1	1	1	1	1	2

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		
STRUCTURAL								
	-	-	-	-	-	-		
RECENTLY CLOSED TRADE IDEAS								
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								

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