

Wednesday, November 07, 2018

FX Themes/Strategy/Trading Ideas

- Despite firmer UST yields, the dollar traded mixed to weaker on Tuesday ahead of the US midterm election results with the DXY dripping slightly lower towards 96.20. Overall, markets did not derive any major drivers while awaiting US election results to hit the screens.
- The EUR managed to edge higher despite ongoing tensions between Rome and EZ finance ministers (13 Nov deadline for Italy to submit a revised budget draft). Elsewhere, the GBP was also slightly underpinned amid background hopes of an imminent Brexit deal (PM May is reportedly seeking Cabinet approval for a draft in the coming days, and a leaked document showing a Parliament vote on 27 Nov).
- The **RBA** maintained its benchmark rate at 1.50% as expected on Tuesday with the central bank exhibiting no departure from its previous forward guidance (despite acknowledging the improved labor market outlook and an upgraded 2018-19 growth guidance). Late Tuesday, the NZD-USD surged higher following better than expected 3Q labor market numbers. Expect some knock-on effect of the labor number on the **RBNZ** policy meeting later (GMT 2000), raising the hurdle for any possible rate cuts from them. Nevertheless, any rate hike hopes for the RBNZ remains far away in the horizon.
- Mixed global equities (negative Asian, EZ shares) did not deter the **FX Sentiment Index (FXSI)** from slipping slightly again for the second consecutive session within Risk-Off territory on Tuesday. We now stand, once again, near the boundary between Risk-Off and Risk-Neutral.
- **In the Asian session, expect the dollar to trade defensively around the evolving headlines from the US midterm election results. In the interim, the EUR-USD and the GBP-USD may continue to attempt to base build while the AUD-USD is seen building upon the recent improvement in risk appetite levels. NZD-USD may also look higher ahead of the RBNZ meeting late Wednesday.**

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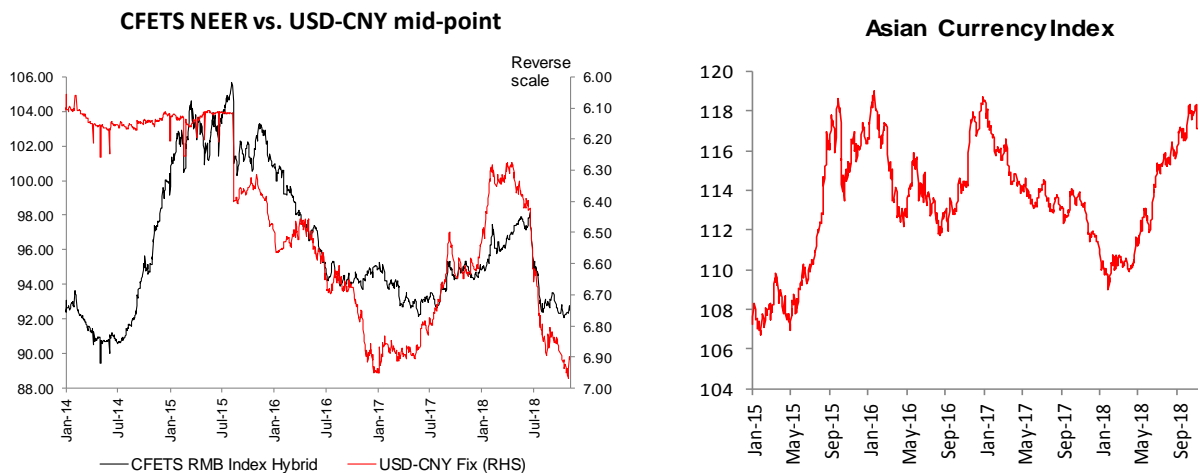
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Asian FX

- Expect USD-Asia to print lower into Wednesday while continuing to take cues from the US election results. **Net portfolio flows meanwhile are now looking constructive for most of the region.** We see minor inflows accumulating healthily for South Korea and net outflows for Taiwan compressing significantly. **The sharp bounce in net inflows for Indonesia has translated very well to the IDR and this dynamic may potentially persist in the near term.** Meanwhile, India has also been making good progress in deflating net outflow momentum while net outflows for Thailand have for all intents and purposes, narrowed to a neutral setting.
- Overall, with the broad dollar still somewhat soggy, conditions may be positive for Asian currencies to regain some lost ground on the back of supportive flows, recovering risk sentiments and a reconciliatory from Chinese VP Wang Qishan on the Sino-US trade issues. Nevertheless, keep a watchful eye on rising G10 yields, which may potentially reverse the bond inflows into Asia.
- **SGD NEER:** The SGD NEER is largely holding static at +1.39% above its perceived parity (1.3939), after hitting a high of +1.50% overnight. The NEER-implied USD-SGD thresholds were softer on the day. With the broad dollar still soggy and support from the rest of the Asian complex, expect the USD-SGD to trade with a heavy tone, with the 100-day MA (1.3705) attracting.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher than expected at 6.9065 compared to 6.9075 yesterday. This caused the CFETS RMB Index to ease from 92.58 to 92.52.



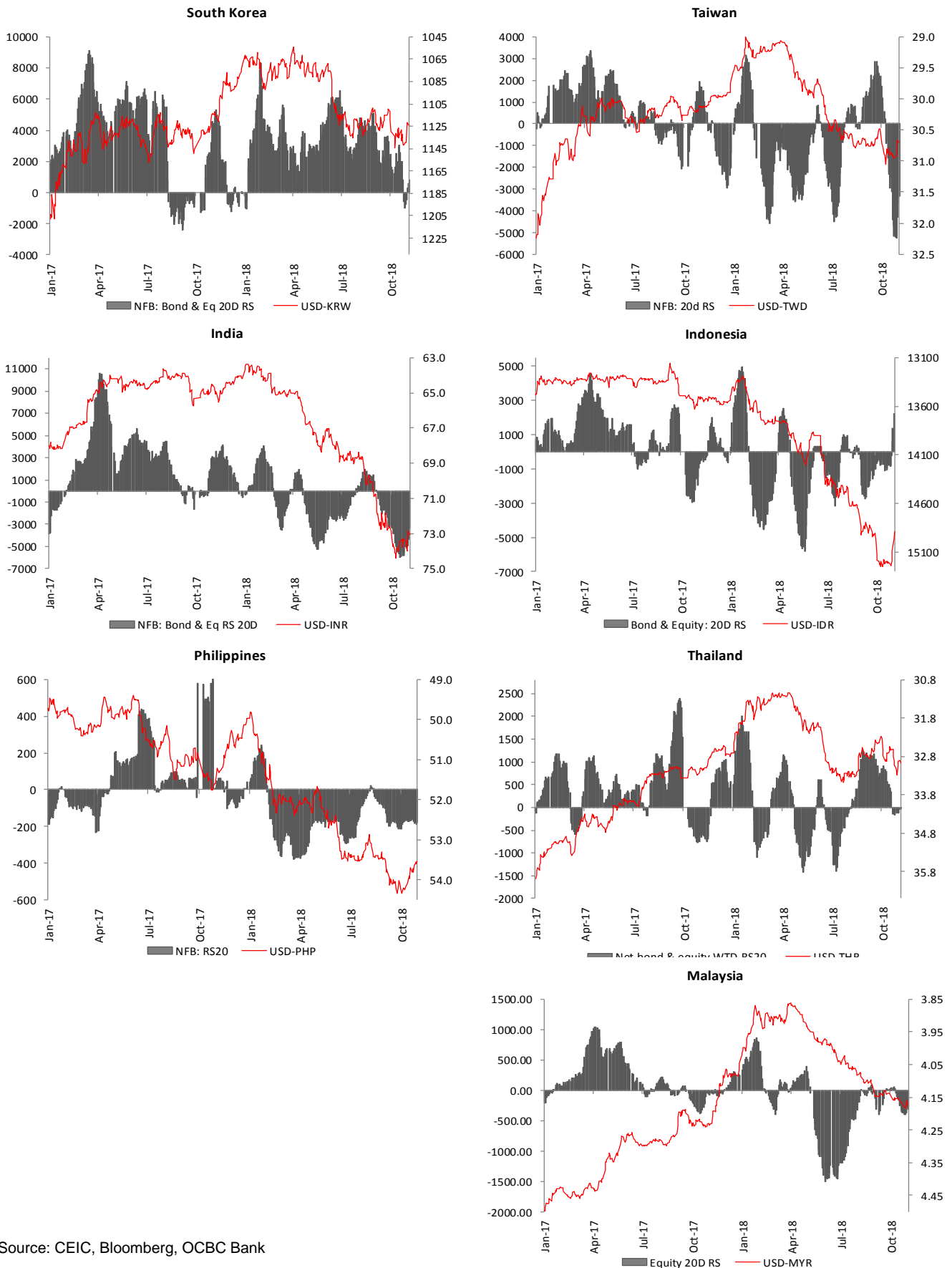
Source: OCBC Bank, Bloomberg

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. PBOC states that the 7.00 level for USD-CNY “isn’t that crucial”. 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 have lifted with cues from US rates and with1 BOK voting dissenter warning of a widening yield gap with the US. |
| USD-TWD | ↓ | CBC remained static at its policy meeting in Spetember and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Equity outflows compressing nicely. |
| 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. Watch for the next RBI board meeting on 19 th Nov 18 for further resolution of the tiff between the RBI and the government. In the interim, curves remain softer. |
| 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 reative downside pressure on the MYR and govies. Curves remain underpinned. |
| USD-IDR | ↓ | BI notes that rate hikes were motivated by the need to maintain market stability, remained static in October. Note the latest flip to a net inflow position for portfolio flows, driven mainly by bond inflows, and curves softer in reaction. |
| 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 but are stabilizing. |
| 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. |

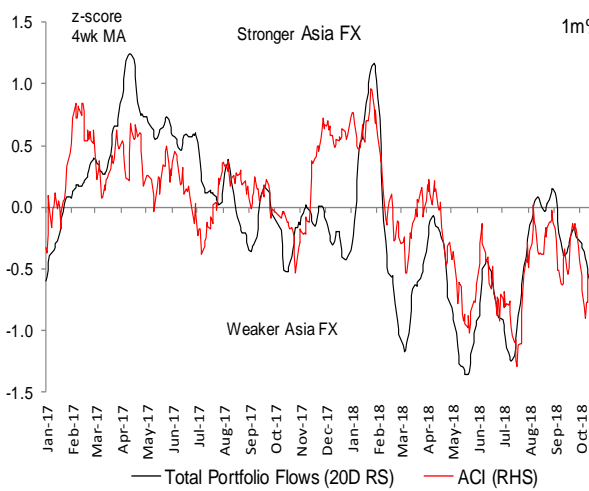
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



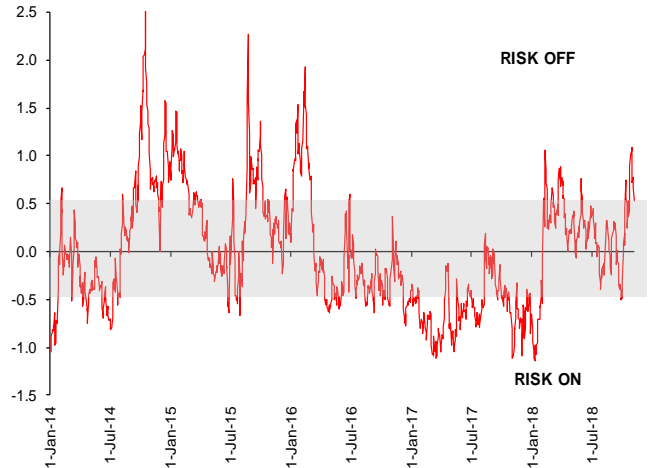
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| | DXY | USGG10 | CNY | SPX | MSELCPAF | CRY | JPY | CL1 | VIX | ITRXX | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1 | -0.322 | 0.666 | -0.579 | -0.496 | -0.819 | 0.473 | -0.71 | 0.294 | 0.387 | 0.675 | -0.992 |
| SGD | 0.906 | -0.145 | 0.49 | -0.509 | -0.379 | -0.903 | 0.615 | -0.836 | 0.143 | 0.172 | 0.451 | -0.898 |
| CHF | 0.826 | -0.602 | 0.646 | -0.675 | -0.699 | -0.839 | 0.251 | -0.703 | 0.425 | 0.515 | 0.606 | -0.829 |
| IDR | 0.741 | -0.272 | 0.461 | -0.704 | -0.478 | -0.831 | 0.277 | -0.788 | 0.48 | 0.414 | 0.462 | -0.713 |
| CNH | 0.675 | -0.542 | 0.957 | -0.496 | -0.642 | -0.343 | -0.075 | -0.17 | 0.36 | 0.633 | 1 | -0.655 |
| MYR | 0.666 | -0.469 | 1 | -0.404 | -0.558 | -0.33 | 0.058 | -0.184 | 0.288 | 0.568 | 0.957 | -0.658 |
| THB | 0.663 | -0.434 | 0.526 | -0.393 | -0.397 | -0.519 | 0.288 | -0.255 | 0.336 | 0.282 | 0.493 | -0.651 |
| JPY | 0.473 | 0.586 | 0.058 | 0.258 | 0.362 | -0.43 | 1 | -0.467 | -0.479 | -0.495 | -0.075 | -0.433 |
| CAD | 0.399 | -0.33 | 0.729 | -0.071 | -0.214 | 0.031 | -0.133 | 0.393 | 0.193 | 0.404 | 0.662 | -0.349 |
| INR | 0.237 | 0.265 | -0.28 | -0.205 | 0 | -0.582 | 0.516 | -0.808 | -0.134 | -0.277 | -0.248 | -0.225 |
| KRW | 0.126 | -0.735 | 0.407 | -0.429 | -0.676 | -0.071 | -0.486 | 0.184 | 0.607 | 0.748 | 0.4 | -0.115 |
| USGG10 | -0.02 | 0.421 | -0.546 | 0.094 | 0.256 | -0.371 | 0.527 | -0.603 | -0.32 | -0.54 | -0.521 | -0.008 |
| TWD | -0.106 | -0.571 | 0.321 | -0.184 | -0.515 | 0.227 | -0.558 | 0.436 | 0.449 | 0.645 | 0.291 | 0.128 |
| CNY | -0.252 | -0.471 | 0.334 | 0.035 | -0.262 | 0.519 | -0.599 | 0.671 | 0.194 | 0.496 | 0.286 | 0.249 |
| PHP | -0.3 | -0.004 | 0.179 | 0.392 | 0.133 | 0.564 | -0.251 | 0.79 | -0.025 | 0.101 | 0.114 | 0.324 |
| NZD | -0.322 | 1 | -0.469 | 0.771 | 0.861 | 0.277 | 0.586 | 0.145 | -0.793 | -0.806 | -0.542 | 0.341 |
| AUD | -0.395 | -0.011 | 0.128 | 0.458 | 0.187 | 0.541 | -0.227 | 0.751 | -0.117 | -0.05 | -0.002 | 0.395 |
| GBP | -0.675 | 0.08 | -0.397 | 0.522 | 0.394 | 0.844 | -0.467 | 0.935 | -0.203 | -0.098 | -0.412 | 0.664 |
| EUR | -0.901 | 0.582 | -0.802 | 0.704 | 0.734 | 0.644 | -0.09 | 0.442 | -0.456 | -0.689 | -0.834 | 0.873 |
| | -0.992 | 0.341 | -0.658 | 0.572 | 0.487 | 0.806 | -0.433 | 0.679 | -0.275 | -0.363 | -0.655 | 1 |

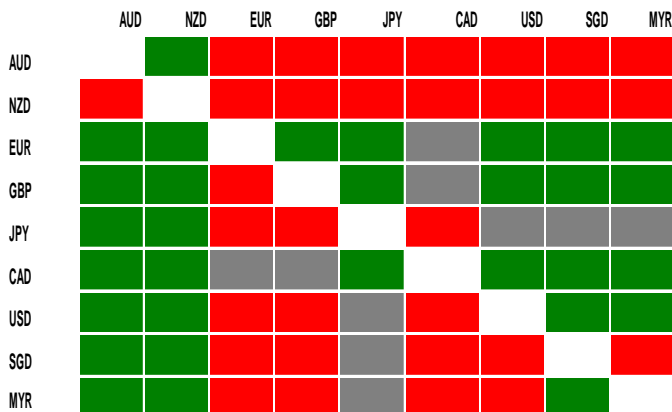
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1302 | 1.1400 | 1.1436 | 1.1500 | 1.1552 |
| GBP-USD | 1.3031 | 1.3100 | 1.3116 | 1.3200 | 1.3258 |
| AUD-USD | 0.7159 | 0.7200 | 0.7238 | 0.7243 | 0.7268 |
| NZD-USD | 0.6700 | 0.6721 | 0.6746 | 0.6766 | 0.6800 |
| USD-CAD | 1.3032 | 1.3100 | 1.3132 | 1.3170 | 1.3185 |
| USD-JPY | 112.46 | 113.00 | 113.47 | 113.57 | 114.00 |
| USD-SGD | 1.3700 | 1.3716 | 1.3733 | 1.3754 | 1.3800 |
| EUR-SGD | 1.5632 | 1.5700 | 1.5706 | 1.5800 | 1.5888 |
| JPY-SGD | 1.2003 | 1.2100 | 1.2103 | 1.2109 | 1.2200 |
| GBP-SGD | 1.7922 | 1.8000 | 1.8012 | 1.8066 | 1.8100 |
| AUD-SGD | 0.9847 | 0.9900 | 0.9940 | 0.9947 | 0.9966 |
| Gold | 1208.91 | 1216.21 | 1228.00 | 1237.61 | 1239.30 |
| Silver | 14.44 | 14.50 | 14.54 | 14.60 | 14.86 |
| Crude | 61.31 | 61.90 | 61.91 | 62.00 | 67.44 |

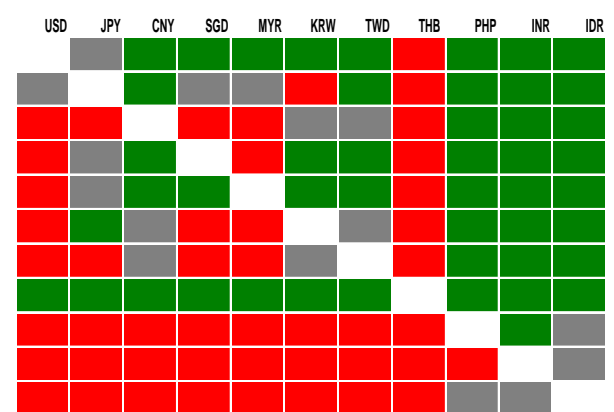
Source: OCBC Bank

G10 FX Heat Map



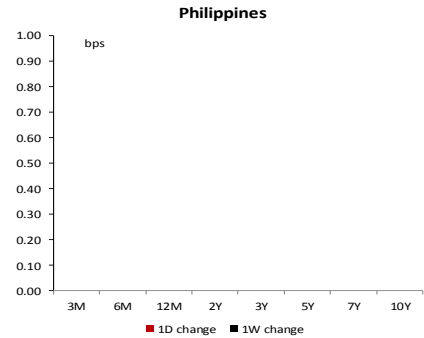
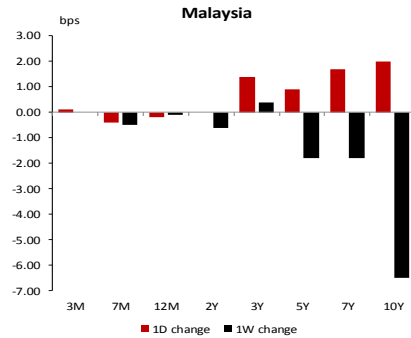
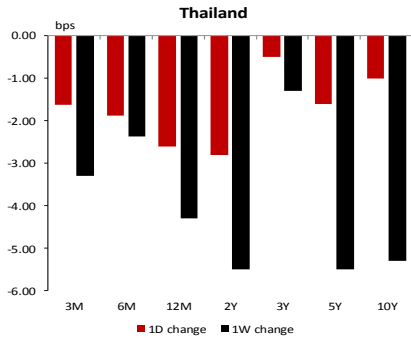
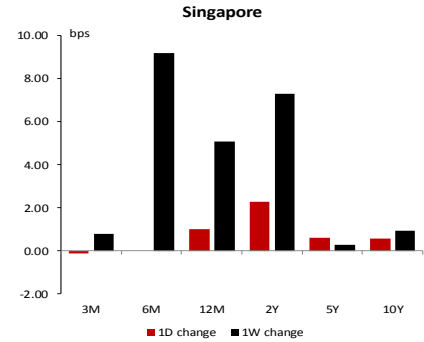
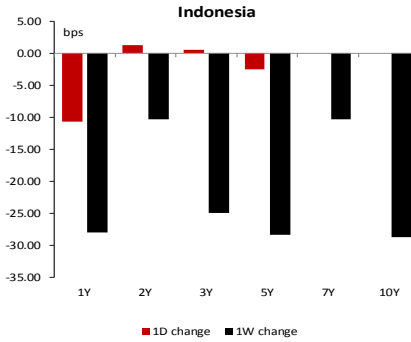
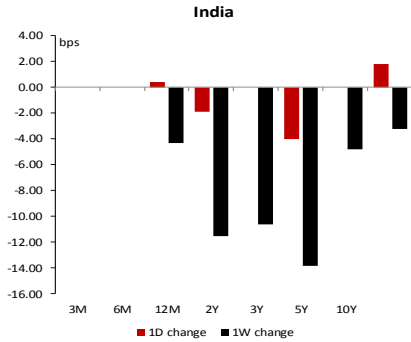
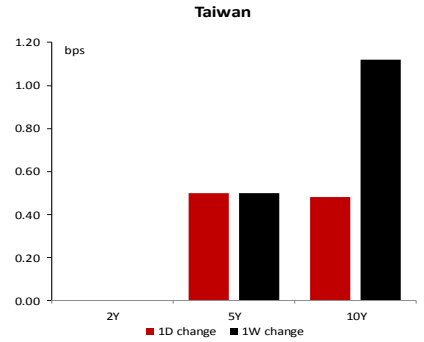
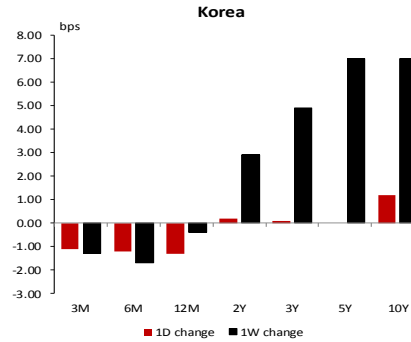
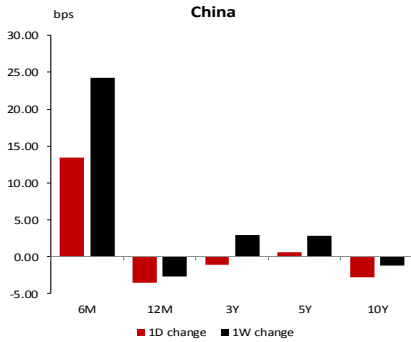
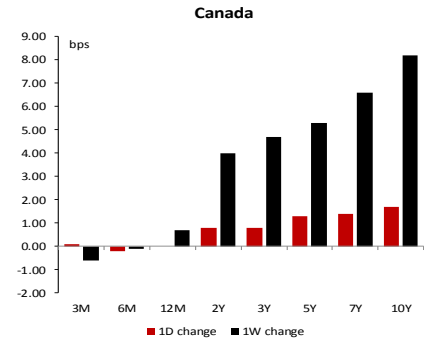
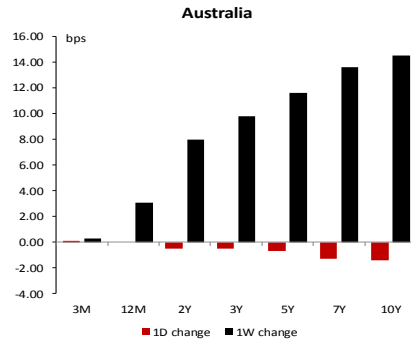
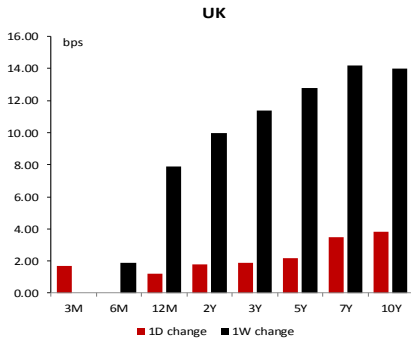
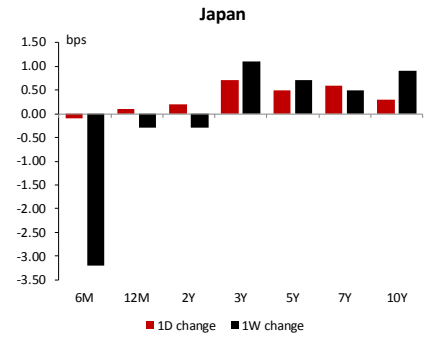
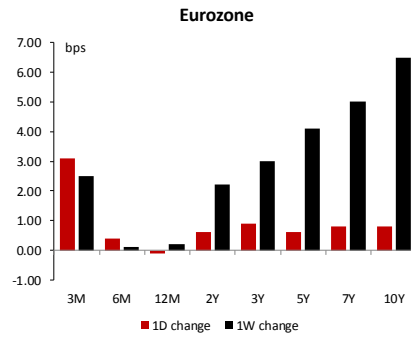
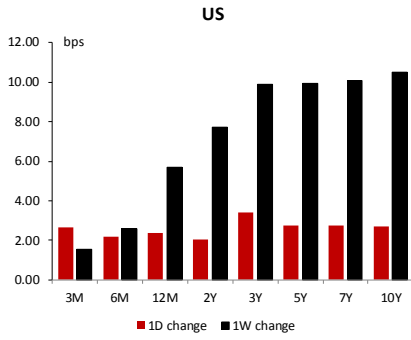
Source: OCBC Bank

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 | | | |
| 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 |
| 5 | 30-Oct-18 | 02-Nov-18 | B | USD-SGD | 1.3840 | 1.3750 | Resilient DXY, fragile risk appetite, proxy CNH trade | -0.65 |
| * realized, excl carry | | | | | | | | |

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