

Thursday, November 08, 2018

FX Themes/Strategy/Trading Ideas

- In the wake of the US midterms and recovering global risk appetite levels, the USD eventually managed to bounce off intra-day lows (EUR-USD relapsed from intra-day highs to end essentially unchanged). In a nutshell, the US midterm results were in line with market expectations with the Democrats reclaiming the House while the Republicans retained majority control of the Senate.
- GBP-USD meanwhile continued to derive mild support from expectations of an end-November Brexit deal. Meanwhile, the brightening of investor sentiment also saw the **antipodeans** outshining their G10 counterparts. After dipping to near 95.70, the **DXY** subsequently bounced to end just a touch softer on the day and just shy of 96.20.
- Down south, the **RBNZ** remained static at 1.75% for its OCR late Wednesday and turned slightly more upbeat on the inflation outlook over the medium term, although this still left the NZD-USD largely unruffled.
- Govie curves in the majors also rose, with most (including US Treasuries) flattening from the front to middle sectors. Positive risk appetite levels and higher EZ/US equities translated into a softer **FX Sentiment Index (FXSI)**, with the Index slipping into Risk-Neutral territory from Risk-Off territory.
- **While rate differential arguments may impart implicit support for the greenback, we think near term dynamics surrounding improved investor sentiment (ostensibly from a less mercantilist US administration with a divided Congress) may dominate in the short term, lending support to the likes of the AUD, EM FX, as well as the Asians.** To this end, note that short-end skews (including for the CNH) have moved significantly away from pricing in undue USD strength in the month to date
- For today, market attention we think will quickly turn to the FOMC tonight (1900 GMT) although no radical change in tilt is expected from the accompanying statement. Possible discussion points include size of balance sheet, extent to which the policy rate can go over neutral and technical issues surrounding the IOER, but these will not come to light the statement itself. Watch for the minutes later in the month.

Treasury Research &
Strategy

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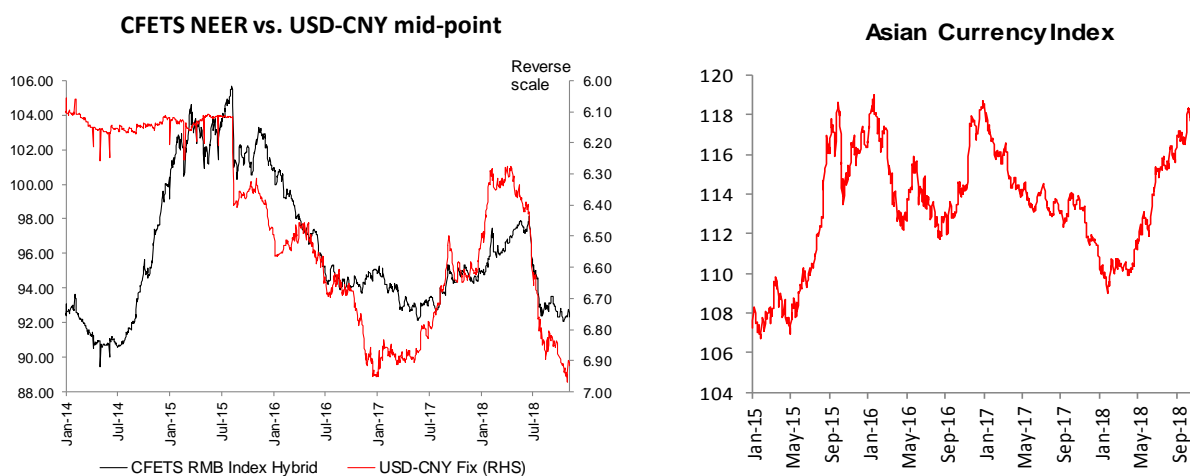
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Asian FX

- Not surprisingly, EM equities in aggregate pushed higher on Wednesday with EM FX also supported against the greenback. Expect USD-Asia to trade heavy in sympathy during the Asian session on Thursday. On the central bank front, expect BNM to remain static at 3.25% at its policy meeting today.
- On the flow front, net portfolio inflows for South Korea continue to improve while outflows for Taiwan are still compressing fairly rapidly. Meanwhile, net inflows for Indonesia surged again (note latest debt auctions exceeded targets) while Thailand's net flow environment remains essentially neutral. On other fronts, Malaysia is still experiencing minor outflow pressures.
- **SGD NEER:** The SGD NEER is slightly firmer at +1.42% above its perceived parity (1.3913), roughly in the midpoint of the +1.30-1.50% range seen this week. The NEER-implied USD-SGD thresholds were again softer. USD-SGD expected to remain heavy with its 100-day MA (1.3706) and its 55-day MA (1.3745) intra-day.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher, within expectations, at 6.9163 compared to 6.9065 yesterday. This caused the CFETS RMB Index to ease further from 92.52 to 92.34.



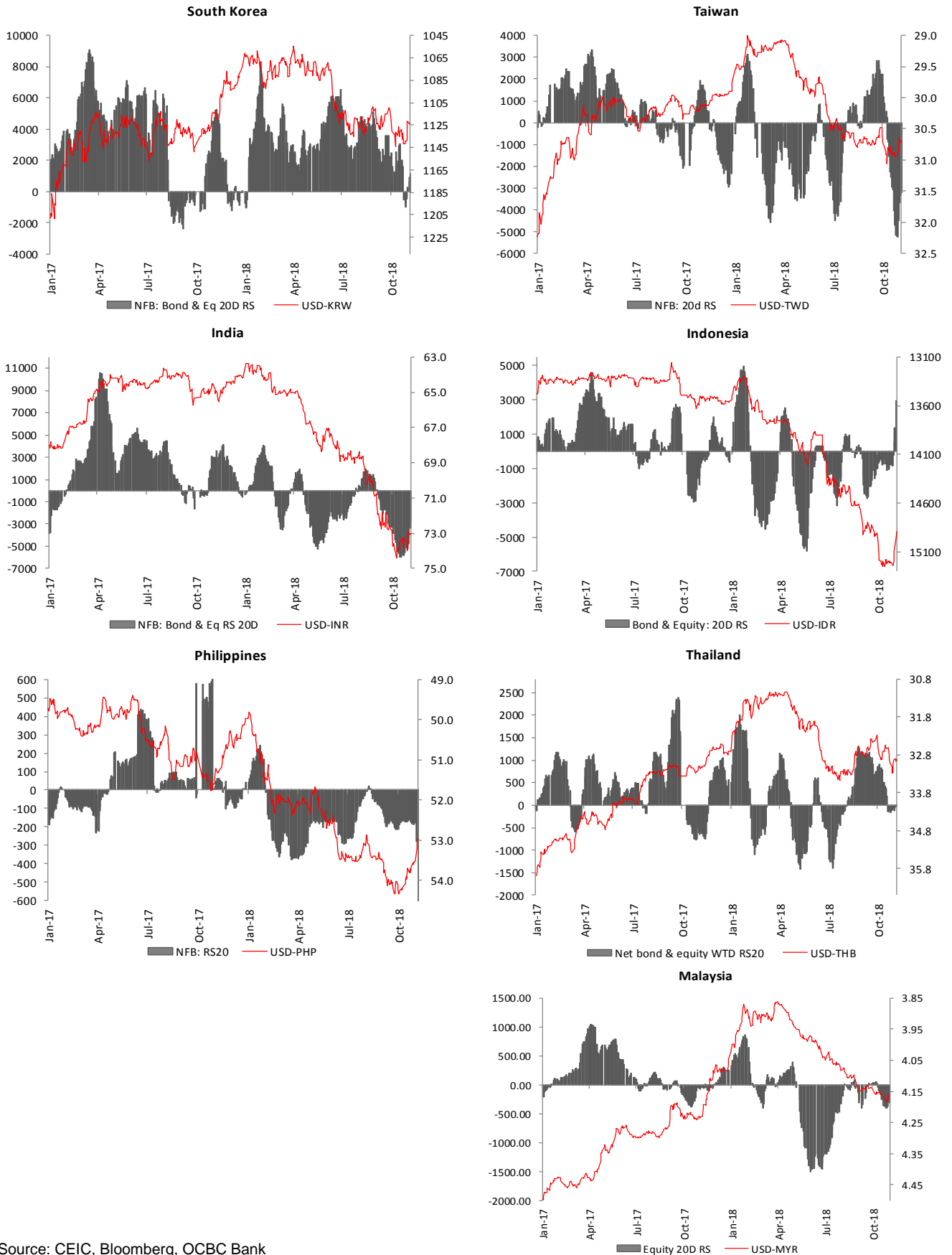
Source: OCBC Bank, Bloomberg

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 with 1 BOK voting dissenter warning of a widening yield gap with the US.
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 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 relative 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.

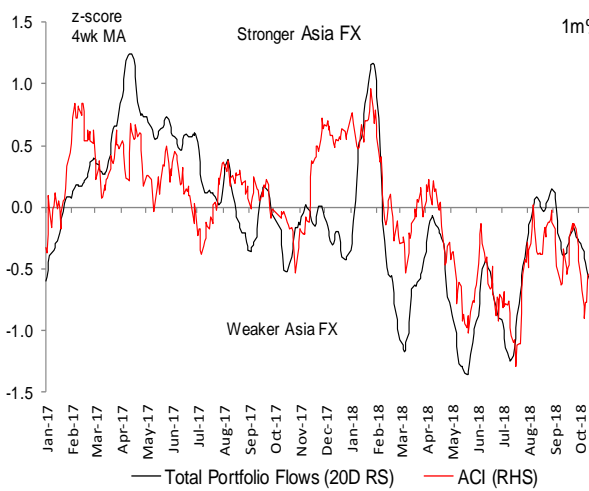
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



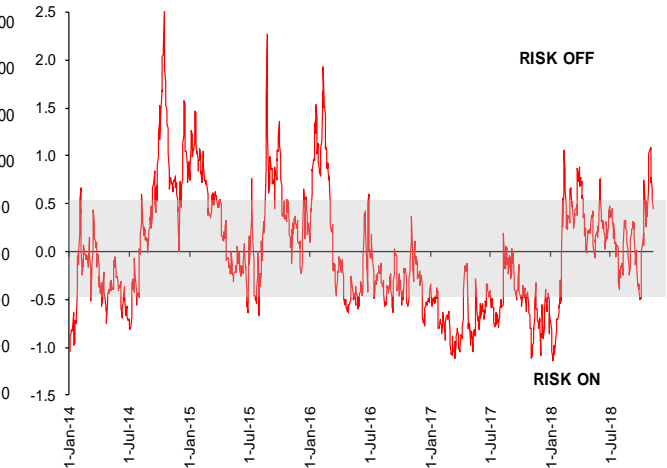
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.293	0.664	-0.594	-0.493	-0.796	0.476	-0.676	0.267	0.334	0.667	-0.988
SGD	0.891	0.033	0.462	-0.416	-0.292	-0.905	0.701	-0.839	0.005	0.023	0.414	-0.896
CHF	0.827	-0.495	0.652	-0.66	-0.681	-0.785	0.29	-0.601	0.369	0.427	0.589	-0.826
IDR	0.754	-0.042	0.462	-0.575	-0.351	-0.815	0.439	-0.754	0.301	0.23	0.439	-0.733
CNH	0.681	-0.508	0.537	-0.518	-0.483	-0.524	0.194	-0.252	0.427	0.334	0.516	-0.661
MYR	0.667	-0.548	0.962	-0.524	-0.662	-0.276	-0.091	-0.102	0.37	0.609	1	-0.636
THB	0.664	-0.502	1	-0.467	-0.606	-0.291	0.009	-0.135	0.33	0.566	0.962	-0.645
JPY	0.476	0.65	0.009	0.229	0.333	-0.616	1	-0.679	-0.497	-0.561	-0.091	-0.468
CAD	0.399	-0.594	0.731	-0.313	-0.393	0.08	-0.363	0.435	0.438	0.605	0.683	-0.313
INR	0.176	0.595	-0.31	0.118	0.235	-0.586	0.734	-0.805	-0.454	-0.571	-0.301	-0.214
KRW	0.121	-0.826	0.421	-0.56	-0.75	0.038	-0.645	0.42	0.713	0.796	0.418	-0.051
USGG10	-0.032	0.647	-0.528	0.307	0.395	-0.432	0.691	-0.657	-0.534	-0.713	-0.514	-0.038
TWD	-0.092	-0.664	0.34	-0.295	-0.595	0.323	-0.652	0.552	0.563	0.73	0.318	0.146
CNY	-0.158	-0.61	0.31	-0.217	-0.369	0.54	-0.718	0.696	0.44	0.683	0.294	0.216
PHP	-0.281	-0.424	0.249	0.05	-0.169	0.556	-0.589	0.798	0.371	0.434	0.226	0.327
NZD	-0.293	1	-0.502	0.756	0.841	0.071	0.65	-0.204	-0.792	-0.818	-0.548	0.248
AUD	-0.387	-0.115	0.134	0.392	0.098	0.503	-0.333	0.73	-0.01	0.02	0.025	0.385
GBP	-0.59	-0.216	-0.26	0.246	0.156	0.844	-0.708	0.943	0.121	0.244	-0.252	0.621
EUR	-0.889	0.608	-0.809	0.752	0.759	0.558	-0.035	0.34	-0.474	-0.673	-0.834	0.84
	-0.988	0.248	-0.645	0.557	0.461	0.802	-0.468	0.677	-0.211	-0.269	-0.636	1

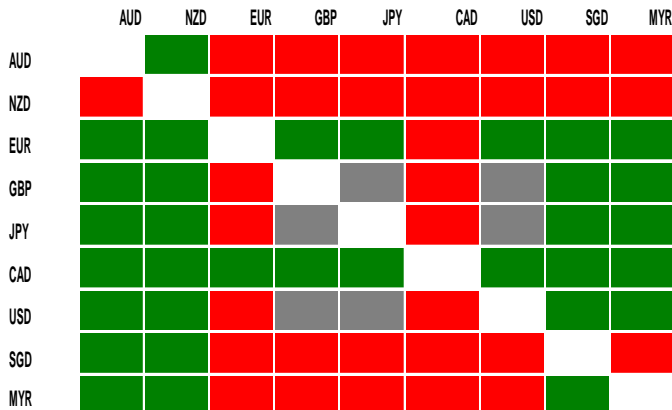
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1302	1.1400	1.1432	1.1500	1.1547
GBP-USD	1.3033	1.3100	1.3123	1.3200	1.3258
AUD-USD	0.7160	0.7200	0.7267	0.7274	0.7300
NZD-USD	0.6700	0.6767	0.6779	0.6800	0.6814
USD-CAD	1.3035	1.3100	1.3121	1.3170	1.3187
USD-JPY	112.52	113.00	113.60	113.72	114.00
USD-SGD	1.3700	1.3706	1.3719	1.3755	1.3800
EUR-SGD	1.5600	1.5632	1.5684	1.5700	1.5882
JPY-SGD	1.2000	1.2003	1.2077	1.2078	1.2100
GBP-SGD	1.7926	1.8000	1.8003	1.8063	1.8100
AUD-SGD	0.9849	0.9900	0.9970	0.9980	0.9992
Gold	1209.38	1216.52	1227.10	1237.72	1239.30
Silver	14.43	14.50	14.56	14.60	14.86
Crude	61.20	61.70	61.74	61.80	67.42

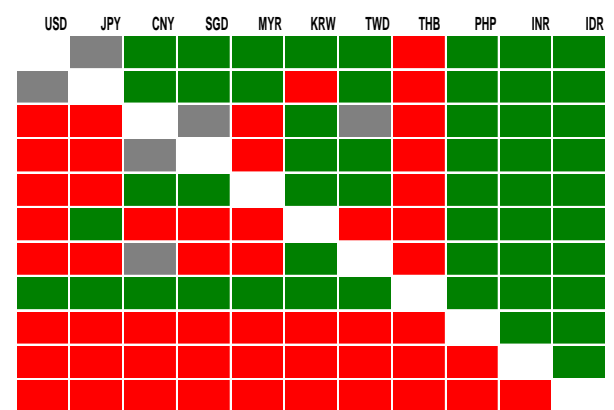
Source: OCBC Bank

G10 FX Heat Map



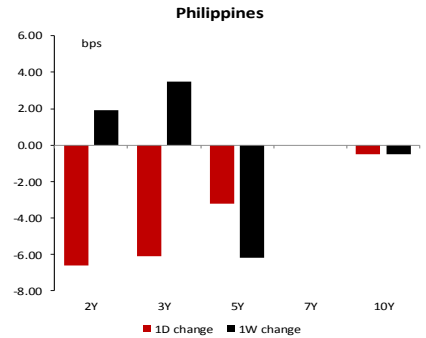
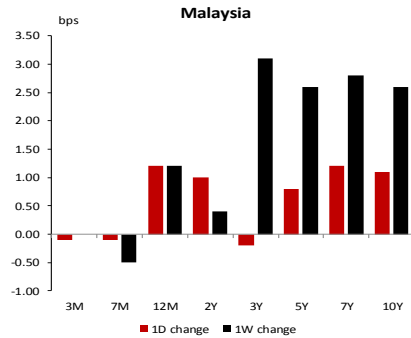
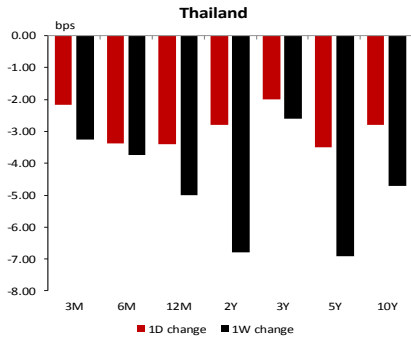
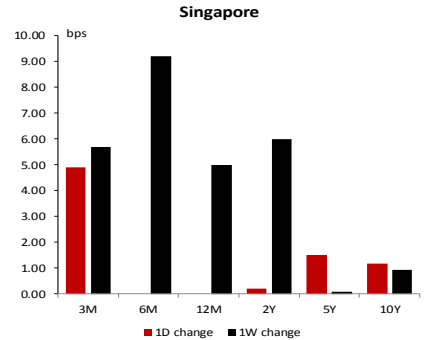
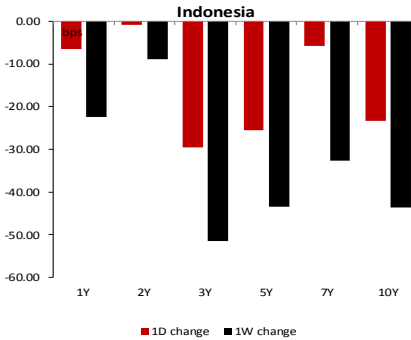
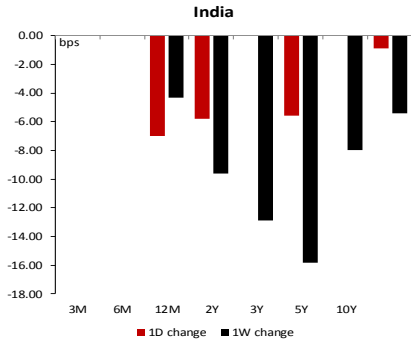
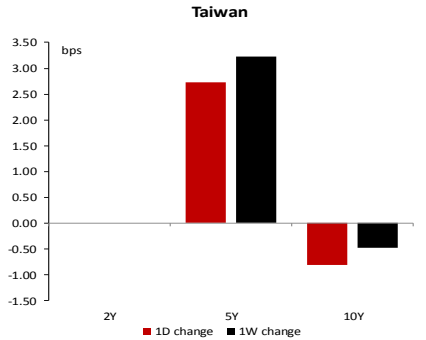
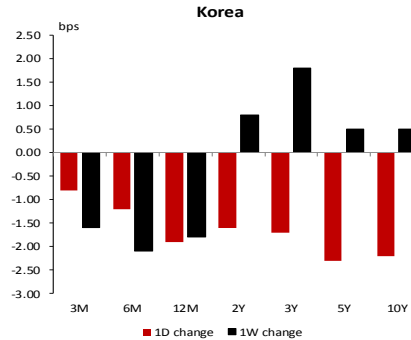
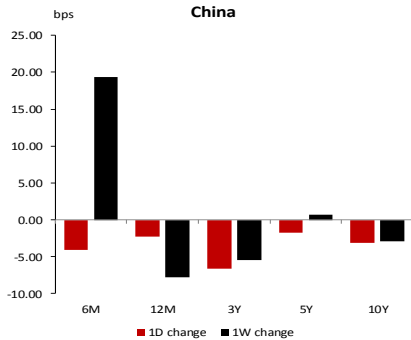
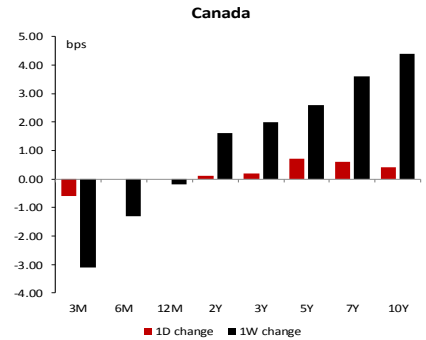
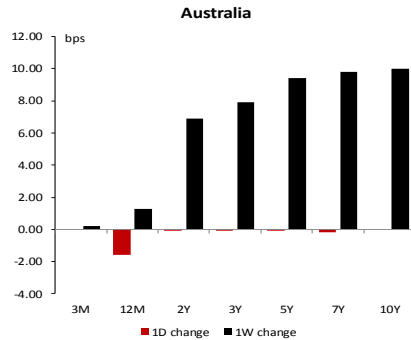
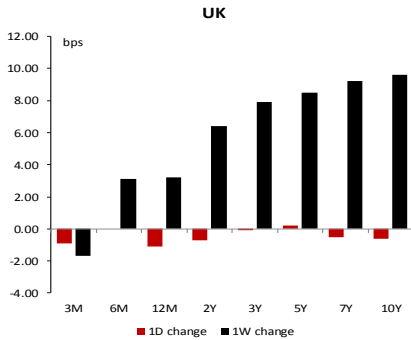
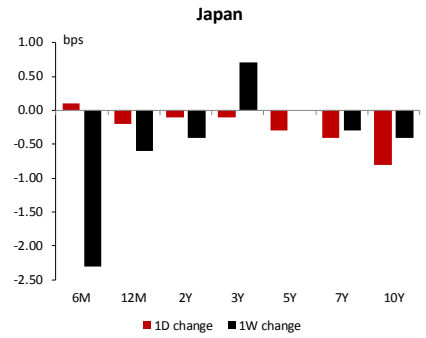
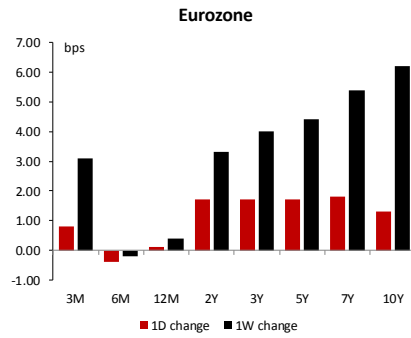
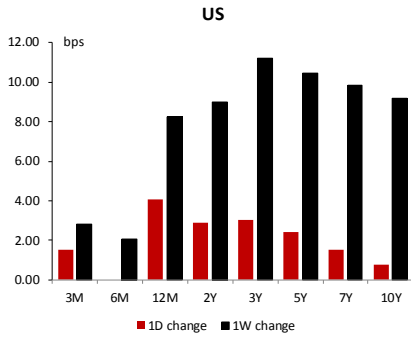
Source: OCBC Bank

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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