

Monday, October 08, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite firmer UST yields (curve bear flattened from the back-end), the greenback ended mixed on Friday as it softened against the EUR and GBP (EU officials noted that a Brexit deal was “very close”) but stepped higher against the antipodeans and the CAD. Stuttering global equities saw the JPY outperform against the USD as well as across G10 space.
- On the data front, the NFP numbers proved mixed to supportive with the Sep headline number at a disappointing +134k but the Aug reading was revised higher significantly to +270k (from +201k). The 2-month revision also came in at +87k. While the Sep unemployment rate dipped more than expected to 3.7% (from 3.9%), average hourly earnings came in as expected at +0.3% mom although the previous month was revised lower to +0.30% from +0.40%.
- On the risk appetite front, the **FX Sentiment Index** (FXSI) remained largely static on Friday but note that it has firmed on the week within Risk-Neutral territory, denoting heightened investor caution.
- On the **CFTC** front, large non-commercial accounts deepened their net implied long dollar bias slightly in the latest week while asset manager accounts also pared their net implied short dollar bias in the same period. Meanwhile, leveraged accounts increased their net implied long dollar bias in the latest week aggregate but this was largely on the back of **a significant jump in implied net JPY shorts**. Net of JPY positioning, leveraged accounts actually reduced their implied net long dollar balance.
- This week, background fiscal concerns may continue to blanket the EUR (Rome and the European Commission remain at loggerheads) while the GBP may continue to be buffeted by Brexit-related headlines. On the latter front, note that EU Summits this month and next may for a volatile market for the pound. As for data releases, watch for US CPI (Thu), and European industrial and manufacturing production throughout the week,
- **Overall, firmer dollar dynamics may continue to be transmitted more efficiently via the USD-JPY, while the likes of the AUD may remain predicated on risk appetite developments.**

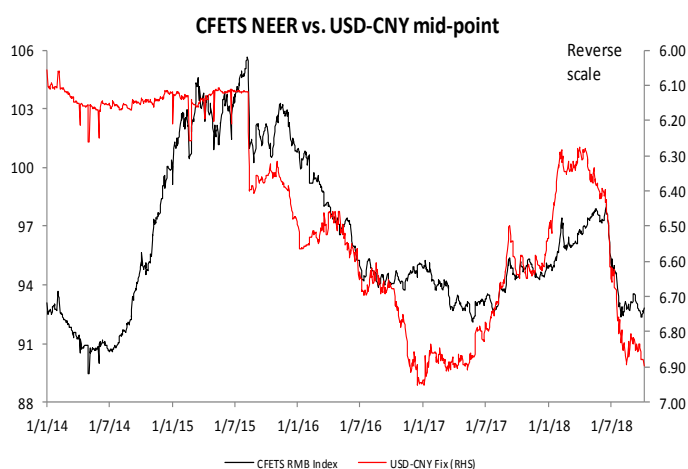
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Asian FX

- Over the weekend, the **PBOC** cut banks' RRR (reserve requirement ratios) for the fourth time this year by 100bps effective 15 Oct 18. This we think will continue to cast the spotlight on the global growth impetus, potentially keeping sentiment towards EM and Asia tender. **Going ahead, we watch for any precipitous flight from Asian equity markets, with bond markets already reflecting global bearishness.**
- EM equities in aggregate continued to soften on Friday with Asian stocks opening in the red early Monday. Overall, expect Asian FX to begin the week on a slightly unsteady footing with the PBOC's latest RRR cuts being interpreted as an effort to remain accommodative.
- **EPFR** data show a flip to an implied net inflow for Asian (excl Japan, China) equities in the latest week although net implied bond outflows for the region deepened in the latest week.
- In terms of actual **net portfolio flows** in Asia, net inflows for South Korea continue to moderate (pressure from net equity outflows) while net equity inflows for Taiwan continue to weaken. Elsewhere, net bond and equity outflows for India continue to persist and deepen while overall net outflows for Indonesia continue to compress (especially for bonds). For Thailand, net inflows are attempting to recover higher on the back of some rebound in bond inflows, although net equity flows remain in the red.
- **SGD NEER:** The SGD NEER bounced higher this morning to levels just shy of +1.0% above parity (1.3963), after touching a low of +0.81%. NEER-implied USD-SGD thresholds are also firmer. Expect an intra-day trading range between 1.3800 and 1.3850, as we await the MAS policy decision on Friday.
- **CFETS RMB Index:** After the Golden Week holidays and the weekend RRR cut, the USD-CNY mid-point this morning came in slightly below expectations at 6.8957. The CFETS RMB Index came in at 92.81, compared to 92.35 before the break.



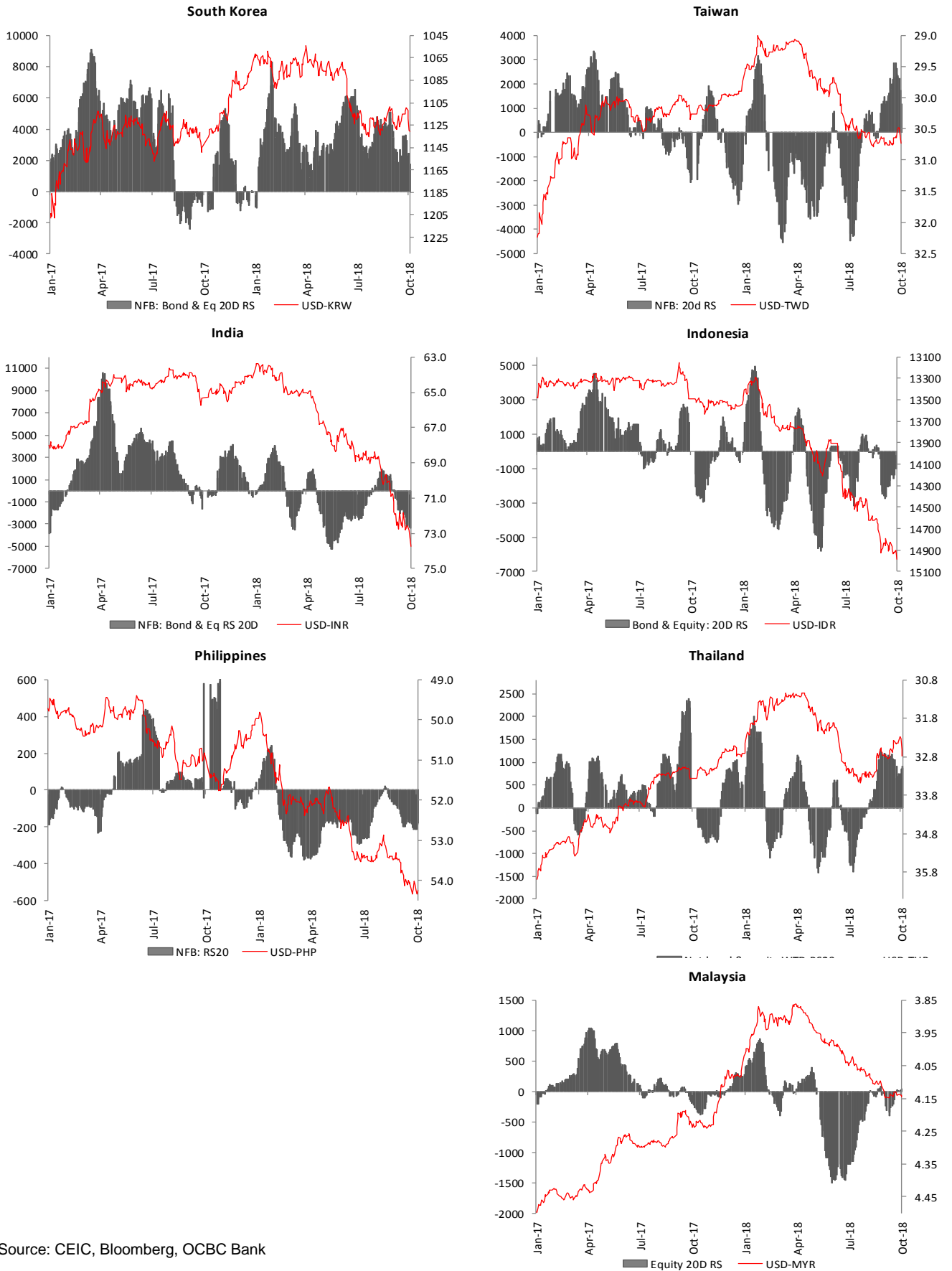
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↑	Expect inherent buoyancy in the pair stemming from the broad dollar complex. CNH forwards and short term vol surface angling for firmer USD ahead. Firm CPI readings may be expected to keep the yield curves supported.
USD-KRW	↑	BOK governor reiterates 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	↑	RBI surprised markets by remaining static in October with the central bank lowering its inflation forecasts. This we think may only provide a brief respite for govies, with the INR still seen vulnerable. 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.

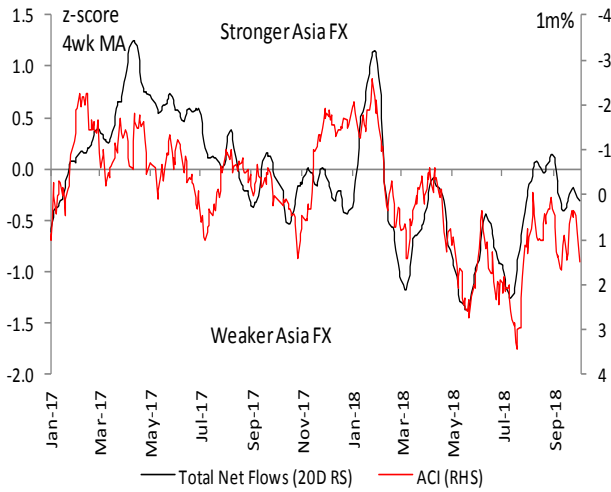
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



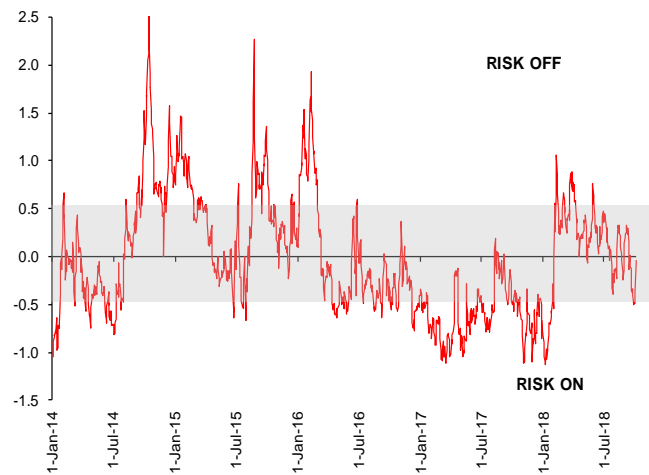
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	0.448	0.298	-0.244	-0.578	0.602	0.502	0.541	0.355	0.426	0.731	-0.991
SGD	0.937	0.647	0.484	-0.086	-0.442	0.788	0.702	0.736	0.311	0.186	0.799	-0.929
CHF	0.861	0.419	-0.08	-0.549	-0.832	0.354	0.231	0.264	0.631	0.631	0.625	-0.871
IDR	0.731	0.637	0.867	-0.054	-0.16	0.608	0.687	0.617	0.316	-0.009	1	-0.687
CNH	0.731	0.819	0.612	-0.076	-0.534	0.81	0.722	0.739	0.454	0.075	0.731	-0.702
MYR	0.607	0.812	0.301	-0.042	-0.501	0.728	0.66	0.676	0.456	0.009	0.684	-0.58
THB	0.521	0.277	-0.27	-0.779	-0.798	0.092	0.016	0.091	0.674	0.709	0.239	-0.552
JPY	0.502	0.837	0.517	0.564	0.171	0.868	1	0.942	-0.196	-0.438	0.687	-0.482
CAD	0.448	1	0.253	0.346	-0.09	0.786	0.837	0.801	0.071	-0.329	0.637	-0.437
INR	0.298	0.253	1	0.033	0.352	0.386	0.517	0.427	0.081	-0.352	0.867	-0.194
KRW	0.226	-0.271	-0.225	-0.919	-0.836	-0.326	-0.582	-0.511	0.809	0.716	-0.079	-0.23
USGG10	0.2	0.042	-0.493	-0.749	-0.905	-0.076	-0.406	-0.271	0.801	0.629	-0.055	-0.25
TWD	0.044	0.625	0.418	0.264	0.023	0.618	0.593	0.62	0.12	-0.389	0.425	-0.03
CNY	-0.121	-0.212	-0.647	-0.637	-0.687	-0.444	-0.641	-0.582	0.537	0.585	-0.403	0.084
PHP	-0.192	-0.576	0.263	-0.738	-0.235	-0.703	-0.731	-0.798	0.487	0.347	-0.148	0.195
NZD	-0.732	-0.008	-0.232	0.05	0.273	-0.494	-0.273	-0.352	-0.013	-0.274	-0.369	0.724
AUD	-0.813	-0.394	0.046	0.646	0.887	-0.251	-0.167	-0.181	-0.682	-0.704	-0.581	0.82
GBP	-0.842	-0.372	-0.122	0.615	0.845	-0.318	-0.195	-0.213	-0.689	-0.608	-0.632	0.841
EUR	-0.991	-0.437	-0.194	0.253	0.593	-0.586	-0.482	-0.533	-0.338	-0.461	-0.687	1

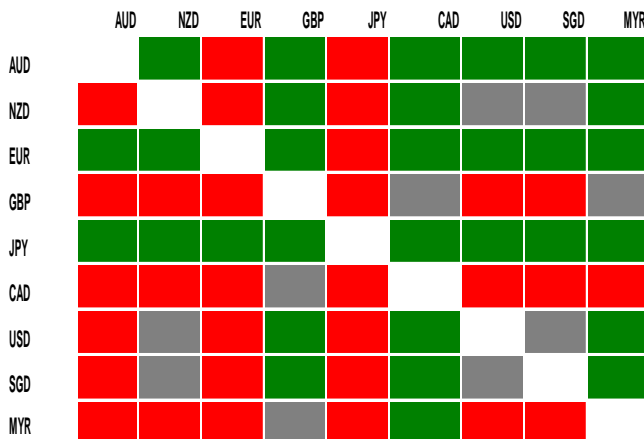
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1464	1.1500	1.1516	1.1593	1.1600
GBP-USD	1.2973	1.3100	1.3116	1.3200	1.3241
AUD-USD	0.7042	0.7043	0.7052	0.7100	0.7254
NZD-USD	0.6400	0.6425	0.6432	0.6438	0.6500
USD-CAD	1.2877	1.2900	1.2960	1.3000	1.3017
USD-JPY	111.80	113.00	113.83	114.00	114.55
USD-SGD	1.3707	1.3800	1.3825	1.3833	1.3838
EUR-SGD	1.5891	1.5900	1.5920	1.5975	1.6000
JPY-SGD	1.2003	1.2100	1.2146	1.2200	1.2221
GBP-SGD	1.8100	1.8103	1.8133	1.8150	1.8165
AUD-SGD	0.9650	0.9737	0.9749	0.9800	0.9943
Gold	1180.00	1186.40	1196.60	1199.69	1200.00
Silver	13.91	14.50	14.52	14.60	14.64
Crude	69.61	73.70	73.76	73.80	76.56

Source: OCBC Bank

G10 FX Heat Map



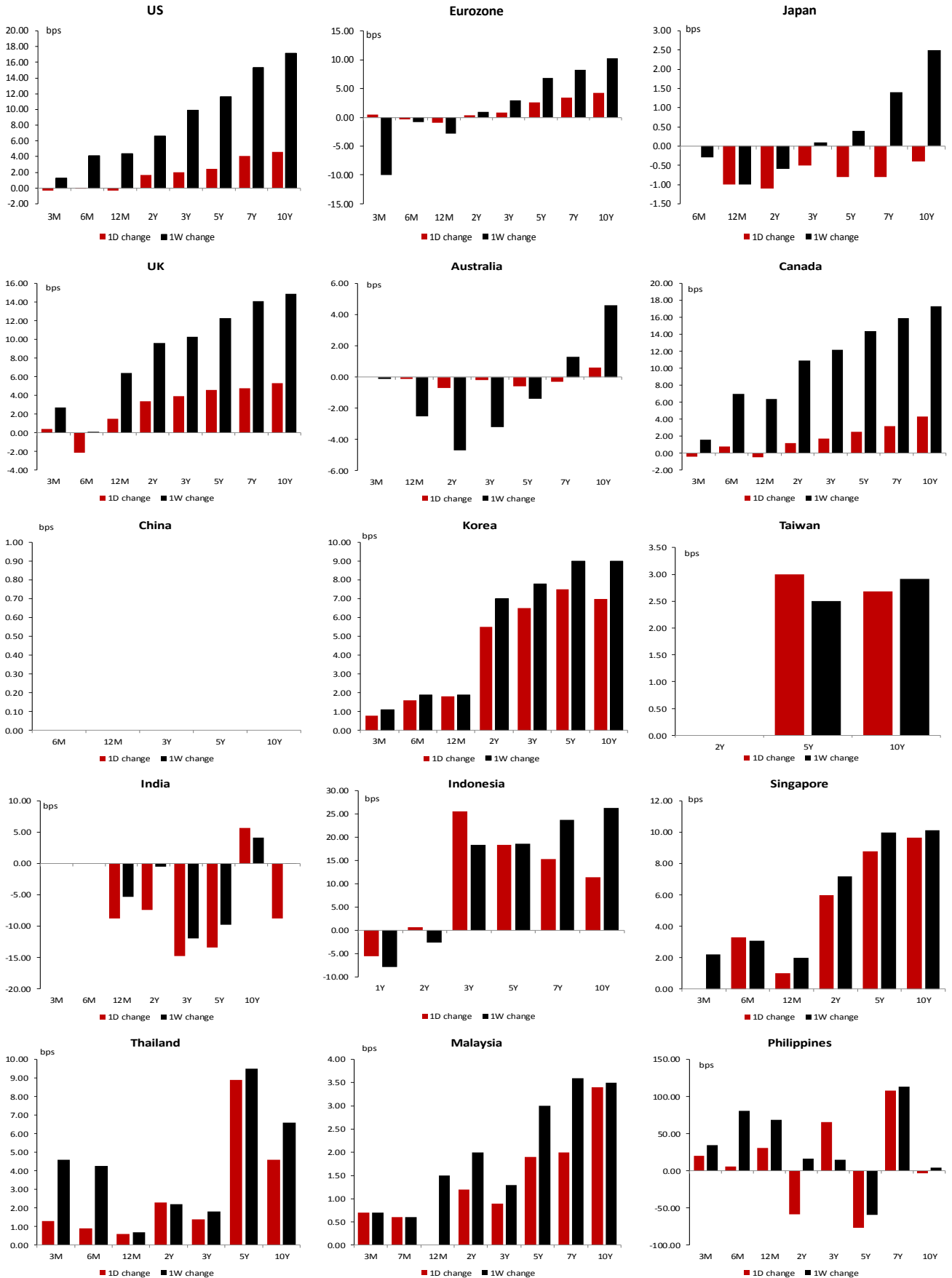
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Recommendations

Inception	B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale			
TACTICAL								
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			
STRUCTURAL								
-	-	-	-	-	-			
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
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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