

Tuesday, October 09, 2018

**FX Themes/Strategy/Trading Ideas**

- The dollar retained the upper against most of the G10 currencies on Monday, with the exception of the AUD and the JPY. The AUD appeared to catch a relief rally after its accelerated move towards the 0.7050 handle late last week, while the JPY benefited from a largely risk off tone.
- The **FX Sentiment Index** (FXSI) has started to nudge into the Risk-Off half of the scale, while staying within the Risk-Neutral zone, on the back of weaker global equities. On the political front, also note testy exchanges between Secretary of State Pompeo and the Chinese Foreign Minister Wang Yi. Going ahead, we expect further investor nervousness, with the FXSI likely to make further inroads towards the Risk-Off boundary.
- After being off on Monday, the UST curve remained largely buoyant at Asian opening. At this juncture, expect rate differentials to be still supportive of the broad dollar, pending US CPI on Thursday.
- Elsewhere, expect idiosyncratic political headlines to drive the **EUR** and **GBP**. The EU-Italy budget dispute rambles on, coupled with softer German industrial production, keeping the EUR on the back-foot. Meanwhile, the GBP looks overvalued on our short term valuation model, but that may take the back seat compared to Brexit developments.
- **Overall, the environment continues to point towards selective dollar strength in the immediate horizon. The AUD continues to look vulnerable, with any near term bounce looking to give better levels to re-enter shorts. In the interim, the JPY may be supported by renewed risk-off sentiments, although we continue to expect a firmer USD-JPY on rate differential arguments further out.**
- A relatively quiet day on the data front, watch comments from the Fed's Kaplan (1200 GMT), the ECB's Villeroy (1330 GMT) and BOE's Broadbent (1435 GMT).

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4037

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

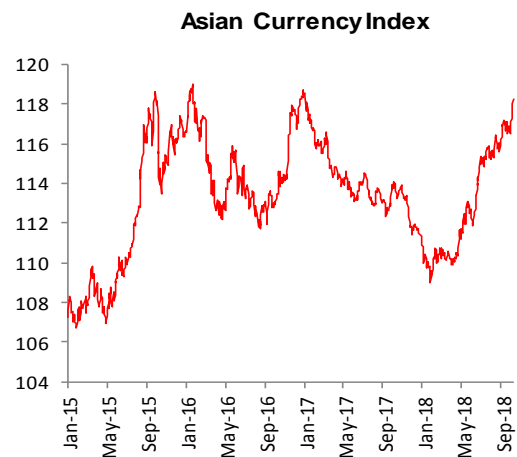
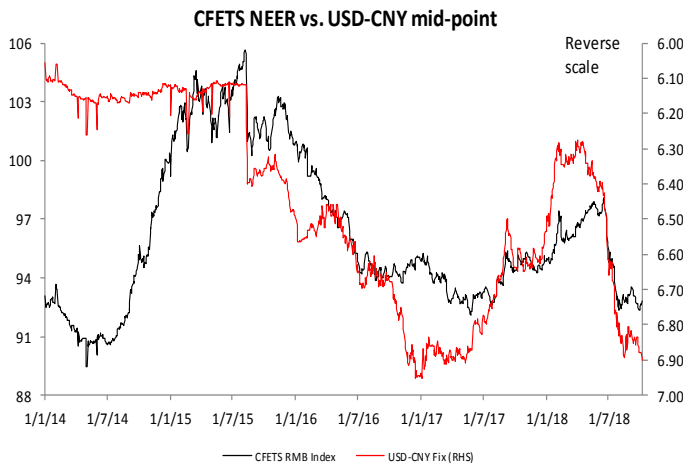
**Terence Wu**

+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

### Asian FX

- In Asia, all eyes remain on the RMB complex as the USD-CNY spot drifted above the 6.9000 psychological level. The USD-CNY morning fix also came in above the key level at 6.9017. At this juncture, the RMB complex may settle into a higher range that puts the 7.0 mark into question.
- Note also, that a senior Treasury Department official in the Trump administration highlighted concerns over recent RMB depreciation. In the near term, this should keep the spotlight on China, especially ahead of the release of the currency manipulation report next week.
- In terms of actual **net portfolio flows** in Asia, we continue to see a capitulation in aggregate equity flow momentum, centred in North Asia. Net equity outflows were noted for South Korea and Taiwan in the latest reading, and that is contributing directly to the rapid compression in inflow momentum in these countries. Similarly, equity outflows are driving a deepening outflow momentum in India. **Overall, we expect the USD-Asia, especially USD-North, to remain buoyant, taking cues from the USD-CNY.**
- **SGD NEER:** The SGD NEER is effectively static this morning at around +0.96% above parity (1.3969), on marginally higher NEER-implied USD-SGD thresholds. The range between 1.3800 and 1.3850 should continue to book-end the pair, with movements likely to be contained ahead of Friday.
- **CFETS RMB Index:** The USD-CNY mid-point this morning came in higher, within expectations, at 6.9017, compared to 6.8957 previously. The CFETS RMB Index eased slightly to 92.79, compared to 92.81 on Monday.



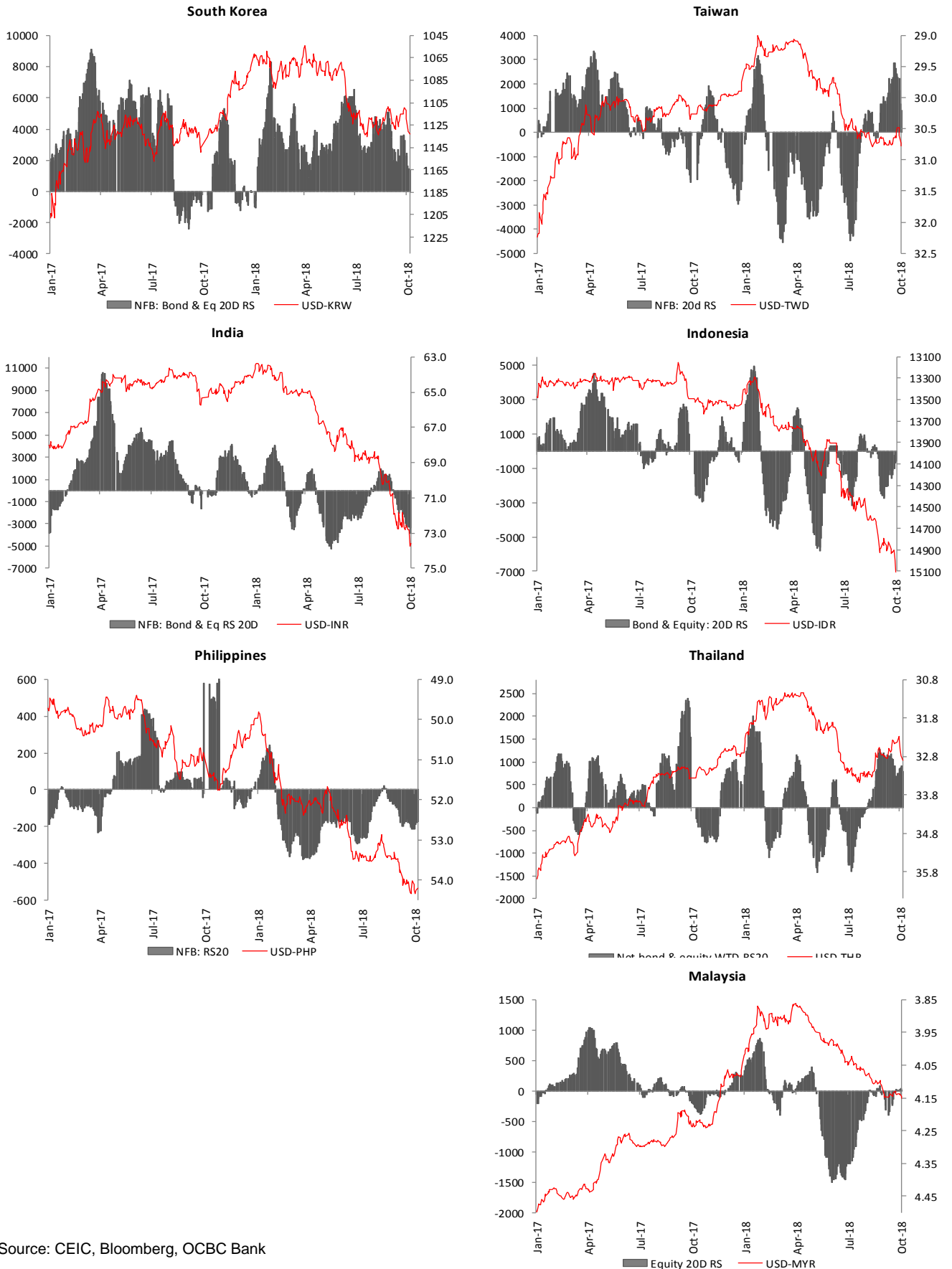
Source: OCBC Bank, Bloomberg

### 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.

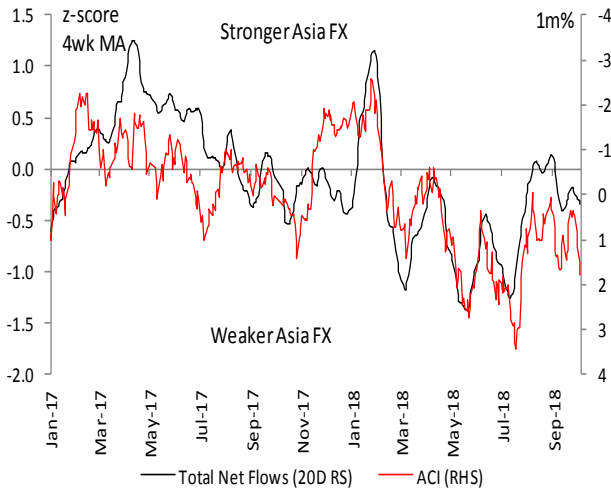
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



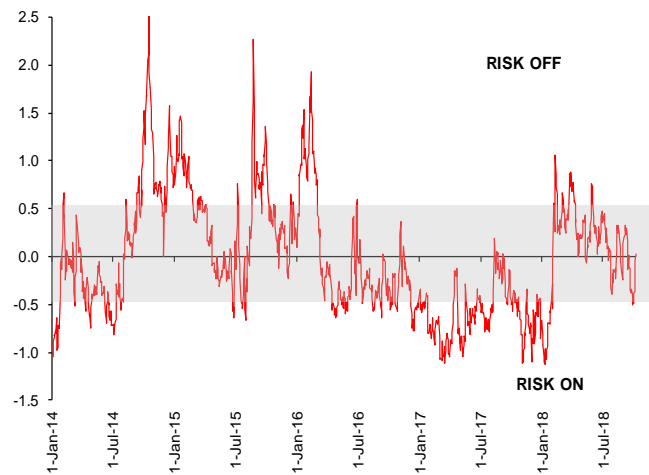
Source: CEIC, Bloomberg, OCBC Bank

### 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	0.524	0.62	-0.323	-0.639	0.646	0.473	0.577	0.468	0.503	0.765	-0.991
SGD	0.946	0.695	0.771	-0.191	-0.546	0.813	0.655	0.755	0.45	0.307	0.823	-0.941
CHF	0.88	0.51	0.499	-0.606	-0.864	0.446	0.196	0.334	0.714	0.695	0.703	-0.895
IDR	0.766	0.859	0.895	-0.235	-0.671	0.826	0.67	0.733	0.618	0.275	0.803	-0.747
CNH	0.765	0.71	0.923	-0.206	-0.404	0.663	0.586	0.636	0.524	0.204	1	-0.742
MYR	0.672	0.854	0.801	-0.209	-0.658	0.768	0.608	0.683	0.634	0.25	0.785	-0.657
THB	0.62	0.704	1	-0.258	-0.409	0.749	0.54	0.65	0.636	0.156	0.923	-0.59
JPY	0.614	0.483	0.477	-0.829	-0.864	0.257	0.004	0.22	0.789	0.782	0.498	-0.648
CAD	0.524	1	0.704	0.152	-0.318	0.812	0.762	0.813	0.316	-0.086	0.71	-0.527
INR	0.473	0.762	0.54	0.497	0.078	0.851	1	0.926	-0.091	-0.353	0.586	-0.451
KRW	0.414	0.133	0.343	-0.917	-0.876	-0.112	-0.406	-0.231	0.855	0.769	0.316	-0.429
USGG10	0.318	0.229	0.174	-0.775	-0.907	0.091	-0.309	-0.129	0.824	0.687	0.168	-0.373
TWD	0.082	0.609	0.423	0.21	-0.05	0.619	0.599	0.627	0.169	-0.302	0.425	-0.072
CNY	0.04	0.022	0.065	-0.68	-0.753	-0.237	-0.529	-0.414	0.643	0.656	-0.092	-0.081
PHP	-0.171	-0.516	0.058	-0.702	-0.197	-0.662	-0.735	-0.768	0.396	0.319	-0.112	0.172
NZD	-0.718	-0.049	-0.193	0.045	0.223	-0.463	-0.303	-0.362	-0.006	-0.247	-0.353	0.698
AUD	-0.841	-0.473	-0.472	0.689	0.903	-0.356	-0.131	-0.253	-0.748	-0.754	-0.655	0.854
GBP	-0.862	-0.434	-0.486	0.656	0.849	-0.395	-0.161	-0.27	-0.724	-0.66	-0.673	0.865
EUR	-0.991	-0.527	-0.59	0.336	0.658	-0.635	-0.451	-0.571	-0.464	-0.538	-0.742	1

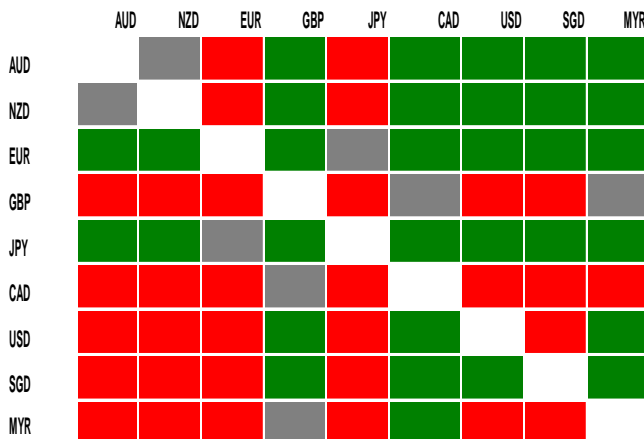
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1437	1.1460	1.1489	1.1500	1.1588
GBP-USD	1.2972	1.3000	1.3092	1.3100	1.3239
AUD-USD	0.7041	0.7043	0.7087	0.7100	0.7248
NZD-USD	0.6425	0.6428	0.6448	0.6500	0.6617
USD-CAD	1.2879	1.2900	1.2962	1.3000	1.3016
USD-JPY	111.82	113.00	113.17	114.00	114.55
USD-SGD	1.3712	1.3800	1.3837	1.3850	1.3866
EUR-SGD	1.5819	1.5890	1.5898	1.5900	1.5999
JPY-SGD	1.2200	1.2224	1.2226	1.2263	1.2300
GBP-SGD	1.8100	1.8103	1.8115	1.8165	1.8167
AUD-SGD	0.9749	0.9800	0.9805	0.9900	0.9938
Gold	1180.00	1184.37	1184.40	1199.45	1200.00
Silver	13.93	14.40	14.43	14.50	14.62
Crude	69.71	74.60	74.68	74.70	76.86

Source: OCBC Bank

### G10 FX Heat Map



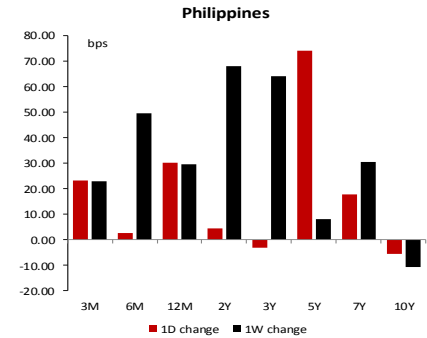
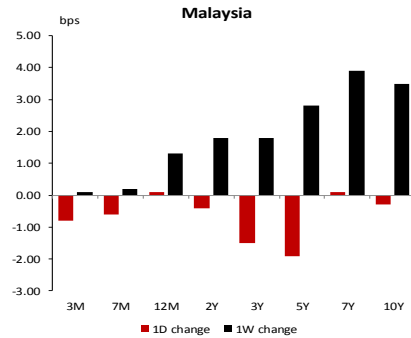
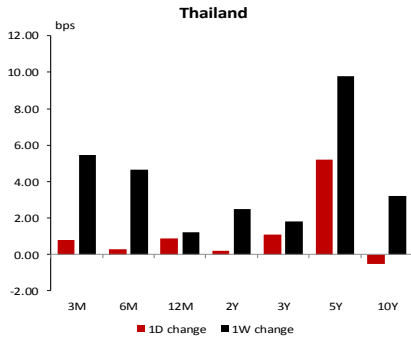
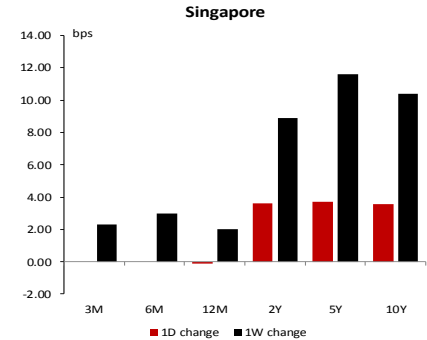
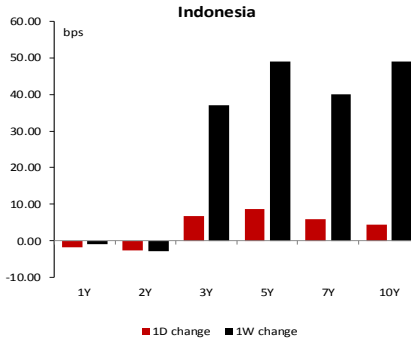
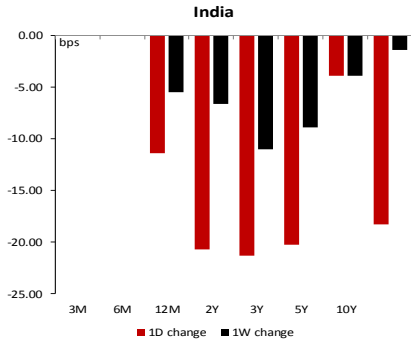
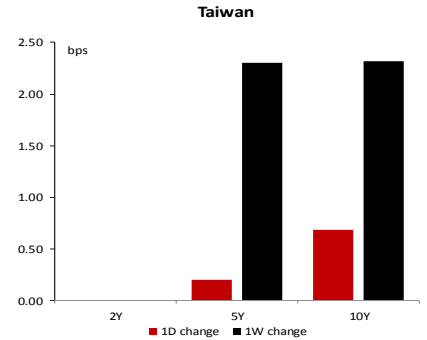
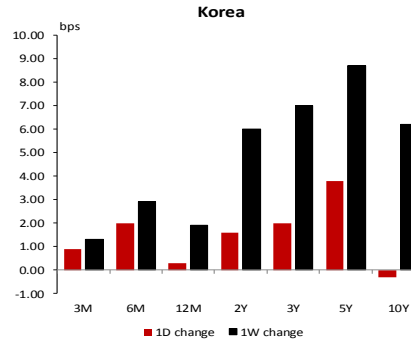
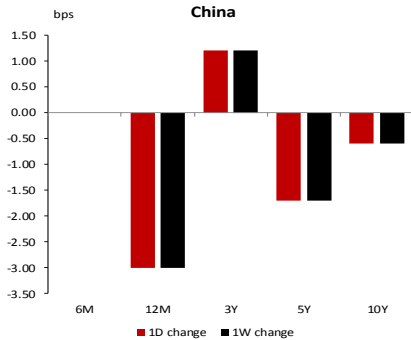
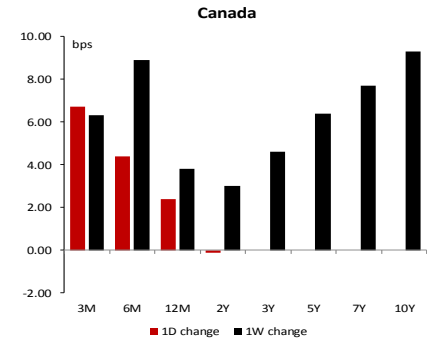
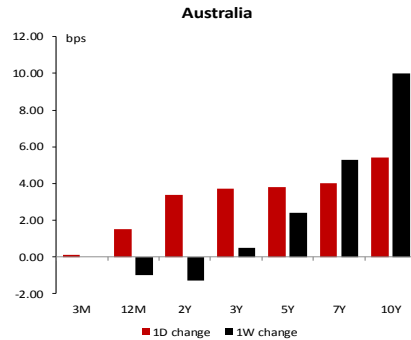
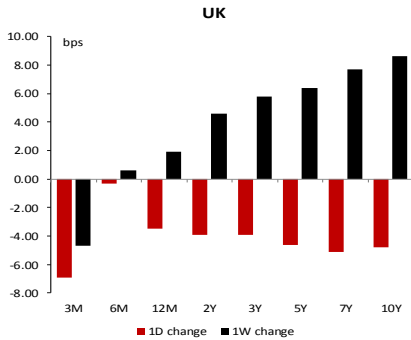
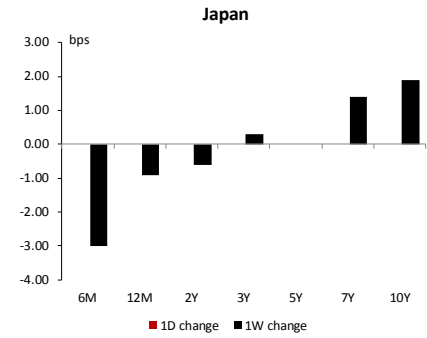
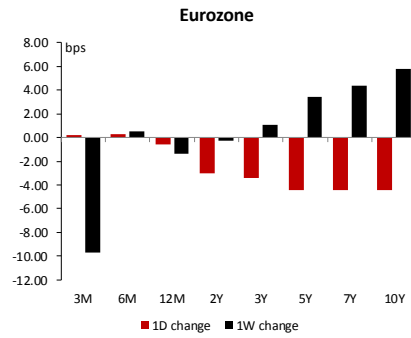
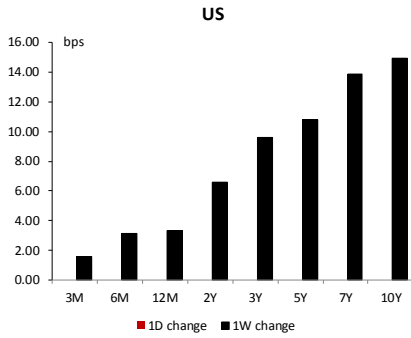
Source: OCBC Bank

### 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 (%)*	
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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