

Thursday, October 11, 2018

**FX Themes/Strategy/Trading Ideas**

- US equities shattered overnight (SPX -3.29%, Nasdaq -4.08%, Philly Semiconductor index -4.46%) and risk appetite melted as the VIX surged 43.95% to 22.96. Thus, while the EUR and GBP still managed to climb against the USD, the cyclicals (AUD, NZD, CAD) crashed out across the board while the JPY outperformed and the UST 10y yield fell below 3.20% to the 3.16% region on a flight to safety.
- While the European (and GBP) complex continued to hold up in face of background Brexit-related optimism (EU's Barnier noted that much of the withdrawal agreement is already agreed upon and a deal within reach by 17 Oct), it remains to be seen if infection from broader contagion and we will continue to monitor Italian-bund yields.
- Structurally, the collision course between equities and bonds may continue to play out (Trump's blatant criticism of the Fed notwithstanding), inflicting bouts of volatility going ahead. In the interim, **JPY** outperformance may remain on the cards (short-end vol surface heating up) if risk aversion continues to deepen.
- We also retain a heavy bias for **EUR-GBP** and the **AUD-USD**, with the latter's structurally soft underpinnings exacerbated by the latest global investor jitters.
- With the general risk-off sentiment, the **FX Sentiment Index (FXSI)** made a jump towards the Risk-Off boundary, while still remaining within Risk-Neutral territory. This move was largely equity-driven, with the surge in VIX filtering through the index. With Asian equities opening weak on Thursday, we will not be surprised if the risk sentiments continue to deteriorate into the end of the week.

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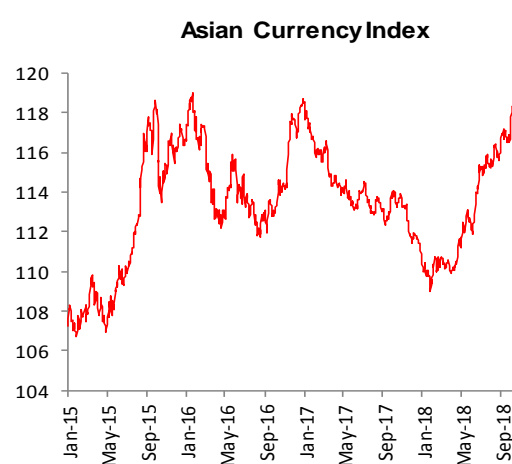
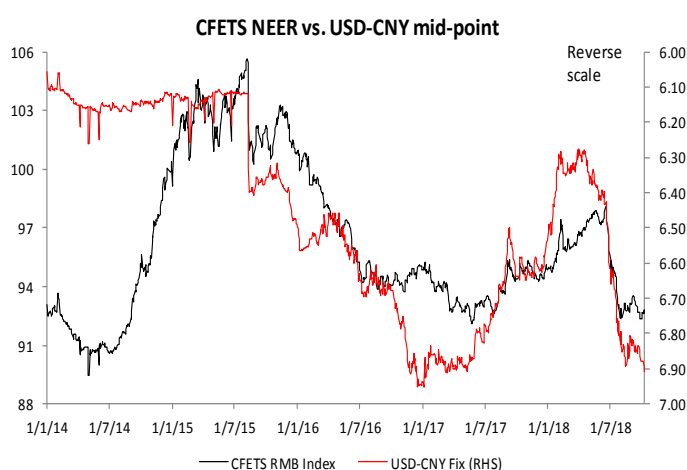
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## Asian FX

- Global EM equities also detached lower overnight, and with the tech sector the epicenter of the decline in US equities, expect negative transmission to the respective Asian bourses (E-minis are still negative in Asia on Thursday). In this respect Asian FX vulnerability would not be just confined to the southern currencies, and we would expect the likes of the KRW, TWD, and SGD to be similarly afflicted.
- On the equity front, look towards China shares as a barometer for the region, while softer US yields from overnight are expected to serve as a depressant for the Asian counterparts.
- On the net portfolio flow front, net inflows for South Korea and Taiwan continue to moderate lower, while net outflows for India have still been deepening. Net outflow momentum has compressed significantly and net inflows for Thailand are looking consolidative after capitulating recently.
- **SGD NEER:** The SGD NEER eased to +0.95% above its perceived parity (1.3955) this morning, on effectively static NEER-implied USD-SGD thresholds. Continue to expect a narrow range for the USD-SGD ahead of MAS policy decision on Friday.
- **CFETS RMB Index:** The USD-CNY mid-point this morning came in higher again, within expectations, than expected at 6.9098, compared to 6.9072 previously. However, the CFETS RMB Index was static at 92.64. At this juncture, expect the USD-CNY to grind higher, with 6.95 as an interim target, before contemplating the 7.00 handle.



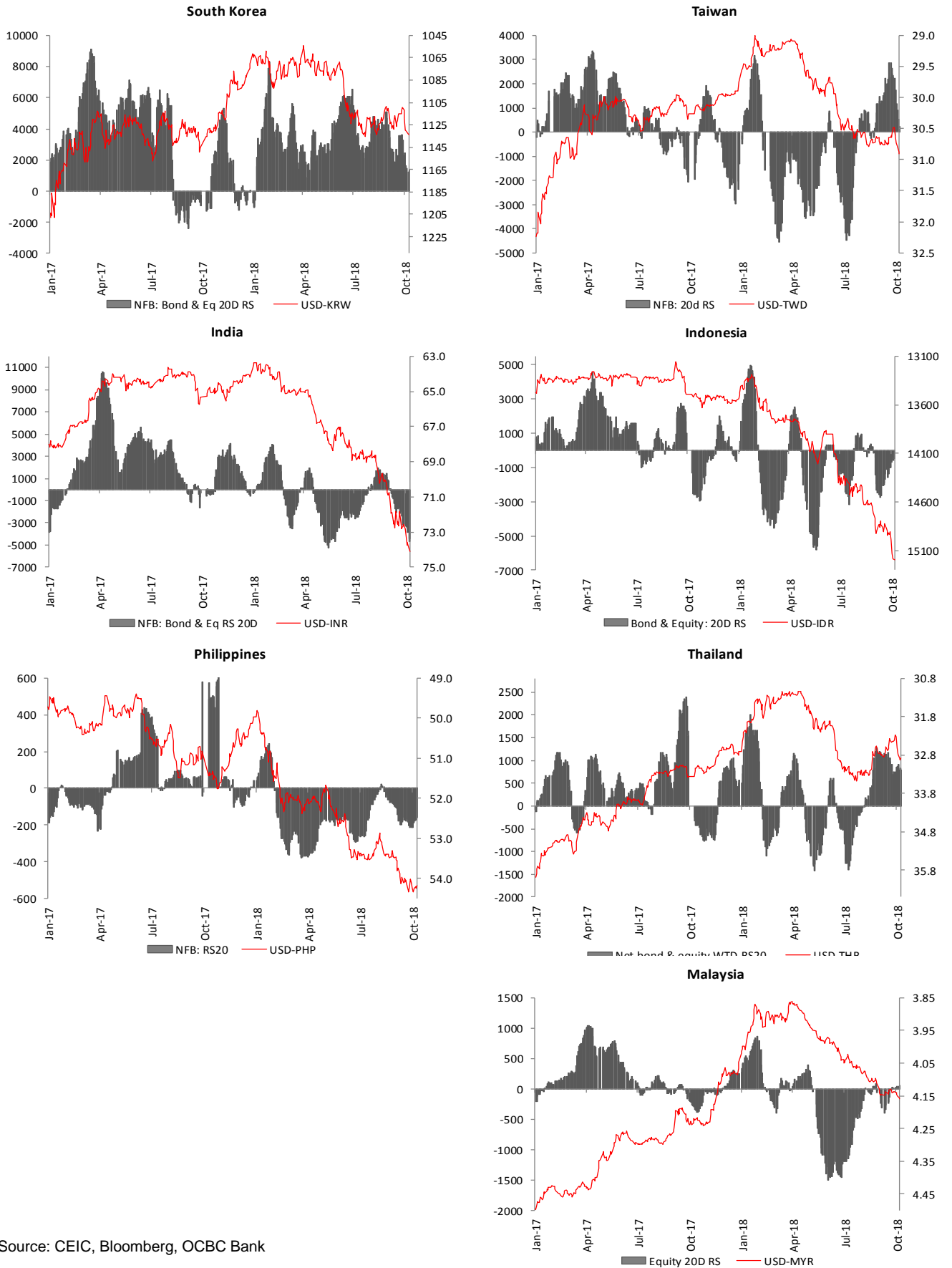
Source: OCBC Bank, Bloomberg

### 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. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns.
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	↑	Latest bout of risk aversion has afflicted North Asia. CBC remained static at its policy meeting in September and is expected to remain so into 2019.
USD-INR	↑	Bond and INR vulnerability highlighted by firming crude. Markets still wincing from the latest decision by the RBI to stand pat. 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 (including enticing NRI inflows).
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	↔/↑	Government reveals intent to plug its fiscal deficit via new taxes. BNM static in September; MYR remains vulnerable in line with its peers. Local curves also expected to firm in sympathy with the US lead.
USD-IDR	↑	BI notes that rate hikes were motivated by the need to maintain market stability. The DNDF market is due to come online next month. 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. BOT official notes that the economy is capable of absorbing a rate hike. We note however a lack of immediate inflation risks.
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.

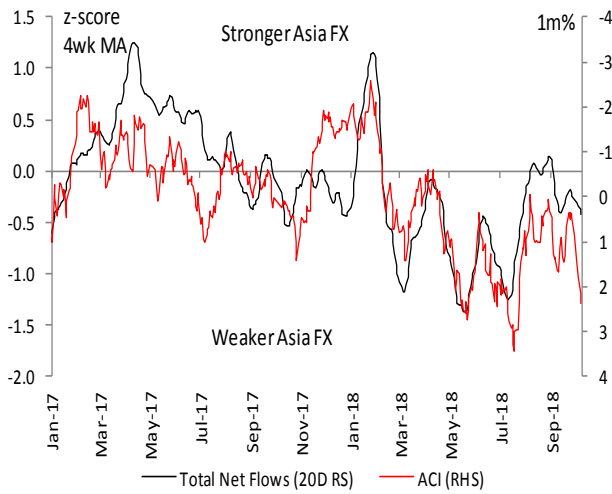
Source: OCBC Bank

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



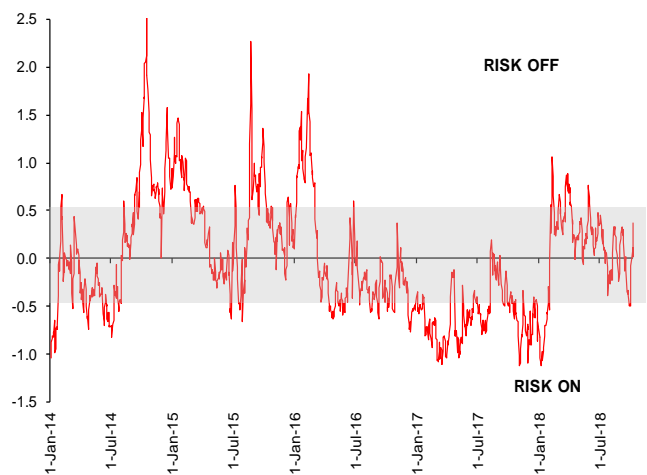
Source: CEIC, Bloomberg, OCBC Bank

### 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	0.613	0.793	-0.37	-0.673	0.73	0.462	0.669	0.437	0.567	0.758	-0.99
SGD	0.949	0.764	0.894	-0.374	-0.644	0.862	0.582	0.812	0.491	0.444	0.827	-0.948
CHF	0.877	0.666	0.785	-0.611	-0.896	0.611	0.166	0.468	0.661	0.757	0.788	-0.902
IDR	0.814	0.89	0.941	-0.524	-0.807	0.838	0.5	0.738	0.668	0.507	0.864	-0.813
CNH	0.793	0.82	1	-0.624	-0.714	0.849	0.441	0.774	0.748	0.461	0.964	-0.79
MYR	0.758	0.736	0.964	-0.53	-0.625	0.715	0.375	0.619	0.66	0.437	1	-0.758
THB	0.726	0.866	0.899	-0.56	-0.818	0.79	0.403	0.69	0.718	0.522	0.861	-0.739
JPY	0.637	0.533	0.696	-0.649	-0.896	0.413	-0.123	0.266	0.655	0.819	0.612	-0.686
CAD	0.613	1	0.82	-0.248	-0.528	0.833	0.619	0.79	0.457	0.179	0.736	-0.625
INR	0.475	0.371	0.669	-0.75	-0.921	0.18	-0.38	-0.015	0.724	0.814	0.541	-0.515
KRW	0.462	0.619	0.441	0.307	0.077	0.762	1	0.848	-0.11	-0.307	0.375	-0.419
USGG10	0.405	0.473	0.433	-0.678	-0.918	0.235	-0.311	0.067	0.677	0.73	0.5	-0.486
TWD	0.192	0.557	0.485	-0.071	-0.2	0.609	0.496	0.573	0.241	-0.125	0.461	-0.188
CNY	0.146	0.237	0.343	-0.729	-0.804	-0.02	-0.439	-0.205	0.715	0.688	0.115	-0.203
PHP	-0.132	-0.26	0.241	-0.566	-0.256	-0.52	-0.689	-0.608	0.408	0.334	0.144	0.11
NZD	-0.489	0.053	0.019	-0.291	-0.054	-0.365	-0.456	-0.348	0.307	-0.016	-0.005	0.435
AUD	-0.84	-0.593	-0.723	0.652	0.907	-0.501	-0.079	-0.352	-0.664	-0.803	-0.73	0.862
GBP	-0.858	-0.575	-0.744	0.631	0.859	-0.538	-0.127	-0.384	-0.649	-0.72	-0.752	0.869
EUR	-0.99	-0.625	-0.79	0.411	0.712	-0.726	-0.419	-0.662	-0.472	-0.613	-0.758	1

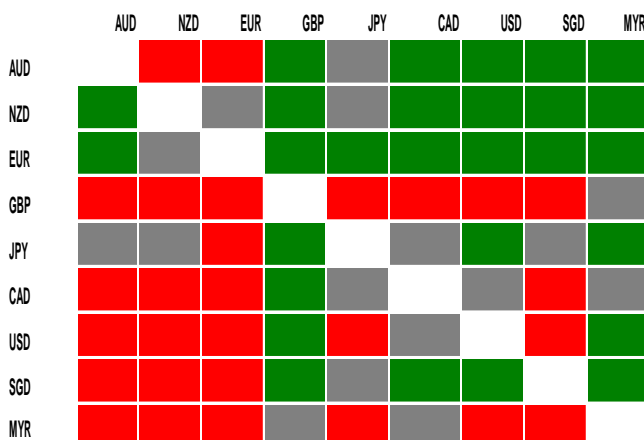
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1432	1.1500	1.1561	1.1585	1.1600
GBP-USD	1.2978	1.3200	1.3229	1.3271	1.3298
AUD-USD	0.7016	0.7041	0.7076	0.7100	0.7235
NZD-USD	0.6406	0.6425	0.6472	0.6500	0.6605
USD-CAD	1.3000	1.3018	1.3050	1.3096	1.3100
USD-JPY	111.83	112.00	112.17	113.00	114.43
USD-SGD	1.3719	1.3800	1.3824	1.3873	1.3875
EUR-SGD	1.5893	1.5900	1.5981	1.5999	1.6000
JPY-SGD	1.2268	1.2300	1.2324	1.2338	1.2400
GBP-SGD	1.8200	1.8278	1.8287	1.8300	1.8308
AUD-SGD	0.9730	0.9737	0.9781	0.9800	0.9926
Gold	1180.00	1182.58	1189.30	1198.08	1200.00
Silver	13.97	14.30	14.31	14.40	14.57
Crude	69.89	72.10	72.19	72.20	76.81

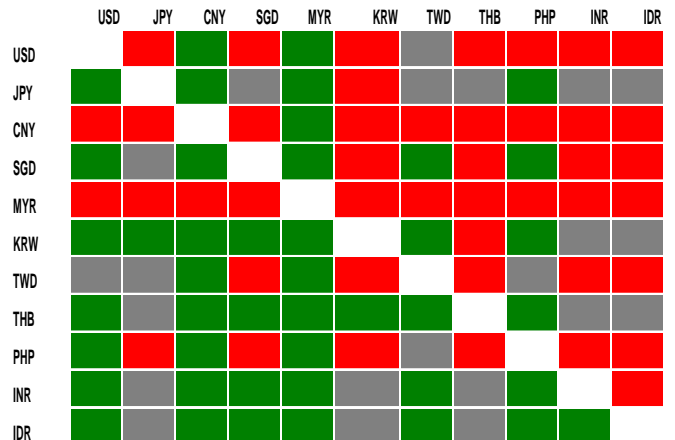
Source: OCBC Bank

### G10 FX Heat Map



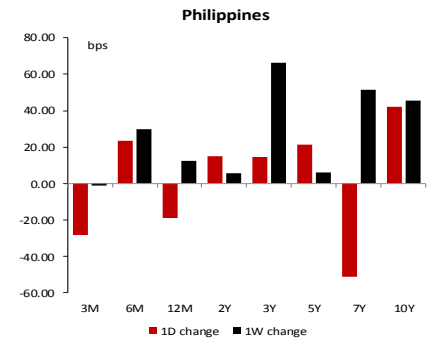
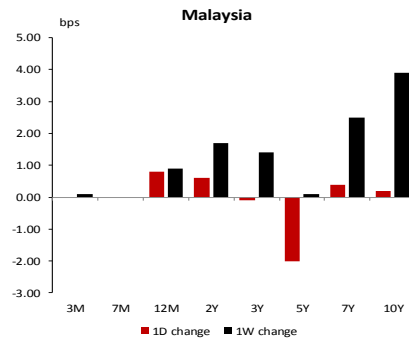
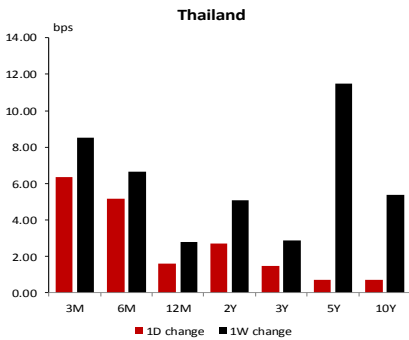
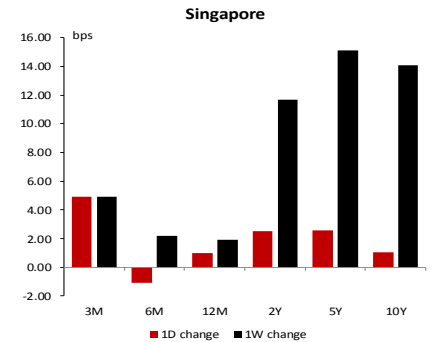
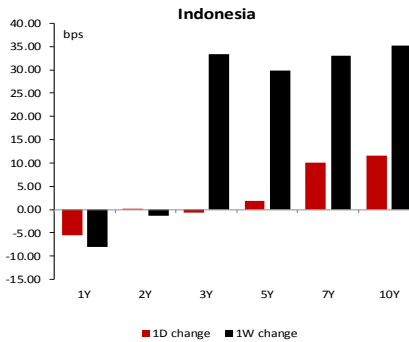
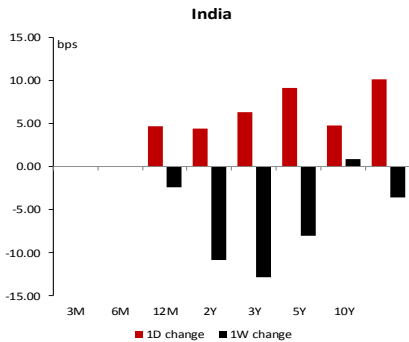
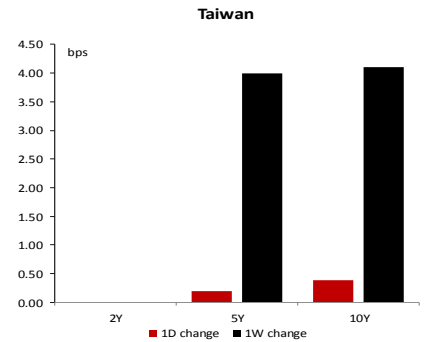
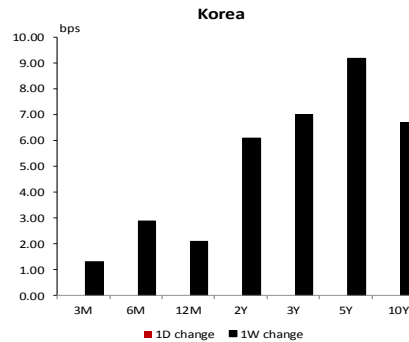
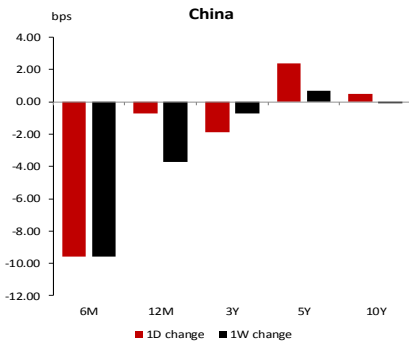
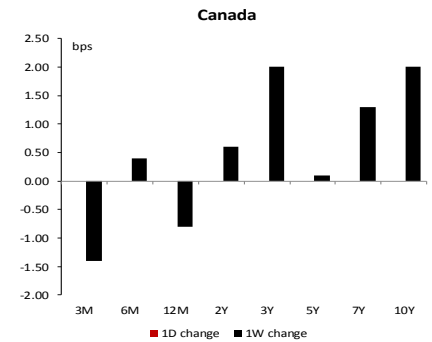
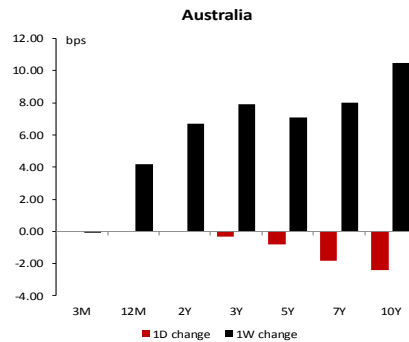
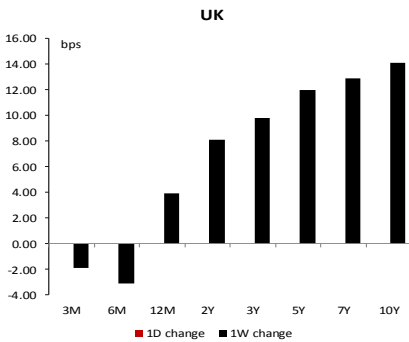
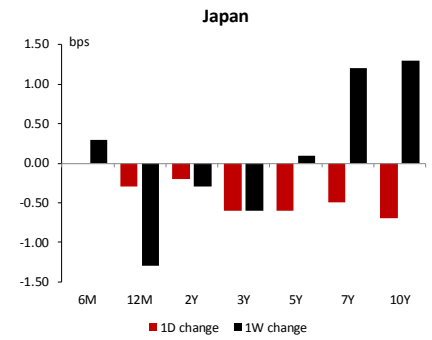
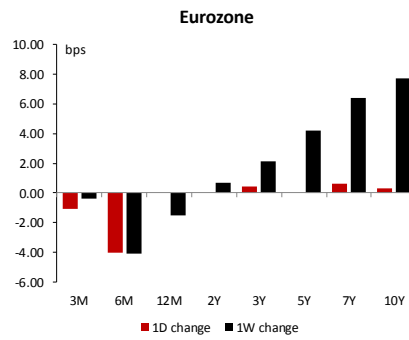
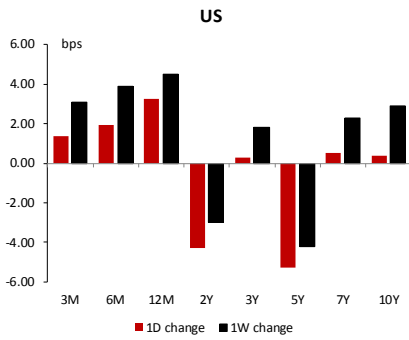
Source: OCBC Bank

### 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	
2	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
4	20-Sep-18	28-Sep-18	B	EUR-USD	1.1702	1.1600	Risk appetite recovery, rate differentials on back burner	-0.87
5	03-Oct-19	10-Oct-18	S	EUR-CAD	1.4845	1.4975	Contrasting dynamics between USMCA and Italy	-0.88
* realized, excl carry								

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