DAILY MARKET OUTLOOK

Monday, November 12, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Negative global equities and souring global sentiment saw the USD gaining across G10 space on Friday with the JPY and CHF outperforming across the board. The GBP was additionally weighed following the resignation of junior transport minister Jo Johnson, who also called for a second referendum.

- Overall, the **DXY** saw a 97.01 high and the Index is floating above the 97.00 handle early Monday in Asia. Structurally, aggregate rate differentials (especially in the front-end) are still holding up in favor of the dollar, with slight risk aversion providing an additional tail wind. Deeper into the week, expect comments from the numerous Fed (**Powell** late Wednesday) and ECB (**Draghi** on Friday) appearances to potentially inflict greater volatility.

- NY is away for a long weekend but expect markets to start the week on a cautious footing. **To this end, implicit vulnerability for the EUR (Italian budget deadline on Tue) and GBP (Brexit-May-Parliament nexus this week) are expected to persist, especially on the JPY-crosses.** On the data front, look to CPI prints in the US and Europe, German and EZ 3Q GDP prints (Wed) and US industrial production (Fri).

- **In addition, if global unease towards macroeconomic prospects (watch China data points this week) continues to accumulate, expect the cyclicals and EM/Asia to increasingly come under scrutiny.** Note that WTI ended south of 60.00 on Friday with major govie yield curves (including US Treasuries) also softer on the day. Meanwhile, the **FX Sentiment Index (FXSI)**, ticked higher on Friday but still ended lower on the week, while remaining in Risk-Neutral zone.

- On the **CFTC** front, large non-commercial accounts increased their net long dollar bias in the latest week but asset manager accounts increased their net short dollar bias. Note that this set of readings exclude the US midterms outcome. Leveraged accounts meanwhile also increased their net implied long dollar bias in the latest week, and these accounts are likely to have hustled deeper into dollar longs by the end of last week.

- With the DXY continuing to base build and the slight dollar tailwind post the latest FOMC, we look potentially for further near term upside in the **USD-JPY**. From a spot ref of 113.88 on Friday, we target 115.55 on a tactical horizon and place a stop at 113.00.

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Asian FX

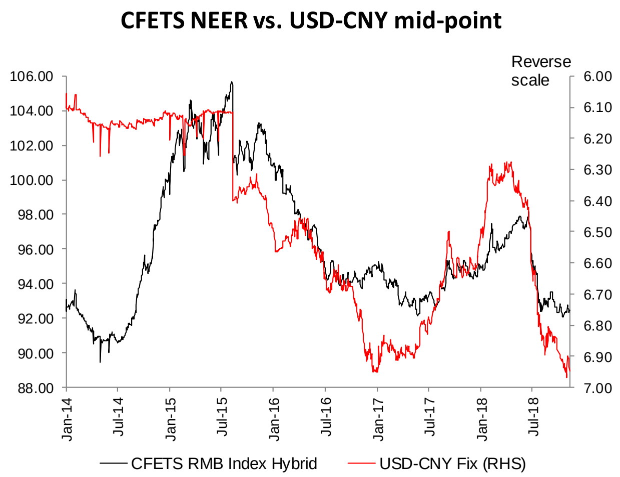
- Global EM equities stepped lower for a second consecutive session on Friday and in the current global landscape, expect underlying caution to prevail in the region at the onset of the week. Several Asian central banks convene this week (**BOT** on Wednesday, **BSP** and **Bank Indonesia** on Thursday) but barring acute risk aversion, we'd expect some dialing down of perceived hawkishness.

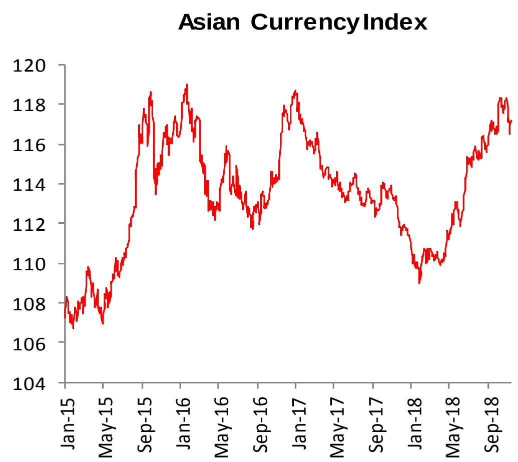
- China's Oct CPI numbers came in as expected at 2.5% yoy while the PPI moderated as expected to +3.3% yoy from +3.6% yoy the previous month. This week, China's Oct monetary aggregates are due and these may continue to form a focal point for global growth prospects. On this front, note that the PBOC's quarterly monetary policy report focused less on inflation risks and instead focused more on buffering downside risks.

- **EPFR** data showed a significant increase in implied net inflows into Asian (ex Japan, China) equities, while bond outflows moderated. **Actual net portfolio flows** meanwhile denote a net inflow environment for South Korea and further outflow compression in Taiwan. Indonesia meanwhile continues to demonstrate improving inflows (on the back of surging bond inflows). Thailand's net outflows blipped lower, with bond outflows outweighing the attempted recovery in equity outflows.

- **SGD NEER**: The SGD NEER remains firm at +1.39% above its perceived parity (1.3978). The NEER-implied USD-SGD thresholds firmed further from last week. USD-SGD downside looks protected, with the +1.50% threshold (1.3772) still holding. Expect intra-day range resistance near 1.3812.

- **CFETS RMB Index**: This morning, the **USD-CNY** mid-point was set higher, as than expected, at 6.9476 compared to 6.9329 on Friday. The CFETS RMB Index firmed slightly to 92.48 from 92.37 previously.





Source: OCBC Bank, Bloomberg

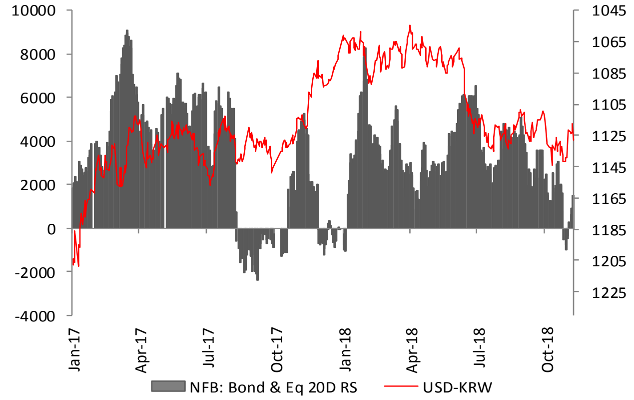
Short term Asian FX/bond market views

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. PBOC's quarterly monetary policy report sounding accomodative. 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". October CPI/PPI prints remain subdued, with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not protend aggressive monetary stimulus. October official PMIs disappoint, Caixin manufacturing PMI static, Oct trade numbers outperformed.
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. Some CBRC members looking towards policy normalazation to aford the authority eventual downside wiggle room. 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, and lowering its inflation forecasts. Policy meeting minutes not perceived to be unduly hawkish. Watch for the next RBI board meeting on 19th 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 November,highlighting the drag from the fiscal front. A frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in) will be expected to exert downside pressure on the MYR and govies.
USD-IDR	↓	IDR rebound reduces the pressure on the BI to hike further. Ongoing strong demand from foreigners for ID govt bonds. 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, keeping curves relatively supported. 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 towards 1Q 2019. BOT meeting scheduled on Wed, 14 Nov.
USD-PHP	↓	BSP may ease off rate hikes in the interim, as inflation appeared to be reined in. Official rhetoric continues to point towards lower inflation prints in the coming months. Sep monetary aggregates moderate. 3Q GDP prints below expectation on slower consumer spending.

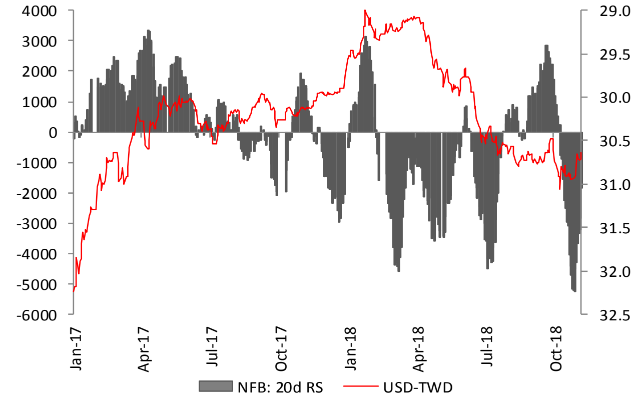
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

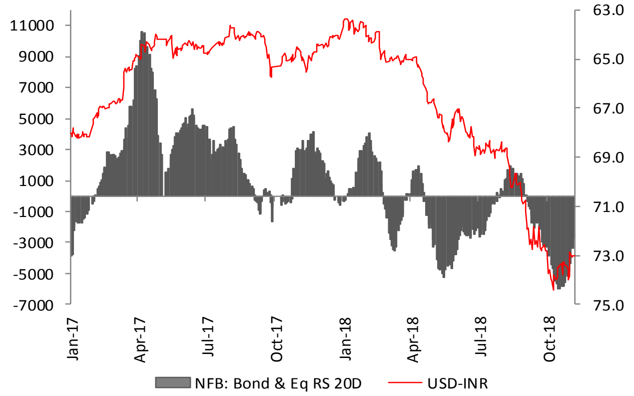
South Korea



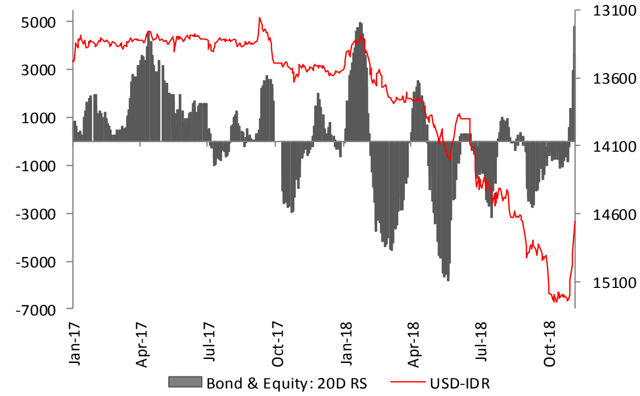
Taiwan



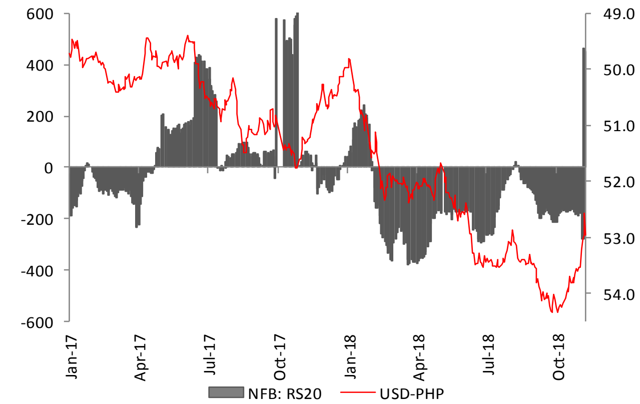
India



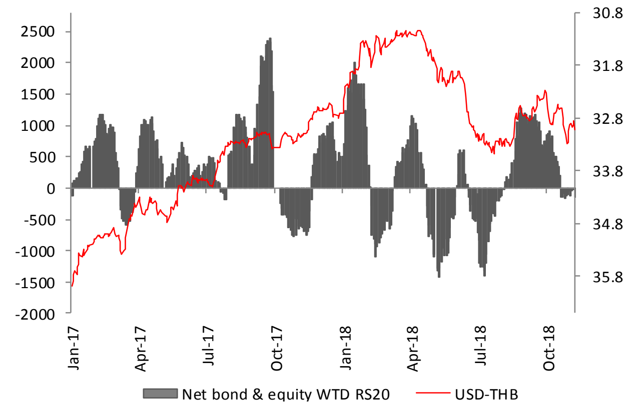
Indonesia



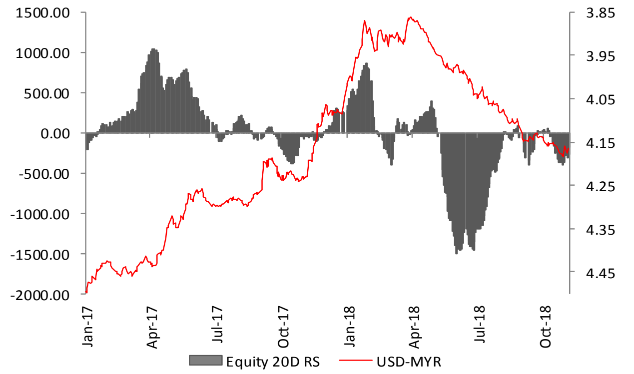
Philippines



Thailand

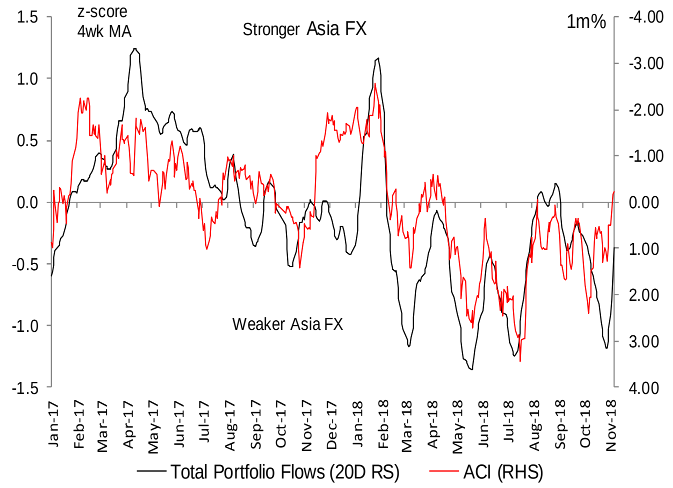


Malaysia



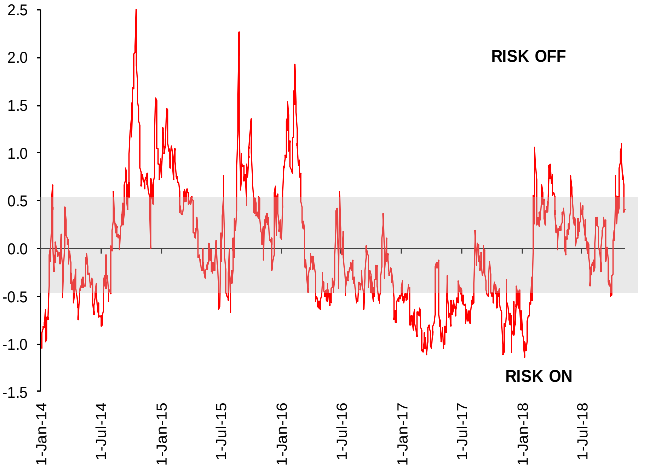
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1	-0.184	0.595	-0.479	-0.357	-0.832	0.567	-0.697	0.304	0.157	0.571	-0.987
SGD	0.89	0.141	0.354	-0.164	-0.018	-0.926	0.783	-0.848	-0.067	-0.238	0.296	-0.904
CHF	0.829	0.137	0.458	-0.178	-0.038	-0.837	0.7	-0.798	-0.018	-0.121	0.406	-0.825
IDR	0.813	-0.465	0.672	-0.59	-0.588	-0.709	0.327	-0.555	0.416	0.29	0.591	-0.819
CNH	0.809	-0.533	0.591	-0.683	-0.637	-0.639	0.161	-0.4	0.535	0.365	0.584	-0.797
MYR	0.595	-0.521	1	-0.467	-0.67	-0.267	-0.002	-0.011	0.47	0.533	0.948	-0.567
THB	0.571	-0.586	0.948	-0.552	-0.77	-0.193	-0.059	0.032	0.579	0.621	1	-0.534
JPY	0.567	0.626	-0.002	0.401	0.496	-0.79	1	-0.87	-0.572	-0.698	-0.059	-0.573
CAD	0.46	-0.668	0.841	-0.637	-0.742	0.008	-0.287	0.259	0.657	0.797	0.863	-0.418
INR	0.205	0.702	-0.411	0.563	0.669	-0.614	0.84	-0.809	-0.696	-0.882	-0.426	-0.245
KRW	0.137	-0.866	0.59	-0.666	-0.868	0.191	-0.617	0.407	0.722	0.874	0.643	-0.113
USGG10	0.11	0.689	-0.513	0.588	0.674	-0.538	0.764	-0.743	-0.711	-0.889	-0.532	-0.156
TWD	-0.08	-0.792	0.526	-0.546	-0.774	0.461	-0.781	0.674	0.688	0.895	0.584	0.126
CNY	-0.184	1	-0.521	0.82	0.925	-0.146	0.626	-0.373	-0.842	-0.836	-0.586	0.178
PHP	-0.253	-0.679	0.25	-0.52	-0.591	0.657	-0.857	0.816	0.64	0.834	0.3	0.302
NZD	-0.273	-0.357	0.377	-0.081	-0.395	0.475	-0.576	0.654	0.233	0.482	0.4	0.285
AUD	-0.275	-0.583	0.466	-0.444	-0.651	0.591	-0.774	0.79	0.632	0.823	0.471	0.327
GBP	-0.53	-0.484	-0.022	-0.238	-0.348	0.858	-0.898	0.939	0.411	0.662	0.043	0.562
EUR	-0.749	0.686	-0.766	0.822	0.799	0.339	0.062	0.093	-0.744	-0.715	-0.797	0.714
	-0.987	0.178	-0.567	0.453	0.332	0.852	-0.573	0.732	-0.265	-0.1	-0.534	1

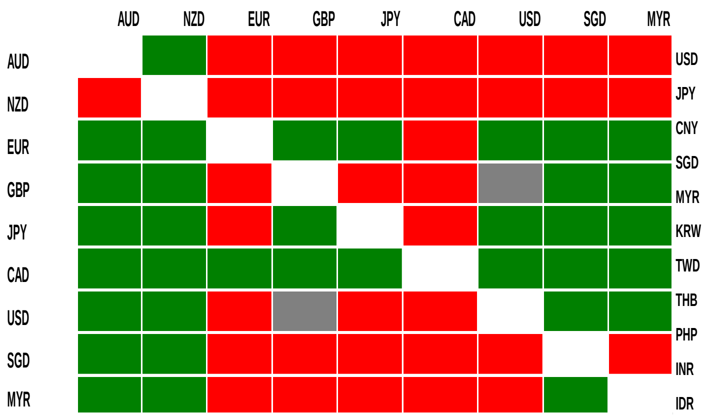
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1302	1.1329	1.1400	1.1534
GBP-USD	1.2710	1.2900	1.2940	1.3000	1.3033
AUD-USD	0.7161	0.7200	0.7233	0.7293	0.7300
NZD-USD	0.6584	0.6700	0.6747	0.6797	0.6800
USD-CAD	1.3041	1.3100	1.3185	1.3200	1.3217
USD-JPY	112.64	113.00	113.98	114.00	114.12
USD-SGD	1.3714	1.3758	1.3784	1.3800	1.3860
EUR-SGD	1.5595	1.5600	1.5616	1.5700	1.5869
JPY-SGD	1.2034	1.2045	1.2093	1.2100	1.2215
GBP-SGD	1.7596	1.7800	1.7837	1.7900	1.7931
AUD-SGD	0.9852	0.9900	0.9970	1.0000	1.0010
Gold	1209.71	1211.43	1211.60	1239.30	1240.18
Silver	14.08	14.10	14.17	14.19	14.20
Crude	59.26	60.70	60.75	60.80	67.36

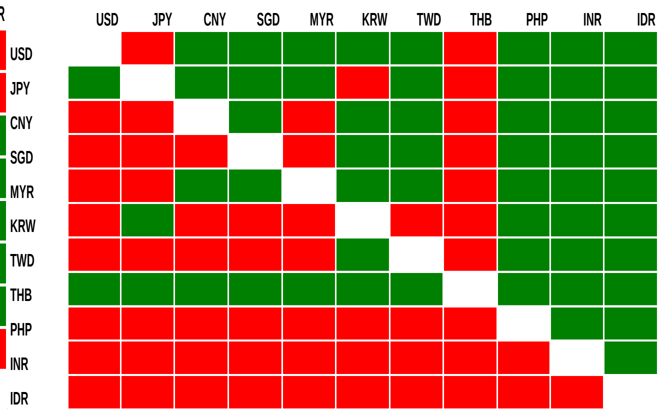
Source: OCBC Bank

G10 FX Heat Map



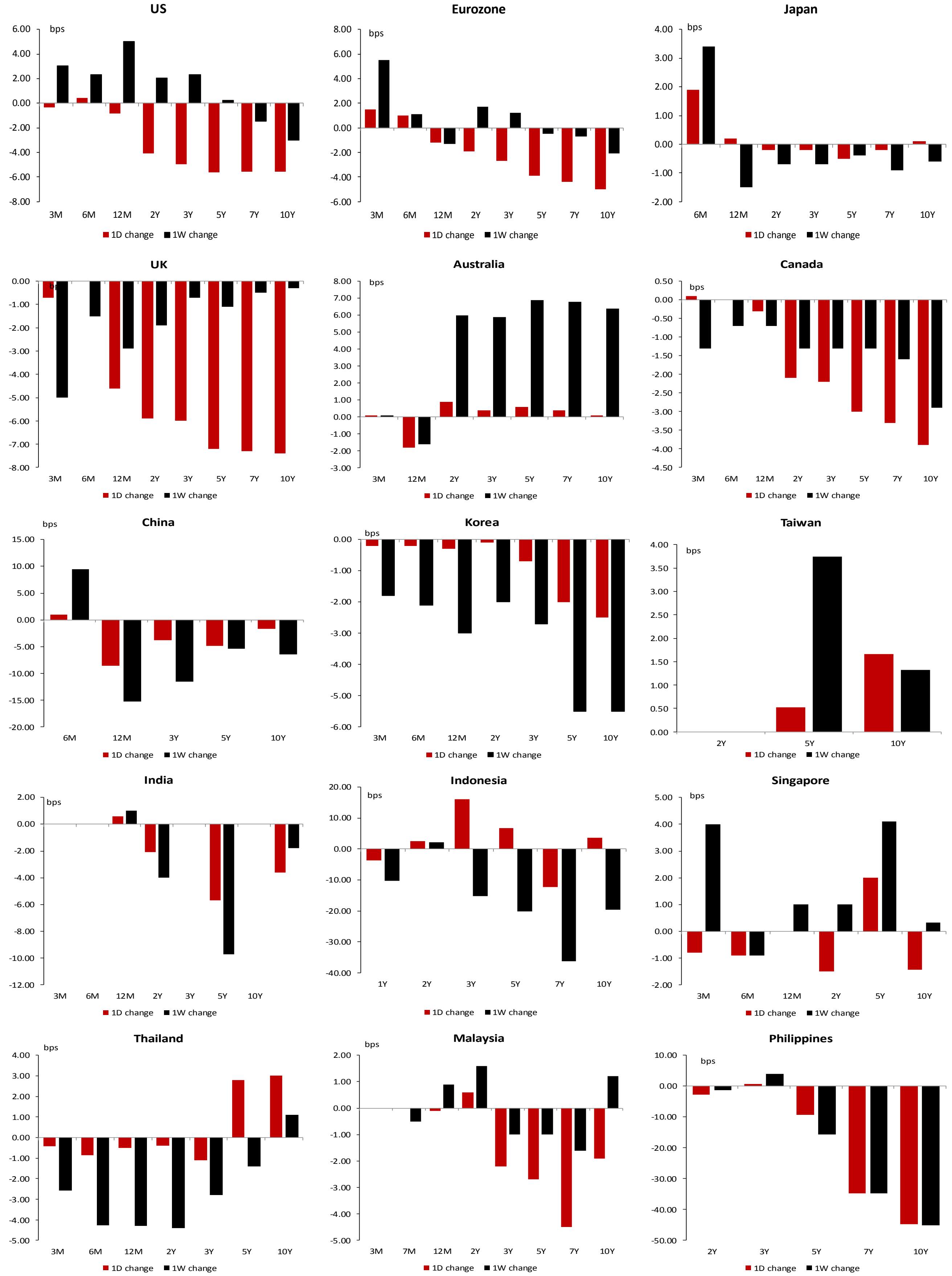
Source: OCBC Bank

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	
2	08-Nov-18		B	AUD-USD	0.7286	0.7455	0.7200	Improving risk appetite post US midterms	
3	09-Nov-18		B	USD-JPY	113.88	115.55	113.00	Rate differential support for the USD, epecially post-FOMC	
	STRUCTURAL								
	-		-	-	-	-	-	-	
	RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)*
1	11-Sep-18	24-Oct-18	B	GBP-USD	1.3056		1.2920	Positoning ahed of BOE MPC and positivty from Brexit news flow	-1.04
2	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
3	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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