

Friday, October 12, 2018

FX Themes/Strategy/Trading Ideas – Equity and USD slump

- The DXY decayed lower to the 95.00 support (94.987 low) on Thursday as global equities continued to melt. The dollar was taken lower on weaker than expected the US Sep CPI readings, and ostensibly amidst ongoing positioning lightening (away from the greenback). 10y UST yields also dipped to 3.146% on the soft CPI as well as a reaction to equity weakness.
- On the back of equity declines, the **FX Sentiment Index (FXSI)** jumped significantly and waded into Risk-Off territory from Risk-Neutral territory. Despite some signs of stabilization in early Asian trade this morning, expect investor jitters to prevail into the end of the week. **Note however, that the JPY is not catching much of the usual flight to safety bid.**
- **In the near term, a risk-off environment and USD vulnerability may continue to coexist uneasily** – a shift away from the seen correlation in the recent past months. The search for a convincing argument for this regime shift is still ongoing. At this juncture, it appears that a re-assessment of sorts may be underway, with a corresponding shift in global portfolio positioning.
- **Specifically, investors we think may have gotten slightly less enamored (see ED calendar spreads) with respect to a hawkish Fed trajectory and US economic/inflation prospects relative to outstanding positioning in US equities and Treasuries.** In a nutshell, we think it's a dollar-centric narrative for FX at this juncture, while the equity rout may continue to run on a slightly more detached route (for now).
- Despite the market upheavals (and Trump attacks), the overall Fed stance appear to have remained little changed, with George the latest of Fed speakers to re-affirm the “further gradual increases” prognosis. Nevertheless, note that slight decline in terms of market-implied probabilities for the upcoming rate hikes. Watch for further comments from Evans (1330 GMT) and Bostic (1630 GMT) today. On the data front today, catch German CPI (0600 GMT), EU-aggregate IP (0900 GMT) and US UMich sentiments (1400 GMT).

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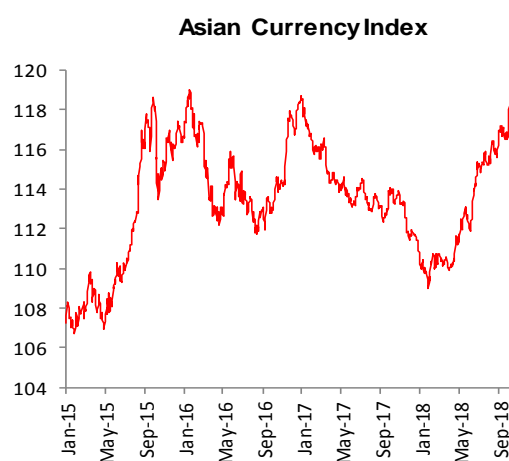
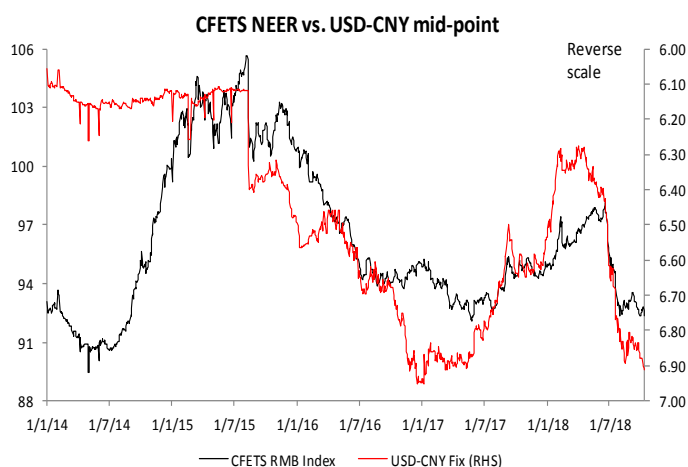
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Asian FX

- Widespread USD vulnerability was also accompanied by the USD-CNH crashing to lows around 6.8720 overnight but note the bounce in Asia this morning. Not much additional RMB support from the morning fix either, coming in at 6.9120, higher than consensus estimates.
- Nevertheless, USD-Asia is expected to remain broad heavy in tandem with the DXY weakness, temporarily suspending the usual correlation with the still dour net portfolio environment across most of the region.
- Note also some attempt at stabilization in Asian equities on Friday morning in Asia (despite EM equities weaker again overnight), with softer crude overnight another positive crutch for Asian FX. Elsewhere, expect Asian curves to also take cues (softer bias in terms of yields) from the majors, as has been the case in the last few sessions.
- **SGD NEER:** The SGD NEER powered higher to +1.30% above its perceived parity (1.3919) this morning, with NEER-implied USD-SGD thresholds taken lower on broad dollar weakness. Note that the MAS decided to “increase slightly” the SGD NEER policy band, acknowledging that the Singapore economy “has largely evolved as envisaged”. A more detailed write-up to follow.
- **CFETS RMB Index:** The USD-CNY mid-point this morning came in higher than expectations at 6.9120, compared to 6.9098 previously. The CFETS RMB Index, understandably, was taken lower to 92.38, compared to 92.64 at yesterday’s fix.



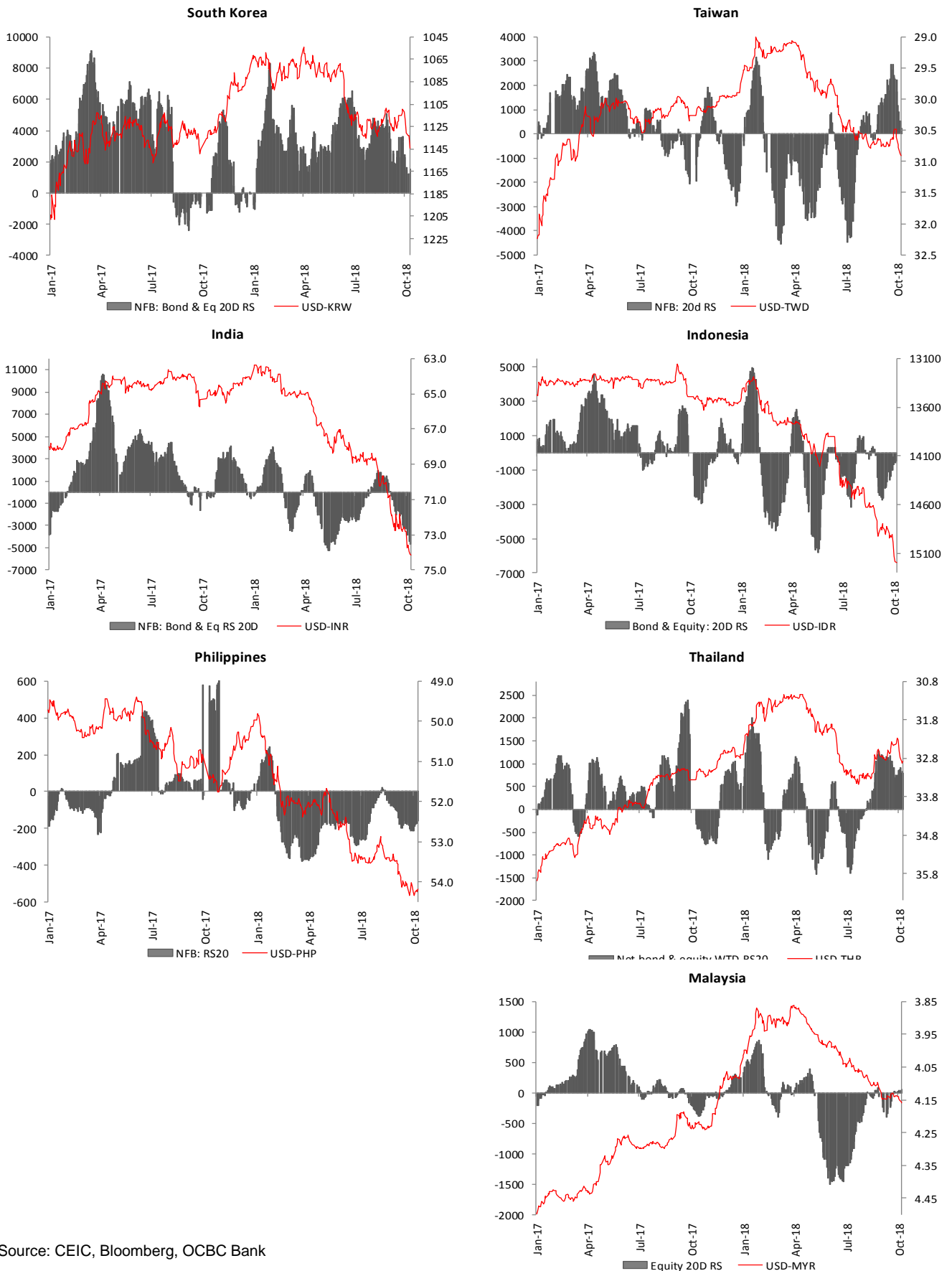
Source: OCBC Bank, Bloomberg

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.

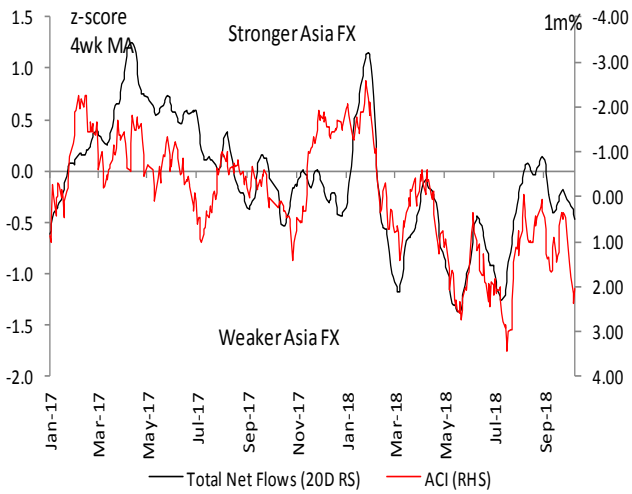
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



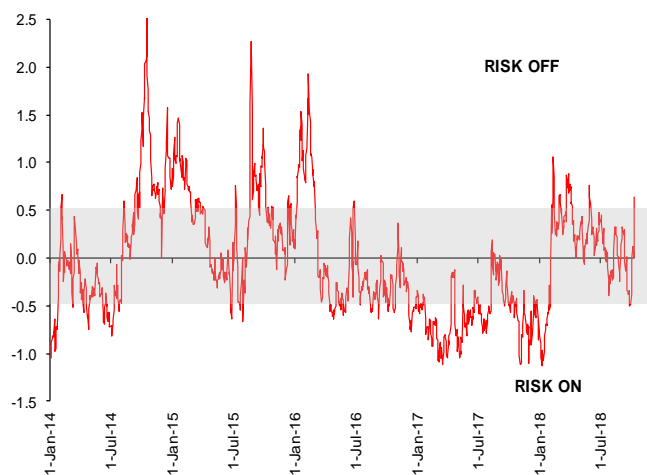
Source: CEIC, Bloomberg, OCBC Bank

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	0.658	0.819	-0.253	-0.531	0.777	0.537	0.717	0.334	0.495	0.777	-0.991
SGD	0.927	0.784	0.877	-0.413	-0.636	0.863	0.518	0.733	0.501	0.5	0.807	-0.93
CHF	0.877	0.714	0.8	-0.472	-0.756	0.65	0.224	0.487	0.55	0.703	0.763	-0.905
IDR	0.819	0.851	1	-0.489	-0.62	0.863	0.435	0.785	0.616	0.465	0.961	-0.802
CNH	0.777	0.752	0.961	-0.346	-0.49	0.727	0.485	0.665	0.477	0.386	1	-0.763
MYR	0.77	0.877	0.891	-0.589	-0.809	0.807	0.39	0.637	0.697	0.592	0.81	-0.781
THB	0.703	0.877	0.864	-0.601	-0.819	0.772	0.296	0.599	0.719	0.612	0.802	-0.719
JPY	0.658	1	0.851	-0.305	-0.548	0.823	0.544	0.711	0.444	0.277	0.752	-0.653
CAD	0.561	0.537	0.669	-0.705	-0.897	0.399	-0.191	0.136	0.725	0.856	0.506	-0.626
INR	0.537	0.544	0.435	0.326	0.154	0.719	1	0.859	-0.216	-0.334	0.485	-0.46
KRW	0.44	0.453	0.698	-0.608	-0.814	0.251	-0.338	-0.006	0.65	0.779	0.474	-0.499
USGG10	0.297	0.523	0.446	-0.8	-0.941	0.287	-0.344	-0.046	0.806	0.814	0.307	-0.4
TWD	0.26	0.504	0.531	-0.11	-0.233	0.585	0.41	0.515	0.213	-0.045	0.496	-0.226
CNY	0.126	0.331	0.38	-0.754	-0.871	0.055	-0.454	-0.216	0.775	0.786	0.113	-0.205
PHP	-0.207	-0.164	0.289	-0.534	-0.328	-0.452	-0.67	-0.62	0.471	0.381	0.063	0.151
NZD	-0.478	0.049	0.066	-0.455	-0.278	-0.37	-0.571	-0.476	0.45	0.186	-0.112	0.42
AUD	-0.831	-0.655	-0.743	0.519	0.781	-0.55	-0.13	-0.366	-0.576	-0.754	-0.704	0.86
GBP	-0.848	-0.656	-0.777	0.516	0.752	-0.603	-0.19	-0.409	-0.577	-0.687	-0.73	0.87
EUR	-0.991	-0.653	-0.802	0.312	0.589	-0.755	-0.46	-0.676	-0.384	-0.56	-0.763	1

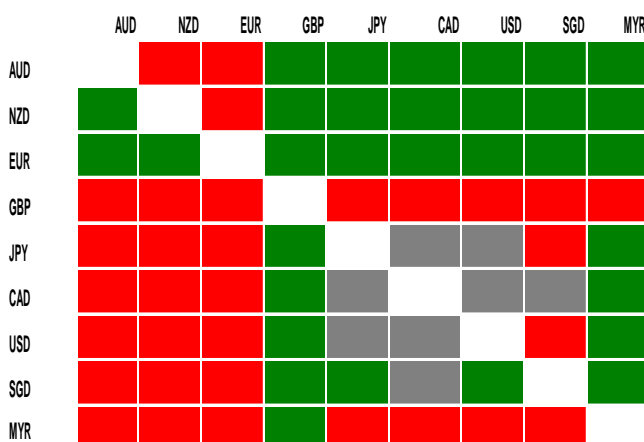
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1586	1.1600	1.1605	1.1700	1.1815
GBP-USD	1.2983	1.3200	1.3235	1.3287	1.3298
AUD-USD	0.7041	0.7100	0.7128	0.7200	0.7231
NZD-USD	0.6425	0.6500	0.6522	0.6600	0.6602
USD-CAD	1.3000	1.3018	1.3028	1.3092	1.3100
USD-JPY	111.85	112.00	112.34	113.00	114.42
USD-SGD	1.3700	1.3719	1.3739	1.3800	1.3866
EUR-SGD	1.5896	1.5900	1.5944	1.5999	1.6000
JPY-SGD	1.2003	1.2200	1.2230	1.2231	1.2265
GBP-SGD	1.8100	1.8106	1.8183	1.8200	1.8282
AUD-SGD	0.9729	0.9737	0.9793	0.9800	0.9920
Gold	1200.00	1219.11	1221.60	1224.60	1278.25
Silver	14.56	14.60	14.62	14.70	14.81
Crude	69.91	71.30	71.31	71.40	76.65

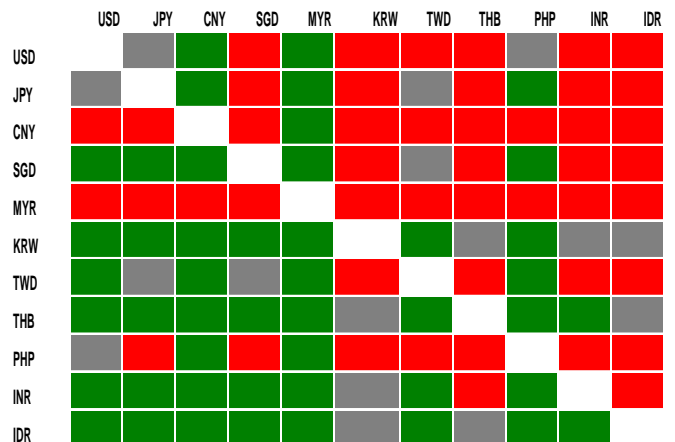
Source: OCBC Bank

G10 FX Heat Map



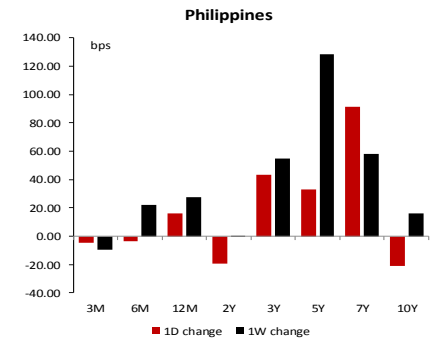
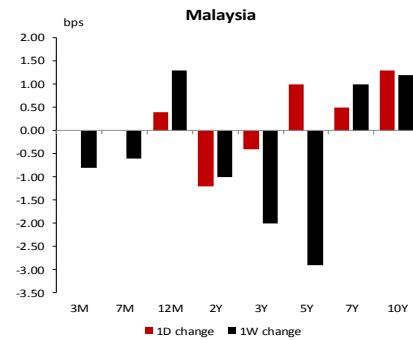
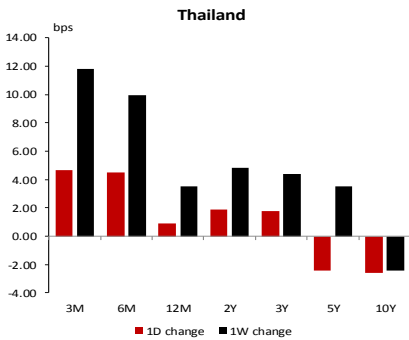
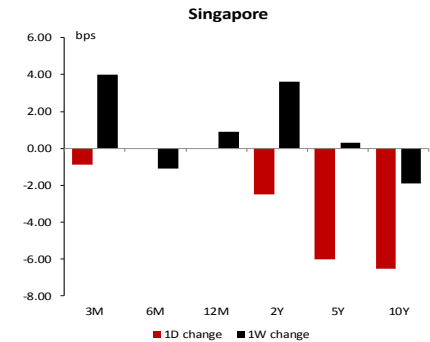
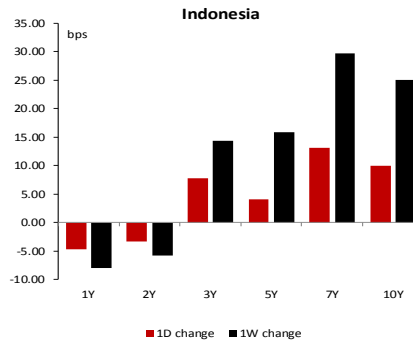
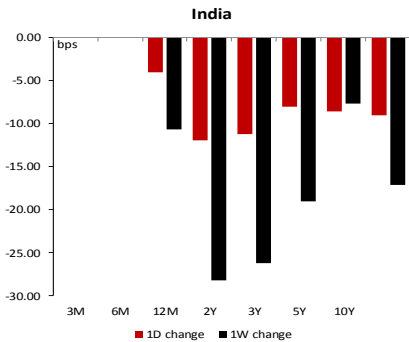
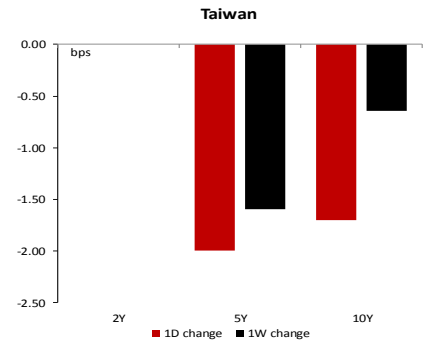
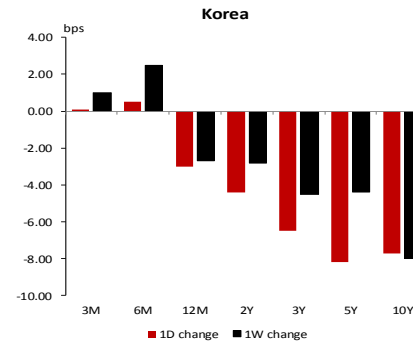
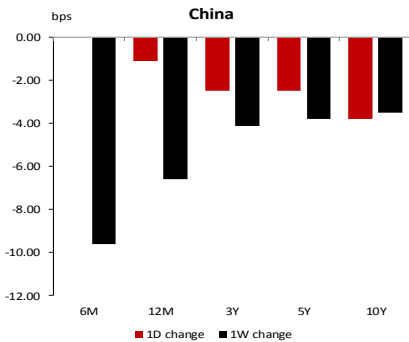
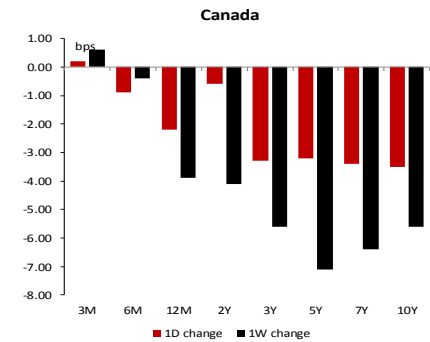
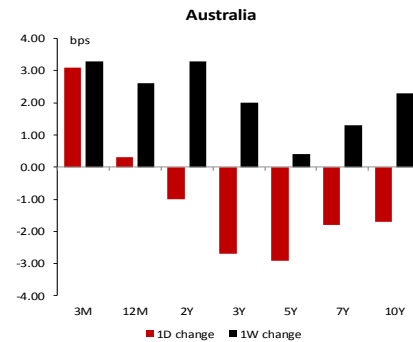
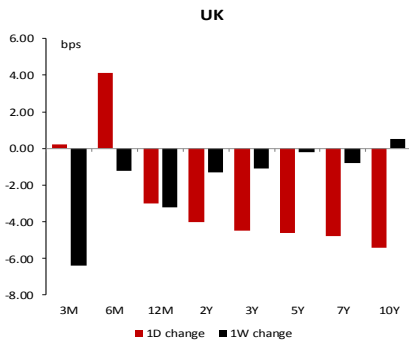
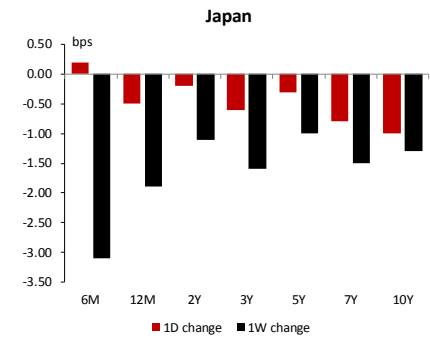
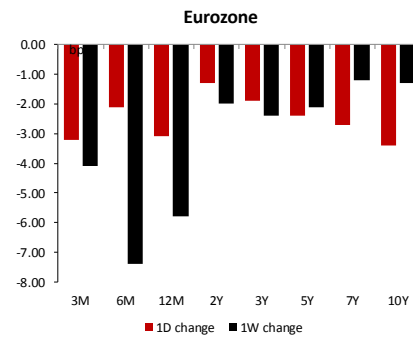
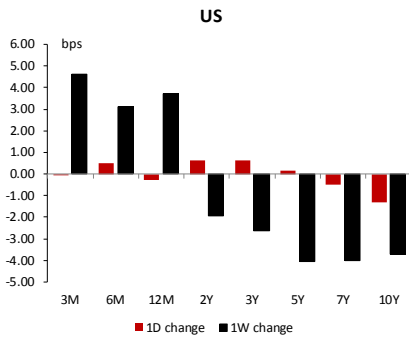
Source: OCBC Bank

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	
2	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
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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