

Thursday, December 13, 2018

**FX Themes/Strategy/Trading Ideas**

- Despite firmer UST yields along the curve (Nov US CPI readings were within expectations), the USD leaked lower on Wednesday with the GBP leading the way higher (and gilts softened) after PM May survived a no confidence vote within the Conservative Party (note 1/3 voted against her). Apart from GBP positivity, the EUR was also bumped higher after Italy lowered its budget deficit target for 2019 in its latest draft.
- Elsewhere, despite softer commodities, brighter investor sentiment derived from positive equities, moderating Sino-US tensions (confirmed increase in Chinese soybean purchases), and higher global yields left the AUD-USD circulating above the 0.7200 handle. Overall, the **DXY** settled near 97.044 and we expect the Index to continue to orbit the 97.00 handle in the near term.
- With global equities on the mend on Wednesday, the **FXSI (FX Sentiment Index)** fell noticeably on Wednesday, with the Index however still in Risk-Off territory.
- Principle headline risks may emanate from the **ECB** meeting at 1245 GMT today (**Draghi's** press conference at 1330 GMT) with markets looking for softer macro forecasts, a formal declaration of the cessation of its asset purchase program, as well as any communication surrounding its reinvestment intentions or the TLTROs. Look especially also towards any forward guidance with respect to eventual rate hikes, with some market participants now having pushed out the first ECB rate hike to 2020.
- **Ahead of the ECB today, expect the EUR-USD to remain slightly supported on dips, the GBP-USD to continue to attempt to base build (watch for EU Summit headlines today and tomorrow), while AUD-USD doesn't look out of the woods just yet and prefer to range trade the pair instead of pursuing the pair higher. Accumulate USD-JPY on dips in view of slightly improved risk appetite levels and more supportive US yields.**

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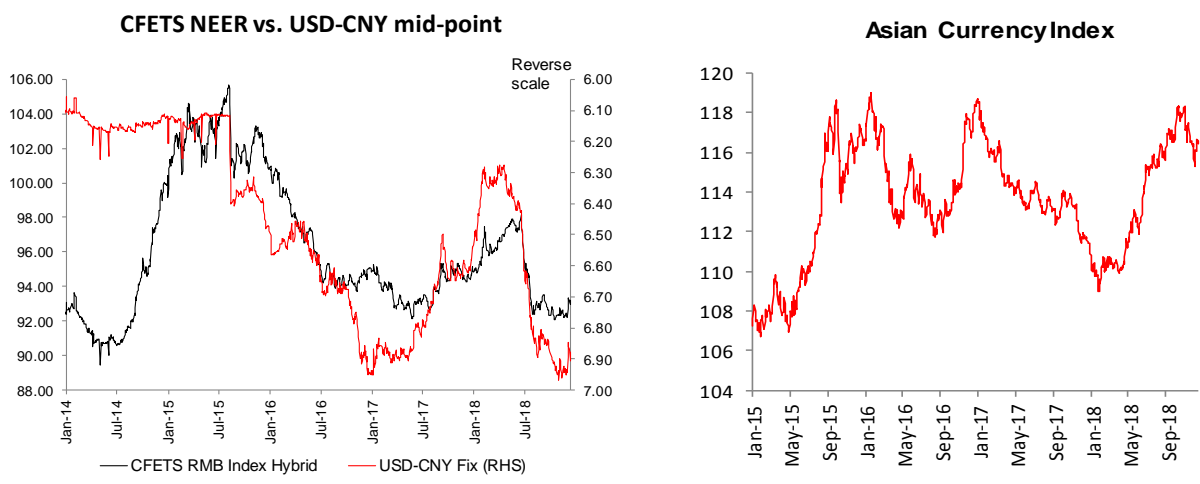
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### Asian Markets

- EM equities in aggregate ended higher for the second consecutive session on Wednesday and this may continue to fuel positive sentiment in Asia intra-day. With USD-CNH deflation overnight, expect USD-Asia to follow suit intra-day. From a multi-session horizon,
- Note that **CNH** short-end (1M) riskies have continued to deflate with vol premia compressing on the back of firmer realized. However, we do not expect the authorities to grant free reign to realized volatility, with vol premia at the 2M, 3M part of the curve relatively stable at this juncture.
- **Philippines:** Expect the BSP to remain static today at its policy meeting with actual inflation prints and latest official rhetoric softening.
- On the **portfolio flow** front in Asia, South Korea has bounced back into a net inflow environment while net outflows for Taiwan remain significant. India meanwhile, despite the recent volatile headlines, is still demonstrating net positive inflows, while Indonesia’s net inflows continue to moderate lower. Meanwhile, Thailand is still printing increasing net inflows.
- **SGD NEER:** The SGD NEER softened over the course of yesterday, and now stands at around +1.91% above its perceived parity (1.3985). NEER-implied USD-SGD thresholds are also softer. On an intraday basis, expect the USD-SGD to fluctuate on either side of the 100-day MA (1.3731), with the 1.3700 level attracting for now. Expect range trading behavior to persist.
- **CFETS RMB Index:** The **USD-CNY** mid-point was set lower, as expected, at 6.8769 compared to 6.9064 on Wednesday. The CFETS RMB Index stepped higher again to 93.19, compared to 93.01 previously. On the Sino-US trade front, we continue to urge against excessive optimism, as recent positive headlines (auto tariffs and tech developments) have originated from the US side, without corroboration (as yet) from the Chinese.



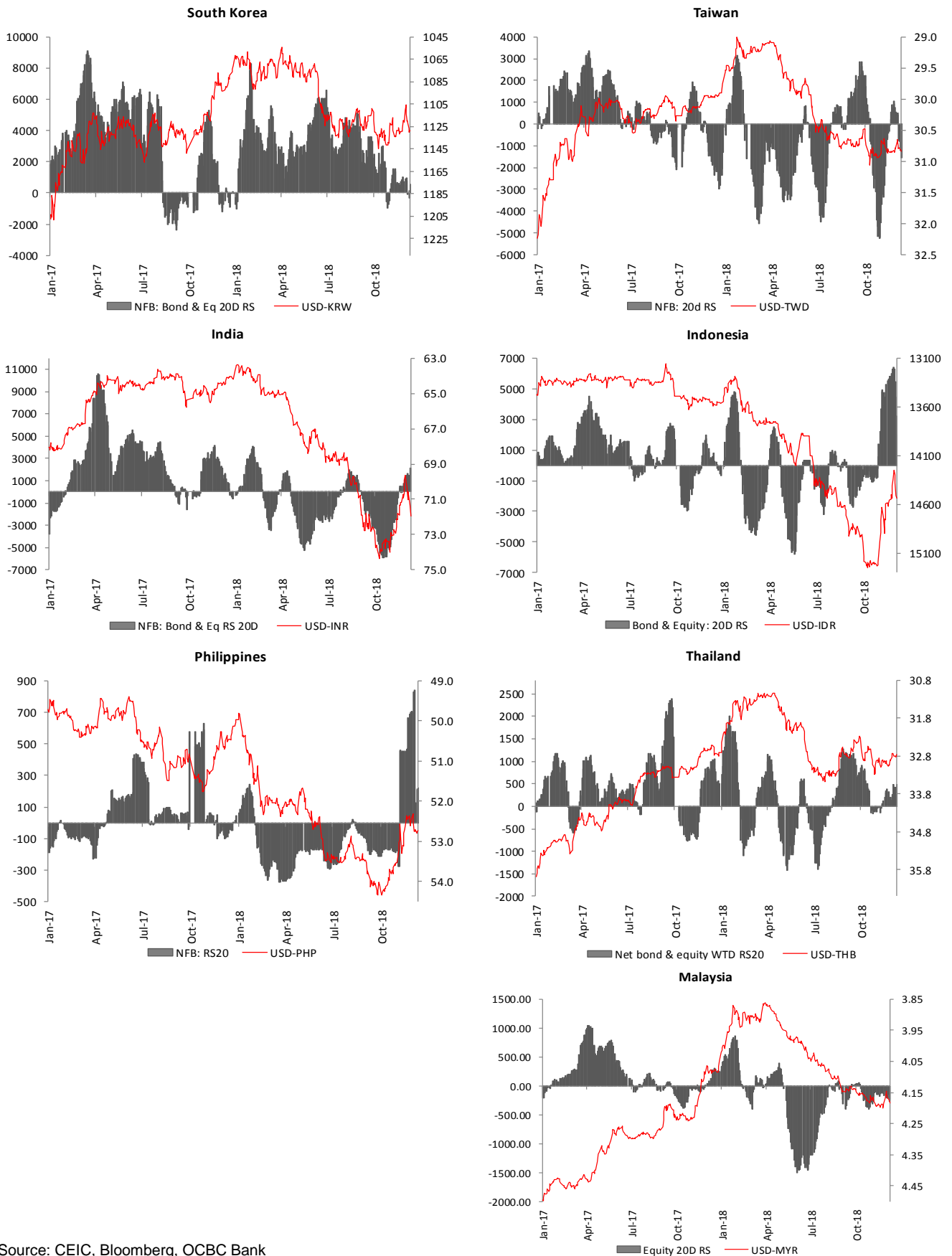
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	Beijing taking actions (soybeans) to implement the Xi-Trump trade truce, adding to market positivity over a thawing of tensions. 3Q GDP numbers "disappointed". PBOC's quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. Nov CPI/PPI and official PMI prints underperform. Nov monetary aggregates indicate some stabilization after the recent deterioration but govie and NDIRS curve may remain soggy.
USD-KRW	↔	BOK hiked 25bps as expected in November with the hike characterized as a one-off dovish hike by markets. 3Q GDP and Oct industrial production readings came in lower than expected. Nov CPI prints also in-line to softer. KTB and NDIRS curves firmer on the week.
USD-TWD	↔/↓	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Some CBC members looking towards policy normalization to afford the authority eventual downside wiggle room.
USD-INR	↔	A miss on Nov CPI adds on to the softer than expected 3Q GDP print. RBI static in Dec, with accompanying rhetoric signaling a pull back of rate hike expectations if inflation does not materialise (inflation forecasts revised lower). Brewing political uncertainty, after the loss in three key state elections, ahead of the 2019 nationwide elections. First comments by new RBI governor served to allay fears on RBI independence, but suggest some dovish inclinations. Govie and NDIRS yields softer so far this week in response.
USD-SGD	↔	MAS steepens the NEER's slope again in October. With the NEER remains near its upper boundary, expect declines in the pair to track downside in the broad USD, and not as a result of explicit SGD strength. 3Q GDP numbers disappoint. SGS and IRS yields continue to fluctuate with US yields.
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. BNM static in November, highlighting the drag from the fiscal front. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in).
USD-IDR	↔	Note recent outflow pressure for bonds, underpinning govie yields. The Nov hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, with the BI expected to stay pre-emptive and ahead of the curve in 2019. BI resumes intervention at the FX and bond markets.
USD-THB	↔/↓	BOT unchanged at Nov MPC, but shows an inclination towards a Dec hike, rather than Feb. Any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Latest global yield developments may however erode any urgency to normalize monetary policy. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Nov CPI dipped back below the BOT's target range, potentially complicating the Dec rate hike outlook again. Govie yields touch softer but lag softening IRS yields. General elections scheduled for 24 Feb 2019, with clarity on this front possibly supporting investor confidence in Thai equities and bonds.
USD-PHP	↔	BSP hiked rates by another 25 bps in its Nov meeting, aiming to rein in on inflation and pre-empt second round effects. Official rhetoric continues to point towards lower inflation prints in the coming months (Nov CPI cooler than expected), although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending. BSP expected to stand pat in December.

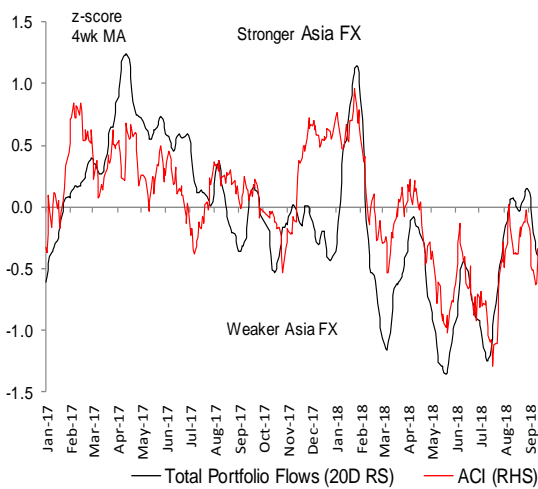
Source: OCBC Bank

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



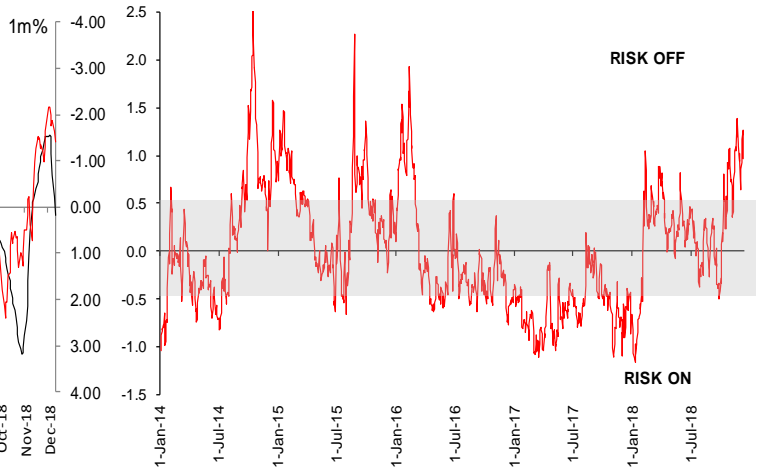
Source: CEIC, Bloomberg, OCBC Bank

**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	ITRXX	CNH	EUR
DXY	1	0.001	0.068	0.053	-0.065	-0.378	<b>0.702</b>	-0.117	-0.051	-0.089	0.136	<b>-0.867</b>
JPY	<b>0.702</b>	0.402	0.424	0.45	0.112	-0.146	1	0.055	-0.451	-0.36	0.397	<b>-0.714</b>
PHP	0.42	<b>-0.705</b>	-0.416	<b>-0.507</b>	-0.27	<b>-0.564</b>	-0.016	<b>-0.611</b>	<b>0.545</b>	<b>0.638</b>	-0.388	-0.152
SGD	0.395	0.207	0.157	0.109	-0.285	0.439	0.369	<b>0.547</b>	0.261	<b>-0.53</b>	0.147	<b>-0.593</b>
CHF	0.385	<b>0.708</b>	<b>0.768</b>	-0.061	<b>-0.57</b>	0.239	<b>0.512</b>	0.488	0.116	<b>-0.625</b>	<b>0.78</b>	<b>-0.604</b>
CAD	0.356	<b>0.744</b>	0.436	0.447	0.063	0.491	<b>0.562</b>	<b>0.719</b>	-0.248	<b>-0.892</b>	0.454	<b>-0.679</b>
THB	0.136	<b>0.767</b>	<b>0.979</b>	0.094	-0.42	0.081	0.397	0.277	-0.177	<b>-0.398</b>	1	-0.317
CNH	0.129	0.427	0.262	-0.236	<b>-0.531</b>	<b>0.553</b>	0.144	<b>0.705</b>	0.369	<b>-0.663</b>	0.253	-0.329
CNY	0.108	<b>0.866</b>	<b>0.89</b>	0.048	-0.425	0.127	0.357	0.369	-0.111	-0.484	<b>0.912</b>	-0.325
INR	0.08	<b>0.58</b>	<b>0.73</b>	-0.3	<b>-0.764</b>	0.165	0.269	0.333	0.223	-0.426	<b>0.727</b>	-0.218
USGG10	0.074	<b>0.557</b>	0.491	-0.23	<b>-0.688</b>	0.451	0.207	<b>0.607</b>	0.389	<b>-0.62</b>	0.485	-0.304
IDR	0.068	<b>0.798</b>	1	0.216	-0.364	0.126	0.424	0.265	-0.276	-0.434	<b>0.979</b>	-0.223
KRW	0.001	1	<b>0.798</b>	0.382	-0.079	0.445	0.402	<b>0.626</b>	-0.357	<b>-0.797</b>	<b>0.767</b>	-0.284
MYR	-0.077	<b>0.712</b>	<b>0.867</b>	0.054	-0.475	0.112	0.361	0.217	-0.185	-0.396	<b>0.818</b>	-0.047
TWD	-0.084	0.48	<b>0.733</b>	-0.353	<b>-0.766</b>	0.071	0.109	0.149	0.241	-0.231	<b>0.727</b>	-0.028
GBP	-0.263	<b>-0.724</b>	<b>-0.712</b>	0.201	<b>0.536</b>	-0.131	-0.325	-0.412	-0.176	<b>0.574</b>	<b>-0.763</b>	0.499
NZD	-0.305	<b>0.78</b>	<b>0.53</b>	0.386	0.049	0.462	0.095	<b>0.527</b>	-0.264	<b>-0.694</b>	<b>0.531</b>	-0.072
AUD	-0.407	0.004	-0.166	<b>0.676</b>	<b>0.8</b>	0.134	-0.11	-0.025	<b>-0.705</b>	0.056	-0.215	0.43
EUR	<b>-0.867</b>	-0.284	-0.223	-0.114	0.081	0.086	<b>-0.714</b>	-0.212	0.007	0.412	-0.317	1

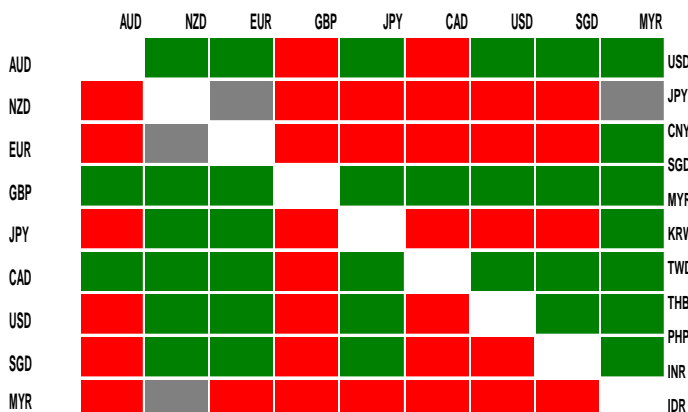
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1290	1.1300	1.1368	1.1400	1.1402
GBP-USD	1.2547	1.2600	1.2619	1.2700	1.2899
AUD-USD	0.7190	0.7200	0.7223	0.7300	0.7360
NZD-USD	0.6800	0.6849	0.6851	0.6900	0.6941
USD-CAD	1.3169	1.3300	1.3360	1.3400	1.3430
USD-JPY	113.00	113.02	113.47	113.94	114.00
USD-SGD	1.3661	1.3700	1.3712	1.3763	1.3778
EUR-SGD	1.5479	1.5500	1.5588	1.5600	1.5693
JPY-SGD	1.2023	1.2035	1.2085	1.2100	1.2179
GBP-SGD	1.7198	1.7300	1.7304	1.7400	1.7754
AUD-SGD	0.9895	0.9900	0.9905	1.0000	1.0017
Gold	1207.05	1222.23	1244.40	1249.80	1250.60
Silver	14.69	14.70	14.73	14.80	14.92
Crude	49.41	51.40	51.41	51.50	56.54

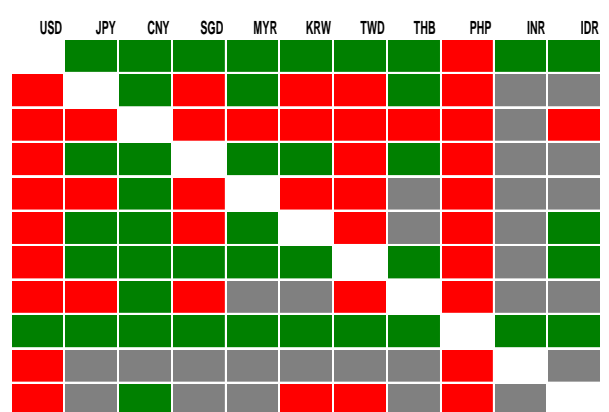
Source: OCBC Bank

**G10 FX Heat Map**



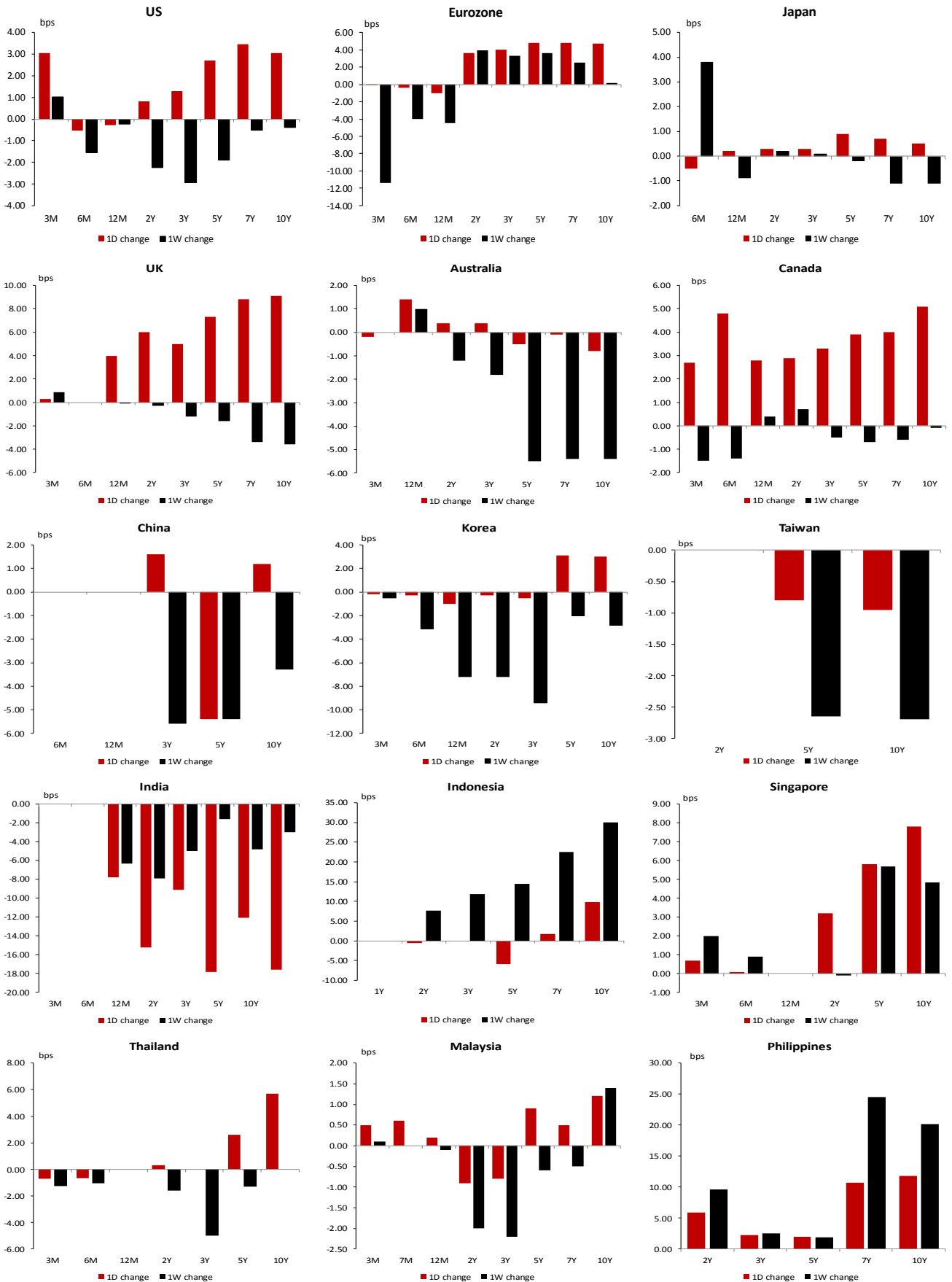
Source: OCBC Bank

**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			
<b>TACTICAL</b>								
1	23-Oct-18	B	3M USD-THB	32.780 33.500 32.400	Vanishing net inflows, firmer USD, fragile risk appetite			
<b>STRUCTURAL</b>								
	-	-	-	-	-			
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%) <sup>*</sup>	
1	13-Nov-18	14-Nov-18	S	EUR-USD	1.1230	1.1035 1.1330	Italian fiscal uncertainty, USD underpinned by FOMC prospects	-0.89
2	09-Nov-18	16-Nov-18	B	USD-JPY	113.88	113.00	Rate differential support for the USD, especially post-FOMC	-0.77
* realized, excl carry								

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