

Tuesday, November 13, 2018

**FX Themes/Strategy/Trading Ideas**

- The greenback continued to grind higher against its peers with the European complex beset with fiscal (Italy) and Brexit (Cabinet meeting cancelled) concerns weighed on the EUR and the GBP. Even the cyclicals were not spared with the AUD, NZD, and CAD also retreating against the USD while the JPY outperformed across the board in typical risk-off fashion. Overall, flight into the dollar saw the **DXY** pop above 97.50 with the next waypoint expected at 98.00.
- The risk appetite environment deteriorated in the face of shaky European/US equities (slumping tech) and slumping crude (WTI < 59.00), while the TYs (Treasury futures) gained and major govie yield curves (bunds, gilts) softened. Stay cautious with our **FXSI (FX Sentiment Index)** jumping into Risk-Off territory on Monday.
- A revised **Italian draft budget** from Rome is due today and this is likely to keep investors focused on the European front and the EUR. To this end, note that the **EUR-USD** (short-end EUR-USD and GBP-USD vols have reacted higher) is threatening its crucial 200-week MA (1.1311) and a close below this by the end of the week may portend further downside in the coming weeks.
- Similarly, the Brexit situation continues to whipsaw the **GBP-USD** as the discussions approach a critical stage. Reports of the EU's Barnier being ready to agree on the main element of a deal to a bounce (although very short-lived) in the GBP. The ball appears to be in the PM May and the UK Parliament's court for now.
- **At this juncture, we remain in favour of the dollar, especially against the EUR and GBP.**
- With risk appetite curdling, our 08 Nov 18 idea to be tactically long **AUD-USD** (spot ref: 0.7286) was stopped out on Monday at 0.7200.
- On the data front, look for US small business sentiments (1100 GMT), German Oct CPI (0700 GMT) and ZEW survey (1000 GMT).

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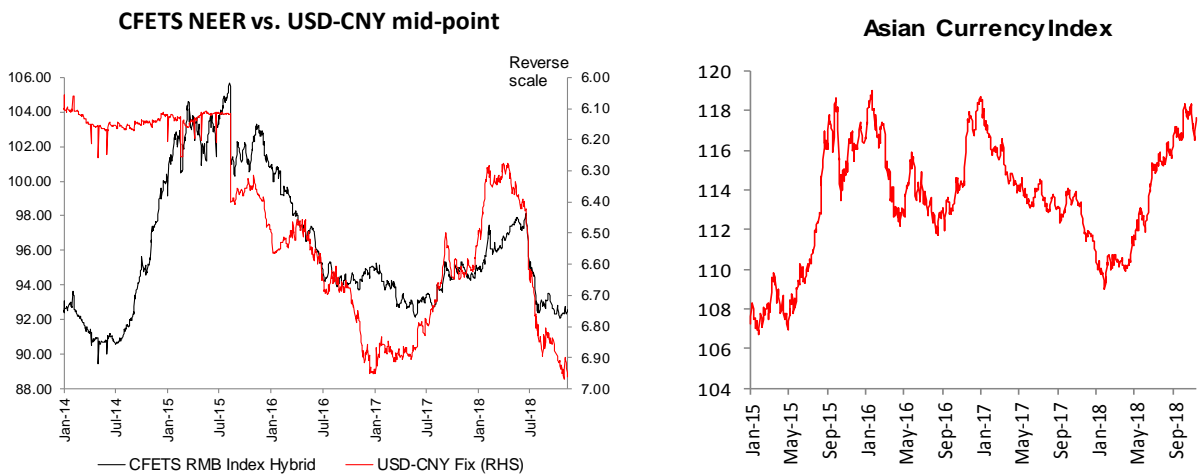
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### Asian FX

- A negative equity backdrop stemming from tech weakness (including EM equities in aggregate) and resilient broad dollar are expected to keep USD-Asia aloft in the current session.
- Net portfolio flows in the region meanwhile sees net inflows for South Korea still holding up and net outflows for Taiwan and India are deepening slightly again. Indonesia meanwhile is still sitting pretty amidst a strong inflow environment while Thailand remains essentially in a neutral position.
- **SGD NEER:** The SGD NEER stands softer at +1.30% above its perceived parity (1.4019), after hitting a low of +1.15% overnight. The NEER-implied USD-SGD thresholds continued to push north alongside the broad dollar. Expect the USD-SGD to retain a bullish trajectory, with the year-to-date high at 1.3873 attracting. Intra-day support seen near 1.3812.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher again, as than expected, at 6.9629 compared to 6.9476 on Monday, with the countercyclical factor possibly in play after the strong gains in the dollar overnight. The CFETS RMB Index firmed slightly to 92.58 from 92.48 previously. Note that the PBOC has dropped the promise to allow “market supply and demand to play a bigger role in deciding the exchange rate” from its 3Q monetary policy report. This re-focuses attention on the PBOC’s stance over the 7.0000 level in the USD-CNY.



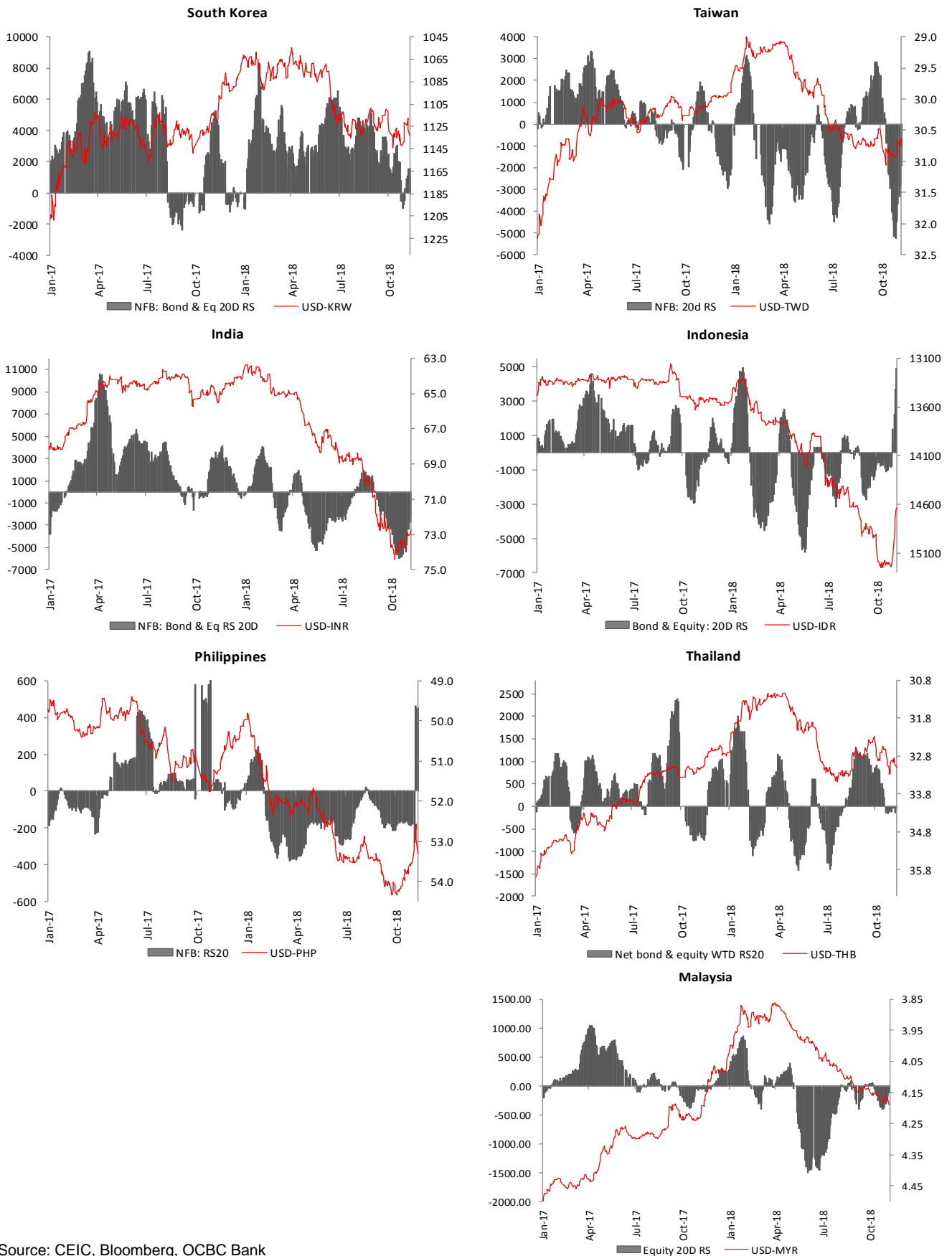
Source: OCBC Bank, Bloomberg

### 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 accommodative. 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 pretend 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. Watch for the next RBI board meeting on 19 <sup>th</sup> Nov 18 for further resolution of the tiff between the RBI and the government. In the interim, curves remain softer. Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance and putting rate cuts back on the table.
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	↔/↓	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. IDR reversing recent gains on risk aversion, with bond inflows taking a backseat for now.
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	↔/↓	Deputy BSP governor notes that the BSP may pause or hike this Thursday. 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.

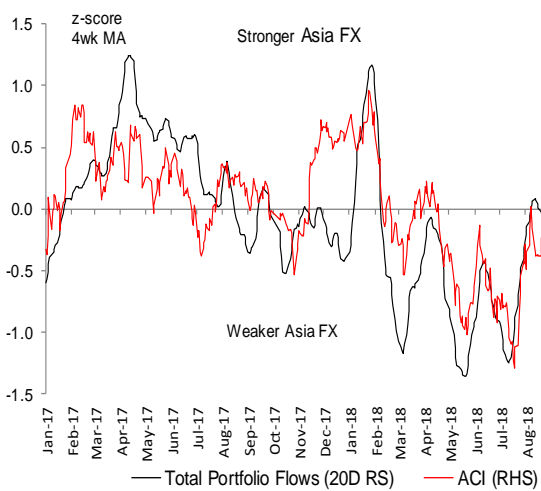
Source: OCBC Bank

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



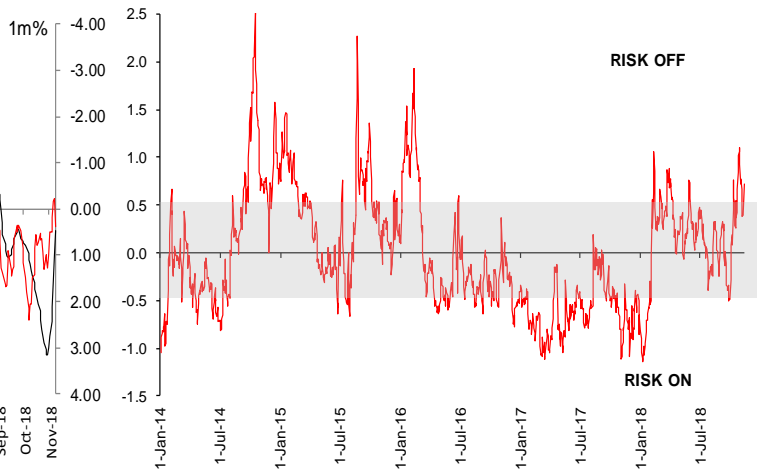
Source: CEIC, Bloomberg, OCBC Bank

### 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	-0.157	0.639	-0.454	-0.295	-0.858	0.594	-0.719	0.272	0.141	0.608	-0.985
SGD	0.904	0.105	0.429	-0.174	0.005	-0.937	0.817	-0.879	-0.06	-0.215	0.417	-0.922
CHF	0.854	0.09	0.524	-0.185	-0.008	-0.861	0.735	-0.836	-0.015	-0.103	0.518	-0.883
IDR	0.834	-0.417	0.704	-0.562	-0.51	-0.756	0.441	-0.656	0.379	0.26	0.659	-0.869
CNH	0.801	-0.506	0.616	-0.678	-0.608	-0.662	0.284	-0.499	0.523	0.359	0.636	-0.778
MYR	0.639	-0.478	1	-0.464	-0.626	-0.346	0.101	-0.116	0.45	0.511	0.952	-0.613
THB	0.608	-0.557	0.952	-0.547	-0.727	-0.275	0.073	-0.131	0.558	0.599	1	-0.615
JPY	0.594	0.577	0.101	0.352	0.481	-0.818	1	-0.881	-0.534	-0.652	0.073	-0.642
CAD	0.539	-0.608	0.855	-0.623	-0.687	-0.113	-0.073	0.006	0.624	0.758	0.886	-0.572
INR	0.23	0.662	-0.307	0.527	0.659	-0.646	0.846	-0.815	-0.672	-0.851	-0.289	-0.352
KRW	0.16	-0.851	0.585	-0.668	-0.861	0.149	-0.486	0.249	0.72	0.872	0.663	-0.223
USGG10	0.08	0.684	-0.461	0.579	0.675	-0.531	0.723	-0.687	-0.708	-0.885	-0.485	-0.155
TWD	-0.078	-0.791	0.499	-0.544	-0.774	0.432	-0.735	0.632	0.688	0.895	0.558	0.114
CNY	-0.157	1	-0.478	0.812	0.925	-0.161	0.576	-0.311	0.84	-0.834	-0.557	0.161
PHP	-0.281	-0.565	0.368	-0.416	-0.644	0.62	-0.768	0.777	0.614	0.8	0.371	0.374
NZD	-0.325	-0.675	0.166	-0.49	-0.585	0.679	-0.861	0.823	0.622	0.81	0.218	0.373
AUD	-0.354	-0.375	0.276	-0.072	-0.404	0.526	-0.614	0.682	0.236	0.477	0.301	0.573
GBP	-0.529	-0.488	-0.062	-0.226	-0.353	0.834	-0.879	0.91	0.408	0.657	0.004	0.543
EUR	-0.76	0.665	-0.777	0.816	0.771	0.385	-0.04	0.2	-0.729	-0.7	-0.812	0.709
	-0.985	0.161	-0.613	0.416	0.254	0.87	-0.643	0.789	-0.225	-0.086	-0.615	1

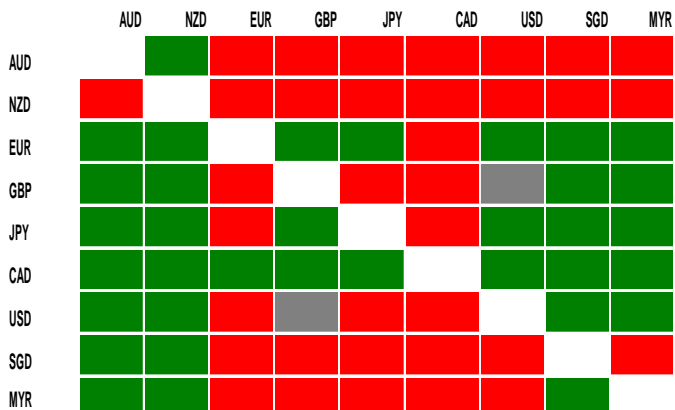
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1216	1.1234	1.1240	1.1300
GBP-USD	1.2702	1.2800	1.2864	1.2900	1.3032
AUD-USD	0.7100	0.7160	0.7179	0.7200	0.7287
NZD-USD	0.6587	0.6700	0.6722	0.6800	0.6803
USD-CAD	1.3200	1.3232	1.3233	1.3250	1.3300
USD-JPY	112.68	113.00	113.69	114.00	114.17
USD-SGD	1.3761	1.3800	1.3832	1.3873	1.3893
EUR-SGD	1.5524	1.5531	1.5539	1.5600	1.5859
JPY-SGD	1.2050	1.2100	1.2167	1.2200	1.2212
GBP-SGD	1.7597	1.7700	1.7793	1.7800	1.7932
AUD-SGD	0.9853	0.9900	0.9930	1.0000	1.0010
Gold	1183.70	1200.00	1204.30	1205.59	1209.75
Silver	13.96	14.00	14.03	14.06	14.10
Crude	58.68	59.10	59.15	59.20	67.33

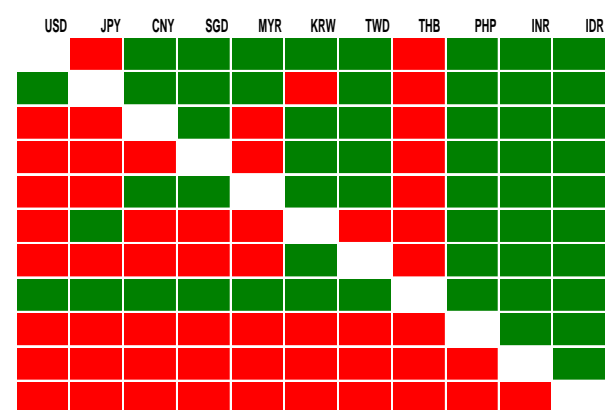
Source: OCBC Bank

### G10 FX Heat Map



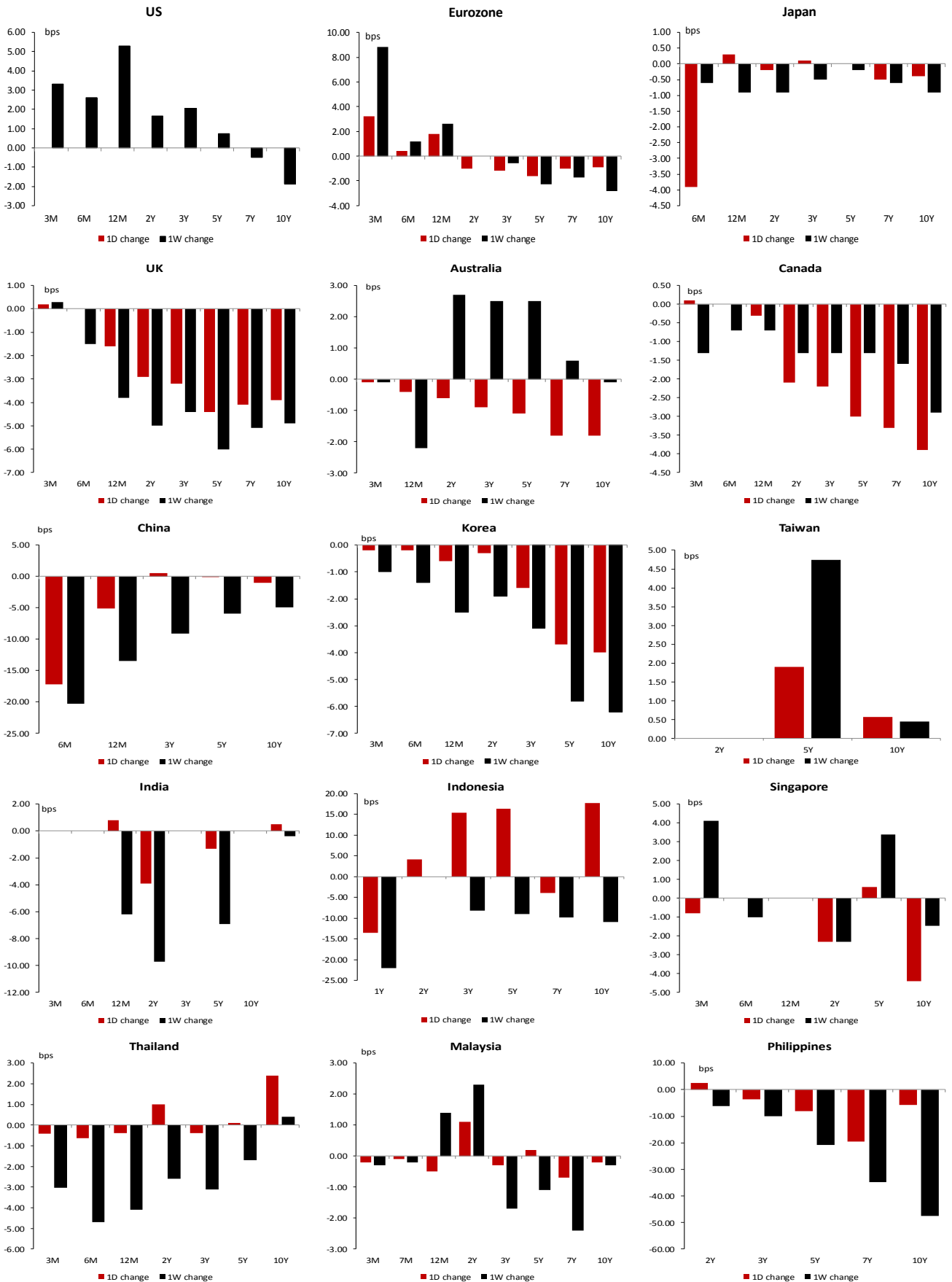
Source: OCBC Bank

### 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	
3	09-Nov-18	B	USD-JPY	113.88	115.55 113.00	Rate differential support for the USD, especially post-FOMC	
<b>STRUCTURAL</b>							
-	-	-	-	-	-	-	
<b>RECENTLY CLOSED TRADE IDEAS</b>							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	11-Sep-18 24-Oct-18	B	GBP-USD	1.3056	1.2920	Positioning ahead of BOE MPC and positivity 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
4	08-Nov-18 12-Nov-18	B	AUD-USD	0.7286	0.7200	Improving risk appetite post US midterms	-1.18
* realized, excl carry							

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