

Wednesday, November 14, 2018

FX Themes/Strategy/Trading Ideas

- The majors managed to pull higher against the dollar on Tuesday as Brexit uncertainty moderated and hopes of diminished Sino-US trade tensions (background talks ahead of the Xi-Trump meeting have resumed). A softer UST curve (crashing crude) also served to undermine the USD. This managed to take the DXY back below 97.50 in LDN/NY.
- The GBP (which also outperformed across G10 space) and the EUR were at the front of the pack after news emerged that a draft Brexit agreement had been agreed upon. Note that its early days yet with the Cabinet scheduled to convene today at 1400 GMT while the agreement would still have to clear muster in Parliament (deadline undetermined as yet).
- Markets are also still awaiting the revised 2019 draft fiscal plan out of Rome (latest official Italian rhetoric portend continued defiance) with the Italian-bund spread remaining above 300bps. Expect all eyes to be on the European Commission's response, likely on Wednesday. Risk appetite meanwhile remains on tenterhooks, with the **FXSI (FX Sentiment Index)** building on Mondays' gains and climbing further on Tuesday within Risk-Off territory.
- Global macro sentiment meanwhile may continue to remain fragile, with WTI crude slumping below 56.00 on Tuesday, while the ECB's Praet also reiterated that "significant monetary policy stimulus is still needed". Notably, China's October monetary aggregates on Tuesday also showed moderation from the previous month. Look for further macro cues on this front with October China retail sales, industrial production, as well as fixed asset investment.
- On the data front, US October CPI numbers (1330 GMT) may present further headline risks while the Fed's Powell is scheduled to speak at 2300 GMT. **In the interim, expect price action to remain headline driven as markets remain choppy. Notably, the front-end of the vol surface we think remains sufficiently nervous towards EUR downside. On a related note, the short end of the riskier curve for the AUD-USD has steepened, typically portending Aussie vulnerability.**
- With the Italian fiscal stalemate likely to drag on and with the Fed increasingly the only game in town in the near term, we opt for a tactical short **EUR-USD**. From a spot ref of 1.1230 on Tuesday, we target 1.1035 and place a stop at 1.1330.

Treasury Research &
Strategy

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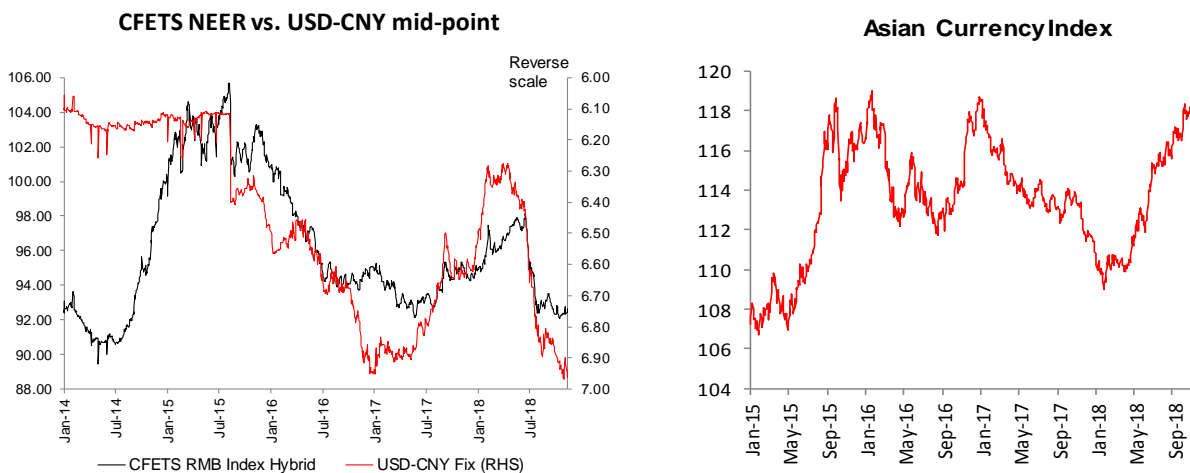
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Asian FX

- Mixed signals from a slightly wobbly start to Asian equities and a weaker dollar may keep the regional pairs in a range while awaiting external headline risks. Note that long-end govie yields are soggy for India, and North Asia, with recent data prints doing little to instill bullish economic confidence. To boot, the benign data flow of late has also introduced a degree of hesitation with respect to perceived regional central bank hawkishness.
- Net portfolio flow environment in the region continues to turn for the better, although the pace of improvement has eased slightly. Outflow momentum in India compressed again, after a slight blip, while Indonesia and South Korea continue to see a building up of inflow momentum. Thailand also nudged into a small net inflow position.
- The **Bank of Thailand** is expected to remain static at 1.50% today at its MPC despite prior indications to restart policy normalization. At this juncture, we note inflationary pressures are still non-existent and the recent economic prints soft. These developments should push back the calendar of policy normalization. Watch the members' voting patterns to glean further insights.
- **SGD NEER:** The SGD NEER firmed again to +1.38% above its perceived parity (1.3978). A high of +1.47% was touched overnight. With the USD turning soggy quickly in the interim, expect support for the USD-SGD to come in near 1.3771, with 1.3826 expected to cap any bounce.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set lower, as expected, at 6.9402 compared to 6.9629 on Tuesday. In response, the CFETS RMB Index firmed slightly again to 92.62 from 92.58 previously.



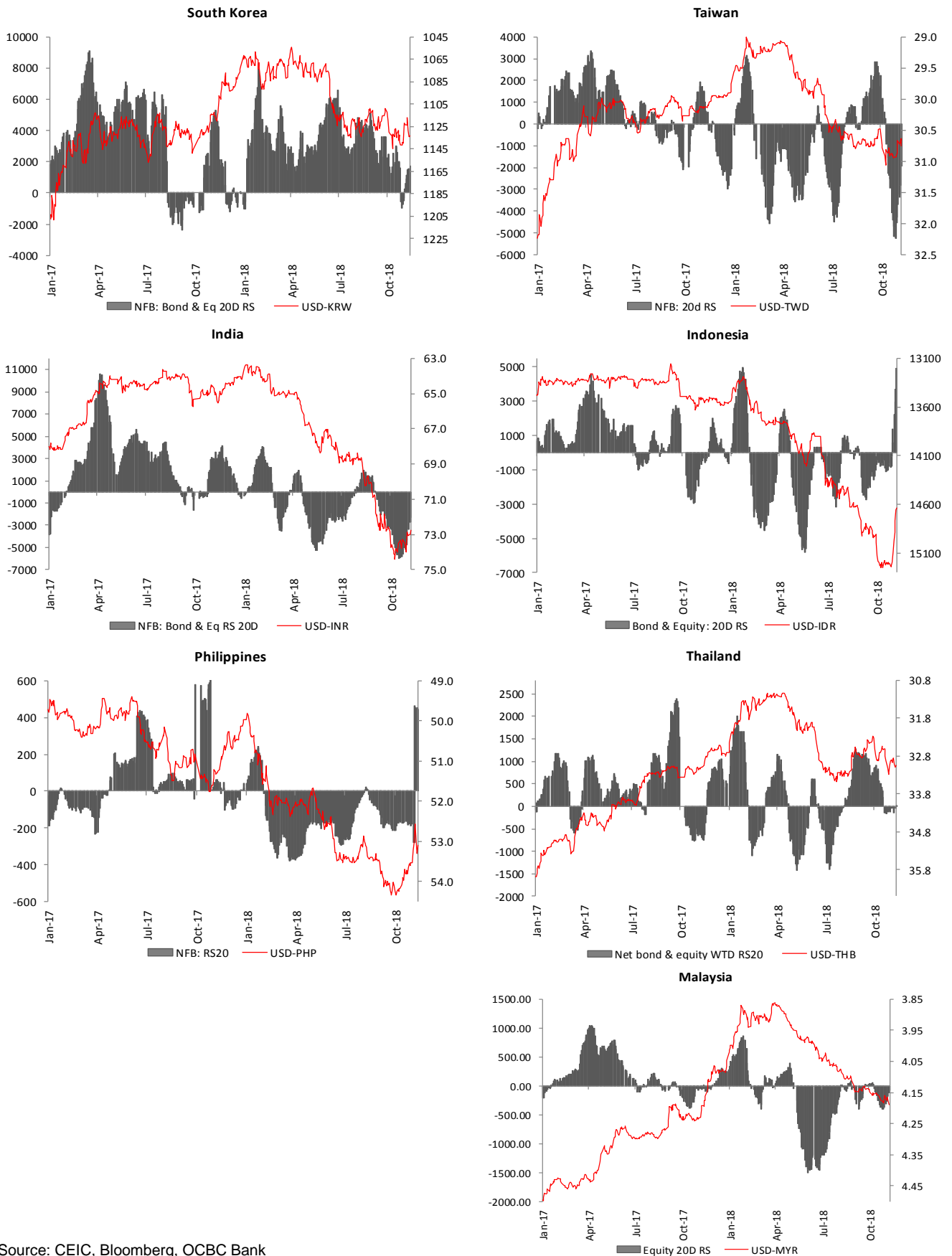
Source: OCBC Bank, Bloomberg

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 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 with 1 BOK voting dissenter warning of a widening yield gap with the US.
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 CBRC members looking towards policy normalization to afford 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 th 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. Slightly compressing current account deficit for 3Q and 2Q seen supportive for FX and govies.
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.

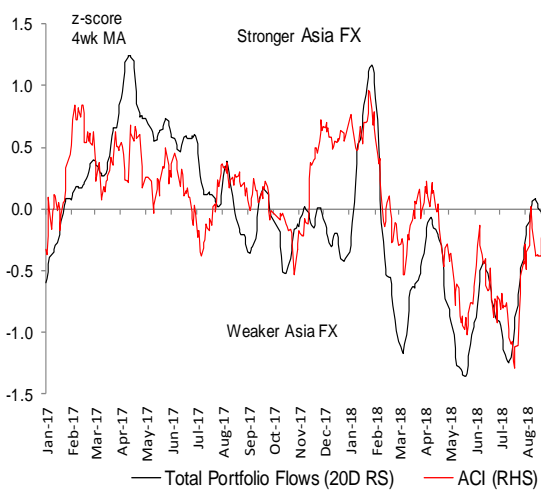
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



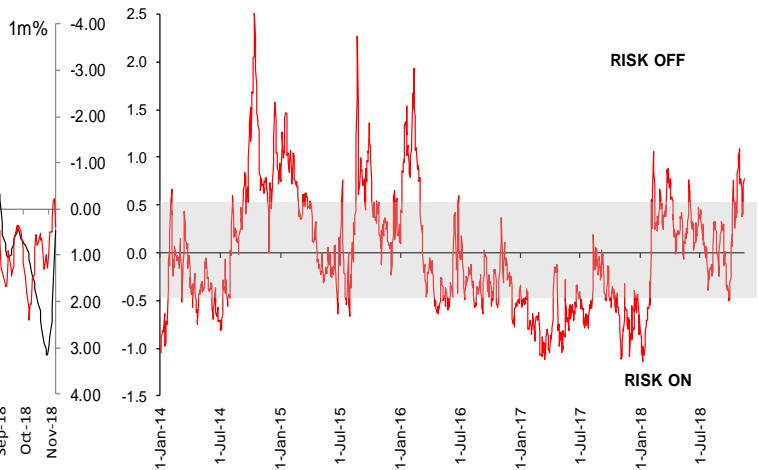
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1	-0.189	0.655	-0.452	-0.265	-0.867	0.636	-0.752	0.245	0.149	0.598	-0.987
SGD	0.908	0.082	0.455	-0.187	0.014	-0.91	0.822	-0.83	-0.067	-0.196	0.368	-0.921
CHF	0.871	0.032	0.548	-0.2	0.008	-0.884	0.766	-0.86	-0.028	-0.075	0.447	-0.876
IDR	0.853	-0.443	0.704	-0.537	-0.438	-0.807	0.499	-0.71	0.326	0.25	0.583	-0.862
CNH	0.788	-0.51	0.623	-0.68	-0.599	-0.624	0.252	-0.439	0.515	0.364	0.611	-0.761
MYR	0.655	-0.489	1	-0.469	-0.607	-0.39	0.154	-0.196	0.435	0.51	0.947	-0.632
THB	0.636	0.494	0.154	0.31	0.469	-0.829	1	-0.874	-0.518	-0.603	0.039	-0.667
JPY	0.598	-0.563	0.947	-0.55	-0.721	-0.277	0.039	-0.089	0.553	0.6	1	-0.565
CAD	0.525	-0.609	0.848	-0.625	-0.684	-0.123	-0.15	0.093	0.621	0.758	0.873	-0.478
INR	0.319	0.543	-0.215	0.466	0.631	-0.699	0.865	-0.842	-0.641	-0.78	-0.293	-0.405
KRW	0.166	-0.849	0.582	-0.669	-0.858	0.105	-0.529	0.273	0.717	0.872	0.64	-0.136
USGG10	0.148	0.599	-0.398	0.545	0.666	-0.561	0.76	-0.717	-0.697	-0.85	-0.471	-0.232
TWD	-0.073	-0.785	0.49	-0.543	-0.773	0.374	-0.699	0.542	0.687	0.894	0.556	0.109
CNY	-0.189	1	-0.489	0.813	0.912	-0.075	0.494	-0.173	-0.829	-0.833	-0.563	0.191
PHP	-0.361	-0.44	0.275	-0.365	-0.619	0.674	-0.805	0.825	0.59	0.736	0.345	0.452
NZD	-0.375	-0.623	0.114	-0.458	-0.578	0.687	-0.868	0.805	0.613	0.777	0.193	0.416
AUD	-0.429	-0.315	0.191	-0.053	-0.404	0.602	-0.665	0.723	0.249	0.443	0.257	0.44
GBP	-0.563	-0.441	-0.103	-0.2	-0.356	0.815	-0.884	0.872	0.407	0.629	-0.009	0.574
EUR	-0.714	0.644	-0.761	0.812	0.771	0.329	0.029	0.08	-0.729	-0.699	-0.796	0.638
	-0.987	0.191	-0.632	0.418	0.23	0.871	-0.667	0.778	-0.203	-0.096	-0.565	1

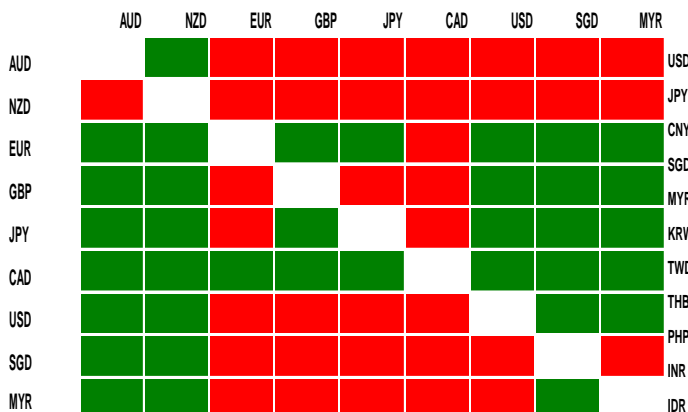
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1247	1.1300	1.1303	1.1330	1.1400
GBP-USD	1.2715	1.3000	1.3011	1.3036	1.3100
AUD-USD	0.7161	0.7200	0.7220	0.7250	0.7300
NZD-USD	0.6591	0.6700	0.6774	0.6800	0.6814
USD-CAD	1.3044	1.3200	1.3236	1.3244	1.3264
USD-JPY	112.73	113.00	113.84	114.00	114.30
USD-SGD	1.3750	1.3771	1.3800	1.3868	1.3873
EUR-SGD	1.5522	1.5532	1.5599	1.5600	1.5852
JPY-SGD	1.2045	1.2100	1.2123	1.2200	1.2207
GBP-SGD	1.7900	1.7939	1.7955	1.8000	1.8051
AUD-SGD	0.9855	0.9900	0.9964	1.0000	1.0010
Gold	1200.00	1201.96	1204.20	1209.86	1239.30
Silver	13.97	14.00	14.01	14.10	14.41
Crude	54.75	55.40	55.46	55.50	55.94

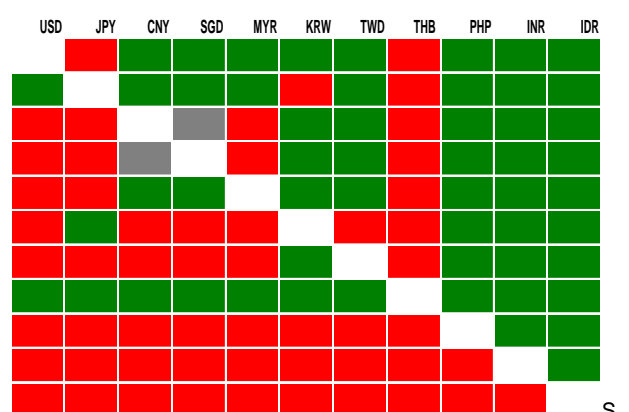
Source: OCBC Bank

G10 FX Heat Map



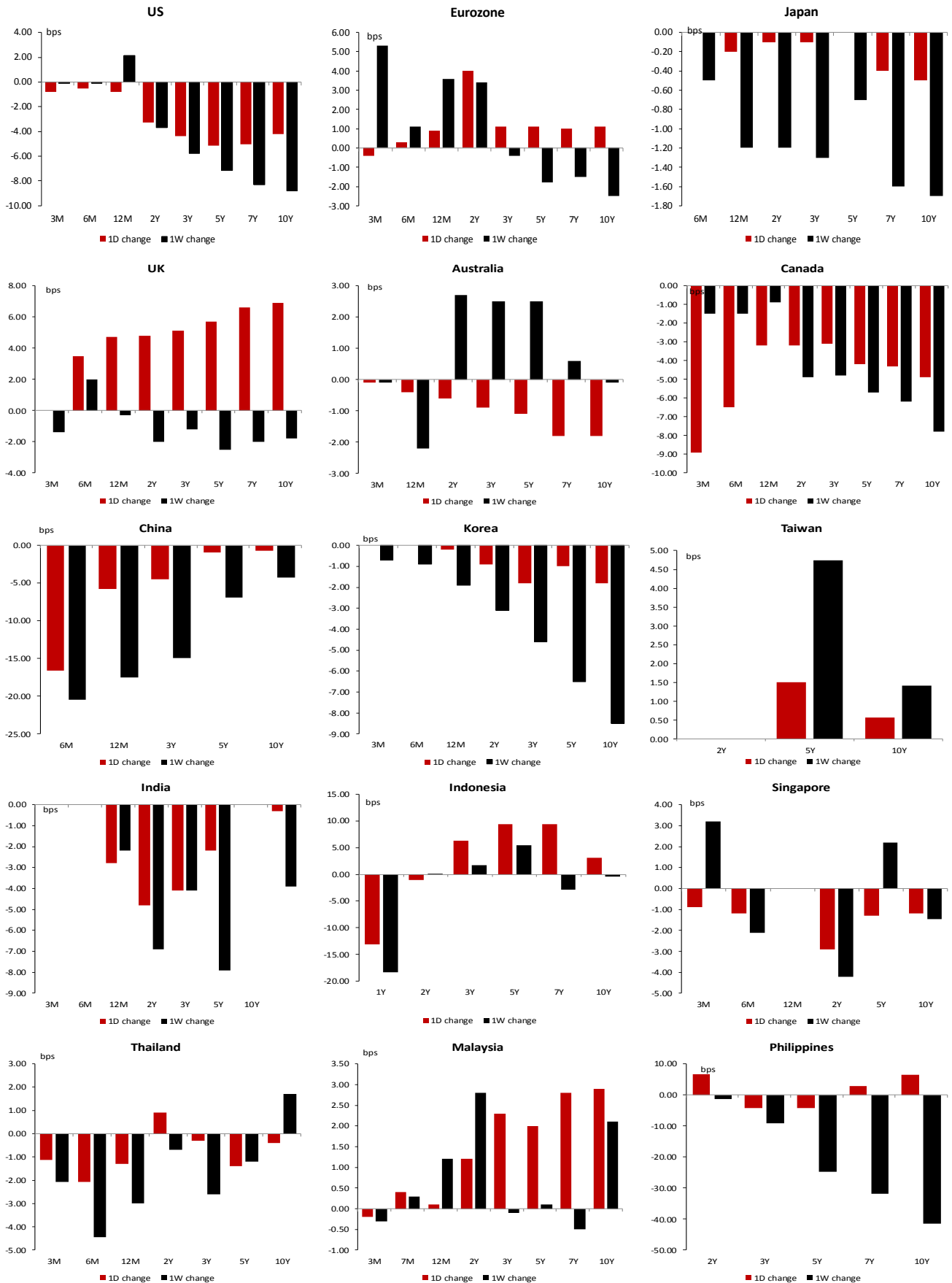
Source: OCBC Bank

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	09-Nov-18	B	USD-JPY	113.88	115.55 113.00	Rate differential support for the USD, especially post-FOMC	
3	13-Nov-18	S	EUR-USD	1.1230	1.1035 1.1330	Italian fiscal uncertainty, USD underpinned by FOMC prospects	
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	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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