

Thursday, November 15, 2018

FX Themes/Strategy/Trading Ideas

- Positive Brexit headlines (Cabinet backed PM May on the draft text of the Brexit agreement) saw the GBP (and the EUR) managing to hold higher ground against the USD on Wednesday.
- Softer UST yields (Oct core CPI softer than expected) meanwhile also saw the USD on the defensive against its peers, with the USD-JPY also tripping lower. Crude meanwhile managed to bottom out slightly, putting a lid on the still supported USD-CAD. Overall, the **DX** slipped lower to around 96.80 by late NY.
- Despite softer global govie yields on the day (China's Oct data stream on Wednesday was mixed), AUD and the NZD generally outperformed within G10 space and climbed against the USD. This morning, October Australian labor market numbers came in hotter than expected, boosting the AUD-USD.
- On the risk appetite front, negative EZ/US equities continued to drive the **FXSI (FX Sentiment Index)** higher on Wednesday within Risk-Off territory and expect sentiment to remain fragile.
- Going ahead, PM May still has to clear the hurdle of Parliamentary approval for the draft Brexit agreement, while the European Commission has yet to respond (21 Nov 18) to the (still intransigent) Italian fiscal budget plan. On the latter, note slightly wider Italian-bund spreads.
- For today, look to ECB (and Fed) appearances for further short term guidance but fragility towards the European complex (in view of the near term vol surface) remains apparent at this juncture. **Although the dollar may continue to range trade, the dissimilar undercurrents in the respective majors may see investors staying heavy on a cross like the EUR-AUD in the interim.**

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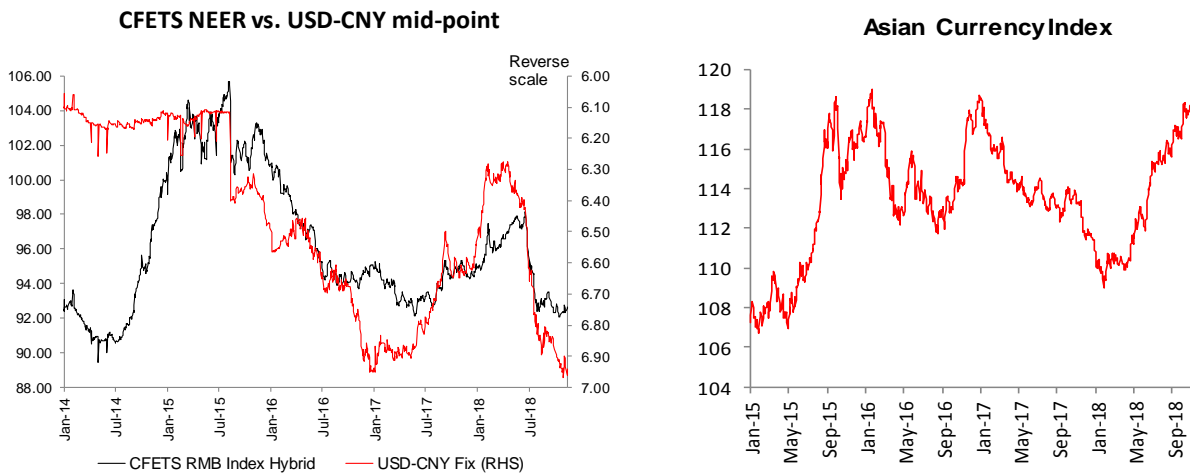
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Asian FX

- Expect USD-Asia to edge lower intra-day with EM equities in aggregate also inching higher yesterday for the 2nd consecutive session on Wednesday. As an aside, the INR may continue to be bolstered if crude continues to wallow at recent lows.
- The **Bank of Thailand** on Wednesday kept its benchmark rate unchanged at 1.50% but the changing voting pattern (4 votes for leaving policy unchanged and 3 voted for a hike; down from 5 votes for policy to be left unchanged previously) is portending an eventual policy normalization on the horizon.
- For today, the **BSP** is expected to hike its policy benchmark rates by 25bps amid recent faltering hawkishness. Elsewhere, **Bank Indonesia** is expected to remain static at its policy meeting.
- **SGD NEER:** The SGD NEER stood at +1.37% above its perceived parity (1.3967), still populating a familiar range between +1.25% and +1.50%. With the USD still suppressed by positive headlines from Europe, expect downside support at 1.3761, and an intra-day top around 1.3815.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set marginally lower, within expectations, at 6.9392 compared to 6.9402 on Wednesday. In response, the CFETS RMB Index eased marginally to 92.60 from 92.62 previously.



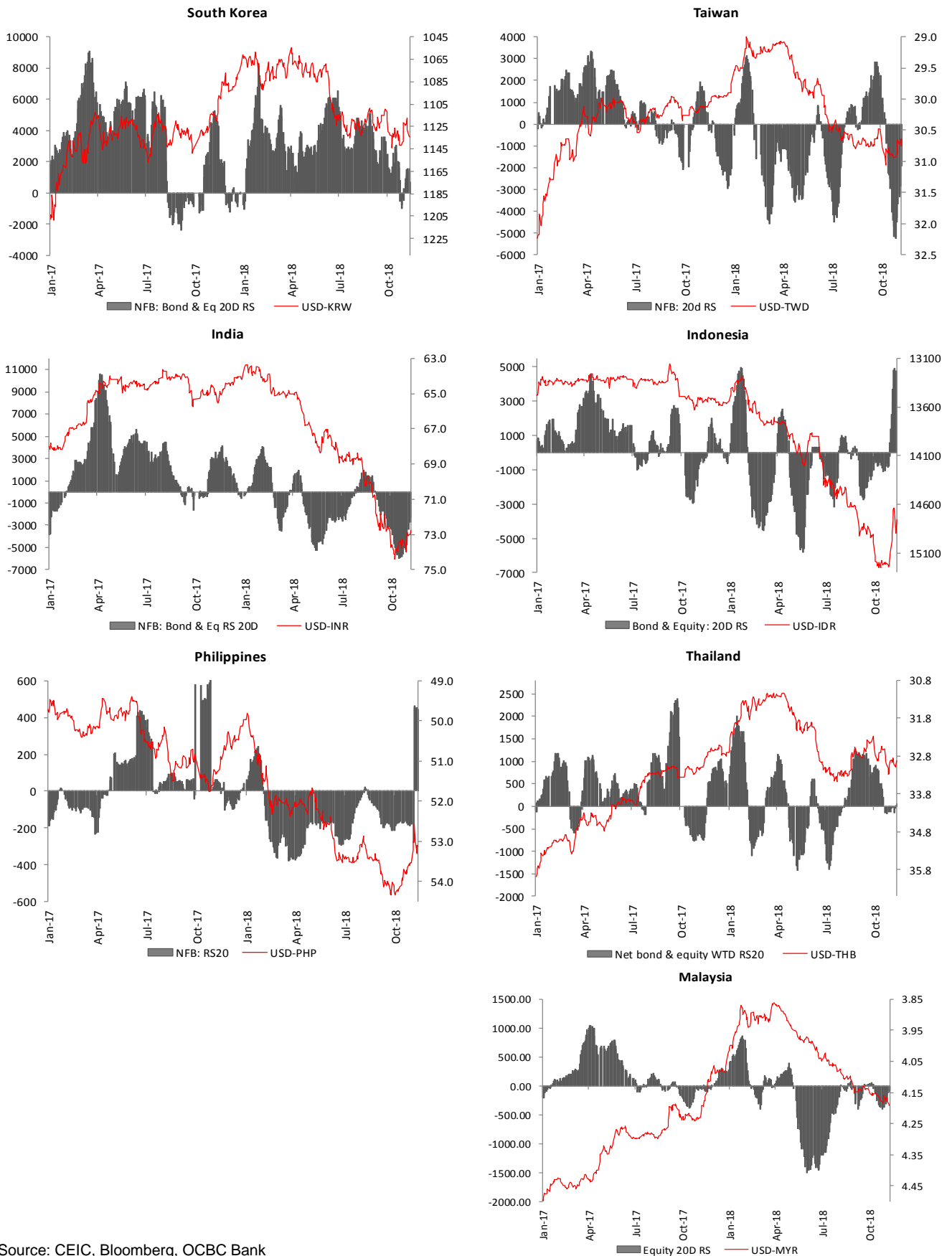
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔	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. 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 and industrial production numbers outperformed, while retail sales underperformed. Govie and NDIRS yields remain soggy.
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. With the global economic prognosis wavering, govie and NDIRS yields softening on the week, led by the back-end.
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 normalization to aford the authority eventual downside wiggle room. Rate environment softening in line with the North Asian complex.
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 (govie and NDIRS yields lower on the wwek, led by the belly) 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 implicit downside pressure on the MYR and govies.
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds. Easing off of EM jitters and broad dollar momentum may allow the BI to take a temporary pause in rate hikes in its Nov meeting, although a Dec rate hike remains in play. Slightly compressing current account deficit for 3Q and 2Q seen supportive for FX and govies. Govie and NDIRS yields may consolidate in the near term after the recent softening.
USD-THB	↔	BOT MPC members mulling a policy normalization timetable. We note however a lack of immediate inflation risks, and latest export and manufacturing prints remained soft. BOT unchanged at Nov MPC, but saw 3 dissenters in favour of rate hike. Voting pattern appears to suggest that members are inclined to a hike in Dec hike, rather than Feb. Nevertheless, any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Govie and NDIRS yields to find near term support on the BOT MPC.
USD-PHP	↔/↓	Deputy BSP governor notes that the BSP may pause or hike today. 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.

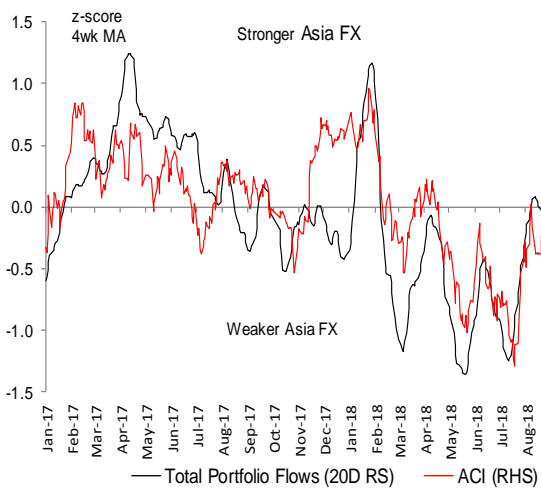
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



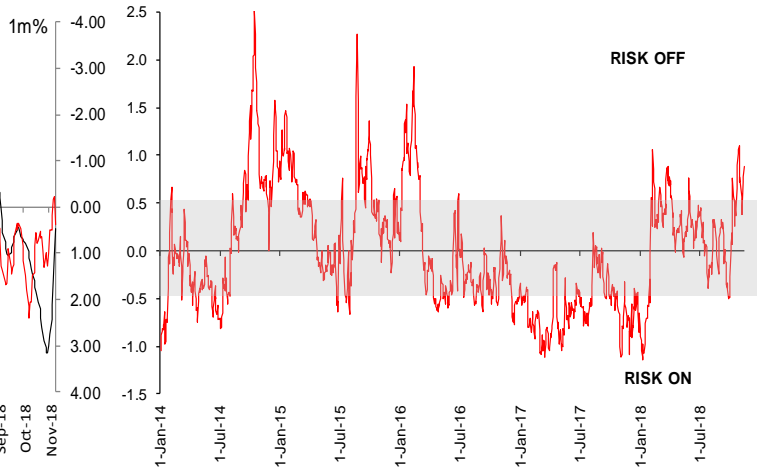
Source: CEIC, Bloomberg, OCBC Bank

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	-0.281	0.639	-0.49	-0.278	-0.844	0.598	-0.71	0.316	0.196	0.574	-0.98
SGD	0.89	0.015	0.418	-0.216	0.03	-0.908	0.8	-0.818	-0.016	-0.166	0.318	-0.907
CHF	0.837	-0.072	0.516	-0.237	0.014	-0.877	0.736	-0.866	0.027	-0.005	0.38	-0.855
IDR	0.818	-0.509	0.661	-0.55	-0.403	-0.806	0.491	-0.757	0.355	0.3	0.483	-0.841
CNH	0.768	-0.502	0.627	-0.683	-0.598	-0.622	0.253	-0.39	0.518	0.373	0.612	-0.737
MYR	0.639	-0.524	1	-0.48	-0.613	-0.356	0.101	-0.166	0.47	0.539	0.944	-0.613
THB	0.598	0.449	0.101	0.304	0.5	-0.815	1	-0.848	-0.496	-0.577	-0.036	-0.616
JPY	0.574	-0.563	0.944	-0.549	-0.726	-0.237	-0.036	-0.019	0.577	0.611	1	-0.535
CAD	0.495	-0.594	0.843	-0.617	-0.685	-0.082	-0.216	0.147	0.637	0.758	0.873	-0.459
INR	0.358	0.393	-0.194	0.378	0.589	-0.726	0.87	-0.876	-0.561	-0.656	-0.31	-0.42
KRW	0.228	-0.839	0.624	-0.678	-0.863	0.055	-0.51	0.208	0.717	0.872	0.669	-0.209
USGG10	0.224	0.467	-0.377	0.487	0.644	-0.609	0.802	-0.778	-0.655	-0.774	-0.468	-0.279
TWD	-0.028	-0.77	0.53	-0.554	-0.778	0.331	-0.665	0.425	0.687	0.894	0.582	0.058
CNY	-0.281	1	-0.524	0.822	0.903	-0.006	0.449	-0.061	-0.825	-0.837	-0.563	0.273
PHP	-0.365	-0.204	0.203	-0.015	-0.402	0.606	-0.662	0.759	0.199	0.339	0.282	0.419
NZD	-0.367	-0.359	0.291	-0.32	-0.61	0.682	-0.803	0.824	0.542	0.663	0.4	0.43
AUD	-0.385	-0.496	0.129	-0.421	-0.575	0.698	-0.89	0.81	0.577	0.719	0.213	0.442
GBP	-0.534	-0.327	-0.021	-0.188	-0.386	0.8	-0.881	0.852	0.385	0.608	0.085	0.556
EUR	-0.641	0.663	-0.734	0.818	0.796	0.225	0.153	-0.021	-0.784	-0.723	-0.796	0.582
	-0.98	0.274	-0.613	0.46	0.236	0.86	-0.616	0.753	-0.272	-0.152	-0.535	1

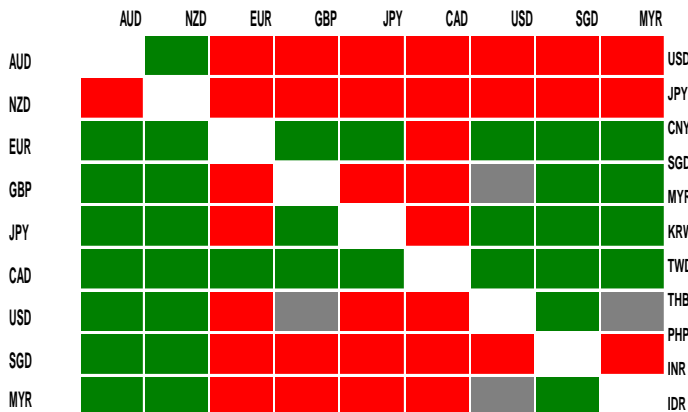
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1243	1.1300	1.1327	1.1400	1.1512
GBP-USD	1.2715	1.3000	1.3003	1.3037	1.3100
AUD-USD	0.7163	0.7200	0.7272	0.7300	0.7302
NZD-USD	0.6596	0.6700	0.6799	0.6800	0.6814
USD-CAD	1.3046	1.3200	1.3233	1.3259	1.3264
USD-JPY	112.78	113.00	113.56	114.00	114.21
USD-SGD	1.3716	1.3761	1.3770	1.3800	1.3864
EUR-SGD	1.5522	1.5525	1.5598	1.5600	1.5844
JPY-SGD	1.2045	1.2100	1.2125	1.2200	1.2202
GBP-SGD	1.7616	1.7900	1.7905	1.7940	1.8000
AUD-SGD	0.9857	1.0000	1.0014	1.0030	1.0050
Gold	1200.00	1201.60	1210.10	1210.20	1239.30
Silver	13.93	14.00	14.10	14.10	14.41
Crude	55.08	55.90	55.99	56.00	67.22

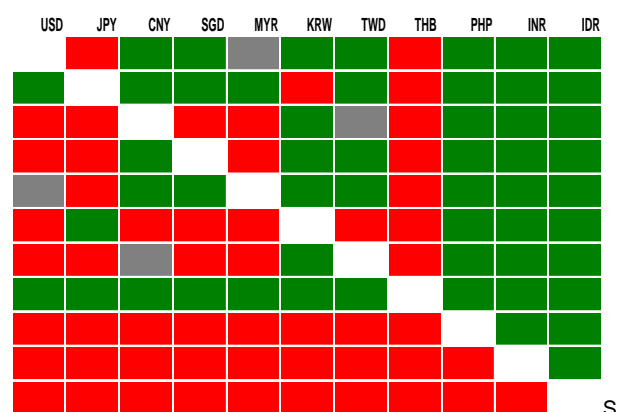
Source: OCBC Bank

G10 FX Heat Map



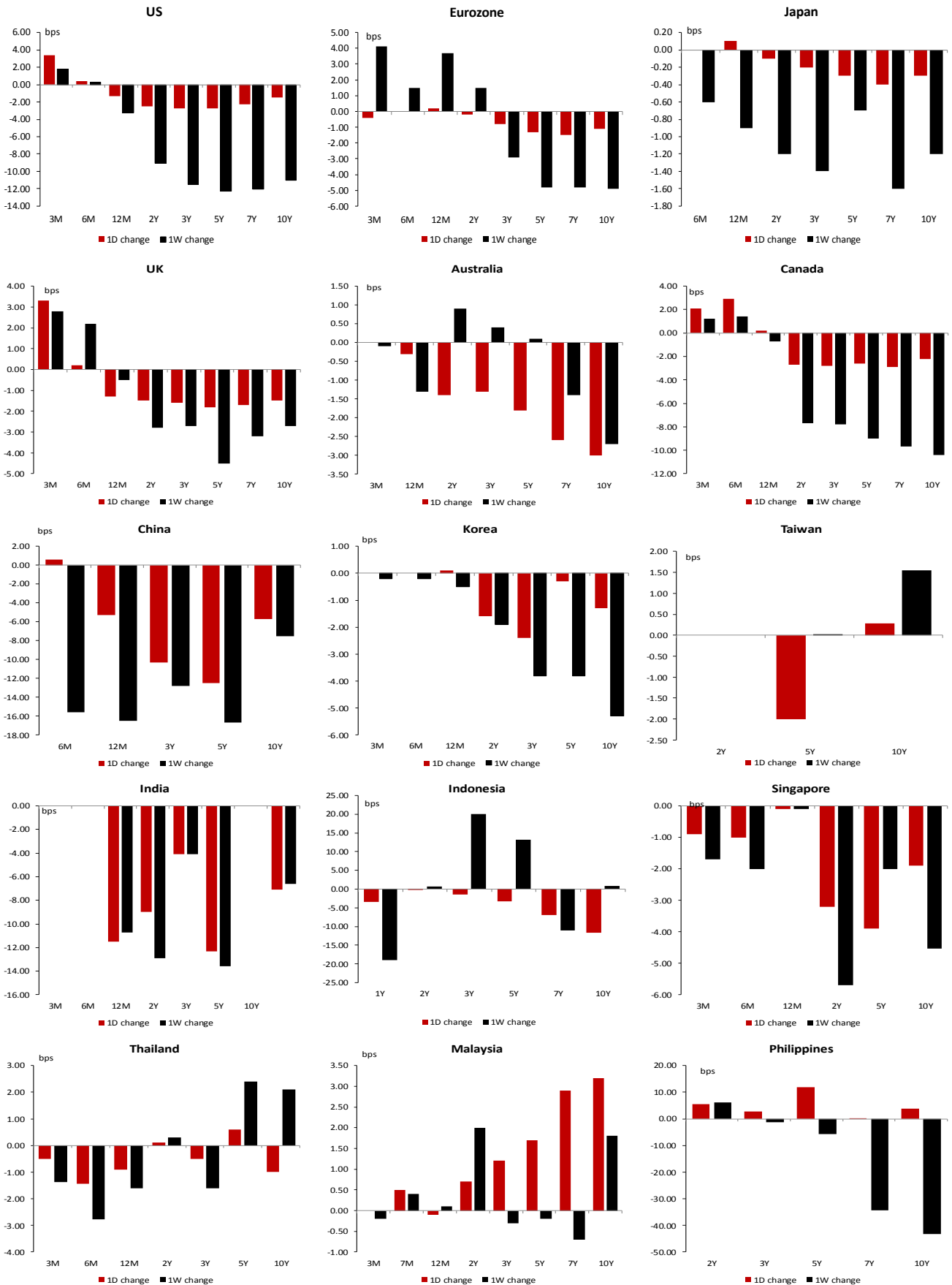
Source: OCBC Bank

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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