

Friday, November 16, 2018**FX Themes/Strategy/Trading Ideas**

- The sterling was pounded on Thursday (GBP-USD hammered below 1.2800) with gilts surging after Brexit Minister Raab (and 1 other minister) resigned in response to PM May's draft deal with the EU. The carnage only eased when an expected leadership challenge did not materialize.
- However, markets did not experience significant contagion with the rest of the majors to managing to eke out gains on the USD and the JPY trailing on its crosses. Overall, this still left the **DX** steady to a touch higher on the day at above the 97.00 handle.
- Growth cyclical (AUD, NZD, CAD) also outperformed with the Aussie underpinned by better than expected October labor market numbers early in the global day. Note that sentiment was also aided by news flow (Lighthizer headlines but note that Commerce Secretary Wilbur Ross downplayed excessive optimism) indicating a slight thawing of Sino-US trade tensions.
- However, the relative outperformance of the cyclical FX we think will be closely watched. Despite positive US equities, our **FXSI (FX Sentiment Index)** venturing further into Risk-Off territory on Thursday on the back of, inter alia, widening EM risk premia and firming FX vols.
- While gilts expectedly grossly outperformed, UST yields also continued to bleed lower on Thursday (despite fairly supportive comments from the Fed's Powell) with global companion government bond yields also headed south. Note that the Aussie govt curve is also softer in tandem early Friday, while on the US front, TYs and TUs remain supported (note mixed US Oct retail sales and softer than expected Nov Philly Fed on Thursday).
- For the **GBP**, the short term vol surface indicates a market caught napping with negativity still accumulating in spite of overnight price action. Elsewhere, the overhang from the Italian fiscal situation may continue weigh on the **EUR**.

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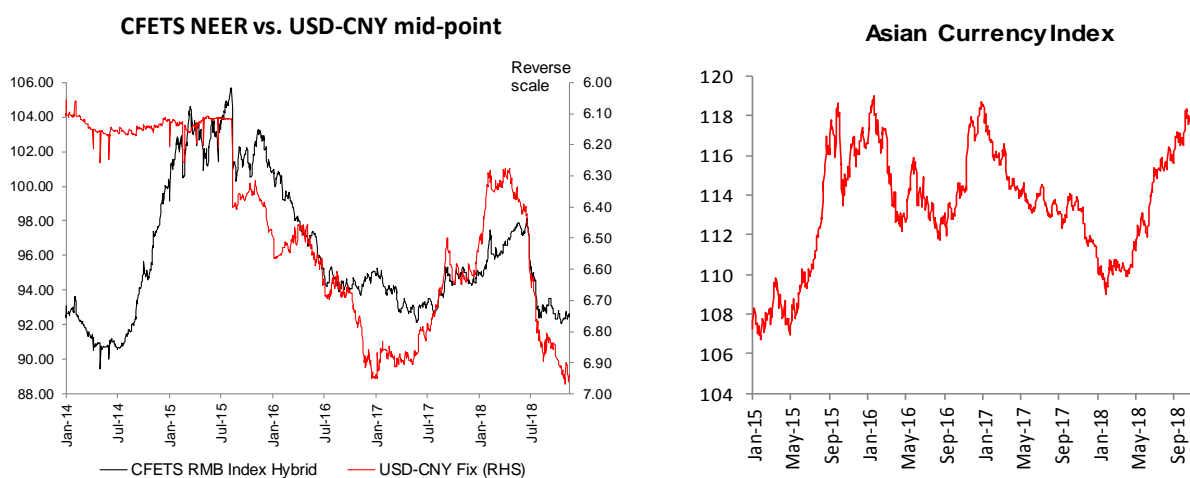
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Asian FX

- EM equities in aggregate chalked up further gains overnight and Asian equities (and FX) are looking supported this morning, ostensibly on the back of expectations of more positive chatter from the upcoming Xi-Trump meeting at the G20 meeting. Stabilizing but still soft crude may continue to lend a hand to the **INR**, while the latest rate hike from BI (Bank Indonesia) is also deemed **IDR** positive.
- **Bank Indonesia** surprised the markets with a 25bps hike in its benchmark 7-day reverse repo rate to 6.00%, with the central bank citing the need to continue to moderate the current account deficit (note surprise widening in the oct trade deficit). Apart from this, despite sufficiently elevated real interest rates, the hike we think may also have been motivated by the intent to pre-empt continued Fed policy normalization (and the attendant re-pricing of EM debt) with regards to rate differentials (on a nominal and real basis). Overall, we note that the surprise rate hike is a precautionary move and not effected under duress – **IDR** positive.
- Asian net portfolio flows meanwhile remained broadly supportive of the Asian complex. We note strong inflows into the Thai and Indian bond markets in the latest reading. Momentum-wise, outflow compression continues unabated in Taiwan and India, whilst Indonesia is showing early signs of inflow consolidation.
- **SGD NEER**: The SGD NEER firmed up to +1.44% above its perceived parity (1.3958), after almost touching +1.60% overnight amidst the GBP mayhem. Continue to expect the USD-SGD to be top-heavy, with the 55-day MA (1.3760) an initial cap while 1.3740 may beckon intra-day.
- **CFETS RMB Index**: This morning, the **USD-CNY** mid-point was set lower, within expectations, at 6.9377 compared to 6.9392 on Thursday. In response, the CFETS RMB Index eased further to 92.48 from 92.60 previously.



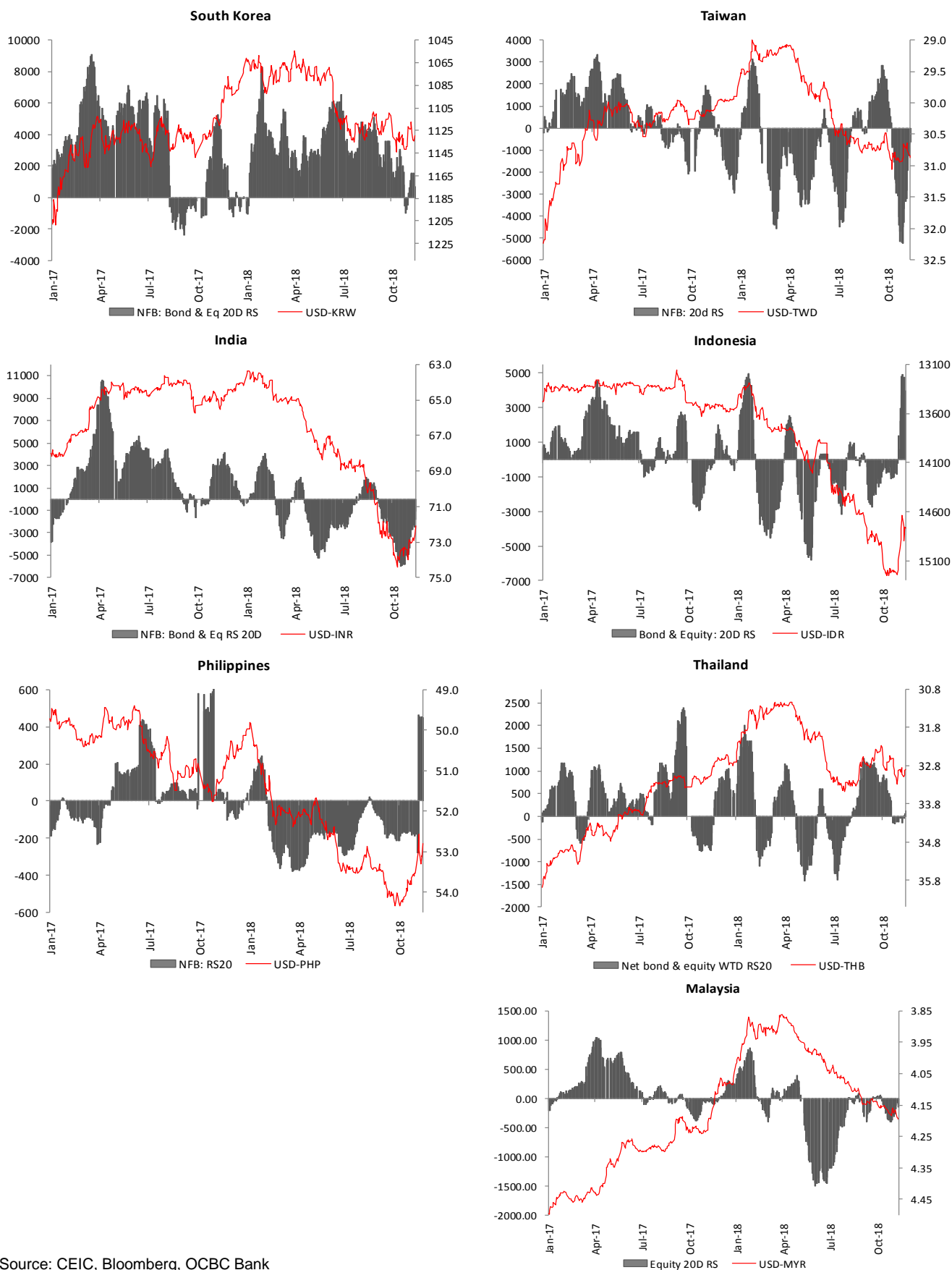
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

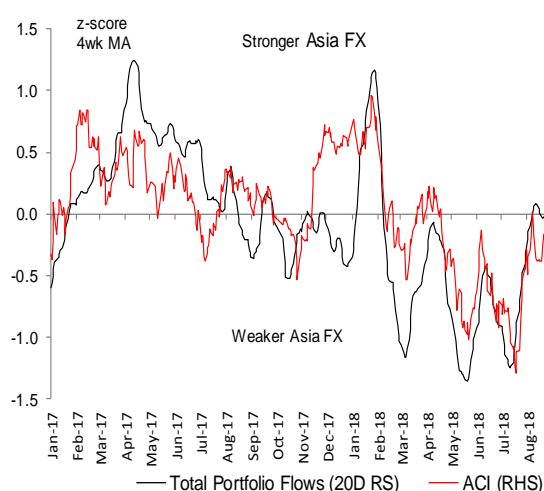
Currency	Bias	Rationale
USD-CNH	↔	3Q GDP numbers “disappointed”. PBOC’s quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. PBOC states that the 7.00 level for USD-CNY “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 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. 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 week, 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. 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. BI unexpectedly hiked in its Nov meeting, in what is possibly a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path.
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	↔/↓	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. 3Q GDP prints below expectation on slower consumer spending.

Source: OCBC Bank

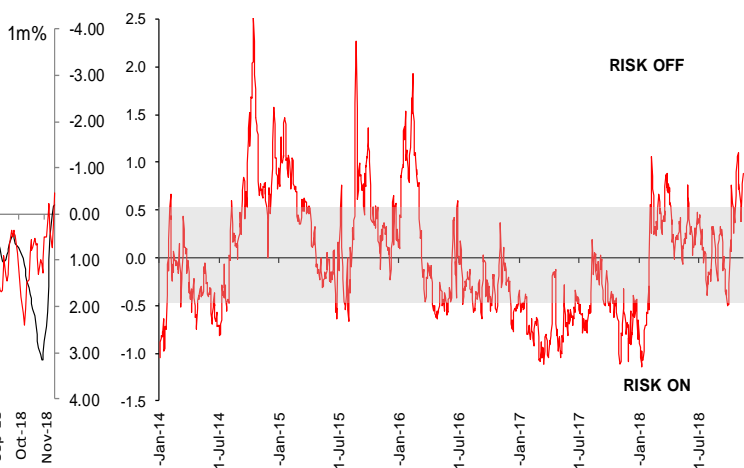
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

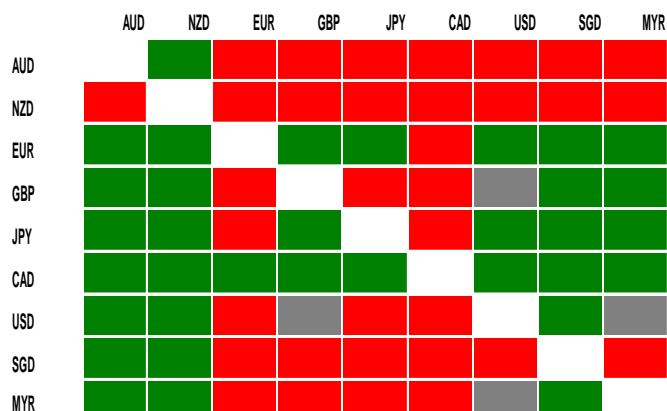
	DX	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1	-0.33	0.577	-0.397	-0.23	-0.807	0.561	-0.649	0.218	0.211	0.496	-0.974
SGD	0.86	-0.051	0.319	-0.088	0.113	-0.883	0.802	-0.803	-0.149	-0.122	0.16	-0.886
CHF	0.808	-0.547	0.577	-0.475	-0.318	-0.806	0.446	-0.715	0.268	0.374	0.4	-0.833
IDR	0.779	-0.542	0.587	-0.649	-0.582	-0.556	0.213	-0.363	0.477	0.338	0.558	-0.737
CNH	0.776	-0.096	0.427	-0.074	0.112	-0.85	0.743	-0.817	-0.143	-0.008	0.255	-0.815
MYR	0.577	-0.532	1	-0.424	-0.61	-0.24	0.022	-0.046	0.43	0.45	0.931	-0.546
THB	0.561	0.383	0.022	0.405	-0.559	-0.808	1	-0.839	-0.588	-0.445	-0.16	-0.594
JPY	0.496	-0.494	0.931	-0.496	-0.735	-0.07	-0.16	0.172	0.546	0.449	1	-0.418
CAD	0.411	-0.477	0.812	-0.566	-0.689	0.108	-0.343	0.351	0.607	0.525	0.868	-0.324
INR	0.341	0.235	-0.231	0.401	0.606	-0.784	0.863	-0.913	-0.581	-0.365	-0.415	-0.439
KRW	0.227	0.335	-0.388	0.488	0.651	-0.696	0.821	-0.836	-0.657	-0.484	-0.545	-0.323
USGG10	0.185	-0.765	0.621	-0.677	-0.862	0.135	-0.579	0.311	0.715	0.721	0.674	-0.143
TWD	-0.019	-0.732	0.573	-0.599	-0.793	0.35	-0.692	0.476	0.723	0.745	0.631	0.054
CNY	-0.33	1	-0.532	0.849	0.846	0.088	0.383	0.04	-0.816	-0.836	-0.494	0.344
PHP	-0.352	-0.448	0.192	-0.483	-0.612	0.73	-0.886	0.83	0.632	0.49	0.31	0.415
NZD	-0.379	-0.228	0.319	-0.341	-0.628	0.745	-0.814	0.876	0.564	0.426	0.482	0.473
AUD	-0.382	-0.058	0.249	-0.09	-0.455	0.685	-0.677	0.813	0.275	-0.006	0.379	0.433
GBP	-0.464	-0.292	0.136	-0.288	-0.468	0.808	-0.868	0.849	0.487	0.41	0.266	0.491
EUR	-0.611	0.772	-0.661	0.761	0.734	0.198	0.12	0.074	-0.717	-0.756	-0.611	0.562
	-0.974	0.344	-0.546	0.364	0.182	0.823	-0.594	0.71	-0.17	-0.167	-0.418	1

Source: Bloomberg

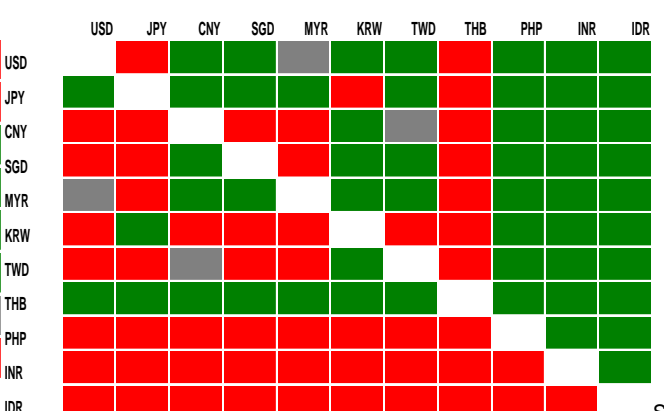
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1249	1.1300	1.1337	1.1400	1.1488
GBP-USD	1.2696	1.2700	1.2785	1.2800	1.3030
AUD-USD	0.7166	0.7200	0.7274	0.7300	0.7302
NZD-USD	0.6603	0.6800	0.6830	0.6841	0.6886
USD-CAD	1.3045	1.3100	1.3156	1.3200	1.3251
USD-JPY	112.83	113.00	113.41	114.00	114.21
USD-SGD	1.3712	1.3752	1.3760	1.3800	1.3865
EUR-SGD	1.5520	1.5550	1.5600	1.5825	1.5837
JPY-SGD	1.2045	1.2100	1.2133	1.2196	1.2200
GBP-SGD	1.7518	1.7542	1.7592	1.7600	1.7929
AUD-SGD	0.9861	1.0000	1.0010	1.0033	1.0053
Gold	1201.67	1210.71	1215.90	1239.30	1243.09
Silver	13.94	14.20	14.27	14.30	14.42
Crude	54.75	56.60	56.69	56.70	67.18

Source: OCBC Bank

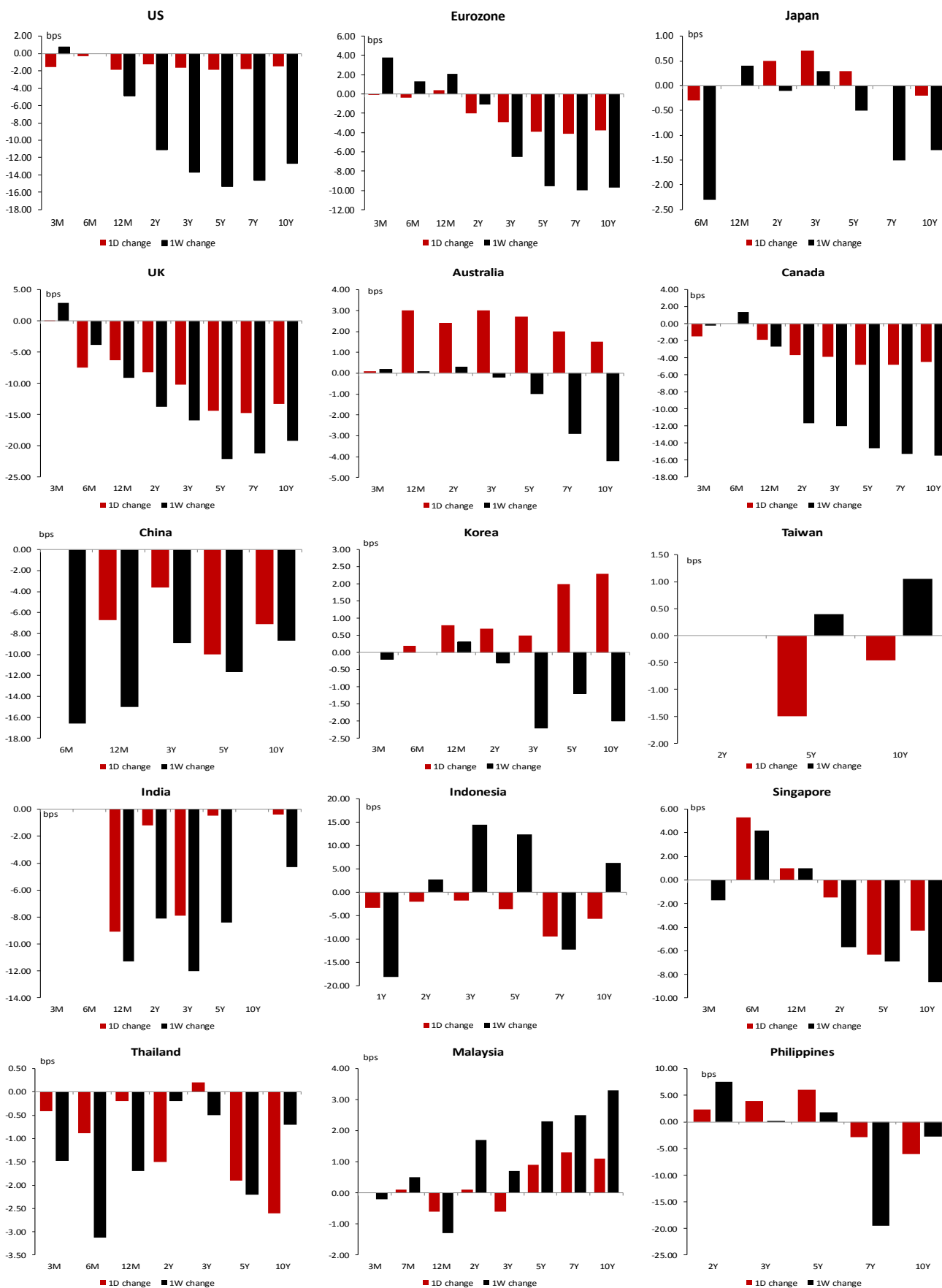
G10 FX Heat Map

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		
	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	Positoning ahead of BOE MPC and positivty 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	
5	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
* realized, excl carry									

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