

Tuesday, November 20, 2018

FX Themes/Strategy/Trading Ideas

- Despite assurances from the Fed's Williams on Monday with regards to the Fed's anticipated rate hike trajectory, the dollar continued to slip against the EUR and GBP on Monday following the slightly more cautious comments from Fed officials on last week (Powell, Clarida, Kaplan).
- However, with US equities crashing out and amid potential heightening of Sino-US trade tensions one again, the deterioration of risk appetite levels saw the cyclicals (AUD, NZD, CAD) being raked lower. Expect investors to remain nervous. Note that the **FXSI (FX Sentiment Index)** ticked higher for the 7th consecutive session yesterday and spent its 3rd consecutive session in **Risk-Off** territory. Except for bunds, global govie yields across the majors were also a touch softer on Monday. On this front, the JPY and CHF also proved to be beneficiaries.
- **Going ahead, the recent widening gulf between market-implied and the Fed's dot plots may keep the USD disadvantaged.** Overall, the **DXY** continued to bleed lower towards the 96.00 handle as expected. Meanwhile, the EUR and the GBP (short-end riskies continue to be depressed) may still be potentially tripped pending further news flow from the Italian fiscal front (European Commissions' verdict due tomorrow) and Brexit-related developments respectively.
- **In sum, look to stay heavy on the USD-JPY, given that the pair would continue to be undermined by both USD vulnerability as well as a potential deepening of risk aversion.**
- On the central bank front, latest comments by Kuroda continued to show the BOJ's dovish inclinations. Negative real rates still expected to be an ongoing feature, and there is little chance of the 2% inflation target being hit in FY2020. Today, the central bank calendar is also heavy. Expect to hear from RBA's Lowe (0820 GMT), a series of BOE officials led by Carney (1000 GMT), ECB's Weidmann (1500 GMT) and BOC's Wilkins (1745 GMT). In light of Clarida's recent dovish comments, watch for any further departure from established expectations by the other central banks.

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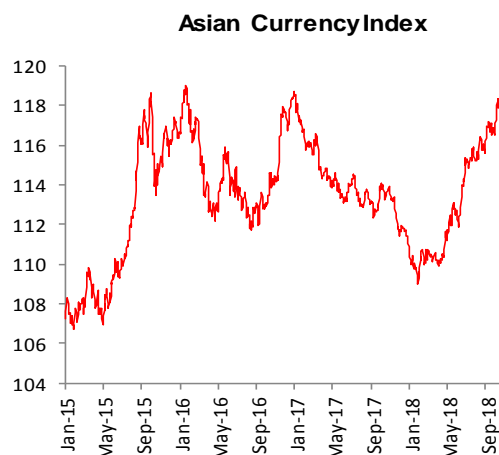
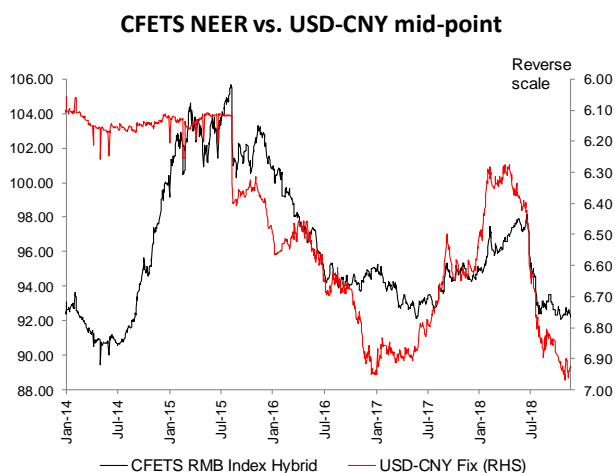
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Asian FX

- Asian equities are likely to take cues from Wall Street’s overnight (tech) slide and this may put a floor on USD-Asia although cross-asset market contagion at this juncture is proving fairly restrained early Tuesday in Asia. **Notably, markets (short-end vol surface) have also been attempting to price some bullishness into the CNH, INR, and KRW of late.**
- With regards to **actual net portfolio flows**, South Korea is still holding up with minor inflows (note however that net bond inflows are faltering) while net outflows for Taiwan continues to compress. Indonesia is still racking up strong net bond inflows with equity inflows pickling up of late. Elsewhere, net bond inflows for India have flipped to a net inflow environment as of last week, with net equity outflows also compressing. As a result, the overall flow environment for India is now effectively at neutral, compared to deep net outflow situation earlier in October. Lastly, overall net positive inflows for Thailand are attempting to accumulate further on the back of the recovering net equity inflows.
- **SGD NEER:** The SGD NEER firmed to +1.38% above its perceived parity (1.3926), with NEER-implied USD-SGD thresholds remaining static. Our near term view on the USD-SGD remains unchanged and continue to fade upticks within the 55-day MA (1.3759) and 1.3690.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher, as expected, at 6.9280 compared to 6.9245 on Monday. The CFETS RMB Index took another step lower to 92.21 from 92.31 previously.



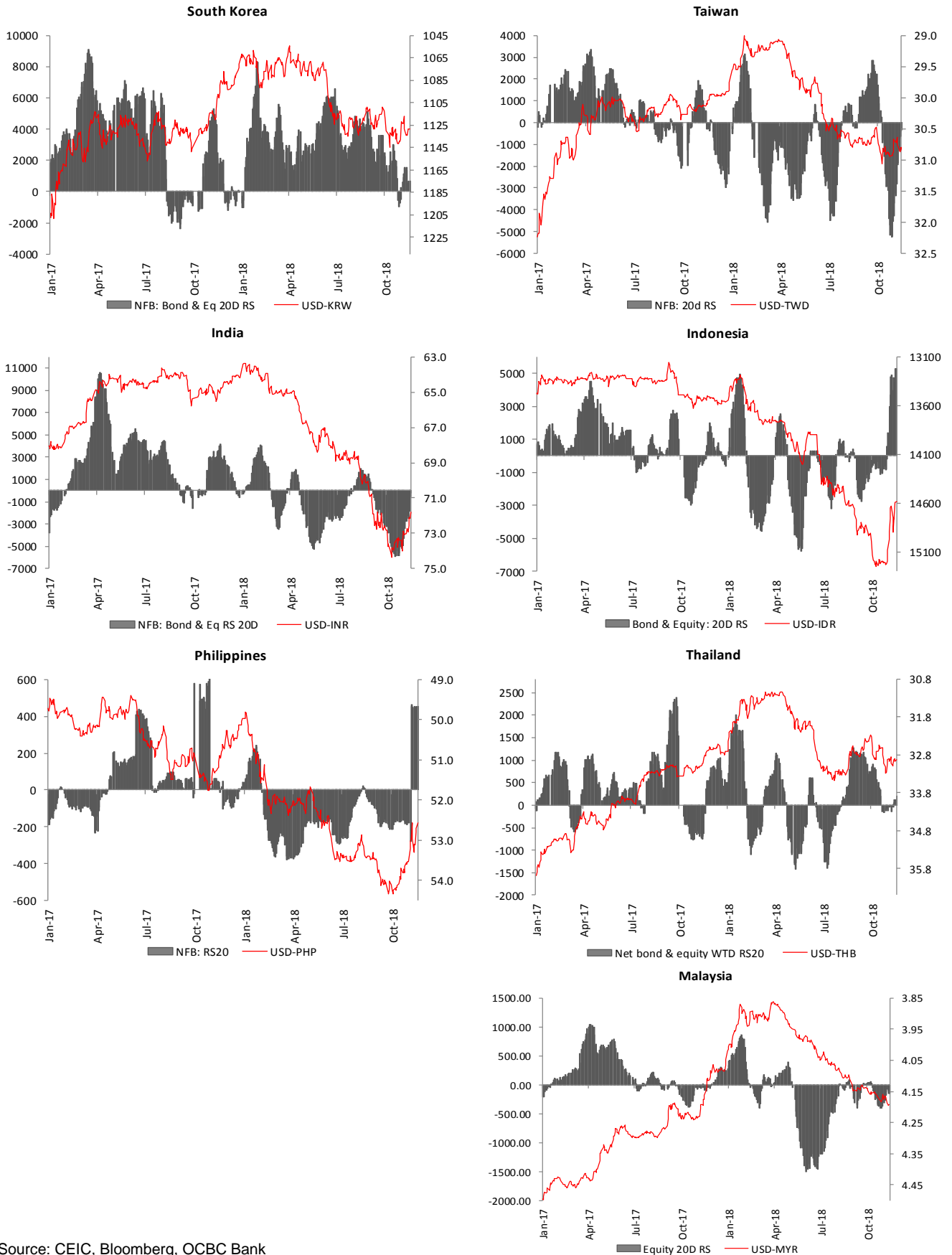
Source: OCBC Bank, Bloomberg

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. Front-end NDIRS leading the way lower on the week.
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	↓	Thawing relations between the RBI and government expected to assuage markets. In the interim, curves (govie and NDIRS yields) remain soft. Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance.
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 soggy, tracking cues from the US.
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. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in). Govie yields remain underpinned on the week.
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds with govie yields easing again despite the surprise BI rate hike in November. 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. New moves to ease foreign investment rules and tighten export revenue repatriation rules to shore up the CA.
USD-THB	↔/↓	BOT MPC members mulling a policy normalization timetable. 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. However, softer-than-expected 3Q GDP may put pressure on this accelerated timeline. Nevertheless, any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Govie and NDIRS yields also edging lower on the week.
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.

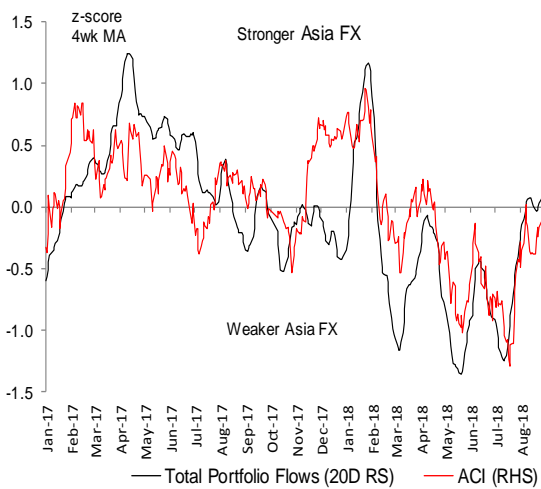
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



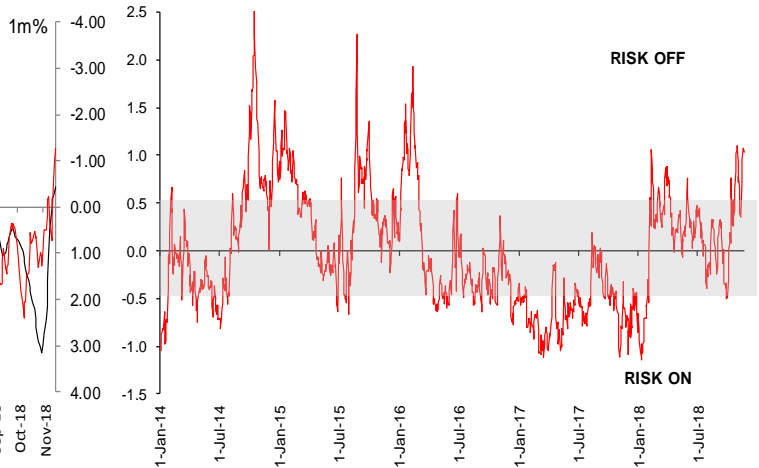
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.09	0.569	-0.155	-0.188	-0.601	0.51	-0.353	0.11	0.007	0.537	-0.962
SGD	0.8	0.411	0.237	0.22	0.135	-0.605	0.774	-0.257	-0.241	-0.409	0.204	-0.864
CHF	0.686	-0.045	0.384	0.129	0.237	-0.813	0.639	-0.759	-0.323	0.05	0.218	-0.656
IDR	0.596	-0.419	0.67	-0.517	-0.703	-0.163	-0.084	0.084	0.461	0.249	0.705	-0.533
CNH	0.569	-0.57	0.497	-0.294	-0.15	-0.741	0.236	-0.668	0.061	0.512	0.273	-0.555
MYR	0.569	-0.416	1	-0.375	-0.59	-0.129	-0.038	0.075	0.401	0.293	0.918	-0.513
THB	0.554	-0.078	0.764	-0.523	-0.715	0.24	-0.097	0.524	0.637	0.013	0.826	-0.569
JPY	0.537	-0.303	0.918	-0.471	-0.737	0.072	-0.129	0.298	0.561	0.172	1	-0.486
CAD	0.51	0.619	-0.038	0.65	0.604	-0.694	1	-0.546	-0.67	-0.483	-0.129	-0.576
INR	0.216	-0.568	0.627	-0.695	-0.88	0.236	-0.529	0.403	0.721	0.402	0.679	-0.222
KRW	0.092	-0.024	-0.284	0.481	0.693	-0.806	0.519	-0.936	-0.701	0.112	-0.487	-0.03
USGG10	0.076	-0.727	0.636	-0.732	-0.836	0.322	-0.682	0.41	0.761	0.562	0.649	-0.031
TWD	-0.013	0.039	-0.421	0.549	0.721	-0.727	0.485	-0.87	-0.756	0.035	-0.598	0.072
CNY	-0.087	0.226	0.295	-0.185	-0.57	0.692	-0.391	0.852	0.48	-0.451	0.466	0.076
PHP	-0.09	1	-0.416	0.763	0.608	0.091	0.619	0.148	-0.581	-0.874	-0.303	-0.07
NZD	-0.097	-0.108	0.376	-0.479	-0.68	0.762	-0.602	0.85	0.714	-0.055	0.503	0.09
AUD	-0.109	-0.226	0.261	-0.59	-0.716	0.743	-0.683	0.855	0.754	0.029	0.408	0.133
GBP	-0.154	0.01	0.403	-0.495	-0.753	0.751	-0.442	0.853	0.717	0.065	0.522	0.034
EUR	-0.433	0.722	-0.62	0.698	0.663	0.015	0.409	-0.127	-0.622	-0.702	-0.607	0.269
	-0.962	-0.07	-0.513	0.114	0.154	0.583	-0.576	0.275	-0.082	0.109	-0.486	1

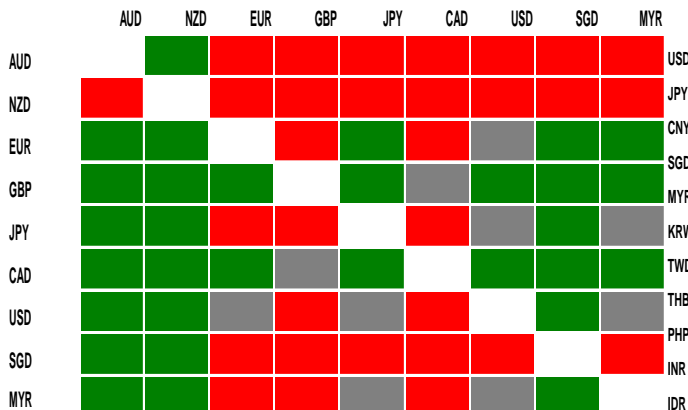
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1256	1.1400	1.1450	1.1486	1.1500
GBP-USD	1.2696	1.2800	1.2858	1.2900	1.3024
AUD-USD	0.7175	0.7200	0.7291	0.7300	0.7338
NZD-USD	0.6616	0.6800	0.6842	0.6884	0.6887
USD-CAD	1.3047	1.3100	1.3172	1.3200	1.3256
USD-JPY	111.89	112.00	112.61	112.87	113.00
USD-SGD	1.3690	1.3700	1.3714	1.3758	1.3800
EUR-SGD	1.5552	1.5700	1.5703	1.5784	1.5800
JPY-SGD	1.2045	1.2100	1.2179	1.2189	1.2200
GBP-SGD	1.7518	1.7600	1.7634	1.7700	1.7918
AUD-SGD	0.9871	0.9900	0.9999	1.0000	1.0049
Gold	1202.44	1211.98	1222.20	1239.30	1242.32
Silver	13.95	14.30	14.36	14.40	14.44
Crude	54.75	57.20	57.23	57.30	67.11

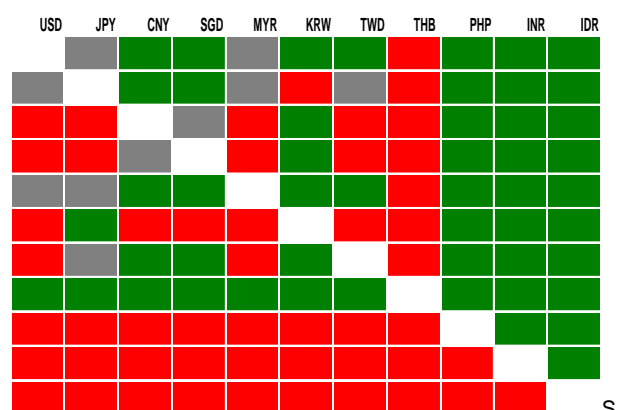
Source: OCBC Bank

G10 FX Heat Map



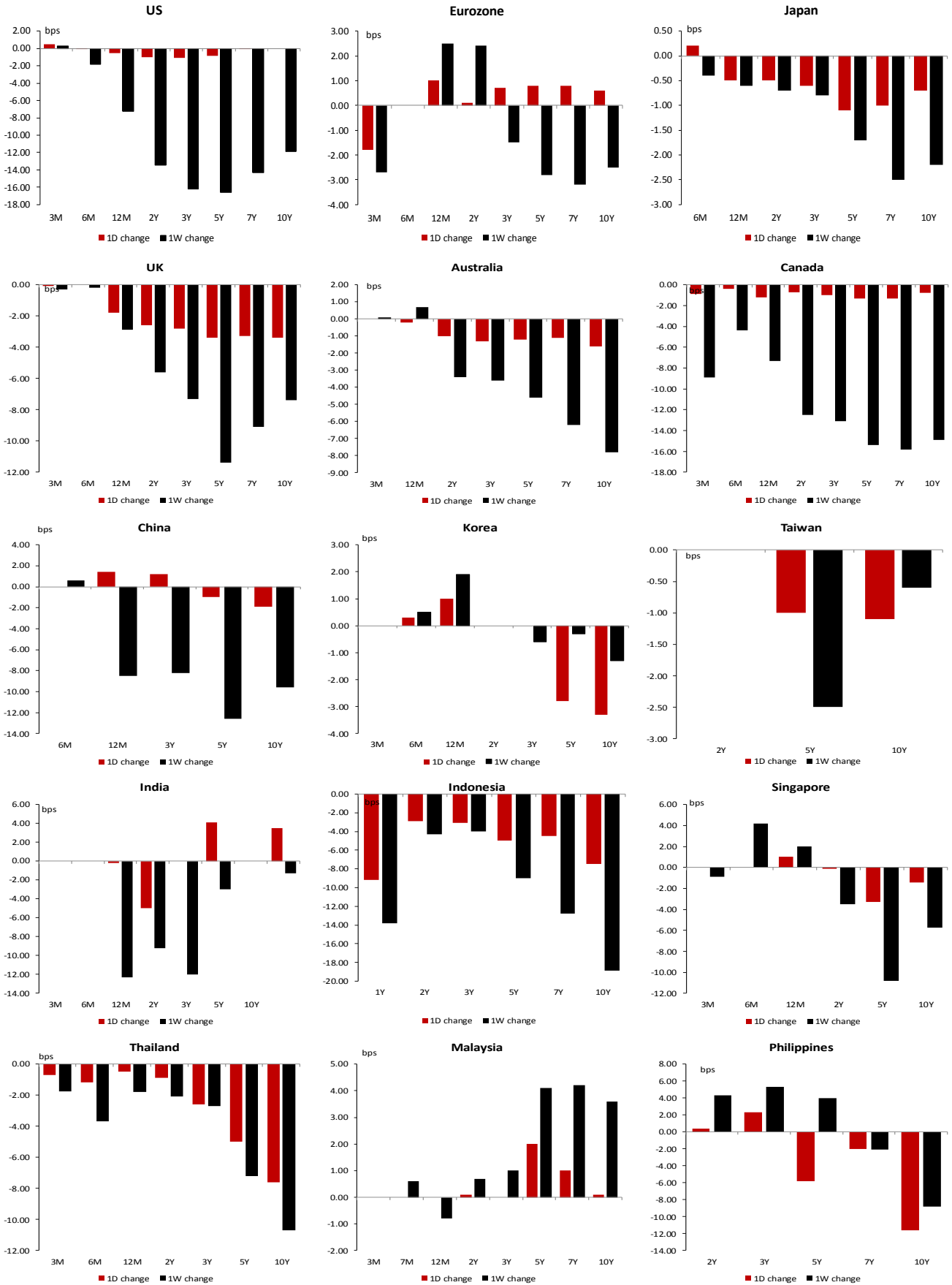
Source: OCBC Bank

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		
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
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
6	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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