

Wednesday, November 21, 2018

FX Themes/Strategy/Trading Ideas

- The majors sank against the USD on Tuesday with the JPY outperforming across the board as investor sentiment crumpled. Background global growth uncertainty in the wake of recent cautionary Fed rhetoric also saw the AUD-USD (despite somewhat supportive RBA meeting minutes) skidding to near 0.7200 by early Wednesday in Asia. Elsewhere, slumping oil (WTI crashed below 54.00) also pulled the CAD and the NOK lower against the USD.
- The EUR-USD meanwhile was knocked below 1.1400 with the BTP-bund spread widening ahead of the European Commission's verdict on the Italian budget draft on Wednesday. GBP-USD also relapsed below 1.2800 on the Brexit overhang. Overall, this lifted the **DXY** up past 96.80 by late NY.
- Global equities slumped and EM equities in aggregate also detached lower with crude (WTI) crashed below 54.00 on Tuesday. On the risk appetite front, the **FXSI (FX Sentiment Index)** spiked higher within its **Risk-Off** zone to its highest level in the year to date with the Index revisiting levels not seen since the global equity sell-off in January 2016.
- Expect investors to remain in risk-off mode intra-day within the G10 space, with FX markets re-engaging traditional correlations within a risk-off environment. Optionality suggests continued heightened nervousness towards the **GBP**.
- We had a host of central bank speak yesterday, with BOE's Carney and colleagues voicing support for the PM May's proposed Brexit deal, and speakers from BOC and RBA coming across as neutral to dovish. RBA's Lowe, in particular, highlighted that the Australian unemployment rate can fall by another 0.5% before wage pressures kick in. This may put paid to any nascent expectation that the stronger than expected unemployment number may bring forward the RBA's first rate hike in the cycle.

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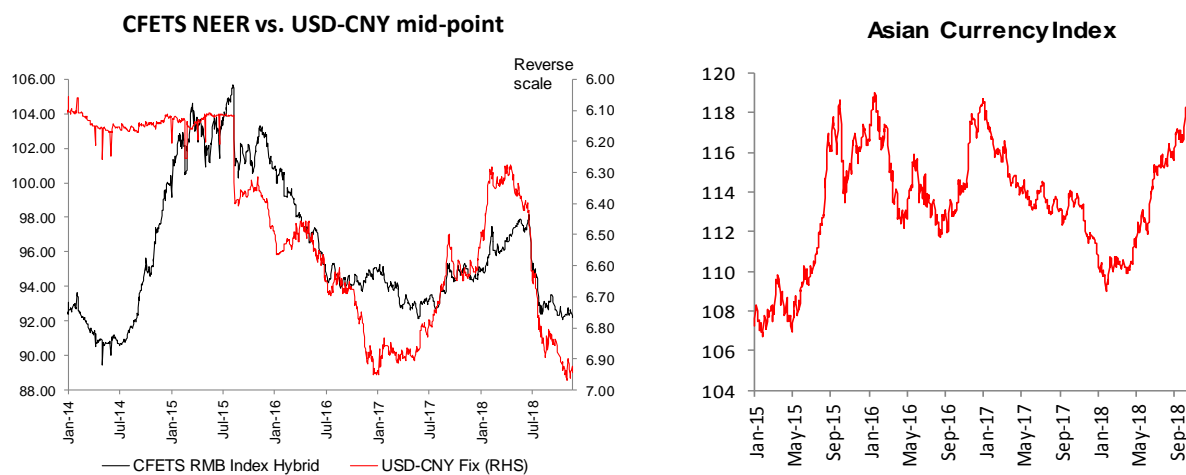
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Asian FX

- EM FX also saw significant negative pressure overnight (especially the TRY) and with Asian equities expected to be underwater at the start of the day, expect USD-Asia to attempt to search higher. Note also that short end vol risk premia for USD-CNH remains elevated ahead of the G20 meeting.
- **With global markets distraught this morning, expect USD-Asia to stay buoyant and prior improving portfolio flow considerations in the region to take a backseat intra-day.** Actual net portfolio flows indicate some moderation of net inflows for South Korea, while net outflows from Taiwan continue to compress. Minute inflows meanwhile are being printed for India, with net inflows for Indonesia pricking up strongly into the end of last week. Lastly, Thailand also continues to chalk up strengthening inflow momentum.
- **SGD NEER:** The SGD NEER stands at around +1.49% above its perceived parity (1.3965) this morning, with NEER-implied USD-SGD thresholds turning higher again. Note that the SGD NEER approached +1.60% yesterday. In the current fragile risk appetite environment, the basket may not be permitted to persist above +1.50% for sustained periods. For the USD-SGD, the 100-day MA (1.3718) may cushion, and any further aggravation of global risk aversion may float the pair above its 55-day MA (1.3759) towards 1.3790/00.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher, by less than expected (we suspect the CCF was triggered), at 6.9449 compared to 6.9280 on Tuesday. However, the CFETS RMB Index inched higher to 92.27 from 92.21 previously.



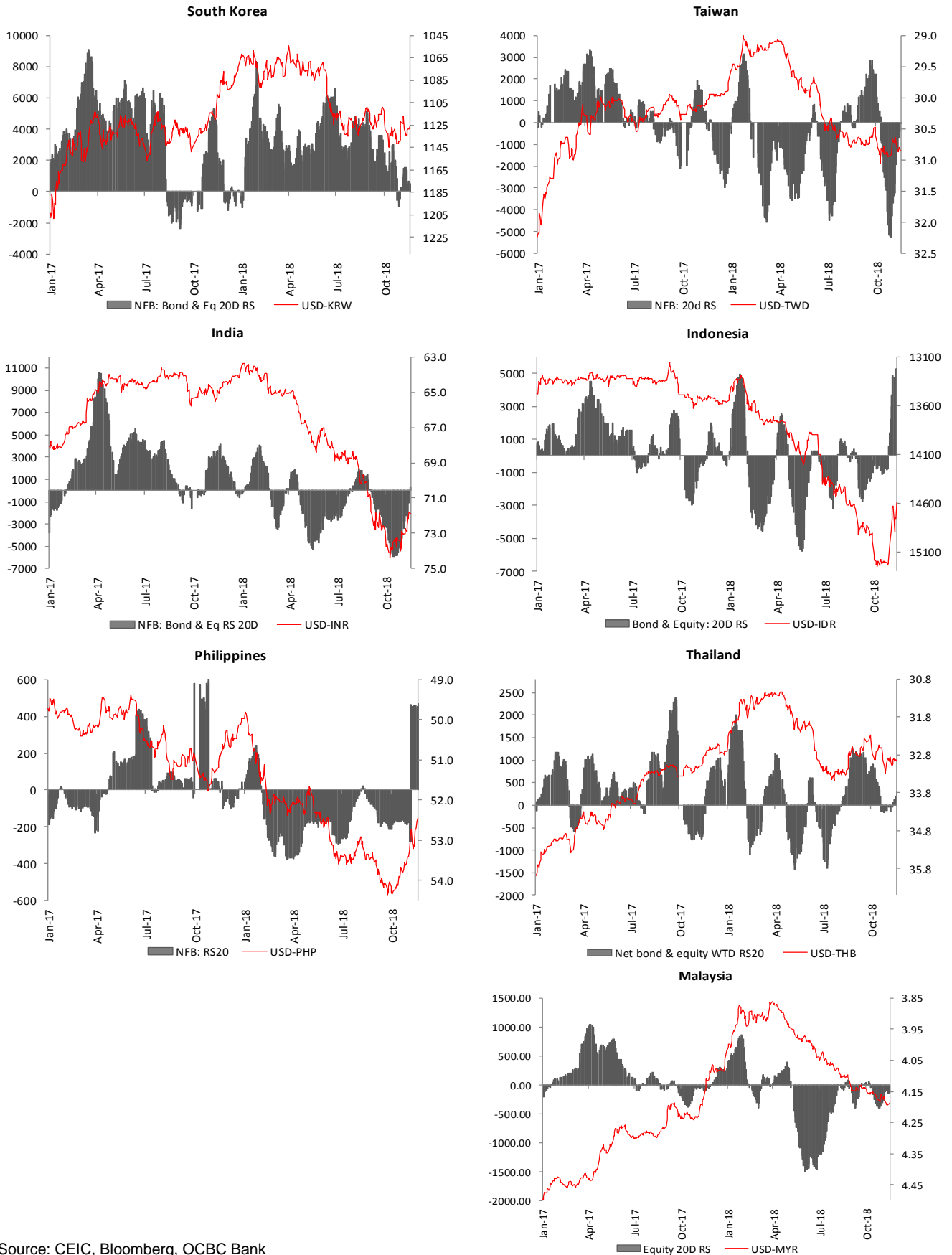
Source: OCBC Bank, Bloomberg

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. Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance. Political risk ahead with state elections scheduled for end-Nov and early Dec. In the interim, curves (govie and NDIRS yields) remain soft.
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. The hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, in order to maintain the rate spread. New moves to ease foreign investment rules and tighten export revenue repatriation rules to shore up the CA. Note equity inflows are also consistently picking up momentum alongside bond inflows.
USD-THB	↔/↓	BOT MPC members mulling a policy normalization timetable. BOT unchanged at Nov MPC, but saw 3 dissenters in favour of rate hike, suggesting an inclination towards a Dec hike, rather than Feb. However, softer-than-expected 3Q GDP may put pressure on this 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 mixed to firmer 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.

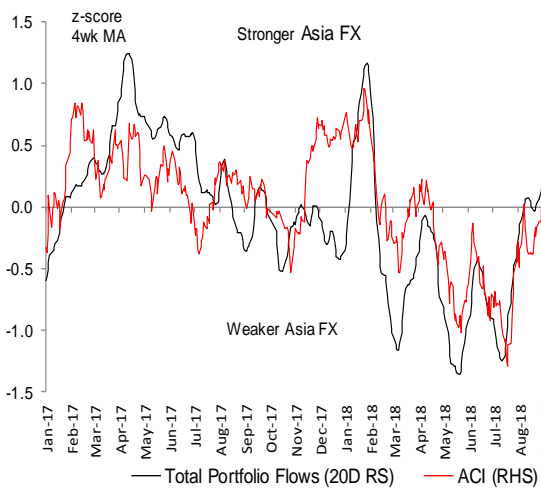
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



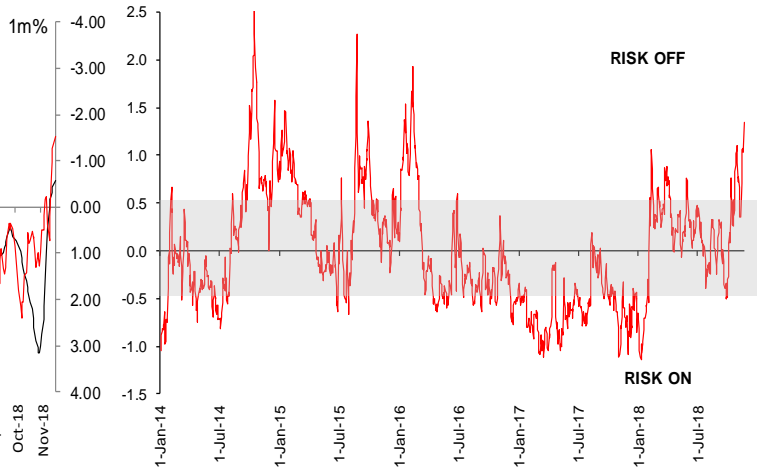
Source: CEIC, Bloomberg, OCBC Bank

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	-0.123	0.568	-0.188	-0.192	-0.592	0.49	-0.37	0.127	0.007	0.539	-0.957
SGD	0.718	0.39	0.214	0.308	0.14	-0.389	0.761	-0.082	-0.276	-0.409	0.152	-0.765
CHF	0.639	-0.177	0.342	-0.1	0.178	-0.849	0.385	-0.834	-0.181	0.05	0.208	-0.552
IDR	0.589	-0.392	0.669	-0.473	-0.701	-0.139	-0.078	0.084	0.452	0.249	0.702	-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	0.568	-0.406	1	-0.361	-0.591	-0.132	-0.041	0.054	0.401	0.293	0.918	-0.514
THB	0.539	-0.341	0.918	-0.455	-0.738	0.043	-0.153	0.217	0.561	0.172	1	-0.489
JPY	0.518	-0.141	0.744	-0.409	-0.695	0.292	-0.133	0.526	0.588	0.013	0.816	-0.505
CAD	0.49	0.595	-0.041	0.64	0.605	-0.579	1	-0.434	-0.675	-0.483	-0.153	-0.538
INR	0.19	-0.549	0.611	-0.57	-0.858	0.285	-0.54	0.421	0.673	0.402	0.657	-0.192
KRW	0.115	0.008	-0.271	0.361	0.669	-0.801	0.538	-0.906	-0.644	0.112	-0.455	-0.119
USGG10	0.081	-0.703	0.637	-0.696	-0.836	0.272	-0.682	0.354	0.758	0.562	0.65	-0.032
TWD	-0.002	0.111	-0.416	0.476	0.714	-0.692	0.547	-0.787	-0.73	0.035	-0.594	-0.007
CNY	-0.109	-0.226	0.261	-0.59	-0.716	0.743	-0.683	0.855	0.754	0.029	0.408	0.133
PHP	-0.123	1	-0.406	0.789	0.589	0.213	0.595	0.194	-0.595	-0.874	-0.341	0.025
NZD	-0.129	0.339	0.254	0.043	-0.499	0.752	-0.306	0.88	0.354	-0.451	0.395	0.075
AUD	-0.135	0.041	0.345	-0.248	-0.606	0.805	-0.495	0.876	0.576	-0.055	0.449	0.088
GBP	-0.165	-0.144	0.397	-0.416	-0.743	0.722	-0.614	0.796	0.686	0.065	0.556	0.204
EUR	-0.446	0.747	-0.611	0.717	0.653	0.113	0.425	0.038	-0.634	-0.702	-0.605	0.305
	-0.957	0.025	-0.514	0.114	0.154	0.537	-0.538	0.323	-0.085	0.109	-0.489	1

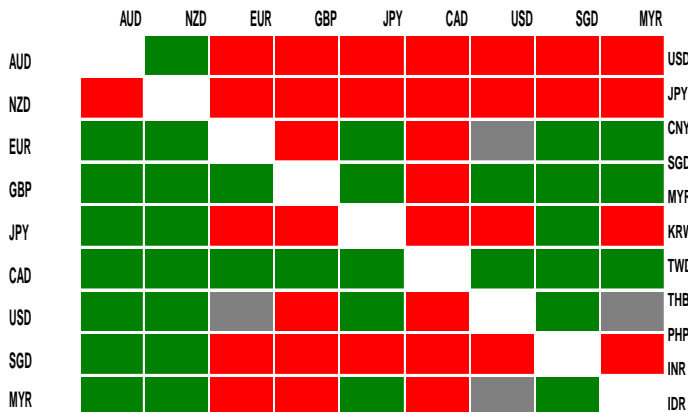
Source: Bloomberg

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

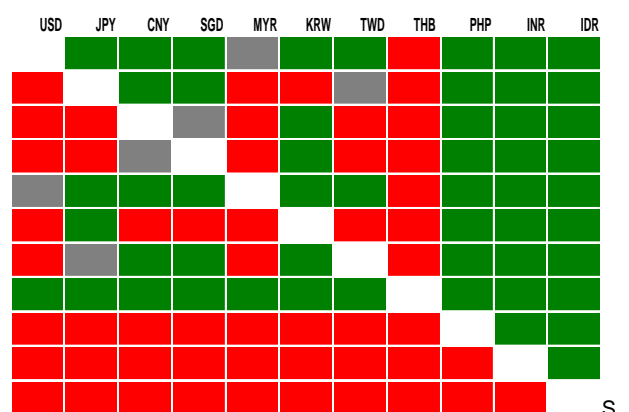
Source: OCBC Bank

G10 FX Heat Map



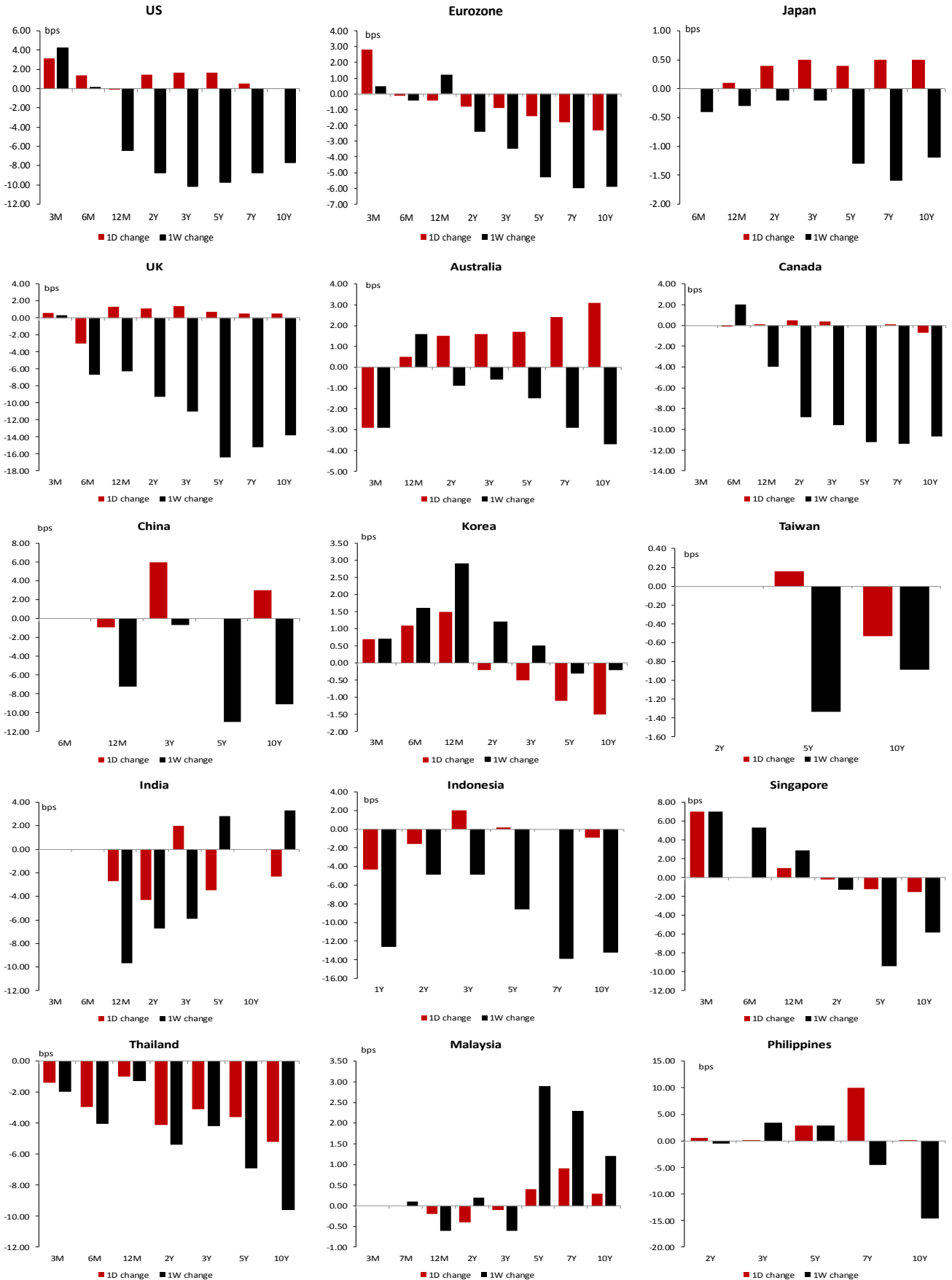
Source: OCBC Bank

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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