

Thursday, November 22, 2018

FX Themes/Strategy/Trading Ideas

- The recovery in global equities (WTI also rose above 54.00) resulted in the USD grinding lower against the most of the majors on Wednesday with the JPY also underperforming across the board.
- This improvement in risk appetite benefitted the cyclical currencies especially, with the AUD, NZD, and CAD outshining their counterparts on the crosses. Prevailing uncertainty however saw the GBP trailing all its cohorts. The **FXSI (FX Sentiment Index)** slipped on Wednesday as global risk appetite levels improved although we note that the Index remained in **Risk-Off** territory.
- The **EUR-USD** also firmed on the day (BTP-Bund spread also narrowed) and managed to hold above 1.1400 temporarily despite the European Commission expectedly stating that the Italian 2019 budget did not comply with EU debt criterion. Note some market optimism over the Italy issue, stemming from positive sound-bites from Salvini over possible tweaks in the budget proposal.
- Overall, the **DX** settled mildly lower around 96.712 with UST yield gaining incrementally and the curve bear flattening (despite the less than encouraging US data prints with Libor hiking up). Note a stray (but noted) report overnight highlighting a risk that the FOMC may pause in the spring of 2019.
- In the interim, despite NY being away for Thanksgiving today, expect investors to stay supported on the **EUR-GBP**, with Italian officials potentially looking for a compromise with the EU, while negative GBP potential at this juncture (on the back of Brexit headlines) may remain a larger risk. Elsewhere, with the antipodeans managing to avoid a complete rout despite the risk aversion episode earlier in the week, expect to stay constructive on the **AUD-USD** (despite soft govie yield in recent sessions) on dips.
- On the data front, US October (and revised Sep readings) US durable goods orders were flat to softer than expected while the Nov Michigan consumer sentiment and weekly initial claims also disappointed. This was however mitigated by better than expected Oct existing home sales figures. The data calendar is light for today with the US out. Watch for Eurozone consumer confidence (1500 GMT) and prelim PMI in Australia (2200 GMT).
- As for the central banks, the focus will be in Europe, with the ECB minutes (1230 GMT) to be released, and a whole slew of ECB speakers scheduled, starting from Angeloni (0915 GMT).

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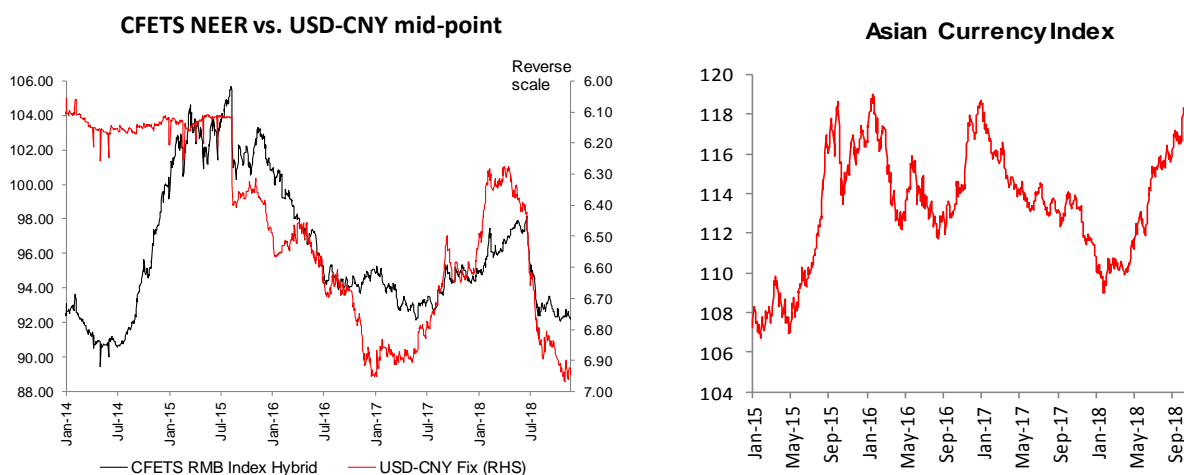
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Asian FX

- EM FX also recovered against the greenback on Wednesday (especially the ZAR and TRY) with the USD-CNH settling below 6.9300 overnight. Note however that the latest **OECD** growth forecasts should provide some food for thought with respect to the slightly dimmer global macro outlook for 2019.
- On the **Asian portfolio flow front**, overall inflow momentum across Asia continues to improve. Inflows into Taiwan, Indonesia and Thailand continued to build. The exception is South Korea, where inflow momentum eased marginally towards neutral levels. On aggregate terms across Asia, equity outflow momentum, on a rolling 20-day basis, has recovered to near-neutral, after hitting extended outflow levels towards the end of October.
- **SGD NEER**: 3Q GDP numbers came in softer than expected this morning while the MAS noted that inflation projections and the monetary policy outlook remain unchanged from October. The SGD NEER is slightly higher on the day at around +1.55% above its perceived parity (1.3940) but may not firm excessively from current levels (watch the +1.60% threshold) despite NEER-implied USD-SGD thresholds being lower on the day. Prefer to fade any upticks towards 1.3750 for the 100-day MA (1.3718).
- **CFETS RMB Index**: This morning, the **USD-CNY** mid-point was set lower, by less than expected, at 6.9391 compared to 6.9449 on Wednesday, leaving us to suspect, once again, that the CCF was triggered. However, the CFETS RMB Index inched higher to 92.20 from 92.27 previously. Elsewhere, note that 1M CNH vols continue to get lifted (widening the vol premia), with the vol surface angling for the downside for the USD-CNH.



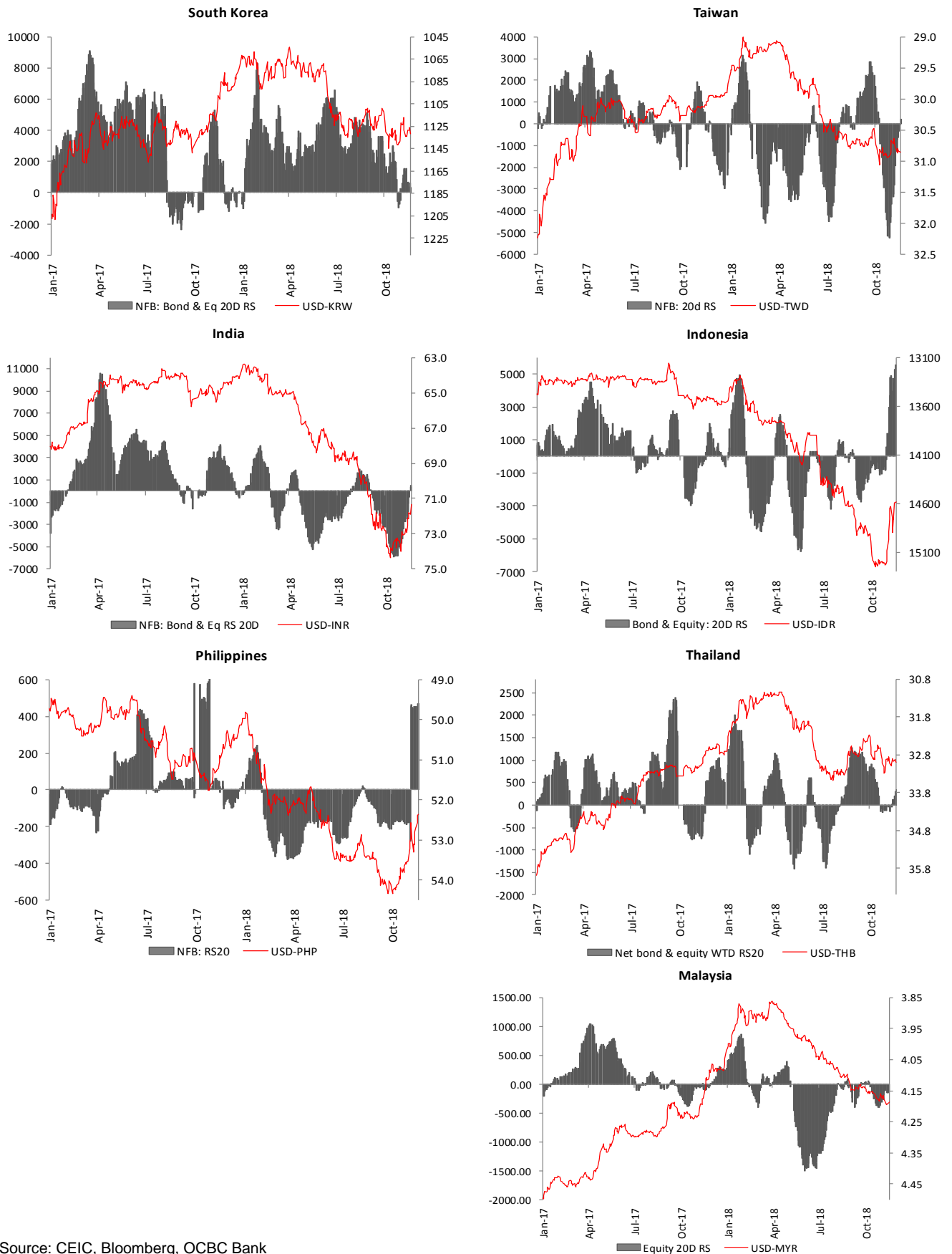
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

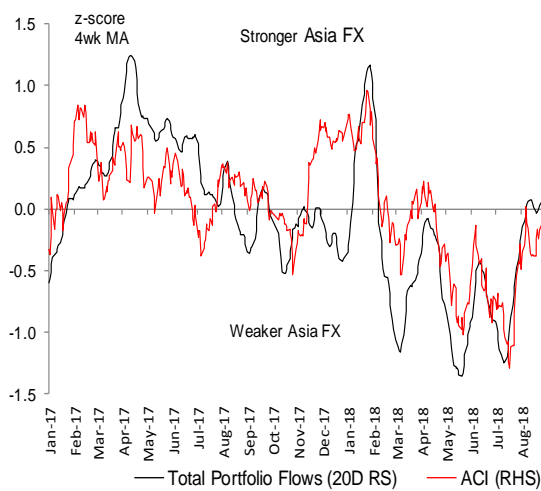
Currency	Bias	Rationale
USD-CNH	↔/↓	3Q GDP numbers “disappointed”. PBOC’s quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. PBOC states that the 7.00 level for USD-CNY “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. Back-end of KTB and NDIRS leading the way lower in terms of yields.
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.
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. 3Q GDP numbers disappoint. Curves at the front end remain supported.
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). MGS yields remain underpinned.
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds with govie yields easing again (bull flattening) 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. Nevertheless, any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Stronger than expected rebound in Oct exports offset weak 3Q GDP print (BOT looking to downgrade 2018 growth forecast). Govie and NDIRS yields softer 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 and a plateau with respect to policy tightening. 3Q GDP prints below expectation on slower consumer spending.

Source: OCBC Bank

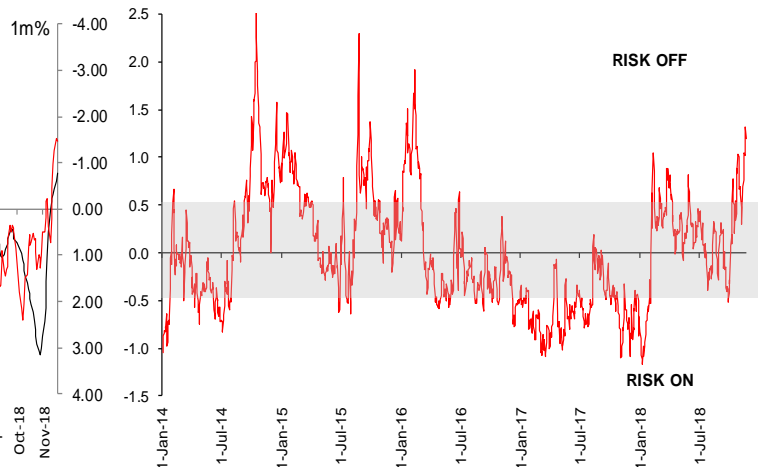
USD-Asia VS. Net Capital Flows



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	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1	-0.07	0.598	-0.152	-0.136	-0.521	0.488	-0.278	0.104	0.003	0.535	-0.945
CHF	0.605	0.564	0.302	0.436	0.203	-0.176	0.697	0.086	-0.301	-0.547	0.246	-0.747
CAD	0.602	-0.255	0.262	-0.147	0.211	-0.875	0.473	-0.83	-0.191	0.182	0.125	-0.534
CNY	0.598	-0.309	1	-0.304	-0.609	-0.104	-0.032	0.12	0.402	0.186	0.925	-0.568
CNH	0.535	-0.222	0.925	-0.38	-0.737	0.111	-0.145	0.338	0.552	0.074	1	-0.511
SGD	0.533	-0.015	0.754	-0.316	-0.706	0.341	-0.138	0.577	0.578	-0.112	0.846	-0.572
THB	0.527	-0.281	0.744	-0.417	-0.687	0.034	-0.124	0.268	0.451	0.191	0.742	-0.468
MYR	0.489	-0.609	0.408	-0.329	-0.076	-0.733	0.197	-0.687	0.035	0.568	0.16	-0.416
JPY	0.488	0.589	-0.032	0.637	0.64	-0.561	1	-0.469	-0.688	-0.444	-0.145	-0.548
KRW	0.171	-0.475	0.615	-0.538	-0.862	0.332	-0.547	0.461	0.67	0.345	0.653	-0.181
TWD	0.113	-0.691	0.616	-0.696	-0.875	0.237	-0.68	0.304	0.771	0.523	0.634	-0.06
NZD	0.059	-0.081	-0.313	0.3	0.721	-0.814	0.539	-0.924	-0.657	0.208	-0.524	-0.018
PHP	-0.039	0.178	0.458	-0.165	-0.678	0.808	-0.403	0.888	0.593	-0.221	0.569	-0.073
IDR	-0.052	-0.091	0.304	-0.501	-0.771	0.754	-0.625	0.868	0.765	-0.079	0.468	0.024
INR	-0.058	0.296	0.25	-0.016	-0.591	0.742	-0.239	0.876	0.403	-0.434	0.417	0
USGG10	-0.07	1	-0.309	0.801	0.548	0.226	0.589	0.279	-0.569	-0.883	-0.222	-0.078
AUD	-0.079	0.061	-0.445	0.451	0.798	-0.679	0.543	-0.806	-0.767	0.101	-0.649	0.105
GBP	-0.428	0.774	-0.515	0.732	0.634	0.152	0.406	0.063	-0.616	-0.716	-0.5	0.251
EUR	-0.945	-0.078	-0.568	0.049	0.094	0.43	-0.548	0.19	-0.058	0.149	-0.511	1

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1258	1.1300	1.1398	1.1400	1.1478
GBP-USD	1.2696	1.2700	1.2785	1.2800	1.3011
AUD-USD	0.7176	0.7200	0.7252	0.7300	0.7338
NZD-USD	0.6625	0.6800	0.6821	0.6881	0.6884
USD-CAD	1.3059	1.3200	1.3223	1.3290	1.3300
USD-JPY	112.08	112.93	112.98	113.00	114.21
USD-SGD	1.3686	1.3700	1.3735	1.3759	1.3800
EUR-SGD	1.5546	1.5600	1.5656	1.5700	1.5767
JPY-SGD	1.2045	1.2100	1.2158	1.2184	1.2200
GBP-SGD	1.7500	1.7518	1.7560	1.7600	1.7902
AUD-SGD	0.9874	0.9900	0.9961	1.0000	1.0045
Gold	1202.40	1212.91	1227.70	1239.30	1242.15
Silver	14.40	14.45	14.47	14.50	14.86
Crude	52.77	54.40	54.41	54.50	66.96

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		1	1	1	2	2	2	2	2
NZD			1	1	2	2	2	2	2
EUR	1	1		2	1	2	2	1	9
GBP	1	1			1	9	1	1	1
JPY	2	2	1	1		1	1	1	2
CAD	2	2	2	9	1		2	1	1
USD	2	2	2	1	1	2		1	1
SGD	2	2	1	1	1	1	1		2
MYR	2	2	9	1	2	1	1	2	

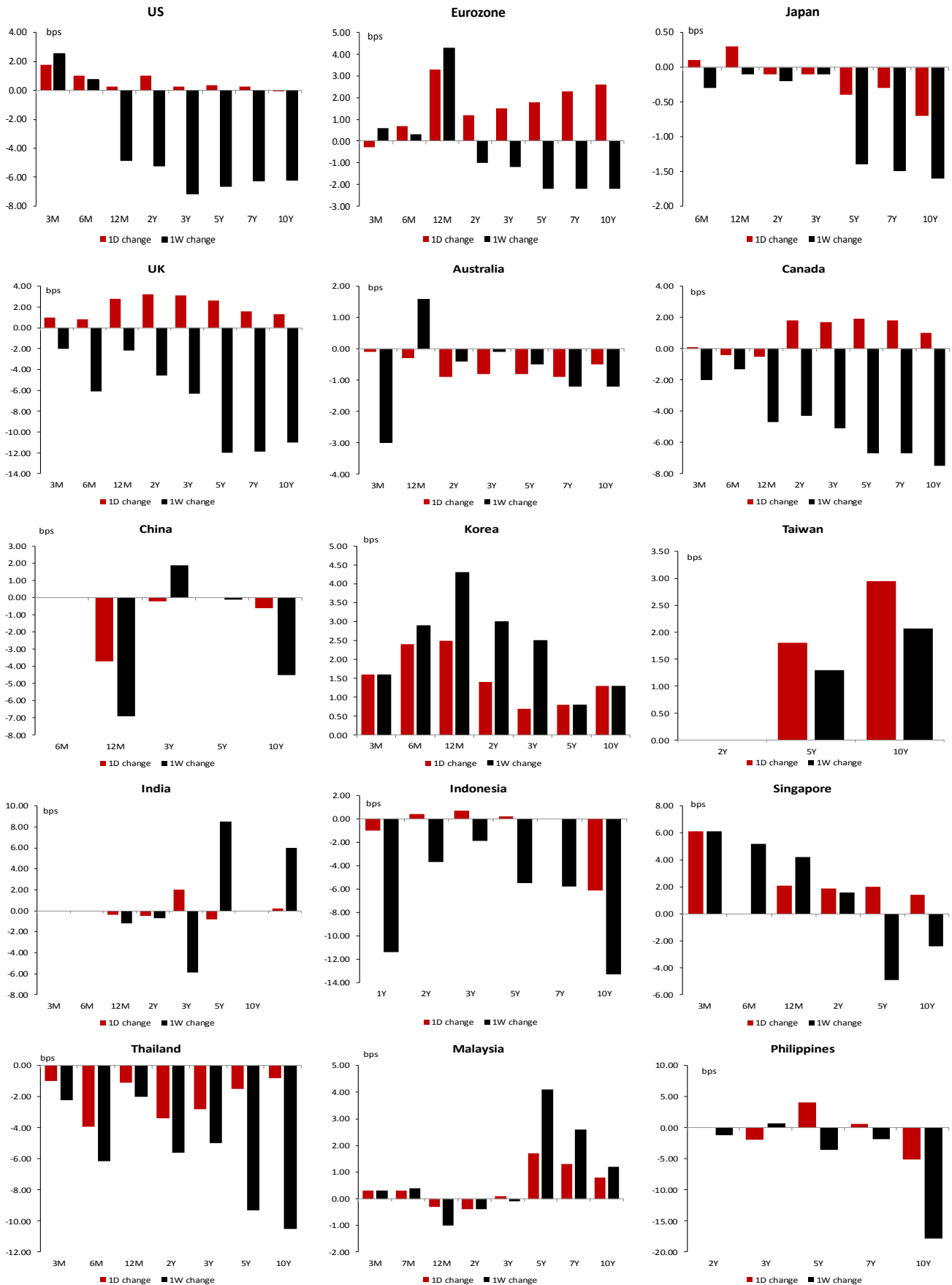
Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		1	1	1	1	1	1	2	1	1	1
JPY			2	1	2	1	1	2	1	1	1
CNY				9	1	9	2	2	1	1	1
SGD					2	9	2	2	1	1	1
MYR						1	1	2	1	1	1
KRW							1	1	2	2	1
TWD								2	1	1	1
THB									1	1	1
PHP										1	1
INR											1
IDR											

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	Positoning 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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