

Friday, November 23, 2018**FX Themes/Strategy/Trading Ideas – Late cycle uncertainty**

- While the rest of the markets remained largely moribund, the GBP-USD popped higher (briefly above 1.2900) and gilt yields rose on Thanksgiving after news emerged that an in principle agreement between the EU and Britain had been reached with regards to the text of the Brexit draft declaration.
- PM May's subsequent address to the House of Commons (a vote may potentially be expected by 10 Dec 18) however failed to generate additional lift for the cable, while investors will look to this Sunday's EU Summit for headline-induced volatility on this front. Note that the options market is less impressed with the draft declaration, with riskies largely static, highlighting some underlying skepticism on the deal and suspicion that the spot move may have been an over-reaction.
- The AUD-USD and NZD-USD meanwhile retraced partially their respective gains chalked up a day earlier while also underperforming across G10 space as global economic sentiment remained tentative. USD-CAD sank below 1.3200 as crude stabilized.
- EUR-USD shadowed slightly higher as a result, while ECB meeting minutes proved mixed ("uncertainties and fragilities" acknowledged but deemed insufficient to impact overall momentum further) and the ECB's Praet doused expectations of any additional TLTRO (Targeted Longer-Term Refinancing Operation) for banks in the near term.
- Soft Asia and EZ equities on Thursday mirrored the bounce higher in the **FXSI (FX Sentiment Index)** with the Index wading deeper into Risk-Off territory. Global macro concerns (note the latest dip in iron ore) we think remain the overarching impediment to any meaningful recovery in risk appetite levels in the near term. To this end, expect the **AUD-USD** to fade upticks with short-end implied vols still attempting to play catch-up with the firming realized vols.
- Overall, the **DX** eased lower to around 96.71 on Thursday and the Index may attempt to range trade into the end of the week. On the **GBP-USD**, any follow through on the upside ahead of the Sunday EU Summit may be expected to be met with a healthy dose of skepticism. Note that despite overnight price developments in spot, short-end vol premia remained elevated.

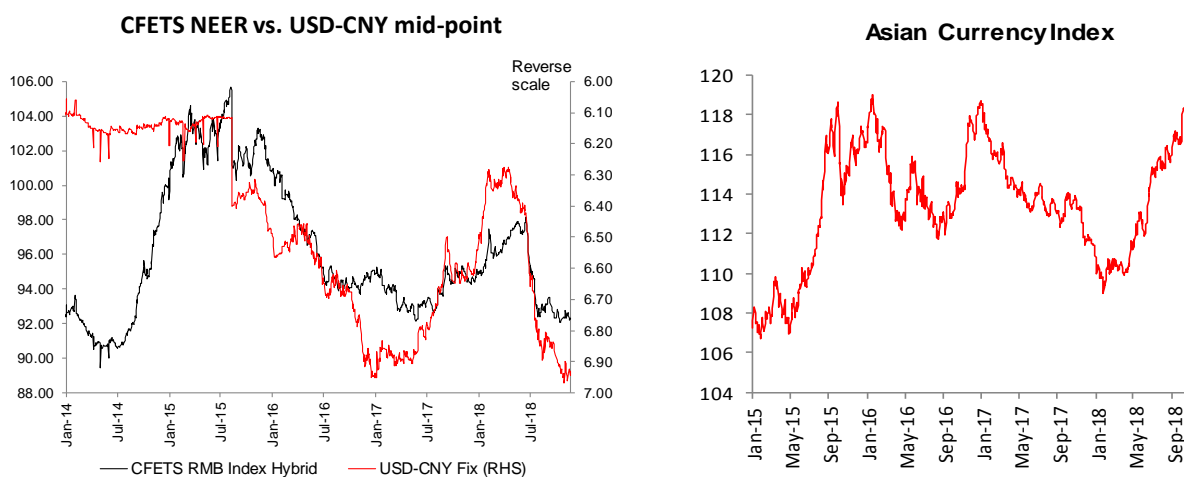
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian FX

- With the broad dollar (and long-end US yields) fading from recent highs and global investor nervousness not acutely concentrated on EM/Asia at this juncture, the regional currencies may remain somewhat sheltered.
- In terms of relative value, some of the southern economies may however continue to hold an edge over their northern neighbors with sentiment towards the **India** and **Indonesia** (FX and govies) boosted by slumping crude, recovering portfolio flows and notable real interest rate levels.
- On the **Asian portfolio flow front**, we note sustained improvements in terms of inflow momentum into Taiwan, Indonesia and Thailand. Indonesia is really the star performer, with bond inflows taking another step higher in the latest reading. Meanwhile, bond inflow momentum continues to fade for South Korea, while equity inflows remained anemic on tech weakness.
- **SGD NEER**: The SGD NEER is slightly softer at around +1.49% above its perceived parity (1.3938). NEER-implied USD-SGD thresholds are largely on the day. Into the end of the week, continue to expect a narrow range for the USD-SGD, populating the zone between the 55-day MA (1.3757) and the 100-day MA (1.3720). Watch CPI prints later today (0500 GMT).
- **CFETS RMB Index**: This morning, the **USD-CNY** mid-point was set lower again, within expectations, at 6.9306 compared to 6.9391 on Thursday. The CFETS RMB Index inched higher to 92.32 from 92.29 previously. Expect some choppy, headline-driven trading on the RMB next week as we head into the Trump-Xi Summit at G-20 (30 Nov – 1 Dec). At this juncture, there might be little chance for a concrete deal. Markets may have to draw positivity from potential small wins like an agreed framework for future discussions.



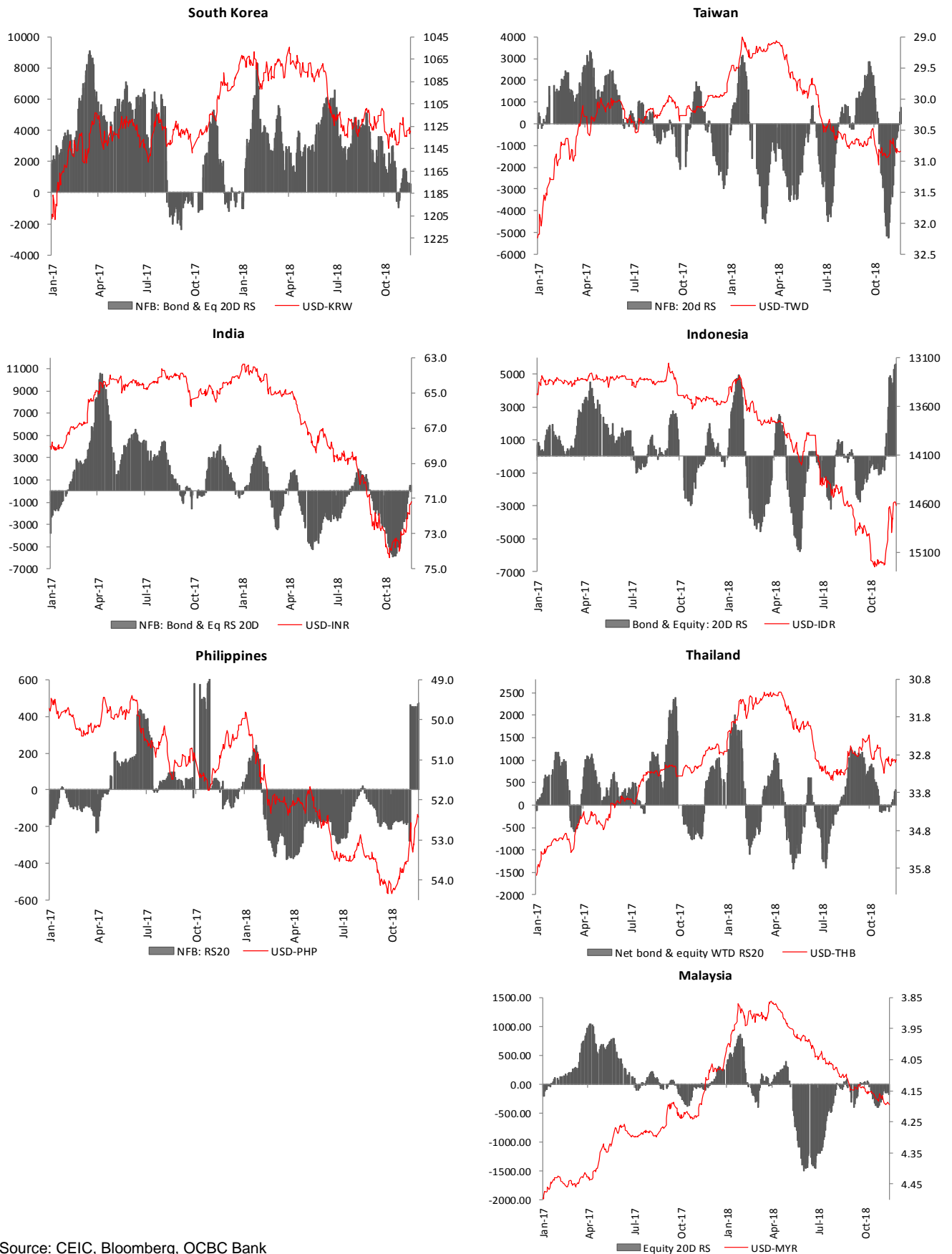
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

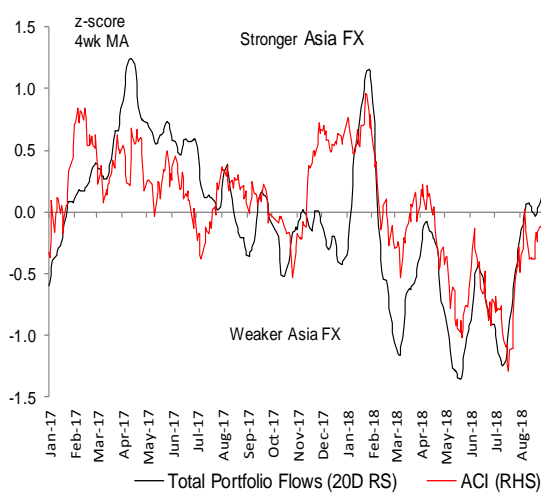
Currency	Bias	Rationale
USD-CNH	↔/↓	3Q GDP numbers “disappointed”. PBOC’s quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. PBOC states that the 7.00 level for USD-CNY “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. 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 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. Despite the BOT looking to downgrade 2018 growth forecast, the governor appears to be preparing the ground for a rate hike in his latest comments. 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

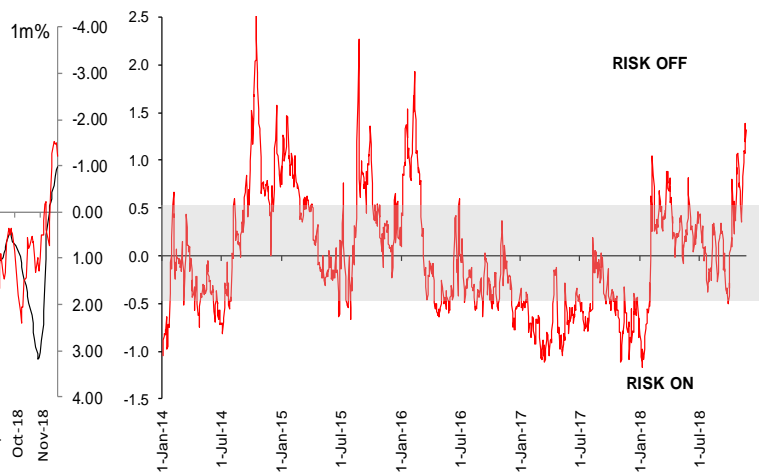
USD-Asia VS. Net Capital Flows



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	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1	-0.042	0.626	-0.12	-0.174	-0.462	0.442	-0.226	0.111	0.033	0.568	-0.927
SGD	0.626	-0.313	1	-0.301	-0.611	-0.096	-0.039	0.1	0.402	0.122	0.925	-0.598
CHF	0.586	-0.212	0.281	-0.126	0.201	-0.868	0.443	-0.801	-0.196	0.244	0.133	-0.49
IDR	0.586	-0.017	0.755	-0.324	-0.688	0.342	-0.11	0.584	0.579	-0.206	0.846	-0.652
CNH	0.568	-0.232	0.925	-0.38	-0.734	0.121	-0.144	0.343	0.552	0.011	1	-0.555
MYR	0.552	0.627	0.3	0.502	0.18	-0.087	0.67	0.166	-0.318	-0.632	0.268	-0.728
THB	0.527	-0.309	0.737	-0.417	-0.687	0.034	-0.128	0.24	0.451	0.168	0.729	-0.455
JPY	0.442	0.643	-0.039	0.686	0.643	-0.529	1	-0.431	-0.709	-0.426	-0.144	-0.513
CAD	0.427	-0.612	0.401	-0.312	-0.089	-0.705	0.105	-0.675	0.037	0.657	0.114	-0.258
INR	0.265	-0.519	0.633	-0.574	-0.867	0.292	-0.522	0.427	0.683	0.275	0.667	-0.284
KRW	0.221	-0.746	0.641	-0.747	-0.885	0.181	-0.662	0.28	0.793	0.485	0.654	-0.159
USGG10	0.087	0.125	0.512	-0.22	-0.672	0.785	-0.361	0.869	0.634	-0.367	0.612	-0.231
TWD	0.035	0.375	0.304	-0.066	-0.514	0.723	-0.195	0.869	0.428	-0.637	0.445	-0.179
CNY	0.035	-0.122	0.32	-0.548	-0.755	0.735	-0.594	0.851	0.79	-0.197	0.48	-0.084
PHP	0.005	-0.113	0.464	-0.437	-0.816	0.698	-0.543	0.831	0.749	-0.122	0.648	-0.041
NZD	-0.028	-0.051	-0.328	0.34	0.714	-0.8	0.49	-0.915	-0.679	0.295	-0.548	0.108
AUD	-0.042	1	-0.313	0.799	0.54	0.203	0.643	0.196	-0.572	-0.893	-0.232	-0.136
GBP	-0.194	0.097	-0.471	0.503	0.803	-0.651	0.497	-0.79	-0.797	0.174	-0.681	0.248
EUR	-0.419	0.743	-0.548	0.728	0.651	0.115	0.463	-0.02	-0.622	-0.677	-0.533	0.227
	-0.927	-0.136	-0.598	0.007	0.128	0.368	-0.513	0.103	-0.062	0.187	-0.555	1

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1257	1.1400	1.1410	1.1479	1.1489
GBP-USD	1.2696	1.2800	1.2875	1.2900	1.3009
AUD-USD	0.7178	0.7200	0.7250	0.7300	0.7338
NZD-USD	0.6630	0.6800	0.6805	0.6878	0.6884
USD-CAD	1.3061	1.3200	1.3206	1.3289	1.3300
USD-JPY	112.29	112.50	112.95	113.00	114.15
USD-SGD	1.3685	1.3700	1.3731	1.3759	1.3800
EUR-SGD	1.5549	1.5600	1.5667	1.5700	1.5757
JPY-SGD	1.2045	1.2100	1.2157	1.2182	1.2200
GBP-SGD	1.7518	1.7600	1.7679	1.7700	1.7898
AUD-SGD	0.9876	0.9900	0.9955	1.0000	1.0042
Gold	1202.39	1212.92	1228.40	1239.30	1242.23
Silver	14.40	14.45	14.48	14.50	14.86
Crude	52.77	53.80	53.81	53.90	66.94

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

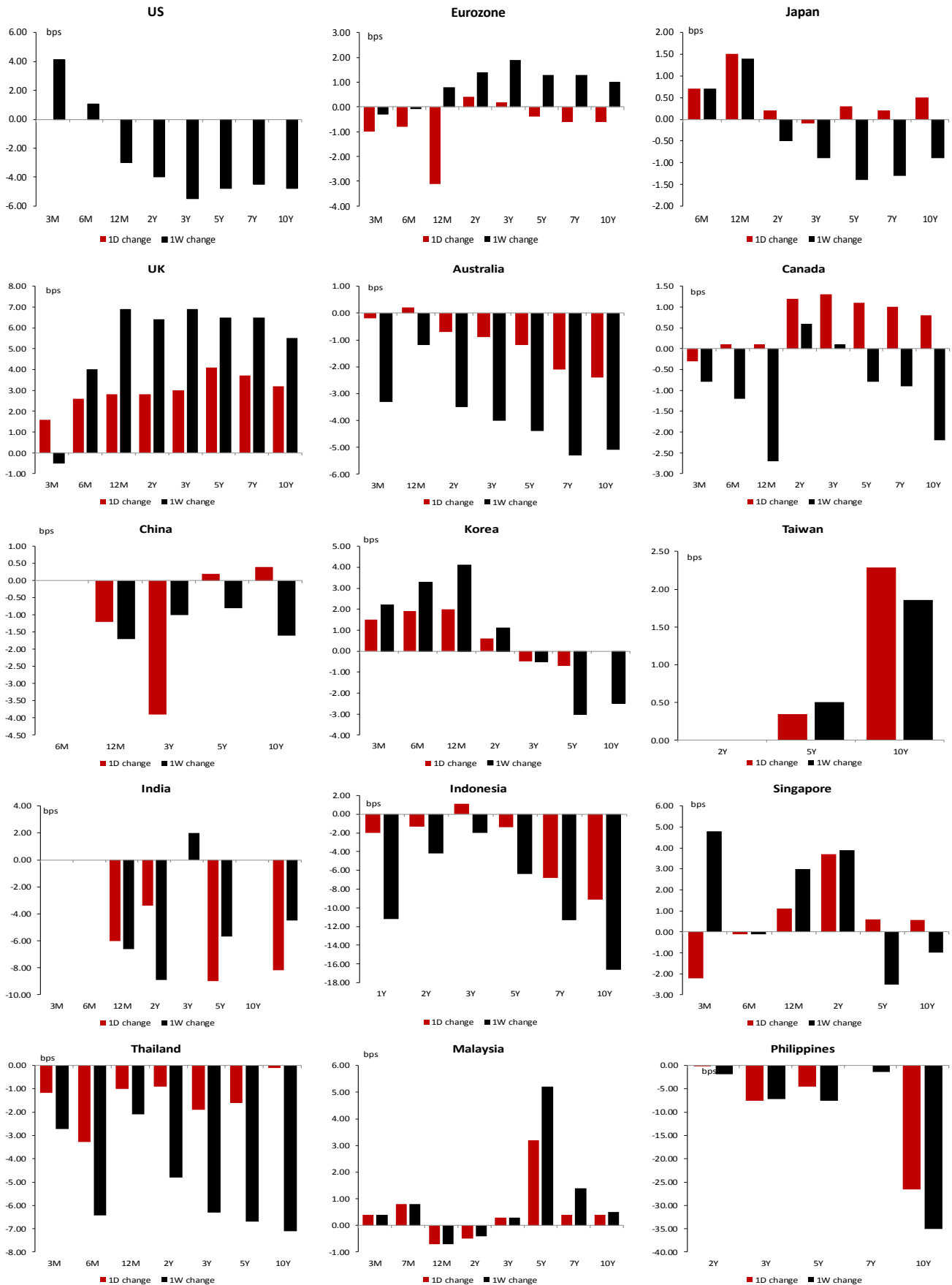
Source: OCBC Bank

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

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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