

Tuesday, October 23, 2018

FX Themes/Strategy/Trading Ideas

- With added fuel from slightly firmer US yields (curve continued to bear flatten), the USD rose across the board on Monday with the GBP leading the way lower as it remained mired in Brexit uncertainty and despite assurances from PM May in Parliament. The EUR was also in tow lower despite the Italian Treasury sounding slightly conciliatory and with Italian–bund spread a touch tighter.
- On other front, the **AUD** (hampered slightly by weekend by-election results) also continued to against its G10 peers and the USD, ostensibly on the back of China growth concerns (note commodity complex continued to trip lower) and despite official growth-supportive assurances from the Chinese authorities.
- Despite negative US equities, the **FX Sentiment Index (FXSI)** still managed to tick higher marginally (positive Asian equities) within Risk-Neutral territory on Monday. Expect investors however to remain on edge in the near term given current fragility on the risk appetite front.
- Our near term view remains unchanged with the USD still expected to retain the upper hand given that potential negatives across the other majors remain readily available. The **DXY** may therefore continue to test the 96.00 for a sustained breach to detach above its 200-week MA (95.792) on a multi-session basis. In the interim, stay heavy on the EUR, GBP, while global (China) growth concerns may keep the cyclical disadvantaged (especially against the JPY).
- With **Italian** fiscal risks still on the radar this week (watch for the S&P verdict likely on Friday) and the **ECB** not likely to surprise on the hawkish front, we institute a tactical short **EUR-USD**. From a spot ref of 1.1520 on Monday, we look to 1.1320 objective and place a stop at 1.1620.

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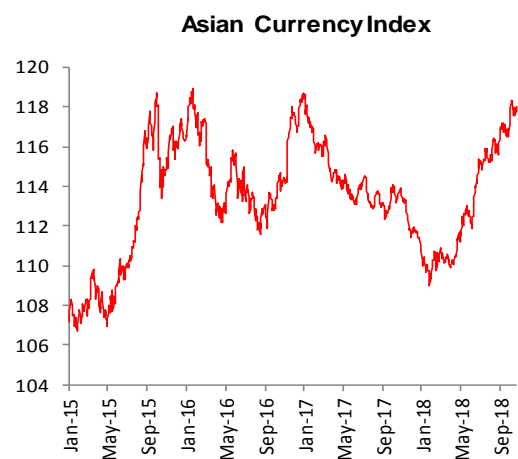
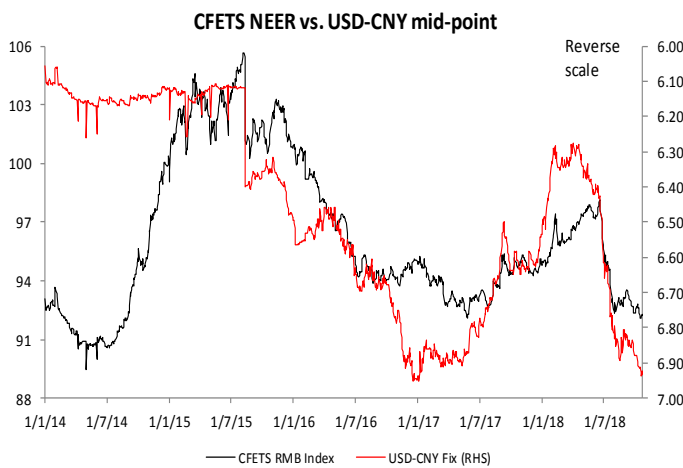
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Asian FX

- Asian equities are in the red again this morning and this should continue to provide leverage for a firmer USD-Asia profile intra-day. On the central bank front, expect Bank Indonesia to remain static at its policy meeting today.
- On the net portfolio flow front, net inflows for South Korea are now moderating, with net outflows for Taiwan still at elevated levels. Similarly, net outflows for India remain at extreme levels, with net outflows for Indonesia deepening once again. Thailand meanwhile has flipped to an implied net outflow balance (on a rolling 20day basis). Meanwhile, net outflows in Malaysia have also deepened.
- **SGD NEER:** September CPI readings are due later today while the SGD NEER is firmer again at around +1.24% above its perceived parity. NEER-implied USD-SGD thresholds are also higher this morning and continue to bounce dips within 1.3760-1.3850.
- **CFETS RMB Index:** The **USD-CNY** mid-point came in at a lower than expected 6.9338 (from 6.9236 on Monday) with the CCF likely in force. This still saw the CFET RMB Index inching slightly lower to 92.24 from 92.26 yesterday.



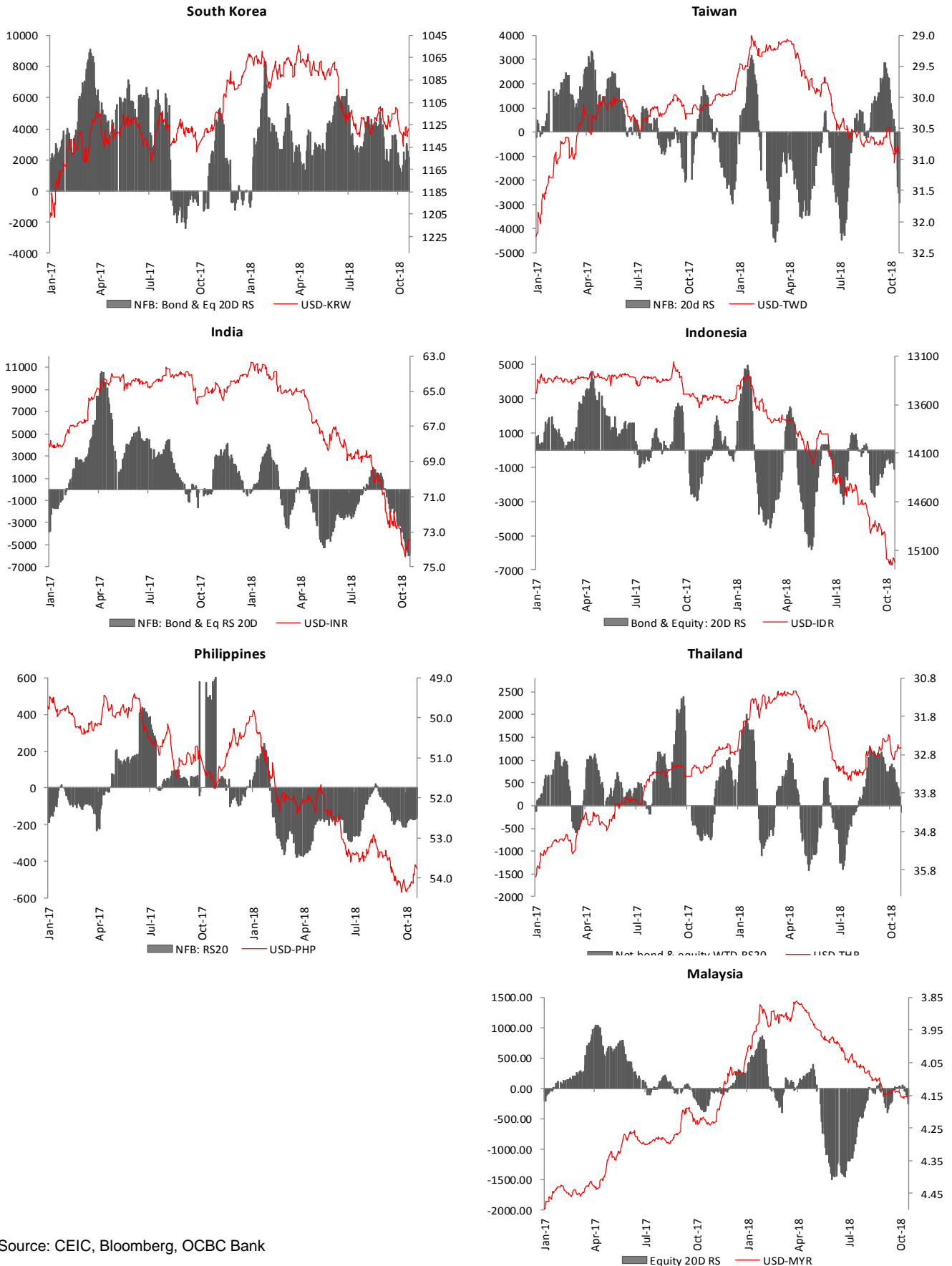
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↑	3Q GDP numbers “disappointed ” but despite expectations of official macro support, markets continue to angle for renminbi weakness and a soft interest rate curve. State Council and the PBOC announced further measures to ensure adequate funding on Monday. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. Latest CPI/PPI prints do not portend heightened price pressures (especially core), with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not pretend aggressive monetary stimulus.
USD-KRW	↔/↑	BOK remained static as expected in October with the official economic prognosis downgraded as expected. BOK governor notes that further cuts are not appropriate and the Bank will consider a hike in November. Curves lifted on Monday but remain below levels a week ago.
USD-TWD	↔/↑	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) curve has steepened from the back-end but may be over reaching given still mild inflation prospects. CBC governor ambivalent on the benchmark rate.
USD-INR	↔/↓	INR (and bonds) may find some near term reprieve from import curbs with friendlier crude, CPI and trade deficit readings also a contributory factor. RBI surprised markets by remaining static in October with the central bank lowering its inflation forecasts. Policy meeting minutes not perceived to be unduly hawkish.
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.
USD-MYR	↔	The mid-term review of the 11th Malaysia Plan saw growth forecasts downgraded and with the previous plan to achieve a balance budget by 2020 scuppered, replaced by an projected -3.0% deficit. Watch for the budget announcement in November. BNM static in September. Yields have been firmer, led by the back-end.
USD-IDR	↔	Inherent stress in the local bond market underscores background investor nervousness. BI notes that rate hikes were motivated by the need to maintain market stability, expected to stand pat in October. The DNDF market is due to come online next month. Back-end govie yields have come off in the past week but investors may remain cautious.
USD-THB	↔/↑	BOT MPC members mulling a policy normalization timetable. BOT official notes that the economy is capable of absorbing a rate hike. We note however a lack of immediate inflation risks. ND and govie curve is nevertheless marginally firmer on the week.
USD-PHP	↔/↓	BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher. Slower growth and firmer inflation prospects weigh on sentiment and govies.

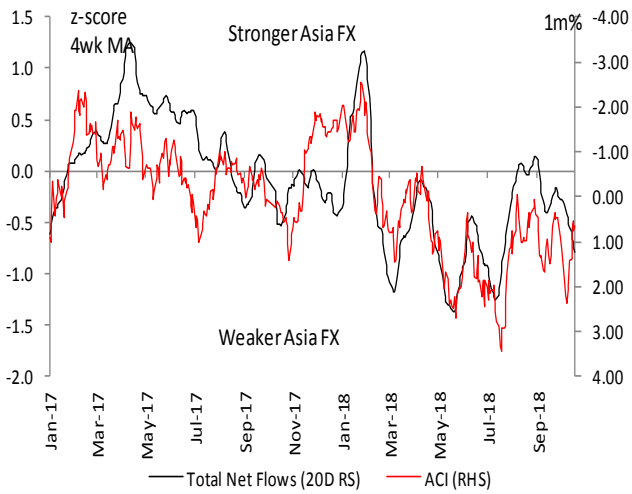
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



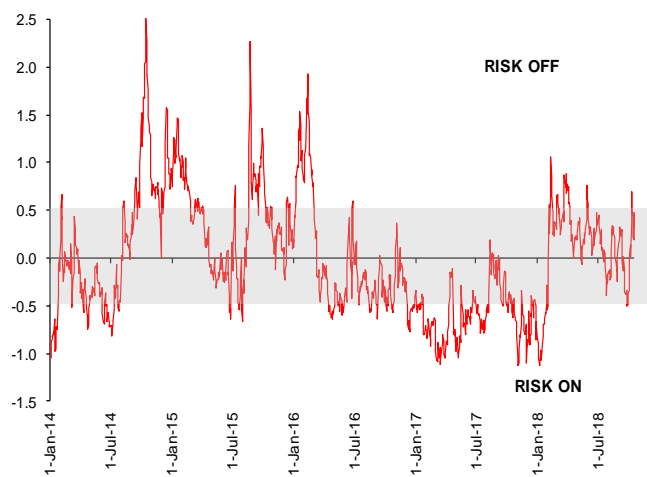
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.704	0.883	-0.297	-0.477	0.652	0.159	-0.035	0.291	0.531	0.717	-0.984
SGD	0.92	0.79	0.868	-0.559	-0.733	0.68	-0.099	-0.166	0.55	0.749	0.78	-0.956
CHF	0.883	0.86	1	-0.609	-0.739	0.66	-0.374	-0.401	0.554	0.77	0.973	-0.902
IDR	0.85	0.899	0.888	-0.461	-0.669	0.725	-0.108	-0.011	0.537	0.678	0.731	-0.889
CNH	0.717	0.687	0.973	-0.691	-0.778	0.42	-0.47	-0.532	0.63	0.801	1	-0.758
MYR	0.704	1	0.86	-0.46	-0.695	0.645	-0.151	-0.138	0.483	0.654	0.687	-0.745
THB	0.682	0.851	0.805	-0.712	-0.889	0.651	-0.428	-0.237	0.76	0.865	0.747	-0.753
JPY	0.635	0.732	0.852	-0.82	-0.911	0.401	-0.56	-0.491	0.831	0.91	0.83	-0.691
CAD	0.627	0.819	0.685	-0.563	-0.761	0.736	-0.32	0.086	0.69	0.756	0.624	-0.703
INR	0.543	0.774	0.699	-0.471	-0.583	0.409	-0.311	-0.106	0.608	0.584	0.603	-0.575
KRW	0.435	0.742	0.676	-0.78	-0.876	0.345	-0.64	-0.421	0.859	0.857	0.651	-0.508
USGG10	0.418	0.733	0.626	-0.76	-0.869	0.382	-0.616	-0.378	0.842	0.84	0.597	-0.488
TWD	0.159	-0.151	-0.374	0.804	0.699	0.158	1	0.717	-0.788	-0.683	-0.47	-0.059
CNY	0.155	0.307	0.566	-0.718	-0.566	-0.364	-0.684	-0.852	0.679	0.554	0.61	-0.178
PHP	-0.425	-0.331	-0.612	0.638	0.599	0.031	0.438	0.753	-0.466	-0.613	-0.716	0.442
NZD	-0.585	-0.052	-0.453	-0.312	-0.267	-0.205	-0.58	-0.084	0.429	0.191	-0.195	0.494
AUD	-0.655	-0.801	-0.62	0.29	0.498	-0.674	-0.005	-0.245	-0.441	-0.493	-0.441	0.697
GBP	-0.828	-0.9	-0.902	0.519	0.695	-0.659	0.137	0.106	-0.582	-0.683	-0.725	0.86
EUR	-0.984	-0.745	-0.902	0.385	0.575	-0.701	-0.059	0.056	-0.382	-0.616	-0.758	1

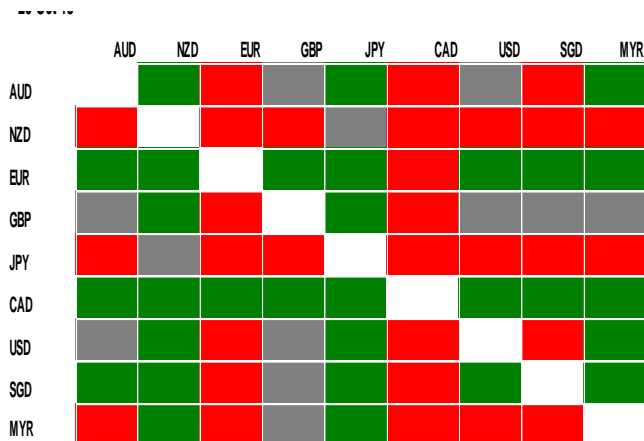
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1404	1.1432	1.1464	1.1500	1.1585
GBP-USD	1.2913	1.2922	1.2966	1.3000	1.3008
AUD-USD	0.7006	0.7041	0.7071	0.7100	0.7193
NZD-USD	0.6425	0.6500	0.6549	0.6581	0.6600
USD-CAD	1.3000	1.3011	1.3091	1.3100	1.3132
USD-JPY	112.00	112.01	112.61	113.00	114.40
USD-SGD	1.3726	1.3800	1.3805	1.3873	1.3876
EUR-SGD	1.5783	1.5800	1.5825	1.5900	1.5903
JPY-SGD	1.2238	1.2252	1.2259	1.2300	1.2374
GBP-SGD	1.7533	1.7717	1.7900	1.8089	1.8269
AUD-SGD	0.9714	0.9737	0.9761	0.9800	0.9875
Gold	1200.00	1200.51	1221.20	1232.30	1237.68
Silver	14.50	14.52	14.59	14.60	14.84
Crude	60.43	64.32	69.30	69.95	77.09

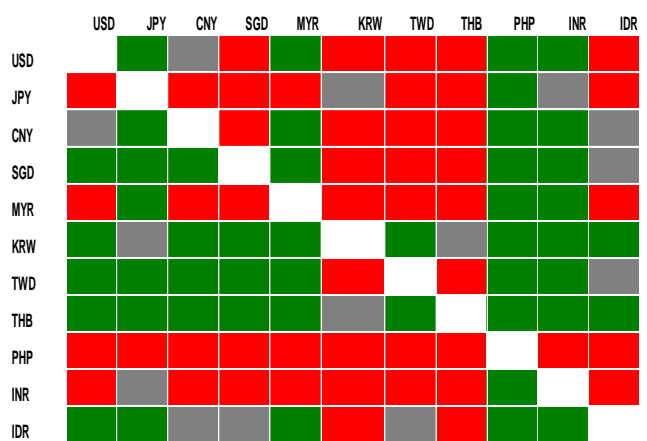
Source: OCBC Bank

G10 FX Heat Map



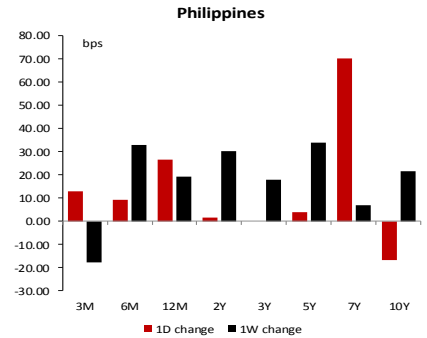
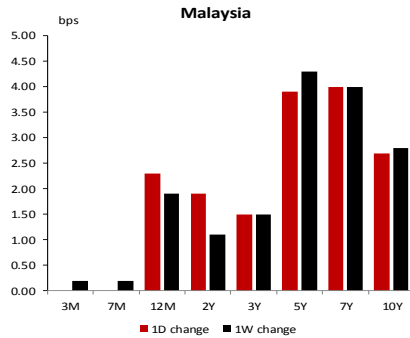
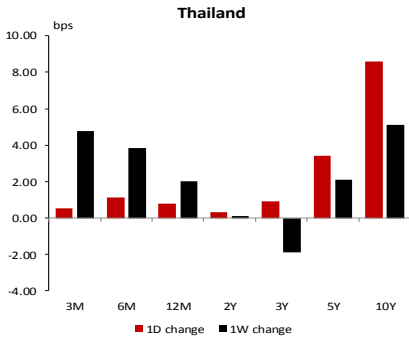
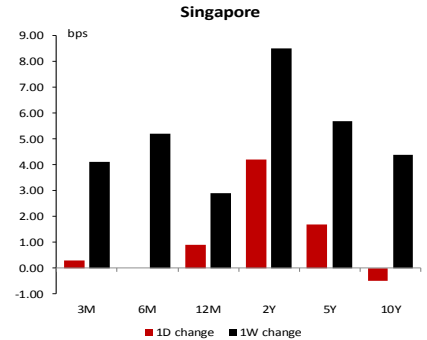
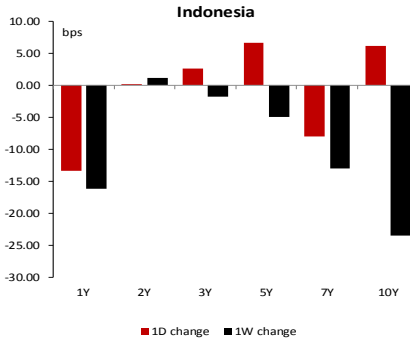
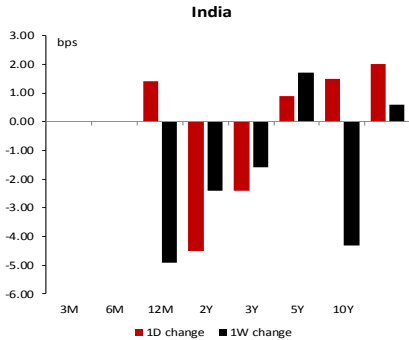
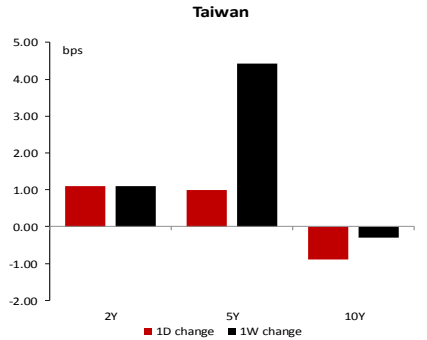
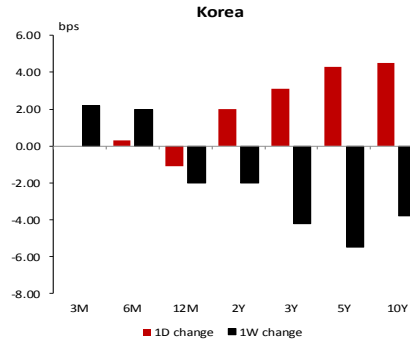
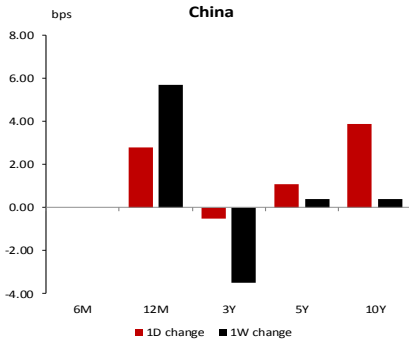
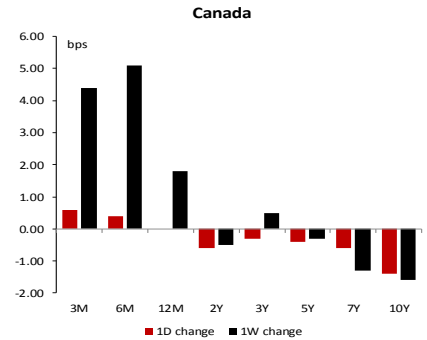
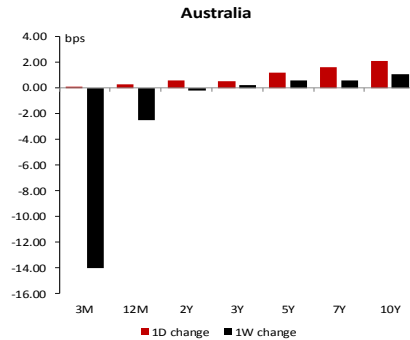
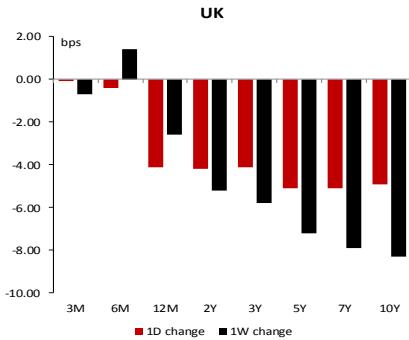
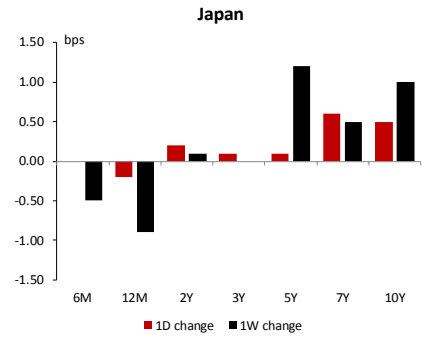
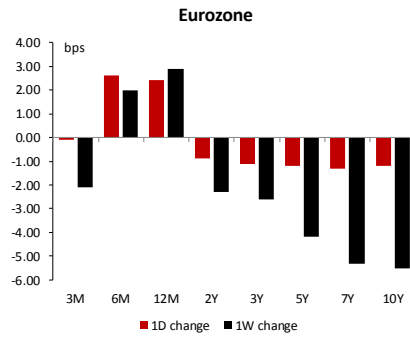
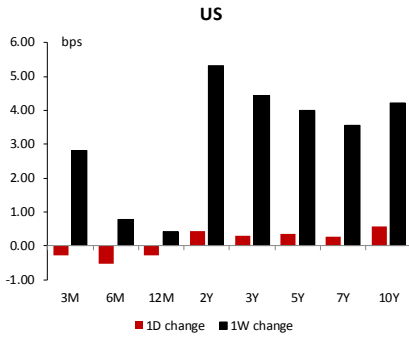
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Recommendations

	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
TACTICAL								
1	11-Sep-18		B	GBP-USD	1.3056	1.3325 1.2920	Positioning ahead of BOE MPC and positivity from Brexit news flow	
2	22-Oct-18		S	EUR-USD	1.1520	1.1320 1.1620	Italian fiscal risks, ECB unlikely to surprise on the hawkish front	
STRUCTURAL								
	-		-	-	-	-	-	-
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	20-Sep-18	28-Sep-18	B	EUR-USD	1.1702	1.1600	Risk appetite recovery, rate differentials on back burner	-0.87
2	03-Oct-19	10-Oct-18	S	EUR-CAD	1.4845	1.4975	Contrasting dynamics between USMCA and Italy	-0.88
3	20-Sep-18	11-Oct-18	B	USD-JPY	112.89	112.00	USD-JPY responsive to firmer US rates	-0.79
* realized, excl carry								

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