

Thursday, October 25, 2018

FX Themes/Strategy/Trading Ideas

- Melting US equities (with USTs rallying) on Wednesday morphed into broader risk aversion and lifted the USD against most of the majors with the JPY-crosses also selling off. **USD-JPY** in particular was weighed by both broader risk aversion as well as the slump in US equities, with the pair testing below 112.00 floor in early Asia Thursday towards 111.80.
- The **EUR-USD** was also undermined by softer than expected October PMIs (Manufacturing, services, composite), with the pair weakening to trade on both sides of 1.1400. Across the Channel, the **GBP-USD** (already laden with Brexit uncertainty) also stumbled down past 1.2900 by late NY despite explicit support from her Conservative Party members during her appearance in Parliament (defusing concerns of her ouster).
- The **CAD** however managed to stand tall on Wednesday with the USD-CAD sinking below 1.3000 temporarily after **the Bank of Canada** hiked 25bps as expected to 1.75% but surprised some quarters of the market as it removed its gradualist guidance and noted that the economy is running at capacity.
- Overall, the **DXY** lifted clean off 96.00 to trade briefly above 96.50 and markets may now eye the year-to-date high of 96.98 in the current environment. Short-end riskies meanwhile continue to sit against the EUR and GBP in favor of the USD, as well as for a heavier USD-JPY. Also, expect markets to remain in risk off mode during the Asian session with the **FX Sentiment Index (FXSI)** rising further within **Risk-Off** territory on Wednesday.
- Ahead, the **ECB** meeting today will be closely scrutinized for any reference to the Italian fiscal as well as the macroeconomic and core inflation outlook (Draghi due at 1400 GMT). Expect market wariness towards the common unit to prevail in the interim.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

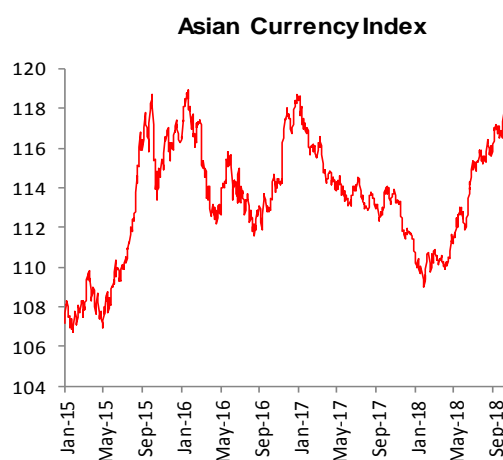
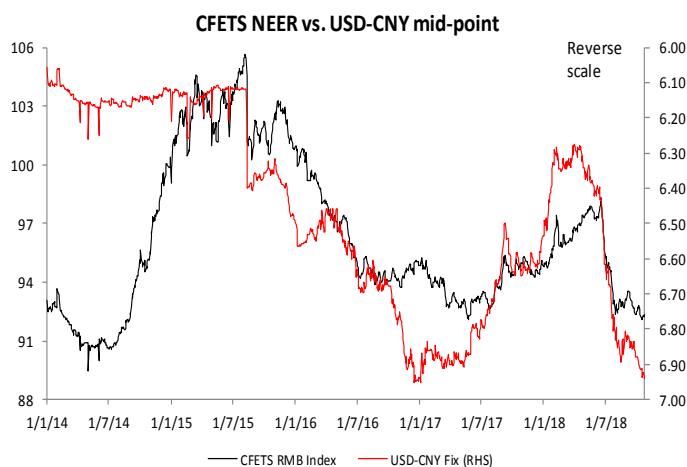
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian FX

- EM FX and equities also hemorrhaged lower against the USD overnight with the USD expected to be supported in the Asian session today. Notably, the USD-CNH also clocked a 6.9550 high overnight. Selected Asian (govie and NDIRS) curves meanwhile may continue to catch a chill from the majors with yields reacting lower.
- **Net portfolio inflow** considerations may prove secondary today but we nevertheless note a slight moderation of net inflows for South Korea but deepening net outflows for Taiwan. Elsewhere, net outflow momentum had been attempting to moderate for India, Indonesia, and Thailand but the latest global equity rout may foil any recovery attempts at this juncture.
- **SGD NEER:** The SGD NEER is softer on the day relative to its perceived parity at +1.27% with NEER-implied USD-SGD thresholds firmer in the wake of the big dollar's overnight climb. Expect good support on dips within 1.3785-1.3830 intra-day.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point came in largely in line with expectations at 6.9409 from 6.9357 yesterday. The CFETS RMB Index ticked higher slightly to 92.34 from 92.24 on Wednesday.



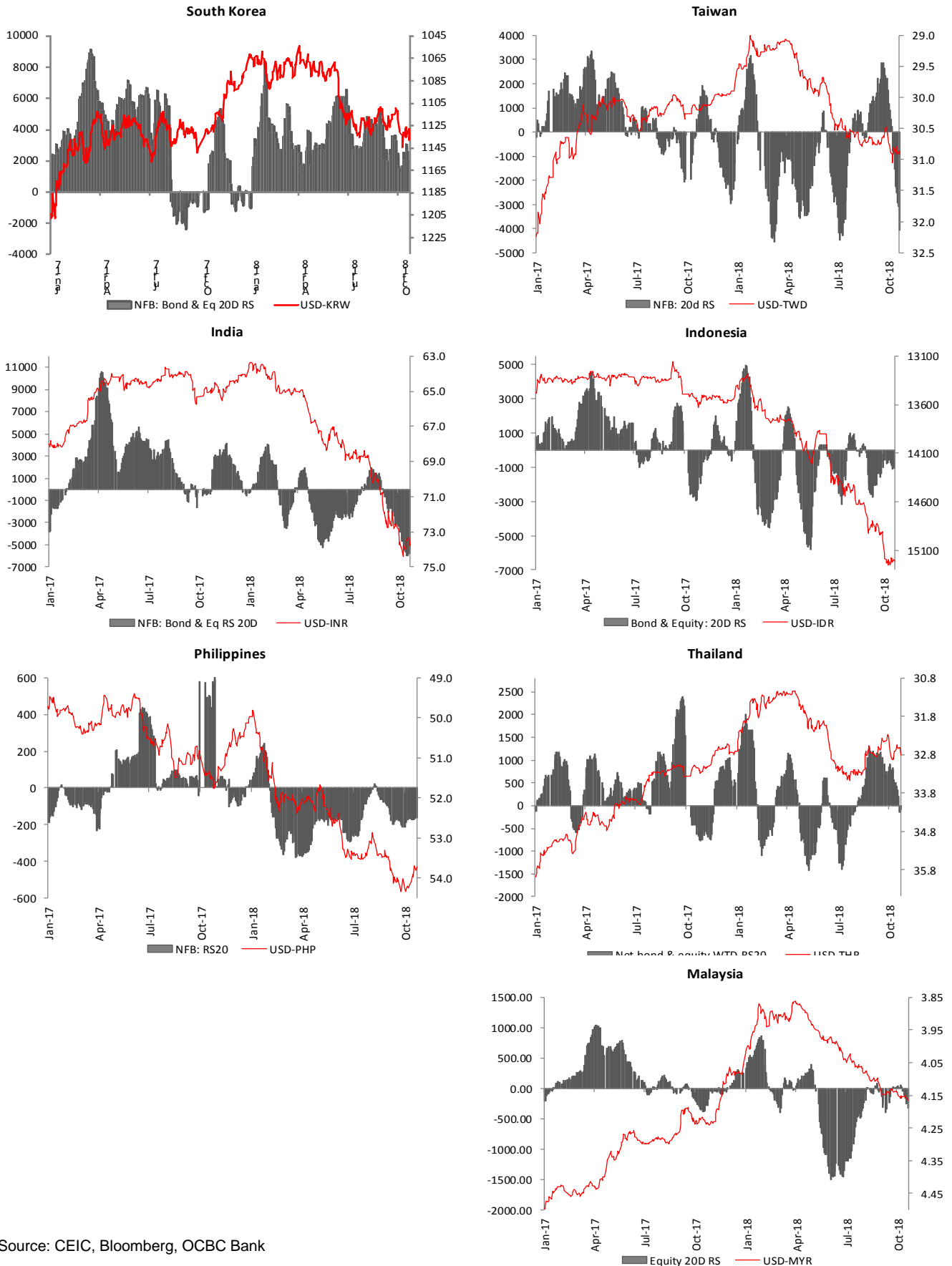
Source: OCBC Bank, Bloomberg

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. 3Q GDP readings came in lower than expected. BOK governor notes that further cuts are not appropriate and the Bank will consider a hike in November. Yield curves remain soft.
USD-TWD	↔/↑	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) yields are softer. CBC governor ambivalent on the benchmark rate. Equity outflows remain significant.
USD-INR	↔/↓	Bonds may find some near term reprieve from import curbs, lower crude, and friendlier CPI and trade deficit readings. 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, front to belly of curves outperforms.
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, curves flattening from the back-end in the current environment.
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. Govie yields holding steady.
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, remained static in October. The DNDF market is due to come online on 01 Nov 18. Govie yields remain aloft despite softening in the majors.
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. Govie yields remain underpinned but NDIRS is flattening from the back-end.
USD-PHP	↔/↓	BSP hiked another 50bps in September; BSP retains a hawkish stance, ready to hike further if inflation remains tilted higher. Finance Secretary indicates that inflation should subside in the coming months.

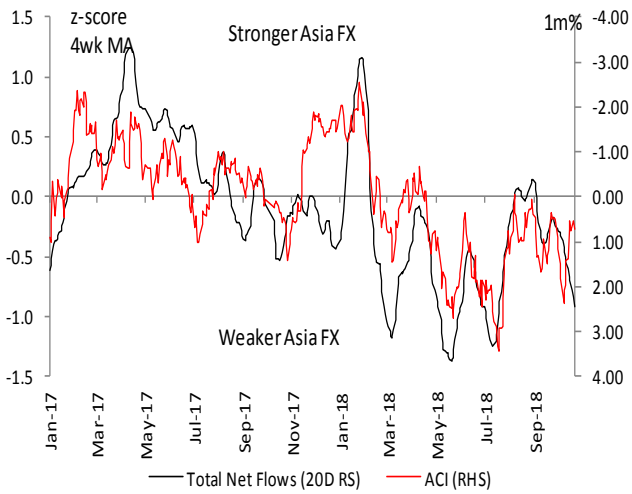
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



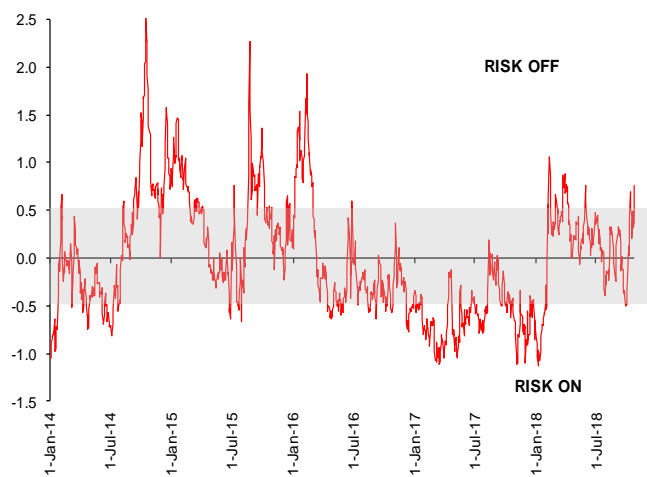
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.453	0.886	-0.427	-0.525	0.284	-0.046	-0.343	0.384	0.576	0.74	-0.985
SGD	0.891	0.667	0.874	-0.583	-0.747	0.428	-0.23	-0.335	0.571	0.754	0.768	-0.932
CHF	0.886	0.732	1	-0.676	-0.778	0.395	-0.43	-0.49	0.62	0.806	0.976	-0.906
IDR	0.802	0.793	0.883	-0.45	-0.648	0.533	-0.2	-0.146	0.526	0.646	0.695	-0.847
CNH	0.74	0.45	0.976	-0.74	-0.802	0.099	-0.603	-0.687	0.675	0.825	1	-0.781
MYR	0.659	0.451	0.855	-0.868	-0.931	0.014	-0.703	-0.722	0.856	0.932	0.85	-0.703
THB	0.615	0.756	0.797	-0.675	-0.872	0.455	-0.526	-0.333	0.74	0.836	0.71	-0.691
JPY	0.49	0.568	0.655	-0.526	-0.652	0.243	-0.524	-0.292	0.647	0.642	0.609	-0.531
CAD	0.46	0.591	0.696	-0.791	-0.922	0.149	-0.735	-0.58	0.859	0.888	0.697	-0.533
INR	0.453	1	0.732	-0.288	-0.571	0.591	-0.069	0.03	0.342	0.522	0.45	-0.505
KRW	0.451	0.809	0.585	-0.382	-0.636	0.659	-0.323	0.084	0.544	0.614	0.474	-0.54
USGG10	0.402	0.569	0.523	-0.729	-0.86	0.146	-0.715	-0.527	0.816	0.834	0.563	-0.525
TWD	0.242	0.483	0.28	-0.131	-0.303	0.296	-0.162	0.135	0.314	0.33	0.206	-0.277
CNY	0.212	0.221	0.575	-0.732	-0.623	-0.478	-0.708	-0.789	0.706	0.618	0.625	-0.234
PHP	-0.046	-0.069	-0.43	0.816	0.757	0.238	1	0.731	-0.823	-0.74	-0.603	0.133
NZD	-0.577	-0.74	-0.618	0.227	0.43	-0.561	0.044	-0.133	-0.381	-0.413	-0.385	0.623
AUD	-0.601	-0.141	-0.651	0.709	0.651	0.21	0.469	0.786	-0.545	-0.687	-0.765	0.603
GBP	-0.718	0.131	-0.514	0.057	-0.016	0.072	-0.244	0.307	0.106	-0.063	-0.38	0.643
EUR	-0.805	-0.758	-0.907	0.547	0.701	-0.408	0.253	0.275	-0.602	-0.684	-0.711	0.842
	-0.985	-0.505	-0.906	0.487	0.609	-0.357	0.133	0.349	-0.455	-0.645	-0.781	1

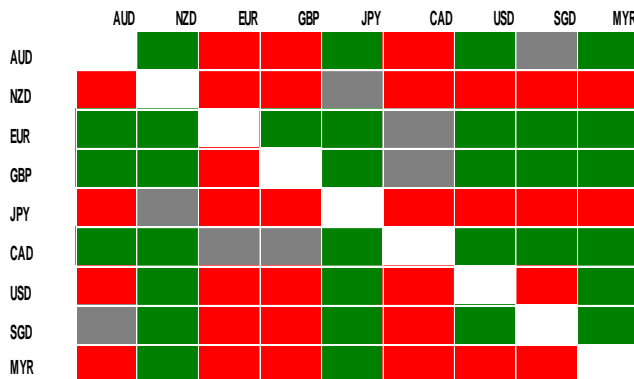
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1397	1.1400	1.1411	1.1500	1.1587
GBP-USD	1.2860	1.2867	1.2888	1.2900	1.3016
AUD-USD	0.7012	0.7041	0.7079	0.7100	0.7186
NZD-USD	0.6425	0.6500	0.6526	0.6579	0.6600
USD-CAD	1.3000	1.3007	1.3022	1.3100	1.3132
USD-JPY	112.00	112.07	112.15	113.00	114.37
USD-SGD	1.3727	1.3800	1.3808	1.3867	1.3873
EUR-SGD	1.5714	1.5747	1.5756	1.5800	1.5906
JPY-SGD	1.2247	1.2300	1.2313	1.2351	1.2400
GBP-SGD	1.7700	1.7767	1.7795	1.7800	1.7870
AUD-SGD	0.9713	0.9733	0.9775	0.9800	0.9866
Gold	1200.00	1201.97	1227.80	1237.80	1243.75
Silver	14.52	14.70	14.74	14.80	14.87
Crude	54.94	60.34	66.30	69.99	77.09

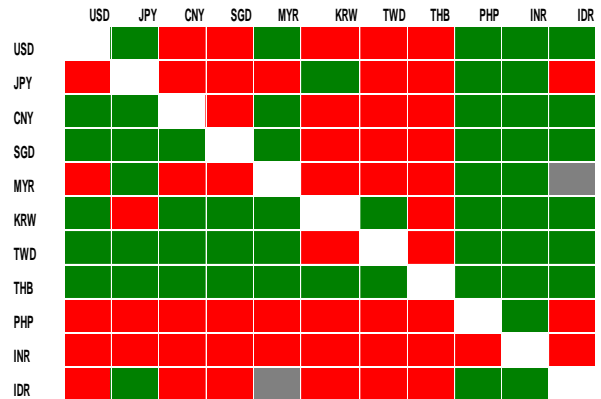
Source: OCBC Bank

G10 FX Heat Map



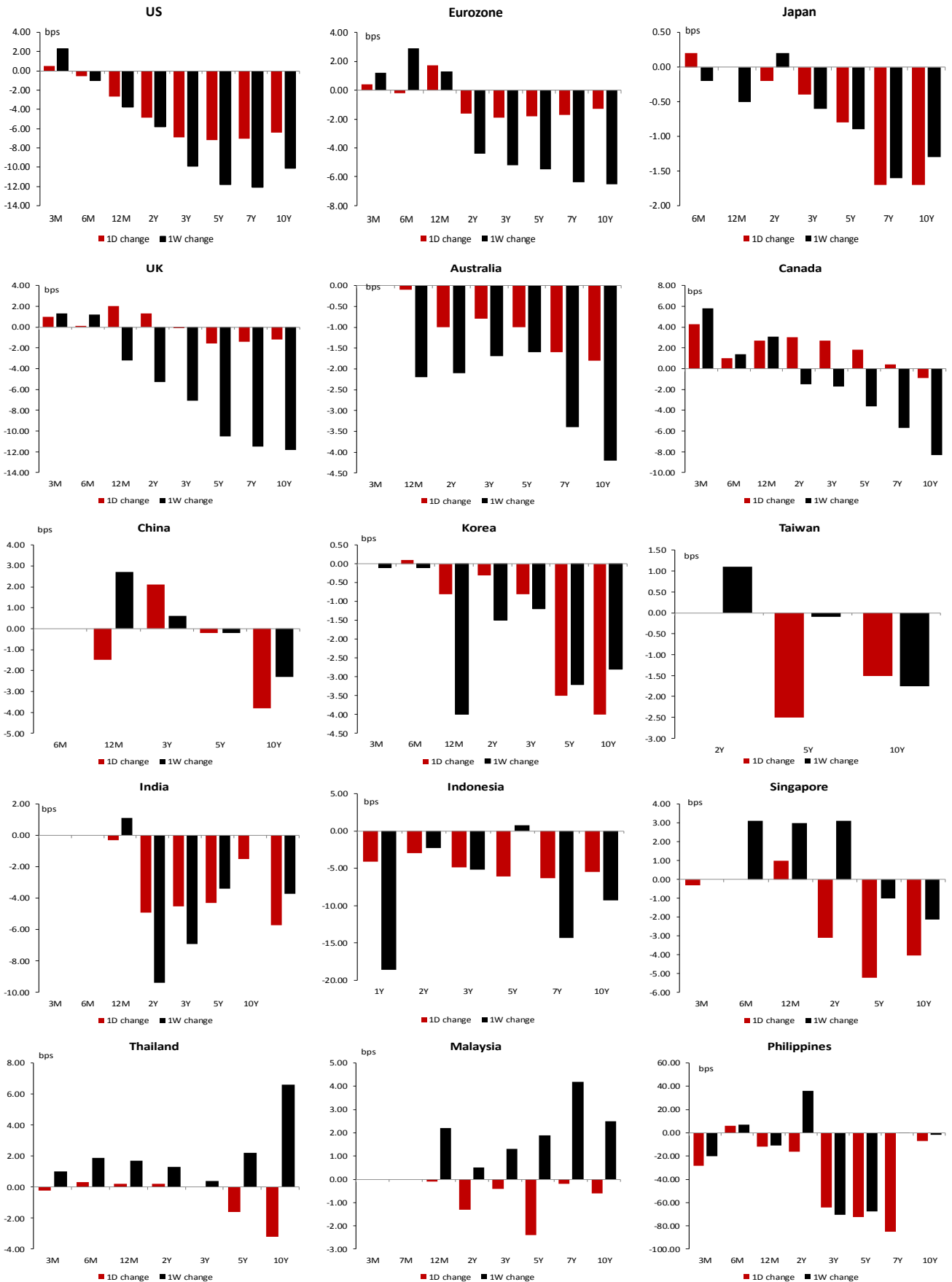
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Recommendations

	Inception		B/S	Currency	Spot/Outright	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	
3	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	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								

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
