

Friday, October 26, 2018

FX Themes/Strategy/Trading Ideas

- Although US equities managed to bounce on Thursday and risk appetite stabilized (JPY softened on the crosses), the USD still managed to eke out minor gains across G10 space with the DXY rising above 96.50.
- On the risk appetite front, the **FX Sentiment Index (FXSI)** climbed deeper into Risk-Off territory on Thursday, nearing levels last seen in late March 2018 when the SPX was in the middle of its sell-off. Note that any recovery north in yields on Thursday saw the long-end remaining relatively reticent compared to the front-end – a manifestation we think of the darker global outlook.
- Meanwhile, the forward guidance from the ECB at its meeting proved largely uneventful (upbeat prognosis of wage pressures) with the central bank firmly on track to end its asset purchase program at the end of the year and begin hiking rates after next summer. Draghi also essentially shrugged off recent growth concerns as “weaker momentum, not a downturn”. On Italy, the ECB offered no implicit support to backstop the Italian government (BTP-Bund spread still elevated).
- The GBP remained particularly weak and underperformed across the board with Draghi warning that companies may have to prepare for a hard exit. In addition, reports indicating that stalling Brexit talks within the Cabinet also saw the cable settling towards the 1.2800 floor.
- Into the end of the week, investors we think will continue to hunt for weakness in the majors despite the Fed’s Clarida affirming the Fed’s trajectory. Note however that after hours US equity weakness late Thursday in NY is translating into a heavy USD-JPY early Friday in Asia. The AUD-USD, which managed to hold up fairly well on Thursday, is currently also re-evaluating its downside prospects. US GDP numbers due later today (1230 GMT) may be in focus, barring another US equity slide.

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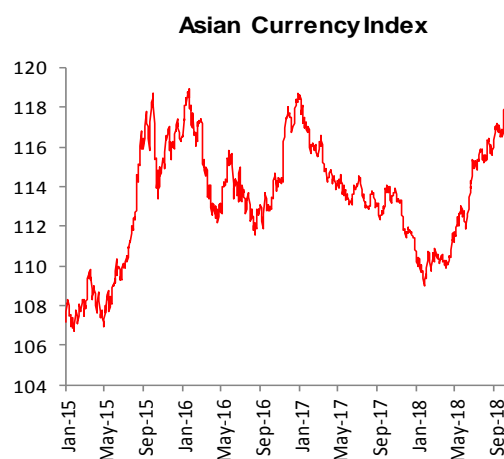
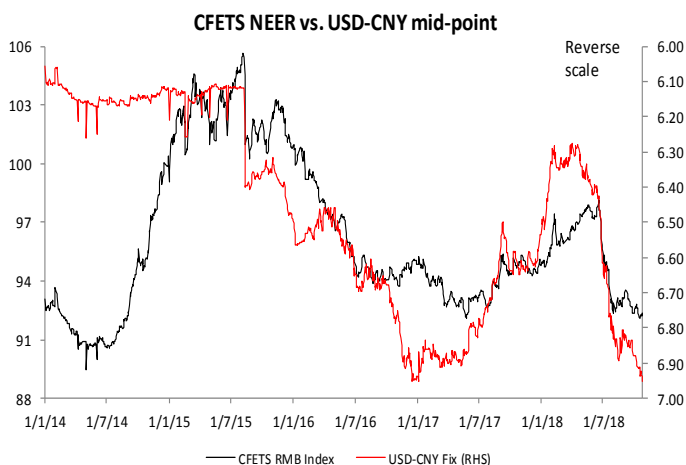
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Asian FX

- USD-CNH continued to float higher overnight (and again this morning with 6.9600 breached post the fix) and given the still fragile risk appetite environment, expect USD-Asia to continue to look north today.
- **Asian net portfolio flows** meanwhile denote moderating inflows for South Korea and still deepening equity outflows for Taiwan (latter already at extreme levels). There are also nascent signs that a resumption of deeper outflows may be in store for India and Indonesia, although net outflows for Thailand may be attempting to recover.
- **SGD NEER:** Watch for 3Q labor market numbers later this morning (0230 GMT) and Sep industrial production numbers after lunch (0500 GMT). In the interim, the SGD NEER has firmed to around 1.38% above its perceived parity (1.4007) after printing north of +1.44% overnight. Note that since the MAS MPS, the firmer NEER has largely been a byproduct of the SGD's outperformance against the EUR and GBP, and to a lesser extent, the CNH and some of the other regionals. NEER-implied USD-SGD thresholds with have shifted perceptibly higher since yesterday. Look to collect on dips towards 1.3780 for 1.3850 intra-day.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set higher than expected at 6.9510 (throwing the market off) from 6.9409 on Thursday. This resulted in the CFETS RMB Index slipping lower to 92.32 from 92.34 yesterday.



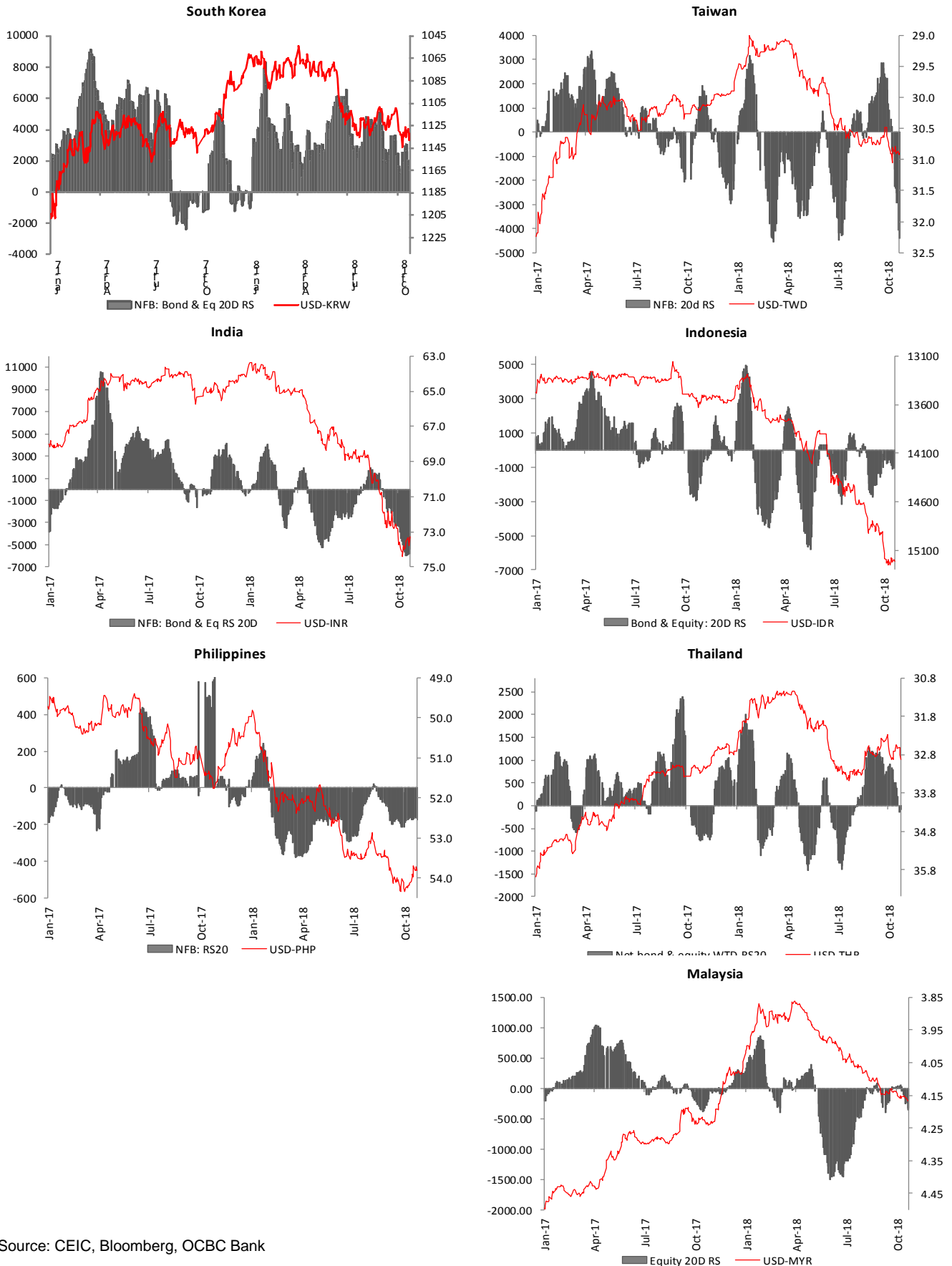
Source: OCBC Bank, Bloomberg

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. 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.

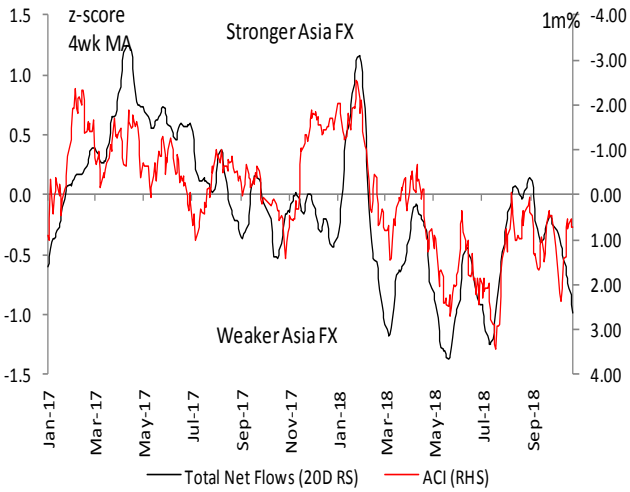
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



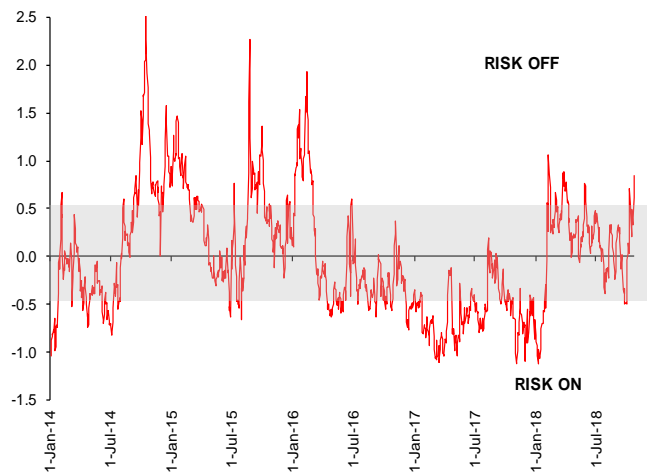
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.306	0.879	-0.459	-0.536	0.025	-0.073	-0.477	0.413	0.566	0.762	-0.984
SGD	0.879	0.519	1	-0.656	-0.757	0.22	-0.413	-0.605	0.593	0.78	0.973	-0.904
CHF	0.854	0.626	0.861	-0.603	-0.758	0.262	-0.278	-0.451	0.583	0.758	0.766	-0.907
IDR	0.762	0.327	0.973	-0.756	-0.808	-0.105	-0.601	-0.755	0.692	0.82	1	-0.797
CNH	0.729	0.772	0.847	-0.426	-0.613	0.42	-0.214	-0.186	0.502	0.609	0.645	-0.796
MYR	0.702	0.313	0.859	-0.884	-0.936	-0.19	-0.687	-0.78	0.877	0.93	0.871	-0.735
THB	0.624	0.511	0.744	-0.558	-0.631	0.029	-0.426	-0.392	0.66	0.629	0.665	-0.657
JPY	0.515	0.747	0.719	-0.649	-0.839	0.356	-0.553	-0.347	0.714	0.807	0.636	-0.609
CAD	0.479	0.555	0.646	-0.737	-0.872	0.086	-0.672	-0.512	0.821	0.848	0.636	-0.548
INR	0.466	0.572	0.664	-0.758	-0.874	0.048	-0.705	-0.532	0.841	0.857	0.662	-0.542
KRW	0.313	0.159	0.587	-0.747	-0.649	-0.545	-0.727	-0.833	0.723	0.646	0.686	-0.328
USGG10	0.306	1	0.519	-0.2	-0.467	0.579	-0.08	0.055	0.25	0.432	0.327	-0.392
TWD	0.266	0.799	0.448	-0.287	-0.527	0.628	-0.317	0.123	0.448	0.516	0.325	-0.375
CNY	-0.073	-0.08	-0.413	0.829	0.783	0.277	1	0.702	-0.837	-0.776	-0.601	0.154
PHP	-0.462	-0.726	-0.535	0.175	0.365	-0.482	0.037	-0.132	-0.331	-0.345	-0.296	0.523
NZD	-0.574	-0.058	-0.664	0.735	0.679	0.419	0.541	0.867	-0.581	-0.693	-0.789	0.576
AUD	-0.734	-0.737	-0.878	0.531	0.673	-0.282	0.266	0.316	-0.584	-0.653	-0.66	0.789
GBP	-0.79	0.215	-0.622	0.161	0.096	0.262	-0.179	0.425	-0.022	-0.135	-0.489	0.714
EUR	-0.984	-0.392	-0.904	0.516	0.619	-0.118	0.154	0.474	-0.479	-0.64	-0.797	1
	-0.985	-0.505	-0.906	0.487	0.609	-0.357	0.133	0.349	-0.455	-0.645	-0.781	1

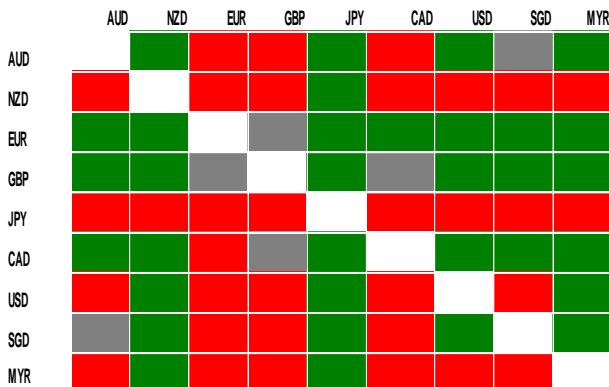
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1356	1.1370	1.1373	1.1400	1.1585
GBP-USD	1.2800	1.2808	1.2819	1.2900	1.3016
AUD-USD	0.7017	0.7041	0.7069	0.7100	0.7181
NZD-USD	0.6425	0.6500	0.6520	0.6577	0.6600
USD-CAD	1.3000	1.3009	1.3091	1.3100	1.3132
USD-JPY	112.00	112.11	112.36	113.00	114.26
USD-SGD	1.3730	1.3800	1.3819	1.3853	1.3873
EUR-SGD	1.5700	1.5712	1.5716	1.5800	1.5906
JPY-SGD	1.2218	1.2244	1.2299	1.2300	1.2351
GBP-SGD	1.7678	1.7700	1.7715	1.7800	1.7873
AUD-SGD	0.9714	0.9733	0.9769	0.9800	0.9861
Gold	1200.00	1202.96	1229.10	1238.60	1244.95
Silver	14.52	14.60	14.64	14.70	14.85
Crude	65.74	66.80	66.85	66.90	70.07

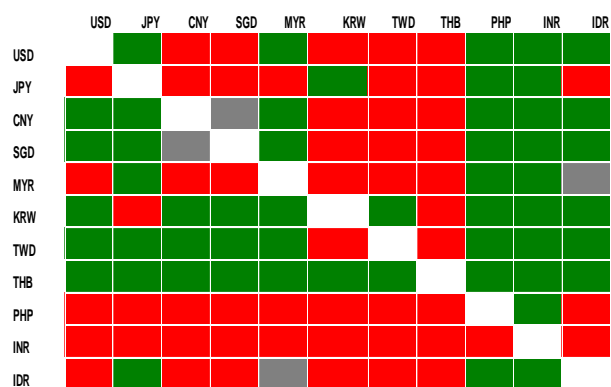
Source: OCBC Bank

G10 FX Heat Map



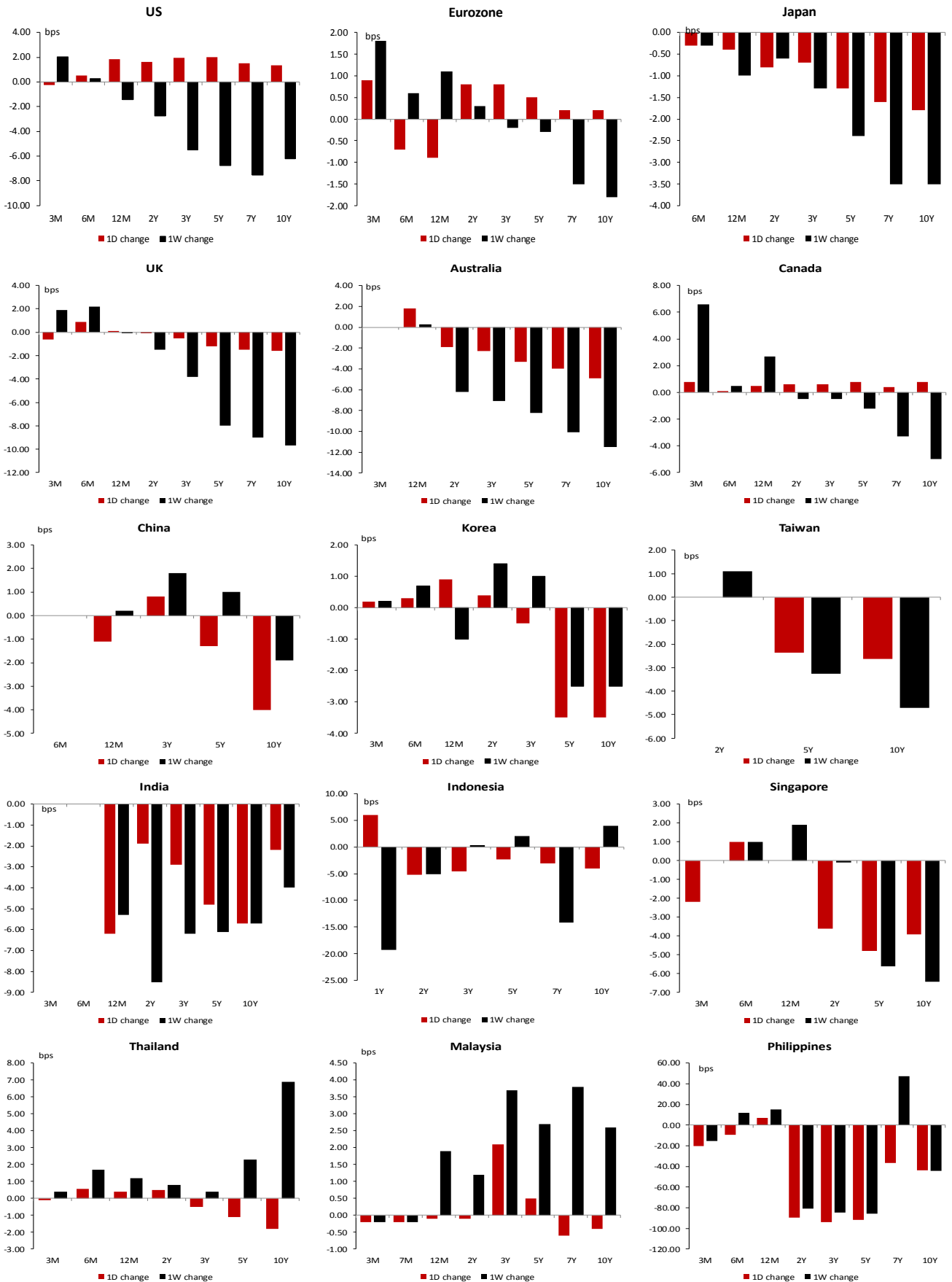
Source: OCBC Bank

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	22-Oct-18	S	EUR-USD	1.1520	1.1320 1.1620	Italian fiscal risks, ECB unlikely to surprise on the hawkish front		
2	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
4	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
* realized, excl carry								

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