

Tuesday, November 27, 2018

FX Themes/Strategy/Trading Ideas

- The dollar bounced from intra-day lows to end flat to marginally higher on Monday. Despite some indications from Italian officials of a compromise on the fiscal front, the EUR-USD eventually relapsed after the ECB's Draghi acknowledged slowing (cyclical) growth momentum in the EZ and the German Nov Ifo readings disappointed. Note that accumulating global macro concerns also deflated the likes of the AUD, and CAD (despite the slight bounce in crude). The JPY however still underperformed significantly within the slight pickup in risk appetite levels. Overall, the **DX** managed to surface above 97.00 and may attempt to cling on to this threshold pending further headline risks. Elsewhere, Treasuries, gilts and bunds were softer as global equities stabilized. Positive EZ/US equities saw the **FXSI (FX Sentiment Index)** inching lower on Monday although we note that the Index remains in Risk-Off territory.
- On the Sino-US trade front, President Trump stated that he was prepared to implement further tariffs on an additional USD267bn of Chinese imports and also that it is highly unlikely that additional tariffs would be postponed if no compromise is reached at his meeting with China's President Xi. This saw the USD-CNH spiking briefly past 6.9500 in late trade on Monday and may see Asian markets slightly nervous intra-day. Note however that the short-end CNH riskies continue to look for USD vulnerability, indicating an expectation of some positive conclusion from the meeting.
- **We therefore retain a preference to favor the dollar within G10, as well as in Asia on the back of the latest Trump headlines, while awaiting the heavy headline risks this week.** Notably, Brexit-related risks may also keep **GBP-USD** top heavy, with the recent low at 1.2696 still within striking distance. Barring an outright declaration of a trade war on the Sino-US front, the 55-day MA (0.7179) for the **AUD-USD** may also cushion on dips multi-session.
- **Structurally, the latest bout of USD resilience at this juncture we think is borne out of market nervousness and not from any renewed Fed hawkishness.** Note that aggregate rate differential arguments for USD outperformance has stalled of late, not to mention the continued flattening of the US 2/10s, with the Eurodollar futures spread also certainly offering zero lift for the USD overnight.
- Keep tabs on comments from Fed's Clarida (1330 GMT) and a trio of Fed speakers (1930 GMT) to glean clues on whether the recent downshift in market expectations of the Fed's trajectory is justified. Elsewhere, watch ECB's Nouy (1500 GMT) and Mersch (1600 GMT). The RBNZ will also publish its Financial Stability Report (2000 GMT), followed by comments from Orr (2200 GMT).

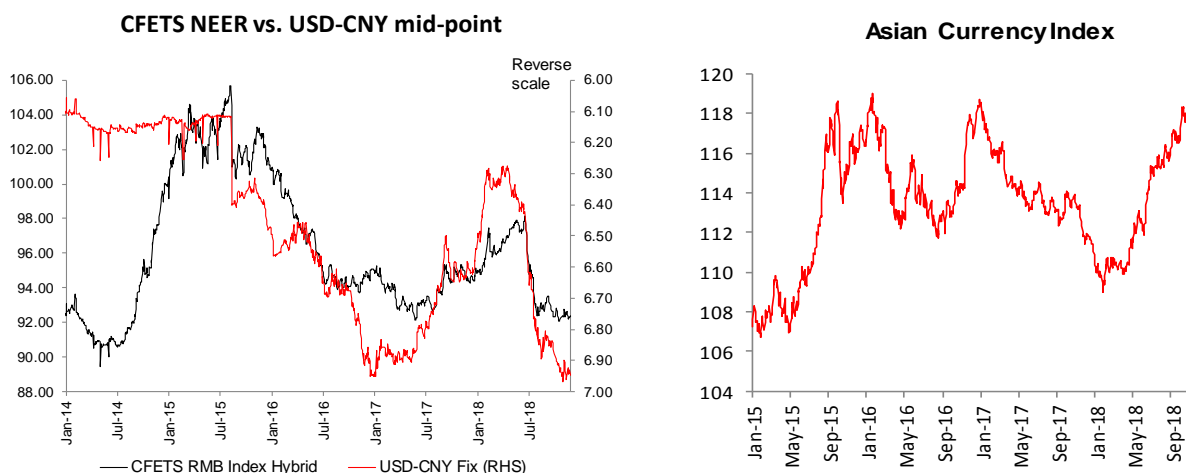
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Asian FX

- Asia equities in early trade on Tuesday started off on a positive footing in line with Wall Street. Overnight Trump headlines should weigh on the Asian currencies, but immediate concerns appear to be waved off for now as the USD-CNH ease lower. **To this end, the INR and IDR (and their respective govies) currently offer relatively more positive backstories (not least from slumping crude) compared to their regional peers.**
- **Actual net portfolio flows** in Asia meanwhile have remained constructive but this may come undone if global trade tensions flare up again. South Korea is experiencing a slight pickup in overall inflows while net equity inflows for Taiwan and net bond inflows for Indonesia have been significant. Thailand continues to witness minor positive inflows although this has been moderating slightly.
- **SGD NEER:** The SGD NEER stands marginally firmer at around +1.54% above its perceived parity (1.3961) this morning, while staying within the now-familiar +1.40% to +1.60% range overnight. The NEER-implied USD-SGD thresholds are firmer on a stronger USD. The 55-day MA (1.3761) and the 100-day MA (1.3723) should continue to act as a corridor for the USD-SGD, although the bias may be for an upside break if markets latch onto further negative Sino-US trade headlines.
- **CFETS RMB Index:** The **USD-CNY** mid-point was set marginally higher, within expectations, at 6.9463 compared to 6.9453 on Monday. The CFETS RMB Index rose at morning fix to stand at 92.41, compared to 92.32 previously.



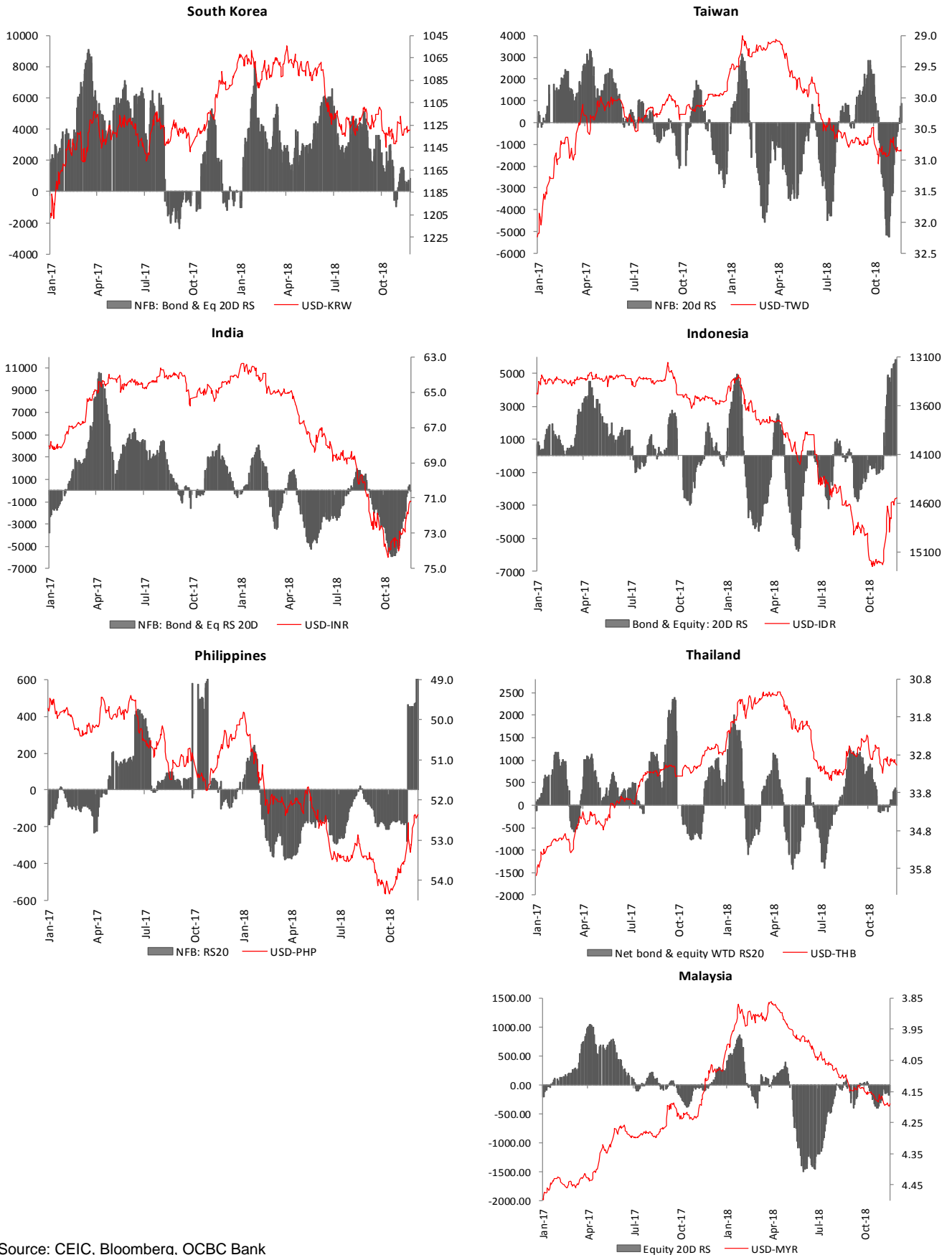
Source: OCBC Bank, Bloomberg

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 its November meeting this week. Back-end of KTB and NDIRS leading the way lower in terms of yields, unperturbed by the prospect of a rate hike.
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	↓	Political risk ahead with state elections scheduled for end-Nov and early Dec. 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. In the interim, softer inflation and an RBI expected to be on hold supported demand for Indian govies. Expect curves (govie and NDIRS yields) to 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. 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 bucking the trend to edge higher.
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 an attractive rate spread. BI’s intervention on the IDR and bond markets apparently ceased in the past couple of weeks. 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 mixed 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, although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending.

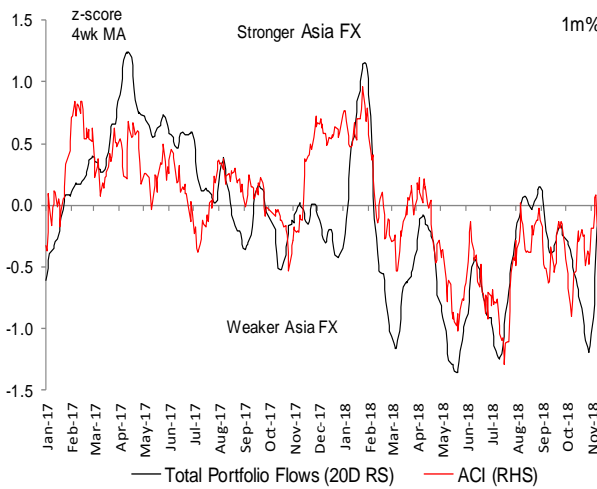
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



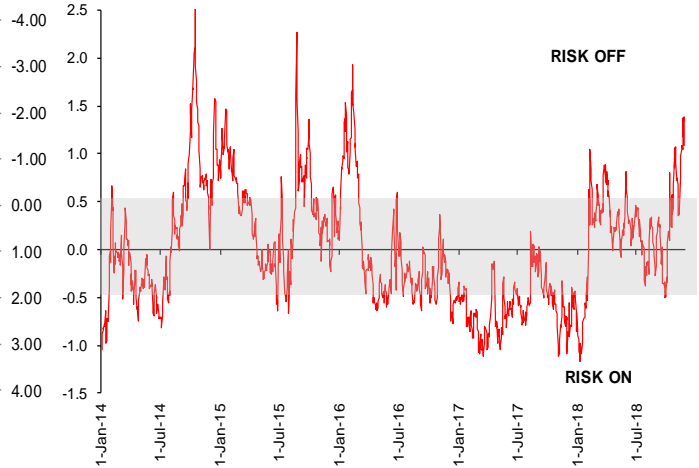
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.188	0.648	-0.291	-0.332	-0.467	0.406	-0.249	0.285	0.173	0.653	-0.928
SGD	0.653	-0.242	0.928	-0.367	-0.732	-0.109	0.011	0.087	0.533	0.084	1	-0.621
CHF	0.648	-0.307	1	-0.307	-0.686	-0.17	0.004	0.018	0.458	0.137	0.928	-0.618
IDR	0.625	-0.51	0.377	-0.457	-0.06	-0.812	0.251	-0.8	0.161	0.492	0.348	-0.552
CNH	0.622	0.131	0.743	-0.161	-0.672	0.285	0.051	0.511	0.518	-0.279	0.785	-0.659
MYR	0.596	-0.341	0.809	-0.492	-0.872	-0.014	-0.188	0.234	0.705	0.199	0.819	-0.512
THB	0.421	-0.772	0.474	-0.562	-0.34	-0.597	-0.111	-0.597	0.396	0.678	0.283	-0.313
JPY	0.421	0.655	0.316	0.501	-0.009	0.383	0.567	0.515	-0.102	-0.708	0.276	-0.597
CAD	0.406	0.52	0.004	0.588	0.472	-0.166	1	-0.181	-0.553	-0.415	0.011	-0.531
INR	0.371	-0.421	0.666	-0.489	-0.842	0.069	-0.392	0.228	0.659	0.211	0.633	-0.372
KRW	0.363	-0.715	0.681	-0.708	-0.849	-0.174	-0.542	-0.035	0.741	0.488	0.633	-0.274
USGG10	0.161	0.439	0.565	0.148	-0.498	0.729	0.017	0.841	0.373	-0.606	0.526	-0.316
TWD	0.071	0.166	0.466	-0.164	-0.729	0.569	-0.347	0.753	0.592	-0.291	0.545	-0.047
CNY	0.048	0.193	0.269	-0.167	-0.614	0.679	-0.37	0.817	0.615	-0.421	0.333	-0.108
PHP	0.023	0.569	0.287	0.204	-0.429	0.797	-0.072	0.906	0.378	-0.76	0.313	-0.173
NZD	-0.14	-0.285	-0.326	0.101	0.584	-0.594	0.231	-0.78	-0.479	0.406	-0.473	0.177
AUD	-0.188	1	-0.307	0.821	0.463	0.623	0.52	0.61	-0.493	-0.928	-0.242	0.018
GBP	-0.371	-0.068	-0.513	0.334	0.739	-0.373	0.226	-0.578	-0.658	0.232	-0.679	0.387
EUR	-0.5	0.752	-0.543	0.749	0.647	0.365	0.401	0.24	-0.641	-0.679	-0.535	0.314
	-0.928	0.018	-0.618	0.145	0.258	0.347	-0.531	0.187	-0.21	0.041	-0.621	1

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1250	1.1300	1.1332	1.1400	1.1473
GBP-USD	1.2696	1.2800	1.2810	1.2900	1.2994
AUD-USD	0.7179	0.7200	0.7220	0.7300	0.7333
NZD-USD	0.6637	0.6700	0.6765	0.6800	0.6872
USD-CAD	1.3072	1.3200	1.3257	1.3300	1.3310
USD-JPY	113.00	113.01	113.46	114.00	114.16
USD-SGD	1.3688	1.3700	1.3751	1.3761	1.3800
EUR-SGD	1.5522	1.5532	1.5583	1.5600	1.5737
JPY-SGD	1.2052	1.2100	1.2119	1.2177	1.2200
GBP-SGD	1.7518	1.7600	1.7615	1.7700	1.7881
AUD-SGD	0.9878	0.9900	0.9929	1.0000	1.0038
Gold	1202.36	1213.77	1222.90	1239.30	1240.56
Silver	13.91	14.20	14.22	14.30	14.45
Crude	50.10	51.30	51.32	51.40	66.18

Source: OCBC Bank

G10 FX Heat Map



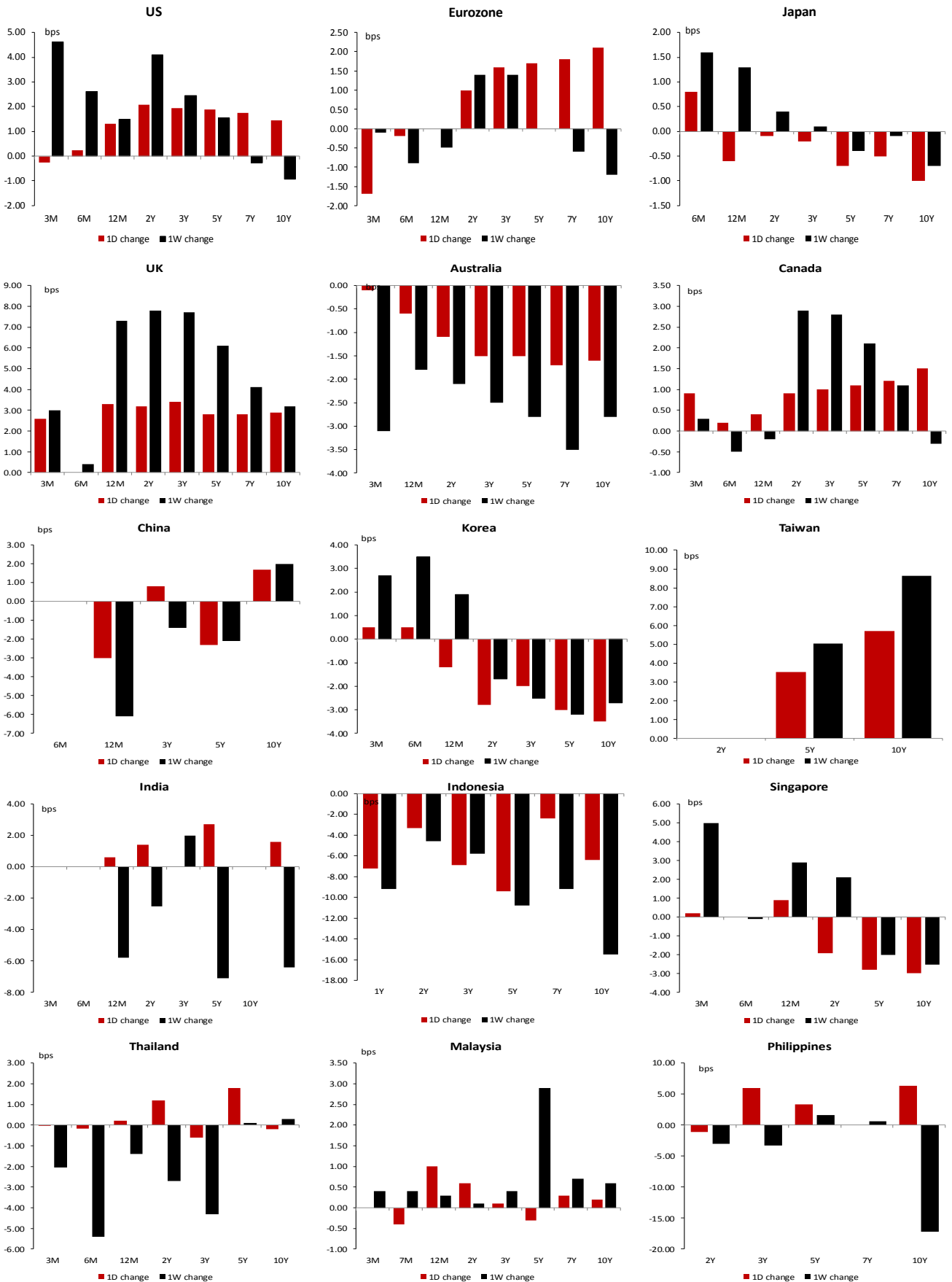
Source: OCBC Bank

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	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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