

Monday, October 29, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar fell from intra-day highs to end mixed within G10 space on Friday as the SPX continued to step lower with the 10y UST (and bund) yield slipping again to 3.083%. Overall, the DXY retraced lower below 96.50 to 96.43.
- While US equities bounced off early lows (but still ended lower on the day), US data points proved mixed (headline 3Q GDP better than expected but qoq core PCE was softer than expected).
- **Directionality this week may hinge on whether any further US equity weakness remains a sole USD negative or results in broader-based contagion across EM markets (which would impart a drag on the cyclicals like the AUD). Our best guess is that sufficient and specific vulnerabilities remain for the majors (US mid-terms, Sino-US trade tensions), especially for the likes of the EUR (S&P reaffirmed Italy's rating on Friday but it's the outlook was changed to negative) and the GBP (Brexit uncertainty).**
- Meanwhile, with the **FX Sentiment Index (FXSI)** driving yet deeper into Risk-Off territory on Friday, the JPY-crosses may continue to remain heavy on any flare ups in risk aversion.
- **CFTC** positioning meanwhile showed large non-commercial accounts reduced slightly their net implied long dollar bias in the latest week but asset managers lower their net implied short dollar bias. Leveraged accounts were also wrong footed as they pared their net aggregate long dollar bias. However, reducing net JPY shorts by the leveraged accounts in the latest week were in line with a slipping USD-JPY.
- The data stream this week includes October global **manufacturing PMIs** on Thursday, and US nonfarm payrolls and hourly earnings on Friday. On the central bank front, the **Bank of Japan (BOJ)** MPC (Wed) and the **Bank of England (BOE)** MPC and inflation report (Thu) bear watching. On the latter, note markets having pared implied hawkishness out of the BOE of late. For today, watch US personal income and yoy prints for PCE core inflation (1230 GMT)

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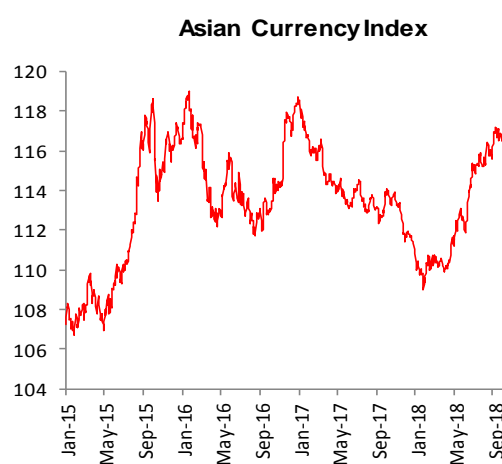
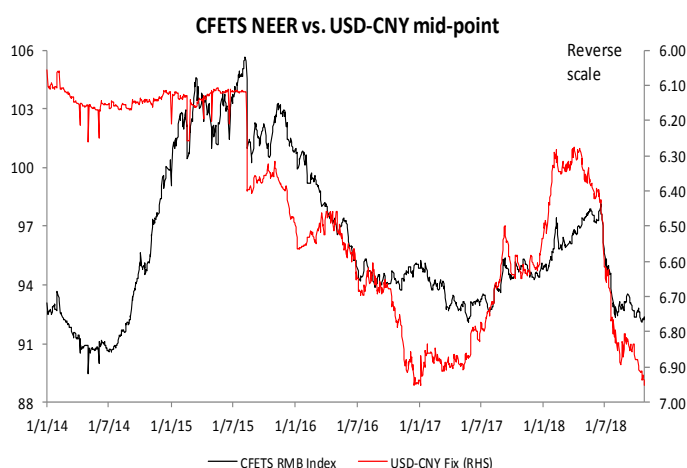
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Asian FX

- Asian FX may enjoy some breathing space against the USD at the onset of the week as investors attempt to find their footing for the coming sessions with market caution expected to remain simmering just below the surface. Except for Indonesia, Thailand, and Malaysia, expect govie yields to attempt to continue to track their G3 counterparts.
- On the **EPFR** front, net implied equity inflows into Asia (excl Japan, China) dropped drastically in the latest week but China-specific flows actually strengthened. Meanwhile, net implied bond flows saw outflows halving in the latest week. With the broader EM context, that data actually denoted increased net equity inflows but bond out flows persisted (albeit compressing). We think this continues to speak to the generalized medium term view that (decelerating) global growth prospects are not alarming as yet at this juncture, while long end rates may continue to head higher over the medium term.
- On a shorter horizon, **actual net portfolio flows** in the region meanwhile continue to show a moderation of net inflow momentum for South Korea and still deepening outflows for Taiwan. India and Indonesia meanwhile are experiencing some moderation in net outflows, with net outflows for Thailand still printing small negatives.
- SGD NEER:** The SGD NEER eased to around 1.35% above its perceived parity (1.3994) after hitting highs above the +1.40% mark on Friday. Expect the USD-SGD to retest recent highs this week if the broad dollar prospects remain biased higher.
- CFETS RMB Index:** This morning, the **USD-CNY** mid-point was expectedly set lower at 6.9377 from 6.9510 on Friday. This resulted in the CFETS RMB Index pushing higher to 92.40 from 92.32. **Note that despite official efforts to contain realized volatility, markets continue to price for wing risks as well as inherent USD strength for the RMB complex.**



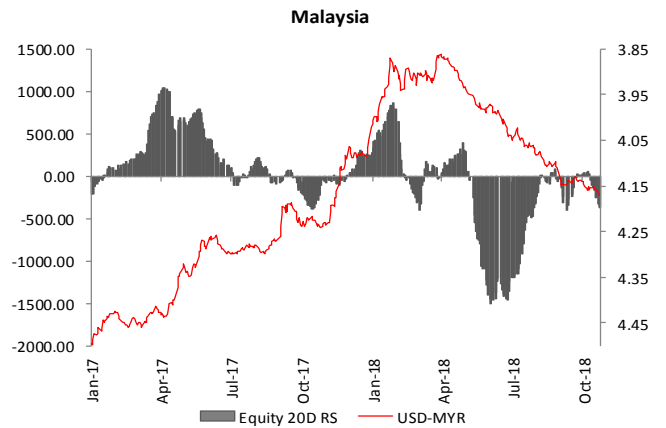
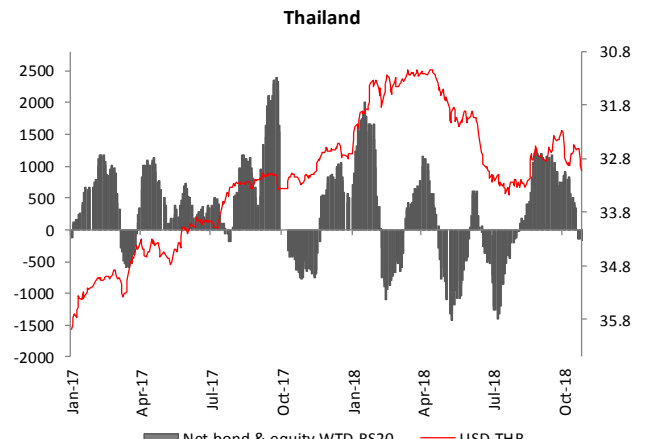
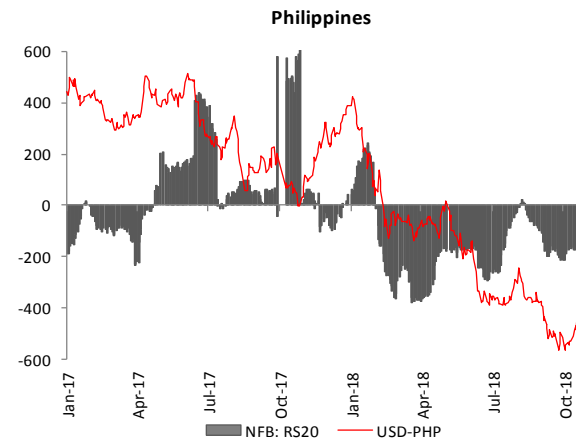
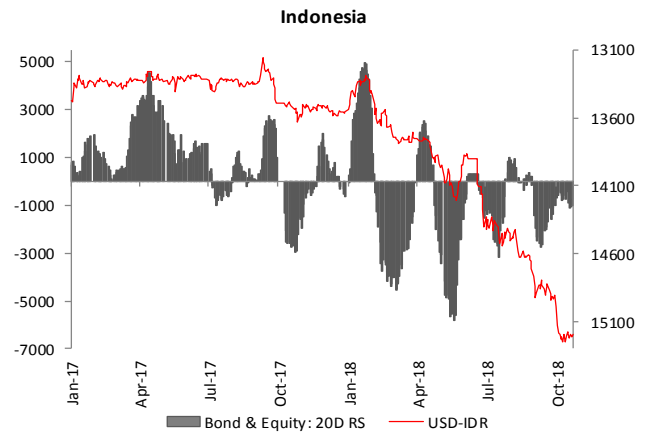
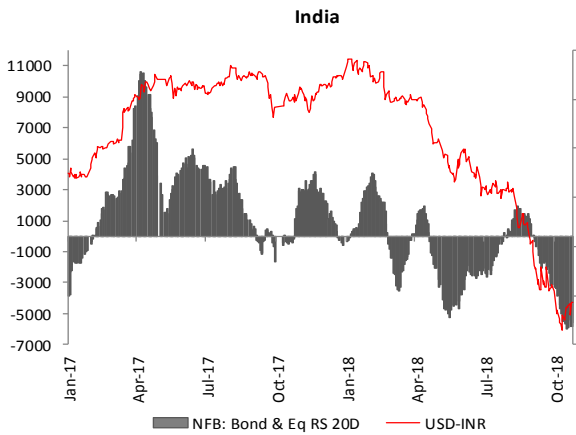
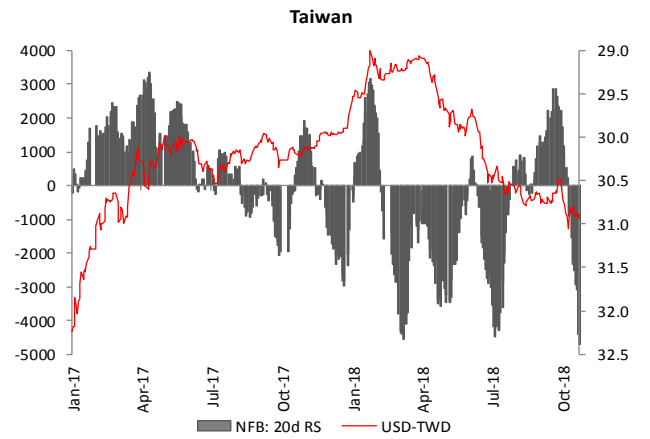
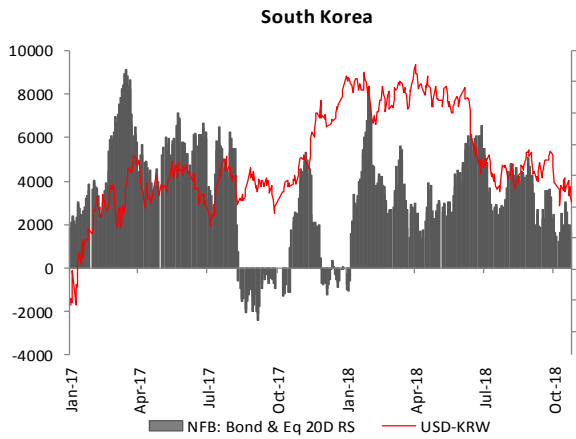
Source: OCBC Bank, Bloomberg

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 balanced budget by 2020 scuppered, replaced by an projected -3.0% deficit. Sep CPI readings significantly softer than expected. BNM static in September. Budget announcement this week to be closely watched with respect to fiscal consolidation.
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

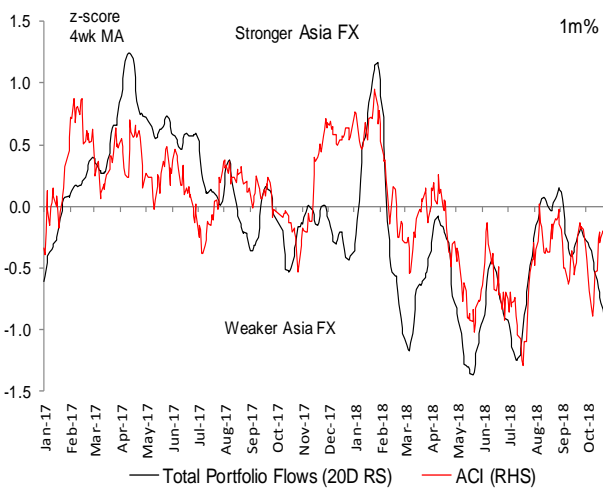
USD-Asia VS. Net Capital Flows



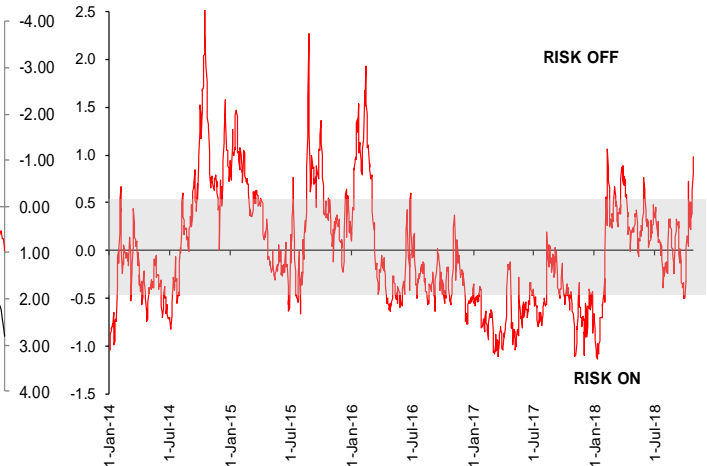
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

FX Sentiment Index



Source: OCBC Bank



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

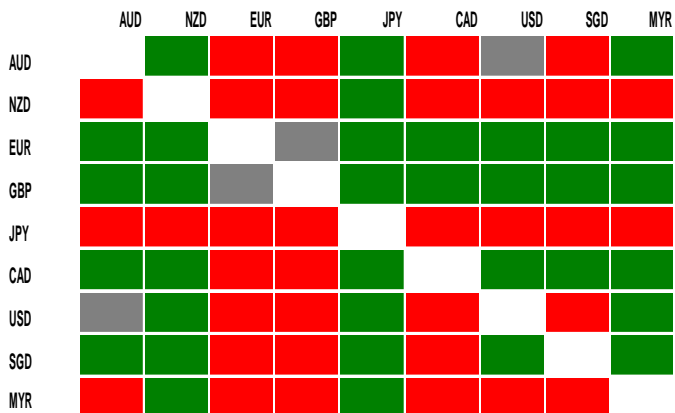
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1336	1.1366	1.1392	1.1400	1.1586
GBP-USD	1.2783	1.2800	1.2830	1.2900	1.3022
AUD-USD	0.7021	0.7036	0.7085	0.7100	0.7162
NZD-USD	0.6434	0.6500	0.6518	0.6582	0.6600
USD-CAD	1.3014	1.3100	1.3107	1.3159	1.3178
USD-JPY	111.21	111.38	111.83	112.00	112.16
USD-SGD	1.3741	1.3800	1.3811	1.3852	1.3873
EUR-SGD	1.5700	1.5704	1.5733	1.5800	1.5916
JPY-SGD	1.2252	1.2300	1.2350	1.2400	1.2406
GBP-SGD	1.7640	1.7700	1.7719	1.7800	1.7889
AUD-SGD	0.9714	0.9739	0.9785	0.9800	0.9848
Gold	1200.00	1203.68	1232.50	1238.60	1246.99
Silver	14.47	14.70	14.73	14.80	14.86
Crude	67.46	67.60	67.64	67.70	70.27

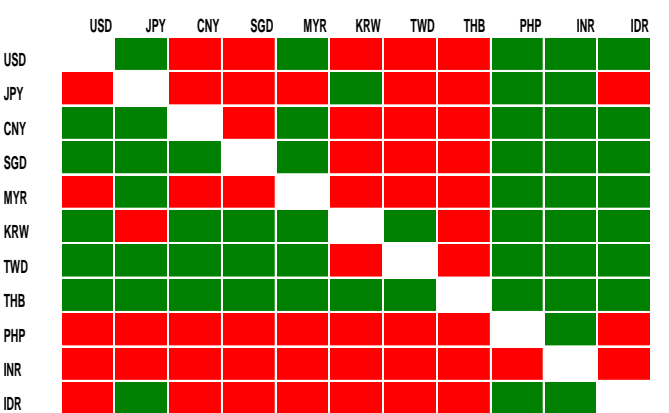
Source: OCBC Bank

G10 FX Heat Map



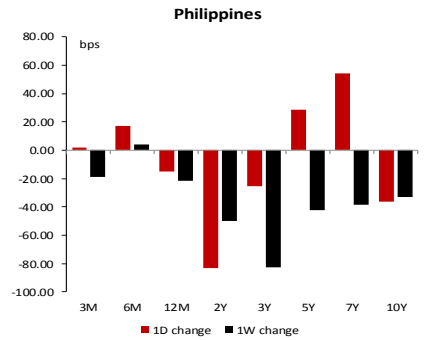
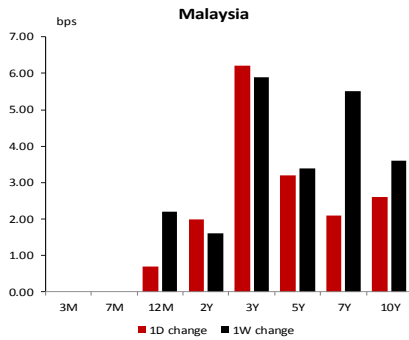
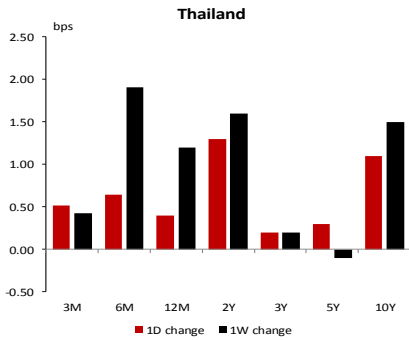
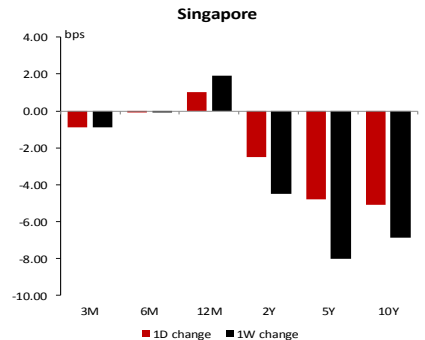
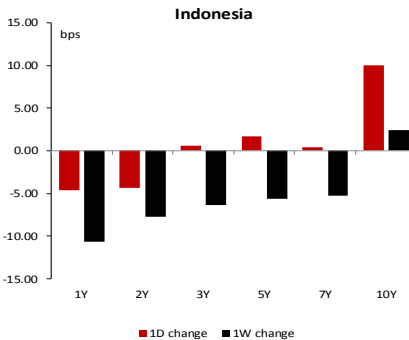
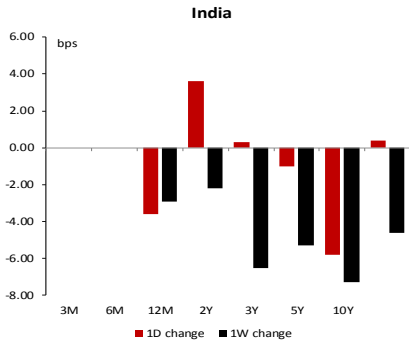
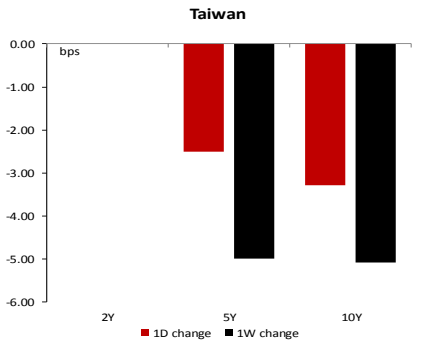
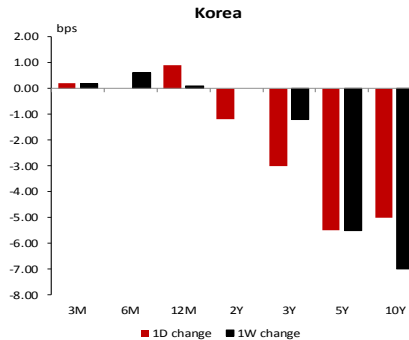
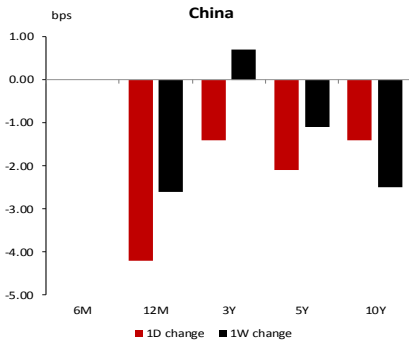
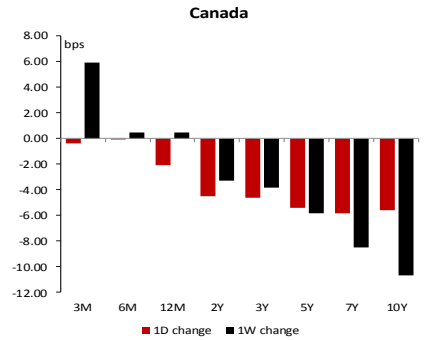
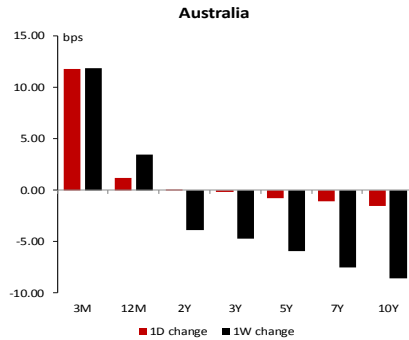
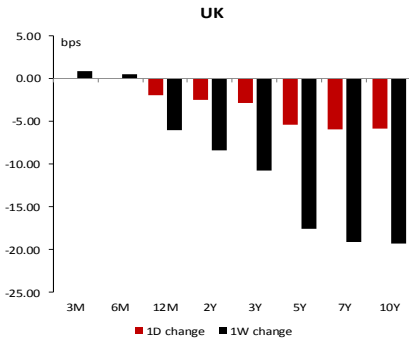
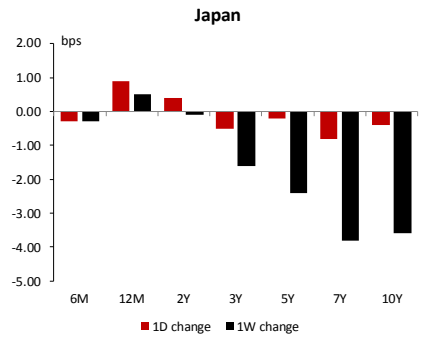
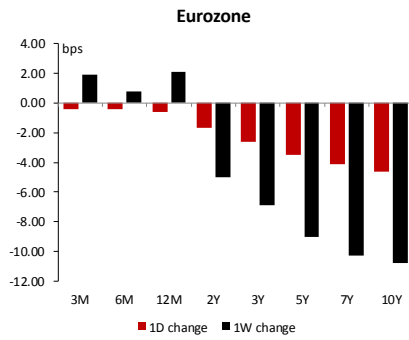
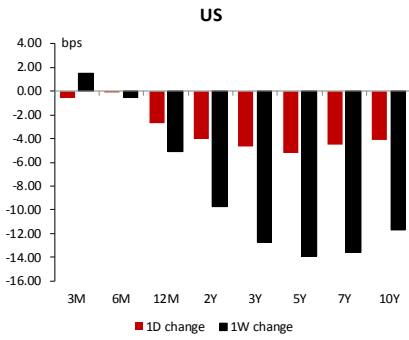
Source: OCBC Bank

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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