

Friday, November 30, 2018

FX Themes/Strategy/Trading Ideas

- A day after Powell's comments, the dollar ended mixed on Thursday with the 10y UST yield briefly below 3.000% (major govie yield curves also tracked the UST curve lower). Meanwhile, FOMC minutes also leaned towards more data dependent language in the forward guidance in the coming meetings. On the data front, US core PCE readings were flat to softer than expected.
- Elsewhere, GBP continued to underperform across the board after the BOE's dour assessment of post-Brexit prospects earlier in the week. Parliamentary approval of the Brexit treaty remains up in the air, with investors remaining skeptical at this juncture. On the risk appetite front, the **FXSI (FX Sentiment Index)** ticked higher and remained within Risk-Off territory on Thursday.
- Into the end of the week, expect markets to be in a holding pattern as the **G-20 meeting** in Buenos Aires gets underway. On this front, Trump on Thursday also hinted of a compromise with China (Xi-Trump dinner on Saturday). Any lack of unduly negative headlines from this weekend's meeting we think will lift the cyclical at the onset of next week.
- In the interim, stay with the likes of the AUD (and Asian FX) against the USD while markets are likely to continue to eschew any undue GBP positivity (despite the riskies bottoming out of late). If global risk appetite levels do not collapse post G-20 on Monday, expect the AUD-JPY for example to attempt to push higher.
- Structurally, the **re-pricing of the Fed's 2019 trajectory** (and by extension, implied odds of tightening by companion central banks) may remain underway in the near term and this may (or may not) be compounded by a likely more flexible forwards guidance in the December FOMC. Note that the conversation has now shifted to the Fed's perceived comfort levels for rates to maintain near neutral levels, a sharp contrast to the previous narrative exploring just how far the Fed would permit the terminal rate to sustain above neutral.

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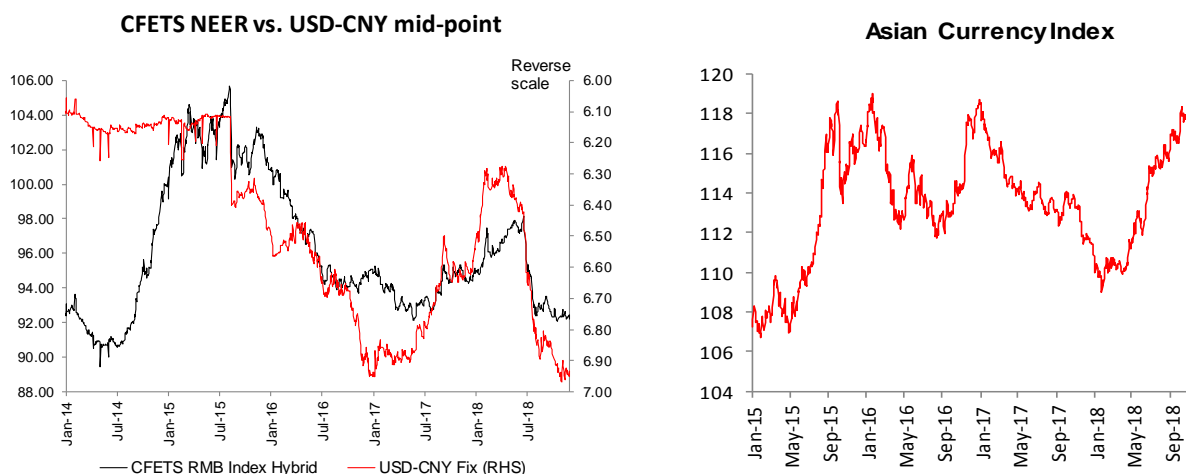
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Asian FX

- In Asia, the fading (for now) specter of acutely higher global interest rates (note the official China PMIs for November this morning underperformed expectations and softened from the previous month), depressed crude prices, and stabilizing (actually, improving) sentiment towards EM (and Asia), imply a more benign operating environment for regional central banks. Note that regional govie curves have continued to capitulate lower in tandem with their counterparts in the majors. As such, we think the likes of the **IDR** and **INR** will remain as favored outperformers in the region.
- Note that Indonesia and India as also the most improved in terms of their **actual net portfolio flows environment** across Asia. In the latest reading, both countries saw their inflow momentum continuing to build, supported by comfortable inflows in both equities and bonds. Elsewhere, nascent inflow momentum in Korea and Thailand struggled to make further positive headway.
- **SGD NEER**: The SGD NEER stands slightly firmer at +1.55% above its perceived parity (1.3920), with NEER-implied USD-SGD thresholds inching lower again. Intraday, stay heavy on the USD-SGD with downside support near 1.3690. Expect directionality next week to be dependent on market perception of the outcome of the Xi-Trump meeting over the weekend.
- **CFETS RMB Index**: The **USD-CNY** mid-point was set slightly higher, as expected, at 6.9357 compared to 6.9353 on Thursday. The CFETS RMB Index, however, eased lower to 92.18, compared to 92.34 previously.



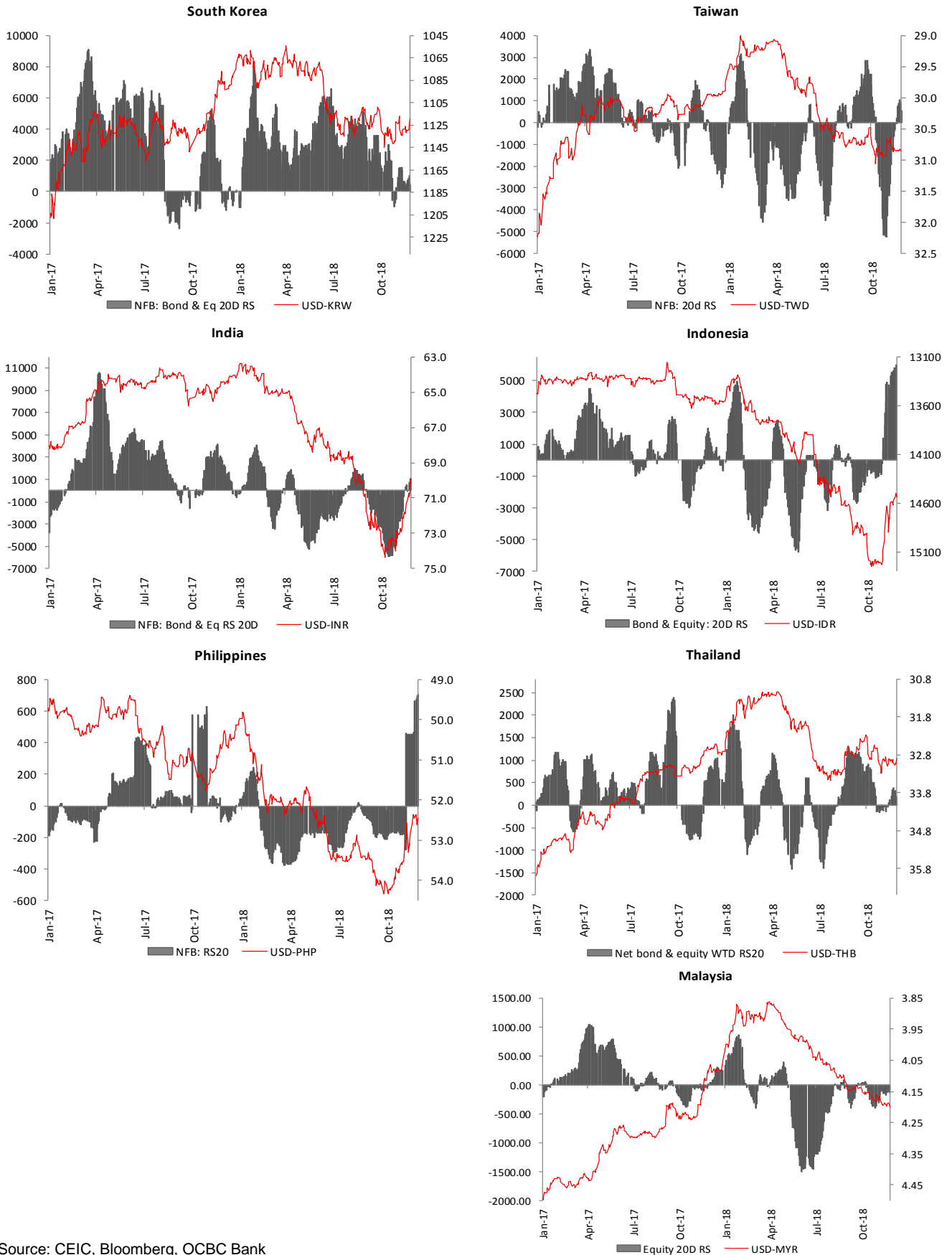
Source: OCBC Bank, Bloomberg

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. November official PMIs disappoint. Oct trade and industrial production numbers outperformed, while retail sales underperformed. Govie yields stabilizing in recent sessions.
USD-KRW	↔	BOK hiked 25bps as expected in November. 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 (we concur), 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, with the BI expected to stay pre-emptive and ahead of the curve in 2019. 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.

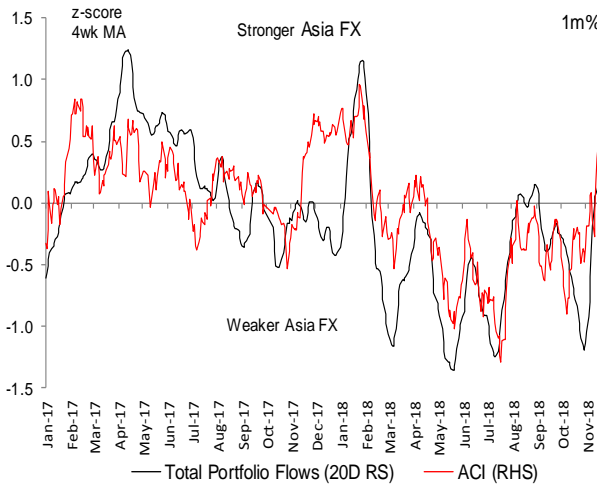
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



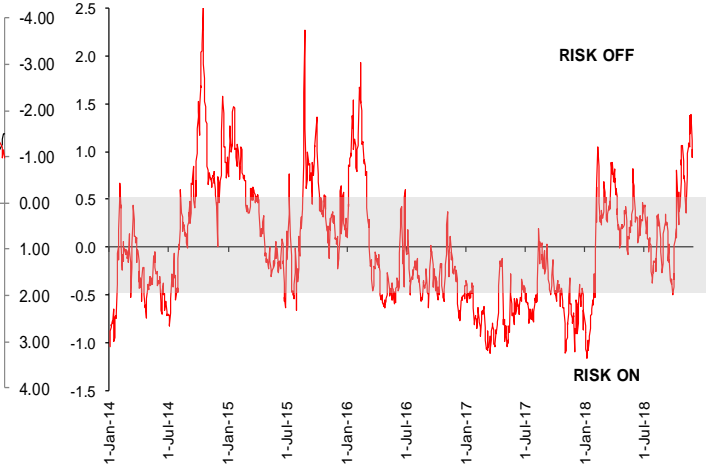
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1	-0.251	0.682	-0.351	-0.375	-0.555	0.472	-0.363	0.291	0.261	0.767	-0.919
CNH	0.767	-0.226	0.921	-0.244	-0.498	-0.417	0.299	-0.26	0.25	0.188	1	-0.72
THB	0.707	-0.29	0.779	-0.403	-0.685	-0.363	0.041	-0.144	0.484	0.266	0.739	-0.663
CNY	0.682	-0.336	1	-0.199	-0.519	-0.421	0.218	-0.313	0.238	0.256	0.921	-0.636
CAD	0.667	-0.666	0.583	-0.531	-0.227	-0.854	0.276	-0.844	0.302	0.69	0.597	-0.479
SGD	0.614	0.351	0.544	-0.029	-0.516	0.189	0.24	0.421	0.295	-0.393	0.62	-0.772
JPY	0.472	0.354	0.218	0.463	0.399	-0.175	1	-0.104	-0.46	-0.192	0.299	-0.563
MYR	0.414	-0.742	0.584	-0.57	-0.504	-0.632	-0.096	-0.648	0.515	0.647	0.397	-0.271
TWD	0.394	-0.624	0.602	-0.642	-0.759	-0.433	-0.391	-0.334	0.589	0.505	0.504	-0.331
KRW	0.355	-0.156	0.475	-0.385	-0.806	-0.033	-0.261	0.144	0.488	0.028	0.415	-0.45
CHF	0.284	0.722	0.169	0.45	-0.084	0.523	0.467	0.662	-0.057	-0.768	0.211	-0.551
PHP	0.113	0.657	0.357	0.396	-0.182	0.677	0.222	0.773	0.08	-0.716	0.265	-0.35
IDR	-0.077	0.543	-0.074	0.087	-0.391	0.697	-0.267	0.809	0.388	-0.63	-0.066	-0.122
NZD	-0.082	-0.573	-0.009	-0.113	0.307	-0.568	0.085	-0.764	-0.191	0.59	-0.151	0.235
INR	-0.113	0.793	-0.006	0.305	-0.404	0.838	-0.144	0.916	0.313	-0.909	0.002	-0.127
USGG10	-0.251	1	-0.336	0.713	0.335	0.8	0.354	0.839	-0.358	-0.941	-0.226	-0.016
AUD	-0.386	-0.387	-0.236	0.176	0.549	-0.289	0.03	-0.533	-0.424	0.417	-0.411	0.511
GBP	-0.541	0.819	-0.486	0.68	0.377	0.682	0.218	0.633	-0.434	-0.795	-0.442	0.296
EUR	-0.919	-0.016	-0.636	0.213	0.361	0.364	-0.563	0.149	-0.256	-0.008	-0.72	1

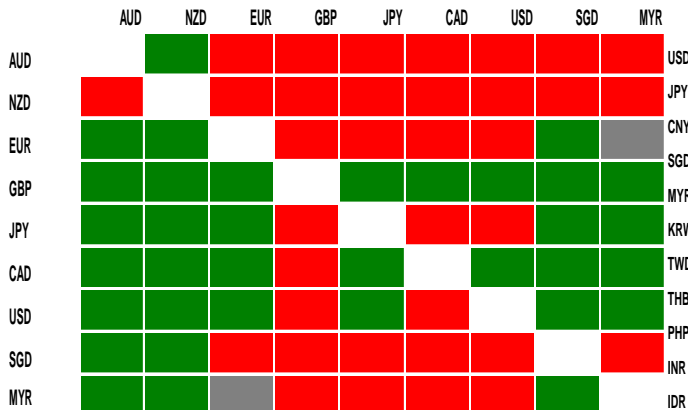
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1249	1.1300	1.1393	1.1400	1.1452
GBP-USD	1.2696	1.2700	1.2781	1.2800	1.2971
AUD-USD	0.7181	0.7300	0.7319	0.7338	0.7344
NZD-USD	0.6681	0.6800	0.6861	0.6865	0.6887
USD-CAD	1.3095	1.3200	1.3284	1.3300	1.3336
USD-JPY	113.00	113.08	113.38	114.00	114.21
USD-SGD	1.3685	1.3700	1.3708	1.3765	1.3800
EUR-SGD	1.5524	1.5600	1.5617	1.5700	1.5722
JPY-SGD	1.2045	1.2048	1.2090	1.2100	1.2173
GBP-SGD	1.7490	1.7500	1.7520	1.7600	1.7854
AUD-SGD	0.9950	1.0000	1.0033	1.0059	1.0075
Gold	1203.07	1214.84	1224.00	1238.18	1239.30
Silver	13.89	14.20	14.27	14.30	14.45
Crude	49.41	51.50	51.57	51.60	65.01

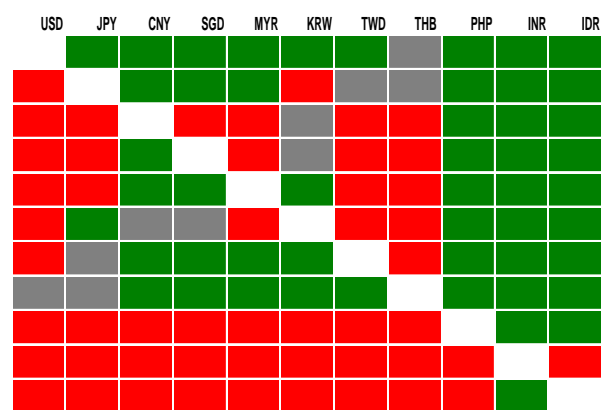
Source: OCBC Bank

G10 FX Heat Map



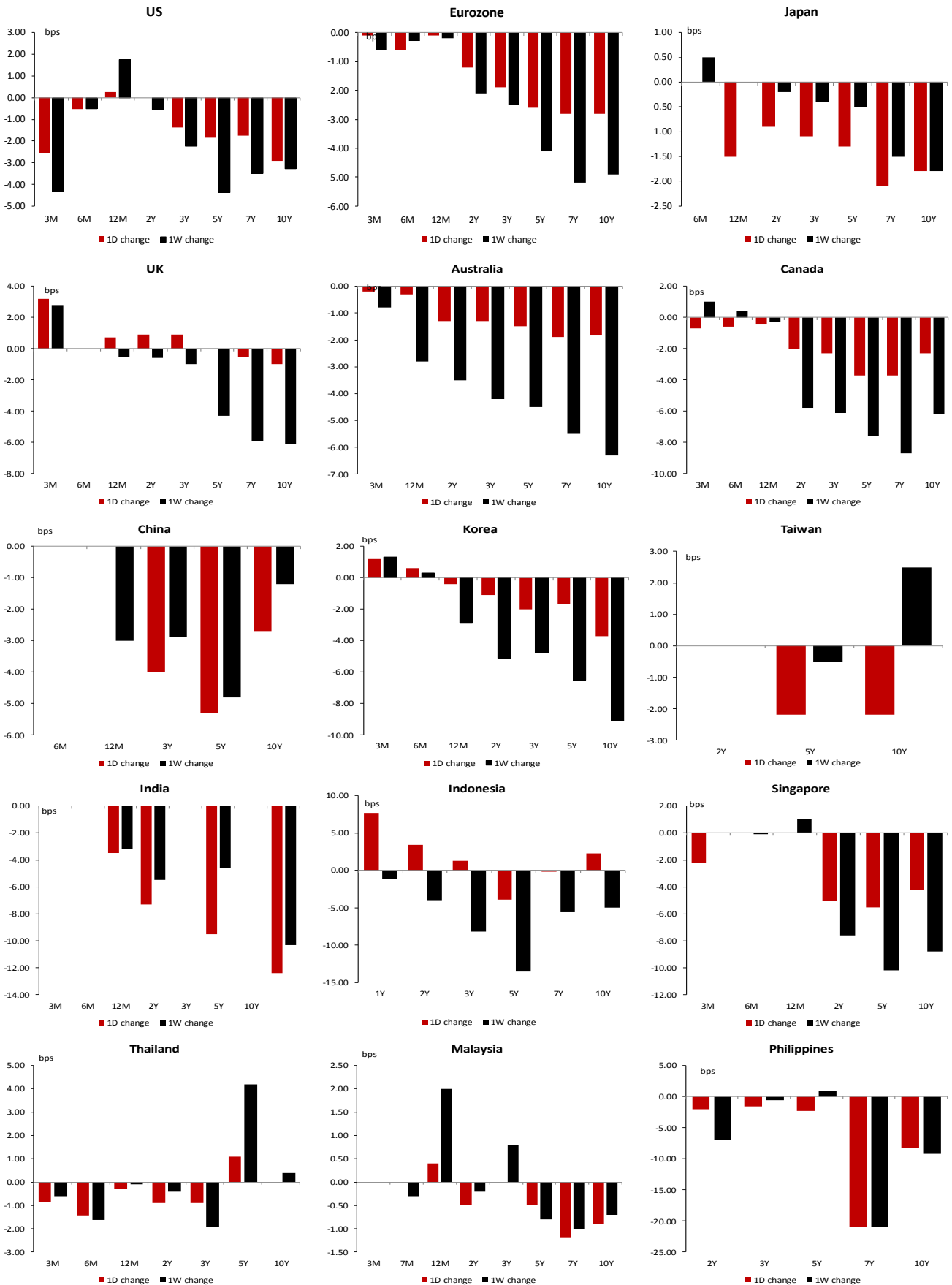
Source: OCBC Bank

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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