

Tuesday, October 30, 2018

**FX Themes/Strategy/Trading Ideas**

- Despite slightly softer US equities, the greenback pulled higher against its peers on Monday with the UST curve lifting (Sep core PCE better than expected at +0.2% mom). This saw the **DX** regaining ground and is trading near 96.70, just off its year-to-date high of 96.98.
- Following another political setback by the CDU over the weekend in regional elections, the EUR shaded slightly lower after news emerged that German Chancellor **Merkel** would not seek re-election in December as the party chair of the CDU. She also indicated that would serve out her final term as Chancellor till 2021. Note however that the EUR still outshone its other G10 counterparts (bund yields firmed and bear steepened). On other fronts, **GBP-USD** also drifted lower in sympathy with its counterparts with Hammond's budget announcement essentially a non-event.
- Elsewhere, the **AUD** underperformed across the board amid chatter that more US tariffs may be in store by December if the Xi-Trump meeting next month fails to yield concrete results.
- Watch for further risk appetite deterioration intra-day as sentiment was eroded further late Monday following the US tariff headlines. The **FX Sentiment Index (FXSI)** jumped higher into **Risk-Off** territory on Monday and US equity futures still slightly in the red early Tuesday in Asia.
- **Overall, expect the USD to remain underpinned (especially against the EUR and GBP), with risks of broader contagion from the risk appetite front potentially impinging on EM/Asia/cyclicals.**
- Relatively quiet day for the US on the data front. In Europe, watch for Eurozone GDP (1000 GMT) and German unemployment and price data (0855 GMT). The Bank of Japan (BOJ) meeting tomorrow may not present surprises, with policy parameters largely expected to remain static.

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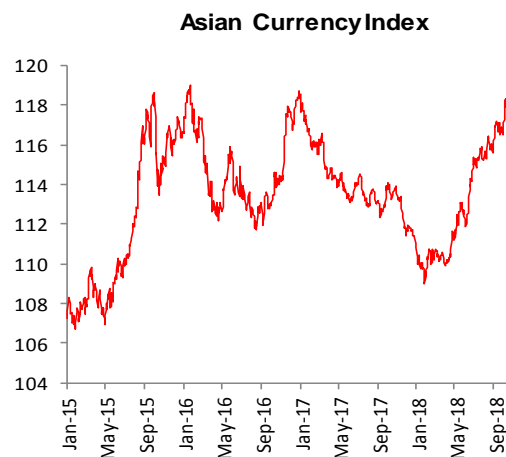
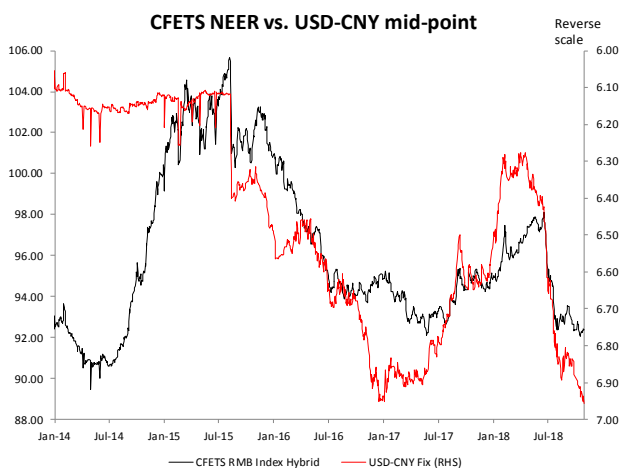
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## Asian FX

- EM FX retreated against the dollar on Monday and with Asian equities off to a shaky start early Tuesday, expect USD-Asia to continue to find any dips difficult intra-day. USD-CNH surfaced above 6.9700 on Monday and coupled with softer onshore/offshore China curves, may continue to impart a chill across Asia.
- On the **net portfolio flow front**, note that South Korea has descended into an outflow environment with outflows for Taiwan still deepening despite extreme levels. On a brighter note, net outflows for Indonesia and India continue to compress, while Thailand is still registering small net outflows.
- **SGD NEER**: The SGD NEER stood at 1.35% above its perceived parity (1.4027) after populating the +1.30-1.40% range on Monday. Expect the USD-SGD to drift higher alongside the firmer dollar, with intra-day range expected between 1.3820 and 1.3861. Given the elevated SGD NEER, we think further USD-SGD downside limited going forward and the pair may stage a push towards 1.3855/75 pending the CNH and DXY.
- **CFETS RMB Index**: This morning, the **USD-CNY** mid-point was set higher (and within expectations) at 6.9574 from 6.9377 on Monday. This resulted in the CFETS RMB Index slipping to 92.37 from 92.40. Markets (including the CNH vol surface) continue to position for a weaker RMB (despite the low realized) as USD-CNY gravitates toward the 7.0000 level after a blip last Friday.



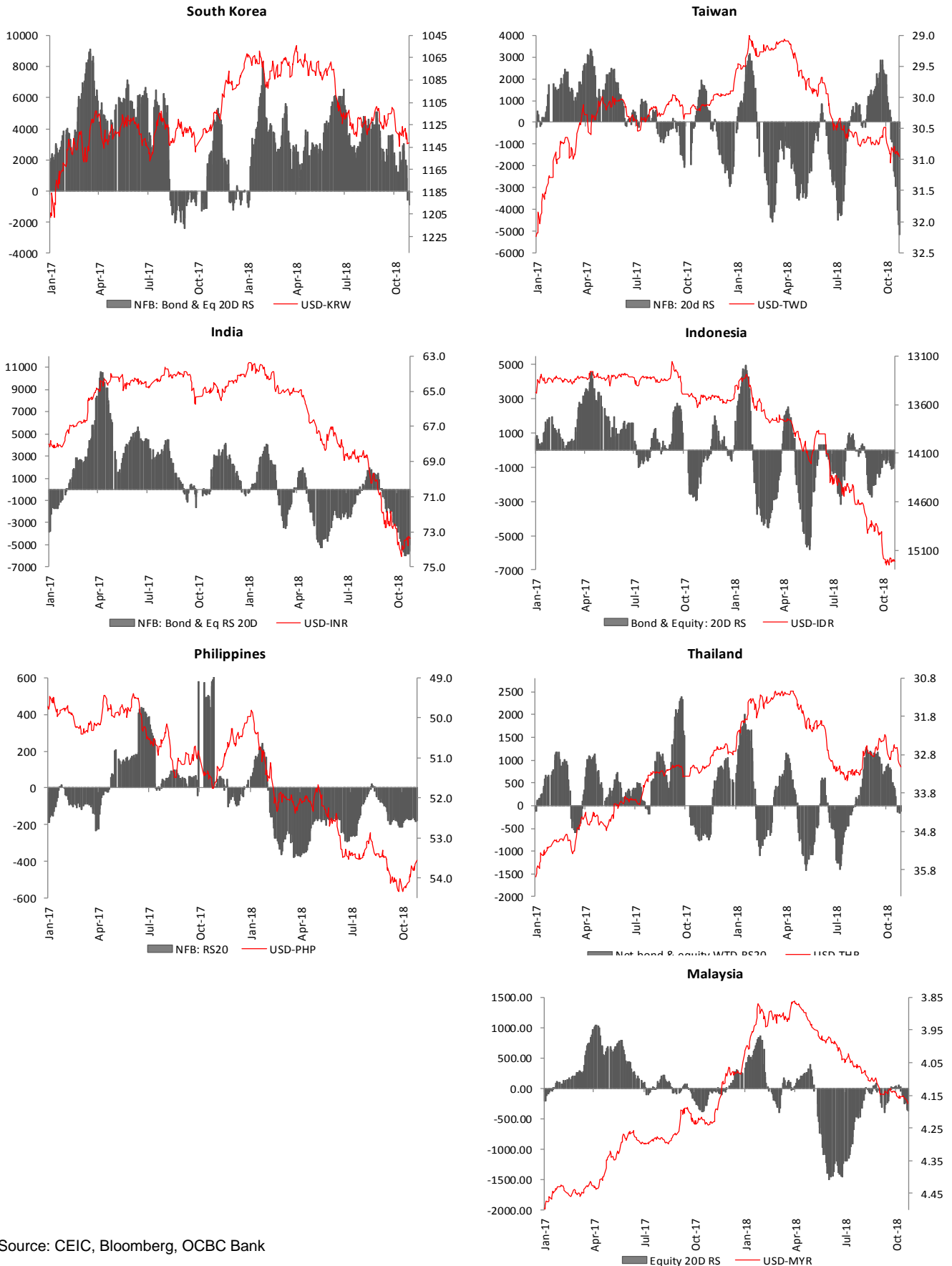
Source: OCBC Bank, Bloomberg

### 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. <b>His latest comments however seem to suggest some wavering from his previous hawkishness.</b> 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. Govies rally further with larger than expected RBI November OMO.   |
| 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.  |

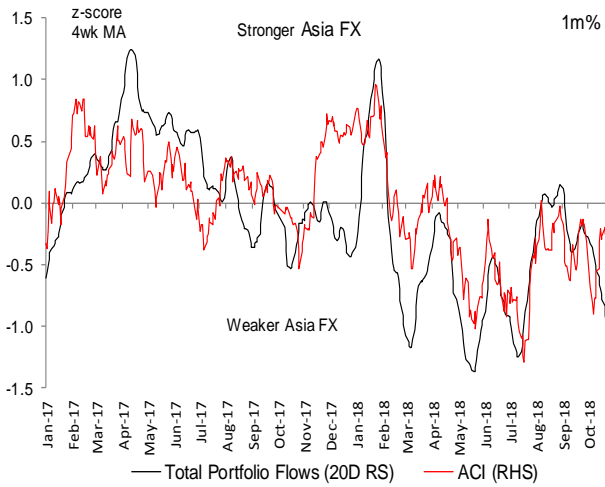
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



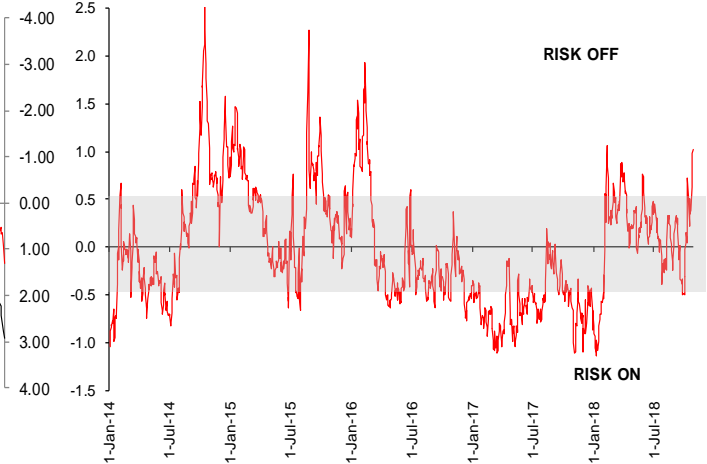
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



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      | -0.359 | 0.907  | -0.491 | -0.453   | -0.668 | -0.117 | -0.631 | 0.371  | 0.44   | 0.777  | -0.983 |
| SGD    | 0.907  | -0.375 | 1      | -0.46  | -0.425   | -0.615 | 0.162  | -0.619 | 0.212  | 0.47   | 0.958  | -0.906 |
| CHF    | 0.825  | -0.068 | 0.871  | -0.686 | -0.727   | -0.662 | -0.392 | -0.782 | 0.585  | 0.672  | 0.864  | -0.867 |
| IDR    | 0.777  | -0.278 | 0.958  | -0.778 | -0.792   | -0.697 | -0.608 | -0.838 | 0.673  | 0.787  | 1      | -0.818 |
| CNH    | 0.729  | -0.347 | 0.684  | -0.887 | -0.914   | -0.787 | -0.668 | -0.843 | 0.826  | 0.883  | 0.874  | -0.76  |
| MYR    | 0.603  | 0.292  | 0.593  | -0.259 | -0.32    | -0.223 | -0.141 | -0.267 | 0.319  | 0.294  | 0.545  | -0.653 |
| THB    | 0.579  | -0.091 | 0.414  | -0.609 | -0.673   | -0.468 | -0.566 | -0.519 | 0.662  | 0.646  | 0.682  | -0.611 |
| JPY    | 0.56   | -0.065 | 0.632  | -0.873 | -0.876   | -0.732 | -0.753 | -0.877 | 0.96   | 0.9    | 0.831  | -0.606 |
| CAD    | 0.437  | -0.036 | 0.034  | -0.751 | -0.829   | -0.546 | -0.676 | -0.653 | 0.818  | 0.802  | 0.561  | -0.502 |
| INR    | 0.263  | 0.154  | -0.153 | -0.752 | -0.874   | -0.507 | -0.802 | -0.684 | 0.83   | 0.862  | 0.57   | -0.338 |
| KRW    | 0.18   | 0.363  | -0.278 | -0.572 | -0.716   | -0.245 | -0.655 | -0.457 | 0.651  | 0.677  | 0.478  | -0.27  |
| USGG10 | -0.117 | 0.202  | 0.162  | 0.837  | 0.867    | 0.52   | 1      | 0.725  | -0.871 | -0.894 | -0.608 | 0.2    |
| TWD    | -0.117 | -0.447 | 0.054  | -0.082 | -0.006   | -0.146 | -0.081 | -0.222 | -0.082 | 0.046  | 0.009  | 0.153  |
| CNY    | -0.323 | 0.488  | -0.305 | 0.117  | 0.006    | 0.191  | 0.016  | 0.355  | 0.071  | 0.058  | -0.322 | 0.285  |
| PHP    | -0.344 | 0.537  | -0.555 | 0.152  | 0.003    | 0.388  | -0.179 | 0.317  | 0.061  | 0.02   | -0.203 | 0.285  |
| NZD    | -0.359 | 1      | -0.375 | 0.357  | 0.181    | 0.478  | 0.202  | 0.327  | -0.271 | -0.19  | -0.278 | 0.319  |
| AUD    | -0.589 | -0.283 | -0.716 | 0.428  | 0.467    | 0.347  | 0.241  | 0.421  | -0.467 | -0.425 | -0.551 | 0.631  |
| GBP    | -0.652 | 0.363  | -0.735 | 0.805  | 0.762    | 0.777  | 0.542  | 0.883  | -0.631 | -0.748 | -0.846 | 0.675  |
| EUR    | -0.908 | 0.591  | -0.896 | 0.392  | 0.301    | 0.595  | -0.013 | 0.536  | -0.205 | -0.278 | -0.637 | 0.872  |
|        | -0.983 | 0.319  | -0.906 | 0.548  | 0.529    | 0.646  | 0.2    | 0.658  | -0.431 | -0.505 | -0.818 | 1      |

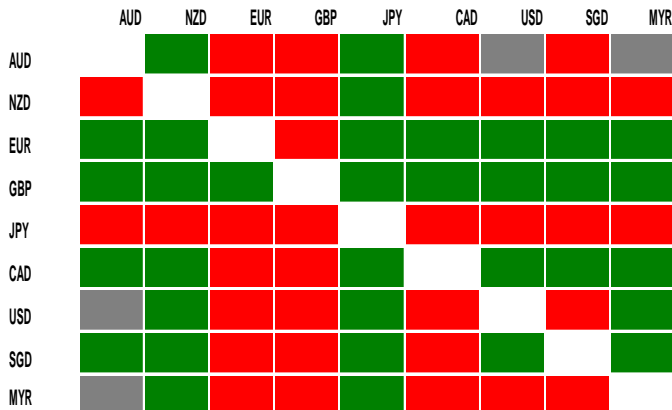
Source: Bloomberg

**Technical support and resistance levels**

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1336  | 1.1348  | 1.1384  | 1.1400  | 1.1582  |
| GBP-USD | 1.2777  | 1.2800  | 1.2811  | 1.2900  | 1.3020  |
| AUD-USD | 0.7021  | 0.7042  | 0.7091  | 0.7100  | 0.7143  |
| NZD-USD | 0.6437  | 0.6500  | 0.6541  | 0.6579  | 0.6600  |
| USD-CAD | 1.3016  | 1.3100  | 1.3106  | 1.3159  | 1.3177  |
| USD-JPY | 112.00  | 112.22  | 112.65  | 113.00  | 114.03  |
| USD-SGD | 1.3752  | 1.3800  | 1.3827  | 1.3853  | 1.3873  |
| EUR-SGD | 1.5691  | 1.5700  | 1.5741  | 1.5800  | 1.5914  |
| JPY-SGD | 1.2245  | 1.2253  | 1.2273  | 1.2300  | 1.2392  |
| GBP-SGD | 1.7675  | 1.7700  | 1.7714  | 1.7800  | 1.7891  |
| AUD-SGD | 0.9745  | 0.9800  | 0.9805  | 0.9834  | 0.9858  |
| Gold    | 1200.00 | 1205.51 | 1230.30 | 1238.60 | 1248.50 |
| Silver  | 14.46   | 14.50   | 14.52   | 14.60   | 14.85   |
| Crude   | 65.74   | 67.00   | 67.05   | 67.10   | 67.47   |

Source: OCBC Bank

**G10 FX Heat Map**



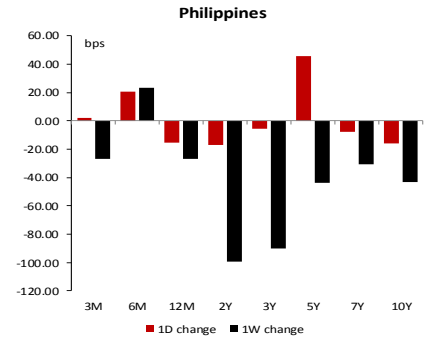
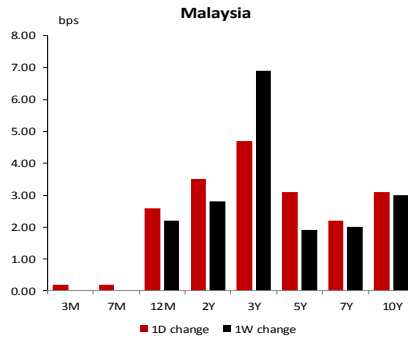
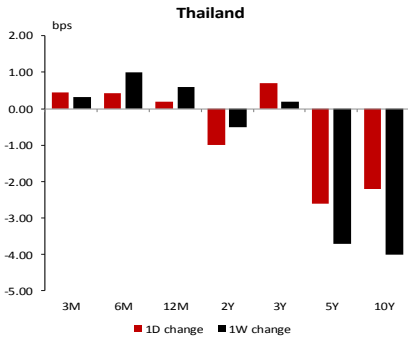
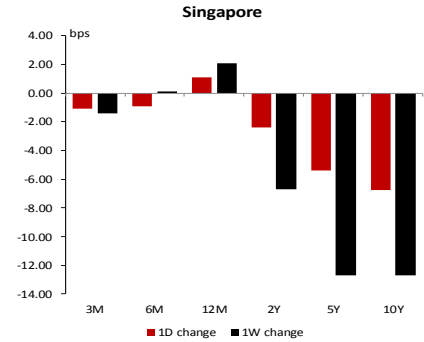
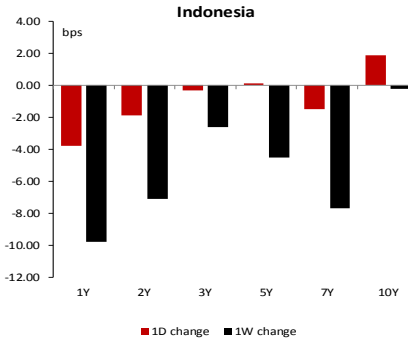
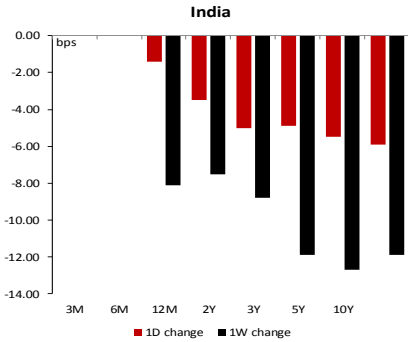
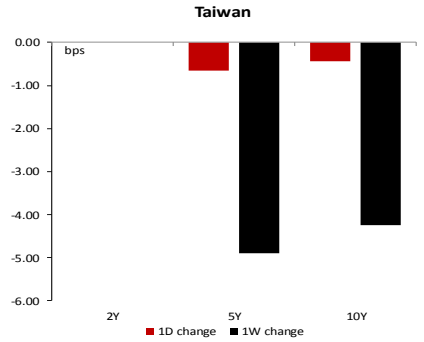
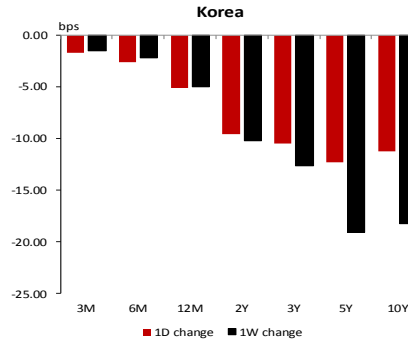
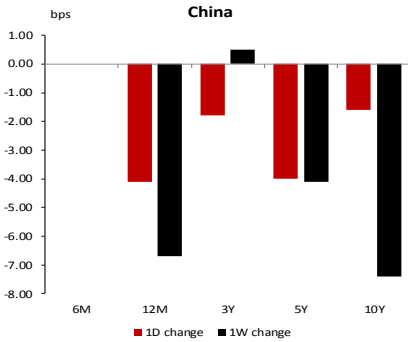
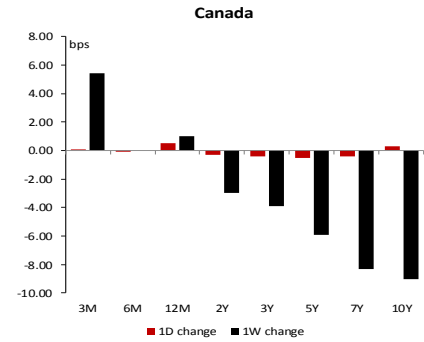
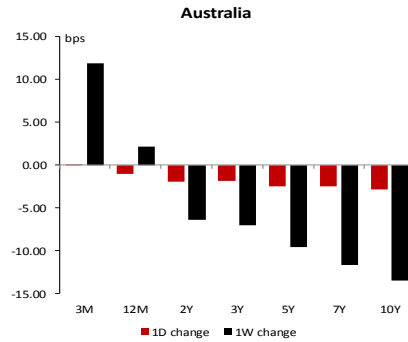
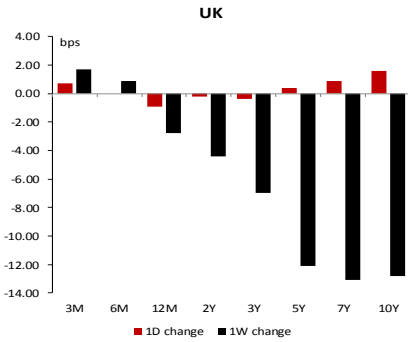
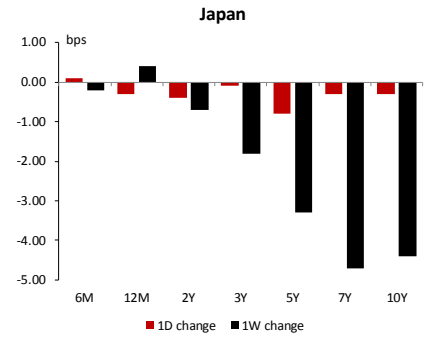
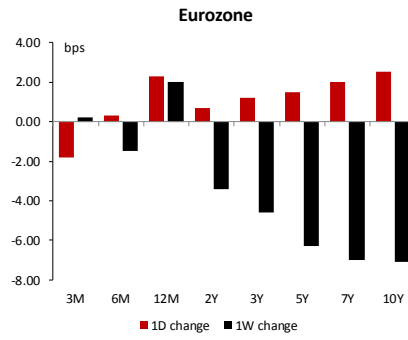
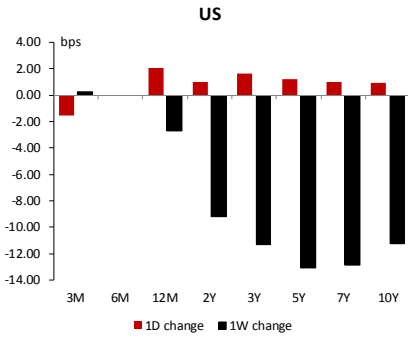
Source: OCBC Bank

**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   |   |       |
|------------------------------------|-----------|-----------|---------------|---------|--------------------|---|---|-------|
| <b>TACTICAL</b>                    |           |           |               |         |                    |   |   |       |
| 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            |   |       |
| <b>STRUCTURAL</b>                  |           |           |               |         |                    |   |   |       |
| -                                  | -         | -         | -             | -       | -                  | -   |   |       |
| <b>RECENTLY CLOSED TRADE IDEAS</b> |           |           |               |         |                    |   |   |       |
| 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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