

Wednesday, October 31, 2018

## FX Themes/Strategy/Trading Ideas

- The majors parted ways on Tuesday with the EUR (weaker than expected EZ 3Q GDP with stalling Italian numbers and the EU Commission's discomfort with Italian fiscal plans), GBP (S&P warned on a no-deal Brexit outcome) and JPY retreating lower against the USD while the antipodeans and CAD climbed higher across G10 space and against the greenback. Sentiment towards the cyclicals was boosted by the bounce in US equities and a slight alleviation in global trade tensions. On a more cautionary note, the **FX Sentiment Index (FXSI)** continued to float higher within **Risk-Off** territory despite the recovery in US equities.
- Note however that the **DXY** still topped 97.00 and with the broad dollar finally hooking up with supportive rate differentials, a sustained breach higher after printing year-to-date highs on Tuesday may remain imminent at this juncture. To this end, we watch for a close this week above the 200-week MA (95.823).
- On the US front, the October Conference Board consumer confidence came in warmer than expected with the UST curve firming and with the 10y rising past 3.120% in late trade.
- This morning, Aussie 3Q CPI numbers were flat to soft relative to prior expectations, with downward revisions to the previous readings for the trimmed mean. In addition, China's October CFLP PMIs (manufacturing, non-manufacturing, composite) came in lower than expected and continued to point to deterioration from the previous month. Expect AUD-USD to stumble slightly in the Asian session and the cyclicals to lose their slight positive edge from overnight.
- For today, look towards the BOJ MPC (watch for long term forecast and short term prognosis) and the US Oct ADP, 3Q ECI, and Oct Chicago PMI numbers for near term cues. **In the interim, retain a preference to stay with the USD relative to the JPY, EUR, and GBP.**
- In the current environment of intrinsic dollar resilience and fragile risk appetite, we think that **USD-SGD** may have further potential headroom going ahead. Within the region, the SGD currently exhibits relatively more significant positive correlation to the CNH (rate of change basis), with the pair also effectively functioning as a proxy trade for potential CNH weakness. In addition, with the SGD NEER still trading on the firmer end of its fluctuation band, discretionary downside dips for the pair in the absence of broad dollar or risk appetite guidance is expected to be shallow. From a spot ref of 1.3840 on Tuesday, we target 1.4015 and place a stop at 1.3750.

Treasury Research &  
Strategy

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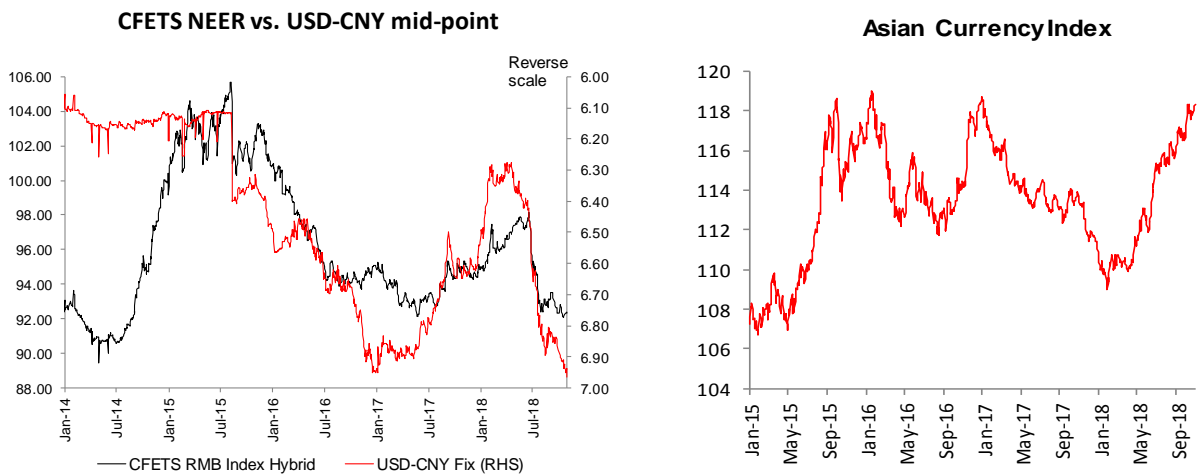
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### Asian FX

- In the wake of positive EM equities and the late bounce in US equities on Tuesday, investor sentiment in Asia may get off to a positive start. However, regional FX is expected to remain on the defensive in the face of the broad dollar and the USD-CNH still subsisting above 6.9700. As mentioned above, Aussie and Chinese data releases this morning may also continue to fuel the USD higher intra-day (although the KRW and TWD may remain underpinned by positive equities).
- The situation in net portfolio flows in Asia remains on familiar ground with slight outflows for South Korea, deep outflows for Taiwan, while net outflows for India and Indonesia are compressing, with minor net outflows for Thailand stabilizing.
- **SGD NEER:** The SGD NEER eased slightly to 1.32% above its perceived parity (1.4038), while staying within the +1.30-1.40% range that marked the extremes since the start of the week. With higher implied USD-SGD thresholds, expect the pair to populate the range between 1.3830 and 1.3875 intraday.
- **CFETS RMB Index:** This morning, the **USD-CNY** mid-point was set expectedly higher at 6.9646 from 6.9574 on Tuesday. The CFETS RMB Index eased slightly to 92.36 from 92.37 in response. Note that the USD-CNY midpoint fix is set at decade highs for the second consecutive session.



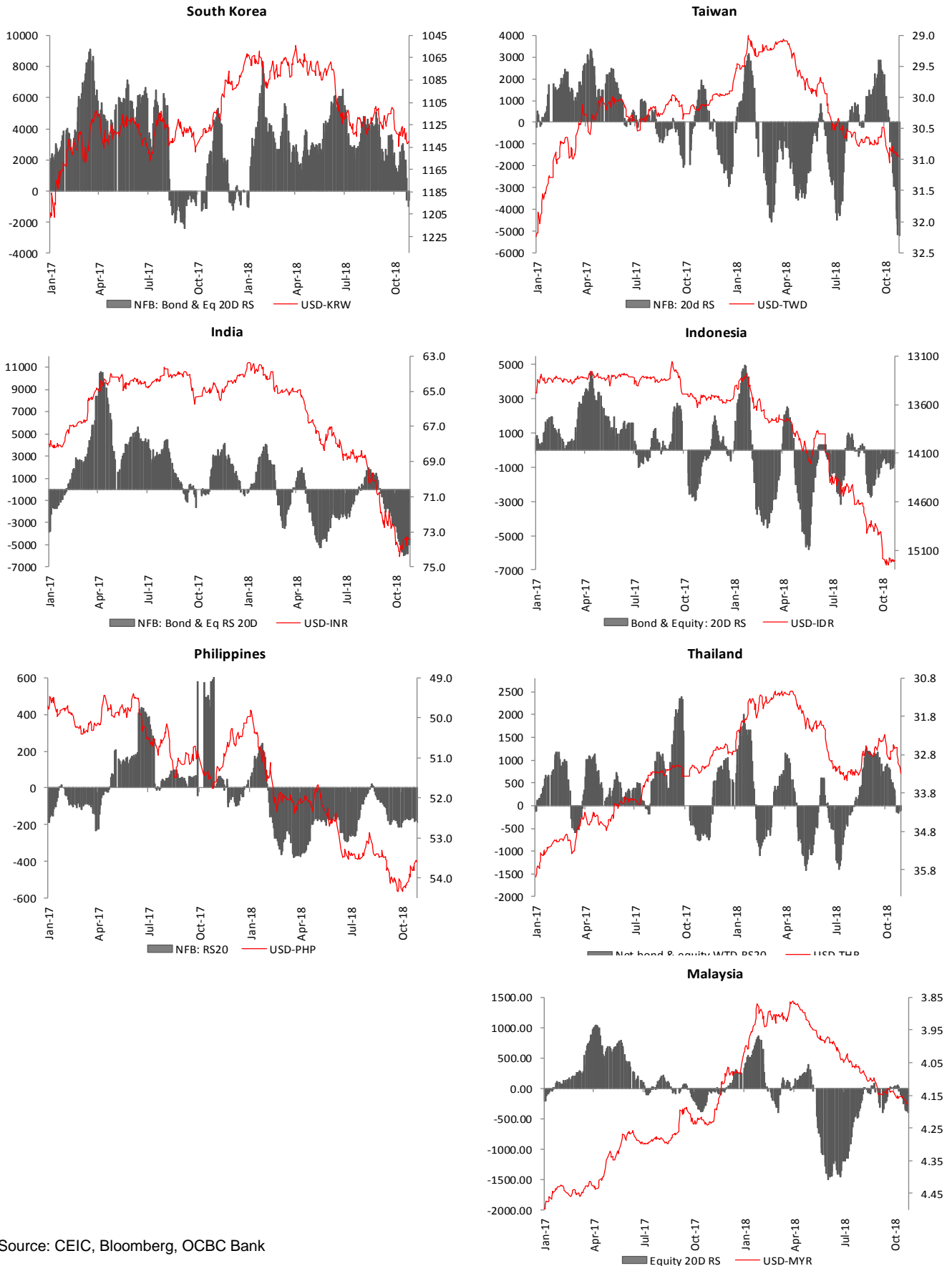
Source: OCBC Bank, Bloomberg

### 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. October PMIs disappoint.
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. His latest comments however seem to suggest some wavering from his previous hawkishness. Yield curves remain significantly soft. Net inflow momentum which persisted since the start of the year evaporated and flipped into net outflows.
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. Tensions between the government and the RBI governor may add near term uncertainties. 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 (with govies already weak in recent sessions).
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. We note however a lack of immediate inflation risks, and latest export and manufacturing prints remained soft. This may delay the start of policy normalization. Govie yields remain underpinned.
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.

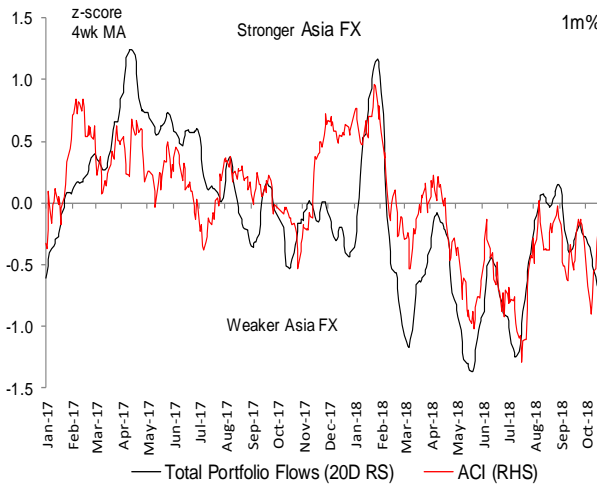
Source: OCBC Bank

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



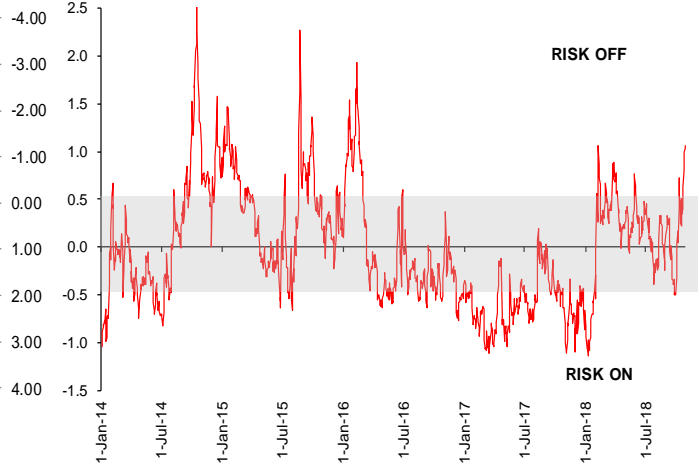
Source: CEIC, Bloomberg, OCBC Bank

**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	ITRXXK	CNH	EUR
DXY	1	-0.308	0.928	-0.539	-0.521	-0.753	0.019	-0.676	0.416	0.503	0.811	-0.984
SGD	0.928	-0.419	1	-0.513	-0.519	-0.709	0.332	-0.672	0.269	0.552	0.963	-0.925
CHF	0.874	-0.024	0.898	-0.701	-0.747	-0.751	-0.21	-0.797	0.596	0.696	0.88	-0.896
IDR	0.811	-0.218	0.963	-0.794	-0.811	-0.747	-0.463	-0.855	0.687	0.805	1	-0.846
CNH	0.744	-0.286	0.757	-0.883	-0.914	-0.832	-0.573	-0.849	0.816	0.884	0.87	-0.772
MYR	0.678	0.323	0.669	-0.322	-0.386	-0.352	-0.044	-0.358	0.362	0.358	0.616	-0.715
THB	0.608	-0.034	0.552	-0.645	-0.71	-0.586	-0.468	-0.532	0.676	0.685	0.682	-0.632
JPY	0.582	-0.016	0.66	-0.88	-0.883	-0.731	-0.666	-0.881	0.866	0.906	0.832	-0.625
CAD	0.409	0.034	0.133	-0.763	-0.836	-0.562	-0.626	-0.64	0.825	0.811	0.53	-0.476
INR	0.301	0.129	-0.079	-0.758	-0.871	-0.507	-0.775	-0.689	0.834	0.861	0.578	-0.367
KRW	0.224	0.335	-0.138	-0.583	-0.719	-0.28	-0.631	-0.473	0.659	0.683	0.491	-0.301
USGG10	0.019	0.157	0.332	0.779	0.796	0.391	1	0.604	-0.828	-0.828	-0.463	0.068
TWD	0.015	-0.482	0.123	-0.109	-0.04	-0.185	-0.058	-0.284	-0.056	0.076	0.103	0.032
CNY	0.006	0.371	-0.212	0.074	-0.037	0.087	-0.058	0.146	0.098	0.095	-0.006	-0.018
PHP	-0.278	0.521	-0.488	0.137	-0.008	0.311	-0.173	0.286	0.067	0.029	-0.172	0.238
NZD	-0.308	1	-0.419	0.379	0.214	0.481	0.157	0.292	-0.293	-0.221	-0.218	0.273
AUD	-0.45	-0.368	-0.588	0.412	0.444	0.293	0.219	0.356	-0.456	-0.406	-0.457	0.513
GBP	-0.707	0.387	-0.775	0.818	0.785	0.807	0.466	0.895	-0.649	-0.769	-0.866	0.724
EUR	-0.933	0.54	-0.919	0.456	0.393	0.696	-0.126	0.6	-0.273	-0.366	-0.701	0.901
	-0.984	0.273	-0.925	0.588	0.582	0.723	0.068	0.698	-0.468	-0.556	-0.846	1

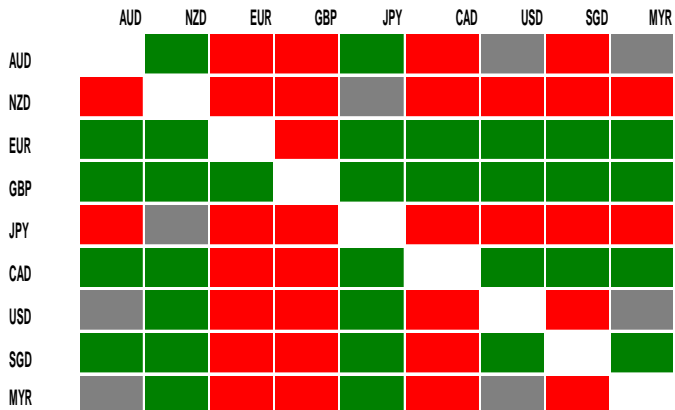
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1321	1.1336	1.1345	1.1400	1.1576
GBP-USD	1.2696	1.2700	1.2705	1.2800	1.3014
AUD-USD	0.7021	0.7041	0.7083	0.7100	0.7143
NZD-USD	0.6438	0.6500	0.6547	0.6576	0.6600
USD-CAD	1.3019	1.3100	1.3122	1.3159	1.3176
USD-JPY	112.28	113.00	113.14	113.74	114.00
USD-SGD	1.3748	1.3800	1.3860	1.3865	1.3873
EUR-SGD	1.5686	1.5700	1.5723	1.5800	1.5911
JPY-SGD	1.2200	1.2242	1.2250	1.2255	1.2300
GBP-SGD	1.7582	1.7600	1.7608	1.7700	1.7888
AUD-SGD	0.9741	0.9800	0.9816	0.9842	0.9854
Gold	1200.00	1206.01	1222.30	1238.60	1248.11
Silver	14.32	14.40	14.44	14.45	14.50
Crude	65.33	66.40	66.44	66.50	67.48

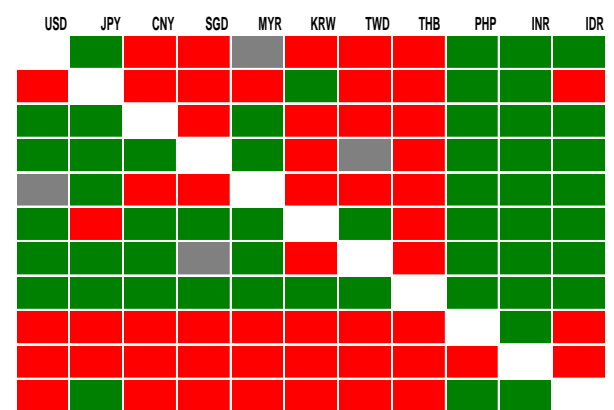
Source: OCBC Bank

**G10 FX Heat Map**



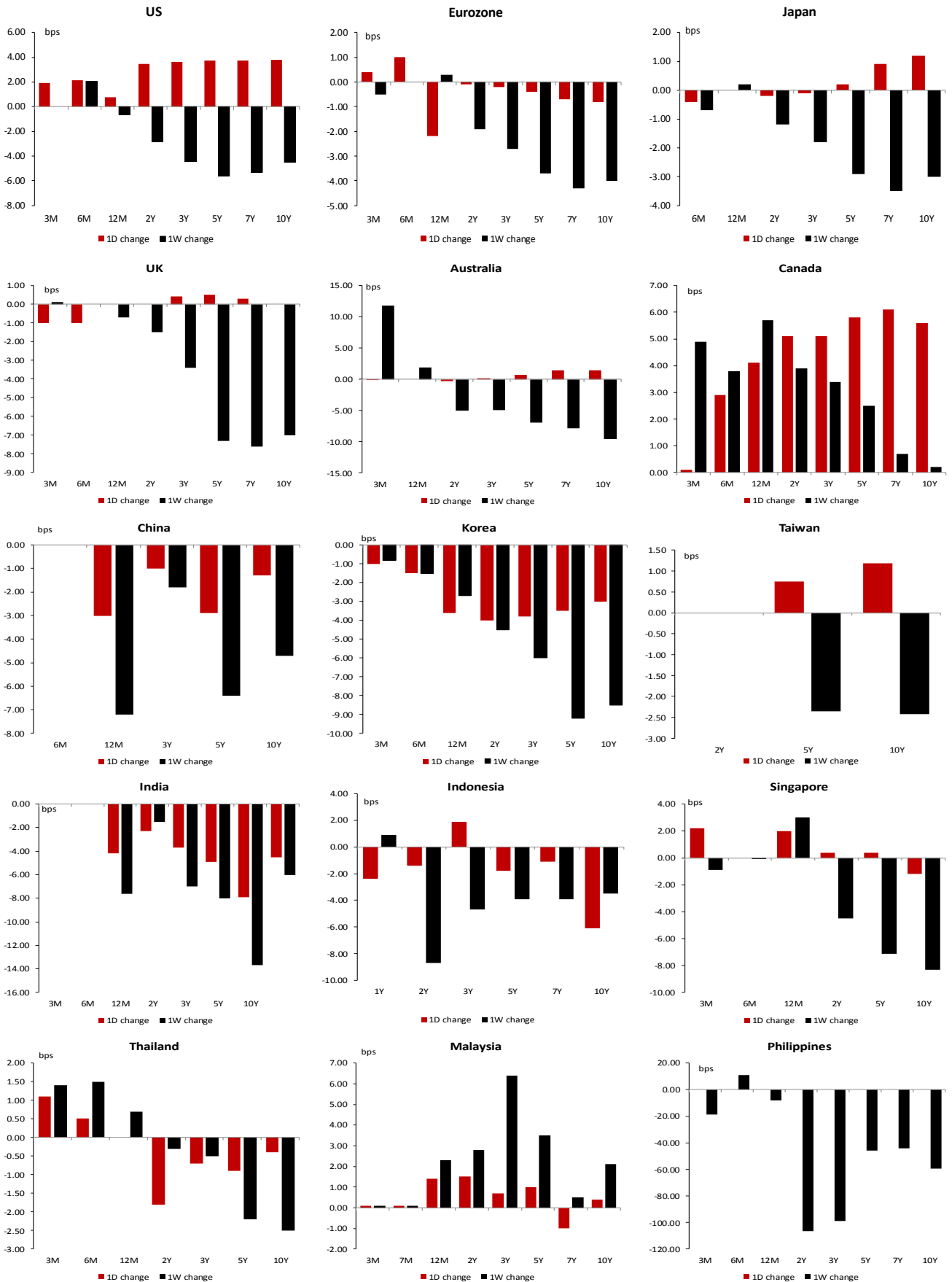
Source: OCBC Bank

**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	
3	30-Oct-18	B	USD-SGD	1.3840	1.4015	1.3750	Resilient DXY, fragile risk appetite, proxy CNH trade	
<b>STRUCTURAL</b>								
	-	-	-	-	-	-	-	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%) <sup>+</sup>
1	03-Oct-19	10-Oct-18	S	EUR-CAD	1.4845	1.4975	Contrasting dynamics between USMCA and Italy	-0.88
2	20-Sep-18	11-Oct-18	B	USD-JPY	112.89	112.00	USD-JPY responsive to firmer US rates	-0.79
3	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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