OCBC TREASURY RESEARCH

FX Weekly

14 November 2022

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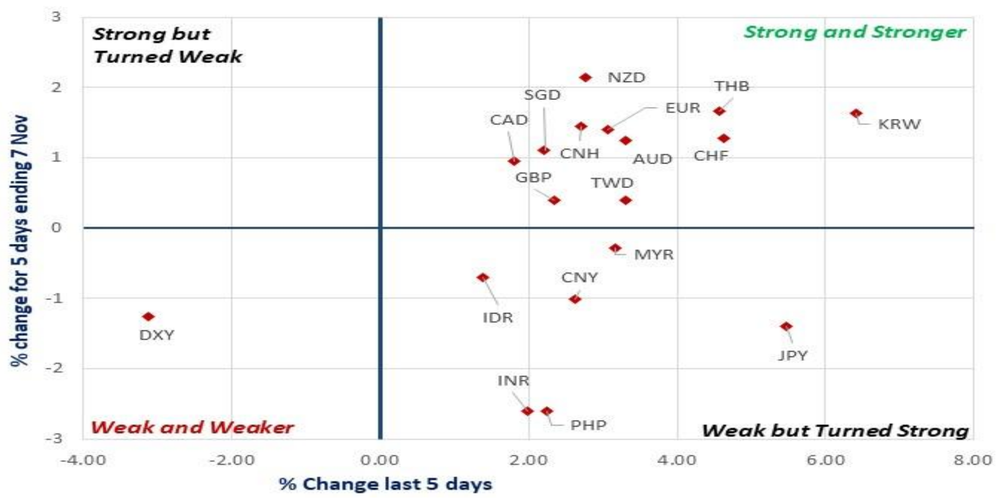
Long USD Trade No Longer a Consensus

CPI a Gamechanger for the USD. US CPI data was a huge catalyst as a softer than expected print reinforced the case for a step down in the pace of hike at Dec FOMC and that is fuelling a resumption in the USD downtrend. The long USD trade that has been a "comfortable" and consensus trade this year is looking uneasy with USD longs rushing for exit. The sharp asymmetric reaction in the USD to CPI last week also reinforced our bias that US data will increasingly be closely scrutinised as we opine that Fed will be even more data-dependent given that US rates have gone into restrictive zone. We stick to our bias that Fed policy calibration amid moderation in price pressures implies a more moderate-to-soft USD profile. This should create a favourable environment for stretched Asian currencies to recover. We believe the sell-USD momentum may have room to run as the speed of USD decline and poor market liquidity may imply that real money that have missed out on reducing long USD exposure may end up chasing the move lower. That said, we should expect the overshoot in USD's decline to stabilise at some point as USD still holds a yield advantage and Fed is not done tightening.

China Refine Covid Measures + Surprise Property Support Measures. On Fri, China National Health Commission (NHC) took steps to relax covid restrictions, including the reduction of quarantine period for inbound travellers, cutting back on testing requirement and the removal or circuit breaker for inbound flights. Anticipation for China reopening and recently announced property support measures should benefit commodity-linked FX (i.e. AUD) and tourism-linked FX (i.e. THB) while also broadly supports risk sentiments (i.e. KRW).

Revising USD Forecasts Lower. Given the moderation in US inflation and expectations that Fed can step back from aggressive tightening as well as what seems to have been a China pivot on zero covid policy, we revised USD forecasts lower against some AxJs, including KRW, CNY, SGD and G7 majors, including GBP. We maintain the moderate-to-soft USD trajectory over the forecast horizon. Please see page 11 for refreshed FX forecasts.

FX – Turning or Trending – DXY Weakening



Source: Bloomberg, OCBC

AxJ Positioning Bias (Reuters Poll) and EPFR Flows

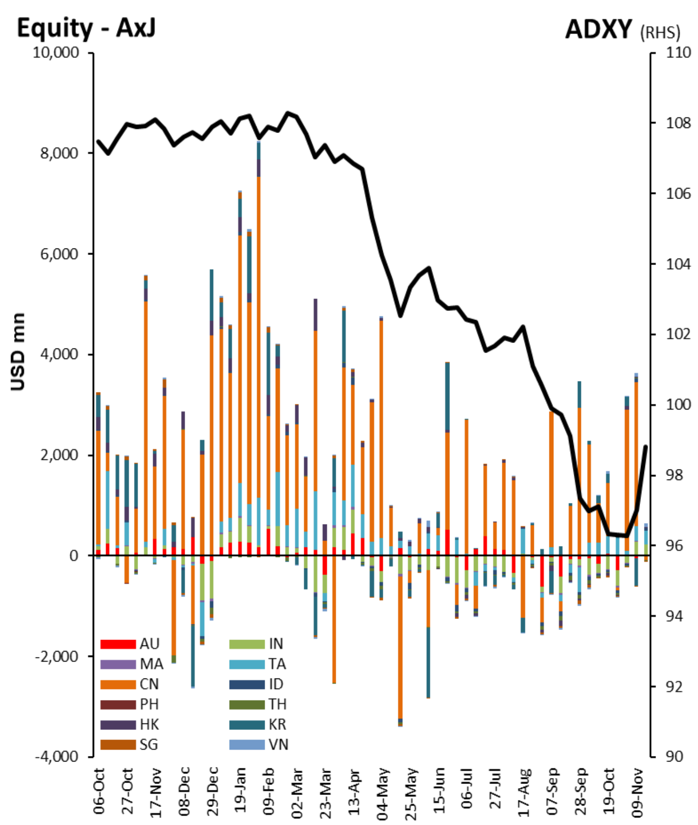
On EPFR flows, global bond market reported net inflows of $2.3bn, a reversal from last week's net outflows of $3.7bn. Developed markets saw inflows while Emerging markets continued to report outflows. Emerging Asia led with the largest outflow of $0.8bn, but a modest slowdown from $1.7bn seen in the last week.

Based on Reuters survey on Asia FX positioning, bearish bets on AXJs were trimmed, with short bets on SGD smallest amongst AXJs and at lowest level since early-Aug. Short bets on KRW, THB and PHP also saw significant reduction
Bearish bets remain significant for MYR and TWD.

	14-Jul-22	28-Jul-22	11-Aug-22	25-Aug-22	08-Sep-22	22-Sep-22	06-Oct-22	20-Oct-22	03-Nov-22	Trend
USD/CNY	1.07	1.14	0.86	1.68	2.04	2.09	1.94	1.96	1.81	
USD/KRW	1.84	1.63	1.1	1.85	2.33	2.39	2.25	2.02	1.38	
USD/SGD	1.44	0.92	0.51	1.12	1.54	1.61	1.53	1.13	0.47	
USD/IDR	1.59	1.31	0.83	1.03	1.13	1.35	1.86	1.83	1.57	
USD/TWD	1.76	1.42	1.14	1.53	1.93	2.37	2.12	1.98	1.81	
USD/INR	1.98	1.62	1	1.31	1.35	1.23	1.55	1.6	1.47	
USD/MYR	1.68	1.59	1.41	1.9	1.89	1.9	2.22	2.33	2.02	
USD/PHP	2.06	1.54	0.88	1.38	1.7	1.94	2.16	1.94	1.36	
USD/THB	1.78	1.89	0.87	1.28	1.59	1.86	2.08	2	1.34	

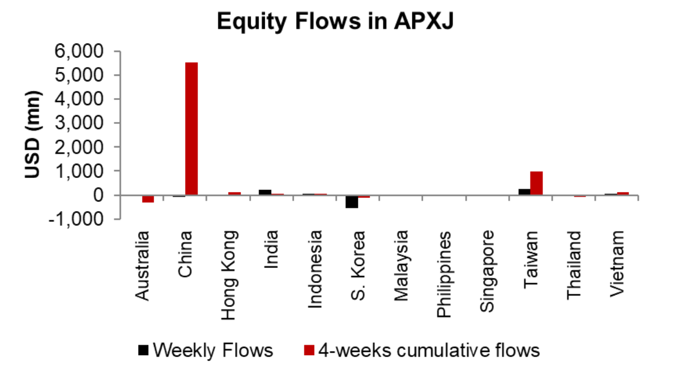
Note: Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AxJ FX. Arrow direction indicates change in positioning from last date.
Source: Reuters, OCBC [latest avail: 3 Nov 2022]

EPFR Equity Flows to AxJ vs ADXY

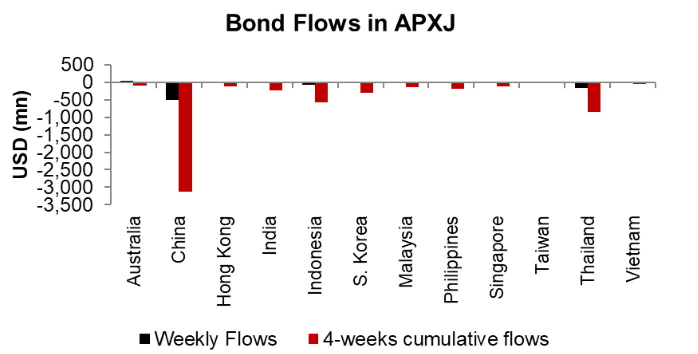


Note: Latest data available as of 9 Nov 2022 (weekly frequency).
Source: EPFR, Bloomberg, OCBC

AxJ Equity Flows – Week vs 4w Cumulative



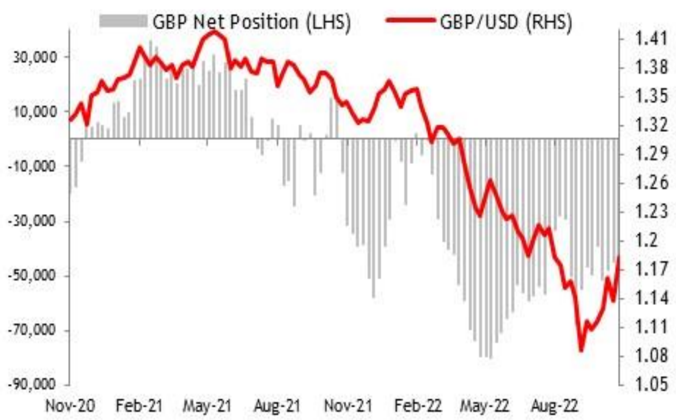
AxJ Bond Flows - Week vs 4w Cumulative

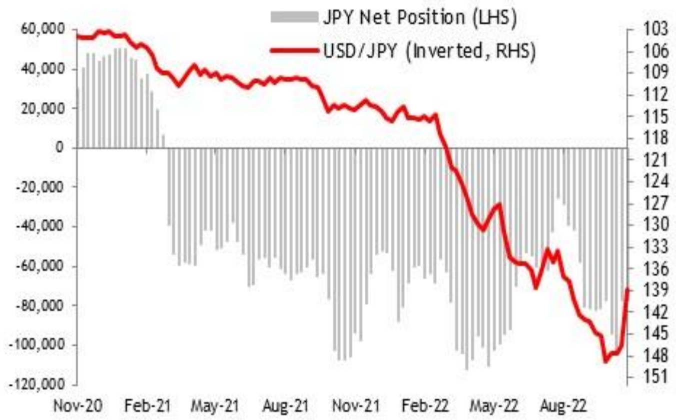


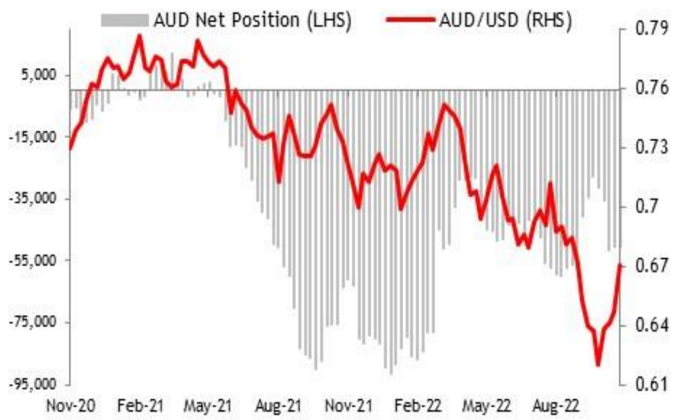
Non-Commercial CME CFTC Net Positioning (in number of contracts) vs. Respective FX/USD

- *FX data as of 8 Nov 2022; CFTC report delayed till 14 Nov due to Federal holiday; data points of the past 2Y on weekly frequency*

We expect to see long DXY position further unwound, alongside recent sharp decline in DXY.
Short position in JPY, GBP, AUD likely to have been pared, given the recent sharp rebound.





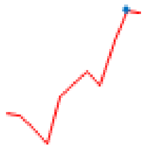
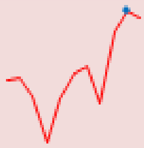
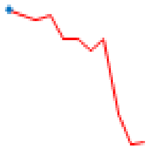
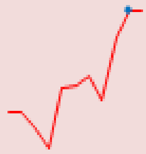
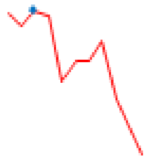
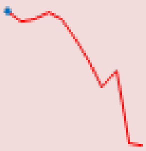
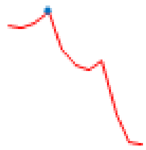
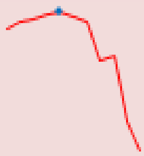
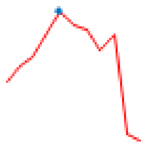


Notes: The FX positioning data for this report is part of the Commitments of Traders (COT report published by the US Commodity Futures Trading Commission (CFTC) on every Friday (330pm ET) for data up to the Tue in the same week. Hence our FX Weekly publication will show a 1-week lag. In our report, we focus on non-commercial traders' position which is typically seen as a proxy for leveraged, speculative positioning. They can provide directional cues, used as a rough gauge to measure how stretched a position may be and provide some guide for point of inflection.
Source: US CFTC, OCBC

OCBC TREASURY RESEARCH

FX Weekly

14 November 2022

FX	Key Data and Events for the Week	14D Trend	Support/Resistance
Dollar	**Mon:** - Nil – **Tue:** Empire manufacturing (Nov); PPI (Oct); **Wed:** Retail sales, import/ export price index, IP (Oct); **Thu:** Housing starts, building permits (Oct); Philly Fed business outlook (Nov) **Fri**: Kansas City Fed mfg activity (Nov); Existing home sales, leading index (Oct)		**S: 104.60; R: 108.50**
EURUSD	**Mon:** Industrial production (Sep); **Tue:** ZEW survey (Nov); Trade (Sep); Employment, GDP (3Q); **Wed:** - Nil – **Thu:** CPI (Oct); Construction output (Sep) **Fri:** - Nil –		**S: 1.0170; R: 1.0620**
GBPUSD	**Mon:** Rightmove House Prices (Nov); **Tue:** Labor market report (Sep); **Wed:** CPI, PPI, RPI (Oct); House price index (Sep); **Thu:** - Nil – **Fri:** Retail sales (Oct); GfK consumer confidence (Nov)		**S: 1.1540; R: 1.2000**
USDJPY	**Mon:** - Nil – **Tue:** GDP (3Q); Industrial production, capacity utilisation (Sep); **Wed:** Core machine orders, Tertiary industry index (Sep); **Thu:** Trade (Oct); **Fri:** CPI (Oct)		**S: 135.00; R: 142.00**
AUDUSD	**Mon:** - Nil – **Tue:** RBA Minutes; Wed: Wage price index (3Q); **Thu**: Labor market report (Oct) **Fri:** - Nil –		**S: 0.6540; R: 0.6780**
USDCNH	**Mon**: - Nil – **Tue:** IP, FAI, retail sales, property sales (Oct); **Wed:** New home prices (Oct); **Thu:** - Nil – **Fri:** - Nil –		**S: 6.9700; R: 7.172000**
USDKRW	**Mon**: - Nil – **Tue:** Export, import price index (Oct) **Wed:** - Nil – **Thu:** - Nil – **Fri:** - Nil –		**S: 1295.00; R: 1360.00**
USDSGD	**Mon:** - Nil – **Tue:** - Nil – **Wed:** - Nil – **Thu:** NODX (Oct) **Fri:** - Nil –		**S: 1.3660; R: 1.3980**
USDMYR	**Mon:** - Nil – **Tue:** - Nil – **Wed:** - Nil – **Thu:** Trade (Oct) **Fri:** - Nil –		**S: 4.6000; R: 4.7000**
USDIDR	**Mon:** - Nil – **Tue:** Trade (Oct); **Wed:** - Nil – **Thu:** BI MPC; **Fri:** Current account (3Q)		**S: 15,300; R: 15,600**

Source: Bloomberg, OCBC

Key Themes and Trades

Bias to Fade Rallies. USD ended the week bruised, falling by as much as >4%. Softer than expected Oct CPI report was the main catalyst, followed by China relaxing covid restrictions (Fri). On CPI report, headline CPI slowed to 7.7% (vs. 7.9% exp; 8.2% prior) while core CPI also slowed to 6.3% y/y (vs. 6.5% exp; 6.6% prior). Core goods inflation continued to display a disinflation trend, consistent with easing supply chain pressure. Services inflation which has been the key source of upward pressure on inflation, decelerated in Oct, with medical services and transportation services leading declines while shelter continued to see modest upticks.

Softer than expected print builds up expectations for a step down in the pace of hike at Dec FOMC and that is fuelling a resumption in the USD downtrend. The long USD trade that has been a “comfortable” and consensus trade this year is looking uneasy with USD longs rushing for exit. The sharp asymmetric reaction in the USD to CPI also reinforced our bias that US data will increasingly be closely scrutinised as we opine that Fed will be even more data-dependent given that US rates have gone into restrictive zone. We stick to our bias that Fed policy calibration amid moderation in price pressures implies a more moderate-to-soft USD profile. This should create a favourable environment for stretched Asian currencies to rebound tactically. Some of these Asian FX that could benefit more on a relative basis, include THB, KRW and JPY. These currencies were heavily sold YTD and they also saw their current account improved recently. We believe the sell-USD momentum may have room to run as the speed of USD decline and poor market liquidity last week may imply that real money that have missed out on reducing long USD exposure may end up chasing the move lower. That said, we should expect the overshoot in USD to correct and stabilise as US still hold a yield advantage and is not done tightening.

On Fed speaks last week, Logan said that CPI increasing less than expected was a “welcome relief” but there is still a long way to go. She added that it may soon be appropriate to slow the pace of rate increases so policymakers can better assess how financial and economic conditions are evolving. Evans also said it is time for Fed to begin slowing down of rate increases even if inflation continues to surprise to the upside in coming months. Susan Colins said while she sees rate peaking at a higher level than she projected in Sep, it is however too soon to say how much higher. She also said that risk of overtightening have increase after an aggressive tightening campaign. She reiterated that Fed officials should consider rate moves of all increments at Dec FOMC.

DXY fell over 4% last week. Last at 106.60 levels. Bearish momentum on daily chart intact while RSI fell to near oversold. Risks still skewed to the downside to the downside. Support at 104.65/80 levels (200 DMA, Aug low). Resistance at 107, 108.50 (61.6% fibo retracement of Aug low to Sep high).

Buoyant. Eye on Key Resistance. EUR soared >4% for the week at the expense of softer USD, thanks to moderation in US CPI, while China calibrating covid restrictions despite rising cases further added to risk-on sentiments. We also earlier said that lower gas prices have also been supportive of EUR to some extent as softer gas prices can help to lower business costs and allows for some energy-intensive industries to better cope with their operations – basically helping with inflation and reduces likelihood of a severe recession in Europe. In the last Monthly Monitor, we indicated that we have turned neutral on EUR’s outlook from mild bearish bias. Recession fears in Euro-area, energy woes and geopolitical concerns remain, and we continue to monitor development. Further deterioration would warrant a downward revision in forecasts but, for now we believe the bulk of the risks, including a mild recession have been baked into the price. On ECB speaks, Nagel advocated further increases in key interest rates. De Cos said that ECB may announce start date for QT.

EUR was last at 1.0345 levels, a level not seen in the last 3 months. Daily momentum remains bullish while RSI rose. Bias still to the upside but near-term retracement risks not ruled out. Immediate resistance at 1.0370 levels (Aug high) before 1.0440 (200 DMA). Decisive break above these puts next resistance at 1.0620. Support at 1.0280, 1.0170 (76.4% fibo retracement of Aug high to Sep low).

Consolidate after Recent Gains; Focus on Autumn Statement. GBP also rallied over 4% last week, largely at the expense of softer USD on CPI moderation and risk-on due to hopes of China reopening. Key focus this week on the Autumn budget (17 Nov) as markets seek reassurance on how the GBP40bn gap will be patched. The new government will need to come up with a credible plan to demonstrate a return to fiscal discipline, credible fiscal trajectory. Some options include windfall tax on energy companies, green tax levy, etc. on top of keeping to its plan to raise corporate tax, extending the freeze on personal tax allowances, etc. Apart from economic challenges, markets will also pay attention to how PM Sunak can bring his divided party together

GBP was last at 1.1780 levels. Bullish momentum on daily chart intact while RSI shows very tentative signs of turning from near overbought conditions. Retracement not ruled out. Support at 1.1660 (100 DMA), 1.1540 (61.8% fibo retracement of Aug high to Sep low) and 1.1430 (21 DMA). Resistance at 1.19 before 1.20 and 1.2260 (200 DMA).

Still Bias for Downside Play though Not Ruling Out Near Term Retracement. Our call for downside play panned out well as USDJPY fell over 5.5% for the week. We earlier highlighted in last FX Weekly that *USDJPY has reacted less to UST yield uptick.... We continue to monitor if this trend continues to hold as this may suggest some asymmetric risks, especially when UST-JGB yield differentials start to narrow and there may well be more downside room for USDJPY.* Subsequently in our Daily Market Outlook, we shared that *a much softer than expected print should support the case for a step down in pace of hike at Dec FOMC and that can translate into a resumption of the dollar trend lower. In this scenario, stretched shorts like JPY could see sharper rebound, on relative terms.* We expect USDJPY to be a sell-on-rally trade, given that Fed may be near end of tightening cycle.

USDJPY was last at 138.80 levels. Bearish momentum on daily chart intact while RSI fell into oversold territories. Bias remains skewed to the downside though not ruling out retracement. Support at 138.65 (61.8% fibo retracement of Aug low to Oct high), 135.50 (76.4% fibo). Resistance at 140.80 (100 DMA), 141.20 (50% fibo) and 143.70 (38.2% fibo).

Break Out of Inverted H&S. AUD extended its rally after breaking out of its neckline. China relaxing covid restrictions and USD corrective move lower were the main drivers. Extent of the rally hinges on how risk sentiments fare this week. AUD was last at 0.67 levels. Mild bullish momentum on daily chart intact while RSI rose. Risks to upside. Immediate resistance here at 0.6705 (100 DMA), 0.6775 (61.8% fibo retracement of Aug high to Oct low). Decisive break puts next resistance at 0.6850, 0.6920 (76.4% fibo). Break out of its inverted H&S neckline may suggest a completion of the pattern at 0.6860 levels. Support at 0.6660 (50% fibo), 0.6540 (38.2% fibo).

Bias to Sell Rallies. USDSGD fell sharply last week on US CPI and China relaxing restrictions (which authorities said that it's a refining of covid restrictions). Much softer than expected US CPI print reinforced expectations for a step-down in pace of hike at Dec FOMC and that translated into a resumption of the dollar trend lower. USDSGD was last at 1.7200 levels. Bearish momentum on daily chart intact while RSI fell into oversold conditions. Not ruling out near-term bounce but bias remains to sell rallies. Resistance at 1.3860 (200 DMA, 76.4% fibo), 1.3950 and 1.3980 (61.8% fibo). Support at 1.3660 (Aug low).

With USD on a more moderate-to-soft profile and S$NEER trading on a stronger end (last at 1.4% above mid), we see room for S$ strength to taper selectively against some AxJs that have been oversold this year. In particular, we favor those that also saw current account improvements as well and that includes KRW, THB and JPY.

Trade Ideas

Entry Date	Trade	Entry	Close	Profit/ Loss	Remarks	Exit Date
03-Oct-22	Short AUDNZD	1.141	1.1143	2.34%	RBNZ-RBA policy divergence. First target at 1.12 met. Targeting next objective at 1.1050. Shift SL to 1.1360. [Trade TP earlier at 1.1085]	19-Oct-22
04-Oct-22	Short AUDJPY	94.6	92.9	1.80%	Tentative signs of market stresses. First objective at 92.1 met. Targeting next objective at 90.50. Move SL to 93.70 (17 Oct). [Trade tripped SL in NY time]	17-Oct-22
27-Oct-22	Short CADJPY	107.3	104.9	2.24%	Tentative signs of market stresses. Target a move towards 105.75, 104.20 and 102.70 objectives. SL at 110.70. [TP trade earlier given that JPY leg appreciated larger and faster than expected]	14-Nov-22

Note: Close level is average of 1st and 2nd objective for take profit scenario.

Selected SGD Crosses

SGDMYR Daily Chart: Turning

SGDMYR turned lower last Fri as MYR gains played catch up.

Cross was last at 3.3530 levels. Daily momentum turned bearish while RSI fell from near overbought conditions. Risks are skewed to downside.

Immediate support at 3.3470 (23.6% fibo retracement of Sep low to Nov high), 3.34 (21 DMA). Break below these puts next support at 3.3170 (38.2% fibo).

Resistance at 3.3610, 3.380 levels.

SGDJPY Daily Chart: Downside Bias but Not Ruling Out Bounce

SGDJPY fell sharply as JPY gains accelerated. Cross was last at 101.20 levels.

Daily momentum is bearish while RSI fell into oversold conditions. Downside bias but not ruling out bounce here. Immediate resistance at 102, 102.65 levels.

Support here at 101 (23.6% fibo retracement of Mar low to Oct high), 100.30 (100 DMA) before 97.85 levels (38.2% fibo).

Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

SGDCNH Daily Chart: Sideways with Slight Risks to Downside

SGDCNH continued to trade near recent high. Cross was last at 5.1690 levels

Daily momentum is mild bearish while RSI fell. Risks slightly skewed to the downside for now.

Resistance at 5.1990 levels (2019 high).

Support at 5.1380 (21 DMA), 5.1340 (23.6% fibo retracement of Sep low to Oct, Nov double top) and 5.0960 (38.2% fibo).

Look for 5.14- 5.20 range.

EURSGD Daily Chart: Break Out?

EURSGD drifted higher but still largely trade within the consolidative range. Cross was last at 1.4190 levels.

Daily momentum is mild bullish bias while RSI rose. Price pattern shows a potential ascending triangle – which is typically a bullish formation that anticipates an upside breakout. We continue to monitor price action if EURSGD will finally break out of its downtrend.

Resistance at 1.4295 before 1.4380 (38.2% fibo retracement of 2022 high to low). Support at 1.4130 (23.6% fibo), (1.4010 (21, 50 DMA).

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Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

GBPSGD Daily Chart: Range-Bound

GBPSGD was a touch firmer this week on the back of GBP outperformance. Cross was last at 1.6240 levels.

Daily momentum is flat while RSI rose. Consolidative trades still likely for now. Immediate resistance at 1.6260 levels (38.2% fibo retracement of 2022 high to low), 1.6360 (100 DMA) and 1.64.

Support at 1.61 (21 DMA), 1.6050 levels (50 DMA).

AUDSGD Daily Chart: Consolidative Trades Within Trend Channel

AUDSGD drifted higher amid AUD outperformance. Cross was last seen at 0.9190 levels.

Bullish momentum on daily chart intact while RSI rose.

Consolidative trades likely within bullish trend channel formed since Oct. Resistance at 0.9210 (50 DMA), 0.9270.

Support at 0.9180 (23.6% fibo retracement of 2022 high to low), 0.9030 (21 DMA).

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Note: blue line – 21SMA; red line – 50 SMA; green line - 100 SMA; yellow line - 200 SMA

Medium Term FX Forecasts [Updated 14 Nov 2022]

FX	Dec-22	Mar-23	Jun-23	Sep-23
USD-JPY	140.00	139.00	138.00	136.00
EUR-USD	1.0200	1.0300	1.0350	1.0450
GBP-USD	1.1500	1.1650	1.1700	1.1800
AUD-USD	0.6600	0.6700	0.6800	0.7000
NZD-USD	0.6100	0.6200	0.6300	0.6300
USD-CAD	1.3300	1.3200	1.3100	1.3000
USD-CHF	0.9500	0.9400	0.9300	0.9300
USD-SEK	10.600	10.300	10.100	9.900
DXY	108.00	106.89	106.23	105.16
USD-SGD	1.3800	1.3700	1.3600	1.3500
USD-CNY	7.0700	7.0200	6.9800	6.9500
USD-CNH	7.0700	7.0200	6.9800	6.9500
USD-THB	35.500	35.300	35.200	35.100
USD-IDR	15250	15150	15050	15000
USD-MYR	4.6500	4.6100	4.5900	4.5600
USD-KRW	1300.00	1285.00	1270.00	1260.00
USD-TWD	31.000	30.800	30.700	30.600
USD-HKD	7.8400	7.8300	7.8200	7.8000
USD-PHP	57.400	57.000	56.800	56.000
USD-INR	80.200	79.800	79.800	79.800
USD-VND	24800	24750	24600	24350
EUR-JPY	142.80	143.17	142.83	142.12
EUR-GBP	0.8870	0.8841	0.8846	0.8856
EUR-CHF	0.9690	0.9682	0.9626	0.9719
EUR-SGD	1.4076	1.4111	1.4076	1.4108
GBP-SGD	1.5870	1.5961	1.5912	1.5930
AUD-SGD	0.9108	0.9179	0.9248	0.9450
NZD-SGD	0.8418	0.8494	0.8568	0.8505
CHF-SGD	1.4526	1.4574	1.4624	1.4516
JPY-SGD	0.9857	0.9856	0.9855	0.9926
SGD-MYR	3.3696	3.3650	3.3750	3.3778
SGD-CNY	5.1232	5.1241	5.1324	5.1481
SGD-IDR	11051	11058	11066	11111
SGD-THB	25.725	25.766	25.882	26.000
SGD-PHP	41.594	41.606	41.765	41.481
SGD-CNH	5.1232	5.1241	5.1324	5.1481
SGD-TWD	22.464	22.482	22.574	22.667
SGD-KRW	942.03	937.96	933.82	933.33
SGD-HKD	5.6812	5.7153	5.7500	5.7778
SGD-JPY	101.45	101.46	101.47	100.74

Source: OCBC (forecasts as of 14 Nov 2022)

Treasury Research & Strategy

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