FX Flash

Taking Profit on Our Opportunistic Trades

Collective Gain of +7.6%

We made 3 trade recommendations on 8th Mar (in our ASEAN X Macro: What Makes FX Skip a Heart Beat) to go (1) short USDJPY outright; (2) long 3M USDKRW via options and; (3) long IDRKRW outright. And we suggest taking profit on all 3 trades to lock in a collective gain of +7.6% in slightly more than 2 months (since trade inception).

Our strategy to short USDJPY came on the back of our expectations for UST-JGB yield differential to narrow (slowing Fed-BoJ policy divergence as Fed pauses) and global growth downward revision to dampen risk appetite. Indeed the latter was further triggered by re-escalation in trade tensions between US and China. (Spot ref then was at 111.70).

Our strategy to long USDKRW via 3M call option was because vols have fallen to near 5-year low and was looking attractive as a hedge in the event of a equity sell-off. (Spot ref then was 1129; strike at 1140).

Our strategy to long IDRKRW outright came on the back of our bias for relative resilience in IDR over KRW. We see relative softness for KRW due to slowing pace of inflation in Korea (slowest pace in 2 years), rising unemployment (jobless rate rose to 9-year high) and downside risks to domestic growth amid semiconductor down-cycle and signs of global growth slowdown. In addition, KRW's sensitivity to equity movement is highest amongst the group of 12 currencies in our study. An environment of global growth downgrade, most recently coming from OECD lowering global growth for 2019 to 3.3% from 3.5% could have a bearing on equity market sentiment. KRW stands to suffer in the event of equity sell-off. (Spot ref then was 0.08)

Even though risk appetite may still be bruised from concerns of full blown trade war and our trade recommendations could still be further in the money, we think a significant portion of this risk aversion may have been priced in and hence we suggest taking profit to lock in those gains.

China has retaliated in response to US' recent move to raise tariffs and the focus is now on potential Xi-Trump meeting at the G20 Summit (28 – 29 Jun). We believe markets may possibly consolidate after the recent sharp move.

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Date	Trade	Objective	Entry	P&L (Close Price - Entry Price)	SL	Open/ Closed	Motivation
8-Mar	Short USDJPY	108, 105	111.7000	1.90%	114.5000	Closed at 109.50	We look for USDJPY to trade lower on (1) expectations for UST-JGB yield differential to narrow (slowing Fed-BoJ policy divergence as Fed pauses) while (2) a case of more global growth downward revision could dampen risk appetite. [Risk:Reward ratio of 1:2.5] As of 14 May, trade was closed at 109.50 to lock is 1.97% profit. Link to Report - What Makes FX SKip a Heartbeat
8-Mar	Long 3month USD call on USDKRW (spot ref 1129; strike 1140; BE at 1148)		1148.2 as the breakeven price	3.10%		Closed [14 May 2019]	USDKRW vols have fallen from above 8-handle to around 6-handle (near 5-year low) and looks **attractive to buy as a hedge** in the event of a equity sell-off amid growth downgrades. A 3m call on USDKRW with strike at 1140 (spot ref 1129), 6.2 vol (offer), costs about US$7,700 per notional size of US$1mio. A move above 1148.2 (option breakeven) will see the trade profitable. Taking stock, USDKRW traded at 1186 (14 May). This represented a gross profit of +.3.8% when option is sold. Accounting for option cost, net profit was +3.1%. Link to Report - What Makes FX SKip a Heartbeat
8-Mar	Long IDRKRW	0.0815, 0.0840, 0.0860 (final)	0.0800	2.80%	0.0780	Closed at 0.0823 [14 May 2019]	Relative resilience in IDR over KRW as BI have monetary space to maneuver while Korea is facing slowing inflation, rising unemployment, downside risks to domestic growth. Trade has met first objective at 0.0815. We closed the trade at 0.0823 (14 May) to lock in +2.8% gain. Link to Report - What Makes FX SKip a Heartbeat
16-Nov	Long THB and IDR vs. Short PHP in basket FX trade	100.56, 100.95, 101.34 (final)	99.5	1.85%	98.60	Closed at 101.34 [4 Jan 2019]	Differential in the ability of central banks (i.e. policy space) to hike policy rate that may translate into trading opportunities for ASEAN FX (long IDR, THB vs. short PHP). The basket trade exceeded our objectives to trade at a high of 102.80 (4th Feb Link to Report - ASEAN Neutral Rates: Ammunition Unravelled

Links to Reports:

ASEAN X Macro: What Makes FX Skip a Heart Beat

ASEAN X Macro: ASEAN Neutral Rates: Ammunition Unraveled

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