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Asian FX Strategies

Tools for Hedging and Carry Capture

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About Tariq Dennison, CFP^{CM}

- I manage client accounts on the Interactive Brokers platform
 - US Advisor: GFM Asset Management LLC
 - HK Advisor: GFM Group Limited
- In the market since 1998
 - Commerzbank (NY, London, Frankfurt)
 - Bear Stearns (NY)
 - J.P. Morgan (NY)
 - Canadian Imperial Bank of Commerce
 - Societe Generale (HK)
- Masters in Financial Engineering
 - University of California at Berkeley
- Visiting Faculty at ESSEC Singapore
- Focus on US-Asia corridor
- CERTIFIED FINANCIAL PLANNER^{CM} professional
- Author “Invest Outside the Box”



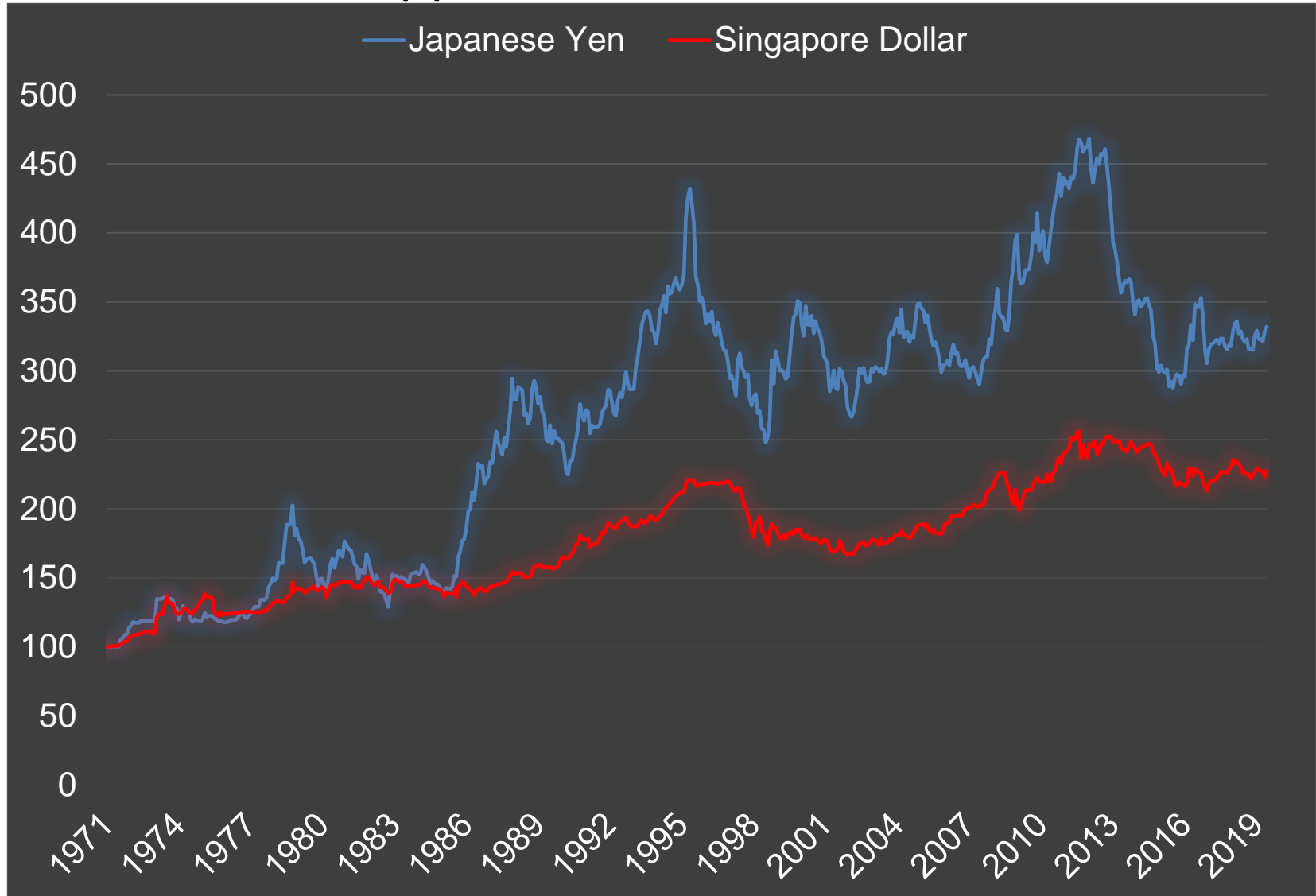
Fundamentals

- Brief history of four pairs of currency pairs
- Fundamentals affecting long-term currency drift
- To hedge or not?

Futures and Strategies

- How FX Futures Work
- Hedging
- Carry Trades
- Momentum

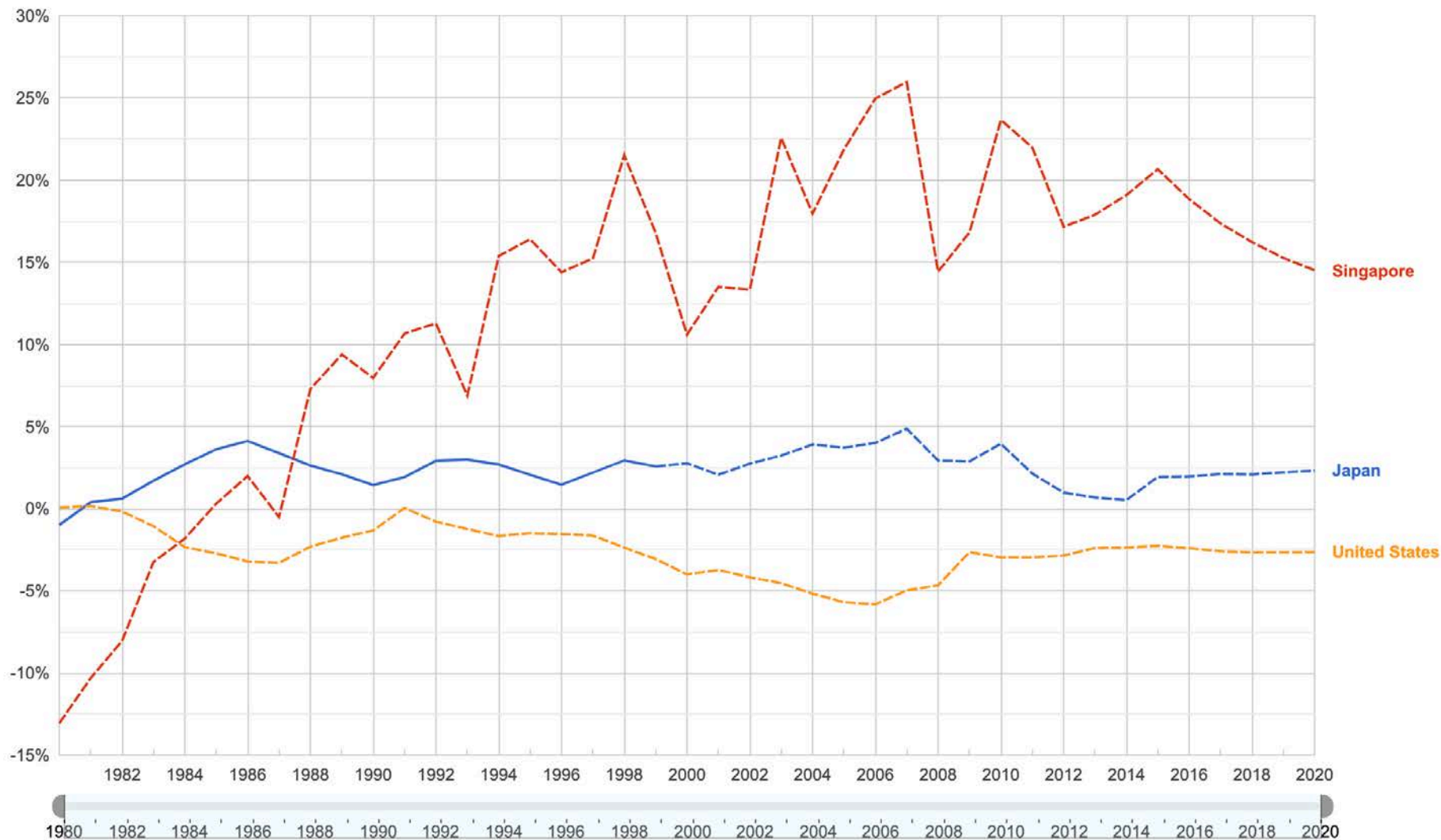
Pair 1: The “Free Appreciators”



Source: Bank of International Settlements (BIS)

Appreciation Driver #1: Trade Surpluses

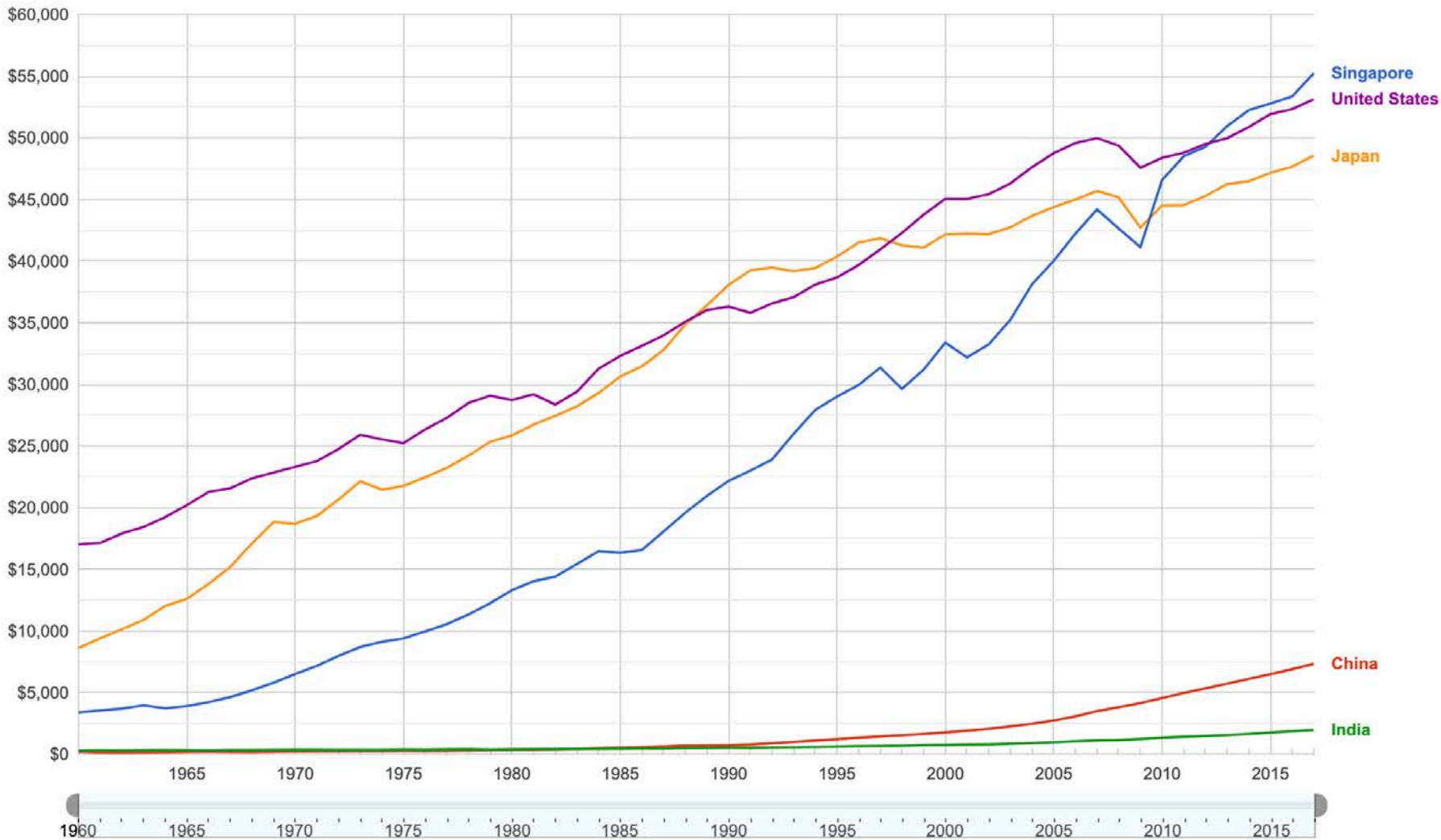
Current account balance (%) ?



Data from IMF, October 2014 WEO Last updated: Jun 19, 2018

Another Driver: Real, Per Capita Economic Productivity

GDP per capita (constant 2000 US\$) ?



Data from World Bank Last updated: Jul 6, 2018

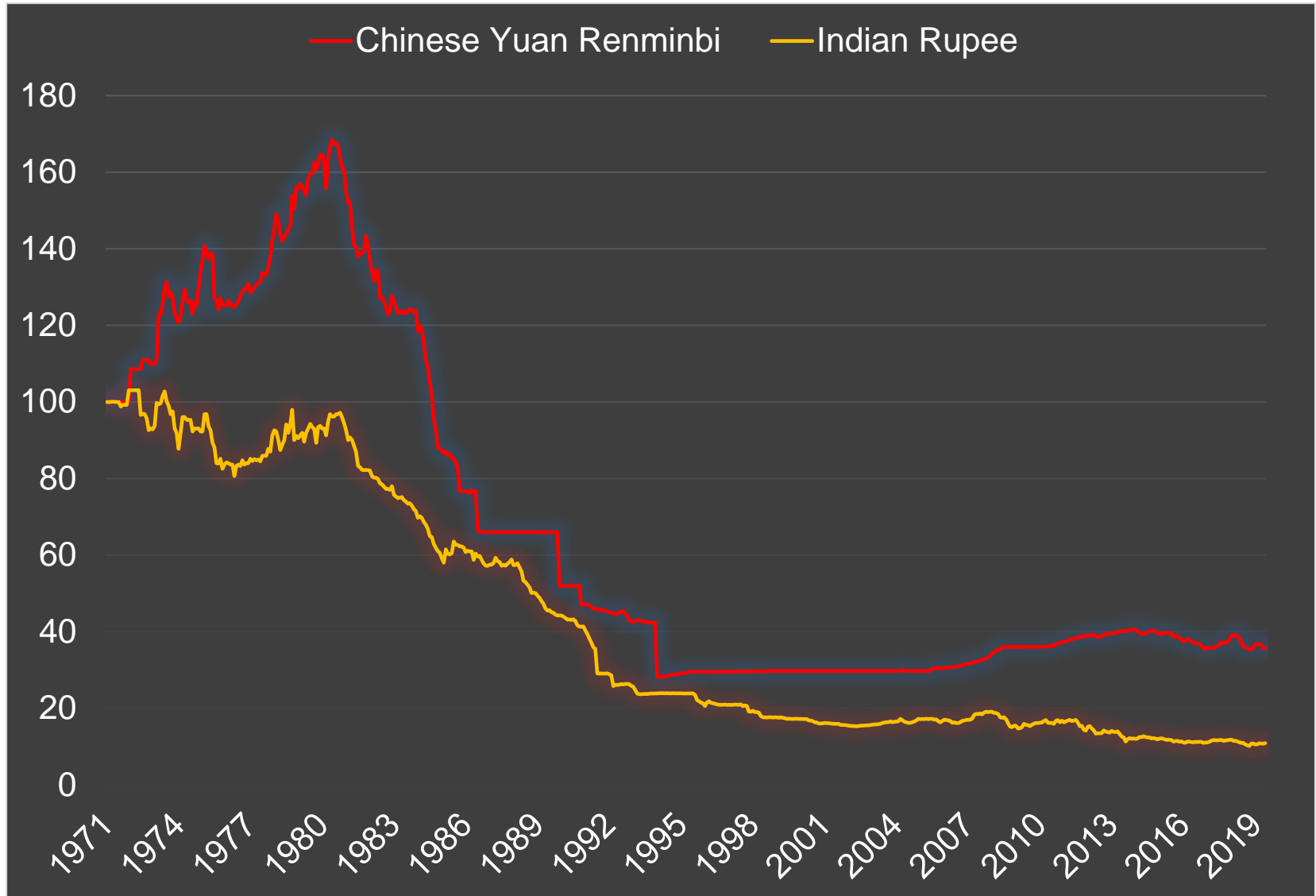
Japanese Yen

- Large domestic economy
- BOJ ZIRP / NIRP / QE
- Accumulated savings / surpluses invested overseas

Singapore Dollar

- Trading hub economy
- MAS manages “currency board” like ETF or Libra
- Currency for monetary policy

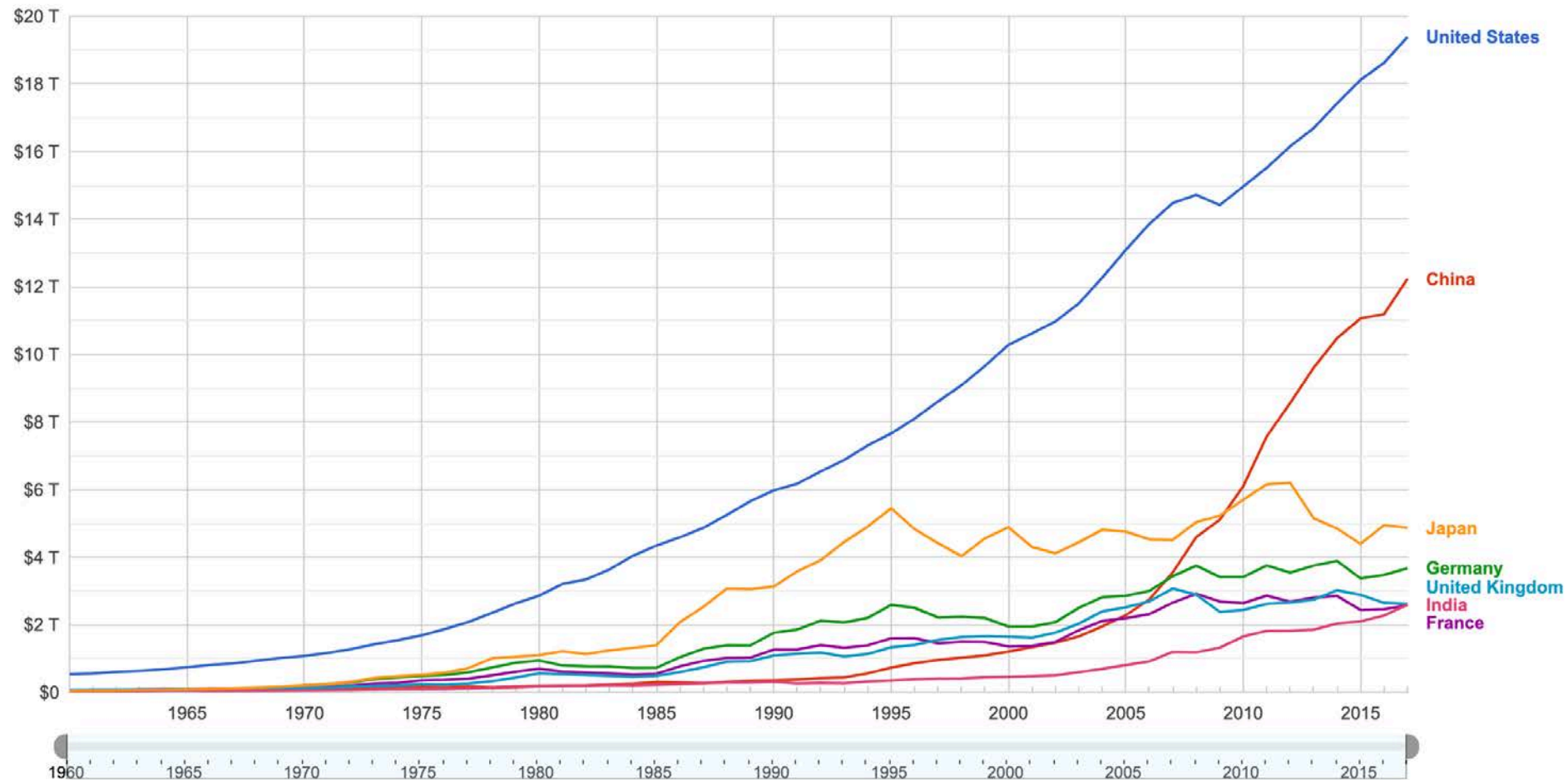
Pair #2: A tale of the “Two Giants”



Source: Bank of International Settlements (BIS)

The Rise of China and India among top 7 economies

Gross Domestic Product ?

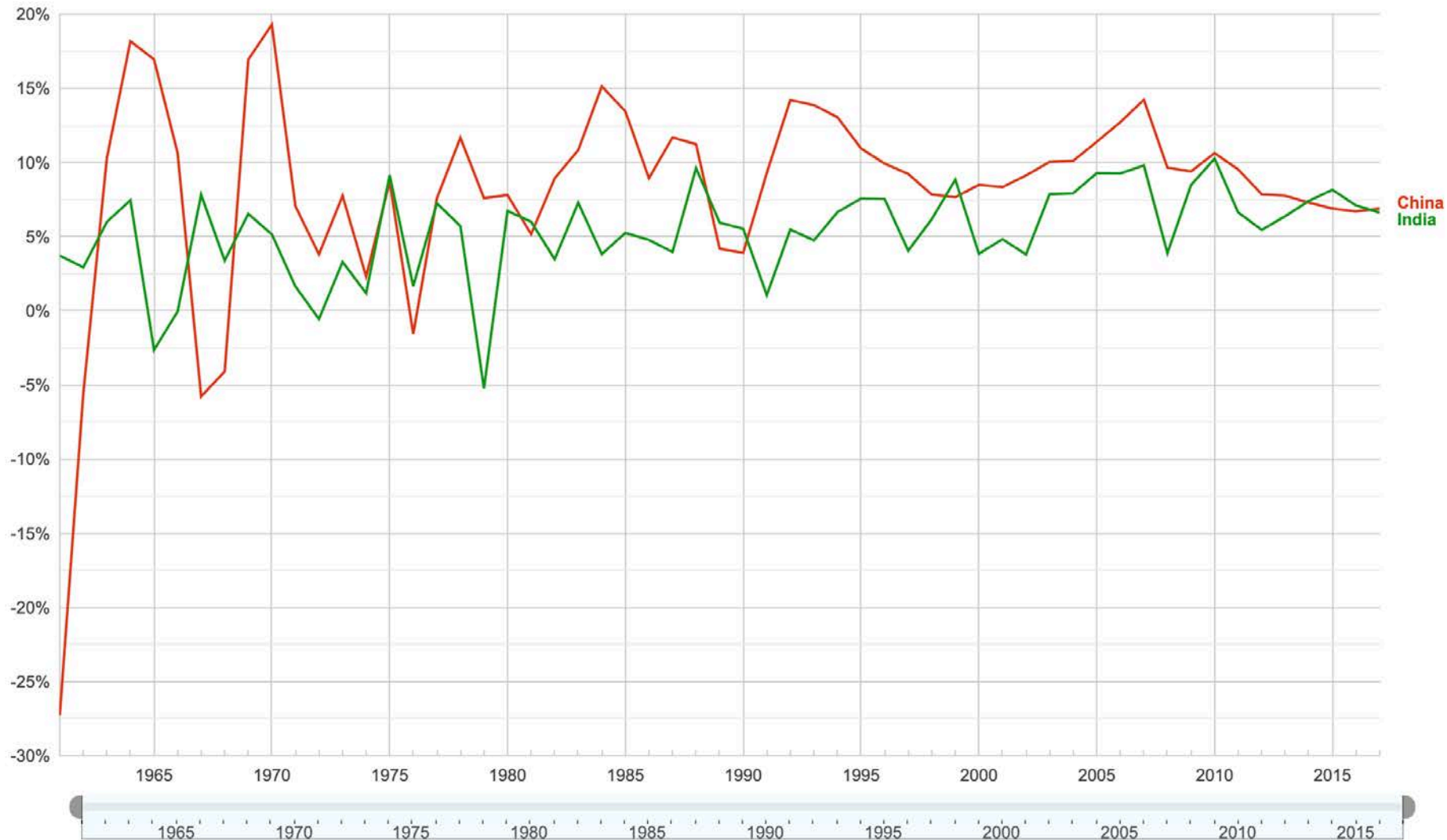


Data from [World Bank](#) Last updated: Jul 6, 2018

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China vs India Annual GDP Growth...

GDP growth rate ?



Data from [World Bank](#) Last updated: Jul 6, 2018

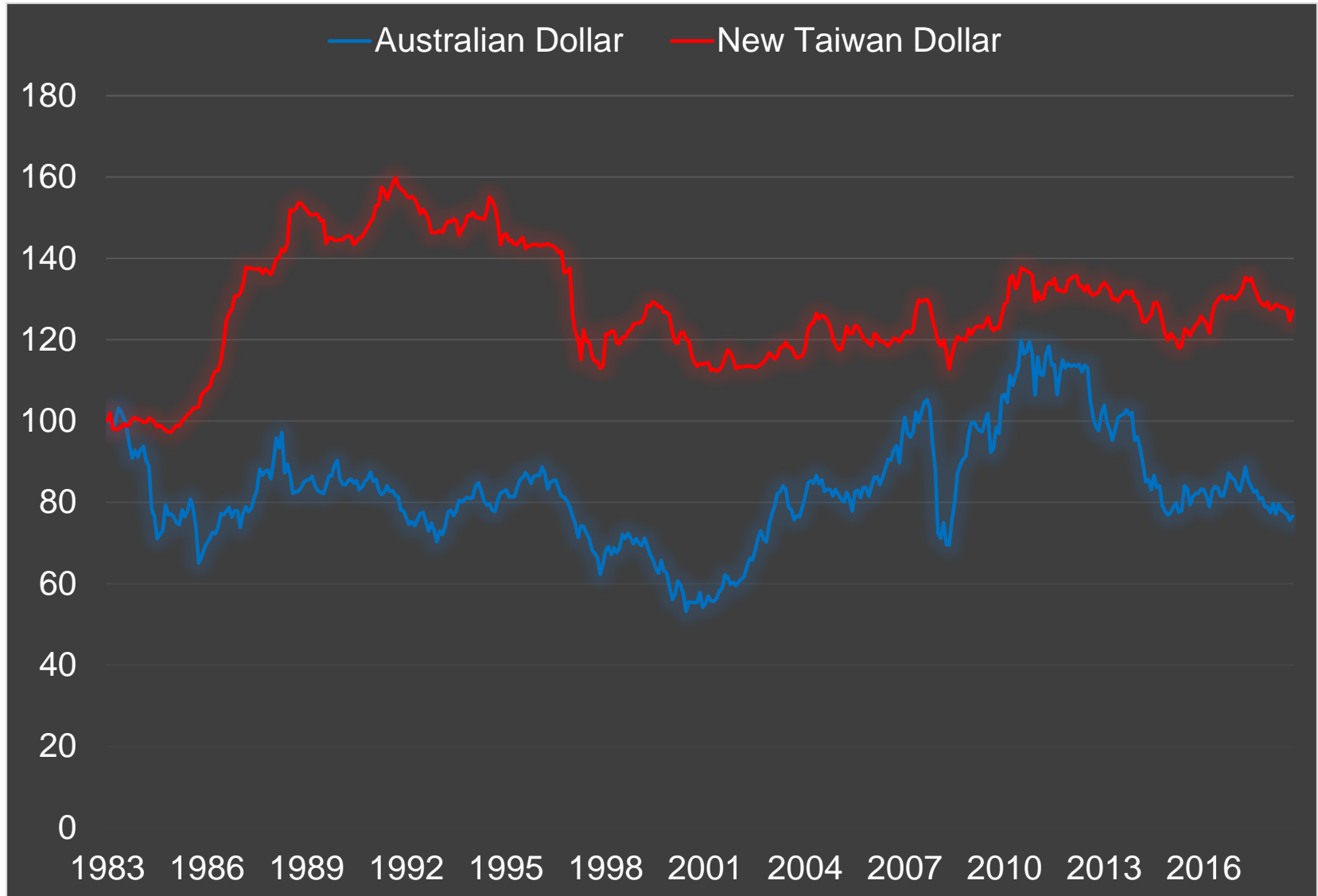
Chinese Yuan RMB

- Moves to internationalize:
 - Offshore RMB
 - Dim Sum Bonds
 - Bond Connect
 - Stock Connect
 - AliPay / WeChat
- Real rates arguably negative
- Trade war pressure on USD/CNY 7.00 level

Indian Rupee

- Capital account still like other EMs
- Most debt domestic in local currency
- Higher real rates
- “Demonetization” still less than 3 years ago

Pair #3: “Long Term Rangers”



Source: Bank of International Settlements (BIS)

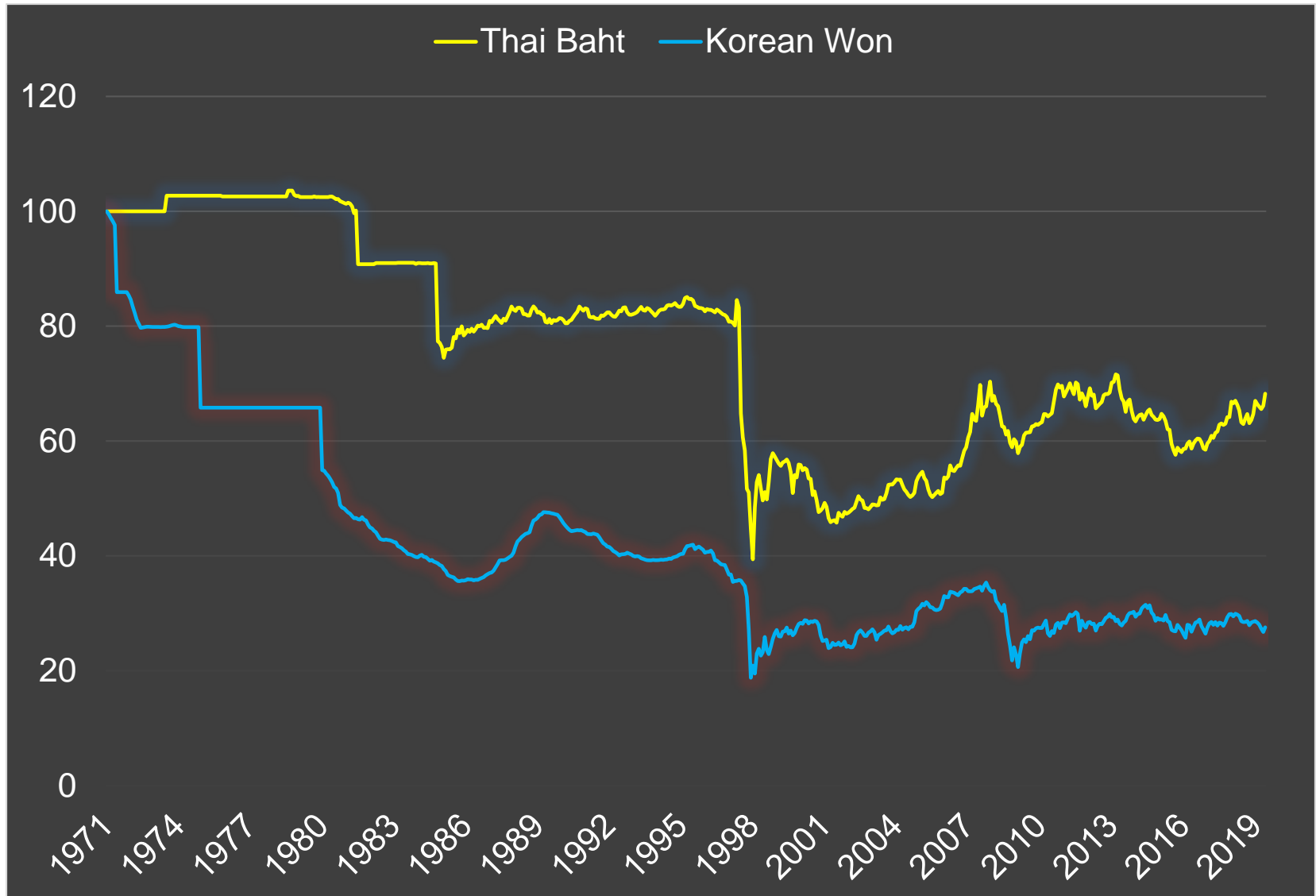
New Taiwan Dollar

- Stabilized after 70s inflation
- Still operates like an EM currency
- Low local rates, high domestic savings
- Similar population and GDP to Australia, opposite sides of Mainland China trade

Australian dollar

- Floated on 12 Dec 1983
 - Peg ~USD\$1.49 '73-'83
- China commodity play
- High local rates until recent years

Pair #4: The “Classic” Emerging Markets



Source: Bank of International Settlements (BIS)

Thai Baht

- 21 Baht / 1 USD in 1959 vs 31 in 2019
- Target of Soros's 1997 speculative attack
- Relatively unaffected by political coups

Korean Won

- 50 Won / 1 USD in 1959 vs 1,150 in 2019
- GDP per capita comparable to Thailand in 1950, now 4.5x
- KOSPI and KTB futures available for trading at IBKR

G3 still most of the volume, China now #8

Currency distribution of OTC foreign exchange turnover

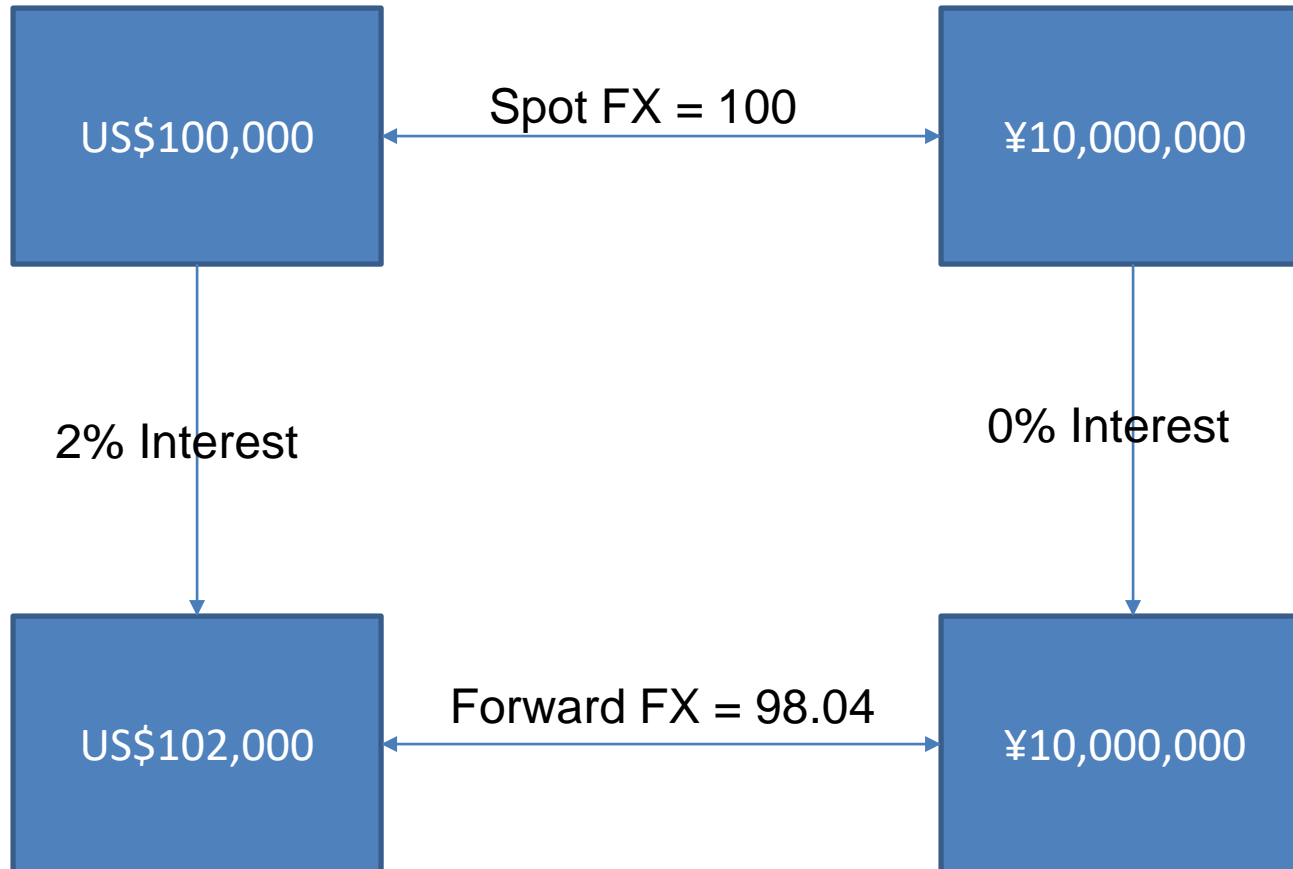
Net-net basis,¹ percentage shares of average daily turnover in April²

Table
2

Currency	2001		2004		2007		2010		2013		2016	
	Share	Rank	Share	Rank	Share	Rank	Share	Rank	Share	Rank	Share	Rank
USD	89.9	1	88.0	1	85.6	1	84.9	1	87.0	1	87.6	1
EUR	37.9	2	37.4	2	37.0	2	39.0	2	33.4	2	31.4	2
JPY	23.5	3	20.8	3	17.2	3	19.0	3	23.0	3	21.6	3
GBP	13.0	4	16.5	4	14.9	4	12.9	4	11.8	4	12.8	4
AUD	4.3	7	6.0	6	6.6	6	7.6	5	8.6	5	6.9	5
CAD	4.5	6	4.2	7	4.3	7	5.3	7	4.6	7	5.1	6
CHF	6.0	5	6.0	5	6.8	5	6.3	6	5.2	6	4.8	7
CNY ³	0.0	35	0.1	29	0.5	20	0.9	17	2.2	9	4.0	8
SEK	2.5	8	2.2	8	2.7	9	2.2	9	1.8	11	2.2	9
NZD ³	0.6	16	1.1	13	1.9	11	1.6	10	2.0	10	2.1	10
MXN ³	0.8	14	1.1	12	1.3	12	1.3	14	2.5	8	1.9	11
SGD ³	1.1	12	0.9	14	1.2	13	1.4	12	1.4	15	1.8	12
HKD ³	2.2	9	1.8	9	2.7	8	2.4	8	1.4	13	1.7	13
NOK ³	1.5	10	1.4	10	2.1	10	1.3	13	1.4	14	1.7	14
KRW ³	0.8	15	1.1	11	1.2	14	1.5	11	1.2	17	1.7	15

Source: Bank of International Settlements (BIS)

Forward prices represent different implied interest rates



Indian Rupee Futures

Singapore Exchange Limited [SG] | www2.sgx.com/derivatives/delayed-prices-futures?cc=IU&category=fx



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Delayed Prices - Futures

Category:
 Contract:
 Trading Session:

Show TAIC trades

Session	Month	Last	Change	% Chan...	Bid Size	Bid	Ask	Ask Size	Open	High	Low	Screen ..
T	Aug 2019	140.010	-0.320	-0.230	1	140.010	140.020	31	140.170	140.510	140.000	10,715
T	Sep 2019	139.490	-0.250	-0.180	6	139.440	139.460	2	139.680	139.940	139.440	1,700
T	Oct 2019	139.040	-0.060	-0.040	15	138.830	138.880	15	139.110	139.110	139.040	25
T	Nov 2019	-	-	-	30	135.210	140.800	15	-	-	-	C

Source: SGX.com

Order Confirmation

SGX Indian Rupee in US Dollar Futures

Financial Instrument	Bid	Ask	Last
IU ∞ Aug28'19 @SGX	140.29	140.31	140.30

Order Description

BUY 1

Order Type	LMT	Routing	SGX	Time in Force	DAY	Allocation
Limit Price	140.11	Clearing	IB			

Messages

Amount	Margin Impact (in USD)
Amount	28,022 USD
Commission (est.)	1.71 USD
Total	28,023.71 USD

	Current	Change	Post-trade*
Equity with Loan			
Initial Margin			
Maintenance Margin			
Position	0	1	1

*This is a current projection and is subject to change.

Don't display this message again.

Override and Transmit Cancel

Source: Interactive Brokers

INR 2,000,000 contract

Order Confirmation

SGX US Dollar in offshore Chinese Renminbi (CNH)

Financial Instrument	Bid	Ask	Last
UC ∞ Sep16'19 @SGX	7.0616	7.0618	7.0617

Order Description

SELL 1

Order Type	LMT	Routing	SGX	Time in Force	DAY	Allocation
Limit Price	7.0800	Clearing	IB			

Messages

Amount	Margin Impact (in USD)
Amount	708,000 CNH
Commission (est.)	10.45 CNH
Total	707,989.55 CNH
	Equity with Loan
	Initial Margin
	Maintenance Margin
	Position
	0 -1 -1

*This is a current projection and is subject to change.

Don't display this message again.

Override and Transmit Cancel

Source: Interactive Brokers

US\$100,000 contract



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Futures ▲

- SGX AUD/JPY FX Futures
- SGX AUD/USD FX Futures
- SGX CNY/SGD FX Futures
- SGX CNY/USD FX Futures
- SGX EUR/CNH FX Futures
- SGX IDR/USD FX Futures
- SGX INR/USD FX Futures
- SGX KRW/JPY FX Futures
- SGX KRW/USD FX Futures
- SGX MYR/USD FX Futures
- SGX MYR/SGD FX Futures
- SGX PHP/USD FX Futures
- SGX SGD/CNH FX Futures
- SGX THB/USD FX Futures
- SGX TWD/USD FX Futures
- SGX USD/CNH FX Futures
- SGX USD/JPY (Standard) FX Futures
- SGX USD/JPY (Titan) FX Futures
- SGX USD/SGD FX Futures

Source: SGX

Hedge INR

- Onshore pension or other fixed asset
- Pay away carry
- Wall between onshore asset / offshore hedge

Earn INR carry offshore

- Overlay offshore bonds or India Futures
- Earn the carry
- No withholding tax



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