

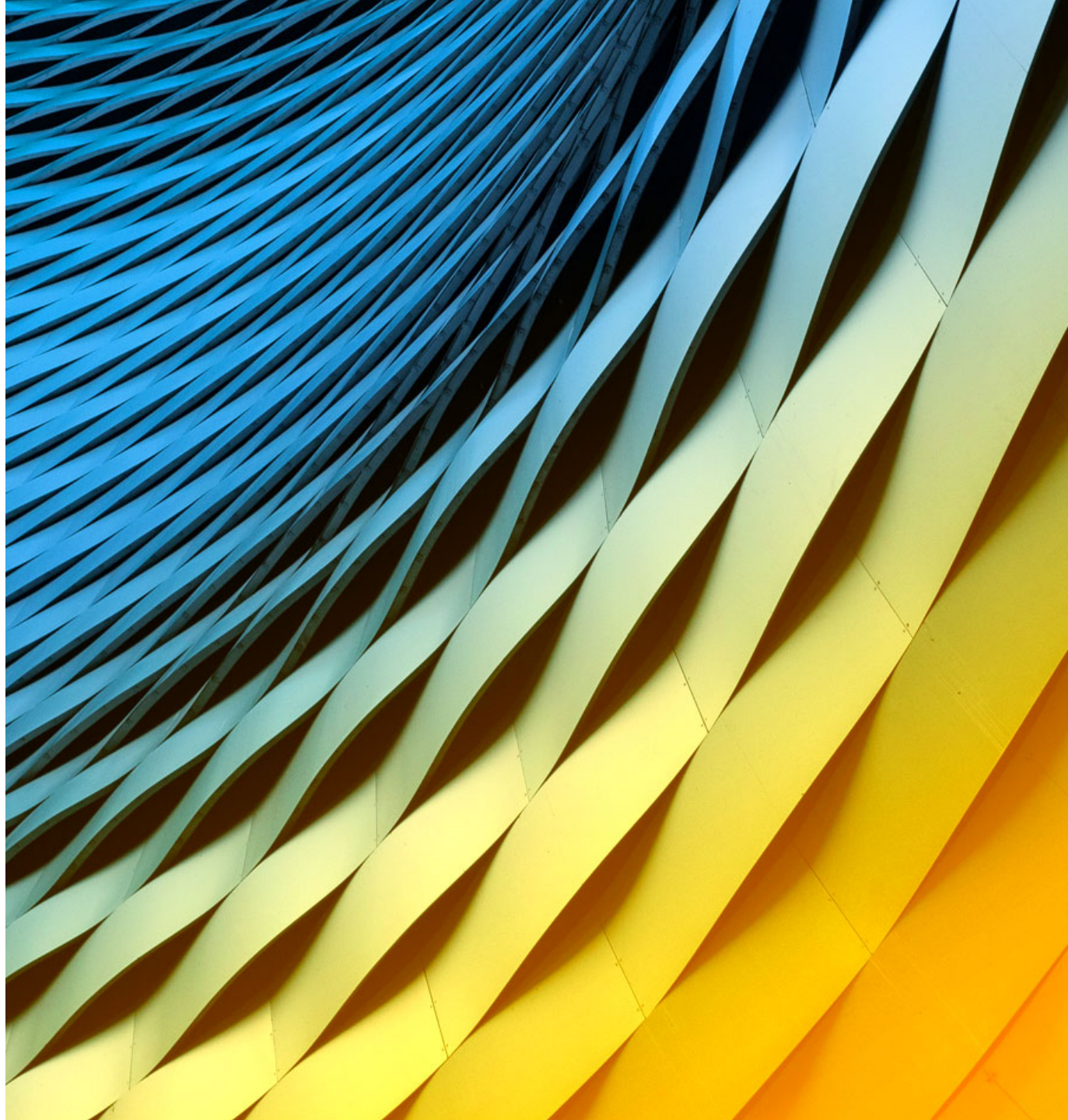
SGX - Asian Currency Strategies For 2021 and Beyond

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GFM Asset Management
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SGX

March 16, 2021



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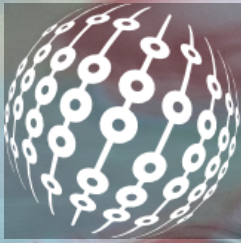
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Asian Currency Strategies: 2021 & Beyond

by Tariq Dennison, +852 9476 2868

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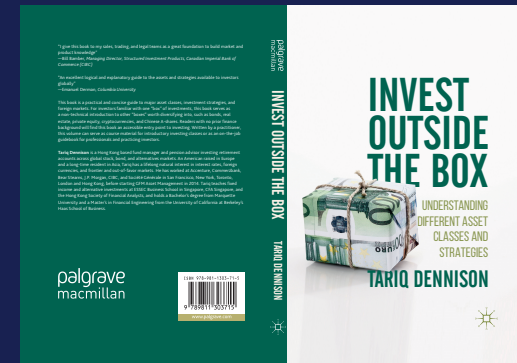
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About Tariq Dennison TEP CFP^{CM}

- I manage accounts for clients who use the Interactive Brokers platform
 - US Advisor: GFM Asset Management
 - HK Advisor: GFM Group Limited
- 23 Years Market Experience & Counting
 - Commerzbank (NY, London, Frankfurt)
 - Bear Stearns (NY)
 - J.P. Morgan (NY)
 - Canadian Imperial Bank of Commerce
 - Société Générale (HK)
- Masters in Financial Engineering
 - University of California at Berkeley
- Teaches FI & AA at ESSEC Singapore
- Focus on US-Asia Investing
- Author “Invest Outside the Box”
- Regular Media Contributor To:
 - RTHK Radio 3 “Money Talk”
 - Seeking Alpha
 - Asia Times Financial



History & Fundamentals

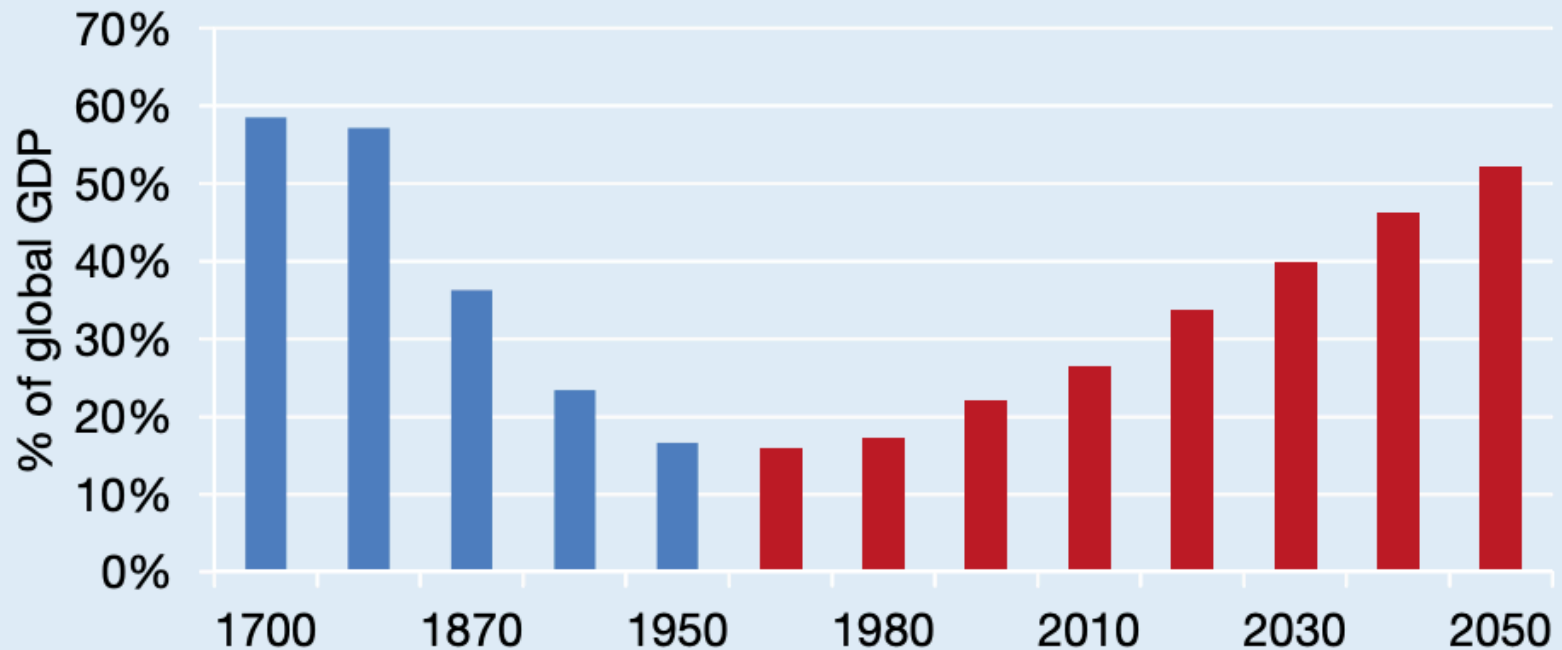
- The “Big 3”
- Three “Tigers”
- The “M-TIP 4”

Futures and Strategies

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

Figure 1

Asia's share of global GDP, 1700–2050

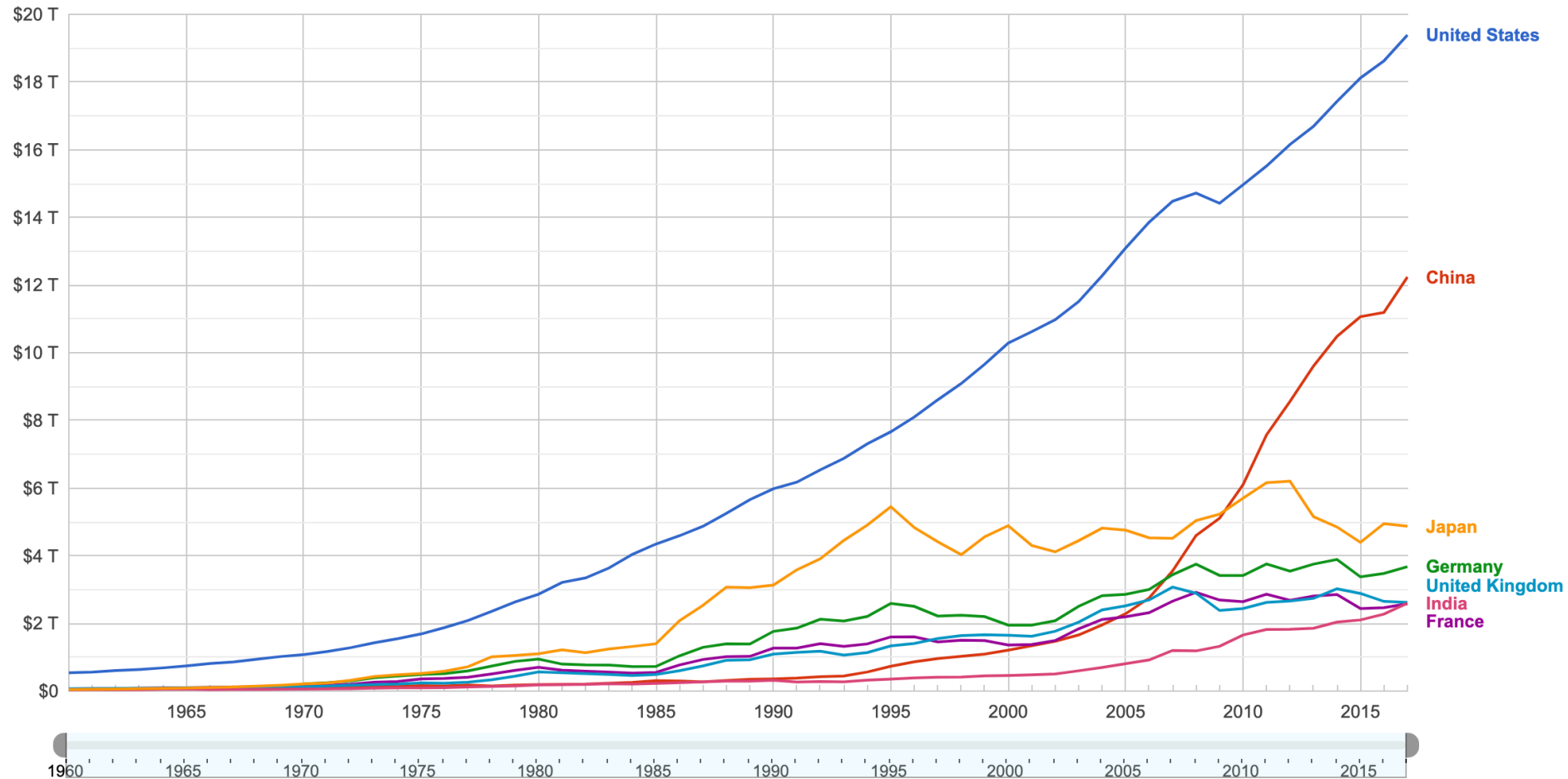


Source: Maddison (1700–1950) (2007); Centennial Group International estimates (1951–2050) (2011). Data for 1750–1790 are PPP and data for 1991–2050 are in market prices.

Source: <https://www.adb.org/sites/default/files/publication/28608/asia2050-executive-summary.pdf>

GDP Growth of World's 7 Largest Economies

Gross Domestic Product ?

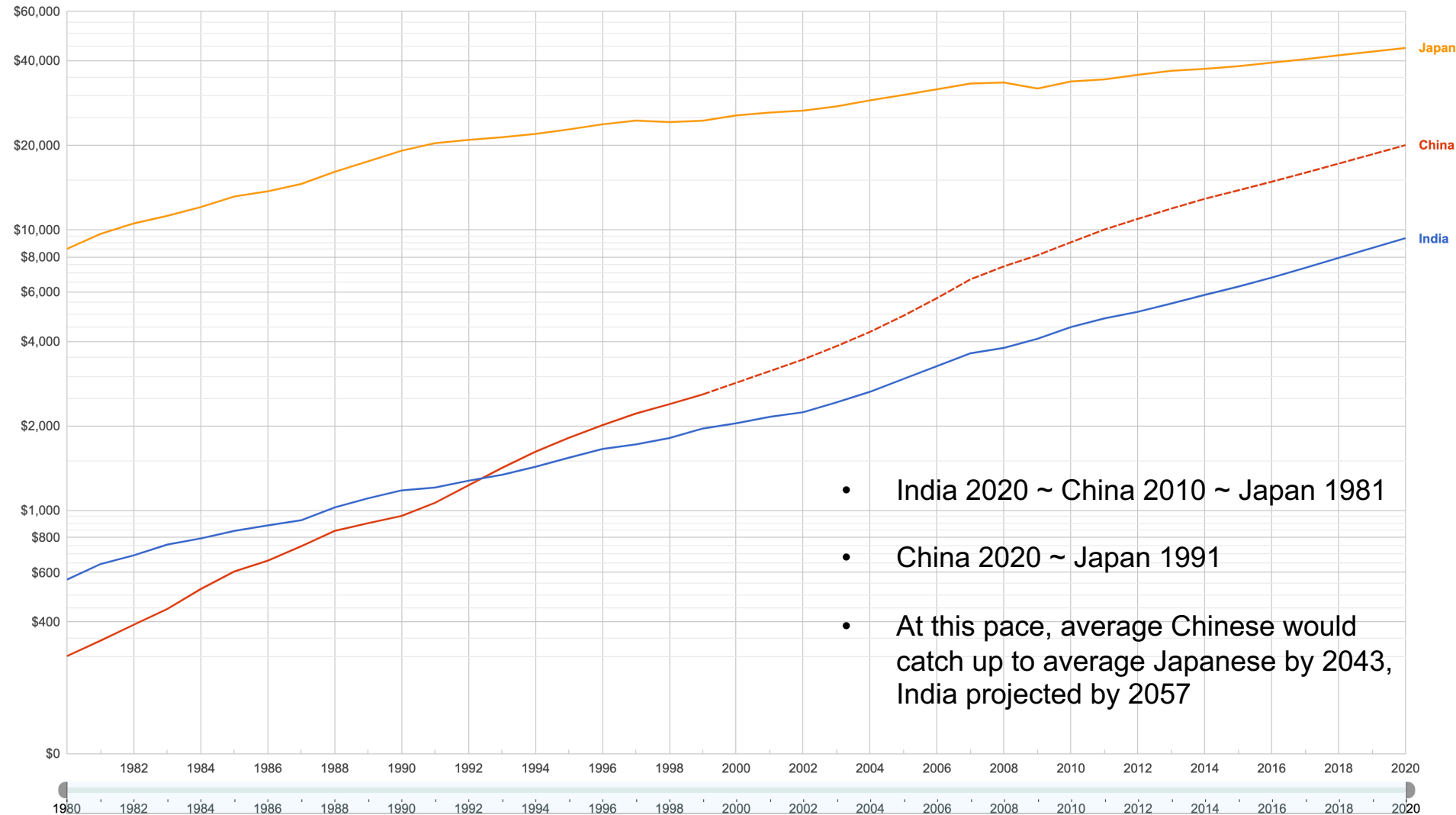


Data from [World Bank](#) Last updated: Jul 6, 2018

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PPP¹ GDP Per Capita Growth of Asia's Big 3

GDP based on PPP per capita GDP - Log ?



- India 2020 ~ China 2010 ~ Japan 1981
- China 2020 ~ Japan 1991
- At this pace, average Chinese would catch up to average Japanese by 2043, India projected by 2057

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

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G3¹ still most of the volume, China now #8

Currency distribution of OTC foreign exchange turnover

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

Table
2

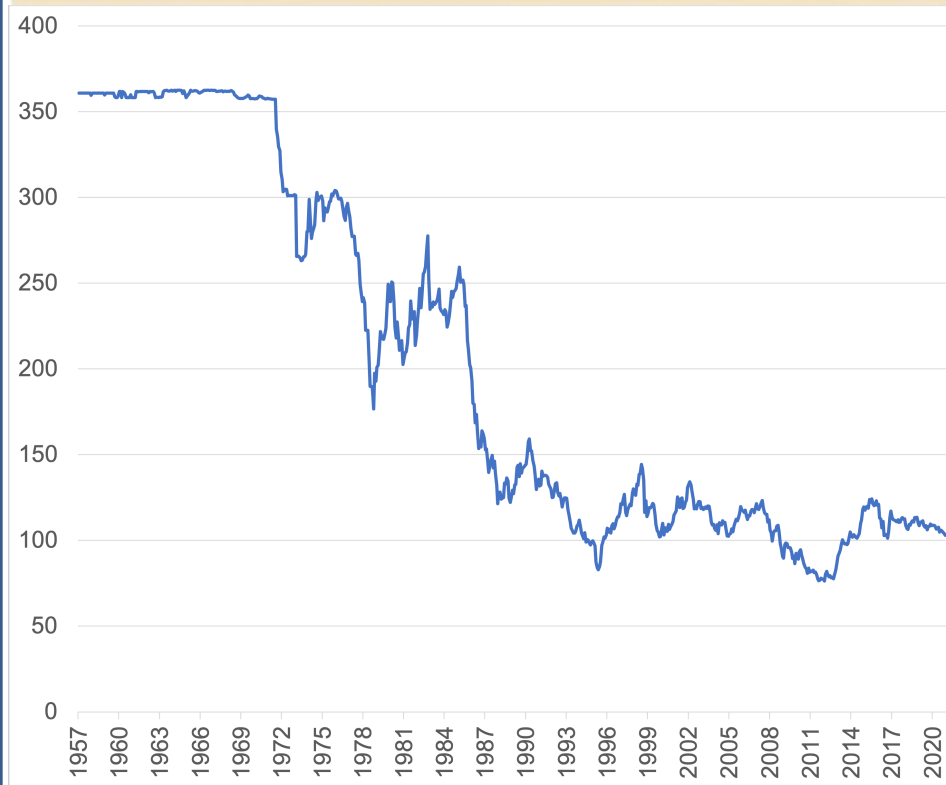
Currency	2001		2004		2007		2010		2013		2016	
	Share	Rank	Share	Rank	Share	Rank	Share	Rank	Share	Rank	Share	Rank
USD	89.9	1	88.0	1	85.6	1	84.9	1	87.0	1	87.6	1
EUR	37.9	2	37.4	2	37.0	2	39.0	2	33.4	2	31.4	2
JPY	23.5	3	20.8	3	17.2	3	19.0	3	23.0	3	21.6	3
GBP	13.0	4	16.5	4	14.9	4	12.9	4	11.8	4	12.8	4
AUD	4.3	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
CNY³	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)

First, Asia's "Big 3"

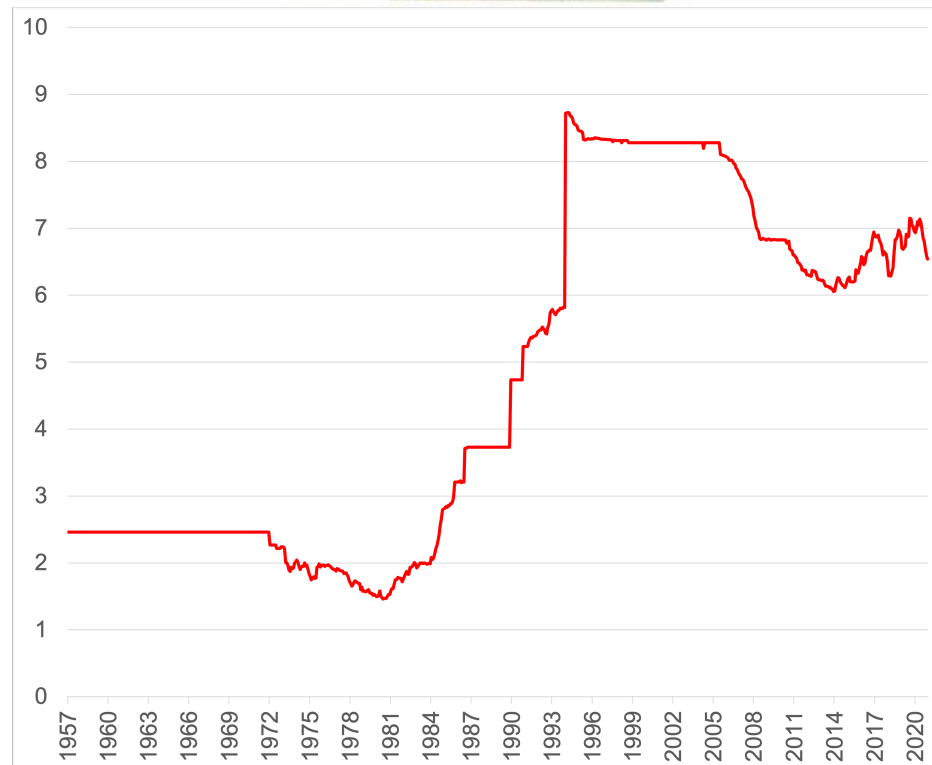
Japanese Yen

- Pegged at 360 vs USD from WWII to 1971
- >4x apprec. 1971-1995
- Traded mostly in 80-130 range since 1995
- "Risk off", "Safe haven", "flight to quality" currency ← surpluses
- Watch fiscal debt, NIRP¹ and BOJ² policies



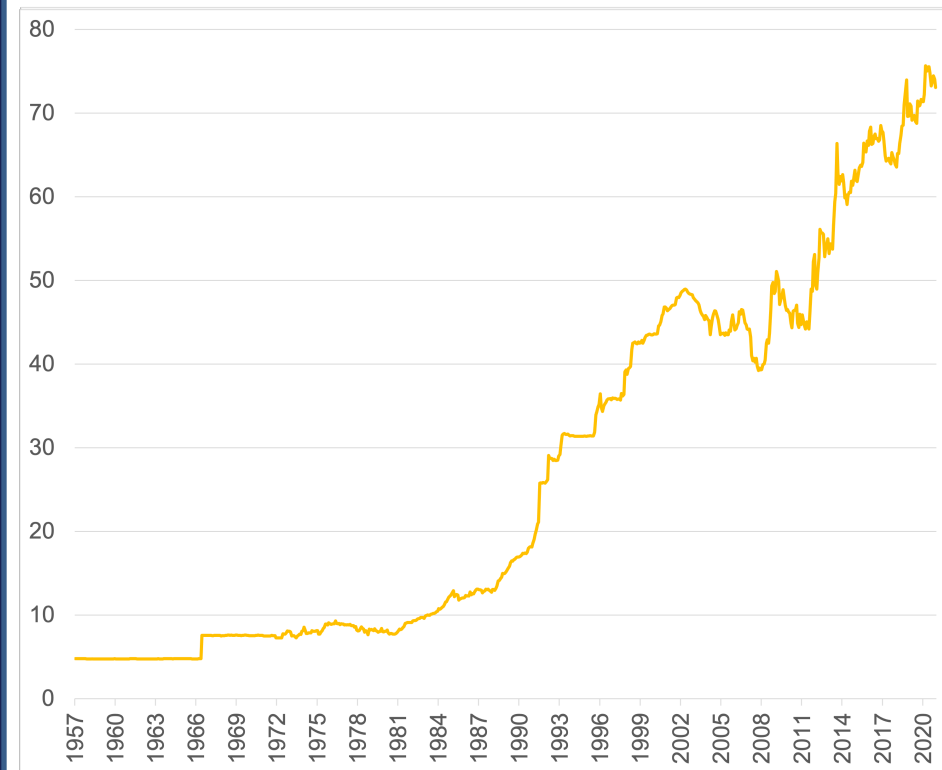
Chinese Yuan Renminbi

- Pre-1994 RMB History “Pre-Market Era”
- 2001 China Joins WTO¹
- USD Peg → Managed Float Since 2005
- FX key monetary policy tool for trade & economy
- Watch Bond Connect and internationalization vs PBOC² policies



Indian Rupee

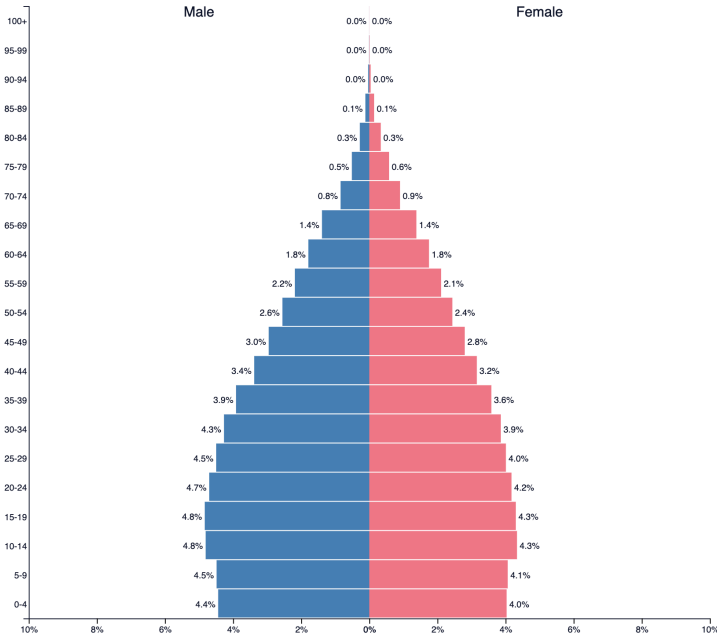
- Since 1980, INR = “classic EM devaluation”
- 1991 key date for economic liberalization
- Unlike China, India mostly runs trade deficits → FX headwind
- Watch demographics, development of Indian economy, cap flows and real interest rates



Similar currency controls, different demographics

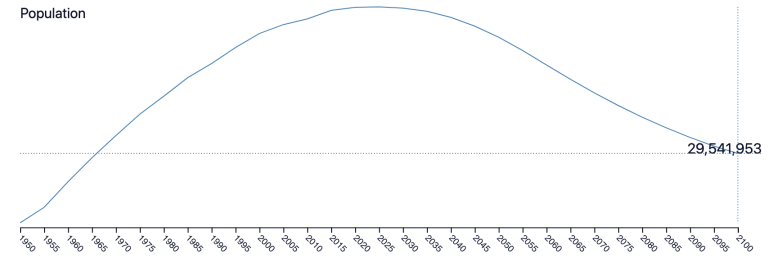
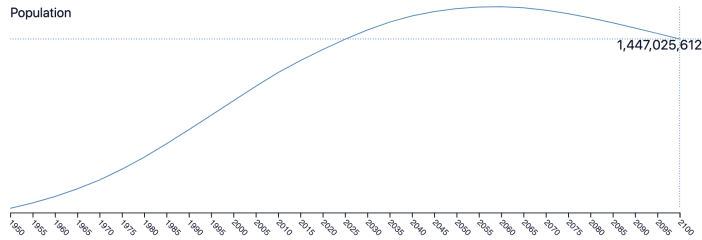
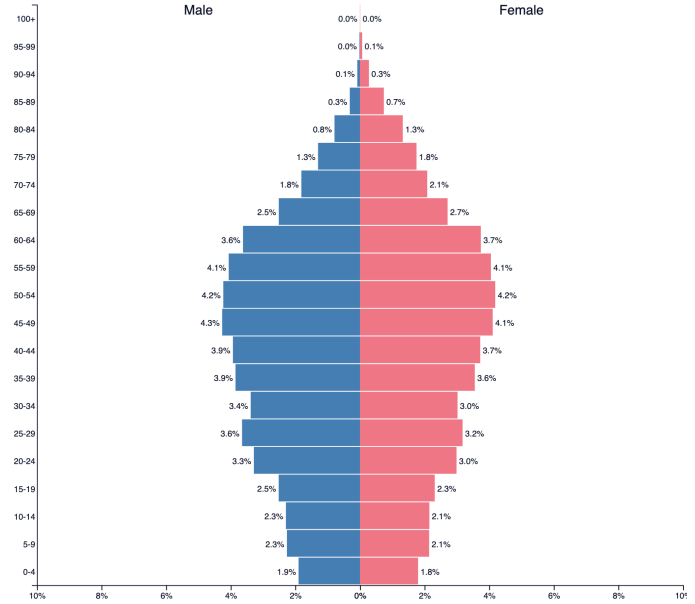
India ▼
2020

Population: 1,380,004,385



Republic of Korea ▼
2020

Population: 51,269,182



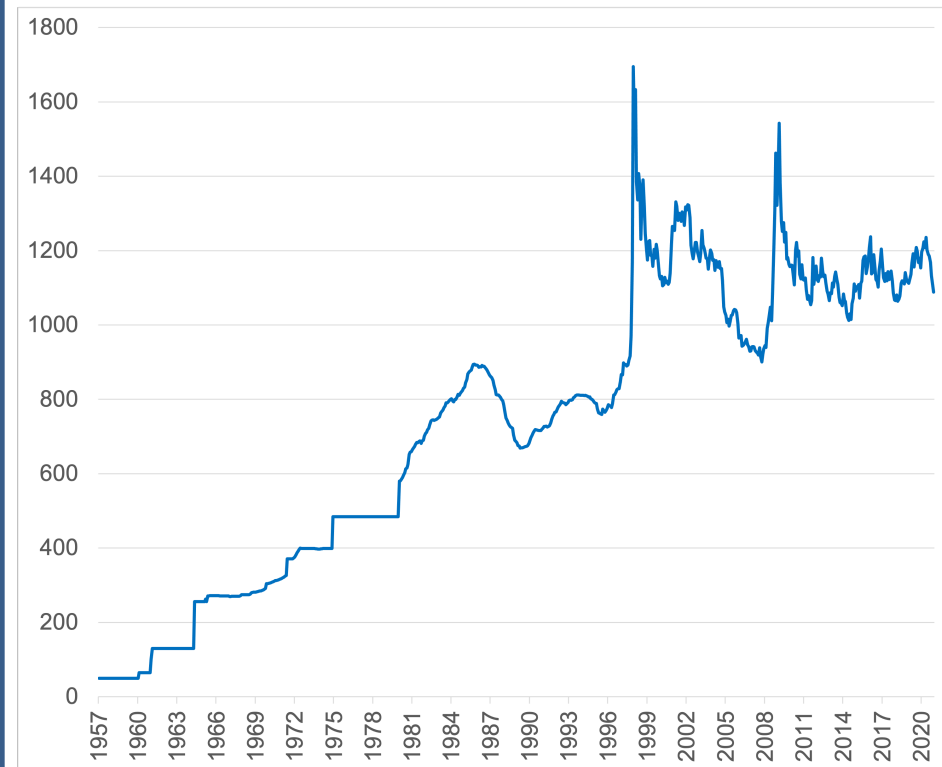
Source: <https://www.populationpyramid.net/india/2020/>

2nd, The “Tigers¹”

¹Term Coined in 1993 in a World Bank report describing the economies of South Korea, Taiwan, Hong Kong, and Singapore

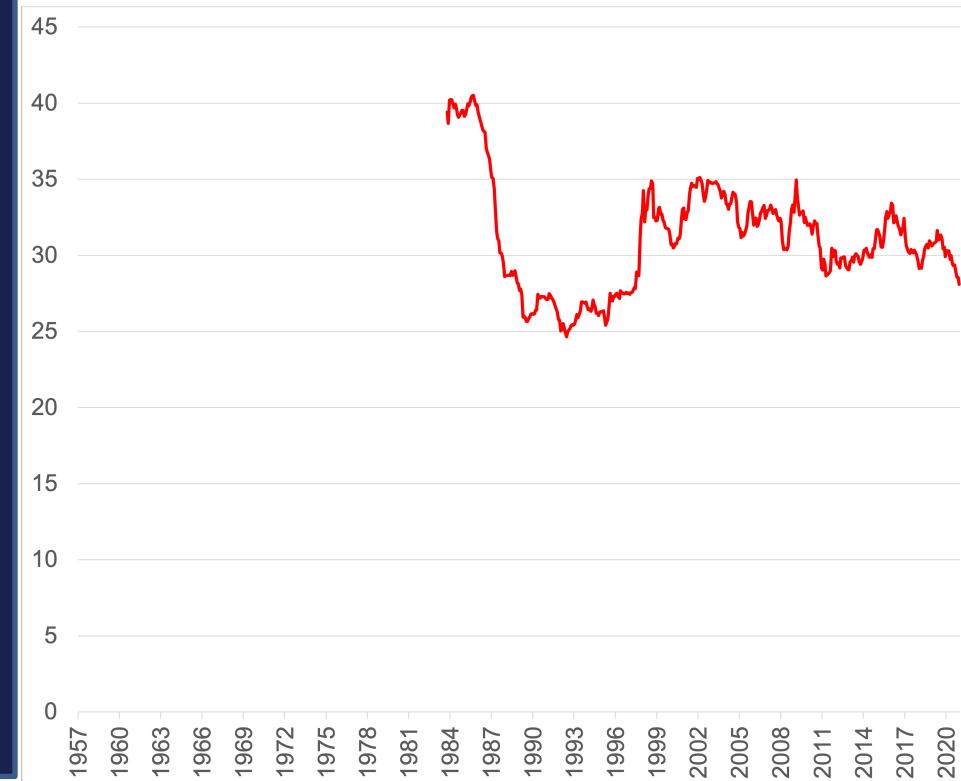
(South) Korean Won

- Class EM¹ devaluation until 1986 (pre '88 Olympics)
- Big “risk off” crashes in 1997 (Asian Fin Crisis) & 2008 (Global Fin Crisis)
- Still restricted, but increasingly DM¹-like
- Watch trade balances, domestic savings, KTB² premium over UST²



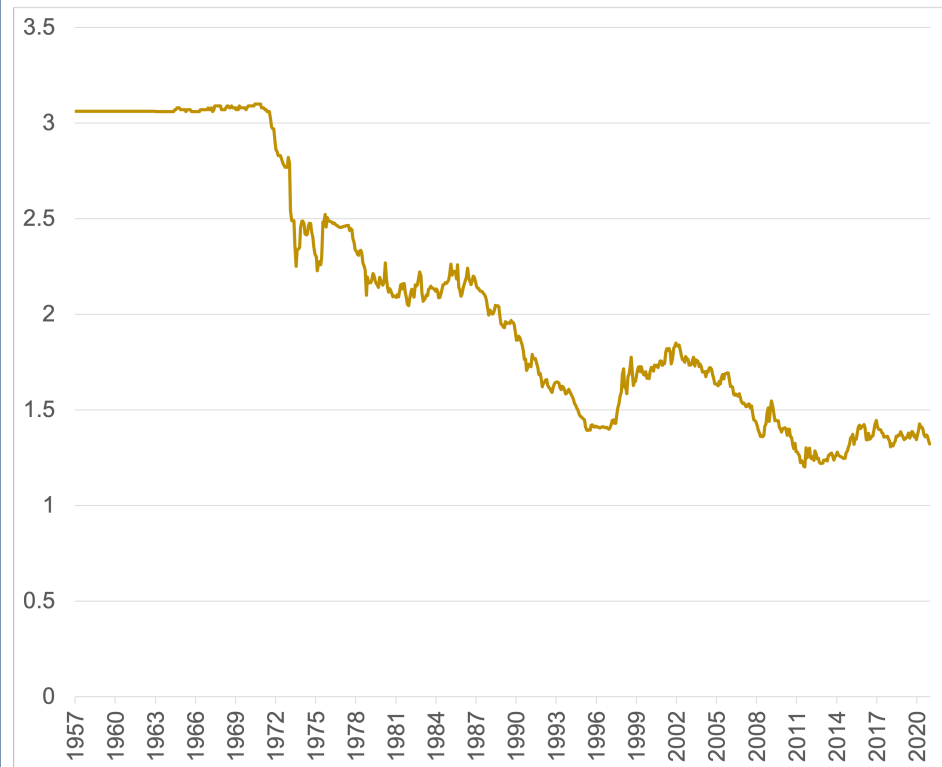
(New) Taiwan Dollar

- Replaced “Old” Taiwan Dollar in 1949 @40k→1
- Decline from 10→40 from late 1950s to mid 1960s
- Followed yen up in late 80s, AXJ down in 1997
- 10-year bond yield ~0.35%
2nd lowest of these 10
- Watch insurance company bond purchases



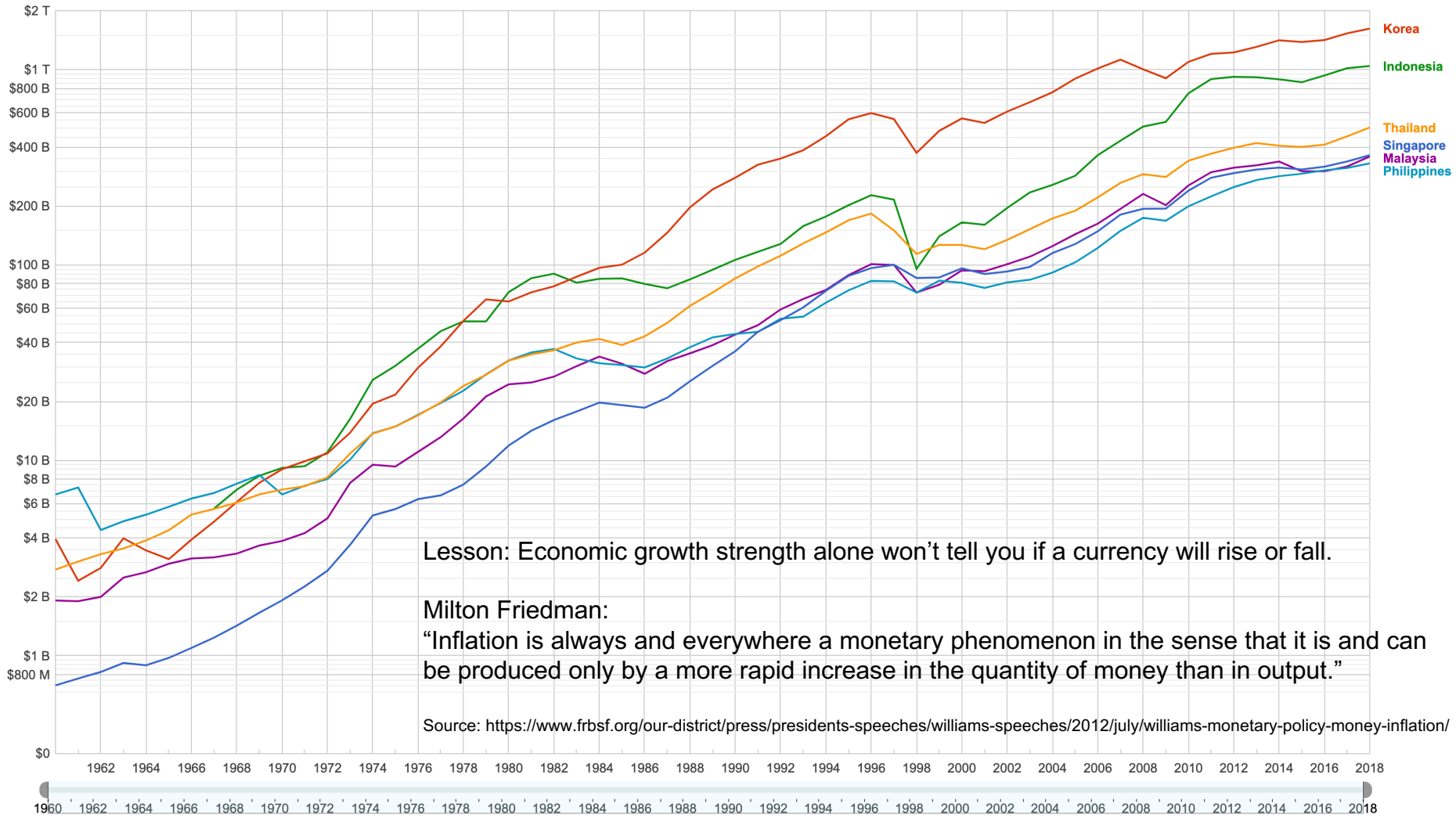
Singapore Dollar

- Managed "currency board" system by MAS¹, aims to minimize volatility vs major trading partners
- SGD appreciation used as a monetary policy tool
- Can be used as a proxy for SDRs² / global currency basket
- Watch G3 currencies vs Singapore trade



GDP of Tigers Singapore & Korea vs M-TIP

Gross Domestic Product - Log ?



Data from World Bank Last updated: Apr 8, 2020

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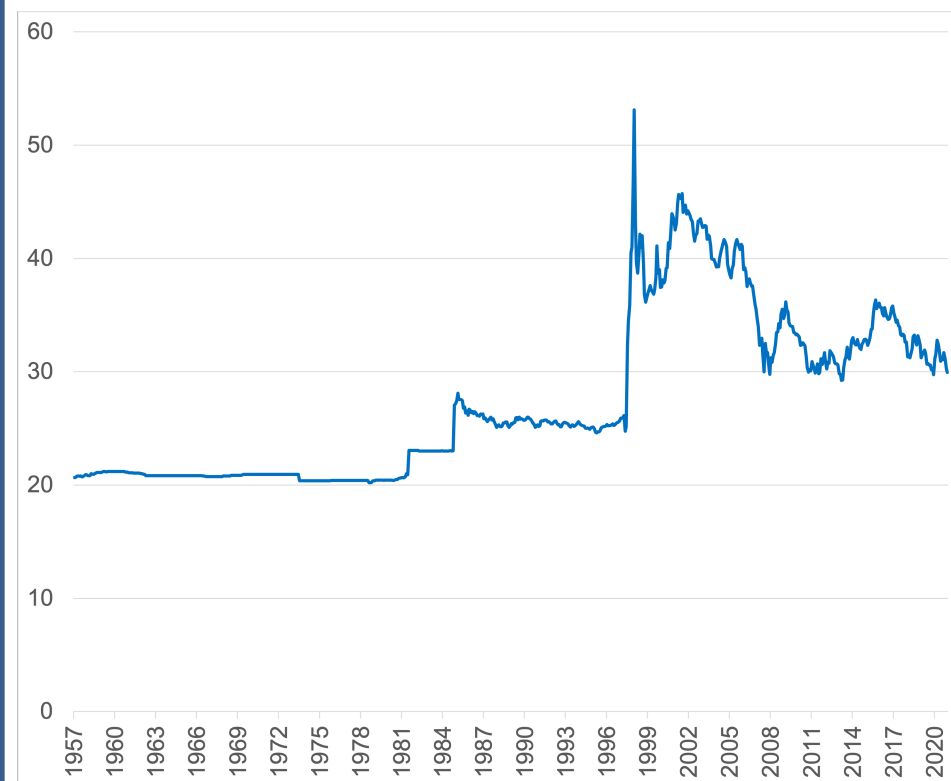
Rounding out our Asian Currencies, The “M-TIP¹” Group

¹M-TIP = Malaysia, Thailand, Indonesia and Philippines

Thai Baht

- Peg and carry trade famously targeted by George Soros in 1997
- Relatively stable before and after 1997
- Demonstrates how BoT¹ differs from many other EM banks
- Watch real rate differential vs rest of ASEAN

¹BoT = Bank of Thailand



Studies on THB/KRW vs Economies

from *Southeast Asian Studies*, Vol 33, No. 3, Dec 1995

東南アジア研究 33巻3号

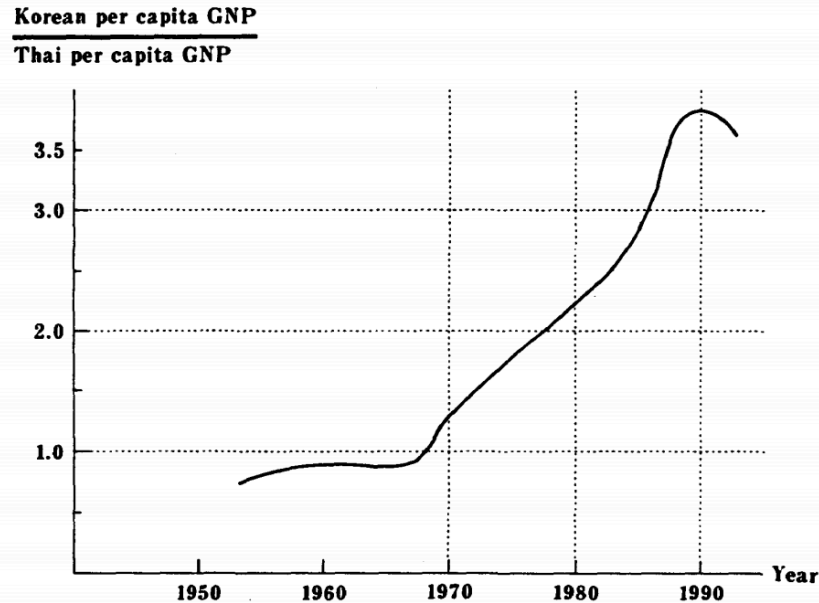


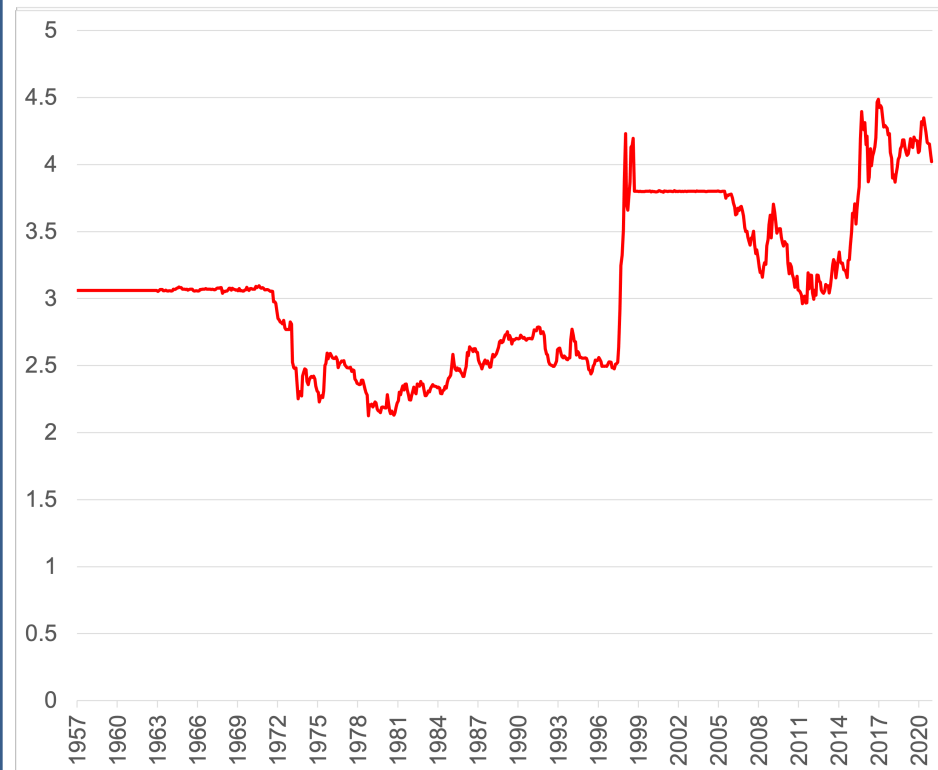
Fig. 1 Per Capita GNP: Korea vs. Thailand

in terms of economic growth for Thailand, either. Both economies still depended heavily on agriculture. At this stage, Thailand had an advantage over Korea because of its climate and the availability of land. It was after industrialization began that Korea's income caught up with Thailand's and surpassed it. As seen from Fig. 1, the ratio of Korean income to Thai had reached 2 by the end of the 1970s, 3 by the mid-1980s, and was hovering a little above 3.5 around 1990. Korea's rapid growth is often referred to as "the Miracle of the Han River" (the Han River flows through Seoul).

Source: <https://kyoto-seas.org/pdf/33/3/330306.pdf>

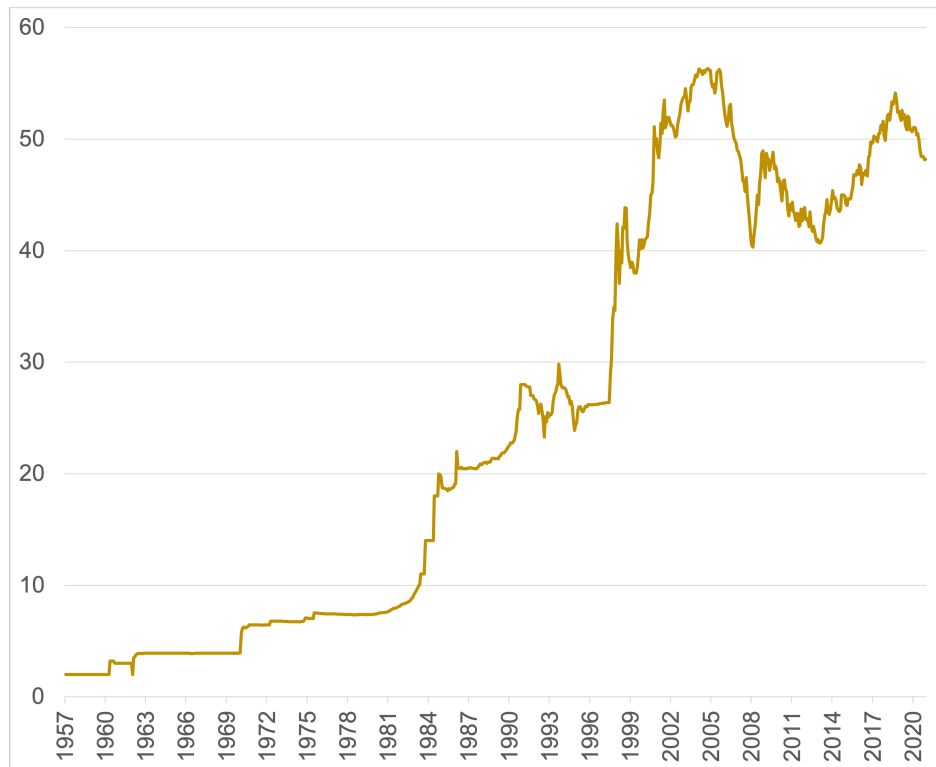
Malaysian Ringgit

- Also managed to stable value, backed by advanced, resource rich, diverse economy
- Well-developed domestic bond market, A3/A- sovereign credit rating
- China proxy 2000-2010
- Watch drivers of significant policy revaluations, especially oil prices



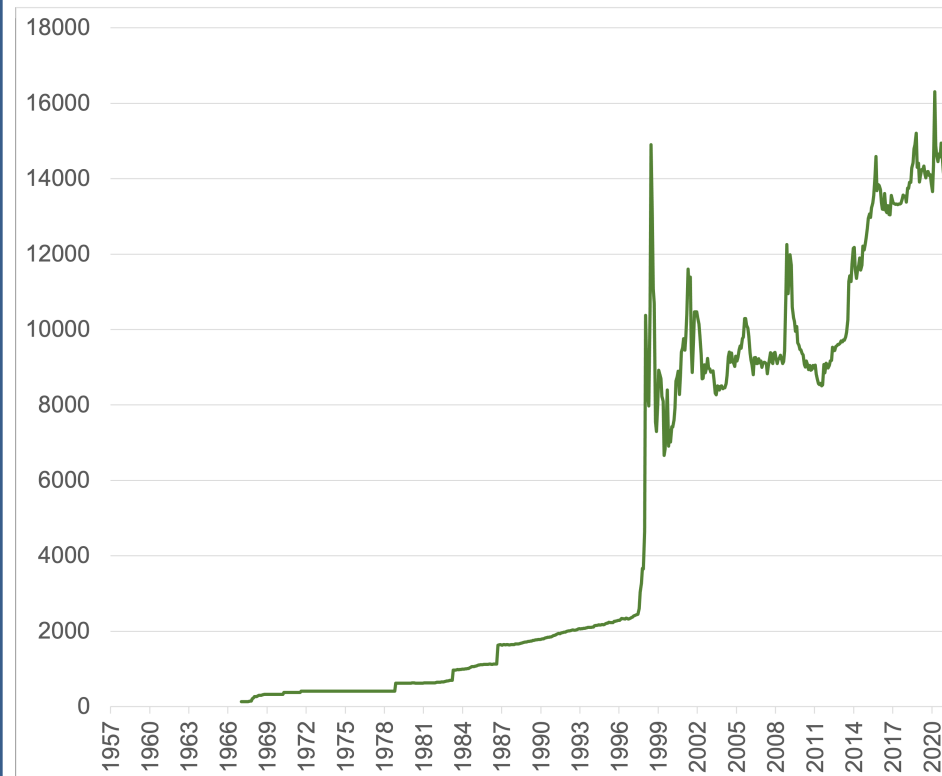
Philippine Peso

- Pegged at 12.9 grains (0.836g) 90% gold = US\$0.5 from 1903, thru Independence (1946), broken 1960
- “Classic EM Deval” from 1960-2005
- Significant decline in USD and LCY¹ bond yields since
- Watch OFW² flows!



Indonesian Rupiah

- Greatest 1997 decliner
- Consistently one of the highest yielding currencies of these 10, alongside INR
- "Brazil of the East"
- Still primarily "risk on carry" play
- Watch other risk indicators (e.g. VIX¹), relative yields



10-Year Local Currency Government Bond Yields



For more Market Watch indicators, visit [Market Watch page](#).

Note: CN=People's Republic of China; HK=Hong Kong, China; KR=Republic of Korea; SG=Singapore; US=United States of America.



Source: AsianBondsOnline

10-Year Local Currency Government Bond Yields



For more Market Watch indicators, visit [Market Watch page](#).

Note: ID=Indonesia; MY=Malaysia; PH=Philippines; US=United States of America; VN=Viet Nam.

Source: AsianBondsOnline

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- 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

SGX FX Futures on IBKR

	LAST	VLM
UJ ∞ Feb15'21 @SGX	c104.910	
UY ∞ Feb15'21 @SGX	c104.910	
UC ∞ Mar15'21 @SGX	6.4828	21.8K
IU ∞ Feb24'21 @SGX	136.61	43.8K
KU ∞ Feb15'21 @SGX	0.8966	1.34K
US ∞ Mar15'21 @SGX	1.3322	530

Source: Interactive Brokers

Sample Indian Rupee Futures Months

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



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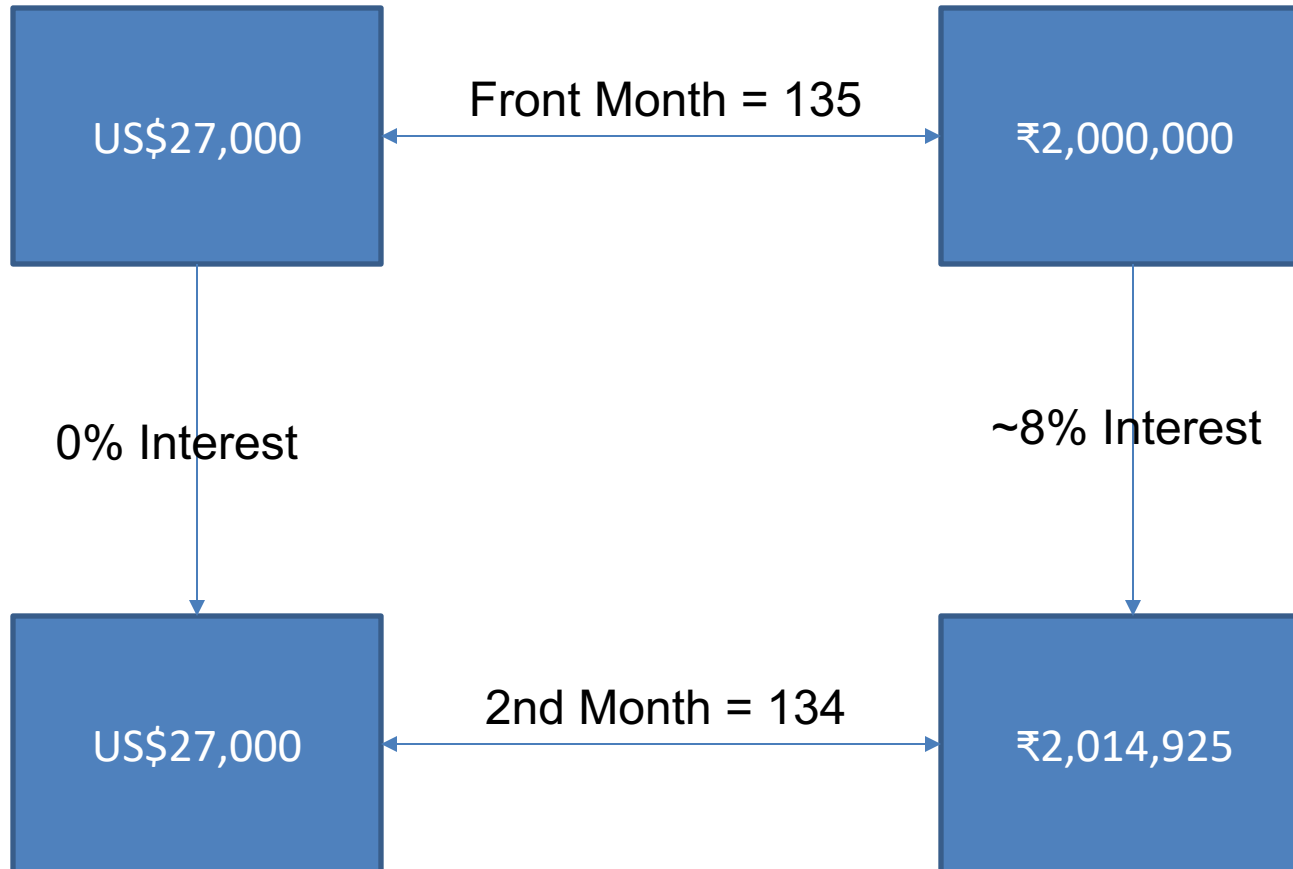
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Session	Month	Last	Bid Size	Bid	Ask	Ask Size	Low	Screen ...	Open I...	DSP	Prev. D...
T	Feb 2021	-	37	137.590	137.690	3	-	23	37,265	-	137.690
T	Mar 2021	137.130	1	137.060	137.150	1	137.130	25	15,599	-	137.180
T	Apr 2021	-	100	136.080	136.430	100	-	0	112	-	136.390
T	May 2021	-	0	-	-	0	-	0	-	-	135.980

Source: SGX.com, 19 Feb 2021

Forward prices account for different interest rates



Sample INR Futures Trade on IBKR

Order Confirmation

▼ **SGX Indian Rupee in US Dollar Futures**

Financial Instrument	Bid	Ask	Last
IU ∞ Feb24'21 @SGX	◆ 136.60	136.61 ◆	◆ 136.61

Order Description

BUY 1

Order Type LMT	Routing SGX	Time in Force DAY	Allocation
Limit Price 135.00	Clearing IB		

Messages

Amount	Balances (in USD)																				
Amount 27,000 USD	<table style="width: 100%; border: none;"> <thead> <tr> <th style="border-bottom: 1px solid #eee;"></th> <th style="border-bottom: 1px solid #eee; text-align: center;">Current</th> <th style="border-bottom: 1px solid #eee; text-align: center;">Change</th> <th style="border-bottom: 1px solid #eee; text-align: center;">Post-trade*</th> </tr> </thead> <tbody> <tr> <td>Equity with Loan</td> <td style="text-align: center;">157,590</td> <td style="text-align: center;">-2</td> <td style="text-align: center;">157,588</td> </tr> <tr> <td>Initial Margin</td> <td style="text-align: center;">41,612</td> <td style="text-align: center;">3,415</td> <td style="text-align: center;">45,027</td> </tr> <tr> <td>Maintenance Margin</td> <td style="text-align: center;">34,703</td> <td style="text-align: center;">2,732</td> <td style="text-align: center;">37,435</td> </tr> <tr> <td>Position</td> <td style="text-align: center;">0</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> </tr> </tbody> </table>		Current	Change	Post-trade*	Equity with Loan	157,590	-2	157,588	Initial Margin	41,612	3,415	45,027	Maintenance Margin	34,703	2,732	37,435	Position	0	1	1
	Current	Change	Post-trade*																		
Equity with Loan	157,590	-2	157,588																		
Initial Margin	41,612	3,415	45,027																		
Maintenance Margin	34,703	2,732	37,435																		
Position	0	1	1																		
Commission (est.) 1.71 USD																					
Total 27,001.71 USD																					

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

Don't display this message again.

Override and Transmit

Cancel

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Next, CNH, where SGX has 80% market share

Order Confirmation

SGX US Dollar in offshore Chinese Renminbi (CNH)

Financial Instrument	Bid	Ask	Last
UC ∞ Mar15'21 @SGX	6.4821	6.4823	6.4820

Order Description

SELL 1

Order Type LMT Routing SGX Time in Force DAY Allocation

Limit Price 6.5000 Clearing IB

Messages

Amount		Balances (in USD)			
		Current	Change	Post-trade*	
Amount	650,000 CNH	Equity with Loan	157,592	-2	157,590
Commission (est.)	10.55 CNH	Initial Margin	41,614	6,267	47,881
Total	649,989.45 CNH	Maintenance Margin	34,705	5,014	39,718
		Position	0	-1	-1

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

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KRW, like INR, quoted “inversely”

Order Confirmation

SGX Korean Won in US Dollar Futures (Mini)

Financial Instrument	Bid	Ask	Last
KU ∞ Feb15'21 @SGX	0.8964	0.8969	0.8966

Order Description

BUY 1

Order Type LMT Routing SGX Time in Force DAY Allocation

Limit Price 0.8888 Clearing IB

Messages

Amount		Balances (in USD)			
Amount		Current	Change	Post-trade*	
Amount	22,220 USD	Equity with Loan	157,587	-2	157,586
Commission (est.)	1.71 USD	Initial Margin	41,613	1,127	42,739
Total	22,221.71 USD	Maintenance Margin	34,704	901	35,605
		Position	0	1	1

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

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Override and Transmit Cancel

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... similar with TWD:

Order Confirmation

SGX Taiwan Dollar in US Dollar Futures (Full-Sized)

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Lst Yld
TWD ∞ Apr19'21 @...	35.9915		36.0590		36.1400	

Order Description

SELL 1

Order Type LMT Routing SGX Time in Force DAY Allocation

Limit Price 36.1200 Clearing IB

Messages

Amount		Balances (in USD)			
Amount	108,360 USD		<u>Current</u>	<u>Change</u>	<u>Post-trade*</u>
Commission (est.)	2.33 USD	Equity with Loan	12,268	-2	12,266
Total	108,357.67 USD	Initial Margin	0	11,198	11,198
		Maintenance Margin	0	8,958	8,958
		Position	0	-1	-1

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

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GLOBAL GROUP DATA POWERED BY GFIS

Source: Interactive Brokers, SGX

Finally, Singapore dollars...

Order Confirmation

SGX US Dollar in Singapore Dollar (Mini) Futures

Financial Instrument	Bid	Ask	Last
US ∞ Mar15'21 @SGX	1.3321	1.3323	1.3322

Order Description

SELL 1

Order Type LMT Routing SGX Time in Force DAY Allocation

Limit Price 1.3500 Clearing IB

Messages

Amount		Balances (in USD)			
Amount		Current	Change	Post-trade*	
Amount	33,750 SGD	Equity with Loan	157,623	-2	157,621
Commission (est.)	2.90 SGD	Initial Margin	41,620	423	42,042
Total	33,747.11 SGD	Maintenance Margin	34,709	338	35,047
		Position	0	-1	-1

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

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#1 Carry Trade

- Buy high yielding FX / sell low yield FX
- Generally a “risk on” trade
- Futures prices give you “institutional” forward FX rates, better than retail margin rates

#2 Momentum Trade

- Buy FX going up / sell FX going down, based on moving averages or other metrics
- Requires active trend following
- Often requires you to pay the bid/offer spread rather than collect it

#3 Specific Hedging

- Match value and position in a foreign bond or asset you wish to hedge back
- Classic example is buying \$100k USD high yield bond, and selling CNH futures
- Collect or pay rate differential

#4 Macro Hedging

- More of a risk position than a true hedge
- Example is selling USD/SGD futures to hedge against a declining US dollar



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