

Thursday, March 01, 2018

FX Themes/Strategy/Trading Ideas

- Except against the JPY, the dollar on Wednesday continued to climb post-Powell with the DXY lifting above 90.50. With investors attempting to re-price the Fed, note that the USD remained resilient despite capitulating UST yields (curve flattened from the back-end with the Fed's Kashkari also urging patience) and softer than expected Feb Chicago PMI (61.9) and Jan pending home sales (-4.7% mom).
- Elsewhere, the JPY outperformed as global equities sank while the BOJ also trimmed its scheduled purchases of super-long JGBS on Wednesday. The **FXSI (FX Sentiment Index)** meanwhile ticked higher but remained within Risk-Neutral territory. GBP underperformed across the board after PM May all but rejected a Brexit-proposal drafted by the EU Commission.
- In the near term, the underlying motivation in the market may remain one of re-pricing with respect to the FOMC. However, in this environment, sensitivity to perceived cues from the other global central banks is also expected to be heightened and the resulting interplay of central bank dynamics may remain in a flux. Into the end of the week however, the EUR may remain relatively more vulnerable (to the USD) given the potential for political headline risks this weekend.
- Today, apart from the data calendar, the Fed's Powell appears before the Senate Banking Committee (1500 GMT) while Dudley is scheduled for 1600 GMT. Meanwhile, ECB appearances are expected from Nouy (1030 GMT) and Lane (1210 GMT).

Asian FX

- Asian equities started the day this morning in the red and the Asian FX complex is expected to remain hostage to the broad dollar. As noted previously, the regional units currently do not have a strong backstop in terms of strong net capital inflows. Overall, expect the **ACI (Asian Currency Index)** to continue to react higher in tandem with the DXY (with Asian central banks largely still accommodative). As such, expect regional central banks to remain on hand to contain untoward volatility.
- On the data front, despite the better than expected set of GDP numbers out of India on Wednesday, the INR is unlikely to catch a break given the local baggage, and we expect the pair to persist above 65.00.
- This morning, the Feb Caixin China manufacturing PMI for China PMI came

Treasury Research &
Strategy

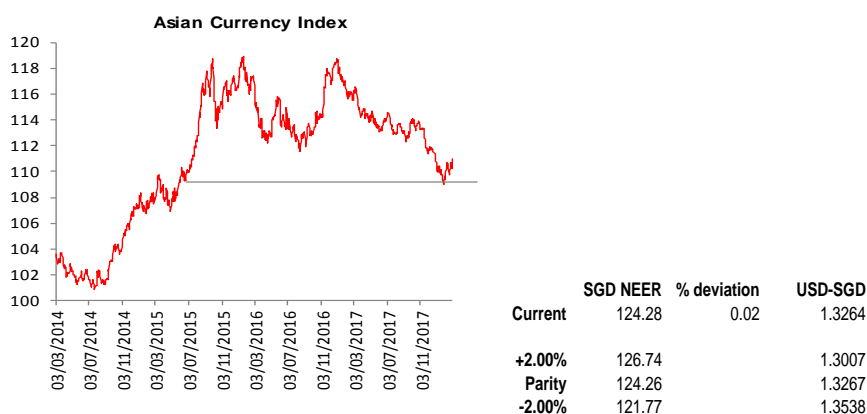
Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

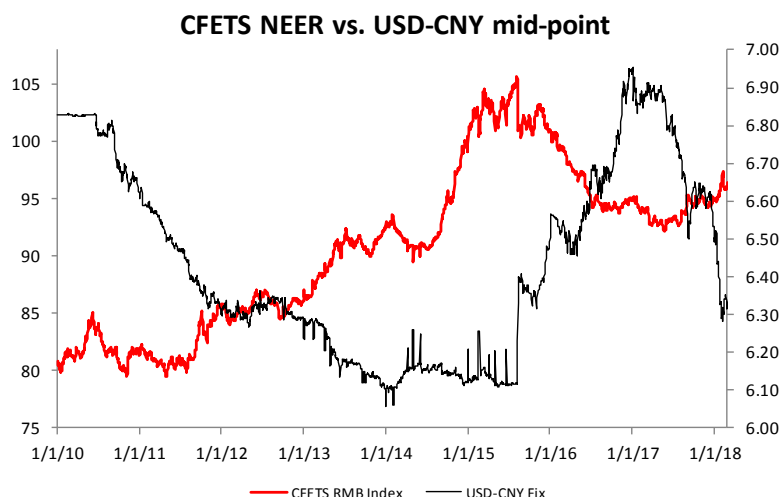
in at a better than expected 51.6 and this may help to downplay the disappointing official manufacturing and non-manufacturing PMIs released on Wednesday.

- SGD NEER:** The SGD NEER is back above parity (1.3267) at around +0.03% this morning with NEER-implied USD-SGD thresholds firmer on the day. The basket may remain trapped within +0.20% (1.3241) and -0.10% (1.3281) intra-day pending dollar cues and any risk appetite developments. Technically, the pair is expected to continue to threaten its 55-day MA (1.3257) on a sustained basis in the current environment with an eye on 1.3300.

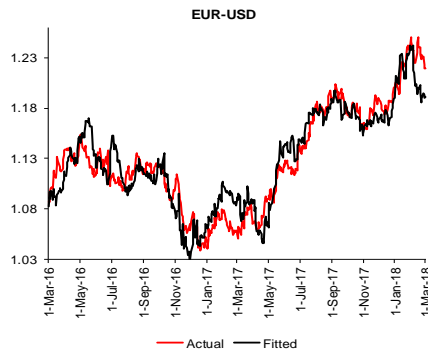


Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point rose (as largely expected) to 6.3352 this morning from 6.3294 yesterday, edging the CFETS RMB Index a touch lower to 96.43 from 96.44 yesterday.

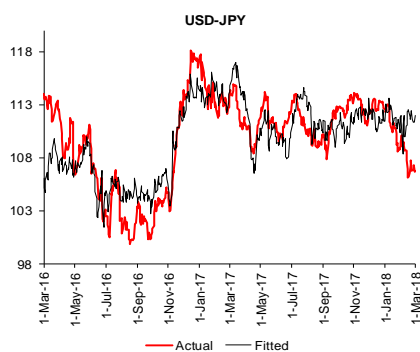


Source: OCBC Bank, Bloomberg

G7

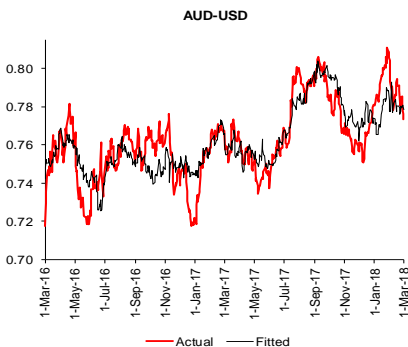
Source: OCBC Bank

- **EUR-USD** EZ CPI came in largely in line with expectations on Wednesday but with investors looking towards a more proactive Fed, expect the EUR-USD to potentially converge further with its short term implied valuations in the near term. A sustained breach of the 55-day MA (1.2183) risks further decay towards 1.2100.



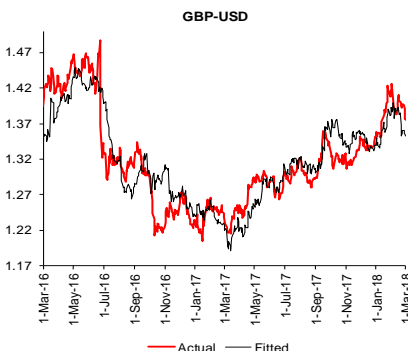
Source: OCBC Bank

- **USD-JPY** The BOJ's Kataoka and PM Abe this morning sought to dissuade market expectations of a more hawkish BOJ after the latter's tweak to its JGB purchases. In the interim, uncertain investor sentiment may deter the slight firming impetus provided by the pair's short term implied valuations. Expect a 106.00-108.00 range to prevail in the interim.



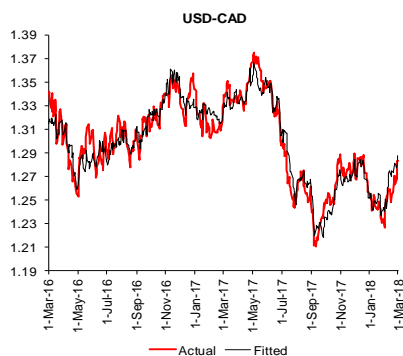
Source: OCBC Bank

- **AUD-USD** This morning, Australian headline 4Q private capital numbers disappointed with a surprise -0.2% contraction with markets ignoring the upwardly revised +1.9% the previous quarter. Note also that the Feb manufacturing PMI also deteriorated to 57.5 from 58.7. Short term implied valuations meanwhile remain top heavy in the current environment. Expect risks towards 0.7640 with the 200-day MA (0.7785) seen capping.



Source: OCBC Bank

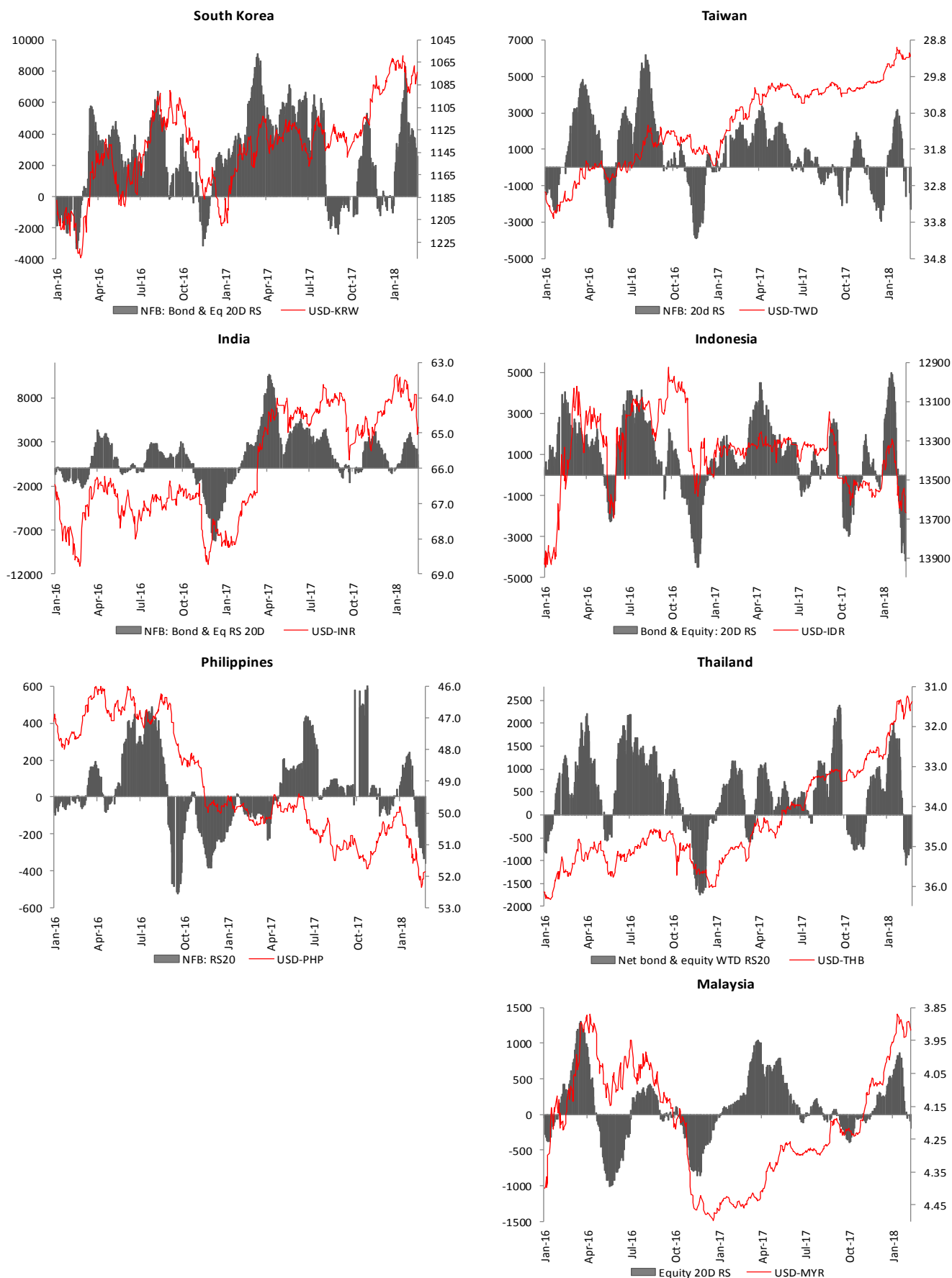
- **GBP-USD** Brexit-related concerns and the current USD demeanor may see the 100-day MA (1.3549) attracting while the 55-day MA (1.3782) is now expected to act as a near term ceiling. Meanwhile, short term implied valuations remain tilted lower at this juncture.

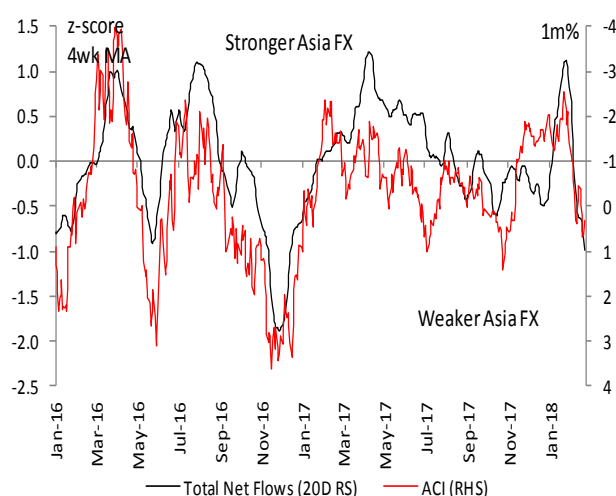


Source: OCBC Bank

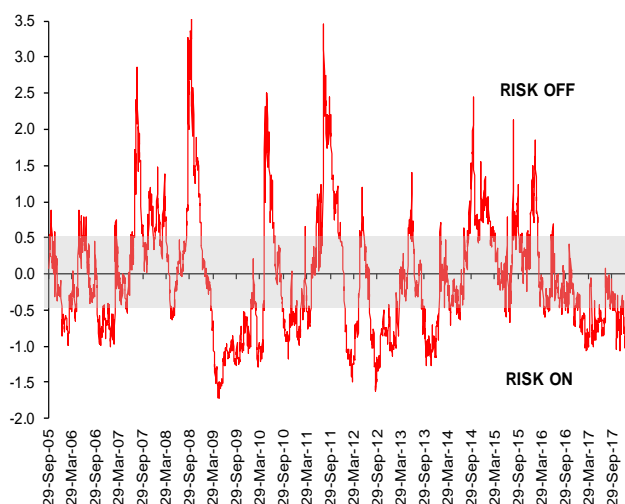
- **USD-CAD** Soft crude, edgy global investor sentiment, lingering background disappointment towards the budget announcement earlier in the week, coupled with near term USD resilience; continue to portend a positive gradient for the USD-CAD at this juncture. With short term valuations for the pair also tipping higher, investors may buy dips within 1.2770-1.2920.

USD-Asia VS. Net Capital Flows



ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

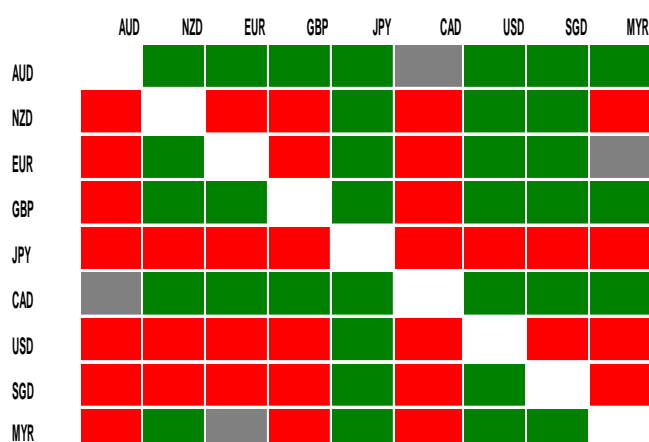
	DX	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	0.246	0.092	-0.564	-0.486	-0.493	0.010	-0.467	0.439	0.412	0.545	-0.977
CHF	0.889	0.015	0.012	-0.241	-0.223	-0.225	0.093	-0.236	0.225	0.109	0.544	-0.890
SGD	0.889	0.252	-0.017	-0.789	-0.585	-0.602	0.114	-0.527	0.675	0.426	0.585	-0.833
CAD	0.746	0.672	0.324	-0.518	-0.509	-0.433	-0.589	-0.498	0.264	0.716	0.407	-0.799
INR	0.672	0.708	0.319	-0.365	-0.405	-0.297	-0.525	-0.355	0.085	0.674	0.300	-0.670
IDR	0.672	0.741	0.422	-0.602	-0.688	-0.615	-0.642	-0.682	0.276	0.893	0.269	-0.651
MYR	0.599	0.246	0.196	-0.731	-0.806	-0.849	-0.019	-0.829	0.455	0.678	0.216	-0.520
THB	0.573	0.020	0.104	-0.762	-0.601	-0.608	0.348	-0.506	0.704	0.281	0.546	-0.506
CNH	0.545	0.067	0.623	-0.307	-0.107	-0.179	-0.030	-0.247	0.154	0.135	1.000	-0.599
KRW	0.521	0.137	-0.152	-0.847	-0.696	-0.671	0.235	-0.553	0.843	0.398	0.067	-0.396
TWD	0.495	0.363	0.181	-0.860	-0.896	-0.835	-0.125	-0.779	0.716	0.722	0.127	-0.374
USGG10	0.246	1.000	0.368	-0.375	-0.552	-0.463	-0.641	-0.544	-0.041	0.791	0.067	-0.227
CNY	0.092	0.368	1.000	-0.027	-0.088	-0.103	-0.692	-0.281	-0.270	0.449	0.623	-0.152
PHP	0.016	0.739	0.610	-0.128	-0.257	-0.223	-0.841	-0.376	-0.211	0.669	0.044	-0.050
JPY	0.010	-0.641	-0.692	0.046	0.233	0.179	1.000	0.379	0.260	-0.644	-0.030	0.167
AUD	-0.791	-0.643	-0.104	0.760	0.688	0.621	0.360	0.604	-0.526	-0.731	-0.366	0.784
GBP	-0.875	-0.413	-0.209	0.733	0.731	0.702	0.292	0.688	-0.577	-0.663	-0.428	0.865
NZD	-0.879	0.038	-0.006	0.529	0.316	0.377	-0.136	0.323	-0.523	-0.184	-0.580	0.858
EUR	-0.977	-0.227	-0.152	0.492	0.419	0.414	0.167	0.425	-0.373	-0.385	-0.599	1.000

Source: Bloomberg

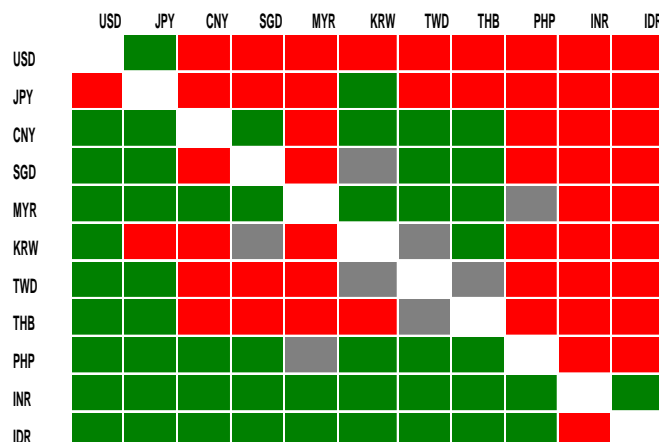
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2156	1.2184	1.2192	1.2200	1.2216
GBP-USD	1.3743	1.3747	1.3751	1.3800	1.3816
AUD-USD	0.7700	0.7717	0.7727	0.7734	0.7781
NZD-USD	0.7172	0.7177	0.7193	0.7200	0.7244
USD-CAD	1.2800	1.2835	1.2843	1.2848	1.2900
USD-JPY	105.55	106.00	106.72	107.00	109.87
USD-SGD	1.3200	1.3227	1.3265	1.3300	1.3315
EUR-SGD	1.6135	1.6158	1.6173	1.6200	1.6408
JPY-SGD	1.2154	1.2400	1.2430	1.2449	1.2487
GBP-SGD	1.8222	1.8226	1.8240	1.8277	1.8300
AUD-SGD	1.0200	1.0239	1.0249	1.0266	1.0300
Gold	1305.40	1309.10	1316.20	1324.24	1357.45
Silver	15.80	16.00	16.30	16.81	16.97
Crude	58.41	61.60	61.64	61.70	62.13

Source: OCBC Bank

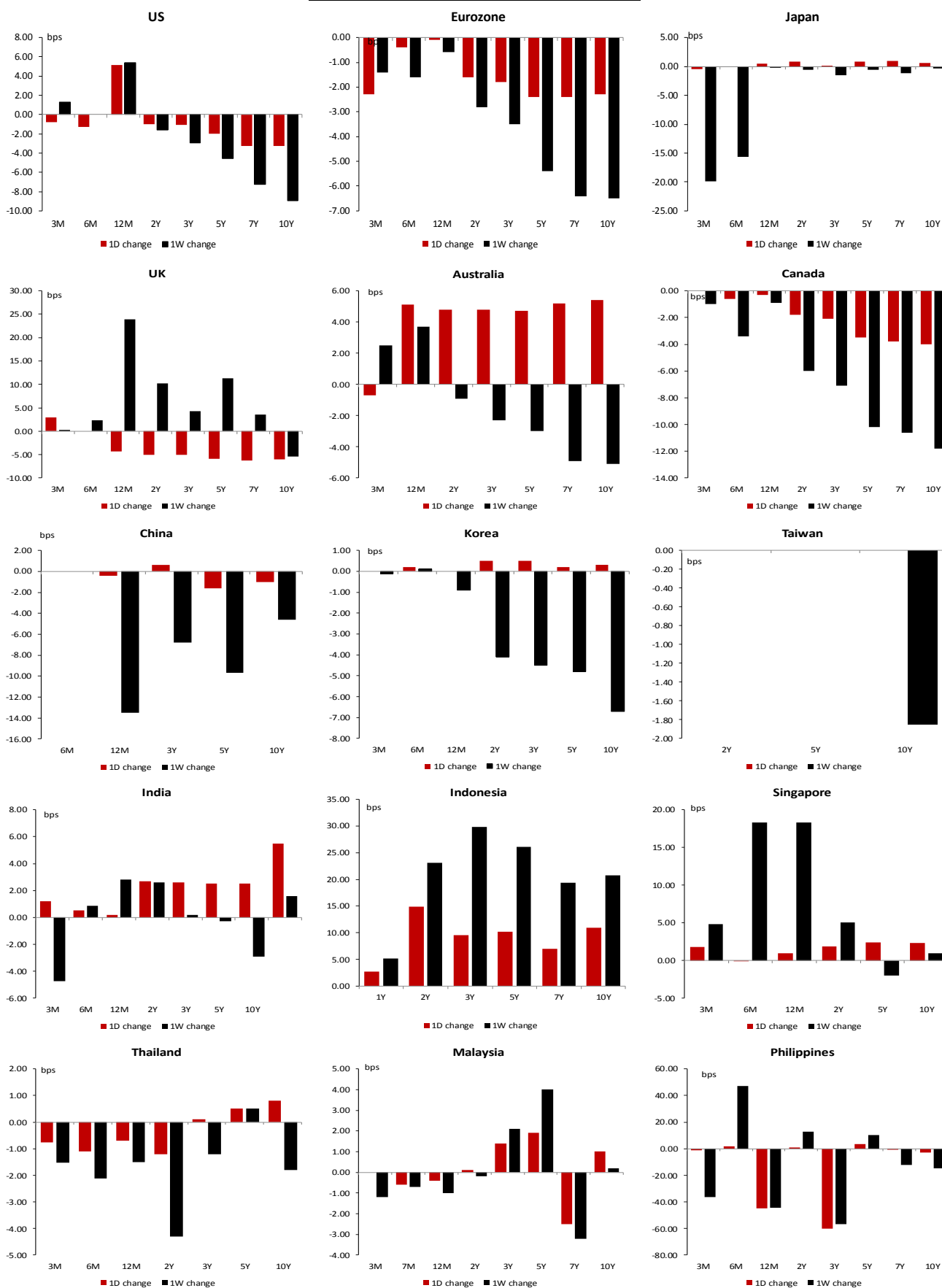
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

FX Trade Ideas								
	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
1	22-Feb-18		B	USD-CAD	1.2696	1.2960 1.2560	Post FOMC minutes, rising implied valuations for the pair	
	STRUCTURAL							
2	19-Jan-18		B	EUR-USD	1.2274	1.2865 1.1975	ECB likely to alter its forward guidance into the spring	
3	31-Jan-18		S	USD-JPY	108.67	102.35 111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
4	15-Feb-18		B	GBP-USD	1.4014	1.4855 1.3590	Borad dollar vulnerability coupled with hawkish BOE expectations.	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	27-Nov-17	26-Jan-18	B	GBP-USD	1.3344	1.4135	Investors may imputeBrexit talks in December. Prevailing USD weakness.	+5.56
2	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heay dollar, positive risk appetite, SGD NEER not excessively strong	+0.39
3	15-Jan-18	07-Feb-18	B	EUR-USD	1.2199	1.2305	"Hawkish" ECB expectations, positive German poloitical news flow	+0.72
4	12-Feb-18	14-Feb-18	S	AUD-USD	0.7829	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	-1.09
5	09-Feb-18	15-Feb-18	B	USD-CAD	1.2600	1.2470	Softer crude and fragile appetite towards the cyclical	-1.03
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Source: OCBC Bank

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