

Monday, April 02, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

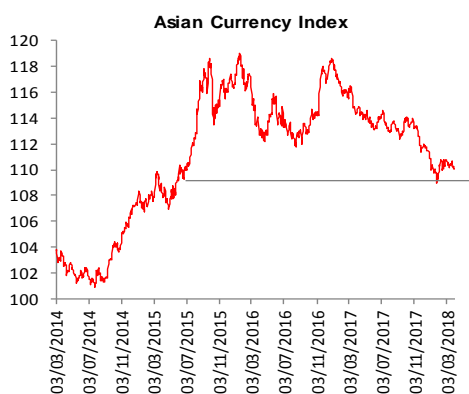
- The USD closed last week weaker against G10 reserve currencies, but was largely flat against the cyclical currencies. On the data front, personal spending and core PCE deflator came in in line with expectations.
- A firming equities complex heading into the long weekend allowed risk sentiments to brighten marginally. However, the **FXSI (FX Sentiment Index)** remains rooted in the Risk Off zone. Expect risk sentiments to remain shaky this week, barring positive surprises on the trade front.
- In terms of USD positioning, **CFTC** data again showed some divergence within the investment community. Post-FOMC, non-commercial and leveraged accounts pared their implied short USD bias, but the asset managers added to their implied USD shorts marginally.
- The broad USD complex may attempt to look for new directional cues early this week, before reverting back to trade issues towards the end of the week. Effective today, China will suspend import-tariff reductions for 120 US-imported goods (mainly agriculture and related products), in response to the steel and aluminum tariffs by the US. Should not elicit too much direct response from the US. **By Friday, US Trade Representative Lighthizer will have to produce the list of Chinese imports that will be subjected to tariffs. All eyes will be on that, and the Chinese response.**
- As the **RBA** meets on Tuesday, we note that inflation in Australia is not picking up quickly. Expect policy rates to be unchanged, and the rhetoric on the statement to tend towards being accommodative as in the last couple of meetings.
- Fed-speak will be heavy this week, starting with Kashkari (Monday, Tuesday), followed by Brainard (Tuesday), Bullard, Mester (both Wednesday), Bostic (Thursday), Powell (Friday) and Evans (Saturday). Powell will be the highlight as the market re-assesses Fed-centric USD dynamic.
- On the data front, expect a slew of **global PMIs** early in the week. Late week, watch for **initial jobless claims** (Thursday), **non-farm payrolls** and **hourly wages** (both Friday) in the US, among others.

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Asian FX

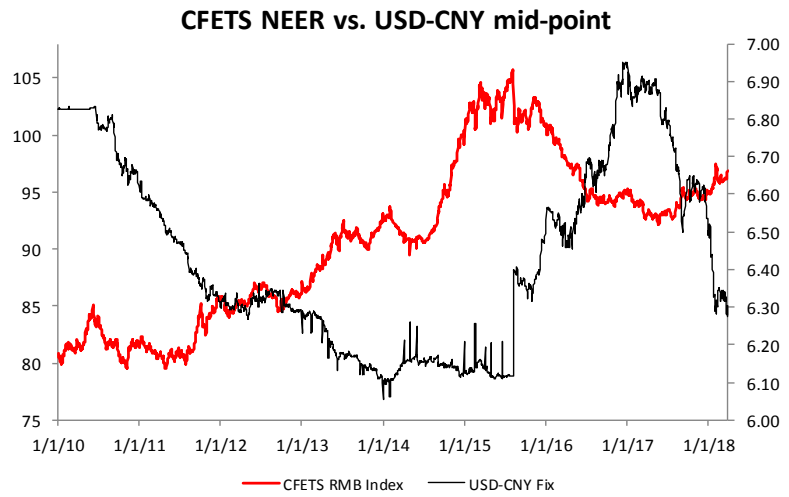
- In terms of Asian **net portfolio flows**, we continue to see resurgent bond inflows into South Korea. Meanwhile, the environment continues to improve for South Asia. Net bond outflows in Indonesia have reversed in rolling terms, and we are essentially back near the neutral zone. Bond inflows for Thailand also continue to build up smartly.
- Early week, the **ACI (Asian Currency Index)** may continue to be a touch heavy, on positive headlines from the Korean peninsula and improving inflow environment. Watch for a slew of Asian CPI releases this week. With the exception of the Philippines, inflation is not expected to run hot in the region. This may provide further confirmation that Asian central banks are not in a hurry to hike rates.
- **South Korea:** The KRW strengthened past the key 1060 level this morning on headlines over the warming of China – South Korea relations. Note however, that the Bank of Korea’s Lee continued to sound accommodative, citing uncertainties over the other countries’ path of monetary policy normalization and ongoing trade issues.
- **SGD NEER:** The SGD NEER is slightly firmer this morning at around +0.47% above its perceived parity (1.3165). The NEER-implied USD-SGD thresholds were lower on the day. A range between +0.30% (1.3125) to +0.60% (1.3086) may govern intra-day. The support at 1.3050 may be tested if the market continues to impute hawkish expectations for the upcoming April MPS.



	SGD NEER	% deviation	USD-SGD
Current	124.86	0.48	1.3101
+2.00%	126.74		1.2906
Parity	124.26		1.3165
-2.00%	121.77		1.3433

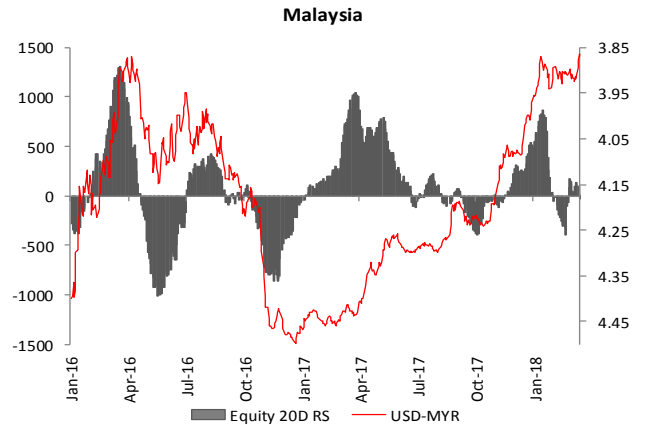
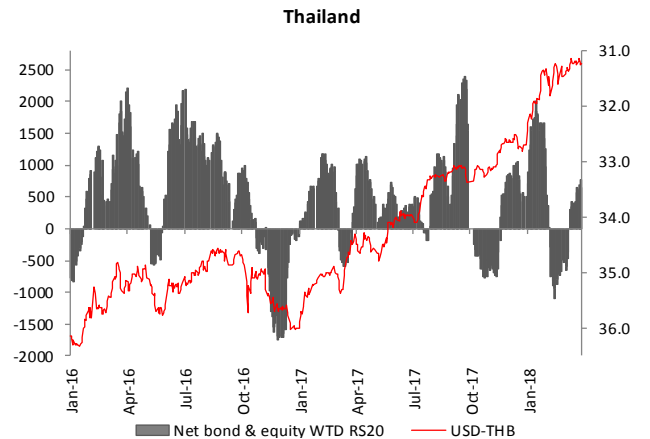
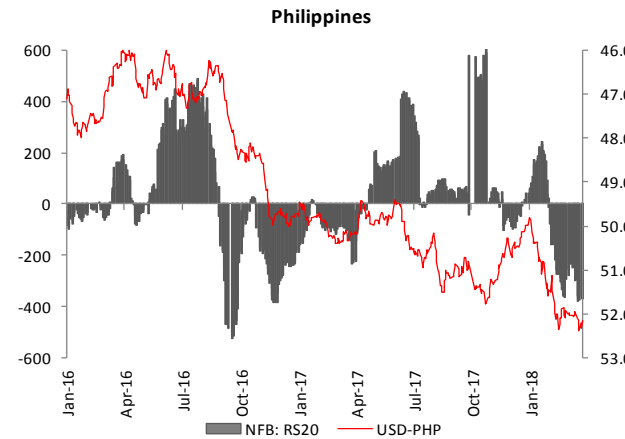
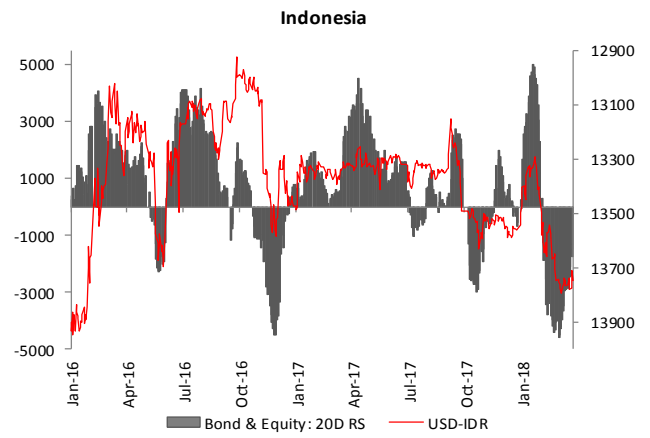
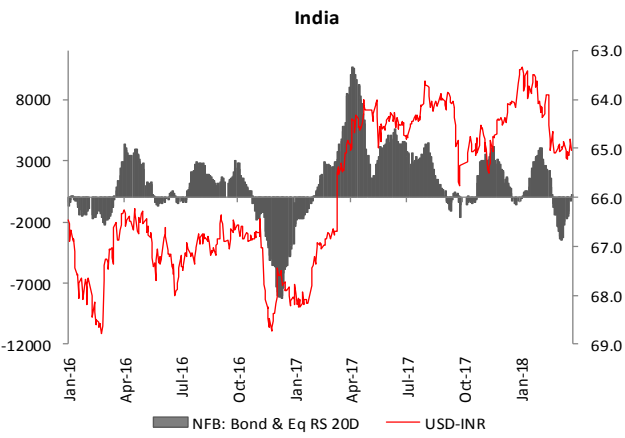
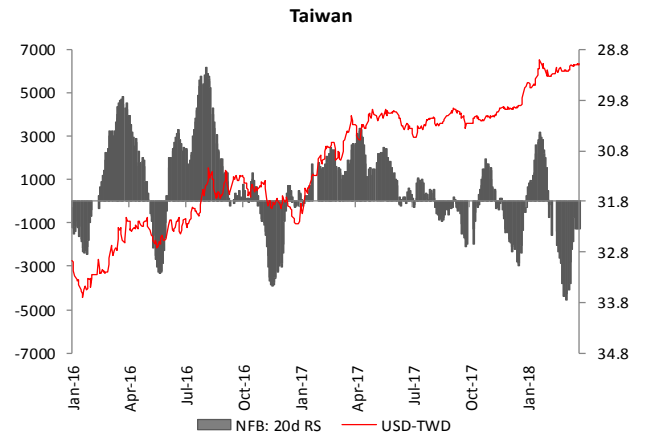
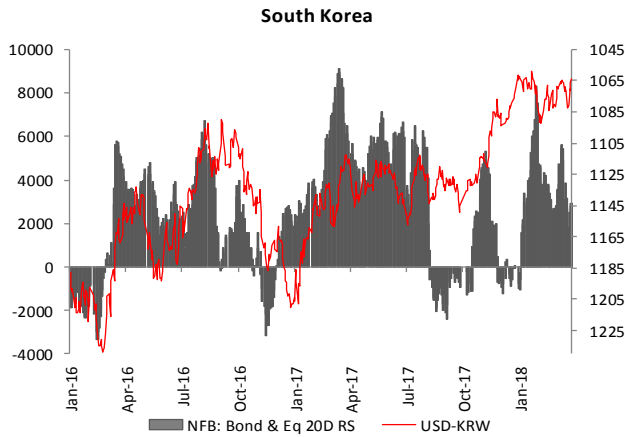
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fell (slightly less than expected) to 6.2764 from 6.2881 on Friday. This took the CFETS RMB Index lower to 96.82 from 96.72 on Wednesday. Meanwhile, China’s **official manufacturing PMI** reading came in stronger than expected at 51.5, highlighting positive growth momentum going forward.

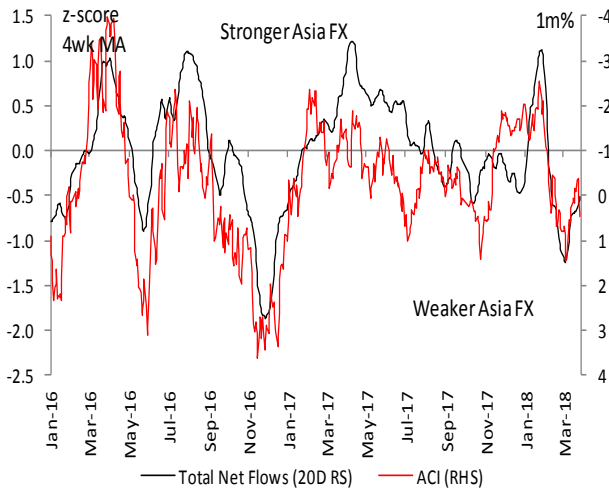


Source: OCBC Bank, Bloomberg

USD-Asia VS. Net Capital Flows

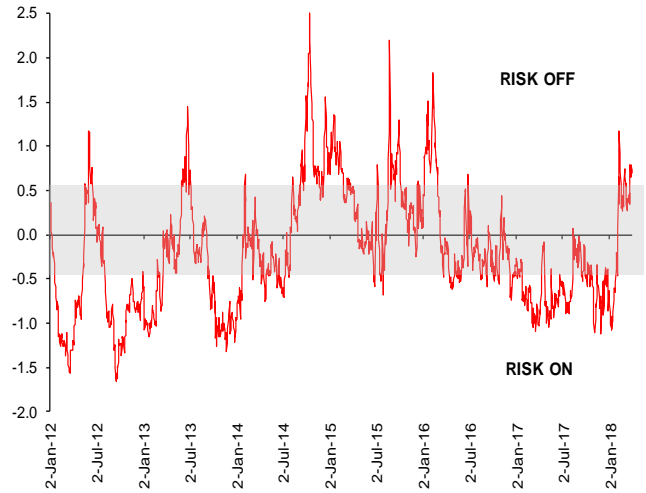


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	0.243	0.661	0.347	0.295	-0.408	0.628	-0.426	-0.254	-0.335	0.645	-0.923
SGD	0.742	0.366	0.650	0.141	0.062	-0.182	0.283	-0.318	0.037	-0.159	0.691	-0.779
CNY	0.661	0.341	1.000	0.380	0.241	-0.335	0.190	-0.620	-0.257	-0.439	0.936	-0.533
CNH	0.645	0.339	0.936	0.381	0.290	-0.405	0.153	-0.686	-0.248	-0.468	1.000	-0.549
JPY	0.628	0.381	0.190	0.646	0.406	-0.195	1.000	-0.367	-0.585	-0.513	0.153	-0.488
INR	0.455	0.059	0.464	-0.232	-0.163	-0.315	0.014	0.010	0.225	0.223	0.387	-0.471
THB	0.369	0.510	0.530	0.245	-0.281	0.157	0.274	-0.358	-0.154	-0.215	0.496	-0.257
MYR	0.351	0.432	0.642	0.306	0.431	-0.119	-0.050	-0.239	-0.164	-0.232	0.619	-0.399
TWD	0.340	0.409	0.618	0.601	0.108	-0.045	0.404	-0.743	-0.484	-0.656	0.556	-0.081
USGG10	0.243	1.000	0.341	0.645	0.262	0.162	0.381	-0.227	-0.600	-0.307	0.339	-0.157
CHF	0.162	-0.221	-0.098	-0.177	0.103	-0.416	0.031	0.226	0.013	0.171	-0.139	-0.162
CAD	0.081	-0.120	0.185	-0.055	0.170	-0.465	-0.215	-0.148	-0.045	-0.090	0.203	0.012
AUD	-0.073	0.414	0.143	0.790	0.435	0.095	0.336	-0.598	-0.714	-0.716	0.229	0.218
IDR	-0.103	-0.036	0.238	-0.196	-0.324	-0.241	-0.401	-0.164	0.093	0.010	0.239	0.230
KRW	-0.136	0.112	-0.038	-0.445	-0.630	0.416	-0.352	0.378	0.525	0.482	-0.109	-0.011
PHP	-0.483	-0.456	-0.585	-0.717	-0.367	0.170	-0.580	0.675	0.636	0.648	-0.501	0.266
NZD	-0.530	-0.048	-0.322	0.418	0.234	0.119	0.033	-0.336	-0.420	-0.464	-0.235	0.634
GBP	-0.651	-0.370	-0.735	-0.551	-0.142	0.325	-0.443	0.836	0.426	0.654	-0.752	0.455
EUR	-0.923	-0.157	-0.533	-0.154	-0.292	0.342	-0.488	0.186	0.040	0.115	-0.549	1.000

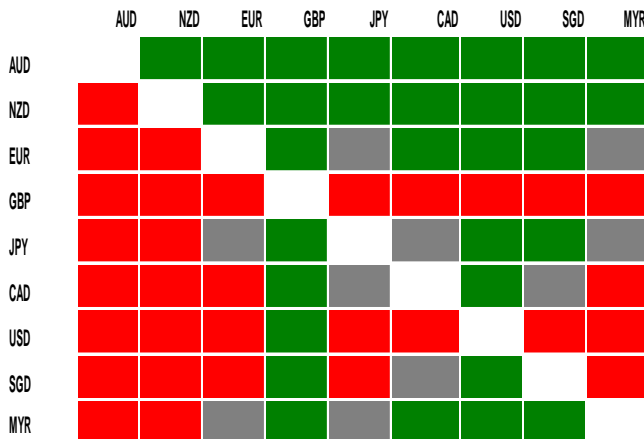
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2243	1.2300	1.2323	1.2341	1.2400
GBP-USD	1.3985	1.4000	1.4076	1.4100	1.4229
AUD-USD	0.7617	0.7643	0.7657	0.7700	0.7806
NZD-USD	0.7166	0.7178	0.7198	0.7200	0.7285
USD-CAD	1.2773	1.2900	1.2920	1.3000	1.3093
USD-JPY	104.99	106.00	106.64	107.00	107.16
USD-SGD	1.3079	1.3100	1.3118	1.3158	1.3197
EUR-SGD	1.6109	1.6133	1.6165	1.6200	1.6240
JPY-SGD	1.2252	1.2300	1.2302	1.2400	1.2525
GBP-SGD	1.8400	1.8405	1.8464	1.8500	1.8660
AUD-SGD	1.0010	1.0020	1.0044	1.0100	1.0334
Gold	1303.60	1304.71	1326.30	1331.70	1348.44
Silver	16.15	16.20	16.29	16.30	16.67
Crude	63.01	64.50	64.59	64.60	66.37

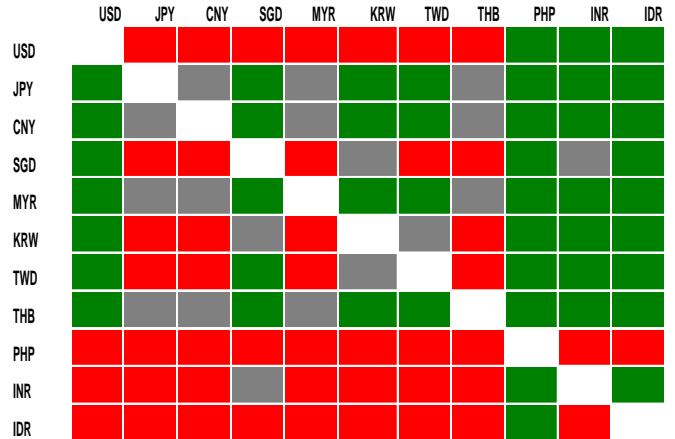
Source: OCBC Bank

G10 FX Heat Map



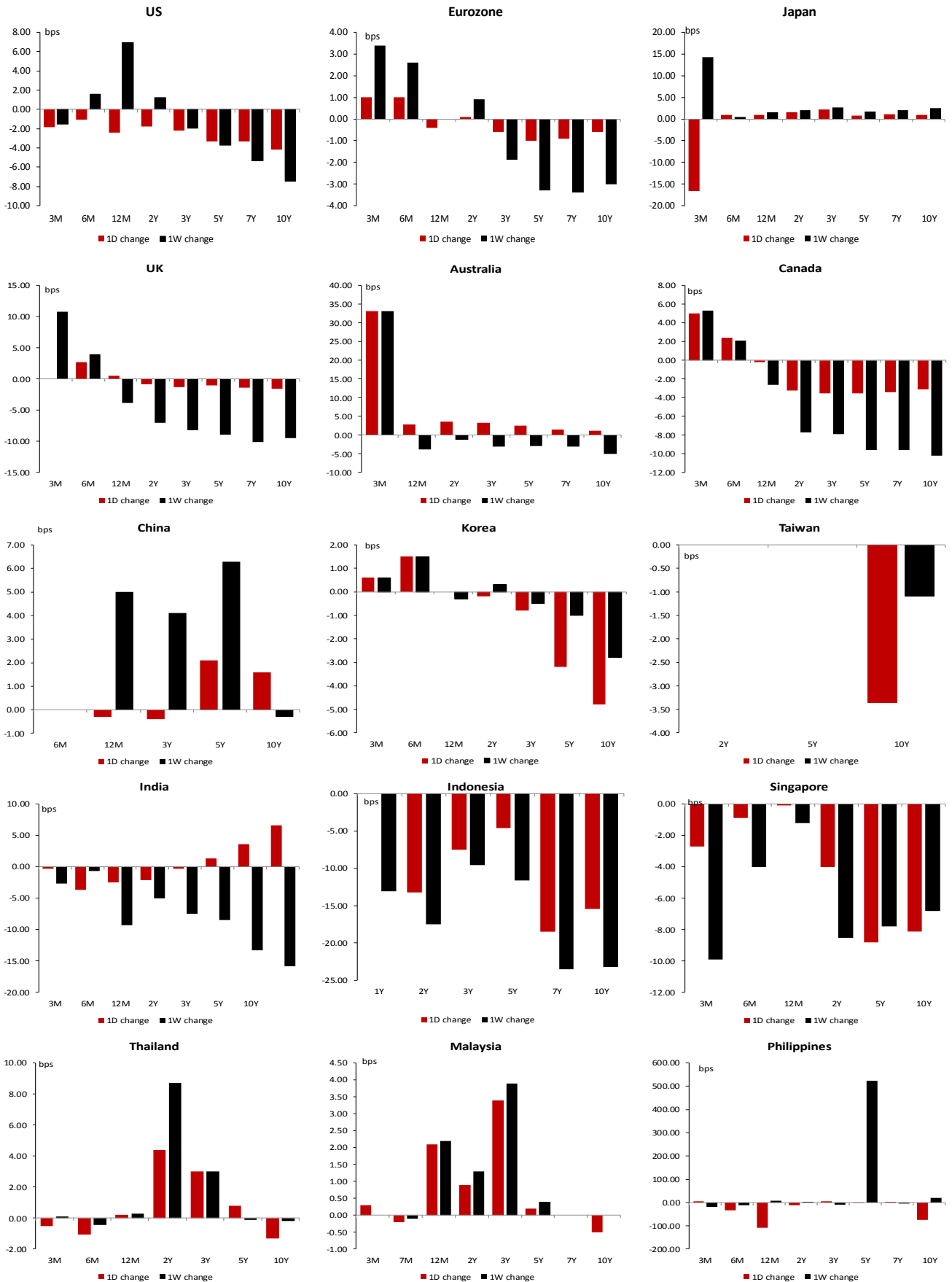
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
-	-	-	-	-	-	-	-	
STRUCTURAL								
1	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
2	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
3	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	09-Feb-18	15-Feb-18	B	USD-CAD	1.2600	1.2470	Softer crude and fragile appetite towards the cyclical	-1.03
2	22-Feb-18	09-Mar-18	B	USD-CAD	1.2696	1.2820	Post FOMC minutes, rising implied valuations for the pair	+0.99
3	06-Mar-18	12-Mar-18	S	AUD-USD	0.7765	0.7855	Non-hawkish RBA meeting outcome, vulnerability to USD resilience	-1.14
4	08-Mar-18	13-Mar-18	S	USD-JPY	106.00	106.85	White House policy uncertainty, risk aversion	-0.83

Source: OCBC Bank

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