

Friday, March 02, 2018

FX Themes/Strategy/Trading Ideas

- The dollar slid in late trade after news emerged that US President Trump would announce tariffs on imported steel and aluminum next week. US equities also weakened (joining EZ stocks) while USTs rallied (led by the belly). Overall, the DXY slumped back below 90.50.
- Elsewhere, the Fed's Powell stated that "There is no evidence the economy is overheating," and that nothing in the unemployment rate suggests that "...wage inflation is at a point of acceleration". The Fed's Dudley however did not rule out 4 rate hikes this year.
- On the data front, the Feb ISM came in at a firmer than expected 60.8, with the priced paid component and employment component also warmer than expected at 74.2 and 59.7 respectively. Meanwhile, Jan core PCE came in at an expected +0.3% mom.
- Today's calendar includes a speech by the ECB's Mersch (0810 GMT), while the BOE's Carney is due at 1000 GMT. The UK's PM May is also due to speak on Brexit, potentially keeping a rein on the GBP.
- In the coming days, markets are likely to be confronted with a raft of headline risk, continuing to keep markets in a flux. China's People's Political Consultative Conference kicks off on Saturday and runs till 15 Mar 18, alongside the ongoing National People's Congress which runs till 20 March 18. Elsewhere, for the CAD, Nafta talks run till 06 Mar 18 with the situation now complicated by the potential unveiling of US tariffs on steel and aluminum. For the EUR, weekend political risks may also abound, with Italian elections on Sunday while the German SDU members' ballot results (with respect to a coalition with the Merkel government) are also due.
- Trade protectionism concerns (especially if retaliatory moves ensue) are expected to continue to circulate in the coming session, with the initial kneejerk reaction to take the USD lower. A more insidious impact would be the negative hit on global trade flows, geopolitical tensions (especially if the EZ and China weigh in), and a resultant deterioration of investor sentiment. In such an environment, expect risk premiums to widen and EM/Asia to bear the brunt.

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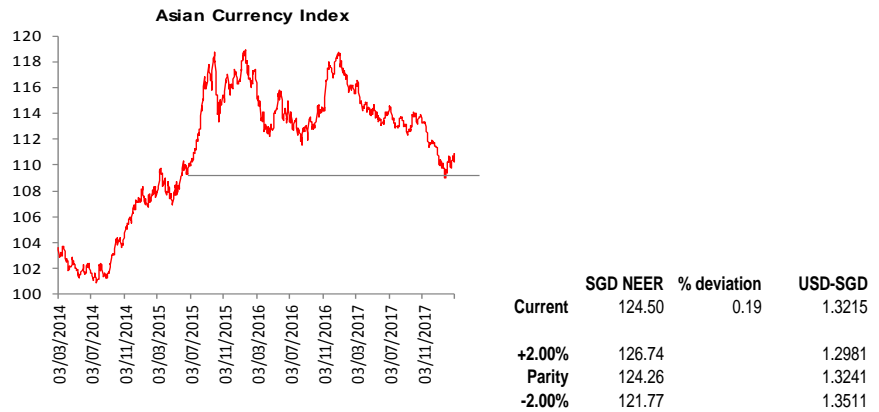
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Asian FX

- EM FX was mixed overnight but a sea of red in Asian equities this morning may deter significant downside for USD-Asia. With the net portfolio inflow

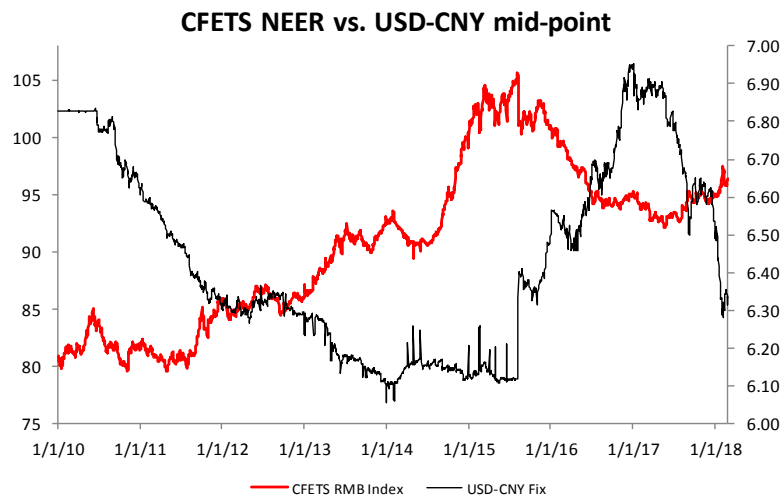
environment for Asia uninspiring, any heightened fears of a global trade war impinging on trade flows and global growth we think would prove deleterious for Asian FX. Note also that the **FXSI (FX Sentiment Index)** is now in Risk-Off territory. Overall, expect the **ACI (Asian Currency Index)** to continue to bounce higher into the end of the week.

- SGD NEER:** The February PMI is due alter today at 1300 GMT and in the interim, the SGD NEER is firmer on the day at around +0.20% above its perceived parity (1.3241). NEER-implied USD-SGD thresholds are softer this morning with the basket expected to be within parity and +0.30% (1.3202). Preference to collect into dips into the weekend with the 55-day MA (1.3252) seen capping for now.



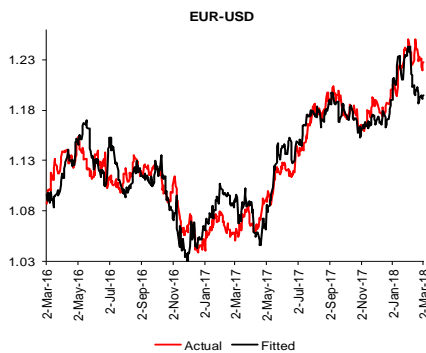
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point slipped (slightly less than expected) to 6.3334 this morning from 6.3352 yesterday. This had the effect of pulling the CFETS RMB Index lower to 96.27 from 96.43 yesterday. Markets remain cautious towards a potentially firmer USD tone with respect to the renminbi complex although a firmer basket this week may help to ally such fears.



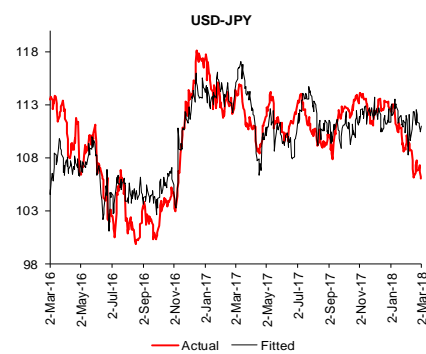
Source: OCBC Bank, Bloomberg

G7



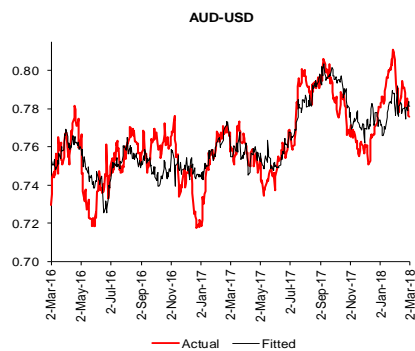
Source: OCBC Bank

- EUR-USD** A news wire on Thursday indicated that the ECB would likely discuss altering its language at the March Council meeting, although an actual change is not expected at this meeting. Short term implied valuations ticked higher for now and ahead of the weekend political headlines, the pair may remain hampered on the upside by 1.2335 up top and the 55-day MA (1.2194) down south.



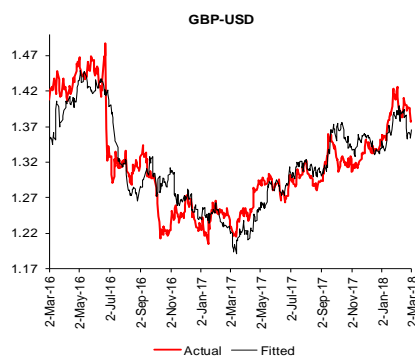
Source: OCBC Bank

- USD-JPY** The BOJ's Kuroda this morning remained steadfastly accommodative in his comments but dollar negativity may override in the near term. The floor at 106.00 remains at risk, with a break paving the way to 105.50 and 105.25 thereafter.



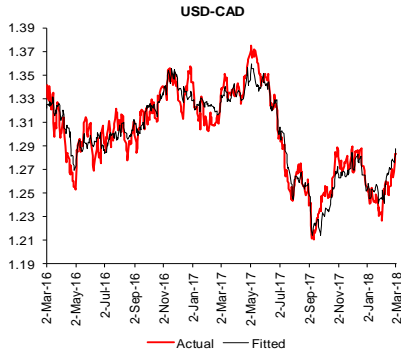
Source: OCBC Bank

- AUD-USD** AUD also lost ground across G10 space on Thursday and souring global investor appetite may be expected to keep its short term implied valuations top heavy. Note that a failure to re-take the 200-day MA (0.7787) risks a revisit of 0.7715.



Source: OCBC Bank

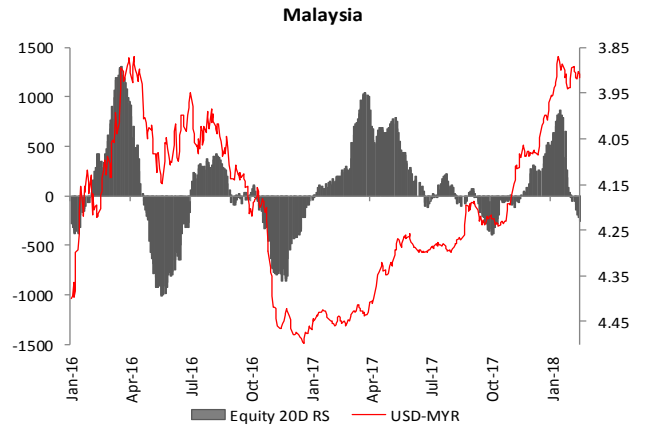
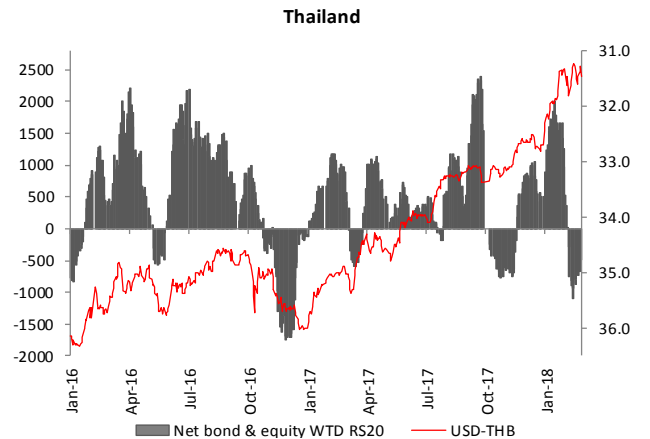
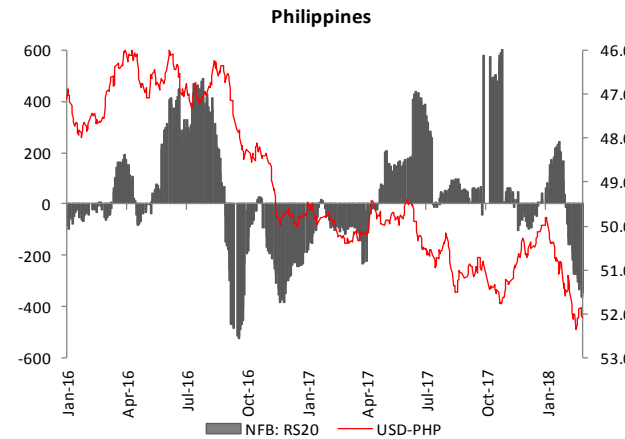
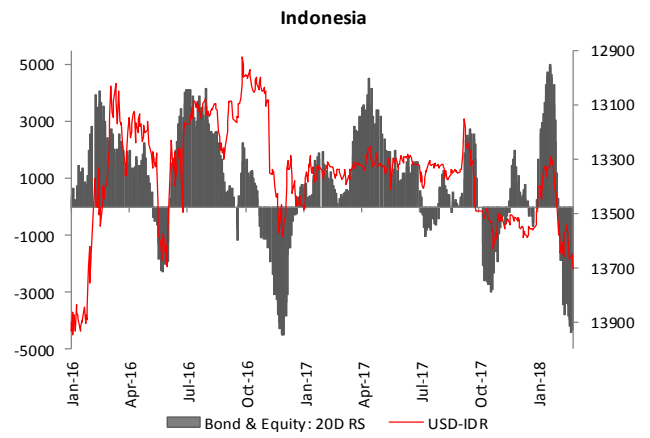
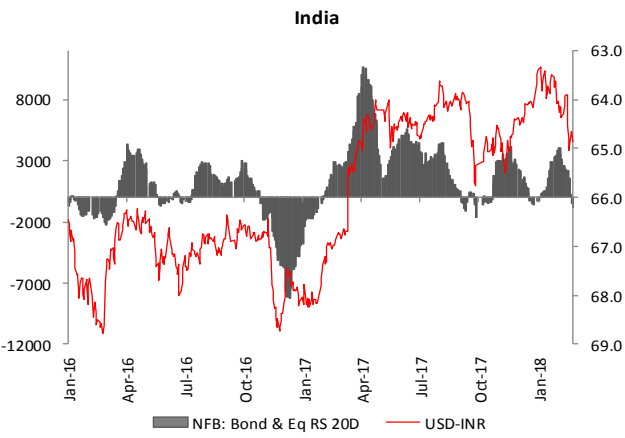
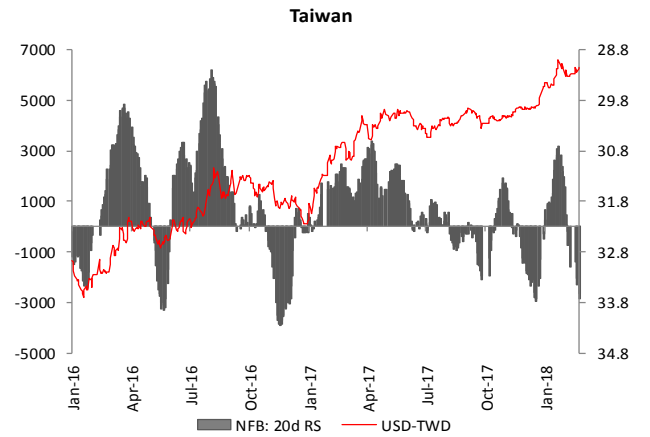
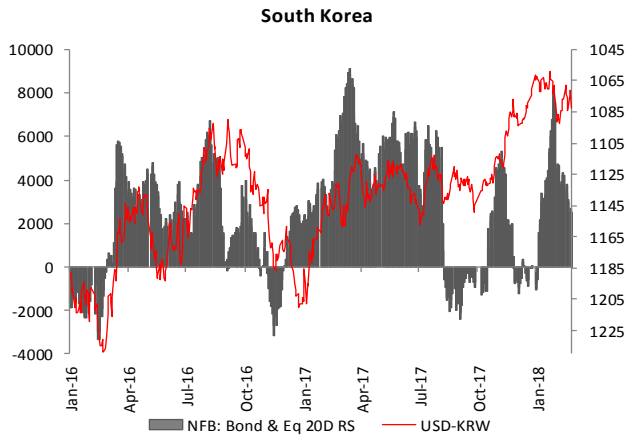
- GBP-USD** Ahead of PM May's speech later today, investors may choose to fade significant upticks with short term implied valuations relatively unmoved. In the interim, the 55-day MA (1.3791) and 1.3800 may continue to resist on the up side while 1.3700 should provide initial support.



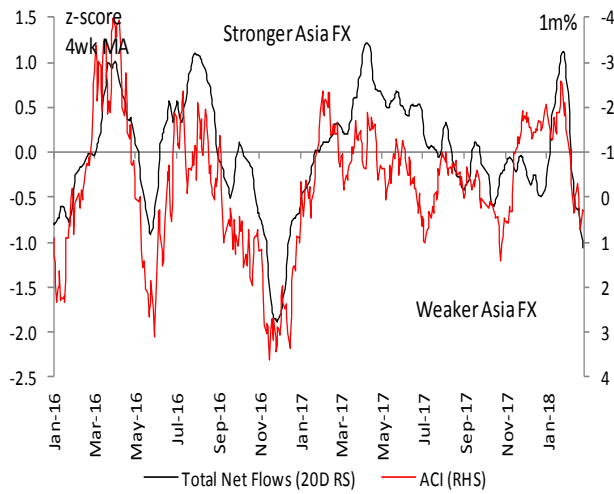
Source: OCBC Bank

- USD-CAD** The CAD underperformed across the board and a mixture of tariff and Nafta concerns may continue to keep the pair underpinned in the near term (in line with firmer short term implied valuations for the USD-CAD). We feel that there is much less relative ambiguity in this space, and prefer to collect on dips within 1.2800-1.2900.

USD-Asia VS. Net Capital Flows

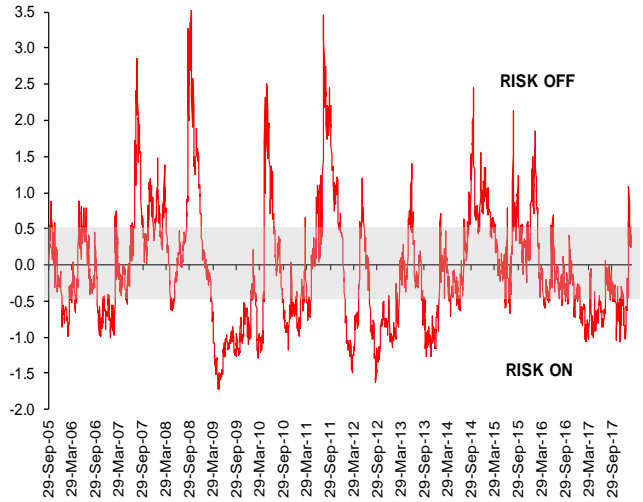


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	0.111	0.261	-0.547	-0.434	-0.438	-0.011	-0.441	0.385	0.371	0.655	-0.978
CHF	0.940	0.013	0.119	-0.363	-0.313	-0.298	0.009	-0.321	0.265	0.220	0.591	-0.905
SGD	0.892	0.017	0.158	-0.752	-0.486	-0.511	0.191	-0.450	0.623	0.288	0.730	-0.847
CAD	0.760	0.383	0.601	-0.377	-0.315	-0.252	-0.614	-0.425	0.123	0.604	0.654	-0.797
IDR	0.697	0.525	0.754	-0.440	-0.514	-0.448	-0.682	-0.612	0.105	0.820	0.551	-0.701
INR	0.683	0.483	0.666	-0.165	-0.165	-0.067	-0.552	-0.243	-0.091	0.538	0.573	-0.701
CNH	0.655	0.160	0.652	-0.543	-0.271	-0.331	-0.198	-0.411	0.249	0.359	1.000	-0.677
MYR	0.583	-0.115	0.450	-0.643	-0.734	-0.778	0.032	-0.783	0.314	0.599	0.403	-0.515
THB	0.570	-0.034	0.154	-0.845	-0.657	-0.642	0.378	-0.500	0.716	0.280	0.546	-0.481
KRW	0.478	-0.132	-0.016	-0.810	-0.623	-0.583	0.313	-0.458	0.829	0.226	0.196	-0.367
TWD	0.438	0.152	0.366	-0.833	-0.874	-0.797	-0.084	-0.738	0.672	0.653	0.291	-0.343
CNY	0.261	0.554	1.000	-0.237	-0.245	-0.247	-0.816	-0.458	-0.182	0.721	0.652	-0.267
USGG10	0.111	1.000	0.554	-0.074	-0.350	-0.255	-0.515	-0.372	-0.306	0.663	0.160	-0.120
JPY	-0.011	-0.515	-0.816	-0.044	0.126	0.085	1.000	0.359	0.341	-0.644	-0.198	0.158
PHP	-0.061	0.662	0.795	0.102	-0.056	-0.039	-0.824	-0.269	-0.401	0.594	0.173	-0.006
GBP	-0.877	-0.180	-0.415	0.706	0.662	0.631	0.316	0.678	-0.503	-0.615	-0.606	0.852
AUD	-0.877	-0.311	-0.462	0.642	0.497	0.442	0.356	0.522	-0.408	-0.571	-0.720	0.881
NZD	-0.891	0.149	-0.131	0.578	0.312	0.372	-0.130	0.332	-0.514	-0.183	-0.643	0.848
EUR	-0.978	-0.120	-0.267	0.503	0.399	0.387	0.158	0.424	-0.341	-0.381	-0.677	1.000

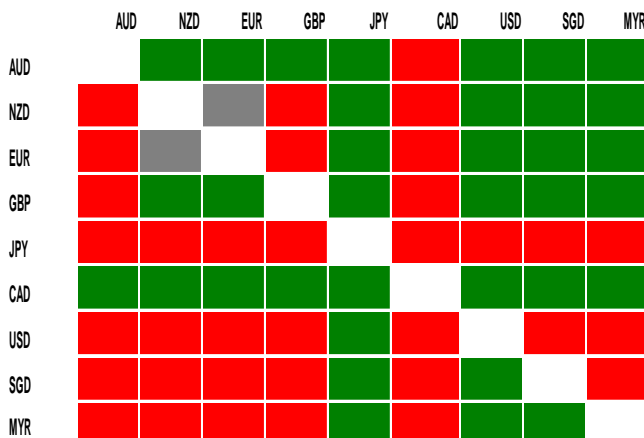
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2226	1.2275	1.2300	1.2473
GBP-USD	1.3712	1.3743	1.3780	1.3800	1.3826
AUD-USD	0.7713	0.7730	0.7757	0.7783	0.7800
NZD-USD	0.7200	0.7250	0.7269	0.7300	0.7409
USD-CAD	1.2682	1.2800	1.2834	1.2856	1.2895
USD-JPY	105.55	106.00	106.04	107.00	107.30
USD-SGD	1.3088	1.3200	1.3221	1.3222	1.3300
EUR-SGD	1.6165	1.6200	1.6229	1.6300	1.6378
JPY-SGD	1.2155	1.2400	1.2469	1.2482	1.2495
GBP-SGD	1.8200	1.8216	1.8219	1.8283	1.8300
AUD-SGD	1.0237	1.0254	1.0256	1.0300	1.0430
Gold	1302.10	1303.60	1317.40	1325.00	1356.75
Silver	16.11	16.30	16.40	16.40	16.81
Crude	58.49	60.90	60.96	61.00	62.20

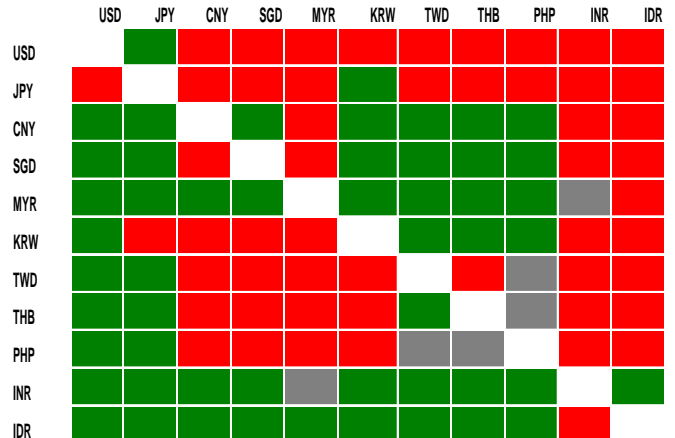
Source: OCBC Bank

G10 FX Heat Map



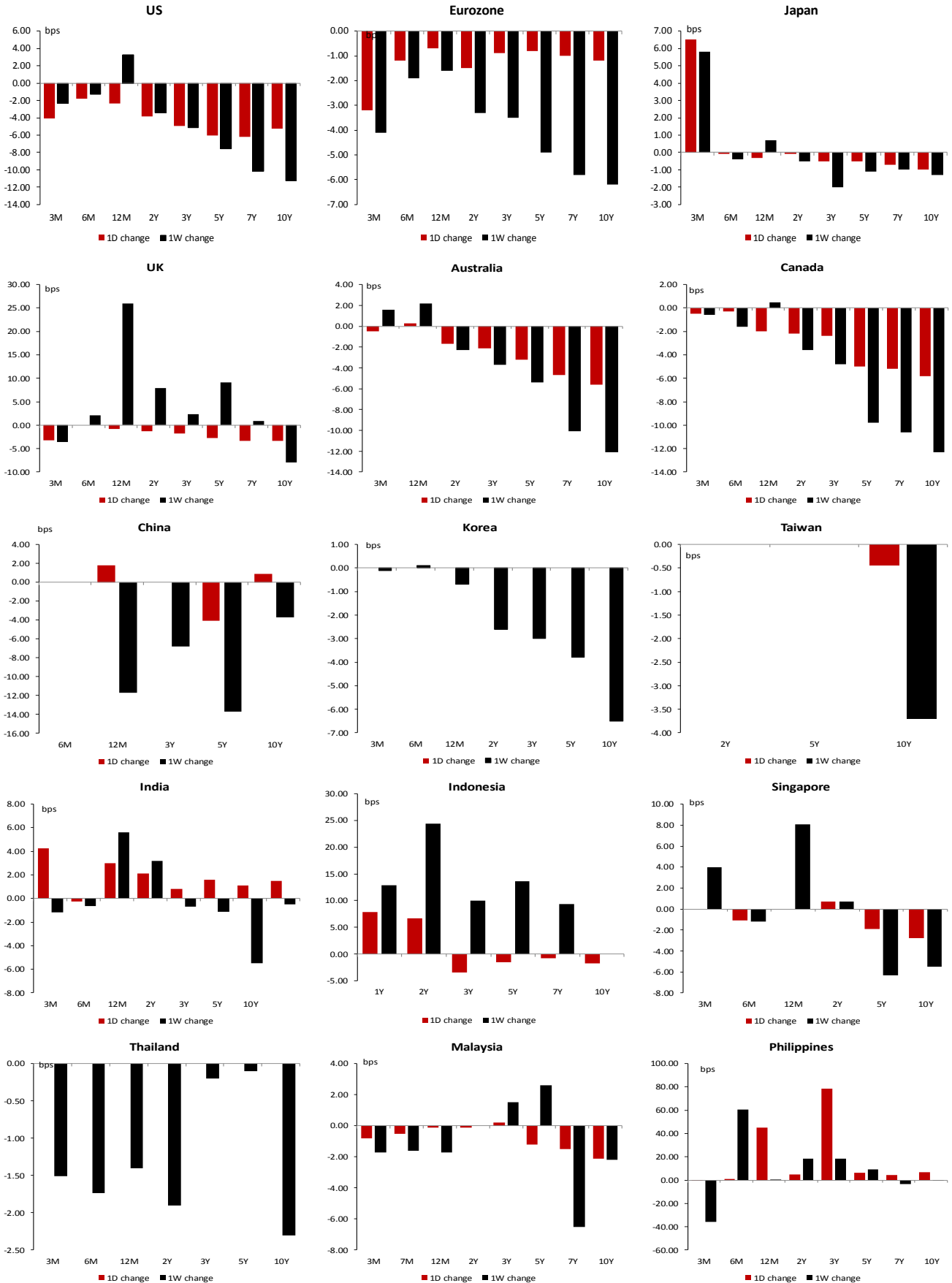
Source: OCBC Bank

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								
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 impute Brexit talks in December. Prevailing USD weakness.	+5.56
2	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heavy 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 political 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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