

Friday, May 04, 2018

**FX Themes/Strategy/Trading Ideas**

- A day of consolidation post-FOMC as the majors received a reprieve from the USD on Thursday and with the UST curve also softening (belly outperforming). On the US data front, March durable goods orders came in slightly on the softer side of expectations, the April non-manufacturing ISM disappointed, although March factory orders outdid expectations. Negative EZ/US equities saw the **FXSI (FX Sentiment Index)** ticking higher (slight deterioration in risk appetite) but remaining within Risk-Neutral territory.
- Overall, the **DXY** was not unduly damaged on Thursday and traded on both sides of 92.50. In the interim, key technical levels will continue to be monitored (our ongoing strategy) ahead of the slew of headlines today.
- Today's NFP (1230 GMT) will be the data highlight of the day, although market interest will likely be pinned on the average hourly earnings numbers instead of the headline number.
- On the central bank front, look to the Fed's Dudley (1645 GMT), Williams (1900 GMT), and Quarles (2130) for any attempt to underscore the message from the latest FOMC statement (i.e., "symmetric"). Elsewhere, the ECB's Constancio (0745 GMT) and Weidmann (1300 GMT) are also on tap, while in Asia, look also to the RBA's Statement on Monetary Policy (0130 GMT).
- On the data front, the China Caixin composite/services PMIs (0145 GMT) and India's services/composite PMIs (0500 GMT) may provide some distraction, although of ensuing headlines from US-Sino trade talks in Beijing may hog the screens instead.

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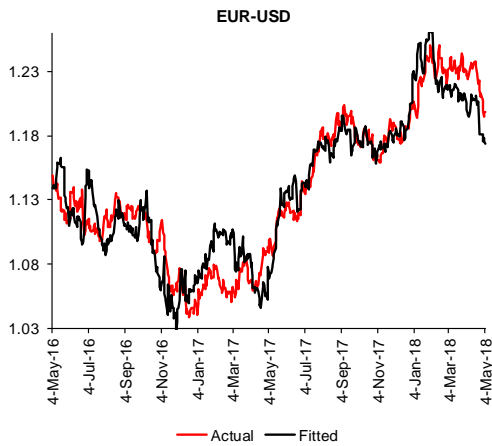
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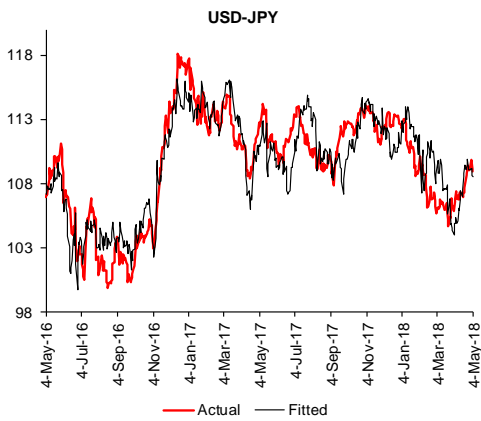
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**G7**



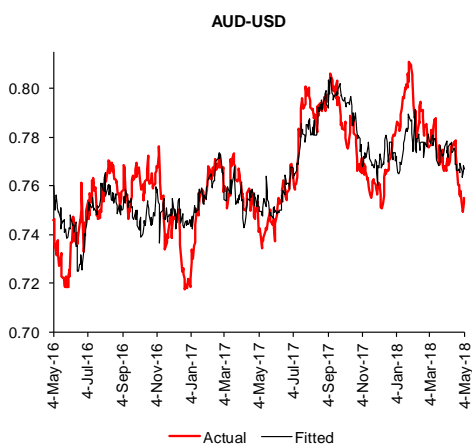
- **EUR-USD** EZ April CPI readings were on the softer side of prior expectations on Thursday and investors may remain slightly cautious ahead of the string of ECB appearances today. However, note that short term implied valuations continue to decay, diluting prospects of a sustained breach of the 200-day MA (1.2018).

Source: OCBC Bank



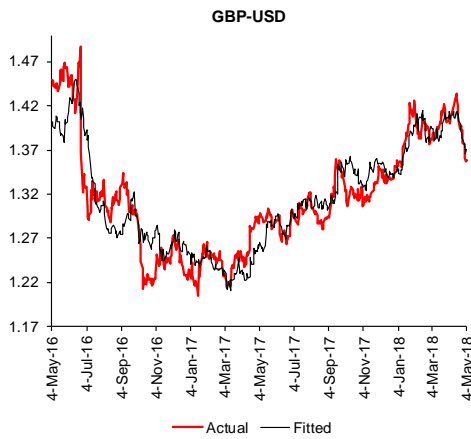
- **USD-JPY** USD-JPY may hesitate on the upside intra-day within its 100-day MA (108.72) and the 200-day MA (110.22), with short term implied valuations for the pair also stalling slightly at this juncture.

Source: OCBC Bank

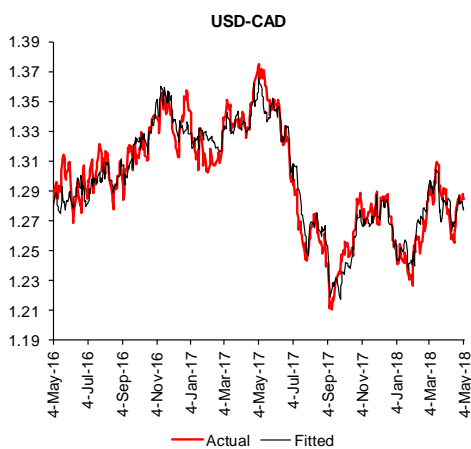


- **AUD-USD** The RBA this morning hiked its core inflation projection for 2018 (but also revised higher its unemployment rate projection), granting the AUD-USD a near term lift. Its policy posture however remained resolutely neutral and investors may continue fade excessive upticks despite the pair still looking stretched to the downside.

Source: OCBC Bank



- **GBP-USD** GBP underperformed across the board on the back of disappointing April services/composite PMIs on Thursday, trapping cable in a narrow range. Short term implied valuations for the pair show little inclination to rebound and the 200-day MA (1.3540) may remain under threat multi-session.



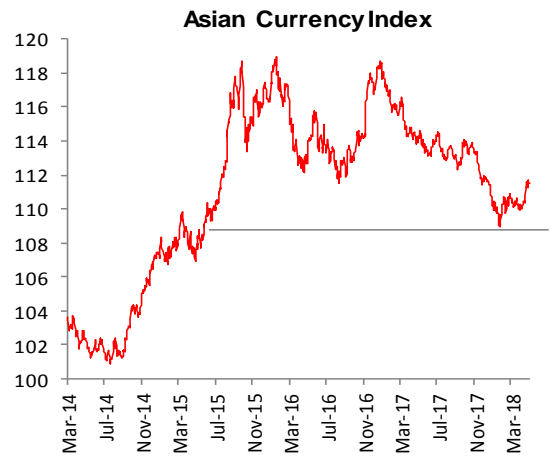
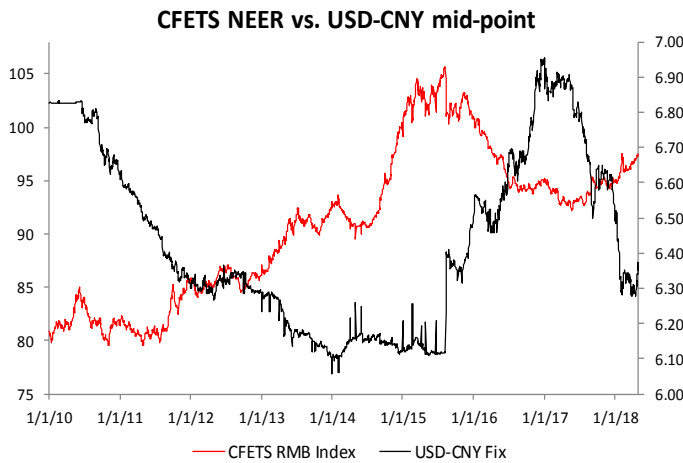
- **USD-CAD** With rate expectations towards the BOC diffused, USD-CAD may continue to base build off its 55-day MA (1.2813) in the current USD environment, with short term implied valuations for the pair still attempting to grind higher.

Source: OCBC Bank

## Asian FX

- Asian FX may only derive limited and varying degrees of freedom in terms of benefitting from the broad USD pullback, given how the net portfolio inflow (outflow) balance has continued to stack up. Outside of the responsiveness of the CNH and the SGD, look to also favor the KRW and the PHP, at the expense of the INR, IDR, THB, and TWD. Overall, the **ACI (Asian Currency Index)** is likely to consolidate slightly lower ahead of the US NFP.
- **Indonesia:** The government may be reviewing its bond issuance schedule, amidst the selloff pressure in government bonds in the past week. The last two bond auctions failed to meet target, with the latest sukuk auction raising only 20% of the targeted amount. Watch for investor reception in the 8 May auction targeting IDR17tn.
- **Philippines:** Price pressures continued to accelerate, moving further from the top end of the BSP's tolerance band. While the inflationary pressures are still regarded as cost-push and temporary in nature, Governor Espenilla has also noted that the pressures are spreading, and that the latest inflation reading will be considered in the policy meeting on 10 May. We think the BSP may be relenting, and laying the groundwork for a rate hike next week.

- SGD NEER:** In reaction to the stalling DXY, the SGD NEER is again firmer relative to its perceived parity (1.3368) at around +0.48%. NEER-implied USD-SGD thresholds are softer on the day and the NEER is expected to hold in a +0.30% (1.3329) and +0.60% (1.3289) range at this juncture. Expect support for the USD-SGD to kick in towards 1.3260/70.
- CFETS RMB Index:** This morning, the USD-CNY mid-point printed a largely expected 6.3521 from 6.3732 yesterday. This served to temper the appreciation of the CFETS RMB Index to 97.52 from 97.46 on Thursday, with the mid-points still functioning as a shock absorber (as opposed to the basket).



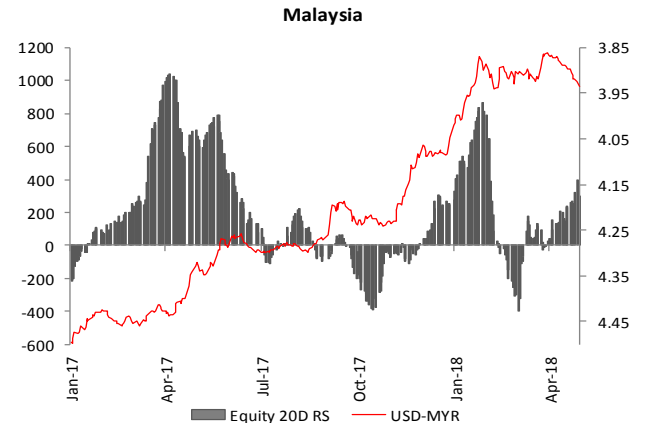
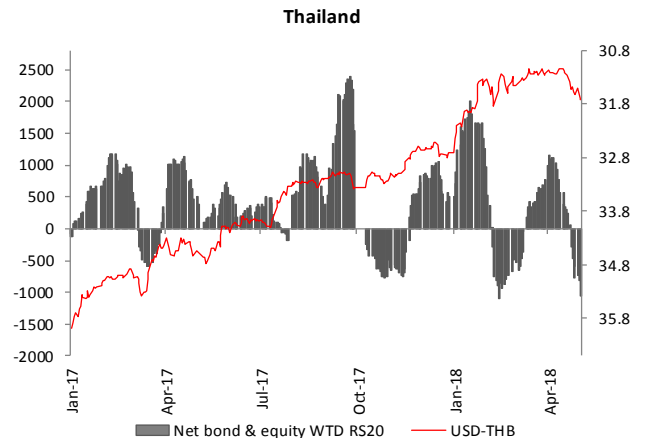
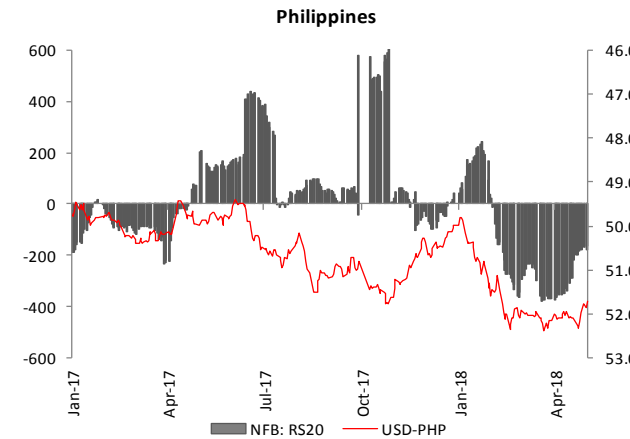
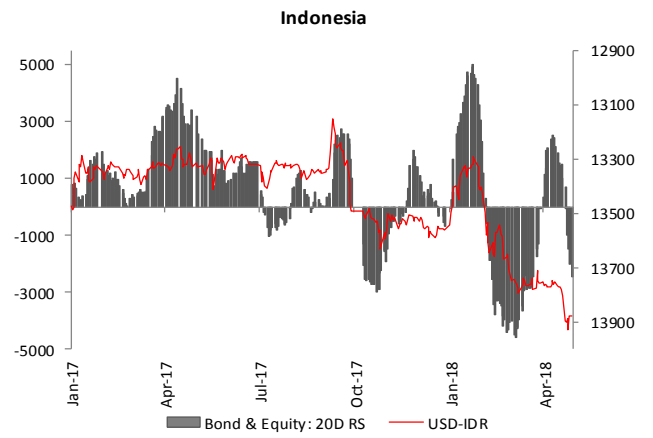
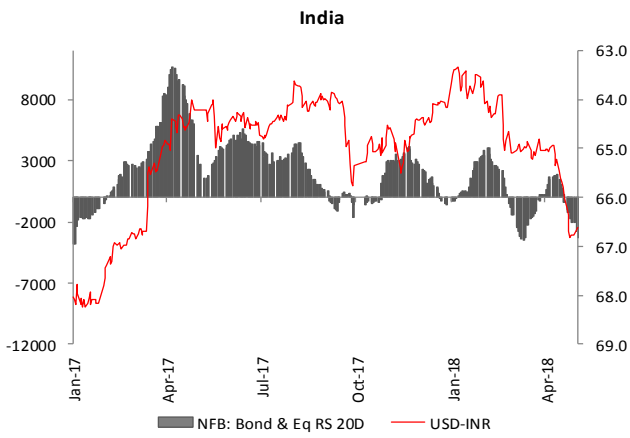
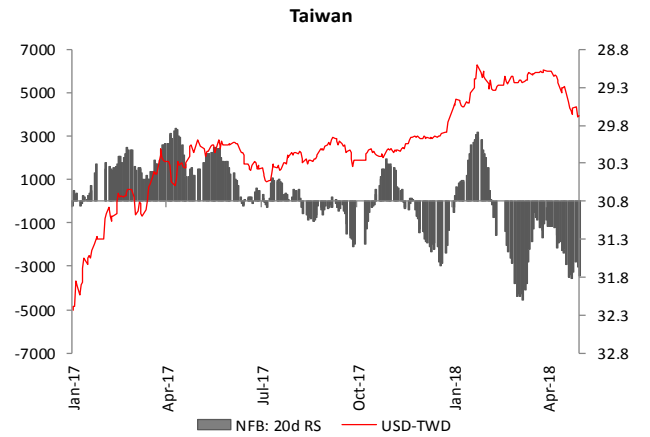
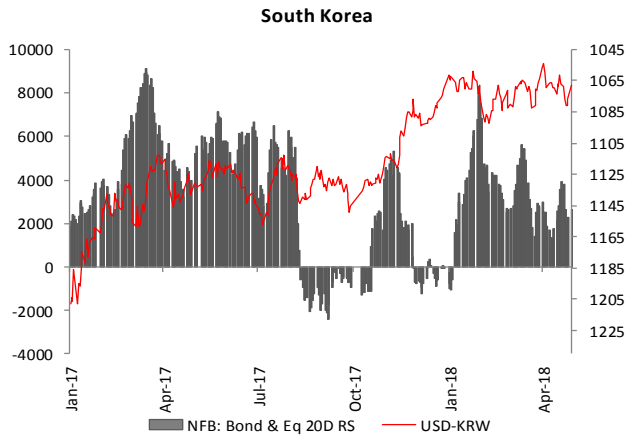
Source: OCBC Bank, Bloomberg

### **Short term Asian FX views**

<b>Currency</b>	<b>Bias</b>	<b>Rationale</b>
<b>USD-CNH</b>	↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
<b>USD-KRW</b>	↔/↑	Easing tensions with the North, net portfolio inflow momentum recovering, inflation/current account surplus projection downgraded, BOK expected to remain neutral
<b>USD-TWD</b>	↑	Net equity outflows attempting to compress, new CBC governor non-hawkish
<b>USD-INR</b>	↑	RBI minutes more hawkish than expected, India placed on US Treasury's watchlist, net portfolio outflows stabilizing, less aggressive fiscal borrowing plans, wider than expected March trade deficit, warmer than expected March CPI, higher crude imposing drag on INR and govies
<b>USD-SGD</b>	↑	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY
<b>USD-MYR</b>	↑	BNM remains accommodative; country on election watch (09 May 18)
<b>USD-IDR</b>	↑	Rating upgrade from Moodys to Baa2, BI containing IDR volatility, may use rate hikes to support the IDR; fundamentals intact, net portfolio outflows deepening, carry strategy under reassessment
<b>USD-THB</b>	↑	BOT remains accommodative, net portfolio outflow balance, inflation inching higher back into BOT's target range.
<b>USD-PHP</b>	↔/↓	Net equity outflows narrowing, BSP downplaying rate hike expectations but remains vigilant towards inflation risks (markets unconvinced), note surprise contraction in Feb exports

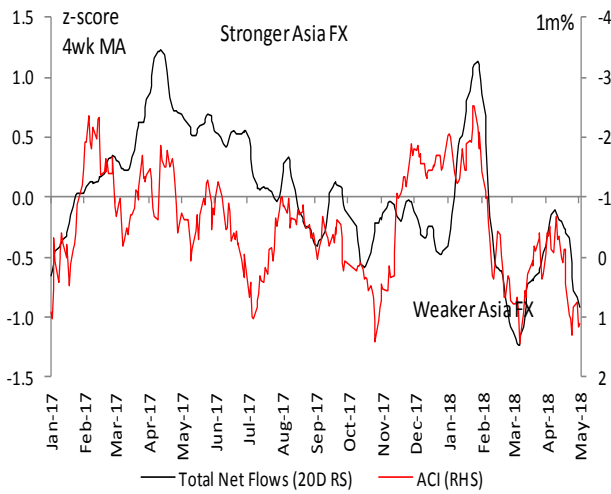
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



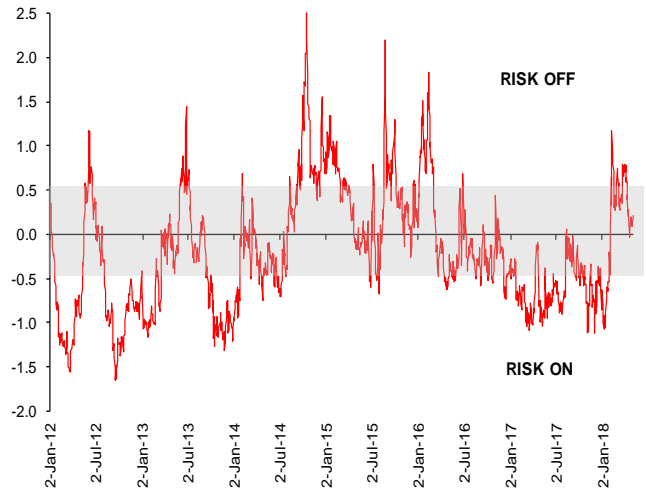
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	0.740	0.953	-0.200	0.211	0.363	0.929	0.381	-0.439	-0.358	0.917	-0.994
SGD	0.970	0.808	0.931	-0.174	0.181	0.415	0.958	0.432	-0.466	-0.407	0.928	-0.963
THB	0.957	0.819	0.942	-0.162	0.147	0.516	0.959	0.533	-0.526	-0.530	0.929	-0.937
CNY	0.953	0.664	1.000	-0.326	-0.184	0.176	0.851	0.221	-0.229	-0.164	0.960	-0.963
CHF	0.940	0.884	0.841	0.098	0.366	0.652	0.965	0.638	-0.698	-0.637	0.833	-0.912
JPY	0.929	0.893	0.851	-0.008	0.334	0.604	1.000	0.615	-0.597	-0.563	0.830	-0.904
CNH	0.917	0.583	0.960	-0.323	0.107	0.214	0.830	0.217	-0.269	-0.264	1.000	-0.933
IDR	0.898	0.916	0.849	-0.066	0.183	0.567	0.947	0.611	-0.519	-0.494	0.768	-0.852
MYR	0.865	0.868	0.776	0.167	0.377	0.745	0.933	0.711	-0.734	-0.744	0.778	-0.829
TWD	0.861	0.901	0.814	0.042	-0.055	0.657	0.953	0.673	-0.652	-0.630	0.798	-0.830
CAD	0.854	0.658	0.845	-0.414	-0.173	0.066	0.749	0.148	-0.141	-0.027	0.762	-0.841
INR	0.774	0.952	0.744	0.209	0.185	0.721	0.921	0.759	-0.680	-0.641	0.628	-0.700
USGG10	0.740	1.000	0.664	0.199	0.277	0.725	0.893	0.765	-0.682	-0.617	0.583	-0.673
KRW	0.539	0.648	0.573	0.038	0.180	0.561	0.743	0.537	-0.430	-0.555	0.591	-0.521
PHP	-0.101	0.321	0.143	0.048	-0.528	-0.077	0.060	-0.016	0.065	0.151	-0.071	0.147
NZD	-0.965	-0.834	-0.904	0.185	-0.174	-0.425	-0.942	-0.446	0.456	0.407	-0.867	0.942
GBP	-0.977	-0.683	-0.905	0.250	-0.233	-0.299	-0.869	-0.323	0.349	0.268	-0.895	0.968
AUD	-0.977	-0.758	-0.946	0.303	-0.140	-0.313	-0.923	-0.346	0.344	0.296	-0.899	0.967
EUR	-0.994	-0.673	-0.963	0.256	-0.178	-0.293	-0.904	-0.314	0.379	0.301	-0.933	1.000

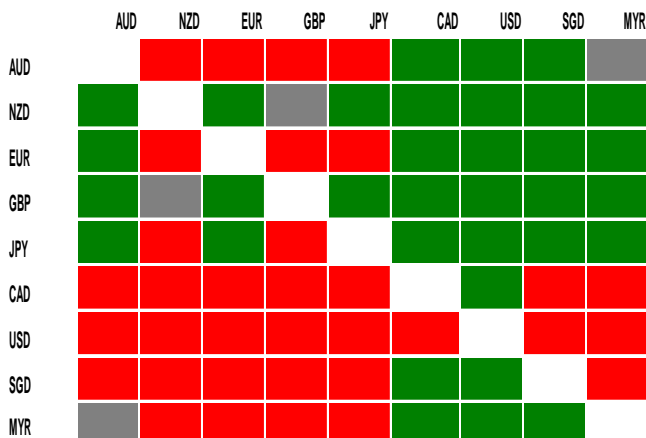
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1917	1.1938	1.1992	1.2000	1.2016
GBP-USD	1.3535	1.3538	1.3581	1.3600	1.3974
AUD-USD	0.7473	0.7500	0.7552	0.7600	0.7707
NZD-USD	0.6985	0.7000	0.7033	0.7100	0.7161
USD-CAD	1.2800	1.2827	1.2846	1.2900	1.2944
USD-JPY	107.04	108.00	108.97	109.00	110.04
USD-SGD	1.3164	1.3300	1.3302	1.3371	1.3400
EUR-SGD	1.5927	1.5934	1.5951	1.6000	1.6071
JPY-SGD	1.2142	1.2200	1.2207	1.2282	1.2299
GBP-SGD	1.8004	1.8050	1.8065	1.8100	1.8102
AUD-SGD	0.9971	1.0000	1.0045	1.0100	1.0147
Gold	1302.30	1310.33	1314.00	1329.81	1363.93
Silver	16.00	16.40	16.41	16.50	16.51
Crude	64.97	68.40	68.42	68.50	69.58

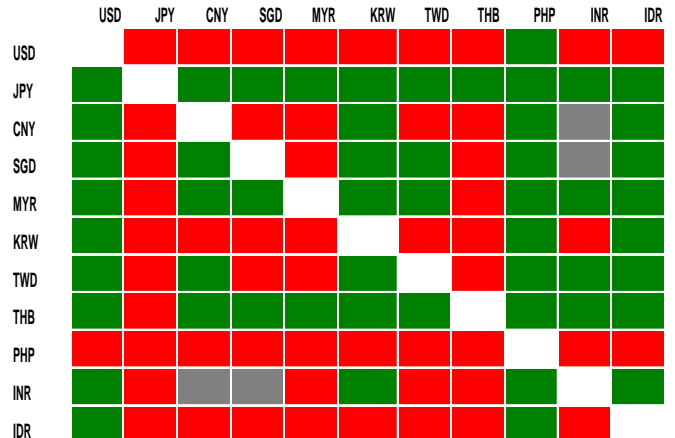
Source: OCBC Bank

### G10 FX Heat Map



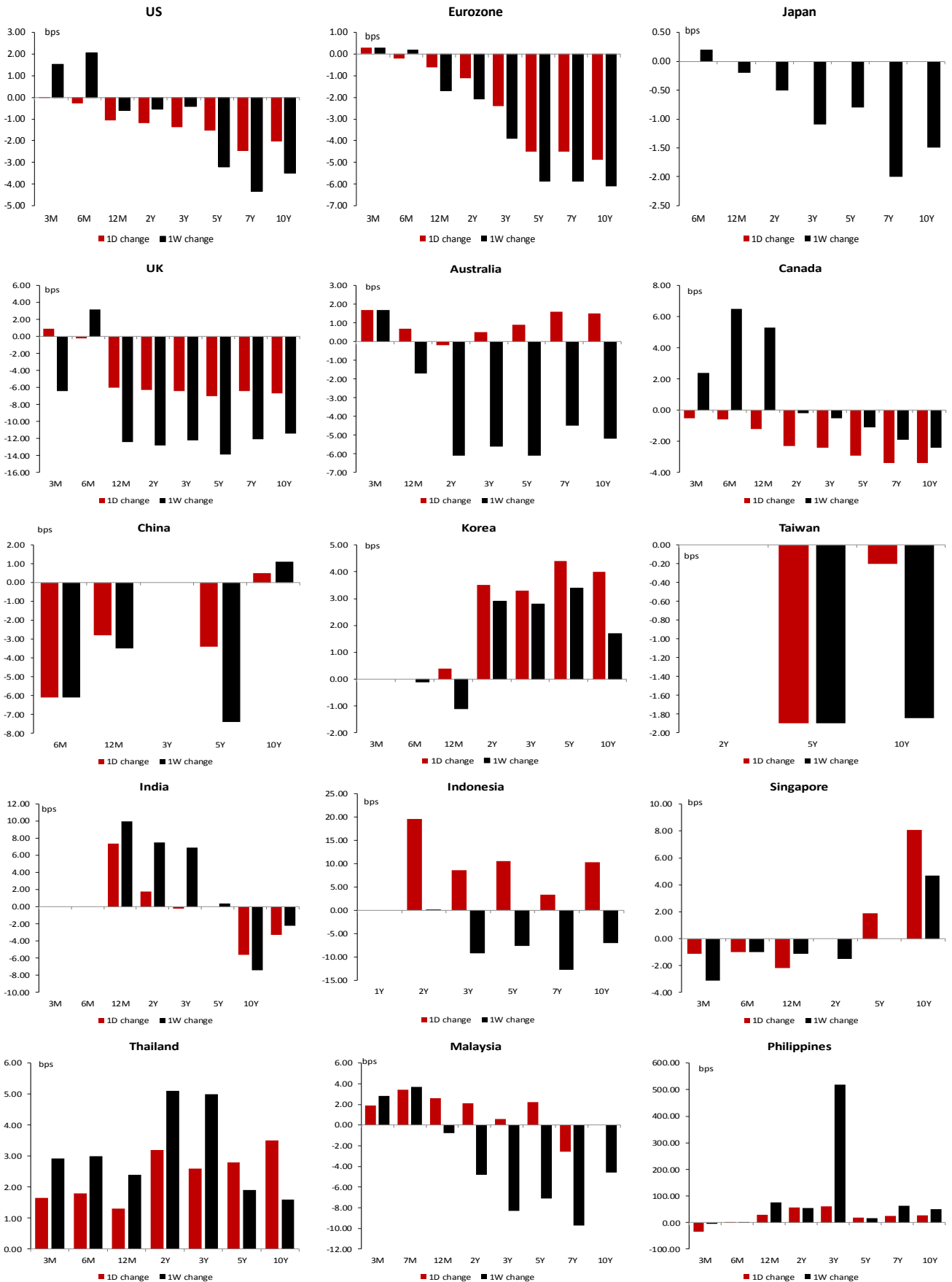
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes





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