

Friday, April 06, 2018

FX Themes/Strategy/Trading Ideas

- The greenback clawed higher across G10 space on Thursday as perceived trade tensions moderated. Early Friday in Asia however, risk appetite soured once again as US President Trump revealed that he had instructed the USTR to consider a further USD100bn of tariffs on China under Section 301.
- This latest statement unravels attempts by the USTR Lighthizer and WH economic advisor Kudlow to assuage markets in recent sessions and may switch the market back to a risk-off environment ahead of the US NFP (1230 GMT; mkts: +193k), Powell (1730 GMT), and Williams (2000 GMT) later today. In the interim, after dipping on Thursday, expect the **FXSI (FX Sentiment Index)** to bounce today and head deeper into **Risk-Off** territory.
- Regarding Powell, investors will be on the lookout for any cautionary comments regarding potential deleterious impacts from trade war tensions on the macro outlook, thereby impinging on Fed rate hike prospects. Note that this would be a change from previous months, when Fed officials were highlighting the potential positive impacts of tax reform.
- Elsewhere, the ECB's Coeure is due at 0730 GMT, the BOE's Carney at 1515 GMT, and expect central bank and geopolitical headlines to finally hog headline space after a relatively quiet mid-week.
- Overall, expect a tinge of risk aversion to linger intra-day ahead of the potential headline risks, although implied pricing continues to denote a market increasingly immune to trade war headlines at this juncture.
- In this environment, expect the JPY to remain underpinned, with the antipodeans still seen relatively more vulnerable to any further curdling of risk appetite levels. Meanwhile, given the slightly more supported postures of the BOE and the ECB, the GBP and the EUR (to a lesser extent) may instead look to edge higher on trade-war induced dollar weakness within G10. In the interim, watch the equity futures and the TY for immediate cues.

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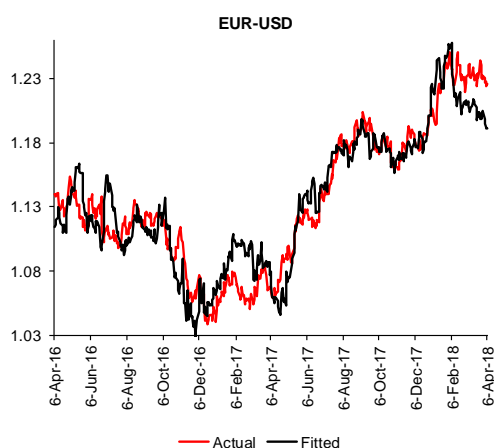
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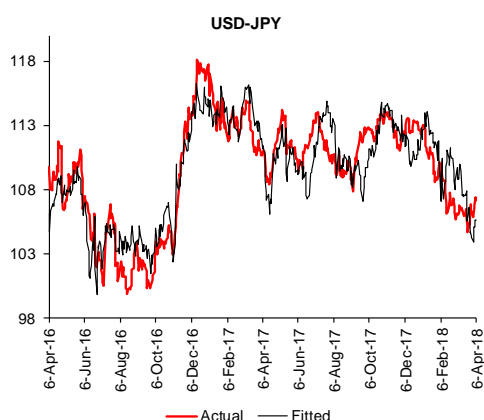
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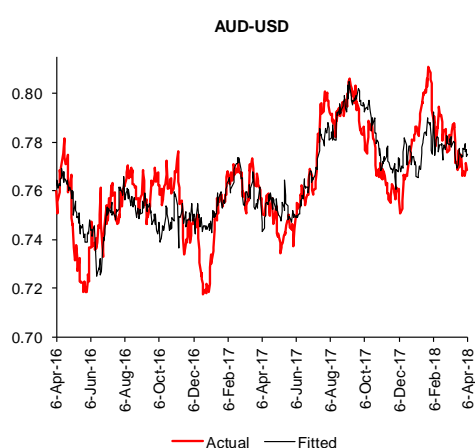
Source: OCBC Bank

- **EUR-USD** Short term implied valuations continue to remain heavy ahead of the ECB's Coeure later today (watch for any chatter surrounding forward guidance) although the 1.2200/30 support zone may offer initial support. With regards to incoming ECB rhetoric, any hesitation regarding their intent to explicitly alter its forward guidance (in light of potential global trade war tensions) may however dilute EUR resilience.



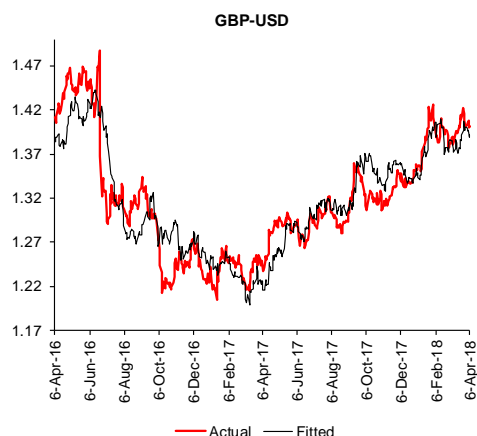
Source: OCBC Bank

- **USD-JPY** USD-JPY may revert back to a risk-off play book in Asia, with the 55-day MA (107.28) expected to cap pending the slew of potential headlines later today.

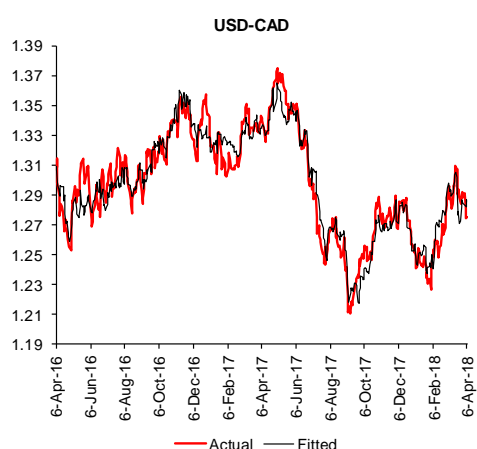


Source: OCBC Bank

- **AUD-USD** After attempting to base build in the past couple of sessions, AUD-USD may trade on the wrong side of 0.7700 (within 0.7640 and 0.7760) until investor nervousness dissipates once again, with short term implied valuations also ticking lower for now.



- **GBP-USD** Amid prevailing hawkishness being attached to the BOE, the GBP-USD may attempt to bounce off its 55-day MA (1.3997) and then at 1.3980 despite short term implied valuations attempting to drag the pair lower. Topside resistance remains situated at 1.4100.



- **USD-CAD** The Canadian March Labor market report today (1230 GMT) mixed with the US NFP numbers may provide room for choppy price action. However, amid nascent positivity being attached to Nafta and with investors being distracted by US-Sino static, we continue to stay with a heavy posture for the USD-CAD despite short term implied valuations for the pair attempting to stabilize. Expect support towards the 55-day MA (1.2709) with resistance seen at 1.2840.

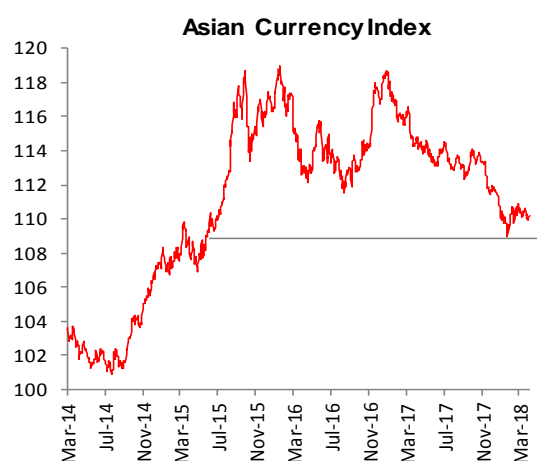
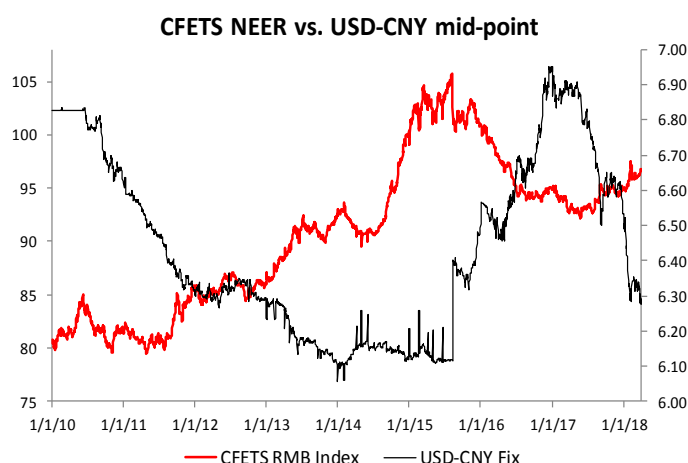
Source: OCBC Bank

Asian FX

- Expect the **ACI (Asian Currency Index)** to shy away from the downside in the current environment. However, in the absence of abject risk aversion, market differentiation and selectivity within Asia is expected to persist. To this end, we look for relative outperformance for South Asia compared to their Northern neighbors. TO this end, we'd favor the INR, IDR, and the THB, against the likes of the KRW, TWD, and PHP.
- To this end, note that India's net bond outflows continue to compress at a fairly rapid pace while net equity inflows continue to remain positive and pile higher. Elsewhere, net bond inflows for Indonesia and Thailand continue to chalk up significant gains on a rolling basis, with net equity outflows for Thailand now essentially back to a neutral balance.
- Meanwhile, North Asia may remain a relative laggard, with net bond inflows for South Korea consolidating, while Taiwan remains in a net outflow environment for equities.
- **India:** RBI retained a neutral stance, keeping the benchmark repurchase rate unchanged at 6.0%. However, an accommodative bias was detected as the inflation forecasts were unexpectedly revised downwards to 4.7-5.1%, from 5.1-5.6%. This led to expectations that RBI will hold for the rest of the year, and

kept the government bond market rallying, with the 10y yield coming off 17 bps. Going forward, look for possible easing of the foreign limits.

- **SGD NEER:** The SGD NEER is softer on the day at round +0.40% above its perceived parity (1.3211), with NEER-implied USD-SGD thresholds higher on the day. Expect space for the basket to fluctuate within +0.20% (1.3185) and +0.50% (1.3146). For the USD-SGD, expect potential for the pair to surface above its 55-day MA (1.3160) and float towards 1.3200 if risk appetite deteriorates further.
- **CFETS RMB Index:** China on holiday today.

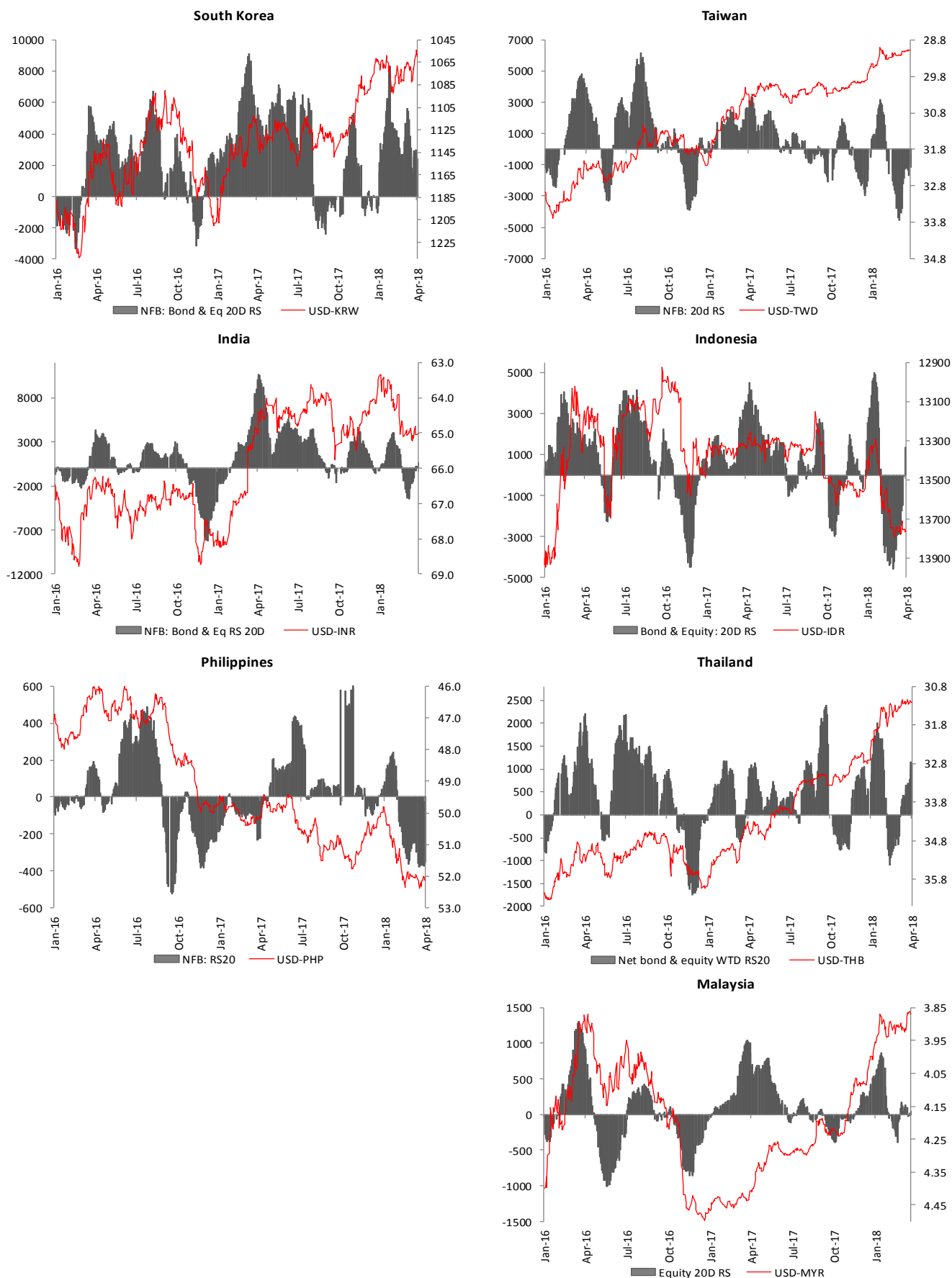


Source: OCBC Bank, Bloomberg

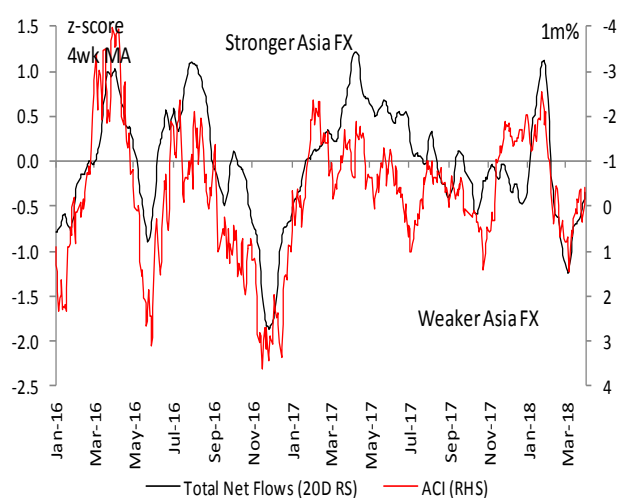
Currency	S.T. bias	Rationale
USD-CNH	↔	Relative stability of the CFETS RMB Index, RMB to shoulder potential volatility instead.
USD-KRW	↔/↓	Easing tensions with the North, supportive net portfolio flows
USD-TWD	↔/↑	Net equity outflows, new CBC governor non-hawkish
USD-INR	↔/↓	RBI static in March, net bond inflows, less aggressive fiscal borrowing plans
USD-SGD	↔/↑	NEER hovering around parity; MAS expected to be static in April, pair buffeted by global trade tension headlines
USD-MYR	↔/↓	BNM remains accommodative; country on election watch
USD-IDR	↔/↓	BI containing IDR volatility, sees little room to cut rates; fundamentals intact, rebound in net bond inflows
USD-THB	↔/↓	BOT remains accommodative (despite 1 dissenting vote at the latest MPC), bond inflows strengthening
USD-PHP	↔/↑	Net equity outflows, BSP downplaying rate hike expectations but remains vigilant towards inflation risks

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

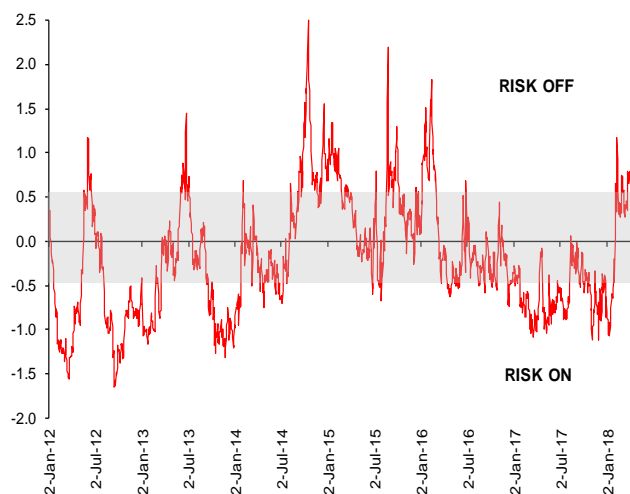


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXF	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXF	1.000	-0.074	0.297	0.129	-0.081	-0.555	0.731	-0.285	-0.298	-0.079	0.233	-0.935
CHF	0.795	-0.343	-0.242	-0.377	-0.555	-0.524	0.637	0.194	0.166	0.441	-0.262	-0.867
JPY	0.731	0.057	0.119	0.330	-0.080	-0.568	1.000	-0.395	-0.513	-0.224	0.036	-0.578
SGD	0.521	0.500	0.772	0.291	0.295	-0.174	0.126	-0.239	-0.247	-0.238	0.725	-0.552
INR	0.405	0.207	0.324	-0.097	-0.054	-0.158	0.177	0.184	0.079	0.231	0.241	-0.519
IDR	0.321	0.180	0.365	0.065	-0.248	-0.050	0.213	-0.100	-0.124	-0.078	0.305	-0.305
CNY	0.297	0.766	1.000	0.719	0.706	-0.076	0.119	-0.569	-0.609	-0.639	0.975	-0.232
CNH	0.233	0.705	0.975	0.692	0.701	-0.052	0.036	-0.604	-0.554	-0.645	1.000	-0.165
THB	0.173	0.382	0.505	0.334	0.027	0.012	0.196	-0.340	-0.327	-0.305	0.496	-0.043
TWD	0.091	0.645	0.675	0.850	0.575	-0.116	0.401	-0.775	-0.813	-0.828	0.659	0.137
CAD	-0.054	0.200	0.431	0.313	0.646	-0.045	-0.298	-0.257	-0.194	-0.405	0.428	0.098
USGG10	-0.074	1.000	0.766	0.748	0.627	0.138	0.057	-0.352	-0.650	-0.479	0.705	0.121
MYR	-0.222	0.790	0.809	0.814	0.788	0.346	-0.349	-0.249	-0.425	-0.488	0.779	0.199
AUD	-0.262	0.573	0.494	0.822	0.620	0.071	0.079	-0.679	-0.735	-0.784	0.495	0.449
NZD	-0.317	0.168	-0.026	0.402	0.114	-0.118	0.213	-0.436	-0.412	-0.435	-0.025	0.451
GBP	-0.494	-0.340	-0.604	-0.719	-0.376	0.352	-0.461	0.872	0.754	0.768	-0.628	0.236
PHP	-0.576	-0.224	-0.369	-0.584	-0.308	0.566	-0.573	0.777	0.678	0.628	-0.352	0.313
KRW	-0.659	0.414	0.200	0.025	0.233	0.707	-0.625	0.356	0.162	0.069	0.211	0.552
EUR	-0.935	0.121	-0.232	0.087	0.161	0.473	-0.578	0.026	0.050	-0.152	-0.165	1.000

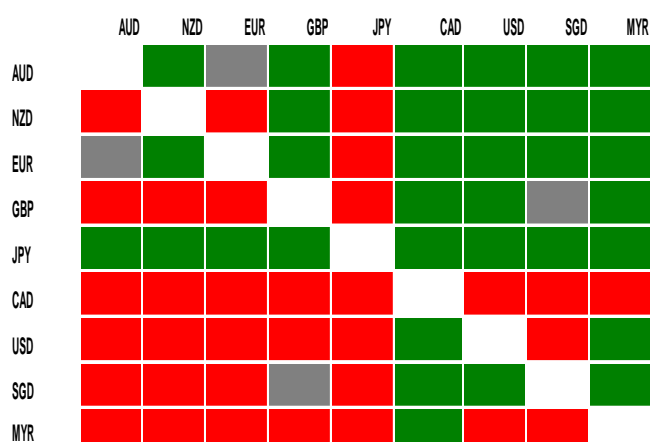
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2213	1.2254	1.2300	1.2334
GBP-USD	1.3981	1.4000	1.4015	1.4100	1.4198
AUD-USD	0.7600	0.7643	0.7692	0.7700	0.7808
NZD-USD	0.7177	0.7200	0.7268	0.7277	0.7300
USD-CAD	1.2706	1.2739	1.2754	1.2800	1.3112
USD-JPY	107.00	107.02	107.23	107.51	107.68
USD-SGD	1.3100	1.3157	1.3160	1.3184	1.3200
EUR-SGD	1.6072	1.6100	1.6126	1.6200	1.6230
JPY-SGD	1.2205	1.2235	1.2273	1.2294	1.2300
GBP-SGD	1.8399	1.8400	1.8443	1.8500	1.8635
AUD-SGD	1.0020	1.0100	1.0123	1.0200	1.0279
Gold	1305.62	1331.06	1332.40	1351.13	1356.80
Silver	16.00	16.20	16.40	16.60	16.73
Crude	62.92	63.10	63.18	63.20	66.37

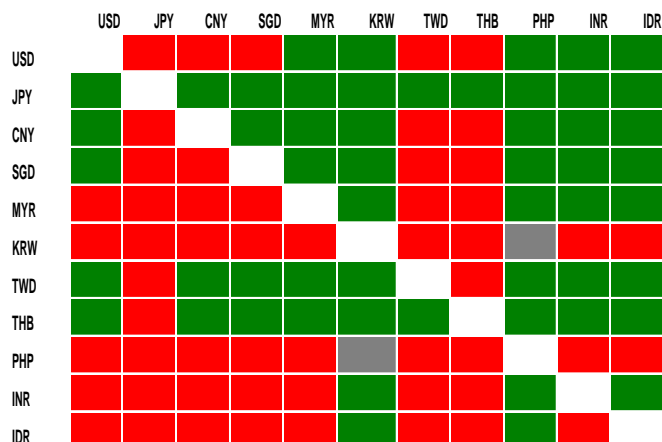
Source: OCBC Bank

G10 FX Heat Map



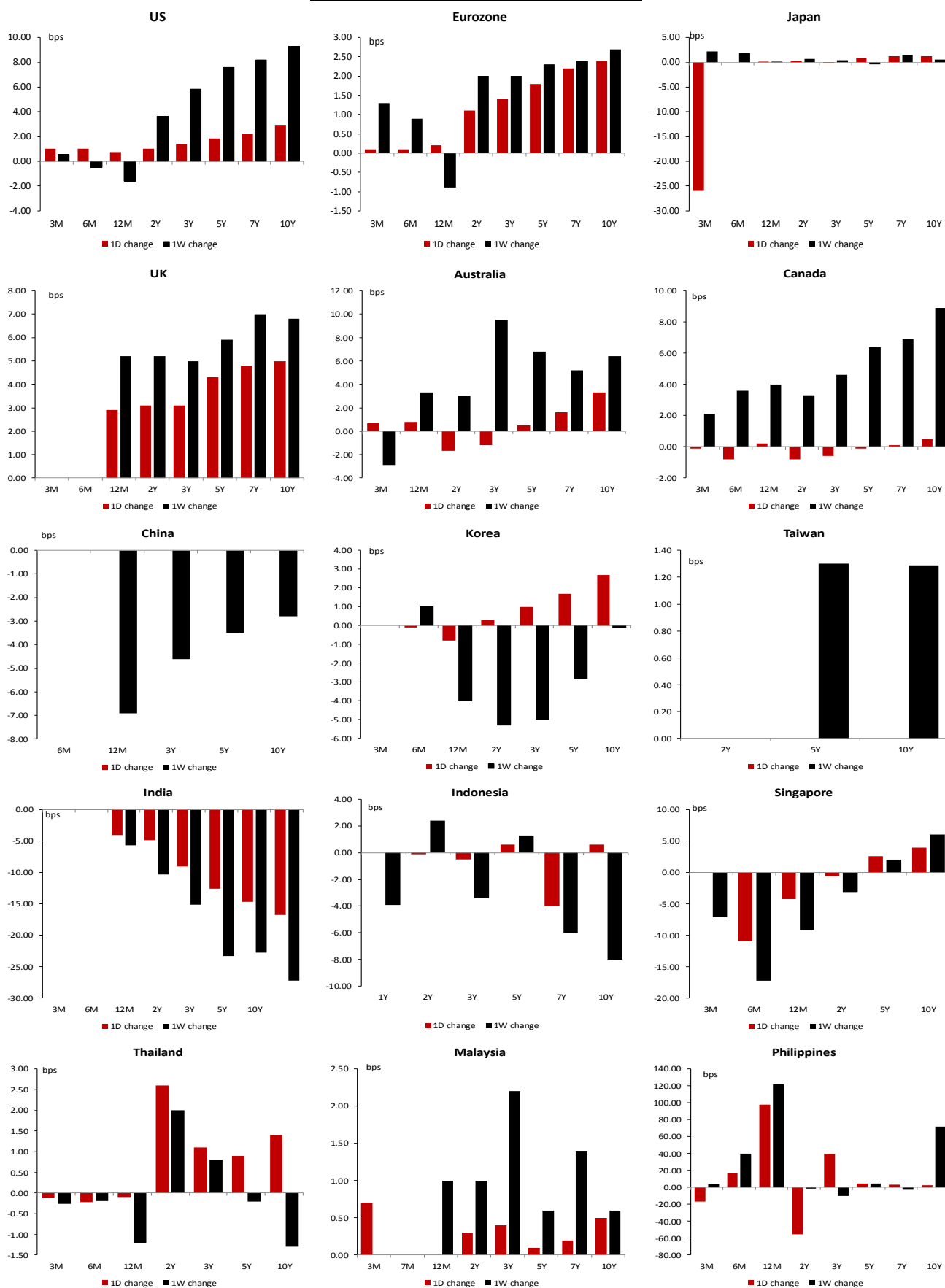
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

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 cyclicals	-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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