

Wednesday, March 07, 2018

FX Themes/Strategy/Trading Ideas

- Late NY Tuesday/early Asia on Wednesday, markets were roiled following headlines that top White House economics advisor Gary Cohn has resigned. For today, expect risk aversion to initially blanket the markets, with TY, JPY, CHF higher. Meanwhile, expect implicit negative pressure on the cyclical like the AUD, EM/Asia, and equities (including the futures).
- As we hazarded previously, a degeneration of fears surrounding global trade tensions could potentially transmute the environment from one of kneejerk USD weakness to USD strength (as risk aversion deepens).
- In a nutshell, Cohn had been perceived as anti-protectionist and a firebreak against more rampant anti-trade leanings of the administration and news of his resignation will likely continue to cause some discomfort within markets. In addition, the White House also revealed that it is also weighing tariffs on a wide range of Chinese imports as well as probing Chinese investments (under Section 301).
- For today, no shortage of Fed speak today from Kaplan (0130 GMT), Bostic (1300 GMT), and Dudley (1320 GMT). Note supportive (hawkish) rhetoric from the Fed's Brainard (dove) late Tuesday, who stated that headwinds have turned to tailwinds.
- On other fronts, the **Bank of Canada** rate decision is at 1500 GMT (mkts: no change at 1.25%). On the data front, look also to the Feb ADP (1315 GMT) and the Beige Book (1900 GMT). In Asia, **BNM** is also expected to remain static at 3.25% today (0700 GMT).
- Our 22 Feb 18 idea to be tactically long **USD-CAD** (spot ref: 1.2696) hit its 1.2960 target on Monday 05 Mar 18. With the current market environment still relatively hostile for the CAD, we extend our objective to 1.3230, trailing the stop to 1.2820.
- With the **RBA meeting statement** not yielding any unduly hawkish cues on Tuesday and instead incorporating a veiled attempt at tempering excessively hawkish growth expectations, the **AUD** may prove vulnerable to any potential unwinding of global risk appetite levels or discretionary USD resilience in the near term. From a spot ref of 0.7765 on Tuesday, we target 0.7590 and place a stop at 0.7855.

Treasury Research &
Strategy

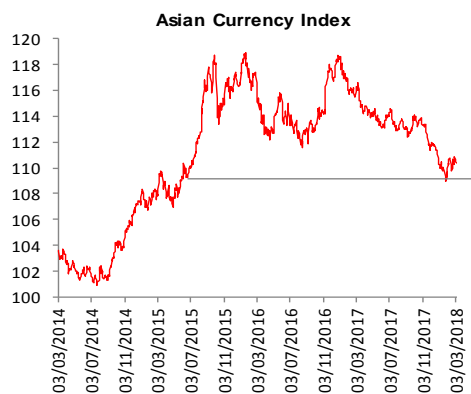
Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

Asian FX

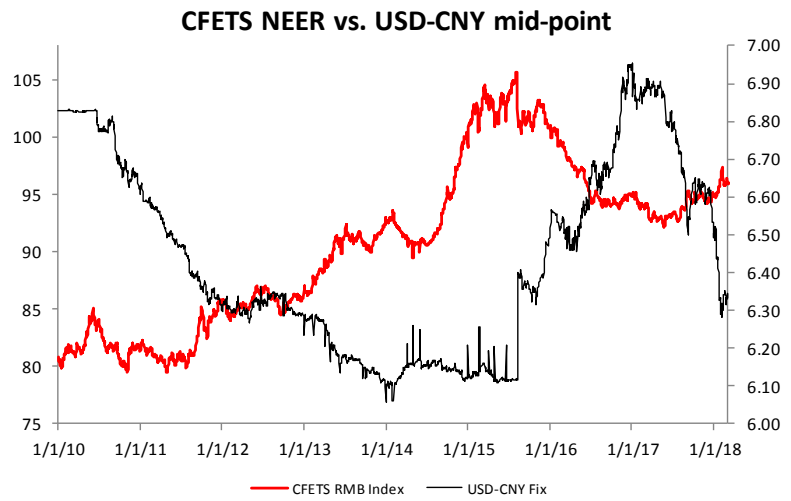
- USD-KRW gapped lower this morning after President Trump stated that the US is open to talks with Pyongyang following news that the North was willing to relinquish its nuclear weapons. As mentioned previously net bond/equity flows have also proved increasingly supportive of the KRW of late.
- Elsewhere in Asia, the TWD may enjoy a partial positive knock-on effect from the KRW, although net equity outflows remain a drag. Note also sustained outflow pressure for India and Indonesia (bonds, especially), while the environment for Thailand may be wobbling slightly.
- For the rest of the Asian complex, expect the **ACI (Asian Currency Index)** to refrain from excessive downside moves in the near term. On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped lower on Tuesday but still remained in Risk-Off territory. Expect the Index to attempt to edge higher as risk aversion deepens intra-day.
- **Indonesia:** The Finance Minister states that the government is sticking to its projected fiscal deficit forecast of 2.19% of GDP despite plans to increase the subsidy for diesel.
- **Philippines:** BSP continues to downplay risks of a rate hike given transitory nature of inflation increases.
- **SGD NEER:** Amidst the current nervous environment, the SGD NEER is softer this morning at around +0.16% above its perceived parity (1.3192). NEER-implied USD-SGD thresholds are however softer on the day and the basket should track a range between parity to +0.30% (1.3152). Technically, support is seen emerging towards 1.3140 with the 55-day MA (1.3235) likely to resist.



	SGD NEER	% deviation	USD-SGD
Current	124.47	0.17	1.3169
+2.00%	126.74		1.2933
Parity	124.26		1.3192
-2.00%	121.77		1.3461

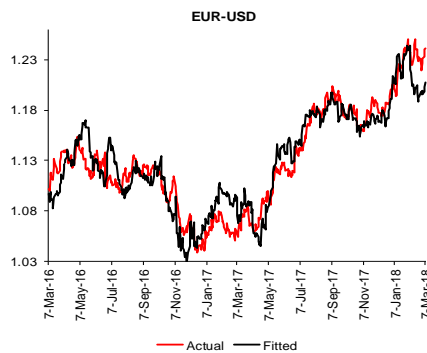
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning slipped (as largely expected) to 6.3294 from 6.3386 yesterday, pulling the CFETS RMB Index to 95.89 from 96.02 on Tuesday.



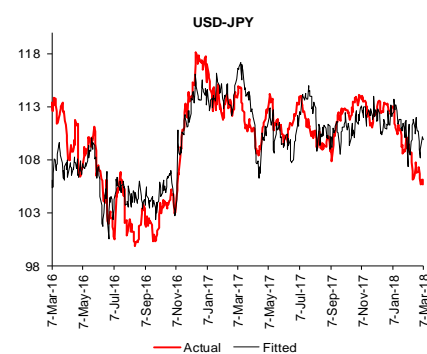
Source: OCBC Bank, Bloomberg

G7



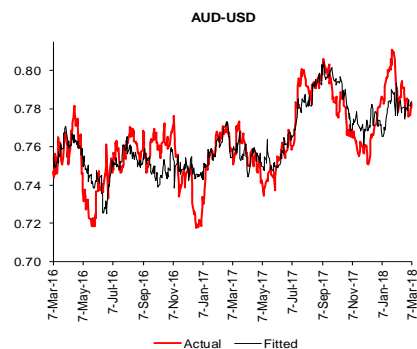
Source: OCBC Bank

- EUR-USD** Positive expectations (including the riskies) surrounding the ECB meeting on Thursday may continue to underpin the EUR-USD despite swirling global trade war concerns. Short term implied valuations have also ticked higher and the pair may attempt to subsist above 1.2400 towards 1.2450.



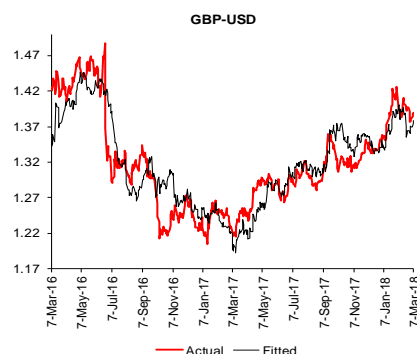
Source: OCBC Bank

- USD-JPY** Despite the best efforts by the BOJ's Kuroda to downplay exit-related expectations, the current bout of risk aversion may keep the USD-JPY top heavy for now. Short term implied valuations for the pair are also being chipped lower at this juncture and 105.00/25 may continue to attract intra-day.



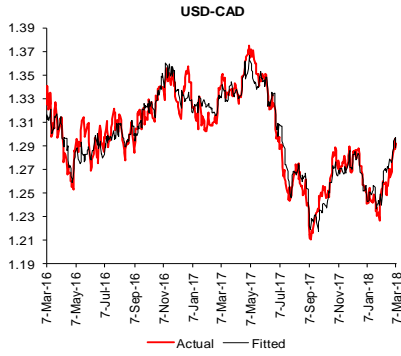
Source: OCBC Bank

- AUD-USD** This morning's 4Q GDP numbers disappointed slightly (2.4% yoy), while the RBA's Lowe late Tuesday indicated that there isn't a strong case to adjust monetary policy in the near future and the AUD is fairly close to fair value. Although short term implied valuations remain supportive, the pair may continue to gravitate towards the 200-day MA (0.7792) given the current market's demeanor.



Source: OCBC Bank

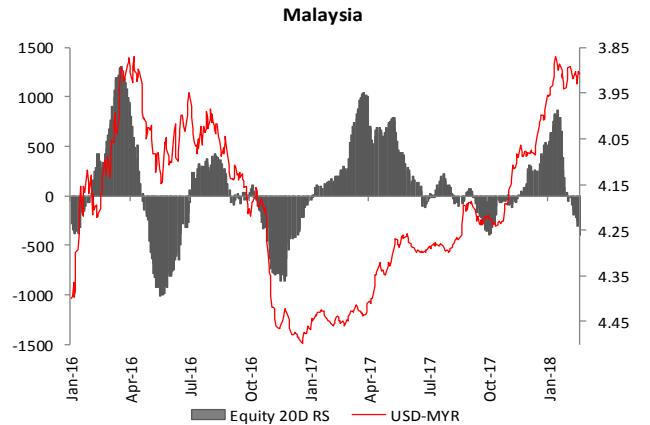
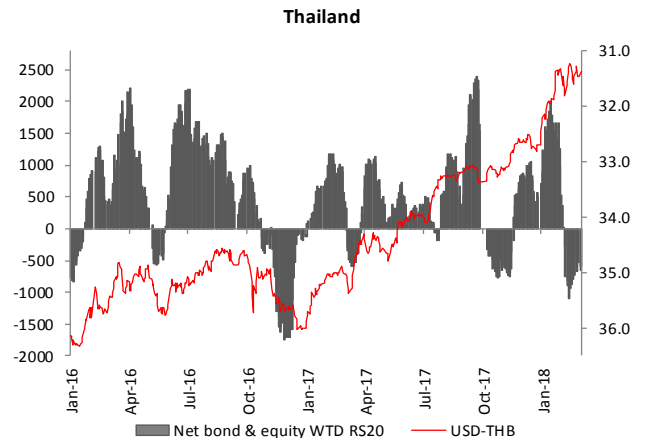
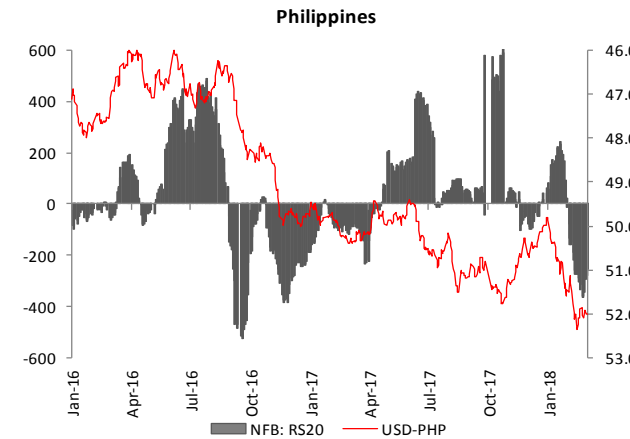
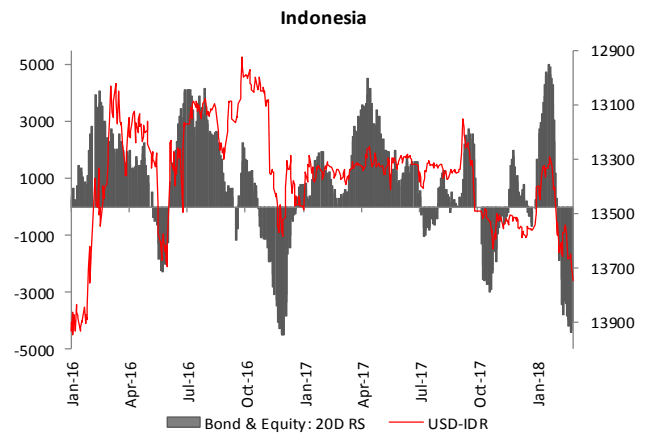
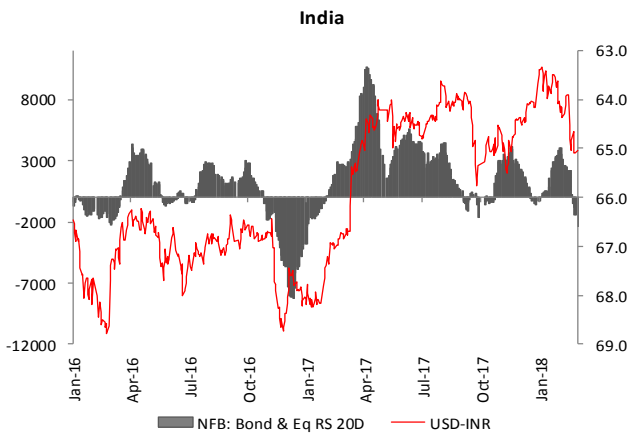
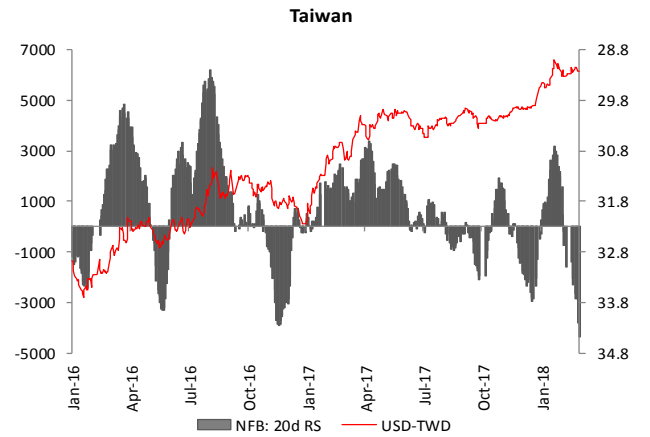
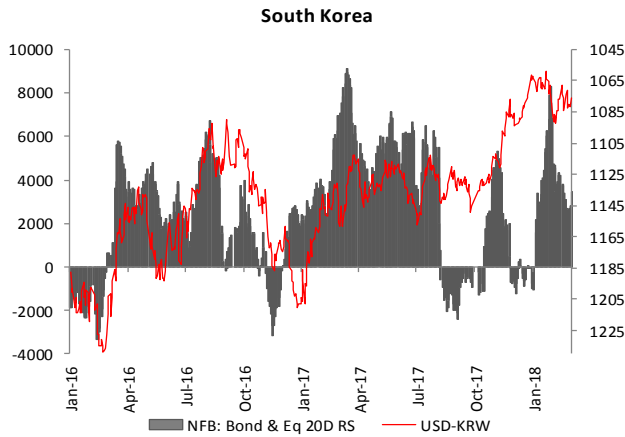
- GBP-USD** The GBP should remain largely unruffled by global trade war worries at this juncture. Note that the EU's Tusk on Wednesday is scheduled to present a draft of the Union's Brexit trade agreement guidelines. In the interim, short term implied valuations remain positive and the pair is expected to relatively afloat within the 55-day MA (1.3819) and 1.4000.



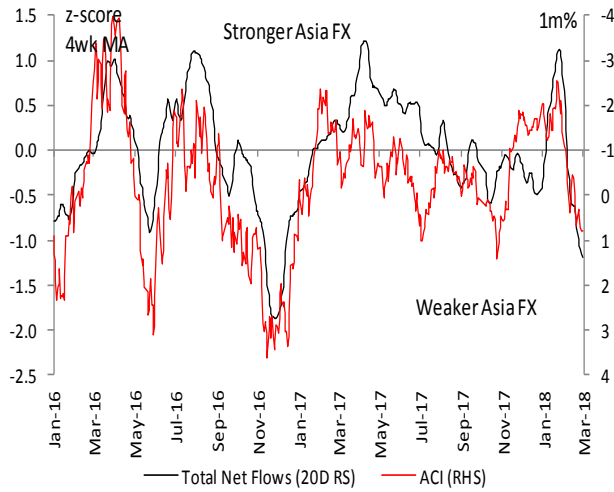
- USD-CAD** USD-CAD may continue to bounce on dips with Canada pretty much also at the epicenter of concerns surrounding protectionist announcements out of the US and with Nafta negotiations still in the air. Expect initial support towards 1.2870 ahead of the BOC tonight, with risks we think skewed towards 1.3000 instead.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

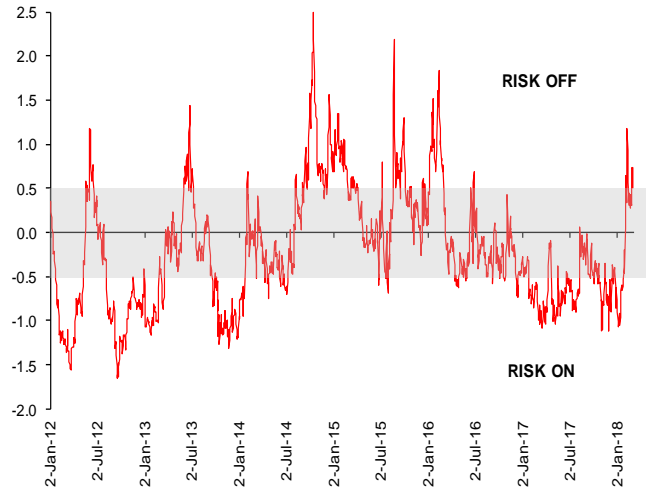


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.157	-0.012	-0.305	-0.156	-0.161	0.290	-0.133	0.162	-0.005	0.605	-0.961
CHF	0.901	-0.108	-0.138	-0.096	-0.109	0.026	0.168	-0.014	0.025	-0.088	0.478	-0.765
SGD	0.863	-0.322	-0.196	-0.678	-0.277	-0.400	0.572	-0.264	0.542	-0.112	0.652	-0.850
CNH	0.605	0.034	0.626	-0.418	-0.087	-0.135	-0.048	-0.254	0.059	0.226	1.000	-0.594
INR	0.555	0.287	0.578	0.360	0.305	0.461	-0.493	0.215	-0.522	0.230	0.488	-0.506
CAD	0.510	0.205	0.497	0.264	0.198	0.466	-0.604	0.163	-0.450	0.176	0.460	-0.269
MYR	0.506	-0.190	0.231	-0.593	-0.607	-0.746	0.379	-0.693	0.306	0.411	0.343	-0.433
THB	0.486	-0.309	-0.117	-0.881	-0.609	-0.594	0.707	-0.418	0.680	0.011	0.488	-0.463
IDR	0.437	0.285	0.700	0.289	0.033	0.265	-0.656	-0.085	-0.597	0.477	0.429	-0.310
KRW	0.348	-0.573	-0.351	-0.742	-0.527	-0.474	0.656	-0.271	0.783	-0.185	0.016	-0.235
JPY	0.290	-0.513	-0.748	-0.597	-0.364	-0.447	1.000	-0.091	0.817	-0.459	-0.048	-0.343
CNY	-0.012	0.455	1.000	0.117	0.054	0.063	-0.748	-0.252	-0.545	0.716	0.626	0.022
TWD	-0.016	-0.351	0.024	-0.705	-0.746	-0.702	0.414	-0.597	0.535	0.250	-0.008	0.108
USGG10	-0.157	1.000	0.455	0.471	0.000	0.076	-0.513	-0.146	-0.776	0.517	0.034	0.127
PHP	-0.339	0.608	0.730	0.590	0.370	0.315	-0.755	0.018	-0.777	0.474	0.049	0.296
GBP	-0.843	0.213	-0.220	0.341	0.282	0.206	-0.040	0.325	-0.127	-0.111	-0.536	0.695
AUD	-0.850	0.036	-0.343	0.193	0.005	-0.100	0.170	0.042	0.041	-0.071	-0.700	0.706
NZD	-0.873	0.376	0.012	0.398	0.160	0.095	-0.206	0.102	-0.302	0.065	-0.599	0.764
EUR	-0.961	0.127	0.022	0.267	0.028	0.150	-0.343	0.084	-0.145	0.056	-0.594	1.000

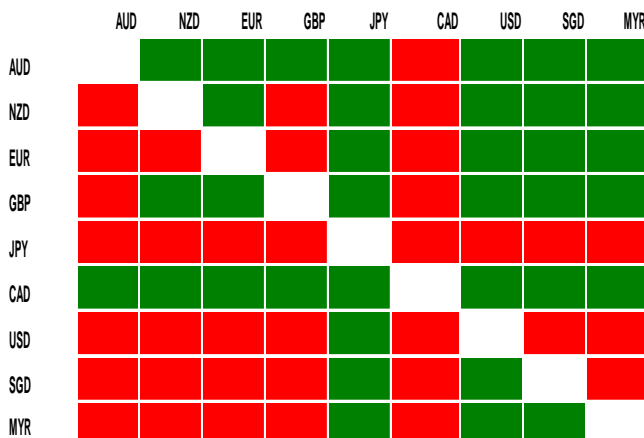
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2257	1.2400	1.2414	1.2485	1.2500
GBP-USD	1.3800	1.3856	1.3891	1.3900	1.4080
AUD-USD	0.7788	0.7800	0.7802	0.7890	0.7900
NZD-USD	0.7200	0.7263	0.7285	0.7300	0.7407
USD-CAD	1.2674	1.2900	1.2923	1.2980	1.3000
USD-JPY	105.08	105.25	105.70	106.00	108.84
USD-SGD	1.3079	1.3100	1.3167	1.3200	1.3206
EUR-SGD	1.6188	1.6300	1.6345	1.6379	1.6400
JPY-SGD	1.2169	1.2400	1.2457	1.2491	1.2500
GBP-SGD	1.8175	1.8200	1.8290	1.8300	1.8301
AUD-SGD	1.0204	1.0217	1.0273	1.0300	1.0422
Gold	1303.60	1328.69	1337.30	1356.73	1367.50
Silver	16.10	16.70	16.72	16.80	16.82
Crude	58.90	62.10	62.11	62.20	62.47

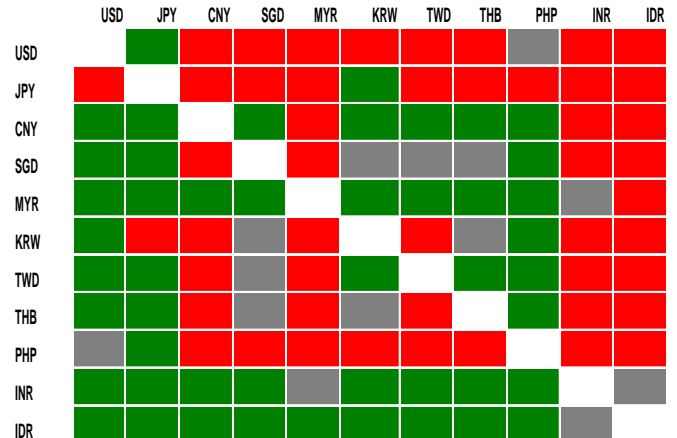
Source: OCBC Bank

G10 FX Heat Map



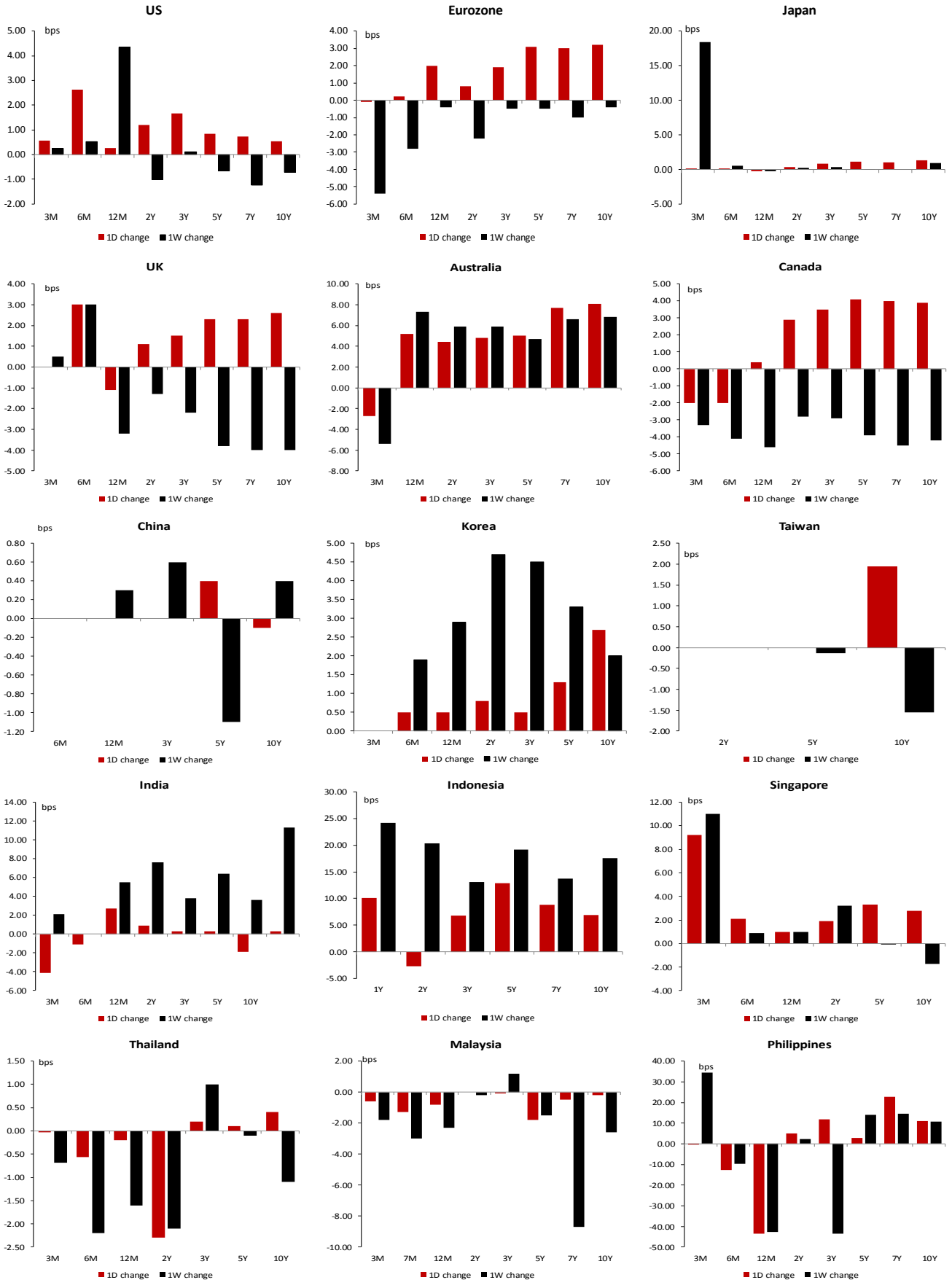
Source: OCBC Bank

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	1.3230	1.2820	Post FOMC minutes, rising implied valuations for the pair	
2	06-Mar-18	S	AUD-USD	0.7765	0.7590	0.7855	Non-hawkish RBA meeting outcome, vulnerability to USD resilience	
STRUCTURAL								
3	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
4	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
5	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	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 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 cyclals	-1.03
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Source: OCBC Bank

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