

Monday, May 07, 2018

FX Themes/Strategy/Trading Ideas – The week ahead; revised forecasts

- The still dollar managed to end flat to higher across G10 space despite the “disappointing” April NFP headline of +164k on Friday. In fact, note that the previous month’s reading was revised to +135k (from +103k) and the 20month revision printed a +30k, with the unemployment rate also slipping to 3.9% from 4.1% previously. However, average hourly earnings came in at a weaker than expected +0.1% mom, with the previous month’s reading also revised lower to +0.2% (from +0.3%). Overall, despite less than hawkish comments from the Fed’s Williams, the mixed readings still left the **DX** none the worse for wear above 92.50.
- On the **CFTC** front, large non-commercial accounts and leveraged accounts pared significantly their net implied short dollar positioning in the latest week. Regarding the latter, net short dollar positioning likely was pared further in the course of the week and positioning we think is currently slightly net short to neutral. **The implication then is that a further extension of USD strength in the near term would have to be leveraged off additional positives for the USD (or negatives for the other majors).** However, asset manager accounts largely maintained their net short positioning in the latest week, paring dollar shorts almost imperceptibly. As such, broad dollar prospects beyond the short term would continue to be a net result of the interplay between fast money and the longer term accounts.
- **This week, investors may instead bounce the dollar trade off cues from the other major central banks.** Fed speak includes **Powell** on Tuesday while the BOC’s Lane is scheduled for Monday with the RBA’s Boge also due late Monday (2300 GMT). The ECB’s Liikanen is due to speak on Tuesday while all eyes are expected to be on the **RBNZ OCR** decision late Wednesday and the **BOE MPC** (GBP at risk) and Inflation Report on Thursday.
- We start the week on a neutral footing for global risk appetite levels, with the **FXSI (FX Sentiment Index)** managing to slip slightly on Friday on the back of positive EZ/US equities. However, with indications that net portfolio flows for EM/Asia remain cautious, expect risk premiums for sovereigns and credit (US-Sino trade talks yielded little substantive headlines) to remain supported. **As such, pending further broad dollar price action, positive macro plays may continue to remain out of place in the current environment.**

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

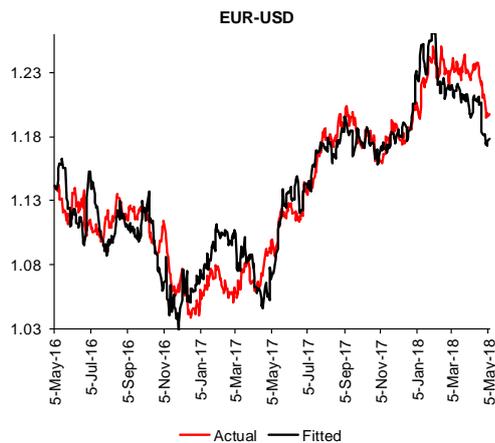
ngcyemmanuel@ocbc.com

Terence Wu

+65 6530 4367

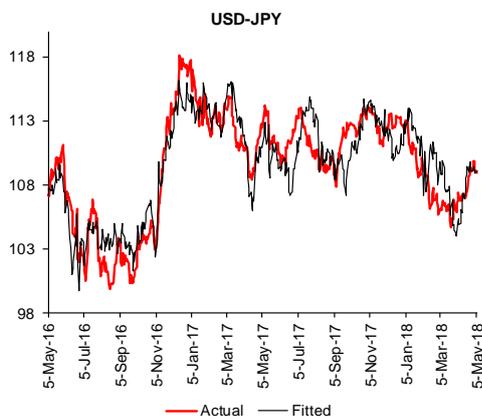
TerenceWu@ocbc.com

G7



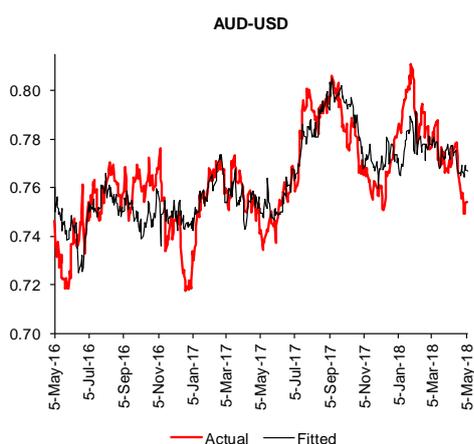
Source: OCBC Bank

- **EUR-USD** Short term implied valuations remain depressed but are attempting to stabilize in the near term. In the interim, the 200-day MA (1.2019) is expected to cap, with risks likely tilted towards 1.1880 instead. Note that on the CFTC front, net leveraged EUR positioning flipped to a net short balance in the latest week, a first for 2018.



Source: OCBC Bank

- **USD-JPY** Despite CFTC net leveraged JPY longs being pared drastically in the latest week, the pair may assume slightly more consolidative characteristics at the onset of the week within 108.00 and the (still unsurmountable) 200-day MA (110.21).

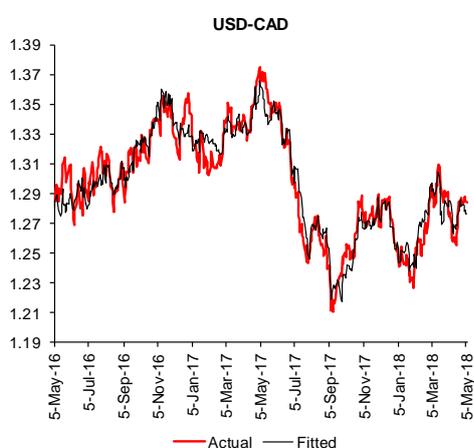


Source: OCBC Bank

- **AUD-USD** With global macro positivity still being relegated to the sidelines at this juncture, the AUD-USD may continue to struggle with any attempted rebound higher in the near term. Short term implied valuations remain top heavy but some indication of overshoot on the downside persists (as pointed out last week). In addition, note that that CFTC leveraged AUD longs picked up in the latest week. Sell rallies instead (as opposed to being aggressively short).



- **GBP-USD** Look towards headline volatility amid the BOE MPC and Inflation Report this week with short term implied valuations still downcast and markets skeptical towards the BOE. Technically, note that the 200-day MA (1.3542) is in imminent danger of being breached on a sustained basis, with net leveraged CFTC GBP longs having collapsed drastically in the latest week. Next visible downside objective kicks in at 1.3416 if 1.3500 is taken out.



- **USD-CAD** USD-CAD may continue to attempt to hug (and bounce off) its 55-day MA (1.2818) pending crude and broad dollar prospects in the coming sessions. In the interim, short term implied valuations are however top heavy despite net leveraged CFTC CAD shorts accumulating further in the latest week. Overall, range bound conditions may persist pending headline risks.

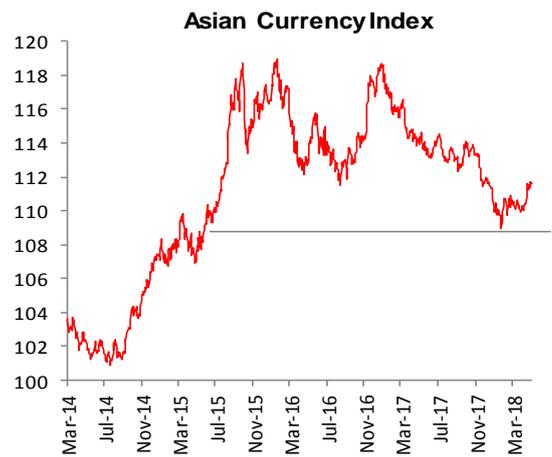
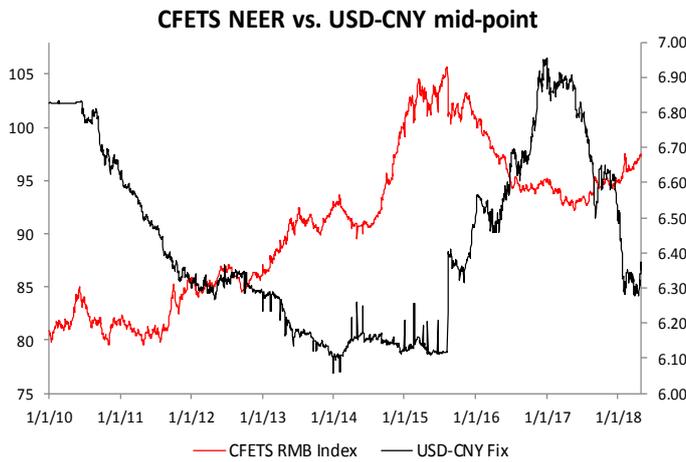
Source: OCBC Bank

Asian FX

- **EPFR** data meanwhile showed net implied equity inflows into Asia (excl Japan, China) moderating in the latest week while net bond outflows persisted at a pace similar to the previous week. From a broader perspective, net implied inflows into EM equities also tripped drastically in the latest week while net implied bond outflows from EM jumped. With EM equities also on a wobbly footing in the last week, expect Asian FX to derive minimal traction against the USD at the onset of the week. The **ACI (Asian Currency Index)** is therefore expected to find support on dips.
- On the calendar this week in Asia, **BNM** is expected to stand pat at 3.25% on Thursday, although the **BSP** is expected to hike its key policy rates also on Thursday.
- **India:** The RBI is expected to purchase INR100bn worth of government bonds through open market operations next week.
- **SGD NEER:** The SGD NEER is a touch softer on the day at around +0.44% above its perceived parity (1.3379) with NEER-implied USD-SGD thresholds higher from last Friday. At current levels, the +0.20% (1.3352) and +0.50%

(1.3313) threshold may govern with the psychological support at 1.3300 not expected to yield easily. On the top side, the 200-day MA (1.3385) may continue to attract.

- CFETS RMB Index:** The USD-CNY mid-point this morning firmed as expected to 6.3584 from 6.3521 last Friday. This saw the CFETS RMB Index softening slightly to 97.48 from 97.52, the first decline after 4 consecutive daily gains.



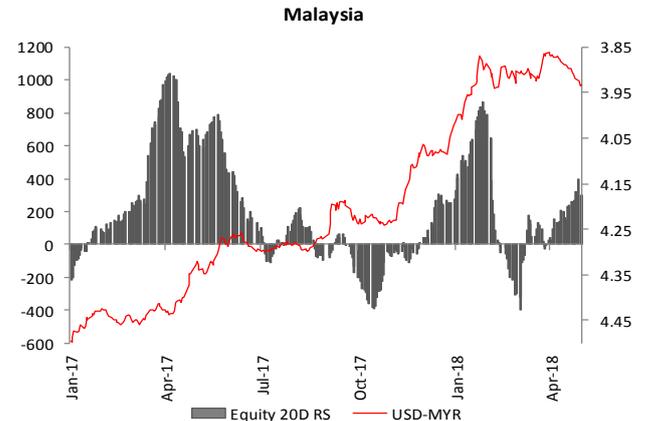
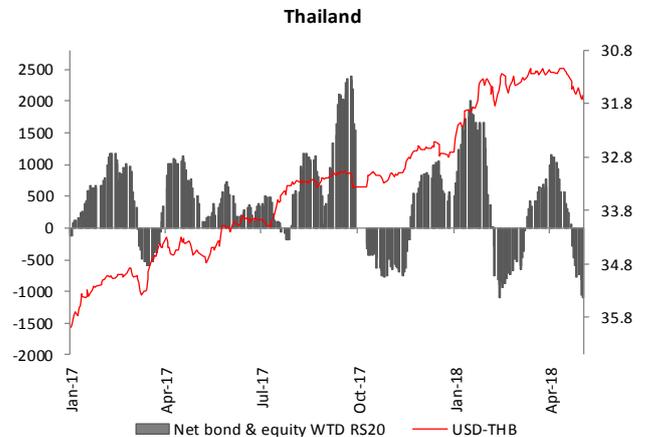
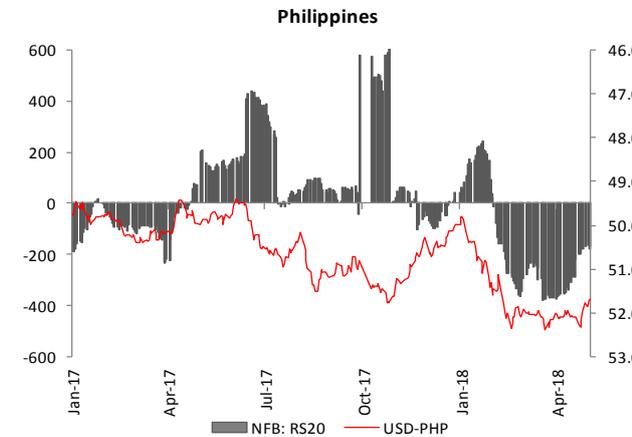
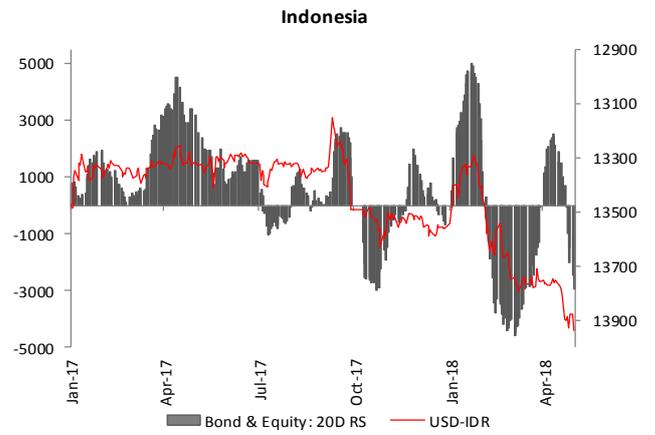
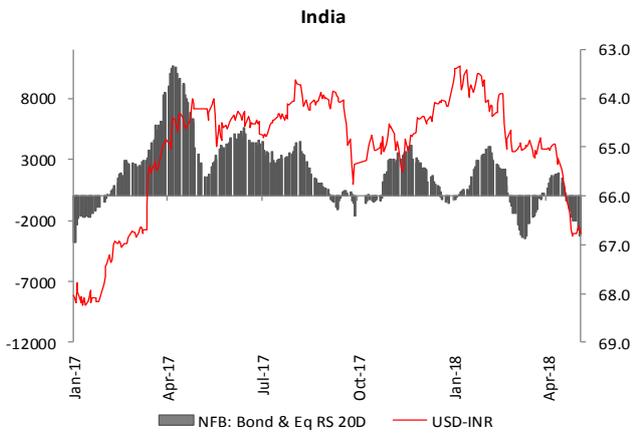
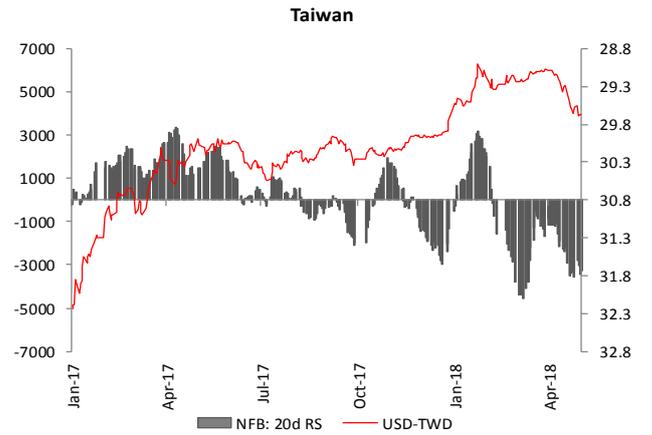
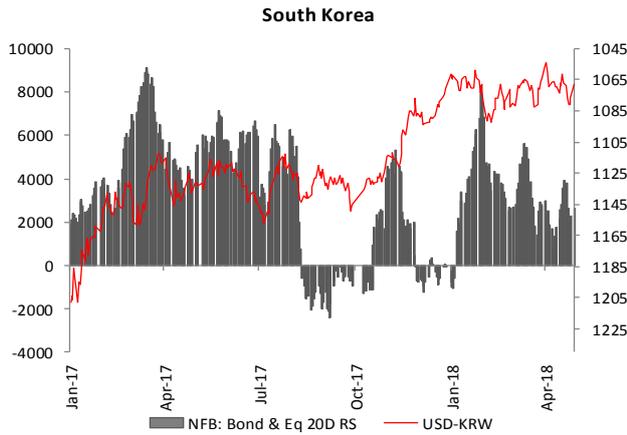
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔/↑	Easing tensions with the North, net portfolio inflow momentum recovering, inflation/current account surplus projection downgraded, BOK expected to remain neutral
USD-TWD	↑	Net equity outflows attempting to compress, new CBC governor non-hawkish
USD-INR	↑	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
USD-SGD	↑	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY
USD-MYR	↑	BNM expected to remain static this week; country on election watch (09 May 18)
USD-IDR	↑	Rating upgrade from Moodys to Baa2, BI containing IDR volatility, fundamentals intact, net portfolio outflows deepening, carry strategy under reassessment
USD-THB	↑	BOT remains accommodative, net portfolio outflow balance, inflation inching higher back into BOT's target range.
USD-PHP	↓	Net equity outflows narrowing, BSP expected to hike policy rates this week

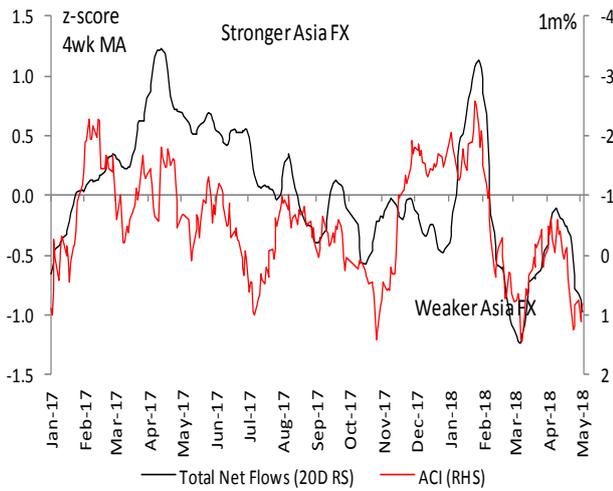
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



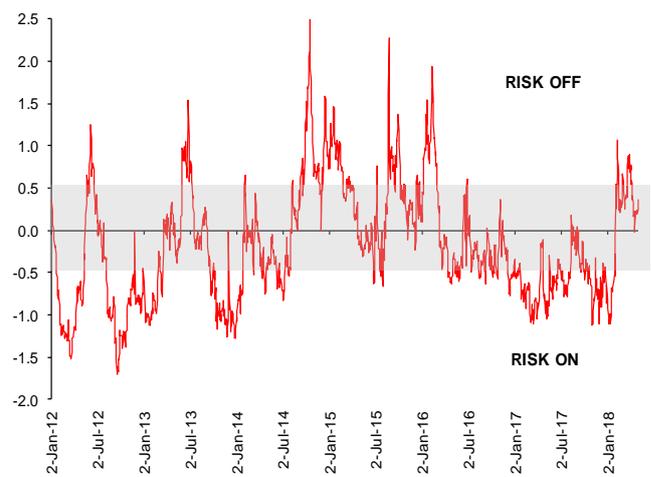
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1.000	0.743	0.963	-0.303	0.216	0.405	0.927	0.437	-0.470	-0.382	0.926	-0.995
SGD	0.969	0.803	0.940	-0.239	0.169	0.420	0.958	0.456	-0.468	-0.397	0.929	-0.964
CNY	0.963	0.663	1.000	-0.474	-0.156	0.222	0.868	0.260	-0.268	-0.181	0.968	-0.972
THB	0.958	0.797	0.952	-0.354	0.128	0.509	0.954	0.537	-0.518	-0.509	0.922	-0.940
CHF	0.953	0.863	0.874	-0.057	0.342	0.649	0.950	0.654	-0.689	-0.619	0.841	-0.930
JPY	0.927	0.886	0.868	-0.152	0.305	0.586	1.000	0.615	-0.578	-0.533	0.824	-0.904
CNH	0.926	0.572	0.968	-0.465	0.091	0.208	0.824	0.230	-0.264	-0.239	1.000	-0.946
IDR	0.914	0.904	0.872	-0.207	0.175	0.572	0.949	0.611	-0.522	-0.485	0.791	-0.879
TWD	0.911	0.870	0.860	-0.211	-0.196	0.627	0.949	0.628	-0.607	-0.560	0.822	-0.892
MYR	0.894	0.839	0.830	-0.021	0.350	0.726	0.915	0.721	-0.714	-0.710	0.782	-0.867
CAD	0.871	0.740	0.880	-0.422	-0.127	0.166	0.818	0.245	-0.232	-0.117	0.828	-0.852
INR	0.799	0.945	0.770	0.062	0.170	0.717	0.923	0.753	-0.673	-0.626	0.650	-0.740
USGG10	0.743	1.000	0.663	0.077	0.240	0.705	0.886	0.748	-0.659	-0.583	0.572	-0.684
KRW	0.584	0.624	0.638	-0.200	0.111	0.493	0.734	0.489	-0.354	-0.469	0.592	-0.577
PHP	-0.309	0.192	-0.162	0.161	-0.523	-0.194	-0.099	-0.127	0.179	0.236	-0.260	0.347
NZD	-0.961	-0.852	-0.916	0.267	-0.182	-0.465	-0.957	-0.493	0.489	0.436	-0.886	0.938
AUD	-0.973	-0.780	-0.955	0.380	-0.151	-0.356	-0.939	-0.395	0.380	0.327	-0.919	0.961
GBP	-0.979	-0.692	-0.927	0.342	-0.244	-0.357	-0.865	-0.392	0.395	0.307	-0.910	0.971
EUR	-0.995	-0.684	-0.972	0.348	-0.190	-0.346	-0.904	-0.378	0.420	0.335	-0.946	1.000

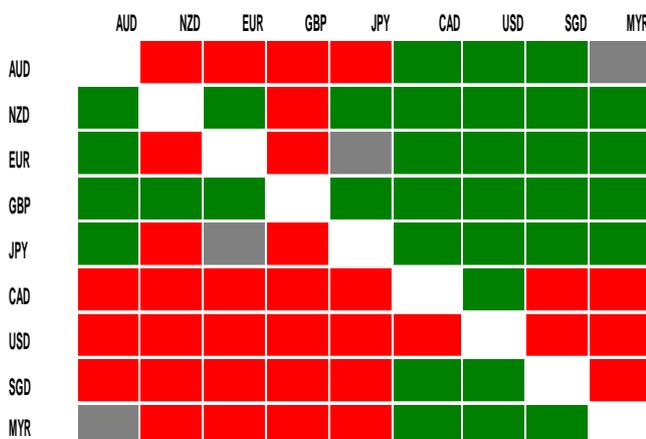
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1900	1.1911	1.1976	1.2000	1.2019
GBP-USD	1.3500	1.3542	1.3562	1.3600	1.3969
AUD-USD	0.7473	0.7500	0.7543	0.7600	0.7704
NZD-USD	0.6985	0.7000	0.7039	0.7100	0.7164
USD-CAD	1.2800	1.2833	1.2842	1.2900	1.2944
USD-JPY	107.10	108.00	108.97	109.00	110.04
USD-SGD	1.3175	1.3300	1.3318	1.3371	1.3385
EUR-SGD	1.5910	1.5912	1.5949	1.6000	1.6081
JPY-SGD	1.2148	1.2200	1.2220	1.2275	1.2300
GBP-SGD	1.8000	1.8015	1.8061	1.8100	1.8117
AUD-SGD	0.9971	1.0000	1.0045	1.0100	1.0149
Gold	1302.30	1303.60	1318.70	1328.14	1361.14
Silver	16.40	16.49	16.50	16.50	16.78
Crude	70.08	70.30	70.31	70.34	70.40

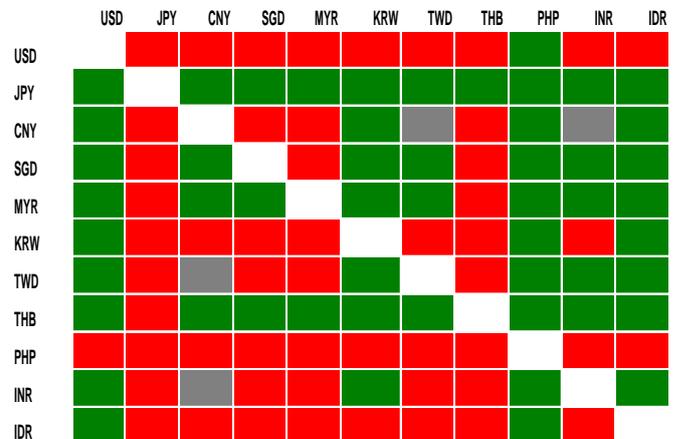
Source: OCBC Bank

G10 FX Heat Map



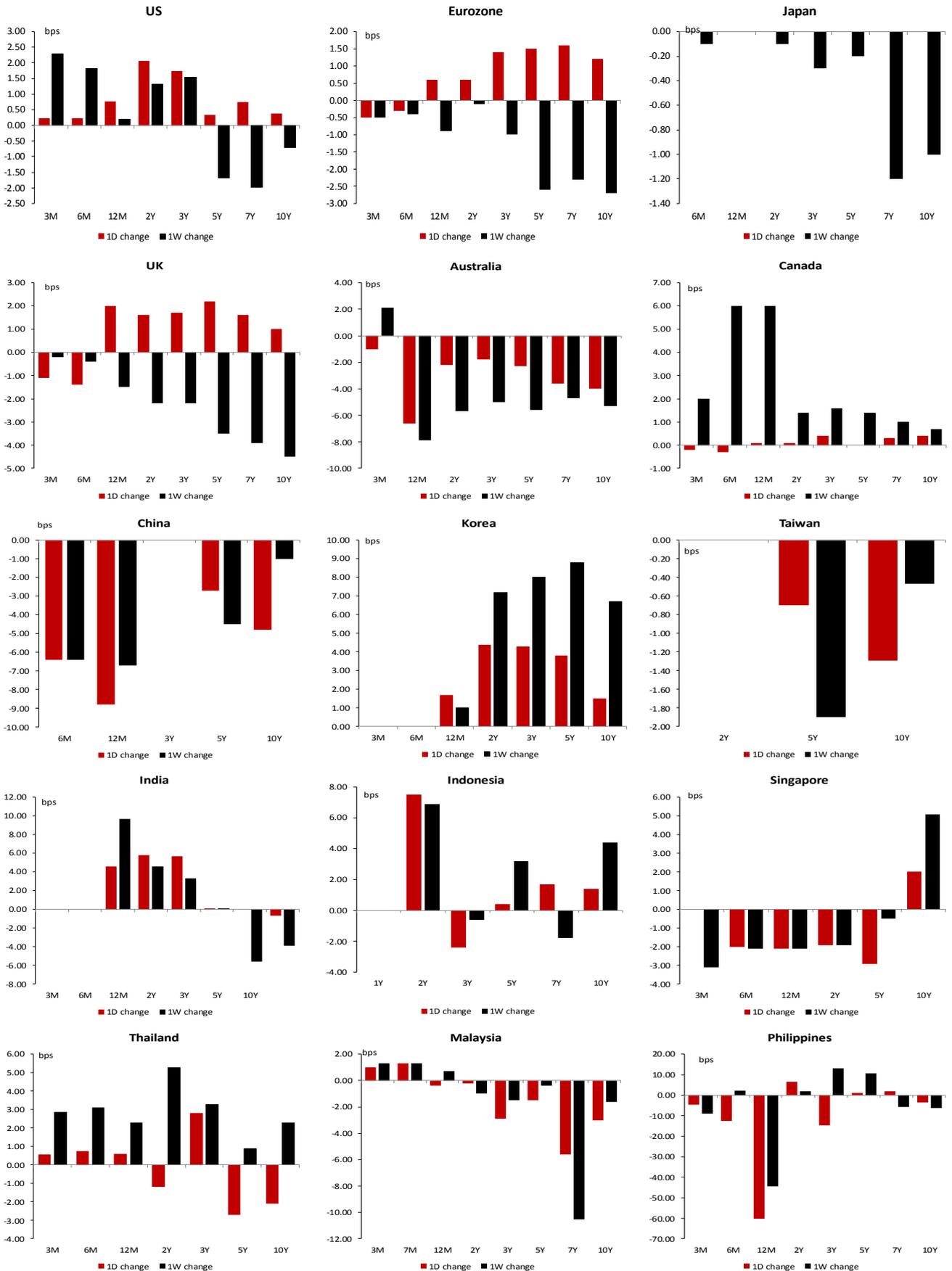
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Revised FX forecasts

	Spot	Jun-18	Sep-18	Dec-18	Mar-19
USD-JPY	109.14	110.43	111.10	111.70	112.30
EUR-USD	1.1977	1.1825	1.1938	1.2138	1.2338
GBP-USD	1.3570	1.3403	1.3514	1.3716	1.3918
AUD-USD	0.7535	0.7433	0.7504	0.7652	0.7801
NZD-USD	0.7021	0.6920	0.6985	0.7120	0.7255
USD-CAD	1.2852	1.2970	1.2854	1.2681	1.2508
USD-CHF	0.9985	1.0088	1.0023	0.9884	0.9746
USD-SGD	1.3313	1.3390	1.3326	1.3199	1.3072
USD-CNY	6.3510	6.4301	6.4086	6.3640	6.3198
USD-THB	31.67	31.93	31.74	31.36	30.98
USD-IDR	13940	14020	13994	13911	13828
USD-MYR	3.9375	3.9735	3.9434	3.8811	3.8188
USD-KRW	1076.82	1087.50	1078.89	1062.22	1045.56
USD-TWD	29.685	29.850	29.722	29.456	29.189
USD-HKD	7.8498	7.8474	7.8451	7.8429	7.8407
USD-PHP	51.605	51.28	51.11	50.98	50.84
USD-INR	66.77	67.15	66.93	66.38	65.83
EUR-JPY	130.72	130.58	132.63	135.59	138.56
EUR-GBP	0.8826	0.8823	0.8834	0.8850	0.8865
EUR-CHF	1.1959	1.1928	1.1966	1.1998	1.2025
EUR-SGD	1.5945	1.5834	1.5908	1.6021	1.6129
GBP-SGD	1.8066	1.7946	1.8009	1.8104	1.8194
AUD-SGD	1.0031	0.9952	0.9999	1.0100	1.0197
NZD-SGD	0.9347	0.9266	0.9308	0.9398	0.9484
CHF-SGD	1.3333	1.3274	1.3295	1.3353	1.3413
JPY-SGD	1.2198	1.2126	1.1994	1.1816	1.1640
SGD-MYR	2.9576	2.9675	2.9593	2.9405	2.9213
SGD-CNY	4.7705	4.8022	4.8092	4.8216	4.8345

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W
