

Thursday, March 08, 2018

FX Themes/Strategy/Trading Ideas

- Global risk appetite levels managed to stabilize (UST yields bounced off early lows to end essentially flat) by late Wednesday with the cyclical/EM currencies recouping early Wednesday losses and with the DXY also managing to bounce off intra-day lows to end relatively unchanged.
- On the trade-war front, US Treasury Secretary Mnuchin stated that the White House would move forward with the steel and aluminum tariffs. Uncertainty may continue to circulate until the actual announcement (possibly at 2030 GMT today or Friday) with the White House also indicating that Canada, Mexico, and potentially other countries may be exempted on the basis of national security.
- As a reality check, aggregate rate differentials continue to herald implicit support for the USD but the overhang from imminent tariffs may continue to distort, keeping the USD weak selectively. Instead, expect markets to be more reactive to risk appetite fluctuations. Curiously enough, note that the geography of the every short-end in option space denotes little expectation of acute volatility despite concentration of headline risks in the next 48 hours.
- The ECB meeting today (1245 GMT) and Draghi's press conference (1330 GMT), where some mention of a debate on the potential alteration of the forward guidance is expected. As we noted previously, the weak dollar narrative may have to increasingly rely on the ECB (and the EUR) stepping up to the plate. Note a sufficient degree of accommodation and caution from both the Bank of Canada and BNM yesterday.
- Apart from the ECB, other global central bank cues are expected to be scant apart from the BOC's Poloz and Morneau (1600 GMT) and Lane at 2050 GMT. On the data front, look to China's Feb trade numbers later today.

Asian FX

- Global EM equities also managed to recover from intra-day weakness to end largely flat although the **FXSI (FX Sentiment Index)** still ticked higher within Risk-Off territory. Overall, expect the **ACI (Asian Currency Index)** to continue to remain within recent ranges.
- Net portfolio flow dynamics meanwhile continue to suggest relative outperformance for the KRW (equity flows), with some relief from outflow pressures for the PHP. On other fronts, still somewhat fragile caution

Treasury Research &
Strategy

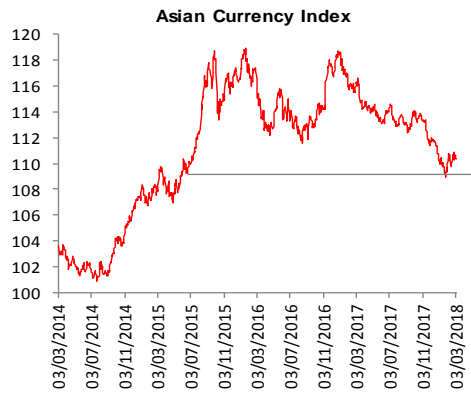
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towards EM may keep net inflows into the rest of the region slightly hesitant.

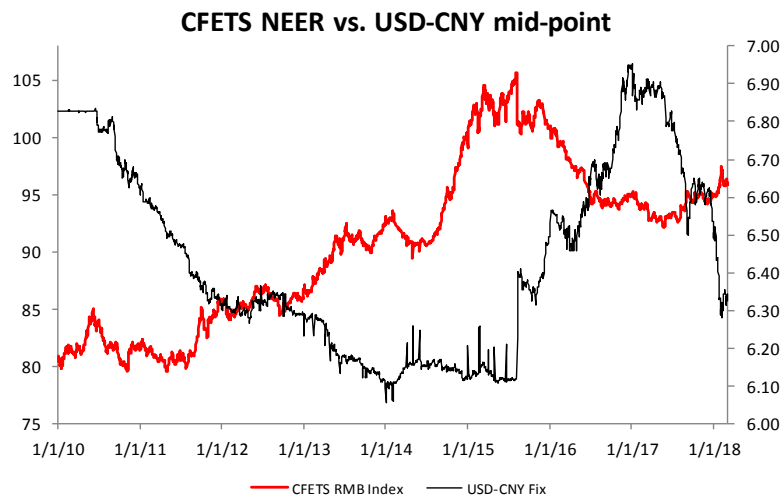
- Malaysia:** BNM on Wednesday kept its policy rate unchanged as widely expected at 3.25%. Accommodation remains the catchphrase with the central bank citing softer inflation ahead (note subdued long end yields) and the strength of the MYR as a mitigating factor. Overall, little urgency expected as the central bank continues on its normalization path.
- Indonesia:** BI governor Martowardojo continues to remind markets that the central bank will remain on hand to guard the stability of the IDR and to keep it in line with fundamentals.
- SGD NEER:** The SGD NEER is firmer on the day at around +0.35% above its perceived parity (1.3197) this morning with NEEER-implied USD-SGD thresholds marginally firmer on the day. Expect a locus within +0.20% (1.3170) to +0.50% (1.3131) intra-day and technically, a slightly top heavy posture may see 1.3120/40 in play.



	SGD NEER	% deviation	USD-SGD
Current	124.68	0.34	1.3151
+2.00%	126.74		1.2938
Parity	124.26		1.3197
-2.00%	121.77		1.3466

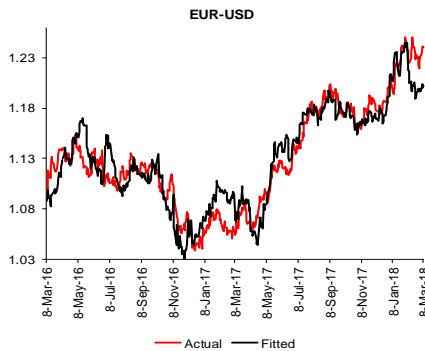
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point slipped (as largely expected) to 6.3239 from 6.3294 on Wednesday, lifting the CFETS RMB Index to 95.97 from 95.88 yesterday.



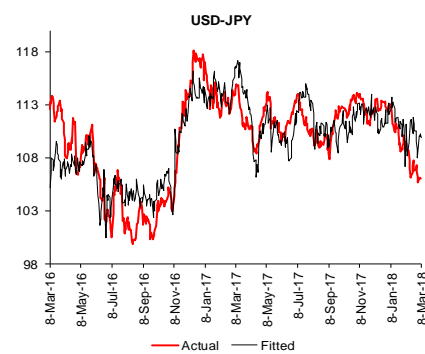
Source: OCBC Bank, Bloomberg

G7



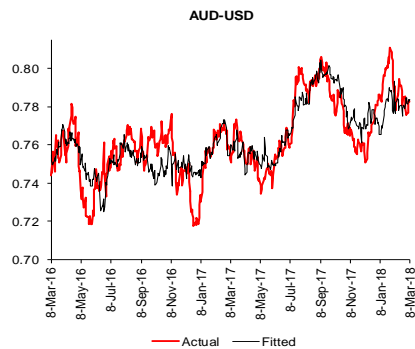
Source: OCBC Bank

- **EUR-USD** Short term implied valuations remain underpinned ahead of the ECB later today, although the pair is trading slightly rich relative to its implied confidence intervals. Expect the EUR_USD to remain anchored at 1.2400 in the interim.



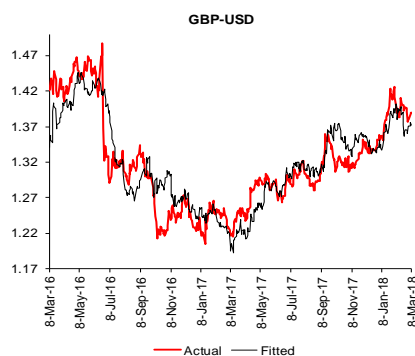
Source: OCBC Bank

- **USD-JPY** Preference to remain top heavy on the USD-JPY despite calmer market conditions amidst inherent US-specific risks surrounding the greenback. If the foothold at 106.00 is lost, expect slippage towards 105.25.



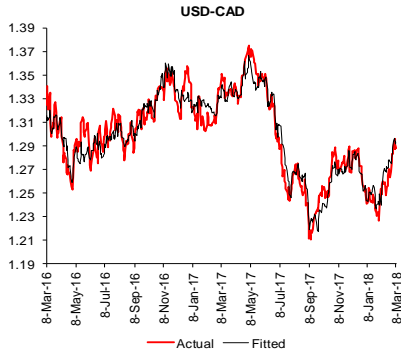
Source: OCBC Bank

- **AUD-USD** Jan trade numbers surprised on the upside at AUD1.06bn and may play into the hands of still supported short term implied valuations, especially with risk appetite recovering slightly in the last 24 hours. In the near term, expect a range bordered by the 200-day MA (0.7794) and 0.7850 up top.



Source: OCBC Bank

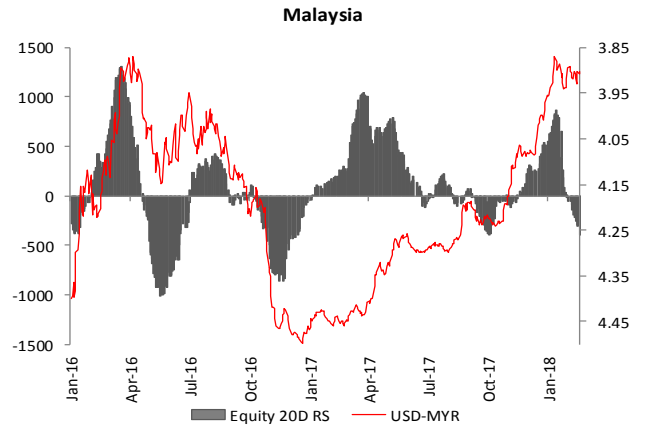
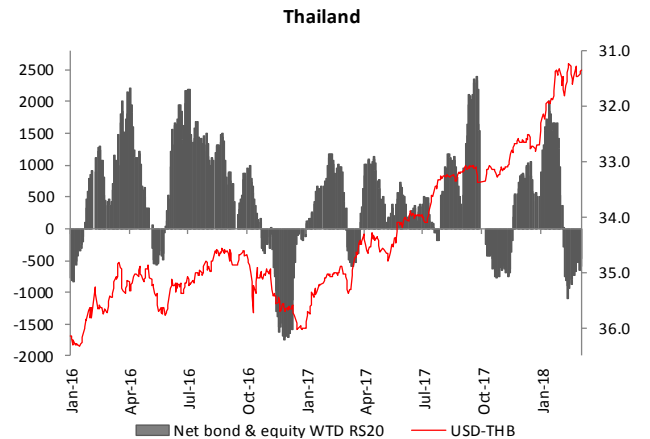
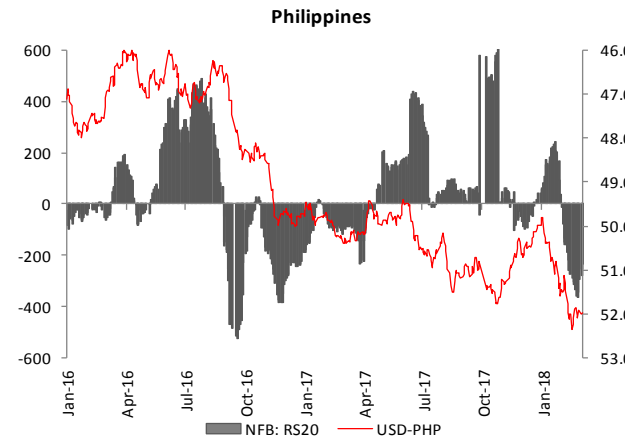
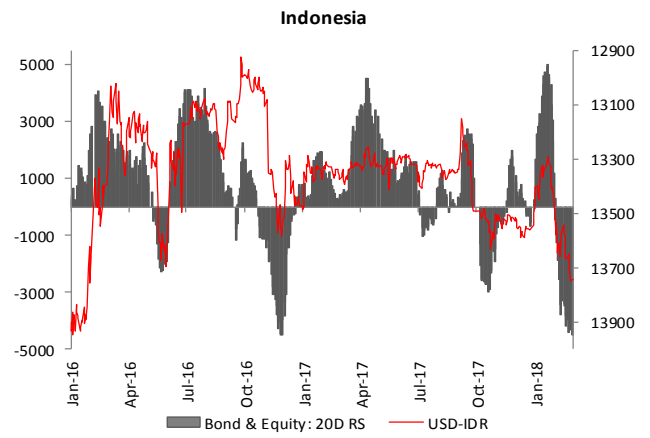
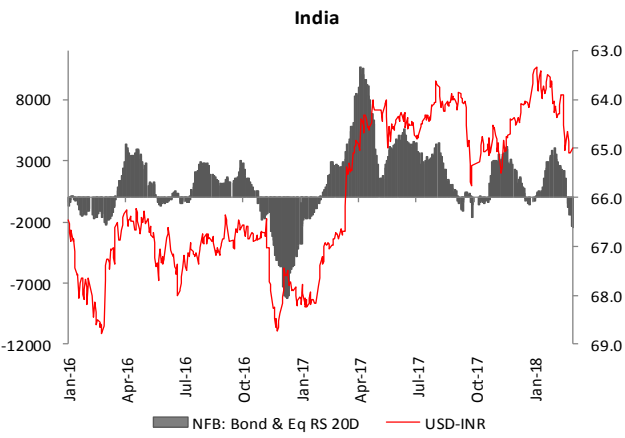
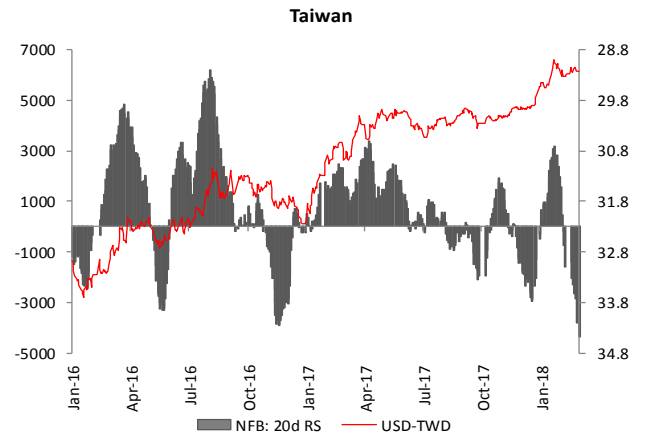
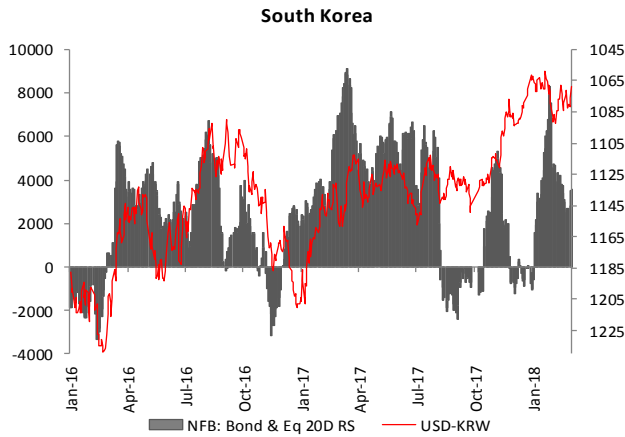
- **GBP-USD** Despite supported short term implied valuations, GBP-USD may remain range bound within its 55-day MA (1.3828) and 1.4000 ahead of the ECB. Meanwhile, note continued tension between Britain and the EU after the latter released its draft guidelines for Brexit on Wednesday.



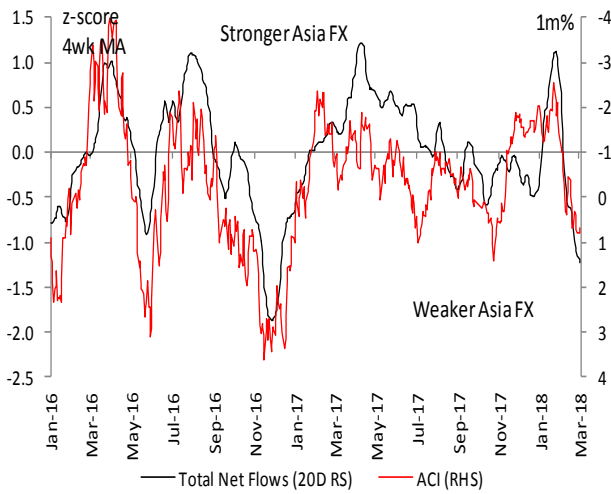
- USD-CAD** The Bank of Canada at its policy meeting on Wednesday continued to convey a sufficient degree of caution (citing trade uncertainty) with respect to its prognosis. Although Canada may ultimately be exempted from wide ranging US tariffs on steel and aluminum, the NAFTA overhang may continue to plague the loonie. The resistance at 1.3000 may continue to be eyed.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

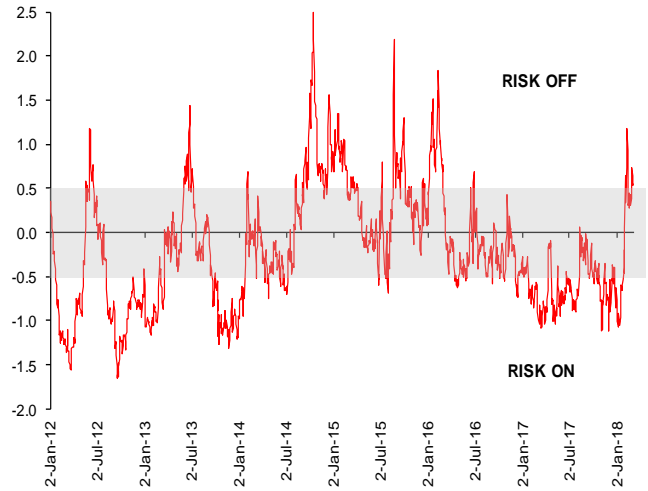


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.338	-0.115	-0.360	-0.117	-0.146	0.358	-0.079	0.312	-0.068	0.600	-0.950
SGD	0.871	-0.399	-0.184	-0.692	-0.301	-0.422	0.630	-0.251	0.641	-0.057	0.639	-0.887
CHF	0.842	-0.262	-0.303	-0.107	-0.063	0.083	0.143	0.021	0.114	-0.246	0.430	-0.600
CNH	0.600	-0.054	0.617	-0.460	-0.052	-0.119	-0.008	-0.226	0.155	0.204	1.000	-0.586
INR	0.518	0.112	0.510	0.319	0.452	0.555	-0.456	0.352	-0.459	0.052	0.476	-0.433
MYR	0.499	-0.499	0.127	-0.704	-0.564	-0.735	0.522	-0.611	0.589	0.370	0.327	-0.461
THB	0.497	-0.408	-0.121	-0.897	-0.645	-0.612	0.744	-0.405	0.811	0.073	0.486	-0.498
KRW	0.447	-0.556	-0.253	-0.712	-0.634	-0.532	0.684	-0.269	0.792	0.003	0.079	-0.446
CAD	0.438	0.139	0.417	0.256	0.254	0.517	-0.577	0.186	-0.446	0.033	0.426	-0.196
IDR	0.362	0.062	0.607	0.251	0.165	0.381	-0.637	0.044	-0.515	0.283	0.385	-0.183
JPY	0.358	-0.433	-0.685	-0.576	-0.519	-0.547	1.000	-0.187	0.822	-0.313	-0.008	-0.406
TWD	0.025	-0.547	0.000	-0.743	-0.758	-0.702	0.489	-0.583	0.701	0.295	0.000	0.019
CNY	-0.115	0.296	1.000	0.038	0.226	0.140	-0.685	-0.137	-0.431	0.662	0.617	0.094
USGG10	-0.338	1.000	0.296	0.441	0.368	0.296	-0.433	0.155	-0.640	0.224	-0.054	0.307
PHP	-0.395	0.618	0.702	0.568	0.509	0.386	-0.726	0.119	-0.795	0.397	0.018	0.347
GBP	-0.833	0.396	-0.148	0.376	0.264	0.184	-0.081	0.308	-0.232	-0.056	-0.529	0.673
AUD	-0.839	0.181	-0.280	0.234	-0.047	-0.137	0.081	-0.004	-0.057	0.013	-0.708	0.735
NZD	-0.890	0.415	-0.002	0.381	0.215	0.113	-0.184	0.152	-0.292	0.015	-0.615	0.761
EUR	-0.950	0.307	0.094	0.330	-0.026	0.144	-0.406	-0.005	-0.303	0.103	-0.586	1.000

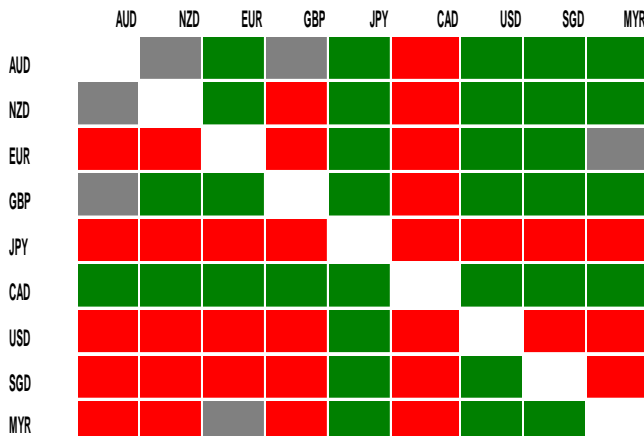
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2266	1.2400	1.2404	1.2490	1.2500
GBP-USD	1.3865	1.3900	1.3904	1.4000	1.4079
AUD-USD	0.7791	0.7800	0.7828	0.7892	0.7900
NZD-USD	0.7200	0.7267	0.7287	0.7300	0.7406
USD-CAD	1.2671	1.2800	1.2887	1.2900	1.2930
USD-JPY	105.25	106.00	106.11	107.00	108.53
USD-SGD	1.3081	1.3100	1.3148	1.3200	1.3201
EUR-SGD	1.6194	1.6300	1.6309	1.6373	1.6400
JPY-SGD	1.2185	1.2300	1.2390	1.2400	1.2483
GBP-SGD	1.8173	1.8200	1.8281	1.8300	1.8307
AUD-SGD	1.0204	1.0214	1.0292	1.0300	1.0420
Gold	1303.41	1303.60	1327.80	1329.42	1355.81
Silver	16.12	16.40	16.47	16.50	16.82
Crude	58.84	61.30	61.33	61.40	62.51

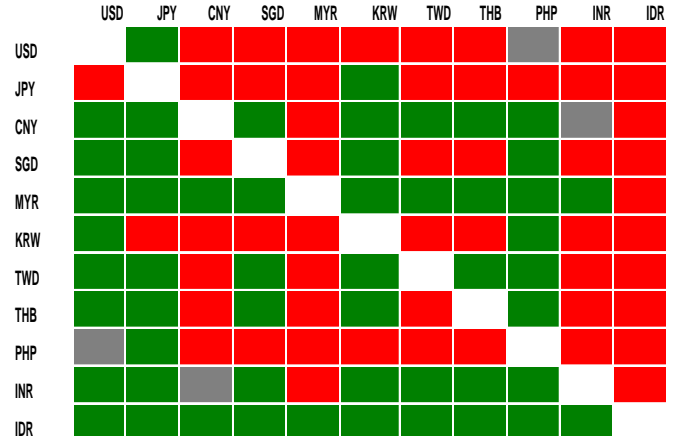
Source: OCBC Bank

G10 FX Heat Map



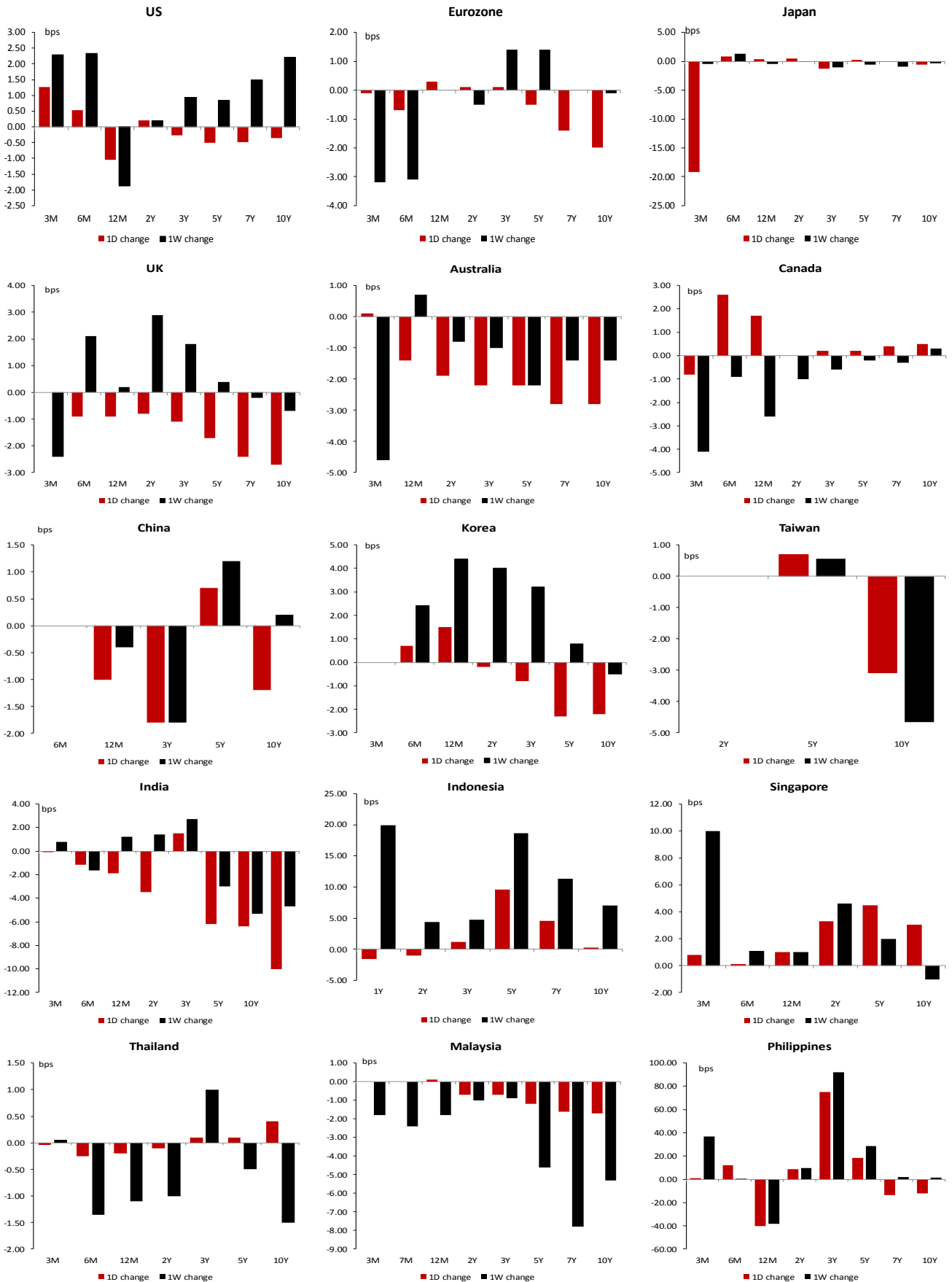
Source: OCBC Bank

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	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 cyclicals	-1.03
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Source: OCBC Bank

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