

Tuesday, May 08, 2018

FX Themes/Strategy/Trading Ideas

- The greenback chalked up further gains against most of the majors on Monday with the DXY still bouncing within 92.50-93.00. Notably, the EUR-USD was also undermined by softer than expected March factory orders (-0.9% mom) and dipped briefly below 1.1900.
- Expect all eyes to be on the Fed's Powell today at 0715 GMT, while the ECB's Liikanen is due at 1400 GMT. The data feed includes Australian 1Q retail sales (0130 GMT), and German March industrial production (0600 GMT). In Asia, China's April trade numbers may also garner some interest.
- On the risk appetite front, note that the **FXSI (FX Sentiment Index)** still ticked higher despite positive global equities as we continue to detect nascent nervousness on the EM front. This we think continues to warrant attention as investor caution continues to accumulate.
- Structurally, the broad dollar may be losing positive impetus from either nominal US yields or aggregated rate differential arguments, leading to the suspicion that the dollar run may be approaching near term satiation. As noted previously, investors may then look increasingly to potential negatives arising from the other major central banks.
- Pending further headline risks, expect consolidative behavior to persist, with the DXY still seen trapped within 92.50-93.00. On this front, the EUR may remain a relative punching bag for ongoing dollar bullishness.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

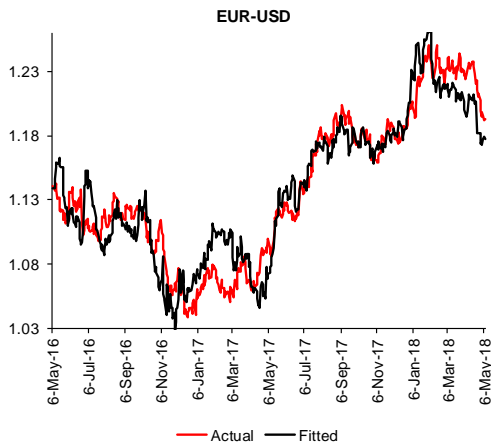
ngcyemmanuel@ocbc.com

Terence Wu

+65 6530 4367

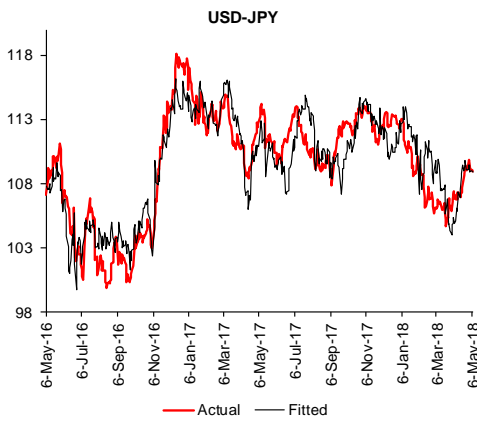
TerenceWu@ocbc.com

G7



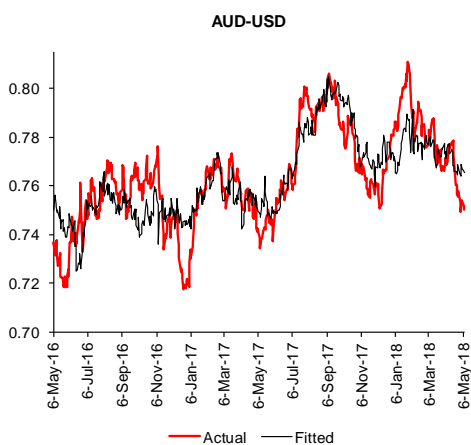
- **EUR-USD** Short term implied valuations are attempting to stabilize but downside scope for the pair may continue to beckon in the near term, especially if the EZ data feed proves less than encouraging. Look towards 1.1835 if 1.1900 is violated on a sustained basis.

Source: OCBC Bank



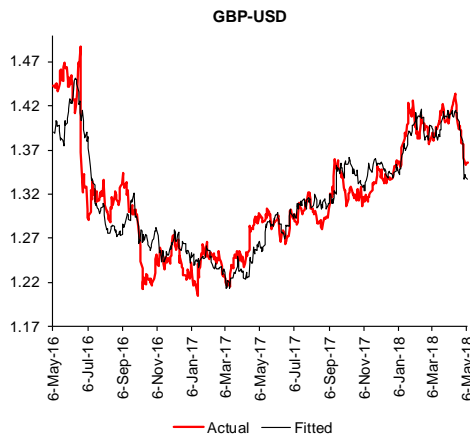
- **USD-JPY** Unlike previous episodes, USD strength may not manifest too effectively via the USD-JPY, especially if risk aversion begins to seep into the equation. With short term implied valuations for the pair also inching lower slightly, the pair may continue bounce around within 108.50-109.50 instead.

Source: OCBC Bank

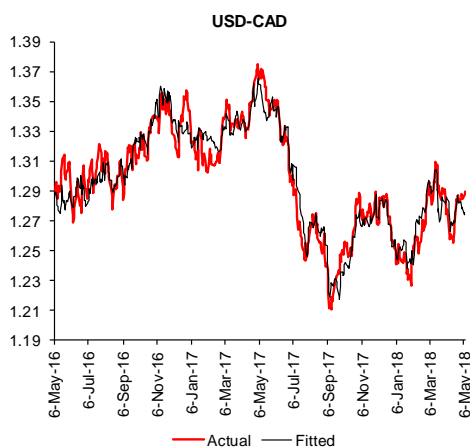


- **AUD-USD** The 0.7500 floor may remain fragile (ahead of 0.7470) with slightly negative undertones from China's April trade numbers this morning. Notably, short term implied valuations remain soggy at this juncture despite the pair still looking relatively stretched on the downside.

Source: OCBC Bank



- GBP-USD** Our near term view remains unchanged and 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 (1.3544) is in imminent danger of being breached on a sustained basis. Next visible downside objective kicks in at 1.3416 if 1.3500 is taken out.



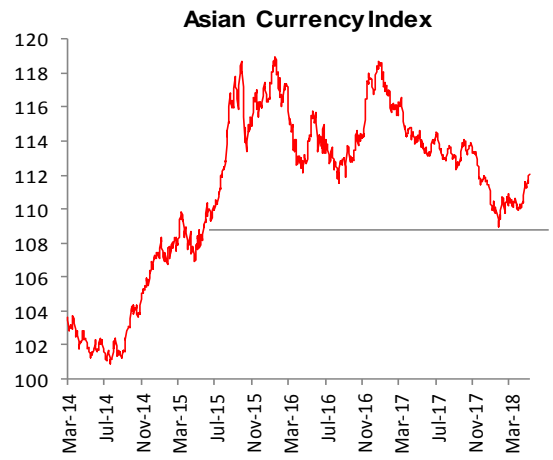
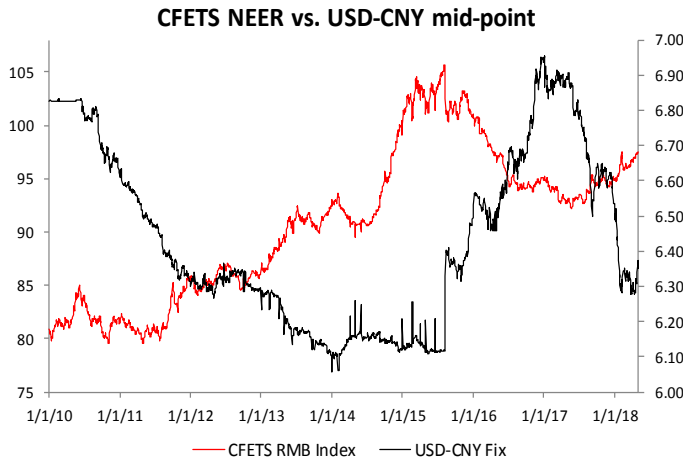
- USD-CAD** With another round of Nafta talks ongoing, the USD-CAD may continue to attempt to hug (and bounce off) its 55-day MA (1.2823) despite firm crude prices.

Source: OCBC Bank

Asian FX

- In Asia, the North-South divide may continue to persist with India, Indonesia (note disappointing GDP numbers), and Thailand continuing to experience deepening outflow pressures. Meanwhile, South Korea has continued to clock improving inflows. Elsewhere, TWD continues to experience net outflows while the attempted compression in net outflows for the Philippines has stalled. With crude at 70, note also additional negativity being attached to the likes of the INR. Overall, in light of increasing nervousness towards EM (and in Asia), expect the **ACI (Asian Currency Index)** to continue to reach higher (i.e., stronger dollar).
- SGD NEER:** The SGD NEER is softer on the day at around +0.34% above its perceived parity (1.3409) with NEER-implied USD-SGD thresholds continuing to grind higher in the current USD environment. At current levels, the +0.20% (1.3382) threshold and the +0.50% (1.3343) threshold should hold intra-day pending further external risks. Given the prevailing USD demeanor, the 200-day MA (1.3384) we think will continue to remain under threat.
- CFETS RMB Index:** This morning, the USD-CNY mid-point once again came in slightly firmer than expected at 6.3674, from 6.3584 yesterday. This kept the

CFETS RMB Index essentially stable at 97.48, unchanged from yesterday.



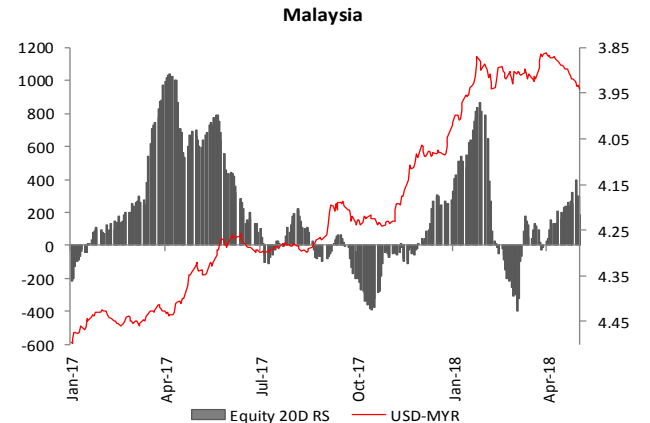
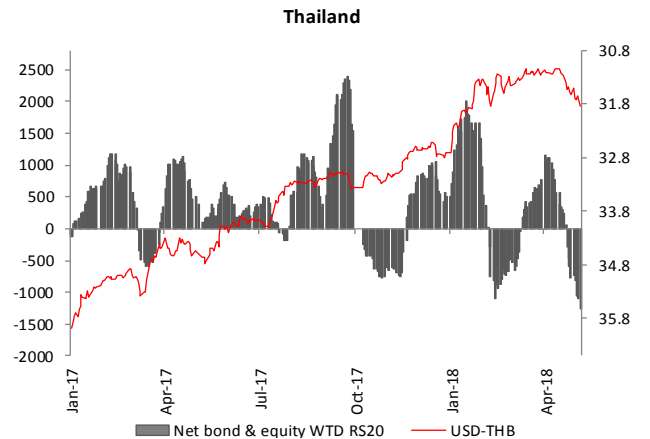
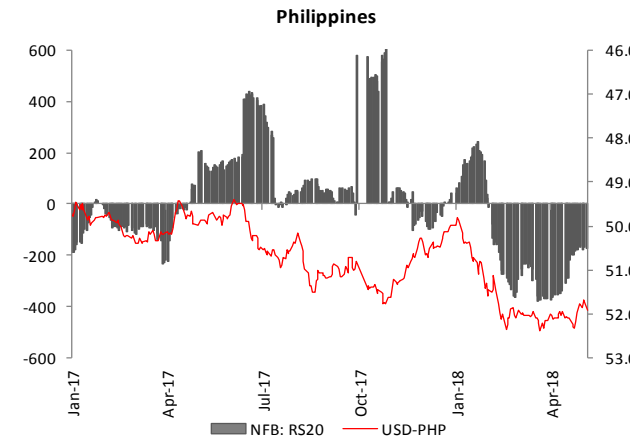
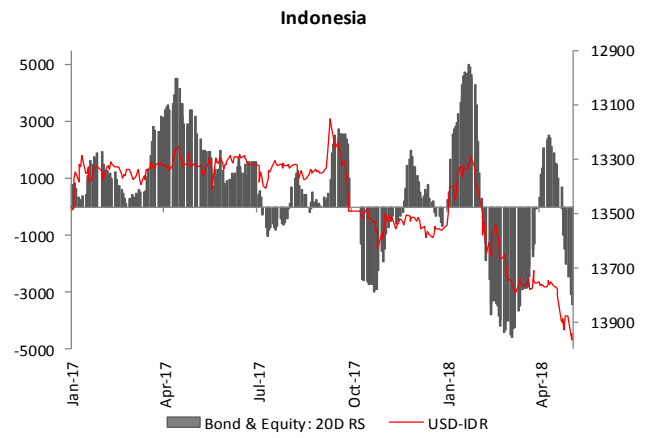
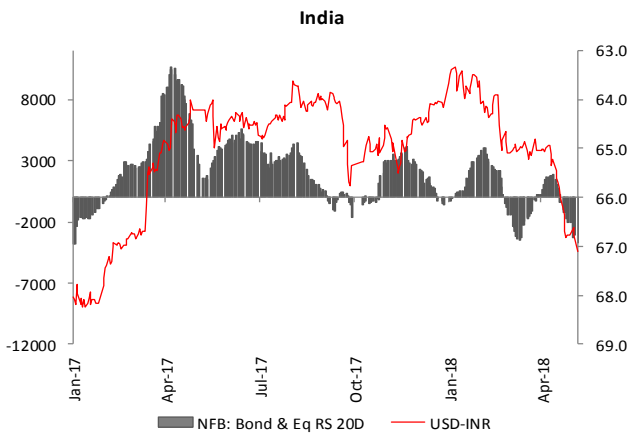
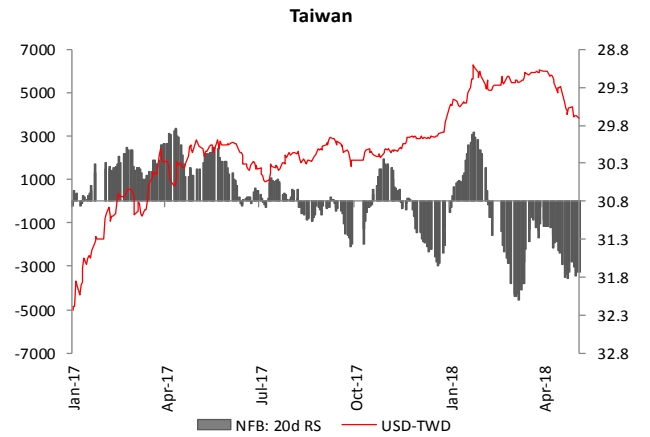
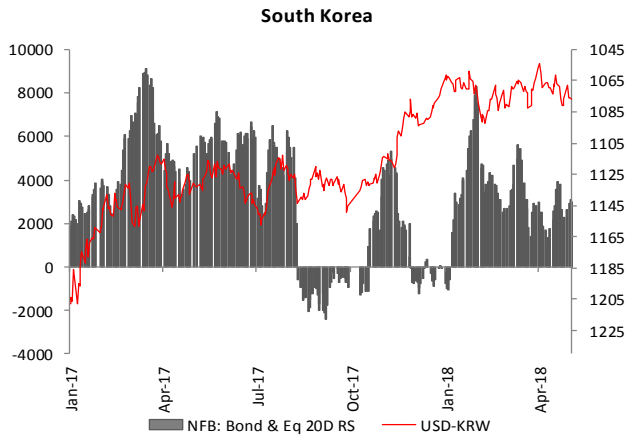
Source: OCBC Bank, Bloomberg

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	↑	Disappointing GDP numbers, 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

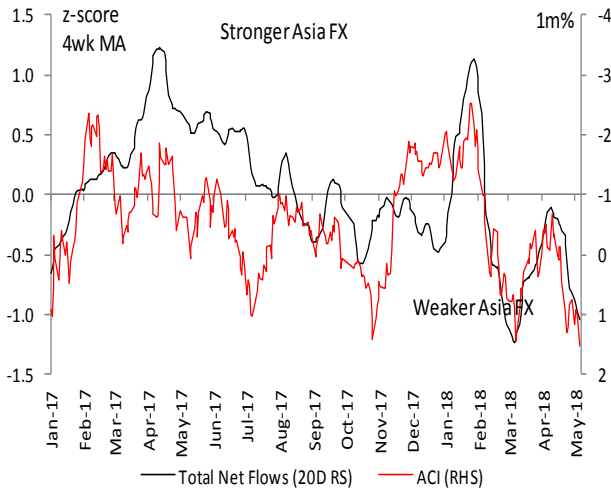
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



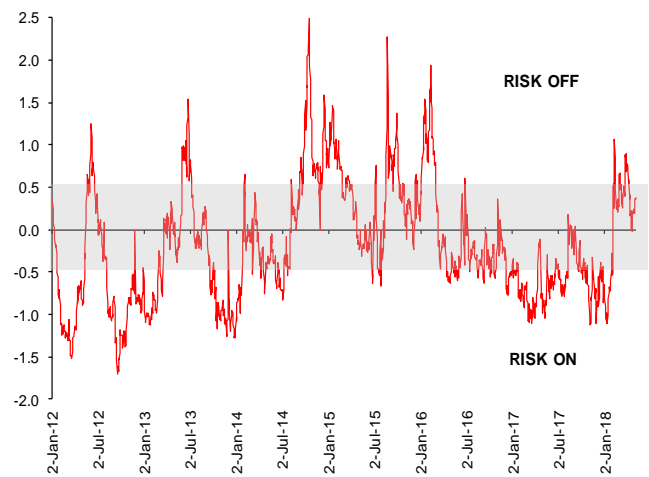
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRKEK	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	1.1898	1.1900	1.1919	1.2000	1.2017
GBP-USD	1.3500	1.3538	1.3557	1.3600	1.3957
AUD-USD	0.7473	0.7500	0.7502	0.7600	0.7694
NZD-USD	0.6985	0.7000	0.7017	0.7100	0.7156
USD-CAD	1.2850	1.2870	1.2900	1.2944	1.3008
USD-JPY	107.12	108.00	108.97	109.00	110.04
USD-SGD	1.3170	1.3300	1.3367	1.3374	1.3376
EUR-SGD	1.5900	1.5910	1.5932	1.6000	1.6069
JPY-SGD	1.2142	1.2200	1.2266	1.2280	1.2296
GBP-SGD	1.8100	1.8104	1.8121	1.8200	1.8385
AUD-SGD	0.9971	1.0000	1.0028	1.0100	1.0135
Gold	1302.30	1310.83	1313.40	1329.05	1362.33
Silver	16.00	16.40	16.42	16.50	16.50
Crude	65.95	69.90	69.95	70.00	70.31

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		2	1	1	2	1	1	9	9
NZD	2		2	1	1	1	1	1	1
EUR	1	2		2	1	1	1	1	1
GBP	1	1	2		1	1	1	1	1
JPY	2	1	1	1		2	2	1	1
CAD	1	1	1	1	2		2	2	2
USD	1	1	1	1	2	2		2	2
SGD	9	1	1	1	1	2	2		2
MYR	9	1	1	1	1	2	2	2	

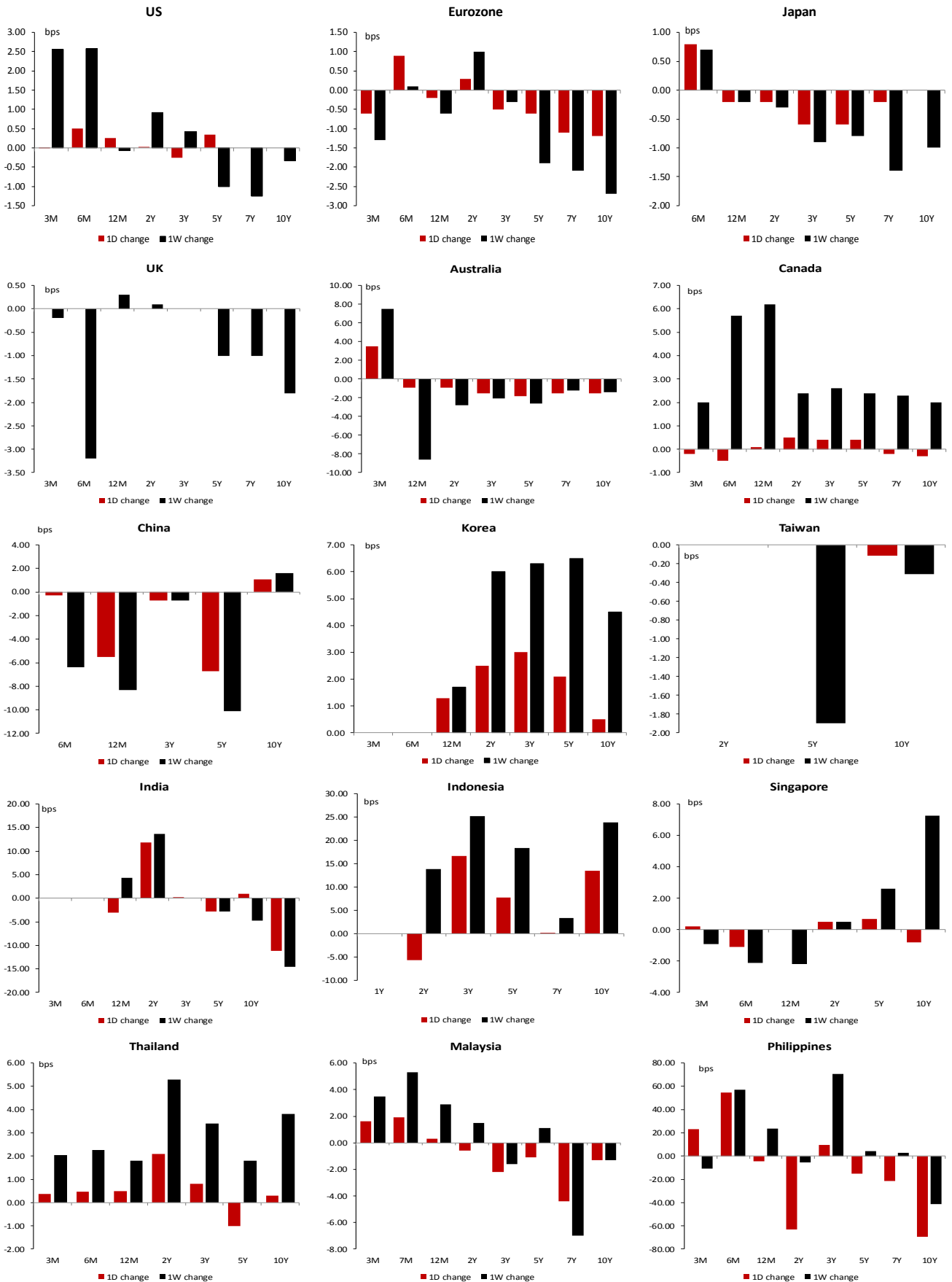
Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		2	2	2	2	2	2	2	1	2	2
JPY	2		2	1	1	2	2	1	1	1	1
CNY	2	2		1	1	1	9	2	1	2	1
SGD	2	1	1		2	1	1	2	1	1	1
MYR	2	1	1	2		1	1	2	1	1	1
KRW	2	2	1	1	1		1	1	2	1	1
TWD	2	2	9	1	1	1		2	1	9	1
THB	2	1	2	2	2	1	2		1	1	1
PHP	1	1	1	1	1	2	1	1		2	2
INR	2	1	2	1	1	1	9	1	2		1
IDR	2	1	1	1	1	1	1	1	2	1	

Source: OCBC Bank

Government bond yield changes



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 and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

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).
