

Monday, April 09, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Amid the overhang from global trade tensions, the dollar fell against the EUR, GBP, and CHF as rhetoric out of China (from the Commerce Ministry on Friday) grew increasingly strident. Note however that the cyclicals closed largely flat against the USD and trailed their G10 peers. The JPY also outperformed across the board as risk appetite remained cautious, with the **FXSI (FX Sentiment Index)** ticking higher within **Risk-Off** territory (where it has loitered for the past 12 sessions).
- The USD also found no favors from the data front. The **March NFP** disappointed at +185k, with the 2-month revision at -50k. Average hourly earnings meanwhile clocked an expected +0.3% but the unemployment rate rose to 4.1%. The **Fed's Powell** meanwhile kept to the mantra of gradual rate hikes and noted that it is too early to gauge the potential impact of trade war tensions.
- On the **CFTC** front, large non-commercial accounts, leveraged accounts, as well as asset manager accounts, pared their net implied dollar shorts in the latest week. With the data now relatively dated (as of last Tuesday), while the temperature on the trade tension front picked up perceptibly towards the latter part of the week, look instead towards actual price discovery across the different currency pairs for near term cues instead.
- This week, **FOMC minutes** are due on Wednesday while Fed appearances are penciled in from Tuesday to Friday. On this front, **watch for further Fed rhetoric with respect to the potential deleterious effects of a global (US-Sino) trade war, with the attendant tempering of rate hike projections.**
- On the **ECB** front, markets may have to contend with increased central bank speak, with scheduled appearances from Monday-Thursday, starting with Constancio (1300 GMT) and Praet (1645 GMT) today. **Draghi's** appearance on Wednesday may be noteworthy, while ECB meeting minutes are due on Thursday. **This week, watch for any references to global trade tensions (and its impact on the EZ economy), although attention may remain more focused any potential signaling with respect to the ECB's forward guidance for the coming months.**
- **Data points to watch** include US March CPI readings on Wednesday, **China** March monetary aggregates (sometime this week), China March CPI/PPI readings on Wednesday, as well as China March trade numbers on Friday. On the central bank front, the **BOK** is expected to remain static at 1.50% on Thursday.

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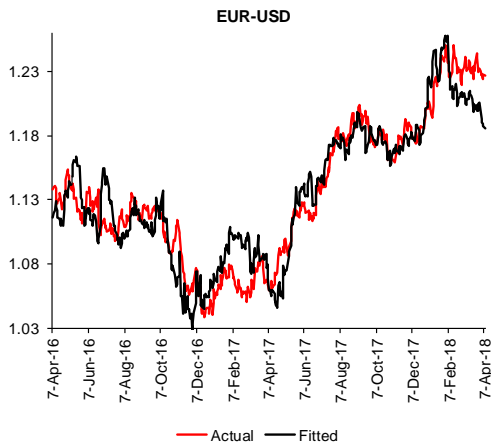
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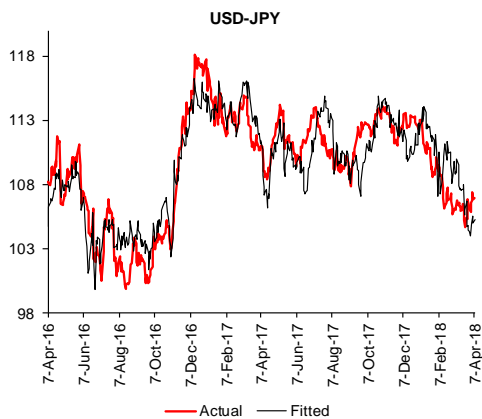
- Overall, while global long-end yields may continue to remain suppressed in the current environment, dollar behavior is expected to remain bipolar. At this juncture, the greenback may remain negatively afflicted against the EUR and the GBP, but holdup up against the cyclicals (antipodeans) instead. Depending on the severity of prevailing global trade tensions, EM FX may remain relatively sheltered but if risk aversion heightens appreciably, expect the USD to climb against EM/Asian FX instead.

G7



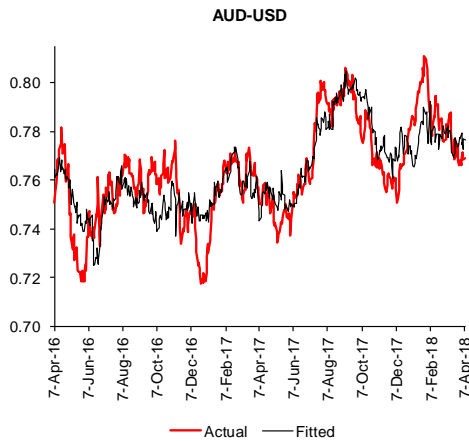
- **EUR-USD** Short term implied valuations remain oriented south (preference to stay top heavy), perhaps in anticipation of a slightly less confident ECB going ahead. Expect resistance towards 1.2300 and the 55-day MA (1.2339) thereafter, while the downside is expected to remain supported on approach of 1.2200 and the 100-day MA (1.2158).

Source: OCBC Bank



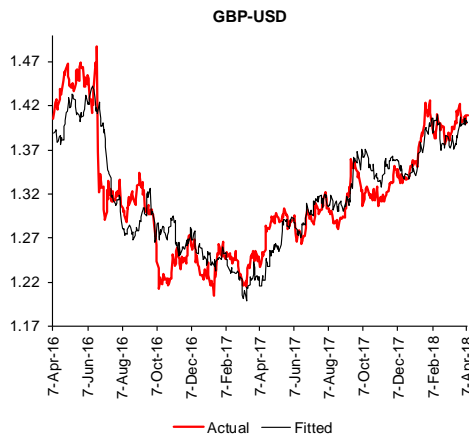
- **USD-JPY** The 55-day MA (107.21) may continue to repel upticks if risk appetite remains wary in the near term. Short term implied valuations for USD-JPY meanwhile remain top heavy, with risks towards further decay towards 106.00 is trade tensions spike.

Source: OCBC Bank

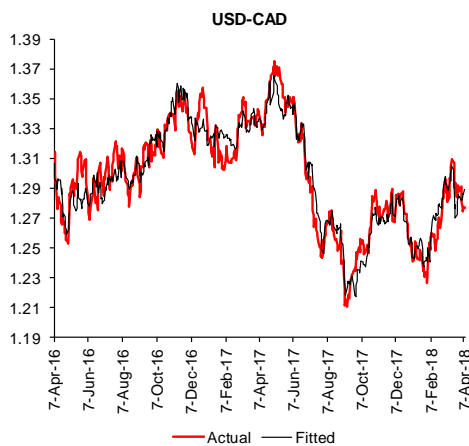


- AUD-USD** With respect to domestic cues, the RBA's Lowe speaks on Wednesday while the RBA's Financial Stability Report is due on Friday. In the interim, price action may remain moribund, trapped between slight risk aversion and incipient USD weakness. Short term implied valuations also remain suppressed and expect the 0.7700 area to remain a near term intersection pending further headline risks.

Source: OCBC Bank



- GBP-USD** GBP-USD may remain relatively restrained multi-session with short term implied valuations fairly static of late. The BOE's Haldane is on tap tomorrow at 0930 GMT and the 1.4000 support may continue to hold with interim resistance seen towards 1.4200.

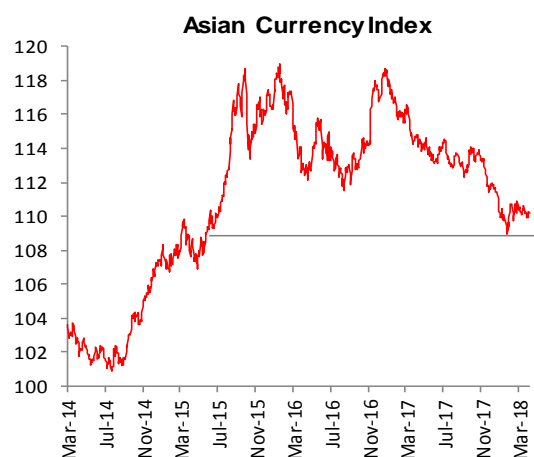
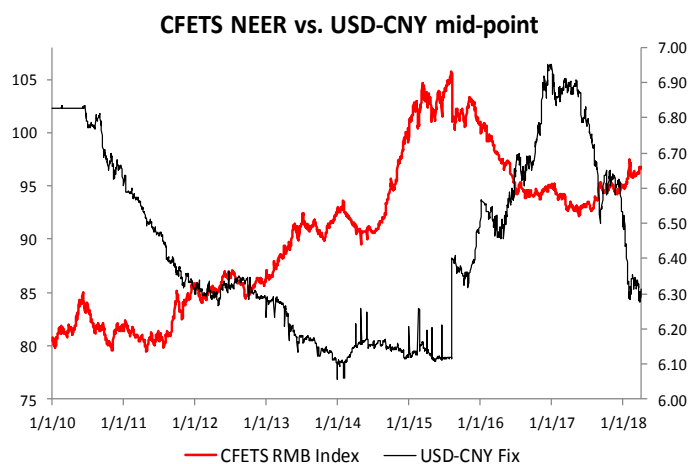


- USD-CAD** The Bank of Canada's Carney speaks on Thursday. While background Nafta optimism may deter undue topside in the pair in the short term, broader risk appetite considerations may also cap excessive loonie optimism. Short term implied valuations are attempting to tick higher as a result. Overall, investors may be expected to fade any upticks towards 1.2850 pending further external headlines.

Source: OCBC Bank

Asian FX

- Global EM equities were chipped away throughout last week and going ahead, sentiment with respect to Asia may well turn on a dime (i.e., negative) if risk appetite deteriorates significantly. Going ahead, this space may remain a minefield of potential negative, ranging from expected comments from **Chinese President Xi Jinping** at a keynote speech on Tuesday to the **US Treasury Report on FX manipulation** in the middle of the month. In the interim, expect the **ACI (Asian Currency Index)** to remain rangy to slightly top heavy.
- **EPFR** data showed implied net portfolio inflows into Asia (excl Japan, China) jumped in the latest week while net bond outflows flipped to a net positive balance.
- **Net Asian portfolio inflows** meanwhile may be on increasingly thin ice if US-Sino trade tensions continue to accumulate. In the interim, net positive inflows for South Korea are now moderating (especially for bonds). Elsewhere, India continues to benefit from strong equity inflow momentum, while Indonesia and Thailand have benefitted from significant positive net bond inflows.
- **India:** The RBI increased the foreign investor limits of central government bonds to 5.5% in FY18, and to 6.0% in FY19. Foreign investors should take up this increase in limits fairly quickly, and expect this move to provide a further boost the government bond markets.
- **SGD NEER:** The **MAS MPS** (Monetary Policy Statement) is scheduled for Friday while the SGD is slightly higher on the day (but well within recent ranges) at around +0.45% above its perceived parity. Expect a +0.20% (1.3174) to +0.50% (1.3135) range intra-day for the NEER.
- **CFETS RMB Index:** After the extended break last week, the USD-CNY mid-point rose more than we expected to 6.3114 from 6.2926 last. Nonetheless, this remains within historical parameter and took the CFETS RMB Index lower to 96.60 from 96.62. Near term view remains unchanged despite the recent heightening of trade tensions, with relative basket stability expected to remain a mainstay.

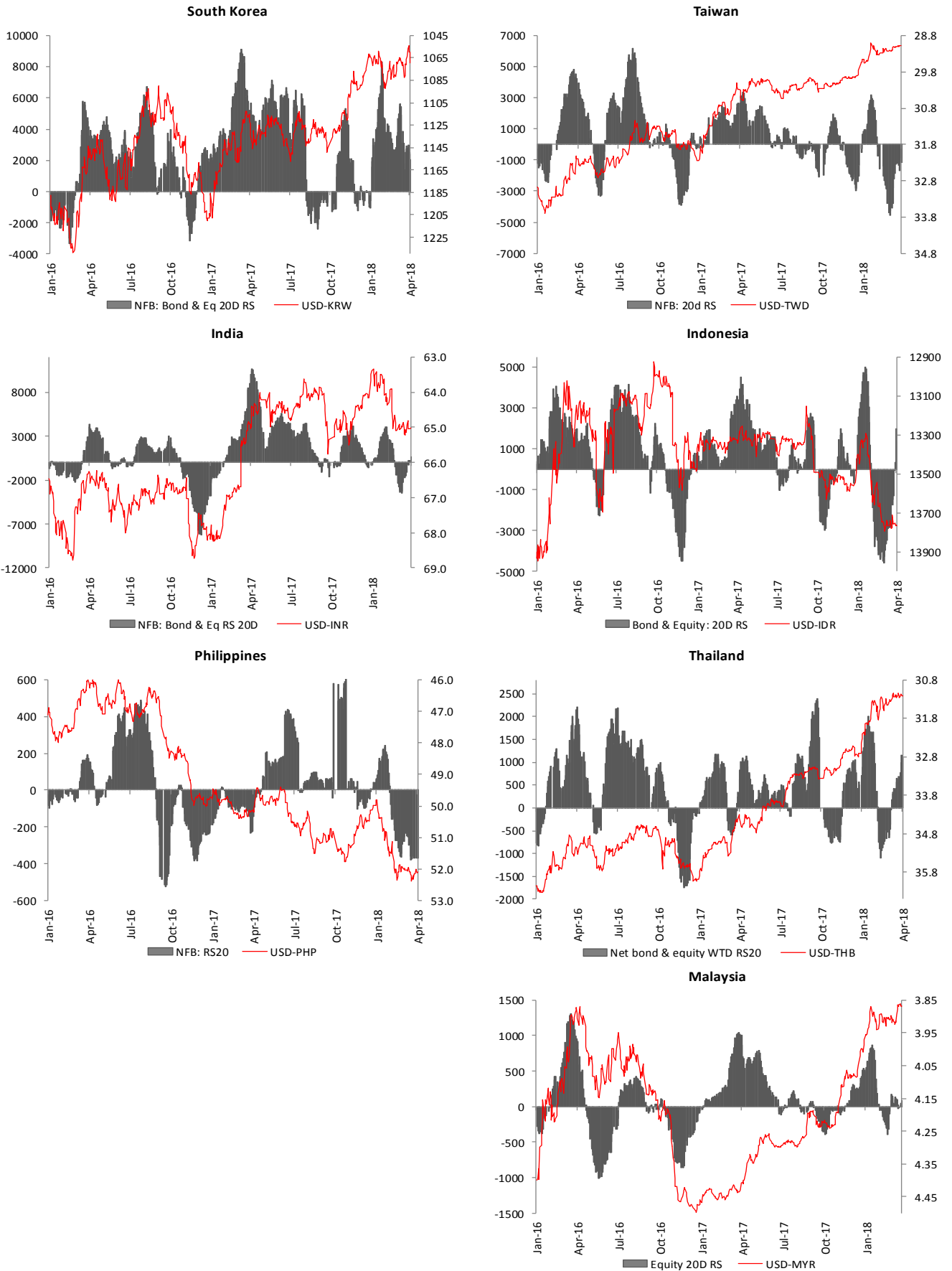


Source: OCBC Bank, Bloomberg

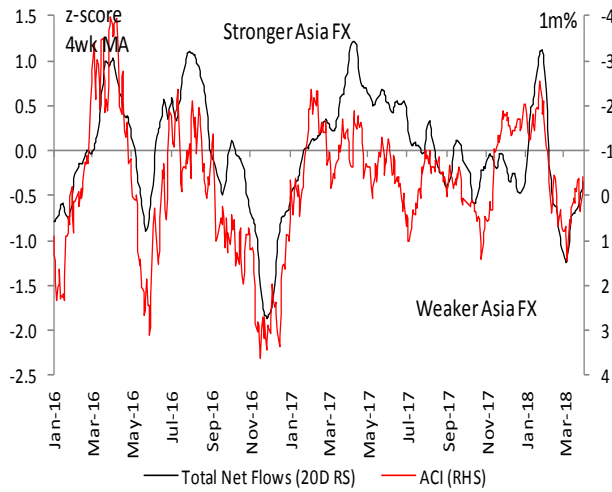
Currency	S.T. bias	Rationale
USD-CNH	↔	Relative stability of the CFETS RMB Index, RMB to shoulder potential volatility instead.
USD-KRW	↔/↓	Easing tensions with the North, supportive net portfolio flows
USD-TWD	↔/↑	Net equity outflows, new CBC governor non-hawkish
USD-INR	↔/↓	RBI static in March, net 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

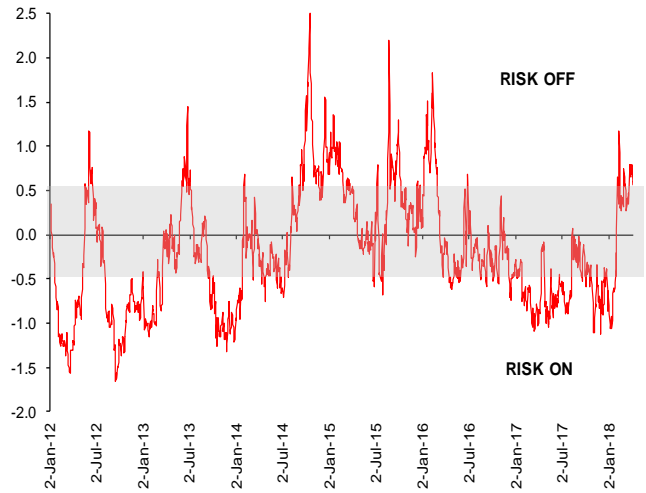


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.133	0.261	0.059	-0.147	-0.574	0.728	-0.343	-0.257	-0.032	0.232	-0.952
CHF	0.805	-0.352	-0.219	-0.413	-0.649	-0.615	0.687	0.025	0.162	0.442	-0.189	-0.855
JPY	0.728	-0.071	0.051	0.201	-0.174	-0.665	1.000	-0.503	-0.435	-0.144	0.035	-0.599
SGD	0.512	0.363	0.730	0.122	0.225	-0.237	0.129	-0.167	-0.082	-0.100	0.694	-0.631
INR	0.311	0.235	0.285	-0.182	-0.083	-0.115	0.085	0.310	0.203	0.323	0.172	-0.432
IDR	0.311	-0.141	0.160	-0.305	-0.421	-0.187	0.218	0.147	0.224	0.206	0.110	-0.426
CNY	0.261	0.739	1.000	0.677	0.770	-0.060	0.051	-0.474	-0.535	-0.584	0.970	-0.287
THB	0.232	0.614	0.970	0.599	0.699	-0.072	0.035	-0.526	-0.451	-0.569	1.000	-0.250
CNH	0.153	0.109	0.323	0.052	-0.017	0.042	0.157	0.027	-0.009	-0.050	0.305	-0.179
TWD	-0.004	0.531	0.608	0.844	0.755	-0.134	0.328	-0.763	-0.773	-0.839	0.592	0.162
CAD	-0.022	0.382	0.602	0.505	0.724	0.114	-0.302	-0.246	-0.362	-0.540	0.484	0.102
USGG10	-0.133	1.000	0.739	0.717	0.704	0.214	-0.071	-0.140	-0.590	-0.398	0.614	0.111
MYR	-0.282	0.797	0.807	0.610	0.816	0.416	-0.440	-0.124	-0.389	-0.453	0.731	0.228
AUD	-0.305	0.496	0.410	0.796	0.686	0.116	0.014	-0.574	-0.693	-0.755	0.384	0.455
NZD	-0.321	0.072	-0.104	0.352	0.100	-0.139	0.223	-0.439	-0.380	-0.398	-0.082	0.435
GBP	-0.540	-0.145	-0.484	-0.678	-0.474	0.349	-0.428	0.775	0.714	0.763	-0.477	0.347
PHP	-0.642	-0.060	-0.296	-0.500	-0.306	0.603	-0.599	0.768	0.637	0.570	-0.281	0.456
KRW	-0.664	0.364	0.169	-0.043	0.203	0.633	-0.577	0.438	0.248	0.135	0.188	0.534
EUR	-0.952	0.111	-0.287	0.121	0.254	0.543	-0.599	0.172	0.045	-0.161	-0.250	1.000

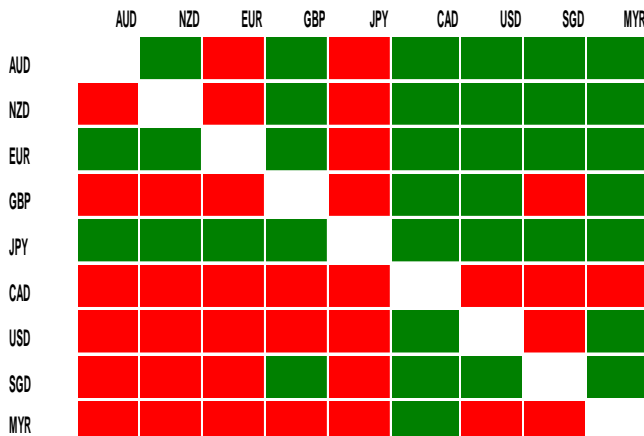
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2213	1.2272	1.2300	1.2335
GBP-USD	1.3988	1.4000	1.4091	1.4100	1.4203
AUD-USD	0.7600	0.7643	0.7682	0.7700	0.7806
NZD-USD	0.7183	0.7200	0.7274	0.7281	0.7300
USD-CAD	1.2705	1.2752	1.2780	1.2800	1.3115
USD-JPY	106.50	107.00	107.01	107.54	107.68
USD-SGD	1.3100	1.3165	1.3166	1.3194	1.3200
EUR-SGD	1.6072	1.6100	1.6157	1.6200	1.6239
JPY-SGD	1.2235	1.2300	1.2305	1.2306	1.2400
GBP-SGD	1.8416	1.8500	1.8551	1.8600	1.8653
AUD-SGD	1.0020	1.0100	1.0114	1.0200	1.0277
Gold	1306.06	1329.52	1332.50	1351.49	1356.80
Silver	16.11	16.30	16.39	16.40	16.53
Crude	60.10	62.10	62.15	62.20	62.77

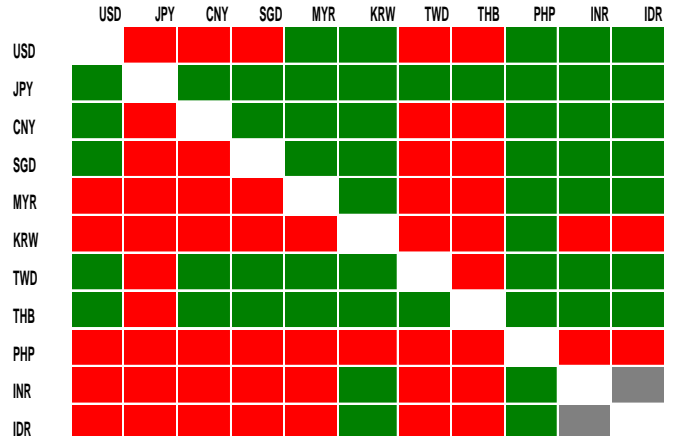
Source: OCBC Bank

G10 FX Heat Map



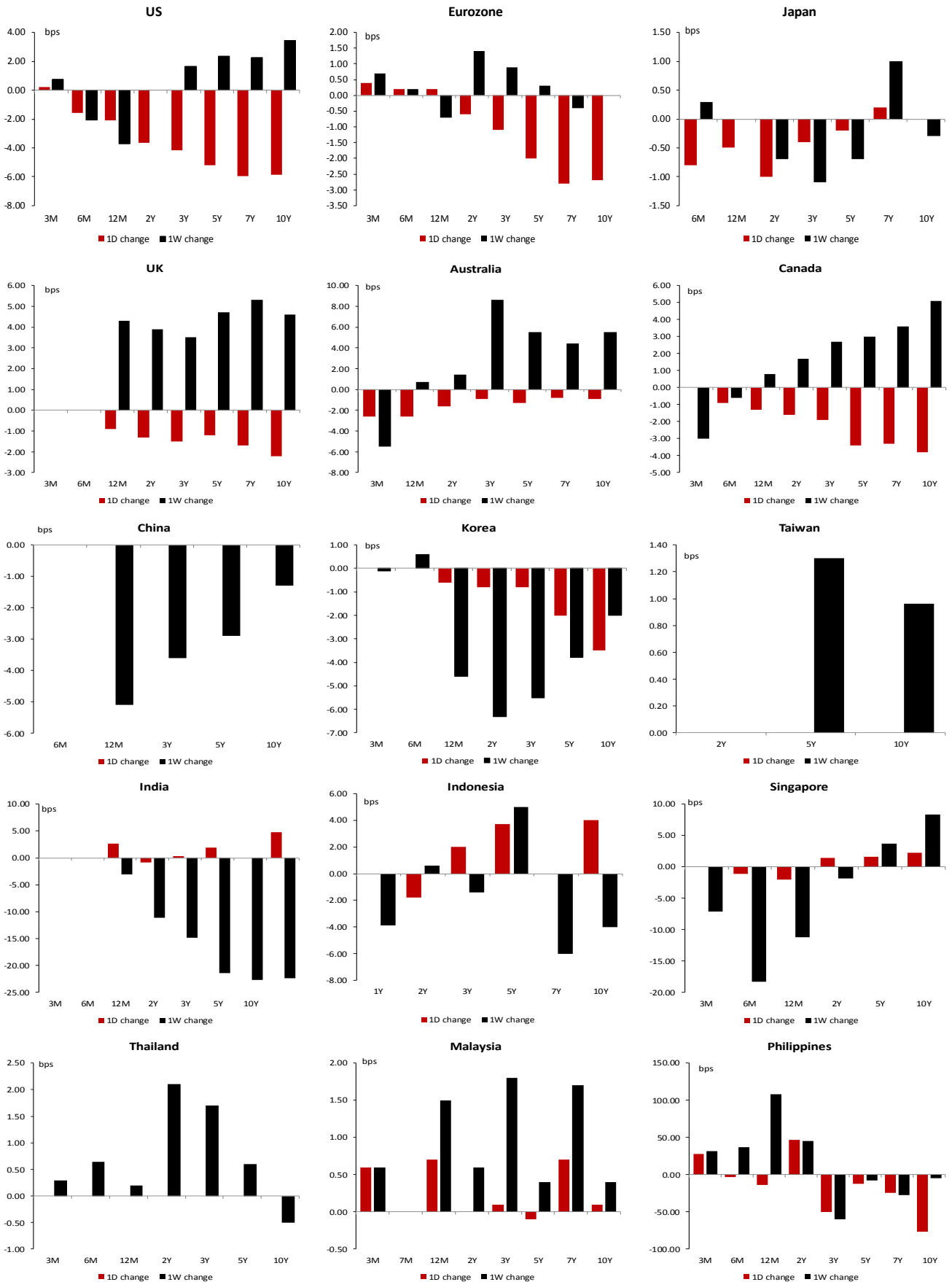
Source: OCBC Bank

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								
-	-	-	-	-	-	-	-	
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 cyclical	-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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