

Wednesday, March 14, 2018

**FX Themes/Strategy/Trading Ideas**

- The DXY sank below 90.00 with the dollar trading unevenly to softer despite risk appetite levels taking a dip. Meanwhile, the CAD and AUD underperformed across the board.
- On the data front, US CPI readings came in largely as expected on Tuesday with markets eventually overtaken by US-centric political/geopolitical trade war tensions. This resulted in the **FXSI (FX Sentiment Index)** ticking higher within Risk-Neutral territory.
- News emerged that President Trump is seeking to impose tariffs on up to USD 60bn of imports from China (under the auspices of Section 301 and specifically on the tech and telecom sectors) “in the very near future”.
- Earlier in the session, more White House volatility greeted the markets after US Secretary of State Rex Tillerson was fired (no less on twitter), with CIA Director Mike Pompeo (perceived to be more aligned to the President) to take the helm.
- With no catalysts from the US CPI readings overnight (with US 2/10s continuing to deflate), the onus may be thrown back at the other core central banks for further cues. Unfortunately, the resurgence of global trade tensions may once again distract. To this end, while the greenback may be selectively vulnerable, the broader implication of a more nervous risk appetite environment may dominate in the near term, bringing with it the usual uncertainty for EM and Asia. To this end, investors will remain on the lookout for any push back from China. Overall, markets may not be dislodged just yet from recent ranges, with short-end vol premiums (or discounts) currently not looking particularly excitable.
- For today, look potentially to the ECB for potential policy cues with a string of scheduled appearances (Coere, Draghi, Praet, Constancio, Villeroy). The data calendar brings German Feb CPI (0700 GMT), US Feb retail sales and PPI (1230 GMT). In Asia, China Feb data points (0200 GMT) include retail sales, industrial production, as well as urban fixed asset investments.
- With global risk appetite levels recovering and sustaining at neutral levels, we closed out our 08 Mar 18 idea to be tactically short **USD-JPY** (spot ref: 106.00) at 106.85 on Tuesday for an implied -0.83% loss.

Treasury Research &  
Strategy

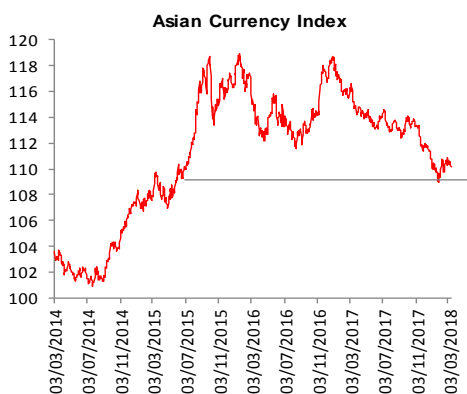
**Emmanuel Ng**

+65 6530 4073

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

### Asian FX

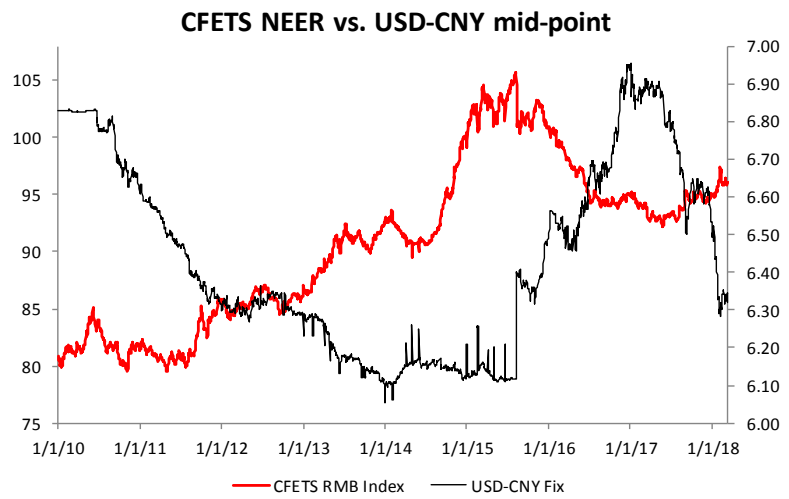
- EM FX was mixed overnight and with Asian equities off to a rocky start, expect the regional pairs to be supported on dips. Net portfolio inflows in Asia meanwhile continue to denote relative support for the KRW and THB, with continued attempts at stabilization for the TWD and IDR. Renewed trade tensions mixed with slight dollar negativity however may stymie the recent stabilization in regional sentiment and the **ACI (Asian Currency Index)** may remain within its recent range.
- **Indonesia:** BI governor Martowardojo stated that the narrowing window for easing does not portend rate hikes, stressing that policy remains neutral.
- **SGD NEER:** The SGD NEER is still holding steady to a touch lower on the day at around +0.49% above its perceived parity (1.3175) with NEER-implied USD-SGD thresholds softer from yesterday. Look for a +0.40% (1.3123) to +0.70% (1.3084) range intra-day. Downside support at 1.3100 may remain at risk of a breach (towards 1.3060) if trade-war risk aversion does not boil over.



	SGD NEER	% deviation	USD-SGD
<b>Current</b>	124.88	0.50	1.3109
<b>+2.00%</b>	126.74		1.2917
<b>Parity</b>	124.26		1.3175
<b>-2.00%</b>	121.77		1.3444

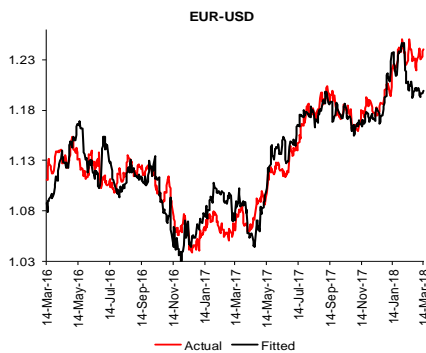
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fell (largely in line with expectations) to 6.3205 from 6.3218 yesterday. This saw the CFETS RMB Index edging lower to 96.04 from 96.06.



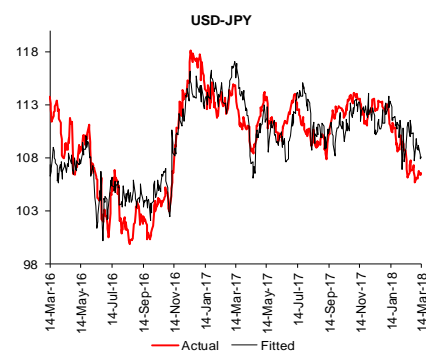
Source: OCBC Bank, Bloomberg

**G7**



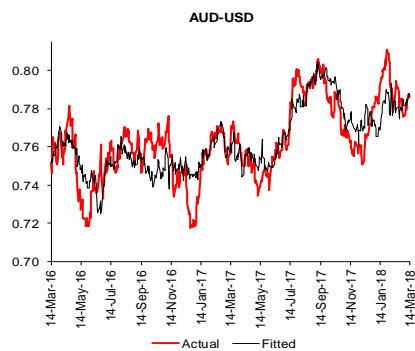
Source: OCBC Bank

- EUR-USD** Short term implied valuations have ticked slightly higher but essentially remain top heavy on a multi-session horizon. Ahead of ECB speak today, expect the EUR-USD to remain moored in the vicinity of 1.2400 amidst a mildly supported tone.



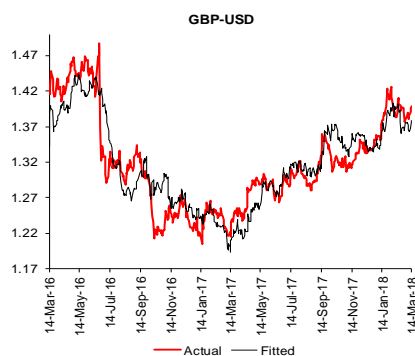
Source: OCBC Bank

- USD-JPY** If doubts towards political stability within the White House gains traction, the USD-JPY may continue to remain laden. BOJ MPC minutes also revealed caution towards inciting hawkish expectations. Short term implied valuations for USD-JPY retain a top heavy bias and the pair may remained bordered by 106.00-107.00, with 106.00 unlikely to be breached if risk aversion does not boil over.



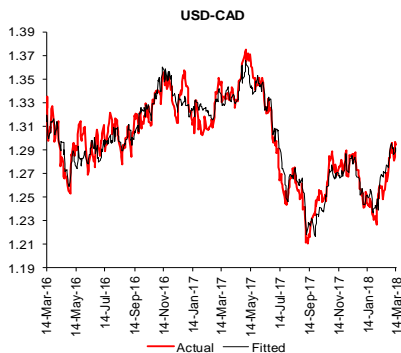
Source: OCBC Bank

- AUD-USD** Comments from the RBA's Kent covered both hawkish as well as dovish bases and AUD-USD may remain a function of risk appetite levels instead (i.e., trade war tensions). In the interim, the 55-day MA (0.7891) may cap (for now) although short term implied valuations remain relatively steady. Expect initial support towards 0.7850.



Source: OCBC Bank

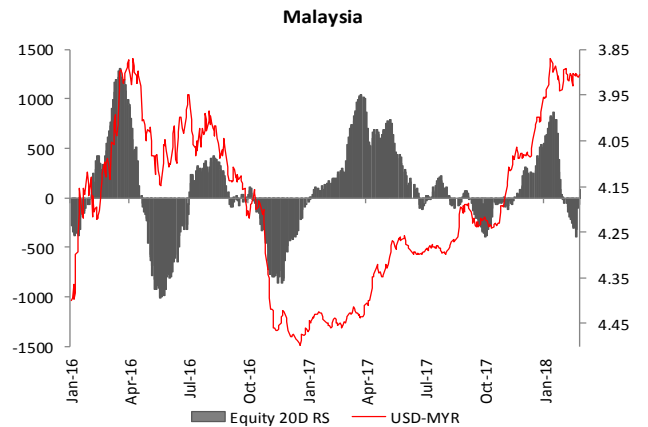
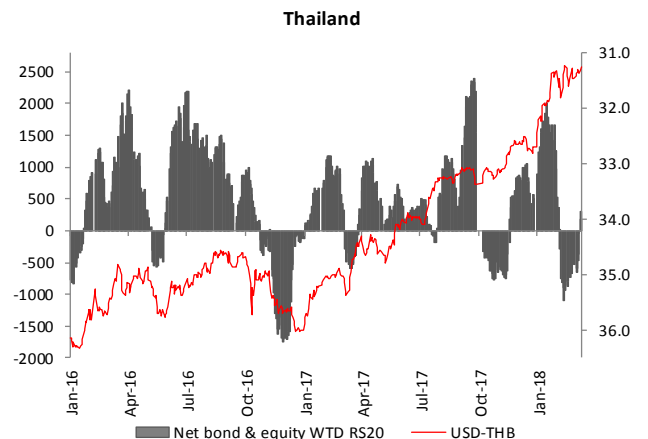
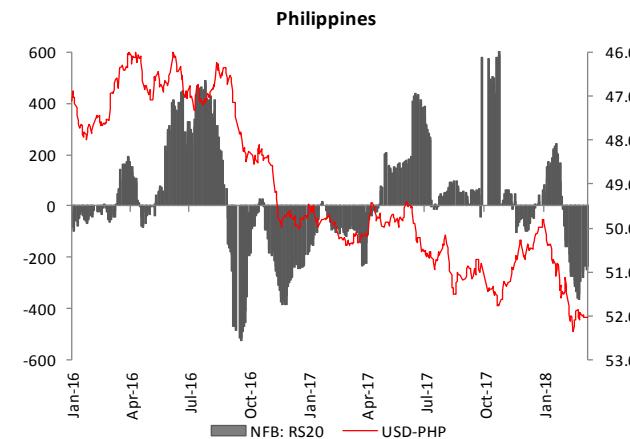
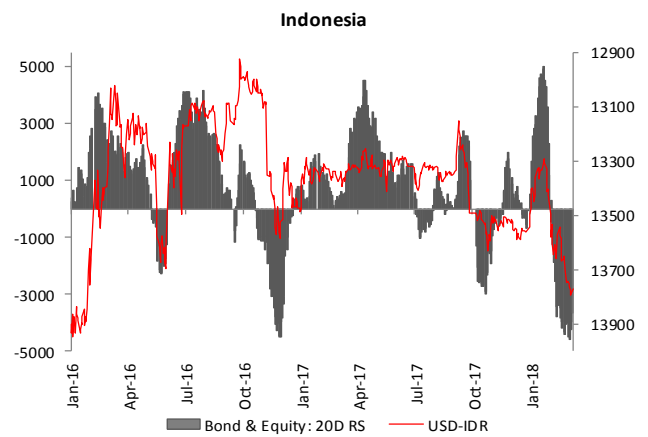
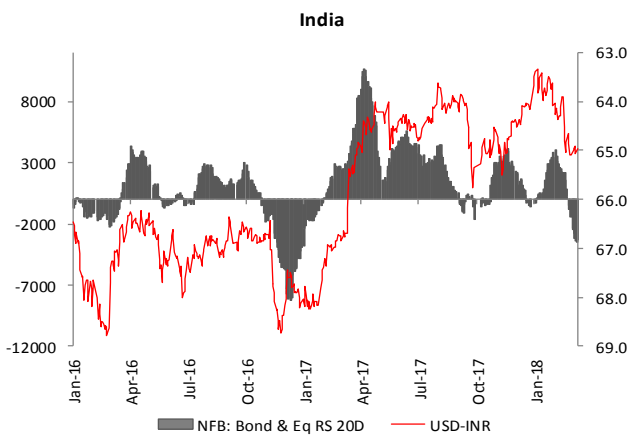
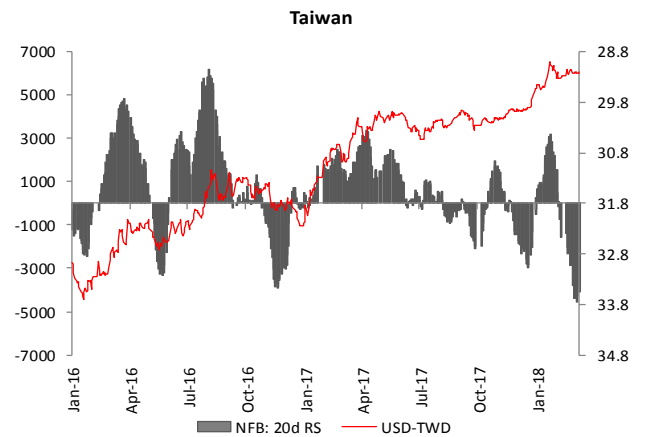
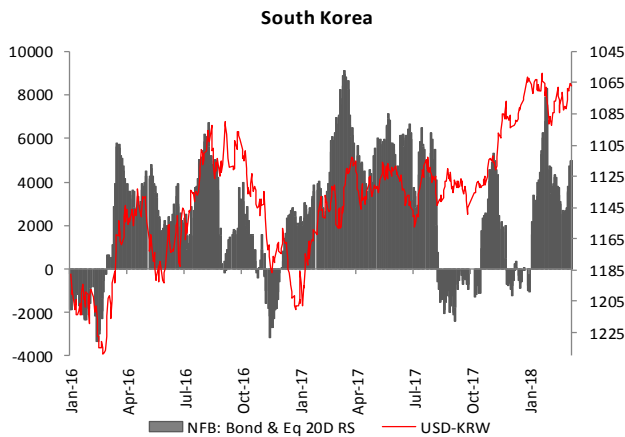
- GBP-USD** GBP-USD may attempt to ride on inherent dollar vulnerability within the majors with short term implied valuations also providing some buoyancy at this juncture. Expect investors to collect dips within 1.3950-1.4030.



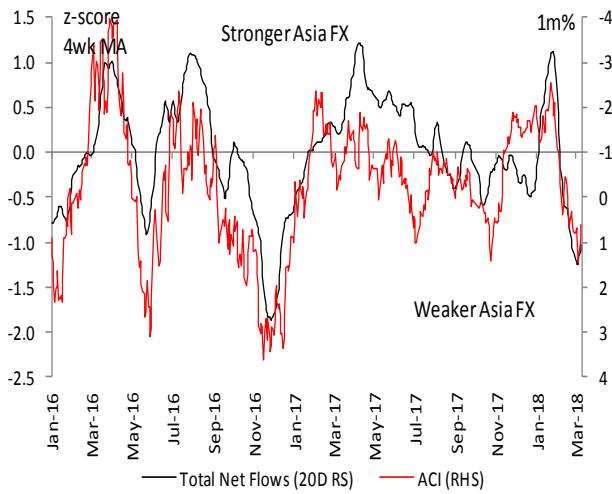
Source: OCBC Bank

- **USD-CAD** The BOC's Poloz remained in character and sounded sufficiently cautious in his comments on Tuesday. Short term implied valuations for the USD-CAD remain mildly underpinned at this juncture and the risk-reward profile may imply buying dips on approach of 1.2900 in the current cautious environment.

**USD-Asia VS. Net Capital Flows**

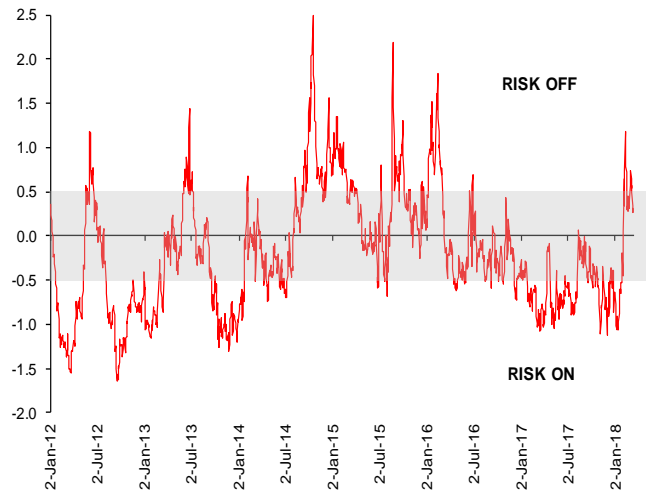


**ACI VS. Net Capital Flows**



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	-0.294	0.065	-0.061	0.127	0.098	0.238	0.062	0.063	-0.119	0.730	-0.935
SGD	0.791	-0.129	0.249	-0.531	-0.186	-0.194	0.522	-0.009	0.515	0.379	0.643	-0.842
INR	0.764	-0.280	0.188	0.256	0.364	0.513	-0.224	0.248	-0.334	-0.429	0.706	-0.633
CHF	0.758	-0.282	-0.191	0.342	0.286	0.193	-0.049	-0.091	-0.350	-0.563	0.587	-0.524
CNH	0.730	-0.217	0.728	-0.319	-0.054	-0.093	0.140	-0.224	0.195	0.004	1.000	-0.636
CAD	0.587	-0.245	-0.051	0.293	0.281	0.483	-0.453	0.068	-0.393	-0.498	0.506	-0.293
IDR	0.584	-0.361	0.032	0.294	0.151	0.336	-0.454	-0.015	-0.378	-0.450	0.478	-0.326
MYR	0.424	-0.393	0.391	-0.660	-0.497	-0.650	0.568	-0.463	0.708	0.477	0.406	-0.398
THB	0.289	0.118	0.464	-0.753	-0.612	-0.476	0.665	-0.268	0.668	0.631	0.457	-0.302
KRW	0.252	-0.007	0.492	-0.779	-0.611	-0.337	0.341	-0.111	0.699	0.784	0.267	-0.292
JPY	0.238	0.106	-0.203	-0.363	-0.268	-0.565	1.000	-0.244	0.526	0.265	0.140	-0.331
CNY	0.065	-0.146	1.000	-0.477	-0.316	-0.170	-0.203	-0.226	0.284	0.407	0.728	-0.082
TWD	-0.159	-0.355	0.423	-0.592	-0.689	-0.674	0.360	-0.538	0.628	0.501	0.103	0.173
USGG10	-0.294	1.000	-0.146	0.132	0.046	0.255	0.106	0.359	-0.243	0.037	-0.217	0.212
PHP	-0.323	0.380	0.143	0.142	0.163	0.155	-0.100	0.090	-0.209	-0.211	0.009	0.201
AUD	-0.838	0.248	-0.284	0.161	-0.056	-0.298	0.158	-0.135	-0.030	-0.010	-0.699	0.741
GBP	-0.847	0.430	-0.304	0.263	0.150	0.056	0.015	0.218	-0.185	0.049	-0.692	0.706
NZD	-0.887	0.411	-0.065	0.144	0.078	-0.086	-0.039	0.016	-0.117	-0.026	-0.618	0.754
EUR	-0.935	0.212	-0.082	0.071	-0.214	-0.084	-0.331	-0.194	-0.102	0.036	-0.636	1.000

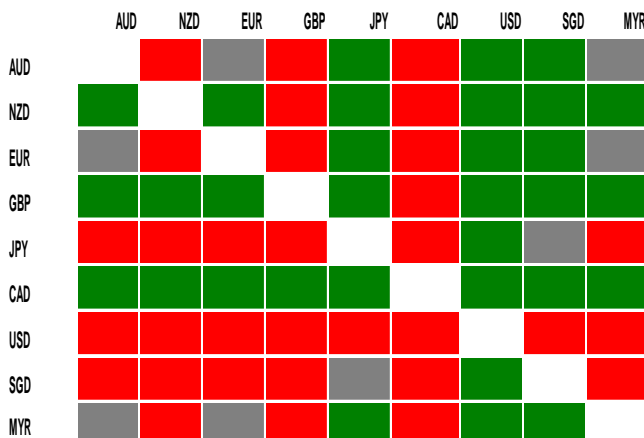
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2292	1.2400	1.2406	1.2478	1.2500
GBP-USD	1.3896	1.3900	1.3992	1.4000	1.4084
AUD-USD	0.7798	0.7800	0.7872	0.7894	0.7900
NZD-USD	0.7283	0.7300	0.7349	0.7400	0.7406
USD-CAD	1.2659	1.2900	1.2941	1.3000	1.3001
USD-JPY	105.56	106.00	106.49	107.00	107.55
USD-SGD	1.3070	1.3100	1.3103	1.3186	1.3200
EUR-SGD	1.6200	1.6209	1.6255	1.6300	1.6345
JPY-SGD	1.2246	1.2300	1.2306	1.2400	1.2458
GBP-SGD	1.8300	1.8326	1.8333	1.8400	1.8497
AUD-SGD	1.0213	1.0300	1.0314	1.0400	1.0410
Gold	1303.60	1304.15	1327.80	1331.39	1355.37
Silver	16.19	16.50	16.54	16.60	16.80
Crude	60.50	60.80	60.80	62.59	63.76

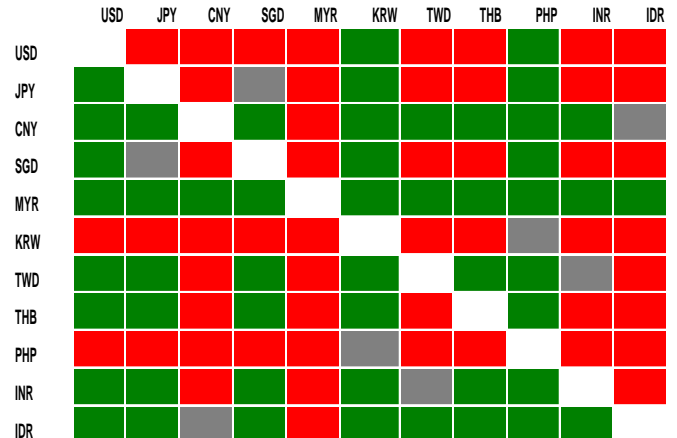
Source: OCBC Bank

**G10 FX Heat Map**



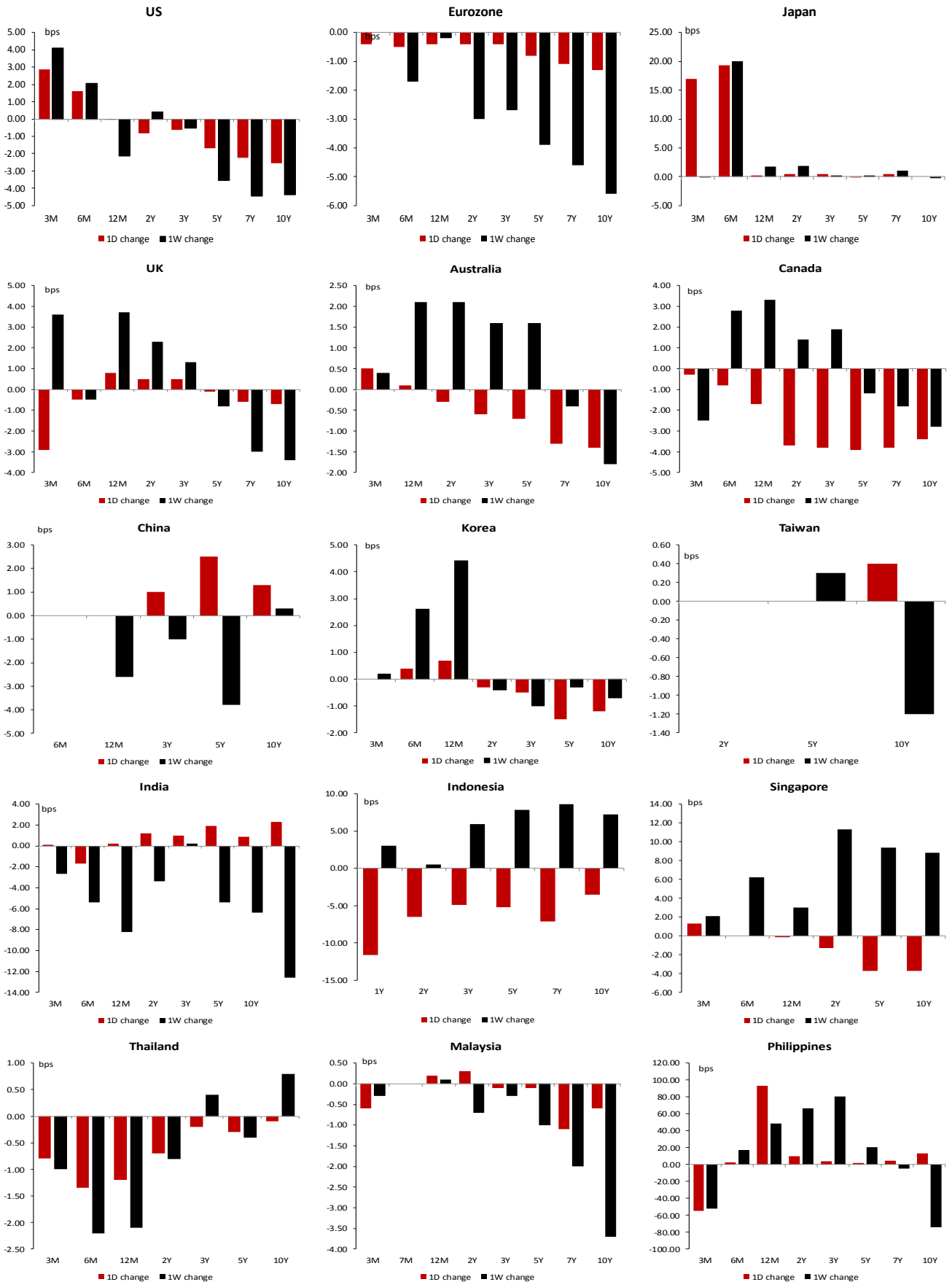
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes





### FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
-	-	-	-	-	-	-		
<b>STRUCTURAL</b>								
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	Broad dollar vulnerability coupled with hawkish BOE expectations.	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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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