

Monday, May 14, 2018

## FX Themes/Strategy/Trading Ideas – The week ahead

- On the back of cited profit taking and despite firmer UST yields, the dollar ended weaker on the day on Friday with the DXY slipping lower to 92.60 by late NY. Note less than hawkish comments from the Fed's Bullard (non-voter), with the St. Louis Fed president warning of "crunch time" with respect to an inverted US yield curve.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** dipped on Friday within Risk-Neutral territory, denoting an improvement in risk appetite levels for the 3<sup>rd</sup> consecutive session. Notably, the near term vol surfaces have also been paring implied expectations of heightened volatility.
- **CFTC** positioning meanwhile showed large non-commercial accounts paring their net implied net dollar shorts in aggregate in the latest week, while **leveraged accounts** flipped from a net short dollar to a long dollar balance. Meanwhile, asset manager accounts pared slightly their net short dollar positioning for the 2<sup>nd</sup> consecutive week.
- The **BOE, ECB, and RBNZ** failed to augment a weak dollar narrative last week but momentum for a strong dollar stuttered instead as short term dollar bulls reached near term satiation. For this week, continue to look to the interplay between **Fed** and **ECB** rhetoric for any potential extension of **DXY** upside. In the interim, note that the broad dollar has garnered slightly less traction even as rate differential arguments continue to implicitly remain in its favor.
- Fed appearances are thick this week beginning with Mester (0645 GMT) and Bullard (1340 GMT) on Monday, while expected ECB rhetoric from Villeroy (0630 GMT), Mersch (1000 GMT), Lautenschlager (1015 GMT), Praet (1145 GMT), and Coeure (1745 GMT) may present headline risks. Notably, Draghi is scheduled for Wednesday, and Constancio on Thursday. The BOE's Haldane is also due on Thursday. Meanwhile, look to RBA May meeting minutes and a speech by Debelle on Tuesday.
- The global data calendar is also fairly densely populated this week with ones to watch including EZ 1Q GDP (Tue), US April retail sales (Tue), EZ April CPI (Wed), a string of China April data points on Tuesday, as well as Australian April labor market numbers on Thursday.

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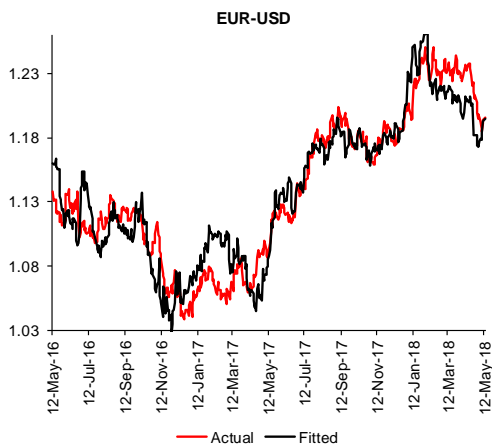
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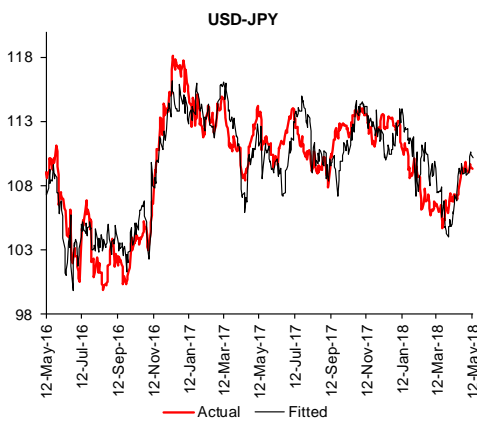
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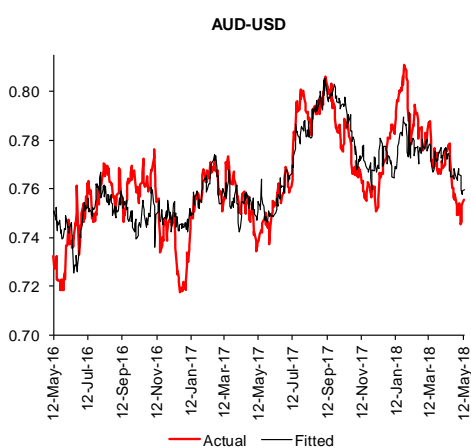
- **EUR-USD** Friendlier Italian political headlines from the weekend may have to contend with bouncing short term implied valuations for the EUR-USD, dulling near term downside for the pair in the short term. Expect range trading within 1.1820 and the 200-day MA (1.2021).

Source: OCBC Bank



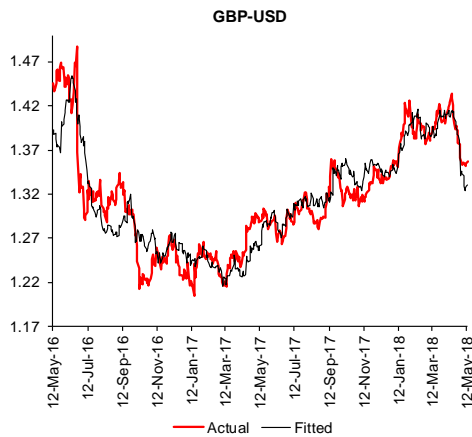
- **USD-JPY** Despite still relatively supported short term implied valuations for the USD-JPY, the pair may continue to trawl a range bordered by 108.60 and the 200-day MA (110.18) pending further headline risks, especially from the Fed.

Source: OCBC Bank

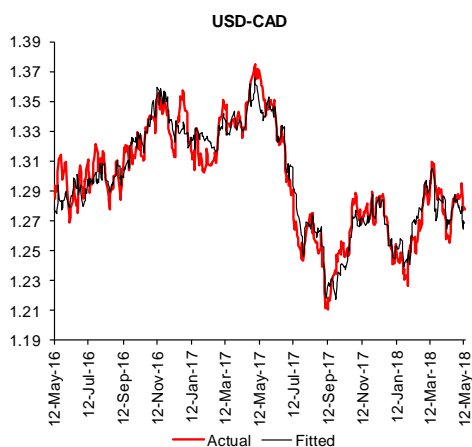


- **AUD-USD** The AUD-USD may attempt to recover further on the back of improving risk appetite (and pending China/Aussie data points) while keeping half an eye on broad dollar dynamics. Note however that short term implied valuations remain top heavy, potentially discouraging a test beyond 0.7600 in the interim.

Source: OCBC Bank



- **GBP-USD** With the dovish tint from the BOE MPC last week, note that short term implied valuations for the GBP-USD remain depressed. As such, the handhold at the 200-day MA (1.3552) remains fragile despite broader dollar strength taking a breather.



- **USD-CAD** The CAD stood out as it weakened across the board on Friday as the latest batch of April labor market numbers came in on the wrong side of expectations. However, the 55-day MA (1.2833) may continue to cap in the near term with short term implied valuations for the pair also attempting to stabilize. In the interim, risks towards 1.2750 may continue to circulate if positive risk appetite levels continue to chip away at the broad dollar.

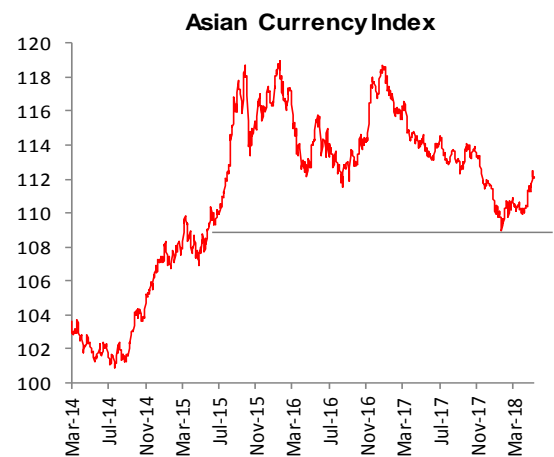
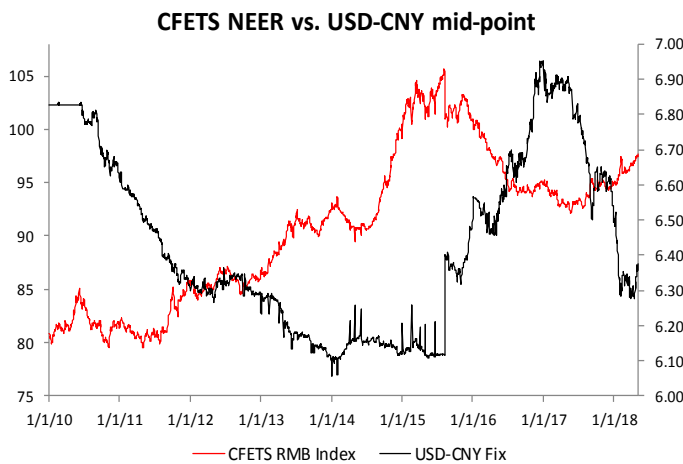
Source: OCBC Bank

## Asian FX

- EM FX clocked a mixed performance against the USD on Friday but perceived easing of trade tensions (note Trump-Xi headlines over the weekend) may underpin regional sentiment at the onset of the week. As such, expect the **ACI (Asian Currency Index)** to remain in a consolidative mood.
- On the **EPFR** front, net implied equity inflows in Asia (excl Japan, China) flipped to a net outflow in the latest week while net implied bond outflows deepened for the 3<sup>rd</sup> consecutive week.
- Except for South Korea, **actual net portfolio inflows** in the region meanwhile remain less than supportive for domestic bond markets and FX, with most of the region under the weight of a net outflow environment.
- In Asia, the **Bank of Thailand** (Wednesday) and **Bank Indonesia** (Thursday) are expected by the markets to remain static at their respective policy meetings

this week. If global market uncertainty remains precarious into mid-week however, we think the latter may well hike policy rates as an attempt to bolster stability.

- SGD NEER:** April NODX numbers are due to be released on Thursday and in the interim, the SGD NEER is firmer on the day at around +0.50% above its perceived parity (1.3401). NEER-implied USD-SGD thresholds are essentially unchanged on the day and the basket is expected to bounce around within +0.30% (1.3362) and +0.60% (1.3322). In the interim, the 200-day MA (1.3380) is once again functioning as a near term resistance with downside support seen towards 1.3300.
- CFETS RMB Index:** The USD-CNY mid-point fell to a largely expected 6.3345 this morning from 6.3524 on Friday. This however still saw the CFETS RMB Index gaining to 97.77 from 97.59 last.



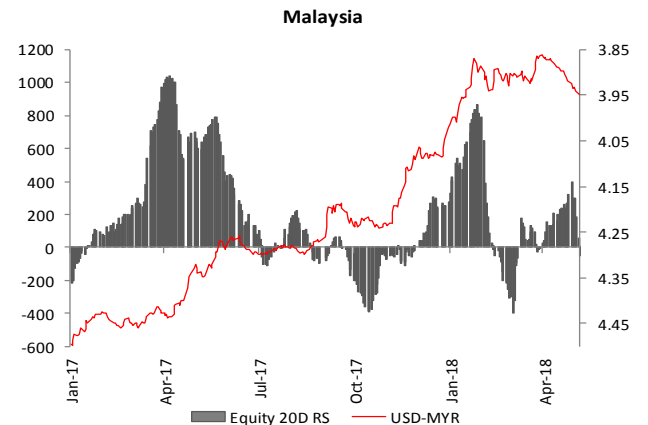
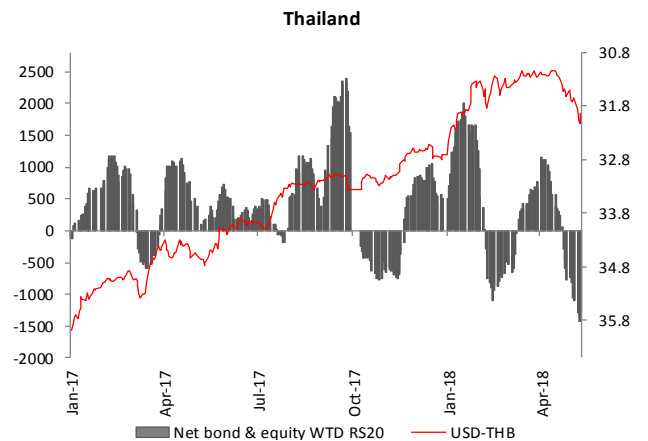
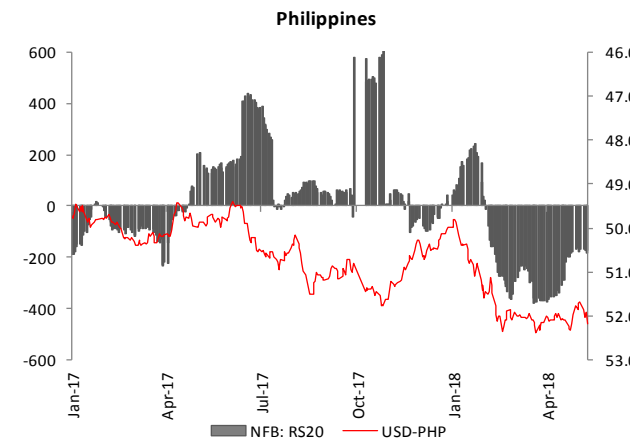
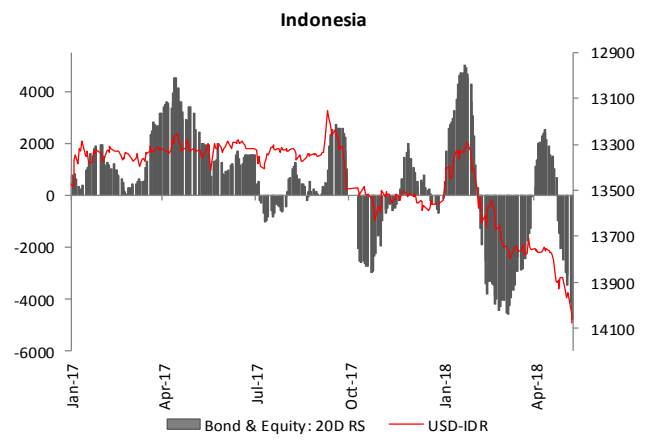
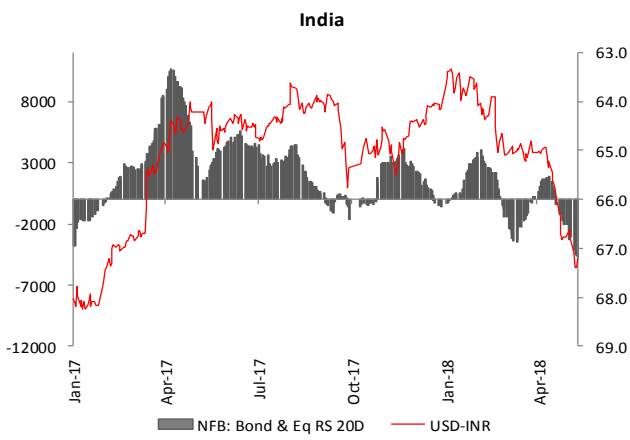
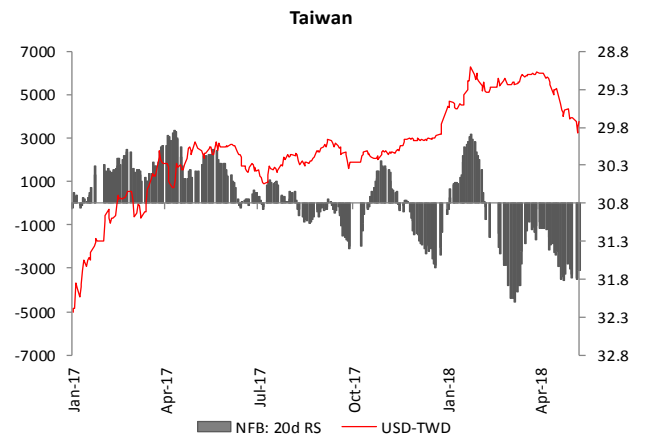
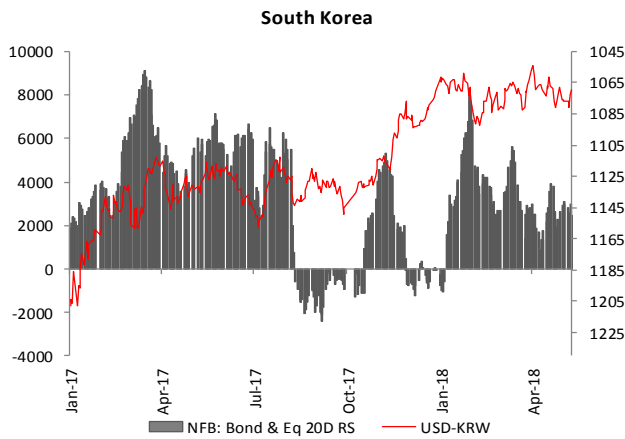
Source: OCBC Bank, Bloomberg

### Short term Asian FX views

Currency	Bias	Rationale
<b>USD-CNH</b>	↔/↑	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
<b>USD-KRW</b>	↔/↓	Easing tensions with the North, net portfolio inflow momentum recovering, inflation/current account surplus projection downgraded, BOK expected to remain neutral
<b>USD-TWD</b>	↔/↓	Net equity outflows attempting to compress; new CBC governor non-hawkish
<b>USD-INR</b>	↑	RBI minutes more hawkish than expected; net portfolio outflows worsening; market expectation for further OMO purchases by the RBI to support govies; higher crude imposing drag on INR and govies
<b>USD-SGD</b>	↔/↑	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY
<b>USD-MYR</b>	↑	Surprise defeat for the ruling BN coalition; neutral to rich valuation compared to peers on foreign reserves and current account measures, note initial market-implied caution towards election results
<b>USD-IDR</b>	↔/↑	Disappointing GDP numbers; short term vol premium widening, fundamentals intact, net portfolio outflows deepening, carry strategy under reassessment; BI appears to be positioning for rate hike next week
<b>USD-THB</b>	↔/↑	BOT remains accommodative; net portfolio outflow balance; inflation inching higher back into BOT's target range.
<b>USD-PHP</b>	↔/↑	Net equity outflows moderating; BSP hiked policy rates as expected while signalling the possibility of further hikes.

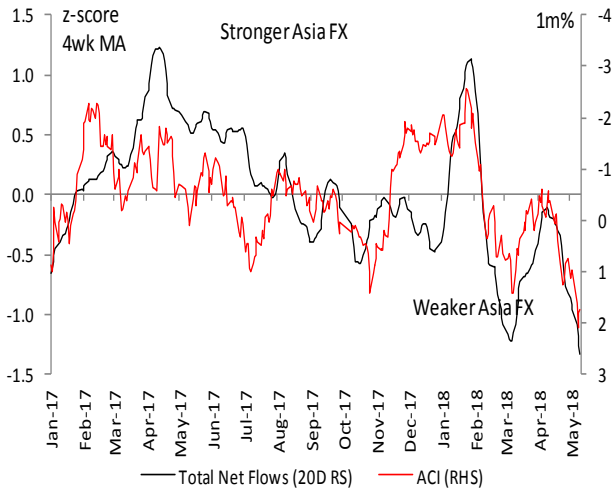
Source: OCBC Bank

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



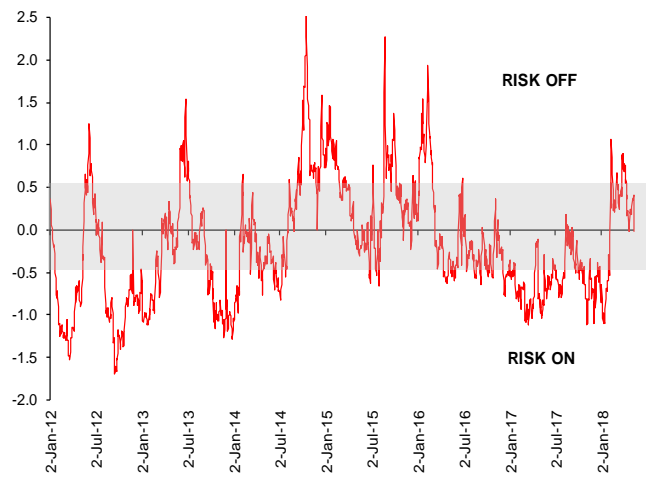
Source: CEIC, Bloomberg, OCBC Bank

**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	0.651	0.975	-0.137	0.448	0.625	0.893	0.678	-0.554	-0.098	0.941	-0.995
CHF	0.991	0.643	0.959	-0.083	0.462	0.689	0.881	0.728	-0.589	-0.140	0.925	-0.988
CNY	0.975	0.634	1.000	-0.249	0.242	0.545	0.891	0.633	-0.443	0.009	0.979	-0.966
SGD	0.969	0.704	0.945	-0.086	0.408	0.584	0.898	0.688	-0.543	-0.029	0.935	-0.976
TWD	0.945	0.678	0.923	-0.085	0.343	0.578	0.914	0.710	-0.517	-0.058	0.896	-0.953
THB	0.943	0.543	0.889	0.131	0.467	0.674	0.804	0.816	-0.669	-0.179	0.856	-0.960
CNH	0.941	0.597	0.979	-0.245	0.281	0.493	0.851	0.528	-0.447	-0.024	1.000	-0.940
IDR	0.936	0.732	0.909	-0.197	0.334	0.584	0.835	0.754	-0.454	0.135	0.890	-0.940
INR	0.934	0.774	0.887	-0.004	0.369	0.639	0.916	0.802	-0.533	0.003	0.844	-0.926
JPY	0.893	0.812	0.891	-0.348	0.298	0.393	1.000	0.484	-0.271	0.074	0.851	-0.868
MYR	0.880	0.450	0.976	-0.500	0.247	0.576	0.720	0.762	-0.477	0.013	0.774	-0.896
CAD	0.804	0.864	0.850	-0.499	0.109	0.327	0.857	0.394	-0.068	0.353	0.808	-0.757
USGG10	0.651	1.000	0.634	-0.373	0.098	0.305	0.812	0.464	0.018	0.495	0.597	-0.611
KRW	0.442	0.477	0.664	-0.416	-0.313	0.031	0.566	0.027	0.045	0.311	0.573	-0.440
PHP	-0.506	0.127	-0.556	0.163	-0.267	-0.427	-0.245	-0.242	0.372	0.362	-0.499	0.502
AUD	-0.956	-0.786	-0.962	0.318	-0.336	-0.453	-0.952	-0.532	0.349	-0.077	-0.923	0.935
NZD	-0.964	-0.779	-0.934	0.202	-0.415	-0.566	-0.950	-0.659	0.436	0.008	-0.878	0.948
GBP	-0.981	-0.636	-0.939	0.113	-0.513	-0.689	-0.860	-0.717	0.571	0.127	-0.899	0.970
EUR	-0.995	-0.611	-0.966	0.075	-0.467	-0.644	-0.868	-0.702	0.602	0.140	-0.940	1.000

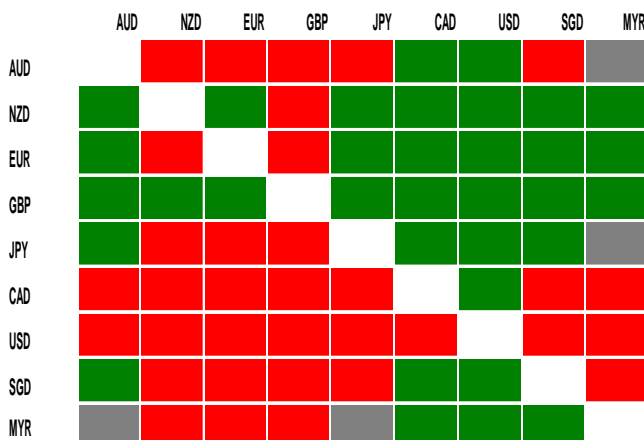
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1823	1.1900	1.1965	1.2000	1.2021
GBP-USD	1.3500	1.3552	1.3571	1.3600	1.3942
AUD-USD	0.7412	0.7500	0.7559	0.7600	0.7677
NZD-USD	0.6900	0.6903	0.6967	0.7000	0.7153
USD-CAD	1.2645	1.2700	1.2781	1.2800	1.2831
USD-JPY	107.40	109.00	109.34	110.00	110.04
USD-SGD	1.3192	1.3300	1.3322	1.3380	1.3400
EUR-SGD	1.5876	1.5900	1.5939	1.6000	1.6078
JPY-SGD	1.2106	1.2146	1.2184	1.2200	1.2284
GBP-SGD	1.8000	1.8015	1.8079	1.8100	1.8124
AUD-SGD	0.9966	1.0000	1.0070	1.0100	1.0128
Gold	1302.30	1305.17	1321.20	1327.95	1348.66
Silver	16.50	16.60	16.68	16.70	16.78
Crude	66.25	70.40	70.47	70.50	71.52

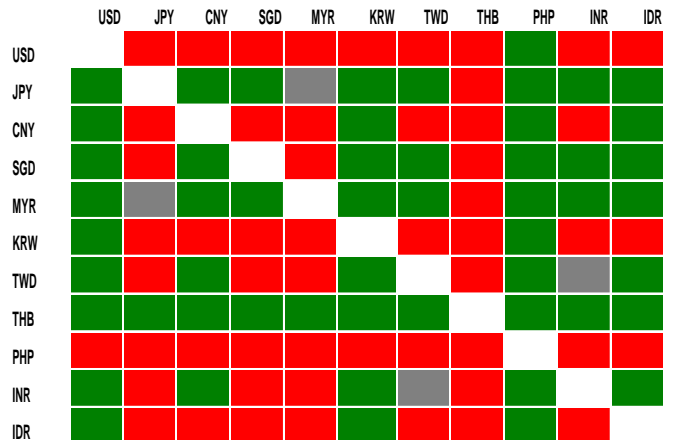
Source: OCBC Bank

**G10 FX Heat Map**



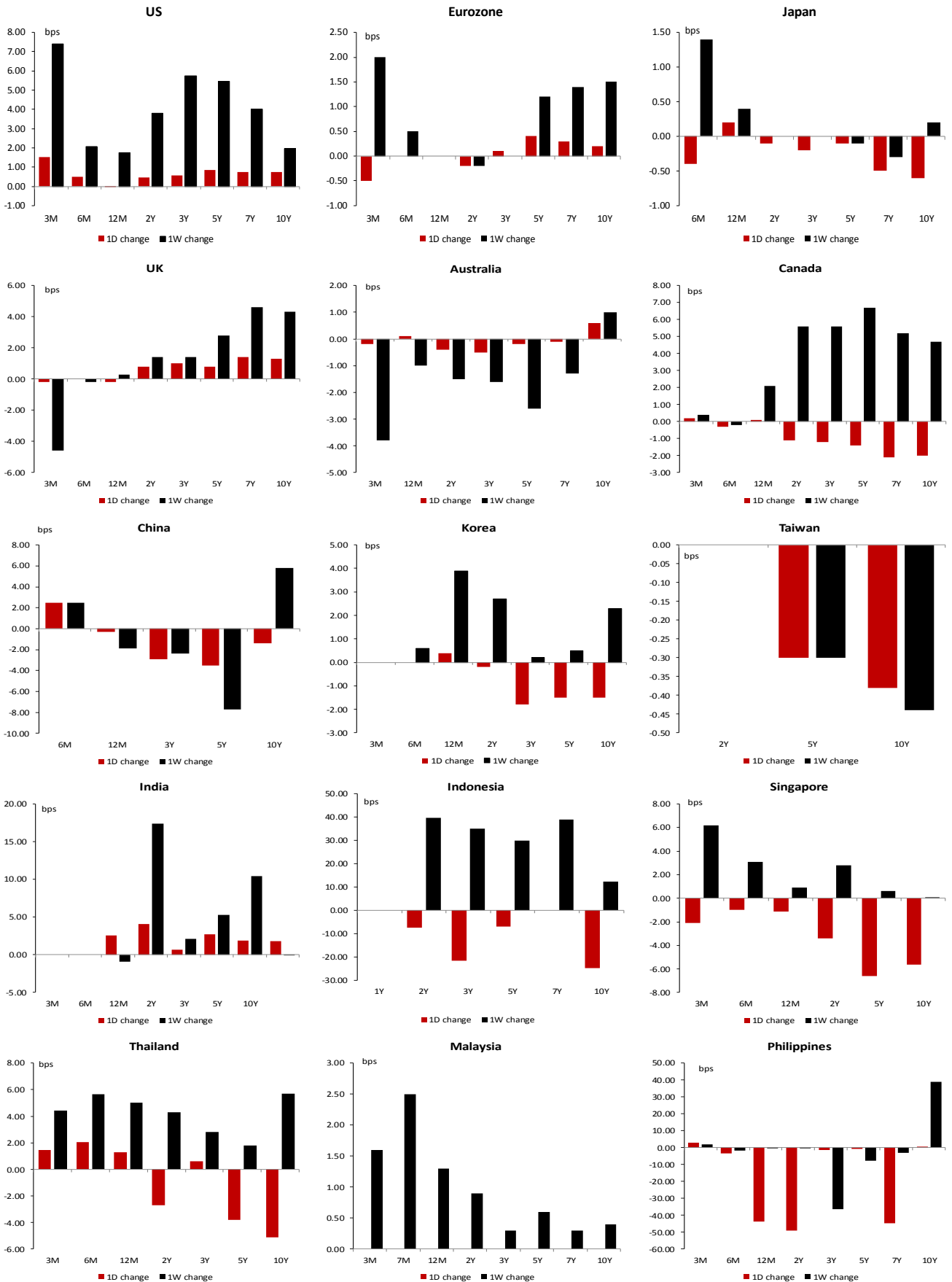
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes





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