

Thursday, March 15, 2018

FX Themes/Strategy/Trading Ideas

- The DXY managed to bounce off intra-day lows to end a touch higher but was essentially mixed across G10 space. US data points saw Feb retail sales readings slightly softer than expected. Despite wobbly global equities (including in EM), the **FXSI (FX Sentiment Index)** inched slightly higher but remained within Risk-Neutral territory.
- With a pall being cast over global markets from potential global trade tensions, US yields ticked lower with the curve flattening further with the bund curve (and other core global/Asian govie curves) also easing.
- Global trade tensions may continue to simmer in the background with the White House on Wednesday calling on China to cut its trade surplus with the US by USD100bn.
- Apart from expectations that the FOMC next week may potentially impart new directionality for global markets, look also to state of simmering trade tensions (latest push back from Merkel on Wednesday) at the G20 next week. Note that a draft communique contained significant real estate space to “unfair trade practices”.
- In the interim, barring a boiling over of risk aversion, the USD may remain a near term casualty (but within recent ranges) of US-induced global trade war fears despite (newly appointed) White House economic advisor Kudlow moving for a “wee bit stronger” dollar.
- For today the ECB’s Lautenschlaeger is on tap at 1545 GMT, the RBA’s Debelle at 2245 GMT. Data points include the US March Empire manufacturing (1230 GMT), weekly initial claims, and March Philly Fed.

Asian FX

- **With global appetite levels still holding it together, and despite an air of uncertainty, investors meanwhile have continued to channel interest to Asia.** Net portfolio inflows in Asia denote further strengthening in inflows for **South Korea** (bond and equities) and an attempt by equity outflows to bottom out for Taiwan.
- Meanwhile, India is witnessing a sharp reversal of net equity outflows (bond flows remain under negative pressure), while Indonesia is also experiencing a bottoming out of net bond outflows. Lastly, the **Thailand** remains favored with amid a significant recovery in net bond (and equity) inflows, flipping to a

Treasury Research &
Strategy

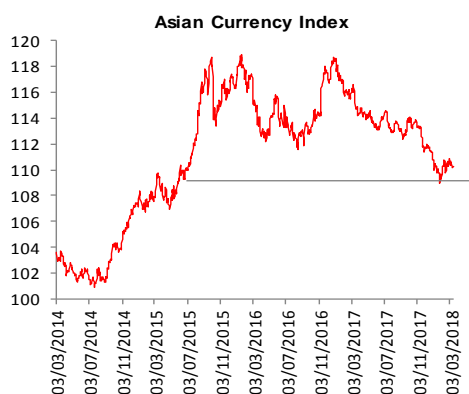
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net inflow balance.

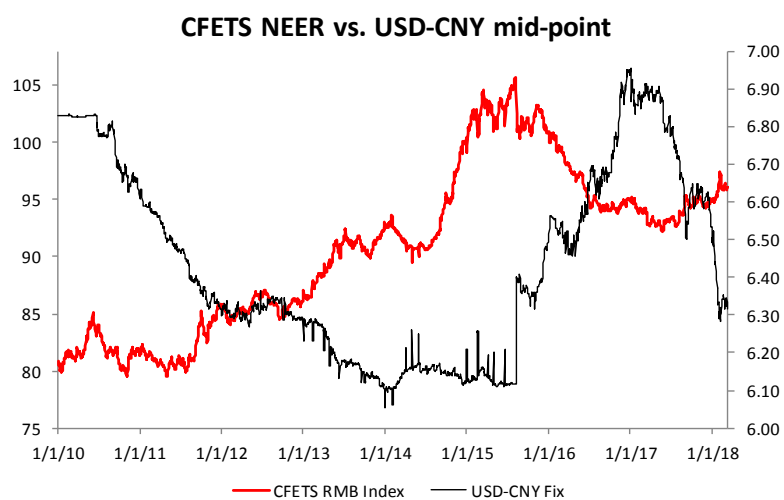
- Thus although Asian equities are slightly unsteady this morning, up moves in the **ACI (Asian Currency Index)** may be capped by the recent improvement in net inflows within the region.
- **Indonesia:** BI reiterates that the IDR is undervalued and its current levels are not in line with fundamentals. On our end, we remain constructive towards the IDR (and local govies – note investor response to Tuesday's auction) given the still supportive fundamental backdrop.
- **Thailand:** The PM noted that THB gains may ease once the Fed hikes rates. Meanwhile, expect the BOT to remain lowkey opposed to undue THB strength.
- **India:** The INR may remain unsteady in the near term to weaker after the RBI's ban on the issuance of undertaking or letters of credit for trade credits.
- **SGD NEER:** The SGD NEER is firmer this morning at around +0.56% above its perceived parity (1.3178) with NEER-implied USD-SGD thresholds largely static from yesterday. Expect a +0.40% (1.3126) to +0.70% (1.3087) range intra-day. Preference to remain top heavy on the pair with a focal point around 1.3100.



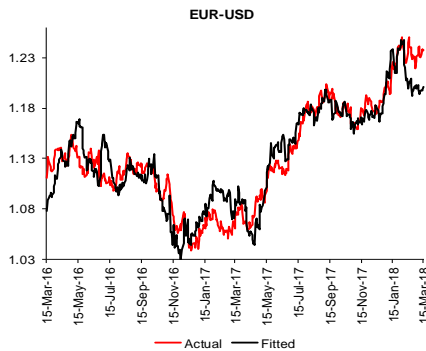
	SGD NEER	% deviation	USD-SGD
Current	124.96	0.56	1.3105
+2.00%	126.74		1.2920
Parity	124.26		1.3178
-2.00%	121.77		1.3447

Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning dripped lower (as largely expected) to 6.3141 from 6.3205 on Thursday. This saw the CFET RMB Index ticking higher to 96.09 from 96.04 yesterday.

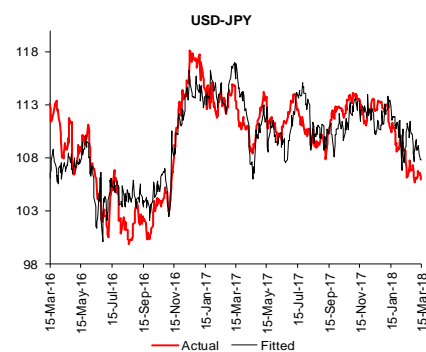


Source: OCBC Bank, Bloomberg

G7

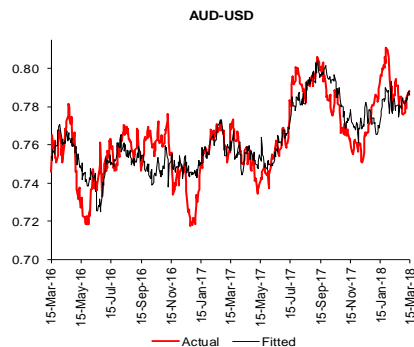
Source: OCBC Bank

- **EUR-USD** The EUR meanwhile retreated against its peers following (as expected) dovish cues from the ECB's Draghi. Expect range bound behavior to persist within the boundaries set out by the 55-day MA (1.2275) and 1.2450 up top.



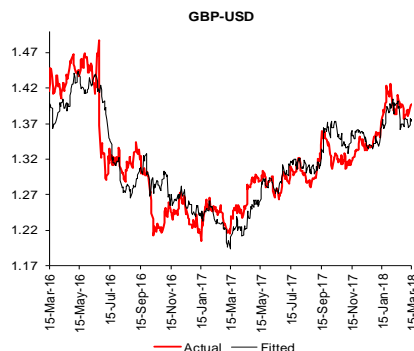
Source: OCBC Bank

- **USD-JPY** JPY outperformed across the board as JPY-crosses sagged and USD-JPY may remain top heavy under the weight of inherent USD vulnerability or potential risk aversion and despite sustained bearish hints from the BOJ's Kuroda. **As such, expect relatively less ambiguity for the USD-JPY and we'd fade upticks towards 107.00 for 105.50.**



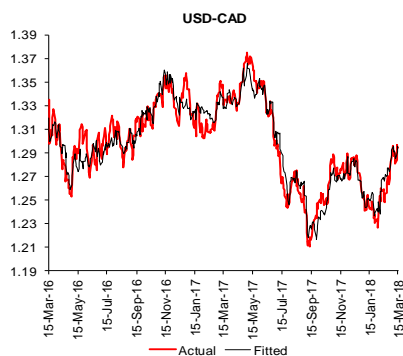
Source: OCBC Bank

- **AUD-USD** The AUD was relatively resilient on Wednesday (note supportive China data points) but a significant breach of the 55-day MA (0.7893) may have to be predicated on subsiding market caution towards potential global trade tensions. In the interim, preference to collect into any dips towards 0.7850.



Source: OCBC Bank

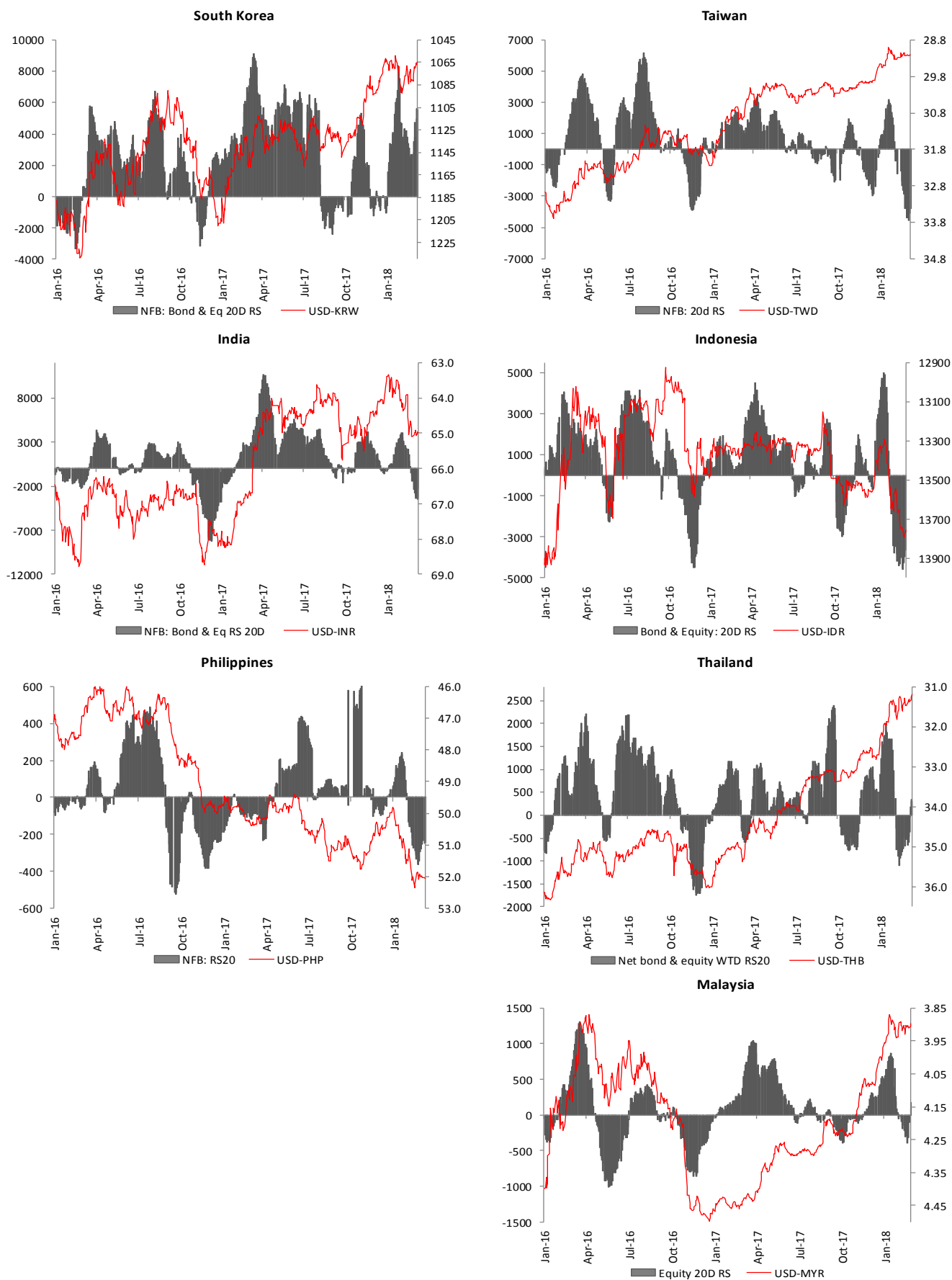
- **GBP-USD** GBP-USD may remain hamstrung by cross-winds although short term implied valuations remain supportive ahead of the BOE MPC next week. Expect the pair to continue to ply a (somewhat supported) 1.3950-1.4030 range in the interim.

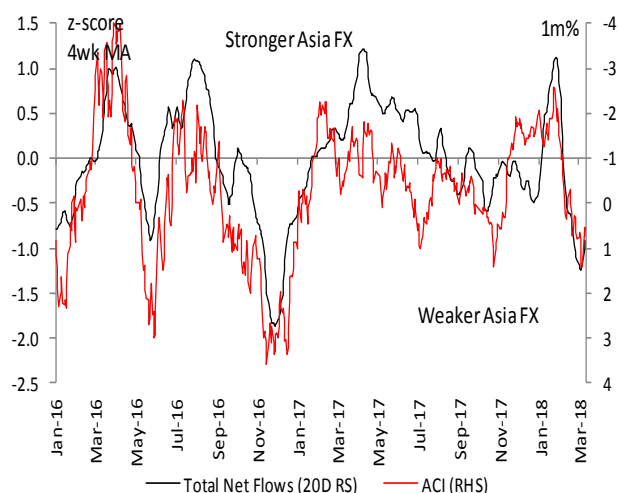


Source: OCBC Bank

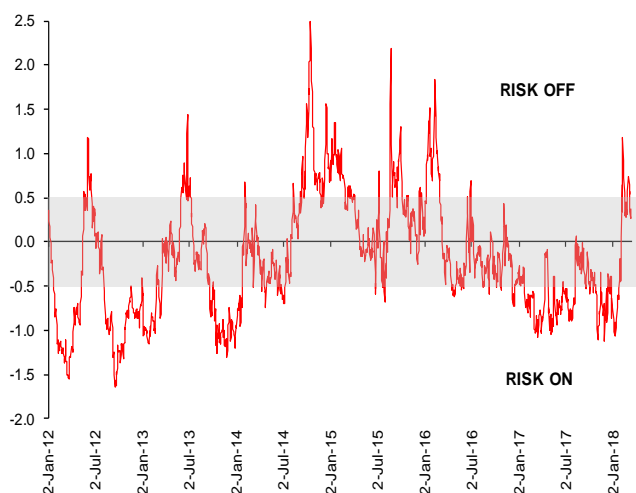
- **USD-CAD** USD-CAD continues to spin its wheels while going nowhere fast in the near term but note that short term implied valuations for the pair remain supportive. **Preference to bounce any dips within 1.2800-1.3000.**

USD-Asia VS. Net Capital Flows



ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

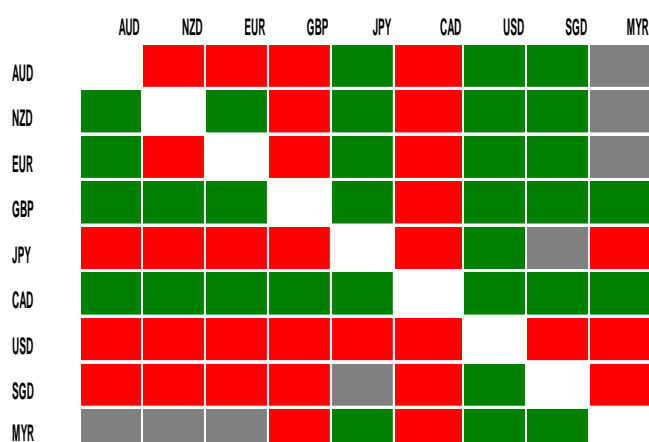
	DXV	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXV	1.000	-0.257	0.107	-0.068	0.111	0.096	0.241	0.068	0.070	-0.101	0.721	-0.935
INR	0.762	-0.264	0.194	0.257	0.356	0.513	-0.225	0.242	-0.334	-0.416	0.684	-0.628
SGD	0.750	0.028	0.349	-0.543	-0.269	-0.193	0.549	0.039	0.523	0.446	0.706	-0.791
CHF	0.737	-0.327	-0.229	0.360	0.322	0.196	-0.087	-0.108	-0.366	-0.584	0.473	-0.507
CNH	0.721	-0.117	0.754	-0.341	-0.109	-0.099	0.198	-0.160	0.218	0.066	1.000	-0.648
IDR	0.572	-0.376	0.012	0.306	0.177	0.338	-0.463	-0.026	-0.387	-0.462	0.434	-0.311
CAD	0.550	-0.327	-0.129	0.321	0.339	0.474	-0.489	0.040	-0.412	-0.541	0.346	-0.278
MYR	0.426	-0.332	0.412	-0.665	-0.498	-0.649	0.571	-0.447	0.711	0.477	0.411	-0.402
KRW	0.269	0.159	0.549	-0.766	-0.648	-0.321	0.374	-0.055	0.686	0.806	0.353	-0.318
THB	0.265	0.315	0.533	-0.717	-0.651	-0.431	0.640	-0.172	0.638	0.670	0.490	-0.298
JPY	0.241	0.147	-0.152	-0.375	-0.292	-0.564	1.000	-0.213	0.534	0.290	0.198	-0.340
CNY	0.107	-0.005	1.000	-0.494	-0.372	-0.171	-0.152	-0.184	0.305	0.458	0.754	-0.123
TWD	-0.129	-0.258	0.455	-0.602	-0.699	-0.669	0.377	-0.509	0.635	0.522	0.154	0.142
USGG10	-0.257	1.000	-0.005	0.063	-0.067	0.222	0.147	0.372	-0.171	0.147	-0.117	0.164
PHP	-0.327	0.318	0.074	0.160	0.179	0.158	-0.111	0.074	-0.223	-0.226	-0.011	0.208
AUD	-0.834	0.174	-0.335	0.181	-0.014	-0.288	0.113	-0.157	-0.051	-0.051	-0.716	0.745
GBP	-0.845	0.348	-0.355	0.278	0.176	0.061	-0.013	0.203	-0.200	0.010	-0.711	0.706
NZD	-0.884	0.327	-0.145	0.163	0.111	-0.079	-0.057	0.005	-0.135	-0.063	-0.628	0.754
EUR	-0.935	0.164	-0.123	0.084	-0.182	-0.080	-0.340	-0.196	-0.113	0.010	-0.648	1.000

Source: Bloomberg

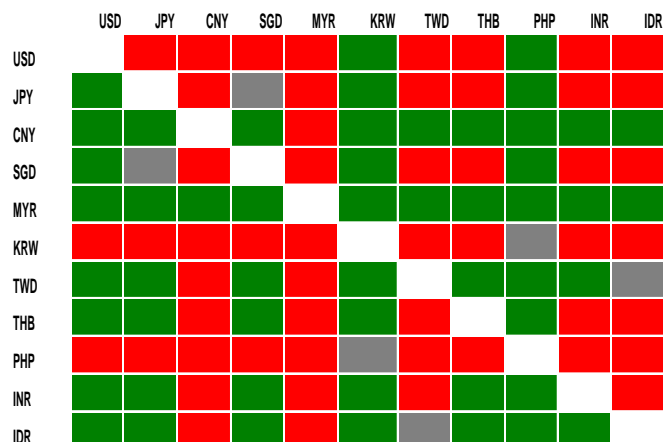
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2297	1.2300	1.2381	1.2400	1.2445
GBP-USD	1.3900	1.3904	1.3982	1.4000	1.4055
AUD-USD	0.7799	0.7800	0.7880	0.7895	0.7900
NZD-USD	0.7287	0.7300	0.7329	0.7389	0.7400
USD-CAD	1.2656	1.2900	1.2949	1.3000	1.3001
USD-JPY	105.25	105.52	105.96	106.00	107.56
USD-SGD	1.3050	1.3070	1.3100	1.3182	1.3256
EUR-SGD	1.6200	1.6212	1.6220	1.6300	1.6319
JPY-SGD	1.2248	1.2300	1.2364	1.2400	1.2459
GBP-SGD	1.8159	1.8300	1.8317	1.8331	1.8400
AUD-SGD	1.0217	1.0300	1.0324	1.0398	1.0400
Gold	1303.60	1305.90	1327.20	1331.53	1350.36
Silver	16.18	16.40	16.47	16.50	16.80
Crude	59.88	61.00	61.07	61.10	62.60

Source: OCBC Bank

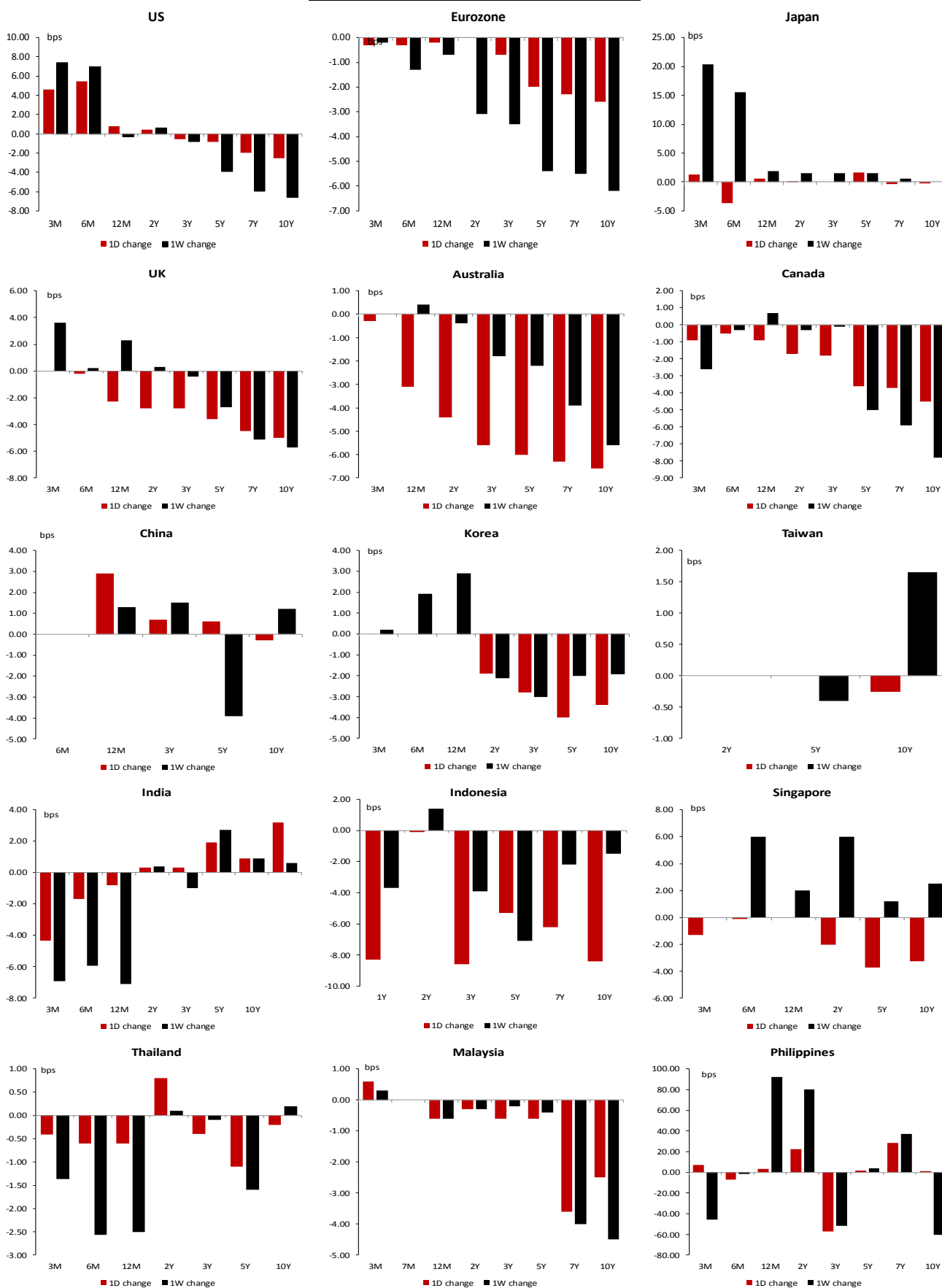
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

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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