

Monday, April 16, 2018

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

- Despite hawkish comments from the Fed's Rosengren, the dollar ended largely steady on Friday while the weekend US missile strike on Syria has failed to precipitate renewed risk aversion in Asia on Monday. Note that the **FXSI (FX Sentiment Index)** fell further (i.e., improved risk appetite) within Risk-Neutral territory on Friday.
- Markets remain largely nonplussed at this juncture and as noted previously, expect any potential flare-up of US-Sino trade tensions to have a relatively larger impact on sentiment in EM/Asia compared to Syrian-related headlines. Regarding the latter, barring an outsized reaction from Russia, Syrian tensions should continue to remain "siloed" (no pun intended). In the interim, we expect market participants to revert to a vulnerable dollar framework pending the next risk aversion spike.
- On the **CFTC** front, large noncommercial accounts, leveraged accounts, as well as asset manager accounts increased their net implied short dollar bias in aggregate in the latest week
- Apart from the global data stream this week, the **Fed calendar** is fairly heavy with appearances scheduled for every day of this week, beginning with Kaplan (1600 GMT), Kashkari (1600 GMT), and Bostic (1715 GMT) today. On this front, expect investors to look for any inclination to sound increasingly hawkish (echoing the vibes from the FOMC minutes), especially with respect to the rate hike trajectory for 2019.
- Elsewhere, **RBA meeting minutes** are also due on Tuesday, while the **Bank of Canada** is expected to remain static at 1.25% on Wednesday. In Asia, expect **Bank Indonesia** to also keep its policy parameters unchanged on Thursday.

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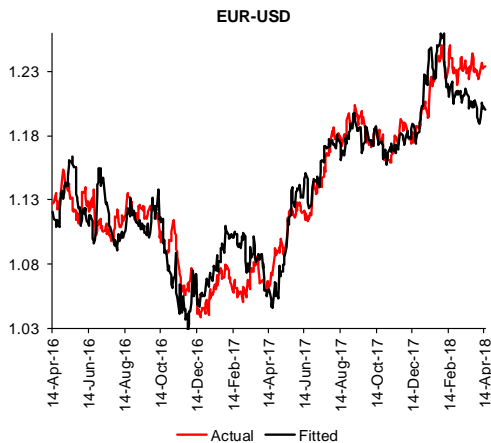
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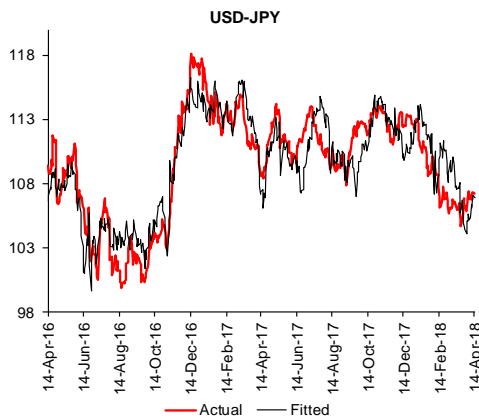
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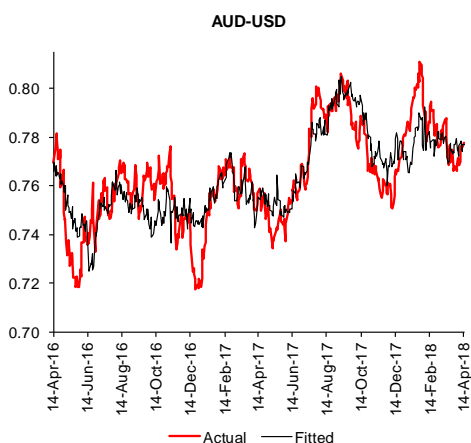
Source: OCBC Bank

- **EUR-USD** With no ECB-speak scheduled this week, the EUR-USD may be at the mercy of Fed rhetoric in the coming sessions. Short term implied valuations are looking slightly top heavy at this juncture and the pair may run the risk of detaching below its 55-day MA (1.2336) towards 1.2255.



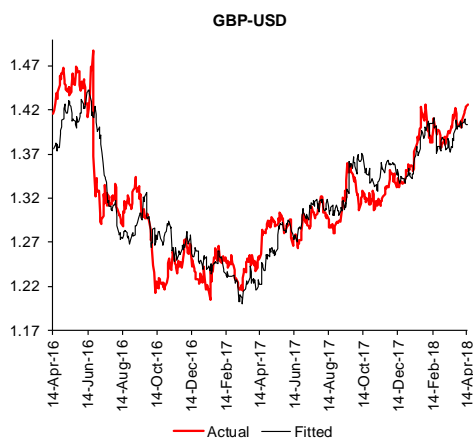
Source: OCBC Bank

- **USD-JPY** The US-Japan summit this week (17-20<sup>th</sup>) may keep the USD-JPY trapped pending ensuing headlines, risk appetite gyrations and Fed-speak. In the interim, the USD-JPY may prefer to bounce off its 55-day MA (107.01) with short term implied valuations for the pair still looking supported.

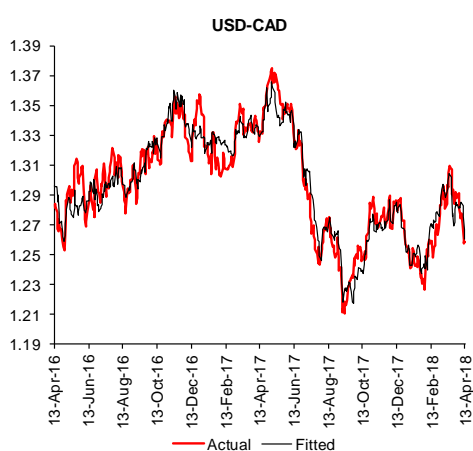


Source: OCBC Bank

- **AUD-USD** March labor market numbers on Thursday may provide some domestic focus while in the interim, we note that short term implied valuations have remained reluctant on the downside in recent sessions. If the global risk appetite environment continues to remain constructive, expect the 55-day MA (0.7802) neighborhood to be challenged.



- **GBP-USD** Investors may continue to bounce any dips in the GBP-USD for 1.4300, despite consolidating short term implied valuations. Note a still inherently heavy EUR-GBP profile in the interim ahead of a raft of UK data releases this week.



- **USD-CAD** Although short term implied valuations for the USD-CAD are attempting to bottom in the near term, encouraging rhetoric surrounding a potential Nafta deal may continue to keep the pair top heavy ahead of the BOC this week. Any failure to re-take the 200-day MA (1.2625) risks a relapse to 1.2520.

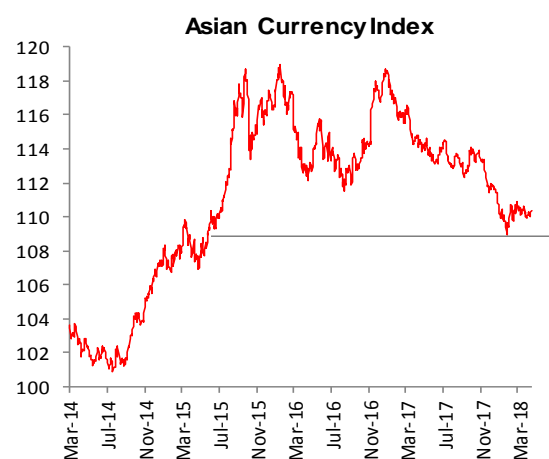
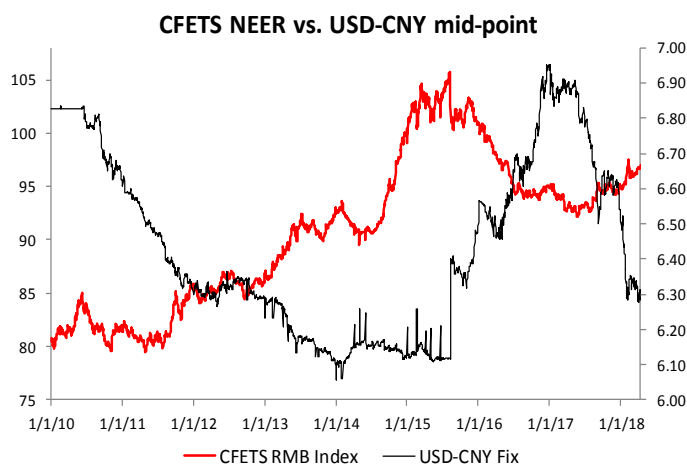
Source: OCBC Bank

## Asian FX

- On the data front in Asia, look to China's 1Q GDP numbers (and March data releases) on Tuesday for regional macro cues. Note that March trade numbers from last Friday were softer (exports, specifically) than expected, with monetary and lending aggregates also decelerating.
- The **US Treasury's semi-annual report on foreign exchange policy** did not name any country as a manipulator as expected, although India was added to the watch list (not wholly unexpected), which includes Japan, China, South Korea, Germany, and Switzerland. Note slightly a slightly more trenchant assessment of China's efforts at containing its trade imbalances. Nonetheless, expect market reaction to be muted on this front.
- **EPFR** data meanwhile showed a slight moderation in net equity and bond portfolio inflows into Asia (excl Japan, China) in the latest week. Implicit support from the rebound in implied net bond/equity inflows in the past fortnight squares with actual reported flows and would suggest that Asian asset/FX may be

poised to benefit if global risk appetite continues to improve in the coming sessions.

- Asian net portfolio inflows** meanwhile indicate some near term stabilization in recent sessions. On this front, we detect net inflows for South Korea, negative outflow pressures for Taiwan, supportive net inflows for India, strong inflow pressures for Indonesia, while Thailand is experiencing some moderation in net inflows. Overall and in the near term, expect the **ACI (Asian Currency Index)** to trek familiar ranges in the interim while exhibiting some base building as net inflow momentum moderates.
- India:** India was the sole new addition to the US Treasury's FX monitoring list. The Treasury cited India's sustained build-up of foreign reserves, and its significant trade surplus with the US. The other five countries on the list are China, South Korea, Japan, Germany and Switzerland.
- Hong Kong:** The HKMA continued to purchase the HKD against the USD at the weak end of the trading band, to the tune of HK\$6.406b on Friday. Note, however, that we have yet to see material tightening of the rate gap.
- SGD NEER:** Post MAS-MPS, the SGD NEER is nevertheless softer on the day at +0.46% above its perceived parity (1.3182). NEER-implied USD-SGD thresholds have ticked marginally higher and look for a +0.30% (1.3143) to +0.60% (1.3104) range intra-day. Technically, expect the 55-day MA (1.3159) if the broad USD continues to flex higher.
- CFETS RMB Index:** The USD-CNY mid-point this morning fell (as largely expected) to 6.2884 from 6.2898 last Friday. This saw the CFETS RMB Index inching higher to 97.03 from 96.97.

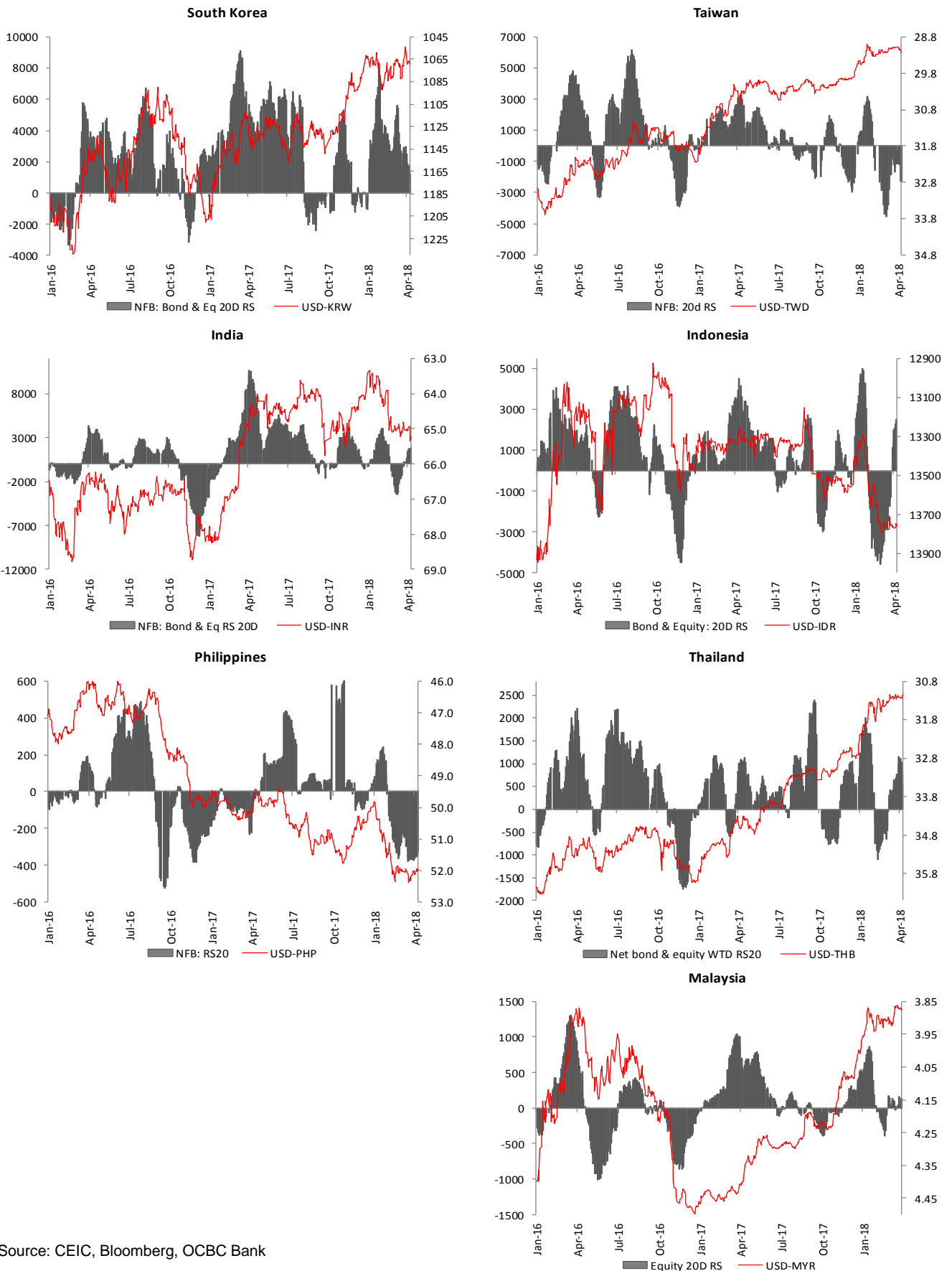


Source: OCBC Bank, Bloomberg

Currency	S.T. bias	Rationale
<b>USD-CNH</b>	↔	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 inflows moderating somewhat, inflation projection downgraded
<b>USD-TWD</b>	↔/↑	Net equity outflows, new CBC governor non-hawkish
<b>USD-INR</b>	↔/↓	RBI static in March, foreign investor limit on government bonds eased, net equity inflows moderating, less aggressive fiscal borrowing plans
<b>USD-SGD</b>	↔/↓	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines
<b>USD-MYR</b>	↔/↓	BNM remains accommodative; country on election watch
<b>USD-IDR</b>	↔/↓	Rating upgrade, BI containing IDR volatility, sees little room to cut rates; fundamentals intact, rebound in net bond inflows
<b>USD-THB</b>	↔	BOT remains accommodative, strong bond inflows may now consolidate
<b>USD-PHP</b>	↔/↓	Net equity outflows, BSP downplaying rate hike expectations but remains vigilant towards inflation risks

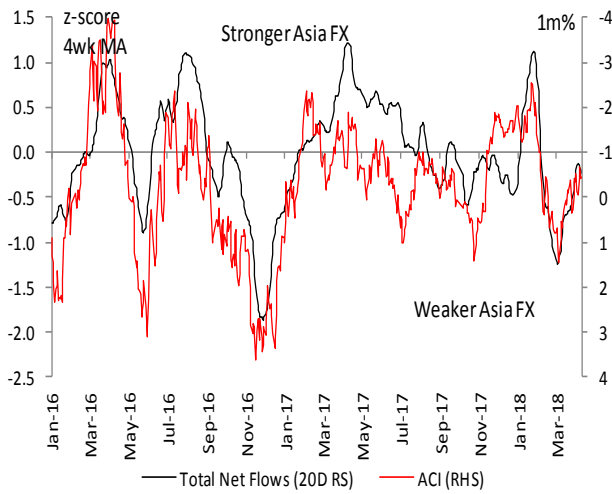
Source: OCBC Bank

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



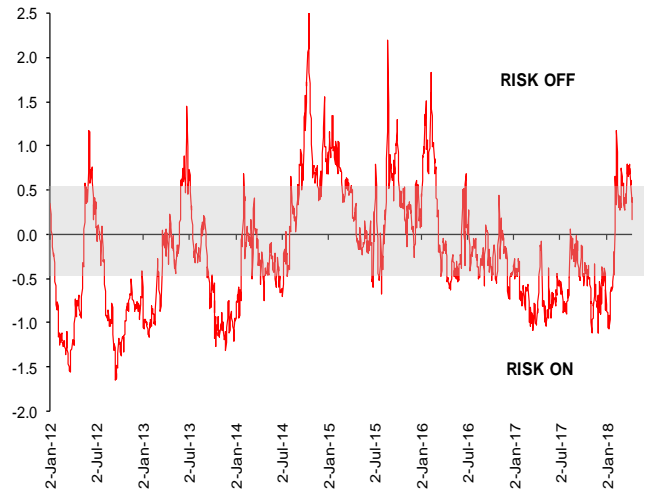
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.126	0.304	0.070	-0.245	-0.505	0.468	-0.532	-0.244	-0.005	0.291	-0.971
CHF	0.615	-0.083	-0.259	0.014	-0.421	0.054	0.925	0.072	-0.468	-0.105	-0.160	-0.594
SGD	0.511	0.431	0.865	0.300	0.326	-0.427	-0.108	-0.520	-0.068	-0.232	0.853	-0.627
JPY	0.468	0.024	-0.288	0.198	-0.254	0.145	1.000	0.119	-0.612	-0.228	-0.208	-0.414
IDR	0.377	-0.136	0.311	-0.196	-0.351	-0.168	0.183	-0.160	0.065	-0.064	0.315	-0.447
THB	0.325	-0.059	0.528	-0.097	-0.125	-0.209	0.110	-0.250	0.142	-0.009	0.504	-0.379
CNY	0.304	0.584	1.000	0.435	0.573	-0.433	-0.288	-0.522	-0.024	-0.227	0.951	-0.440
CNH	0.291	0.460	0.951	0.299	0.483	-0.321	-0.208	-0.462	0.045	-0.199	1.000	-0.441
INR	0.209	0.255	0.177	0.410	0.398	0.387	0.312	0.294	-0.463	-0.394	0.182	-0.196
CAD	0.187	0.114	0.606	0.188	0.357	-0.610	-0.631	-0.606	0.220	-0.079	0.460	-0.175
TWD	-0.065	0.351	-0.071	0.304	0.175	0.752	0.621	0.570	-0.637	-0.423	0.016	-0.001
USGG10	-0.126	1.000	0.584	0.826	0.694	0.154	0.024	0.154	-0.556	-0.245	0.460	0.031
MYR	-0.266	0.744	0.761	0.558	0.794	0.053	-0.537	0.000	-0.112	-0.227	0.670	0.147
PHP	-0.371	0.124	0.340	-0.211	0.016	-0.236	-0.776	-0.070	0.545	0.378	0.227	0.323
NZD	-0.373	0.052	-0.560	0.033	-0.162	0.644	0.565	0.622	-0.359	-0.170	-0.476	0.364
AUD	-0.501	0.520	-0.165	0.502	0.383	0.692	0.304	0.675	-0.553	-0.294	-0.195	0.465
KRW	-0.686	0.476	0.266	0.149	0.415	0.344	-0.454	0.379	0.152	0.020	0.251	0.608
GBP	-0.716	0.244	-0.411	-0.054	0.109	0.777	0.124	0.804	-0.073	0.069	-0.350	0.674
EUR	-0.971	0.031	-0.440	-0.063	0.199	0.488	-0.414	0.531	0.192	-0.006	-0.441	1.000

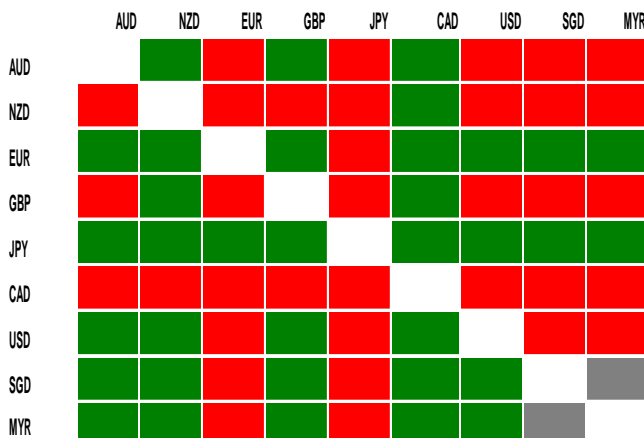
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2300	1.2327	1.2339	1.2400	1.2418
GBP-USD	1.3997	1.4200	1.4264	1.4280	1.4297
AUD-USD	0.7643	0.7700	0.7778	0.7783	0.7788
NZD-USD	0.7285	0.7300	0.7357	0.7395	0.7396
USD-CAD	1.2545	1.2600	1.2609	1.2625	1.2700
USD-JPY	106.78	107.00	107.24	107.78	107.98
USD-SGD	1.3072	1.3100	1.3126	1.3161	1.3180
EUR-SGD	1.6077	1.6100	1.6197	1.6200	1.6223
JPY-SGD	1.2168	1.2200	1.2241	1.2300	1.2327
GBP-SGD	1.8700	1.8722	1.8724	1.8749	1.8800
AUD-SGD	1.0027	1.0200	1.0209	1.0217	1.0243
Gold	1311.08	1329.83	1341.00	1358.76	1365.40
Silver	16.47	16.60	16.67	16.70	16.73
Crude	62.93	66.70	66.79	66.80	67.76

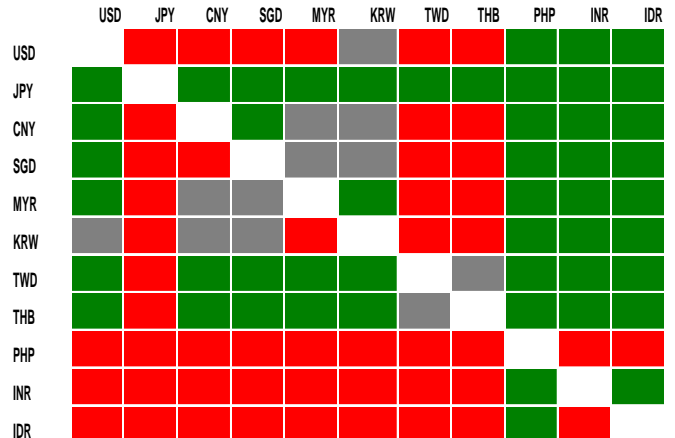
Source: OCBC Bank

### G10 FX Heat Map



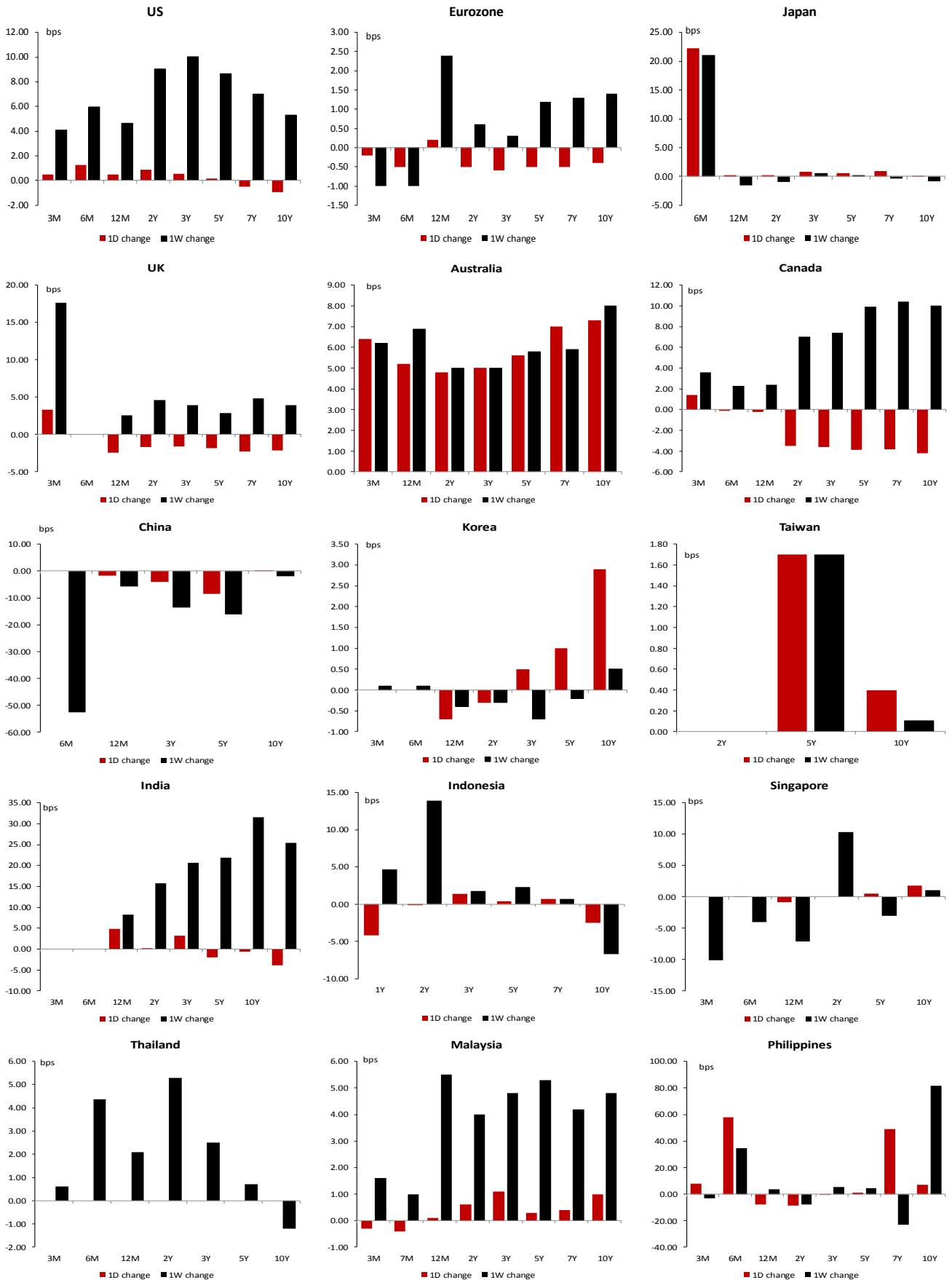
Source: OCBC Bank

### 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
* realized							1Q 18 Return	+12.43

Source: OCBC Bank

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