

Wednesday, April 18, 2018

## FX Themes/Strategy/Trading Ideas

- The dollar ended mixed to a touch firmer against the majors on Tuesday, although the USD-JPY slipped marginally. On the US data front, US March housing starts were mixed although industrial production clocked a better than expected +0.50% mom. Meanwhile, comments from the Fed's Williams and Harker failed to incite significant Fed/dollar bullishness, with the former highlighting the potential drag on the economic outlook from trade tensions. Nonetheless, note the UST curve bear flattening (from the front-end).
- On other fronts, despite creeping higher against the USD, note that the **antipodeans** also remained on unsteady ground across G10 space. Elsewhere, UK Feb weekly earnings data points were slightly on the soft side of expectations on Tuesday with the **GBP** underperformed across the board.
- On the risk appetite front, positive EZ/US equities aided the **FXSI (FX Sentiment Index)** lower with the Index still circulating within Risk-Neutral territory. Note however that positive risk appetite may be capped by concerns towards further potential US sanctions against Russia despite US Treasury Secretary Mnuchin downplaying Trump's earlier devaluation comments regarding Russia and China.
- The 2-day **Trump-Abe summit** ending today will be watched for any substantive headlines, although we do not expect any watershed announcements on this front. **In the interim, with the front-end of the vol surfaces generally still soggy (not however that riskies have of late moved against the USD, except in the USD-JPY), expect more headline watching amid some background USD resilience intra-day.**
- The **Fed** calendar today includes Dudley (1230 GMT and 1915 GMT) and Quarles (2015 GMT), while the **Bank of Canada** is expected to remain static at 1.25% (1400 GMT). On the data front, UK March CPI numbers are due at 0830 GMT, while EZ March CPI is also scheduled at 0900 GMT, with the Fed Beige Book at 1800 GMT.
- The **PBOC** cut its RRR for selected (most) banks on Tuesday by **1 percentage point** in an effort to maintain liquidity conditions. Although this move is technically more of a liquidity management exercise (but ultimately loosens the reins on banks liquidity for credit creation), expect local bonds to continue tick higher in reaction while appreciation pressures for the renminbi complex should be shaved.

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4073

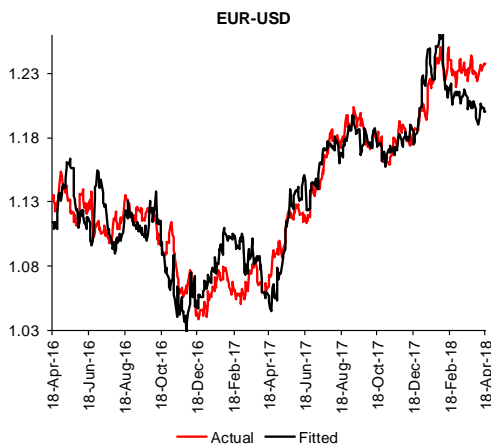
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

**Terence Wu**

+65 6530 4367

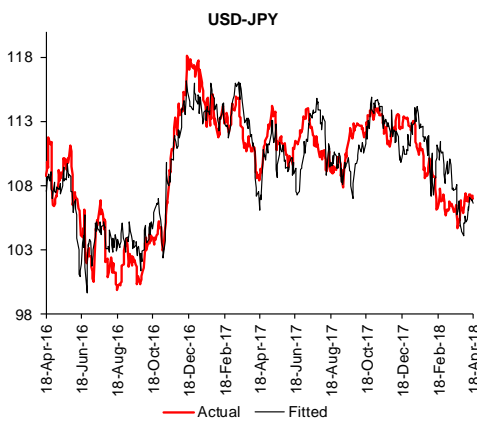
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**G7**



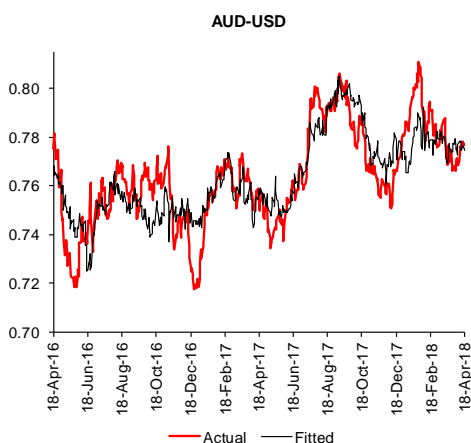
- **EUR-USD** If EZ CPI readings do not disappoint on the downside, expect potential for the EUR-USD to bounce off its 55-day MA (1.2336) despite short term implied valuations looking consolidative. Expect near term resistance towards 1.2430.

Source: OCBC Bank



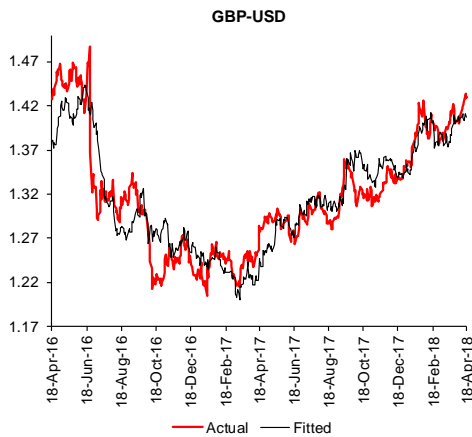
- **USD-JPY** Any dollar resilience may still be transmitted relatively more efficiently via the USD-JPY at this juncture pending headlines from the Abe-Trump summit. A familiar 106.00-108.00 range (we prefer picking bottoms) may govern in the interim.

Source: OCBC Bank

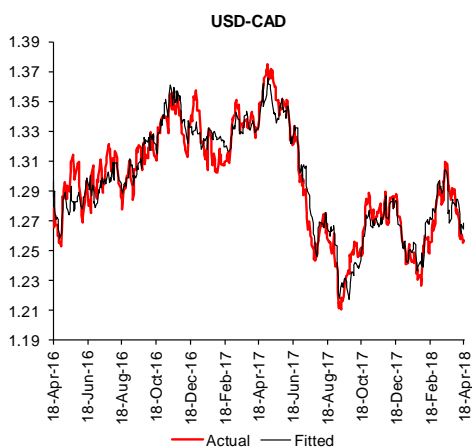


- **AUD-USD** If risk appetite remains sanguine, expect the risk-reward to continue to favor a drift towards the 55-day MA (0.7792) and the 200-day MA (0.7817) before a re-assessment. Short term implied valuations meanwhile continue to remain relatively static.

Source: OCBC Bank



- **GBP-USD** Yesterday's disappointing data points we feel may only prove to be a temporary setback for the pound with short term implied valuations still looking relatively supported at this juncture. Expect the pair to continue to inhabit the upper reaches of its recent 1.4200-1.4400 range ahead of the CPI readings today.



- **USD-CAD** Preference to fade any upticks towards the 200-day MA (1.2622) with the Bank of Canada not expected to be unduly dovish later today. Expect the downward tilt for the pair persist if oil continues to persist above 65.00.

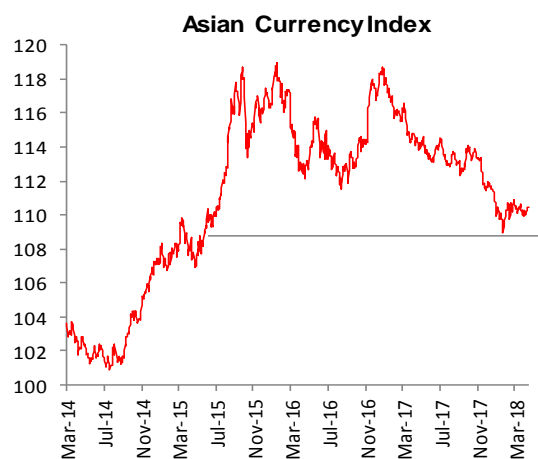
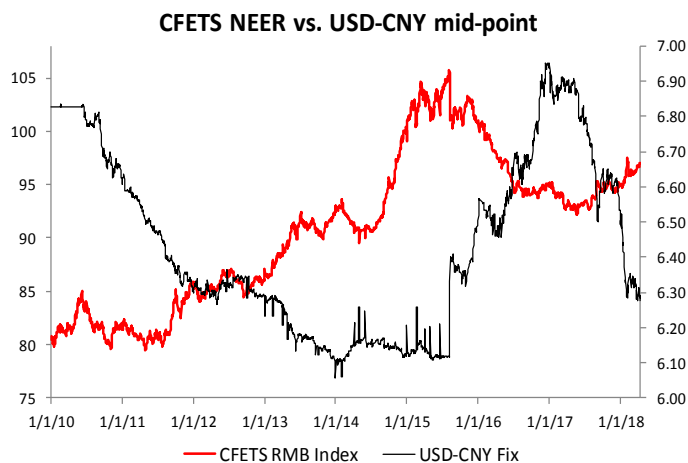
Source: OCBC Bank

## Asian FX

- Asian net portfolio inflows meanwhile remain supportive for South Korea (strengthening bond inflows while net equity outflows are compressing) – in our view, the only notable bright spot in the region in the near term.
- Meanwhile, Taiwan continues to suffer from a deepening net equity outflow environment. On other fronts, India is still experiencing moderating net inflows (net equity inflows softening significantly, bond inflows may perhaps be stalling somewhat). Ditto for Indonesia with strong bond inflows continuing to peak. Lastly, previously strong net bond inflows for Thailand are correcting lower while net equity outflows are looking to deepen.
- Overall, with the **IMF** outlining downside risks to global growth over the medium term, slight dollar resilience intra-day, and fading positive impetus for net portfolio inflows in Asia, expect downside for the **ACI (Asian Currency Index)** and domestic long-end bond yields to be limited.
- **SGD NEER:** The SGD NEER is softer on the day at around +0.53% above its perceived parity (1.3179), with NEER-implied USD-SGD thresholds higher on the day. Continue to look for a +0.40% (1.3127) to +0.70% (1.3088) range for the basket, with the pair seen anchored (i.e., range trade) around 1.3100 in the

interim.

- CFETS RMB Index:** The USD-CNY mid-point firmed (largely as expected) to 6.2817 from 6.2771 yesterday. This pulled the CFETS RMB Index lower to 96.90 from 97.97 on Tuesday.

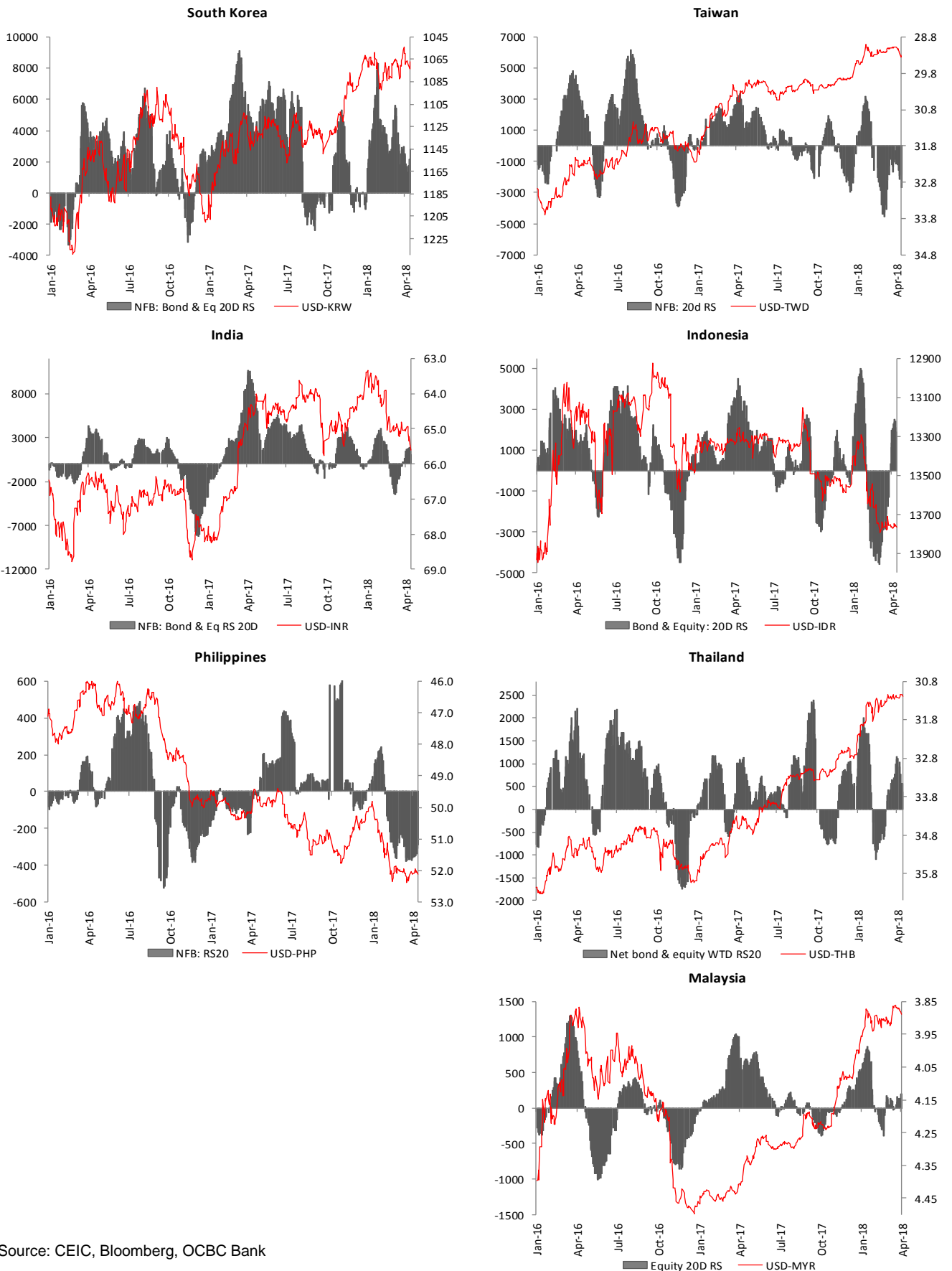


Source: OCBC Bank, Bloomberg

Currency	S.T. bias	Rationale
USD-CNH	↔	Relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔/↑	Easing tensions with the North, net portfolio inflows moderating, inflation/current account surplus projection downgraded, BOK expected to remain neutral
USD-TWD	↑	Net equity outflows, new CBC governor non-hawkish
USD-INR	↔/↑	India placed on US Treasury's watchlist, foreign investor limit on government bonds eased, mild net positive inflows, less aggressive fiscal borrowing plans, wider than expected March trade deficit, warmer than expected March CPI
USD-SGD	↔	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines
USD-MYR	↔/↑	BNM remains accommodative; country on election watch (09 May 18)
USD-IDR	↔	Rating upgrade from Moodys to Baa2, BI containing IDR volatility, sees little room to cut rates; fundamentals intact, strong net bond inflows
USD-THB	↔	BOT remains accommodative, moderating net bond inflows
USD-PHP	↔/↓	Net equity outflows, BSP downplaying rate hike expectations but remains vigilant towards inflation risks (markets unconvinced), note surprise contraction in Feb exports

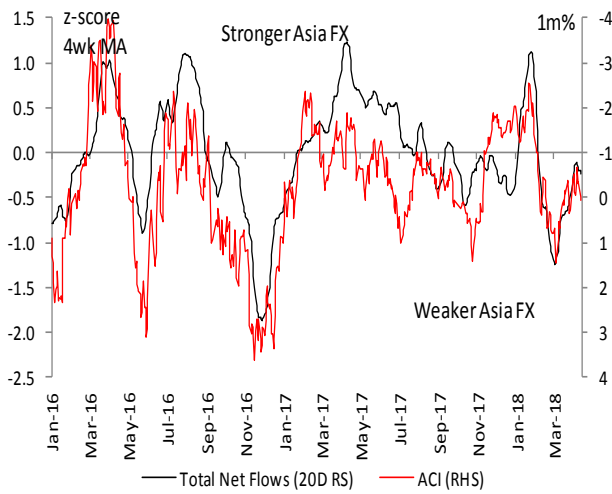
Source: OCBC Bank

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



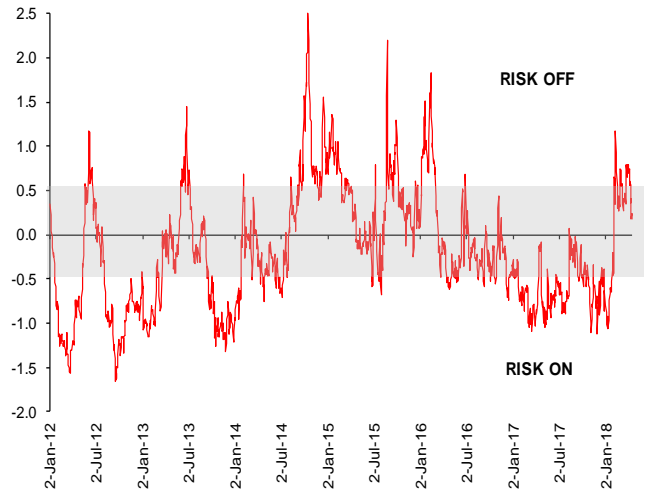
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DX	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

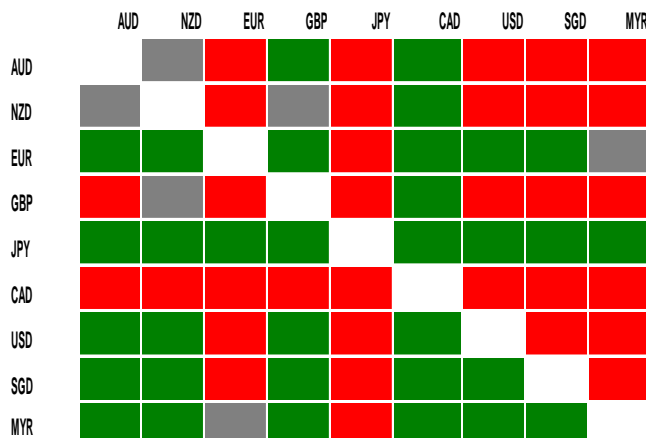
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2300	1.2328	1.2378	1.2400	1.2428
GBP-USD	1.4009	1.4300	1.4303	1.4338	1.4377
AUD-USD	0.7643	0.7700	0.7767	0.7775	0.7793
NZD-USD	0.7282	0.7300	0.7338	0.7395	0.7400
USD-CAD	1.2500	1.2528	1.2569	1.2600	1.2618
USD-JPY	106.66	107.00	107.27	107.78	108.00
USD-SGD	1.3067	1.3100	1.3109	1.3149	1.3159
EUR-SGD	1.6200	1.6211	1.6227	1.6273	1.6300
JPY-SGD	1.2168	1.2200	1.2221	1.2300	1.2327
GBP-SGD	1.8423	1.8700	1.8750	1.8787	1.8800
AUD-SGD	1.0020	1.0100	1.0182	1.0200	1.0213
Gold	1313.23	1330.86	1347.20	1360.20	1365.40
Silver	16.51	16.70	16.75	16.80	16.86
Crude	63.05	66.80	66.85	66.90	67.76

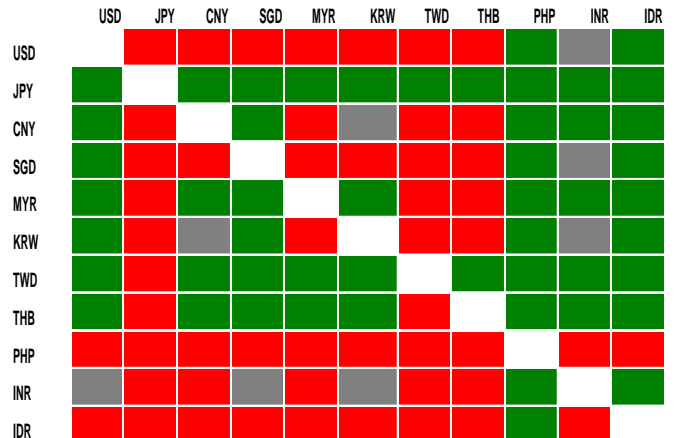
Source: OCBC Bank

### G10 FX Heat Map



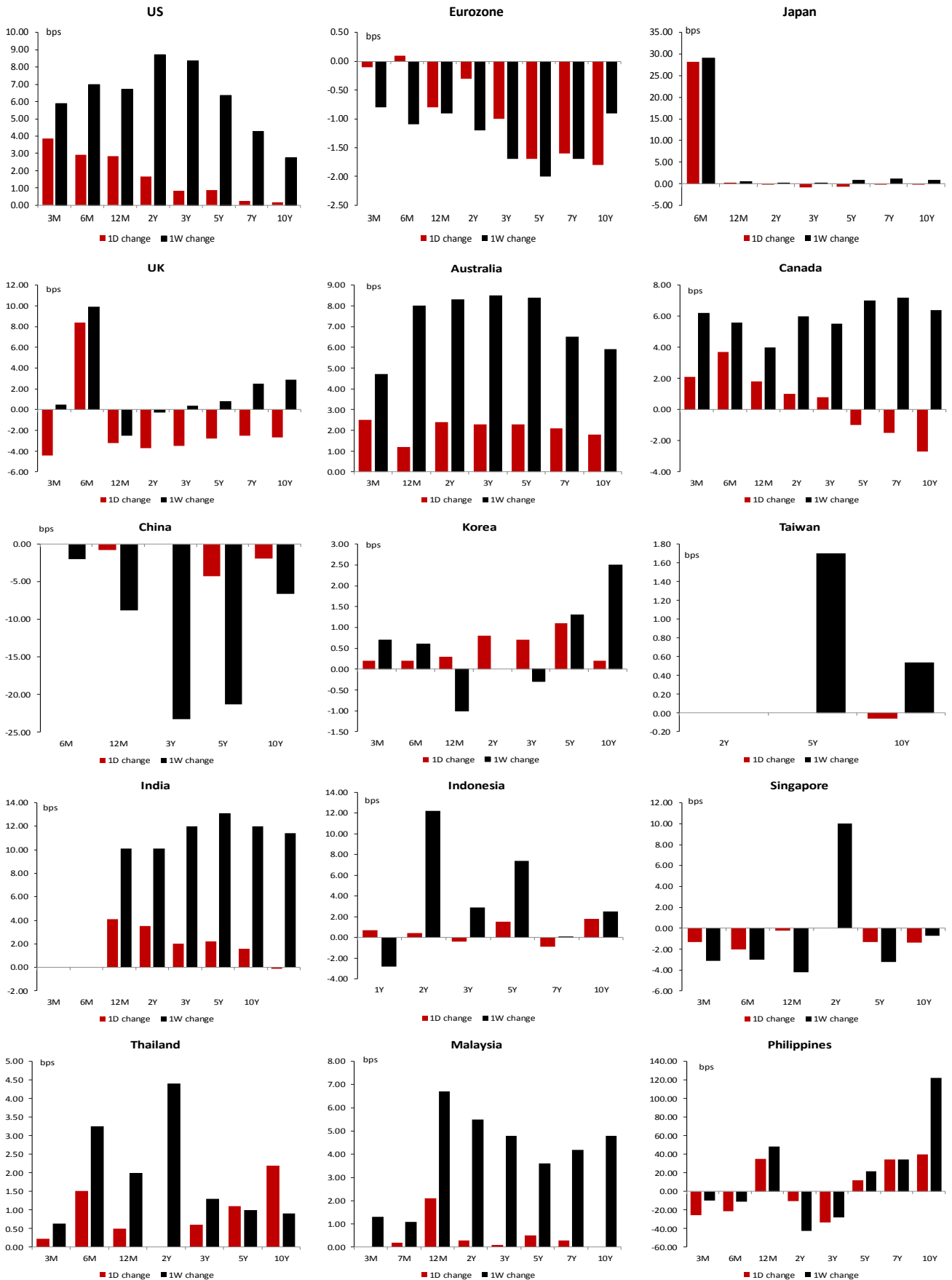
Source: OCBC Bank

### 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

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

---