

Thursday, April 19, 2018

FX Themes/Strategy/Trading Ideas

- Amidst a slightly firmer (and still flattening) UST curve, the dollar traded mixed to slightly firmer on Wednesday with mild support from the Beige Book report. Note however that broad dollar strength was far from universal, with gains on the CAD and GBP opportunistic while the AUD was boosted by a stronger commodity (metals and crude) complex.
- The **USD-CAD** jumped above 1.2600 after the Bank of Canada, at its policy meeting, came across as less hawkish than expected but nevertheless continued to flag further rate increases “over time”. The central bank noted that the economy was weaker than expected in 1Q 18 and highlighted trade and geopolitical risks. **GBP-USD** tripped briefly below 1.4200 following softer than expected March CPI readings.
- Positive EZ/US/EM equities saw the **FXSI (FX Sentiment Index)** sinking further within Risk-Neutral territory on Wednesday, a 3rd consecutive session of risk appetite improvement.
- Fed-speak today includes Brainard (1200 GMT), Quarles (1330 GMT), and Mester (2245 GMT), while the BOE’s Brazier (1010 GMT) and Cunliffe (1630 GMT) are also on tap. In Asia, expect **Bank Indonesia** to remain static with respect to its policy parameters.
- Overall, it remains to be seen if widening aggregated rate differentials can impart more than fleeting support for the greenback in general and we remain healthy skeptics at this juncture. As stated previously, only the USD-JPY may remain relatively more efficient at expressing this view.

Treasury Research &
Strategy

Emmanuel Ng

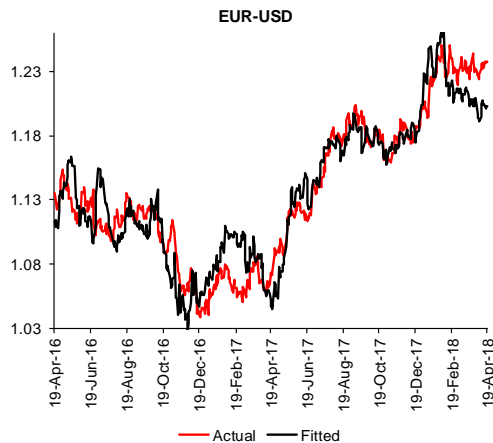
+65 6530 4073

ngcyemmanuel@ocbc.com

Terence Wu

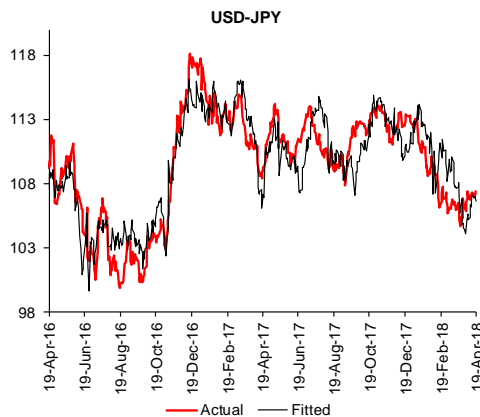
+65 6530 4367

TerenceWu@ocbc.com

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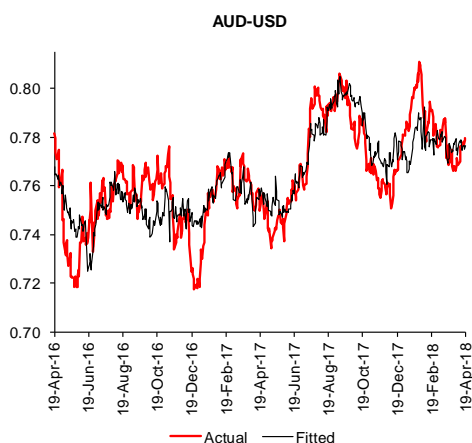
Source: OCBC Bank

- **EUR-USD** Short term implied valuations are attempting to edge lower but the pair continues to stay aloft above its 55-day MA (1.2333). With no drastic disappointment out of the EZ CPI readings yesterday, risks towards 1.2430 may continue to circulate.



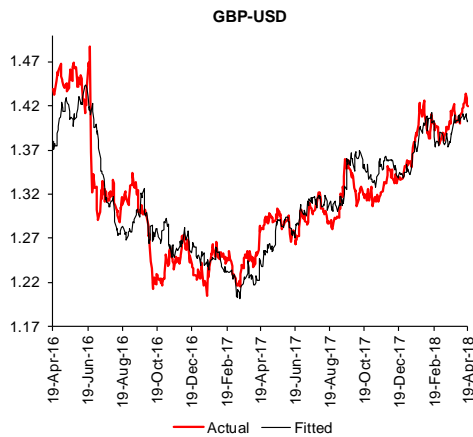
Source: OCBC Bank

- **USD-JPY** Abe-Trump headlines had little discernible impact on markets and in tandem with firmer US rates and improved global risk appetite levels, expect the USD-JPY to continue to pick higher gingerly in the near term. Expect initial support on dips towards the 55-day MA (106.90) with 107.80 likely to attract for now.

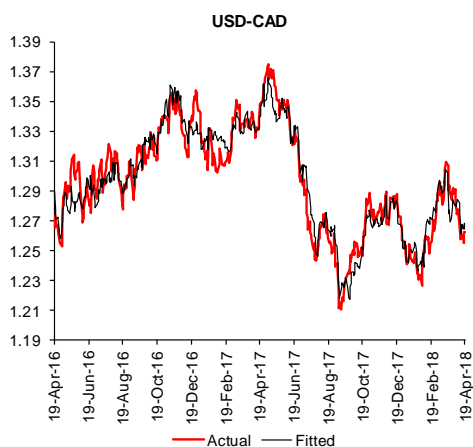


Source: OCBC Bank

- **AUD-USD** March Aussie labor market numbers this morning came in on the wrong side of expectations but this may not materially dent upside prospects for the pair in view of the more sanguine global market environment at this juncture. Expect sustained buoyancy towards the 200-day MA (0.7817) if the pair manages to detach away from its 55-day MA (0.7787).



- **GBP-USD** Expect some further room for consolidative trading after the corrective price action the last 48 hours. Short term implied valuations meanwhile have also stuttered in the near term. Expect a cushion within 1.4150-1.4200 to prevail as weak longs bail.



- **USD-CAD** Expect some base building behavior to persist in the wake of the BOC policy meeting (markets are somewhat puzzled by the central bank's cautious tone) with the 200-day MA (1.2622) likely to function as a near term junction in the interim. The 100-day MA (1.2676) is expected to cap and note that short term implied valuations for the pair remain southbound.

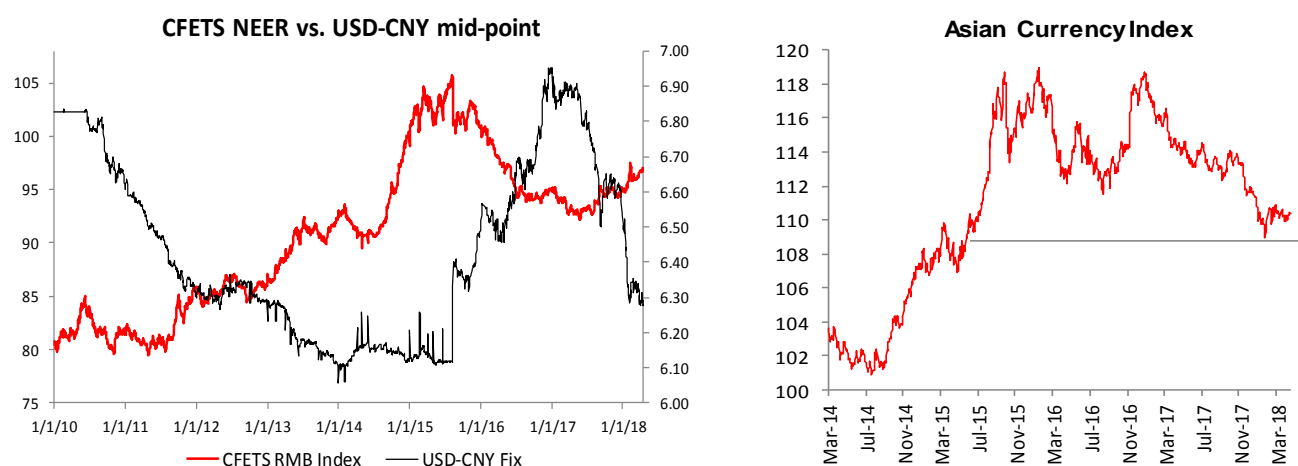
Source: OCBC Bank

Asian FX

- In Asia, positive net bond inflows are blipping higher for South Korea, while the rest of the region continues to experience moderating net inflow momentum. Nonetheless, against a positive risk appetite/equity backdrop, the **ACI (Asian Currency Index)** may tip lower intra-day.
- **Indonesia:** Expect **Bank Indonesia** to remain static today at its policy meeting, with the central bank expected to be mindful of any implications on the IDR from any dovish hints, with inflation risks still benign.
- **India:** **RBI** meeting minutes are due today, with investors on the lookout for confirmation that the RBI is indeed adopting a more dovish slant.
- **SGD NEER:** The SGD NEER is firmer on the day at around +0.57% above its perceived parity (1.3178) with NEER-implied USD-SGD thresholds largely unchanged on the day. Expect a +0.50% (1.3117) to +0.70% (1.3091) range intra-day for the basket. With forwards shifting right perceptibly in the last two sessions, any residual implicit left hand side bias (in our view, negligible in the first place) from the MAS slope steepening last Friday has been all but nullified. In the interim, expect USD-SGD to remain anchored in the vicinity of the 1.3100

handle amid range trading conditions.

- CFETS RMB Index:** The USD-CNY mid-point inched higher marginally to 6.2832 (in line with model derived estimates), resulting in the CFETS RMB Index easing to 96.87 from 96.90 on Wednesday.

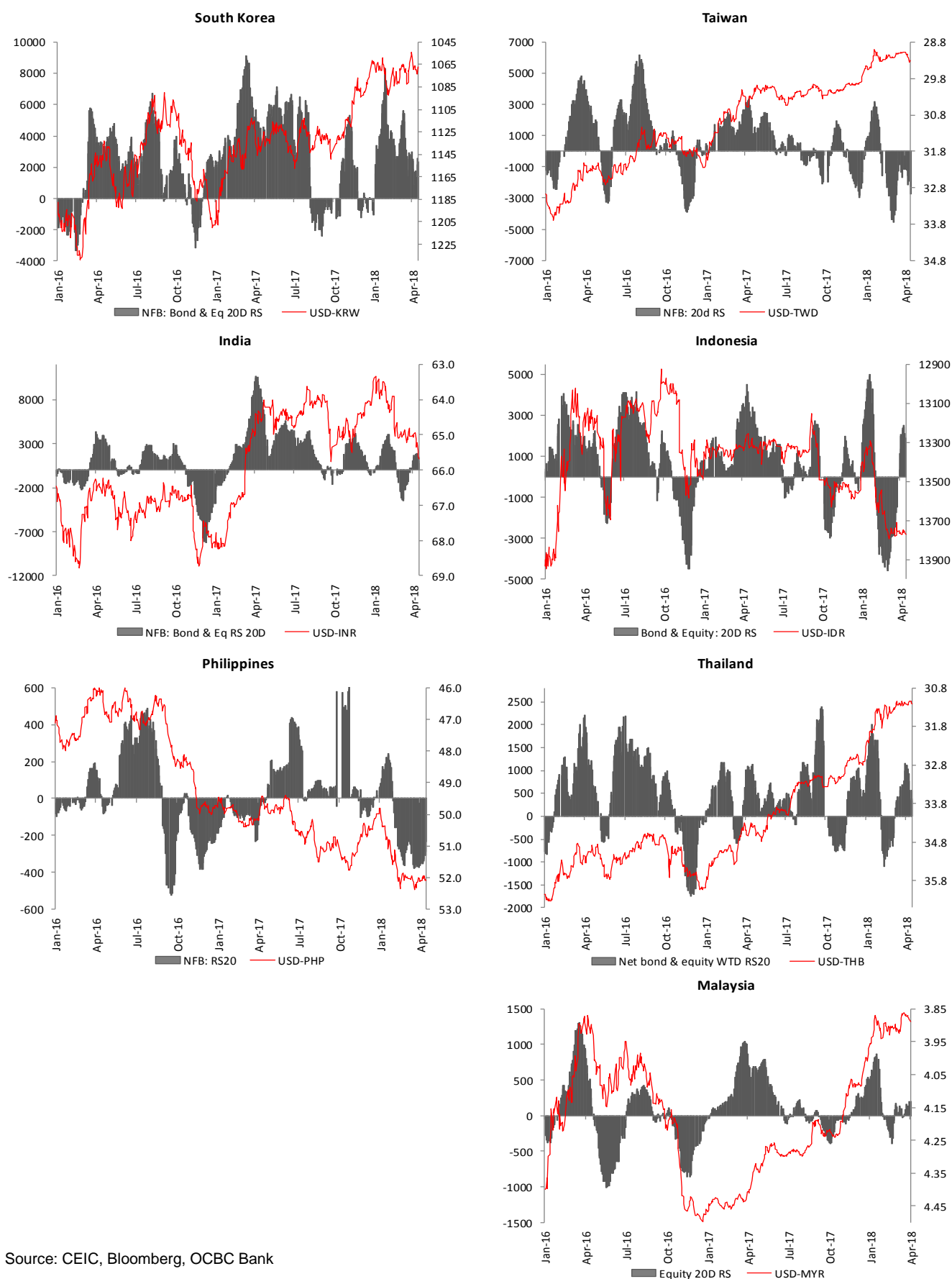


Source: OCBC Bank, Bloomberg

| 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 |

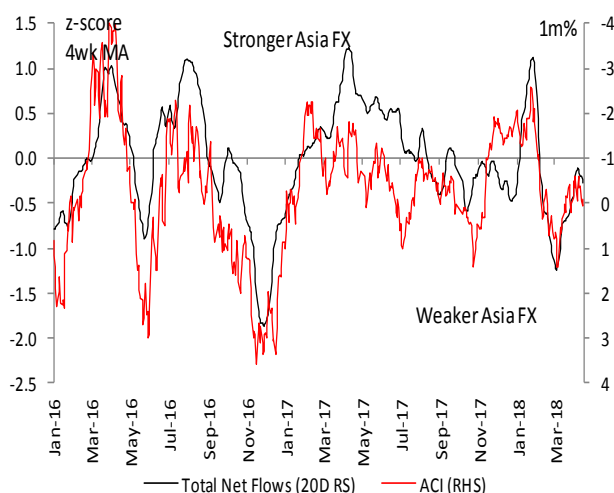
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



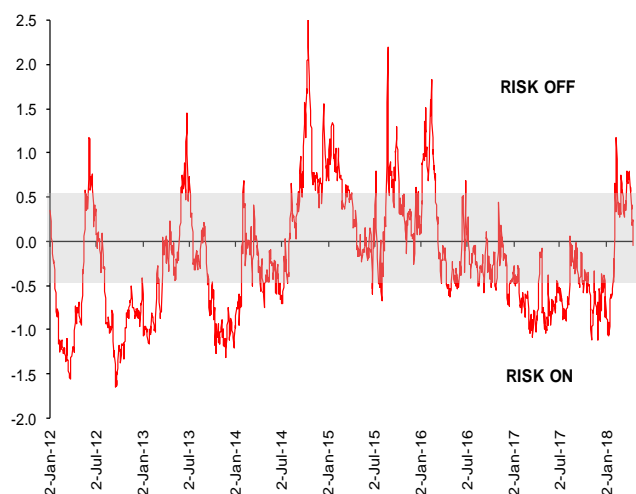
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| | DXY | USGG10 | CNY | SPX | MSELCAFF | CRY | JPY | CL1 | VIX | ITRXX | 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 |

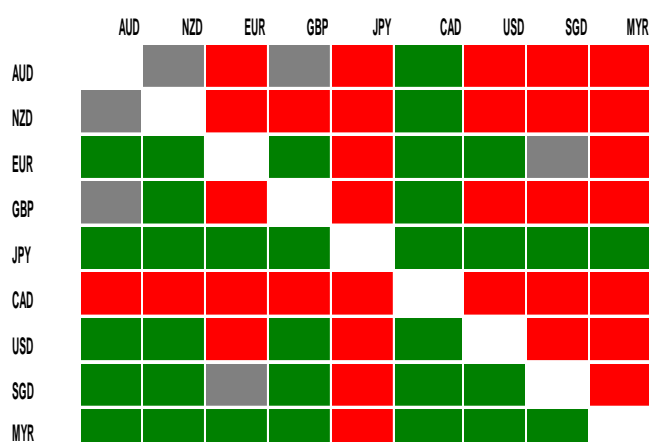
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.2300 | 1.2331 | 1.2379 | 1.2400 | 1.2432 |
| GBP-USD | 1.4013 | 1.4100 | 1.4197 | 1.4200 | 1.4327 |
| AUD-USD | 0.7700 | 0.7776 | 0.7793 | 0.7800 | 0.7807 |
| NZD-USD | 0.7284 | 0.7300 | 0.7324 | 0.7395 | 0.7398 |
| USD-CAD | 1.2600 | 1.2618 | 1.2625 | 1.2700 | 1.2771 |
| USD-JPY | 106.64 | 107.00 | 107.42 | 107.78 | 108.00 |
| USD-SGD | 1.3054 | 1.3070 | 1.3095 | 1.3100 | 1.3144 |
| EUR-SGD | 1.6200 | 1.6209 | 1.6210 | 1.6271 | 1.6300 |
| JPY-SGD | 1.2145 | 1.2168 | 1.2191 | 1.2200 | 1.2326 |
| GBP-SGD | 1.8422 | 1.8500 | 1.8590 | 1.8600 | 1.8765 |
| AUD-SGD | 1.0020 | 1.0200 | 1.0206 | 1.0223 | 1.0226 |
| Gold | 1319.73 | 1331.63 | 1351.00 | 1360.59 | 1365.40 |
| Silver | 17.13 | 17.20 | 17.24 | 17.28 | 17.30 |
| Crude | 63.19 | 68.70 | 68.75 | 68.80 | 68.93 |

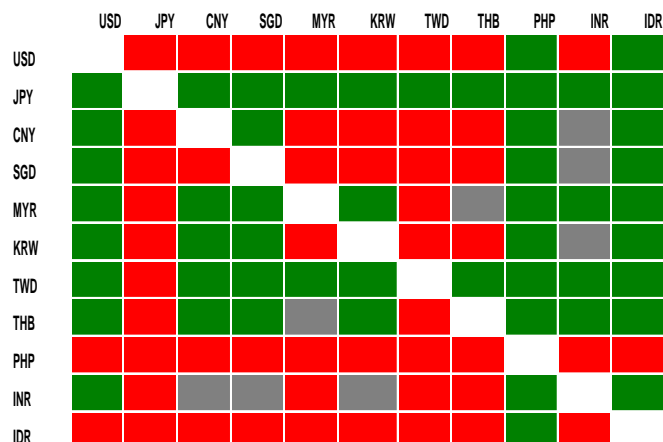
Source: OCBC Bank

G10 FX Heat Map



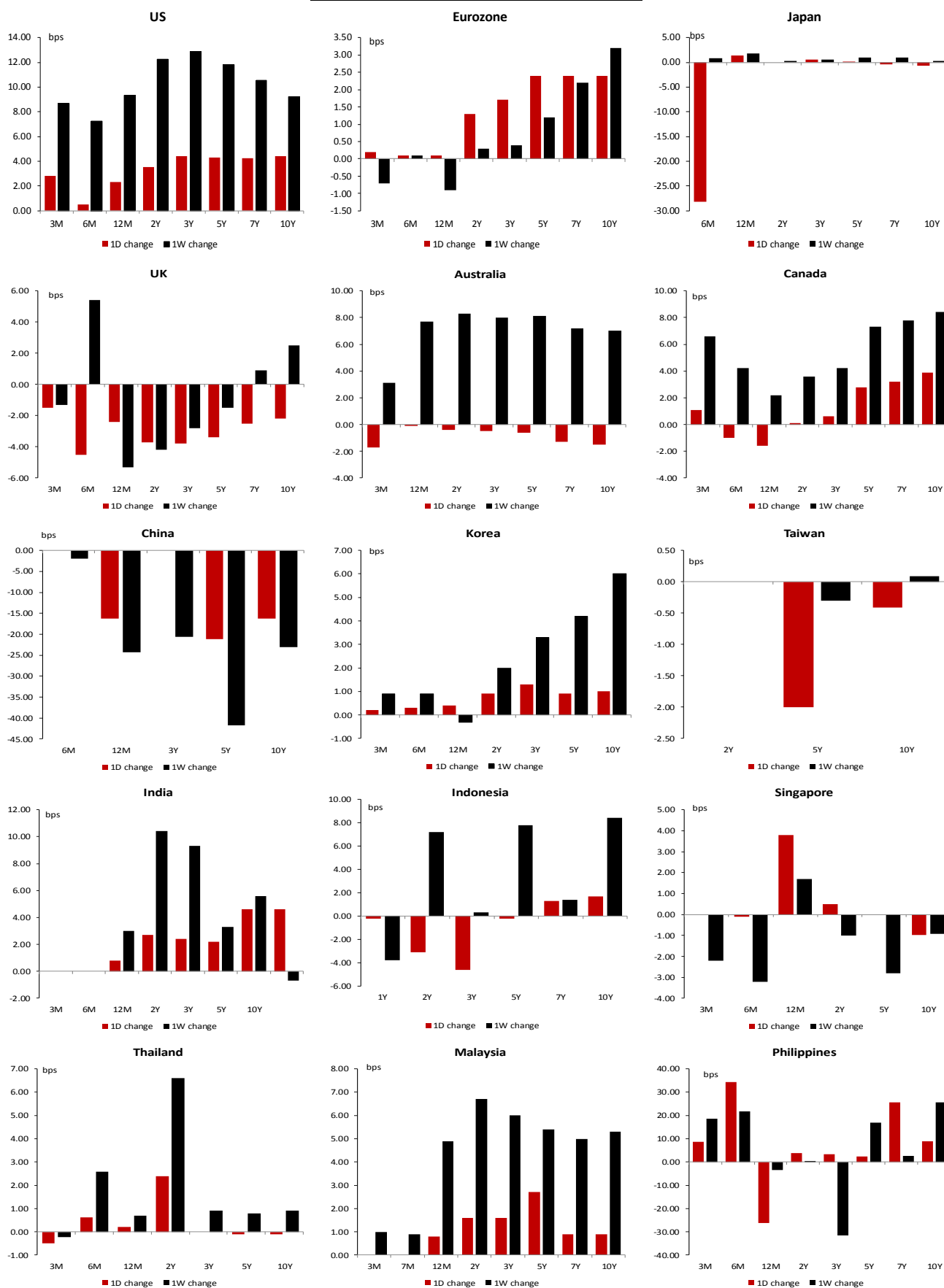
Source: OCBC Bank

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 |
| * realized | | | | | | | | 1Q 18 Return +12.43 |

Source: OCBC Bank

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