

Monday, April 23, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Firmer US yields (UST curve bear steepened from the back-end) boosted the USD across G10 space on Friday while the cyclicals underperformed across the board. Amid negative US/EM equities, the **FXSI (FX Sentiment Index)** ticked higher on Friday but remained within Risk-Neutral territory.
- On the **CFTC** front, large non-commercial accounts and asset manager accounts increased their net implied short dollar bias in aggregate in the latest week but leveraged accounts pared their short dollar bias instead. Expect positioning to likely shift further in favor of the day at the onset of the week.
- **This week, several key issues bear watching:** Firstly, the **DXY** surfaced above 90.00 on Friday to around 90.40 and the 91.00 ceiling will be closely monitored for a range break.
- Secondly, USD strength was on the back of the **10y UST yield** firming to a new year-to-date high of 2.962% and investors will remain on the lookout for any further drift towards the 3.00% handle, an inflexion point of sorts for global markets.
- Thirdly, **rate differential arguments** (in favor of the USD) may continue to gain (more than fleeting) traction this time around if (back-end) US yields continue to remain buoyant and detach higher with conviction.
- Fourthly, in this environment, **investor rebalancing** away from the cyclicals (in favor of the USD) may continue to ensue, with G10 (and especially Asian) carry moderating rapidly in the past week.
- Lastly, while the USD was supported last week on the back of firming US yields and less than hawkish commentary from the ECB, BOE and BOC, note that Fed-speak will go dark this week ahead of the **02 May FOMC**. Instead, markets will have to chew on central bank rhetoric from the other major central banks instead.
- Further on this front, the **ECB meeting** on Thursday will be closely watched although Draghi last Friday continued to preach “patience, persistence and prudence” with regard to monetary policy. Investor expectations for an unduly hawkish ECB have been tempered with a report indicating little prospects for a significant change in forward guidance until the July Council Meeting.

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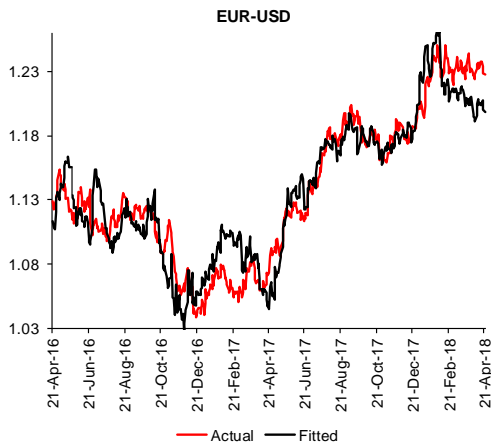
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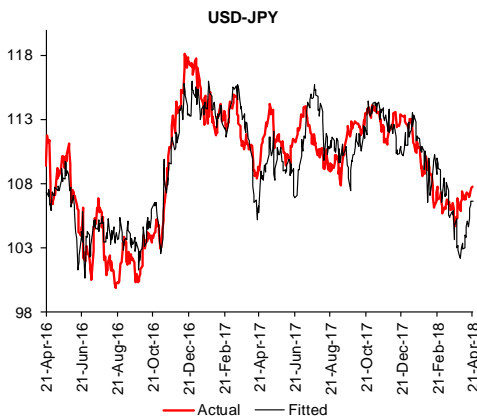
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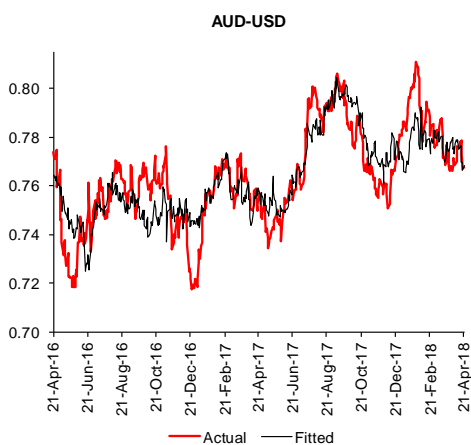
- **EUR-USD** Ahead of the ECB on Thursday, risks for the pair may remain oriented south, with short term implied valuations also edging lower. Expect initial support towards the 100-day MA (1.2206).

Source: OCBC Bank



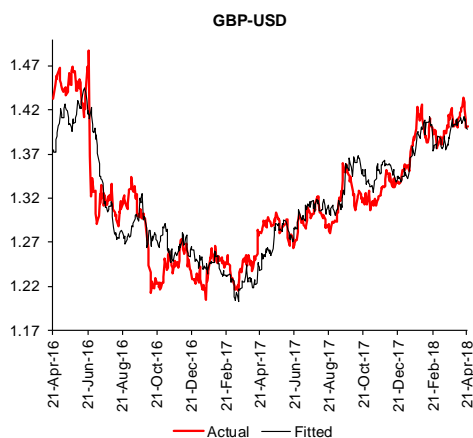
- **USD-JPY** The BOJ's Kuroda remains sufficiently dovish at this juncture and ahead of the BOJ MPC this week. Set against a favorable broad USD environment at this juncture, a breach above 108.00 may incite a drift towards the 100-day MA (109.04).

Source: OCBC Bank

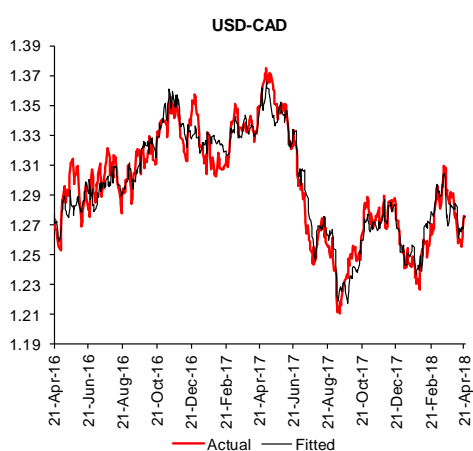


- **AUD-USD** With macro/carry out of favor globally in the near term, note that short term implied valuations have also been tipping lower. As such, support at 0.7650 (0.7600 thereafter) may now be under threat.

Source: OCBC Bank



- **GBP-USD** The GBP may continue to sting from Carney's comments from last week as short term implied valuations for the pair trip lower. Note that a violation of the 55-day MA (1.4010) opens the way to the 100-day MA (1.3851).

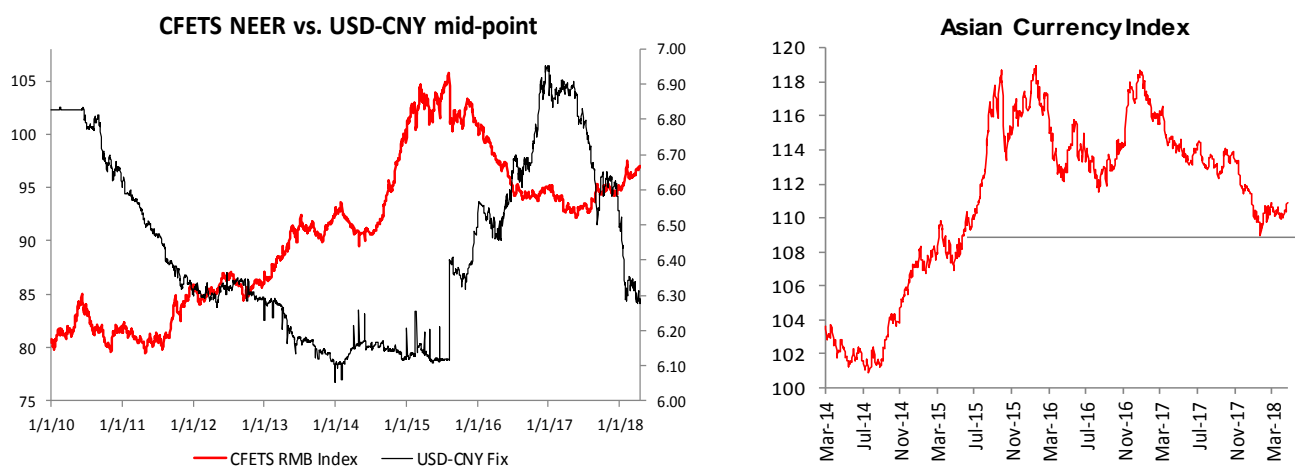


- **USD-CAD** Short term implied valuations for USD-CAD have inevitably firmed in the current market backdrop. Expect support at the 100-day MA (1.2678) and a breach above the 55-day MA (1.2762) risks a further ascent towards 1.2800.

Source: OCBC Bank

Asian FX

- Despite Munchin's overtures (considering a trip to China for trade talks) and Pyongyang's denuclearization declaration over the weekend, the environment for Asian FX and bonds is expected to remain less than hospitable in the near term in view of a stronger broad dollar and firmer US yields.
- **EPFR** data meanwhile showed a further moderation in implied net equity and bond inflows for Asia (excl Japan, China). On a related note, **actual net portfolio inflows** in Asia (except for South Korea) continue to denote dissolving net inflows (outflows for Taiwan). Overall, expect the **ACI (Asian Currency Index)** to continue to test higher.
- **SGD NEER:** The SGD NEER is softer on the day at around +0.56% above its perceived parity this morning, with NEER-implied USD-SGD thresholds higher from last Friday. A +0.40% (1.3187) to +0.70% (1.3148) range for the basket may hold pending further external headlines. Technically, note risk for base building off its 55-day MA (1.3158) towards 1.3200 in the current environment.
- **CFETS RMB Index:** The USD-CNY mid-point this morning came in at a higher than expected 6.3034, capping the CFETS RMB Index at 97.09 from 96.99 last Friday.



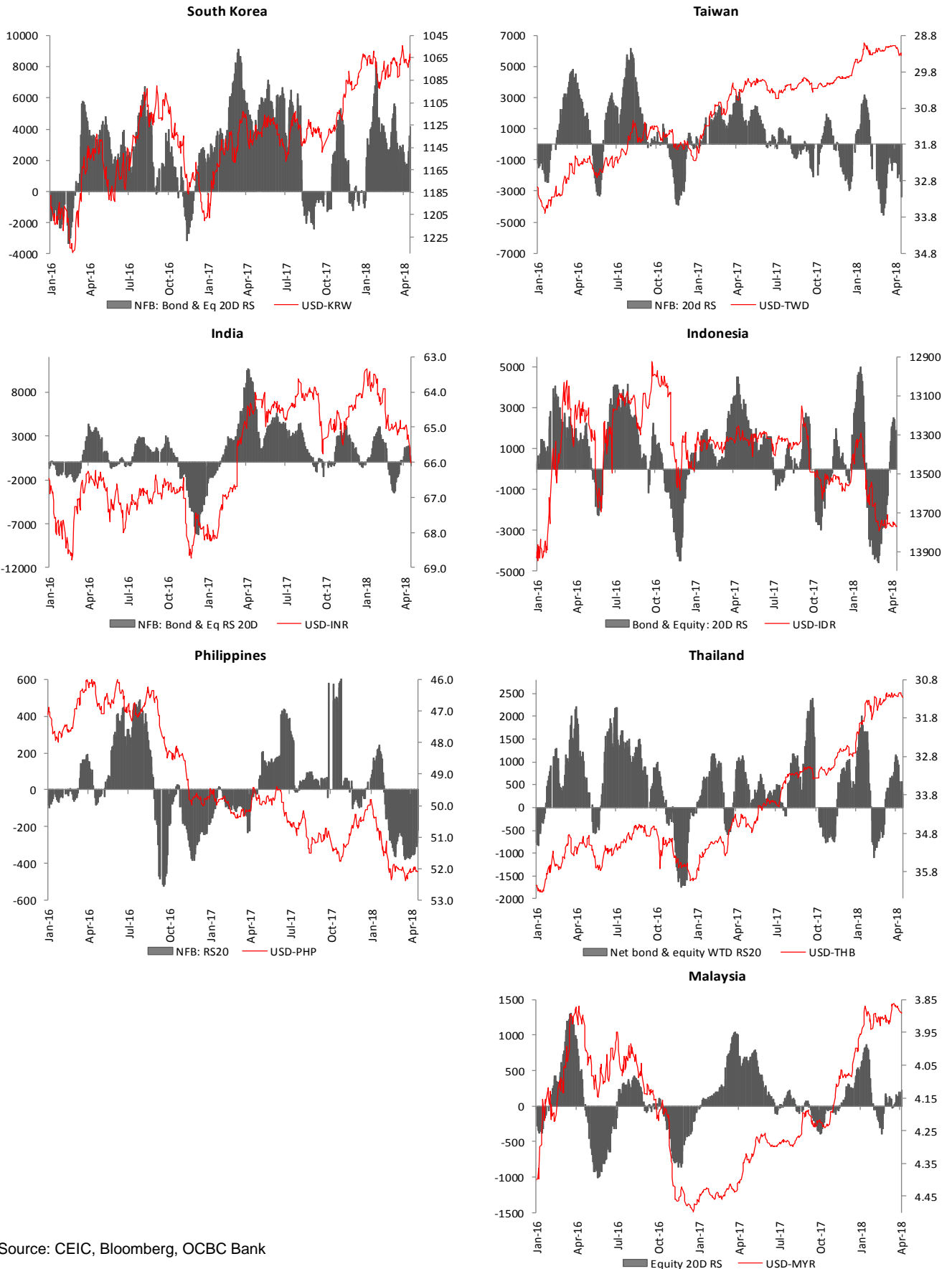
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔	Easing tensions with the North, net bond inflow rebound inflows, inflation/current account surplus projection downgraded, BOK expected to remain neutral
USD-TWD	↔/↑	Net equity outflows, new CBC governor non-hawkish
USD-INR	↑	RBI minutes more hawkish than expected, India placed on US Treasury's watchlist, net equity inflows evaporating, net bond inflows insignificant, less aggressive fiscal borrowing plans, wider than expected March trade deficit, warmer than expected March CPI, higher crude imposing drag on INR and govies
USD-SGD	↑	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY
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, net bond inflows peaking, carry strategy under reassessment
USD-THB	↑	BOT remains accommodative, moderating net bond inflows, equity outflows deepening
USD-PHP	↔	Net equity outflows compressing, BSP downplaying rate hike expectations but remains vigilant towards inflation risks (markets unconvinced), note surprise contraction in Feb exports

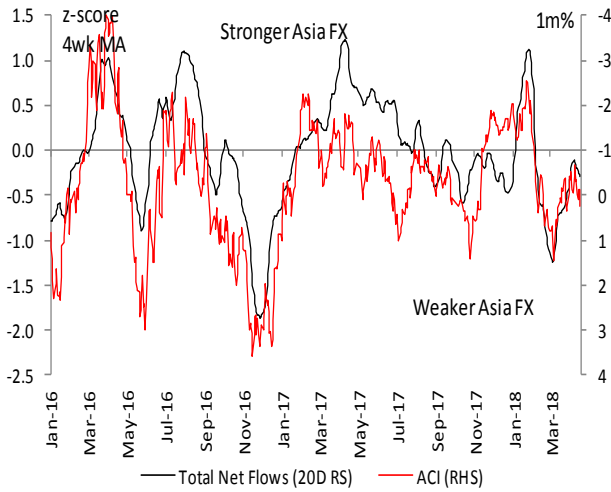
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



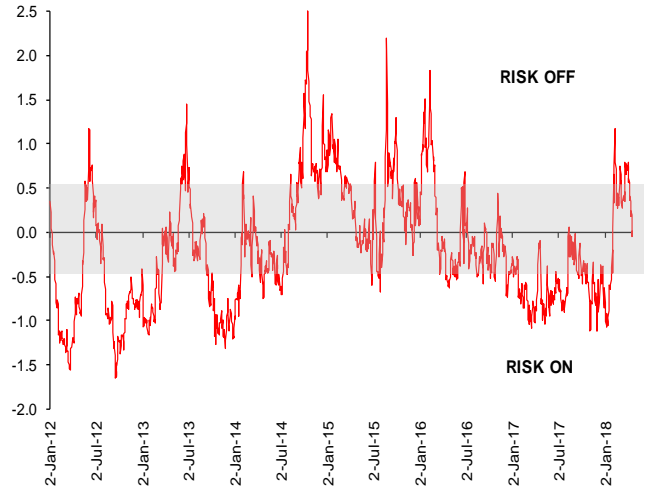
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	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

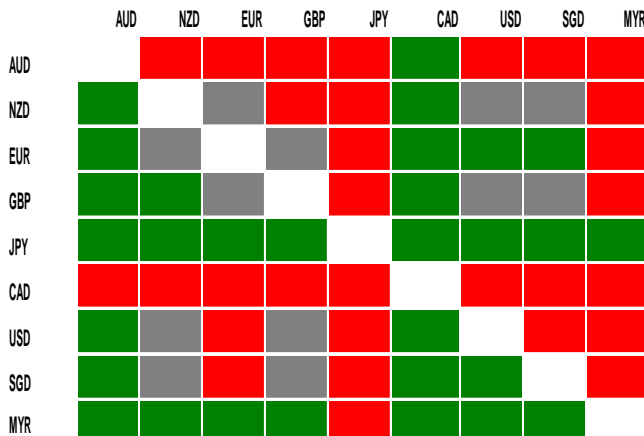
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2215	1.2235	1.2273	1.2300	1.2330
GBP-USD	1.3970	1.4000	1.4018	1.4100	1.4314
AUD-USD	0.7625	0.7643	0.7678	0.7700	0.7768
NZD-USD	0.7179	0.7200	0.7203	0.7280	0.7300
USD-CAD	1.2619	1.2700	1.2757	1.2779	1.2800
USD-JPY	106.60	107.00	107.84	107.89	108.00
USD-SGD	1.3141	1.3158	1.3172	1.3197	1.3200
EUR-SGD	1.6078	1.6100	1.6166	1.6200	1.6204
JPY-SGD	1.2168	1.2200	1.2214	1.2300	1.2327
GBP-SGD	1.8400	1.8423	1.8464	1.8500	1.8748
AUD-SGD	1.0020	1.0100	1.0113	1.0200	1.0211
Gold	1320.69	1332.32	1334.40	1358.58	1365.40
Silver	16.91	17.00	17.07	17.10	17.27
Crude	63.48	68.30	68.31	68.40	69.57

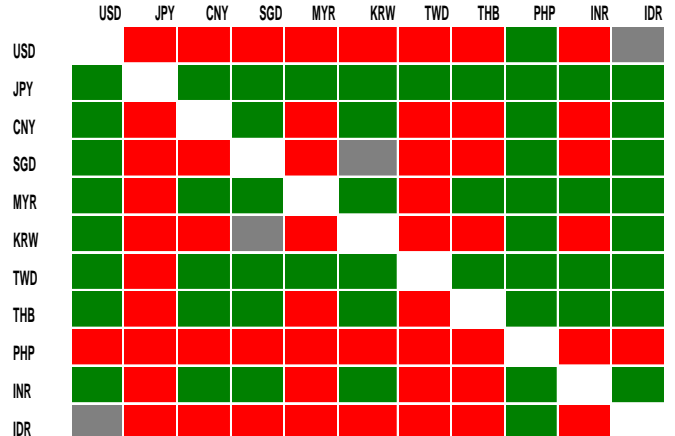
Source: OCBC Bank

G10 FX Heat Map



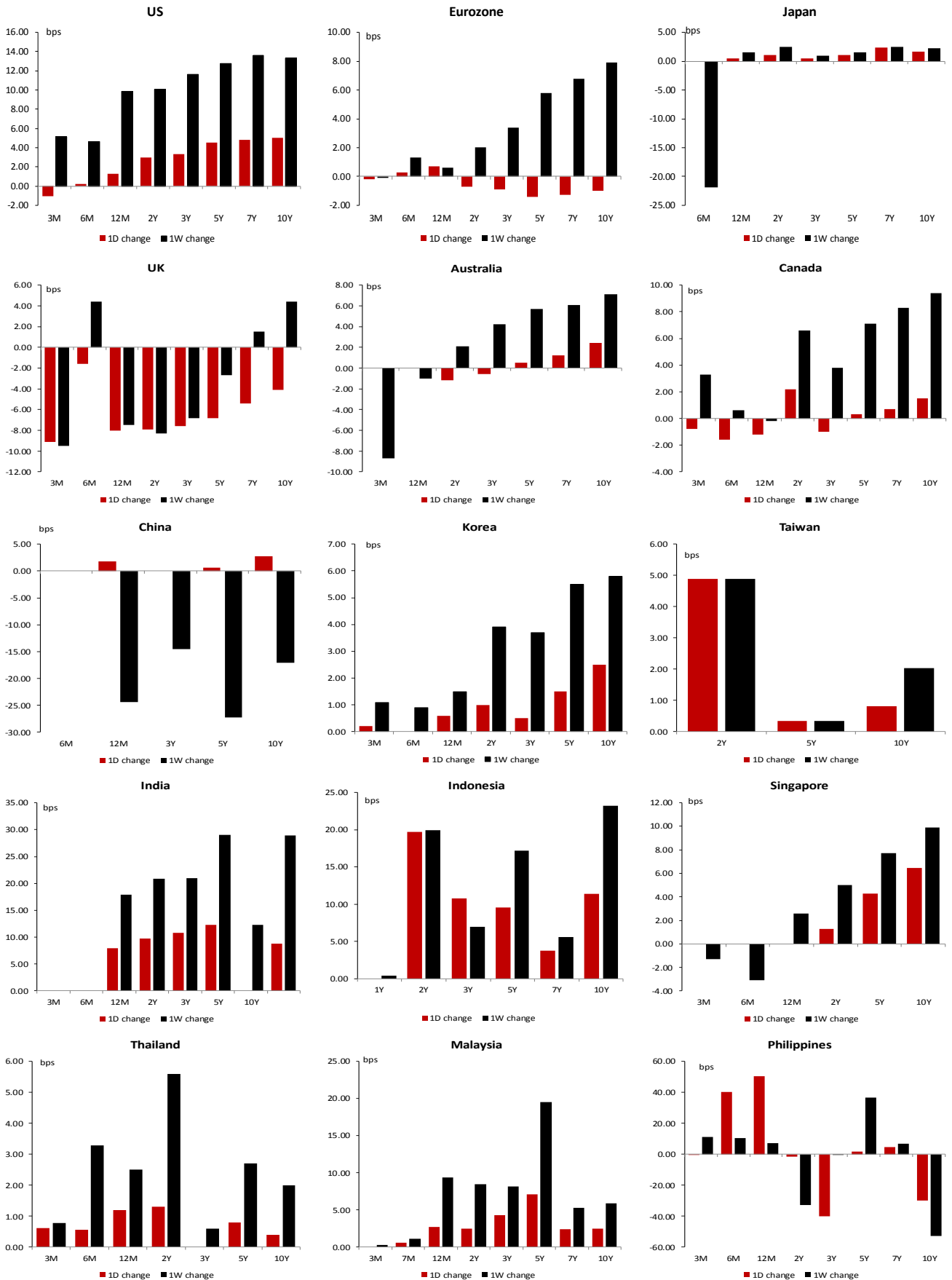
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
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	Broad 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 cyclicals	-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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