

Tuesday, April 24, 2018

FX Themes/Strategy/Trading Ideas

- With the UST curve continuing to lift (5-7y sector underperforming), the broad dollar gained across G10 as well as EM space on Monday.
- Note the all-round underperformance of the JPY as the USD-JPY surfaced above 108.50 as the pair was boosted by USD resilience. With US-Sino trade tensions alleviating for now, risk appetite remained relatively stable despite slightly uncertain global equities, although we note that the **FXSI (FX Sentiment Index)** ticked higher within Risk-Neutral territory.
- In the past week, outside of the JPY and GBP, the cyclicals (note also softer industrial metals overnight) have in fact borne the brunt of the latest US yield/USD moves and this may continue as investors continue to re-balance.
- At this juncture, expect markets to remain sensitive to key levels (and the ability to hold above these key levels), namely, 3.00% for the 10y UST yield and 91.00 for the DXY, both of which may potentially precipitate an inflection point in markets in the near term.
- On a related note, the risk appetite environment also bears watching, and a potential deterioration into Risk-Off territory in the face of higher US yields may exacerbate negativity towards the cyclicals as well as EM/Asia, especially if net capital flows turn net negative for the latter.

Treasury Research &
Strategy

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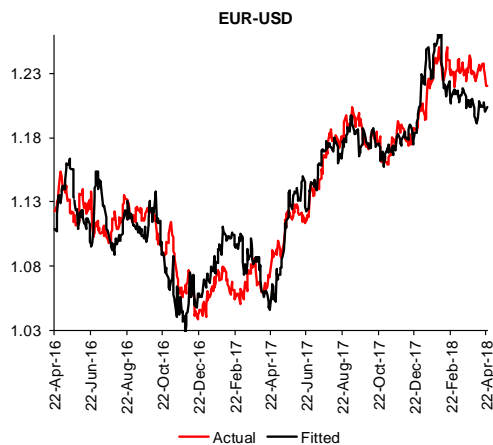
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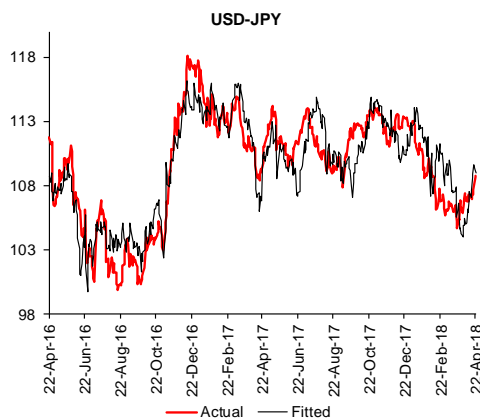
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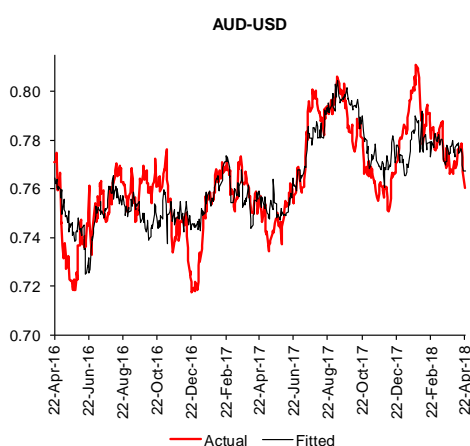
Source: OCBC Bank

- **EUR-USD** Stay heavy on the EUR-USD in the interim and ahead of the ECB on Thursday, with short term implied valuations retaining a top heavy posture. The 100-day MA (1.2209) may serve as a near term junction with risks still skewed towards 1.2155.



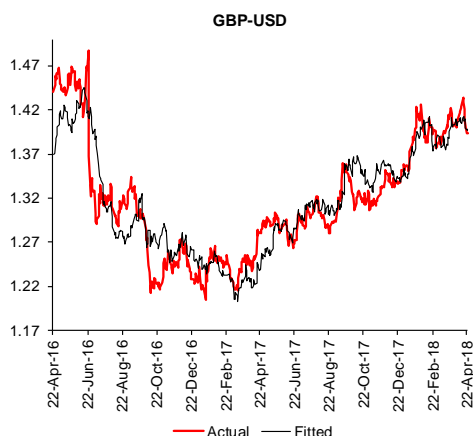
Source: OCBC Bank

- **USD-JPY** Expect continued temptation to ride higher for the USD-JPY in the current US rates landscape, especially with short term implied valuations for the USD-JPY continuing to hike north. A breach of the 100-day MA (109.01) may potentially pave the way to 109.30 before 110.00.

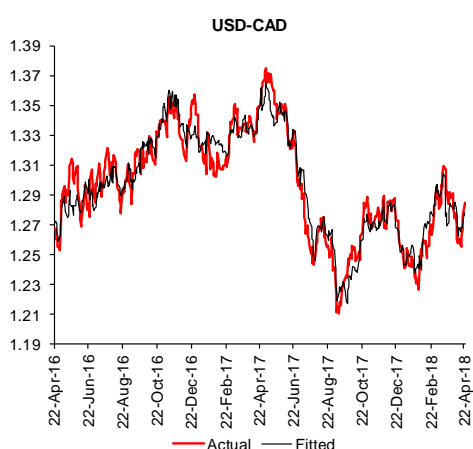


Source: OCBC Bank

- **AUD-USD** Softer than expected Australian 1Q CPI readings will do no favors for the AUD with markets remaining skittish towards the cyclicals. Short term implied valuations continue to fade for the pair and the 0.7600 floor remain under threat (with 0.7500 up next).



- **GBP-USD** With backwash against the GBP still afoot, the pair has violated its 55-day MA (1.4008). Soggy short term implied valuations meanwhile may portend further decay towards the 100-day MA (1.3885).

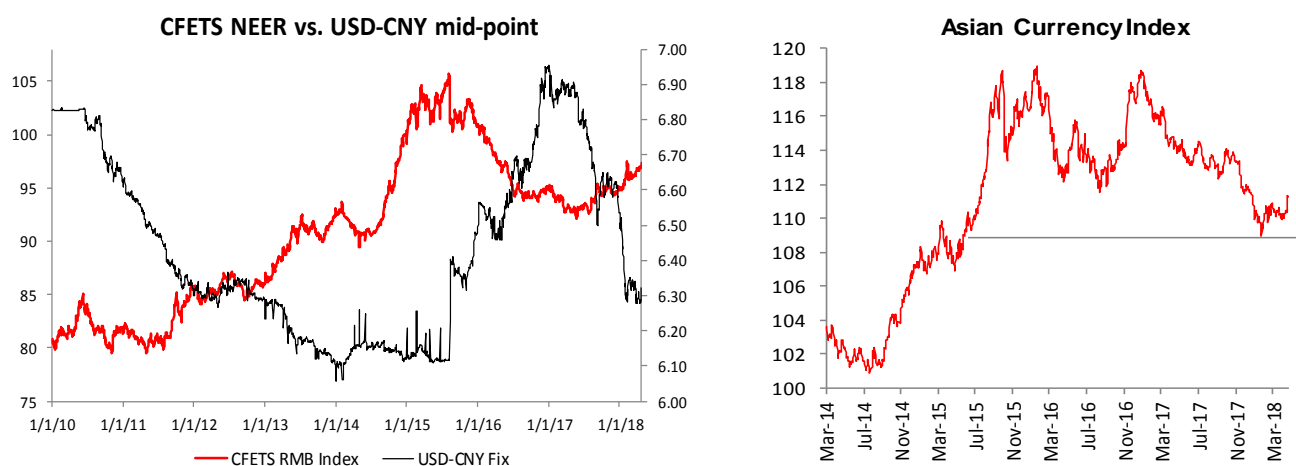


- **USD-CAD** Despite a firmer oil complex, the USD-CAD still reacted higher in tandem with its G10 cohorts. Short term implied valuations for the USD-CAD remain underpinned at this juncture and expect base building off the 55-day MA (1.2770) with scope towards 1.2945.

Source: OCBC Bank

Asian FX

- Expect the **ACI (Asian Currency Index)** to invariably head higher in the current environment, with the Index now at year-to-date highs (i.e., USD strength). Note that Asian FX (and bonds) are currently also lacking a net capital inflow buffer. On this front, note that India has flipped to a net outflow balance (on a rolling 20-day basis), Thailand has consolidated to a neutral balance (a far cry from previously strong net inflows), while Indonesia continues to experience moderating inflow momentum.
- **SGD NEER:** The SGD NEER is softer again on the day at around +0.40% above its perceived parity (1.3289), with NEER-implied USD-SGD thresholds higher on the day in the wake of broad dollar moves. We look for a +0.20% (1.3263) to +0.50% (1.3223) range intra-day.
- **CFETS RMB Index:** The USD-CNY mid-point clocked a slightly higher than expected 6.3229 compared to 6.3034 yesterday. This however still took the CFETS RMB Index higher to 97.30 from 97.09 yesterday.



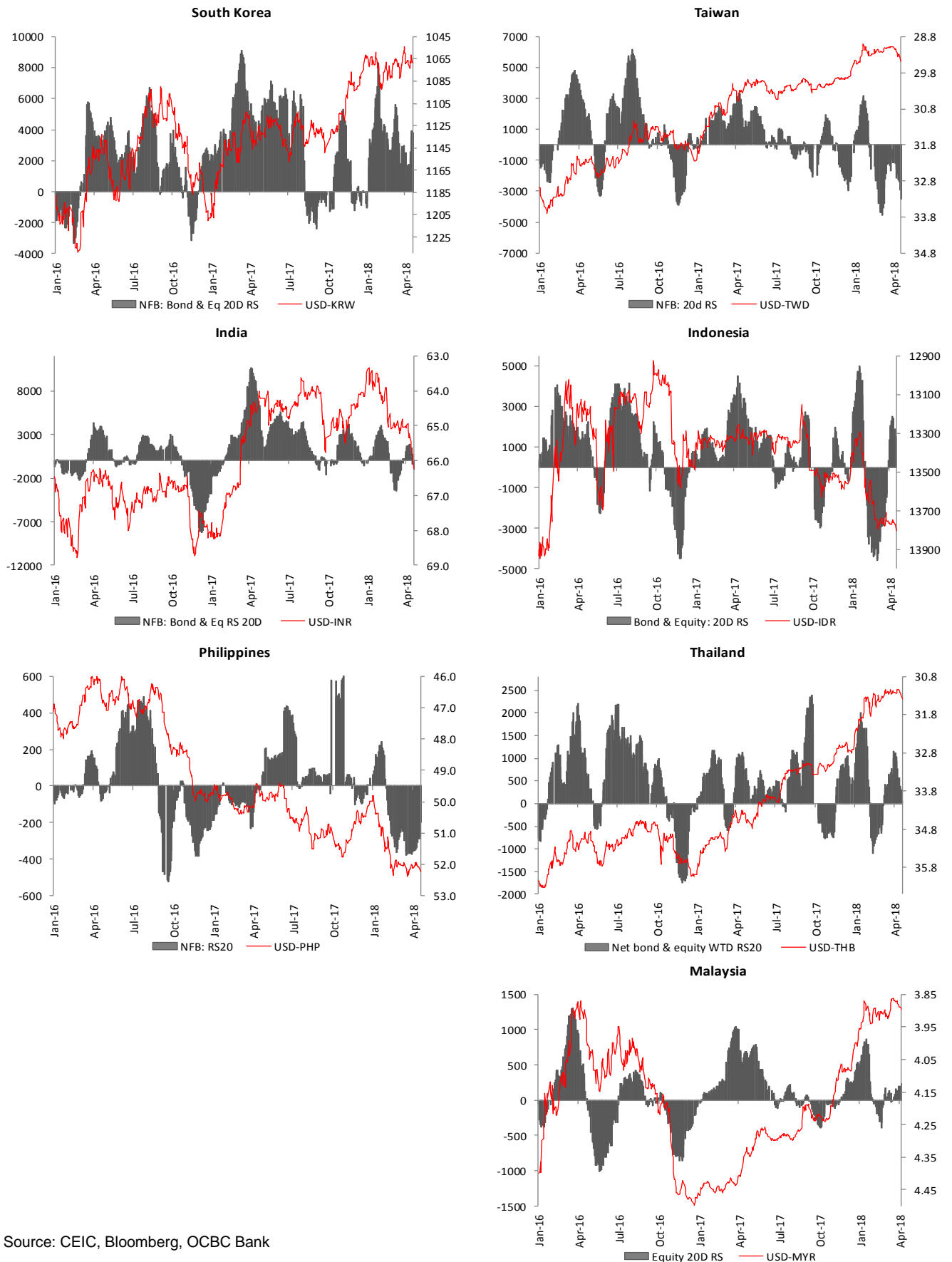
Source: OCBC Bank, Bloomberg

Short term Asian FX views

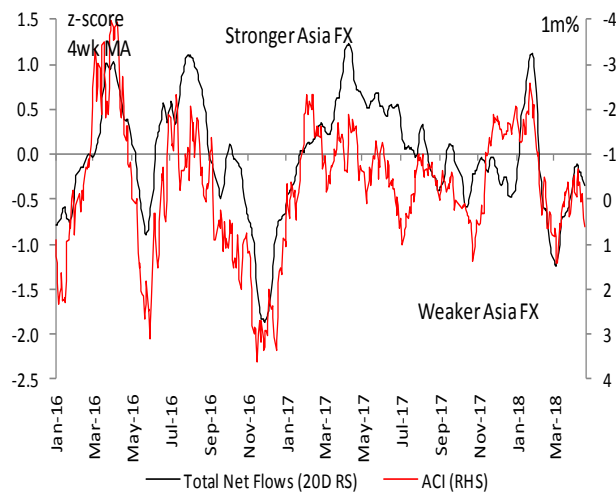
Currency	Bias	Rationale
USD-CNH	↔	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔	Easing tensions with the North, net bond inflow rebound, inflation/current account surplus projection downgraded, BOK expected to remain neutral
USD-TWD	↔/↑	Net equity outflows deepening, new CBC governor non-hawkish
USD-INR	↑	RBI minutes more hawkish than expected, India placed on US Treasury's watchlist, net portfolio inflows evaporated, 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 moderating, carry strategy under reassessment
USD-THB	↑	BOT remains accommodative, moderating net bond inflows, equity outflows deepening
USD-PHP	↔	Net equity outflows narrowing, BSP downplaying rate hike expectations but remains vigilant towards inflation risks (markets unconvinced), note surprise contraction in Feb exports

Source: OCBC Bank

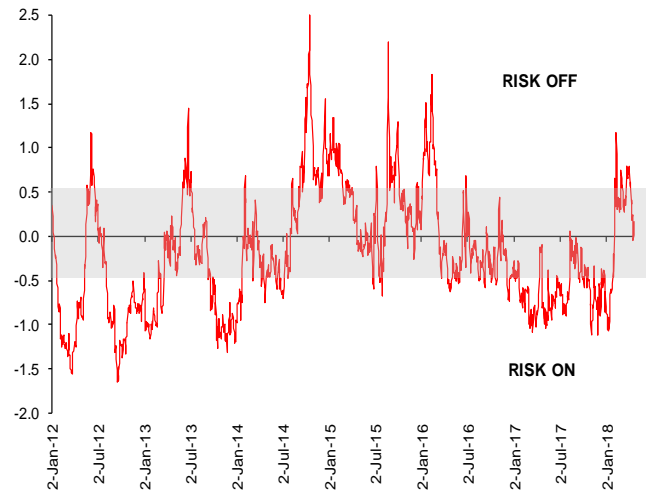
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

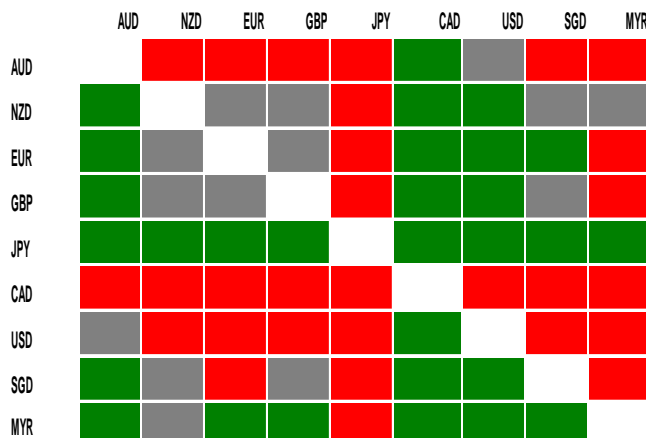
	DXY	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.126	0.304	0.070	-0.245	-0.505	0.468	-0.532	-0.244	-0.005	0.291	-0.971
CHF	0.615	-0.083	-0.259	0.014	-0.421	0.054	0.925	0.072	-0.468	-0.105	-0.160	-0.594
SGD	0.511	0.431	0.865	0.300	0.326	-0.427	-0.108	-0.520	-0.068	-0.232	0.853	-0.627
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

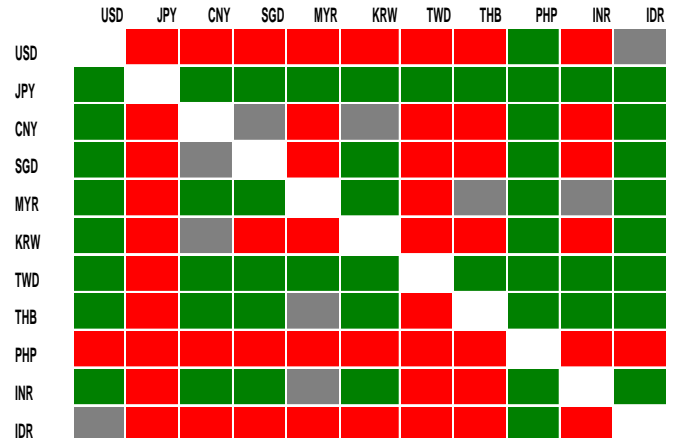
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2208	1.2210	1.2300	1.2326
GBP-USD	1.3890	1.3900	1.3943	1.4000	1.4017
AUD-USD	0.7599	0.7600	0.7610	0.7700	0.7762
NZD-USD	0.7100	0.7115	0.7120	0.7128	0.7177
USD-CAD	1.2786	1.2800	1.2837	1.2900	1.2979
USD-JPY	108.00	108.48	108.82	108.87	109.00
USD-SGD	1.3200	1.3210	1.3233	1.3276	1.3300
EUR-SGD	1.6084	1.6100	1.6157	1.6200	1.6201
JPY-SGD	1.2147	1.2150	1.2160	1.2200	1.2325
GBP-SGD	1.8400	1.8425	1.8450	1.8500	1.8745
AUD-SGD	1.0012	1.0020	1.0070	1.0100	1.0203
Gold	1306.60	1318.77	1322.50	1332.08	1359.31
Silver	16.56	16.60	16.66	16.70	16.91
Crude	63.68	68.90	68.94	69.00	69.58

Source: OCBC Bank

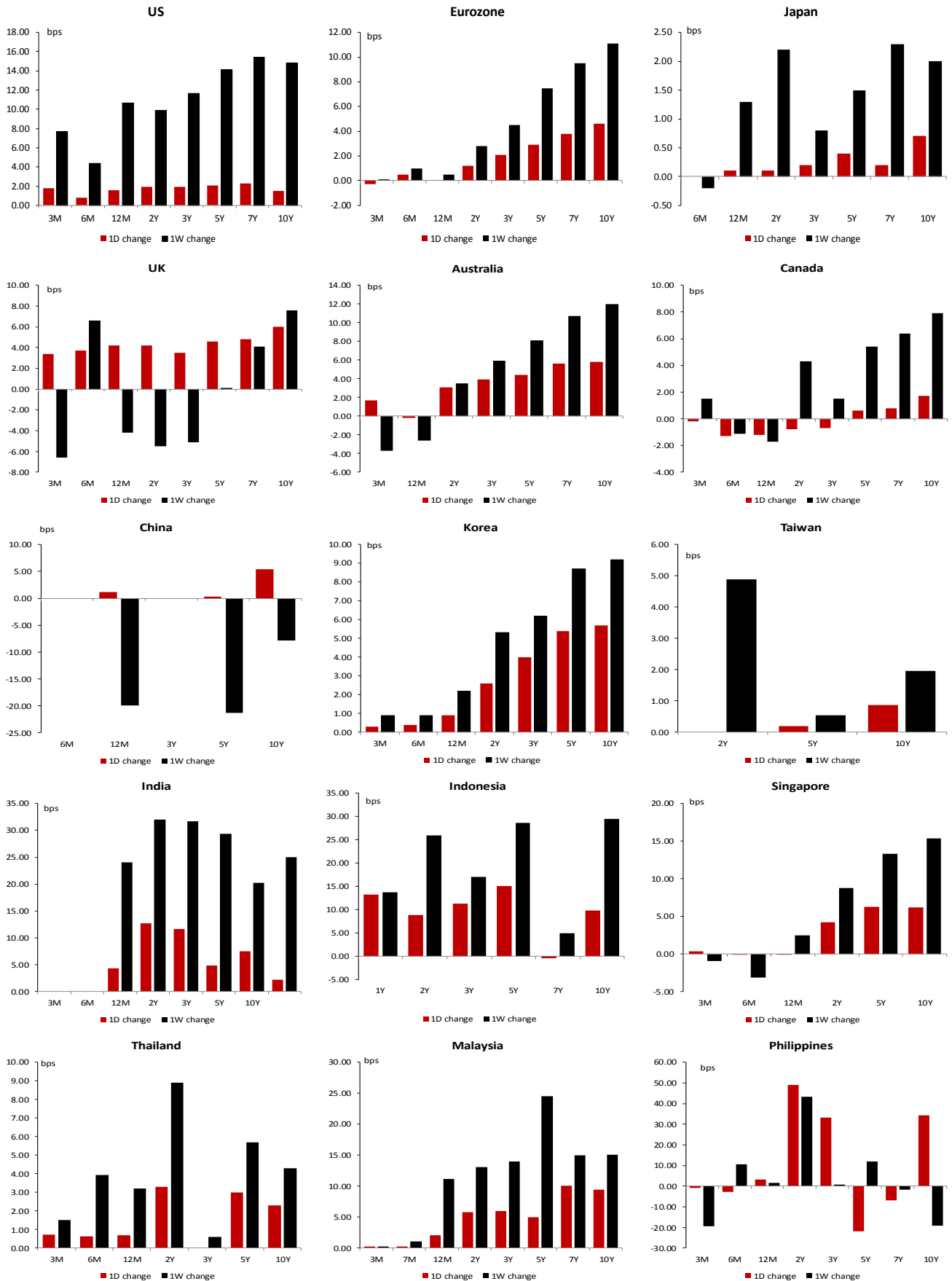
G10 FX Heat Map

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 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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