

Thursday, April 26, 2018

FX Themes/Strategy/Trading Ideas

- The 10y UST yield climbed to 3.035% (2/10s continued to steepen) and the DXY rose decisively above 91.00 on Wednesday. For today, expectations surrounding the ECB Council Meeting (1145 GMT) remain diffused with Draghi's press conference (1230 GMT) to be closely scrutinized. The ECB's Nouy is also scheduled for 1520 GMT. Elsewhere, the BOE's Brazier is also penciled in for 0830 GMT. The data feed includes US durable goods orders (1230 GMT) and in the current environment, it may take little to further boost US yields in the event of an upside surprise.
- **In the interim, a key driver for global markets will be whether the 10y UST yield and the DXY manage to base build or eventually relapse in the coming sessions.** In the near term, the broad dollar may continue to cling on to rate-differential induced support with the front-end vol surfaces continuing to move in favor of the buck.
- From a structural perspective however, note that our 12M **US MSI (Macro Surprise Index)** has been consolidating lower, suggesting that structural underpinnings for further (and immediate) upside headroom for US yields may be lacking at this juncture (despite recent efforts by the markets to re-price the front-end).
- Despite largely flat US equities, EM equities remained under negative pressure on Wednesday. However, risk appetite levels remained fairly even with the **FXSI (FX Sentiment Index)** slipping slightly within Risk-Neutral territory. Thus far, markets have experienced broad USD strength and firmer US yields without the added burden of risk aversion but we think this space bears watching, especially with respect to EM/Asia.

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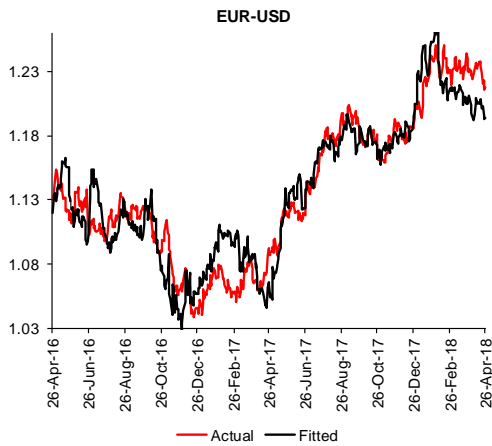
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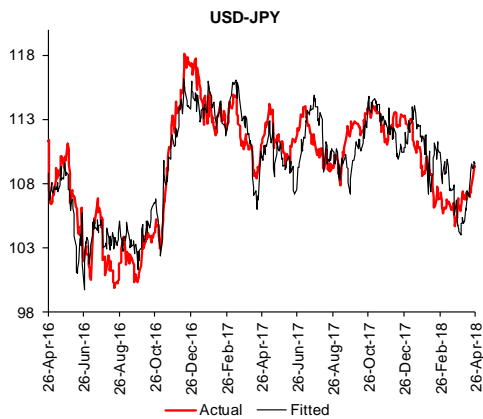
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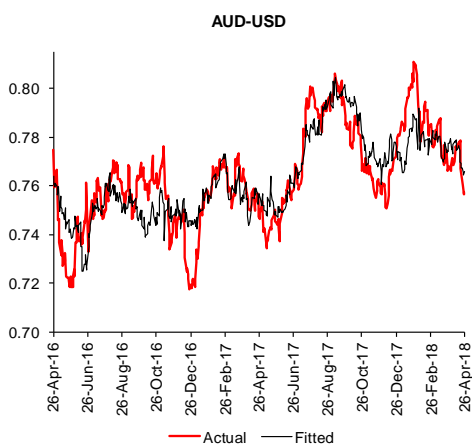
- **EUR-USD** Ahead of the ECB today, expect investors to remain EUR skeptics, with short term implied valuations for the pair still looking slippery. Overall, 1.2100 may continue to attract on the downside in the absence of any undue hawkishness from Draghi today.

Source: OCBC Bank



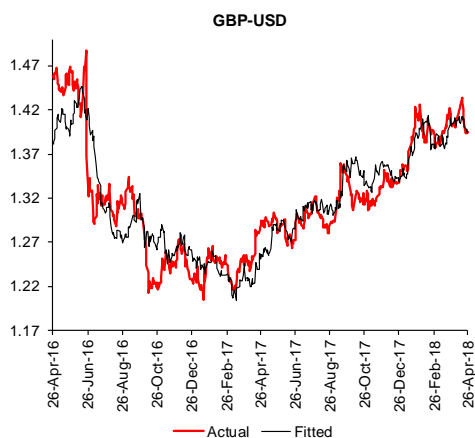
- **USD-JPY** USD resilience may continue to manifest via the USD-JPY to a relatively greater extent, with short term implied valuations for the pair also having crept higher in the past few sessions. Expect the 200-day MA (110.27) to be challenged if US yields continue to tick higher in the near term.

Source: OCBC Bank

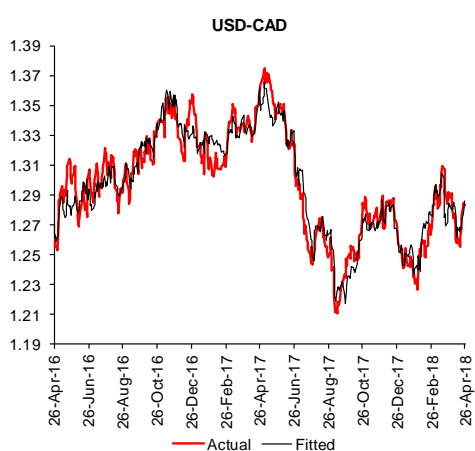


- **AUD-USD** In the current environment, short term implied valuations have remained soggy despite the apparent absence of risk aversion. Our near term prognosis remains unchanged and expect potential for the pair to succumb to gravity towards 0.7500.

Source: OCBC Bank



- **GBP-USD** With the 55-day MA (1.4010) seen capping, scope for capitulation lower may persist (weighed further by short term implied valuations), with the 100-day MA (1.3866) the next key support. At this juncture, USD strength may dominate, especially after Carney's comments last week.



- **USD-CAD** Expect the USD-CAD to continue to bounce on dips in the near term, with any potential positivity from NAFTA-related headlines sidelined for now. Supported by firmer short term implied valuations for the USD-CAD, the 55-day MA (1.2779) is expected to cushion, with risks instead seen skewed towards 1.2945.

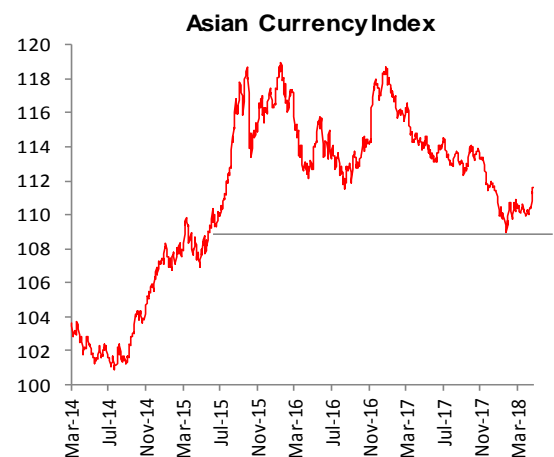
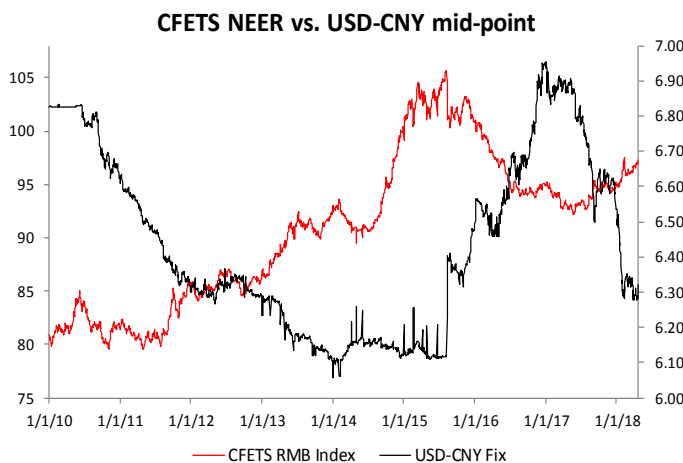
Source: OCBC Bank

Asian FX

- Asian net portfolio inflows meanwhile denote continued moderation in net inflows for South Korea and Indonesia, sustained outflow pressure for Taiwan, deepening outflows for Thailand, while India also continues to register a small net outflow balance. Intra-day, expect the **ACI (Asian Currency Index)** to remain supported on dips.
- As it stands, relative FX underperformance in the region in the past week (INR and KRW) has been a byproduct of relative deterioration of short term net capital flows. The SGD meanwhile is deriving negligible traction from the recent slope steepening of the SGD NEER, and we continue to expect the pair to be buffeted by swings in the constituent currencies. On the IDR, with fundamentals still supportive, the moderation of net outflows has not been unduly acute relative to some of its regional peers. Elsewhere, the THB and domestic bonds may bear watching given the recent depletion of net inflows.
- **South Korea:** Watch for the inter-Korea summit at the DMZ tomorrow. We

expect a positive outcome to improve sentiments surrounding the KRW in the near term.

- Indonesia:** Expect continued intervention from the BI to slow down the pace of depreciation in the IDR. However, supporting the IDR through rate hikes is still a “last resort”, and we do not expect the situation to warrant such measures for the time being.
- SGD NEER:** March industrial production numbers are due at 0500 GMT today while the SGD NEER is softer on the day relative to its perceived mid-point (1.3319) at around +0.35%. Not surprisingly, in the wake of the broad dollar move, NEER-implied USD-SGD thresholds are firmer on the day, with the basket expected within +0.20% (1.3293) and +0.50% (1.3253) pending further external cues. For the USD-SGD, underlying bullishness at this juncture implies that a breach of 1.3300 may light the way to 1.3340. Technical support meanwhile is seen towards the 100-day MA (1.3225).
- CFETS RMB Index:** This morning, the USD-CNY mid-point came in above prior market expectations again at 6.3283, from 6.3066 yesterday. This saw the CFETS RMB Index softening slightly to 97.42 from 97.43.
- As noted previously, the USD-CNY has been tasked to shoulder the burden of adjustment (as opposed to the basket) in the wake of the recent dollar moves. As a result, the realized vol of the mid-points we think will continue to run at a premium to the realized vols of the basket. Structurally, China continues to conduct exchange rate policy seemingly as a price-setter (and not a price-taker), with the CFETS RMB Index tracking the DXY higher in the past week and a half. However, the perceived intent to forestall undue appreciation of the basket implies that the CFETS RMB Index will continue to underperform the broad dollar significantly.



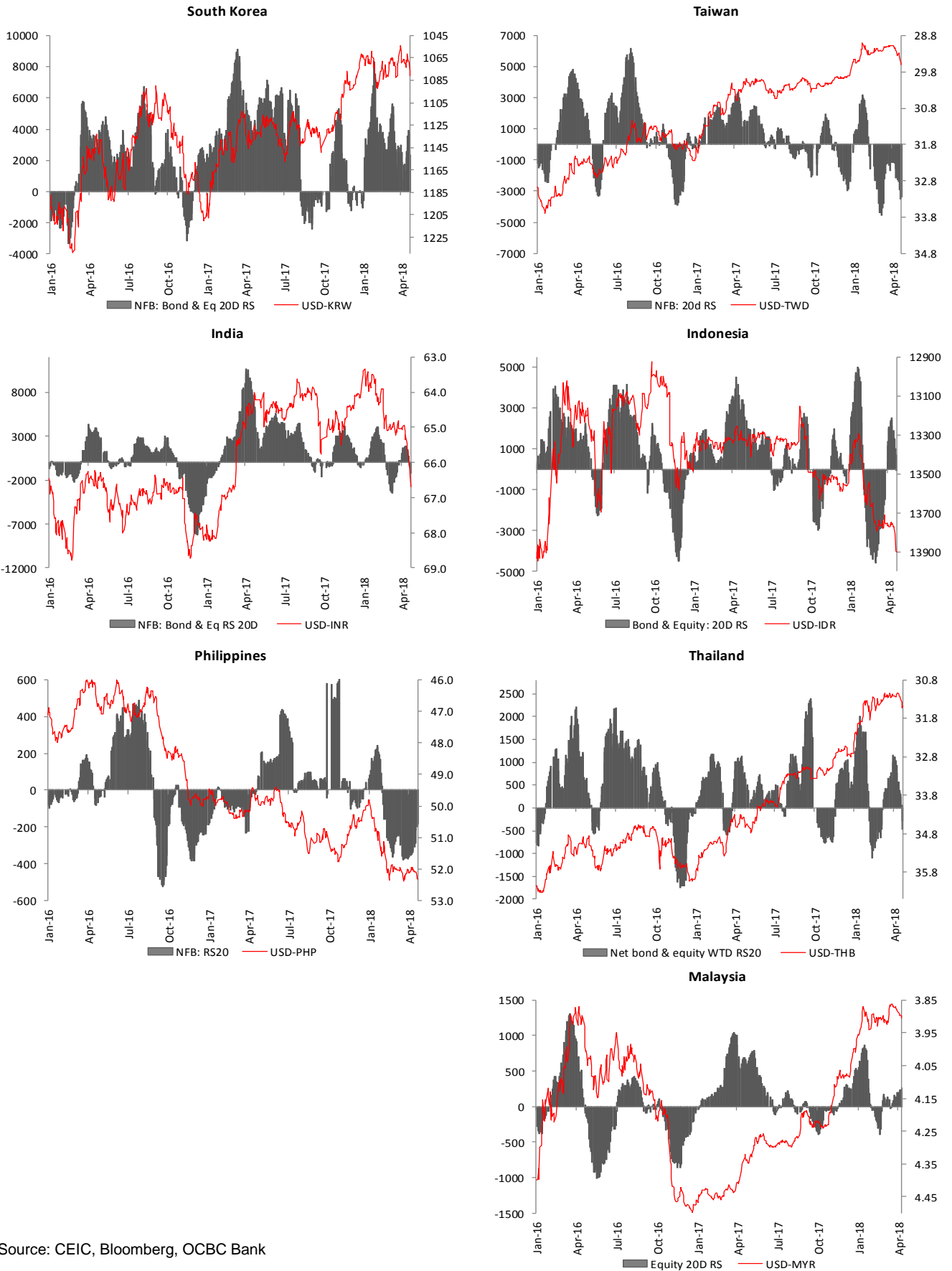
Source: OCBC Bank, Bloomberg

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 moderation, 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, rate hikes an unlikely last resort to support the IDR; 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

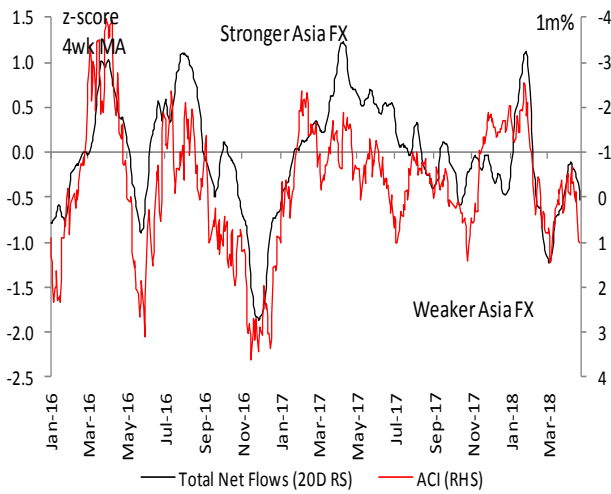
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



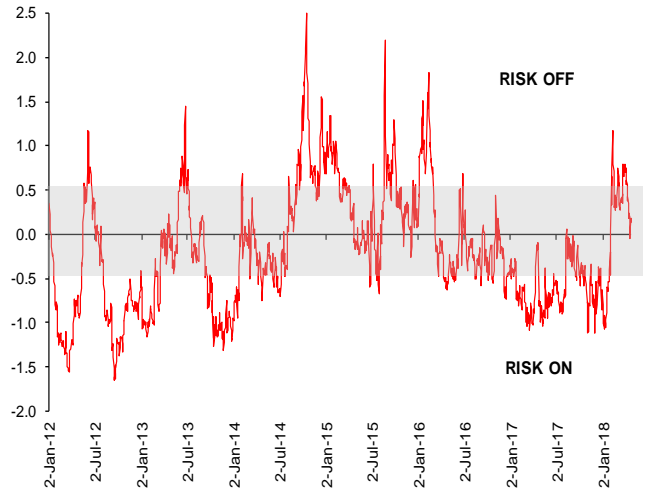
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	0.703	0.856	-0.160	-0.429	0.044	0.772	0.239	-0.105	0.044	0.758	-0.981
SGD	0.929	0.826	0.864	-0.036	-0.234	0.247	0.862	0.398	-0.257	-0.196	0.832	-0.902
THB	0.871	0.862	0.887	0.093	-0.114	0.438	0.892	0.560	-0.399	-0.367	0.885	-0.821
CNY	0.856	0.666	1.000	-0.230	-0.446	-0.051	0.712	0.156	0.018	0.099	0.930	-0.878
IDR	0.850	0.926	0.788	0.149	-0.028	0.506	0.888	0.604	-0.431	-0.383	0.697	-0.779
JPY	0.772	0.923	0.712	0.358	0.048	0.574	1.000	0.639	-0.591	-0.513	0.732	-0.738
CNH	0.758	0.619	0.930	-0.174	-0.366	-0.055	0.732	0.085	-0.025	-0.006	1.000	-0.787
CHF	0.753	0.960	0.646	0.467	0.074	0.669	0.941	0.715	-0.707	-0.625	0.638	-0.687
INR	0.736	0.963	0.659	0.334	0.120	0.703	0.886	0.760	-0.616	-0.589	0.560	-0.636
TWD	0.710	0.952	0.677	0.437	0.064	0.735	0.929	0.754	-0.698	-0.701	0.751	-0.673
USGG10	0.703	1.000	0.666	0.437	0.224	0.718	0.923	0.770	-0.665	-0.607	0.619	-0.623
PHP	0.584	0.595	0.723	-0.148	-0.147	0.079	0.446	0.233	-0.007	0.051	0.583	-0.508
MYR	0.555	0.938	0.567	0.503	0.343	0.813	0.835	0.809	-0.737	-0.751	0.546	-0.463
CAD	0.554	0.025	0.445	-0.662	-0.495	-0.436	-0.019	-0.258	0.529	0.572	0.237	-0.514
KRW	0.313	0.613	0.479	0.128	0.266	0.493	0.632	0.536	-0.294	-0.396	0.512	-0.265
GBP	-0.873	-0.435	-0.683	0.350	0.416	0.145	-0.439	-0.049	-0.176	-0.329	-0.539	0.829
AUD	-0.886	-0.528	-0.813	0.477	0.389	0.130	-0.526	-0.087	-0.226	-0.264	-0.680	0.849
NZD	-0.892	-0.632	-0.765	0.312	0.323	-0.055	-0.602	-0.243	-0.047	-0.074	-0.637	0.824
EUR	-0.981	-0.623	-0.878	0.232	0.536	0.093	-0.738	-0.108	0.020	-0.137	-0.787	1.000

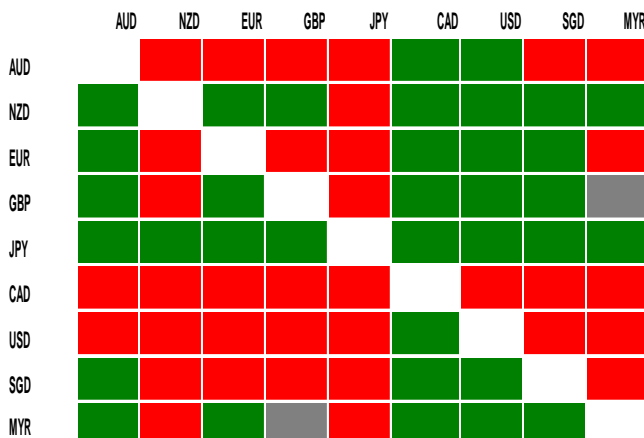
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2160	1.2169	1.2179	1.2200	1.2316
GBP-USD	1.3890	1.3900	1.3948	1.4000	1.4018
AUD-USD	0.7552	0.7564	0.7578	0.7600	0.7751
NZD-USD	0.7000	0.7058	0.7070	0.7071	0.7100
USD-CAD	1.2800	1.2803	1.2833	1.2900	1.2959
USD-JPY	109.00	109.27	109.32	109.47	110.00
USD-SGD	1.3200	1.3268	1.3272	1.3297	1.3300
EUR-SGD	1.6100	1.6102	1.6164	1.6200	1.6203
JPY-SGD	1.2118	1.2122	1.2141	1.2150	1.2200
GBP-SGD	1.8442	1.8500	1.8512	1.8600	1.8751
AUD-SGD	1.0018	1.0020	1.0057	1.0100	1.0197
Gold	1306.60	1316.48	1321.20	1331.92	1357.16
Silver	16.50	16.53	16.55	16.60	16.77
Crude	63.93	68.40	68.41	68.50	69.56

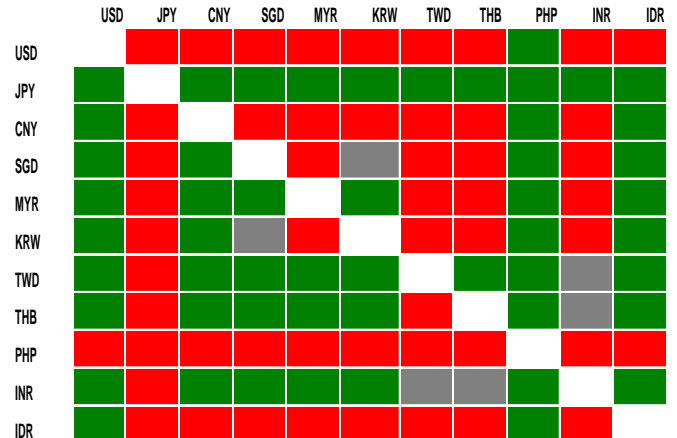
Source: OCBC Bank

G10 FX Heat Map



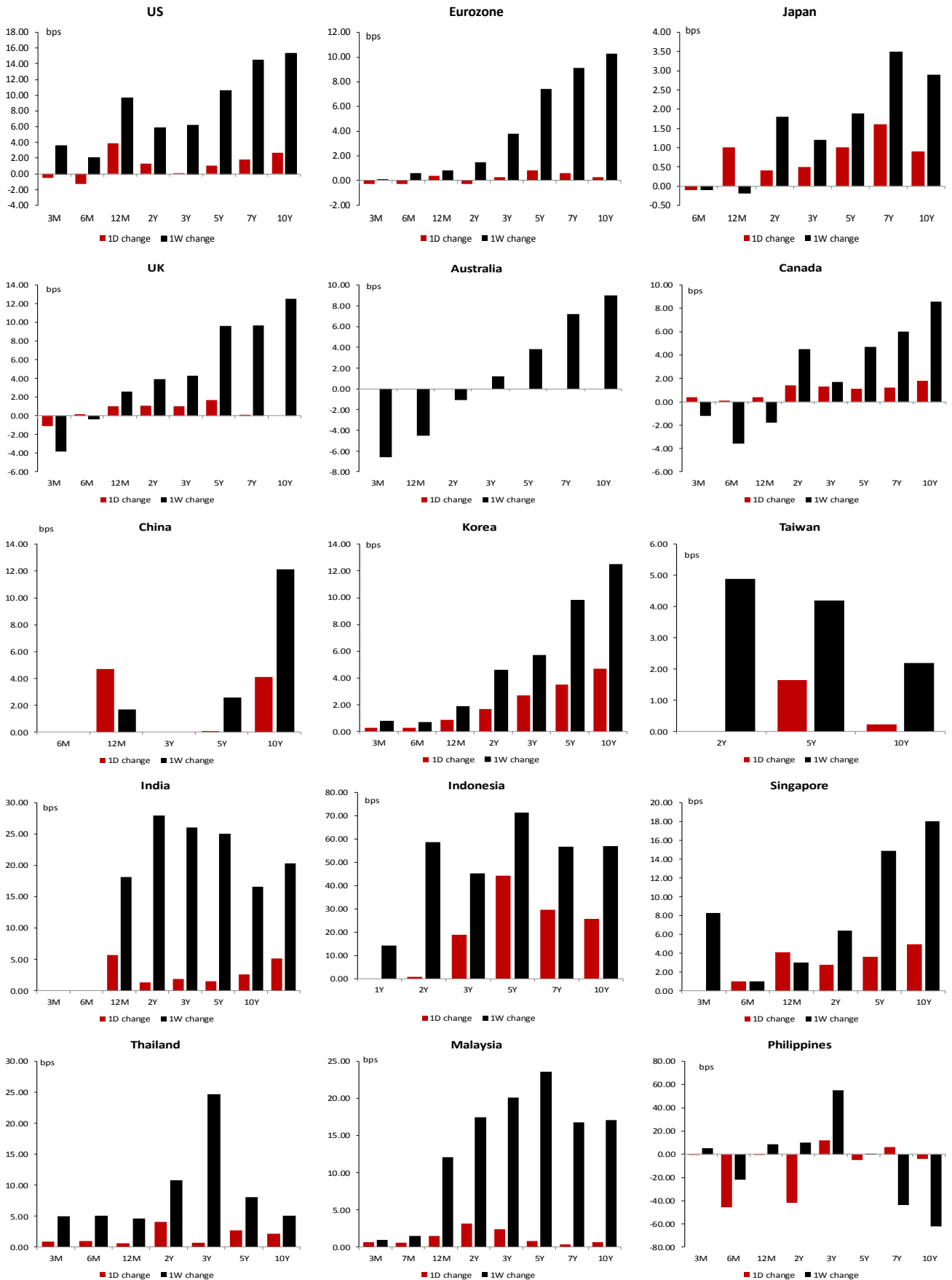
Source: OCBC Bank

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 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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