

Monday, March 26, 2018

**FX Themes/Strategy/Trading Ideas – The week ahead**

- The USD ended the week softer against its G10 peers. Meanwhile, US Treasury yields were also softer, causing aggregate yield differentials to move against the USD. Global equities continued to decline, pushing the **FXSI (FX Sentiment Index)** deeper into Risk-Off territory. In response, the JPY continued to outperform.
- In terms of positioning, **CFTC** data revealed that asset managers lightened up on implied USD shorts marginally in the latest week. However, non-commercial and leveraged accounts may have gained the upper hand, as they piled heavily into implied USD short positions ahead of the FOMC decision. Significant gains were seen in the leveraged accounts' long JPY and GBP positions.
- Trump signed a spending bill to fund federal government for the next six months, but not before some initial drama. In a tweet, he threatened to veto the bill as it failed to fund the wall along the Mexican border, before reversing his position. Such actions underlined the political uncertainty emanating from the White House.
- This week, risk sentiments should continue to hold sway as markets remain sensitive towards trade-related provocations from the US, and reciprocal actions from China. Potential political uncertainty, as seen from recent personnel changes in the Trump administration and the unneeded drama over the spending bill, may weigh on the USD as well.
- Meanwhile, with Powell's emphasis on data-dependency and the downplaying of the dot plot, central bank dynamics may take a backseat going forward, pending the next round of data releases and central bank meetings in late-April.
- On the data front, watch for a host of inflation and preliminary GDP data in Europe. In the US, watch for the GDP print on Wednesday, and personal spending and PCE inflation on Friday. Keep a look-out also for Fed speakers including Mester (Monday) and Bostic (Tuesday and Wednesday) and ECB speakers Weidmann and Nouy (both Monday).

Treasury Research &  
Strategy

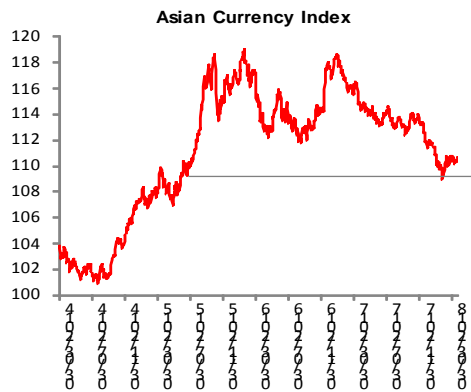
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**Asian FX**

- Despite the negative lead from global equities and deterioration of risk sentiments, the **ACI (Asian Currency Index)** may be looking to search

lower early in the week as the market focuses on USD weakness in the midst of trade tensions and political drama.

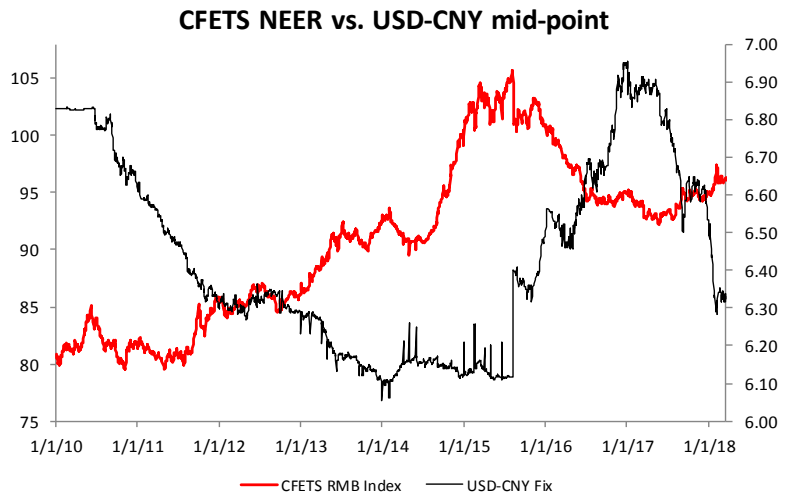
- In terms of portfolio flows, implied flows data from **EPFR** was firmer in the latest. Implied equity inflows increased marginally, while implied bond flows switched back into a net inflow position. Meanwhile, **net actual portfolio flows** still look weak overall. Equity outflows are rebuilding in Taiwan after some improvement in the past two weeks. Inflow momentum for Korea continues to moderate. On the other hand, note that bond inflows continue to moderate in Indonesia, while bond inflows improved in Thailand. India remains a mixed bag.
- **SGD NEER:** The SGD NEER is firmer this morning, standing at +0.37% above its perceived parity (1.3179). NEER-implied USD-SGD thresholds were softer on the day, in line with USD weakness on Friday. We continue to expect a +0.20% (1.3153) to +0.50% (1.3114) range intra-day. Barring a significant deterioration of risk appetite, the 55-day MA (1.3183) should continue to cap this week.



	SGD NEER	% deviation	USD-SGD
Current	124.78	0.42	1.3116
+2.00%	126.74		1.2914
Parity	124.26		1.3172
-2.00%	121.77		1.3441

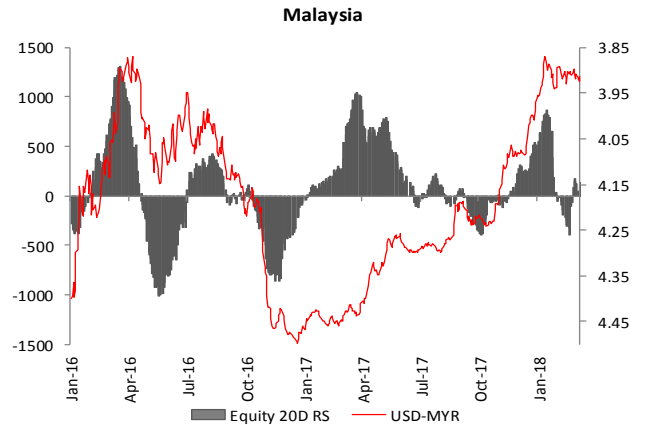
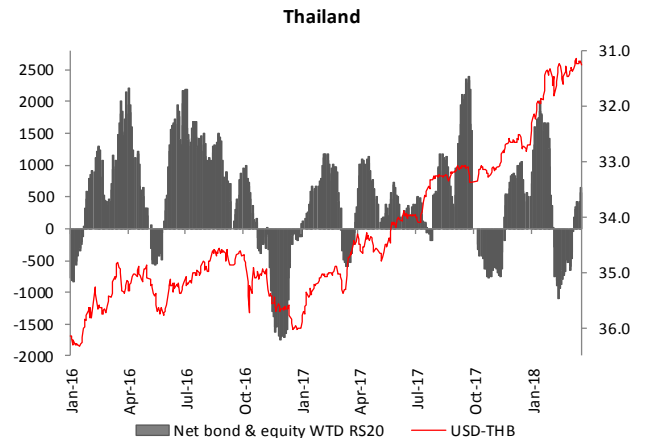
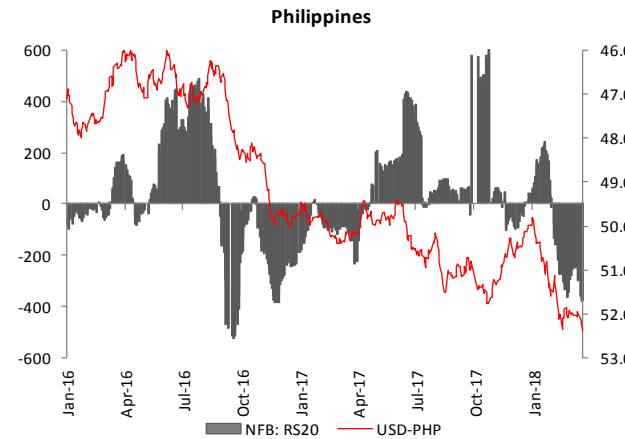
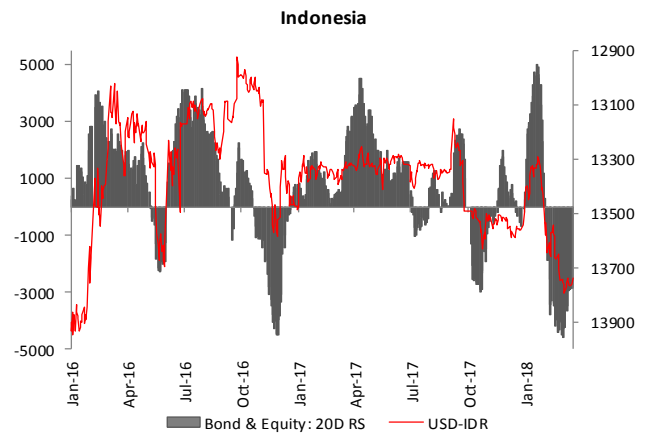
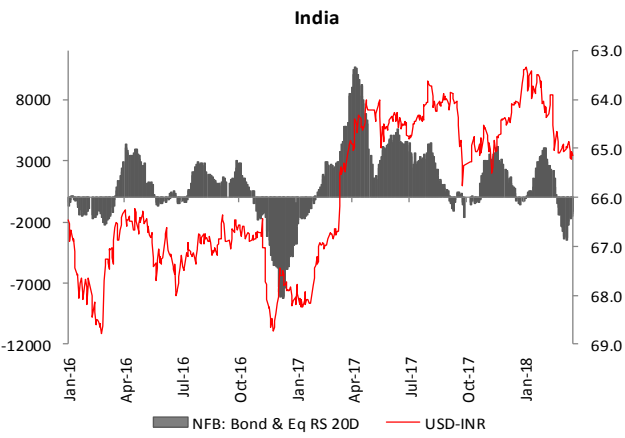
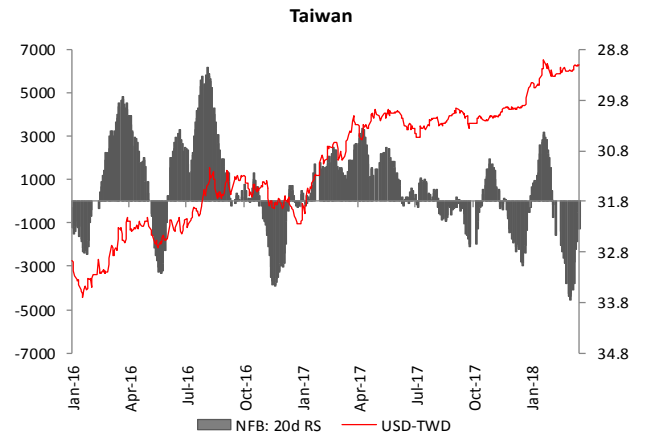
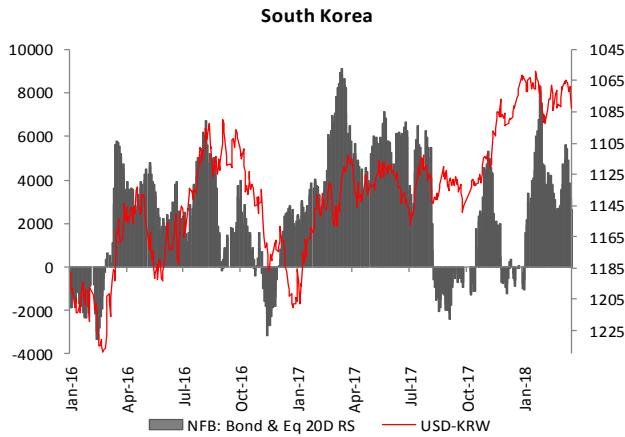
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fell (as largely expected) to 6.3193 from 6.3272 on Friday. The CFETS RMB Index nudged higher to 96.14 from 96.11 previously. As commented previously, we continue to expect the Index to exhibit relative stability in the face of trade tensions from the US.

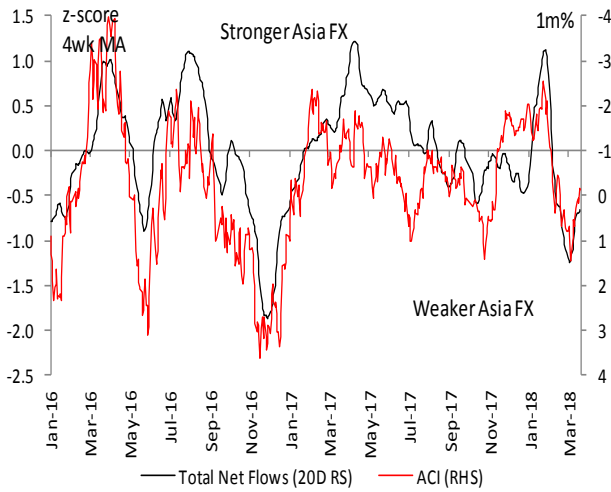


Source: OCBC Bank, Bloomberg

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

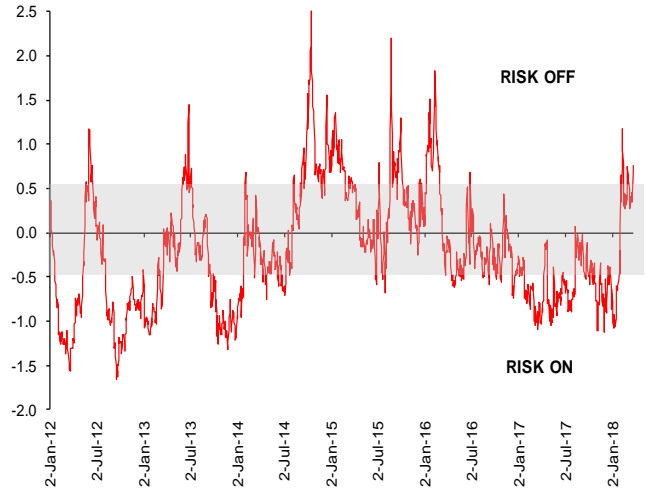


**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DX	SGD	CNY	SPX	MSEL	CR	JPY	CL	VIX	ITR	CNH	EUR
DX	1.000	0.176	0.463	0.199	0.188	-0.353	0.565	-0.396	-0.106	-0.101	0.586	-0.877
SGD	0.708	1.000	0.472	-0.203	-0.236	-0.085	0.276	-0.038	0.316	0.215	0.539	-0.780
CNH	0.586	-0.108	0.793	-0.182	-0.210	-0.493	0.038	-0.458	0.220	0.025	1.000	-0.454
JPY	0.565	0.497	-0.072	0.805	0.517	-0.029	1.000	-0.484	-0.676	-0.483	0.038	-0.392
CNY	0.463	-0.079	1.000	-0.141	-0.269	-0.322	-0.072	-0.317	0.157	0.076	0.793	-0.336
INR	0.362	0.114	0.492	-0.328	-0.205	-0.319	-0.269	0.023	0.313	0.251	0.439	-0.314
MYR	0.286	-0.229	0.294	-0.465	0.005	-0.126	-0.165	0.364	0.439	0.488	0.174	-0.462
USGG10	0.176	1.000	-0.079	0.446	-0.043	0.254	0.497	0.080	-0.472	-0.008	-0.108	-0.062
THB	0.158	0.500	0.436	0.090	-0.501	0.318	0.254	-0.105	-0.036	0.056	0.329	-0.112
CHF	0.124	-0.068	-0.012	-0.049	0.298	-0.459	-0.248	0.042	-0.073	-0.002	0.116	-0.102
TWD	0.089	0.190	0.387	0.428	-0.197	0.087	0.425	-0.546	-0.339	-0.427	0.226	0.160
CAD	0.026	-0.190	0.058	-0.163	0.092	-0.489	-0.339	-0.173	0.068	-0.104	0.171	0.132
KRW	0.015	0.093	0.261	-0.539	-0.696	0.430	-0.239	0.398	0.560	0.537	0.091	-0.190
AUD	-0.141	0.155	-0.319	0.719	0.271	0.175	0.592	-0.481	-0.644	-0.605	-0.286	0.339
IDR	-0.171	-0.064	0.199	-0.281	-0.377	-0.291	-0.583	-0.218	0.178	-0.037	0.274	0.347
PHP	-0.269	-0.252	-0.324	-0.618	-0.204	0.030	-0.580	0.467	0.556	0.449	-0.111	0.054
NZD	-0.428	-0.129	-0.365	0.552	0.270	0.096	0.325	-0.382	-0.513	-0.586	-0.376	0.560
GBP	-0.621	-0.164	-0.492	-0.345	0.213	0.299	-0.526	0.794	0.229	0.483	-0.539	0.309
EUR	-0.877	-0.062	-0.336	0.037	-0.218	0.240	-0.392	0.021	-0.125	-0.176	-0.454	1.000

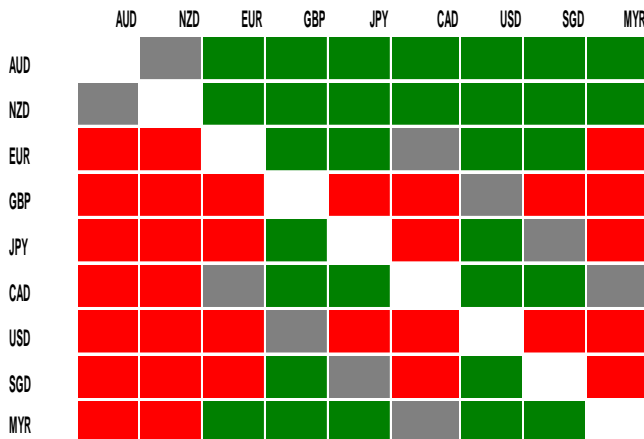
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2300	1.2335	1.2374	1.2400	1.2432
GBP-USD	1.3974	1.4100	1.4166	1.4178	1.4200
AUD-USD	0.7672	0.7700	0.7726	0.7800	0.7808
NZD-USD	0.7184	0.7200	0.7274	0.7293	0.7300
USD-CAD	1.2742	1.2800	1.2866	1.2900	1.3103
USD-JPY	104.00	104.56	104.95	104.96	105.00
USD-SGD	1.3084	1.3100	1.3117	1.3172	1.3200
EUR-SGD	1.6133	1.6200	1.6230	1.6247	1.6300
JPY-SGD	1.2271	1.2400	1.2499	1.2500	1.2541
GBP-SGD	1.8406	1.8500	1.8581	1.8600	1.8622
AUD-SGD	1.0100	1.0115	1.0133	1.0200	1.0372
Gold	1330.80	1344.86	1348.30	1361.40	1400.00
Silver	16.12	16.50	16.53	16.60	16.67
Crude	62.89	65.50	65.56	65.60	65.68

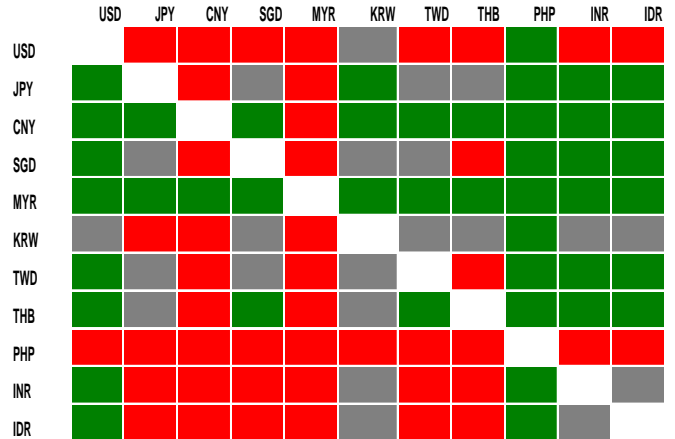
Source: OCBC Bank

**G10 FX Heat Map**



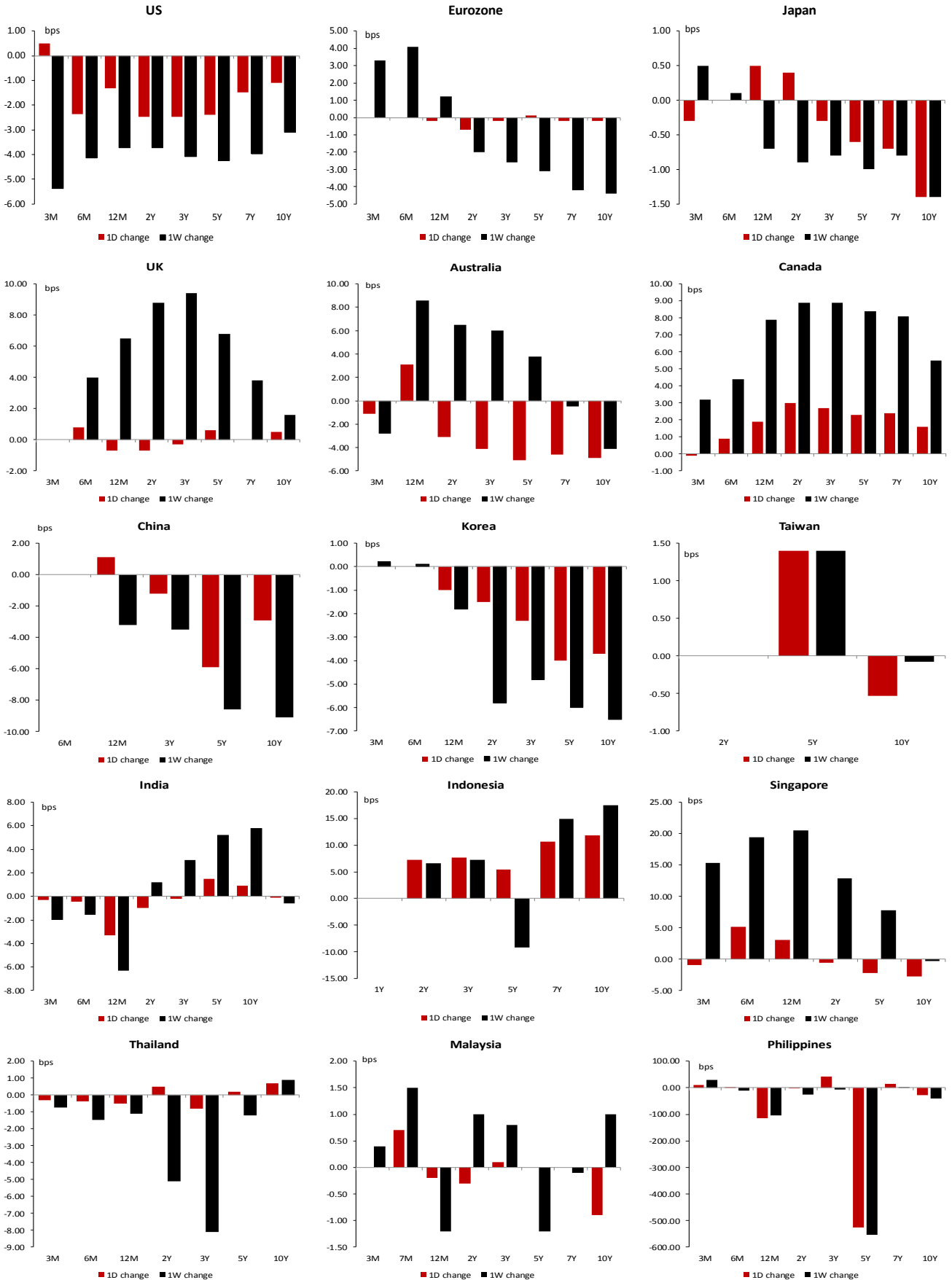
Source: OCBC Bank

**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

Source: OCBC Bank

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