

Friday, April 27, 2018

**FX Themes/Strategy/Trading Ideas**

- With the ECB remaining static as expected, the dollar continued to edge higher against the majors and continued to hover in the upper reaches of its recent ranges despite the 10y UST yield slipping below 3.00% (with the curve bull flattening). Meanwhile, US March durable goods orders printed mixed to soft although weekly initial claims came in lower than expected.
- On the **ECB**, Draghi acknowledged the recent pull-back in growth but "...growth is expected to remain solid and broad-based". Although he attributed recent weakness to one-off factors and was careful not to dislodge prevailing market expectations (regarding a change in forward guidance at around the June/July meetings, as well as a taper in 4Q 18), the bund curve also eased on Thursday. Overall, risks to economic growth are still perceived to be balanced, amid ongoing confidence that inflation (despite subdued underlying inflation) would converge towards its target.
- Today, **ECB** appearances include Mersch (0545 GMT and 0800 GMT), and Lautenschlaeger (0645 GMT), while the **BOJ** is expected to remain static at its policy meeting. Data points to watch include Australian 1Q PPI (0130 GMT), EZ April confidence indicators (0900 GMT), US 1Q ECI (1230 GMT), and US 1Q GDP (1230 GMT).
- Overall, the **DXY** on Thursday still managed to surface above 91.50 but immediate near term push higher may prove lacking, given some consolidation on the rate differential front and with the macro backdrop not a key driver in the recent USD ascent. Momentum plays meanwhile may however continue to prop up the buck ahead of next week's FOMC.
- EM equities managed to bounce higher on Thursday with EZ/US equities also inching higher. The **FXSI (FX Sentiment Index)** meanwhile remained in Risk-Neutral territory despite ticking higher on the day.

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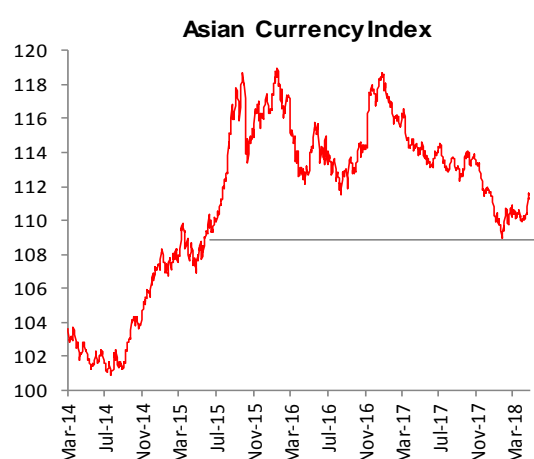
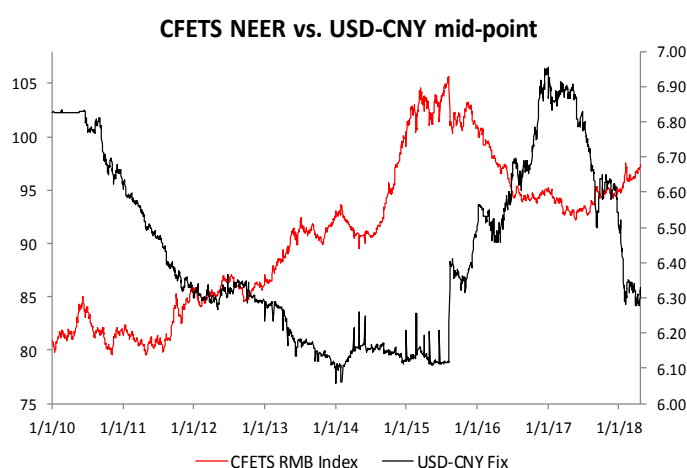
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## Asian FX

- On the flow front in Asia, South Korea witnessed net inflows for bonds and equities on Thursday and coupled with the ongoing footage of the Kim-Moon summit this morning, should keep the USD-KRW suppressed intra-day.
- Meanwhile, net outflows for the **Philippines** (note rating outlook upgrade to positive from stable by S&P on the current rating of BBB) have been narrowing and this should also serve to underpin the PHP. Net outflows for Taiwan are attempting to stabilize, although latest available readings suggest deepening outflows for **Thailand**. Indian bonds and the INR may remain under negative pressure from minor net outflows
- For **Indonesia**, the net inflow momentum continues to moderate, and cautionary comments from BI yesterday regarding a reactive rate hike to currency instability may temper negative sentiment towards the IDR.
- Overall, look for the **ACI (Asian Currency Index)** to potentially stall into the end of the week after its recent gains.
- **SGD NEER**: March industrial production came in at a stronger than expected +5.9% yoy on Thursday. Meanwhile, the SGD NEER is softer on the day at around 0.41% above its perceived parity (1.3332). Notable thresholds today include the +0.20% (1.3306) and +0.50% (1.3266).
- **CFETS RMB Index**: This morning, the USD-CNY mid-point rose above consensus market estimates again to 6.3393 from 6.3283 on Thursday. This took the CFETS RMB Index lower to 97.37 from 97.42 yesterday.



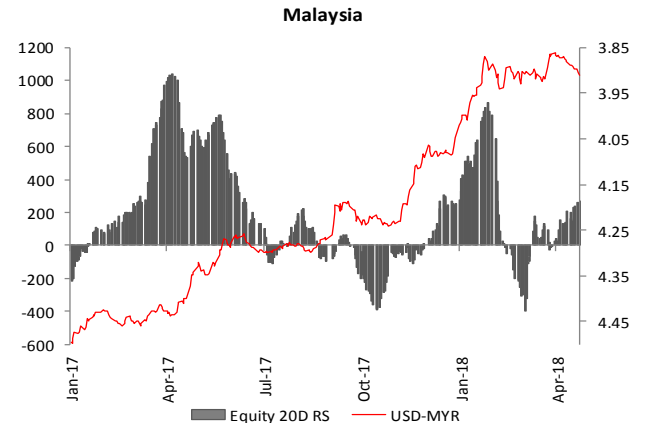
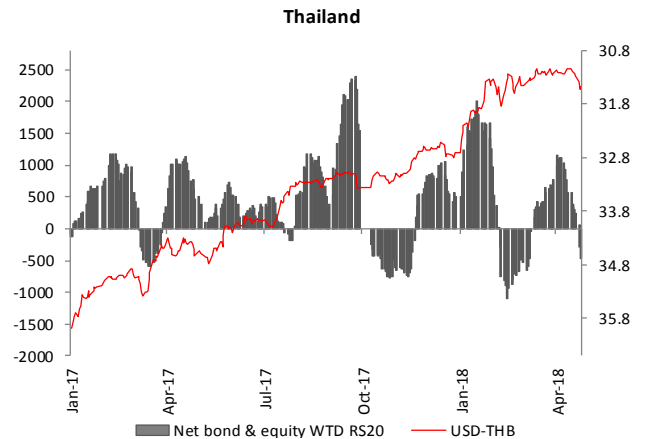
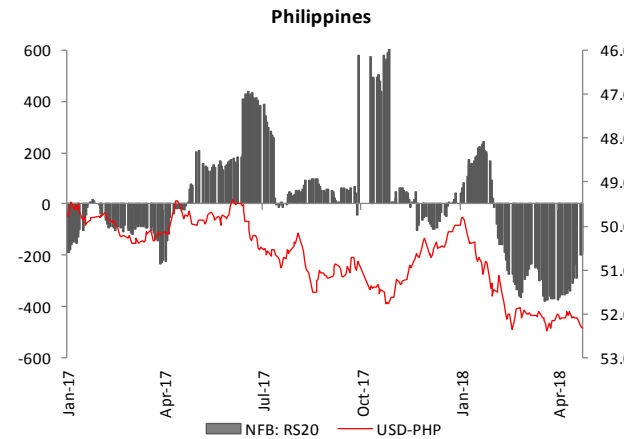
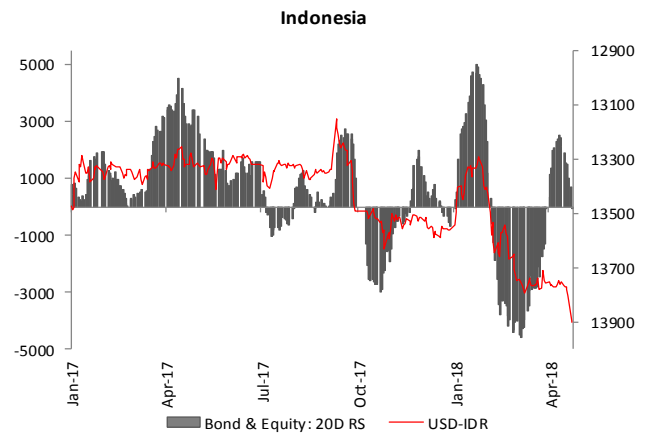
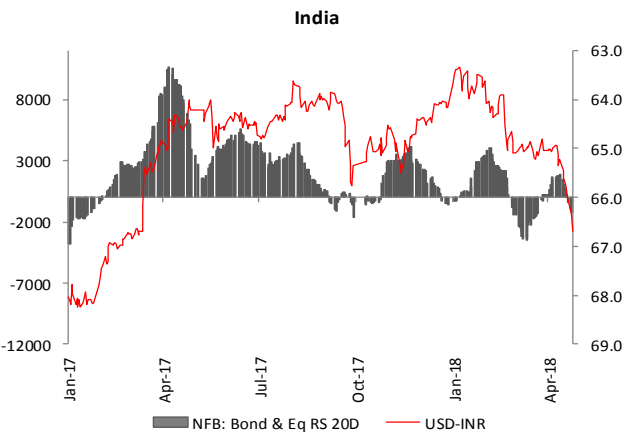
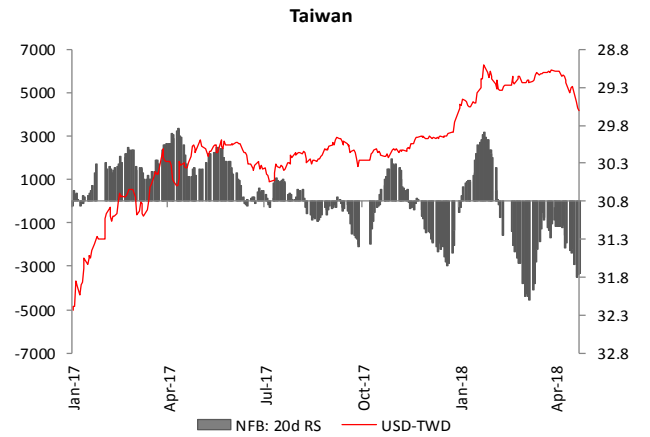
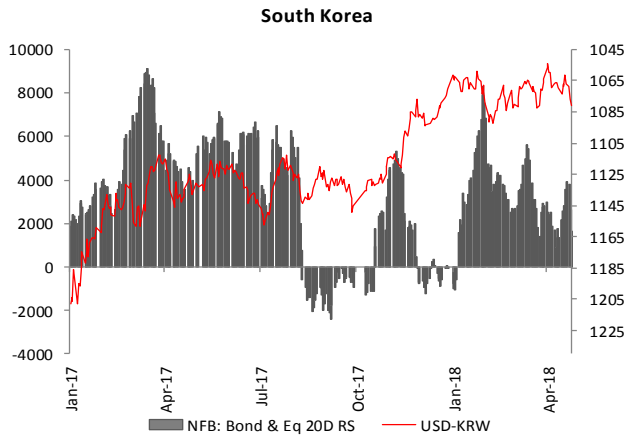
Source: OCBC Bank, Bloomberg

### **Short term Asian FX views**

Currency	Bias	Rationale
<b>USD-CNH</b>	↔	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
<b>USD-KRW</b>	↑	Easing tensions with the North, net bond inflow moderation, inflation/current account surplus projection downgraded, BOK expected to remain neutral
<b>USD-TWD</b>	↔/↑	Net equity outflows deepening, new CBC governor non-hawkish
<b>USD-INR</b>	↑	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
<b>USD-SGD</b>	↑	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines, responding to firmer DXY
<b>USD-MYR</b>	↔/↑	BNM remains accommodative; country on election watch (09 May 18)
<b>USD-IDR</b>	↑	Rating upgrade from Moodys to Baa2, BI containing IDR volatility, rate hikes an unlikely last resort to support the IDR; fundamentals intact, net bond inflows moderating, carry strategy under reassessment
<b>USD-THB</b>	↑	BOT remains accommodative, moderating net bond inflows, equity outflows deepening
<b>USD-PHP</b>	↔	Rating outlook upgrade by S&P, net equity outflows narrowing, BSP downplaying rate hike expectations but remains vigilant towards inflation risks (markets unconvinced), note surprise contraction in Feb exports

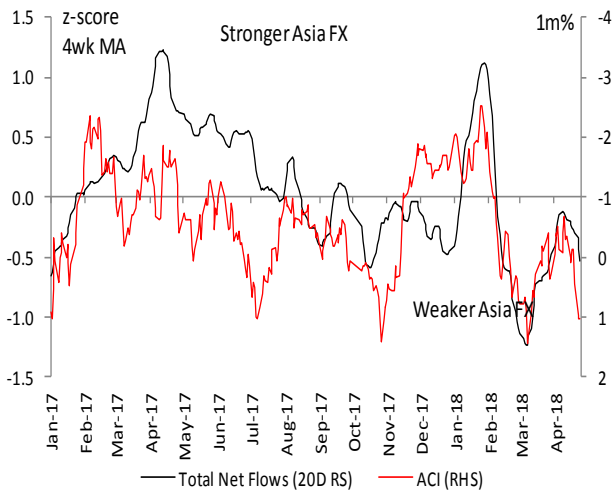
Source: OCBC Bank

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



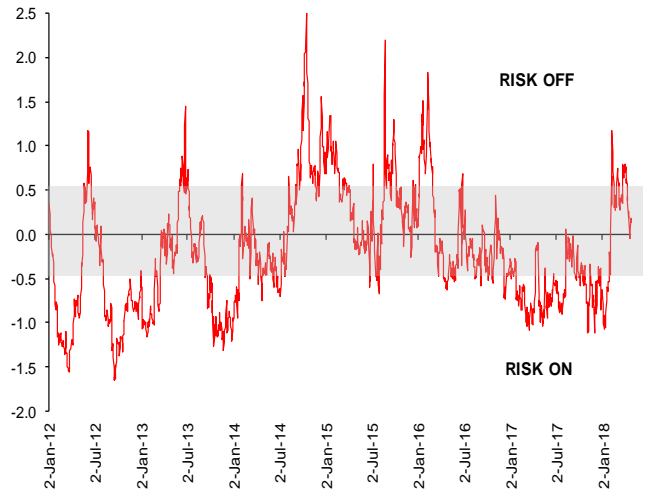
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	0.710	0.884	-0.139	-0.387	0.132	0.804	0.305	-0.144	-0.021	0.819	-0.987
SGD	0.948	0.822	0.870	-0.012	-0.243	0.306	0.905	0.430	-0.303	-0.245	0.866	-0.931
THB	0.909	0.852	0.898	0.097	-0.128	0.474	0.930	0.578	-0.430	-0.406	0.908	-0.877
CNY	0.884	0.639	1.000	-0.165	-0.458	0.059	0.747	0.155	-0.078	-0.005	0.941	-0.910
IDR	0.826	0.916	0.769	0.141	-0.029	0.530	0.897	0.597	-0.445	-0.396	0.669	-0.754
CNH	0.819	0.637	0.941	-0.147	-0.353	0.041	0.782	0.160	-0.080	-0.069	1.000	-0.845
CHF	0.816	0.954	0.700	0.412	0.095	0.681	0.944	0.726	-0.675	-0.606	0.725	-0.769
JPY	0.804	0.943	0.747	0.308	0.102	0.608	1.000	0.682	-0.569	-0.504	0.782	-0.774
PHP	0.748	0.744	0.783	-0.017	-0.332	0.197	0.751	0.271	-0.224	-0.120	0.710	-0.685
INR	0.728	0.953	0.663	0.302	0.093	0.703	0.914	0.757	-0.618	-0.584	0.541	-0.635
TWD	0.712	0.934	0.696	0.394	-0.010	0.714	0.944	0.739	-0.679	-0.677	0.748	-0.682
USGG10	0.710	1.000	0.639	0.426	0.214	0.729	0.943	0.784	-0.677	-0.619	0.637	-0.646
CAD	0.678	0.130	0.507	-0.589	-0.613	-0.343	0.190	-0.175	0.401	0.472	0.382	-0.649
MYR	0.677	0.929	0.589	0.493	0.249	0.801	0.910	0.799	-0.757	-0.757	0.645	-0.627
KRW	0.491	0.664	0.544	0.194	0.155	0.549	0.776	0.568	-0.408	-0.482	0.621	-0.474
GBP	-0.876	-0.476	-0.688	0.322	0.424	0.070	-0.515	-0.109	-0.119	-0.268	-0.604	0.835
NZD	-0.934	-0.658	-0.778	0.232	0.356	-0.151	-0.705	-0.295	0.064	0.030	-0.718	0.889
AUD	-0.952	-0.586	-0.838	0.363	0.439	0.001	-0.680	-0.174	-0.074	-0.121	-0.774	0.931
EUR	-0.987	-0.646	-0.910	0.206	0.471	-0.019	-0.774	-0.209	0.065	-0.059	-0.845	1.000

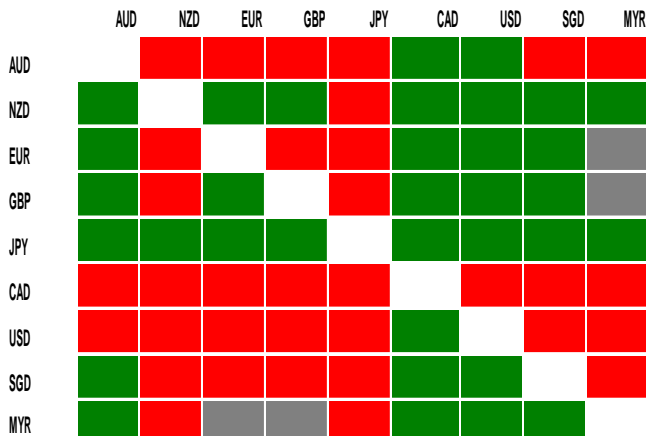
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2096	1.2100	1.2105	1.2116	1.2200
GBP-USD	1.3895	1.3900	1.3918	1.4000	1.4011
AUD-USD	0.7535	0.7539	0.7546	0.7600	0.7740
NZD-USD	0.7040	0.7051	0.7061	0.7100	0.7172
USD-CAD	1.2800	1.2807	1.2876	1.2900	1.2958
USD-JPY	106.81	109.00	109.24	109.47	109.49
USD-SGD	1.3200	1.3250	1.3283	1.3297	1.3300
EUR-SGD	1.6062	1.6068	1.6079	1.6100	1.6188
JPY-SGD	1.2122	1.2144	1.2160	1.2200	1.2315
GBP-SGD	1.8400	1.8431	1.8488	1.8500	1.8737
AUD-SGD	1.0000	1.0016	1.0023	1.0100	1.0182
Gold	1308.67	1315.34	1318.80	1332.82	1360.15
Silver	16.10	16.40	16.49	16.50	16.55
Crude	64.15	67.90	67.98	68.00	69.58

Source: OCBC Bank

**G10 FX Heat Map**



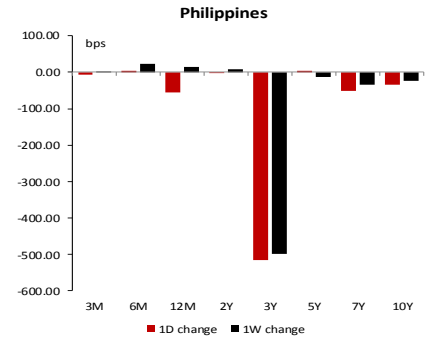
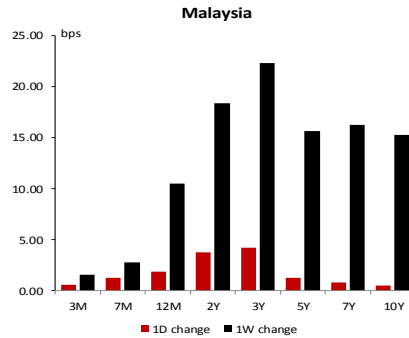
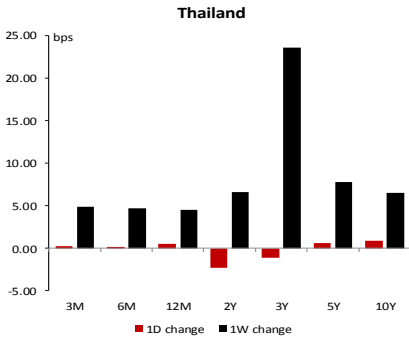
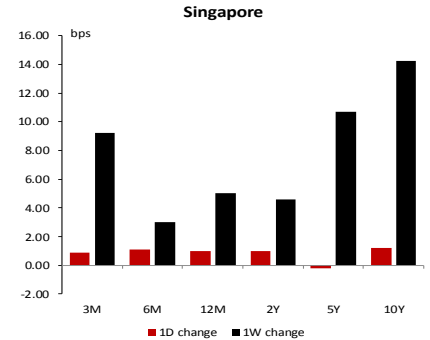
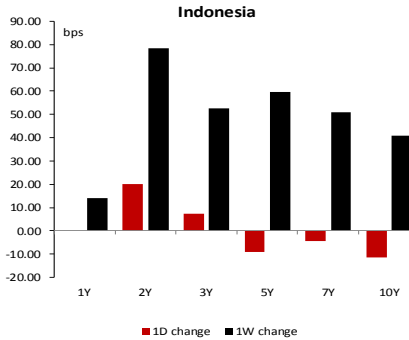
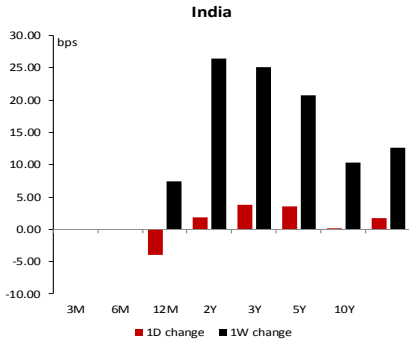
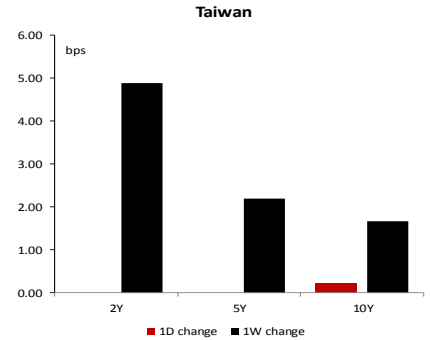
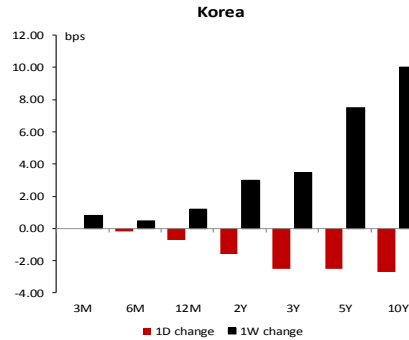
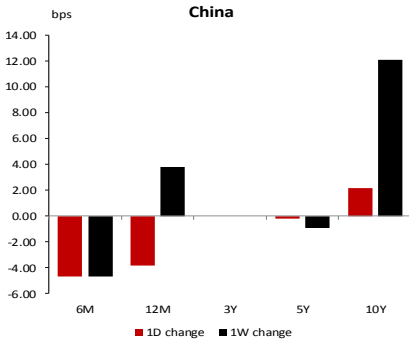
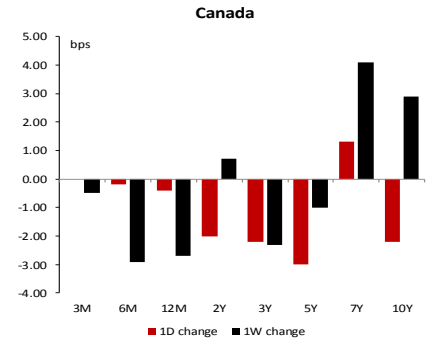
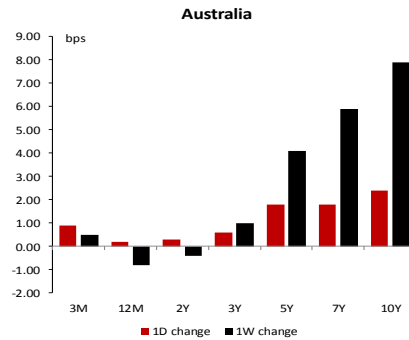
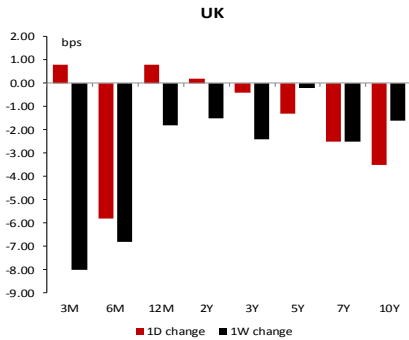
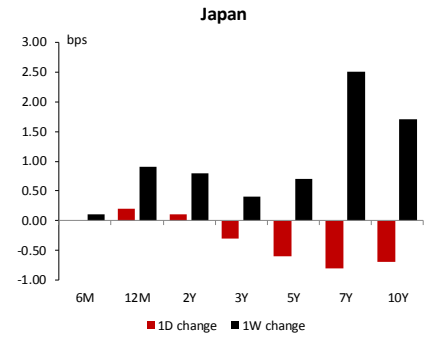
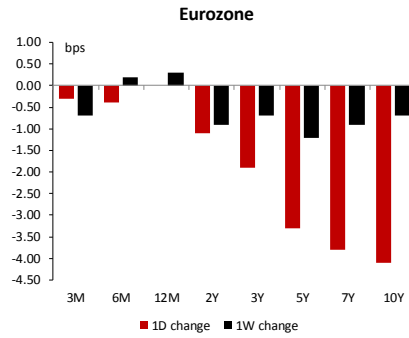
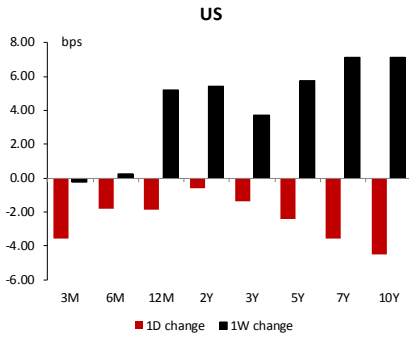
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



### FX Trade Ideas

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
* realized							1Q 18 Return	+12.43

Source: OCBC Bank

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