

Tuesday, March 27, 2018

**FX Themes/Strategy/Trading Ideas**

- Easing global trade tensions (conciliatory remarks from Chinese Premier Li Keqiang) saw the dollar fall across the board on Monday with the JPY also underperforming on the crosses.
- The EUR meanwhile also managed some lift on the back of supportive comments from the ECB's Weidmann, who noted that market expectations for a mid-2019 rate hike were "not completely unrealistic". For today, apart from the data calendar, the Fed's Bostic is due at 1500 GMT, while the ECB's Vasiliauskas (0700 GMT) and Nowotny (0900 GMT) are also on tap.
- Positive US and EM equities failed to shift the **FXSI (FX Sentiment Index)** back into Risk-Neutral territory, with the Index in Risk-Off territory for the 3<sup>rd</sup> consecutive session on Monday. At this juncture, expect investors to continue to be reactive to any further improvement in global risk appetite levels. In the interim, remain constructive on EUR-USD and GBP-USD as an anti-dollar story, while the cyclicals like AUD and CAD are expected to remain more a function of risk appetite gyrations.
- The **DXY** is at the 89.00 floor once again, threatening another foray towards 88.00. Overall, the latest price action continues to demonstrate the inherent structural bias against the USD.

**Asian FX**

- Within Asia, actual net portfolio inflows are looking disparate with a North-South divide currently in place. Inflow momentum for South Korea continues to moderate fairly sharply while outflow pressures for Taiwan remain significant. On a brighter note, net outflow pressures for India have by and largely dissipated, while outflow momentum for Indonesia is moderating at a healthy pace. Thailand remains favored in our view, in view of the improving net inflow balance.
- Overall, with Asian equities attempting to edge higher, the **ACI (Asian Currency Index)** may look to soften further, looking towards the 110.00 support, the lower boundary of its recent range.
- **South Korea:** An agreement between South Korea and the US to revise the bilateral FTA (Free trade Agreement) that would spare the former from the brunt of steel tariffs is expected to buffer sentiment.
- **India:** The government announced its fiscal first half borrowing plan, totaling

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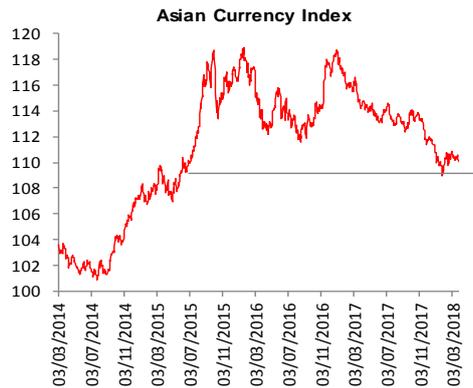
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48% of its annual budgeted borrowing. This is down from the usual 60-65% in previous years. The debt composition will also shift to more inflation-indexed bonds and shorter tenure debt. The cut in supply should limit the increase in Indian govie yields going forward.

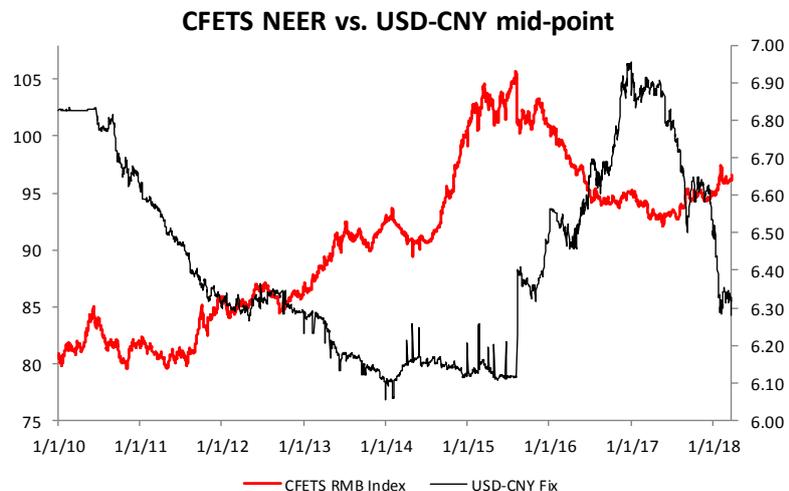
- SGD NEER:** The SGD NEER is a touch firmer at +0.41% above its perceived parity (1.3139) with NEER-implied USD-SGD thresholds lower on the day. Expect a +0.50% (1.3074) to +0.20% (1.3113) range intraday. We'd stay top heavy with the 55-day MA (1.3177) a useful resistance with first support seen towards 1.3055.



	SGD NEER	% deviation	USD-SGD
Current	124.78	0.42	1.3085
+2.00%	126.74		1.2881
Parity	124.26		1.3139
-2.00%	121.77		1.3407

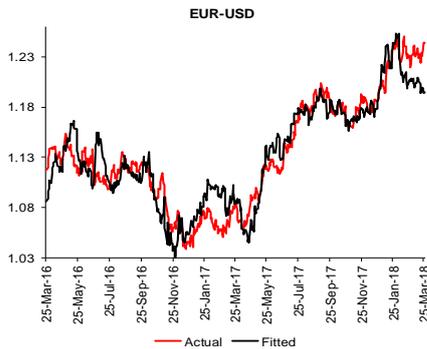
Source: OCBC Bank

- CFETS RMB Index:** Easing trade tensions was a cited factor in the latest plunge in the USD-CNH down past 6.300 on Monday and with the pair temporarily sub-6.2500 this morning. We note that the CNH-CNY basis (on the spot) is looking elevated and would expect some containment towards the former in the near term after the latest abrupt moves. Elsewhere, the USD-CNY mid-point fell (as largely expected) to 6.2816 from 6.3193 on Monday. This took the CFETS RMB Index higher to 96.53 from 96.14. We detect no discretionary intent to guide the basket at this juncture.



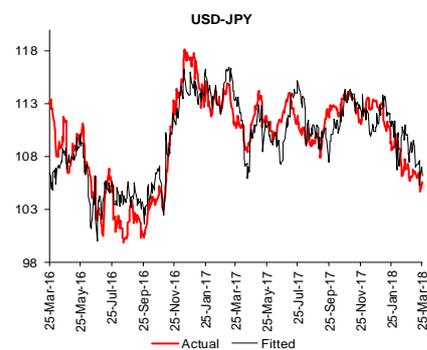
Source: OCBC Bank, Bloomberg

**G7**



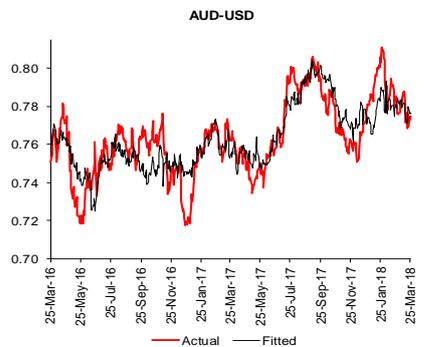
Source: OCBC Bank

- EUR-USD** In the near term, the EUR-USD may remain slightly distended relative to its heavy short term implied valuations with investors trading off a generalized weak dollar environment. Expect support to kick in towards the 55-day MA (1.2322) with 1.2500 up top expected to cap for now.



Source: OCBC Bank

- USD-JPY** With China and the US moving towards the same negotiating table, expect the JPY to underperform across the board in the near term despite inherently top heavy short term implied valuations for the USD-JPY. Expect the 106.00 to be an interim junction in the near term.



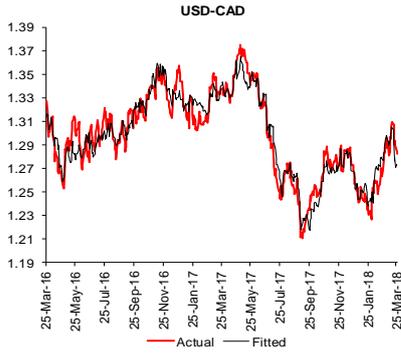
Source: OCBC Bank

- AUD-USD** Apart from risk appetite-induced fluctuations, AUD-USD may remain sheltered by its 100-day MA (0.7779) and 200-day MA (0.7809) on the upside while 0.7700 may continue to cushion pending further global macro cues. At this juncture, we detect little misalignment relative to its short term implied valuations.



Source: OCBC Bank

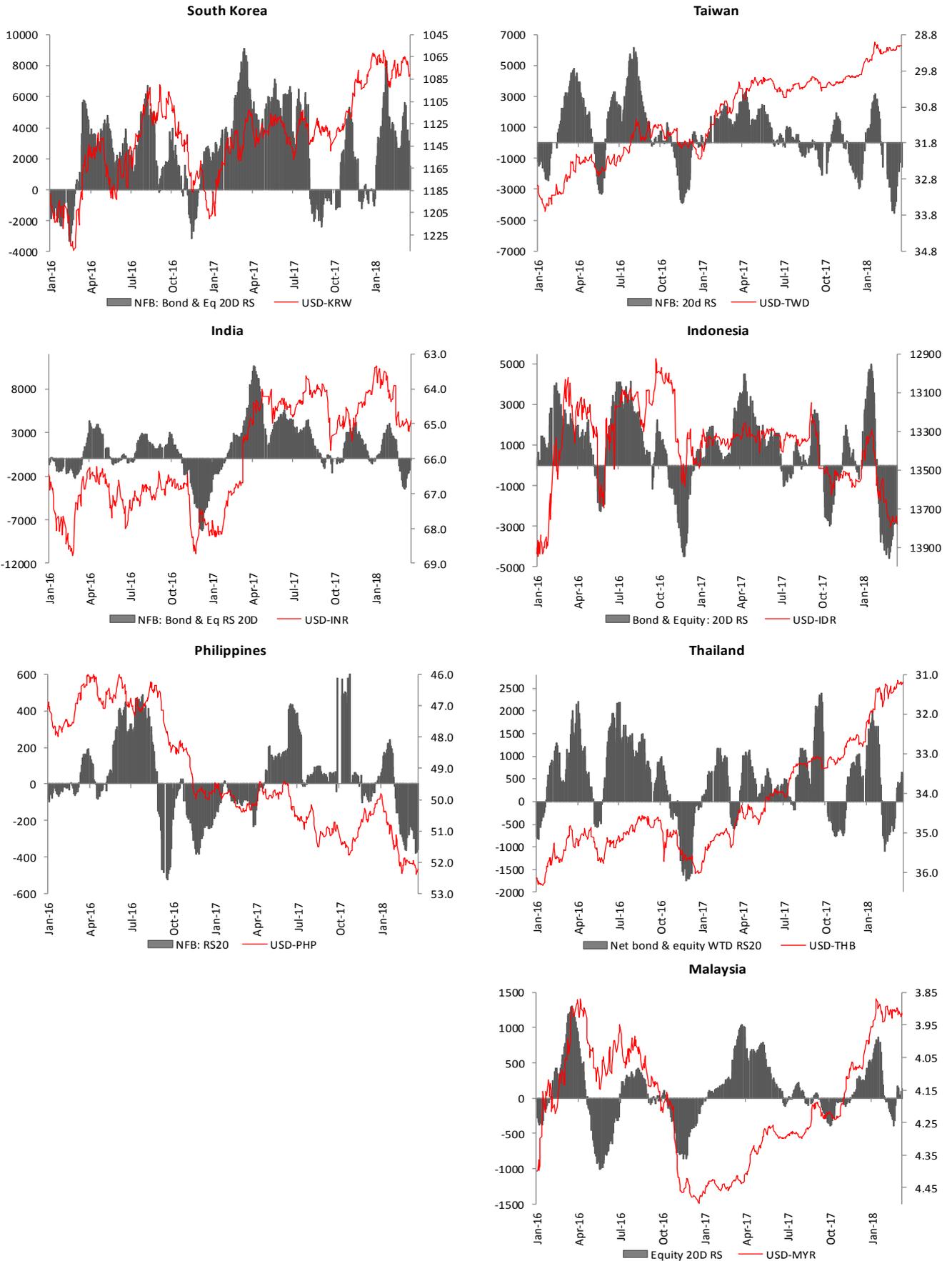
- GBP-USD** The GBP-USD continues to be underpinned by expectations for a May BOE rate hike. Preference to stay positive on the GBP-USD in line with its short term implied valuations. Expect base building behavior towards 1.4175/00.



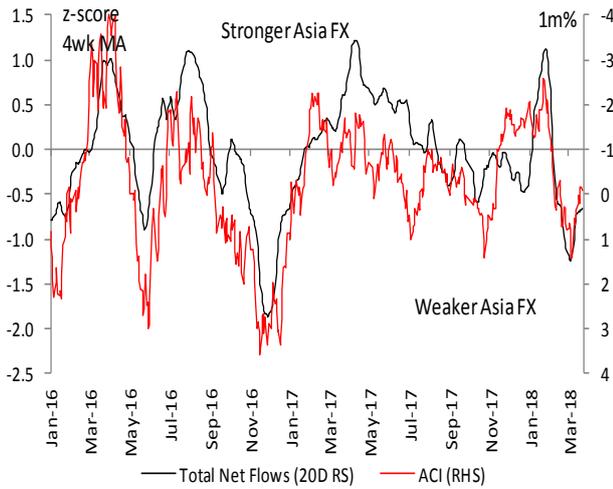
- USD-CAD** Short term implied valuations for the USD-CAD have topped lower and a test towards the 1.2800 floor may be on the cards if global trade tensions continue to evaporate. Beyond the 1.2800 floor, expect a test towards 1.2755.

Source: OCBC Bank

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

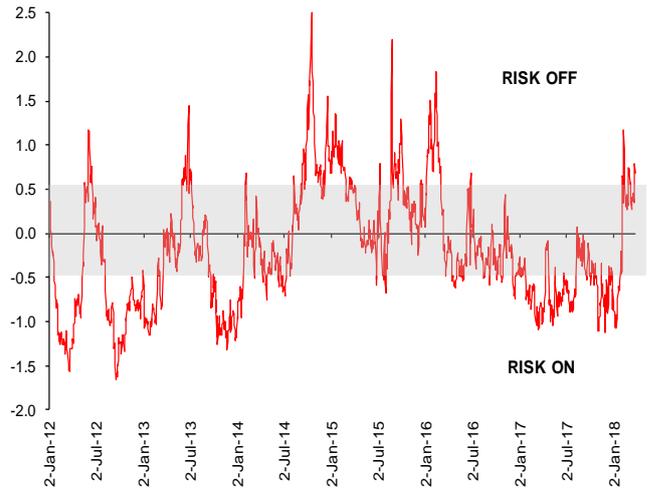


**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	0.170	0.682	0.330	0.326	-0.384	0.612	-0.535	-0.219	-0.314	0.802	-0.933
SGD	0.820	0.184	0.580	-0.078	-0.100	-0.181	0.387	-0.294	0.224	-0.009	0.686	-0.844
CNH	0.802	-0.006	0.908	0.105	0.097	-0.464	0.303	-0.654	-0.021	-0.314	1.000	-0.688
CNY	0.682	-0.026	1.000	0.108	0.034	-0.376	0.155	-0.524	-0.036	-0.278	0.908	-0.530
JPY	0.612	0.481	0.155	0.826	0.559	-0.141	1.000	-0.504	-0.686	-0.601	0.303	-0.489
MYR	0.588	-0.163	0.462	-0.323	0.108	-0.232	0.061	-0.096	0.348	0.220	0.594	-0.646
INR	0.446	0.167	0.612	-0.211	-0.086	-0.287	-0.078	-0.013	0.201	0.199	0.520	-0.465
THB	0.429	0.506	0.496	0.154	-0.416	0.187	0.317	-0.375	-0.064	-0.143	0.530	-0.317
TWD	0.306	0.184	0.506	0.481	-0.093	-0.043	0.446	-0.692	-0.366	-0.580	0.422	-0.012
USGG10	0.170	1.000	-0.026	0.437	-0.032	0.233	0.481	0.029	-0.468	-0.036	-0.006	-0.079
CHF	0.128	-0.046	0.042	-0.002	0.349	-0.412	-0.146	0.053	-0.145	0.045	0.108	-0.153
CAD	0.127	-0.169	0.205	-0.077	0.197	-0.463	-0.221	-0.202	-0.044	-0.094	0.279	-0.036
AUD	-0.075	0.152	-0.155	0.716	0.282	0.108	0.536	-0.473	-0.640	-0.643	-0.050	0.258
IDR	-0.141	-0.033	0.285	-0.223	-0.336	-0.225	-0.486	-0.179	0.091	-0.002	0.289	0.267
KRW	-0.158	0.053	-0.120	-0.628	-0.771	0.427	-0.388	0.436	0.653	0.587	-0.172	0.018
PHP	-0.427	-0.246	-0.444	-0.654	-0.272	0.152	-0.597	0.608	0.570	0.586	-0.328	0.181
NZD	-0.551	-0.159	-0.439	0.443	0.170	0.083	0.126	-0.196	-0.422	-0.473	-0.465	0.665
GBP	-0.755	-0.165	-0.676	-0.444	0.010	0.337	-0.566	0.829	0.318	0.593	-0.758	0.554
EUR	-0.933	-0.079	-0.530	-0.092	-0.318	0.316	-0.489	0.281	-0.024	0.064	-0.688	1.000

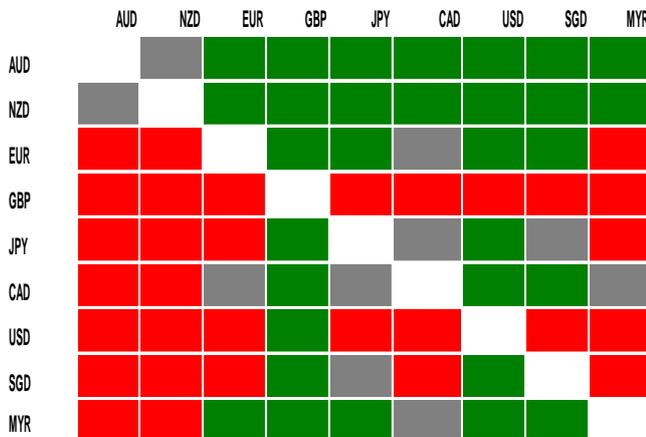
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2338	1.2400	1.2447	1.2459	1.2500
GBP-USD	1.3978	1.4200	1.4227	1.4236	1.4245
AUD-USD	0.7672	0.7700	0.7736	0.7800	0.7805
NZD-USD	0.7200	0.7250	0.7288	0.7300	0.7336
USD-CAD	1.2747	1.2800	1.2843	1.2900	1.3097
USD-JPY	105.00	105.07	105.69	106.00	107.05
USD-SGD	1.3058	1.3067	1.3087	1.3100	1.3162
EUR-SGD	1.6200	1.6240	1.6289	1.6300	1.6322
JPY-SGD	1.2276	1.2300	1.2382	1.2400	1.2521
GBP-SGD	1.8401	1.8600	1.8619	1.8659	1.8692
AUD-SGD	1.0100	1.0108	1.0124	1.0200	1.0356
Gold	1332.49	1351.35	1351.70	1363.50	1400.00
Silver	16.11	16.60	16.63	16.67	16.69
Crude	63.00	65.70	65.72	65.80	66.11

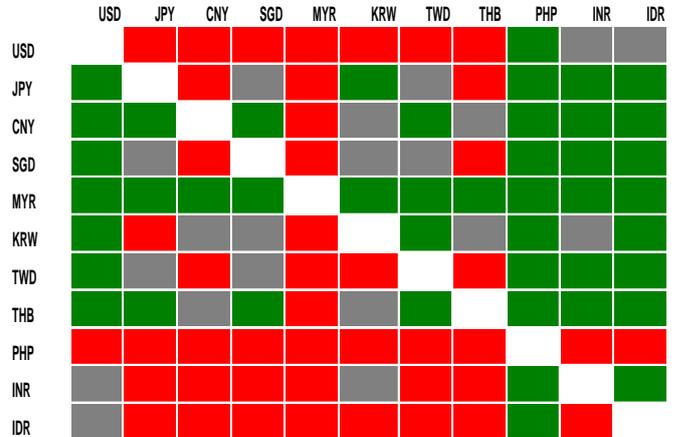
Source: OCBC Bank

**G10 FX Heat Map**



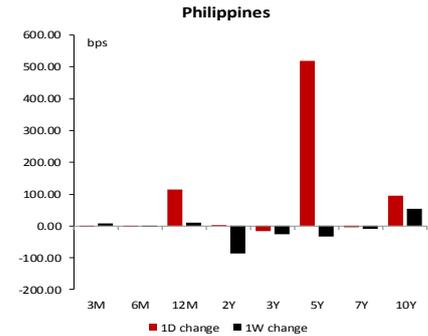
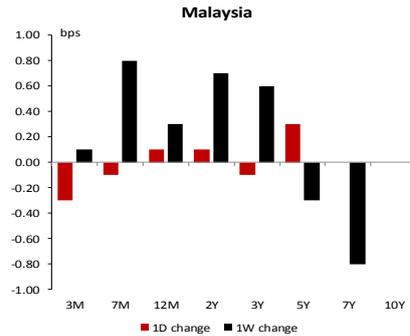
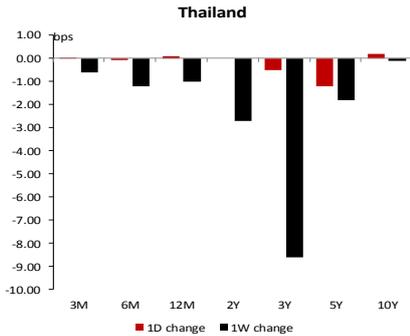
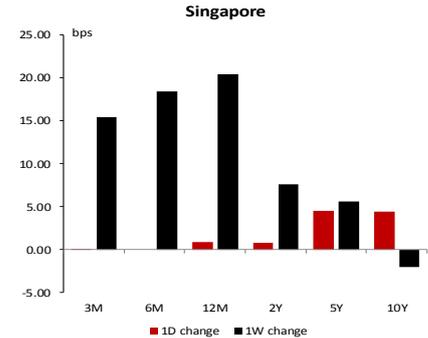
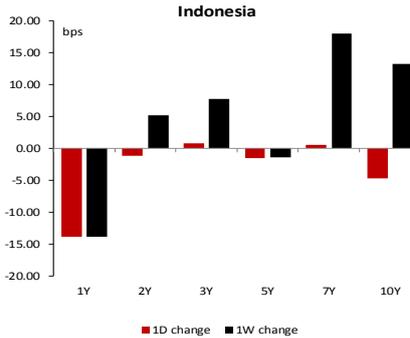
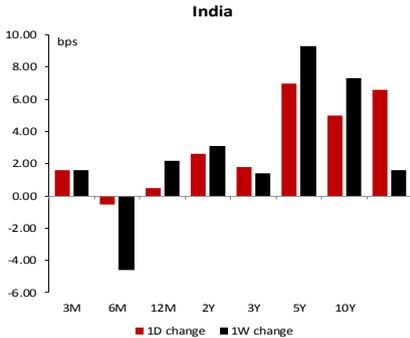
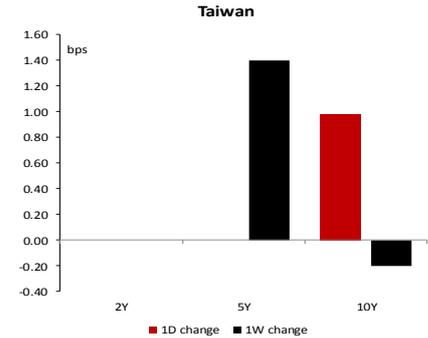
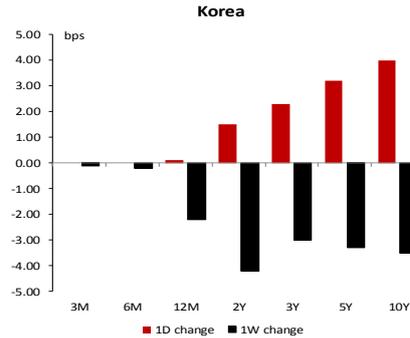
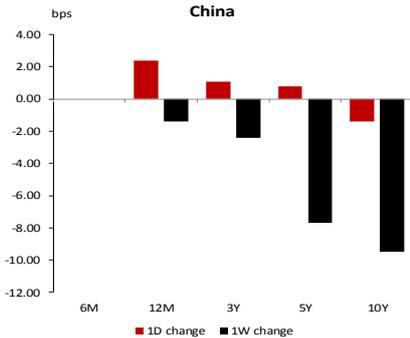
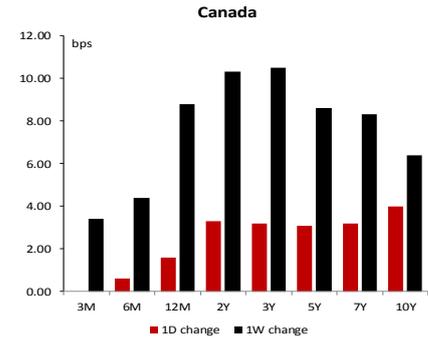
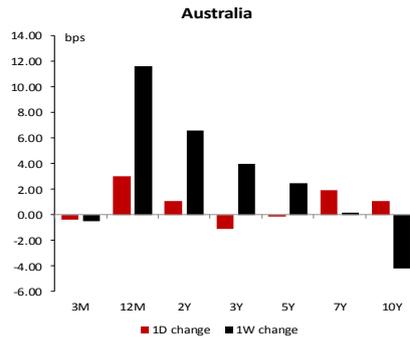
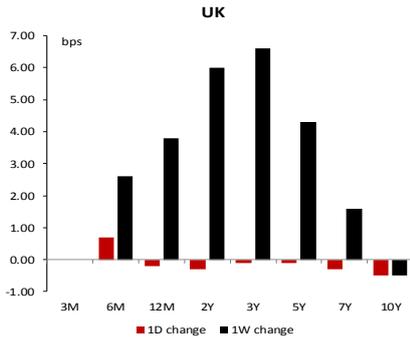
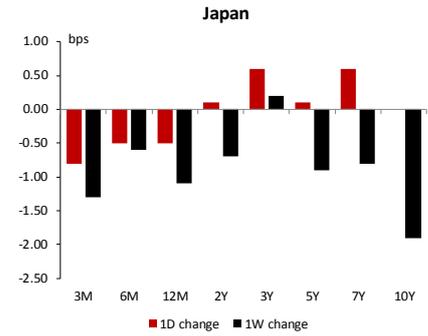
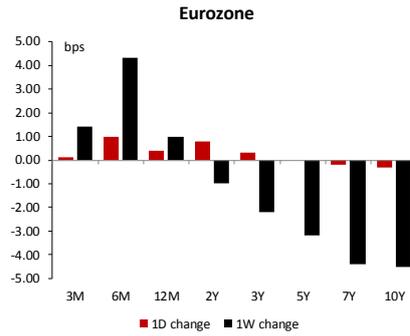
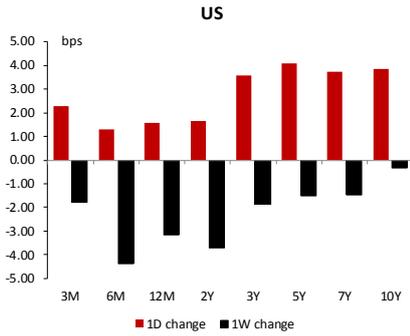
Source: OCBC Bank

**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	Borad 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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