

Monday, April 30, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The USD reached a level just shy of 92.00 on Friday, before retreating back towards the 91.50 region. The GBP underperformed its G10 peers as GDP prints came in softer than expected, causing the market implied probabilities of a May BOE rate hike to collapse further.
- Going ahead, the shelf life of this latest episode of USD resilience may have to be predicated on several developments: Firstly, it remains to be seen if long-end US yields can continue to ascend or at least maintain resilience on any downside dips. **On this front, any ability to continue to hold within a 2.95%-3.05% range for the 10y UST yield may continue to grant the USD support.** On the flip side, if the 10y decays below 2.95%, expect the recent USD rally to fizzle and retrace.
- On the macro front, note that the ECB and the BOJ remained fairly confident in their economic and inflation prognosis in April. This view, we think, will be increasingly echoed by other major central banks. Specifically, global central banks seem content to downplay the recent deceleration in economic momentum, while talking up prospects of an eventual attainment of inflation targets in the medium term. Absent are any residual deflationary risks as the global inflation environment continues to bottom out. As a result, expect global yields to have likely found a floor for now.
- This brings us to the second key development to watch out for. Since late 2017, the USD has had a dismal track record of benefitting from favourable rate differential developments, a key factor for USD strength in the latter part of April. Therefore, remain cautious towards overselling absolute yield and yield differentials arguments as a source of USD strength. Supportive rhetoric from companion central banks may eventually cause yield differential arguments to be cramped, resurrecting the weak USD dynamic.
- Thirdly, purely on technical grounds, **an ability by the DXY to surmount the 92.00 handle may be required to keep the USD afloat.** However, base building behaviour within 91.00-92.00 may suffice in the coming weeks. Any failure on this front may well confine the broad USD lower once again.
- Finally, potential global trade tensions may dilute the above arguments, and instead shackle global currency pairs in a range. Note that the **FXSI (FX Sentiment Index)** has ventured back into Risk-Neutral territory. If trade tensions re-occur, expect the majors to part ways. The USD may turn weaker against the EUR and GBP, while prospects for the JPY and the cyclical/EM FX would be dependent on the resultant impact on global risk sentiments.

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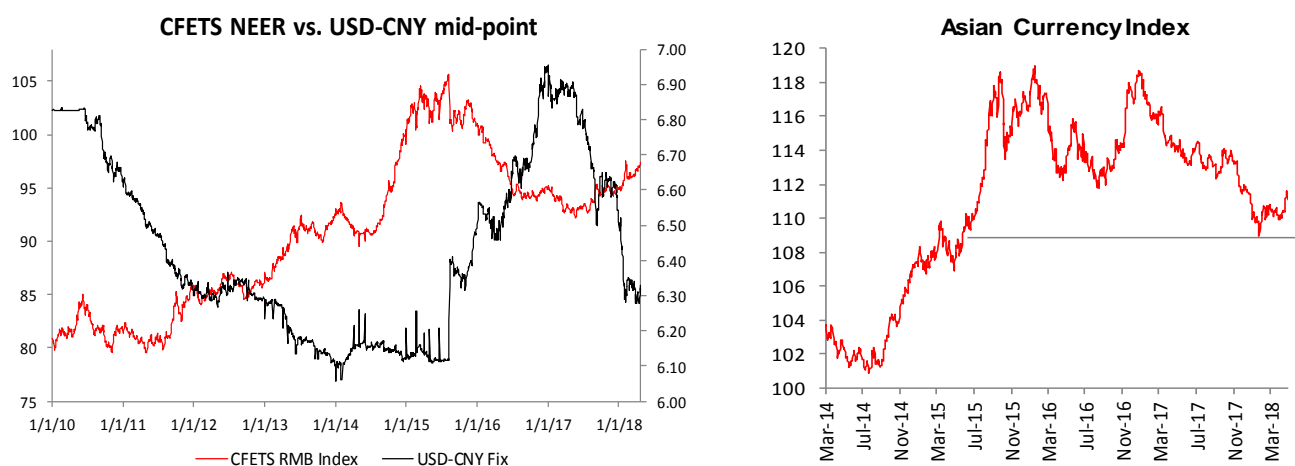
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Asian FX

- Implied equity and bond flows into Asia, as tracked by **EPFR**, remained mixed in the latest week. Implied equity inflows firmed for North Asia, while continuing to moderate in South Asia. Meanwhile, in terms of **actual net portfolio flows**, South Asia continues to be plagued by persistent bond outflows. Improving equity and bond inflows are seen in **South Korea**, perhaps in recognition to the improving situation in the Korean peninsula leading up to the inter-Korea summit. The positive outcome from the inter-Korea summit may impart some tailwind to the KRW, but this will be predicated the optimism coalescing into a sustained improvement in net portfolio inflows.
- Despite the generalized moderation of net inflows in Asia (flipping to a net outflow balance in selected countries) in recent weeks, note that the Asian currencies have outperformed their G10 counterparts in the latest bout of USD strength. We think this is afforded by the relatively sanguine risk appetite levels. Another spike in risk aversion, especially if arising from US-Sino tensions, could well see sentiment towards EM/Asia unravel rapidly. At this juncture, expect the **ACI (Asian Currency Index)** to firm marginally on the back of improving risk sentiments, pending further USD directionality arising from the May FOMC.
- **Indonesia:** Bank Indonesia (BI) Governor Agus Martowardojo noted that the BI “won’t hesitate” to use rate hikes to defend the IDR. This follows from the Deputy Governor’s comments earlier that rate hikes are a “last resort”. Note however, that under the broad context of recent USD strength, IDR depreciation does not appear excessive compared to other Asian currencies.
- **India:** The Reserve Bank of India (RBI) lifted cap on foreign investment on any government security to 30%, from 20%, and reduced the minimum residual maturity to one year, from three years. This is the latest in a series of steps by the RBI to open up the government bond market to foreign investors.
- **SGD NEER:** The SGD NEER is softer this morning at around 0.63% above its perceived parity (1.3320). Intra-day range may be denoted by the +0.40% (1.3267) and +0.80% (1.3215) levels. Further USD strength into the FOMC may put 1.3300 at risk. Nevertheless, expect the SGD may continue to outperform the likes of the EUR, GBP, and the AUD in the near term.
- **CFETS RMB Index:** Public holiday.



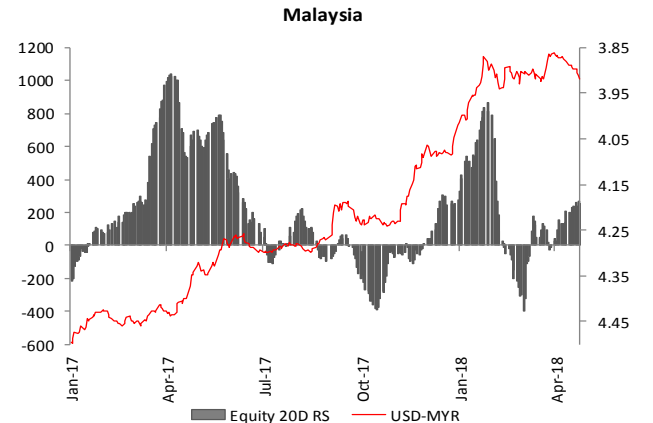
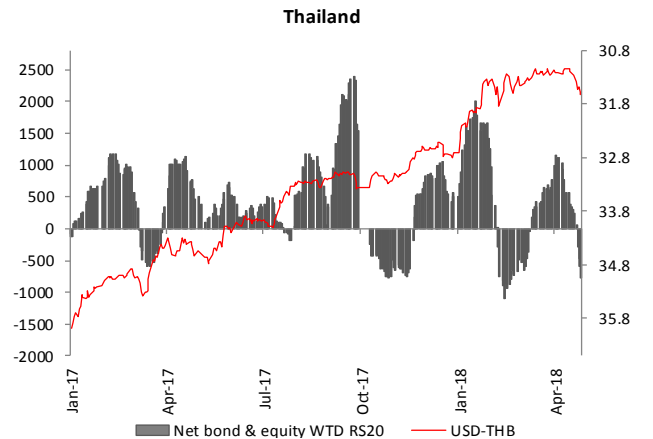
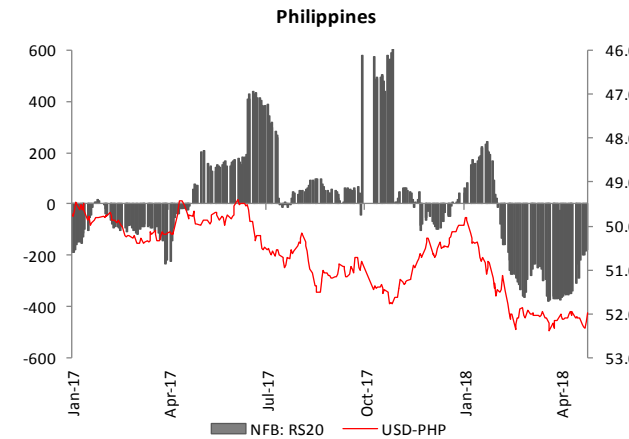
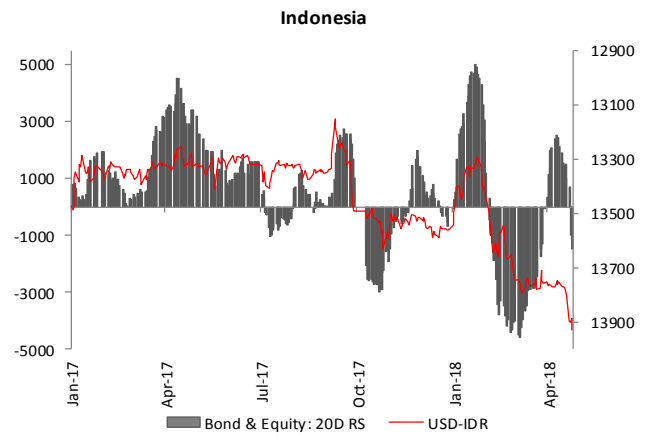
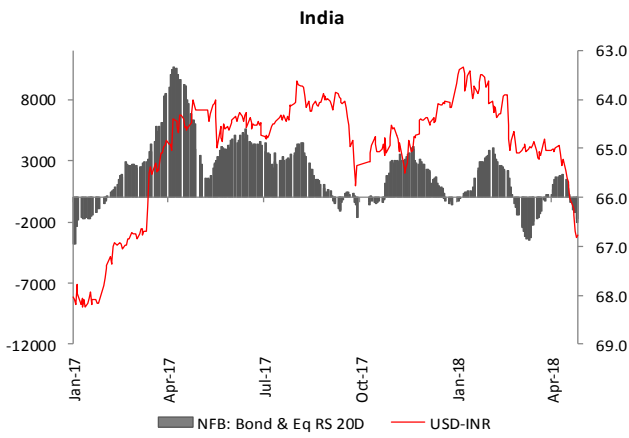
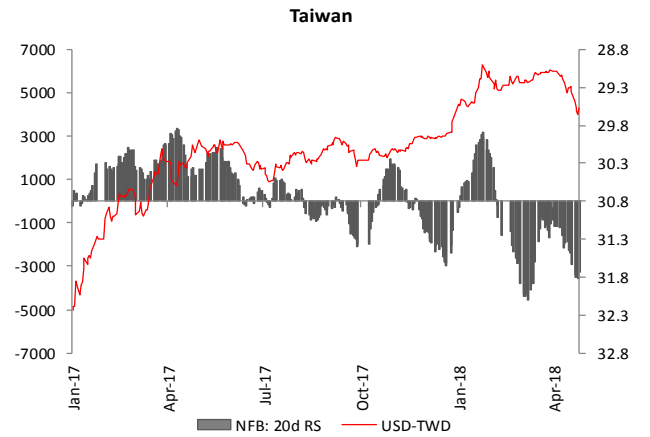
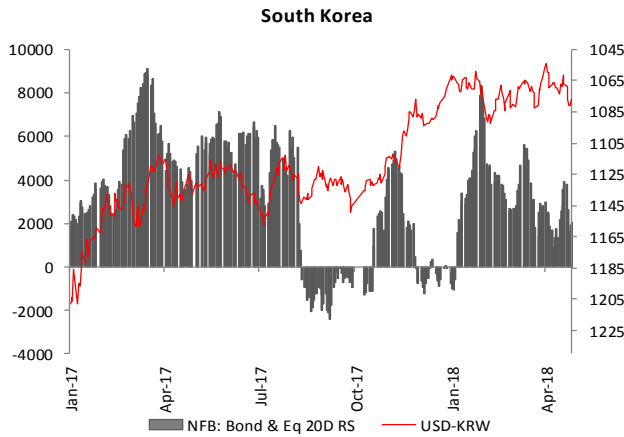
Source: OCBC Bank, Bloomberg

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	↑	Positive outcomes from the inter-Korea meeting, 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, would not hesitate to use rate hike to defend IDR, even if it is regarded as a last resort, fundamentals intact, carry strategy under reassessment
USD-THB	↑	BOT remains accommodative, net bond flows flipped into negative territory, equity outflows deepening
USD-PHP	↔	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

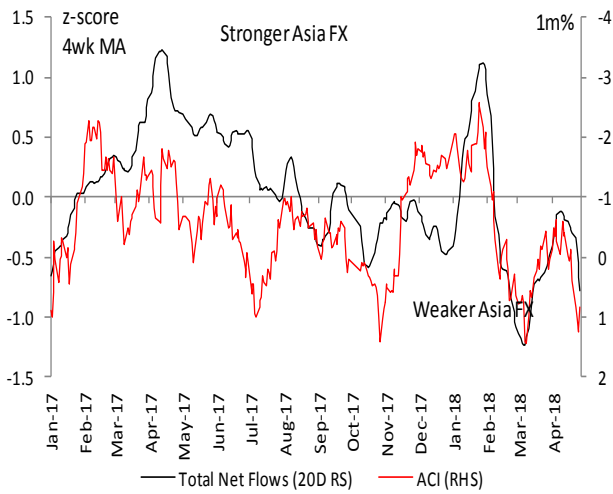
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



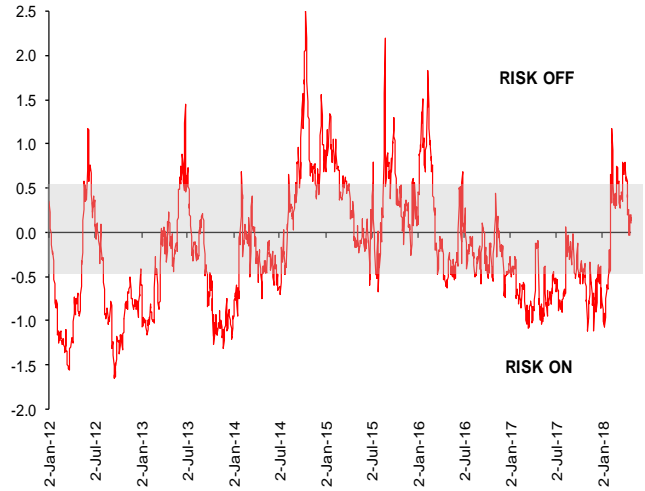
Source: CEIC, Bloomberg, OCBC Bank

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	0.718	0.911	-0.084	-0.305	0.210	0.836	0.342	-0.255	-0.145	0.837	-0.988
SGD	0.935	0.815	0.893	-0.021	-0.246	0.318	0.904	0.427	-0.334	-0.270	0.863	-0.923
CNY	0.911	0.699	1.000	-0.100	-0.390	0.145	0.807	0.230	-0.209	-0.138	0.957	-0.932
THB	0.910	0.854	0.922	0.117	-0.081	0.505	0.934	0.567	-0.508	-0.493	0.906	-0.873
CHF	0.859	0.945	0.787	0.378	0.075	0.666	0.945	0.717	-0.687	-0.612	0.742	-0.807
IDR	0.852	0.929	0.812	0.132	-0.036	0.540	0.911	0.605	-0.478	-0.422	0.706	-0.789
CNH	0.837	0.608	0.957	-0.127	-0.330	0.079	0.790	0.169	-0.151	-0.127	1.000	-0.858
JPY	0.836	0.937	0.807	0.294	0.086	0.607	1.000	0.682	-0.598	-0.521	0.790	-0.802
TWD	0.782	0.929	0.782	0.337	-0.135	0.679	0.951	0.711	-0.671	-0.666	0.796	-0.752
INR	0.771	0.951	0.731	0.282	0.089	0.707	0.923	0.756	-0.659	-0.614	0.600	-0.690
CAD	0.733	0.250	0.566	-0.504	-0.551	-0.200	0.327	-0.073	0.211	0.292	0.480	-0.725
USGG10	0.718	1.000	0.699	0.405	0.179	0.725	0.937	0.781	-0.688	-0.610	0.608	-0.643
MYR	0.691	0.917	0.703	0.448	0.219	0.778	0.904	0.789	-0.758	-0.755	0.624	-0.621
PHP	0.543	0.703	0.578	0.014	-0.321	0.188	0.637	0.252	-0.233	-0.122	0.562	-0.510
KRW	0.496	0.696	0.589	0.255	0.196	0.612	0.805	0.591	-0.520	-0.595	0.622	-0.476
GBP	-0.926	-0.537	-0.765	0.215	0.306	-0.073	-0.644	-0.222	0.066	-0.066	-0.701	0.896
NZD	-0.944	-0.706	-0.814	0.146	0.274	-0.255	-0.769	-0.355	0.217	0.185	-0.756	0.910
AUD	-0.952	-0.624	-0.862	0.284	0.364	-0.103	-0.737	-0.228	0.071	0.023	-0.805	0.942
EUR	-0.988	-0.643	-0.932	0.160	0.398	-0.095	-0.802	-0.240	0.166	0.049	-0.858	1.000

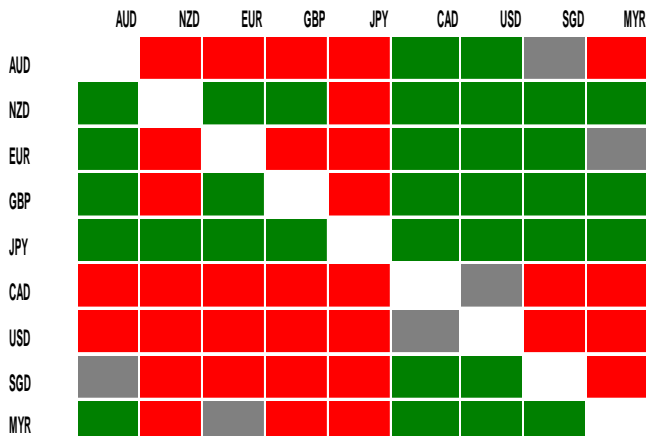
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2013	1.2100	1.2125	1.2200	1.2303
GBP-USD	1.3747	1.3767	1.3779	1.3800	1.4008
AUD-USD	0.7530	0.7532	0.7563	0.7600	0.7737
NZD-USD	0.7025	0.7040	0.7070	0.7100	0.7176
USD-CAD	1.2800	1.2815	1.2848	1.2900	1.2940
USD-JPY	106.87	109.00	109.12	109.54	109.58
USD-SGD	1.3161	1.3200	1.3236	1.3289	1.3297
EUR-SGD	1.6000	1.6020	1.6049	1.6080	1.6100
JPY-SGD	1.2111	1.2115	1.2132	1.2149	1.2200
GBP-SGD	1.8200	1.8226	1.8238	1.8245	1.8300
AUD-SGD	0.9999	1.0000	1.0010	1.0100	1.0182
Gold	1306.60	1313.40	1323.00	1330.46	1357.60
Silver	16.07	16.40	16.43	16.50	16.51
Crude	64.21	67.80	67.89	67.90	69.56

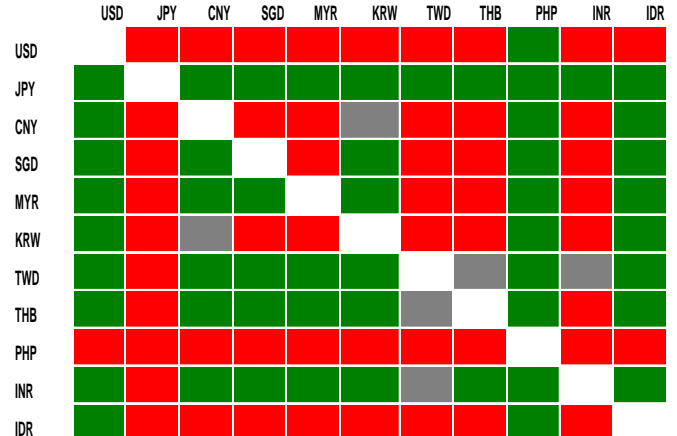
Source: OCBC Bank

G10 FX Heat Map



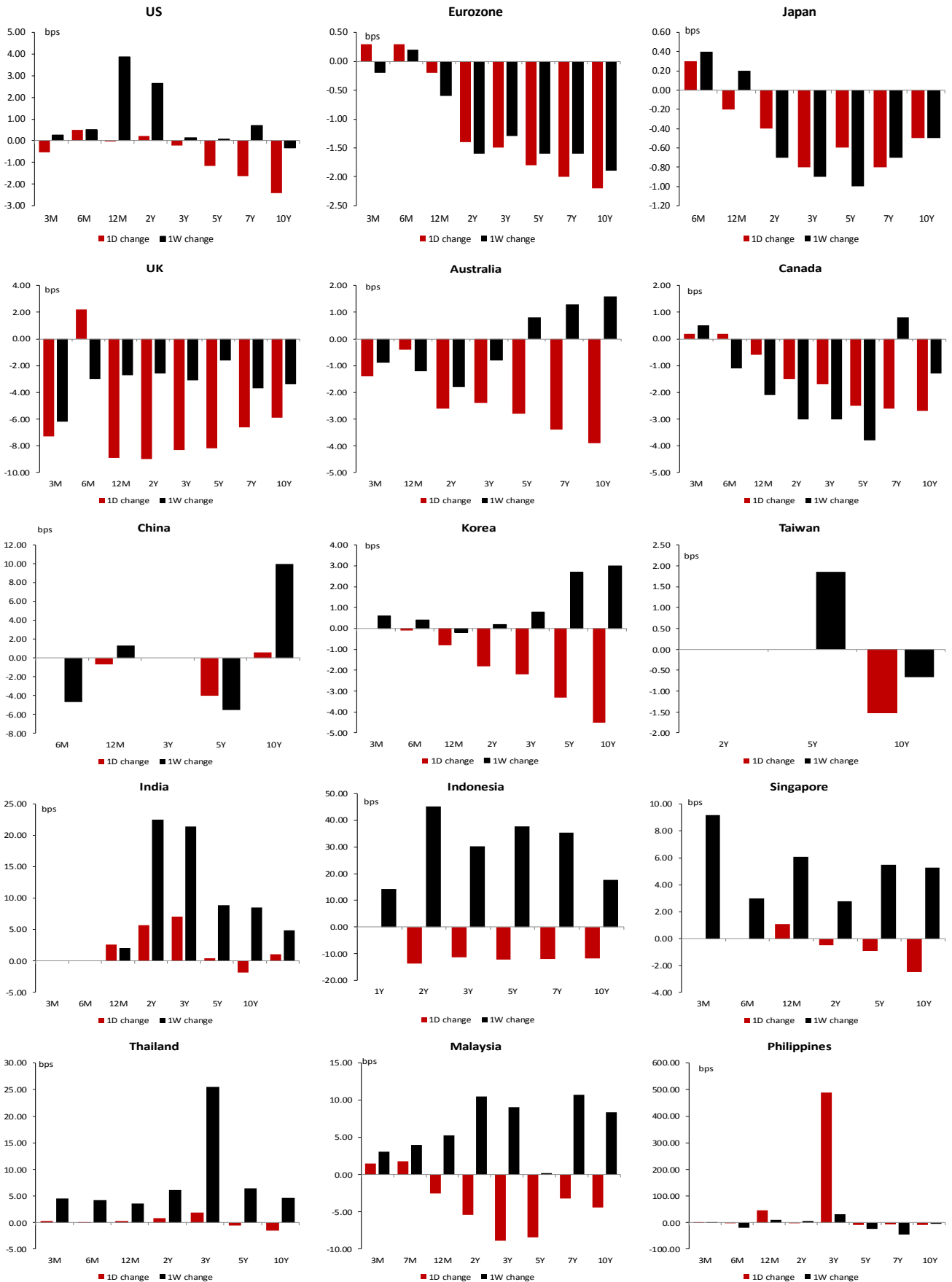
Source: OCBC Bank

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 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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