

Monday, March 12, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- With risk appetite levels already brightening up into the latter part of last week, the better than expected Feb headline NFP numbers (**note however the softer than expected average hourly earnings**) on Friday further fed risk appetite levels with the cyclicals outperforming the USD instead.
- To this end, note that the **FXSI (FX Sentiment Index)** inched lower within Risk-Neutral territory for the 2nd consecutive session as global equities bounced higher.
- This week, Fed-speak goes dark ahead of the FOMC on 21 Mar 18, but a raft of ECB speakers (including Draghi) is scheduled for Wednesday. Elsewhere, look also towards RBA rhetoric this week, with Bullock and Kent on Tuesday, and Debelle on Thursday. The Bank of Canada's Poloz and the RBNZ's Spencer are also due on Tuesday. On the data calendar, US Feb CPI readings on Tuesday may prove interesting in the wake of the latest NFP numbers. China on Wednesday is also due to release a string of February numbers, including retail sales, industrial production, and urban fixed asset investments.
- The **DXY** continues to persist 90.00 and aggregated rate differential arguments continue to have a mixed impact on broad dollar prospects. While widening differentials at the back-end continue to underpin USD prospects (but with very little transmission to actual price action), front-end differentials have stagnated. In the interim, markets may instead attempt to trade off more positive risk dynamics. Despite the best efforts of the other global central banks in recent weeks to play down hawkish expectations, investors may also look to revert to the "weak dollar narrative" pending further cues from the FOMC next week.
- On the **CFTC** front, large non-commercial accounts increased net implied short dollar bias in aggregate in the latest week but leveraged accounts and asset manager accounts pared their short dollar balance instead. The latter two classes of accounts may have already reoriented against the USD since Friday.

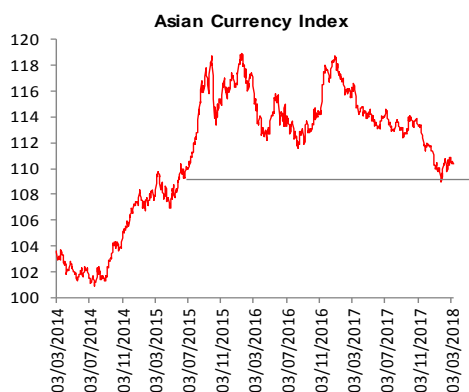
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Asian FX

- EPFR data meanwhile showed a halving of implied net portfolio inflows into Asian equities (excl. Japan, China) in the latest week while net implied bond inflows also weakened noticeably. Expect implied flows to potentially improve this week on the improved global risk appetite complexion.

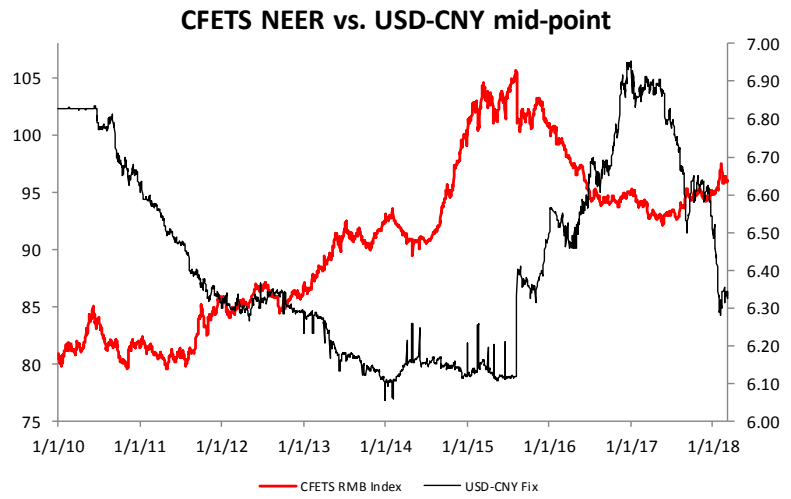
- Meanwhile, actual net portfolio inflows in Asia continue to portend relative outperformance for the KRW and THB, while we are also detecting a nascent attempt by net outflows in Indonesia to stabilize. Thus, the KRW and the THB remain well equipped to ride on any further regional positivity. Overall, if risk appetite levels continue to improve at the expense of the USD, look for the **ACI (Asian Currency Index)** to inch lower.
- **China:** Comments from the PBOC’s Zhou on Friday show increased emphasis on the quality of growth (jobs instead of M2 growth, for example), indicating relatively stability ahead for monetary policy.
- **South Korea:** Chatter surrounding a potential Trump-Kim meeting may continue to underpin positivity, with a South Korean envoy delivering a message from the North Korean leader to the US President.
- **Indonesia:** BI governor Martowardojo reiterates that room for a rate cut is narrowing, monetary policy remains neutral, will be in the market to address rupiah volatility, and inflationary pressure from administered prices will be minimal.
- **SGD NEER:** The SGD NEER is mildly firmer at +0.43% above its perceived parity (1.3205) with NEER-implied USD-SGD thresholds softer post NFP. Expect a locus centered within +0.30% (1.3166) to +0.60% (1.3127) in the interim for the basket. Amidst a top-heavy posture for the USD-SGD, a meaningful breach below 1.3140 may invite further probes towards 1.3110/15.



| | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 124.80 | 0.44 | 1.3148 |
| +2.00% | 126.74 | | 1.2946 |
| Parity | 124.26 | | 1.3205 |
| -2.00% | 121.77 | | 1.3475 |

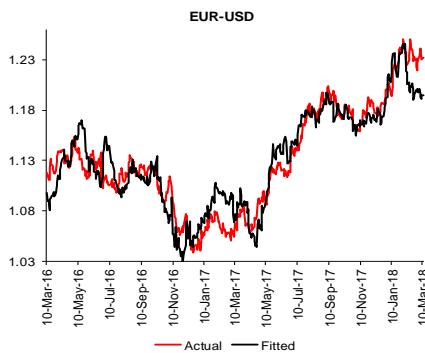
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point rose dipped (largely in line with expectations) to 6.3333 on Monday from 6.3451 on Friday. This saw the CFETS RMB Index rising slightly to 96.03 from 95.95.



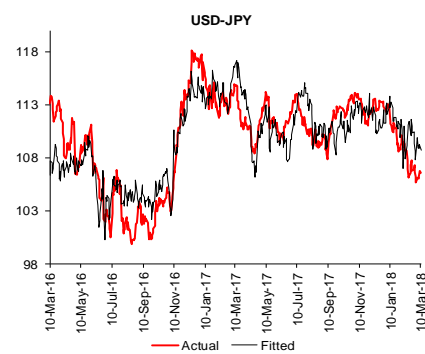
Source: OCBC Bank, Bloomberg

G7



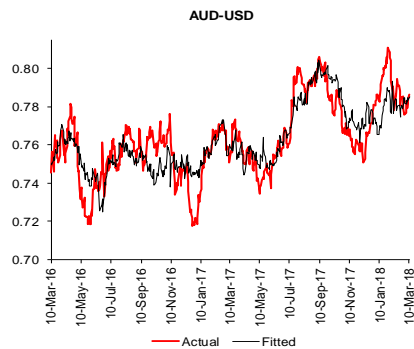
Source: OCBC Bank

- **EUR-USD** Range bound 9if slightly top heavy) behavior may be expected to persist despite short term implied valuations looking partially supported. Ahead of rhetoric from the ECB this week, the 55-day MA (1.2249) and 1.2400 up top may border the pair.



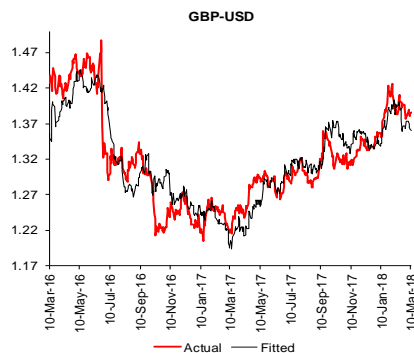
Source: OCBC Bank

- **USD-JPY** The JPY underperformed across the board post the BOJ MPC (more specifically, following Kuroda's dovish comments) and dollar positivity as well as the improvement in global risk appetite levels (for now) dominated. Early Monday however, negative political news flow concerning FM Aso and a potential scandal took the pair lower. Overall, despite contrasting forces on the pair remain at play and we'd prefer to accumulate on dips within 106.20-107.30.



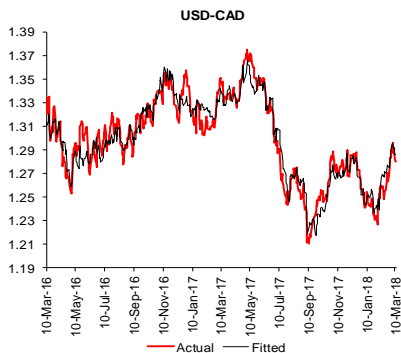
Source: OCBC Bank

- **AUD-USD** Guidance from supported risk appetite levels in the near term may continue to keep the AUD-USD underpinned at this juncture in line with its short term implied valuations. Expect the pair to continue to trade within the upper reaches of a range bound by the 200-day MA (0.7798) and the 55-day MA (0.7886).



Source: OCBC Bank

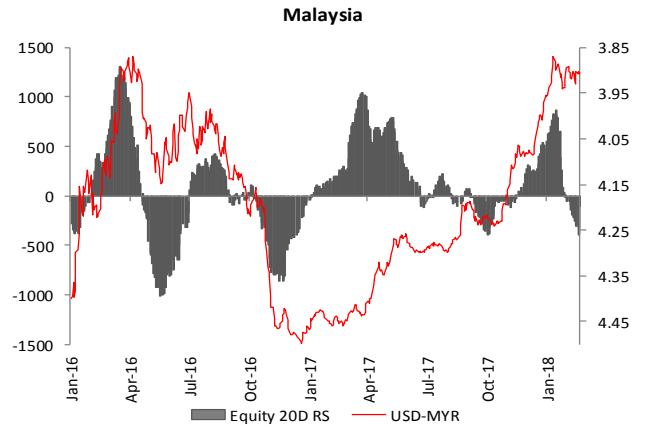
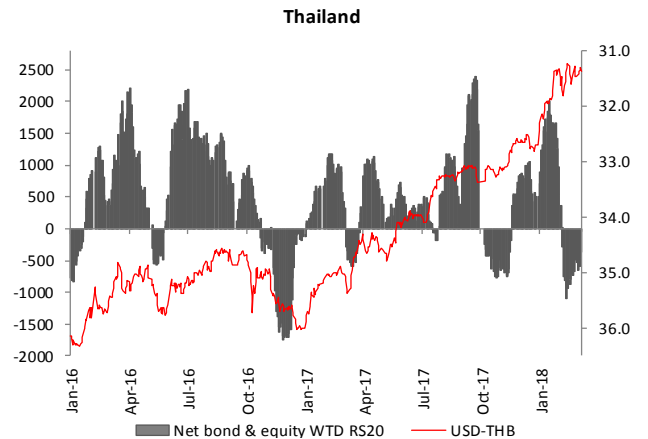
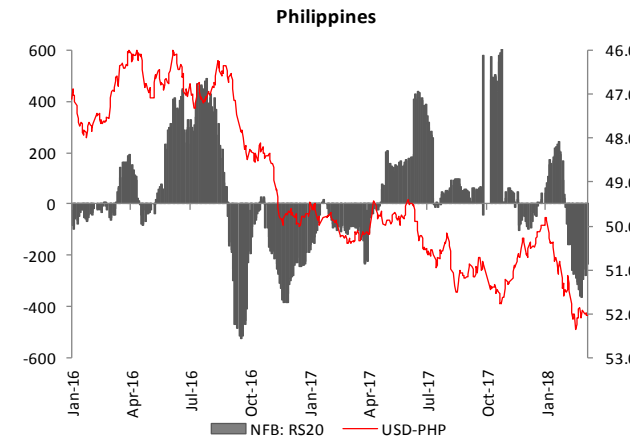
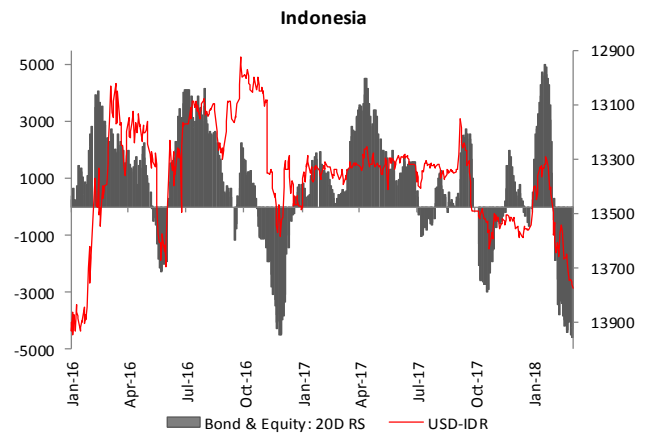
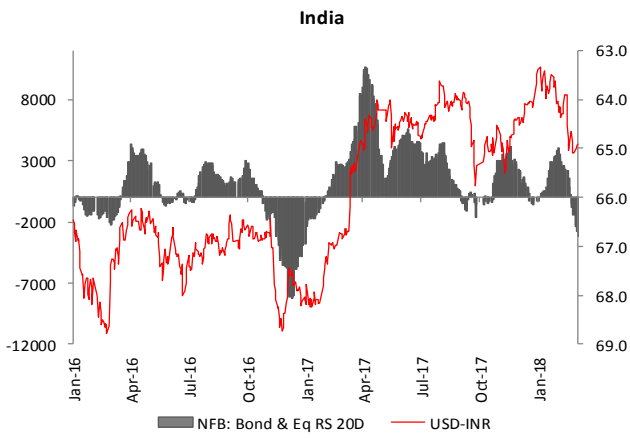
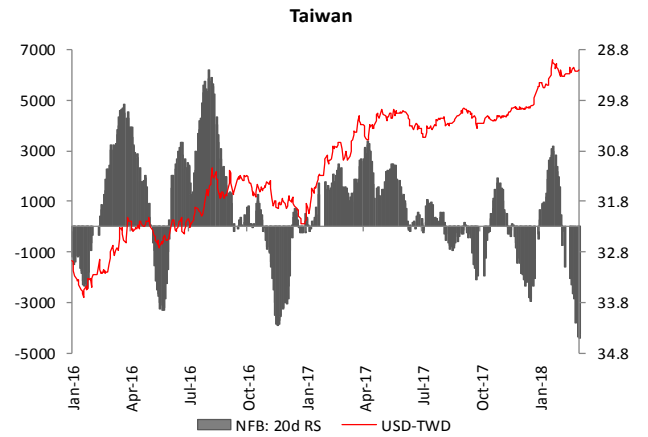
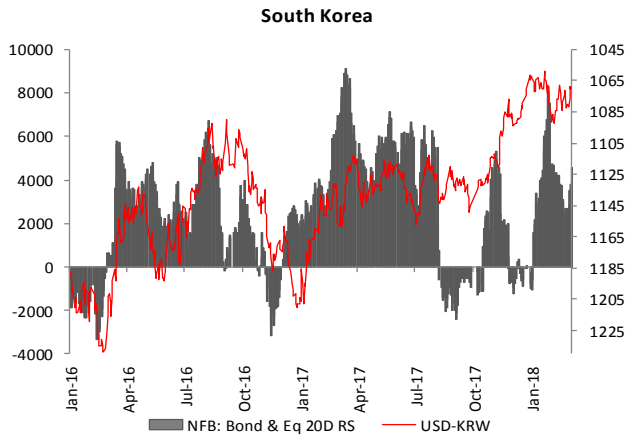
- **GBP-USD** In addition to the Brexit overhang, short term implied valuations remain heavy at this juncture and the GBP-USD may not depart too significantly from its 55-day MA (1.3844) ahead of the spring statement by Fin Min Hammond on Tuesday.



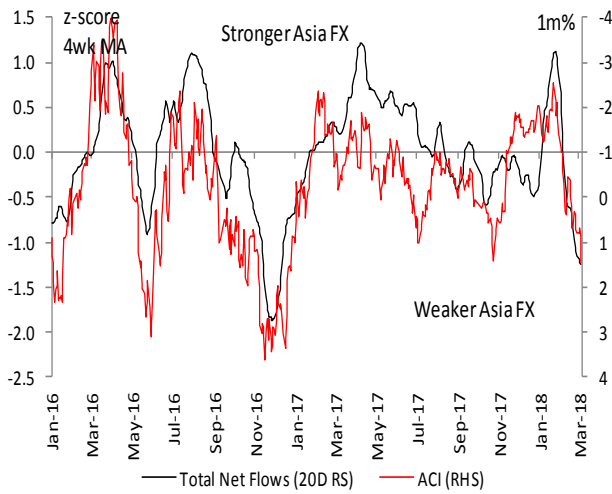
- **USD-CAD** The CAD may be fueled higher in the near term amid the current risk/equity/crude environment with short term implied valuations attempting to top out for now. If the 1.2800 floor is violated, expect a potential drift towards the 200-day MA (1.2668).

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

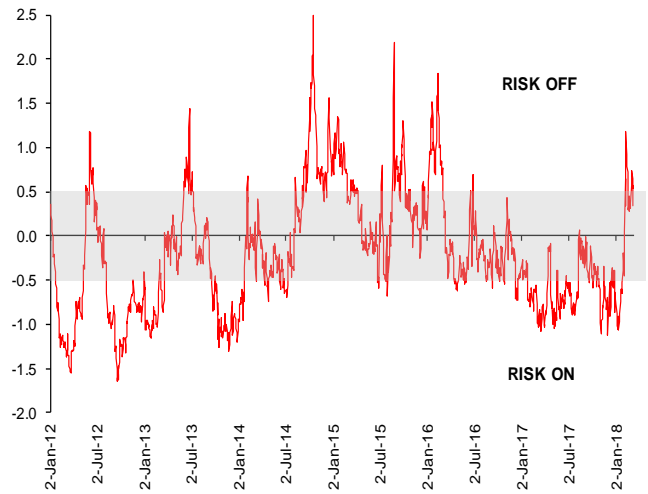


ACI VS. Net Capital Flows



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 | -0.352 | -0.159 | -0.201 | -0.022 | -0.068 | 0.344 | -0.053 | 0.218 | -0.090 | 0.653 | -0.942 |
| SGD | 0.831 | -0.293 | -0.175 | -0.563 | -0.218 | -0.374 | 0.619 | -0.276 | 0.577 | 0.288 | 0.588 | -0.858 |
| CHF | 0.765 | -0.242 | -0.081 | 0.181 | 0.108 | 0.151 | 0.021 | 0.002 | -0.198 | -0.475 | 0.576 | -0.594 |
| INR | 0.668 | -0.197 | 0.357 | 0.293 | 0.395 | 0.537 | -0.290 | 0.351 | -0.363 | -0.510 | 0.719 | -0.573 |
| CNH | 0.653 | -0.179 | 0.761 | -0.208 | 0.009 | 0.012 | 0.043 | -0.132 | 0.058 | -0.002 | 1.000 | -0.594 |
| CAD | 0.560 | -0.123 | 0.208 | 0.267 | 0.210 | 0.537 | -0.475 | 0.267 | -0.382 | -0.414 | 0.564 | -0.375 |
| IDR | 0.534 | -0.278 | 0.279 | 0.276 | 0.097 | 0.400 | -0.462 | 0.114 | -0.376 | -0.391 | 0.514 | -0.314 |
| MYR | 0.490 | -0.519 | -0.001 | -0.720 | -0.573 | -0.750 | 0.662 | -0.630 | 0.759 | 0.499 | 0.297 | -0.436 |
| THB | 0.416 | -0.154 | -0.083 | -0.810 | -0.667 | -0.655 | 0.775 | -0.513 | 0.762 | 0.586 | 0.343 | -0.377 |
| KRW | 0.383 | -0.280 | 0.016 | -0.800 | -0.622 | -0.570 | 0.500 | -0.411 | 0.775 | 0.714 | 0.108 | -0.356 |
| JPY | 0.344 | -0.028 | -0.469 | -0.537 | -0.456 | -0.686 | 1.000 | -0.424 | 0.674 | 0.353 | 0.043 | -0.396 |
| TWD | 0.044 | -0.457 | -0.019 | -0.716 | -0.796 | -0.776 | 0.534 | -0.672 | 0.743 | 0.593 | -0.072 | 0.025 |
| CNY | -0.159 | -0.096 | 1.000 | -0.015 | 0.115 | 0.160 | -0.469 | -0.014 | -0.186 | 0.146 | 0.761 | 0.126 |
| USGG10 | -0.352 | 1.000 | -0.096 | 0.318 | 0.264 | 0.328 | -0.028 | 0.375 | -0.387 | -0.216 | -0.179 | 0.296 |
| PHP | -0.418 | 0.419 | 0.522 | 0.471 | 0.465 | 0.484 | -0.421 | 0.364 | -0.565 | -0.363 | 0.128 | 0.309 |
| AUD | -0.818 | 0.302 | -0.174 | 0.120 | -0.084 | -0.218 | 0.108 | -0.050 | -0.026 | 0.109 | -0.682 | 0.733 |
| GBP | -0.856 | 0.500 | -0.113 | 0.318 | 0.212 | 0.149 | -0.080 | 0.306 | -0.249 | 0.090 | -0.657 | 0.710 |
| NZD | -0.875 | 0.471 | 0.082 | 0.190 | 0.130 | 0.010 | -0.110 | 0.117 | -0.172 | -0.013 | -0.587 | 0.751 |
| EUR | -0.942 | 0.296 | 0.126 | 0.161 | -0.128 | 0.058 | -0.396 | -0.046 | -0.207 | 0.076 | -0.594 | 1.000 |

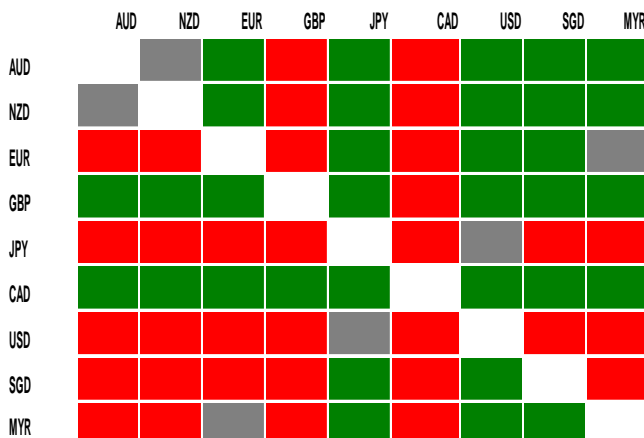
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.2277 | 1.2300 | 1.2320 | 1.2400 | 1.2481 |
| GBP-USD | 1.3732 | 1.3800 | 1.3863 | 1.3878 | 1.3900 |
| AUD-USD | 0.7794 | 0.7800 | 0.7866 | 0.7893 | 0.7900 |
| NZD-USD | 0.7274 | 0.7300 | 0.7316 | 0.7400 | 0.7407 |
| USD-CAD | 1.2664 | 1.2800 | 1.2806 | 1.2900 | 1.3001 |
| USD-JPY | 105.51 | 106.00 | 106.53 | 107.00 | 107.79 |
| USD-SGD | 1.3082 | 1.3100 | 1.3144 | 1.3194 | 1.3200 |
| EUR-SGD | 1.6130 | 1.6133 | 1.6193 | 1.6199 | 1.6200 |
| JPY-SGD | 1.2235 | 1.2300 | 1.2339 | 1.2400 | 1.2462 |
| GBP-SGD | 1.8159 | 1.8200 | 1.8222 | 1.8300 | 1.8312 |
| AUD-SGD | 1.0208 | 1.0300 | 1.0340 | 1.0400 | 1.0416 |
| Gold | 1303.60 | 1304.52 | 1323.50 | 1330.56 | 1355.42 |
| Silver | 16.19 | 16.50 | 16.57 | 16.60 | 16.82 |
| Crude | 59.13 | 62.20 | 62.25 | 62.30 | 62.58 |

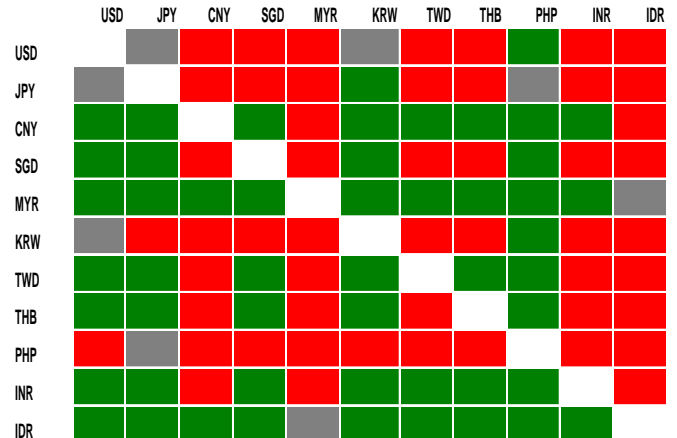
Source: OCBC Bank

G10 FX Heat Map



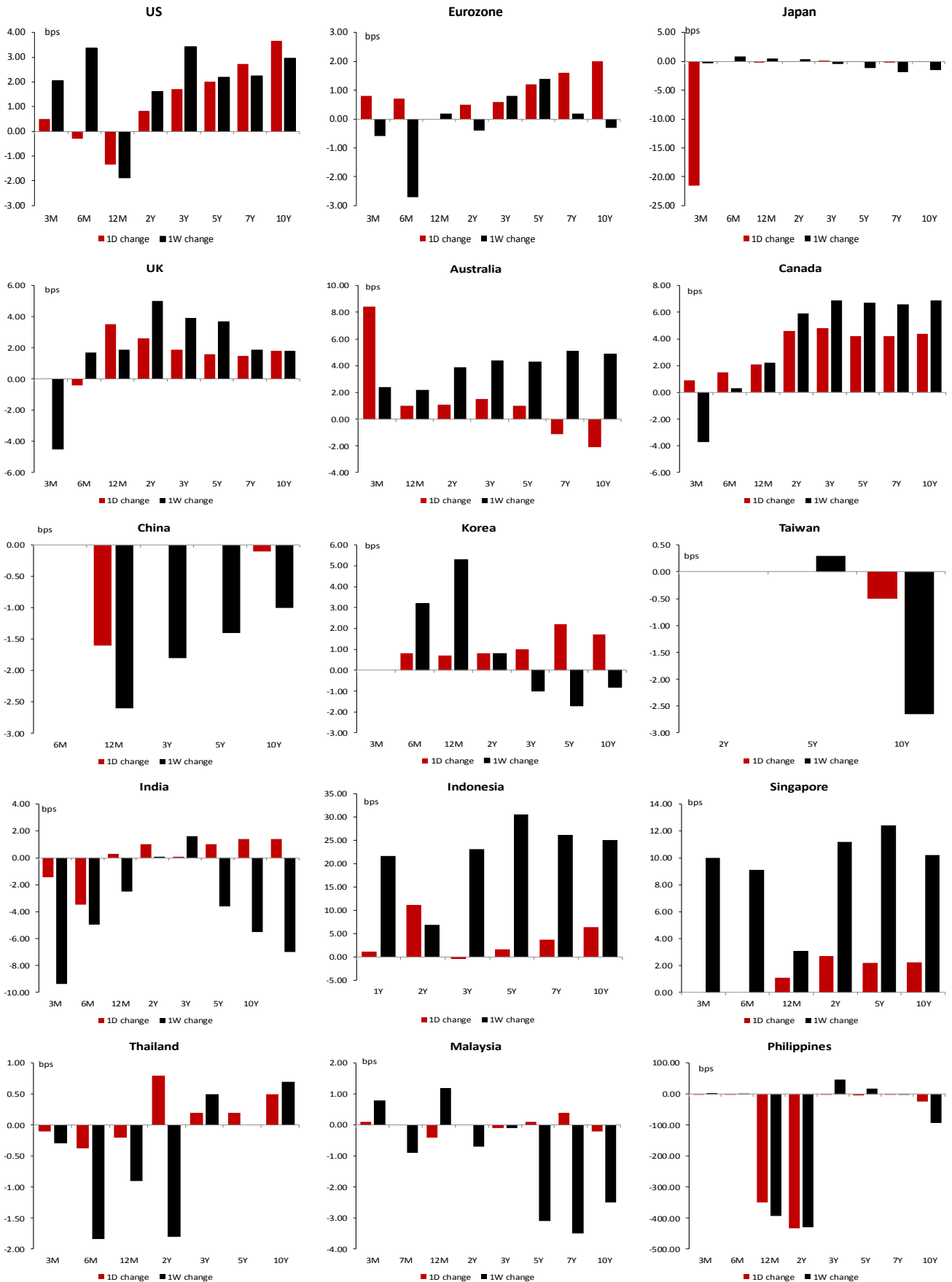
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

| Inception | B/S | Currency | Spot | Target | Stop/Trailing Stop | Rationale | | |
|------------------------------------|-----------|-----------|----------|---------|--------------------|-----------|---|-------|
| TACTICAL | | | | | | | | |
| 1 | 22-Feb-18 | B | USD-CAD | 1.2696 | 1.3230 | 1.2820 | Post FOMC minutes, rising implied valuations for the pair | |
| 2 | 06-Mar-18 | S | AUD-USD | 0.7765 | 0.7590 | 0.7855 | Non-hawkish RBA meeting outcome, vulnerability to USD resilience | |
| 3 | 08-Mar-18 | S | USD-JPY | 106.00 | 103.80 | 107.10 | White House policy uncertainty, risk aversion | |
| STRUCTURAL | | | | | | | | |
| 4 | 19-Jan-18 | B | EUR-USD | 1.2274 | 1.2865 | 1.1975 | ECB likely to alter its forward guidance into the spring | |
| 5 | 31-Jan-18 | S | USD-JPY | 108.67 | 102.35 | 111.85 | Market fixation on USD weakness, despite mitigating factors and the BOJ | |
| 6 | 15-Feb-18 | B | GBP-USD | 1.4014 | 1.4855 | 1.3590 | Borad dollar vulnerability coupled with hawkish BOE expectations. | |
| RECENTLY CLOSED TRADE IDEAS | | | | | | | | |
| Inception | Close | B/S | Currency | Spot | Close | Rationale | P/L (%)* | |
| 1 | 27-Nov-17 | 26-Jan-18 | B | GBP-USD | 1.3344 | 1.4135 | Investors may impute Brexit talks in December. Prevailing USD weakness. | +5.56 |
| 2 | 16-Jan-18 | 02-Feb-18 | S | USD-SGD | 1.3230 | 1.3175 | Heavy dollar, positive risk appetite, SGD NEER not excessively strong | +0.39 |
| 3 | 15-Jan-18 | 07-Feb-18 | B | EUR-USD | 1.2199 | 1.2305 | "Hawkish" ECB expectations, positive German political news flow | +0.72 |
| 4 | 12-Feb-18 | 14-Feb-18 | S | AUD-USD | 0.7829 | 0.7915 | Unstable equity/risk appetite environment. Less than hawkish RBA | -1.09 |
| 5 | 09-Feb-18 | 15-Feb-18 | B | USD-CAD | 1.2600 | 1.2470 | Softer crude and fragile appetite towards the cyclical | -1.03 |

Source: OCBC Bank

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