

Wednesday, May 02, 2018

FX Themes/Strategy/Trading Ideas

- Amidst slightly firmer US yields and despite a disappointing April ISM (57.3 vs. 58.5 expected), the greenback gained across G10 space on Tuesday ahead of the FOMC on Wednesday (1800 GMT) and Friday's April nonfarm payrolls numbers. Dollar sentiment was also partially aided by slightly less combative comments from USTR Lighthizer regarding trade relations with China. On the risk appetite front, the **FXSI (FX Sentiment Index)** firmed slightly but still remained in Risk-Neutral territory.
- Overall, the **DXY** climbed briefly above 92.00 (to 92.566) with rate differentials still seen lending underlying support to the broad dollar. Note that today's **FOMC** does not include a press conference but market participants may remain content to chase the buck higher (in the near term) if the accompanying statement does not surprise on the dovish front.
- As stated previously, markets we think continue to be driven by technicals at this juncture, with the DXY, EUR-USD, USD-JPY, SPX (for example) sitting in the vicinity of their respective 200-day MAs and contemplating a technical break. From a **seasonal** perspective, the DXY is also expected to experience a tailwind (from a historical context).
- On the data front, look to the slew of April manufacturing PMIs from across the globe today with **China's April Caixin manufacturing PMI** at 0145 GMT. Note that China's official manufacturing PMI for April slipped (less than expected) slightly to 51.4 from 51.5 the previous month.

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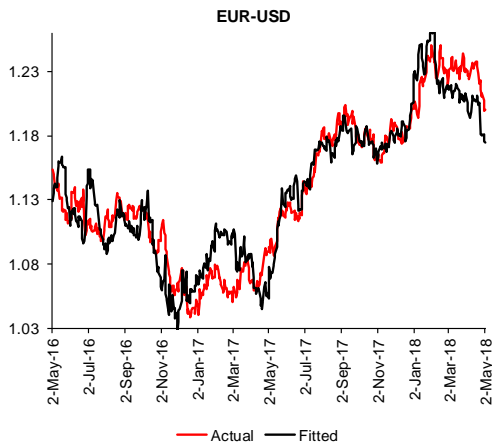
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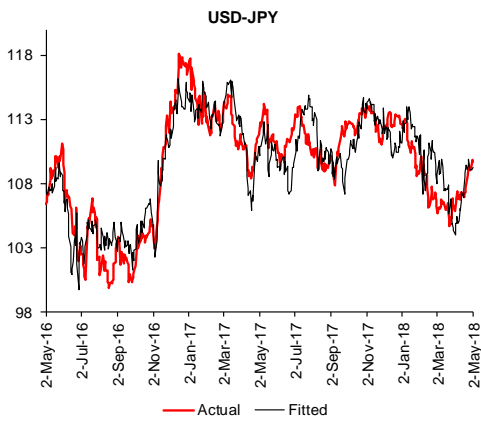
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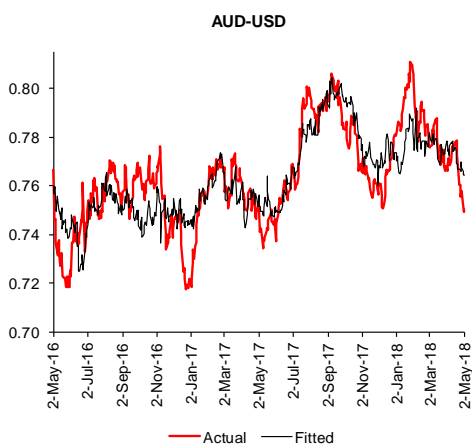
- **EUR-USD** Expect EUR-USD to continue tracking its short term implied valuations, which have crashed lower over the past week. Key triggers for an extension lower would depend on the ability of the 200-day MA (1.2016) and 1.2000 to fend off the bears.

Source: OCBC Bank



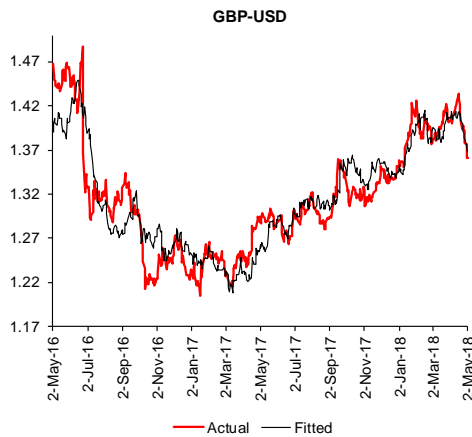
- **USD-JPY** Immediate ceilings for the USD-JPY are at 110.00 and the 200-day MA (110.23) and a stab higher towards the upper confidence interval circa 110.60 cannot be ruled out in the current US rates/USD environment.

Source: OCBC Bank

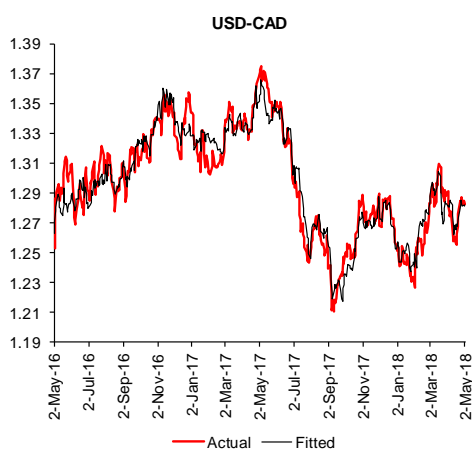


- **AUD-USD** The RBA remained static at 1.50% as expected on Tuesday with the AUD still responding to the firmer broad dollar. Despite some downside overshooting behavior of late for the AUD-USD, a sustained breach of 0.7500 threatens 0.7400 and 0.7329 thereafter on a medium term basis. Note however that short term implied valuations remain on a slippery slope.

Source: OCBC Bank



- **GBP-USD** With economic releases doing no favors (disappointing March lending aggregates and April manufacturing PMI) for the pound, GBP underperformed across G10 space on Tuesday. In the interim, GBP-USD is expected to ride lower on the back of its short term implied valuations. Look towards key support at the 200-day MA (1.3536) and at 1.3500.



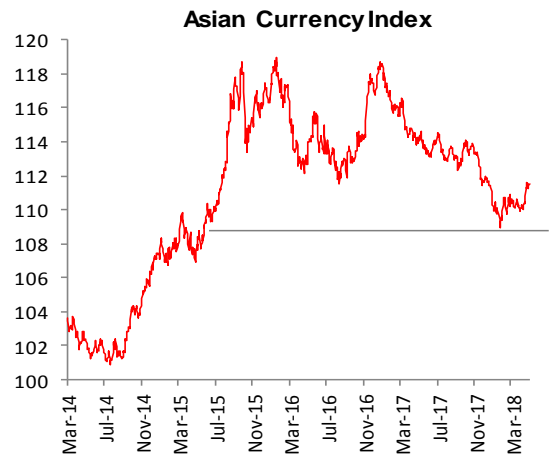
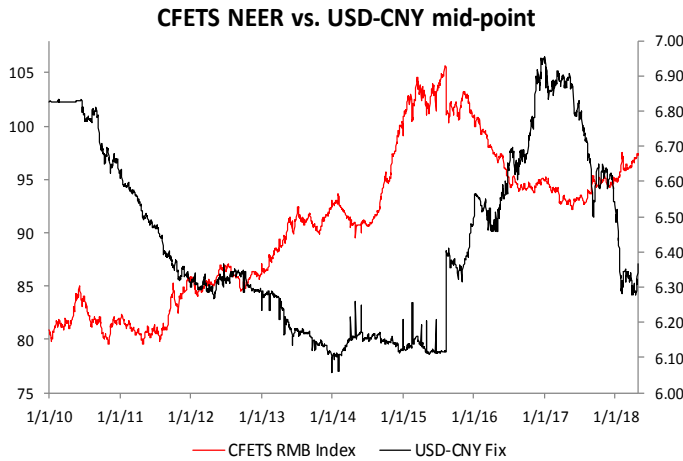
- **USD-CAD** Retain a preference to collect on dips for the USD-CAD with 1.2800 and the 55-day MA (also at 1.2800) likely to offer support in the current USD landscape. Background optimism towards NAFTA may in the interim discourage excessive upside probes, with 1.2900 still seen capping.

Source: OCBC Bank

Asian FX

- Net portfolio inflows for Asia at this juncture (and pending further data points) remain lackluster (apart from implicit support for the **KRW** and **PHP**) and this should continue to leave the regional pairs at the mercy of broad dollar moves. Overall, expect the **ACI (Asian Currency Index)** to remain tilted to the upside, with the Index at year-to-date highs (Asian FX vulnerability).
- **Indonesia:** The BI looks to stabilize the government bond selloff by buying in bonds in the secondary market.
- **SGD NEER:** The April PMI is due at 1300 GMT today with the SGD NEER softer from late last week. At current levels, the basket is +0.39% above its perceived parity (1.3382) and we expect a +0.20% (1.3356) and +0.50% (1.3316) intra-day. On the USD-SGD, the pair is seen reacting to the basket's constituent currencies and the 200-day MA (1.3389) may continue to remain on the radar.

- CFETS RMB Index:** The USD-CNY mid-point printed above expectations again this morning, 6.3670 from 6.3393 last. We'd however ascribe some of this (larger than expected) move to the mid-point returning from an extended long weekend, with inter-day parameters for the mid-point still within expectations (albeit slightly stretched). Nonetheless, this took the CFETS RMB Index higher to 97.41 from 97.37. As we wrote previously, containment of NEER appreciation may remain a mainstay in the current rising dollar environment, with the mid-points continuing to shoulder the burden of adjustment instead.



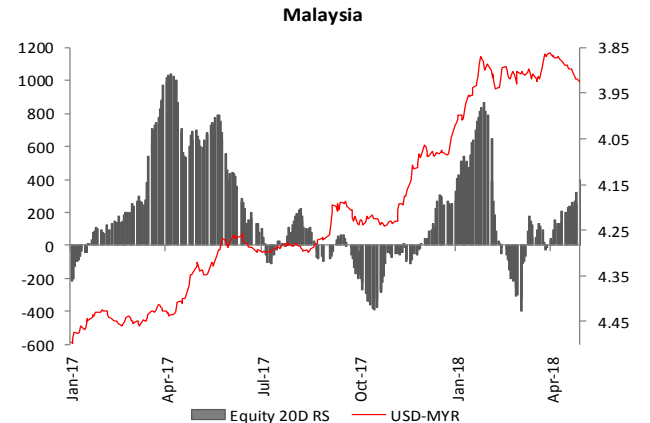
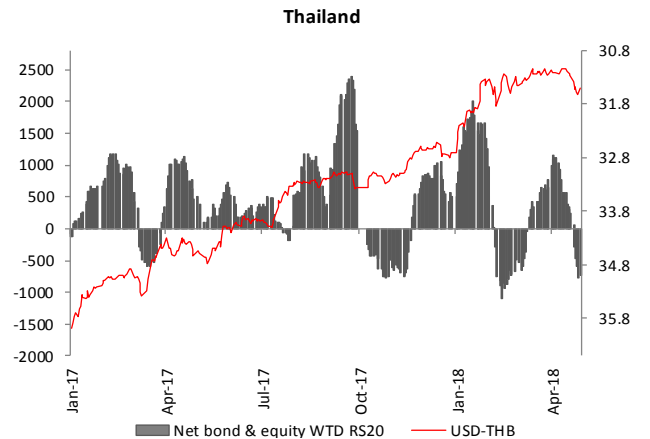
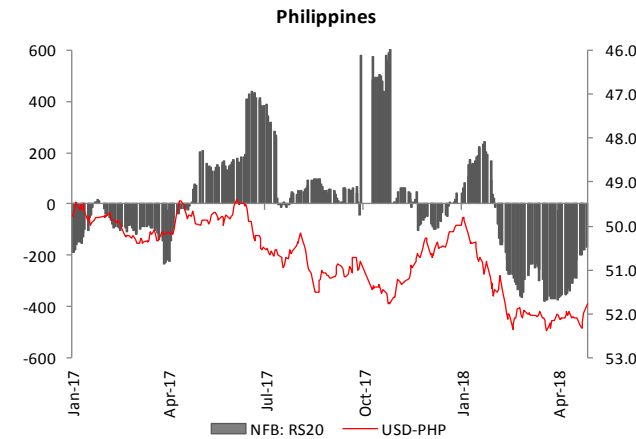
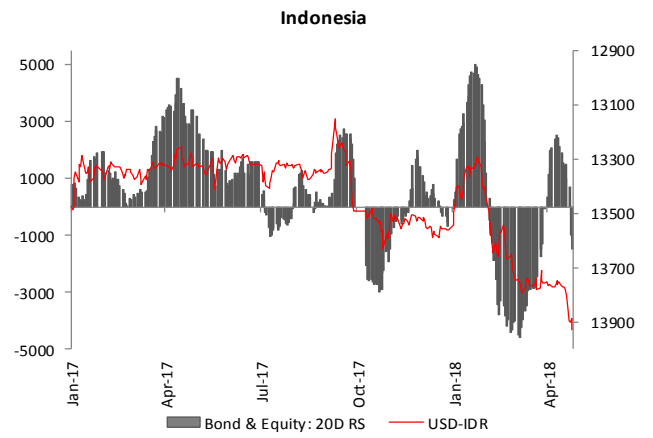
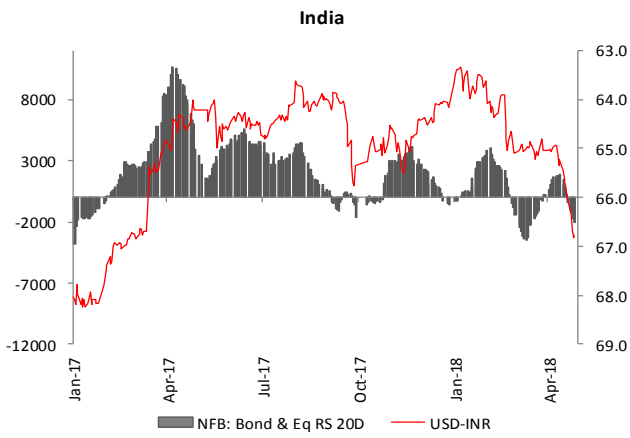
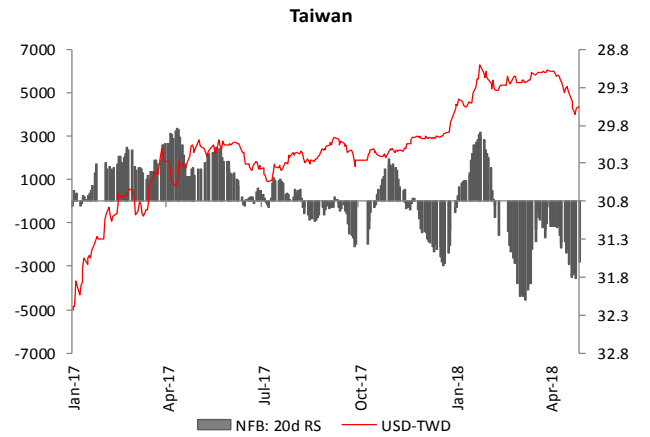
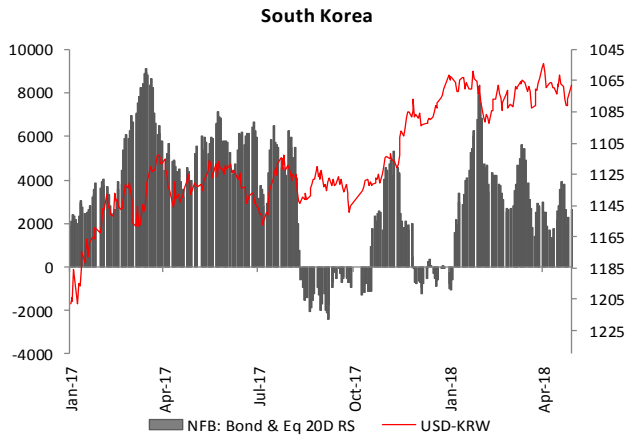
Source: OCBC Bank, Bloomberg

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	↑	Easing tensions with the North, 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, may use rate hikes to support the IDR; fundamentals intact, net bond inflows moderating, carry strategy under reassessment
USD-THB	↑	BOT remains accommodative, moderating net bond inflows, equity outflows deepening, inflation inch higher back into BOT's target range.
USD-PHP	↔	Net equity outflows narrowing, BSP downplaying rate hike expectations but remains vigilant towards inflation risks (markets unconvinced), note surprise contraction in Feb exports

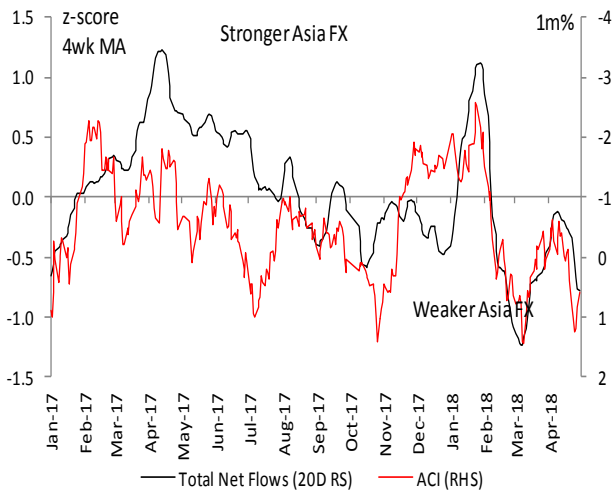
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



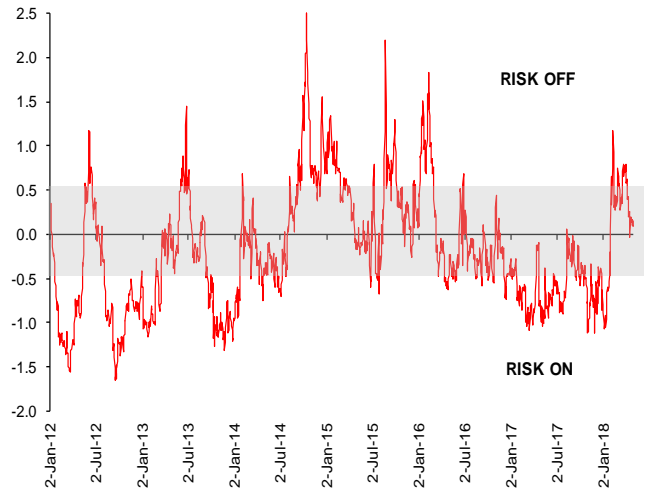
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DX	1.000	0.703	0.856	-0.160	-0.429	0.044	0.772	0.239	-0.105	0.044	0.758	-0.981
SGD	0.929	0.826	0.864	-0.036	-0.234	0.247	0.862	0.398	-0.257	-0.196	0.832	-0.902
THB	0.871	0.862	0.887	0.093	-0.114	0.438	0.892	0.560	-0.399	-0.367	0.885	-0.821
CNY	0.856	0.666	1.000	-0.230	-0.446	-0.051	0.712	0.156	0.018	0.099	0.930	-0.878
IDR	0.850	0.926	0.788	0.149	-0.028	0.506	0.888	0.604	-0.431	-0.383	0.697	-0.779
JPY	0.772	0.923	0.712	0.358	0.048	0.574	1.000	0.639	-0.591	-0.513	0.732	-0.738
CNH	0.758	0.619	0.930	-0.174	-0.366	-0.055	0.732	0.085	-0.025	-0.006	1.000	-0.787
CHF	0.753	0.960	0.646	0.467	0.074	0.669	0.941	0.715	-0.707	-0.625	0.638	-0.687
INR	0.736	0.963	0.659	0.334	0.120	0.703	0.886	0.760	-0.616	-0.589	0.560	-0.636
TWD	0.710	0.952	0.677	0.437	0.064	0.735	0.929	0.754	-0.698	-0.701	0.751	-0.673
USGG10	0.703	1.000	0.666	0.437	0.224	0.718	0.923	0.770	-0.665	-0.607	0.619	-0.623
PHP	0.584	0.595	0.723	-0.148	-0.147	0.079	0.446	0.233	-0.007	0.051	0.583	-0.508
MYR	0.555	0.938	0.567	0.503	0.343	0.813	0.835	0.809	-0.737	-0.751	0.546	-0.463
CAD	0.554	0.025	0.445	-0.662	-0.495	-0.436	-0.019	-0.258	0.529	0.572	0.237	-0.514
KRW	0.313	0.613	0.479	0.128	0.266	0.493	0.632	0.536	-0.294	-0.396	0.512	-0.265
GBP	-0.873	-0.435	-0.683	0.350	0.416	0.145	-0.439	-0.049	-0.176	-0.329	-0.539	-0.829
AUD	-0.886	-0.528	-0.813	0.477	0.389	0.130	-0.526	-0.087	-0.226	-0.264	-0.680	0.849
NZD	-0.892	-0.632	-0.765	0.312	0.323	-0.055	-0.602	-0.243	-0.047	-0.074	-0.637	0.824
EUR	-0.981	-0.623	-0.878	0.232	0.536	0.093	-0.738	-0.108	0.020	-0.137	-0.787	1.000

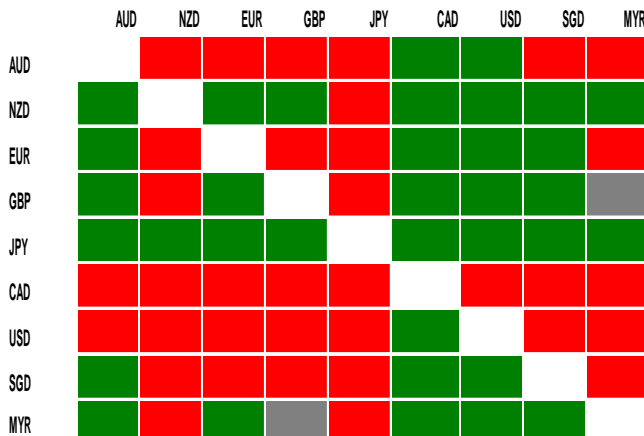
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2160	1.2169	1.2179	1.2200	1.2316
GBP-USD	1.3890	1.3900	1.3948	1.4000	1.4018
AUD-USD	0.7552	0.7564	0.7578	0.7600	0.7751
NZD-USD	0.7000	0.7058	0.7070	0.7071	0.7100
USD-CAD	1.2800	1.2803	1.2833	1.2900	1.2959
USD-JPY	109.00	109.27	109.32	109.47	110.00
USD-SGD	1.3200	1.3268	1.3272	1.3297	1.3300
EUR-SGD	1.6100	1.6102	1.6164	1.6200	1.6203
JPY-SGD	1.2118	1.2122	1.2141	1.2150	1.2200
GBP-SGD	1.8442	1.8500	1.8512	1.8600	1.8751
AUD-SGD	1.0018	1.0020	1.0057	1.0100	1.0197
Gold	1306.60	1316.48	1321.20	1331.92	1357.16
Silver	16.50	16.53	16.55	16.60	16.77
Crude	63.93	68.40	68.41	68.50	69.56

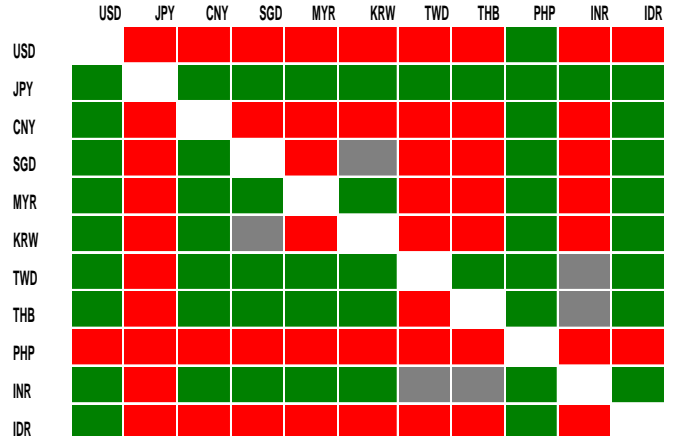
Source: OCBC Bank

G10 FX Heat Map



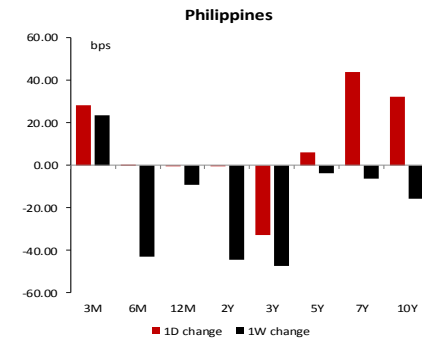
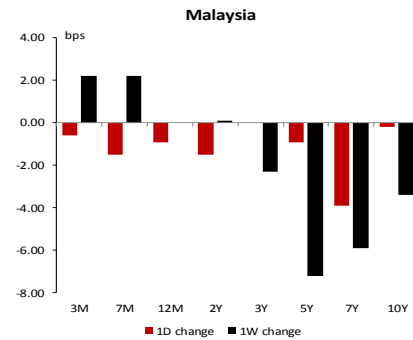
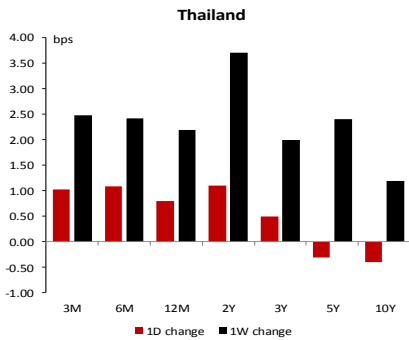
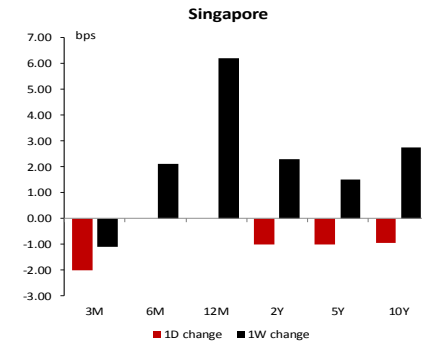
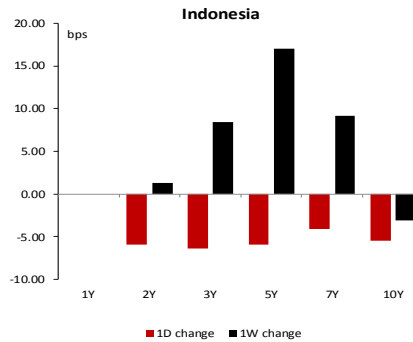
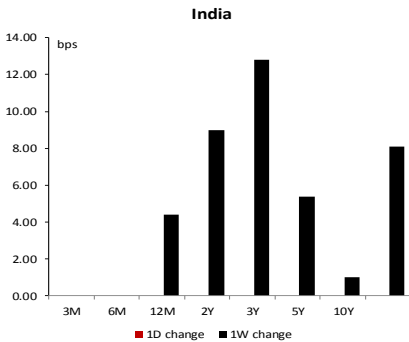
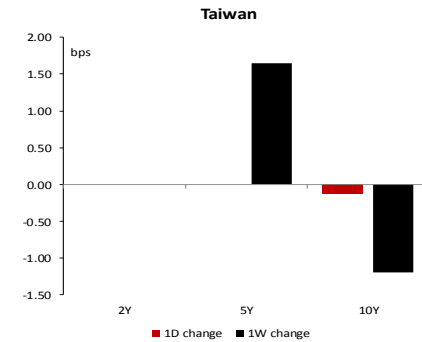
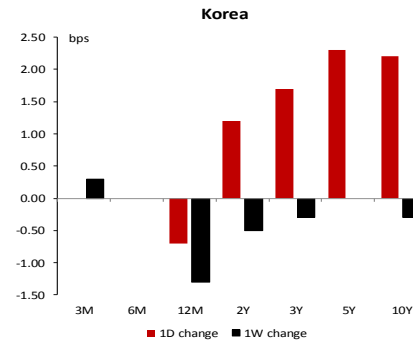
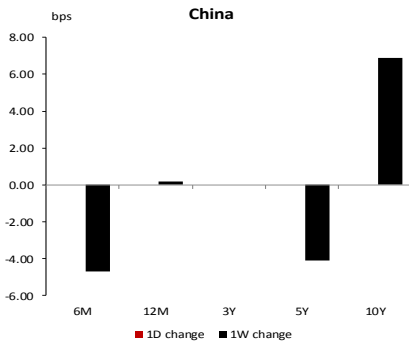
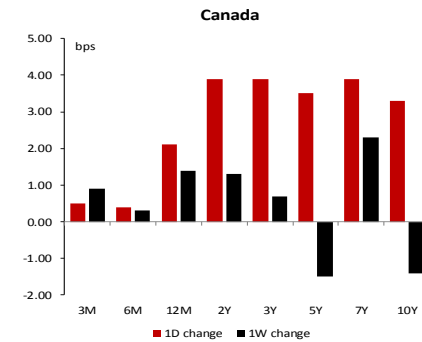
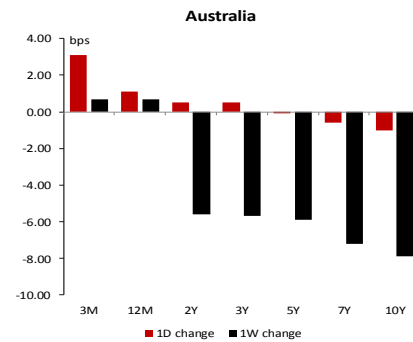
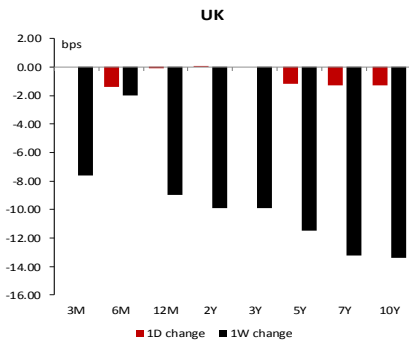
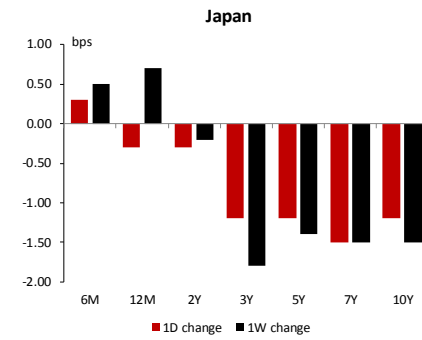
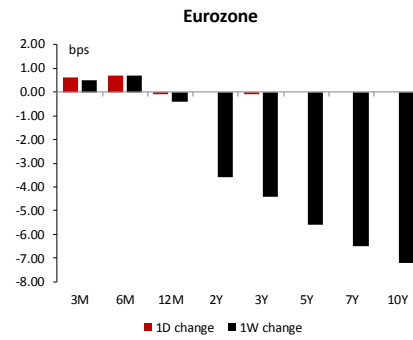
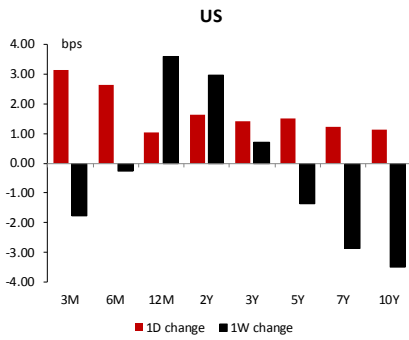
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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