

Tuesday, April 03, 2018

FX Themes/Strategy/Trading Ideas

- Crashing US equities on the back of trade war jitters saw the dollar in general on Monday with the JPY also outperforming across the board as risk aversion surfaced.
- Going ahead, expect the temperature on global trade tensions to persist in the coming sessions. Following China's announcement of additional tariffs on US products on Sunday, note that the Trump administration is due (by Friday) to also announce planned imports on a further list of China imports under the auspices of Section 301.
- In the immediate term, look towards soggy equities and commodities (note crude crashed -2.10% to 62.79) for intra-day cues. Our **FXSI (FX Sentiment Index)** climbed further into **Risk-Off** territory on Monday with EM risk premiums continuing to widen. Note that the Index has remained in Risk-Off territory for the past 8 sessions.
- **On the macro front, the string of global manufacturing PMIs may continue to fuel incipient negativity across global markets.** While the manufacturing PMIs for Australia were mixed, the indices for Japan softened (1Q Tankan headlines were on the wrong side of expectations) from the previous month, while the US equivalent came in softer than expected. In addition, the March ISM also moderated more than expected from the previous month, with the employment sub-index also deteriorating.
- In Asia, the manufacturing PMIs for China, South Korea, Taiwan, Malaysia, Indonesia, and Thailand deteriorated from the previous month, with the indices for South Korea, Malaysia, and Thailand slipping into contraction territory (i.e., <50.0).
- **Overall, preference to stay heavy on the AUD-USD and the JPY-crosses in the current risk environment. Meanwhile, with the global macro environment displaying little in the way of optimism, expect the global long-end (US2/10s are now sub-50bps) to remain depressed.**
- For today, the **RBA** (0430 GMT) is expected to remain static at 1.50% (markets looking for no change for 2018) with inflation not an immediate threat and wage growth remaining largely constrained. Watch also for any acknowledgement of a potential drag on growth from global trade tensions.
- Look to Fed speak from Kashkari (1330 GMT) and Brainard (2030 GMT) from central bank speak otherwise expected to be quiet for today. The data

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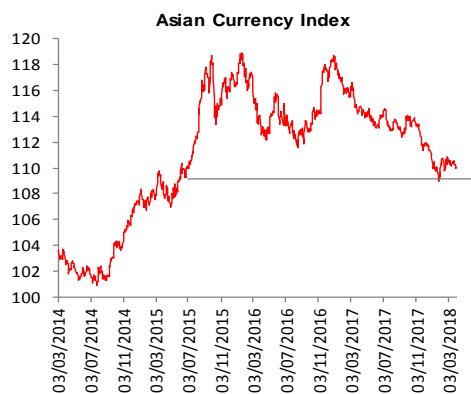
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feed includes EZ manufacturing PMI (0800 GMT) and UK manufacturing PMI (0830 GMT).

Asian FX

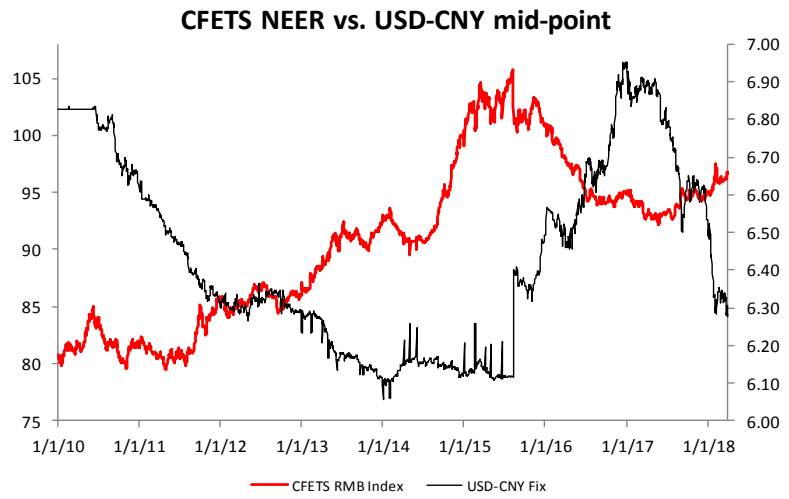
- On Asian net portfolio inflows, South Korea remains in a net inflow balance (on a rolling 20-day basis) while Taiwan continues to experience net equity outflows. For Indonesia, net bond inflows remain strong although the bleed from net equity outflows continues to persist. Similarly, Thailand continues to enjoy strong inflows on the bond front, with the negative gap for net equity outflows continuing to compress.
- Thus, the infection from global trade tensions has yet to translate into an actual flight from EM/Asia at this juncture, although markets may potentially be in close proximity to a flashpoint. To this end, we note that short-end EM FX vols still not outpacing G7 vols at this juncture. Overall, expect downside for the **ACI (Asian Currency Index)** to remain limited nonetheless.
- **South Korea:** The authorities are keeping a close watch on USD-KRW movements as it fell through the 1060 handle, and will take corrective action to negate excessive movements.
- **India:** The RBI will allow state banks to spread their mark-to-market bond-trading losses across four quarters. This is thought to be a positive for the state banks, and reignite demand for government bonds.
- **SGD NEER:** The March PMI improved to 53.0 from 52.7 in February but investors may continue to look towards external cues. The SGD NEER meanwhile is softer on the day at around +0.43% above its perceived parity (1.3174). NEER-implied USD-SGD thresholds are a touch higher on the day. Expect a familiar +0.30% (1.3135) to +0.60% (1.3096) range to prevail intra-day.



	SGD NEER	% deviation	USD-SGD
Current	124.80	0.43	1.3117
+2.00%	126.74		1.2916
Parity	124.26		1.3174
-2.00%	121.77		1.3443

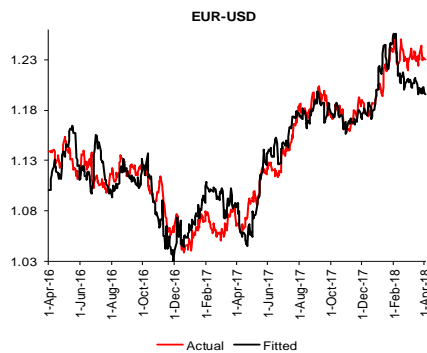
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point rose (as largely expected) to 6.2833 on Tuesday from 6.2764 on Monday. This took the CFETS RMB Index lower to 96.69 from 96.82.



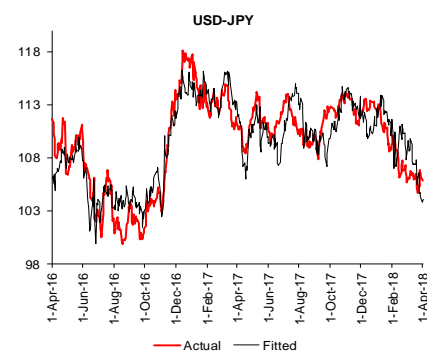
Source: OCBC Bank, Bloomberg

G7



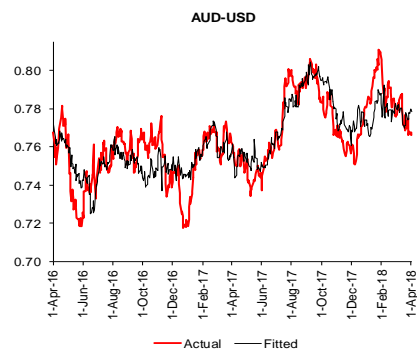
Source: OCBC Bank

- EUR-USD** The EUR-USD may remain anchored (albeit top heavy) around the 1.2300 handle pending further cues. Note that short term implied valuations are attempting to edge lower but a slide may be forestall barring another bout of acute risk aversion. In the interim, expect a base towards 1.2255 with the 55-day MA (1.2337) seen capping.



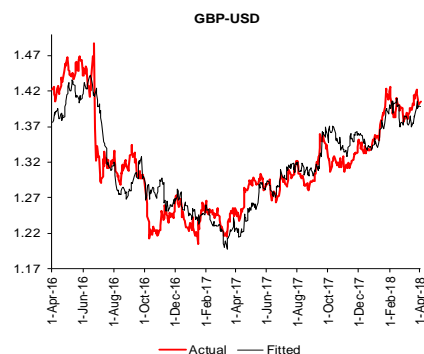
Source: OCBC Bank

- USD-JPY** The USD-JPY's foothold at 106.00 may remain questionable if risk aversion continues to simmer in the background. Short term implied valuations for USD-JPY remain southbound at this juncture and 105.30 may continue to remain on the horizon at this juncture.



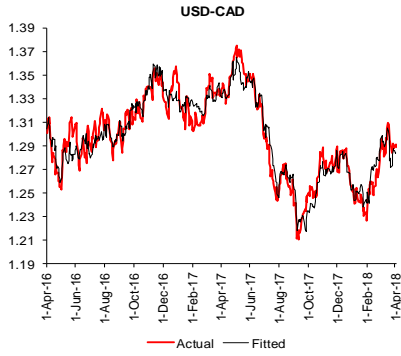
Source: OCBC Bank

- AUD-USD** Ahead of the RBA later today, expect a glass ceiling at 0.7700 and investors are expected to be characteristically sensitive to any less than hawkish hints from the central bank. Risk-reward in the interim may continue to favor an eventual drift towards 0.7600.



Source: OCBC Bank

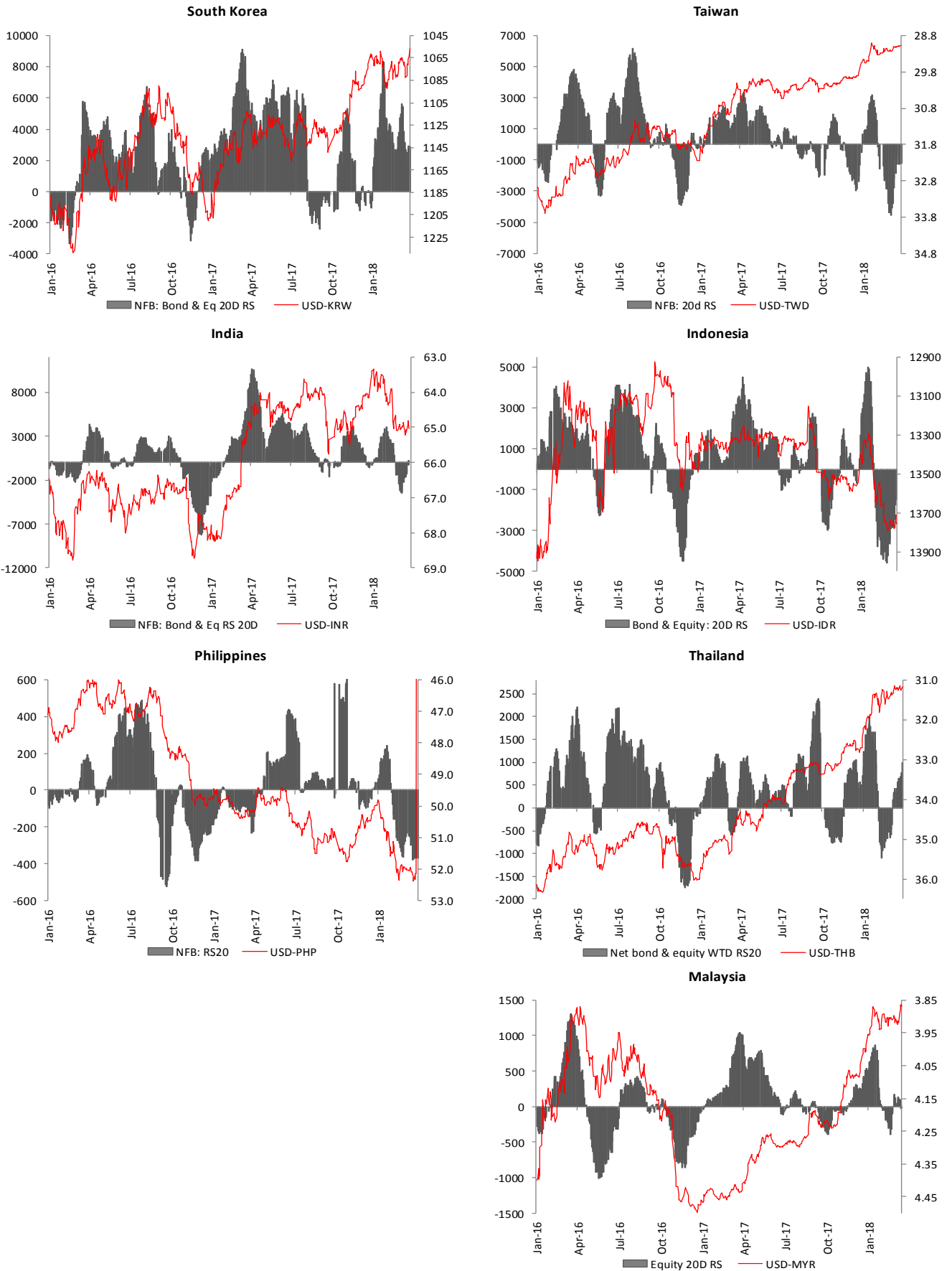
- GBP-USD** The GBP may attempt to continue to strike out on its own despite prevailing market nervousness in general. Ahead of the manufacturing PMI later today (0830 GMT), expect base building towards the 55-day MA (1.3988) with immediate resistance expected on approach of 1.4100.



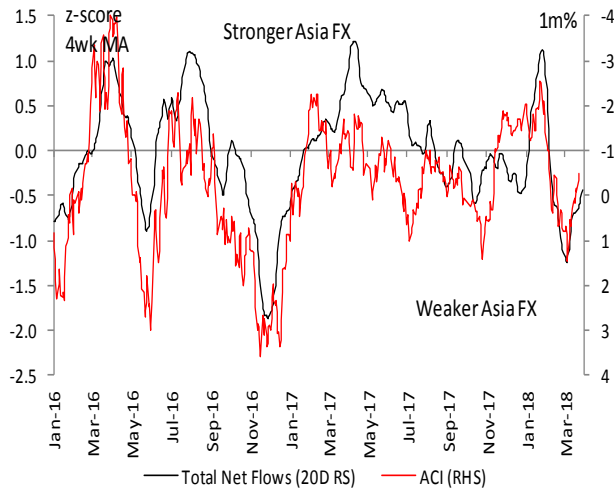
- USD-CAD** The CAD may remain a casualty of fumbling crude and generalized risk aversion levels in the near term. Meanwhile, short term implied valuations are relatively static and the pair may remain cordoned off within 1.2800-1.3000.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

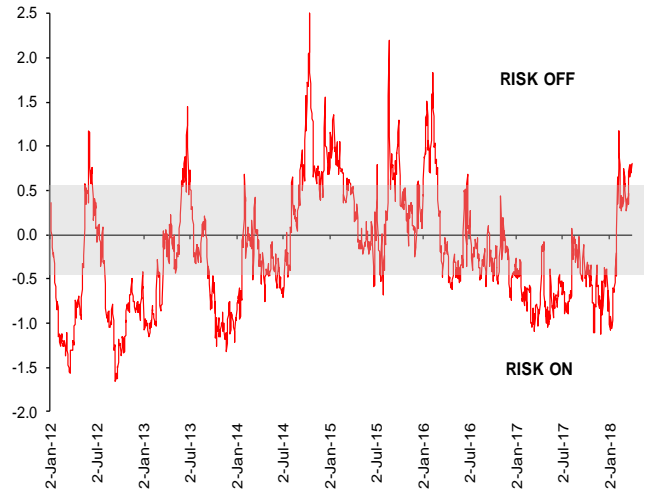


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DX	1.000	-0.071	0.411	0.268	0.143	-0.400	0.583	-0.364	-0.359	-0.219	0.362	-0.902
CHF	0.597	-0.519	-0.252	-0.301	-0.102	-0.537	0.229	0.197	0.153	0.315	-0.272	-0.763
JPY	0.583	0.197	0.212	0.567	0.240	-0.367	1.000	-0.554	-0.654	-0.468	0.227	-0.318
INR	0.527	0.244	0.415	-0.100	-0.065	-0.094	0.242	0.189	0.074	0.250	0.312	-0.657
SGD	0.500	0.549	0.778	0.293	0.216	-0.048	0.080	-0.258	-0.225	-0.241	0.768	-0.473
CNY	0.411	0.741	1.000	0.668	0.567	-0.082	0.212	-0.554	-0.566	-0.584	0.969	-0.321
CAD	0.400	0.123	0.384	0.179	0.446	-0.469	0.119	-0.255	-0.164	-0.260	0.384	-0.408
CNH	0.362	0.716	0.969	0.651	0.598	-0.152	0.227	-0.587	-0.538	-0.598	1.000	-0.267
IDR	0.243	0.263	0.386	0.134	-0.212	0.144	0.161	-0.125	-0.149	-0.159	0.368	-0.181
THB	0.181	0.470	0.535	0.329	-0.154	0.341	0.255	-0.303	-0.282	-0.283	0.498	0.050
TWD	0.120	0.675	0.660	0.796	0.366	0.126	0.430	-0.719	-0.737	-0.762	0.633	0.168
MYR	-0.061	0.842	0.785	0.572	0.670	0.106	-0.075	-0.225	-0.443	-0.400	0.784	0.027
USGG10	-0.071	1.000	0.741	0.728	0.546	0.191	0.197	-0.326	-0.623	-0.461	0.716	0.182
AUD	-0.179	0.628	0.439	0.811	0.543	0.043	0.366	-0.664	-0.739	-0.772	0.497	0.418
KRW	-0.492	0.534	0.208	-0.134	-0.208	0.700	-0.351	0.388	0.248	0.263	0.219	0.434
NZD	-0.527	0.275	-0.054	0.482	0.317	0.033	0.153	-0.448	-0.441	-0.559	0.059	0.714
GBP	-0.537	-0.406	-0.621	-0.712	-0.243	0.191	-0.596	0.834	0.714	0.746	-0.637	0.204
PHP	-0.595	-0.353	-0.456	-0.672	-0.320	0.346	-0.669	0.786	0.706	0.702	-0.444	0.255
EUR	-0.902	0.182	-0.321	-0.023	-0.139	0.386	-0.318	0.068	0.088	-0.034	-0.267	1.000

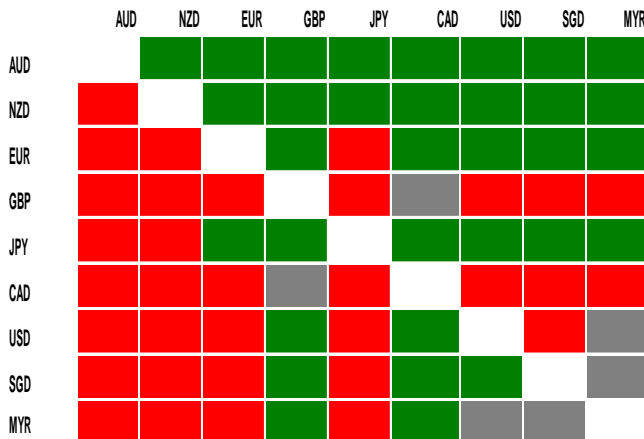
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2237	1.2300	1.2303	1.2344	1.2400
GBP-USD	1.3990	1.4000	1.4053	1.4100	1.4221
AUD-USD	0.7600	0.7643	0.7671	0.7700	0.7807
NZD-USD	0.7178	0.7200	0.7204	0.7279	0.7300
USD-CAD	1.2773	1.2900	1.2903	1.3000	1.3090
USD-JPY	104.70	105.00	105.87	106.00	106.30
USD-SGD	1.3071	1.3100	1.3116	1.3153	1.3185
EUR-SGD	1.6100	1.6104	1.6136	1.6200	1.6237
JPY-SGD	1.2279	1.2300	1.2388	1.2400	1.2512
GBP-SGD	1.8400	1.8404	1.8431	1.8500	1.8654
AUD-SGD	1.0000	1.0020	1.0061	1.0100	1.0305
Gold	1305.09	1331.96	1339.30	1351.51	1356.80
Silver	16.16	16.50	16.54	16.60	16.65
Crude	62.99	63.10	63.15	63.20	66.45

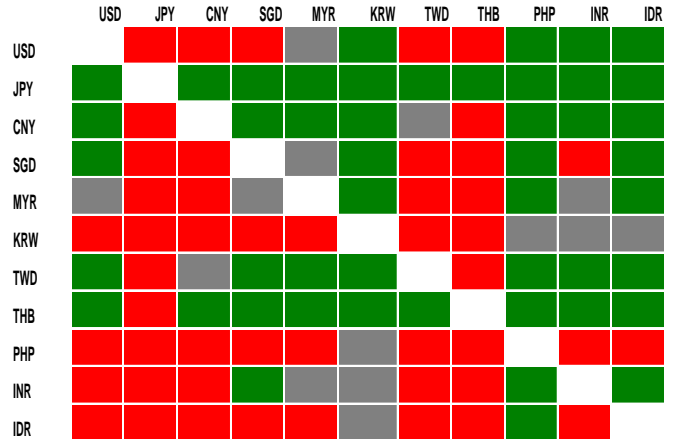
Source: OCBC Bank

G10 FX Heat Map



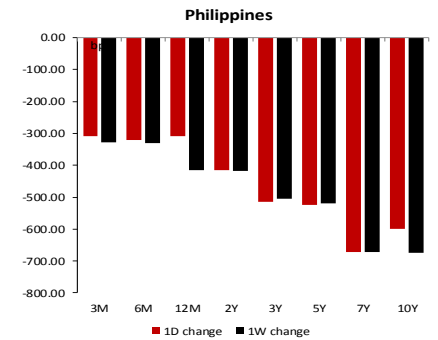
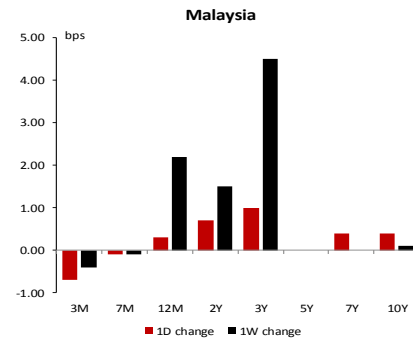
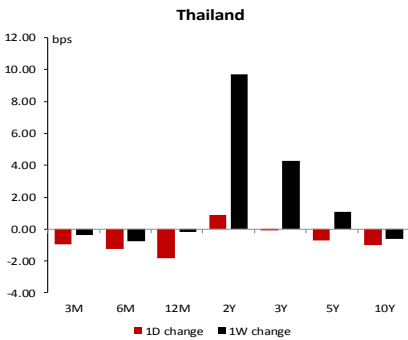
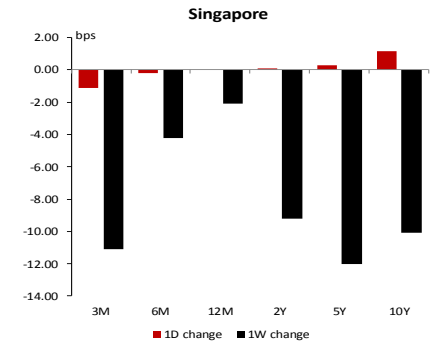
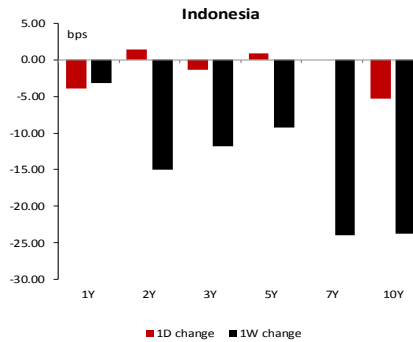
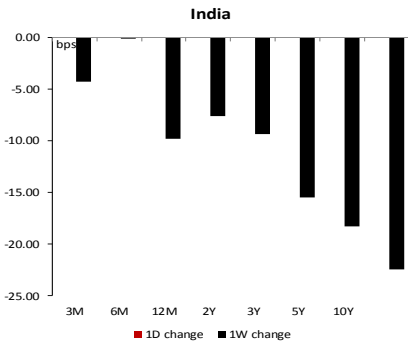
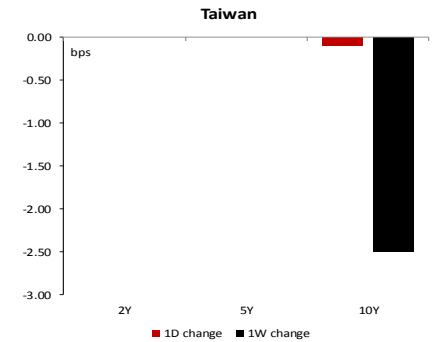
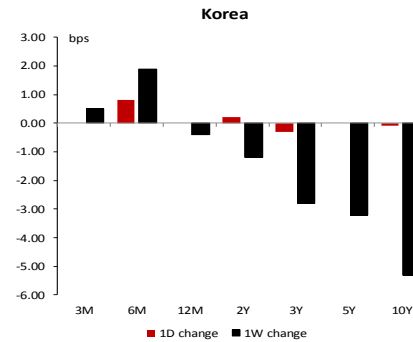
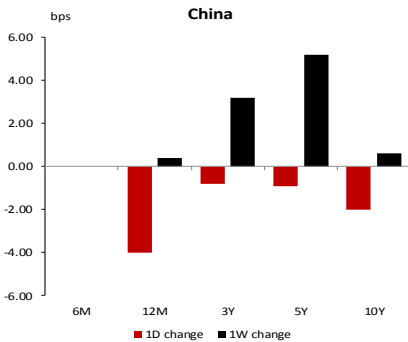
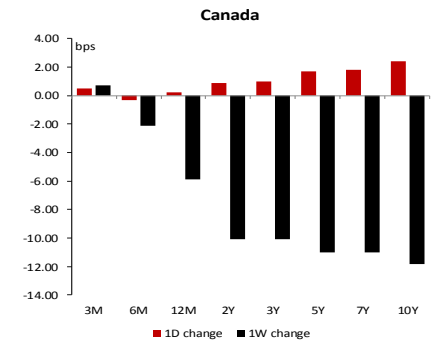
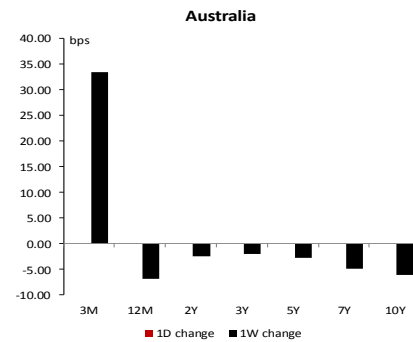
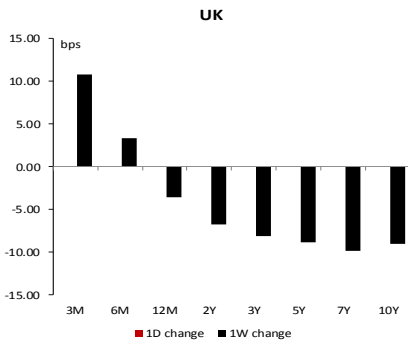
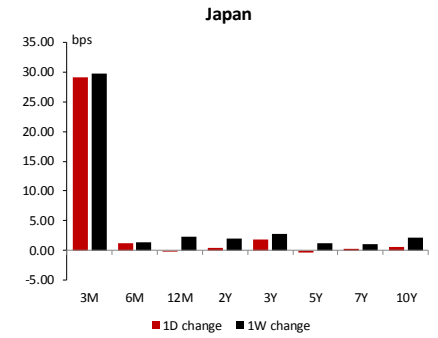
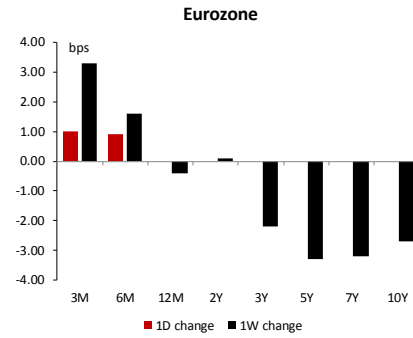
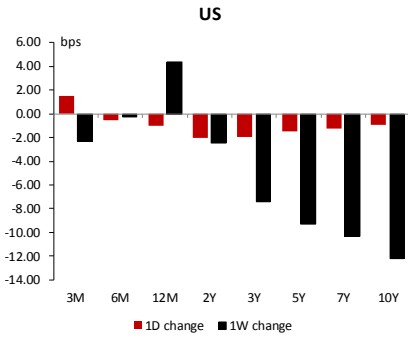
Source: OCBC Bank

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	Borad 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 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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