

Thursday, May 03, 2018

FX Themes/Strategy/Trading Ideas

- The broad dollar managed to edge higher on Wednesday with the DXY subsisting above 92.50 despite a less than hawkish inference from the FOMC statement. Meanwhile, the April ADP clocked a better than expected +204k.
- Overall, market participants inferred a less than hawkish stance from the statement (despite there being no press conference) although we had noted previously that a status quo compared to the March statement would suffice.
- Overall, with inflation expected to “run near” the “symmetric 2% objective” the market’s verdict is that the FOMC would allow some overshoot on the upside, despite reiterating that “survey-based measures of longer-term inflation expectations are little changed, on balance”. Specifically, this suspicion with the two references to the word “symmetric” in the May statement, as opposed to a single instance in the March statement. From a policy perspective, note that the prospect of permitting some overshoot for inflation should not surprise or be interpreted as a policy shift, as this issue had been addressed since the days of Yellen. As such, we do not expect an unduly (nor protracted) negative reaction for the USD or US yields on this front.
- Overall, although nothing in the language portended a hike in June, this continues to remain a base case at this juncture. However, prospects for a 4th rate hike in 2018 may continue to stall in the interim, with the May FOMC statement also omitting that, “The economic outlook has strengthened in recent months”. On this front, we had previously also indicated that US macro data surprises have already been on a discernible downtrend.
- In a nutshell, expect no immediate impetus for a significant push higher for the broad dollar post-FOMC, and price discovery we think will continue to be predicated on the ability by the major currency pairs to overcome (or be repelled by) key technical levels. In the interim, we’d expect implicit support for the broad dollar, with the DXY looking to base build off the 92.00 floor.
- On the calendar today, look to ECB appearances from Hansson and Villeroy (0700 GMT), Praet (1100 GMT), Vitor (1200 GMT), and Coeure (1230 GMT). Data points to watch include EZ April CPI (0900 GMT), the European Commission’s economic projections (0900 GMT), US April non-manufacturing ISM and durable goods orders(1400 GMT).
- Negative US equities and headlines indicating that the Trump administration may be considering an executive order against Chinese telecom companies may have kept positive risk appetite in check. On this front, look to developing

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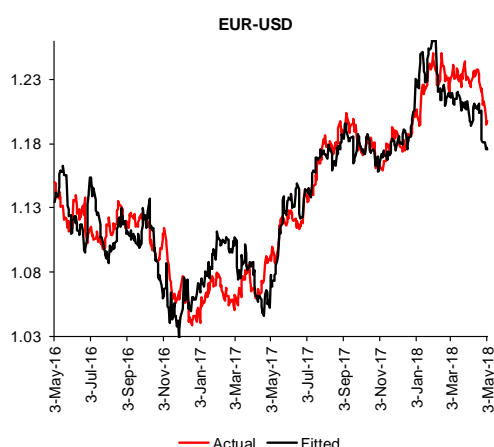
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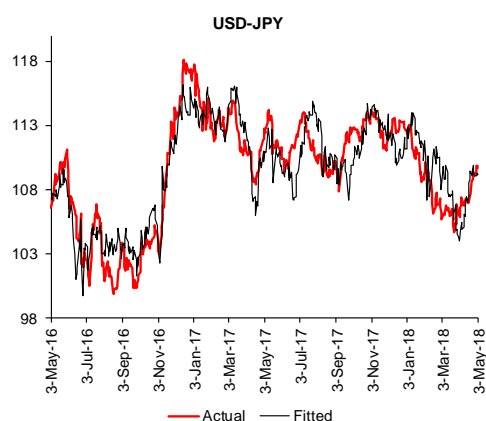
headlines on Thursday and Friday from meetings between a US delegation (fronted by US Treasury Secretary Mnuchin) and Chinese officials in Beijing. On this front, the **FXSI (FX Sentiment Index)** ticked higher yet again within Risk-Neutral territory on Wednesday.

G7



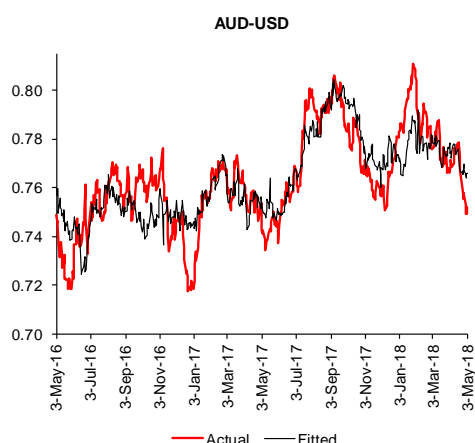
Source: OCBC Bank

- **EUR-USD** Look towards headline risks today with the slew of ECB appearances lined up for today. Short term implied valuations meanwhile remain heavy and expect the 200-day MA (1.2017) to continue to cap.



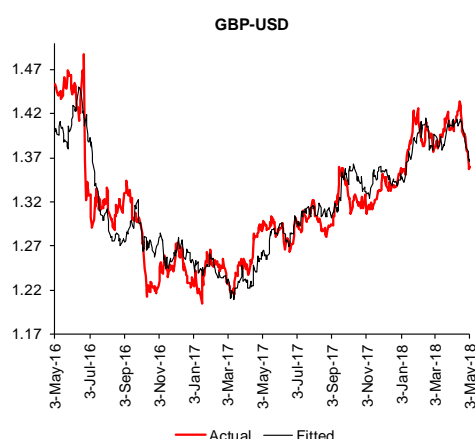
Source: OCBC Bank

- **USD-JPY** The psychological 110.00 ceiling and the 200-day MA (110.23) may continue to be challenged in the current USD environment, although we note that short term implied valuations for the pair are relatively more restrained with respect to the upside at this juncture.

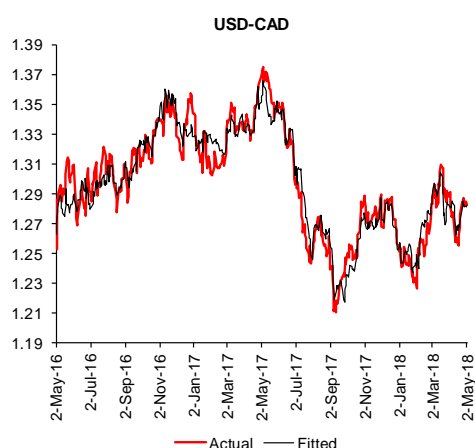


Source: OCBC Bank

- **AUD-USD** The larger than expected March trade surplus may play into some near term hesitation for the AUD-USD, underscoring our near term view that the pair may have overshoot on the downside in the near term. Expect some (top heavy) consolidation in the vicinity of the 0.7500 handle in the interim.



- **GBP-USD** Pending the release of the April UK services/composite PMIs later today, note that short term implied valuations remain inherently heavy for the GBP-USD. As such, the 200-day MA (1.3538) we think remains fragile, ahead of 1.3500.

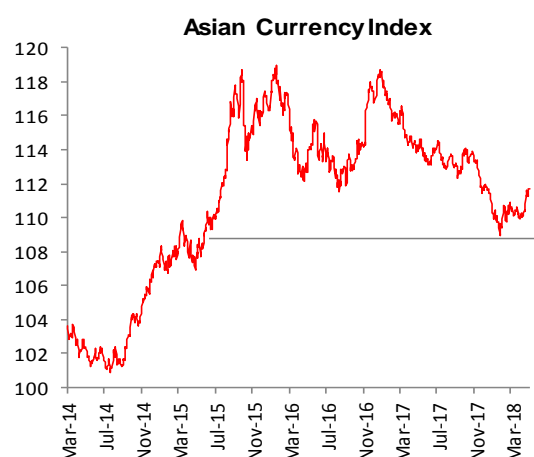
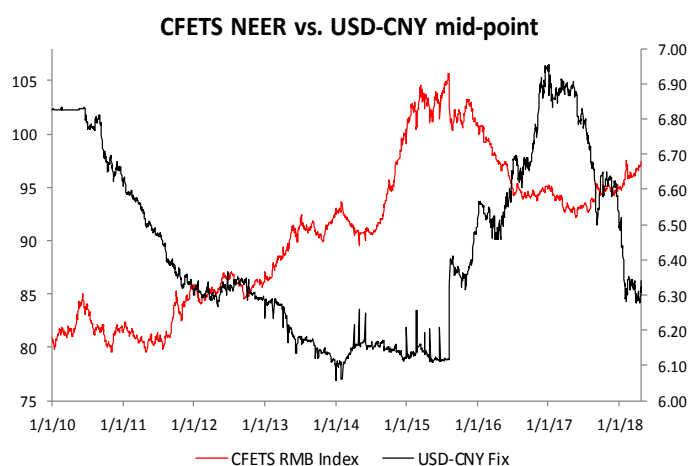


Source: OCBC Bank

- **USD-CAD** Short term implied valuations for the USD-CAD are stalling in the near term, and investors may choose to collect on dips instead towards the 55-day MA (1.2808) instead. Topside cap remains at 1.2900 at this juncture.

Asian FX

- EM FX continued to retreat against the USD and we continue to expect Asian FX vulnerability against the USD in the near term. As such, expect the **ACI (Asian Currency Index)** to potentially bounce on dips in the interim. On the macro front, the April manufacturing PMIs for India, Indonesia, Thailand and the Philippines improved from the previous month, with deterioration seen for Taiwan, Malaysia, and Singapore. Meanwhile, the China Caixin manufacturing PMI ticked higher from the previous month to 51.1 from 51.0, although note that the official manufacturing PMI (reported on Monday) slipped slightly to 51.4 from 54.0
- **Net Asian portfolio inflows meanwhile indicate a North-South divide developing.** We are detecting a rebound in inflow momentum for South Korea, some attempt to compress net outflows for Taiwan and the Philippines, sustained (but stabilizing?) net outflow pressure for India, with deepening outflow pressures for Indonesia and Thailand.
- **SGD NEER:** The SGD NEER is firmer relative to its perceived parity (1.3399) at around +0.41%. Note that NEER-implied USD-SGD thresholds are firmer on the day and expect a +0.20% (1.3373) to +0.50% (1.3333) range to persist intra-day. Multi-session, the 200-day MA (1.3388) may remain under threat.
- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in largely within expectations at 6.3732 from 6.3670 yesterday. This saw the CFETS RMB Index ticking higher to 97.46 from 97.41 on Wednesday.



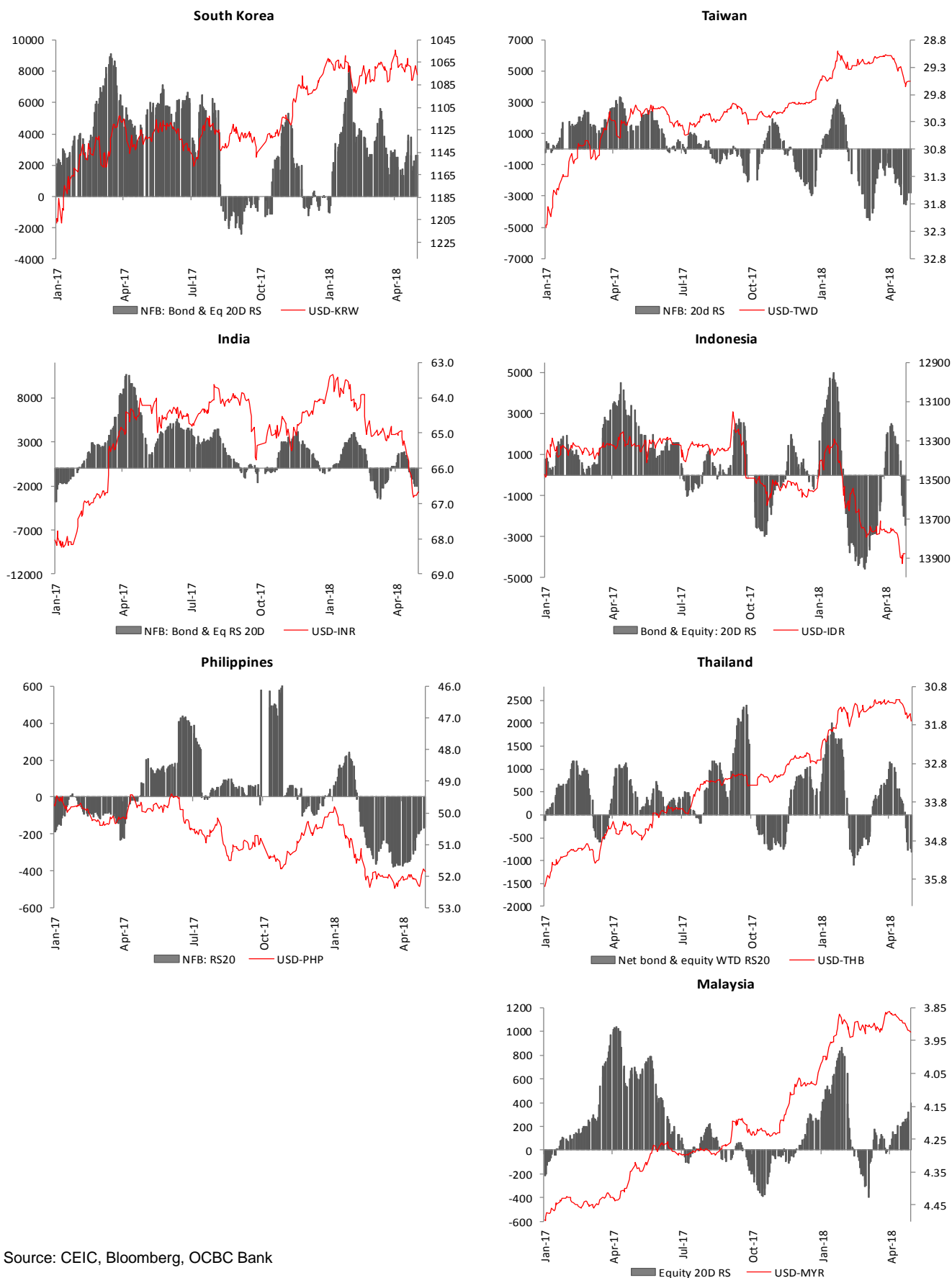
Source: OCBC Bank, Bloomberg

Short term Asian FX views

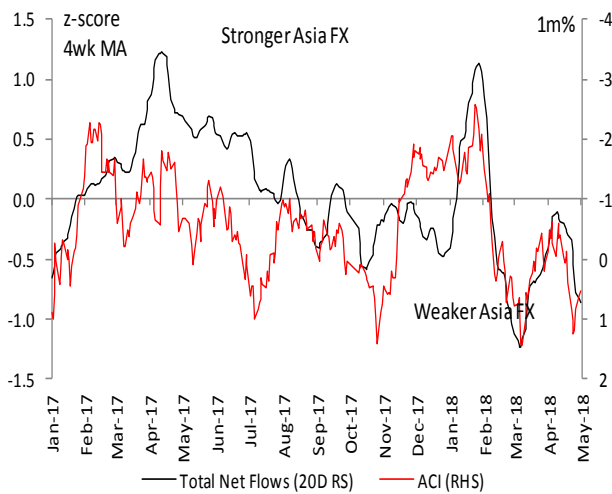
| Currency | Bias | Rationale |
|----------------|------|--|
| USD-CNH | ↑ | RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions |
| USD-KRW | ↔/↑ | Easing tensions with the North, net portfolio inflow momentum recovering, inflation/current account surplus projection downgraded, BOK expected to remain neutral |
| USD-TWD | ↑ | Net equity outflows attempting to compress, new CBC governor non-hawkish |
| USD-INR | ↑ | RBI minutes more hawkish than expected, India placed on US Treasury's watchlist, net portfolio outflows stabilizing, 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 portfolio outflows deepening, carry strategy under reassessment |
| USD-THB | ↑ | BOT remains accommodative, net portfolio outflow balance, inflation inching 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

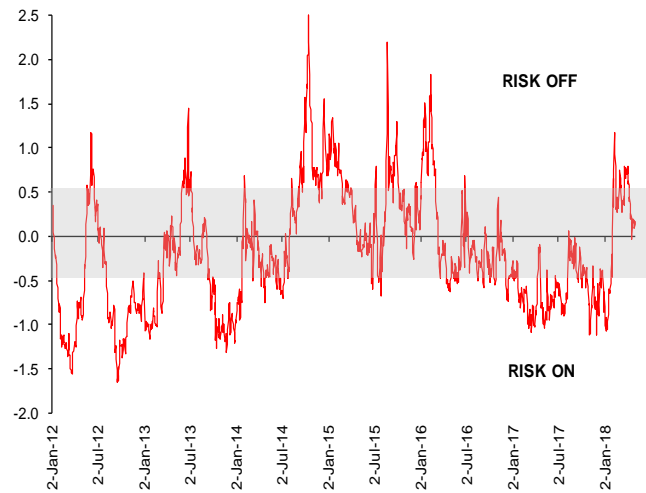
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

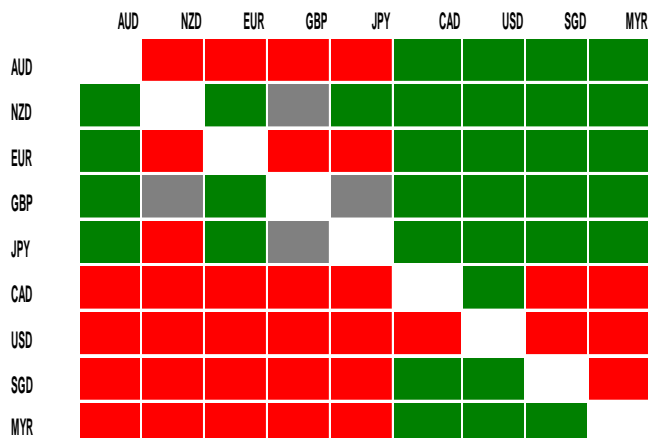
| | DXY | USGG10 | CNY | SPX | MSELCAFF | CRY | JPY | CL1 | VIX | ITRXX | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | 0.740 | 0.953 | -0.200 | 0.211 | 0.363 | 0.929 | 0.381 | -0.439 | -0.358 | 0.917 | -0.994 |
| SGD | 0.970 | 0.808 | 0.931 | -0.174 | 0.181 | 0.415 | 0.958 | 0.432 | -0.466 | -0.407 | 0.928 | -0.963 |
| THB | 0.957 | 0.819 | 0.942 | -0.162 | 0.147 | 0.516 | 0.959 | 0.533 | -0.526 | -0.530 | 0.929 | -0.937 |
| CNY | 0.953 | 0.664 | 1.000 | -0.326 | -0.184 | 0.176 | 0.851 | 0.221 | -0.229 | -0.164 | 0.960 | -0.963 |
| CHF | 0.940 | 0.884 | 0.841 | 0.098 | 0.366 | 0.652 | 0.965 | 0.638 | -0.698 | -0.637 | 0.833 | -0.912 |
| JPY | 0.929 | 0.893 | 0.851 | -0.008 | 0.334 | 0.604 | 1.000 | 0.615 | -0.597 | -0.563 | 0.830 | -0.904 |
| CNH | 0.917 | 0.583 | 0.960 | -0.323 | 0.107 | 0.214 | 0.830 | 0.217 | -0.269 | -0.264 | 1.000 | -0.933 |
| IDR | 0.898 | 0.916 | 0.849 | -0.066 | 0.183 | 0.567 | 0.947 | 0.611 | -0.519 | -0.494 | 0.768 | -0.852 |
| MYR | 0.865 | 0.868 | 0.776 | 0.167 | 0.377 | 0.745 | 0.933 | 0.711 | -0.734 | -0.744 | 0.778 | -0.829 |
| TWD | 0.861 | 0.901 | 0.814 | 0.042 | -0.055 | 0.657 | 0.953 | 0.673 | -0.652 | -0.630 | 0.798 | -0.830 |
| CAD | 0.854 | 0.658 | 0.845 | -0.414 | -0.173 | 0.066 | 0.749 | 0.148 | -0.141 | -0.027 | 0.762 | -0.841 |
| INR | 0.774 | 0.952 | 0.744 | 0.209 | 0.185 | 0.721 | 0.921 | 0.759 | -0.680 | -0.641 | 0.628 | -0.700 |
| USGG10 | 0.740 | 1.000 | 0.664 | 0.199 | 0.277 | 0.725 | 0.893 | 0.765 | -0.682 | -0.617 | 0.583 | -0.673 |
| KRW | 0.539 | 0.648 | 0.573 | 0.038 | 0.180 | 0.561 | 0.743 | 0.537 | -0.430 | -0.555 | 0.591 | -0.521 |
| PHP | -0.101 | 0.321 | 0.143 | 0.048 | -0.528 | -0.077 | 0.060 | -0.016 | 0.065 | 0.151 | -0.071 | 0.147 |
| NZD | -0.965 | -0.834 | -0.904 | 0.185 | -0.174 | -0.425 | -0.942 | -0.446 | 0.456 | 0.407 | -0.867 | 0.942 |
| GBP | -0.977 | -0.683 | -0.905 | 0.250 | -0.233 | -0.299 | -0.869 | -0.323 | 0.349 | 0.268 | -0.895 | 0.968 |
| AUD | -0.977 | -0.758 | -0.946 | 0.303 | -0.140 | -0.313 | -0.923 | -0.346 | 0.344 | 0.296 | -0.899 | 0.967 |
| EUR | -0.994 | -0.673 | -0.963 | 0.256 | -0.178 | -0.293 | -0.904 | -0.314 | 0.379 | 0.301 | -0.933 | 1.000 |

Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1938 | 1.1948 | 1.1982 | 1.2000 | 1.2017 |
| GBP-USD | 1.3544 | 1.3555 | 1.3596 | 1.3600 | 1.3986 |
| AUD-USD | 0.7473 | 0.7500 | 0.7522 | 0.7600 | 0.7716 |
| NZD-USD | 0.6985 | 0.7000 | 0.7014 | 0.7100 | 0.7169 |
| USD-CAD | 1.2800 | 1.2825 | 1.2850 | 1.2900 | 1.2944 |
| USD-JPY | 107.03 | 109.00 | 109.68 | 110.00 | 110.04 |
| USD-SGD | 1.3170 | 1.3300 | 1.3335 | 1.3371 | 1.3375 |
| EUR-SGD | 1.5960 | 1.5968 | 1.5978 | 1.6000 | 1.6082 |
| JPY-SGD | 1.2100 | 1.2148 | 1.2157 | 1.2200 | 1.2303 |
| GBP-SGD | 1.8115 | 1.8120 | 1.8129 | 1.8200 | 1.8418 |
| AUD-SGD | 0.9971 | 1.0000 | 1.0031 | 1.0100 | 1.0161 |
| Gold | 1302.30 | 1302.85 | 1309.80 | 1328.59 | 1361.84 |
| Silver | 16.00 | 16.20 | 16.29 | 16.30 | 16.50 |
| Crude | 64.58 | 67.70 | 67.78 | 67.80 | 69.56 |

Source: OCBC Bank

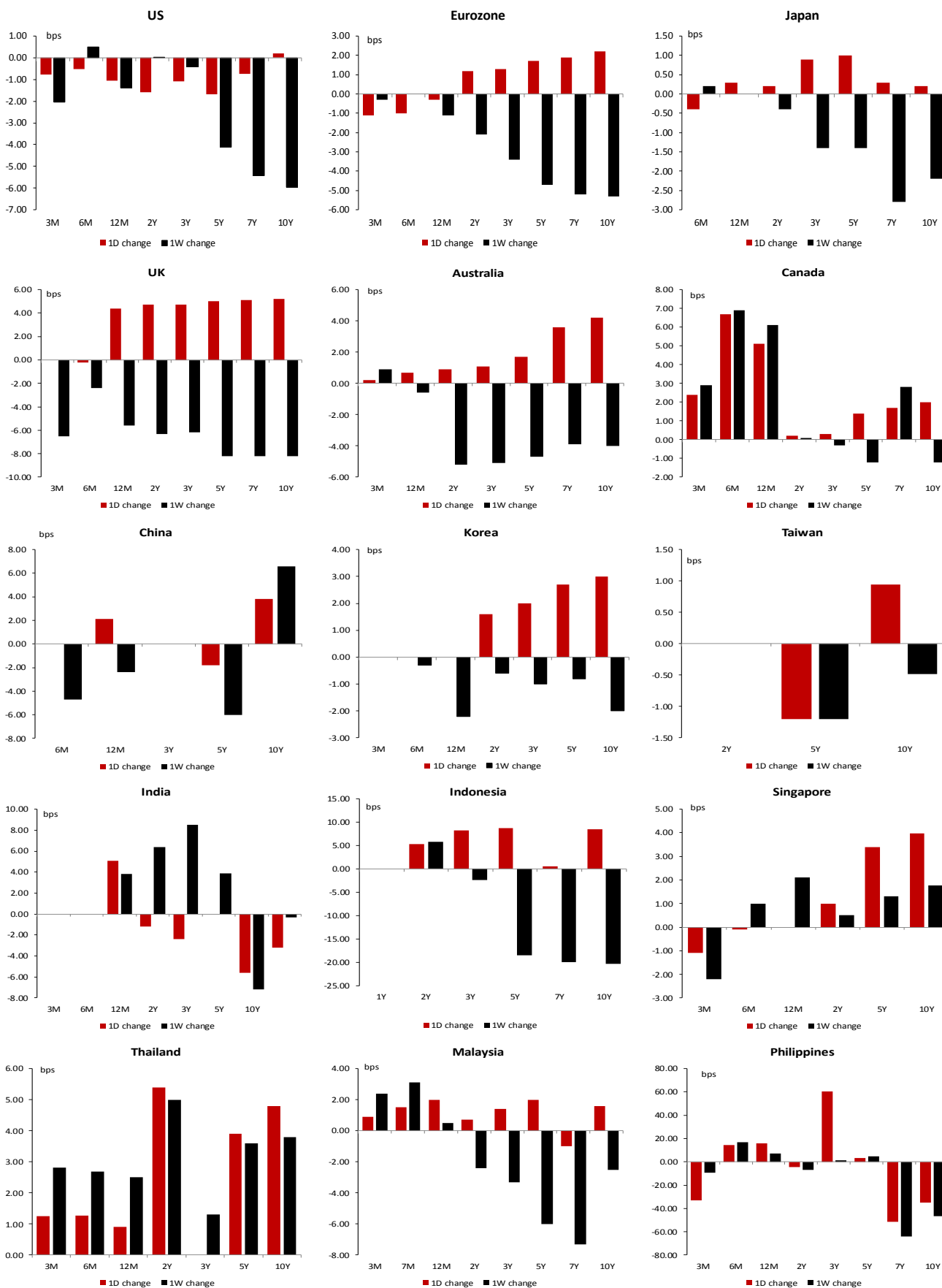
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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