

Wednesday, April 04, 2018

FX Themes/Strategy/Trading Ideas – Revised FX forecasts

- A recovery in risk appetite levels (S&P +1.26% as Amazon bounced) left the dollar mixed but saw the cyclicals outperforming across the board and firming against the dollar on Tuesday, while the JPY and CHF gaining against their peers. The Fed's Kashkari (non-voter) meanwhile was fairly balanced in his comments.
- Elsewhere, the EUR-USD ended sub-1.2300, with the German March manufacturing PMI coming in at a softer than expected 58.2 while the EZ manufacturing PMI also softened to 56.6 from 58.6 the previous month. The CAD was additionally lifted by stabilizing crude and news that a preliminary Nafta deal would be announced next week in Peru.
- Trade tensions are however likely to linger with the Chinese ambassador to the US warning of commensurate countermeasures. Meanwhile, the **FXSI (FX Sentiment Index)** eased slightly but remained in **Risk-Off territory**. Overall, ahead of the clustering of headline risks on Friday (US NFP, Powell, US trade tariffs headlines), expect investors to remain wary.
- Today, the Fed's Bullard (1345 GMT) and Mester (1500 GMT) are due to speak, while investors will have to contend with a fairly data flow, including the slew of services/composite PMIs (China Caixin indices at 0145 GMT) from around the globe. Look also to EZ march CPI readings (0900 GMT), the US March ADP (1215 GMT), as well as Feb factory orders and durable goods orders (1400 GMT).
- **In the interim, two themes may continue to persist in the near term.** Firstly, aggregate interest rate differentials continue to weigh against the broad dollar. As such, the path of least resistance at this juncture may be one of USD vulnerability in the absence of acute risk aversion.
- Secondly, with the release of the European and India manufacturing PMI readings yesterday rounding up the global snapshot of manufacturing PMIs, the case for trading off discretionary positive global macro cues remain lacking. As such, G10 carry (outside of dollar space) may not garner outsized traction. Meanwhile, carry within Asia may continue to disappoint, given the fragility of the risk appetite environment.

Treasury Research &
Strategy

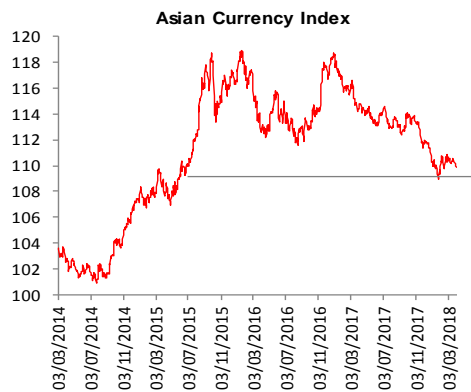
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Asian FX

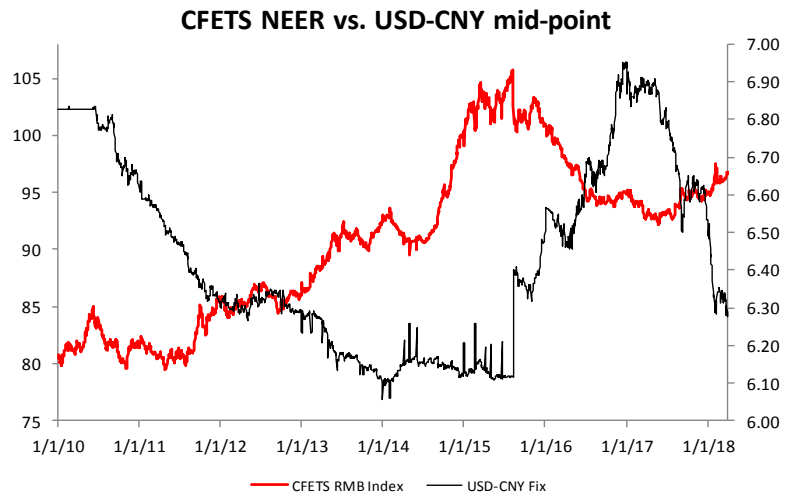
- EM equities also managed to bounce off Monday lows yesterday and look for some heaviness for USD-Asia during the Asian session. As such, expect the **ACI (Asian Currency Index)** to continue to slip cautiously.
- On the net portfolio inflow front, South Korea remains underpinned by net bond inflows, while Taiwan remains under the weight of net equity outflows. Indonesia and Thailand continue to be buffered by significant positive net bond inflow balances.
- **South Korea:** The Finance Ministry has denied a media report that the US has asked for monthly updates on FX intervention activity.
- **India:** On the data front, **India's** manufacturing PMI also moderated to 51.0 in March from 52.1 the previous month. Coupled with a sanguine inflation profile, the **RBI** is expected to remain static on Thursday, potentially helping to buoy the bond market further.
- **Indonesia:** Little fireworks as the new BI governor Perry Warjiyo reiterates the mantra of low inflation and stable exchange rates.
- **SGD NEER:** The SGD NEER is firmer on the day at around +0.56% above its perceived parity (1.3171), with NEER-implied USD-SGD thresholds a touch softer on the day. Expect a +0.40% (1.3119) to +0.70% (1.3080) range intra-day, with the USD-SGD expected to fade rallies. The 55-day MA (1.3162) will continue to shelter at this juncture.



	SGD NEER	% deviation	USD-SGD
Current	124.94	0.55	1.3100
+2.00%	126.74		1.2913
Parity	124.26		1.3171
-2.00%	121.77		1.3440

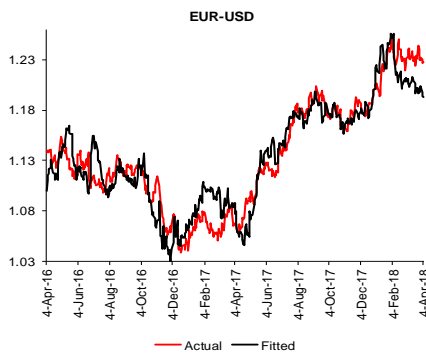
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point rose (slightly more than expected) to 6.2926 from 6.2833 yesterday. This resulted in the CFETS RMB Index slipping to 96.62 from 96.69. Relative basket stability (which is a different construct from drift) we think continues to remain a prime consideration, with the implied volatility of the mid-points outpacing that of the basket's since March.



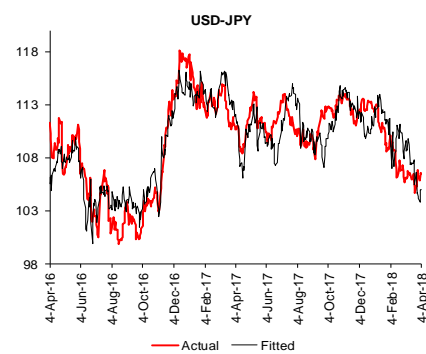
Source: OCBC Bank, Bloomberg

G7



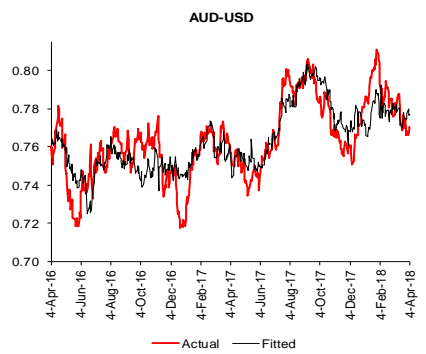
Source: OCBC Bank

- EUR-USD** Despite the partial recovery in risk appetite, the disappointing European manufacturing PMIs may blunt the EUR. Look to stay tactically top heavy on the EUR-USD in line with its slippery short term implied valuations. While the 55-day MA (1.2338) may continue to cap, 1.2255 may remain at risk.



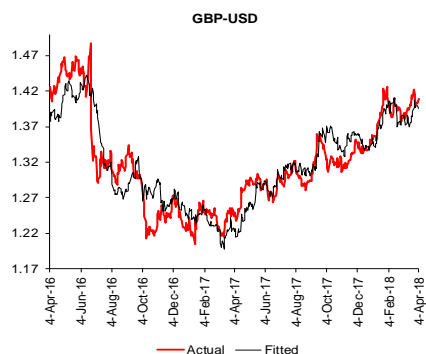
Source: OCBC Bank

- USD-JPY** No shortage of dovish rhetoric from the BOJ's Kuroda on Tuesday but with the US administration unveiling 25% tariffs on 1,300 products, expect trade tensions to remain near the surface. At this juncture, if risk appetite does not dilute further, investors may attempt to collect on dips within 106.00-107.40, in line with short term implied valuations.



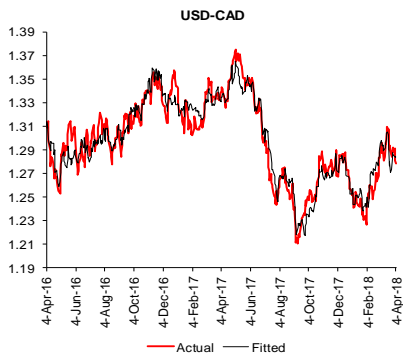
Source: OCBC Bank

- AUD-USD** The RBA on Tuesday did not telegraph any unduly negative caution with respect to global trade tensions and left its posture on neutral. Better than expected Feb retail sales this morning may also serve to keep the pair mildly supported on dips. Short term implied valuations meanwhile are rangy and we'd expect an attempt to base build off 0.7700 in the interim.



Source: OCBC Bank

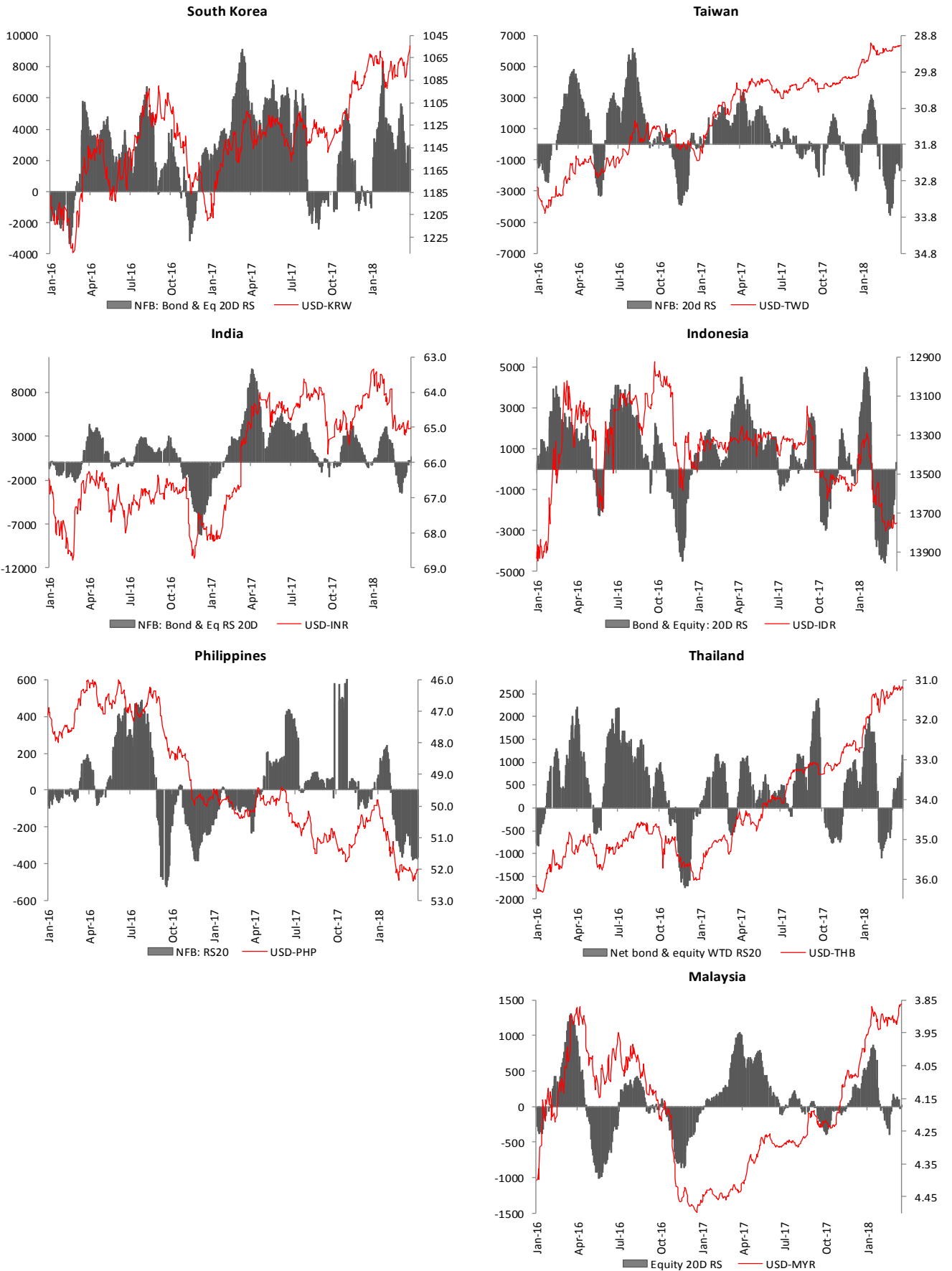
- GBP-USD** Similarly, GBP-USD may attempt to bottom out further (note better than expected Mar manufacturing PMI) pending risk appetite gyrations. Note however that short term implied valuations have been more subdued of late. Implicit support is expect towards the 55-day MA (1.3993), with resistance materializing on approach of 1.4160.



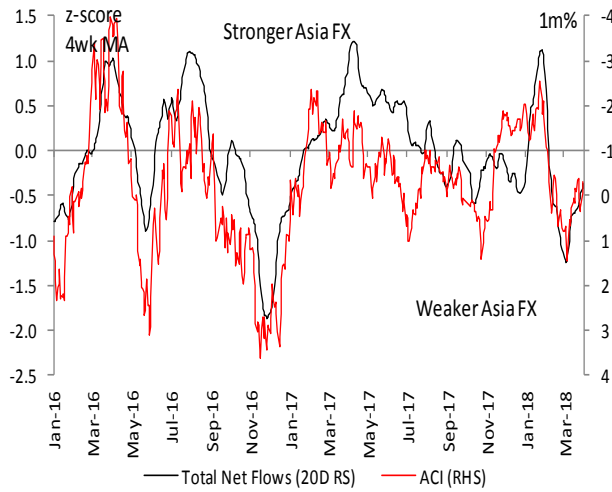
- **USD-CAD** Expect a top heavy posture for the USD-CAD to continue to ensue with investors attempting to impute some degree of optimism ahead of a potential Nafta deal next week. In line with slightly slipping short term implied valuations for the pair, we favor the softer end of the 1.2700-1.2900 range at this juncture.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

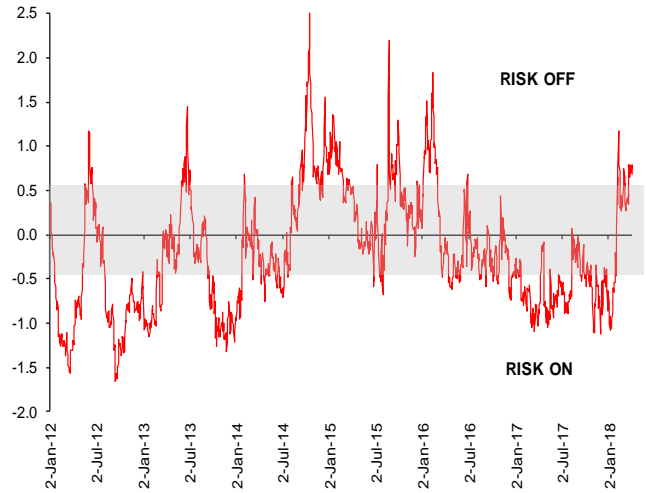


ACI VS. Net Capital Flows



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	-0.074	0.337	0.189	0.071	-0.441	0.633	-0.344	-0.312	-0.160	0.331	-0.905
JPY	0.633	0.098	0.152	0.473	0.166	-0.408	1.000	-0.511	-0.599	-0.400	0.095	-0.413
CHF	0.613	-0.516	-0.318	-0.376	-0.200	-0.596	0.355	0.224	0.199	0.369	-0.354	-0.792
INR	0.499	0.239	0.404	-0.079	-0.044	-0.072	0.226	0.184	0.065	0.230	0.305	-0.608
SGD	0.466	0.566	0.785	0.327	0.252	0.014	0.000	-0.275	-0.246	-0.269	0.784	-0.364
CNY	0.337	0.755	1.000	0.693	0.596	0.015	0.152	-0.550	-0.580	-0.605	0.970	-0.229
CNH	0.331	0.711	0.970	0.679	0.628	-0.040	0.095	-0.598	-0.553	-0.621	1.000	-0.159
CAD	0.306	0.181	0.430	0.254	0.497	-0.311	-0.007	-0.274	-0.203	-0.311	0.476	-0.191
IDR	0.244	0.243	0.361	0.120	-0.212	0.125	0.165	-0.123	-0.142	-0.147	0.341	-0.183
THB	0.159	0.487	0.547	0.352	-0.109	0.366	0.189	-0.316	-0.298	-0.303	0.520	0.102
TWD	0.068	0.691	0.677	0.809	0.403	0.194	0.366	-0.713	-0.743	-0.773	0.653	0.218
USGG10	-0.074	1.000	0.755	0.748	0.575	0.262	0.098	-0.356	-0.634	-0.489	0.711	0.182
MYR	-0.090	0.828	0.797	0.614	0.701	0.220	-0.199	-0.246	-0.462	-0.443	0.785	0.063
AUD	-0.187	0.607	0.465	0.821	0.567	0.109	0.251	-0.686	-0.745	-0.782	0.509	0.448
NZD	-0.500	0.195	-0.053	0.463	0.303	0.031	0.124	-0.453	-0.436	-0.544	-0.018	0.635
GBP	-0.515	-0.413	-0.626	-0.712	-0.264	0.141	-0.523	0.838	0.719	0.748	-0.646	0.145
KRW	-0.518	0.501	0.290	0.023	-0.043	0.736	-0.485	0.341	0.141	0.122	0.240	0.473
PHP	-0.605	-0.287	-0.391	-0.599	-0.254	0.367	-0.676	0.765	0.671	0.642	-0.371	0.281
EUR	-0.905	0.182	-0.229	0.060	-0.045	0.445	-0.413	0.027	0.039	-0.096	-0.159	1.000

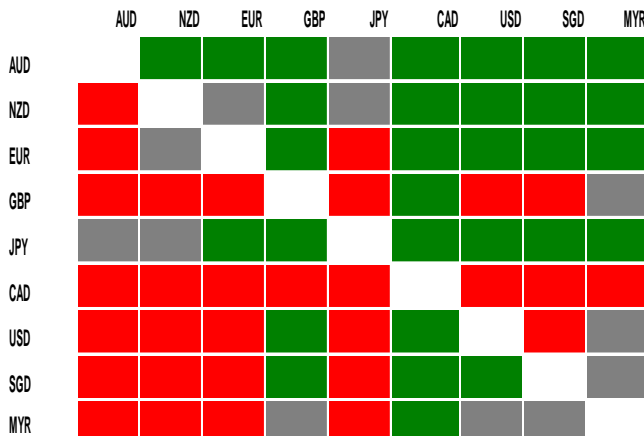
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2230	1.2276	1.2300	1.2341
GBP-USD	1.3987	1.4000	1.4083	1.4100	1.4225
AUD-USD	0.7643	0.7700	0.7705	0.7800	0.7808
NZD-USD	0.7200	0.7279	0.7286	0.7300	0.7331
USD-CAD	1.2723	1.2742	1.2788	1.2800	1.3098
USD-JPY	105.02	106.00	106.53	107.00	107.08
USD-SGD	1.3070	1.3100	1.3117	1.3154	1.3184
EUR-SGD	1.6074	1.6100	1.6102	1.6200	1.6234
JPY-SGD	1.2284	1.2300	1.2312	1.2400	1.2511
GBP-SGD	1.8400	1.8401	1.8472	1.8500	1.8658
AUD-SGD	1.0020	1.0100	1.0106	1.0200	1.0296
Gold	1305.22	1331.83	1333.80	1350.59	1356.80
Silver	16.15	16.30	16.40	16.63	16.73
Crude	62.99	63.30	63.35	63.40	66.50

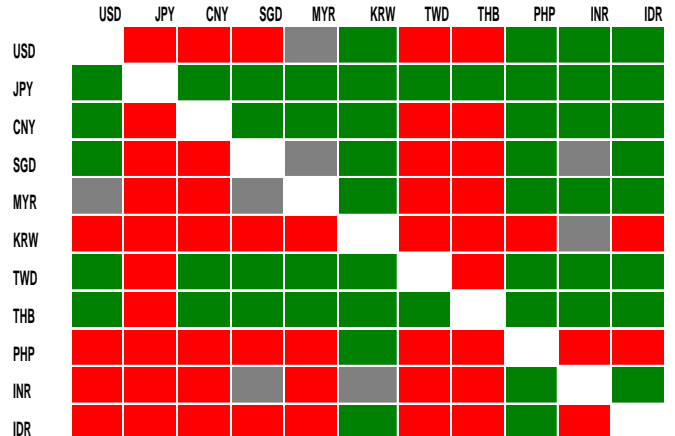
Source: OCBC Bank

G10 FX Heat Map



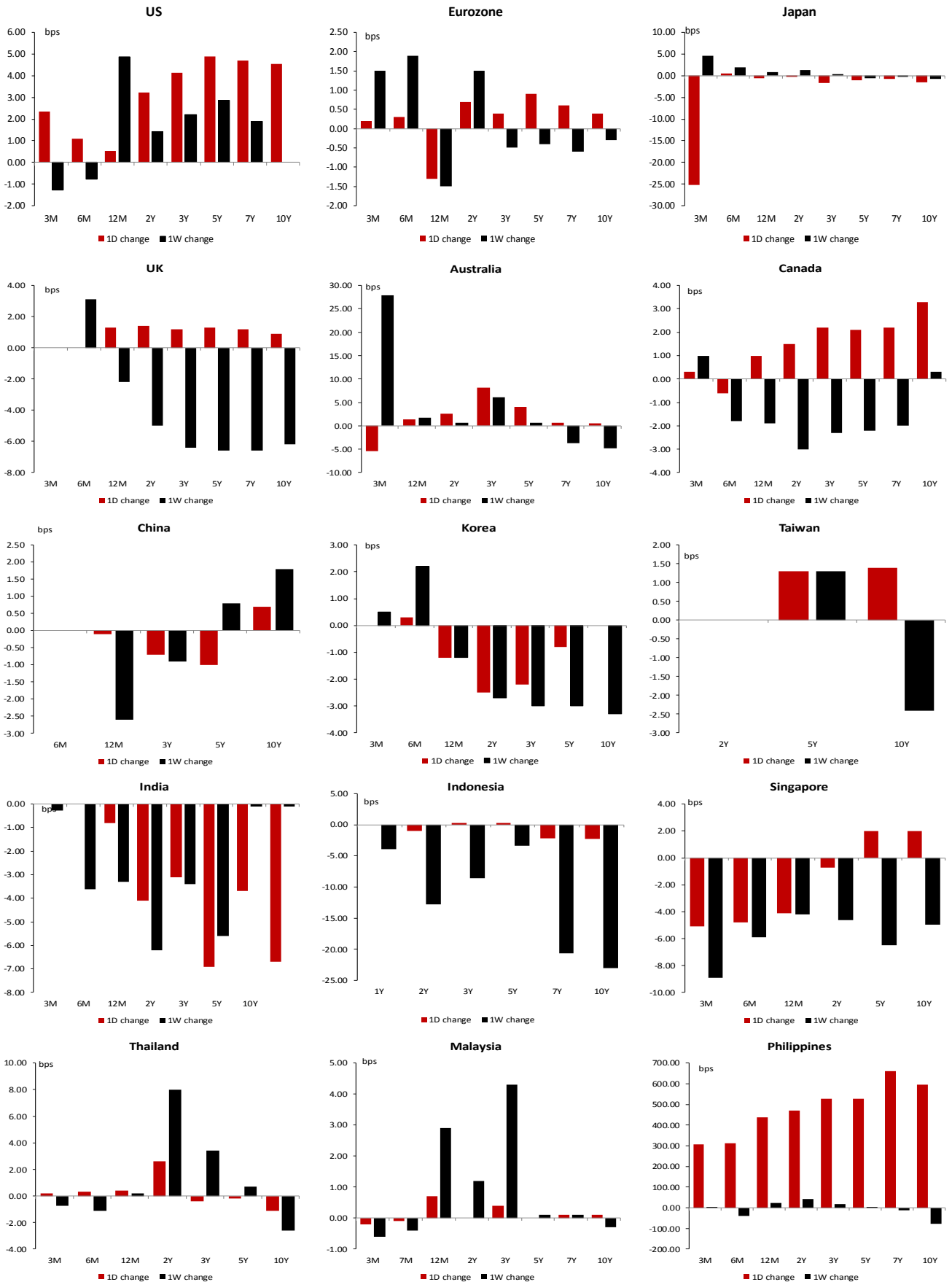
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Revised central tendency forecasts (as of 03 Apr 18)

	Spot	Apr-18	Jun-18	Sep-18	Dec-18
USD-JPY	106.11	107.00	104.40	106.10	107.80
EUR-USD	1.2322	1.2230	1.2330	1.2470	1.2610
GBP-USD	1.4081	1.4050	1.4260	1.4345	1.4430
AUD-USD	0.7687	0.7630	0.7580	0.7720	0.7860
NZD-USD	0.7249	0.7190	0.7390	0.7427	0.7463
USD-CAD	1.2872	1.2765	1.3090	1.2905	1.2720
USD-CHF	0.9536	0.9610	0.9665	0.9527	0.9388
USD-SGD	1.3097	1.3100	1.2995	1.2932	1.2868
USD-CNY	6.2845	6.2700	6.2355	6.2177	6.1998
USD-THB	31.19	31.35	30.85	30.70	30.55
USD-IDR	13764	13700	13850	13773	13697
USD-MYR	3.8630	3.8430	3.8200	3.7882	3.7563
USD-KRW	1054.6	1047.00	1040.00	1033.33	1026.67
USD-TWD	29.145	29.150	28.950	28.817	28.683
USD-HKD	7.8491	7.8490	7.8474	7.8449	7.8425
USD-PHP	52.03	51.70	52.45	51.97	51.48
USD-INR	65.00	64.75	65.60	65.00	64.40
EUR-JPY	130.74	130.86	128.73	132.31	135.94
EUR-GBP	0.8751	0.8705	0.8647	0.8693	0.8739
EUR-CHF	1.1751	1.1753	1.1917	1.1880	1.1839
EUR-SGD	1.6138	1.6021	1.6023	1.6126	1.6227
GBP-SGD	1.8441	1.8406	1.8531	1.8550	1.8569
AUD-SGD	1.0075	0.9995	0.9850	0.9983	1.0115
NZD-SGD	0.9494	0.9419	0.9603	0.9604	0.9604
CHF-SGD	1.3734	1.3632	1.3445	1.3574	1.3707
JPY-SGD	1.2343	1.2243	1.2447	1.2188	1.1937
SGD-MYR	2.9495	2.9336	2.9396	2.9294	2.9191
SGD-CNY	4.7983	4.7863	4.7984	4.8081	4.8179

Source: OCBC Bank

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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