

Thursday, April 05, 2018**FX Themes/Strategy/Trading Ideas**

- The greenback faded against the cyclical on Wednesday while the JPY and CHF underperformed across the board as US equities bounced (UST curve lifted higher and crude retook the 63.00 handle) despite lingering trade war concerns. Meanwhile, the Fed's Bullard (non-voter; dove) entertained the prospect of rates remaining low for longer in the event of a trade war.
- Note that we are probably not out of the woods yet with the **FXSI (FX Sentiment Index)** still ticking higher within Risk-Off territory on Wednesday. Meanwhile, relative market calm continues to be demonstrated by the staid short-end of the option topography, including for the CNH.
- Although China on Wednesday also unveiled a proposed counter list of tariffs on American imports, slightly less strident rhetoric from the White House's Larry Kudlow kept risk aversion at bay. Sentiment was aided somewhat as both US and Chinese officials stated that policy reactions would be predicated on the opposing side's moves. Expect static on this front to last up to two months given the consultation period for the latest list of tariffs unveiled by the US on Tuesday.
- On the data front, US March ADP came in at a better than expected +241k but the non-manufacturing ISM slipped more than expected to 58.8. Feb factory orders also clocked a softer than expected +1.20% and Feb durable goods orders also moderated from the previous month. Overall, little in the data flow overnight to instigate renewed USD resilience.
- The Fed's Bostic (1700 GMT) is due today while markets may continue to look to the release of global March composite/services PMIs today. In Asia, expect the RBI to remain static on its policy parameters at its policy meeting (0900 GMT).

Asian FX

- EM equities were mixed on Wednesday despite apparent improvement in global risk appetite levels. Overall, expect range bound behavior for the regional pairs to persist. The **ACI (Asian Currency Index)** meanwhile remains at the lower end of its recent range. On a medium term horizon, if global trade tensions eventually dissipate, the structural model for the ACI does suggest further downside potential at this juncture.
- Net portfolio inflows in Asia meanwhile continue to denote implicit support from net bond inflows, while the TWD remains under the weight of net equity

Treasury Research &
Strategy

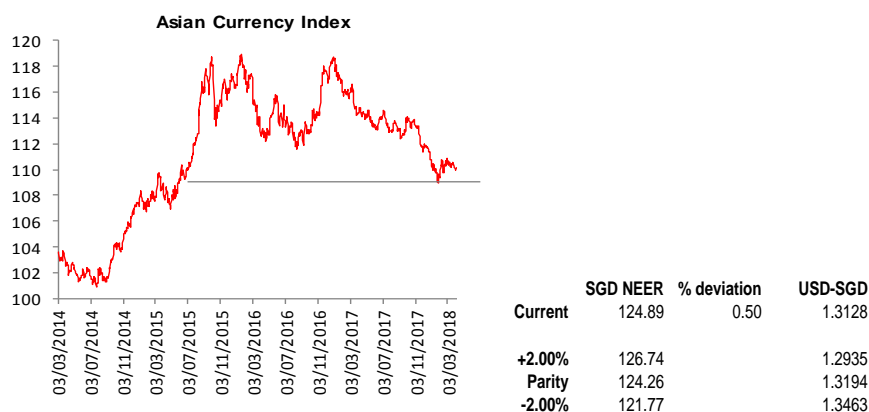
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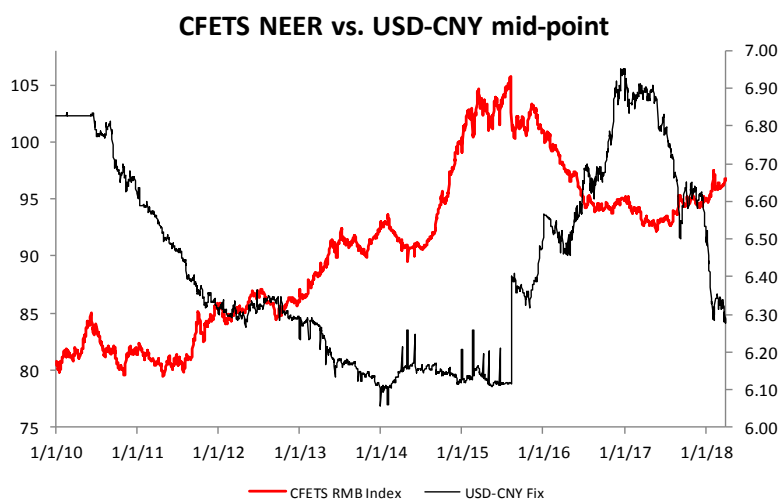
outflows (albeit compressing). The flow environment for India remains neutral (net equity inflows and narrowing bond outflows). Bond inflows remain strong in Indonesia, with the net balance (bonds and equities) having flipped to a positive. For Thailand, net bond inflows remain strong and climbing while prior net equity outflows have now turned flat.

- **India:** The foreign investment limit in government bonds looks set to be raised. Three options to raise the limit to 6%, 7% and 8% of the total outstanding have been proposed within the Finance Ministry. This move should further support the ongoing rally in the bond market.
- **SGD NEER:** The SGD NEER is softer on the at around +0.50% above its perceived parity (1.3194) while NEER-implied USD-SGD thresholds are a touch higher on the day. Expect the basket to remain within +0.30% (1.3155) to +0.60% (1.3116) intra-day. Technically, the 1.3100 floor may remain in effect, with the 55-day MA (1.3161) expected to shelter.

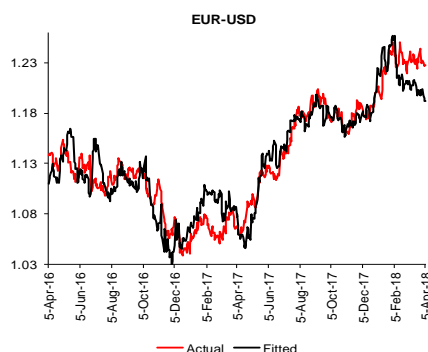


Source: OCBC Bank

- **CFETS RMB Index:** China on holiday Thursday-Friday.

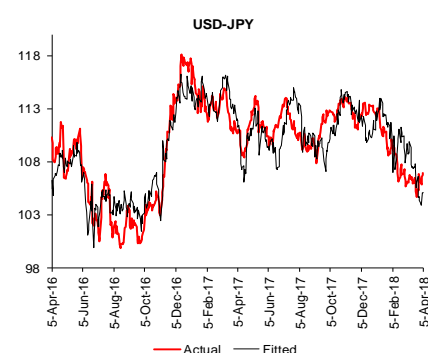


Source: OCBC Bank, Bloomberg

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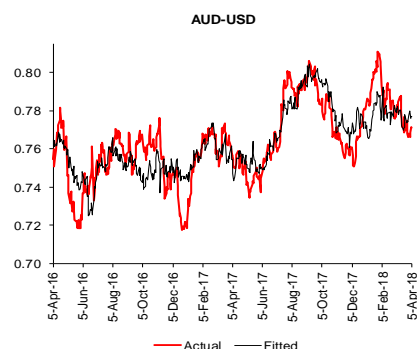
Source: OCBC Bank

- **EUR-USD** EZ March core CPI came in at a softer than expected +1.0% but headline inflation firmed to an expected +1.4% from a revised +1.1%. Short term implied valuations remain heavy for the EUR-USD and the pair may remain laden within 1.2230 on the downside and 55-day MA (1.2338) up top.



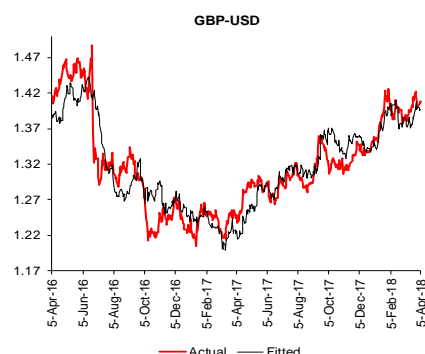
Source: OCBC Bank

- **USD-JPY** Collect dips intra-day in the USD-JPY pending further US-Sino headlines although we note that short term implied valuations for the pair remain inherently heavy on a multi-session horizon. In the interim, expect the 55-day MA (107.34) to continue to cap.



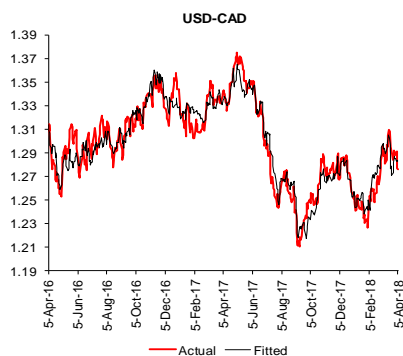
Source: OCBC Bank

- **AUD-USD** The collection of March services/composite PMIs this morning showed an improvement from the previous month. Meanwhile, the Feb trade surplus also came in at a larger than expected AUD825mn. Overall, base building behavior for the pair may persist (within 0.7650-0.7750) in line with its short term implied valuations.



Source: OCBC Bank

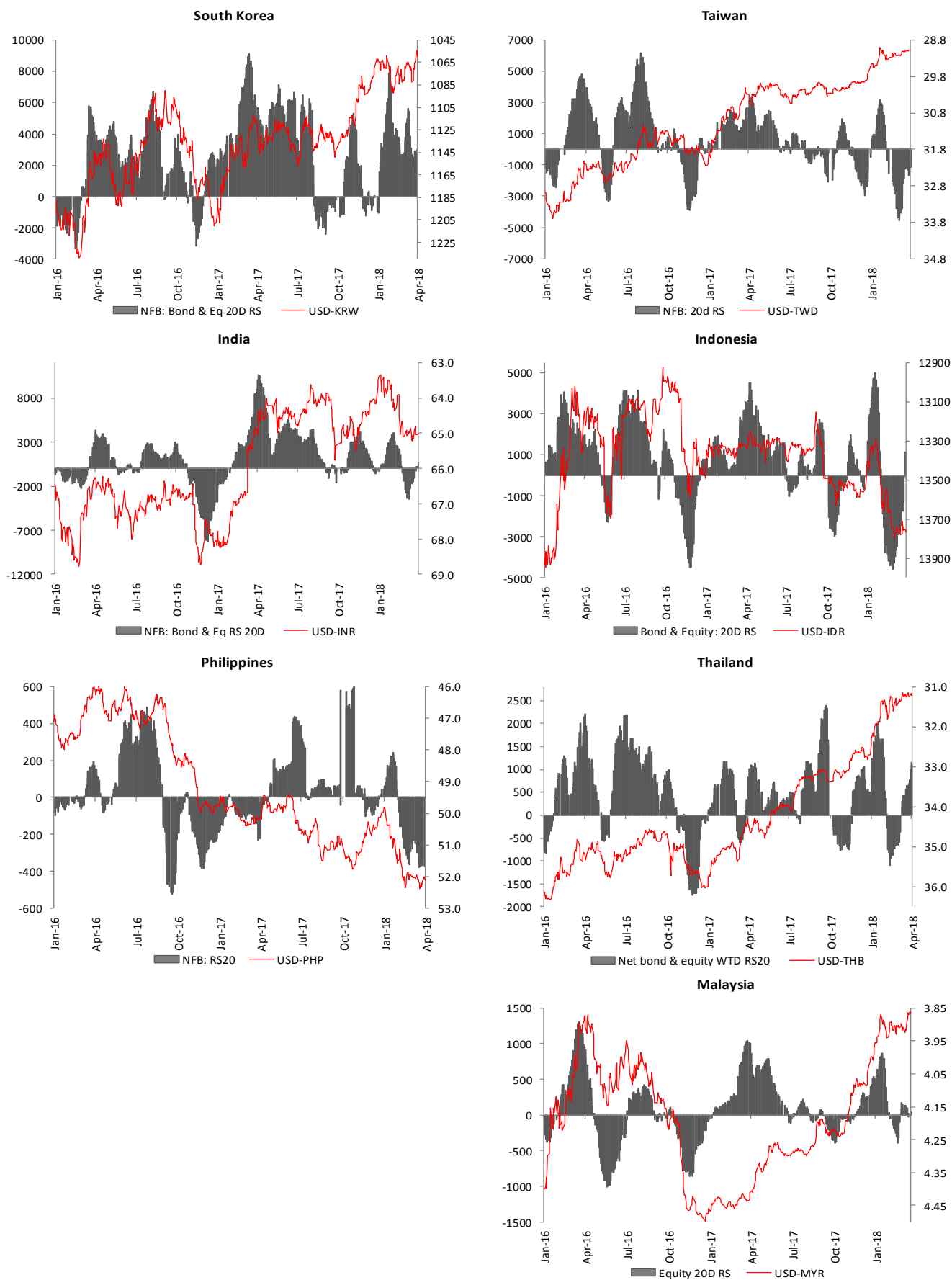
- **GBP-USD** Investors may likely continue to bounce any dips ahead of the March services/composite PMIs later today. Expect support towards the 55-day MA (1.3996) with the topside likely to be governed by 1.4160.



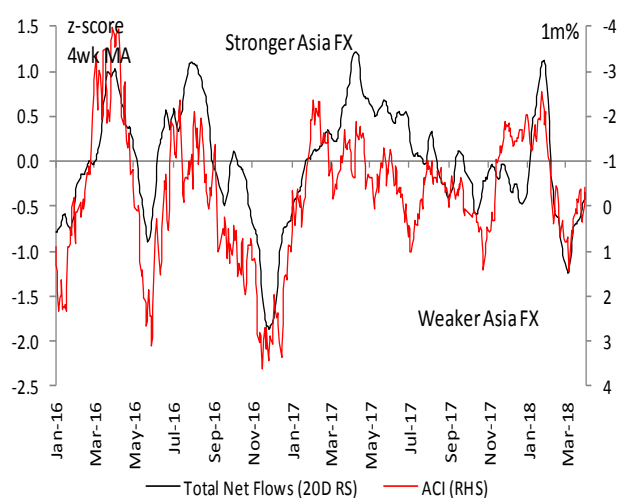
Source: OCBC Bank

- **USD-CAD** Less combative comments by the White House's Kelly Craft with regards to NAFTA. Expect more quasi-positive sentiment with the Canadian Foreign Affairs Minister expected to meet with the US Trade Representative today. Gravity may continue to exert itself on the pair in the interim and a failure to retake 1.2800 risks a test towards the 55-day MA (1.2705).

USD-Asia VS. Net Capital Flows

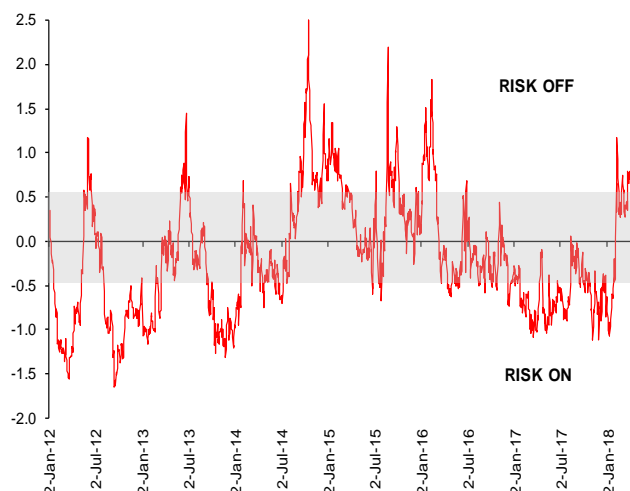


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXV	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXV	1.000	-0.091	0.313	0.156	0.001	-0.467	0.653	-0.317	-0.295	-0.116	0.276	-0.907
JPY	0.653	0.065	0.119	0.408	0.050	-0.469	1.000	-0.462	-0.559	-0.321	0.052	-0.458
CHF	0.623	-0.513	-0.331	-0.405	-0.323	-0.669	0.446	0.224	0.208	0.417	-0.354	-0.791
INR	0.519	0.179	0.351	-0.118	-0.131	-0.156	0.268	0.193	0.082	0.269	0.244	-0.627
SGD	0.413	0.571	0.787	0.341	0.277	0.068	-0.036	-0.276	-0.252	-0.287	0.783	-0.352
CNY	0.313	0.758	1.000	0.699	0.588	0.070	0.119	-0.551	-0.582	-0.610	0.970	-0.197
CNH	0.276	0.715	0.970	0.688	0.632	0.040	0.052	-0.601	-0.555	-0.632	1.000	-0.155
IDR	0.256	0.227	0.344	0.102	-0.231	0.072	0.183	-0.117	-0.135	-0.121	0.318	-0.199
THB	0.154	0.486	0.546	0.351	-0.094	0.340	0.199	-0.310	-0.298	-0.299	0.504	0.074
CAD	0.151	0.208	0.435	0.294	0.569	-0.094	-0.148	-0.270	-0.213	-0.364	0.468	-0.083
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	-0.091	1.000	0.758	0.754	0.571	0.293	0.065	-0.358	-0.635	-0.498	0.715	0.201
MYR	-0.133	0.821	0.790	0.626	0.729	0.325	-0.257	-0.248	-0.458	-0.476	0.787	0.126
AUD	-0.209	0.612	0.471	0.823	0.560	0.147	0.218	-0.689	-0.746	-0.781	0.499	0.438
NZD	-0.371	0.159	-0.078	0.401	0.173	-0.084	0.236	-0.388	-0.403	-0.457	-0.081	0.473
GBP	-0.447	-0.422	-0.631	-0.719	-0.299	0.060	-0.428	0.833	0.719	0.755	-0.654	0.106
KRW	-0.538	0.509	0.306	0.070	0.069	0.762	-0.523	0.311	0.114	0.053	0.270	0.508
PHP	-0.585	-0.291	-0.393	-0.597	-0.250	0.312	-0.638	0.766	0.672	0.633	-0.373	0.260
EUR	-0.907	0.201	-0.197	0.096	0.049	0.493	-0.458	0.020	0.021	-0.143	-0.155	1.000

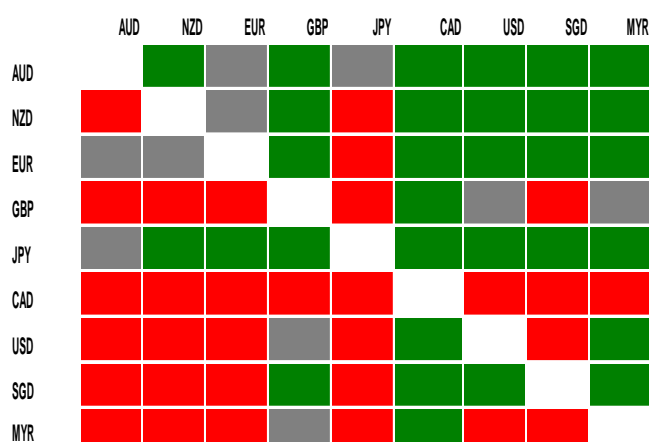
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2227	1.2280	1.2300	1.2338
GBP-USD	1.3986	1.4000	1.4083	1.4100	1.4216
AUD-USD	0.7643	0.7700	0.7708	0.7800	0.7808
NZD-USD	0.7279	0.7300	0.7308	0.7340	0.7355
USD-CAD	1.2720	1.2731	1.2766	1.2800	1.3106
USD-JPY	104.99	106.00	106.96	107.00	107.04
USD-SGD	1.3071	1.3100	1.3127	1.3155	1.3178
EUR-SGD	1.6072	1.6100	1.6119	1.6200	1.6232
JPY-SGD	1.2215	1.2235	1.2273	1.2290	1.2300
GBP-SGD	1.8400	1.8401	1.8487	1.8500	1.8654
AUD-SGD	1.0020	1.0100	1.0118	1.0200	1.0289
Gold	1305.38	1331.77	1333.60	1351.23	1356.80
Silver	16.12	16.20	16.27	16.30	16.62
Crude	62.97	63.50	63.55	63.60	66.51

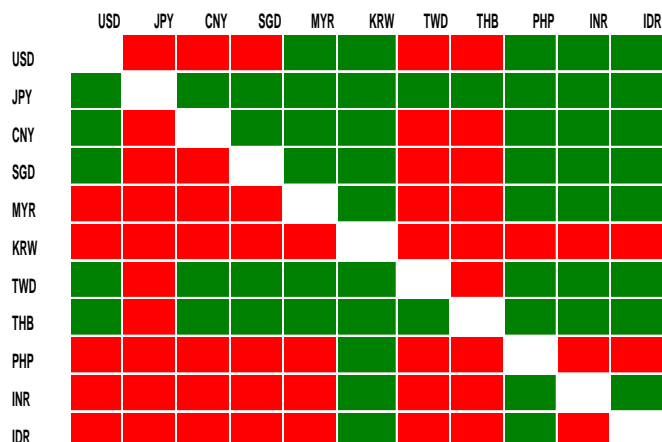
Source: OCBC Bank

G10 FX Heat Map



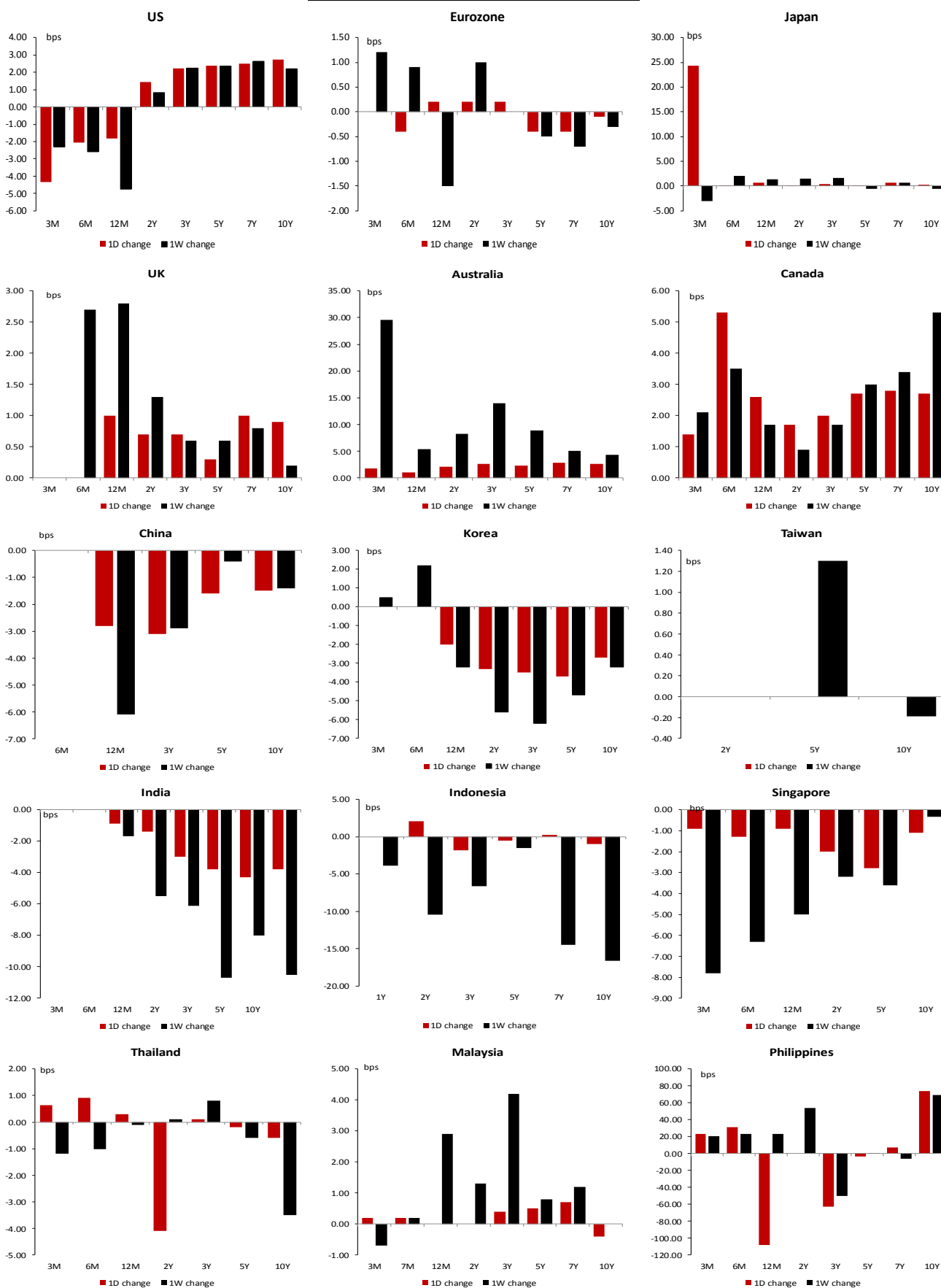
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

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 cyclicals	-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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