

Monday, March 05, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar ended mixed to weaker on Friday despite firmer UST yields (bear steepened from the back-end) as US tariff concerns continued to circulate. The cyclicals (CAD, AUD, NZD) however underperformed across the board as risk appetite remained cautious. Note that the **FXSI (FX Sentiment Index)** shifted into Risk-Off territory in the latter half of last week and this nervousness is expected to filter into the current week. Over the weekend, the German CDU backed a coalition with Merkel's CDU bloc – EUR supportive.
- **Markets will be confronted with a myriad of issues this week and coherent visibility may remain lacking.** The imminent/potential announcement of US tariffs on steel and aluminum is expected to remain a central focus with concerns focused on the potential for geopolitical escalation (especially from China) rather than the actual mechanical impact of the tariffs. Note the current tendency to take the broad dollar lower in the interim.
- Elsewhere, the EUR may be dogged by political uncertainty pending **Italian election results**. First indications point to a hung parliament (as expected) but with conflicting polls indicating that the Five-Star Movement may garner the most seats but center-right Berlusconi bloc would chalk up the most seats. Pending coalition building efforts and the prospect of fresh elections, the situation is expected to remain fluid at this juncture.
- Meanwhile, with regards to the **GBP**, the EU's Tusk expected to unveil draft negotiating guidelines pertaining to Brexit as early as 05 March. The CAD may also be expected to remain somewhat under the weather, with Nafta talks running till 06 March.
- **On the central bank front, the string of central bank meetings this week may ultimately be a primary driver.** The list includes the RBA (Tuesday), BOC (Wed), ECB (Thu) and Draghi's press conference, as well as the BOJ (Fri). The ECB (and Draghi) we think will remain the cornerstone of the broad 'weak dollar' narrative and with the other central banks likely to shy away from being distinctly hawkish.
- **CFTC** numbers show large non-commercial/leveraged accounts increased their net implied short dollar bias in the latest week. Meanwhile, asset manager accounts instead pared slightly their short dollar balance in aggregate but remain significantly short.

Treasury Research &
Strategy

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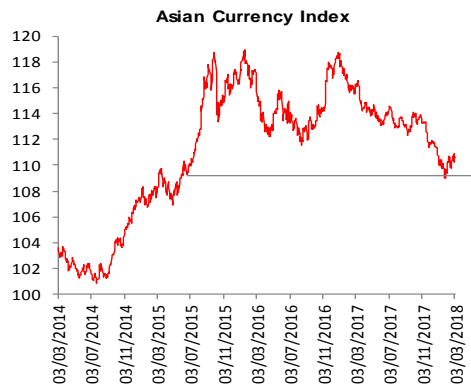
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- Note that if the likes of the RBA and BOC refuse to play ball this week and come across as cautious/accommodative, investor attention towards the cyclicals may continue to deteriorate. To this end, note that global long-end govie yields were by and large softer on the week
- The highlight of the data calendar this week is expected to be the US NFP (mkts: +200k) with investors likely paying particular attention to wage growth numbers rather than the headline readings.
- **Overall, expect to start the week USD on the defensive barring a further decay of global risk appetite levels. The JPY meanwhile is likely to benefit as a refuge on the back of potential cross-market nervousness and as alluded to above, expect the cyclicals to remain sidelined.**

Asian FX

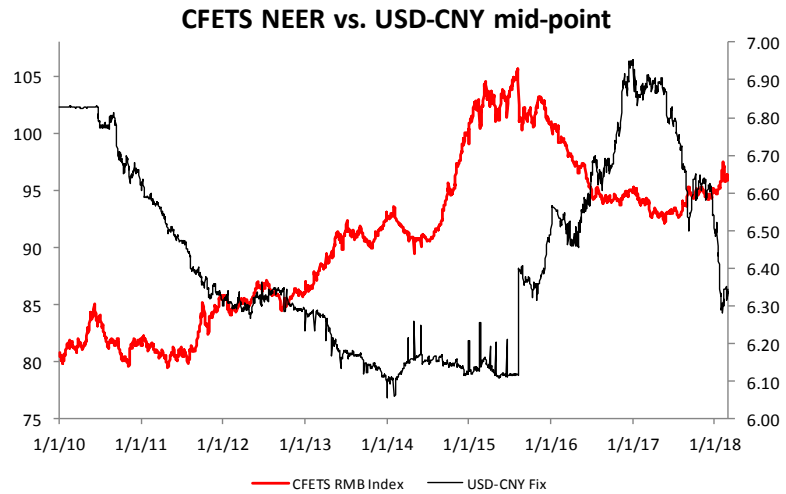
- In China, watchers will be on the lookout for emerging headlines from the People's Consultative Conference (till 15 March) and the National Peoples' Congress (till 20 March). Comments from Premier Li this morning continue to underscore the tenets of stability, restraint, and de-leveraging. Overall, this portends little fireworks in store for the renminbi complex. Elsewhere in Asia, the **BNM** meeting on Wednesday is expected to see a central bank remaining in a wait-and-see mode.
- **EPFR** data saw net implied inflows into Asian equities and bonds (excl Japan, China) moderating significantly in the latest week and on a rolling 4-week basis, continues to portend diminishing structural support for regional FX. Actual **net portfolio inflow** data meanwhile also continues to denote weak equity sentiment across Asia given the ongoing net outflow environment. **To reiterate, if risk aversion boils over, expect USD-Asia to react higher with little hesitation. In the interim, expect the ACI (Asian Currency Index) to remain tentative within recent ranges.**
- There may remain some scope for intra-regional differentiation however, with an attempt to stabilize in South Korea (on the back of bonds) after the recent sharp moderation in net inflows and in Thailand (recovering bond inflows offsetting equity outflows); deepening net outflows (bonds and equities) for India and Indonesia (significant bond outflows in recent weeks).
- **SGD NEER:** The SGD NEER is roughly unchanged this morning at around +0.20% above its perceived parity (1.3209), although NEER-implied USD-SGD thresholds are softer on the day. Expect the pair to remain trapped by 1.3140 down south while the 55-day MA (1.3246) is expected to cap pending further external headlines.



	SGD NEER	% deviation	USD-SGD
Current	124.49	0.19	1.3186
+2.00%	126.74		1.2950
Parity	124.26		1.3209
-2.00%	121.77		1.3479

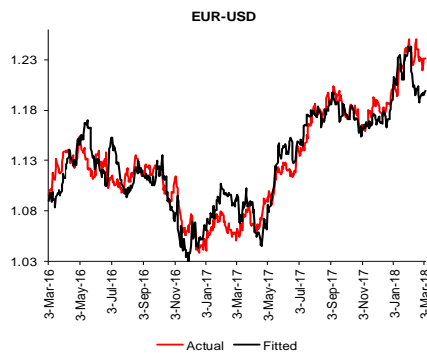
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point printed at a higher than expected 6.3431 this morning from 6.3334 on Friday. This pressured the CFETS RMB Index lower to 95.97 from 96.27.



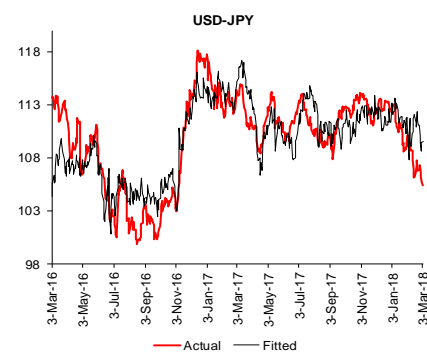
Source: OCBC Bank, Bloomberg

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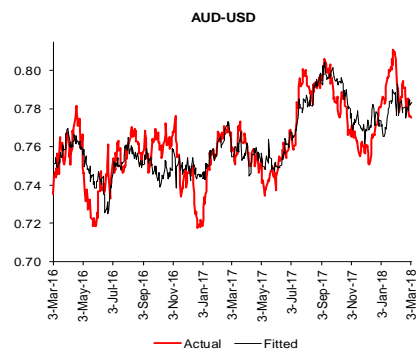
Source: OCBC Bank

- EUR-USD** Despite positive German political news flow from the weekend, near term uncertainty surrounding the Italian election outcome may continue to be a negative overhang for the EUR. Ahead of the ECB later this week, the pair may remain torn between slightly supported short term implied valuations and prevailing political uncertainty. Expect 1.2400 to cap with the 55-day MA (1.2204) seen lending support in the interim.



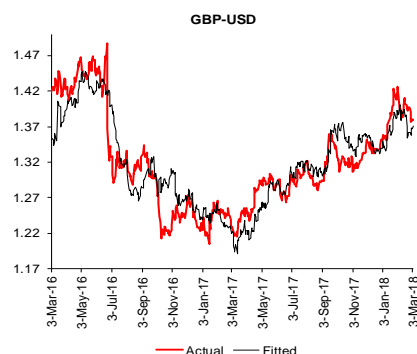
Source: OCBC Bank

- USD-JPY** On Friday, markets jumped on comments from the BOJ's Kuroda indicating that an exit would be considered if CPI reached the 2% mark in in FY19/20 (over react much?). Near term inherent USD vulnerability and/or the potential for deeper risk aversion may keep the USD-JPY in the near term. As noted late last week, with 106.00 now serving as a resistance, expect gravity towards 105.25.



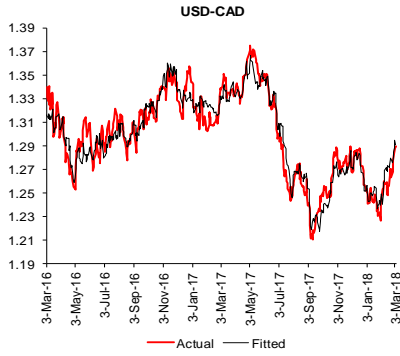
Source: OCBC Bank

- AUD-USD** Despite somewhat supported short term implied valuations, the markets demeanor towards the likes of the AUD may remain laced with suspicion in the near term. Ahead of the RBA this week, fade upticks towards the 200-day MA (0.7788) with risks potentially skewed towards 0.7715 instead.



Source: OCBC Bank

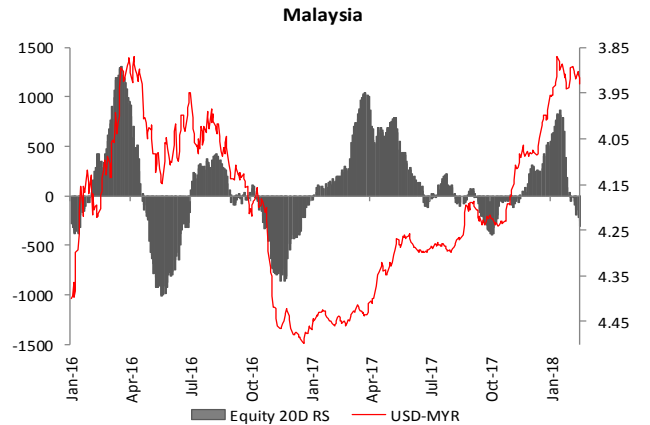
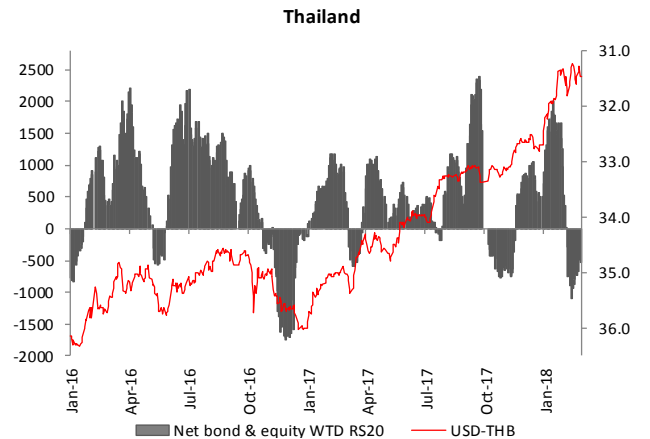
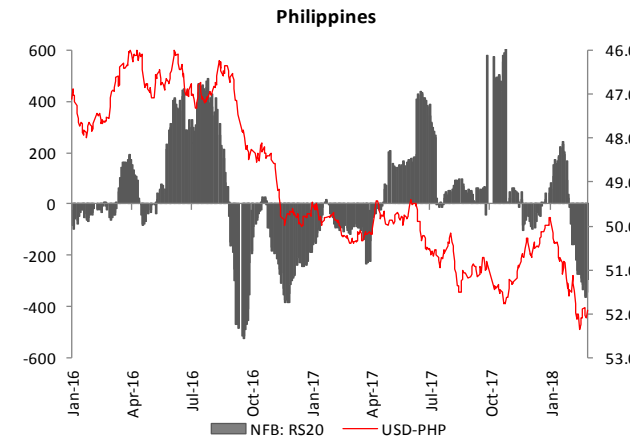
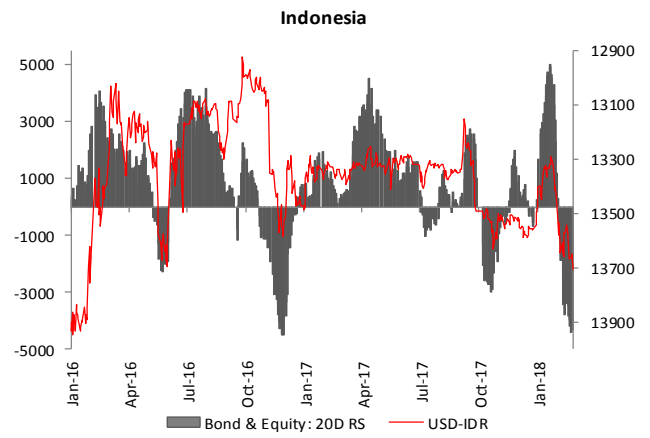
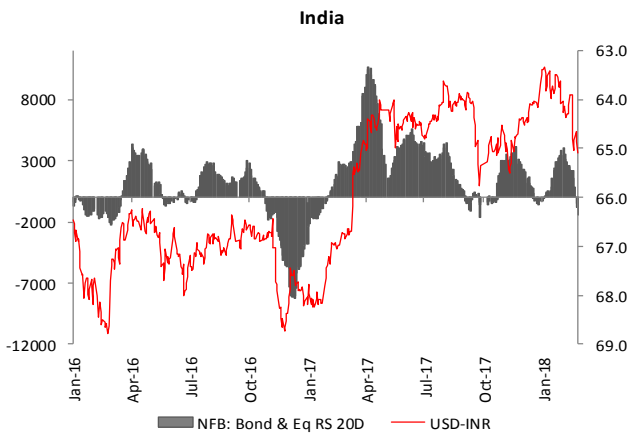
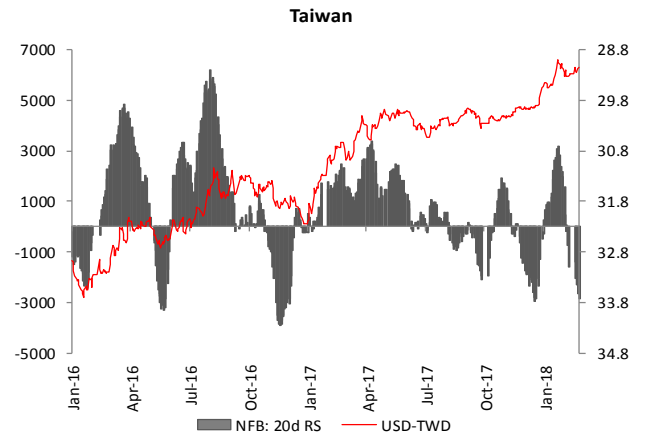
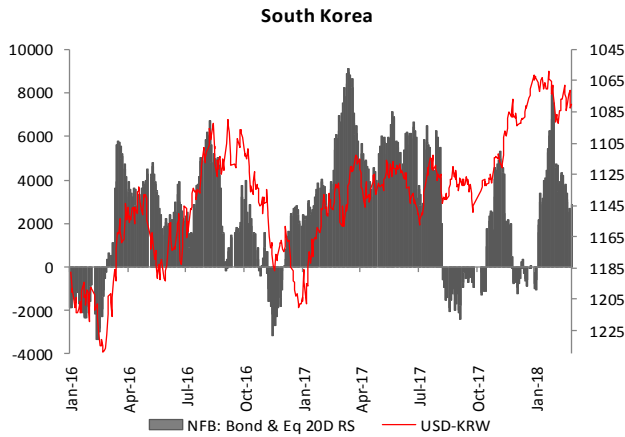
- GBP-USD** While Brexit-related caution may persist, look to potential comments from the BOE's Haldane on Tuesday. Despite slightly underpinned short term implied valuations, the pair may continue to orbit the 55-day MA (1.3799) pending further external headlines.



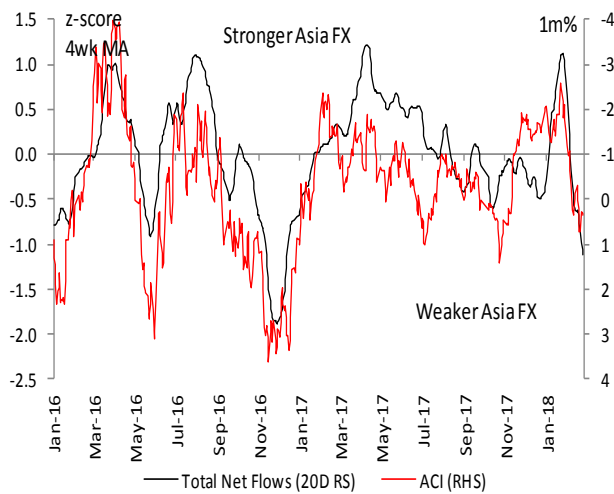
- USD-CAD** With global trade protectionism and Nafta concerns looming, we remain constructive towards the upside for the USD-CAD (in line with its short term implied valuations). Expect a near term floor towards 1.2835 with a breach of 1.2900 paving the way for 1.2980.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

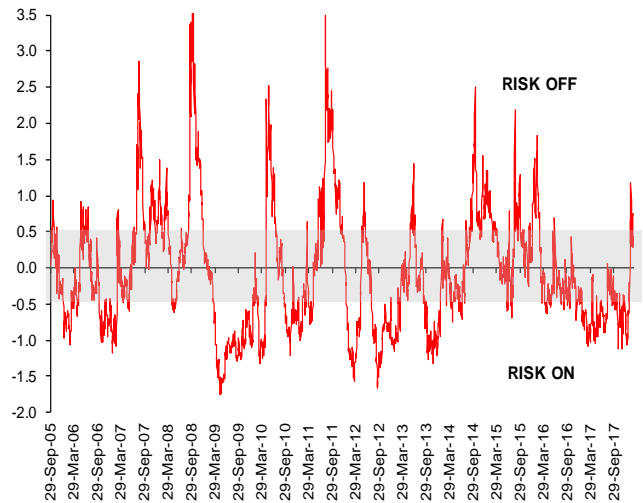


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.163	-0.059	-0.310	-0.137	-0.177	0.272	-0.136	0.167	-0.029	0.596	-0.977
CHF	0.938	-0.153	-0.169	-0.152	-0.089	-0.084	0.275	-0.063	0.086	-0.101	0.502	-0.905
SGD	0.873	-0.300	-0.201	-0.665	-0.298	-0.355	0.550	-0.232	0.520	-0.118	0.665	-0.855
INR	0.600	0.256	0.571	0.319	0.405	0.360	-0.408	0.169	-0.482	0.203	0.511	-0.642
CNH	0.596	0.033	0.610	-0.431	-0.060	-0.154	-0.056	-0.264	0.062	0.203	1.000	-0.619
CAD	0.581	0.119	0.527	0.187	0.354	0.303	-0.544	0.056	-0.402	0.167	0.553	-0.581
IDR	0.523	0.245	0.791	0.209	0.104	0.061	-0.591	-0.214	-0.567	0.545	0.514	-0.501
MYR	0.498	-0.154	0.289	-0.570	-0.649	-0.730	0.372	-0.662	0.261	0.429	0.341	-0.406
THB	0.497	-0.293	-0.102	-0.877	-0.638	-0.582	0.688	-0.401	0.668	0.010	0.517	-0.417
KRW	0.321	-0.562	-0.404	-0.740	-0.533	-0.460	0.661	-0.248	0.788	-0.209	-0.019	-0.199
JPY	0.272	-0.451	-0.806	-0.574	-0.431	-0.356	1.000	-0.014	0.806	-0.477	-0.056	-0.234
TWD	-0.033	-0.333	0.046	-0.699	-0.777	-0.715	0.395	-0.587	0.521	0.259	-0.015	0.174
CNY	-0.059	0.466	1.000	0.103	0.110	0.020	-0.806	-0.288	-0.561	0.709	0.610	0.037
USGG10	-0.163	1.000	0.466	0.455	0.014	0.015	-0.451	-0.177	-0.771	0.526	0.033	0.103
PHP	-0.346	0.600	0.757	0.574	0.396	0.269	-0.762	-0.014	-0.769	0.479	0.050	0.280
GBP	-0.835	0.249	-0.192	0.390	0.261	0.311	-0.013	0.358	-0.174	-0.094	-0.525	0.752
AUD	-0.845	0.084	-0.287	0.253	-0.052	-0.002	0.136	0.100	-0.013	-0.035	-0.698	0.836
NZD	-0.876	0.419	0.097	0.454	0.119	0.193	-0.217	0.142	-0.363	0.105	-0.588	0.834
EUR	-0.977	0.103	0.037	0.236	0.029	0.076	-0.234	0.040	-0.104	0.072	-0.619	1.000

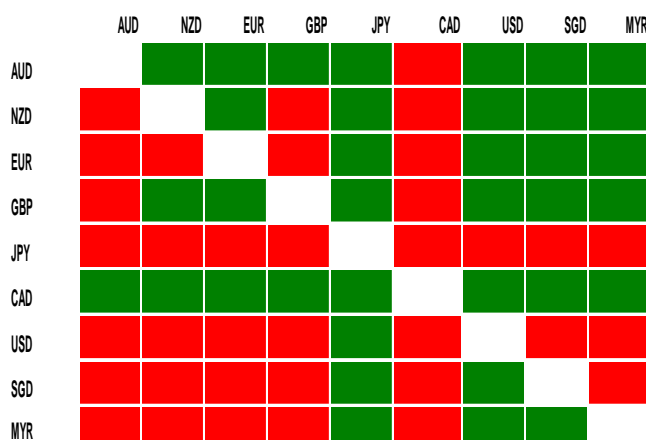
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2236	1.2300	1.2327	1.2400	1.2470
GBP-USD	1.3712	1.3730	1.3794	1.3800	1.3834
AUD-USD	0.7713	0.7714	0.7752	0.7784	0.7800
NZD-USD	0.7177	0.7200	0.7222	0.7253	0.7300
USD-CAD	1.2679	1.2800	1.2894	1.2900	1.2904
USD-JPY	105.00	105.25	105.47	106.00	109.56
USD-SGD	1.3084	1.3100	1.3191	1.3200	1.3217
EUR-SGD	1.6172	1.6200	1.6261	1.6300	1.6368
JPY-SGD	1.2155	1.2500	1.2507	1.2521	1.2550
GBP-SGD	1.8167	1.8180	1.8196	1.8200	1.8287
AUD-SGD	1.0214	1.0223	1.0225	1.0300	1.0426
Gold	1303.60	1326.31	1326.90	1356.08	1367.50
Silver	16.11	16.50	16.52	16.60	16.82
Crude	58.74	61.50	61.53	61.60	62.28

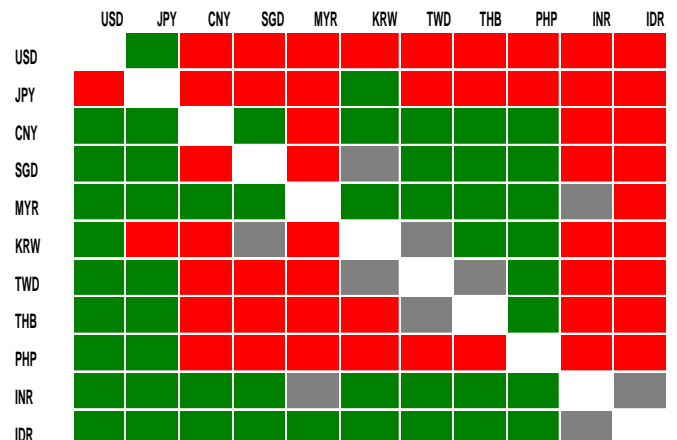
Source: OCBC Bank

G10 FX Heat Map



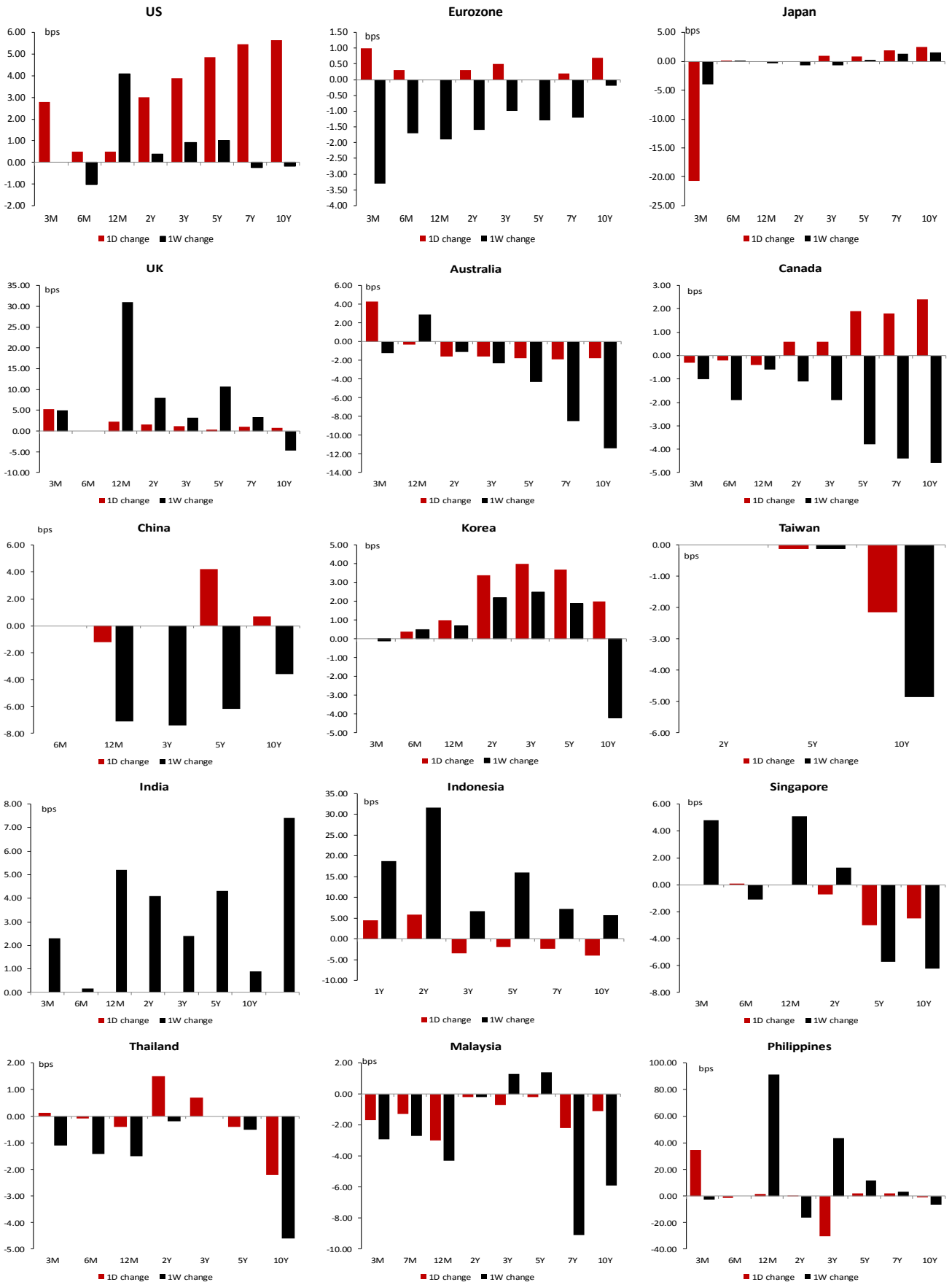
Source: OCBC Bank

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								
1	22-Feb-18	B	USD-CAD	1.2696	1.2960	1.2560	Post FOMC minutes, rising implied valuations for the pair	
STRUCTURAL								
2	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
3	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
4	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	27-Nov-17	26-Jan-18	B	GBP-USD	1.3344	1.4135	Investors may impute Brexit talks in December. Prevailing USD weakness.	+5.56
2	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heavy dollar, positive risk appetite, SGD NEER not excessively strong	+0.39
3	15-Jan-18	07-Feb-18	B	EUR-USD	1.2199	1.2305	"Hawkish" ECB expectations, positive German political news flow	+0.72
4	12-Feb-18	14-Feb-18	S	AUD-USD	0.7829	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	-1.09
5	09-Feb-18	15-Feb-18	B	USD-CAD	1.2600	1.2470	Softer crude and fragile appetite towards the cyclical	-1.03
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Source: OCBC Bank

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