

Tuesday, March 06, 2018

FX Themes/Strategy/Trading Ideas

- The dollar trade mixed against the majors with the EUR none the worse for wear by late NY despite inconclusive Italian election results. This was despite US yields firming with the Feb non-manufacturing ISM easing less than expected to 59.5. House Speaker Ryan urged President Trump to refrain from announcing the trade tariffs on steel/aluminum
- Recovering EZ/US equities and commodities saw investor appetite recovering slightly with the **FXSI (FX Sentiment Index)** dipping slightly as a result (but still remaining in Risk-Off territory).
- Today, the RBA's policy meeting (0330 GMT) will be closely scrutinized for any hawkish cues while the RBA's Lowe also speaks at 2135 GMT. Meanwhile, the BOE's Haldane is scheduled for 1815 GMT and the Fed's Dudley is due to speak at 1230 GMT.
- Overall, a slightly better risk appetite complexion (watch for further push back against tariffs from international leaders as well as Republicans) may underpin the majors somewhat against the dollar with the JPY and CHF overnight also relinquishing some of their safe haven draw overnight. Elsewhere, potential impacts from Italian election results on markets are expected to decay (look instead to the ECB meeting on Thursday) with the Italian President expected to call for coalition talks in April.

Asian FX

- Asian equities are attempting to stabilize early Tuesday and this should keep the USD-Asian complex top heavy with the **ACI (Asian Currency Index)** expected to edge lower. Meanwhile, net portfolio inflows in Asia are still attempting to stabilize and on this front, continue to favor the KRW and THB against the likes of the INR. Sentiment with respect to Indonesia (bonds and FX) remains fragile but slightly brighter EM sentiment may initiate renewed positivity ahead.
- China's Feb Caixin composite/services PMIs moderated lower from the previous month to 53.3 and 54.2 respectively while the equivalent Nikkei services/composite PMIs for India dropped significantly to 47.8 and 49.7 respectively (imposing additional baggage for the INR and local bonds).
- **SGD NEER:** The SGD NEER popped above +0.30% yesterday and is currently around +0.31% above its perceived parity (1.3216). NEER-implied USD-SGD thresholds are firmer on the day and the basket may trawl a

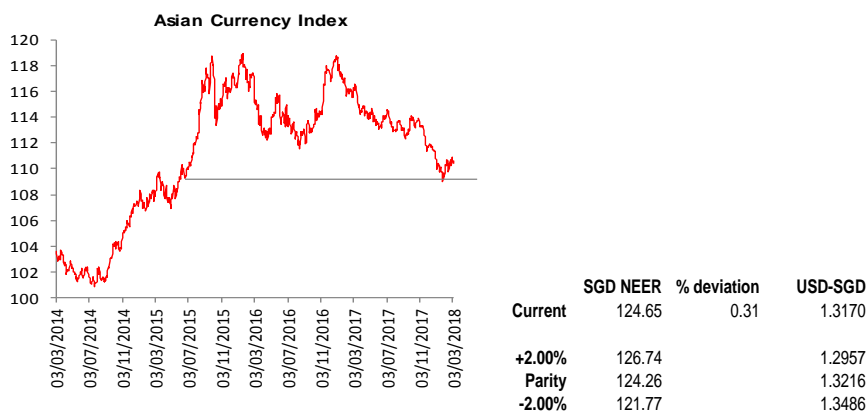
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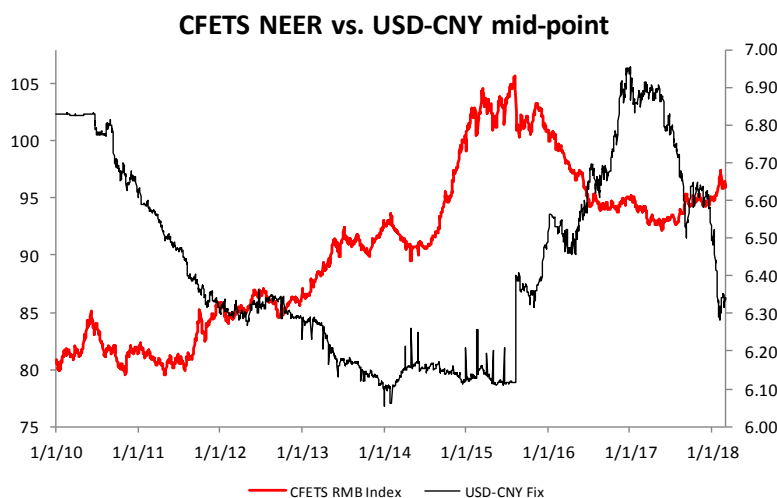
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+0.10% (1.3203) to +0.40% (1.3164) range intra-day. Technically, expect the pair to be weighted towards 1.3120/40 if regional sentiment continues to improve.



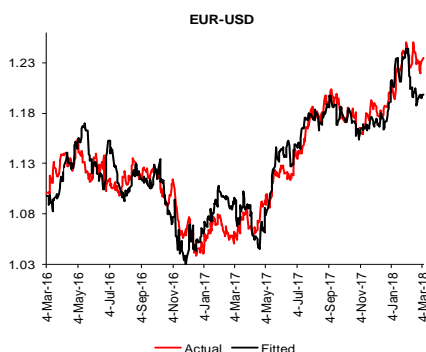
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning slipped (as largely expected) to 6.3386 from 6.3431 yesterday. As a result, the CFETS RMB Index gained slightly to 96.02 from 95.97 on Monday. Note that in recent weeks, the CFETS basket has reverted to tracking (rangy) broad dollar moves, with the latter ceasing to exhibit any discretionary bias.



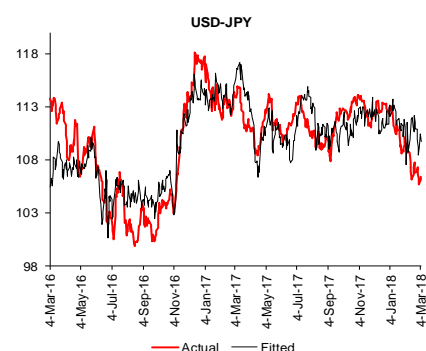
Source: OCBC Bank, Bloomberg

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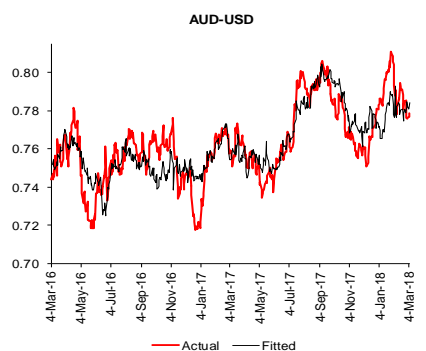
Source: OCBC Bank

- EUR-USD** EZ services/composite PMIs came in on the wrong side of expectations on Monday but with sentiment still relatively underpinned and short term implied valuations rangy, we'd prefer to trade heavy within 1.2400 and the 55-day MA (1.2214) ahead of the ECB on Thursday.



Source: OCBC Bank

- USD-JPY** Expect a slightly more supported tone intra-day following the stabilization of global risk appetite levels. To boot, note that short term implied valuations for the pair have also bounced and the pair may trade in the upper reaches of a 105.55-107.00 range in the interim.



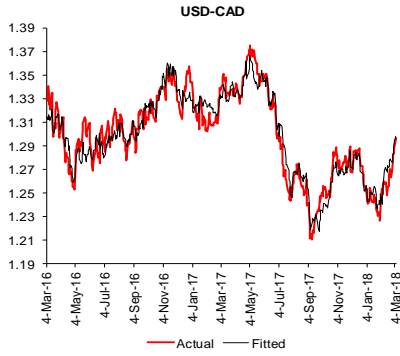
Source: OCBC Bank

- AUD-USD** We expect the RBA to remain essentially neutral at its policy meeting today. Nonetheless, short term implied valuations remain relatively underpinned and the 200-day MA (0.7790) may remain a key pivot point.



Source: OCBC Bank

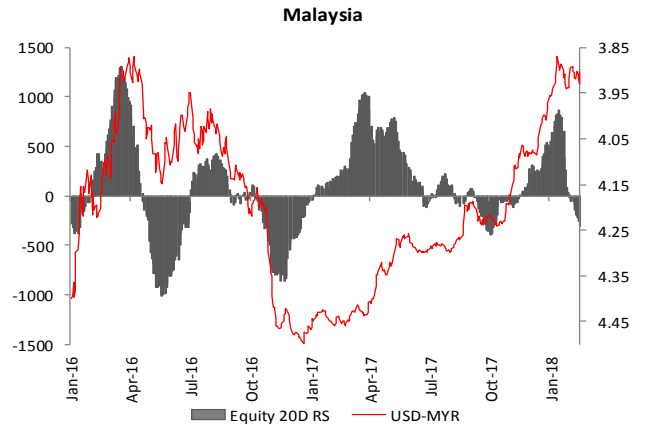
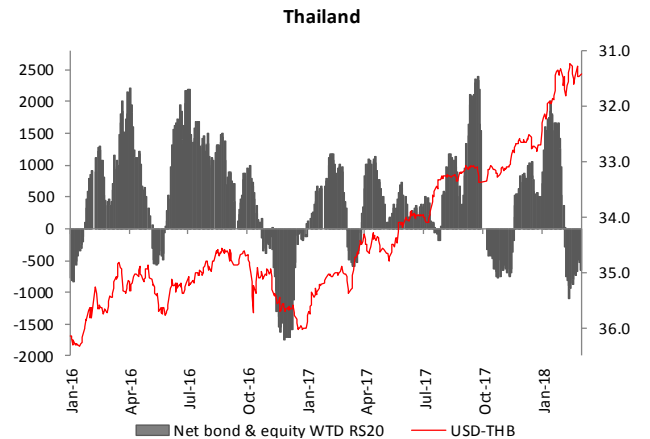
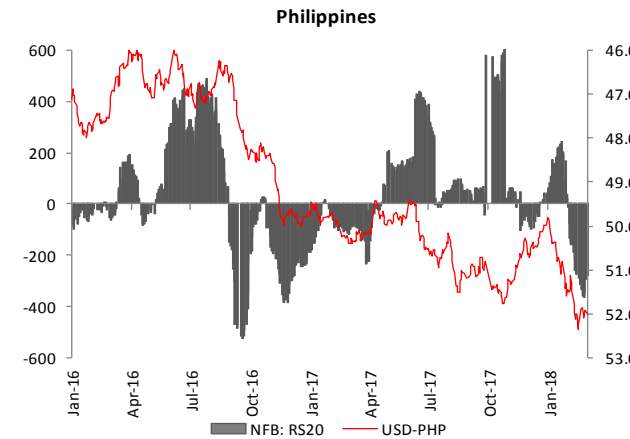
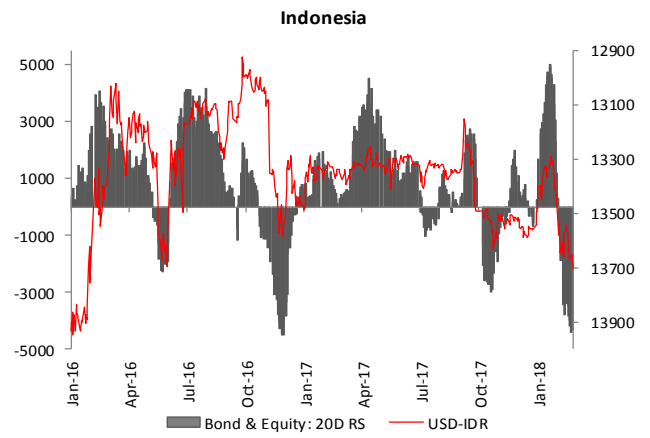
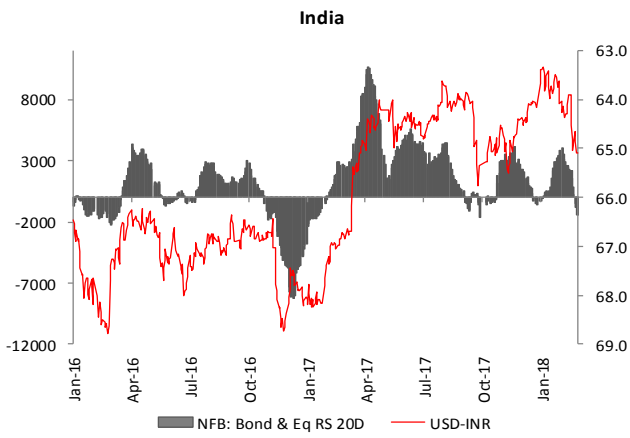
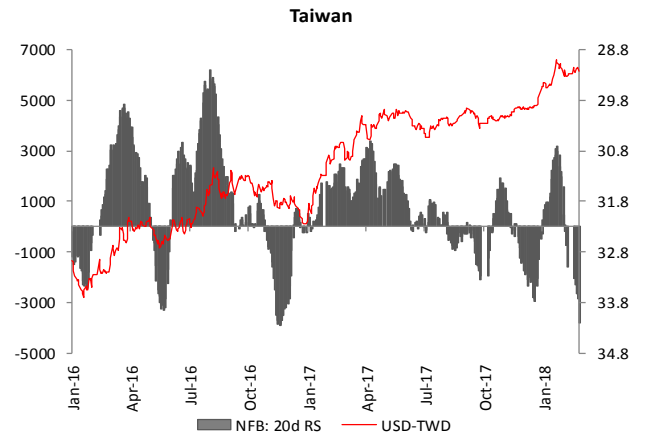
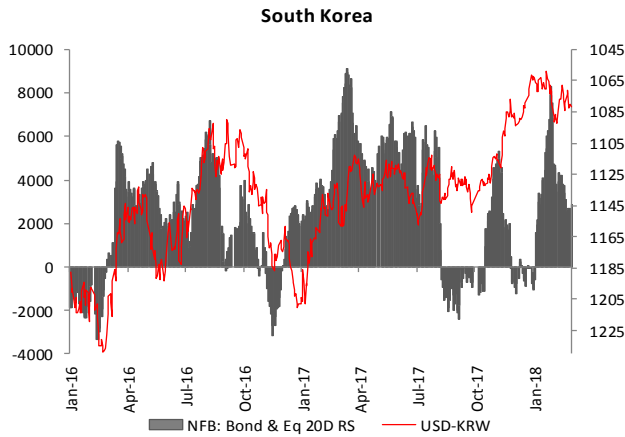
- GBP-USD** Feb UK services/composite PMIs surprised on the upside and despite prevailing uncertainty surrounding Brexit negotiations, the GBP-USD may attempt to hold above its 55-day MA (1.3809) in the short term with short term implied valuations still holding up. However, a terminal point for the near term upside is expected into 1.3950/60.



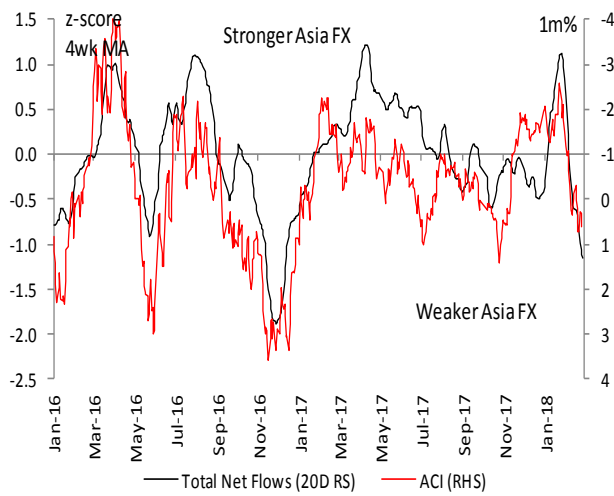
- USD-CAD** CAD trailed its G10 counterparts as negative NAFTA chatter (saber rattling from Trump and US officials) and the 1.3000 ceiling may continue to be contemplated at this juncture. Short term implied valuations for the pair also remain unequivocally oriented higher.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

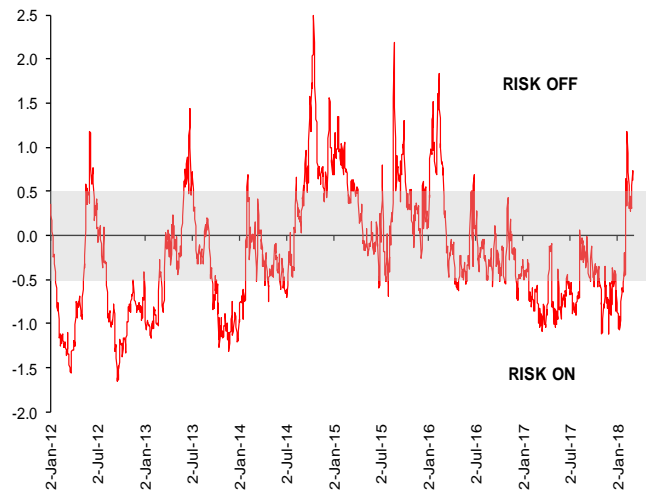


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.148	-0.041	-0.293	-0.154	-0.136	0.279	-0.121	0.147	-0.012	0.602	-0.969
CHF	0.938	-0.132	-0.119	-0.128	-0.117	-0.029	0.217	-0.021	0.057	-0.075	0.519	-0.870
SGD	0.864	-0.310	-0.247	-0.669	-0.276	-0.367	0.568	-0.253	0.527	-0.128	0.635	-0.856
CNH	0.602	0.048	0.619	-0.406	-0.084	-0.104	-0.097	-0.227	0.039	0.219	1.000	-0.601
INR	0.597	0.271	0.616	0.339	0.309	0.426	-0.462	0.196	-0.504	0.250	0.528	-0.590
CAD	0.575	0.179	0.571	0.227	0.201	0.409	-0.542	0.170	-0.424	0.216	0.553	-0.451
IDR	0.518	0.262	0.806	0.247	0.023	0.175	-0.626	-0.145	-0.582	0.551	0.521	-0.444
MYR	0.498	-0.174	0.209	-0.580	-0.610	-0.734	0.354	-0.687	0.281	0.404	0.329	-0.412
THB	0.481	-0.298	-0.147	-0.878	-0.611	-0.578	0.683	-0.415	-0.671	-0.001	0.479	-0.419
KRW	0.329	-0.564	-0.398	-0.732	-0.529	-0.438	0.642	-0.253	0.775	-0.203	-0.013	-0.193
JPY	0.279	-0.504	-0.821	-0.583	-0.368	-0.405	1.000	-0.079	0.811	-0.492	-0.097	-0.252
CNY	-0.041	0.489	1.000	0.144	0.061	0.102	-0.821	-0.242	-0.584	0.714	0.619	0.068
TWD	-0.042	-0.341	0.007	-0.702	-0.746	-0.706	0.403	-0.592	0.527	0.242	-0.027	0.161
USGG10	-0.148	1.000	0.489	0.461	-0.003	0.044	-0.504	-0.163	-0.773	0.531	0.048	0.106
PHP	-0.332	0.604	0.766	0.582	0.369	0.295	-0.759	0.003	-0.774	0.486	0.063	0.283
GBP	-0.856	0.224	-0.223	0.357	0.285	0.236	-0.041	0.311	-0.140	-0.118	-0.556	0.750
AUD	-0.858	0.041	-0.344	0.201	0.006	-0.094	0.150	0.021	0.036	-0.075	-0.723	0.791
NZD	-0.878	0.379	0.024	0.403	0.160	0.099	-0.177	0.071	-0.306	0.064	-0.608	0.786
EUR	-0.969	0.106	0.068	0.240	0.022	0.086	-0.252	0.053	-0.110	0.076	-0.601	1.000

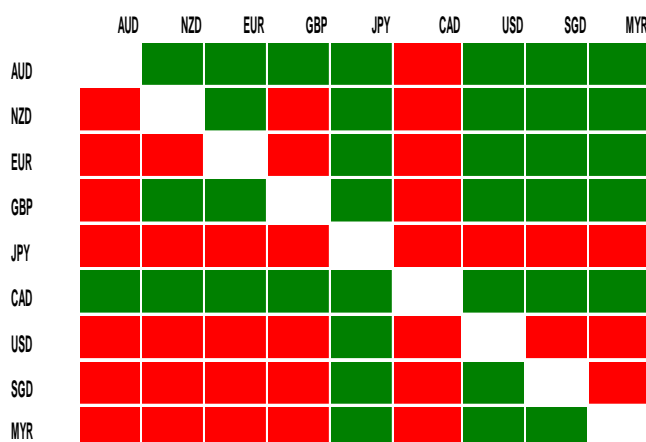
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2246	1.2300	1.2357	1.2400	1.2469
GBP-USD	1.3800	1.3845	1.3852	1.3900	1.4079
AUD-USD	0.7700	0.7713	0.7785	0.7786	0.7800
NZD-USD	0.7177	0.7200	0.7236	0.7257	0.7300
USD-CAD	1.2900	1.2968	1.2972	1.3000	1.3001
USD-JPY	105.25	106.00	106.43	107.00	109.18
USD-SGD	1.3082	1.3100	1.3170	1.3200	1.3212
EUR-SGD	1.6179	1.6200	1.6274	1.6300	1.6362
JPY-SGD	1.2154	1.2300	1.2376	1.2400	1.2484
GBP-SGD	1.8177	1.8200	1.8242	1.8294	1.8300
AUD-SGD	1.0204	1.0217	1.0254	1.0300	1.0424
Gold	1301.31	1303.60	1323.50	1327.19	1355.39
Silver	16.09	16.30	16.39	16.40	16.82
Crude	62.39	62.60	62.69	62.70	64.39

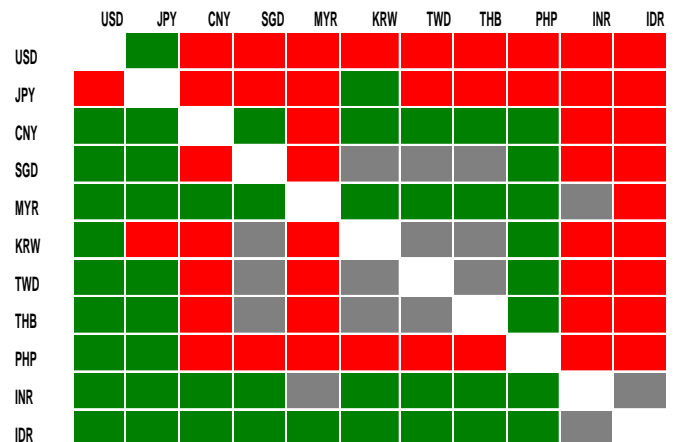
Source: OCBC Bank

G10 FX Heat Map



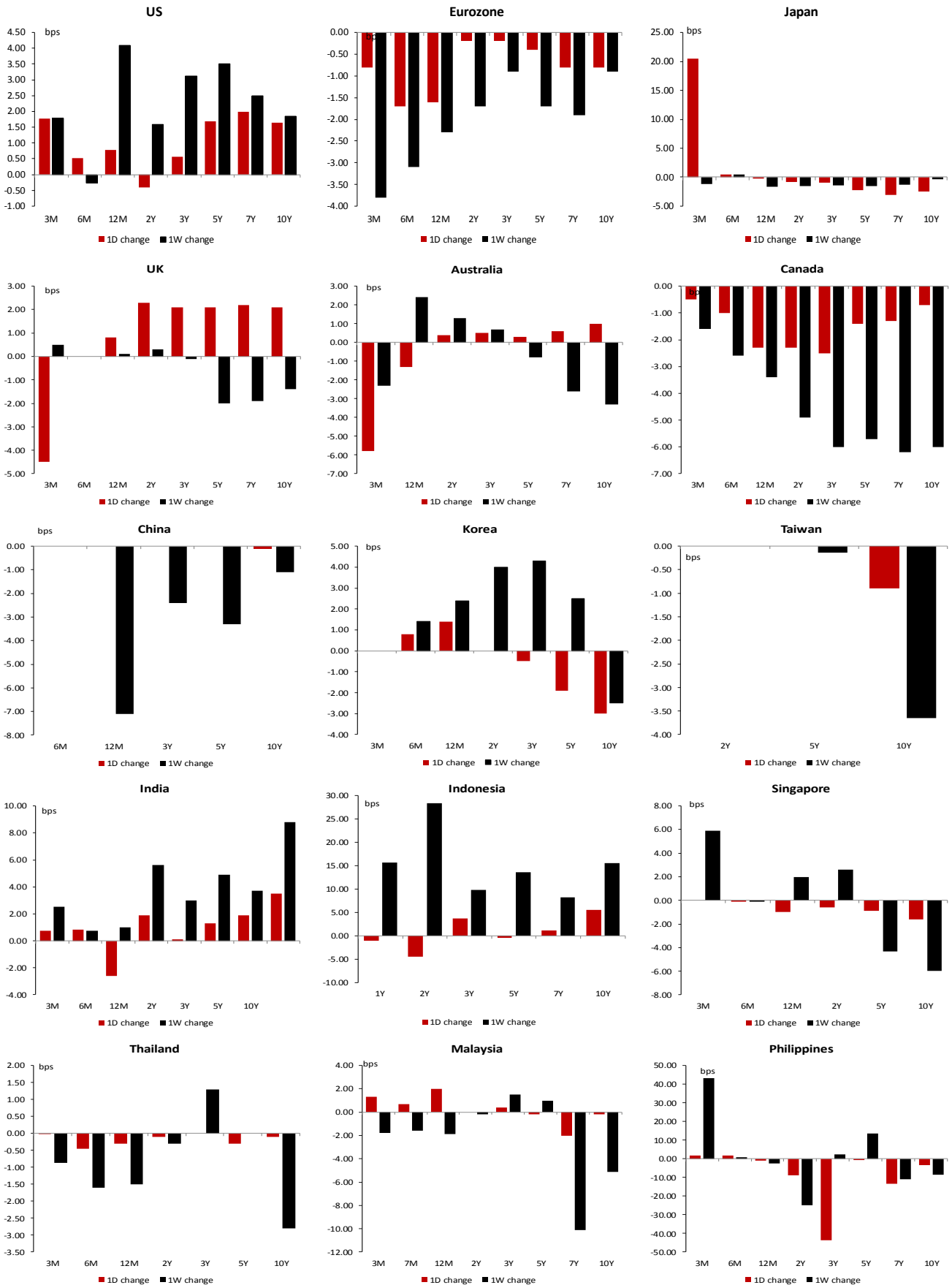
Source: OCBC Bank

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 vulerability 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 imputeBrexit talks in December. Prevailing USD weakness.	+5.56
2	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heay 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 poloitical 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 cycdicals	-1.03
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Source: OCBC Bank

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