

Friday, March 09, 2018

**FX Themes/Strategy/Trading Ideas**

- The USD pulled higher across G10 space on Thursday signed off on a watered down version of steel and aluminum tariffs (exemption for Mexico and Canada pending Nafta negotiations, with latitude for exemptions for other countries to apply for exemptions). Early in Asia on Friday, the Fed's George (hawk; non-voter) also noted that the tax overhaul had shifted economic outlook risks to the upside - positive for the USD.
- Meanwhile, the EUR was also weighed after the ECB Council meeting. Although the ECB omitted the prior reference to larger asset purchases, Draghi's subsequent caution towards a potential trade war undermined the common unit. Meanwhile, although the 2018 growth forecast was raised, the ECB's President continued to remain explicitly (and painstakingly) sanguine on inflation prospects.
- Sentiment in Asia was given a boost this morning after Fox News reported that North Korea has offered to halt nuclear testing and Kim Jong Un had offered to meet US President Trump. The White House subsequently stated that the President had accepted the invitation to meet.
- Overall, amid global equities, the **FXSI (FX Sentiment Index)** slipped further within Risk-Off territory on Thursday and the Index may potentially dip into Risk-Neutral territory by the end of the week.
- However, ahead of tonight's US NFP (mkts: +205k) at 1330 GMT, the DXY may remain buoyant after surfacing above 90.00 overnight, especially with the Pyongyang headlines this morning lending support to the greenback (but not for the cyclicals). To this end, note softer UST/bund yields overnight.
- With negative US-centric headline risks still prevalent, rate differentials bearing little relevance in the near term, risk appetite levels estimated to be in Risk-Off territory, and short term implied valuations southbound, the **USD-JPY** we think may remain on a slippery slope. We initiated a tactical short USD-JPY at 106.00 on Thursday, targeting 103.80 and place a stop at 107.10.

Treasury Research &  
Strategy

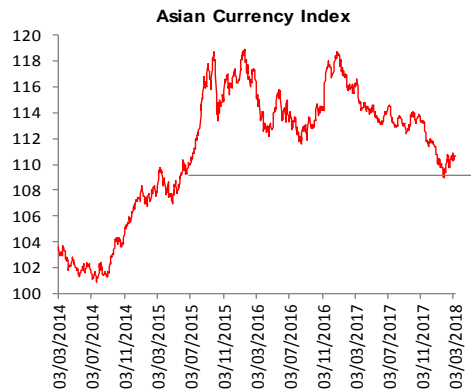
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**Asian FX**

- An unusual mix of strong positive Asian equities but USD resilience may prevail into the US NFP later today. On the net portfolio inflow front, the KRW (already underpinned by the latest de-nuclearization headlines) is expected to be on relatively firmer footing compared to the likes of the INR

and IDR. Elsewhere, net outflows for the THB are attempting to stabilize. As we noted previously, with little in the way of a strong net inflow buffer, expect USD-Asia to be held hostage by the firmer USD intra-day. Overall, the **ACI (Asian Currency Index)** is expected to drift higher within its recent range.

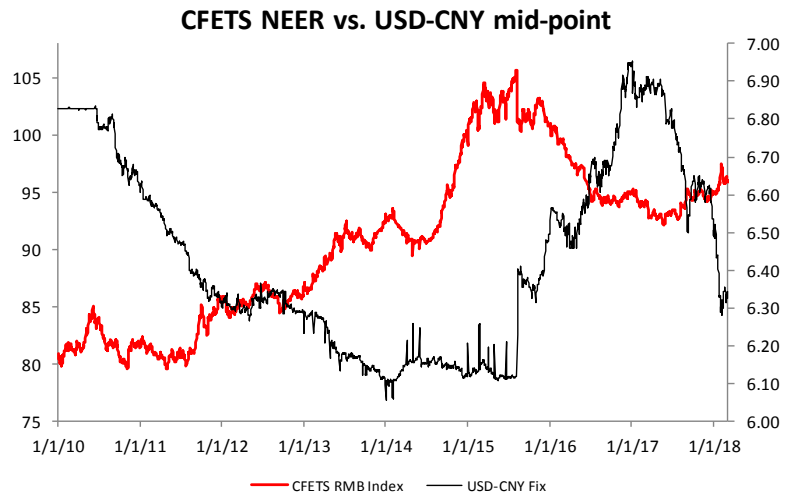
- **China:** Despite the seasonality attached to the month, the raft of February economic releases remain indicative of a stable macroeconomic outlook, with aggregate financing clocking a better than expected CNY1.17tn. The PPI reading softened to 3.7% yoy (from 4.3%) while CPI picked up to 2.9% yoy from 1.5% on the back of base effects. Note that the PBOC’s Zhou reiterated this morning that the China is in a stage of stabilizing leverage.
- **Thailand:** The BOT governor continues to emphasize the accommodative stance of monetary policy, adding that inflationary pressure are negligible.
- **SGD NEER:** The SGD NEER is a tough higher at around +0.40% above its perceived parity (1.3239) with NEER-implied USD-SGD thresholds firmer on the day amid the current greenback environment. Expect a +0.20% (1.3213) to +0.50% (1.3174) range. On the upside, expect also the 55-day MA (1.3225) to cap with the downside bordered by 1.3140.



	SGD NEER	% deviation	USD-SGD
Current	124.76	0.40	1.3185
+2.00%	126.74		1.2980
Parity	124.26		1.3239
-2.00%	121.77		1.3509

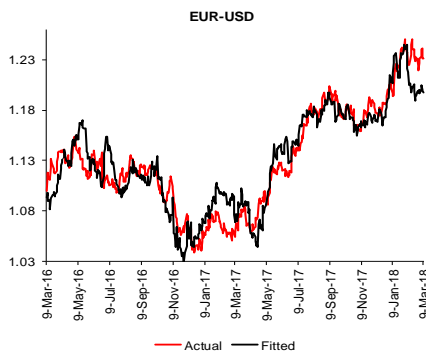
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point rose (as largely expected) to 6.3451 from 6.3239 on Thursday, pulling the CFETS RMB Index lower to 95.95 from 95.97. Overall, the relative stability on the Index continues despite the broad dollar’s recent gyrations. Elsewhere, CNH riskies have also moderated from pricing in significantly stronger USD prospects at this juncture.



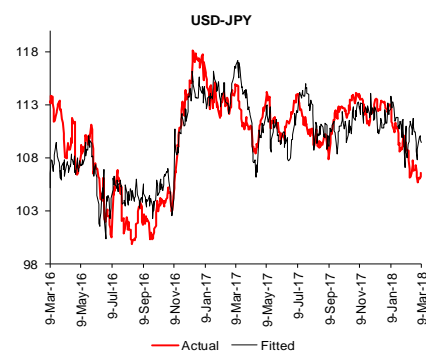
Source: OCBC Bank, Bloomberg

G7



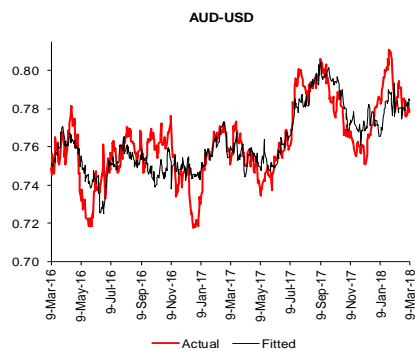
Source: OCBC Bank

- EUR-USD** With Draghi masterfully fending off untoward EUR strength as the ECB gradually alters its forward guidance, note that short term implied valuations remain static (if not slightly top heavy in the near term). In the interim, preference to fade upticks within the 55-day MA (1.2241) and 1.2450 ahead of the US NFP.



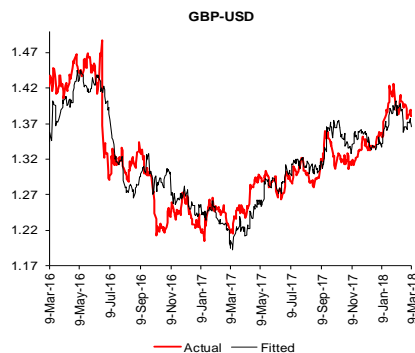
Source: OCBC Bank

- USD-JPY** The BOJ MPC this morning saw policy parameters unchanged as expected but expect governor Kuroda to continue to downplay any hawkish policy expectations. Despite the market's positive take on the USD-JPY in the face of the Pyongyang-related headlines this morning, note that short term implied valuations for the pair remain soggy. Expect a 106.20-107.35 range pre-NFP.



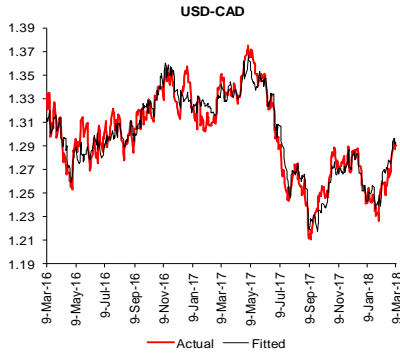
Source: OCBC Bank

- AUD-USD** The recovery in global risk appetite levels, if it manages to sustain itself beyond the next 12 hours, may eventually serve to underpin the likes of the AUD (although the specter of global trade tensions may not dissipate that rapidly). The AUD-USD may thus continue to orbit (albeit still a little top heavy) its 200-day MA (0.7796) pending further external cues.



Source: OCBC Bank

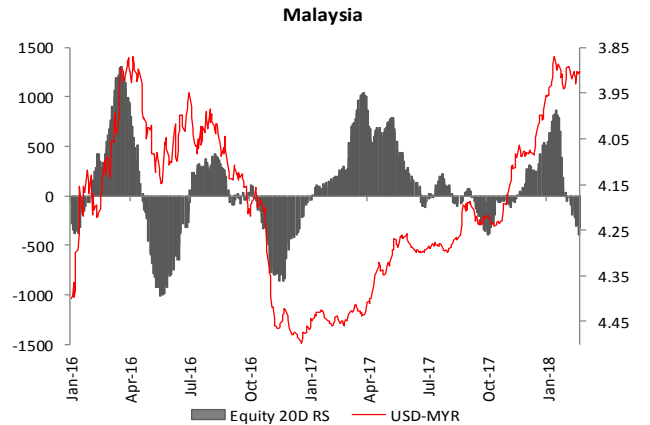
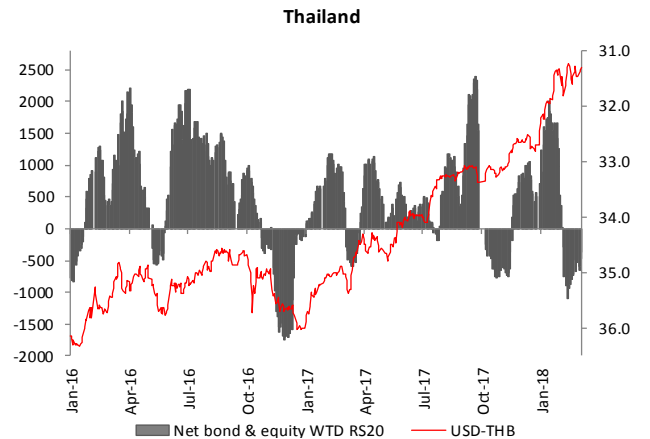
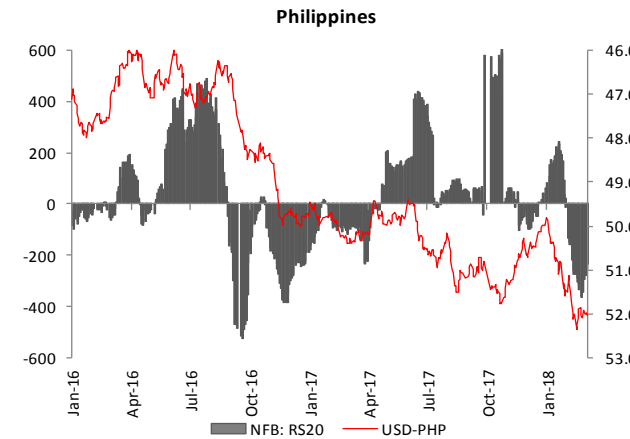
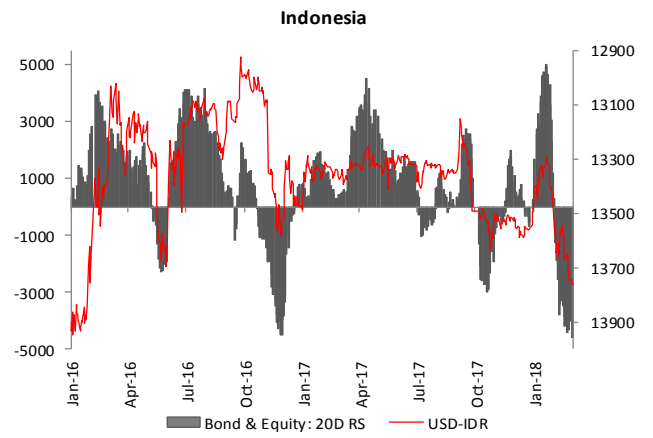
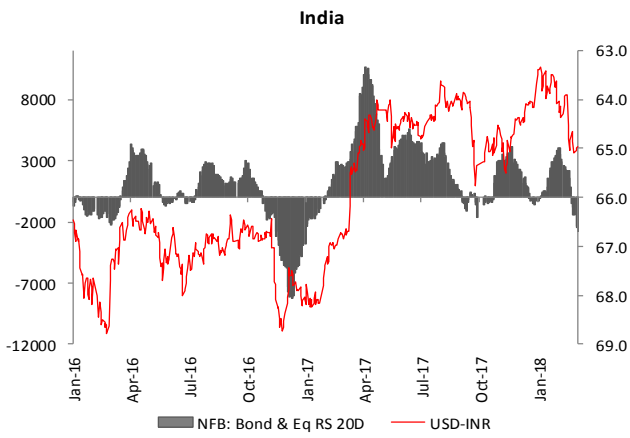
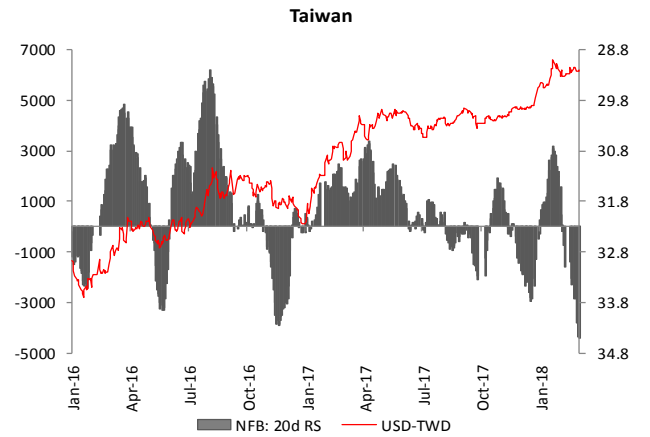
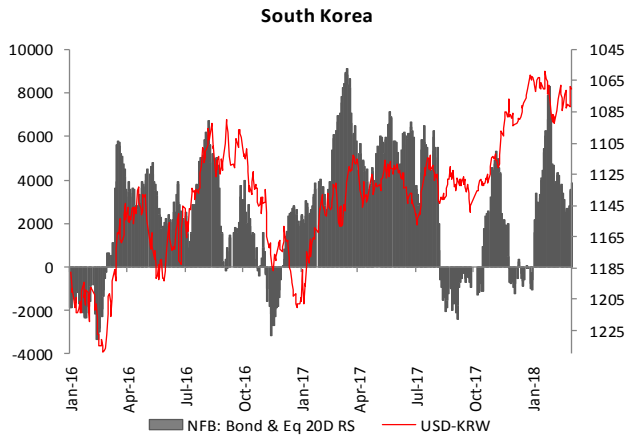
- GBP-USD** Short term implied valuations are dipping slightly and this may keep the cable on the south side of its 55-day MA (1.3834). Structurally, note also less than "friendly" Brexit-related headlines thus far this week, keeping the EUR-GBP persistently above 0.8900 despite Draghi yesterday.



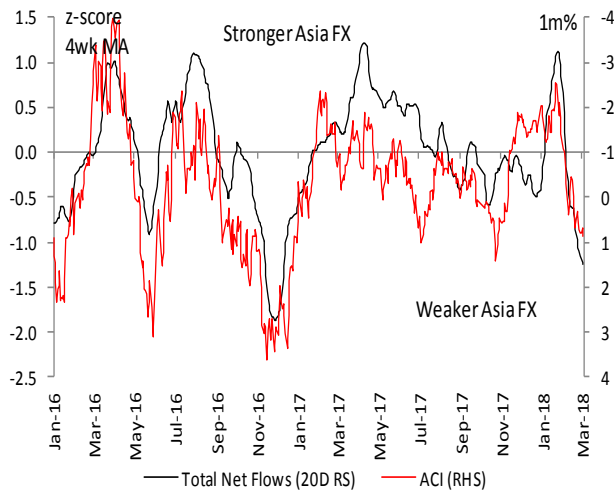
- USD-CAD** The CAD may receive a reprieve after the latest tariff exemption from the US and the pair may hug the 1.2900 handle in the interim. Note however that short term implied valuations for the pair remain aloft and investors may continue pick bottoms within 1.2800-1.36000.

Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

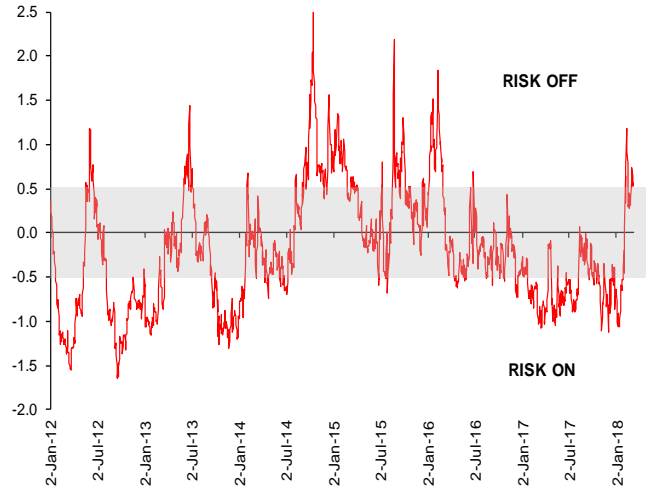


### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.344	-0.089	-0.324	-0.101	-0.144	0.321	-0.110	0.269	-0.099	0.612	-0.946
SGD	0.845	-0.384	-0.182	-0.695	-0.307	-0.420	0.617	-0.238	0.645	-0.036	0.616	-0.872
CHF	0.802	-0.290	-0.134	-0.002	-0.008	0.073	0.087	-0.086	-0.013	-0.318	0.487	-0.632
CNH	0.612	-0.068	0.638	-0.403	-0.029	-0.116	-0.049	-0.266	0.100	0.146	1.000	-0.595
INR	0.531	0.082	0.532	0.351	0.458	0.527	-0.487	0.241	-0.493	-0.015	0.510	-0.427
MYR	0.481	-0.485	0.061	-0.707	-0.567	-0.730	0.510	-0.589	0.595	0.378	0.302	-0.433
THB	0.463	-0.384	-0.159	-0.899	-0.650	-0.606	0.738	-0.376	0.815	0.102	0.446	-0.459
CAD	0.458	0.093	0.433	0.295	0.271	0.494	-0.575	0.127	-0.482	-0.036	0.485	-0.286
IDR	0.385	0.034	0.568	0.298	0.189	0.358	-0.654	-0.042	-0.550	0.180	0.426	-0.186
KRW	0.375	-0.516	-0.325	-0.724	-0.635	-0.499	0.682	-0.215	0.804	0.071	-0.004	-0.352
JPY	0.321	-0.406	-0.670	-0.591	-0.525	-0.537	1.000	-0.148	0.829	-0.259	-0.049	-0.364
TWD	-0.006	-0.527	-0.092	-0.753	-0.762	-0.690	0.510	-0.512	0.714	0.326	-0.041	-0.024
CNY	-0.089	0.322	1.000	0.073	0.269	0.144	-0.670	-0.166	-0.458	0.576	0.638	0.074
USGG10	-0.344	1.000	0.322	0.419	0.358	0.295	-0.406	0.172	-0.606	0.234	-0.068	0.300
PHP	-0.375	0.606	0.718	0.577	0.514	0.383	-0.728	0.085	-0.796	0.361	0.039	0.340
GBP	-0.835	0.404	-0.162	0.312	0.230	0.178	-0.038	0.348	-0.163	0.003	-0.554	0.685
AUD	-0.843	0.195	-0.308	0.194	-0.064	-0.135	0.106	0.037	-0.014	0.053	-0.720	0.759
NZD	-0.891	0.422	0.027	0.354	0.202	0.113	-0.167	0.171	-0.260	0.039	-0.620	0.784
EUR	-0.946	0.300	0.074	0.316	-0.031	0.143	-0.364	0.018	-0.285	0.111	-0.595	1.000

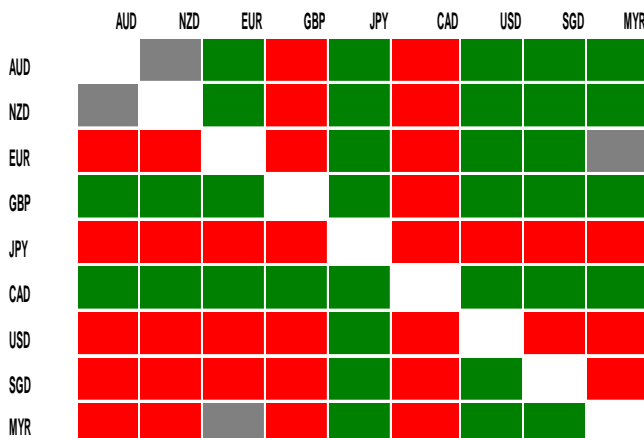
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2271	1.2300	1.2310	1.2400	1.2481
GBP-USD	1.3724	1.3800	1.3804	1.3870	1.3900
AUD-USD	0.7713	0.7715	0.7783	0.7792	0.7800
NZD-USD	0.7178	0.7200	0.7263	0.7270	0.7300
USD-CAD	1.2668	1.2900	1.2906	1.3000	1.3001
USD-JPY	105.31	106.00	106.67	107.00	108.18
USD-SGD	1.3087	1.3100	1.3182	1.3197	1.3200
EUR-SGD	1.6197	1.6200	1.6227	1.6300	1.6369
JPY-SGD	1.2206	1.2300	1.2358	1.2400	1.2479
GBP-SGD	1.8140	1.8159	1.8196	1.8200	1.8309
AUD-SGD	1.0201	1.0204	1.0259	1.0300	1.0416
Gold	1302.77	1303.60	1318.10	1329.84	1355.76
Silver	16.11	16.30	16.33	16.40	16.82
Crude	59.70	60.00	60.20	62.49	64.16

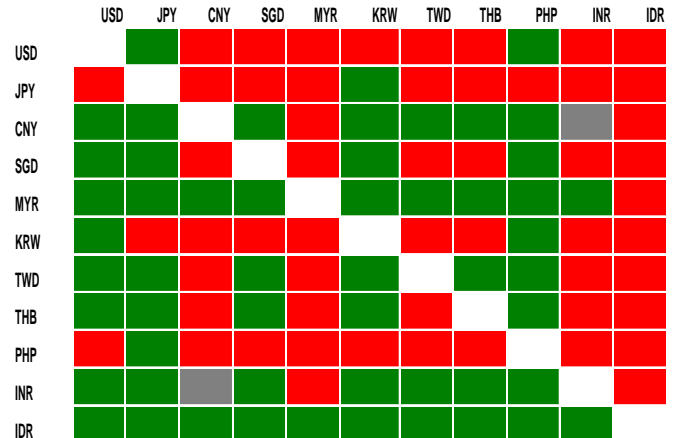
Source: OCBC Bank

### G10 FX Heat Map



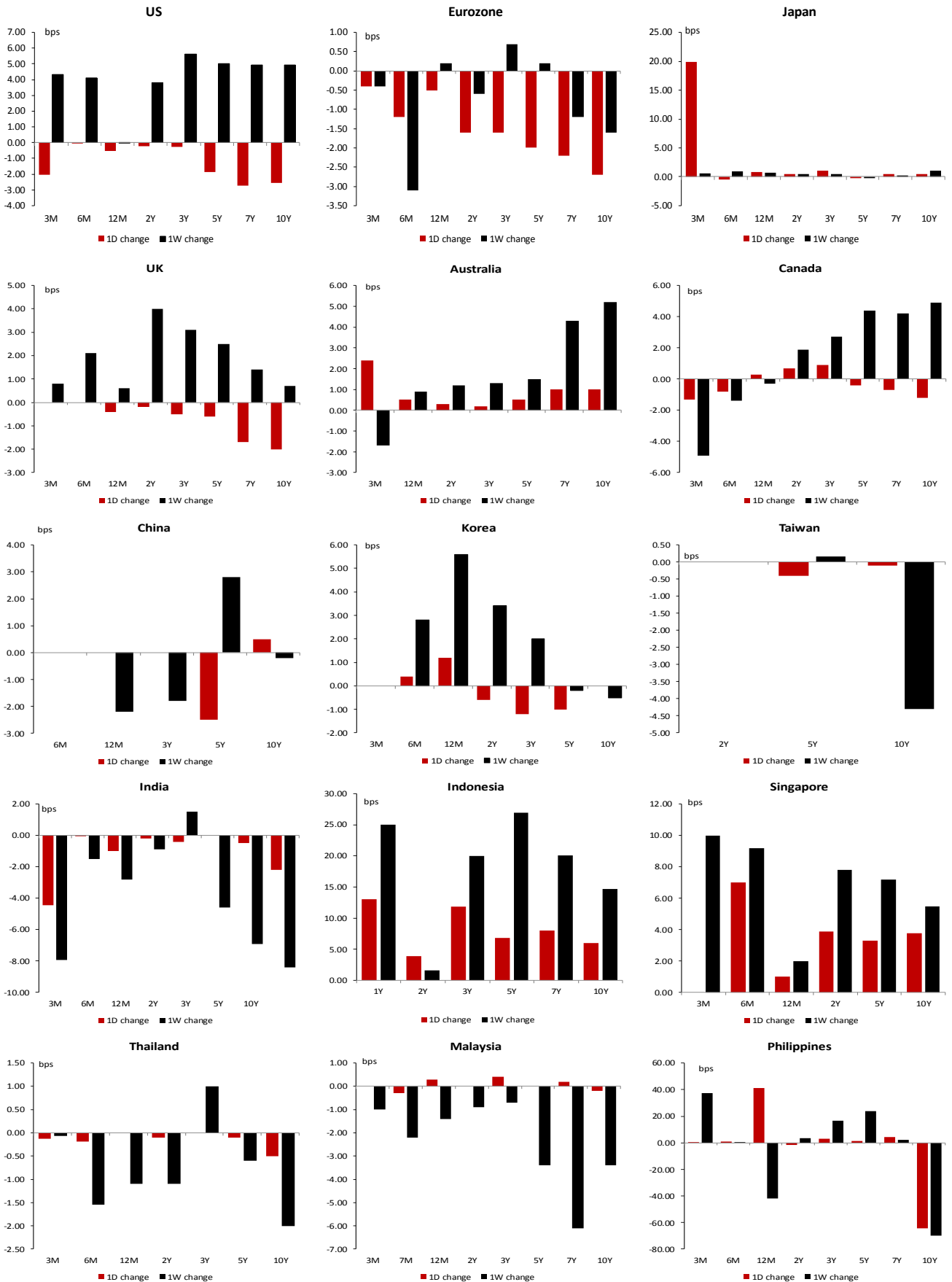
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

**Government bond yield changes**





### FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	22-Feb-18	B	USD-CAD	1.2696	1.3230	1.2820	Post FOMC minutes, rising implied valuations for the pair	
2	06-Mar-18	S	AUD-USD	0.7765	0.7590	0.7855	Non-hawkish RBA meeting outcome, vulnerability to USD resilience	
3	08-Mar-18	S	USD-JPY	106.00	103.80	107.10	White House policy uncertainty, risk aversion	
<b>STRUCTURAL</b>								
4	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
5	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
6	15-Feb-18	B	GBP-USD	1.4014	1.4855	1.3590	Borad dollar vulnerability coupled with hawkish BOE expectations.	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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

Source: OCBC Bank

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