

Tuesday, April 10, 2018

**FX Themes/Strategy/Trading Ideas**

- With global equities bouncing, the dollar slipped against the majors on Monday as global trade tensions dissipated slightly with the Cohen-FBI headlines providing further fodder for dollar bears. On this front, US President Trump noted that the administration would “probably” reach an agreement while today, President Xi Jinping’s highly anticipated speech at the Boao Forum will be closely scrutinized. Needless to say market reactions to China’s responses are expected to sway markets to a greater degree, given the increasingly numb responses to the constant barrage out of the US administration.
- The **FXSI (FX Sentiment Index)** ticked lower but remained within Risk-Off territory on Monday – note US equities came off highs by end of trade. Apart from Sin-US trade tensions and the resultant global market equity reactions, note ongoing Syrian headlines, and US sanctions on Russia, may also keep investors edgy.
- To this end, markets may however continue to remain skeptical, with sentiment also spooked temporarily by a report on Monday that China may be considering yuan depreciation as a potential tool in the trade dispute. On a more positive note, background sentiment in Asia may be underpinned somewhat by headlines indicating continued willingness by Pyongyang to denuclearize.
- On the US front, we’d continue to monitor ensuing Fed rhetoric with respect to the ongoing trade dispute between the US and China. In the interim, note that latest comments from the Fed’s Kaplan still telegraphing gradualism but noting the potential “chilling effect” on business. Interestingly he also noted that he did not want “knowingly tighten into a flat or inverted yield curve”.
- For today, the Fed’s Kaplan (0830 GMT) and Bostic (2230 GMT) are on tap while ECB appearance include Nouy (0730 GMT), Nowotny (0745 GMT), Visco (1530 GMT). Notable data points include US PPI (1230 GMT).
- **Overall, with the CBO warning that the US budget deficit will breach USD1tn by 2020 (instead of 2022), expect de facto dollar vulnerability to assert itself if global trade tensions managed to notch a rung or two lower multi-session.**

Treasury Research &  
Strategy

**Emmanuel Ng**

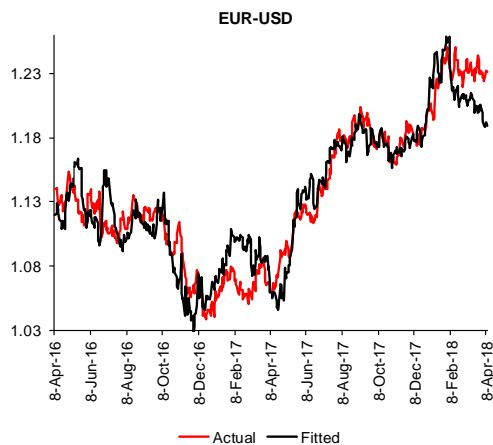
+65 6530 4073

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

**Terence Wu**

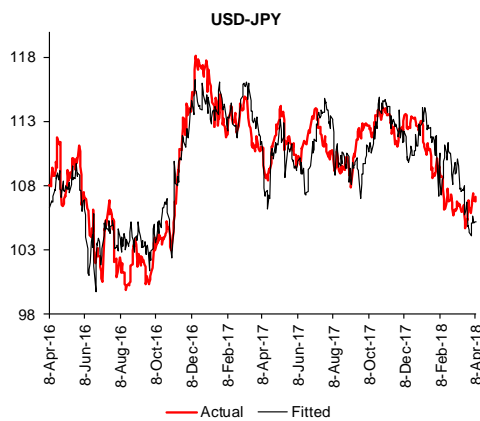
+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

**G7**

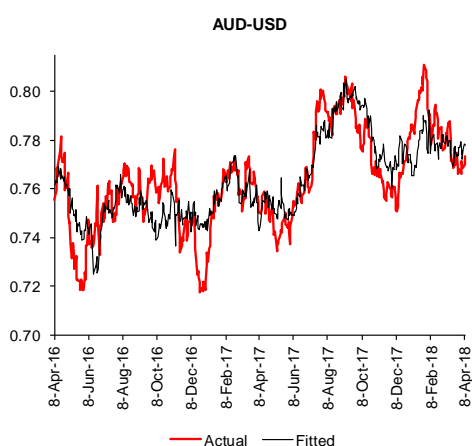
Source: OCBC Bank

- **EUR-USD** On other fronts, the EUR found inherent support after the ECB's Draghi noted that recent equity market has not materially impacted EZ financial conditions. Short term implied valuations however continue to remain top heavy and the 55-day MA (1.2340) may continue to cap in the interim. Expect initial support into 1.2280 on the downside



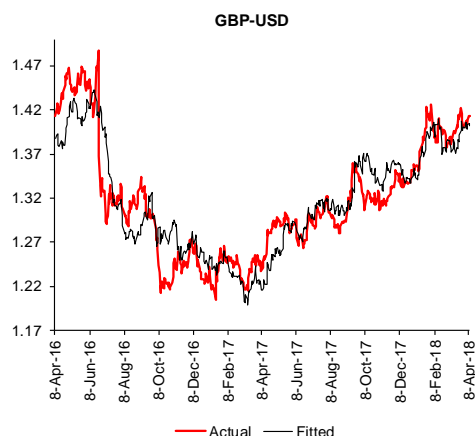
Source: OCBC Bank

- **USD-JPY** A slightly more sanguine risk appetite environment may finally see the USD-JPY slightly more pre-disposed to the upside. However, short term implied valuations for the USD-JPY remain relatively subdued and this may discourage excessive upside beyond the 55-day MA (107.15) pending further headlines.

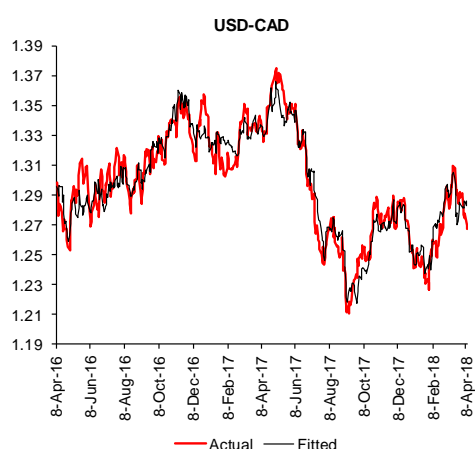


Source: OCBC Bank

- **AUD-USD** On the flip side, AUD-USD may attempt to base build (until the next bout of risk aversion) intra-day with short term implied valuations also looking a tad more supported at this juncture. With 0.7700 serving as a base, expect the 100-day MA (0.7786) to cap for now.



- **GBP-USD** Risks may continue remain skewed higher within 1.4000-1.4200 with short term implied valuations still looking generally supported. Note also supportive housing price data from Monday.



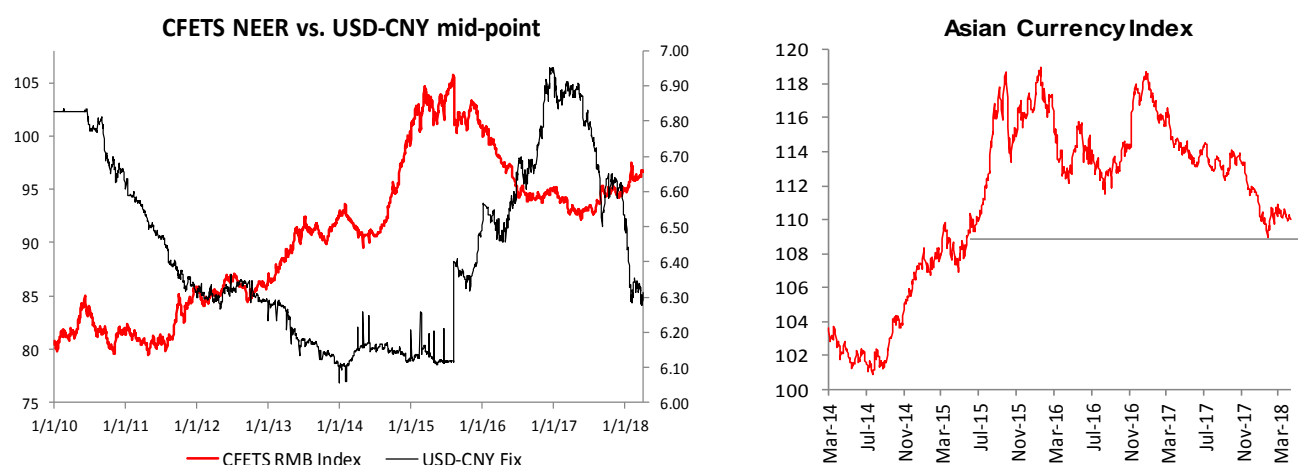
- **USD-CAD** The improvement in risk appetite and crude (plus encouraging readouts from the BOC business outlook survey) pressured USD-CAD lower on Monday despite short term implied valuations for the USD-CAD still holding up. If the foothold at the 100-day MA (1.2690) is lost, expect a drift towards the 200-day MA (1.2632).

Source: OCBC Bank

## Asian FX

- Net portfolio inflows in Asia meanwhile denote waning net inflows for South Korea and some attempt to stabilize in terms of net outflows for Taiwan. India (equities) and Indonesia (bonds) continue to build on a net inflow balance. Similarly Thailand continues to experience still strong (bond) inflows. Overall, this framework continues to suggest relative outperformance of the INR, IDR, and THB. Overall, expect the **ACI (Asian Currency Index)** to test lower (i.e., softer USD-Asia) if market sentiment continues to improve.
- **Thailand:** Governor Veerathai reiterated the BOT's accommodative stance yesterday, citing the lack of inflationary pressures. He also noted that the BOT will be ready to smooth excessive moves in the THB.
- **Indonesia:** The government looks to keep 2019 budget deficit below 2% of GDP. The 2018 budget deficit stands at 2.19% of GDP.
- **SGD NEER:** The SGD NEER is higher on the day at around +0.58% above its perceived parity (1.3183), with NEER-implied USD-SGD thresholds marginally firmer on the day. Expect a range of +0.40% (1.3130) to +0.70% (1.3091) intra-day.

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell less than expected to 6.3071 from 6.3114 yesterday, taking the CFETS RMB Index higher to 96.63 from 96.60 yesterday.

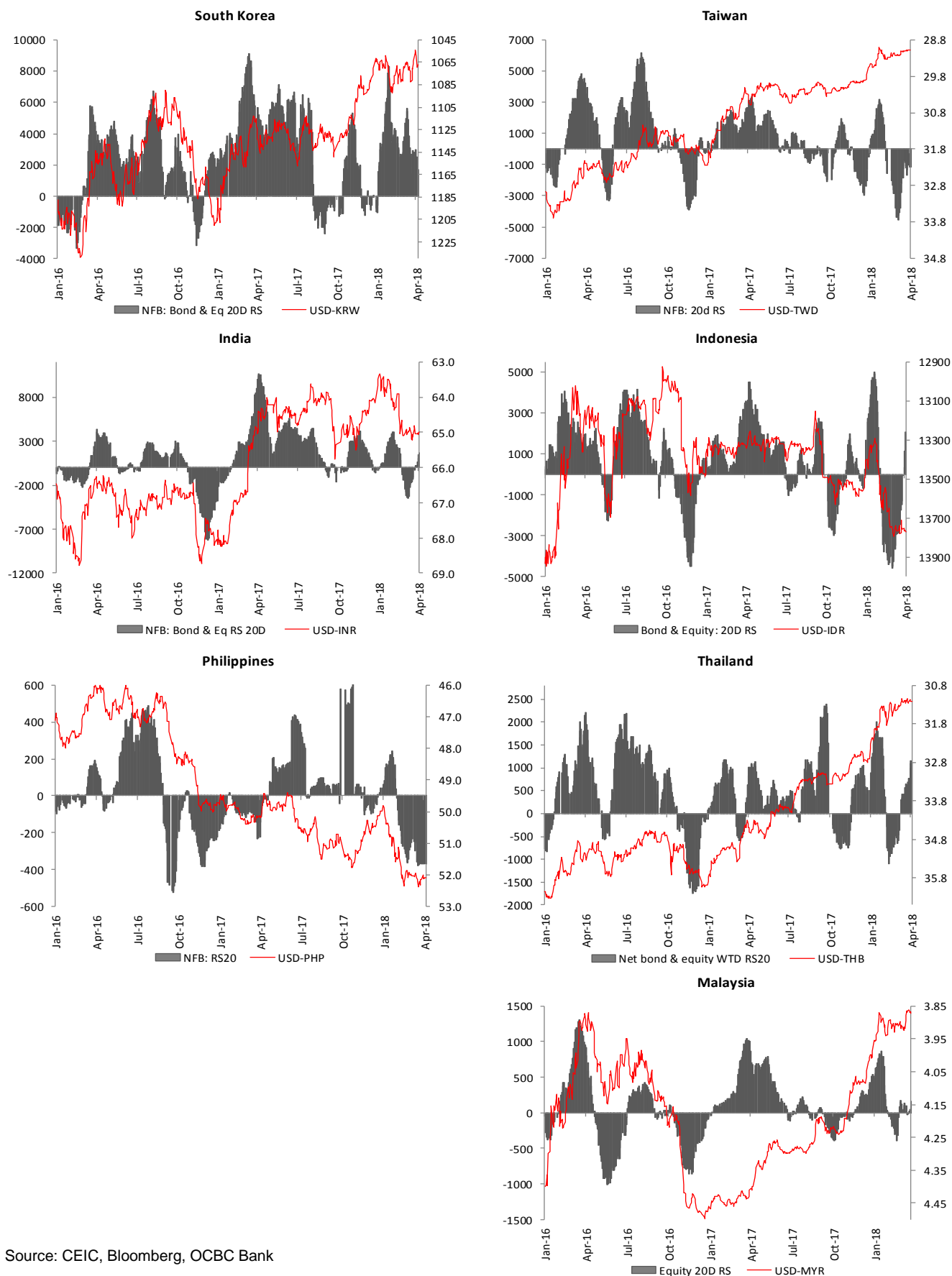


Source: OCBC Bank, Bloomberg

Currency	S.T. bias	Rationale
USD-CNH	↔	Relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔/↓	Easing tensions with the North, net portfolio inflows moderating somewhat
USD-TWD	↔/↑	Net equity outflows, new CBC governor non-hawkish
USD-INR	↔/↓	RBI static in March, foreign investor limit on government bonds eased, net bond inflows, less aggressive fiscal borrowing plans
USD-SGD	↔/↑	NEER hovering around parity; MAS expected to be static in April, pair buffeted by global trade tension headlines
USD-MYR	↔/↓	BNM remains accommodative; country on election watch
USD-IDR	↔/↓	BI containing IDR volatility, sees little room to cut rates; fundamentals intact, rebound in net bond inflows
USD-THB	↔/↓	BOT remains accommodative (despite 1 dissenting vote at the latest MPC), bond inflows strengthening
USD-PHP	↔/↑	Net equity outflows, BSP downplaying rate hike expectations but remains vigilant towards inflation risks

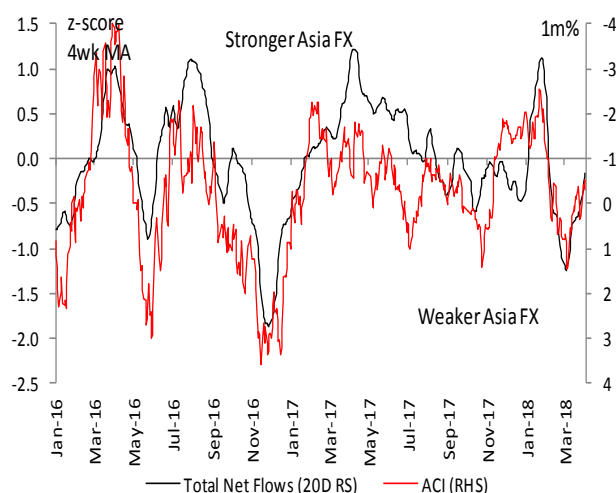
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



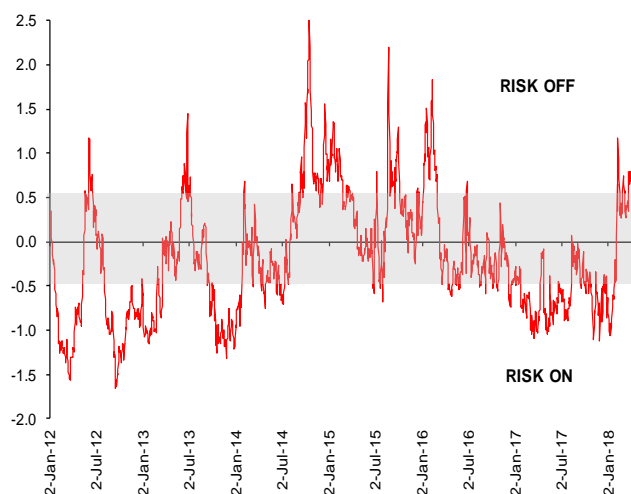
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXF	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXF	1.000	-0.093	0.262	0.068	-0.137	-0.575	0.675	-0.324	-0.261	-0.037	0.216	-0.948
CHF	0.767	-0.359	-0.218	-0.430	-0.657	-0.586	0.677	0.071	0.181	0.449	-0.209	-0.832
JPY	0.675	-0.088	0.044	0.153	-0.198	-0.624	1.000	-0.469	-0.392	-0.124	0.022	-0.558
SGD	0.499	0.433	0.728	0.147	0.240	-0.250	0.020	-0.133	-0.102	-0.111	0.671	-0.603
INR	0.311	0.224	0.285	-0.177	-0.082	-0.113	0.084	0.310	0.200	0.321	0.172	-0.432
IDR	0.306	-0.150	0.155	-0.311	-0.425	-0.178	0.226	0.148	0.230	0.211	0.110	-0.425
CNY	0.262	0.732	1.000	0.669	0.759	-0.064	0.044	-0.474	-0.535	-0.583	0.968	-0.287
CNH	0.216	0.608	0.968	0.583	0.686	-0.070	0.022	-0.521	-0.443	-0.563	1.000	-0.237
THB	0.120	0.026	0.299	-0.023	-0.070	0.076	0.230	0.024	0.044	-0.016	0.303	-0.169
CAD	0.069	0.413	0.530	0.535	0.712	0.049	-0.329	-0.261	-0.390	-0.525	0.423	0.035
TWD	-0.006	0.496	0.600	0.787	0.698	-0.123	0.349	-0.757	-0.739	-0.811	0.590	0.155
USGG10	-0.093	1.000	0.732	0.728	0.711	0.185	-0.088	-0.164	-0.601	-0.406	0.608	0.083
MYR	-0.239	0.804	0.790	0.627	0.821	0.377	-0.478	-0.117	-0.409	-0.460	0.679	0.212
AUD	-0.273	0.499	0.409	0.796	0.690	0.101	0.021	-0.608	-0.698	-0.757	0.393	0.434
NZD	-0.352	0.002	-0.106	0.280	0.056	-0.101	0.270	-0.401	-0.322	-0.359	-0.069	0.440
GBP	-0.570	-0.188	-0.475	-0.693	-0.491	0.365	-0.371	0.771	0.722	0.760	-0.454	0.368
PHP	-0.642	-0.060	-0.296	-0.500	-0.306	0.603	-0.539	0.768	0.637	0.570	-0.281	0.456
KRW	-0.692	0.356	0.169	-0.039	0.202	0.626	-0.592	0.455	0.242	0.133	0.184	0.564
EUR	-0.948	0.083	-0.287	0.117	0.251	0.539	-0.558	0.145	0.045	-0.160	-0.237	1.000

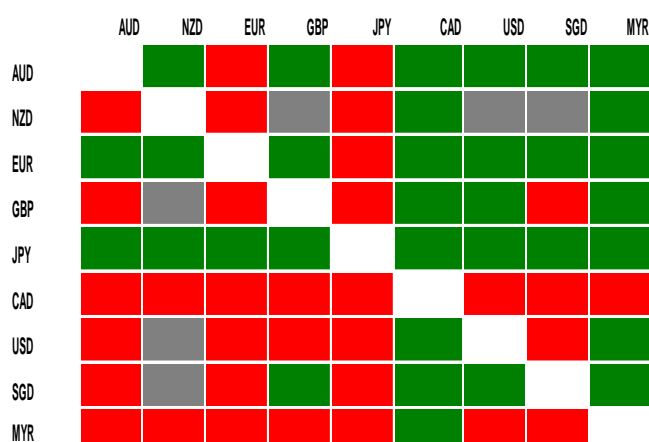
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2220	1.2300	1.2325	1.2334	1.2400
GBP-USD	1.3989	1.4100	1.4136	1.4200	1.4215
AUD-USD	0.7610	0.7643	0.7698	0.7700	0.7799
NZD-USD	0.7281	0.7300	0.7310	0.7335	0.7355
USD-CAD	1.2688	1.2700	1.2704	1.2757	1.2800
USD-JPY	104.96	106.00	106.67	106.95	107.00
USD-SGD	1.3076	1.3100	1.3113	1.3164	1.3191
EUR-SGD	1.6074	1.6100	1.6161	1.6200	1.6237
JPY-SGD	1.2205	1.2235	1.2293	1.2300	1.2311
GBP-SGD	1.8415	1.8500	1.8536	1.8600	1.8653
AUD-SGD	1.0000	1.0020	1.0094	1.0100	1.0255
Gold	1306.95	1329.24	1334.60	1352.36	1356.80
Silver	16.11	16.40	16.49	16.50	16.51
Crude	62.73	63.20	63.25	63.30	66.40

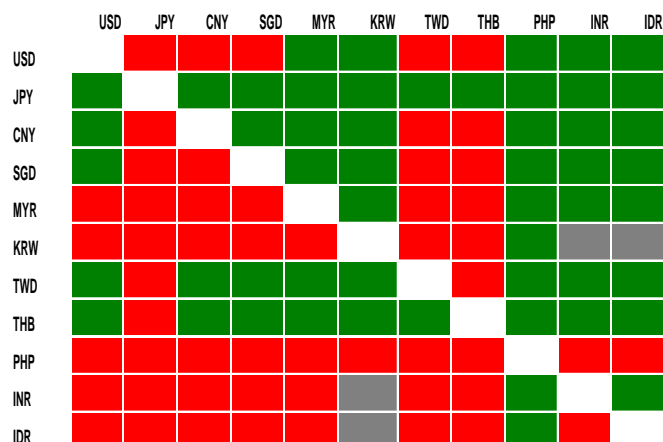
Source: OCBC Bank

### G10 FX Heat Map



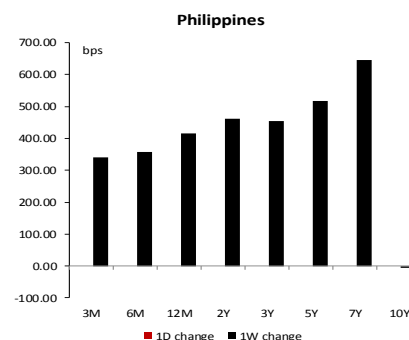
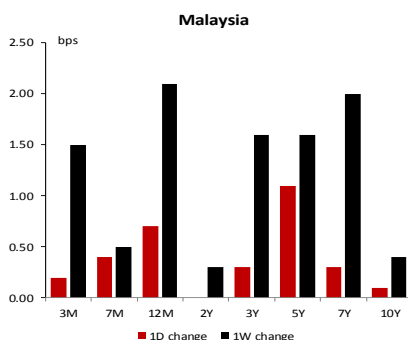
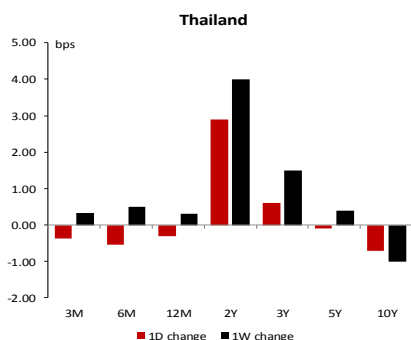
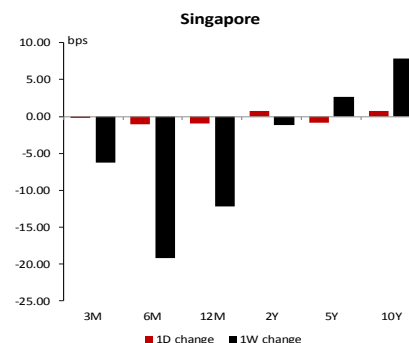
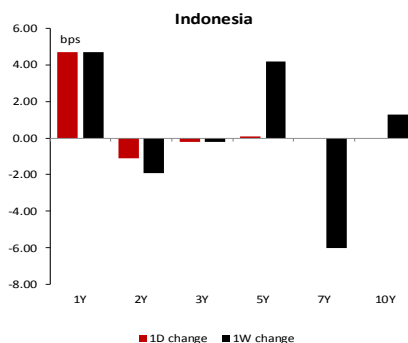
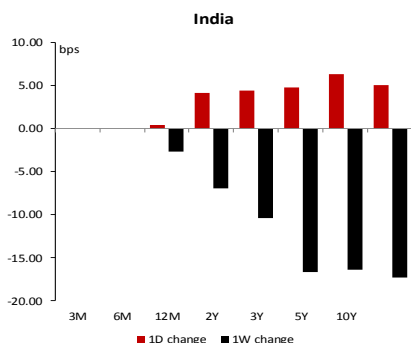
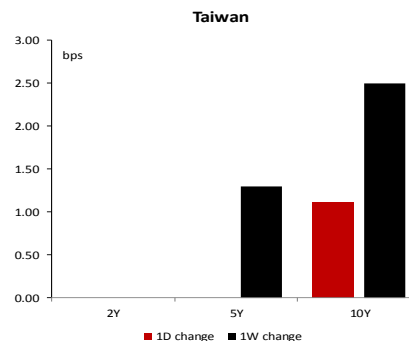
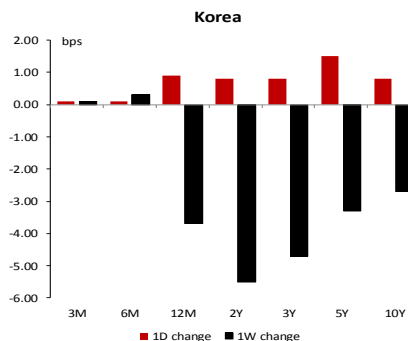
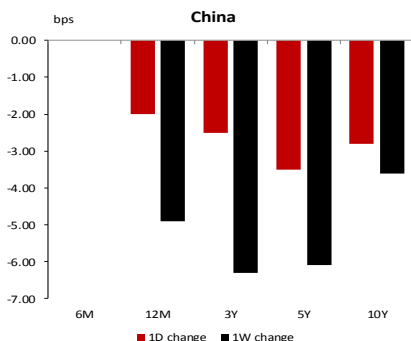
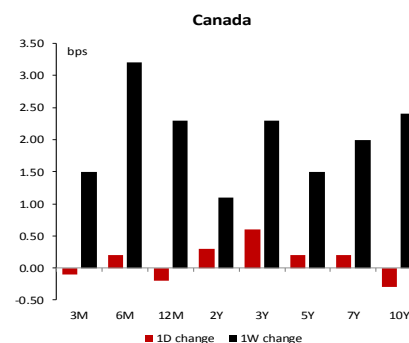
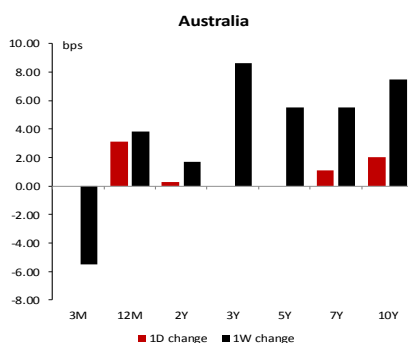
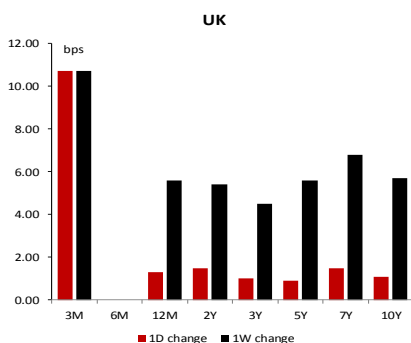
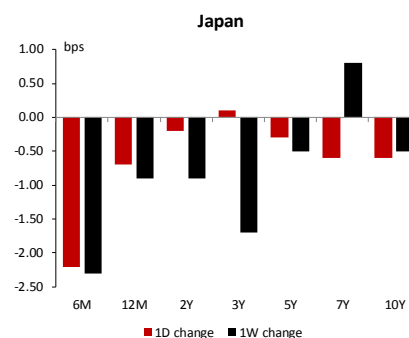
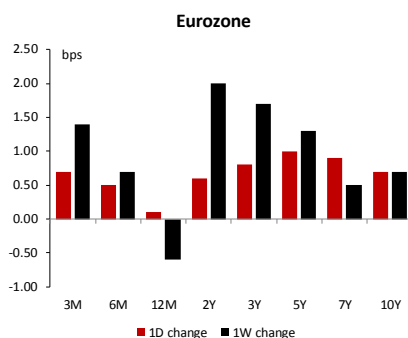
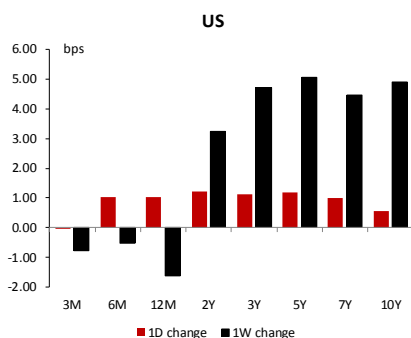
Source: OCBC Bank

### 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



This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).