

Wednesday, April 11, 2018

FX Themes/Strategy/Trading Ideas

- The USD climbed against the majors on Tuesday with the cyclicals outperforming across the board while the JPY and CHF lagged their peers. Global sentiment was given a significant positive boost in the arm after President Xi Jinping's much anticipated comments focused on opening up the economy (widen market access), protection of IP rights, and steered away from trade war tensions. Positive market vibes were buffered further as President Trump reacted with a more conciliatory tweet. Overall, this may be early days yet with respect to ongoing trade war tensions, with the latest respite providing some interim relief for global markets.
- On the data front, US March PPI readings were warmer than expected and attention turns to the March CPI numbers today (1230 GMT), although the **FOMC minutes** (1800 GMT) may garner more attention instead. On other fronts, the RBA's Lowe is due at 0305 GMT, the BOJ's Kuroda at 0615 GMT), and the RBNZ's McDermott at 2300 GMT. Elsewhere on the global data feed, China PPI/CPI numbers are due at 0130 GMT.
- Elsewhere, the EUR-USD blipped higher after the **ECB's Nowotny** stated that the bond buying program would be wound down by year end and that a first move by the ECB could be a hike in the deposit rate, followed subsequently by a hike in the benchmark refi rate. Regarding the potential rate hike in the deposit rate, an ECB spokesman subsequently stated that this sole represented Nowotny's view and not of the Governing Council's.
- Interestingly, Nowotny also noted that a strong argument for a faster normalization is that it would afford greater latitude in the event of a deterioration of economic conditions. Look towards **Draghi's** scheduled appearance today (1100 GMT) for further clarity, especially with regards to any planned changes to its forward guidance by the summer.
- Positive US/EZ/EM equities saw the **FXSI (FX Sentiment Index)** falling into Risk-Neutral territory from Risk Off territory after 13 consecutive sessions. This should continue to engender risk taking appetite with markets reverting (for now) back to a de facto weak dollar posture (DXY to re-test 89.50?). **On the policy dichotomy front, we continue to view the ECB and the BOE as being able to stand toe to toe with the Fed, underpinning the EUR and the GBP.**

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

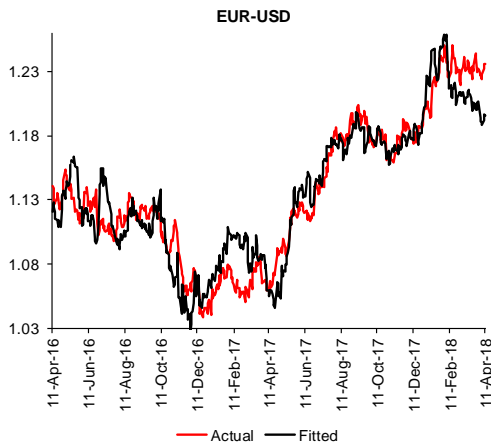
ngcyemmanuel@ocbc.com

Terence Wu

+65 6530 4367

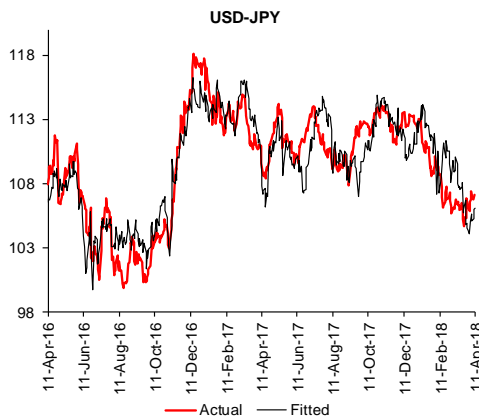
TerenceWu@ocbc.com

G7



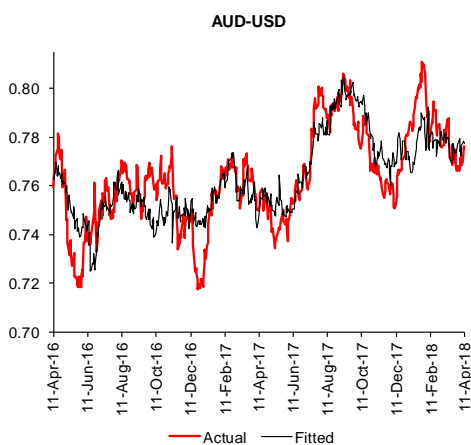
- **EUR-USD** With ECB rhetoric continually supportive in recent sessions, the EUR-USD may attempt to establish a foothold above its 55-day MA (1.2340), with upside governed by 1.2420.

Source: OCBC Bank



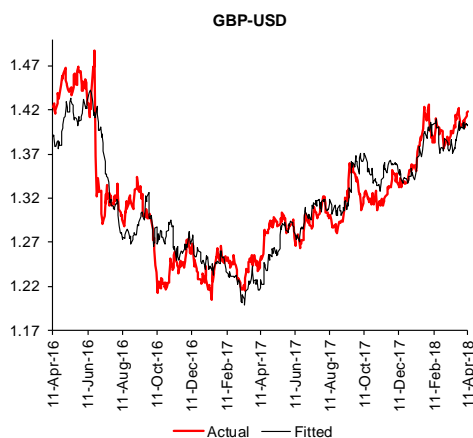
- **USD-JPY** A slightly better looking risk appetite environment may deter downside probes in the near term, with short term implied valuations for USD-JPY also ticking higher. Expect immediate resistance towards 107.70, with the pair expected to find a support zone around 107.00 and the 55-day MA (107.11).

Source: OCBC Bank

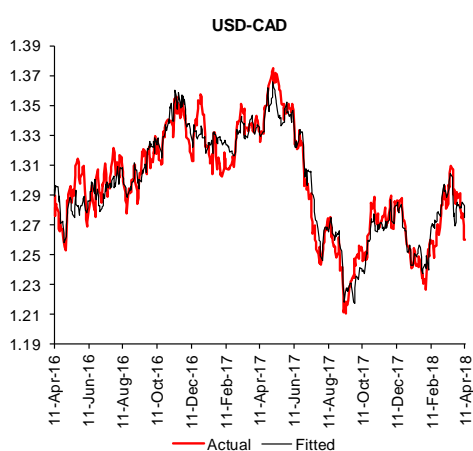


- **AUD-USD** If global trade tensions continue to be dialed down, the pair may attempt to reach for the 100-day MA (0.7788) with short term implied valuations also holding up.

Source: OCBC Bank



- **GBP-USD** Short term implied valuations remain underpinned following hawkish comments from the BOE's McCafferty on Tuesday. As such, expect the pair to populate the firmer end of 1.4100-1.4230 in the interim.



- **USD-CAD** The improvement in risk appetite and crude saw the USD-CAD drilling below its 200-day MA (1.2630) overnight. In the near term, short term implied valuations for the pair have also detached lower and there remains space for a further drift towards 1.2545.

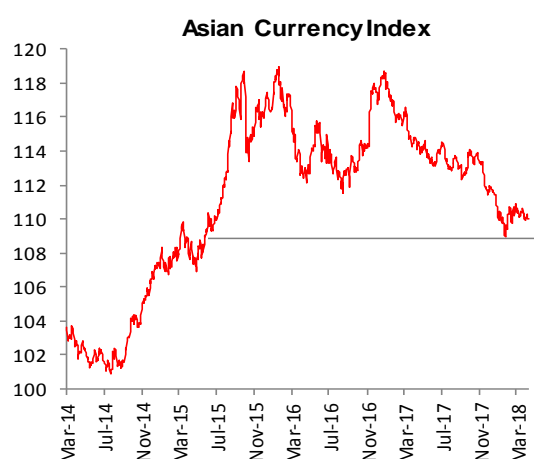
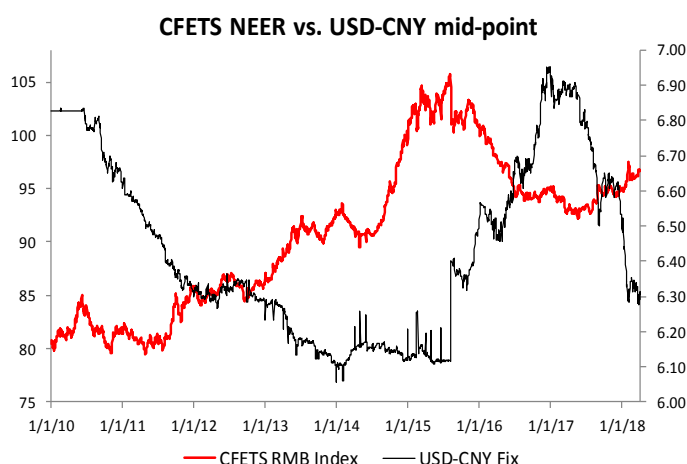
Source: OCBC Bank

Asian FX

- The **ACI (Asian Currency Index)** may continue to attempt to test lower. Asian net portfolio inflows meanwhile show continued moderation in bond inflows and renewed equity outflows for South Korea. Elsewhere, sustained net equity outflows persist for Taiwan. India remains on a net inflow balance for equities, bond flows are essentially neutral. Meanwhile, net bond inflows for Indonesia have been significant, although this has been tempered by a slight drain from net equity outflows. Lastly, strong bond inflows for Thailand are looking to moderate slightly, with net equity outflows largely neutral.
- **If global risk appetite levels can continue to recover beyond the last 24 hours, we'd expect further improvements in the net inflow environment for Asia. This may continue to put a lid on USD-Asia while the upside for Asian long-end yields may continue to remain relatively capped.**
- **India:** The recent bond rally may be under threat, as state-run banks continued to sell into the rally. It remains to be seen if this is a round of profit-taking, or a signal that the rally has run its course.
- **Thailand:** The BOT minutes revealed concerns over the impact of trade tensions on global economic growth and asset price volatility. Furthermore, it acknowledged the build-up of vulnerabilities due to the sustained

accommodative environment. On net, the minutes did not materially alter our view that the BOT will persist with its accommodative stance for the rest of the year, notwithstanding the single dissenter in the March meeting.

- South Korea:** We expect the BOK to retain its accommodative stance and hold the policy rate unchanged in tomorrow’s meeting. Note the lack of significant inflationary pressures, and the long term real rates remaining in the middle of its historical range.
- SGD NEER:** The SGD NEER is largely unchanged this morning at around +0.57% above its perceived parity (1.3168) while NEER-implied USD-SGD thresholds are a touch softer on the day. We look for a familiar range of +0.40% (1.3116) and +0.70% (1.3077). Technically, expect 1.3055-1.3075 to cushion at this juncture with implied pricing sanguine despite this Friday’s MAS MPS.
- CFETS RMB Index:** This morning, the USD-CNY fell (as expected) to 6.2911 from 6.3071 on Tuesday. This resulted in the CFET RMB Index firming to 96.85 from 96.63.

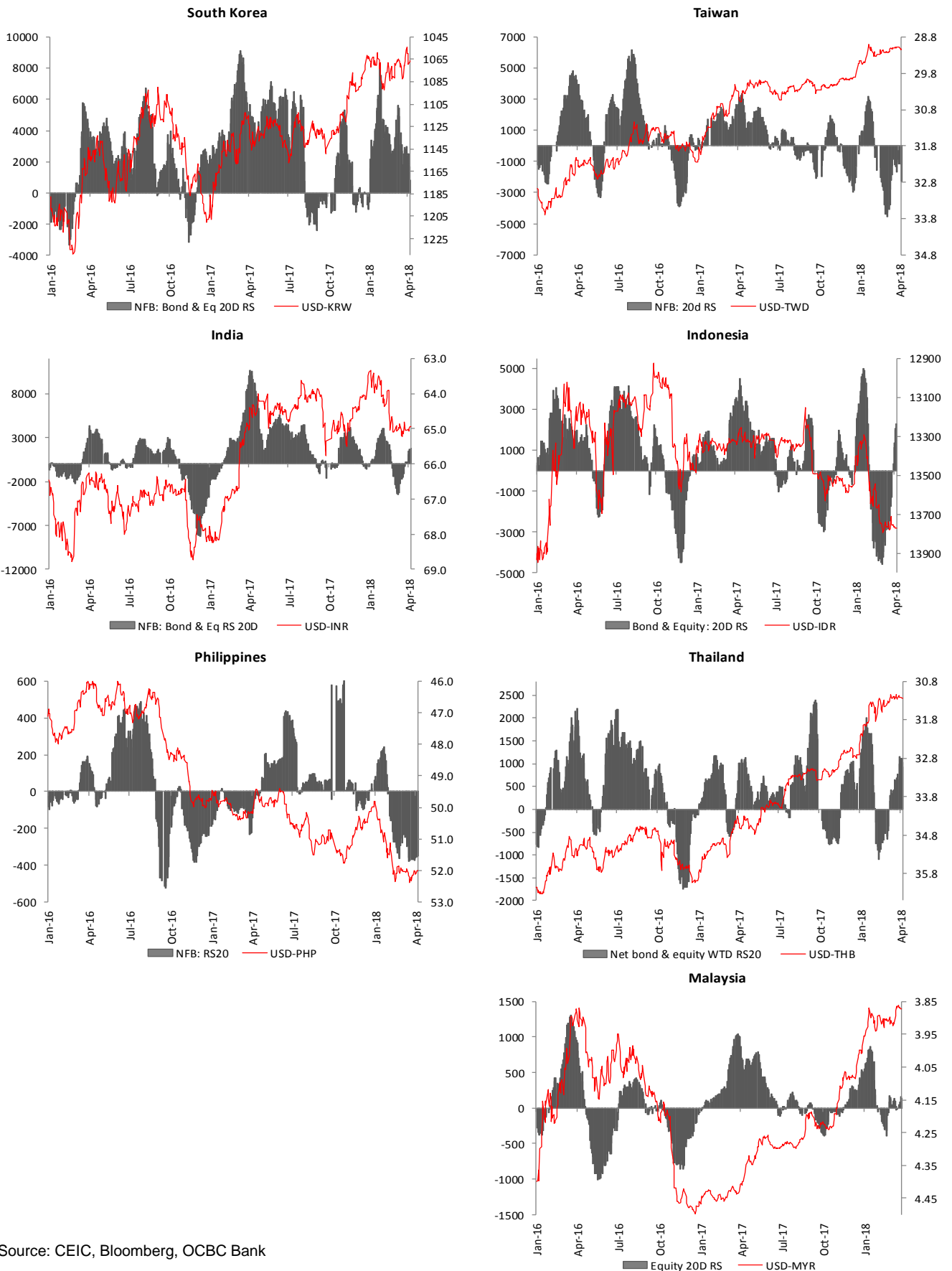


Source: OCBC Bank, Bloomberg

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 equity 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, strong bond inflows may now consolidate
USD-PHP	↔/↓	Net equity outflows, BSP downplaying rate hike expectations but remains vigilant towards inflation risks

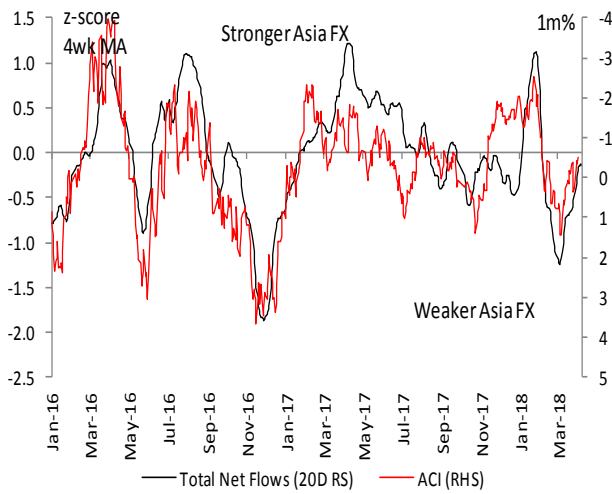
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



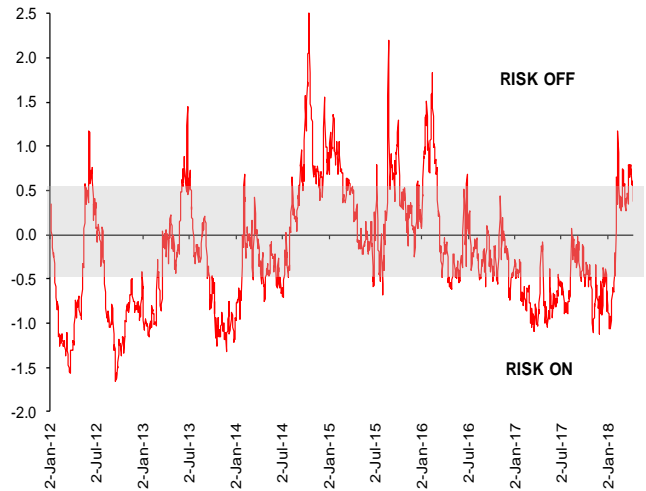
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DX	1.000	-0.080	0.299	0.076	-0.129	-0.592	0.502	-0.398	-0.264	-0.047	0.274	-0.950
CHF	0.674	-0.354	-0.265	-0.431	-0.653	-0.433	0.687	0.151	0.186	0.451	-0.256	-0.754
SGD	0.548	0.413	0.748	0.154	0.237	-0.355	-0.117	-0.275	-0.111	-0.122	0.708	-0.631
JPY	0.502	-0.090	-0.062	0.131	-0.196	-0.376	1.000	-0.242	-0.358	-0.100	-0.083	-0.424
IDR	0.325	-0.138	0.184	-0.301	-0.416	-0.221	0.168	0.099	0.222	0.200	0.137	-0.437
INR	0.318	0.230	0.295	-0.171	-0.077	-0.132	0.058	0.273	0.195	0.314	0.183	-0.436
CNY	0.299	0.720	1.000	0.655	0.746	-0.200	-0.062	-0.519	-0.524	-0.579	0.967	-0.310
CNH	0.274	0.615	0.967	0.579	0.678	-0.161	-0.083	-0.571	-0.441	-0.563	1.000	-0.279
CAD	0.215	0.346	0.570	0.483	0.625	-0.203	-0.462	-0.455	-0.357	-0.479	0.508	-0.107
THB	0.138	0.050	0.287	-0.023	-0.071	0.066	0.177	0.003	0.044	-0.015	0.301	-0.177
TWD	-0.015	0.492	0.565	0.783	0.691	-0.089	0.338	-0.716	-0.736	-0.804	0.569	0.160
USGG10	-0.080	1.000	0.720	0.729	0.712	0.129	-0.090	-0.193	-0.602	-0.407	0.615	0.069
MYR	-0.156	0.782	0.802	0.622	0.810	0.222	-0.522	-0.240	-0.408	-0.461	0.730	0.139
AUD	-0.308	0.477	0.367	0.786	0.682	0.138	0.088	-0.502	-0.689	-0.746	0.345	0.453
NZD	-0.436	-0.010	-0.216	0.224	0.036	0.144	0.416	-0.057	-0.262	-0.288	-0.215	0.482
PHP	-0.559	-0.029	-0.187	-0.466	-0.281	0.383	-0.630	0.627	0.602	0.532	-0.204	0.399
GBP	-0.615	-0.176	-0.519	-0.672	-0.474	0.454	-0.183	0.827	0.699	0.737	-0.521	0.423
KRW	-0.644	0.379	0.173	-0.038	0.202	0.536	-0.589	0.391	0.240	0.131	0.190	0.538
EUR	-0.950	0.069	-0.310	0.109	0.244	0.542	-0.424	0.217	0.051	-0.150	-0.279	1.000

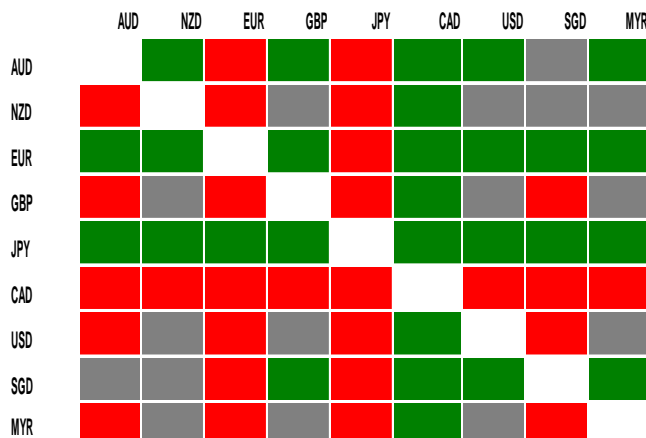
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2300	1.2334	1.2363	1.2400	1.2415
GBP-USD	1.3990	1.4100	1.4182	1.4200	1.4233
AUD-USD	0.7643	0.7700	0.7764	0.7784	0.7794
NZD-USD	0.7300	0.7357	0.7370	0.7376	0.7400
USD-CAD	1.2588	1.2589	1.2594	1.2600	1.2630
USD-JPY	106.92	107.00	107.07	107.49	107.67
USD-SGD	1.3054	1.3072	1.3089	1.3100	1.3163
EUR-SGD	1.6075	1.6100	1.6182	1.6200	1.6235
JPY-SGD	1.2193	1.2200	1.2222	1.2300	1.2313
GBP-SGD	1.8414	1.8500	1.8562	1.8600	1.8653
AUD-SGD	1.0024	1.0100	1.0162	1.0200	1.0221
Gold	1306.77	1329.39	1342.00	1353.28	1356.80
Silver	16.50	16.50	16.59	16.60	16.70
Crude	62.78	65.60	65.64	65.70	66.55

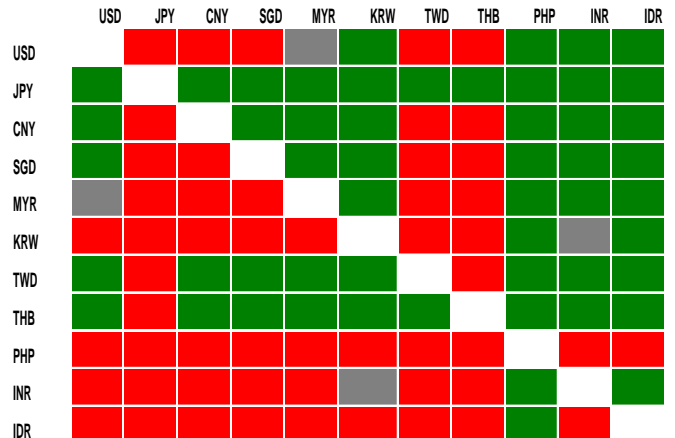
Source: OCBC Bank

G10 FX Heat Map



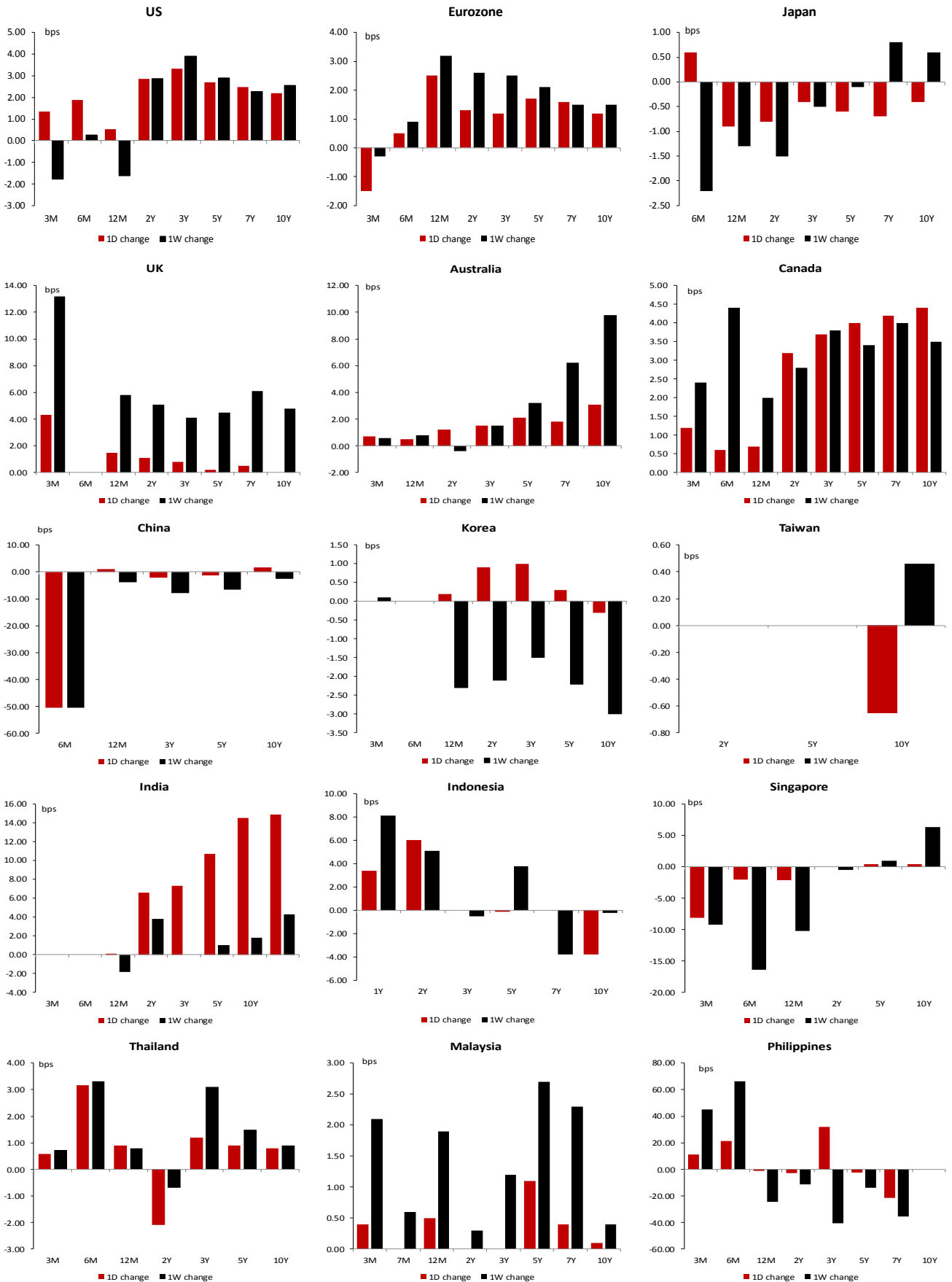
Source: OCBC Bank

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								
-	-	-	-	-	-	-		
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 cyclical	-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).
