

Thursday, April 12, 2018

**FX Themes/Strategy/Trading Ideas**

- Mildly supportive FOMC minutes pulled the dollar higher late in the global day although M.E. tensions (note Trump's missile warning tweet) weighed on the USD-JPY and the JPY-crosses.
- Overall, the **FOMC minutes** indicated continued confidence in the macro and inflation outlook as expected (US CPI numbers overnight and PPI numbers on Tuesday underscore this view), although there was some debate surrounding the impact of the fiscal/trade policies. Although a few members entertained the prospect of a steeper rate hike profile over the next few years, but on our end, this may not translate into a more resilient USD in the near term.
- Negative EZ/US equities (flat EM performance) saw the **FXSI (FX Sentiment Index)** ticking higher (denoting slight caution) on Wednesday but the Index remained within Risk-Neutral territory. However, investor caution (re: Syrian tensions and the proxy US-Russian war in that theater) may remain self-contained in the near term, with the cyclical currencies holding up relatively well this morning in Asia.
- Today, markets may also be potentially buffeted by central bank speak. The Fed's Kashkari is on tap (2100 GMT), ECB meeting minutes are due at 1130 GMT, while the ECB's Coeure (1215 GMT) and Weidmann (1600 GMT) are also scheduled. Elsewhere, the BOE's Broadbent (0630 GMT) and Carney (1900 GMT) are also scheduled to speak. In Asia, expect the **BOK** to remain static at 1.50%.

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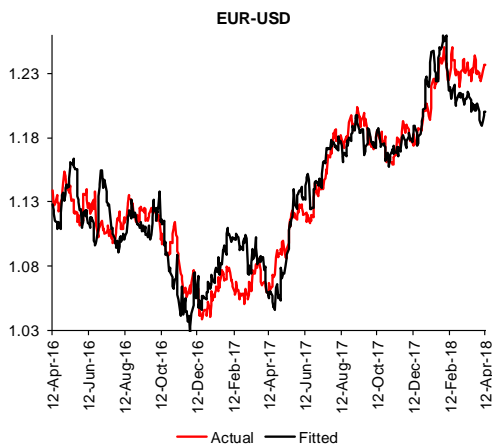
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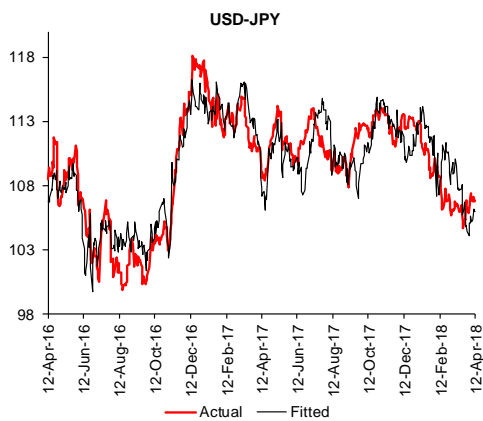
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**G7**



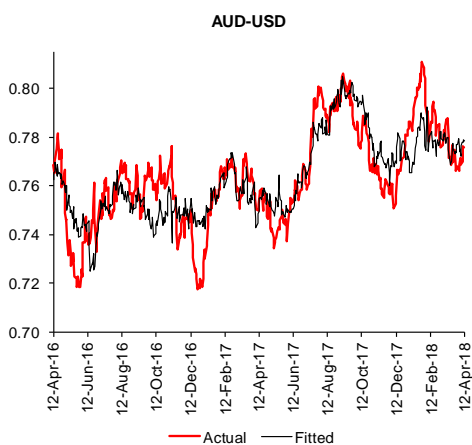
- **EUR-USD** Despite the FOMC minutes, the EUR-UD is still sitting atop its –day MA (1.2340) and the pair may angle itself towards 1.2420 if the USD continues to be sabotaged by Syrian tensions. Meanwhile, short term implied valuations are also bouncing higher.

Source: OCBC Bank



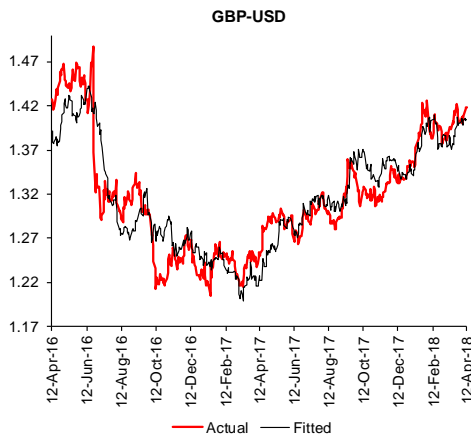
- **USD-JPY** Comments from the BOJ's Kuorda and Maeda remain sufficiently accommodative but inherent USD vulnerability and potential risk aversion may serve to put a lid on the USD-JPY. In the interim, the 55-day MA (107.06) may cap, with support seen towards 106.50.

Source: OCBC Bank

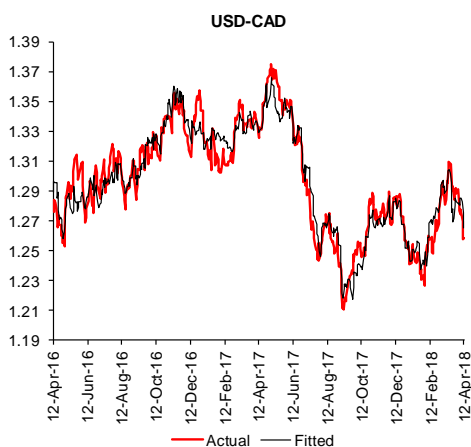


- **AUD-USD** The AUD-USD is still relatively none the worse for wear despite overnight developments. Short term implied valuations meanwhile continue to remain underpinned and markets may continue to eye a breach of the 100-day MA (0.7789) barring a deterioration of risk appetite. First support is seen towards 0.7720.

Source: OCBC Bank



- **GBP-USD** Despite disappointing UK Feb industrial production numbers, the pound may continue to latch on to any incipient USD vulnerability (with expectations for a BOE hike in June alive and kicking) with underpinned short term implied valuations providing a further tailwind. Accumulate on dips within 1.4100-1.4240.



- **USD-CAD** With crude continuing to lift, stay top heavy on the pair and a breach of 1.2500 risks further dilution towards 1.2435. In the interim, note that short term implied valuations for the USD-CAD have continued to drill lower.

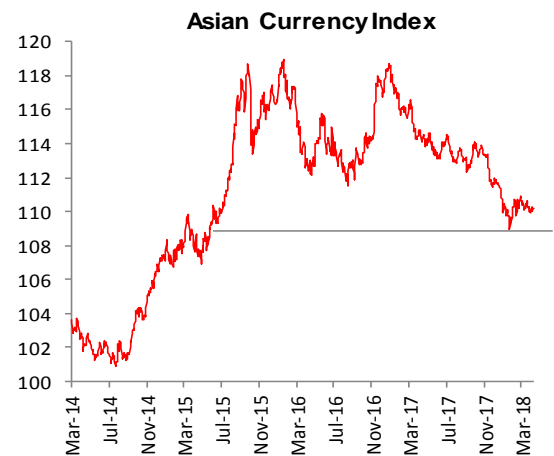
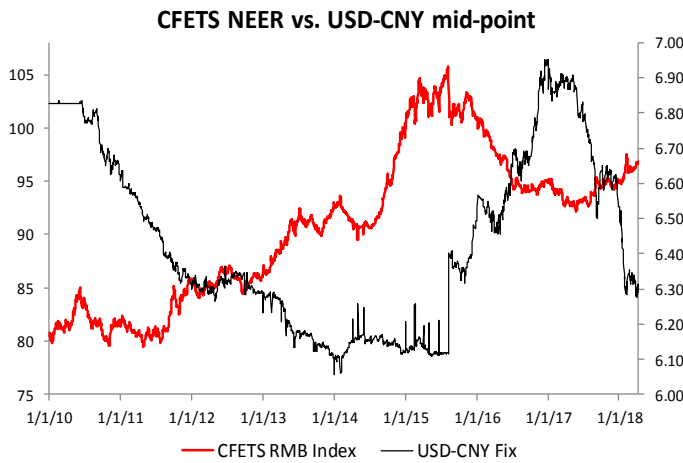
Source: OCBC Bank

## Asian FX

- In Asia, we continue to see net portfolio inflow moderation for South Korea, renewed equity outflow momentum for Taiwan, stable net equity inflows for India, significant net bond inflows for Indonesia, and a stabilization of net bond inflows for Thailand. Overall, we detect continued satiation at this juncture with little to indicate a renewed surge of net inflows despite the recent alleviation of US-Sino trade tensions. Coupled with background investor jitters, expect the **ACI (Asian Currency Index)** to be somewhat reluctant on the downside intra-day.
- **South Korea:** The BOK kept the policy rate unchanged as expected. Inflation projection was lowered to 1.6% in 2018, compared to 1.7% in the previous projection. At this juncture, the BOK's rate hike path may be data-dependent, and it will take inflationary pressures to pick up before expectations for a hike in 2018 (first hike in Nov 2017) can further crystallize. Governor Lee also reiterated that the FX policy will not be affected by discussions about releasing data on FX interventions. He also does not expect Korea to be labelled as a currency manipulator in the upcoming US Treasury currency report.
- **SGD NEER:** The SGD NEER is mildly firmer on the day at around +0.62%

above its perceived parity (1.3167) this morning, with NEER-implied USD-SGD thresholds largely unchanged on the day. Continue to expect a +0.40% (1.3115) to +0.70% (1.3076) ahead of the MAS MPS (Monetary Policy Statement) tomorrow.

- CFETS RMB Index:** The USD-CNY mid-point eased (as largely expected) to 6.2834 from 6.2911 on Wednesday, with the CFETS RMB Index gaining to 96.91 from 96.85 yesterday.

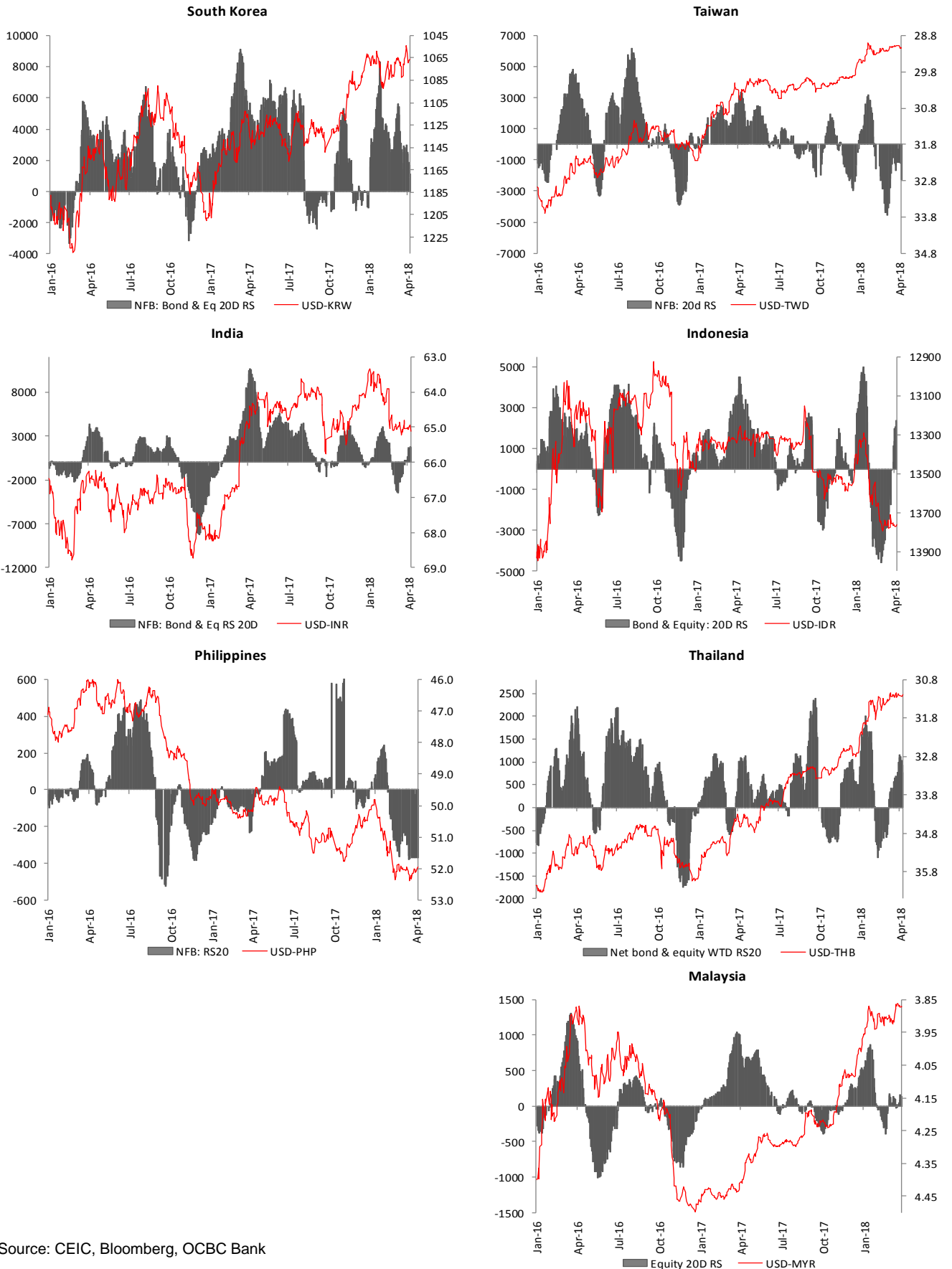


Source: OCBC Bank, Bloomberg

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, inflation projection downgraded
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

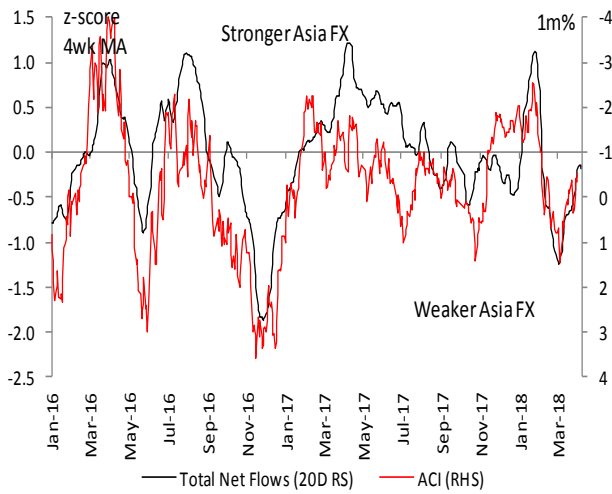
Source: OCBC Bank

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



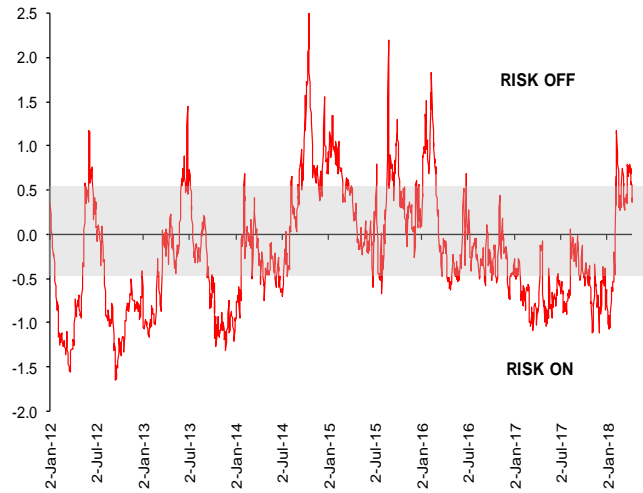
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.027	0.346	0.098	-0.130	-0.585	0.469	-0.471	-0.278	-0.063	0.328	-0.954
CHF	0.612	-0.341	-0.292	-0.394	-0.623	-0.244	0.722	0.173	0.121	0.411	-0.256	-0.685
SGD	0.583	0.470	0.794	0.196	0.244	-0.462	-0.145	-0.411	-0.123	-0.151	0.750	-0.657
JPY	0.469	-0.136	-0.157	0.107	-0.218	-0.200	1.000	-0.157	-0.359	-0.078	-0.120	-0.393
CNY	0.346	0.696	1.000	0.614	0.690	-0.392	-0.157	-0.570	-0.447	-0.529	0.953	-0.364
CNH	0.328	0.613	0.953	0.553	0.647	-0.263	-0.120	-0.594	-0.392	-0.531	1.000	-0.341
IDR	0.324	-0.220	0.091	-0.451	-0.525	-0.170	0.164	0.176	0.338	0.332	0.082	-0.452
CAD	0.296	0.431	0.681	0.537	0.607	-0.423	-0.450	-0.610	-0.369	-0.519	0.583	-0.197
THB	0.247	-0.011	0.269	-0.244	-0.246	-0.087	0.084	-0.048	0.249	0.201	0.308	-0.302
INR	0.177	0.071	0.006	-0.231	-0.099	0.208	0.129	0.446	0.205	0.345	0.017	-0.285
USGG10	-0.027	1.000	0.696	0.704	0.681	0.011	-0.136	-0.213	-0.557	-0.343	0.613	0.007
TWD	-0.067	0.396	0.438	0.711	0.646	0.038	0.362	-0.564	-0.688	-0.744	0.502	0.202
MYR	-0.138	0.802	0.794	0.628	0.806	0.089	-0.526	-0.241	-0.385	-0.447	0.728	0.112
AUD	-0.372	0.368	0.235	0.721	0.638	0.191	0.091	-0.312	-0.628	-0.677	0.229	0.505
PHP	-0.460	0.074	-0.001	-0.396	-0.230	0.098	-0.644	0.389	0.561	0.473	-0.089	0.321
NZD	-0.489	-0.134	-0.379	0.128	-0.014	0.353	0.409	0.176	-0.202	-0.203	-0.331	0.526
KRW	-0.617	0.417	0.202	-0.002	0.236	0.408	-0.591	0.319	0.226	0.109	0.214	0.520
GBP	-0.687	-0.146	-0.533	-0.605	-0.392	0.557	-0.154	0.831	0.624	0.674	-0.529	0.514
EUR	-0.954	0.007	-0.364	0.078	0.234	0.541	-0.393	0.319	0.075	-0.127	-0.341	1.000

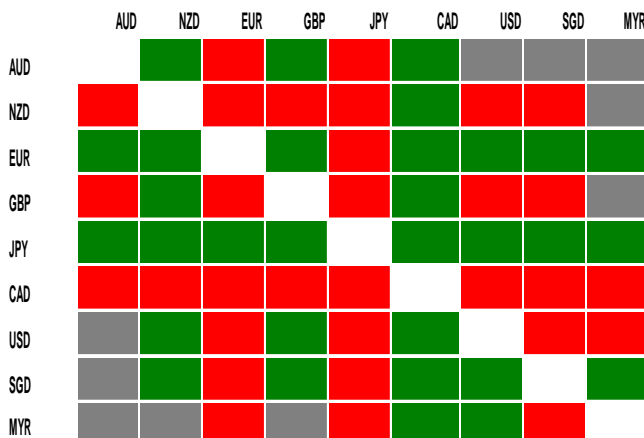
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2300	1.2331	1.2364	1.2400	1.2421
GBP-USD	1.3988	1.4100	1.4178	1.4200	1.4236
AUD-USD	0.7643	0.7700	0.7750	0.7771	0.7788
NZD-USD	0.7282	0.7300	0.7367	0.7369	0.7379
USD-CAD	1.2545	1.2550	1.2588	1.2600	1.2628
USD-JPY	106.00	106.86	106.88	107.00	107.49
USD-SGD	1.3054	1.3067	1.3095	1.3100	1.3164
EUR-SGD	1.6076	1.6100	1.6192	1.6200	1.6232
JPY-SGD	1.2193	1.2200	1.2253	1.2300	1.2320
GBP-SGD	1.8412	1.8500	1.8566	1.8600	1.8646
AUD-SGD	1.0035	1.0100	1.0150	1.0199	1.0200
Gold	1305.65	1330.04	1351.40	1359.92	1365.40
Silver	16.50	16.60	16.65	16.70	16.73
Crude	62.86	67.10	67.15	67.20	67.32

Source: OCBC Bank

### G10 FX Heat Map



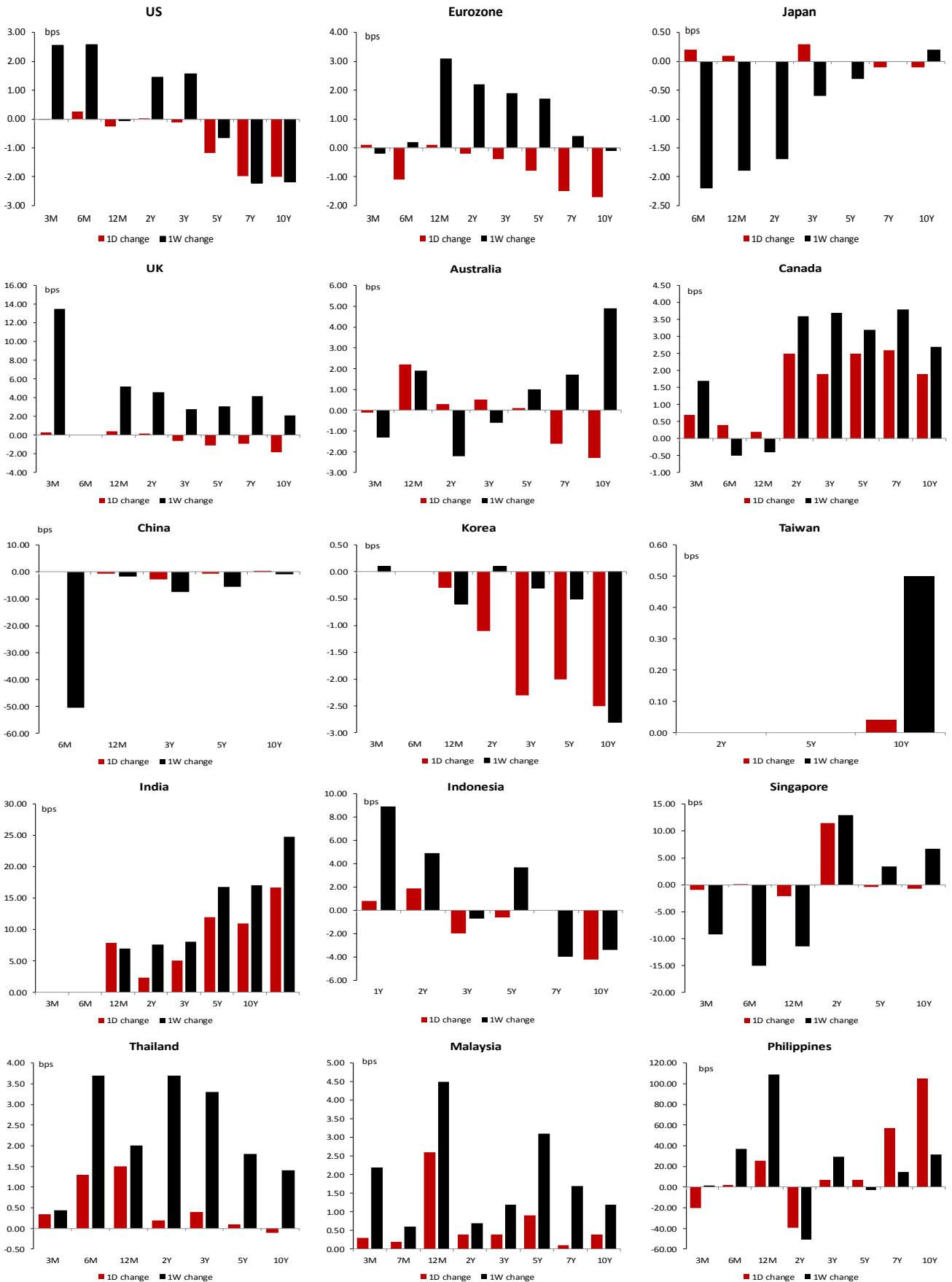
Source: OCBC Bank

### 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>								
-	-	-	-	-	-	-	-	
<b>STRUCTURAL</b>								
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.	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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
* realized							1Q 18 Return	+12.43

Source: OCBC Bank

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