

Friday, April 13, 2018

FX Themes/Strategy/Trading Ideas

- The dollar climbed marginally against most (except against the GBP) of its G10 peers on Thursday as US-centric uncertainty abated, with the JPY and CHF also underperforming across the board.
- Meanwhile, the EUR also softened post-ECB meeting minutes, with council members dwelling on potential uncertainty from global trade tensions while also noting (again) that the strengthening EUR presented both a source of significant uncertainty as well as being a damper on inflation prospects.
- With Trump easing off the pedal with respect to the TPP and Syria, the **FXSI (FX Sentiment Index)** slipped further within Risk-Neutral territory on Thursday. However, note that lingering uncertainties may yet persist. Note the less than enthusiastic reaction of the cyclical currencies to the perceived improvement in risk appetite. In addition, EM equities in aggregate were flattish despite positive EZ/US equities.
- For today, the Fed's Rosengren (1200 GMT), Bullard (1300 GMT), and Kaplan (1700 GMT) are scheduled to speak, while the global data feed is relatively sparse save for German March CPI (0600 GMT) and US April Michigan consumer sentiment (1400 GMT).
- Overall, aggregate rate differential arguments remain mixed at this juncture and do not present a compelling case for broad dollar outperformance on an extended horizon. In the interim, apart from risk appetite considerations (lift USD-JPY if sentiment remains positively bolstered), both the GBP and the CAD may be expected to remain resilient against the greenback into the end of the week.

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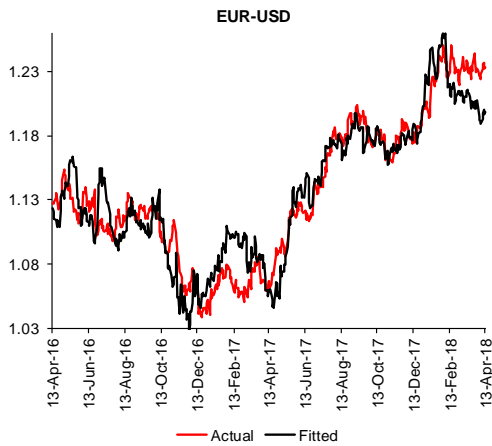
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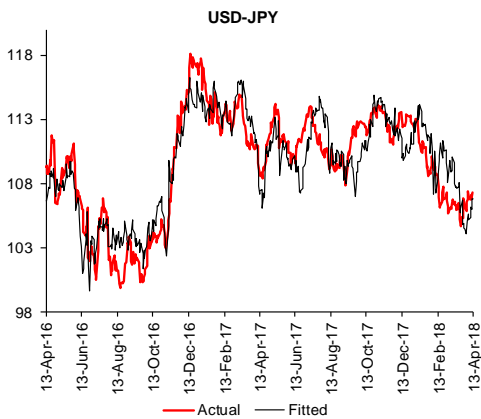
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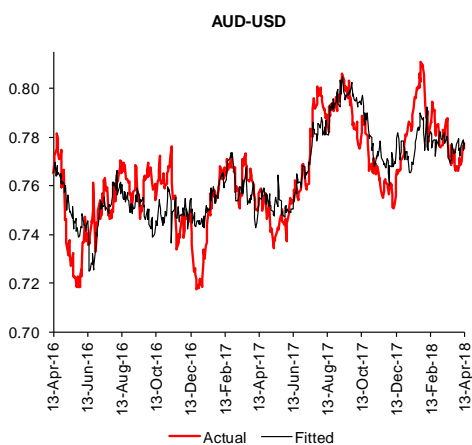
- **EUR-USD** Despite the latest ECB minutes, we expect ECB rhetoric in the coming weeks to prove mildly supportive for EUR prospects. Short term implied valuations are slightly subdued in the near term and the pair may continue to loiter in the neighborhood of its 55-day MA (1.2337).

Source: OCBC Bank



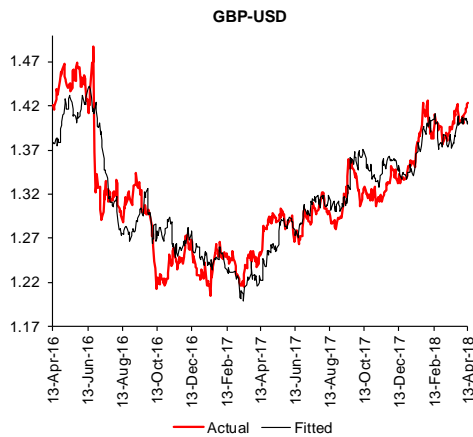
- **USD-JPY** Stay constructive on the USD-JPY in the current environment with short term implied valuations for USD-JPY providing added buoyancy at this juncture. Look to accumulate within 107.00-107.90.

Source: OCBC Bank

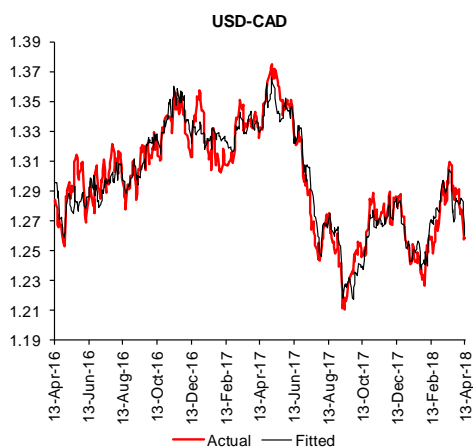


- **AUD-USD** The RBA's Financial Stability Review this morning drew attention to potential external downside risks but investors remained unperturbed with respect to the AUD. Short term implied valuations meanwhile remain steady and beyond the 100-day MA (0.7791), look to the 55-day MA (0.7808) and the 200-day MA (0.7815).

Source: OCBC Bank



- **GBP-USD** Buoyed by a heavy EUR-GBP, GBP-USD may remain poised higher if BOE rate hike expectations continue to be fueled. Short term implied valuations for GBP-USD meanwhile remain largely supportive and expect an attempt to base build off 1.4175 for 1.4300 before a re-assessment.



- **USD-CAD** We continue to favor a top heavy profile for the USD-CAD especially if investor fears continue to dissipate. Meanwhile, short term implied valuations for the USD-CAD continue to probe south and a failure to re-take the 200-day MA (1.2626) may set the pair up for 1.2500.

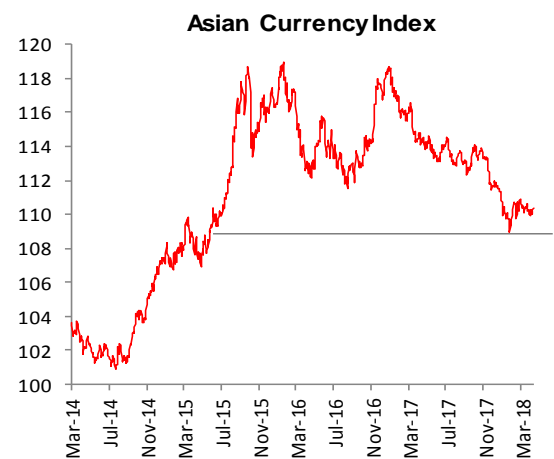
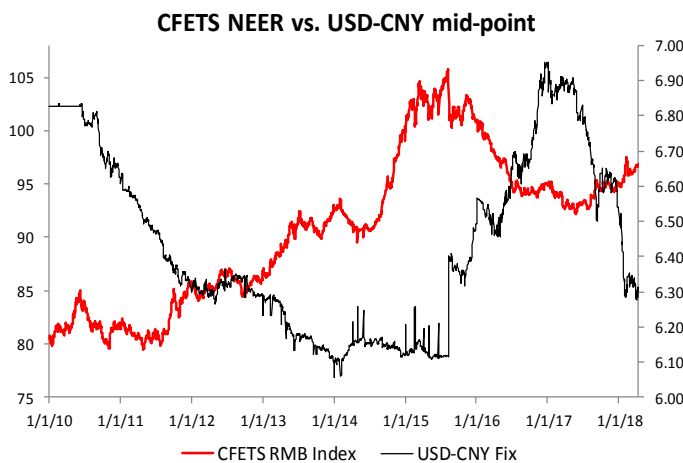
Source: OCBC Bank

Asian FX

- Pending China March trade numbers today (and China March monetary and lending aggregates scheduled possibly over the weekend), expect the **ACI (Asian Currency Index)** to remain supported to range bound pending further news flow and despite Asian equities.
- **Net portfolio inflows in Asia** meanwhile remain less than encouraging for any potential Asian FX outperformance. Note that net inflows for South Korea continue to moderate, net outflows for Taiwan continue to deepen, hitherto net equity inflows for India are also moderating (keeping the overall flow balance positive but consolidative), although net bond inflows for Indonesia continue to strengthen. Meanwhile, net equity outflows for the Philippines remain significant, while the net inflow balance for Thailand is moderating slightly (net bond inflows easing). **Overall, look to the IDR to potentially outperform within this framework, given also the latest rating upgrade news flow.**
- **Indonesia:** Moody's upgraded Indonesia's credit rating to Baa2 from Baa3, with a stable outlook. The upgrade is based on an "increasingly credible and effective policy framework" and an improvement in "financial buffers", and a

“prudent fiscal and monetary policy”. We think this move will be mildly supportive for the IDR and government bonds. We may see actual portfolio inflows to pick up further in response to the upgrade.

- Hong Kong:** The HKD hit the weak end of its trading range early on Thursday. The HKMA purchased a total of HK\$3.26b to defend the 7.85 level. With the interest rate differential-e still wide, expect the HKD to hover near the 7.85 level. Overall, with sustained intervention from the HKMA, the draining of liquidity should cause the HIBOR to rise gradually to close the rate gap.
- SGD NEER:** Despite the slope steepening this morning by the MAS, the SGD NEER is softer on the day at around +0.50% above its perceived parity (1.3185). NEER-implied USD-SGD thresholds are however higher on the day and the basket may continue to hover within +0.40% (1.3133) and +0.70% (1.3094). From a technical perspective, expect range trading to persist within 1.3070 and the 55-day MA (1.3159) up top.
- CFETS RMB Index:** The USD-CNY mid-point firmed (slightly more than expected) to 6.2898 from 6.2834 on Thursday. This however still saw the CFETS RMB Index gaining to 96.97 from 96.91 yesterday.

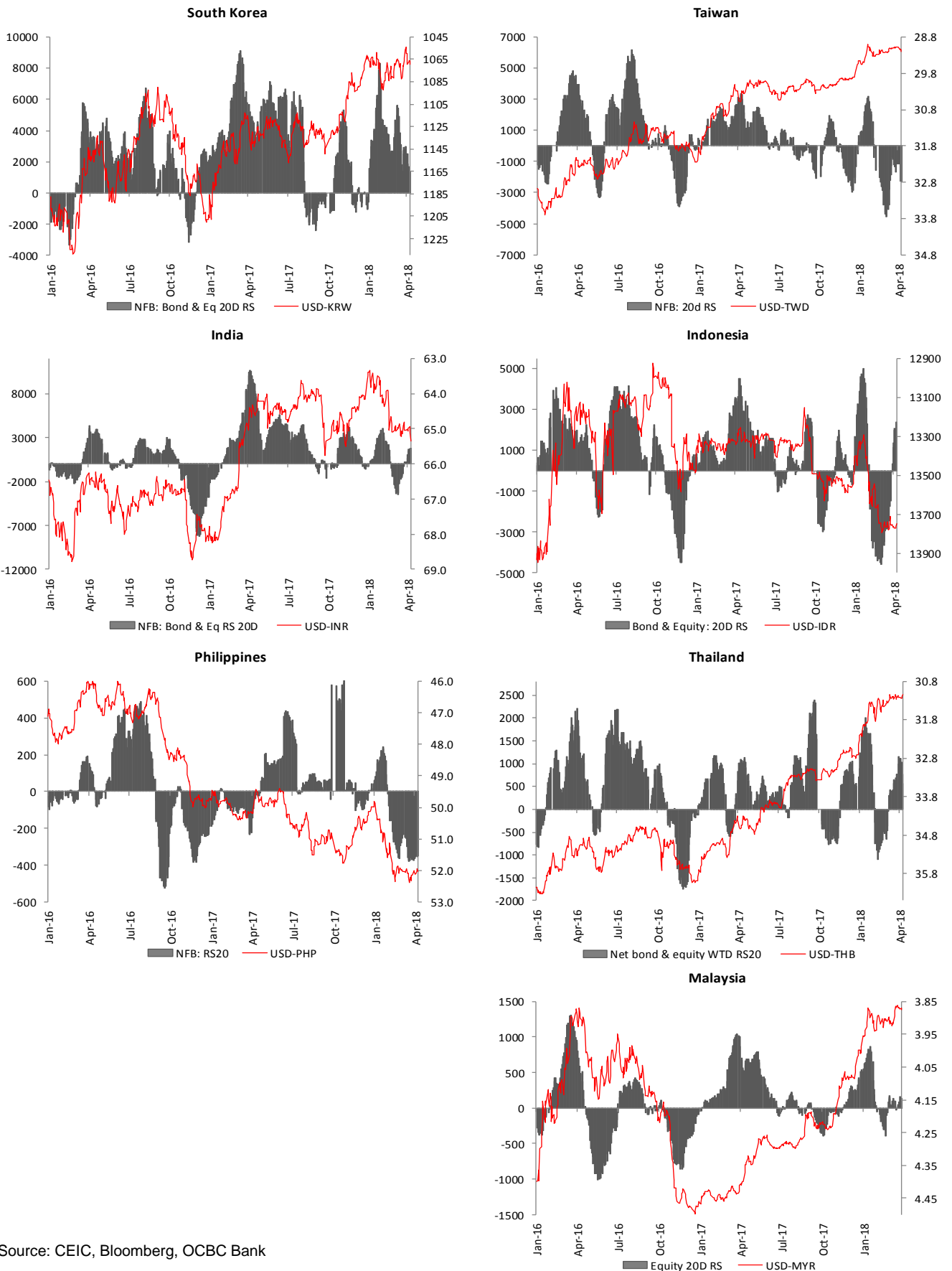


Source: OCBC Bank, Bloomberg

| 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 moderating, less aggressive fiscal borrowing plans |
| USD-SGD | ↔/↓ | NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines |
| USD-MYR | ↔/↓ | BNM remains accommodative; country on election watch |
| USD-IDR | ↔/↓ | Rating upgrade, 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 |

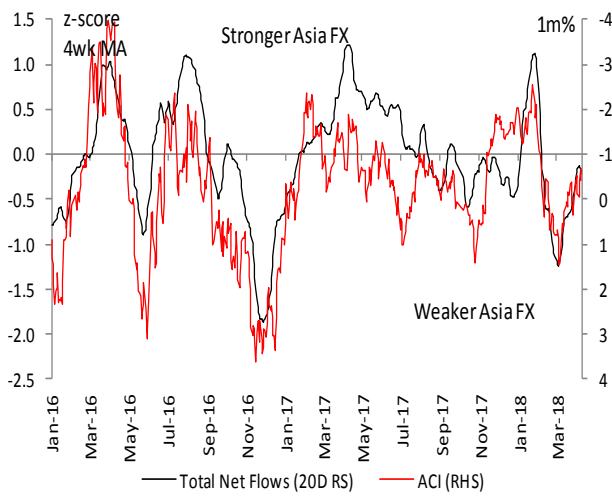
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



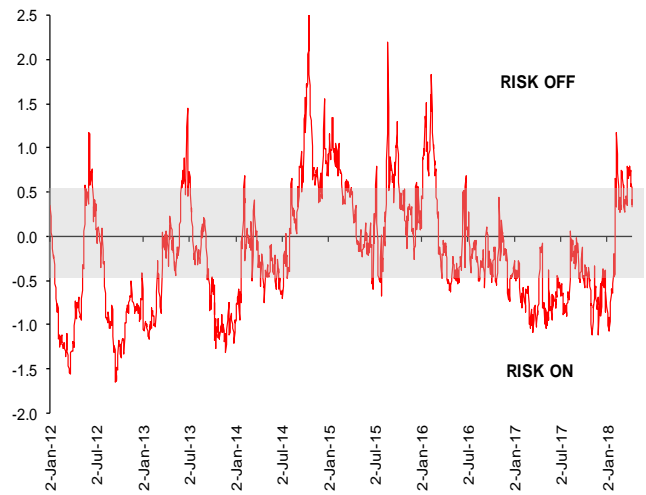
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| | DXY | USGG10 | CNY | SPX | MSELCAFF | CRY | JPY | CL1 | VIX | ITRXXE | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | -0.059 | 0.383 | 0.166 | -0.087 | -0.552 | 0.446 | -0.509 | -0.330 | -0.144 | 0.352 | -0.960 |
| SGD | 0.553 | 0.448 | 0.810 | 0.242 | 0.281 | -0.413 | -0.138 | -0.398 | -0.148 | -0.201 | 0.775 | -0.647 |
| CHF | 0.551 | -0.190 | -0.271 | -0.261 | -0.539 | -0.048 | 0.848 | 0.209 | -0.065 | 0.276 | -0.218 | -0.616 |
| JPY | 0.446 | -0.063 | -0.216 | 0.080 | -0.255 | 0.013 | 1.000 | 0.046 | -0.379 | -0.035 | -0.185 | -0.426 |
| CNY | 0.383 | 0.657 | 1.000 | 0.596 | 0.679 | -0.395 | -0.216 | -0.561 | -0.386 | -0.509 | 0.955 | -0.439 |
| CNH | 0.352 | 0.539 | 0.955 | 0.498 | 0.610 | -0.304 | -0.185 | -0.543 | -0.298 | -0.477 | 1.000 | -0.413 |
| IDR | 0.288 | -0.171 | 0.063 | -0.436 | -0.517 | -0.028 | 0.231 | 0.225 | 0.277 | 0.321 | 0.069 | -0.428 |
| CAD | 0.271 | 0.264 | 0.658 | 0.476 | 0.554 | -0.538 | -0.564 | -0.655 | -0.245 | -0.476 | 0.552 | -0.172 |
| THB | 0.234 | -0.120 | 0.236 | -0.398 | -0.369 | -0.085 | 0.102 | 0.183 | 0.379 | 0.377 | 0.198 | -0.360 |
| INR | 0.114 | 0.150 | -0.011 | -0.129 | -0.026 | 0.346 | 0.254 | 0.473 | 0.059 | 0.252 | 0.009 | -0.204 |
| TWD | -0.040 | 0.378 | 0.275 | 0.533 | 0.455 | 0.408 | 0.474 | -0.098 | -0.610 | -0.546 | 0.286 | 0.051 |
| USGG10 | -0.059 | 1.000 | 0.657 | 0.702 | 0.663 | 0.090 | -0.063 | -0.026 | -0.549 | -0.297 | 0.539 | -0.005 |
| MYR | -0.155 | 0.762 | 0.798 | 0.644 | 0.822 | 0.016 | -0.529 | -0.226 | -0.354 | -0.457 | 0.729 | 0.122 |
| AUD | -0.345 | 0.381 | 0.149 | 0.652 | 0.569 | 0.297 | 0.120 | -0.084 | -0.572 | -0.571 | 0.116 | 0.416 |
| NZD | -0.414 | -0.031 | -0.453 | 0.036 | -0.104 | 0.525 | 0.515 | 0.399 | -0.184 | -0.083 | -0.400 | 0.400 |
| PHP | -0.463 | 0.074 | 0.050 | -0.370 | -0.187 | -0.021 | -0.652 | 0.253 | 0.565 | 0.452 | -0.022 | 0.370 |
| KRW | -0.661 | 0.428 | 0.198 | 0.002 | 0.249 | 0.378 | -0.499 | 0.382 | 0.225 | 0.123 | 0.192 | 0.569 |
| GBP | -0.692 | 0.019 | -0.514 | -0.505 | -0.308 | 0.646 | 0.060 | 0.847 | 0.467 | 0.593 | -0.484 | 0.552 |
| EUR | -0.960 | -0.005 | -0.439 | -0.043 | 0.151 | 0.511 | -0.426 | 0.396 | 0.186 | 0.006 | -0.413 | 1.000 |

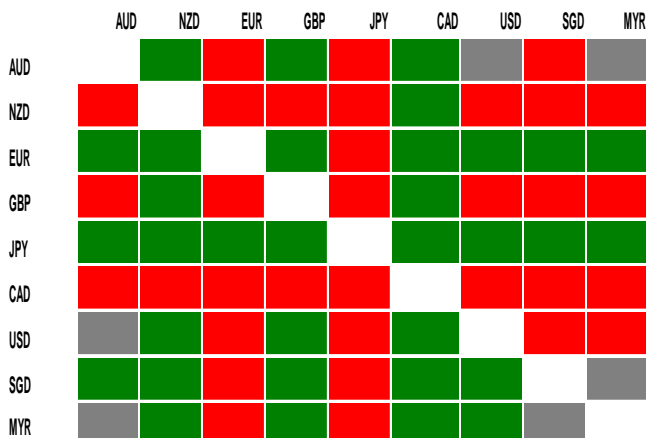
Source: Bloomberg

Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.2300 | 1.2327 | 1.2329 | 1.2400 | 1.2418 |
| GBP-USD | 1.3991 | 1.4200 | 1.4235 | 1.4247 | 1.4257 |
| AUD-USD | 0.7643 | 0.7700 | 0.7772 | 0.7780 | 0.7785 |
| NZD-USD | 0.7283 | 0.7300 | 0.7375 | 0.7388 | 0.7390 |
| USD-CAD | 1.2527 | 1.2545 | 1.2588 | 1.2600 | 1.2626 |
| USD-JPY | 106.82 | 107.00 | 107.38 | 107.49 | 107.89 |
| USD-SGD | 1.3071 | 1.3100 | 1.3120 | 1.3163 | 1.3186 |
| EUR-SGD | 1.6075 | 1.6100 | 1.6175 | 1.6200 | 1.6226 |
| JPY-SGD | 1.2193 | 1.2200 | 1.2219 | 1.2300 | 1.2324 |
| GBP-SGD | 1.8415 | 1.8600 | 1.8676 | 1.8688 | 1.8700 |
| AUD-SGD | 1.0031 | 1.0100 | 1.0197 | 1.0200 | 1.0209 |
| Gold | 1307.98 | 1329.75 | 1337.70 | 1358.28 | 1365.40 |
| Silver | 16.40 | 16.48 | 16.49 | 16.50 | 16.73 |
| Crude | 62.90 | 66.80 | 66.84 | 66.90 | 67.45 |

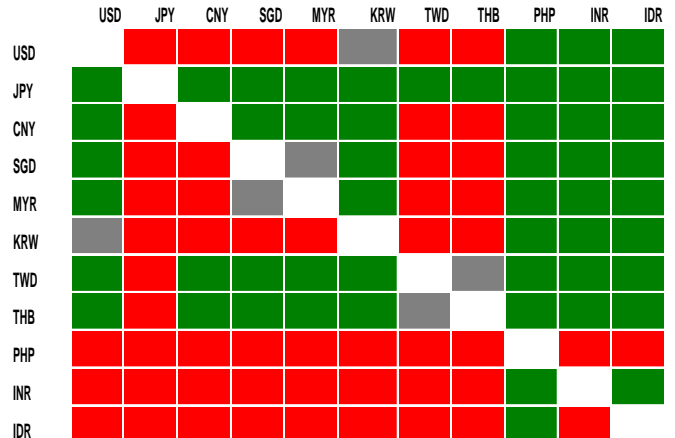
Source: OCBC Bank

G10 FX Heat Map



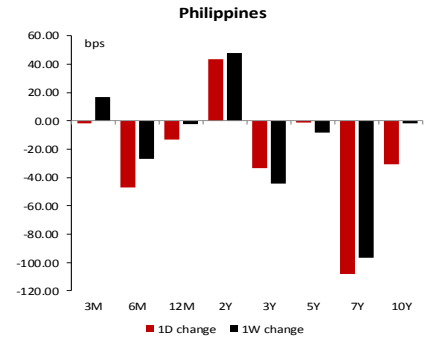
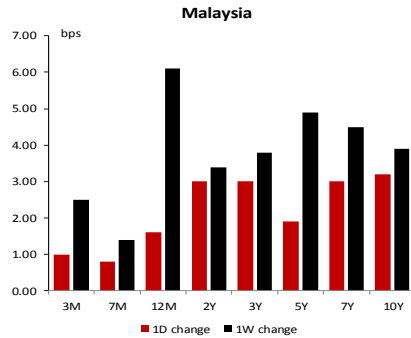
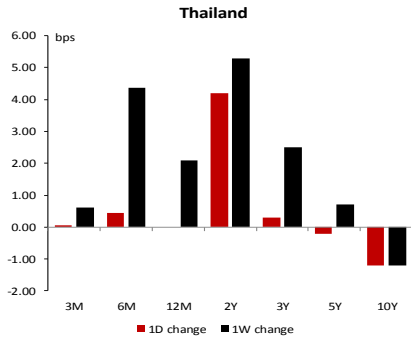
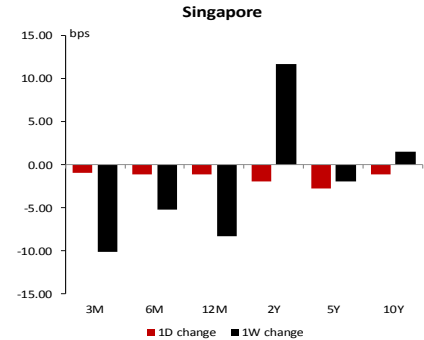
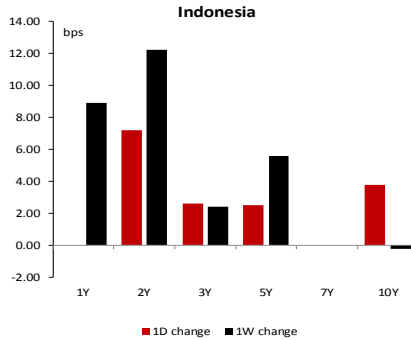
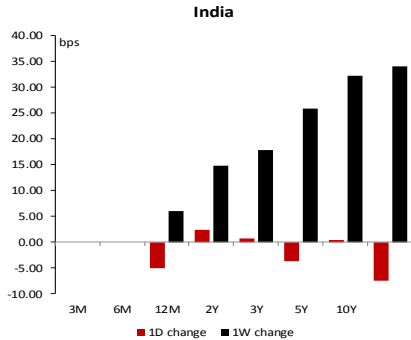
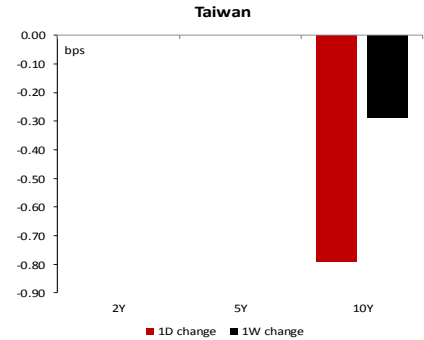
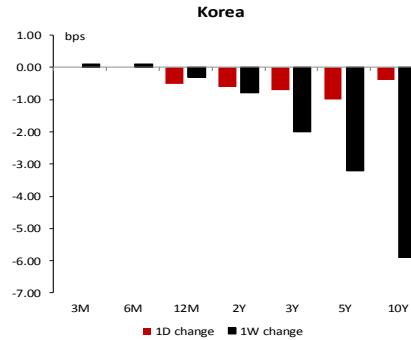
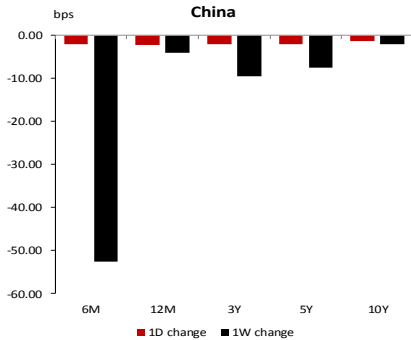
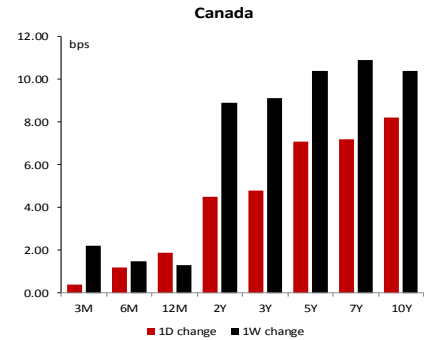
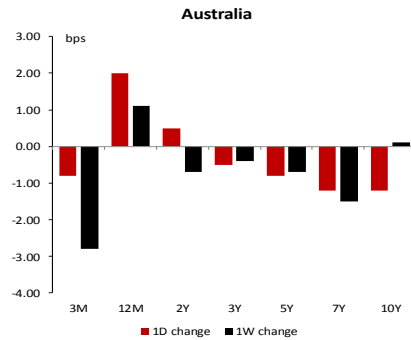
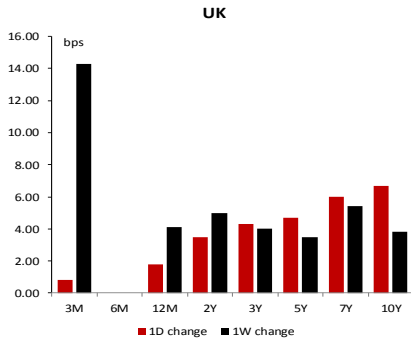
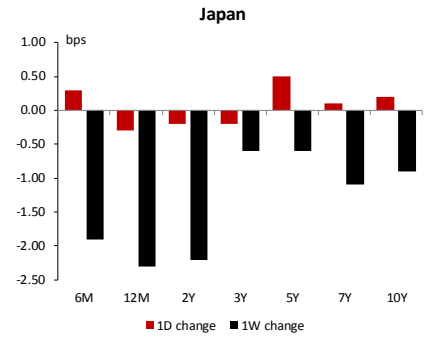
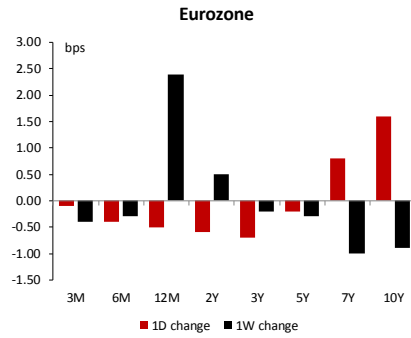
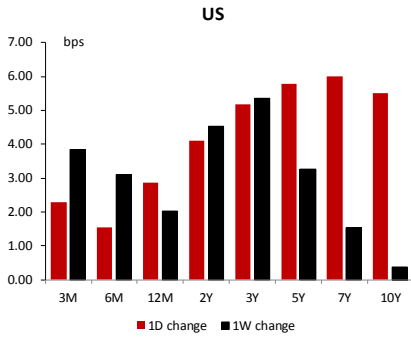
Source: OCBC Bank

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 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 |
| * realized | | | | | | | 1Q 18 Return | +12.43 |

Source: OCBC Bank

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