

Friday, March 16, 2018

FX Themes/Strategy/Trading Ideas

- US Treasury yields firmed across the curve, leading some support to the USD. The DXY surfaced above 90.0 again, closing near its session highs. Amidst shaky risk sentiments, the antipodeans and CAD underperformed, while the JPY remained resilient.
- Early morning headlines (unconfirmed) on the firing of National Security Advisor McMaster by Trump further underpinned the JPY. Meanwhile, the ongoing political turmoil gripping PM Abe and FM Aso may also be JPY-supportive.
- While the “**Kudlow effect**” may play a part in the USD’s climb overnight, it is not expected to impart sustained directionality. A more crucial driver of the overnight move, perhaps, is a possible positional adjustment ahead of the FOMC next week. **With a rate hike baked in, and the expectation for the dot plot to show four hikes swirling at the margins, investors may be inclined to pare down on their implied USD shorts. Expect the USD to ply the recent ranges until further clarity from the FOMC.**
- Meanwhile, yield differential arguments may be trying to re-establish themselves. The 20D correlation gauge between the DXY and both the short end and long end yield differentials have been slowly creeping higher.
- Trade tensions continue to simmer in the background, this time with Navarro commenting that the Trump is considering actions against China over intellectual property. With G20 as the context, trade tensions may move up a notch next week.
- Despite a positive lead from US/Europe equities, the FXSI (FX Sentiment Index) moved towards the Risk-Off zone, while still staying within Risk-Neutral territory. Risk appetite was soured by political headlines of Mueller’s Russian probe potentially crossing a “red line”. Watch also for further developments on McMaster.
- Data points include the US housing starts, industrial production, UMich Sentiment Index and Eurozone CPI later today.

Asian FX

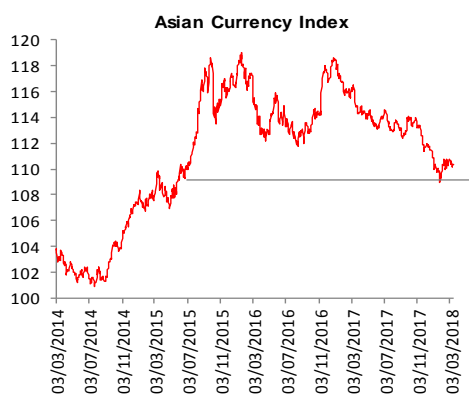
- Improvements in both bond and equity inflows continued to be recorded for South Korea and Thailand. At the moment, these countries are most favoured. Improvements are also seen in equity inflows for Taiwan, although

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strong inflow momentum has yet to establish. India and Indonesia remains a mixed bag, despite some signs of bottoming out of outflows.

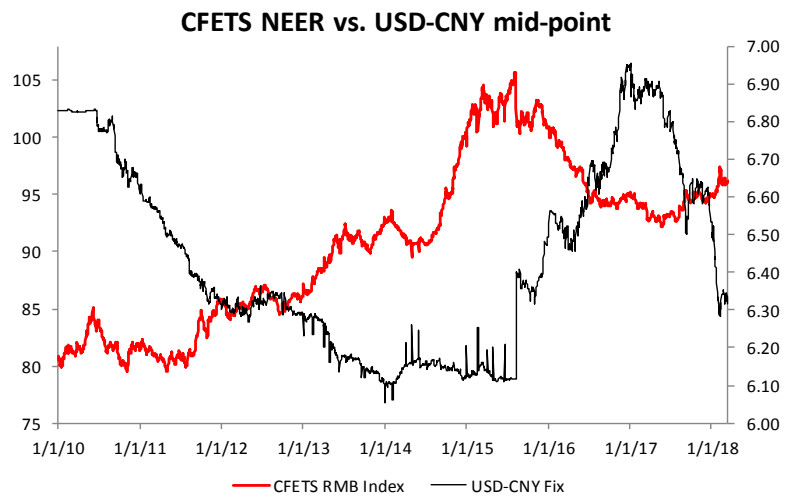
- Sketchy risk appetite may dominate the improving inflow dynamics in today’s session; expect the **ACI (Asian Currency Index)** to drift higher to close the week.
- **India:** Speculation that the Indian government is looking to increase foreign investment limits on government bonds pushed yields lower. However, the downward move in yields may be limited as foreign demand alone may not be sufficient to absorb the large supply of bonds if state-run banks remain reluctant.
- **Taiwan:** The new central bank governor, Yang Chin-long highlighted that there was no line to defend for the TWD. This sparked the TWD to strengthen towards 29.0 region.
- **SGD NEER:** The SGD NEER is softer this morning, at around +0.46% above its perceived parity (1.3213). In-line with broad USD strength overnight, NEER-implied USD-SGD thresholds were higher compared to yesterday. Expect the SGD NEER to ply the +0.30% (1.3174) to +0.60% (1.3134) range intra-day.



	SGD NEER	% deviation	USD-SGD
Current	124.85	0.47	1.3148
+2.00%	126.74		1.2954
Parity	124.26		1.3213
-2.00%	121.77		1.3482

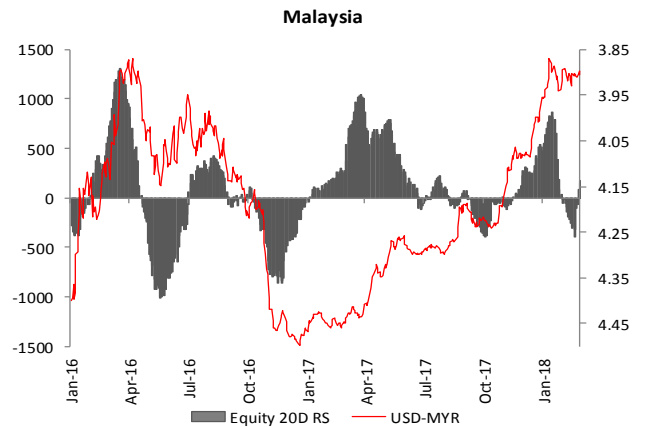
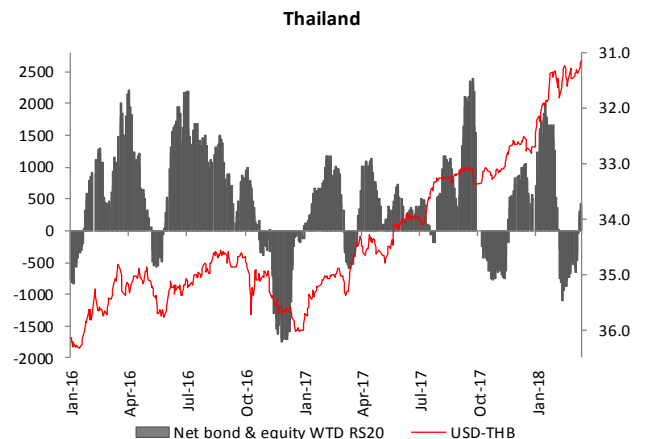
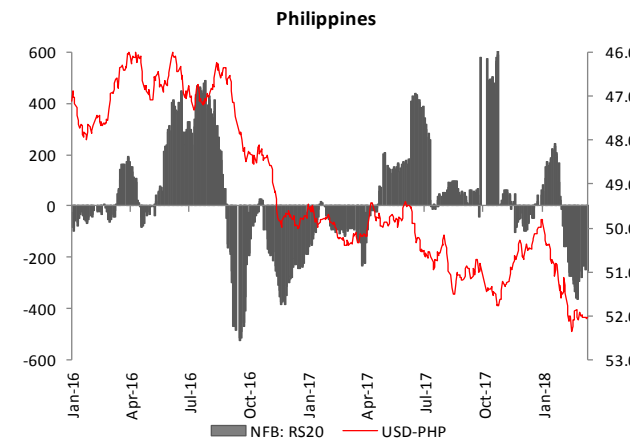
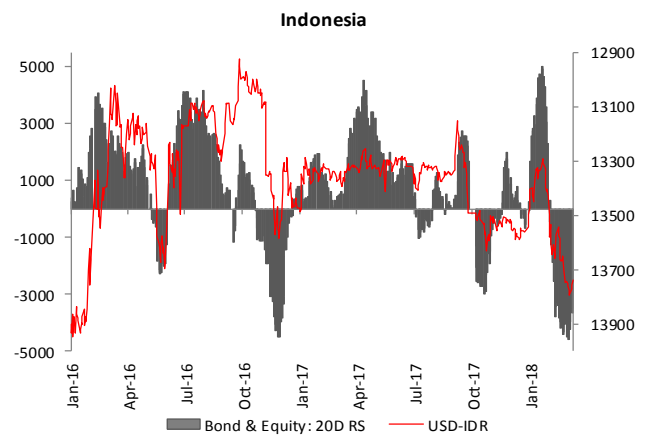
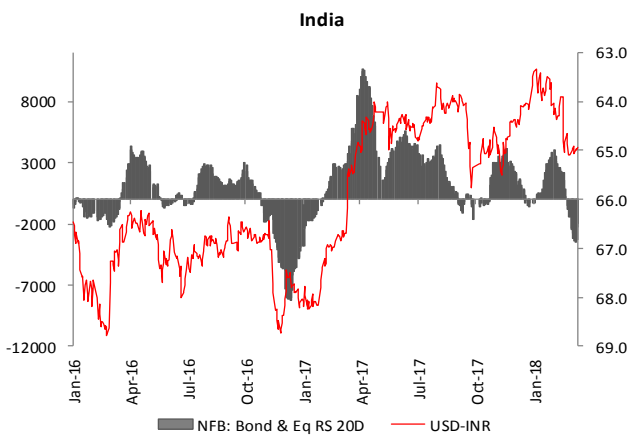
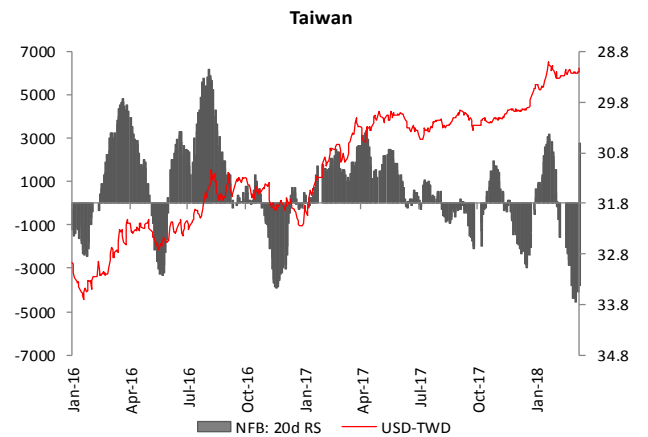
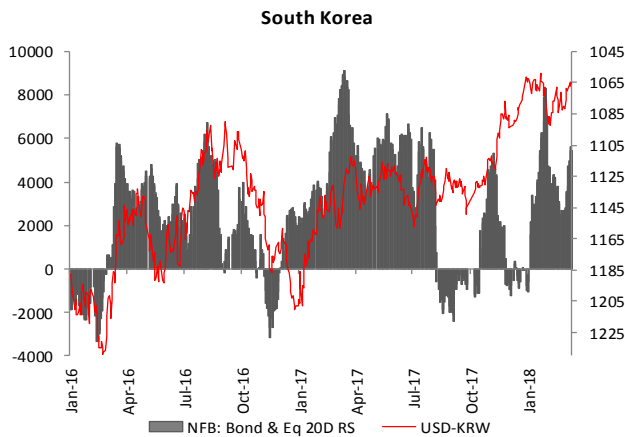
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning jumped higher (as largely expected) to 6.3340 from 6.3141 on Thursday. Despite this, the CFET RMB Index still nudged higher to 96.12 from 96.09 yesterday.

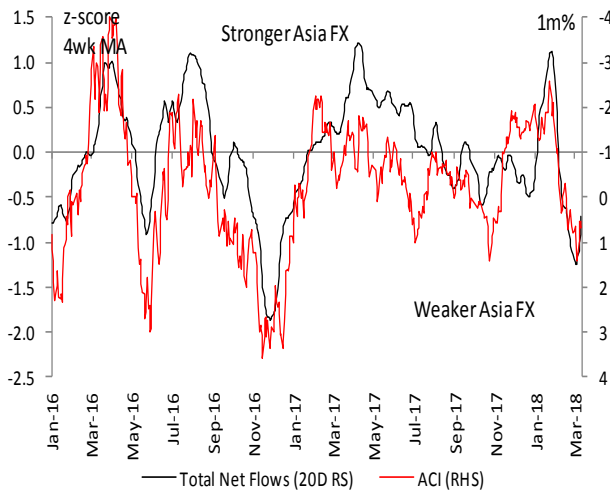


Source: OCBC Bank, Bloomberg

USD-Asia VS. Net Capital Flows

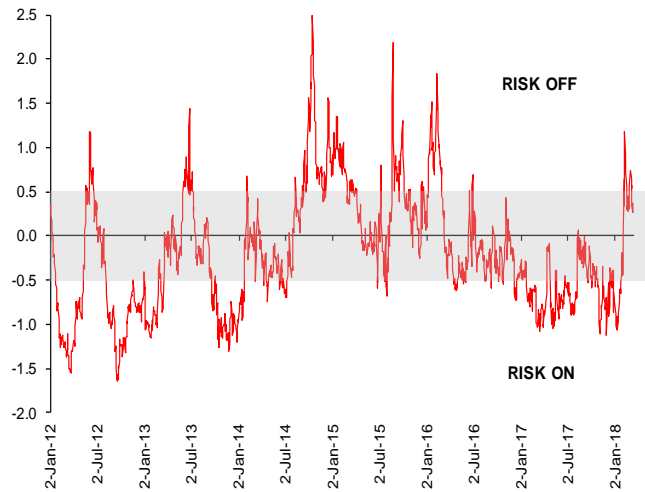


ACI VS. Net Capital Flows



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	-0.277	0.097	0.035	0.284	0.251	0.133	0.148	-0.069	-0.178	0.735	-0.934
INR	0.875	-0.324	0.167	0.130	0.241	0.431	-0.032	0.101	-0.197	-0.377	0.724	-0.716
CHF	0.751	-0.392	-0.294	0.415	0.446	0.209	-0.154	-0.141	-0.467	-0.628	0.519	-0.543
CNH	0.735	-0.134	0.725	-0.367	-0.094	-0.130	0.182	-0.224	0.245	0.045	1.000	-0.657
SGD	0.692	0.099	0.426	-0.506	-0.204	-0.041	0.502	0.141	0.490	0.440	0.672	-0.754
CAD	0.634	-0.431	-0.247	0.268	0.343	0.354	-0.441	-0.092	-0.374	-0.559	0.439	-0.392
IDR	0.621	-0.414	-0.044	0.277	0.166	0.291	-0.502	-0.115	-0.377	-0.466	0.440	-0.346
MYR	0.405	-0.356	0.512	-0.542	-0.257	-0.500	0.357	-0.307	0.553	0.391	0.484	-0.395
KRW	0.139	0.297	0.639	-0.724	-0.625	-0.118	0.257	0.130	0.653	0.813	0.344	-0.235
JPY	0.133	0.287	-0.076	-0.171	-0.008	-0.304	1.000	0.043	0.320	0.245	0.182	-0.270
CNY	0.097	0.049	1.000	-0.617	-0.535	-0.278	-0.076	-0.230	0.470	0.517	0.725	-0.118
THB	0.079	0.545	0.730	-0.608	-0.574	-0.106	0.478	0.135	0.493	0.706	0.408	-0.115
PHP	-0.272	0.300	-0.007	-0.099	-0.088	-0.263	0.262	-0.207	0.107	-0.150	-0.018	0.160
USGG10	-0.277	1.000	0.049	-0.014	-0.212	0.213	0.287	0.374	-0.078	0.227	-0.134	0.177
TWD	-0.397	-0.083	0.646	-0.477	-0.622	-0.394	0.092	-0.282	0.483	0.546	0.171	0.327
GBP	-0.819	0.309	-0.400	0.227	0.101	-0.070	0.154	0.151	-0.126	0.036	-0.705	0.674
AUD	-0.873	0.221	-0.284	0.223	-0.020	-0.273	0.156	-0.080	-0.091	-0.025	-0.711	0.771
NZD	-0.881	0.330	-0.149	0.103	0.011	-0.199	0.081	-0.033	-0.052	-0.012	-0.642	0.753
EUR	-0.934	0.177	-0.118	0.011	-0.323	-0.200	-0.270	-0.252	-0.021	0.065	-0.657	1.000

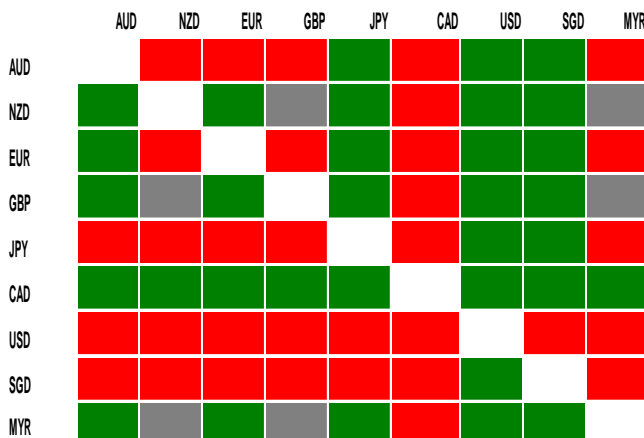
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2300	1.2304	1.2306	1.2400	1.2432
GBP-USD	1.3900	1.3916	1.3927	1.4000	1.4044
AUD-USD	0.7713	0.7732	0.7788	0.7800	0.7804
NZD-USD	0.7200	0.7201	0.7254	0.7293	0.7300
USD-CAD	1.2658	1.3000	1.3059	1.3072	1.3100
USD-JPY	105.25	105.58	105.99	106.00	107.56
USD-SGD	1.3090	1.3100	1.3150	1.3188	1.3200
EUR-SGD	1.6133	1.6140	1.6182	1.6200	1.6226
JPY-SGD	1.2255	1.2400	1.2407	1.2471	1.2500
GBP-SGD	1.8159	1.8300	1.8314	1.8352	1.8400
AUD-SGD	1.0204	1.0211	1.0241	1.0300	1.0401
Gold	1303.60	1306.67	1315.90	1329.73	1343.55
Silver	16.10	16.20	16.30	16.73	16.76
Crude	59.90	61.10	61.16	61.20	62.65

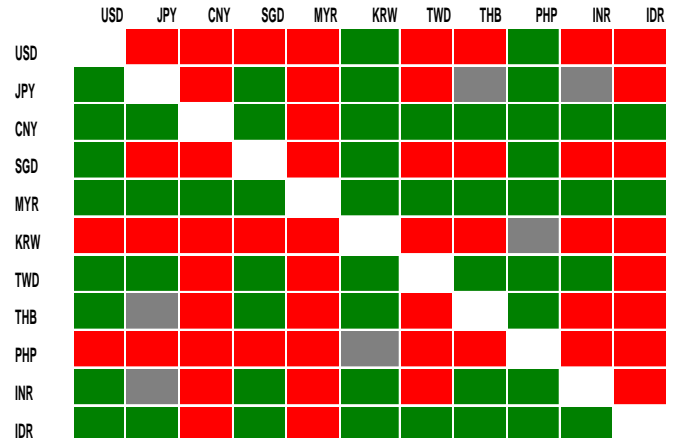
Source: OCBC Bank

G10 FX Heat Map



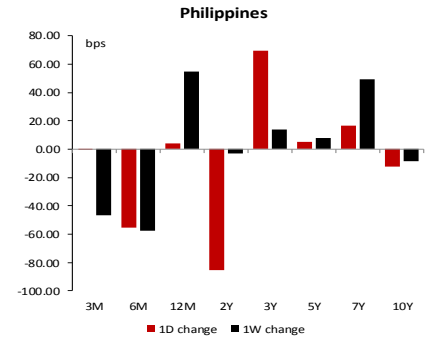
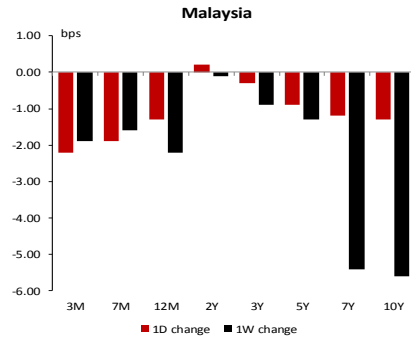
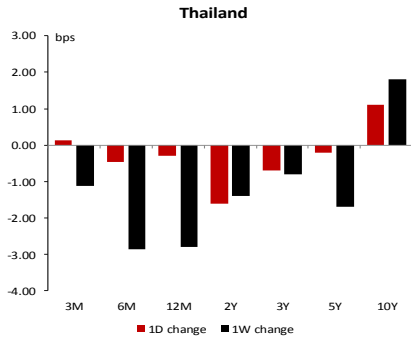
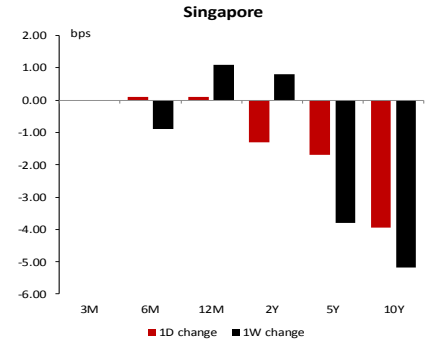
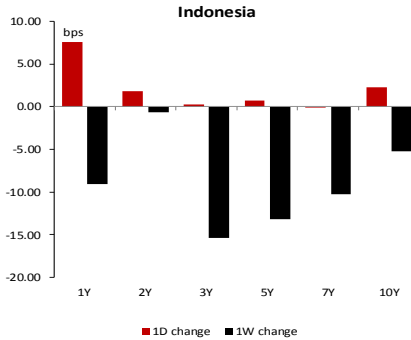
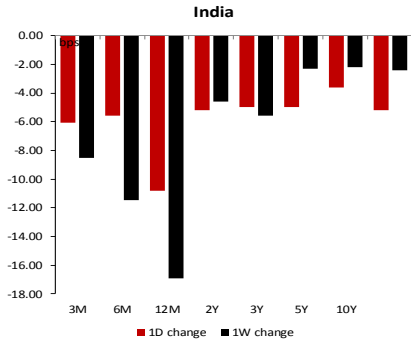
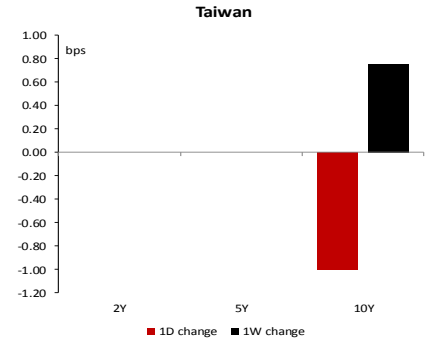
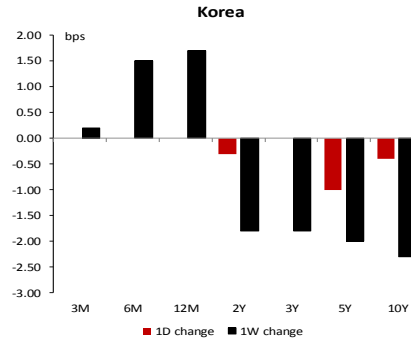
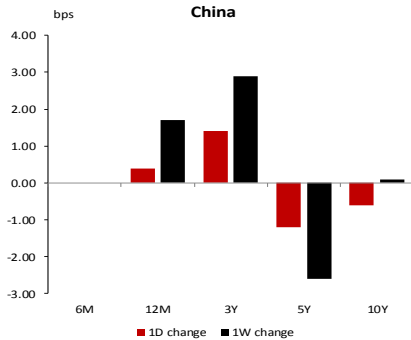
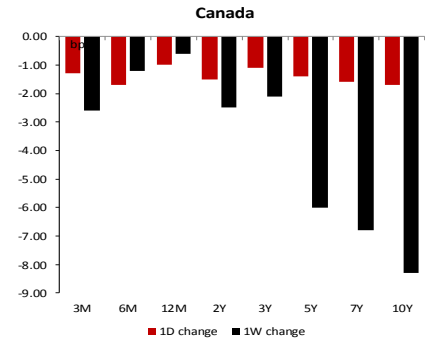
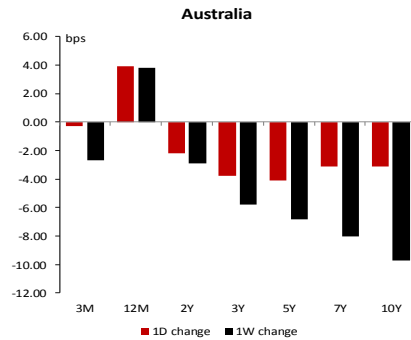
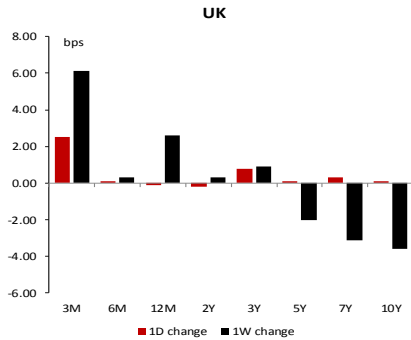
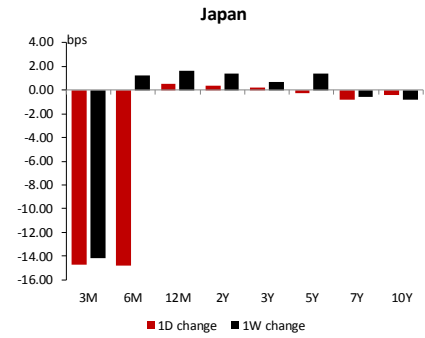
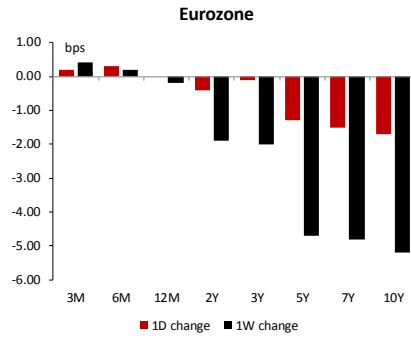
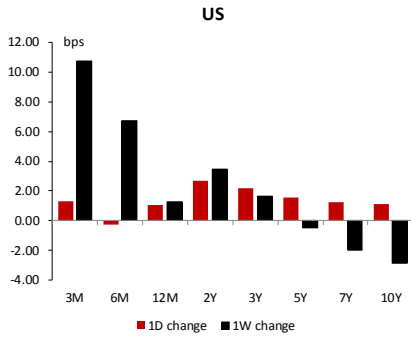
Source: OCBC Bank

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

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