

Monday, March 19, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar on Friday continued to firm for a 2nd consecutive session into the end of last week with better than expected Feb industrial production and March Michigan consumer sentiment readings coming in better than expected. The cyclicals also largely underperformed across the board with the **FXSI (FX Sentiment Index)** ticking higher within Risk-neutral territory.
- This week, the **FOMC** outcome on Wednesday and apart from the accompanying statement and press conference, watch the dot plots, economic forecasts, projected terminal rate for concrete cues. Overall, investors at this juncture we think are cautious towards any upside or hawkish surprises from the Fed.
- On the other side of the equation, **ECB** appearances this week kick off with Mersch today at 1800 GMT today and with Lautenschlaeger and Nouy on Thursday. Elsewhere, the **BOE MPC** is due on Thursday while the BOE's Ramsden (Thursday) and Vlieghe (Friday) have also been penciled in. **RBA** meeting minutes and the RBA's Bullock are also due on Tuesday. Meanwhile, the **RBNZ** is due to remain static at 1.75% late Wednesday. The **Bank of Canada's** Wilkins is also due on Thursday. In Asia, the **BSP**, **CBC**, and **Bank Indonesia** are expected to keep their respective policy parameters unchanged on Thursday.
- In sum, investors will have to gauge how the string of global central banks (either disparately or as a collective) stack up this week to determine the trajectory for the broad dollar and rates as we head into the spring. To put things in perspective, note that global long-end yields stepped lower in the past week.
- On the positioning front, **CFTC** data meanwhile showed large non-commercial, leveraged, and asset manager accounts increasing their net implied short dollar bias in aggregate in the latest week. These positions may have perhaps been pared slightly by the end of last week as the dollar attempted to grind higher.
- Apart from central bank guidance this week, the USD may also be potentially weighed by simmering political uncertainty (watch for Mueller or White House headlines). As noted previously, these developments may be multi-dimensional – The administration's perceived stability vs. the escalation of global trade tensions. At this juncture, perceived USD vulnerability may remain contained and selective via the USD-JPY but if risk aversion assumes a more pervasive complexion, USD resilience may instead

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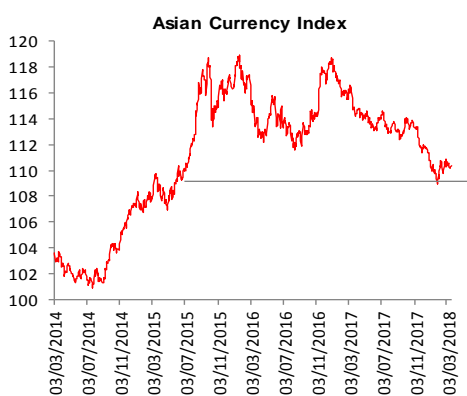
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manifest against EM/Asia.

Asian FX

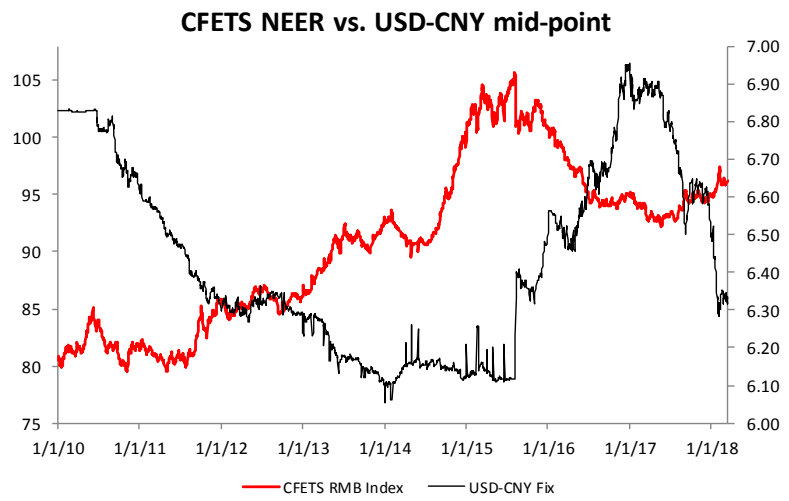
- From the **EPFR** perspective, implied net portfolio inflows into Asian (excl Japan, China) equities increased marginally in the latest week but remained at fairly subdued levels. Meanwhile, net implied portfolio inflows into Asian bonds flipped to a net outflow balance in the latest week.
- On other fronts, **actual Asian net portfolio inflows** continued to stabilize and bottom out in the past week but any implicit positivity may be diluted by investor caution towards the mid-week FOMC or alternatively, potential risk aversion.
- As a result, expect the **ACI (Asian Currency Index)** to continue to be hesitant on the downside and to remain within recent ranges in the interim.
- **SGD NEER:** The SGD NEER is softer again this morning at around +0.30% above its perceived parity (1.3222) with NEER-implied USD-SGD thresholds marginally higher on the day. Expect the NEER to ply a +0.10% (1.3209) to +0.40% (1.3169) range pending further external cues.



	SGD NEER	% deviation	USD-SGD
Current	124.64	0.30	1.3181
+2.00%	126.74		1.2962
Parity	124.26		1.3222
-2.00%	121.77		1.3492

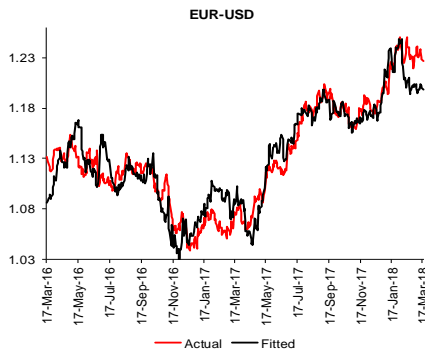
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning slipped slightly (as largely expected) to 6.3320 from 6.3340 on Friday, leaving the CFETS RMB Index a touch higher at 96.21 from 96.12.



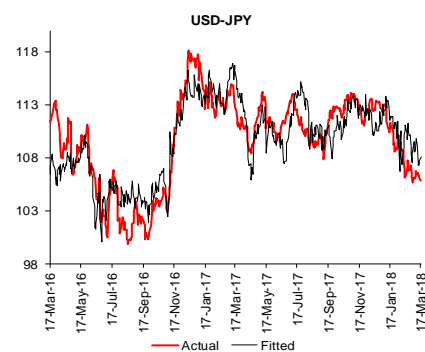
Source: OCBC Bank, Bloomberg

G7



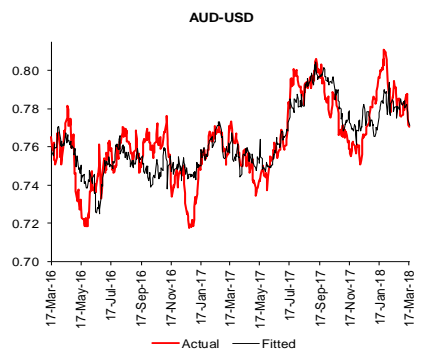
Source: OCBC Bank

- EUR-USD** Expect the pair to potentially succumb to gravity (and towards its short term implied valuations) as we head into the mid-week FOMC. Any sustained breach of the 55-day MA (1.2284) may light the way to 1.2230 and 1.2200 in the near term.



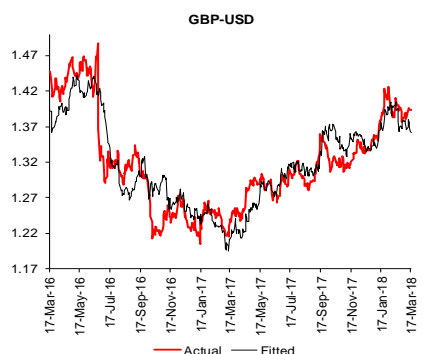
Source: OCBC Bank

- USD-JPY** The near term near remains unchanged and we continue to expect implicit heaviness for the USD-JPY while being anchored around 106.00. Meanwhile, short term implied valuations for the pair remain similarly subdued at this juncture.



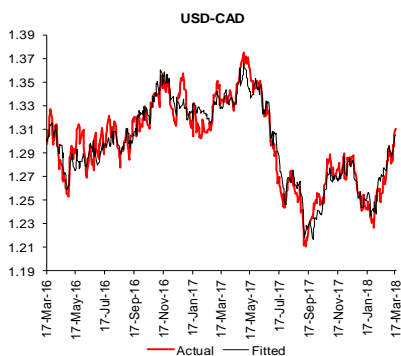
Source: OCBC Bank

- AUD-USD** Short term implied valuations for the AUD-USD have stepped lower in the last couple of sessions with little compelling positives to underpin in the near term. Ahead of the RBA minutes this week, expect the 100-day MA (0.7776) to cap with risks instead tilted towards 0.7600.



Source: OCBC Bank

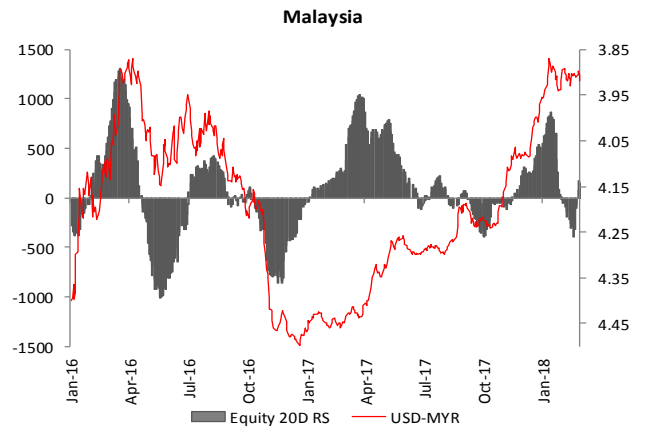
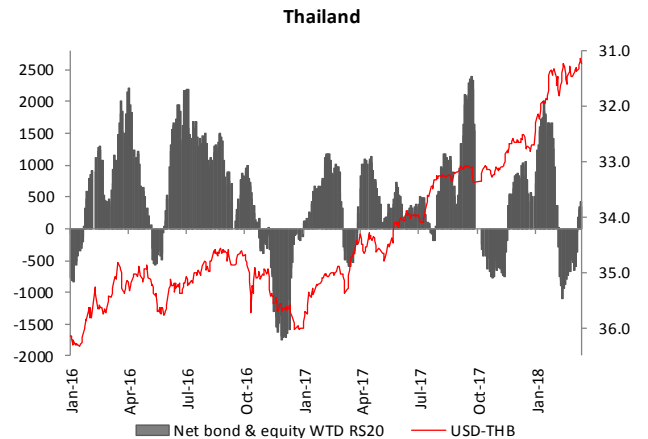
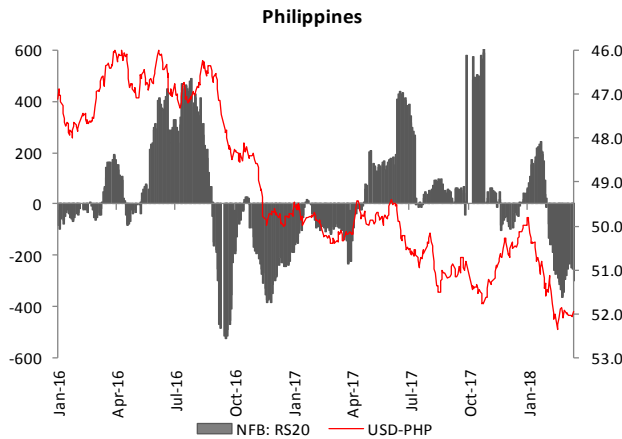
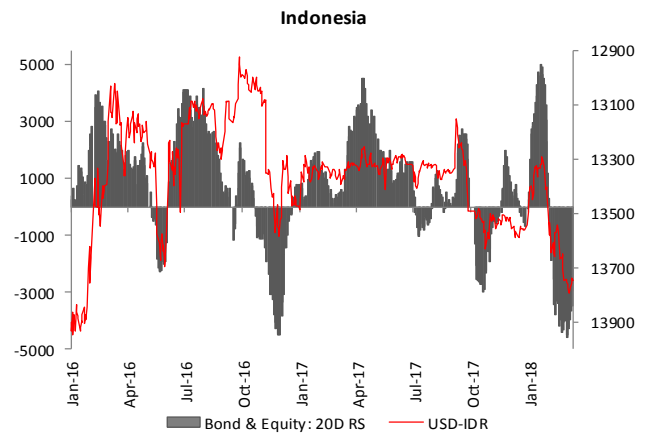
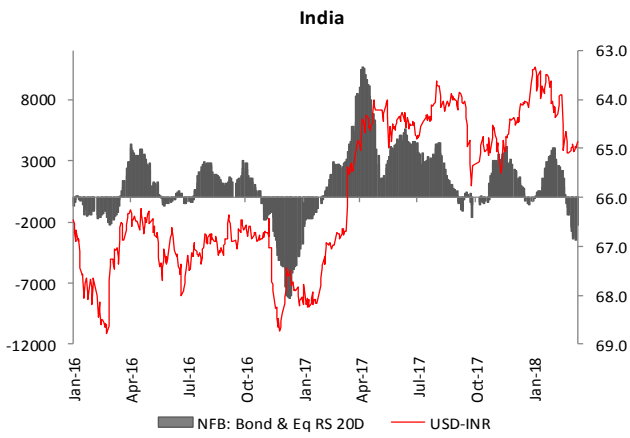
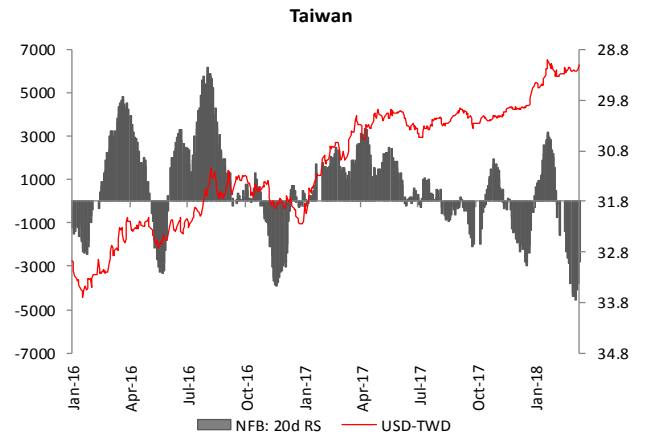
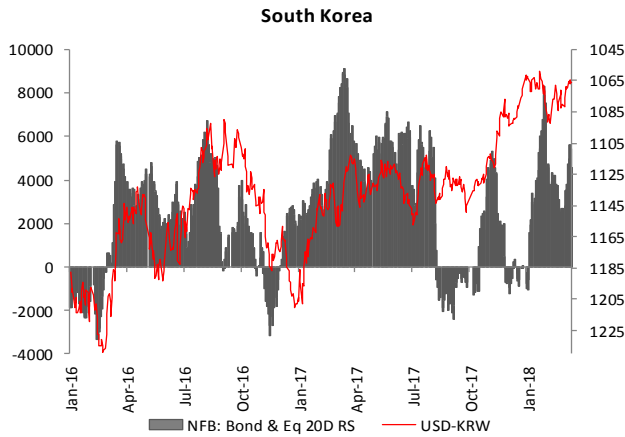
- GBP-USD** GBP-USD has also reacted lower in tandem with the slightly more underpinned greenback. Meanwhile, short term implied valuations have edged lower ahead of the EU Summit (22-23 March) and the BOE MPC on Thursday. In the interim, expect the pair to continue to orbit its 55-day MA (1.3891).



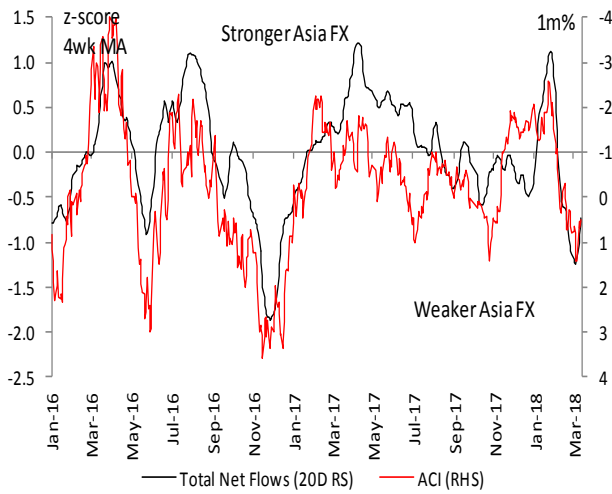
- USD-CAD** We continue to remain constructive towards the upside for the USD-CAD (note perceived Fed-BOC dichotomy), with short term implied valuations continuing to lead the way in the past week. Expect 1.3000 to offer significant support, with the topside likely to be governed by 1.3100 ahead of the FOMC.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

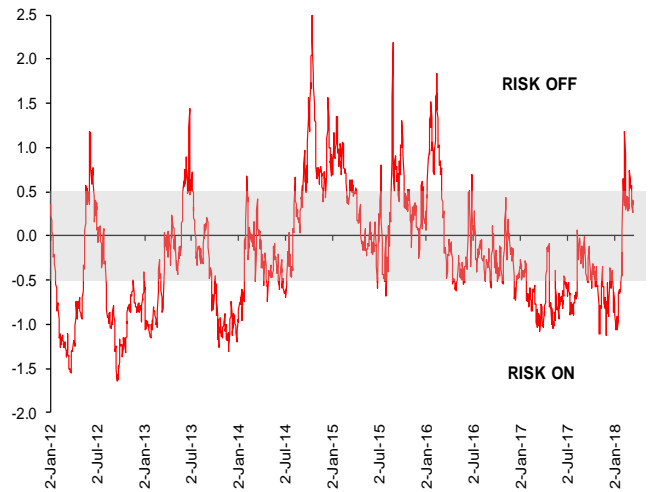


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.167	0.280	-0.109	0.218	-0.041	0.054	-0.002	0.051	-0.006	0.625	-0.894
INR	0.724	-0.136	0.601	-0.061	-0.031	0.116	-0.144	-0.185	-0.082	-0.100	0.607	-0.429
SGD	0.672	0.336	0.448	-0.550	-0.199	0.045	0.392	0.272	0.525	0.545	0.607	-0.794
MYR	0.663	-0.237	0.539	-0.373	0.062	-0.145	-0.014	0.035	0.329	0.241	0.499	-0.628
CHF	0.642	-0.381	-0.184	0.423	0.429	-0.170	-0.291	-0.369	-0.541	-0.630	0.351	-0.343
CNH	0.625	0.068	0.795	-0.507	-0.184	-0.371	0.051	-0.357	0.363	0.177	1.000	-0.524
CAD	0.514	-0.479	-0.101	0.125	0.223	-0.076	-0.567	-0.370	-0.310	-0.489	0.306	-0.156
IDR	0.428	-0.400	0.118	0.192	0.001	-0.063	-0.675	-0.485	-0.321	-0.372	0.230	-0.022
CNY	0.280	0.040	1.000	-0.608	-0.489	-0.203	-0.281	-0.141	0.467	0.443	0.795	-0.252
KRW	0.226	0.492	0.567	-0.669	-0.568	0.333	0.135	0.421	0.611	0.808	0.347	-0.341
JPY	0.054	0.573	-0.281	0.072	0.237	0.077	1.000	0.343	0.104	0.142	0.051	-0.297
THB	0.033	0.763	0.618	-0.551	-0.562	0.230	0.410	0.329	0.505	0.741	0.469	-0.185
USGG10	-0.167	1.000	0.040	-0.138	-0.363	0.229	0.573	0.370	0.113	0.330	0.068	0.022
TWD	-0.214	0.037	0.570	-0.249	-0.466	0.253	-0.196	0.037	0.260	0.425	0.262	0.167
PHP	-0.433	0.320	-0.071	-0.129	-0.169	-0.394	0.360	-0.272	0.245	-0.095	-0.037	0.231
GBP	-0.678	0.159	-0.486	0.373	0.275	0.090	0.255	0.339	-0.266	-0.155	-0.580	0.503
AUD	-0.799	0.169	-0.440	0.398	0.077	0.028	0.331	0.030	-0.195	-0.133	-0.573	0.642
NZD	-0.861	0.233	-0.259	0.132	0.024	-0.128	0.324	-0.024	-0.005	-0.057	-0.489	0.667
EUR	-0.894	0.022	-0.252	0.170	-0.257	0.095	-0.297	-0.186	-0.186	-0.168	-0.524	1.000

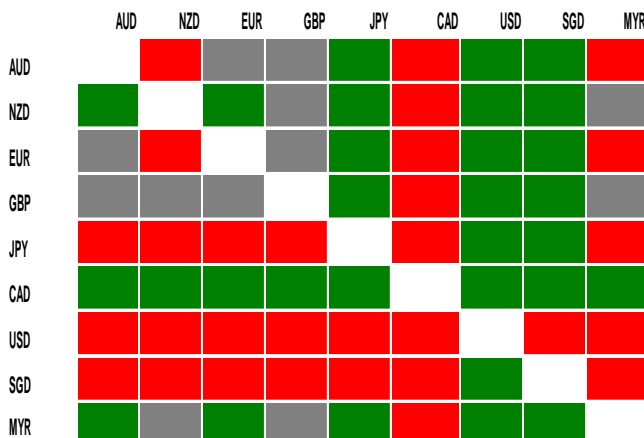
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2208	1.2271	1.2300	1.2307
GBP-USD	1.3900	1.3918	1.3934	1.4000	1.4030
AUD-USD	0.7698	0.7700	0.7702	0.7800	0.7801
NZD-USD	0.7182	0.7200	0.7215	0.7287	0.7300
USD-CAD	1.2654	1.3100	1.3104	1.3110	1.3131
USD-JPY	105.25	105.46	105.83	106.00	107.56
USD-SGD	1.3100	1.3178	1.3181	1.3200	1.3252
EUR-SGD	1.6122	1.6133	1.6174	1.6200	1.6220
JPY-SGD	1.2252	1.2400	1.2454	1.2476	1.2500
GBP-SGD	1.8300	1.8343	1.8366	1.8400	1.8473
AUD-SGD	1.0100	1.0150	1.0152	1.0157	1.0200
Gold	1303.60	1307.67	1311.50	1330.93	1339.07
Silver	16.18	16.20	16.20	16.30	16.74
Crude	59.98	62.00	62.03	62.10	62.62

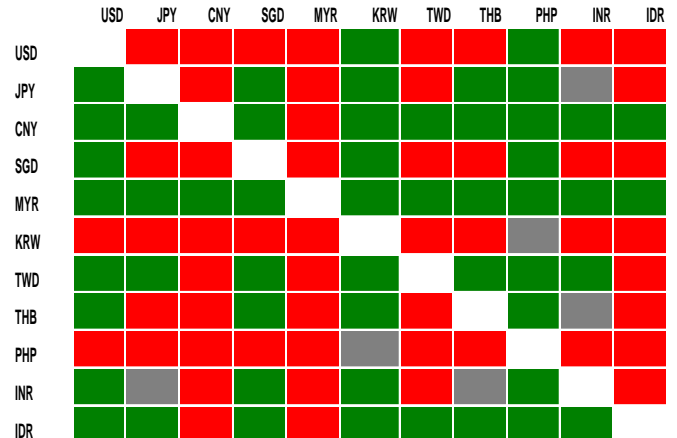
Source: OCBC Bank

G10 FX Heat Map



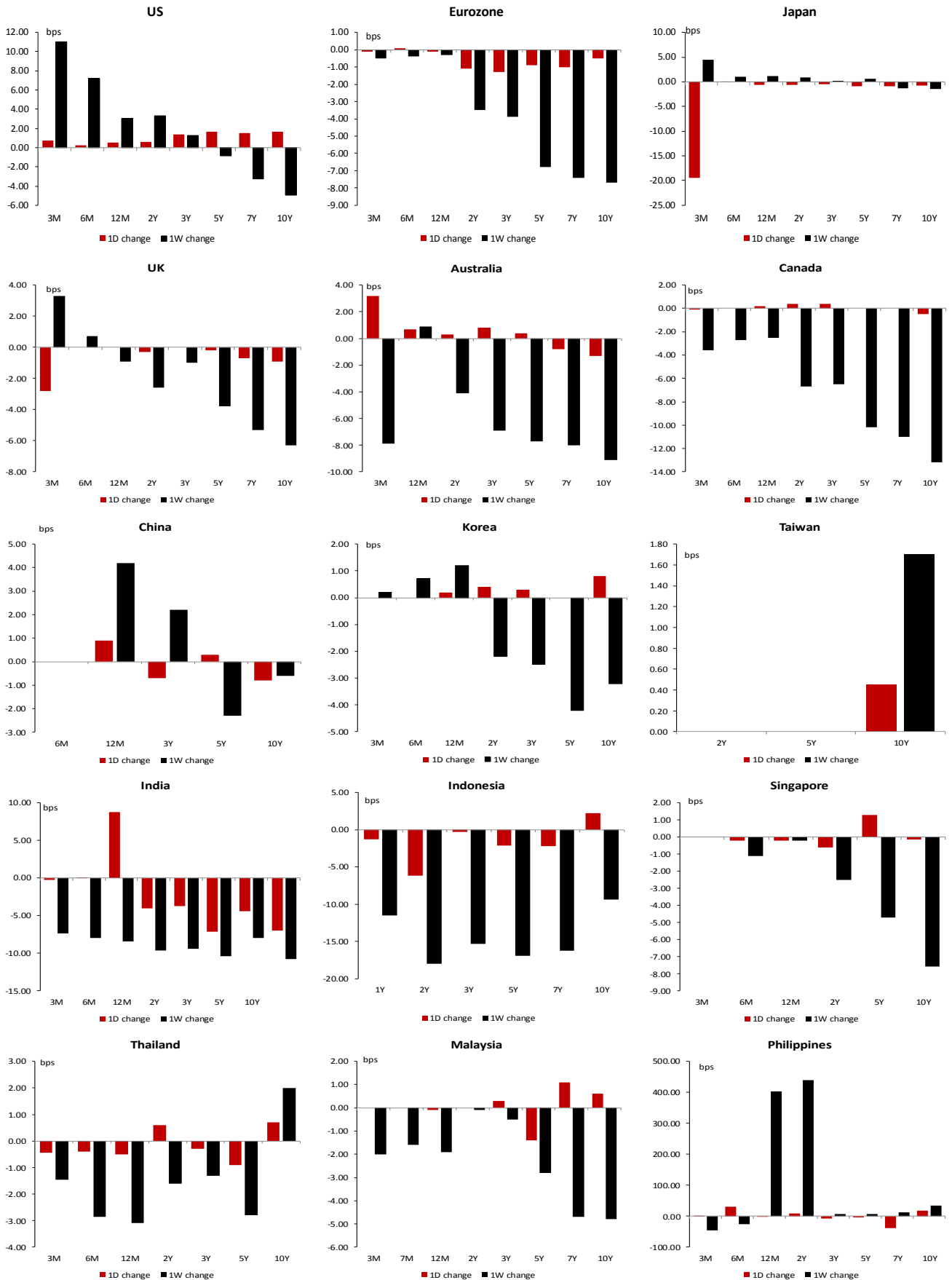
Source: OCBC Bank

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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