

Wednesday, March 21, 2018

FX Themes/Strategy/Trading Ideas

- The majors retreated against the USD on Tuesday (note firmer US yields) ahead of the FOMC on Wednesday. In the absence of major headlines, the EUR was additionally weighed by mixed to a softer German march ZEW while the GBP was also undermined by cooler than expected Feb CPI readings. USD-JPY meanwhile floated higher on the back of USD resilience and continued dovish cues from the BOJ. Elsewhere, the bottoming out in global equities (including in EM) saw the **FXSI (FX Sentiment Index)** edging lower within Risk-Neutral territory.
- Late Wednesday (2000 GMT), the **RBNZ** monetary decision is also due and although no change in the policy rate is expected, look to accompanying comments out of the central bank.
- Beyond the realm of central banks, the specter of **global trade tensions** may continue to circulate, with US officials indicating that up to USD60bn of new tariffs may be unveiled by this Friday.
- For today, the **FOMC** meeting statement and projections (1800 GMT) and Powell's press conference (1830 GMT) will be closely scrutinized for medium term implications. Specifically, markets may look to the dot plots, terminal rate projections and macro forecasts to determine whether the **DXY** will relapse back towards 88 or reach for 92 (and 2.80% or 3.00% for the 10y UST) in the coming weeks.
- In our view, given the increasing hype in the past week, the greatest risk of a short term blowback in the markets at this juncture is if the dot plots remain at three for 2018. To this end, our 3M MSI (Macro Surprise Index) for the US has been moderating in the year to date, providing some food for thought.
- On a more structural basis, we'd also look to the outcome of tonight's FOMC for greater clarity on whether the greenback may finally respond to aggregate rate differential arguments (which have continued to be supportive but to no avail), or continue to appeal to its typical counter-cyclical properties (i.e., USD to remain vulnerable as counterpart global central banks close the gap with respect to perceived policy dichotomy).

Treasury Research &
Strategy

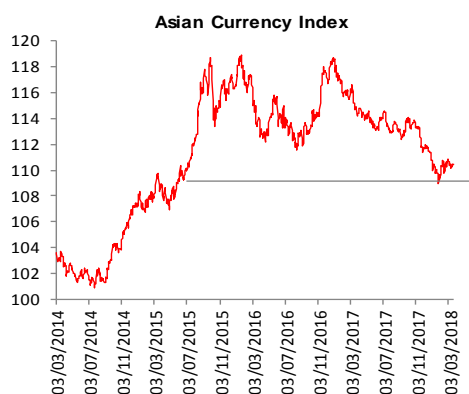
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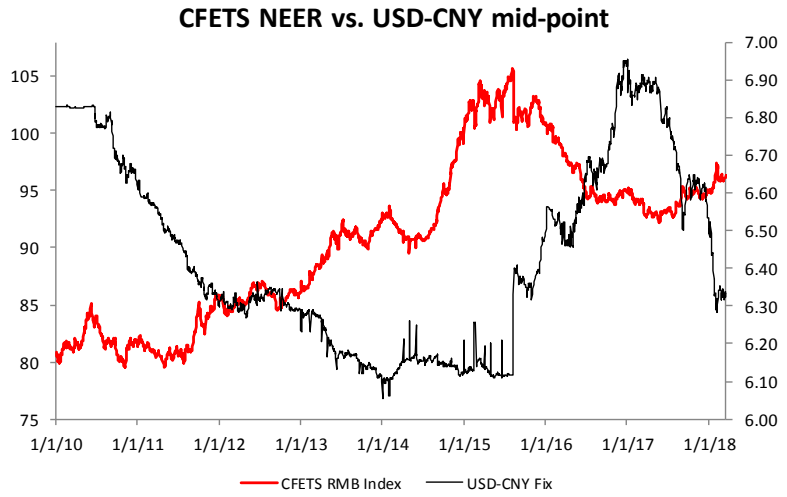
Asian FX

- EM FX was also mixed to weaker against the greenback on Tuesday and the **ACI (Asian Currency Index)** may remain somewhat supported despite a mildly supportive net portfolio inflow environment in the region.
- **Net portfolio inflows** in Asia meanwhile indicate some moderation in flows for South Korea and continued compression in net outflows for Taiwan. Both India and Indonesia are also still attempting to pare net outflows on a rolling basis, while Thailand may remain a relative outperformer given the continued recovery in net inflows (especially bonds).
- **SGD NEER:** The SGD NEER is slightly softer at around +0.36% above its perceived parity (1.3232) with NEER-implied USD-SGD thresholds firmer on the day. Look to a +0.20% (1.3206) to +0.50% (1.3167) range pending external cues. Technically, the 55-day MA (1.3191) may continue to prove pivotal on the upside, while 1.3120 may offer initial support in an otherwise mixed market.



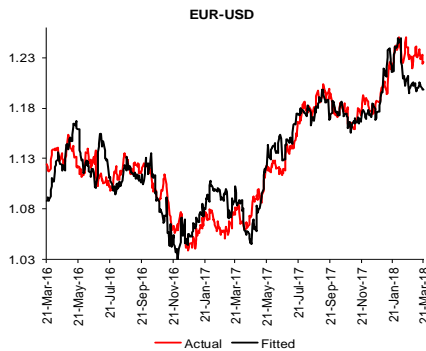
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point firmed (largely in line with expectations) to 6.3396 this morning from 6.3246 on Tuesday. This resulted in the CFETS RMB Index softening to 96.24 from 96.27. For pretty much the past month, note that the Index has essentially re-linked with the broad dollar (DXY), implying continued tempered volatility going ahead for the USD-CNY mid-points if this positive correlation between the CFETS RMB Index and the DXY is maintained. The corollary then is that short-end vol premiums for the CNH (assuming minimal friction between the CNY and CNH) may continue to remain positive, if not compress.



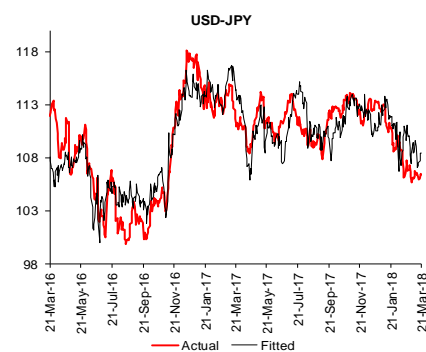
Source: OCBC Bank, Bloomberg

G7



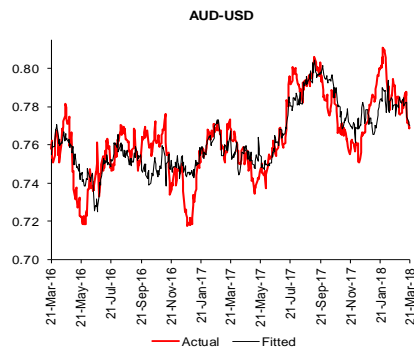
Source: OCBC Bank

- **EUR-USD** Ahead of the FOMC tonight, short term implied valuations are looking slightly suppressed and expect investors to stay top heavy within 1.2200-1.2300 in the interim.



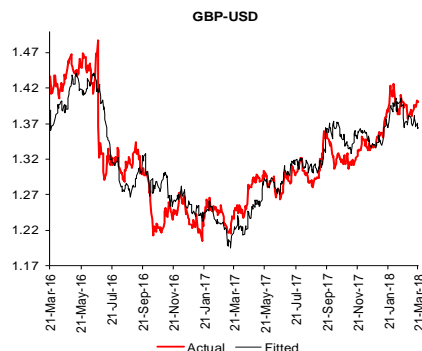
Source: OCBC Bank

- **USD-JPY** An uncommitted market intra-day may see the 106.00 anchor remaining intact before the FOMC and despite short term implied valuations attempting to tick higher.



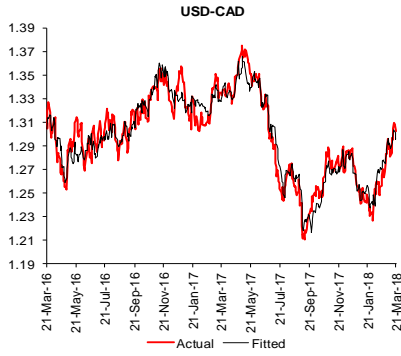
Source: OCBC Bank

- **AUD-USD** AUD-USD is still seen on a slippery slope with short term implied valuations also continuing to fade. Little room for ambiguity here and a sustained breach of 0.7700 threatens 0.7630.



Source: OCBC Bank

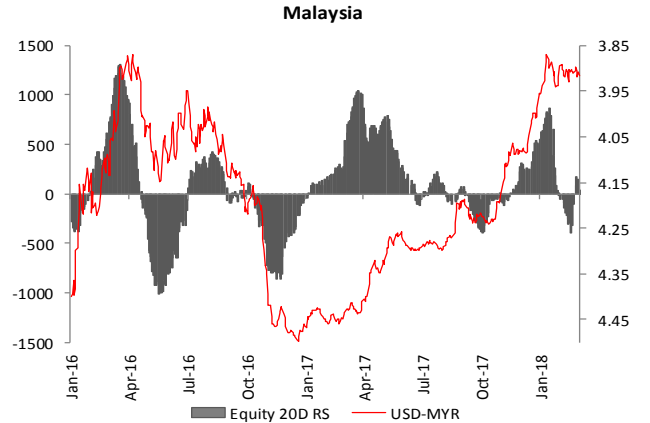
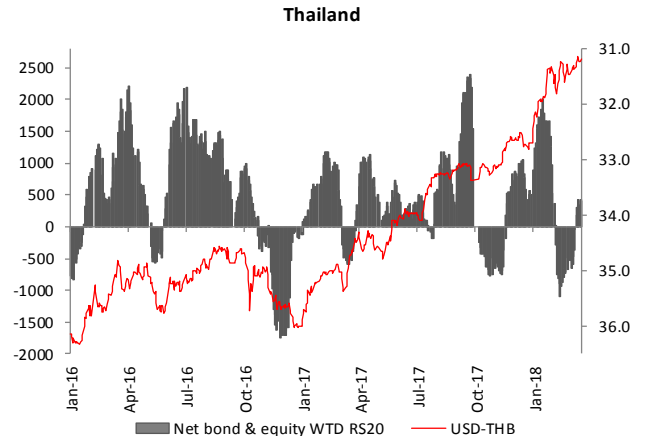
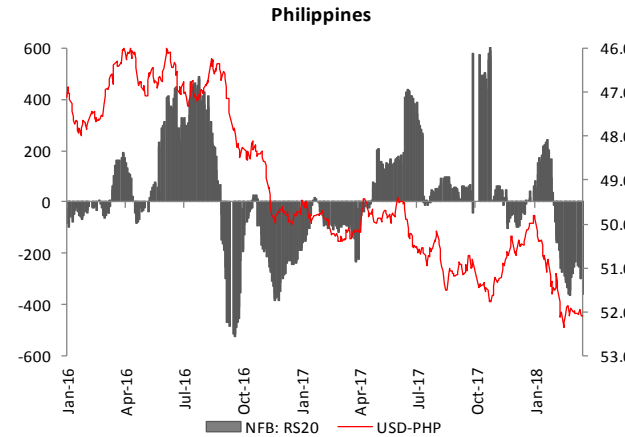
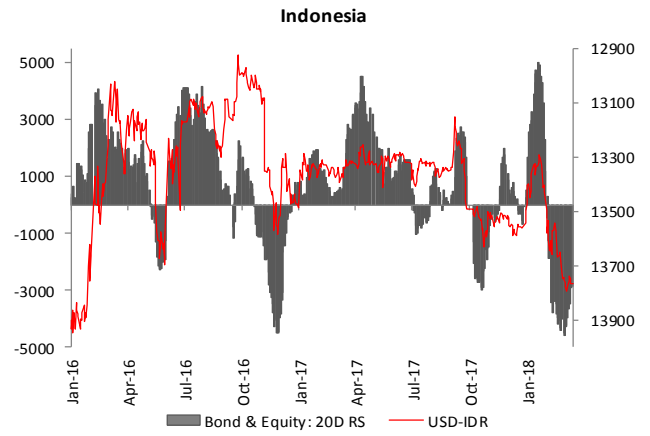
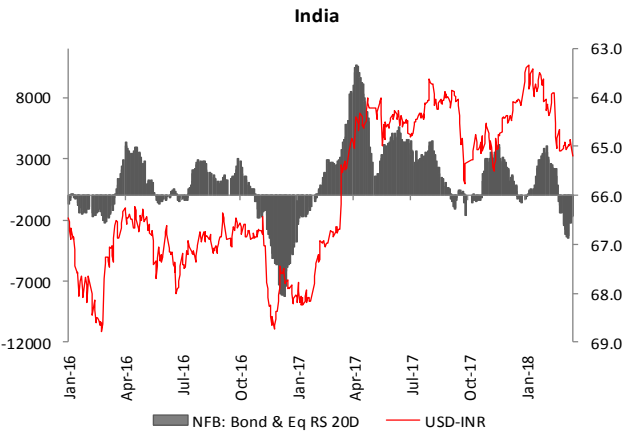
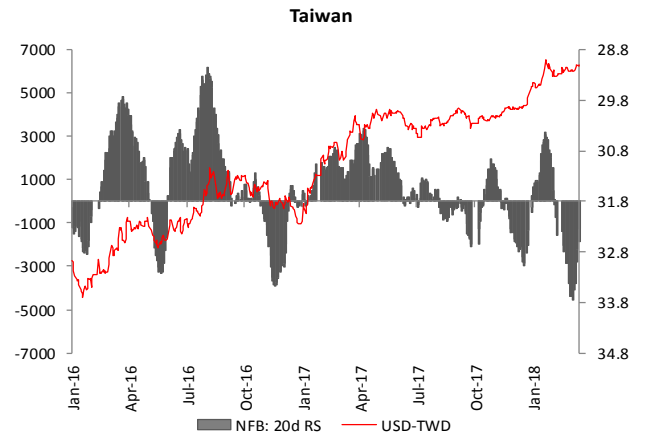
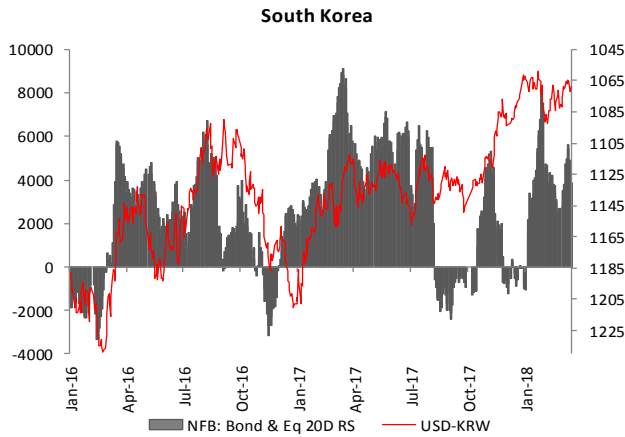
- **GBP-USD** GBP-USD may remain mildly constructive towards the upside pending Brexit/BOE/FOMC news flow, although we note that short term implied valuations are attempting to moderate lower. Investors may thus attempt to bounce any dips towards the 55-day MA (1.3909) instead with 1.4100 still expected to cap.



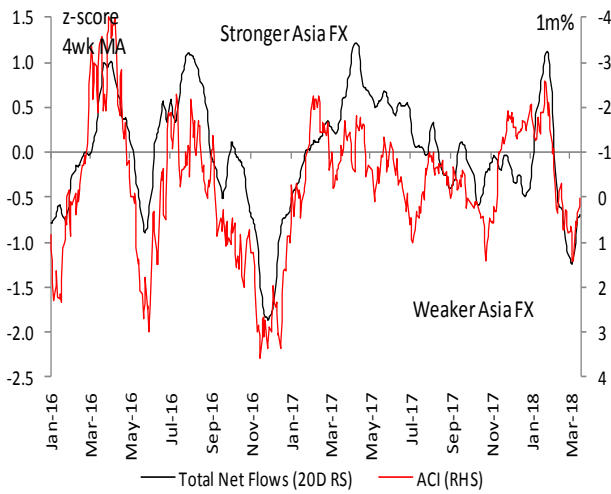
- USD-CAD** CAD outperformed across the board and in line with the USD-CAD's short term implied valuations, expect some consolidative behavior ahead of the Fed tonight. In the interim, expect a locus around 1.3000 within 1.2970-1.3100.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

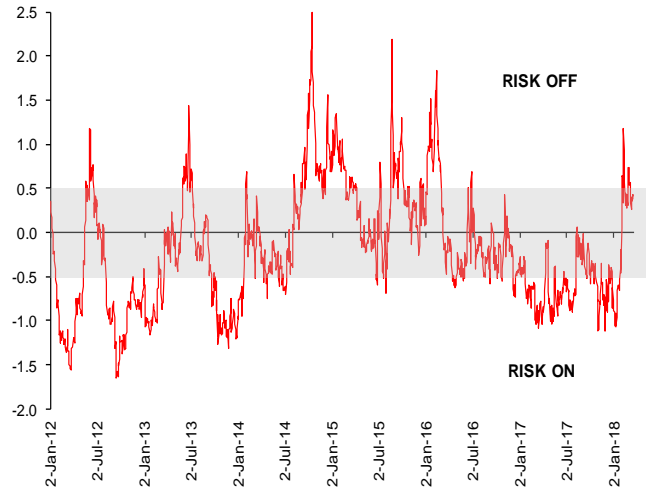


ACI VS. Net Capital Flows



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	-0.099	0.272	-0.151	0.173	-0.186	0.054	0.050	0.167	0.183	0.537	-0.898
MYR	0.642	-0.194	0.515	-0.412	0.140	-0.243	-0.060	0.125	0.342	0.292	0.464	-0.628
SGD	0.628	0.376	0.448	-0.579	-0.258	-0.033	0.384	0.285	0.617	0.509	0.560	-0.757
CNH	0.537	0.120	0.785	-0.549	-0.280	-0.469	0.039	-0.308	0.477	0.242	1.000	-0.470
CHF	0.515	-0.298	-0.143	0.298	0.452	-0.451	-0.330	-0.082	-0.403	-0.276	0.195	-0.342
INR	0.488	-0.119	0.557	-0.236	-0.174	-0.282	-0.475	-0.183	0.141	0.071	0.386	-0.303
IDR	0.412	-0.382	0.118	0.148	0.044	-0.126	-0.682	-0.416	-0.291	-0.256	0.215	-0.043
CAD	0.362	-0.414	-0.079	0.010	0.255	-0.355	-0.610	-0.148	-0.174	-0.238	0.152	-0.131
CNY	0.272	0.047	1.000	-0.593	-0.470	-0.185	-0.272	-0.123	0.460	0.366	0.785	-0.249
KRW	0.173	0.456	0.547	-0.599	-0.579	0.341	0.143	0.340	0.570	0.548	0.322	-0.274
JPY	0.054	0.580	-0.272	0.100	0.169	0.113	1.000	0.301	0.105	0.141	0.039	-0.297
USGG10	-0.099	1.000	0.047	-0.139	-0.324	0.237	0.580	0.399	0.098	0.375	0.120	-0.048
THB	-0.138	0.680	0.539	-0.404	-0.656	0.296	0.408	0.175	0.456	0.405	0.374	-0.023
TWD	-0.260	-0.021	0.434	-0.058	-0.501	0.410	-0.088	-0.132	0.111	0.054	0.207	0.277
PHP	-0.397	0.314	-0.059	-0.175	-0.126	-0.443	0.323	-0.190	0.265	-0.042	-0.041	0.196
GBP	-0.538	0.152	-0.414	0.267	0.429	0.003	0.250	0.475	-0.270	-0.029	-0.440	0.261
AUD	-0.692	0.084	-0.362	0.467	-0.022	0.305	0.324	-0.238	-0.291	-0.308	-0.430	0.618
NZD	-0.793	0.150	-0.240	0.227	-0.006	0.120	0.351	-0.270	-0.128	-0.272	-0.361	0.663
EUR	-0.898	-0.048	-0.249	0.204	-0.246	0.188	-0.297	-0.324	-0.252	-0.323	-0.470	1.000

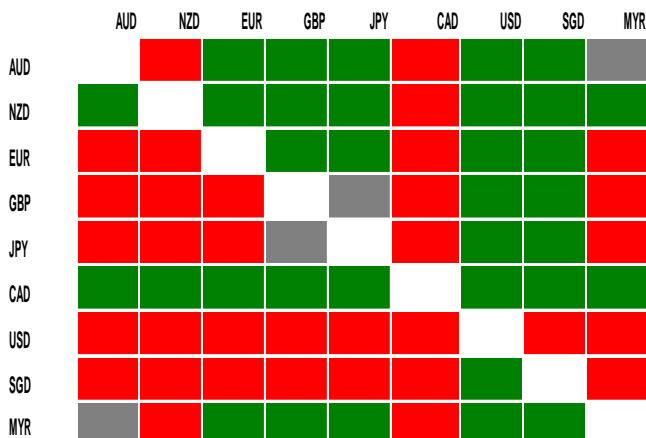
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2201	1.2265	1.2300	1.2321
GBP-USD	1.3939	1.4000	1.4014	1.4059	1.4100
AUD-USD	0.7671	0.7679	0.7695	0.7700	0.7802
NZD-USD	0.7169	0.7178	0.7181	0.7200	0.7288
USD-CAD	1.2652	1.3000	1.3022	1.3100	1.3125
USD-JPY	105.67	106.00	106.47	107.00	107.17
USD-SGD	1.3100	1.3172	1.3177	1.3200	1.3244
EUR-SGD	1.6112	1.6133	1.6162	1.6200	1.6230
JPY-SGD	1.2279	1.2300	1.2377	1.2400	1.2465
GBP-SGD	1.8362	1.8400	1.8467	1.8500	1.8501
AUD-SGD	1.0122	1.0125	1.0140	1.0200	1.0384
Gold	1303.60	1306.54	1313.70	1330.63	1337.09
Silver	16.10	16.12	16.13	16.20	16.71
Crude	63.00	63.50	63.70	64.32	64.38

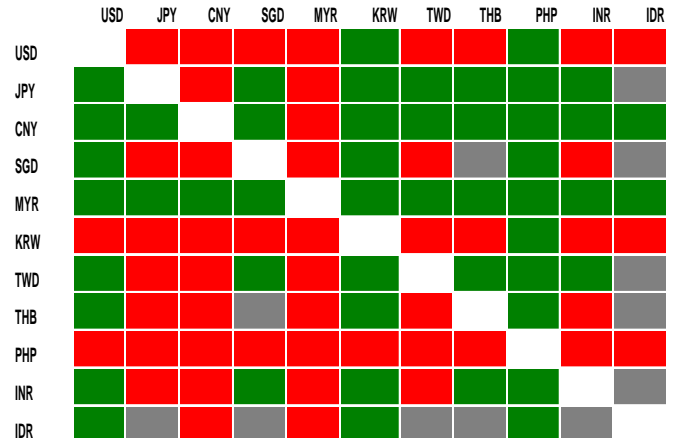
Source: OCBC Bank

G10 FX Heat Map



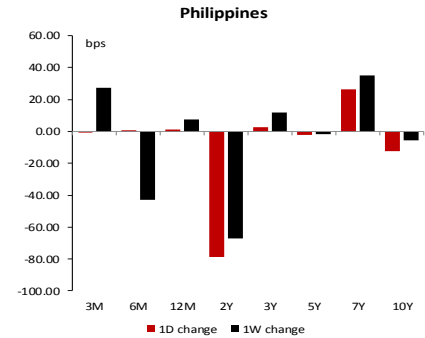
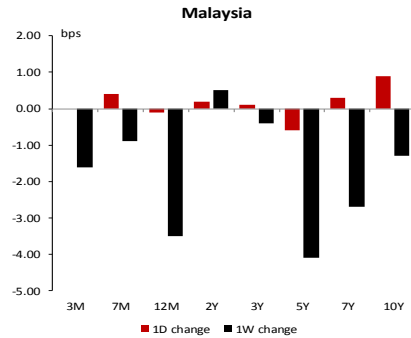
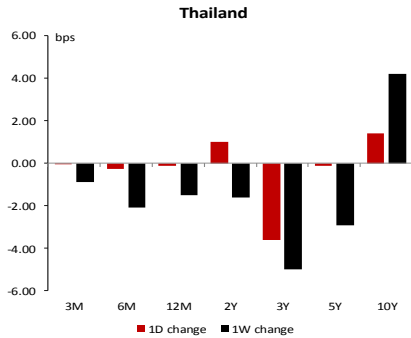
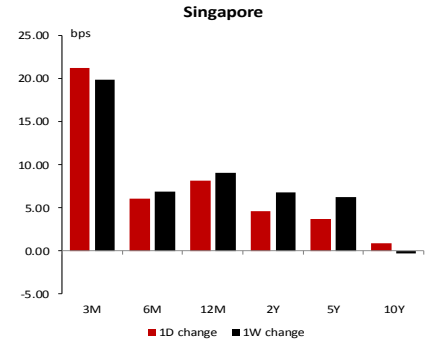
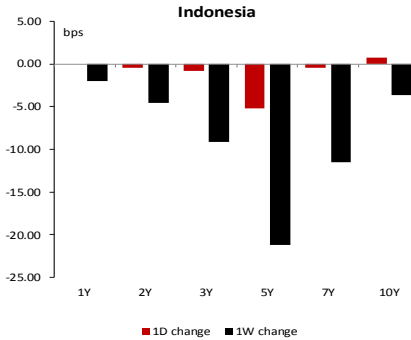
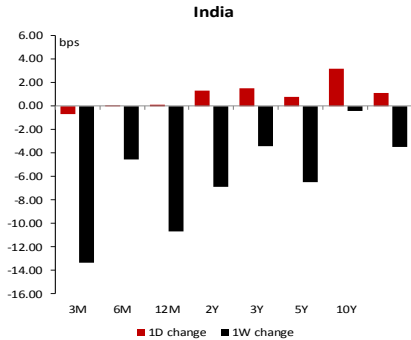
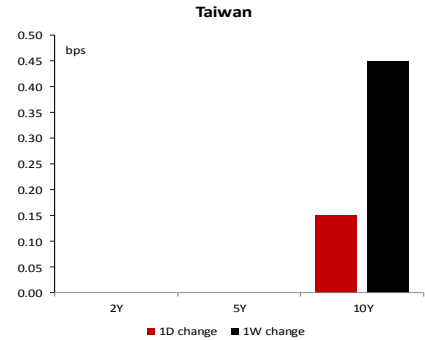
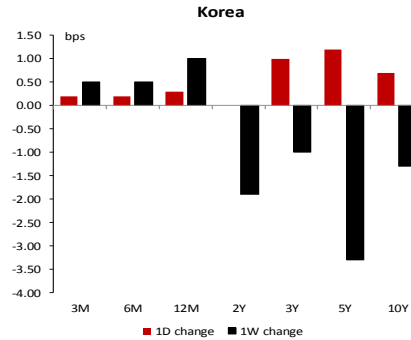
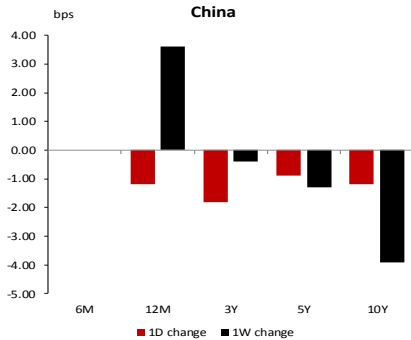
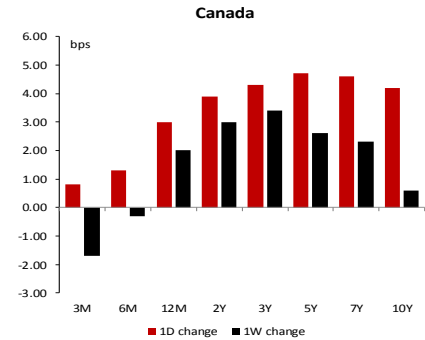
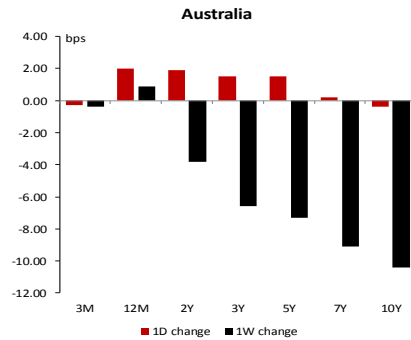
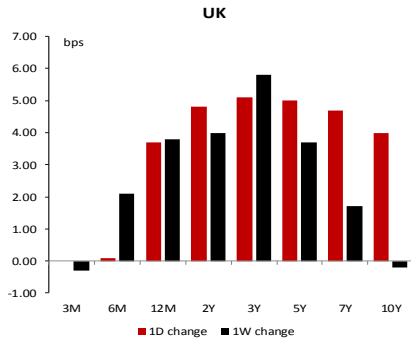
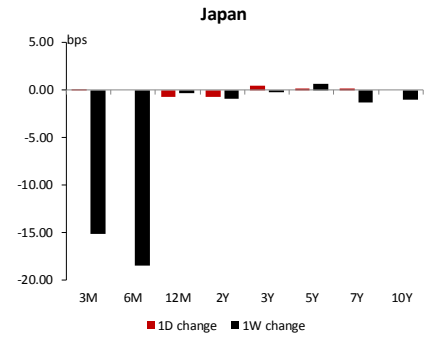
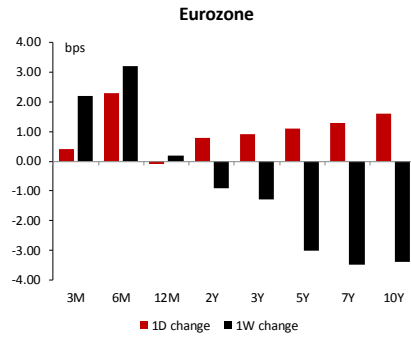
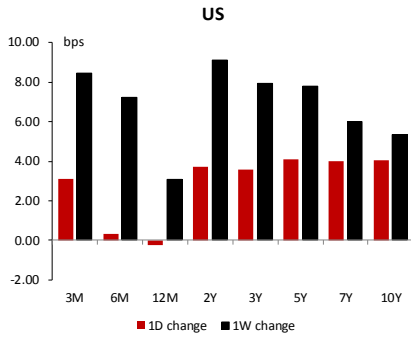
Source: OCBC Bank

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	Broad 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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