

Thursday, March 22, 2018

**FX Themes/Strategy/Trading Ideas**

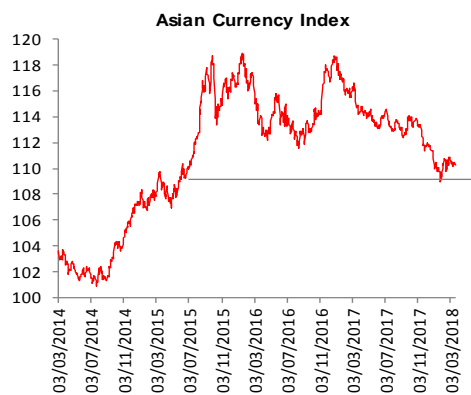
- The greenback weakened across the board following the outcome of the FOMC (hiked 25bps as expected to 1.50-1.75%) and despite the Fed brightening its economic prognosis but still retaining its gradualist tone. With investors steadily ramping up expectations for 4 hikes in the prior sessions, the FOMC's dot plots essentially remained tagged at 3, paving the way for dollar weakness overnight.
- Specifically, **Powell** indicated that there is no sense in the data to indicate that the economy is on the cusp of accelerating inflation, adding that there is little evidence of wage pressures despite the tightening labor market. The UST curve eventually ended softer on the day after a choppy session, with the 2y outperforming while ED futures ticked higher all through the calendar.
- Overall, immediate cues for markets will continue to stem from expectations surrounding the expected short term delta of Fed policy, as opposed to dwelling simplistically on medium to long term point forecasts. Although the Fed did not shut the door on 4 hikes for this year, any change in stance into the summer would have to be buttressed by incoming data.
- Structurally, counterpart global central banks are likely to take the cue from the Fed overnight and refrain from coloring their forward guidance with renewed hawkishness for the short term.
- Global equities ended on a negative note on Wednesday but note that EM equities managed to chalk up minor gains post-FOMC. The improvement in risk appetite pulled the **FXSI (FX Sentiment Index)** deeper into Risk Neutral territory and away from Risk-Off territory. **Overall, the outcome of the FOMC (especially Powell's press conference) we think may continue to engender positive risk appetite and investor interest towards EM/Asia assets and FX in the near term.**
- However, with the fuss surrounding the FOMC now out of the way, expect markets to turn their attention to potential **global trade tensions**. On this front, a White House official has indicated that the President will announce **tariffs on China imports today (Thursday) at 1630 GMT**, with sentiment also shaken slightly (watch Asia and the AUD) by a report yesterday indicating that China may be exploring retaliatory measures.
- Today, the **ECB's** Lautenschlaeger (0830 GMT) and Nouy (0900GMT) are scheduled, while the **Bank of Canada's** Wilkins is due at 1845 GMT. Note also the **BOE MPC** (1200 GMT) amidst attendant hawkish expectations.

Treasury Research &  
Strategy

**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

### Asian FX

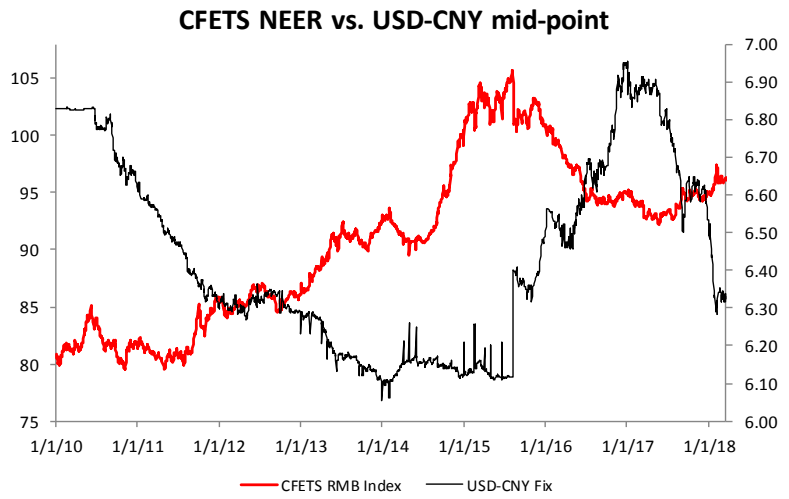
- EM FX also drafted the majors higher against the USD overnight but Asian FX strength may likely stall into the end of the week. Note that risk appetite levels in Asia on Thursday are slightly wobbly (heavy JPY-crosses and underperforming AUD) and trade war tensions may continue to cast a pall on global sentiment. As such, any dips in the **ACI (Asian Currency Index)** will likely be shallow.
- Meanwhile, **actual net portfolio inflows** in Asia show deteriorating inflow pressure for **South Korea**, stabilizing and moderating outflow pressure for Taiwan, India, Indonesia, deepening outflows for Philippines, while **Thailand** is attempting to chalk up further inflows.
- On the central bank front, the BSP (0800 GMT), CBC, and Bank Indonesia are expected to stand pat today, with the latter two central banks expected to sound off as being sufficiently accommodative (but not dovish).
- **SGD NEER:** The SGD NEER is stronger on the day at around +0.43% above its perceived parity (1.3182). NEER-implied USD-SGD thresholds are easier on the day and look to a +0.30% (1.3143) to +0.60% (1.3104) range for the basket intra-day. Regional nervousness may however discourage any drift towards the stronger end of this range. For the USD-SGD, 1.3080-1.3180 may continue book-end for now.



|         | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 124.79   | 0.43        | 1.3126  |
| +2.00%  | 126.74   |             | 1.2924  |
| Parity  | 124.26   |             | 1.3182  |
| -2.00%  | 121.77   |             | 1.3451  |

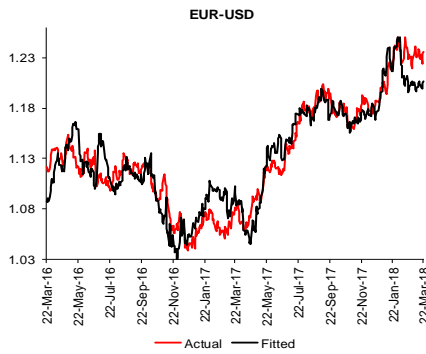
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (less than we had expected) to 6.3167 from 6.3396 yesterday, keeping the inter-day move in the fix within historical parameters despite the volatility post-FOMC. This saw the CFETS RMB Index edging lower to 96.13 from 96.24 yesterday.



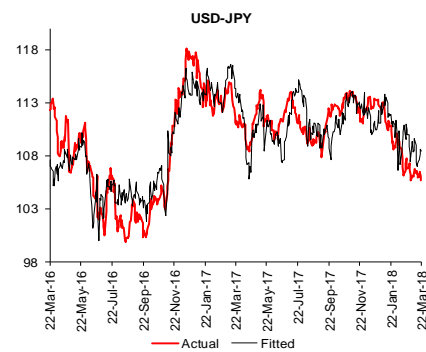
Source: OCBC Bank, Bloomberg

**G7**



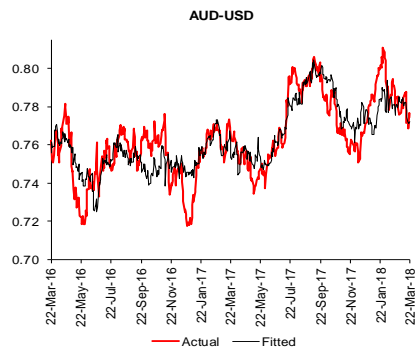
Source: OCBC Bank

- **EUR-USD** Short term implied valuations remain underpinned post-FOMC and the EUR-USD may attempt to bounce off any dips towards the 55-day MA (1.2300) with 1.2400 seen capping for now.



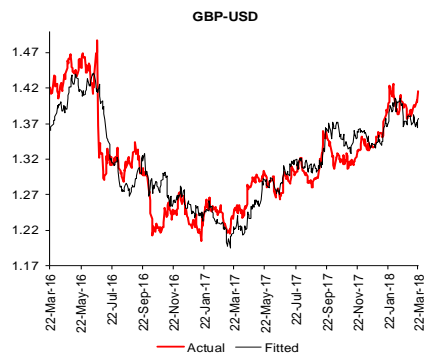
Source: OCBC Bank

- **USD-JPY** With risk appetite slightly antsy ahead of the White House announcement tonight and with the JPY-crosses looking heavy at this juncture, USD-JPY may remain top heavy intra-day. Expect some gravity towards 105.25 with resistance expected into 106.50.



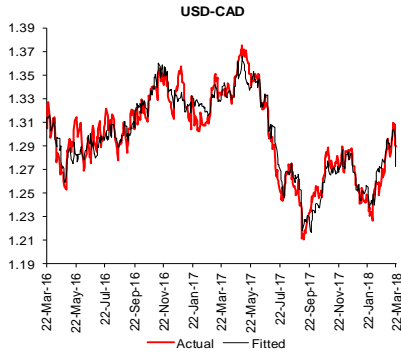
Source: OCBC Bank

- **AUD-USD** Potential escalation of global trade tensions coupled with slightly soft Feb labor market numbers this morning may continue to tempt the AUD-USD back towards 0.7700 despite the FOMC overnight. Note that short term implied valuations for the pair remain relatively suppressed.



Source: OCBC Bank

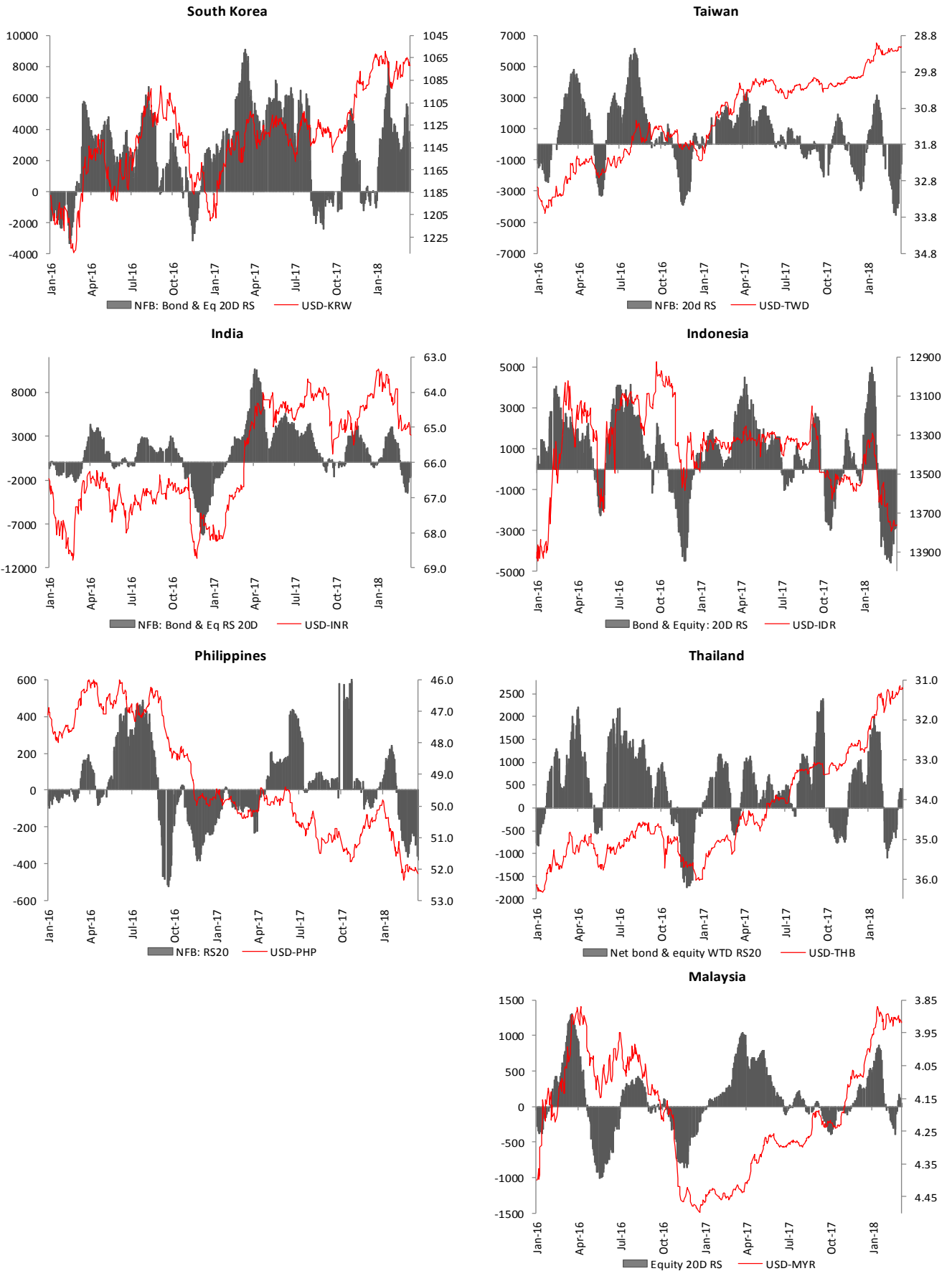
- **GBP-USD** The GBP was also underpinned by supportive wage data on Wednesday and ahead of the BOE MPC today, short term implied valuations have remained largely static. Near term core view remains unchanged and after taking out 1.4100, 1.4200 may beckon barring a dovish surprise from the BOE.



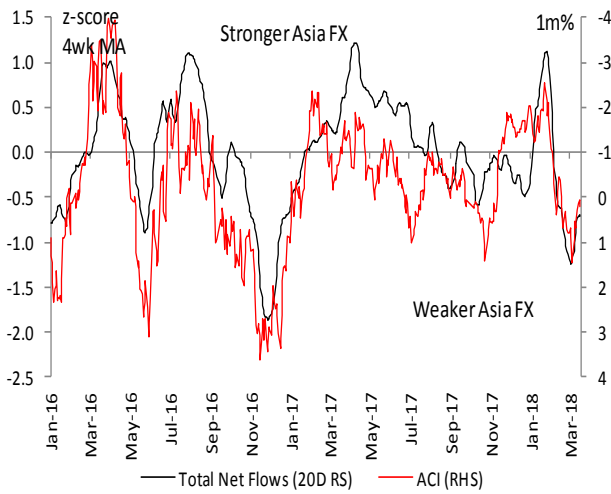
- USD-CAD** CAD outperformed on Wednesday on the back of friendly Nafta headlines (with regards to autos), the continued climb in crude, as well as the vulnerable USD. Meanwhile, short term implied valuations for the USD-CAD have notched lower and a heavier 1.2800-1.3000 range is expected to prevail at this juncture.

Source: OCBC Bank

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

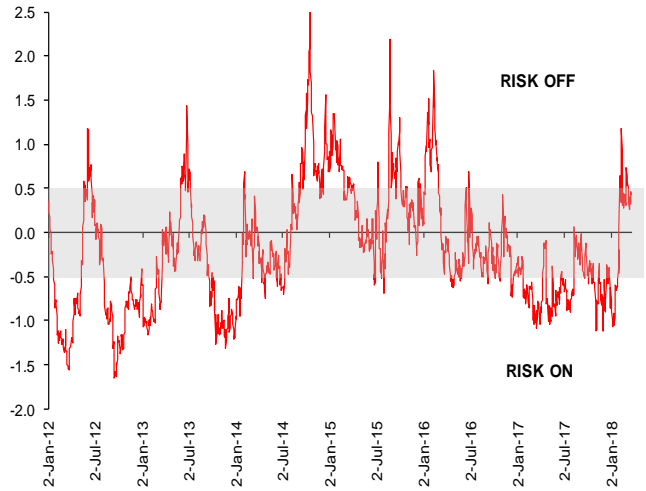


**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

|        | DXY    | USGG10 | CNY    | SPX    | MSELCAFF | CRY    | JPY    | CL1    | VIX    | ITRXXE | CNH    | EUR    |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DXY    | 1.000  | -0.108 | 0.292  | -0.123 | 0.155    | -0.218 | 0.115  | -0.164 | 0.167  | 0.117  | 0.559  | -0.897 |
| SGD    | 0.646  | 0.340  | 0.470  | -0.508 | -0.284   | -0.101 | 0.453  | -0.076 | 0.596  | 0.330  | 0.621  | -0.754 |
| CNH    | 0.559  | 0.083  | 0.779  | -0.444 | -0.311   | -0.516 | 0.175  | -0.576 | 0.446  | 0.055  | 1.000  | -0.462 |
| MYR    | 0.548  | -0.146 | 0.398  | -0.435 | 0.185    | -0.108 | -0.135 | 0.328  | 0.308  | 0.411  | 0.271  | -0.550 |
| CHF    | 0.440  | -0.275 | -0.168 | 0.258  | 0.467    | -0.377 | -0.395 | -0.005 | -0.398 | -0.158 | 0.032  | -0.233 |
| INR    | 0.410  | -0.087 | 0.478  | -0.276 | -0.123   | -0.182 | -0.512 | 0.030  | 0.134  | 0.199  | 0.226  | -0.258 |
| IDR    | 0.391  | -0.365 | 0.095  | 0.123  | 0.063    | -0.084 | -0.690 | -0.258 | -0.289 | -0.165 | 0.152  | -0.032 |
| CAD    | 0.335  | -0.406 | -0.082 | 0.002  | 0.261    | -0.329 | -0.625 | -0.158 | -0.175 | -0.183 | 0.070  | -0.047 |
| CNY    | 0.292  | 0.023  | 1.000  | -0.546 | -0.481   | -0.217 | -0.225 | -0.192 | 0.451  | 0.251  | 0.779  | -0.259 |
| KRW    | 0.173  | 0.454  | 0.542  | -0.583 | -0.575   | 0.325  | 0.142  | 0.266  | 0.569  | 0.486  | 0.306  | -0.274 |
| JPY    | 0.115  | 0.547  | -0.225 | 0.129  | 0.133    | 0.053  | 1.000  | 0.001  | 0.105  | 0.032  | 0.175  | -0.334 |
| USGG10 | -0.108 | 1.000  | 0.023  | -0.151 | -0.307   | 0.250  | 0.547  | 0.376  | 0.097  | 0.373  | 0.083  | -0.042 |
| THB    | -0.112 | 0.645  | 0.553  | -0.345 | -0.665   | 0.224  | 0.437  | 0.015  | 0.442  | 0.257  | 0.418  | -0.037 |
| TWD    | -0.183 | -0.051 | 0.458  | 0.006  | -0.511   | 0.288  | -0.012 | -0.297 | 0.098  | -0.107 | 0.308  | 0.230  |
| PHP    | -0.407 | 0.323  | -0.113 | -0.208 | -0.095   | -0.344 | 0.272  | 0.002  | 0.252  | 0.043  | -0.101 | 0.206  |
| GBP    | -0.526 | 0.173  | -0.427 | 0.132  | 0.437    | 0.146  | -0.023 | 0.701  | -0.230 | 0.214  | -0.621 | 0.338  |
| AUD    | -0.630 | 0.070  | -0.332 | 0.479  | -0.044   | 0.254  | 0.377  | -0.196 | -0.286 | -0.340 | -0.287 | 0.544  |
| NZD    | -0.686 | 0.128  | -0.198 | 0.253  | -0.038   | 0.058  | 0.430  | -0.299 | -0.123 | -0.333 | -0.166 | 0.565  |
| EUR    | -0.897 | -0.042 | -0.259 | 0.186  | -0.232   | 0.205  | -0.334 | -0.068 | -0.252 | -0.258 | -0.462 | 1.000  |

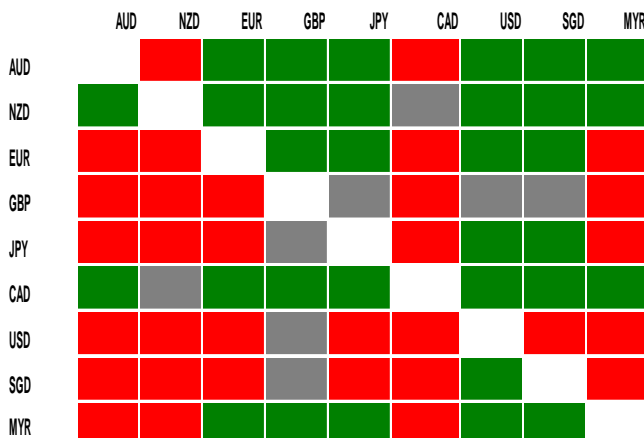
Source: Bloomberg

**Technical support and resistance levels**

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.2300  | 1.2329  | 1.2358  | 1.2400  | 1.2425  |
| GBP-USD | 1.4100  | 1.4130  | 1.4157  | 1.4171  | 1.4200  |
| AUD-USD | 0.7677  | 0.7700  | 0.7740  | 0.7800  | 0.7803  |
| NZD-USD | 0.7178  | 0.7200  | 0.7239  | 0.7289  | 0.7300  |
| USD-CAD | 1.2653  | 1.2800  | 1.2898  | 1.2900  | 1.3125  |
| USD-JPY | 105.25  | 105.54  | 105.71  | 106.00  | 107.16  |
| USD-SGD | 1.3081  | 1.3100  | 1.3129  | 1.3167  | 1.3200  |
| EUR-SGD | 1.6133  | 1.6200  | 1.6225  | 1.6235  | 1.6300  |
| JPY-SGD | 1.2280  | 1.2400  | 1.2420  | 1.2470  | 1.2500  |
| GBP-SGD | 1.8500  | 1.8561  | 1.8588  | 1.8600  | 1.8637  |
| AUD-SGD | 1.0121  | 1.0122  | 1.0162  | 1.0200  | 1.0379  |
| Gold    | 1303.60 | 1307.56 | 1330.50 | 1331.08 | 1336.63 |
| Silver  | 16.12   | 16.50   | 16.51   | 16.60   | 16.68   |
| Crude   | 65.11   | 65.20   | 65.21   | 65.30   | 65.74   |

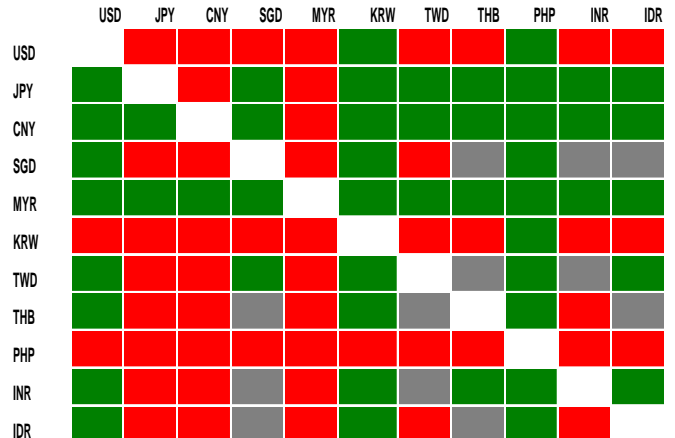
Source: OCBC Bank

**G10 FX Heat Map**



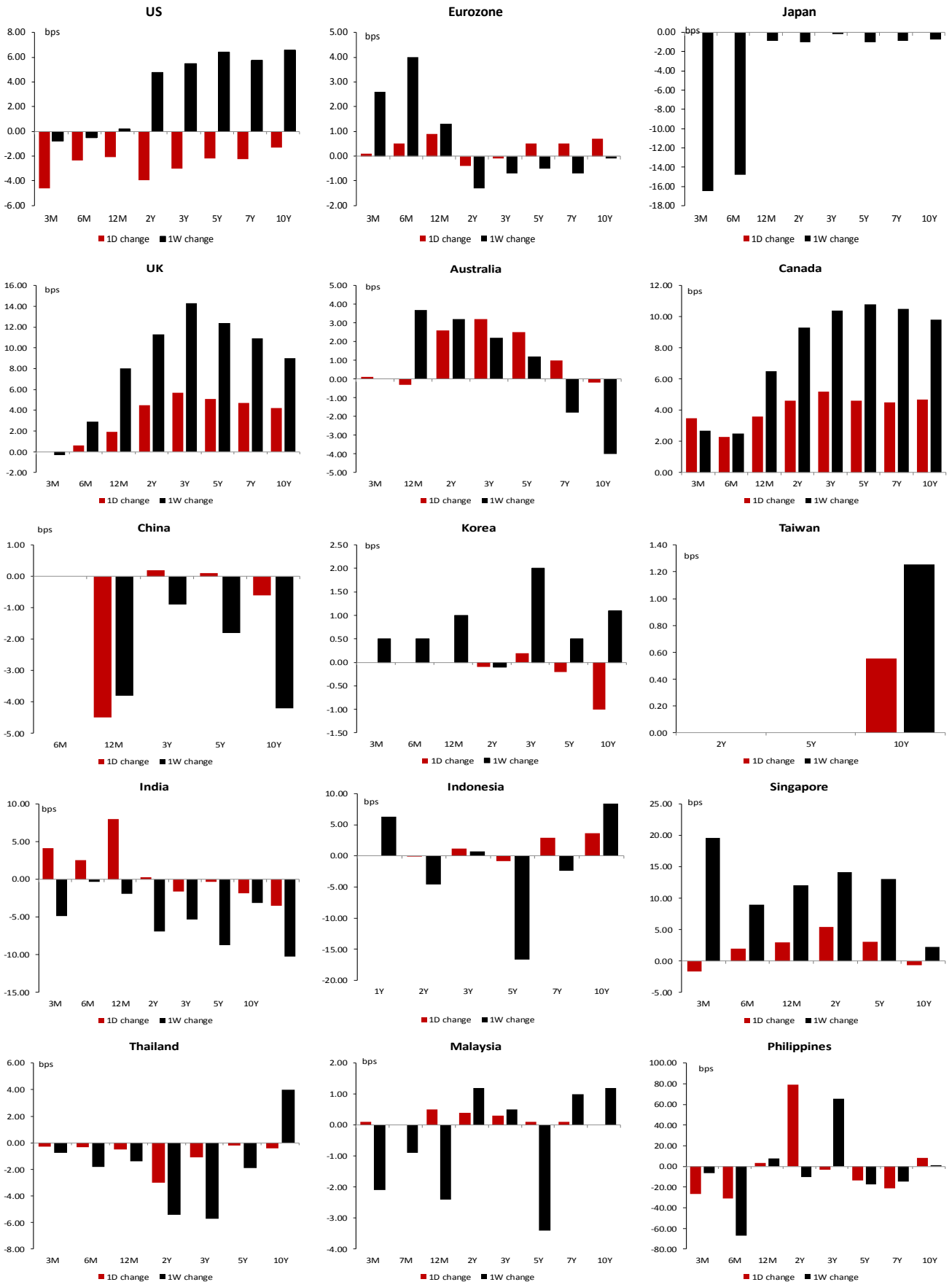
Source: OCBC Bank

**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 |

Source: OCBC Bank

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