

Monday, February 26, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Except against the CAD, the greenback inched slightly higher against the majors on Friday despite the UST curve flattening from the back-end. Expect all eyes to be on Fed policy this week with **Powell's** appearance before the House Financial Services Committee on Tuesday and the Senate Banking Committee on Thursday. Note that the semi-annual monetary policy report (which did not come across as being unduly hawkish) had already been released to the House last Friday but did not elicit significant reactions in global markets.
- Fed speak meanwhile can be expected today from Bullard (1300 GMT) and Quarles (2015 GMT), while the **ECB's** Coeure (1000 GMT) and Draghi (1400 GMT) are also due today. ECB appearances are also scheduled every day thereafter this week and headline risk may remain significant. The **BOE's** Carney is penciled in for Friday while Cunliffe (today) and Woods speaks on Tuesday. Elsewhere, look also to the **RBNZ's** Bascand on Tuesday. The data calendar this week is also fairly crowded, topped off by the release of global manufacturing PMIs on Wednesday-Friday.
- **CFTC** data showed large non-commercial accounts reducing slightly their net implied short dollar bias in aggregate in the latest week but asset manager accounts meanwhile also increased their net implied short dollar bias. **With regards to the latter, note that asset managers remain massively short the USD on a historical basis.** Elsewhere, leveraged accounts also increased their net implied short dollar bias in aggregate as they pared their net JPY shorts.

Asian FX

- Supported Asian equities early in Asia on Monday (in line with positive global EM equities on Friday) may impart some degree of positivity in the region. The **FXSI (FX Sentiment Index)** dipped slightly on Friday but remained in Risk Neutral territory. On the Asian calendar, the Bank of Korea is expected to remain static at 1.50% on Tuesday. For today, expect the **ACI (Asian Currency Index)** to be range bound (albeit slightly top heavy).
- **The capital inflow environment meanwhile is looking slightly more constructive but at this juncture, may not be sufficient to provoke outsized Asian FX positivity.** EPFR numbers demonstrated an encouraging bounce in net implied equity inflow in Asia (excl Japan, China) in the latest week while net bond inflows also flipped to a net inflow balance.

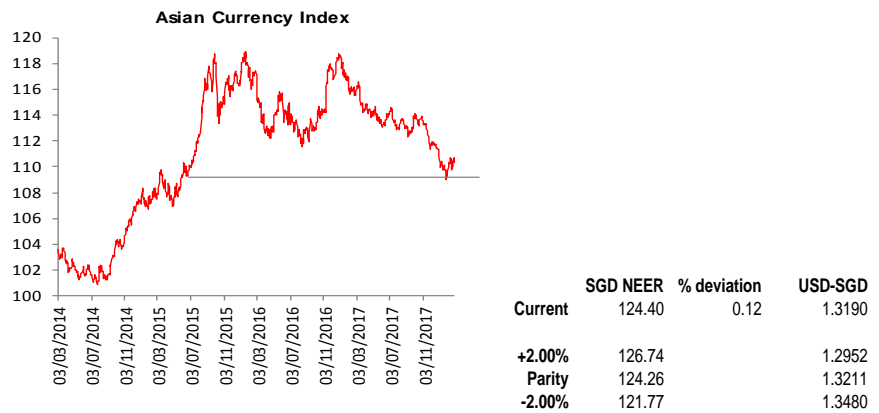
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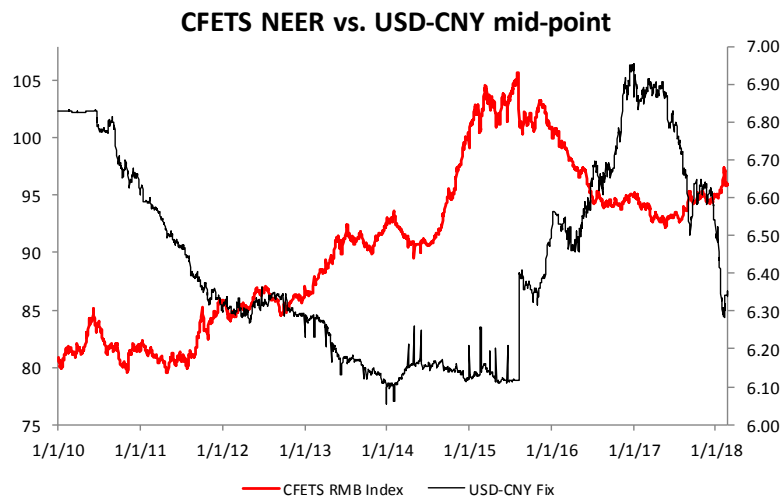
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- Despite supported to firmer long-end Asian govie yields (in line with their G7 counterparts) in the past week, note that actual net portfolio inflow data for Asia meanwhile denote net bond inflows for the usual suspects (South Korea, Indonesia and Thailand), although India continued to chalk up net bond outflows up till late last week.
- **SGD NEER:** The SGD NEER is slightly softer on the day at around +0.09% above its perceived parity (1.3211) with its NEER-implied USD-SGD thresholds also a touch easier on the day. Expect a parity to +0.30% (1.3251) range in the near term with 1.3150 technically expected to see investors basing out. On a structural note, NEER softness in the year to date has been pretty evenly distributed (JPY outperformance is notable) across the basket constituents despite the SGD's outperformance against the USD.



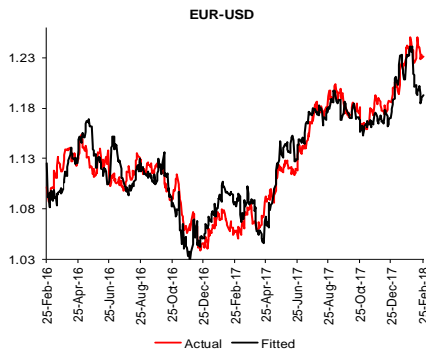
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning slipped (largely in line with expectations) to 6.3378 from 6.3482 last Friday, resulting in the CFETS RMB Index gaining marginally to 95.98 from 95.80. On a spot basis, the CNY-CNH basis has narrowed (normalized) with investors expect relative stability as the 3-day Central Committee meeting gets underway today.



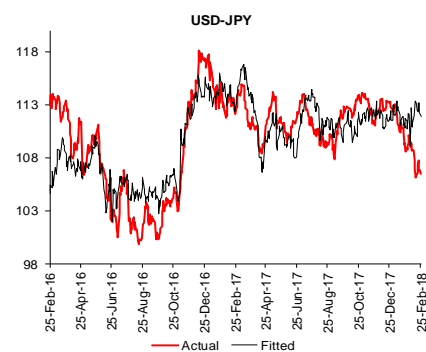
Source: OCBC Bank, Bloomberg

G7



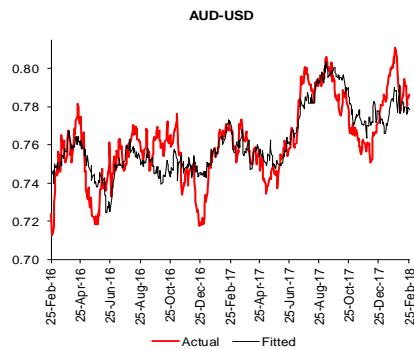
Source: OCBC Bank

- EUR-USD** Inherent caution ahead of the Italian election this Sunday and the (German) SPD's coalition poll results also on Sunday may discourage excessive upside tests. Short term implied valuations meanwhile remain relatively suppressed and the pair may remain anchored around 1.2300 with risks slightly skewed towards 1.2260.



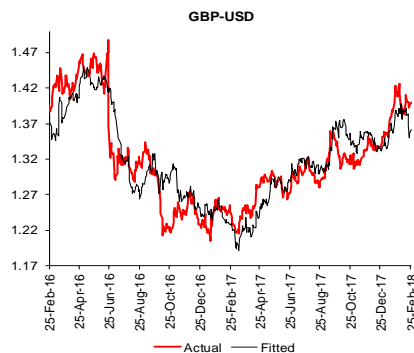
Source: OCBC Bank

- USD-JPY** The BOJ's Kuroda this morning remain steadfastly accommodative while displaying little discomfort with the USD-JPY's recent weakness. Short term implied valuations are edging lower at this juncture and investors may continue to picket a 106.00-108.00 range in the interim.



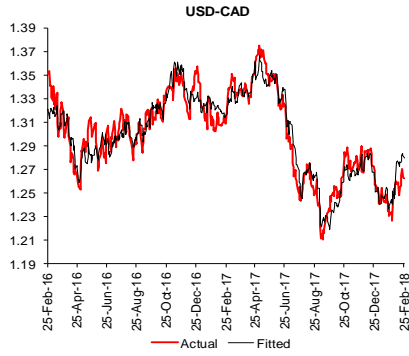
Source: OCBC Bank

- AUD-USD** Short term implied valuations remain relatively capped despite fairly sanguine risk appetite levels. Pending a sustained breach of the 55-day MA (0.7862) ahead of 0.7885, risks may remain in favor of 0.7800/10 with the domestic calendar relatively light this week.



Source: OCBC Bank

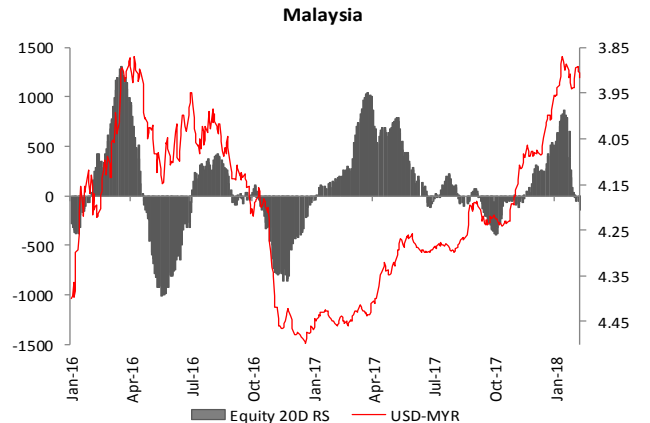
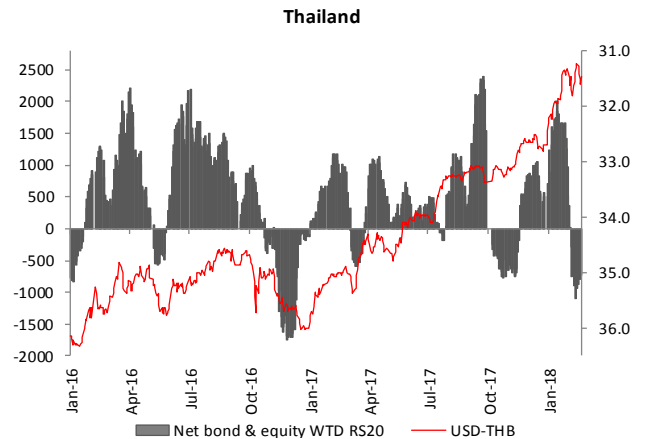
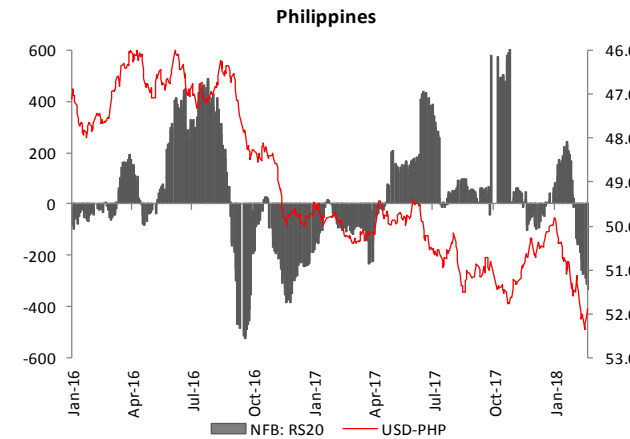
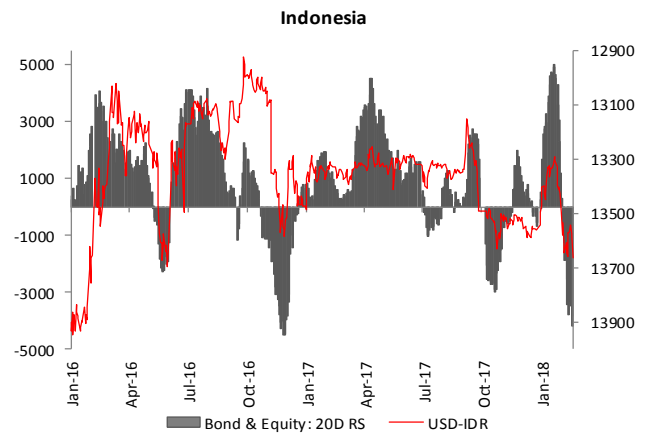
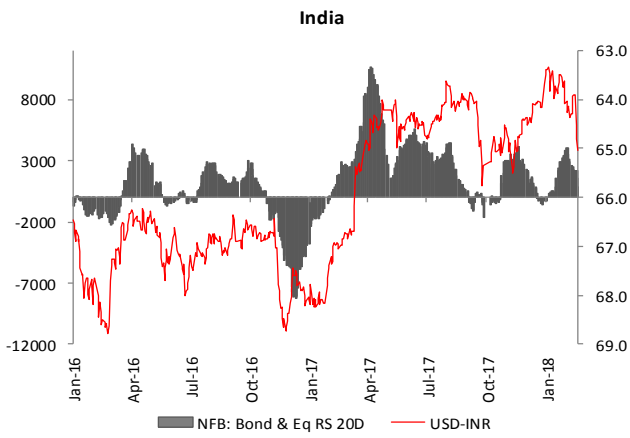
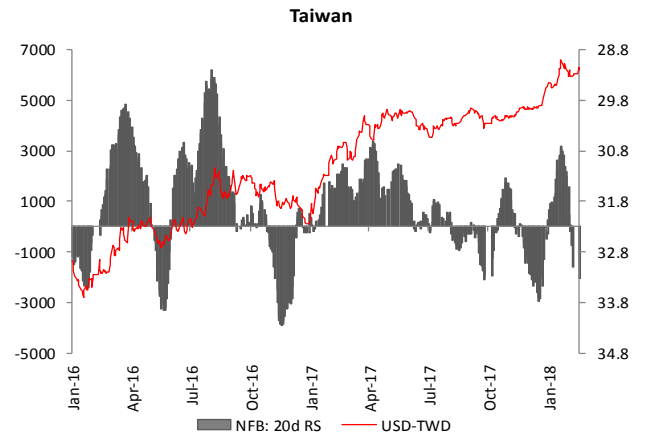
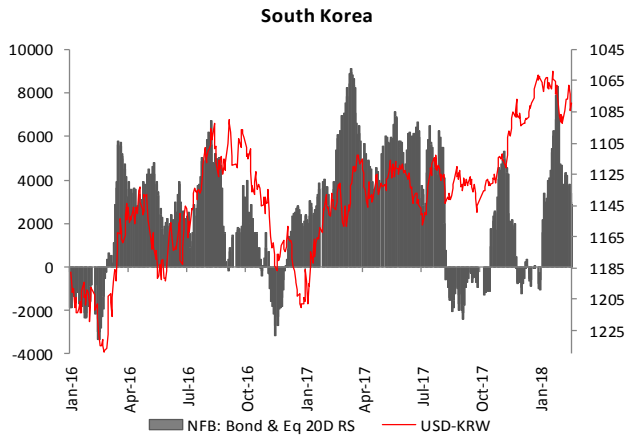
- GBP-USD** GBP-USD may see near term support after the BOE's Ramsden (echoing comments from Haldane on Wednesday) over the weekend was quoted as saying that the BOE might have to raise rates earlier than expected. This may continue to keep GBP-USD in the vicinity of 1.4000 (next key resistance at 1.4130) with short term implied valuations also having ticked higher.



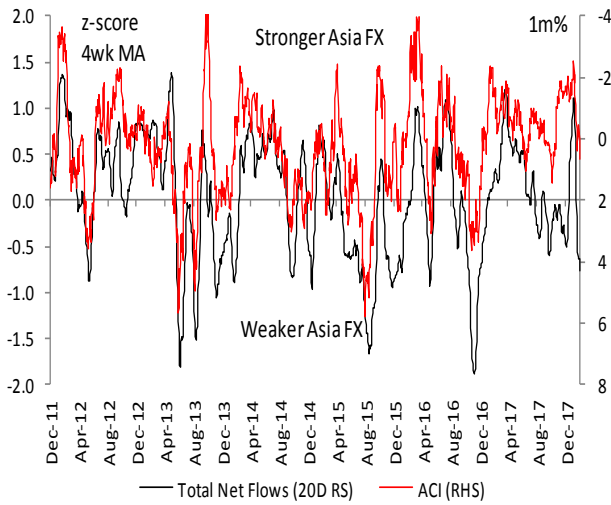
Source: OCBC Bank

- USD-CAD** In the wake of warmer than expected (headline and core) inflation numbers on Friday, USD-CAD slid lower and is trading sub-1.2650 early Asia on Monday. Short term implied valuations for the pair have stalled at this juncture and if the 100-day MA (1.2629) is breached on a sustained basis, 1.2600 and the 55-day MA (1.2557) may attract. Up top, the 200-day MA (1.2698) is expected to cap. Overall, preference to collect dips ahead of Powell.

USD-Asia VS. Net Capital Flows

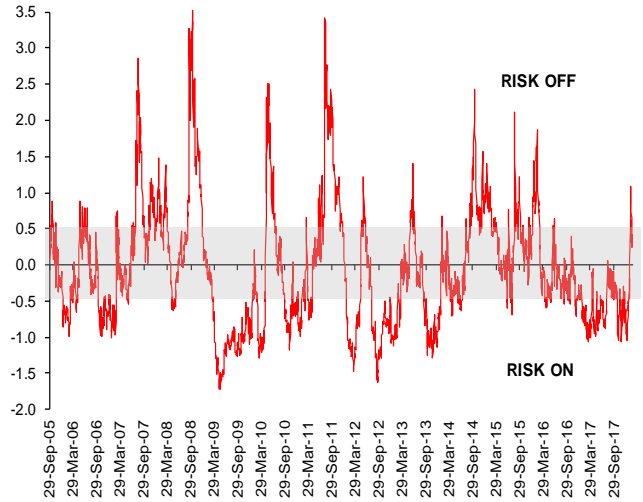


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	0.250	0.000	-0.702	-0.616	-0.627	0.136	-0.535	0.617	0.443	0.566	-0.971
SGD	0.905	0.342	-0.101	-0.860	-0.673	-0.688	0.193	-0.578	0.770	0.504	0.492	-0.836
CHF	0.861	-0.036	-0.090	-0.311	-0.286	-0.291	0.366	-0.230	0.341	0.073	0.580	-0.844
THB	0.846	0.157	0.107	-0.760	-0.616	-0.618	0.258	-0.539	0.701	0.387	0.547	-0.787
MYR	0.701	0.438	0.103	-0.801	-0.852	-0.885	-0.065	-0.859	0.555	0.762	0.140	-0.621
KRW	0.700	0.348	-0.216	-0.883	-0.745	-0.726	0.179	-0.614	0.871	0.539	-0.006	-0.567
CAD	0.682	0.754	0.273	-0.765	-0.735	-0.667	-0.502	-0.646	0.524	0.824	0.393	-0.697
TWD	0.651	0.573	0.095	-0.887	-0.911	-0.863	-0.225	-0.810	0.744	0.825	0.053	-0.531
IDR	0.595	0.812	0.309	-0.805	-0.853	-0.804	-0.524	-0.818	0.509	0.955	0.218	-0.554
CNH	0.566	0.016	0.648	-0.217	-0.049	-0.099	-0.015	-0.145	0.096	0.100	1.000	-0.627
INR	0.560	0.748	0.302	-0.515	-0.536	-0.416	-0.410	-0.430	0.224	0.710	0.345	-0.547
USGG10	0.250	1.000	0.268	-0.535	-0.659	-0.602	-0.598	-0.647	0.149	0.827	0.016	-0.216
JPY	0.136	-0.598	-0.773	0.119	0.289	0.247	1.000	0.384	0.176	-0.615	-0.015	-0.018
CNY	0.000	0.268	1.000	0.034	-0.032	-0.038	-0.773	-0.207	-0.298	0.361	0.648	-0.074
PHP	-0.040	0.786	0.493	-0.341	-0.411	-0.410	-0.771	-0.503	0.018	0.725	-0.018	0.030
AUD	-0.747	-0.709	0.001	0.909	0.828	0.777	0.256	0.693	-0.708	-0.796	-0.283	0.708
NZD	-0.849	0.073	0.089	0.630	0.406	0.470	-0.397	0.344	-0.679	-0.181	-0.587	0.795
GBP	-0.856	-0.474	-0.117	0.853	0.849	0.819	0.151	0.778	-0.737	-0.722	-0.358	0.814
EUR	-0.971	-0.216	-0.074	0.628	0.548	0.543	-0.018	0.476	-0.551	-0.408	-0.627	1.000

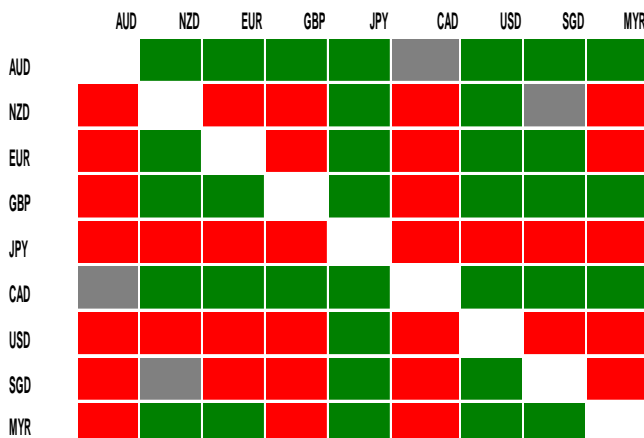
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2205	1.2300	1.2315	1.2400	1.2517
GBP-USD	1.3792	1.4000	1.4004	1.4100	1.4216
AUD-USD	0.7777	0.7800	0.7866	0.7880	0.7900
NZD-USD	0.7232	0.7300	0.7324	0.7400	0.7424
USD-CAD	1.2525	1.2600	1.2629	1.2694	1.2700
USD-JPY	105.55	106.00	106.56	107.00	110.24
USD-SGD	1.3055	1.3100	1.3177	1.3200	1.3240
EUR-SGD	1.6181	1.6200	1.6227	1.6300	1.6401
JPY-SGD	1.2155	1.2300	1.2365	1.2400	1.2404
GBP-SGD	1.8261	1.8400	1.8453	1.8500	1.8629
AUD-SGD	1.0297	1.0300	1.0365	1.0400	1.0434
Gold	1309.21	1318.65	1335.60	1356.76	1365.40
Silver	16.13	16.60	16.66	16.70	16.79
Crude	61.83	63.70	63.79	63.80	66.55

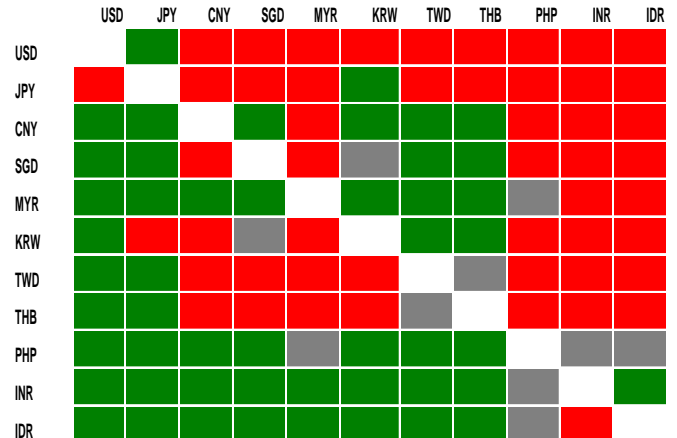
Source: OCBC Bank

G10 FX Heat Map



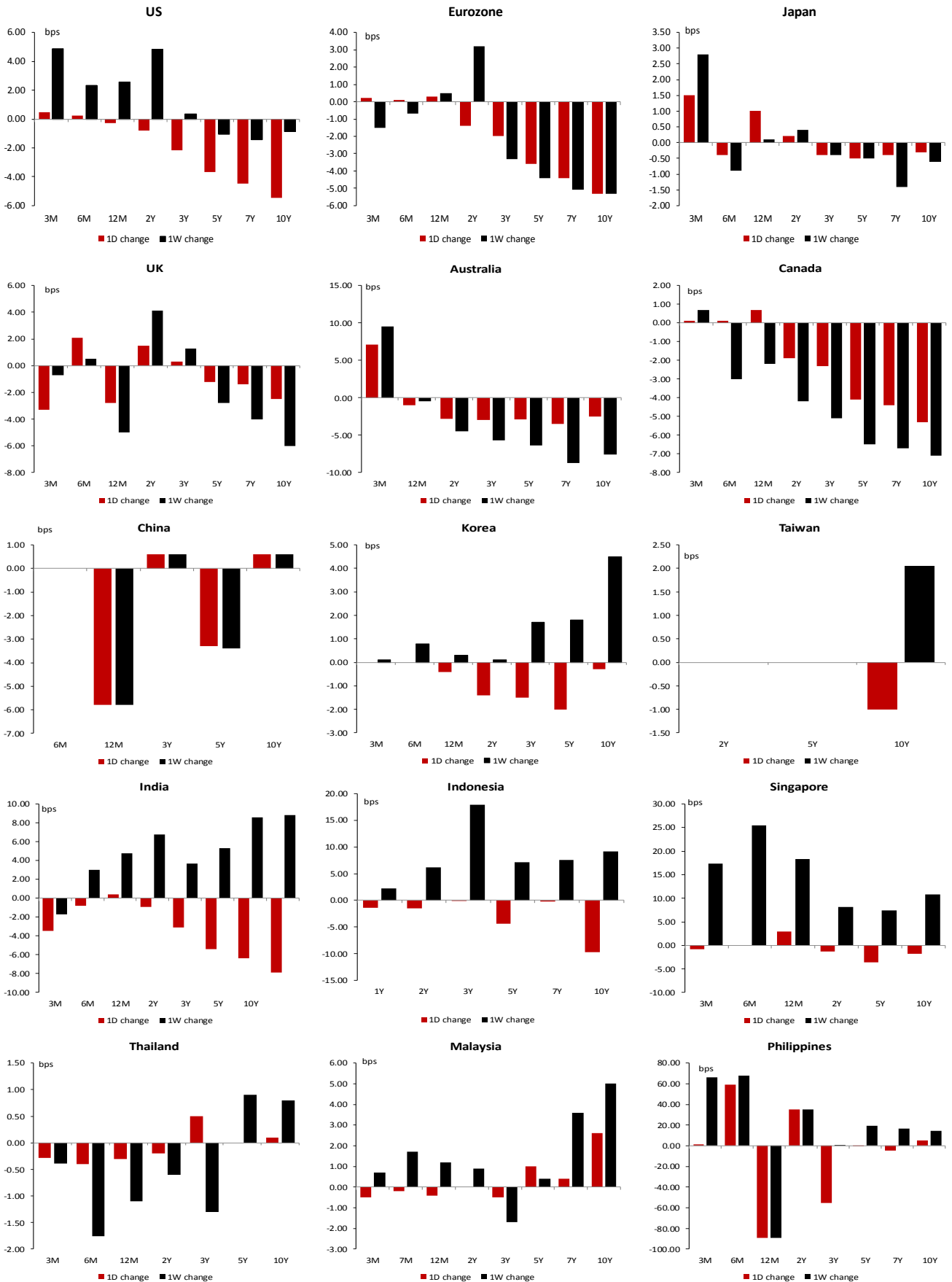
Source: OCBC Bank

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								
1	22-Feb-18	B	USD-CAD	1.2696	1.2960	1.2560	Post FOMC minutes, rising implied valuations for the pair	
STRUCTURAL								
2	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
3	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
4	15-Feb-18	B	GBP-USD	1.4014	1.4855	1.3590	Borad dollar vulerability coupled with hawkish BOE expectations.	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	27-Nov-17	26-Jan-18	B	GBP-USD	1.3344	1.4135	Investors may impute Brexit talks in December. Prevailing USD weakness.	+5.56
2	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heay dollar, positive risk appetite, SGD NEER not excessively strong	+0.39
3	15-Jan-18	07-Feb-18	B	EUR-USD	1.2199	1.2305	"Hawkish" ECB expectations, positive German political news flow	+0.72
4	12-Feb-18	14-Feb-18	S	AUD-USD	0.7829	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	-1.09
5	09-Feb-18	15-Feb-18	B	USD-CAD	1.2600	1.2470	Softer crude and fragile appetite towards the cyclical	-1.03
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Source: OCBC Bank

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