

Tuesday, February 27, 2018

FX Themes/Strategy/Trading Ideas

- The dollar ended mixed against most of the majors and in close proximity to the previous day's close on Monday. The ECB's Draghi was sufficiently sanguine (growth is robust but economic slack may be larger than estimated, resulting in still benign inflation) on Monday to permit the EUR-USD to float a touch higher on the day although bunds ticked higher.
- Investors are expected to stay light ahead of Powell tonight (testimony released at 1330 GMT, testimony at 1500 GMT). Meanwhile, the BOE's Sam (0900 GMT), and the ECB's Mersch (0840 GMT) and Weidmann (1000 GMT) are also on tap, with the RBNZ's Bascand also due at 2045 GMT.
- On the data front, look to EZ Feb confidence indicators (1000 GMT), German Feb CPI (1300 GMT), US Jan trade numbers (1330 GMT), Jan durable goods (1330 GMT), Feb Richmond Fed (1500 GMT), and Feb Conference Board consumer confidence (1500 GMT).
- **Apart from Fed-centric risks (i.e., whether investors need to re-price their FOMC expectations), markets we think may be underpricing potential headline risks from the string of scheduled ECB rhetoric this week.** Given that the weak broad dollar narrative has been premised upon the view that major global central banks would also begin to flex while also being focused primarily on the ECB, any further dilution of hawkish expectations towards the latter may threaten the bearish dollar construct.

Asian FX

- Despite the positive bounce in global equities (including in EM) and commodities, the **FXSI (FX Sentiment Index)** ticked lower but remained in Risk-Neutral territory. Expect the **ACI (Asian Currency Index)** to remain inherently top heavy intra-day in line with global EM FX performance overnight. Elsewhere, the **BOK** this morning remained static at 1.50% as widely expected with initial comments remaining accommodative.
- On the net portfolio inflow front, latest data appoints show continued net bond inflows for South Korea, Thailand, as well as Indonesia, with India still clocking net bond outflows. Meanwhile, the TWD may be restrained somewhat from net equity outflows. **Overall, the regional net inflow impetus remains relatively lackluster and regional FX may have to continue to look towards the DXY for directionality.**
- **SGD NEER:** The SGD NEER firmed on Monday and is around +0.30%

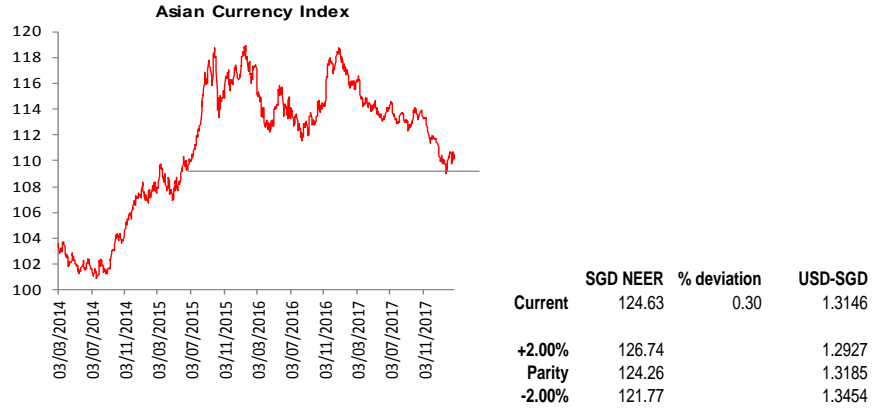
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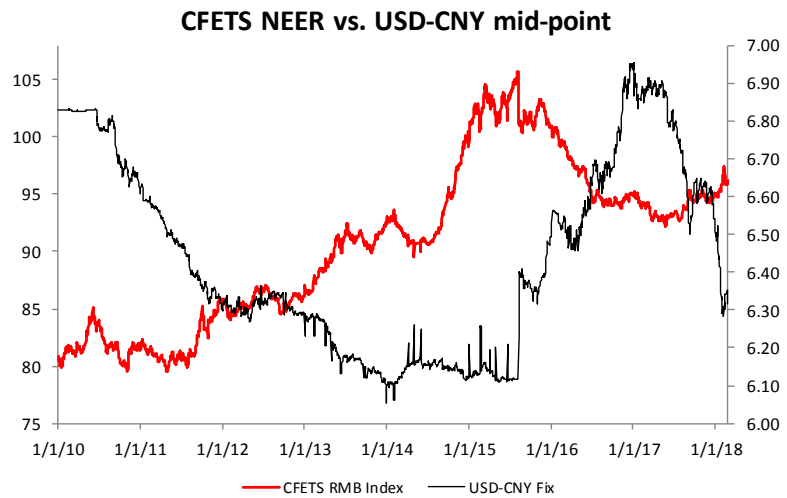
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above its perceived parity (1.3185). NEER-implied USD-SGD thresholds are slightly softer on the day and expect a +0.10% (1.3172) and +0.40% (1.3133) with the pair likely top heavy ahead of Powell today.



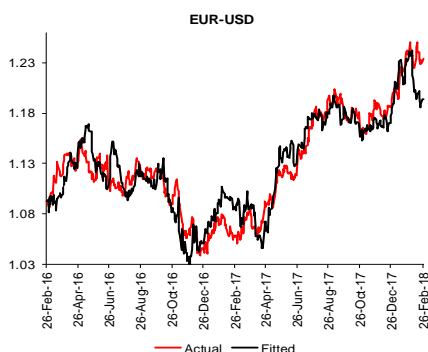
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point fell (slightly less than expected) on Tuesday to 6.3146 from 6.3378 yesterday. This took the CFETS RMB Index higher to 96.22 from 95.98.



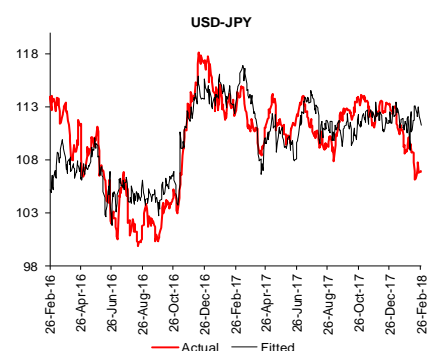
Source: OCBC Bank, Bloomberg

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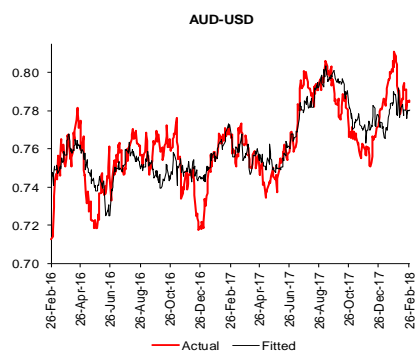
Source: OCBC Bank

- EUR-USD** Despite underlying political risks emanating from the EZ this weekend, short term implied valuations have ticked higher slightly ahead of Powell tonight (as well as ECB rhetoric today). Range trading may persist in the interim with resistance expected at 1.2350 before 1.2400 while 1.2260 should cushion.



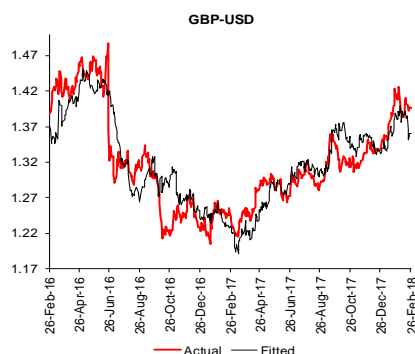
Source: OCBC Bank

- USD-JPY** Short term implied valuations inched lower but the pair may remain trapped within 106.00-108.00 pending potential discrete cues from the Fed's Powell, with the BOJ having been unequivocally dovish in recent weeks.



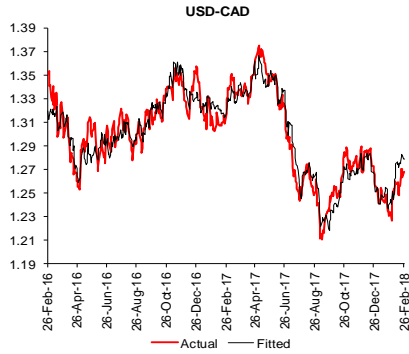
Source: OCBC Bank

- AUD-USD** Fade upticks intra-day despite sanguine investor appetite levels and with short term implied valuations going nowhere fast at this juncture. With the tone for the pair likely still top-heavy, the 55-day MA (0.7867) may continue to limit on the upside while 0.7800/10 should cushion intra-day.



Source: OCBC Bank

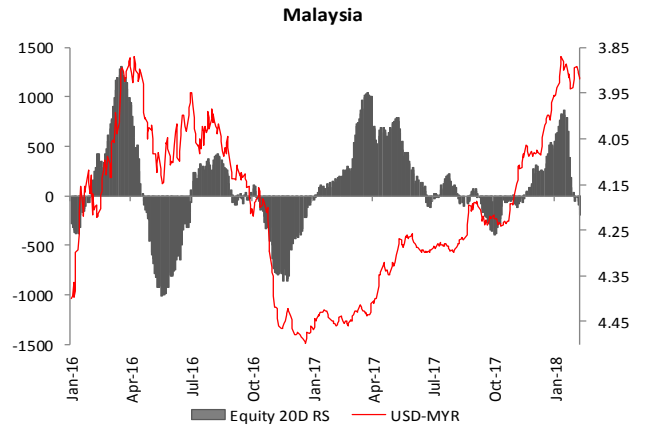
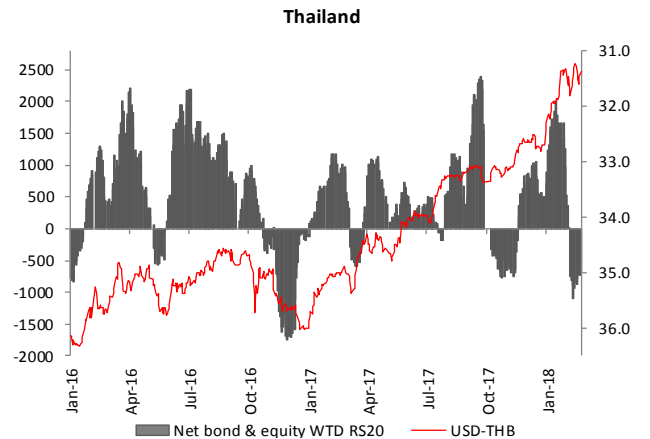
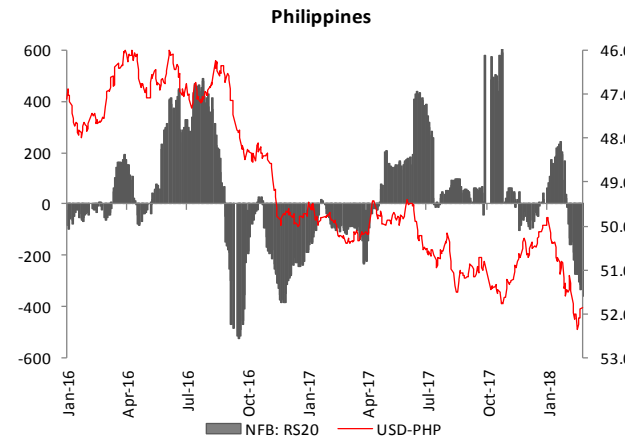
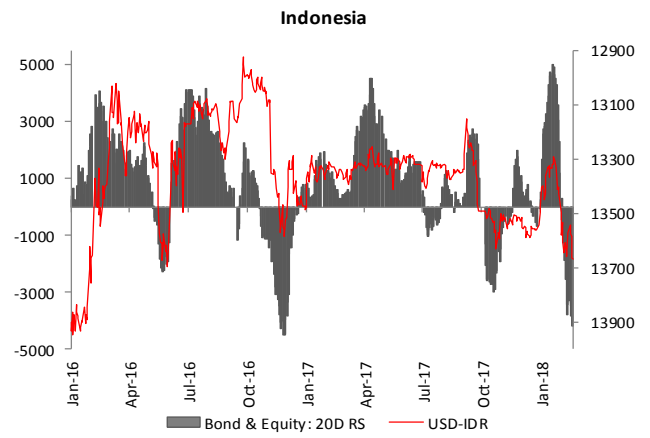
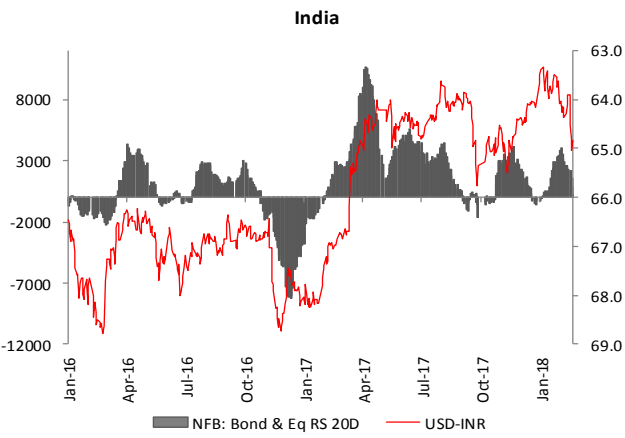
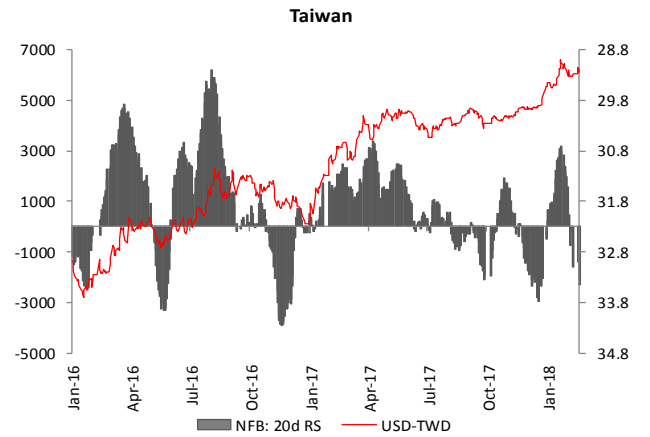
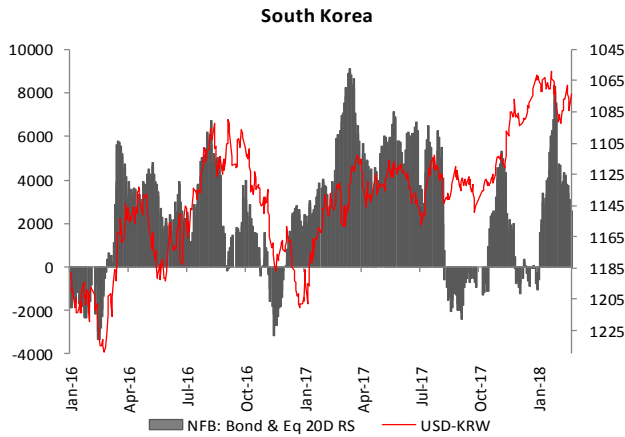
- GBP-USD** Short term implied valuations remain slightly underpinned at this juncture and the pair may anchor itself within 1.3950 to 1.4000 in the short term with 1.4130 still expected to cap amidst a top heavy posture. Apart from broad dollar cues, Brexit-related news flow (look to PM May's speech on 02 March while Labour's Corbyn was supportive of a customs union on Monday) may also distract from BOE rate hike expectations.



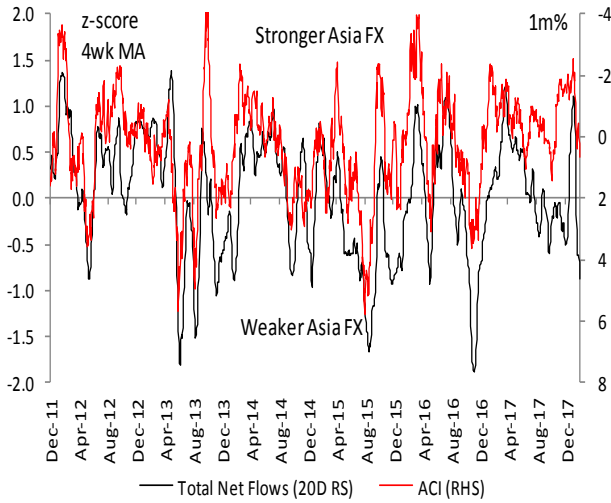
- USD-CAD** NAFTA related jitters surrounding current negotiations took the USD-CAD back up above 1.2700 on Monday and the pair may remain somewhat conflicted ahead of Fed cues later today. Preference to accumulate on dips despite slightly easier short term implied valuations for the USD-CAD. Expect investors to maintain a core range within the 100-day MA (1.2631) and 1.2700.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

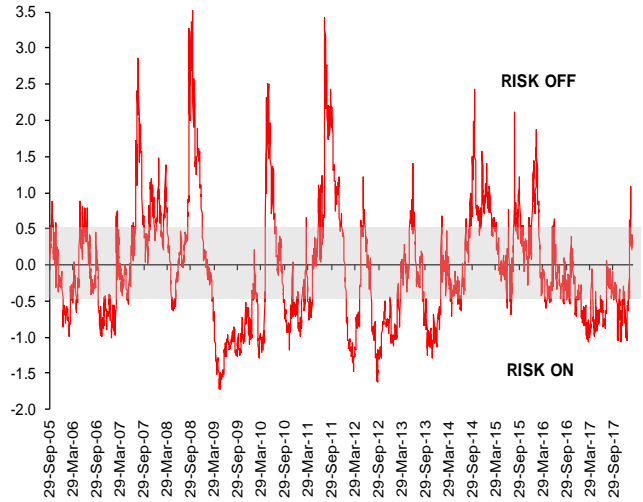


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	0.195	0.034	-0.654	-0.574	-0.571	0.163	-0.506	0.554	0.415	0.534	-0.970
SGD	0.892	0.214	-0.053	-0.835	-0.627	-0.638	0.275	-0.538	0.739	0.416	0.553	-0.807
CHF	0.867	-0.052	-0.073	-0.271	-0.260	-0.250	0.308	-0.172	0.293	0.072	0.454	-0.851
THB	0.775	0.058	0.141	-0.774	-0.605	-0.617	0.343	-0.542	0.701	0.310	0.618	-0.660
MYR	0.661	0.251	0.189	-0.734	-0.813	-0.851	0.000	-0.827	0.463	0.679	0.211	-0.579
CAD	0.660	0.707	0.320	-0.635	-0.634	-0.531	-0.536	-0.506	0.382	0.790	0.278	-0.687
KRW	0.642	0.179	-0.174	-0.860	-0.703	-0.678	0.253	-0.557	0.861	0.421	0.072	-0.505
TWD	0.592	0.418	0.186	-0.862	-0.902	-0.839	-0.176	-0.786	0.712	0.754	0.145	-0.471
IDR	0.589	0.758	0.412	-0.676	-0.776	-0.686	-0.594	-0.728	0.354	0.944	0.222	-0.559
INR	0.568	0.738	0.285	-0.427	-0.478	-0.338	-0.454	-0.363	0.151	0.709	0.245	-0.557
CNH	0.534	0.041	0.617	-0.315	-0.114	-0.184	0.088	-0.252	0.173	0.120	1.000	-0.545
USGG10	0.195	1.000	0.366	-0.394	-0.575	-0.483	-0.636	-0.559	-0.020	0.792	0.041	-0.170
JPY	0.163	-0.636	-0.715	0.052	0.250	0.190	1.000	0.327	0.246	-0.644	0.088	-0.020
CNY	0.034	0.366	1.000	-0.023	-0.086	-0.097	-0.715	-0.267	-0.266	0.442	0.617	-0.102
PHP	-0.140	0.733	0.632	-0.145	-0.278	-0.242	-0.827	-0.381	-0.188	0.669	-0.002	0.109
AUD	-0.746	-0.641	-0.059	0.841	0.770	0.688	0.258	0.609	-0.620	-0.756	-0.265	0.714
NZD	-0.843	0.136	0.064	0.616	0.381	0.441	-0.399	0.306	-0.653	-0.153	-0.523	0.789
GBP	-0.855	-0.405	-0.163	0.815	0.821	0.777	0.143	0.730	-0.683	-0.693	-0.350	0.817
EUR	-0.970	-0.170	-0.102	0.583	0.508	0.490	-0.020	0.429	-0.490	-0.386	-0.545	1.000

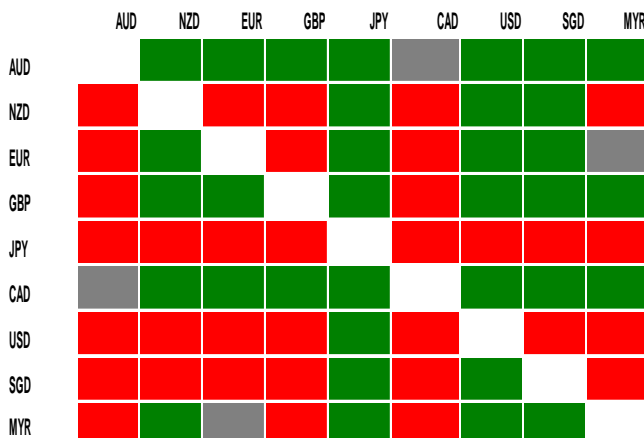
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2205	1.2300	1.2339	1.2400	1.2513
GBP-USD	1.3802	1.3900	1.3969	1.4000	1.4194
AUD-USD	0.7779	0.7800	0.7862	0.7884	0.7900
NZD-USD	0.7250	0.7270	0.7300	0.7422	0.7438
USD-CAD	1.2522	1.2600	1.2671	1.2690	1.2700
USD-JPY	105.55	106.00	106.99	107.00	110.13
USD-SGD	1.3058	1.3100	1.3152	1.3200	1.3233
EUR-SGD	1.6173	1.6200	1.6228	1.6300	1.6404
JPY-SGD	1.2154	1.2200	1.2293	1.2300	1.2404
GBP-SGD	1.8266	1.8300	1.8372	1.8400	1.8613
AUD-SGD	1.0297	1.0300	1.0340	1.0400	1.0434
Gold	1311.04	1322.35	1337.10	1358.11	1367.50
Silver	16.13	16.60	16.62	16.70	16.81
Crude	61.98	63.90	63.97	64.00	66.40

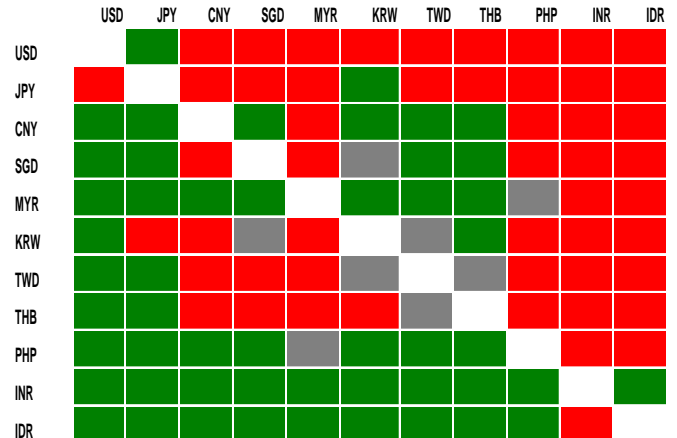
Source: OCBC Bank

G10 FX Heat Map



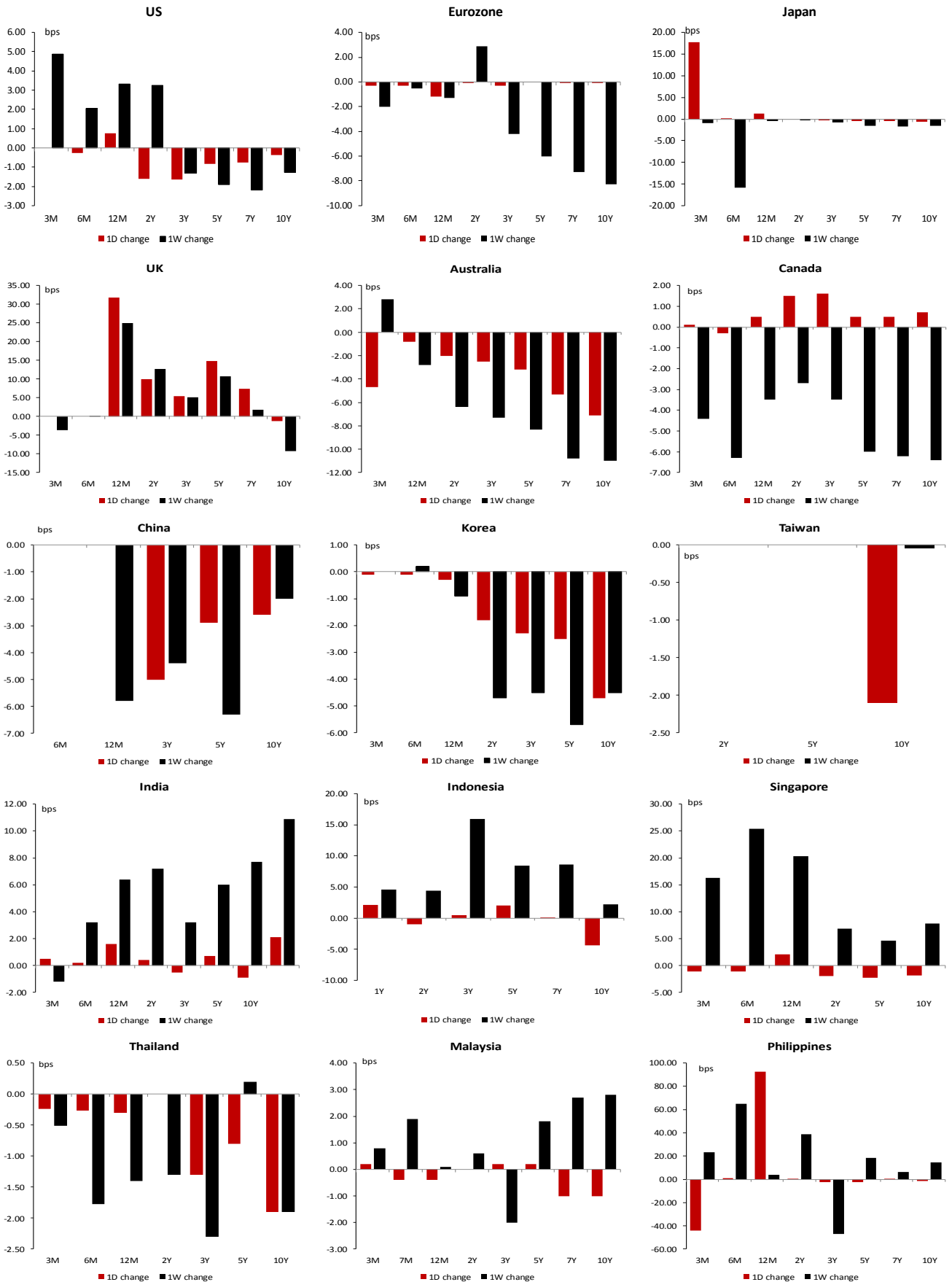
Source: OCBC Bank

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 imputeBrexit 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 polioitical 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 cycdicals	-1.03
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Source: OCBC Bank

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