

Wednesday, February 28, 2018

**FX Themes/Strategy/Trading Ideas**

- The USD firmed against all G10 peers on Tuesday, following Powell's testimony to the House Financial Services Committee. The DXY surfaced above 90, and looks to consolidate around the 90.20 region. US Treasury yields were also firmer across the curve.
- Powell's prepared testimony stuck close to the language in the January FOMC. The Q&A session provided the fireworks, with Powell noting that his "personal outlook" for the economy is now more optimistic than in December. **However, notice that Powell's comments were focused more on growth, rather than his inflation outlook**, which will have more bearing on the rate hikes. Powell also refused to "pre-judge" the full committee on the rate hike path.
- **For the median view in the FOMC to shift to four hikes in the upcoming March dot plot, we will need four members to upgrade their rate hike projections from December.** Even though data prints have been firm since, this may be a tall order given the short time-frame. **Overall, it may be early days yet to impute a fourth rate hike.** Watch for 4Q GDP (1330 GMT) and PCE data (1 March, 1330 GMT) for further cues.
- Meanwhile, Weidmann's explicit call for the ECB to end its asset purchase programme, and his refusal to rule out a rate hike in mid-2019, was comparatively overlooked. Note that Weidmann sounded more activist than Draghi on Monday. Overall, this may yet sustain some hawkish market expectations on the ECB front.
- On the data front, watch for US 4Q GDP (1330 GMT), US Chicago Business Barometer (1445 GMT) and a series of Eurozone GDP, PPI and CPI numbers (starting 0600 GMT). In terms of Fed-speak, Kashkari (1905 GMT) is on schedule.

**Asian FX**

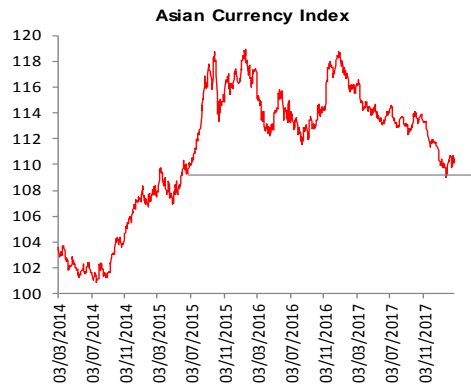
- With a negative lead from global equities (US, European and EM equities all in the red), the **FXSI (FX Sentiment Index)** ticked higher but stayed in Risk-Neutral territory. Asian equities starting the day on the back foot, together with China February manufacturing PMI coming weaker than expected, may pressure the **ACI (Asian Currency Index)** higher in today's session.
- On the net portfolio inflow front, net bond inflows continued to firm up for

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South Korea, Thailand, and Indonesia. Accelerating outflows, on both the equity and bond front, continued to plague India. **We note selective pockets of recovery in the Asian portfolio flows environment, but sustained inflow momentum is still absent.**

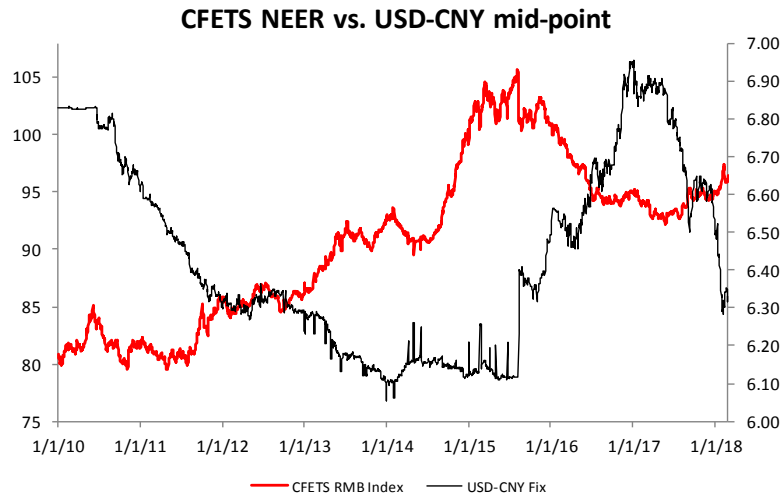
- SGD NEER:** The SGD NEER softened to levels around -0.05% below its perceived parity (1.3243). NEER-implied USD-SGD thresholds are also stronger for the day. Expect the basket to be led by broad USD sentiments following the Powell testimony, and ply a range between -0.10% (1.3256) and +0.20% (1.3217).



	SGD NEER	% deviation	USD-SGD
Current	124.24	-0.01	1.3246
+2.00%	126.74		1.2985
Parity	124.26		1.3244
-2.00%	121.77		1.3515

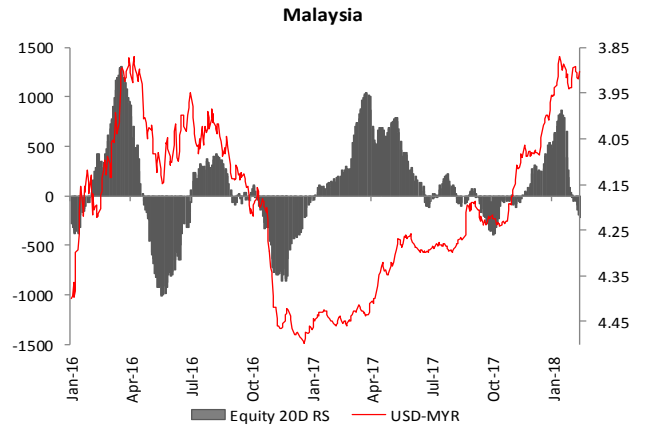
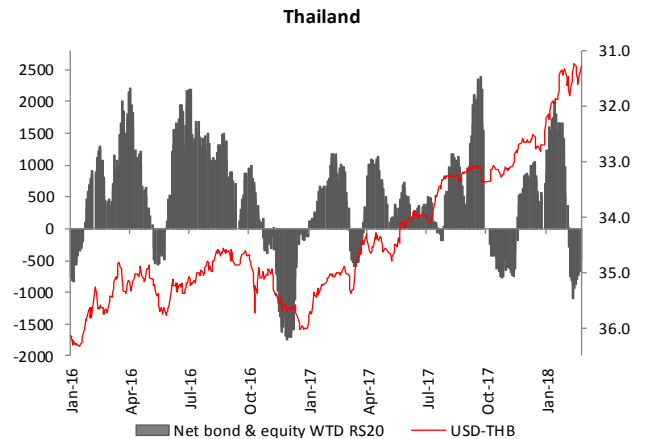
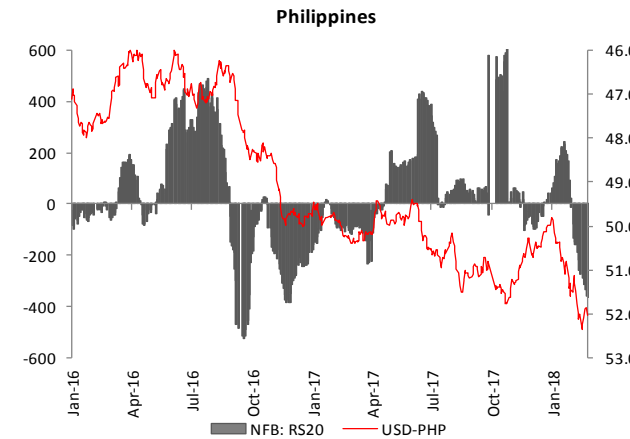
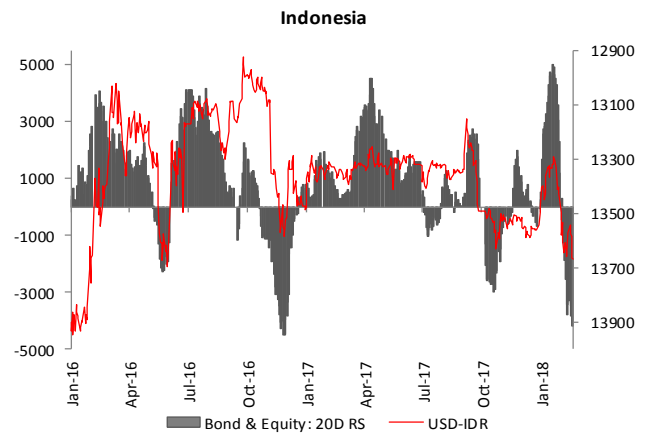
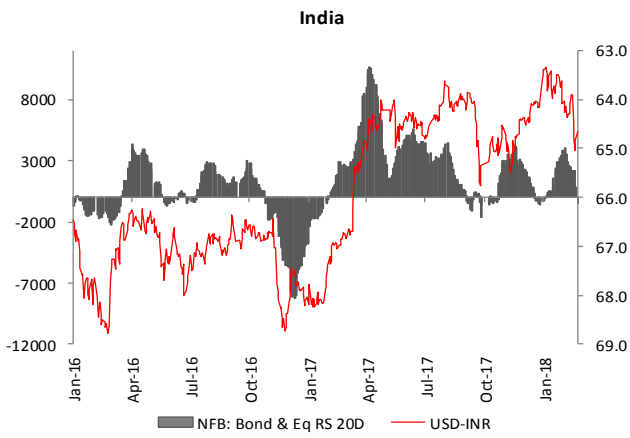
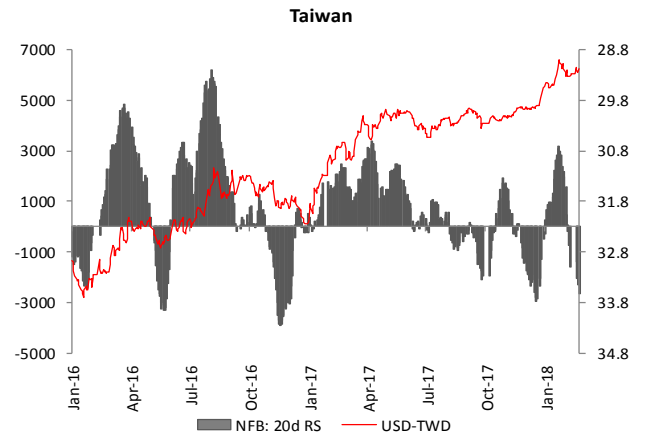
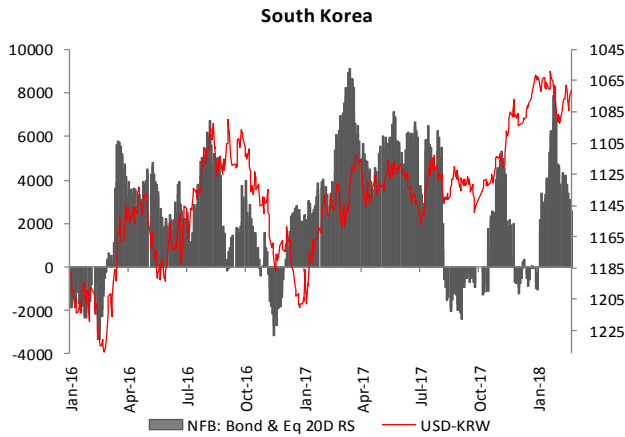
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point rose (slightly more than expected) on Wednesday to 6.3294 from 6.3146 yesterday. This took the CFETS RMB Index higher to 96.44 from 95.22.

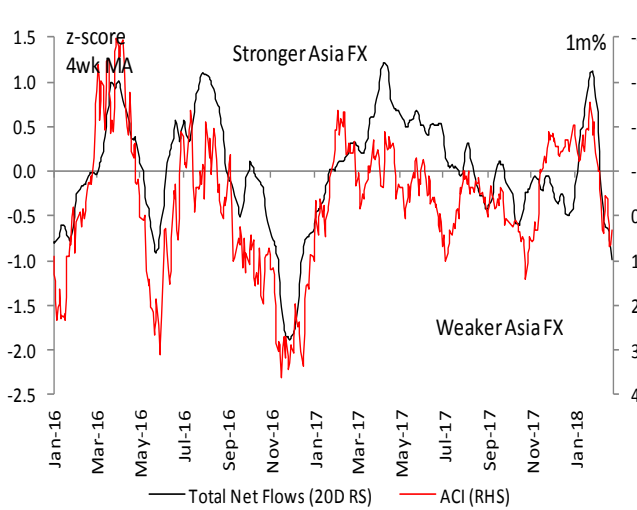


Source: OCBC Bank, Bloomberg

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

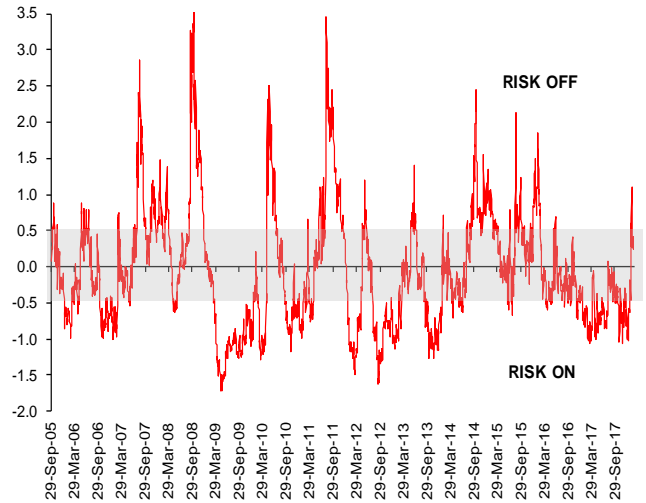


**ACI VS. Net Capital Flows**



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	0.237	0.033	-0.598	-0.521	-0.518	0.110	-0.465	0.494	0.415	0.535	-0.973
SGD	0.894	0.243	-0.051	-0.801	-0.597	-0.609	0.206	-0.500	0.701	0.420	0.563	-0.833
CHF	0.870	-0.014	-0.071	-0.251	-0.239	-0.230	0.286	-0.184	0.267	0.086	0.523	-0.855
CAD	0.700	0.709	0.289	-0.557	-0.556	-0.460	-0.526	-0.467	0.313	0.754	0.362	-0.751
THB	0.675	0.029	0.137	-0.773	-0.607	-0.619	0.330	-0.528	0.704	0.294	0.571	-0.576
IDR	0.621	0.767	0.398	-0.635	-0.733	-0.645	-0.608	-0.693	0.316	0.930	0.237	-0.594
MYR	0.615	0.242	0.191	-0.734	-0.811	-0.850	0.005	-0.827	0.465	0.677	0.208	-0.532
INR	0.612	0.746	0.272	-0.384	-0.434	-0.301	-0.475	-0.334	0.114	0.699	0.265	-0.606
CNH	0.535	0.058	0.614	-0.306	-0.107	-0.176	0.031	-0.222	0.163	0.126	1.000	-0.580
KRW	0.521	0.128	-0.168	-0.849	-0.699	-0.671	0.285	-0.547	0.855	0.392	0.053	-0.385
TWD	0.495	0.363	0.181	-0.860	-0.896	-0.835	-0.125	-0.779	0.716	0.722	0.127	-0.374
USGG10	0.237	1.000	0.354	-0.374	-0.553	-0.461	-0.645	-0.541	-0.037	0.790	0.058	-0.217
JPY	0.110	-0.645	-0.691	0.041	0.238	0.176	1.000	0.350	0.256	-0.646	0.031	0.037
CNY	0.033	0.354	1.000	-0.023	-0.085	-0.097	-0.691	-0.267	-0.265	0.440	0.614	-0.097
PHP	-0.073	0.742	0.600	-0.126	-0.261	-0.221	-0.832	-0.363	-0.204	0.670	0.015	0.039
AUD	-0.767	-0.655	-0.058	0.789	0.720	0.641	0.283	0.581	-0.569	-0.745	-0.323	0.752
GBP	-0.852	-0.422	-0.162	0.790	0.796	0.752	0.168	0.717	-0.654	-0.693	-0.387	0.815
NZD	-0.860	0.069	0.059	0.559	0.337	0.393	-0.309	0.275	-0.584	-0.168	-0.558	0.826
EUR	-0.973	-0.217	-0.097	0.523	0.452	0.435	0.037	0.387	-0.427	-0.387	-0.580	1.000

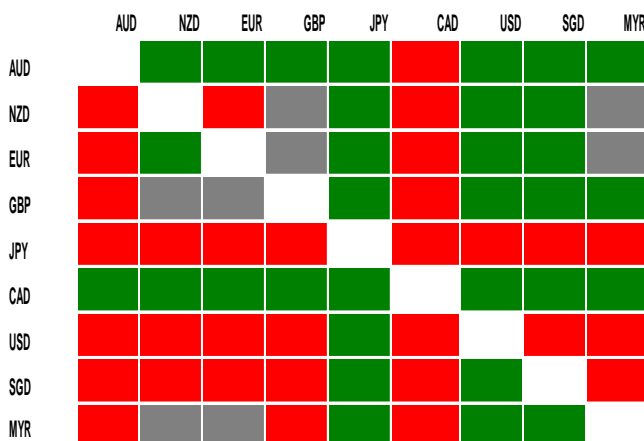
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2213	1.2220	1.2300	1.2519
GBP-USD	1.3800	1.3819	1.3896	1.3900	1.4168
AUD-USD	0.7759	0.7784	0.7789	0.7800	0.7889
NZD-USD	0.7192	0.7200	0.7229	0.7246	0.7300
USD-CAD	1.2691	1.2700	1.2775	1.2779	1.2800
USD-JPY	105.55	107.00	107.25	108.00	110.04
USD-SGD	1.3200	1.3240	1.3259	1.3300	1.3318
EUR-SGD	1.6166	1.6200	1.6202	1.6300	1.6418
JPY-SGD	1.2159	1.2300	1.2363	1.2400	1.2404
GBP-SGD	1.8292	1.8400	1.8426	1.8500	1.8599
AUD-SGD	1.0297	1.0300	1.0328	1.0400	1.0444
Gold	1305.88	1307.00	1317.90	1320.42	1355.69
Silver	16.13	16.30	16.34	16.40	16.79
Crude	62.12	62.60	62.66	62.70	66.16

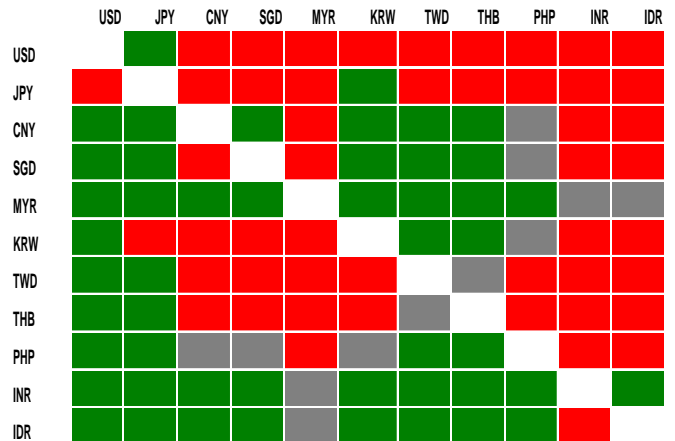
Source: OCBC Bank

**G10 FX Heat Map**



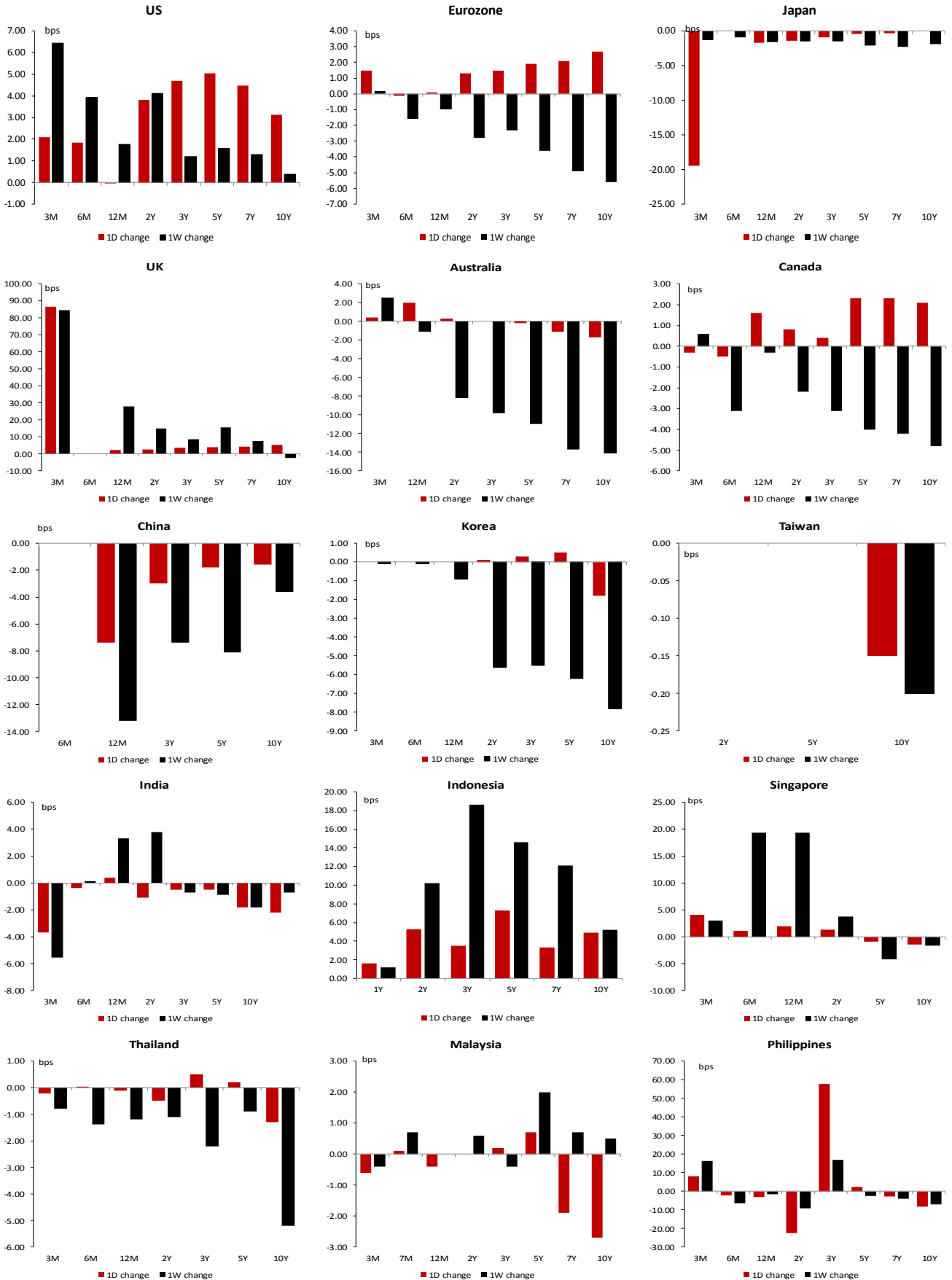
Source: OCBC Bank

**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>								
1	22-Feb-18	B	USD-CAD	1.2696	1.2960	1.2560	Post FOMC minutes, rising implied valuations for the pair	
<b>STRUCTURAL</b>								
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 vulnerability coupled with hawkish BOE expectations.	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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	Heavy 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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