

Wednesday, March 28, 2018

**FX Themes/Strategy/Trading Ideas**

- Amid cited quarter/month-end flows and with risk aversion re-emerging (UST curve bull-flattened from the back-end), the USD climbed against the majors on Tuesday with the CHF and the JPY outperforming across the board. The AUD bore the brunt of weakened global investor appetite and fell against all its peers. Sentiment was soured partially following headlines indicating that the US administration is seeking to limit Chinese investments in the tech sector.
- On the EUR, dovish comments from the ECB's Liikanen and Makuch were balanced by slightly more hawkish rhetoric from Nowotny (who noted that the Council would have to decide how to proceed in the summer). On the flip side, near term prospects for the AUD continue to remain sketchy on a mixture of fragile risk appetite and/or global trade tensions.
- Negative US (tech sector weakness) equities and slipping EM equities kept the **FXSI (FX Sentiment Index)** in Risk-Off territory despite the Index inching slightly lower on the day. Note however that implied EM risk premiums are wider from a week ago.
- Today, the Fed's Bostic (1600 GMT) is scheduled while in Asia, the **Bank of Thailand** (0705 GMT) is expected to stand pat at 1.50% (note real interest rates remain at neutral levels with little upside pressure from inflation). **BNM** is also due to release its Annual Report today.

**Asian FX**

- In Asia, selectivity remains key. Portfolio flows indicate a rebound for South Korea but the shelf life of this move may prove questionable if risk appetite deteriorates further. Taiwan meanwhile is still experiencing outflow pressures while on the other end of the spectrum, net inflow pressures for the THB continue to accumulate. Elsewhere, **India** remains neutral (note bonds rallied following the friendlier than expected fiscal borrowing plan the previous day), with net outflows for **Indonesia** still compressing significantly on a rolling basis.
- The interplay of Asian equity performance and CNH cues will likely determine intra-day directionality with the **ACI (Asian Currency Index)** seen a touch heavy.
- **South Korea:** Sentiment may continue to be balanced by global trade tensions on the one hand, and Kim Jong Un/Xi Jinping news flow on the

Treasury Research &  
Strategy

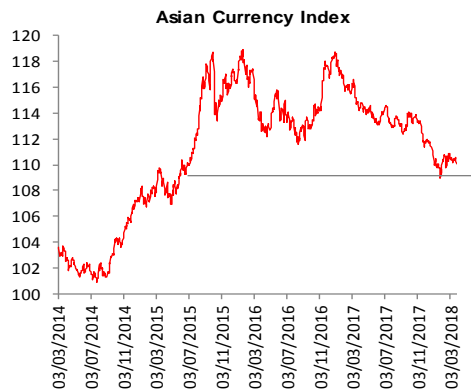
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other hand.

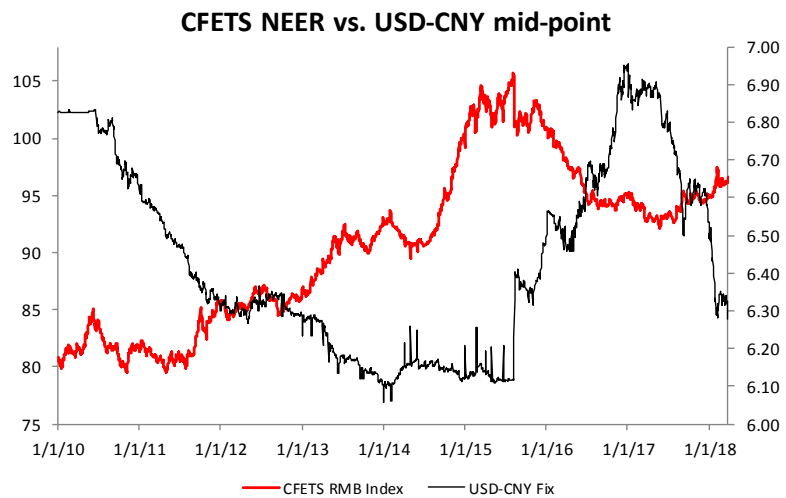
- SGD NEER:** The SGD NEER slightly firmer at around +0.50% above its perceived parity (1.3143), with NEER-implied USD-SGD thresholds firmer on the day. Expect a +0.40% (1.3091) to +0.60% (1.3065) range for the basket intra-day, with gravity favoring a test towards 1.3050 barring a heightening of risk aversion.
- Going ahead, we see little macro impetus for a policy move at the next **MAS MPS (Monetary Policy Statement)** in April, given also the lack of significantly strong inflation prospects at this juncture. We'd look towards a reversion to a gentle slope at the October MPS instead, although a pre-emptive move next month cannot be totally discounted.



	SGD NEER	% deviation	USD-SGD
Current	124.87	0.49	1.3079
+2.00%	126.74		1.2886
Parity	124.26		1.3143
-2.00%	121.77		1.3412

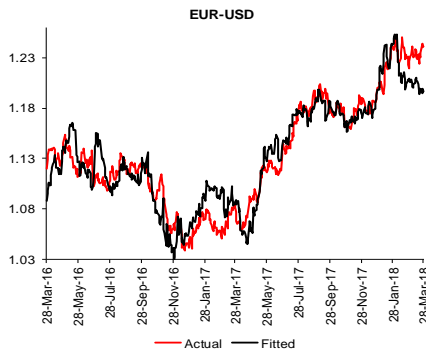
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (as largely expected) to 6.2785 from 6.2816 on Tuesday. This blipped the CFETS RMB Index higher to 96.63 from 96.53 yesterday.



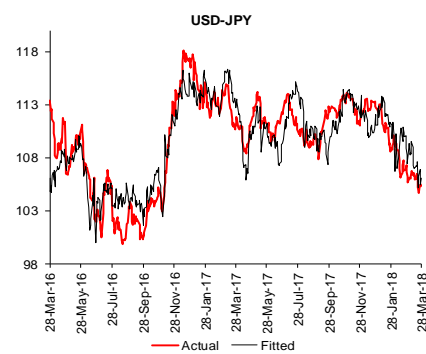
Source: OCBC Bank, Bloomberg

**G7**



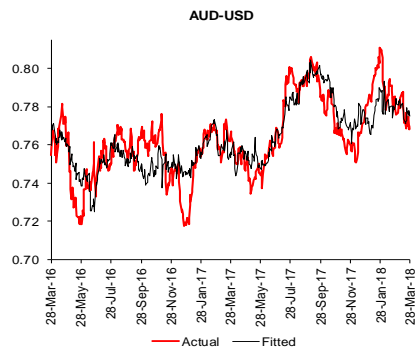
Source: OCBC Bank

- EUR-USD** The EUR-USD continues to run at a tangent from relatively suppressed short term implied valuations but this divergence may persist in the interim if ECB rhetoric remains supportive. Look to bounce dips within the 55-day MA (1.2330) and 1.2480.



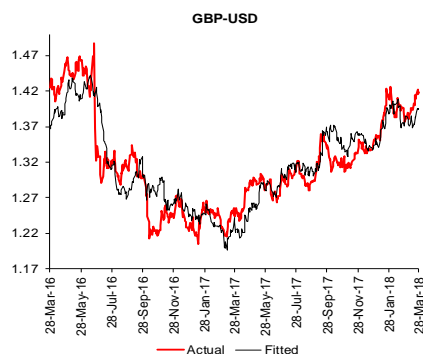
Source: OCBC Bank

- USD-JPY** A rangy to softer profile for the USD-JPY may be expected to remain in play, either on the back of inherent USD vulnerability or more broadly, risk aversion. In the interim, the pair may continue to trade south of 106.00, with 104.50 still a distinct possibility at this juncture.



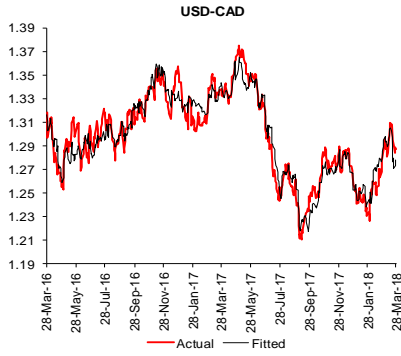
Source: OCBC Bank

- AUD-USD** As alluded to above, fade upticks in the pair given the current environment, with short term implied valuations similarly soggy at this juncture. As such, the foothold at 0.7700 remains tenuous, with the next support seen towards 0.7640.



Source: OCBC Bank

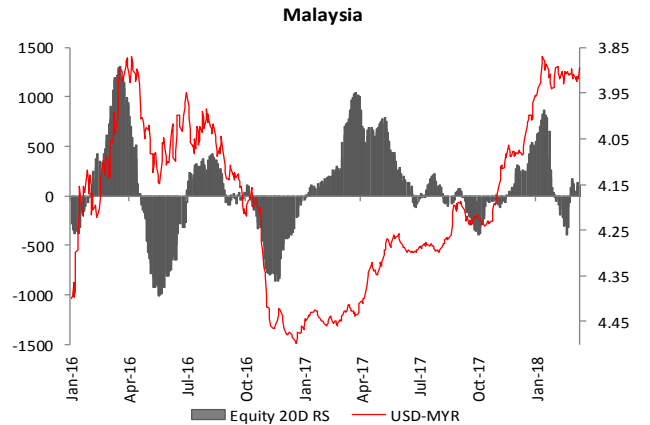
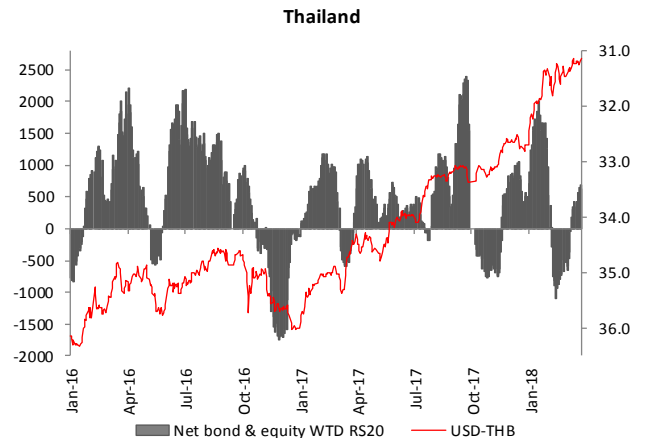
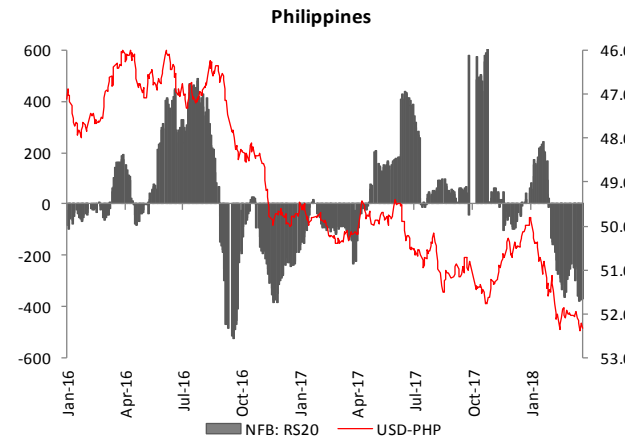
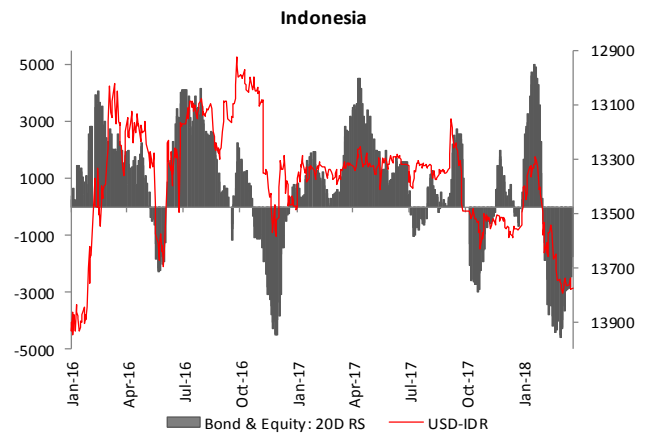
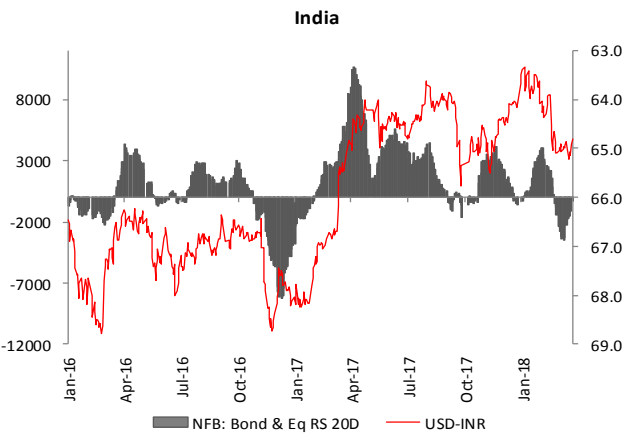
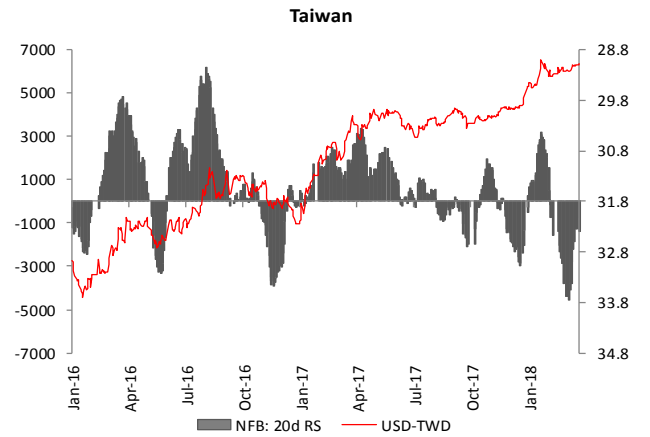
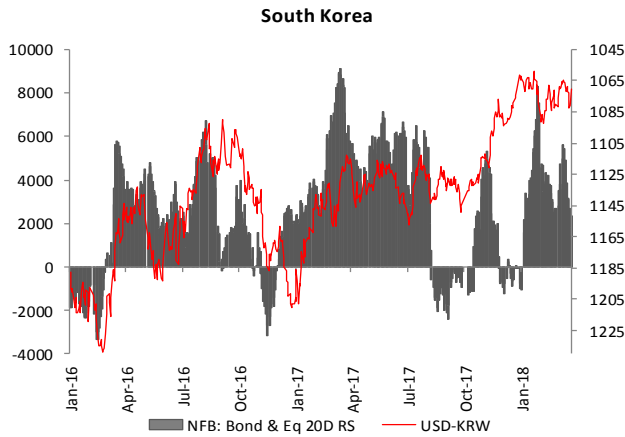
- GBP-USD** GBP-USD was fueled slightly by encouraging Brexit-related headlines before being pulled lower by broad dollar moves and M&A news flow. Nevertheless, short term implied valuations continue to remain supportive of the pair and the 1.4200 area (before the 200-week MA of 1.4273) may continue to be tested.



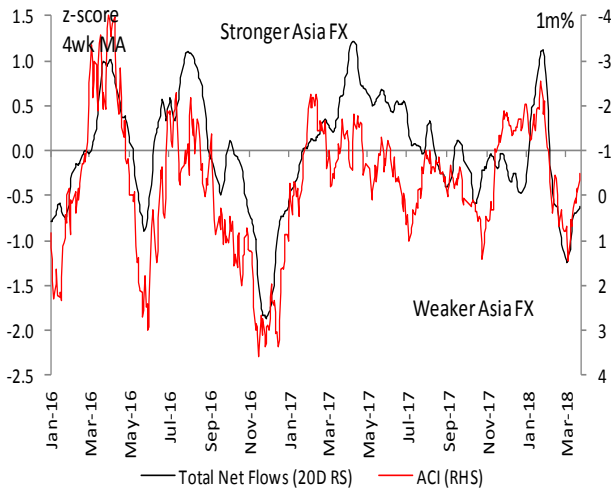
- **USD-CAD** Ahead of Thursday's GDP numbers, expect consolidative behavior for the pair in the near term if global risk appetite levels remain wobbly. In the interim, a 1.2815-1.2950 range may continue to keep the pair fenced in.

Source: OCBC Bank

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

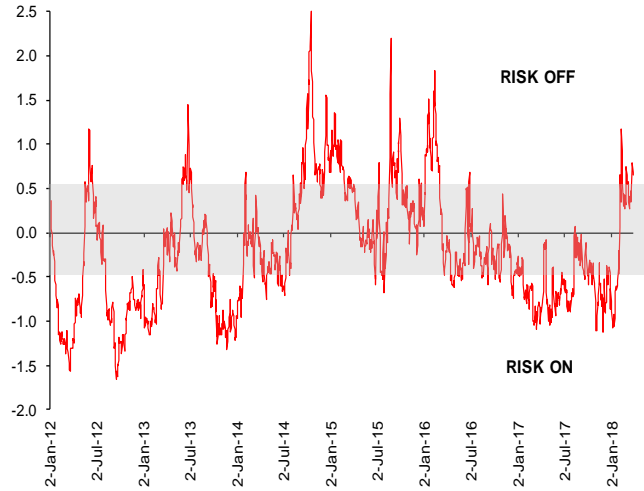


**ACI VS. Net Capital Flows**



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	0.407	0.719	0.420	0.370	-0.402	0.650	-0.538	-0.297	-0.382	0.789	-0.929
SGD	0.824	0.402	0.632	0.067	-0.028	-0.211	0.434	-0.319	0.106	-0.104	0.701	-0.843
CNH	0.789	0.395	0.930	0.298	0.188	-0.465	0.382	-0.674	-0.172	-0.413	1.000	-0.668
CNY	0.719	0.249	1.000	0.299	0.133	-0.389	0.280	-0.597	-0.184	-0.383	0.930	-0.579
JPY	0.650	0.591	0.280	0.841	0.585	-0.173	1.000	-0.547	-0.716	-0.639	0.382	-0.520
MYR	0.536	0.218	0.624	0.058	0.218	-0.260	0.145	-0.135	0.053	-0.040	0.587	-0.583
INR	0.449	0.187	0.573	-0.149	-0.063	-0.295	-0.046	-0.042	0.162	0.160	0.494	-0.469
THB	0.427	0.571	0.536	0.242	-0.343	0.150	0.353	-0.387	-0.141	-0.206	0.539	-0.310
USGG10	0.407	1.000	0.249	0.568	0.090	0.123	0.591	-0.249	-0.543	-0.199	0.395	-0.300
TWD	0.387	0.338	0.586	0.560	-0.009	-0.084	0.506	-0.729	-0.438	-0.625	0.519	-0.113
CHF	0.099	-0.057	0.021	-0.016	0.334	-0.404	-0.160	0.080	-0.128	0.052	0.066	-0.128
CAD	0.091	-0.080	0.202	-0.047	0.203	-0.465	-0.217	-0.176	-0.057	-0.104	0.236	-0.001
AUD	0.082	0.393	0.043	0.755	0.332	0.056	0.610	-0.572	-0.678	-0.681	0.175	0.107
IDR	-0.113	0.008	0.280	-0.171	-0.314	-0.232	-0.441	-0.190	0.066	-0.022	0.283	0.238
KRW	-0.140	0.054	-0.061	-0.522	-0.733	0.412	-0.350	0.402	0.583	0.531	-0.145	-0.001
PHP	-0.506	-0.434	-0.569	-0.723	-0.334	0.194	-0.647	0.665	0.625	0.637	-0.480	0.281
NZD	-0.508	-0.179	-0.423	0.360	0.147	0.093	0.137	-0.237	-0.373	-0.421	-0.397	0.632
GBP	-0.750	-0.425	-0.722	-0.526	-0.065	0.358	-0.610	0.835	0.392	0.637	-0.766	0.543
EUR	-0.929	-0.300	-0.579	-0.200	-0.357	0.337	-0.520	0.280	0.064	0.144	-0.668	1.000

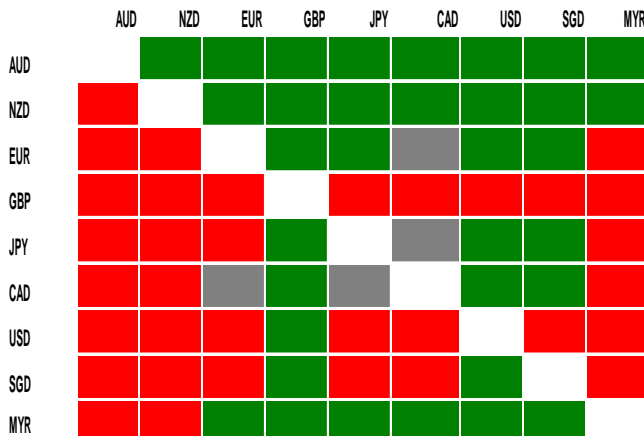
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2342	1.2400	1.2416	1.2448	1.2500
GBP-USD	1.3984	1.4100	1.4185	1.4200	1.4244
AUD-USD	0.7636	0.7672	0.7696	0.7700	0.7805
NZD-USD	0.7179	0.7200	0.7272	0.7288	0.7300
USD-CAD	1.2759	1.2800	1.2875	1.2900	1.3094
USD-JPY	104.98	105.00	105.57	106.00	107.00
USD-SGD	1.3054	1.3068	1.3080	1.3100	1.3159
EUR-SGD	1.6133	1.6200	1.6240	1.6242	1.6300
JPY-SGD	1.2277	1.2300	1.2391	1.2400	1.2523
GBP-SGD	1.8404	1.8500	1.8554	1.8600	1.8666
AUD-SGD	1.0038	1.0054	1.0066	1.0100	1.0345
Gold	1303.60	1332.41	1344.90	1351.76	1363.50
Silver	16.17	16.50	16.53	16.60	16.69
Crude	63.01	64.80	64.86	64.90	66.27

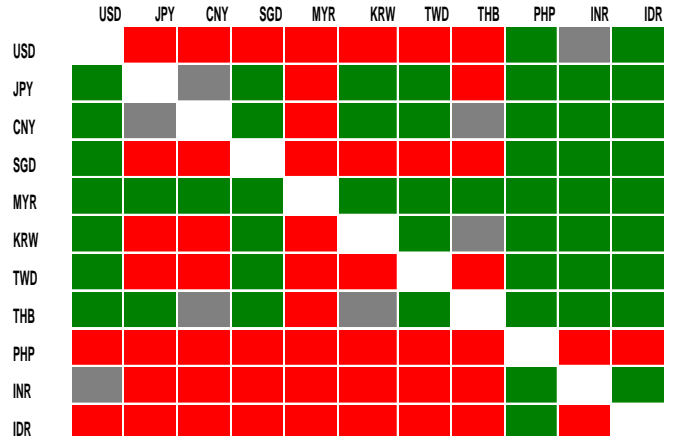
Source: OCBC Bank

**G10 FX Heat Map**



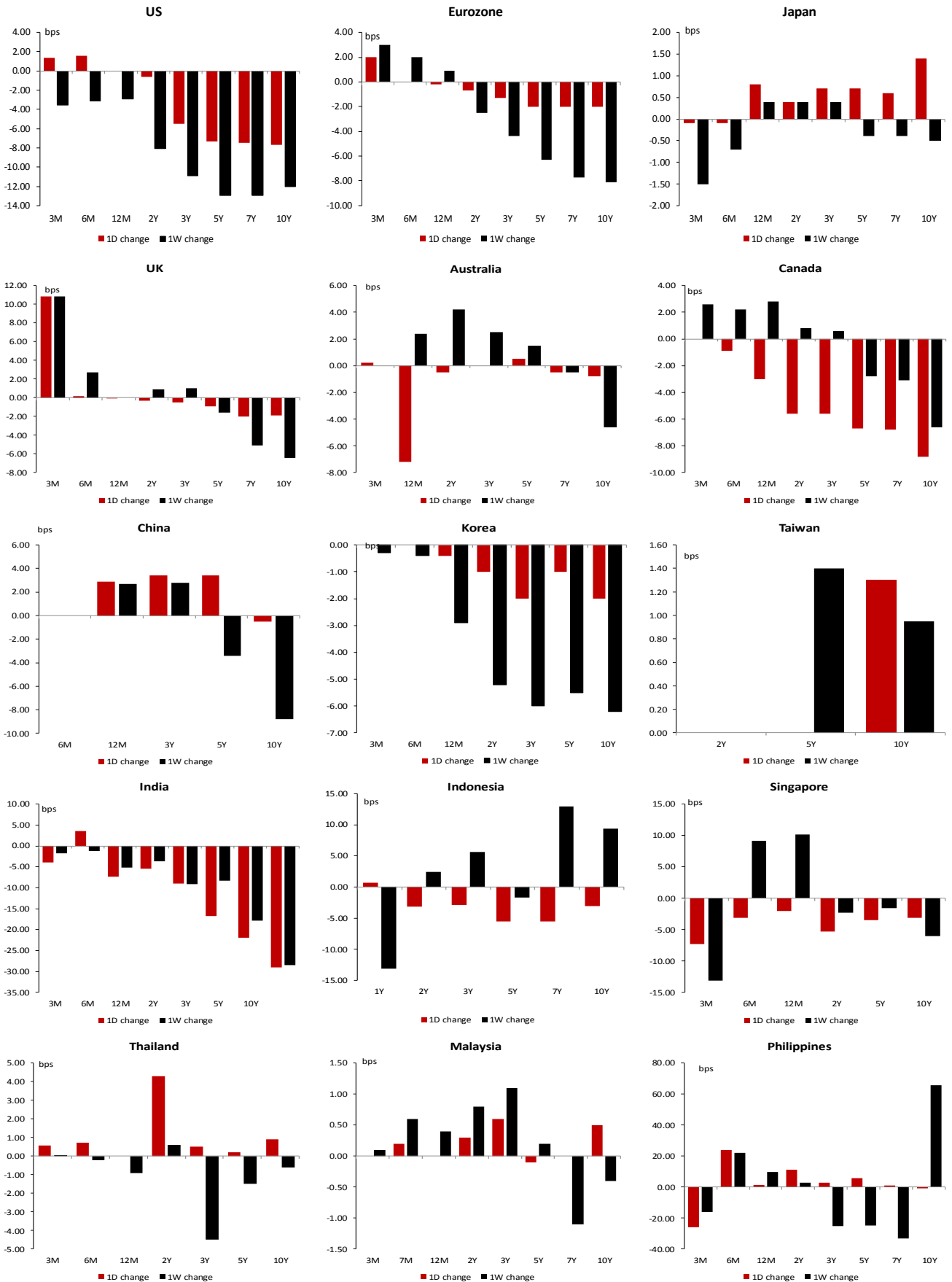
Source: OCBC Bank

**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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