

Tuesday, March 13, 2018**FX Themes/Strategy/Trading Ideas**

- With US yields flattening from the back-end, the greenback struggled on Monday as investor doubts towards US inflationary pressures mounted ahead of US CPI readings on Tuesday (1230 GMT) and following the soft wage numbers from last Friday.
- The core issue remains that despite the potential fiscal boost to the economy and the US labor market at full employment, lackluster inflation prints and tepid wage growth will not instigate the Fed to steepen its rate hike trajectory. If the US CPI readings come in on the wrong side of expectations, FOMC-supportive USD resilience will fall away, with investors likely to revert to the “weak dollar” narrative, or in the current environment, risk-on plays.
- Global equities (including in EM) managed to maintain a positive note, the **FXSI (FX Sentiment Index)** dipped deeper within Risk-Neutral territory, where it has remained for the past 3 sessions.
- For today, apart from the US CPI numbers, the Bank of Canada’s Poloz is due at 1415 GMT. Overall, range trading conditions may persist in the interim, with the cyclicals perhaps underpinned by sanguine risk appetite levels. Outside of dollar space, note that carry within G10 has demonstrated a respectable bounce in the past week.
- With the improvement in risk appetite levels, our 06 Mar 18 idea to be tactically short **AUD-USD** (spot ref: 0.7765) was stopped out at 0.7855 on Monday for an implied -1.14% loss.
- In a similar vein, our 22 Feb 18 idea to be tactically long **USD-CAD** (spot ref: 1.2696) hit its profit stop of 1.2820 last Friday, yielding an implied +0.99% gain.

Asian FX

- Net portfolio inflows in Asia continue to favor the KRW, and we continue to detect a bottoming out of net outflows in Indonesia and Taiwan; as well as a strong rebound in net inflows for Thailand (for both bonds and equities).
- Although the broad dollar may be on the slight defensive within G10, we’d still refrain from expecting significant and widespread downside enthusiasm for USD-Asia in the absence of a resurgence of net inflows into the region. As such, expect limited down moves for the **ACI (Asian Currency Index)** intra-day and investors may remain selective instead, keeping the Index

Treasury Research &
Strategy

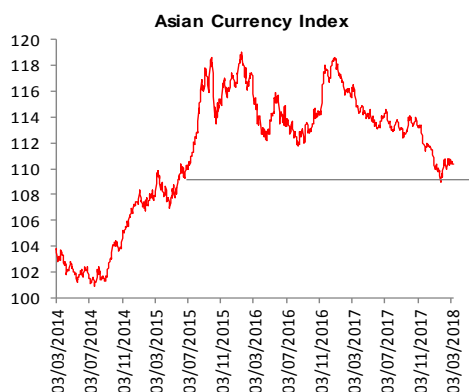
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within its recent range.

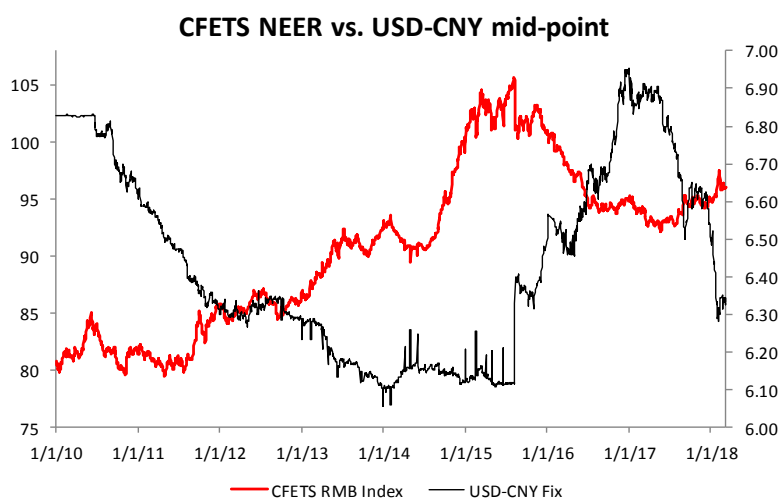
- **Indonesia:** Wide ranging comments from the central bank and the Finance Minister with regards to rupiah stability, inflation, the budget deficit (narrowing in 2018 from 2017), and the current account deficit indicate little cause for negativity with projected macro parameters largely in line with market expectations.
- **India:** February CPI inflation came in at a softer than expected +4.44% yoy from 5.07% in January and this should continue to dilute hawkish expectations attached to the RBI as well as take the edge off the bond bears. Long-term real interest rates are in a neutral zone at this juncture and should not incite any urgency out of the RBI at its April MPC.
- **Philippines:** BSP governor Espenilla continues to discourage near term expectations for a rate hike.
- **SGD NEER:** The SGD NEER has edged higher marginally to +0.54% above its perceived parity (1.3195) this morning with NEER-implied USD-SGD thresholds a touch softer on the day. Expect a focal point for the basket to hover within +0.40% (1.3143) and +0.60% (1.3117) pending further external developments. Risk-reward in the interim may favor tentative slippage towards 1.3100.



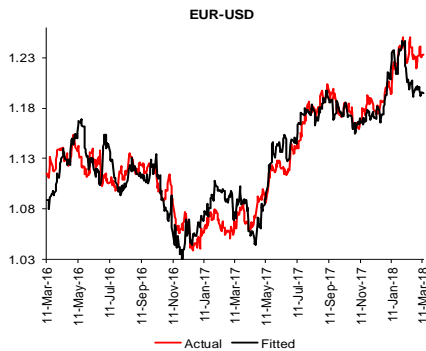
	SGD NEER	% deviation	USD-SGD
Current	124.93	0.54	1.3125
+2.00%	126.74		1.2937
Parity	124.26		1.3195
-2.00%	121.77		1.3465

Source: OCBC Bank

- **CFETS RMB Index:** With little to excite, the USD-CNY mid-point softened (largely in line with expectations) to 6.3218 from 6.3333 yesterday. This took the CFETS RMB Index higher to 96.06 from 96.03 yesterday.

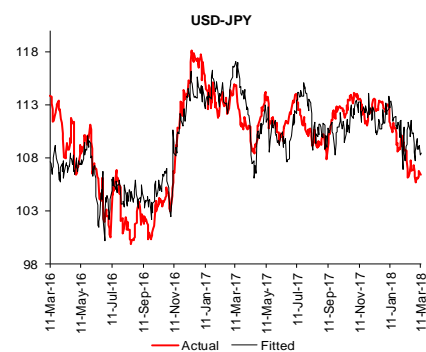


Source: OCBC Bank, Bloomberg

G7

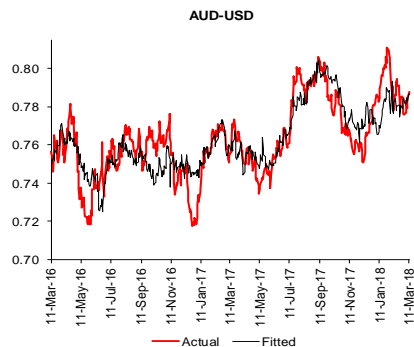
Source: OCBC Bank

- **EUR-USD** Short term implied valuations are holding relatively steady although the pair remains somewhat rich according to this metric. Preference to continue to fade upticks within the 55-day MA (1.2258) and 1.2400.



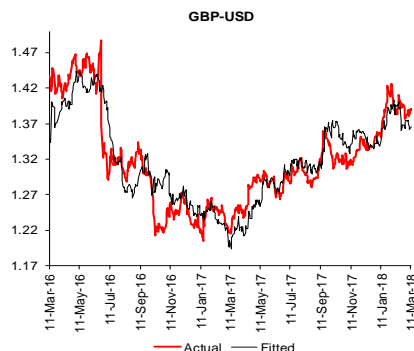
Source: OCBC Bank

- **USD-JPY** Apart from USD vulnerability and the specter of risk aversion lurking in the background, negative chatter surrounding Finance Minister Aso with regards to a land scandal may continue to weigh on the USD-JPY. This essentially syncs with the heavy short term implied valuations for the pair. Overall, expect USD-JPY to remain trapped within 105.60-107.00 in the interim.



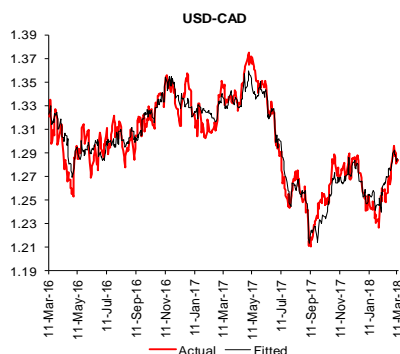
Source: OCBC Bank

- **AUD-USD** Supported short term implied valuations (note also the improving Feb NAB business conditions index) amidst the current sanguine risk appetite environment may tempt the AUD-USD above its 55-day MA (0.7889) towards 0.7950 if the market environment continues to prove hospitable.



Source: OCBC Bank

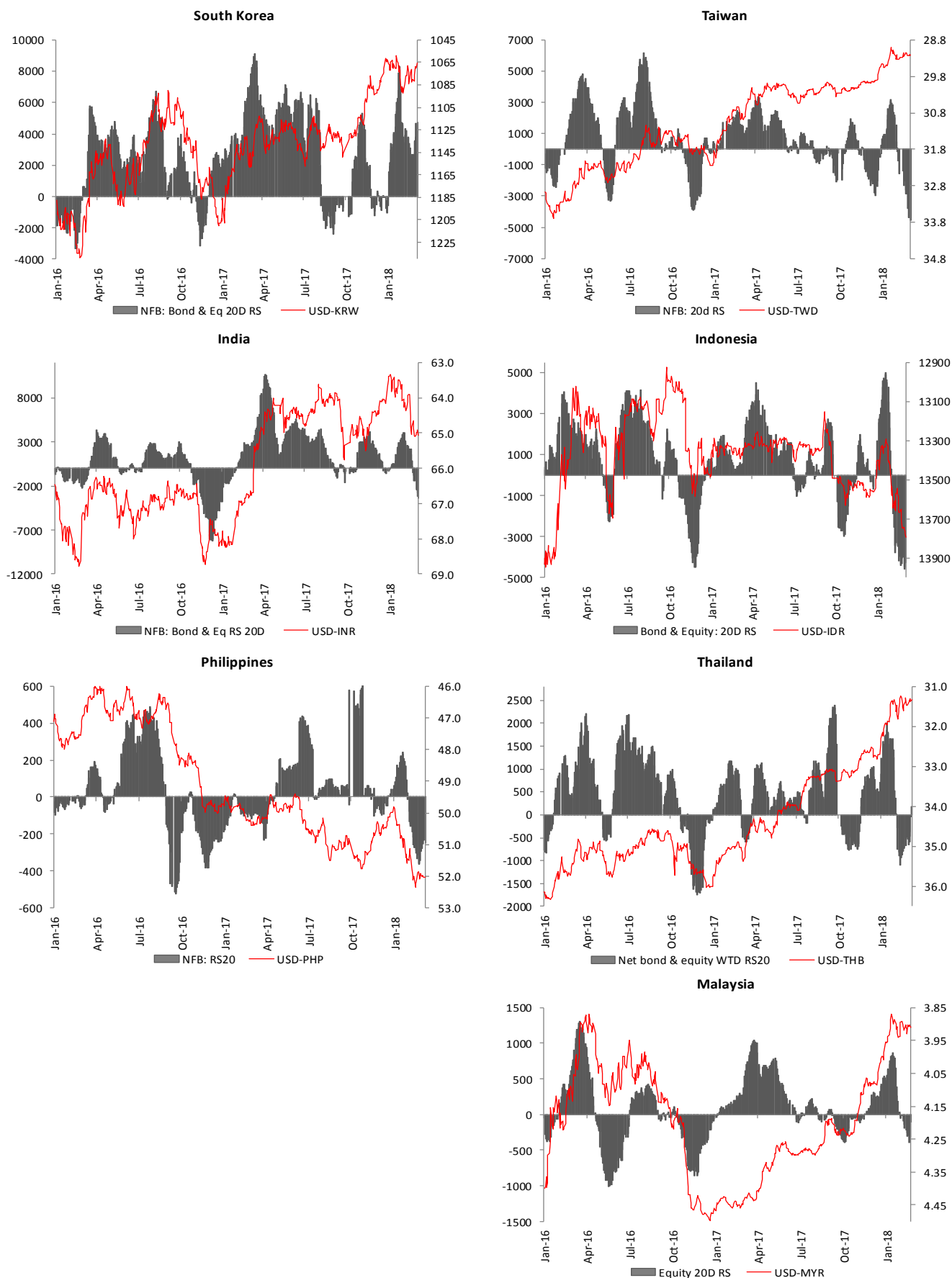
- **GBP-USD** GBP-USD managed to surface above 1.3900 on broad based USD vulnerability on Monday. Short term implied valuations meanwhile remain relatively static ahead of the spring statement by Finance Minister Hammond later today. In the interim, we do not expect a significant departure from its 55-day MA (1.3855).



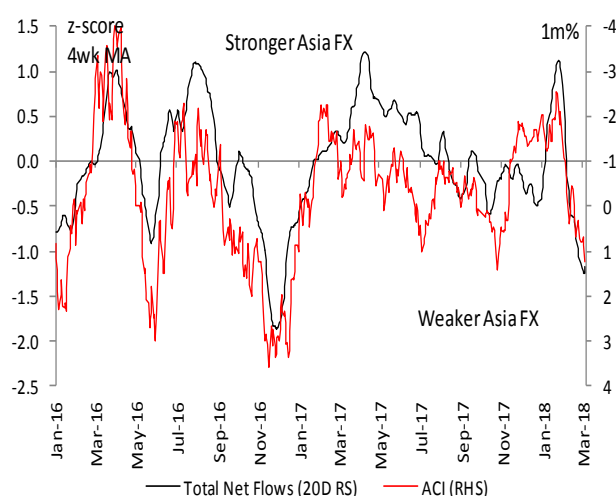
Source: OCBC Bank

- **USD-CAD** The CAD underperformed across the board on Monday as crude slid although the up move in the USD-CAD was restrained by the improvement in global risk appetite levels. Ahead of the BOC's Poloz today, the pair is essentially tagged to its implied fair value with short term implied valuations also consolidative at this juncture after rising in February. Expect a near term anchor in the neighborhood of 1.2800.

USD-Asia VS. Net Capital Flows

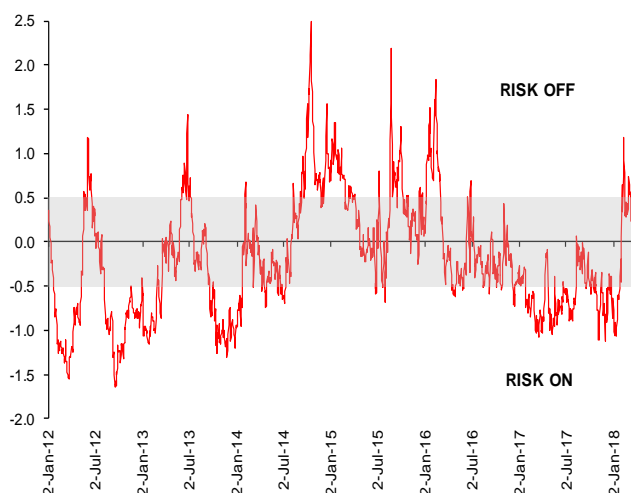


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.319	0.017	-0.042	0.160	0.100	0.236	0.050	0.047	-0.170	0.734	-0.939
SGD	0.807	-0.211	0.168	-0.493	-0.096	-0.198	0.542	-0.080	0.484	0.292	0.696	-0.814
CHF	0.781	-0.252	-0.161	0.314	0.243	0.193	-0.066	-0.060	-0.327	-0.558	0.562	-0.580
INR	0.773	-0.275	0.193	0.249	0.368	0.515	-0.221	0.268	-0.329	-0.464	0.705	-0.654
CNH	0.734	-0.215	0.749	-0.337	-0.073	-0.093	0.149	-0.221	0.205	0.025	1.000	-0.659
CAD	0.644	-0.179	0.035	0.228	0.182	0.507	-0.473	0.165	-0.350	-0.408	0.529	-0.431
IDR	0.609	-0.333	0.071	0.263	0.096	0.339	-0.450	0.013	-0.356	-0.426	0.481	-0.366
MYR	0.418	-0.478	0.337	-0.634	-0.455	-0.671	0.570	-0.534	0.691	0.427	0.423	-0.374
THB	0.289	0.017	0.411	-0.733	-0.559	-0.500	0.693	-0.326	0.649	0.570	0.499	-0.263
JPY	0.236	0.095	-0.224	-0.360	-0.267	-0.565	1.000	-0.259	0.526	0.273	0.149	-0.316
KRW	0.225	-0.112	0.447	-0.761	-0.564	-0.356	0.331	-0.182	0.683	0.766	0.283	-0.241
CNY	0.017	-0.221	1.000	-0.442	-0.250	-0.175	-0.224	-0.278	0.247	0.337	0.749	-0.019
TWD	-0.205	-0.422	0.386	-0.572	-0.678	-0.687	0.353	-0.588	0.613	0.476	0.101	0.238
USGG10	-0.319	1.000	-0.221	0.208	0.150	0.268	0.095	0.333	-0.313	-0.099	-0.215	0.261
PHP	-0.323	0.397	0.180	0.131	0.167	0.154	-0.099	0.102	-0.201	-0.232	0.008	0.201
AUD	-0.837	0.277	-0.251	0.141	-0.091	-0.301	0.149	-0.118	-0.009	0.033	-0.707	0.735
GBP	-0.848	0.479	-0.253	0.237	0.112	0.055	0.035	0.270	-0.160	0.128	-0.710	0.694
NZD	-0.887	0.453	0.006	0.116	0.043	-0.089	-0.025	0.052	-0.092	0.031	-0.630	0.748
EUR	-0.939	0.261	-0.019	0.029	-0.294	-0.088	-0.316	-0.155	-0.068	0.130	-0.659	1.000

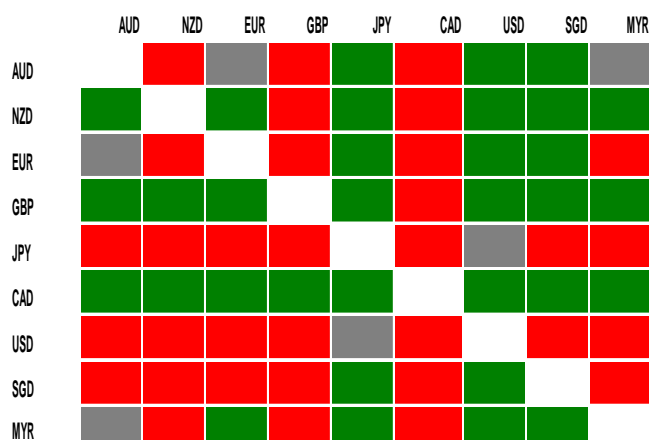
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2283	1.2300	1.2340	1.2400	1.2481
GBP-USD	1.3885	1.3900	1.3906	1.4000	1.4080
AUD-USD	0.7796	0.7800	0.7885	0.7894	0.7900
NZD-USD	0.7278	0.7300	0.7312	0.7400	0.7407
USD-CAD	1.2661	1.2800	1.2836	1.2900	1.3001
USD-JPY	105.55	106.00	106.39	107.00	107.59
USD-SGD	1.3076	1.3100	1.3127	1.3190	1.3200
EUR-SGD	1.6127	1.6133	1.6199	1.6200	1.6202
JPY-SGD	1.2244	1.2300	1.2340	1.2400	1.2460
GBP-SGD	1.8159	1.8200	1.8254	1.8300	1.8317
AUD-SGD	1.0210	1.0300	1.0350	1.0400	1.0415
Gold	1303.60	1304.05	1324.30	1331.01	1355.42
Silver	16.19	16.40	16.50	16.50	16.81
Crude	59.45	61.20	61.21	61.30	62.59

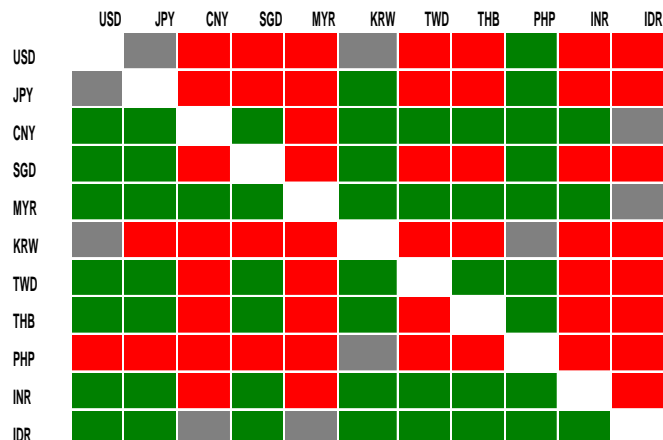
Source: OCBC Bank

G10 FX Heat Map



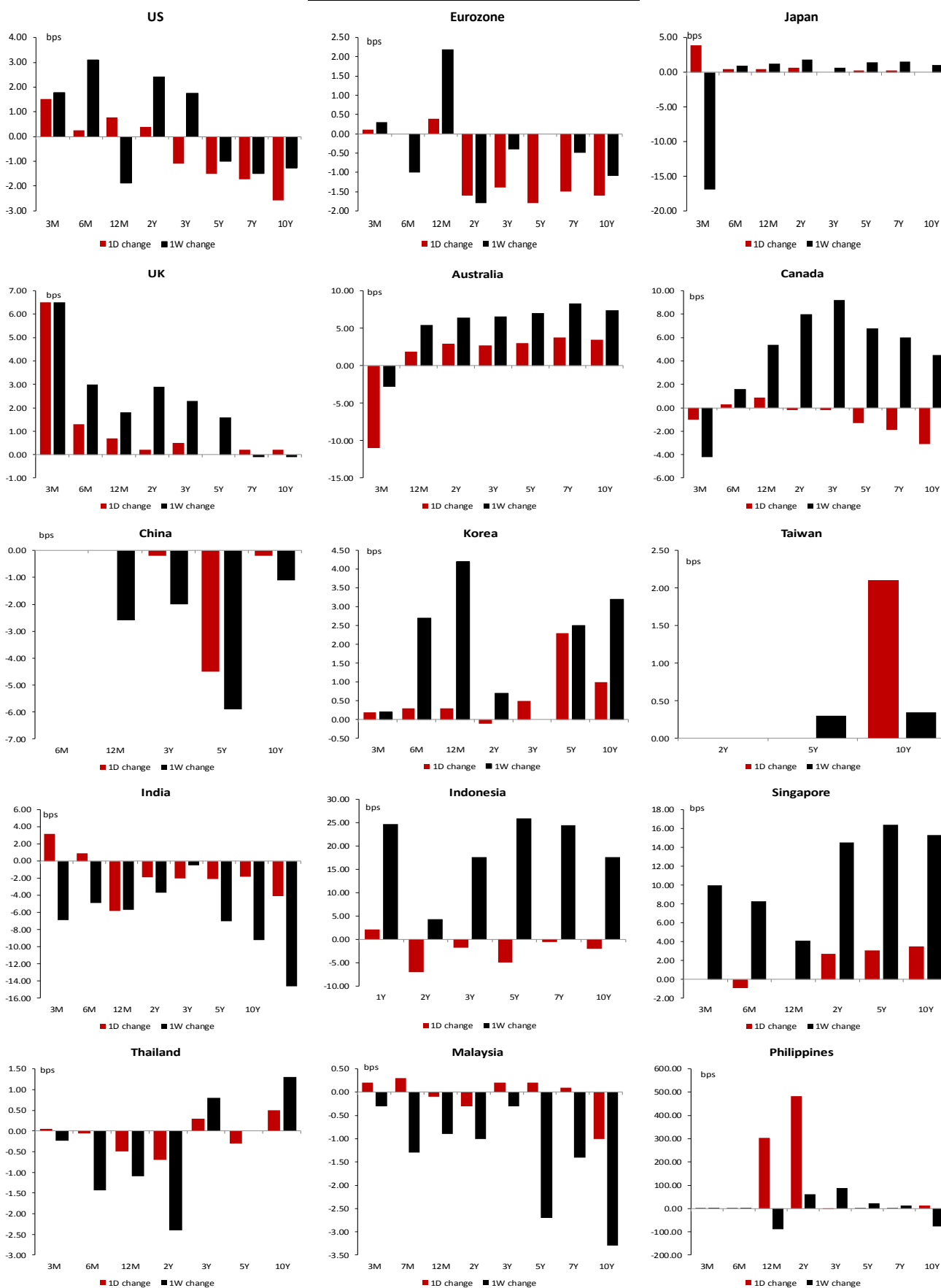
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

FX Trade Ideas								
	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
1	08-Mar-18		S	USD-JPY	106.00	103.80 107.10	White House policy uncertainty, risk aversion	
	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 vulnerability coupled with hawkish BOE expectations.	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	12-Feb-18	14-Feb-18	S	AUD-USD	0.7829	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	-1.09
2	09-Feb-18	15-Feb-18	B	USD-CAD	1.2600	1.2470	Softer crude and fragile appetite towards the cyclical	-1.03
3	22-Feb-18	09-Mar-18	B	USD-CAD	1.2696	1.2820	Post FOMC minutes, rising implied valuations for the pair	+0.99
4	06-Mar-18	12-Mar-18	S	AUD-USD	0.7765	0.7855	Non-hawkish RBA meeting outcome, vulnerability to USD resilience	-1.14

Source: OCBC Bank

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