

Friday, April 20, 2018

FX Themes/Strategy/Trading Ideas

- Core global curves lifted on Thursday (including in the US, where the 10y UST yield rose above 2.90% and the 2/10s steepened) and with aggregated rate differentials widening in favor of the dollar, the **DXY** managed to trade above 89.90. Elsewhere, the GBP was sabotaged after the BOE's Carney attempted to douse expectations for an imminent rate hike in May.
- Negative US equities, mixed EM stocks, and consolidating commodities tempered global risk appetite levels somewhat although the **FXSI (FX Sentiment Index)** still managed to tick lower within Risk-neutral territory.
- Currently, the DXY remains pretty much in the middle of its 3-month range and investors are expected to remain on the lookout for further gains in the 10y UST yield above the year-to-date high of 2.9570% to instigate further dollar resilience.
- On this front, note that the recent track record for broad USD outperformance on the back of favorable yield differential arguments has been less than consistent. Nonetheless, some manner of re-balancing within FX space may be occurring at this juncture, with carry underperforming in the current week.
- For today, watch for any headlines from the IMF/World Bank and G20 finance ministers meetings into the weekend, while the Fed's Evans speaks at 1340 GMT. Elsewhere, the Bank of Canada's Wilkins is scheduled for 1525 GMT.

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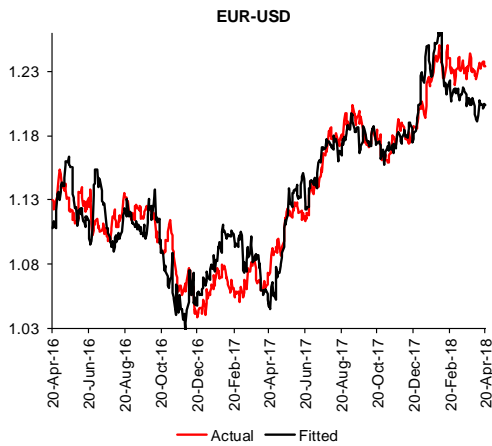
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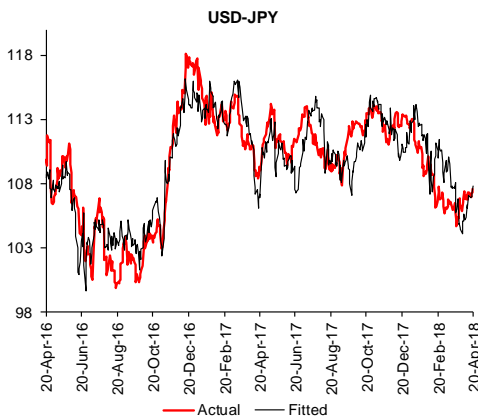
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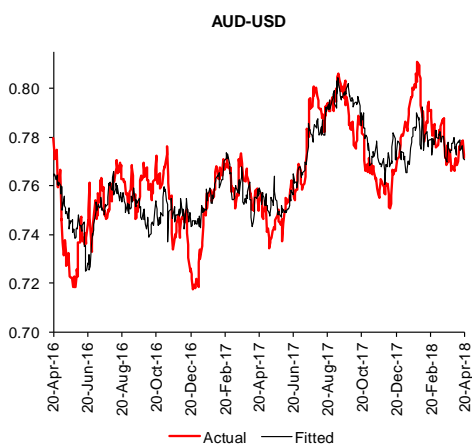
- **EUR-USD** The EUR-USD may attempt to hug its 55-day MA (1.2331) in the short term but note that short term implied valuations are still holding up for the pair despite the move in overnight global yields.

Source: OCBC Bank



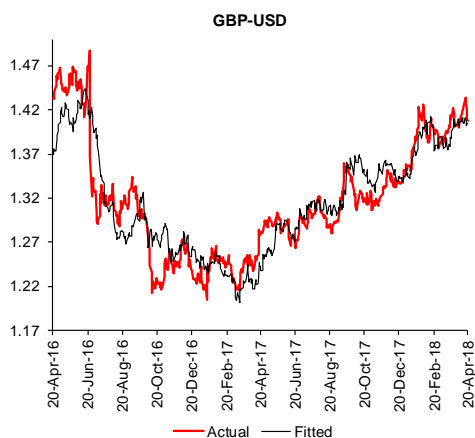
- **USD-JPY** Stay constructive on the upside for USD-JPY in the current environment, and a breach of 108.00 opens the way to 1108.70 before the 100-day MA (109.08). Short term implied valuations for the USD-JPY meanwhile have also invariably moved higher.

Source: OCBC Bank

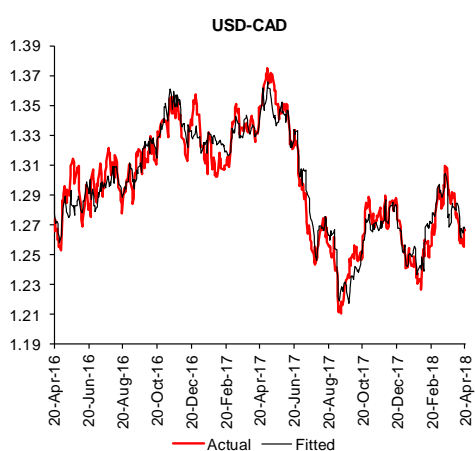


- **AUD-USD** The AUD-USD may attempt to base out at 0.7700 as global positioning continues to get re-jigged into the end of the week and with investors keeping an eye on US yields. Note that short term implied valuations have also been nudged lower into the end of the week.

Source: OCBC Bank



- **GBP-USD** Post Carney yesterday and the strong of somewhat soft data releases earlier this week, investors may be tempted to search out the nearest support at the 55-day MA (1.4010) and then at 1.4000 as a result of positioning backwash (no longer unduly stretched to the upside). Note however that short term implied valuations remained relatively supported in the interim. GBP bulls may instead look to rebuild on dips in the interim.



- **USD-CAD** USD-CAD may look to consolidate within it's of its 200-day MA (1.2622) and its 55-day MA (1.2757) pending further cues. The pair is meanwhile not seen misaligned relative to its short term implied valuations.

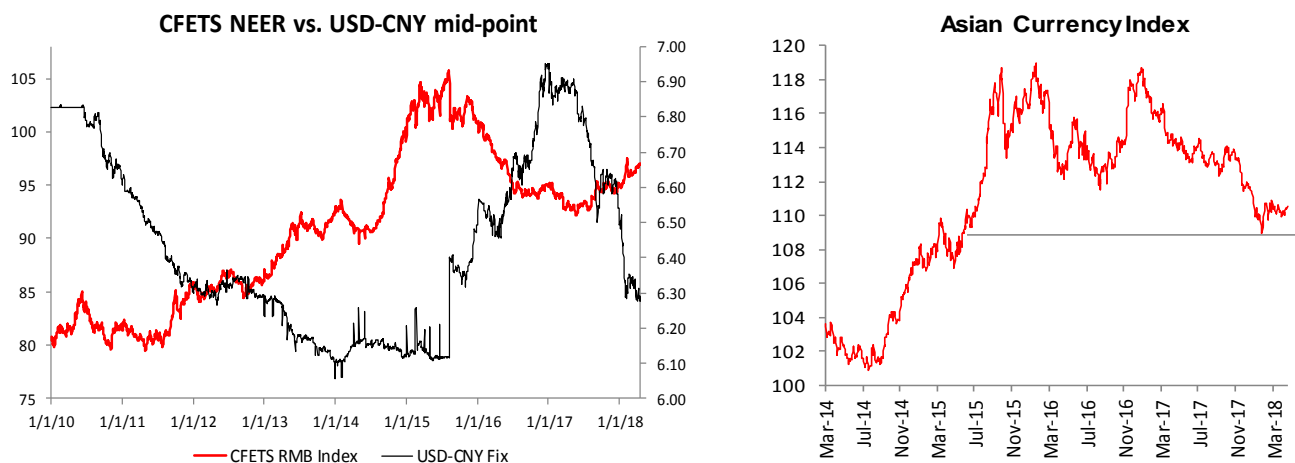
Source: OCBC Bank

Asian FX

- EM FX also retreated against the greenback overnight and with recent net inflows across Asia less than enthusiastic, expect USD-Asia to shade higher. On this front, tech stock weakness early Friday in Asia may further compound negativity for the regional currencies into the end of the week. As such, expect the **ACI (Asian Currency Index)** to continue to head higher with the **INR** in the hot seat (please refer to below para and Table).
- **Indonesia:** Bank Indonesia kept its benchmark rate unchanged at 4.25% as widely expected and maintained a neutral stance, with Deputy Governor Waluyo reiterating that room for further rate cuts is “small”, ruling out a hike at this juncture, and highlighting external risks.
- **India: RBI** meeting minutes on Thursday turned out to be more hawkish than expected (investors had been expecting a slight dovish slant instead) on the back of output gap considerations (and despite a benign inflation environment). Specifically, at least two members of the panel are now in the hawkish camp (bearish for bonds and bond inflows).
- **SGD NEER:** The SGD NEER is mildly firmer on the day at around +0.60% above its perceived parity (1.3208) this morning, with NEER-implied USD-SGD thresholds shifting higher on the day. The basket is expected to remain within a

+0.50% (1.3142) to +0.70% (1.3116) range while USD-SGD may gravitate higher near term within a 1.3075-1.3160 range.

- **CFETS RMB Index:** The USD-CNY this morning came in slightly higher than expected at 6.2897 from 6.2832 on Thursday. This nonetheless still took the CFETS RMB Index higher to 96.99 from 96.87 yesterday.



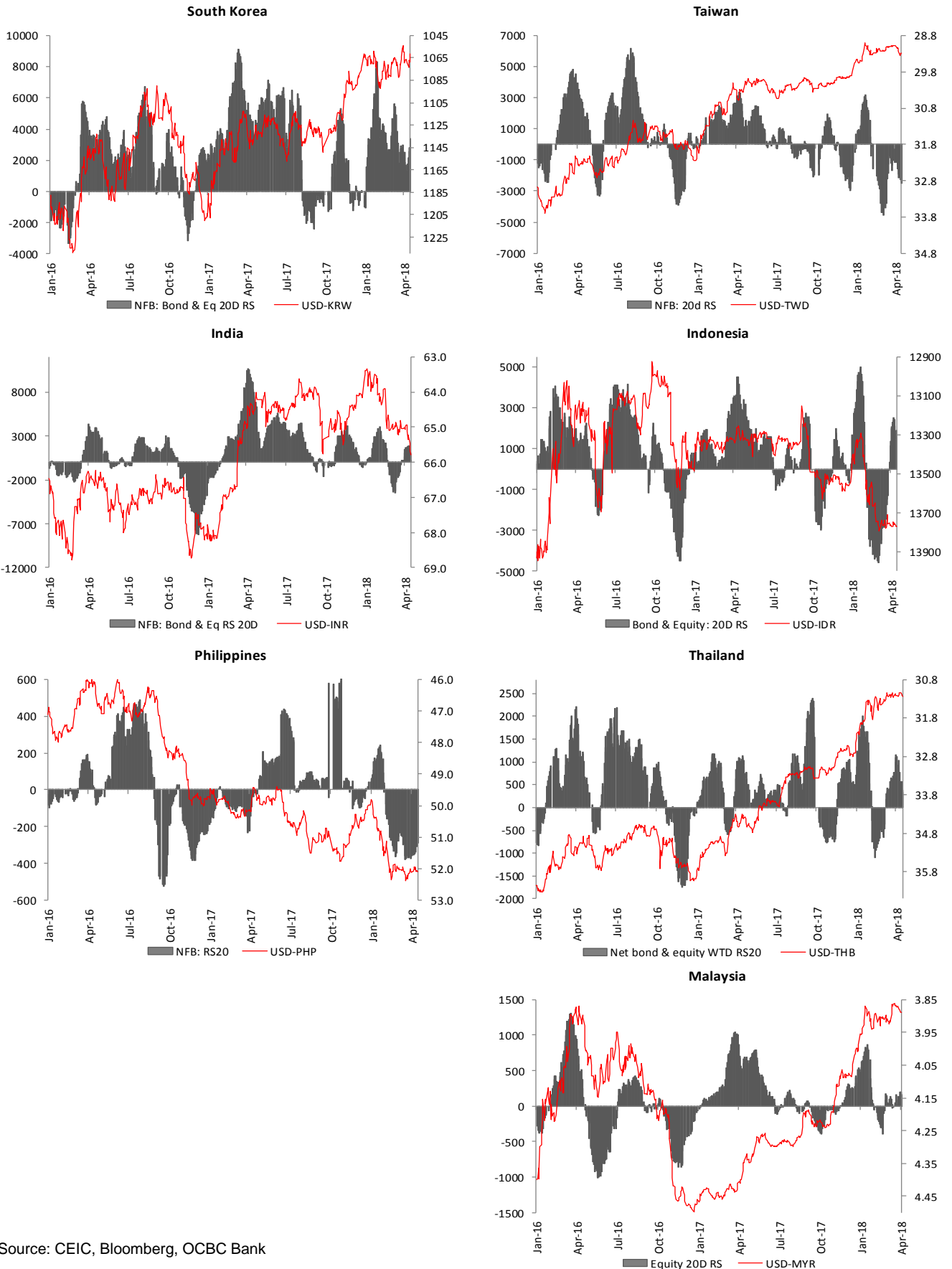
Source: OCBC Bank, Bloomberg

Short term Asian FX views

Currency	Bias	Rationale
USD-CNH	↔	RRR cut, relative stability of RMB Index, RMB to shoulder potential volatility instead, watch US-Sino tensions
USD-KRW	↔	Easing tensions with the North, net bond inflow rebound inflows, inflation/current account surplus projection downgraded, BOK expected to remain neutral
USD-TWD	↔/↑	Net equity outflows, new CBC governor non-hawkish
USD-INR	↑	RBI minutes more hawkish than expected, India placed on US Treasury's watchlist, net equity inflows evaporating, net bond inflows insignificant, less aggressive fiscal borrowing plans, wider than expected March trade deficit, warmer than expected March CPI, higher crude imposing drag on INR and govies
USD-SGD	↔/↓	NEER hovering around parity; MAS steepens NEER slope in April, pair buffeted by global trade tension headlines
USD-MYR	↔	BNM remains accommodative; country on election watch (09 May 18)
USD-IDR	↔/↑	Rating upgrade from Moodys to Baa2, BI containing IDR volatility, sees little room to cut rates; fundamentals intact, net bond inflows peaking
USD-THB	↔	BOT remains accommodative, moderating net bond inflows, equity outflows deepening
USD-PHP	↔/↓	Net equity outflows compressing, BSP downplaying rate hike expectations but remains vigilant towards inflation risks (markets unconvinced), note surprise contraction in Feb exports

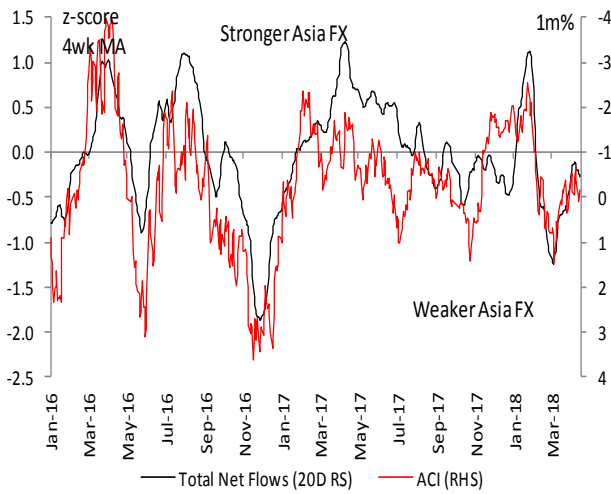
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



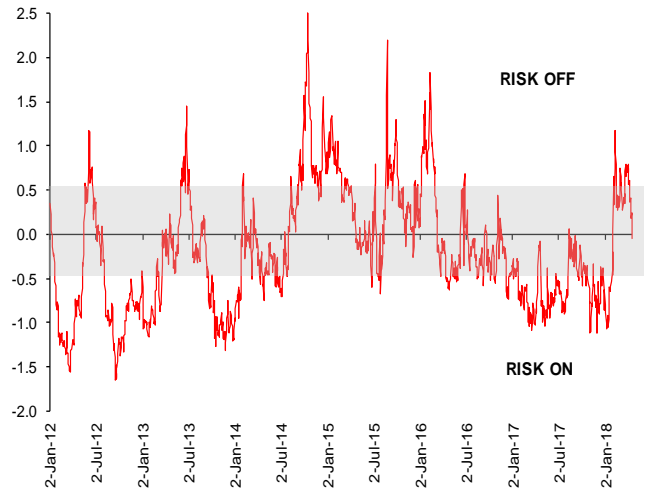
Source: CEIC, Bloomberg, OCBC Bank

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	-0.126	0.304	0.070	-0.245	-0.505	0.468	-0.532	-0.244	-0.005	0.291	-0.971
CHF	0.615	-0.083	-0.259	0.014	-0.421	0.054	0.925	0.072	-0.468	-0.105	-0.160	-0.594
SGD	0.511	0.431	0.865	0.300	0.326	-0.427	-0.108	-0.520	-0.068	-0.232	0.853	-0.627
JPY	0.468	0.024	-0.288	0.198	-0.254	0.145	1.000	0.119	-0.612	-0.228	-0.208	-0.414
IDR	0.377	-0.136	0.311	-0.196	-0.351	-0.168	0.183	-0.160	0.065	-0.064	0.315	-0.447
THB	0.325	-0.059	0.528	-0.097	-0.125	-0.209	0.110	-0.250	0.142	-0.009	0.504	-0.379
CNY	0.304	0.584	1.000	0.435	0.573	-0.433	-0.288	-0.522	-0.024	-0.227	0.951	-0.440
CNH	0.291	0.460	0.951	0.299	0.483	-0.321	-0.208	-0.462	0.045	-0.199	1.000	-0.441
INR	0.209	0.255	0.177	0.410	0.398	0.387	0.312	0.294	-0.463	-0.394	0.182	-0.196
CAD	0.187	0.114	0.606	0.188	0.357	-0.610	-0.631	-0.606	0.220	-0.079	0.460	-0.175
TWD	-0.065	0.351	-0.071	0.304	0.175	0.752	0.621	0.570	-0.637	-0.423	0.016	-0.001
USGG10	-0.126	1.000	0.584	0.826	0.694	0.154	0.024	0.154	-0.556	-0.245	0.460	0.031
MYR	-0.266	0.744	0.761	0.558	0.794	0.053	-0.537	0.000	-0.112	-0.227	0.670	0.147
PHP	-0.371	0.124	0.340	-0.211	0.016	-0.236	-0.776	-0.070	0.545	0.378	0.227	0.323
NZD	-0.373	0.052	-0.560	0.033	-0.162	0.644	0.565	0.622	-0.359	-0.170	-0.476	0.364
AUD	-0.501	0.520	-0.165	0.502	0.383	0.692	0.304	0.675	-0.553	-0.294	-0.195	0.465
KRW	-0.686	0.476	0.266	0.149	0.415	0.344	-0.454	0.379	0.152	0.020	0.251	0.608
GBP	-0.716	0.244	-0.411	-0.054	0.109	0.777	0.124	0.804	-0.073	0.069	-0.350	0.674
EUR	-0.971	0.031	-0.440	-0.063	0.199	0.488	-0.414	0.531	0.192	-0.006	-0.441	1.000

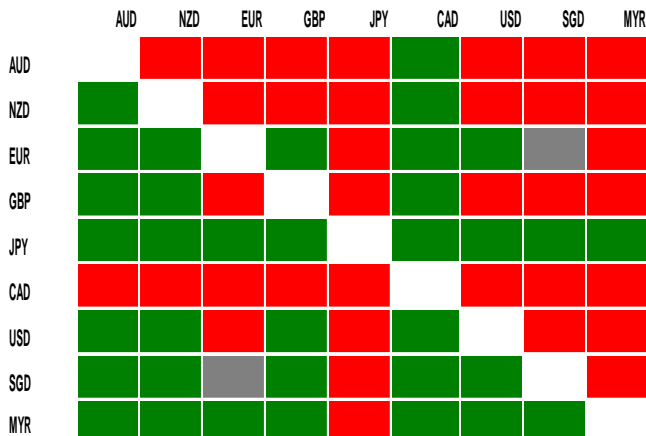
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2300	1.2332	1.2340	1.2400	1.2428
GBP-USD	1.4000	1.4016	1.4078	1.4100	1.4320
AUD-USD	0.7643	0.7700	0.7714	0.7773	0.7798
NZD-USD	0.7183	0.7200	0.7243	0.7282	0.7300
USD-CAD	1.2600	1.2618	1.2668	1.2700	1.2774
USD-JPY	106.61	107.00	107.62	107.78	108.00
USD-SGD	1.3072	1.3100	1.3125	1.3142	1.3146
EUR-SGD	1.6072	1.6100	1.6197	1.6200	1.6207
JPY-SGD	1.2145	1.2168	1.2197	1.2200	1.2326
GBP-SGD	1.8400	1.8422	1.8478	1.8500	1.8755
AUD-SGD	1.0020	1.0100	1.0125	1.0200	1.0216
Gold	1321.46	1332.13	1342.50	1359.94	1365.40
Silver	16.91	17.10	17.20	17.20	17.22
Crude	63.31	68.20	68.25	68.30	69.21

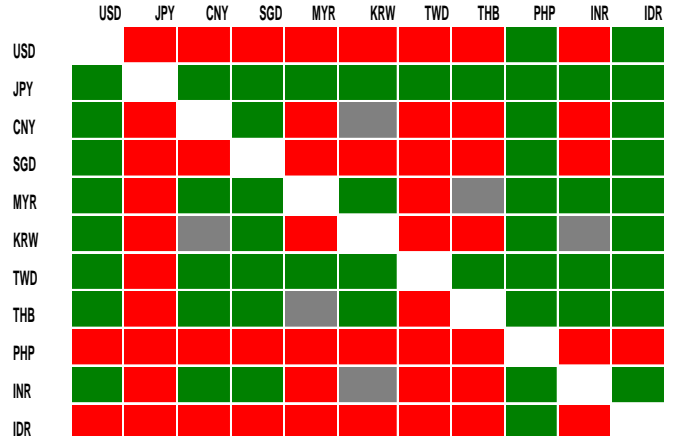
Source: OCBC Bank

G10 FX Heat Map



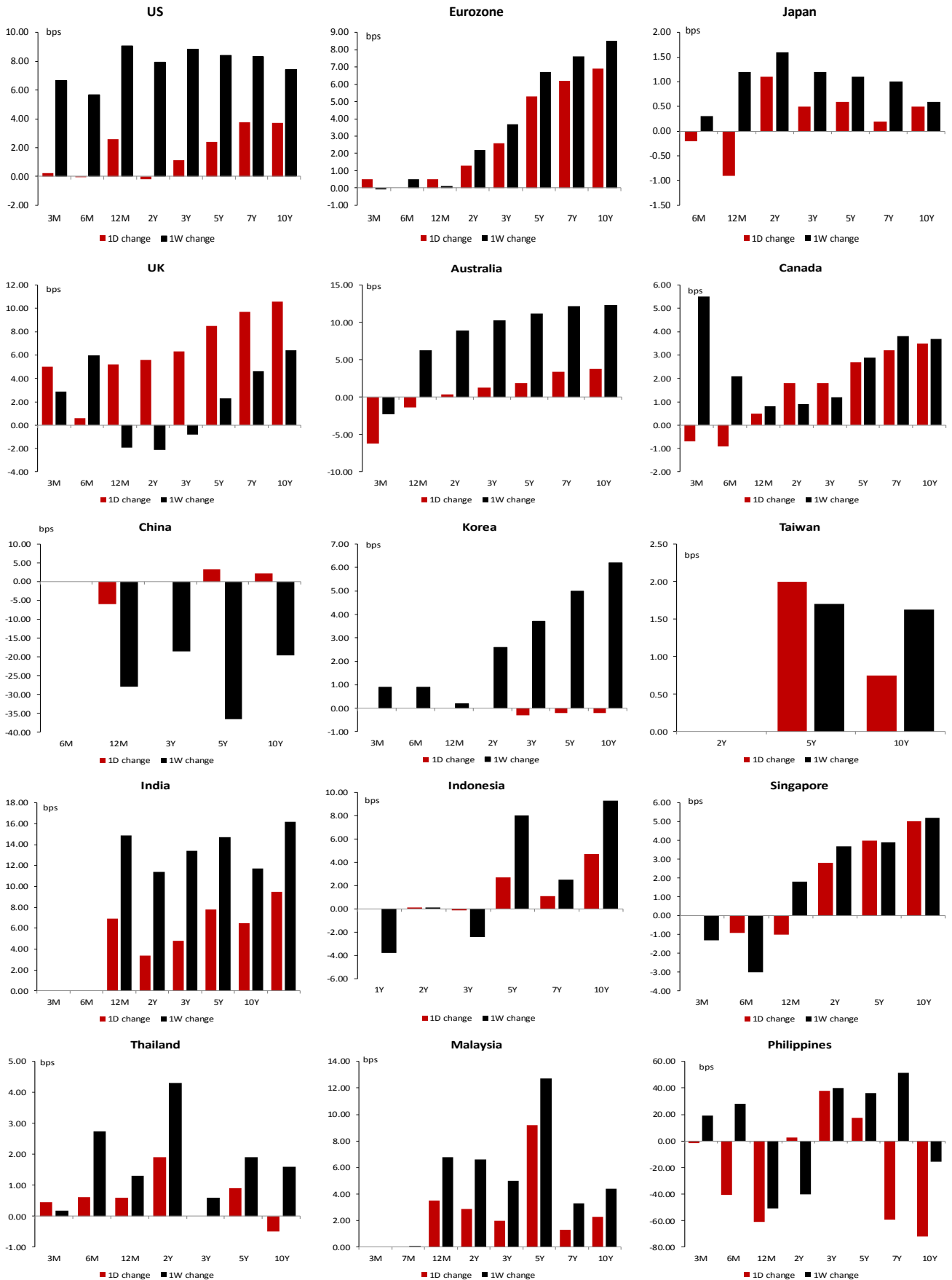
Source: OCBC Bank

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								
-	-	-	-	-	-	-	-	
STRUCTURAL								
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	Broad dollar vulnerability coupled with hawkish BOE expectations.	
RECENTLY CLOSED TRADE IDEAS								
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 cyclicals	-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
* realized							1Q 18 Return	+12.43

Source: OCBC Bank

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