

Friday, December 01, 2017

FX Themes/Strategy/Trading Ideas

- Despite UST yields (5y underperformed), the USD parted ways within G10 space on Thursday and faded against the EUR and GBP while grinding higher against the cyclicals and the JPY. US data releases also lent partial support to the USD, with the November Chicago PMI at a firmer than expected 63.9 while weekly initial claims came in at a lower than expected 238k. Meanwhile, the October core PCE deflator was also warmer than expected at +1.6% yoy.
- As at the time of writing, the Senate has yet to vote on the tax reform bill with investors awaiting potential headlines on Friday with investors still attempting to attach some positivity to an eventual vote.
- In the interim, the DXY is barely holding the ground at the 93.00 handle despite firmer US yields (10y UST back above 2.40%) with the community still trading on a diffused tone. Rate differential dynamics in aggregate continue to be shunted to the background at this juncture with investors still focusing on nominal yield levels in the US for directional cues in the interim. Meanwhile, with global carry still out of favor, expect investors to continue to trade off bilateral headline developments with respect to the currency pairs.
- Fed appearances today include Bullard (1405 GMT), Kaplan (1430 GMT), Harker (1515 GMT) while data points include global manufacturing PMIs today including the Caixin China manufacturing PMI (0145 GMT) and the US November ISM (1500 GMT).

Asian FX

- Global equities ended with positive US equities after softening in Asia and Europe although we note that EM equities in aggregate softened once again. EM FX however was also mixed overnight with the Asians under negative pressure. Despite the **FXSI (FX Sentiment Index)** drilling deeper into Risk-On territory on Thursday, expect the Asian FX complex to defer to a resilient USD in the interim. As such, the **ACI (Asian Currency Index)** is expected to be reluctant on the downside into the end of the week.
- On the Asian data front, India's 3Q GDP came in at a softer than expected 6.3% yoy while South Korea also clocked a better than expected +3.8% in 3Q 17.
- In **South Korea**, core inflation in November softened (as opposed to prior expectations of a significant strengthening) to +1.2% yoy from +1.3%

Treasury Research &
Strategy

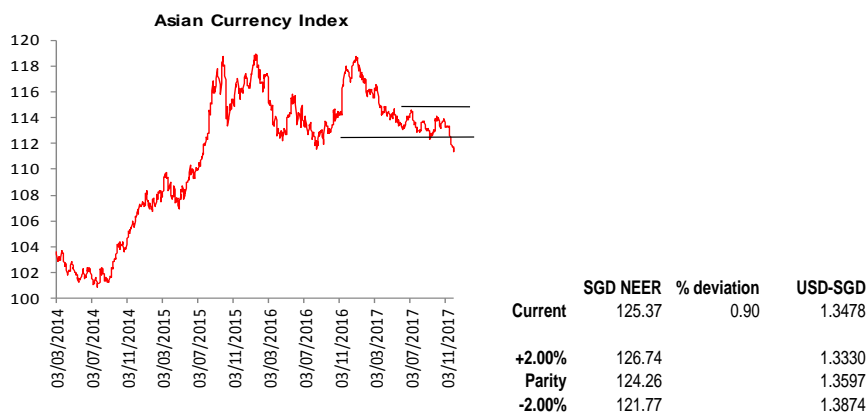
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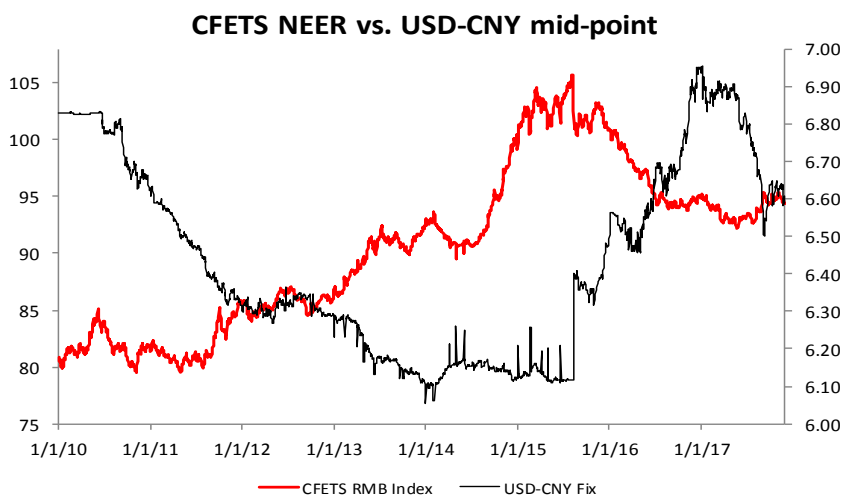
previous, and coupled with the outcome of the BOK meeting yesterday (to reiterate, we had expected a one-and done deal, in contrast to consensus, which had been lulled into expecting a hawkish slant) and the deteriorating net short term portfolio environment, the KRW may be looking to lag its Asian peers in the short term.

- With regard to net portfolio inflows in Asia, the net balance has flipped to a net outflow on a 1M rolling basis while outflow momentum for the TWD is deepening. In the south, the INR, IDR, and the THB continue to experience significant inflow momentum.
- **SGD NEER:** The SGD NEER is lower again this morning at around +0.86% above its perceived parity (1.3597) with NEER-implied USD-SGD thresholds essentially unchanged on the day. Expect a comfort zone within +0.80% (1.3489) and +1.00% (1.3462) pending external news flow.



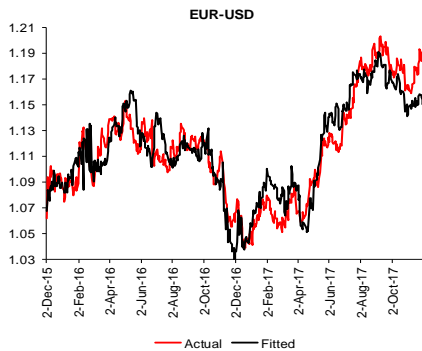
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a higher than expected 6.6067 from 6.6034 yesterday. This however still resulted in the CFETS RMB Index firming slightly to 94.38 from 94.37 on Thursday.



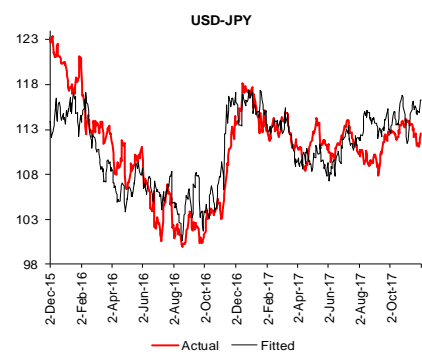
Source: OCBC Bank, Bloomberg

G7



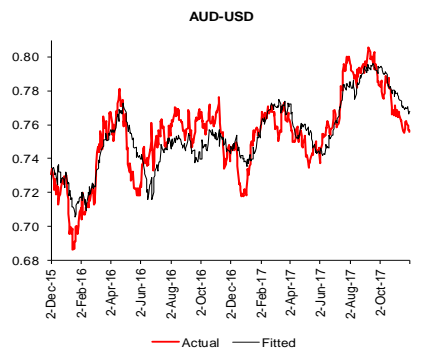
Source: OCBC Bank

- EUR-USD** Visibility from talks between Merkel and the SPD remain clouded on Friday but positivity surrounding the EZ (and GBP) sphere at this juncture may run slightly counter to heavier short term implied valuations for the EUR-USD. Expect supportive price action within 1.1850-1.1950.



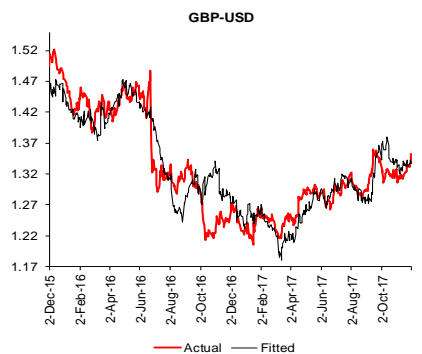
Source: OCBC Bank

- USD-JPY** USD-JPY remains relatively more responsive to US yield gyrations and at this juncture, firmer short term implied valuations may continue to see the pair within the upper confines of a range bordered by the 200-day MA (111.69) and the 55-day MA (112.74), with risks of an attempt towards 113.00.



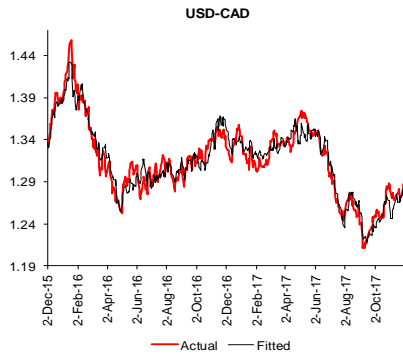
Source: OCBC Bank

- AUD-USD** The improving November CBA manufacturing PMI (56.3 from 55.5) failed to bolster the AUD-USD this morning. Under the added weight of US yields, short term implied valuations for the AUD-USD remain top heavy. Expect a 0.7530-0.7600 range to prevail in the interim.



Source: OCBC Bank

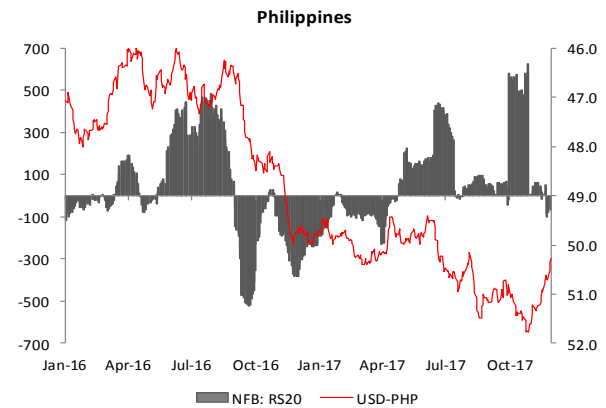
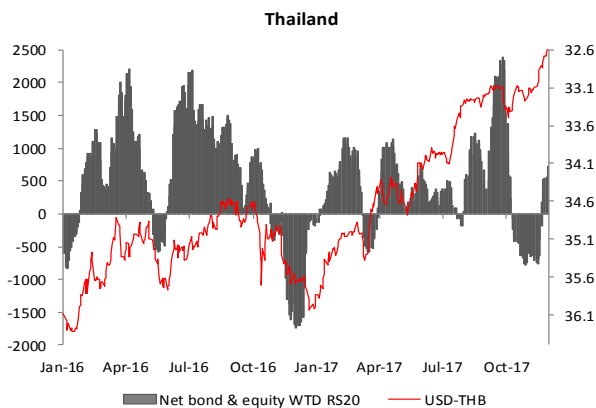
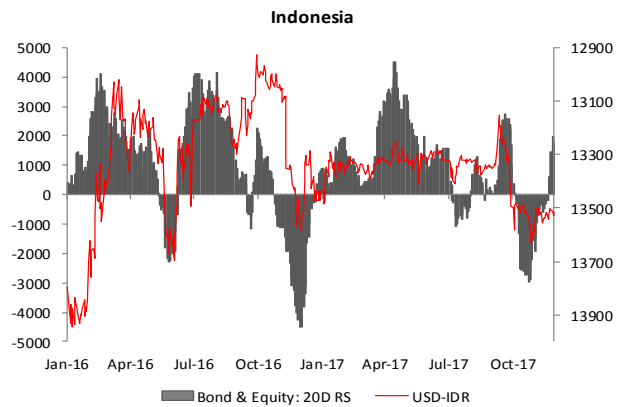
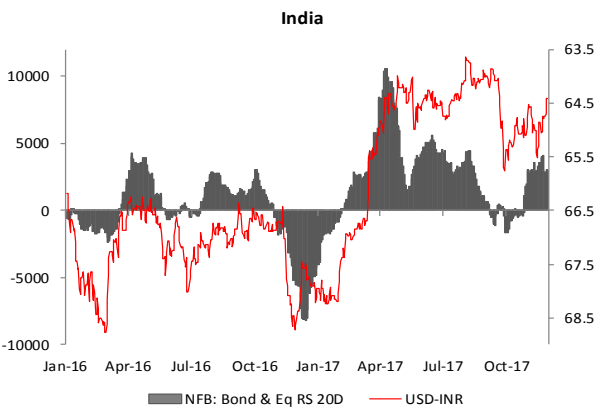
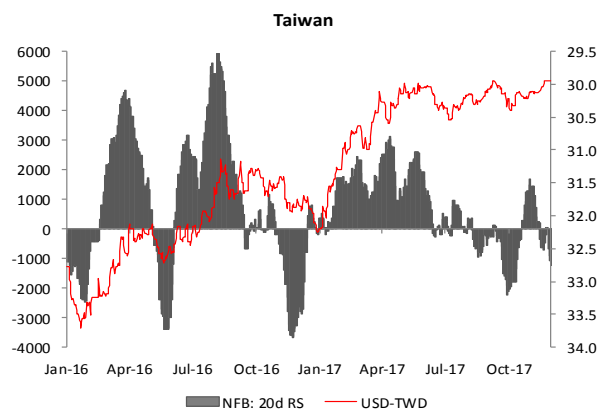
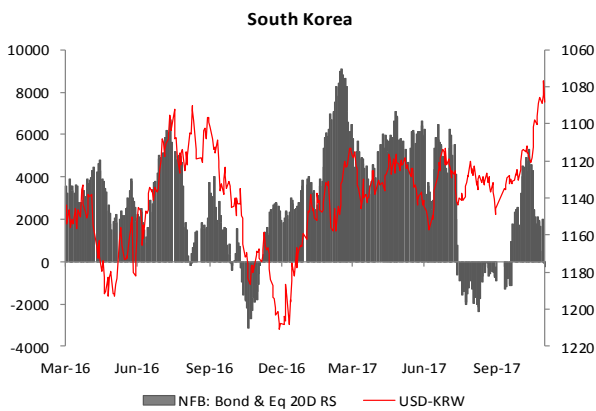
- GBP-USD** The pound may continue to derive near term traction against the USD on a media report that issue surrounding the Northern Ireland border (one of the key issues for Brexit talks) could be nearing resolution. Ahead of the 04 Dec 17 meeting between May and Juncker, short term implied valuations remain relatively reluctant on the downside and a 1.3400-1.3600 range may remain in play with risks to explore the upside for now.

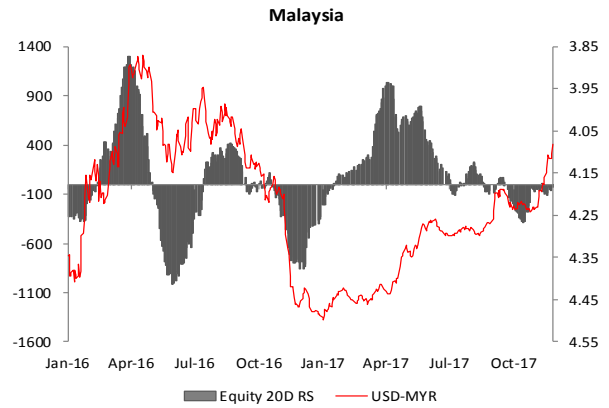


- USD-CAD** Ahead of November labor market numbers tonight, short term implied valuations for the USD-CAD have been inching higher. The temptation to probe towards 1.2930 and the 200-day MA (1.2969) may remain apparent on a multi-session horizon.

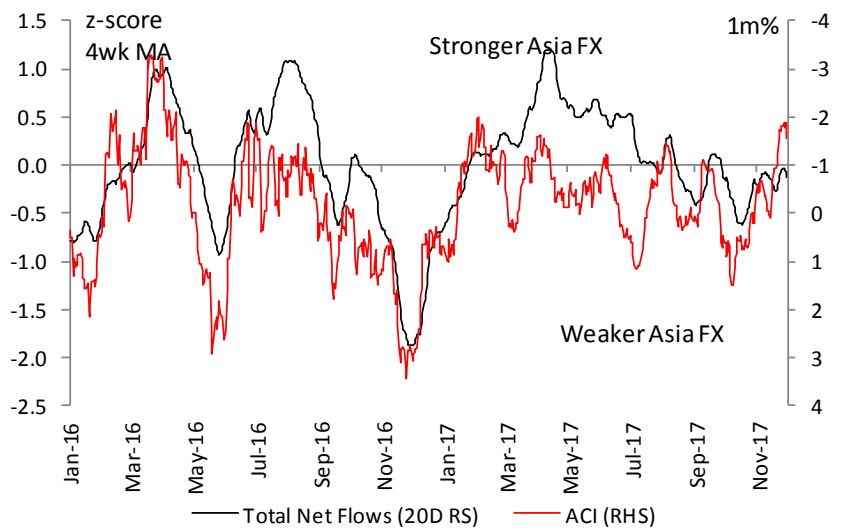
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

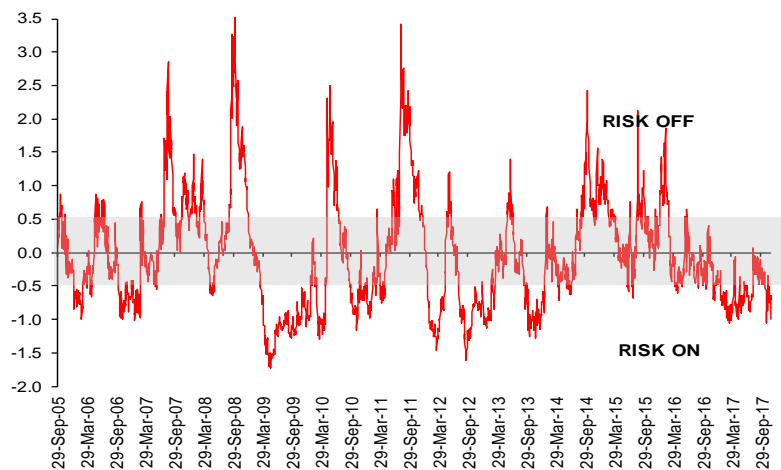




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	-0.139	0.622	-0.559	-0.277	-0.106	0.905	-0.581	-0.179	-0.368	0.612	-0.988
CHF	0.978	-0.005	0.584	-0.53	-0.354	-0.223	0.924	-0.665	-0.151	-0.386	0.605	-0.953
SGD	0.952	-0.029	0.757	-0.668	-0.364	-0.158	0.925	-0.619	0.022	-0.178	0.752	-0.917
MYR	0.942	-0.127	0.562	-0.689	-0.314	-0.124	0.916	-0.593	-0.122	-0.305	0.543	-0.907
TWD	0.908	-0.061	0.682	-0.732	-0.397	-0.162	0.899	-0.637	0.144	-0.082	0.691	-0.867
THB	0.906	-0.132	0.602	-0.714	-0.332	-0.11	0.897	-0.584	0.043	-0.173	0.605	-0.872
JPY	0.905	0.154	0.624	-0.485	-0.511	-0.266	1	-0.667	0.007	-0.351	0.631	-0.852
PHP	0.881	-0.145	0.616	-0.728	-0.421	-0.071	0.858	-0.506	0.055	-0.185	0.587	-0.846
KRW	0.874	-0.015	0.658	-0.726	-0.37	-0.135	0.888	-0.592	0.147	-0.042	0.695	-0.831
AUD	0.686	-0.317	0.1	-0.362	-0.022	0.17	0.626	-0.264	-0.403	-0.525	0.078	-0.7
CNY	0.622	0.213	1	-0.441	-0.191	0.116	0.624	-0.209	0.202	0.17	0.941	-0.617
CNH	0.612	0.301	0.941	-0.477	-0.282	0.006	0.631	-0.33	0.397	0.278	1	-0.597
NZD	0.47	-0.346	0.102	-0.119	0.096	0.506	0.372	0.08	-0.34	-0.381	0.087	-0.524
IDR	0.322	0.411	0.058	-0.456	-0.38	-0.6	0.426	-0.69	0.378	0.155	0.2	-0.25
INR	0.305	0.208	0.639	-0.656	-0.03	-0.081	0.337	-0.283	0.58	0.684	0.682	-0.266
CCN12M	0.033	0.581	0.55	0.26	-0.474	0.091	0.292	0.142	0.359	-0.007	0.506	-0.017
USGG10	-0.139	1	0.213	0.228	-0.362	-0.304	0.154	-0.14	0.439	0.167	0.301	0.184
CAD	-0.232	0.458	-0.269	0.489	-0.521	-0.557	-0.032	-0.186	0.052	-0.353	-0.21	0.281
GBP	-0.82	0.364	-0.587	0.811	0.119	0.092	-0.659	0.528	0.031	-0.005	-0.53	0.795
EUR	-0.988	0.184	-0.617	0.519	0.167	-0.018	-0.852	0.484	0.249	0.389	-0.597	1

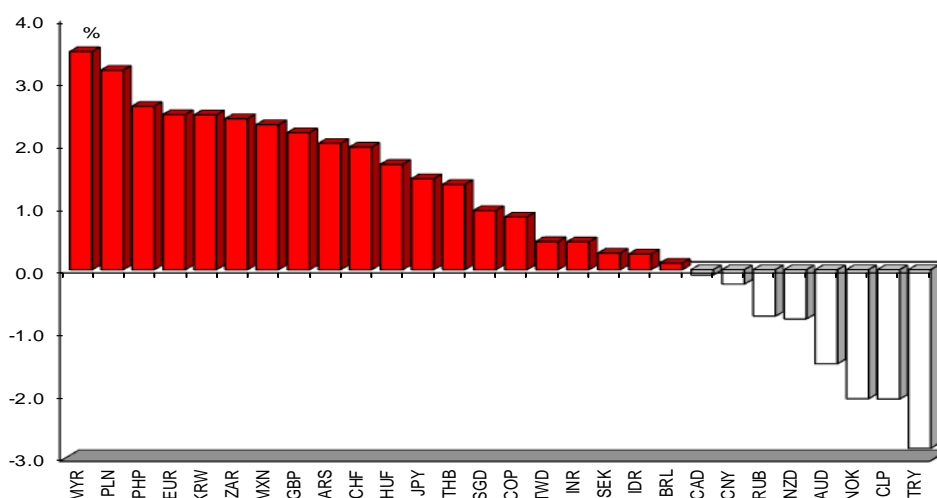
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1755	1.1900	1.1906	1.1961	1.1982
GBP-USD	1.3498	1.3500	1.3532	1.3550	1.3600
AUD-USD	0.7526	0.7532	0.7561	0.7600	0.7690
NZD-USD	0.6785	0.6800	0.6831	0.6900	0.6969
USD-CAD	1.2655	1.2800	1.2876	1.2886	1.2900
USD-JPY	111.67	112.00	112.54	112.80	113.00
USD-SGD	1.3402	1.3435	1.3482	1.3500	1.3564
EUR-SGD	1.5947	1.6000	1.6051	1.6091	1.6100
JPY-SGD	1.1905	1.1915	1.1980	1.2000	1.2026
GBP-SGD	1.8152	1.8200	1.8244	1.8267	1.8300
AUD-SGD	1.0116	1.0176	1.0193	1.0200	1.0467
Gold	1266.63	1271.26	1273.90	1283.64	1297.49
Silver	16.28	16.30	16.39	16.40	16.42
Crude	55.41	57.50	57.57	57.60	58.85

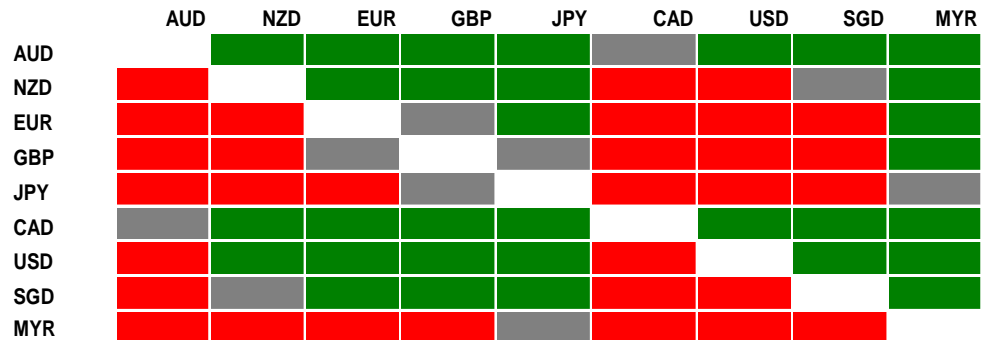
Source: OCBC Bank

FX performance: 1-month change agst USD



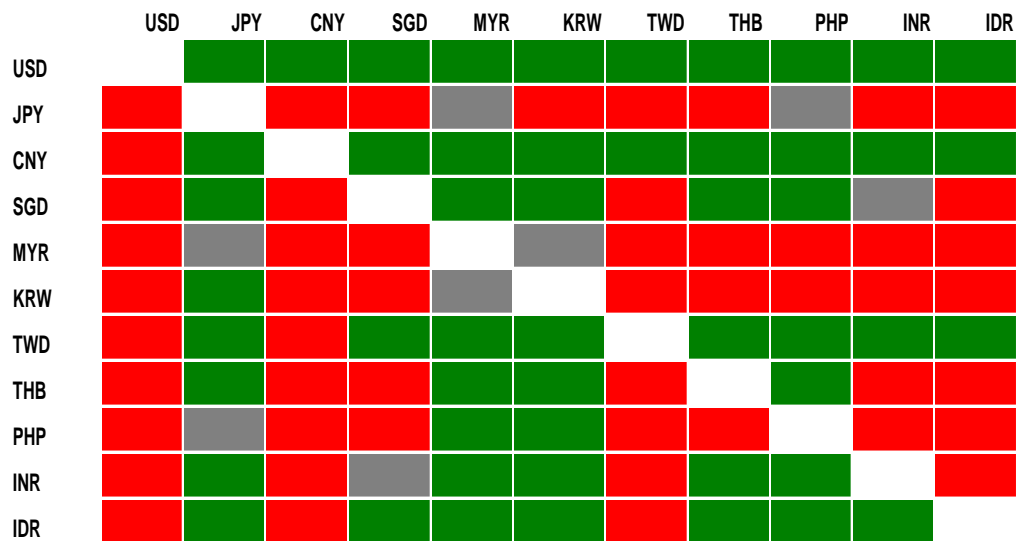
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	07-Nov-17	S	AUD-USD	0.7671	0.7510	0.7755	RBA on hold, no inflation or rate hike urgency	
2	20-Nov-17	S	USD-JPY	112.07	109.80	113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	
3	21-Nov-17	S	USD-SGD	1.3561	1.3415	1.3640	Little contagion in geopolitical risks, sanguine portfolio inflow environment, expected USD	
4	24-Nov-17	B	EUR-USD	1.1868	1.2085	1.1755	Supportive EZ data stream, German political concerns on hold, near term USD vulnerability	
5	27-Nov-17	B	GBP-USD	1.3344	1.3655	1.3185	Investors may impute Brexit talks in December. Prevailing USD weakness.	
STRUCTURAL								
6	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
7	07-Nov-17		Bullish 2M 1X2 USD-JPY Call Spread Spot ref: 114.15; Strikes: 113.78, 118.31; Exp: 04/01/18; Cost: 0.90%				Rate differential complex supportive of the USD, BOJ static	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	28-Sep-17	02-Nov-17	S	AUD-USD	0.7816	0.7720	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	+1.20
2	21-Sep-17	15-Nov-17	B	USD-JPY	112.58	113.13	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	+0.73
3	24-Oct-17	15-Nov-17	B	USD-SGD	1.3616	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in	-0.54
4	24-Oct-17	17-Nov-17	S	EUR-USD	1.1763	1.1812	Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow	-0.27
5	07-Nov-17	22-Nov-17	S	GBP-USD	1.3142	1.3300	Potential negative headline shock from upcoming BOE appearances post the dovish rate hike	-1.14
6	28-Sep-17	24-Nov-17	B	USD-CAD	1.2500	1.2725	Reality check from the BOC's Poloz even as the USD garners renewed interest	+1.80
							Jan-Nov*** 2017 Return	-11.09
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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