

Wednesday, December 06, 2017

FX Themes/Strategy/Trading Ideas

- The USD firmed against most G10 currencies, with higher short-end US Treasury yields providing some support, and notwithstanding the continued flattening of the UST curve. Antipodeans outperformed after the RBA's policy statement, and positive retail sales data out of Australia.
- Meanwhile, the EUR saw some downside pressure after a largely weaker than expected suite of PMI data releases. The **Brexit deadlock** weighed on the GBP, with a new deadline set for today for the UK to submit a new proposal for consideration by the EU Council. Negotiators appear still positive that a deal may go through.
- The DXY has managed to stay northwards of 93.00 handle thus far this week, on the back of the tax reform optimism. **Going forward, key waypoints for the DXY may reside at the 100-day MA level at 93.34 and the 55-day MA level at 93.66.** However, further firming from here will be dependent on continued momentum in resolving the differences between the House and Senate.
- The **RBA** held rates constant yesterday, as expected. The message remains broadly consistent with previous months, though some tweaks in language made it more positive on growth and inflation prospects. Comments on a strong AUD were cut back, perhaps a tacit acknowledgement of AUD weakness recently. **Overall, the RBA appears non-committal in terms of its rate hike path**, and left its options in 2018 rather open.
- On the central bank front, the **BOC** and **RBI** will be releasing their rate decisions today. The consensus is for both to remain static. For the BOC (1500 GMT), expectations for a rate hike in the near term have picked up again after a good run of data releases. Watch if this is dampened by the BOC. The RBI (0900 GMT) should also not be on a hurry to move, with long term real rates still within range.
- Expect some headline risks for the EUR as ECB's Mersch (1030 GMT) speaks on monetary policy.

Asian FX

- A weak lead from US/EZ equities put Asian equities in the back foot this morning. The tech sector also provided no favours, as it continued to look shaky. This should continue to put a lid on excessive risk-on sentiments. Meanwhile, the **FXSI (FX Sentiment Index)** nudged marginally lower into the Risk-On territory. Overall, the **ACI (Asian Currency Index)** may react higher, following the lead of

Treasury Research &
StrategyTerence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian equities.

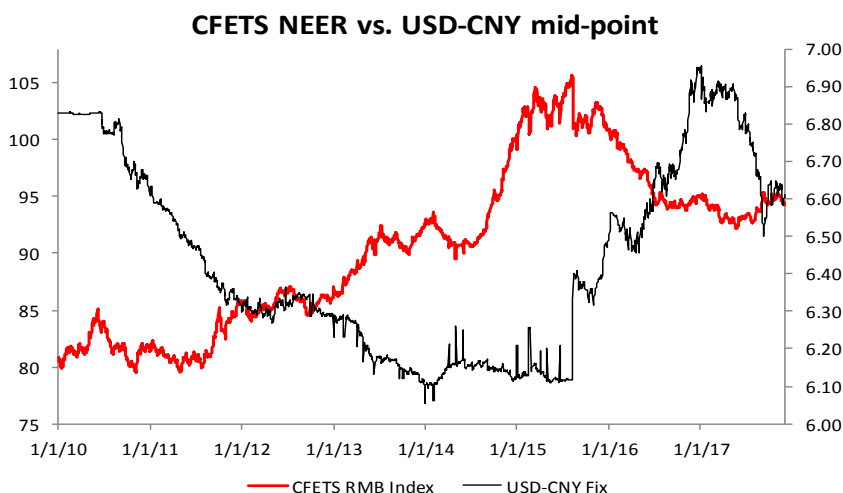
- On the **actual portfolio flows** front, equity outflow momentum persisted for the TWD, perhaps in response to the US tech sell-off. A similar picture was since for the KRW, though there was some saving grace in terms of bond inflows. Slight equity outflows were also noted in the South Asian economies, with the exception of MYR. However, the scale is unlikely to upset the inflow momentum for INR, IDR and THB.
- **SGD NEER:** The SGD NEER is firmer this morning at +0.96% above its perceived parity (1.3600). NEER-implied USD-SGD thresholds were also firmer overnight. Expect the USD-SGD to be confined between the +0.80% threshold at 1.3492 and the +1.10% at 1.3452, with the 1.3500 handle also capping in the near term.



	SGD NEER	% deviation	USD-SGD
Current	125.44	0.95	1.3470
+2.00%	126.74		1.3333
Parity	124.26		1.3600
-2.00%	121.77		1.3877

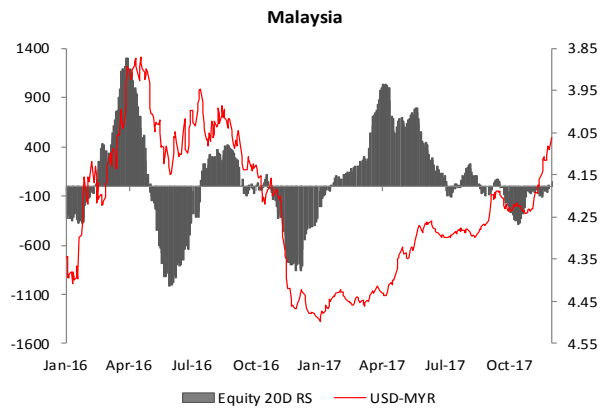
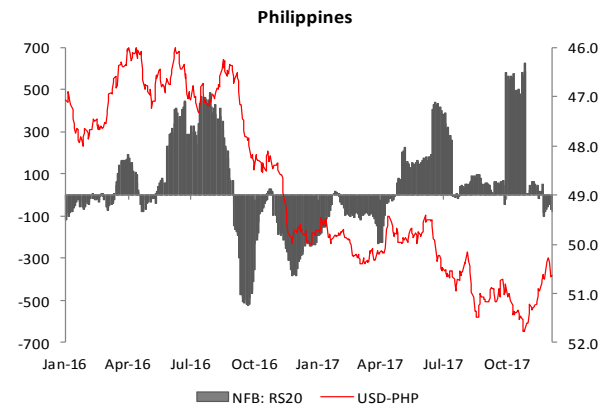
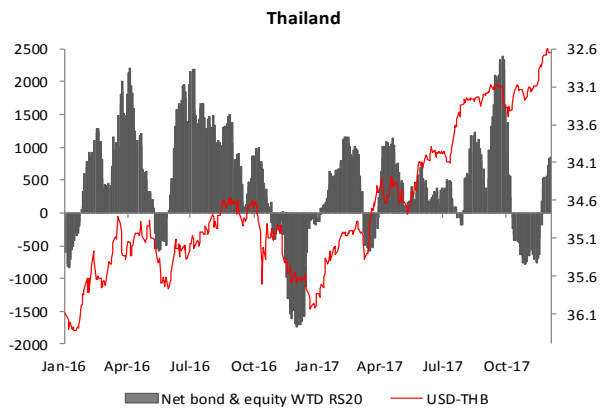
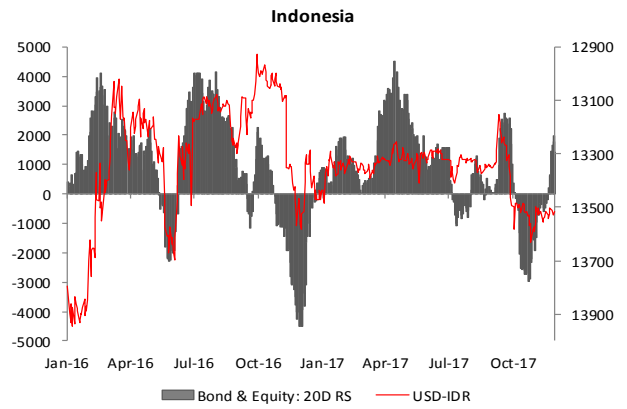
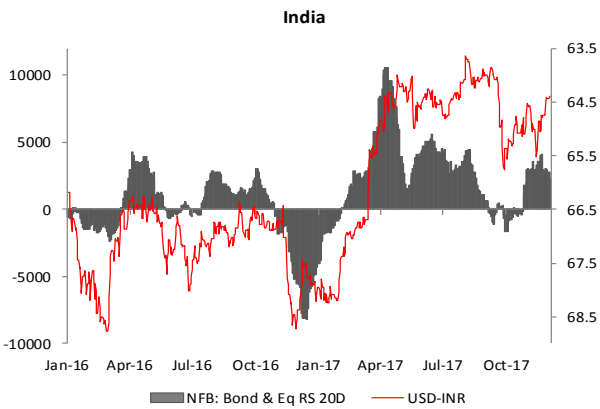
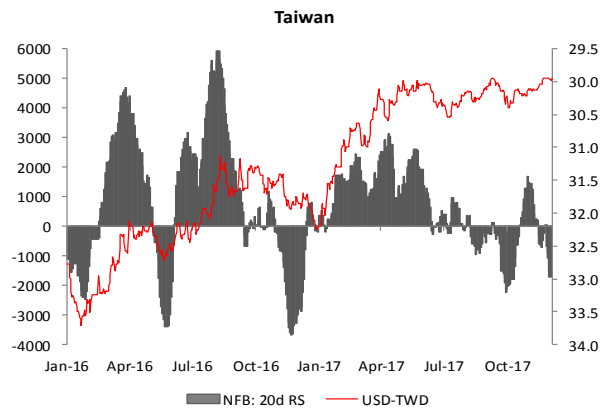
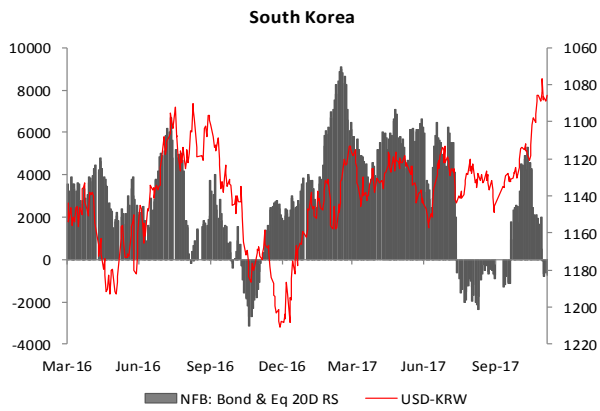
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point was higher as expected at 6.6163 from 6.6113 on Tuesday. Despite this, the CFETS RMB Index still firmed marginally to 94.27 from 94.26 on Tuesday.

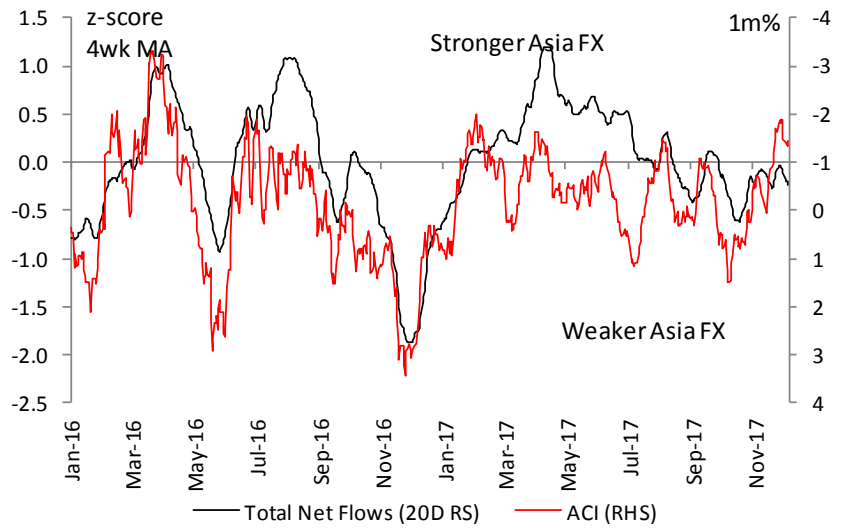


Source: OCBC Bank, Bloomberg

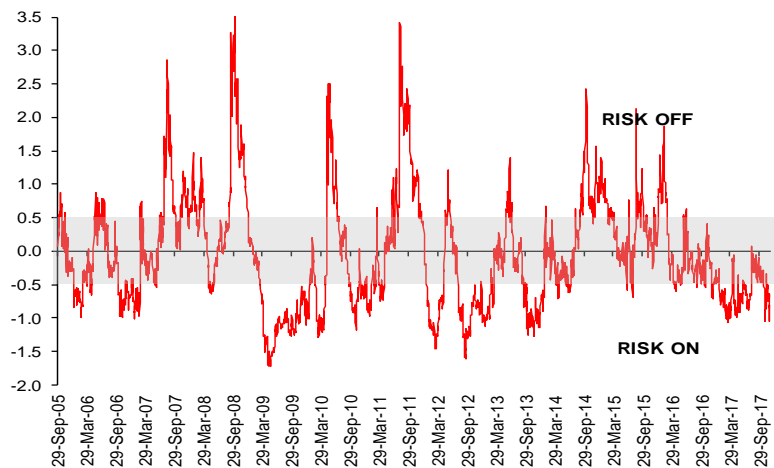
USD-Asia VS. Net Capital Flows



ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.071	0.803	-0.617	0.14	0.268	0.873	-0.499	-0.128	0.055	0.788	-0.987
CHF	0.97	0.04	0.811	-0.597	0.096	0.149	0.862	-0.57	-0.092	0.076	0.829	-0.942
SGD	0.952	0.036	0.869	-0.732	0.076	0.195	0.887	-0.63	0.043	0.227	0.844	-0.906
TWD	0.897	0.022	0.81	-0.741	0.029	0.189	0.878	-0.637	0.141	0.283	0.801	-0.846
MYR	0.896	-0.163	0.696	-0.768	0.197	0.417	0.75	-0.464	-0.096	0.194	0.622	-0.845
THB	0.895	-0.088	0.749	-0.741	0.036	0.197	0.855	-0.533	0.074	0.205	0.72	-0.852
PHP	0.879	-0.021	0.695	-0.743	0.108	0.219	0.836	-0.485	0.029	0.191	0.72	-0.838
JPY	0.873	0.22	0.863	-0.416	-0.245	0.028	1	-0.541	0.16	-0.035	0.813	-0.821
KRW	0.87	0.036	0.788	-0.742	0.043	0.198	0.855	-0.586	0.141	0.325	0.794	-0.82
CNY	0.803	0.287	1	-0.582	-0.138	-0.005	0.863	-0.64	0.185	0.16	0.936	-0.771
CNH	0.788	0.369	0.936	-0.611	-0.118	-0.067	0.813	-0.701	0.311	0.323	1	-0.74
INR	0.596	0.147	0.653	-0.857	0.153	-0.012	0.564	-0.707	0.333	0.705	0.678	-0.52
AUD	0.57	-0.307	0.281	-0.259	0.197	0.591	0.519	0.121	-0.341	-0.273	0.189	-0.618
NZD	0.413	-0.283	0.114	-0.12	0.166	0.638	0.348	0.232	-0.323	-0.297	0.08	-0.476
IDR	0.312	0.433	0.524	-0.449	-0.268	-0.437	0.427	-0.719	0.545	0.589	0.563	-0.211
CCN12M	0.16	0.561	0.448	0.31	-0.597	-0.262	0.453	-0.043	0.437	-0.217	0.48	-0.118
USGG10	-0.071	1	0.287	0.258	-0.359	-0.332	0.22	-0.218	0.445	0.122	0.369	0.124
CAD	-0.144	0.255	-0.108	0.181	-0.025	-0.16	-0.144	-0.169	-0.024	0.122	-0.023	0.168
GBP	-0.823	0.219	-0.616	0.91	-0.422	-0.321	-0.597	0.572	0.078	-0.494	-0.633	0.788
EUR	-0.987	0.124	-0.771	0.574	-0.2	-0.357	-0.821	0.401	0.218	0.013	-0.74	1

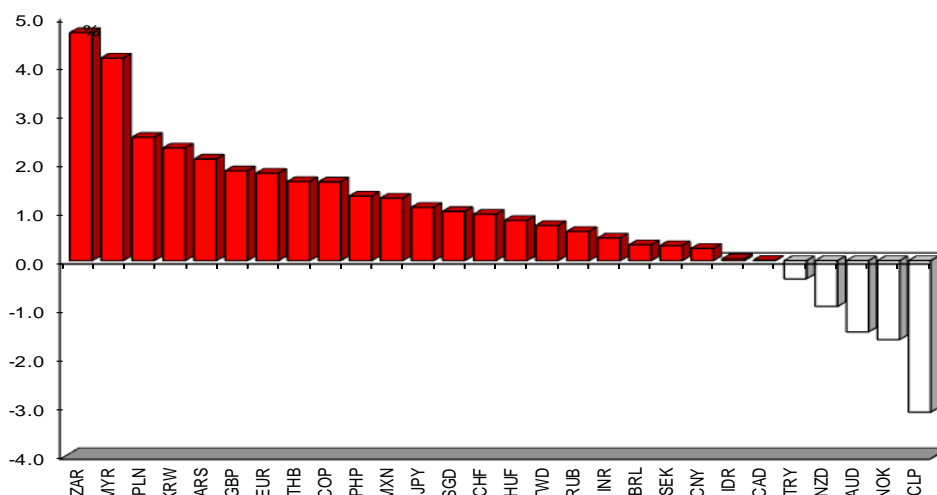
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1760	1.1800	1.1831	1.1900	1.1961
GBP-USD	1.3243	1.3400	1.3429	1.3500	1.3547
AUD-USD	0.7532	0.7540	0.7584	0.7600	0.7666
NZD-USD	0.6820	0.6840	0.6900	0.6950	0.6969
USD-CAD	1.2624	1.2672	1.2698	1.2700	1.2870
USD-JPY	111.68	112.00	112.25	112.82	113.00
USD-SGD	1.3400	1.3420	1.3468	1.3500	1.3567
EUR-SGD	1.5836	1.5900	1.5934	1.5954	1.6000
JPY-SGD	1.1905	1.1929	1.1999	1.2000	1.2026
GBP-SGD	1.7967	1.8000	1.8086	1.8100	1.8195
AUD-SGD	1.0176	1.0200	1.0214	1.0300	1.0414
Gold	1260.00	1262.70	1265.00	1266.34	1280.08
Silver	16.00	16.00	16.01	16.10	16.89
Crude	55.14	57.30	57.38	57.40	59.03

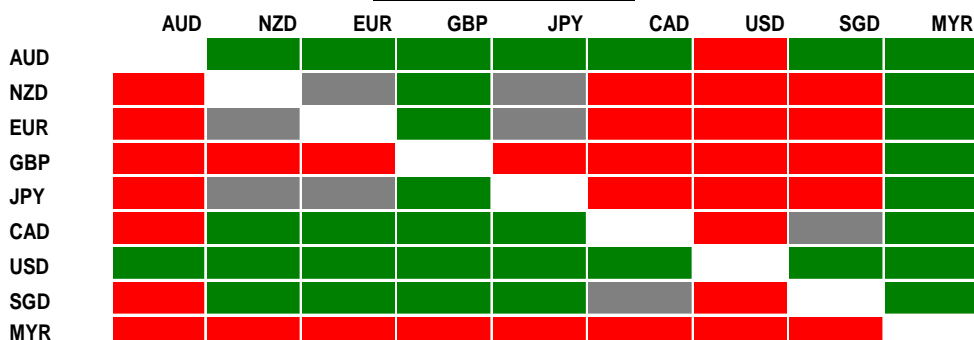
Source: OCBC Bank

FX performance: 1-month change agst USD



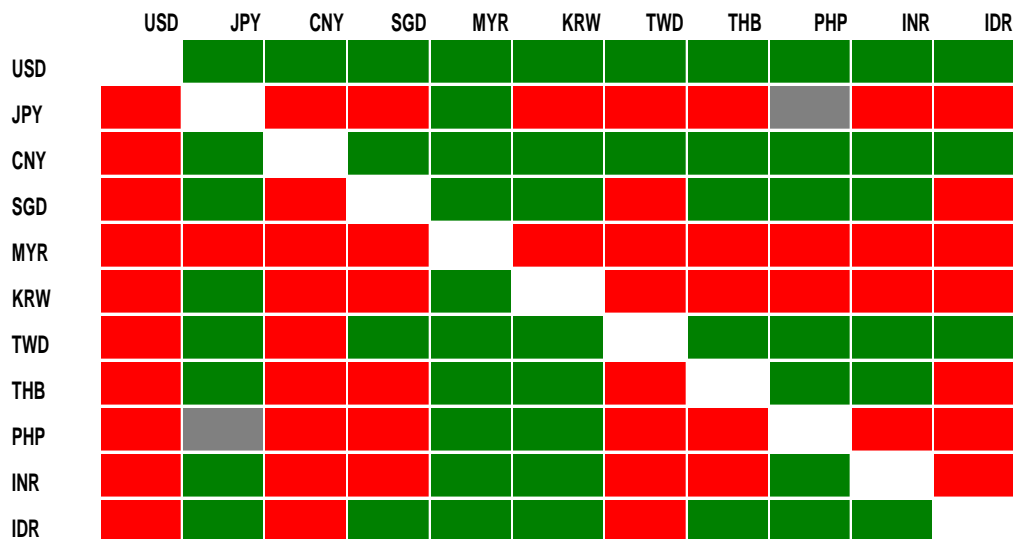
Source: Bloomberg

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
