

Monday, December 11, 2017

**FX Themes/Strategy/Trading Ideas**

- A mixed US data session, with weak hourly wages balancing out strong NFP numbers, left the USD only marginally firmer against its G10 counterparts on Friday. Meanwhile, the GBP was weaker against all G10 currencies. With a deal in the Brexit negotiations in sight, GBP initially reacted higher. However, a combination of profit taking, and the recognition that trade negotiations will be even more difficult, led investors sell off the GBP.
- Last week was a strong one for the dollar complex, with the DXY hitting a high of 94.08 on Friday, before closing below the 94.00 handle. Gains were pared after the mixed data release. **Despite still supportive yield differentials, the DXY may struggle against the 94.00 level ahead of the Dec FOMC meeting on Wednesday.** Meanwhile, talks to reconcile the House and Senate versions of the tax reform bill will pick up momentum this week. Swift progress, though not a given, on this front could see the DXY make another concerted push above the 94.00 handle.
- On the **CFTC** front, leveraged accounts reduced its net implied long dollar bias. Net of JPY, leveraged accounts increased its net implied short dollar bias marginally. Similarly, non-commercial accounts also increased its net implied short dollar bias. Asset managers, however, got it right as they reduced their net implied dollar shorts in the latest week.
- A major week ahead for core central banks, with the **December FOMC** in Wednesday, followed by the **ECB** and **BOE** on Thursday. The fifth hike in Fed's rate hike cycle is widely expected to land on Wednesday. Greater focus will probably be on the dot plot, though we do not expect it to deviate significantly from the three hikes in 2018 shown thus far. Meanwhile, the ECB and BOE are expected to hold their rates unchanged, but watch for any hints of their monetary stances in 2018.
- In terms of central bank comments, expect to hear from RBA's Lowe (Tuesday), Kent and Richard (both Wednesday). BOC's Poloz (Thursday), ECB's Coeure (Friday), and BOE's Haldane (Friday) are also scheduled for the week.
- On the data front, a host of PPI and CPI data from the US and EU will come before the FOMC and ECB meetings, giving investors an opportunity to corroborate the Fed's view on inflation with data. Later in the week, we will also see retail sales and industrial production data from the US and EU.
- In view of the good run in the USD last week, our 07 Nov 17 idea to be tactically short **AUD-USD** (spot ref: 0.7671) hit its target price of 0.7510 on Friday. Given

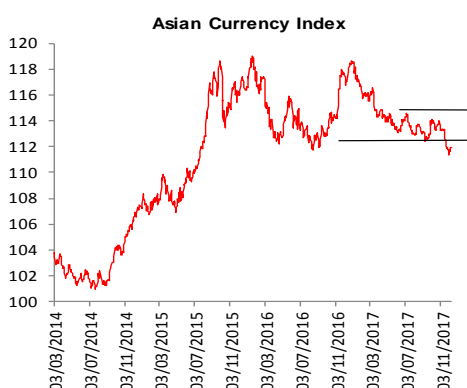
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the strong run in the USD last week, our 20 Nov 17 idea to be tactically short **USD-JPY** (spot ref: 112.07) hit its stop at 113.25. Similarly, our 24 Nov 17 idea to be tactically long **EUR-USD** (spot ref: 1.1868) also hit its stop at 1.1755.

### Asian FX

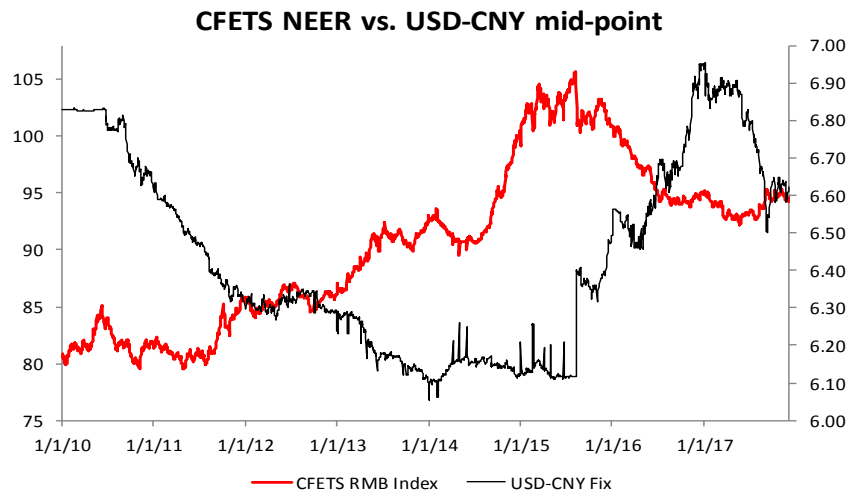
- A firm close to the week for US/EZ equities contributed to a positive open in for Asian equities this morning. Meanwhile, the tech rout may gradually fade from memory. The **FXSI (FX Sentiment Index)** has continued to move deeper into the Risk-On zone, highlighting an improvement in risk sentiments.
- In terms of **net actual portfolio flows** in Asia, equity outflows from KRW and TWD appear to be tapering off as the tech sector recovers. The KRW also benefited from bond inflows. On the other hand, net actual inflow momentum for THB and IDR remained resilient. Keep a close eye on inflow momentum into MYR, which has been slowly picking up over the last week. Meanwhile, **EPFR** data showed mixed outcomes for implied equity and bond flows into Asia. In the latest week, implied equity inflows slowed down to a trickle, while bond flows reversed last week's implied outflow situation to register strong inflows.
- Overall, a hesitant dollar complex, coupled with improving risk sentiments may see the **ACI (Asian Currency Index)** to drift lower early in the week.
- The **BI** and **BSP** are scheduled to meet on Thursday this week. We expect both central banks to hold their fire.
- **SGD NEER:** The SGD NEER is slightly firmer this morning at +0.90% above its perceived parity (1.3649). At this point, the +0.80% threshold estimated at 1.3541 and +1.10% threshold at 1.3501 should demarcate the range. Into the week, the confluence of 55-day MA and 100-day MA at 1.3563 may attract, especially if the broad dollar continues to firm.



	SGD NEER	% deviation	USD-SGD
Current	125.47	0.97	1.3512
+2.00%	126.74		1.3382
Parity	124.26		1.3649
-2.00%	121.77		1.3928

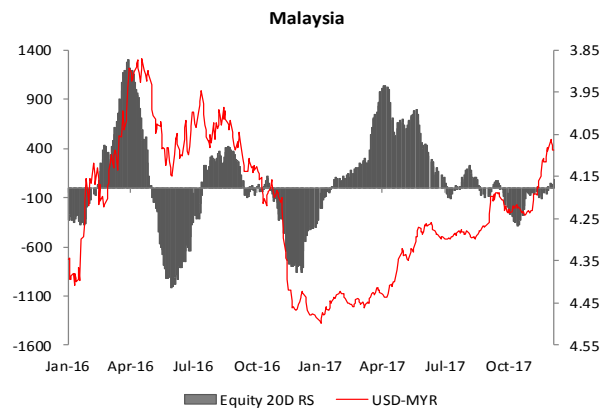
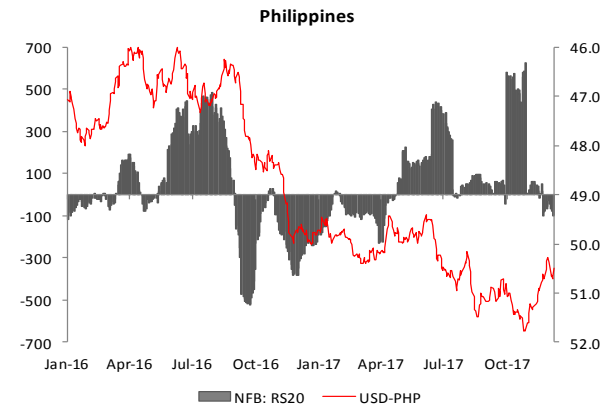
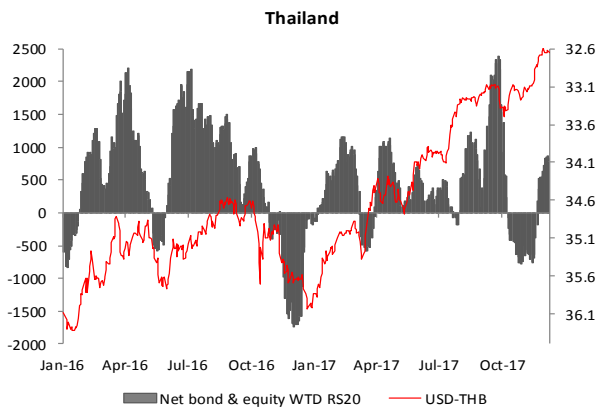
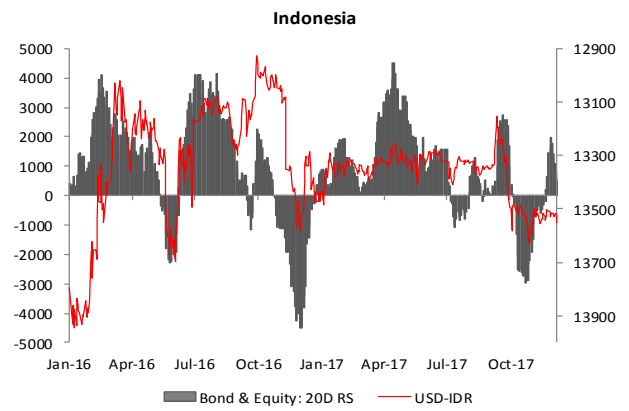
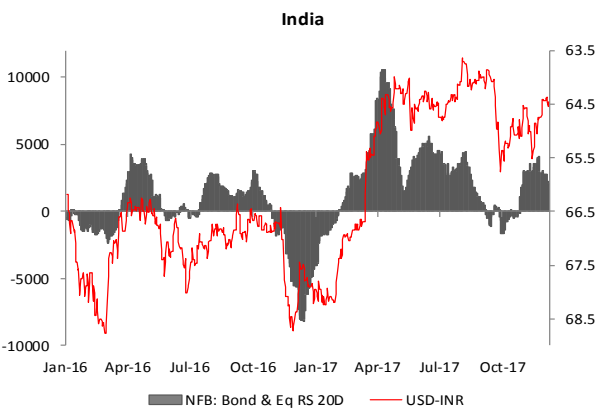
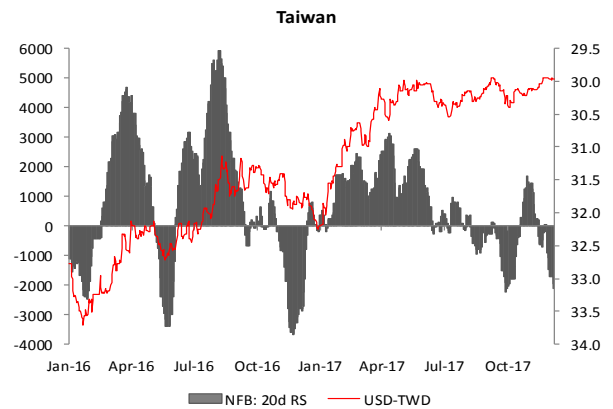
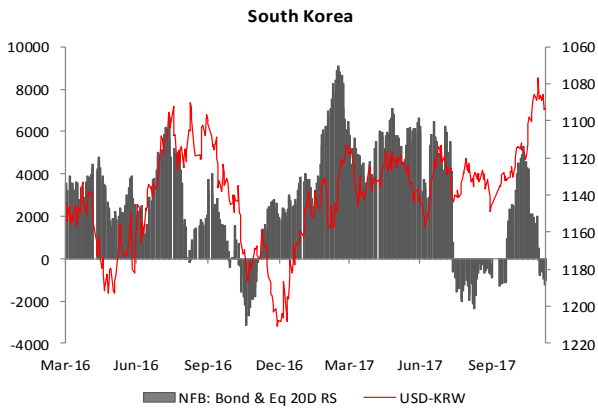
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point was fixed lower, more than expected, at 6.6152 from 6.6218 on Friday. The CFETS RMB Index firmed to 94.69 from 94.59 on Friday.

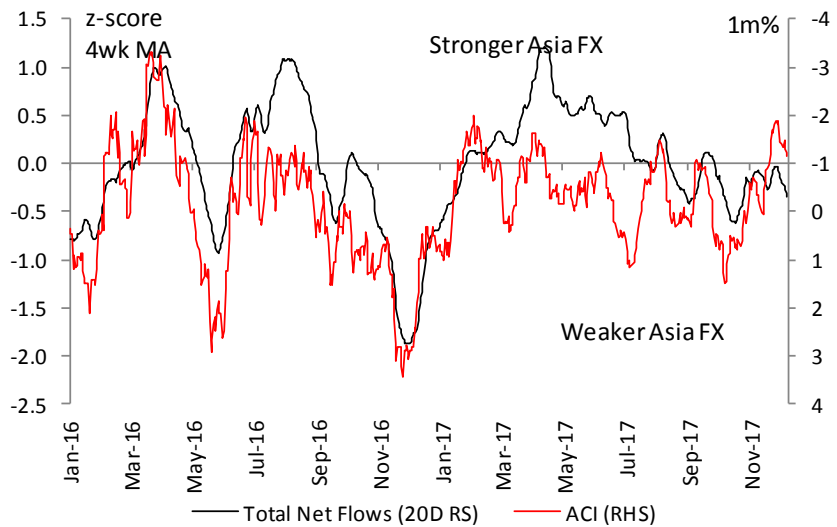


Source: OCBC Bank, Bloomberg

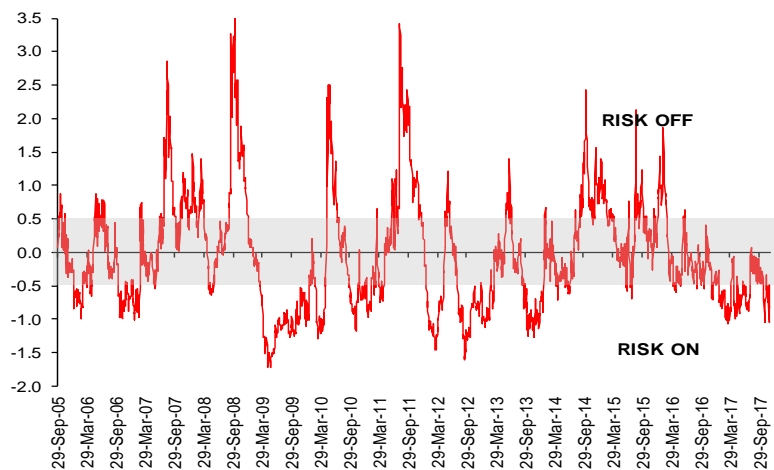
**USD-Asia VS. Net Capital Flows**



### 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	0.338	<b>0.784</b>	-0.444	-0.131	-0.365	<b>0.765</b>	<b>-0.729</b>	0.228	<b>0.583</b>	<b>0.876</b>	<b>-0.974</b>
CHF	<b>0.939</b>	0.409	<b>0.73</b>	-0.291	-0.274	<b>-0.533</b>	<b>0.775</b>	<b>-0.716</b>	0.135	0.421	<b>0.852</b>	<b>-0.9</b>
SGD	<b>0.901</b>	0.372	<b>0.853</b>	<b>-0.653</b>	-0.022	-0.144	<b>0.747</b>	<b>-0.767</b>	0.408	<b>0.745</b>	<b>0.906</b>	<b>-0.83</b>
CNH	<b>0.876</b>	<b>0.504</b>	<b>0.936</b>	-0.465	-0.242	-0.279	<b>0.787</b>	<b>-0.773</b>	0.452	0.482	1	<b>-0.825</b>
IDR	<b>0.805</b>	0.377	<b>0.674</b>	-0.156	-0.474	<b>-0.584</b>	<b>0.831</b>	<b>-0.663</b>	0.257	0.376	<b>0.714</b>	<b>-0.723</b>
CNY	<b>0.784</b>	<b>0.525</b>	1	-0.468	-0.199	-0.193	<b>0.792</b>	<b>-0.716</b>	0.439	0.412	<b>0.936</b>	<b>-0.745</b>
JPY	<b>0.765</b>	<b>0.668</b>	<b>0.792</b>	-0.07	<b>-0.515</b>	<b>-0.56</b>	1	<b>-0.596</b>	0.425	0.227	<b>0.787</b>	<b>-0.652</b>
KRW	<b>0.765</b>	0.219	<b>0.711</b>	<b>-0.671</b>	-0.037	-0.087	<b>0.655</b>	<b>-0.692</b>	0.499	<b>0.769</b>	<b>0.762</b>	<b>-0.677</b>
TWD	<b>0.736</b>	0.258	<b>0.734</b>	<b>-0.754</b>	0.081	0.051	<b>0.636</b>	<b>-0.732</b>	<b>0.595</b>	<b>0.815</b>	<b>0.762</b>	<b>-0.648</b>
INR	<b>0.671</b>	0.106	<b>0.641</b>	<b>-0.866</b>	0.277	0.206	0.457	<b>-0.626</b>	0.433	<b>0.909</b>	<b>0.621</b>	<b>-0.61</b>
THB	<b>0.667</b>	0.133	<b>0.622</b>	<b>-0.798</b>	0.157	0.08	<b>0.571</b>	<b>-0.645</b>	<b>0.554</b>	<b>0.873</b>	<b>0.65</b>	<b>-0.58</b>
PHP	<b>0.667</b>	0.167	<b>0.549</b>	<b>-0.763</b>	0.093	-0.026	<b>0.528</b>	<b>-0.645</b>	0.499	<b>0.798</b>	<b>0.644</b>	<b>-0.581</b>
MYR	<b>0.551</b>	0.041	<b>0.553</b>	<b>-0.888</b>	0.382	0.33	0.29	<b>-0.562</b>	0.393	<b>0.94</b>	<b>0.544</b>	<b>-0.487</b>
USGG10	0.338	1	<b>0.525</b>	0.271	-0.283	-0.125	<b>0.668</b>	-0.147	0.171	-0.207	<b>0.504</b>	-0.265
CAD	0.223	0.408	0.07	0.267	-0.246	-0.327	0.279	-0.18	-0.248	-0.108	0.227	-0.178
CCN12M	0.166	<b>0.536</b>	0.331	<b>0.632</b>	<b>-0.806</b>	<b>-0.692</b>	<b>0.57</b>	-0.101	0.234	-0.432	0.367	-0.098
AUD	-0.342	-0.299	-0.195	-0.373	<b>0.513</b>	<b>0.688</b>	-0.428	0.196	0.264	0.187	-0.304	0.311
NZD	-0.367	-0.317	-0.411	0.043	0.15	0.354	-0.362	0.349	0.018	-0.13	-0.443	0.315
GBP	<b>-0.596</b>	0.146	-0.468	<b>0.918</b>	-0.495	-0.298	-0.185	<b>0.547</b>	-0.246	<b>-0.933</b>	<b>-0.507</b>	<b>0.578</b>
EUR	<b>-0.974</b>	-0.265	<b>-0.745</b>	0.423	0.061	0.298	<b>-0.652</b>	<b>0.646</b>	-0.136	<b>-0.532</b>	<b>-0.825</b>	1

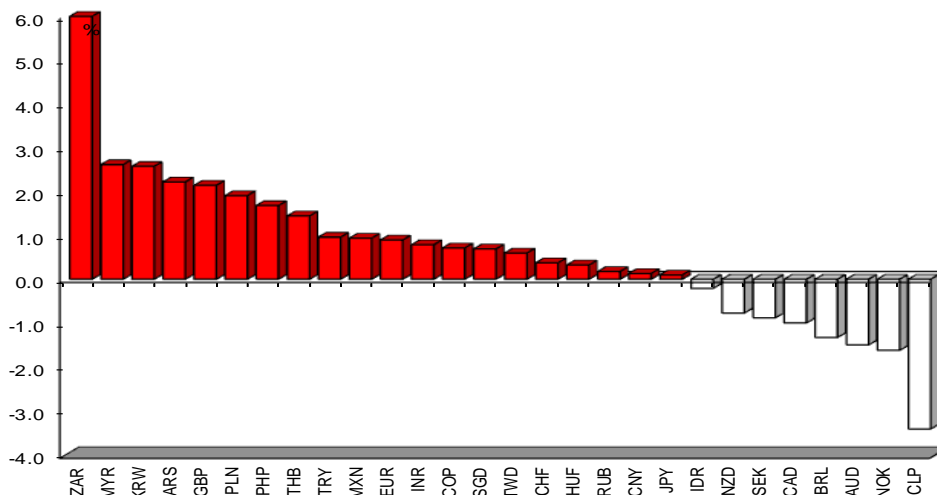
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1710	1.1759	1.1781	1.1800	1.1932
GBP-USD	1.3246	1.3400	1.3402	1.3500	1.3550
AUD-USD	0.7502	0.7509	0.7519	0.7600	0.7652
NZD-USD	0.6800	0.6807	0.6889	0.6900	0.6924
USD-CAD	1.2697	1.2800	1.2849	1.2900	1.2905
USD-JPY	112.87	113.00	113.58	113.87	114.00
USD-SGD	1.3420	1.3500	1.3513	1.3563	1.3595
EUR-SGD	1.5868	1.5900	1.5920	1.5949	1.6000
JPY-SGD	1.1800	1.1895	1.1896	1.1898	1.1900
GBP-SGD	1.7965	1.8100	1.8110	1.8200	1.8246
AUD-SGD	1.0137	1.0143	1.0161	1.0200	1.0338
Gold	1200.00	1241.50	1245.20	1250.07	1266.27
Silver	15.65	15.70	15.74	15.80	16.84
Crude	55.03	57.00	57.07	57.10	59.04

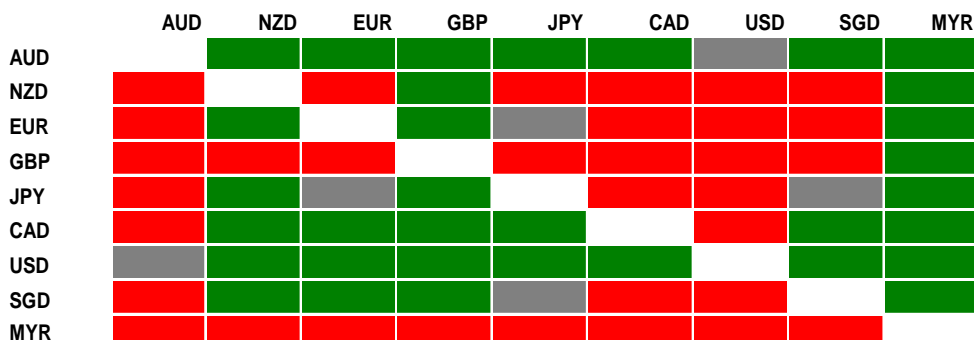
Source: OCBC Bank

**FX performance: 1-month change agst USD**



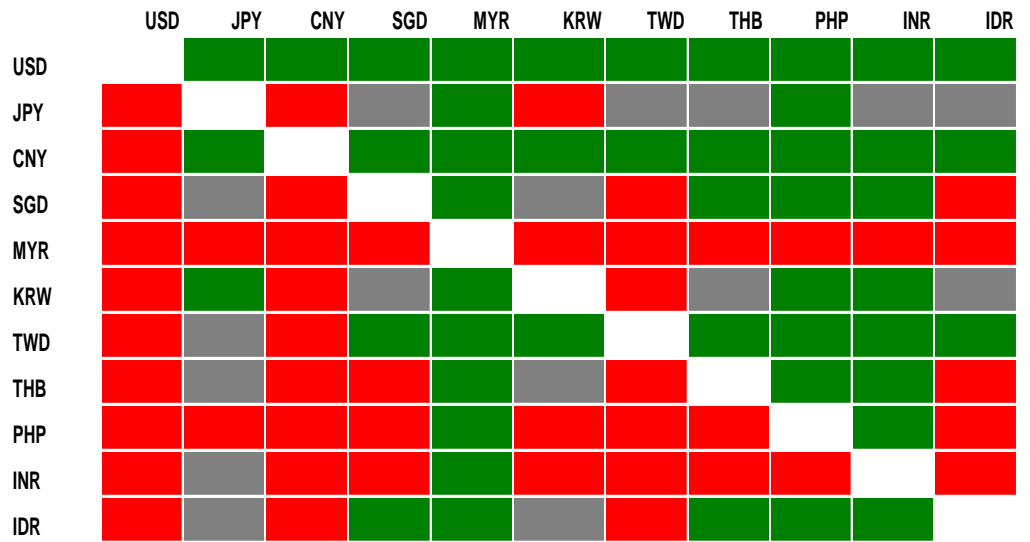
Source: Bloomberg

**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		
<b>TACTICAL</b>								
1	21-Nov-17	S	USD-SGD	1.3561	1.3415 1.3640	Little contagion in geopolitical risks, sanguine portfolio inflow environment, expected USD		
3	27-Nov-17	B	GBP-USD	1.3344	1.3655 1.3185	Investors may impute Brexit talks in December. Prevailing USD weakness.		
<b>STRUCTURAL</b>								
6	09-May-17	B	GBP-USD	1.2927	1.3700 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?		
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	24-Oct-17	15-Nov-17	B	USD-SGD	1.3616	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience,	-0.54
2	24-Oct-17	17-Nov-17	S	EUR-USD	1.1763	1.1812	Potential disappointment from the ECB, possible USD resilience from fiscal and Fed-chair news flow	-0.27
3	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
4	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
5	07-Nov-17		S	AUD-USD	0.7671	0.7510 0.7755	RBA on hold, no inflation or rate hike urgency	
6	20-Nov-17		S	USD-JPY	112.07	109.80 113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	
2	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	
							Jan-Nov*** 2017 Return	-11.09
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank



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