

Tuesday, December 12, 2017

FX Themes/Strategy/Trading Ideas

- Despite firmer UST yields, the USD lacked the conviction to move higher ahead of the FOMC statement, and eventually ended mixed against G10 counterparts. Antipodeans outperformed, with the NZD strengthening the most after the newly appointed RBNZ governor was thought to be less dovish than expected. An explosion at a New York subway station buoyed the JPY and CHF, but the impact faded off quickly.
- Dollar momentum stalled ahead of the FOMC statement tomorrow, with the DXY fluctuating just below the 94.00 handle on Monday. **Note, however, that yield differential arguments are regaining market traction.** Even though nominal 10y UST yields are still capped below 2.40%, short- and long-end global yield differentials remain supportive of the dollar. In this context, the dollar may see another move higher if the Fed proves to be less dovish than expected tomorrow.
- Continue to expect political headlines to plague the GBP as we head into the **BOE** policy decision and the **EU Council meeting** on Thursday. If gilt movements are any indication, it suggests skepticism over the negotiations ahead. Comments from Davis on Monday appeared to undermine last Friday's deal with EU negotiators. Trade talks will also commence under very different starting positions, underlying the difficulties ahead.
- Meanwhile, we do not expect to see significant policy announcements from the **ECB** on Thursday. However, keep a close watch on possible upward revisions in the growth and inflation forecasts ahead, which may give the EUR some positive pressure.

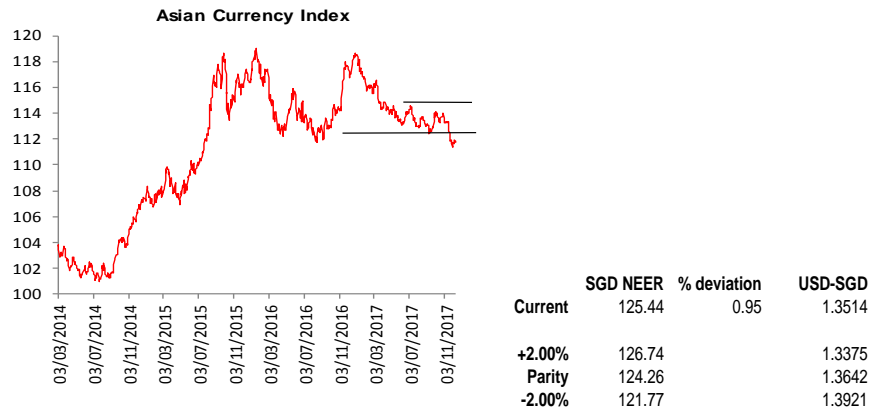
Asian FX

- Overnight US equities closed at yet another record, supported by financials and tech stocks. Despite the positive lead, Asian equities saw a mixed opening. Meanwhile, the explosion at a New York subway station was largely shrugged off by the markets, with overall risk sentiments still supported. The **FXSI (FX Sentiment Index)** remained within the Risk-On zone. Significant moves will be unlikely ahead of the FOMC tomorrow, so we expect the **ACI (Asian Currency Index)** to drift sideways intraday.
- In terms of **net actual portfolio flows** in Asia, outflow momentum for the KRW appears to be arrested in the near term, with equity outflows balanced out by bond inflows. However, outflows for TWD remain elevated in rolling 20-day

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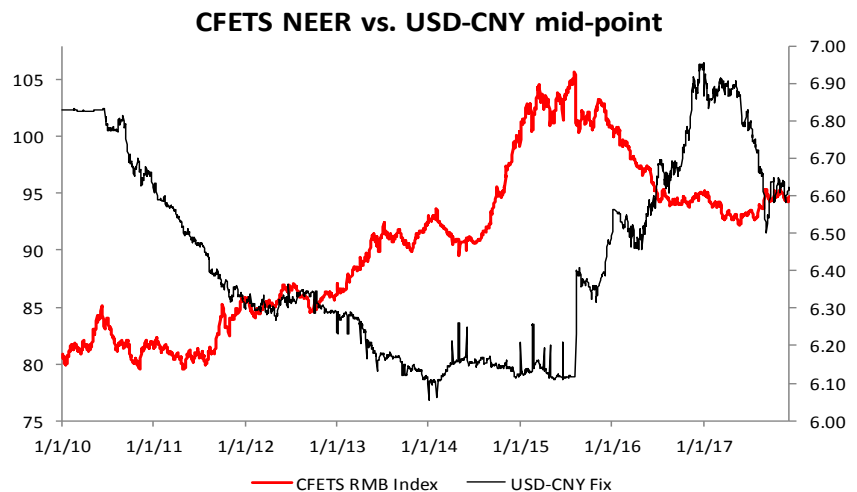
terms. We remain skeptical of TWD resilience in the midst of persistent outflows. Meanwhile, inflow momentum for INR moderated, while inflows for THB and MYR continue to pick up.

- SGD NEER:** The SGD NEER is again firmer this morning at +0.95% above its perceived parity (1.3642). NEER-implied USD-SGD thresholds are softer today, in-line with the pause in broad dollar momentum ahead. The +0.80% threshold is estimated at 1.3534 and +1.10% threshold at 1.3494.



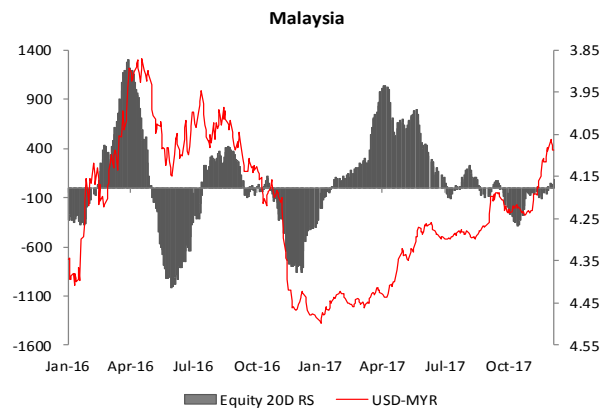
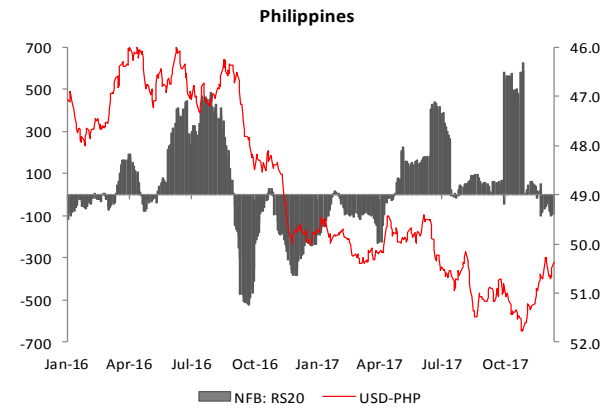
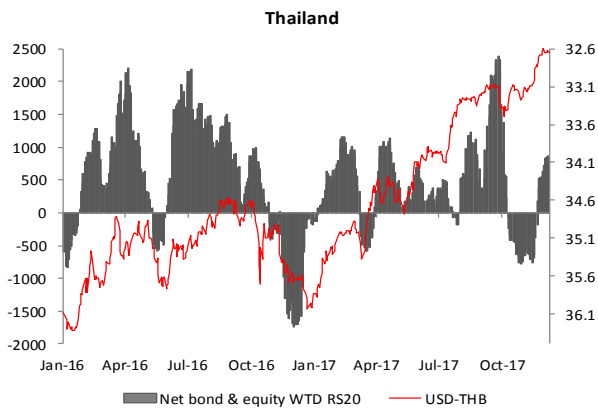
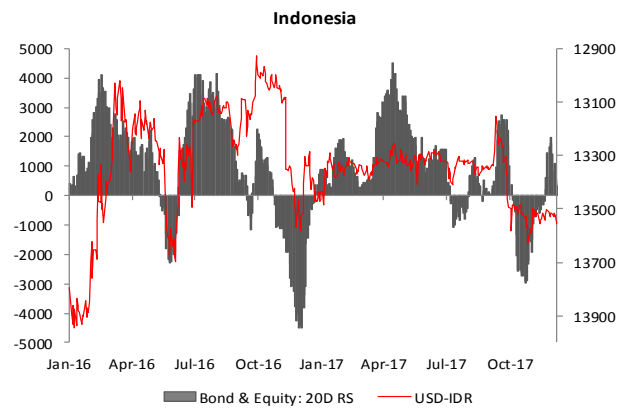
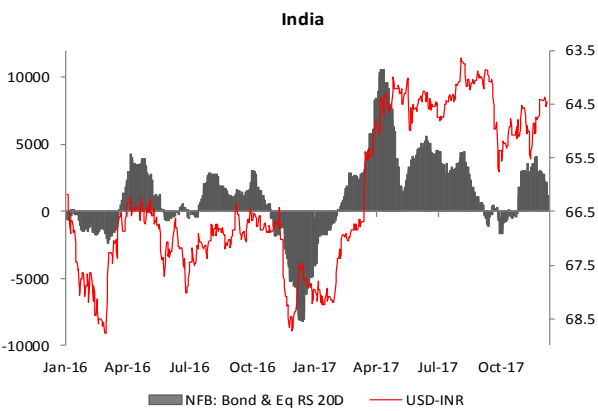
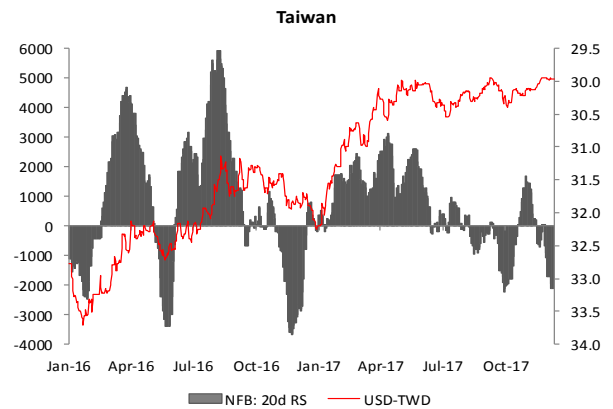
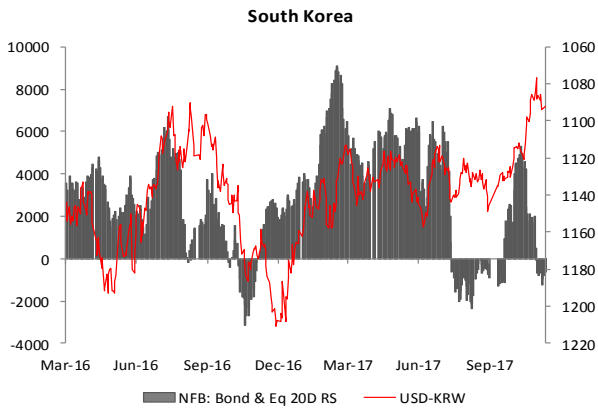
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point was fixed marginally higher, within expectations, at 6.6162 from 6.6152 on Monday. The CFETS RMB Index slipped to 94.62 from 94.68 on Monday.

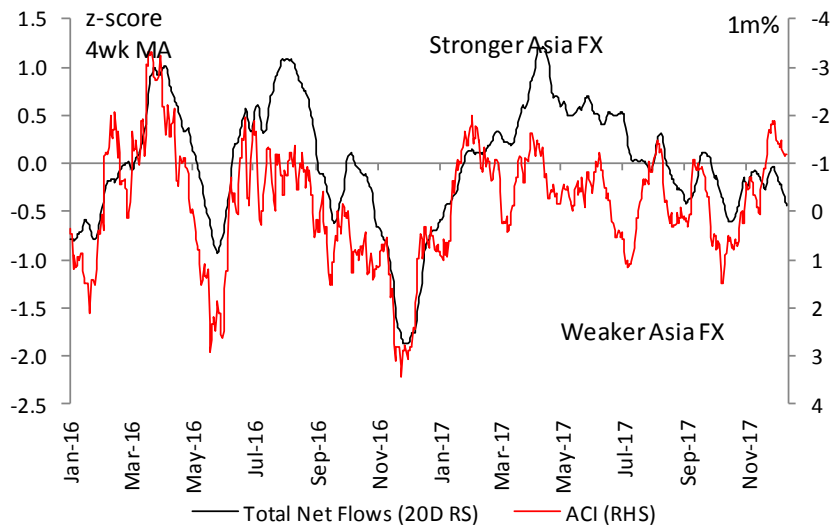


Source: OCBC Bank, Bloomberg

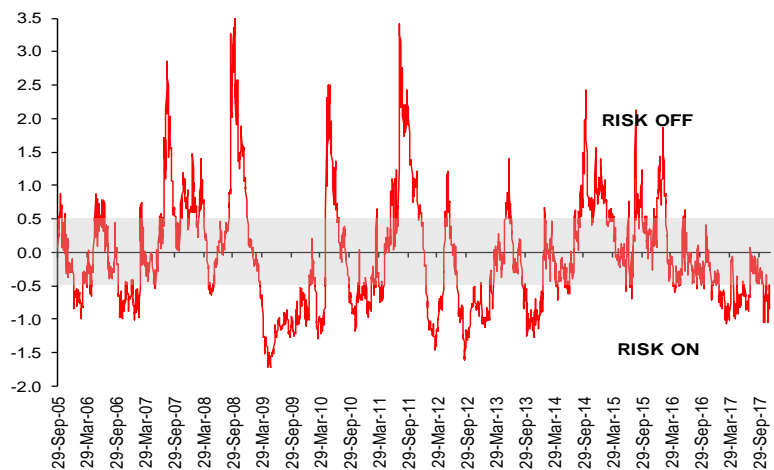
USD-Asia VS. Net Capital Flows



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	0.344	0.774	-0.341	-0.147	-0.395	0.764	-0.683	0.154	0.532	0.871	-0.974
CHF	0.94	0.431	0.719	-0.199	-0.288	-0.553	0.772	-0.628	0.064	0.374	0.842	-0.903
SGD	0.895	0.354	0.853	-0.601	-0.024	-0.138	0.701	-0.74	0.381	0.728	0.905	-0.818
CNH	0.871	0.487	0.936	-0.422	-0.245	-0.269	0.745	-0.743	0.417	0.466	1	-0.815
IDR	0.806	0.426	0.641	-0.008	-0.485	-0.627	0.848	-0.541	0.122	0.284	0.686	-0.725
CNY	0.774	0.51	1	-0.443	-0.198	-0.173	0.751	-0.706	0.421	0.403	0.936	-0.737
JPY	0.764	0.697	0.751	0.064	-0.52	-0.609	1	-0.435	0.262	0.15	0.745	-0.658
KRW	0.762	0.183	0.71	-0.639	-0.032	-0.064	0.584	-0.692	0.485	0.763	0.757	-0.65
TWD	0.709	0.228	0.731	-0.729	0.09	0.079	0.572	-0.732	0.587	0.813	0.756	-0.625
THB	0.667	0.133	0.622	-0.798	0.157	0.08	0.571	-0.645	0.554	0.873	0.65	-0.58
INR	0.606	0.04	0.622	-0.865	0.296	0.269	0.345	-0.647	0.477	0.913	0.597	-0.552
PHP	0.586	0.068	0.527	-0.783	0.122	0.071	0.387	-0.664	0.546	0.807	0.607	-0.51
MYR	0.537	-0.035	0.537	-0.884	0.397	0.381	0.179	-0.608	0.44	0.942	0.527	-0.427
USGG10	0.344	1	0.51	0.338	-0.3	-0.199	0.697	-0.053	0.069	-0.244	0.487	-0.292
CAD	0.22	0.453	0.07	0.346	-0.266	-0.391	0.335	-0.07	-0.322	-0.155	0.213	-0.206
CCN12M	0.132	0.493	0.331	0.546	-0.795	-0.618	0.503	-0.113	0.25	-0.416	0.358	-0.075
NZD	-0.277	-0.136	-0.387	0.164	0.106	0.202	-0.12	0.42	-0.099	-0.18	-0.384	0.193
AUD	-0.338	-0.358	-0.185	-0.459	0.515	0.725	-0.472	0.068	0.356	0.238	-0.285	0.335
GBP	-0.619	0.13	-0.468	0.857	-0.495	-0.288	-0.2	0.537	-0.238	-0.922	-0.521	0.588
EUR	-0.974	-0.292	-0.737	0.329	0.078	0.329	-0.658	0.566	-0.074	-0.488	-0.815	1

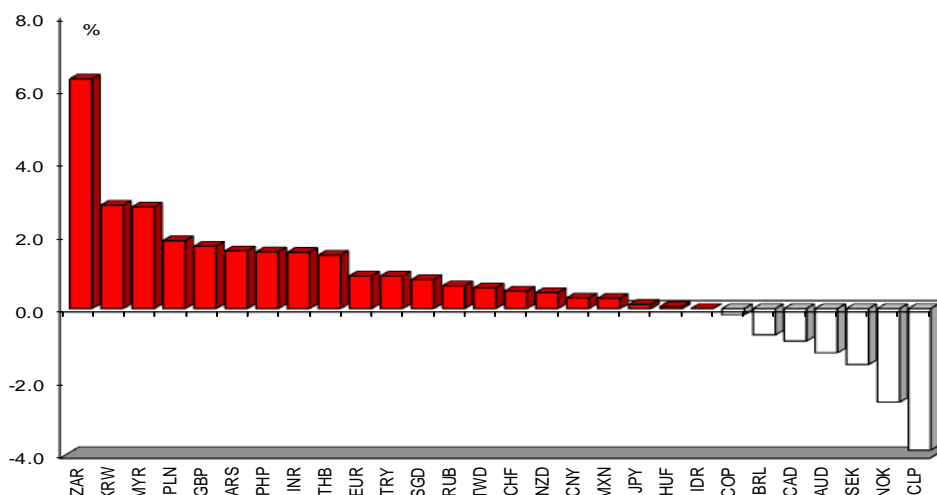
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1706	1.1759	1.1773	1.1800	1.1933
GBP-USD	1.3247	1.3300	1.3342	1.3400	1.3547
AUD-USD	0.7502	0.7506	0.7527	0.7600	0.7646
NZD-USD	0.6804	0.6900	0.6905	0.6931	0.6943
USD-CAD	1.2705	1.2800	1.2859	1.2900	1.2910
USD-JPY	112.88	113.00	113.54	113.88	114.00
USD-SGD	1.3420	1.3500	1.3513	1.3561	1.3583
EUR-SGD	1.5863	1.5900	1.5908	1.5946	1.6000
JPY-SGD	1.1895	1.1900	1.1901	1.2000	1.2014
GBP-SGD	1.7963	1.8000	1.8029	1.8100	1.8238
AUD-SGD	1.0143	1.0146	1.0170	1.0200	1.0310
Gold	1239.61	1239.90	1241.30	1266.13	1277.16
Silver	15.60	15.60	15.70	15.70	16.82
Crude	55.06	57.90	57.95	58.00	59.05

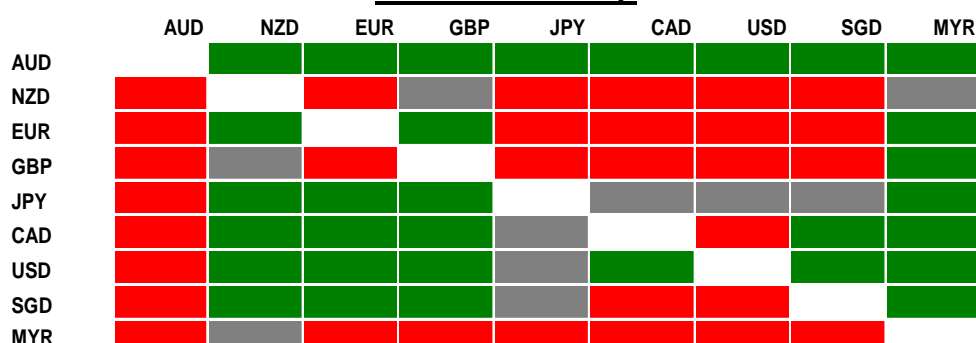
Source: OCBC Bank

FX performance: 1-month change agst USD



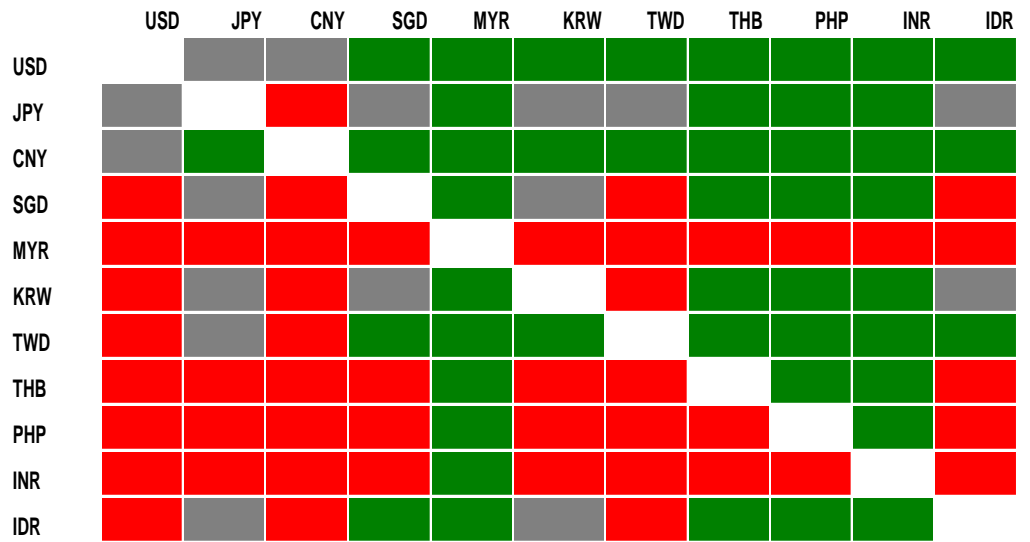
Source: Bloomberg

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	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.		
STRUCTURAL								
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		
RECENTLY CLOSED TRADE IDEAS								
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 disappoint 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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