

Friday, December 15, 2017

**FX Themes/Strategy/Trading Ideas**

- Firmer short-end US Treasury yields (amid overall curve flattening), and positive data prints did not provide much support for the USD, as it ended mixed against its G10 counterparts. The NZD fared the worst, as profit-taking set in after its recent ascend. The EUR also underperformed post ECB and Draghi's press conference. Meanwhile, the CAD outperformed as Poloz suggested that he should not be interpreted as being on hold in terms of policy rates.
- Positive retail sales (Nov print above estimates, Oct print revised upwards) and jobless claim data were noted in the US overnight. However, jitters over the GOP's Alabama Senate loss put some negative pressure on the broad dollar, although it should not affect the tax reform bill so advanced in the legislative process. **Overall, the DXY should consolidate around 93.50 to end the week, as yield differentials are again building in favour of the dollar after the post-FOMC slump.**
- The EUR whipsawed around the news-flow surrounding the **ECB** policy decision and Draghi's press conference. Upward revisions in the growth and inflation forecasts (as expected) moved the EUR higher, though gains were reversed when Draghi telegraphed that an "ample degree" of stimulus is required. **Draghi's still cautious outlook, despite accelerating growth, may keep a lid on EUR upside in the near term.** Watch for whether stronger growth prints will be transmitted into higher wages and price pressures, which appears to be the source of the ECB's caution.
- Meanwhile, the message is consistent at the **BOE**, despite some expectations for it to sound hawkish after an inflation print that is outside its target range. Keeping policy rate unchanged, the BOE telegraphed a rate hike path that is "limited and gradual", while acknowledging the progress in the Brexit negotiations as a slight positive for the economy. Moving forward, GBP movements may be driven more by the progress in Brexit talks, rather than possible rate hikes from the BOE.
- Heading into 2018, we think the Fed still has the clearest monetary policy outlook amongst the core central banks. Despite improvement in growth prospects, the other central banks remained hesitant, and retained a cautious outlook. We watch for any shifts in stance for the other central banks in 2018, especially if better growth prospects (finally) get reflected in stronger wage growth and price pressures. **In this scenario, we expect the USD to be disadvantaged as the markets put more attention to the other currencies.**

Treasury Research &  
Strategy

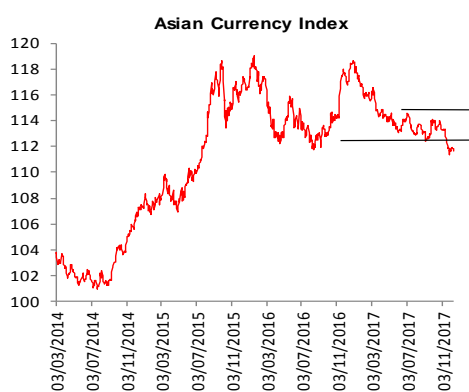
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### Asian FX

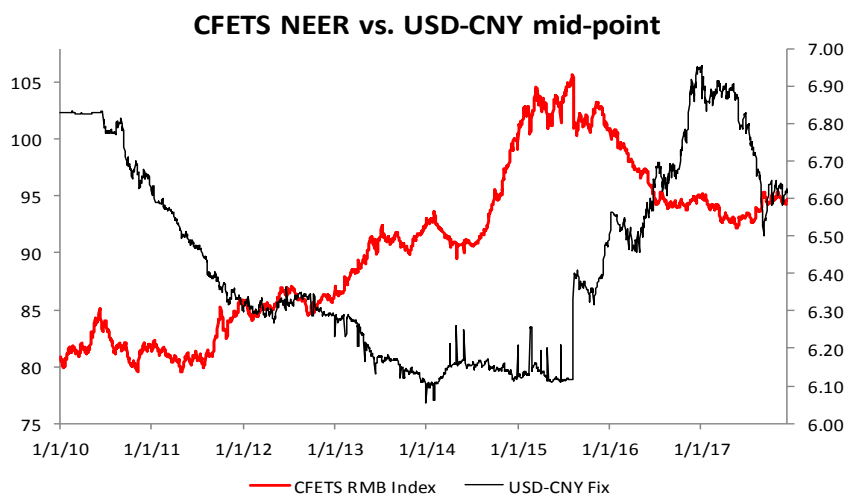
- US/EZ equities closed weaker across the board, providing a negative lead for Asian equities this morning. EM FX also weakened against the dollar overnight. Risk sentiments eased, as the **FXSI (FX Sentiment Index)** moved towards the Risk-Neutral zone. Coupling this with a consolidating dollar, the **ACI (Asian Currency Index)** may move sideways to firmer to close the week.
- **Net actual portfolio flows** situation still looks difficult for TWD, as outflow momentum continues to pick up. For the KRW, bond inflows continue to put the overall picture in a slight inflow situation. Meanwhile, equity inflows continue to support inflow momentum for the MYR.
- **Bank Indonesia** held rates unchanged at 4.25%, as expected. The BI will mostly like continue its holding stance into 1Q18, as it reiterated that previous easing moves are “sufficient to continue the economic recovery process”. Going forward, inflation prints should be the best indicator of the BI’s stance. If inflation slips to levels near the lower end of the 2018 target range of 2.5%, the BI may have to move accordingly.
- Meanwhile, the **Bangko Sentral ng Pilipinas** continued to hold back pressures to hike rates, keeping its policy rate at 3.0%. With inflation still within the BSP’s target band, and long-end real rates near the middle of the historical range, the next the BSP move may only come after 1Q18.
- **SGD NEER:** The SGD NEER is firmer this morning at +1.06% above its perceived parity (1.3599), despite NEER-implied USD-SGD thresholds being generally softer. The +0.80% threshold is estimated at 1.3492, and the +1.10% threshold, at 1.3451.



	SGD NEER	% deviation	USD-SGD
Current	125.57	1.06	1.3457
+2.00%	126.74		1.3333
Parity	124.26		1.3599
-2.00%	121.77		1.3877

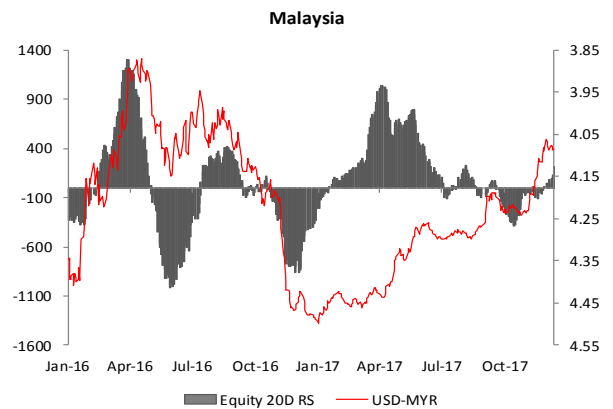
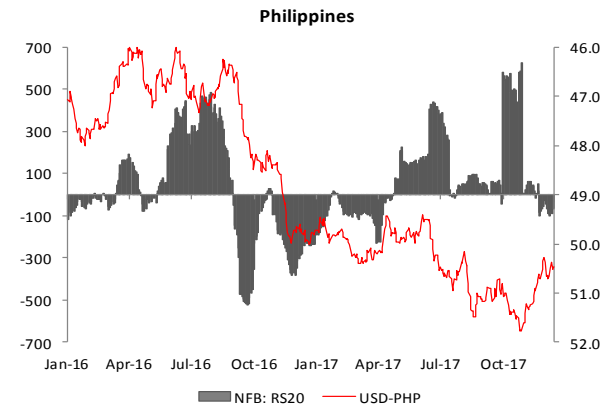
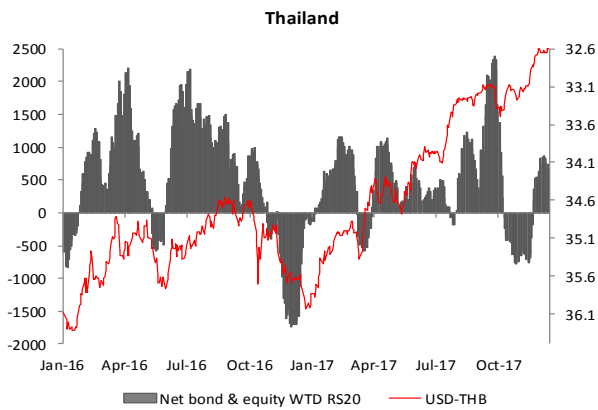
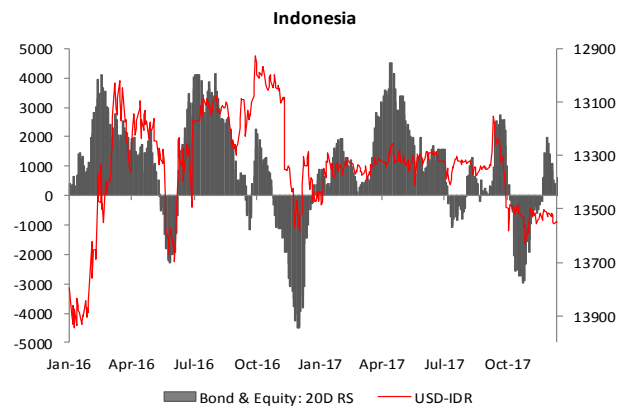
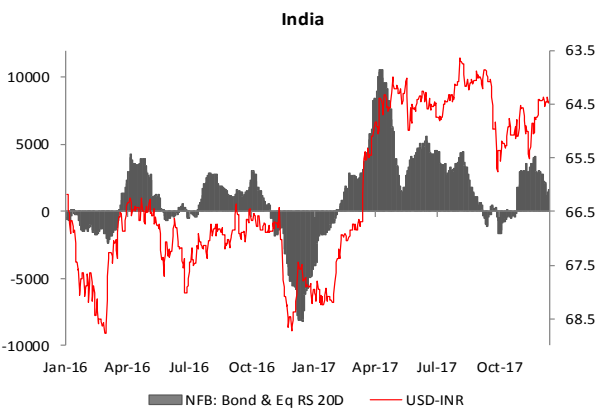
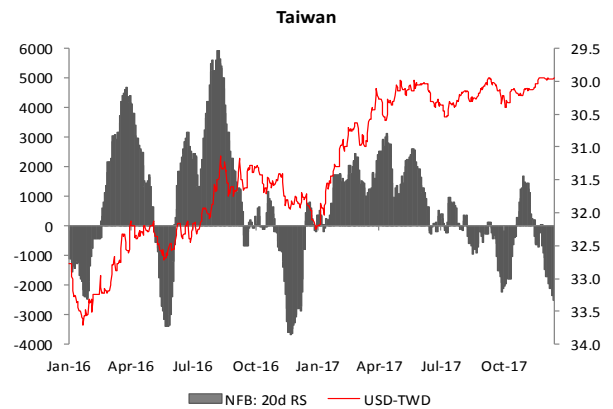
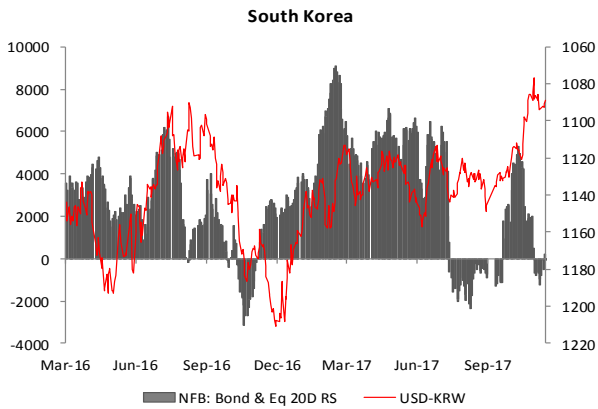
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point rebounded, within expectations, to 6.6113 compared to 6.6033 on Thursday. The CFETS RMB Index edged higher marginally to 94.45 from 94.44 on Thursday.

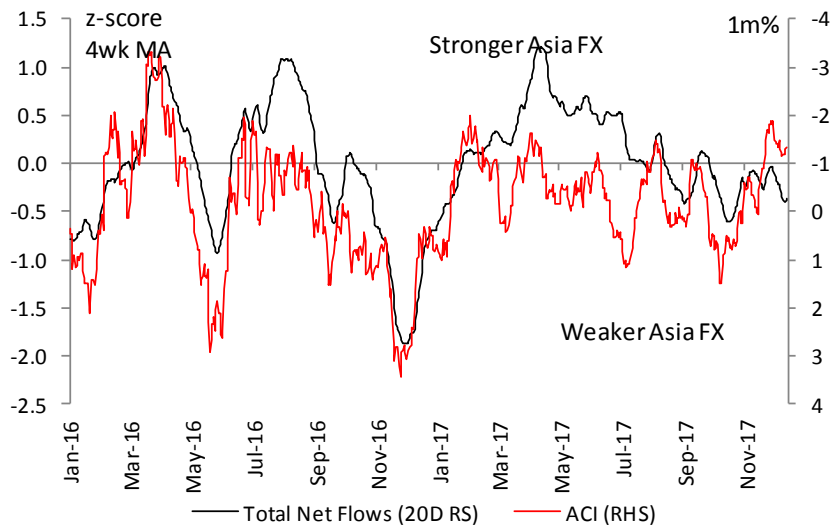


Source: OCBC Bank, Bloomberg

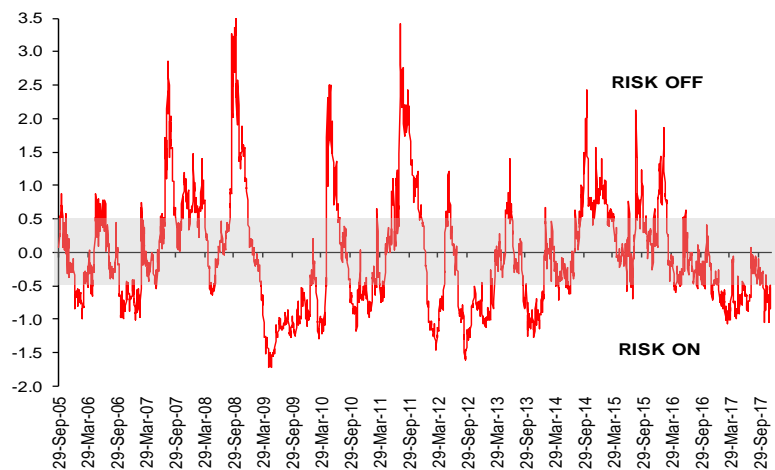
**USD-Asia VS. Net Capital Flows**



### 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	0.273	<b>0.697</b>	-0.083	-0.28	<b>-0.564</b>	<b>0.746</b>	<b>-0.68</b>	-0.014	0.385	<b>0.818</b>	<b>-0.963</b>
CHF	<b>0.929</b>	0.343	<b>0.661</b>	-0.032	-0.38	<b>-0.605</b>	<b>0.743</b>	<b>-0.676</b>	-0.044	0.271	<b>0.806</b>	<b>-0.891</b>
SGD	<b>0.826</b>	0.222	<b>0.777</b>	<b>-0.505</b>	-0.096	-0.131	<b>0.582</b>	<b>-0.699</b>	0.283	<b>0.642</b>	<b>0.862</b>	<b>-0.68</b>
CNH	<b>0.818</b>	0.395	<b>0.92</b>	-0.257	-0.362	-0.353	<b>0.706</b>	<b>-0.768</b>	0.319	0.326	1	<b>-0.725</b>
JPY	<b>0.746</b>	<b>0.662</b>	<b>0.659</b>	0.365	<b>-0.659</b>	<b>-0.743</b>	1	-0.442	0.08	-0.095	<b>0.706</b>	<b>-0.622</b>
CNY	<b>0.697</b>	0.402	1	-0.263	-0.296	-0.251	<b>0.659</b>	<b>-0.694</b>	0.316	0.234	<b>0.92</b>	<b>-0.656</b>
KRW	<b>0.683</b>	-0.091	<b>0.585</b>	<b>-0.528</b>	-0.164	-0.206	0.477	<b>-0.755</b>	0.443	<b>0.749</b>	<b>0.689</b>	<b>-0.568</b>
IDR	<b>0.565</b>	0.243	0.347	<b>0.509</b>	<b>-0.518</b>	<b>-0.883</b>	<b>0.639</b>	-0.369	-0.136	-0.058	0.36	<b>-0.578</b>
TWD	<b>0.552</b>	-0.047	<b>0.608</b>	<b>-0.663</b>	0.047	0.045	0.336	<b>-0.757</b>	<b>0.578</b>	<b>0.799</b>	<b>0.649</b>	-0.46
CAD	0.423	<b>0.572</b>	0.215	0.376	-0.296	-0.441	0.485	-0.207	-0.325	-0.128	0.381	-0.362
THB	0.418	-0.181	0.413	<b>-0.81</b>	0.202	0.236	0.184	<b>-0.56</b>	<b>0.538</b>	<b>0.864</b>	0.464	-0.247
INR	0.37	-0.266	0.433	<b>-0.864</b>	0.344	0.347	0.004	<b>-0.584</b>	0.428	<b>0.908</b>	0.413	-0.32
PHP	0.366	-0.313	0.304	<b>-0.757</b>	0.123	0.109	0.06	<b>-0.626</b>	<b>0.517</b>	<b>0.785</b>	0.427	-0.285
MYR	0.288	-0.289	0.32	<b>-0.87</b>	0.46	0.432	-0.086	<b>-0.515</b>	0.385	<b>0.951</b>	0.354	-0.205
USGG10	0.273	1	0.402	0.498	-0.397	-0.307	<b>0.662</b>	-0.009	-0.073	-0.452	0.395	-0.164
CCN12M	0.111	0.471	0.385	0.38	<b>-0.766</b>	-0.377	<b>0.517</b>	-0.152	0.301	-0.424	0.396	-0.024
NZD	-0.194	-0.18	-0.334	<b>0.53</b>	-0.085	-0.424	-0.065	0.158	-0.233	-0.28	-0.383	0.046
GBP	-0.48	0.327	-0.282	<b>0.766</b>	<b>-0.507</b>	-0.251	0.021	0.458	-0.125	<b>-0.892</b>	-0.372	0.416
AUD	<b>-0.552</b>	-0.484	-0.443	-0.061	0.379	0.228	<b>-0.543</b>	0.17	0.179	0.045	<b>-0.556</b>	0.335
EUR	<b>-0.963</b>	-0.164	<b>-0.656</b>	0.073	0.21	<b>0.544</b>	<b>-0.622</b>	<b>0.624</b>	0.085	-0.367	<b>-0.725</b>	1

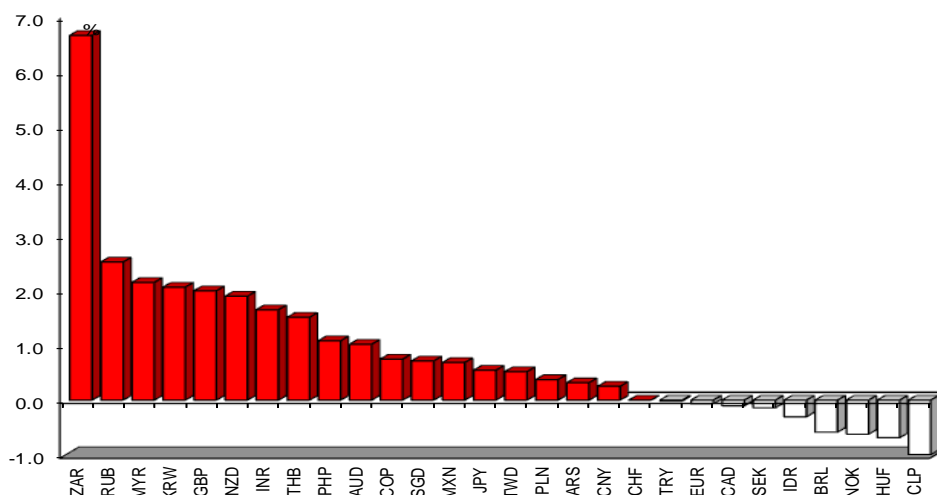
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1704	1.1762	1.1783	1.1800	1.1936
GBP-USD	1.3263	1.3400	1.3434	1.3500	1.3539
AUD-USD	0.7502	0.7600	0.7666	0.7668	0.7677
NZD-USD	0.7000	0.7006	0.7007	0.7028	0.7100
USD-CAD	1.2700	1.2721	1.2777	1.2800	1.2909
USD-JPY	111.63	112.00	112.28	112.86	113.00
USD-SGD	1.3400	1.3421	1.3472	1.3500	1.3551
EUR-SGD	1.5800	1.5830	1.5873	1.5900	1.5939
JPY-SGD	1.1900	1.1950	1.2000	1.2007	1.2135
GBP-SGD	1.7972	1.8000	1.8099	1.8100	1.8239
AUD-SGD	1.0300	1.0325	1.0328	1.0391	1.0400
Gold	1231.55	1236.50	1253.10	1266.33	1275.85
Silver	15.56	15.80	15.85	15.90	16.77
Crude	55.84	57.10	57.14	57.20	58.82

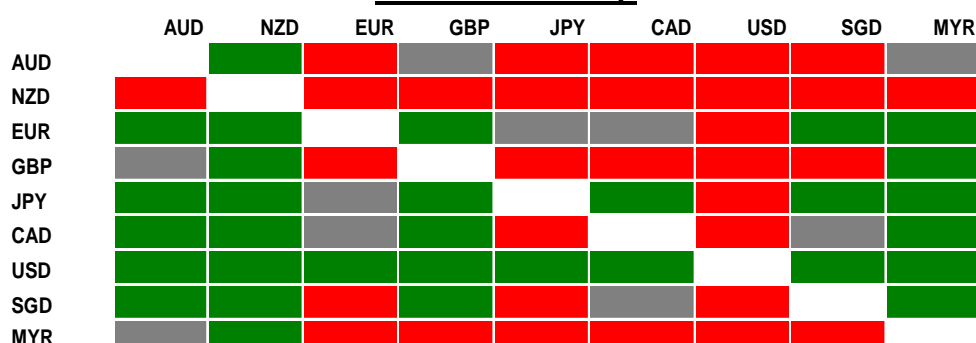
Source: OCBC Bank

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



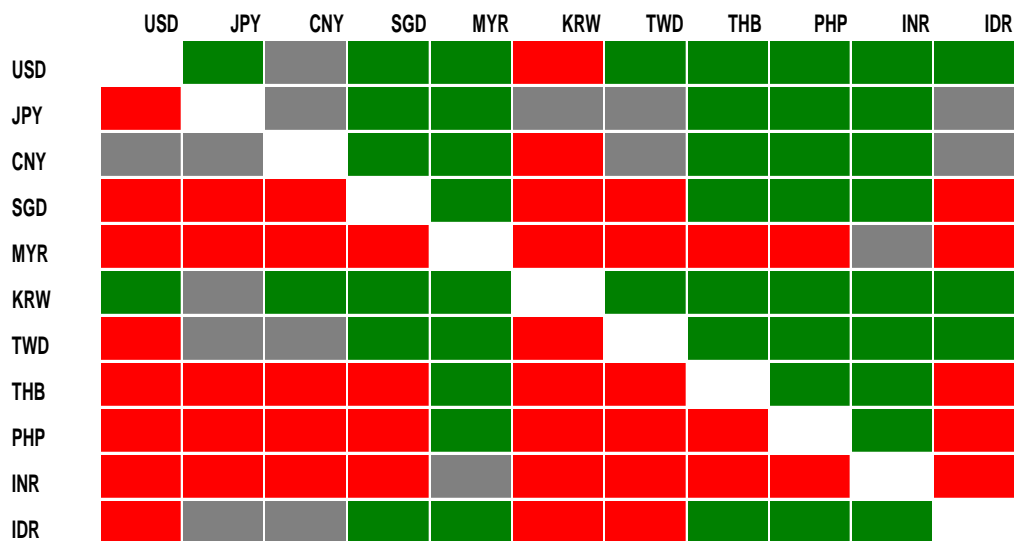
Source: Bloomberg

**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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