

Monday, November 27, 2017

## FX Themes/Strategy/Trading Ideas – The week ahead

- Despite a firmer UST curve, the greenback ended the week mixed to weaker on the day although we note that the antipodeans continued to underperform their G10 peers.
- The EUR was underpinned on Friday by better than expected November German Ifo and improved visibility in German politics. On this front, note that Merkel is scheduled to meet Martin Schulz ( head of the SPD) and President Steinmeier on Thursday, with investors likely to attempt to impute background positivity to the EUR in the interim if prospects of a return to the “grand coalition” continue to circulate.
- This week is littered with Fed–speak with Kashkari kicking off the week at 2230 GMT on Monday. Powell’s Senate confirmation hearing before the Senate on Tuesday while Yellen appears before the Joint Economic Committee of Congress on Wednesday. On the US tax bill front, President Trump is expected to meet with Senate Republicans on Wednesday with a Senate vote as soon as Thursday.
- From the EZ, look to Weidmann on Wednesday and Mersch on Thursday while in the Bank of Canada’s Poloz and Wilkins are scheduled for Tuesday. In New Zealand, acting RBNZ governor Spencer appears before Parliament on Wednesday.
- The busy data calendar this week culminates in the global manufacturing PMIs on Thursday-Friday with China’s PMIs on Thursday. Elsewhere in Asia, the **BOK** is expected by the consensus to hike 25bps to 1.50% on Thursday although we think that the central bank may not be in a rush at his juncture.
- **The DXY is now sub-93.00 and ahead of the raft of headline risks (and the interplay of contrasting influences) this week, expect the broad dollar to remain slightly under the weather in the interim.**
- With the broad dollar still looking to potentially stumble, we took profit on our 28 Sep 17 idea to be tactically long **USD-CAD** (spot ref: 1.2500) at 1.2725 on Friday for an implied +1.80% gain.
- With German political concerns on the back burner for now and investors taking heart from the recent string of supportive EZ data points, potential USD vulnerability in the near term may continue to manifest via a firmer EUR-USD profile. From a spot ref of 1.1868 on Friday, we engage in a

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tactical long **EUR-USD** idea, targeting 1.2085 and with a stop placed at 1.1755.

### Asian FX

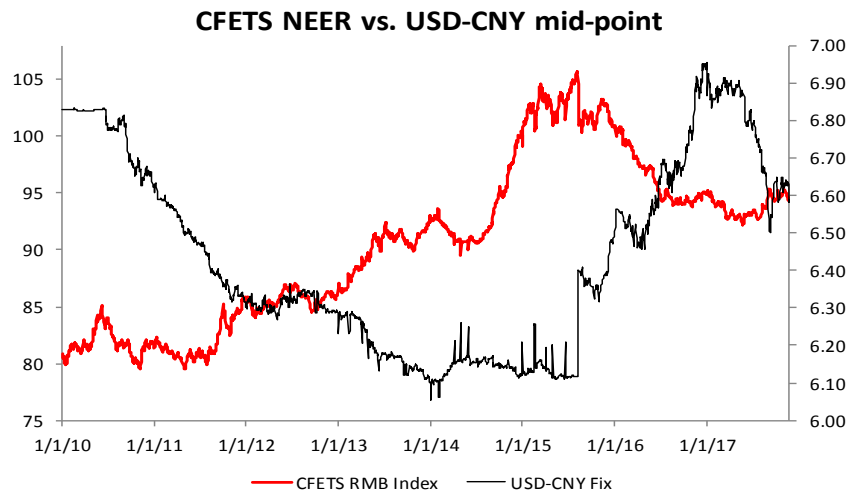
- On the actual net portfolio flow front in Asia, the moderation of inflows for the KRW is attempting to stabilize while Taiwan has flipped to a net inflow balance on a 1M rolling basis. Meanwhile, expect sustained positive impetus for the INR on the back of positive net inflow momentum (albeit moderating somewhat) while net flows for the IDR and THB continue to improve. **Overall, this leaves Asian FX relatively more well equipped if the broad dollar wobbles further.**
- **EPFR** data meanwhile denote an implied improvement in net equity inflows into Asia (excl China, Japan) in the latest week while net implied bond flows flipped to a small net inflow balance in the same period.
- The **FXSI (FX Sentiment Index)** continued to drill deeper into Risk-On territory on Friday and despite some caution across Asian equities early on Monday, should keep the **ACI (Asian Currency Index)** top heavy at this juncture.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.96% above its perceived parity (1.3597) with NEER-implied USD-SGD thresholds marginally higher. At current levels, the +1.10% threshold is estimated at 1.3449, where a floor for the USD-SGD is expected given current market conditions. Meanwhile, the +0.90% threshold is estimated at around 1.3489. Overall, we'd continue to expect a top heavy posture within 1.3445-1.3520 intra-day.



	SGD NEER	% deviation	USD-SGD
Current	125.46	0.97	1.3469
+2.00%	126.74		1.3331
Parity	124.26		1.3597
-2.00%	121.77		1.3875

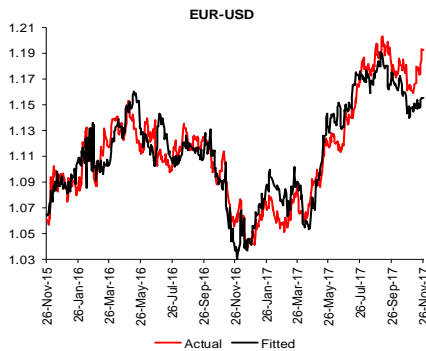
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point rose (as largely expected) to 6.5874 from 6.5810 on Friday. This took the CFETS RMB Index lower to 94.54 from 94.67 last, maintaining the recent positive correlations with the DXY.



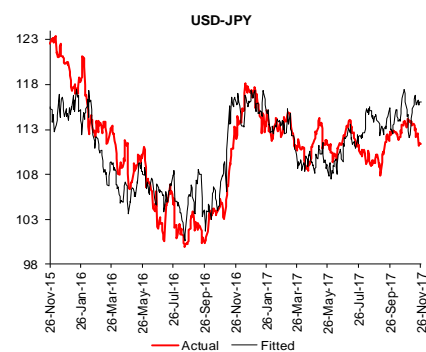
Source: OCBC Bank, Bloomberg

G7



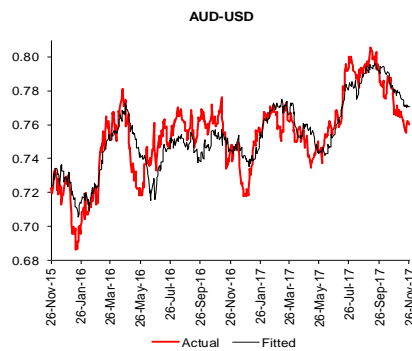
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the EUR-USD continue to remain inherently supportive at the onset of the week ahead of US-German headline risks later this week. In the interim, expect some base building behavior off 1.1875-1.1975 following the breach of 1.1900 last Friday.



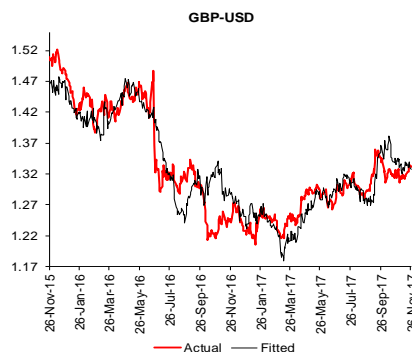
Source: OCBC Bank

- USD-JPY** Short term implied valuations for the USD-JPY continue to remain underpinned but the whiff of risk aversion Asia on Monday and the inherent suspicion towards the greenback may continue to refrain upside drift for the pair. Retain a preference to fade upticks towards the 200-day MA (111.71) instead with risks skewed towards 111.00.



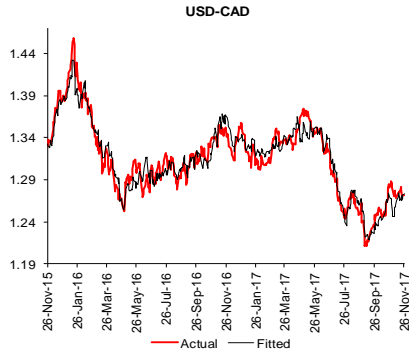
Source: OCBC Bank

- AUD-USD** Market wariness towards the cyclicals may continue to manifest in the near term and this has been borne out by the continued recent decay in short term implied valuations. In the interim, expect the 200-day MA (0.7695) to provide a solid cap with 0.7550 still a not insignificant risk.



Source: OCBC Bank

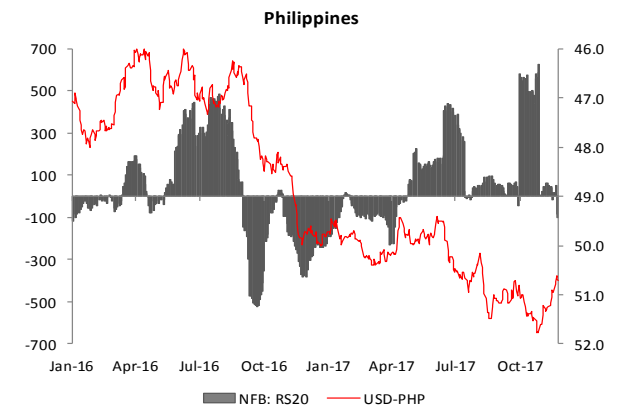
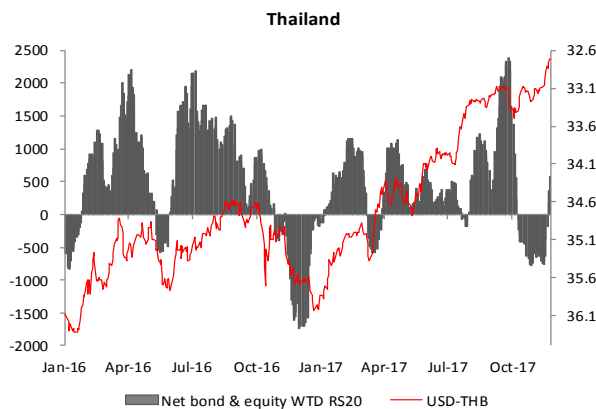
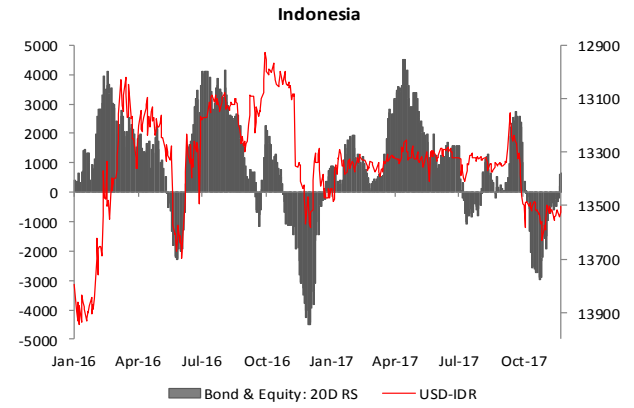
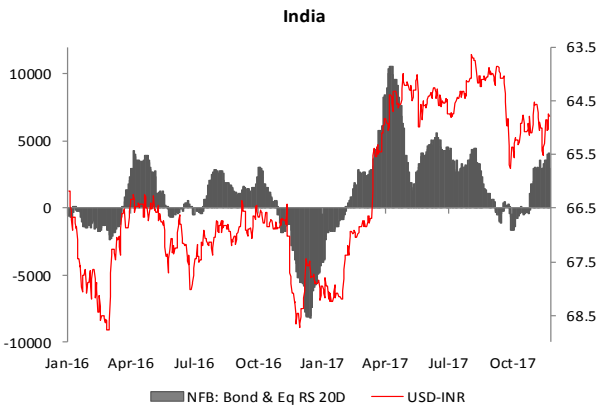
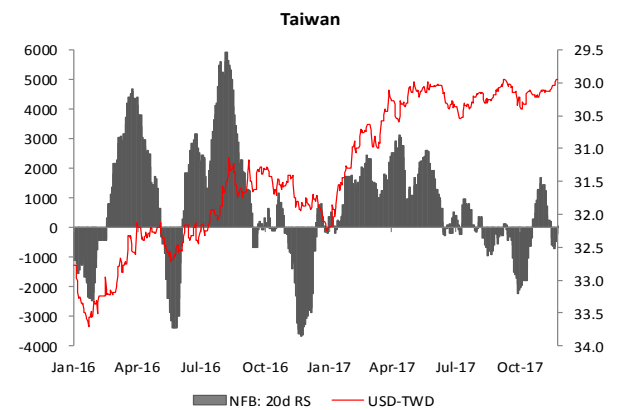
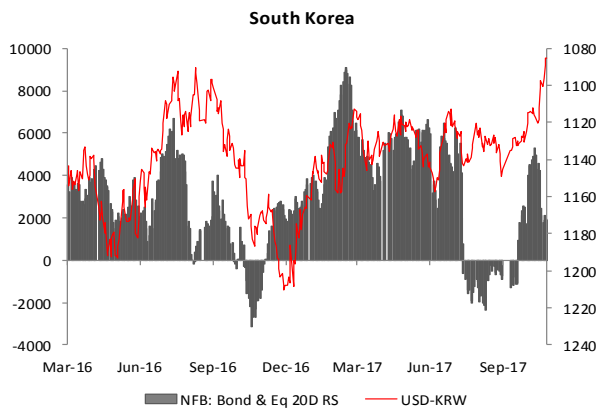
- GBP-USD** PM May has a 04 Dec 17 deadline to refine the terms of Brexit discussions before meeting with EU President Juncker ahead of the 14-15 Dec 17 European summit. In the intervening period, investors may attempt to impute background positivity to the pound. At this juncture however, short term implied valuations have moderated lower slightly and 1.3400 may serve as a useful ceiling with the 55-day MA (1.3263) likely to prompt a bounce.

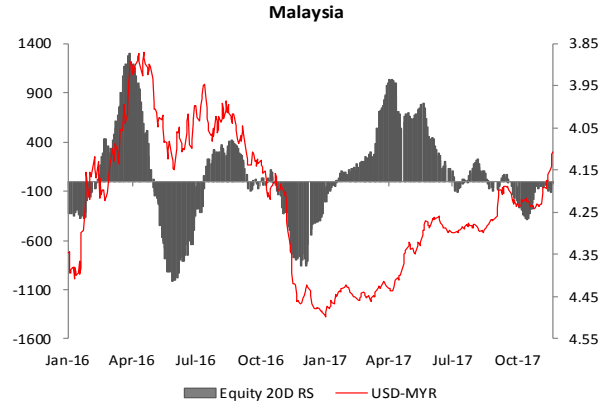


- USD-CAD** Slightly more elevated crude prices and an uncertain USD complexion may keep USD-CAD top heavy but note that this is running counter to slightly more supported short term implied valuations for the pair. On balance, preference to fade excessive upticks within 1.2650-1.2750.

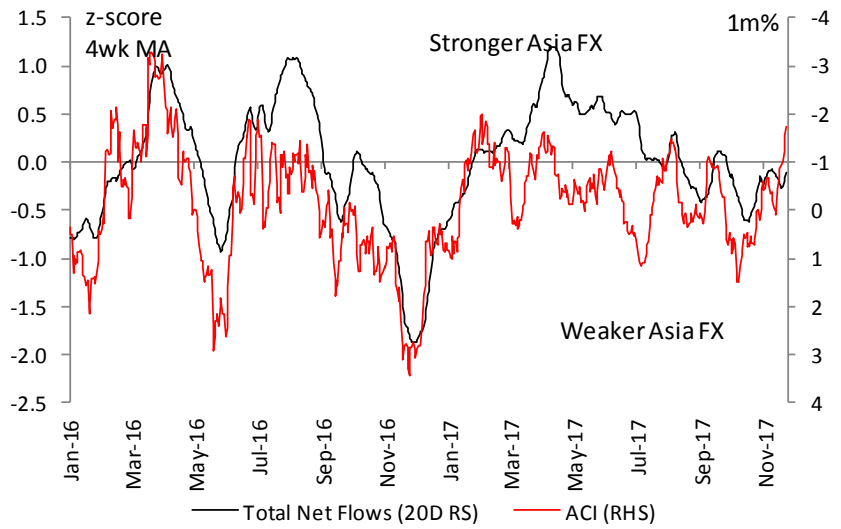
Source: OCBC Bank

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

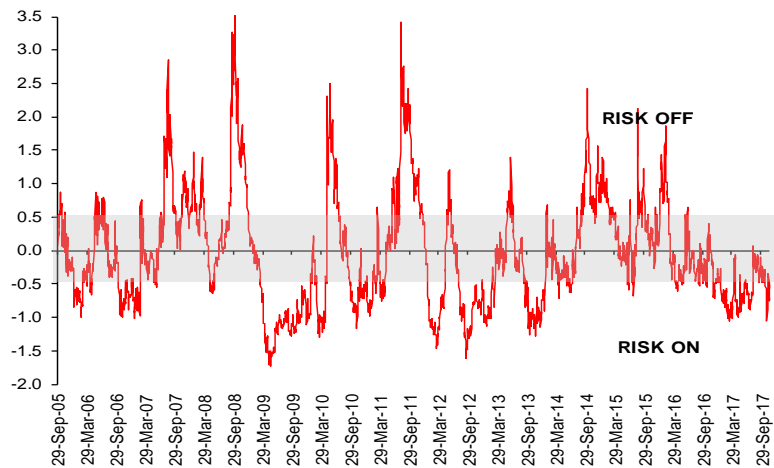




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1	0.195	0.575	0.101	-0.367	0.032	0.881	-0.28	-0.51	-0.692	0.545	-0.979
CHF	0.963	0.262	0.525	0.072	-0.358	-0.044	0.905	-0.346	-0.439	-0.647	0.541	-0.923
JPY	0.881	0.402	0.613	-0.265	-0.552	-0.224	1	-0.529	-0.184	-0.496	0.616	-0.798
SGD	0.879	0.493	0.788	-0.344	-0.652	-0.285	0.929	-0.567	-0.157	-0.413	0.773	-0.808
MYR	0.863	0.379	0.611	-0.365	-0.699	-0.341	0.933	-0.615	-0.275	-0.613	0.534	-0.794
THB	0.79	0.434	0.668	-0.423	-0.742	-0.316	0.887	-0.62	-0.136	-0.495	0.591	-0.723
TWD	0.728	0.572	0.739	-0.544	-0.784	-0.43	0.883	-0.69	0.06	-0.265	0.701	-0.632
KRW	0.722	0.597	0.742	-0.573	-0.781	-0.437	0.86	-0.685	0.054	-0.272	0.701	-0.638
PHP	0.684	0.593	0.665	-0.585	-0.813	-0.506	0.802	-0.742	-0.065	-0.39	0.575	-0.609
CNY	0.575	0.471	1	-0.2	-0.457	-0.088	0.613	-0.353	0.06	0.05	0.934	-0.532
CNH	0.545	0.546	0.934	-0.28	-0.375	-0.005	0.616	-0.304	0.347	0.238	1	-0.497
AUD	0.534	0.2	0.136	-0.206	-0.413	-0.166	0.593	-0.37	-0.391	-0.647	0.024	-0.53
CCN12M	0.476	0.396	0.791	-0.185	-0.282	0.135	0.572	-0.161	0.231	0.152	0.843	-0.445
CAD	0.372	0.439	0.193	-0.481	-0.653	-0.766	0.389	-0.739	-0.066	-0.35	0.146	-0.289
NZD	0.35	-0.275	-0.032	0.26	0.175	0.489	0.334	0.283	-0.29	-0.365	-0.043	-0.405
IDR	0.284	0.738	0.366	-0.565	-0.755	-0.768	0.383	-0.797	0.144	-0.054	0.308	-0.196
USGG10	0.195	1	0.471	-0.61	-0.636	-0.647	0.402	-0.715	0.316	0.211	0.546	-0.115
INR	-0.221	0.238	0.431	-0.013	0.045	0.176	-0.06	0.228	0.68	0.736	0.554	0.26
GBP	-0.708	-0.085	-0.493	-0.061	0.238	-0.123	-0.706	0.127	0.095	0.21	-0.519	0.632
EUR	-0.979	-0.115	-0.532	-0.227	0.234	-0.181	-0.798	0.133	0.59	0.717	-0.497	1

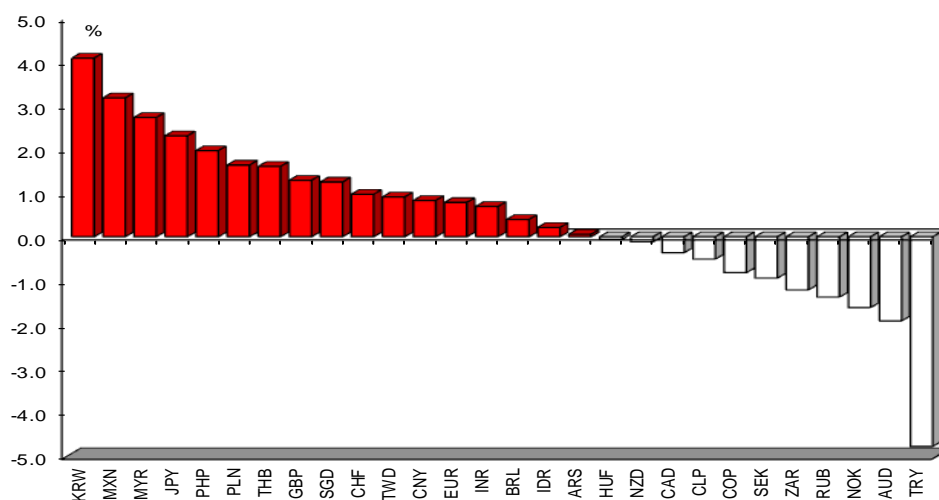
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1760	1.1800	1.1852	1.1861	1.1878
GBP-USD	1.3200	1.3247	1.3294	1.3300	#N/A
AUD-USD	0.7544	0.7600	0.7625	0.7692	0.7700
NZD-USD	0.6795	0.6800	0.6891	0.6900	0.6970
USD-CAD	1.2642	1.2700	1.2720	1.2800	1.2873
USD-JPY	111.07	111.18	111.33	111.69	112.00
USD-SGD	1.3400	1.3450	1.3456	1.3461	1.3500
EUR-SGD	1.5768	1.5900	1.5948	1.5955	1.6000
JPY-SGD	1.2000	1.2026	1.2086	1.2100	1.2114
GBP-SGD	1.7765	1.7800	1.7888	1.7900	1.7974
AUD-SGD	1.0200	1.0215	1.0260	1.0300	1.0521
Gold	1270.21	1286.45	1291.80	1294.39	1300.00
Silver	16.90	17.00	17.10	17.24	17.34
Crude	53.83	58.40	58.47	58.50	58.58

Source: OCBC Bank

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



Source: Bloomberg

**G10 FX Heat Map**

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Green	Green	Green	Green	Green	Green	Green
NZD	Red		Green	Green	Green	Red	Red	Green	Green
EUR	Red	Red		Red	Green	Red	Red	Red	Green
GBP	Red	Red	Green		Green	Red	Red	Green	Green
JPY	Red	Red	Red	Red		Red	Red	Red	Red
CAD	Red	Green	Green	Green	Green		Red	Green	Green
USD	Red	Green	Green	Green	Green	Green		Green	Green
SGD	Red	Red	Green	Red	Green	Red	Red		Green
MYR	Red	Red	Red	Red	Green	Red	Red	Red	

Source: OCBC Bank

**Asia FX Heat Map**

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
JPY	Red		Red	Red	Red	Red	Red	Red	Red	Red	Red
CNY	Red	Green		Green	Green	Green	Green	Green	Green	Green	Green
SGD	Red	Green	Red		Green	Green	Red	Green	Green	Red	Red
MYR	Red	Green	Red	Red		Green	Red	Red	Red	Red	Red
KRW	Red	Green	Red	Red	Red		Red	Red	Red	Red	Red
TWD	Red	Green	Red	Green	Green	Green		Green	Green	Red	Red
THB	Red	Green	Red	Red	Green	Green	Red		Green	Red	Red
PHP	Red	Green	Red	Red	Green	Green	Red	Red		Red	Red
INR	Red	Green	Red	Green	Green	Green	Green	Green	Green		Green
IDR	Red	Green	Red	Green	Green	Green	Green	Green	Green	Red	

Source: OCBC Bank



### FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
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	
<b>STRUCTURAL</b>								
5	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
6	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	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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