

Thursday, January 04, 2018

**FX Themes/Strategy/Trading Ideas – Revised FX forecasts**

- DXY rebounded back above 92.00 following better than expected December ISM and supportive FOMC minutes
- Headline ISM at 59.7 vs. 58.2 prev while new orders surged to 69.4 from 64.0.
- FOMC minutes made reference to near term positive impacts of US tax cuts and underscored the intent for continued gradual hikes – raising implied March rate hike odds.
- Major long-end yields capitulated lower (UST curve flattened) while global/EM equities continued to climb and WTI crude approached 62.00. This had the impact of encouraging positive risk appetite levels.
- ECB's Nowotny echoed his colleagues and notes that the end of the asset purchase program is "within sight" – EUR supportive.
- EUR: Political risks may emerge with SPD leaders scheduled to meet Christian Democrat officials in the preamble to coalition talks.
- Calendar today includes December global services/composite PMIs (China Caixin versions at 0145 GMT) as well as the US December ADP.
  
- Markets may continue to find their feet as the new year gets underway with the greenback likely retaining a slight upper hand intra-day. In the interim, global central banks may attempt to take cues from the FOMC minutes by not presenting themselves as unduly hawkish (having just shed their excessively dovish demeanor not too many months ago). Nevertheless, expect investors to continue to watch the time path of crude prices in the coming weeks.

**Asian FX**

- Risk appetite levels as denoted by the **FXSI (FX Sentiment Index)** remain in Risk-On territory despite consolidating higher yesterday and this may serve to cap USD-Asia upside intra-day. Net portfolio inflows into Asia got off to a good start for the year on the back of equity inflows. The better than expected reception to the Indonesian bond auction on Wednesday may continue to exemplify investor interest towards EM/Asia yield plays and may continue to bode well for the regional asset markets.
  
- Nonetheless, we note that recent Asian FX strength has been a sympathetic reaction to initial dollar vulnerability and not commensurate with still tentative inflow momentum on a rolling basis. On this front, we find that only the MYR, THB and TWD may have more of a buffer if the broad dollar continues to bounce higher. Overall, the **ACI (Asian Currency Index)** may be bumped

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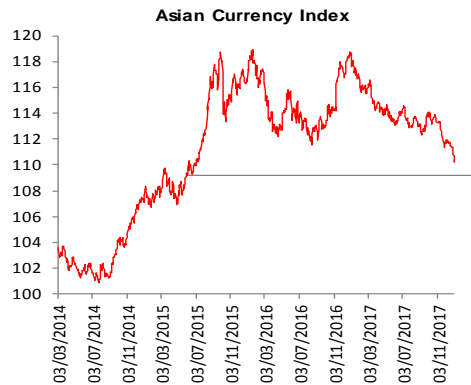
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higher today although we note that its structural model continues to denote a heavy posture beyond the very short term.

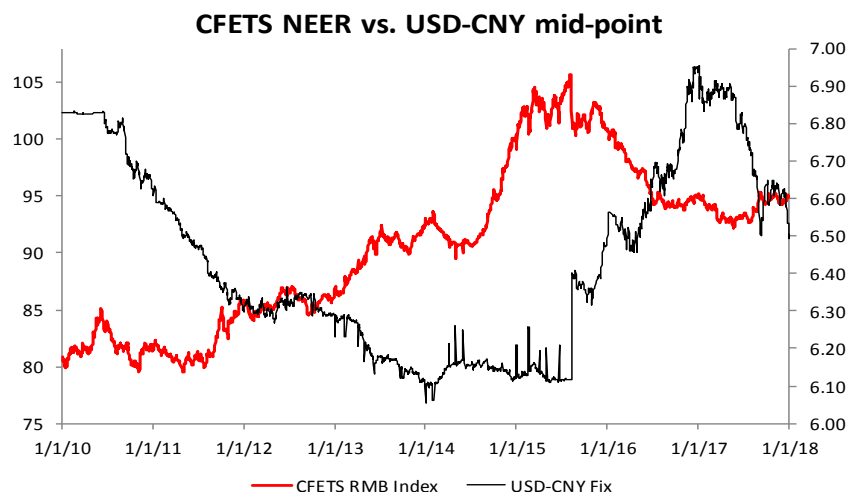
- SGD NEER:** Despite a firmer DXY and a softening of the December Singapore PMI to 52.1 from 55.4 the previous month, the SGD NEER continues to remain slightly higher on the day (+1.23% above its parity of 1.3470). At current levels, the +1.3% threshold is estimated at 1.3297 with +1.1% at 1.3323. In the interim, the pair may continue to be anchored around the 1.3300 handle.



	SGD NEER	% deviation	USD-SGD
Current	125.77	1.22	1.3309
+2.00%	126.74		1.3205
Parity	124.26		1.3470
-2.00%	121.77		1.3744

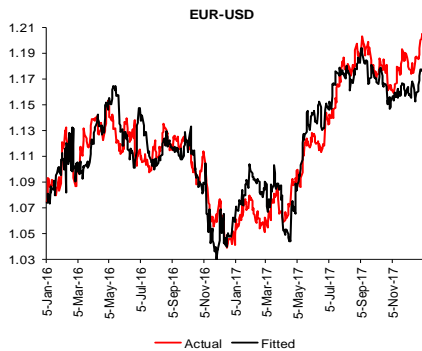
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point firmed (as largely expected) to 6.5043 from 6.4920 on Wednesday. This pulled the CFETS RMB Index lower to 94.93 from 94.97. The basket we think may continue to be largely anchored at current levels (3M realized vol of the basket remains at a discount to the realized vol of the mid-points), with its correlation to the DXY having flipped to negative in recent weeks amidst the latter's recent slide.



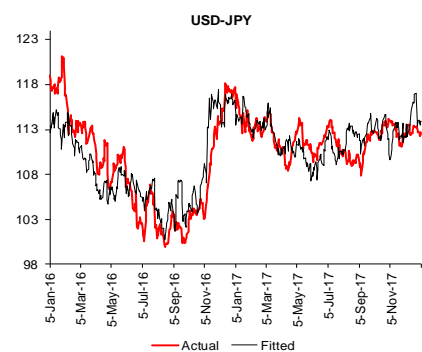
Source: OCBC Bank, Bloomberg

**G7**



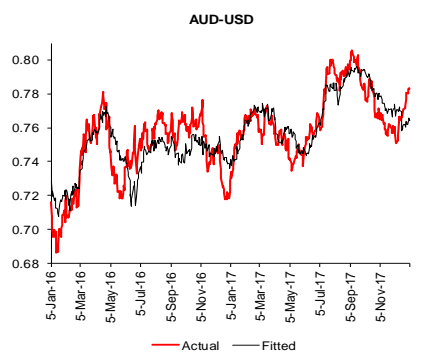
Source: OCBC Bank

- EUR-USD** Short term implied valuations have consolidated slightly with the pair still slightly north of its implied confidence intervals. As such, some further room for capitulation lower in the EUR-USD cannot be ruled out with potential negatives from any re-emergence of German political risks or tomorrow's US NFP numbers. In the interim, any breach of 1.2000 may invite a test towards 1.1960.



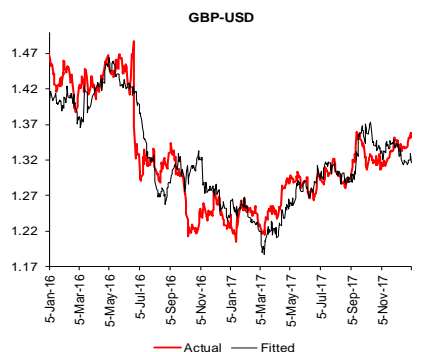
Source: OCBC Bank

- USD-JPY** We retain a preference to remain top heavy on the pair despite short term implied valuations ticking higher yesterday. In the interim, session expect the 55-day MA (112.96) to cap with 112.25 seen providing initial support.



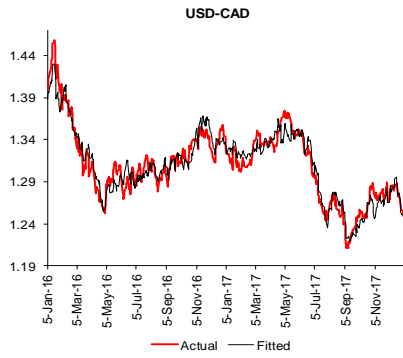
Source: OCBC Bank

- AUD-USD** Still positive global risk appetite levels may deter excessive near term dips in the pair. Short term implied valuations are relatively static (but generally supported) at this juncture and the 100-day MA (0.7776) may continue to cushion with 0.7850 still seen capping.



Source: OCBC Bank

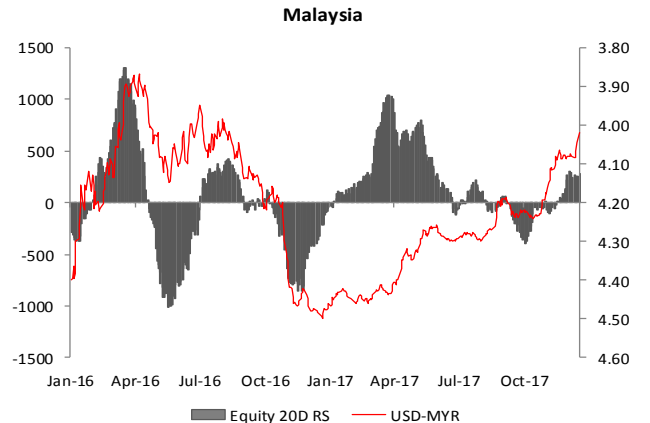
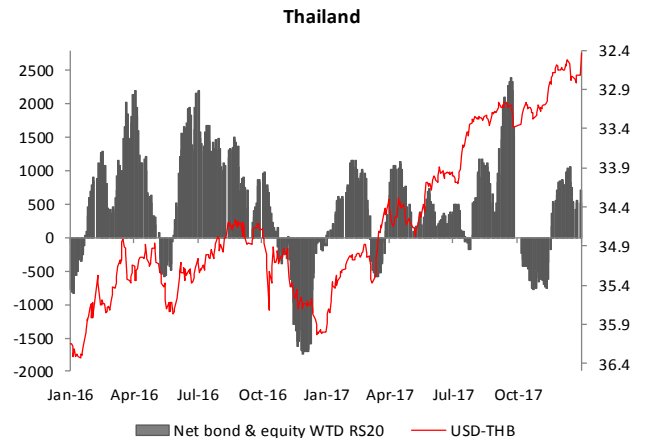
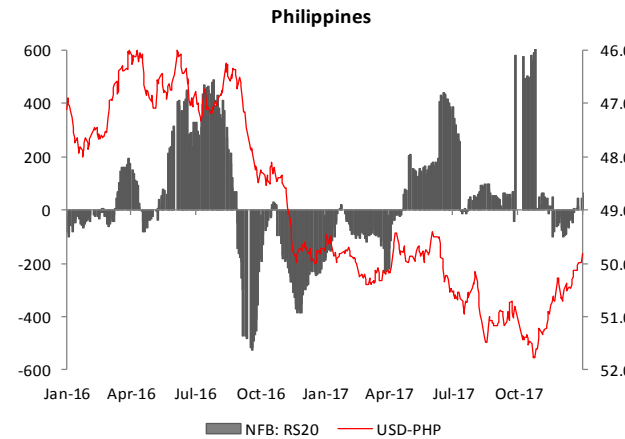
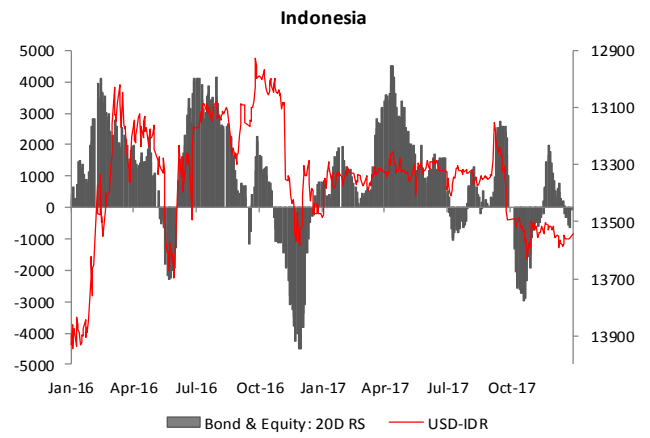
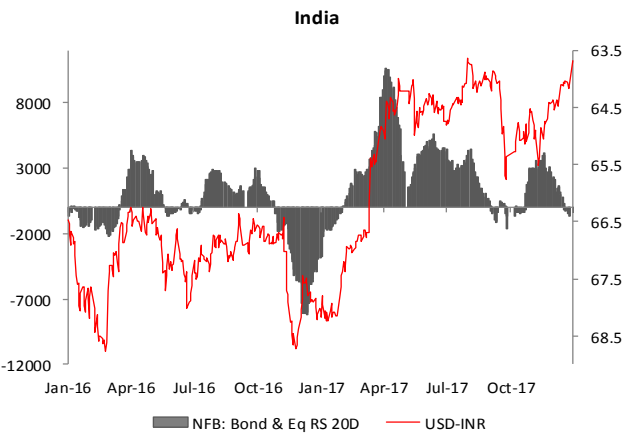
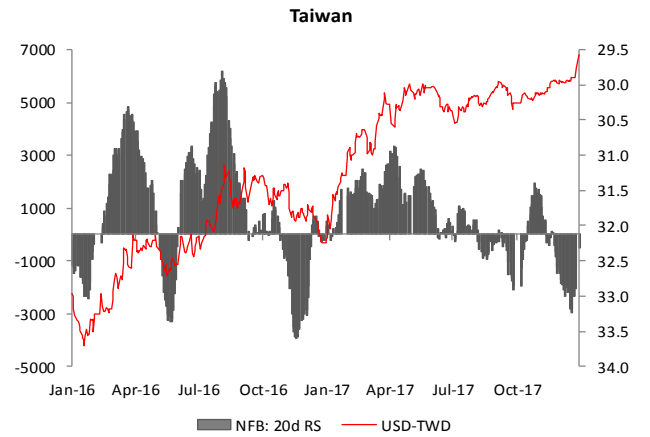
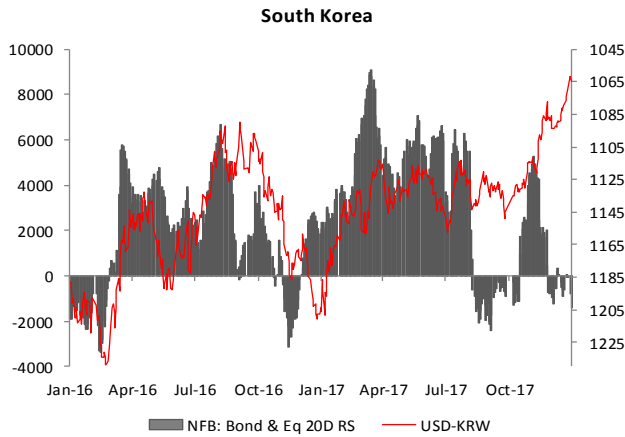
- GBP-USD** GBP underperformed across the board on Wednesday and we reiterate that short term implied valuations for the GBP-USD remain top heavy at this juncture. Any violation of 1.3500 therefore may risk 1.3440.



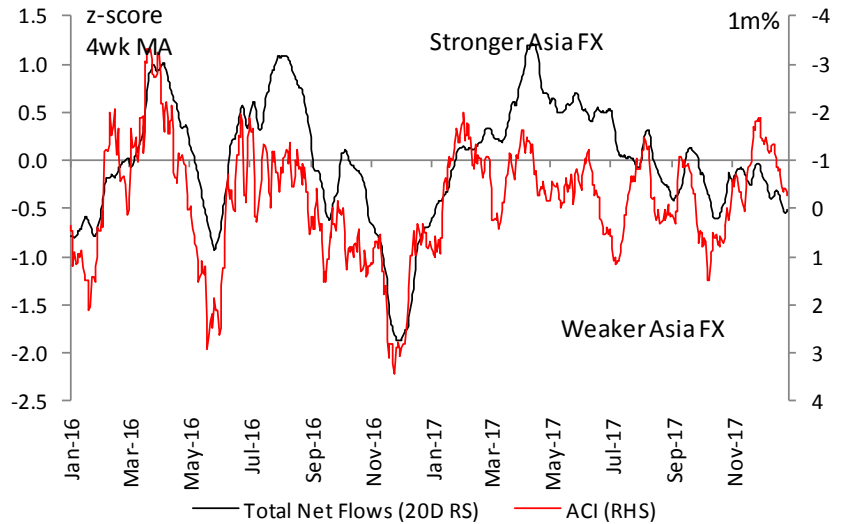
Source: OCBC Bank

- USD-CAD** The pair firmed slightly on the back of the broad dollar's bounce on Wednesday but remained restrained on account of firmer crude. While short term implied valuations have ticked higher slightly, investors may fade up moves towards 1.2600 in favor of 1.2500.

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

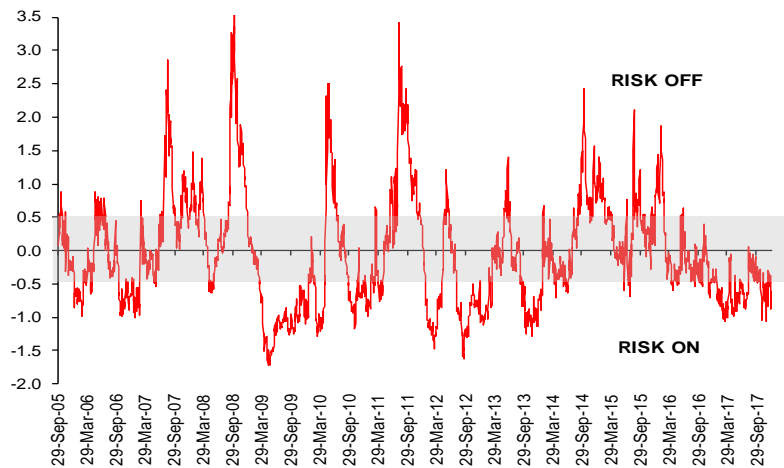


### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.363	0.898	-0.528	-0.846	-0.931	0.407	-0.837	-0.113	0.249	0.905	-0.987
SGD	0.96	-0.473	0.923	-0.688	-0.907	-0.912	0.345	-0.871	0.072	0.203	0.939	-0.95
CHF	0.939	-0.25	0.77	-0.56	-0.817	-0.83	0.512	-0.726	-0.076	0.084	0.793	-0.918
CAD	0.934	-0.278	0.846	-0.392	-0.756	-0.941	0.354	-0.838	-0.243	0.482	0.854	-0.917
KRW	0.929	-0.646	0.977	-0.743	-0.906	-0.948	0.147	-0.932	0.207	0.29	0.973	-0.937
CNH	0.905	-0.603	0.985	-0.743	-0.892	-0.924	0.133	-0.937	0.165	0.211	1	-0.921
CNY	0.898	-0.597	1	-0.691	-0.873	-0.937	0.105	-0.938	0.12	0.243	0.985	-0.911
TWD	0.893	-0.369	0.881	-0.639	-0.867	-0.872	0.33	-0.85	0.21	0.139	0.868	-0.883
MYR	0.835	-0.27	0.751	-0.438	-0.76	-0.782	0.443	-0.711	0.053	0.198	0.718	-0.829
INR	0.828	-0.602	0.872	-0.829	-0.915	-0.802	0.24	-0.838	0.344	-0.012	0.896	-0.852
PHP	0.784	-0.613	0.933	-0.813	-0.918	-0.829	-0.177	-0.937	0.32	0.243	0.94	-0.814
CCN12M	0.681	-0.661	0.802	-0.908	-0.868	-0.689	0.053	-0.77	0.447	-0.052	0.847	-0.71
IDR	0.481	-0.056	0.39	-0.024	-0.342	-0.553	0.286	-0.474	-0.099	0.552	0.365	-0.489
JPY	0.407	0.423	0.105	0.092	-0.151	-0.181	1	0.021	-0.384	-0.218	0.133	-0.307
THB	0.226	0.467	0.049	-0.071	-0.238	-0.085	0.655	-0.091	0.163	-0.282	0.043	-0.121
USGG10	-0.363	1	-0.597	0.721	0.578	0.502	0.423	0.594	-0.389	-0.195	-0.603	0.468
NZD	-0.747	0.534	-0.823	0.849	0.86	0.685	-0.144	0.758	-0.283	0.019	-0.872	0.75
GBP	-0.82	-0.017	-0.555	0.108	0.53	0.668	-0.594	0.497	0.287	-0.147	-0.563	0.773
AUD	-0.876	0.529	-0.901	0.775	0.895	0.853	-0.278	0.849	-0.082	-0.15	-0.936	0.87
EUR	-0.987	0.468	-0.911	0.577	0.859	0.936	-0.307	0.854	0.049	-0.283	-0.921	1

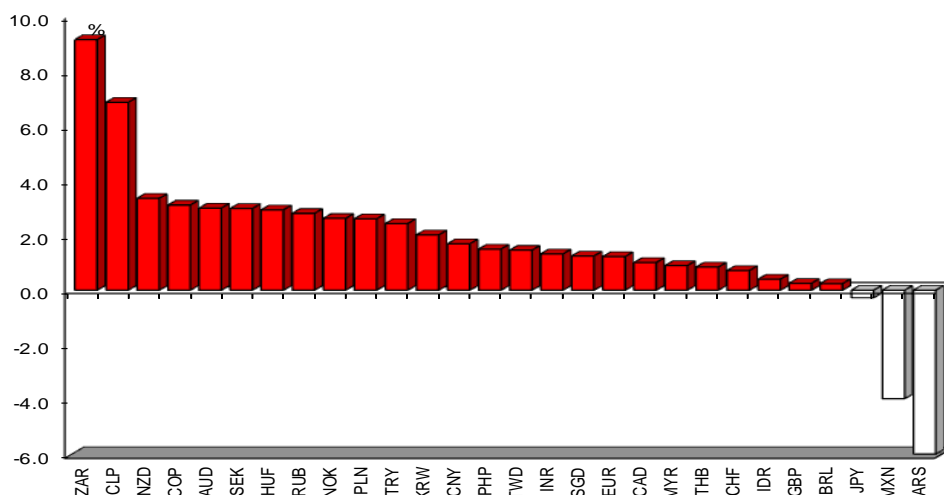
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1797	1.2000	1.2009	1.2067	1.2081
GBP-USD	1.3319	1.3500	1.3512	1.3553	1.3600
AUD-USD	0.7696	0.7800	0.7822	0.7845	0.7890
NZD-USD	0.6932	0.7000	0.7083	0.7100	0.7101
USD-CAD	1.2470	1.2500	1.2547	1.2600	1.2745
USD-JPY	112.00	112.10	112.72	112.86	113.00
USD-SGD	1.3277	1.3300	1.3307	1.3400	1.3497
EUR-SGD	1.5900	1.5916	1.5980	1.6000	1.6038
JPY-SGD	1.1800	1.1803	1.1805	1.1900	1.1953
GBP-SGD	1.7905	1.7974	1.7979	1.8000	1.8083
AUD-SGD	1.0322	1.0400	1.0408	1.0462	1.0490
Gold	1280.55	1300.00	1308.20	1322.69	1323.00
Silver	16.76	17.00	17.05	17.10	17.16
Crude	61.80	61.81	61.86	61.90	61.97

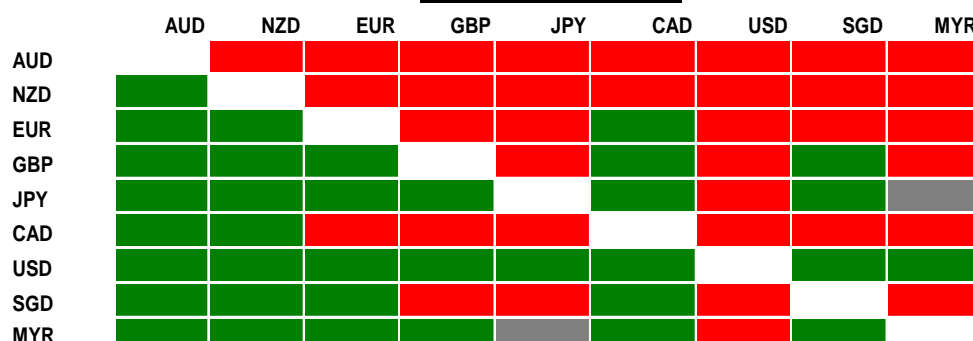
Source: OCBC Bank

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



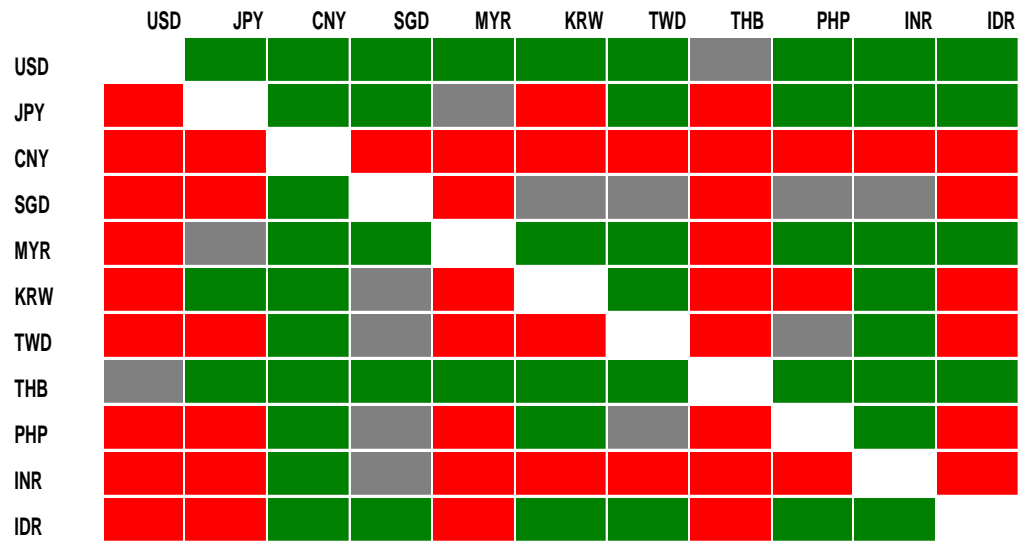
Source: Bloomberg

**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	1.3270 1.3490	Little contagion in geopolitical risks, sanguine portfolio inflow environment, USD fragility		
2	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>								
3	09-May-17	B	GBP-USD	1.2927	1.3700 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?		
4	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	20-Nov-17	08-Dec-17	S	USD-JPY	112.07	113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	-1.14
2	24-Nov-17	08-Dec-17	B	EUR-USD	1.1868	1.1755	Supportive EZ data stream, German political concerns on hold, near term USD vulnerability	-1.19
3	07-Nov-17	13-Dec-17	S	AUD-USD	0.7671	0.7590	RBA on hold, no inflation or rate hike urgency	+0.78

Source: OCBC Bank

**Revised central tendency forecasts (as of 03 Jan 18)**

	<b>Spot</b>	<b>Mar-18</b>	<b>Jun-18</b>	<b>Sep-18</b>	<b>Dec-18</b>
<b>USD-JPY</b>	112.28	112.00	113.00	114.00	115.00
<b>EUR-USD</b>	1.2058	1.2154	1.2303	1.2451	1.2600
<b>GBP-USD</b>	1.3607	1.3635	1.3757	1.3878	1.4000
<b>AUD-USD</b>	0.7822	0.7882	0.7955	0.8027	0.8100
<b>NZD-USD</b>	0.7098	0.7169	0.7239	0.7310	0.7380
<b>USD-CAD</b>	1.2511	1.2453	1.2336	1.2218	1.2100
<b>USD-CHF</b>	0.9716	0.9682	0.9622	0.9561	0.9500
<b>USD-SGD</b>	1.329	1.3283	1.3205	1.3128	1.3050
<b>USD-CNY</b>	6.5044	6.4715	6.4466	6.3881	6.3635
<b>USD-THB</b>	32.428	32.31	32.04	31.77	31.50
<b>USD-IDR</b>	13479	13491	13428	13364	13300
<b>USD-MYR</b>	4.0232	4.0074	3.9683	3.9291	3.8900
<b>USD-KRW</b>	1064.98	1056.80	1046.20	1035.60	1025.00
<b>USD-TWD</b>	29.571	29.550	29.367	29.183	29.000
<b>USD-HKD</b>	7.8174	7.8142	7.8195	7.8247	7.8300
<b>USD-PHP</b>	49.858	49.64	49.43	49.21	49.00
<b>USD-INR</b>	63.49	63.40	62.94	62.47	62.00
<b>EUR-JPY</b>	135.39	136.12	139.02	141.94	144.90
<b>EUR-GBP</b>	0.8862	0.8914	0.8943	0.8972	0.9000
<b>EUR-CHF</b>	1.1716	1.1768	1.1837	1.1904	1.1970
<b>EUR-SGD</b>	1.6025	1.6143	1.6245	1.6345	1.6443
<b>GBP-SGD</b>	1.8084	1.8110	1.8165	1.8219	1.8270
<b>AUD-SGD</b>	1.0395	1.0469	1.0504	1.0538	1.0571
<b>NZD-SGD</b>	0.9433	0.9522	0.9559	0.9596	0.9631
<b>CHF-SGD</b>	1.3678	1.3718	1.3724	1.3731	1.3737
<b>JPY-SG</b>	1.1836	1.1859	1.1686	1.1515	1.1348
<b>SGD-MYR</b>	3.0272	3.0170	3.0051	2.9930	2.9808
<b>SGD-CNY</b>	4.8942	4.8722	4.8819	4.8662	4.8763

Source: OCBC Bank

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