

Monday, February 05, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The USD clawed higher across G10 space on Friday after the slightly better than expected Jan NFP numbers (+200k from an upwardly revised +160k, **average hourly earnings** at a better than expected+0.3% mom from an upwardly revised +0.4%). The Fed's Kashkari on Friday also acknowledged that a pickup in wage growth may sway his outlook.
- This saw the **DX** reclaiming the 89.00 handle to end around 89.23 while USTs sold off, with the curve bear steepening and the 10y UST yield climbing to end around 2.8506%. Meanwhile, the cyclicals sank across the board (CAD, AUD, NZD) and the JPY strengthened as global equities slid.
- On the **CFTC** front (note that data pre-dates Fri's NFP numbers), large non-commercial/leveraged/asset manager accounts increased their net implied short dollar bias in the latest week with the biggest increase stemming from leveraged investors. The community remained positioned against the USD going into Friday's NFP and we think it may require a market pricing in a 4th Fed rate hike this year to materially to shakeout dollar bearishness.
- Going into this week, the broad dollar may finally be paying some heed to yield and yield differential arguments (as mentioned previously, these relationships had broken down structurally since November 2017) although it remains to be seen if Friday's dollar retracement can continue to garner more traction. At this juncture, latest global FX/equity market reactions from Friday we think may be more back wash (from an overly one-sided market) than an actual Risk-Off scenario. Note however that near term FX option topology is reflecting some heightened caution, potentially keeping the majors slightly unsteady ahead of the busy calendar this week.
- This week, apart from Fed rhetoric, attention will be more diffused, with markets likely to also pay attention to the other major global central banks (the very premise for inherent USD weakness in recent weeks).
- The Fed-speaking schedule calendar begins runs from Tuesday to Friday while ECB appearances are penciled in from Monday to Thursday, beginning with Draghi today at 1600 GMT today. The **RBA** policy meeting (mkts: unchanged) is on Tuesday while the RBA's Lowe speaks on Thursday with the Quarterly Monetary Policy Statement on Friday. The **RBNZ** policy decision is on Wednesday (mkts: unchanged) while the BOE MPC (and Inflation Report) is scheduled for Thursday. On other fronts, the **BOC's** Wilkins also speaks on Thursday. In Asia, the **RBI** (Wednesday) and the **BSP** (Thursday) are also due with intrinsically hawkish expectations

Treasury Research &
Strategy

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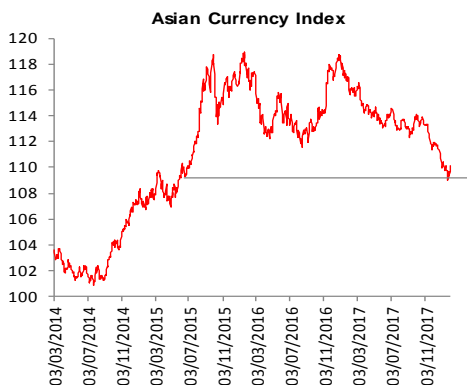
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surrounding both Asian central banks.

Asian FX

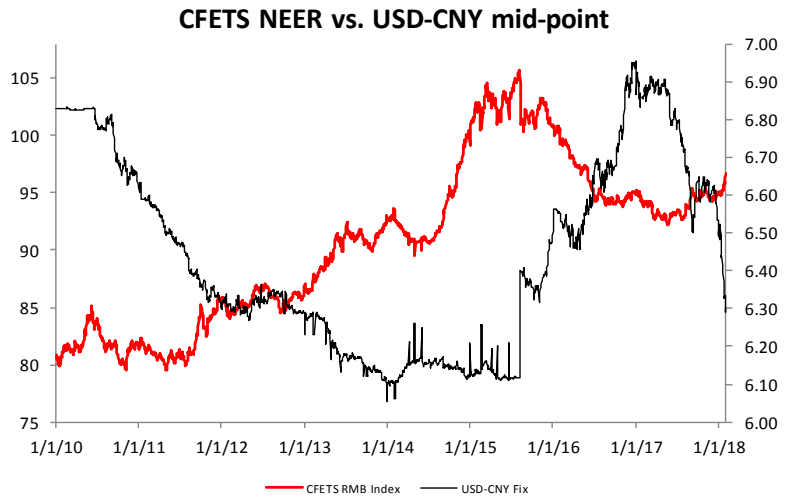
- In Asia, **EPFR** data show net implied equity inflows moderated in the latest week while net implied bond inflows continued to demonstrate minor outflows for the second consecutive week (with the latter development a potential caveat to Asian govies).
- Actual **net portfolio inflows** meanwhile continue to portend significant waning implicit support for the KRW, TWD, IDR, THB, PHP, with the INR and MYR seen relatively more supported in the current environment.
- Overall, with negative Asian equities early morning on Monday, the **ACI (Asian Currency Index)** may continue to bounce higher at the onset of the week. Note that in a sign of caution, the **FXSI (FX Sentiment Index)** jumped higher within Risk-Neutral territory on Friday.
- **SGD NEER:** The SGD NEER began the week this morning at sub-parity levels but has since relocated higher to around +0.19% above its perceived parity (1.3205). NEER-implied USD-SDG thresholds are firmer on the day with -0.20% (1.3232) and +0.30% (1.3166) likely to contain in the interim.



	SGD NEER	% deviation	USD-SGD
Current	124.47	0.17	1.3183
+2.00%	126.74		1.2946
Parity	124.26		1.3205
-2.00%	121.77		1.3475

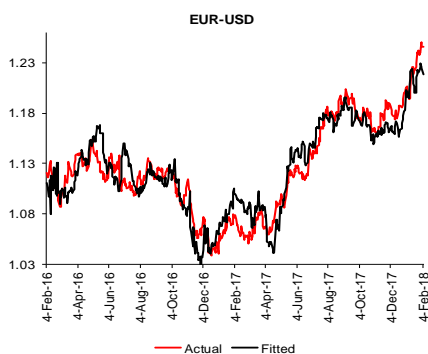
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning came in slightly higher than expected at 6.3019 from 6.2885 last Friday. However, this still left the CFETS RMB Index higher at 96.72 from 96.28. Going ahead, we will monitor the resultant reactions of the USD-CNY (and USD-CNH) and the Index in a potential environment of a further bounce in the broad dollar. If renminbi behavior is asymmetric (i.e., resistant to USD strength), the Index may continue to rise while at the same time potentially putting a lid on excessive USD-Asia up moves.



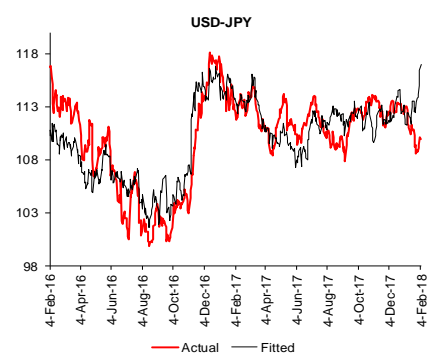
Source: OCBC Bank, Bloomberg

G7



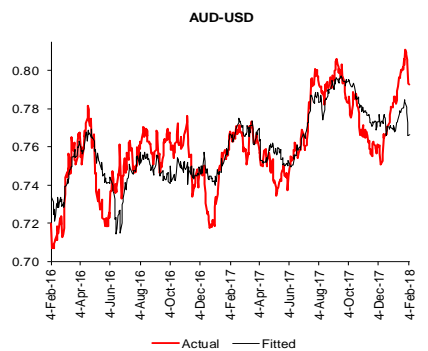
Source: OCBC Bank

- EUR-USD** At this juncture, any negative German political headlines may impinge on the EUR further, with coalition talks due to continue on Monday after a failure to reach a resolution over the weekend. Short term implied valuations have stepped lower post-NFP but ECB rhetoric this week may well determine if the 1.2380/00 support zone will be punctured. Expect base building activity in the interim.



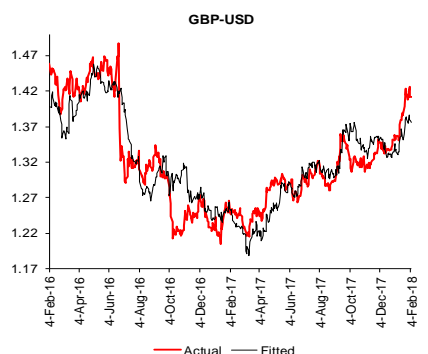
Source: OCBC Bank

- USD-JPY** Barring a meltdown in global risk appetite levels, USD-JPY may continue to be led higher by its short term implied valuations. Risks for the pair may therefore be skewed slightly higher at this juncture with a sustained breach of 110.30 opening the way to 111.00, especially if headlines surrounding higher US yields increase.



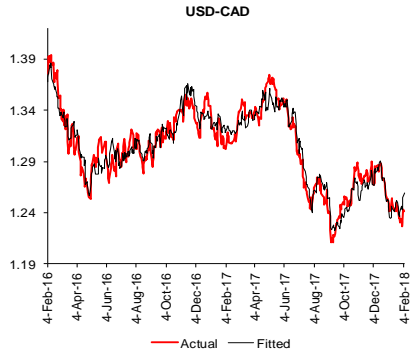
Source: OCBC Bank

- AUD-USD** This morning, the China Caixin composite/services PMIs for January improved from the previous month but any optimism may be tempered by softer short term implied valuations in the wake of the US NFP. Ahead of the RBA this week, 0.7900 and 0.7875 may remain at risk of a puncture.



Source: OCBC Bank

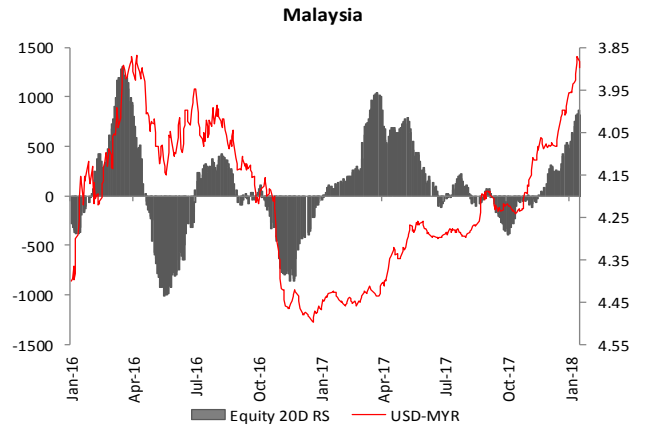
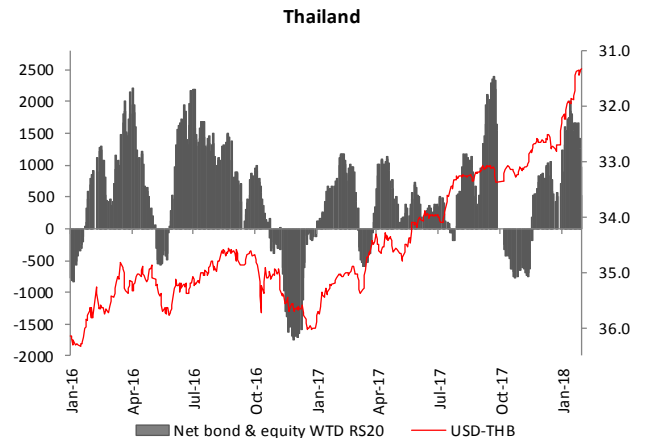
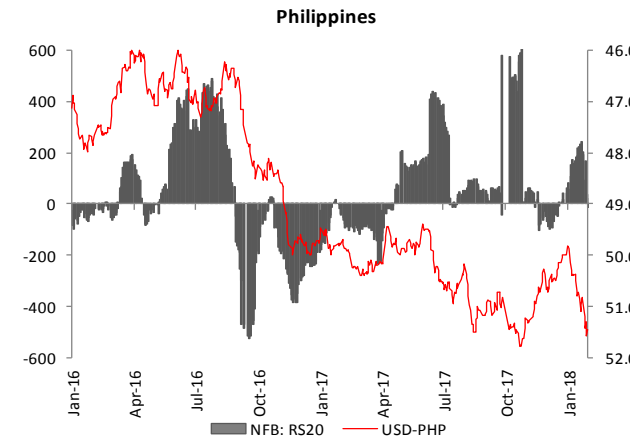
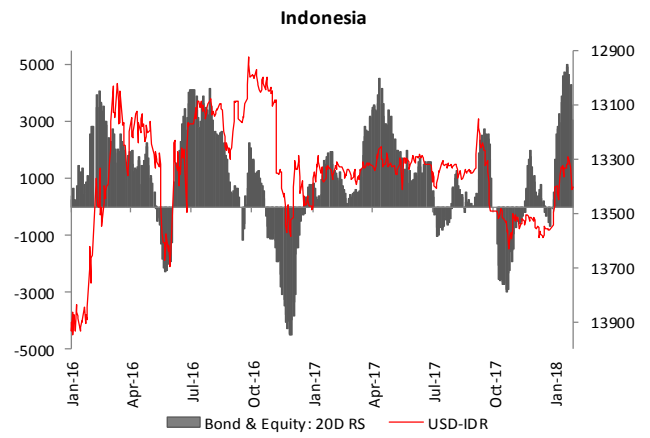
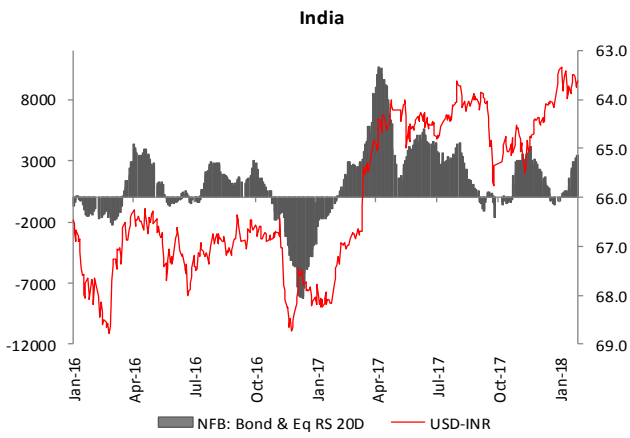
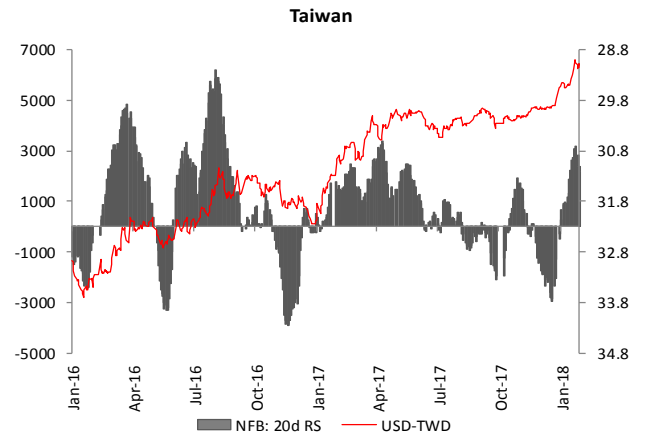
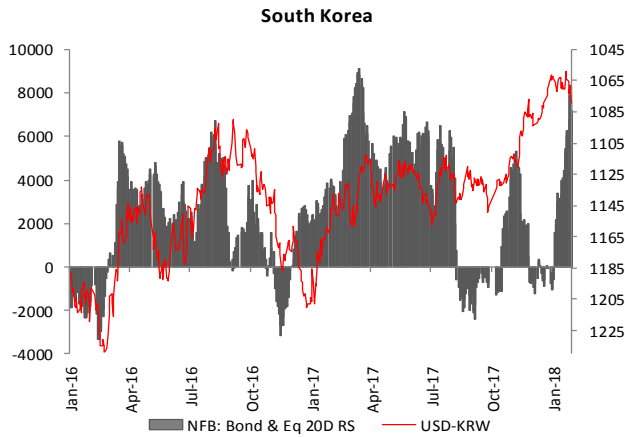
- GBP-USD** All eyes are also expected to be on the BOE this week, especially given recent hints of a more confident official prognosis (resulting in heightened market expectations of a mid-year rate hike). In the interim, downside dips may find supports at 1.4100 and especially at 1.4000.



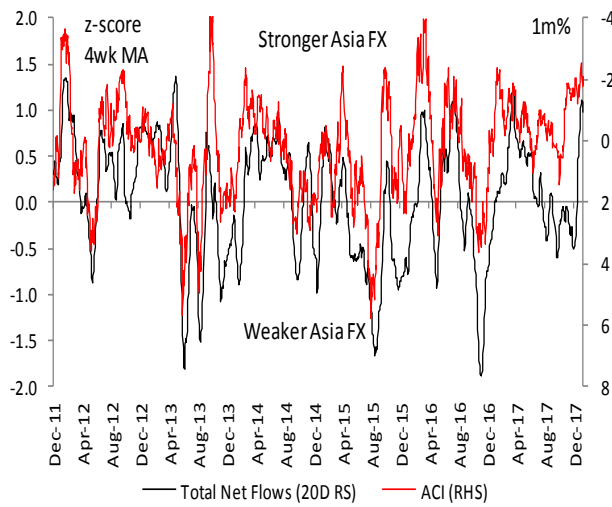
- USD-CAD** USD-CAD jumped above 1.2400 on Friday as a result of the dollar and crude oil volatility. With short term implied valuations reacting higher, a slightly more supported 1.2340-1.2500 range may prevail pending the headline-heavy week ahead.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

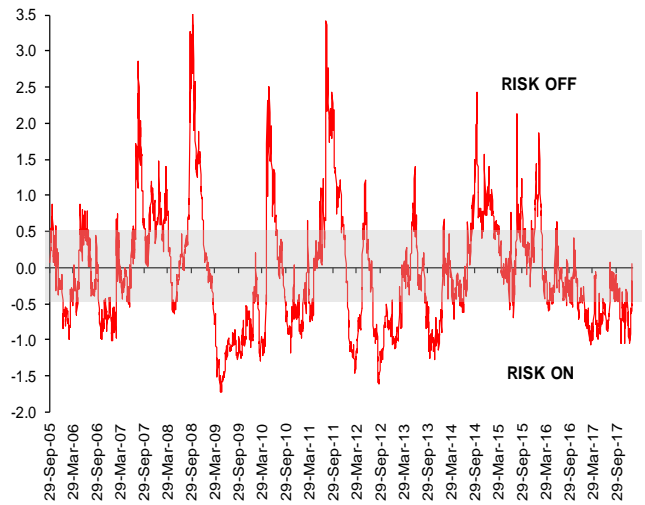


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXYS	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXYS	1	-0.782	0.965	-0.77	-0.835	-0.889	0.909	-0.853	-0.718	-0.706	0.978	-0.986
CNH	0.978	-0.828	0.995	-0.731	-0.826	-0.856	0.876	-0.807	-0.745	-0.743	1	-0.969
CNY	0.965	-0.859	1	-0.701	-0.821	-0.847	0.872	-0.801	-0.771	-0.768	0.995	-0.952
MYR	0.965	-0.753	0.981	-0.798	-0.88	-0.922	0.893	-0.844	-0.669	-0.625	0.982	-0.948
CHF	0.962	-0.84	0.98	-0.669	-0.803	-0.865	0.883	-0.836	-0.773	-0.766	0.98	-0.952
THB	0.94	-0.832	0.974	-0.699	-0.807	-0.889	0.909	-0.862	-0.738	-0.747	0.972	-0.923
SGD	0.925	-0.541	0.902	-0.879	-0.877	-0.903	0.924	-0.832	-0.516	-0.495	0.889	-0.904
JPY	0.909	-0.617	0.872	-0.802	-0.813	-0.914	1	-0.886	-0.574	-0.581	0.876	-0.885
TWD	0.836	-0.709	0.899	-0.733	-0.904	-0.844	0.815	-0.769	-0.574	-0.529	0.889	-0.802
CAD	0.788	-0.476	0.807	-0.688	-0.779	-0.727	0.729	-0.664	-0.494	-0.413	0.785	-0.758
CCN12M	0.357	0.074	0.301	-0.585	-0.331	-0.3	0.385	-0.186	0.184	0.144	0.327	-0.32
IDR	0.282	0.186	0.159	-0.645	-0.374	-0.368	0.325	-0.282	0.271	0.277	0.203	-0.3
KRW	-0.215	0.681	-0.138	-0.282	-0.07	-0.008	-0.058	0.102	0.501	0.549	-0.257	0.221
INR	-0.293	0.447	-0.205	-0.055	0.043	0.048	-0.039	0.165	0.386	0.468	-0.214	0.292
USGG10	-0.782	1	-0.859	0.428	0.615	0.678	-0.617	0.635	0.881	0.903	-0.828	0.782
AUD	-0.824	0.412	-0.831	0.932	0.858	0.841	-0.866	0.7	0.468	0.427	-0.773	0.78
PHP	-0.875	0.935	-0.896	0.568	0.73	0.723	-0.754	0.719	0.849	0.833	-0.888	0.846
NZD	-0.884	0.591	-0.859	0.826	0.767	0.793	-0.85	0.771	0.534	0.581	-0.859	0.88
GBP	-0.977	0.764	-0.963	0.792	0.871	0.876	-0.872	0.816	0.666	0.643	-0.969	0.961
EUR	-0.986	0.782	-0.952	0.737	0.784	0.869	-0.885	0.844	0.725	0.713	-0.969	1

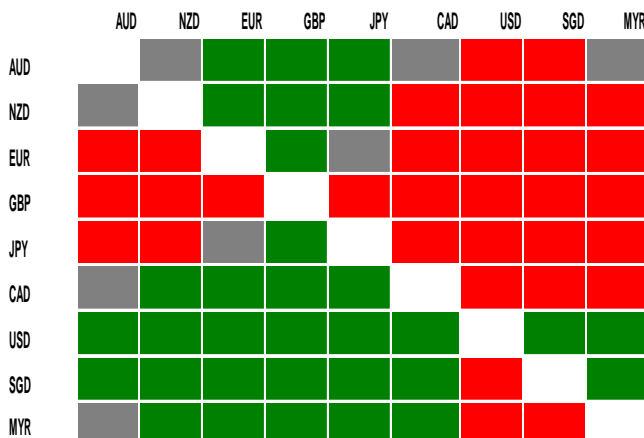
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2038	1.2400	1.2456	1.2500	1.2537
GBP-USD	1.3632	1.4100	1.4116	1.4200	1.4345
AUD-USD	0.7825	0.7900	0.7924	0.8000	0.8136
NZD-USD	0.7184	0.7200	0.7293	0.7300	0.7405
USD-CAD	1.2263	1.2400	1.2415	1.2500	1.2550
USD-JPY	108.28	109.00	109.88	110.00	111.70
USD-SGD	1.3017	1.3100	1.3181	1.3200	1.3324
EUR-SGD	1.6038	1.6400	1.6419	1.6446	1.6453
JPY-SGD	1.1900	1.1921	1.1995	1.2000	1.2057
GBP-SGD	1.8164	1.8600	1.8606	1.8700	1.8732
AUD-SGD	1.0400	1.0417	1.0444	1.0500	1.0519
Gold	1302.70	1311.59	1329.40	1359.36	1365.40
Silver	16.23	16.60	16.65	16.65	16.70
Crude	62.31	64.80	64.83	64.90	66.51

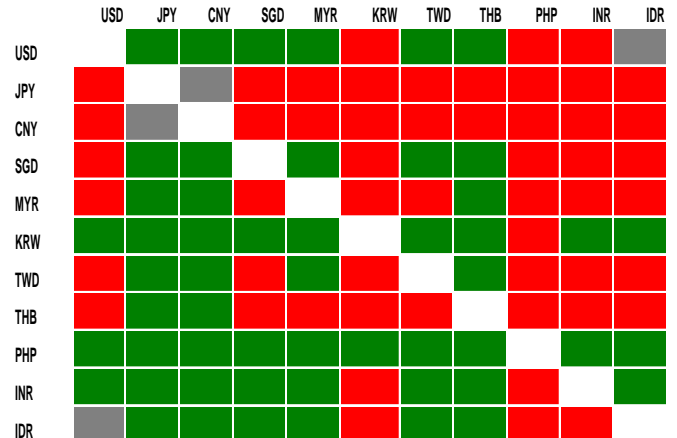
Source: OCBC Bank

G10 FX Heat Map



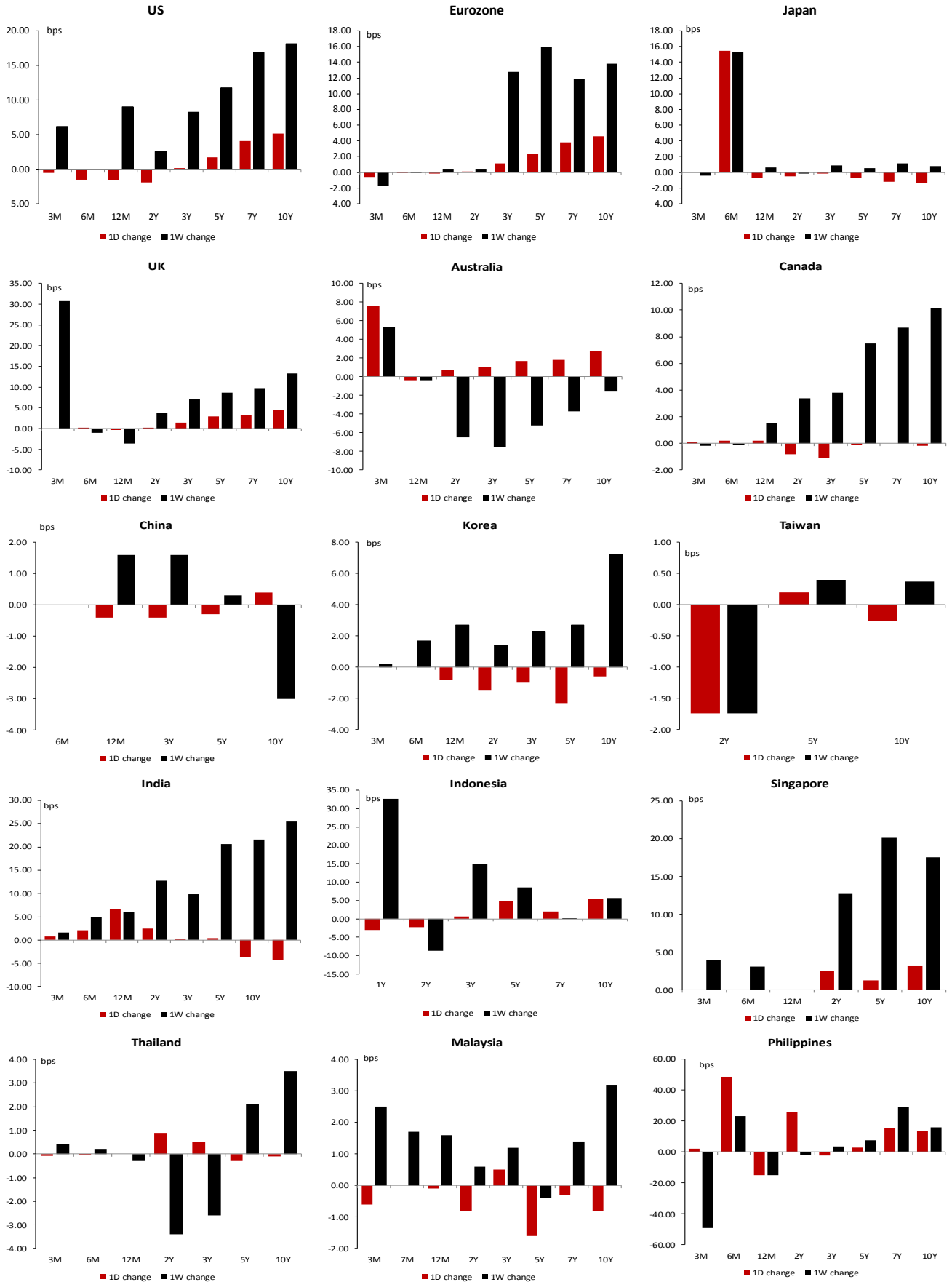
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	15-Jan-18	B	EUR-USD	1.2199	1.2645	1.2305	"Hawkish" ECB expectations, positive German political news flow	
2	16-Jan-18	S	USD-SGD	1.3230	1.2990	1.3175	Heavy dollar, positive risk appetite, SGD NEER not excessively strong	
STRUCTURAL								
3	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
4	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	07-Nov-17	04-Jan-18	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	-0.90**	
2	21-Nov-17	09-Jan-18	S	USD-SGD	1.3561	1.3345	Little contagion in geopolitical risks, sanguine portfolio inflow environment, USD fragility	+1.56
3	09-May-17	12-Jan-18	B	GBP-USD	1.2927	1.3700	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?	+4.71
4	27-Nov-17	26-Jan-18	B	GBP-USD	1.3344	1.4135	Investors may impute Brexit talks in December. Prevailing USD weakness.	+5.56
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Source: OCBC Bank

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