

Wednesday, February 07, 2018

**FX Themes/Strategy/Trading Ideas**

- Except against the CHF and JPY, the USD once again ended weaker against the majors by late NY as risk appetite stabilized and the S&P500 bounced +1.74% and the UST curve lifted (10y UST yield back to 2.8054%) . Note that the **FXSI (FX Sentiment Index)** also slipped back into Risk-Neutral territory from Risk-Off late Monday. Late Tuesday, a better than expected set of 4Q labor market numbers also boosted the NZD-USD.
- For today, markets are in for a swath of Fed appearances, with Kaplan (1100 GMT), Dudley (1330 GMT), Evans (1515 GMT), and Williams (2220 GMT). On the ECB front, look also to Nouy and Lautenschlaeger (0900 GMT). In addition, the RBNZ rate decision (2000 GMT) and accompanying press conference by Spencer (2100 GMT) will be closely scrutinized. In Asia, the RBI rate decision (0900 GMT) will be watched for any hawkish cues, although the consensus is looking for no change in the policy parameters.
- At this juncture, indigestion with respect to a market overly short the USD may have been alleviated (note short term riskies have pared significantly the implied bearish dollar postures) although it seems that the de facto attitude we think remains one of inherent dollar vulnerability going ahead. Equities may remain at the epicenter of nervousness in the short term (especially with the cited overhang from the levered short vol community) and another bout of acute selling may be expected to infect FX space again.
- The **RBA** policy meeting statement on Tuesday was subtly more sanguine in terms of its prognosis for global and domestic growth, gradual improvements in the labor market as well as the inflation outlook. Overall, there was no effort to instill any hints of hawkishness with markets still struggling to price in a hike this year. Nonetheless, the statement we think did not detract negatively from the AUD's near term prospects.

**Asian FX**

- EM FX also fared better generally against the greenback on Tuesday and with the bounce in Asian equities early Wednesday, the **ACI (Asian Currency Index)** may attempt to establish a near term top today, with its structural medium term still pointing south (implicit USD weakness) for the coming weeks.
- Although global sentiment stabilized overnight, Asian FX may lack a second wind to strengthen significantly from here, with net portfolio inflows still undergoing a hiccup (except for India) after a strong start to the year in

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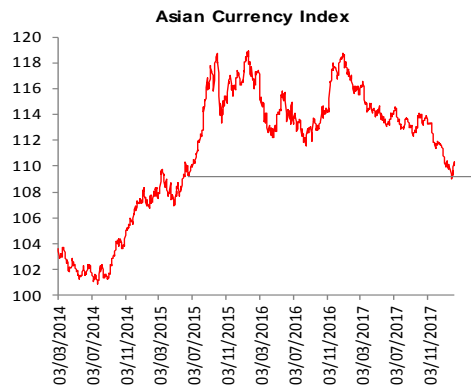
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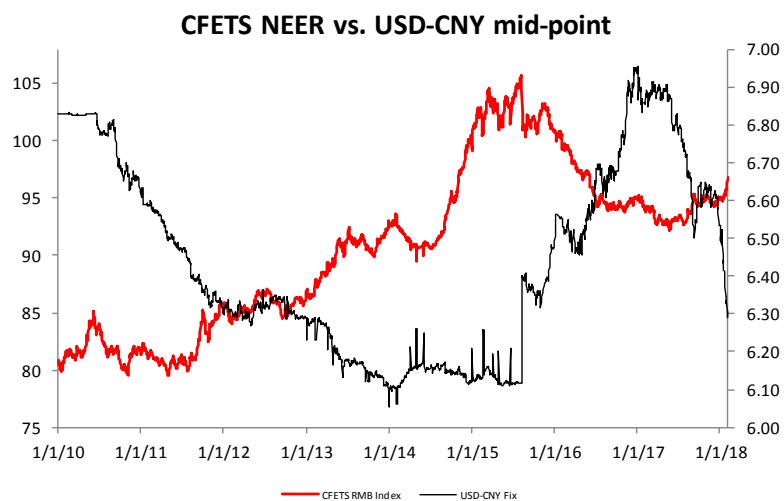
- On this front, net equity inflows on a rolling basis has fallen into negative territory for the PHP, while hitherto strong bond inflows for the THB and the IDR have been crimped significantly of late. Up north, equity inflows for the TWD have weakened, with the same measure falling into outflow territory for the KRW (although net bond inflows are still significant). In the interim, stay heavy on the USD-CNH, given differing flow dynamics and the recent guidance of the CFETS RMB Index.
- SGD NEER:** The SGD NEER eventually ended higher on the day near +0.30% but it has since retraced to around +0.18% above its perceived parity (1.3206). NEER-implied USD-SGD thresholds are softer and we look for a 0.0% to +0.30% (1.3167) range pending further risk appetite/USD developments.



	SGD NEER	% deviation	USD-SGD
Current	124.46	0.16	1.3186
+2.00%	126.74		1.2947
Parity	124.26		1.3206
-2.00%	121.77		1.3476

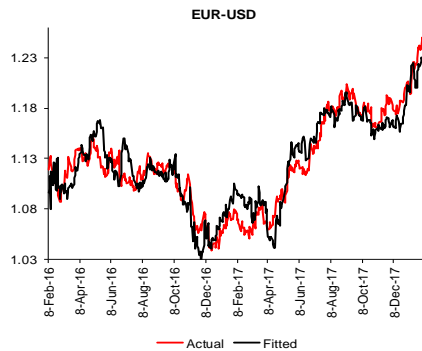
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (as largely expected) to 6.2882 from 6.3072 on Tuesday, leaving the CFETS RMB Index a touch higher at 97.02 from 96.83 yesterday.



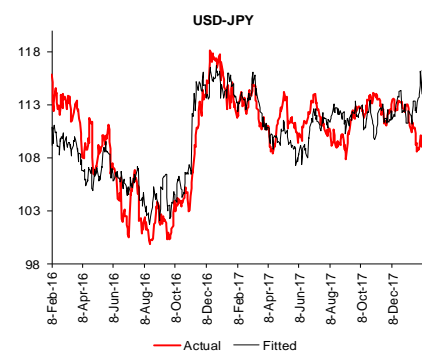
Source: OCBC Bank, Bloomberg

## G7



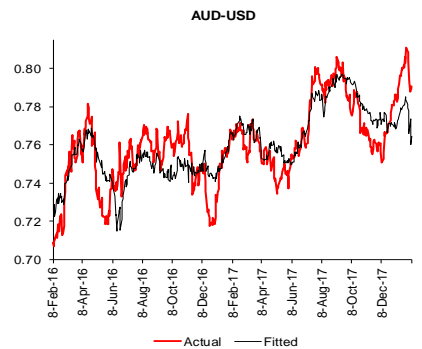
Source: OCBC Bank

- **EUR-USD** Potential headlines from German political coalition talks on Wednesday may grant the EUR some support if concrete progress is made. Continue to expect base building behavior towards 1.2300 ahead of the slew of Fed/ECB appearances today.



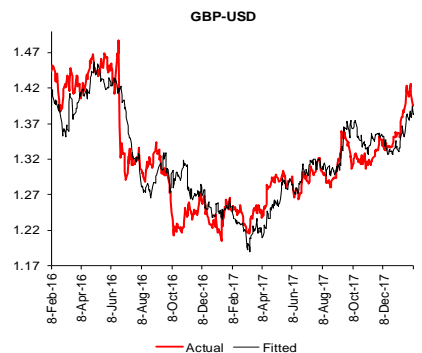
Source: OCBC Bank

- **USD-JPY** With risk aversion abating, USD-JPY may find better support on dips, with short term implied valuations also attempting to stabilize. BOJ rhetoric has been pretty unequivocal with respect to sustained monetary accommodation and ahead of Fed-speak later today, an anchor around 109.50 may be expected.



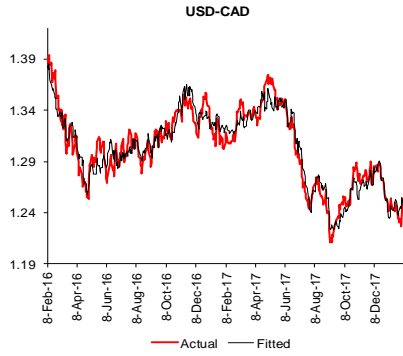
Source: OCBC Bank

- **AUD-USD** Short term implied valuations are still attempting to stabilize despite remaining slightly top heavy. Thus far, the 382 Fibo retracement level of 0.7894 has managed to stave off a sustained breach lower but as mentioned yesterday, the 50% retracement of 0.7819 may remain in play if risk appetite levels remain tender.



Source: OCBC Bank

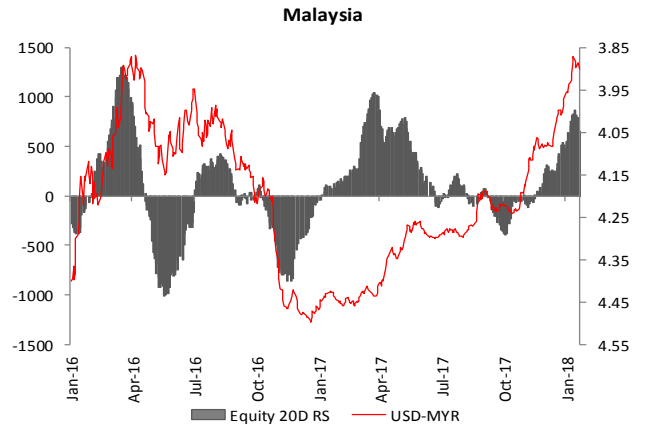
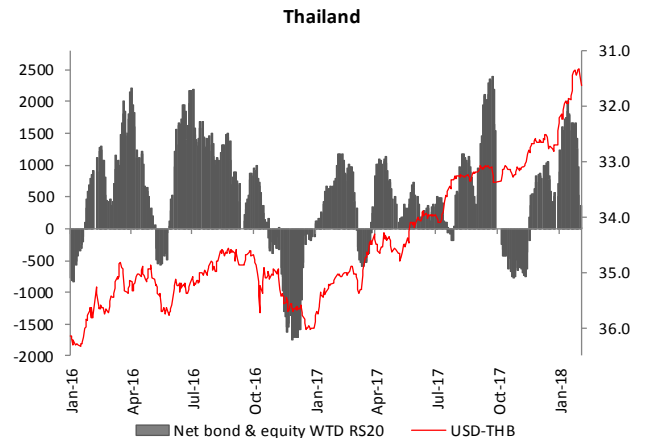
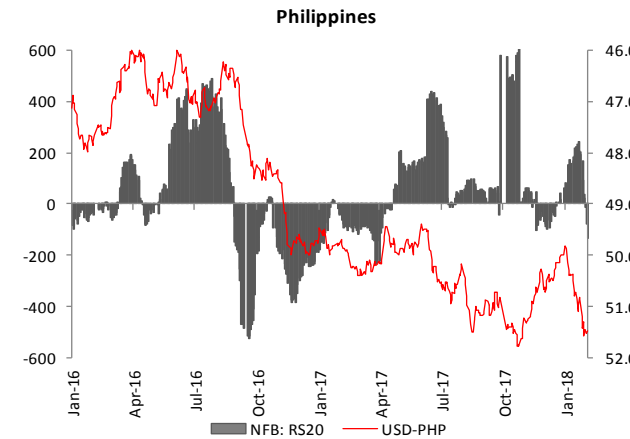
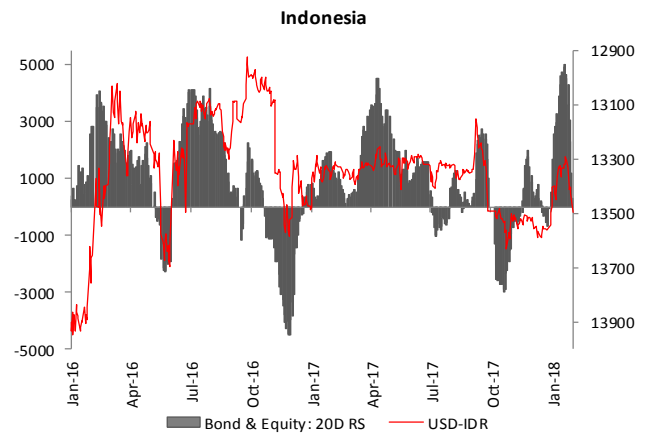
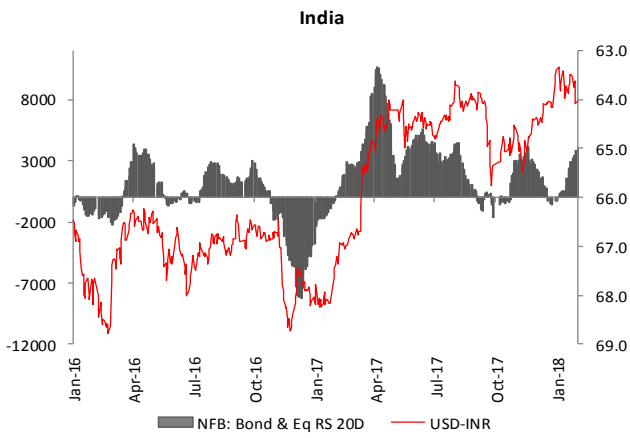
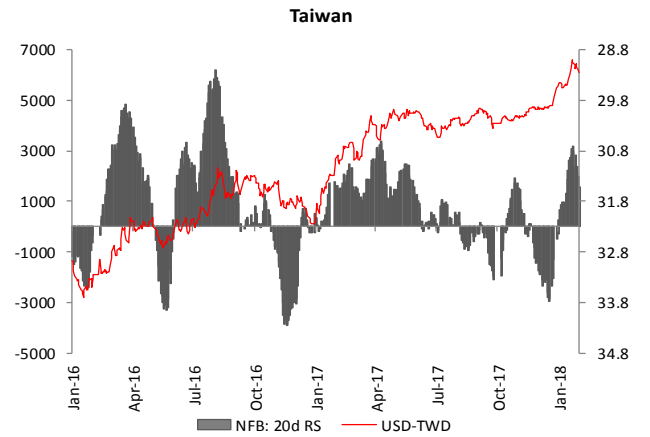
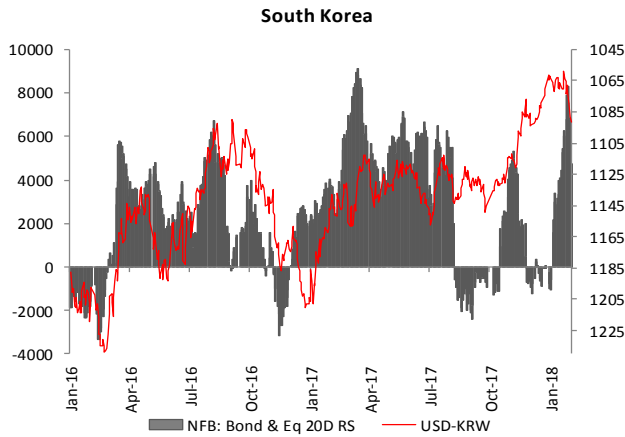
- **GBP-USD** After bouncing off intra-day lows below 1.3900, the pair managed to end the day relatively unchanged. Short term implied valuations remain range bound at this juncture with consolidation expected around 1.3930/50 ahead of the BOE on Thursday and with a potential overhang from Brexit-related headlines.



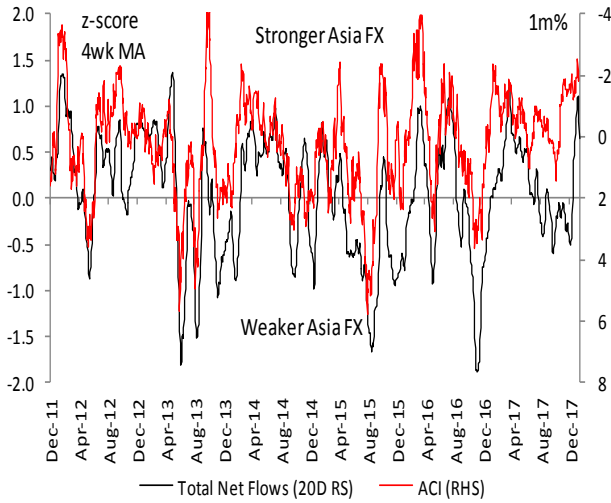
Source: OCBC Bank

- USD-CAD** In line with the other cyclicals, the recovery in risk appetite may forestall undue CAD weakness intra-day, despite short term implied valuations looking slightly more supported. A 1.2450-1.2565 range may prevail pending the BOC’s Wilkins on Thursday and as investors wait for the smoke to clear from global markets.

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

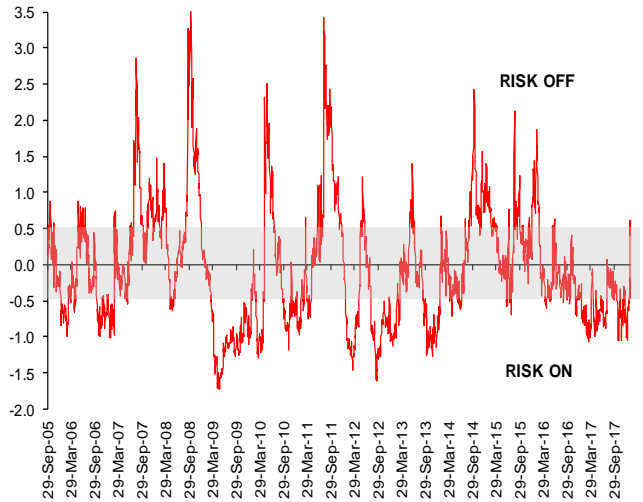


**ACI VS. Net Capital Flows**



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	-0.789	0.944	-0.366	-0.501	-0.789	0.913	-0.796	-0.366	-0.565	0.957	-0.986
MYR	0.963	-0.757	0.944	-0.346	-0.526	-0.807	0.899	-0.785	-0.39	-0.512	0.947	-0.947
CNH	0.957	-0.862	0.994	-0.174	-0.323	-0.651	0.872	-0.612	-0.538	-0.722	1	-0.938
CHF	0.953	-0.845	0.98	-0.171	-0.381	-0.693	0.903	-0.704	-0.516	-0.692	0.971	-0.942
CNY	0.944	-0.871	1	-0.134	-0.325	-0.636	0.874	-0.658	-0.568	-0.739	0.994	-0.932
THB	0.942	-0.823	0.959	-0.288	-0.457	-0.768	0.913	-0.791	-0.406	-0.613	0.958	-0.926
SGD	0.928	-0.583	0.812	-0.615	-0.654	-0.888	0.879	-0.817	-0.098	-0.276	0.81	-0.908
JPY	0.913	-0.672	0.874	-0.31	-0.448	-0.796	1	-0.781	-0.409	-0.537	0.872	-0.894
TWD	0.832	-0.664	0.852	-0.425	-0.641	-0.792	0.805	-0.746	-0.231	-0.372	0.843	-0.798
CAD	0.649	-0.334	0.509	-0.728	-0.732	-0.745	0.485	-0.653	0.281	0.086	0.431	-0.574
CCN12M	0.387	0.014	0.355	-0.202	-0.148	-0.3	0.429	-0.148	-0.177	-0.077	0.379	-0.357
IDR	0.056	0.405	-0.187	-0.815	-0.631	-0.456	0.031	-0.313	0.718	0.691	-0.151	-0.066
KRW	-0.21	0.601	-0.401	-0.702	-0.521	-0.243	-0.202	-0.108	0.845	0.842	-0.378	0.199
INR	-0.353	0.574	-0.395	-0.456	-0.366	-0.153	-0.198	0.028	0.619	0.703	-0.402	0.353
AUD	-0.772	0.394	-0.598	0.822	0.77	0.867	-0.695	0.723	-0.183	0.003	-0.534	0.693
USGG10	-0.789	1	-0.871	-0.001	0.141	0.45	-0.672	0.535	0.552	0.816	-0.862	0.781
PHP	-0.856	0.931	-0.913	0.013	0.237	0.498	-0.769	0.566	0.625	0.795	-0.903	0.829
NZD	-0.878	0.661	-0.791	0.526	0.468	0.732	-0.81	0.696	0.156	0.401	-0.824	0.884
GBP	-0.966	0.739	-0.898	0.498	0.626	0.831	-0.847	0.789	0.215	0.417	-0.878	0.946
EUR	-0.986	0.781	-0.932	0.34	0.459	0.761	-0.894	0.765	0.373	0.571	-0.938	1

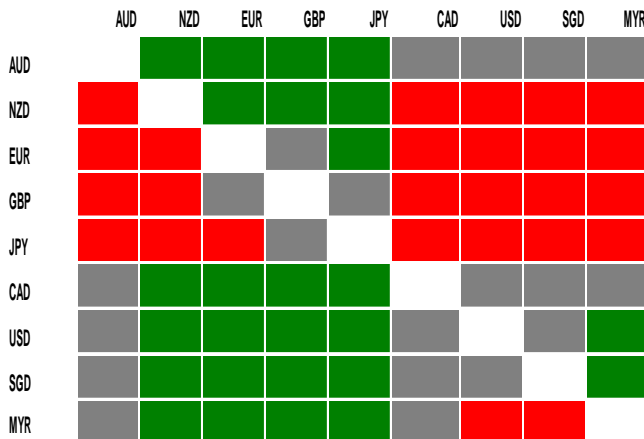
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2098	1.2300	1.2385	1.2400	1.2537
GBP-USD	1.3652	1.3900	1.3954	1.4000	1.4342
AUD-USD	0.7810	0.7846	0.7895	0.7900	0.8125
NZD-USD	0.7227	0.7300	0.7330	0.7389	0.7400
USD-CAD	1.2261	1.2500	1.2508	1.2564	1.2578
USD-JPY	108.28	109.00	109.41	110.00	111.65
USD-SGD	1.3043	1.3100	1.3186	1.3200	1.3287
EUR-SGD	1.6052	1.6300	1.6331	1.6400	1.6417
JPY-SGD	1.1923	1.2000	1.2052	1.2096	1.2100
GBP-SGD	1.8350	1.8370	1.8400	1.8732	1.8738
AUD-SGD	1.0399	1.0400	1.0411	1.0500	1.0518
Gold	1304.04	1315.14	1325.50	1357.91	1365.40
Silver	16.52	16.60	16.65	16.70	16.74
Crude	62.80	63.90	63.91	64.00	66.20

Source: OCBC Bank

**G10 FX Heat Map**



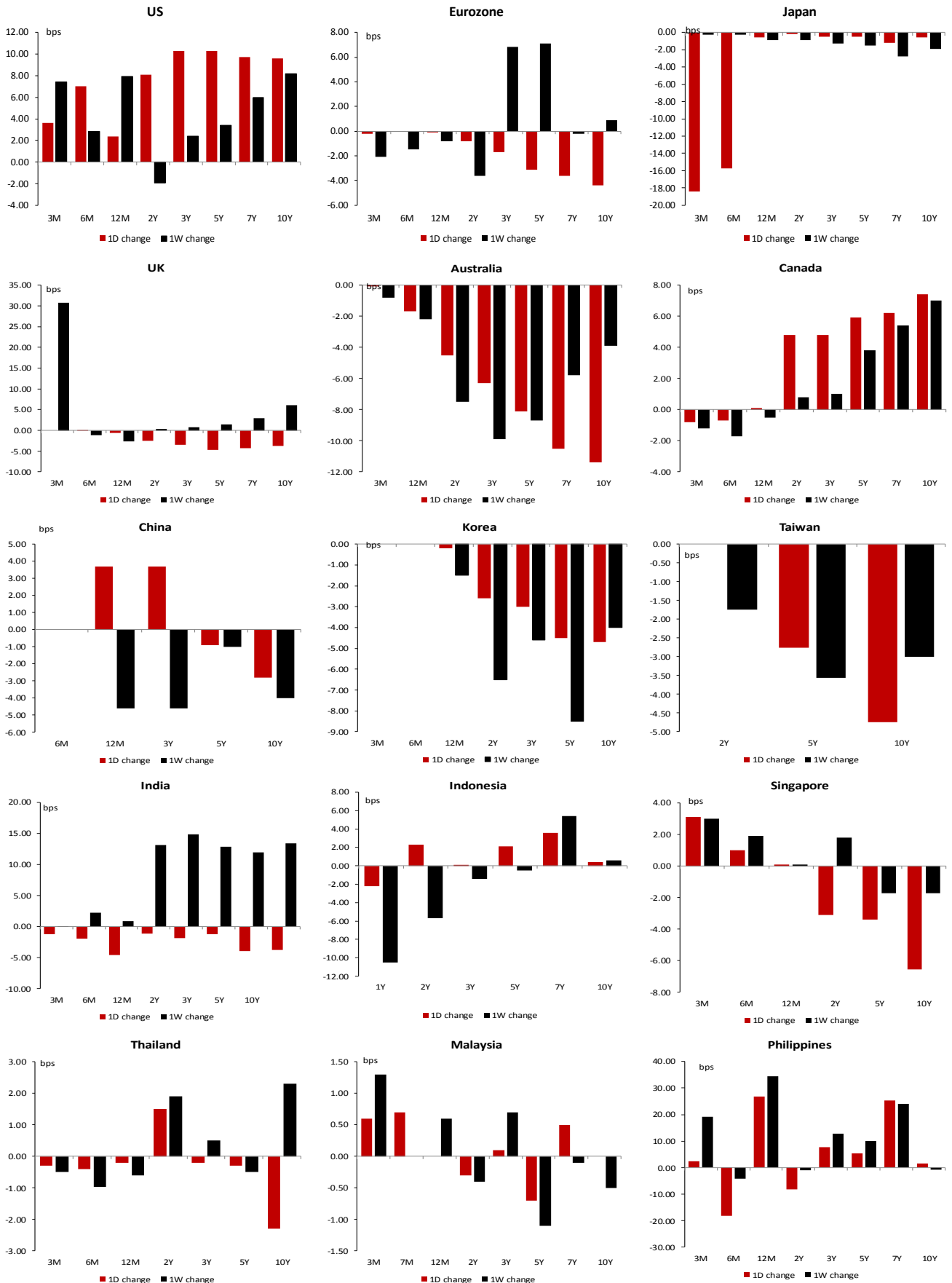
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes



### FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	15-Jan-18	B	EUR-USD	1.2199	1.2645	1.2305	"Hawkish" ECB expectations, positive German political news flow	
<b>STRUCTURAL</b>								
2	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
3	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	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
2	09-May-17	12-Jan-18	B	GBP-USD	1.2927	1.3700	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?	+4.71
3	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
4	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heavy dollar, positive risk appetite, SGD NEER not excessively strong	+0.39

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Source: OCBC Bank



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