

Monday, January 08, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite disappointing US December NFP numbers (+148k vs. +252 prev) and December non-manufacturing ISM (55.9 vs 57.4 prev), the dollar ended mixed on Friday with UST yields still higher on the day.
- The CAD outperformed across the board (with govt bond yields also higher) following significantly better than expected December labor market numbers (unemployment rate fell to 5.7% from 5.9%), with the street now looking for a rate hike this month.
- CFTC positioning: Large non-commercial accounts flipped to a net short dollar bias in aggregate in the latest week while leveraged accounts pared their net implied long dollar bias. Elsewhere, asset manager accounts also increased significantly their net implied short dollar bias in the latest week. Overall, the community continued to move against the greenback in the latest week.
- This week, the data calendar includes ECB meeting minutes on Thursday and US December CPI/retail sales numbers on Friday. China's December monetary aggregates are also due this week with December trade numbers scheduled for Friday. Central bank speak from the Fed (Bostic, Williams, and Rosengren today) is also scheduled every day of this week while the ECB's Weidmann is due on Friday.
- On balance, the US NFP numbers from last Friday left the USD (and Fed rate hike odds) none the worse for wear but investors we think will continue to channel their attention to the other major global central banks instead. Overall, market directionality may continue to be guided by a supportive risk appetite environment and near term global economic resilience.
- Our 21 Nov 17 idea to be tactically short **USD-SGD** (spot ref: 1.3561) reached its extended objective of 1.3270 on Thursday. Given the current dollar landscape, we extend our target to 1.3125, trailing the stop to 1.3345.

Asian FX

- Implied net equity inflows on the EPFR front moderated slightly in the first week of the year while net bond inflows increased in the same period. On a 4-week rolling basis, net implied equity inflows dwarf net implied bond inflows, exemplifying a market continuing to buy into a growth story while remaining wary of duration risks.

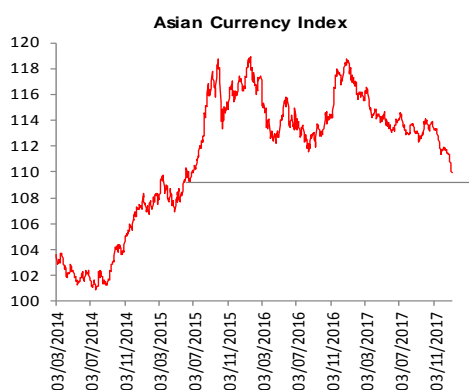
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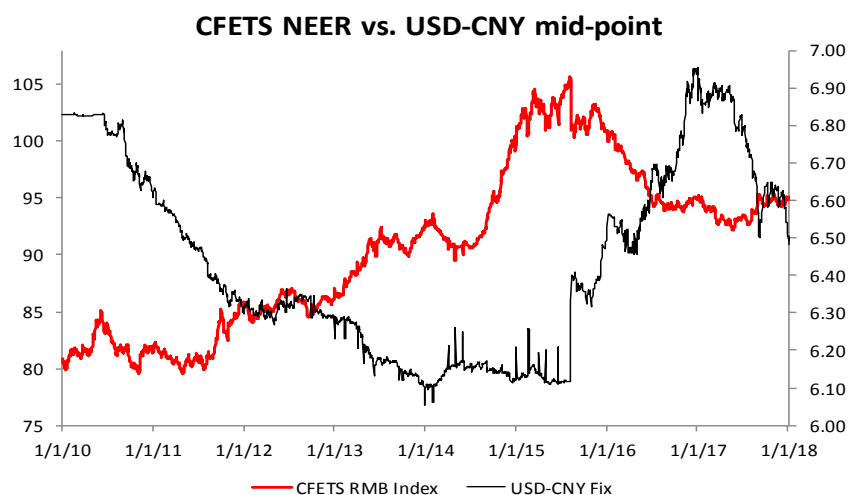
- Actual net equity and bond inflows into the region meanwhile echo the above mentioned narrative. For example, net equity inflows into South Korea have been balanced by net bond outflows. Net inflows into equities into Taiwan have also been strong, on the back of the supportive global equity complex.
- For India, net equity inflows have also outpaced minute bond inflows while net bond inflows for Thailand outpaced that of net equity inflows in the latest week. In Indonesia, where the search for yield continues to prevail, we note healthy bond inflows in the latest week.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** fell deeper into Risk-On territory on Friday with the **ACI (Asian Currency Index)** still expected to be top heavy in the near term on the back of a supportive EM equity landscape and wobbly DXY.
- **SGD NEER:** The SGD NEER brushed towards the +1.35% zone late Friday but has since retraced lower to around +1.25% above its perceived parity (1.3426). NEER-implied USD-SDG thresholds are softer on the day and the basket may be expected to ply a +1.10% (1.3280) to +1.40% (1.3241) range in the interim. The pair is expected to remain top heavy in the interim.



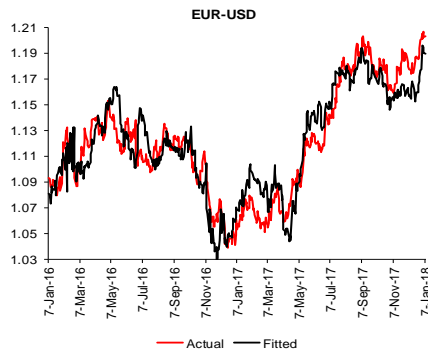
	SGD NEER	% deviation	USD-SGD
Current	125.80	1.24	1.3260
+2.00%	126.74		1.3163
Parity	124.26		1.3426
-2.00%	121.77		1.3700

Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning fell (as largely expected) to 6.4832 from 6.4915 on Friday, lifting the CFETS RMB Index to 95.06 from 94.90.

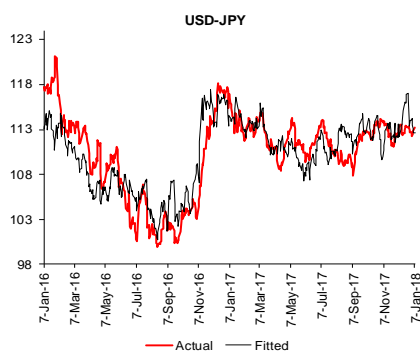


Source: OCBC Bank, Bloomberg

G7

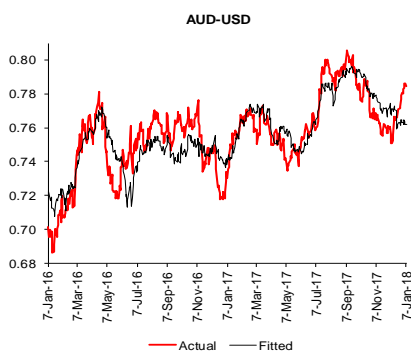
Source: OCBC Bank

- **EUR-USD** Bund yields remain underpinned despite the as expected EZ CPI readings last Friday while Christian Democrat-SPD talks this week may be expected to hold the markets hostage. Short term implied valuations continue to consolidate lower and look to accumulate on dips instead as opposed to chasing the upside within 1.1960-1.2090.



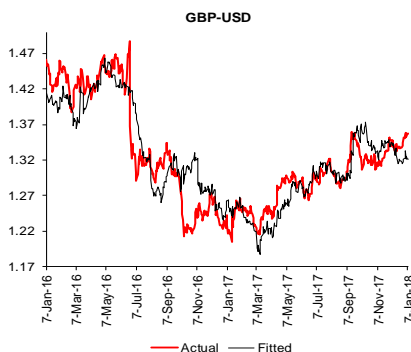
Source: OCBC Bank

- **USD-JPY** Despite Fed speak over the weekend (Williams, Mester) supportive of Fed rate hikes, the underlying dollar malaise mixed with positive risk appetite levels may continue to leave the USD-JPY trapped in a range. In the interim, the 55-day MA (112.95).



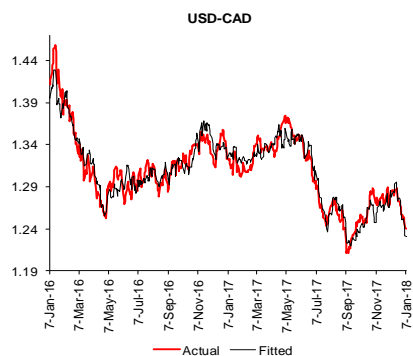
Source: OCBC Bank

- **AUD-USD** Short term implied valuations continue to remain consolidative and we think this may portend some scope for the AUD-USD to top out temporarily once the beginning of the year euphoria wears thin. An initial base towards 0.7815 continues to be expected.



Source: OCBC Bank

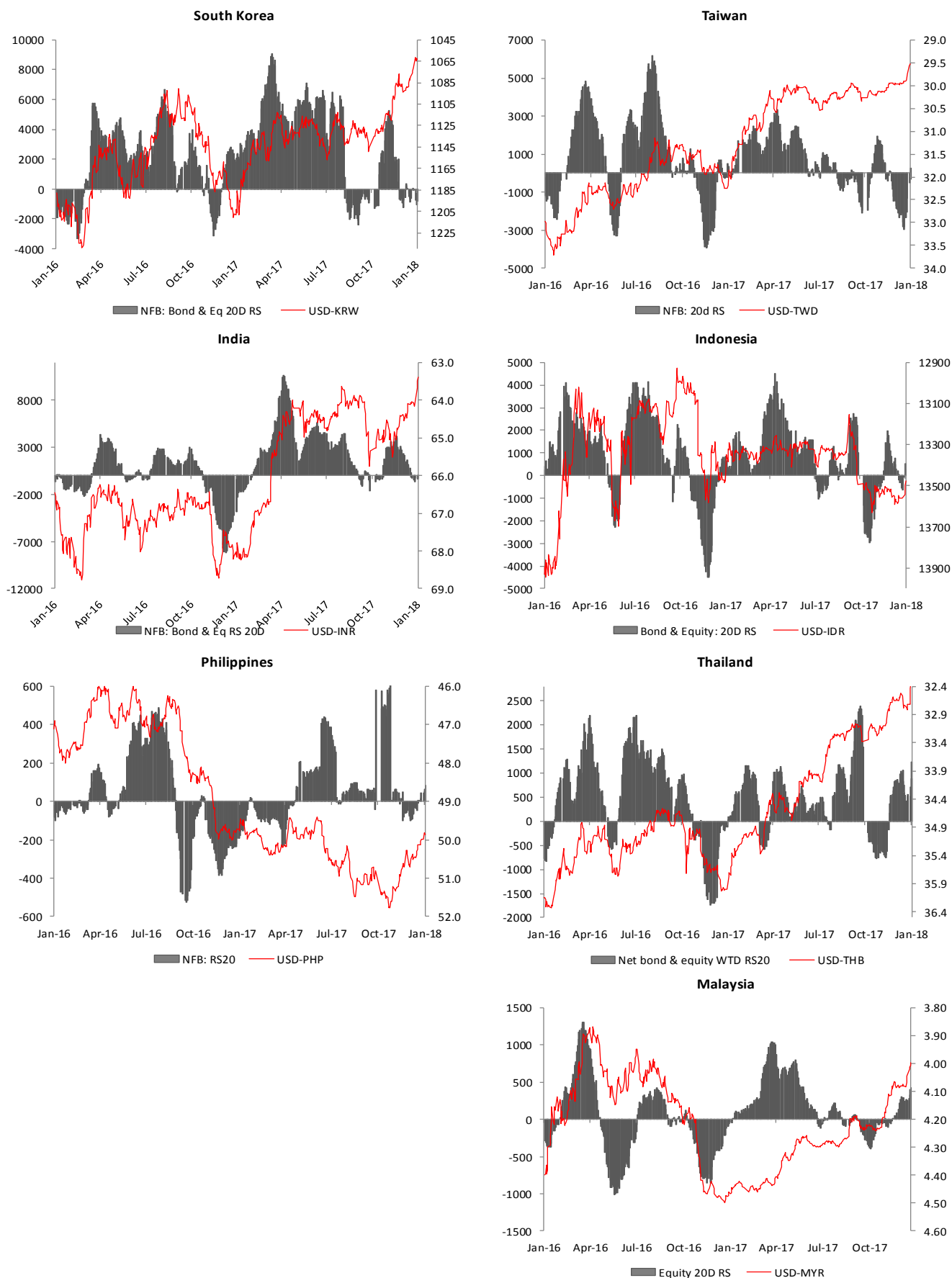
- **GBP-USD** The near term ceiling at 1.3600 may remain a hard habit to break in the near term with short term implied valuations still looking laden and with investors awaiting further Brexit-related cues. Expect investors to accumulate on dips within 1.3500-1.3615 instead.



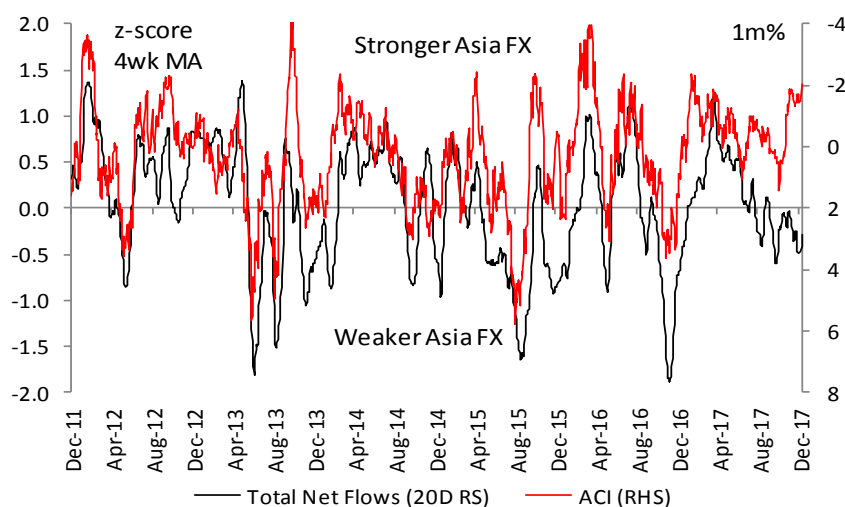
Source: OCBC Bank

- **USD-CAD** In the near term, USD-CAD may remain unambiguously heavy after last Friday's labor market release. Note that short term implied valuations have also ratcheted lower with spot attempting to play catch up. As such, expect the floor at 1.2400 to remain threatened with 1.2160 the next potential structural support.

USD-Asia VS. Net Capital Flows

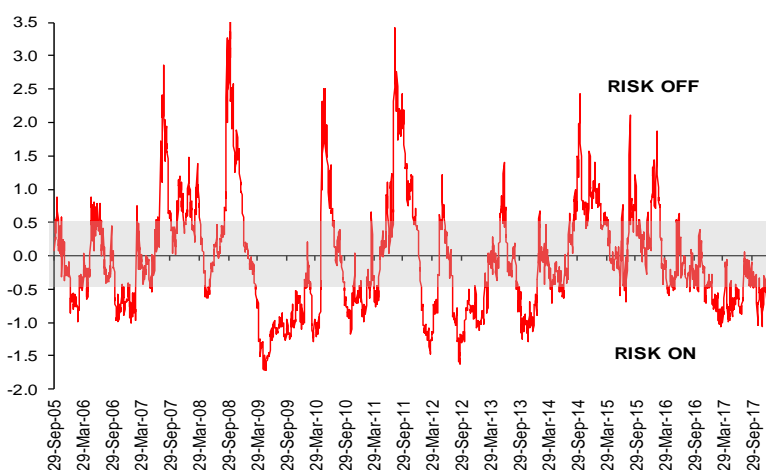


ACI VS. Net Capital Flows



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	-0.395	0.944	-0.696	-0.888	-0.941	0.43	-0.88	0.016	0.467	0.946	-0.99
SGD	0.977	-0.485	0.939	-0.79	-0.931	-0.937	0.404	-0.916	0.124	0.509	0.959	-0.974
KRW	0.956	-0.654	0.989	-0.841	-0.928	-0.975	0.24	-0.951	0.282	0.579	0.988	-0.966
CAD	0.956	-0.394	0.951	-0.657	-0.848	-0.959	0.343	-0.923	-0.009	0.594	0.955	-0.952
CHF	0.947	-0.32	0.835	-0.712	-0.856	-0.856	0.528	-0.812	0.041	0.287	0.863	-0.935
CNH	0.946	-0.589	0.986	-0.783	-0.902	-0.973	0.26	-0.958	0.108	0.552	1	-0.962
CNY	0.944	-0.568	1	-0.735	-0.888	-0.983	0.229	-0.952	0.057	0.585	0.986	-0.95
TWD	0.93	-0.363	0.896	-0.743	-0.903	-0.908	0.406	-0.884	0.261	0.494	0.886	-0.923
PHP	0.899	-0.595	0.948	-0.826	-0.942	-0.951	0.003	-0.976	0.204	0.717	0.956	-0.916
INR	0.876	-0.578	0.887	-0.886	-0.931	-0.859	0.335	-0.874	0.371	0.381	0.905	-0.895
MYR	0.873	-0.388	0.843	-0.693	-0.859	-0.816	0.388	-0.841	0.318	0.446	0.844	-0.895
CCN12M	0.779	-0.627	0.813	-0.899	-0.883	-0.795	0.237	-0.845	0.341	0.358	0.879	-0.831
IDR	0.649	-0.271	0.651	-0.548	-0.654	-0.658	0.195	-0.706	0.401	0.685	0.633	-0.668
THB	0.481	0.139	0.328	-0.387	-0.507	-0.336	0.556	-0.515	0.393	0.141	0.459	-0.555
JPY	0.43	0.337	0.229	-0.104	-0.245	-0.203	1	-0.092	-0.212	-0.327	0.26	-0.34
USGG10	-0.395	1	-0.568	0.674	0.544	0.547	0.337	0.599	-0.311	-0.444	-0.589	0.506
NZD	-0.851	0.507	-0.844	0.848	0.891	0.813	-0.335	0.847	-0.107	-0.433	-0.902	0.867
GBP	-0.868	0.146	-0.718	0.409	0.674	0.732	-0.546	0.695	0.026	-0.256	-0.748	0.854
AUD	-0.909	0.532	-0.912	0.831	0.902	0.897	-0.379	0.886	-0.051	-0.452	-0.949	0.911
EUR	-0.99	0.506	-0.95	0.734	0.896	0.946	-0.34	0.911	-0.081	-0.512	-0.962	1

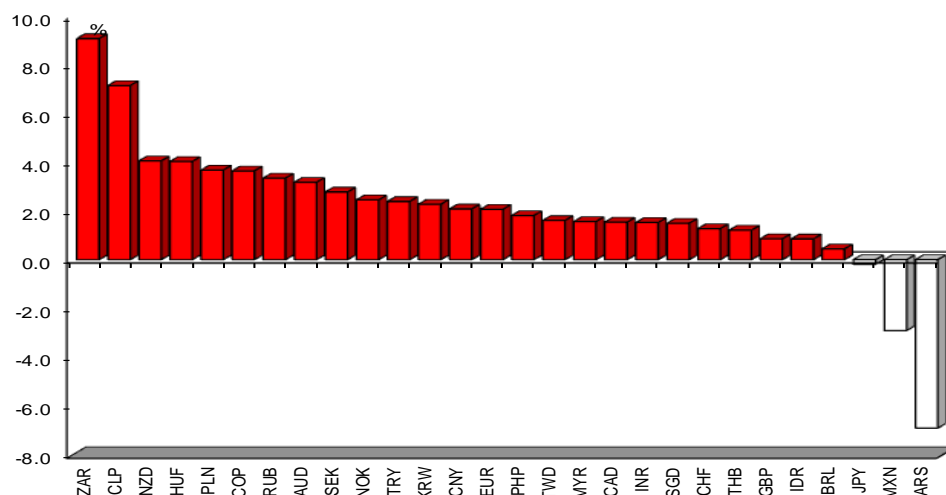
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1807	1.2000	1.2069	1.2089	1.2100
GBP-USD	1.3329	1.3500	1.3556	1.3581	1.3600
AUD-USD	0.7697	0.7800	0.7846	0.7869	0.7900
NZD-USD	0.7100	0.7102	0.7151	0.7163	0.7165
USD-CAD	1.2416	1.2484	1.2494	1.2500	1.2738
USD-JPY	112.00	112.11	112.79	112.85	113.00
USD-SGD	1.3247	1.3261	1.3271	1.3300	1.3488
EUR-SGD	1.5921	1.6000	1.6017	1.6055	1.6100
JPY-SGD	1.1748	1.1762	1.1766	1.1800	1.1948
GBP-SGD	1.7907	1.7976	1.7991	1.8000	1.8072
AUD-SGD	1.0322	1.0400	1.0413	1.0462	1.0486
Gold	1281.61	1300.00	1322.20	1327.30	1331.95
Silver	17.16	17.20	17.24	17.30	17.32
Crude	57.45	61.90	61.96	62.00	62.21

Source: OCBC Bank

FX performance: 1-month change agst USD

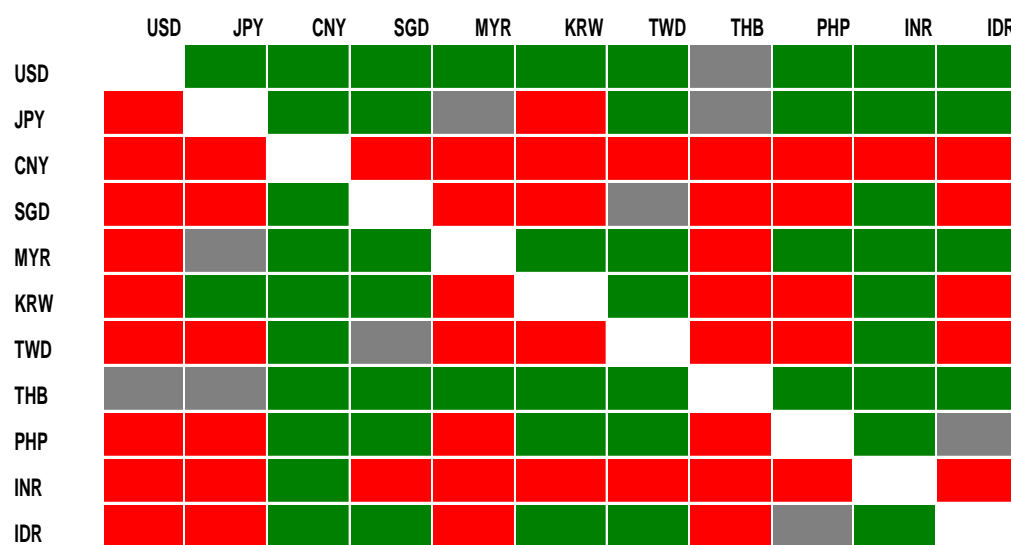


Source: Bloomberg

G10 FX Heat Map

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

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

FX Trade Ideas

FX Trade Ideas								
	Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale	
	TACTICAL							
1	21-Nov-17	S	USD-SGD	1.3561	1.3125	1.3345	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 imputeBrexit talks in December. Prevailing USD weakness.	
	STRUCTURAL							
3	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	07-Nov-17	13-Dec-17	S	AUD-USD	0.7671	0.7590	RBA on hold, no inflation or rate hike urgency	+0.78
2	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**
**of notional								

Source: OCBC Bank

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