

Tuesday, January 09, 2018

**FX Themes/Strategy/Trading Ideas – Pause for breath**

- Despite less than hawkish comments from the Fed's Bostic (voter), the USD recovered slightly across G10 space on cited profit taking.
- Softer bund yields shaved the EUR-USD lower while GBP-USD recovered from intra-day lows to end unchanged following a Cabinet reshuffle.
- The calendar today includes the Fed's Kashkari at 1500 GMT and in the interim, it remains to be seen if investors will resume their moves against the broad dollar (with the DXY thus far unable to detach successfully from the 92.00 handle on a sustained basis). Structurally, aggregate rate differentials would also seem to suggest that dollar weakness is slightly overplayed at this juncture, suggesting room for some consolidation.

**Asian FX**

- Asian central bank discomfort is expected to remain front and center amid official discomfort with an undue and accelerated tightening of monetary/financial conditions via their respective exchange rates.
- On other fronts, high level talks between the North and South today (first since 2015) may nevertheless maintain background optimism visible towards the KRW.
- Meanwhile, global EM equities notched higher (in tandem with EZ/US) on Monday and with EM risk premiums continuing to compress in the year to date, the **FXSI (FX Sentiment Index)** inched lower within Risk-On territory. This may be expected to continue to exert a weight on USD-Asia despite the **ACI (Asian Currency Index)** bouncing on Monday.
- On the net portfolio inflow front, South Korea saw significant bond inflows on Monday, mitigating the recent bond outflows. If equity inflows continue to strengthen in the coming sessions, the KRW may begin to look increasingly stretched on the upside.
- Meanwhile, equity inflows for the TWD continue apace, while the INR's recent gains remain incongruent relative to the recent lackluster net inflows (bond and equities). Expect the IDR to remain underpinned on the back of recent bond (and equity) inflows. Elsewhere, the THB remains a beneficiary of recent significant bond inflows. In aggregate however, net inflows into the region we think would have to strengthen further to forestall a sharp bounce in USD-Asia in the event of a DXY recovery.

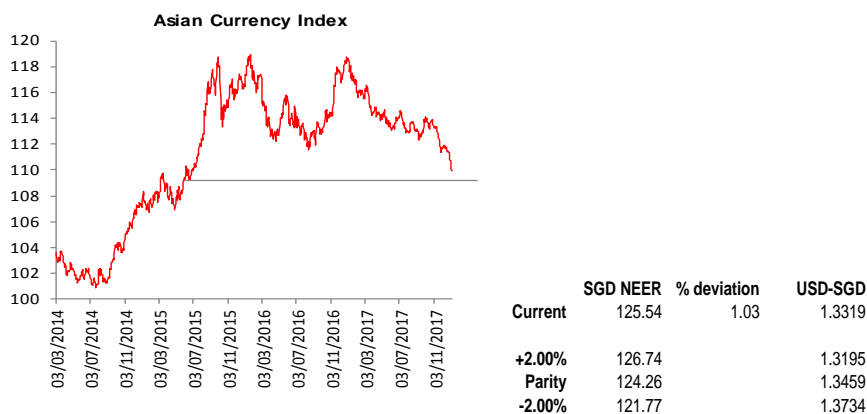
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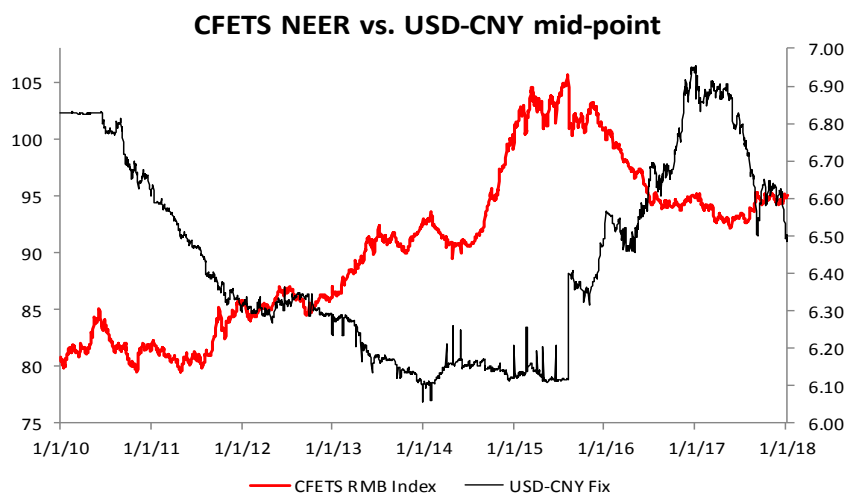
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- SGD NEER:** In the wake of the dollar bounce, the SGD NEER retreated lower significantly on Monday to around +1.04% currently above its perceived mid-point (1.3459). NEER-implied USD-SGD thresholds are also firmer on the day as a result and we'd expect the NEER to fluctuate within +0.90% (1.3339) and +1.10% (1.3313). Pending further external cues, expect a top heavy 1.3280-1.3380 range.



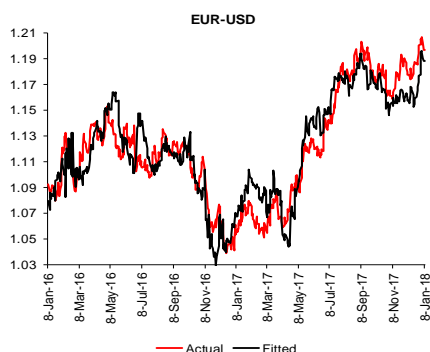
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point rose (as largely expected) to 6.4968 this morning from 6.4832 yesterday. This took the CFETS RMB Index a touch higher to 95.09 from 95.06 on Monday.



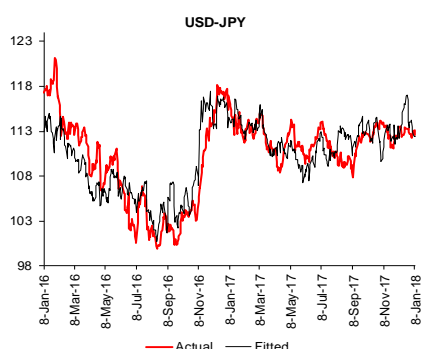
Source: OCBC Bank, Bloomberg

## G7



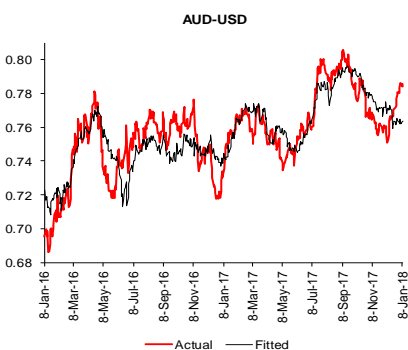
Source: OCBC Bank

- **EUR-USD** Despite improving December EZ confidence indicators, the EUR-USD succumbed to cited profit taking on Monday. Short term implied valuations are probing lower and this may invite a further consolidation towards the 1.1935 neighborhood ahead of 1.1900.



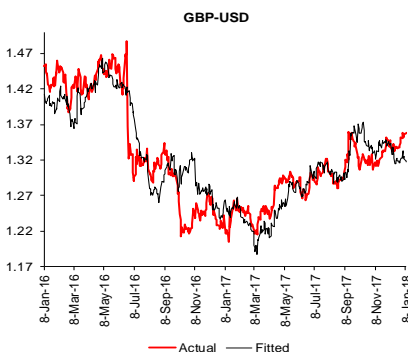
Source: OCBC Bank

- **USD-JPY** This morning, the USD-JPY tripped lower after the BOJ reduced its purchases of bond over 10 years maturity by JPY10bn. Note that short term implied valuations for USD-JPY have continued to decay and the pair may dribble towards 112.25 with the 55-day MA (112.92) and 113.00 limiting for now.



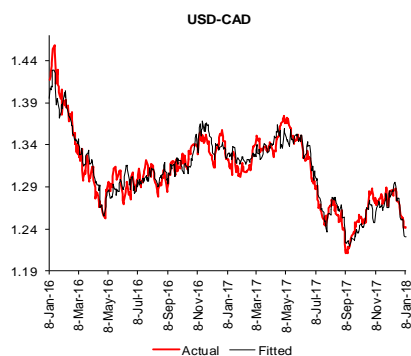
Source: OCBC Bank

- **AUD-USD** Significantly better than expected November building approvals boosted the AUD-USD early today and we note short term implied valuations attempting to inch higher again. Nevertheless, the pair remains well north of its implied confidence intervals and preference to collect into dips towards the 100-day MA (0.7774) instead.



Source: OCBC Bank

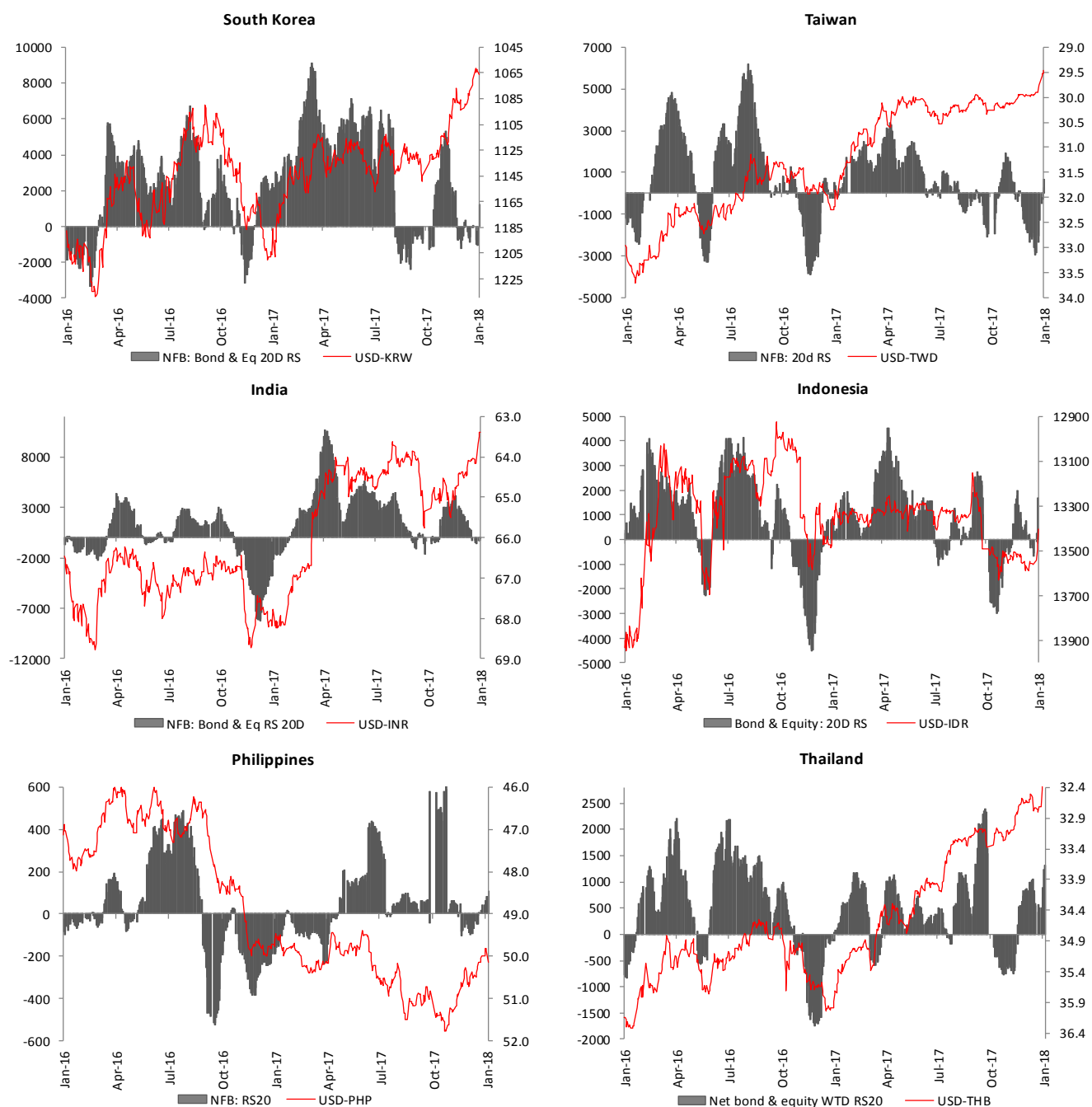
- **GBP-USD** Despite the Cabinet reshuffle occurring uneventfully, our view remains unchanged and the still heavy short term implied valuations may keep the GBP-USD trapped within 1.3500-1.3615 in the near term.

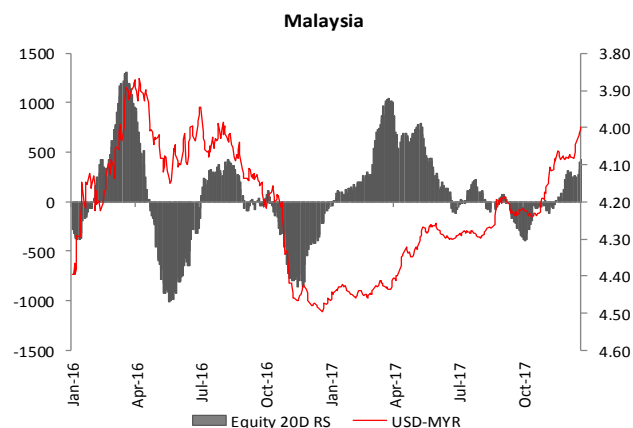


Source: OCBC Bank

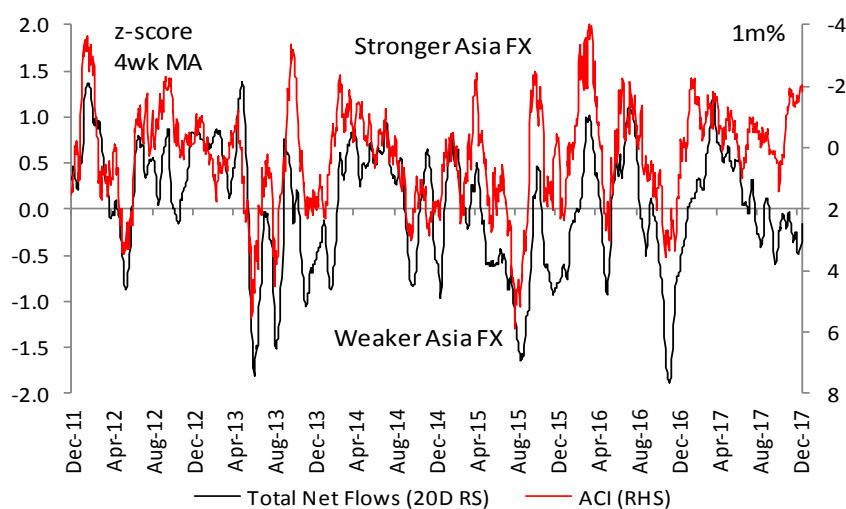
- **USD-CAD** Despite some attempt to bounce on Monday in the face of a broader dollar capitulation, short term implied valuations for the USD-CAD remain unambiguously southbound at this juncture. The support at 1.2400 remains in danger of a breach with 1.2160 the next potential structural support.

## USD-Asia VS. Net Capital Flows



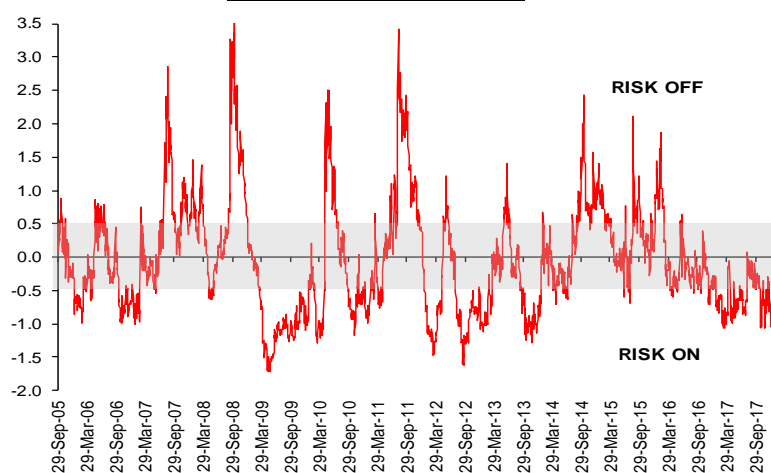


### ACI VS. Net Capital Flows



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	-0.372	0.947	-0.718	-0.868	-0.939	0.393	-0.899	0.099	0.57	0.948	-0.989
SGD	0.979	-0.461	0.941	-0.807	-0.924	-0.925	0.315	-0.91	0.228	0.667	0.958	-0.964
KRW	0.969	-0.512	0.983	-0.763	-0.87	-0.979	0.239	-0.935	0.123	0.615	0.981	-0.971
CHF	0.951	-0.255	0.841	-0.691	-0.816	-0.858	0.491	-0.797	0.099	0.427	0.847	-0.931
CNH	0.948	-0.565	0.987	-0.798	-0.887	-0.96	0.171	-0.957	0.177	0.674	1	-0.947
CNY	0.947	-0.545	1	-0.765	-0.884	-0.972	0.192	-0.965	0.127	0.686	0.987	-0.946
CAD	0.939	-0.434	0.953	-0.805	-0.921	-0.923	0.176	-0.952	0.148	0.741	0.957	-0.901
TWD	0.929	-0.407	0.92	-0.868	-0.963	-0.891	0.313	-0.924	0.345	0.667	0.929	-0.909
INR	0.886	-0.532	0.902	-0.879	-0.912	-0.847	0.302	-0.881	0.434	0.594	0.91	-0.89
PHP	0.87	-0.529	0.913	-0.552	-0.683	-0.958	0.103	-0.885	0.018	0.571	0.903	-0.898
MYR	0.861	-0.465	0.864	-0.872	-0.963	-0.788	0.187	-0.881	0.46	0.7	0.862	-0.831
CCN12M	0.833	-0.568	0.858	-0.85	-0.861	-0.831	0.19	-0.863	0.385	0.574	0.894	-0.833
IDR	0.766	-0.432	0.791	-0.913	-0.942	-0.728	0.088	-0.859	0.55	0.832	0.807	-0.753
THB	0.592	-0.07	0.536	-0.709	-0.783	-0.453	0.349	-0.638	0.515	0.499	0.571	-0.539
JPY	0.393	0.42	0.192	-0.072	-0.213	-0.19	1	-0.024	-0.06	-0.307	0.171	-0.297
USGG10	-0.372	1	-0.545	0.582	0.463	0.524	0.42	0.578	-0.277	-0.501	-0.565	0.473
NZD	-0.92	0.428	-0.912	0.845	0.907	0.862	-0.25	0.898	-0.146	-0.693	-0.935	0.88
AUD	-0.942	0.462	-0.94	0.78	0.858	0.926	-0.327	0.899	-0.077	-0.6	-0.96	0.924
GBP	-0.943	0.295	-0.848	0.732	0.896	0.813	-0.433	0.829	-0.144	-0.543	-0.861	0.892
EUR	-0.989	0.473	-0.946	0.717	0.844	0.943	-0.297	0.883	-0.139	-0.566	-0.947	1

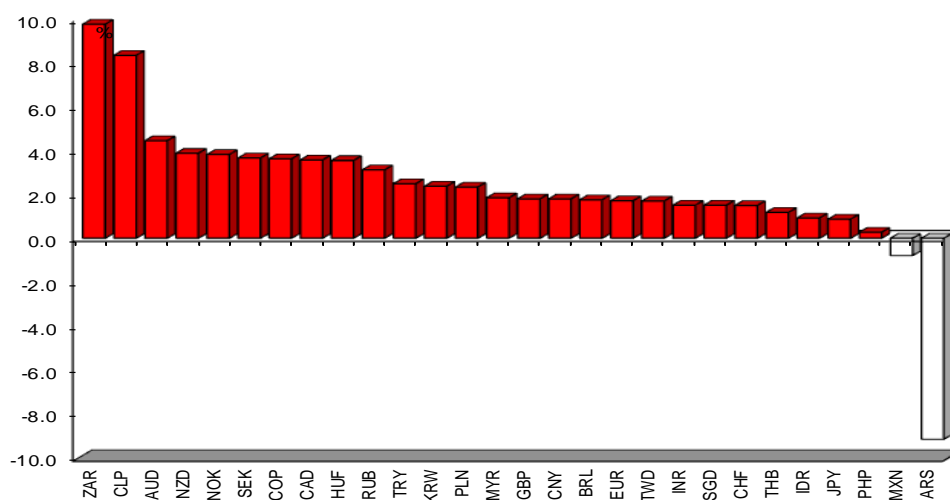
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.1819	1.1900	1.1973	1.2000	1.2089
<b>GBP-USD</b>	1.3342	1.3500	1.3578	1.3600	1.3613
<b>AUD-USD</b>	0.7700	0.7800	0.7860	0.7875	0.7900
<b>NZD-USD</b>	0.7100	0.7104	0.7180	0.7189	0.7197
<b>USD-CAD</b>	1.2356	1.2400	1.2410	1.2500	1.2718
<b>USD-JPY</b>	112.00	112.15	112.55	112.83	113.00
<b>USD-SGD</b>	1.3256	1.3300	1.3310	1.3400	1.3475
<b>EUR-SGD</b>	1.5900	1.5922	1.5937	1.6000	1.6045
<b>JPY-SGD</b>	1.1723	1.1800	1.1826	1.1900	1.1939
<b>GBP-SGD</b>	1.7977	1.8000	1.8072	1.8091	1.8100
<b>AUD-SGD</b>	1.0322	1.0400	1.0462	1.0465	1.0481
<b>Gold</b>	1283.27	1300.00	1319.40	1327.30	1340.52
<b>Silver</b>	16.77	17.10	17.14	17.15	17.20
<b>Crude</b>	57.80	62.10	62.16	62.20	62.56

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									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

### Asia FX Heat Map

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

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**
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Source: OCBC Bank

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