

Wednesday, January 10, 2018**FX Themes/Strategy/Trading Ideas**

- With the UST curve bear steepening from the back end (10y at 2.546%), the USD carved higher against the majors (except against the JPY) on Tuesday.
- As noted yesterday, the BOJ on Tuesday also trimmed its purchases of bonds with more than 10y year's maturity (we think more for modulation purposes). As a result, the JPY outperformed across the board although we think that yesterday's action was not intended as a signaling mechanism.
- New wire reports (not confirmed officially) that the PBOC had urged banks to omit the counter-cyclical factor in their estimates of the daily USD-CNY mid-points saw the USD-CNH (and the USD-CNY) jumping higher past 6.5300.
- Going ahead, major global curves were firmer on Tuesday but in aggregate, long-end rate differentials put the greenback on a superior footing as we head into today's session. Nonetheless, the reaction of global yields yesterday demonstrates the market's continuing belief that major global central banks may remain poised to tighten monetary conditions in 2018. In the interim, it remains to be seen if the DXY can stage a breakout beyond 92.50 on a sustained basis.

Asian FX

- EM equities consolidated lower despite positive EZ/US equities while EM FX also retraced lower against the greenback in tandem with the majors. On the risk appetite front, the **FXSI (FX Sentiment Index)** consolidated higher on Tuesday but remain within Risk-On territory.
- In the wake of overnight dollar moves and volatility in the USD-CNH on Tuesday, expect the **ACI (Asian Currency Index)** to potentially tilt higher on the day despite its structural model portending further heaviness on a medium term horizon. In the interim, actual net portfolio inflows indicate relative outperformance for the IDR and THB (on the back of strong bond inflows).
- As mentioned previously, bond inflows for the KRW have kicked in of late, and coupled with recent equity inflows, should moderate the perceived richness of the KRW. Meanwhile, we think the TWD would require further significant inflows to justify sustained gains, while the INR continues to look distended relative to the largely moribund net inflow environment.
- **SGD NEER:** The SGD NEER is significantly softer on the day at around

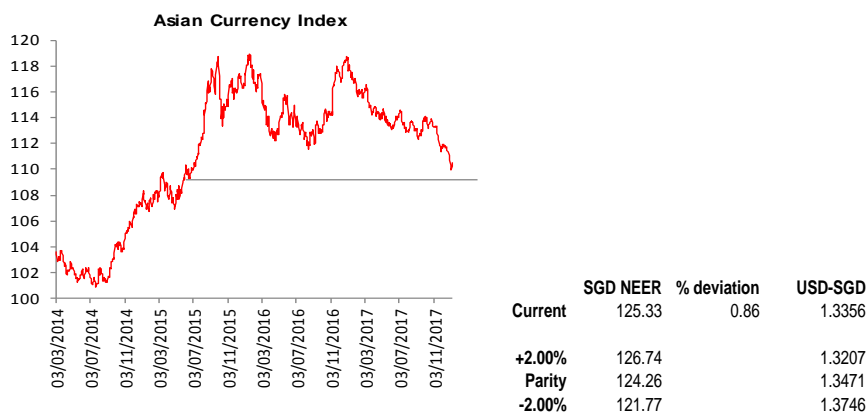
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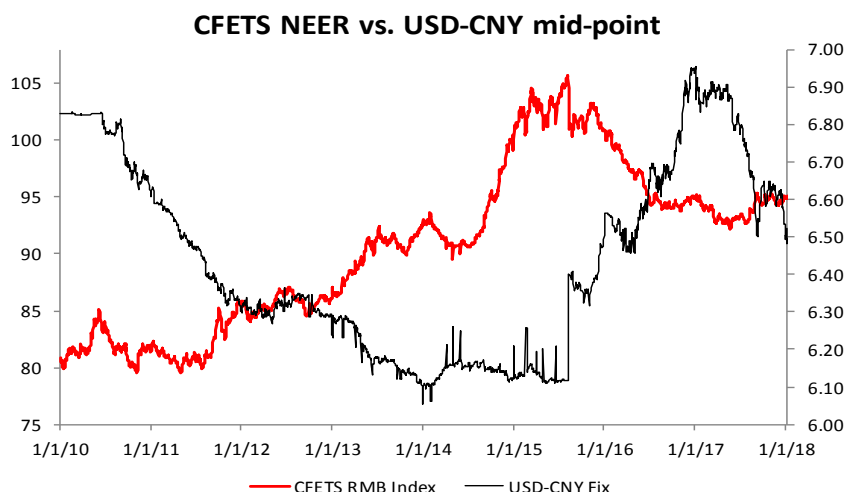
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+0.86% above its perceived parity (1.3471) after retreating for the second consecutive session on the back of the broad dollar bounce. NEER-implied USD-SGD thresholds are firmer on the day and the basket may be expected to hover within +0.80% (1.3364) and +1.00% (1.3338) intra-day.

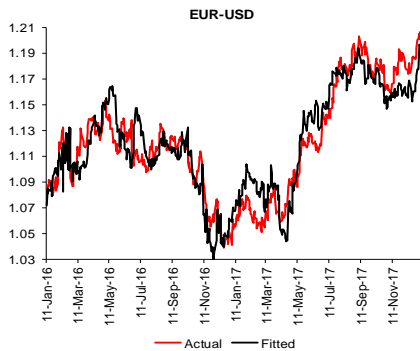


Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose to 6.5207 (largely in line with expectations and within estimated parameters) compared to 6.4968 yesterday. This brought the CFETS RMB Index lower to 94.83 from 95.07. Today's resultant fixing (after yesterday's news flow) did not incorporate the counter cyclical factor (CCF). To reiterate, the CCF has been used very infrequently in the past and should not visibly impact the mid-points going ahead. Note that the CCF is in effect an automatic (and bi-directional) stabilizer although the context of its introduction was in an environment of CNY depreciations expectations. It's "omission" going ahead (if in fact this is the case) does not imply inherent volatility on the upside for the USD-CNY mid-points nor does it signal greater official tolerance for CNY depreciation.

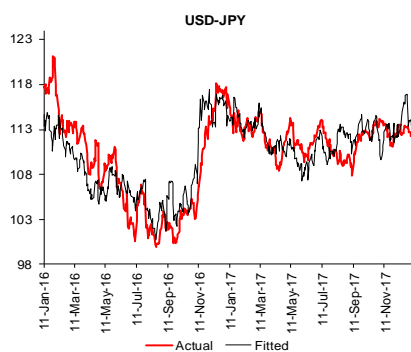


Source: OCBC Bank, Bloomberg

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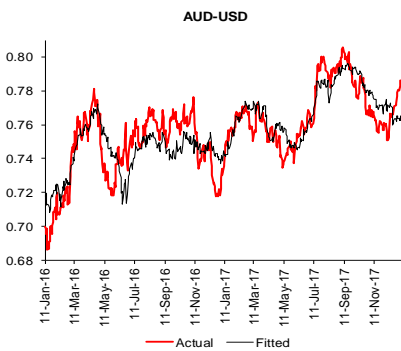
Source: OCBC Bank

- **EUR-USD** Short term implied valuations for the EUR-USD are softer on the day with the spots retracement lower now having exorcized its near term overvaluation. Expect some consolidation around the 1.1900/35 zone in the interim with little in the way of data and central bank speeches from the EZ today.



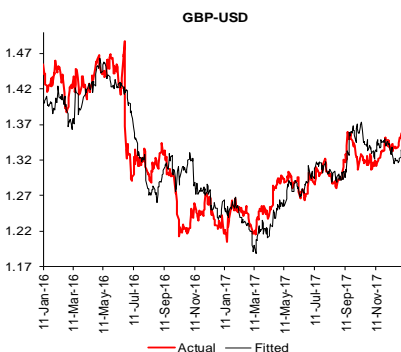
Source: OCBC Bank

- **USD-JPY** Fed-speak today comes in the form of Evans (1400 GMT), Kaplan (1410 & 1515 GMT), and Bullard (1830 GMT). Short term implied valuations have ticked higher but the USD-JPY may remain trapped between a rock (firmer US yields) and a hard place (BOJ-JGB static) in the near term. Wobbly JPY-crosses may result in a preference to fade upticks with the 200-day MA residing at 111.72.



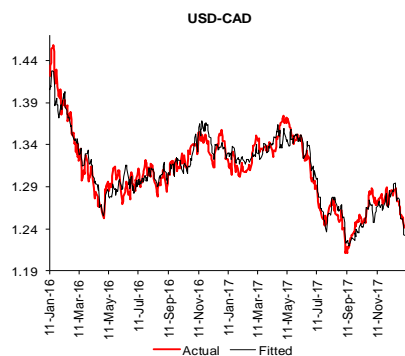
Source: OCBC Bank

- **AUD-USD** Short term implied valuations continue to remain range bound (to a touch lower) for the AUD-USD. The pair we think remains north of its implied confidence interval, leaving it vulnerable to any souring of global risk appetite levels going ahead. As such, a further capitulation towards the 100-day MA (0.7773) cannot be discounted at this juncture.



Source: OCBC Bank

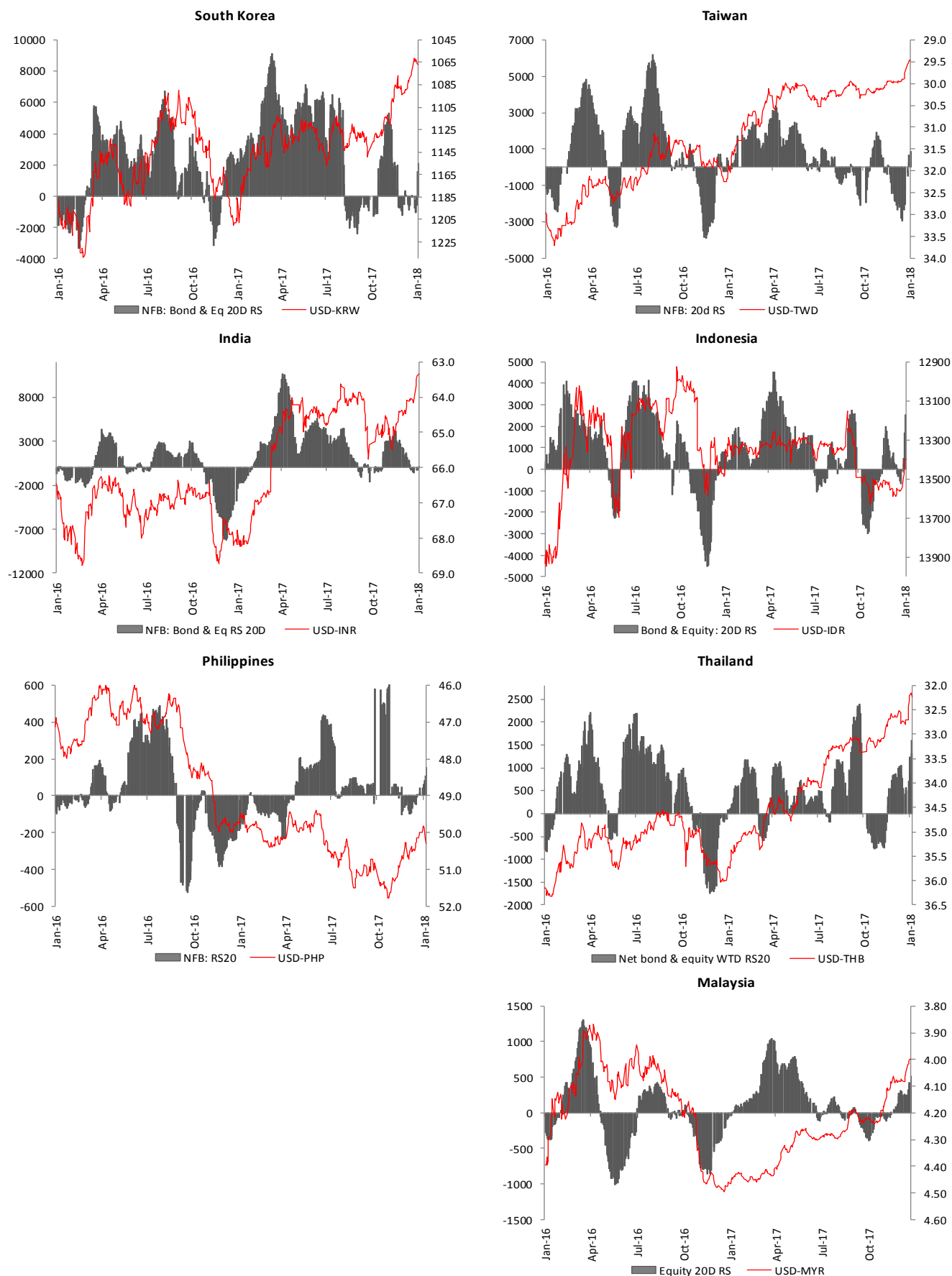
- **GBP-USD** Fallout from the Cabinet reshuffle coupled with the dollar bounce weighed on the GBP-USD on Tuesday. To reiterate, short term implied valuations for the pair remain inherently heavy and markets may continue work the 1.3500-1.3615 range in the near term.



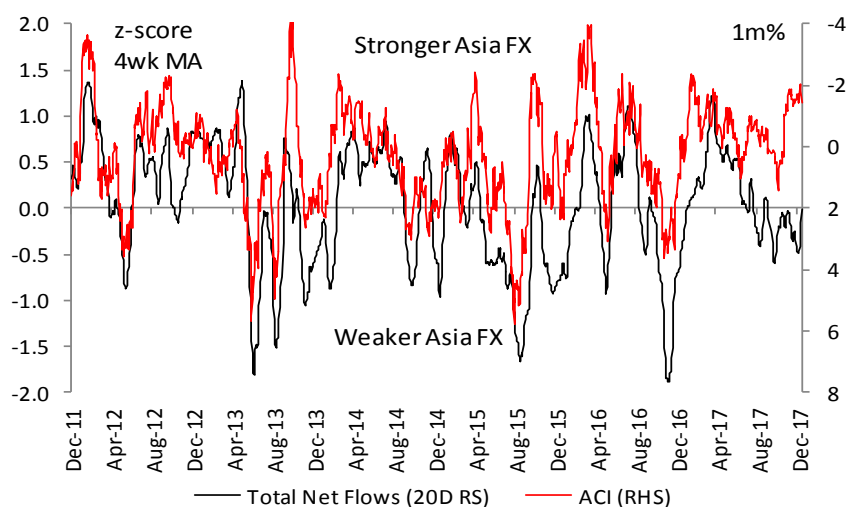
Source: OCBC Bank

- **USD-CAD** USD-CAD firmed for a second consecutive session on Tuesday in line with the slight uptick in its short term implied valuations. The pair may however remain slightly top heavy ahead of the BOC next week and with crude continuing to reach higher. Expect a 1.2400-1.2550 range in the interim.

USD-Asia VS. Net Capital Flows

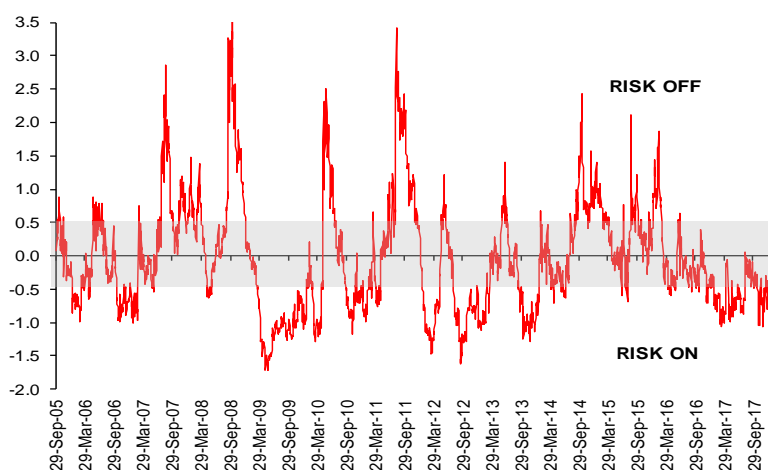


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	-0.388	0.948	-0.692	-0.825	-0.935	0.406	-0.863	0.082	0.579	0.948	-0.988
SGD	0.979	-0.452	0.942	-0.769	-0.877	-0.922	0.378	-0.834	0.209	0.674	0.955	-0.964
KRW	0.968	-0.623	0.99	-0.809	-0.877	-0.979	0.252	-0.885	0.261	0.706	0.978	-0.963
CNH	0.948	-0.505	0.987	-0.745	-0.825	-0.95	0.227	-0.854	0.164	0.668	1	-0.95
CNY	0.948	-0.539	1	-0.732	-0.839	-0.967	0.21	-0.92	0.11	0.689	0.987	-0.947
CHF	0.944	-0.179	0.837	-0.614	-0.729	-0.834	0.513	-0.647	0.097	0.411	0.834	-0.923
CAD	0.93	-0.519	0.94	-0.818	-0.916	-0.928	0.288	-0.936	0.108	0.763	0.925	-0.882
TWD	0.893	-0.499	0.881	-0.895	-0.976	-0.871	0.338	-0.923	0.31	0.739	0.876	-0.858
PHP	0.891	-0.384	0.904	-0.532	-0.638	-0.9	0.032	-0.781	0.138	0.655	0.912	-0.92
INR	0.888	-0.535	0.905	-0.841	-0.872	-0.851	0.318	-0.854	0.406	0.607	0.909	-0.889
MYR	0.853	-0.556	0.855	-0.879	-0.958	-0.803	0.312	-0.879	0.398	0.729	0.826	-0.812
CCN12M	0.775	-0.264	0.803	-0.629	-0.65	-0.735	0.174	-0.509	0.397	0.476	0.813	-0.769
IDR	0.733	-0.57	0.772	-0.921	-0.941	-0.729	0.102	-0.876	0.474	0.874	0.772	-0.708
THB	0.64	-0.238	0.556	-0.774	-0.826	-0.512	0.483	-0.686	0.492	0.585	0.554	-0.563
JPY	0.406	0.2	0.21	-0.141	-0.26	-0.222	1	-0.18	-0.077	-0.242	0.227	-0.334
USGG10	-0.388	1	-0.539	0.681	0.581	0.565	0.2	0.705	-0.187	-0.563	-0.505	0.43
NZD	-0.905	0.529	-0.896	0.86	0.912	0.87	-0.367	0.897	-0.1	-0.723	-0.895	0.855
GBP	-0.938	0.386	-0.846	0.746	0.886	0.825	-0.529	0.816	-0.11	-0.577	-0.837	0.88
AUD	-0.941	0.496	-0.938	0.772	0.841	0.93	-0.405	0.864	-0.052	-0.622	-0.947	0.915
EUR	-0.988	0.43	-0.947	0.673	0.785	0.933	-0.334	0.798	-0.127	-0.564	-0.95	1

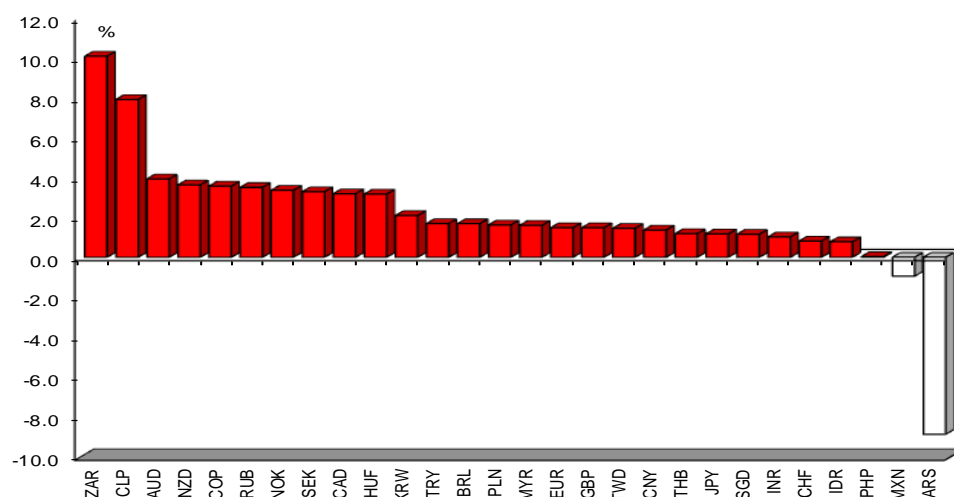
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1825	1.1900	1.1944	1.2000	1.2089
GBP-USD	1.3347	1.3500	1.3535	1.3600	1.3613
AUD-USD	0.7701	0.7800	0.7822	0.7875	0.7900
NZD-USD	0.7100	0.7105	0.7161	0.7197	0.7198
USD-CAD	1.2356	1.2400	1.2457	1.2500	1.2711
USD-JPY	112.00	112.10	112.21	112.79	113.00
USD-SGD	1.3256	1.3300	1.3356	1.3400	1.3471
EUR-SGD	1.5900	1.5925	1.5952	1.6000	1.6046
JPY-SGD	1.1729	1.1900	1.1902	1.1939	1.1981
GBP-SGD	1.7978	1.8000	1.8077	1.8095	1.8100
AUD-SGD	1.0322	1.0400	1.0447	1.0477	1.0481
Gold	1283.86	1300.00	1311.70	1327.30	1341.04
Silver	16.77	16.90	16.97	17.00	17.14
Crude	58.00	63.40	63.49	63.50	63.53

Source: OCBC Bank

FX performance: 1-month change agst USD



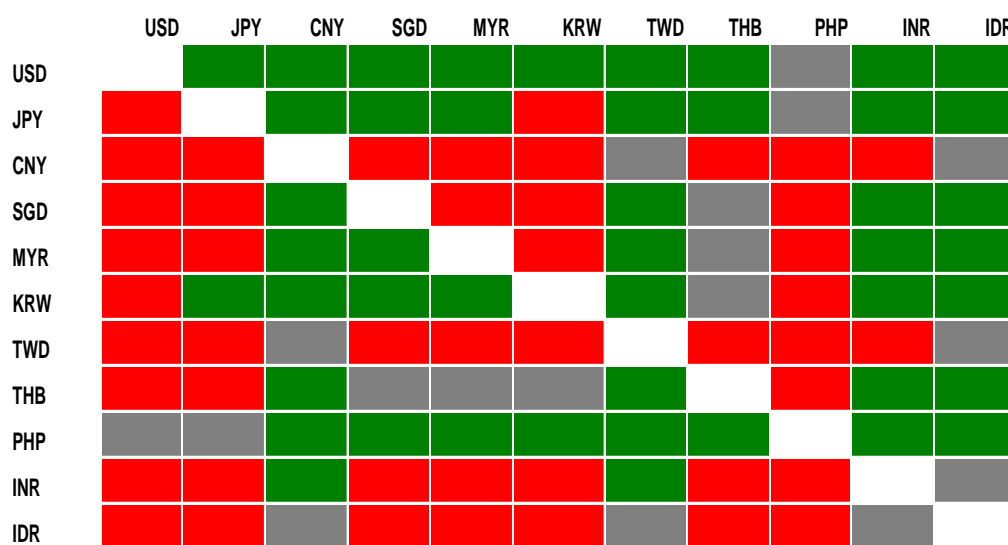
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Red	Red	Red	Red	Red	Red	Red
NZD	Red		Red	Red	Red	Red	Red	Red	Red
EUR	Green	Green		Red	Red	Green	Red	Red	Red
GBP	Green	Green	Green		Red	Green	Red	Green	Green
JPY	Green	Green	Green	Green		Green	Red	Green	Green
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	Red	Red	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**
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Source: OCBC Bank

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