

Friday, January 12, 2018

FX Themes/Strategy/Trading Ideas

- Dollar weakness took on slightly more endemic proportions on Thursday after the release of the ECB minutes as it trailed the G10 complex. JPY also underperformed across the board despite a softening USD-JPY – demonstrating broad-based softness in the greenback.
- Specifically, the ECB minutes indicated that, "The language pertaining to various dimensions of the monetary policy stance and forward guidance could be revisited early in the coming year," and that, "... communication would need to evolve gradually, without a change in sequencing."
- While UST curve flattened (2/10s) (compressed below 56bps, likely on the back of softer than expected December PPI figures) but the bund curve lifted higher instead (5y underperformed) post ECB minutes. This also resulted in a sympathetic reaction across other curves as the Canadian, Aussie, and gilt curves also firmed.
- Overall, the DXY slumped back again below 92.00. In the year to date, 91.80 has not been breached on a sustained basis and expect this region to be closely watched. In the interim, aggregate rate differentials are likely to continue to weigh against the greenback ahead of the US CPI (1330 GMT) and retail sales (1330 GMT) tonight. Fed speak is expected from Harker (1700 GMT) and Rosengren (2115 GMT). Elsewhere on the global calendar, look also towards December China trade numbers today.
- Our 21 Nov 17 idea to be tactically short **USD-SGD** (spot ref: 1.3561) triggered its profit stop at 1.3345 on 09 Jan 18 for an implied +1.56% gain.

Asian FX

- EMFX also pulled higher against the USD on Thursday and with Asian equities taking the cue from positive US stocks from overnight, the **ACI (Asian Currency Index)** is expected to probe slightly lower. In addition, note that the **FXSI (FX Sentiment Index)** slipped again within Risk-On territory.
- On the net portfolio inflow front, strong bond (and equity) inflows should continue to underpin the KRW (despite the BOK) although the TWD may underperform slightly on a relative basis (equity outflow on Thursday). Elsewhere, strong bond inflows for the IDR and THB should continue to portend outperformance relative to the likes of the INR.
- Elsewhere, note that China's SAFE refuted a wire report from the previous

Treasury Research &
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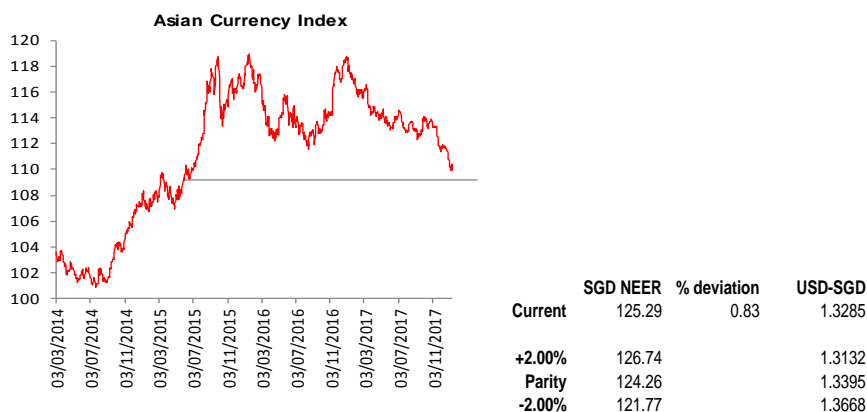
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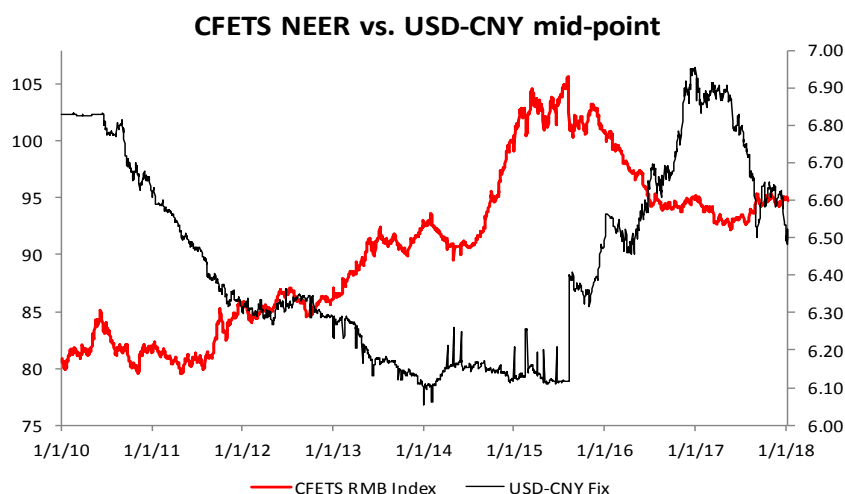
day stating that China could slow halt its purchases of US Treasuries. The agency however noted that China has been diversifying its foreign reserves.

- SGD NEER:** This morning, the SGD NEER is slightly firmer at around +0.83% above its perceived parity (1.3395) after firming above +0.90% overnight on broad dollar weakness. NEER-implied USD-SGD thresholds lower on the day with the +0.70% threshold at 1.3302 and +1.00% at 1.3262 with 1.3250 likely to cushion pending further external cues.

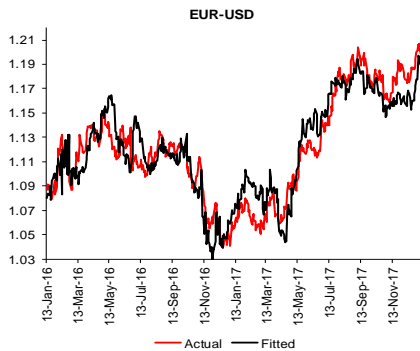


Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (slightly less than expected) to 6.4932 from 6.5147 yesterday. As a result, the CFETS RMB Index remained relatively unchanged on the day at 94.75. Going ahead, expect the mid-points to continue to shoulder the burden of adjustment to external volatility, keeping the CFETS RMB Index relatively stable.

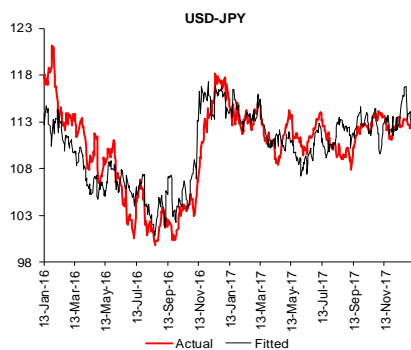


Source: OCBC Bank, Bloomberg

G7

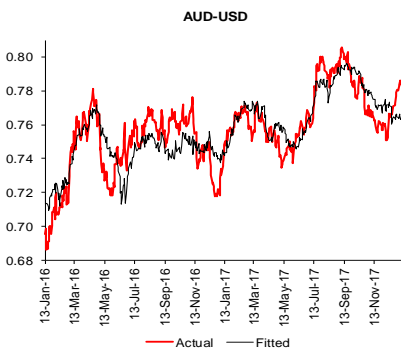
Source: OCBC Bank

- **EUR-USD** Short term implied valuations jumped post-ECB minutes and despite the EUR-USD's resultant gains, the pair is still not deemed stretched relative to its implied confidence intervals. Expect a supported 1.1935-1.2100 range in the interim with investor scrutiny towards ECB rhetoric and (multi-faceted) forward guidance expected to heighten in the coming weeks.



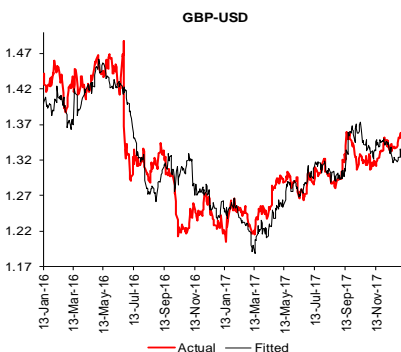
Source: OCBC Bank

- **USD-JPY** A confluence of negatives for the USD-JPY this week has conspired to keep short term implied valuations as we head into the end of the week. The 200-day MA (111.72) now serves as a near term resistance with 110.85 now looking to entice if USD continues to weaken post-CPI tonight.



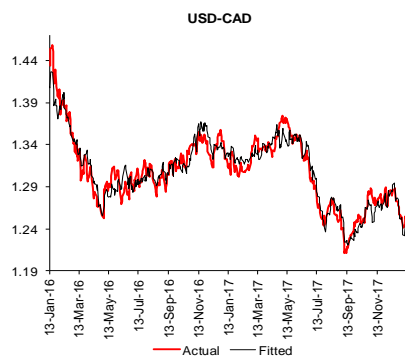
Source: OCBC Bank

- **AUD-USD** Amid positive risk/macro appetite levels and USD vulnerability thus far this year, carry within G10 space has performed (albeit moderating slightly this week) in the year-to-date. Meanwhile, short term implied valuations for the AUD-USD have edged higher slightly, although the pair remains stretched on the upside relative to its implied confidence intervals. AUD-USD may continue to mull the 0.7900 region (ahead of 0.7935) with initial support expected into 0.7850.



Source: OCBC Bank

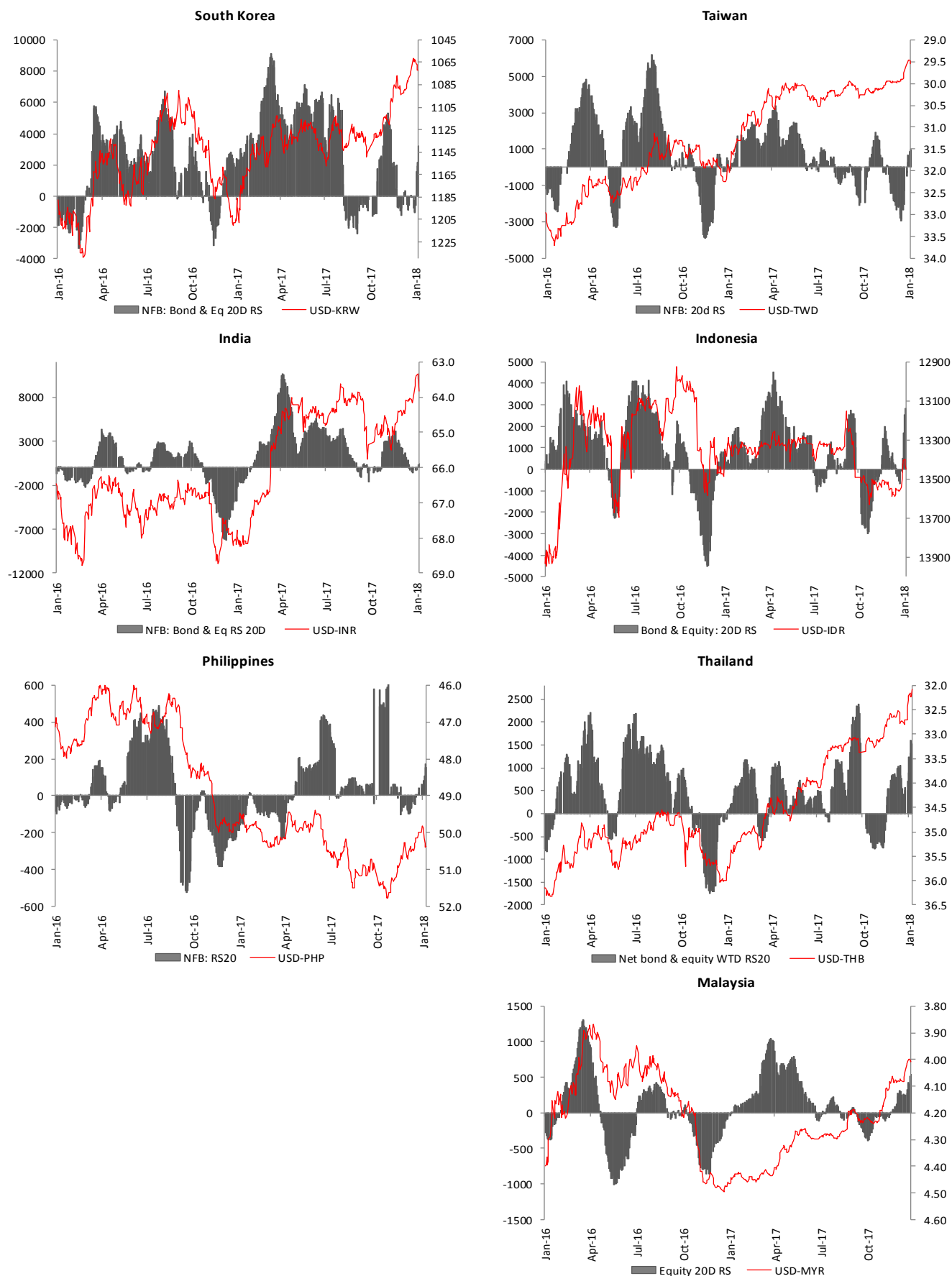
- **GBP-USD** Short term implied valuations have ticked higher following the ECB news flow overnight. Intra-day, expect the 1.3500-1.3600 range to continue to prevail pending further external cues.



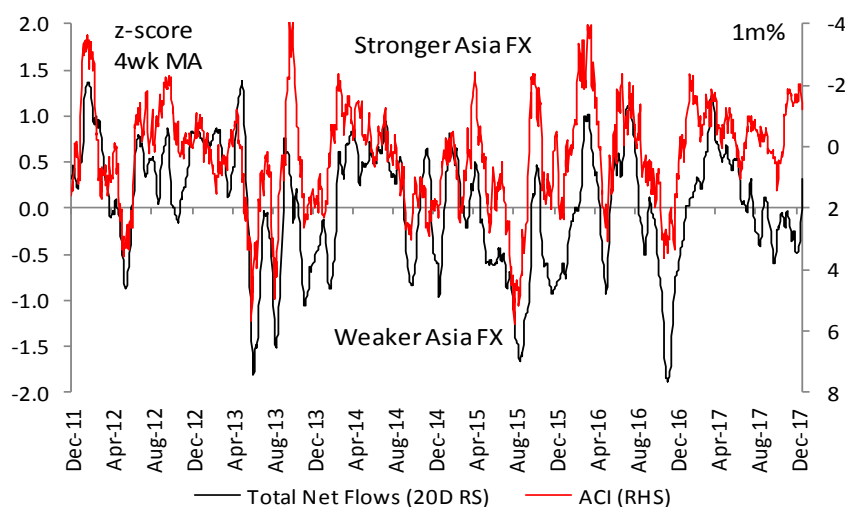
Source: OCBC Bank

- **USD-CAD** Supported crude and a soft dollar complex pulled the USD-CAD lower on Thursday with short term implied valuations for the pair shifting slightly lower. We look for a slightly consolidative (if top heavy) 1.2400-1.2600 range in the interim and ahead of the BOC next week.

USD-Asia VS. Net Capital Flows

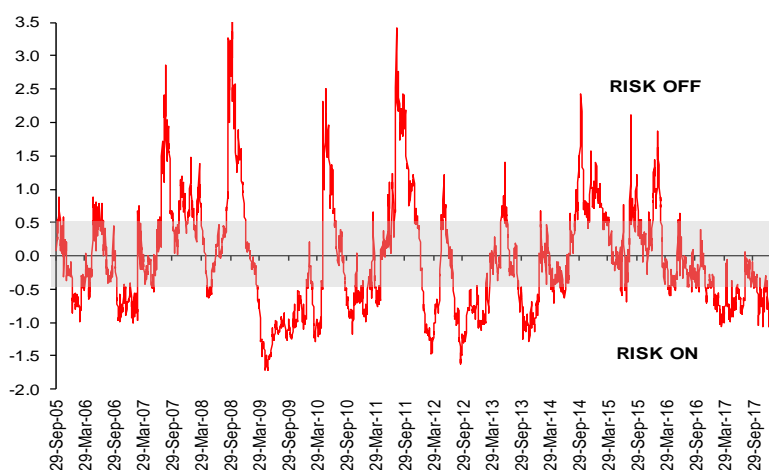


ACI VS. Net Capital Flows



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	-0.418	0.937	-0.695	-0.82	-0.929	0.395	-0.854	0.16	0.598	0.939	-0.981
SGD	0.976	-0.507	0.932	-0.749	-0.872	-0.916	0.439	-0.869	0.316	0.701	0.952	-0.962
CNH	0.939	-0.555	0.981	-0.718	-0.809	-0.943	0.306	-0.882	0.262	0.706	1	-0.946
CNY	0.937	-0.549	1	-0.705	-0.831	-0.965	0.23	-0.889	0.19	0.708	0.981	-0.932
CHF	0.936	-0.279	0.819	-0.592	-0.711	-0.82	0.49	-0.726	0.183	0.42	0.829	-0.92
KRW	0.924	-0.595	0.97	-0.698	-0.827	-0.949	0.204	-0.838	0.368	0.752	0.953	-0.934
CAD	0.919	-0.49	0.935	-0.765	-0.892	-0.918	0.295	-0.882	0.18	0.786	0.933	-0.882
TWD	0.899	-0.541	0.884	-0.866	-0.972	-0.876	0.397	-0.9	0.372	0.725	0.878	-0.851
MYR	0.886	-0.644	0.863	-0.906	-0.964	-0.828	0.591	-0.911	0.404	0.673	0.866	-0.853
INR	0.863	-0.539	0.893	-0.791	-0.857	-0.836	0.273	-0.82	0.514	0.631	0.886	-0.859
IDR	0.786	-0.665	0.794	-0.952	-0.955	-0.768	0.414	-0.907	0.441	0.79	0.806	-0.732
THB	0.734	-0.458	0.622	-0.856	-0.867	-0.612	0.763	-0.8	0.408	0.501	0.665	-0.686
CCN12M	0.728	-0.337	0.764	-0.563	-0.605	-0.69	0.153	-0.584	0.532	0.494	0.798	-0.741
PHP	0.66	-0.115	0.709	-0.201	-0.376	-0.667	-0.357	-0.421	0.176	0.62	0.726	-0.739
JPY	0.395	-0.278	0.23	-0.442	-0.418	-0.295	1	-0.536	0.017	-0.142	0.306	-0.383
USGG10	-0.418	1	-0.549	0.744	0.649	0.602	-0.278	0.755	-0.224	-0.519	-0.555	0.483
NZD	-0.866	0.632	-0.835	0.907	0.925	0.847	-0.643	0.945	-0.196	-0.687	-0.845	0.817
GBP	-0.928	0.392	-0.829	0.708	0.866	0.805	-0.493	0.794	-0.185	-0.594	-0.835	0.882
AUD	-0.955	0.569	-0.951	0.808	0.892	0.967	-0.478	0.948	-0.196	-0.704	-0.955	0.927
EUR	-0.981	0.483	-0.932	0.642	0.756	0.917	-0.383	0.826	-0.209	-0.586	-0.946	1

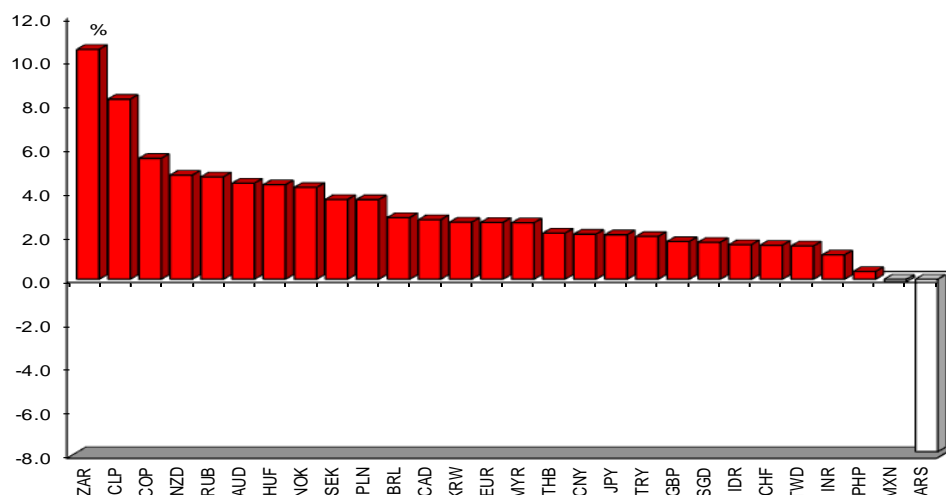
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1841	1.2000	1.2044	1.2089	1.2100
GBP-USD	1.3365	1.3500	1.3545	1.3600	1.3613
AUD-USD	0.7705	0.7800	0.7886	0.7900	0.7905
NZD-USD	0.7108	0.7200	0.7260	0.7262	0.7276
USD-CAD	1.2356	1.2500	1.2523	1.2600	1.2702
USD-JPY	111.00	111.04	111.29	111.37	111.69
USD-SGD	1.3215	1.3256	1.3286	1.3300	1.3458
EUR-SGD	1.5931	1.6000	1.6002	1.6040	1.6080
JPY-SGD	1.1729	1.1900	1.1938	1.1941	1.1984
GBP-SGD	1.7909	1.7985	1.7997	1.8000	1.8076
AUD-SGD	1.0323	1.0400	1.0478	1.0500	1.0503
Gold	1285.81	1300.00	1324.30	1328.60	1344.95
Silver	16.78	17.00	17.03	17.10	17.13
Crude	58.36	63.50	63.56	63.60	64.66

Source: OCBC Bank

FX performance: 1-month change agst USD



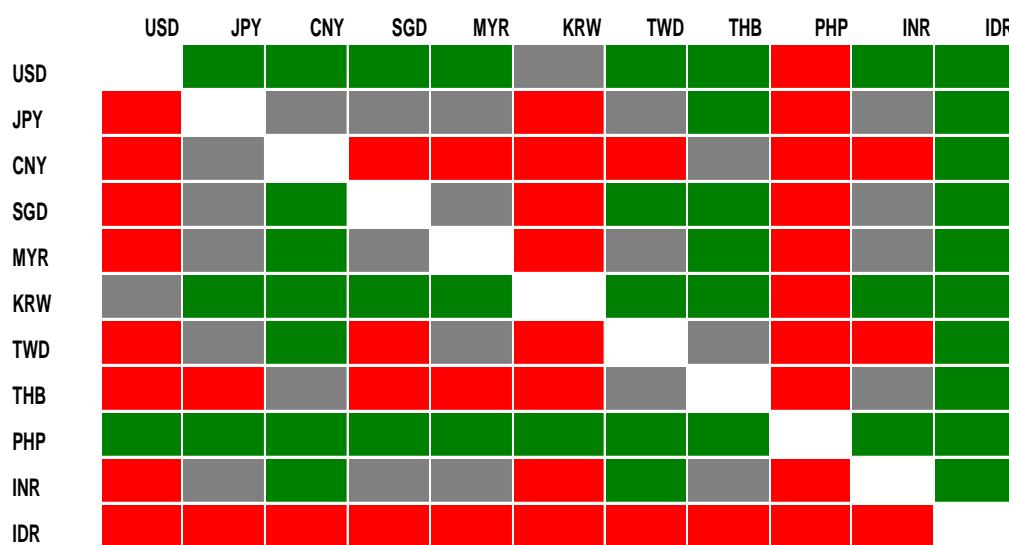
Source: Bloomberg

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	Grey	Green	Red	Red	Grey
GBP	Green	Green	Green		Grey	Green	Red	Green	Green
JPY	Green	Green	Grey	Grey		Green	Red	Grey	Grey
CAD	Green	Green	Red	Red	Red		Red	Red	Red
USD	Green	Green	Green	Green	Green	Green		Green	Green
SGD	Green	Green	Green	Red	Grey	Green	Red		Grey
MYR	Green	Green	Grey	Red	Grey	Green	Red	Grey	

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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