

Tuesday, February 13, 2018

FX Themes/Strategy/Trading Ideas

- Despite a firmer UST curve (alongside bund yields), positive global equities and stabilizing commodities left the USD weaker across G10 on Monday. The **FXSI (FX Sentiment Index)** softened on the back of a slight recovery in risk appetite but remained in Risk-Off territory.
- Late Monday, the RBA's Ellis was less than hawkish, warning that wage growth recovery could take longer than expected even if the labor market reaches full employment.
- Ahead of Wednesday's US CPI numbers investors may be slightly cautious of any USD-positive cues or any implied changes to the projected Fed trajectory (with selected FOMC members having acknowledged the near term potential positive impacts of US tax cuts on growth). This caution is expected to be balanced by a community that remains inherently suspicious of the broad dollar.
- For today, markets may be reduced to data/headline watching with Australian Jan NAB business confidence (0030 GMT) and UK Jan CPI/PPI (0930 GMT). In Asia, look to Taiwan's 4Q GDP number at 0800 GMT. Meanwhile, central bank rhetoric is light today, with the Fed's Mester at 1300 GMT.
- In the near term, we think that there may remain potential for the **AUD-USD** to test lower. Apart from potential global equity volatility, we note global risk appetite levels have deteriorated, the commodity complex has deflated, and the RBA has proved to be less than hawkish. Ahead of the US January CPI numbers on Wednesday and the Australian January labor market numbers on Thursday, we initiate a tactical short AUD-USD on Monday. From a spot ref of 0.7829, we target 0.7665 and place a stop at 0.7915.

Asian FX

- Global EM equities managed to scrape higher on Monday for a second consecutive session with Asian stocks also off to a positive start on Tuesday. Nonetheless, amid weak net portfolio flow momentum in Asia, USD-Asia downside may be somewhat limited, putting a floor on the **ACI (Asian Currency Index)**. Background caution towards uncertainty and USD strength may continue to lurk in the near term. On a relative basis, the PHP is still seen hampered by current account concerns while the INR is still seen relatively underpinned on a lack of a substantial fall off in net inflows.

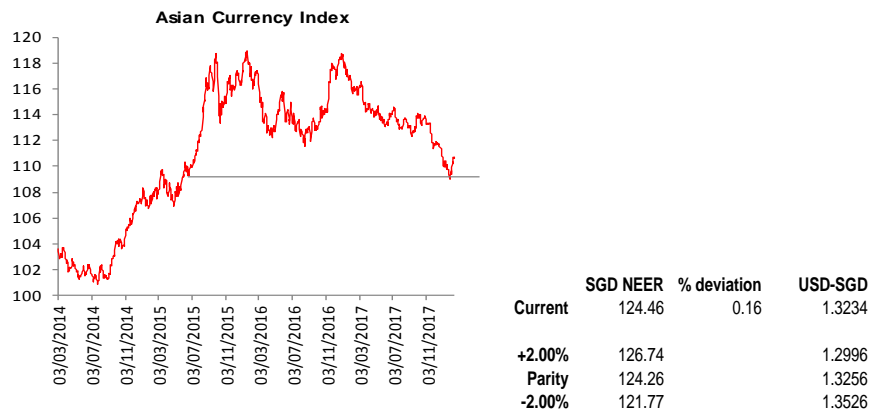
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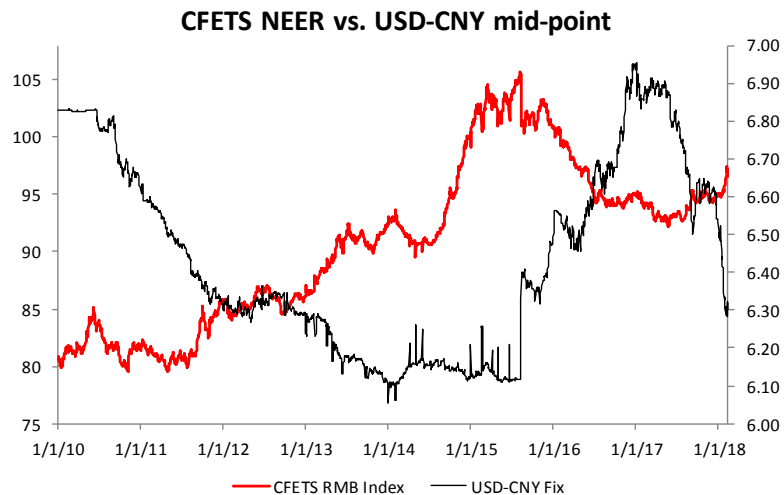
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- In addition, the China data stream yesterday saw January aggregate yuan financing coming in softer than expected, and in the near term, cited USD selling pressure onshore has reportedly abated.
- **SGD NEER:** The SGD NEER is stronger on the day this morning at around +0.16% above its perceived parity (1.3256), with NEER-implied USD-SGD thresholds softer from yesterday. We look for the NEER to trade within parity and +0.30% (1.3216) pending further external cues.



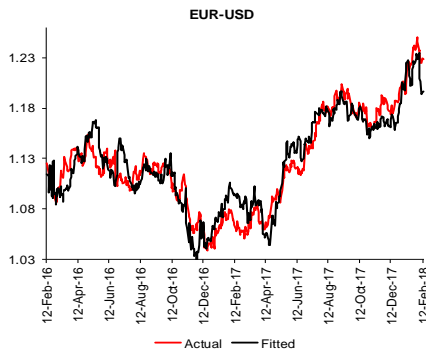
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a higher than expected 6.3247 from 6.3001 on Monday. Nonetheless, this had the effect of sinking the CFETS RMB Index lower to a more comfortable 96.59, from 97.15 yesterday.



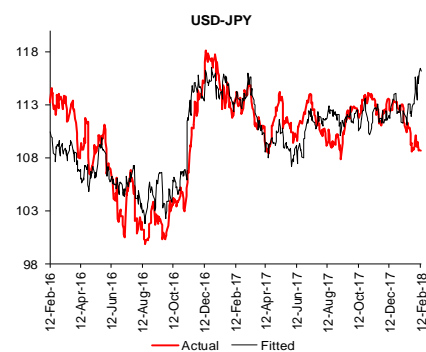
Source: OCBC Bank, Bloomberg

G7



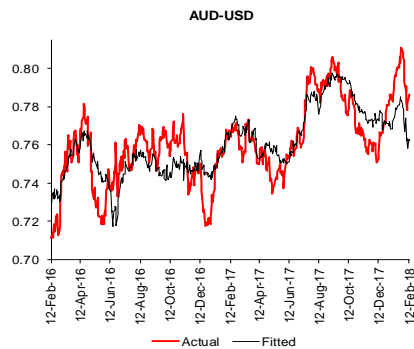
Source: OCBC Bank

- **EUR-USD** Short term implied valuations continue to bottom out this week although the EUR-USD may continue to range trade in the interim as investors search for new cues. Top side is expected into 1.2340 with 1.2240 expected to cushion intra-day.



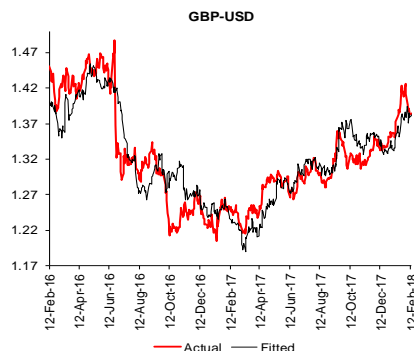
Source: OCBC Bank

- **USD-JPY** TKY is back from its long weekend today and although the BOJ's Kuroda was sufficiently accommodative in his comments this morning, the pair may retain a top heavy tone (within 108.30-109.00) on the back of broader dollar vulnerability. Note however that the USD-JPY remains on a significant tear in relation to its short term implied valuations, and any heightened Fed hike expectations may instigate a sharp move higher in the pair. >>>



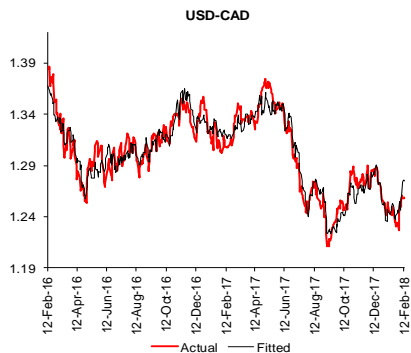
Source: OCBC Bank

- **AUD-USD** With short term implied valuations stabilizing after last week's global volatility, the partial recovery in global risk appetite levels may continue to encourage bottom fishing in the AUD-USD. Offers may however materialize towards 0.7910. Note also the above stated comments from the RBA's Ellis and mixed Jan NAB business confidence readings. Expect the 55-day MA (0.7810) and 0.7895 up top govern in the interim.



Source: OCBC Bank

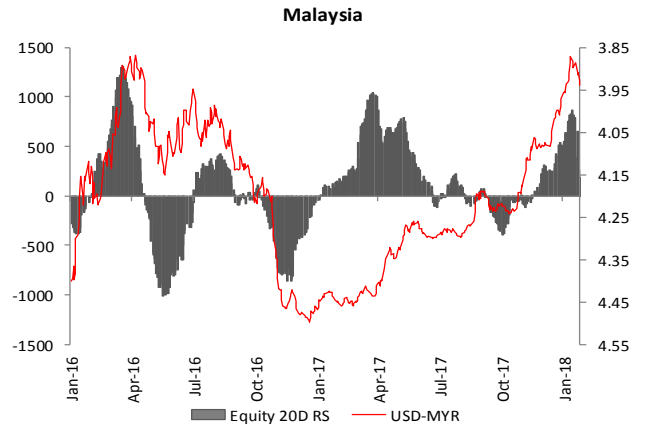
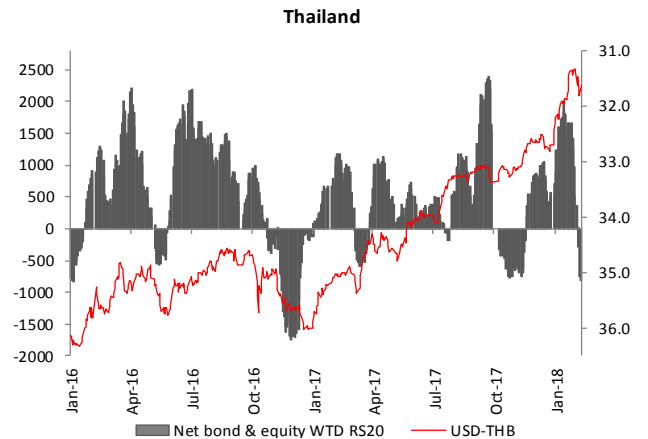
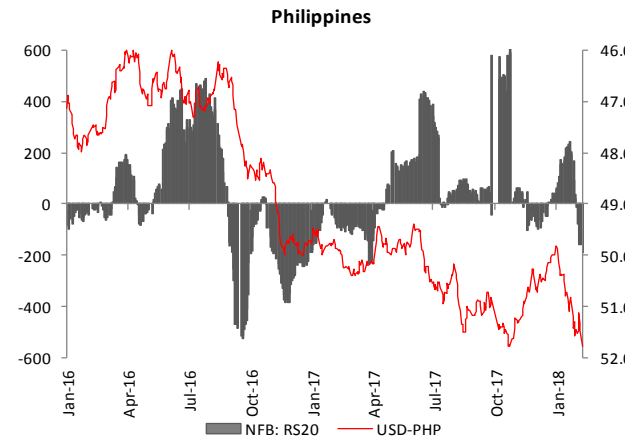
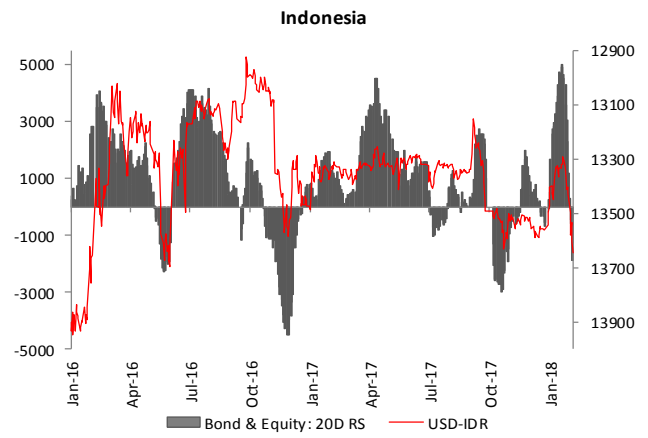
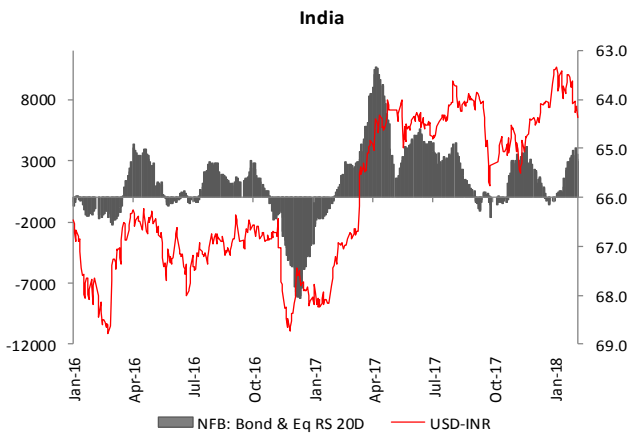
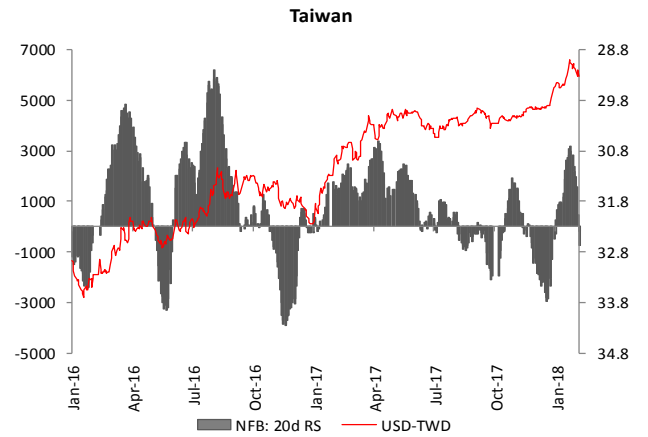
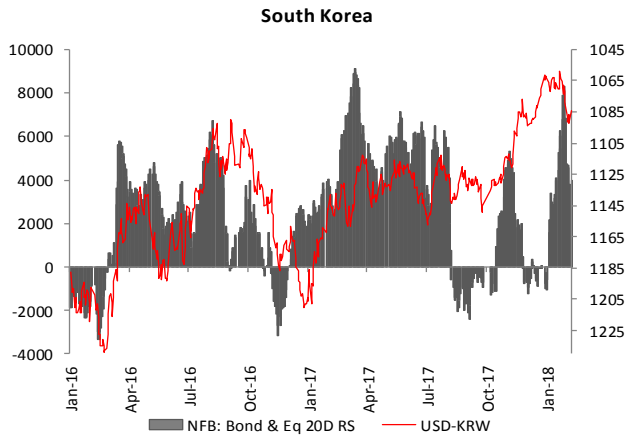
- **GBP-USD** Ahead of the CPI/PPI readings today, look to fade upticks with short term implied valuations looking a tad suppressed amidst lingering Brexit uncertainty and despite the improvement in global risk appetite levels. Expect 1.3800 to anchor in the interim.



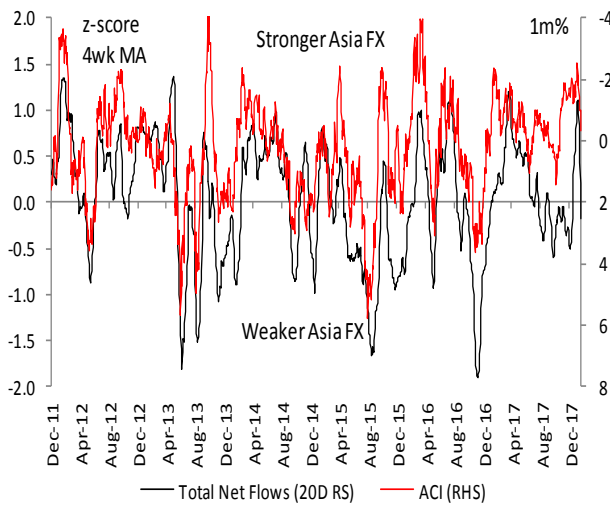
- **USD-CAD** A slightly more positive risk appetite complexion may cap the USD-CAD in the near term. Note that short term implied valuations for the pair remain underpinned with the 55-day MA (1.2589) still at risk of a breach towards the 100-day MA (1.2620).

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

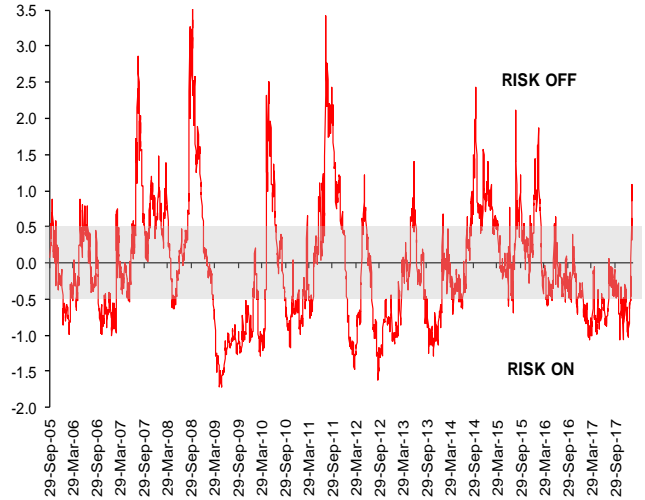


ACI VS. Net Capital Flows



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	-0.263	0.648	-0.374	-0.458	-0.639	0.562	-0.661	0.136	0.114	0.732	-0.953
THB	0.904	-0.42	0.81	-0.212	-0.273	-0.433	0.643	-0.453	-0.044	-0.062	0.862	-0.896
MYR	0.896	-0.282	0.687	-0.256	-0.366	-0.548	0.597	-0.542	-0.022	0.054	0.711	-0.857
TWD	0.839	-0.296	0.71	-0.303	-0.366	-0.492	0.665	-0.471	0.071	0.038	0.736	-0.793
CHF	0.803	-0.679	0.916	0.243	0.091	-0.064	0.83	-0.057	-0.435	-0.449	0.926	-0.765
SGD	0.767	0.278	0.151	-0.797	-0.772	-0.838	0.191	-0.774	0.609	0.584	0.274	-0.765
CNH	0.732	-0.744	0.972	0.254	0.196	0.032	0.774	0.052	-0.464	-0.509	1	-0.699
CNY	0.648	-0.796	1	0.387	0.284	0.13	0.777	0.088	-0.582	-0.577	0.972	-0.615
CAD	0.637	0.43	-0.073	-0.879	-0.864	-0.881	-0.099	-0.868	0.758	0.735	0.014	-0.629
JPY	0.562	-0.581	0.777	0.328	0.245	0.132	1	0.248	-0.473	-0.529	0.774	-0.472
INR	0.203	0.704	-0.364	-0.865	-0.838	-0.854	-0.235	-0.761	0.74	0.825	-0.294	-0.228
CCN12M	0.16	0.537	-0.145	-0.454	-0.413	-0.449	-0.096	-0.379	0.311	0.487	-0.078	-0.094
IDR	0.08	0.852	-0.591	-0.912	-0.883	-0.822	-0.514	-0.783	0.887	0.973	-0.511	-0.094
KRW	0.054	0.813	-0.584	-0.887	-0.803	-0.727	-0.388	-0.666	0.915	0.88	-0.501	-0.078
USGG10	-0.263	1	-0.796	-0.672	-0.633	-0.573	-0.581	-0.531	0.688	0.844	-0.744	0.245
AUD	-0.487	-0.558	0.234	0.953	0.905	0.88	0.166	0.815	-0.833	-0.816	0.125	0.464
PHP	-0.498	0.856	-0.798	-0.512	-0.383	-0.36	-0.64	-0.314	0.623	0.697	-0.806	0.458
NZD	-0.644	-0.223	-0.091	0.74	0.678	0.714	0.032	0.713	-0.576	-0.532	-0.224	0.688
GBP	-0.919	0.087	-0.464	0.567	0.626	0.745	-0.329	0.74	-0.375	-0.329	-0.501	0.877
EUR	-0.953	0.245	-0.615	0.341	0.443	0.583	-0.472	0.595	-0.122	-0.121	-0.699	1

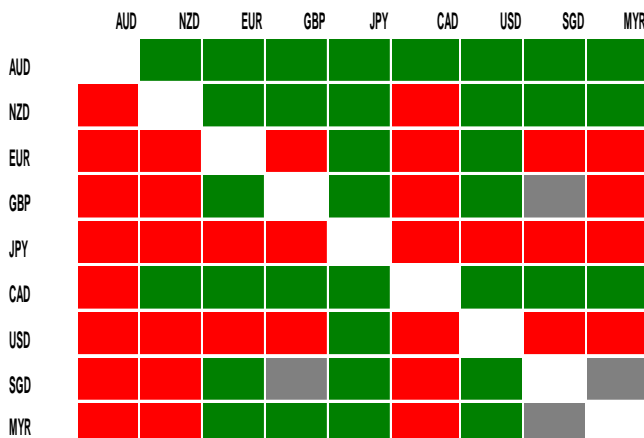
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2157	1.2200	1.2293	1.2300	1.2507
GBP-USD	1.3711	1.3800	1.3843	1.3900	1.4286
AUD-USD	0.7800	0.7827	0.7861	0.7900	0.8136
NZD-USD	0.7200	0.7208	0.7258	0.7300	0.7393
USD-CAD	1.2500	1.2567	1.2585	1.2600	1.2649
USD-JPY	108.00	108.05	108.70	109.00	111.23
USD-SGD	1.3034	1.3200	1.3239	1.3250	1.3300
EUR-SGD	1.6101	1.6200	1.6275	1.6300	1.6396
JPY-SGD	1.2100	1.2158	1.2179	1.2200	1.2242
GBP-SGD	1.8222	1.8300	1.8327	1.8400	1.8669
AUD-SGD	1.0340	1.0400	1.0408	1.0410	1.0500
Gold	1306.09	1308.01	1324.60	1360.15	1365.40
Silver	16.13	16.50	16.52	16.60	16.70
Crude	59.24	59.50	59.53	59.60	61.19

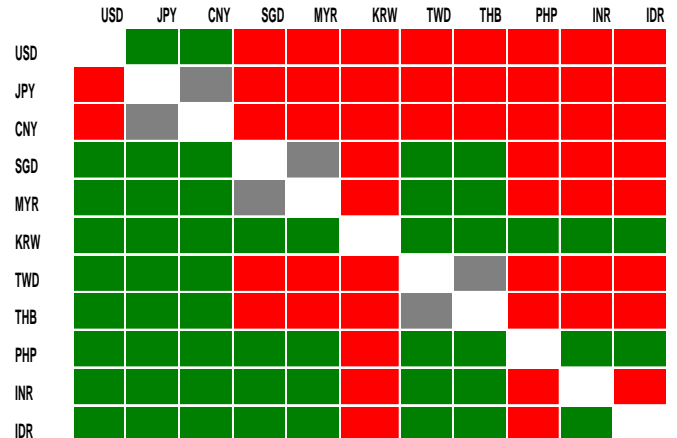
Source: OCBC Bank

G10 FX Heat Map



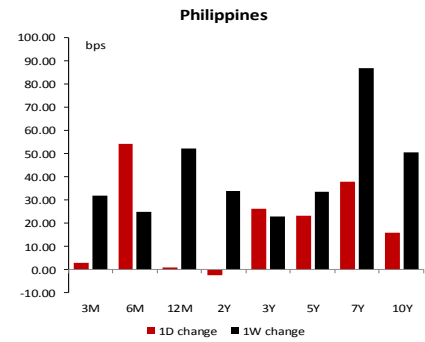
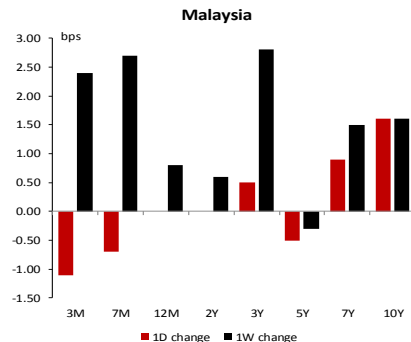
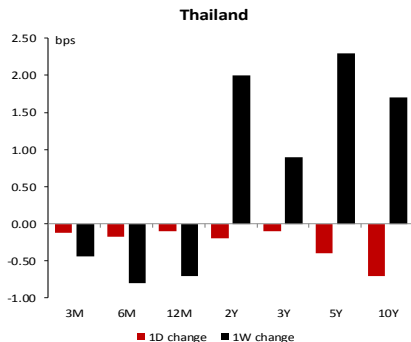
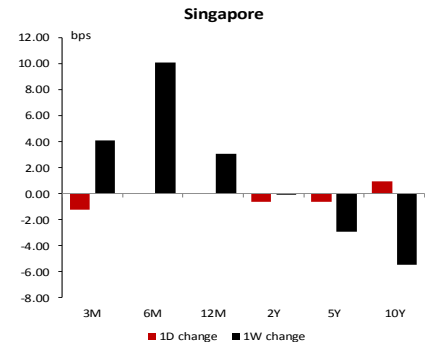
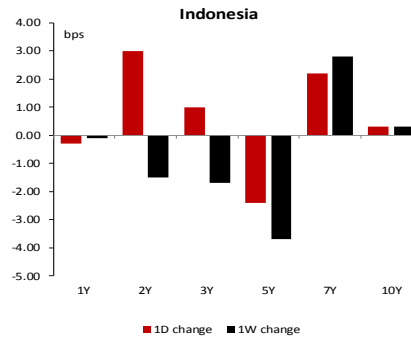
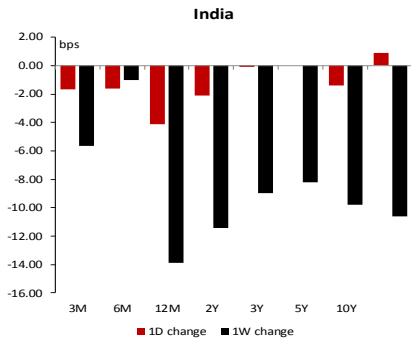
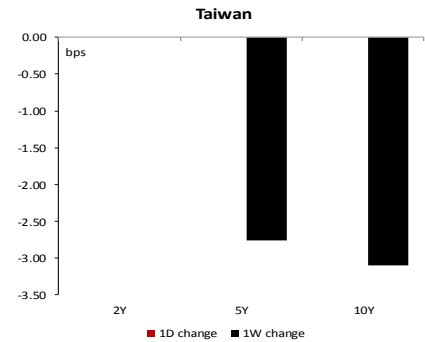
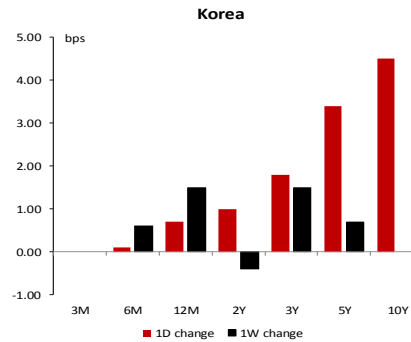
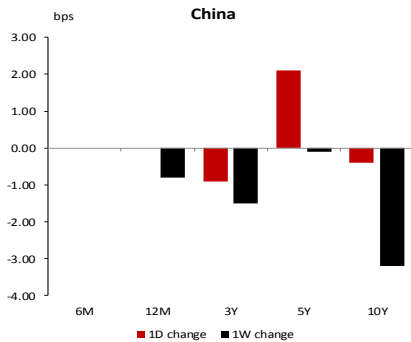
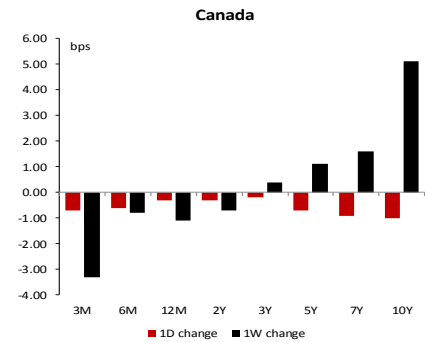
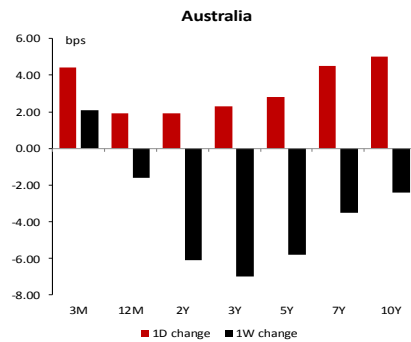
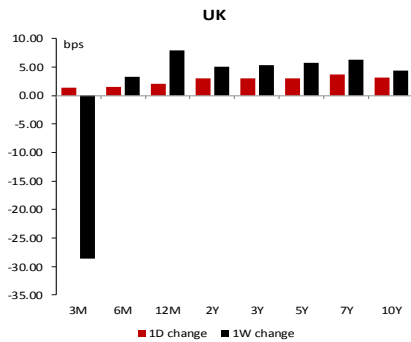
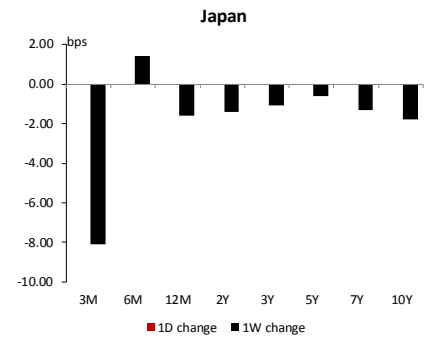
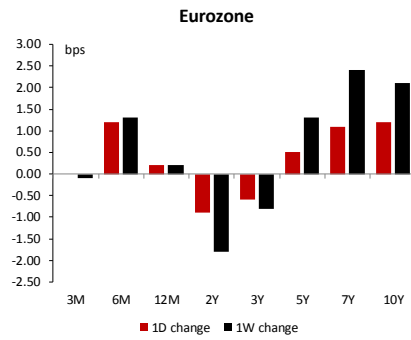
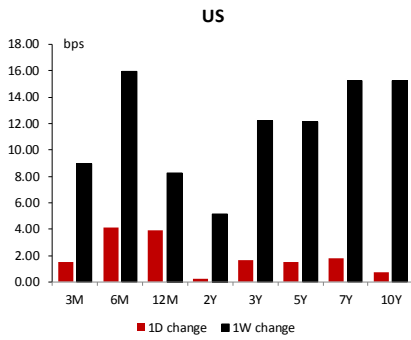
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	09-Feb-18	B	USD-CAD	1.2600	1.2855	1.2470	Softer crude and fragile appetite towards the cyclical	
2	12-Feb-18	S	AUD-USD	0.7829	0.7665	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	
STRUCTURAL								
3	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
4	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
RECENTLY CLOSED TRADE IDEAS								
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
5	15-Jan-18	07-Feb-18	B	EUR-USD	1.2199	1.2305	"Hawkish" ECB expectations, positive German political news flow	+0.72
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Source: OCBC Bank

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