

Thursday, February 15, 2018

FX Themes/Strategy/Trading Ideas

- Despite warmer than expected US Jan CPI readings (headline and core), the dollar wiped out against the majors on Wednesday despite an earlier blip higher. With investors instead focusing on risk appetite dynamics, the DXY eventually crashed and slipped below 89.00 to an 88.94 low.
- A sharp bounce in global equities (including EM equities) and commodities plus firmer UST and most other core govie curves we think may have continued to power positive risk appetite mechanics, continuing to put the greenback at a disadvantage.
- For today, aggregated rate differentials in favor of the USD may continue to be sidelined in the near term if investors persist in riding on the back of the positive risk appetite wagon.
- No Fed appearances are scheduled for today while the ECB's Mersch (0815 GMT), Praet (1045 GMT), and Lautenschlaeger (1200 GMT) are expected to speak. In addition, look to the Bank of Canada's Schembri (1830 GMT) while the RBA's Lowe appears before the House Economics Committee at 2230 GMT.
- The **FXSI (FX Sentiment Index)** dropped for the 3rd consecutive session (i.e., improving risk appetite levels) and if the equity landscape remains positive into the end of the week, the Index may well drift back into Risk-Neutral territory from Risk-Off currently.

Asian FX

- EM FX also climbed higher against the greenback with global EM equities also notching higher. With Asian equities also taking the cue from overnight global price action, expect the **ACI (Asian Currency Index)** to probe lower today.
- On other fronts, net portfolio inflows in Asia point to some renewed (bond) inflow pressure for the KRW in recent sessions while net inflows for the INR remain relatively resilient. Meanwhile, note the TWD, THB, IDR, and PHP, continue to clock outflows on a rolling basis, although this situation may attempt a turnaround if global sentiment manages to improve in the coming sessions.
- The **Bank of Thailand** on Wednesday kept its benchmark rate unchanged at 1.50% as widely expected with the central bank remaining sufficiently

Treasury Research &
Strategy

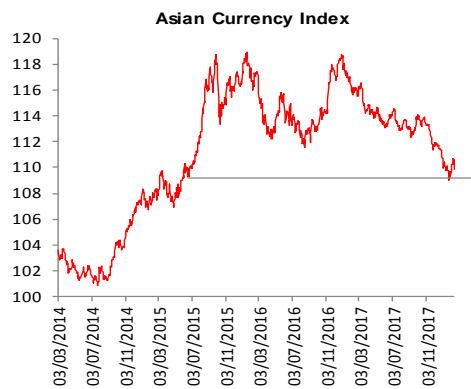
Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

sanguine and accommodative (read: non-hawkish). This outcome is expected to continue to keep the local curve relatively more anchored in the face of firming external yields.

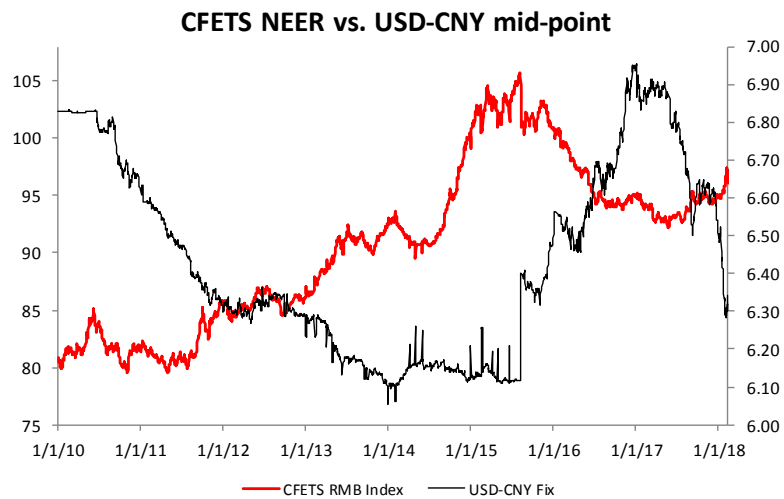
- In a similar fashion, **Bank Indonesia** today is expected to remain static on its policy parameters as it endeavors to maintain fairly neutral real interest rate levels as well the IDR's NEER relatively undervaluation in the absence of acute inflation pressures or macro overheating concerns.
- **SGD NEER:** Singapore's January NODX clocked a better than expected +13.0% yoy this morning while the SGD NEER is around recent levels at around +0.16% above its perceived parity (1.3161). NEER-implied USD-SGD thresholds are lower on the day and the NEER is expected to oscillate within parity and +0.40% (1.3109) in the near term.



	SGD NEER	% deviation	USD-SGD
Current	124.44	0.14	1.3143
+2.00%	126.74		1.2903
Parity	124.26		1.3161
-2.00%	121.77		1.3430

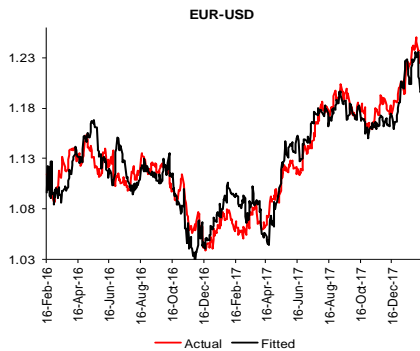
Source: OCBC Bank

- **CFETS RMB Index:** Public holiday.



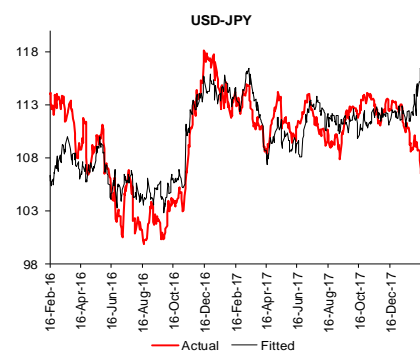
Source: OCBC Bank, Bloomberg

G7



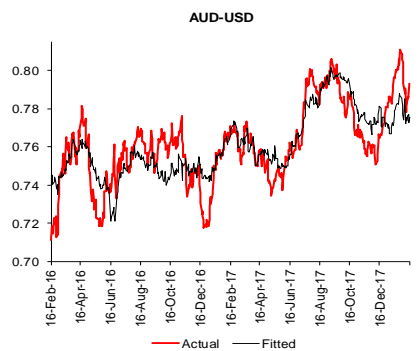
Source: OCBC Bank

- EUR-USD** Short term implied valuations remain underpinned for the EUR-USD and given the current market complexion, any hints of hawkishness out of the ECB today may spark further EUR support. Expect resistance towards 1.2500 and 1.2530 thereafter with the pair now looking increasingly rich relative to its implied confidence intervals.



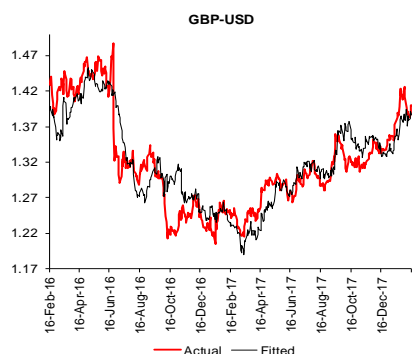
Source: OCBC Bank

- USD-JPY** The MOF's Aso did not seem perturbed by the JPY's recent strength on Thursday morning and inherent USD vulnerability may be expected to continue to manifest via a heavy USD-JPY. Expect a line in the sand towards 106.00 in the near term.



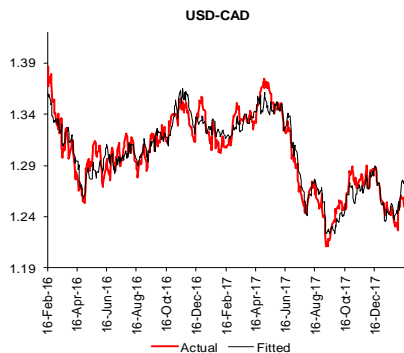
Source: OCBC Bank

- AUD-USD** January labor market numbers this morning left a mixed after taste but inherent USD weakness and positive risk appetite levels may continue to buoy the AUD-USD in the interim. Although short term implied valuations remain static ahead of Lowe today, markets may continue to eye the 0.7940/50 resistance



Source: OCBC Bank

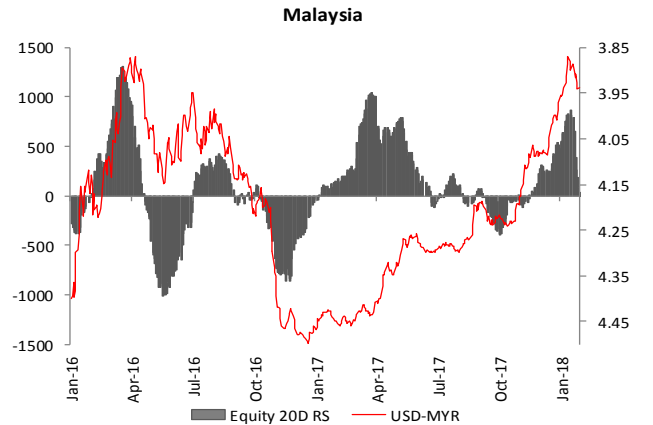
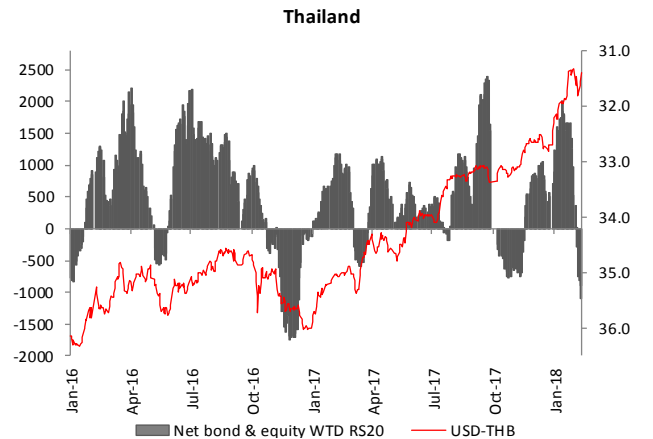
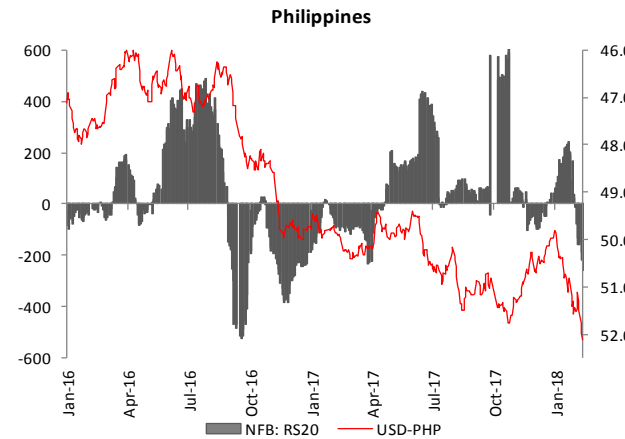
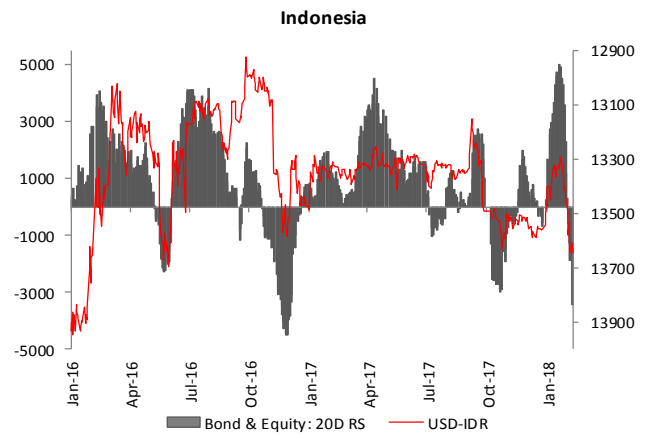
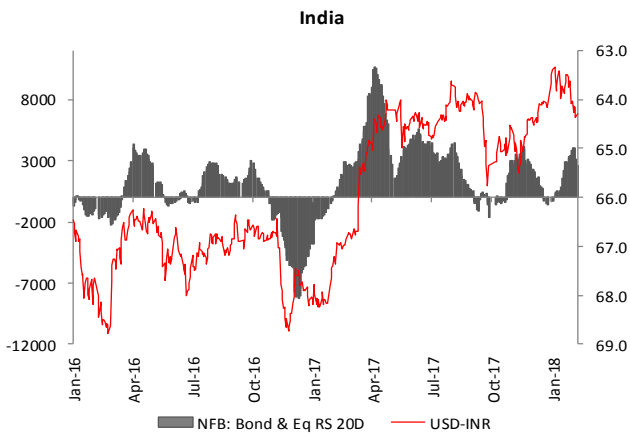
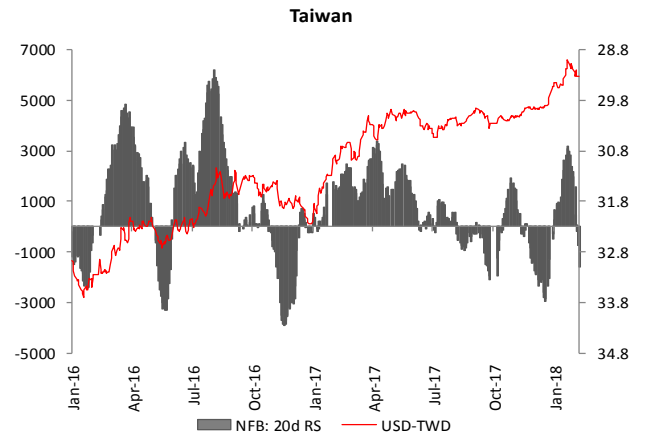
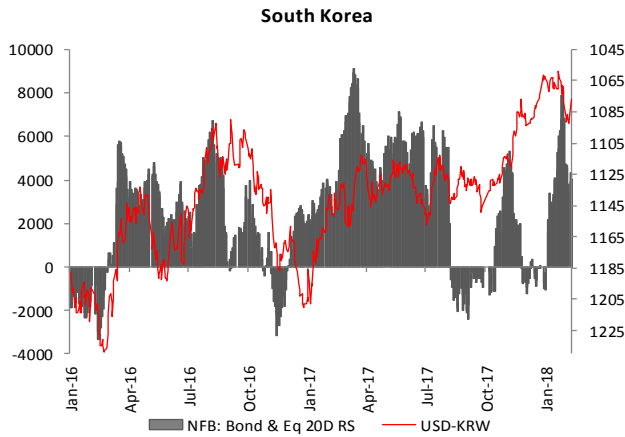
- GBP-USD** GBP-USD managed to surface above 1.4000 in the face of broad dollar bearishness on Wednesday. Despite slightly capped short term implied valuations, a supported range may continue to prevail with key support expected into 1.3900.



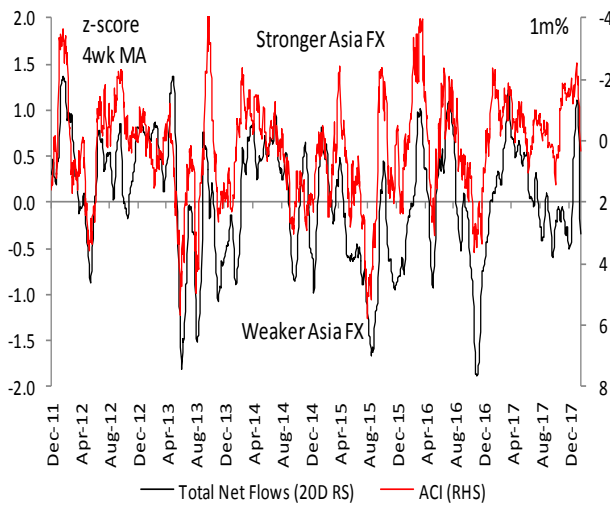
Source: OCBC Bank

- **USD-CAD** USD-CAD was pressure lower by a flailing USD and a supportive global equity/crude environment on Wednesday. Pending further developments on the risk appetite front, expect range trading (if slightly heavy) conditions within 1.2435 on the downside and the 55-day MA (1.2575) on the upside.

USD-Asia VS. Net Capital Flows

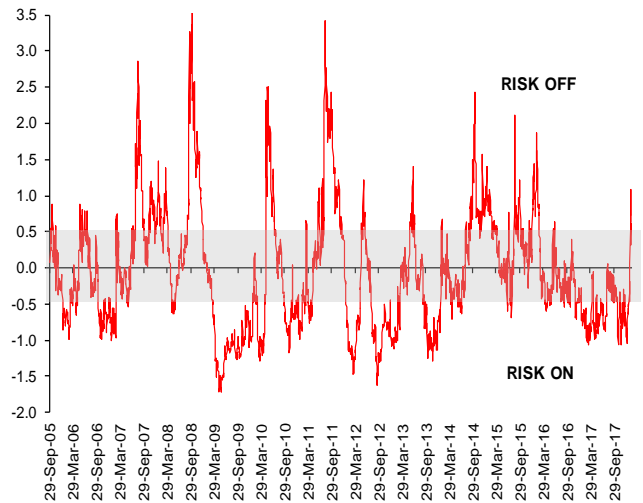


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXY	1	-0.327	0.637	-0.301	-0.34	-0.503	0.564	-0.468	0.119	-0.026	0.741	-0.955
THB	0.9	-0.453	0.803	-0.145	-0.172	-0.312	0.651	-0.201	-0.068	-0.164	0.869	-0.897
MYR	0.833	-0.217	0.668	-0.285	-0.378	-0.556	0.413	-0.534	0.009	0.104	0.67	-0.782
CHF	0.81	-0.71	0.89	0.298	0.184	0.047	0.799	0.102	-0.442	-0.509	0.928	-0.802
TWD	0.809	-0.251	0.707	-0.308	-0.352	-0.472	0.501	-0.436	0.08	0.054	0.717	-0.754
SGD	0.753	0.234	0.147	-0.764	-0.714	-0.777	0.232	-0.64	0.611	0.473	0.317	-0.748
CNH	0.741	-0.737	0.961	0.282	0.241	0.087	0.702	0.115	-0.466	-0.504	1	-0.739
CNY	0.637	-0.733	1	0.375	0.278	0.127	0.636	0.086	-0.576	-0.488	0.961	-0.599
JPY	0.564	-0.682	0.636	0.417	0.407	0.329	1	0.467	-0.44	-0.695	0.702	-0.589
CAD	0.541	0.48	-0.082	-0.887	-0.874	-0.892	-0.212	-0.852	0.761	0.74	-0.006	-0.481
CCN12M	0.169	0.463	-0.144	-0.428	-0.372	-0.402	0.056	-0.263	0.308	0.375	-0.02	-0.15
INR	0.161	0.693	-0.365	-0.867	-0.836	-0.852	-0.264	-0.752	0.738	0.784	-0.31	-0.178
KRW	0.028	0.784	-0.578	-0.887	-0.801	-0.731	-0.403	-0.66	0.917	0.805	-0.507	-0.046
IDR	-0.026	0.873	-0.534	-0.904	-0.899	-0.853	-0.647	-0.836	0.834	0.973	-0.52	0.03
USGG10	-0.327	1	-0.733	-0.695	-0.684	-0.629	-0.682	-0.617	0.657	0.862	-0.737	0.326
AUD	-0.424	-0.574	0.236	0.954	0.902	0.878	0.23	0.794	-0.837	-0.775	-0.137	0.352
PHP	-0.51	0.875	-0.663	-0.562	-0.512	-0.504	-0.772	-0.523	0.561	0.804	-0.74	0.496
NZD	-0.652	-0.121	-0.089	0.662	0.573	0.611	-0.224	0.451	-0.556	-0.355	-0.318	0.724
GBP	-0.88	0.049	-0.455	0.574	0.611	0.725	-0.244	0.663	-0.392	-0.317	-0.517	0.809
EUR	-0.955	0.326	-0.599	0.257	0.311	0.436	-0.589	0.32	-0.101	0.041	-0.739	1

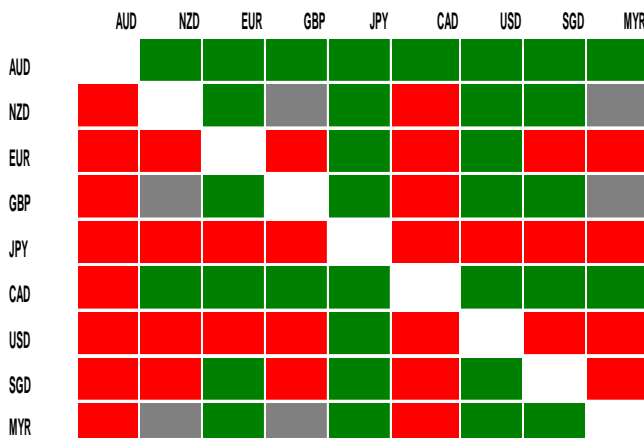
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2195	1.2400	1.2459	1.2500	1.2524
GBP-USD	1.3750	1.4000	1.4014	1.4100	1.4282
AUD-USD	0.7843	0.7900	0.7933	0.8000	0.8136
NZD-USD	0.7211	0.7300	0.7372	0.7400	0.7408
USD-CAD	1.2251	1.2400	1.2491	1.2500	1.2554
USD-JPY	106.00	106.31	106.57	106.95	107.00
USD-SGD	1.3028	1.3100	1.3130	1.3200	1.3286
EUR-SGD	1.6127	1.6300	1.6359	1.6400	1.6418
JPY-SGD	1.2158	1.2300	1.2322	1.2332	1.2368
GBP-SGD	1.8248	1.8400	1.8401	1.8500	1.8662
AUD-SGD	1.0305	1.0400	1.0416	1.0419	1.0500
Gold	1308.13	1309.10	1353.10	1364.60	1365.40
Silver	16.71	16.80	16.89	16.90	16.98
Crude	61.30	61.30	61.32	61.40	66.66

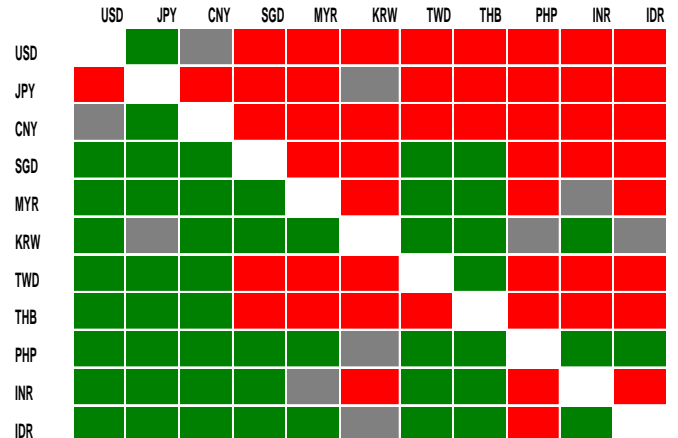
Source: OCBC Bank

G10 FX Heat Map



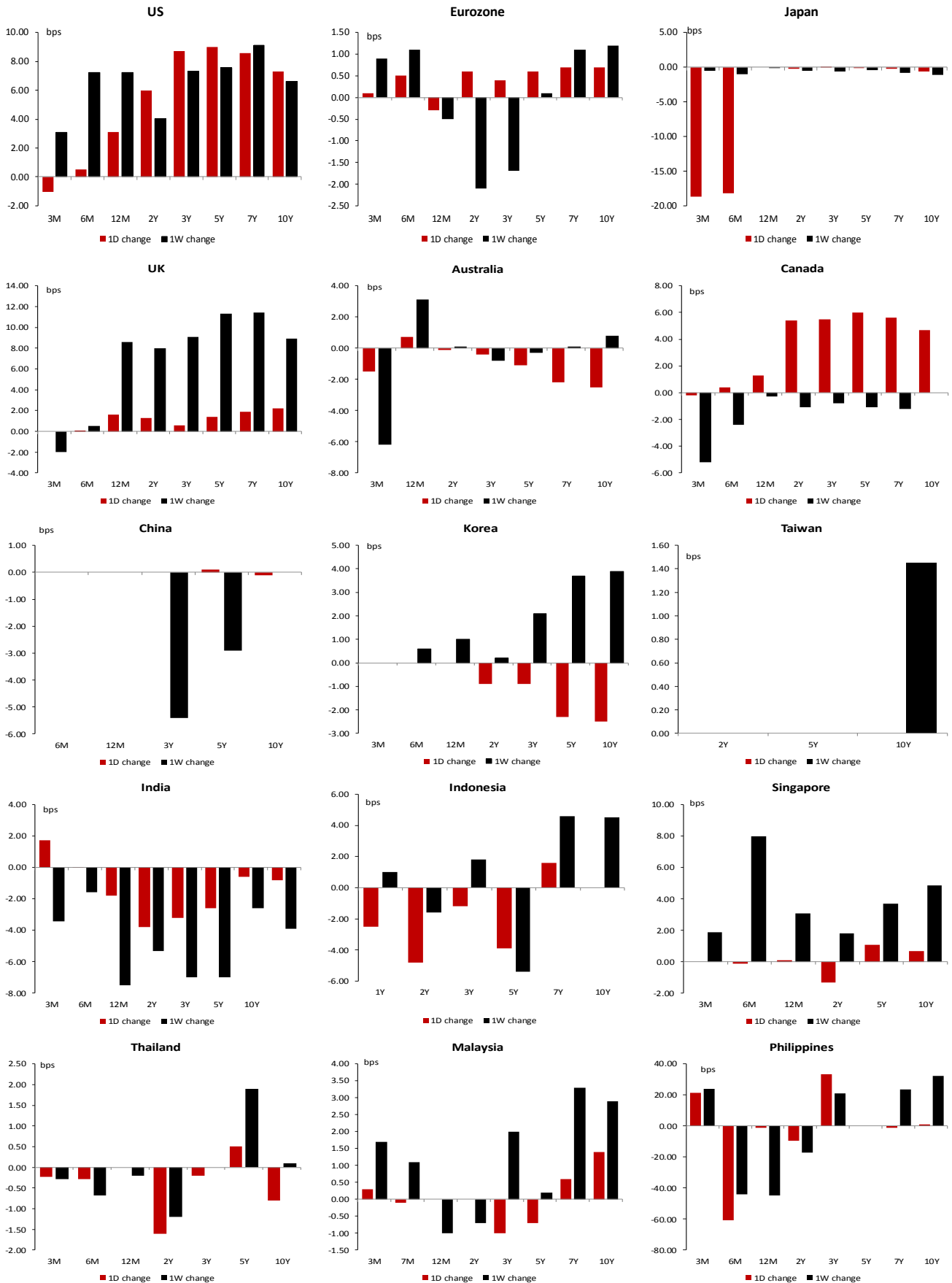
Source: OCBC Bank

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 cyclicals	
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	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
2	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
3	15-Jan-18	07-Feb-18	B	EUR-USD	1.2199	1.2305	"Hawkish" ECB expectations, positive German political news flow	+0.72
**of notional								

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
