

Wednesday, January 17, 2018

FX Themes/Strategy/Trading Ideas

- An attempted rally by the USD proved short lived on Tuesday with the majors recouping intra-day losses to end essentially unchanged on the day. The EUR softened intra-day (with bunds yields lower on the day) as doubts emerged over the ECB's hawkishness (see below).
- A wire report cited sources as saying that the ECB was not likely to materially alter its forward guidance at next week's policy meeting.
- ECB's Weidmann said market expectations for a mid-2019 rate hike are largely in line with the Bank's current guidance (current market pricing put odds on a December rate hike). Note that Weidmann however noted that an end to the QE program in 2018 would be considered "appropriate from today's perspective".
- ECB's Villeroy says EUR is a source of uncertainty and must be monitored.
- Today, the calendar includes the **Bank of Canada** rate decision (1500 GMT), where a 25bps rate hike to 1.25% is heavily expected. Note very little wriggle room is expected for the CAD, with any "disappointment from the BOC likely to undermine the loonie in the short term.
- Central bank appearances include the Fed's Evans and Kaplan (2000 GMT) as well as Mester (2130 GMT), while ECB appearances include Villeroy again (0830 GMT), and Nowotny (0855 GMT). The BOE's Saunders is scheduled for 1145 GMT,
- Elsewhere, pending the passage of a "continuing resolution" (temporary funding bill), the prospect of a government shutdown at the end of the week may keep risk appetite levels slightly guarded (and the USD likely vulnerable).
- Overall, inherent USD vulnerability may remain a staple intra-day (DXY making a break for 90.00 early Asia Wednesday) and we may be heading into an inflection point of sorts with Fed/ECB appearances today, not to mention the BOC rate decision.
- If the broad dollar continues to remain under the weather amid positive risk appetite levels (and consequent inflows into EM/Asia), we believe that the **USD-SGD** may have further downside potential from here. In addition, the SGD NEER is also not currently deemed excessively stretched to the upside. From a spot ref of 1.3230 on Tuesday, we initiate a tactical short USD-SGD idea and target 1.3110, leaving a stop at 1.3295.

Treasury Research &
Strategy

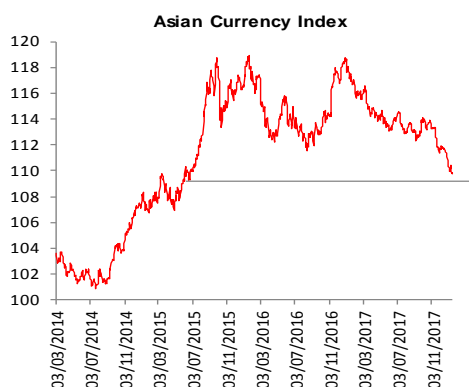
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Asian FX

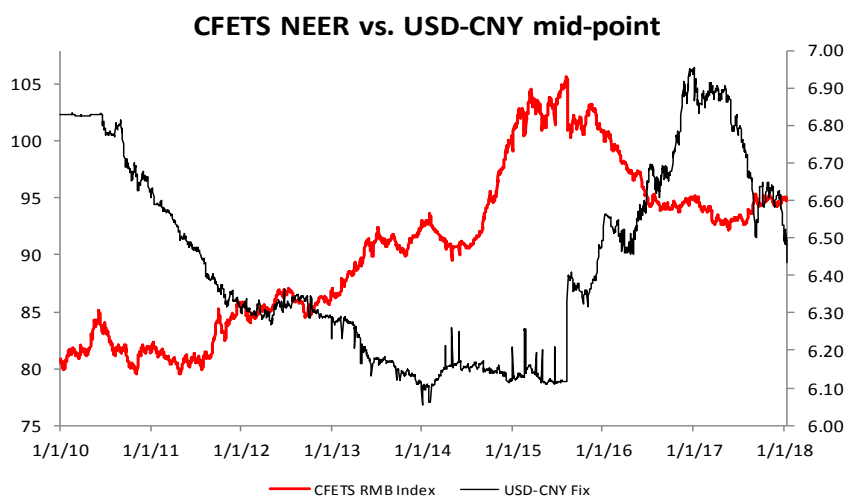
- Negative US equities may be eclipsed by a still positive EM equity performance on Tuesday and with the dollar complex still wobbly, the **ACI (Asian Currency Index)** may continue to slip. Note that on a medium term horizon, our structural model for the ACI remains decidedly bearish. Meanwhile, with EM risk premiums continuing to compress, the **FXSI (FX Sentiment Index)** remained in Risk-On territory despite consolidating slightly higher overnight.
- Net portfolio inflows within Asia meanwhile may be taking a breather somewhat with investors likely to be more selective going ahead. South Korea and Taiwan are still clocking net equity inflows although net inflows for India remain weak (leaving the INR and govies continually vulnerable). The THB meanwhile remains underpinned by net bond inflows while for Indonesia, the latest numbers depict some pause but the recent strong bond inflows may continue to impart implicit support for the IDR (and govies).
- **SGD NEER:** December NODX readings came in below expectations but endemic USD weakness is translating to a firmer SGD NEER at +0.80% above parity (1.3298). NEER-implied USD-SGD thresholds are softer on the day and the NEER is to be supported within +0.70% (1.3206) and +0.90% (1.3193).



| | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 125.25 | 0.80 | 1.3194 |
| +2.00% | 126.74 | | 1.3037 |
| Parity | 124.26 | | 1.3298 |
| -2.00% | 121.77 | | 1.3570 |

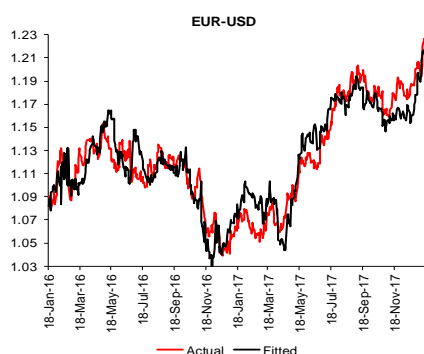
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point fell (less than we expected) to 6.4335 from 6.4372 yesterday. This saw the CFETS RMB Index falling slightly to 94.95 from 94.97 on Tuesday.



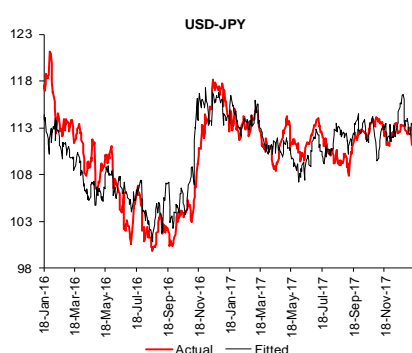
Source: OCBC Bank, Bloomberg

G7



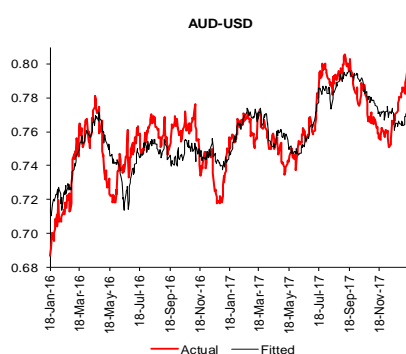
Source: OCBC Bank

- **EUR-USD** Apart from potential ECB-speak today, German political developments remain somewhat in a flux (prospects for a “Grand Coalition”), while investors will also remain on the lookout for EZ December CPI numbers today (1000 GMT). Short term implied valuations meanwhile have consolidated lower slightly with a preference to collect into dips towards 1.2200 at this juncture.



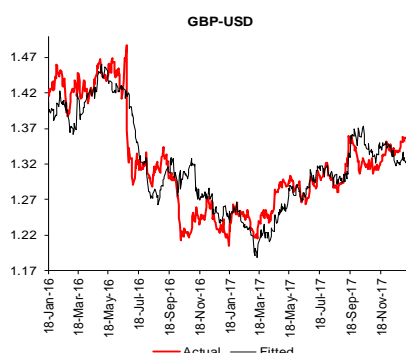
Source: OCBC Bank

- **USD-JPY** Despite comments from FM Aso, USD-JPY, short term implied valuations for the pair continue to drip lower. As noted previously, investors may have to await the next catalyst for a sustained break below 110.00 (towards 109.55).



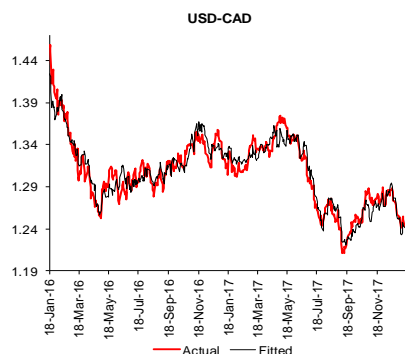
Source: OCBC Bank

- **AUD-USD** Ahead of the December labor market numbers tomorrow, short term implied valuations have continued to creep higher. Nonetheless, the pair remains north of its implied confidence intervals at this juncture with the junction at 0.8000 still in play.



Source: OCBC Bank

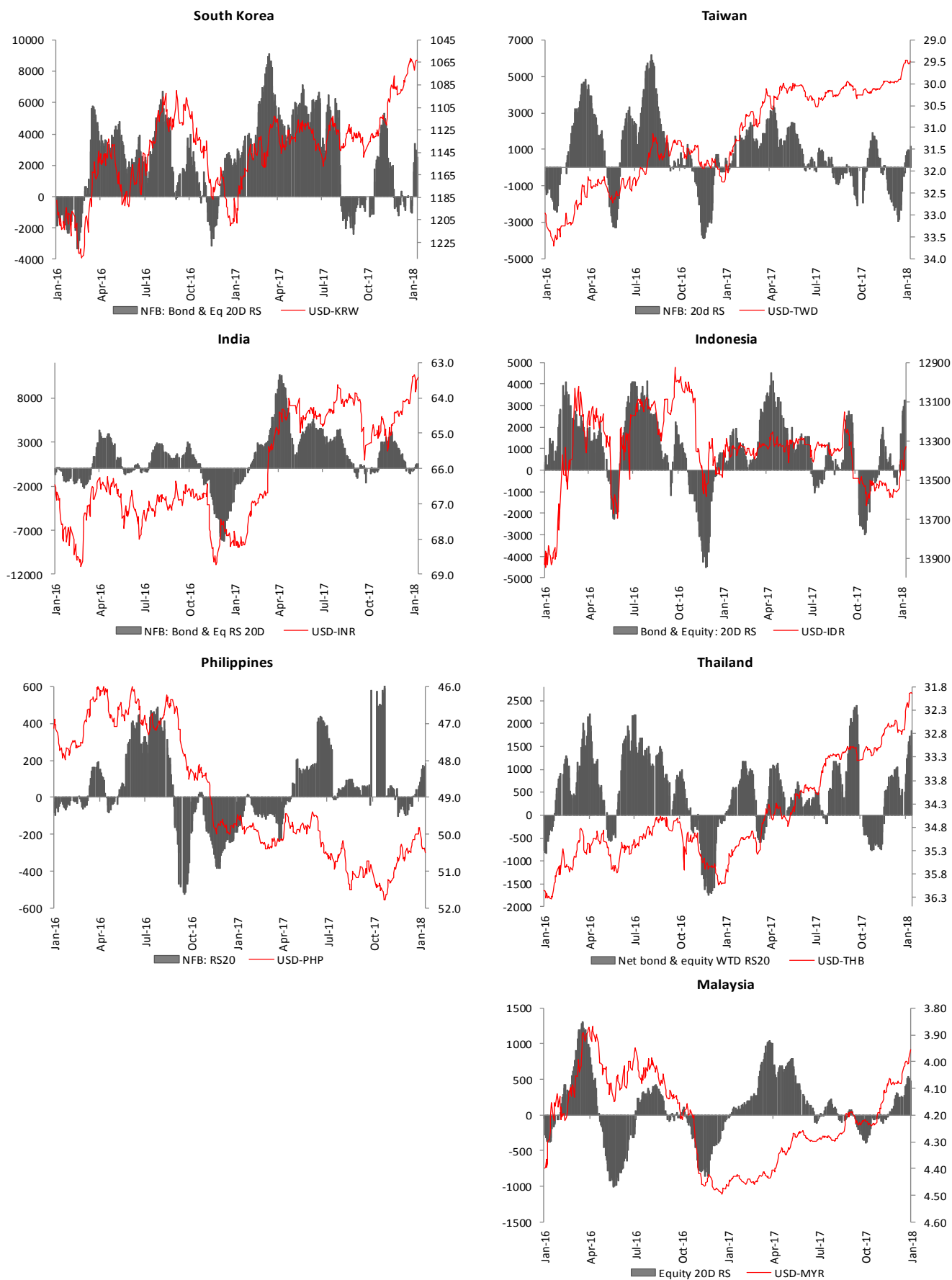
- **GBP-USD** UK December CPI/PPI readings came in mixed on Tuesday and investors may have to look to BOE rhetoric today (apart from EUR cues) for further directionality. In the interim, short term implied valuations have stalled and the pair may continue to contemplate a break of 1.3800 despite a still constructive outlook.



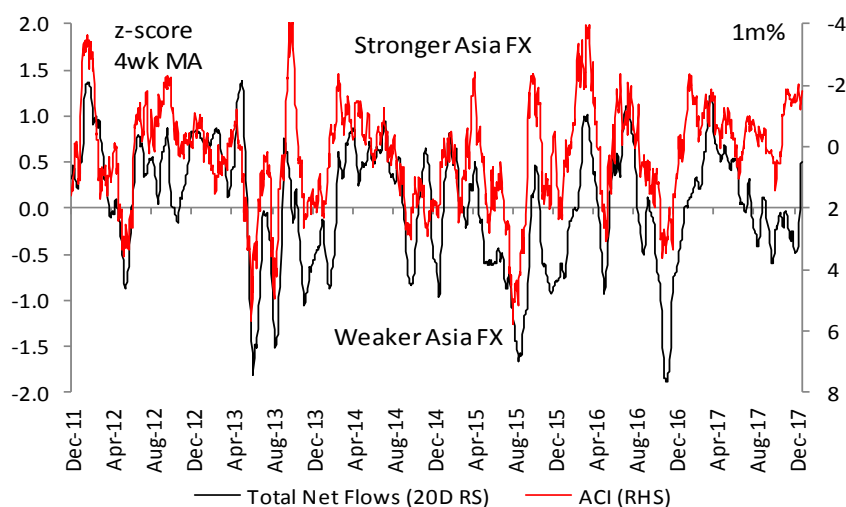
Source: OCBC Bank

- **USD-CAD** The USD-CAD may continue to hover just above 1.2400 ahead of the BOC tonight. A hawkish hike would significantly boost the loonie while a neutral hold may incite an abrupt jump towards the 100-day MA (1.2588). Short term implied valuations for the pair remain consolidative in the interim.

USD-Asia VS. Net Capital Flows

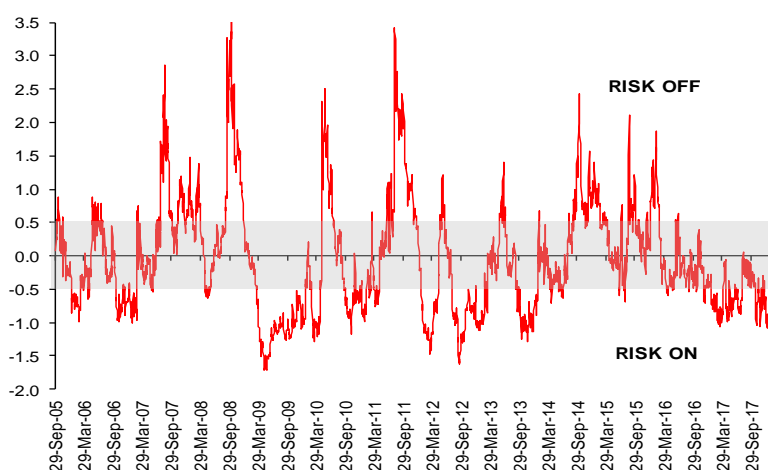


ACI VS. Net Capital Flows



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 | -0.451 | 0.945 | -0.772 | -0.828 | -0.849 | 0.816 | -0.843 | -0.342 | 0.298 | 0.955 | -0.983 |
| SGD | 0.97 | -0.46 | 0.954 | -0.789 | -0.88 | -0.891 | 0.779 | -0.869 | -0.128 | 0.451 | 0.973 | -0.956 |
| CHF | 0.966 | -0.322 | 0.885 | -0.692 | -0.757 | -0.76 | 0.854 | -0.748 | -0.348 | 0.163 | 0.907 | -0.963 |
| CNH | 0.955 | -0.452 | 0.983 | -0.744 | -0.828 | -0.888 | 0.753 | -0.866 | -0.205 | 0.447 | 1 | -0.955 |
| CNY | 0.945 | -0.474 | 1 | -0.722 | -0.846 | -0.929 | 0.701 | -0.873 | -0.238 | 0.454 | 0.983 | -0.929 |
| MYR | 0.923 | -0.648 | 0.908 | -0.923 | -0.958 | -0.821 | 0.798 | -0.912 | -0.083 | 0.454 | 0.91 | -0.891 |
| THB | 0.882 | -0.653 | 0.836 | -0.963 | -0.949 | -0.777 | 0.854 | -0.914 | -0.021 | 0.424 | 0.863 | -0.861 |
| IDR | 0.87 | -0.722 | 0.856 | -0.97 | -0.941 | -0.748 | 0.773 | -0.919 | -0.098 | 0.54 | 0.875 | -0.847 |
| CAD | 0.845 | -0.378 | 0.914 | -0.738 | -0.887 | -0.922 | 0.565 | -0.874 | -0.077 | 0.659 | 0.899 | -0.796 |
| KRW | 0.845 | -0.357 | 0.928 | -0.629 | -0.818 | -0.921 | 0.463 | -0.773 | -0.043 | 0.592 | 0.895 | -0.812 |
| TWD | 0.827 | -0.503 | 0.865 | -0.816 | -0.963 | -0.879 | 0.6 | -0.875 | 0.075 | 0.613 | 0.849 | -0.765 |
| JPY | 0.816 | -0.591 | 0.701 | -0.763 | -0.696 | -0.579 | 1 | -0.759 | -0.41 | -0.056 | 0.753 | -0.842 |
| CCN12M | 0.805 | -0.283 | 0.791 | -0.603 | -0.667 | -0.652 | 0.582 | -0.624 | 0.089 | 0.37 | 0.833 | -0.805 |
| INR | 0.593 | -0.306 | 0.704 | -0.559 | -0.728 | -0.719 | 0.32 | -0.639 | 0.458 | 0.568 | 0.673 | -0.568 |
| PHP | -0.062 | 0.545 | 0.098 | 0.309 | 0.099 | -0.285 | -0.539 | 0.054 | 0.343 | 0.465 | 0.087 | 0.072 |
| USGG10 | -0.451 | 1 | -0.474 | 0.738 | 0.657 | 0.364 | -0.591 | 0.665 | 0.107 | -0.273 | -0.452 | 0.445 |
| NZD | -0.902 | 0.632 | -0.893 | 0.924 | 0.925 | 0.847 | -0.841 | 0.963 | 0.213 | -0.46 | -0.914 | 0.878 |
| AUD | -0.96 | 0.483 | -0.96 | 0.83 | 0.9 | 0.932 | -0.813 | 0.934 | 0.232 | -0.464 | -0.967 | 0.937 |
| GBP | -0.965 | 0.506 | -0.907 | 0.825 | 0.853 | 0.777 | -0.865 | 0.826 | 0.316 | -0.293 | -0.929 | 0.971 |
| EUR | -0.983 | 0.445 | -0.929 | 0.728 | 0.766 | 0.806 | -0.842 | 0.803 | 0.335 | -0.242 | -0.955 | 1 |

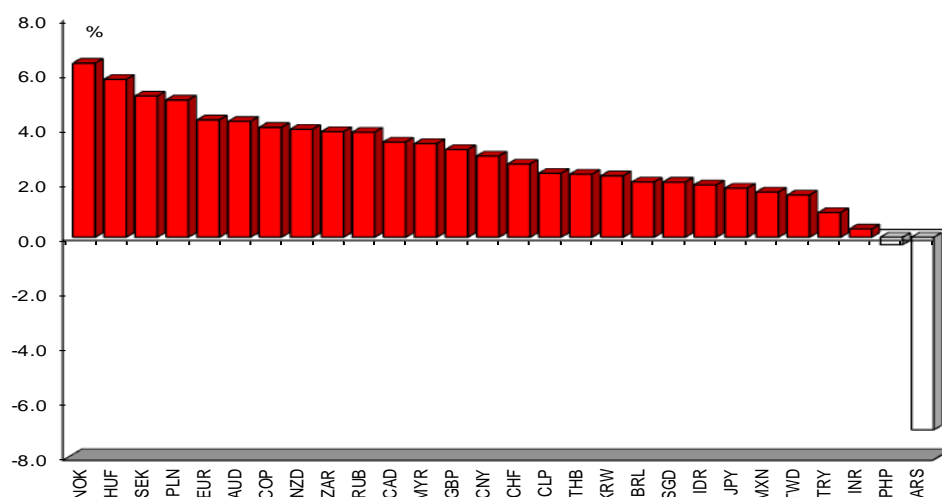
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.2200 | 1.2250 | 1.2284 | 1.2300 | 1.2323 |
| GBP-USD | 1.3408 | 1.3800 | 1.3808 | 1.3817 | 1.3836 |
| AUD-USD | 0.7712 | 0.7900 | 0.7984 | 0.7995 | 0.7999 |
| NZD-USD | 0.7113 | 0.7200 | 0.7268 | 0.7300 | 0.7315 |
| USD-CAD | 1.2356 | 1.2400 | 1.2430 | 1.2500 | 1.2683 |
| USD-JPY | 110.19 | 110.30 | 110.57 | 111.00 | 111.70 |
| USD-SGD | 1.3154 | 1.3184 | 1.3199 | 1.3200 | 1.3431 |
| EUR-SGD | 1.6193 | 1.6200 | 1.6214 | 1.6248 | 1.6300 |
| JPY-SGD | 1.1729 | 1.1900 | 1.1936 | 1.1939 | 1.1990 |
| GBP-SGD | 1.8200 | 1.8214 | 1.8226 | 1.8286 | 1.8300 |
| AUD-SGD | 1.0517 | 1.0533 | 1.0538 | 1.0548 | 1.0600 |
| Gold | 1288.36 | 1300.00 | 1344.00 | 1345.00 | 1353.86 |
| Silver | 17.12 | 17.30 | 17.31 | 17.40 | 17.45 |
| Crude | 58.73 | 63.90 | 63.91 | 64.00 | 64.89 |

Source: OCBC Bank

FX performance: 1-month change agst USD

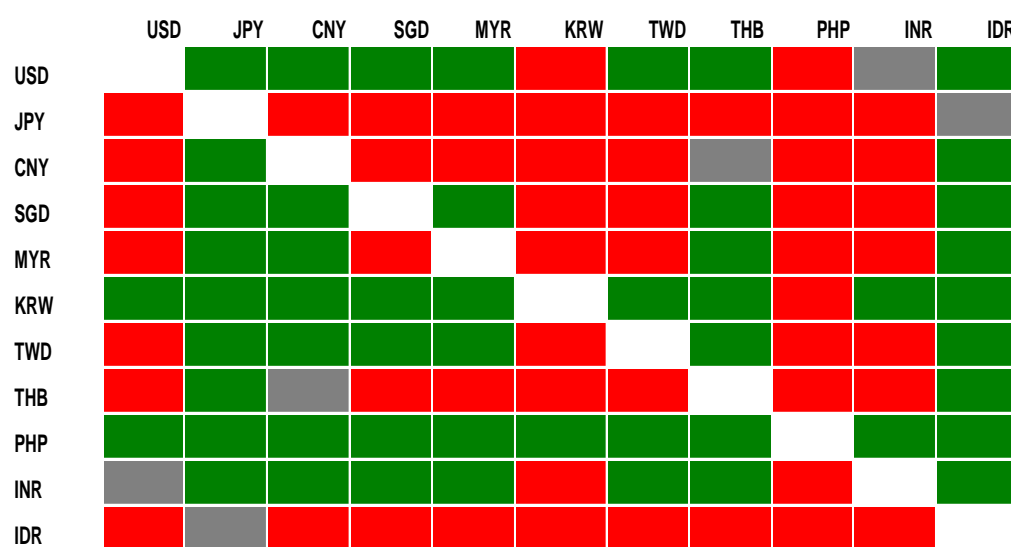


Source: Bloomberg

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

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 | 27-Nov-17 | | B | GBP-USD | 1.3344 | 1.3975 1.3490 | Investors may imputeBrexit talks in December. Prevailing USD weakness. | |
| 2 | 15-Jan-18 | | B | EUR-USD | 1.2199 | 1.2420 1.2085 | "Hawkish" ECB expectations, positive German poloitical news flow | |
| 3 | 16-Jan-18 | | S | USD-SGD | 1.3230 | 1.3110 1.3295 | Heay dollar, positive risk appetite, SGD NEER not excessively strong | |
| | STRUCTURAL | | | | | | | |
| | -- | | -- | -- | -- | -- | -- | |
| | RECENTLY CLOSED TRADE IDEAS | | | | | | | |
| | Inception | Close | B/S | Currency | Spot | Close | Rationale | P/L (%)* |
| 1 | 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** |
| 2 | 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 |
| 3 | 09-May-17 | 12-Jan-18 | B | GBP-USD | 1.2927 | 1.3700 | USD skepticism, UK snap elections, positioning overhang, hawkish BOE? | +4.71 |
| **of notional | | | | | | | | |

Source: OCBC Bank

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