

Friday, January 19, 2018

FX Themes/Strategy/Trading Ideas

- Despite slightly firmer UST yields (bear steepened from the back-end), the dollar still softened across the board on Thursday amidst near term jitters over a potential government shutdown as voting comes down to the wire on Friday.
- Fed's Dudley repeats his concern that beyond 2018, tax cuts may cause the economy to overheat.
- The UST curve has steepened on the week, while the Canadian and Australian govie curves have also lifted, with the latter moves we think indicative of a still positive global macro environment (and underscoring the current market narrative of more activist cyclical central banks this year).
- After the US House passed the government funding bill early Friday in Asia, markets will remain wary ahead of the Senate vote with the deadline at 12:01 ET Saturday. In the interim, the DXY still anchored in the vicinity of 90.50 and the path of least resistance may remain one of inherent USD vulnerability. Fed-speak today comes from Bostic (1345 GMT) and Quarles (1800 GMT), with no ECB appearances scheduled.
- Going into next week, headline risks may be too rife for investors to pursue extension trades at this juncture. In addition to the German SPD vote on Sunday, NAFTA talks and the World Economic Forum (Davos) commence on Tuesday, with the ECB policy meeting next Thursday also crucial.

Asian FX

- EM FX also managed to chalk up gains on the greenback on Thursday. Negative US equities and a slightly soft commodity complex form overnight may not deter sentiment in Asia, with Asian equities off to a positive start on Friday. Note additional downside pressure on USD-Asia with the USD-CNY (and USD-CNH gapping lower early Friday). Net portfolio inflows for Asia meanwhile continue to remain constructive. Thus despite the **FXSI (FX Sentiment Index)** continuing to consolidate higher (albeit within Risk-On territory), the **ACI (Asian Currency Index)** is expected to remain southbound intra-day.
- **Bank Indonesia** kept its benchmark rate unchanged as expected at 4.25% on Thursday and indicated that it would hasten changes to rules on reserve requirements ("to increase liquidity capability for banks"). Central bank language indicate little potential for further rate cuts, with assistant governor Waluyo stating that, "The monetary stance remains neutral" and "...we see the window for cutting rate is closing". Overall, expect positivity surrounding

Treasury Research &
Strategy

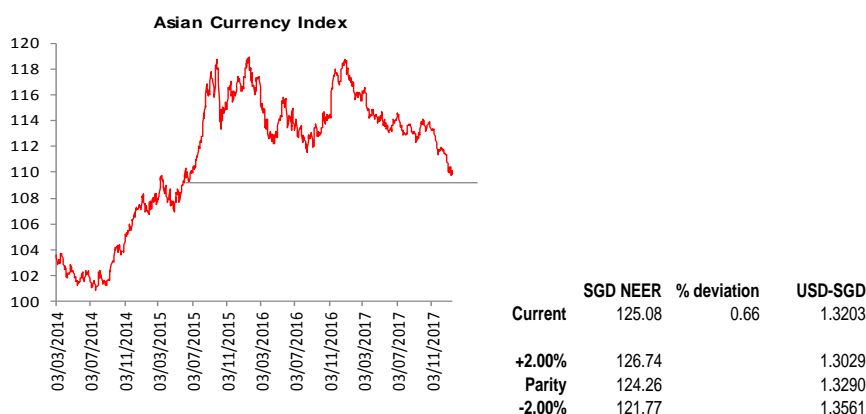
Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

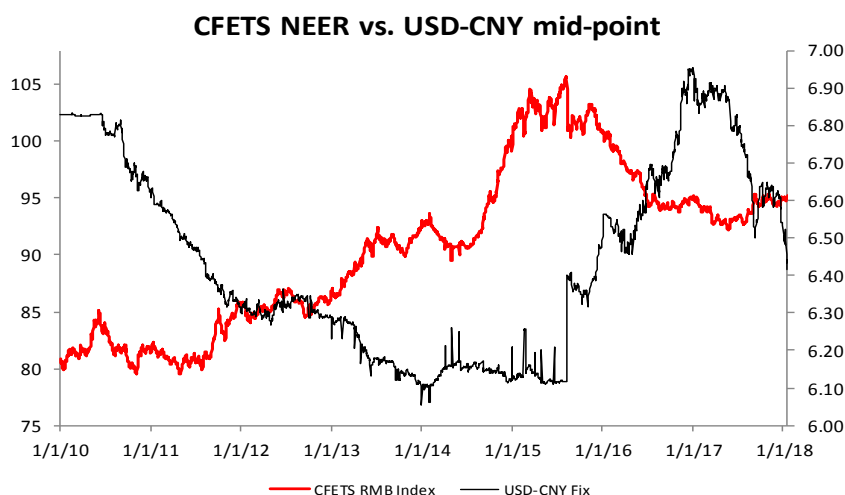
the IDR to persist, with little domestic impetus to drive govie yields significantly higher, leaving the curve depressed.

- SGD NEER:** The SGD NEER is slightly firmer this morning at around +0.66% above its perceived parity (1.3290) with NEER-implied USD-SGD thresholds lower on the day. Expect a +0.60% (1.3211) to +0.90% (1.3171) range to prevail for the basket, with the support at 1.3200 looking technically tenuous for the USD-SGD.



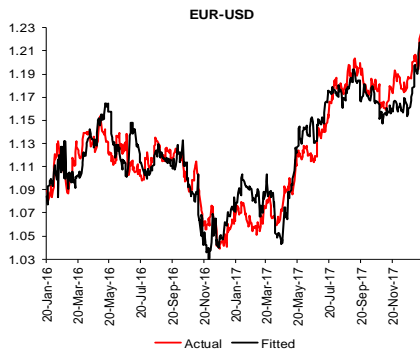
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point fell (as largely expected) to 6.4169 this morning from 6.4401 on Thursday. This pushed the CFETS RMB Index higher again to 95.25 from 95.17 yesterday. Multi-session, watch for any sustained breach above 95.35 a level unbroken successfully since June 2016.



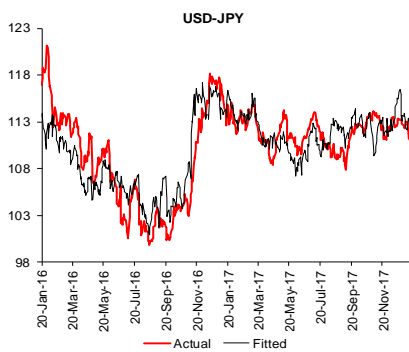
Source: OCBC Bank, Bloomberg

G7



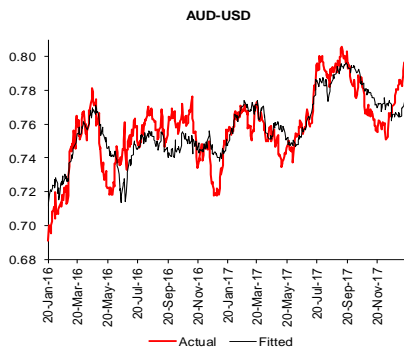
Source: OCBC Bank

- EUR-USD** Short term implied valuations continue to sit mildly lower for the EUR-USD although investors may seek to bounce any dips towards 1.2150/60 ahead of the multitude of headline risks for the EUR starting this weekend.



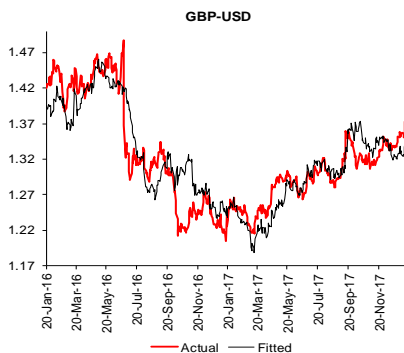
Source: OCBC Bank

- USD-JPY** USD-JPY may remain caught between the cross winds of a vulnerable dollar complex and rate differential developments- muting any distinct directionality for the pair. Short term implied valuations for the USD-JPY remain firmer but we think investors may fade rallies towards the 200-day MA (111.75) in favor of 110.20.



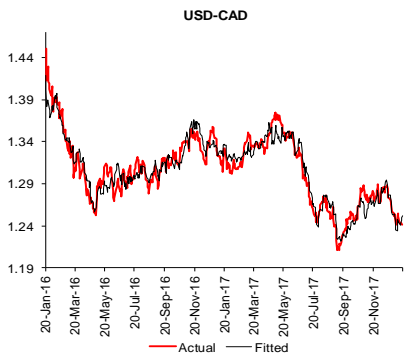
Source: OCBC Bank

- AUD-USD** AUD-USD breached the 0.800 level this morning (second time this week) and we note that short term implied valuations remain underpinned. Preference to accumulate on dips towards 0.7970 instead, with the pair still slightly distended on the upside relative to its implied confidence intervals.



Source: OCBC Bank

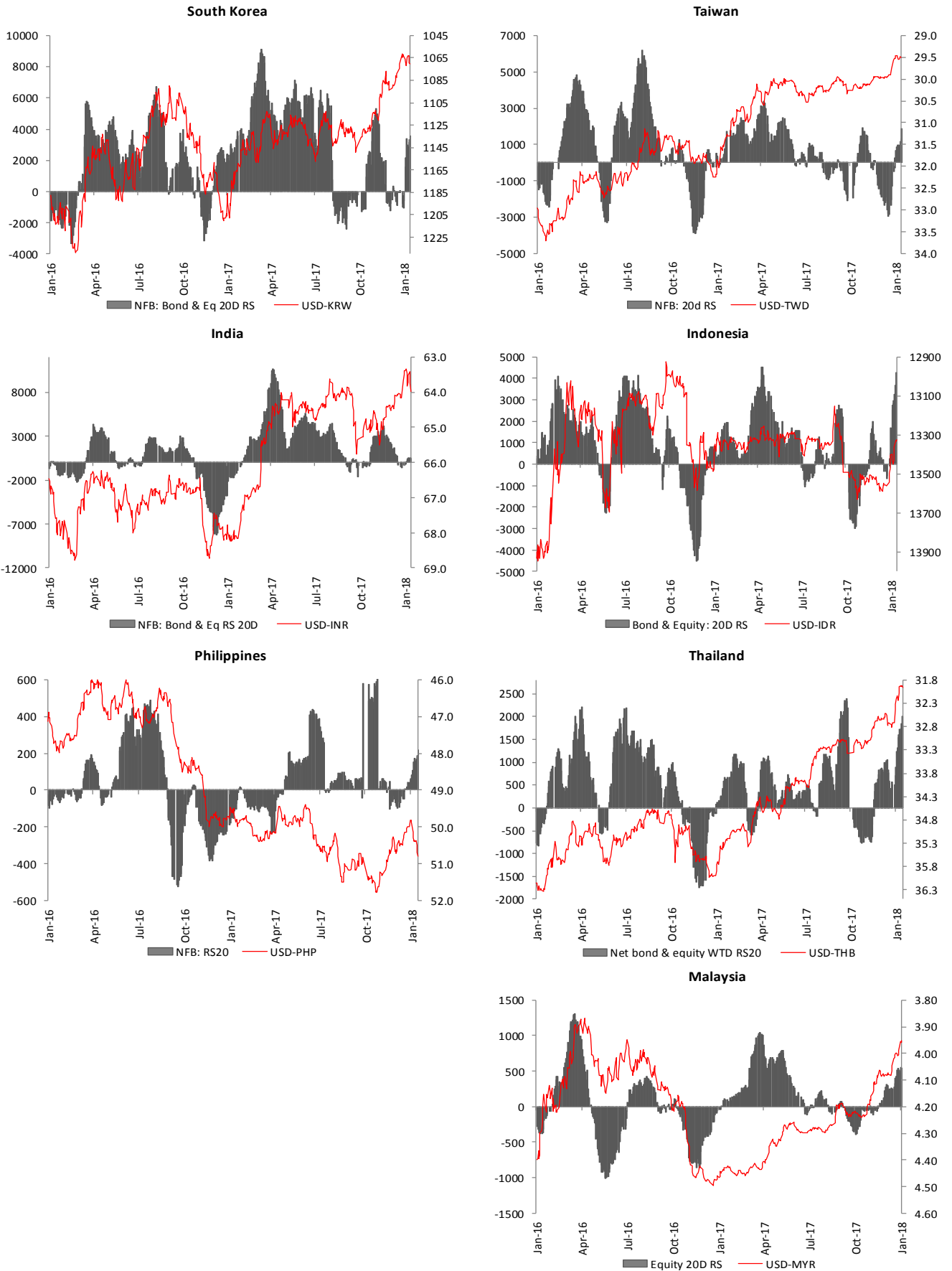
- GBP-USD** GBP-USD may look to consolidate in the near term in the neighborhood of 1.3900 given that short term implied valuations remain moribund despite the pair's recent run up. Expect Brexit-related headlines to continue to induce volatility going ahead, although broader dollar vulnerability and EUR-based resilience may provide underlying support for cable in the interim. Expect base building to set in on any approach of 1.3830.



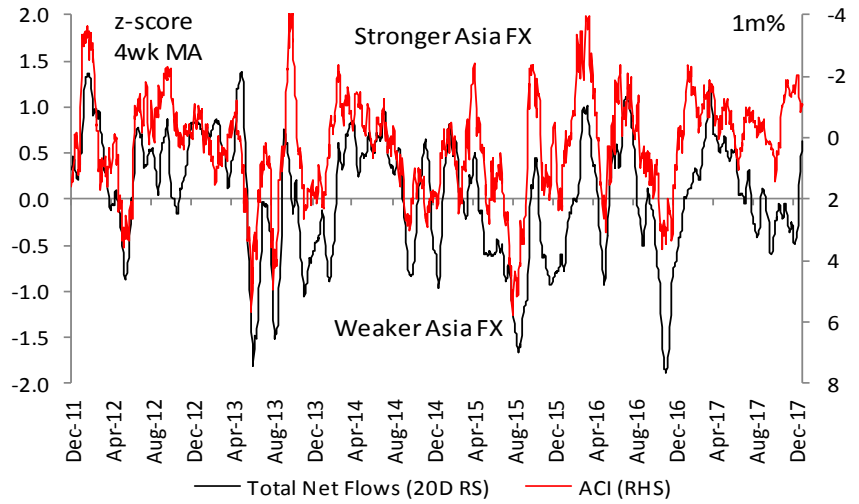
Source: OCBC Bank

- **USD-CAD** Short term implied valuations are attempting to tick higher into the end of the week and note potential uncertainty as we head into the NAFTA talks next week. Amidst prevailing USD skepticism, stay top heavy and expect some potential to bleed lower towards 1.2360 while 1.2500 may cap at this juncture.

USD-Asia VS. Net Capital Flows

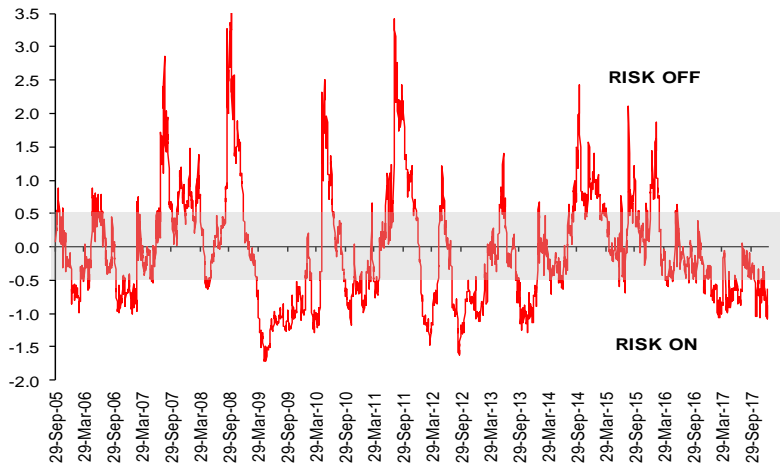


ACI VS. Net Capital Flows



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	-0.58	0.959	-0.849	-0.845	-0.838	0.872	-0.846	-0.596	0.051	0.965	-0.981
CHF	0.974	-0.496	0.929	-0.774	-0.792	-0.789	0.864	-0.775	-0.59	-0.023	0.938	-0.974
CNH	0.965	-0.559	0.985	-0.838	-0.848	-0.863	0.82	-0.857	-0.506	0.18	1	-0.96
SGD	0.961	-0.527	0.953	-0.835	-0.889	-0.89	0.826	-0.869	-0.379	0.235	0.969	-0.957
CNY	0.959	-0.575	1	-0.824	-0.862	-0.899	0.801	-0.867	-0.532	0.163	0.985	-0.939
MYR	0.934	-0.707	0.93	-0.944	-0.962	-0.84	0.847	-0.924	-0.393	0.232	0.93	-0.907
THB	0.905	-0.721	0.883	-0.963	-0.964	-0.833	0.877	-0.944	-0.328	0.237	0.895	-0.886
IDR	0.881	-0.747	0.875	-0.971	-0.947	-0.767	0.824	-0.93	-0.372	0.333	0.892	-0.864
JPY	0.872	-0.691	0.801	-0.819	-0.764	-0.702	1	-0.844	-0.576	-0.147	0.82	-0.883
CCN12M	0.849	-0.466	0.84	-0.719	-0.712	-0.678	0.685	-0.676	-0.329	0.119	0.889	-0.863
CAD	0.829	-0.393	0.887	-0.768	-0.89	-0.915	0.644	-0.866	-0.248	0.49	0.879	-0.796
TWD	0.801	-0.493	0.838	-0.805	-0.953	-0.878	0.658	-0.867	-0.116	0.463	0.825	-0.753
KRW	0.706	-0.146	0.781	-0.536	-0.74	-0.851	0.482	-0.679	-0.006	0.49	0.756	-0.701
INR	0.391	-0.093	0.498	-0.392	-0.587	-0.591	0.266	-0.493	0.44	0.52	0.469	-0.396
PHP	-0.478	0.862	-0.374	0.622	0.416	0.134	-0.645	0.408	0.706	0.475	-0.368	0.445
USGG10	-0.58	1	-0.575	0.832	0.698	0.389	-0.691	0.681	0.505	0.011	-0.559	0.544
NZD	-0.916	0.7	-0.915	0.948	0.932	0.853	-0.885	0.958	0.482	-0.241	-0.93	0.896
AUD	-0.966	0.595	-0.969	0.889	0.908	0.914	-0.86	0.92	0.521	-0.209	-0.974	0.943
GBP	-0.973	0.675	-0.944	0.88	0.859	0.771	-0.859	0.817	0.649	-0.038	-0.951	0.963
EUR	-0.981	0.544	-0.939	0.81	0.79	0.798	-0.883	0.81	0.569	-0.018	-0.96	1

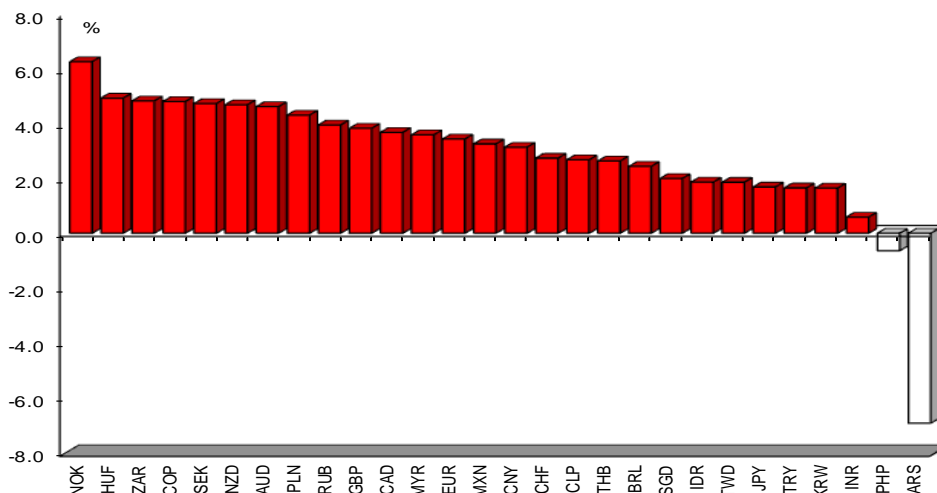
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1906	1.2200	1.2241	1.2300	1.2312
GBP-USD	1.3437	1.3800	1.3893	1.3900	1.3919
AUD-USD	0.7716	0.8000	0.8014	0.8023	0.8029
NZD-USD	0.7116	0.7200	0.7295	0.7300	0.7331
USD-CAD	1.2356	1.2400	1.2420	1.2500	1.2673
USD-JPY	110.19	111.00	111.02	111.73	112.00
USD-SGD	1.3184	1.3200	1.3202	1.3300	1.3416
EUR-SGD	1.5969	1.6100	1.6161	1.6200	1.6213
JPY-SGD	1.1734	1.1800	1.1891	1.1900	1.1935
GBP-SGD	1.8300	1.8337	1.8341	1.8391	1.8400
AUD-SGD	1.0517	1.0572	1.0581	1.0591	1.0600
Gold	1290.23	1300.00	1330.60	1345.00	1352.94
Silver	16.77	17.00	17.04	17.10	17.10
Crude	59.00	63.00	63.02	63.10	64.89

Source: OCBC Bank

FX performance: 1-month change agst USD



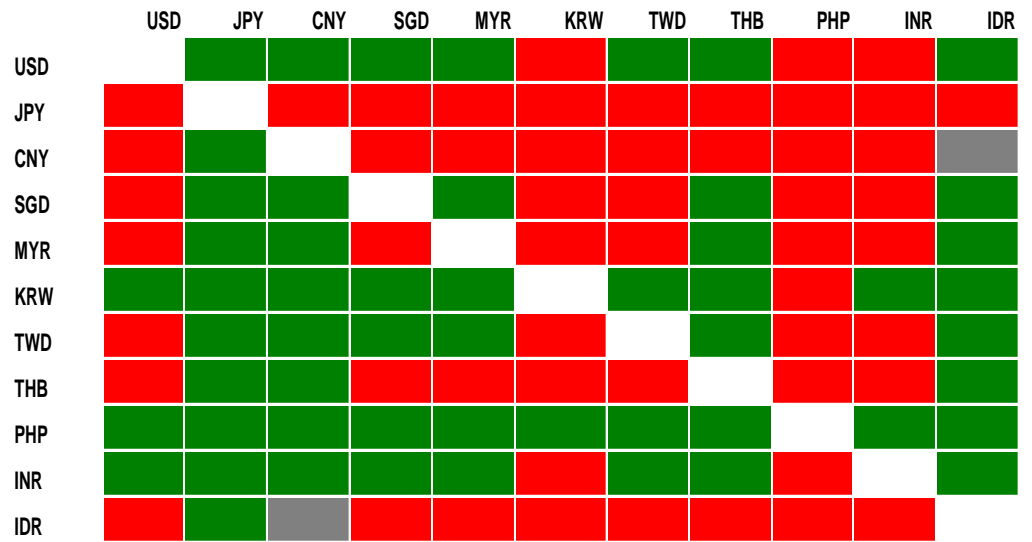
Source: Bloomberg

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		Grey	Red	Grey	Red	Red	Red
GBP	Green	Green	Grey		Red	Grey	Red	Red	Red
JPY	Green	Green	Green	Green		Green	Red	Red	Red
CAD	Green	Green	Grey	Grey	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	Green	Green	Green	Red	Red	

Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

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 impute Brexit talks in December. Prevailing USD weakness.		
2	15-Jan-18	B	EUR-USD	1.2199	1.2420 1.2085	"Hawkish" ECB expectations, positive German political news flow		
3	16-Jan-18	S	USD-SGD	1.3230	1.3110 1.3295	Heavy 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					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

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).
