

Wednesday, February 21, 2018

FX Themes/Strategy/Trading Ideas

- Buoyed by US firmer yields (amidst the deluge of auctions this week) and wider rate differentials, the dollar managed to grind higher against the majors on Tuesday with the DXY managing to surface above 89.50. Elsewhere, global equities (including in EM) were slightly shaky, helping to lift the **FXSI (FX Sentiment Index)** slightly within Risk-Neutral territory.
- GBP-USD however managed to bounce off intra-day lows to end largely unchanged after following a media report indicating potential increased flexibility from the EU parliament with respect to “privileged” single market access.
- Overall, broad dollar gains overnight were for all the wrong reasons (higher yields but largely supply/auction related) and further clarity from Fed cues will be closely scrutinized today. In the interim, expect the greenback to continue to hold a slight upper hand, especially if risk appetite levels remain sketchy.
- For today, the FOMC minutes (1900 GMT) focus may be the primary focus of the market with Harker (1400 GMT) and Kashkari (1500 GMT) also due to speak. Meanwhile, the BOE’s Carney, Broadbent, Haldene, and Tenreyro testify before parliament on the Inflation Report. On the data front, look also to the string of global PMIs on tap today for further macro cues.

Asian FX

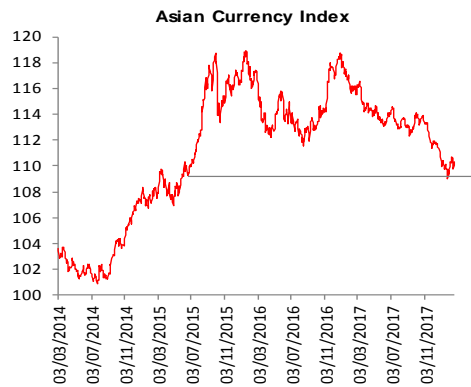
- EM FX (notably the TRY, MXN, and PLN) retreated against the USD on Tuesday and given the current environment, expect the **ACI (Asian Currency Index)** to look northwards intra-day. Although the structural model for the ACI is attempting to stabilize, shorter term prospects for Asian FX remains increasingly uncertain at this juncture.
- Elsewhere, regional govie curves meanwhile have attempted to shadow the UST curve higher (BOK governor states that it may hike if economy grows at 3% and global yields rise) but govies in India, Philippines and South Korea remain relatively more susceptible to the downside on idiosyncratic negatives.
- With the tide washing out in recent weeks (in terms of risk appetite, net portfolio flows, and the recent USD bounce), differentiation within the region may increasingly be crucial. To this end, net portfolio inflows remain a general drag in the region save for the **THB** while the IDR is witnessing

Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

some rebound in net bond inflows. Further on the **IDR**, Indonesia’s imminent bond index inclusions (Barclays Indices) will likely restrain the USD-IDR’s upside while also keeping the local govie curve relatively (and continually) restrained.

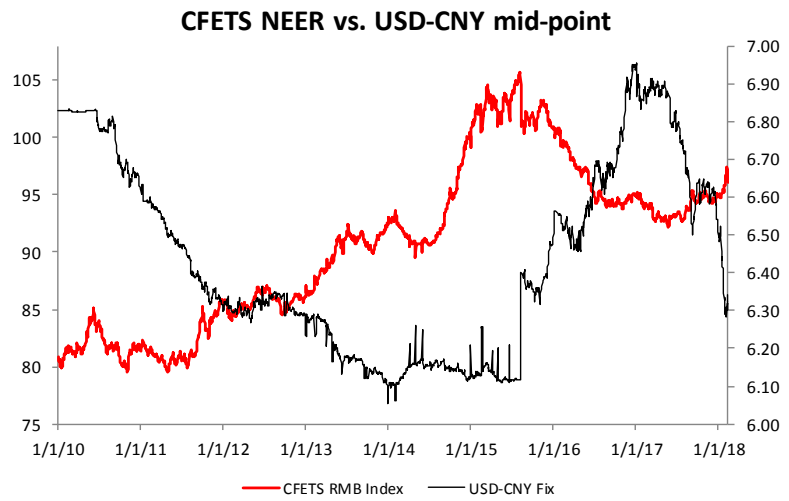
- After returning from a long weekend, the **INR** led the way lower in Asia on Tuesday (net bond outflows and negative PNB headlines as cited culprits) on near universal negative sentiment (no shortage of reasons ranging from fiscal slippage to the current account deficit). Look to RBI meeting minutes later today for fresh cues.
- On other fronts, the **PHP** found interim support after the BSP governor noted that the central bank would not hesitate to hike if the inflation threat persists. He however indicated that “It is not evident we’re there yet”. We think investors remain skeptical of the BSP’s recent relatively restrained inflation outlook and RRR cut (despite the latter being termed an operational adjustment). Coupled with lingering current account concerns, expect the PHP and local govies to remain under pressure.
- **SGD NEER:** The SGD NEER is lower again this morning at around +0.16% above its perceived parity (1.3211) with NEER-implied USD-SGD thresholds higher on the day in the wake of broad dollar moves overnight. Look to a range within parity and +0.30% (1.3171). Bias for the pair may remain tilted to the upside with resistance beyond 1.3200 expected into 1.3240/50 and the 55-day MA (1.3288) thereafter.



	SGD NEER	% deviation	USD-SGD
Current	124.45	0.16	1.3190
+2.00%	126.74		1.2952
Parity	124.26		1.3211
-2.00%	121.77		1.3480

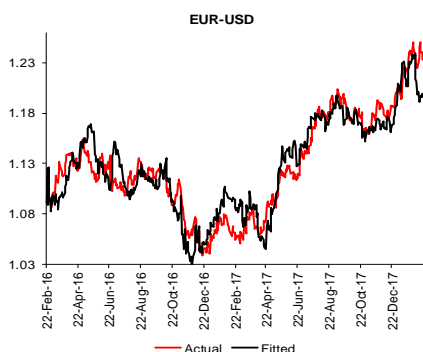
Source: OCBC Bank

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



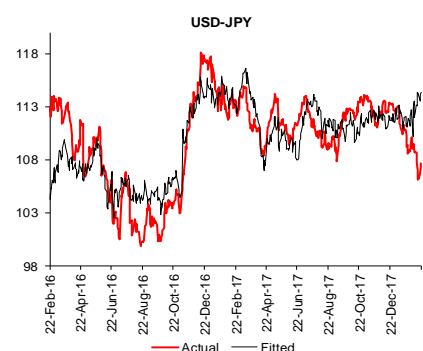
Source: OCBC Bank, Bloomberg

G7 – Fair value?



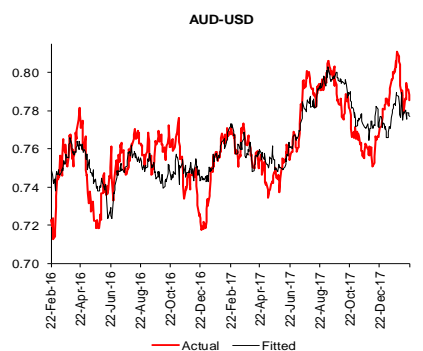
Source: OCBC Bank

- EUR-USD** With the recent EZ news flow ebbing somewhat, the EUR-USD may remain slightly biased to the downside, especially with short term implied valuations holding largely steady. Expect potential to gravitate towards 1.2300 ahead of 1.2260.



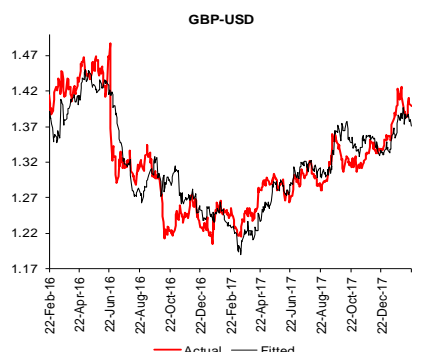
Source: OCBC Bank

- USD-JPY** Riskies continue to lift with the 108.00 ceiling (and 108.35 within reach) now under threat ahead of the FOMC minutes later today. The pair may finally be attempting to hook up with the recent ascent of its short term implied valuations.



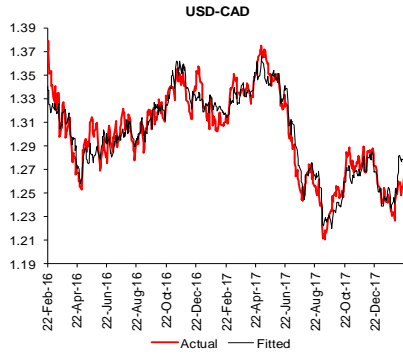
Source: OCBC Bank

- AUD-USD** The 4Q wage price index this morning came in at a stronger than expected +0.6% qoq but any positive impact proved transient. With little strong underpinnings from the risk appetite front, AUD-USD may look to challenge the 55-day MA (0.7845). Short term implied valuations meanwhile remain relatively static.



Source: OCBC Bank

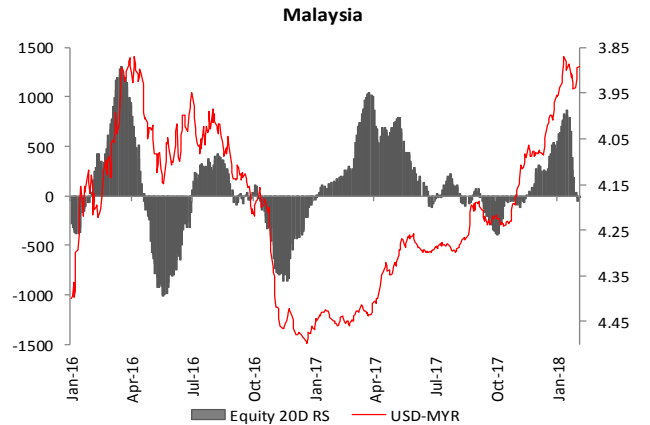
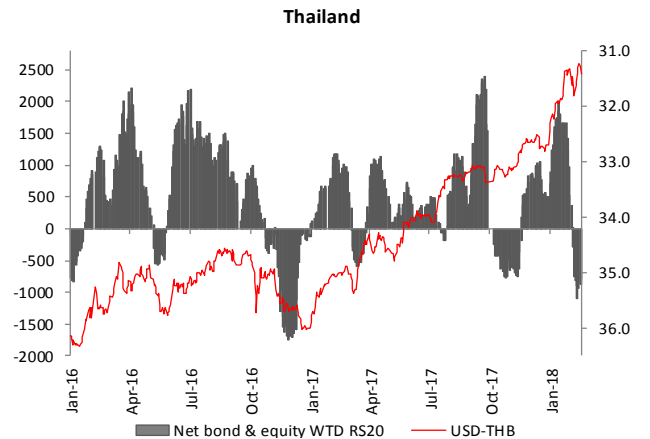
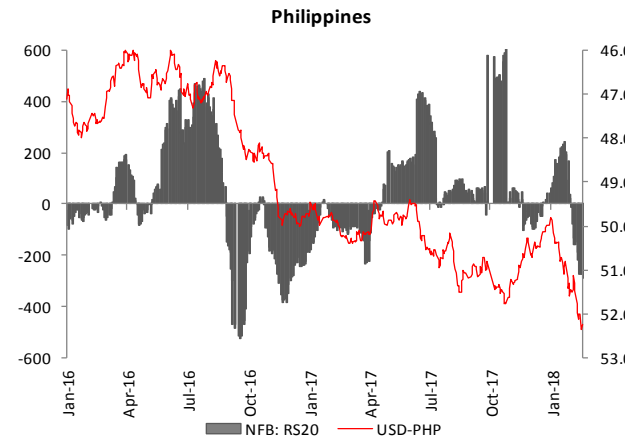
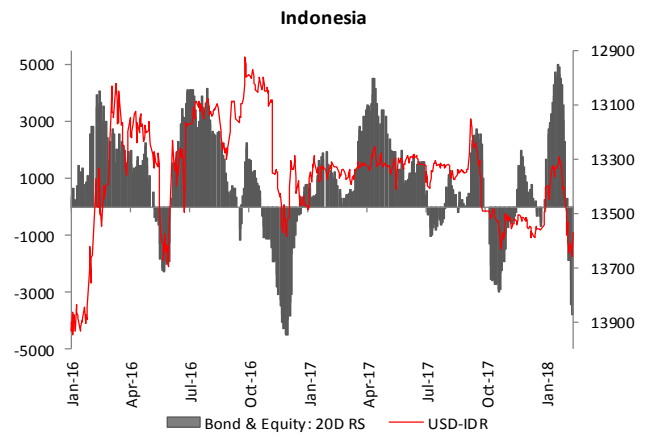
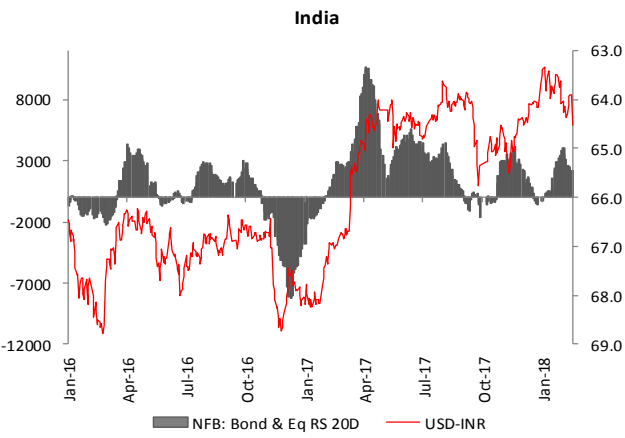
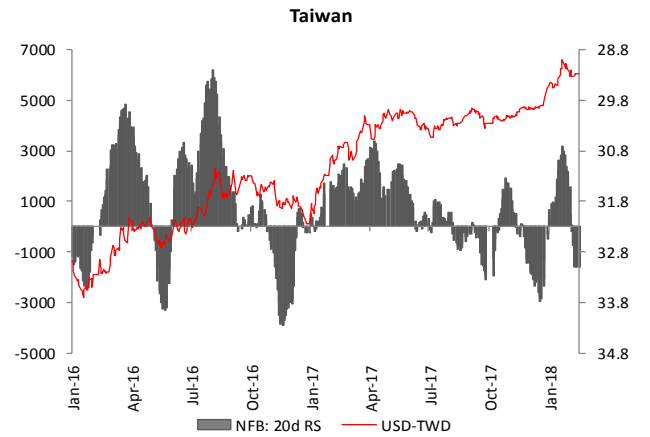
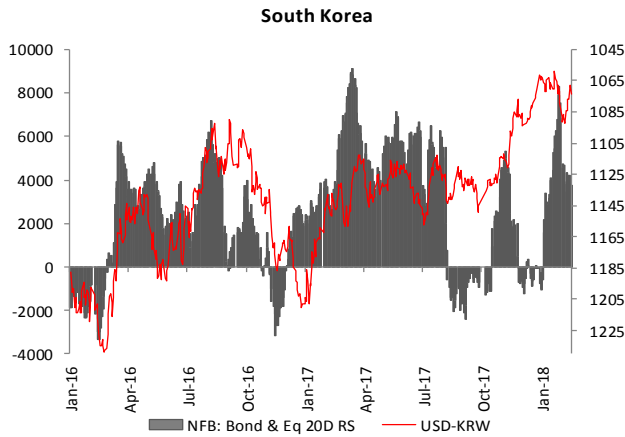
- GBP-USD** Apart from BOE appearances today, December wage data (0930 GMT) may provide a point of interest. In the interim, short term implied valuations have tipped lower with the pair likely to range trade south of 1.4000 ahead of the BOE/Fed today.



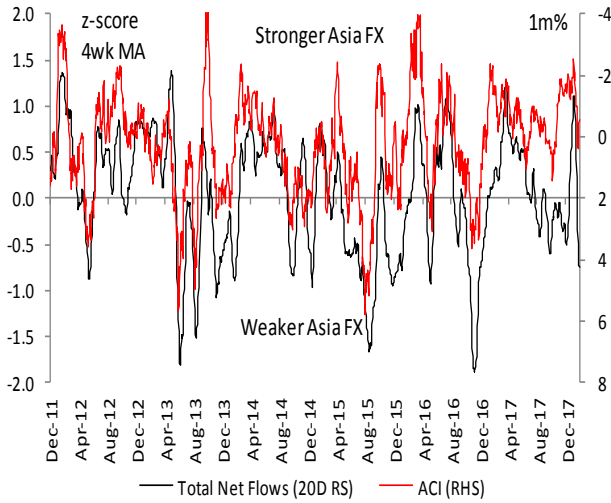
- USD-CAD** December wholesale trade figures disappointed with a -0.50% mom contraction and given the current dollar environment, USD-CAD may be less ambiguous compared to its peers (i.e., biased higher). Expect initial resistance towards the 200-day MA (1.2711), with added buoyancy provided by short term implied valuations.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

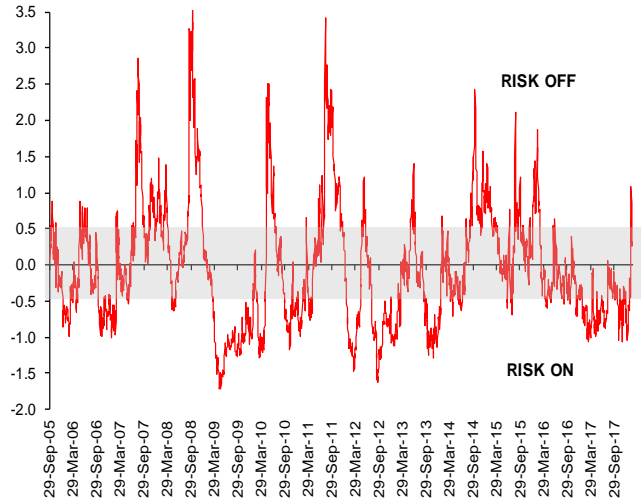


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	-0.073	0.273	-0.453	-0.415	-0.527	0.436	-0.464	0.415	0.144	0.591	-0.973
THB	0.862	-0.224	0.558	-0.310	-0.226	-0.341	0.494	-0.292	0.254	-0.013	0.737	-0.819
SGD	0.820	0.339	-0.137	-0.811	-0.677	-0.737	0.180	-0.636	0.766	0.488	0.242	-0.781
MYR	0.729	0.185	0.279	-0.553	-0.602	-0.749	0.159	-0.724	0.377	0.438	0.329	-0.664
CHF	0.715	-0.568	0.742	0.235	0.207	0.084	0.665	0.093	-0.233	-0.442	0.850	-0.675
TWD	0.677	0.455	0.273	-0.649	-0.688	-0.737	-0.001	-0.716	0.524	0.589	0.280	-0.601
CNH	0.591	-0.492	0.890	0.221	0.278	0.122	0.451	0.074	-0.278	-0.392	1.000	-0.600
CAD	0.527	0.684	-0.092	-0.869	-0.870	-0.862	-0.449	-0.826	0.753	0.813	0.034	-0.540
KRW	0.510	0.545	-0.412	-0.899	-0.782	-0.777	-0.008	-0.666	0.906	0.656	-0.244	-0.442
JPY	0.436	-0.690	0.235	0.326	0.449	0.390	1.000	0.516	-0.179	-0.672	0.451	-0.310
INR	0.388	0.741	-0.357	-0.758	-0.802	-0.753	-0.318	-0.683	0.637	0.760	-0.160	-0.351
CCNY12M	0.352	0.362	-0.071	-0.391	-0.316	-0.376	0.166	-0.272	0.270	0.275	0.092	-0.265
CNY	0.273	-0.477	1.000	0.366	0.292	0.141	0.235	0.034	-0.492	-0.294	0.890	-0.262
IDR	0.262	0.885	-0.363	-0.907	-0.939	-0.911	-0.560	-0.887	0.775	0.965	-0.350	-0.240
USGG10	-0.073	1.000	-0.477	-0.701	-0.797	-0.736	-0.690	-0.729	0.517	0.894	-0.492	0.064
PHP	-0.243	0.826	-0.271	-0.536	-0.576	-0.588	-0.788	-0.612	0.384	0.794	-0.441	0.246
AUD	-0.527	-0.695	0.297	0.956	0.902	0.880	0.286	0.804	-0.855	-0.802	0.109	0.510
NZD	-0.743	-0.007	0.216	0.621	0.417	0.472	-0.355	0.370	-0.658	-0.211	-0.268	0.720
GBP	-0.769	-0.434	0.003	0.792	0.814	0.848	0.106	0.805	-0.733	-0.660	-0.147	0.751
EUR	-0.973	0.064	-0.262	0.435	0.401	0.492	-0.31	0.455	-0.417	-0.13	-0.6	1

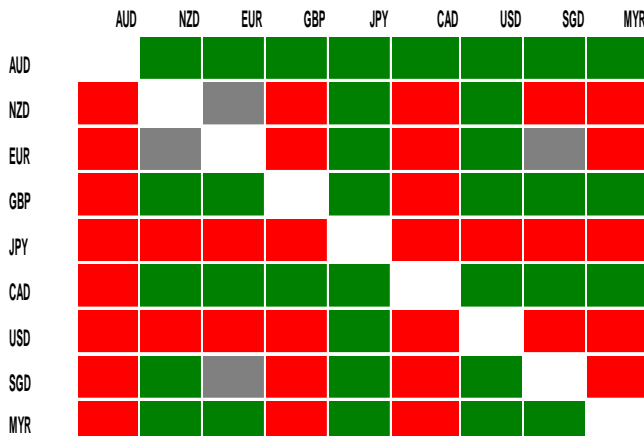
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2230	1.2300	1.2336	1.2400	1.2523
GBP-USD	1.3781	1.3900	1.3990	1.4000	1.4252
AUD-USD	0.7771	0.7800	0.7865	0.7870	0.7900
NZD-USD	0.7212	0.7300	0.7344	0.7400	0.7426
USD-CAD	1.2535	1.2600	1.2651	1.2685	1.2700
USD-JPY	106.04	107.00	107.77	108.00	110.59
USD-SGD	1.3023	1.3100	1.3188	1.3200	1.3256
EUR-SGD	1.6180	1.6200	1.6269	1.6300	1.6401
JPY-SGD	1.2156	1.2200	1.2238	1.2300	1.2377
GBP-SGD	1.8265	1.8400	1.8450	1.8500	1.8636
AUD-SGD	1.0297	1.0300	1.0373	1.0400	1.0433
Gold	1308.01	1312.05	1328.80	1365.40	1366.32
Silver	16.13	16.30	16.38	16.40	16.74
Crude	58.09	61.30	61.33	61.40	61.47

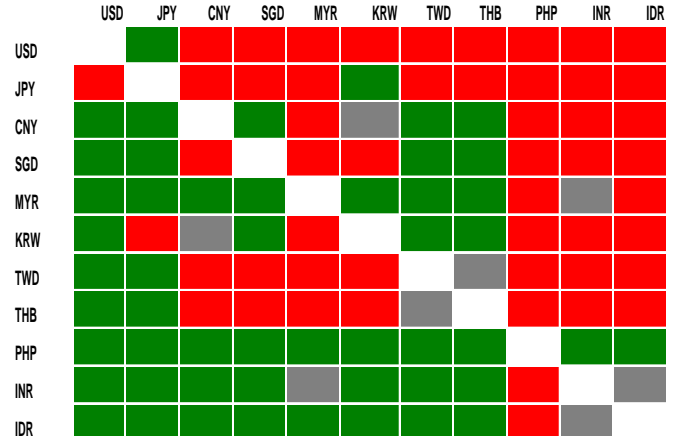
Source: OCBC Bank

G10 FX Heat Map



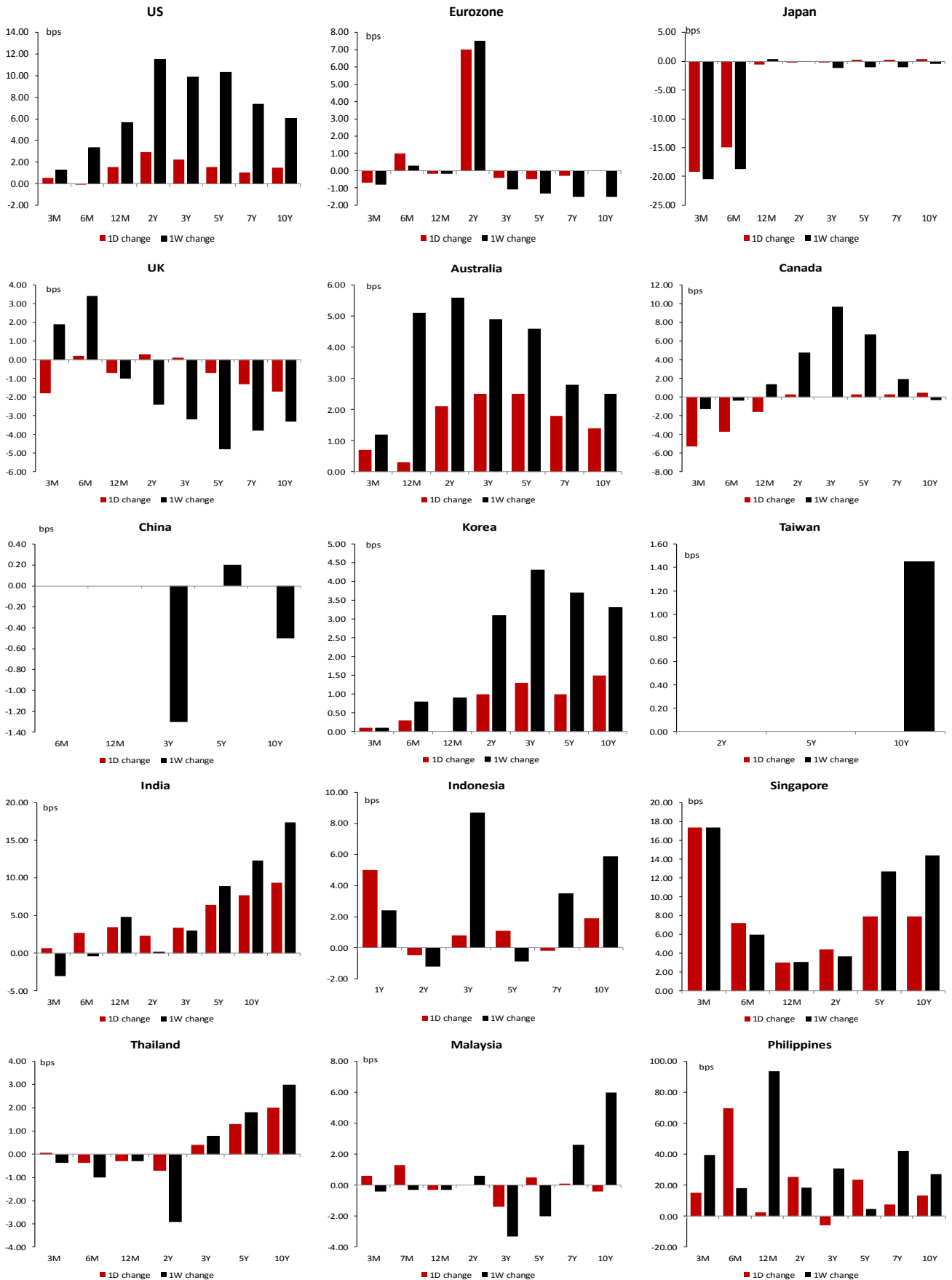
Source: OCBC Bank

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	
STRUCTURAL								
2	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
3	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
4	15-Feb-18	B	GBP-USD	1.4014	1.4855	1.3590	Borad dollar vulerability coupled with hawkish BOE expectations.	
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 imputeBrexit talks in December. Prevailing USD weakness.	+5.56
2	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heay 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 poloitical news flow	+0.72
4	12-Feb-18	14-Feb-18	S	AUD-USD	0.7829	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	-1.09
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Source: OCBC Bank

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