

Monday, January 22, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- The greenback managed to recover from intra-day lows to end marginally higher (note also a firmer UST curve) across G10 space even as the US government headed towards a technical shutdown on Friday.
- Going ahead, investors begin the week with amid a mix of political headlines. The **US government shutdown** triggered at the end of last Friday ensues and may continue to keep the dollar unsteady. The House and Senate remained in session on Sunday and evolving headlines into Monday are expected to be closely scrutinized. At this juncture, the Senate is scheduled to vote at 0600 GMT on Monday although it may well be earlier. To this end, expect some relief USD resilience intra-day if the resolution is indeed passed.
- Meanwhile, the **EUR** may find intrinsic support after the SPD on Sunday voted to continue to pursue a “grand coalition” with the CDU-led bloc. Coalition talks could begin as soon as Tuesday.
- On the **CFTC** front, large non-commercial as well as asset manager accounts in aggregate increased their implied net short dollar bias in the latest week. Meanwhile, leveraged accounts pared their net implied long dollar bias and excluding JPY positioning, also increased their net implied short dollar bias.
- Elsewhere, the global event/macro calendar may see investors trading from headline to headline this week. While inherent suspicion towards the greenback may continue to prevail, we note that aggregate rate differentials point towards broad USD resilience as the UST curve continues to firm.
- The World Economic Forum runs from Tuesday to Friday and on Friday, US President Trump is due to give a keynote address, while the BOJ’s Kuroda, BOE’s Carney, and the IMF’s Lagarde also scheduled to speak on Friday.
- NAFTA talks begin on Tuesday and run till 28th Jan 18, with ensuing headlines potentially having an impact on the CAD (and MXN). On the central bank front, look to the BOJ on Tuesday (no radical departure from yield curve anchoring is expected), the ECB convenes on Thursday (watch Draghi’s press conference for any intent to modify the forward guidance). For the GBP, EU27 government officials meet to discuss to discuss Brexit on Thursday while on Monday, the Brexit bill goes to the House of Lords on Monday.

Treasury Research &
Strategy

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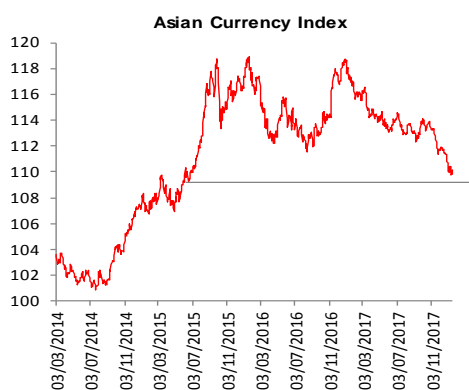
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- With a continued market focus on core central banks outside of the FOMC and with the ECB likely to alter its forward guidance as we head into the spring, we think that the EUR-USD may have further structural upside despite the vol surface having already morphed in the initial weeks of this year. From a spot ref of 1.2274 on Friday, we look to a structural long **EUR-USD** idea, targeting 1.2865 and placing a stop at 1.1975.

Asian FX

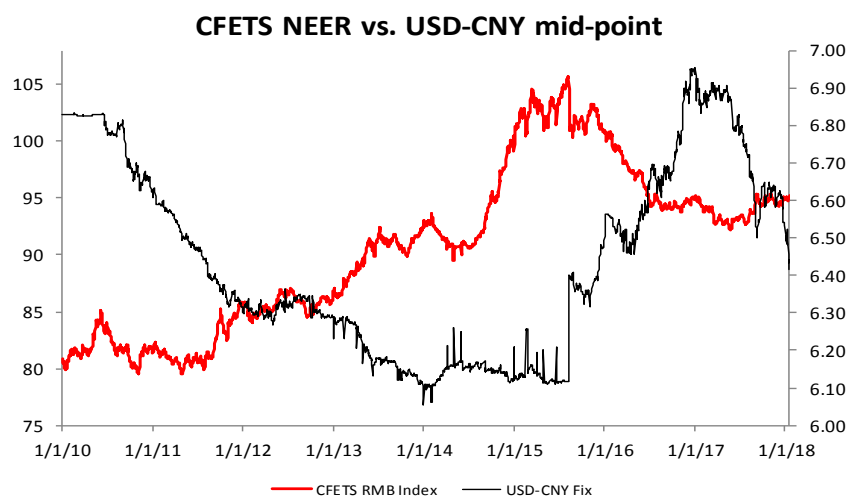
- **EPFR** data showed a moderation of net implied equity and bond inflows into Asia (ex-Japan, China) in the latest week but positive multi-week momentum continues to bode well for regional sentiment. Net portfolio inflows in Asia meanwhile continue to paint a supportive environment for Asian assets, especially for the likes of South Korea, Taiwan, Indonesia, and Thailand.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** has continue to retrace higher within Risk-On territory in the past week and any potential drift back into Risk-neutral territory may prove to be a damper for investor interest towards Asia. In the interim, the **ACI (Asian Currency Index)** may be expected to remain top heavy.
- On the central bank front, **BNM** is expected by the market to hike 25bps to 3.25% on Thursday, BNM on Thursday, although we'd view any hike as a tentative move back towards policy neutrality, and expect little urgency for further hikes to be telegraphed.
- **SGD NEER:** The SGD NEER is softer on the day at around +0.62% its perceived parity (1.3294) this morning, with NEER-implied USD-SGD thresholds a touch firmer from last Friday. The NEER is expected within +0.50% (1.3228) and +0.80% (1.3188) intra-day while technically, USD-SGD is seen heavy within 1.3150-1.3250.



	SGD NEER	% deviation	USD-SGD
Current	125.03	0.62	1.3211
+2.00%	126.74		1.3033
Parity	124.26		1.3294
-2.00%	121.77		1.3565

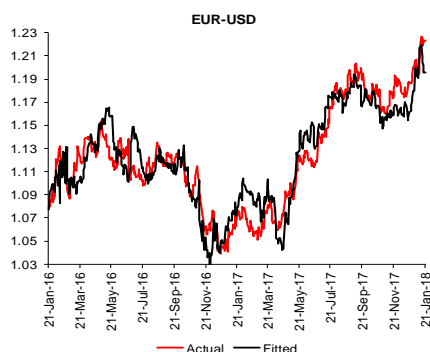
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point softened (in line with expectations) to 6.4112 from 6.4169, resulting in the CFETS RMB Index firming to 95.33 from 95.25 on Friday.



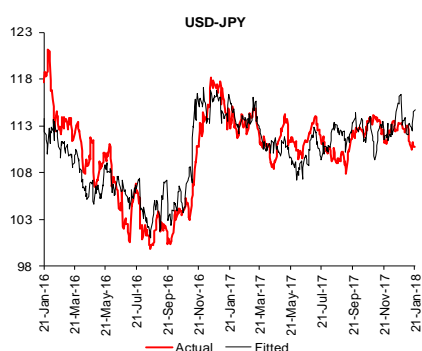
Source: OCBC Bank, Bloomberg

G7



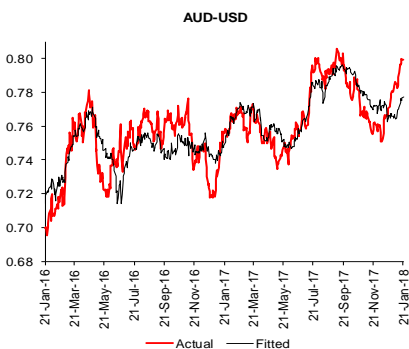
Source: OCBC Bank

- **EUR-USD** Despite positive German political developments over the weekend, short term implied valuations for the pair have stepped lower despite the US government shutdown and ahead of the ECB meeting this Thursday. On the CFTC front, net leveraged EUR longs were pared in the latest week and markets may continue to accumulate on dips towards 1.2185/00 instead.



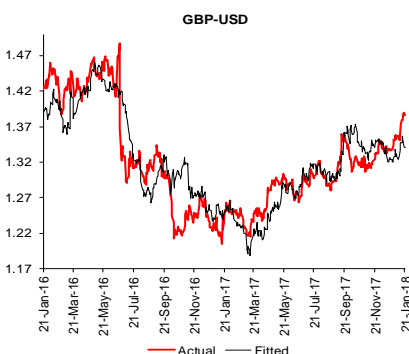
Source: OCBC Bank

- **USD-JPY** Pending further guidance from the BOJ MPC this week, short term implied valuations for the USD-JPY are in fact attempting to firm. On the CFTC front, leveraged net JPY shorts were pared slightly in the latest week but note that positioning as a percentage of net open interest remains significantly elevated. On balance, expect bids to fade on approach towards 111.30 pending further US government shutdown news flow.



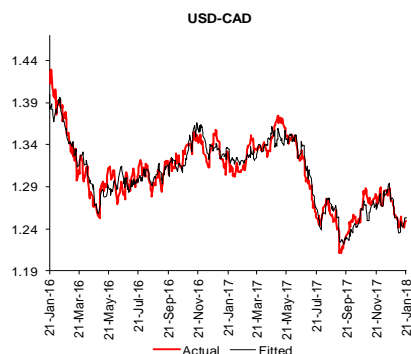
Source: OCBC Bank

- **AUD-USD** If global risk appetite levels remain relatively sanguine, the AUD-USD may continue to find buyers on dips. The domestic calendar is relatively sparse this week and expect external drivers to potentially dominate instead. On the CFTC front, net leveraged AUD longs increased in the latest week while short term implied valuations also continue to tick higher. Stay inherently positive but expect investors base out on dips towards 0.7950 with 0.8000 likely to continue to cap pending global developments.



Source: OCBC Bank

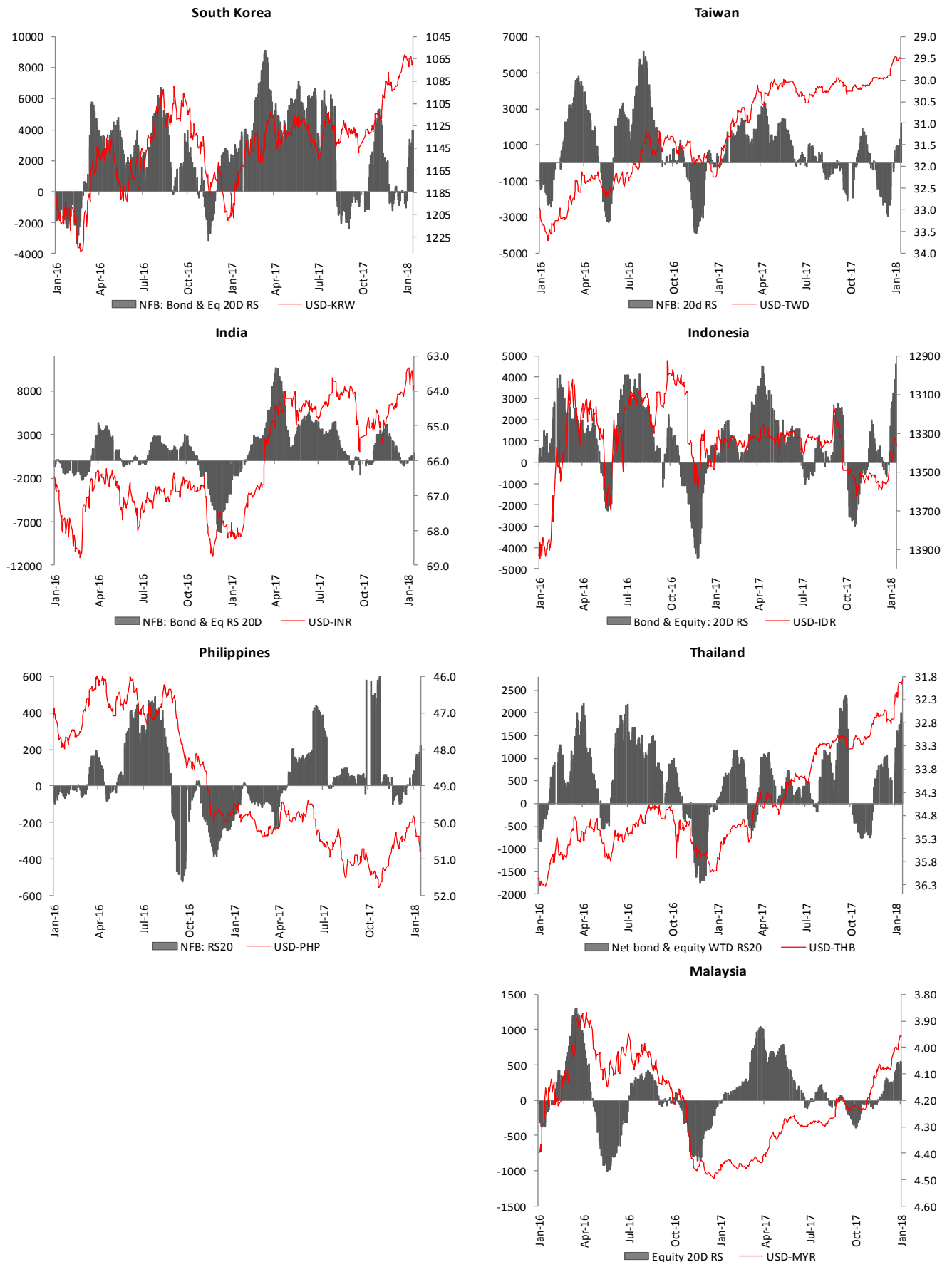
- **GBP-USD** Apart from the data calendar, expect Brexit-related headline risks to steer the pair this week. On the CFTC front, net leveraged GBP longs jumped in the latest week but heavier short term implied valuations may put a lid on excessive upside for the GBP-USD in the near term. Expect a 1.3800-1.3950 range to prevail in the interim.



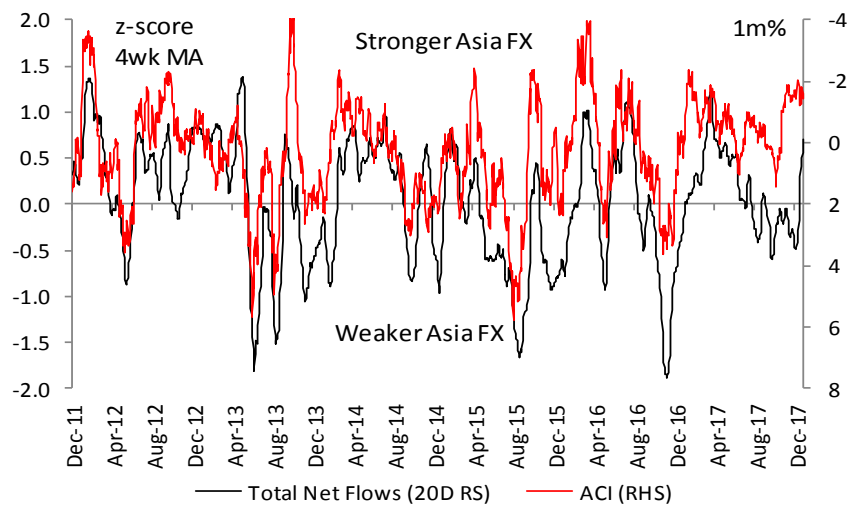
Source: OCBC Bank

- **USD-CAD** In addition to potential NAFTA-related headlines this week, look also to the December CPI readings on Friday for cues. On the CFTC front, net leveraged CAD longs jumped in the latest week but note that these numbers pre-dated the BOC policy meeting on Wednesday. Meanwhile, short term implied valuations have attempted to consolidate higher since the BOC. Overall, the USD-CAD may continue to remain range bound (if not slightly top heavy) within 1.2400-1.2600 multi-session.

USD-Asia VS. Net Capital Flows

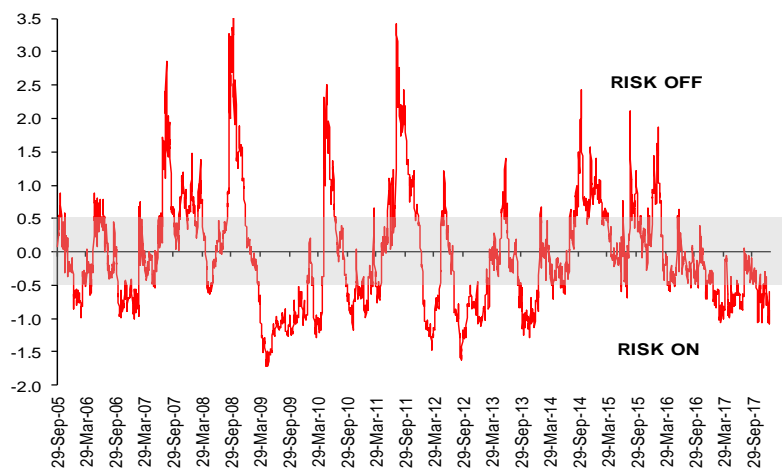


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.727	0.957	-0.822	-0.797	-0.822	0.884	-0.757	-0.635	-0.291	0.961	-0.981
CHF	0.975	-0.63	0.942	-0.731	-0.74	-0.796	0.852	-0.671	-0.61	-0.322	0.935	-0.973
CNH	0.961	-0.774	0.986	-0.837	-0.801	-0.737	0.84	-0.694	-0.568	-0.215	1	-0.953
CNY	0.957	-0.757	1	-0.822	-0.8	-0.758	0.822	-0.693	-0.606	-0.319	0.986	-0.945
SGD	0.955	-0.669	0.923	-0.814	-0.842	-0.83	0.824	-0.737	-0.388	-0.132	0.946	-0.956
MYR	0.909	-0.816	0.914	-0.942	-0.949	-0.836	0.832	-0.883	-0.399	-0.116	0.916	-0.877
JPY	0.884	-0.787	0.822	-0.804	-0.738	-0.767	1	-0.845	-0.583	-0.416	0.84	-0.881
THB	0.878	-0.785	0.859	-0.955	-0.959	-0.863	0.853	-0.945	-0.299	-0.09	0.87	-0.851
CCN12M	0.877	-0.619	0.892	-0.712	-0.702	-0.738	0.694	-0.602	-0.355	-0.186	0.914	-0.865
IDR	0.829	-0.853	0.833	-0.968	-0.936	-0.705	0.791	-0.899	-0.376	-0.002	0.859	-0.809
CAD	0.738	-0.467	0.712	-0.736	-0.866	-0.677	0.551	-0.661	-0.154	0.24	0.702	-0.711
TWD	0.724	-0.618	0.736	-0.782	-0.936	-0.738	0.606	-0.722	-0.028	0.165	0.746	-0.682
KRW	0.434	-0.012	0.443	-0.206	-0.445	-0.474	0.223	-0.168	0.238	0.186	0.408	-0.499
INR	0.074	0.01	0.147	-0.137	-0.342	-0.359	0.007	-0.196	0.657	0.424	0.136	-0.124
USGG10	-0.727	1	-0.757	0.91	0.812	0.604	-0.787	0.819	0.546	0.16	-0.774	0.675
PHP	-0.733	0.913	-0.713	0.845	0.711	0.575	-0.797	0.77	0.764	0.552	-0.675	0.645
NZD	-0.896	0.821	-0.859	0.96	0.91	0.764	-0.897	0.924	0.514	0.076	-0.882	0.868
AUD	-0.972	0.799	-0.952	0.912	0.878	0.826	-0.887	0.819	0.591	0.185	-0.966	0.947
GBP	-0.974	0.807	-0.974	0.864	0.834	0.768	-0.857	0.746	0.675	0.26	-0.969	0.958
EUR	-0.981	0.675	-0.945	0.775	0.737	0.804	-0.881	0.714	0.593	0.294	-0.953	1

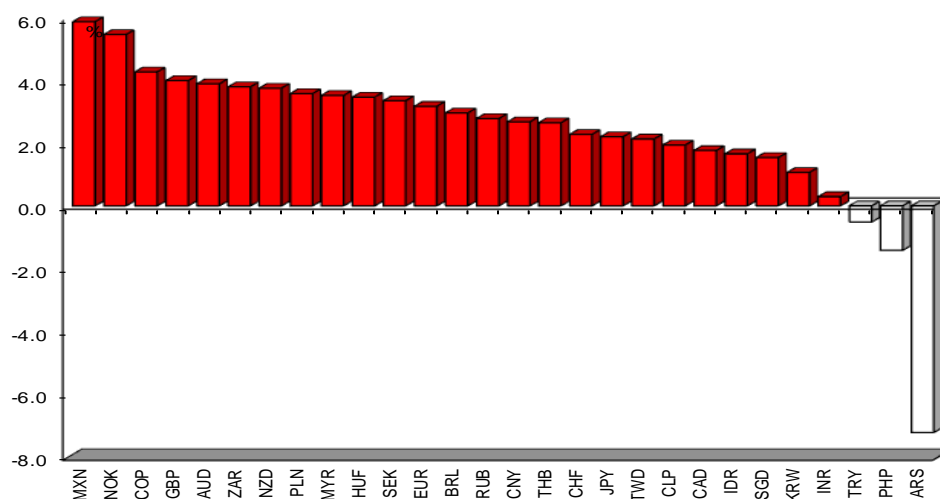
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1917	1.2200	1.2234	1.2300	#N/A
GBP-USD	1.3451	1.3800	1.3870	1.3900	1.3936
AUD-USD	0.7718	0.7900	0.7992	0.8000	0.8031
NZD-USD	0.7117	0.7200	0.7282	0.7300	0.7331
USD-CAD	1.2356	1.2400	1.2485	1.2500	1.2649
USD-JPY	110.00	110.19	110.78	111.00	111.74
USD-SGD	1.3175	1.3200	1.3204	1.3300	1.3408
EUR-SGD	1.5974	1.6100	1.6154	1.6200	1.6222
JPY-SGD	1.1735	1.1900	1.1920	1.1934	1.1996
GBP-SGD	1.8034	1.8300	1.8314	1.8353	1.8391
AUD-SGD	1.0500	1.0516	1.0553	1.0576	1.0598
Gold	1291.29	1300.00	1331.00	1345.00	1352.53
Silver	16.77	17.00	17.01	17.09	17.10
Crude	59.12	63.50	63.57	63.60	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									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

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 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							
1	19-Jan-18		B	EUR-USD	1.2274	1.2865 1.1975	ECB likely to alter its forward guidance into the spring	
	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
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Source: OCBC Bank

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