

Tuesday, January 23, 2018

FX Themes/Strategy/Trading Ideas

- Despite the US Senate passing a temporary spending bill (to fund the government to 08 Feb 18), the USD ended mildly weaker against its G10 peers on Monday. Note that US President Trump also signed off on the bill in the Asia morning on Tuesday.
- At this juncture, the DXY continues to remain tethered to the 90.50 region with investors likely to fade any near term USD resilience pending headline risks. Any sustained break below the 90.00 level we think would have to be predicated on fresh catalysts.
- The BOJ MPC today is a likely focal point for markets with investors not expecting any material shift in policy guidance with all eyes on Kuroda's press conference (630pm GMT). Elsewhere, the Fed's Evans is scheduled for 2330 GMT.

Asian FX

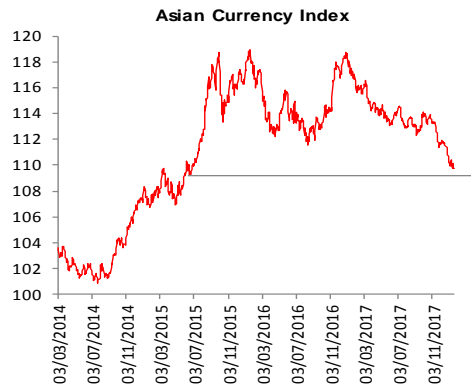
- Positive global (and EM) equities continue to indicate a sanguine investor complexion while EM FX clocked a mixed performance against the greenback on Monday. While the **FXSI (FX Sentiment Index)** continued to creep higher yesterday (but still remaining in Risk-On territory) and the USD may garner some near term support from the Senate funding bill, net portfolio inflows into Asia remain supportive of Asian FX resilience.
- On this front, note the recent surge in equity inflows for the TWD over the past week with bond inflows still particularly significant for the IDR. Meanwhile, note some tapering of hitherto strong bond inflows for the THB, while the INR (and local govies) may remain slightly hampered by background fiscal concerns (ahead of the 01 Feb budget) despite some recent pick up in bond/equity inflows. Overall, the **ACI (Asian Currency Index)** is still expected to be heavy.
- **SGD NEER:** Singapore's December CPI readings are due at 0500 GMT and in the interim, the SGD NEER is slightly firmer on the day at around +0.67% above its perceived parity (1.3267). NEER-implied USD-SGD thresholds are lower on the day and the basket should oscillate within +0.80% (1.3162) and +0.50% (1.3202).

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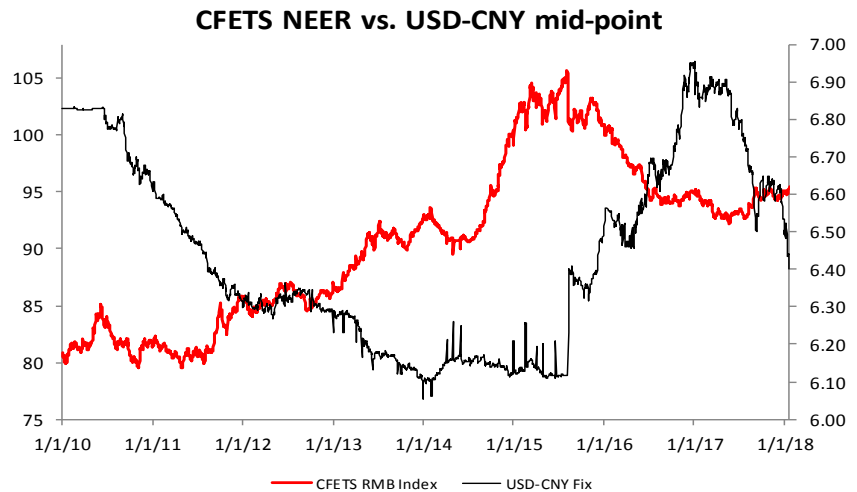
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	SGD NEER	% deviation	USD-SGD
Current	125.08	0.66	1.3181
+2.00%	126.74		1.3007
Parity	124.26		1.3267
-2.00%	121.77		1.3538

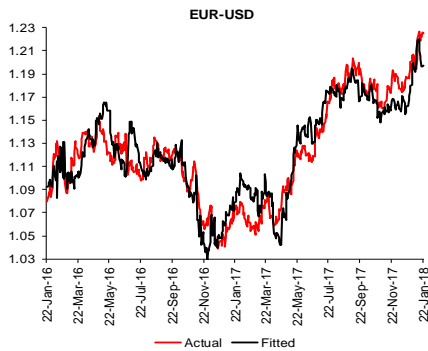
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point softened (slightly less than expected) to 6.4009 this morning from 6.4112, lifting the CFETS RMB Index higher to 95.43 from 95.33. Apart from basket-related considerations, the authorities may also not be keen to hasten an accelerated breach of the 6.4000 region.



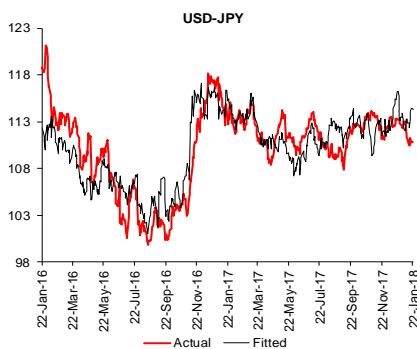
Source: OCBC Bank, Bloomberg

G7



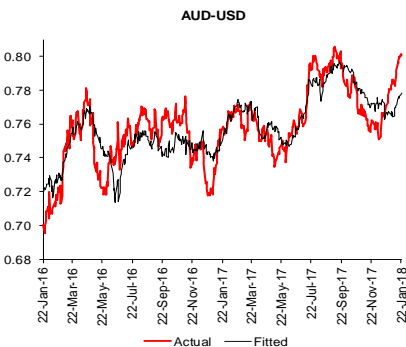
Source: OCBC Bank

- EUR-USD** Watch for any headlines from scheduled German coalition talks today (German Jan ZEW also due at 1000 GMT) or tomorrow although any finalized deal may not materialize till February. In the interim, the EUR-USD remains somewhat stretched to the upside relative to its short term implied valuations and tactically, investors may prefer to accumulate on dips towards 1.2185/00 instead.



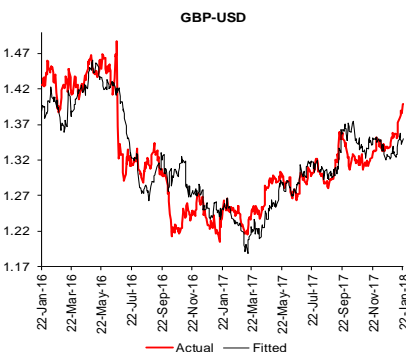
Source: OCBC Bank

- USD-JPY** Ahead of Kuroda's press conference, short term implied valuations remains somewhat supported. Any absence of distinct hawkishness (although already priced in) may still see the USD-JPY react slightly higher intra-day within 110.50-111.50.



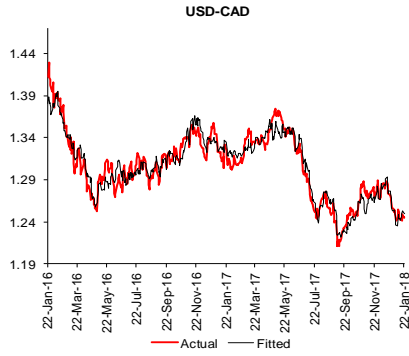
Source: OCBC Bank

- AUD-USD** A soggy dollar complex mixed with still sanguine global risk appetite levels continues to prove supportive for the AUD-USD's short term implied valuations. The pair however remains well north of its implied confidence intervals and expect markets to continue to collect dips within 0.7950-0.8050 for now.



Source: OCBC Bank

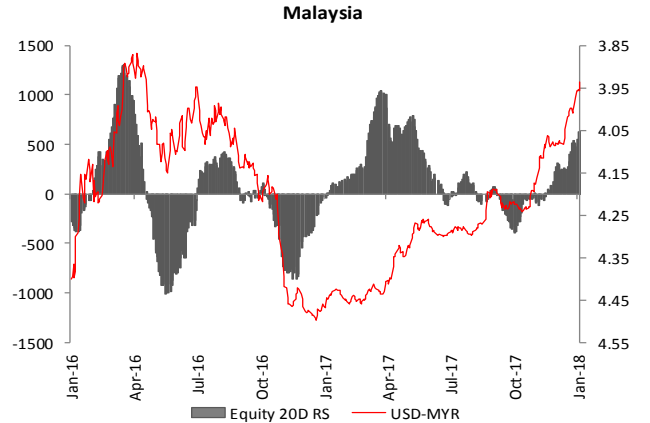
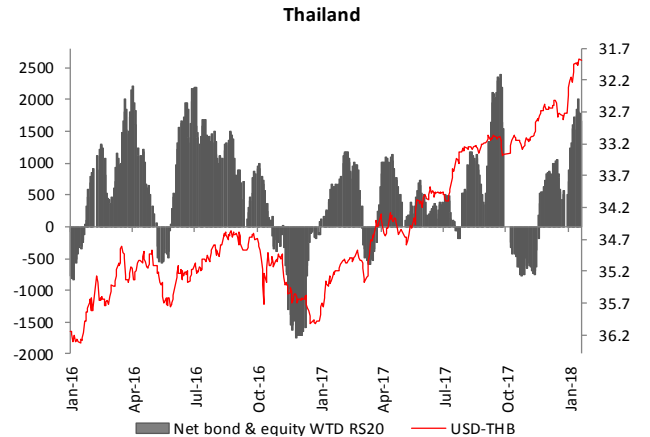
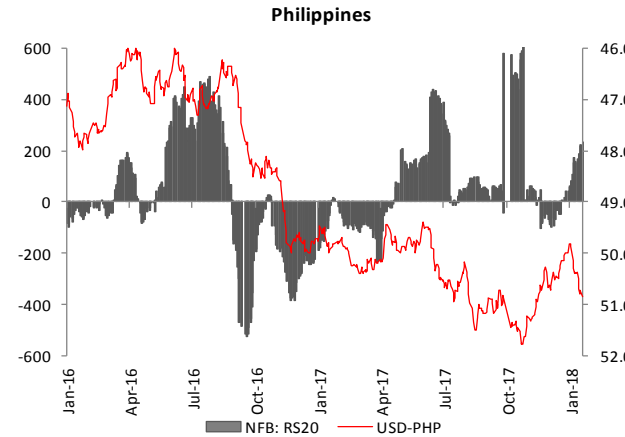
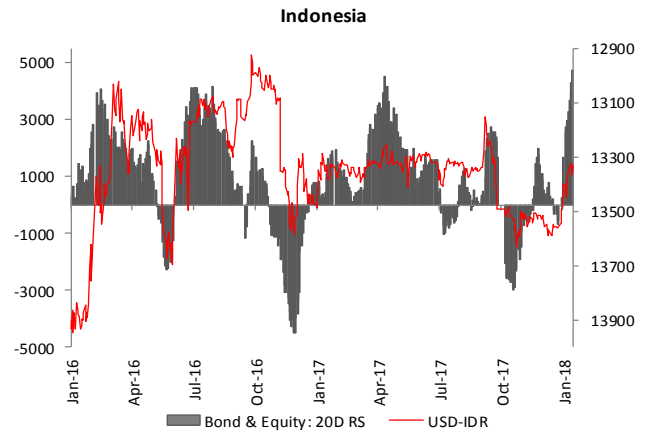
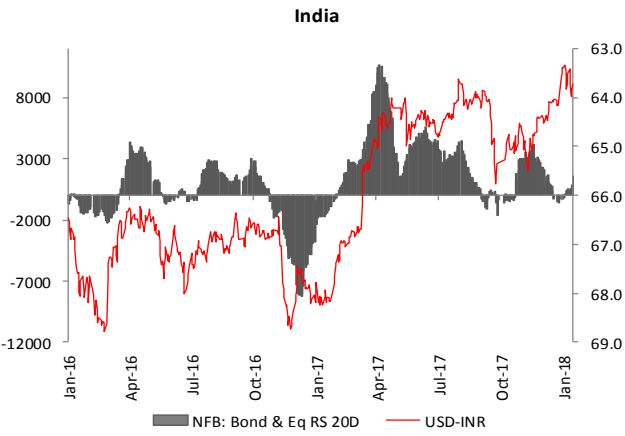
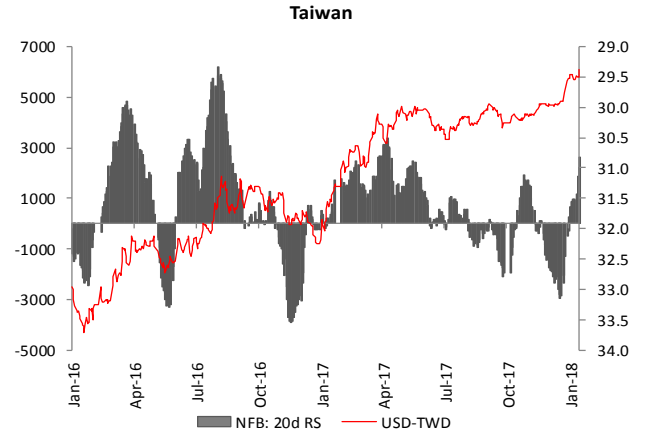
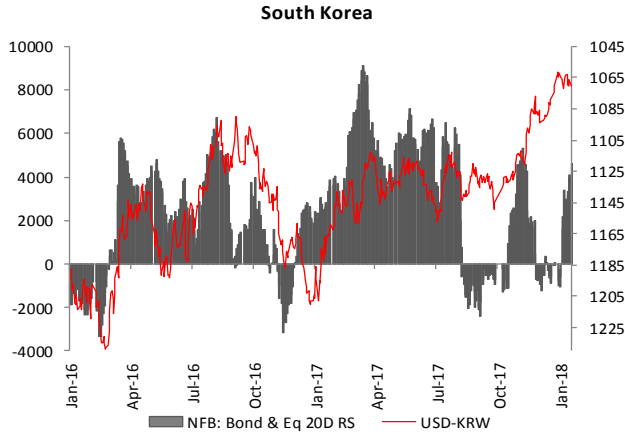
- GBP-USD** GBP outperformed across the board and led the way higher against the USD on background Brexit-related positivity. We think the pair is running ahead of its slightly firmer implied valuations and some caution may be warranted. At this juncture, a sustained breach above 1.4000 may require another headline-induced boost.



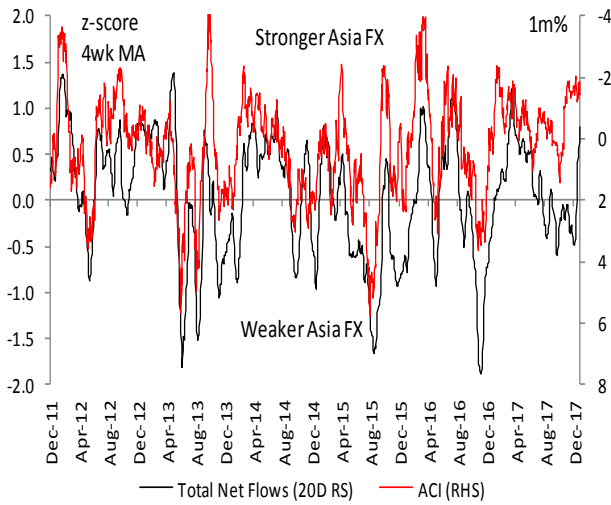
- USD-CAD** NAFTA talks commence today and the pair may continue to eye the 1.2400 support (within 1.2370-1.2530) in the interim. Note that short term implied valuations for the pair are also attempting to edge lower.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

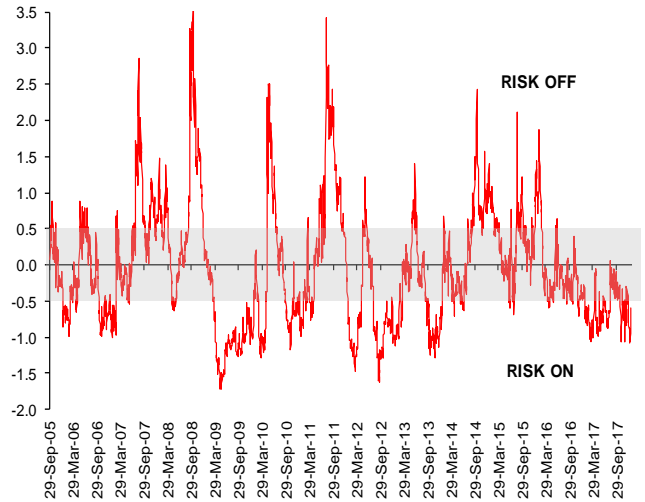


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXYS	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXYS	1	-0.729	0.96	-0.846	-0.818	-0.835	0.879	-0.756	-0.646	-0.293	0.964	-0.981
CHF	0.975	-0.659	0.942	-0.762	-0.763	-0.811	0.857	-0.692	-0.624	-0.324	0.939	-0.974
CNH	0.964	-0.798	0.988	-0.867	-0.823	-0.755	0.839	-0.718	-0.58	-0.219	1	-0.959
CNY	0.96	-0.798	1	-0.856	-0.821	-0.773	0.83	-0.696	-0.613	-0.319	0.988	-0.949
SGD	0.956	-0.707	0.93	-0.842	-0.858	-0.841	0.83	-0.752	-0.418	-0.147	0.954	-0.96
MYR	0.919	-0.84	0.924	-0.948	-0.954	-0.847	0.842	-0.876	-0.429	-0.134	0.926	-0.891
THB	0.889	-0.817	0.87	-0.952	-0.963	-0.873	0.871	-0.942	-0.332	-0.113	0.887	-0.874
JPY	0.879	-0.787	0.83	-0.818	-0.758	-0.784	1	-0.86	-0.599	-0.415	0.839	-0.883
CCN12M	0.859	-0.601	0.874	-0.707	-0.711	-0.747	0.688	-0.62	-0.374	-0.195	0.891	-0.856
IDR	0.835	-0.85	0.833	-0.95	-0.935	-0.725	0.802	-0.901	-0.401	-0.018	0.857	-0.818
CAD	0.76	-0.518	0.711	-0.732	-0.864	-0.691	0.586	-0.682	-0.182	0.227	0.736	-0.735
TWD	0.751	-0.661	0.763	-0.806	-0.942	-0.759	0.635	-0.732	-0.081	0.136	0.772	-0.713
KRW	0.376	0.064	0.343	-0.122	-0.373	-0.42	0.173	-0.128	0.257	0.195	0.315	-0.41
INR	0.025	0.062	0.082	-0.07	-0.28	-0.314	-0.026	-0.169	0.663	0.427	0.073	-0.072
USGG10	-0.729	1	-0.798	0.927	0.832	0.638	-0.787	0.831	0.56	0.169	-0.798	0.71
PHP	-0.768	0.927	-0.76	0.872	0.746	0.619	-0.806	0.763	0.756	0.543	-0.726	0.691
NZD	-0.9	0.854	-0.879	0.966	0.919	0.78	-0.898	0.911	0.533	0.091	-0.905	0.885
GBP	-0.966	0.841	-0.976	0.892	0.846	0.772	-0.838	0.739	0.661	0.255	-0.969	0.949
AUD	-0.971	0.826	-0.959	0.928	0.89	0.833	-0.884	0.822	0.601	0.192	-0.972	0.952
EUR	-0.981	0.71	-0.949	0.81	0.765	0.818	-0.883	0.732	0.606	0.295	-0.959	1

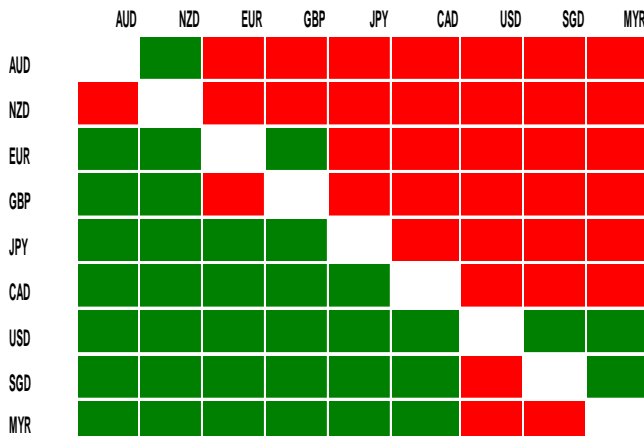
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1927	1.2200	1.2257	1.2300	1.2323
GBP-USD	1.3470	1.3900	1.3985	1.4000	1.4003
AUD-USD	0.7727	0.7900	0.7999	0.8000	0.8039
NZD-USD	0.7119	0.7300	0.7323	0.7355	0.7371
USD-CAD	1.2362	1.2400	1.2459	1.2500	1.2612
USD-JPY	110.00	110.19	110.92	111.00	111.75
USD-SGD	1.3130	1.3171	1.3189	1.3200	1.3399
EUR-SGD	1.5977	1.6100	1.6166	1.6200	1.6238
JPY-SGD	1.1736	1.1800	1.1891	1.1900	1.1932
GBP-SGD	1.8400	1.8440	1.8445	1.8456	1.8500
AUD-SGD	1.0500	1.0517	1.0550	1.0588	1.0598
Gold	1292.26	1300.00	1335.30	1345.00	1351.23
Silver	16.76	17.00	17.04	17.08	17.10
Crude	59.33	63.90	63.98	64.00	64.97

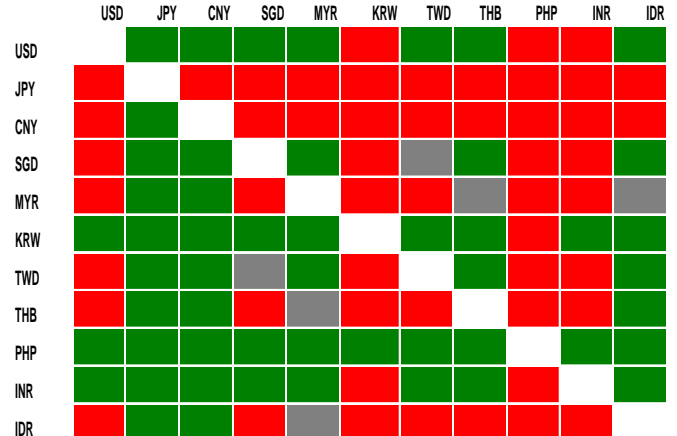
Source: OCBC Bank

G10 FX Heat Map



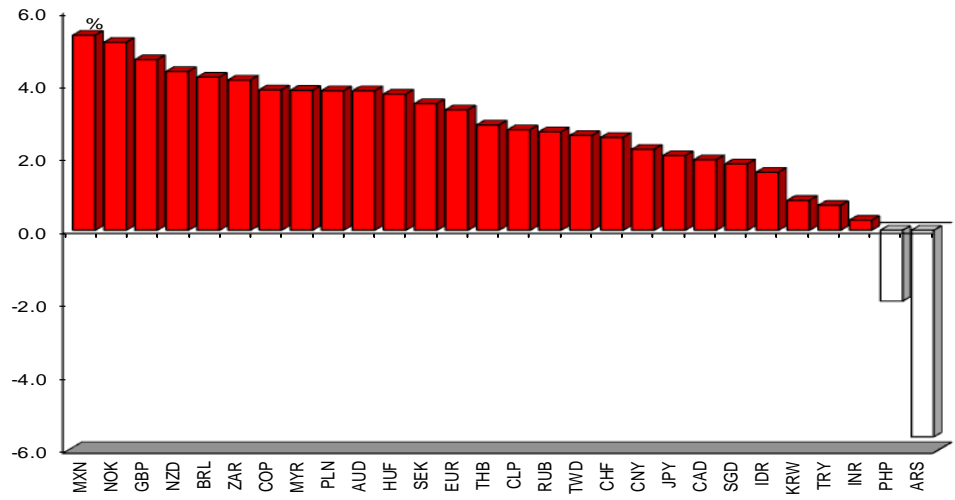
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

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								
4	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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