

Wednesday, January 24, 2018

FX Themes/Strategy/Trading Ideas

- With the UST curve bull flattening from the back-end, the USD lost ground against its G10 peers (with the exception of the AUD).
- AUD trailed its peers as base metals softened, while cross-selling allegedly set in in the wake of the Trump administration's imposition of solar panel and washing machine tariffs. EUR was also given a lift from supportive data points (German Jan ZEW and Jan EZ consumer confidence).
- USD-JPY saw a choppy session (largely on the back of BOJ) but eventually succumbed to a heavy broad dollar. Initially, investors jumped on the BOJ's assessment of inflation expectations as "stabilizing", as opposed to "weakening" previously, but Kuroda, in a string of wide ranging comments, explicitly and pointedly doused any hawkish expectations in his subsequent press conference. Specifically, he stated that, "There is still some distance to 2 percent inflation, so we're in no condition yet to debate the timing and method of an exit from ultra-easy monetary policy". Note JGB yields ended softer on the day.
- The calendar today includes a slew of global January PMIs, US Dec existing home sales (1500 GMT), with NZ 4Q CPI due late in the global day at 2145 GMT.
- The **DXY** is now slipping towards the 90.00 floor and may continue to struggle to generate any meaningful lift in the current environment with the investor mantra at this juncture one of fading any greenback rallies. On an aggregated level, rate differentials are in the near term weighing against the greenback.
- Our 27 Nov 17 idea to be tactically long **GBP-USD** (spot ref: 1.3344) reached its extended objective of 1.3975 on Monday. We extend our target to 1.4305, trailing the stop to 1.3810.

Asian FX

- EM ended mixed against the USD on Tuesday with LATAM FX trailing those in the European complex. Asian FX may remain slightly cautious of background trade tensions in the very short term. With global/EM equities still on the ascent, the **FXSI (FX Sentiment Index)** reversed lower (i.e., improving risk appetite) into Risk-On territory on Tuesday. On the **net portfolio inflow** front, the KRW, TWD, and IDR we think remain relatively bolstered, while THB outperformance may stall given a slight hiatus in strong bond inflows.

Treasury Research &
Strategy**Emmanuel Ng**

+65 6530 4073

ngcyemmanuel@ocbc.com

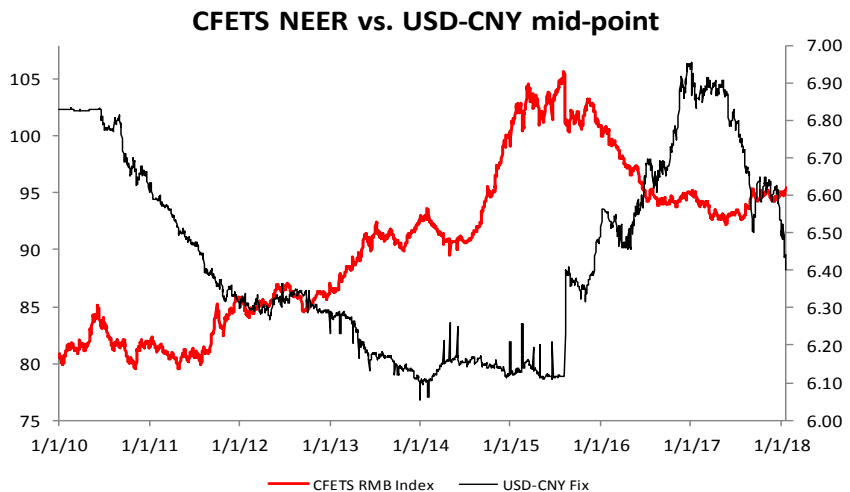
- Meanwhile, Asian central banks remain vocal and uncomfortable towards domestic FX volatility with Asian govie curves (in general) also mixed to softer. Nonetheless, the negative dollar backdrop and still supportive net portfolio inflow environment arguable may continue to keep USD-Asia inherently southbound. Overall, the **ACI (Asian Currency Index)** is still seen heavy, in line with its structural model.
- **SGD NEER:** December CPI readings came in softer than expected on Tuesday but the SGD NEER remains on familiar ground around +0.65% above its perceived parity (1.3256). NEER-implied USD-SGD thresholds are yet lower given the overnight weakness in the greenback. Overall, the basket may continue to ply a range within +0.60% (1.3178) and +0.80% (1.3151). Potential trade tension concerns are not expected to permeate SGD space at this juncture, with the pair still seen top heavy.



	SGD NEER	% deviation	USD-SGD
Current	125.04	0.63	1.3167
+2.00%	126.74		1.2996
Parity	124.26		1.3256
-2.00%	121.77		1.3527

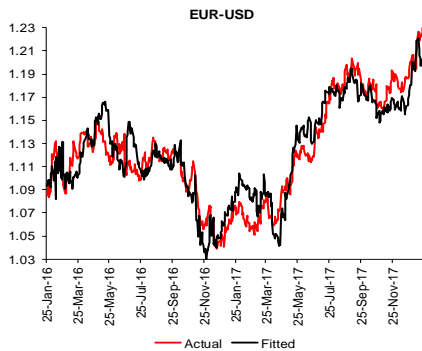
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (largely in line with expectations) to 6.3916 from 6.4009 yesterday. This saw the CFETS RMB Index easier at 95.41 from 95.43 yesterday. Apart from NEER considerations, the authorities we think may be in a slightly more delicate position, being mindful of key psychological levels in the USD-CNY (and USD-CNH).



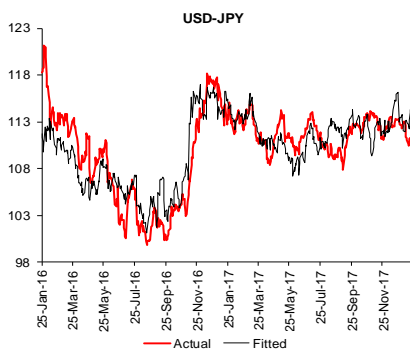
Source: OCBC Bank, Bloomberg

G7



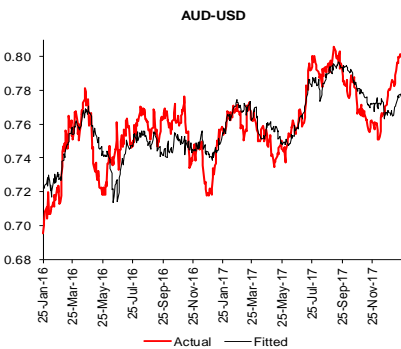
Source: OCBC Bank

- EUR-USD** Germany's Merkel is due to make an address in Davos on Wednesday with SPD leaders only scheduled to formally meet on Thursday. Ahead of the ECB tomorrow, short term implied valuations are sitting slightly firmer. In the interim, investors may continue to pick bottoms towards 1.2270 with topside now estimated at 1.2375 in the near term.



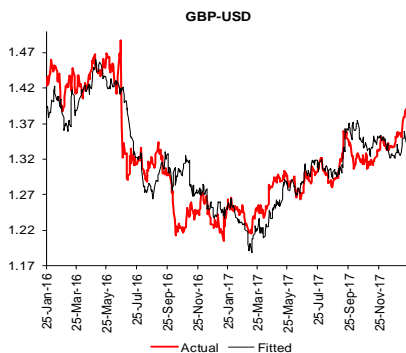
Source: OCBC Bank

- USD-JPY** With the BOJ MPC now out of the way, the USD-JPY may revert to feeding off dollar vulnerability. To this end, short term implied valuations for the USD-JPY are slipping (we concur) with initial support expected into 109.65 and 110.50 seen capping.



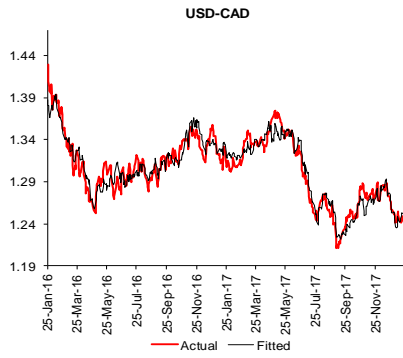
Source: OCBC Bank

- AUD-USD** Short term implied valuations for the AUD-USD remain range bound in the near term and the pair may continue to sulk in the neighborhood of 0.8000. To reiterate, the pair remains rich relative to its model-implied short term confidence intervals ahead of the headline heavy sessions at the end of the week.



Source: OCBC Bank

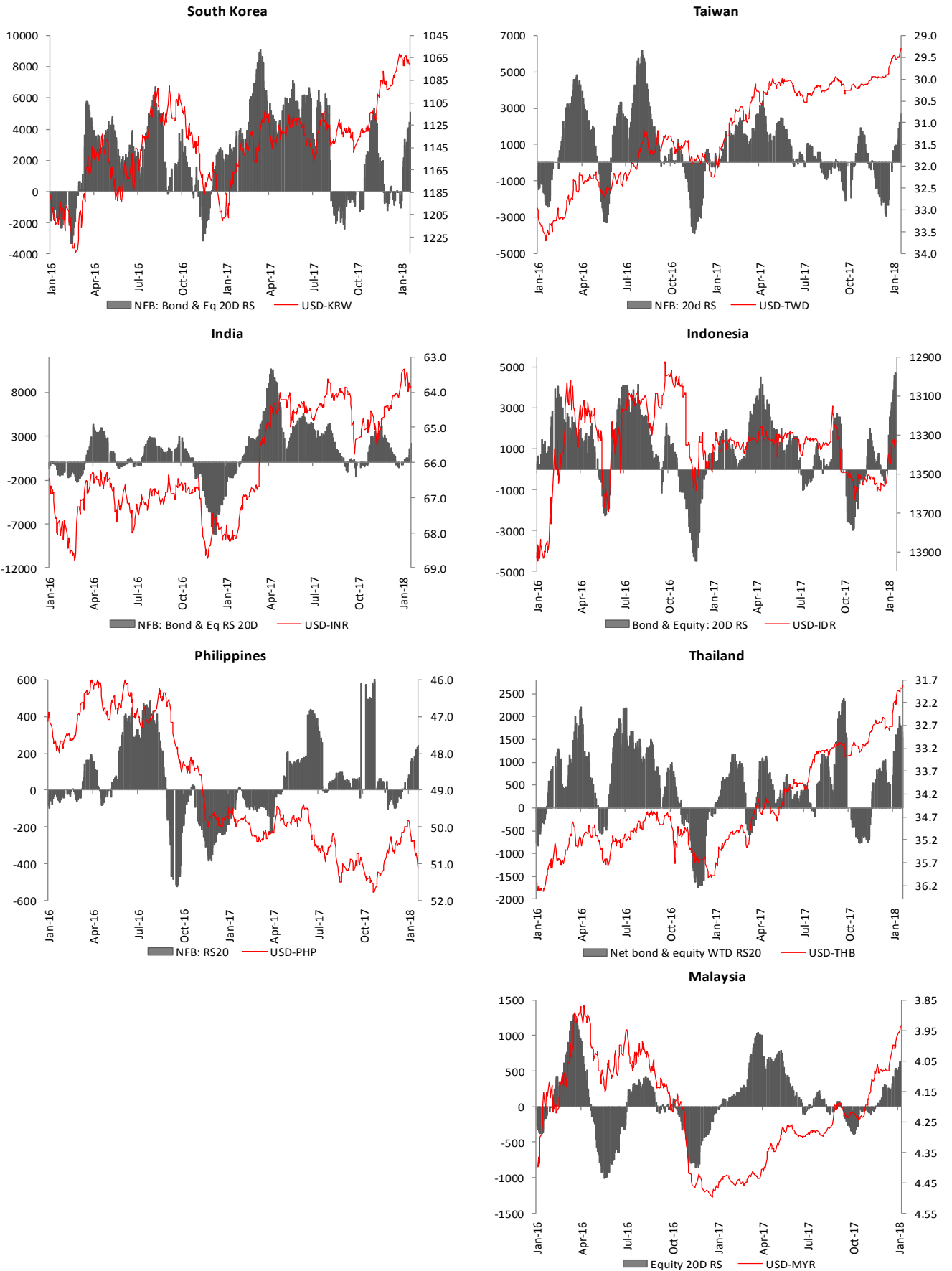
- GBP-USD** GBP continued to climb even as the EU's negotiator urged the U.K. to resolve the Irish border issue. The caveat at this juncture is that the pound may be increasingly hyped up on expected "friendly" headlines with respect to Brexit. Short term implied valuations are nonetheless ticking higher for now although we'd expect some base building behavior around 1.4000.



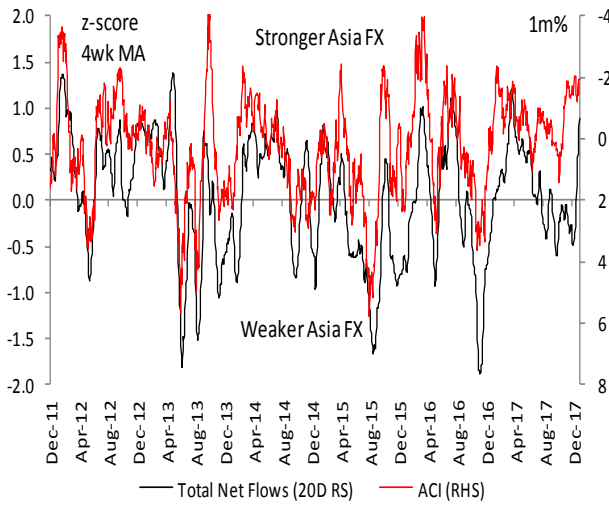
- USD-CAD** The CAD was supported by a mixture of sanguine comments from Trump on NAFTA talks, firmer crude, and a weak dollar complex. Short term implied valuations for USD-CAD are slipping once again with the floor at 1.2400 increasingly fragile with 1.2370 up next.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

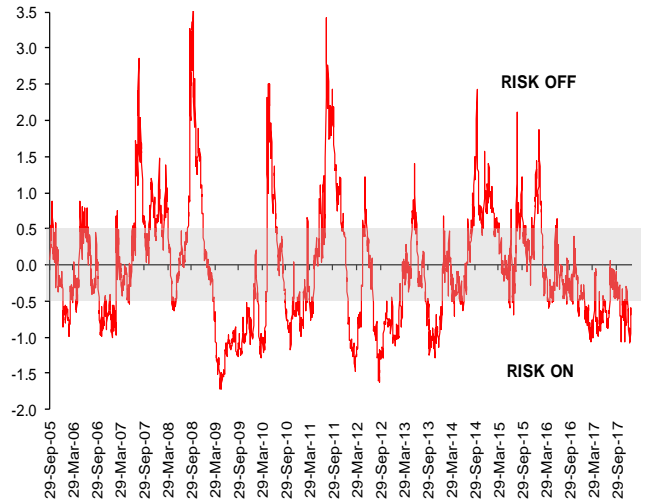


ACI VS. Net Capital Flows



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	-0.753	0.965	-0.869	-0.844	-0.854	0.895	-0.782	-0.655	-0.263	0.969	-0.983
CHF	0.978	-0.687	0.949	-0.798	-0.795	-0.834	0.883	-0.735	-0.636	-0.294	0.951	-0.978
CNH	0.969	-0.802	0.99	-0.887	-0.848	-0.785	0.871	-0.757	-0.595	-0.194	1	-0.966
CNY	0.965	-0.814	1	-0.878	-0.846	-0.8	0.851	-0.729	-0.626	-0.291	0.99	-0.956
SGD	0.961	-0.724	0.939	-0.865	-0.875	-0.86	0.859	-0.785	-0.448	-0.132	0.961	-0.966
MYR	0.929	-0.86	0.933	-0.954	-0.957	-0.864	0.877	-0.897	-0.458	-0.12	0.942	-0.915
THB	0.896	-0.829	0.878	-0.95	-0.955	-0.884	0.883	-0.949	-0.362	-0.108	0.897	-0.884
JPY	0.895	-0.808	0.851	-0.846	-0.792	-0.81	1	-0.875	-0.613	-0.378	0.871	-0.905
IDR	0.847	-0.861	0.845	-0.948	-0.925	-0.752	0.818	-0.91	-0.428	-0.013	0.867	-0.831
CCN12M	0.822	-0.552	0.835	-0.667	-0.67	-0.722	0.619	-0.57	-0.377	-0.194	0.81	-0.777
TWD	0.785	-0.692	0.796	-0.84	-0.952	-0.788	0.685	-0.761	-0.148	0.132	0.805	-0.752
CAD	0.771	-0.559	0.726	-0.747	-0.859	-0.713	0.626	-0.716	-0.217	0.227	0.764	-0.76
KRW	0.298	0.139	0.268	-0.057	-0.273	-0.352	0.031	-0.021	0.274	0.193	0.171	-0.252
INR	0.01	0.069	0.064	-0.055	-0.238	-0.289	-0.038	-0.154	0.656	0.425	0.054	-0.054
USGG10	-0.753	1	-0.814	0.926	0.842	0.67	-0.808	0.85	0.579	0.154	-0.802	0.727
PHP	-0.803	0.907	-0.794	0.894	0.802	0.681	-0.829	0.783	0.731	0.475	-0.767	0.738
NZD	-0.914	0.857	-0.895	0.972	0.931	0.807	-0.918	0.919	0.551	0.073	-0.92	0.902
GBP	-0.968	0.833	-0.978	0.911	0.873	0.799	-0.878	0.778	0.662	0.219	-0.972	0.959
AUD	-0.973	0.832	-0.962	0.934	0.898	0.852	-0.9	0.846	0.617	0.174	-0.973	0.956
EUR	-0.983	0.727	-0.956	0.84	0.797	0.839	-0.905	0.768	0.619	0.266	-0.966	1

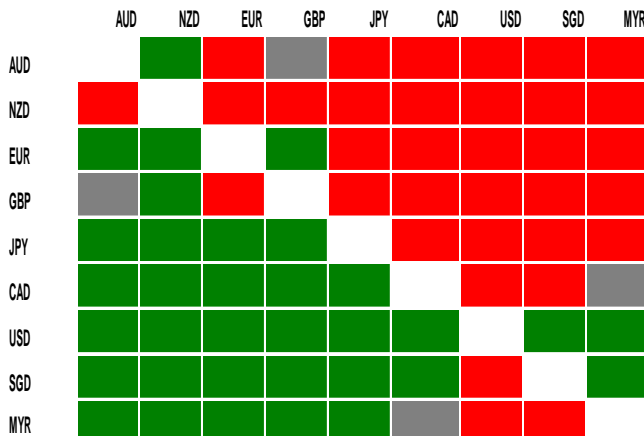
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1938	1.2300	1.2309	1.2323	1.2371
GBP-USD	1.3487	1.4000	1.4022	1.4027	1.4058
AUD-USD	0.7741	0.8000	0.8003	0.8039	0.8054
NZD-USD	0.7121	0.7300	0.7356	0.7365	0.7392
USD-CAD	1.2368	1.2400	1.2419	1.2500	1.2579
USD-JPY	110.00	110.07	110.10	111.00	111.75
USD-SGD	1.3125	1.3162	1.3167	1.3200	1.3390
EUR-SGD	1.5982	1.6200	1.6207	1.6248	1.6261
JPY-SGD	1.1900	1.1931	1.1959	1.2000	1.2011
GBP-SGD	1.8059	1.8400	1.8463	1.8484	1.8486
AUD-SGD	1.0500	1.0517	1.0538	1.0592	1.0598
Gold	1293.25	1300.00	1340.20	1345.00	1350.82
Silver	16.76	17.00	17.02	17.08	17.10
Crude	59.48	64.40	64.43	64.50	64.97

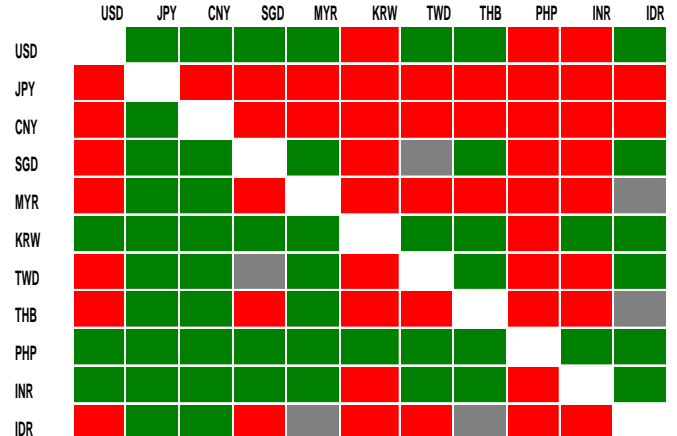
Source: OCBC Bank

G10 FX Heat Map



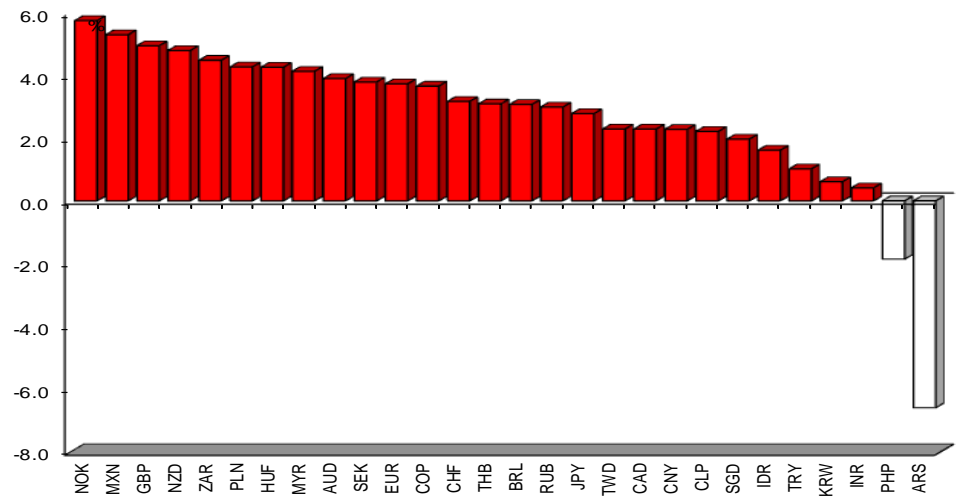
Source: OCBC Bank

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	1.4305	1.3810	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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