

Monday, January 29, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite a firmer UST curve, the dollar trailed its G10 counterparts on Friday as central bank rhetoric (outside of the Fed) continued to lean against the dollar. For example, the ECB's Knot stated that the QE program has to end as soon as possible. Meanwhile, the **BOJ's Kuroda** noted on Friday that medium to long-term inflation expectations are projected to rise and current inflation expectations are picking up slightly.
- Going ahead, with global macro sentiment still sanguine (core govie curves firmer in general over the past week), the **DX** remains centered around the 89.00 area with gravity still expected to remain a threat to the index. Note however that potential trade tensions may also continue to lurk near the surface, with US President Trump highlighting "very unfair" EU trade policies over the weekend. With skepticism towards the dollar still significant at this juncture, investors may continue to disregard underlying dollar support stemming from rate differentials.
- **CFTC** data meanwhile showed large non-commercial accounts increased their net implied short dollar balance in the latest week while leveraged accounts flipped to a net short dollar bias. In addition, asset manager accounts also increased their short dollar bias in the same period. Overall, the community remains positioned against the dollar as head into the close of January.
- This week, market focus may turn to the **FOMC** on Wednesday although no market moving shifts are expected from the accompanying statement. Central bank speak includes Kaplan and Williams on Friday, while **ECB** appearances start with Lautenclaeger and Coeure today, with scheduled appearances every day this week. The BOE's Carney (Tuesday) and Brazier (Thursday) are also due to speak this week.
- Data points to watch meanwhile include Jan German CPI on Tuesday, **Australian 4Q CPI** on Wednesday, while Thursday brings a raft of global **manufacturing PMIs (including out of China and the US ISM)**. On Friday, the week is topped by the **US Jan NFP numbers**.
- Our 16 Jan 18 idea to be tactically short **USD-SGD** (spot ref: 1.3230) met its 1.3110 objective on Wednesday (24 Jan 18). We have since shaded lower our target to 1.2990, trailing the stop to 1.3175.
- In the same vein, our 15 Jan 18 idea to be tactically long **EUR-USD** (spot ref: 1.2199) filled its 1.2420 objective on 25 Jan 18. In the wake of the ECB, we

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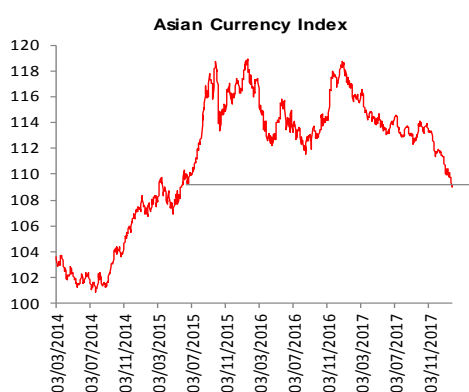
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extend our target to 1.2645, trailing the stop to 1.2305.

- On other fronts, our 27 Nov 17 recommendation to be tactically long **GBP-USD** (spot ref: 1.3344) hit its extended target of 1.4305 also on 25 Jan 18. As of Friday (26 Jan 18), we have extended our objective to 1.4640, shifting the stop to 1.4135.

Asian FX

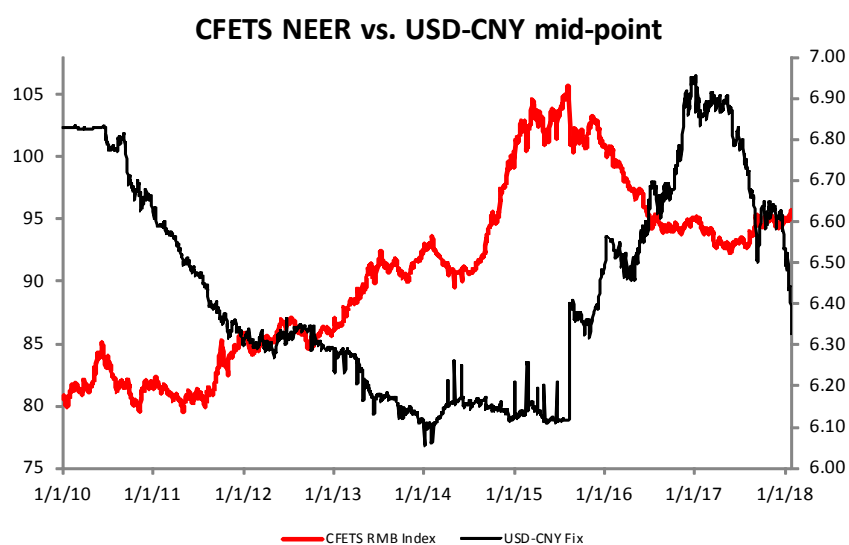
- Positive global (including EM) equities saw the **FXSI (FX Sentiment Index)** inching marginally lower within Risk-On territory on Friday. Asian equities also got off to a positive start on Monday and this should serve to temper any upticks in the broad dollar at the onset of the week. Overall, the **ACI (Asian Currency Index)** is still expected to remain top heavy at this juncture.
- On the **EPFR** front, net implied inflows in Asia (ex-Japan, China) strengthened significantly in the latest week while implied bond inflows flipped to a net outflow. On a 4-week rolling basis, note that implied equity inflows have dwarfed bond inflows, suggesting that investor confidence in the growth narrative remains very much in play.
- Asian **net portfolio inflows** continue to portend implicit support for the KRW, TWD, IDR, with net bond inflows also picking up significantly for the INR (budget announcement on Thursday) in recent sessions. Elsewhere, prior strong bond inflows for Thailand continue to consolidate.
- SGD NEER:** The SGD NEER is lower on the day this morning at around +0.48% above its perceived parity (1.3157) with NEER-implied USD-SGD thresholds marginally softer. The NEER may continue to hover within +0.40% (1.3105) and +0.60% (1.3079) pending further external cues with the pair still expected to remain top heavy.



| | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 124.86 | 0.48 | 1.3094 |
| +2.00% | 126.74 | | 1.2899 |
| Parity | 124.26 | | 1.3157 |
| -2.00% | 121.77 | | 1.3426 |

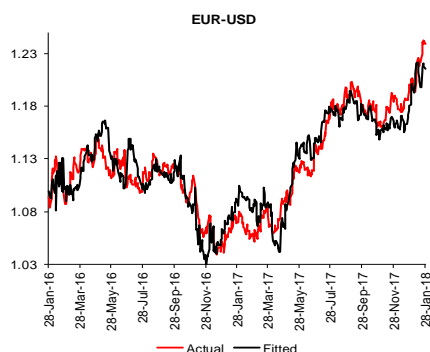
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point dropped (as largely expected) to 6.3267 on Monday from 6.3436 on Friday. This however still managed to pull the CFETS RMB Index lower to 95.68 from 95.70.



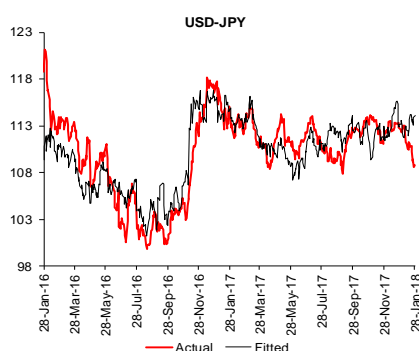
Source: OCBC Bank, Bloomberg

G7



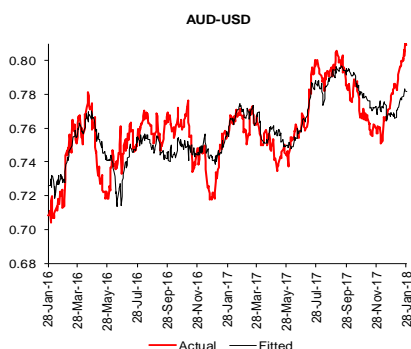
Source: OCBC Bank

- **EUR-USD** Short term implied valuations remain generally underpinned and on the CFTC front, note that net leveraged EUR longs rebounded significantly in the latest week. Pending further ECB-speak this week (note Coeure warned of complacency towards inflation last Friday), the EUR-USD may attempt to base build in the neighborhood of 1.2400 while continuing to eye the upside.



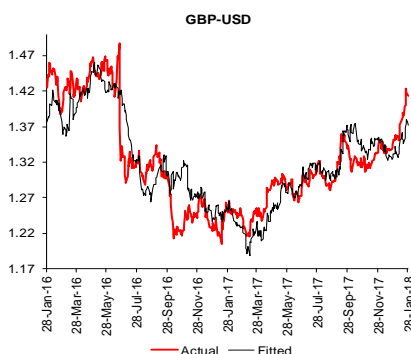
Source: OCBC Bank

- **USD-JPY** Net leveraged CFTC JPY shorts continued to be pared for the 2nd consecutive week but net positioning with respect to open interest remains stretched. On the back of Kuroda's latest comments, USD-JPY and the JPY-crosses may remain somewhat laden, at odds with slightly firmer short term implied valuations. Thus, the pair remains tensioned by contrasting forces, while we'd retain a top heavy stance within 108.00-110.00 in the interim.



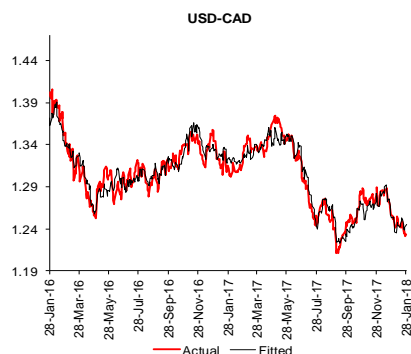
Source: OCBC Bank

- **AUD-USD** Net leveraged CFTC AUD longs increased further in the latest week and short term implied valuations are still attempting to inch higher. Ahead of the Aussie CPI numbers this week and amid still positive global macro sentiment, expect bids to emerge on dips towards 0.8050



Source: OCBC Bank

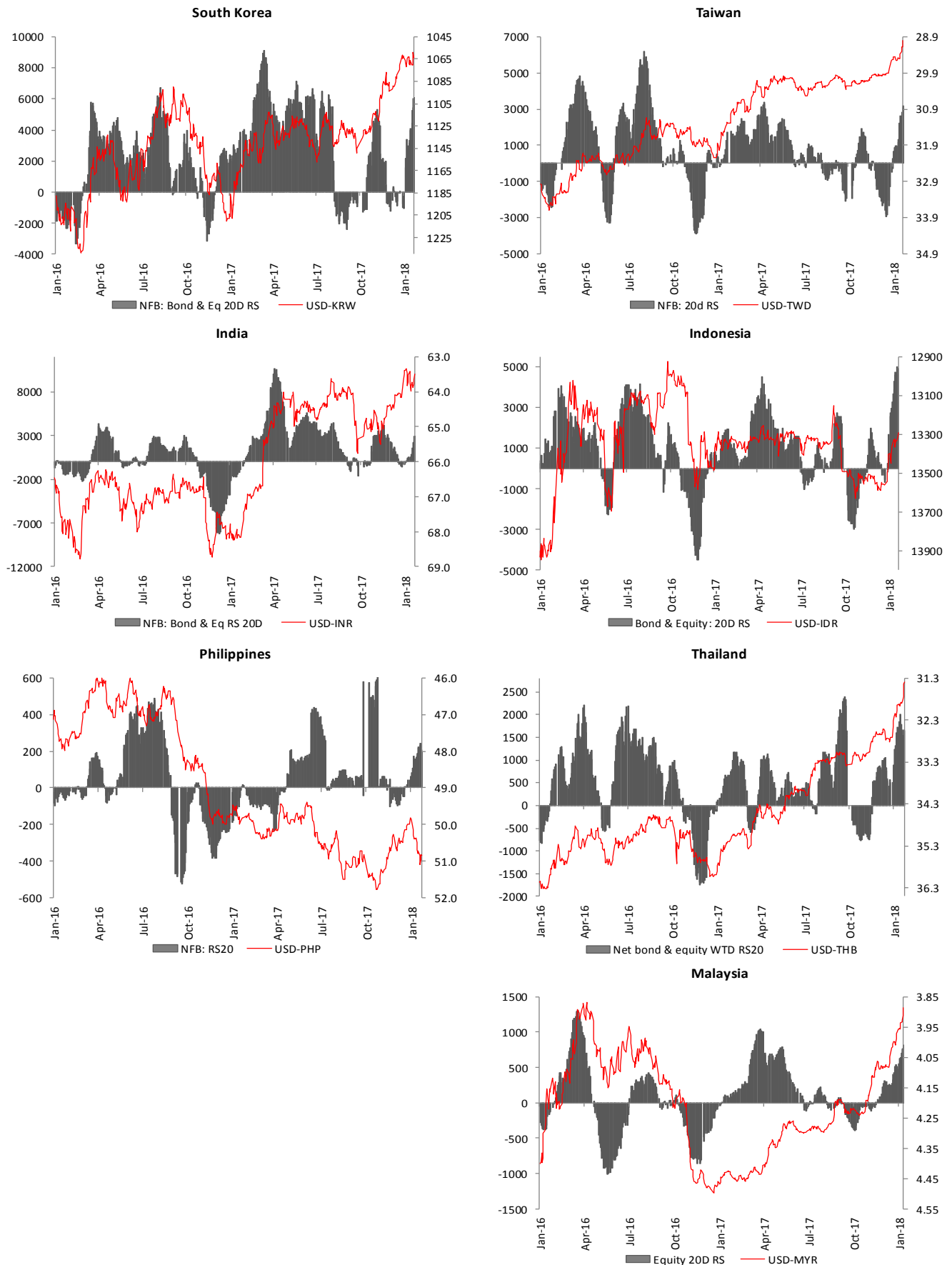
- **GBP-USD** GBP-USD found minor support from better than expected 4Q 17 GDP numbers on Friday. Meanwhile, net leveraged CFTC GBP longs accumulated further in the latest week although we note that short term implied valuations are attempting to consolidate. Pending Brexit-related news flow and Carney's comments this week, the pair may attempt may seek to establish a base at 1.4000 with dips also likely well supported.

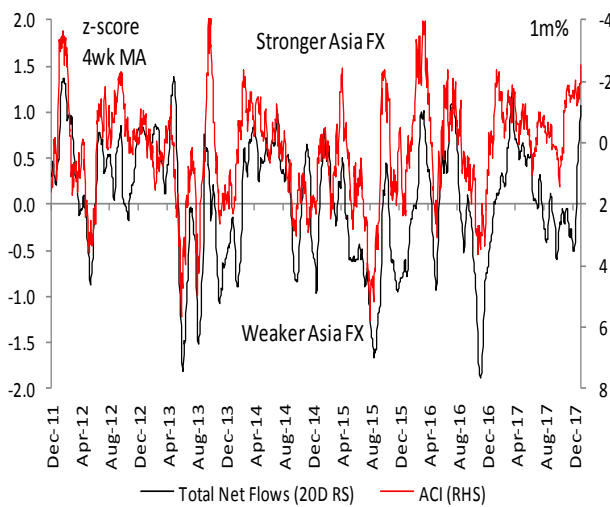


Source: OCBC Bank

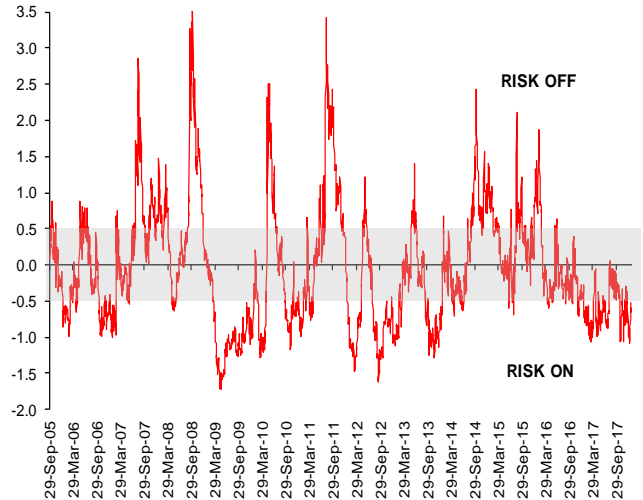
- **USD-CAD** Mildly supportive December core CPI numbers also contributed to the CAD's resilience on Friday. On the CFTC front, note that net leveraged CAD longs jumped again in the latest week. Elsewhere, sanguine headlines surrounding ongoing NAFTA talks over the weekend may keep sentiment for the pair heavy despite short term implied valuations attempting to stabilize. Markets may remain skeptical of any upticks towards 1.2400 in the interim with the 1.2300 support seen fragile.

USD-Asia VS. Net Capital Flows



ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

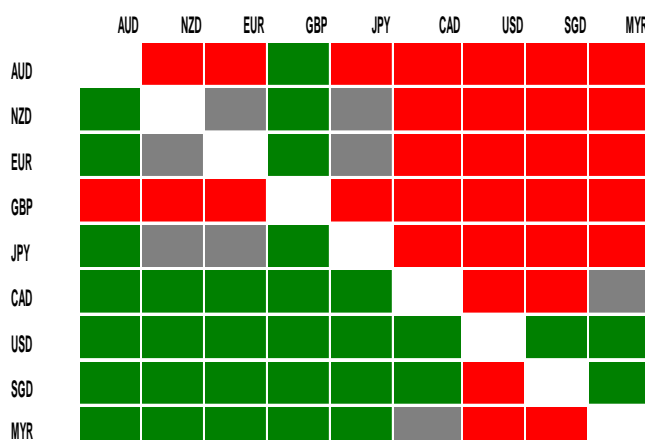
| Security | DXYS | USGG10 | CNY | SPX | MSELCA | CRY | JPY | CL1 | VIX | ITRXX | CNH | EUR |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXYS | 1 | -0.798 | 0.97 | -0.878 | -0.835 | -0.897 | 0.936 | -0.843 | -0.755 | -0.371 | 0.979 | -0.987 |
| CNH | 0.979 | -0.798 | 0.994 | -0.888 | -0.852 | -0.887 | 0.913 | -0.819 | -0.679 | -0.3 | 1 | -0.969 |
| SGD | 0.972 | -0.747 | 0.963 | -0.864 | -0.842 | -0.902 | 0.911 | -0.822 | -0.598 | -0.307 | 0.981 | -0.971 |
| CNY | 0.97 | -0.793 | 1 | -0.874 | -0.847 | -0.894 | 0.891 | -0.778 | -0.7 | -0.412 | 0.994 | -0.955 |
| CHF | 0.962 | -0.704 | 0.969 | -0.814 | -0.778 | -0.919 | 0.928 | -0.81 | -0.667 | -0.373 | 0.965 | -0.952 |
| MYR | 0.944 | -0.869 | 0.959 | -0.964 | -0.936 | -0.873 | 0.913 | -0.882 | -0.641 | -0.299 | 0.966 | -0.925 |
| JPY | 0.936 | -0.812 | 0.891 | -0.867 | -0.816 | -0.911 | 1 | -0.918 | -0.676 | -0.437 | 0.913 | -0.926 |
| THB | 0.906 | -0.847 | 0.921 | -0.953 | -0.914 | -0.894 | 0.925 | -0.932 | -0.549 | -0.393 | 0.926 | -0.889 |
| IDR | 0.823 | -0.854 | 0.803 | -0.937 | -0.893 | -0.693 | 0.801 | -0.881 | -0.586 | -0.131 | 0.832 | -0.824 |
| CAD | 0.812 | -0.659 | 0.772 | -0.785 | -0.843 | -0.688 | 0.727 | -0.74 | -0.431 | 0.169 | 0.834 | -0.797 |
| TWD | 0.788 | -0.708 | 0.868 | -0.834 | -0.883 | -0.818 | 0.76 | -0.753 | -0.375 | -0.087 | 0.862 | -0.759 |
| CCN12M | 0.765 | -0.528 | 0.796 | -0.619 | -0.554 | -0.658 | 0.624 | -0.562 | -0.541 | -0.339 | 0.799 | -0.766 |
| KRW | 0.042 | 0.378 | 0.108 | 0.22 | 0.181 | -0.038 | -0.055 | 0.249 | 0.203 | 0.084 | 0.103 | -0.123 |
| INR | -0.39 | 0.418 | -0.281 | 0.369 | 0.25 | 0.172 | -0.367 | 0.339 | 0.795 | 0.509 | -0.261 | 0.323 |
| USGG10 | -0.798 | 1 | -0.793 | 0.934 | 0.911 | 0.707 | -0.812 | 0.852 | 0.679 | 0.231 | -0.798 | 0.752 |
| PHP | -0.822 | 0.932 | -0.791 | 0.912 | 0.88 | 0.705 | -0.828 | 0.849 | 0.777 | 0.547 | -0.78 | 0.776 |
| NZD | -0.882 | 0.907 | -0.833 | 0.965 | 0.907 | 0.741 | -0.884 | 0.907 | 0.702 | 0.183 | -0.872 | 0.871 |
| AUD | -0.971 | 0.886 | -0.951 | 0.941 | 0.89 | 0.863 | -0.929 | 0.873 | 0.731 | 0.296 | -0.969 | 0.957 |
| GBP | -0.979 | 0.835 | -0.973 | 0.899 | 0.876 | 0.887 | -0.908 | 0.831 | 0.729 | 0.31 | -0.974 | 0.964 |
| EUR | -0.987 | 0.752 | -0.955 | 0.855 | 0.793 | 0.886 | -0.926 | 0.817 | 0.723 | 0.372 | -0.969 | 1 |

Source: Bloomberg

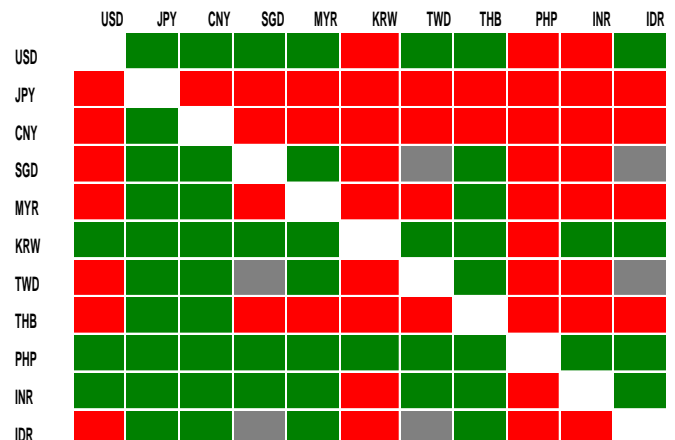
Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1978 | 1.2300 | 1.2392 | 1.2400 | 1.2493 |
| GBP-USD | 1.3546 | 1.4100 | 1.4113 | 1.4200 | 1.4265 |
| AUD-USD | 0.7764 | 0.8000 | 0.8085 | 0.8100 | 0.8119 |
| NZD-USD | 0.7126 | 0.7300 | 0.7329 | 0.7400 | 0.7406 |
| USD-CAD | 1.2300 | 1.2309 | 1.2345 | 1.2400 | 1.2566 |
| USD-JPY | 108.28 | 108.38 | 108.90 | 109.00 | 111.74 |
| USD-SGD | 1.3009 | 1.3045 | 1.3091 | 1.3100 | 1.3360 |
| EUR-SGD | 1.5999 | 1.6200 | 1.6223 | 1.6300 | 1.6316 |
| JPY-SGD | 1.1929 | 1.2000 | 1.2021 | 1.2061 | 1.2067 |
| GBP-SGD | 1.8096 | 1.8400 | 1.8475 | 1.8500 | 1.8633 |
| AUD-SGD | 1.0500 | 1.0517 | 1.0583 | 1.0600 | 1.0615 |
| Gold | 1300.00 | 1302.31 | 1345.80 | 1359.78 | 1365.40 |
| Silver | 17.06 | 17.30 | 17.38 | 17.40 | 17.56 |
| Crude | 60.14 | 66.30 | 66.34 | 66.40 | 66.66 |

Source: OCBC Bank

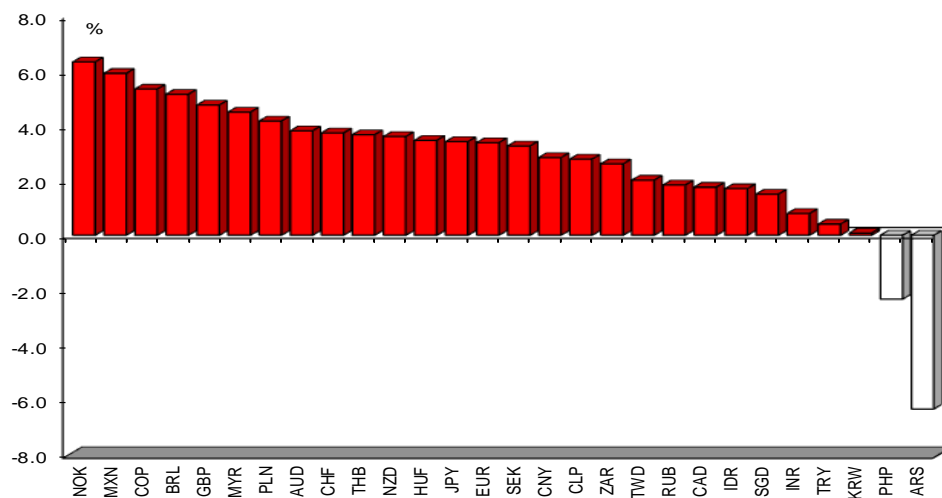
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

FX Trade Ideas

| FX Trade Ideas | | | | | | | | |
|----------------|-----------------------------|-----------|-----|--|--------|---------------------------|--|----------|
| | Inception | | B/S | Currency | Spot | Target Stop/Trailing Stop | Rationale | |
| | TACTICAL | | | | | | | |
| 1 | 27-Nov-17 | | B | GBP-USD | 1.3344 | 1.4640 1.4135 | Investors may impute Brexit talks in December. Prevailing USD weakness. | |
| 2 | 15-Jan-18 | | B | EUR-USD | 1.2199 | 1.2645 1.2305 | "Hawkish" ECB expectations, positive German political news flow | |
| 3 | 16-Jan-18 | | S | USD-SGD | 1.3230 | 1.2990 1.3175 | 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 |
| **of notional | | | | | | | | |

Source: OCBC Bank

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