

Tuesday, January 30, 2018

**FX Themes/Strategy/Trading Ideas**

- With the UST steepening from the backend (taking the cue from bunds), the dollar established some traction against the majors on Monday.
- With the USD attempting to latch on to slightly firmer rate differentials, any heightened hawkish expectations for this Wed's FOMC, coupled with month-end flows (and cited profit taking), may see USD weakness stalling in the near term ahead of the FOMC.
- However, with central bank rhetoric from other major central banks (latest from the ECB's Knot, Praet, and last week from the BOJ's Kuroda) sounding increasingly neutral (and slightly hawkish in selected cases), attention may also continue to be channeled away from the dollar (i.e., inherent vulnerability) with core global curves also continuing to lift.
- For today, look to Trumps' State of the Union address (0200 GMT on Wednesday) for further US-centric USD cues. Look also to the BOE's Carney (1530 GMT) and ECB's Mersch (1630 GMT) for potential headline risks. Ones to watch on the data calendar include December UK lending/monetary aggregates (0930 GMT), EZ Jan confidence indicators (1000 GMT), German Jan CPI (1300 GMT), and US Jan consumer confidence (1500 GMT).
- On Friday (26 Jan 18), we closed out our 27 Nov 17 idea to be tactically long the **GBP-USD** (spot ref: 1.3344) at the designated profit stop of 1.4135 for an approximate implied +5.56% gain. Recent gains in the pair have been propelled by broad dollar weakness and accumulating positivity towards a softer Brexit. We think the latter may reach satiation soon and await further developments before committing anew.

**Asian FX**

- In addition to a firmer USD, negative global (and EM) equities yesterday also saw EM FX also retreating against the greenback. This saw the **ACI (Asian Currency Index)** bouncing off a key support and a more supported tone may prevail in the current session. Note the negative shadow from Asian equities in early trade on Tuesday with the **FXSI (FX Sentiment Index)** finally retracing back into **Risk-Neutral** territory after venturing into Risk-On territory since late December 2017.
- Asian **net portfolio inflows** remain inherently supportive of Asian FX but we reiterate that the recent capitulation in net inflows may persist in the short

Treasury Research &  
Strategy

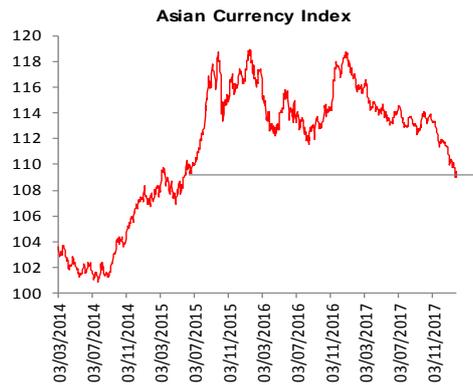
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term, leaving the regional pairs on a firmer plane at this juncture. Multi-session-session, if the USD relapses once again, we'd expect outperformance from the TWD, IDR, THB, versus the likes of the KRW, INR, and the PHP.

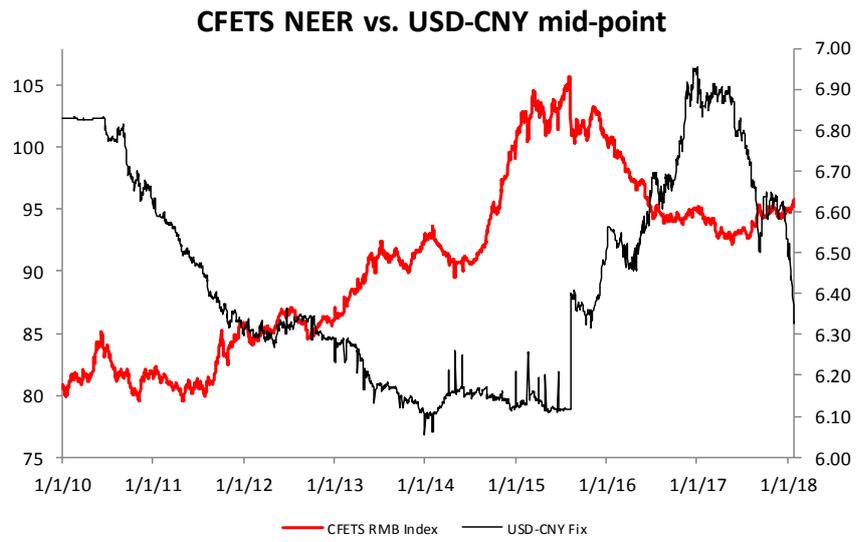
- Elsewhere, firmer global curves are translating to a sympathetic reaction across most **Asian govie curves**. To this end, despite the best efforts of the BOK and the BSP to defuse hawkish expectations, the respective back-ends are seen potentially hitching higher. Meanwhile, heightened fiscal concerns out of India (government fiscal advisor hinted at a pause in fiscal consolidation this year) may continue to exert a bearish bias on bonds. On the flip side, sustained bond inflows and a still benign macro environment may continue to temper long-end yields in Indonesia and Thailand, with the Malaysian curve also seen suppressed at the back-end post BNM.
- **SGD NEER:** This morning, the SGD NEER is slightly firmer around the +0.52% area above its perceived parity (1.3178) although NEE-implied USD-SGD thresholds are firmer on the day following overnight Dixie moves. We look for the SGD to fluctuate within +0.40% (1.3125) and +0.60% (1.3099) pending further external cues.



	SGD NEER	% deviation	USD-SGD
Current	124.91	0.53	1.3109
+2.00%	126.74		1.2919
Parity	124.26		1.3178
-2.00%	121.77		1.3446

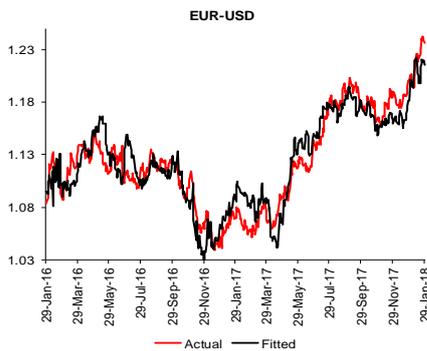
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point rose (as largely expected) to 6.3312 from 6.3267 on Monday. This took the CFETS RMB Index higher to 95.85 from 95.68. While the realized volatility of the Index continues to run at a discount to the realized for the mid-points and the latter's behaviors continues to fall within expected parameters, we note that the basket has continued to firm. As such, USD-CNH may be expected to continue to track further potential broad dollar weakness.



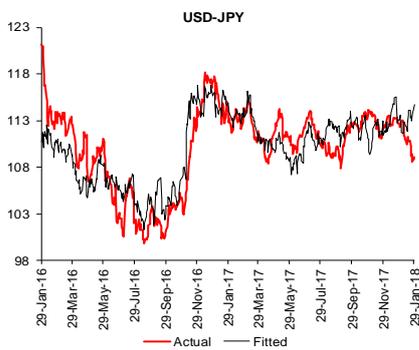
Source: OCBC Bank, Bloomberg

**G7**



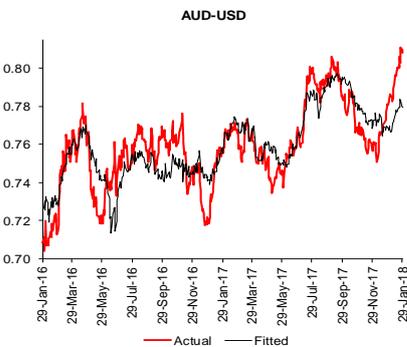
Source: OCBC Bank

- **EUR-USD** Short term implied valuations are now sitting slightly softer despite firmer bund yields overnight with the EUR-USD now potentially looking to deflate slightly its perceived near term richness. Ahead of the inflation risks in the coming 24 hours, expect initial support on approach of 1.2320. Remain constructive on the pair multi-session.



Source: OCBC Bank

- **USD-JPY** Rate differential arguments are attempting to prop up short term implied valuations for the USD-JPY but this dynamic may continue to be stonewalled by inherent dollar skepticism. Preference to fade rallies in the interim within 108.50-109.50.



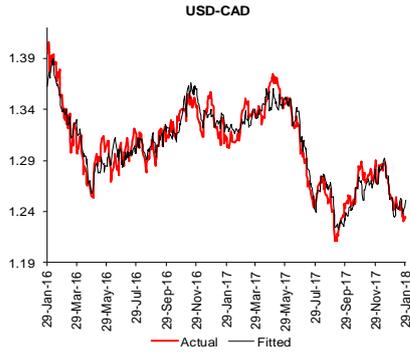
Source: OCBC Bank

- **AUD-USD** Short term implied valuations are slightly more consolidative at this juncture with the AUD-USD potentially open to some near term corrective down moves towards 0.8050 ahead of the 4Q CPI numbers on Wednesday. On the data front, the strong December NAB business conditions Index this morning may however discourage excessively deep retracements at this juncture.



Source: OCBC Bank

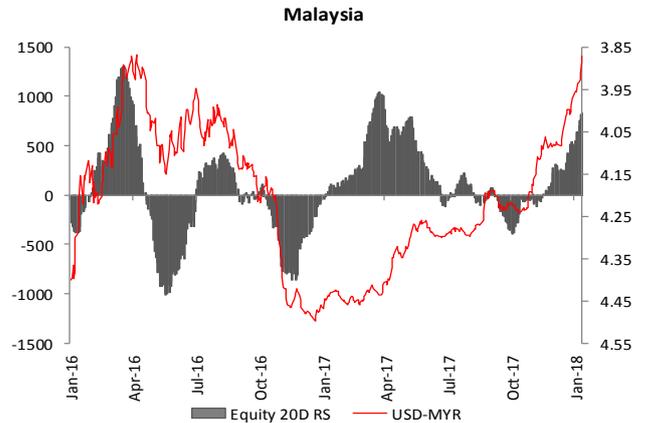
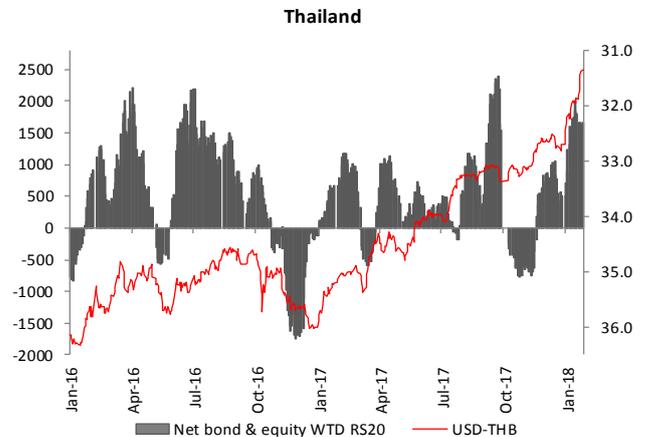
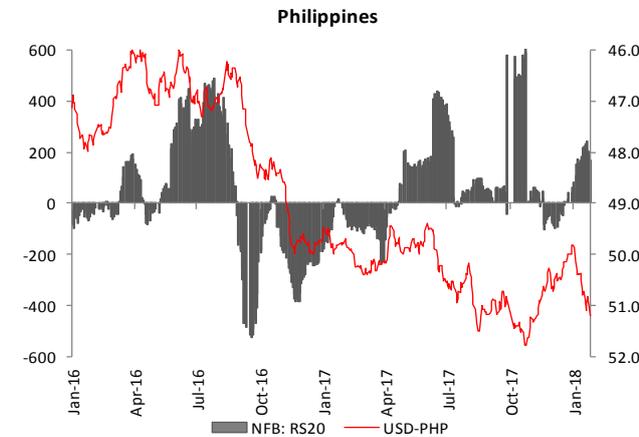
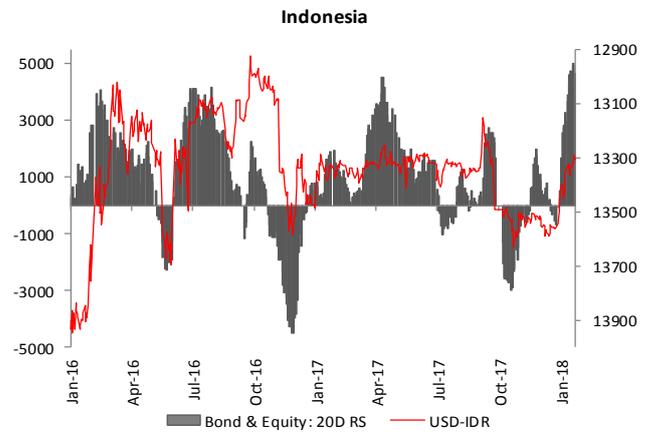
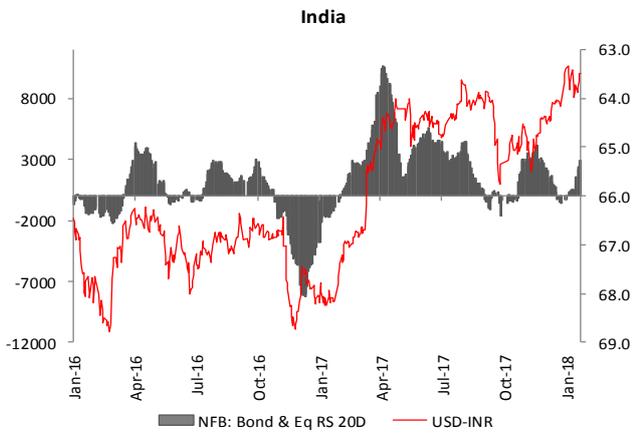
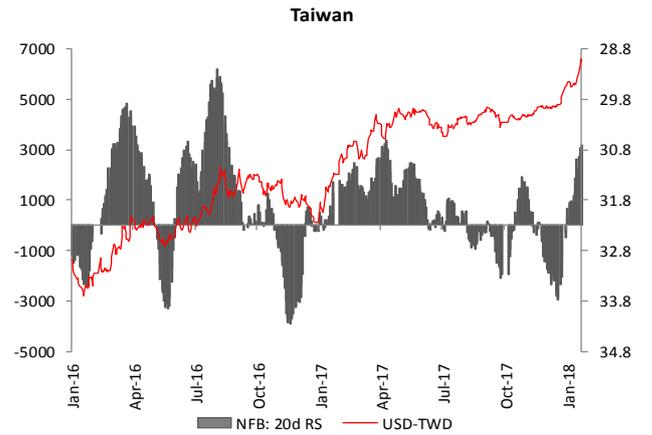
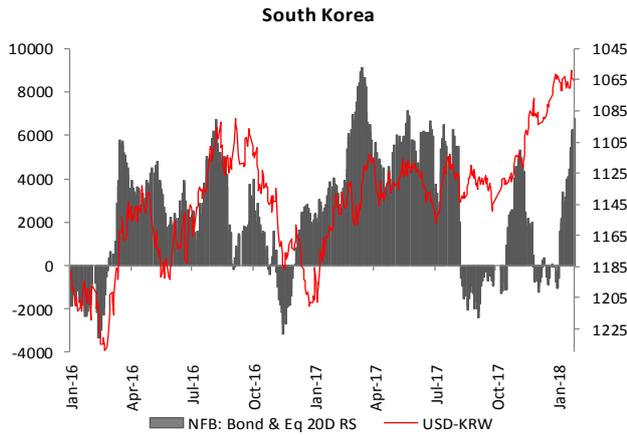
- **GBP-USD** Ahead of the UK data points today and as the Brexit law comes under the scrutiny of the Upper house, note that short term implied valuations have dislocated lower in the past few sessions, potentially permitting the GBP-USD to fade below 1.4000 towards 1.3940. Note that at this juncture, we have exited our tactical and structural GBP longs.



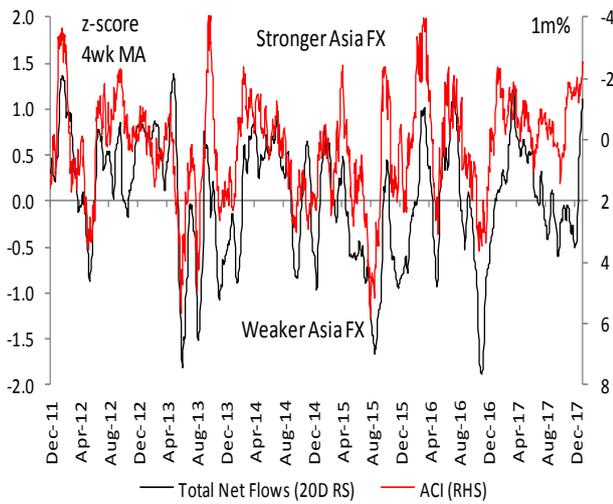
- USD-CAD** In the wake of the uptick in UST yields and softer crude, short term implied valuations for the USD-CAD have also consolidated higher. With the background narrative still perceived to be supportive of the loonie, 1.2400 is still seen resisting near term retracements.

Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

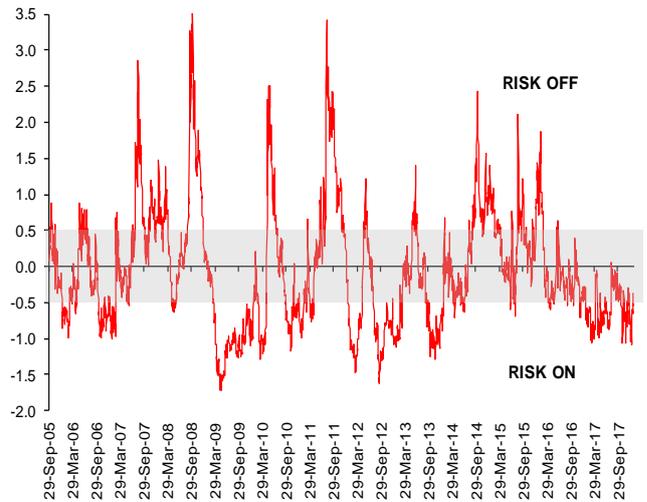


**ACI VS. Net Capital Flows**



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	-0.82	0.972	-0.905	-0.861	-0.903	0.931	-0.835	-0.806	-0.467	0.978	-0.985
CNH	0.978	-0.816	0.995	-0.908	-0.873	-0.896	0.914	-0.817	-0.762	-0.408	1	-0.968
SGD	0.975	-0.745	0.971	-0.865	-0.847	-0.91	0.909	-0.803	-0.709	-0.45	0.983	-0.975
CNY	0.972	-0.822	1	-0.903	-0.886	-0.903	0.9	-0.798	-0.773	-0.521	0.995	-0.955
CHF	0.962	-0.752	0.972	-0.86	-0.827	-0.931	0.933	-0.825	-0.757	-0.463	0.968	-0.949
MYR	0.96	-0.866	0.977	-0.96	-0.938	-0.892	0.927	-0.873	-0.787	-0.47	0.978	-0.937
THB	0.935	-0.833	0.955	-0.941	-0.906	-0.925	0.955	-0.923	-0.752	-0.63	0.954	-0.915
JPY	0.931	-0.83	0.9	-0.887	-0.839	-0.918	1	-0.923	-0.766	-0.54	0.914	-0.924
IDR	0.832	-0.771	0.803	-0.894	-0.805	-0.664	0.783	-0.836	-0.664	-0.297	0.824	-0.839
TWD	0.809	-0.7	0.891	-0.819	-0.882	-0.842	0.781	-0.734	-0.585	-0.268	0.878	-0.773
CAD	0.8	-0.652	0.797	-0.764	-0.838	-0.712	0.727	-0.697	-0.613	0.014	0.839	-0.799
CNN12M	0.669	-0.4	0.686	-0.52	-0.426	-0.541	0.439	-0.394	-0.394	-0.355	0.626	-0.623
KRW	0.052	0.334	0.114	0.193	0.151	-0.054	-0.038	0.221	0.132	0.071	0.109	-0.128
INR	-0.394	0.492	-0.285	0.489	0.335	0.168	-0.369	0.438	0.56	0.446	-0.272	0.341
USGG10	-0.82	1	-0.822	0.925	0.909	0.736	-0.83	0.838	0.833	0.386	-0.816	0.769
PHP	-0.833	0.945	-0.807	0.927	0.905	0.727	-0.839	0.856	0.863	0.699	-0.792	0.783
NZD	-0.871	0.89	-0.832	0.96	0.891	0.736	-0.866	0.886	0.76	0.3	-0.856	0.864
AUD	-0.971	0.894	-0.959	0.948	0.9	0.876	-0.93	0.862	0.829	0.421	-0.97	0.955
GBP	-0.976	0.845	-0.97	0.919	0.891	0.886	-0.903	0.828	0.765	0.406	-0.97	0.963
EUR	-0.985	0.769	-0.955	0.88	0.813	0.891	-0.924	0.819	0.77	0.466	-0.968	1

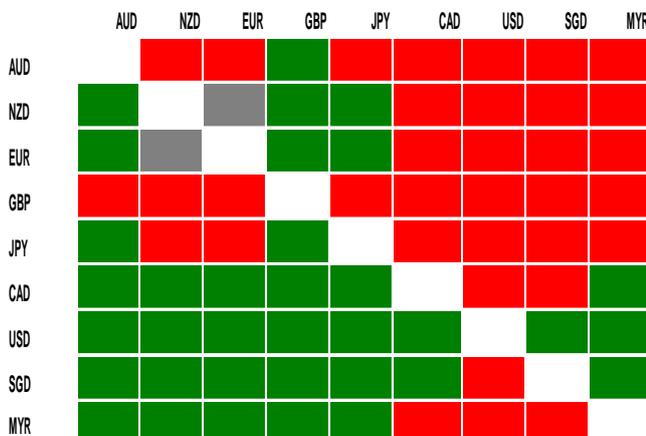
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1991	1.2300	1.2366	1.2400	1.2512
GBP-USD	1.3562	1.4000	1.4040	1.4100	1.4283
AUD-USD	0.7774	0.8000	0.8078	0.8100	0.8134
NZD-USD	0.7128	0.7300	0.7318	0.7400	0.7405
USD-CAD	1.2299	1.2300	1.2355	1.2400	1.2559
USD-JPY	108.28	109.00	109.16	110.00	111.73
USD-SGD	1.3037	1.3100	1.3123	1.3200	1.3351
EUR-SGD	1.6005	1.6200	1.6229	1.6300	1.6325
JPY-SGD	1.1929	1.2000	1.2022	1.2067	1.2076
GBP-SGD	1.8105	1.8400	1.8425	1.8500	1.8646
AUD-SGD	1.0550	1.0570	1.0600	1.0624	1.0627
Gold	1300.00	1305.52	1334.50	1358.55	1365.40
Silver	17.05	17.10	17.14	17.20	17.53
Crude	60.66	65.20	65.28	65.30	66.66

Source: OCBC Bank

**G10 FX Heat Map**



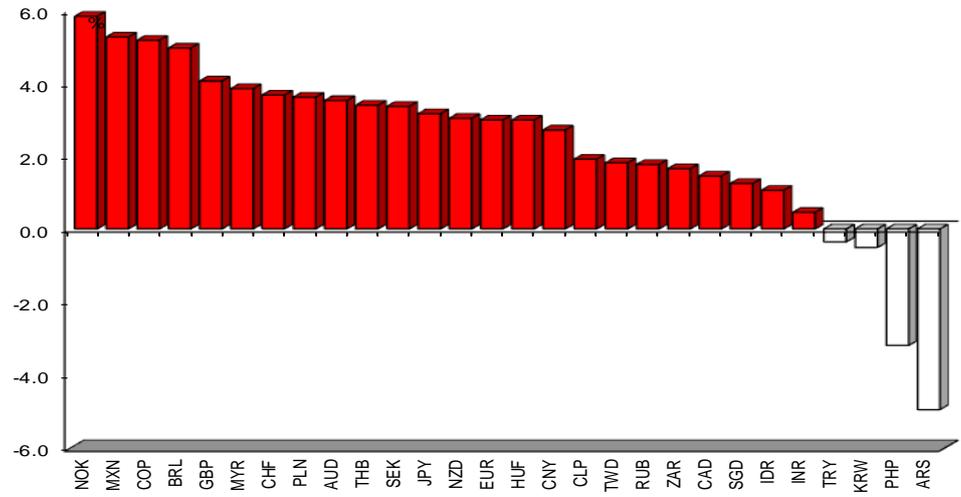
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**FX performance: 1-month change agst USD**



Source: Bloomberg

### FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	15-Jan-18	B	EUR-USD	1.2199	1.2645	1.2305	"Hawkish" ECB expectations, positive German political news flow	
2	16-Jan-18	S	USD-SGD	1.3230	1.2990	1.3175	Heavy dollar, positive risk appetite, SGD NEER not excessively strong	
<b>STRUCTURAL</b>								
3	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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
4	27-Nov-17	26-Jan-18	B	GBP-USD	1.3344	1.4135	Investors may impute Brexit talks in December. Prevailing USD weakness.	+5.56
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Source: OCBC Bank

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