

Wednesday, January 31, 2018

FX Themes/Strategy/Trading Ideas

- The dollar retreated slightly against most of the majors on Tuesday despite the UST curve steepening from the back-end and supportive Jan consumer confidence numbers. An attempt by US Treasury Secretary Mnuchin to talk up the dollar left little indelible impact on investors.
- US President Trump's State of the Union address this morning may set the tone for markets ahead of the FOMC later today (1900 GMT). Regarding the latter, note some prevailing expectations for the accompanying statement to tighten its language and lay the groundwork for a rate hike at the March FOMC. **Overall, the majors remain somewhat stretched to the upside relative to short term valuations, but investors seemingly remain fixated on inherent USD weakness at this juncture.**
- Elsewhere on the calendar, EZ Jan CPI is due at 1000 GMT, the USD Jan ADP at 1315 GMT, while the ECB's Mersch speaks at 1630 GMT. On the Asian front, China's PMIs are due at 0100 GMT.

Asian FX

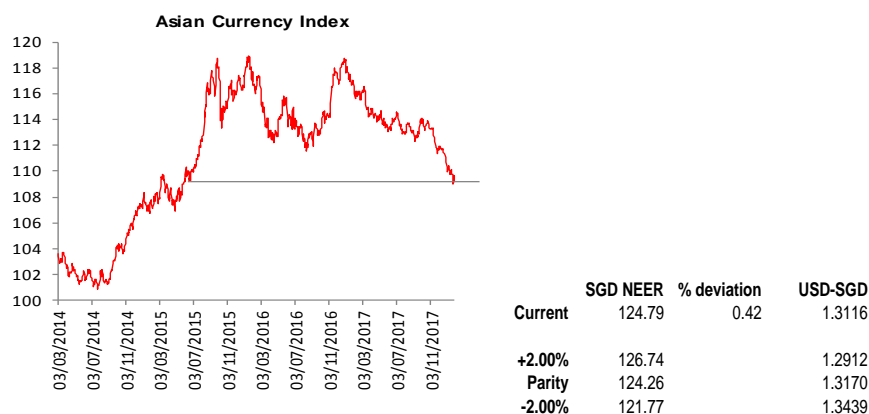
- Negative global equities (EM equities fell for a second consecutive session) coupled with crude tripping lower (WTI < 64.00) saw the **FXSI (FX Sentiment Index)** jumping higher into Risk-Neutral territory on Tuesday. Asian equities are still in the red today, and with net portfolio inflows continuing to capitulate (note latest equity outflows for TWD and KRW, bond outflows for THB). As such, downside for the **ACI (Asian Currency Index)** may be slightly reluctant at this juncture, especially if global risk appetite levels continue to shrink.
- **SGD NEER:** The SGD NEER is softer again this morning at around +0.40% above its perceived parity (1.3170). NEER-implied USD-SGD thresholds are discernibly lower this morning with +0.30% estimated at 1.3131 and +0.60% at 1.3092. Expect the SGD to continue to remain a laggard with respect to prospective broad dollar vulnerability, with the NEER in January tracking lower despite the DXY and the softening USD-SGD.

Treasury Research &
Strategy

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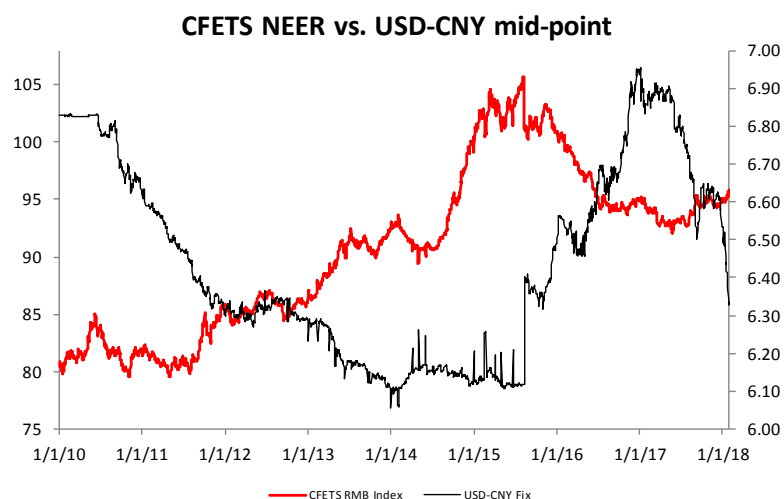
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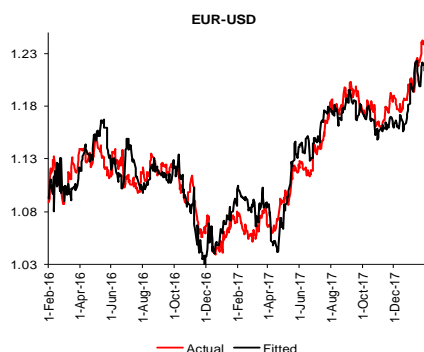
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point rose to 6.3339 this morning, from 6.3312 on Tuesday. While this was above our expectations, it had the effect of dipping the CFETS RMB Index lower to 95.82 from 95.85 yesterday. Structurally, note that the CFETS RMB Index remains on a negatively correlated tear from the broad dollar since late December 2017, resulting in a still heavy bias for the bilateral renminbi exchange rates.



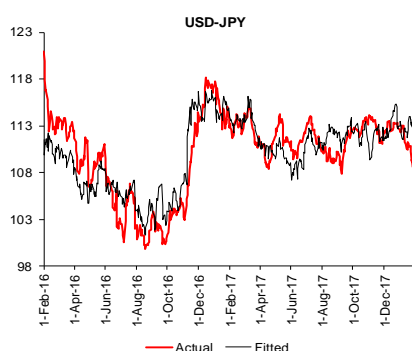
Source: OCBC Bank, Bloomberg

G7



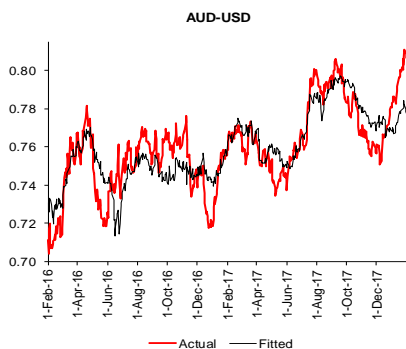
Source: OCBC Bank

- EUR-USD** German Jan CPI readings and EZ confidence indicators were softer than expected and ahead of the FOMC tonight, short term implied valuations are suggesting further room for downside capitulation in the EUR-USD. Expect a wide 1.2300-1.2500 to continue to book-end pending Trump and the FOMC outcome. Retain a preference to collect dips in the interim.



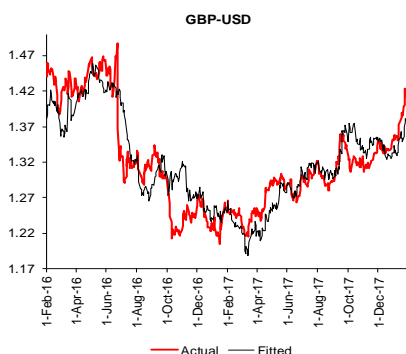
Source: OCBC Bank

- USD-JPY** Slightly shaky global risk appetite levels may overshadow the BOJ's latest efforts at downplaying market perceived hawkishness and firmer US yields. In the current environment, USD-JPY may continue to disregard still supported short term valuations. Expect a top heavy posture within 108.50-109.20 pending further headline risks.



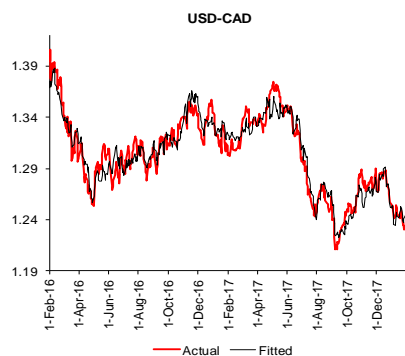
Source: OCBC Bank

- AUD-USD** Australian 4Q CPI numbers this morning came in a tick below prior market expectations. Saddled with an already soggy risk appetite environment, short term implied valuations are attempting to inch lower. Buy into dips instead with initial supports expected into 0.8050 and then 0.8025.



Source: OCBC Bank

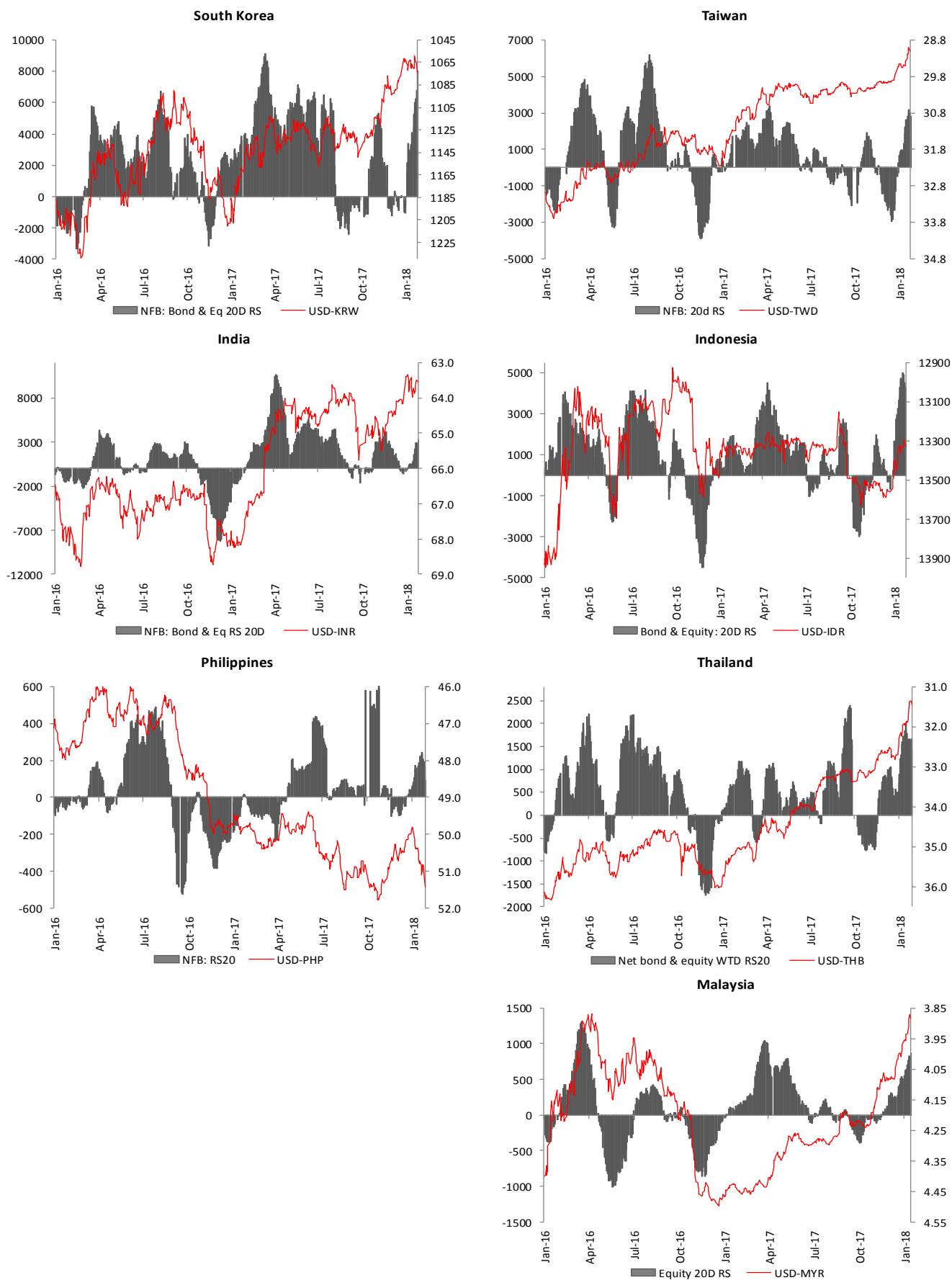
- GBP-USD** Comments from the BOE's Carney and supportive December lending aggregates also helped lift the GBP-USD on Tuesday. However, short term implied valuations have tipped lower slightly and look to some base building behavior within 1.4070-1.4240 pending further external cues.



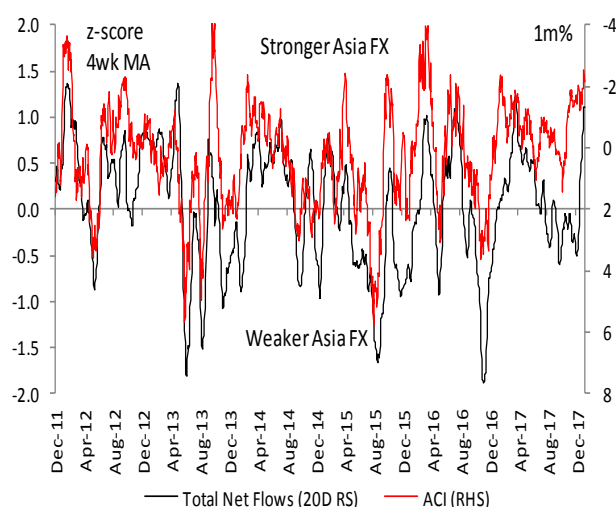
Source: OCBC Bank

- **USD-CAD** If the FOMC does not surprise significantly on the hawkish front and barring a further dilution of global risk appetite levels, investors may continue to fade near term rallies in the USD-CAD. Note that short term implied valuations have ticked higher marginally.

USD-Asia VS. Net Capital Flows

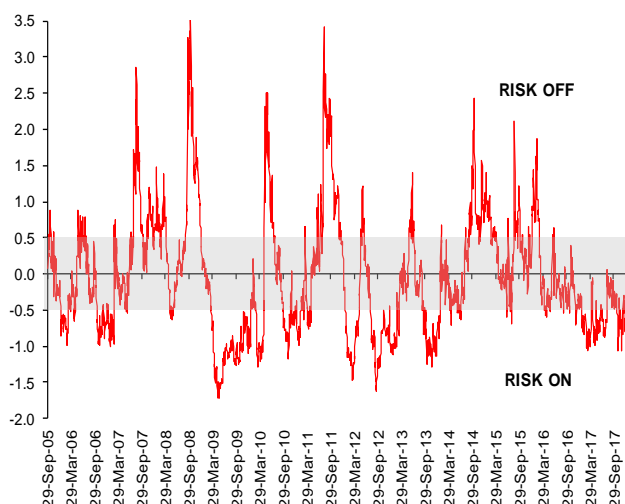


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXYS	USGG10	CNY	SPX	MSLCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXYS	1	-0.841	0.974	-0.897	-0.861	-0.903	0.938	-0.827	-0.804	-0.542	0.98	-0.986
CNH	0.98	-0.84	0.995	-0.896	-0.869	-0.894	0.925	-0.761	-0.781	-0.5	1	-0.97
SGD	0.975	-0.763	0.967	-0.866	-0.852	-0.913	0.908	-0.77	-0.705	-0.506	0.978	-0.976
CNY	0.974	-0.849	1	-0.887	-0.878	-0.897	0.913	-0.784	-0.797	-0.602	0.995	-0.957
CHF	0.964	-0.791	0.976	-0.842	-0.82	-0.917	0.941	-0.748	-0.796	-0.561	0.971	-0.951
MYR	0.962	-0.873	0.975	-0.955	-0.937	-0.896	0.931	-0.868	-0.772	-0.53	0.978	-0.942
THB	0.942	-0.857	0.961	-0.921	-0.896	-0.917	0.961	-0.844	-0.779	-0.69	0.96	-0.924
JPY	0.938	-0.853	0.913	-0.875	-0.837	-0.913	1	-0.857	-0.788	-0.611	0.925	-0.931
TWD	0.825	-0.728	0.898	-0.821	-0.884	-0.849	0.8	-0.737	-0.615	-0.359	0.888	-0.792
CAD	0.822	-0.696	0.822	-0.764	-0.838	-0.726	0.756	-0.645	-0.665	-0.141	0.856	-0.818
IDR	0.704	-0.608	0.655	-0.834	-0.736	-0.597	0.646	-0.785	-0.403	-0.16	0.685	-0.726
CCN12M	0.684	-0.438	0.696	-0.535	-0.447	-0.559	0.549	-0.457	-0.426	-0.399	0.716	-0.703
KRW	-0.086	0.443	-0.053	0.239	0.212	0.034	-0.175	0.255	0.338	0.248	-0.047	0.006
INR	-0.344	0.422	-0.233	0.464	0.312	0.142	-0.312	0.418	0.402	0.366	-0.225	0.301
USGG10	-0.841	1	-0.849	0.9	0.896	0.742	-0.853	0.814	0.852	0.494	-0.84	0.792
PHP	-0.85	0.955	-0.836	0.891	0.88	0.728	-0.86	0.819	0.883	0.764	-0.82	0.801
NZD	-0.874	0.885	-0.834	0.959	0.895	0.748	-0.873	0.867	0.726	0.36	-0.864	0.872
AUD	-0.974	0.904	-0.962	0.938	0.899	0.878	-0.937	0.806	0.819	0.499	-0.973	0.961
GBP	-0.978	0.861	-0.971	0.912	0.89	0.888	-0.916	0.785	0.767	0.485	-0.975	0.967
EUR	-0.986	0.792	-0.957	0.877	0.818	0.893	-0.931	0.776	0.768	0.532	-0.97	1

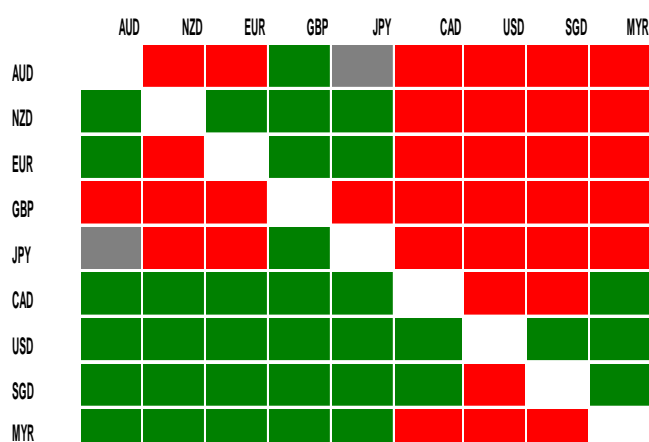
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2003	1.2400	1.2410	1.2500	1.2537
GBP-USD	1.3580	1.4100	1.4155	1.4200	1.4333
AUD-USD	0.7789	0.8000	0.8062	0.8100	0.8136
NZD-USD	0.7133	0.7300	0.7358	0.7400	0.7405
USD-CAD	1.2289	1.2300	1.2333	1.2400	1.2547
USD-JPY	108.00	108.28	108.90	109.00	111.72
USD-SGD	1.3028	1.3100	1.3122	1.3200	1.3343
EUR-SGD	1.6013	1.6200	1.6285	1.6300	1.6325
JPY-SGD	1.1928	1.2000	1.2050	1.2095	1.2098
GBP-SGD	1.8121	1.8500	1.8575	1.8600	1.8688
AUD-SGD	1.0500	1.0519	1.0579	1.0600	1.0630
Gold	1300.00	1307.56	1337.50	1358.73	1365.40
Silver	16.75	17.00	17.10	17.53	17.70
Crude	61.25	63.90	63.92	64.00	66.42

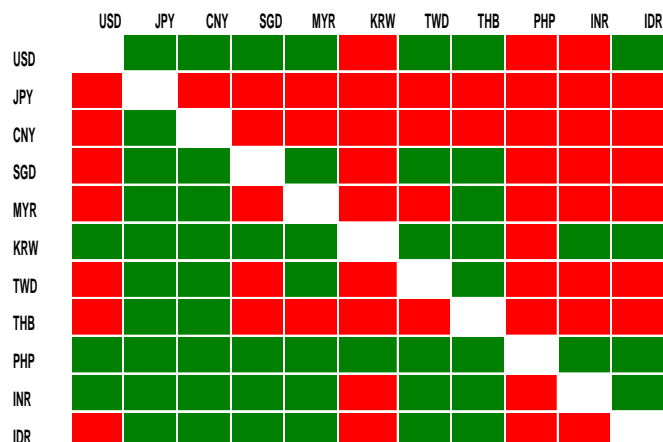
Source: OCBC Bank

G10 FX Heat Map



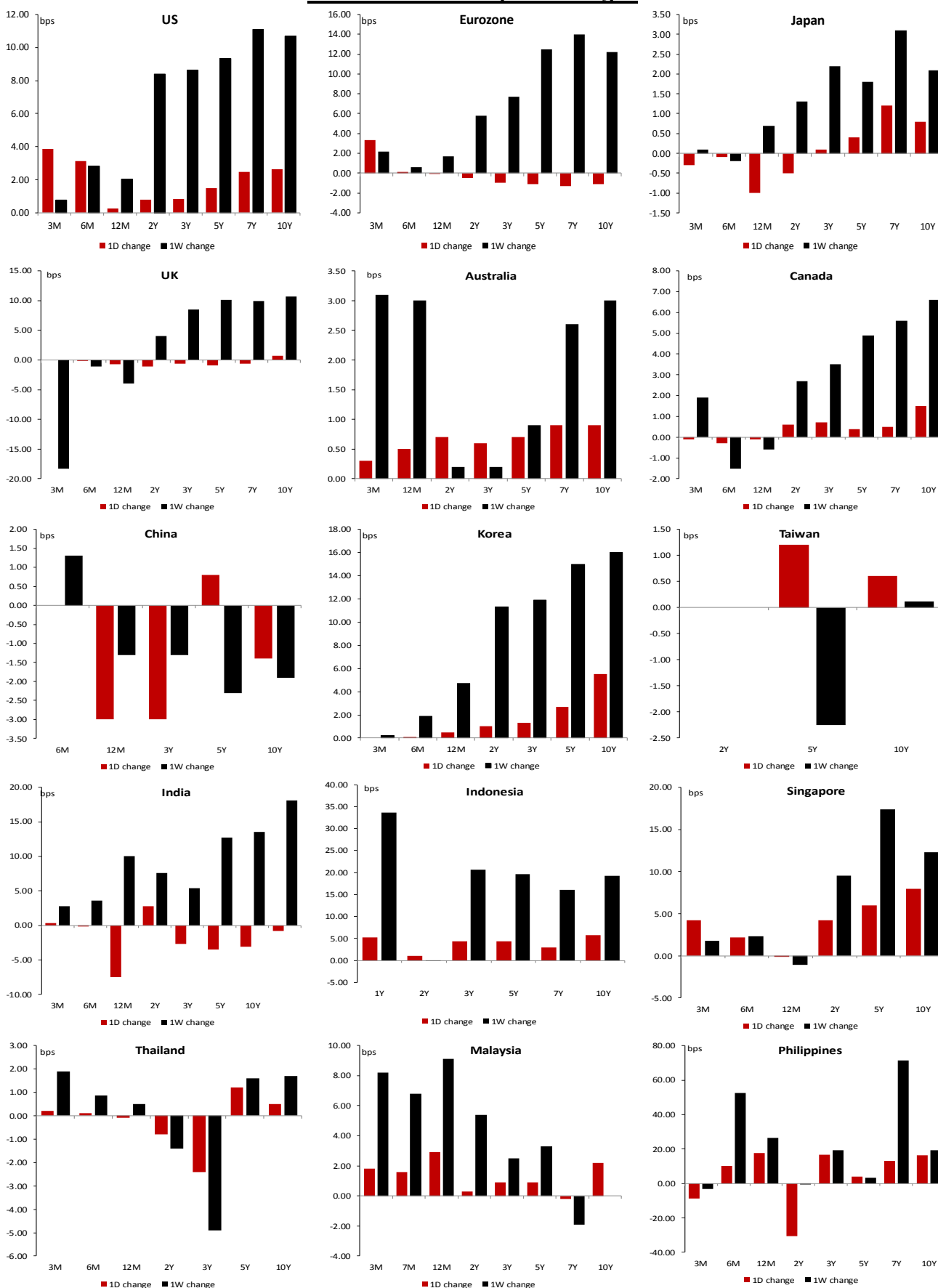
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

FX Trade Ideas

	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
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	
	STRUCTURAL							
3	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
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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