

Monday, December 04, 2017

FX Themes/Strategy/Trading Ideas

- New revelations on the Flynn and Russian probe put downward pressure on the USD on Friday. Declines were then pared as the news turned out to be false in parts. Nevertheless, the USD ended broadly softer against G10 currencies, with the exception of the EUR and GBP. The CAD was buoyed by a much stronger than expected employment data, rising the most the USD among the majors.
- This morning, optimism arising from the Senate approval of its version of the tax reform package supported the broad USD complex. Investor sentiment over the eventual vote appears to be positive, though the process of resolving the House and Senate versions of the tax bill is not expected to be straightforward. Expect headlines on this front to impart some near-term gyrations in the broad USD complex. **In the interim, watch for the ability of the DXY to build base around the 93.00 vicinity.**
- The GBP may be in focus as **PM May heads to Brussels** for what is thought to be the last attempt at advancing negotiations to trade issues by the December EU council meeting. Optimism of a breakthrough may be priced in, as PM May has appeared willing to make the required concessions. If the deadlock persists after PM May's visit, the GBP may face some headwinds this week.
- On the **CFTC** front, leveraged accounts pared its net implied dollar longs in the latest week. Net of JPY, the leveraged accounts remained in a net implied short dollar position. Non-commercial accounts and asset managers also increased their net implied short dollar bias. **Continued alignment between short-term and structural investors may weigh on the dollar.**
- Fed-speak go quiet this week ahead of the FOMC meeting next week. Appearances are expected for ECB's Mersch (Wed) and Draghi (Thu), and BOJ's Masai (Wed). The **RBA** and **BOC** are expected to stand pat in their respective meetings this Tuesday and Wednesday, though investors should keep an eye on any hints at forward guidance for next year, especially after the strong employment data in Canada today. The **RBI** is also expected hold policy rate constant on Wednesday.

Treasury Research &
Strategy

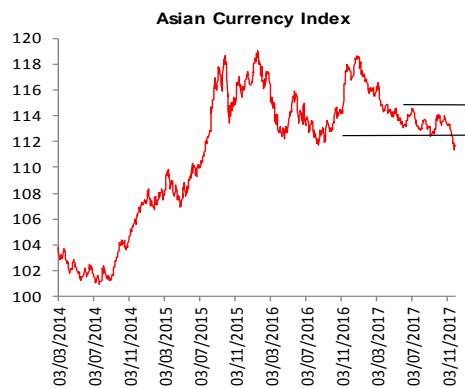
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Asian FX

- Asian equities opened mixed this morning, after global equities ended last week softer. EM FX was also mixed on Friday, with the USD weaker against

the Asians, but stronger against other EM currencies. Meanwhile, the **FXSI (FX Sentiment Index)** moved higher, but stayed within the Risk-On territory on Friday.

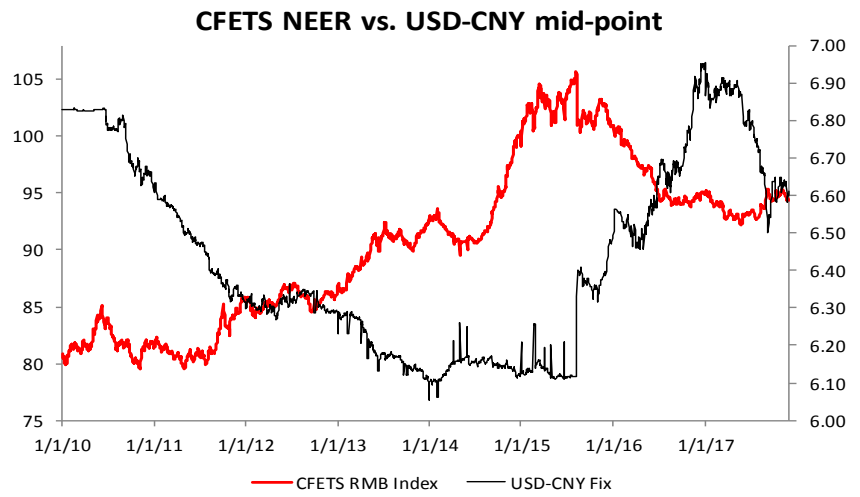
- **Net portfolio flows** continue to show a divergence between North and South Asia, with net outflows continue to be experienced for the KRW and TWD. Note further that outflow momentum has continued to build for the TWD. Meanwhile, net inflows for the INR, IDR, and THB remain at elevated levels. On the **EPFR** front, implied bond flows fell back into net outflow territory in the latest week, and are essentially balanced on a rolling 4-week basis. Implied equity inflows also saw its momentum fade.
- Overall, a more resilient USD may lead the Asian FX complex into the week. As such, the **ACI (Asian Currency Index)** may be supported on the downside.
- **SGD NEER:** The SGD NEER hit a high of +1.17% above its perceived parity late last Friday on USD weakness. This morning, it is lower at +0.94% above its perceived parity (1.3606). Barring further headlines, the SGD NEER should revert back to its relative comfort zone between +0.80% (1.3498) and +1.10% (1.3458).



	SGD NEER	% deviation	USD-SGD
Current	125.37	0.90	1.3486
+2.00%	126.74		1.3339
Parity	124.26		1.3606
-2.00%	121.77		1.3884

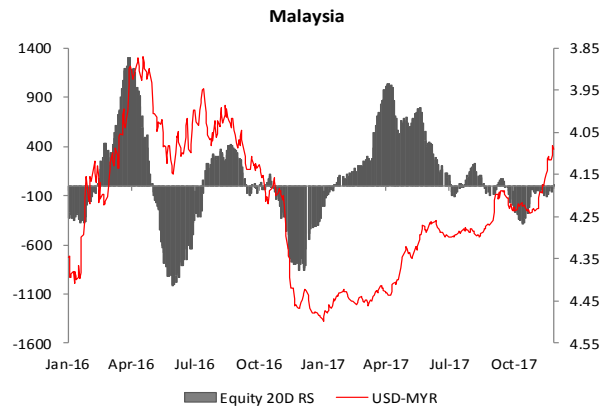
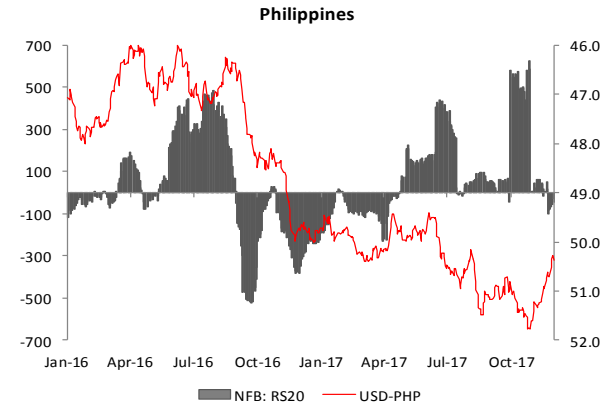
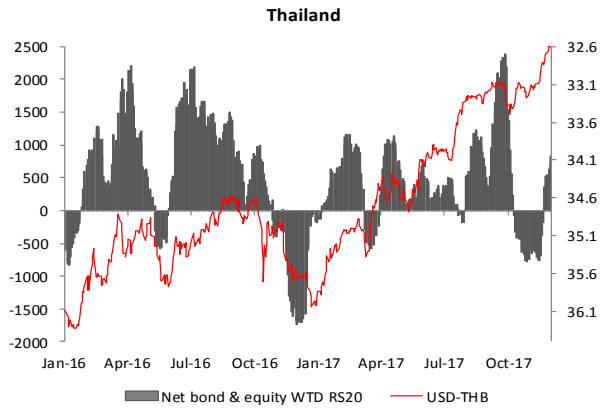
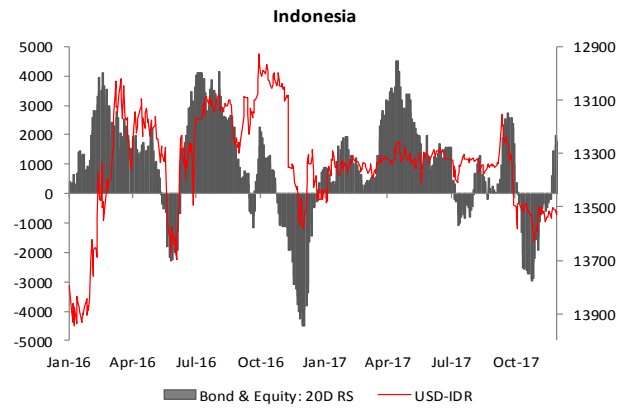
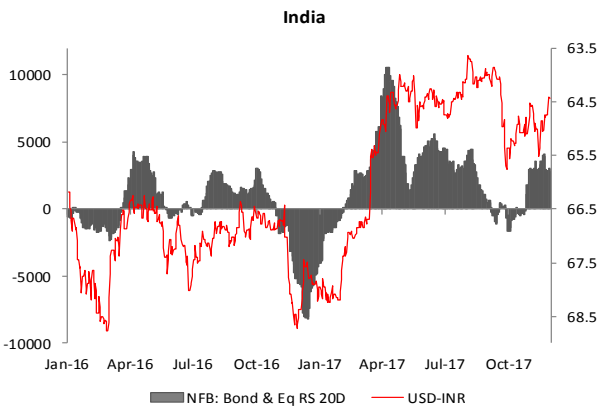
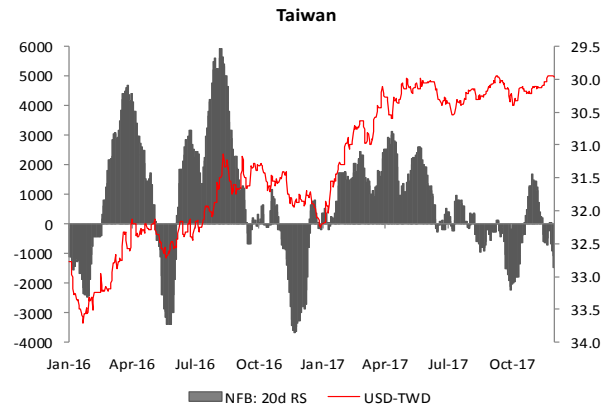
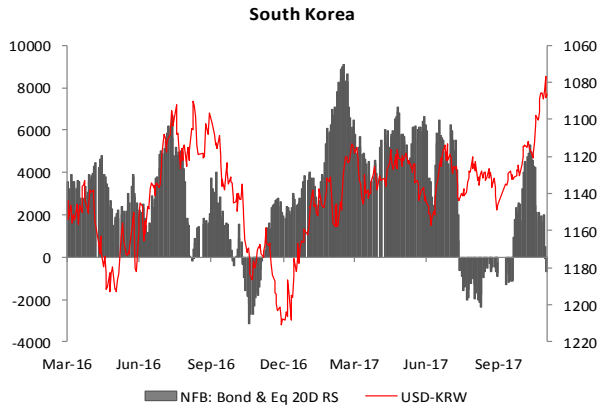
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in higher (largely within expectations) at 6.6105 from 6.6067 on Friday. This softened the CFETS RMB Index to 94.35 from 94.38 on Friday.

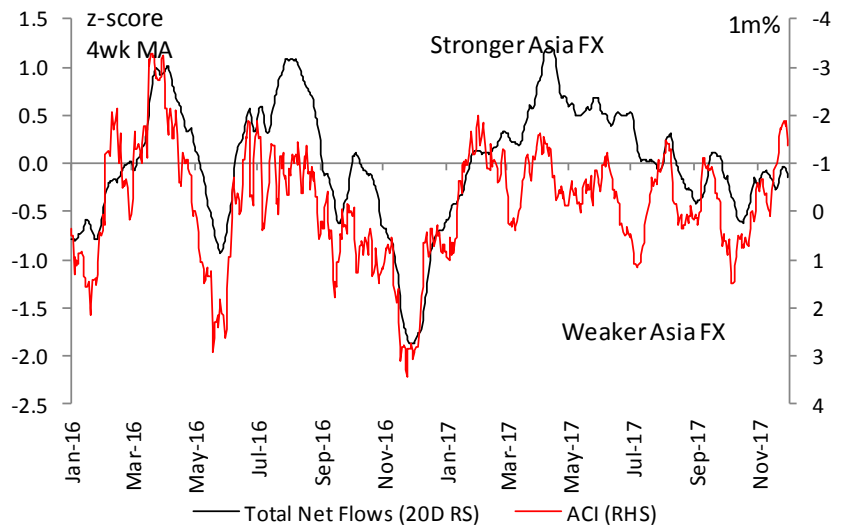


Source: OCBC Bank, Bloomberg

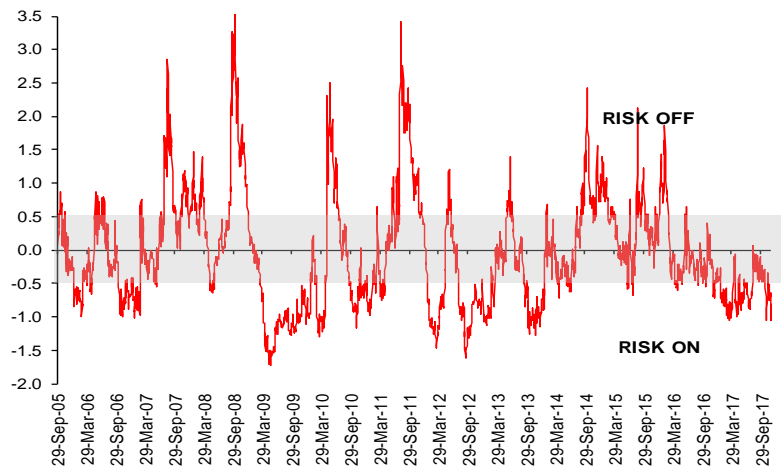
USD-Asia VS. Net Capital Flows



ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.121	0.812	-0.591	0.032	0.185	0.859	-0.514	-0.073	-0.027	0.8	-0.987
CHF	0.974	-0.03	0.813	-0.601	0.038	0.094	0.833	-0.59	-0.055	0.031	0.834	-0.948
SGD	0.955	-0.007	0.892	-0.697	-0.105	0.028	0.905	-0.639	0.133	0.134	0.881	-0.911
MYR	0.929	-0.229	0.774	-0.678	-0.174	0.191	0.84	-0.486	0.056	-0.011	0.72	-0.893
TWD	0.9	0.043	0.833	-0.719	-0.17	0.017	0.915	-0.627	0.233	0.199	0.82	-0.848
THB	0.896	-0.137	0.763	-0.721	-0.061	0.122	0.853	-0.556	0.139	0.147	0.756	-0.856
PHP	0.875	0.004	0.697	-0.772	-0.018	0.123	0.849	-0.468	0.088	0.124	0.721	-0.833
KRW	0.873	-0.022	0.803	-0.721	-0.133	0.048	0.858	-0.595	0.229	0.252	0.821	-0.822
JPY	0.859	0.225	0.863	-0.439	-0.311	0.003	1	-0.517	0.182	-0.05	0.8	-0.812
CNY	0.812	0.295	1	-0.601	-0.204	-0.081	0.863	-0.634	0.222	0.149	0.936	-0.78
CNH	0.8	0.296	0.936	-0.638	-0.187	-0.151	0.8	-0.711	0.352	0.321	1	-0.756
AUD	0.573	-0.322	0.278	-0.248	0.183	0.662	0.514	0.116	-0.331	-0.331	0.202	-0.618
INR	0.561	0.214	0.696	-0.817	-0.162	-0.34	0.609	-0.712	0.528	0.644	0.714	-0.477
NZD	0.413	-0.297	0.108	-0.068	0.124	0.7	0.338	0.211	-0.302	-0.375	0.092	-0.475
IDR	0.315	0.435	0.524	-0.501	-0.393	-0.578	0.43	-0.722	0.582	0.624	0.563	-0.211
CCN12M	0.257	0.51	0.495	0.186	-0.53	-0.09	0.498	-0.155	0.39	-0.111	0.544	-0.232
USGG10	-0.121	1	0.295	0.244	-0.385	-0.368	0.225	-0.115	0.437	0.171	0.296	0.164
CAD	-0.204	0.247	-0.136	0.422	-0.269	-0.443	-0.175	-0.146	0.076	-0.134	-0.027	0.249
GBP	-0.834	0.316	-0.671	0.884	-0.229	-0.099	-0.602	0.614	-0.051	-0.391	-0.698	0.8
EUR	-0.987	0.164	-0.78	0.542	-0.11	-0.3	-0.812	0.412	0.168	0.102	-0.756	1

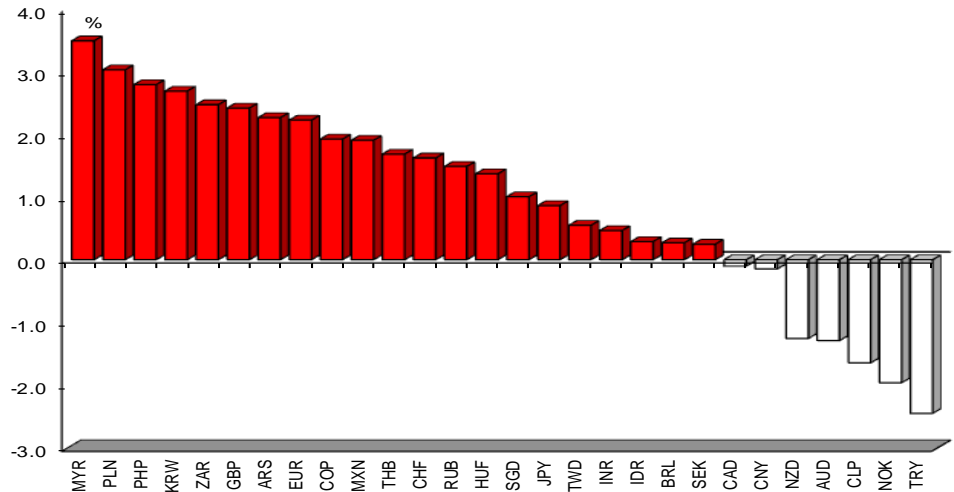
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1757	1.1800	1.1868	1.1900	1.1961
GBP-USD	1.3243	1.3400	1.3490	1.3500	1.3520
AUD-USD	0.7532	0.7537	0.7593	0.7600	0.7681
NZD-USD	0.6799	0.6800	0.6859	0.6900	0.6964
USD-CAD	1.2662	1.2700	1.2718	1.2800	1.2870
USD-JPY	111.69	112.00	112.75	112.83	113.00
USD-SGD	1.3404	1.3420	1.3481	1.3500	1.3571
EUR-SGD	1.5926	1.5956	1.6000	1.6099	1.6180
JPY-SGD	1.1905	1.1918	1.1957	1.2000	1.2028
GBP-SGD	1.8100	1.8173	1.8186	1.8200	1.8267
AUD-SGD	1.0176	1.0200	1.0236	1.0300	1.0463
Gold	1266.05	1268.13	1273.60	1281.63	1296.92
Silver	16.20	16.20	16.27	16.29	16.30
Crude	55.11	58.20	58.23	58.30	59.05

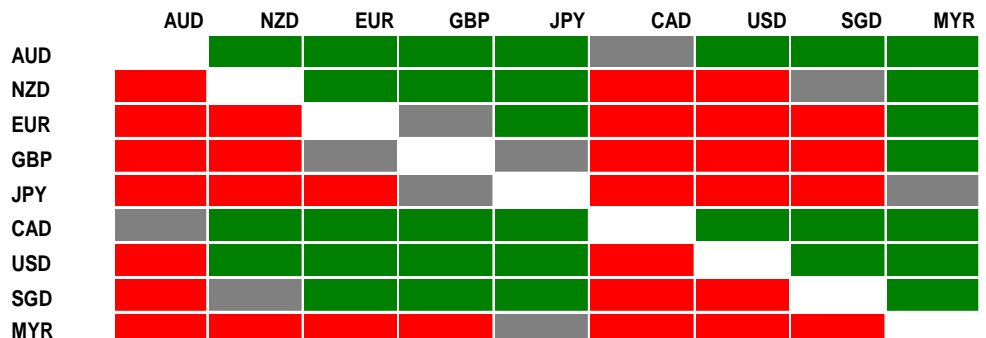
Source: OCBC Bank

FX performance: 1-month change agst USD



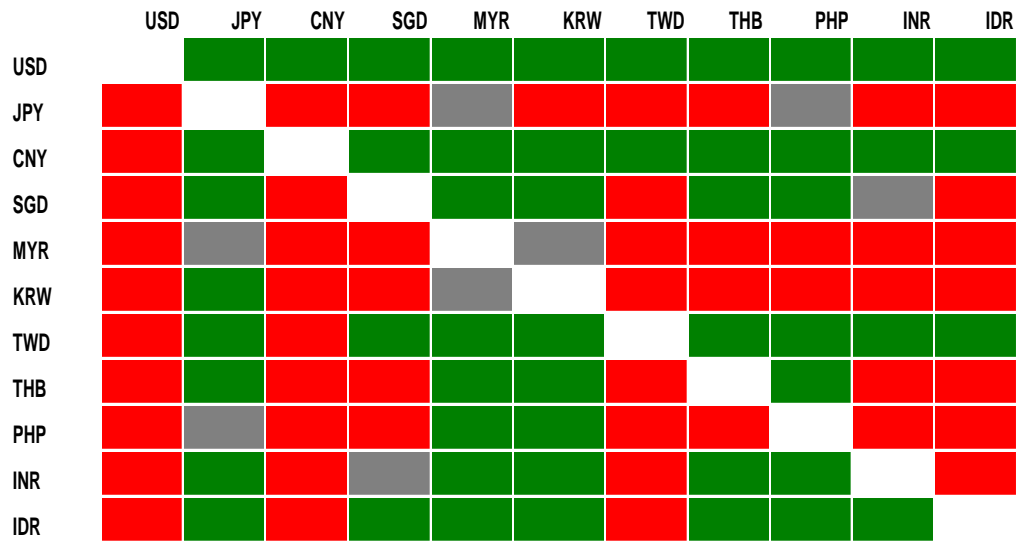
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	07-Nov-17	S	AUD-USD	0.7671	0.7510	0.7755	RBA on hold, no inflation or rate hike urgency	
2	20-Nov-17	S	USD-JPY	112.07	109.80	113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	
3	21-Nov-17	S	USD-SGD	1.3561	1.3415	1.3640	Little contagion in geopolitical risks, sanguine portfolio inflow environment, expected USD	
4	24-Nov-17	B	EUR-USD	1.1868	1.2085	1.1755	Supportive EZ data stream, German political concerns on hold, near term USD vulnerability	
5	27-Nov-17	B	GBP-USD	1.3344	1.3655	1.3185	Investors may impute Brexit talks in December. Prevailing USD weakness.	
STRUCTURAL								
6	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
7	07-Nov-17		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	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	28-Sep-17	02-Nov-17	S	AUD-USD	0.7816	0.7720	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	+1.20
2	21-Sep-17	15-Nov-17	B	USD-JPY	112.58	113.13	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	+0.73
3	24-Oct-17	15-Nov-17	B	USD-SGD	1.3616	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in	-0.54
4	24-Oct-17	17-Nov-17	S	EUR-USD	1.1763	1.1812	Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow	-0.27
5	07-Nov-17	22-Nov-17	S	GBP-USD	1.3142	1.3300	Potential negative headline shock from upcoming BOE appearances post the dovish rate hike	-1.14
6	28-Sep-17	24-Nov-17	B	USD-CAD	1.2500	1.2725	Reality check from the BOC's Poloz even as the USD garners renewed interest	+1.80
							Jan-Nov*** 2017 Return	-11.09
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

FX Forecast Refresh

01-Dec-17	Spot	Dec-17	Mar-18	Jun-18	Sep-18
USD-JPY	112.54	112.80	113.33	114.33	115.33
EUR-USD	1.1906	1.2020	1.2044	1.2178	1.2311
GBP-USD	1.3531	1.3530	1.3632	1.3729	1.3826
AUD-USD	0.7562	0.7515	0.7492	0.7619	0.7746
NZD-USD	0.6829	0.6800	0.6777	0.6917	0.7057
USD-CAD	1.2878	1.2945	1.3017	1.2767	1.2517
USD-CHF	0.9838	0.9800	0.9826	0.9752	0.9679
USD-SGD	1.3481	1.3450	1.3402	1.3364	1.3326
USD-CNY	6.6153	6.5515	6.5495	6.5256	6.5018
USD-THB	32.688	32.50	33.36	32.76	32.15
USD-IDR	13543	13550	13574	13498	13421
USD-MYR	4.0910	4.0500	4.0386	4.0192	3.9999
USD-KRW	1087.77	1085.00	1073.33	1068.33	1063.33
USD-TWD	30.012	29.950	29.800	29.650	29.500
USD-HKD	7.8107	7.8100	7.8155	7.8209	7.8264
USD-PHP	50.309	50.20	49.90	49.75	49.60
USD-INR	64.46	64.15	64.16	63.74	63.33
EUR-JPY	133.99	135.59	136.50	139.23	141.99
EUR-GBP	0.8799	0.8884	0.8835	0.8870	0.8905
EUR-CHF	1.1713	1.1780	1.1834	1.1876	1.1916
EUR-SGD	1.6050	1.6167	1.6142	1.6274	1.6405
GBP-SGD	1.8241	1.8198	1.8270	1.8347	1.8423
AUD-SGD	1.0194	1.0108	1.0041	1.0182	1.0321
NZD-SGD	0.9206	0.9146	0.9082	0.9243	0.9403
CHF-SGD	1.3703	1.3724	1.3640	1.3703	1.3768
JPY-SG	1.1979	1.1924	1.1825	1.1689	1.1554
SGD-MYR	3.0346	3.0112	3.0133	3.0075	3.0017
SGD-CNY	4.9071	4.8710	4.8869	4.8830	4.8792

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