

Tuesday, December 05, 2017

FX Themes/Strategy/Trading Ideas

- Firming 10y UST yields provided some support for the USD against the majors (with the exception of GBP and CAD) on Monday. Meanwhile, the DXY consolidated above the 93.00 handle. This continues the recent trend of dollar prospects being led by nominal levels of the 10y UST yield.
- A formal conference may be held between the Senate and the House to resolve their differences over the tax reform package. The delegates should be named by end of the week (Senate) and next Monday (House). A short conference will be open up the path for the tax reform to pass ahead of Christmas. Note, however, that the debt ceiling extension will end on 08 Dec 17. A further extension will need to be passed by the Congress, and this may crowd the legislative timetable.
- The GBP whipsawed as headlines regarding PM May's lunch meeting with EC President Juncker flowed through. A "complete agreement" was not reached, as an agreement over the Irish border fell through. The GBP recovered quickly from this setback as investors appeared optimistic that an agreement may still be reached before the EU council meeting. Further disappointments may impart downward pressure on the GBP.
- On the data front, Nov China Caixin Composite and Services PMI came in stronger than Oct. A full suite of **non-manufacturing PMI** in Europe (0815 GMT onwards) and US (1445 GMT) is also expected later today. A strong reading from the US will set the stage for the expected rate hike in next week's Dec FOMC.
- The **RBA** policy rate decision will come in at 0330 GMT. We expect the message from the RBA to be consistent with previous months, that the next rate move will be a hike, and it will be some distance away. Watch for any deviations from this template and guidance for 2018.

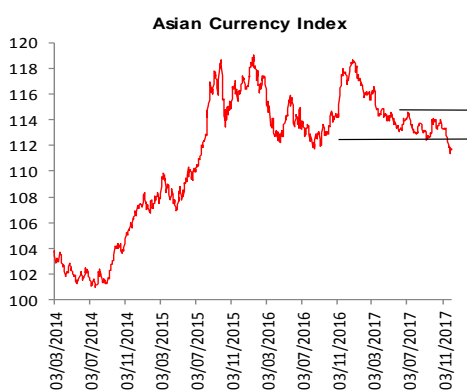
Asian FX

- With the exception of the MYR and INR, the USD gained across Asian and EM FX on Monday. A tech rout in the US piled early pressure on Asian equities at the open, partly dosing the risk on sentiments that pervaded after the tax reform progress. Nevertheless, the **FXSI (FX Sentiment Index)** moved deeper into the Risk-On territory. On this basis, the **ACI (Asian Currency Index)** may edge lower as investors balance risk sentiments against the still supported USD complex.

Treasury Research &
Strategy

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

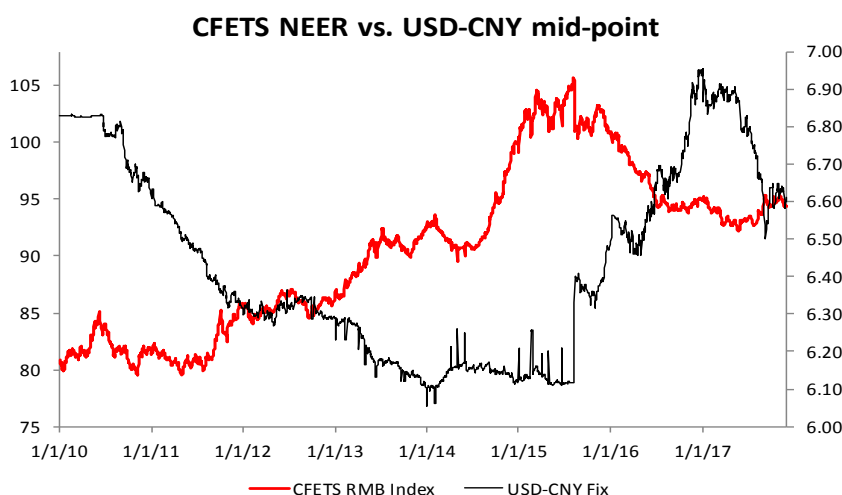
- In terms of **actual portfolio flows**, an improvement in bond flows provide some reason to cheer for the KRW, even if it remains in a net outflow situation. Outflow momentum continued to plague the TWD. The situation is rosier in the South Asian economies. IDR continues to benefit from bond inflows, although equity flows remain patchy. Meanwhile, the INR saw inflow momentum fade somewhat, while the THB saw inflow momentum pick up. Overall, stronger portfolio flows into the South Asian economies should underpin their currencies in the near term.
- **SGD NEER:** The SGD NEER lower at +0.87% above its perceived parity (1.3590). Thresholds at +0.80% (1.3482) and +1.10% (1.3442) should continue to define the range.



	SGD NEER	% deviation	USD-SGD
Current	125.38	0.91	1.3459
+2.00%	126.74		1.3323
Parity	124.26		1.3590
-2.00%	121.77		1.3867

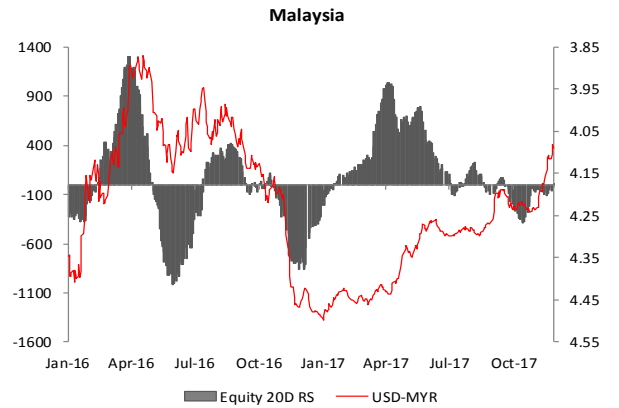
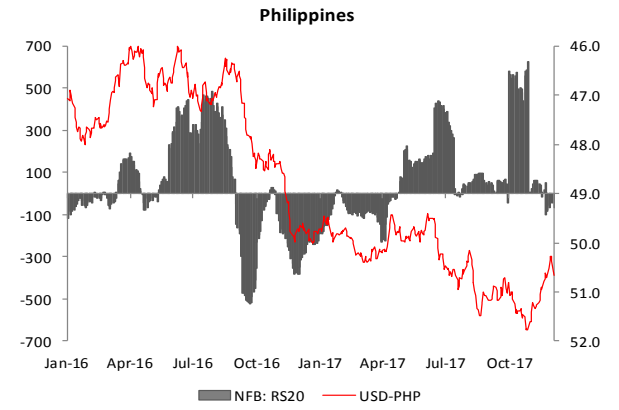
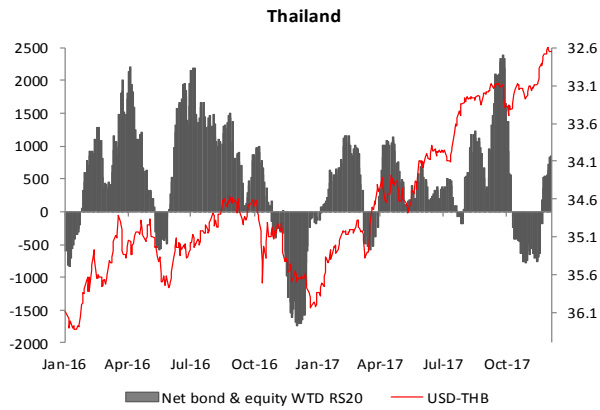
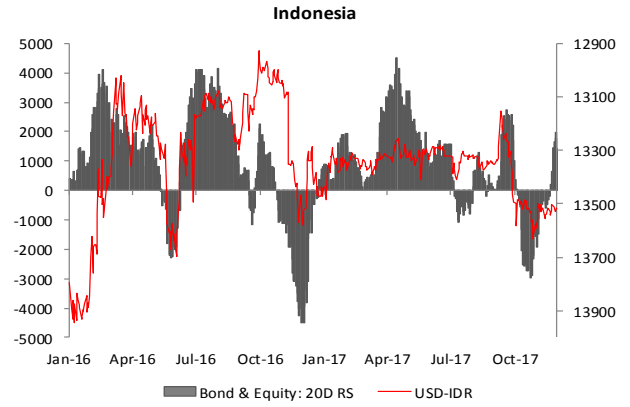
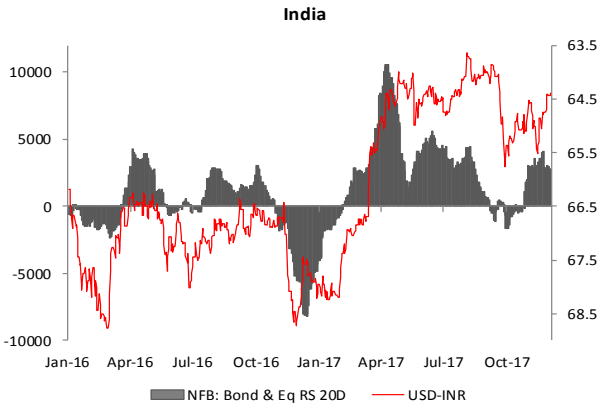
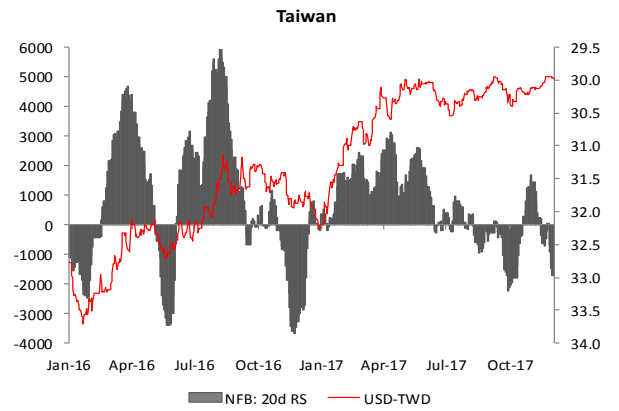
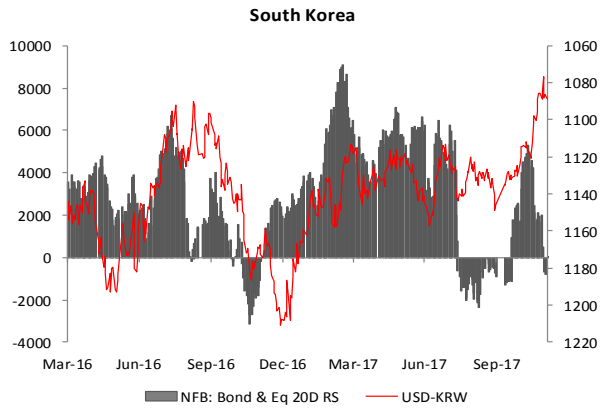
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point came in marginally higher (within expectations) at 6.6113 from 6.6105 on Monday. This softened the CFETS RMB Index to 94.26 from 94.35 on Monday.

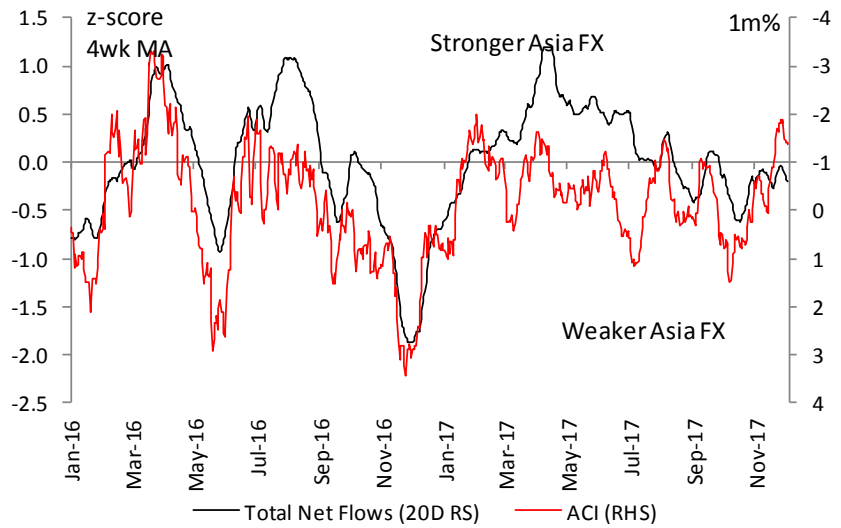


Source: OCBC Bank, Bloomberg

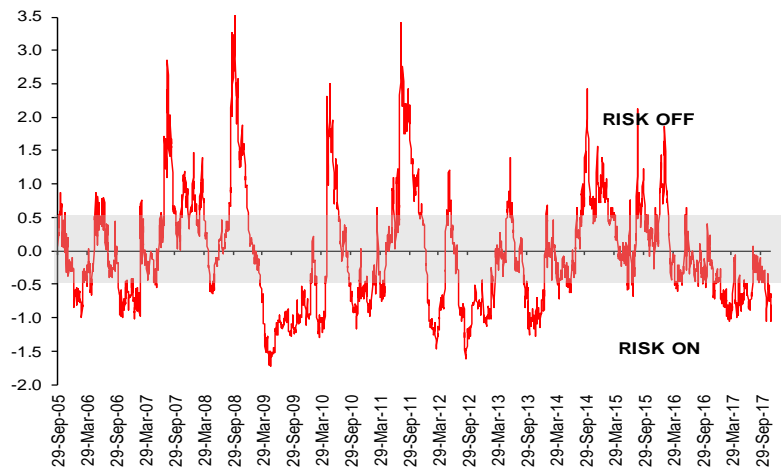
USD-Asia VS. Net Capital Flows



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	-0.073	0.805	-0.611	0.099	0.238	0.879	-0.491	-0.114	0.027	0.789	-0.987
CHF	0.972	0.015	0.81	-0.604	0.083	0.136	0.857	-0.573	-0.085	0.066	0.829	-0.945
SGD	0.955	-0.002	0.88	-0.715	-0.018	0.103	0.9	-0.625	0.075	0.184	0.862	-0.914
MYR	0.913	-0.239	0.725	-0.74	0.034	0.304	0.77	-0.449	-0.05	0.112	0.65	-0.872
TWD	0.903	0.019	0.828	-0.72	-0.096	0.074	0.909	-0.632	0.184	0.233	0.816	-0.852
THB	0.895	-0.088	0.749	-0.741	0.036	0.197	0.87	-0.529	0.074	0.205	0.738	-0.856
JPY	0.879	0.215	0.864	-0.428	-0.272	0.024	1	-0.542	0.163	-0.036	0.814	-0.815
PHP	0.876	-0.02	0.696	-0.74	0.041	0.165	0.846	-0.475	0.052	0.158	0.721	-0.835
KRW	0.871	0.001	0.797	-0.726	-0.056	0.109	0.867	-0.579	0.176	0.288	0.808	-0.826
CNY	0.805	0.286	1	-0.583	-0.175	-0.05	0.864	-0.637	0.198	0.154	0.936	-0.772
CNH	0.789	0.35	0.936	-0.615	-0.155	-0.116	0.814	-0.703	0.325	0.321	1	-0.741
INR	0.587	0.151	0.67	-0.841	0.01	-0.183	0.589	-0.703	0.399	0.679	0.692	-0.511
AUD	0.57	-0.313	0.28	-0.26	0.202	0.65	0.523	0.137	-0.34	-0.291	0.194	-0.611
NZD	0.411	-0.289	0.112	-0.114	0.164	0.698	0.348	0.233	-0.321	-0.319	0.082	-0.476
IDR	0.304	0.433	0.522	-0.442	-0.361	-0.548	0.429	-0.715	0.568	0.588	0.561	-0.202
CCN12M	0.197	0.603	0.475	0.256	-0.56	-0.159	0.474	-0.082	0.421	-0.165	0.5	-0.137
USGG10	-0.073	1	0.286	0.276	-0.407	-0.389	0.215	-0.194	0.452	0.122	0.35	0.155
CAD	-0.173	0.202	-0.119	0.254	-0.131	-0.298	-0.144	-0.158	0.004	-0.042	-0.014	0.153
GBP	-0.83	0.282	-0.632	0.902	-0.342	-0.218	-0.602	0.562	0.042	-0.455	-0.649	0.803
EUR	-0.987	0.155	-0.772	0.568	-0.173	-0.345	-0.815	0.398	0.206	0.041	-0.741	1

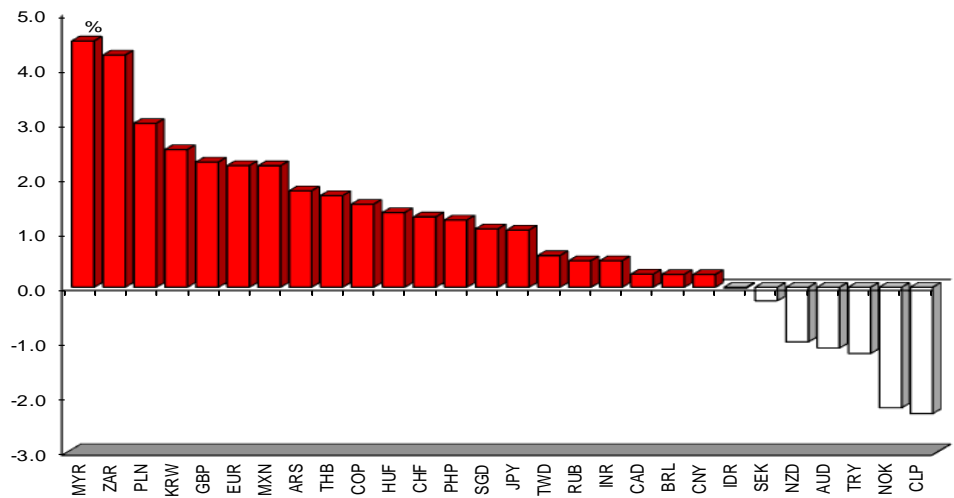
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1759	1.1800	1.1875	1.1900	1.1961
GBP-USD	1.3243	1.3400	1.3471	1.3500	1.3542
AUD-USD	0.7538	0.7600	0.7641	0.7681	0.7693
NZD-USD	0.6809	0.6832	0.6900	0.6964	0.6976
USD-CAD	1.2621	1.2640	1.2664	1.2667	1.2700
USD-JPY	111.69	112.00	112.49	112.83	113.00
USD-SGD	1.3400	1.3420	1.3456	1.3500	1.3569
EUR-SGD	1.5900	1.5956	1.5979	1.6000	1.6093
JPY-SGD	1.1905	1.1923	1.1962	1.2000	1.2027
GBP-SGD	1.7969	1.8100	1.8125	1.8187	1.8200
AUD-SGD	1.0176	1.0200	1.0281	1.0300	1.0444
Gold	1266.25	1267.59	1275.70	1281.01	1296.90
Silver	16.20	16.21	16.28	16.30	16.91
Crude	55.13	57.50	57.56	57.60	59.01

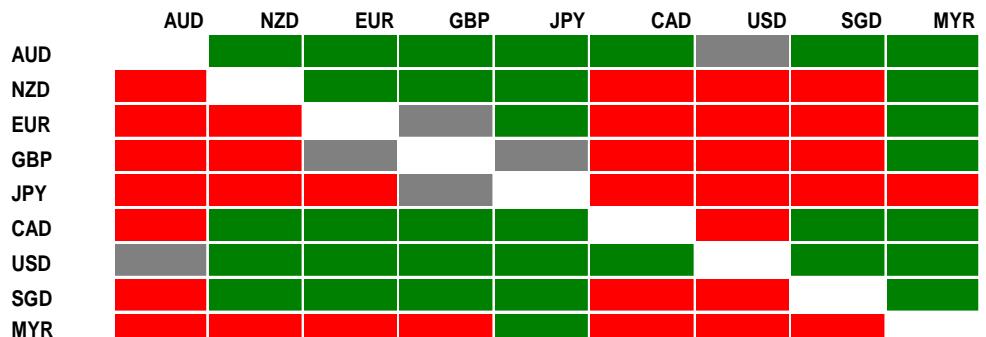
Source: OCBC Bank

FX performance: 1-month change agst USD



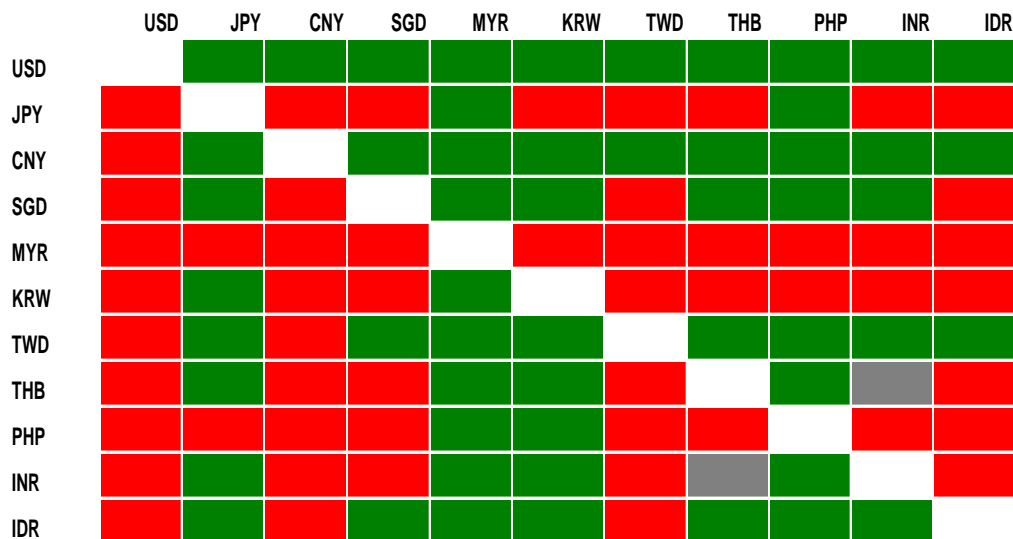
Source: Bloomberg

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

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