

Thursday, December 07, 2017

FX Themes/Strategy/Trading Ideas

- Despite softening UST yields (belly of the curve outperforming) and Trump headlines over Jerusalem, the USD gained ground on most G10 currencies, with the exception of the JPY and NZD. The AUD tripped after a series of data releases post-RBA dampened any remnant positivity from the RBA statement. Meanwhile, the JPY benefited from a spat of risk aversion after recent declines in equities.
- The DXY continued to pick up momentum, as it closed above the 100-day MA level at 93.34, and puts the 55-day MA level at 93.66 within range. Progress in terms of the tax reform package appear to come along smoothly, with Senate leaders sounding willing to compromise on a number of details to get the legislation through. **This should continue to give the broad dollar complex some tailwind heading into the end of the week.**
- The likelihood of PM May making significant progress ahead of this week's "deadline of deadlines" appeared to be sliding. Even as the EU parties appear willing to accommodate, we think that the British negotiation position is weak, as PM May faces renewed pressure from her allies and colleagues in the UK. Ongoing uncertainty with respect to the negotiations may continue to weigh on the GBP.
- The **BOC** held rates constant overnight, as expected. Despite acknowledging that inflation is has firmed, it reiterated that growth may moderate in the months ahead. The guidance for monetary policy continued to be cautious. This moved to dampen enthusiasm for a rate hike, and piled pressure on the CAD.
- ECB-speak continues today, as Draghi (1600 GMT) holds a conference in Frankfurt. On the data front, we will see US initial jobless claims later today, ahead of non-farm payrolls tomorrow, and Eurozone 3Q GDP flash estimates.

Asian FX

- A mixed session for US/EZ equities may not provide significant lead-ins for the Asian equity space today. However, the tech sell-off may have abated for the moment, possibly calming some frayed nerves. The **FXSI (FX Sentiment Index)** lurched higher, pushing up against the edge of the Neutral zone. This highlights the recent fading off of the risk sentiments in response to uncertainties over the tech sector.
- Across the whole Asian complex, we saw **net portfolio outflows** in the latest session, most of which is concentrated in the equity space. This may be a

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response to the moderating global risk sentiments. Near term headwinds may persist for the KRW and TWD, as they continue to experience accelerated outflows. Meanwhile, improving inflow momentum in THB may provide some buffer for the currency in the midst of broad dollar strength in recent session.

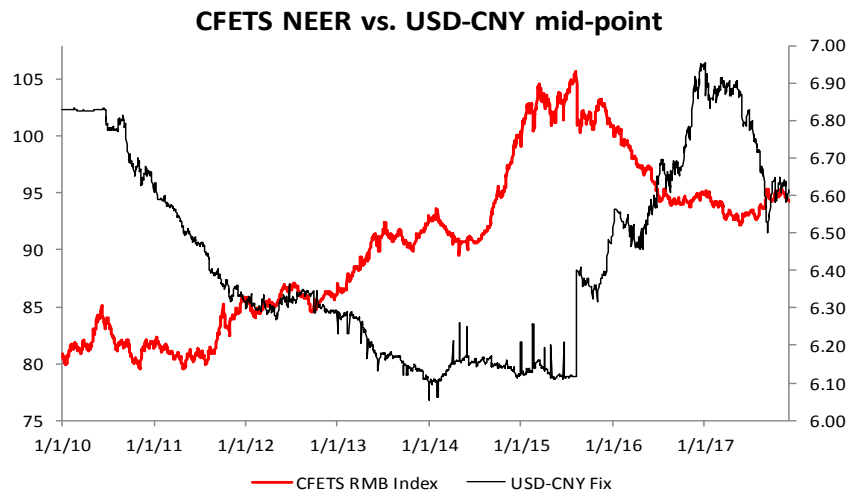
- Overall, we expect the **ACI (Asian Currency Index)** to tick higher into the week. Asian currencies may remain negatively pressured into the end of the week as risk sentiments dissipate and the equity outflows continue to plague the region
- Meanwhile, the **RBI** held rates unchanged as we expected. On the hold, the message sounded less hawkish than expected, adding some depreciation pressure to the INR.
- **SGD NEER:** The SGD NEER is firmer this morning at +0.95% above its perceived parity (1.3618). NEER-implied USD-SGD thresholds have continued to inch higher alongside the firming broad dollar complex. The +0.80% threshold at 1.3510 and +1.10% threshold at 1.3470 should demarcate the range.



| | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 125.44 | 0.95 | 1.3470 |
| +2.00% | 126.74 | | 1.3333 |
| Parity | 124.26 | | 1.3600 |
| -2.00% | 121.77 | | 1.3877 |

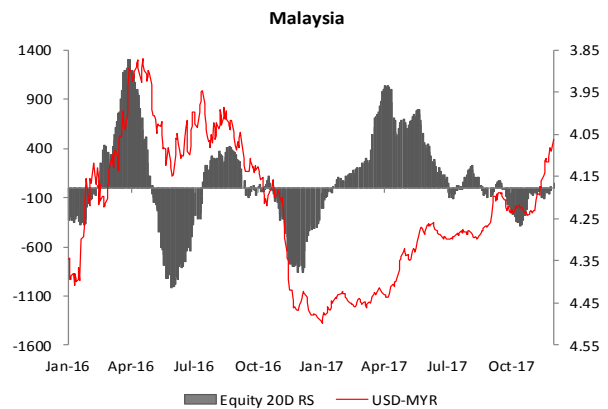
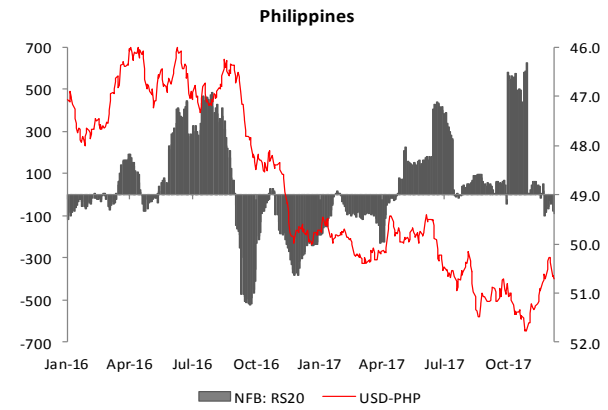
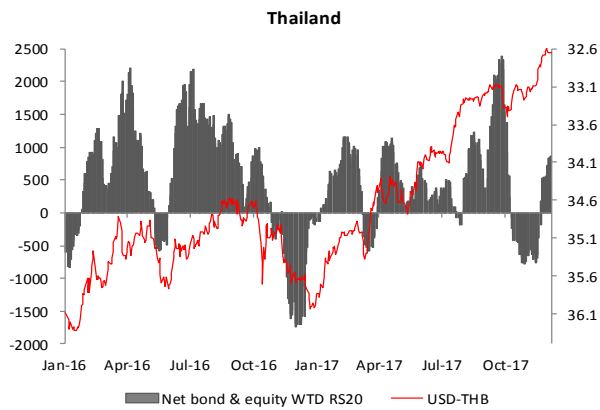
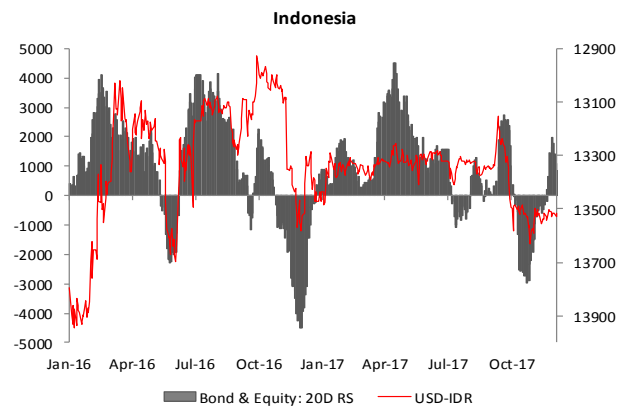
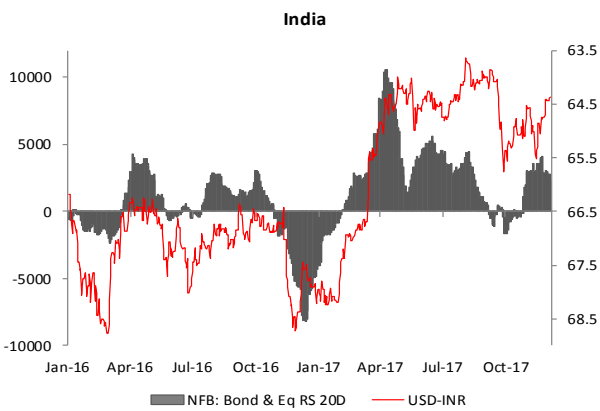
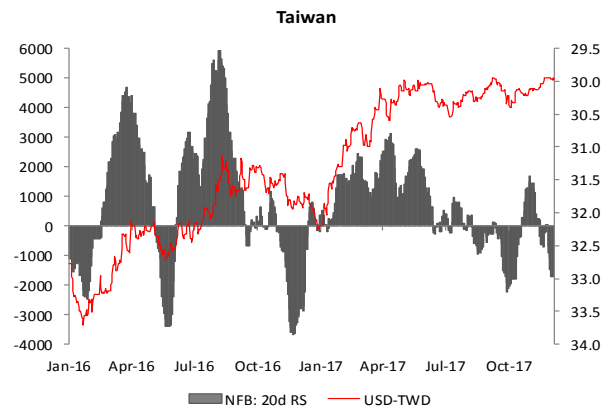
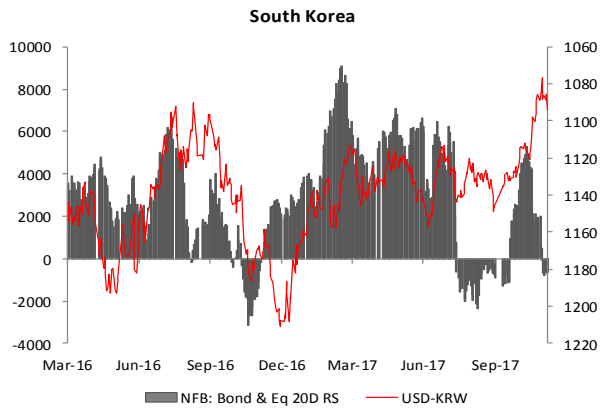
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point was set higher again this morning at 6.6195 from 6.6163 on Wednesday. The CFETS RMB Index firmed to 94.40 from 94.27 on Wednesday. We expect the CFETS RMB Index to remain confined within existing ranges into 2018.

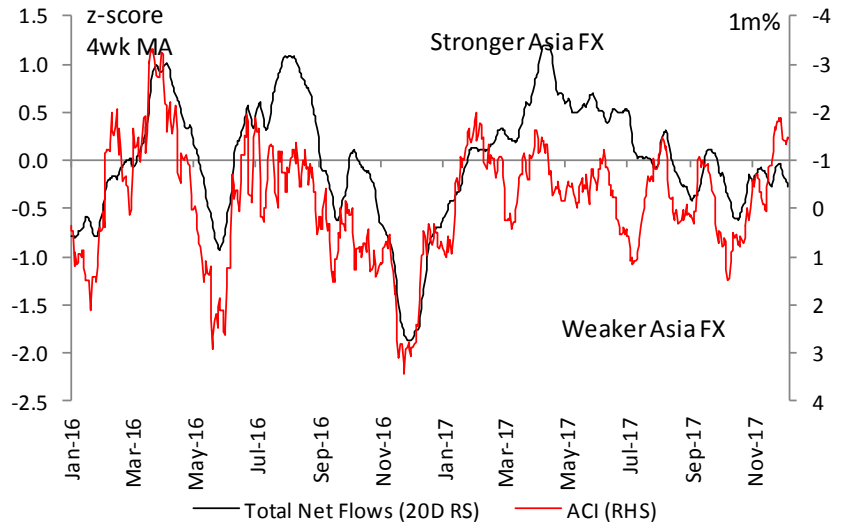


Source: OCBC Bank, Bloomberg

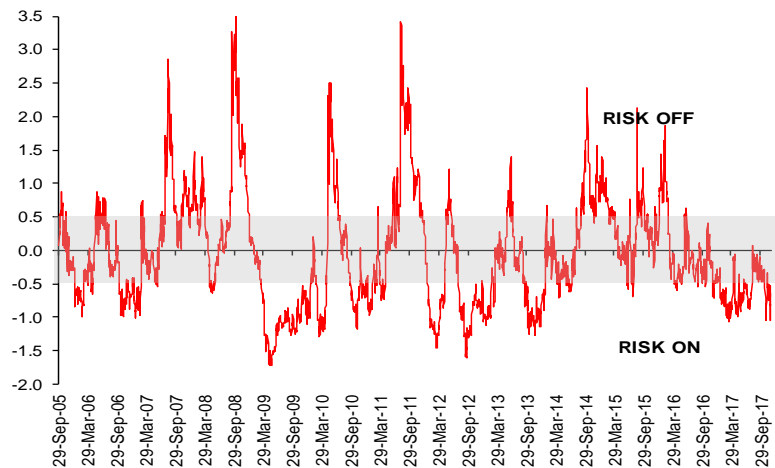
USD-Asia VS. Net Capital Flows



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 | 0.027 | 0.804 | -0.612 | 0.151 | 0.159 | 0.862 | -0.51 | -0.022 | 0.221 | 0.829 | -0.986 |
| CHF | 0.962 | 0.115 | 0.798 | -0.569 | 0.067 | 0.028 | 0.842 | -0.599 | 0 | 0.205 | 0.852 | -0.934 |
| SGD | 0.941 | 0.141 | 0.869 | -0.742 | 0.15 | 0.186 | 0.884 | -0.567 | 0.137 | 0.39 | 0.878 | -0.894 |
| TWD | 0.868 | 0.143 | 0.809 | -0.762 | 0.146 | 0.208 | 0.856 | -0.558 | 0.256 | 0.479 | 0.82 | -0.812 |
| PHP | 0.867 | 0.071 | 0.689 | -0.743 | 0.158 | 0.17 | 0.824 | -0.47 | 0.126 | 0.36 | 0.745 | -0.823 |
| JPY | 0.862 | 0.323 | 0.862 | -0.412 | -0.163 | 0.004 | 1 | -0.522 | 0.271 | 0.09 | 0.84 | -0.807 |
| KRW | 0.861 | 0.125 | 0.783 | -0.741 | 0.091 | 0.156 | 0.85 | -0.552 | 0.239 | 0.486 | 0.824 | -0.805 |
| THB | 0.859 | 0.032 | 0.743 | -0.767 | 0.186 | 0.24 | 0.839 | -0.436 | 0.174 | 0.405 | 0.747 | -0.817 |
| MYR | 0.845 | -0.031 | 0.689 | -0.806 | 0.351 | 0.44 | 0.736 | -0.352 | 0.004 | 0.419 | 0.668 | -0.807 |
| CNH | 0.829 | 0.392 | 0.945 | -0.613 | -0.069 | -0.003 | 0.84 | -0.645 | 0.326 | 0.364 | 1 | -0.785 |
| CNY | 0.804 | 0.357 | 1 | -0.588 | -0.053 | 0.048 | 0.862 | -0.599 | 0.25 | 0.259 | 0.945 | -0.771 |
| INR | 0.668 | 0.144 | 0.686 | -0.881 | 0.237 | 0.16 | 0.617 | -0.617 | 0.296 | 0.738 | 0.68 | -0.592 |
| AUD | 0.466 | -0.146 | 0.251 | -0.29 | 0.345 | 0.558 | 0.445 | 0.23 | -0.231 | -0.078 | 0.198 | -0.51 |
| NZD | 0.343 | -0.212 | 0.065 | -0.089 | 0.152 | 0.444 | 0.286 | 0.215 | -0.242 | -0.195 | 0.077 | -0.411 |
| IDR | 0.284 | 0.35 | 0.498 | -0.366 | -0.344 | -0.472 | 0.382 | -0.738 | 0.561 | 0.585 | 0.491 | -0.19 |
| CCN12M | 0.146 | 0.488 | 0.415 | 0.354 | -0.622 | -0.373 | 0.425 | -0.179 | 0.439 | -0.265 | 0.436 | -0.125 |
| USGG10 | 0.027 | 1 | 0.357 | 0.198 | -0.247 | -0.108 | 0.323 | -0.151 | 0.376 | 0.029 | 0.392 | 0.027 |
| CAD | -0.103 | 0.193 | -0.096 | 0.194 | -0.107 | -0.175 | -0.121 | -0.206 | -0.078 | -0.074 | -0.025 | 0.143 |
| GBP | -0.805 | 0.143 | -0.609 | 0.914 | -0.46 | -0.333 | -0.585 | 0.473 | 0.026 | -0.64 | -0.648 | 0.774 |
| EUR | -0.986 | 0.027 | -0.771 | 0.569 | -0.205 | -0.232 | -0.807 | 0.41 | 0.119 | -0.149 | -0.785 | 1 |

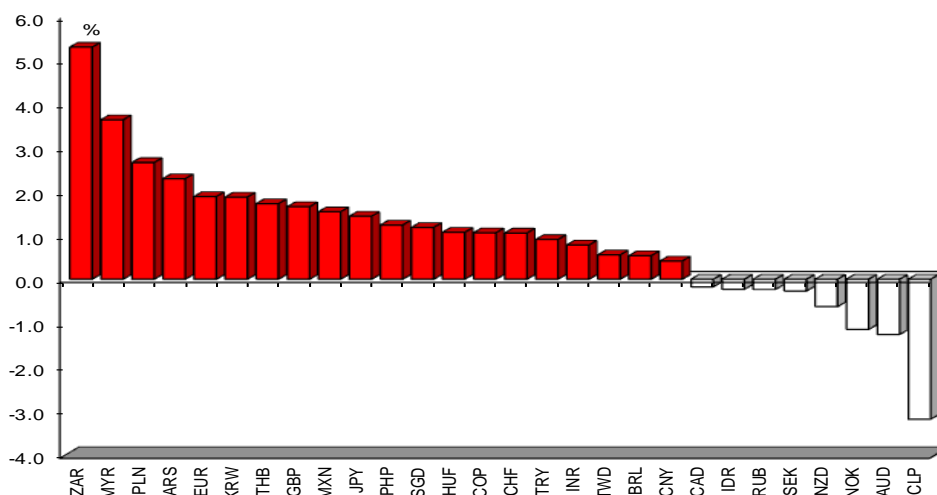
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1759 | 1.1800 | 1.1806 | 1.1900 | 1.1955 |
| GBP-USD | 1.3242 | 1.3300 | 1.3383 | 1.3400 | 1.3545 |
| AUD-USD | 0.7532 | 0.7538 | 0.7550 | 0.7600 | 0.7653 |
| NZD-USD | 0.6800 | 0.6807 | 0.6858 | 0.6900 | 0.6936 |
| USD-CAD | 1.2700 | 1.2750 | 1.2800 | 1.2878 | 1.2917 |
| USD-JPY | 111.67 | 112.00 | 112.40 | 112.82 | 113.00 |
| USD-SGD | 1.3402 | 1.3420 | 1.3483 | 1.3500 | 1.3565 |
| EUR-SGD | 1.5854 | 1.5900 | 1.5917 | 1.5952 | 1.6000 |
| JPY-SGD | 1.1905 | 1.1932 | 1.1995 | 1.2000 | 1.2024 |
| GBP-SGD | 1.7962 | 1.8000 | 1.8045 | 1.8100 | 1.8197 |
| AUD-SGD | 1.0140 | 1.0173 | 1.0179 | 1.0200 | 1.0387 |
| Gold | 1259.52 | 1260.00 | 1262.40 | 1266.39 | 1279.60 |
| Silver | 15.60 | 15.80 | 15.87 | 15.87 | 15.90 |
| Crude | 54.95 | 56.10 | 56.17 | 56.20 | 59.02 |

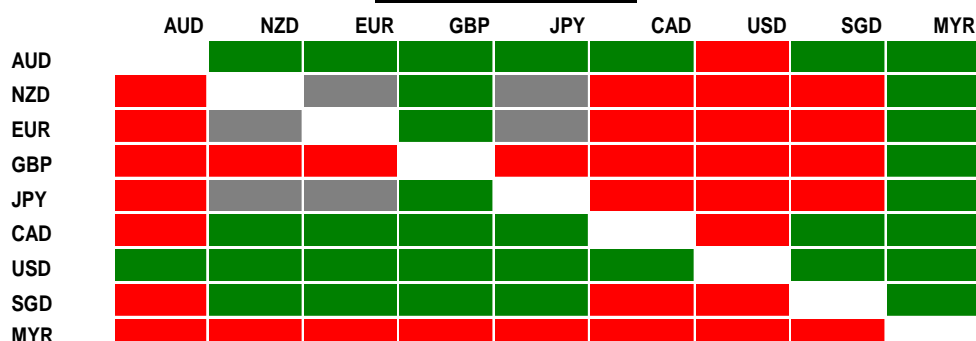
Source: OCBC Bank

FX performance: 1-month change agst USD



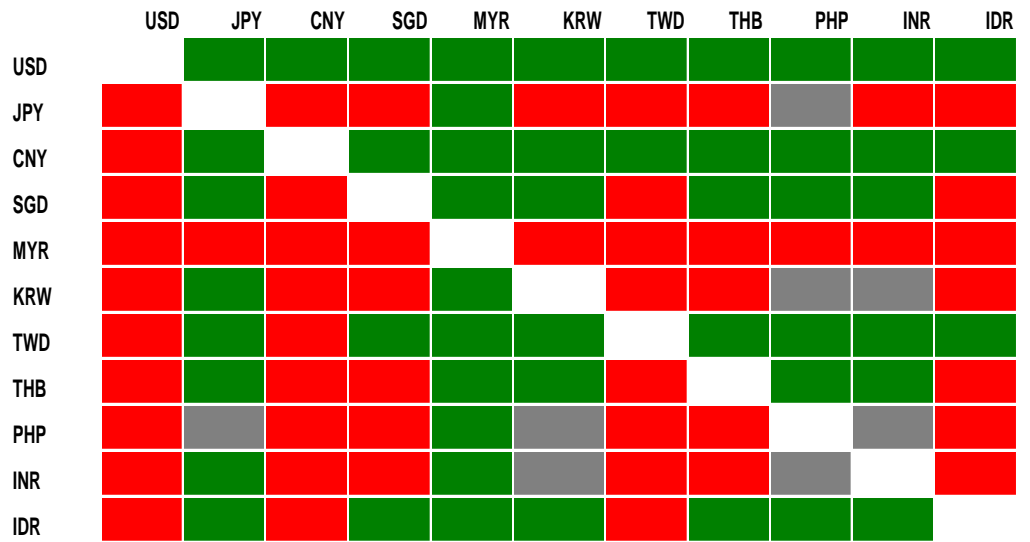
Source: Bloomberg

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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