

Friday, December 08, 2017

FX Themes/Strategy/Trading Ideas

- Supportive political headlines, firmer 10y UST yields, and data coming in as expected all contributed to a stronger USD against the G10 currencies. The GBP was the exception, snapping a losing streak to gain against all its G10 peers, amid news that PM May is making a last ditch attempt to close a deal with EU negotiators. Meanwhile, the AUD-USD continued to lose altitude as it nears a support level at the 0.75 handle. The JPY was weighed down by improving risk sentiments.
- The Congress passed a debt ceiling extension without much fuss, freeing up the legislative timetable to focus on the tax reform package. Reports of a Trump announcement in January detailing his infrastructure plan also gave the dollar complex a boost. Undoubtedly, the infrastructure plan will initiate another round of intense debate, but we hold back any excitement pending further details. Overall, political developments have been constructive.
- Meanwhile, both short- and long-end yield differentials continue to advantage the broad dollar. The DXY reacted higher on political and yield differential developments, powering through technical levels, and moving into the striking range of the 94.0 handle. We look for the dollar to hold this advantage into the end of the week.
- On the data front, expect US non-farm payrolls to headline a suite of labour market indicators, and UMich consumer sentiments. This round of NFP data may come too late to significantly shift the **FOMC's** plans for next week. Next week will be a heavy week for central bank meetings, with the FOMC on Wednesday, and the **ECB** and **BOE** on Thursday. A hike from the Federal Reserve next week is well anticipated, so the attention would most likely be on the dot plot as the market examines if there is a shift in Fed's rate hike path for 2018. Similarly for the ECB and BOE, watch for any hints of their monetary stances in 2018.

Asian FX

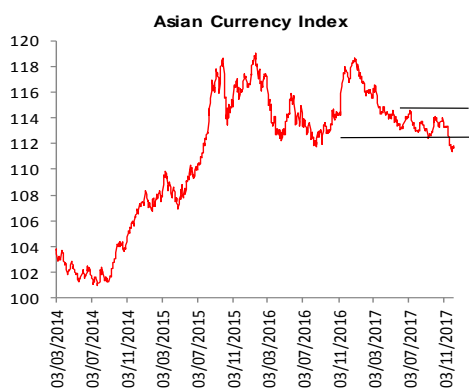
- Risk sentiments may see some pick up today, as the positive lead from US/EZ/JP equities contributed in most Asian equities opening in the black this morning. Moreover, the tech sector continued to stabilize. The **FXSI (FX Sentiment Index)** moved into the Risk-On zone after staying in the Neutral zone yesterday.
- In terms of **net portfolio flows** in Asia, outflows are picking up swiftly for the TWD, and to a smaller extent, the KRW. The KRW has reacted lower in response to the outflows, but the TWD is still resilient. Outflow momentum is also

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building for the PHP. Inflow momentum continued to be strong for the THB, while the MYR is beginning to experience some net inflows. For the INR and IDR, however, inflow momentum has started to fade, primarily due to equity outflows.

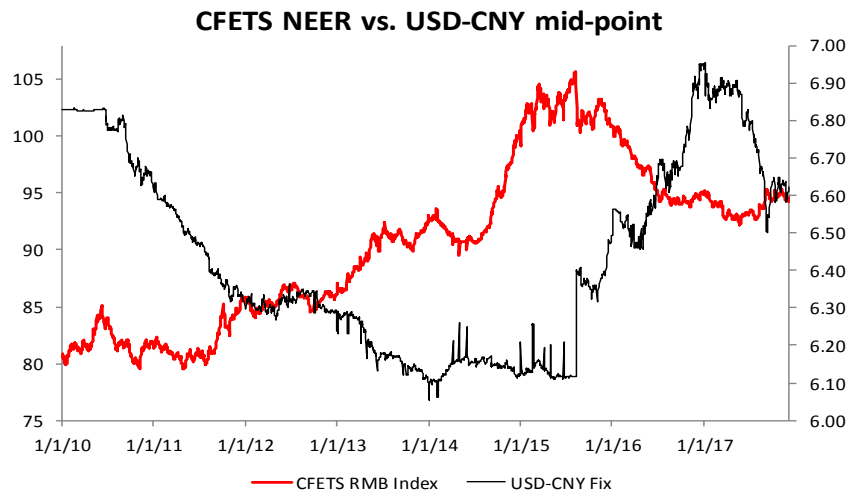
- Improving risk sentiments may give Asian currencies some support. However, this effect may be outweighed by persistent equity outflows in the region and broad dollar momentum. The PBOC appears to be tolerant towards the softening the RMB amid broad dollar strength. This might be a cue that Asian currencies take up into the end of the week. Overall, we expect the **ACI (Asian Currency Index)** to drift higher in this session.
- The **BI** and **BSP** are scheduled to meet on Thursday next week. We expect both central banks to hold their fire.
- **SGD NEER:** The SGD NEER is softer this morning at +0.87% above its perceived parity (1.3643). In-line with recent dollar strength, the NEER-implied USD-SGD thresholds have continued to push higher. At this point, the +0.80% threshold is estimated at 1.3535 and +1.10% threshold at 1.3494. The confluence of 55-day MA and 100-day MA at 1.3565 may also attract.



	SGD NEER	% deviation	USD-SGD
Current	125.42	0.94	1.3519
+2.00%	126.74		1.3375
Parity	124.26		1.3643
-2.00%	121.77		1.3921

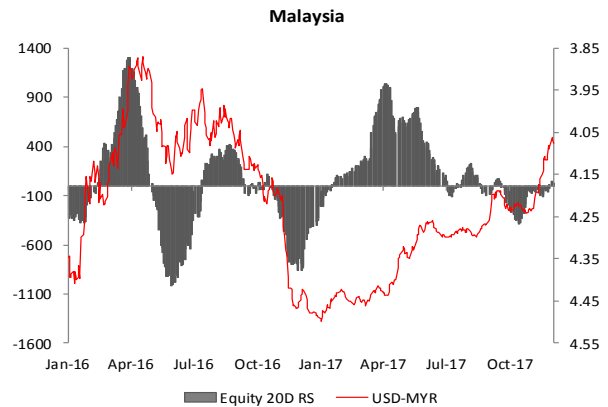
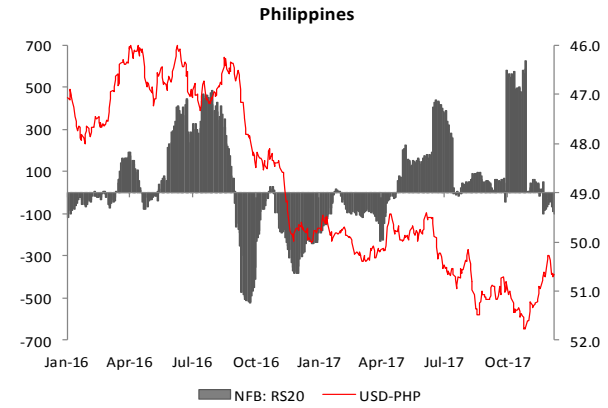
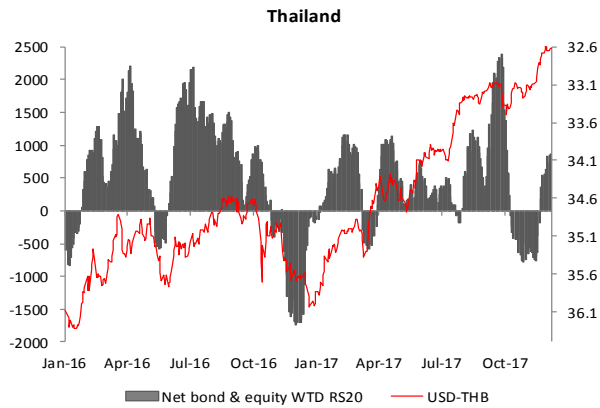
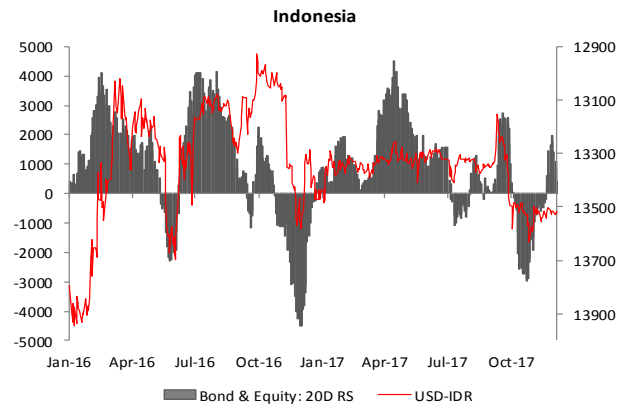
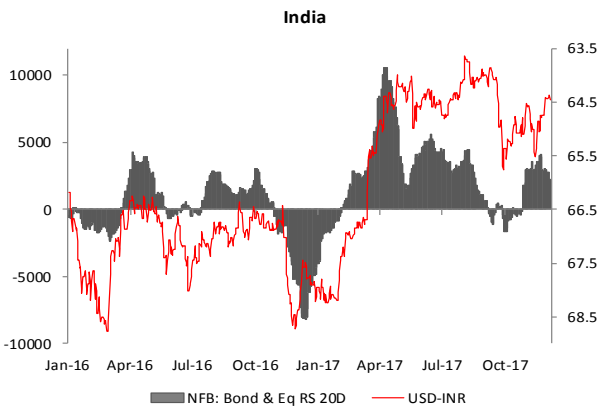
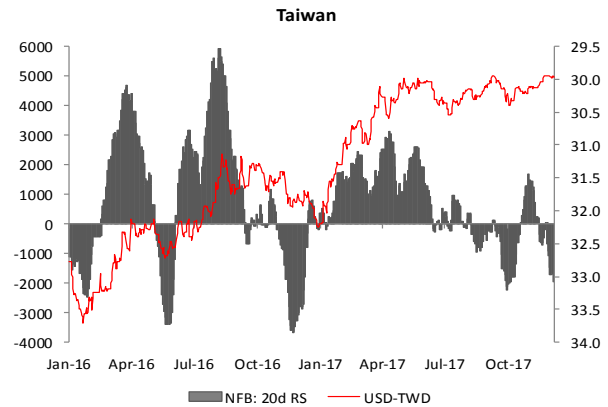
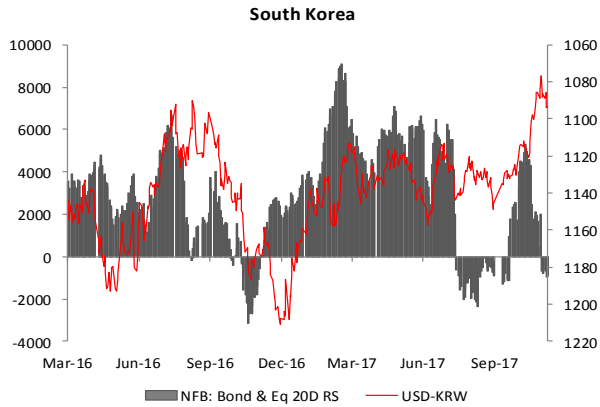
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point moved higher, as expected, to 6.6218 from 6.6195 on Thursday. As highlighted previously, we expect little discretionary impetus into the end of the year from the PBOC over the midpoint fixes. Today's fix above the 6.62 handle, amidst a revival of the broad dollar this week, appear to support this view. The CFETS RMB Index firmed to 94.59 from 94.40 on Thursday.

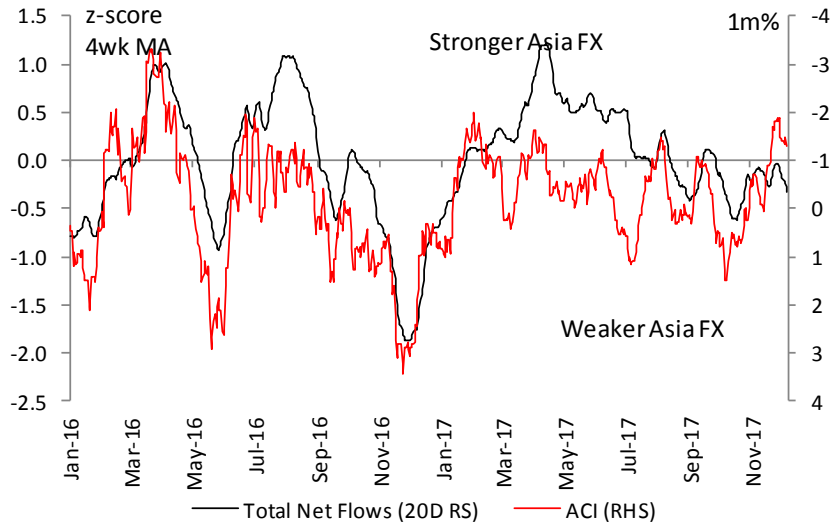


Source: OCBC Bank, Bloomberg

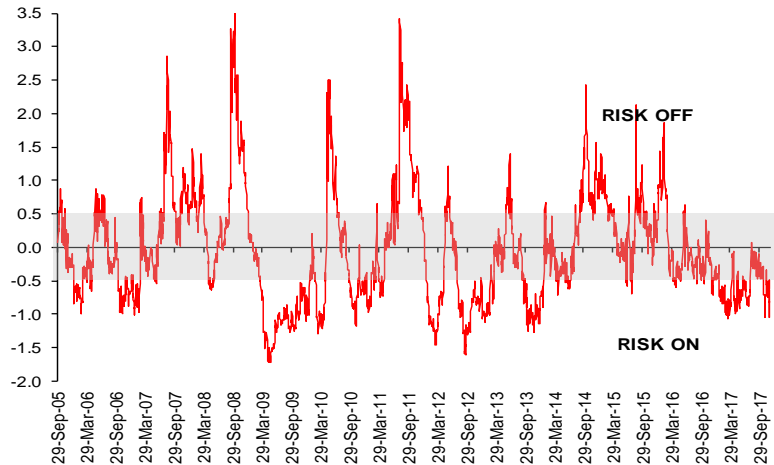
USD-Asia VS. Net Capital Flows



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	0.19	0.783	-0.584	0.075	0.035	0.831	-0.606	0.082	0.441	0.844	-0.983
CHF	0.938	0.289	0.732	-0.474	-0.072	-0.164	0.833	-0.665	0.061	0.365	0.83	-0.902
SGD	0.928	0.284	0.86	-0.74	0.115	0.117	0.835	-0.668	0.263	0.622	0.895	-0.874
KRW	0.854	0.195	0.769	-0.727	0.088	0.137	0.797	-0.583	0.318	0.63	0.812	-0.796
CNH	0.844	0.478	0.945	-0.578	-0.095	-0.042	0.826	-0.677	0.38	0.466	1	-0.798
TWD	0.842	0.21	0.788	-0.763	0.163	0.21	0.772	-0.604	0.357	0.647	0.805	-0.784
JPY	0.831	0.503	0.816	-0.335	-0.269	-0.154	1	-0.607	0.365	0.24	0.826	-0.764
PHP	0.824	0.17	0.657	-0.746	0.162	0.15	0.725	-0.507	0.243	0.58	0.727	-0.777
THB	0.8	0.109	0.704	-0.789	0.226	0.26	0.715	-0.493	0.307	0.642	0.724	-0.757
CNY	0.783	0.474	1	-0.574	-0.072	0.016	0.816	-0.626	0.353	0.403	0.945	-0.748
MYR	0.773	0.039	0.638	-0.839	0.392	0.446	0.587	-0.419	0.14	0.675	0.641	-0.735
INR	0.671	0.178	0.679	-0.875	0.271	0.206	0.581	-0.609	0.355	0.863	0.663	-0.592
IDR	0.422	0.376	0.47	-0.218	-0.454	-0.563	0.574	-0.668	0.415	0.461	0.504	-0.319
AUD	0.282	-0.166	0.171	-0.366	0.473	0.66	0.155	0.205	-0.066	0.065	0.113	-0.335
NZD	0.273	-0.22	0.043	-0.142	0.234	0.488	0.149	0.238	-0.166	-0.131	0.042	-0.351
CCN12M	0.196	0.562	0.402	0.407	-0.661	-0.461	0.523	-0.148	0.365	-0.304	0.454	-0.168
USGG10	0.19	1	0.474	0.176	-0.228	-0.061	0.503	-0.175	0.308	-0.1	0.478	-0.13
CAD	-0.095	0.275	-0.125	0.283	-0.251	-0.344	-0.026	-0.213	-0.117	-0.079	-0.021	0.145
GBP	-0.711	0.134	-0.549	0.923	-0.516	-0.405	-0.402	0.451	-0.081	-0.786	-0.577	0.688
EUR	-0.983	-0.13	-0.748	0.543	-0.135	-0.11	-0.764	0.495	0.021	-0.364	-0.798	1

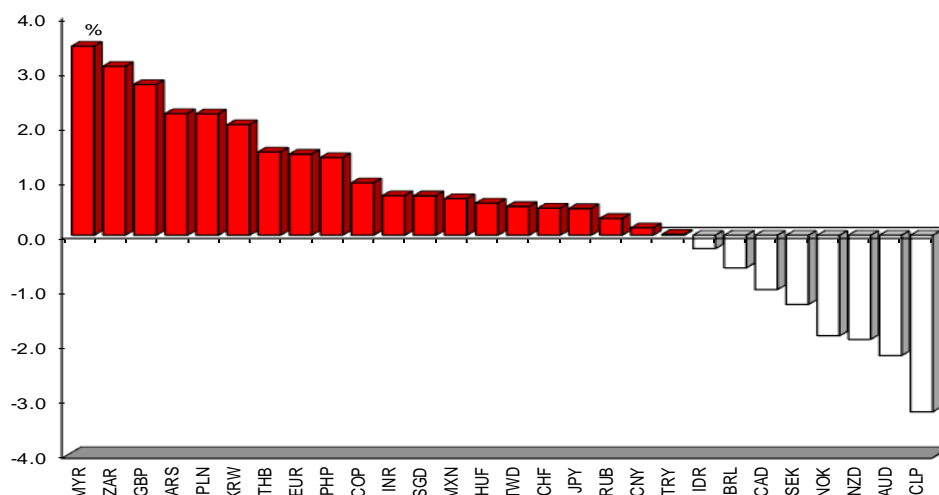
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1758	1.1768	1.1800	1.1945
GBP-USD	1.3245	1.3400	1.3478	1.3500	1.3550
AUD-USD	0.7500	0.7502	0.7513	0.7519	0.7600
NZD-USD	0.6800	0.6805	0.6837	0.6900	0.6926
USD-CAD	1.2690	1.2800	1.2855	1.2896	1.2900
USD-JPY	112.85	113.00	113.33	113.85	114.00
USD-SGD	1.3420	1.3500	1.3521	1.3565	1.3600
EUR-SGD	1.5861	1.5900	1.5912	1.5949	1.6000
JPY-SGD	1.1905	1.1917	1.1931	1.2000	1.2021
GBP-SGD	1.7966	1.8200	1.8224	1.8259	1.8267
AUD-SGD	1.0137	1.0143	1.0158	1.0200	1.0361
Gold	1200.00	1243.90	1246.50	1250.43	1266.28
Silver	15.60	15.63	15.66	15.70	16.84
Crude	54.97	56.60	56.63	56.70	58.99

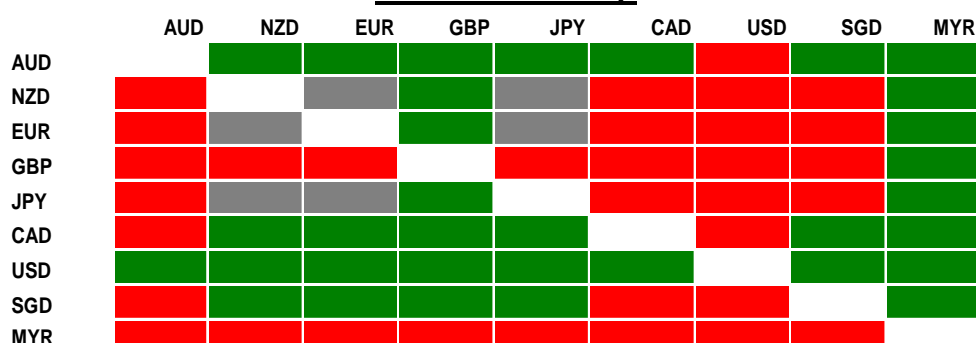
Source: OCBC Bank

FX performance: 1-month change agst USD



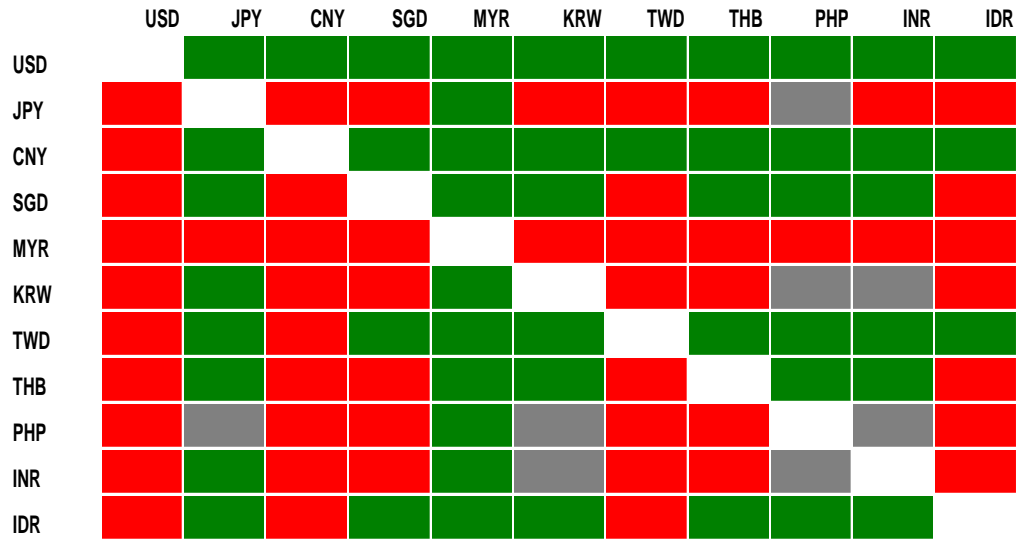
Source: Bloomberg

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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