

Wednesday, December 13, 2017

FX Themes/Strategy/Trading Ideas

- With the exception of the antipodeans, the USD is broadly firmer against its G10 peers. Stronger than expected US PPI data, together with firmer UST yields, provided the tailwinds for the broad dollar. The AUD held on to recent upward momentum after failing to break through the 0.7500 support level. Meanwhile, the EUR retreated against all G10 counterparts ahead of the ECB meeting.
- **The FOMC meeting is underway today**, with the policy decision coming in later in the global day. As the tax reform package progresses, the question is when and how will Fed officials start to factor it into their decision making. Some have suggested that the fiscal considerations may add a fourth hike to 2018, reflected in the upcoming dot plot. **We think crystalizing a fourth hike in 2018 at this stage is somewhat premature.**
- Positive data surprises, and the nominal 10y UST regaining the 2.40% handle, provided support for the broad dollar. This is further supported by a growing yield advantage, which is increasingly getting the attention of the market. Some tax reform headlines may be also be expected later today, as Trump looks to nudge House and Senate lawmakers towards resolving the differences in the tax reform package. **Overall, the preconditions appear supportive of the dollar in the near term, but eyes will still be on the FOMC decision later.**
- UK CPI numbers printed at 3.10% yoy, some way ahead of the 2% official target. This might put further spotlight on **BOE's** upcoming policy decision. Meanwhile, the GBP continued to be plagued by political headlines, as May faced challenges in the UK Parliament over the Brexit repeal bill.
- In the midst of the excitement over core central bank policy decisions, we have BOJ's Kuroda (0900 GMT) also scheduled to speak.

Asian FX

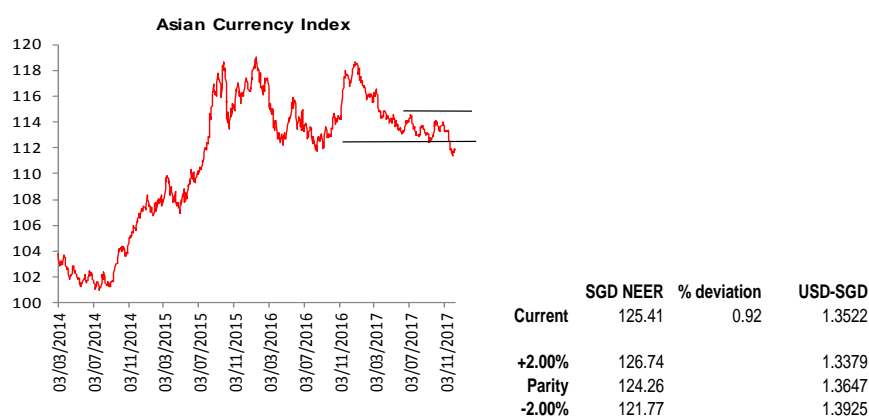
- US/EZ equities provided a positive lead overnight, with US equities rising yet again to another record. However, Asian equities faced a mixed opening. Overall, risk sentiments still appear supported heading into the confluence of central bank meetings. The **FXSI (FX Sentiment Index)** continued to consolidate within the Risk-On zone. Ahead of the confluence of central bank decisions, we continue to expect caution in the markets, and for the **ACI (Asian Currency Index)** remain largely flat intraday.
- On the **net actual portfolio flows** front, equity outflows continued to plague

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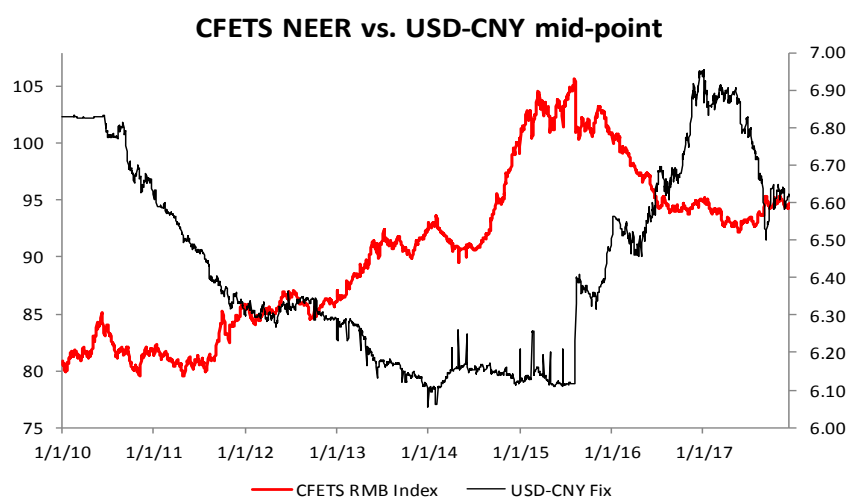
Asia. Where bond flows are significant, such as the KRW, INR, IDR and THB, the overall situation is somewhat better as bond inflows balance out equity outflows. On net, the inflow momentum continued to abate for the INR and IDR, while outflows for TWD continued to remain at elevated levels.

- Apart from the core central banks, the **BI** and **BSP** is also schedule to announce their policy decisions on Thursday.
- **SGD NEER:** The SGD NEER is softer this morning at +0.92% above its perceived parity (1.3647). NEER-implied USD-SGD thresholds are marginally firmer, with the +0.80% threshold estimated at 1.3539 and +1.10% threshold at 1.3499. On the data front, retail sales remained in the doldrums, falling 0.1% yoy, compared to consensus estimate of a 1.0% yoy gain.



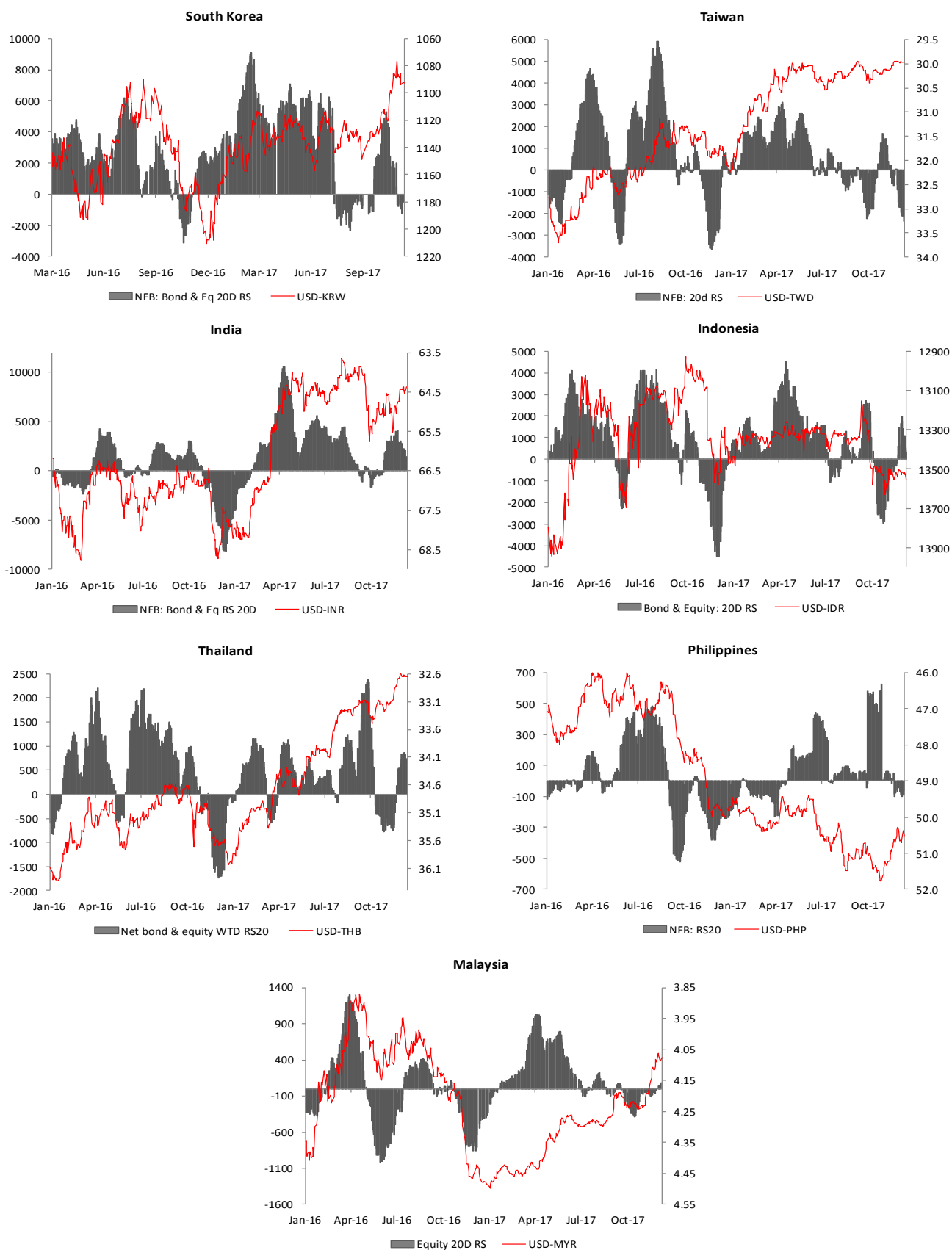
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point was fixed higher, within expectations, at 6.6251 from 6.6162 on Tuesday. The CFETS RMB Index slipped to 94.60 from 94.62 on Tuesday.

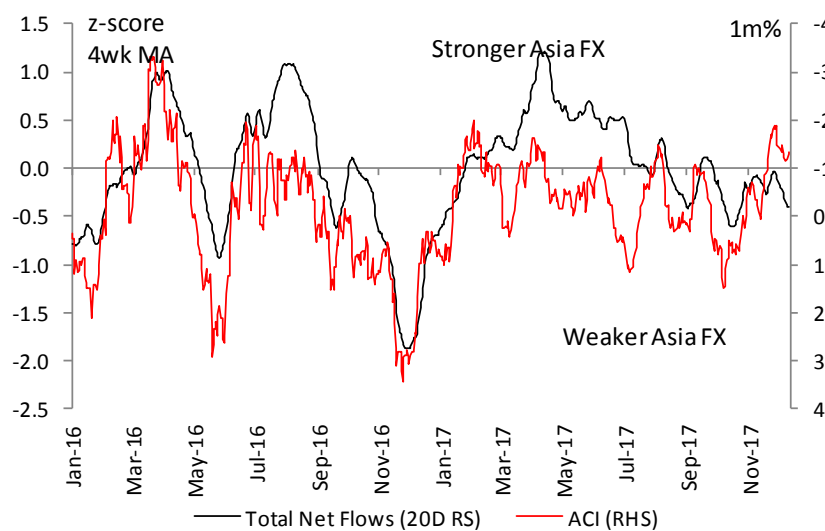


Source: OCBC Bank, Bloomberg

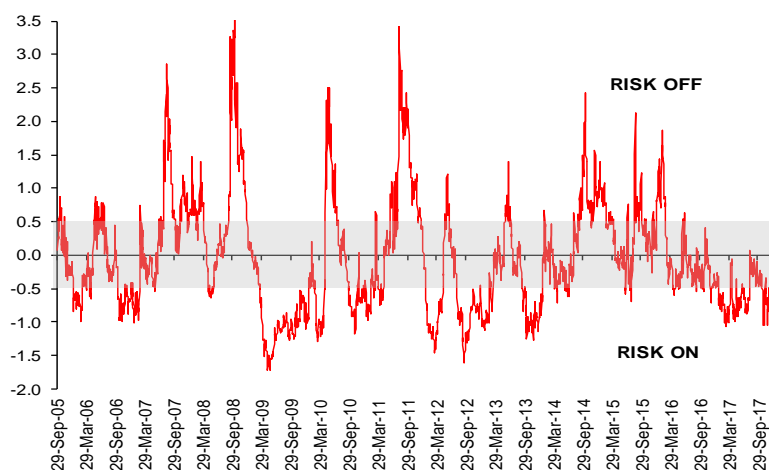
USD-Asia VS. Net Capital Flows



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	0.4	0.759	-0.21	-0.186	-0.458	0.782	-0.656	0.095	0.468	0.864	-0.975
CHF	0.937	0.455	0.717	-0.125	-0.308	-0.557	0.775	-0.646	0.032	0.34	0.853	-0.903
SGD	0.873	0.354	0.855	-0.547	-0.031	-0.137	0.698	-0.744	0.367	0.713	0.903	-0.802
CNH	0.864	0.507	0.935	-0.356	-0.259	-0.282	0.763	-0.737	0.389	0.442	1	-0.818
IDR	0.812	0.507	0.593	0.171	-0.509	-0.705	0.855	-0.468	0.02	0.172	0.652	-0.732
JPY	0.782	0.731	0.731	0.166	-0.541	-0.653	1	-0.452	0.188	0.097	0.763	-0.693
CNY	0.759	0.498	1	-0.403	-0.204	-0.167	0.731	-0.706	0.409	0.393	0.935	-0.728
KRW	0.725	0.179	0.707	-0.61	-0.026	-0.037	0.585	-0.685	0.484	0.759	0.751	-0.631
TWD	0.654	0.183	0.722	-0.713	0.105	0.119	0.515	-0.729	0.594	0.815	0.737	-0.582
THB	0.581	0.013	0.603	-0.79	0.188	0.162	0.399	-0.643	0.572	0.877	0.586	-0.456
PHP	0.521	0.007	0.518	-0.77	0.146	0.13	0.322	-0.659	0.559	0.811	0.582	-0.457
INR	0.518	-0.029	0.599	-0.861	0.323	0.329	0.264	-0.638	0.497	0.915	0.561	-0.48
MYR	0.452	-0.101	0.516	-0.878	0.42	0.426	0.13	-0.587	0.462	0.943	0.48	-0.348
USGG10	0.4	1	0.498	0.417	-0.336	-0.316	0.731	-0.059	0	-0.277	0.507	-0.365
CAD	0.281	0.516	0.081	0.415	-0.302	-0.466	0.389	-0.089	-0.358	-0.191	0.256	-0.28
CCN12M	0.114	0.474	0.325	0.471	-0.772	-0.504	0.495	-0.105	0.263	-0.403	0.361	-0.091
NZD	-0.133	0.076	-0.335	0.295	0.022	-0.03	0.053	0.361	-0.17	-0.225	-0.247	0.015
AUD	-0.362	-0.362	-0.192	-0.475	0.528	0.704	-0.454	0.12	0.373	0.255	-0.315	0.352
GBP	-0.602	0.106	-0.47	0.789	-0.484	-0.247	-0.21	0.538	-0.23	-0.908	-0.519	0.575
EUR	-0.975	-0.365	-0.728	0.214	0.115	0.389	-0.693	0.553	-0.027	-0.434	-0.818	1

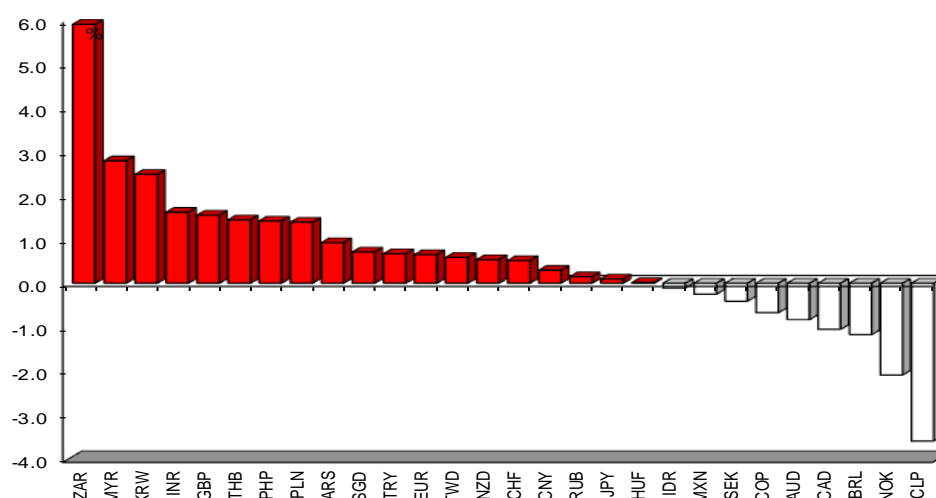
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1695	1.1700	1.1743	1.1758	1.1800
GBP-USD	1.3248	1.3300	1.3319	1.3400	1.3537
AUD-USD	0.7502	0.7509	0.7560	0.7600	0.7643
NZD-USD	0.6900	0.6939	0.6940	0.6947	0.6980
USD-CAD	1.2713	1.2800	1.2870	1.2900	1.2909
USD-JPY	112.90	113.00	113.51	113.98	114.00
USD-SGD	1.3423	1.3500	1.3523	1.3559	1.3576
EUR-SGD	1.5800	1.5848	1.5880	1.5900	1.5943
JPY-SGD	1.1895	1.1900	1.1914	1.2000	1.2011
GBP-SGD	1.7963	1.8000	1.8012	1.8100	1.8233
AUD-SGD	1.0155	1.0200	1.0223	1.0299	1.0300
Gold	1234.55	1236.50	1241.90	1266.08	1276.51
Silver	15.50	15.56	15.58	15.60	16.80
Crude	55.24	57.40	57.45	57.50	59.05

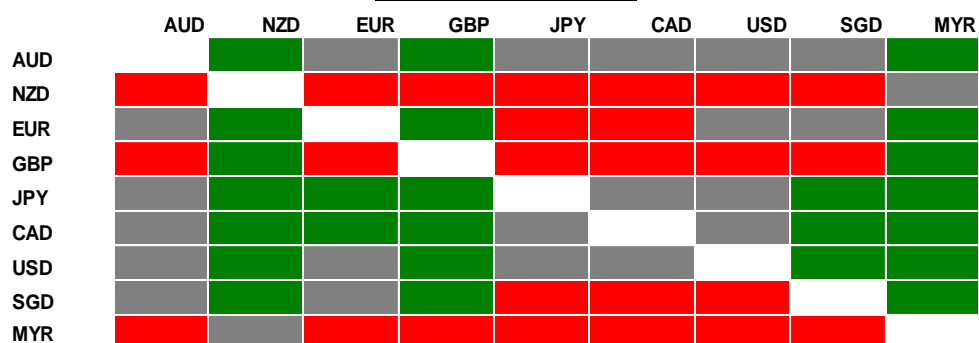
Source: OCBC Bank

FX performance: 1-month change agst USD



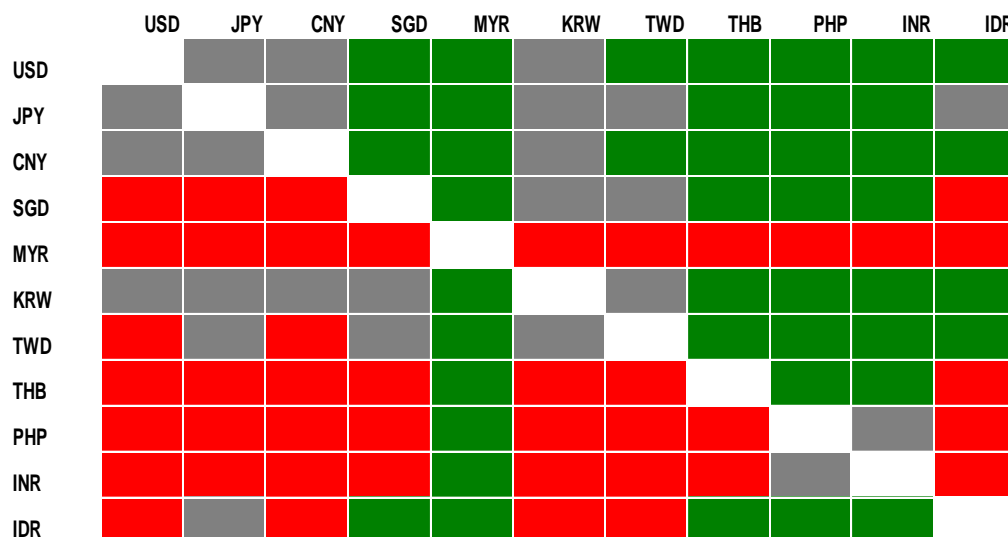
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

FX Trade Ideas								
	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
1	21-Nov-17		S	USD-SGD	1.3561	1.3415 1.3640	Little contagion in geopolitical risks, sanguine portfolio inflow environment, expected USD	
3	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 BOE?	
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	24-Oct-17	15-Nov-17	B	USD-SGD	1.3616	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience,	-0.54
2	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
3	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
4	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
5	07-Nov-17		S	AUD-USD	0.7671	0.7510 0.7755	RBA on hold, no inflation or rate hike urgency	
6	20-Nov-17		S	USD-JPY	112.07	109.80 113.25	Background risk aversion, little expectaions of hawkish surprises from the Fed	
2	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	
	Jan-Nov*** 2017 Return							-11.09
	2016 Return							+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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