

Thursday, December 14, 2017

FX Themes/Strategy/Trading Ideas

- Despite positive preconditions prior, the FOMC took the winds out of the sails of the USD. The USD moving lower against all its G10 peers, with the cyclicals and JPY outperforming. Weaker core CPI print (+1.7% yoy vs. consensus of +1.8% yoy), slumping nominal UST yields and yield differentials against other G10 currencies all contributed to the decline.
- **The Fed delivered on the expected 25 bps hike.** The accompanying statement retained the message from November, reiterating a positive growth outlook. One difference was that the labour market is now expected to “remain strong”, as opposed to “strengthen somewhat further”. This perhaps suggests that labour market improvements might slow down in 2018. Having two dissenters, Evans and Kashkari, added to the overall dovish tone. However, they are among the most noted doves within the Fed governors, and will not be voting next year. **Therefore, we might not want to read too much into the dissents.**
- **The median level in the dot plot still suggest three hikes in 2018, though one more member fell below the median level compared to September.** Consensus also appeared to coalesce to two hikes each in 2019 and 2020, where previously it was more diffused. Growth is upgraded to 2.5% in 2018%, perhaps an indication that the expansionary tax reform package is being factored into Fed’s considerations. Note, however, the positive impact is expected to dissipate from 2019 onwards, and that inflation forecasts for 2018 are not revised higher. Taken as a whole, the Fed may not be buying the story that tax reforms should accelerate its rate hike path. **Arguably, the FOMC message was softer than expected, and came without any hawkish surprise. This should put the dollar at a disadvantage going forward.**
- Meanwhile, the Republican Party’s surprise loss in the Alabama Senate race cuts their majority to 51-49, putting further challenges into Trump’s legislative agenda next year. However, the tax reform package should not be derailed, with a broad agreement between House and Senate Republicans reportedly reached, and Trump promising a “giant tax cut for Christmas”.
- In the UK, May’s Brexit repeal legislation was blocked, and the UK parliament may now have a final say on the Brexit terms and whether to leave the union come end-2019. This will likely not derail the existing agreement on the “divorce” settlement, but will put May in a difficult position in the EU Council meeting and in future trade negotiations.
- Post-FOMC, the attention shifts to the **ECB** (1245 GMT, Draghi press conference 1330 GMT) and **BOE** (1200 GMT) decisions. As previously

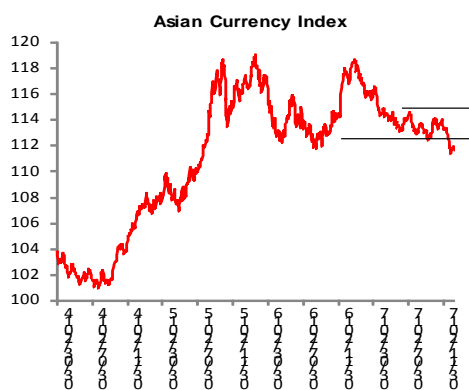
Treasury Research &
Strategy

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

mentioned here, we look for both central banks to hold their policy rates constant, with the ECB revising growth and inflation forecasts higher and the BOE retaining an overall accommodative tone.

Asian FX

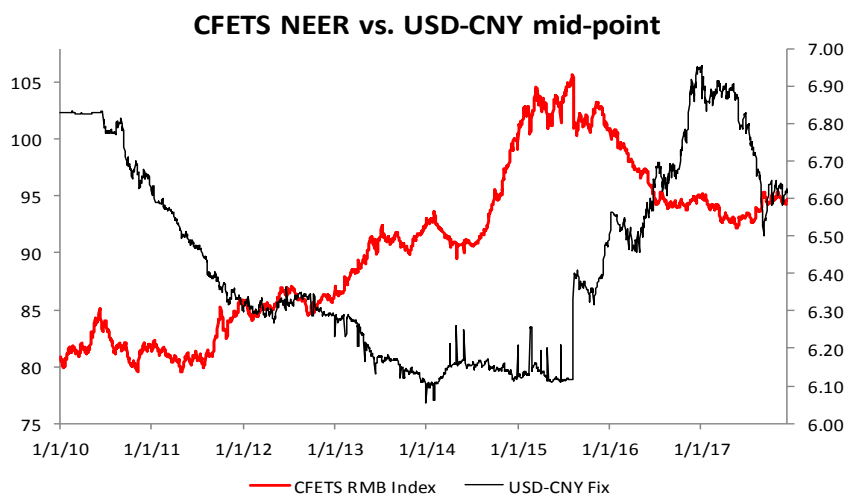
- US equities ended largely firmer, while European equities slipped. EM equities were also weaker overnight. EM FX, however, saw gains across the board against the dollar. Overall, Asian equities were mixed at opening. Although the **FXSI (FX Sentiment Index)** indicated some moderation of risk sentiments, we expect the **ACI (Asian Currency Index)** to move lower into the end of the week, in line with the negative dollar sentiment post-FOMC.
- In the Asian **net actual portfolio flows** front, bond inflows into KRW have been resilient in recent sessions, more than offsetting equity outflows. On a rolling 1M basis, net portfolio flows for KRW have nudged back into a slight inflow. Meanwhile, outflow momentum for TWD remained elevated, while the inflow momentum for INR and IDR continued to fade. Elsewhere, inflow momentum continues to build steadily for the MYR.
- Apart from the ECB and BOE, the **BI** and **BSP** (0800 GMT) are also schedule to announce their policy decisions today.
- **SGD NEER:** The SGD NEER is firmer this morning at +0.96% above its perceived parity (1.3602). NEER-implied USD-SGD thresholds are softer, in line with the decline in broad dollar. We continue to expect the range demarcated by the +0.80% threshold, estimated at 1.3495, and the +1.10% threshold, at 1.3455, to persist going forward.



	SGD NEER	% deviation	USD-SGD
Current	125.45	0.95	1.3464
+2.00%	126.74		1.3336
Parity	124.26		1.3602
-2.00%	121.77		1.3880

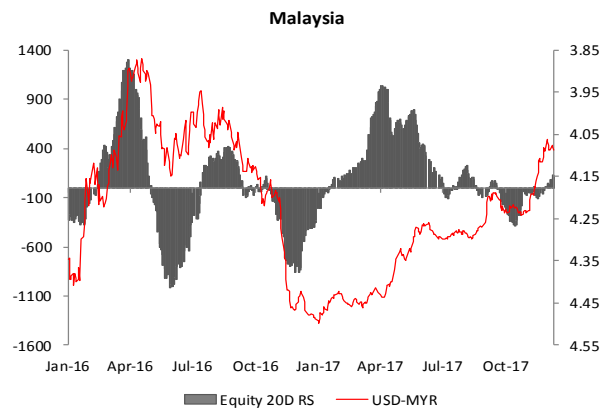
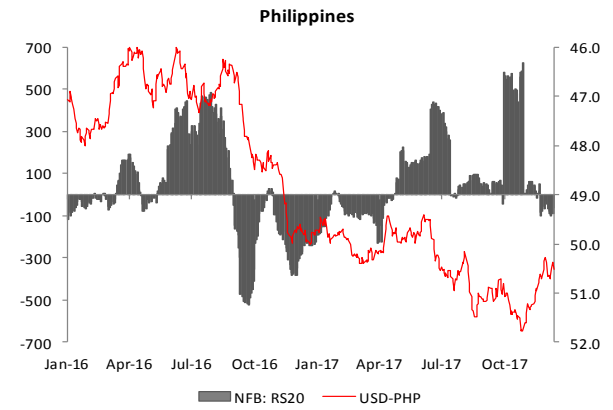
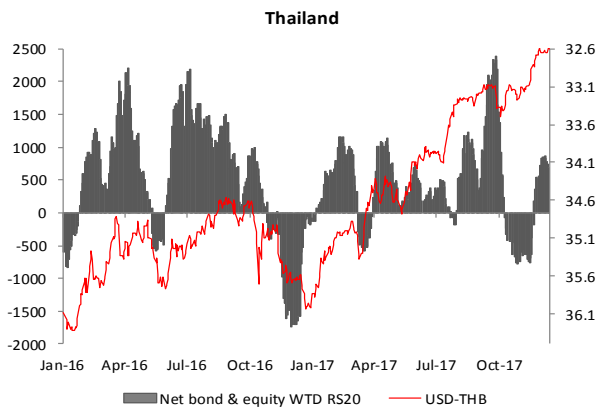
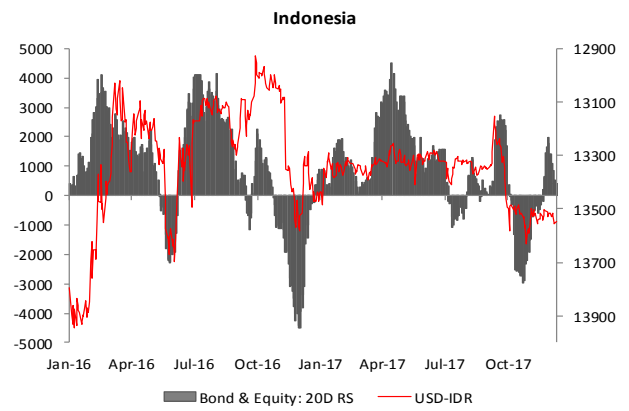
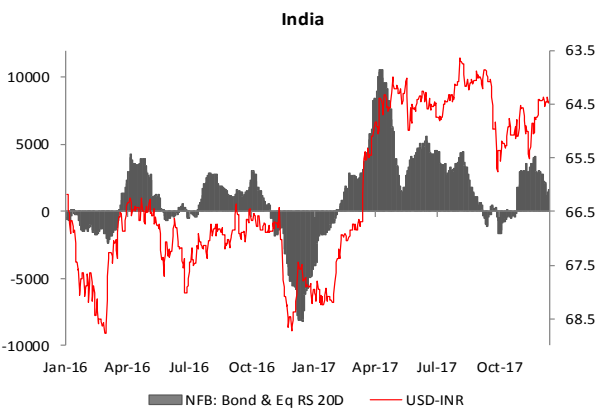
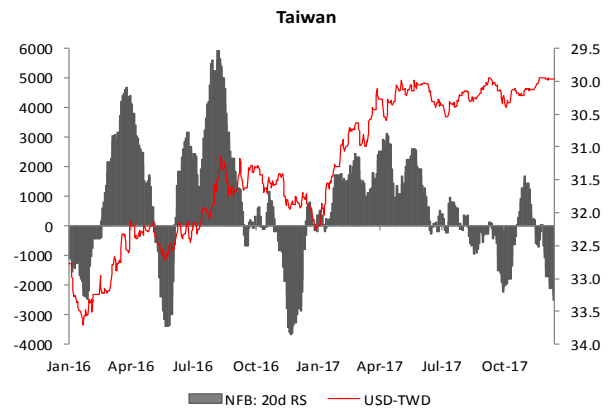
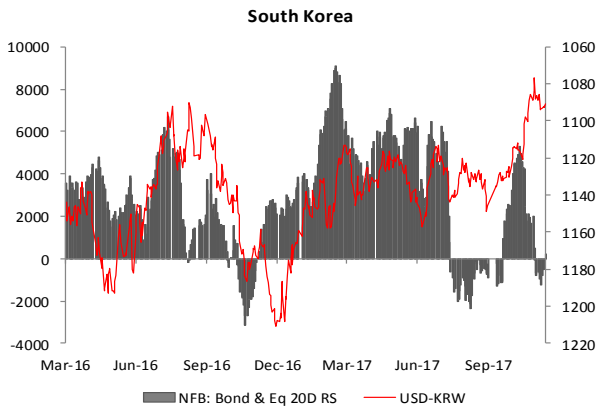
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fix was significantly lower, although still largely within expectations, at 6.6033 compared to 6.6251 on Wednesday. The CFETS RMB Index slipped to 94.44 from 94.60 on Wednesday.

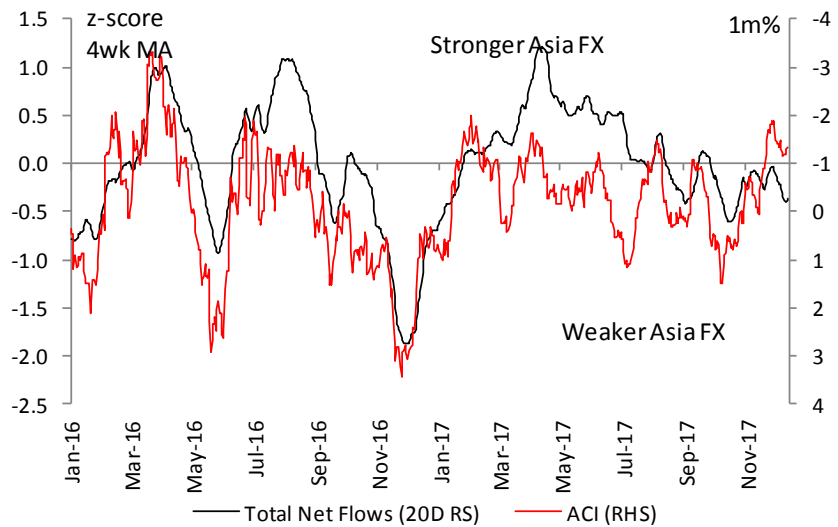


Source: OCBC Bank, Bloomberg

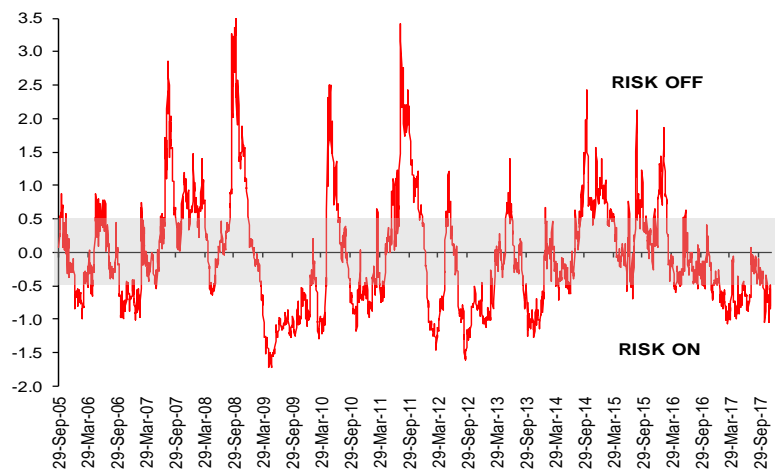
USD-Asia VS. Net Capital Flows



ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.288	0.71	-0.129	-0.267	-0.574	0.753	-0.69	0.023	0.416	0.829	-0.969
CHF	0.931	0.361	0.669	-0.073	-0.369	-0.604	0.73	-0.661	-0.022	0.287	0.828	-0.893
SGD	0.83	0.241	0.803	-0.54	-0.083	-0.175	0.629	-0.748	0.343	0.705	0.869	-0.744
CNH	0.829	0.405	0.922	-0.292	-0.347	-0.394	0.72	-0.788	0.357	0.387	1	-0.769
JPY	0.753	0.662	0.699	0.253	-0.614	-0.728	1	-0.497	0.139	0.02	0.72	-0.62
CNY	0.71	0.413	1	-0.319	-0.273	-0.285	0.699	-0.746	0.368	0.326	0.922	-0.672
IDR	0.645	0.314	0.487	0.374	-0.513	-0.84	0.722	-0.441	-0.084	0.03	0.494	-0.577
KRW	0.641	-0.002	0.642	-0.578	-0.104	-0.157	0.521	-0.737	0.473	0.771	0.686	-0.523
TWD	0.557	0.018	0.66	-0.689	0.059	0.035	0.433	-0.782	0.593	0.824	0.665	-0.452
THB	0.466	-0.105	0.501	-0.796	0.172	0.147	0.32	-0.626	0.571	0.894	0.518	-0.365
INR	0.406	-0.188	0.509	-0.86	0.314	0.299	0.147	-0.648	0.479	0.927	0.46	-0.347
PHP	0.399	-0.196	0.406	-0.766	0.119	0.087	0.204	-0.677	0.55	0.817	0.477	-0.303
CAD	0.383	0.543	0.152	0.407	-0.297	-0.453	0.414	-0.143	-0.349	-0.175	0.319	-0.337
MYR	0.331	-0.205	0.417	-0.871	0.419	0.393	0.047	-0.563	0.438	0.955	0.417	-0.268
USGG10	0.288	1	0.413	0.47	-0.394	-0.338	0.662	-0.043	-0.05	-0.379	0.405	-0.189
CCN12M	0.097	0.454	0.327	0.447	-0.782	-0.459	0.48	-0.117	0.265	-0.426	0.347	-0.022
NZD	-0.213	-0.153	-0.292	0.471	-0.059	-0.34	-0.017	0.134	-0.237	-0.284	-0.358	0.204
GBP	-0.51	0.277	-0.359	0.783	-0.485	-0.219	-0.077	0.522	-0.19	-0.915	-0.42	0.484
AUD	-0.535	-0.451	-0.289	-0.274	0.461	0.443	-0.44	0.073	0.275	0.156	-0.467	0.502
EUR	-0.969	-0.189	-0.672	0.124	0.197	0.524	-0.62	0.615	0.064	-0.375	-0.769	1

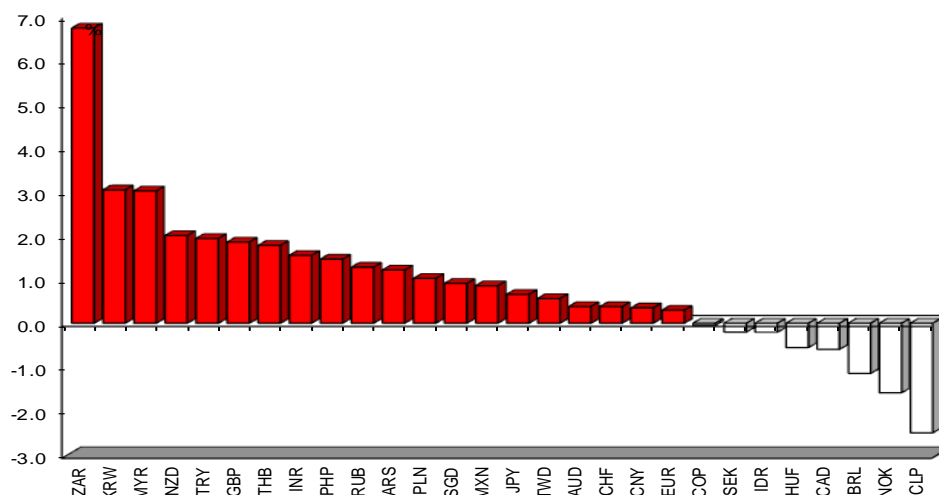
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1762	1.1800	1.1833	1.1900	1.1937
GBP-USD	1.3255	1.3400	1.3408	1.3500	1.3539
AUD-USD	0.7504	0.7600	0.7659	0.7663	0.7670
NZD-USD	0.6997	0.7000	0.7015	0.7028	0.7100
USD-CAD	1.2716	1.2800	1.2809	1.2900	1.2909
USD-JPY	111.65	112.00	112.73	112.88	113.00
USD-SGD	1.3400	1.3420	1.3469	1.3500	1.3555
EUR-SGD	1.5853	1.5900	1.5937	1.5943	1.6000
JPY-SGD	1.1895	1.1900	1.1948	1.2000	1.2009
GBP-SGD	1.7967	1.8000	1.8060	1.8100	1.8236
AUD-SGD	1.0300	1.0312	1.0317	1.0397	1.0400
Gold	1235.26	1236.50	1245.40	1266.10	1276.58
Silver	15.56	15.70	15.78	15.80	16.78
Crude	55.44	56.80	56.82	56.90	59.00

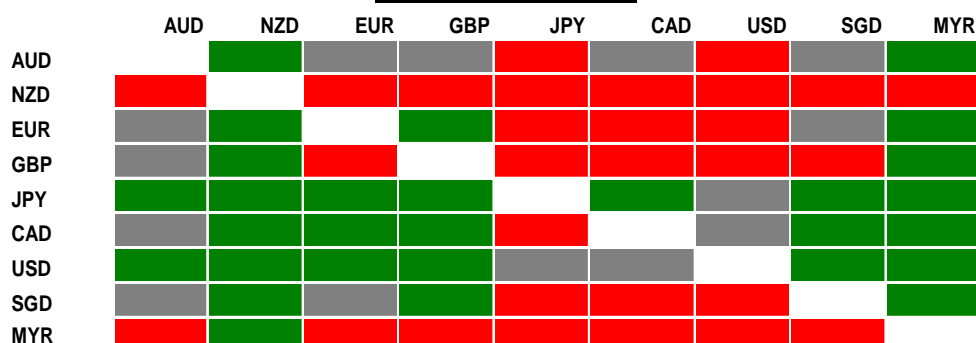
Source: OCBC Bank

FX performance: 1-month change agst USD



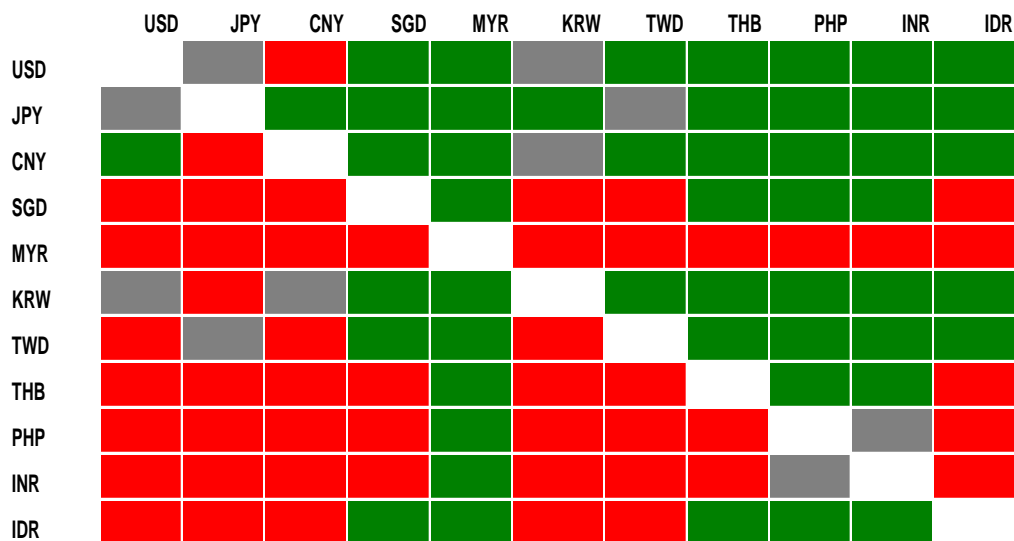
Source: Bloomberg

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	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 disappointment 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 expectations 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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