

Thursday, February 01, 2018

FX Themes/Strategy/Trading Ideas

- The greenback managed to bounce from intra-day lows after the FOMC statement and still managed to edge higher against the AUD and JPY by late NY. Meanwhile, BOJ jawboning (latest from Iwata on Wednesday) coupled with the BOJ increasing its bond buying in the 3-5 year sector saw the JPY underperforming across G10 space. AUD underperformed across the board (govie curve also marked lower) on the softer than expected 4Q CPI numbers. On the data front, the ADP headline came in at a better than expected +234k with the Chicago PMI also printing a better than expected 65.7. All eyes are now expected to turn to tomorrow's NFP numbers.
- The **FOMC** statement's characterization of employment, household spending, and business fixed investment improved slightly (describing the above mentioned as "solid") while also acknowledging the increase in recent months of market-based measures of inflation compensation. In addition, "Inflation on a 12-month basis is expected to move up this year...", but reiterating that it would be expected "to stabilize around the Committee's 2 percent objective over the medium term". **Overall, the statement brightened up subtly to accommodate the Fed-projected 3 rate hikes for 2018.**
- For today, the ECB's Praet (1115 GMT) and the BOE's Brazier are due to speak. Meanwhile, the data stream brings a slew of global/Asian manufacturing PMIs today (including the US ISM at 1500 GMT), with China's PMI releases (manufacturing and non-manufacturing) on Wednesday coming in softer than expected. Look towards the Caixin China manufacturing PMI at 0145 GMT for further cues. Elsewhere, India's budget announcement on Thursday will also be awaited for further cues.
- **Overall, we think that dollar bears were scratched but not fractured post-FOMC, and all eyes may remain trained on expected monetary policy shifts from the other major global central banks outside of the Fed. As such, expectations for the "dollar smile" to kick in may continue to disappoint for now.**
- With markets still single mindedly fixated on inherent USD vulnerability and ignoring other mitigating factors, the latest efforts by the BOJ to re-induce market perceived policy dovishness/neutrality may continue to fall on deaf ears. As such, USD-JPY may be poised for another leg down in the coming weeks. From a spot ref of 108.67, we initiate a structural short **USD-JPY** recommendation targeting 102.35 with a stop placed at 111.85.

Treasury Research &
Strategy

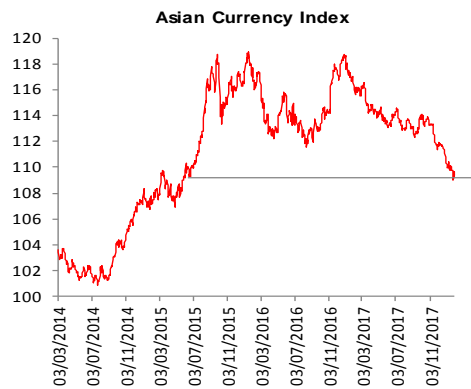
Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

Asian FX

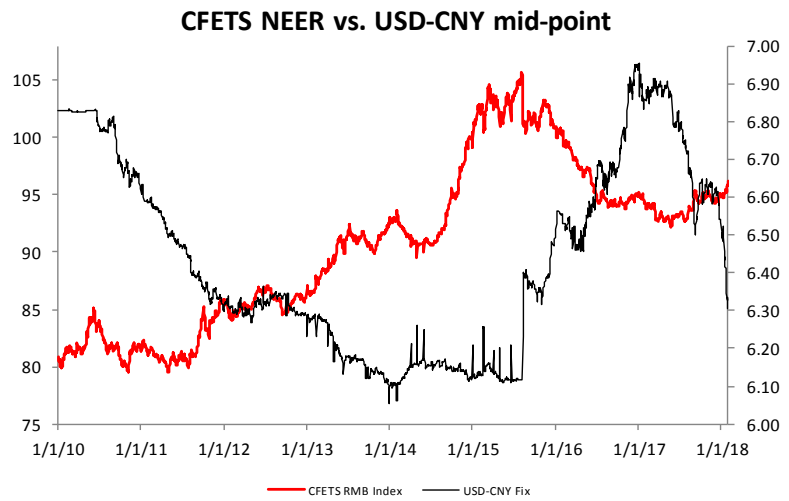
- A positive start to Asian equities (taking the cue from Wall Street and EM stocks overnight) may keep USD-Asia top heavy, given the feeble USD positivity post-FOMC. The breakdown in the USD-CNY and USD-CNH yesterday and the continued firming of the CFETS RMB Index meanwhile may also be expected to impose heaviness on the regional pairs despite continued discomfort from various regional central banks.
- Elsewhere, the **FXSI (FX Sentiment Index)** managed to inch lower within Risk-Neutral territory on Wednesday – indicating improving investor sentiment. With regards to net portfolio inflows in Asia, expect the KRW to derive relatively more some intrinsic support, while the TWD, IDR, THB, and PHP may have to contend with moderating inflow momentum of late. Overall, the **ACI (Asian Currency Index)** may continue to trade slightly consolidative intra-day, if not slightly top heavy.
- **SGD NEER:** The SGD NEER is lower again on the day at around +0.38% above its perceived parity (1.3157) with NEER-implied USD-SGD thresholds a touch lower despite the FOMC. At current levels, the +0.20% (1.3131) and +0.50% (1.3091) region may hold, with 1.3100 serving as a near term nexus.



	SGD NEER	% deviation	USD-SGD
Current	124.75	0.39	1.3105
+2.00%	126.74		1.2899
Parity	124.26		1.3157
-2.00%	121.77		1.3425

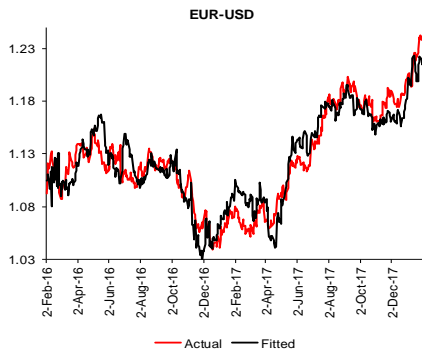
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fell to 6.3045 (slightly lower than we had expected) from 6.3339 yesterday. This caused the CFETS RMB Index to jump to 96.25 from 95.82 on Wednesday. To reiterate, the CFETS RMB Index remains on a negatively correlated tear from the broad dollar since late December 2017, resulting in a still heavy bias for the bilateral renminbi exchange rates.



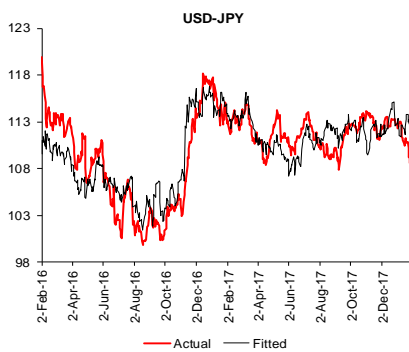
Source: OCBC Bank, Bloomberg

G7



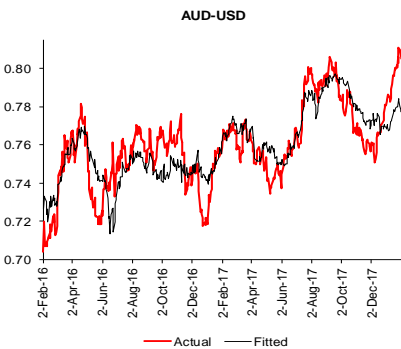
Source: OCBC Bank

- EUR-USD** EZ Jan CPI numbers saw the core reading firming to +1.0% yoy as expected from +0.90% the previous month. Meanwhile, the ECB's Coeure on Wednesday also attempted hawkish expectations but note that short term implied valuations have ticked higher instead. As such, we'd expect investors to attempt to base build off 1.2380/00 with greater confidence towards 1.2500.



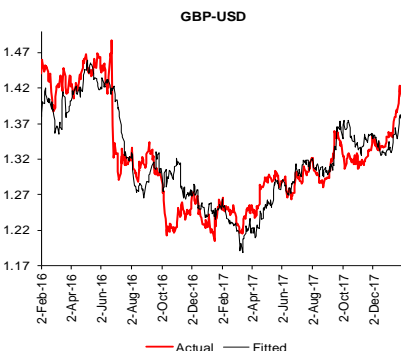
Source: OCBC Bank

- USD-JPY** Short term implied valuations have edged slightly higher and the latest BOJ efforts to dispel undue policy hawkishness may be rubbing off slightly in the near term. Preference however to still fade upticks to 110.00 if the DXY wobbles further.



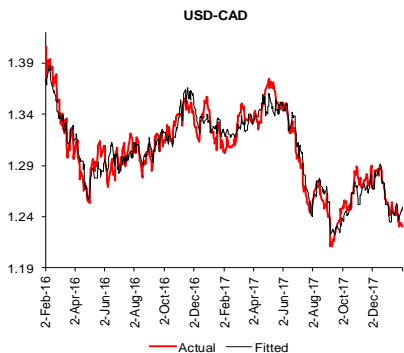
Source: OCBC Bank

- AUD-USD** With recent news flow from the home front (note disappointing Dec building approvals) not doing any favors for the AUD (or govie yields), the pair may look to consolidate south in the near term. Short term implied valuations have also continued to slip in recent sessions and a further retracement towards 0.8000 cannot be discounted at this juncture.



Source: OCBC Bank

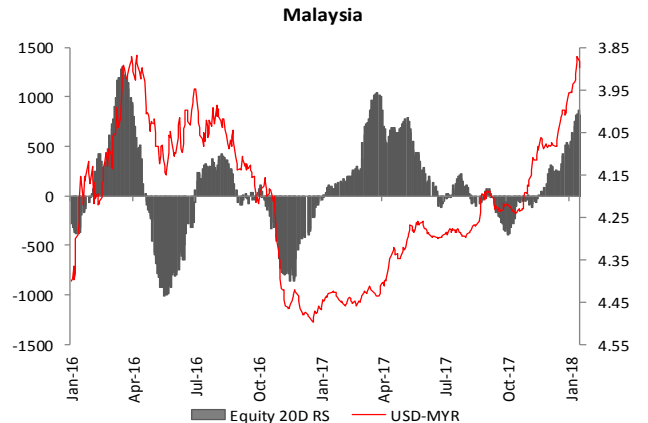
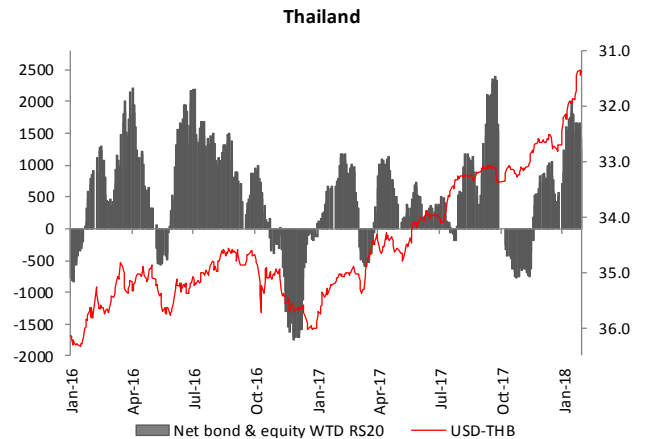
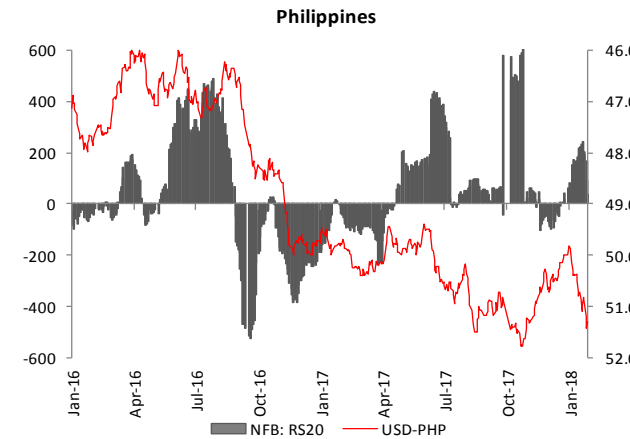
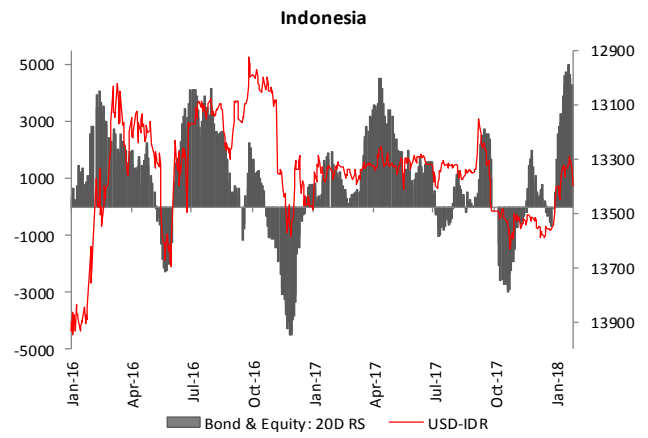
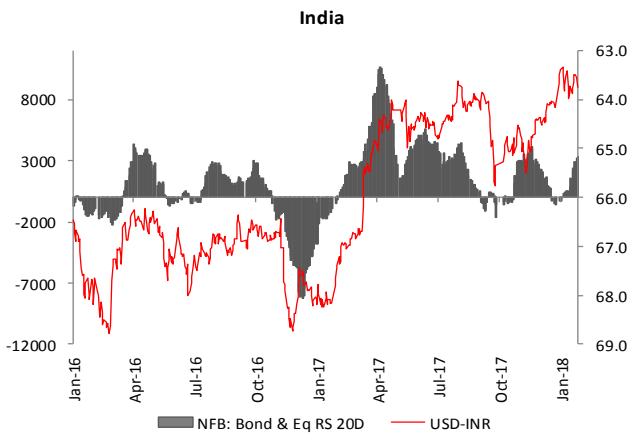
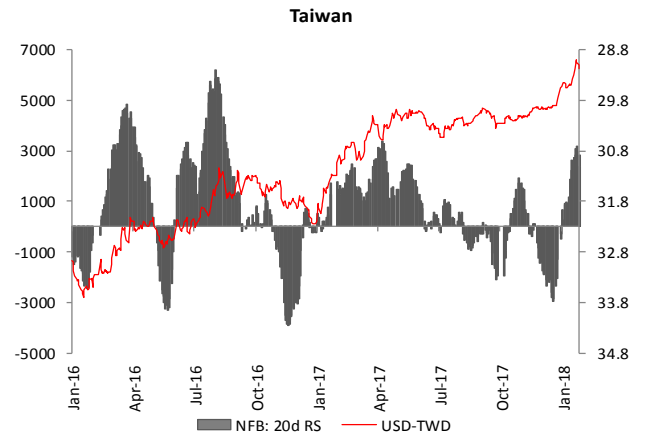
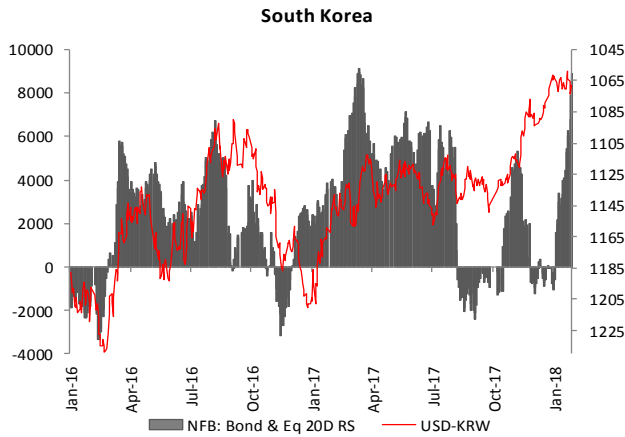
- GBP-USD** Following supportive comments from the BOE's Carney on Tuesday, GBP managed to ride on the coattails of the EUR and implicit USD vulnerability on Wednesday despite less than friendly EU-Brexit headlines. Short term implied valuations have edged higher and this may encourage an attempt to stage a breakout beyond 1.4200 towards 1.4300.



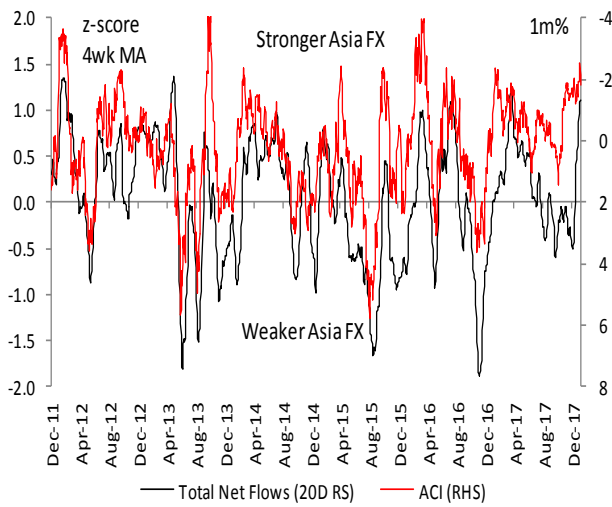
Source: OCBC Bank

- **USD-CAD** Recovering crude and a soggy greenback worked towards a softer USD-CAD on Wednesday. Meanwhile, with short term implied valuations for the USD-CAD continuing to be largely range bound but the pair looking slightly stretched on the down side, look to fade rallies towards 1.2350 instead, keeping an eye out for 1.2280.

USD-Asia VS. Net Capital Flows

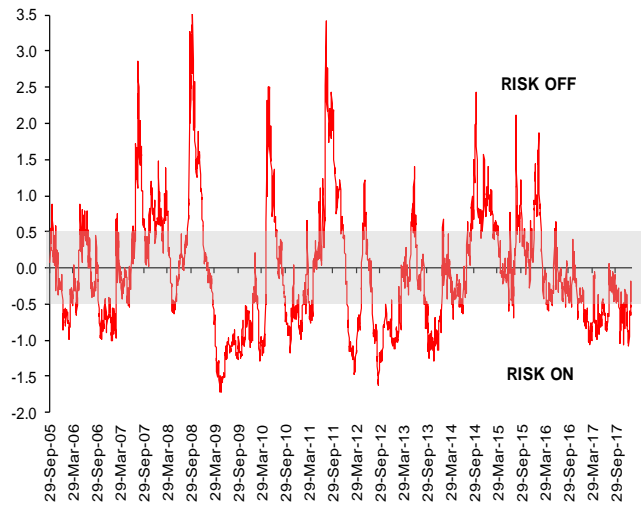


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXYSGG10	CNY	SPXMSLCA	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR		
DXY	1	-0.856	0.969	-0.892	-0.866	-0.89	0.943	-0.826	-0.824	-0.595	0.978	-0.987
CNH	0.978	-0.858	0.995	-0.875	-0.866	-0.862	0.918	-0.781	-0.811	-0.579	1	-0.964
SGD	0.975	-0.779	0.952	-0.867	-0.86	-0.908	0.915	-0.8	-0.725	-0.546	0.962	-0.977
CNY	0.969	-0.865	1	-0.86	-0.87	-0.856	0.91	-0.769	-0.826	-0.672	0.995	-0.951
CHF	0.963	-0.814	0.98	-0.825	-0.82	-0.883	0.932	-0.781	-0.824	-0.632	0.977	-0.949
MYR	0.962	-0.873	0.975	-0.955	-0.937	-0.896	0.931	-0.868	-0.772	-0.53	0.978	-0.942
THB	0.944	-0.874	0.967	-0.896	-0.891	-0.881	0.951	-0.87	-0.81	-0.743	0.967	-0.925
JPY	0.943	-0.864	0.91	-0.874	-0.845	-0.904	1	-0.898	-0.804	-0.647	0.918	-0.935
TWD	0.842	-0.758	0.909	-0.816	-0.886	-0.832	0.816	-0.738	-0.662	-0.449	0.901	-0.81
CAD	0.84	-0.73	0.848	-0.76	-0.842	-0.713	0.77	-0.683	-0.709	-0.266	0.88	-0.834
CCN12M	0.706	-0.481	0.716	-0.551	-0.477	-0.567	0.592	-0.502	-0.473	-0.454	0.753	-0.737
IDR	0.661	-0.563	0.579	-0.819	-0.71	-0.589	0.613	-0.77	-0.366	-0.131	0.617	-0.687
KRW	-0.102	0.44	-0.076	0.245	0.221	0.041	-0.186	0.261	0.336	0.253	-0.069	0.025
INR	-0.293	0.366	-0.166	0.434	0.28	0.124	-0.269	0.389	0.337	0.297	-0.166	0.257
USGG10	-0.856	1	-0.865	0.891	0.898	0.734	-0.864	0.812	0.869	0.557	-0.858	0.81
PHP	-0.864	0.96	-0.856	0.88	0.882	0.718	-0.87	0.814	0.897	0.794	-0.842	0.818
NZD	-0.885	0.894	-0.845	0.952	0.9	0.745	-0.886	0.882	0.753	0.429	-0.877	0.885
AUD	-0.973	0.908	-0.946	0.938	0.904	0.875	-0.937	0.85	0.827	0.538	-0.954	0.961
GBP	-0.98	0.875	-0.969	0.905	0.893	0.874	-0.919	0.815	0.793	0.549	-0.974	0.969
EUR	-0.987	0.81	-0.951	0.874	0.828	0.883	-0.935	0.809	0.79	0.582	-0.964	1

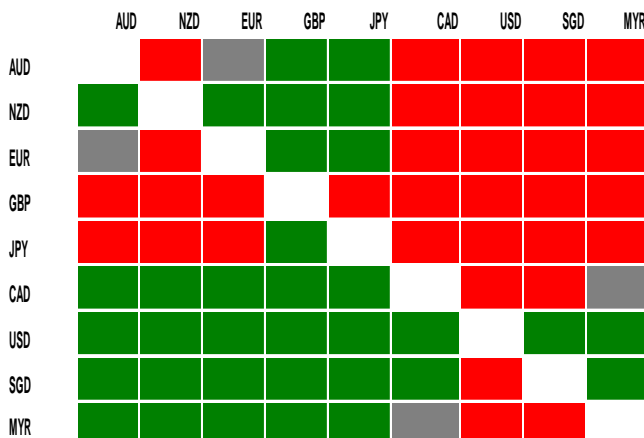
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2015	1.2400	1.2417	1.2500	1.2537
GBP-USD	1.3599	1.4200	1.4201	1.4300	1.4345
AUD-USD	0.7802	0.8000	0.8041	0.8100	0.8136
NZD-USD	0.7149	0.7300	0.7360	0.7400	0.7410
USD-CAD	1.2272	1.2300	1.2311	1.2400	1.2544
USD-JPY	108.28	109.00	109.32	110.00	111.71
USD-SGD	1.3020	1.3100	1.3125	1.3200	1.3336
EUR-SGD	1.6020	1.6200	1.6297	1.6300	1.6325
JPY-SGD	1.1926	1.2000	1.2005	1.2093	1.2095
GBP-SGD	1.8136	1.8600	1.8638	1.8688	1.8700
AUD-SGD	1.0500	1.0519	1.0554	1.0600	1.0630
Gold	1300.72	1309.41	1342.40	1359.42	1365.40
Silver	17.04	17.20	17.27	17.30	17.53
Crude	64.00	64.50	64.80	66.47	66.66

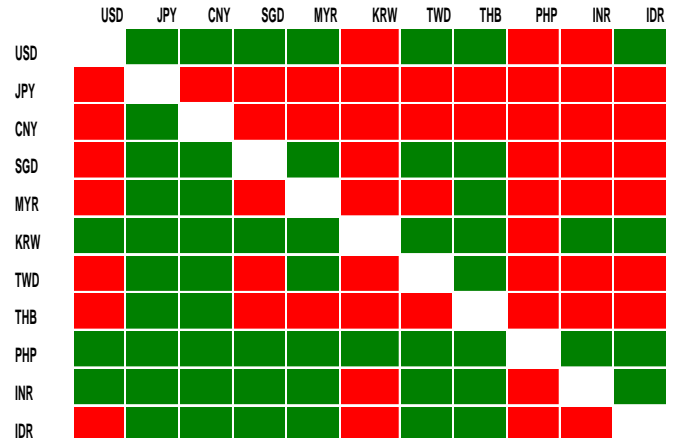
Source: OCBC Bank

G10 FX Heat Map



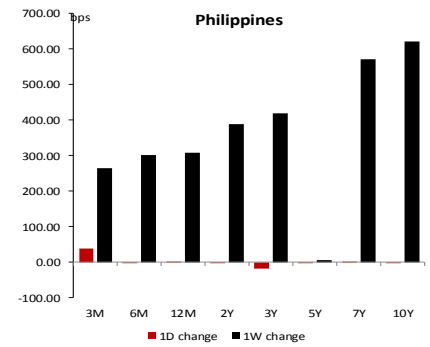
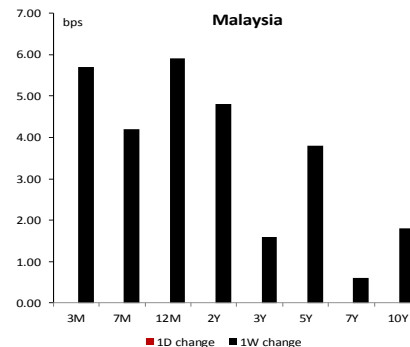
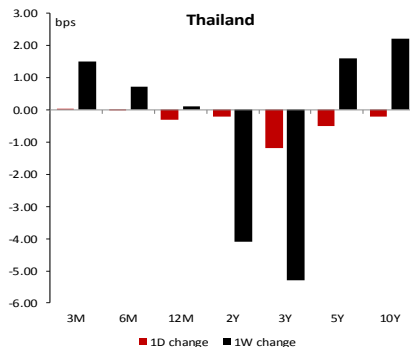
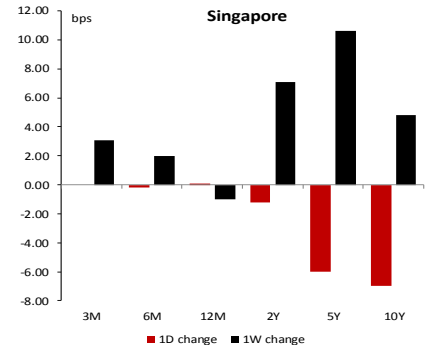
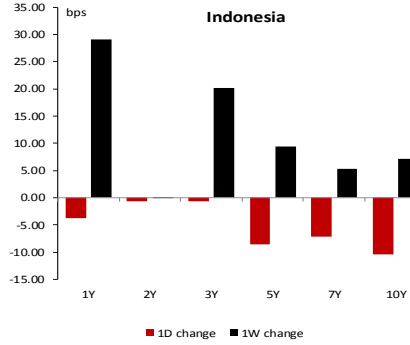
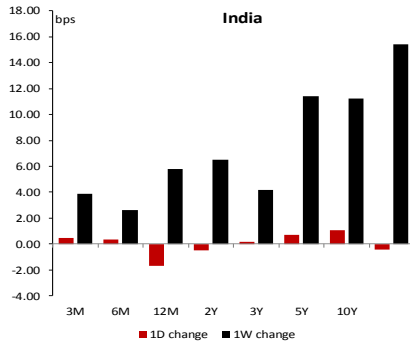
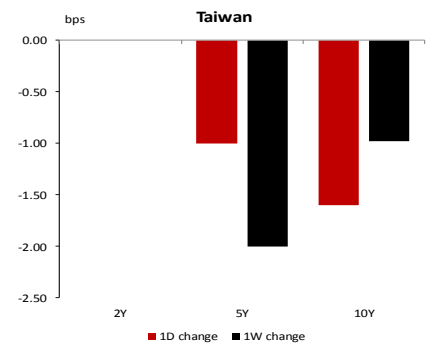
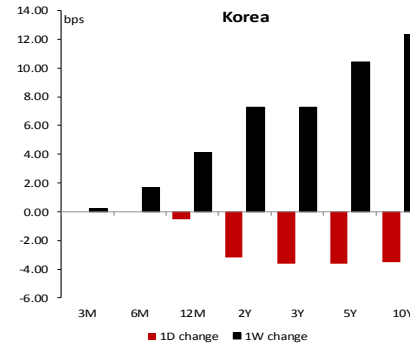
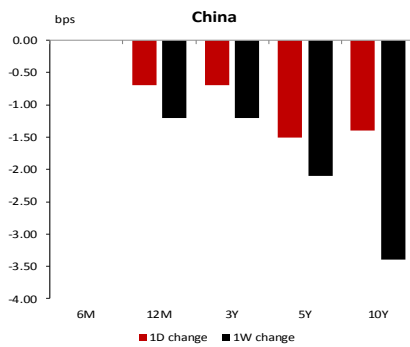
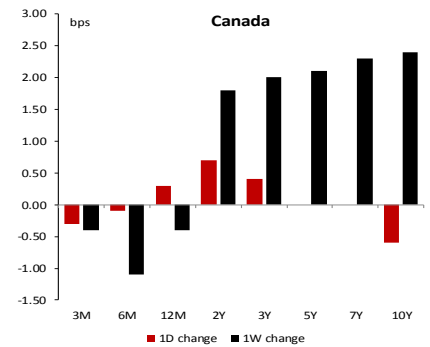
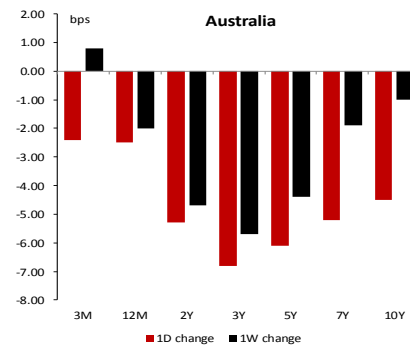
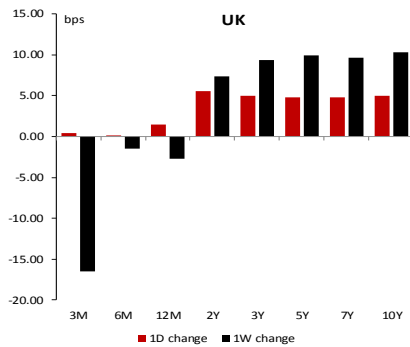
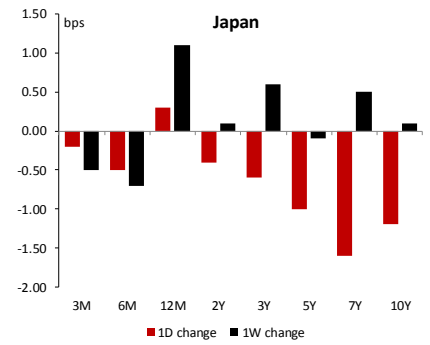
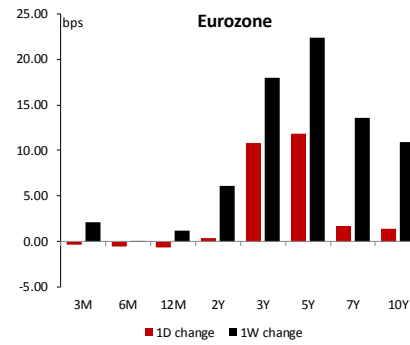
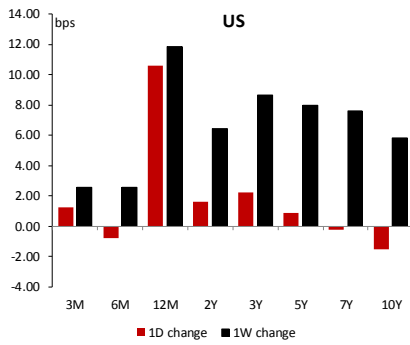
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	15-Jan-18	B	EUR-USD	1.2199	1.2645	1.2305	"Hawkish" ECB expectations, positive German political news flow	
2	16-Jan-18	S	USD-SGD	1.3230	1.2990	1.3175	Heavy dollar, positive risk appetite, SGD NEER not excessively strong	
STRUCTURAL								
3	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
4	31-Jan-18	S	USD-JPY	108.67	102.35	111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	07-Nov-17	04-Jan-18	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	-0.90**	
2	21-Nov-17	09-Jan-18	S	USD-SGD	1.3561	1.3345	Little contagion in geopolitical risks, sanguine portfolio inflow environment, USD fragility	+1.56
3	09-May-17	12-Jan-18	B	GBP-USD	1.2927	1.3700	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?	+4.71
4	27-Nov-17	26-Jan-18	B	GBP-USD	1.3344	1.4135	Investors may impute Brexit talks in December. Prevailing USD weakness.	+5.56
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Source: OCBC Bank

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