

Friday, February 02, 2018

FX Themes/Strategy/Trading Ideas

- Except against the JPY and AUD, the dollar slid against the majors despite a further bear steepening of the UST curve. Note that the prices paid component for the Jan ISM jumped to 72.7 (from 68.3 previous) while 4Q unit labor costs rose more than expected to +2.0% from -0.1%.
- EUR-USD surfaced above 1.2500 after a wire report revealed that several ECB Council members had urged for greater clarity in last week's ECB meeting statement. On our end, we think that this will continue to fuel market speculation that the ECB's forward guidance may be tightened into the spring.
- Elsewhere, the JPY succumbed across the board on cited cross buying. Overall, USD weakness saw the DXY veering lower towards 88.50 before attempting to stabilize by late NY.
- For today, the US NFP (1330 GMT) is expected to yield a +180k print according to market consensus, although a +200k headline still may not jolt the market's heavy dollar posture. Central bank rhetoric may be expected from the ECB's Coeure (1000 GMT), and from the Fed's Kaplan (1830 GMT) and Williams (2030 GMT). In the interim, the de facto stance for investors may remain one of USD vulnerability.

Asian FX

- EM FX also pulled higher against the USD overnight but the Asian complex (outside of renminbi space) today may not reap the full benefits of a soggy broad dollar. Note that negative EZ/US/EM equities from Thursday saw the **FXSI (FX Sentiment Index)** inching higher within Risk-Neutral territory on Thursday.
- Meanwhile, the net portfolio inflow environment in Asia continues to witness cracks in the hitherto strong inflow narrative, with consolidation in momentum being reported for the IDR, THB, PHP, and to a lesser extent, for the KRW and TWD.
- Overall, the **ACI (Asian Currency Index)** may be slightly reluctant on the downside ahead of tonight's US NFP numbers. Beyond the short term however, **seasonality** for February seems to suggest a top heavy tone for USD-IDR, USD-THB, USD-SGD, and USD-TWD, and to a lesser degree for USD-PHP and USD-MYR.

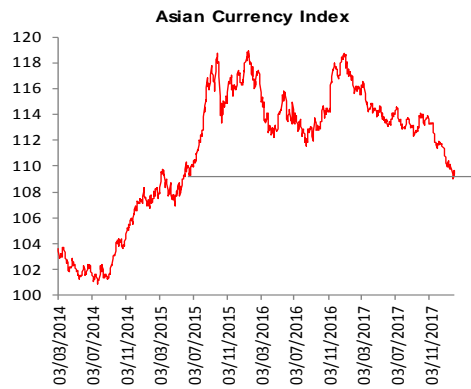
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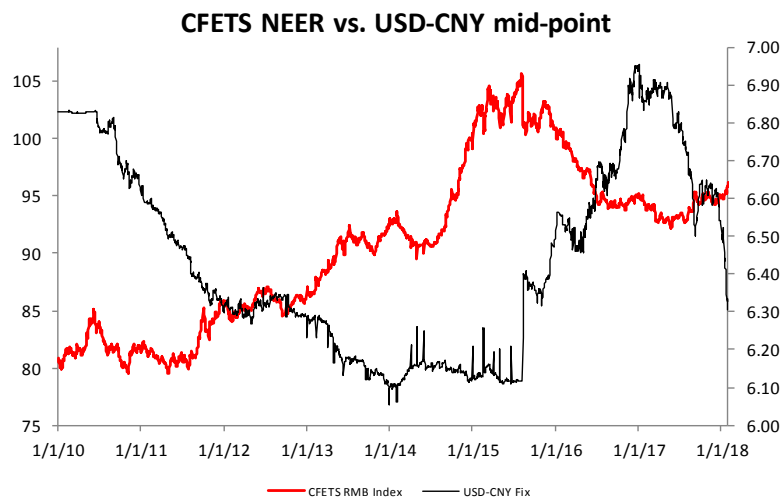
- The **INR** and local bonds were pummeled on Thursday (negative pressure likely to persist in the near term) on fiscal slippage concerns after the budget announcement saw widened budget deficit targets. Meanwhile, the **BSP** governor all but pointed to a rate hike next week but this may not stave off the PHP's recent underperformance.
- **SGD NEER:** The January PMIs are due at 1300 GMT today and in the interim, the SGD NEER is firmer on the day at around +0.43% above its perceived parity (1.3151). NEER-implied USD-SGD thresholds are mildly softer on the day and intra-day, the NEER may be expected within +0.30% (1.3112) and +0.60% (1.3073). Technically, a heavy 1.3050-1.3150 range may continue to prevail pending further external cues.



	SGD NEER	% deviation	USD-SGD
Current	124.76	0.41	1.3099
+2.00%	126.74		1.2893
Parity	124.26		1.3151
-2.00%	121.77		1.3420

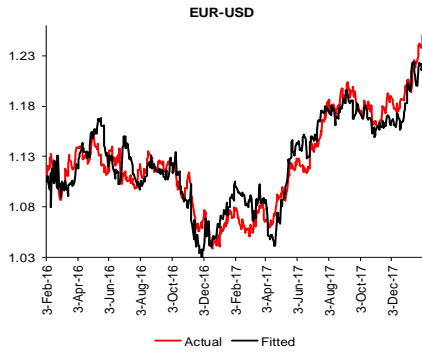
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in slightly firmer than expected at 6.2885 compared to 6.3045 on Thursday. However, this still saw the CFETS RMB Index climbing to 96.28 from 96.25 yesterday. Going ahead, we look for a potential inflection point around 96.55, a breakout point of sorts from June 2016.



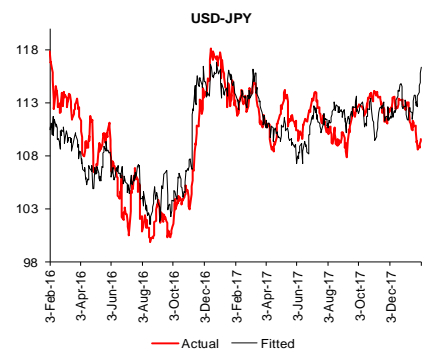
Source: OCBC Bank, Bloomberg

G7



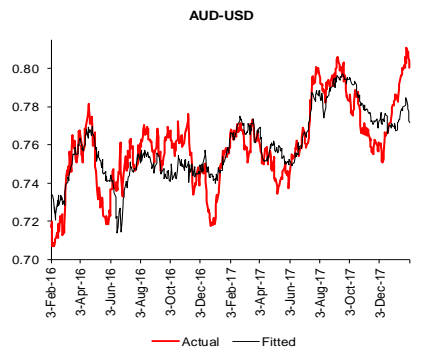
Source: OCBC Bank

- **EUR-USD** Short term implied valuations are stabilizing ahead of the US NFP tonight and despite supportive news flow regarding the ECB yesterday. Expect 1.2500 to resist in the interim despite prevailing bullish sentiment.



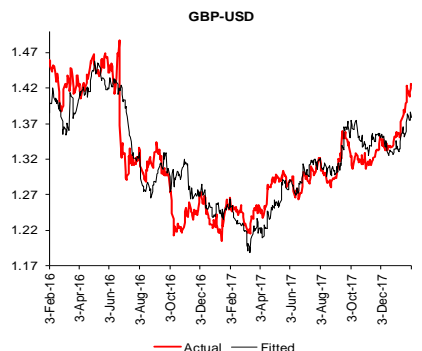
Source: OCBC Bank

- **USD-JPY** With rate differential arguments continuing to strengthen and flex higher for the USD-JPY, downside impetus for the pair may have to be put on hold in the near term. In addition, the spot is looking distinctly stretched to the downside relative to its implied confidence intervals. Look for the pair to traverse a 109.00-110.00 range ahead of the NFP.



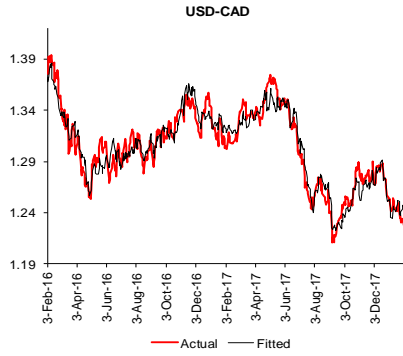
Source: OCBC Bank

- **AUD-USD** Continue to fade upticks for the pair in the near term with short term implied valuations continuing to decay. With the AUD-USD still uncomfortably north of its implied confidence intervals, recent domestically induced negativity may have finally primed the pair to consolidate lower. A sustained breach of 0.8000 may see a trip to 0.7650/65.



Source: OCBC Bank

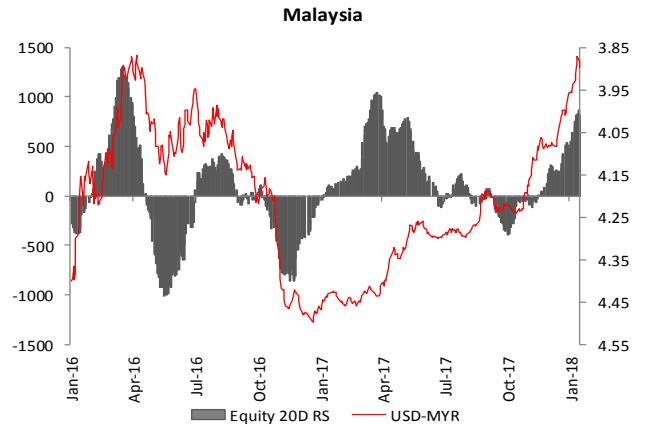
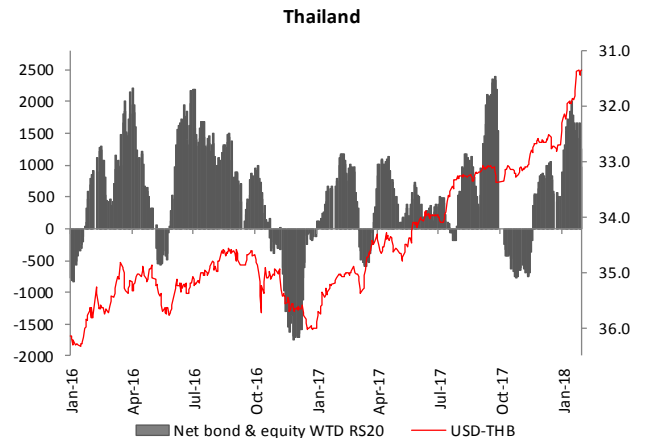
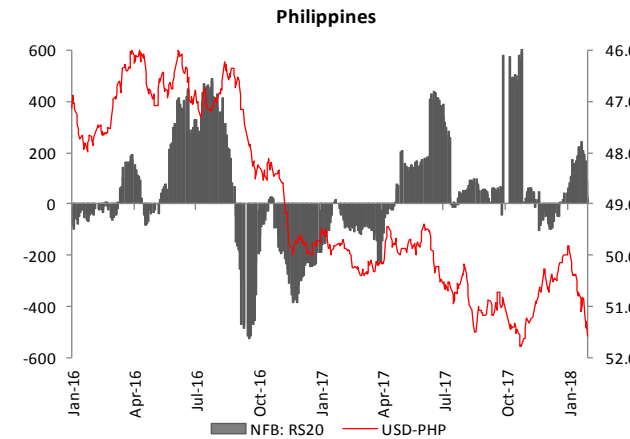
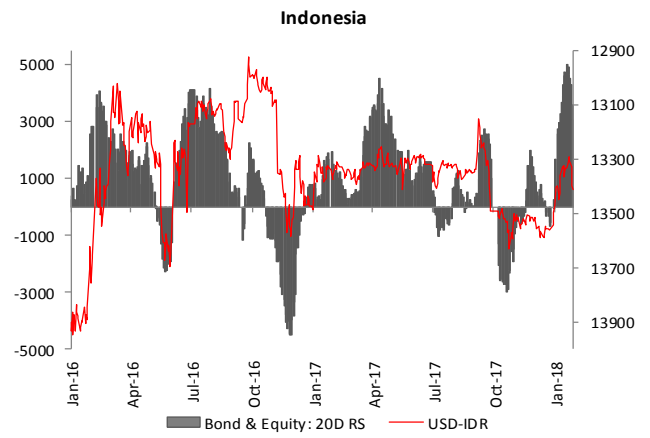
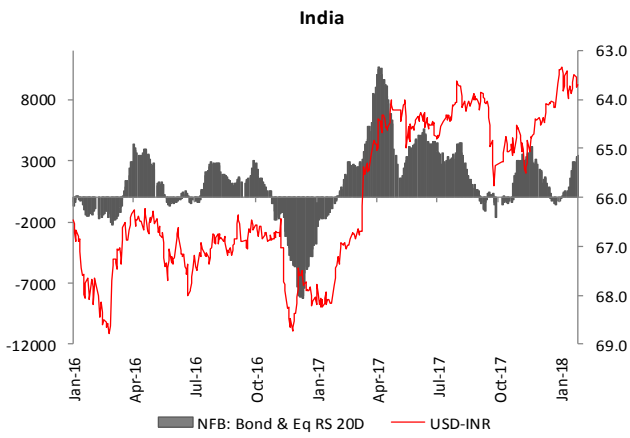
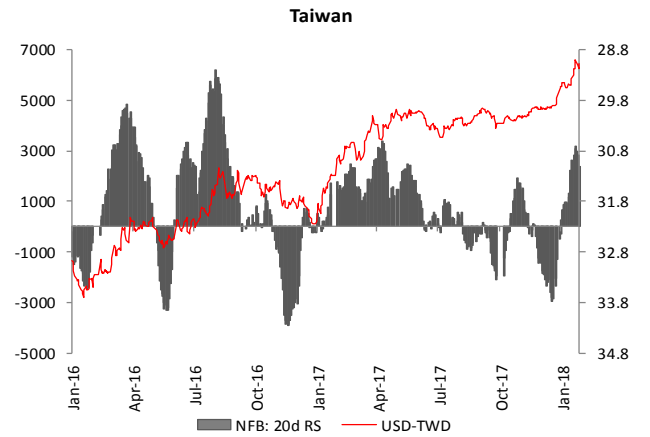
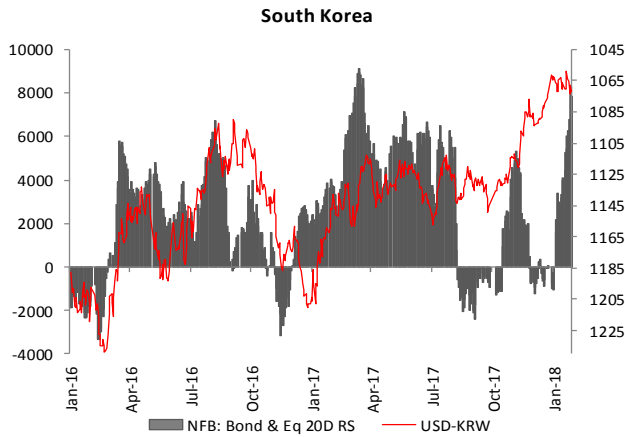
- **GBP-USD** With short term implied valuations still on a relatively supported perch, GBP-USD may attempt to retain its foothold above 1.4200 with resistance expected into 1.4300 and 1.4345. In the interim, expectations surrounding the BOE and the recent lack of negative Brexit headlines may temper downside dips towards 1.4145.



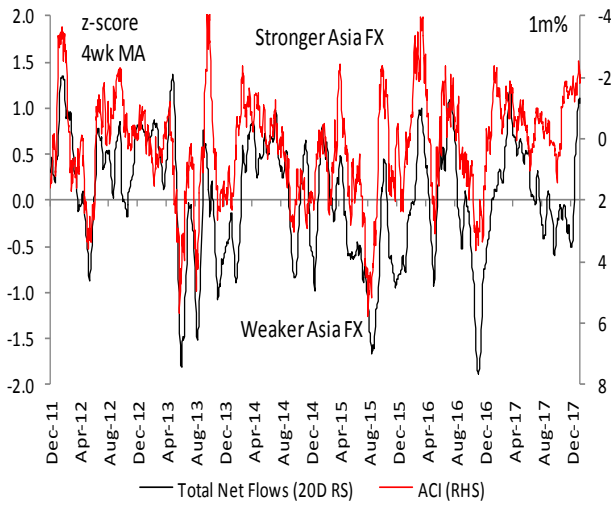
Source: OCBC Bank

- USD-CAD** Short term implied valuations for the USD-CAD have softened a tad and the pair continue to contemplate a break of the 1.2250 ahead of 1.2200, especially crude continues its ascent (note that the manufacturing PMI improved further to 55.9 from 54.7 in January).

USD-Asia VS. Net Capital Flows

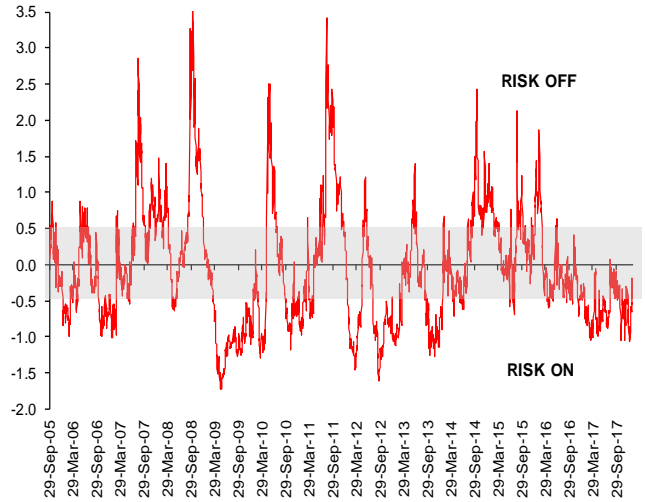


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXYSGG10	CNY	SPXMSLCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR		
DXY	1	-0.864	0.972	-0.892	-0.876	-0.885	0.932	-0.865	-0.836	-0.764	0.979	-0.988
CNH	0.979	-0.882	0.996	-0.863	-0.863	-0.855	0.899	-0.828	-0.825	-0.764	1	-0.971
SGD	0.976	-0.803	0.954	-0.875	-0.866	-0.906	0.91	-0.844	-0.742	-0.656	0.969	-0.976
CNY	0.972	-0.878	1	-0.858	-0.868	-0.851	0.903	-0.808	-0.839	-0.779	0.996	-0.956
CHF	0.967	-0.876	0.982	-0.826	-0.849	-0.87	0.911	-0.853	-0.838	-0.775	0.983	-0.958
MYR	0.966	-0.86	0.98	-0.958	-0.934	-0.899	0.932	-0.879	-0.765	-0.654	0.975	-0.95
THB	0.95	-0.896	0.971	-0.881	-0.88	-0.88	0.941	-0.898	-0.829	-0.776	0.971	-0.938
JPY	0.932	-0.827	0.903	-0.887	-0.861	-0.905	1	-0.926	-0.806	-0.78	0.899	-0.915
TWD	0.845	-0.752	0.908	-0.815	-0.892	-0.834	0.816	-0.754	-0.673	-0.561	0.899	-0.815
CAD	0.842	-0.779	0.862	-0.719	-0.79	-0.706	0.729	-0.724	-0.731	-0.524	0.883	-0.85
CCN12M	0.668	-0.381	0.675	-0.542	-0.458	-0.55	0.532	-0.428	-0.446	-0.464	0.641	-0.634
IDR	0.533	-0.325	0.442	-0.721	-0.584	-0.523	0.527	-0.582	-0.233	-0.145	0.463	-0.56
KRW	-0.135	0.505	-0.115	0.159	0.152	0.041	-0.221	0.264	0.357	0.411	-0.178	0.146
INR	-0.391	0.499	-0.268	0.406	0.321	0.181	-0.321	0.418	0.395	0.48	-0.278	0.364
USGG10	-0.864	1	-0.878	0.833	0.825	0.722	-0.827	0.831	0.875	0.834	-0.882	0.847
PHP	-0.881	0.966	-0.875	0.849	0.856	0.724	-0.861	0.832	0.905	0.832	-0.865	0.844
NZD	-0.904	0.886	-0.871	0.921	0.854	0.757	-0.883	0.883	0.78	0.716	-0.89	0.912
AUD	-0.963	0.829	-0.934	0.94	0.898	0.879	-0.932	0.837	0.824	0.714	-0.927	0.936
GBP	-0.98	0.888	-0.971	0.906	0.906	0.87	-0.903	0.862	0.807	0.723	-0.975	0.971
EUR	-0.988	0.847	-0.956	0.875	0.837	0.875	-0.915	0.864	0.806	0.745	-0.971	1

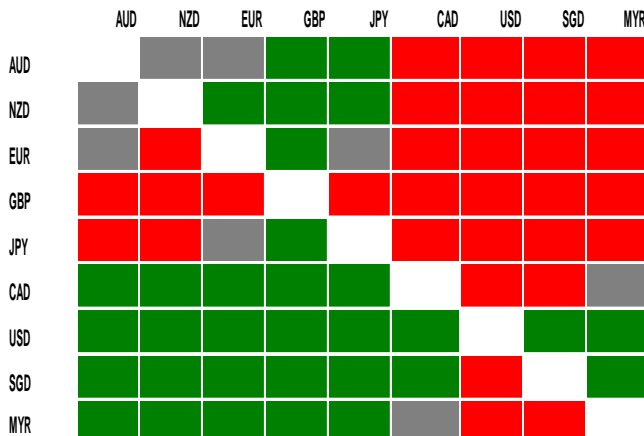
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2028	1.2500	1.2501	1.2537	1.2600
GBP-USD	1.3619	1.4200	1.4262	1.4300	1.4345
AUD-USD	0.7818	0.8000	0.8014	0.8100	0.8136
NZD-USD	0.7164	0.7300	0.7374	0.7400	0.7420
USD-CAD	1.2245	1.2251	1.2276	1.2300	1.2554
USD-JPY	108.28	109.00	109.49	110.00	111.70
USD-SGD	1.3009	1.3100	1.3107	1.3200	1.3328
EUR-SGD	1.6029	1.6300	1.6385	1.6388	1.6400
JPY-SGD	1.1900	1.1923	1.1972	1.2000	1.2069
GBP-SGD	1.8151	1.8600	1.8694	1.8700	1.8732
AUD-SGD	1.0428	1.0500	1.0504	1.0519	1.0600
Gold	1302.17	1310.64	1350.40	1361.27	1365.40
Silver	16.80	17.00	17.20	17.52	17.70
Crude	61.77	66.00	66.09	66.10	66.66

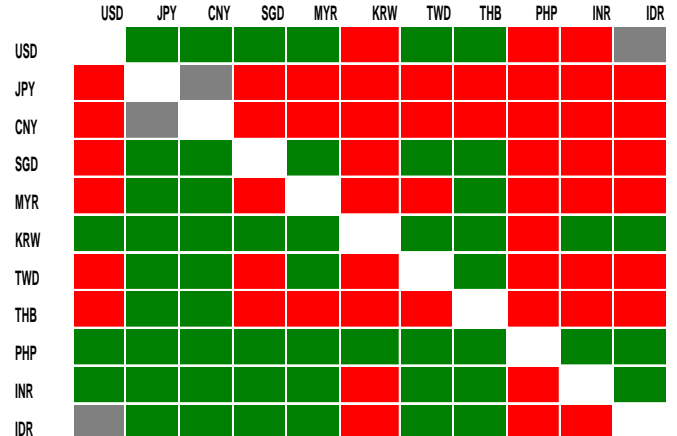
Source: OCBC Bank

G10 FX Heat Map



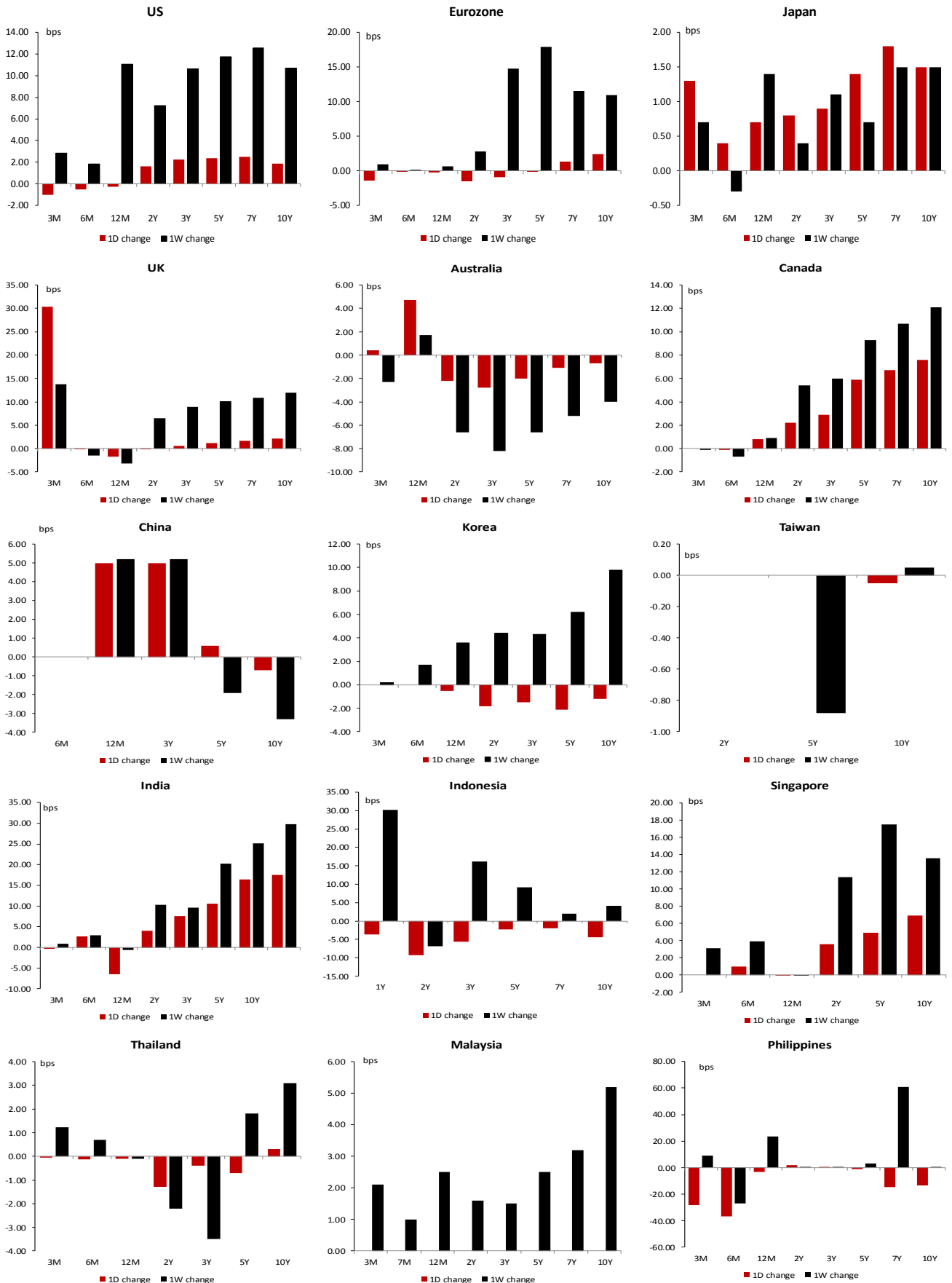
Source: OCBC Bank

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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