

Wednesday, January 03, 2018

FX Themes/Strategy/Trading Ideas

- Despite firmer UST yields (curve bear steepened), the DXY began the year by slumping below 92.00 on Tuesday. With Fed rate hike prospects static and near term dollar positivity from any fiscal impetus likely ephemeral for now, expect any increased attention on global reflation once again (or more accurately, global monetary policy divergence relative to the Fed) to continue to keep the greenback under pressure.
- This week, the calendar includes FOMC minutes on Wednesday, global services/composite PMIs in the latter part of the week, with US December NFP numbers due on Friday.
- EM equities popped higher on the first day of the year on improved investor sentiment as December global manufacturing PMIs pointed to synchronized and sustained improvements in manufacturing activity. On this front, the December Caixin China PMI improved to 51.5 from 50.8 (over the weekend, the official manufacturing PMI slipped to 51.6 from 51.8 in November), buffering global risk appetite levels.

Asian FX

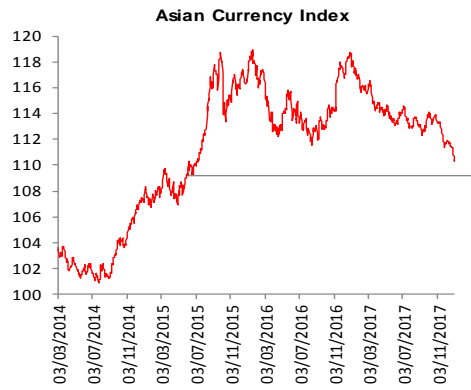
- Beyond the China PMIs however, note that the December manufacturing PMIs were mixed compared to previous month (India and Taiwan improved, South Korea, Malaysia, Indonesia, Philippines weakened) although this did not detract from the soft dollar. In the interim, USD-Asia may continue to remain reactive to a vulnerable greenback while awaiting a return of actual net portfolio inflows.
- In the interim, Asian currencies may be further aided by positive risk appetite, with the **FXSI (FX Sentiment Index)** starting the year yesterday in **Risk-On** territory. As such, the **ACI (Asian Currency Index)** may continue to tilt south at this juncture.
- **SGD NEER:** 4Q 17 GDP printed at a 3.1% yoy expansion with full year growth coming in at 3.50%. Today, the December PMI is due (1300 GMT) and in the interim, the SGD NEER is firmer on the day at around +1.22% above its perceived parity (1.3448). At current levels, the +1.30% threshold is estimated at around 1.3275 with +1.10% at 1.3302. In line with the rest of the regional pairs, expect USD-SGD to remain top heavy in the current USD environment after failing to re-take its 200-week MA (1.3550) in mid-December.

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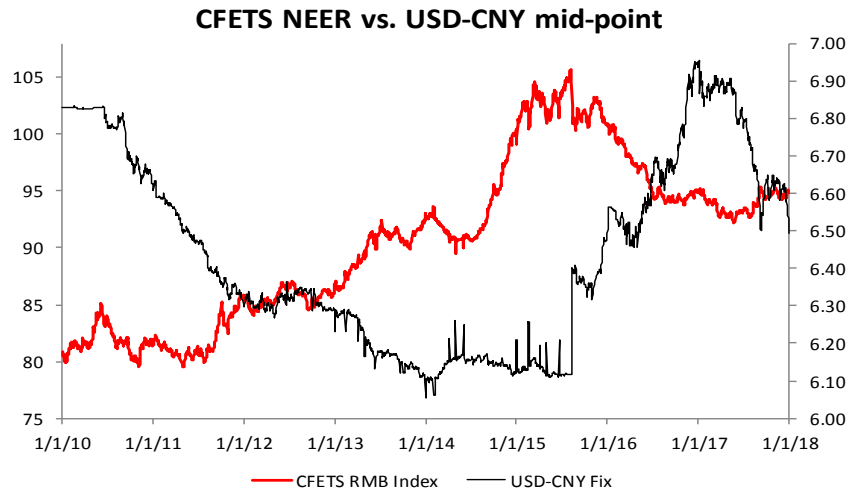
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	SGD NEER	% deviation	USD-SGD
Current	125.75	1.20	1.3291
+2.00%	126.74		1.3184
Parity	124.26		1.3448
-2.00%	121.77		1.3722

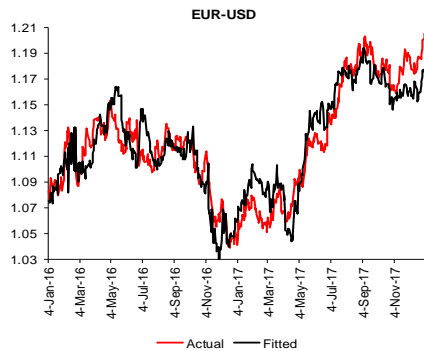
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point was set largely in line with expectations at 6.4920 this morning compared to 6.5079 yesterday. This took the CFETS RMB Index slightly lower to 94.98 from 95.01 on Tuesday. After bouncing off its lows in mid-2017, the CFETS RMB Index managed to end the year relatively unchanged, and relative stability is expected to be the mainstay into 2018. The implication then is that the bilateral nominal exchange rates of the renminbi complex may continue to track broad dollar gyrations going ahead.



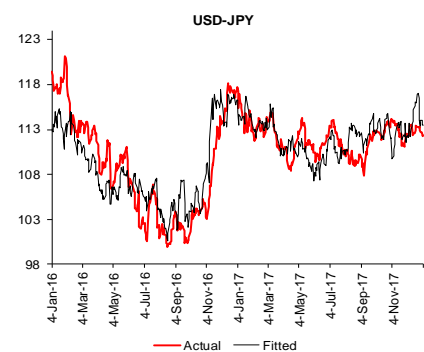
Source: OCBC Bank, Bloomberg

G7



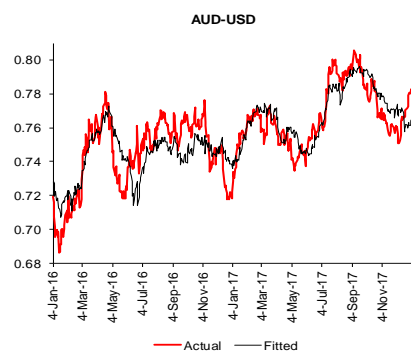
Source: OCBC Bank

- **EUR-USD** Apart from a supportive EZ manufacturing PMI, the ECB's recent rhetoric (latest being from Coeure) continues to indicate comfort with the cessation of the QE program in September as planned. Short term implied valuations for the pair have pooped higher since late December and may continue to prove supportive on dips, although expect some cause for pause towards 1.2100 in the near term.



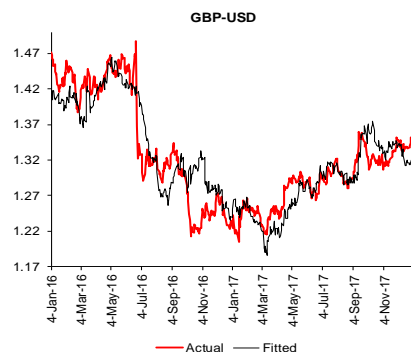
Source: OCBC Bank

- **USD-JPY** USD-JPY may continue to stay repressed in line with heavy short term implied valuations despite firmer US yields as investors focus on generalized USD vulnerability at this juncture. BOJ rhetoric has also of late refrained from encouraging any hawkish expectations on the monetary policy front. Expect an initial floor towards the 100-day MA (112.07) with 112.60 seen capping intra-day.



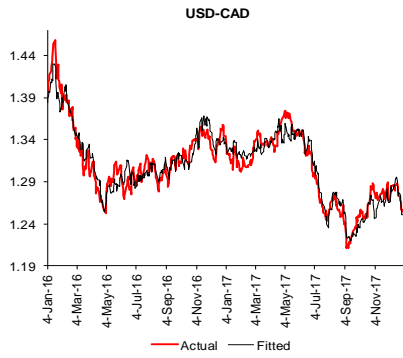
Source: OCBC Bank

- **AUD-USD** Amidst a supported commodity complex and positive vibes from the China front, the AUD-USD may continue to remain supported in line with its short term implied valuations. In the interim, expect support towards the 100-day MA (0.7776) with 0.7850 capping for now.



Source: OCBC Bank

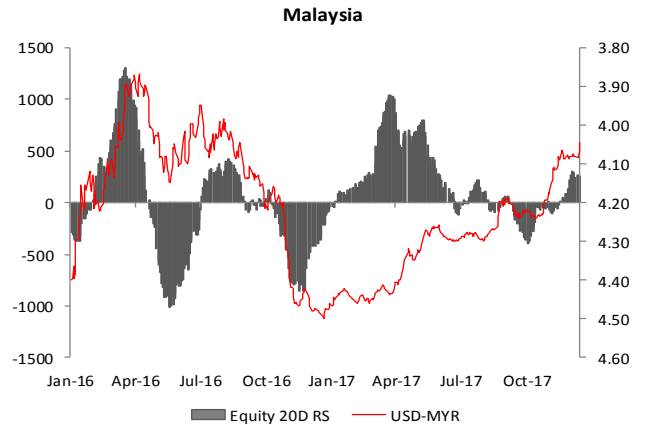
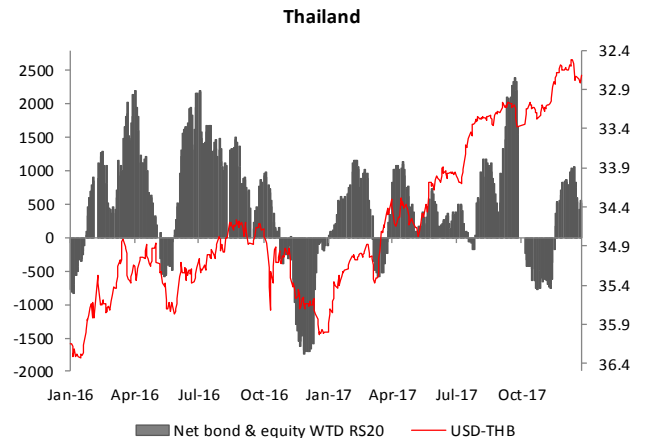
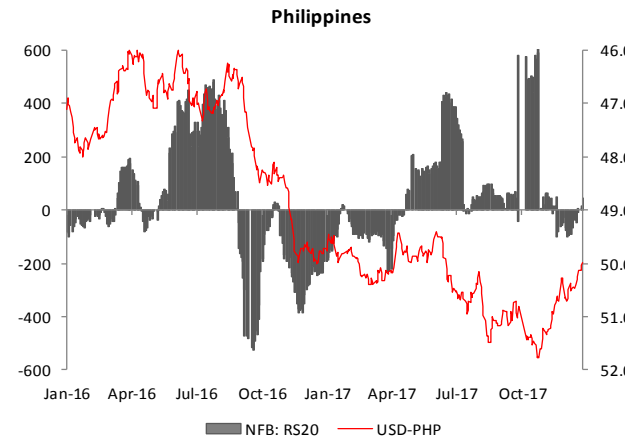
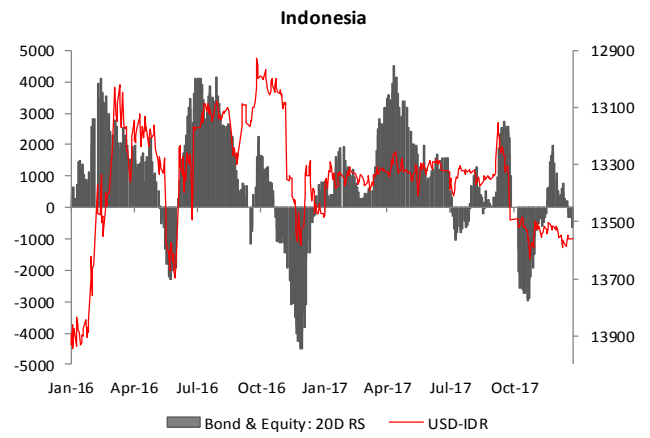
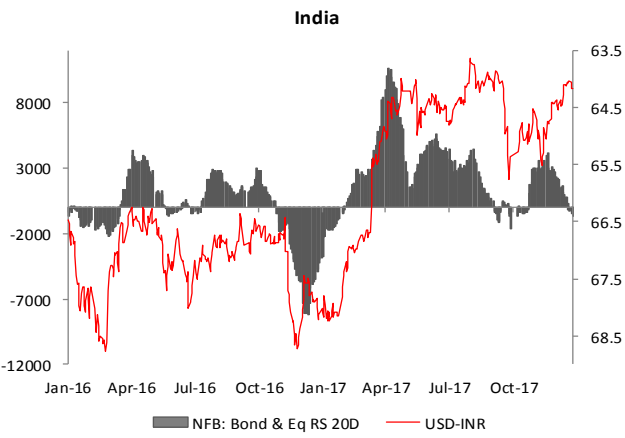
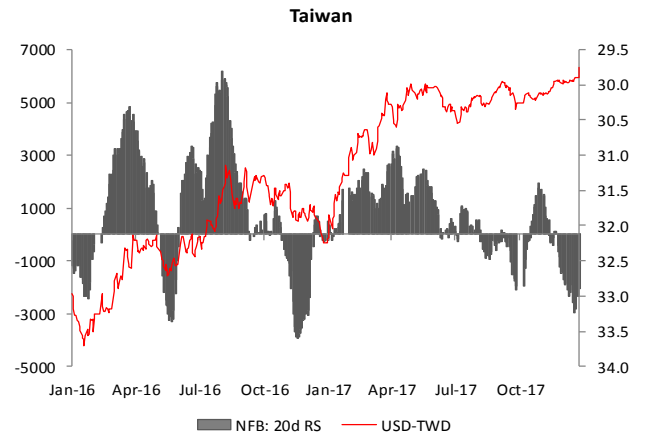
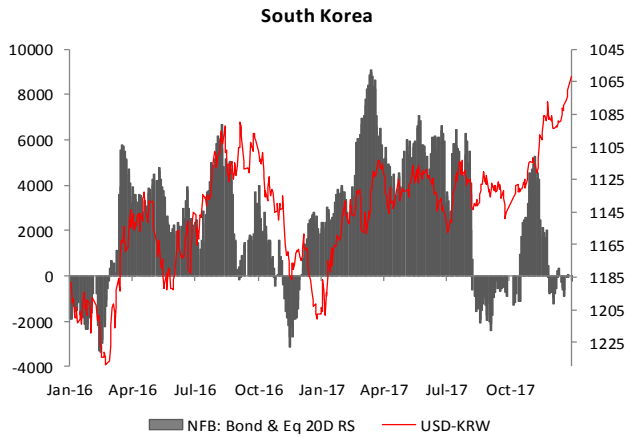
- **GBP-USD** With the broad dollar tripping lower, investors disregarded the weaker than expected December manufacturing PMI on Tuesday. However, Brexit remains a conspicuous overhang for the pound beyond the short term and upside progress on the GBP-USD may remain cautious to say the least. In the interim, short term implied valuations have also ticked higher. In the near term however, expect a ceiling towards 1.3657 if 1.3600 is breached.



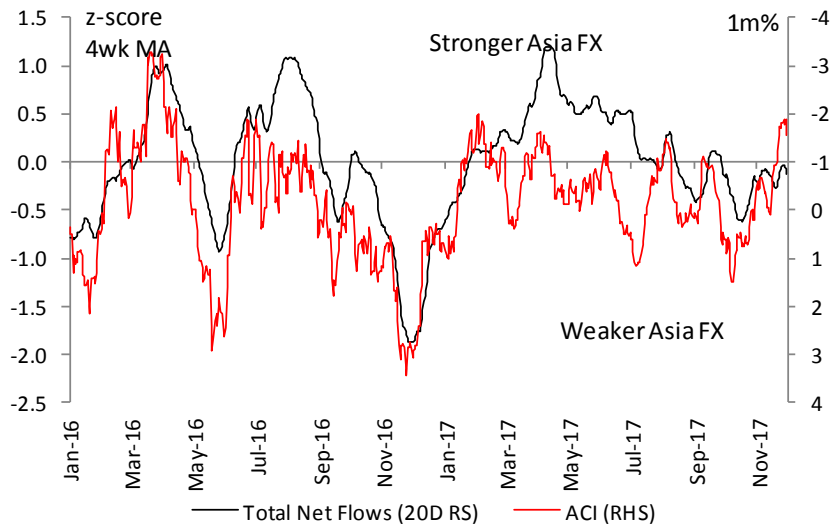
Source: OCBC Bank

- USD-CAD** Boosted by firming crude in recent weeks and the soggy USD complex, short term implied valuations for the USD-CAD remain decidedly heavy. Although BOC rhetoric has endeavored to remain neutral, the market remains generally positive towards the central bank’s prognosis. In the interim, expect the 1.2500 floor (ahead of 1.2450) to remain under threat.

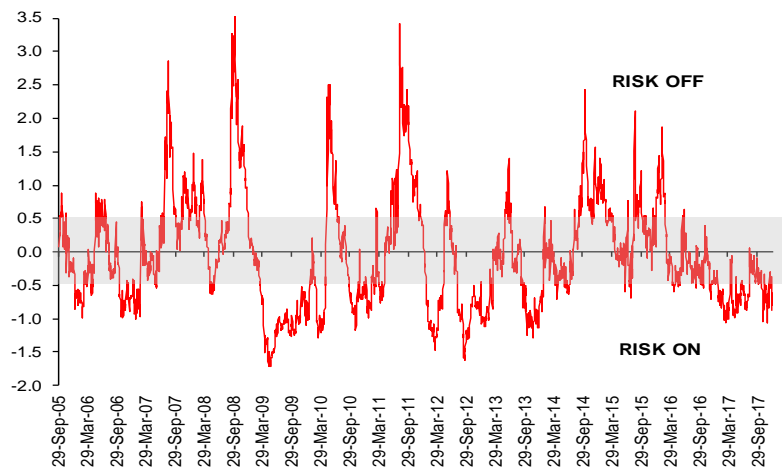
USD-Asia VS. Net Capital Flows



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	-0.336	0.898	-0.422	-0.822	-0.916	0.438	-0.829	-0.292	0.198	0.904	-0.988
SGD	0.966	-0.467	0.925	-0.6	-0.874	-0.889	0.377	-0.85	-0.117	0.133	0.936	-0.957
CHF	0.947	-0.218	0.784	-0.484	-0.808	-0.805	0.538	-0.734	-0.215	0.031	0.805	-0.927
CAD	0.935	-0.244	0.849	-0.264	-0.715	-0.93	0.38	-0.835	-0.433	0.454	0.855	-0.92
KRW	0.919	-0.65	0.975	-0.677	-0.882	-0.933	0.174	-0.932	0.064	0.231	0.972	-0.93
TWD	0.91	-0.36	0.873	-0.518	-0.808	-0.849	0.377	-0.794	0.002	0.035	0.849	-0.896
CNH	0.904	-0.601	0.985	-0.679	-0.872	-0.905	0.155	-0.933	0.017	0.154	1	-0.921
CNY	0.898	-0.595	1	-0.619	-0.849	-0.923	0.137	-0.937	-0.026	0.189	0.985	-0.911
MYR	0.864	-0.216	0.756	-0.228	-0.641	-0.72	0.488	-0.653	-0.217	0.1	0.707	-0.854
INR	0.797	-0.598	0.841	-0.783	-0.893	-0.747	0.175	-0.781	0.218	-0.114	0.873	-0.826
PHP	0.786	-0.6	0.93	-0.753	-0.897	-0.767	-0.139	-0.938	0.183	0.167	0.939	-0.813
CCN12M	0.685	-0.663	0.8	-0.89	-0.847	-0.622	0.08	-0.758	0.363	-0.136	0.845	-0.713
IDR	0.493	0.095	0.354	0.414	0.03	-0.371	0.322	-0.355	-0.452	0.565	0.302	-0.494
JPY	0.438	0.466	0.137	0.206	-0.06	-0.104	1	0.029	-0.488	-0.263	0.155	-0.341
THB	0.167	0.795	-0.081	0.435	0.332	0.441	0.732	0.178	-0.155	-0.603	-0.126	-0.039
USGG10	-0.336	1	-0.595	0.732	0.591	0.486	0.466	0.602	-0.359	-0.173	-0.601	0.451
NZD	-0.74	0.519	-0.822	0.84	0.877	0.649	-0.161	0.766	-0.207	0.069	-0.875	0.745
GBP	-0.843	-0.067	-0.593	-0.047	0.453	0.615	-0.613	0.512	0.448	-0.097	-0.59	0.798
AUD	-0.87	0.515	-0.899	0.732	0.89	0.826	-0.296	0.847	0.051	-0.095	-0.935	0.865
EUR	-0.988	0.451	-0.911	0.482	0.839	0.922	-0.341	0.846	0.219	-0.236	-0.921	1

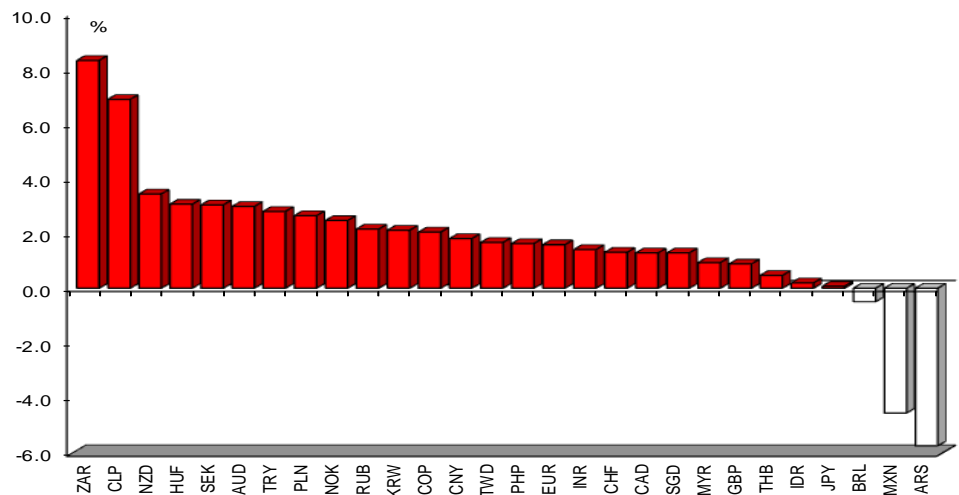
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1790	1.2000	1.2054	1.2058	1.2081
GBP-USD	1.3568	1.3600	1.3601	1.3603	1.3700
AUD-USD	0.7695	0.7800	0.7822	0.7845	0.7879
NZD-USD	0.6927	0.7000	0.7090	0.7100	0.7101
USD-CAD	1.2470	1.2500	1.2511	1.2600	1.2751
USD-JPY	112.00	112.10	112.32	112.88	113.00
USD-SGD	1.3291	1.3300	1.3302	1.3400	1.3503
EUR-SGD	1.5916	1.6000	1.6034	1.6045	1.6100
JPY-SGD	1.1800	1.1810	1.1843	1.1900	1.1957
GBP-SGD	1.7977	1.8000	1.8092	1.8100	1.8143
AUD-SGD	1.0323	1.0400	1.0404	1.0462	1.0490
Gold	1300.00	1318.37	1318.90	1323.00	1400.00
Silver	17.10	17.16	17.19	17.20	17.28
Crude	57.05	60.40	60.41	60.50	60.74

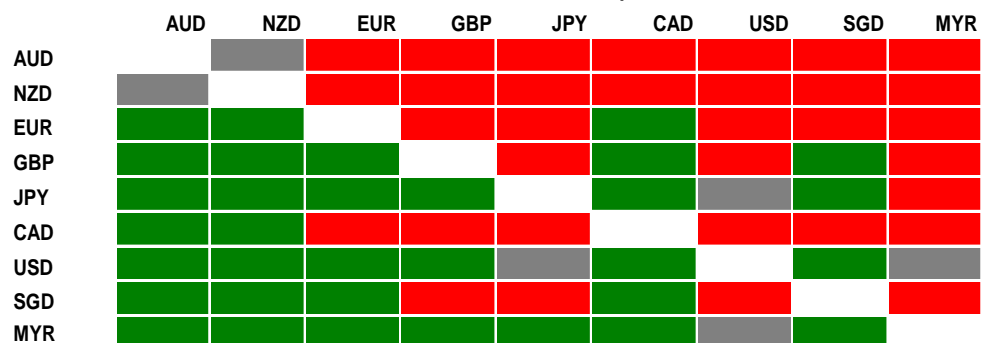
Source: OCBC Bank

FX performance: 1-month change agst USD



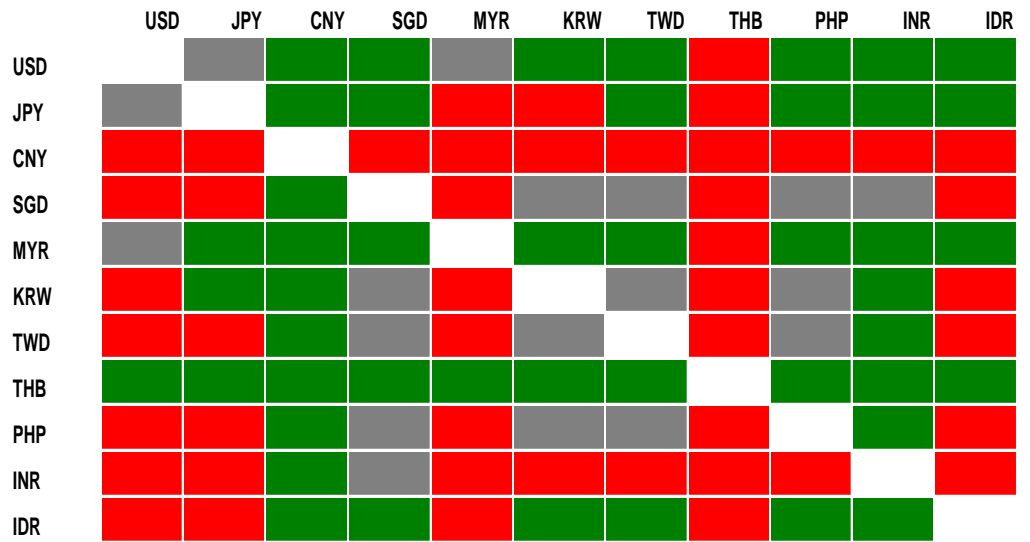
Source: Bloomberg

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	1.3270 1.3490	Little contagion in geopolitical risks, sanguine portfolio inflow environment, USD fragility		
2	27-Nov-17	B	GBP-USD	1.3344	1.3655 1.3185	Investors may impute Brexit talks in December. Prevailing USD weakness.		
STRUCTURAL								
3	09-May-17	B	GBP-USD	1.2927	1.3700 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?		
4	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	20-Nov-17	08-Dec-17	S	USD-JPY	112.07	113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	-1.14
2	24-Nov-17	08-Dec-17	B	EUR-USD	1.1868	1.1755	Supportive EZ data stream, German political concerns on hold, near term USD vulnerability	-1.19
3	07-Nov-17	13-Dec-17	S	AUD-USD	0.7671	0.7590	RBA on hold, no inflation or rate hike urgency	+0.78

Source: OCBC Bank

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