

Friday, January 05, 2018

**FX Themes/Strategy/Trading Ideas**

- Except against the JPY, the dollar weakened across the board on increased risk appetite levels.
- Firmer UST yields (belly underperformed) and a better than expected December ADP (+250k) failed to impart support to the USD..
- JPY underperformed across the board as the JPY crosses firmed.
- Asset market environment remained optimistic with WTI crude briefly past 62.00, EZ/US and EM equities continuing to gain.
- China Caixin composite/services PMI improved markedly from the previous month and provided fuel for optimism.
- EZ composite/services PMI also ticked higher from the previous month.
- Fed's Bullard (dove) noted that the slope of the Philips curve has been drifting towards zero and inflation expectations remain in check – denting dollar positivity.
  
- Risk-On Risk-Off dynamics may dominate ahead of tonight's US NFP (1330 GMT; mkts: +190k) and the EZ CPI readings(remember recent ECB rhetoric). The Fed's Harker (1515 GMT) and Mester (1730 GMT) are also on tap.
  
- At this juncture, a Fed that is perceived to be on track for 2-3 rate hikes this year may continue to prove insufficient for dollar bulls (or deter dollar skeptics). Against a low vol (markets remain gamma shy for now)/positive risk appetite environment, expect attention to be continually diverted away from the greenback into the end of the week.

**Asian FX**

- USD-Asia continues to remain reactive to the DXY (again sub-92.00 overnight) and with the **FXSI (FX Sentiment Index)** sinking deeper into Risk-On territory. Prospects for the **ACI (Asian Currency Index)** to continue to decay towards the key 109.20 (109.98 this morning) remain on the cards if the current conducive conditions persist.
  
- However, not that net portfolio inflows in Asia have not been exceptional save for equity inflows for Taiwan and bond inflows for Thailand, leaving potential for unwind if the broad dollar bounces. Coupled with fast compressing short-end premiums (diluting carry arguments), accelerated downside momentum for USD-Asia may be somewhat lacking at this juncture.

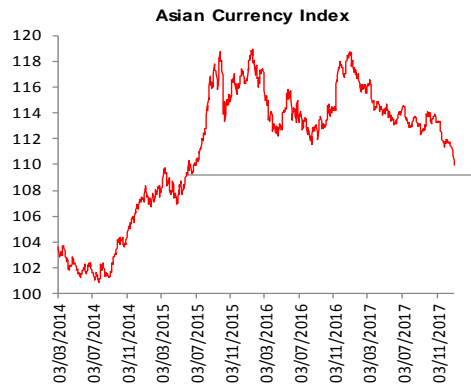
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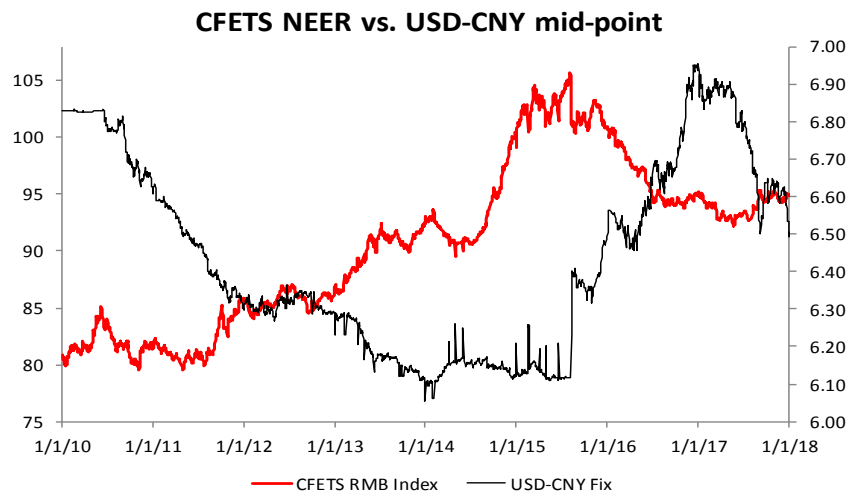
- SGD NEER:** The SGD NEER is firmer on the day at +1.26% above its perceived parity (1.3433) with NEER-implied USD-SGD thresholds lower from yesterday. Note that inherent broad dollar weakness has continued to permit the NEER to subsist above its +1.00% threshold since the onset of the year. At current levels, the +1.30% threshold is estimated at 1.3261 with some cause for pause towards 1.3250 as a result. Note however the heavy USD-Asia complex.



	SGD NEER	% deviation	USD-SGD
Current	125.81	1.25	1.3272
+2.00%	126.74		1.3169
Parity	124.26		1.3433
-2.00%	121.77		1.3707

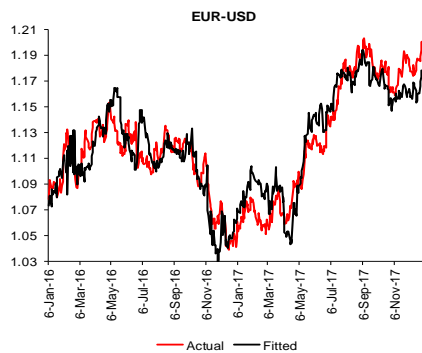
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point fell (as largely expected) to 6.4915 from 6.5043 yesterday. This saw the CFETS RMB Index easing further to 94.90 from 94.93 on Thursday.



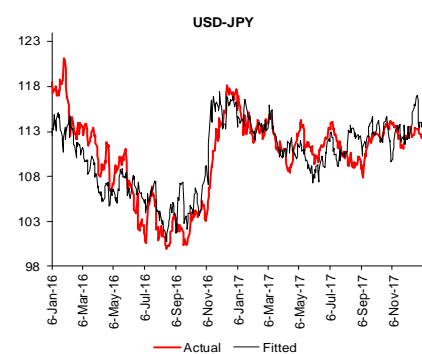
Source: OCBC Bank, Bloomberg

## G7



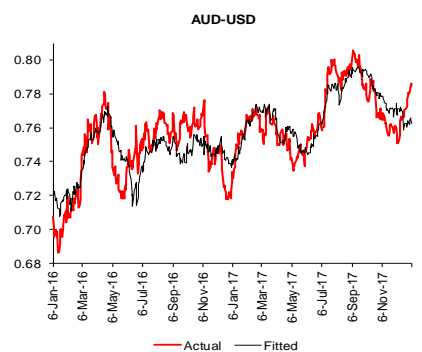
Source: OCBC Bank

- **EUR-USD** Short term implied valuations remain consolidative and the pair may remain in stasis ahead of EZ CPI and US NFP numbers. Expect initial support towards 1.2025 and with the pair still north of implied confidence intervals, expect 1.2100 to continue to limit in the interim. Potentially, the CDU-SPD talks next week may also deter excessive upticks.



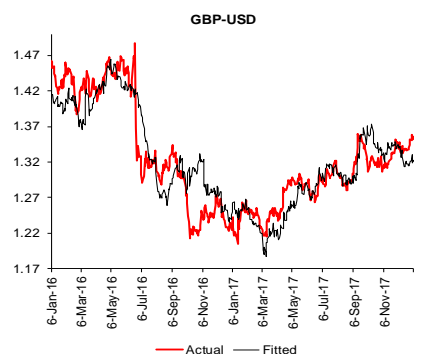
Source: OCBC Bank

- **USD-JPY** USD-JPY may remain trapped by dollar negativity and underpinned JPY-crosses. Overall, preference to still fade excessive upside towards the 55-day MA (112.95) with short term implied valuations attempting to inch lower. Note that the Fed's Bullard also noted that the tax reform changes are unlikely to shifts the Fed's rate trajectory.



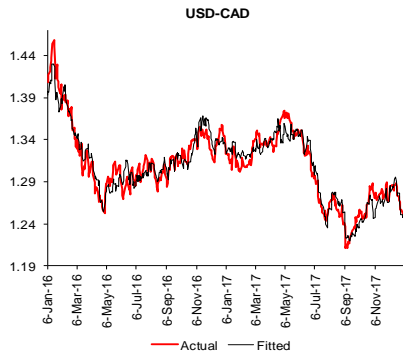
Source: OCBC Bank

- **AUD-USD** Despite the November trade deficit and slightly consolidative short term implied valuations, investors may collect on dips towards 0.7815 if global risk appetite levels remain padded.



Source: OCBC Bank

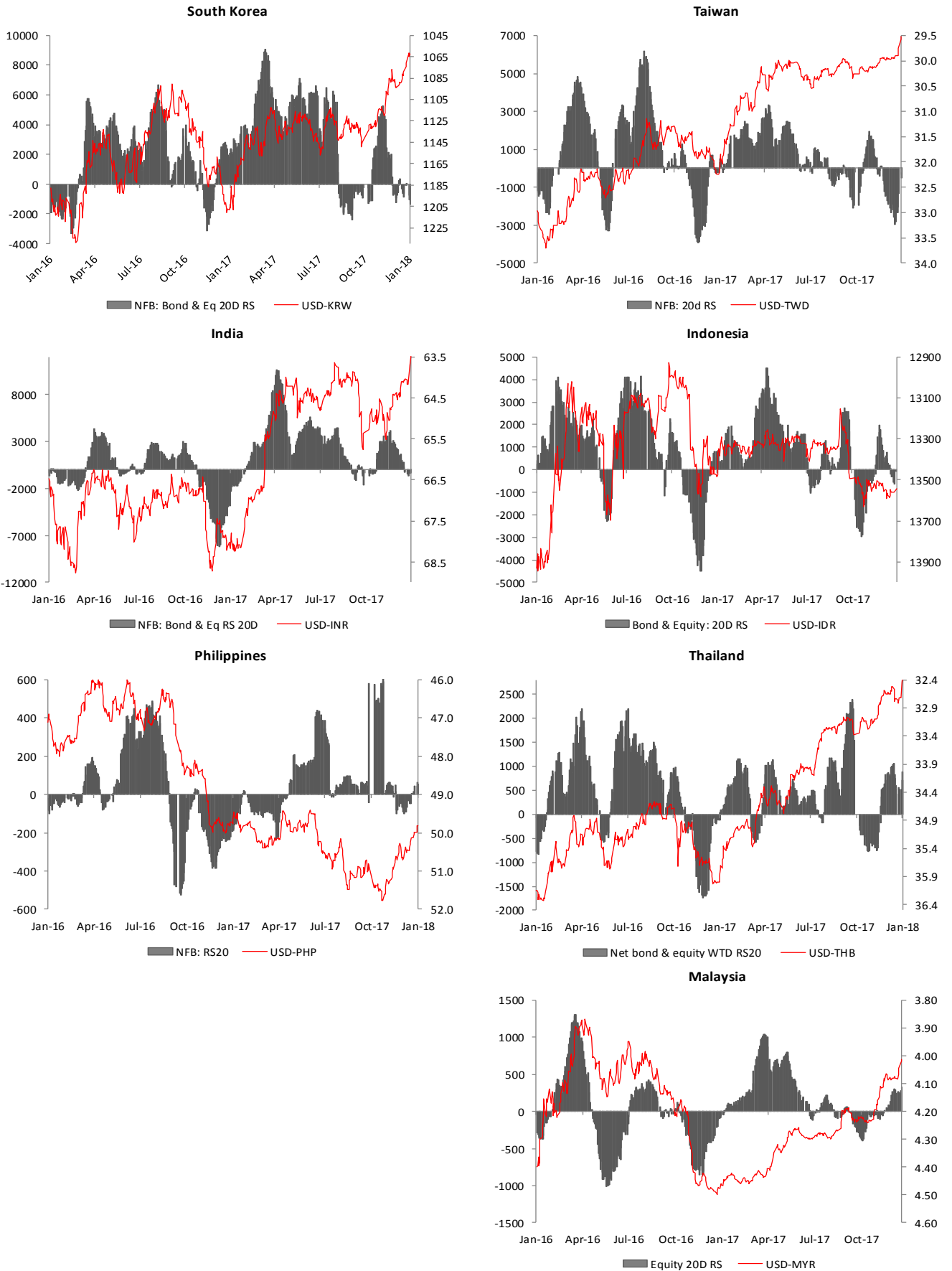
- **GBP-USD** Short term implied valuations remain somewhat underpinned but investors may continue to tread cautiously (but positively) within 1.3500-1.3600. The better than expected UK December services PMI may also continue to prove mildly supportive.



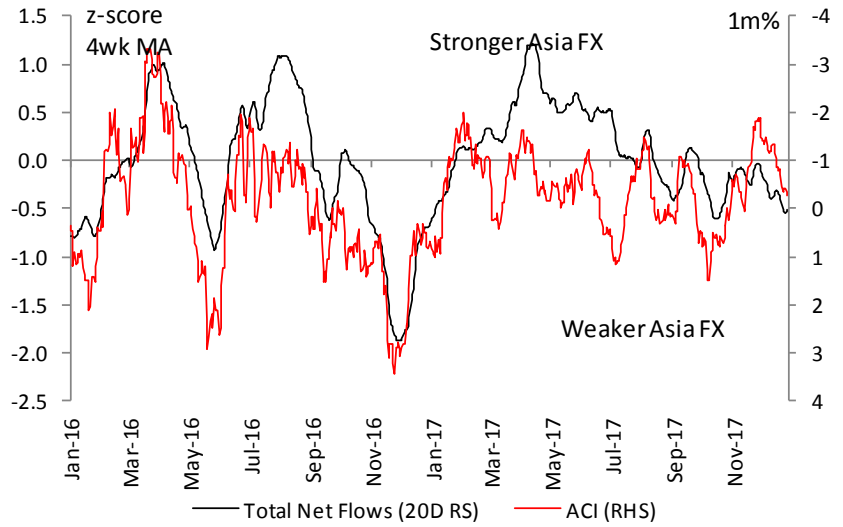
Source: OCBC Bank

- USD-CAD** With crude continuing to push higher, expect USD-CAD to retain a slippery tone ahead of the US/Canadian labor market numbers tonight. Short term implied valuations stepped lower overnight but remain depressed on a multi-session horizon. Expect a heavy 1.2450-1.2540 range to prevail in the interim.

**USD-Asia VS. Net Capital Flows**

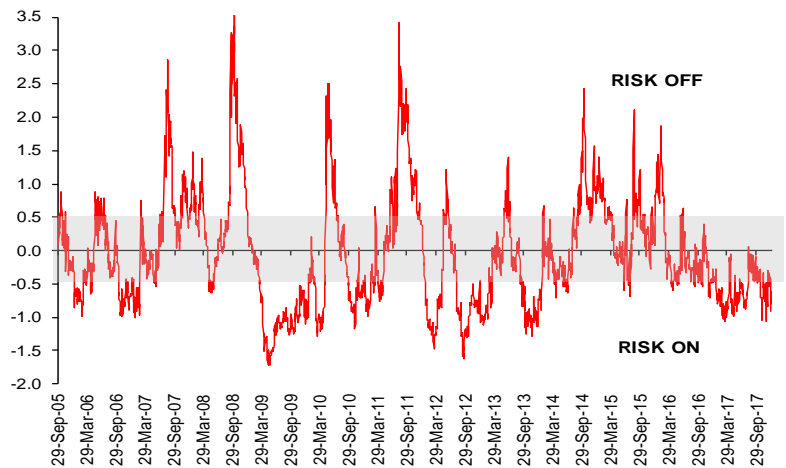


### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.395	0.944	-0.696	-0.888	-0.941	0.43	-0.88	0.016	0.467	0.946	-0.99
SGD	0.977	-0.485	0.939	-0.79	-0.931	-0.937	0.404	-0.916	0.124	0.509	0.959	-0.974
KRW	0.956	-0.654	0.989	-0.841	-0.928	-0.975	0.24	-0.951	0.282	0.579	0.988	-0.966
CAD	0.956	-0.394	0.951	-0.657	-0.848	-0.959	0.343	-0.923	-0.009	0.594	0.955	-0.952
CHF	0.947	-0.32	0.835	-0.712	-0.856	-0.856	0.528	-0.812	0.041	0.287	0.863	-0.935
CNH	0.946	-0.589	0.986	-0.783	-0.902	-0.973	0.26	-0.958	0.108	0.552	1	-0.962
CNY	0.944	-0.568	1	-0.735	-0.888	-0.983	0.229	-0.952	0.057	0.585	0.986	-0.95
TWD	0.93	-0.363	0.896	-0.743	-0.903	-0.908	0.406	-0.884	0.261	0.494	0.886	-0.923
PHP	0.899	-0.595	0.948	-0.826	-0.942	-0.951	0.003	-0.976	0.204	0.717	0.956	-0.916
INR	0.876	-0.578	0.887	-0.886	-0.931	-0.859	0.335	-0.874	0.371	0.381	0.905	-0.895
MYR	0.873	-0.388	0.843	-0.693	-0.859	-0.816	0.388	-0.841	0.318	0.446	0.844	-0.895
CCN12M	0.779	-0.627	0.813	-0.899	-0.883	-0.795	0.237	-0.845	0.341	0.358	0.879	-0.831
IDR	0.649	-0.271	0.651	-0.548	-0.654	-0.658	0.195	-0.706	0.401	0.685	0.633	-0.668
THB	0.481	0.139	0.328	-0.387	-0.507	-0.336	0.556	-0.515	0.393	0.141	0.459	-0.555
JPY	0.43	0.337	0.229	-0.104	-0.245	-0.203	1	-0.092	-0.212	-0.327	0.26	-0.34
USGG10	-0.395	1	-0.568	0.674	0.544	0.547	0.337	0.599	-0.311	-0.444	-0.589	0.506
NZD	-0.851	0.507	-0.844	0.848	0.891	0.813	-0.335	0.847	-0.107	-0.433	-0.902	0.867
GBP	-0.868	0.146	-0.718	0.409	0.674	0.732	-0.546	0.695	0.026	-0.256	-0.748	0.854
AUD	-0.909	0.532	-0.912	0.831	0.902	0.897	-0.379	0.886	-0.051	-0.452	-0.949	0.911
EUR	-0.99	0.506	-0.95	0.734	0.896	0.946	-0.34	0.911	-0.081	-0.512	-0.962	1

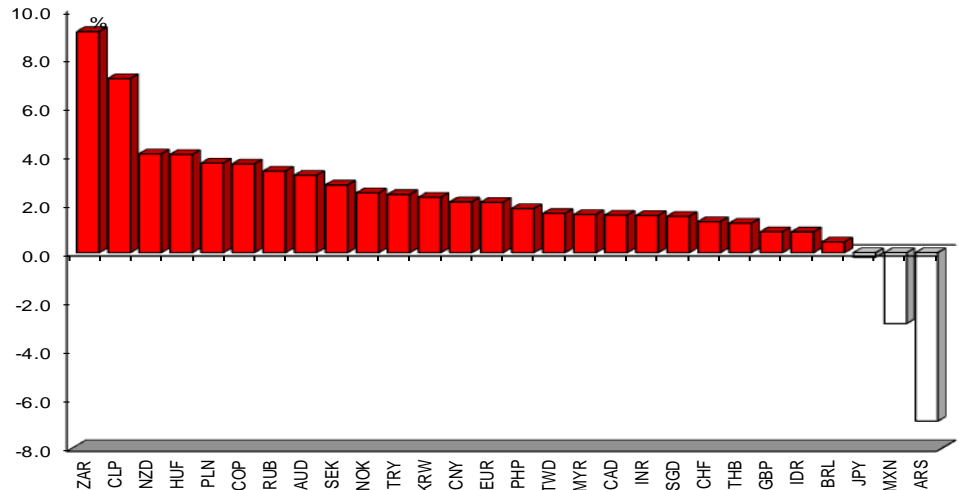
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1807	1.2000	1.2069	1.2089	1.2100
GBP-USD	1.3329	1.3500	1.3556	1.3581	1.3600
AUD-USD	0.7697	0.7800	0.7846	0.7869	0.7900
NZD-USD	0.7100	0.7102	0.7151	0.7163	0.7165
USD-CAD	1.2416	1.2484	1.2494	1.2500	1.2738
USD-JPY	112.00	112.11	112.79	112.85	113.00
USD-SGD	1.3247	1.3261	1.3271	1.3300	1.3488
EUR-SGD	1.5921	1.6000	1.6017	1.6055	1.6100
JPY-SGD	1.1748	1.1762	1.1766	1.1800	1.1948
GBP-SGD	1.7907	1.7976	1.7991	1.8000	1.8072
AUD-SGD	1.0322	1.0400	1.0413	1.0462	1.0486
Gold	1281.61	1300.00	1322.20	1327.30	1331.95
Silver	17.16	17.20	17.24	17.30	17.32
Crude	57.45	61.90	61.96	62.00	62.21

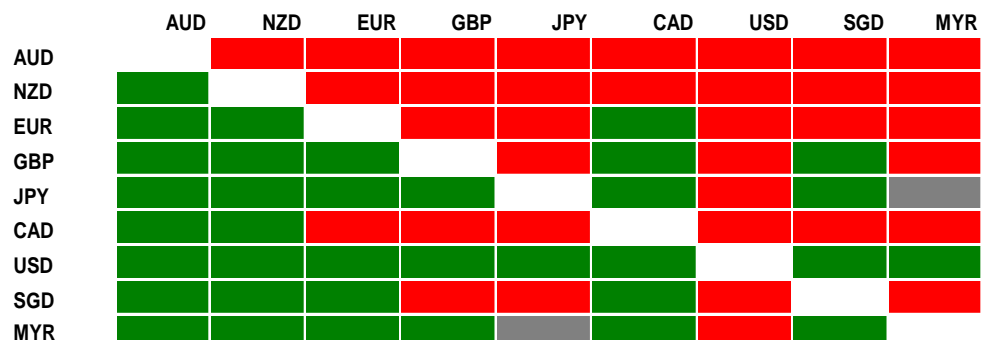
Source: OCBC Bank

**FX performance: 1-month change agst USD**



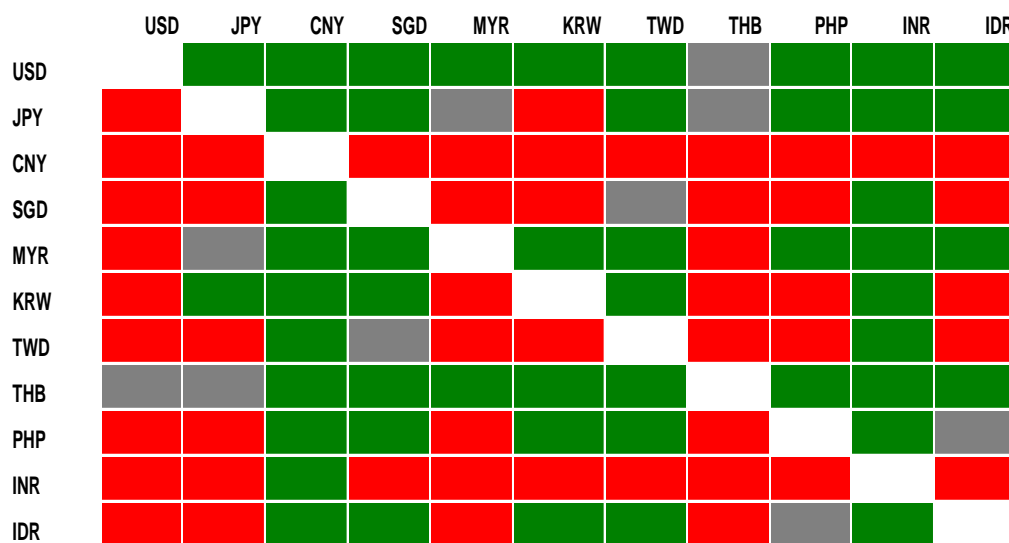
Source: Bloomberg

**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		
<b>TACTICAL</b>								
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.		
<b>STRUCTURAL</b>								
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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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