

Tuesday, February 06, 2018

FX Themes/Strategy/Trading Ideas – Risk aversion but no fear

- A classic risk-off environment saw global equities (including in EM) and commodities selling off, UST yields slumping, with the USD, JPY, and CHF outperforming their peers. On the data front, the US Jan non-manufacturing ISM came in at a stronger than expected 59.9 from an upwardly revised 56.0.
- The S&P slumped -4.10% while the 10y UST yield crashed to 2.7093% from 2.852% on safe haven bids. The **FXSI (FX Sentiment Index)** rocketed into Risk-Off territory on Monday as short term FX vols spiked and EM risk premiums jumped. Note that the Index has not ventured into Risk-Off territory since late June 2016.
- The ECB's **Draghi** offered sufficiently support comments with respect to the macro outlook in Parliament on Monday. Note however that he reiterated that caution towards currency market volatility. For Tuesday, look towards any evolving headlines on ongoing German political coalition talks
- Cross-asset price action in the last two global sessions has been characterized as corrective, long liquidation, profit taking, and capitulation. Thus, the current market psychology continues to retain a measure of optimism (at this juncture) – risk aversion without the fear amid talk of bottom fishing. Further implicit dollar support may be expected intra-day if “risk--aversion” continues to play out with investors expected to watch key supports across assets prices.
- Our 16 Jan 18 idea to be tactically short **USD-SGD** (spot ref: 1.3230) was closed out at the profit stop of 1.3175 on 02 Feb 18 for an implied +0.39% gain.

Asian FX

- Asian equities this morning started in the red (N225 down -4.71 as of the time of writing) and expect USD-Asia to search higher in the current environment with the **ACI (Asian Currency Index)** now within reach of neutralizing its year-to-date decline. On this front, the MYR and the THB we think would be at greater relative risk if net inflows continue to evaporate in the coming sessions.
- Except for India, net portfolio inflows for South Korea, Taiwan, Indonesia, Philippines, Thailand have continued to moderate south and this will potentially leave the regional pairs relatively more vulnerable to further USD

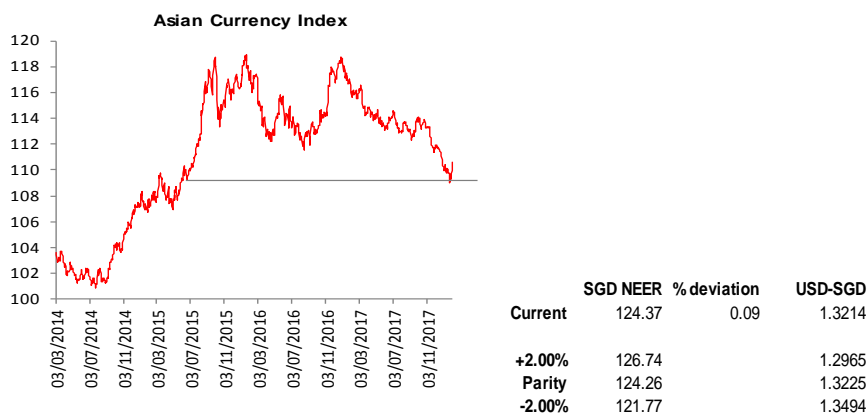
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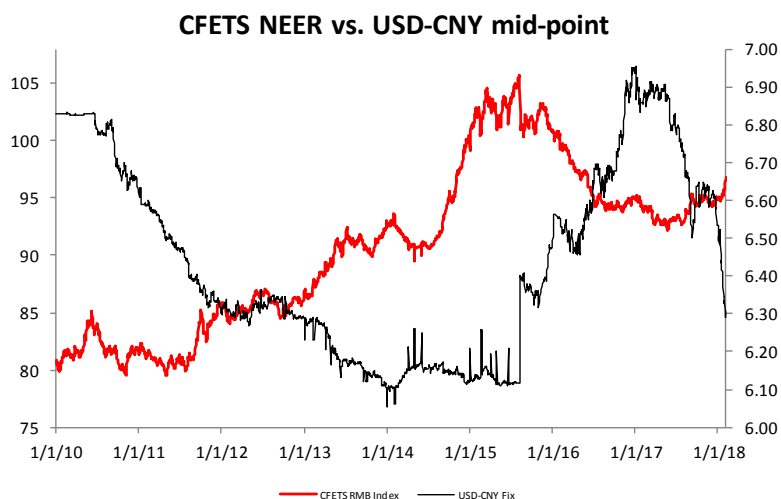
strength/risk aversion.

- SGD NEER:** The SGD NEER veered towards parity again in NY but has since stabilized around +0.10% above its perceived parity (1.3225). NEER-implied USD-SGD thresholds are slightly firmer on the day. At current levels, the -0.10% threshold is estimated at 1.3238 and +0.20% at 1.3198.



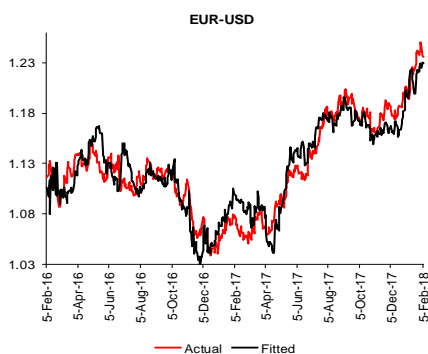
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning rose as largely expected to 6.3072 from 6.3019 yesterday. This somewhat restrained move resulted in the CFETS RMB Index gaining further to 96.83 from 96.72 yesterday.



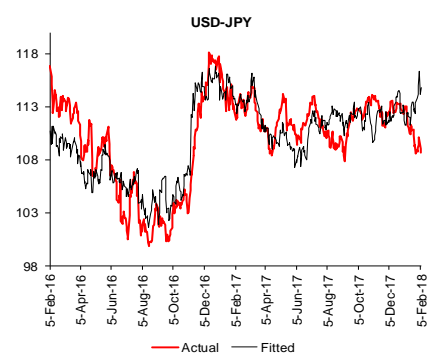
Source: OCBC Bank, Bloomberg

G7



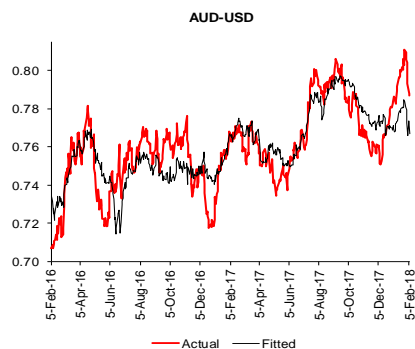
Source: OCBC Bank

- EUR-USD** With its recent moderation lower, the EUR-USD has expunged its perceived over valuation relative to its short term implied valuations. Ahead of German political headlines and amidst the current bout of risk aversion, a further retracement towards 1.2300/30 cannot be discounted.



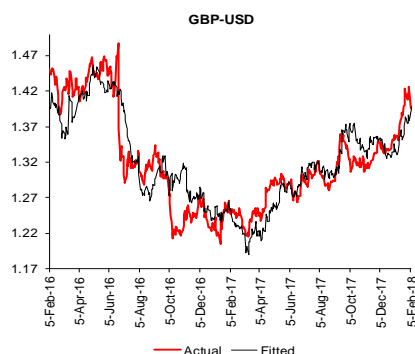
Source: OCBC Bank

- USD-JPY** With the N225 collapsing this morning, the USD-JPY would invariably be expected to hunt lower towards 108.00/30. Short term implied valuations have also ratcheted lower on the back of risk aversion.



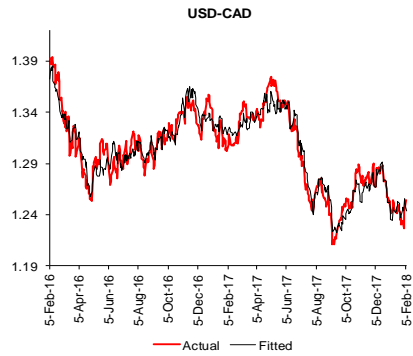
Source: OCBC Bank

- AUD-USD** This morning, the Dec trade balance surprised with a -AUD1.36bn deficit (instead of a surplus) while Dec retail sales also disappointed with a larger than expected -0.50% contraction. For today, look to the RBA policy meeting (0330 GMT) for further cues, although with risk appetite still tender, any "disappointment" out of the RBA may further trip the pair towards the 50% retracement of 0.7819. Short term implied valuations meanwhile remain suppressed.



Source: OCBC Bank

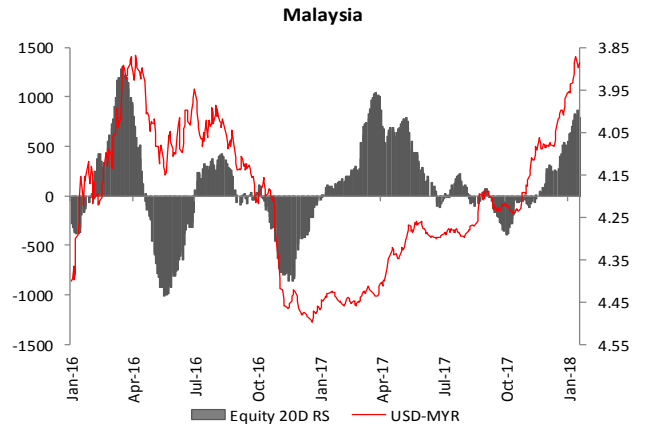
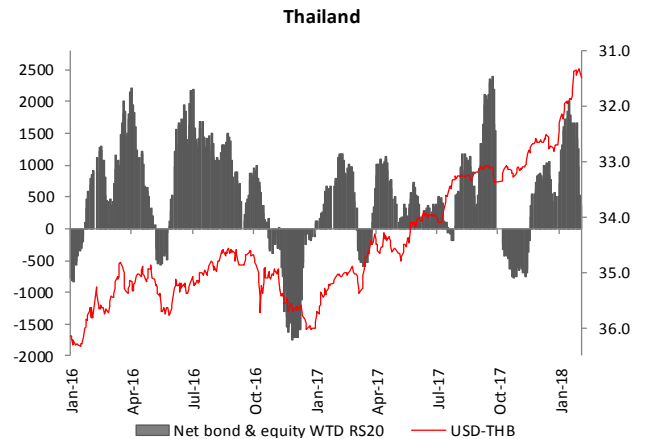
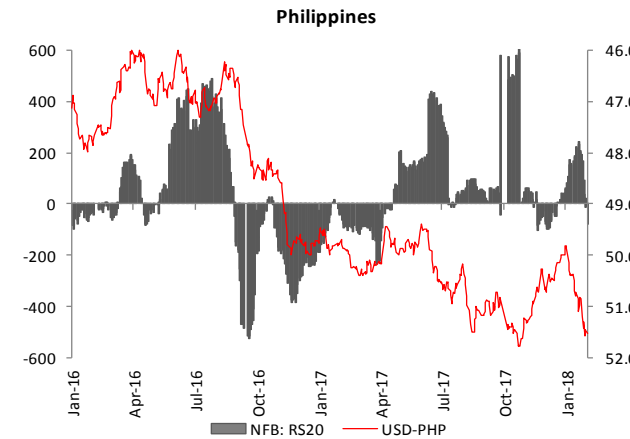
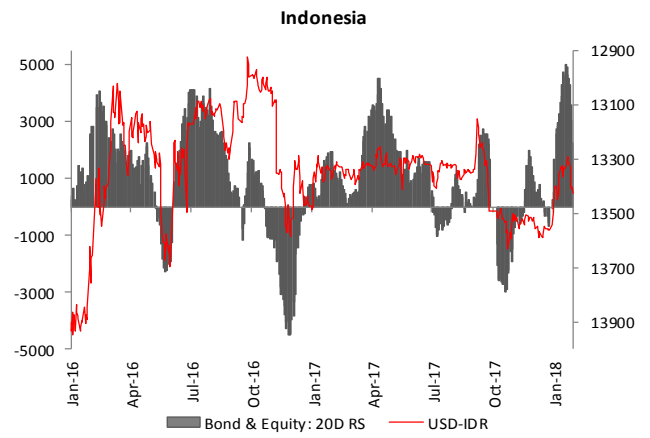
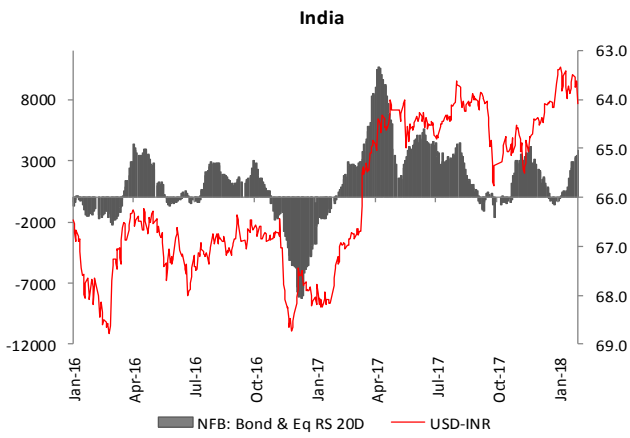
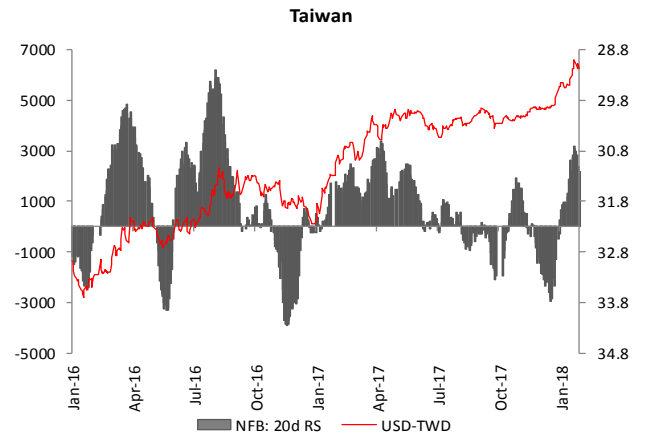
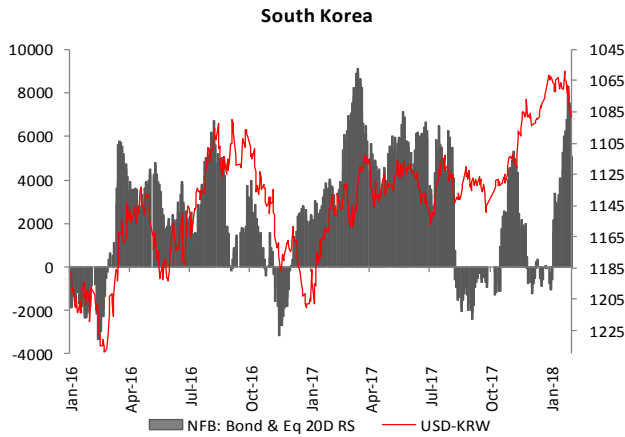
- GBP-USD** Jan composite/services PMI came in on the wrong side of expectations on Monday while background caution towards discord within the Tory party may also restrain the GBP in an environment of risk aversion. Ahead of the BOE MPC this week, note that short term implied valuations meanwhile remain continue to remain supported. Barring an acute meltdown in global markets, expect some base building behavior towards 1.3900/30 ahead of 1.3860.



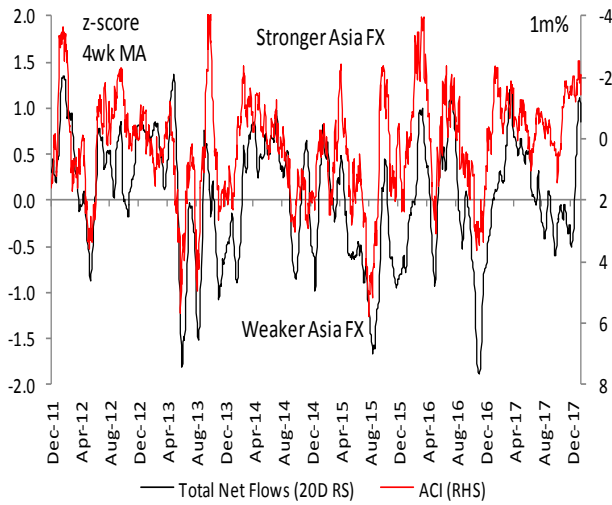
Source: OCBC Bank

- **USD-CAD** Ahead of the BOC's Wilkins on Thursday, USD-CAD may potentially gravitate towards its 55-day MA (1.2604) and its 100-day MA (1.2608) if global sentiment continues to remain fragile in the near term on the back of an equity/crude sell off.

USD-Asia VS. Net Capital Flows

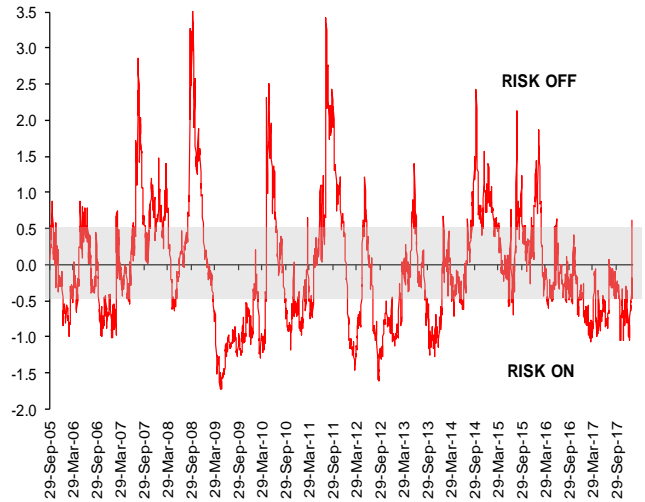


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXYSGG10	CNY	SPXMSLCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR		
DXY	1	-0.807	0.954	-0.461	-0.763	-0.854	0.912	-0.841	-0.357	-0.63	0.972	-0.985
CNH	0.972	-0.846	0.994	-0.345	-0.71	-0.789	0.896	-0.715	-0.465	-0.715	1	-0.958
MYR	0.964	-0.794	0.969	-0.428	-0.784	-0.87	0.899	-0.822	-0.396	-0.587	0.98	-0.948
CHF	0.955	-0.847	0.981	-0.284	-0.678	-0.79	0.907	-0.729	-0.493	-0.742	0.981	-0.936
CNY	0.954	-0.861	1	-0.283	-0.681	-0.762	0.879	-0.752	-0.517	-0.757	0.994	-0.94
THB	0.941	-0.838	0.967	-0.385	-0.725	-0.845	0.911	-0.842	-0.393	-0.678	0.97	-0.924
SGD	0.934	-0.624	0.841	-0.68	-0.862	-0.901	0.849	-0.838	-0.108	-0.345	0.843	-0.903
JPY	0.912	-0.675	0.879	-0.406	-0.705	-0.849	1	-0.782	-0.4	-0.586	0.896	-0.889
TWD	0.837	-0.712	0.883	-0.468	-0.845	-0.82	0.811	-0.761	-0.27	-0.47	0.881	-0.804
CAD	0.698	-0.458	0.606	-0.719	-0.794	-0.719	0.463	-0.648	0.204	-0.063	0.531	-0.6
CCN12M	0.382	0.045	0.349	-0.254	-0.252	-0.258	0.439	-0.144	-0.164	-0.041	0.394	-0.359
IDR	0.151	0.256	-0.044	-0.774	-0.442	-0.377	0.129	-0.255	0.604	0.534	0.021	-0.17
KRW	-0.167	0.504	-0.303	-0.626	-0.223	-0.1	-0.149	0.008	0.776	0.745	-0.253	0.146
INR	-0.328	0.479	-0.3	-0.31	-0.058	-0.003	-0.136	0.143	0.478	0.576	-0.293	0.324
USGG10	-0.807	1	-0.861	0.182	0.537	0.637	-0.675	0.667	0.448	0.804	-0.846	0.794
AUD	-0.814	0.507	-0.685	0.835	0.867	0.839	-0.686	0.722	-0.106	0.151	-0.642	0.726
PHP	-0.863	0.927	-0.906	0.153	0.576	0.627	-0.769	0.661	0.58	0.822	-0.893	0.833
NZD	-0.876	0.652	-0.785	0.667	0.763	0.796	-0.763	0.774	0.075	0.381	-0.791	0.862
GBP	-0.971	0.789	-0.929	0.555	0.833	0.864	-0.837	0.8	0.241	0.518	-0.929	0.952
EUR	-0.985	0.794	-0.94	0.439	0.718	0.835	-0.889	0.799	0.357	0.631	-0.958	1

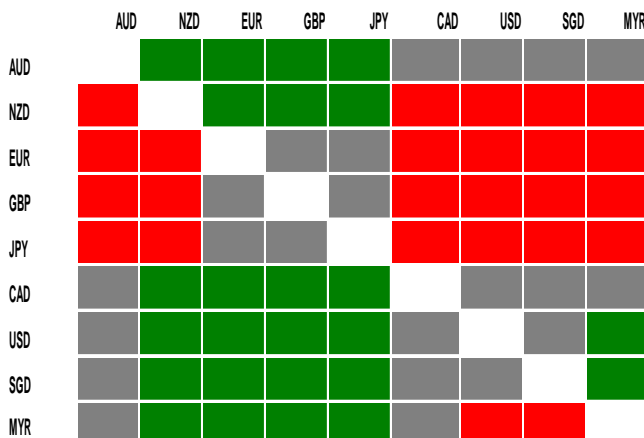
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2047	1.2300	1.2371	1.2400	1.2537
GBP-USD	1.3641	1.3900	1.3960	1.4000	1.4345
AUD-USD	0.7803	0.7828	0.7869	0.7900	0.8134
NZD-USD	0.7200	0.7205	0.7276	0.7300	0.7392
USD-CAD	1.2254	1.2500	1.2537	1.2579	1.2586
USD-JPY	108.08	108.28	108.69	109.00	111.68
USD-SGD	1.3029	1.3200	1.3214	1.3300	1.3319
EUR-SGD	1.6045	1.6300	1.6348	1.6400	1.6432
JPY-SGD	1.2100	1.2115	1.2157	1.2165	1.2187
GBP-SGD	1.8170	1.8400	1.8447	1.8500	1.8732
AUD-SGD	1.0378	1.0394	1.0399	1.0400	1.0430
Gold	1303.72	1313.90	1343.70	1359.73	1365.40
Silver	16.75	16.80	16.90	16.90	17.02
Crude	62.64	63.20	63.29	63.30	66.26

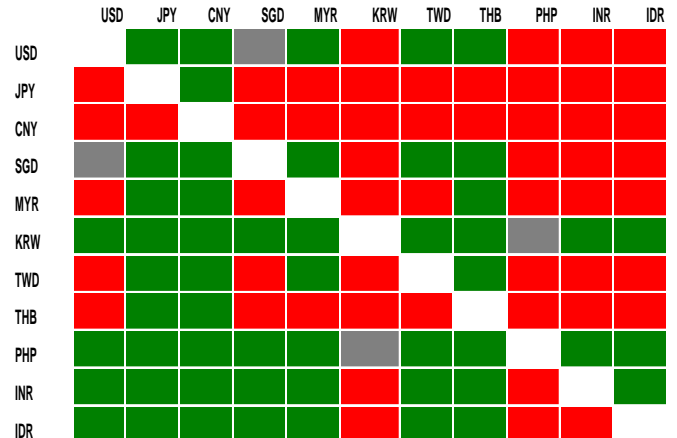
Source: OCBC Bank

G10 FX Heat Map



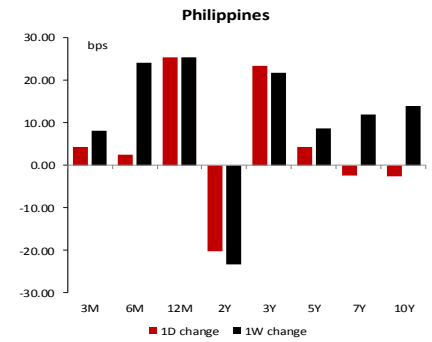
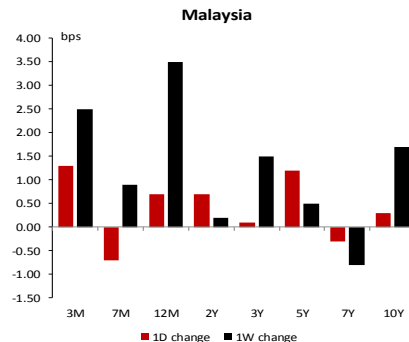
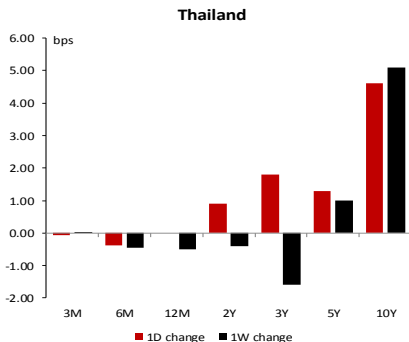
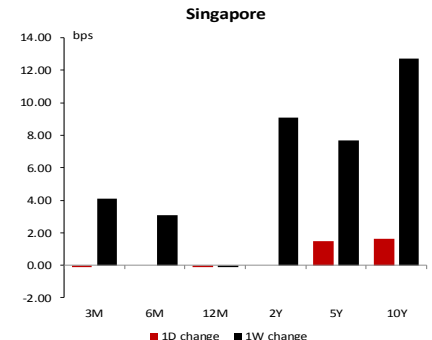
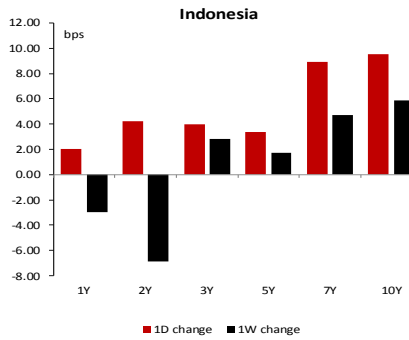
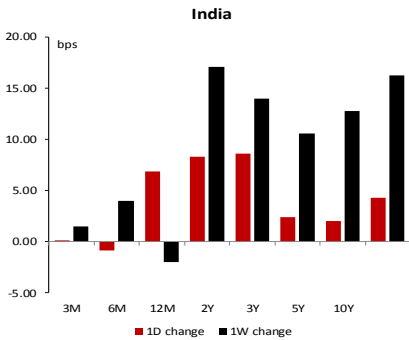
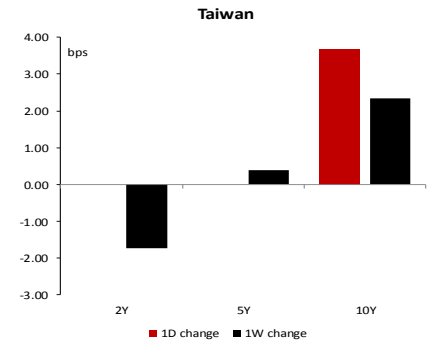
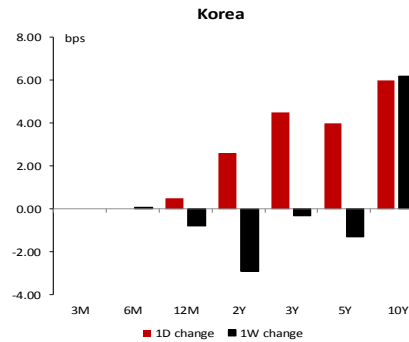
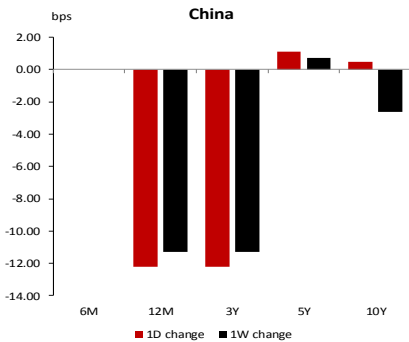
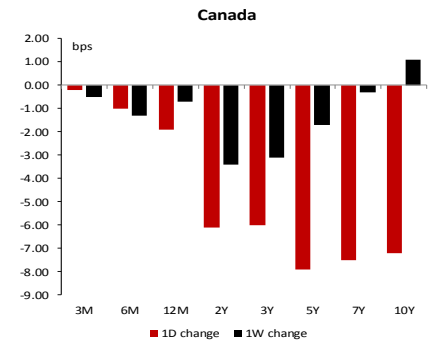
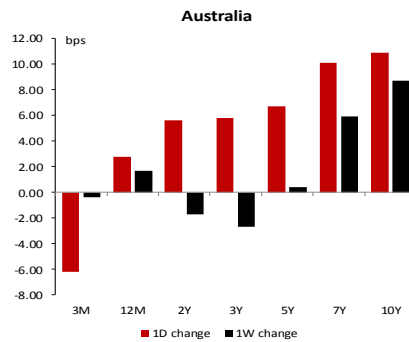
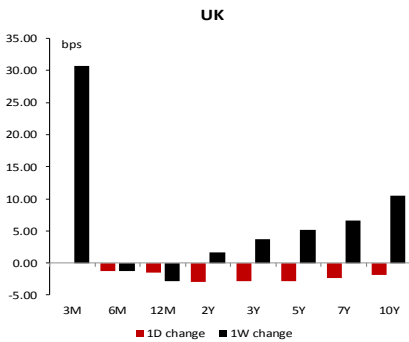
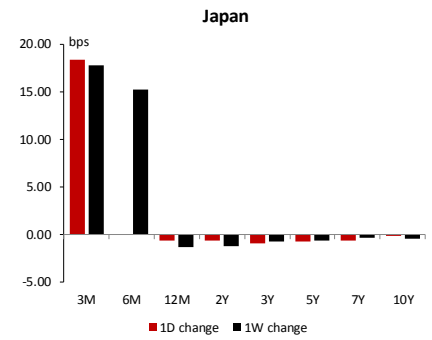
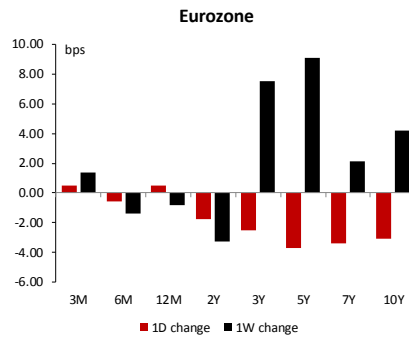
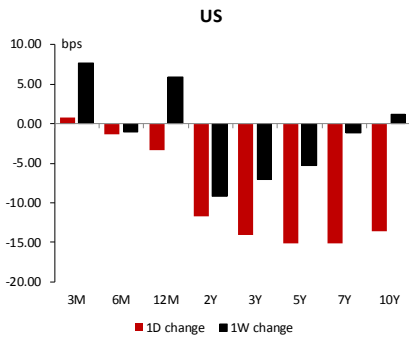
Source: OCBC Bank

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	
STRUCTURAL								
2	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
3	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	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
2	09-May-17	12-Jan-18	B	GBP-USD	1.2927	1.3700	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?	+4.71
3	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
4	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heavy dollar, positive risk appetite, SGD NEER not excessively strong	+0.39

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Source: OCBC Bank

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