

Thursday, February 08, 2018

## FX Themes/Strategy/Trading Ideas

- Despite negative US equities, the USD climbed against its G10 peers (except the JPY) on Wednesday following a 2-year bi-partisan Senate budget agreement. JPY meanwhile outperformed on the crosses on cited unwinding.
- US Senate announced a 2-year budget agreement that provides another USD300bn in additional funding and suspends the federal debt ceiling till March 2019. UST curve lifted with the 10y yield up at 2.845%.
- Somewhat dovish comments from the **Fed's Evans** was balanced by **Williams**, who, despite endeavoring to sound gradualist, indicated that the Fed was focusing on inflation, tax cuts would raise GDP this year, and that he was ambivalent between 3 or 4 hikes this year.
- The **ECB's** Nowotny said the US Treasury is deliberately weakening the USD. More importantly, a coalition agreement between the CDU-bloc and the SPD on the **German political front** failed to support the EUR with investors (and Merkel) viewing the deal as concessionary (Finance ministry goes to the SPD).
- The **RBNZ** was unchanged as expected but the central bank cut its 1Q growth forecasts and projected inflation trajectory, and despite apparent comfort with the NZD's level. RBNZ's Spencer stated that "Monetary policy will remain accommodative for a considerable period" with the central bank now expecting inflation to reach the midpoint of its 1-3% range in 3Q 20, 2 year later than previously projected. The RBNZ's McDermott early Thursday in Asia also chimed in with similarly neutral comments on the inflation outlook.
- Today, the Fed's Kaplan (0915 GMT), Harker (1300 GMT), and Kashkari (1400 GMT) are penciled in while the ECB schedule is crowded with Weidmann (0845 GMT), Prate (on Twitter @0915 GMT), Villeroy (1015 GMT), Mersch (1030 GMT), and Praet again at 1045 GMT. Meanwhile, the BOC's Wilkins is due at 1745 GMT. On other fronts, the BOE MPC and Inflation Report today are also due at 1200 GMT.
- Overall, the broad dollar may be finally responding to rate differential arguments (thus far this month). Meanwhile, the weak dollar narrative continues to be chipped away gradually by less than enthusiastic policy postures (read: not as hawkish as expected) from the other core central banks. To this end, expect investors to be on the lookout for any

Treasury Research &  
Strategy

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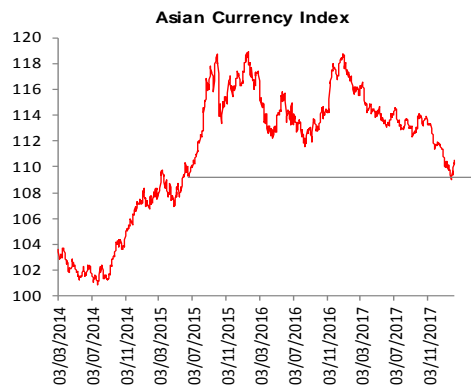
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strengthening in the Fed's forward guidance, potentially disrupting the implied steady state of 3 Fed rate hikes this year. Intra-day, stay heavy on the AUD-USD (RBA's Lowe at 0900 GMT) on a weak commodity complex while remaining supported on the USD-JPY (near term USD resilience).

**Asian FX**

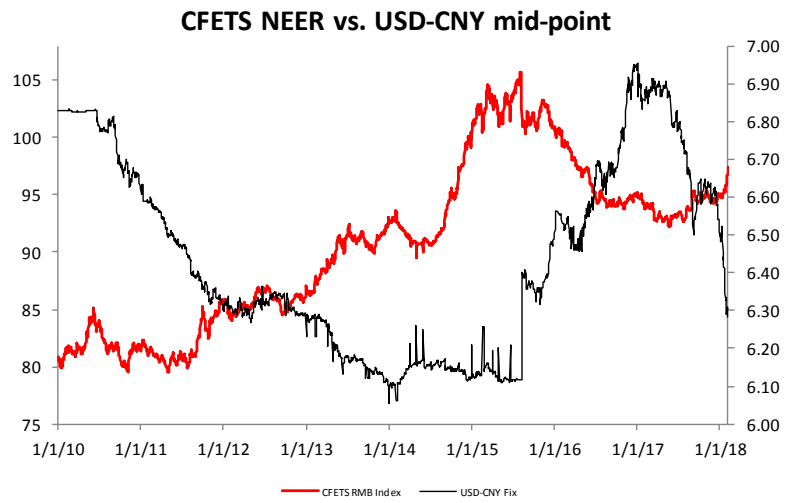
- EM equities shed further ground on Wednesday and EM FX retreated against the USD in tandem with the majors. Expect USD-Asia and the **ACI (Asian Currency Index)** to shy away from the downside despite the **FXSI (FX Sentiment Index)** dipping deeper into Risk-neutral territory.
- The **RBI** left its key policy parameters unchanged as expected yesterday with the central bank coming across as more neutral than expected – lending support to govies. Today, the **BSP** is also expected (by the consensus) to leave its key policy parameters unchanged at 0800 GMT despite hawkish hints from the central bank last week. China January trade data is also on tap today.
- Meanwhile, the net portfolio inflow environment in Asia continues to demonstrate vanishing net inflows (on a rolling basis) for the KRW, TWD, and THB, while the IDR and PHP are now experiencing net outflows.
- **SGD NEER:** The SGD NEER is softer on the day at around +0.07% above its perceived parity (1.3248) with NEER-implied USD-SGD thresholds higher on the day. We look for a -0.20% (1.3275) to +0.20% (1.3222) range to prevail intra-day.



	SGD NEER	% deviation	USD-SGD
Current	124.36	0.08	1.3237
+2.00%	126.74		1.2988
Parity	124.26		1.3248
-2.00%	121.77		1.3518

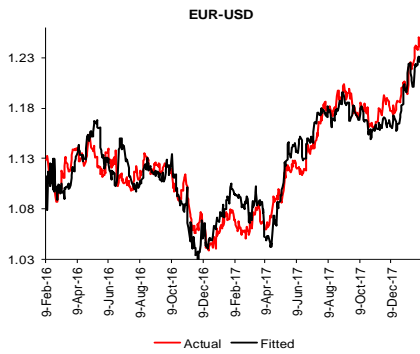
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fell (as largely expected) to 6.2822 from 6.2882 yesterday. This resulted in the CFETS RMB Index gaining further (we think a little too rapidly in recent sessions) to 97.46 from 97.02 on Wednesday.



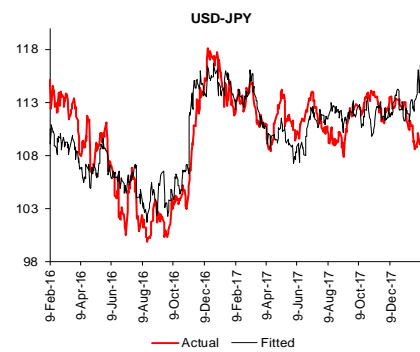
Source: OCBC Bank, Bloomberg

G7



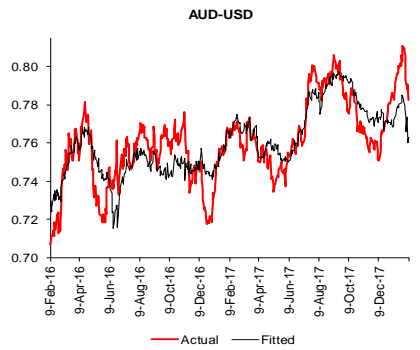
Source: OCBC Bank

- EUR-USD** Short term implied valuations continue to tip lower at this juncture with risk of a breach of the .382 Fibo retracement at 1.2222. Thereafter, the 50% retracement at 1.2129 would be expected to come into play. Sentiment for the pair may be expected to be heavy ahead of the raft of ECB appearances today.



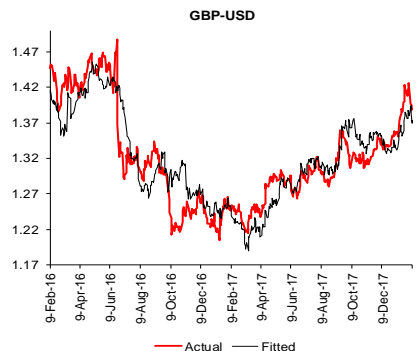
Source: OCBC Bank

- USD-JPY** Short term implied valuations for the USD-JPY are on a slightly higher ledge and 109.00 may offer tangible support if USD resilience continues to be encouraged by Fed-speak later today.



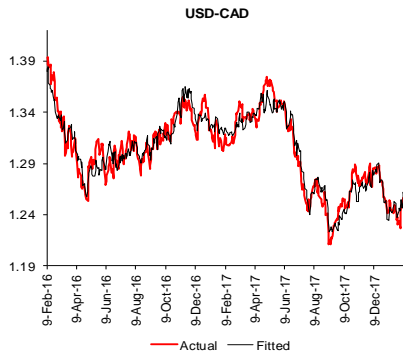
Source: OCBC Bank

- AUD-USD** AUD-USD has continued to be cratered so far this week on a confluence of negatives (including a less than hawkish RBA). Short term implied valuations are attempting to stabilize but note that with the 50% retracement level at 0.7819 now under threat, the .618 Fibo retracement of 0.7744 may beckon.



Source: OCBC Bank

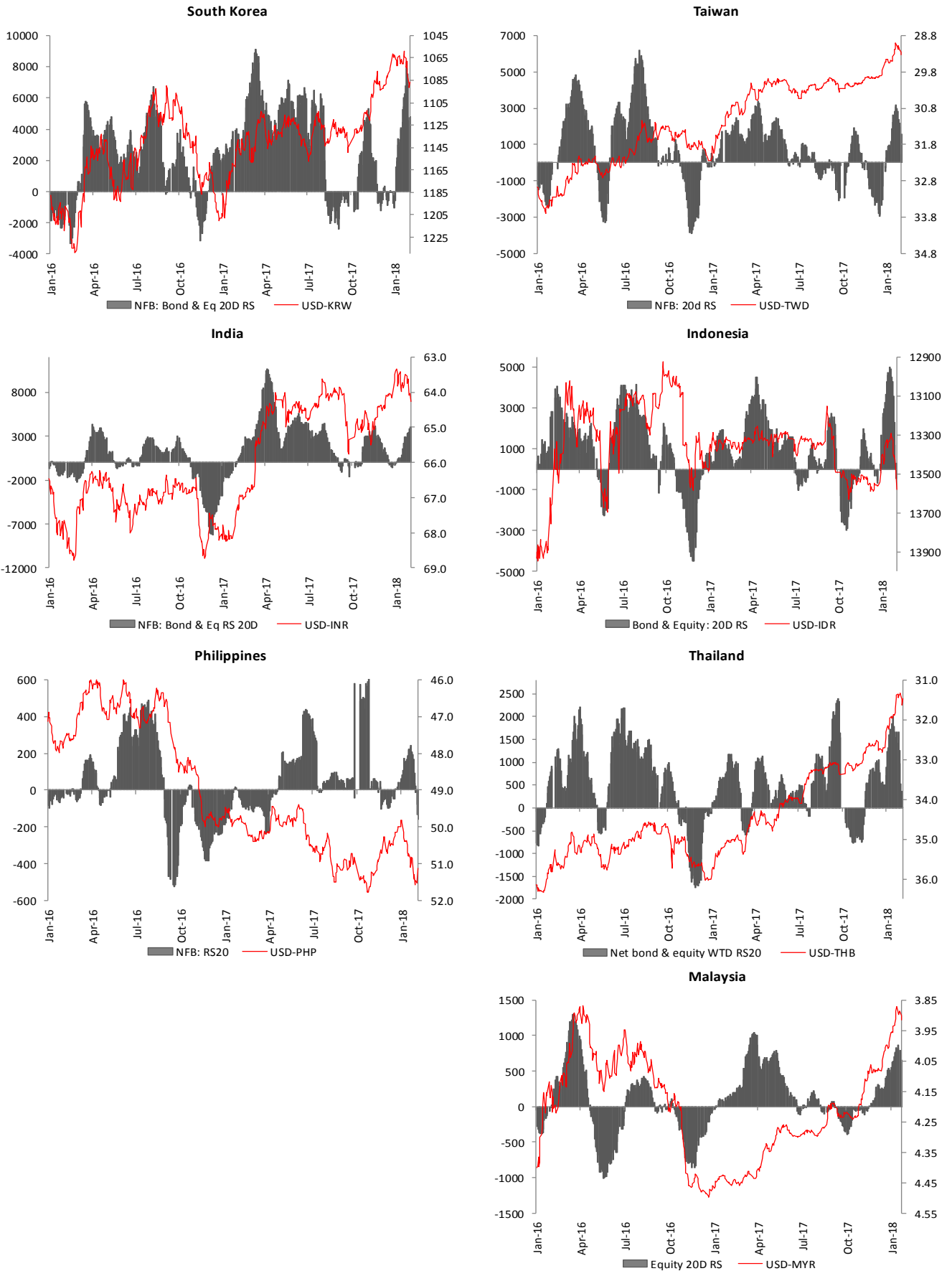
- GBP-USD** A UK government official indicated that this week's ministerial meetings would not yield any concrete Brexit plan details. For today, despite growing wariness of late, a less than hawkish outcome from the BOE today may continue to drive the GBP-USD lower. Next key support is expected towards 1.3800 before 1.3730.



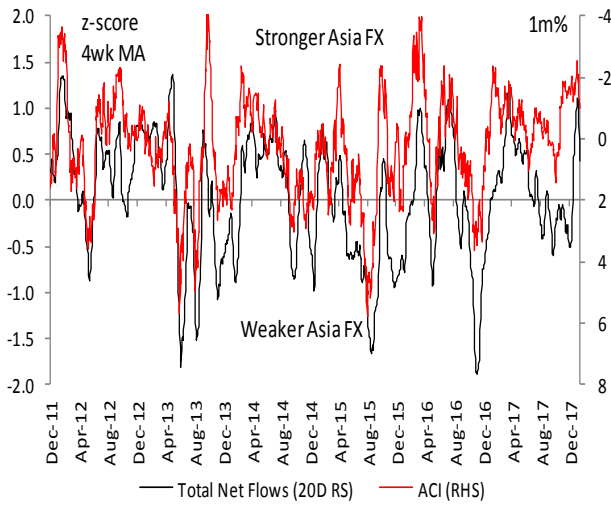
- **USD-CAD** With global markets likely still tentative and the USD attempting to garner some positive traction, the 55-day MA (1.2598) may continue to attract. Ahead of Wilkins later today, note that short term implied valuations for the USD-CAD remain on a fairly solid footing at this juncture.

Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

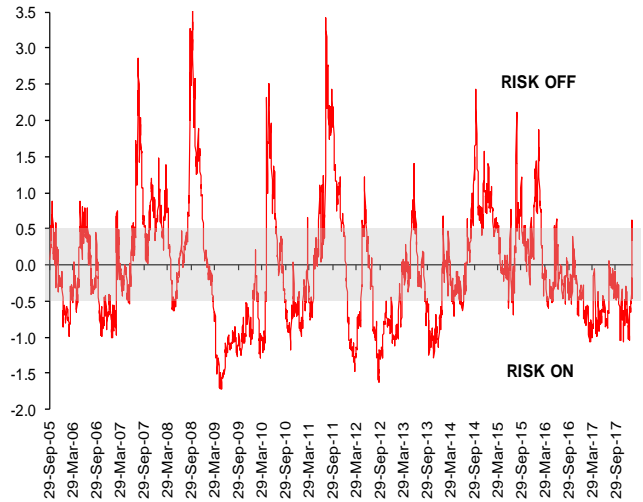


**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

Security	DXYS	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXY	1	-0.723	0.905	-0.336	-0.415	-0.715	0.9	-0.715	-0.334	-0.491	0.94	-0.986
MYR	0.957	-0.735	0.929	-0.257	-0.351	-0.663	0.901	-0.63	-0.41	-0.51	0.945	-0.939
CHF	0.949	-0.811	0.962	-0.116	-0.257	-0.582	0.901	-0.515	-0.509	-0.648	0.97	-0.93
CNH	0.94	-0.851	0.989	-0.081	-0.158	-0.498	0.889	-0.379	-0.559	-0.709	1	-0.912
THB	0.936	-0.796	0.946	-0.214	-0.31	-0.639	0.913	-0.651	-0.416	-0.588	0.957	-0.918
SGD	0.918	-0.47	0.727	-0.615	-0.618	-0.856	0.79	-0.775	-0.03	-0.166	0.743	-0.898
CNY	0.905	-0.88	1	-0.001	-0.097	-0.428	0.874	-0.436	-0.613	-0.758	0.989	-0.89
JPY	0.9	-0.675	0.874	-0.21	-0.271	-0.636	1	-0.496	-0.438	-0.545	0.889	-0.862
TWD	0.825	-0.655	0.846	-0.335	-0.456	-0.657	0.809	-0.608	-0.26	-0.385	0.845	-0.79
CAD	0.599	-0.129	0.34	-0.77	-0.775	-0.786	0.326	-0.749	0.391	0.259	0.319	-0.551
CCN12M	0.385	0.053	0.308	-0.225	-0.179	-0.313	0.367	-0.217	-0.12	-0.016	0.316	-0.349
IDR	0.049	0.513	-0.291	-0.848	-0.721	-0.562	-0.051	-0.452	0.768	0.76	-0.218	-0.063
KRW	-0.192	0.666	-0.468	-0.751	-0.622	-0.375	-0.252	-0.27	0.87	0.87	-0.416	0.178
INR	-0.32	0.652	-0.473	-0.559	-0.528	-0.329	-0.262	-0.191	0.687	0.769	-0.442	0.315
AUD	-0.722	0.196	-0.434	0.846	0.794	0.884	-0.516	0.792	-0.297	-0.172	-0.413	0.658
USGG10	-0.723	1	-0.88	-0.165	-0.117	0.199	-0.675	0.259	0.624	0.848	-0.851	0.711
PHP	-0.85	0.895	-0.903	-0.034	0.128	0.399	-0.772	0.453	0.614	0.745	-0.903	0.822
NZD	-0.861	0.517	-0.688	0.549	0.488	0.73	-0.683	0.721	0.064	0.247	-0.696	0.851
GBP	-0.965	0.661	-0.849	0.472	0.539	0.768	-0.81	0.685	0.18	0.344	-0.861	0.95
EUR	-0.986	0.711	-0.89	0.314	0.386	0.691	-0.862	0.65	0.338	0.492	-0.912	1

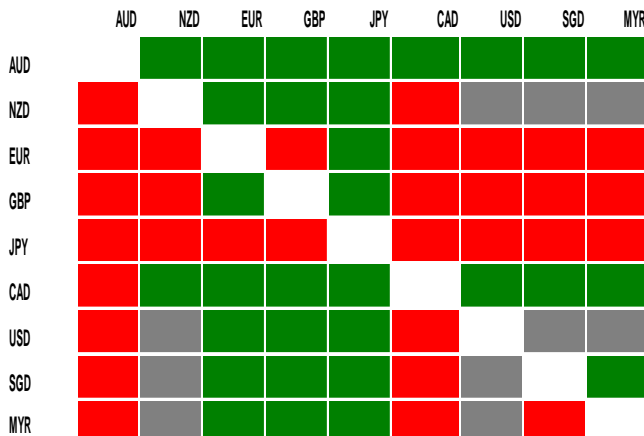
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.2145	1.2200	1.2279	1.2300	1.2511
GBP-USD	1.3673	1.3800	1.3893	1.3900	1.4303
AUD-USD	0.7814	0.7815	0.7821	0.7900	0.8136
NZD-USD	0.7132	0.7142	0.7199	0.7200	0.7205
USD-CAD	1.2251	1.2500	1.2557	1.2573	1.2584
USD-JPY	108.28	109.00	109.32	110.00	111.51
USD-SGD	1.3044	1.3200	1.3264	1.3289	1.3300
EUR-SGD	1.6075	1.6200	1.6288	1.6300	1.6392
JPY-SGD	1.1927	1.2100	1.2133	1.2135	1.2161
GBP-SGD	1.8180	1.8400	1.8428	1.8500	1.8703
AUD-SGD	1.0352	1.0365	1.0373	1.0400	1.0401
Gold	1304.10	1311.52	1315.60	1359.77	1365.40
Silver	16.20	16.21	16.25	16.29	16.30
Crude	61.10	61.60	61.62	61.70	61.92

Source: OCBC Bank

**G10 FX Heat Map**



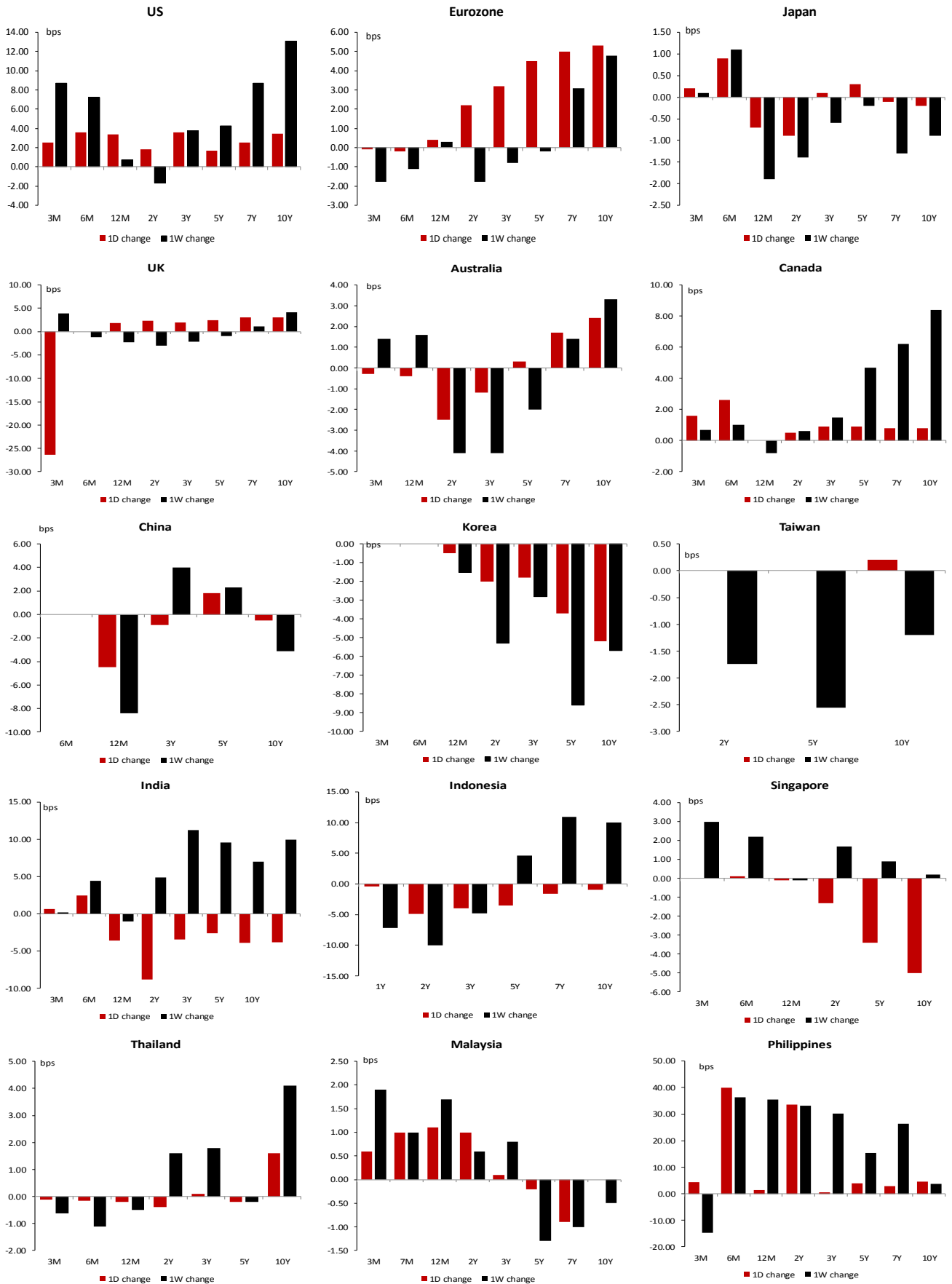
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### Government bond yield changes





### FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	15-Jan-18	B	EUR-USD	1.2199	1.2645	1.2305	"Hawkish" ECB expectations, positive German political news flow	
<b>STRUCTURAL</b>								
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	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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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