

Friday, February 09, 2018

FX Themes/Strategy/Trading Ideas

- Slumping US equities underpinned the USD, CHF, and JPY on Thursday, clouding the strong/weak dollar narrative again. To this end, the **FXSI (FX Sentiment Index)** bounced sharply back into Risk-Off territory for the second time this week.
- The collective central bank rhetoric from around the globe on Thursday we think may be sufficient to underpin the weak dollar narrative once the smoke from equity volatility clears. Comments from the Fed's Kashkari, Dudley, and Harker proved mixed, in our view keeping Fed rate hike expectations static.
- Meanwhile, we think signals from the ECB and the BOE may be sufficient to sustain the weak dollar narrative despite less than hawkish signals from the other central banks on Thursday. On this front, the ECB's Praet, Weidmann, and Galhau expressed sufficient hawkishness (making reference to the increasing importance of forward guidance).
- Elsewhere, in the wake of the BOE MPC, the GBP-USD spiked briefly above 1.4000 and the pound outperformed across the board (gilt curve lifted with markets almost pricing in a May rate hike) after the central bank noted that "Were the economy to evolve broadly in line with the February Inflation Report projections, monetary policy would need to be tightened somewhat earlier and by a somewhat greater extent over the forecast period than anticipated at the time of the November Report".
- On the other end of the spectrum, comments from the RBA's Lowe (no strong case for a near term rate hike) and the BOJ's Kuroda and Suzuki on Thursday were expressively non-hawkish. Given the current caution in global markets and soggy commodity complex, continue to stay top heavy on the AUD-USD. Meanwhile, dovish signals from the BOJ may be outweighed by risk aversion in the near term, continuing to suppress the USD-JPY.
- Our 15 Jan 18 idea to be tactically long **EUR-USD** (spot ref: 1.2199) was closed out at the profit stop of 1.2305 on Wednesday (07 Feb 18) for an implied +0.72% gain.

Treasury Research &
Strategy

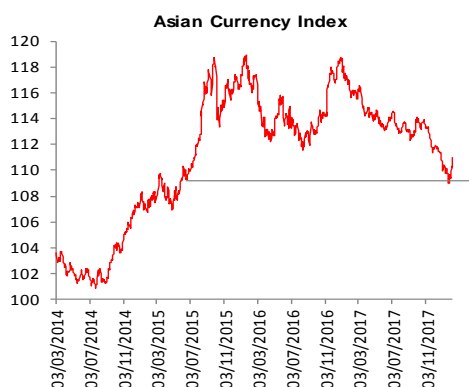
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

Asian FX

- USD-Asia may continue to orient higher in line with the EM complex with Asian equities still bleeding early Friday in Asia and with EM risk premiums have blown wider. As such, the **ACI (Asian Currency Index)** is expected to search higher into the end of the week with net portfolio inflows continuing to

evaporate in the region this past week. Specifically, note outflow pressure for the PHP and the IDR, with a precipitous drop in inflows for the KRW, TWD, and THB.

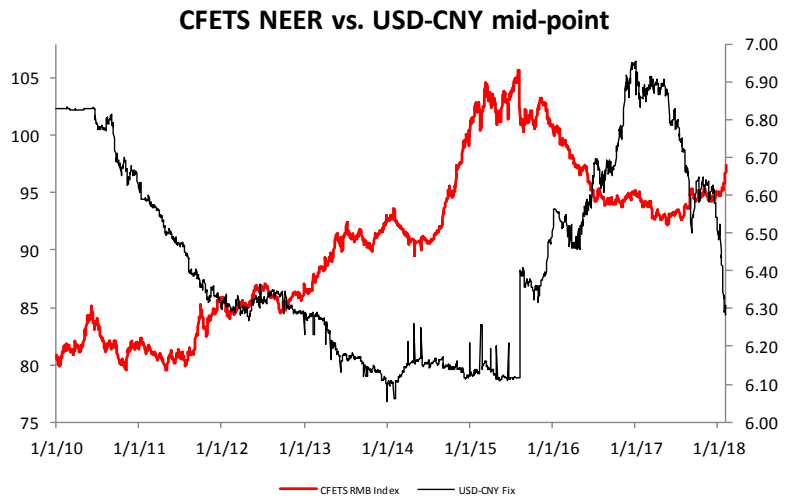
- The **BSP** kept its policy parameters unchanged as widely expected On Thursday although CPI forecasts raised. However, note that the central bank remains of the view that price pressures would be temporary (returning back to trend in 2019). Note that early Friday, Governor Espenilla also took pains to drive home the point that the BSP remains forwards looking not unduly reactive to short term (and transient) price developments. On our end, we think current market dovishness local govies may be overcooked, akin to the recent experience in South Korea and Malaysia.
- **SGD NEER:** The SGD NEER is lower again this morning at around -0.32% below its perceived parity (1.3284) with NEER-implied USD-SGD thresholds higher on the day. Expect the basket to potentially ply a -0.5% (1.3351) to parity range into the end of the week. Nearest resistance for the USD-SGD is expected at the 55-day MA (1.3332).



	SGD NEER	% deviation	USD-SGD
Current	123.92	-0.27	1.3318
+2.00%	126.74		1.3023
Parity	124.26		1.3284
-2.00%	121.77		1.3555

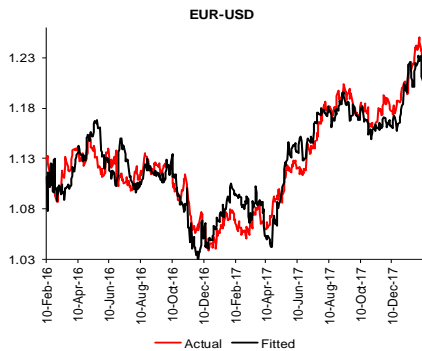
Source: OCBC Bank

- **CFETS RMB Index:** Following the volatility of the USD-CNY and USD-CNH yesterday on the back of the QDLP headlines and trade numbers (although our economist took a positive spin out of the import numbers), the USD-CNY mid-point rose slightly more than expected this morning to 6.3194 from 6.2822 on Thursday. In our view, the behavior of today's fix (and the resultant move in the Index) represents an extremity day and we look for a stabilization in the coming sessions. This however steered the CFETS RMB Index lower to 96.92 from 97.46. As we had stated previously, we were looking for an inflection point around 96.55 for the Index, breakout point of sorts from June 2016.



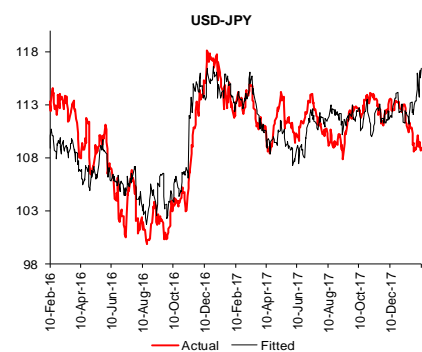
Source: OCBC Bank, Bloomberg

G7



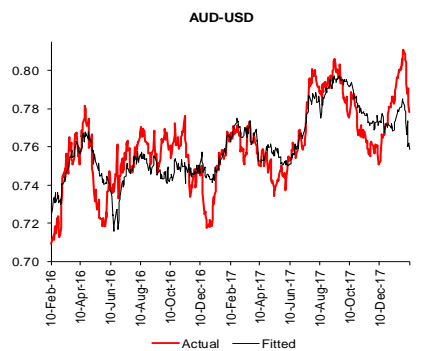
Source: OCBC Bank

- EUR-USD** Despite ECB rhetoric yesterday, note that short term implied valuations are still attempting to drip lower. Fade rallies and the .382 Fibo retracement at 1.2222 remains under threat at this juncture, ahead of the 50% retracement at 1.2129.



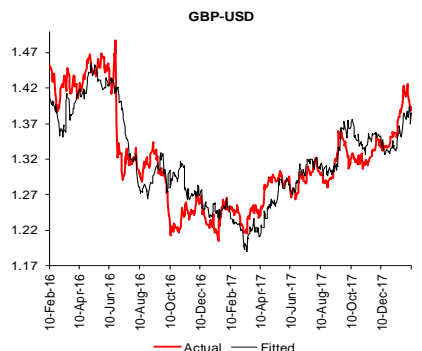
Source: OCBC Bank

- USD-JPY** Near term risk aversion may continue to keep USD-JPY well south of its short term implied confidence intervals. In the interim, expect a top heavy 108.50-109.50 range.



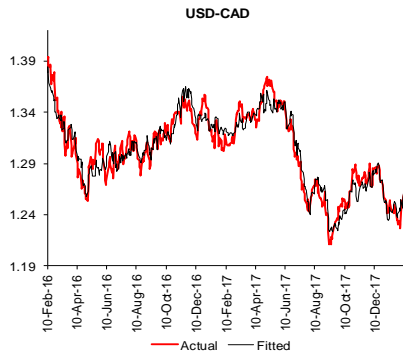
Source: OCBC Bank

- AUD-USD** With the commodity/equity complex soggy and the RBA offering little respite, AUD-USD is expected to be trippy towards the downside in the near term. Short term implied valuations are also increasingly slippery and with key technical supports violated on Thursday, we look for some consolidation towards the 200-day MA (0.7755) and the .618 Fibo retracement level of 0.7744.



Source: OCBC Bank

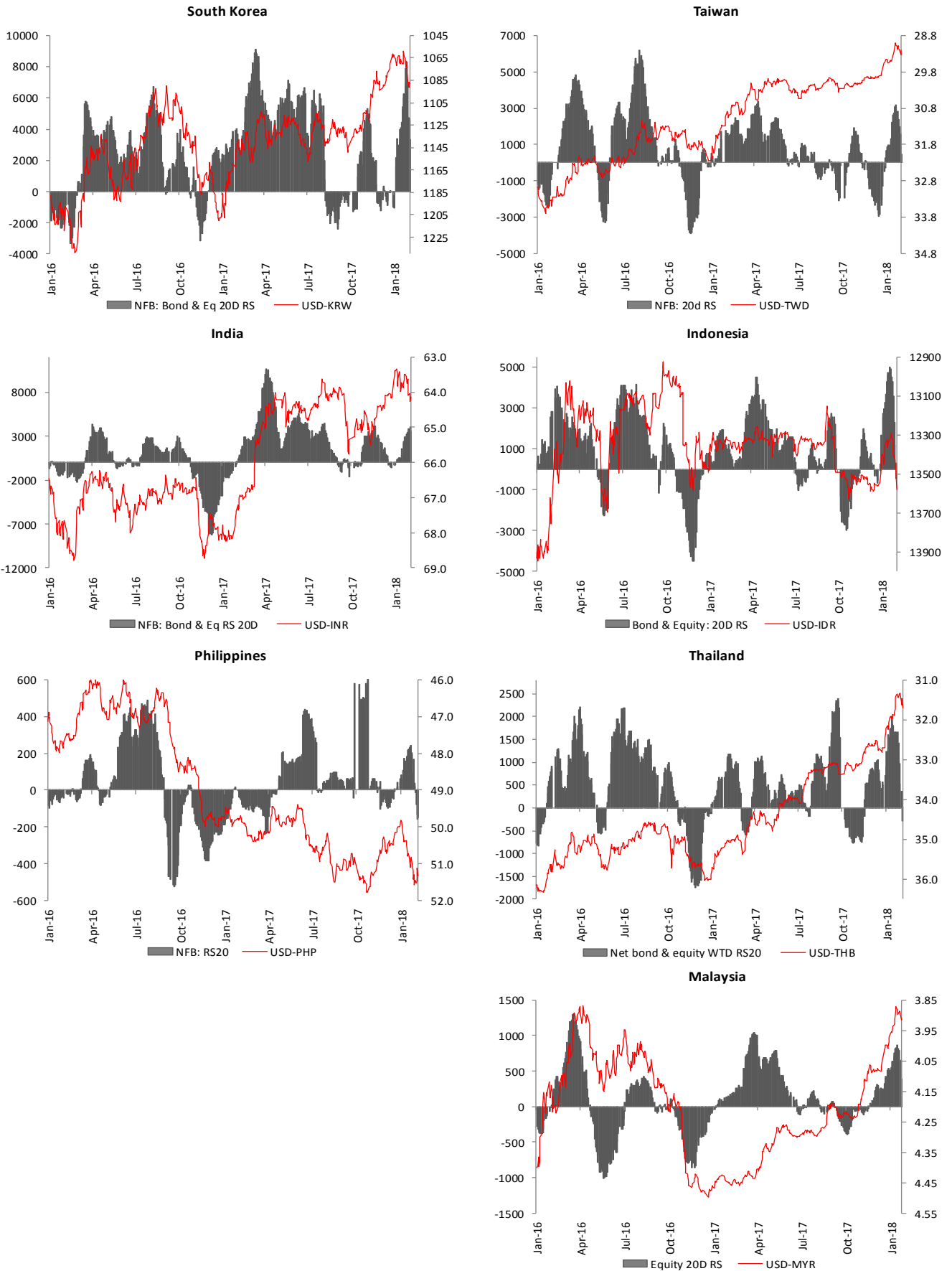
- GBP-USD** Short term implied valuations have bounced sharply post BOE MPC with the pair's near term complexion like more supported in the near term. As such, expect some attempt to base build off 1.3900 towards 1.4000 ahead of the BOE's Cunliffe (1645 GMT).



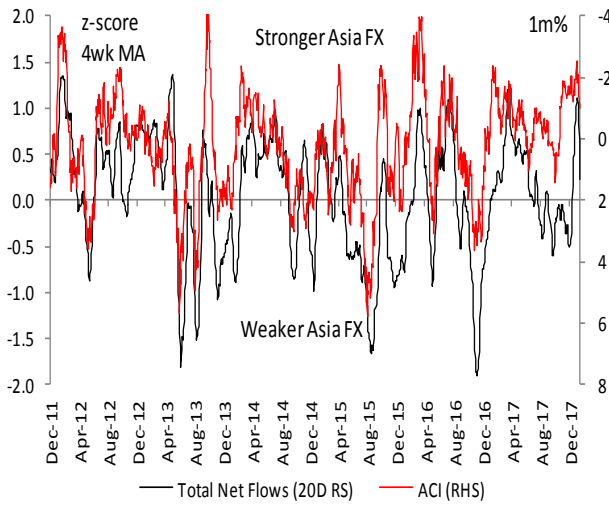
- **USD-CAD** With the cyclicals still likely out of favor in the near term, note also that short term implied valuations for the USD-CAD have continue to float higher in recent sessions. The pair is sitting around its 55-day MA (1.2597) and a breach of the 100-day MA (1.2616) may induce further momentum towards 1.2640/50.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

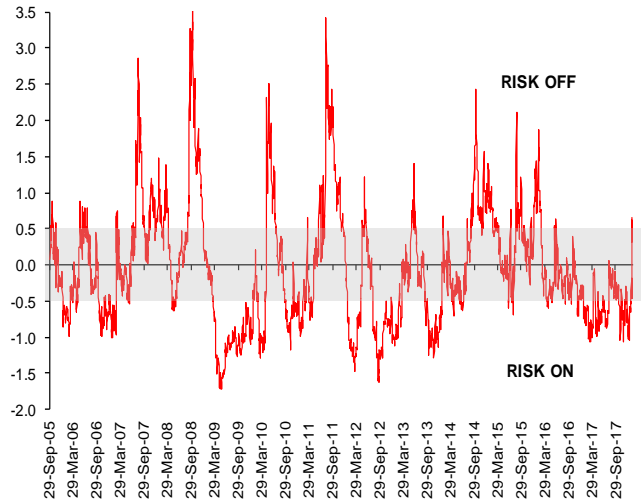


ACI VS. Net Capital Flows



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
DXYS	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

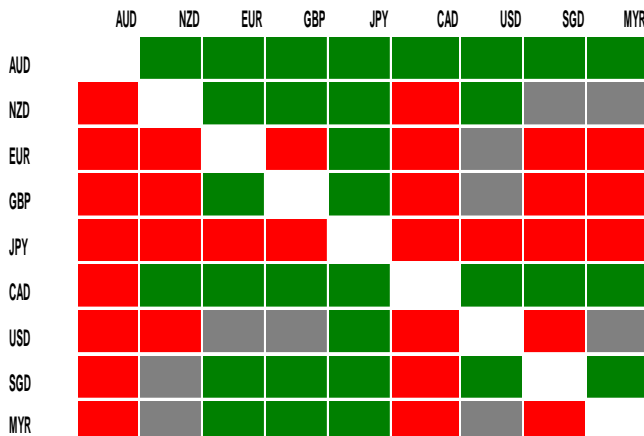
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2151	1.2200	1.2255	1.2300	1.2508
GBP-USD	1.3710	1.3900	1.3937	1.4000	1.4290
AUD-USD	0.7759	0.7780	0.7783	0.7800	0.7817
NZD-USD	0.7200	0.7204	0.7210	0.7300	0.7397
USD-CAD	1.2500	1.2572	1.2595	1.2600	1.2614
USD-JPY	108.05	108.28	108.99	109.00	111.38
USD-SGD	1.3310	1.3322	1.3323	1.3377	1.3400
EUR-SGD	1.6088	1.6300	1.6328	1.6350	1.6400
JPY-SGD	1.2200	1.2205	1.2224	1.2268	1.2300
GBP-SGD	1.8191	1.8500	1.8569	1.8600	1.8705
AUD-SGD	1.0340	1.0345	1.0370	1.0400	1.0404
Gold	1304.57	1311.66	1321.70	1359.68	1365.40
Silver	16.22	16.30	16.33	16.40	16.70
Crude	59.52	60.50	60.56	60.60	61.14

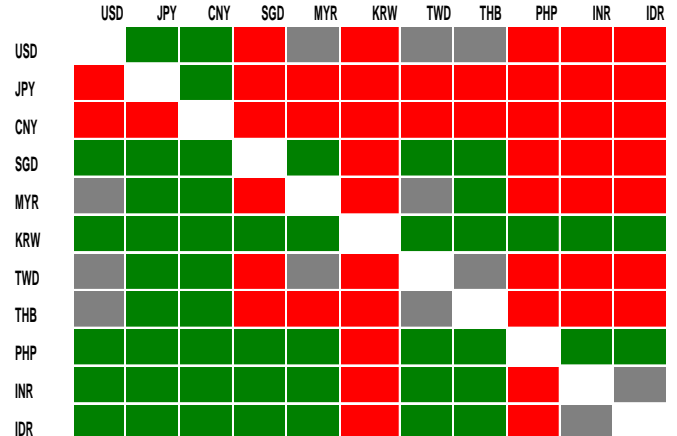
Source: OCBC Bank

G10 FX Heat Map



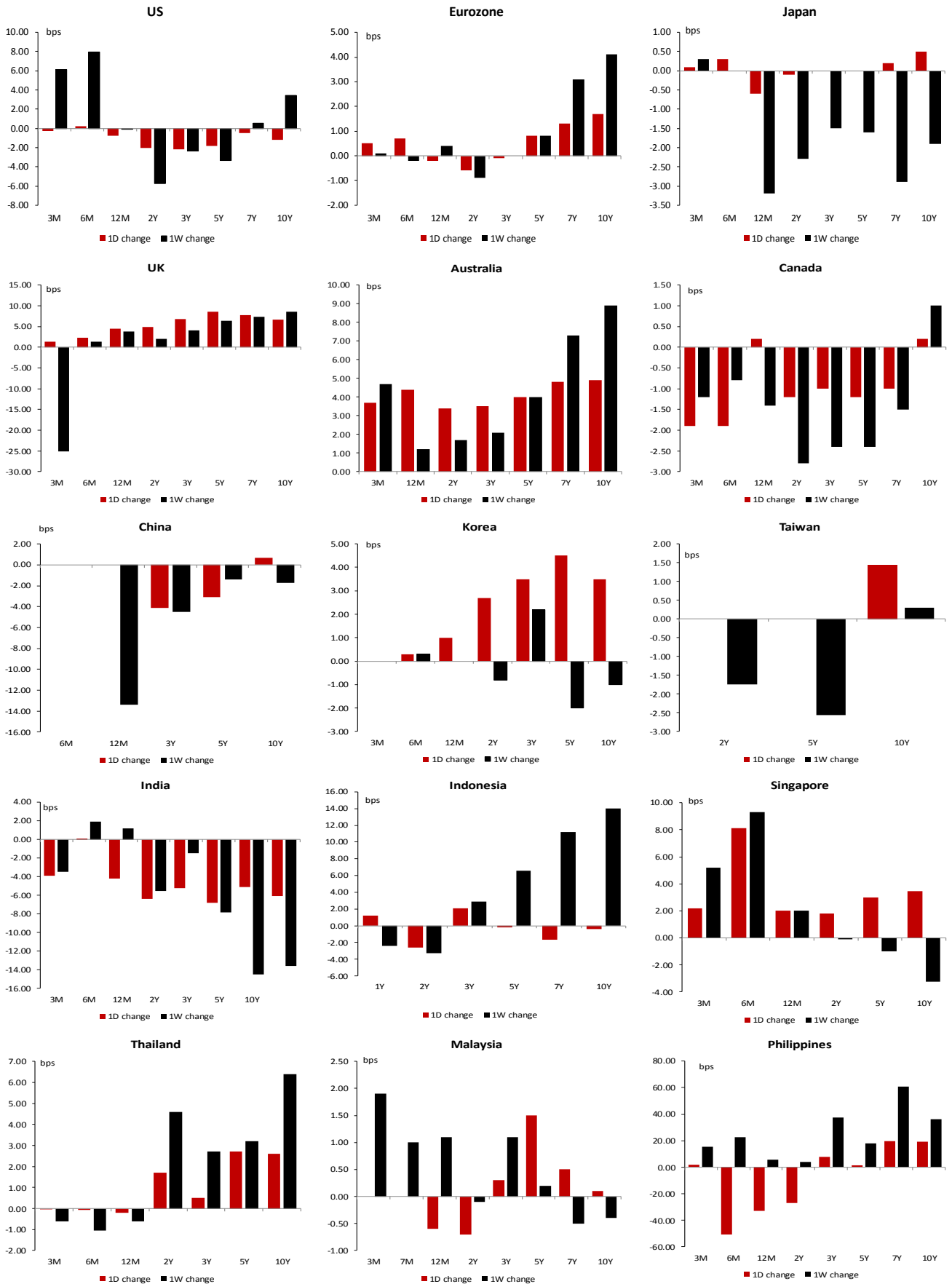
Source: OCBC Bank

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								
-	-	-	-	-	-	-	-	
STRUCTURAL								
1	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
2	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
5	15-Jan-18	07-Feb-18	B	EUR-USD	1.2199	1.2305	"Hawkish" ECB expectations, positive German political news flow	+0.72
**of notional								

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
