

Thursday, January 11, 2018

FX Themes/Strategy/Trading Ideas

- Despite firmer UST yields, the dollar ended mixed to weaker on Wednesday after a wire report (not officially verified) indicated that China may be contemplating a slowing (or halting) of US Treasury purchases. The DXY briefly printed sub-92.00 before rebounding to end near 92.33.
- Overall, beyond the short term knee jerk reactions from overnight and geopolitical conspiracy theories aside, near term impact from the China-US Treasuries news flow are expected to subside beyond the short term.
- With regards to Fed-speak, rate-hike supportive rhetoric from Kaplan was balance by more measured comments from Evans. Going ahead, Bullard's comments with respect to potential price targeting is not expected to have discernible impacts in the near term, given that such an undertaking remains a medium term proposition.
- USD-JPY fell below its 200-day MA (111.72) and through 111.50 as cited longs bailed after correlations continued to remain fractured. As a result, the JPY also outperformed on the crosses.
- Despite firmer crude, USD-CAD surged above 1.2550 (with bond yields easing) after officials noted the belief that US President Trump will indeed announce a US withdrawal from NAFTA.
- For today, the Fed's Dudley is scheduled at 2030 GMT, while ECB meeting minutes (1230 GMT) are also due. On the data front, US PPI numbers (1330 GMT) are also on tap. In the interim, aggregate rate differentials moved against the broad dollar overnight and should keep the greenback on slightly unsteady ground on a selective basis with investors likely to increasingly focus on currency-specific factors instead.

Asian FX

- EMFX was a mixed bag yesterday and with overall risk appetite levels hesitating slightly, expect slightly higher investor caution to prevail. Negative EZ/US/EM equities and wider EM risk premiums saw the **FXSI (FX Sentiment Index)** consolidating yet higher again overnight (albeit still within Risk-On territory). Expect any dips in the **ACI (Asian Currency Index)** to be slightly hesitant intra-day.
- On the net portfolio inflow front, note most recent equity outflows for both the KRW and TWD, while we continue to favor the IDR and THB on the back of

Treasury Research &
Strategy

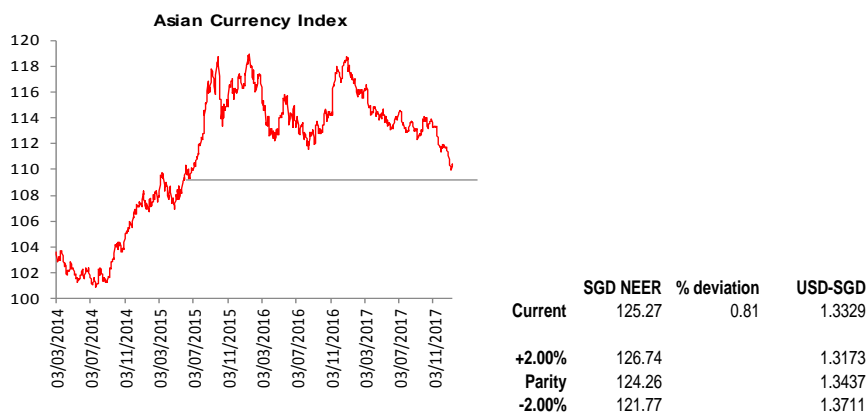
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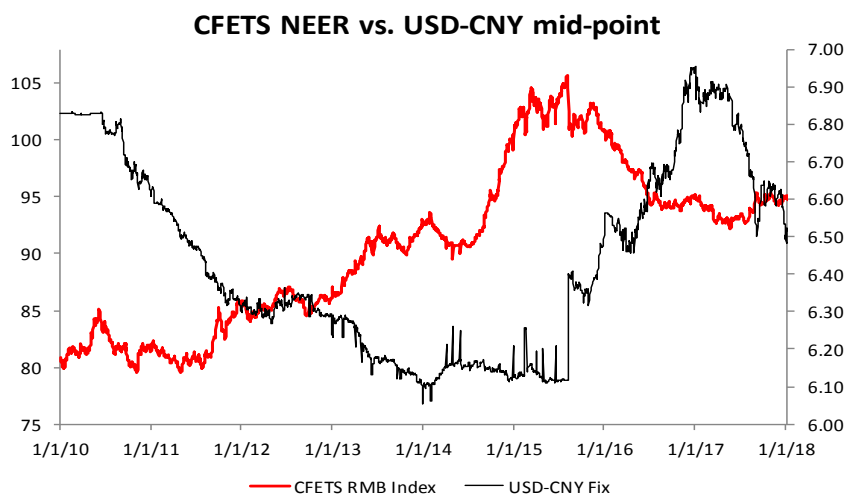
recent bond market inflows. The INR meanwhile continues to look stretched on the upside relative to lackluster bond/equity inflows.

- SGD NEER:** The SGD NEER is softer on the day at around +0.81% above its perceived parity (1.3437) with NEER-implied USD-SGD thresholds also softer on the day. Intra-day, expect the NEER to fluctuate within +0.70% (1.3344) and +0.90% (1.3317) with 1.3380 likely to provide a short term technical ceiling.



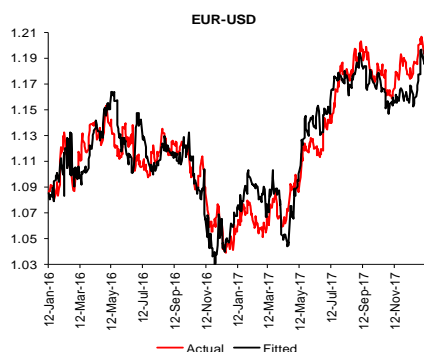
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point slipped (slightly less than expected) to 6.5147 this morning from 6.5207 on Wednesday. This took the CFETS RMB Index lower to 94.75 from 94.83 yesterday.



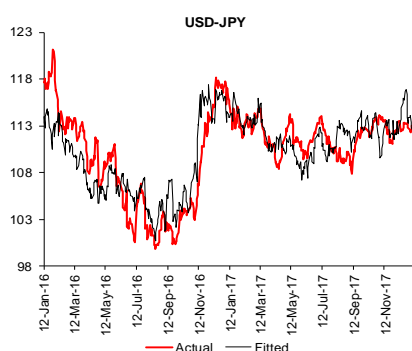
Source: OCBC Bank, Bloomberg

G7



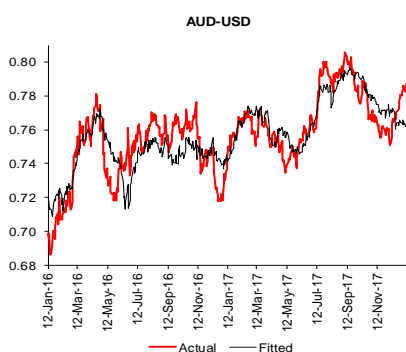
Source: OCBC Bank

- EUR-USD** The bund curve bear steepened from the back-end on Wednesday and this is seeing short term implied valuations tipping higher for the EUR-USD (not to mention the diversion of interest towards the EUR on the back of the China-Treasuries headlines). Pending ECB minutes later today, expect initial support towards 1.1935 with 1.2020 likely to attract if USD vulnerability develops further.



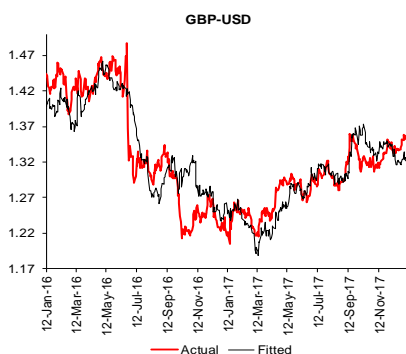
Source: OCBC Bank

- USD-JPY** Despite firming short term implied valuations for the USD-JPY, the technical breakdown of the pair yesterday, coupled with dollar suspicions, wavering risk appetite levels, and the sting from the BOJ-JGB news flow earlier in the week (although JGB operations this morning proved uneventful), should keep the pair top heavy in the near term. If the foothold at 111.50 is lost, 110.85 may beckon.



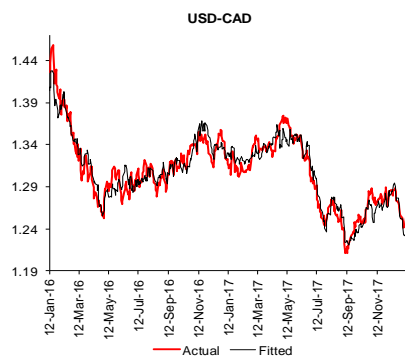
Source: OCBC Bank

- AUD-USD** Significantly better than expected November retail sales this morning boosted the AUD-USD and we note that short term implied valuations have been relatively resistant to downside dips in recent sessions. The caveat however is that the pair continues to trade north of its implied confidence intervals. Collect into dips within 0.7800-0.7900 in the interim.



Source: OCBC Bank

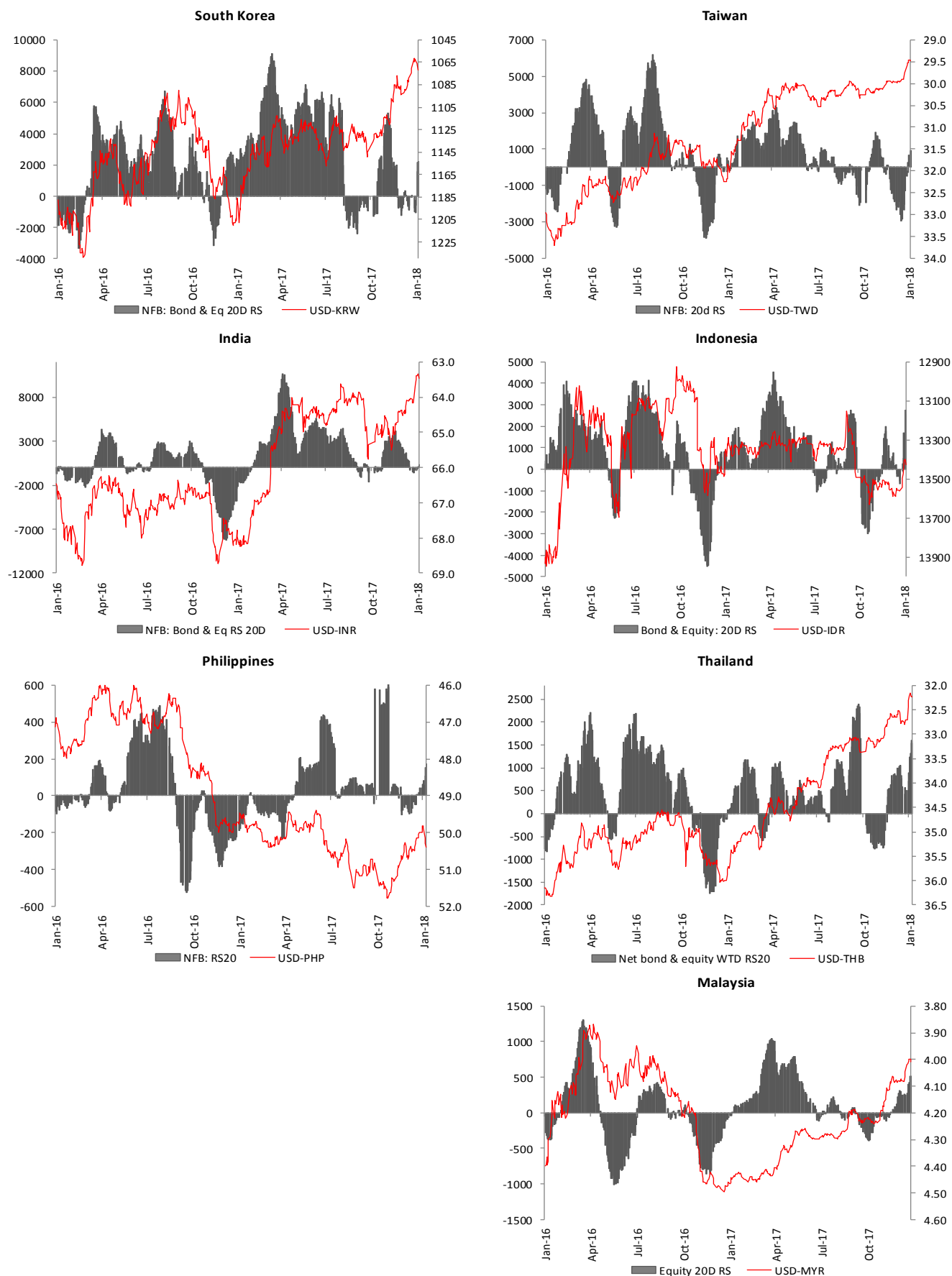
- GBP-USD** With little in the way of positive catalysts (November industrial production numbers were a non-mover) on the near term horizon, GBP-USD edged lower again on Wednesday with the BOE's Broadbent also non-committal on the prospect of a rate hike this year. In the near term, upticks are likely to continue to be treated with suspicion with implied valuations still slippery. A breach of 1.3500 risks 1.3430.



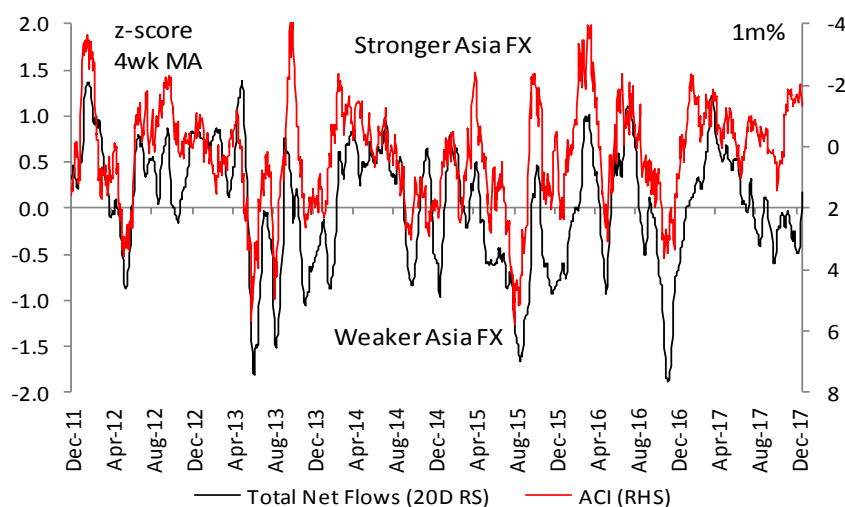
- **USD-CAD** Post the NAFTA headlines from overnight, short term implied valuations have also shaded higher again. As such, some further consolidation towards the 100-day MA (1.2592) cannot be discounted.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

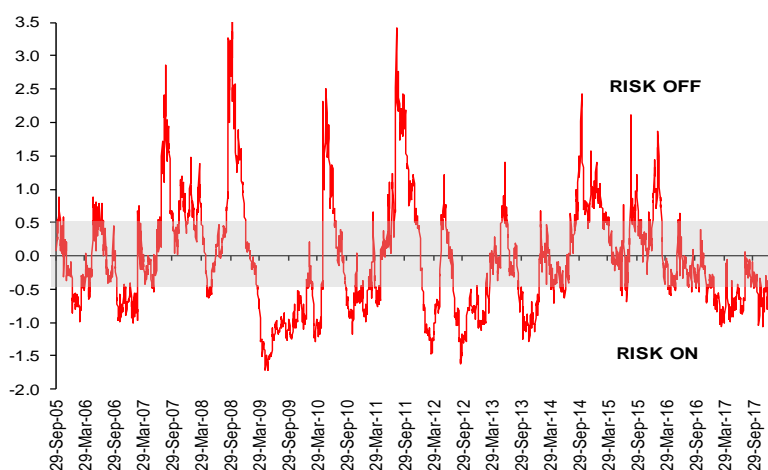


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.39	0.945	-0.677	-0.816	-0.935	0.371	-0.846	0.164	0.592	0.944	-0.983
SGD	0.978	-0.464	0.939	-0.743	-0.868	-0.921	0.363	-0.844	0.314	0.695	0.952	-0.96
KRW	0.961	-0.596	0.981	-0.766	-0.852	-0.969	0.224	-0.862	0.37	0.731	0.976	-0.962
CNY	0.945	-0.543	1	-0.724	-0.837	-0.968	0.231	-0.907	0.192	0.699	0.984	-0.938
CNH	0.944	-0.504	0.984	-0.714	-0.808	-0.947	0.217	-0.853	0.261	0.692	1	-0.947
CHF	0.94	-0.249	0.829	-0.594	-0.717	-0.83	0.467	-0.714	0.185	0.421	0.83	-0.92
CAD	0.927	-0.481	0.938	-0.795	-0.9	-0.923	0.291	-0.894	0.182	0.777	0.938	-0.892
TWD	0.892	-0.528	0.882	-0.891	-0.973	-0.874	0.385	-0.915	0.376	0.731	0.871	-0.846
INR	0.882	-0.542	0.902	-0.831	-0.869	-0.852	0.318	-0.848	0.5	0.619	0.9	-0.875
MYR	0.857	-0.605	0.863	-0.892	-0.962	-0.814	0.478	-0.893	0.435	0.706	0.831	-0.807
PHP	0.815	-0.233	0.813	-0.387	-0.505	-0.79	-0.159	-0.595	0.178	0.638	0.856	-0.873
CCN12M	0.753	-0.342	0.782	-0.579	-0.62	-0.715	0.166	-0.602	0.516	0.491	0.829	-0.782
IDR	0.75	-0.628	0.793	-0.942	-0.953	-0.752	0.276	-0.889	0.487	0.838	0.782	-0.706
THB	0.661	-0.389	0.59	-0.812	-0.851	-0.564	0.667	-0.756	0.46	0.545	0.572	-0.573
JPY	0.371	-0.199	0.231	-0.298	-0.379	-0.284	1	-0.473	0.029	-0.18	0.217	-0.274
USGG10	-0.39	1	-0.543	0.721	0.628	0.586	-0.199	0.742	-0.237	-0.532	-0.504	0.419
NZD	-0.886	0.597	-0.883	0.881	0.94	0.881	-0.532	0.946	-0.219	-0.732	-0.851	0.805
GBP	-0.935	0.361	-0.84	0.722	0.869	0.819	-0.467	0.783	-0.186	-0.587	-0.839	0.884
AUD	-0.955	0.522	-0.954	0.779	0.873	0.965	-0.416	0.915	-0.195	-0.679	-0.951	0.919
EUR	-0.983	0.419	-0.938	0.634	0.756	0.922	-0.274	0.786	-0.21	-0.579	-0.947	1

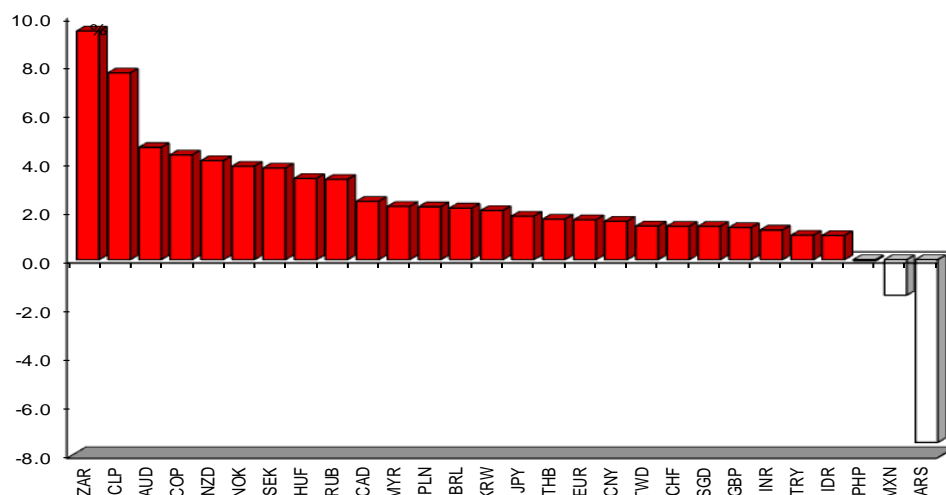
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1831	1.1900	1.1959	1.2000	1.2089
GBP-USD	1.3355	1.3500	1.3512	1.3600	1.3613
AUD-USD	0.7703	0.7800	0.7872	0.7882	0.7900
NZD-USD	0.7100	0.7106	0.7190	0.7200	0.7220
USD-CAD	1.2356	1.2500	1.2555	1.2600	1.2708
USD-JPY	111.00	111.27	111.57	111.69	111.70
USD-SGD	1.3256	1.3300	1.3330	1.3400	1.3465
EUR-SGD	1.5900	1.5927	1.5941	1.6000	1.6039
JPY-SGD	1.1900	1.1941	1.1948	1.1989	1.2000
GBP-SGD	1.7982	1.8000	1.8011	1.8078	1.8100
AUD-SGD	1.0322	1.0400	1.0493	1.0498	1.0500
Gold	1284.76	1300.00	1319.20	1328.60	1343.07
Silver	16.77	17.00	17.03	17.10	17.14
Crude	58.18	63.50	63.58	63.60	63.67

Source: OCBC Bank

FX performance: 1-month change agst USD



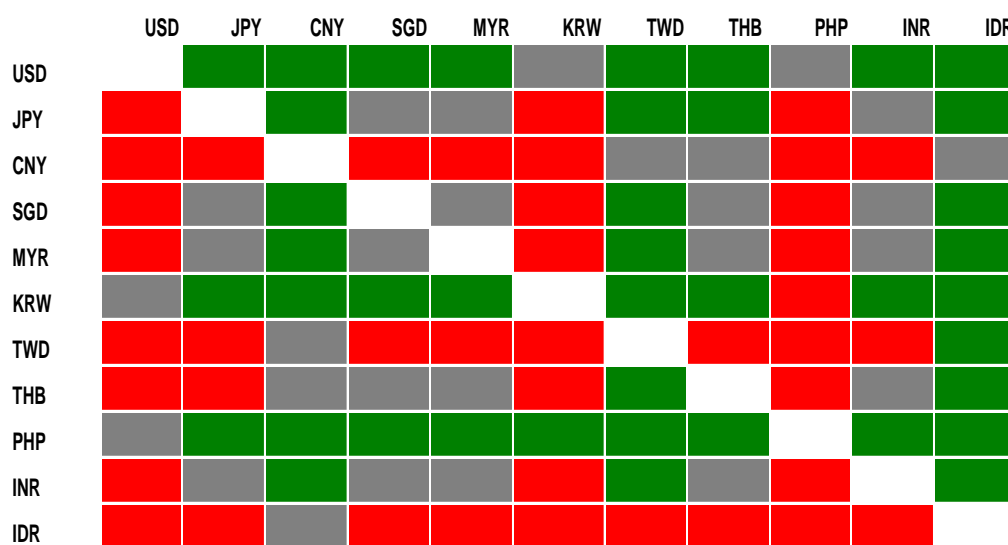
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Red	Red	Red	Red	Red	Red	Red
NZD	Red		Red	Red	Red	Red	Red	Red	Red
EUR	Green	Green		Red	Grey	Green	Red	Red	Grey
GBP	Green	Green	Green		Grey	Green	Red	Green	Green
JPY	Green	Green	Grey	Grey		Green	Red	Grey	Grey
CAD	Green	Green	Red	Red	Red		Red	Red	Red
USD	Green	Green	Green	Green	Green	Green		Green	Green
SGD	Green	Green	Green	Red	Grey	Green	Red		Grey
MYR	Green	Green	Grey	Red	Grey	Green	Red	Grey	

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	1.3125	1.3345	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 imputeBrexit 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?	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	07-Nov-17	13-Dec-17	S	AUD-USD	0.7671	0.7590	RBA on hold, no inflation or rate hike urgency	+0.78
2	07-Nov-17	04-Jan-18	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	-0.90**
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Source: OCBC Bank

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