

Monday, February 12, 2018

## FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar ended mixed on Friday as US equities bounced higher (despite earlier losses in Europe and Asia). Markets may however step into this week slightly undecided and trading off risk appetite cues in the interim. Note that our **FXSI (FX Sentiment Index)** jumped further into **Risk-Off** territory on Friday.
- On the **CFTC** front, large non-commercial accounts pared their net implied short dollar bias in the latest week but leveraged accounts and asset managers increased their net short dollar bias instead. This misstep by the latter two groups of accounts may partially account for the subsequent weakening of the majors in the course of the week. Going ahead, note that the community (at least as captured by the CFTC numbers) remains inherently short the USD in aggregate, potentially leaving space for further capitulation (i.e., weaker majors) if risk aversion rears its ugly head again this week.
- This week, apart from the fairly packed global data stream (including US CPI and PPI readings), the Fed's Mester is scheduled to speak on Tuesday while ECB appearances are penciled in Wednesday-Friday. Elsewhere, the RBA's Ellis is scheduled for late Monday at 2150 GMT and on Thursday, investors will be on the lookout for RBA governor Lowe's semi-annual testimony to the House Economic Committee. On other fronts, the Bank of Canada's Schembri is expected to speak on Thursday while the BOE's Vlieghe (0930 GMT) and McCafferty (1630 GMT) are on tap today.
- On the US fiscal front, with the government shutdown now last week's story after Congress and President Trump put into motion a temporary spending bill on Friday, the White House is expected to unveil the 2019 fiscal budget plan on Monday.
- US curve developments this week may hinge on the US inflation readings while it remains to be seen if the broad dollar will finally respond to favorable rate differential dynamics.
- Meanwhile, the **DXY** managed to hold above 90.00 into the end of the week and its remains to be seen if volatility and risk aversion will continue to detract from underlying dollar dynamics or the implications of differing central bank postures. In addition, markets will be on the lookout for any aggravated contagion from potential equity volatility seeping into FX space, with the latter "relatively" insulated in the past week. Structurally, the commodity complex also settled lower in the past week and this may continue to cast

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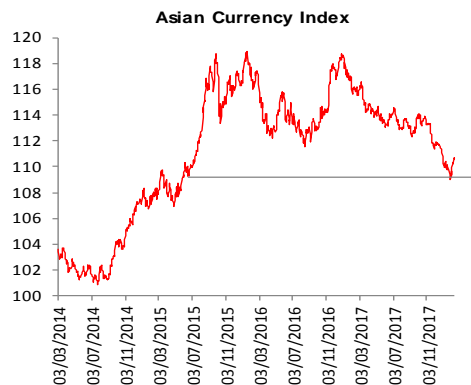
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doubt discretionary positive appetite towards the cyclicals/EM FX.

- With the crude complex continuing to capitulate and the environment for risk still likely inhospitable in the near term, we undertake a tactical long **USD-CAD**. From a spot ref of 1.2600 on Friday, we target 1.2855 and place a stop at 1.2470.

### Asian FX

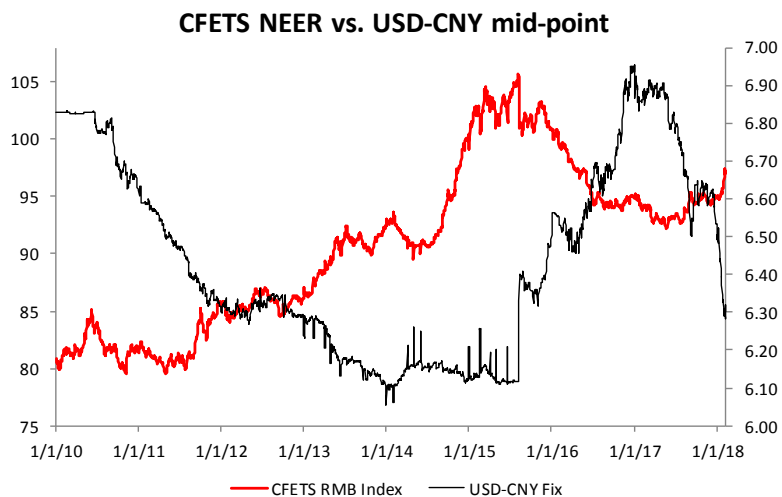
- EM equities managed to stabilize on Friday but capped off a week of weakness and investor caution may continue to prevail at the onset of the week. Expect downside for the **ACI (Asian Currency Index)** to be relatively limited in the interim.
- **EPFR** data meanwhile denoted a substantial fall-off in implied equity net inflows into Asia (ex-Japan, China) in the latest week, while implied bond flows saw an increase in net outflows. With respect to **actual net portfolio inflows**, note that the IDR, PHP and the THB are sitting in a net outflow environment (on a 20-day rolling basis) while the other regionals (KRW, TWD, and MYR) has seen net inflows dented significantly on the same period. To this end, expect the **INR** to continue to potentially outperform in the near term given that net inflows (compared to its peers) have been relatively more resilient amid the recent global asset market volatility.
- On the Asian calendar, the **Bank of Thailand** and **Bank Indonesia** are expected to remain static at their policy meetings respectively on Wednesday and Thursday respectively. We expect both central banks to be sufficiently guarded in their prognosis, being careful not to incite hawkish expectations. As it stands any hawkish posture from Asian central banks currently remain more an exception than the norm. Meanwhile, China's January monetary aggregates are due this week.
- **SGD NEER:** The SGD NEER is slightly firmer this morning at around -0.07% below its perceived parity (1.3249) with NEER-implied USD-SGD thresholds easier on the day. We look potentially to a +0.10% (1.3236) to -0.30% (1.3290) for the NEER intra-day. Technically, the 55-day MA (1.3328) may continue to cap.



	SGD NEER	% deviation	USD-SGD
Current	124.18	-0.06	1.3259
+2.00%	126.74		1.2990
Parity	124.26		1.3249
-2.00%	121.77		1.3520

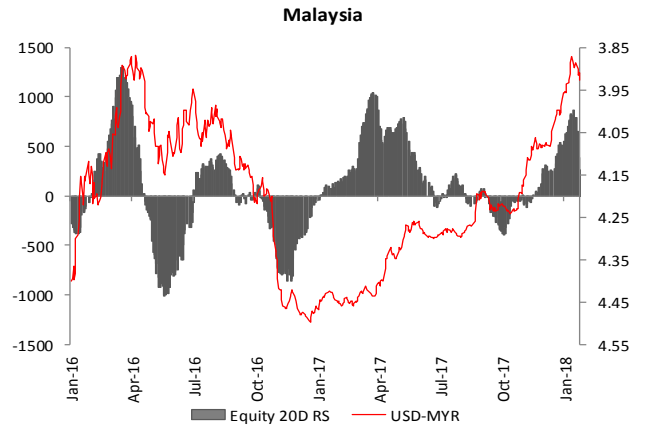
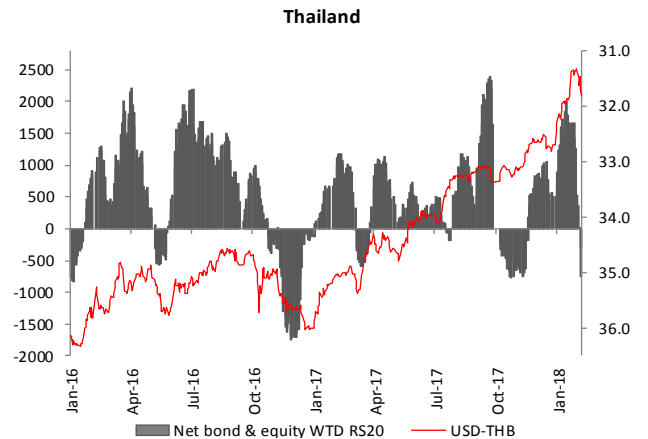
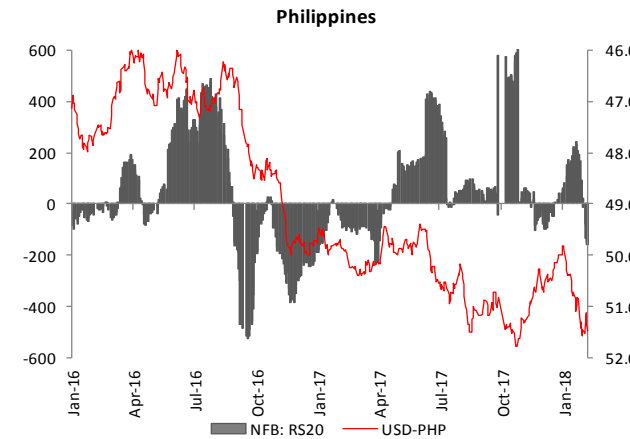
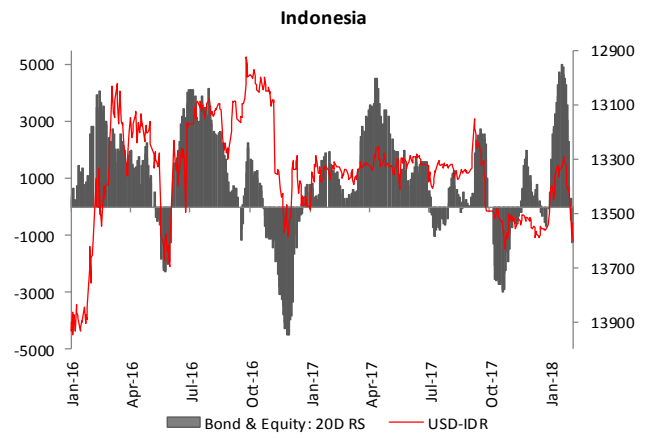
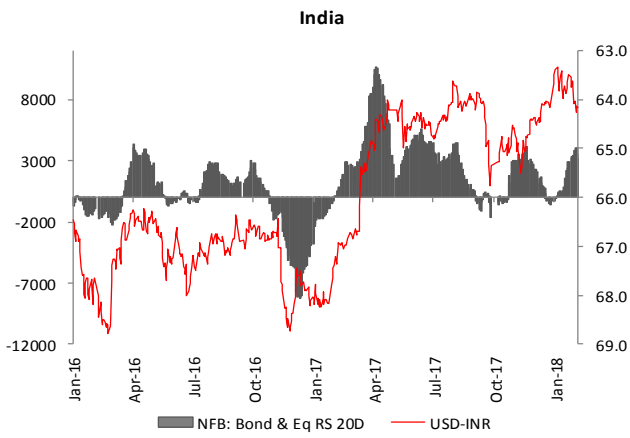
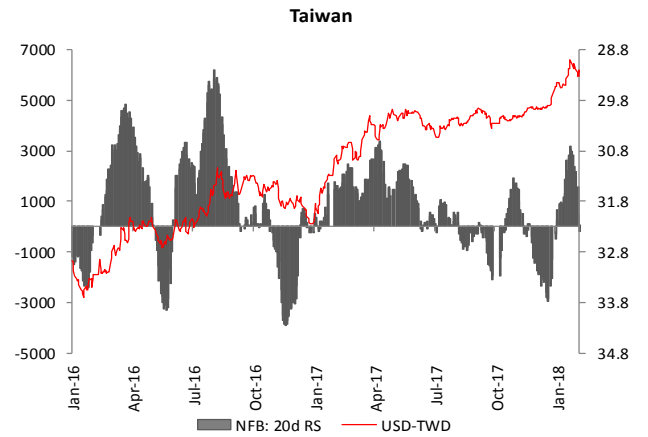
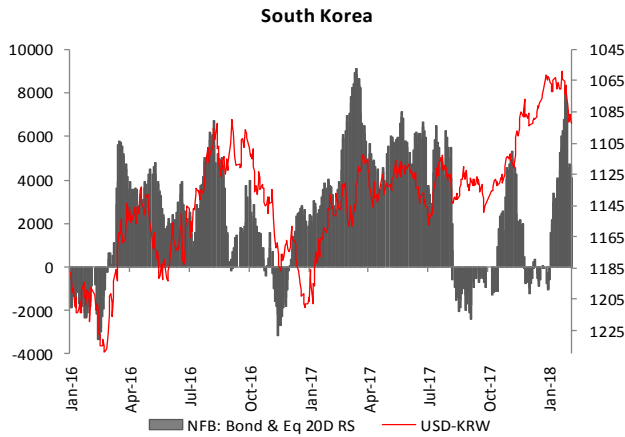
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (as largely expected) to 6.3001 from 6.3194 last Friday. This took the CFETS RMB Index higher to 97.16 from 96.92. **Going ahead, we continue to expect some consolidation towards 97.35-97.50 for the Index.**

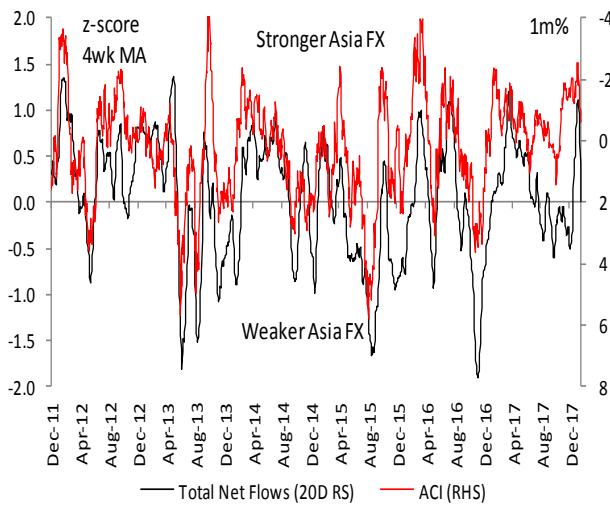


Source: OCBC Bank, Bloomberg

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

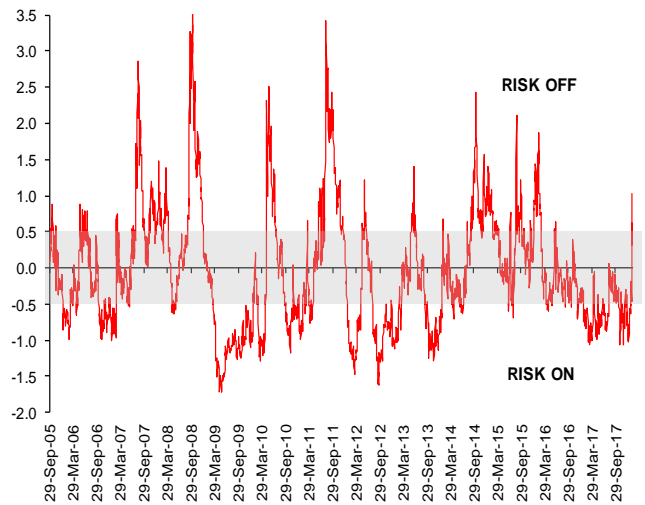


### ACI VS. Net Capital Flows



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	-0.328	0.667	-0.347	-0.452	-0.652	0.554	-0.686	0.108	0.062	0.697	-0.954
THB	0.906	-0.463	0.818	-0.204	-0.283	-0.464	0.679	-0.497	-0.057	-0.096	0.876	-0.897
MYR	0.898	-0.371	0.721	-0.214	-0.333	-0.531	0.612	-0.538	-0.061	-0.028	0.691	-0.862
TWD	0.838	-0.348	0.722	-0.286	-0.367	-0.507	0.715	-0.492	0.051	-0.003	0.756	-0.791
CHF	0.793	-0.693	0.916	0.23	0.057	-0.118	0.837	-0.109	-0.429	-0.466	0.921	-0.76
SGD	0.769	0.239	0.169	-0.793	-0.787	-0.877	0.2	-0.845	0.595	0.585	0.246	-0.771
CNH	0.697	-0.75	0.972	0.23	0.155	-0.031	0.78	0.035	-0.452	-0.515	1	-0.672
CNY	0.667	-0.819	1	0.382	0.273	0.106	0.784	0.056	-0.58	-0.614	0.972	-0.629
CAD	0.649	0.357	-0.046	-0.866	-0.847	-0.874	-0.025	-0.864	0.747	0.698	0.03	-0.662
JPY	0.554	-0.541	0.784	0.271	0.15	0.007	1	0.151	-0.444	-0.476	0.78	-0.482
INR	0.176	0.667	-0.354	-0.851	-0.818	-0.843	-0.155	-0.734	0.729	0.808	-0.266	-0.212
CCN12M	0.153	0.548	-0.14	-0.456	-0.427	-0.477	-0.067	-0.415	0.304	0.522	-0.061	-0.084
KRW	0.064	0.803	-0.582	-0.882	-0.801	-0.726	-0.382	-0.662	0.911	0.904	-0.511	-0.095
IDR	0.026	0.832	-0.621	-0.913	-0.854	-0.772	-0.458	-0.717	0.913	0.965	-0.512	-0.056
USGG10	-0.328	1	-0.819	-0.634	-0.571	-0.491	-0.541	-0.436	0.672	0.825	-0.75	0.298
AUD	-0.499	-0.517	0.219	0.95	0.911	0.893	0.126	0.838	-0.825	-0.819	0.128	0.485
PHP	-0.596	0.834	-0.831	-0.447	-0.26	-0.203	-0.605	-0.129	0.604	0.632	-0.827	0.54
NZD	-0.651	-0.165	-0.112	0.726	0.667	0.716	-0.003	0.738	-0.557	-0.505	-0.219	0.702
GBP	-0.923	0.182	-0.5	0.531	0.6	0.734	-0.4	0.739	-0.341	-0.255	-0.516	0.893
EUR	-0.954	0.298	-0.629	0.326	0.447	0.611	-0.482	0.667	-0.103	-0.085	-0.672	1

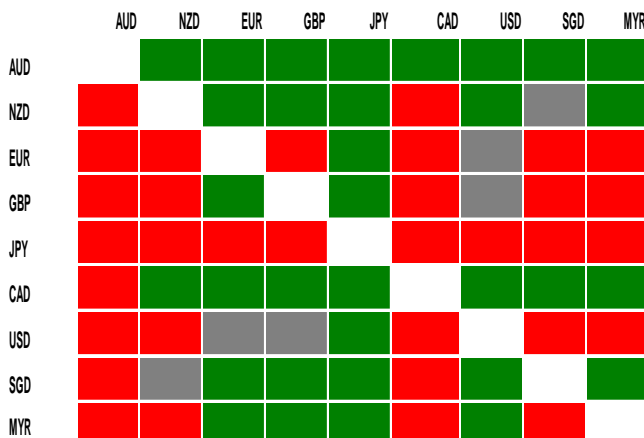
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2151	1.2200	1.2272	1.2300	1.2508
GBP-USD	1.3702	1.3800	1.3831	1.3900	1.4291
AUD-USD	0.7800	0.7821	0.7822	0.7900	0.8136
NZD-USD	0.7200	0.7207	0.7253	0.7300	0.7393
USD-CAD	1.2500	1.2569	1.2572	1.2600	1.2630
USD-JPY	108.00	108.05	108.67	109.00	111.32
USD-SGD	1.3032	1.3200	1.3268	1.3300	1.3305
EUR-SGD	1.6094	1.6200	1.6282	1.6300	1.6395
JPY-SGD	1.2159	1.2200	1.2208	1.2228	1.2300
GBP-SGD	1.8204	1.8300	1.8351	1.8400	1.8680
AUD-SGD	1.0327	1.0340	1.0378	1.0400	1.0406
Gold	1304.40	1309.97	1313.10	1360.51	1365.40
Silver	16.13	16.40	16.41	16.50	16.69
Crude	58.07	59.90	59.96	60.00	60.05

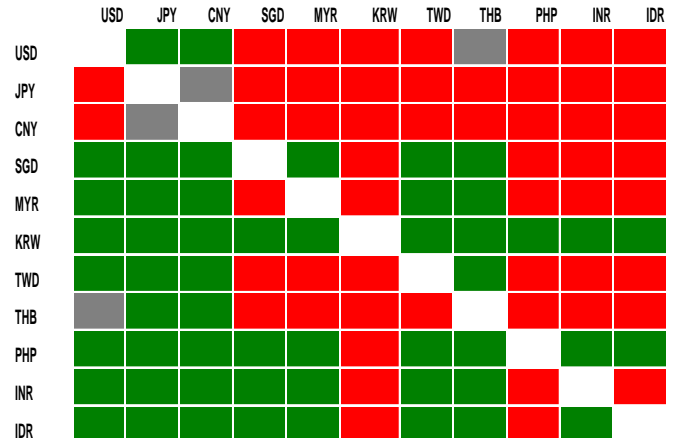
Source: OCBC Bank

### G10 FX Heat Map



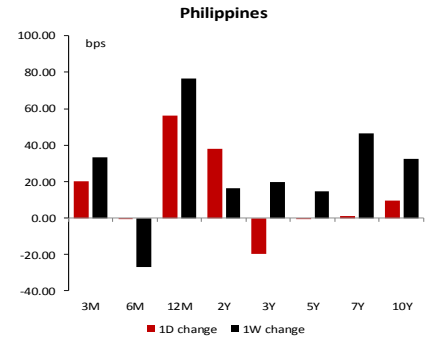
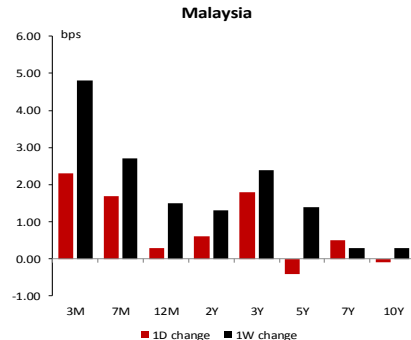
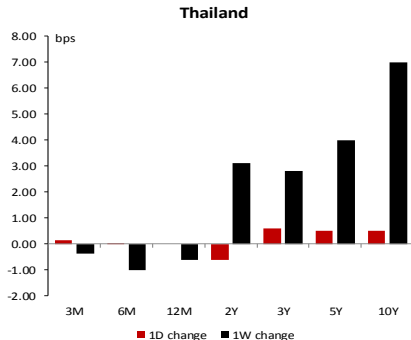
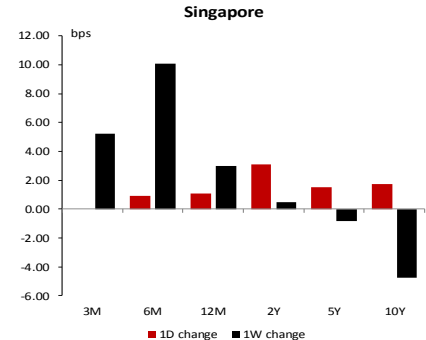
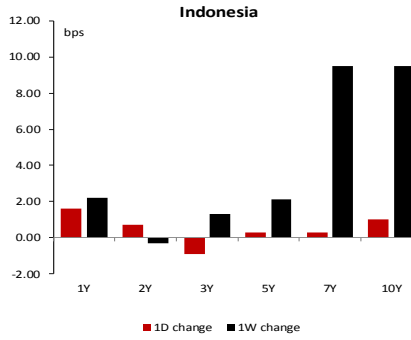
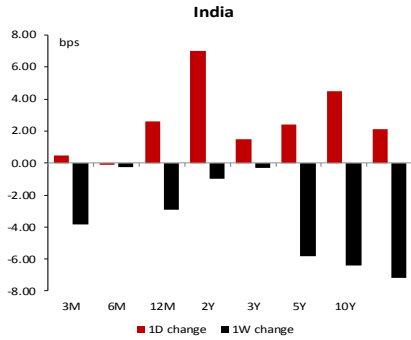
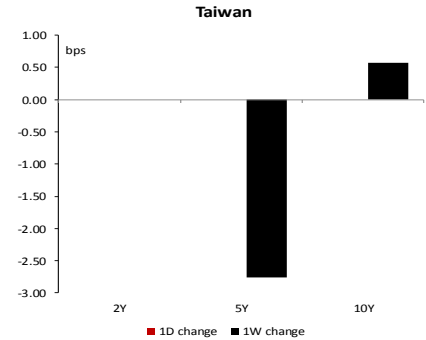
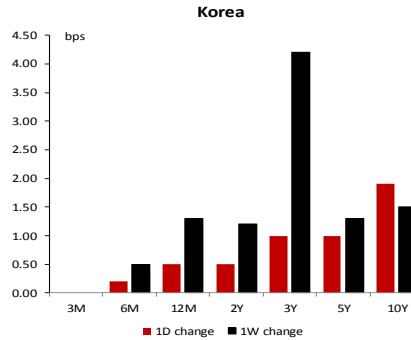
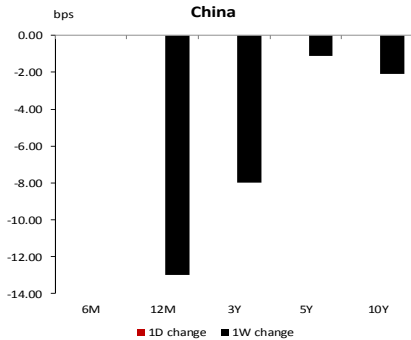
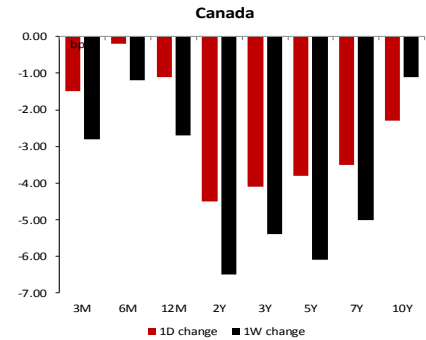
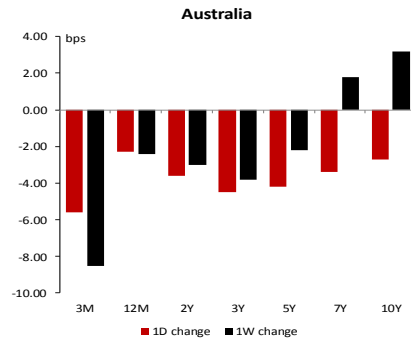
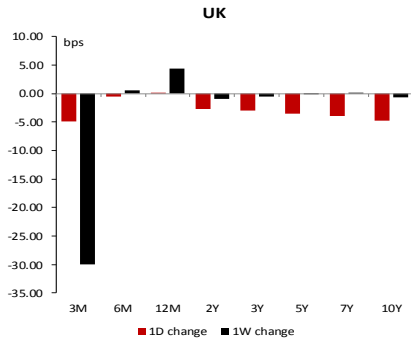
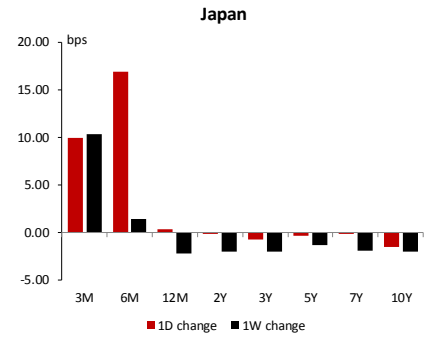
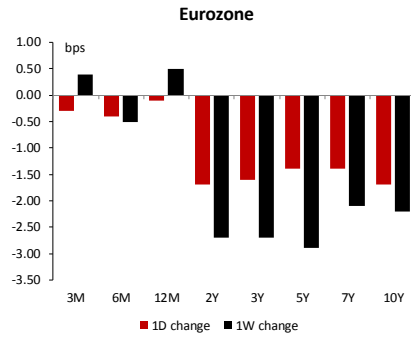
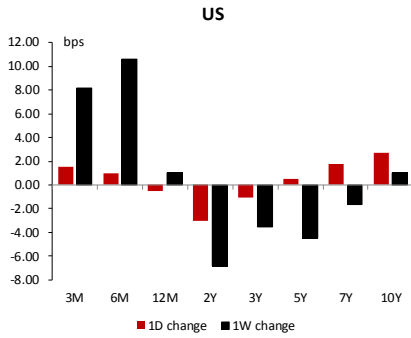
Source: OCBC Bank

### 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	09-Feb-18	B	USD-CAD	1.2600	1.2855	1.2470	Softer crude and fragile appetite towards the cyclical	
<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
5	15-Jan-18	07-Feb-18	B	EUR-USD	1.2199	1.2305	"Hawkish" ECB expectations, positive German political news flow	+0.72

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Source: OCBC Bank

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