

Wednesday, February 14, 2018

FX Themes/Strategy/Trading Ideas

- The greenback ended on a weaker footing against most of the majors on Tuesday with the JPY leading the pack higher. USD-JPY cracked 108.00 (initially of soft global equity signals) and printed a 107.40 low before bouncing slightly as US equities managed to post gains on the day. The Fed's Mester noted salient upside risks from tax cuts and rising fiscal deficits but added that rates should rise at pace "similar to last year's".
- Global risk appetite levels stabilized by NY with US equities managing to post minor gains. The **FXSI (FX Sentiment Index)** fell slightly but remained in Risk-Off territory. As such, note that the cyclicals (AUD, NZD, CAD) underperformed across the board. Meanwhile, apart from gilts, core G7 curves were softer (including the UST curve) - certainly no indication of renewed growth or heightened inflation concerns.
- Today's calendar brings US Jan CPI (1330 GMT) and retail sales numbers and as mentioned yesterday, investors are at this juncture curiously fixated on the US CPI numbers and any resultant implications on the Fed's projected trajectory this year.
- Overall, the **DXY** slipped below 90.00 once again on Tuesday and ahead of potential headline-induced volatility to night, the path of least resistance may be remain one of inherent dollar vulnerability (barring episodes of risk aversion induced position adjustments).
- Elsewhere, the ECB's Weidmann (0800 GMT) and Mersch (1020 GMT, 1120 GMT, 1245 GMT) are on tap today. Data points to watch include German 4Q GDP and Jan CPI (0700 GMT) as well as EZ 4Q GDP (1000 GMT). In Asia, Malaysia's 4Q GDP numbers are due at 0400 GMT while the **Bank of Thailand** MPC is due at 0705 GMT (mkts: unchanged).

Asian FX

- The EM FX complex was mixed to firmer against the USD although global EM equities inched higher. For today, price discovery for USD-Asia may remain less than enthusiastic on the downside ahead of the US CPI numbers tonight. The current net portfolio inflow environment in the region remain less than encouraging at this juncture (net outflows in aggregate), although we are registering some renewed inflows for bonds and equities for the KRW, as well as bond inflows for the THB.

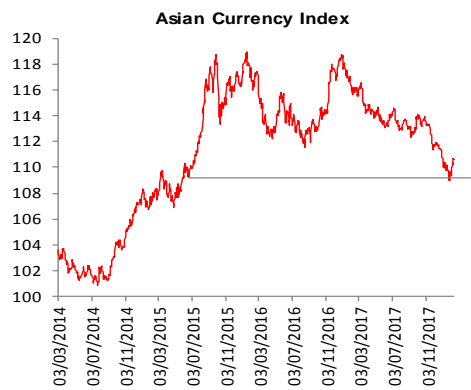
Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

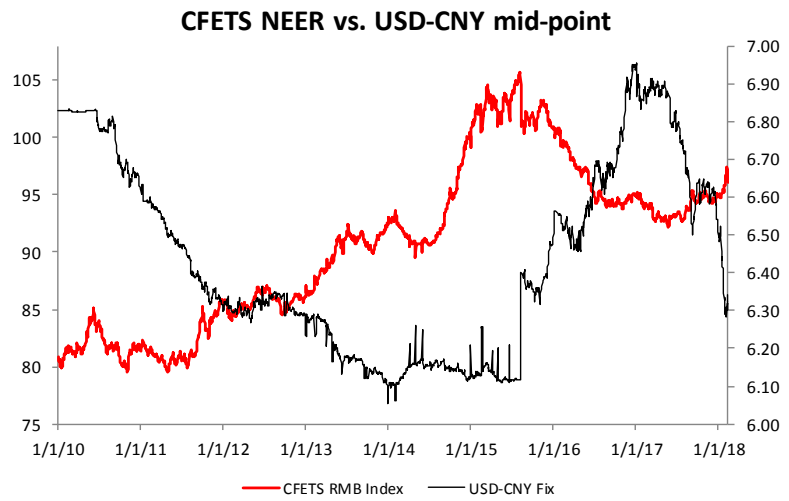
- Overall, the **ACI (Asian Currency Index)** may continue to be somewhat reluctant on the downside intra-day. Note that our medium term structural model for the ACI has also bounced higher in the past two weeks.
- **SGD NEER:** 4Q GDP numbers came in warmer than initial flash estimates at 3.6% yoy putting full year growth at 3.6% yoy. For 2018, the MTI expects growth to come in slightly above the middle of its 1.5-3.5% range. Note however that the official growth prognosis (in the MTI statement) is heavily caveated by an expected external demand deceleration and potential downside risks. Overall, this is not expected to incite renewed expectations of policy tightening at the April MPS. The SGD NEER this morning is a touch higher on the day at around +0.19% above its perceived parity (1.3241) with NEER-implied USD-SGD thresholds softer on the day. We look for a parity to +0.30% (1.3202) range intra-day.



	SGD NEER	% deviation	USD-SGD
Current	124.50	0.20	1.3214
+2.00%	126.74		1.2981
Parity	124.26		1.3241
-2.00%	121.77		1.3511

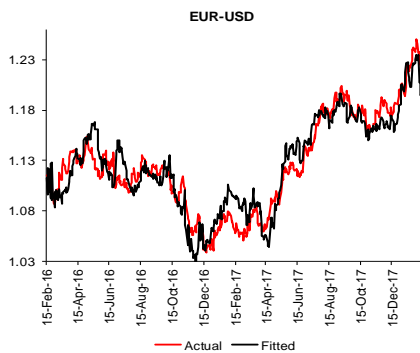
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning came in higher than we expected at 6.3428 from 6.3247 yesterday. We note however that this had the “desired” effect of dragging the CFETS RMB Index lower significantly to 96.12 from 96.59 on Tuesday. Although the realized vol of the mid-points and the Index have shot higher in the past month in the wake of two-way price movements (of both series), note that short-end CNH riskies have corrected **substantially**, erasing overly one-side implied expectations for a firmer renminbi complex. Going ahead, we’d expect the realized vols to consolidate, given that the CFETS RMB Index may have now mapped its expected range for the coming months.



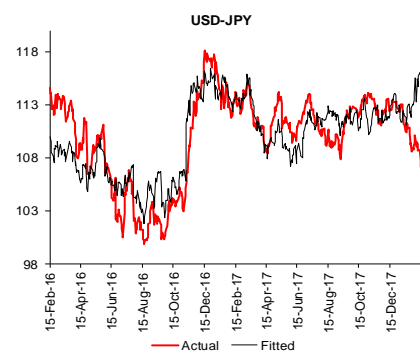
Source: OCBC Bank, Bloomberg

G7



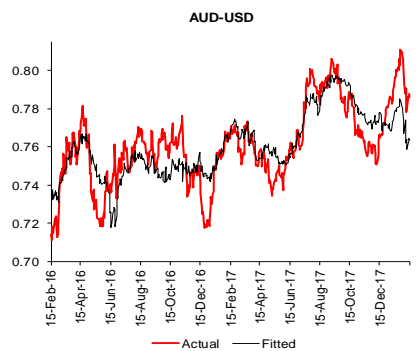
Source: OCBC Bank

- **EUR-USD** Ahead of potential ECB-speak, EZ GDP data points, and the US CPI readings today, short term implied valuations for the EUR-USD continue to look supported. Expect the pair to ply an underpinned 1.2330-1.2430 range in the interim.



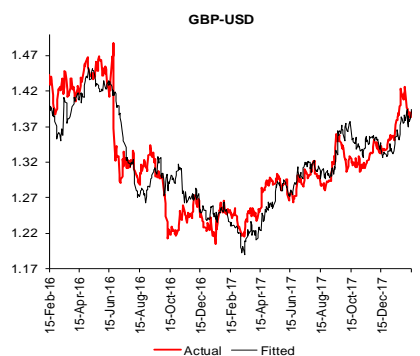
Source: OCBC Bank

- **USD-JPY** BOJ jawboning notwithstanding, market suspicions towards the greenback may continue to manifest via the USD-JPY. In addition, the recent ascent of the pair's short term implied valuations may have stalled temporarily. Expect the pair to remain trippy on the downside and a violation of the key 107.30 on a sustained basis risks further deterioration towards 106.60 on a multi-session horizon.



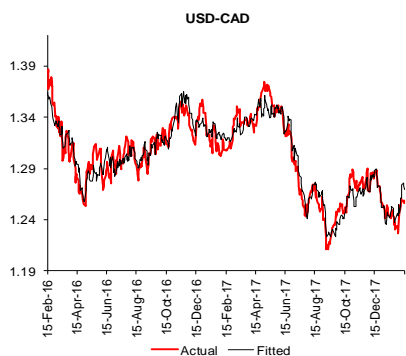
Source: OCBC Bank

- **AUD-USD** Short term implied valuations are attempting to bounce but 0.7895/00 may cap with the cyclical still looking slightly nervous ahead of the Aussie Jan labor market numbers on Thursday. Preference to fade discretionary rallies in the pair with the 55-day MA (0.7815) seen as an initial support.



Source: OCBC Bank

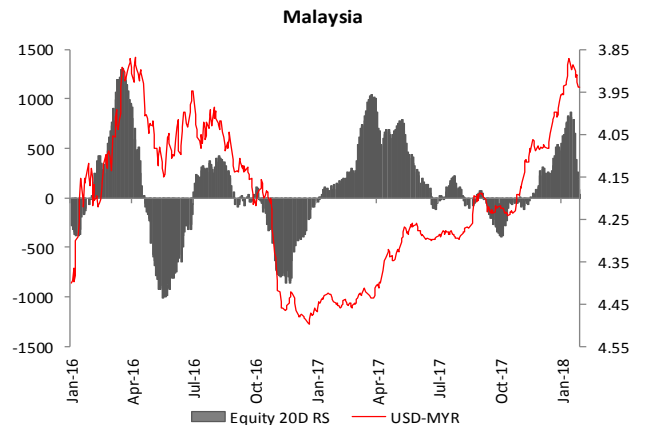
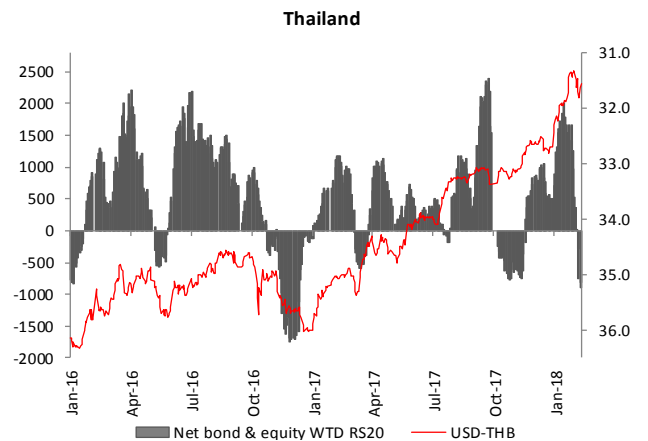
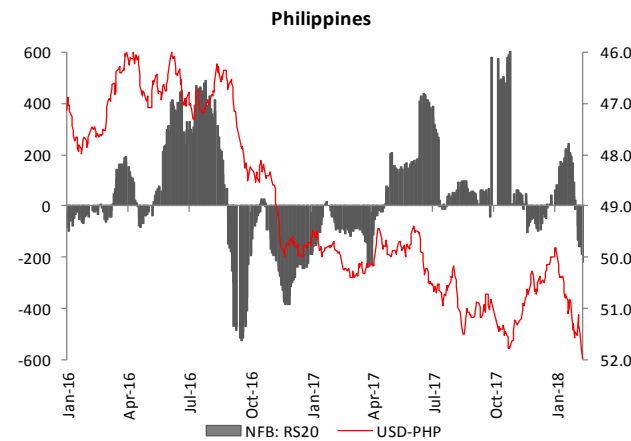
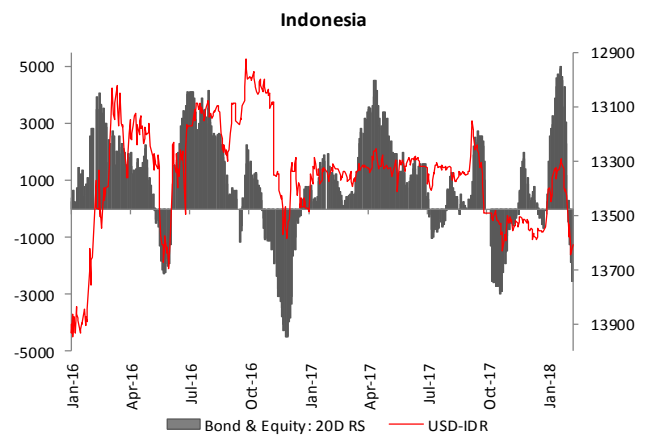
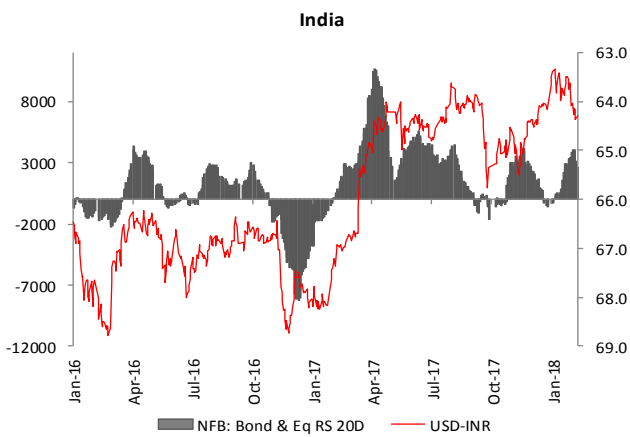
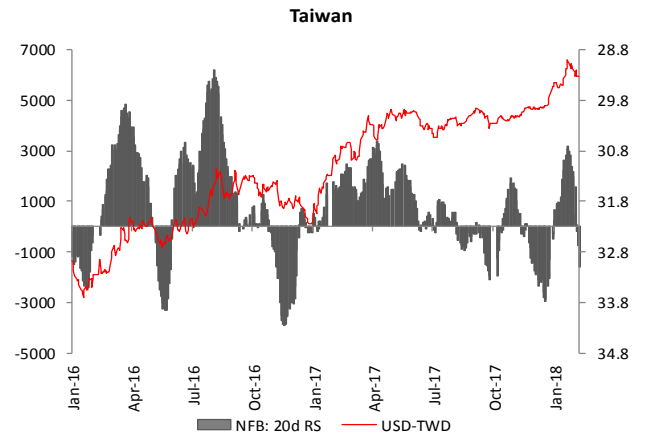
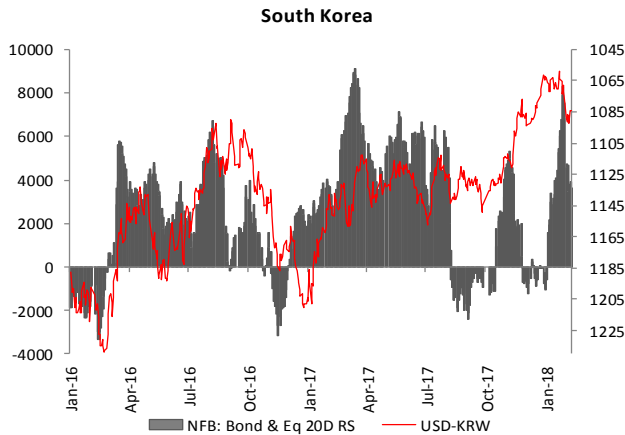
- **GBP-USD** Supportive UK inflation prints also bolstered the pound on a day of USD weakness while short term implied valuations are also attempting to tick higher for the third consecutive session. Despite background Brexit-related uncertainty, near term support from BOE expectations may attempt to dominate. Range trade a 1.3800-1.4000 band in the interim.



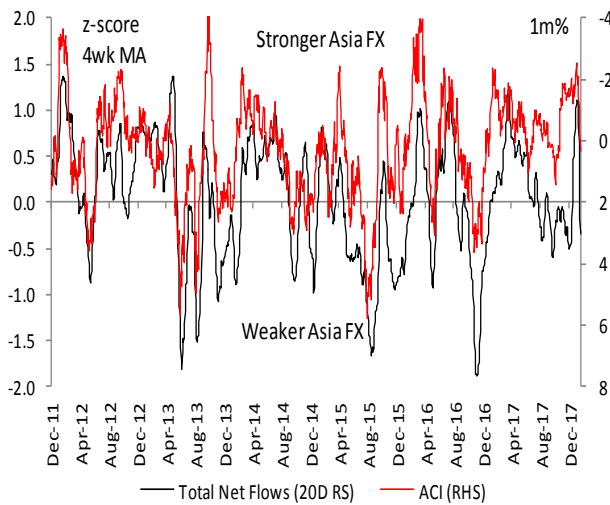
Source: OCBC Bank

- USD-CAD** Although global cyclical plays are still not exactly first draft picks, short term implied valuations for the USD-CAD are however attempting to top out in the short term. Overall, despite mixed signals (portending continued range trading) a downdraft from a soft broad dollar may set the tone at this juncture. As such, the pair may venture south of its 55-day MA (1.2584) towards 1.2500/20.

USD-Asia VS. Net Capital Flows

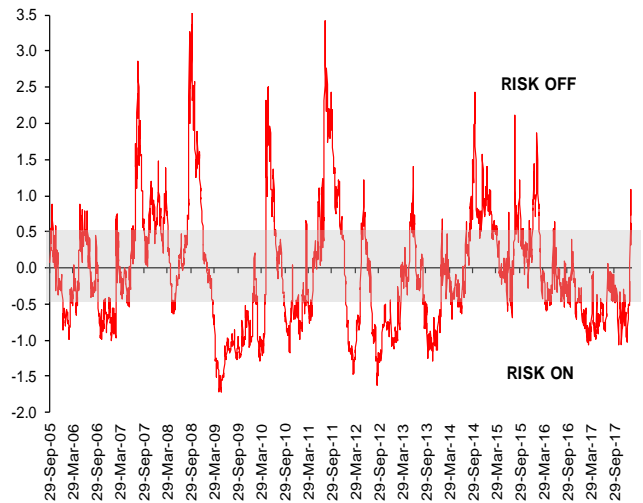


ACI VS. Net Capital Flows



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	-0.266	0.649	-0.352	-0.416	-0.577	0.531	-0.573	0.128	0.076	0.733	-0.953
THB	0.901	-0.437	0.807	-0.169	-0.211	-0.348	0.629	-0.262	-0.066	-0.121	0.863	-0.892
MYR	0.866	-0.225	0.668	-0.289	-0.393	-0.568	0.465	-0.557	0.009	0.123	0.679	-0.826
TWD	0.835	-0.275	0.707	-0.307	-0.359	-0.476	0.587	-0.445	0.08	0.053	0.73	-0.789
CHF	0.799	-0.689	0.909	0.271	0.137	0	0.8	0.036	-0.45	-0.465	0.924	-0.773
SGD	0.75	0.304	0.145	-0.8	-0.77	-0.824	0.082	-0.755	0.619	0.577	0.269	-0.732
CNH	0.733	-0.737	0.97	0.263	0.211	0.056	0.705	0.053	-0.468	-0.484	1	-0.718
CNY	0.649	-0.777	1	0.378	0.279	0.126	0.719	0.086	-0.576	-0.52	0.97	-0.615
CAD	0.585	0.477	-0.079	-0.887	-0.878	-0.894	-0.255	-0.878	0.762	0.766	0.005	-0.546
JPY	0.531	-0.618	0.719	0.396	0.346	0.27	1	0.432	-0.496	-0.623	0.705	-0.461
INR	0.203	0.704	-0.364	-0.865	-0.838	-0.854	-0.235	-0.761	0.74	0.825	-0.294	-0.228
CCN12M	0.159	0.524	-0.146	-0.445	-0.398	-0.424	-0.087	-0.334	0.31	0.437	-0.072	-0.087
IDR	0.053	0.858	-0.554	-0.911	-0.895	-0.849	-0.595	-0.821	0.871	0.974	-0.5	-0.065
KRW	0.042	0.822	-0.577	-0.892	-0.811	-0.737	-0.434	-0.676	0.917	0.856	-0.506	-0.064
USGG10	-0.266	1	-0.777	-0.694	-0.662	-0.61	-0.618	-0.575	0.699	0.839	-0.737	0.25
AUD	-0.459	-0.586	0.234	0.956	0.91	0.882	0.269	0.814	-0.838	-0.811	0.126	0.412
PHP	-0.466	0.854	-0.727	-0.559	-0.47	-0.474	-0.707	-0.462	0.623	0.763	-0.755	0.432
NZD	-0.628	-0.252	-0.085	0.746	0.682	0.709	0.085	0.671	-0.587	-0.532	-0.234	0.663
GBP	-0.902	0.047	-0.455	0.582	0.631	0.741	-0.217	0.711	-0.393	-0.352	-0.508	0.849
EUR	-0.953	0.25	-0.615	0.317	0.401	0.521	-0.461	0.469	-0.112	-0.08	-0.718	1

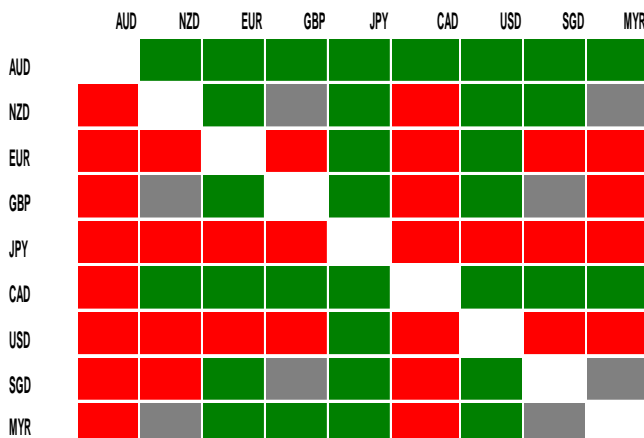
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2184	1.2300	1.2386	1.2400	1.2506
GBP-USD	1.3731	1.3900	1.3913	1.4000	1.4280
AUD-USD	0.7800	0.7834	0.7885	0.7900	0.8136
NZD-USD	0.7213	0.7300	0.7327	0.7395	0.7400
USD-CAD	1.2500	1.2563	1.2566	1.2600	1.2664
USD-JPY	106.70	107.00	107.07	107.34	108.00
USD-SGD	1.3034	1.3100	1.3187	1.3200	1.3294
EUR-SGD	1.6116	1.6300	1.6337	1.6400	1.6407
JPY-SGD	1.2300	1.2305	1.2316	1.2332	1.2400
GBP-SGD	1.8236	1.8300	1.8349	1.8400	1.8665
AUD-SGD	1.0309	1.0340	1.0397	1.0400	1.0414
Gold	1307.16	1308.17	1332.80	1359.70	1365.40
Silver	16.13	16.60	16.63	16.70	16.70
Crude	58.54	59.20	59.21	59.30	61.20

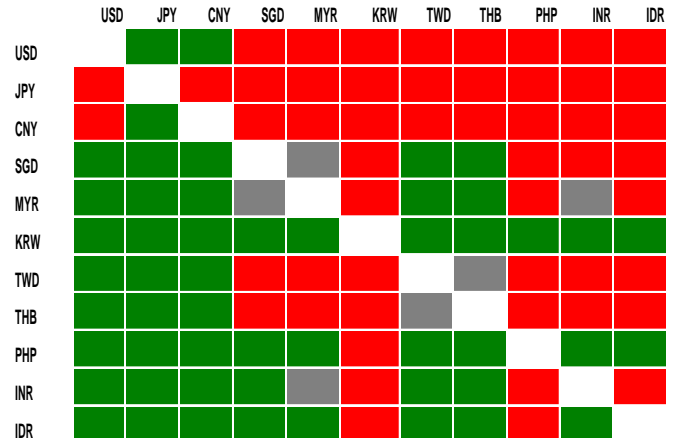
Source: OCBC Bank

G10 FX Heat Map



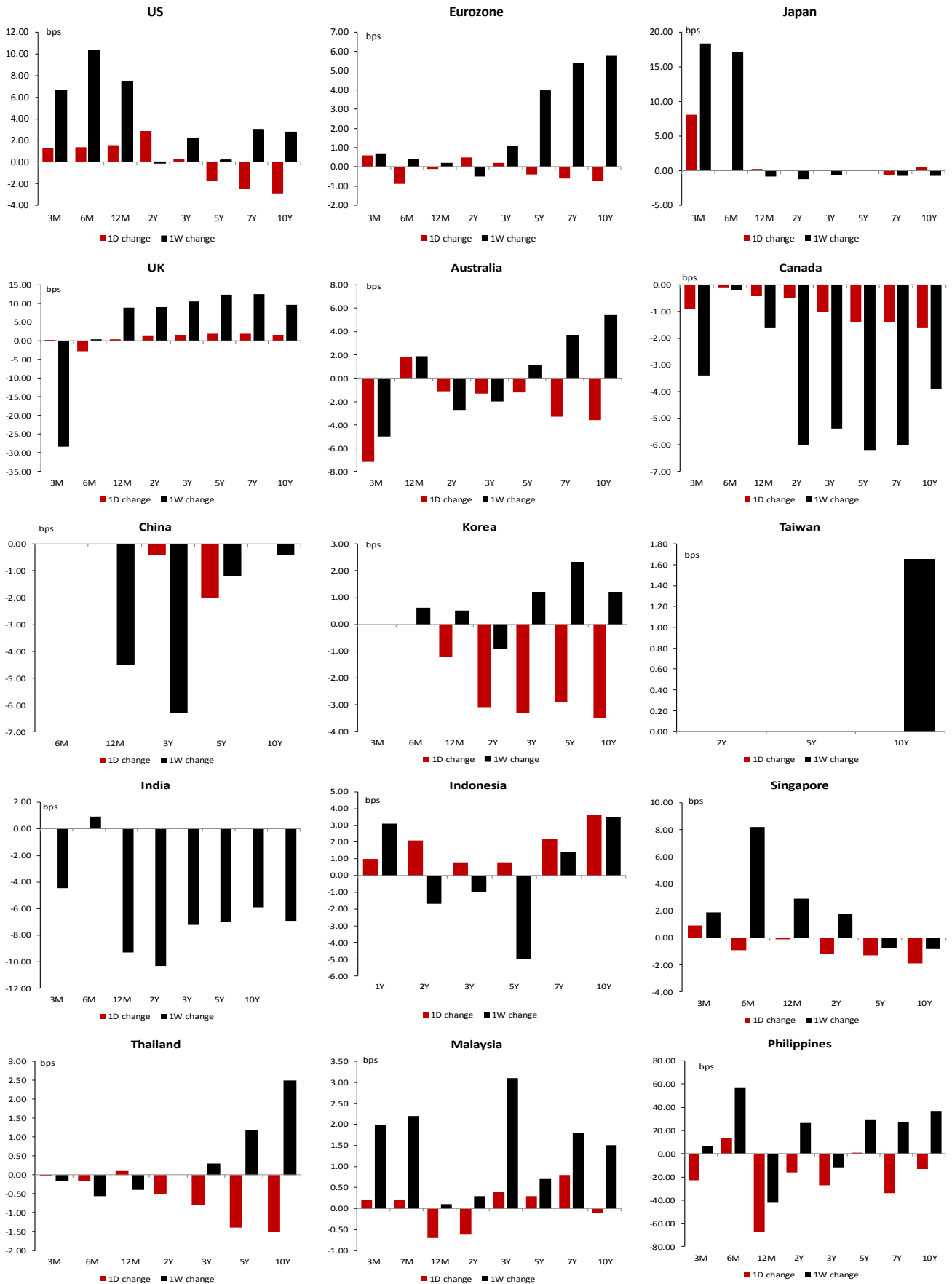
Source: OCBC Bank

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	09-Feb-18	B	USD-CAD	1.2600	1.2855	1.2470	Softer crude and fragile appetite towards the cyclicals	
2	12-Feb-18	S	AUD-USD	0.7829	0.7665	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	
STRUCTURAL								
3	19-Jan-18	B	EUR-USD	1.2274	1.2865	1.1975	ECB likely to alter its forward guidance into the spring	
4	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	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
2	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
3	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).

Co.Reg.no.:193200032W