

Monday, January 15, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite firmer UST yields and a warmer than expected December US core CPI readings (note December retail sales were mixed), the USD weakened across G10 (except against the NZD) space.
- The EUR-USD, building further on ECB minutes-inspired gains from Thursday, was boosted further on news that Merkel's CDU had reached a preliminary agreement with the Social Democrats for a coalition government.
- GBP-USD was also lifted after a wire report (subsequently denied) stated that the Netherlands and Spain had softened their stance with regards to any Brexit negotiations.
- On the **CFTC** front, investors accounts remain (almost) unanimously positioned against the dollar. Large non-commercial accounts jacked up their net implied dollar shorts in aggregate in the latest week. Leveraged accounts meanwhile pared their net implied dollar longs and net of JPY positioning, leveraged accounts also increased significantly, their net implied dollar shorts. Meanwhile, asset manager accounts also accumulated further net dollar shorts in the latest week.
- Fed-speak this week include Evans, Kaplan, and Mester on Wednesday, as well as Quarles on Friday. ECB comments from Nowotny (Wednesday), and Weidmann, Coeure on Thursday. Meanwhile, all eyes will be on the Bank of Canada's rate decision on Wednesday, when a 25bps rate hike to 1.25% is widely expected.
- The **DX** slipped below 91.00 on Friday with little of consequence till the major psychological 90.00 level. Going into this week, we believe that investors will continue to look outside the Fed-sphere and focus on the other major central banks for cues. Note that although rate differential movements in aggregate favored the USD on Friday, attention continued to be diverted elsewhere and away from the greenback. **To reiterate, barring a significant shift in FOMC-related expectations, the delta of the market will continue to hinge on evolving policy postures of the counterpart G10 central banks.**

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

Asian FX

- EM FX also firmed against the greenback on Friday and with positive EZ/US equities and compressing EM risk premiums, the **FXSI (FX Sentiment Index)** drilled deeper into Risk-On territory on Friday. Overall, expect the

(Asian Currency Index) to remain downcast (i.e., weak dollar environment).

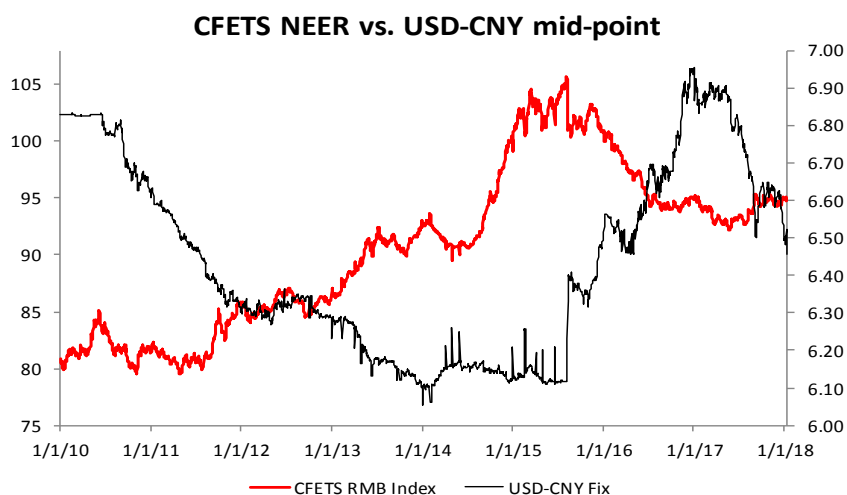
- China December monetary aggregates released on Friday came in softer than expected while investors will also look to 4Q GDP numbers and the string of December data readings on Thursday. On the central bank front, the **Bank of Korea** and **Bank Indonesia** are expected to remain static at 1.50% and 4.25% respectively on Thursday. Overall, expect regional central banks to remain more cautious than optimistic, while being careful not to incite any excessively hawkish expectations on the rates front.
- On the **net portfolio inflow** front, strong underlying net bond inflows remain supportive of the KRW, IDR, and THB. The INR meanwhile continues to lack net inflow underpinnings thus far this year. On the **EPFR** front, net implied equity inflows in the Asia (ex Japan, China) jumped significantly in the latest week while bond inflows increased slightly. Such implied equity inflows have not translated wholly into actual inflows but may well lay the potential groundwork for further Asian FX resilience.
- **SGD NEER:** December NODX numbers are due on Wednesday and in the interim, the SGD NEER is a touch softer on the day at around +0.81% above its perceived parity (1.3334). NEER-implied USD-SGD thresholds are lower compared to last Friday with +0.70% estimated at 1.3241 and +1.00% at 1.3202. Tone for the pair is expected to be heavy in line with the region.



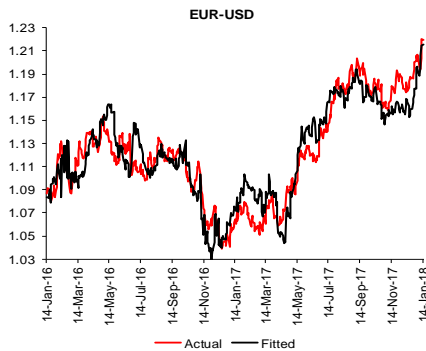
| | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 125.21 | 0.77 | 1.3236 |
| +2.00% | 126.74 | | 1.3072 |
| Parity | 124.26 | | 1.3334 |
| -2.00% | 121.77 | | 1.3606 |

Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (largely as expected) to 6.4574 from 6.4932, with the CFETS RMB Index rising to 94.90 from 94.75 as a result.

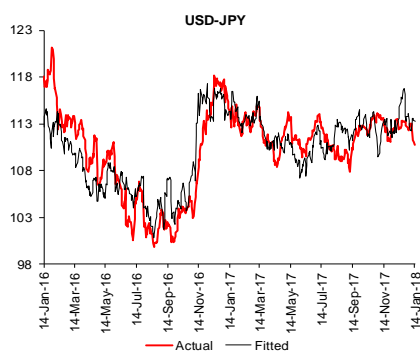


Source: OCBC Bank, Bloomberg

G7

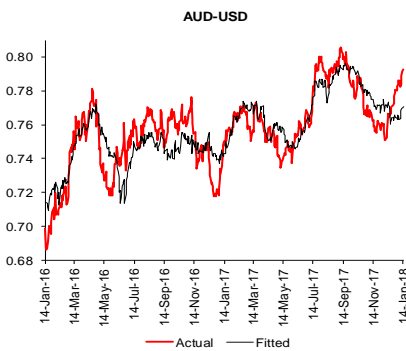
Source: OCBC Bank

- EUR-USD** Apart from ECB rhetoric, this week, German December CPI numbers on Tuesday and EZ December CPI readings on Wednesday may steer the EUR-USD further. Short term implied valuations continue to float higher although some consolidative price action around 1.2200 may persist in the interim with 1.2100 offering initial support.



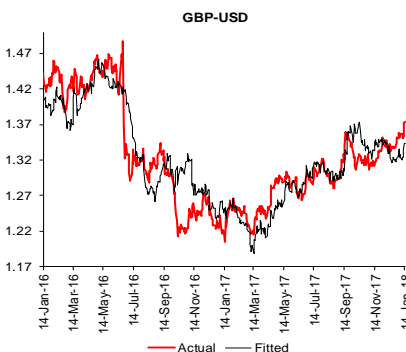
Source: OCBC Bank

- USD-JPY** The BOJ's Kuroda on Monday displayed no new hints of hawkishness in his remarks but this did not prevent the USD-JPY from detaching below 111.00. Short term implied valuations meanwhile have edged slightly lower with investors still heavy on the pair in the interim. The 200-day MA (111.72) may continue to shelter, with risks towards 110.30 still evident.



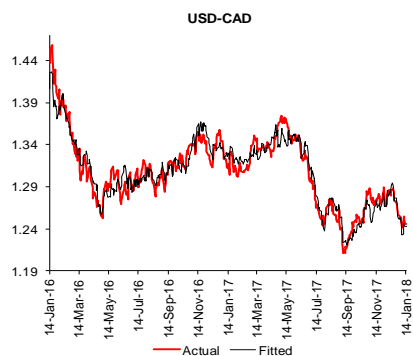
Source: OCBC Bank

- AUD-USD** Australian December labor market numbers on Thursday may impart further volatility on the AUD-USD. At this juncture, short term implied valuations have ticked higher and with the pair still significantly north of its short term implied valuations, upside for the AUD-USD may remain more of a grind. Preference to collect into dips towards 0.7850.



Source: OCBC Bank

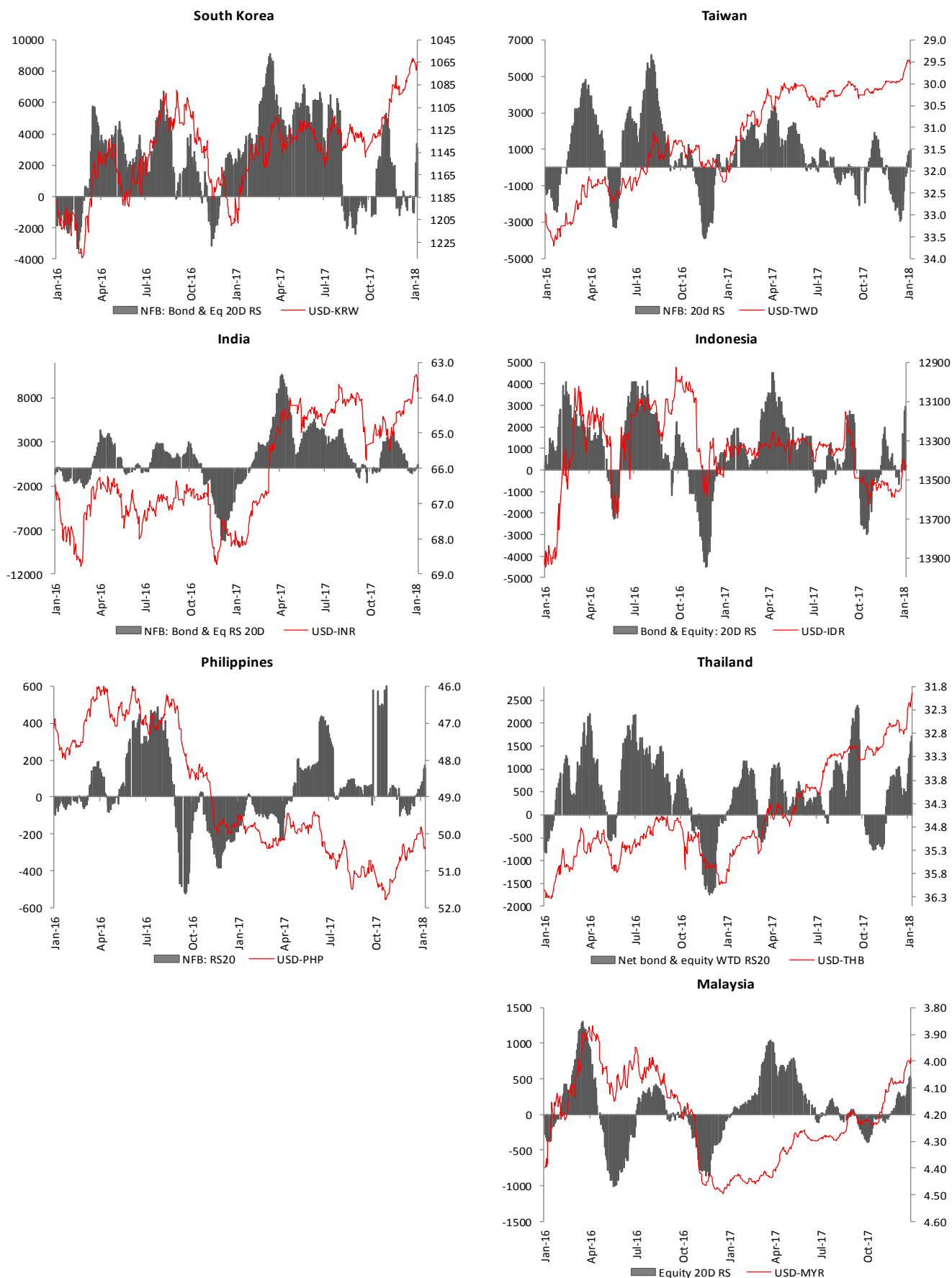
- GBP-USD** Apart from the data calendar, look towards BOE appearances this week with Tenreyro scheduled for 1815 GMT today. In the interim, Brexit-related news flow may remain capricious although the firmer short term implied valuations since Friday may continue to underpin cable at this juncture. Expect consolidation to kick in on approach of 1.3800/35.



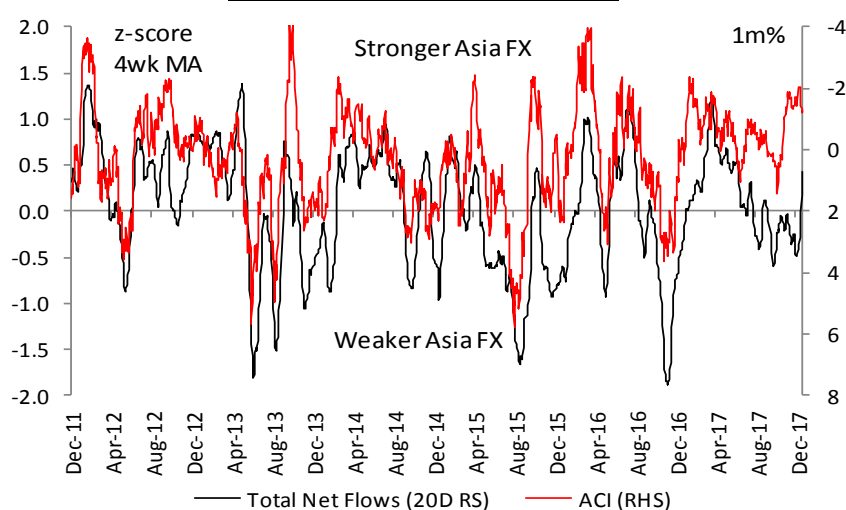
Source: OCBC Bank

- **USD-CAD** Supported crude on Friday and a heavy dollar backdrop pressured the USD-CAD back below 1.2500 once again. Short term implied valuations meanwhile remain relatively static ahead of the BOC policy meeting on Wednesday. In the interim, the 100-day MA (1.2591) may continue to cap and a sell rallies environment for the pair may keep 1.2400 (ahead of 1.2355) in sight.

USD-Asia VS. Net Capital Flows

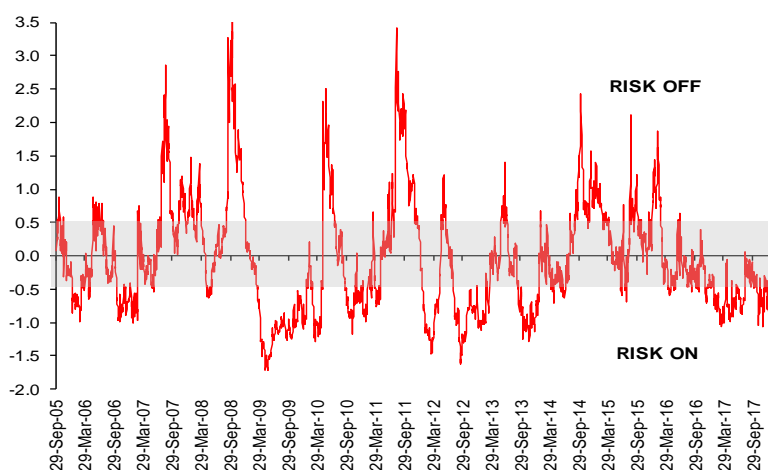


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| Security | DXY | USGG10 | CNY | SPX | MSELCA | CRY | JPY | CL1 | VIX | ITRTEX | CNH | EUR |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1 | -0.387 | 0.931 | -0.727 | -0.796 | -0.91 | 0.75 | -0.87 | 0.059 | 0.444 | 0.946 | -0.988 |
| SGD | 0.964 | -0.387 | 0.933 | -0.747 | -0.857 | -0.912 | 0.652 | -0.862 | 0.25 | 0.598 | 0.96 | -0.943 |
| CHF | 0.948 | -0.194 | 0.831 | -0.622 | -0.697 | -0.81 | 0.723 | -0.744 | 0.08 | 0.277 | 0.855 | -0.931 |
| CNH | 0.946 | -0.372 | 0.975 | -0.691 | -0.791 | -0.913 | 0.589 | -0.864 | 0.152 | 0.604 | 1 | -0.932 |
| CNY | 0.931 | -0.326 | 1 | -0.667 | -0.814 | -0.952 | 0.518 | -0.861 | 0.074 | 0.607 | 0.975 | -0.904 |
| MYR | 0.913 | -0.612 | 0.867 | -0.909 | -0.962 | -0.829 | 0.746 | -0.919 | 0.299 | 0.599 | 0.886 | -0.871 |
| KRW | 0.877 | -0.328 | 0.947 | -0.592 | -0.789 | -0.918 | 0.419 | -0.782 | 0.255 | 0.671 | 0.921 | -0.855 |
| THB | 0.858 | -0.57 | 0.771 | -0.957 | -0.944 | -0.768 | 0.786 | -0.895 | 0.32 | 0.554 | 0.785 | -0.8 |
| CCN12M | 0.853 | -0.289 | 0.761 | -0.57 | -0.611 | -0.634 | 0.585 | -0.643 | 0.342 | 0.43 | 0.848 | -0.874 |
| TWD | 0.85 | -0.426 | 0.869 | -0.808 | -0.964 | -0.873 | 0.54 | -0.867 | 0.324 | 0.682 | 0.857 | -0.783 |
| CAD | 0.849 | -0.323 | 0.926 | -0.717 | -0.872 | -0.919 | 0.467 | -0.855 | 0.129 | 0.729 | 0.913 | -0.799 |
| INR | 0.82 | -0.325 | 0.857 | -0.696 | -0.844 | -0.786 | 0.438 | -0.747 | 0.456 | 0.593 | 0.839 | -0.785 |
| IDR | 0.811 | -0.655 | 0.789 | -0.966 | -0.944 | -0.751 | 0.64 | -0.916 | 0.31 | 0.713 | 0.813 | -0.765 |
| JPY | 0.75 | -0.547 | 0.518 | -0.717 | -0.613 | -0.579 | 1 | -0.762 | -0.033 | -0.013 | 0.589 | -0.709 |
| PHP | 0.282 | 0.47 | 0.422 | 0.204 | -0.075 | -0.392 | -0.414 | -0.061 | 0.156 | 0.462 | 0.424 | -0.308 |
| USGG10 | -0.387 | 1 | -0.326 | 0.711 | 0.589 | 0.326 | -0.547 | 0.675 | -0.116 | -0.327 | -0.372 | 0.363 |
| NZD | -0.887 | 0.59 | -0.843 | 0.91 | 0.921 | 0.855 | -0.773 | 0.966 | -0.088 | -0.603 | -0.876 | 0.828 |
| AUD | -0.949 | 0.409 | -0.941 | 0.796 | 0.884 | 0.959 | -0.699 | 0.939 | -0.094 | -0.609 | -0.95 | 0.905 |
| GBP | -0.963 | 0.443 | -0.867 | 0.8 | 0.856 | 0.826 | -0.753 | 0.845 | -0.118 | -0.474 | -0.887 | 0.947 |
| EUR | -0.988 | 0.363 | -0.904 | 0.669 | 0.719 | 0.858 | -0.709 | 0.815 | -0.075 | -0.397 | -0.932 | 1 |

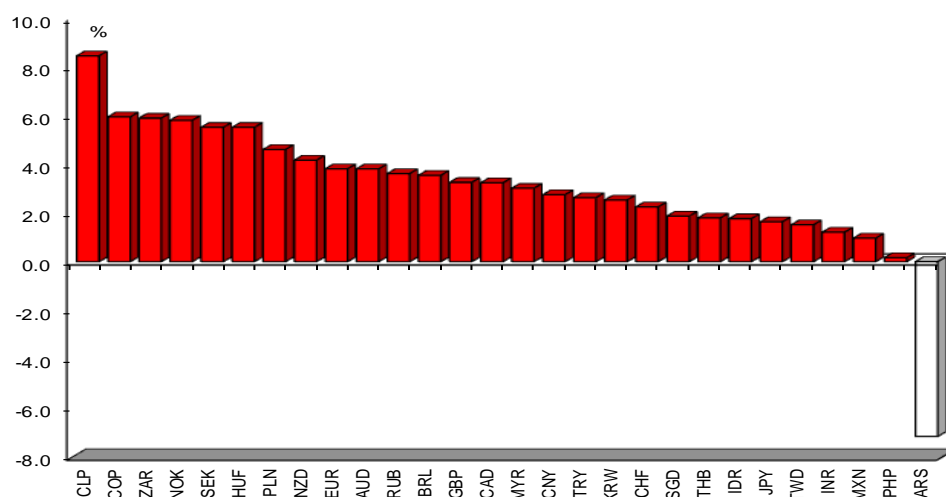
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.2100 | 1.2177 | 1.2195 | 1.2200 | 1.2218 |
| GBP-USD | 1.3700 | 1.3711 | 1.3736 | 1.3749 | 1.3800 |
| AUD-USD | 0.7707 | 0.7900 | 0.7928 | 0.7939 | 0.7953 |
| NZD-USD | 0.7110 | 0.7200 | 0.7269 | 0.7278 | 0.7283 |
| USD-CAD | 1.2356 | 1.2400 | 1.2458 | 1.2500 | 1.2696 |
| USD-JPY | 110.00 | 110.63 | 110.76 | 110.97 | 111.00 |
| USD-SGD | 1.3200 | 1.3219 | 1.3229 | 1.3300 | 1.3448 |
| EUR-SGD | 1.6099 | 1.6100 | 1.6133 | 1.6200 | 1.6207 |
| JPY-SGD | 1.1900 | 1.1939 | 1.1944 | 1.1974 | 1.2000 |
| GBP-SGD | 1.8100 | 1.8134 | 1.8170 | 1.8200 | 1.8286 |
| AUD-SGD | 1.0323 | 1.0400 | 1.0488 | 1.0500 | 1.0509 |
| Gold | 1300.00 | 1340.00 | 1341.60 | 1351.23 | 1400.00 |
| Silver | 17.12 | 17.30 | 17.32 | 17.33 | 17.40 |
| Crude | 58.57 | 64.30 | 64.39 | 64.40 | 64.77 |

Source: OCBC Bank

FX performance: 1-month change agst USD



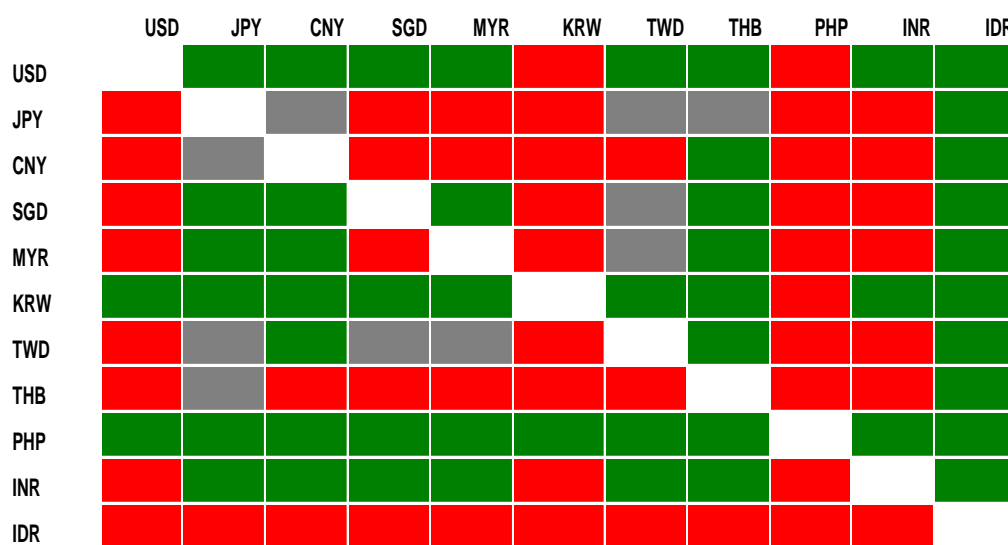
Source: Bloomberg

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 | Red | Green | Red | Red | Grey |
| GBP | Green | Green | Green | | Red | Green | Red | Grey | Green |
| JPY | Green | Green | Green | Red | | Green | Red | Red | Red |
| CAD | Green | Green | Red | Red | Red | | Red | Red | Red |
| USD | Green | Green | Green | Green | Green | Green | | Green | Green |
| SGD | Green | Green | Green | Grey | Green | Green | Red | | Green |
| MYR | Green | Green | Grey | Red | Green | Green | Red | Red | |

Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

| FX Trade Ideas | | | | | | | | |
|----------------|-----------------------------|-----------|--|----------|---------------------------|--------|---|----------|
| | Inception | B/S | Currency | Spot | Target Stop/Trailing Stop | 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** |
| **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.
