

Thursday, January 18, 2018

FX Themes/Strategy/Trading Ideas

- The EUR weakened across G10 space with the EUR-USD consolidating lower on Wednesday after the ECB's Nowotny mentioned the EUR and Constancio did not rule out monetary policy continuing to be "very accommodating for a long time".
- The greenback was also partially supported by firmer UST yields (Beige Book mildly supportive) while the Fed's Mester (voter) noted upside risks from US fiscal policy. In addition, the Fed's Kaplan saw three rate hikes this year. On other fronts, in the face of strong US equity performance and further gains in EM equities, the antipodeans outshone their G10 counterparts.
- Elsewhere, the Bank of Canada hiked its benchmark rate by 25bps as expected to 1.25% but Poloz, in highlighting potential NAFTA concerns and indicating that some monetary accommodation may be needed despite the fact that more hikes may be warranted, delivered a cautious hike overall. After a choppy session, USD-CAD ultimately ended firmer on the day amidst a firmer greenback environment and despite weaker Canadian govies.
- Today, expect more potential ECB rhetoric from Weidmann and Coeure (0815 GMT), Coeure again at 1430 GMT, and Villeroy (1730 GMT). No Fed speakers are scheduled and the focus may remain centered on the EUR in the interim. The DXY meanwhile remains south of the 91.00 handle and the underlying posture towards the greenback we think remains one of skepticism.

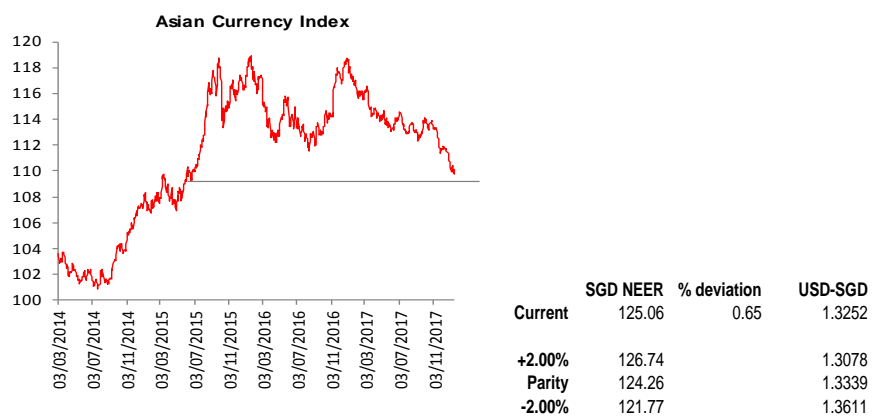
Asian FX

- USD-Asia may be mildly reactive to the USD's capitulation higher although the positive dynamic from Asian equities may temper the upside for the regional pairs in aggregate. Overall, expect the **ACI (Asian Currency Index)** to remain slightly supported today after ticking higher on Wednesday. On the risk appetite front, the **FXSI (FX Sentiment Index)** also continued to consolidate higher although the index still remained in Risk-On territory. Elsewhere, Asian net portfolio inflows remain constructive, especially for the likes of Taiwan, Indonesia and Thailand.
- For India, net portfolio inflows still remain conspicuously weak, leaving the INR still vulnerable to the greenback. Meanwhile, the government's decision to cut back on planned borrowing in the current fiscal year should alleviate downside pressure on the govies.

Treasury Research &
Strategy

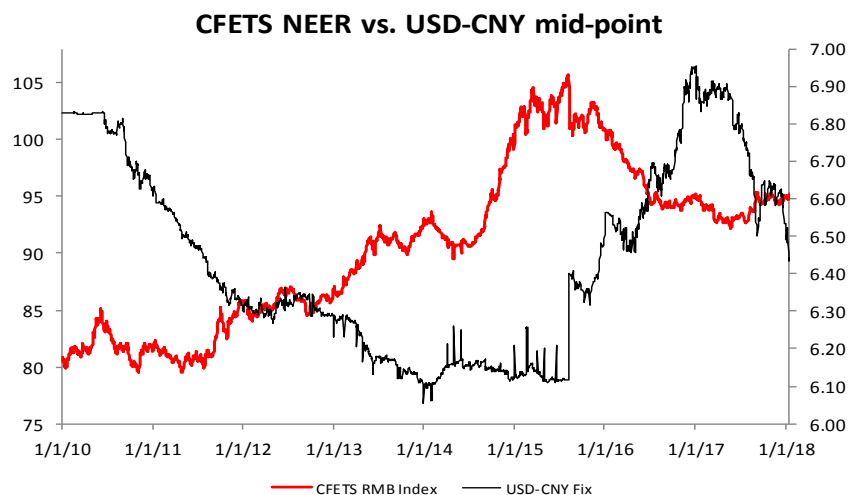
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

- Going ahead, look to China 4Q GDP numbers and the string of December data releases (0700 GMT). **Bank Indonesia** meanwhile is expected to remain static at 1.50% and 4.25% respectively.
- The **BOK** left its benchmark rate unchanged at 1.50% as expected and markets await ensuing comments and economic forecasts from the central bank.
- **SGD NEER:** This morning, the SGD NEER is softer again at around +0.64% above its perceived parity (1.3339), with NEER-implied USD-SGD thresholds firmer in the wake of overnight market volatility. Expect a +0.50% (1.3273) to +0.80% (1.3233) range intra-day.



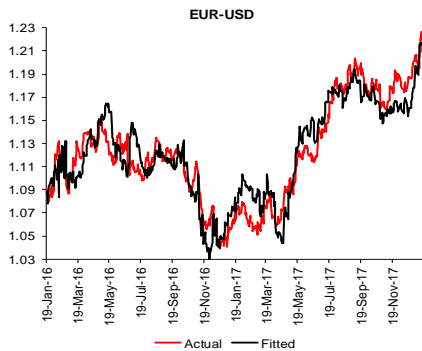
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point firmed slightly (in line with expectations) to 6.4401 from 6.4335 yesterday, leaving the CFETS RMB Index higher on the day at 95.17 from 94.95.



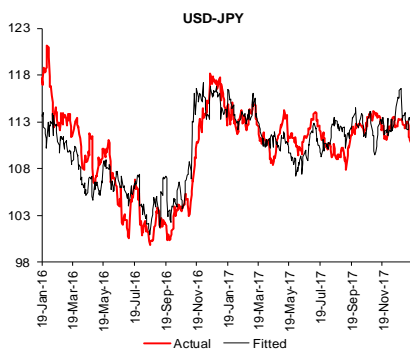
Source: OCBC Bank, Bloomberg

G7



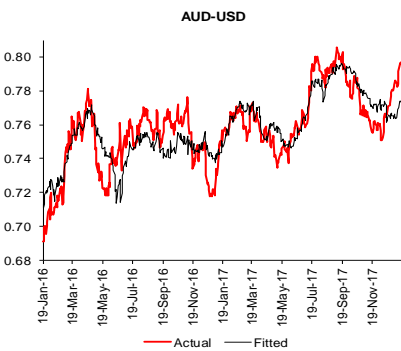
Source: OCBC Bank

- EUR-USD** December EZ CPI readings came in largely in line with expectations but potential ECB jawboning may continue to dominate at this juncture. Short term implied valuations have consolidated lower for the second consecutive session with the next support expected at 1.2150 pending further ECB appearances. On our end, ECB discomfort we think is borne out of the speed of the recent FX move, as opposed to any drastic overvaluation concerns.



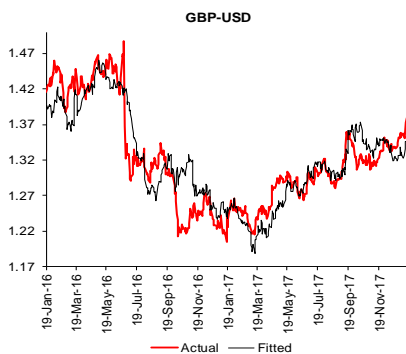
Source: OCBC Bank

- USD-JPY** Short term implied valuations have ticked higher and the pair may continue to contemplate the 111.50 resistance at this juncture with the 200-day MA (111.74) likely to cap further. Preference to fade rallies instead.



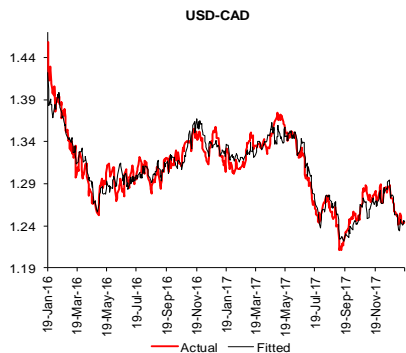
Source: OCBC Bank

- AUD-USD** This morning, the December Australian labor market numbers outshone prior expectations and this should leave a layer of support for the AUD-USD despite some attempt by the broad dollar to retrace. Short term implied valuations remain resilient but this continues to be caveated by the pair still significantly north of its implied confidence intervals, implying still measured up moves. Expect 0.8000 to continue to shelter in the interim with investors likely attempting to pick bottoms.



Source: OCBC Bank

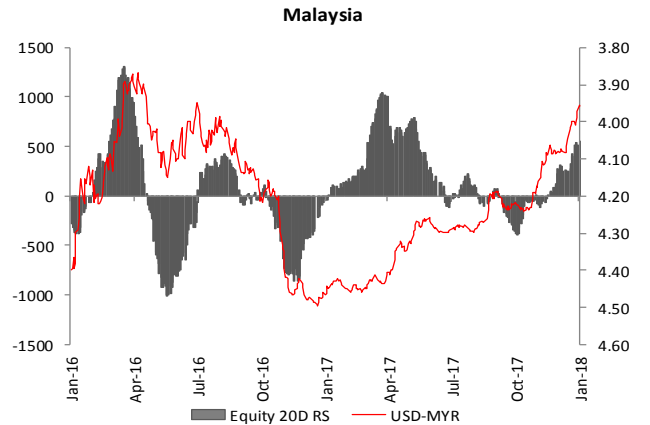
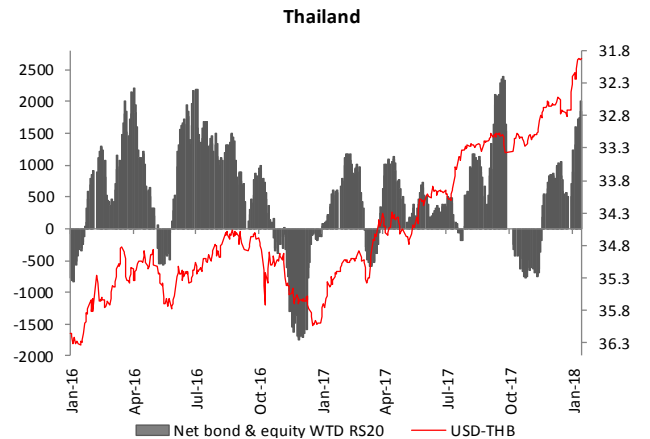
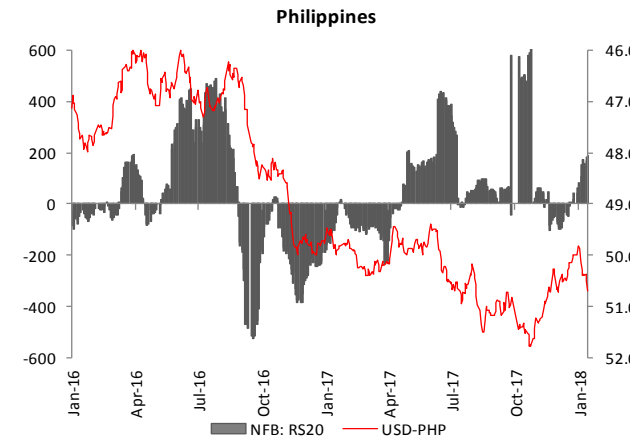
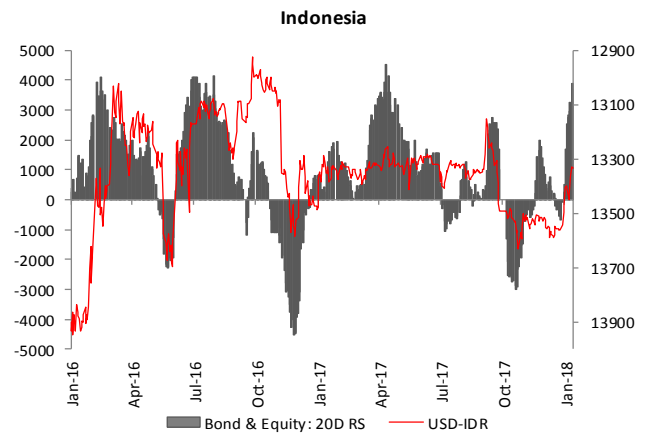
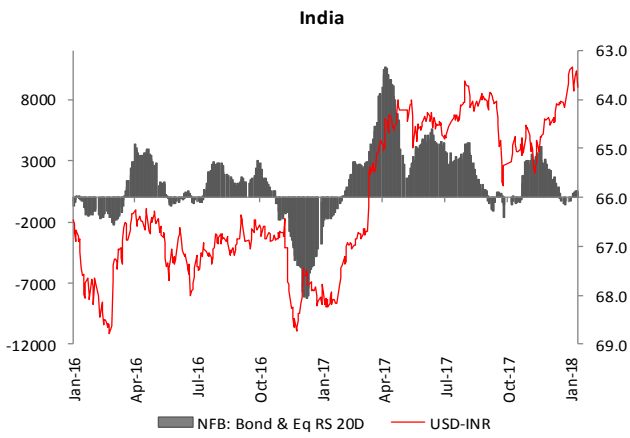
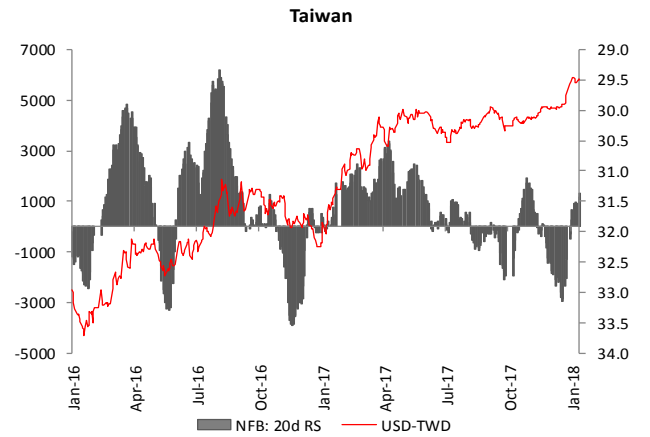
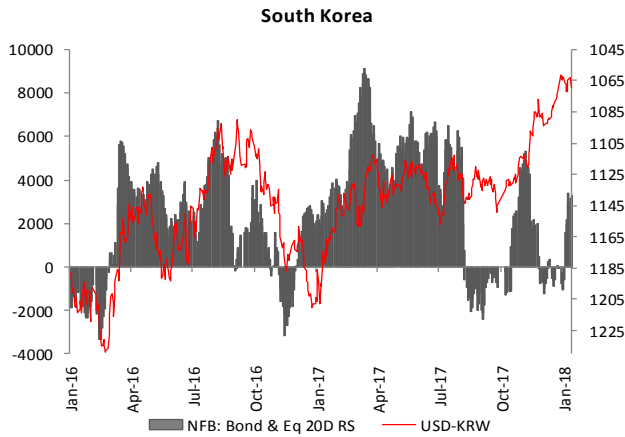
- GBP-USD** GBP-USD saw a choppy session, rising momentarily past 1.3900 (on rate hike comments from the BOE's Saunders and continued background expectations for a softer Brexit) before collapsing to end slightly firmer on the day. Expect Brexit news flow to continue to dominate (EU27 officials convene today) after the UK Parliament cleared the EU Withdrawal Bill yesterday. Headline risks remain significant while notably, short term implied valuations have edged lower, leaving cable looking rich on the upside at this juncture. Expect a supported 1.3740-1.3860 range.



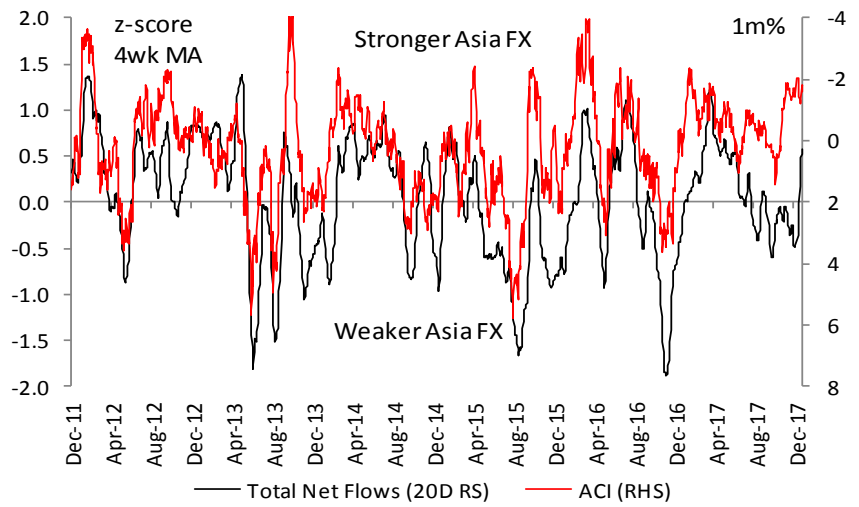
- **USD-CAD** Post-BOC, the CAD may revert to trading off NAFTA news flow and crude oil developments. Short term implied valuations meanwhile continue to remain range bound with no apparent misalignment in the near term. As such, the 1.2400-1.2600 range may continue to prevail pending further catalysts.

Source: OCBC Bank

USD-Asia VS. Net Capital Flows

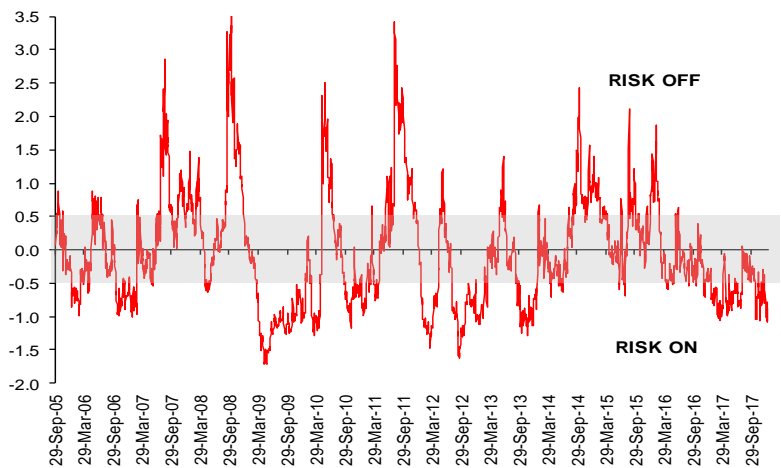


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXY	1	-0.546	0.953	-0.819	-0.844	-0.851	0.827	-0.855	-0.51	0.218	0.961	-0.98
CHF	0.964	-0.406	0.896	-0.737	-0.78	-0.779	0.844	-0.776	-0.471	0.115	0.91	-0.963
SGD	0.962	-0.513	0.952	-0.805	-0.889	-0.899	0.77	-0.876	-0.273	0.395	0.963	-0.952
CNH	0.961	-0.536	0.985	-0.792	-0.846	-0.889	0.748	-0.88	-0.395	0.366	1	-0.957
CNY	0.953	-0.557	1	-0.775	-0.861	-0.925	0.725	-0.883	-0.419	0.367	0.985	-0.936
MYR	0.932	-0.699	0.92	-0.934	-0.961	-0.833	0.813	-0.919	-0.292	0.373	0.921	-0.902
THB	0.892	-0.694	0.853	-0.961	-0.953	-0.797	0.858	-0.922	-0.22	0.35	0.872	-0.871
IDR	0.88	-0.75	0.869	-0.965	-0.946	-0.768	0.79	-0.926	-0.274	0.471	0.886	-0.861
CAD	0.842	-0.425	0.909	-0.743	-0.89	-0.926	0.577	-0.878	-0.197	0.611	0.898	-0.81
CCN12M	0.837	-0.405	0.821	-0.679	-0.704	-0.682	0.629	-0.684	-0.179	0.283	0.872	-0.849
JPY	0.827	-0.629	0.725	-0.787	-0.72	-0.614	1	-0.781	-0.5	-0.087	0.748	-0.832
TWD	0.823	-0.532	0.862	-0.806	-0.961	-0.885	0.62	-0.879	-0.068	0.567	0.848	-0.775
KRW	0.792	-0.344	0.88	-0.587	-0.796	-0.903	0.461	-0.756	-0.078	0.576	0.852	-0.787
INR	0.512	-0.247	0.629	-0.469	-0.671	-0.677	0.29	-0.59	0.402	0.571	0.599	-0.517
PHP	-0.247	0.636	-0.099	0.466	0.225	-0.104	-0.58	0.192	0.53	0.478	-0.104	0.211
USGG10	-0.546	1	-0.557	0.794	0.696	0.434	-0.629	0.704	0.346	-0.192	-0.536	0.516
NZD	-0.911	0.68	-0.905	0.932	0.932	0.857	-0.846	0.966	0.378	-0.39	-0.922	0.889
AUD	-0.965	0.562	-0.965	0.86	0.909	0.93	-0.809	0.94	0.41	-0.383	-0.97	0.94
GBP	-0.97	0.603	-0.919	0.866	0.861	0.777	-0.838	0.835	0.528	-0.2	-0.93	0.955
EUR	-0.98	0.516	-0.936	0.772	0.788	0.82	-0.832	0.83	0.472	-0.188	-0.957	1

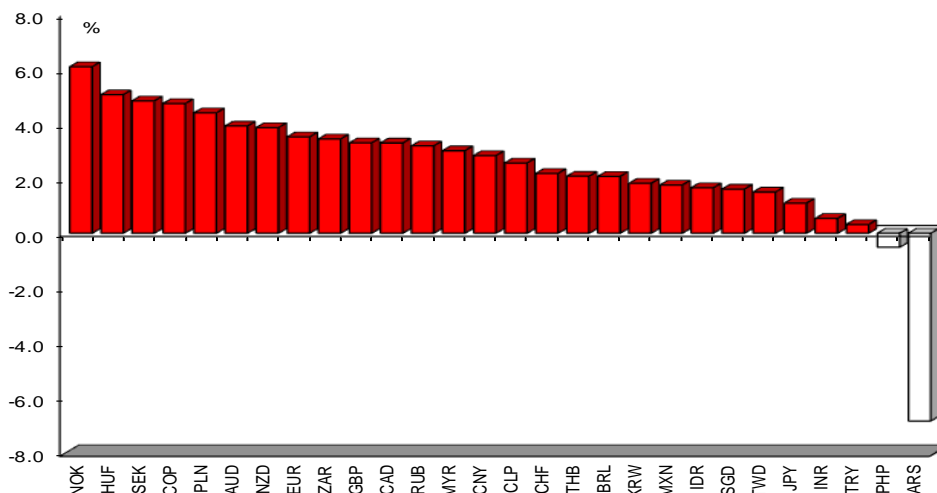
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1894	1.2100	1.2195	1.2200	1.2282
GBP-USD	1.3421	1.3800	1.3822	1.3860	1.3900
AUD-USD	0.7714	0.7900	0.7962	0.8000	0.8004
NZD-USD	0.7114	0.7200	0.7264	0.7300	0.7327
USD-CAD	1.2356	1.2400	1.2452	1.2500	1.2678
USD-JPY	110.34	111.00	111.34	111.72	112.00
USD-SGD	1.3184	1.3200	1.3251	1.3300	1.3424
EUR-SGD	1.5963	1.6100	1.6159	1.6195	1.6200
JPY-SGD	1.1732	1.1900	1.1902	1.1937	1.1989
GBP-SGD	1.8285	1.8300	1.8314	1.8391	1.8400
AUD-SGD	1.0500	1.0517	1.0550	1.0551	1.0591
Gold	1289.31	1300.00	1326.00	1345.00	1353.18
Silver	16.78	17.00	17.01	17.10	17.11
Crude	63.80	64.00	64.20	64.89	65.65

Source: OCBC Bank

FX performance: 1-month change agst USD



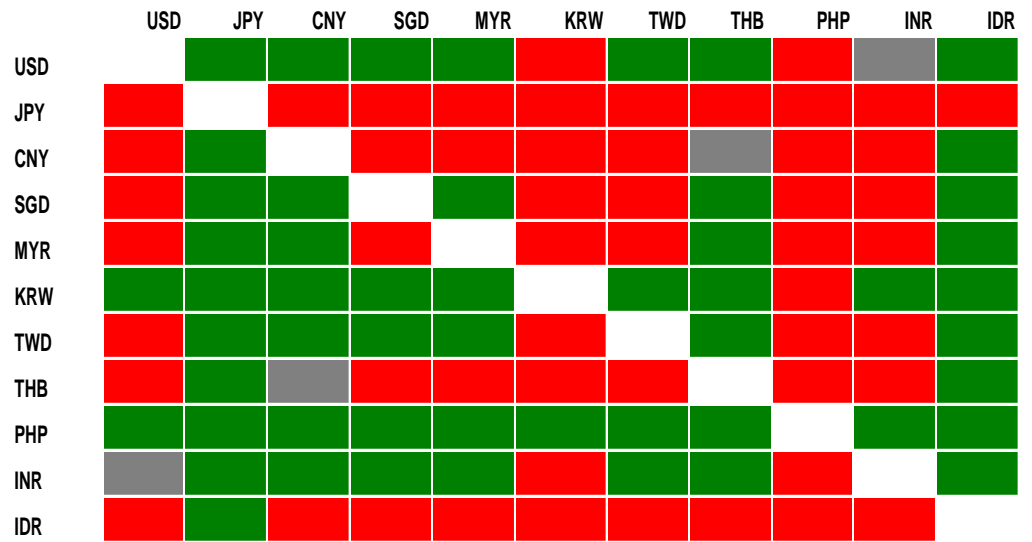
Source: Bloomberg

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

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	27-Nov-17	B	GBP-USD	1.3344	1.3975 1.3490	Investors may impute Brexit talks in December. Prevailing USD weakness.		
2	15-Jan-18	B	EUR-USD	1.2199	1.2420 1.2085	"Hawkish" ECB expectations, positive German political news flow		
3	16-Jan-18	S	USD-SGD	1.3230	1.3110 1.3295	Heavy dollar, positive risk appetite, SGD NEER not excessively strong		
STRUCTURAL								
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RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	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**	
2	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
3	09-May-17	12-Jan-18	B	GBP-USD	1.2927	1.3700	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?	+4.71
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Source: OCBC Bank

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