

Thursday, February 22, 2018

FX Themes/Strategy/Trading Ideas

- With **FOMC minutes** coming in more hawkish than expected, the dollar climbed against its G10 counterparts while the UST curve lifted (and US equities dipped) and bear steepened (10y UST yield reached 2.957%). The AUD led the way lower while also underperforming against its peers. On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped slightly within Risk-Neutral territory.
- This morning, comments from the Fed's **Kashkari** were not unduly hawkish and instead took the middle road, and this may blunt slightly the impact from overnight moves.
- Today Fed appearances include Kashkari (0120 GMT), Quarles (0515 GMT), Dudley (1500 GMT), Bostic (1710 GMT), and Kaplan (2030 GMT), with investors keen to decipher any further hawkish cues. Elsewhere, **ECB** meeting minutes (1230 GMT) are also on tap.
- Overall, a more aggressive than previously expected Fed rate hike profile (markets almost cleanly pricing in 3 rate hikes at this juncture) may imply negativity for equities and bonds, and as noted previously, may endanger the current weak dollar narrative.
- Going ahead, if the 10y UST yield rises past the 3.00% handle (DXY back above 90.00 for now), a junction of sorts for the USD's path may materialize, although we think that this may be more psychological/technical in nature. Instead, look towards the Fed's Powell on the 28 Feb, when he appears before the House Financial Services Committee for the Fed's semi-annual monetary policy report to Congress for more enduring cues.
- Thus despite macroeconomic prints since the FOMC continually supportive, the FOMC minutes we think may not be sufficient to instigate a turning point for the broad dollar. Note that in terms of their macro prognosis, Fed members certainly took it a notch higher at the latest meeting although this did not translate significantly towards a more aggressive wage cost/inflation outlook.

Treasury Research &
Strategy

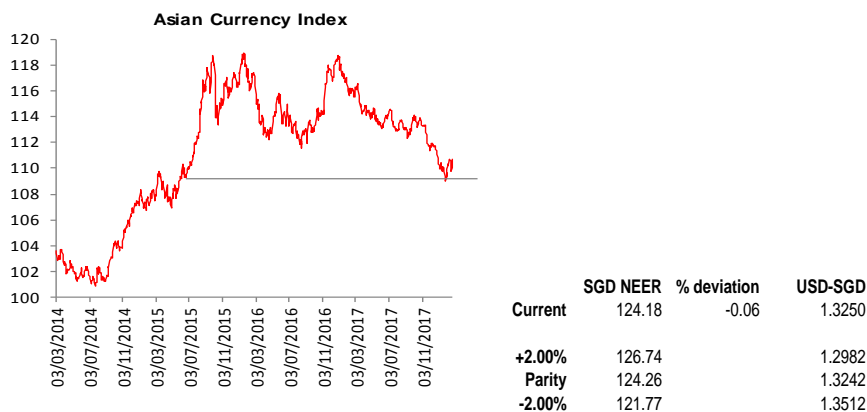
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Asian FX

- EM FX largely softened on Wednesday and expect the **ACI (Asian Currency Index)** and Asian govt yields in general to react higher in sympathy intra-day. Net portfolio capital inflow considerations (note some stabilization in net outflows for the THB) may prove secondary intra-day

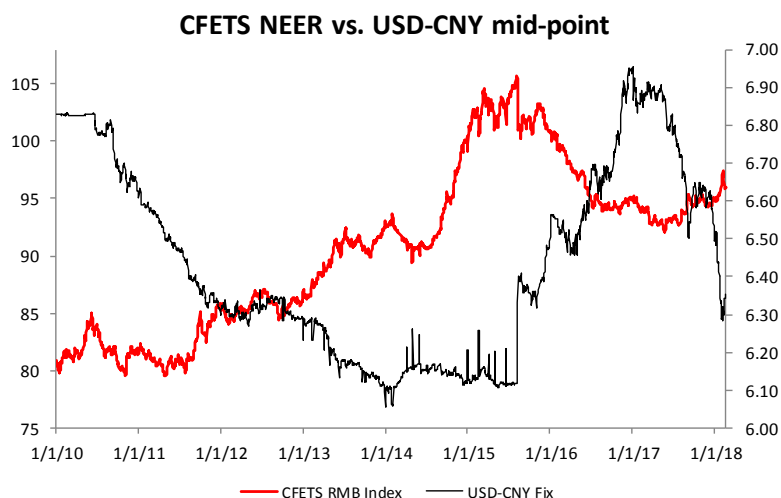
given the current USD demeanor but continue to denote generalized outflow pressures in aggregate.

- **RBI minutes** on Wednesday invoked hawkish expectations surrounding the central bank and this should continue to underpin long-end yields. Meanwhile, amidst the overhang from the current account deficit (and concerns over fiscal slippage), short term net portfolio outflow pressures may continue to keep the **INR** as a relative regional laggard in the near term.
- **SGD NEER:** The SGD NEER is dipping into sub-parity levels again at around -0.09% this morning with parity estimated at 1.3242. NEER-implied USD-SGD thresholds are higher on the day with -0.20% estimated at 1.3269 and +0.1% at 1.3229. Bias for the pair remains tilted higher at this juncture although the 55-day MA (1.3284) may pose an initial cap.



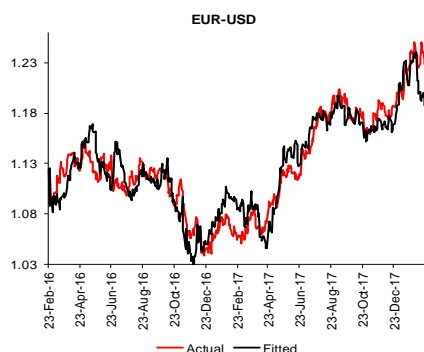
Source: OCBC Bank

- **CFETS RMB Index:** After the extended break, the USD-CNY mid-point came in (as largely expected) at 6.3530 from 6.3428 last. This took the CFETS RMB Index back below 96.00 to 95.97 from 96.12.



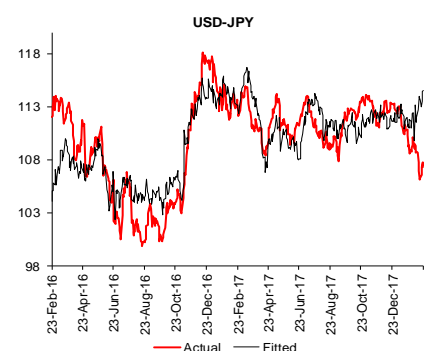
Source: OCBC Bank, Bloomberg

G7



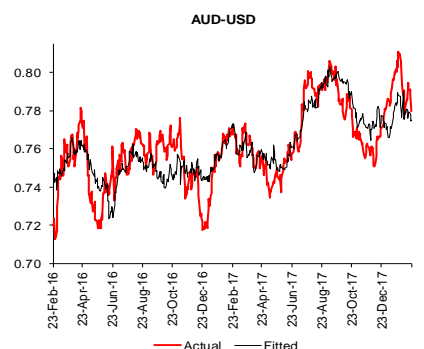
Source: OCBC Bank

- EUR-USD** Preliminary Feb EZ PMIs were softer than expected and in the wake of the FOMC minutes, the EUR-USD tripped below 1.2300 by the NY close. Ahead of the German Feb Ifo (0900 GMT) today, note that short term implied valuations have dislocated lower and the 55-day MA (1.2139) may continue to entice in the near term if 1.2200 is breached.



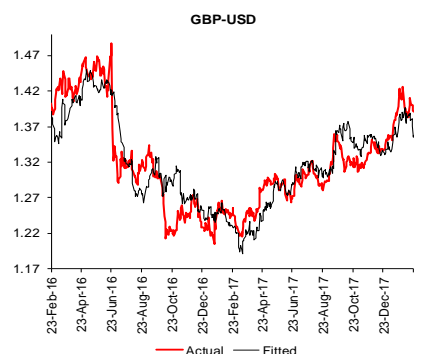
Source: OCBC Bank

- USD-JPY** With risk appetite levels sanguine once again, investors may demonstrate a tendency to collect on near term dips within 106.60-108.00. Short term implied valuations for the USD-JPY continue to float higher and as stated yesterday the pair may finally be attempting to hook up with its short term fair value.



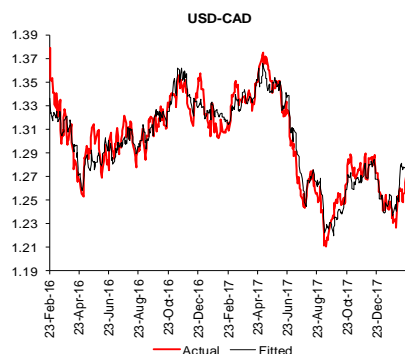
Source: OCBC Bank

- AUD-USD** With the 55-day MA (0.7849) soundly punctured, the next support at the 200-day MA (0.7777) is now under threat before 0.7750. Short term implied valuations have sunk and we reiterate that carry remains out of favor in the current environment. In the AUD's case, the dichotomy between the RBA and the Fed may be perceived as widening at this juncture.



Source: OCBC Bank

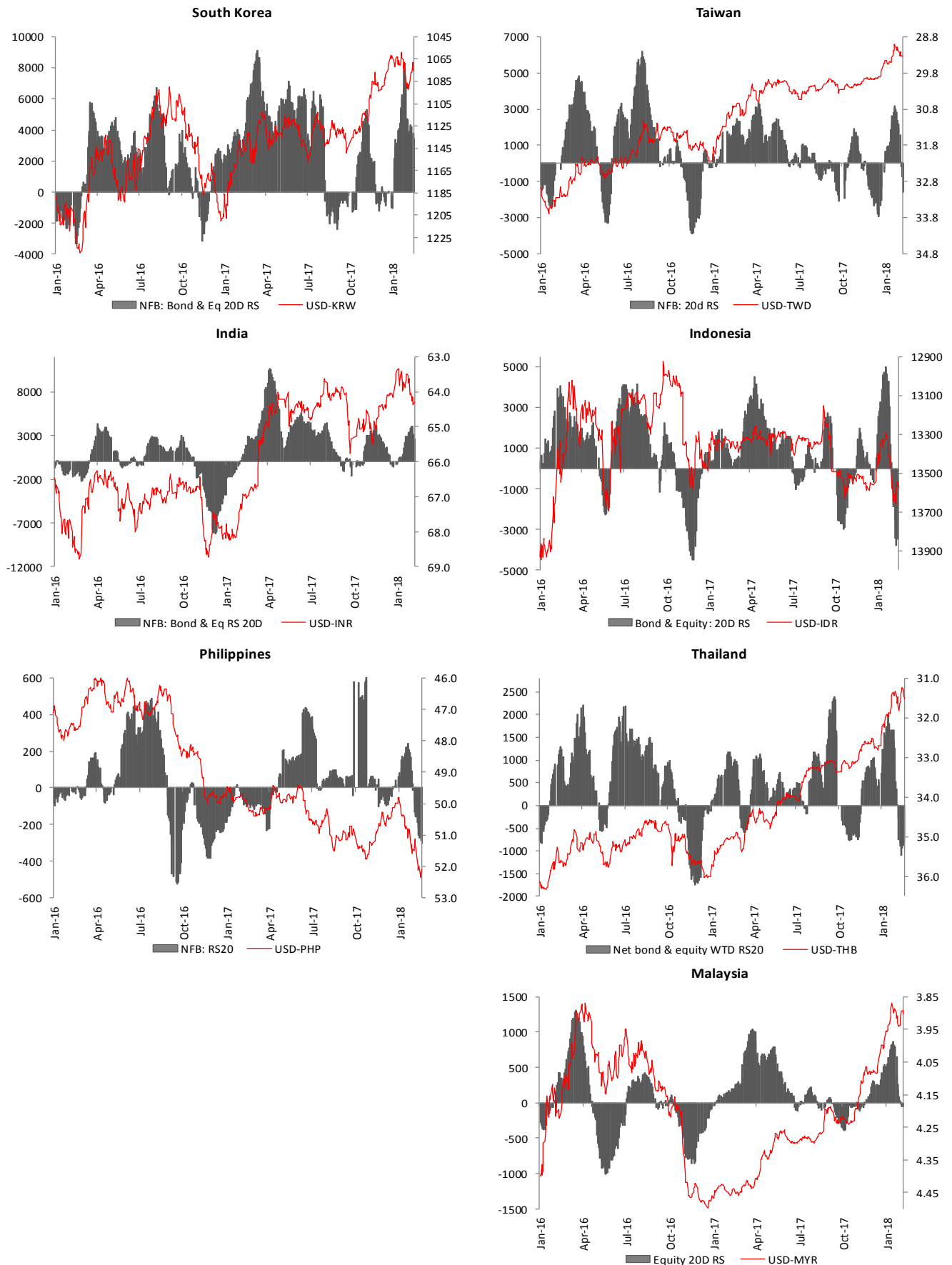
- GBP-USD** UK labor market numbers proved mixed on Wednesday but comments from the BOE's Carney and Haldane remained sufficiently sanguine and optimistic (even hawkish). Nonetheless, in the wake of the FOMC minutes, short term implied valuations have drilled lower and a further drip towards 1.3800 cannot be discounted.

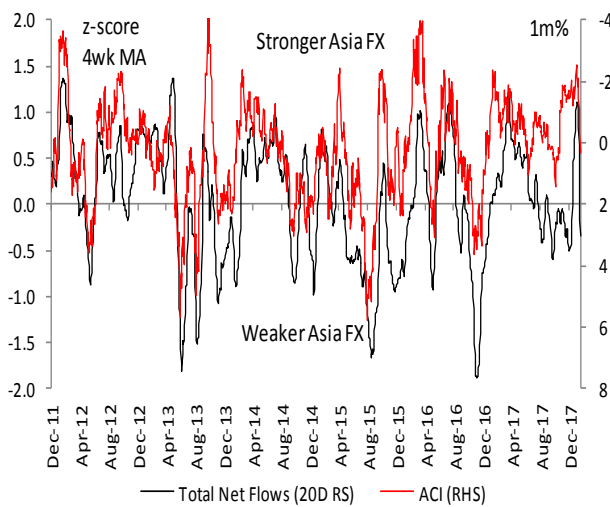


Source: OCBC Bank

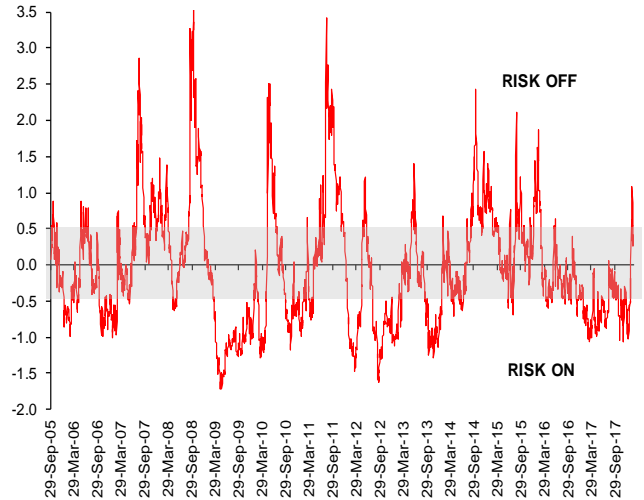
- **USD-CAD** No change to our near term views and the USD-CAD may continue to shadow its short term implied valuations higher while attempting to close the gap with perceived fair value. Any breach of the 200-day MA (1.2707) may pave the way to 1.2765 eventually. Watch for Dec retail sales numbers today and Jan CPI readings for further domestic cues.

USD-Asia VS. Net Capital Flows



ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

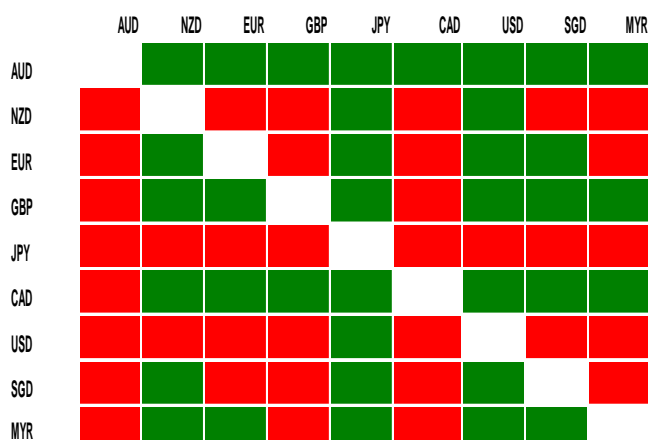
	DXY	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.104	0.083	-0.588	-0.506	-0.589	0.304	-0.523	0.543	0.293	0.516	-0.971
SGD	0.857	0.459	-0.213	-0.849	-0.690	-0.739	0.100	-0.658	0.793	0.548	0.279	-0.821
THB	0.816	-0.088	0.435	-0.435	-0.315	-0.397	0.382	-0.345	0.395	0.101	0.680	-0.767
MYR	0.685	0.289	0.171	-0.656	-0.685	-0.800	0.029	-0.771	0.487	0.551	0.236	-0.613
CHF	0.672	-0.415	0.606	0.121	0.140	0.050	0.553	0.057	-0.109	-0.340	0.792	-0.644
CAD	0.607	0.749	-0.118	-0.844	-0.814	-0.807	-0.469	-0.803	0.696	0.818	0.135	-0.655
KRW	0.596	0.521	-0.395	-0.888	-0.776	-0.776	0.021	-0.679	0.906	0.633	-0.172	-0.517
TWD	0.590	0.497	0.100	-0.768	-0.780	-0.793	-0.173	-0.742	0.673	0.703	0.093	-0.499
CNH	0.516	-0.319	0.839	0.112	0.228	0.095	0.290	0.033	-0.176	-0.277	1.000	-0.561
INR	0.495	0.787	-0.376	-0.722	-0.730	-0.696	-0.343	-0.669	0.558	0.758	-0.051	-0.469
IDR	0.414	0.876	-0.295	-0.899	-0.928	-0.914	-0.537	-0.906	0.740	0.963	-0.232	-0.383
JPY	0.304	-0.652	-0.055	0.280	0.429	0.401	1.000	0.557	-0.087	-0.647	0.290	-0.145
USGG10	0.104	1.000	-0.407	-0.673	-0.758	-0.717	-0.652	-0.740	0.446	0.876	-0.319	-0.163
CNY	0.083	-0.407	1.000	0.314	0.271	0.141	-0.055	0.038	-0.447	-0.200	0.839	-0.095
PHP	-0.078	0.827	-0.106	-0.509	-0.551	-0.586	-0.767	-0.639	0.308	0.782	-0.290	0.076
AUD	-0.651	-0.737	0.275	0.940	0.869	0.856	0.288	0.802	-0.812	-0.802	-0.039	0.650
NZD	-0.788	-0.039	0.220	0.629	0.420	0.472	-0.365	0.384	-0.673	-0.216	-0.340	0.738
GBP	-0.804	-0.534	0.068	0.833	0.830	0.851	0.190	0.820	-0.764	-0.719	-0.170	0.788
EUR	-0.971	-0.163	-0.095	0.551	0.473	0.538	-0.145	0.518	-0.518	-0.268	-0.561	1.000

Source: Bloomberg

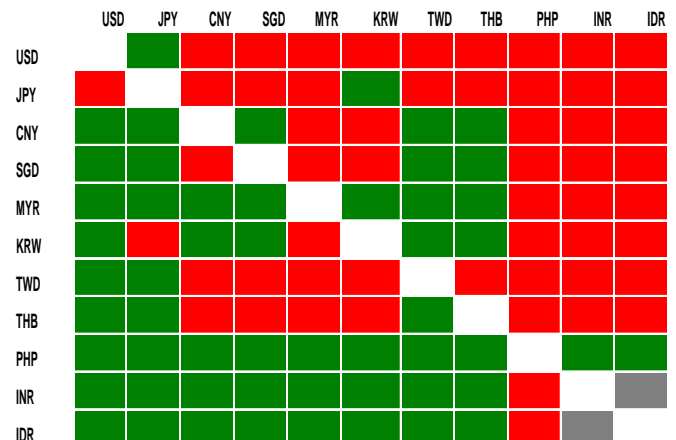
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2200	1.2210	1.2274	1.2300	1.2525
GBP-USD	1.3765	1.3900	1.3906	1.4000	1.4239
AUD-USD	0.7759	0.7773	0.7796	0.7800	0.7871
NZD-USD	0.7218	0.7300	0.7309	0.7400	0.7424
USD-CAD	1.2534	1.2600	1.2697	1.2700	1.2703
USD-JPY	105.95	107.00	107.33	108.00	110.49
USD-SGD	1.3030	1.3200	1.3247	1.3253	1.3300
EUR-SGD	1.6183	1.6200	1.6260	1.6300	1.6400
JPY-SGD	1.2156	1.2300	1.2344	1.2377	1.2400
GBP-SGD	1.8260	1.8400	1.8422	1.8500	1.8631
AUD-SGD	1.0297	1.0300	1.0328	1.0400	1.0432
Gold	1307.00	1315.02	1322.00	1363.69	1365.40
Silver	16.13	16.40	16.42	16.50	16.76
Crude	58.01	61.00	61.06	61.10	61.55

Source: OCBC Bank

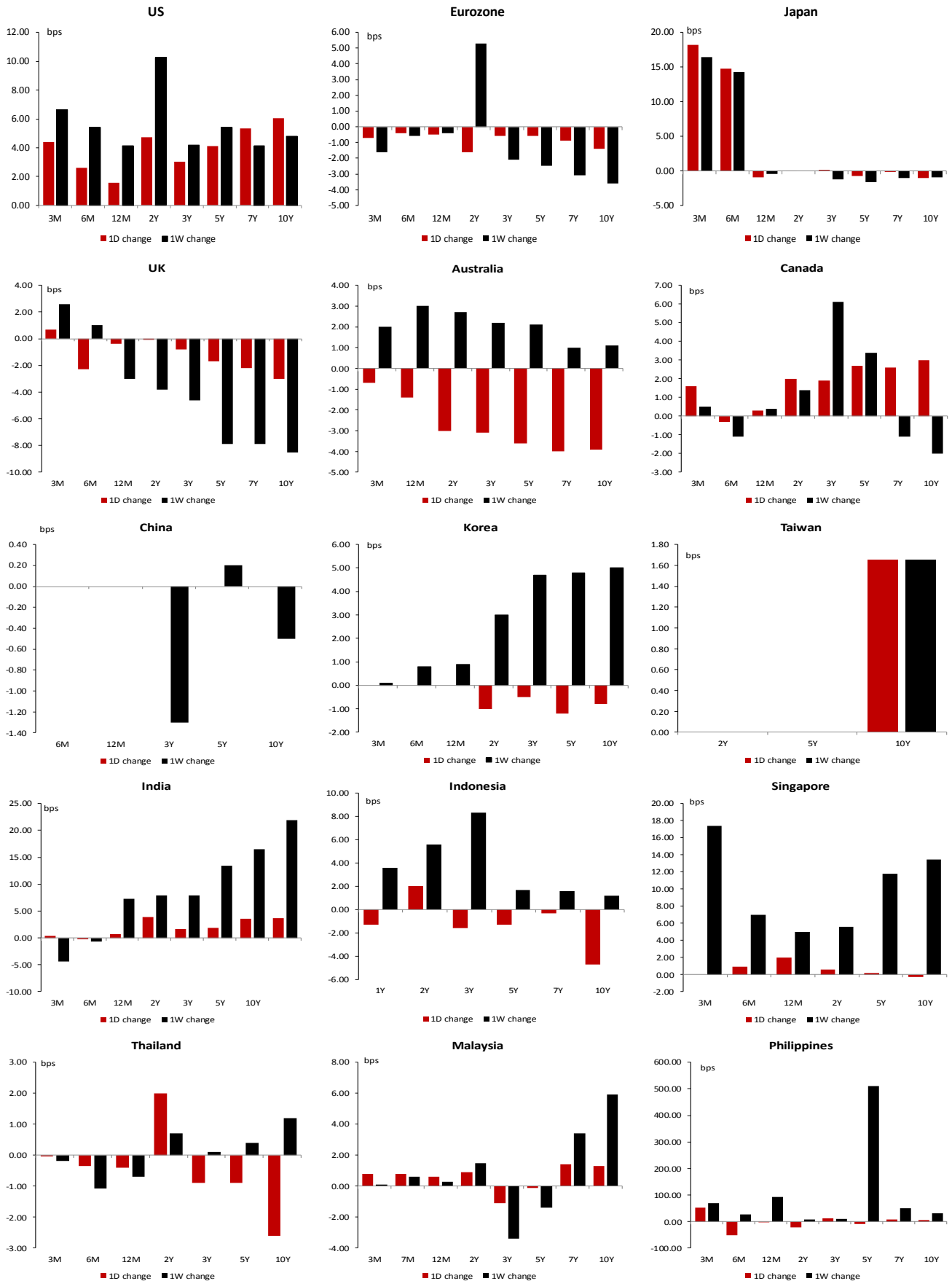
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

FX Trade Ideas								
	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
-	-		-	-	-	-	-	
	STRUCTURAL							
1	19-Jan-18		B	EUR-USD	1.2274	1.2865 1.1975	ECB likely to alter its forward guidance into the spring	
2	31-Jan-18		S	USD-JPY	108.67	102.35 111.85	Market fixation on USD weakness, despite mitigating factors and the BOJ	
3	15-Feb-18		B	GBP-USD	1.4014	1.4855 1.3590	Borad dollar vulnerability coupled with hawkish BOE expectations.	
	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 imputeBrexit talks in December. Prevailing USD weakness.	+5.56
2	16-Jan-18	02-Feb-18	S	USD-SGD	1.3230	1.3175	Heay 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 poloitical news flow	+0.72
4	12-Feb-18	14-Feb-18	S	AUD-USD	0.7829	0.7915	Unstable equity/risk appetite environment. Less than hawkish RBA	-1.09
5	09-Feb-18	15-Feb-18	B	USD-CAD	1.2600	1.2470	Softer crude and fragile appetite towards the cycdicals	-1.03
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Source: OCBC Bank

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