

Friday, February 23, 2018

FX Themes/Strategy/Trading Ideas

- The majors bounced right back against the USD on Thursday, recouping earlier losses chalked up in the wake of Wed's FOMC minutes. The UST curve softened (yields led lower by the belly) with the DXY also sinking back below 90.00 with the Fed's **Kashkari** and **Bullard** attempting to modulate excessively hawkish expectations. USD-JPY collapsed below 107.00 while the EUR-USD managed to surface above 1.2300 despite less than acutely hawkish ECB meeting minutes. Elsewhere, risk appetite wavered slightly with the **FXSI (FX Sentiment Index)** inching higher within Risk-Neutral territory.
- Range trading conditions may persist ahead of Fed-speak later today from Dudley (1515 GMT), Mester and the ECB's Coeure (1830 GMT), and Williams (2040 GMT). The BOE's Ramsden is also scheduled for 1200 GMT. On the data front, look to German 4Q GDP (0700 GMT), EZ Jan CPI (1000 GMT), Canadian Jan CPI (1330 GMT),
- Post-ECB minutes, expect investors to remain on the lookout for any subtle (or explicit) change in the central bank's forward guidance (especially with respect to the asset purchase program) in the coming months. This we think may be sufficient to continue to underpin the EUR.
- Following the market's reaction to the latest FOMC minutes, **USD-CAD** may attempt to grind higher as apart from soggy crude, the market's perceived gulf between the Fed and the Bank of Canada widens. Amidst firming short term implied valuations for the pair, we undertake a tactical long USD-CAD. From a spot ref of 1.2696 on Thursday, we target 1.2960 and place a stop at 1.2560.

Asian FX

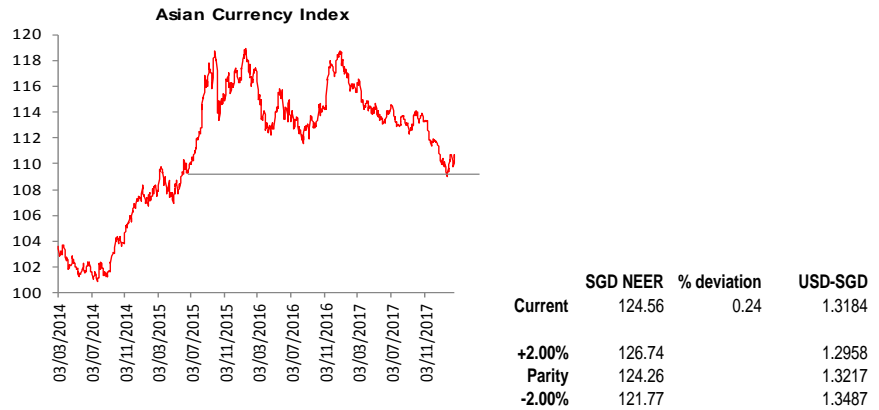
- EM equities inched lower on Thursday but Asian stocks got off to a positive start early Friday and this should lend some support to the regional currencies intra-day. As such, the **ACI (Asian Currency Index)** may tip lower (with associated govie yields also expected to be calmer) although this will be tempered by a still fragile net portfolio inflow environment in Asia.
- **SGD NEER:** Ahead of the Jan CPI readings (0500 GMT), the SGD NEER has bounced higher to +0.24% above its perceived parity (1.3217). NEER-implied USD-SGD thresholds are easier on the day and the basket may keep within +0.10% (1.3204) and +0.40% (1.3165) pending further cues. Range trade 1.3415-1.3240 with investor appetite still slightly guarded.

Treasury Research &
Strategy

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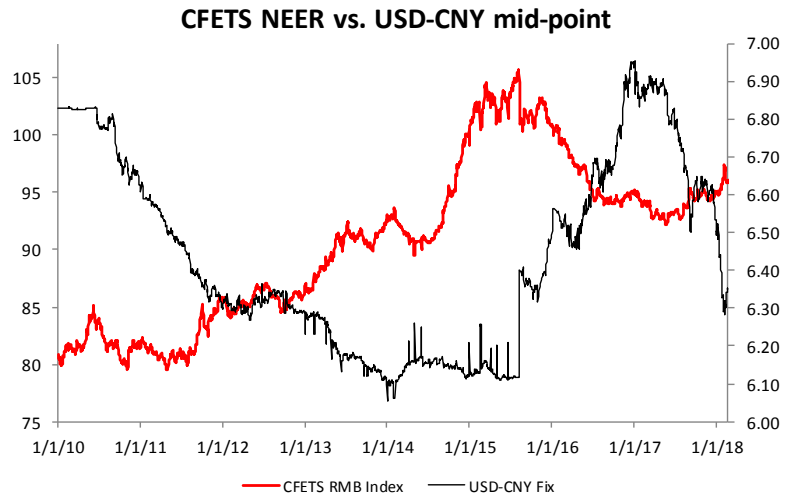
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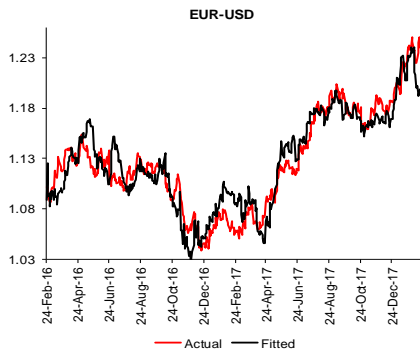
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point fell (as largely expected) to 6.3482 from 6.3530 on Thursday. This saw the CFETS RMB Index ticking dropping further to 95.80 from 95.97 on Thursday. Expect stability of the basket to remain a cornerstone with the realized 3M vol of the mid-points still at a premium to the basket's despite the volatility in recent weeks.



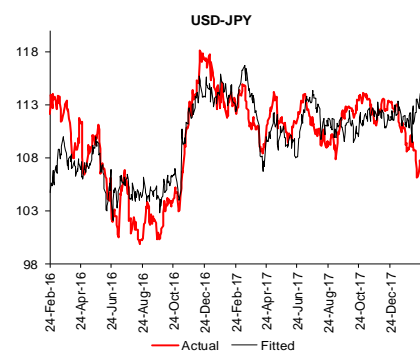
Source: OCBC Bank, Bloomberg

G7



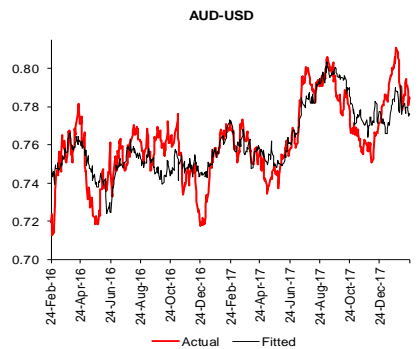
Source: OCBC Bank

- **EUR-USD** Short term implied valuations still remain somewhat subdued (short-term riskies still southbound) despite the ECB minutes and the pair may continue to ply a (top heavy) 1.2260-1.2400 range in the interim.



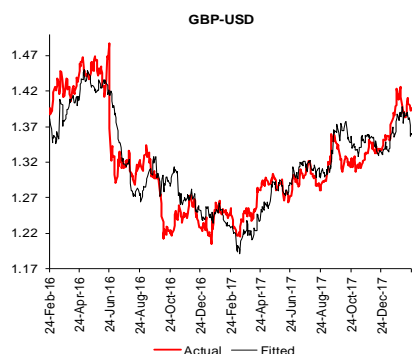
Source: OCBC Bank

- **USD-JPY** Despite the recent volatility, note the inability of the USD-JPY to breach 108.00 successfully despite underpinned short term implied valuations for the pair. Japan Jan core CPI numbers were a tick firmer than expected but is not expected to heightened hawkish BOJ expectations. Crosswinds from the JPY-crosses and USD dynamics may continue to keep the pair hemmed in within 106.00-107.50 in the interim.



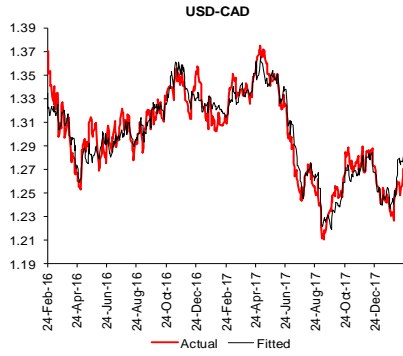
Source: OCBC Bank

- **AUD-USD** Despite the USD wavering on Thursday, the 55-day MA (0.7856) may continue to cap. Short term implied valuations remain depressed and the risk/reward may remain tilted towards 0.7800/10 ahead of the 200-day MA (0.7779).



Source: OCBC Bank

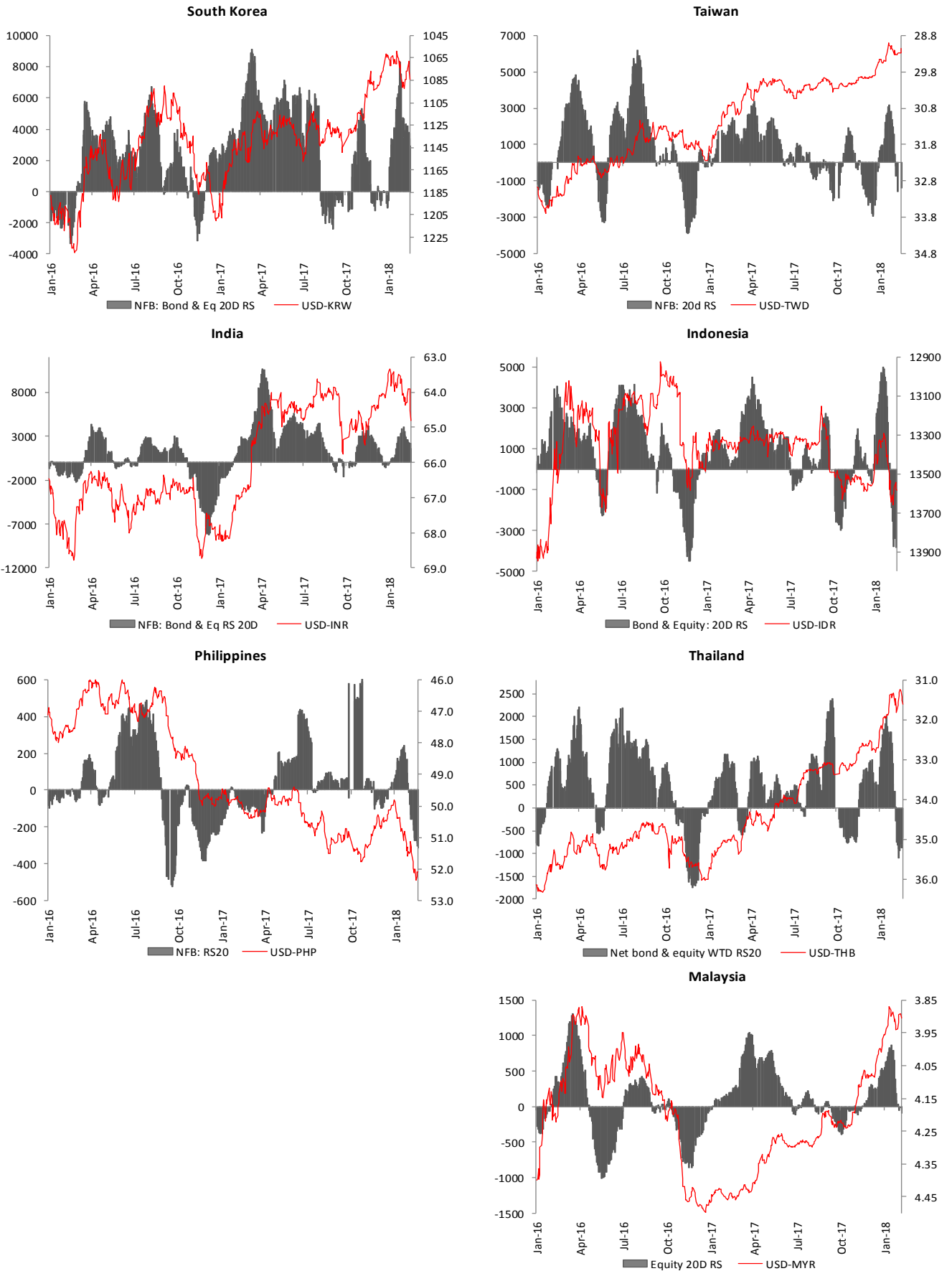
- **GBP-USD** 4Q GDP numbers disappointed on Thursday while lingering background Brexit-related uncertainty continues to circulate. Short term implied valuations are still softer from a week ago and expect a top heavy 1.3880-1.4000 range pending further headline risks.



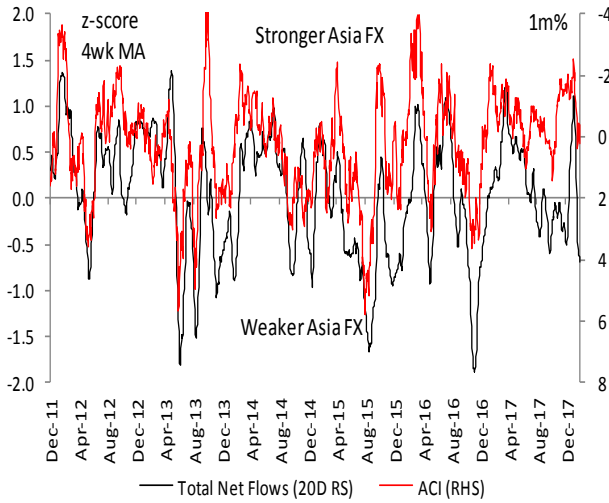
Source: OCBC Bank

- USD-CAD** The broad dollar slipped and Canadian Dec retail sales disappointed at -0.8% mom on Thursday but this was counterbalanced by firmer crude, leaving the USD-CAD essentially flat by late NY. Ahead of the Canadian Jan CPI numbers tonight, note that short term implied valuations for the pair are still attempting to tick higher. As such, expect base building behavior off the 1.2700 floor with the 200-day MA also residing at 1.2703.

USD-Asia VS. Net Capital Flows

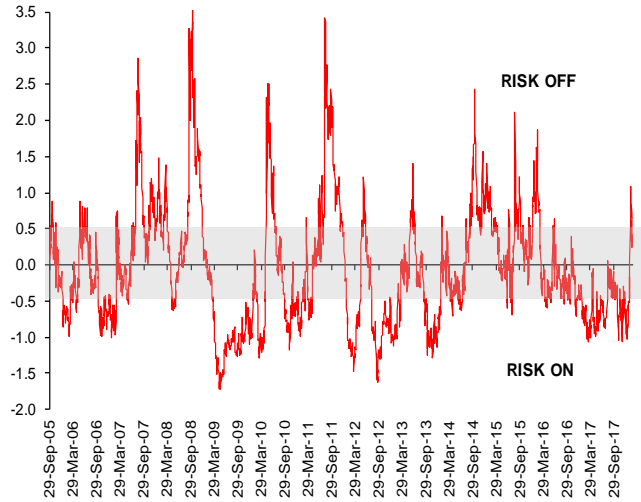


ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1.000	0.253	-0.108	-0.705	-0.621	-0.641	0.190	-0.585	0.647	0.423	0.474	-0.971
SGD	0.883	0.470	-0.258	-0.884	-0.724	-0.744	0.092	-0.654	0.820	0.587	0.315	-0.825
THB	0.810	0.092	0.187	-0.636	-0.504	-0.503	0.236	-0.447	0.587	0.294	0.574	-0.771
KRW	0.672	0.514	-0.298	-0.886	-0.771	-0.762	0.013	-0.663	0.884	0.636	-0.088	-0.569
CHF	0.671	-0.308	0.152	-0.058	-0.038	-0.039	0.493	-0.023	0.095	-0.196	0.608	-0.652
MYR	0.669	0.422	0.071	-0.771	-0.807	-0.850	-0.088	-0.833	0.578	0.691	0.129	-0.600
CAD	0.656	0.780	0.093	-0.820	-0.789	-0.741	-0.538	-0.718	0.628	0.831	0.276	-0.667
TWD	0.584	0.592	0.046	-0.836	-0.847	-0.815	-0.260	-0.771	0.733	0.779	0.017	-0.491
IDR	0.545	0.874	0.010	-0.872	-0.901	-0.880	-0.535	-0.879	0.663	0.957	0.000	-0.499
INR	0.542	0.797	0.016	-0.651	-0.656	-0.579	-0.421	-0.576	0.424	0.746	0.157	-0.518
CNH	0.474	-0.104	0.701	-0.075	0.073	0.029	0.052	-0.039	-0.021	-0.076	1.000	-0.553
USGG10	0.253	1.000	-0.027	-0.641	-0.729	-0.699	-0.645	-0.700	0.355	0.867	-0.104	-0.249
JPY	0.190	-0.645	-0.612	0.228	0.379	0.358	1.000	0.492	0.022	-0.626	0.052	-0.049
PHP	0.005	0.840	0.188	-0.484	-0.527	-0.545	-0.777	-0.606	0.237	0.782	-0.159	-0.005
CNY	-0.108	-0.027	1.000	0.158	0.102	0.093	-0.612	-0.069	-0.369	0.095	0.701	0.038
AUD	-0.721	-0.747	0.171	0.942	0.869	0.834	0.304	0.772	-0.787	-0.816	-0.148	0.686
GBP	-0.824	-0.588	0.092	0.878	0.874	0.856	0.241	0.823	-0.794	-0.778	-0.175	0.793
NZD	-0.844	0.040	0.150	0.606	0.396	0.463	-0.434	0.368	-0.667	-0.167	-0.515	0.784
EUR	-0.971	-0.249	0.038	0.645	0.566	0.574	-0.049	0.542	-0.598	-0.380	-0.553	1.000

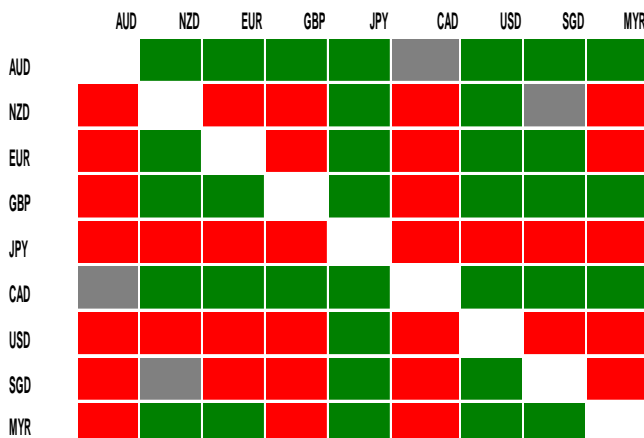
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.2213	1.2300	1.2319	1.2400	1.2518
GBP-USD	1.3779	1.3900	1.3951	1.4000	1.4222
AUD-USD	0.7775	0.7800	0.7833	0.7876	0.7900
NZD-USD	0.7225	0.7300	0.7311	0.7400	0.7424
USD-CAD	1.2699	1.2700	1.2711	1.2755	1.2779
USD-JPY	105.71	106.00	106.84	107.00	110.36
USD-SGD	1.3046	1.3100	1.3193	1.3200	1.3246
EUR-SGD	1.6188	1.6200	1.6252	1.6300	1.6398
JPY-SGD	1.2155	1.2300	1.2349	1.2377	1.2400
GBP-SGD	1.8254	1.8400	1.8406	1.8500	1.8627
AUD-SGD	1.0297	1.0300	1.0334	1.0400	1.0434
Gold	1307.52	1315.19	1330.60	1363.57	1365.40
Silver	16.13	16.50	16.58	16.60	16.78
Crude	61.68	62.80	62.89	62.90	66.55

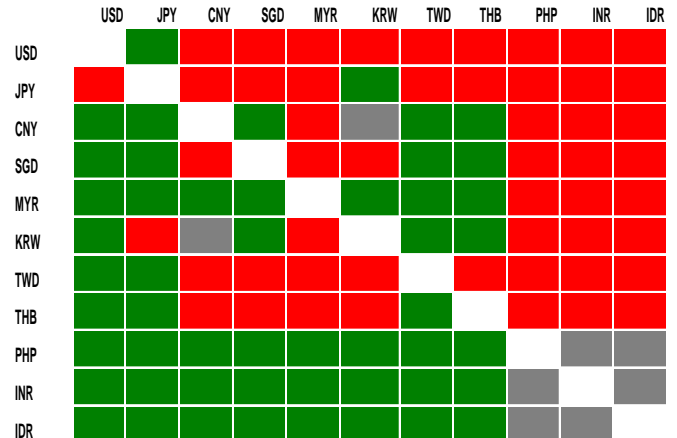
Source: OCBC Bank

G10 FX Heat Map



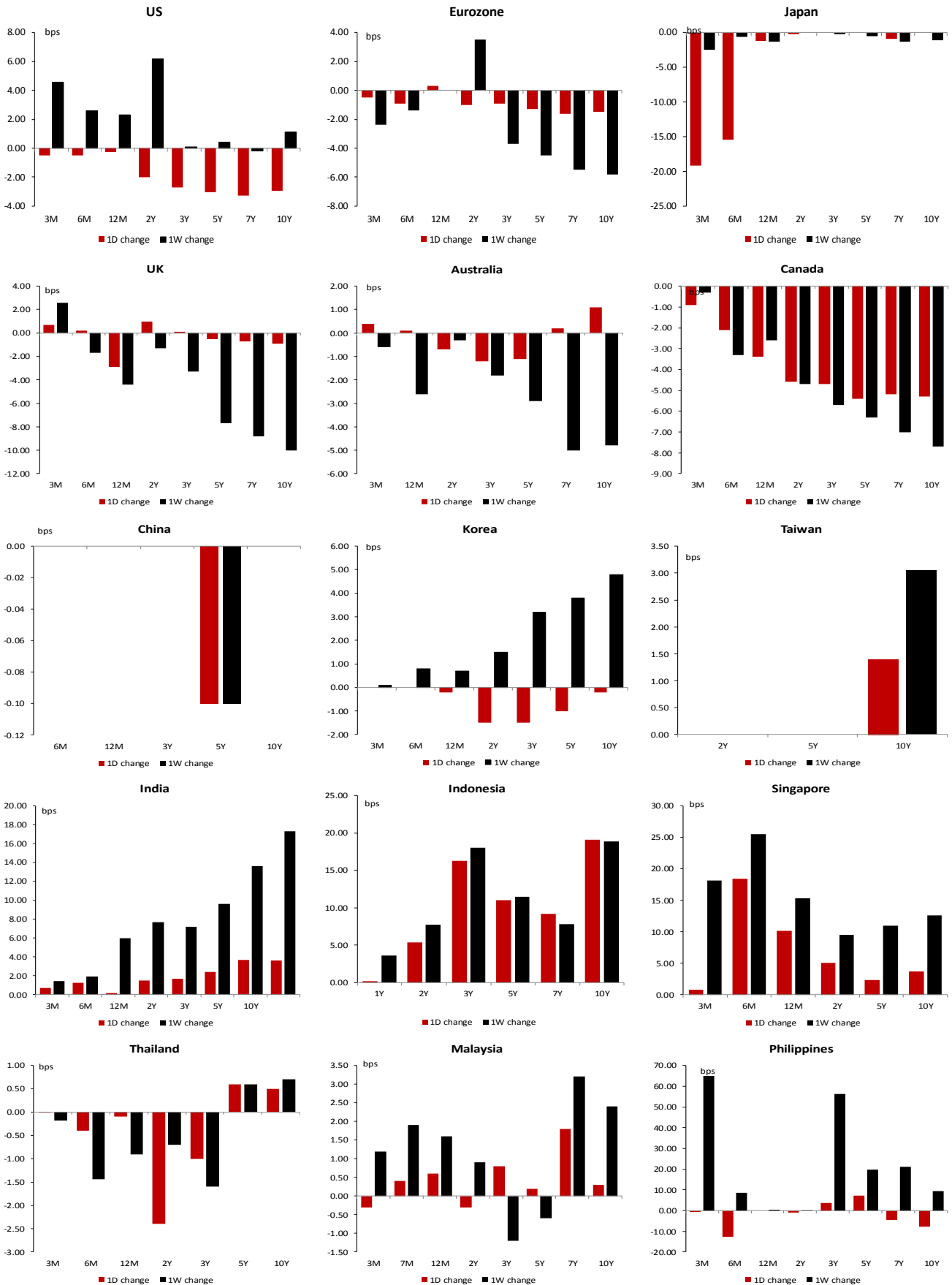
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	22-Feb-18	B	USD-CAD	1.2696	1.2960	1.2560	Post FOMC minutes, rising implied valuations for the pair	
STRUCTURAL								
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	
4	15-Feb-18	B	GBP-USD	1.4014	1.4855	1.3590	Broad 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 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
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 cyclical	-1.03
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Source: OCBC Bank

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