

Thursday, January 25, 2018

**FX Themes/Strategy/Trading Ideas**

- Triggered by a comment from US Treasury Secretary Mnuchin (“a weaker dollar is good” for US trade and opportunities), the greenback wiped out against the majors on Wednesday with the DXY crashing to 89.21. Subsequent damage control from the White House and US Commerce Secretary Ross failed to support the greenback.
- UST yields were firmer (as did most other core global curves) and although aggregate rate differentials imply some support for the greenback, a market now eyeing the 86.70 support zone (post 90.00) for the DXY may continue to relegate rate differential arguments to the background in the near term.
- Today, the **ECB** meeting (1245 GMT) is expected to be a primary focus for the markets with **Draghi’s** press conference (1330 GMT). On this front, watch for any rhetoric pertaining to any potential change in forward guidance, the termination prospects of the asset purchase program, and the recent moves in the EUR. Elsewhere, the calendar includes BOJ MPC meeting minutes (2350 GMT) and the German Jan Ifo (0900 GMT).

**Asian FX**

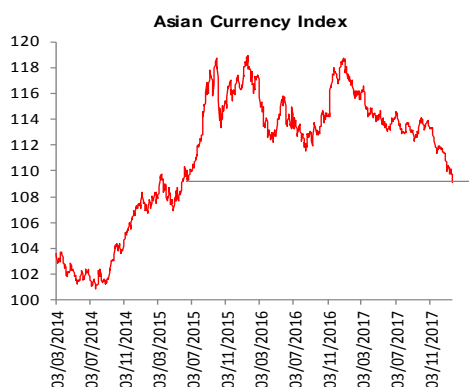
- EM FX also pulled higher against the USD on Wednesday with the **ACI (Asian Currency Index)** seen shadowing the DXY. Negative EZ/US equities were balanced by a still positive EM equity performance on Wednesday while the **FXSI (FX Sentiment Index)** edged higher but remained in Risk-On territory. Net portfolio inflows in the region meanwhile remain supportive of regional FX and providing an additional tailwind, although we note a recent moderation in bond inflows for Thailand. On the risk appetite front, negative EZ/US equities were balanced by a still positive EM equity performance on Wednesday while the **FXSI (FX Sentiment Index)** edged higher but remained in Risk-On territory.
- In Asia, the **BNM** policy decision is due at 0700 GMT with investors looking for a 25bps hike to 3.25%. Any hike (likely one and done) we think would be borne out of real interest rate considerations and an intention to normalize policy posture (as opposed to any accelerated growth/inflation threats). As such, the potential for the central bank to hold off till its March policy meeting cannot be discounted wholly.
- Going ahead, the prospect of potential trade tensions may remain near the surface, following comments from US Commerce Secretary Ross on China and steel and intellectual property (he also stated that “Trade war has been

Treasury Research &  
Strategy

**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

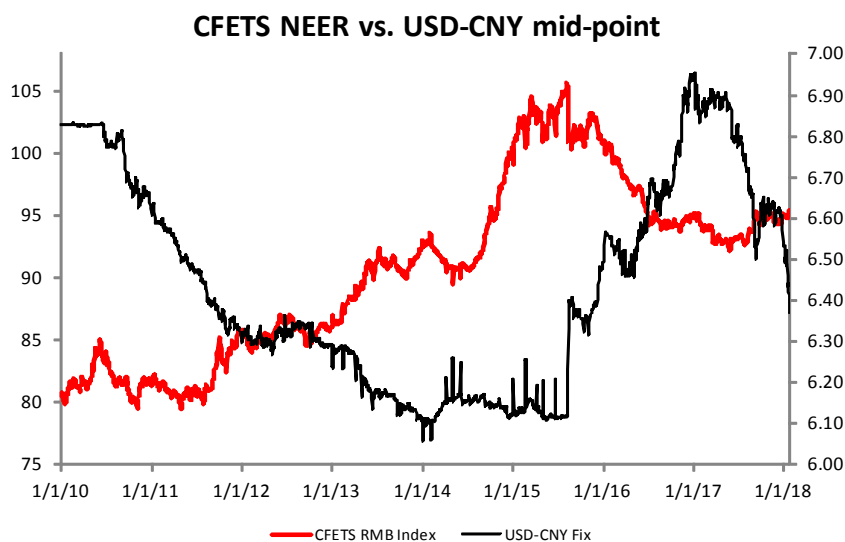
in place for quite a little while, the difference is the U.S. troops are now coming to the ramparts”) and Mnuchin’s comment on the dollar. US President Trump is due to speak at Davos today with investors awaiting more cues.

- **SGD NEER:** The SGD NEER is firmer on the day at around +0.74% above its perceived parity (1.3180) with NEER-implied USD-SGD thresholds significantly lower on the day. Expect a probable +0.70% (1.3089) to +0.90% (1.3063) range to hold intra-day.



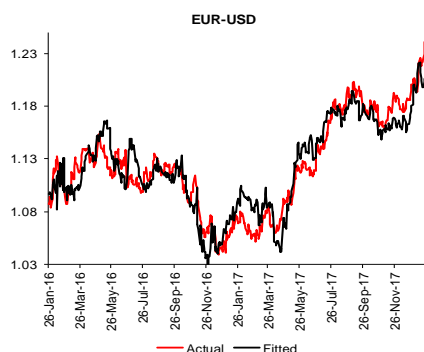
Source: OCBC Bank

- **CFETS RMB Index:** In the aftermath of the USD slide, the USD-CNY mid-point fell (largely as expected) to 6.3724. This also managed to alleviate upside pressure on the CFETS RMB Index, which eased to 95.23 from 95.41.



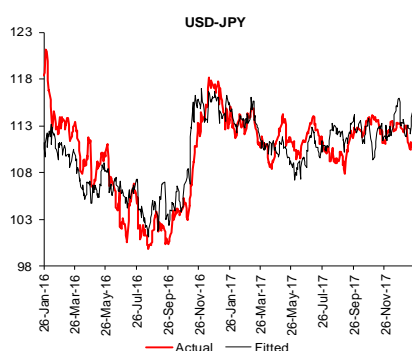
Source: OCBC Bank, Bloomberg

## G7



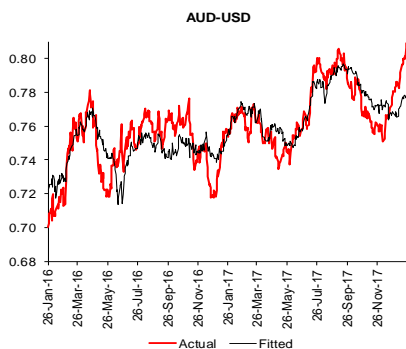
Source: OCBC Bank

- **EUR-USD** To say the least, there may be some element of overshoot here for the EUR-USD (relative to its short term implied valuations) with investors also unlikely to be in the mood for fair value while awaiting Draghi later today. Technical supports are expected into 1.2400 and then 1.2350.



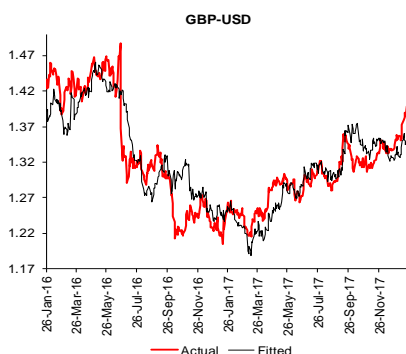
Source: OCBC Bank

- **USD-JPY** Short term implied valuations are slightly lower but the USD-JPY has been markedly more enthusiastic on the downside. Policy dichotomy considerations between the Fed and BOJ are expected to remain dormant in the current environment. The 109.00 level serves as the next psychological support.



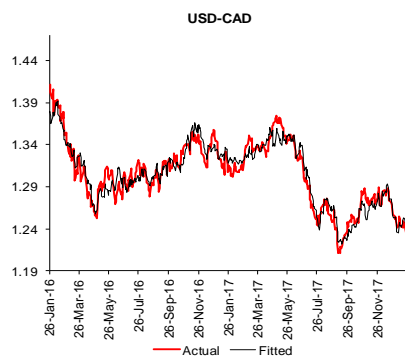
Source: OCBC Bank

- **AUD-USD** The broad dollar's stumble on Wednesday finally egged the AUD-USD above the 0.8000 neighborhood with some resolve. Meanwhile, short term implied valuations are still looking relatively underpinned although we reiterate that overshooting behavior remains apparent for the spot while G10 carry remains on the sidelines. Stay positive but aggressive up moves for the pair from hereon would have to be predicated on the dollar complex. Elsewhere however, the NZD-USD slumped in late trade after 4Q CPI disappointed with a +0.1% qoq print (mkts: +0.4%).



Source: OCBC Bank

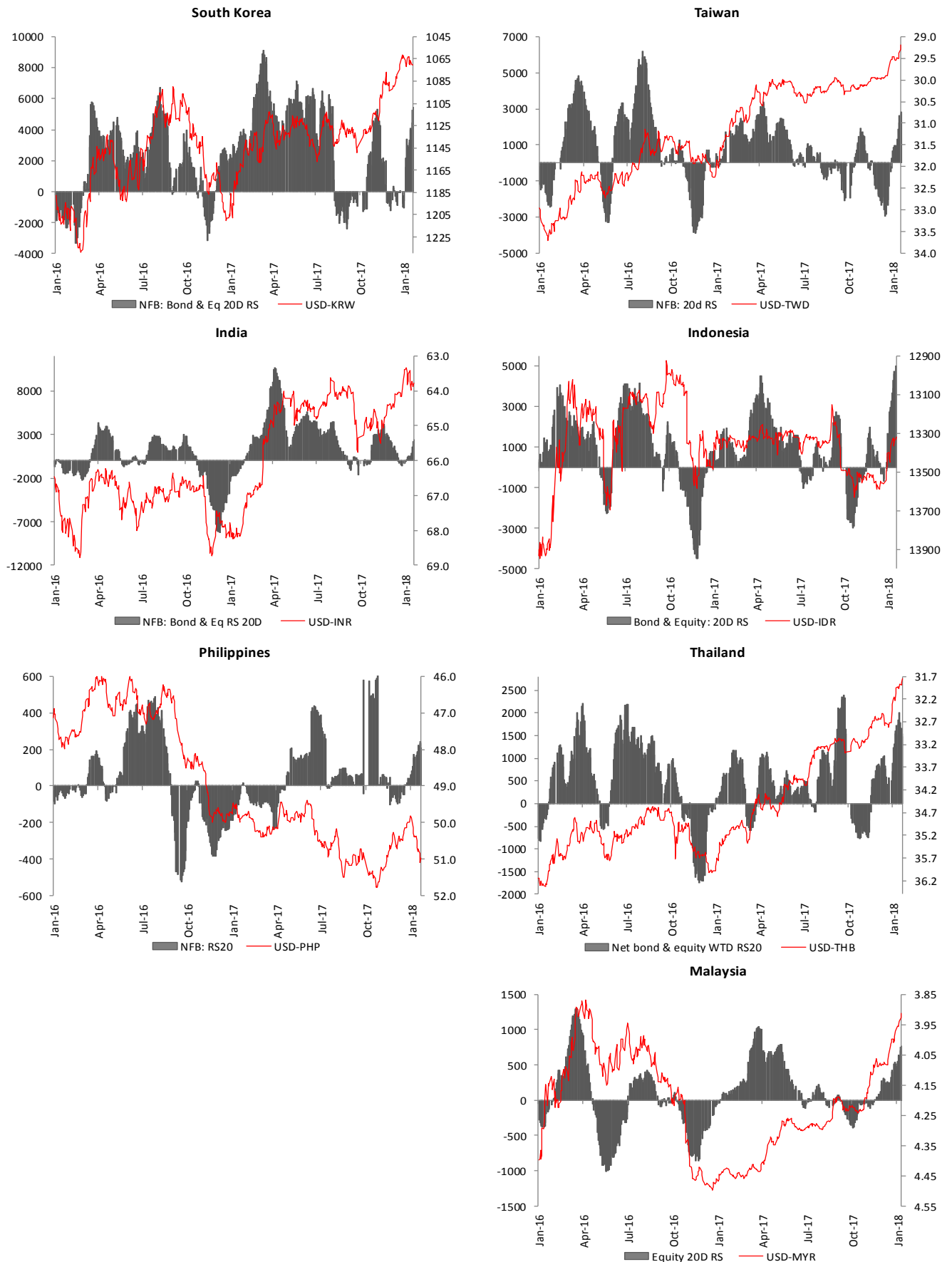
- **GBP-USD** GBP outperformed across the board with GBP-USD surfacing above 1.4200 on a weak dollar and supportive UK labor market numbers. Short term implied valuations have firmed but are still trying to play catchup with spot and momentum/positioning may continue to overshadow weightier considerations at this juncture.

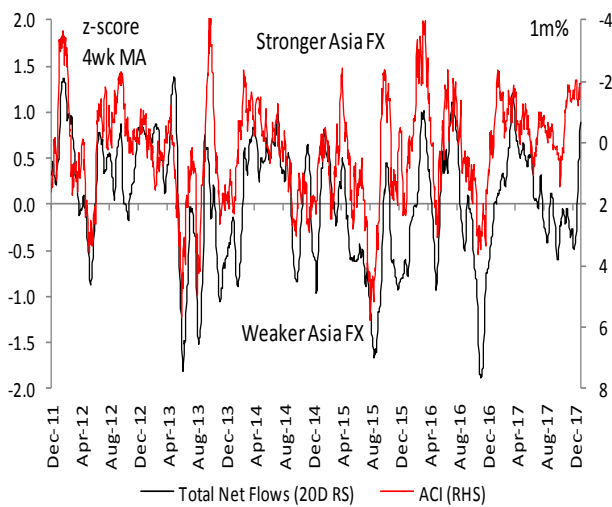


Source: OCBC Bank

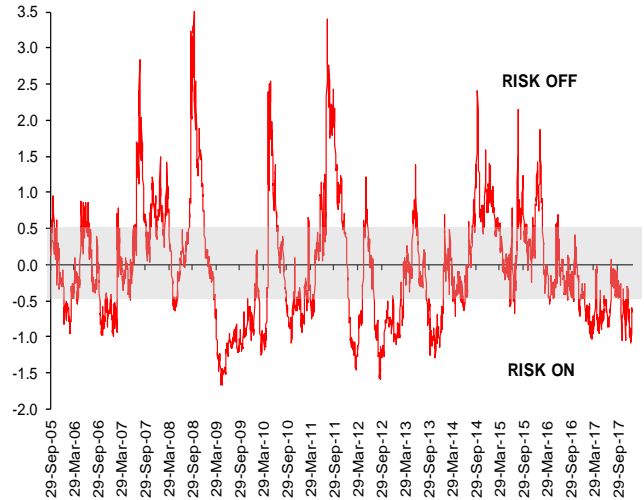
- **USD-CAD** With crude also rallying amidst the dollar slide, USD-CAD finally breached 1.2400 and 1.2356 on Wednesday. Short term implied valuations have also softened and with no hints of overvaluation (for the loonie) just yet, USD-CAD, investors may attempt to breach 1.2300 towards 1.2240.

### USD-Asia VS. Net Capital Flows



**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

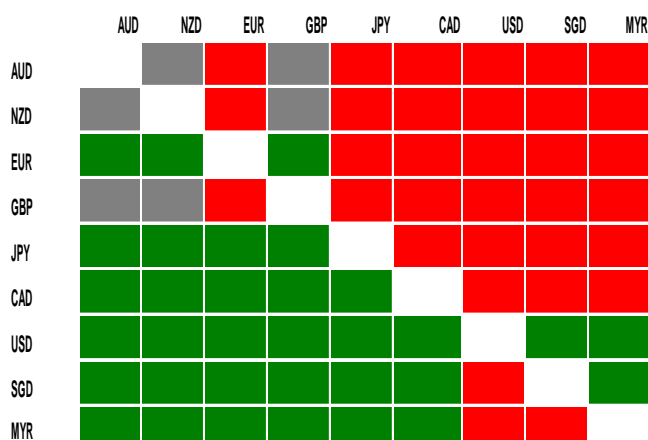
| Security | DXYS   | USGG10 | CNY    | SPX    | MSELCA | CRY    | JPY    | CL1    | VIX    | ITRXX  | CNH    | EUR    |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXYS     | 1      | -0.796 | 0.974  | -0.882 | -0.848 | -0.892 | 0.914  | -0.823 | -0.675 | -0.271 | 0.974  | -0.985 |
| CHF      | 0.98   | -0.75  | 0.964  | -0.818 | -0.798 | -0.884 | 0.915  | -0.802 | -0.651 | -0.298 | 0.963  | -0.979 |
| CNY      | 0.974  | -0.836 | 1      | -0.888 | -0.856 | -0.854 | 0.878  | -0.781 | -0.65  | -0.297 | 0.993  | -0.963 |
| CNH      | 0.974  | -0.839 | 0.993  | -0.895 | -0.853 | -0.844 | 0.9    | -0.817 | -0.623 | -0.203 | 1      | -0.971 |
| SGD      | 0.967  | -0.781 | 0.957  | -0.87  | -0.869 | -0.902 | 0.896  | -0.837 | -0.5   | -0.163 | 0.972  | -0.971 |
| MYR      | 0.932  | -0.883 | 0.935  | -0.96  | -0.962 | -0.875 | 0.895  | -0.918 | -0.505 | -0.131 | 0.945  | -0.927 |
| JPY      | 0.914  | -0.839 | 0.878  | -0.86  | -0.806 | -0.864 | 1      | -0.904 | -0.637 | -0.366 | 0.9    | -0.922 |
| THB      | 0.895  | -0.87  | 0.886  | -0.956 | -0.955 | -0.894 | 0.897  | -0.96  | -0.419 | -0.155 | 0.904  | -0.896 |
| IDR      | 0.841  | -0.872 | 0.841  | -0.951 | -0.926 | -0.748 | 0.818  | -0.913 | -0.469 | -0.027 | 0.859  | -0.835 |
| CCN12M   | 0.841  | -0.656 | 0.852  | -0.714 | -0.693 | -0.773 | 0.75   | -0.711 | -0.435 | -0.212 | 0.886  | -0.857 |
| TWD      | 0.793  | -0.753 | 0.821  | -0.861 | -0.954 | -0.823 | 0.715  | -0.8   | -0.231 | 0.1    | 0.817  | -0.768 |
| CAD      | 0.784  | -0.668 | 0.766  | -0.782 | -0.875 | -0.766 | 0.693  | -0.78  | -0.292 | 0.221  | 0.806  | -0.801 |
| KRW      | 0.196  | 0.075  | 0.169  | -0.01  | -0.204 | -0.227 | 0.097  | -0.09  | 0.294  | 0.199  | 0.211  | -0.292 |
| INR      | 0.03   | 0.051  | 0.079  | -0.074 | -0.238 | -0.275 | -0.011 | -0.165 | 0.618  | 0.423  | 0.069  | -0.068 |
| USGG10   | -0.796 | 1      | -0.836 | 0.934  | 0.879  | 0.712  | -0.839 | 0.873  | 0.612  | 0.161  | -0.839 | 0.777  |
| PHP      | -0.828 | 0.918  | -0.821 | 0.908  | 0.828  | 0.722  | -0.849 | 0.813  | 0.749  | 0.47   | -0.799 | 0.776  |
| NZD      | -0.9   | 0.898  | -0.889 | 0.975  | 0.929  | 0.817  | -0.902 | 0.929  | 0.586  | 0.095  | -0.902 | 0.892  |
| GBP      | -0.971 | 0.85   | -0.979 | 0.9    | 0.867  | 0.862  | -0.908 | 0.831  | 0.668  | 0.217  | -0.976 | 0.959  |
| AUD      | -0.973 | 0.882  | -0.971 | 0.941  | 0.901  | 0.879  | -0.917 | 0.88   | 0.647  | 0.196  | -0.975 | 0.963  |
| EUR      | -0.985 | 0.777  | -0.963 | 0.859  | 0.808  | 0.879  | -0.922 | 0.824  | 0.646  | 0.273  | -0.971 | 1      |

Source: Bloomberg

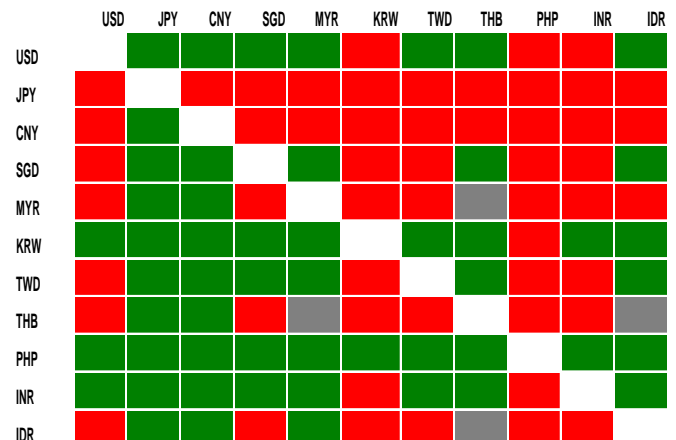
**Technical support and resistance levels**

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1953  | 1.2400  | 1.2434  | 1.2438  | 1.2439  |
| GBP-USD | 1.4200  | 1.4216  | 1.4294  | 1.4300  | 1.4303  |
| AUD-USD | 0.8000  | 0.8094  | 0.8097  | 0.8099  | 0.8100  |
| NZD-USD | 0.7123  | 0.7300  | 0.7386  | 0.7400  | 0.7408  |
| USD-CAD | 1.2300  | 1.2306  | 1.2310  | 1.2329  | 1.2400  |
| USD-JPY | 108.93  | 109.00  | 109.01  | 109.05  | 110.00  |
| USD-SGD | 1.3000  | 1.3043  | 1.3046  | 1.3072  | 1.3100  |
| EUR-SGD | 1.5987  | 1.6200  | 1.6221  | 1.6248  | 1.6282  |
| JPY-SGD | 1.1900  | 1.1931  | 1.1968  | 1.2000  | 1.2013  |
| GBP-SGD | 1.8600  | 1.8604  | 1.8648  | 1.8660  | 1.8700  |
| AUD-SGD | 1.0500  | 1.0517  | 1.0563  | 1.0598  | 1.0600  |
| Gold    | 1300.00 | 1358.57 | 1361.30 | 1361.60 | 1400.00 |
| Silver  | 17.50   | 17.51   | 17.58   | 17.60   | 17.63   |
| Crude   | 59.68   | 66.20   | 66.25   | 66.30   | 66.32   |

Source: OCBC Bank

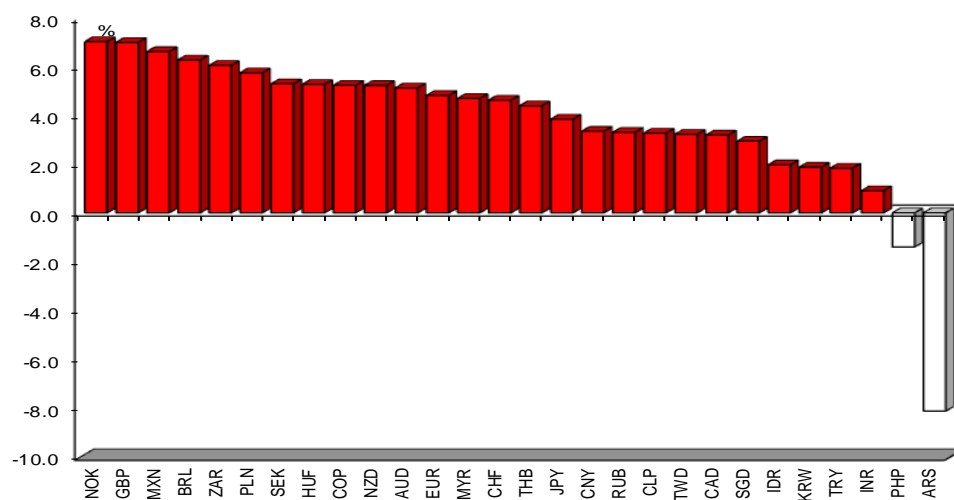
**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank

**FX performance: 1-month change agst USD**



Source: Bloomberg

### FX Trade Ideas

| FX Trade Ideas |                             |           |     |  |        |                           |   |         |
|----------------|-----------------------------|-----------|-----|--|--------|---------------------------|---|---------|
|                | Inception                   |           | B/S | Currency   | Spot   | Target Stop/Trailing Stop | Rationale   |         |
|                | TACTICAL                    |           |     |  |        |                           |   |         |
| 1              | 27-Nov-17                   |           | B   | GBP-USD  | 1.3344 | 1.4305 1.3810             | Investors may imputeBrexit talks in December. Prevailing USD weakness.                      |         |
| 2              | 15-Jan-18                   |           | B   | EUR-USD  | 1.2199 | 1.2420 1.2085             | "Hawkish" ECB expectations, positive German poloitical news flow                            |         |
| 3              | 16-Jan-18                   |           | S   | USD-SGD  | 1.3230 | 1.3110 1.3295             | Heay dollar, positive risk appetite, SGD NEER not excessively strong                        |         |
|                | STRUCTURAL                  |           |     |  |        |                           |   |         |
| 4              | 19-Jan-18                   |           | B   | EUR-USD  | 1.2274 | 1.2865 1.1975             | ECB likely to alter its forward guidance into the spring                                    |         |
|                | 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<br>Spot ref: 114.15; Strikes: 113.78, 118.31;<br>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   |
| **of notional  |                             |           |     |  |        |                           |   |         |

Source: OCBC Bank



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