

Wednesday, November 01, 2017

FX Themes/Strategy/Trading Ideas

- Boosted by positive surprises on the data front (October Chicago PMI and Consumer confidence), the USD firmed across the board (except against the GBP) on the back of slightly firmer US yields (curve bear flattened from the front-end) on Tuesday.
- Meanwhile, the USD-JPY lifted into late NY with the JPY largely underperforming against its peers after the BOJ left its policy parameters unchanged earlier in the global day and lowered its inflation forecast for the current and next fiscal year while maintaining its yield curve anchoring initiative. Crucially, lone dovish dissenter (Kataoka again) also argued for the BOJ to consider buying 15y JGBs while BOJ governor Kuroda remained sufficiently dovish.
- Apart from positive news flow out of the GBP yesterday, note that the narrative from the other majors have continued to fall by the wayside so to speak (an eventuality we had ventured previously), leaving the greenback a natural beneficiary. **At this juncture, the DXY continues to stabilize around the 94.50 neighborhood despite the 10y UST still at sub-2.40% levels. We think this may remain sufficient for now with aggregate rate differentials still supportive of the broad dollar.**
- For today, the calendar may remain fraught with headline risks. The FOMC (1800 GMT) may not offer a radical departure from the script given that no press conference is scheduled. However, an ever subtle shift in phraseology we think would suffice and cement expectations for a December rate hike. Elsewhere, look also to the potential tax bill announcement in the US either today or tomorrow (reports have been conflicting).
- On other fronts, the BOC's Poloz and Wilkins (2015 GMT) are due again today while the global data stream sees the release of the slew of October global PMIs (including the US ISM at 1400 GMT and China's Caixin manufacturing PMI at 0145 GMT) to potentially offer macroeconomic distractions.

Asian FX

- Global EM equities climbed further on Tuesday in tandem with core equity markets and on the risk appetite front, the **FXSI (FX Sentiment Index)** drilling significantly deeper into Risk-On territory.
- The net portfolio inflow environment in Asia seems to be brightening at this

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juncture. Expect potential outperformance for the KRW on the back of strong inflows on a 1M rolling basis while the TWD may also remain underpinned by strengthening equity inflows (despite minor outflows yesterday). Similarly, the INR is also seen supported on the improving net inflow situation. Net outflows chalked up for the IDR and THB meanwhile seem to be attempting to moderate despite bond outflows earlier in the week.

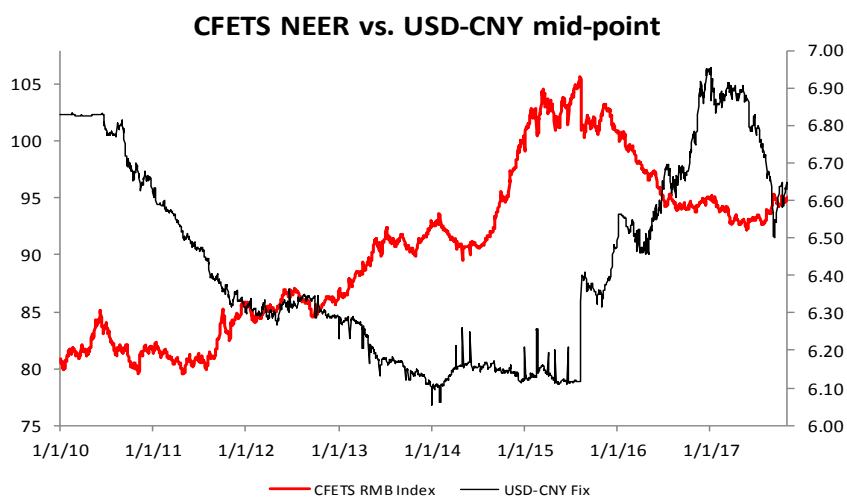
- If this dynamic continues to improve, Asian FX may be afforded a larger buffer to potentially lean against a firmer USD in the near term. For today, expect the **ACI (Asian Currency Index)** to inch incrementally higher following overnight broad dollar moves despite the former's structural model pointing to a continued bottoming out for USD-Asia on a medium term horizon.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.84% above its perceived parity (1.3750) with NEER-implied USD-SGD thresholds slightly higher on the day. The +1.00% threshold (1.3614) may cushion the pair on dips while the implied +0.70% threshold (1.3654) may attract if the broad dollar continues to gain traction. In the interim, the pair may orbit its 100-day MA (1.3634) pending further headline risks.



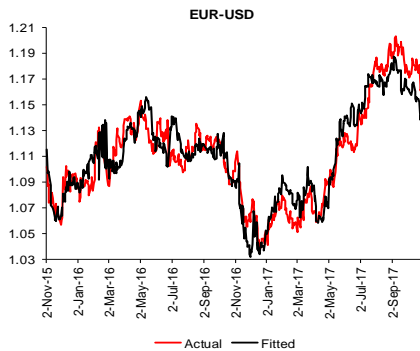
	SGD NEER	% deviation	USD-SGD
Current	125.31	0.85	1.3635
+2.00%	126.74		1.3480
Parity	124.26		1.3750
-2.00%	121.77		1.4030

Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (more than expected) to 6.6300 from 6.6397 on Tuesday. This resulted in the CFETS RMB Index rising to 95.07 from 94.90 yesterday.

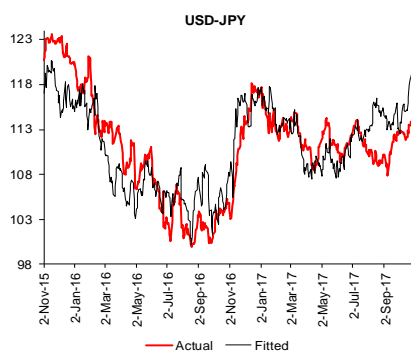


Source: OCBC Bank, Bloomberg

G7

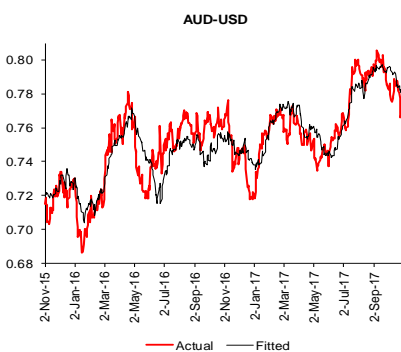
Source: OCBC Bank

- **EUR-USD** The EUR-USD remained unruffled despite softer than expected October inflation readings on Tuesday. With the ECB narrative essentially baked for now, we look to US-centric news flow for further motivation. In the interim, short term implied valuations continue to seep lower and 1.1600 is still seen under threat ahead of 1.1550/75.



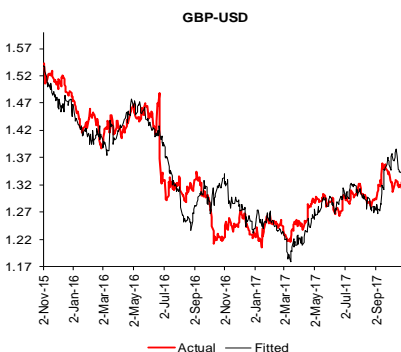
Source: OCBC Bank

- **USD-JPY** Apart from the Republican tax bill announcement and the FOMC, investors are also awaiting the imminent White House nominee announcement for the next Fed chair (likely Thursday). Short term implied valuations for the USD-JPY meanwhile are attempting to bottom and we'd remain buyers on dips within 113.30-114.30.



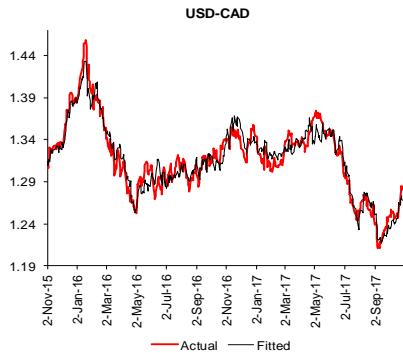
Source: OCBC Bank

- **AUD-USD** AUD-USD may remain trapped in recent ranges pending external cues in the near term with short term implied valuations also stabilizing at this juncture. Continue to fade upticks towards the 200-day MA (0.7696) with an initial floor expected into 0.7600. Elsewhere, the NZD-USD received an early bump higher early Wednesday in Asia by positive surprises in 3Q labor market readings but markets may fade upticks given the RBNZ overhang.



Source: OCBC Bank

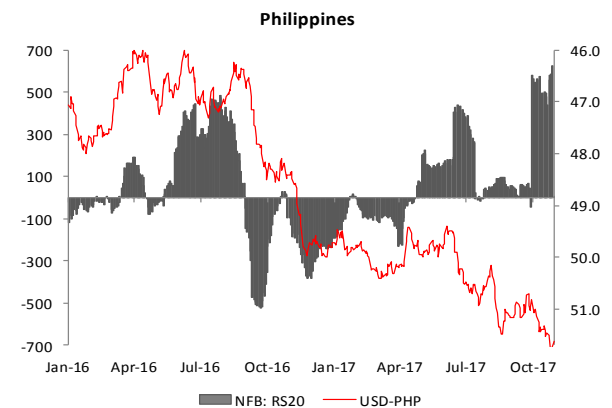
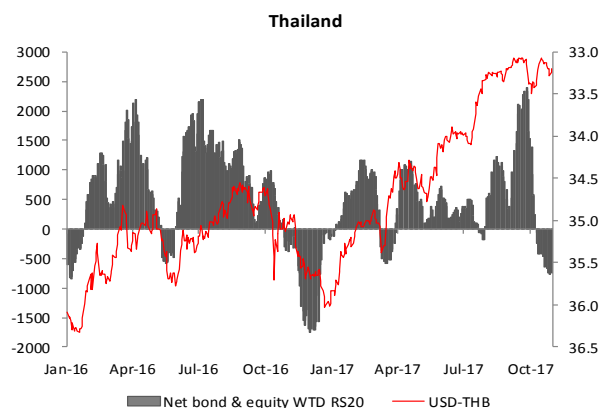
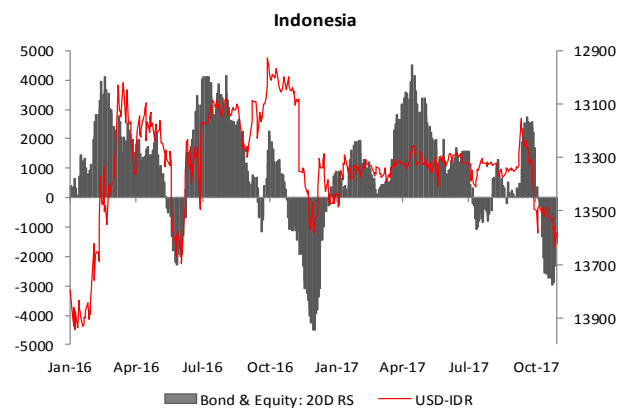
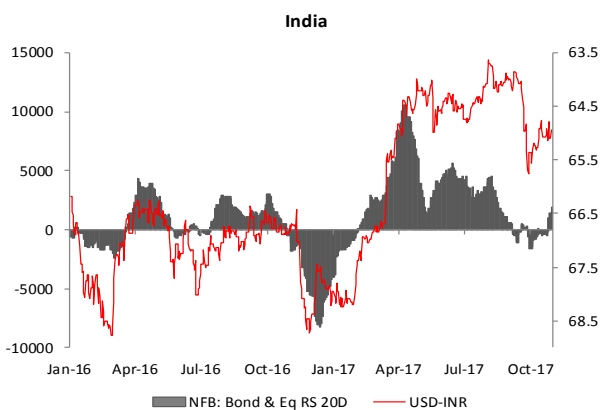
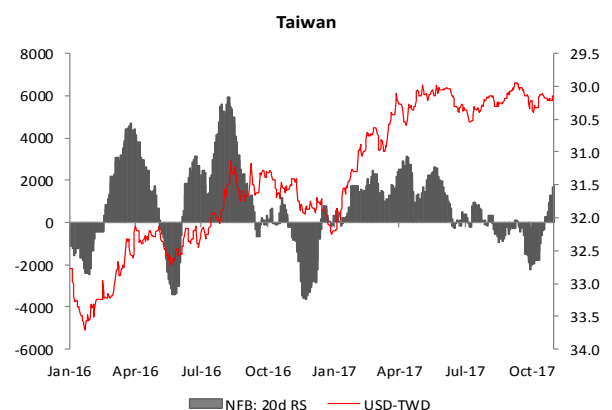
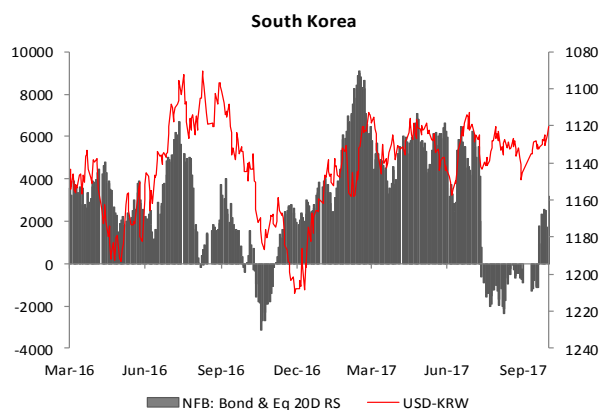
- **GBP-USD** Ahead of the BOE MPC tomorrow, the pound may continue to remain underpinned after the EU's chief Brexit negotiator Barnier stated that he is ready to speed up talks with the PM's office also indicating that the process has seen 'significant acceleration'. Short term implied valuations are however slightly top heavy but look to base build off the 55-day MA (1.3182) in the interim with 1.3330 seen capping.

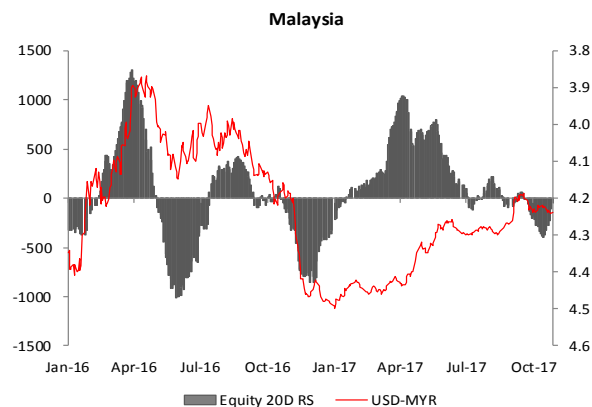


- USD-CAD** Despite crude pushing higher, USD-CAD was weighed by disappointing August GDP readings and September intermediate price indices. Meanwhile, the BOC's Poloz also remained distinctly cautious in his prognosis. With short term implied valuations still attempting to gain further altitude, the USD-CAD may attempt to travel towards its 200-day MA (1.3006).

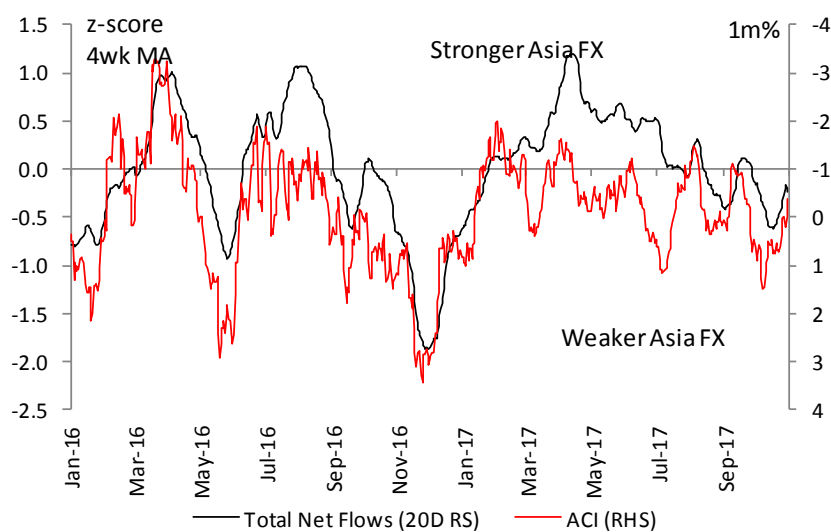
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

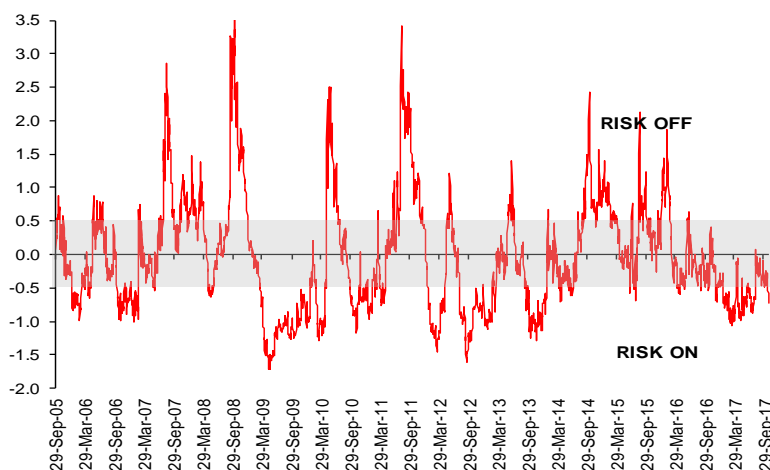




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

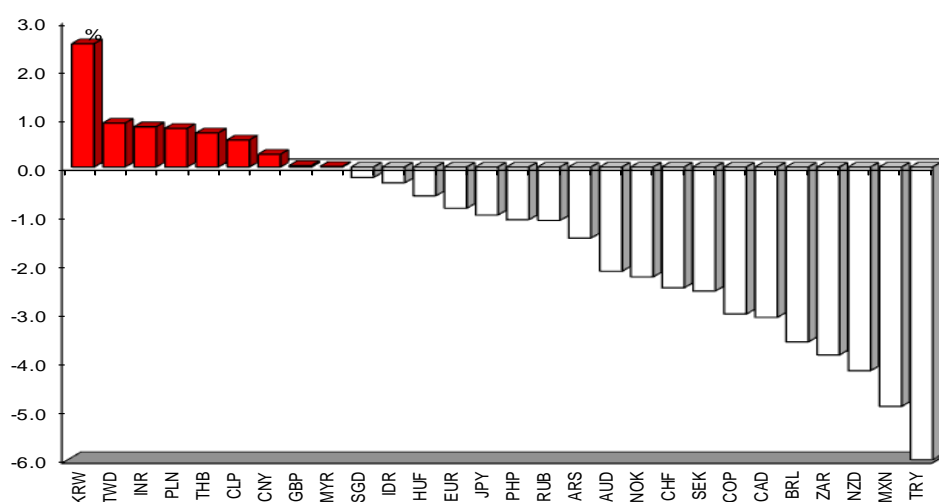
Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.673	0.812	0.535	0.149	0.556	0.77	0.692	0.315	-0.698	0.599	-0.946
CHF	0.9	0.783	0.851	0.732	0.464	0.777	0.864	0.83	0.606	-0.838	0.405	-0.766
CAD	0.896	0.762	0.768	0.644	0.383	0.756	0.835	0.818	0.587	-0.82	0.4	-0.757
CNY	0.812	0.672	1	0.639	0.275	0.548	0.814	0.611	0.61	-0.611	0.976	-0.72
JPY	0.77	0.904	0.814	0.511	0.184	0.494	1	0.601	0.613	-0.538	0.612	-0.614
SGD	0.761	0.711	0.847	0.099	-0.335	-0.004	0.751	0.162	0.229	-0.178	0.854	-0.742
IDR	0.754	0.68	0.781	0.477	0.281	0.59	0.73	0.726	0.506	-0.643	0.375	-0.627
MYR	0.735	0.571	0.902	0.131	-0.187	0.134	0.66	0.288	0.264	-0.335	0.811	-0.713
USGG10	0.673	1	0.672	0.431	0.141	0.426	0.904	0.442	0.662	-0.43	0.464	-0.499
CNH	0.599	0.464	0.976	-0.101	-0.44	-0.101	0.612	0.091	0.066	-0.062	1	-0.637
PHP	0.428	0.609	0.591	0.766	0.778	0.874	0.544	0.79	0.732	-0.779	-0.187	-0.149
CCN12M	0.288	0.178	0.761	-0.059	-0.211	-0.107	0.331	0.021	-0.015	0.013	0.759	-0.311
THB	0.216	0.085	0.346	-0.57	-0.845	-0.59	0.053	-0.428	-0.436	0.356	0.663	-0.37
TWD	-0.051	0.039	0.533	-0.629	-0.893	-0.708	0.001	-0.605	-0.334	0.542	0.667	-0.047
GBP	-0.211	-0.286	-0.457	-0.231	0.095	0.089	-0.126	0.247	-0.078	-0.054	-0.251	0.168
INR	-0.291	-0.16	-0.253	-0.595	-0.717	-0.777	-0.25	-0.705	-0.375	0.656	0.112	0.19
KRW	-0.711	-0.402	-0.564	-0.479	-0.505	-0.849	-0.593	-0.84	-0.402	0.793	-0.592	0.722
NZD	-0.779	-0.842	-0.746	-0.729	-0.437	-0.74	-0.859	-0.727	-0.681	0.761	-0.28	0.562
AUD	-0.842	-0.795	-0.62	-0.467	-0.193	-0.547	-0.739	-0.649	-0.469	0.683	-0.336	0.742
EUR	-0.946	-0.499	-0.72	-0.319	0.038	-0.363	-0.614	-0.572	-0.1	0.568	-0.637	1

Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1598	1.1600	1.1633	1.1700	1.1833
GBP-USD	1.3200	1.3209	1.3276	1.3300	1.3316
AUD-USD	0.7624	0.7625	0.7658	0.7692	0.7700
NZD-USD	0.6800	0.6818	0.6895	0.6900	0.6930
USD-CAD	1.2464	1.2900	1.2904	1.2917	1.2936
USD-JPY	111.71	113.00	113.87	114.00	114.31
USD-SGD	1.3546	1.3600	1.3635	1.3682	1.3700
EUR-SGD	1.5821	1.5822	1.5862	1.5900	1.6030
JPY-SGD	1.1928	1.1938	1.1975	1.2000	1.2115
GBP-SGD	1.8078	1.8100	1.8102	1.8200	1.8349
AUD-SGD	1.0407	1.0417	1.0442	1.0500	1.0625
Gold	1263.80	1265.40	1270.20	1300.00	1300.00
Silver	16.55	16.70	16.73	16.80	17.21
Crude	50.98	54.60	54.67	54.70	54.76

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									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

Source: OCBC Bank

FX Trade Ideas

FX Trade Ideas									
	Inception		B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale	
	TACTICAL								
1	21-Sep-17		B	USD-JPY	112.58	115.05	111.30	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	
2	28-Sep-17		S	AUD-USD	0.7816	0.7440	0.7720	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	
3	28-Sep-17		B	USD-CAD	1.2500	1.2795	1.2350	Reality check from the BOC's Poloz even as the USD garners renewed interest	
4	24-Oct-17		S	EUR-USD	1.1763	1.1535	1.1875	Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow	
5	24-Oct-17		B	USD-SGD	1.3616	1.3765	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in	
	STRUCTURAL								
6	09-May-17		B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
	RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)
1	28-Sep-17	11-Oct-17	S	EUR-USD	1.1734		1.1860	Political overhang from Germany contrasting with FOMC, Yellen	-0.99
2	09-Oct-17	12-Oct-17	S	GBP-USD	1.3116		1.3256	Brexit concerns plus additional leadership threats to PM May's position	-1.05
3	04-Oct-17	12-Oct-17	B	USD-SGD	1.3602		1.3525	Potential USD resilience - Fed, geopolitical risks, static MAS, decaying capital inflows in Asia	-0.56
4	22-Aug-17	20-Oct-17		Bearish 2M 1X1.5 USD-JPY Put Spread Spot ref: 109.31; Strikes: 109.00, 106.04; Exp: 20/10/17; Cost: 0.57%				Underwhelming data feed, gradualist Fed, potential negative US political baggage	-0.56**
5	29-Aug-17			Bearish 2M 1X1.5 USD-SGD Put Spread Spot ref: 1.3519; Strikes: 1.3511, 1.3361; Exp: 27/10/17; Cost: 0.31%				Vulnerable USD, prevailing positivity towards carry, EM/Asia	-0.31**
	Jan-Oct*** 2017 Return								-10.82
	2016 Return								+6.91
* realized **of notional ***month-to-date									

Source: OCBC Bank

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