

Friday, November 03, 2017

FX Themes/Strategy/Trading Ideas – Jay & “Silent” BOE

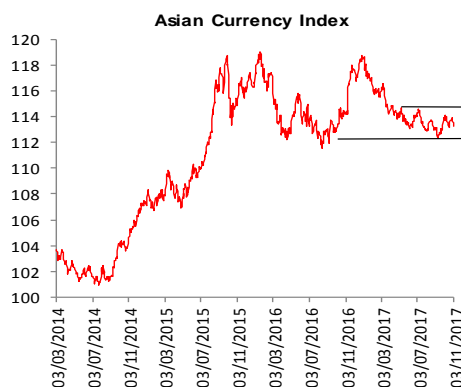
- Except against the GBP, the USD lost steam against its G10 counterparts with the US curve softer (bull flattened from the back-end with the 10y UST yield below 2.35%).
- Investors greeted Trump’s nomination of Powell and the House tax plan (to be addressed by the House Ways and Means Committee next Monday with the road to passage by Thanksgiving or Christmas expected to be contentious) announcement with little fanfare.
- Meanwhile, the BOE raised (7-2 vote with Cunliffe and Ramsden dissenting) its benchmark rate by 25bps to 0.50% on Thursday as widely expected but accompanying language (including from Carney) surprised even investors who had been looking for a one-and-done hike. Specifically, the previous phrasing warning of more hikes than expected by the markets was omitted. Meanwhile, the Bank highlighted “considerable risks” to its growth and inflation outlook and that further rate hikes would be “at a gradual pace and to a limited extent”. As a result, the GBP was trounced with the pair slumping through 1.3100 to a 1.3043 low with gilts striding higher.
- Elsewhere, with relative central bank dynamics losing impetus, markets looked towards risk appetite dynamics, with the cyclical edging higher across G10 space while the JPY underperformed across the board.
- Structurally, we have now closed the loop with the host of core central banks having had their say in terms of telegraphing a healthy dose of caution and gradualism (despite continued stabilization in economic activity and inflation).
- Although we continue to think that the greenback may remain structurally underpinned on the back of rate dynamics (despite the recent curve flattening globally), the fading USD narrative (Powell, tax bill, 10y UST yield < 2.35%) in the near term may leave investors reduced to trading off risk appetite dynamics in the interim.
- For today, look to USD NFP (1230 GMT) today with global services/composite PMIs also on tap. In terms of central bank speak, look to the Fed’s Kashkari (1615 GMT) and the ECB’s Coeure (2015 GMT).
- Amidst the latest corrective move in the USD, our 28 Sep 17 idea to be tactically short **AUD-USD** (spot ref: 0.7816) hit its profit stop of 0.7720 on Thursday, yielding an implied +1.20% gain.

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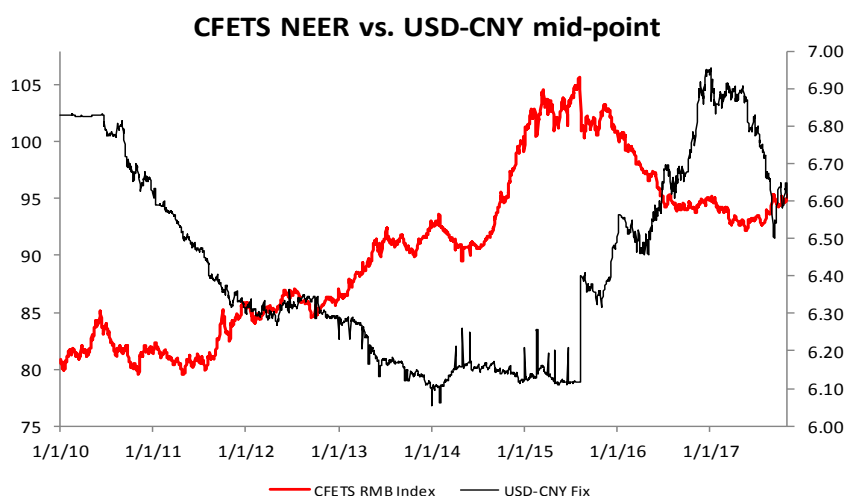
Asian FX

- EM FX firmed slightly against the USD in general on Thursday and with the **FXSI (FX Sentiment Index)** continuing to push deeper into Risk-On territory, expect the **ACI (Asian Currency Index)** to continue to react lower to the hesitant broad dollar. Net portfolio inflow developments meanwhile continue to point to relative outperformance for the KRW, TWD, and INR. Meanwhile, net outflow momentum for the IDR, THB, MYR have also been compressing.
- SGD NEER:** The SGD NEER is firmer again at +1.08% above its perceived parity (1.3738) with NEER-implied USD-SGD thresholds largely unchanged on the day. At current levels, the +1.20% threshold is estimated at 1.3575 where an interim floor for the USD-SGD may be expected. Overall, expect a slightly top heavy tone within the 55-day MA (1.3559) and 100-day MA (1.3629).

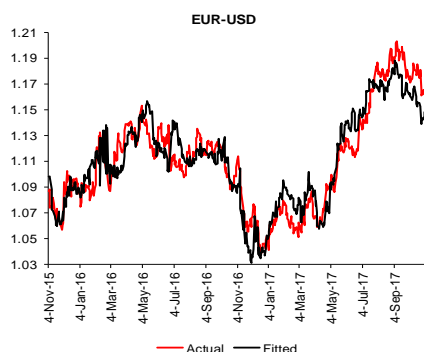


Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning slipped (as largely as expected) to 6.6072 from 6.6196 on Thursday, lifting the CFETS RMB Index higher to 95.33 from 95.23 yesterday. We stay on the lookout for any discretionary push higher next week amidst Trump's visit to China/Asia next week.

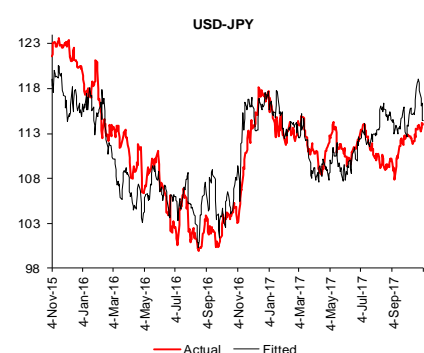


Source: OCBC Bank, Bloomberg

G7

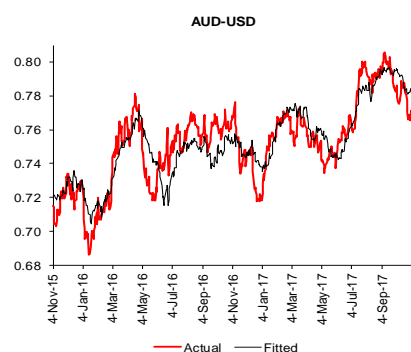
Source: OCBC Bank

- **EUR-USD** Despite still hovering slightly rich relative to implied confidence intervals, the pair may continue to remain relatively underpinned into the end of the week in line with its short term implied valuations. The 100-day MA (1.1701) is expected to cap with 1.1600 (which has held all week) also likely to cushion as investors attempt to latch onto new cues.



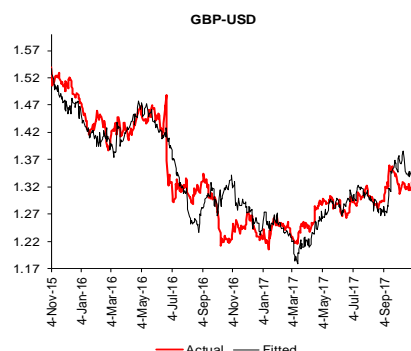
Source: OCBC Bank

- **USD-JPY** Ahead of the NFP tonight, note that short term implied valuations for the USD-JPY have stepped lower discernibly. As such, the pair may be expected to fade upticks (as opposed to bouncing on dips) within 113.50-114.50 in the interim.



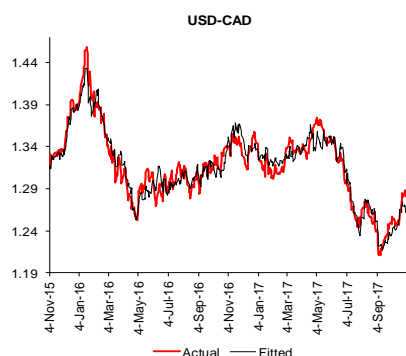
Source: OCBC Bank

- **AUD-USD** China Caixin PMIs this morning came in mixed while the AUD was undermined slightly by disappointing September retail sales readings. Short term implied valuations meanwhile have been fairly static (if a little top heavy). In the interim, the 200-day MA (0.7698) may serve as a near term junction.



Source: OCBC Bank

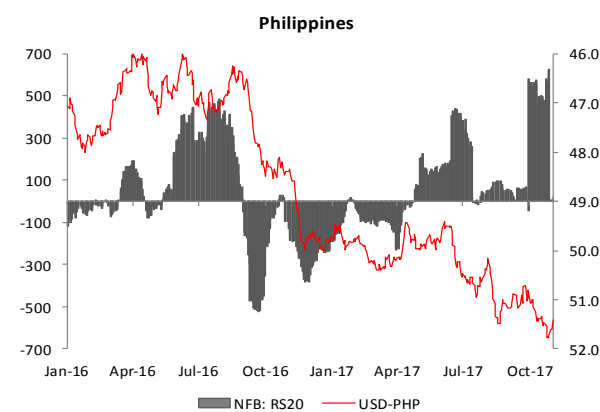
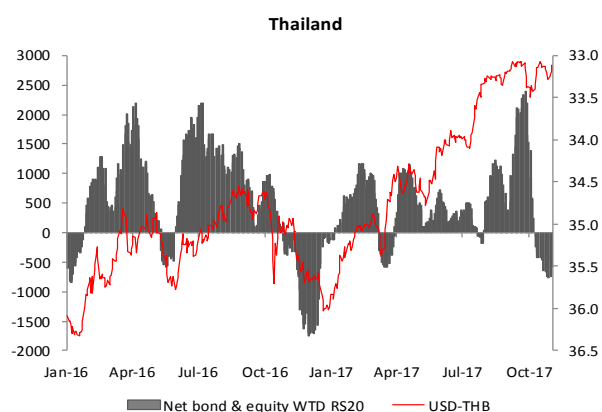
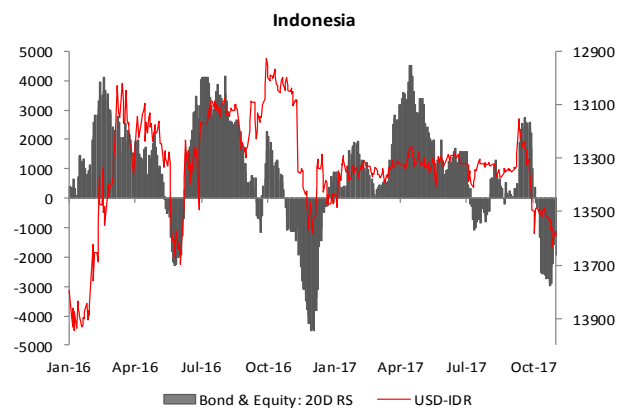
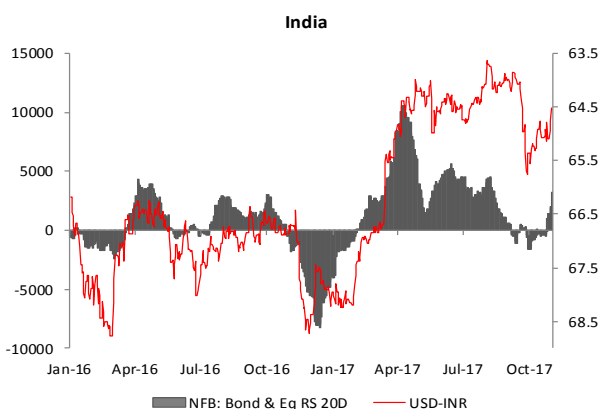
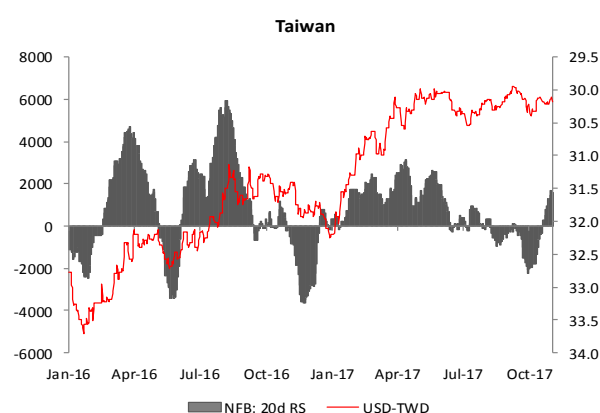
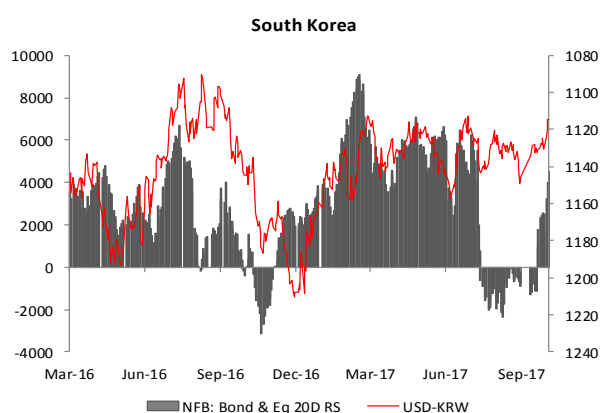
- **GBP-USD** After being trounced overnight, the GBP-USD may remain vulnerable post-BOE MPC. Short term implied valuations are also seen soggy as investors continue to digest the dovish hike. Expect the 100-day MA (1.3084) to now function as a near term resistance, with risks obviously tilted towards a violation of 1.3050 towards 1.3025.

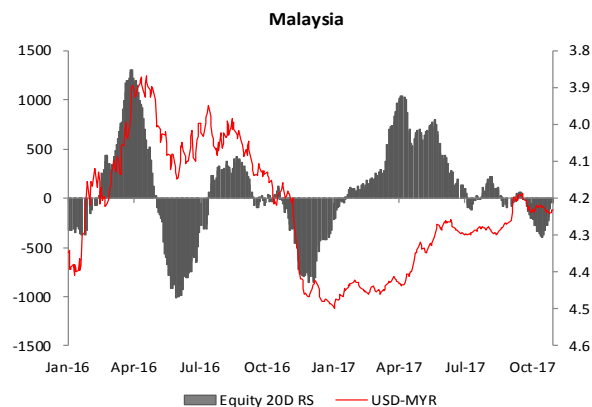


- USD-CAD** USD vulnerability coupled with a rebound in crude softened the USD-CAD on Thursday. Short term implied valuations remain top heavy although some bottom picking may be expected within 1.2770-1.2850 had of the Canadian labor market numbers today.

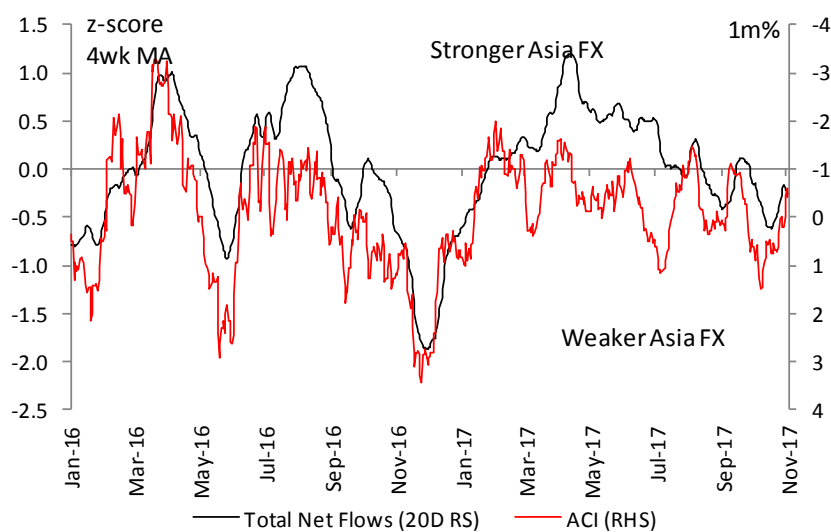
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

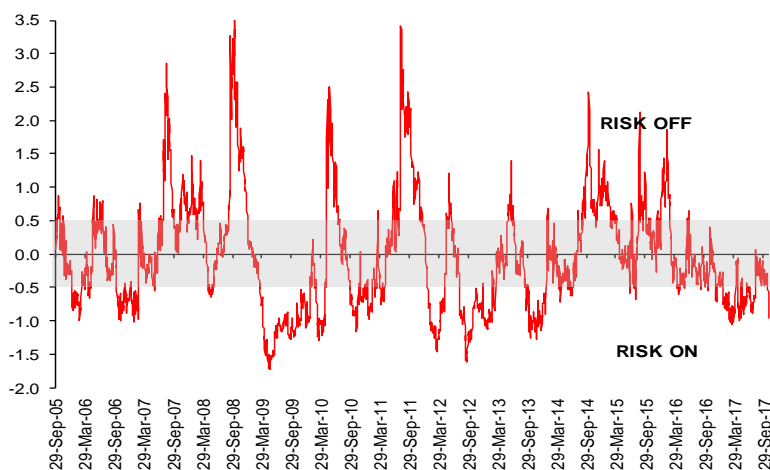




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.58	0.605	0.703	0.35	0.691	0.819	0.762	0.233	-0.799	0.532	-0.962
CHF	0.935	0.662	0.604	0.797	0.557	0.821	0.911	0.855	0.434	-0.879	0.43	-0.85
CAD	0.915	0.694	0.609	0.729	0.479	0.806	0.868	0.821	0.476	-0.84	0.443	-0.817
JPY	0.819	0.798	0.615	0.694	0.396	0.648	1	0.69	0.515	-0.691	0.54	-0.69
MYR	0.733	0.652	0.864	0.385	0.031	0.319	0.654	0.357	0.395	-0.435	0.776	-0.691
IDR	0.682	0.684	0.682	0.708	0.518	0.743	0.671	0.646	0.541	-0.723	0.321	-0.577
SGD	0.66	0.751	0.81	0.223	-0.255	0.081	0.652	0.12	0.3	-0.216	0.887	-0.651
CNY	0.605	0.656	1	0.453	0.092	0.357	0.615	0.412	0.613	-0.329	0.968	-0.539
USGG10	0.58	1	0.656	0.367	0.047	0.338	0.798	0.336	0.655	-0.304	0.608	-0.453
CNH	0.532	0.608	0.968	0.166	-0.243	0.069	0.54	0.087	0.277	-0.146	1	-0.531
PHP	0.334	0.596	0.597	0.626	0.644	0.738	0.467	0.559	0.684	-0.552	0.041	-0.163
CCN12M	0.224	0.238	0.758	0.086	-0.085	-0.022	0.26	0.016	0.097	-0.019	0.745	-0.22
THB	0.019	0.25	0.38	-0.449	-0.795	-0.532	-0.148	-0.53	-0.267	0.346	0.552	-0.131
TWD	-0.053	0.337	0.568	-0.331	-0.809	-0.567	-0.008	-0.577	-0.065	0.46	0.631	0.055
GBP	-0.406	-0.236	-0.339	-0.144	0.211	0.099	-0.329	-0.089	0.072	-0.007	-0.346	0.369
INR	-0.498	-0.064	-0.087	-0.638	-0.755	-0.813	-0.491	-0.795	-0.19	0.771	0.018	0.433
KRW	-0.76	-0.229	-0.204	-0.664	-0.783	-0.887	-0.677	-0.869	-0.123	0.893	-0.253	0.729
NZD	-0.802	-0.808	-0.649	-0.727	-0.402	-0.727	-0.885	-0.714	-0.583	0.722	-0.438	0.652
AUD	-0.852	-0.749	-0.507	-0.534	-0.259	-0.598	-0.766	-0.654	-0.387	0.704	-0.384	0.788
EUR	-0.962	-0.453	-0.539	-0.581	-0.251	-0.578	-0.69	-0.667	-0.096	0.735	-0.531	1

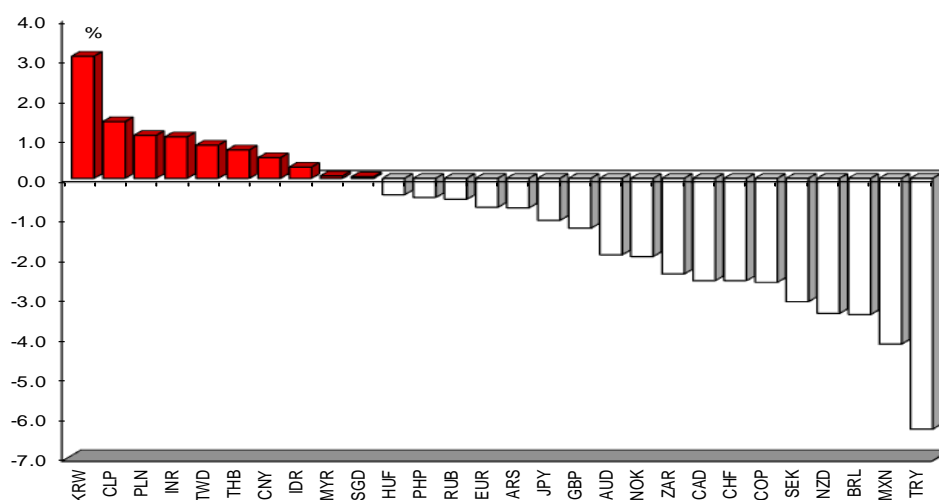
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1581	1.1600	1.1657	1.1700	1.1824
GBP-USD	1.3027	1.3061	1.3069	1.3100	1.3218
AUD-USD	0.7613	0.7625	0.7683	0.7694	0.7700
NZD-USD	0.6818	0.6900	0.6916	0.7000	0.7131
USD-CAD	1.2476	1.2800	1.2814	1.2900	1.2917
USD-JPY	111.84	114.00	114.04	114.45	114.62
USD-SGD	1.3546	1.3600	1.3614	1.3674	1.3700
EUR-SGD	1.5800	1.5805	1.5869	1.5900	1.6019
JPY-SGD	1.1904	1.1910	1.1938	1.2000	1.2110
GBP-SGD	1.7742	1.7763	1.7791	1.7800	1.7910
AUD-SGD	1.0400	1.0417	1.0459	1.0500	1.0622
Gold	1264.16	1266.08	1277.60	1299.53	1300.00
Silver	16.68	17.10	17.13	17.20	17.22
Crude	54.50	54.80	54.80	55.18	55.22

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

	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		B	USD-CAD	1.2500	1.3095 1.2640	Reality check from the BOC's Poloz even as the USD garners renewed interest	
3	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	
4	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								
5	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	27-Oct-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**
6	28-Sep-17	02-Nov-17	S	AUD-USD	0.7816	0.7720	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	+1.20
Jan-Nov*** 2017 Return								-10.55
2016 Return								+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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