

Monday, September 04, 2017

## FX Themes/Strategy/Trading Ideas – The week ahead

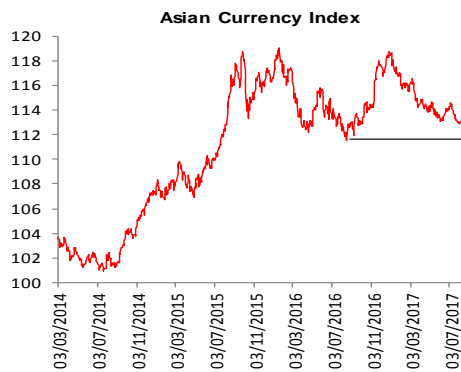
- Positivity from the August ISM overshadowed the negativity from the disappointing August NFP and Michigan sentiment readings on Friday to leave the USD mixed to stronger (note firmer UST curve led by the back-end) while encouraging positive sentiment (AUD-USD firmer on the day while the USD-CAD was further weighed by firmer crude).
- The US Labor day long weekend may thin out overall liquidity at the onset of the week, with the weekend reported hydrogen bomb test by North Korea likely to keep investors on their toes in the short term. Note that the reaction from the White House remains relatively subdued, keeping outright market turmoil at bay at this juncture. On this front, look to potential reactions out of Beijing and Moscow for further cues.
- Meanwhile, central bank related headlines are expected to take center stage this week with a whole string of Fed appearances from mid-week and with investors also focused on the **ECB** Council Meeting on Thursday. On this front, watch for any downward revisions to ECB inflation forecasts while investors remain wary of any jawboning against EUR over valuation. Note that Draghi is also not expected to detail balance sheet tapering plans this week, likely leaving the EUR relatively fragile in the run up to Thursday.
- On other fronts, the **RBA** meets on Tuesday, while the RBA's Lowe is also scheduled for an appearance on Tuesday. Watch for further RBA rhetoric on Wednesday (Heath) and Friday (DeBelle, Lowe). To this end, watch for any discomfort towards undue AUD strength. Elsewhere, the **Bank of Canada** convenes on Wednesday with markets still looking for another rate hike in October.
- On the data front, look to the **China** Caixin August composite/services PMIs on Tuesday (manufacturing PMI at a better than expected 51.6), while August trade, foreign reserve numbers are due on Friday. Elsewhere, look to the stream of global composite/services PMIs on Tuesday-Wednesday, Australian 2Q GDP on Wednesday and in Asia, **BNM** to remain static on Thursday.
- **Ahead of the flurry of headline risks this week, we remain tactically uncommitted for now with the weak USD premise in the short term looking stretched.** On the **CFTC** front, large non-commercial and leveraged accounts increased slightly their net short dollar bias in aggregate in the latest week but asset managers pared their short dollar bias, with only the latter group managing to call it right.

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### Asian FX

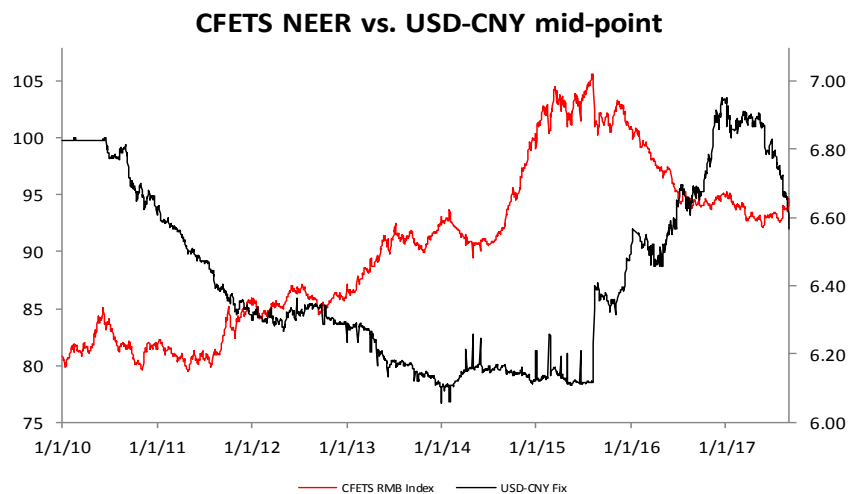
- Global EM equities continued to rise on Friday while the **FXSI (FX Sentiment Index)** fell within Risk-Neutral territory but positive investor sentiment may stall following the news flow out of Pyongyang over the weekend. On the **EPFR** front, implied net portfolio inflows into Asian (excl Japan, China) equities picked up slightly in the latest week while implied bond inflows deteriorated. **Note however that actual reported net inflows in recent sessions have continued to demonstrate a lack of strong support for the regional currencies.** In the near term, the **ACI (Asian Currency Index)** may continue to bottom out on dips.
- **SGD NEER:** This morning, the SGD NEER is softer from late last week at +0.36% above its perceived parity (1.3627) with +0.50% estimated at 1.3560. Expect the NEER to remain bounded by these two thresholds in the interim with a preference to collect into dips in the current environment.



	SGD NEER	% deviation	USD-SGD
Current	124.67	0.33	1.3582
+2.00%	126.74		1.3360
Parity	124.26		1.3627
-2.00%	121.77		1.3906

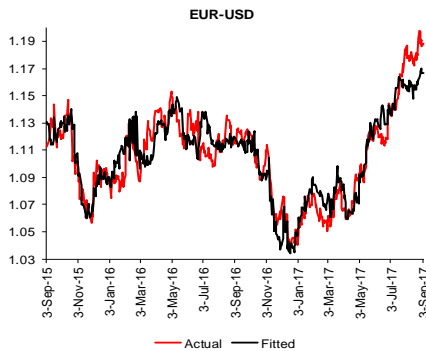
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (slightly more than expected) to 6.5668 from 6.5909 last Friday. This took the CFETS RMB Index higher to 94.72 from 94.42.



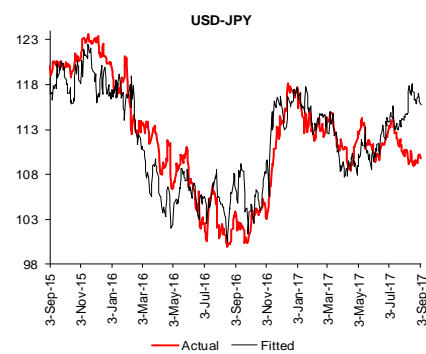
Source: OCBC Bank, Bloomberg

**G7**



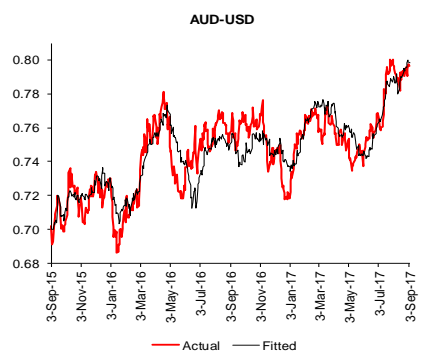
Source: OCBC Bank

- **EUR-USD** Ahead of ECB-related risks this week, the EUR-USD may continue to fade upside probes towards 1.2000 multi-session and steer towards 1.1800 instead. Notably, short term implied valuations also remain subdued. Key support at the 200-week MA at 1.1746 resides further south in the interim.



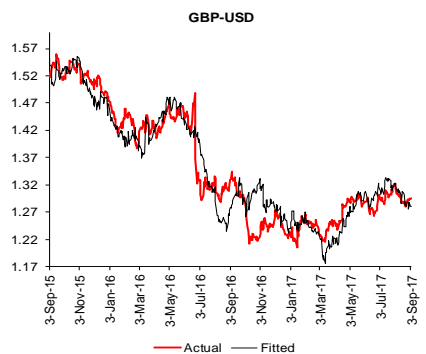
Source: OCBC Bank

- **USD-JPY** Geopolitical concerns may be expected to cap the USD-JPY at the onset of the week with short term implied valuations also searching lower in tandem. Barring acute risk aversions however, 109.00 may yield support as investors pare US-centric bearish USD bets in the coming sessions.



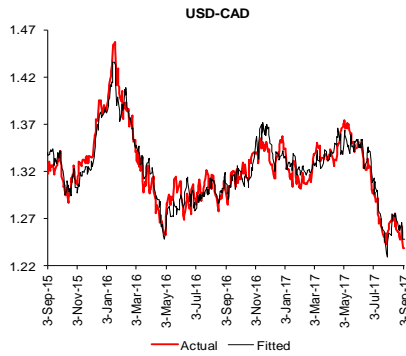
Source: OCBC Bank

- **AUD-USD** Outside of the USD narrative, the AUD-USD may remain in partial stasis as in the current environment but may find underlying support on dips if the global macro canvas remains supportive. Preference to accumulate on dips within 0.7850-0.8000 pending the RBA meeting.



Source: OCBC Bank

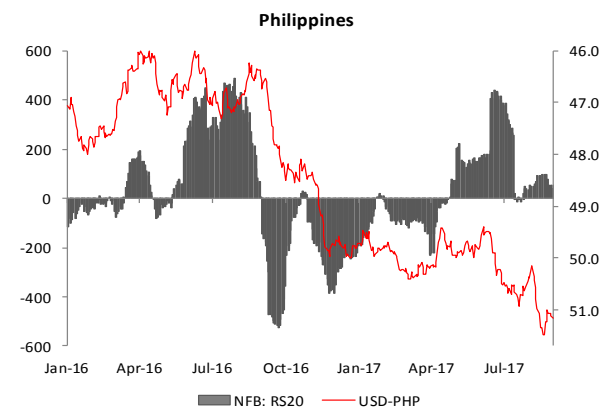
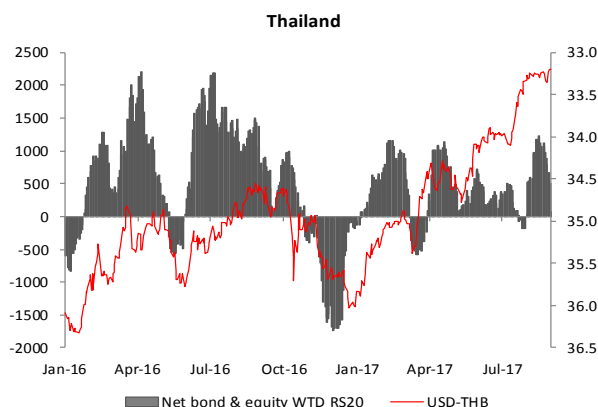
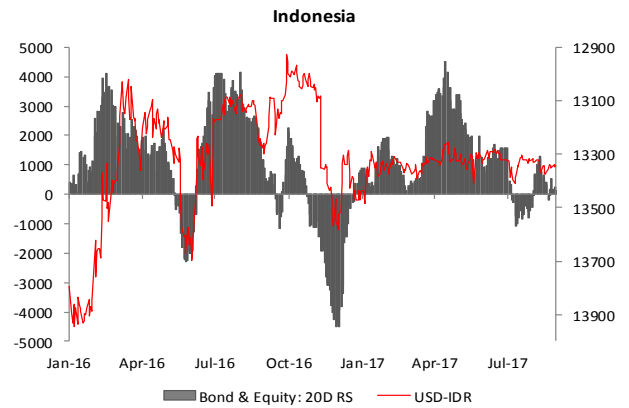
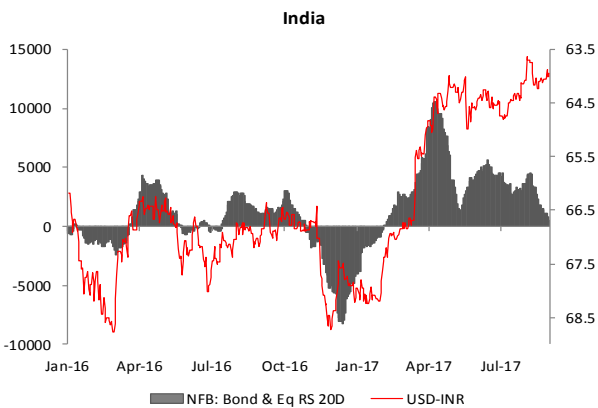
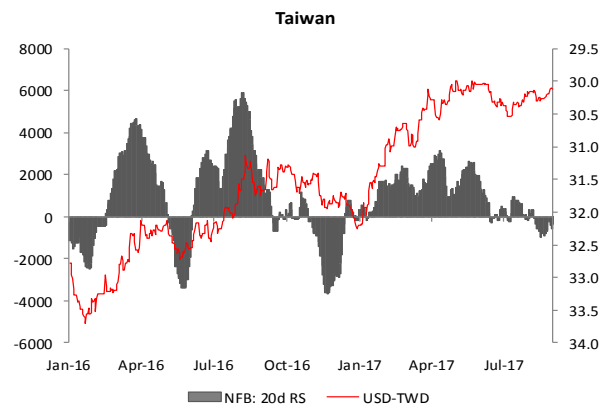
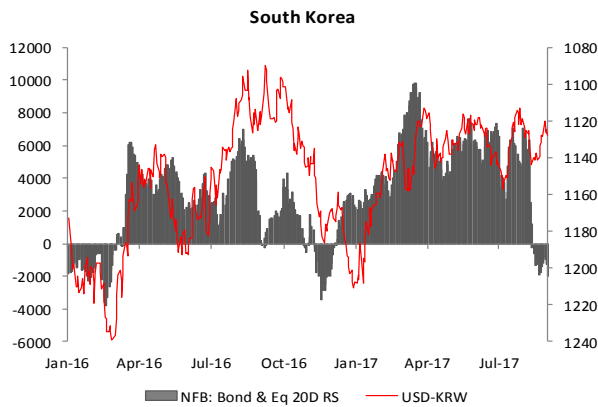
- **GBP-USD** With its own skeletons in the closet, the GBP-USD may continue to run out of puff on the upside. Short term implied valuations remain on a slippery slope and a sustained breach above the 55-day MA (1.2947) towards 1.3000 we think would have to be externally-driven. Expect a support base on dips towards 1.2850/60 in the interim.

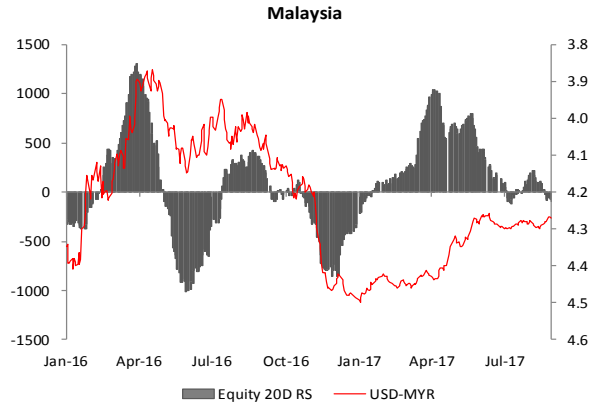


- USD-CAD** The USD-CAD may keep to a range ahead of the BOC meeting this week. However, with hawkish expectations still being attached to the central bank in the interim, risk – reward for the USD-CAD may remain slanted south in tandem with the short term implied valuations for the pair. Overall, expect a heavy posture within 1.2340-1.2440 intra-day.

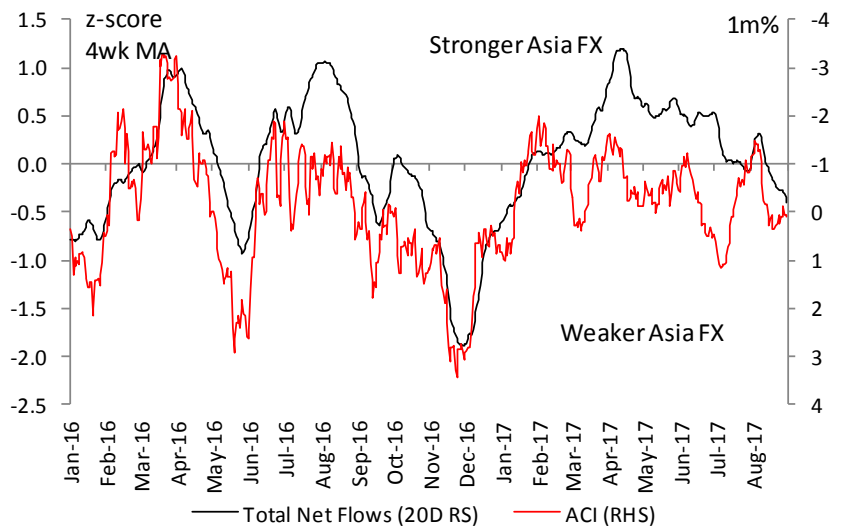
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

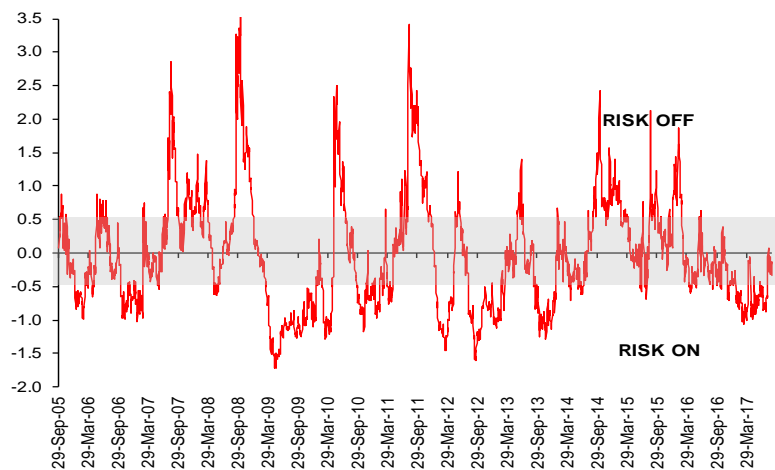




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

**1M Correlation Matrix**

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.826	0.771	0.147	-0.285	-0.107	0.277	0.499	0.249	-0.055	0.791	-0.977
SGD	0.959	0.773	0.756	0	-0.405	-0.18	0.191	0.459	0.417	0.067	0.763	-0.969
USGG10	0.826	1	0.825	0.36	-0.226	0.113	0.424	0.619	-0.017	-0.27	0.797	-0.768
MYR	0.812	0.65	0.702	0.116	-0.629	-0.054	0.139	0.379	0.492	0.012	0.753	-0.847
CHF	0.8	0.802	0.635	0.48	-0.09	0.091	0.533	0.435	-0.155	-0.327	0.629	-0.752
CNH	0.791	0.797	0.988	0.023	-0.387	-0.065	0.091	0.597	0.258	0.012	1	-0.739
CNY	0.771	0.825	1	0.021	-0.324	-0.109	0.115	0.598	0.201	-0.007	0.988	-0.728
CAD	0.727	0.661	0.671	0.094	-0.53	-0.07	0.191	0.409	0.43	0.057	0.8	-0.677
TWD	0.598	0.386	0.621	-0.446	-0.786	-0.518	-0.373	0.228	0.676	0.602	0.656	-0.632
CCN12M	0.56	0.386	0.526	-0.172	-0.482	-0.568	0.025	-0.063	0.361	0.15	0.565	-0.553
KRW	0.548	0.324	0.48	-0.375	-0.836	-0.326	-0.422	0.298	0.734	0.542	0.465	-0.612
NZD	0.515	0.624	0.794	-0.032	-0.369	0.046	-0.021	0.552	0.239	0.012	0.851	-0.495
THB	0.469	0.414	0.624	-0.109	-0.01	-0.209	-0.104	0.344	0.031	0.144	0.608	-0.422
JPY	0.277	0.424	0.115	0.842	0.369	0.298	1	0.032	-0.606	-0.769	0.091	-0.161
IDR	0.054	-0.168	-0.063	-0.381	-0.554	-0.73	-0.289	-0.39	0.349	0.629	-0.075	-0.094
INR	-0.023	-0.316	-0.141	-0.611	-0.657	-0.709	-0.627	-0.338	0.566	0.781	-0.139	-0.075
GBP	-0.082	0.204	0.059	0.491	-0.051	0.683	0.338	0.405	-0.072	-0.504	0.05	0.091
PHP	-0.148	-0.428	-0.354	-0.54	-0.351	-0.817	-0.367	-0.666	0.296	0.664	-0.386	0.092
AUD	-0.731	-0.601	-0.546	-0.038	0.513	0.222	-0.161	-0.291	-0.373	-0.208	-0.652	0.675
EUR	-0.977	-0.768	-0.728	-0.046	0.343	0.109	-0.161	-0.504	-0.361	-0.021	-0.739	1

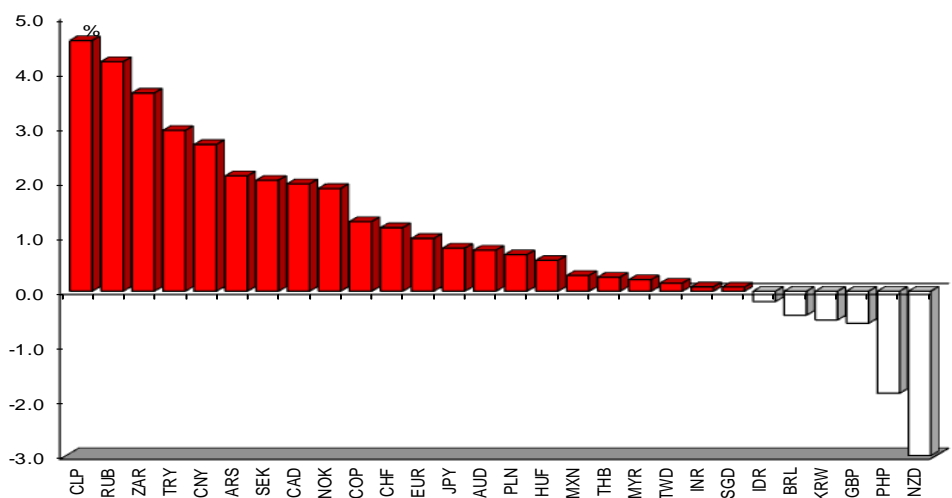
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1669	1.1800	1.1883	1.1900	1.1973
GBP-USD	1.2785	1.2900	1.2956	1.2969	1.3000
AUD-USD	0.7846	0.7900	0.7965	0.7985	0.8000
NZD-USD	0.7132	0.7147	0.7169	0.7200	0.7317
USD-CAD	1.2341	1.2369	1.2384	1.2400	1.2669
USD-JPY	108.70	109.00	109.78	110.00	110.62
USD-SGD	1.3506	1.3517	1.3577	1.3600	1.3656
EUR-SGD	1.5949	1.6100	1.6133	1.6200	1.6201
JPY-SGD	1.2295	1.2300	1.2368	1.2400	1.2432
GBP-SGD	1.7387	1.7500	1.7590	1.7600	1.7701
AUD-SGD	1.0711	1.0800	1.0814	1.0822	1.0900
Gold	1330.80	1331.67	1334.10	1400.00	1430.00
Silver	17.78	17.80	17.83	17.90	18.00
Crude	47.34	47.40	47.41	47.50	49.69

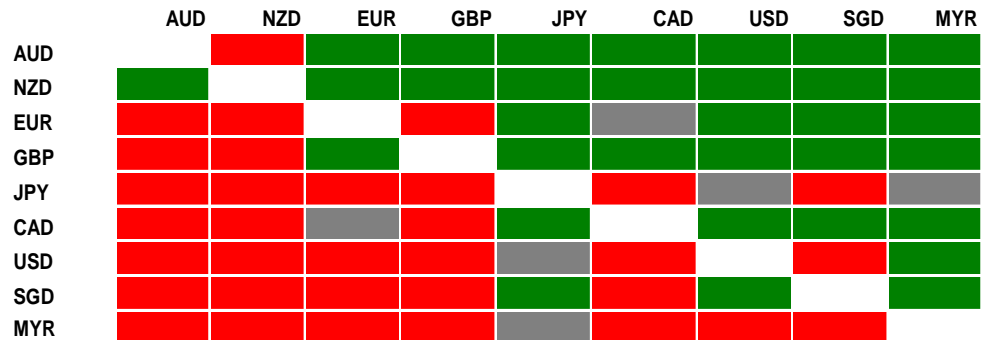
Source: OCBC Bank

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



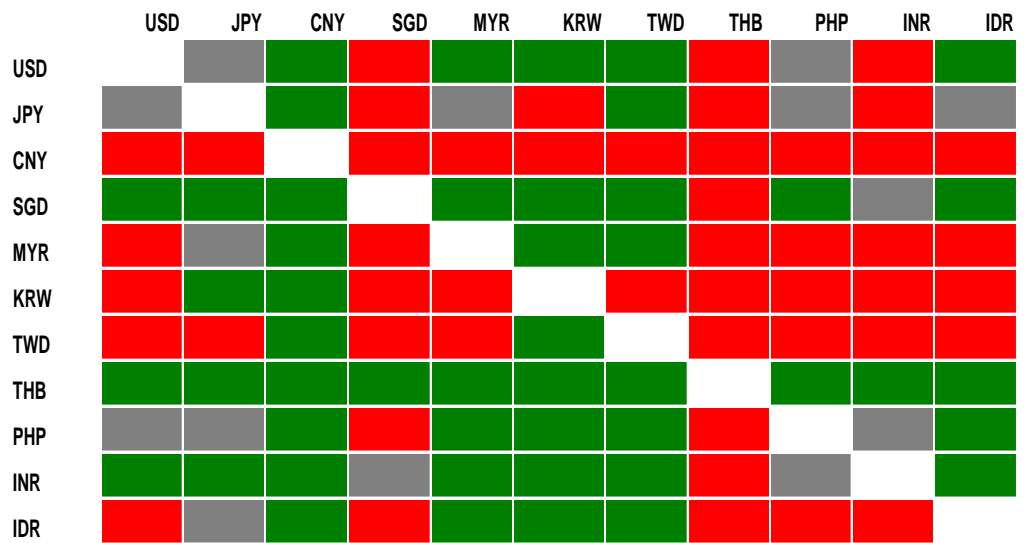
Source: Bloomberg

**G10 FX Heat Map**



Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	01-Aug-17	S	USD-JPY	110.18	107.75 111.45	No surprises expected from Fed-speak after the last FOMC		
2	16-Aug-17	S	GBP-USD	1.2888	1.2605 1.3035	Doused hawkish BOE expectations, space for a USD capitulation		
<b>STRUCTURAL</b>								
3	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
4	12-Jul-17		Bullish 2M 1X1.5 EUR-USD Call Spread Spot ref: 1.1455; Strikes: 1.1492, 1.1724; Exp: 12/09/17; Cost: 0.46%			ECB transitioning to neutral, Fed wavering		
5	12-Jul-17		Bearish 2M 1X1.5 USD-CAD Put Spread Spot ref: 1.2664; Strikes: 1.2653, 1.2415; Exp: 15/09/17; Cost: 0.50%			Hawkish BOC being increasingly priced in		
6	20-Jul-17		Bullish 2M 1X1.5 AUD-USD Call Spread Spot ref: 0.7915; Strikes: 0.7909, 0.8111; Exp: 21/09/17; Cost: 0.65%			More positive than expected RBA minutes, supportive data, weak USD		
7	22-Aug-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		
8	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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	13-Jul-17	03-Aug-17	B	AUD-USD	0.7708	0.7935	Vulnerable USD, improving risk appetite, supportive China data	+2.89
2	05-Jun-17	03-Aug-17		2M USD-SGD Put Spot ref: 1.3796; Strikes 1.3639; Exp: 03/08/17; Cost: 0.24%		Increasingly endemic USD weakness, +ve risk appetite	+0.01	
3	01-Aug-17	04-Aug-17	B	GBP-USD	1.3207	1.3060	Expected trace of hawkishness at BOE MPC	-1.14
4	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
5	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
6	04-Jul-17	16-Aug-17	B	EUR-USD	1.1346	1.1741	Draghi's change of stance in late June may further fuel the EUR	+3.14
							Jan-Aug*** 2017 Return	+7.78
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank



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