

Tuesday, September 05, 2017

**FX Themes/Strategy/Trading Ideas**

- Background (North Korean) geopolitical concerns may continue to keep the JPY, CHF and gold underpinned in the near term, especially with a report of another planned ICBM test by Pyongyang. Thus far, the reaction from the UN, US, and G7 have been muted, helping to contain outright investor panic.
- Outside of the risk appetite domain, investors may continue to remain on the sidelines while awaiting further guidance from central banks this week. As such, we remain tactically uncommitted in the interim.
- The calendar today sees a deluge of potential **Fed-speak** from Brainard (1130 GMT), Kashkari (1630 and 1710 GMT), and Kaplan (2300 GMT). In Asia, look to the **RBA** policy meeting decision (0430GMT) with key issues to include any positive surprises on the prognosis as well as any hints of jawboning with respect to the AUD.
- On the data front, watch for the slew of global services/composite PMIs (China Caixin versions at 0145 GMT) in today's session while the US data stream includes July factory orders, durable goods orders.
- Despite near term geopolitical risks, discretionary US-centric USD weakness may be pausing for breath in the coming sessions. As such, we closed out our 01 Aug 17 idea to be tactically short **USD-JPY** (spot ref: 110.18) at 109.79 on Monday essentially square (implied +0.19% gain).

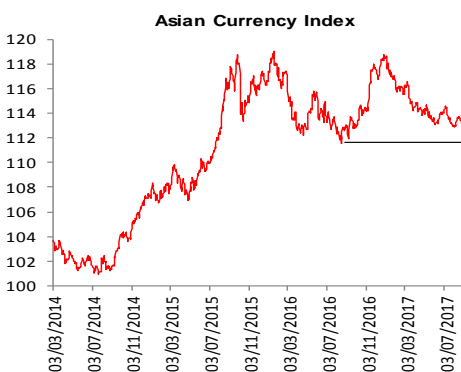
**Asian FX**

- Global EM equities weakened on Monday but EM FX turned in a mixed performance overall. The Asian complex may continue to derive partial underlying support from the renminbi complex, and near term directionality much will depend on evolving risk appetite swings (note still wobbly Asian equities early Tuesday).
- Asian net portfolio inflows meanwhile demonstrate net outflows for KRW, although net outflows for the TWD are improving. There may be a nascent attempt to stabilize in terms of waning net inflow momentum for the INR, IDR, PHP, and THB, although at this juncture, not sufficient to result in FX outperformance just yet.
- Note that on the macro front in Asia, the Nikkei manufacturing PMIs for Malaysia and Indonesia improved from the previous month to 50.4 and 50.7 respectively, while the Philippine PMI slipped to 50.6.

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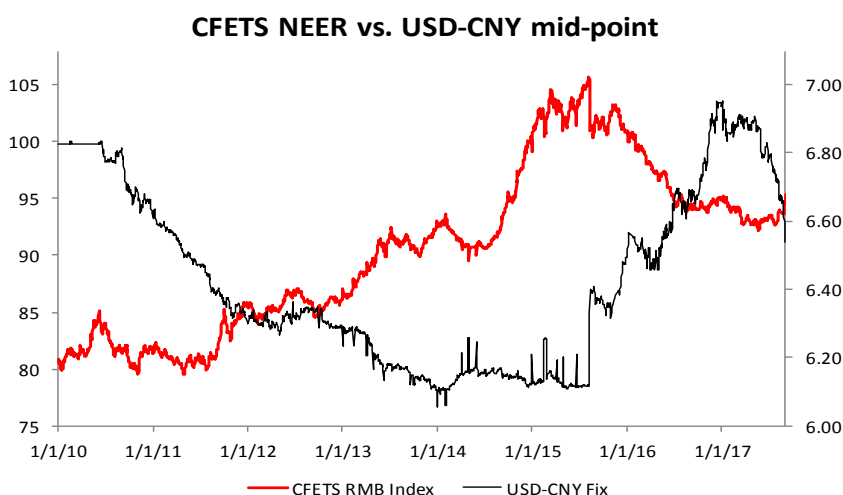
- Overall, the **FXSI (FX Sentiment Index)** climbed slightly within Risk-Neutral territory on Monday on the back of geopolitical concerns and the **ACI (Asian Currency Index)** may abstain from excessive downside moves today after ticking higher yesterday.
- **SGD NEER:** Singapore August PMI readings came in better than expected on Monday while the SGD NEER remains steady at +0.38% above its perceived parity (1.3616) with NEER-implied USD-SGD thresholds a touch softer on the day. Pending further external cues, the NEER may remain bounded by parity and the +0.50% threshold (1.3548).



	SGD NEER	% deviation	USD-SGD
Current	124.78	0.42	1.3549
+2.00%	126.74		1.3349
Parity	124.26		1.3616
-2.00%	121.77		1.3894

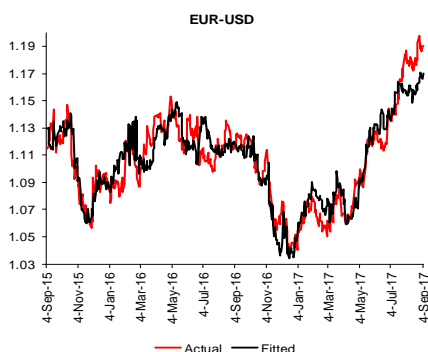
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (as largely expected) to 6.5370 from 6.5668 on Monday. This saw the CFETS RMB Index gaining further to 95.33 from 94.73 yesterday. Structurally, the improvement in foreign reserves (August numbers due on Thursday) in recent months certainly argues for some NEER stabilization but it would be a stretch to argue for a sharp secular appreciation on this metric.



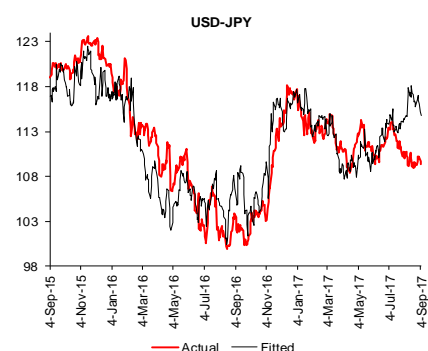
Source: OCBC Bank, Bloomberg

**G7**



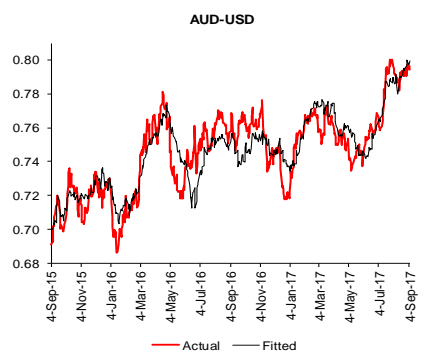
Source: OCBC Bank

- EUR-USD** No change in near term view and ahead of ECB-related risks this week, the EUR-USD may continue to fade upside probes. Short term implied valuations meanwhile are attempting to stabilize and may also deter excessive downside for the pair. Expect a top-heavy posture within 1.1800-1.2000 in the interim.



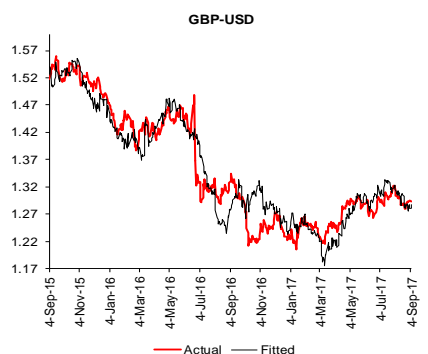
Source: OCBC Bank

- USD-JPY** The likes of the JPY may remain in favor in view of the prevailing geopolitical concerns with the pair seen heavy within 109.00-110.00. Note also that short term implied valuations for the USD-JPY are descending fairly abruptly.



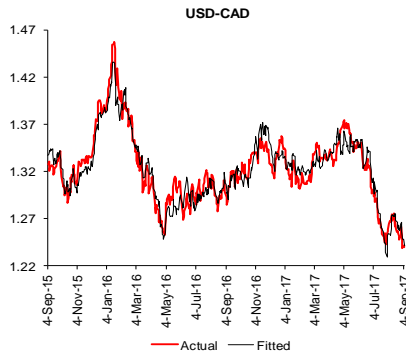
Source: OCBC Bank

- AUD-USD** The August services index deteriorated to 53.0 from 56.4 the previous month but the AUD was lifted by a positive surprise from 2Q net exports and improving China Caixin services/composite PMIs. Much will depend on the RBA later this morning despite stubbornly underpinned short term implied valuations. Expect 0.7930-0.8000 to govern in the interim.



Source: OCBC Bank

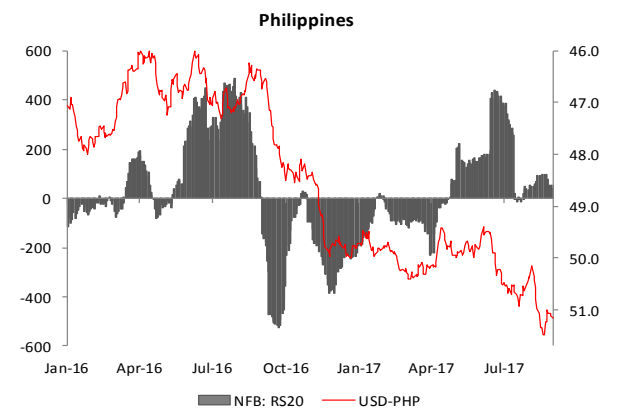
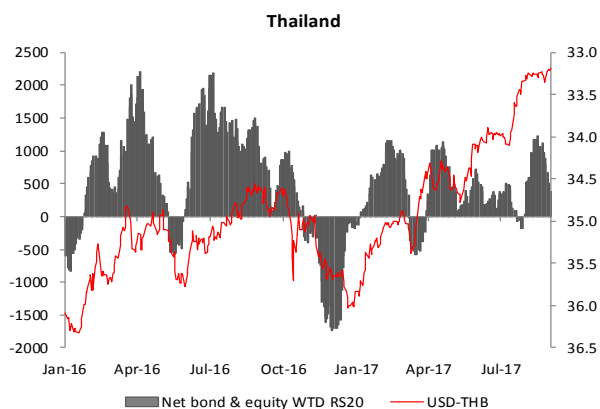
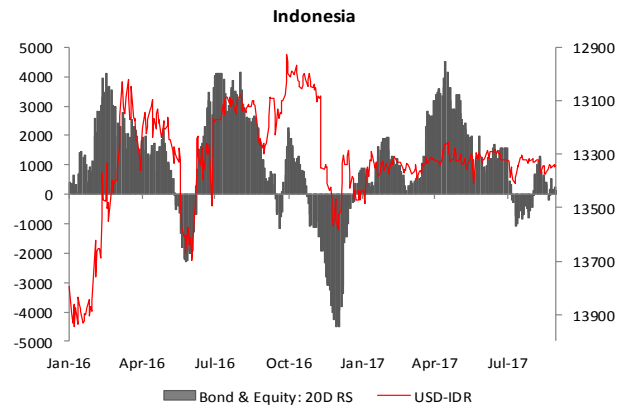
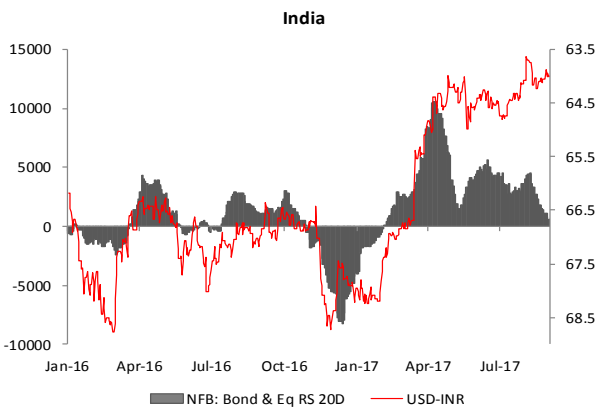
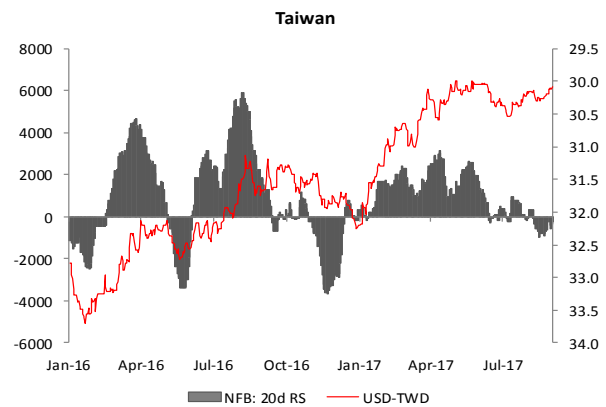
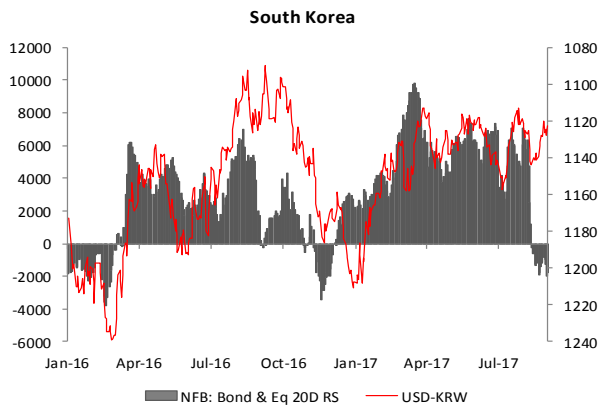
- GBP-USD** The August construction PMI disappointed with a 5111.1 reading on Monday and Brexit news flow are set to pick up again this week with Thursday's Parliamentary debate on the repeal bill. Short term implied valuations meanwhile are attempting to stabilize but the pair is still loitering below its 55-day MA (1.2952) with 1.2880 likely to offer initial support.

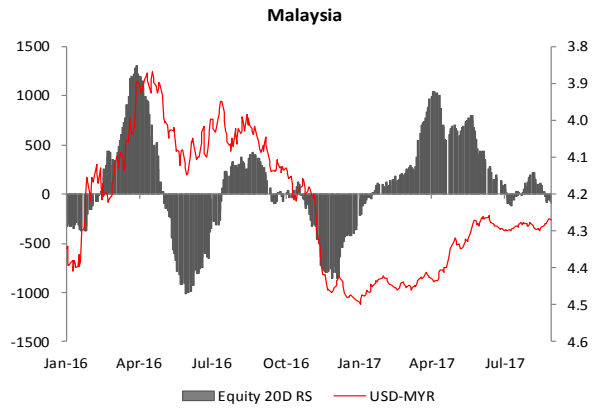


- USD-CAD** Investors may continue to look towards the downside for the pair going into the BOC meeting on Wednesday. Short term implied valuations for the USD-CAD are also southbound at this juncture and crucially the 200-week MA (1.2441) is now serving as a resistance. Beyond 1.2400, look towards 1.2340.

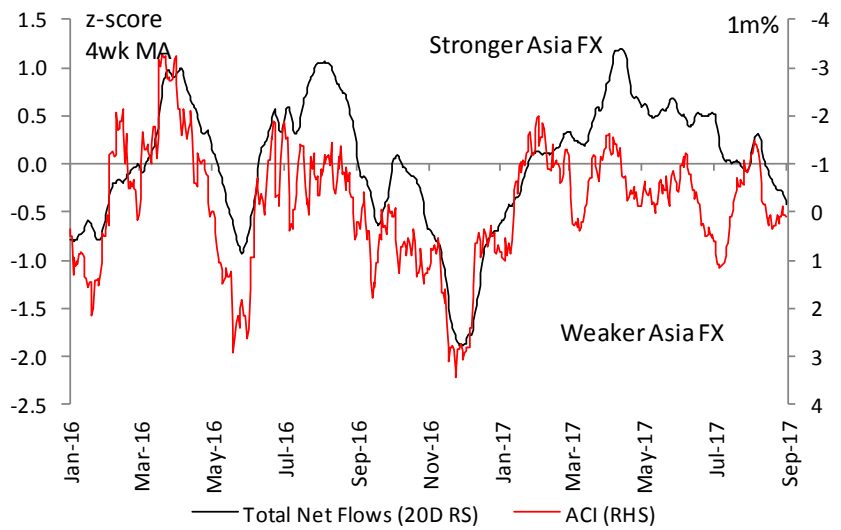
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

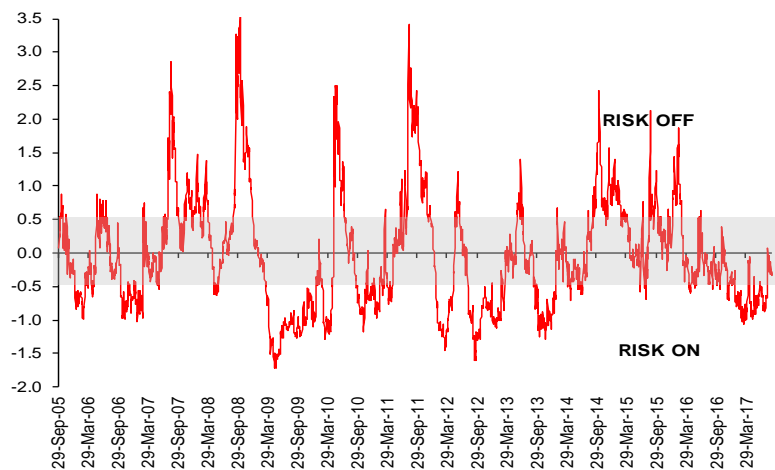




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.836	0.765	0.147	-0.298	-0.107	0.273	0.503	0.249	0.016	0.773	-0.979
SGD	0.965	0.785	0.736	0	-0.414	-0.18	0.188	0.461	0.417	0.12	0.76	-0.97
USGG10	0.836	1	0.76	0.36	-0.236	0.113	0.415	0.616	-0.017	-0.222	0.767	-0.777
MYR	0.829	0.686	0.702	0.116	-0.629	-0.054	0.128	0.388	0.492	0.012	0.751	-0.855
CHF	0.819	0.809	0.65	0.48	-0.109	0.091	0.514	0.437	-0.155	-0.241	0.662	-0.769
CNH	0.773	0.767	0.992	0.023	-0.37	-0.065	0.084	0.579	0.258	0.156	1	-0.722
CNY	0.765	0.76	1	0.021	-0.32	-0.109	0.1	0.598	0.201	0.137	0.992	-0.714
CAD	0.747	0.694	0.728	0.094	-0.523	-0.07	0.192	0.422	0.43	0.15	0.814	-0.702
TWD	0.606	0.385	0.717	-0.446	-0.733	-0.518	-0.337	0.219	0.676	0.636	0.722	-0.631
CCN12M	0.594	0.428	0.605	-0.172	-0.481	-0.568	0.029	-0.054	0.361	0.228	0.634	-0.583
NZD	0.552	0.65	0.827	-0.032	-0.374	0.046	-0.013	0.557	0.239	0.113	0.865	-0.53
KRW	0.55	0.332	0.397	-0.375	-0.832	-0.326	-0.422	0.304	0.734	0.521	0.418	-0.61
THB	0.515	0.461	0.677	-0.109	-0.037	-0.209	-0.087	0.344	0.031	0.219	0.689	-0.465
JPY	0.273	0.415	0.1	0.842	0.367	0.298	1	0.033	-0.606	-0.74	0.084	-0.16
IDR	0.062	-0.163	-0.013	-0.381	-0.557	-0.73	-0.289	-0.394	0.349	0.616	-0.045	-0.1
INR	-0.04	-0.322	-0.154	-0.611	-0.647	-0.709	-0.626	-0.338	0.566	0.736	-0.152	-0.057
GBP	-0.059	0.209	0.025	0.491	-0.046	0.683	0.341	0.417	-0.072	-0.498	0.067	0.075
PHP	-0.142	-0.426	-0.333	-0.54	-0.336	-0.817	-0.368	-0.663	0.296	0.601	-0.357	0.09
AUD	-0.735	-0.621	-0.555	-0.038	0.519	0.222	-0.166	-0.295	-0.373	-0.247	-0.614	0.686
EUR	-0.979	-0.777	-0.714	-0.046	0.353	0.109	-0.16	-0.506	-0.361	-0.077	-0.722	1

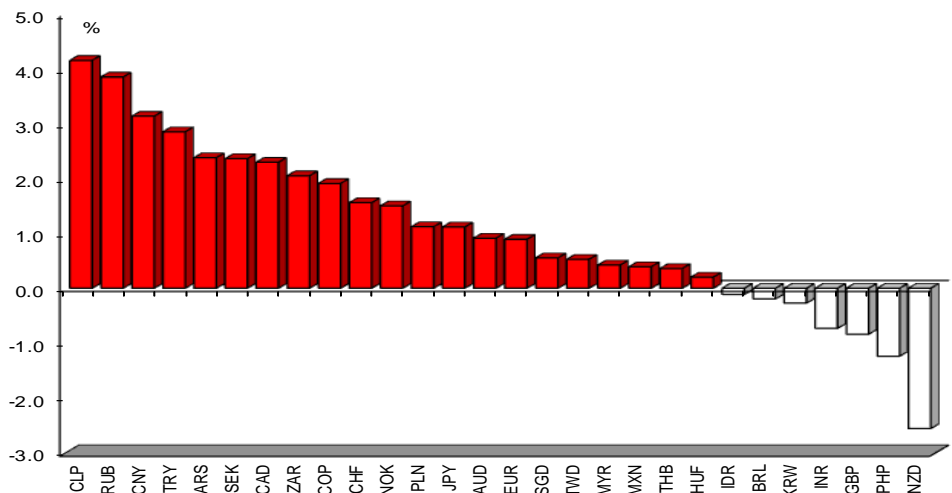
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1677	1.1900	1.1901	1.1981	1.2000
GBP-USD	1.2787	1.2900	1.2924	1.2970	1.3000
AUD-USD	0.7854	0.7900	0.7981	0.7991	0.8000
NZD-USD	0.7132	0.7137	0.7174	0.7200	0.7315
USD-CAD	1.2341	1.2349	1.2393	1.2400	1.2654
USD-JPY	108.71	109.00	109.51	110.00	110.53
USD-SGD	1.3506	1.3510	1.3552	1.3600	1.3649
EUR-SGD	1.5956	1.6100	1.6127	1.6200	1.6205
JPY-SGD	1.2295	1.2300	1.2372	1.2400	1.2431
GBP-SGD	1.7387	1.7500	1.7515	1.7600	1.7699
AUD-SGD	1.0717	1.0800	1.0816	1.0822	1.0900
Gold	1300.00	1332.54	1337.30	1341.50	1400.00
Silver	17.79	17.80	17.84	17.90	17.91
Crude	47.30	47.34	47.39	47.40	49.69

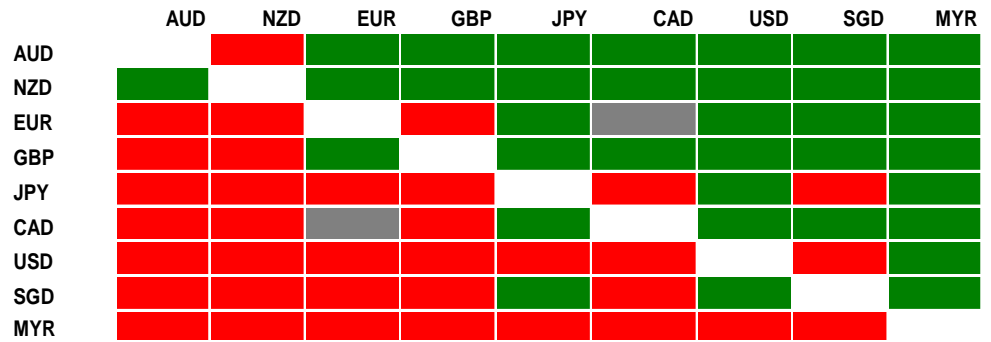
Source: OCBC Bank

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



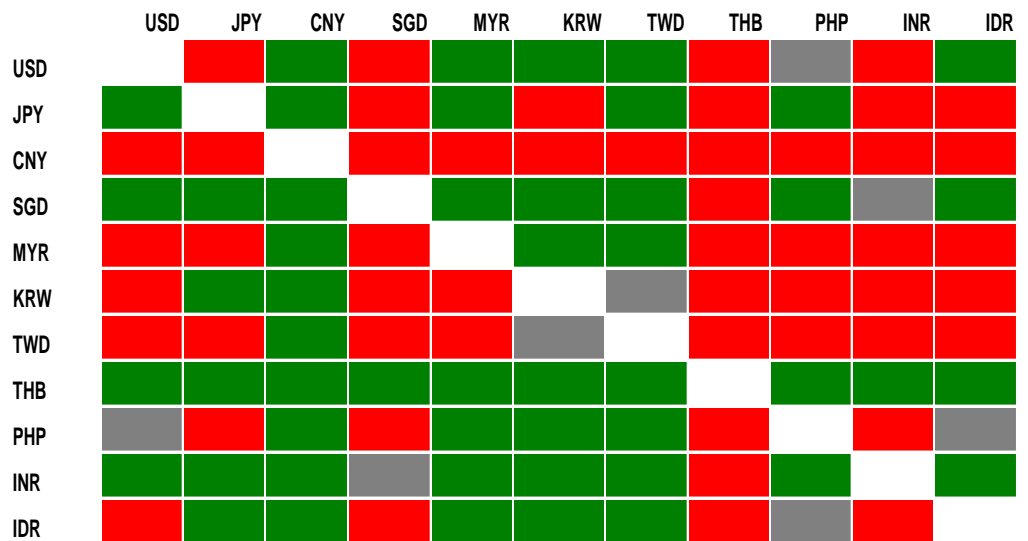
Source: Bloomberg

**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	16-Aug-17	S	GBP-USD	1.2888	1.2605	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	
<b>STRUCTURAL</b>								
2	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
3	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		
4	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		
5	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		
6	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		
7	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	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
2	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
3	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
4	01-Aug-17	04-Sep-17	S	USD-JPY	110.18	109.79	No surprises expected from Fed-speak after the last FOMC	+0.19
							<b>Jan-Aug 2017 Return</b>	<b>+7.78</b>
							<b>2016 Return</b>	<b>+6.91</b>
* realized **of notional ***month-to-date								

Source: OCBC Bank



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