

Monday, November 06, 2017

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

- The dollar pulled higher against most of the majors on Friday despite mixed October NFP readings (positive upward revisions to prior months' headline figures despite a disappointing October reading; hourly earnings softer than expected) and amid stronger than expected the October non-manufacturing ISM readings plus supportive and durable goods orders. Curve-wise, UST yield changes saw inversion behavior with the front end rising accompanied by a softening back-end, sufficient to keep the broad dollar underpinned.
- This week, with the DXY circa 95.00, the broad dollar may begin the week underpinned. **We think the conversation has now shifted slightly at this juncture with the broad dollar now bargaining from a position of strength and the DXY seen trawling a 94.00-96.00 zone in the interim.**
- On the **CFTC** front, large non-commercial accounts reduced significantly their net implied short dollar bias in aggregate in the latest week while **leveraged accounts** flipped to a **net long dollar bias** in the latest week. However, asset manager accounts instead increased their implied short dollar bias in the latest week. Overall, the interplay between shorter-term and structural accounts may continue to see a near term bias in favor of the greenback.
- **Meanwhile, the interplay of global central bank rhetoric may continue to play a crucial role this week.** As noted previously, a softer stance from core G7 central banks in the past few weeks had left the USD with an upper hand and it remains to be seen if this can be prolonged this week.
- Fed-speak this week includes Potter (1030 GMT) and Dudley (1710 GMT) today, and Quarles and Yellen on Tuesday. Meanwhile, the ECB's Praet (0800 GMT), Visco and Hansson (1300 GMT), and Mersch (1800 GMT) are due today. The busy calendar of ECB appearances for the rest of the week also includes Draghi on Tuesday and Weidmann on Thursday.
- On other fronts, look for cues from the cyclical central banks this week. The RBA monetary policy meeting is Tuesday (1.50%), the RBNZ is expected to keep its OCR unchanged at 1.75%, while investors will be tuned into the Bank of Canada's Poloz on Tuesday. Expect also significant GBP headline risks this week with the BOE's Taylor (Tuesday), Kohn (Wednesday), and Salmon on Thursday.
- The global data calendar meanwhile includes China October trade numbers on Wednesday and CPI/PPI readings on Thursday, and any further firming in

Treasury Research &  
Strategy

**Emmanuel Ng**

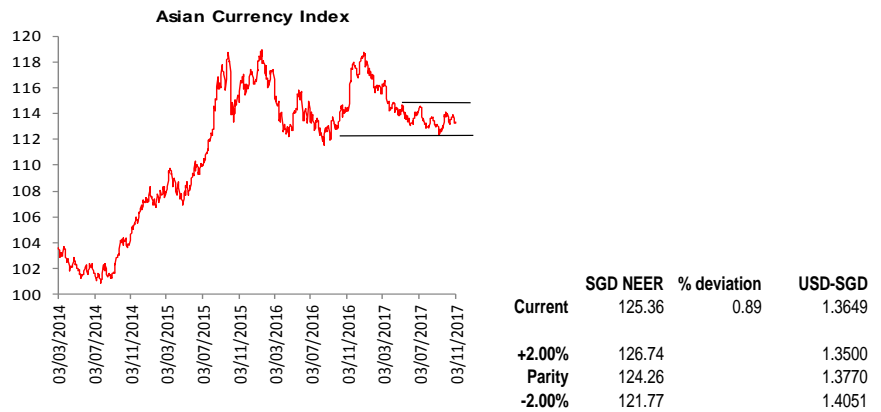
+65 6530 4073

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

the latter readings may shift global inflation perceptions.

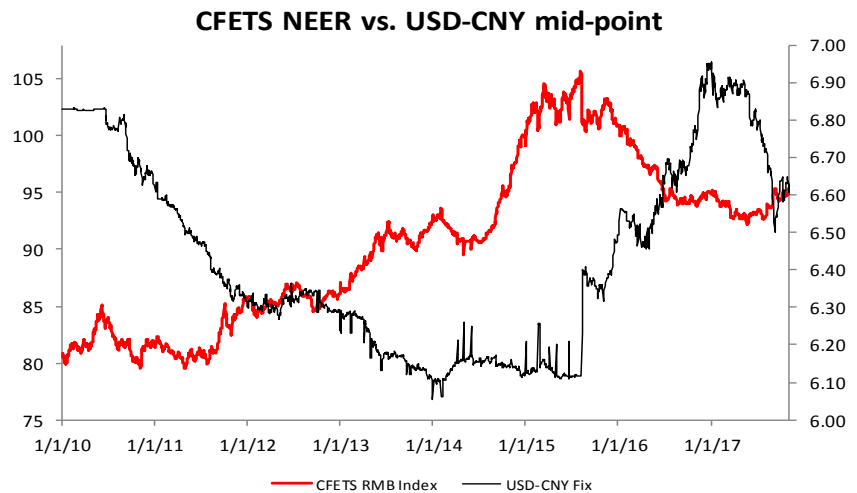
## Asian FX

- We look to the ensuing headlines from US President Trump's trip in Asia this week to dominate investors' screens. Note stepped up rhetoric against Pyongyang over the weekend although markets have taken it in their stride early Monday in Asia.
- Meanwhile, global risk appetite levels remain positive with our **FXSI (FX Sentiment Index)** falling deeper into Risk-On territory on Friday with global EM equities consolidating lower on Friday but still managing another weekly gain. Short-end G7 FX vols continue to slide but a potential caveat is the EM vols remain slightly less enthusiastic on the downside at this juncture while EM risk premiums remain relatively more cautious.
- On other fronts, **EPFR** data meanwhile demonstrated a rebound in implied equity and bond inflows into Asia (excl Japan/China). **Actual net portfolio inflows** in Asia meanwhile denote some peaking in hitherto strong inflow momentum for the KRW, still firm inflow momentum for the TWD on a rolling 1M basis (note however signs of minute outflows in recent sessions). Elsewhere, the INR is expected to be underpinned by strong inflow momentum of late (note October services/composite PMIs improved from the previous month). On other fronts, abating net outflow momentum for the IDR contrast with deepening outflows for the THB. **Differentiation remains the name of the game in Asia with the ACI (Asian Currency Index)** expected to react higher today.
- Looking ahead, Indonesian 3Q GDP is due today, while the **Bank of Thailand** expected to remain static at 1.50% on Wednesday, with the **BSP** also seen keeping its policy parameters unchanged on Thursday. Overall, expect more than a tinge of caution to permeate Asian central bank rhetoric this week.
- **SGD NEER:** The SGD NEER is softer on the day at +0.89% above its perceived parity (1.3770) with NEER-implied USD-SGD thresholds higher compared to last Friday morning in Asia. At current levels, the +1.00% threshold is estimated at 1.3634 and +1.10% at 1.3620, where the USD-SGD may be expected to base out at the onset of the week. Topside waypoints include 1.3650 and 1.3675 if broad USD resilience persists.



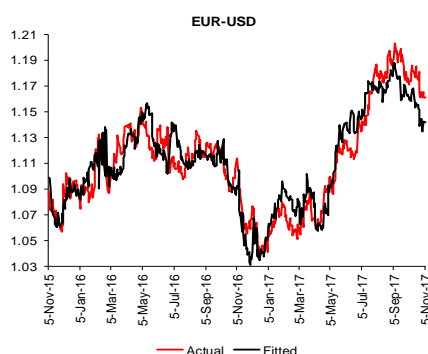
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning firmed (largely in line with expectations) to 6.6247 from 6.6072 last Friday. This saw the CFETS RMB Index slightly lower to 95.31 from 95.33.



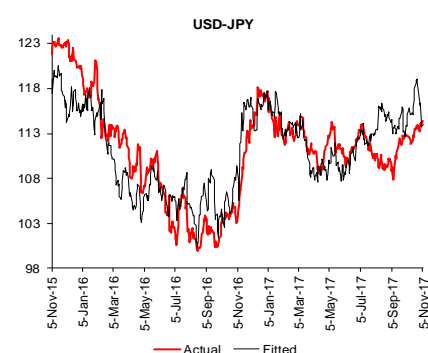
Source: OCBC Bank, Bloomberg

## G7



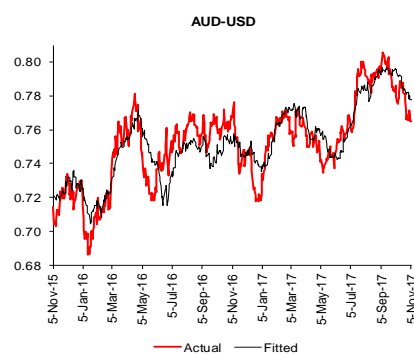
Source: OCBC Bank

- **EUR-USD** Short term implied valuations remain capped at the beginning of the week while on the CFTC front, leveraged EUR positioning flipped to a net short EUR balance in the latest week. Overall, the 1.1600 floor remains at risk of a breach in the current environment with supports expected into 1.1550/75 while the 200-week MA (1.1662) may be expected to cap.



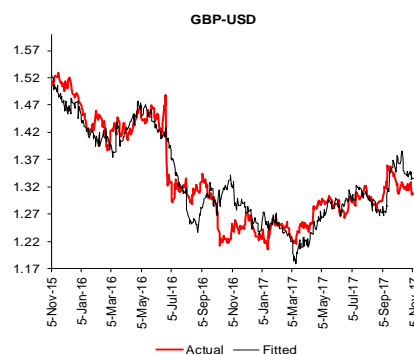
Source: OCBC Bank

- **USD-JPY** The BOJ's Kuroda remained decidedly dovish this morning and the USD-JPY may continue to attempt to base build off (we prefer dip buying) 114.00 in the interim. Short term implied valuations are attempting to stabilize after consolidating lower previously while on the CFTC front, leveraged JPY shorts accumulated further (already at elevated levels) in the latest week. With the long USD-JPY bias looking slightly crowded, expect the upside to remain slightly cautious.



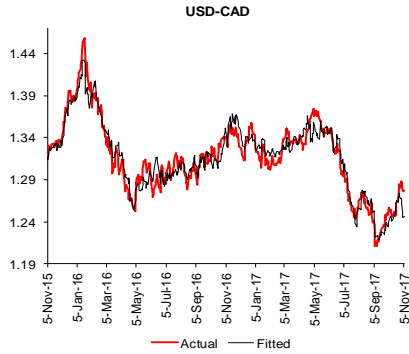
Source: OCBC Bank

- **AUD-USD** With domestic/China data readings doing no favors for the AUD despite positive global risk appetite levels, still heavy short term implied valuations may keep the AUD-USD suppressed. Net leveraged CFTC AUD longs were also pared in the latest week, with net positioning coming off extremely elevated levels. Ahead of the RBA and RBNZ this week, the 200-day MA (0.7698) is expected to cap with risks instead tilted towards 0.7600.



Source: OCBC Bank

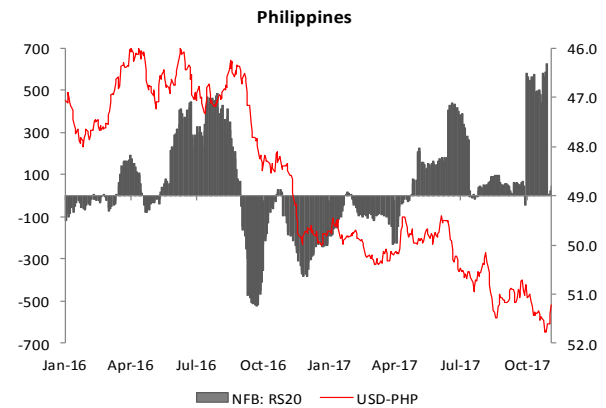
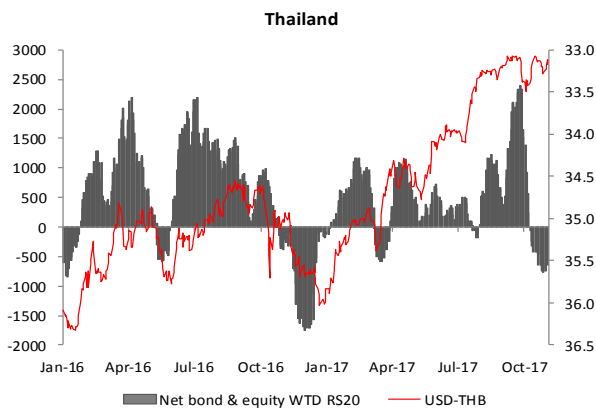
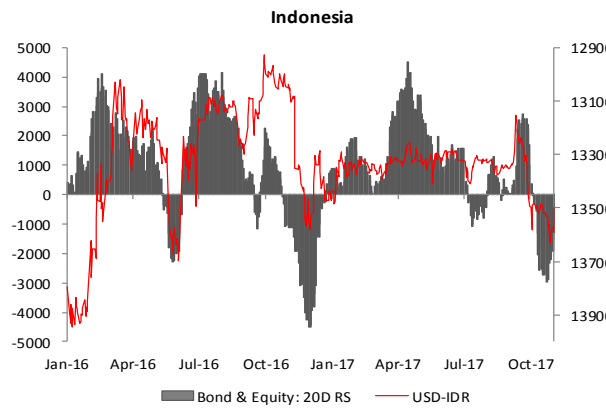
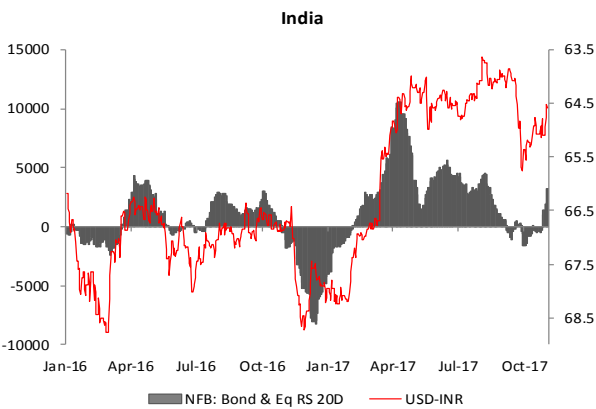
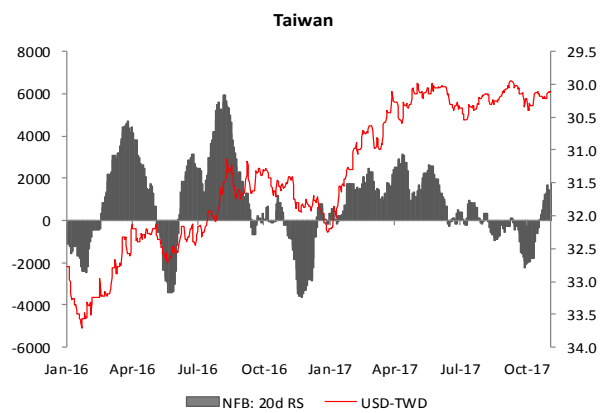
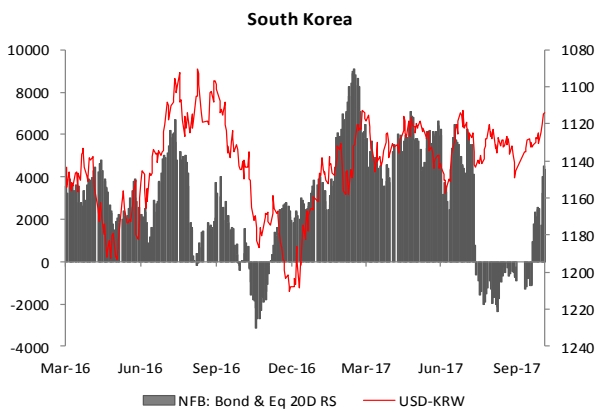
- **GBP-USD** Better than expected UK October services/composite PMIs helped to buoy the GBP-USD on Friday but uncertainty surrounding BOE rhetoric this week may cap excessive upside in the interim. Short term implied valuations are seen capped with net leveraged CFTC GBP longs also being pared in the latest week. Any failure to cling onto the 100-day MA (1.3087) risks a deterioration towards 1.3000/25.

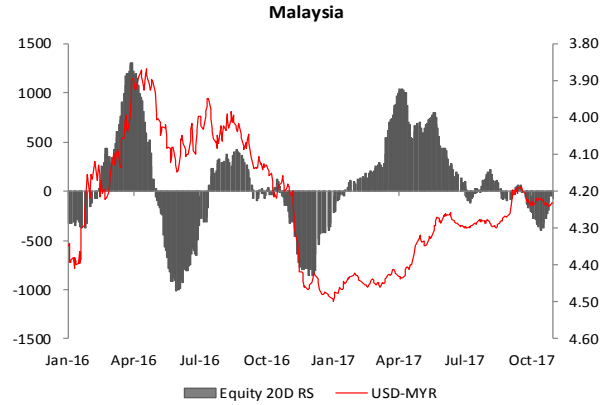


- USD-CAD** Stronger than expected Canadian October labor market readings coupled with firming crude on Friday dragged the USD-CAD lower. Meanwhile, note that short term implied valuations continue to be slippery, with CFTC leveraged CAD longs being reduced in the latest week from elevated levels. Expect some range bound behavior to persist within 1.2695-1.2920 in the interim.

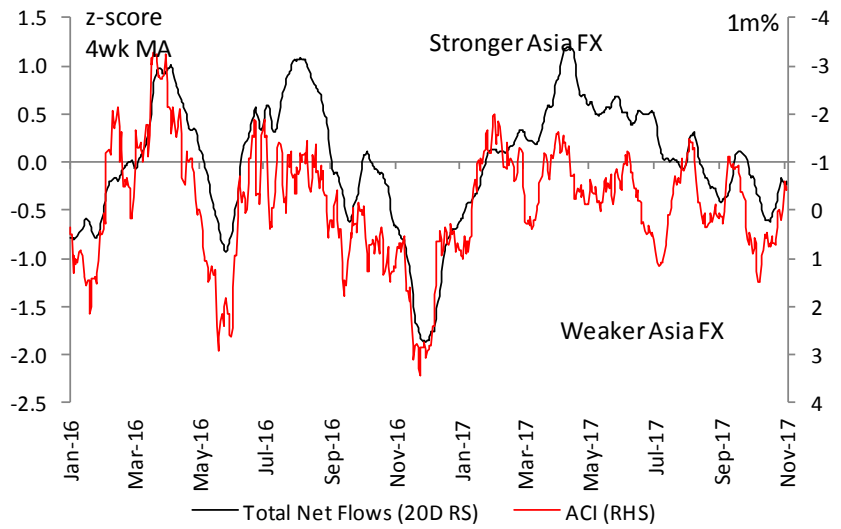
Source: OCBC Bank

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

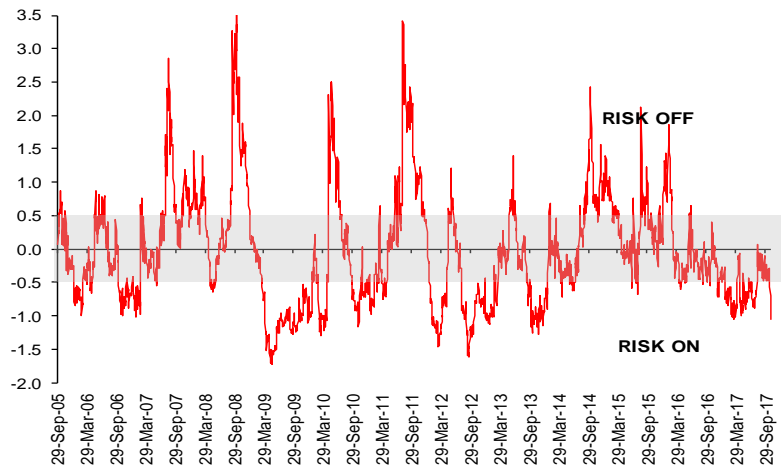




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.44	0.625	0.814	0.54	0.828	0.853	0.874	0.051	-0.869	0.715	-0.976
CHF	0.966	0.528	0.625	0.817	0.588	0.858	0.924	0.879	0.158	-0.882	0.743	-0.921
CAD	0.908	0.633	0.621	0.703	0.453	0.797	0.843	0.775	0.3	-0.813	0.723	-0.843
JPY	0.853	0.645	0.635	0.753	0.473	0.706	1	0.761	0.309	-0.717	0.775	-0.763
MYR	0.821	0.543	0.87	0.556	0.212	0.549	0.788	0.654	0.342	-0.571	0.867	-0.77
SGD	0.803	0.734	0.818	0.536	0.102	0.428	0.842	0.534	0.39	-0.466	0.89	-0.75
CNH	0.715	0.693	0.969	0.547	0.218	0.47	0.775	0.537	0.502	-0.43	1	-0.648
IDR	0.647	0.729	0.598	0.439	0.103	0.487	0.584	0.431	0.437	-0.495	0.623	-0.574
CNY	0.625	0.609	1	0.487	0.168	0.403	0.635	0.45	0.445	-0.376	0.969	-0.565
USGG10	0.44	1	0.609	0.233	-0.146	0.22	0.645	0.178	0.681	-0.188	0.693	-0.343
CCN12M	0.367	0.286	0.767	0.414	0.346	0.318	0.425	0.369	0.213	-0.255	0.712	-0.311
PHP	0.219	0.718	0.45	0.126	-0.105	0.258	0.273	0.078	0.617	-0.092	0.455	-0.114
THB	0.109	0.516	0.317	-0.233	-0.673	-0.299	0.028	-0.219	0.237	0.19	0.251	-0.126
TWD	-0.093	0.609	0.479	-0.102	-0.63	-0.305	0.177	-0.311	0.564	0.382	0.444	0.208
GBP	-0.53	-0.148	-0.387	-0.438	-0.137	-0.266	-0.546	-0.44	0.095	0.272	-0.447	0.497
INR	-0.62	0.019	-0.162	-0.721	-0.884	-0.856	-0.534	-0.821	0.184	0.813	-0.251	0.585
KRW	-0.802	-0.12	-0.273	-0.739	-0.831	-0.914	-0.723	-0.877	0.117	0.913	-0.406	0.791
NZD	-0.832	-0.756	-0.661	-0.673	-0.261	-0.686	-0.881	-0.672	-0.372	0.68	-0.771	0.724
AUD	-0.884	-0.597	-0.536	-0.571	-0.282	-0.678	-0.811	-0.747	-0.156	0.744	-0.629	0.851
EUR	-0.976	-0.343	-0.565	-0.754	-0.524	-0.779	-0.763	-0.847	0.028	0.849	-0.648	1

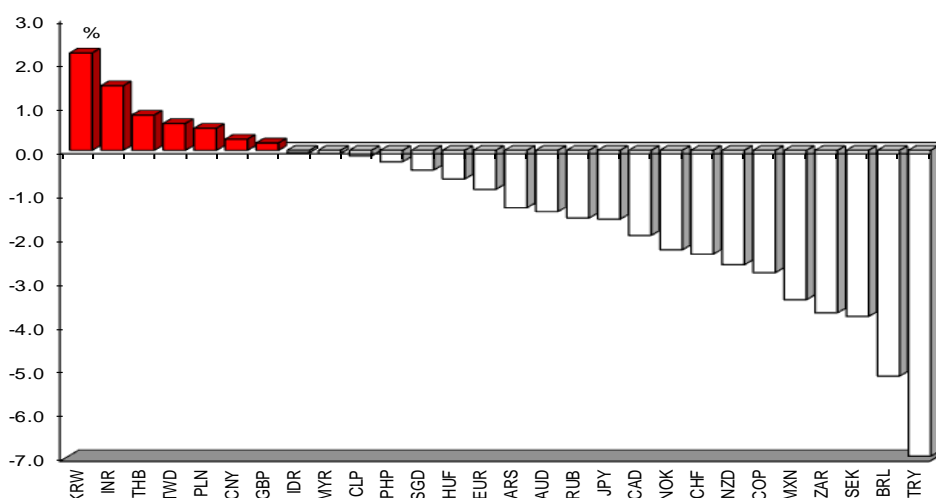
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1575	1.1600	1.1621	1.1700	1.1816
GBP-USD	1.3027	1.3051	1.3076	1.3100	1.3221
AUD-USD	0.7600	0.7625	0.7650	0.7694	0.7700
NZD-USD	0.6800	0.6818	0.6893	0.6900	0.7123
USD-CAD	1.2480	1.2700	1.2765	1.2800	1.2917
USD-JPY	111.94	114.00	114.35	114.73	114.78
USD-SGD	1.3549	1.3600	1.3644	1.3682	1.3700
EUR-SGD	1.5800	1.5805	1.5856	1.5900	1.6011
JPY-SGD	1.1904	1.1905	1.1934	1.2000	1.2096
GBP-SGD	1.7766	1.7800	1.7841	1.7900	1.7917
AUD-SGD	1.0400	1.0417	1.0438	1.0500	1.0620
Gold	1263.80	1266.26	1269.70	1298.80	1300.00
Silver	16.64	16.80	16.85	16.90	17.20
Crude	55.70	55.72	55.78	55.80	56.00

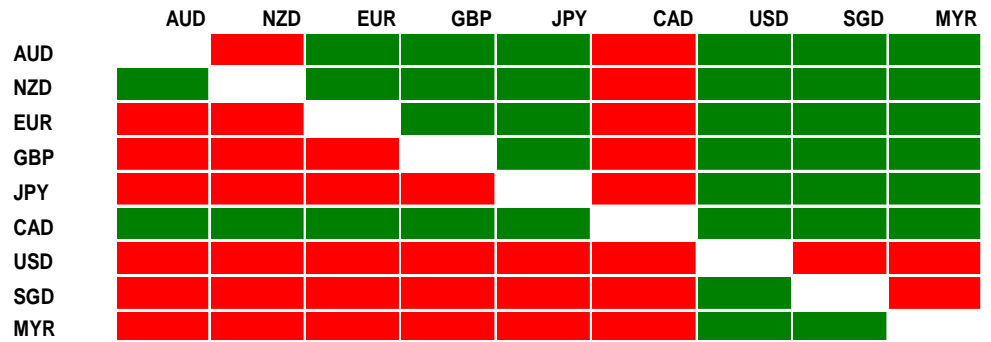
Source: OCBC Bank

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



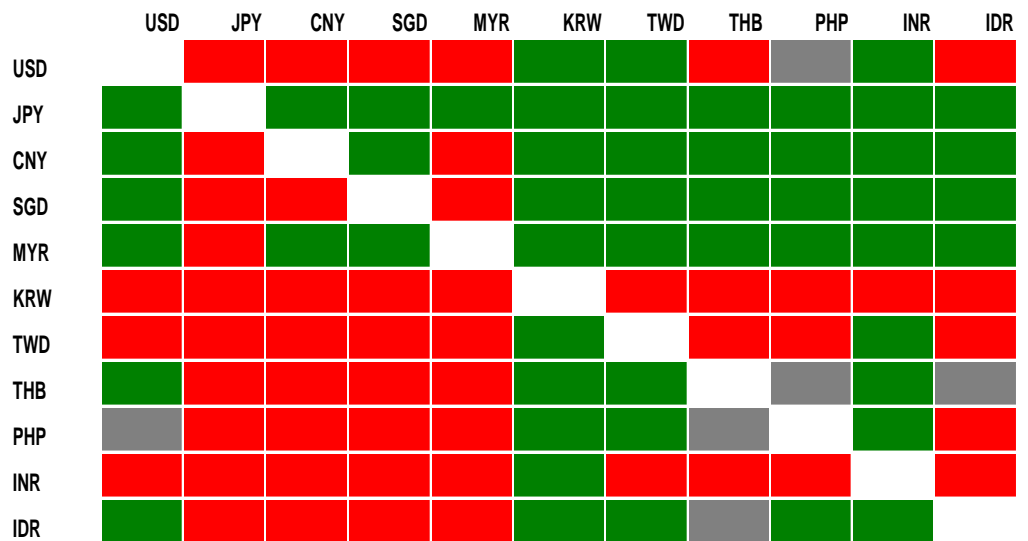
Source: Bloomberg

**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	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	
<b>STRUCTURAL</b>								
5	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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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