

Friday, October 06, 2017

**FX Themes/Strategy/Trading Ideas**

- On the back of hawkish comments from the Fed's Williams and Harker and supportive data (August durable goods factory orders), and a confluence of negatives in the other majors, the greenback (firmer UST curves with the bonds in the belly underperforming) stepped higher across G10 on Thursday ahead of Friday's NFP (mkts: +90k). On the US tax front, dollar (and US yield) sentiment was also supported after the House approved the FY18 spending plan.
- Elsewhere, rate differential dynamics permeated the markets as softening yields in the cyclicals translated effectively to corresponding weakening in the antipodeans and the CAD. On a structural basis, this may also be a slight manifestation of an increasing focus on the Fed (and ECB) at the expense of the other non-core G7 central banks in the very short term.
- Apart from the US NFP (1230 GMT), look also to headline risk from the Fed's Bostic (1315 GMT), Dudley (1615 GMT), Kaplan (1645 GMT), and Bullard (1700 GMT). On the ECB front, de Galhau is also scheduled for 1330 GMT).
- Going into tonight's NFP and amid prevailing geopolitical risks (e.g., Catalonia) and the Columbus Day long weekend, expect investors to remain inherently on the dollar's side (and heavy on the TY on US-centric positives) intra-day. On this front, key technical levels will remain closely watched (94.00 for the DXY for example).

**Asian FX**

- Global EM equities ended largely flat despite positive EZ/US equities and a further softening (i.e., improving sentiment) of the **FXSI (FX Sentiment Index)** within Risk-Neutral territory. Overall, expect USD-Asia to be flat to firmer in view of the current broad USD environment. As such, the **ACI (Asian Currency Index)** is expected to tick higher for a second consecutive session.
- With regards to net Asian portfolio flows, net outflow momentum for the TWD continues to moderate with equity inflows on Thursday. Meanwhile, net outflow momentum for the INR is also subsiding with renewed inflows for bonds. For the IDR, some outflow pressures continue to be demonstrated while net inflows for the THB remain well off recent highs.
- **SGD NEER:** The SGD NEER is lower on the day at +0.67% above its

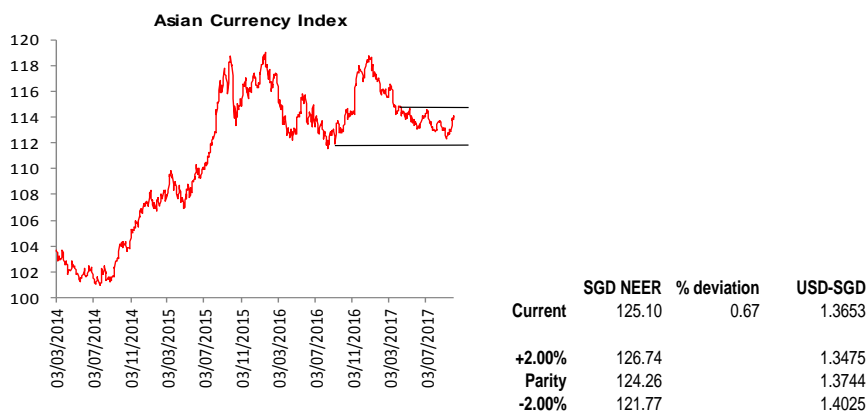
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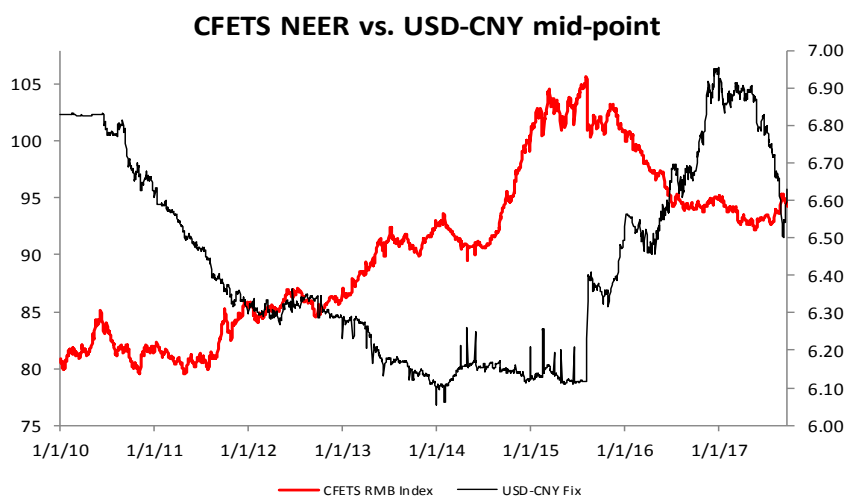
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perceived parity (1.3744) with NEER-implied USD-SGD thresholds higher on the day again. Going ahead, if the broad dollar continues to remain resilient into the NFP, expect potential to drift towards +0.50% (1.3676) with the +1.00% threshold meanwhile estimated at 1.3608. Technically, the 100-day MA (1.3678) may also offer partial (if fleeting) resistance ahead of 1.3700 in the face of a broad dollar lift.



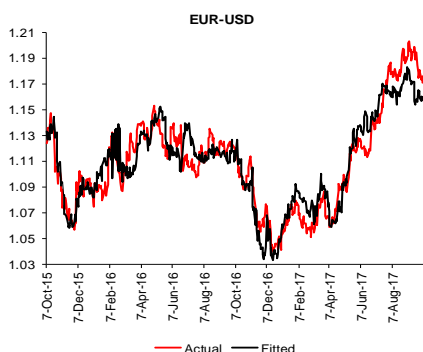
Source: OCBC Bank

- **CFETS RMB Index:** No fixings with China markets closed for the week.



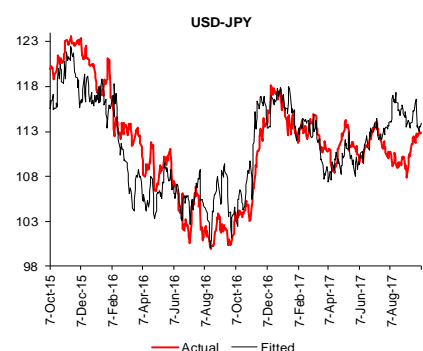
Source: OCBC Bank, Bloomberg

**G7**



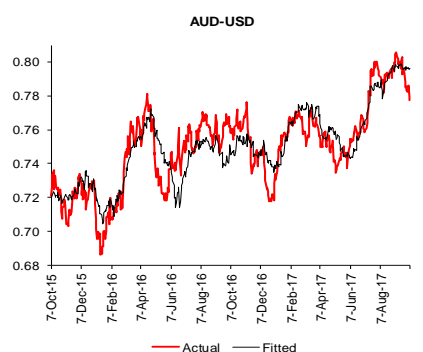
Source: OCBC Bank

- EUR-USD** ECB minutes still revealed a gradualist approach but demonstrated that the QE taper is now an actual conversation within the Council with a likely decision by this month's Council meeting. EUS-USD meanwhile is resting near its week-to-date lows with short term implied valuations still heavy. We stay heavy and a breach of 1.1700 risks 1.1660 ahead of 1.1630.



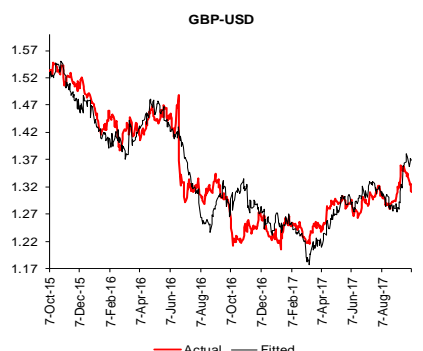
Source: OCBC Bank

- USD-JPY** Short-end riskies for the pair are bottoming out and the pair may continue to be led higher by its short term implied valuations (note slightly hawkish comments from the BOJ's Nakaso on Thursday. Ahead of the NFP, watch to bounce any dips within 112.50-113.50 in the interim.



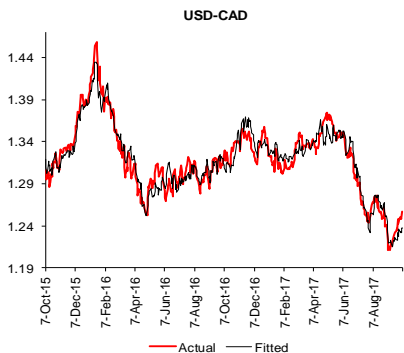
Source: OCBC Bank

- AUD-USD** Disappointing August: retail sales precipitated the AUD-USD's decline on Thursday with subsequent USD resilience in NY sinking the pair below 0.7800. Expect the pair to remain south of its short term implied confidence intervals at this juncture even as valuations remain flat lined. If 0.7800 is not re-taken, expect the pair to gravitate towards 0.7720.



Source: OCBC Bank

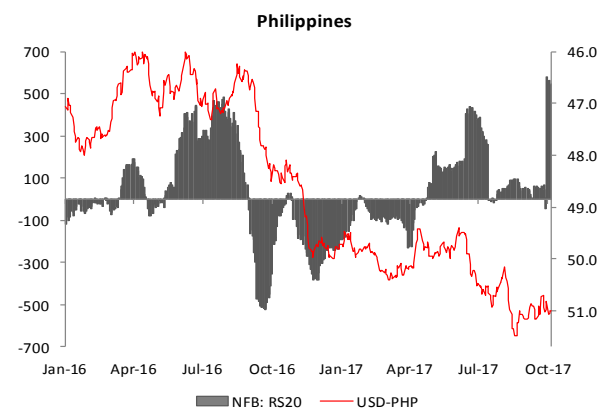
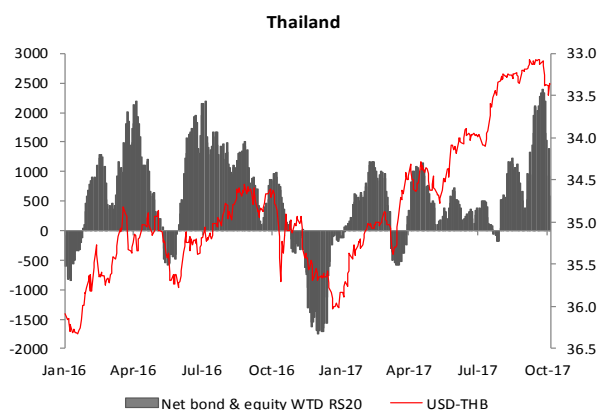
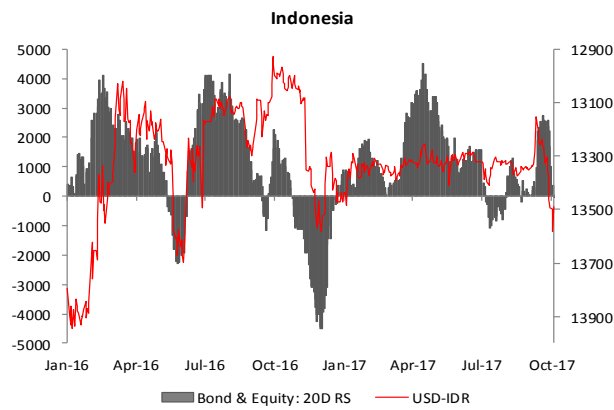
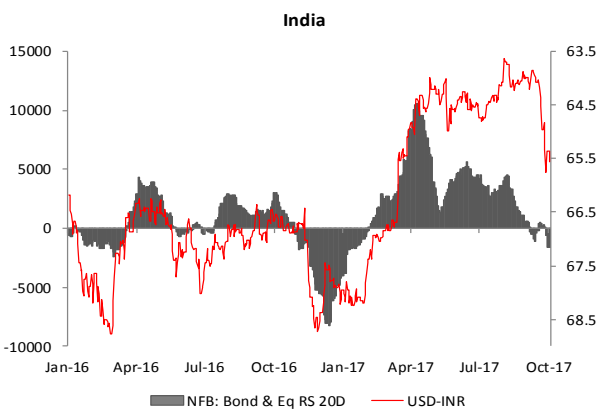
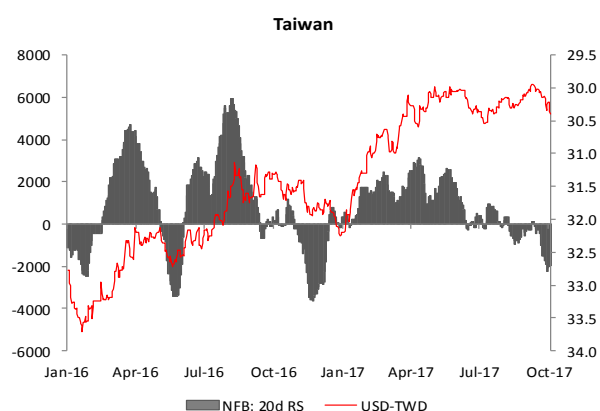
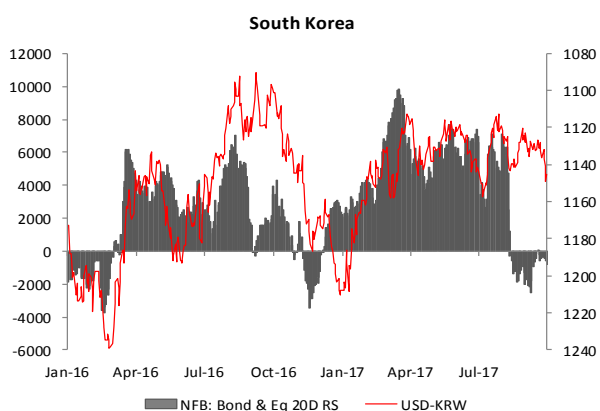
- GBP-USD** With markets perceiving a crisis of confidence in PM May's leadership, disappointing September UK auto sales further weighed on the pound despite hawkish remarks from the BOE's McCafferty. We remain near term skeptics for the pound's near term prospects and with the 55-day MA (1.3131) now serving as a resistance, risk-rewards may tilt towards the 100-day MA (1.3018).

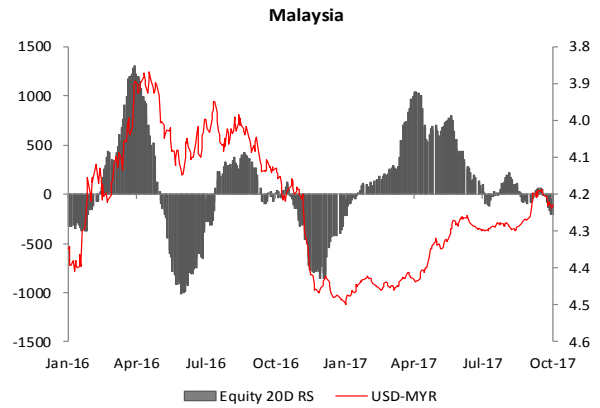


- USD-CAD** With the cyclicals falling out of favor overnight, the CAD was also undermined by the larger than expected August trade deficit of -CAD3.4bn. Apart from the US NFP, Canadian September labor market numbers are also due today and we remain tilted to the upside for the USD-CAD, in line with its short term implied valuations. Expect initial resistance into 1.2630.

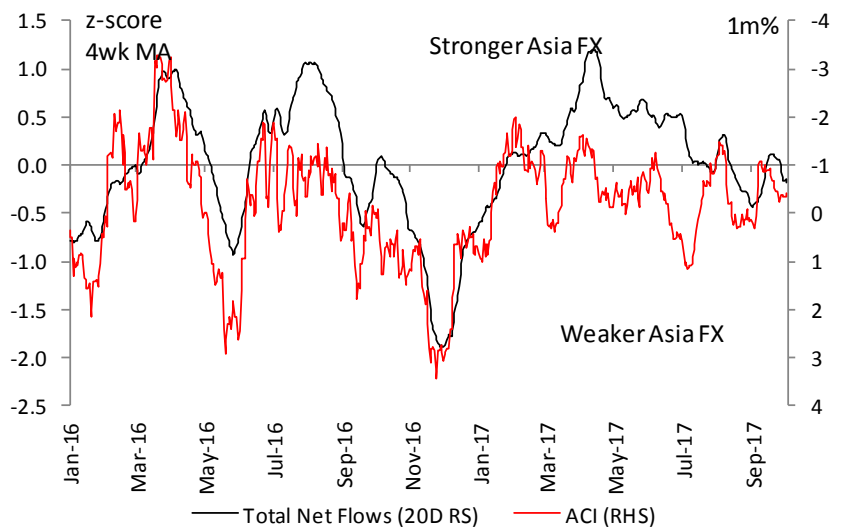
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

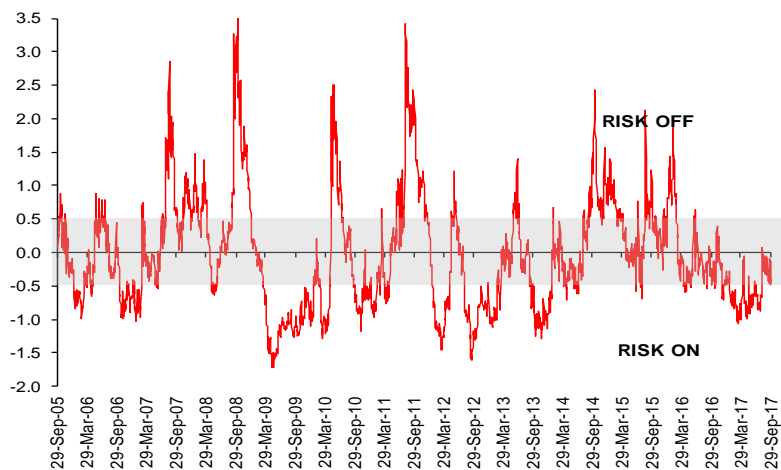




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.84	0.86	0.818	0.064	-0.106	0.791	0.65	-0.726	0.621	0.916	-0.987
SGD	0.979	0.851	0.869	0.834	0.089	-0.226	0.78	0.577	-0.712	0.531	0.926	-0.971
CAD	0.917	0.91	0.928	0.83	0.175	-0.035	0.876	0.709	-0.796	0.687	0.946	-0.886
CNH	0.916	0.93	0.986	0.845	0.145	-0.062	0.906	0.748	-0.834	0.641	1	-0.92
TWD	0.892	0.856	0.921	0.767	0.021	-0.125	0.811	0.707	-0.755	0.652	0.936	-0.871
CHF	0.884	0.949	0.852	0.889	0.398	0.095	0.947	0.713	-0.934	0.619	0.892	-0.857
THB	0.876	0.731	0.706	0.697	-0.09	-0.442	0.625	0.444	-0.571	0.489	0.849	-0.874
IDR	0.874	0.756	0.788	0.671	-0.083	-0.192	0.725	0.653	-0.635	0.669	0.874	-0.853
CNY	0.86	0.907	1	0.786	-0.022	0.497	0.905	0.906	-0.82	0.673	0.986	-0.844
USGG10	0.84	1	0.907	0.916	0.418	0.048	0.971	0.708	-0.957	0.561	0.93	-0.819
INR	0.836	0.782	0.924	0.614	-0.104	0.127	0.809	0.859	-0.696	0.786	0.904	-0.846
CCN12M	0.795	0.809	0.81	0.683	0.037	-0.029	0.785	0.698	-0.668	0.585	0.875	-0.778
JPY	0.791	0.971	0.905	0.854	0.421	0.176	1	0.791	-0.95	0.624	0.906	-0.774
KRW	0.737	0.601	0.747	0.43	-0.455	0.144	0.52	0.641	-0.498	0.571	0.75	-0.724
MYR	0.732	0.442	0.299	0.387	-0.342	-0.399	0.361	0.328	-0.268	0.447	0.616	-0.719
PHP	0.06	0.049	-0.237	0.113	0.242	-0.096	0.001	-0.194	-0.024	-0.431	-0.043	-0.084
GBP	-0.223	0.246	0.621	0.137	0.359	0.572	0.366	0.42	-0.454	0.207	0.08	0.183
NZD	-0.753	-0.376	-0.149	-0.428	0.245	0.392	-0.274	-0.235	0.158	-0.156	-0.54	0.745
AUD	-0.944	-0.865	-0.917	-0.796	-0.033	0.114	-0.815	-0.697	0.758	-0.614	-0.927	0.93
EUR	-0.987	-0.819	-0.844	-0.777	0.012	0.093	-0.774	-0.673	0.697	-0.612	-0.92	1

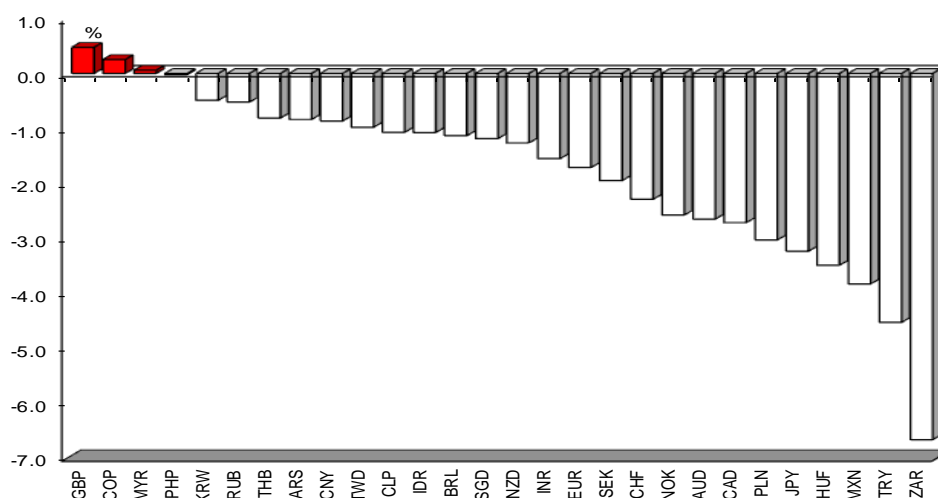
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1696	1.1700	1.1713	1.1800	1.1845
GBP-USD	1.3071	1.3100	1.3102	1.3131	1.3200
AUD-USD	0.7754	0.7773	0.7787	0.7800	0.7926
NZD-USD	0.7100	0.7102	0.7107	0.7151	0.7200
USD-CAD	1.2461	1.2500	1.2566	1.2600	1.2625
USD-JPY	111.90	112.00	112.83	113.00	113.26
USD-SGD	1.3556	1.3600	1.3652	1.3662	1.3667
EUR-SGD	1.5925	1.5939	1.5991	1.6000	1.6058
JPY-SGD	1.1969	1.2000	1.2099	1.2100	1.2258
GBP-SGD	1.7800	1.7804	1.7887	1.7900	1.8349
AUD-SGD	1.0600	1.0601	1.0631	1.0632	1.0700
Gold	1255.54	1267.60	1267.60	1295.33	1300.00
Silver	16.56	16.60	16.64	16.70	17.15
Crude	49.39	50.70	50.75	50.80	51.02

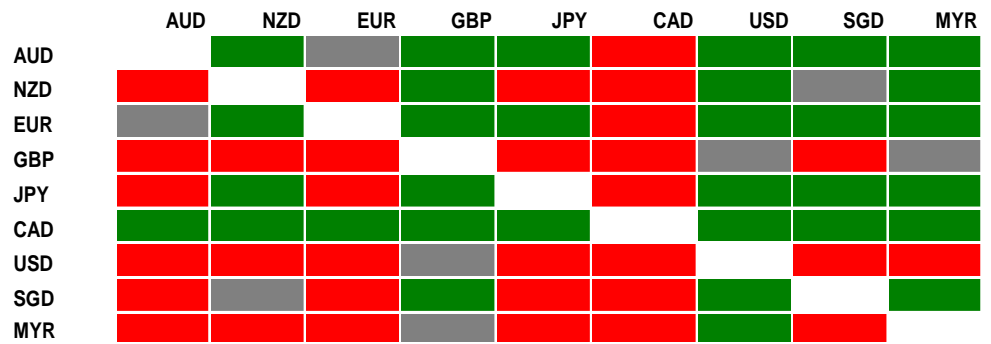
Source: OCBC Bank

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



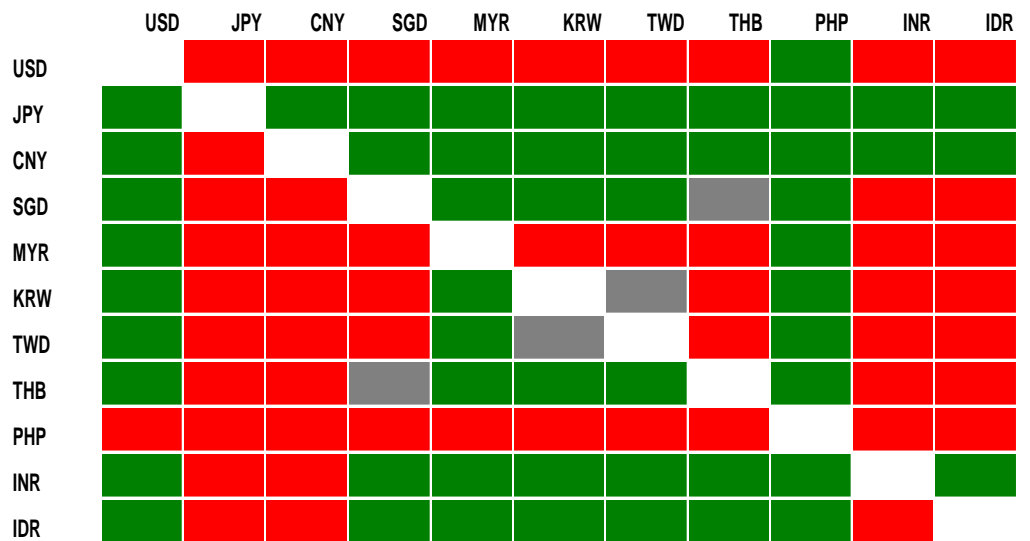
Source: Bloomberg

**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	S	EUR-USD	1.1734	1.1490 1.1860	Political overhang from Germany contrasting with FOMC, Yellen		
3	28-Sep-17	S	AUD-USD	0.7816	0.7625 0.7915	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields		
4	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		
<b>STRUCTURAL</b>								
5	09-May-17	B	GBP-USD	1.2927	1.3700 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
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	12-Jul-17	08-Sep-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% Closed at 1.2063			ECB transitioning to neutral, Fed wavering	+0.05	
2	12-Jul-17	08-Sep-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% Closed at 1.2090			Hawkish BOC being increasingly priced in	+0.09	
3	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
4	13-Sep-17	13-Sep-17	B	GBP-USD	1.3325	1.3200	Hotter than expected Aug core CPI/PPI, hawkish expectations ahead of BOE MPC	-0.95
5	12-Sep-17	14-Sep-17	S	USD-SGD	1.3447	1.3525	Fade the USD relief rally, prepare for renewed interest towards EM/Asia	-0.58
6	11-Sep-17	18-Sep-17	S	USD-CAD	1.2128	1.2270	Support from earlier than expected BOC rate hike, inherent USD vulnerability	-1.16
7	20-Jul-17	21-Sep-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% Closed at 0.7964			More positive than expected RBA minutes, supportive data, weak USD	+0.04	
8	19-Sep-17	27-Sep-17	B	GBP-USD	1.3540	1.3395	Earlier than expected paradigm change by the BOE	-1.11
							Jan-Sep*** 2017 Return	-1.44
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank



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