

Tuesday, November 07, 2017

**FX Themes/Strategy/Trading Ideas**

- The greenback retreated against the majors on Monday although there were no clear distinct drivers apart from consolidative price action. Going ahead and on the US front, look to developing headlines this week as tax bill negotiations get underway in the House.
- Risk appetite plays meanwhile re-emerged once again as the cyclicals gained traction against the board while the JPY trailed its peers (except against the USD) in sympathy. On other fronts, the EUR underperformed under the weight of yield differential arguments and with the ECB's Praet noting that a "substantial amount" of monetary accommodation is still needed.
- Meanwhile, UST yields continued to decay at the back-end with the 10y closing below 2.32% (although inversion behavior persisted with the 2y yield inching higher on the day). On a multi-session horizon, if the US rates complex continues to soften, yield differential arguments may well dissolve and result in renewed broad dollar vulnerability.
- On the central bank front today, the RBA rate decision is expected at 0330 GMT with investors on the lookout from any departure from the current neutral stance as well as any discomfort with AUD strength.
- Fed speak today includes Quarles (1735 GMT) and Yellen (1930 GMT) while the ECB's Draghi, Lautenschlager, and Nouy are scheduled for 0900 GMT. Meanwhile, the **Bank of Canada's Poloz** is expected at 1755 GMT and 1900 GMT.

**Asian FX**

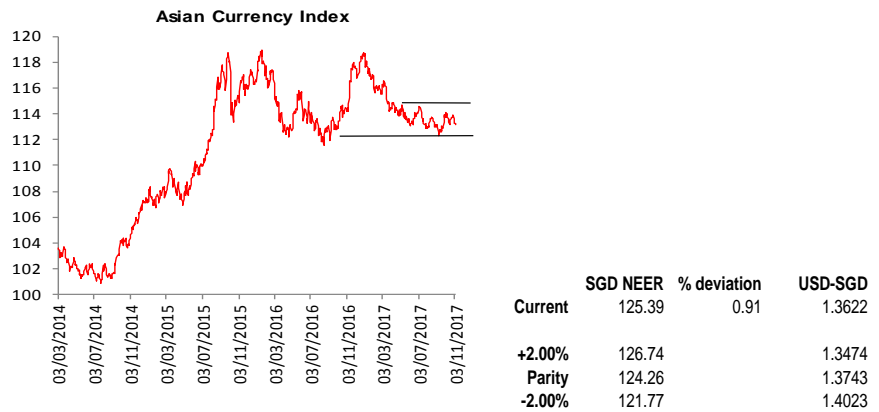
- US President Trump heads to South Korea today with investors on alert for ensuing headlines. On the net portfolio inflow front, we see sustained and continually improving inflow momentum for the KRW and the TWD (although we note persistent outflows in recent sessions). Meanwhile, inflow momentum remains supportive of the INR although some consolidation is setting in of late. Elsewhere, the implicit drag on the IDR and THB may abate with compressing net outflow momentum.
- Overall, despite slightly heightened caution in EM risk premiums (global EM equities also consolidated lower again overnight), the **FXSI (FX Sentiment Index)** slipped further into Risk-On territory on Monday and coupled with the slightly hesitant broad dollar, should keep the **ACI (Asian Currency Index)**

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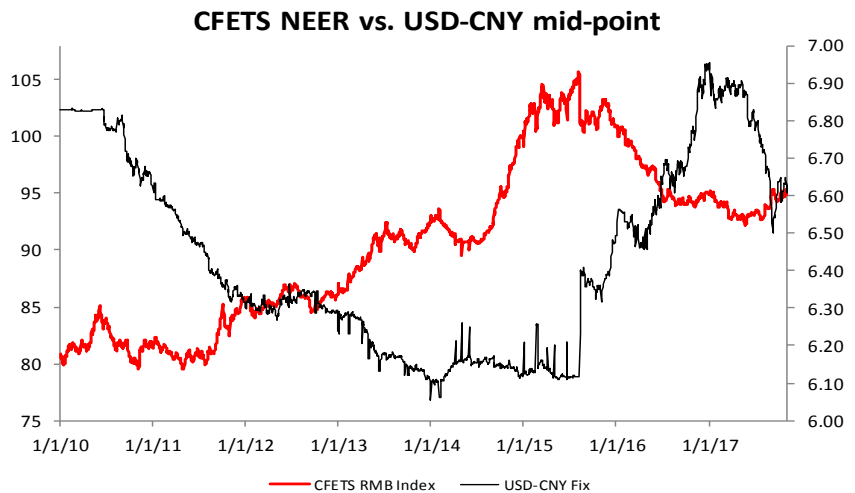
slightly top heavy intra-day.

- SGD NEER:** This morning, the SGD NEER is higher on the day at around +0.92% above its perceived parity (1.3743) with NEER-implied USD-SGD thresholds softer on the day. At current levels, the +1.00% threshold is estimated at 1.3607 while the +0.80% threshold is seen at 1.3634. In the interim, the pair may continue to hover (albeit supported on dips) in the vicinity of its 100-day MA (1.3624).



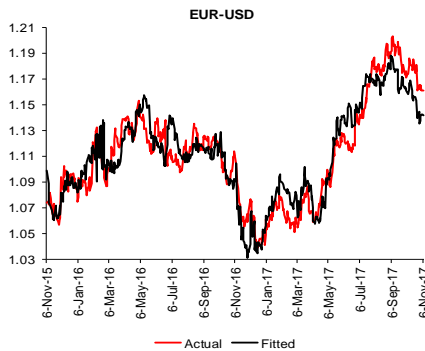
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (less than expected) to 6.6216 from 6.6247 on Monday, dragging the CFETS RMB Index slightly lower again to 95.17 from 95.31 yesterday. At his juncture, we continue to detect no intent to surpass previous upside thresholds for the basket.



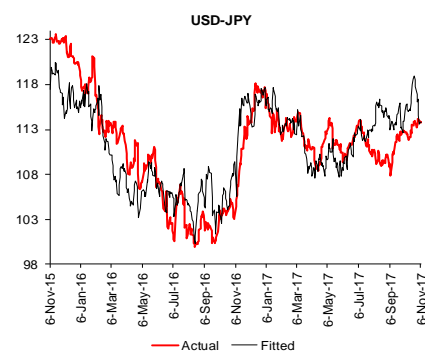
Source: OCBC Bank, Bloomberg

**G7**



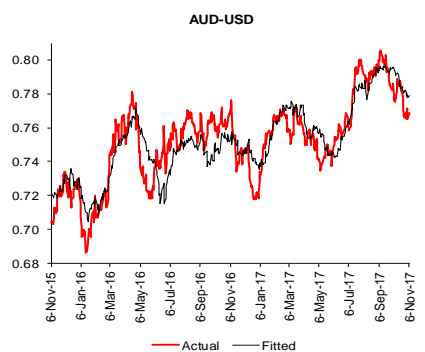
Source: OCBC Bank

- **EUR-USD** Short term implied valuations continue to drip lower for the EUR-USD with softening EZ yields weighing. Pending ECB rhetoric scheduled for today, 1.1575 remains on the radar for the bears while the 200-week MA (1.1662) and the 100-day MA (1.1710) are seen capping.



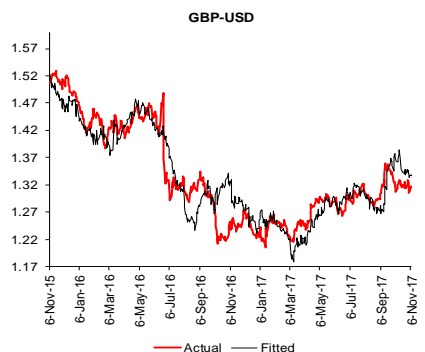
Source: OCBC Bank

- **USD-JPY** With markets slightly less enamored with US tax plan positivity at this juncture pending further headlines, USD-JPY may continue to be slightly top heavy despite short term implied valuations attempting to bounce. With risk appetite levels still (broadly) underpinned, look to collect on dips within 113.50-114.50.



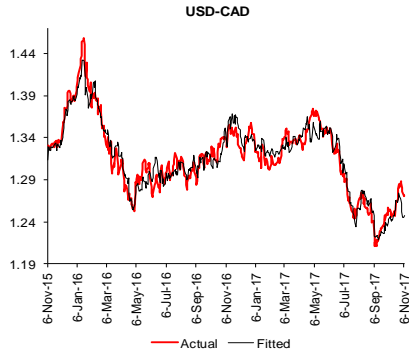
Source: OCBC Bank

- **AUD-USD** Watch for headline risks surrounding the RBA meeting today while we note that short term implied valuations still remain slightly under the weather at this juncture. Risk to detach lower from the 200-day MA (0.7699) towards 0.7625 if the RBA is even slightly dovish today.



Source: OCBC Bank

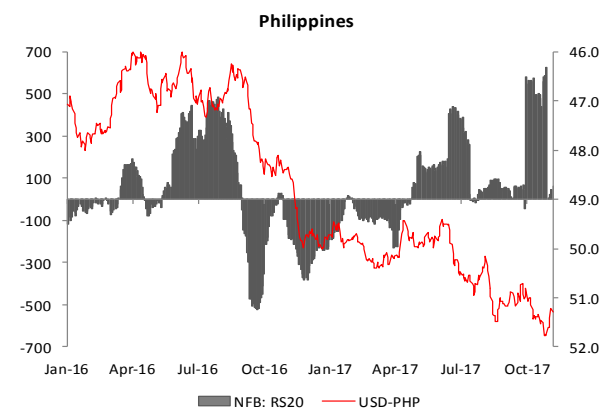
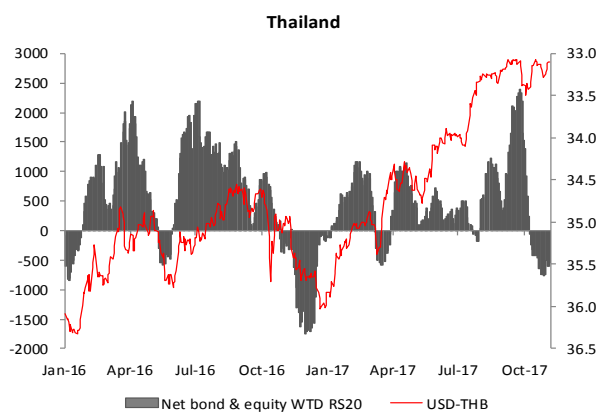
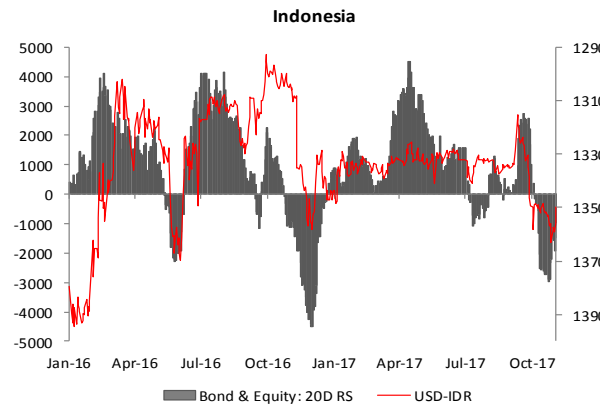
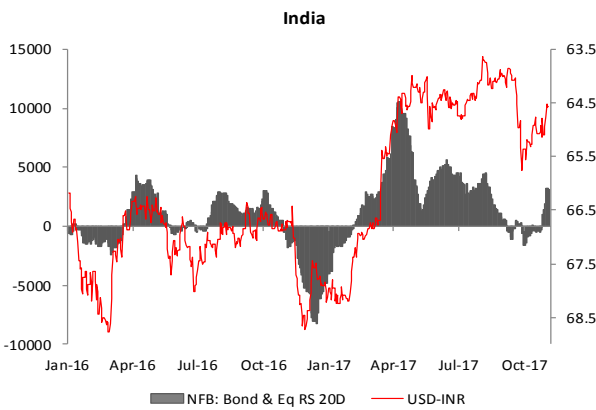
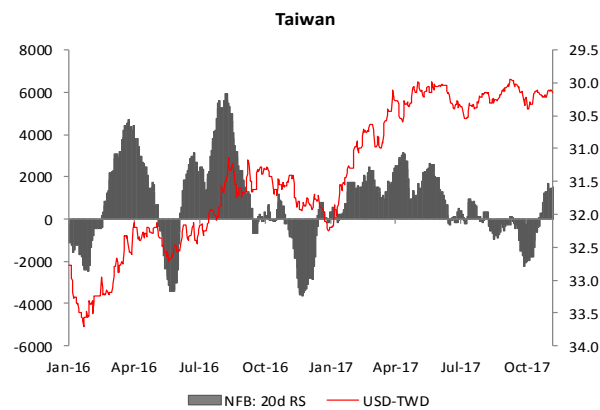
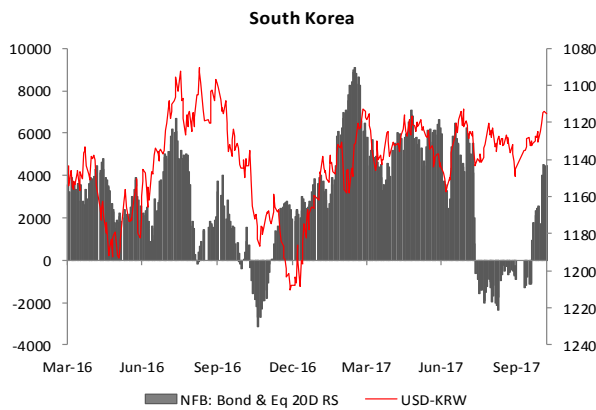
- **GBP-USD** GBP also outperformed its peers and saw some capitulation higher on Monday after the recent BOE-inspired malaise. Short term implied valuations remain largely range bound (but relatively suppressed) at this juncture ahead of the BOE's Taylor at 1830 GMT today. In the interim, the 55-day MA (1.3200) may serve as a near term nexus.

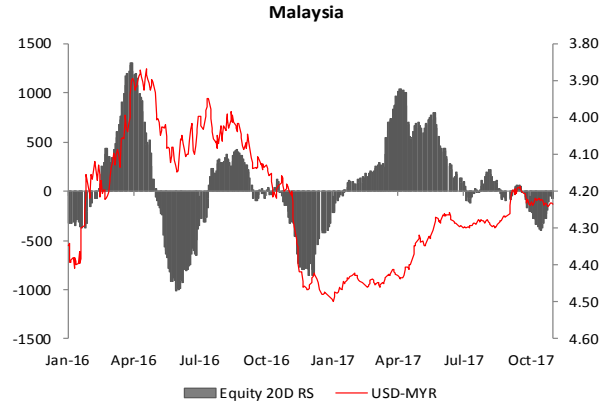


- USD-CAD** Firmer crude (on the back of Saudi-related headlines) and a shaky dollar took the USD-CAD lower on Monday. The pair may run into headline risks from Poloz today with short term implied valuations attempting to tick higher but still off recent highs. Expect some consolidation around the 1.2700 vicinity in the interim with risks towards 1.2630 still evident.

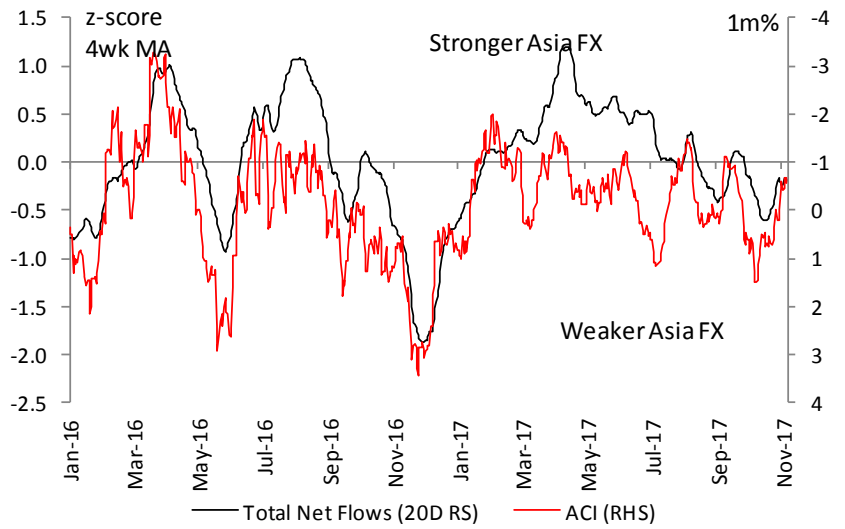
Source: OCBC Bank

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

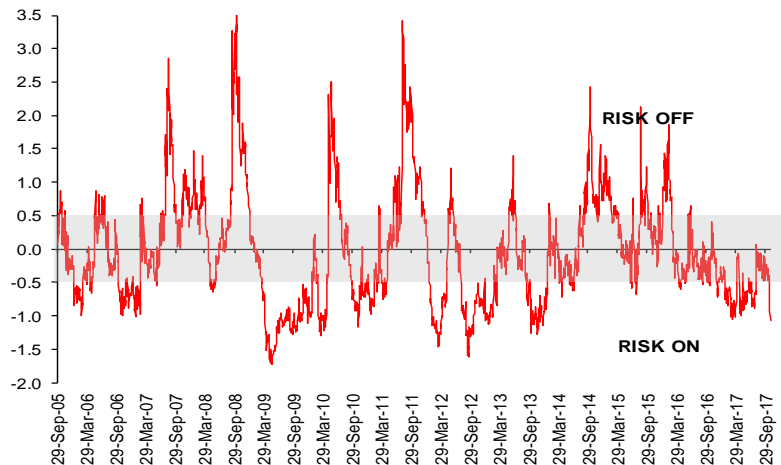




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.397	0.634	0.823	0.586	0.796	0.834	0.832	-0.038	-0.878	0.689	-0.974
CHF	0.964	0.437	0.635	0.815	0.615	0.798	0.92	0.81	0.075	-0.882	0.718	-0.916
CAD	0.9	0.591	0.624	0.662	0.442	0.672	0.858	0.644	0.261	-0.78	0.716	-0.811
JPY	0.834	0.616	0.643	0.738	0.492	0.649	1	0.656	0.24	-0.717	0.765	-0.737
MYR	0.782	0.602	0.868	0.528	0.22	0.473	0.697	0.367	0.303	-0.554	0.845	-0.63
SGD	0.778	0.697	0.82	0.526	0.136	0.401	0.833	0.446	0.336	-0.47	0.884	-0.714
CNH	0.689	0.661	0.968	0.529	0.234	0.424	0.765	0.431	0.448	-0.431	1	-0.605
IDR	0.644	0.727	0.578	0.358	0.06	0.332	0.626	0.352	0.439	-0.428	0.635	-0.558
CNY	0.634	0.562	1	0.495	0.21	0.401	0.643	0.446	0.375	-0.398	0.968	-0.575
USGG10	0.397	1	0.562	0.116	-0.215	0.045	0.616	-0.038	0.697	-0.096	0.661	-0.216
CCN12M	0.369	0.243	0.77	0.415	0.355	0.312	0.439	0.351	0.17	-0.273	0.716	-0.322
PHP	0.194	0.737	0.391	-0.028	-0.224	0.001	0.321	-0.036	0.651	0.05	0.471	-0.073
THB	0.074	0.552	0.29	-0.261	-0.66	-0.309	-0.034	-0.338	0.263	0.22	0.217	-0.01
TWD	-0.094	0.608	0.464	-0.124	-0.589	-0.275	0.207	-0.297	0.557	0.381	0.465	0.212
GBP	-0.456	-0.142	-0.392	-0.427	-0.156	-0.257	-0.462	-0.3	0.114	0.821	-0.4	0.418
INR	-0.645	0.071	-0.19	-0.736	-0.883	-0.808	-0.551	-0.795	0.25	0.284	-0.264	0.617
KRW	-0.802	0.04	-0.305	-0.781	-0.857	-0.886	-0.689	-0.903	0.219	0.925	-0.362	0.814
NZD	-0.824	-0.704	-0.665	-0.643	-0.276	-0.596	-0.899	-0.571	-0.323	0.664	-0.765	0.7
AUD	-0.874	-0.521	-0.548	-0.591	-0.334	-0.646	-0.798	-0.683	-0.084	0.751	-0.604	0.842
EUR	-0.974	-0.216	-0.575	-0.783	-0.585	-0.779	-0.737	-0.832	0.125	0.866	-0.605	1

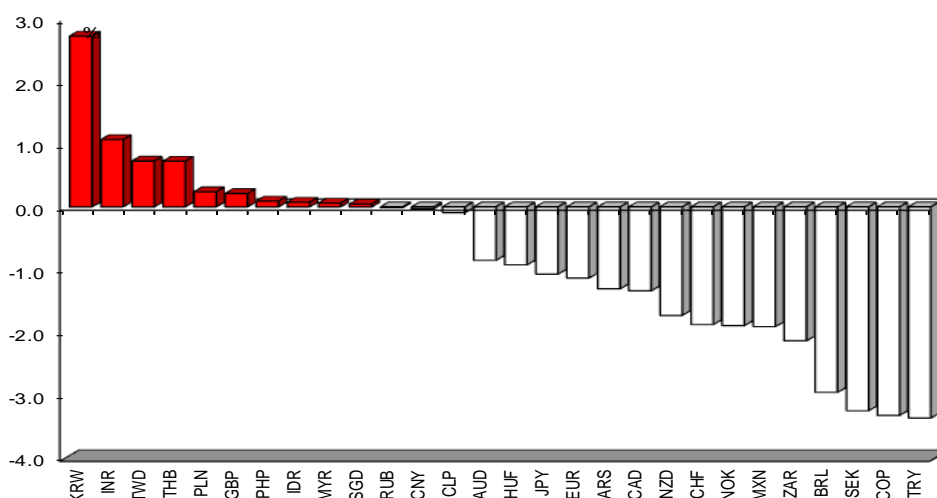
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1575	1.1600	1.1606	1.1700	1.1809
GBP-USD	1.3063	1.3100	1.3168	1.3200	1.3227
AUD-USD	0.7600	0.7625	0.7685	0.7695	0.7700
NZD-USD	0.6818	0.6900	0.6938	0.7000	0.7118
USD-CAD	1.2482	1.2700	1.2719	1.2800	1.2917
USD-JPY	112.01	113.00	113.90	114.00	114.73
USD-SGD	1.3550	1.3600	1.3621	1.3681	1.3700
EUR-SGD	1.5797	1.5800	1.5808	1.5900	1.6002
JPY-SGD	1.1905	1.1906	1.1959	1.2000	1.2087
GBP-SGD	1.7900	1.7928	1.7935	1.8000	1.8073
AUD-SGD	1.0400	1.0417	1.0467	1.0500	1.0619
Gold	1263.80	1266.61	1279.70	1298.32	1300.00
Silver	16.66	17.10	17.16	17.20	17.21
Crude	56.88	57.20	57.27	57.30	57.61

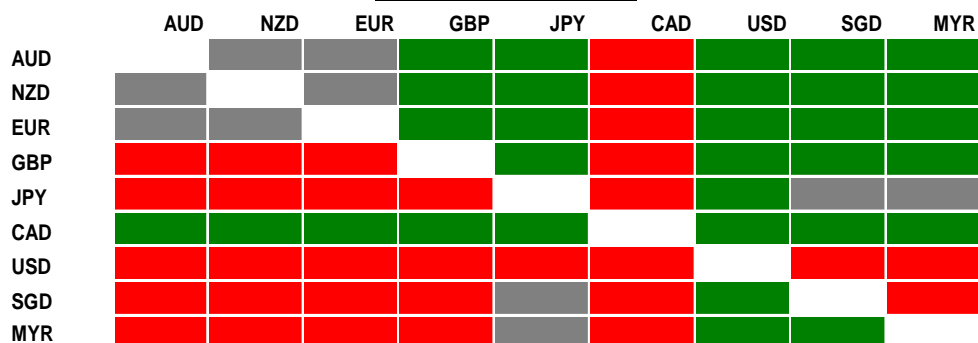
Source: OCBC Bank

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



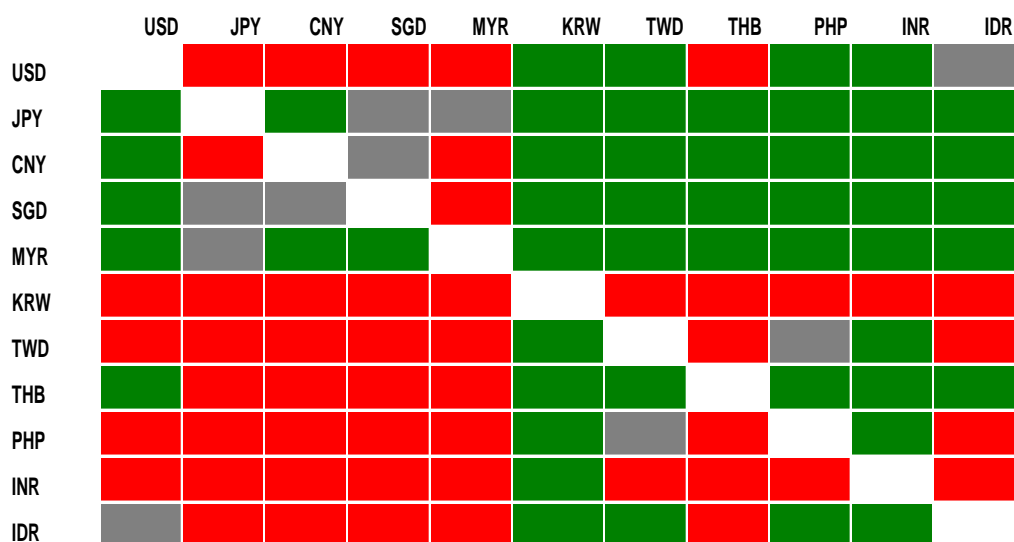
Source: Bloomberg

**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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