

Tuesday, August 08, 2017

### FX Themes/Strategy/Trading Ideas

- After its post-NFP gains on Friday, the greenback consolidated on Monday with dovish comments from the Fed's **Bullard** and **Kashkari** discouraging further gains (note softer 10y UST yield).
- On other fronts, the cyclicals underperformed across the board despite positive global equity markets while the EUR (despite disappointing June German industrial production numbers) still managed to remain resilient against its peers. Profit taking activities aside, this latter development may prove instructive as investors continue to focus on perceived central bank divergences (for e.g., Fed vs. ECB/BOJ, ECB vs. BOE). Elsewhere, despite a supported commodity/equity backdrop, investor re-balancing may keep the cyclicals at bay in the near term.
- Thus, some expectation of further consolidative price action with respect to the dollar may continue to prevail, with last Fri's NFP numbers not being perceived as a game changer with UST yields still top heavy and market implied odds of another Fed rate hike by year-end still squarely less than even. **Structurally, the recent Fed reaction function had never been about the labor market and the latest NFP is not expected to materially alter the Fed's prognosis on inflation or its rate normalization intentions.**
- Today, with little on the scheduled calendar to excite in the interim with the exception of July **China** trade numbers and **RBA's Kent** (2200 GMT), expect investors to attempt to feel out near term ranges.
- With the **AUD-USD** consolidating lower, our 13 Jul 17 idea to be tactically long the pair (spot ref: 0.7708) hit its profit stop of 0.7935 on Thursday, yielding an implied +2.89% gain.
- With **USD-SGD** attempting to bottom out in recent sessions, our 05 June 17 idea for a long USD-SGD 2M OTM put (spot ref: 1.3796; strike:1.3639) expired on Thursday essentially flat.

Treasury Research &  
Strategy

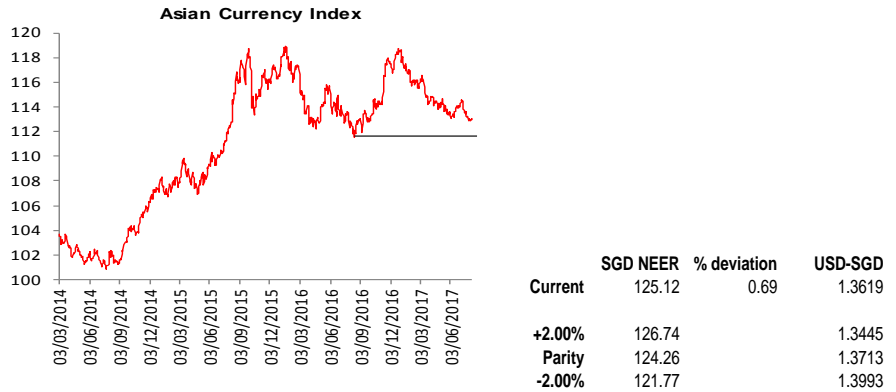
**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

### Asian FX

- On the **Asian** front, net portfolio inflows indicate background support for the KRW (Pyongyang tensions notwithstanding), INR, IDR, THB, PHP, and MYR. Net inflows for the TWD meanwhile remain lackluster. Against this backdrop, USD-Asia may be discouraged from seeking out excessive upside in the near term. Overall, with the **FXSI (FX Sentiment Index)** also inching

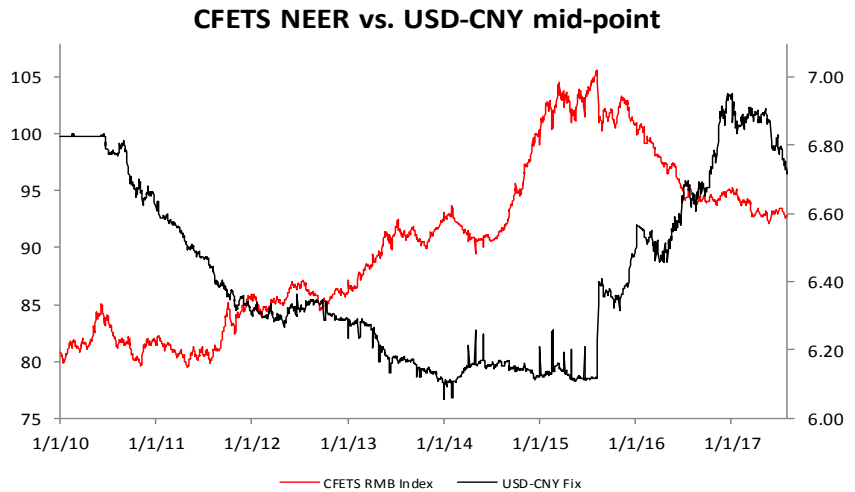
lower within Risk-On territory on Monday, the **ACI (Asian Currency Index)** may continue to hold steady today while eyeing the downside given the positive risk appetite/asset market backdrop.

- SGD NEER:** The SGD NEER is softer on the day at around +0.69% above its perceived parity (1.3713). NEER-implied USD-SGD thresholds are roughly static compared to yesterday morning with +0.50% estimated at 1.3646 and +1.00% at 1.3578. Overall, we expect the USD-SGD to be bounded by these two thresholds pending further external headlines.



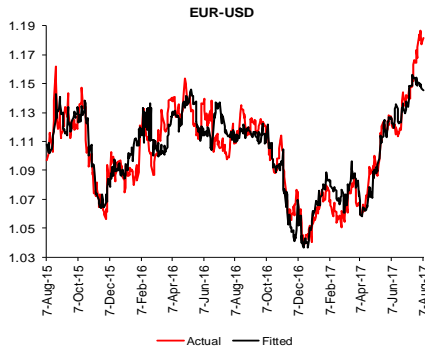
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point behaved in a largely as expected fashion and fell to 6.7184 from 6.7228 yesterday. This brought the CFETS RMB Index higher to 93.06 from 93.00 yesterday.



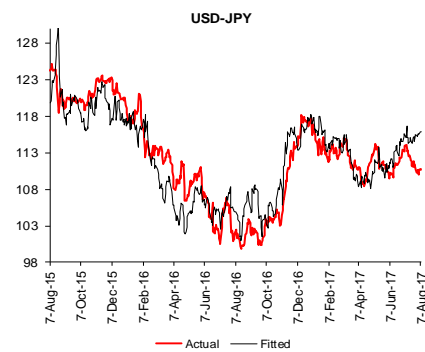
Source: OCBC Bank, Bloomberg

**G7**



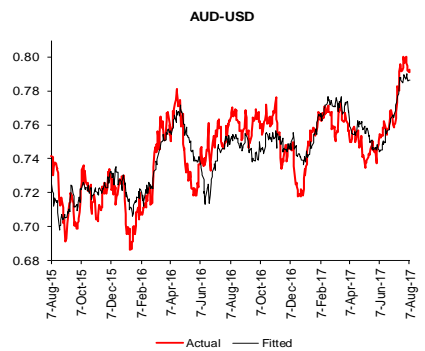
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the EUR-USD continue to gravitate lower and this may continue to pull the spot lower in the interim. Despite Jackson Hole risks in two weeks, the EUR-USD may continue to be anchored in the vicinity of 1.1800 with the 200-week MA (1.7181) expected to be a sticking point in the interim.



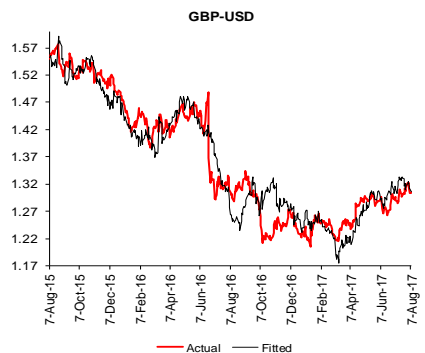
Source: OCBC Bank

- USD-JPY** USD-JPY may remain bogged down by conflicting influences in the near term despite short term implied valuations attempting to tick higher. Nonetheless, we'd expect the pair to shy away from the 110.00 neighborhood (with risks skewed towards 110.00) if the USD relapses again.



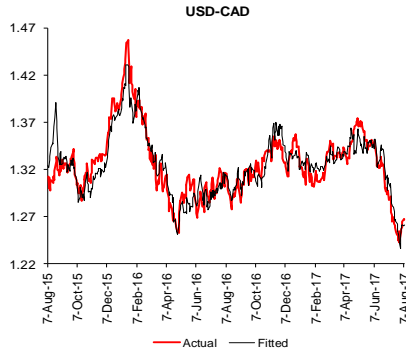
Source: OCBC Bank

- AUD-USD** Resilient metals (and positive China foreign reserve numbers) may continue to keep the AUD-USD afloat despite the softer than expected July China trade numbers this morning. However, the possibility of the pair tipping back below 0.7900 towards 0.7850 in tandem with slightly easier short term implied valuations. Elsewhere, as indicated by the Heat Map, the NZD may continue to crack against the AUD ahead of the RBNZ on Thursday.



Source: OCBC Bank

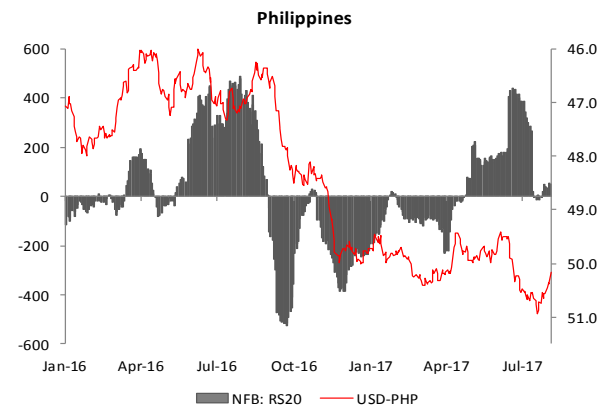
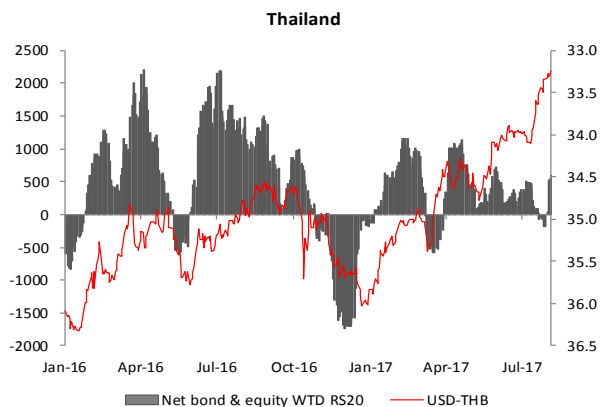
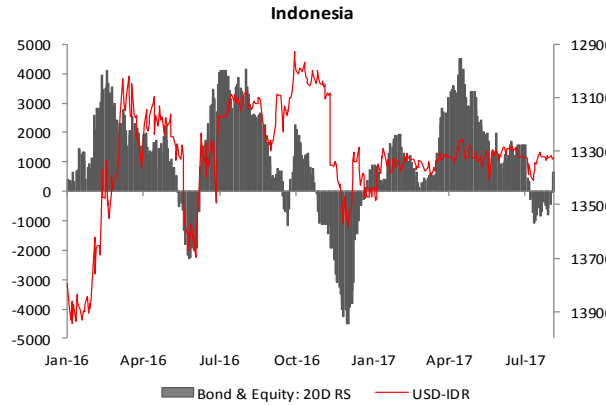
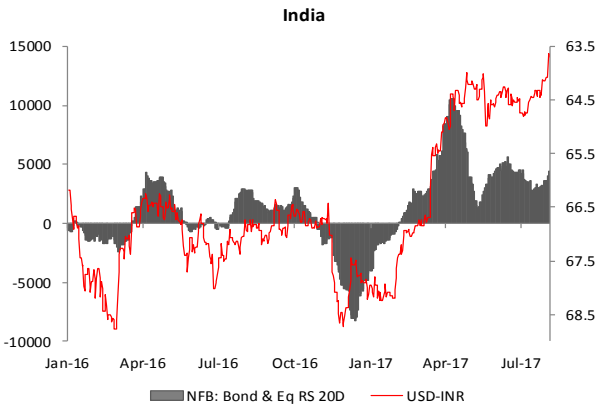
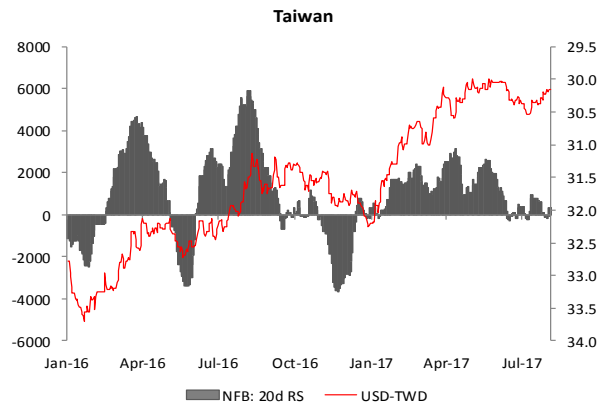
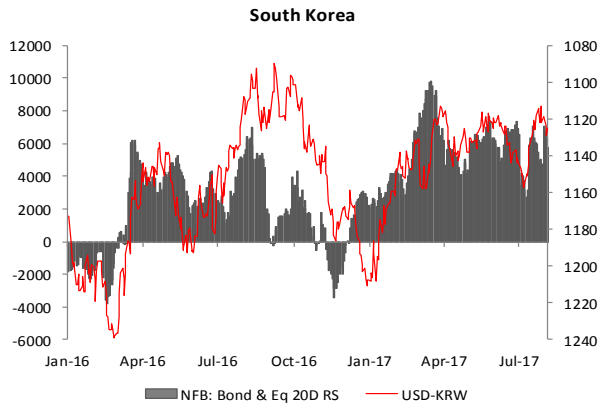
- GBP-USD** With potential BOE hawkishness doused for now, negative Brexit overhang may continue to manifest, especially via the EUR-GBP. Meanwhile, short term implied valuations for the GBP-USD have continued to tick lower in recent sessions and a near term breach of 1.3035 my risk 1.3000.

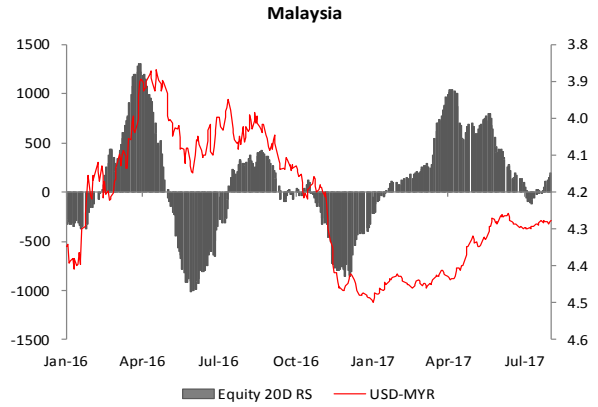


- USD-CAD** After the long weekend break, USD-CAD may remain inclined to track its short term implied valuations higher with soggy crude imputing buoyancy. In the near term, probes beyond 1.2700 towards 1.2770 cannot be ruled out.

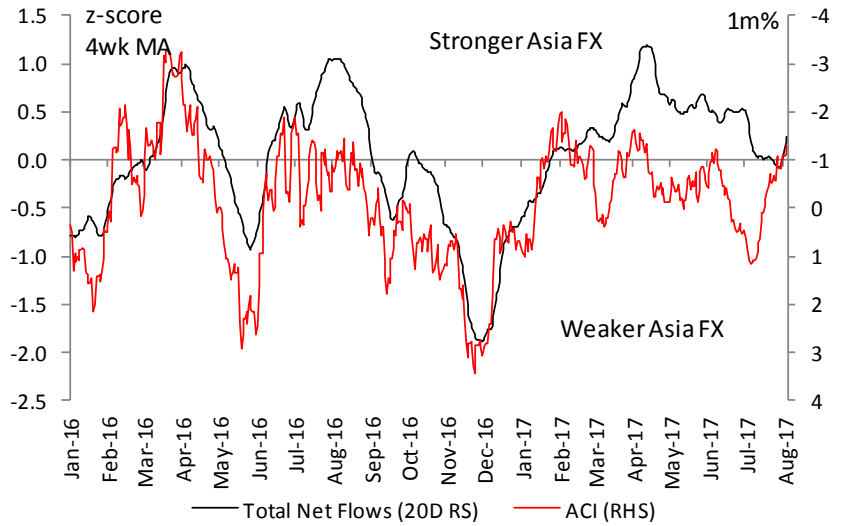
Source: OCBC Bank

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

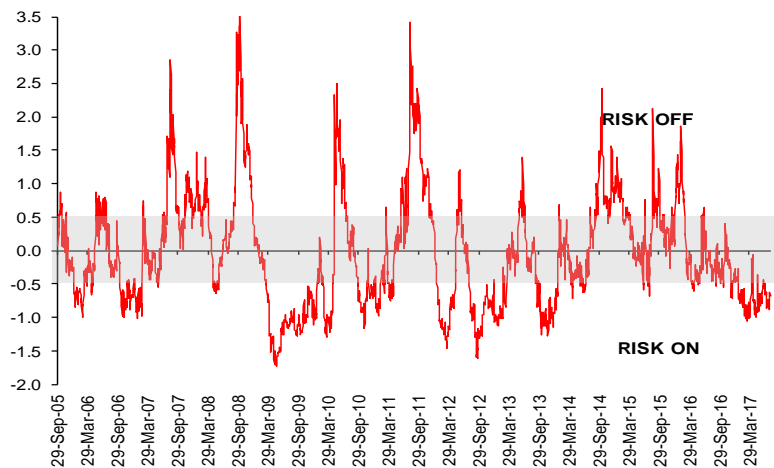




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.729	0.932	-0.832	-0.89	-0.92	0.975	-0.89	0.179	0.847	0.947	-0.985
JPY	0.975	0.805	0.942	-0.875	-0.91	-0.9	1	-0.868	0.281	0.891	0.968	-0.944
THB	0.953	0.701	0.934	-0.876	-0.937	-0.882	0.964	-0.851	0.117	0.902	0.955	-0.922
CNH	0.947	0.775	0.971	-0.897	-0.94	-0.927	0.968	-0.902	0.312	0.92	1	-0.918
SGD	0.939	0.694	0.893	-0.911	-0.924	-0.892	0.95	-0.859	0.403	0.926	0.943	-0.882
CNY	0.932	0.747	1	-0.85	-0.908	-0.918	0.942	-0.901	0.185	0.878	0.971	-0.912
TWD	0.84	0.584	0.933	-0.775	-0.865	-0.868	0.871	-0.903	0.169	0.821	0.912	-0.819
MYR	0.787	0.62	0.786	-0.796	-0.787	-0.722	0.839	-0.71	0.352	0.837	0.811	-0.735
INR	0.761	0.621	0.837	-0.626	-0.718	-0.763	0.763	-0.778	-0.07	0.682	0.774	-0.797
CAD	0.738	0.541	0.687	-0.849	-0.774	-0.712	0.771	-0.632	0.581	0.817	0.737	-0.633
USGG10	0.729	1	0.747	-0.734	-0.716	-0.589	0.805	-0.499	0.38	0.755	0.775	-0.7
KRW	0.705	0.593	0.702	-0.887	-0.831	-0.665	0.753	-0.586	0.656	0.867	0.753	-0.601
IDR	0.686	0.755	0.76	-0.879	-0.839	-0.642	0.775	-0.571	0.68	0.88	0.818	-0.59
CCN12M	0.62	0.417	0.667	-0.763	-0.722	-0.7	0.64	-0.638	0.463	0.788	0.706	-0.514
PHP	0.51	0.168	0.527	-0.215	-0.373	-0.48	0.473	-0.625	-0.319	0.266	0.455	-0.59
CHF	-0.162	0.105	-0.248	-0.126	0.039	0.306	-0.128	0.445	0.636	0.03	-0.202	0.25
GBP	-0.818	-0.489	-0.824	0.717	0.766	0.832	-0.806	0.791	-0.191	-0.703	-0.836	0.758
NZD	-0.819	-0.51	-0.72	0.799	0.786	0.797	-0.824	0.723	-0.356	-0.807	-0.764	0.747
AUD	-0.866	-0.717	-0.85	0.944	0.913	0.861	-0.887	0.782	-0.509	-0.942	-0.899	0.794
EUR	-0.985	-0.7	-0.912	0.774	0.853	0.907	-0.944	0.895	-0.076	-0.796	-0.918	1

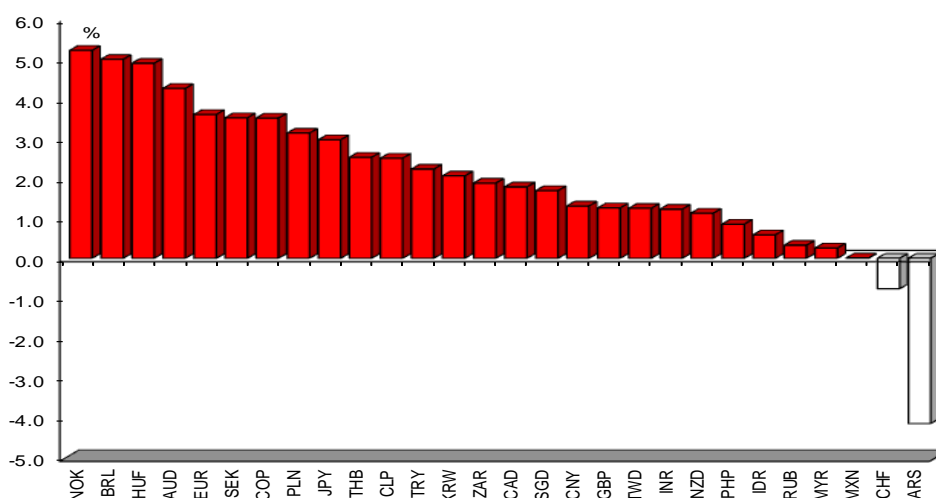
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1429	1.1800	1.1809	1.1900	1.1910
GBP-USD	1.2925	1.3000	1.3043	1.3100	1.3234
AUD-USD	0.7738	0.7900	0.7927	0.8000	0.8066
NZD-USD	0.7299	0.7300	0.7357	0.7400	0.7542
USD-CAD	1.2414	1.2600	1.2665	1.2700	1.2761
USD-JPY	109.85	110.00	110.75	111.00	111.48
USD-SGD	1.3543	1.3600	1.3616	1.3700	1.3744
EUR-SGD	1.5707	1.6000	1.6080	1.6100	1.6163
JPY-SGD	1.2117	1.2200	1.2295	1.2300	1.2331
GBP-SGD	1.7670	1.7700	1.7759	1.7767	1.7800
AUD-SGD	1.0622	1.0700	1.0794	1.0800	1.0930
Gold	1234.37	1252.09	1258.30	1273.30	1283.22
Silver	15.77	16.20	16.25	16.30	16.60
Crude	46.62	49.20	49.27	49.30	50.43

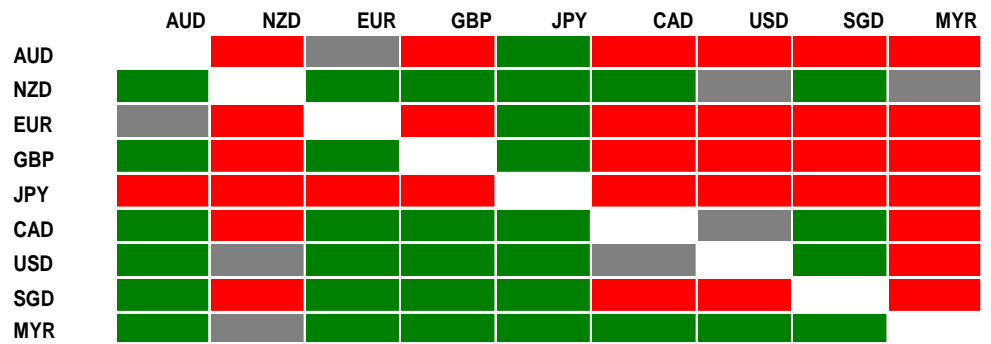
Source: OCBC Bank

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



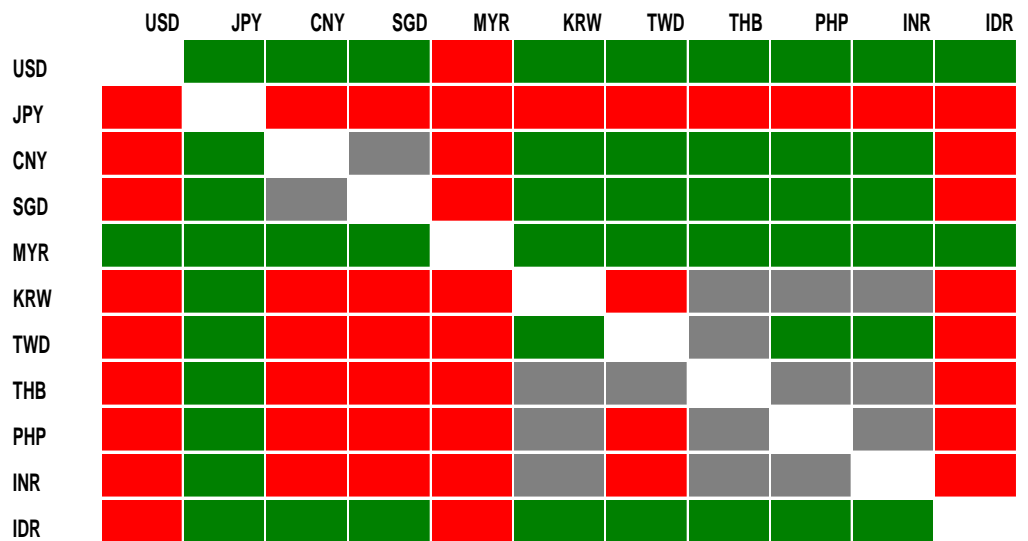
Source: Bloomberg

**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	23-May-17	S	USD-CAD	1.3494	1.2400	1.2720	USD skepticism, sanguine risk appetite, supported crude	
2	04-Jul-17	B	EUR-USD	1.1346	1.1965	1.1645	Draghi's change of stance in late June may further fuel the EUR	
3	18-Jul-17	S	USD-SGD	1.3671	1.3535	1.3740	Vulnerable USD, implicit inflow for SGD	
4	01-Aug-17	S	USD-JPY	110.18	107.75	111.45	No surprises expected from Fed-speak after the last FOMC	
<b>STRUCTURAL</b>								
5	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
6	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		
7	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		
8	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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	17-Jul-17	20-Jul-17	B	GBP-USD	1.3077	1.2935	BOE rhetoric and vulnerable USD	-1.11
2	28-Jun-17	21-Jul-17	B	USD-JPY	112.31	111.05	Yield differential argument supportive of the USD-JPY	-1.04
3	13-Jul-17	03-Aug-17	B	AUD-USD	0.7708	0.7935	Vulnerable USD, improving risk appetite, supportive China data	+2.89
4	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	
* realized **of notional							Jan-Jun 2017 Return	-13.02
							2016 Return	+6.91

Source: OCBC Bank



---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

---