

Wednesday, November 08, 2017

## FX Themes/Strategy/Trading Ideas

- The greenback managed to edge higher against the majors on Tuesday despite easing from intra-day highs. On other fronts, the cyclicals reversed their previous day's outperformance chalked up on Monday as the commodity complex (base metals) softened. Meanwhile, heightened suspicions that US tax reforms (primarily, tax cuts) would be delayed by Senate Republicans further saw the USD slipping slightly early Asia on Wednesday. On this front, the Senate Finance Committee's version of the bill is scheduled for release on Thursday.
- **Outside of dollar gyrations, risk appetite developments may be slowing taking center stage in the near term, especially if investors continue to reassess carry and EM prospects. Cues from a cross-asset perspective meanwhile may continue to provide room for caution.** On this front, note that the **FXSI (FX Sentiment Index)** consolidated higher on Tuesday (albeit still in Risk-On territory) but crucially, EM bond risk premiums have been pushing perceptibly wider in the month to date while the base metals index has plateaued since early September.
- Elsewhere, global (G10) long end yields have continued to collapse, accompanied a discernible softening (again) of central bank rhetoric (outside of the Fed). To top it off, the signal-to-noise ratio implications (of sapping USD liquidity but staid global growth) from the continued flattening of the UST curve (2/10s, 5/30s) we think should not be discounted.
- Apart from China's October trade numbers today, the global calendar is fairly light save for the RBNZ at 2000 GMT while the Bank of Thailand is expected to remain static at 1.50% at 0705 GMT. Meanwhile, stay tuned for evolving headlines with US President Trump in China today and tomorrow.
- **RBA postscript:** The RBA statement was a touch more positive in terms of the domestic macro outlook, stating that, "forward-looking indicators being more positive than they have been for some time". This we feel is the only additional positive morsel from a largely unchanged statement.
- Meanwhile, the central bank reiterated that "The various forward-looking indicators continue to point to solid growth in employment over the period ahead" but repeated that "Wage growth remains low. This is likely to continue for a while yet, although the stronger conditions in the labour market should see some lift in wage growth over time".
- The RBA this time (as opposed to the October statement) made an explicit

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4073

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

effort to downplay inflation prospects, stating that "Inflation remains low, with both CPI and underlying inflation running a little below 2 per cent. In underlying terms, inflation is likely to remain low for some time, reflecting the slow growth in labour costs and increased competitive pressures, especially in retailing". No additional forward guidance was given for the AUD, with the statement reiterating that, "An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast". Overall, our inclination was to fade upticks in the AUD-USD on Tuesday.

- With the Fed's taper now in motion, the BOJ suitably static, and the rate differential complex continually supportive of the broad dollar in recent months, we look for a further controlled ascent of the **USD-JPY** in the coming months. To this end, we undertake a 2M 1X2 USD-JPY call spread (spot ref: 114.15, strikes: 113.78, 118.31) costing an approximate 0.90% of notional.
- With the RBA on hold again on Tuesday and with the statement taking pains to downplay inflation prospects and exhibiting no urgency for potential rate hikes, we re-initiate a tactical short **AUD-USD**. From a spot ref of 0.7671 on Tuesday, we target 0.7510 and place a stop at 0.7755.
- After the unequivocally dovish hike by the BOE last week, we think the pound may be subject to further negative headline risks from the heavily scheduled BOE appearances in the coming week and a half. As such, we undertake a tactical short **GBP-USD** from a spot ref of 1.3142, targeting 1.2835 and place a stop at 1.3300.

## Asian FX

- EM FX inched lower on Tuesday and coupled with an expected negative start to Asian equities, should continue to keep **ACI (Asian Currency Index)** underpinned as investors remain slightly skittish. Meanwhile, latest **BOK** minutes reveal an internal conversation regarding the timing of a rate hike, and this may continue to keep local govies soft (together with China and Indian govies).
- On a related note, firmer oil prices are finally impinging on the investment landscape and may begin to exert a drag on selected Asian FX via the current account and inflation channels (case in point being the adverse reaction in the INR and Indian govies on Tuesday).
- On the net portfolio inflow front, net inflow momentum remains supportive for the KRW, TWD, and INR, and the TWD. Meanwhile, outflow momentum for the IDR continues to moderate but remains a potential vulnerability for the THB.
- **SGD NEER:** The SGD NEER is relatively softer this morning at around +0.88% above its perceived parity (1.3754) with NEER-implied USD-SGD thresholds a touch firmer on the day. USD-SGD may be expected to find an intra-day floor towards the +1.00% threshold (1.3618) while topside for the pair may kick in towards +0.70% (1.3659). In the interim, expect the 100-day

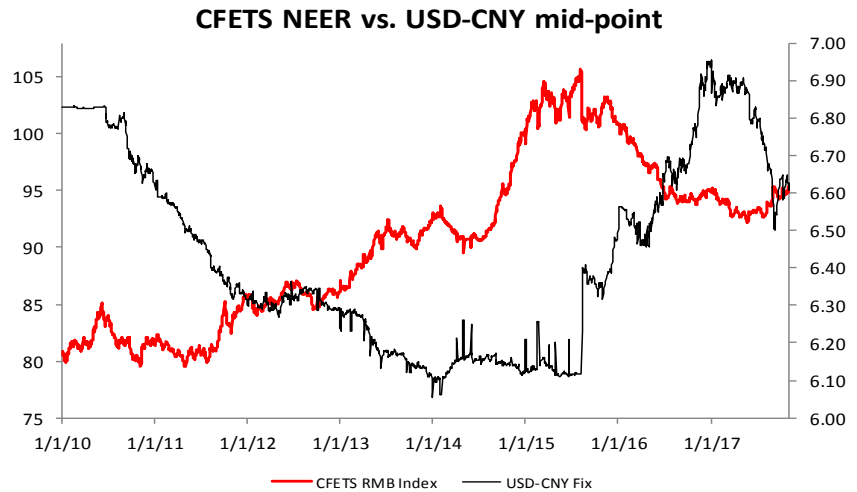
MA (1.3622) to likely incite base building in the current risk and USD environment.



	SGD NEER	% deviation	USD-SGD
Current	125.36	0.88	1.3634
+2.00%	126.74		1.3485
Parity	124.26		1.3754
-2.00%	121.77		1.4035

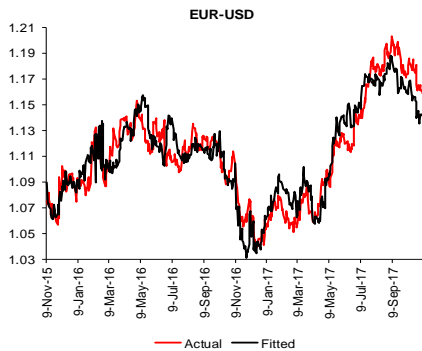
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (less than expected) to 6.6277 from 6.6216 yesterday. This saw the CFETS RMB Index rising incrementally to 95.20 from 95.17 on Tuesday.



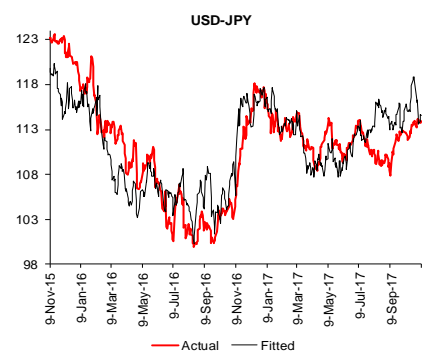
Source: OCBC Bank, Bloomberg

**G7**



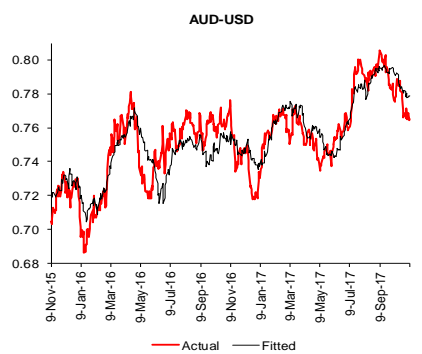
Source: OCBC Bank

- EUR-USD** The ECB's Lautenschlaeger remained sufficiently accommodative on Tuesday and despite prevailing US tax bill uncertainty, note that short term implied valuations remain relatively southbound for the pair. The near term view remains unchanged and 1.1575 (1.1550) may remain on the radar for the bears with 1.1650 seen capping in the near term.



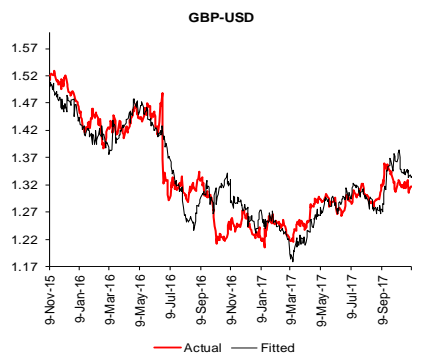
Source: OCBC Bank

- USD-JPY** Background investor caution coupled with US tax bill uncertainty may keep the USD-JPY suppressed in the near term despite supported short term implied valuations. Beyond the short term, we retain a preference to accumulate within 113.50-114.50.



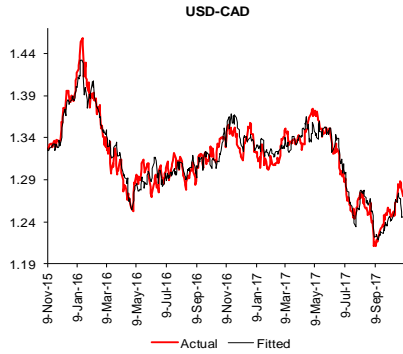
Source: OCBC Bank

- AUD-USD** Short term implied valuations are attempting to stabilize but the current environment (especially Post RBA) may continue to weigh on the AUD-USD. The floor at 0.7600 may attract with the 200-day MA (0.7699) seen limiting on the upside. Elsewhere, dual mandate concerns surrounding the RBNZ may continue to underpin the NZD.



Source: OCBC Bank

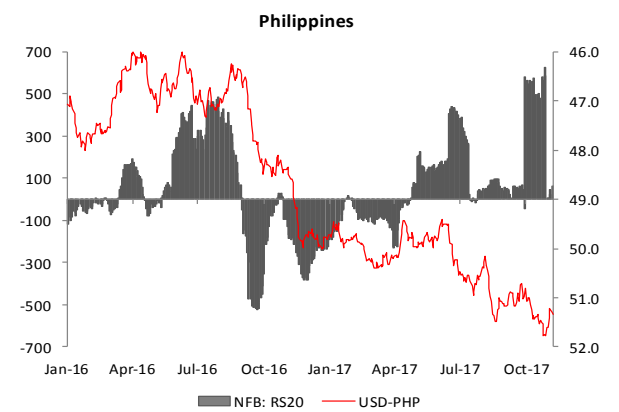
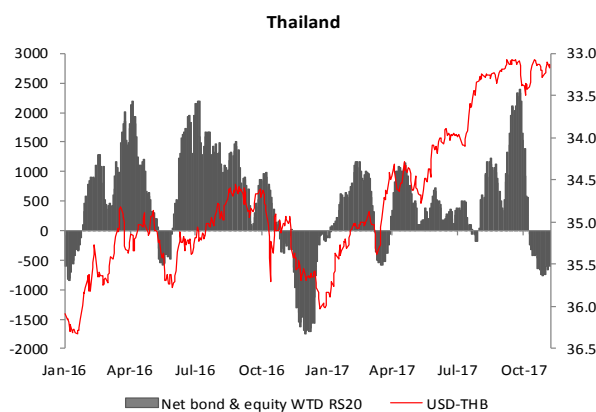
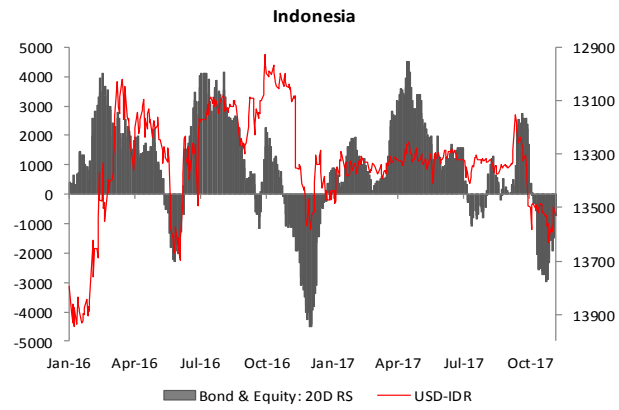
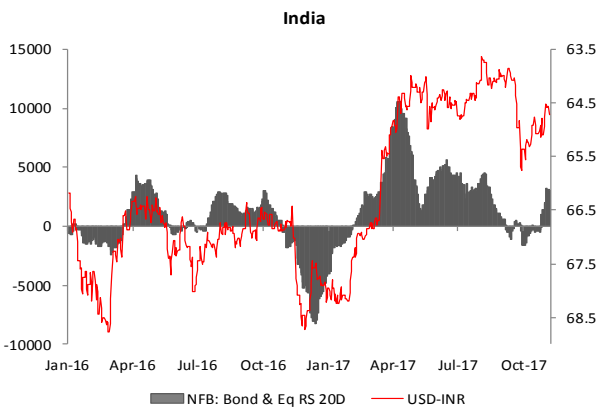
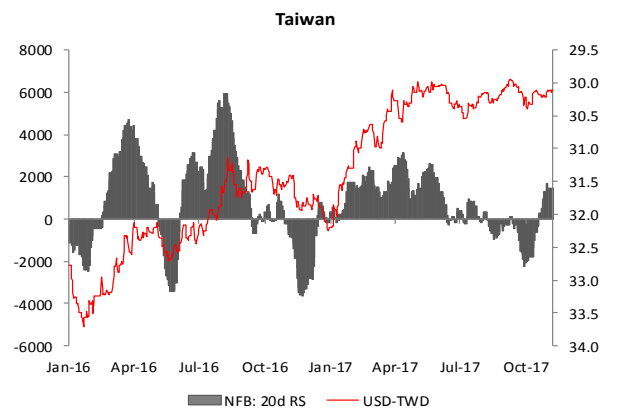
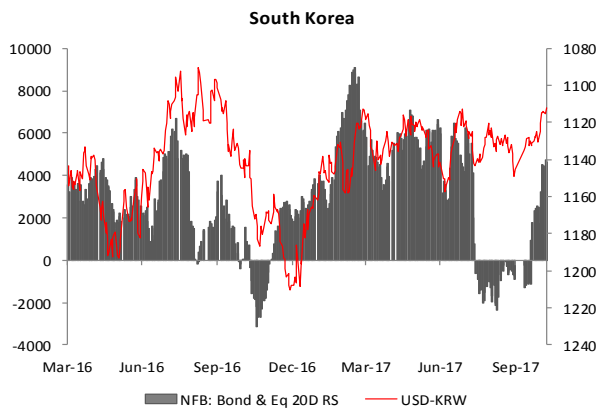
- GBP-USD** Despite disappointing October BRC headlines, the GBP-USD chopped around to end relatively unchanged on Tuesday. In the interim, short term implied valuations remain top heavy with first resistance seen towards the 55-day MA (1.3206) with the 100-day MA (1.3098) expected to cushion on dips.

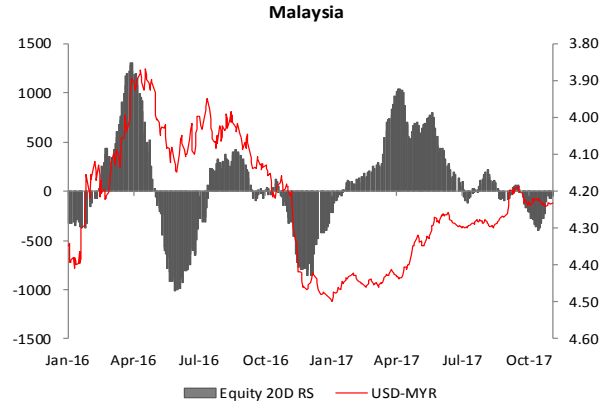


- USD-CAD** The Bank of Canada's Poloz remained sufficiently ambivalent in his comments on Tuesday. Crude may not provide much of a crutch for the loonie in the near term if global risk appetite remains cautious and we note that short term implied valuations have ticked higher. In the interim, expect consolidative behavior within 1.2700-1.2850.

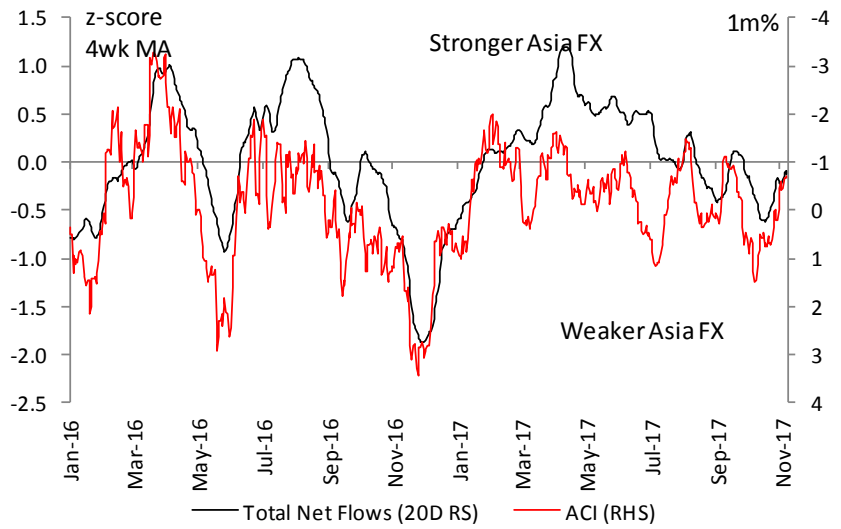
Source: OCBC Bank

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

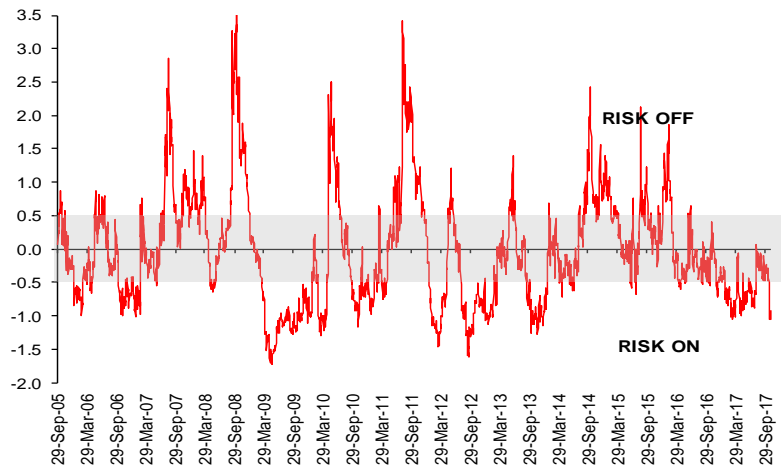




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.244	0.651	0.84	0.634	0.811	0.847	0.848	-0.07	-0.888	0.716	-0.977
CHF	0.967	0.355	0.652	0.826	0.644	0.803	0.924	0.825	0.043	-0.89	0.746	-0.921
CAD	0.896	0.517	0.636	0.668	0.463	0.665	0.866	0.674	0.237	-0.786	0.731	-0.82
JPY	0.847	0.536	0.659	0.753	0.532	0.668	1	0.681	0.205	-0.735	0.783	-0.753
SGD	0.795	0.605	0.828	0.557	0.223	0.447	0.843	0.506	0.302	-0.501	0.892	-0.737
CNH	0.716	0.56	0.969	0.558	0.303	0.464	0.783	0.511	0.412	-0.463	1	-0.649
MYR	0.702	0.579	0.851	0.488	0.189	0.418	0.7	0.383	0.301	-0.532	0.823	-0.621
CNY	0.651	0.502	1	0.523	0.275	0.438	0.659	0.477	0.344	-0.429	0.969	-0.596
IDR	0.541	0.725	0.537	0.278	-0.014	0.231	0.558	0.211	0.447	-0.371	0.572	-0.442
CCN12M	0.39	0.213	0.773	0.425	0.364	0.329	0.45	0.365	0.154	-0.293	0.719	-0.338
USGG10	0.244	1	0.502	0.029	-0.281	-0.054	0.536	-0.121	0.701	-0.035	0.56	-0.124
PHP	0.092	0.743	0.342	-0.1	-0.285	-0.089	0.236	-0.141	0.657	0.109	0.395	0.028
THB	0.012	0.538	0.264	-0.272	-0.611	-0.31	-0.034	-0.297	0.269	0.232	0.185	-0.012
TWD	-0.188	0.636	0.392	-0.209	-0.612	-0.354	0.115	-0.395	0.563	0.423	0.356	0.305
GBP	-0.462	-0.121	-0.401	-0.428	-0.181	-0.269	-0.467	-0.307	0.123	0.294	-0.41	0.42
INR	-0.582	0.047	-0.165	-0.632	-0.706	-0.662	-0.506	-0.647	0.234	0.759	-0.234	0.54
NZD	-0.827	-0.626	-0.676	-0.651	-0.32	-0.599	-0.904	-0.606	-0.297	0.675	-0.777	0.717
KRW	-0.832	0.1	-0.353	-0.816	-0.881	-0.906	-0.719	-0.907	0.244	0.923	-0.443	0.84
AUD	-0.893	-0.4	-0.571	-0.636	-0.427	-0.686	-0.809	-0.74	-0.045	0.772	-0.64	0.864
EUR	-0.977	-0.124	-0.596	-0.81	-0.647	-0.807	-0.753	-0.857	0.154	0.877	-0.649	1

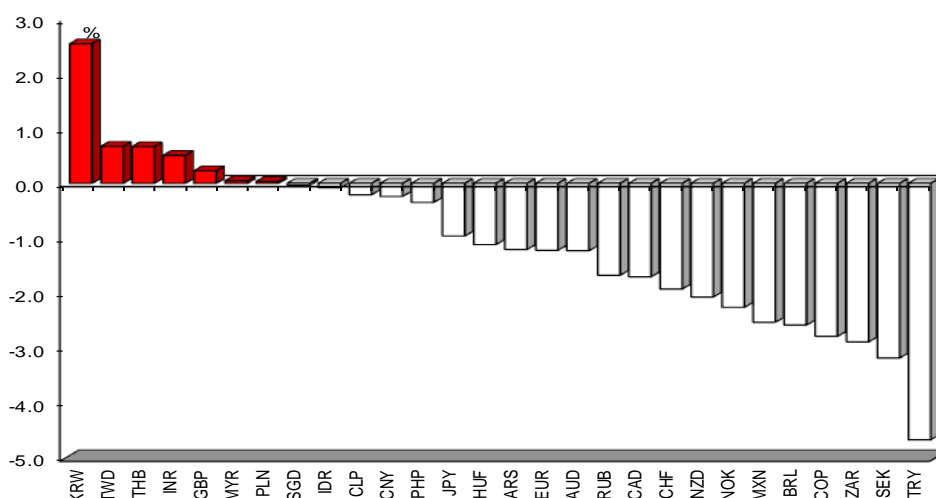
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1527	1.1554	1.1596	1.1600	1.1802
GBP-USD	1.3060	1.3100	1.3171	1.3200	1.3232
AUD-USD	0.7600	0.7625	0.7656	0.7695	0.7700
NZD-USD	0.6818	0.6900	0.6917	0.7000	0.7112
USD-CAD	1.2487	1.2700	1.2764	1.2800	1.2917
USD-JPY	112.08	113.00	113.77	114.00	114.73
USD-SGD	1.3551	1.3600	1.3631	1.3686	1.3700
EUR-SGD	1.5768	1.5800	1.5807	1.5900	1.5995
JPY-SGD	1.1900	1.1905	1.1981	1.2000	1.2083
GBP-SGD	1.7900	1.7936	1.7953	1.8000	1.8076
AUD-SGD	1.0400	1.0410	1.0436	1.0500	1.0617
Gold	1263.80	1266.94	1277.50	1297.42	1300.00
Silver	16.65	16.90	17.00	17.19	17.27
Crude	51.60	57.00	57.05	57.10	57.41

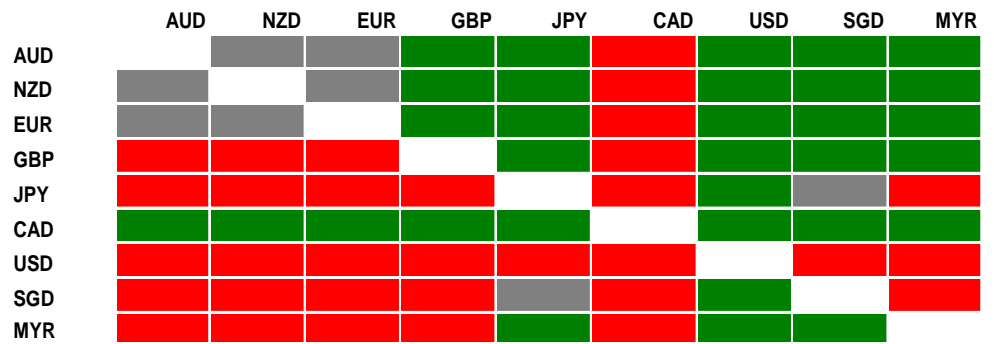
Source: OCBC Bank

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



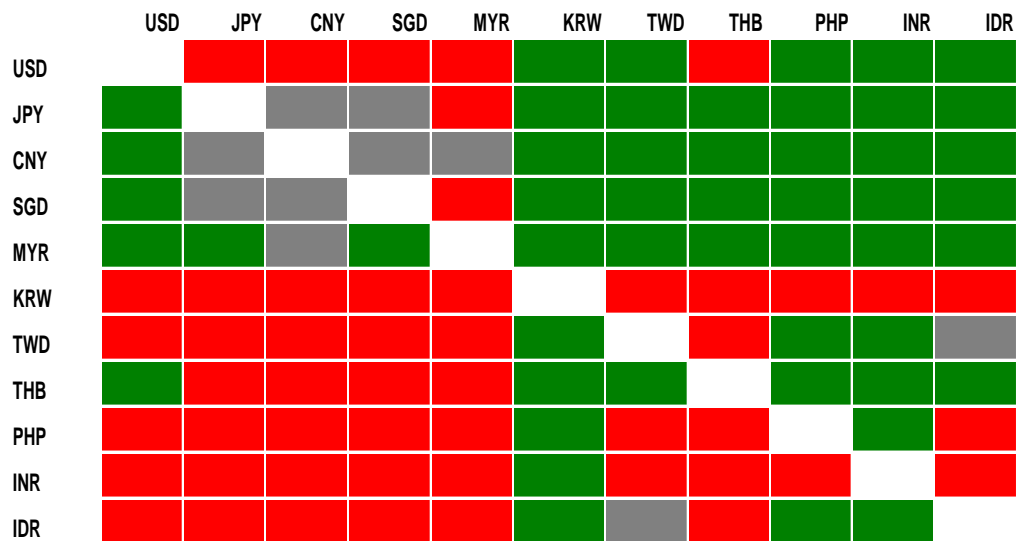
Source: Bloomberg

**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	
5	07-Nov-17	S	AUD-USD	0.7671	0.7510	0.7755	RBA on hold, no inflation or rate hike urgency	
6	07-Nov-17	S	GBP-USD	1.3142	1.2835	1.3300	Potential negative headline shock from upcoming BOE appearances post the dovish rate hike	
<b>STRUCTURAL</b>								
7	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
8	07-Nov-17		Bullish 2M 1X2 USD-JPY Call Spread Spot ref: 114.15; Strikes: 113.78, 118.31; Exp: 04/01/18; Cost: 0.90%				Rate differential complex supportive of the USD, BOJ static	
<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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