

Friday, September 08, 2017

FX Themes/Strategy/Trading Ideas

- Less than forceful rhetoric from the **ECB's Draghi** towards the EUR lifted the EUR-USD past 1.2000 on Thursday with the common currency also outperforming across G10 space. Using only keywords like “uncertainty” and “monitoring” the ECB President did not come across as unduly concerned about the EUR, while accompanying ECB analysis also attributed recent EUR strength to the improvement in the EZ economy. Elsewhere, Draghi did not nail down the intended date of any balance sheet tapering announcements although markets continue to look to the October/December Council meeting.
- Meanwhile, despite rate hike supportive comments from the Fed's Mester (while Dudley was subtly less hawkish), the USD was also pummeled as **UST yields weakened further** (10y <2.05%) on the back of Irma (expected to make landfall on Sunday) and geopolitical concerns (note the continued exchange between Pyongyang and the White House). This saw the USD-JPY clocking a low of 108.07.
- The **DXY** is now attempting to bore below 91.50 (next support 91.16) on a sustained basis with a breach of the 200-week MA (92.64) likely in the bag for this week. **Into the end of the week, investors may continue to collect into dips for the EUR-USD while also searching for further potential downside for the USD-JPY.** On the latter, note that geopolitical concerns are still expected to continue to circulate with investors wary of another missile launch over the weekend.
- On a more **structural** note, global long end yields continue to erode lower and this may continue to heighten investor sensitivity to the hunt for yield. If geopolitical risks over the weekend do not deteriorate substantially, expect interest towards the cyclicals/EM/Asians to receive a second wind in the current environment of a weak dollar and soft global long-end yields.
- With UST yields suppressed, accompanying dovish Fed rhetoric, and potential for further geopolitically motivated risk aversion, we look to a tactical short **USD-JPY**. With a spot ref at 109.01 on Thursday, we target 106.75 and place a stop at 110.15.

Treasury Research &
Strategy

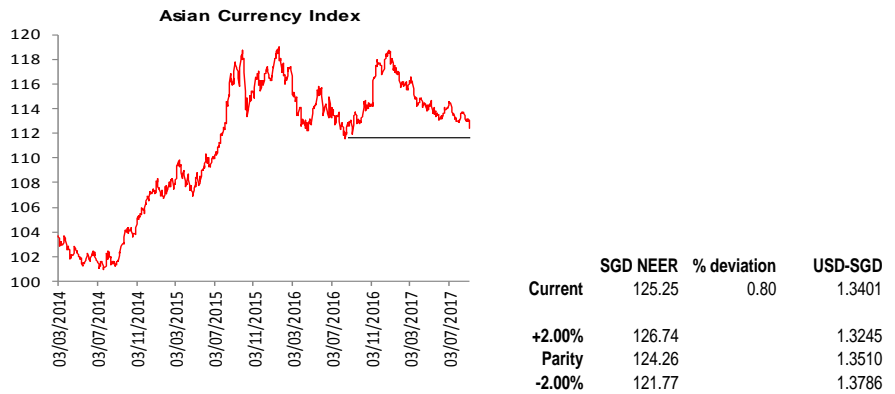
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Asian FX

- USD-Asia is thus expected to shadow the broad dollar lower with the net portfolio inflow situation likely of secondary importance into the end of the week. On the risk appetite front, the **FXSI (FX Sentiment Index)** weakened

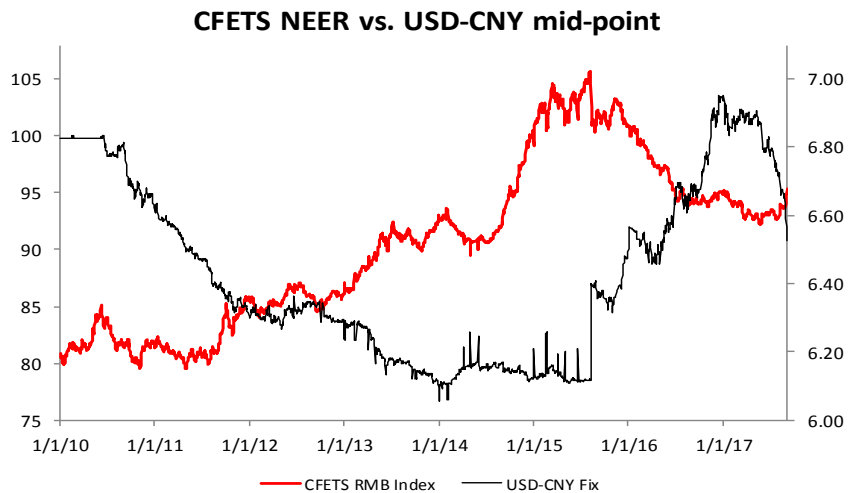
further on Thursday within Risk-Neutral territory and this should help pave the way lower for the **ACI (Asian Currency Index)** again for as long as geopolitical concerns remain siloed (no pun intended).

- SGD NEER:** With the broad dollar under renewed negative stress, the SGD NEER this morning is significantly higher at +0.87% (overnight high near +0.94%) above its perceived parity (1.3510). Into the end of the week, expect the basket to bounce within +0.70% (1.3416) and +1.00% (1.3376). For the USD-SGD per se, the 200-week MA (1.3476) also looks to be violated on a sustained basis given current conditions.



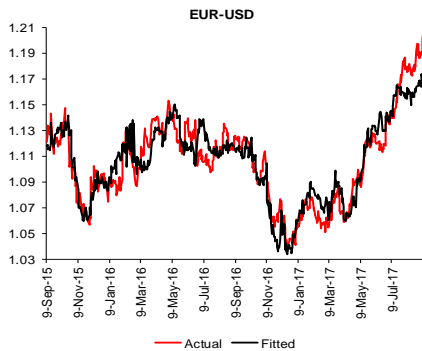
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (less than expected) to 6.5032 from 6.5269 on Thursday. Perhaps it was an attempt at signaling by the authorities but did not regard overnight USD moves as an outside day, keeping the eventual mid-point within historical parameters. As a result of the firmer than expected USD-CNY mid-point this morning, the CFETS RMB Index only rose slightly to 95.16 from 95.06. Ground level pressures however may remain significant, with the USD-CNY still attempting to sink lower and paving the way for (yet more downside for) the USD-CNH.



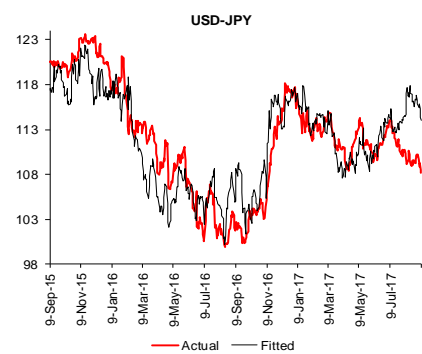
Source: OCBC Bank, Bloomberg

G7



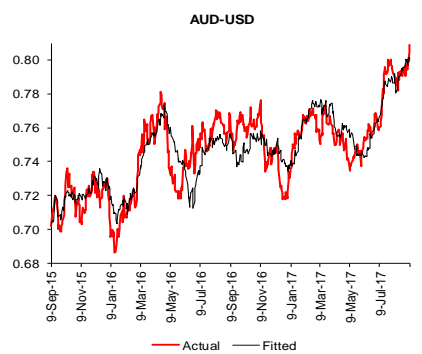
Source: OCBC Bank

- EUR-USD** The ECB's Weidmann (0800 GMT) may be closely watched for any hawkish cues today and it may not require much to further set off further EUR bullishness. Short term implied valuations for the pair are firmer and spot continues to stretch north at this juncture (to short term extremity values). In the interim, expect support towards 1.2000 while investors may attempt to feel out a near term topside (first waypoint at 1.2100).



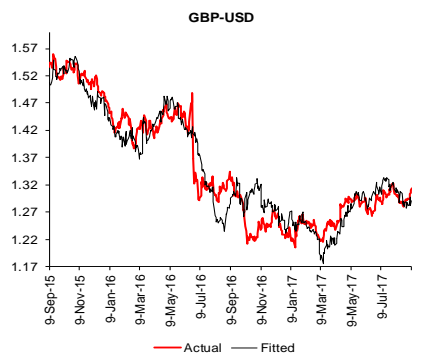
Source: OCBC Bank

- USD-JPY** The Fed's Harker (1245 GMT) is due to speak tonight while the Fed's George remained supportive of gradual rate hikes. Short term implied valuations are collapsing in the interim with spot looking stretched but likely still heavy given the current market demeanor. At this juncture, the 108.00 support continues to look tenuous.



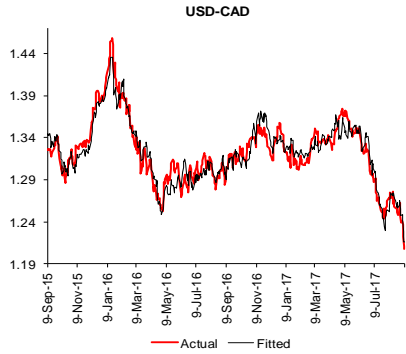
Source: OCBC Bank

- AUD-USD** Look potentially to further guidance from the RBA's DeBelle (0300 GMT) and Lowe (0830 GMT) today while August China trade numbers are also due today. Short term implied valuations are floating higher and the AUD-USD may contemplate the 0.8100 ceiling in the near term.



Source: OCBC Bank

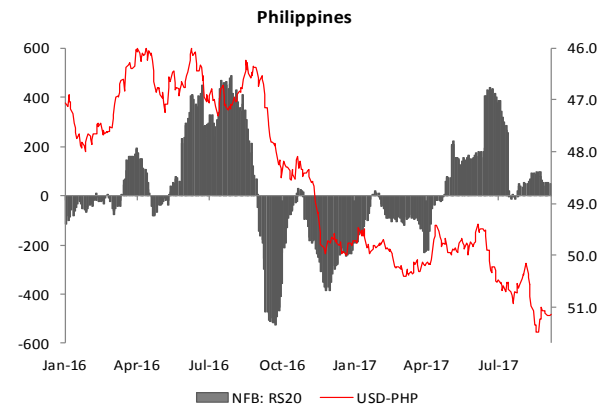
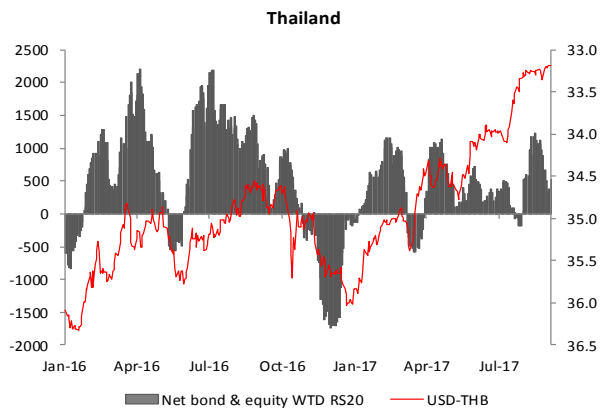
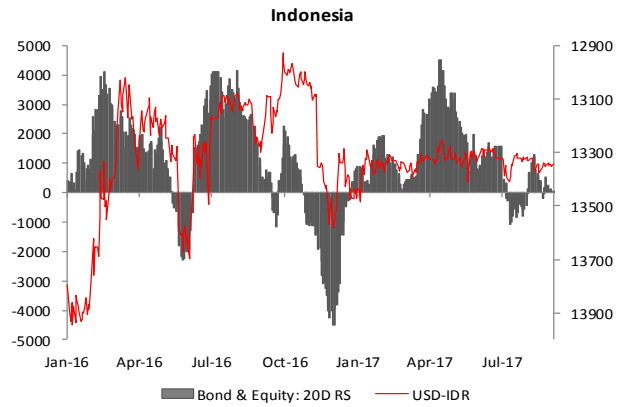
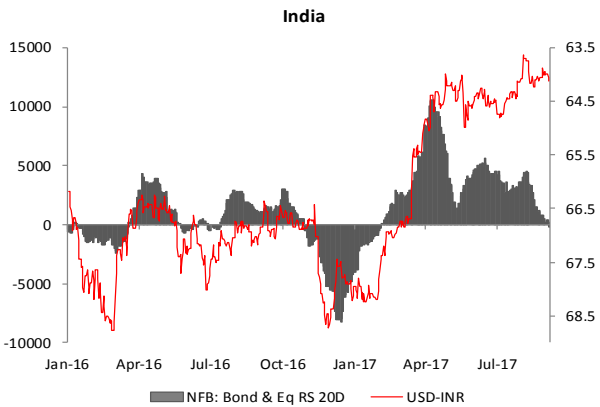
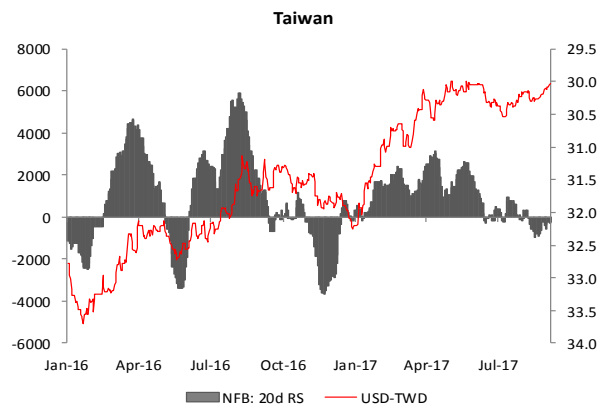
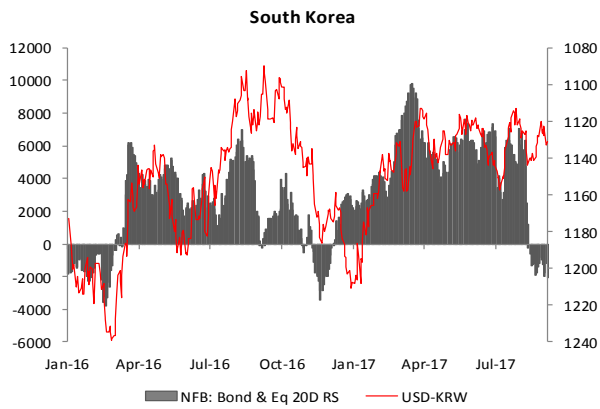
- GBP-USD** GBP-USD may continue to be lifted by the EUR and a weak dollar environment in the near term. Look also towards July industrial production data for domestic cues today and with short term implied valuations looking relatively more staid, the pound may continue to underperform its peers. Nevertheless, expect the pair to attempt to base build off 1.3100 with an eye on 1.3140/65.

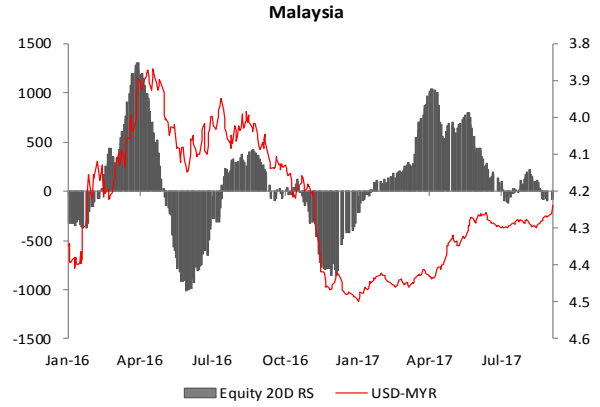


- USD-CAD** Canadian August labor market numbers may provide a further domestic focus later today but the current dollar environment mixed with the positive vibes from the BOC earlier this week may continue to see USD-CAD succumbing to gravity for now. Short term implied valuations have plunged further with the key psych support at 1.2000 now in sight.

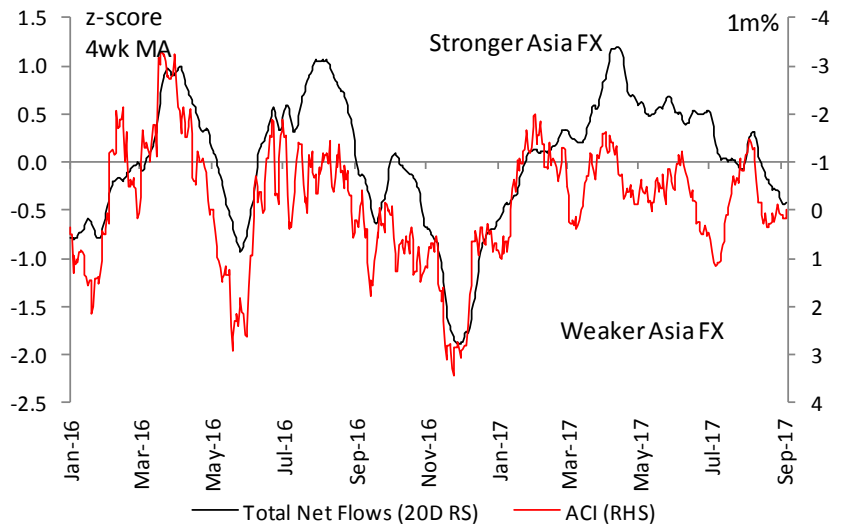
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

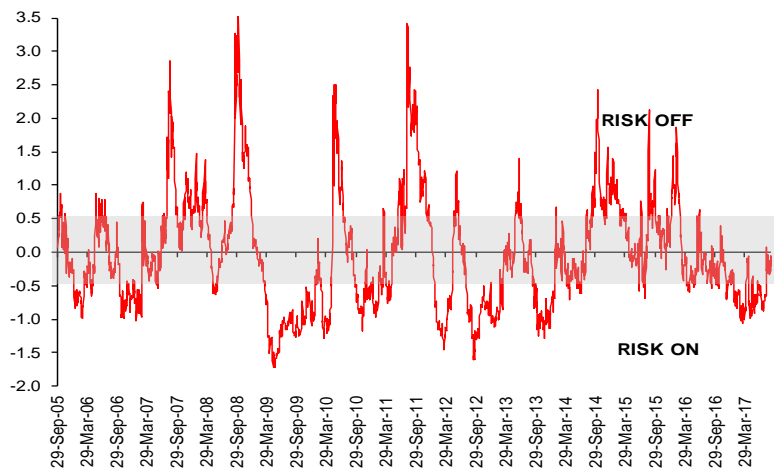




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.919	0.865	-0.169	-0.434	-0.62	0.592	-0.186	0.367	0.525	0.897	-0.976
SGD	0.961	0.901	0.867	-0.285	-0.431	-0.674	0.609	-0.303	0.417	0.606	0.897	-0.924
USGG10	0.919	1	0.847	-0.1	-0.455	-0.609	0.643	-0.208	0.219	0.488	0.882	-0.857
CHF	0.914	0.861	0.724	0.051	-0.405	-0.572	0.65	-0.273	0.123	0.444	0.785	-0.883
MYR	0.904	0.878	0.944	-0.288	-0.514	-0.696	0.645	-0.369	0.431	0.692	0.949	-0.849
CNH	0.897	0.882	0.994	-0.384	-0.544	-0.73	0.425	-0.238	0.431	0.754	1	-0.846
CAD	0.879	0.86	0.866	-0.251	-0.528	-0.66	0.574	-0.332	0.45	0.655	0.909	-0.813
TWD	0.869	0.822	0.941	-0.465	-0.653	-0.752	0.373	-0.27	0.547	0.803	0.946	-0.824
CNY	0.865	0.847	1	-0.394	-0.503	-0.767	0.299	-0.168	0.393	0.754	0.994	-0.8
THB	0.768	0.74	0.824	-0.36	-0.163	-0.622	0.372	-0.249	0.177	0.623	0.835	-0.703
IDR	0.744	0.692	0.695	-0.22	-0.457	-0.702	0.572	-0.424	0.204	0.557	0.746	-0.69
CCN12M	0.714	0.625	0.711	-0.228	-0.504	-0.632	0.354	-0.286	0.382	0.368	0.742	-0.715
JPY	0.592	0.643	0.299	0.472	0.097	-0.345	1	-0.543	-0.351	-0.104	0.425	-0.474
KRW	0.582	0.483	0.484	-0.275	-0.812	-0.185	-0.093	0.369	0.702	0.4	0.538	-0.666
NZD	0.383	0.398	0.675	-0.395	-0.623	-0.361	-0.182	0.211	0.514	0.578	0.604	-0.425
PHP	0.336	0.211	0.147	-0.285	-0.13	-0.565	0.304	-0.541	0.033	0.218	0.261	-0.313
INR	0.184	0.008	0.139	-0.392	-0.591	-0.276	-0.42	0.138	0.509	0.364	0.127	-0.297
GBP	-0.66	-0.614	-0.626	0.427	-0.048	0.786	-0.439	0.544	-0.011	-0.572	-0.653	0.577
AUD	-0.899	-0.882	-0.817	0.171	0.503	0.63	-0.61	0.27	-0.373	-0.59	-0.871	0.83
EUR	-0.976	-0.857	-0.8	0.195	0.473	0.517	-0.474	0.056	-0.459	-0.486	-0.846	1

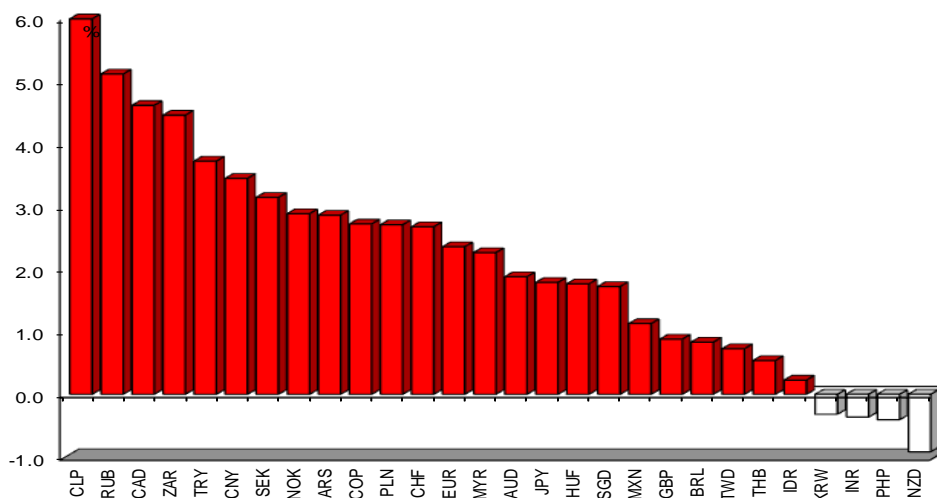
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1710	1.2000	1.2027	1.2046	1.2070
GBP-USD	1.3094	1.3100	1.3105	1.3200	1.3267
AUD-USD	0.8000	0.8050	0.8060	0.8068	0.8100
NZD-USD	0.7143	0.7200	0.7261	0.7300	0.7312
USD-CAD	1.2100	1.2102	1.2108	1.2139	1.2200
USD-JPY	108.05	108.29	108.39	109.00	110.63
USD-SGD	1.3387	1.3400	1.3401	1.3420	1.3500
EUR-SGD	1.5970	1.6100	1.6117	1.6200	1.6208
JPY-SGD	1.2300	1.2301	1.2363	1.2400	1.2429
GBP-SGD	1.7406	1.7500	1.7562	1.7600	1.7653
AUD-SGD	1.0730	1.0800	1.0801	1.0829	1.0897
Gold	1270.95	1300.00	1349.50	1351.41	1351.60
Silver	18.10	18.10	18.11	18.11	18.20
Crude	47.65	49.10	49.15	49.20	49.66

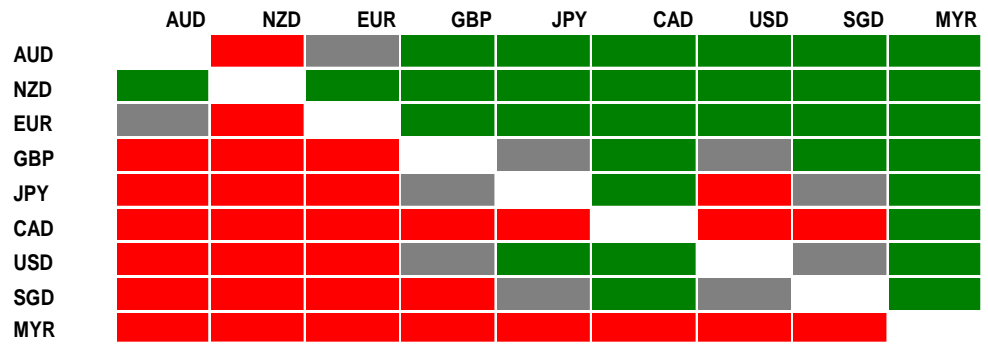
Source: OCBC Bank

FX performance: 1-month change agst USD



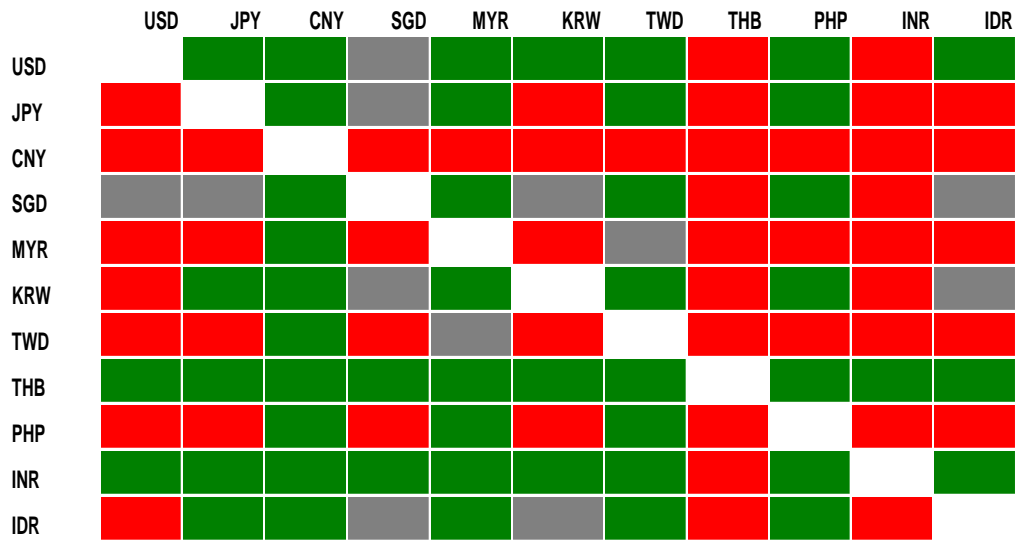
Source: Bloomberg

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		
TACTICAL								
1	07-Sep-17	S	USD-JPY	109.01	106.75	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	
STRUCTURAL								
2	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
3	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		
4	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		
5	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		
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		
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
2	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
3	04-Jul-17	16-Aug-17	B	EUR-USD	1.1346	1.1741	Draghi's change of stance in late June may further fuel the EUR	+3.14
4	01-Aug-17	04-Sep-17	S	USD-JPY	110.18	109.79	No surprises expected from Fed-speak after the last FOMC	+0.19
5	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
							Jan-Sep*** 2017 Return	+8.10
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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