

Thursday, November 09, 2017

**FX Themes/Strategy/Trading Ideas**

- Despite a firmer UST curve (bear flattened from the front-end), a shaky USD ended slightly softer across G10 (except against the GBP) on Wednesday as background tax reform worries continued to circulate. On this front, the Senate tax-cut bill is scheduled to be released on Thursday and any delays may potentially undermine the greenback.
- Although the RBNZ left rates unchanged as expected, the NZD led the way (AUD and CAD also in tow) higher even as central bank steepened its inflation forecast trajectory with the headline projected to reach 2% by 2Q 18 from 1Q 19 previously and its forecast for a rate hike to 2Q 19 from 3Q 19. The pair consolidated lower slightly subsequently after the RBNZ assistant governor McDermott RBNZ stated that it would be good if the NZD fell a little bit further.
- On other fronts, the BOJ MPC summary of opinions released late Wednesday revealed one board member as saying that “as price developments have continued to show weakness, it is important for the Bank to pursue the current powerful monetary easing with persistence.
- In the near term, we believe that aggregate interest rate differentials continue to leave the broad USD with a relative upper hand (pending tax-bill headlines) although idiosyncratic headlines from the other currencies may continue to distract.
- Today’s calendar may see a concentration of headline risks for the EUR with an entire line-up of ECB appearances. Look to Nouy (0800 GMT), Coeure (100 GMT), Mersch (1315 GMT), Constancio (13456 GMT), Galhau (1500 GMT), Weidmann (1800 GMT), and Lautenschlaeger at 1820 GMT.
- Elsewhere on the data calendar, look to China’s CPI/PPI at 0130 GMT. On the central bank front, **BNM** (0700 GMT) and the **BSP** (0800 GMT) are expected to remain static at their respective policy meetings today. Expect both central banks to sound increasingly neutral (with the **BOT** on Wednesday also painting a slightly more sanguine prognosis despite remaining static at its MPC) given the improving growth/inflation backdrop, with BNM expected to be slightly more “confident” given the given the increasingly limited downside room for real interest rates.

Treasury Research &  
Strategy

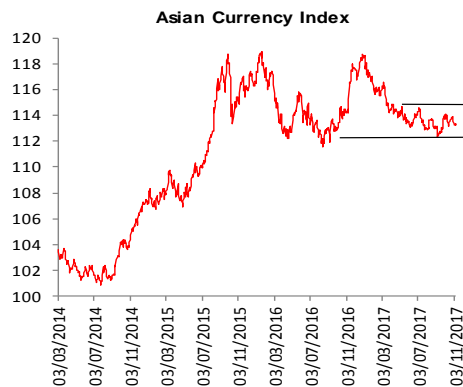
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**Asian FX**

- EM FX edged higher on Wednesday amidst a soggy greenback and with

global EM equities ticking again. EM/Asian space we think continues to bear watching (not least from the widening gulf between G7 and EM short-end FX vols caused by a collapse in the former but not accompanied by a concomitant move in the latter). EM risk premiums on the bond front continue to push wider with the **FXSI (FX Sentiment Index)** consolidating higher again within Risk-On territory overnight.

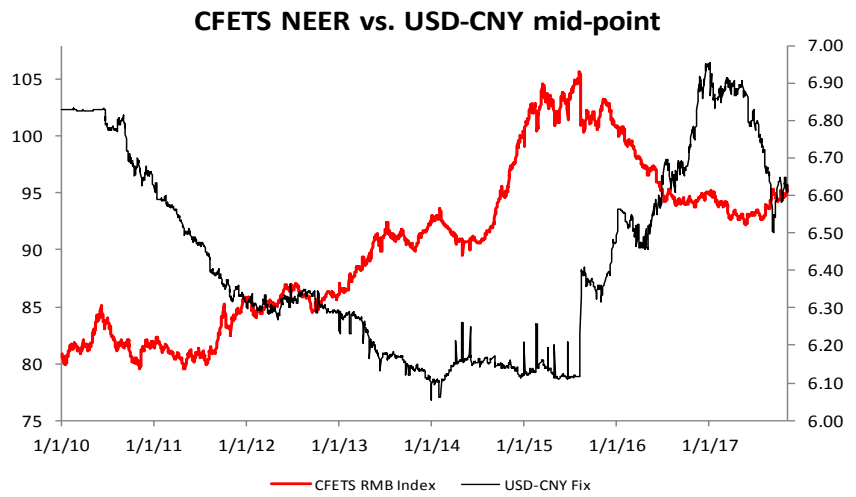
- On the net portfolio inflow front, note moderating inflow momentum on a rolling 1M basis for the KRW and TWD, while positive net inflow momentum is still holding up for the INR. Meanwhile, the IDR may remain constructive with the sustained moderation in net outflow momentum, while the THB may remain relatively undermined by persistent outflows in the short term. Overall, differentiation remains the name of the game in Asia, with the **ACI (Asian Currency Index)** expected to be slightly softer intra-day pending further headline risks.
- **SGD NEER:** The SGD NEER is firmer on the day at around +0.97% above its perceived parity (1.3753) with NEER-implied USD-SGD thresholds relatively unchanged on the day. Expect +0.80% (1.3644) and +1.10% (1.3604) to govern during the Asian session with the 100-day MA (1.3619) also likely to offer initial support with odds tilted towards 1.3670 instead if the broad dollar regains traction.



	SGD NEER	% deviation	USD-SGD
Current	125.46	0.97	1.3627
+2.00%	126.74		1.3484
Parity	124.26		1.3753
-2.00%	121.77		1.4034

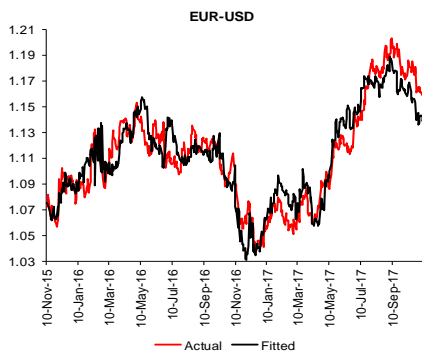
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point rose (as largely expected) to 6.6325 from 6.6277 on Wednesday. This saw the CFETS RMB Index softening to 95.15 from 95.20 yesterday.



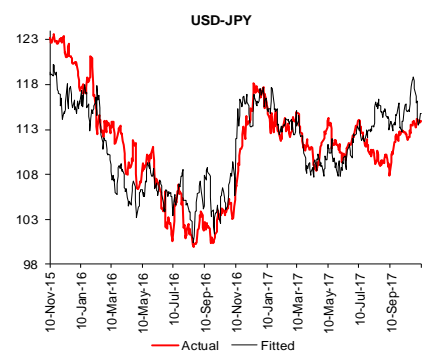
Source: OCBC Bank, Bloomberg

**G7**



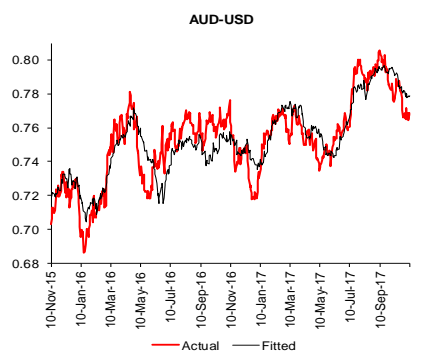
Source: OCBC Bank

- **EUR-USD** Ahead of scheduled ECB-speak later today, short term implied valuations for the pair remain relatively fragile and the foothold at 1.1600 continues to look tenuous with 1.1550 still on the cards.



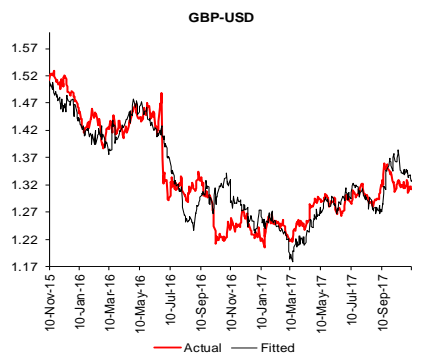
Source: OCBC Bank

- **USD-JPY** USD-JPY may remain trapped within 113.50-114.50 pending the next catalyst. With the BOJ still sounding sufficiently accommodative, short term implied valuations are also attempting to tick higher.



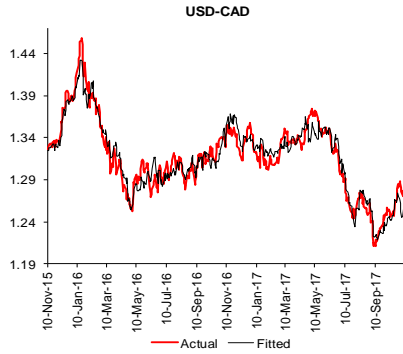
Source: OCBC Bank

- **AUD-USD** The AUD-USD may remain subject to risk appetite gyrations in the near term while trekking fairly well worn ranges. Short term implied valuations are meanwhile attempting to bottom out but the 200-day MA (0.76990) may continue to cap. Elsewhere, look for further heaviness in the AUD-NZD after the RBA-RBNZ meetings this week.



Source: OCBC Bank

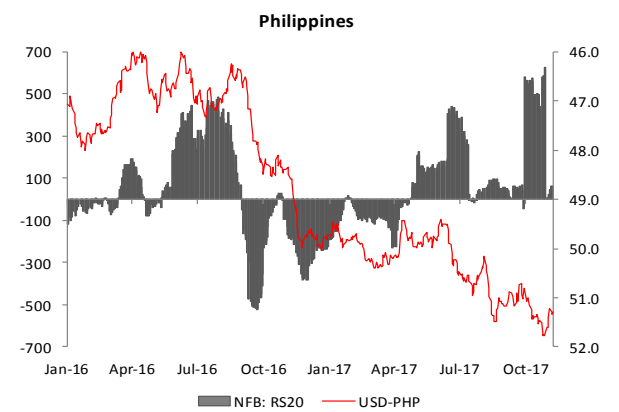
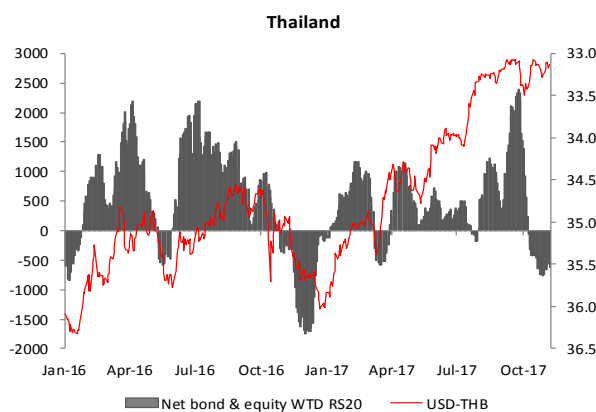
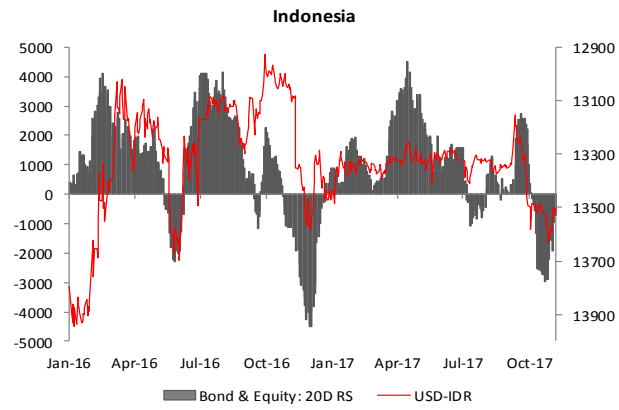
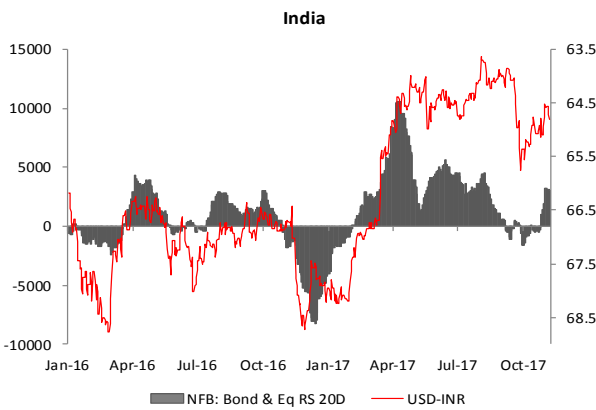
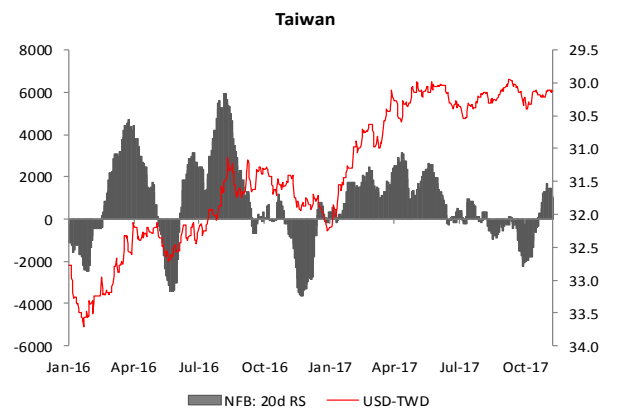
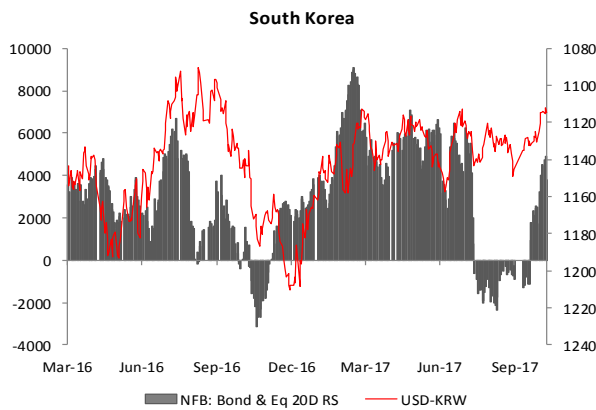
- **GBP-USD** GBP-USD was weighed by domestic political negativity (note Patel headlines and PM May's leadership status still under scrutiny) on Wednesday. Amid still fragile short term implied valuations, preference to stay top heavy on the pair in the interim as EU envoys convene today for further Brexit discussions. Fade upticks within 1.3000-1.3200 with a nexus at the 100-day MA (1.3102).

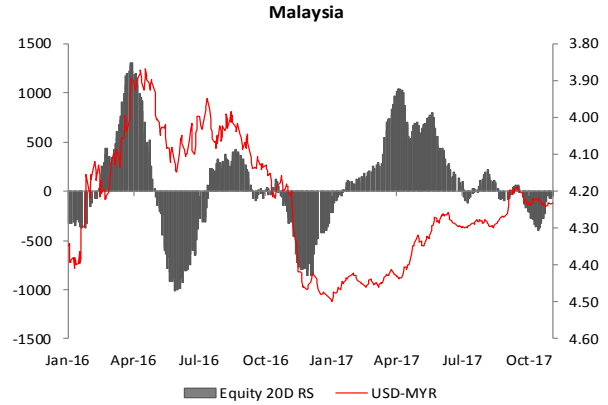


- USD-CAD** USD-CAD remained adrift and reacted to a softer USD complex on Wednesday despite short term implied valuations ticking a touch higher. Near term view remains unchanged and investors may continue to ply a slightly soft 1.2620-1.2780 band in the interim.

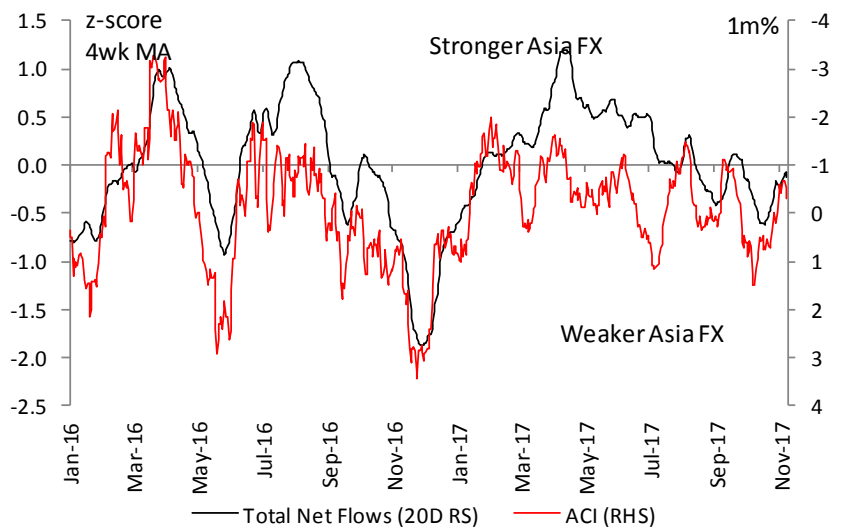
Source: OCBC Bank

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

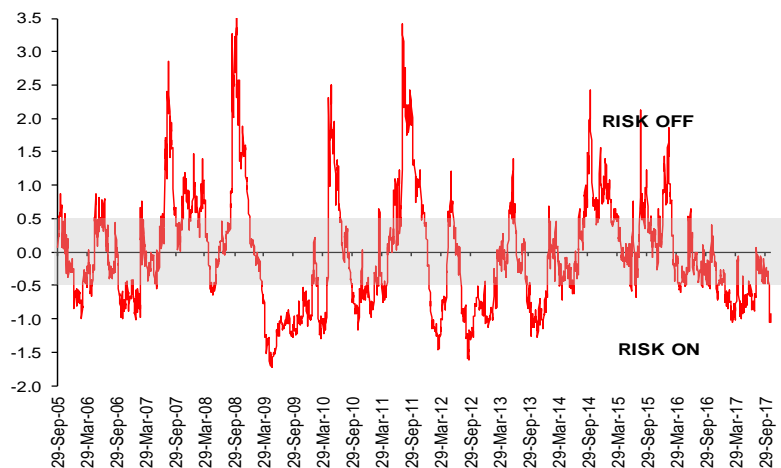




### ACI VS. Net Capital Flows



### 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

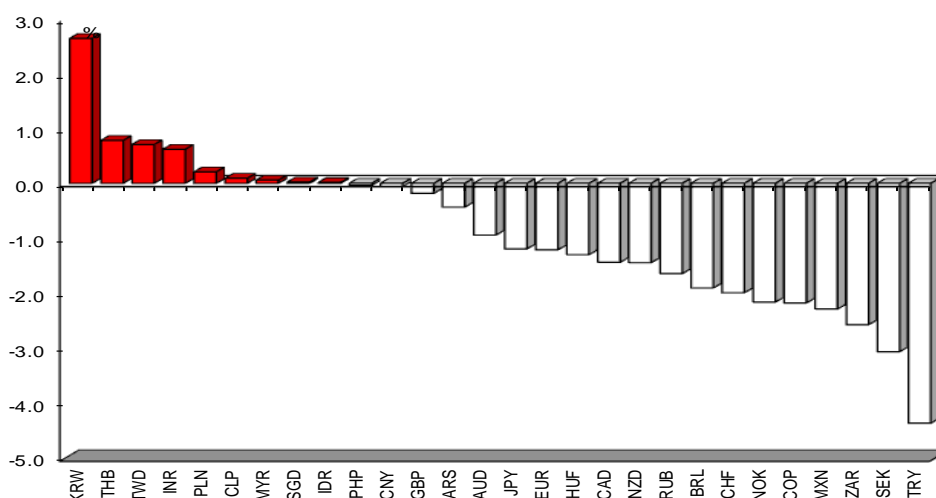
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1517	1.1554	1.1597	1.1600	1.1796
GBP-USD	1.3048	1.3100	1.3117	1.3200	1.3235
AUD-USD	0.7600	0.7625	0.7681	0.7695	0.7700
NZD-USD	0.6818	0.6900	0.6962	0.7000	0.7108
USD-CAD	1.2491	1.2700	1.2730	1.2800	1.2917
USD-JPY	112.17	114.00	114.03	114.73	114.83
USD-SGD	1.3552	1.3600	1.3623	1.3684	1.3700
EUR-SGD	1.5715	1.5768	1.5798	1.5800	1.5988
JPY-SGD	1.1900	1.1905	1.1947	1.2000	1.2077
GBP-SGD	1.7766	1.7800	1.7869	1.7900	1.7941
AUD-SGD	1.0400	1.0410	1.0464	1.0500	1.0616
Gold	1263.80	1267.38	1282.00	1296.91	1299.74
Silver	16.65	17.00	17.07	17.10	17.19
Crude	51.80	56.90	56.95	57.00	57.74

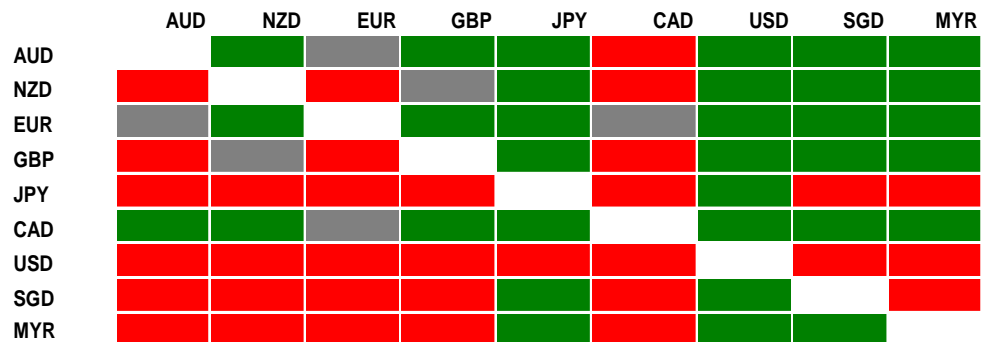
Source: OCBC Bank

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



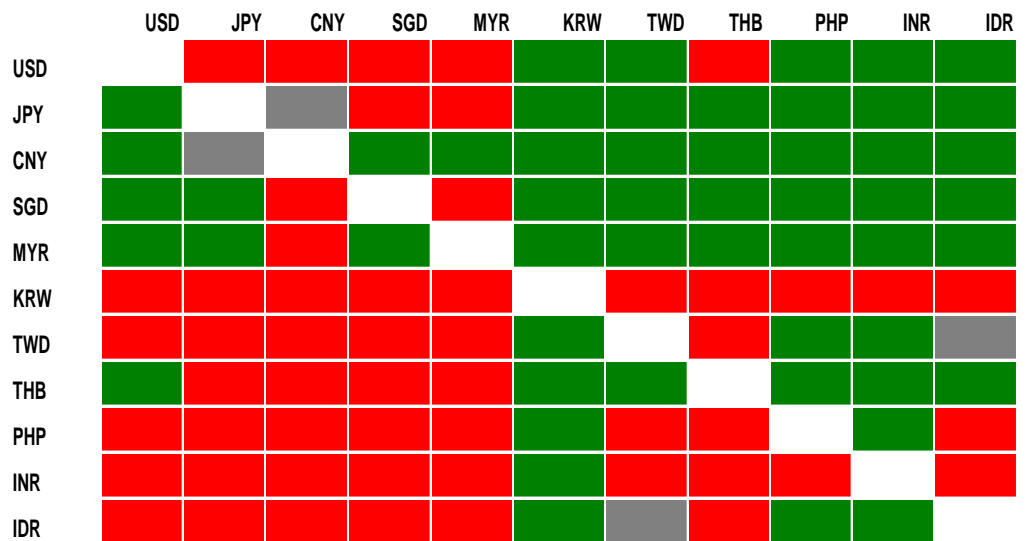
Source: Bloomberg

**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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