

Monday, October 09, 2017

## FX Themes/Strategy/Trading Ideas – The week ahead

- Despite post NFP-gains (with the Fed's Dudley also supportive of further rate hikes), the USD reversed to end mixed after North Korean concerns resurfaced (Russian official indicating North- Korean plans for a test of a longer range missile capable of reaching the US west coast).
- Earlier on Friday, the headline September NFP number disappointed with disappointing -33k reading but the unemployment rate fell to 4.2% (4.4% prev). In addition, average hourly earnings surprised on the upside at +0.50% mom with the previous month also revised higher to +0.2% mom. This lifted the USD (DXY briefly above 94.20), UST yields (curve still bear-flattened by end-NY with the 10y briefly above 2.40%), as well as market implied odds of a December Fed rate hike (more than 91% probability). **Overall, USD may retain the upper hand post-NFP if risk aversion distractions abate in the coming 48-hours.**
- On the **CFTC** front, net large non-commercial and leveraged accounts pared their implied short dollar bias in aggregate. Note however that net of JPY positioning, both sets of accounts actually increased their net short dollar bias – leaving space for further unwind if the USD continues to gain traction post-NFP. Meanwhile, asset manager accounts pared their net implied short dollar bias in the latest week.
- Despite NY, TKY (Seoul and Taipei) away for a long weekend, expect **geopolitical risks** to greet the markets at the onset of the week with more cross talk between **Kim Jong Un** and Trump over the weekend. On other fronts, uncertainty surrounding **Catalonia** (Puigdemont scheduled to address parliament on Tuesday) and **Turkey** (diplomatic spat with the US resulting in the TRY slumping early Monday in Asia). Meanwhile, **NZ** political uncertainty may also continue to prevail with final election results over the weekend left no clear winner (watch for a 12 October deadline for NZ First to reveal its alignment with either the National Party or the Labour-Green bloc).
- This week, expect central bank/official rhetoric to potentially guide the markets all through the week. **Fed** speakers are scheduled from Tuesday onwards with the **FOMC** minutes also due on Wednesday. **ECB**-speak also kicks off today with Lautenschlaeger (1600 GMT), and includes Praet on Wednesday and Draghi on Thursday. On other fronts, look to the **RBA's** Debelle on Tuesday, with the **Bank of Canada's** Wilkins scheduled for Tuesday and Thursday. To cap it all off, the IMF/World Bank meetings run from Tuesday-Sunday, leaving open the potential for further headline risks.

Treasury Research &  
Strategy

Emmanuel Ng

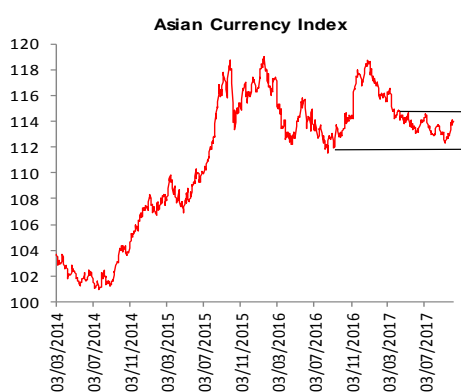
+65 6530 4073

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

- Amidst the busy global data calendar, ones to watch include US/German September CPI readings on Friday, with US September retail sales also due on Friday. In Asia, look to the China Caixin PMIs (0145 GMT) and foreign reserve numbers on Monday, while September trade numbers are also due on Friday. In Singapore, the MAS is also scheduled for its Monetary Policy Statement (MPS) on Friday.

### Asian FX

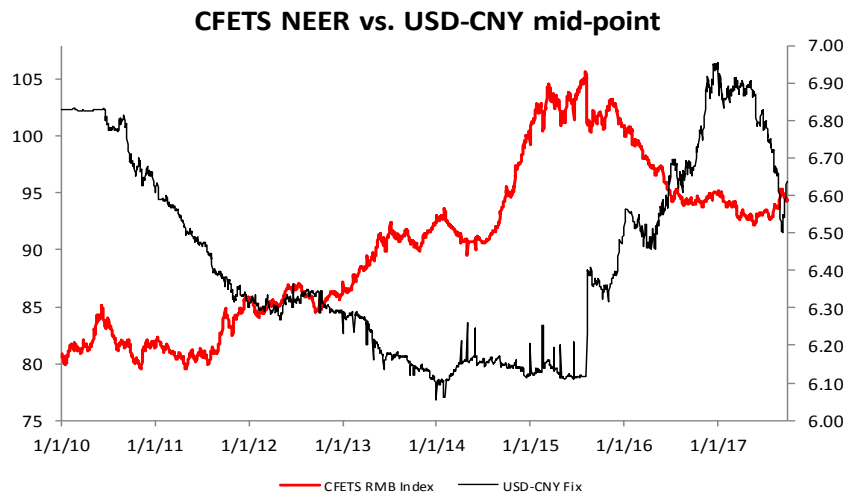
- Global EM equities flat-lined on Friday with the **FXSI (FX Sentiment Index)** within Risk-Neutral territory ticking higher within Risk-Neutral territory. Expect USD-Asia and the **ACI (Asian Currency Index)** to be wary of excessive downside dips at the beginning of the week, especially in the wake of USD-supportive US labor market readings last Friday.
- On the **EPFR** front, net implied equity and bond inflows into Asia (excl Japan, China) continued to moderate in the latest week. Meanwhile, **actual net portfolio capital inflows** into the region show moderating outflow pressure for the TWD (equity inflows on Friday) and the INR, and minor outflows (bond & equities) into the end of last week for the INR. The THB meanwhile continues to register moderating inflow momentum.
- **SGD NEER:** The SGD NEER is mixed to firmer on the day at +0.67% above its perceived parity (1.3740) with NEER-implied USD-SGD thresholds marginally lower. At current levels, the +0.90% threshold is estimated at 1.3618 and +0.50% at 1.3672, with the pair likely bounded by these two thresholds pending further external developments. On the technical front, the 100-day MA (1.3676) may attract if the broad dollar continues to flex upwards.



|         | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 125.09   | 0.67        | 1.3651  |
| +2.00%  | 126.74   |             | 1.3471  |
| Parity  | 124.26   |             | 1.3740  |
| -2.00%  | 121.77   |             | 1.4020  |

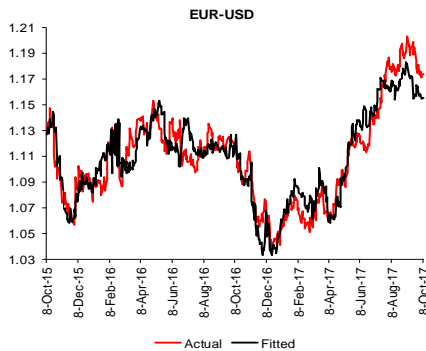
Source: OCBC Bank

- **CFETS RMB Index:** After a week-long hiatus, the USD-CNY midpoint was fixed higher (and higher than expected) at 6.6493 from 6.6369. This lifted the **CFETS RMB Index** to 94.51 from 94.41 last.



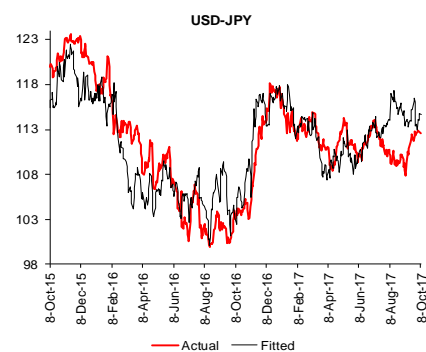
Source: OCBC Bank, Bloomberg

**G7**



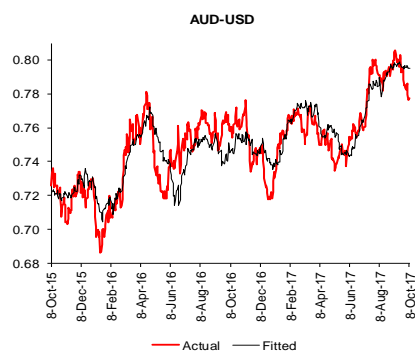
Source: OCBC Bank

- EUR-USD** Potential ECB forward guidance this week will be closely watched while short term implied valuations continue to remain top heavy. On the CFTC front, net leveraged EUR longs were reduced in the latest week and investors may continue to fade upticks within 1.1600-1.1800 multi-session.



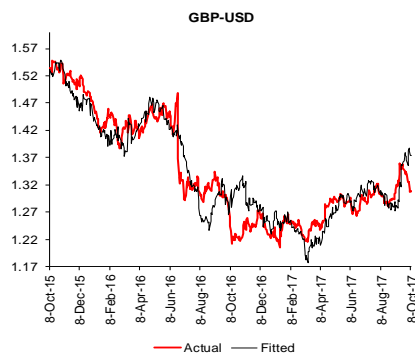
Source: OCBC Bank

- USD-JPY** USD-JPY will have to contend between background USD resilience and risk aversion related pressures in the near term. Short term implied valuations are looking supportive while CFTC positioning show an increase in net JPY shorts in the latest week. Risk aversion factors may however muddle this dynamic in the short term and expect some consolidation around the 112.50 neighborhood in the interim.



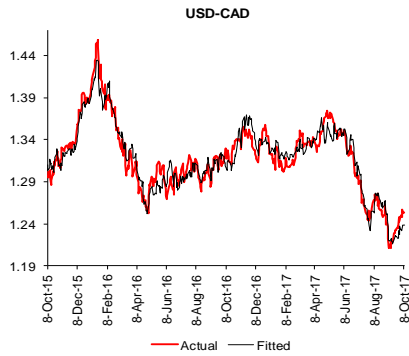
Source: OCBC Bank

- AUD-USD** The antipodeans underperformed against the USD and across G10 on the back of soft metals and ostensibly on the back of risk aversion on Friday. This morning, the September China Caixin services/composite PMIs deteriorated from the previous month and this may continue to cap the pair. Short term implied valuations are attempting to edge lower and the increase in CFTC net leveraged AUD longs in the latest week may be open to unwind risk. Expect little conviction to test above 0.7800 in the interim, with risk instead seen towards 0.7720.



Source: OCBC Bank

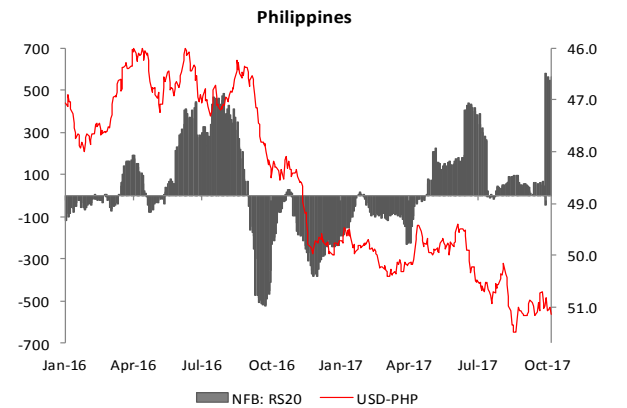
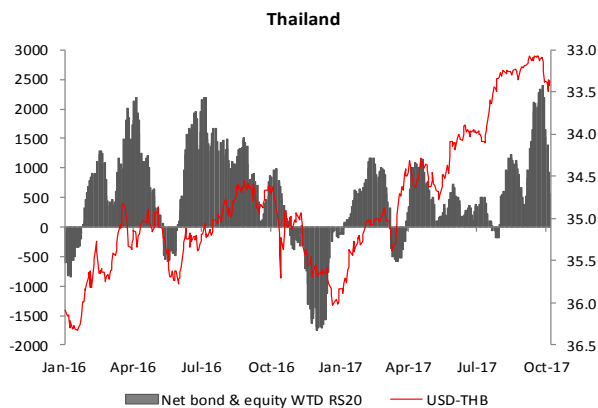
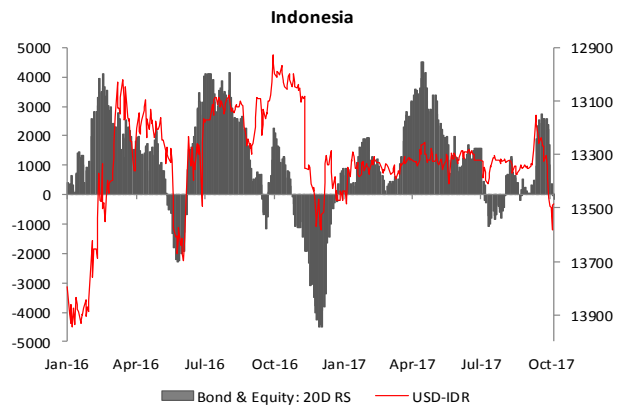
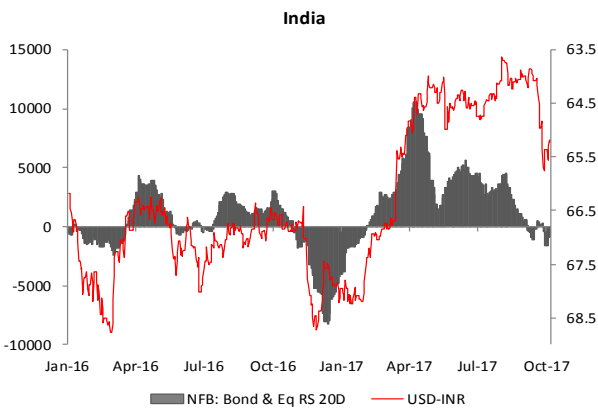
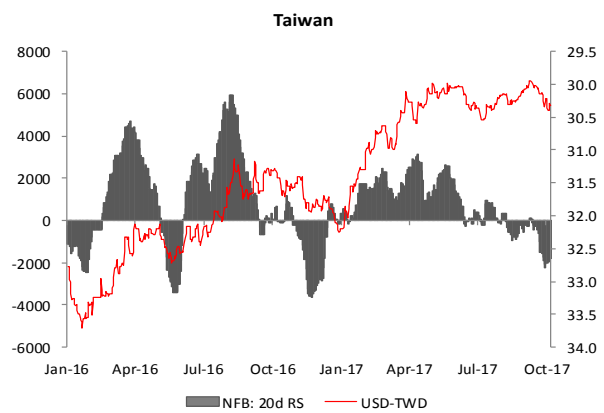
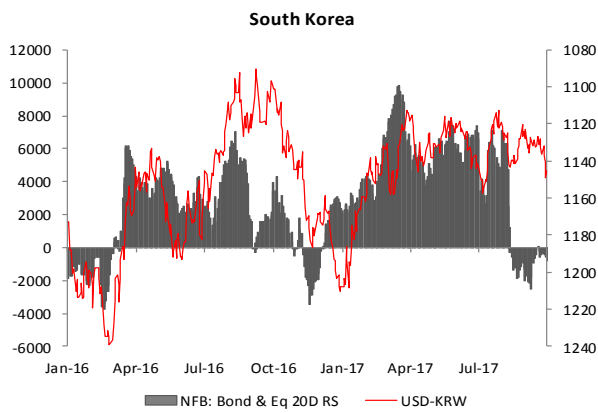
- GBP-USD** The GBP may continue to remain weighed by political uncertainty surrounding Brexit as well as PM May. Short term implied valuations are once again softening, leaving the increase in leveraged CFTC GBP longs in the latest week looking vulnerable. Failure to re-take the 55-day MA (1.3132) leaves the pair vulnerable to sink towards its 100-day MA (1.3018).

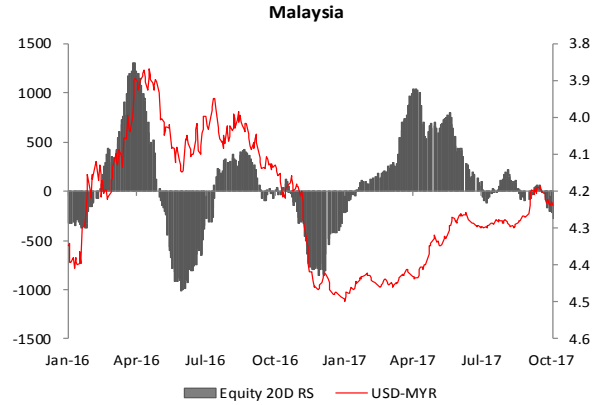


- USD-CAD** In addition to the USD's relapse late Friday, the USD-CAD also was weighed by supportive Canadian September labor market numbers. Short term implied valuations are still attempting to tick higher, at odds with the increase in CFTC leveraged CAD longs in the latest week. In the current environment, we think the risk-reward may continue to favor base building off the 55-day MA (1.2467) towards 1.2630.

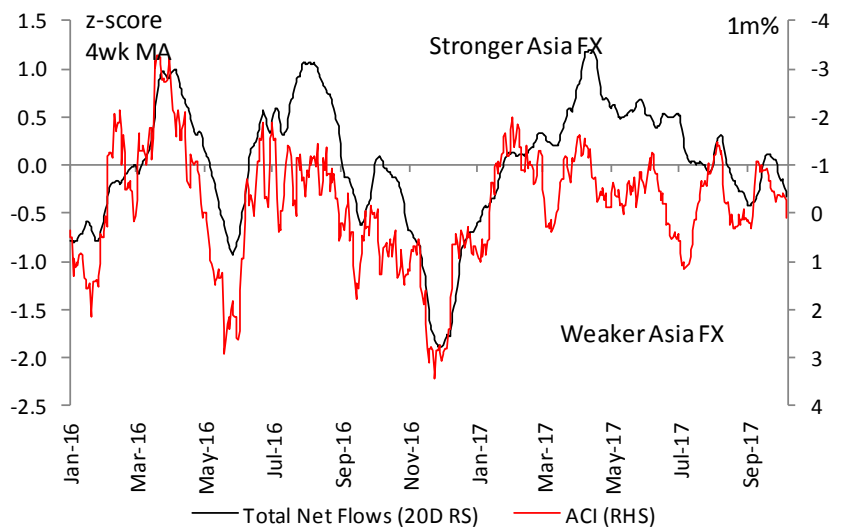
Source: OCBC Bank

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

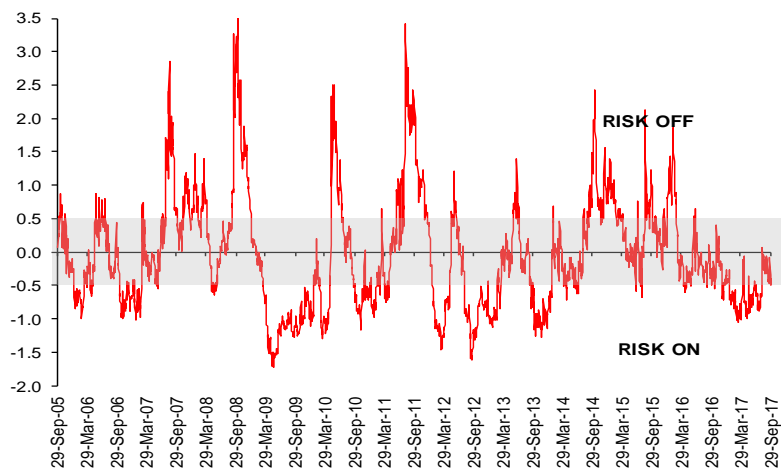




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

| Security | DXY    | USGG10 | CNY    | SPX    | MSELCA | CRY    | JPY    | CL1    | VIX    | ITRTEX | CNH    | EUR    |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY      | 1      | 0.869  | 0.846  | 0.84   | -0.078 | -0.363 | 0.772  | 0.363  | -0.735 | 0.588  | 0.912  | -0.984 |
| SGD      | 0.98   | 0.871  | 0.846  | 0.865  | -0.049 | -0.49  | 0.737  | 0.26   | -0.701 | 0.487  | 0.907  | -0.959 |
| CHF      | 0.912  | 0.922  | 0.768  | 0.843  | 0.164  | -0.269 | 0.871  | 0.349  | -0.855 | 0.668  | 0.839  | -0.85  |
| CNH      | 0.912  | 0.903  | 0.981  | 0.762  | -0.166 | -0.304 | 0.872  | 0.53   | -0.799 | 0.65   | 1      | -0.908 |
| IDR      | 0.909  | 0.94   | 0.97   | 0.788  | -0.107 | -0.37  | 0.888  | 0.47   | -0.863 | 0.656  | 0.976  | -0.901 |
| CAD      | 0.908  | 0.965  | 0.938  | 0.834  | 0.023  | -0.234 | 0.927  | 0.489  | -0.888 | 0.661  | 0.952  | -0.864 |
| THB      | 0.897  | 0.84   | 0.779  | 0.8    | -0.121 | -0.601 | 0.672  | 0.201  | -0.698 | 0.446  | 0.889  | -0.889 |
| TWD      | 0.883  | 0.922  | 0.95   | 0.773  | -0.124 | -0.357 | 0.852  | 0.535  | -0.846 | 0.623  | 0.953  | -0.861 |
| MYR      | 0.876  | 0.775  | 0.713  | 0.758  | -0.166 | -0.601 | 0.625  | 0.227  | -0.68  | 0.511  | 0.846  | -0.878 |
| USGG10   | 0.869  | 1      | 0.843  | 0.852  | 0.132  | -0.252 | 0.925  | 0.403  | -0.929 | 0.592  | 0.903  | -0.808 |
| CNY      | 0.846  | 0.843  | 1      | 0.634  | -0.586 | 0.375  | 0.844  | 0.914  | -0.72  | 0.739  | 0.981  | -0.806 |
| INR      | 0.814  | 0.792  | 0.958  | 0.528  | -0.341 | -0.088 | 0.833  | 0.742  | -0.7   | 0.78   | 0.914  | -0.83  |
| CCN12M   | 0.801  | 0.933  | 0.9    | 0.725  | -0.049 | -0.212 | 0.896  | 0.518  | -0.821 | 0.565  | 0.925  | -0.783 |
| JPY      | 0.772  | 0.925  | 0.844  | 0.691  | 0.078  | -0.046 | 1      | 0.616  | -0.898 | 0.72   | 0.872  | -0.727 |
| KRW      | 0.713  | 0.696  | 0.812  | 0.566  | -0.706 | 0.001  | 0.539  | 0.623  | -0.644 | 0.566  | 0.795  | -0.702 |
| PHP      | 0.153  | 0.156  | -0.378 | 0.237  | 0.375  | -0.273 | -0.015 | -0.424 | 0.016  | -0.445 | -0.014 | -0.154 |
| GBP      | -0.612 | -0.325 | 0.341  | -0.586 | -0.127 | 0.723  | -0.06  | 0.412  | 0.088  | 0.066  | -0.363 | 0.572  |
| NZD      | -0.848 | -0.635 | -0.428 | -0.754 | 0.03   | 0.544  | -0.433 | -0.029 | 0.398  | -0.181 | -0.683 | 0.834  |
| AUD      | -0.937 | -0.894 | -0.917 | -0.804 | 0.104  | 0.368  | -0.791 | -0.388 | 0.766  | -0.56  | -0.909 | 0.911  |
| EUR      | -0.984 | -0.808 | -0.806 | -0.76  | 0.215  | 0.332  | -0.727 | -0.424 | 0.659  | -0.587 | -0.908 | 1      |

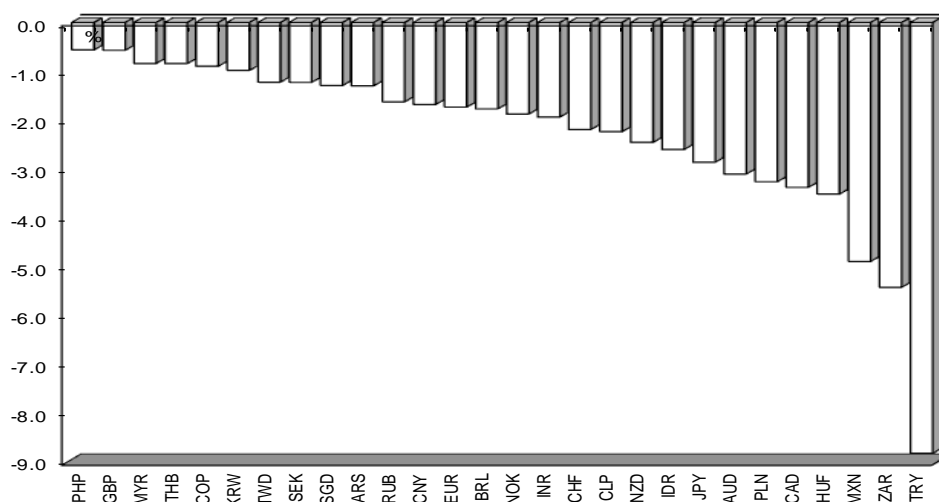
Source: Bloomberg

### Immediate technical support and resistance levels

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1670  | 1.1700  | 1.1743  | 1.1800  | 1.1843  |
| GBP-USD | 1.3000  | 1.3045  | 1.3086  | 1.3100  | 1.3128  |
| AUD-USD | 0.7733  | 0.7734  | 0.7778  | 0.7800  | 0.7921  |
| NZD-USD | 0.7051  | 0.7069  | 0.7075  | 0.7100  | 0.7151  |
| USD-CAD | 1.2461  | 1.2500  | 1.2532  | 1.2600  | 1.2624  |
| USD-JPY | 111.88  | 112.00  | 112.59  | 113.00  | 113.44  |
| USD-SGD | 1.3557  | 1.3600  | 1.3642  | 1.3669  | 1.3691  |
| EUR-SGD | 1.5939  | 1.6000  | 1.6020  | 1.6057  | 1.6100  |
| JPY-SGD | 1.1969  | 1.2100  | 1.2116  | 1.2200  | 1.2217  |
| GBP-SGD | 1.7800  | 1.7801  | 1.7852  | 1.7900  | 1.8349  |
| AUD-SGD | 1.0571  | 1.0600  | 1.0611  | 1.0632  | 1.0700  |
| Gold    | 1256.17 | 1260.50 | 1280.60 | 1295.61 | 1300.00 |
| Silver  | 16.34   | 16.90   | 16.97   | 17.00   | 17.15   |
| Crude   | 49.34   | 49.40   | 49.42   | 49.50   | 50.98   |

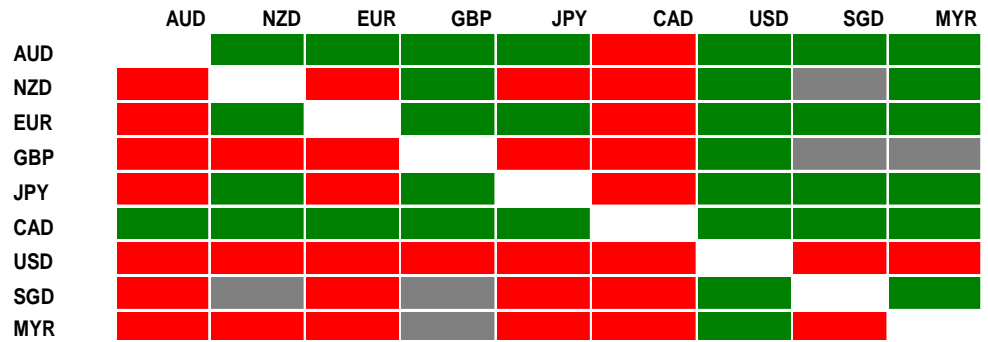
Source: OCBC Bank

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



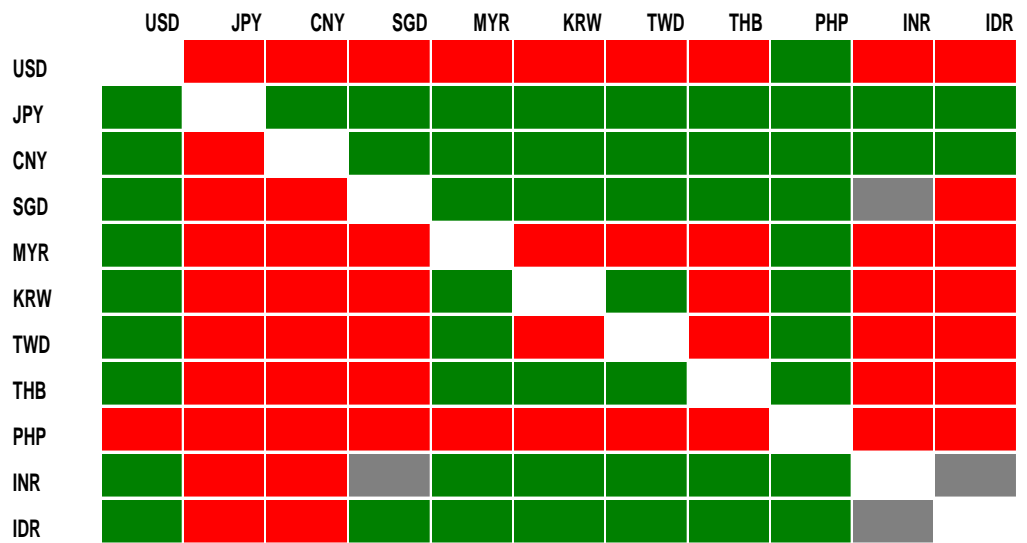
Source: Bloomberg

**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 | S         | EUR-USD   | 1.1734  | 1.1490 1.1860      | Political overhang from Germany contrasting with FOMC, Yellen                                   |  |       |
| 3   | 28-Sep-17 | S         | AUD-USD   | 0.7816  | 0.7625 0.7915      | Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields       |  |       |
| 4   | 28-Sep-17 | B         | USD-CAD   | 1.2500  | 1.2795 1.2350      | Reality check from the BOC's Poloz even as the USD garners renewed interest                     |  |       |
| 5   | 04-Oct-17 | B         | USD-SGD   | 1.3602  | 1.3750 1.3525      | Potential USD resilience- Fed, geopolitical risks, static MAS, decaying capital inflows in Asia |  |       |
| <b>STRUCTURAL</b>                         |           |           |   |   |                    |   |  |       |
| 6   | 09-May-17 | B         | GBP-USD   | 1.2927  | 1.3700 1.2535      | USD skepticism, UK snap elections, positioning overhang, hawkish                                |  |       |
| 7   | 22-Aug-17 |           | Bearish 2M 1X1.5 USD-JPY Put Spread<br>Spot ref: 109.31; Strikes: 109.00, 106.04;<br>Exp: 20/10/17; Cost: 0.57% |   |                    | Underwhelming data feed, gradualist Fed, potential negative US political baggage                |  |       |
| 8   | 29-Aug-17 |           | Bearish 2M 1X1.5 USD-SGD Put Spread<br>Spot ref: 1.3519; Strikes: 1.3511, 1.3361;<br>Exp: 27/10/17; Cost: 0.31% |   |                    | Vulnerable USD, prevailing positivity towards carry, EM/Asia                                    |  |       |
| <b>RECENTLY CLOSED TRADE IDEAS</b>        |           |           |   |   |                    |   |  |       |
| Inception                                 | Close     | B/S       | Currency  | Spot  | Close              | Rationale   | P/L (%)  |       |
| 1   | 12-Jul-17 | 08-Sep-17 |   | Bearish 2M 1X1.5 USD-CAD Put Spread<br>Spot ref: 1.2664; Strikes: 1.2653, 1.2415;<br>Exp: 15/09/17; Cost: 0.50% Closed at 1.2090  |                    | Hawkish BOC being increasingly priced in  | +0.09  |       |
| 2   | 07-Sep-17 | 12-Sep-17 | S   | USD-JPY   | 109.01             | 110.15  | Suppressed UST yields, dovish Fed rhetoric, geopolitical risks               | -1.06 |
| 3   | 13-Sep-17 | 13-Sep-17 | B   | GBP-USD   | 1.3325             | 1.3200  | Hotter than expected Aug core CPI/PPI, hawkish expectations ahead of BOE MPC | -0.95 |
| 4   | 12-Sep-17 | 14-Sep-17 | S   | USD-SGD   | 1.3447             | 1.3525  | Fade the USD relief rally, prepare for renewed interest towards EM/Asia      | -0.58 |
| 5   | 11-Sep-17 | 18-Sep-17 | S   | USD-CAD   | 1.2128             | 1.2270  | Support from earlier than expected BOC rate hike, inherent USD vulnerability | -1.16 |
| 6   | 20-Jul-17 | 21-Sep-17 |   | Bullish 2M 1X1.5 AUD-USD Call Spread<br>Spot ref: 0.7915; Strikes: 0.7909, 0.8111;<br>Exp: 21/09/17; Cost: 0.65% Closed at 0.7964 |                    | More positive than expected RBA minutes, supportive data, weak USD                              | +0.04  |       |
| 7   | 19-Sep-17 | 27-Sep-17 | B   | GBP-USD   | 1.3540             | 1.3395  | Earlier than expected paradigm change by the BOE                             | -1.11 |
|   |           |           |   |   |                    | Jan-Sep*** 2017 Return  | -3.31  |       |
|   |           |           |   |   |                    | 2016 Return   | +6.91  |       |
| * realized **of notional ***month-to-date |           |           |   |   |                    |   |  |       |

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.

---