

Friday, August 11, 2017

FX Themes/Strategy/Trading Ideas

- With UST yields softer on risk aversion, soft US data prints (July PPI, initial claims) and measured comments from the Fed's Dudley, the dollar ended mixed on Thursday. Markets saw more of the same with the cyclicals continuing to be under negative pressure (including across G10 space) from risk aversion (note negative global equities on North Korean jitters) while the USD-JPY slipped easily below 109.50 with the yen pulling higher against its peers on a safe haven bid.
- EUR-USD meanwhile managed to tick higher past 1.1750 while the GBP was weighed by the larger than expected June trade deficit. Early Friday, the **RBA's Lowe** remained sufficiently non-hawkish while noting that AUD appreciation was weighing on the growth and inflation outlook. Expect the latest round of rhetoric to temper AUD enthusiasm. Coupled with a warning from the **RBNZ's John McDermott**, expect the antipodeans to continue to remain under pressure.
- The calendar today includes German and **US July CPI** numbers while Fed-speak from **Kaplan** (1340 GMT) and **Kashkari** (1530 GMT) will be closely watched. With Trump continuing to spew rhetoric against Pyongyang on Thursday, risk aversion may continue to persist into the weekend. To this end, the JPY and USTs may continue to benefit with the cyclicals still expected to be inherently vulnerable in this environment.
- **We note however at least two competing themes simmering in the background.** Firstly, beyond a tipping point, the JPY may be expected to lose its safe haven status if US-North Korean tensions continue to escalate, leaving the CHF (and possibly the USD) as the remaining beneficiaries of risk aversion. Secondly, negative political overhang for the USD may continue to accumulate in the background amid with Trump/Mueller headlines in recent sessions.

Asian FX

- In Asia, expect nervousness to run pretty high with net portfolio inflows for South Korea collapsing. On other fronts, net portfolio inflows for the INR, IDR, and THB have continued to remain resilient thus far (positive set up for these currencies if risk aversion eventually fades). Thus the North-South divide in Asia may continue to persist, with the recent resilience of the renminbi complex also providing a partial anchor for USD-Asia. With the **FXSI (FX Sentiment Index)** surging higher (i.e., deteriorating sentiment) into Risk-Neutral territory on Thursday, expect the **ACI (Asian Currency Index)**

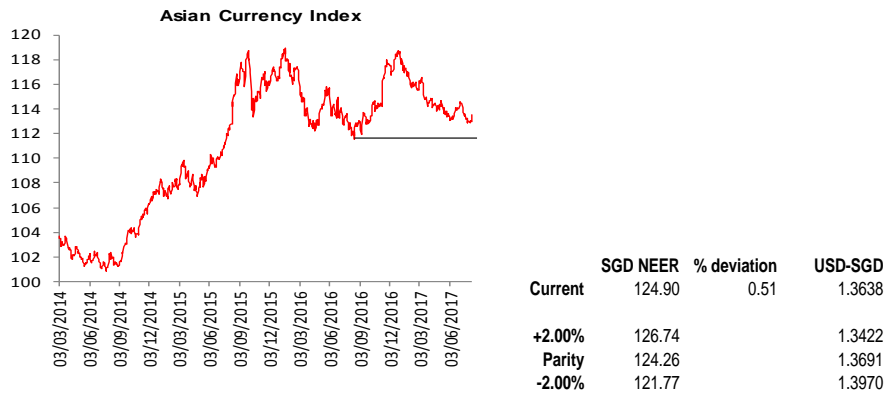
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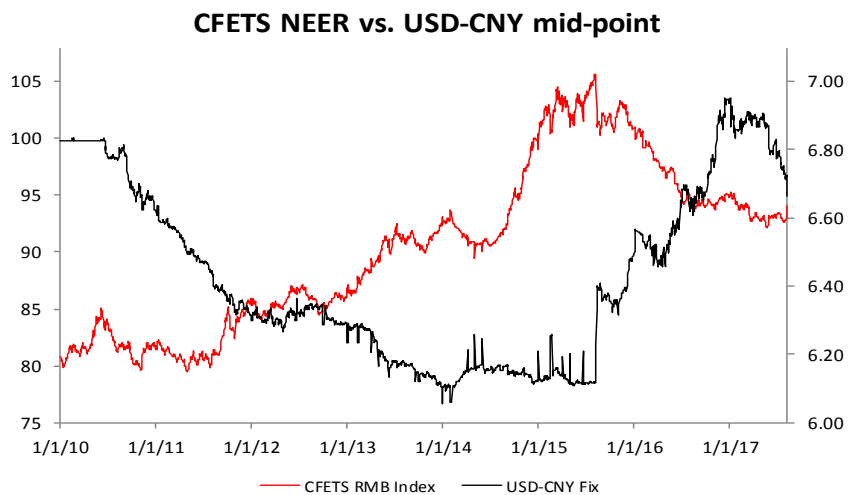
to be supported on dips with an inclination to bounce higher.

- SGD NEER:** This morning, Singapore's 2Q GDP was revised higher to 2.9% yoy from the initial flash estimate of 2.5%. The SGD NEER meanwhile is softer on the day at around +0.46% above its perceived parity (1.3691). NEER-implied USD-SGD thresholds are slightly lower on the day with the +0.50% threshold estimated at 1.3623. Overall, expect the NEER to continue to traverse the region within parity and +0.50% pending further external headlines.



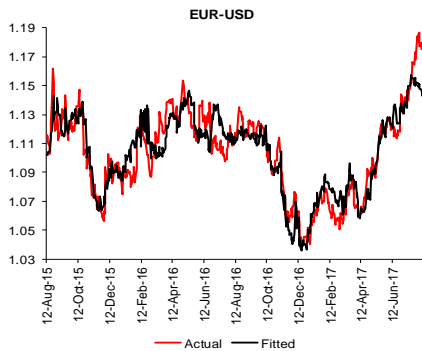
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell less than expected to 6.6642 from 6.6770 yesterday, lifting the CFETS RMB Index higher to 94.03 from 93.76 yesterday. Over the past week, the CFETS RMB Index has detached itself from broader dollar moves (perhaps in reaction to domestic flows) and this development may bear watching.



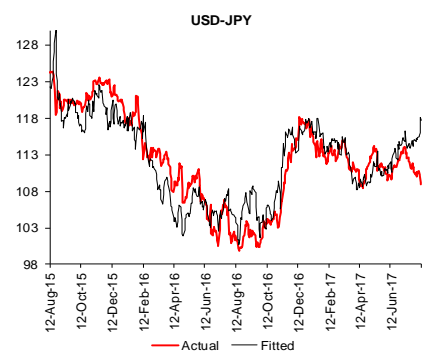
Source: OCBC Bank, Bloomberg

G7



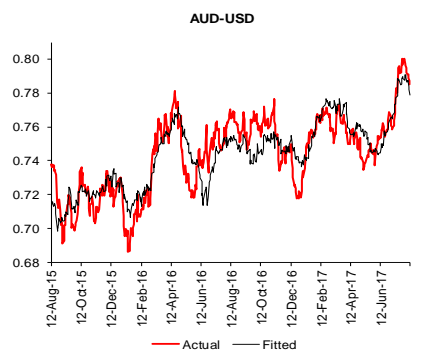
Source: OCBC Bank

- EUR-USD** With risk aversion continuing to be focused on the cyclical, the EUR has continued to hold its own, ostensibly on the back of expectations surrounding Draghi's scheduled appearance at Jackson Hole in 2 weeks. Short term implied valuations meanwhile are holding steady and the pair may remain bounded by 1.1700-1.1830 ahead of the German CPI today.



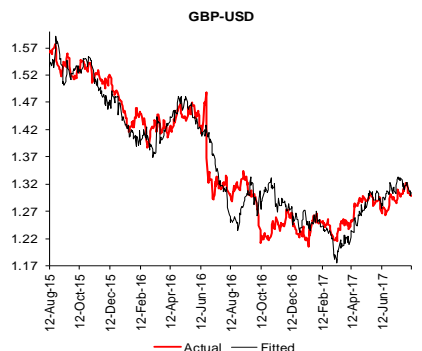
Source: OCBC Bank

- USD-JPY** Given heightened risk aversion, USD-JPY may continue to contemplate the 109.00 floor while disregarding firmer short term implied valuations. A breach of 109.00 risks 108.80/95 before 108.50. EUR-JPY meanwhile is seen weighed towards 128.00 ahead of the 55-day MA (127.39) on potential JPY outperformance.



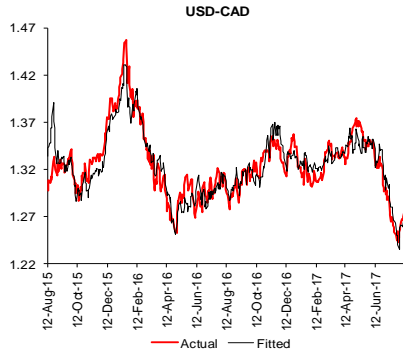
Source: OCBC Bank

- AUD-USD** In the wake of the latest comments from the RBA's Lowe (jawboning against AUD strength), the AUD-USD is expected to track its short term implied valuations lower. Note that a violation of 0.7850 paves the way to 0.7800/30. Elsewhere, with the RBNZ on a softer footing, AUD-NZD may continue to base build off 1.0800 towards 1.0865.



Source: OCBC Bank

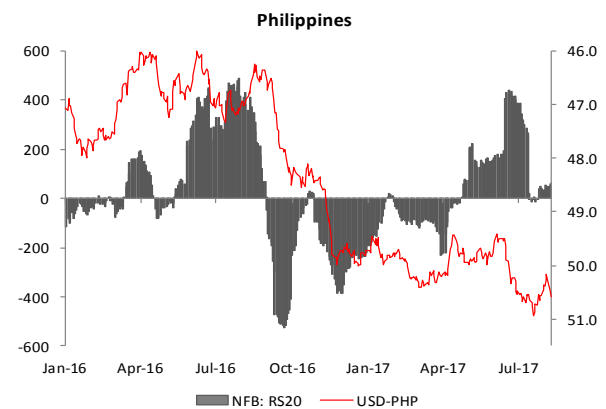
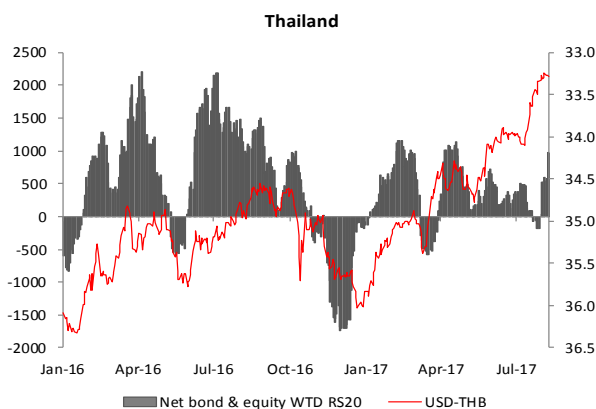
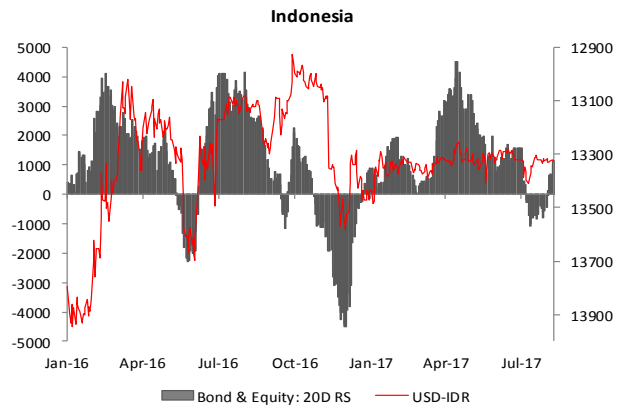
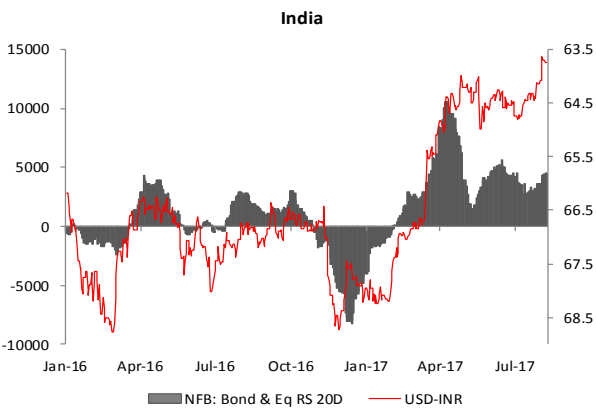
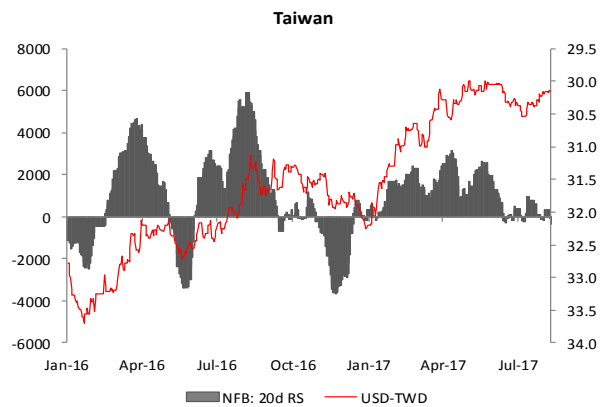
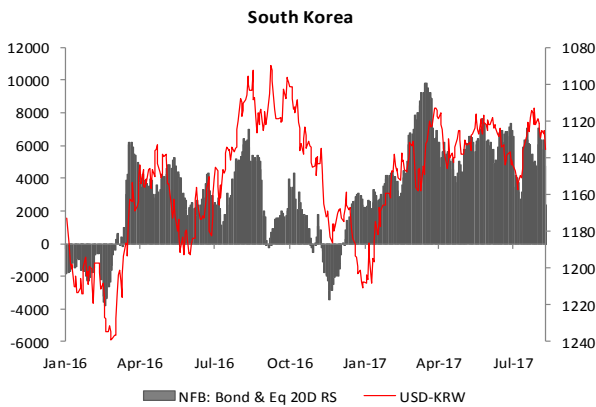
- GBP-USD** With little in the way of strong fundamental underpinnings, the GBP-USD may remain top heavy in line with its short term implied valuations as global markets de-risk. Risk-reward may favor a drift towards the 55-day MA (1.2928) in the near term.

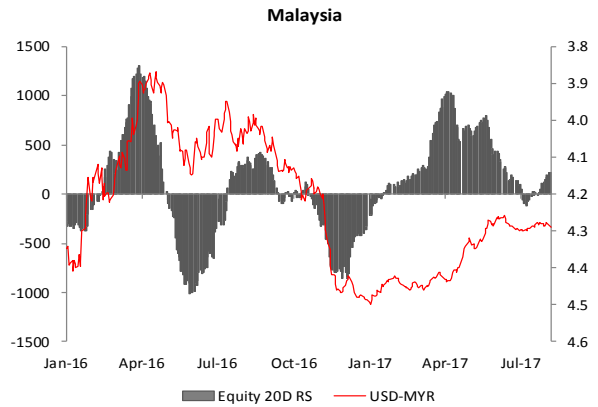


- USD-CAD** With crude tumbling back below 49.00 and risk aversion putting the squeeze on cyclicals, USD-CAD may continue to search higher in tandem with its short term implied valuations. Beyond 1.2800, the next topside waypoint kicks in at 1.2860.

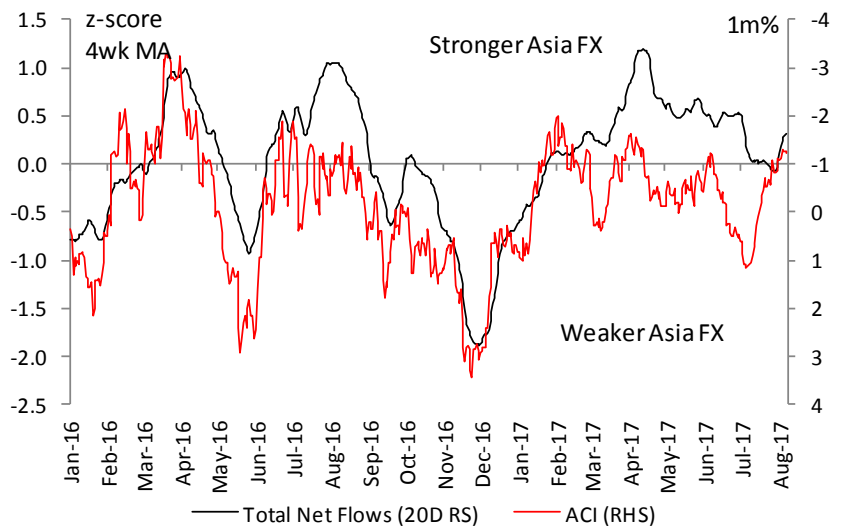
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

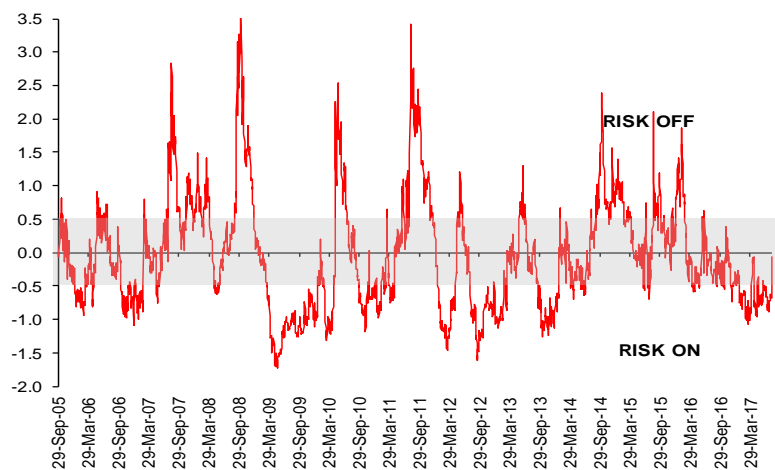




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.6	0.701	-0.583	-0.829	-0.875	0.887	-0.843	-0.245	0.639	0.686	-0.989
THB	0.942	0.643	0.792	-0.57	-0.896	-0.859	0.914	-0.832	-0.322	0.633	0.769	-0.934
SGD	0.925	0.404	0.501	-0.667	-0.778	-0.825	0.73	-0.784	-0.053	0.745	0.489	-0.886
JPY	0.887	0.757	0.891	-0.341	-0.774	-0.79	1	-0.75	-0.547	0.406	0.922	-0.89
TWD	0.731	0.343	0.71	-0.443	-0.798	-0.83	0.643	-0.862	-0.251	0.517	0.524	-0.76
CNY	0.701	0.703	1	-0.093	-0.649	-0.663	0.891	-0.699	-0.757	0.135	0.984	-0.728
INR	0.692	0.516	0.68	-0.445	-0.753	-0.738	0.71	-0.752	-0.259	0.513	0.649	-0.75
CNH	0.686	0.707	0.984	-0.104	-0.664	-0.675	0.922	-0.637	-0.752	0.152	1	-0.705
USGG10	0.6	1	0.703	-0.134	-0.466	-0.387	0.757	-0.298	-0.508	0.215	0.707	-0.61
MYR	0.504	0.16	0.122	-0.644	-0.523	-0.498	0.242	-0.409	0.272	0.752	-0.053	-0.463
CCN12M	0.437	0.039	0.298	-0.404	-0.438	-0.531	0.34	-0.462	-0.05	0.489	0.306	-0.355
CAD	0.423	-0.048	-0.13	-0.613	-0.323	-0.391	0.082	-0.267	0.415	0.606	-0.208	-0.337
PHP	0.385	-0.006	0.218	-0.317	-0.405	-0.475	0.156	-0.538	0.085	0.365	-0.039	-0.444
IDR	0.368	0.423	0.27	-0.595	-0.601	-0.408	0.178	-0.198	0.138	0.665	-0.016	-0.314
KRW	0.275	-0.029	-0.137	-0.741	-0.467	-0.336	-0.058	-0.143	0.511	0.755	-0.319	-0.199
CHF	-0.231	0.047	-0.343	-0.016	0.275	0.469	-0.223	0.569	0.244	-0.108	-0.24	0.302
NZD	-0.516	-0.005	0.052	0.666	0.447	0.529	-0.158	0.404	-0.392	-0.707	0.158	0.451
GBP	-0.62	-0.061	-0.196	0.493	0.472	0.637	-0.312	0.572	-0.157	-0.506	-0.101	0.564
AUD	-0.764	-0.384	-0.366	0.766	0.736	0.759	-0.529	0.625	-0.094	-0.814	-0.298	0.71
EUR	-0.989	-0.61	-0.728	0.565	0.842	0.879	-0.89	0.867	0.276	-0.622	-0.705	1

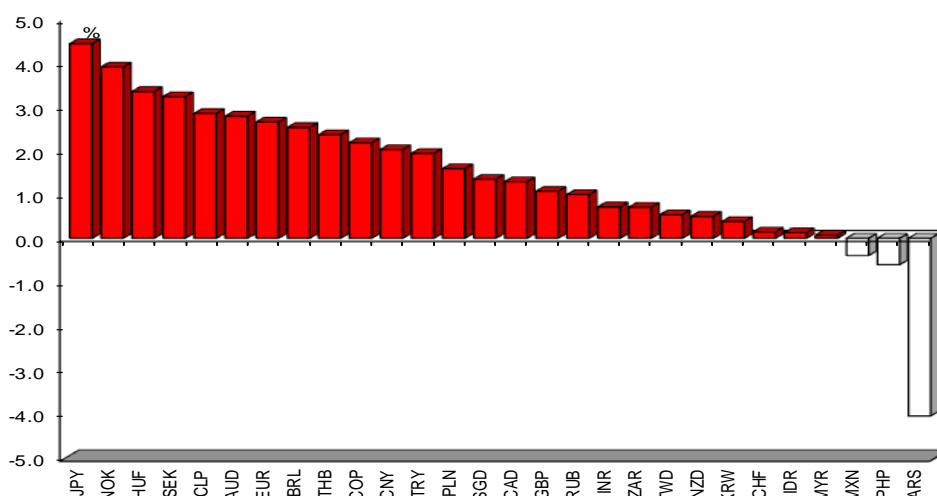
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1497	1.1700	1.1770	1.1800	1.1910
GBP-USD	1.2902	1.2930	1.2981	1.3000	1.3218
AUD-USD	0.7800	0.7827	0.7847	0.7900	0.8027
NZD-USD	0.7202	0.7249	0.7259	0.7300	0.7310
USD-CAD	1.2414	1.2700	1.2750	1.2774	1.2800
USD-JPY	109.00	109.03	109.09	110.00	111.39
USD-SGD	1.3543	1.3600	1.3633	1.3688	1.3700
EUR-SGD	1.5735	1.6000	1.6046	1.6100	1.6163
JPY-SGD	1.2466	1.2477	1.2497	1.2500	1.2506
GBP-SGD	1.7622	1.7663	1.7697	1.7700	1.7707
AUD-SGD	1.0612	1.0684	1.0698	1.0700	1.0893
Gold	1234.47	1252.82	1286.30	1287.05	1287.40
Silver	16.58	17.00	17.08	17.08	17.10
Crude	46.60	48.50	48.56	48.60	50.43

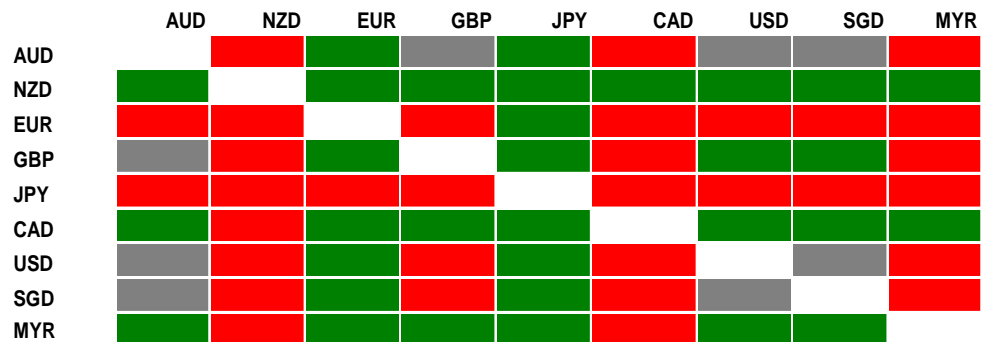
Source: OCBC Bank

FX performance: 1-month change agst USD



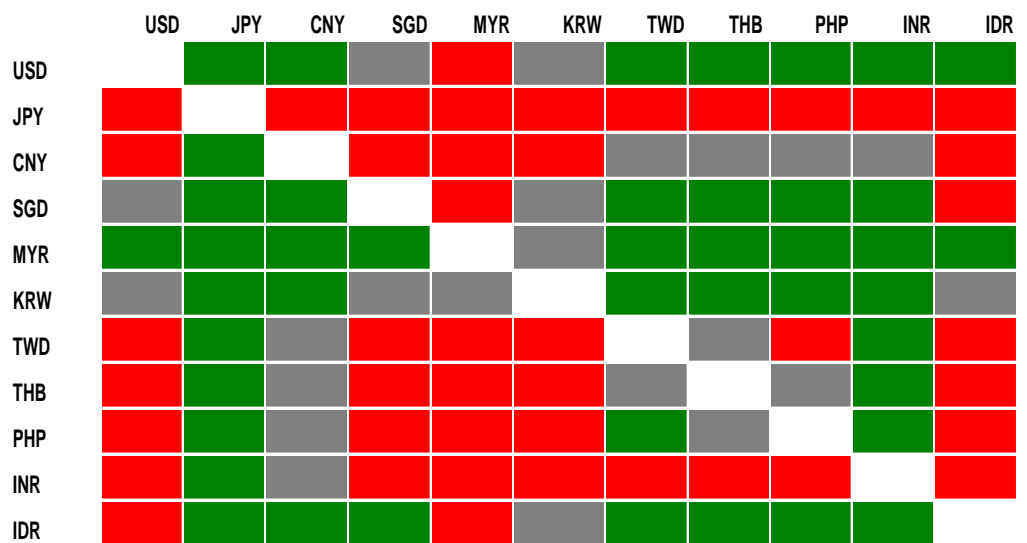
Source: Bloomberg

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		
TACTICAL								
1	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	
2	18-Jul-17	S	USD-SGD	1.3671	1.3535	1.3740	Vulnerable USD, implicit inflow for SGD	
3	01-Aug-17	S	USD-JPY	110.18	107.75	111.45	No surprises expected from Fed-speak after the last FOMC	
STRUCTURAL								
4	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
5	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		
6	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		
7	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		
RECENTLY CLOSED TRADE IDEAS								
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	
5	01-Aug-17	04-Aug-17	B	GBP-USD	1.3207	1.3060	Expected trace of hawkishness at BOE MPC	-1.14
6	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
							Jan-Aug*** 2017 Return	+0.63
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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