

Monday, November 13, 2017

FX Themes/Strategy/Trading Ideas

- The USD ended Friday mixed in a session where currency movements are driven more by idiosyncratic factors, rather than broad US-centric drivers. The antipodeans continued to underperform with political tensions brewing in the Australian parliament, and the uncertain relationship between the RBNZ and the new Labour-led government.
- US-centric drivers (if any) may come from the tax proposal, **with the House Republicans planning to vote on their version of the proposal by this week.** Negotiations on this front will become more intense, as major differences between the House and Senate versions remain. However, there may just be sufficient similarities for the markets to hold on to hope that it may get passed by the Christmas deadline.
- The GBP saw gains on Friday as industrial production exceeded expectations handily, and sufficient progress was made in the 9-10 Nov Brexit negotiations for Davis and Barnier to consider moving to trade talks next month. However, positive sentiments dissipated this early this morning, as news came through that PM May may face a leadership challenge. In addition, the divorce bill is set to be scrutinized in the House of Commons. Watch for evolving political headline risks on this front.
- EZ/US equities faded on last Friday, coupled with a weak opening for JP equities may limit risk appetite at the start of week. Notwithstanding that, the **FX Sentiment Index (FXSI)** ticked lower within the Risk-On territory.
- Despite closing last week on a weak footing, **the broad USD complex may start this week stronger on the back of interest rate differential arguments, and idiosyncratic problems in other currencies.** Note that the UST curve has firmed, with the 10-year yield again on the verge of the 2.40% handle.
- On the data front, watch for US and Eurozone CPI data spread across the week, with an eye on how these might shift the rate hike expectations. US PPI, initial jobless claims and industrial production also on tap for the week.
- **This week will see a heavy schedule of central bank speakers.** This is headlined by Yellen, who will appear on the same panel as Draghi, Kuroda and Carney, on Tuesday (1000 GMT). Among others, watch for Bostic on Tuesday (1805 GMT) and Williams on Friday (2145 GMT) for Fed speakers. For ECB speakers, look out also for Lautenschlaeger, Nouy and Coeure on Tuesday, Praet on Wednesday and Draghi on Friday again. In the context of

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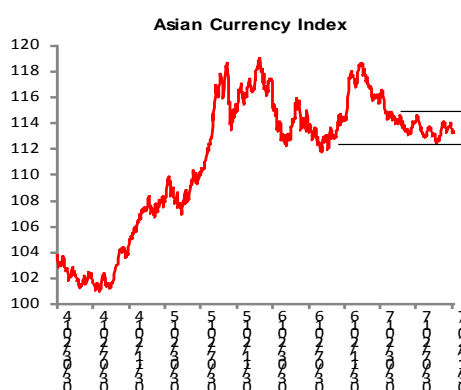
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the recent political issues, watch for comments by BOE's Cunliffe on Tuesday, Haldane and Broadbent on Wednesday, and Carney, Broadbent and Cunliffe on Friday.

- **BI** will be meeting on Thursday. We expect them to hold rates unchanged, given recent comments by its governor on the limitations of monetary policy.

Asian FX

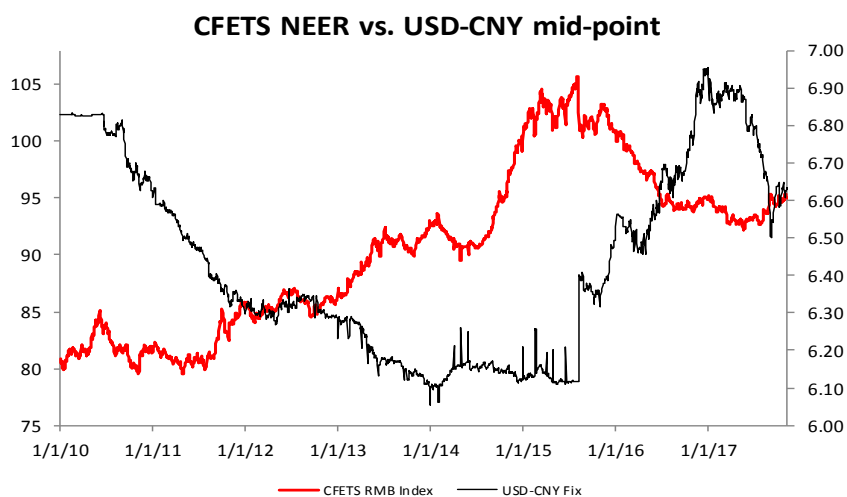
- US President Trump's trip to Asia winds down this week with him attending the East-Asia Summit and US-Asean meetings in Philippines on Monday and Tuesday. Thus far, the trip has been a largely controlled showing from Trump, with some positive outcomes from trade deals.
- Based on **EPFR** data, note that implied bond and equity flows into Asia was unable to build on gains in the previous week, and moderated heavily in the latest reading. On the other hand, **Asian net portfolio inflows** picked up for the KRW and INR. Inflows may also provide some positive support for the TWD, though the scale of inflows has reduced, and the IDR, where outflows are steadily moderating. The THB stands out as a potentially vulnerable as net outflow situation continues to deteriorate.
- EM FX was largely firmer against a weak USD backdrop on Friday. However, the **ACI (Asian Currency Index)** may trade relatively buoyant in the week on the back of mixed equities, and implied and actual fund flow performance.
- **SGD NEER**: The SGD NEER is softer on the day at around +0.96% above its perceived parity (1.3739). The range between +1.10% (1.3590) and +0.80% (1.3631) may continue to govern. Other key levels to watch include the 55-day MA (1.3562), which may also provide support, and the 100-day MA (1.3609)



	SGD NEER	% deviation	USD-SGD
Current	125.46	0.97	1.3608
+2.00%	126.74		1.3472
Parity	124.26		1.3741
-2.00%	121.77		1.4021

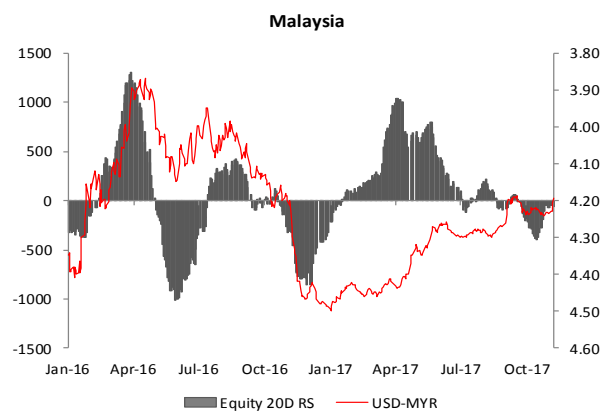
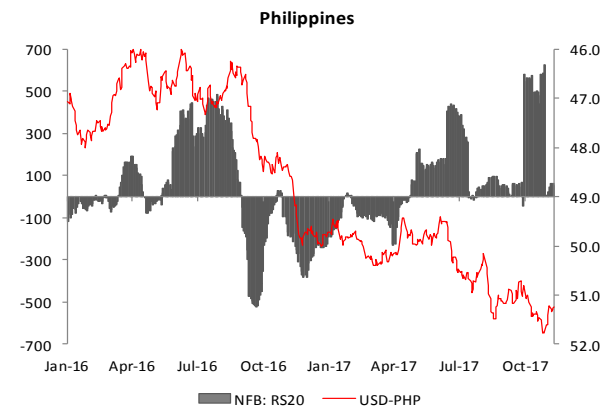
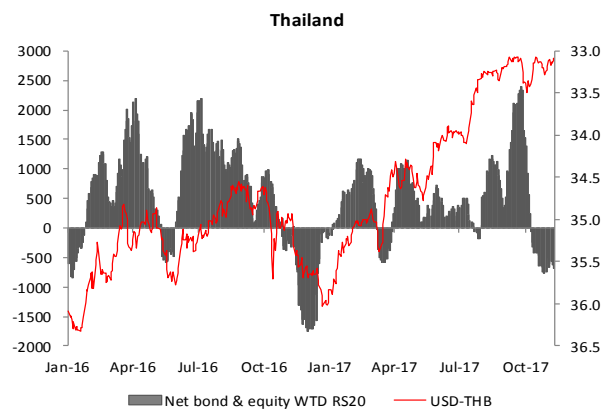
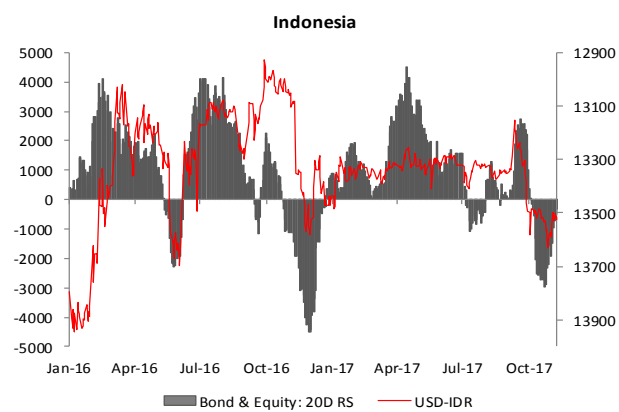
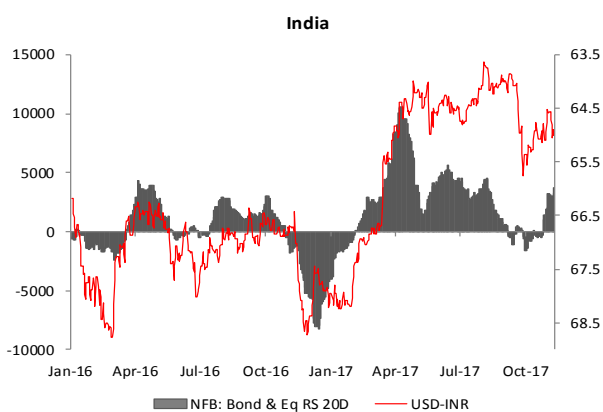
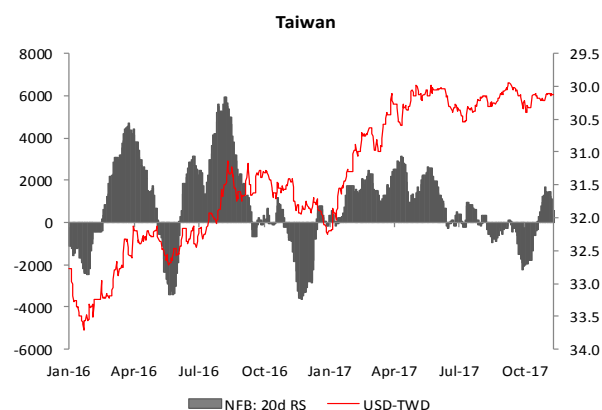
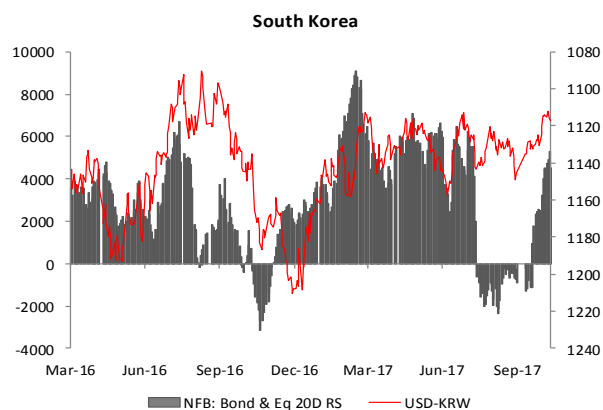
Source: OCBC Bank

- **CFETS RMB Index**: Today, the USD-CNY mid-point was set higher (as largely expected) at 6.6347 from 6.6282 on Friday. The CFETS RMB Index softened marginally to 95.03 from 95.05 on Friday.

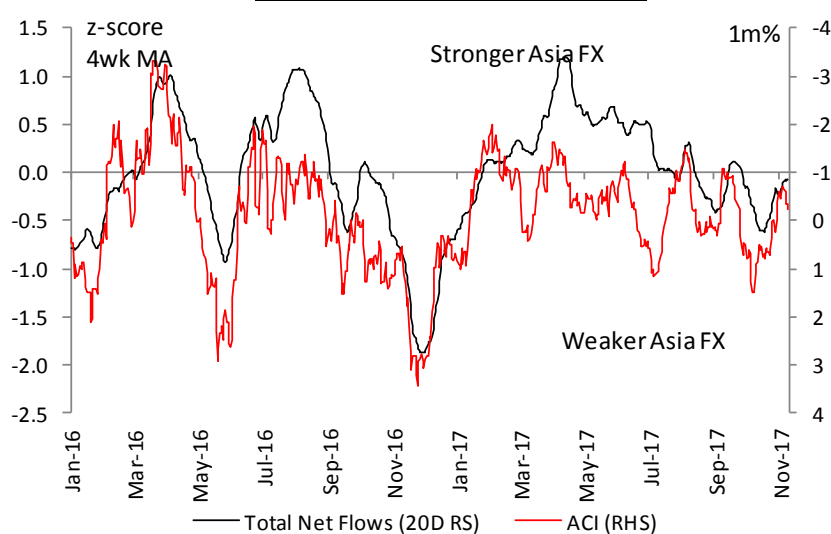


Source: OCBC Bank, Bloomberg

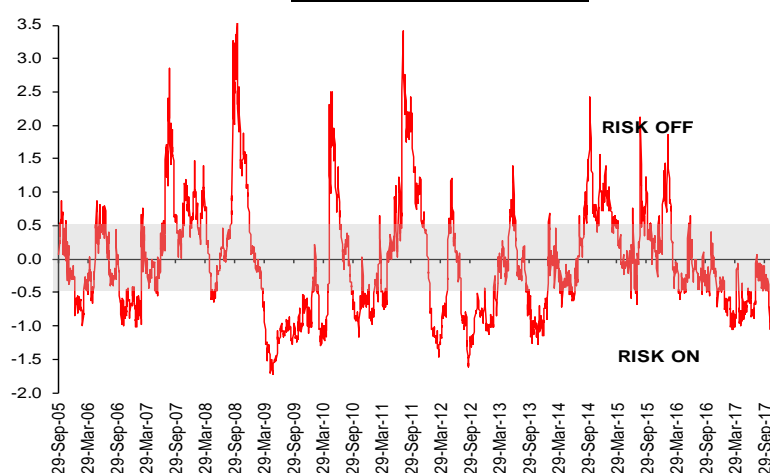
USD-Asia VS. Net Capital Flows



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	0.135	0.398	0.805	0.536	0.762	0.765	0.776	-0.273	-0.818	0.481	-0.972
CHF	0.953	0.305	0.389	0.748	0.505	0.73	0.883	0.738	-0.12	-0.795	0.536	-0.902
CAD	0.804	0.484	0.378	0.426	0.142	0.427	0.783	0.408	0.079	-0.709	0.432	-0.7
JPY	0.765	0.475	0.367	0.601	0.312	0.519	1	0.501	0.024	-0.626	0.541	-0.655
SGD	0.709	0.574	0.687	0.434	0.017	0.336	0.807	0.337	0.093	-0.461	0.725	-0.617
CNH	0.481	0.629	0.902	0.334	0.152	0.426	0.541	0.466	0.446	-0.058	1	-0.445
CNY	0.398	0.447	1	0.247	0.008	0.309	0.367	0.322	0.293	-0.103	0.902	-0.369
IDR	0.38	0.703	0.381	-0.07	-0.388	-0.097	0.412	-0.091	0.338	-0.239	0.376	-0.258
THB	0.198	0.594	0.618	-0.023	-0.502	-0.167	0.24	-0.168	0.15	-0.14	0.397	-0.099
MYR	0.145	0.064	0.177	-0.079	-0.484	-0.298	0.234	-0.369	-0.226	-0.429	0.201	-0.052
USGG10	0.135	1	0.447	-0.23	-0.442	-0.189	0.475	-0.16	0.682	0.151	0.629	-0.015
CCN12M	0.05	0.2	0.593	0.086	0.149	0.173	0.05	0.239	0.206	0.206	0.583	-0.064
PHP	-0.166	0.727	0.293	-0.59	-0.809	-0.568	0.043	-0.59	0.469	0.256	0.175	0.291
TWD	-0.288	0.574	0.385	-0.385	-0.706	-0.492	0.056	-0.53	0.42	0.412	0.295	0.406
INR	-0.33	0.208	0.477	-0.152	-0.069	-0.082	-0.253	-0.094	0.507	0.655	0.487	0.272
GBP	-0.392	0.095	-0.164	-0.471	-0.247	-0.318	-0.347	-0.361	0.329	0.228	-0.226	0.361
NZD	-0.727	-0.618	-0.528	-0.436	-0.053	-0.409	-0.839	-0.396	-0.194	0.547	-0.635	0.587
KRW	-0.78	0.179	-0.05	-0.799	-0.844	-0.882	-0.642	-0.868	0.301	0.749	-0.224	0.796
AUD	-0.909	-0.353	-0.514	-0.67	-0.505	-0.756	-0.769	-0.778	0.017	0.691	-0.655	0.868
EUR	-0.972	-0.015	-0.369	-0.826	-0.629	-0.807	-0.655	-0.829	0.321	0.794	-0.445	1

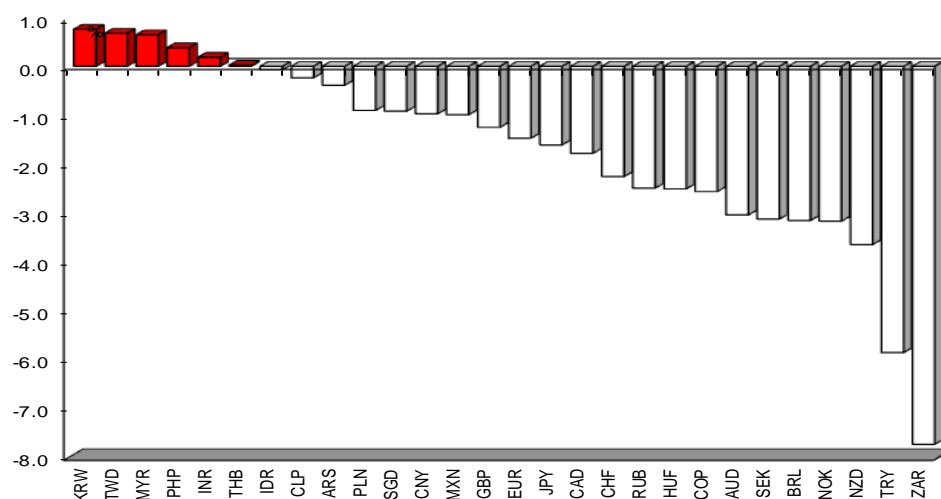
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1554	1.1600	1.1647	1.1700	1.1790
GBP-USD	1.3059	1.3100	1.3120	1.3200	1.3250
AUD-USD	0.7600	0.7625	0.7647	0.7699	0.7700
NZD-USD	0.6818	0.6900	0.6919	0.7000	0.7104
USD-CAD	1.2505	1.2600	1.2696	1.2700	1.2917
USD-JPY	112.56	113.00	113.66	114.00	114.57
USD-SGD	1.3562	1.3600	1.3618	1.3668	1.3700
EUR-SGD	1.5768	1.5800	1.5861	1.5900	1.5989
JPY-SGD	1.1905	1.1908	1.1982	1.2000	1.2065
GBP-SGD	1.7772	1.7800	1.7867	1.7900	1.7968
AUD-SGD	1.0359	1.0400	1.0414	1.0500	1.0624
Gold	1262.08	1265.84	1275.40	1288.27	1292.41
Silver	16.67	16.80	16.89	16.90	17.12
Crude	51.84	56.80	56.86	56.90	57.92

Source: OCBC Bank

FX performance: 1-month change agst USD

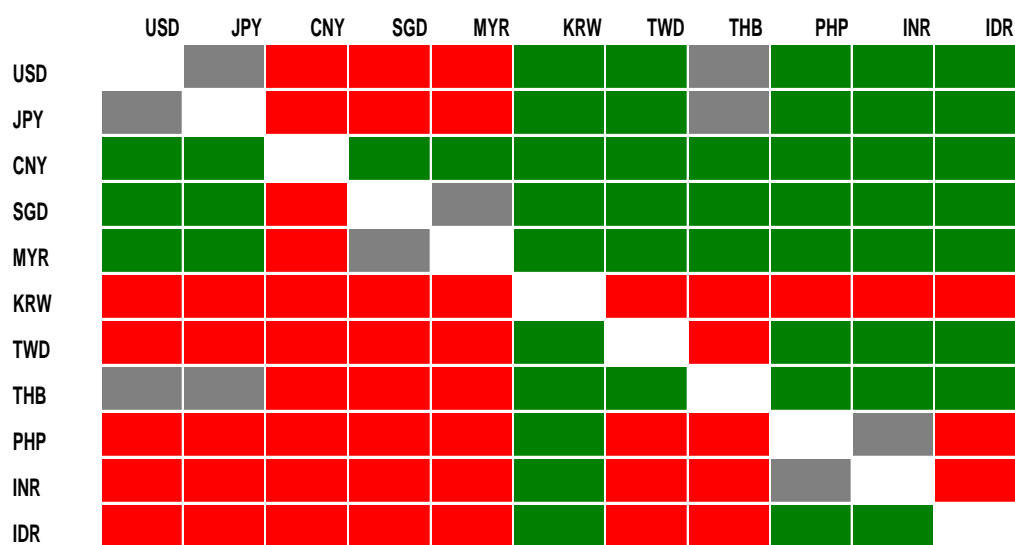


Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Red	Green	Green	Grey	Green	Green	Green
NZD	Red		Red	Red	Green	Red	Green	Green	Green
EUR	Green	Green		Green	Green	Grey	Green	Green	Green
GBP	Red	Green	Red		Green	Grey	Green	Green	Green
JPY	Red	Red	Red	Red		Red	Grey	Red	Red
CAD	Grey	Green	Grey	Grey	Green		Green	Green	Green
USD	Red	Red	Red	Red	Grey	Red		Red	Red
SGD	Red	Red	Red	Red	Green	Red	Green		Grey
MYR	Red	Red	Red	Red	Green	Red	Green	Grey	

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	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	
	STRUCTURAL							
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	
	RECENTLY CLOSED TRADE IDEAS							
	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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