

Wednesday, September 13, 2017

FX Themes/Strategy/Trading Ideas

- Firmer UST yields and improving risk appetite levels (note positive EZ/US equities) lifted the USD-JPY above 110.00 and saw the JPY underperforming across the board. The buck however still ended mixed across G10 space, with the GBP-USD launching towards 1.3300 following warmer than expected UK August CPI/PPI readings. Overall, a mixture of positive global equities, receding headline risks, and the UK CPI reading, lifted UST (10y sailed above 2.16%) and bund yields (10y bund yield gained above 0.40%). With global inflation numbers increasingly on radar screens, US August PPI data today and August CPI numbers on Thursday will be expected to be under close scrutiny.
- **We continue to watch for any further potential push higher by the DXY into the 92.00-92.50 zone, and monitor prospects for the 10y UST to test towards the 2.20% neighborhood (and for the 10y bund to test 0.45%).** With global 10y yields pushing higher this week, expect investors to attempt to differentiate between a rebound in global yields from the depth of risk aversion-related lows seen last week and a potential structural shift in inflation expectations and shifting relative central bank dynamics. At this juncture, jumping on the latter dynamic may prove slightly premature.
- The calendar today sees the ECB's Prate at 1700 GMT, the RBA's DeBelle at 2315 GMT, while data points include German August CPI (0600 GMT), UK labor market numbers (0830 GMT), US August PPI (1230 GMT). In Asia, China August monetary aggregates are expected to be released from today.
- Although the broad dollar may be enjoying a reprieve currently as risk aversion moderates, improving risk appetite levels may once again encourage renewed interest towards EM/Asia, especially if broad USD weakness materializes on a multi-session basis. Meanwhile, note that the SGD NEER continues to inhabit the upper half of its fluctuation band. From a **USD-SGD** spot ref of 1.3447 on Tuesday, we look to a tactical objective of 1.3315 and place a stop at 1.3525.

Asian FX

- EM equities continued to pull higher overnight as investor sentiment continued to improve and again, this should temper USD resilience into the current session. In terms of net portfolio inflows in Asia, outflow momentum continues to be compressed for the KRW while TWD is registering small inflows. Meanwhile, outflows with respect to the INR continue to deepen but the IDR and THB are experiencing a recent resurgence in net inflows. On

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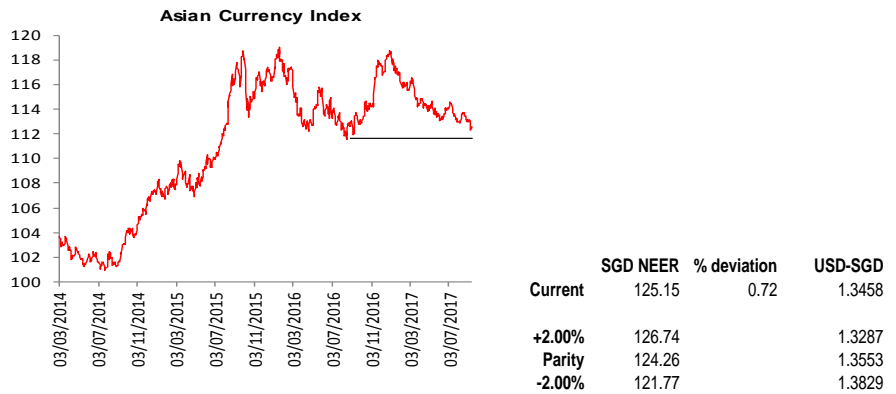
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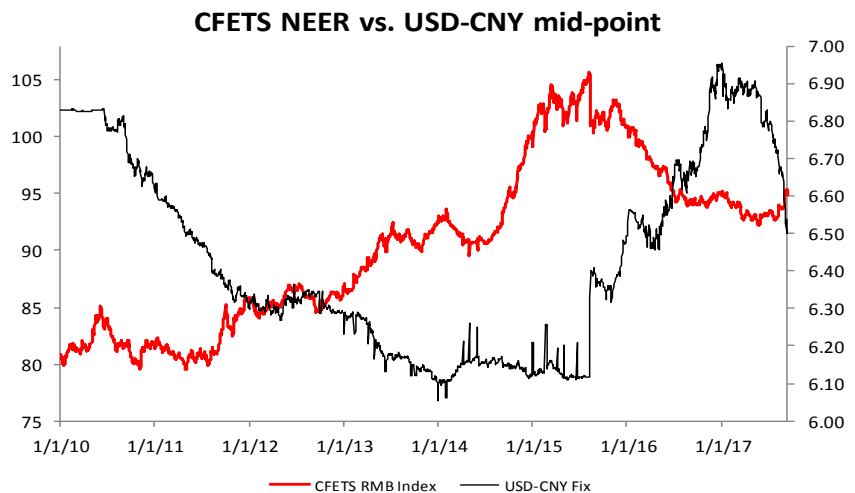
other fronts, net inflows for the PHP continue to dribble lower. Overall, the **ACI (Asian Currency Index)** may be expected to be top heavy with the **FXSI (FX Sentiment Index)** digging lower within Risk-Neutral territory overnight.

- SGD NEER:** This morning, the SGD NEER is marginally higher on the day at around +0.71% above its perceived parity (1.3551). NEER-implied USD-SGD thresholds are slightly firmer on the day but the reluctance of the USD-SGD to drift higher has left the NEER on firmer ground. Expect a near term ceiling towards the +0.80% threshold (1.3445) with the +1.00% threshold at 1.3418 pending further moves in the basket's constituent currencies.



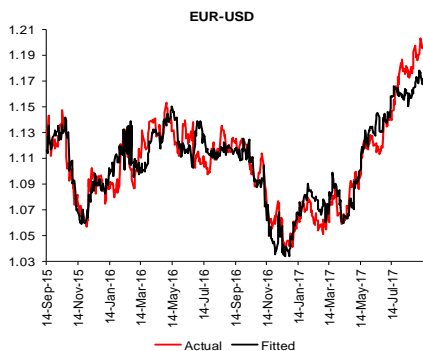
Source: OCBC Bank

- CFETS RMB Index:** With some sense of normalcy returning, the USD-CNY mid-point increased (as largely expected) to 6.5382 this morning from 6.5277 on Tuesday. This took the **CFETS RMB Index** lower (again) to 94.86 from 94.94 yesterday.



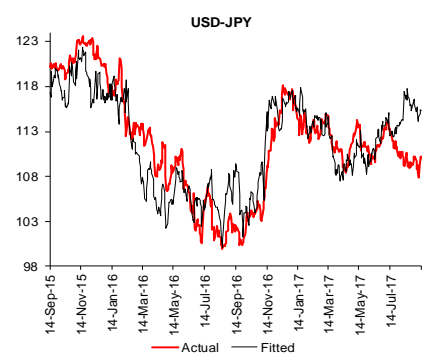
Source: OCBC Bank, Bloomberg

G7



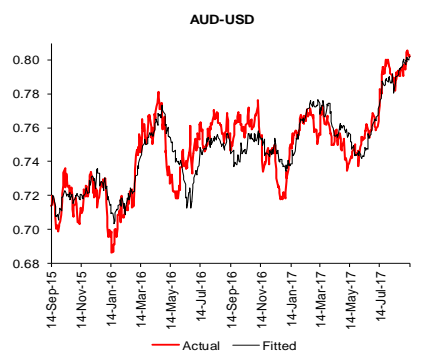
Source: OCBC Bank

- EUR-USD** Yield differential arguments may provide background support for the EUR-USD with short term implied valuations thus looking underpinned. Nonetheless, investors may remain of further ECB rhetoric on the EUR and the pair may hover within 1.1920-1.2030 in the interim.



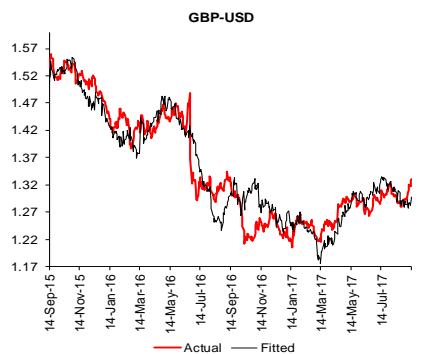
Source: OCBC Bank

- USD-JPY** A firmer US yield complex may also continue to prop up the USD-JPY in the near term, especially if the JPY remains undermined on the crosses as risk appetite improves. Short term implied valuations continue to bottom out with the 55-day MA (110.82) looming into view. In the near term, expect initial support zone towards 109.50/70.



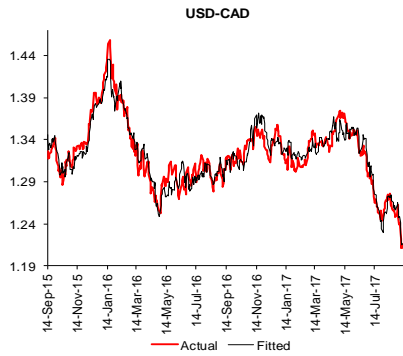
Source: OCBC Bank

- AUD-USD** Brightening investor appetite is expected to continue to lay a fairly solid floor under the AUD-USD towards 0.8000. We stay mildly constructive on the pair ahead of the August labor market numbers on Thursday and with 0.8070 seen as an initial resistance.



Source: OCBC Bank

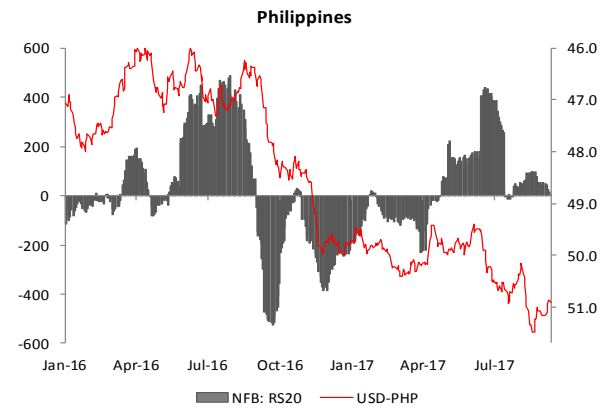
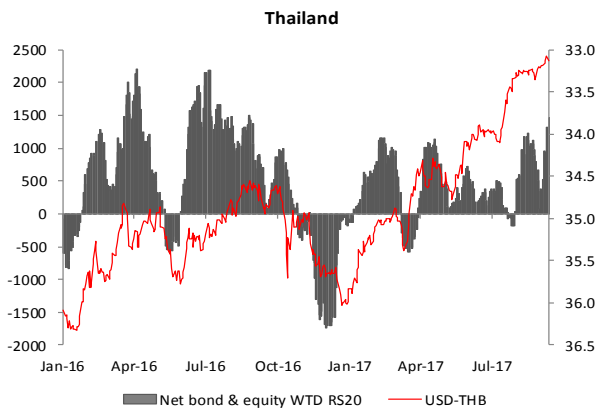
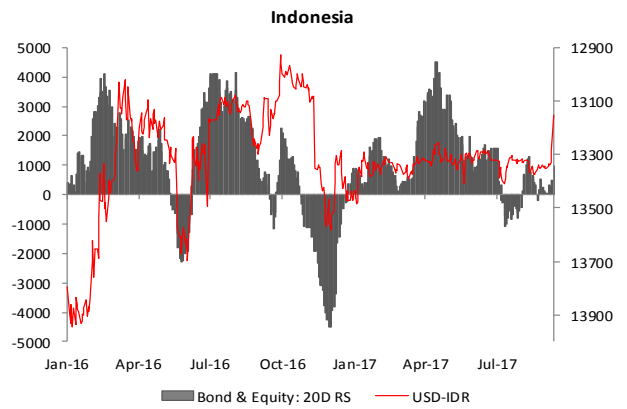
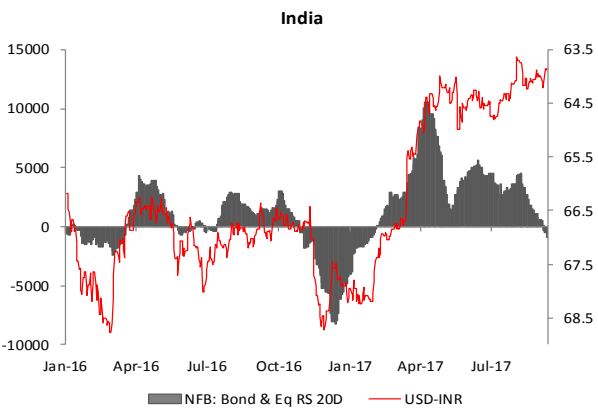
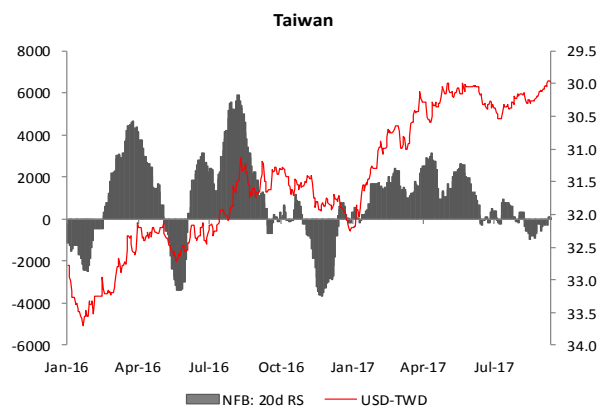
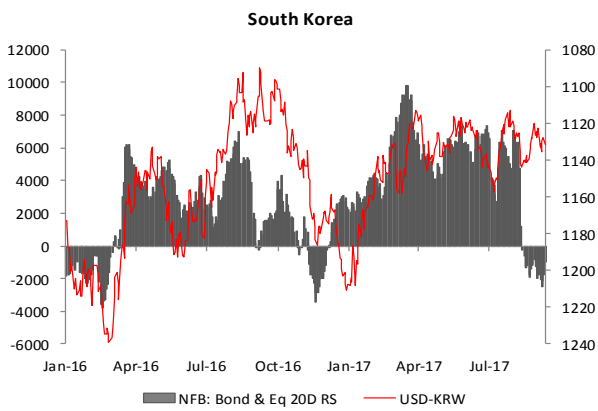
- GBP-USD** With gilts and the GBP reacting to the warmer than expected inflation readings yesterday, expect increasingly hawkish expectations to be attached to the BOE MPC tomorrow. In the interim, expect dips to be shallow, potentially limited to 1.3250 with investors likely more sensitized to wage/labor market readings due later today.

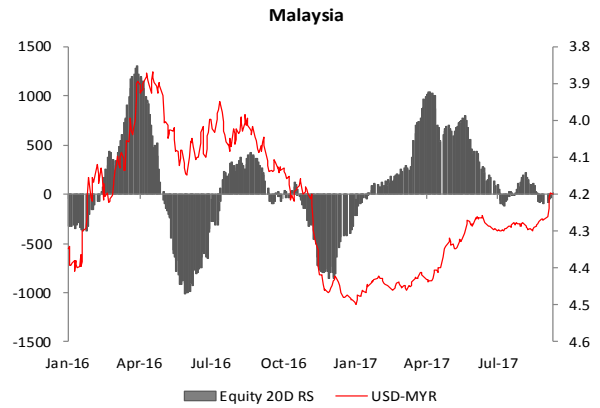


- USD-CAD** Despite yield differentials still inherently weighing on the pair, we retain a preference to fade upticks, especially with the Finance Minister expressing little discomfort with CAD resilience. Preference to fade up moves towards 1.2230 in the interim.

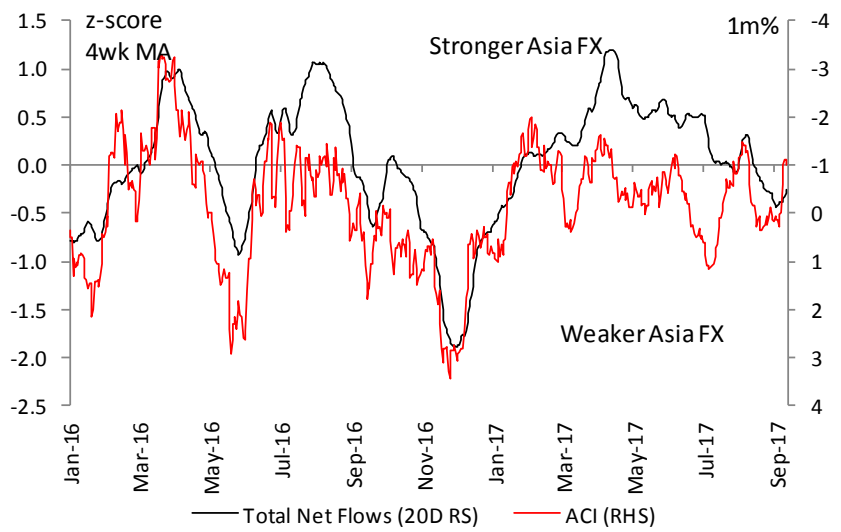
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

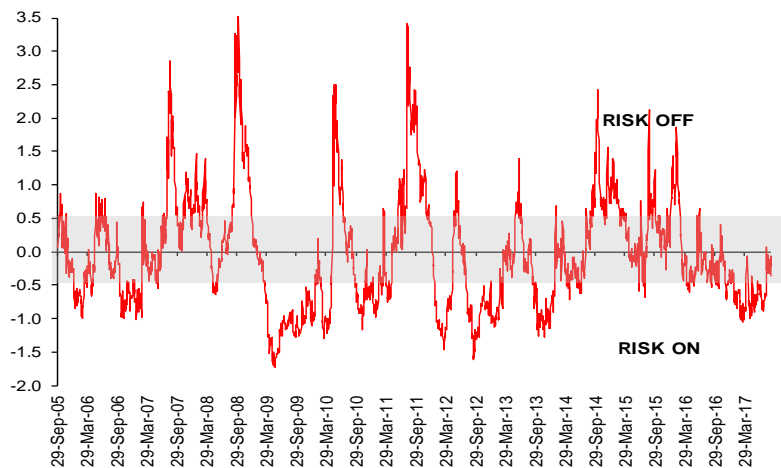




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.814	0.899	-0.437	-0.635	-0.795	0.451	-0.283	0.444	0.714	0.906	-0.971
SGD	0.969	0.799	0.899	-0.498	-0.604	-0.832	0.462	-0.4	0.465	0.751	0.906	-0.929
MYR	0.916	0.676	0.926	-0.63	-0.717	-0.852	0.344	-0.415	0.493	0.864	0.93	-0.838
TWD	0.911	0.773	0.97	-0.605	-0.711	-0.878	0.335	-0.31	0.503	0.851	0.969	-0.856
CNH	0.906	0.806	0.996	-0.564	-0.657	-0.906	0.331	-0.376	0.488	0.829	1	-0.857
CNY	0.899	0.828	1	-0.568	-0.627	-0.916	0.384	-0.366	0.472	0.826	0.996	-0.843
CAD	0.898	0.707	0.893	-0.529	-0.679	-0.879	0.399	-0.535	0.435	0.809	0.901	-0.81
CHF	0.868	0.877	0.77	-0.103	-0.473	-0.635	0.676	-0.191	0.166	0.512	0.768	-0.86
CCN12M	0.85	0.562	0.818	-0.555	-0.768	-0.695	0.205	-0.245	0.6	0.677	0.829	-0.8
USGG10	0.814	1	0.828	-0.187	-0.479	-0.768	0.653	-0.299	0.211	0.511	0.806	-0.788
THB	0.806	0.649	0.875	-0.568	-0.428	-0.746	0.222	-0.28	0.306	0.769	0.865	-0.739
PHP	0.782	0.641	0.696	-0.485	-0.607	-0.653	0.528	-0.152	0.528	0.619	0.702	-0.772
IDR	0.719	0.406	0.646	-0.634	-0.649	-0.589	0.276	-0.197	0.413	0.751	0.645	-0.603
INR	0.639	0.472	0.501	-0.289	-0.545	-0.327	0.21	0.335	0.449	0.421	0.507	-0.689
KRW	0.537	0.421	0.451	-0.235	-0.688	-0.328	-0.072	0.292	0.599	0.308	0.479	-0.645
JPY	0.451	0.653	0.384	0.299	0.001	-0.388	1	-0.399	-0.268	0.046	0.331	-0.383
NZD	0.166	0.293	0.446	-0.301	-0.424	-0.454	-0.178	-0.01	0.527	0.336	0.418	-0.24
GBP	-0.813	-0.498	-0.792	0.694	0.531	0.747	-0.159	0.369	-0.356	-0.855	-0.772	0.712
AUD	-0.919	-0.788	-0.863	0.41	0.634	0.815	-0.493	0.405	-0.365	-0.729	-0.879	0.84
EUR	-0.971	-0.788	-0.843	0.395	0.624	0.714	-0.383	0.16	-0.531	-0.635	-0.857	1

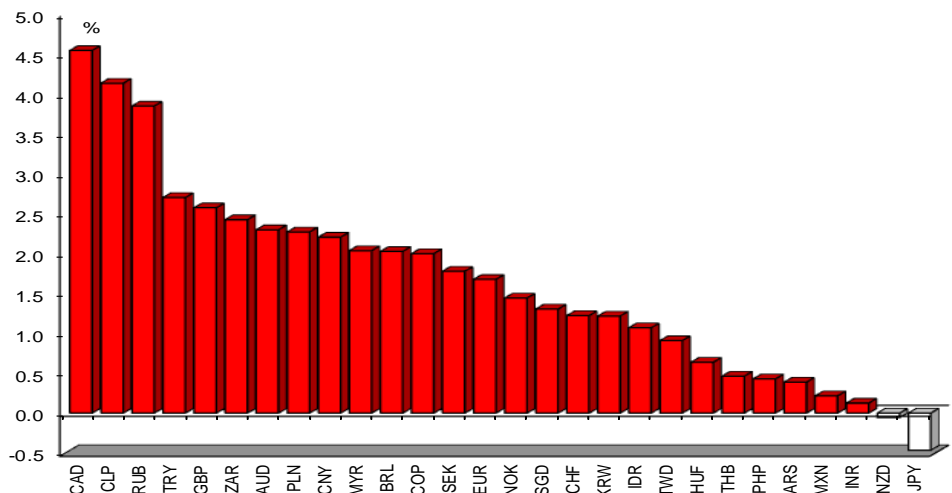
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1747	1.1900	1.1974	1.2000	1.2069
GBP-USD	1.3200	1.3274	1.3295	1.3298	1.3300
AUD-USD	0.7900	0.8000	0.8029	0.8062	0.8100
NZD-USD	0.7146	0.7200	0.7277	0.7300	0.7311
USD-CAD	1.2062	1.2100	1.2170	1.2200	1.2555
USD-JPY	108.19	110.00	110.12	110.59	110.60
USD-SGD	1.3394	1.3400	1.3453	1.3500	1.3606
EUR-SGD	1.5990	1.6100	1.6107	1.6200	1.6212
JPY-SGD	1.2200	1.2214	1.2216	1.2222	1.2300
GBP-SGD	1.7800	1.7830	1.7885	1.7900	1.8042
AUD-SGD	1.0746	1.0800	1.0801	1.0821	1.0857
Gold	1276.44	1300.00	1330.20	1356.31	1358.50
Silver	17.15	17.80	17.86	17.90	18.16
Crude	47.72	48.20	48.25	48.30	49.42

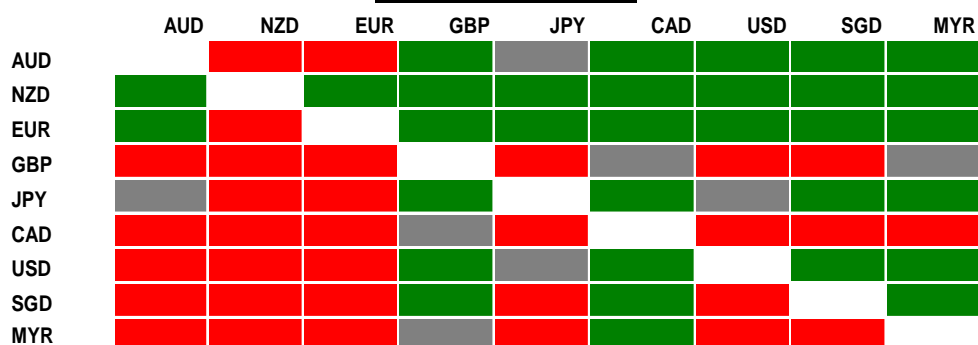
Source: OCBC Bank

FX performance: 1-month change agst USD



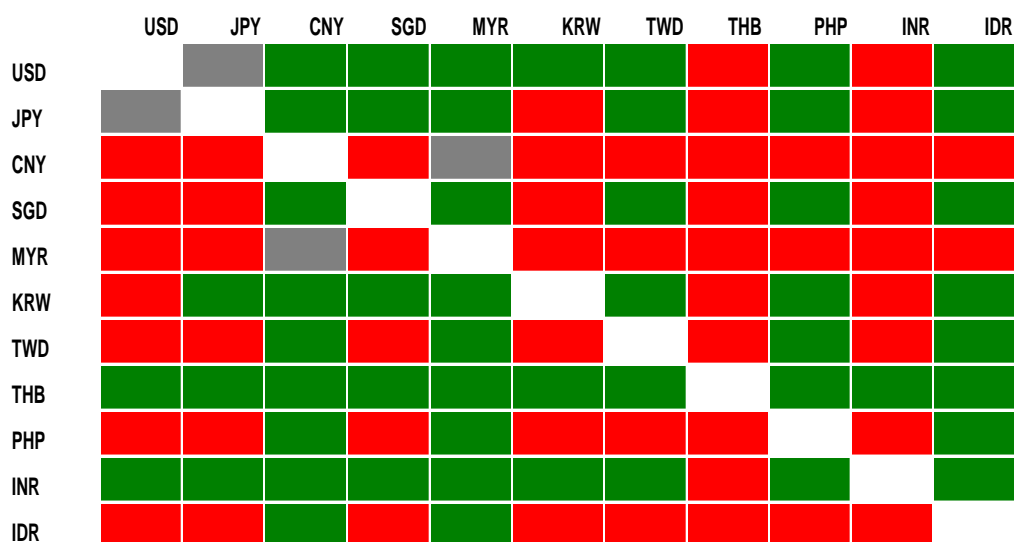
Source: Bloomberg

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	
2	11-Sep-17	S	USD-CAD	1.2128	1.1850	1.2270	Support from earlier than expected BOC rate hike, inherent USD vulnerability	
3	12-Sep-17	S	USD-SGD	1.3447	1.3315	1.3525	Fade the USD relief rally, prepare for renewed interest towards EM/Asia	
STRUCTURAL								
4	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
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	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
2	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
3	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
4	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
5	12-Jul-17	08-Sep-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% Closed at 1.2063			ECB transitioning to neutral, Fed wavering	+0.05
6	12-Jul-17	08-Sep-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% Closed at 1.2090			Hawkish BOC being increasingly priced in	+0.09
							Jan-Sep*** 2017 Return	+6.77
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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