

Monday, August 14, 2017

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

- On the back of the cooler than expected US July CPI readings, the USD retreated against its G10 counterparts as UST yields softened (bull flattened from the front-end with FF-implied odds of a December rate hike collapsing to 25.5% from 38.1%). The Fed's Kaplan meanwhile also preaching patience.
- The greenback is expected to start the week on a wobbly footing after last Friday's CPI although potential background geopolitically-induced risk aversion may temper excessive USD vulnerability at this juncture. **Pending headline risks the broad dollar may be trapped between inherent skepticism towards the Fed and risk-aversion related flows.**
- On the **CFTC** front, large non-commercial, leveraged, and asset manager accounts increased their net short dollar bias in aggregate in the latest week and this continued synchronicity may continue to weigh on the dollar's prospects despite such positioning likely being diluted in the face of subsequent risk aversion.
- This week, **central bank** news flow includes the **FOMC** minutes on Wednesday, while the Fed's Kaplan speaks on Thursday and Friday. Meanwhile, the **ECB's** Dombret is also scheduled for Monday and Tuesday while ECB meeting "minutes" are due on Thursday. **RBA** meeting minutes will be released on Tuesday while the RBA's Ellis speaks on Thursday.
- In terms of the global **data stream**, **China's** July economic releases (retail sales, industrial production, urban fixed asset investments) kick off the week today at 0200 GMT while July monetary aggregates are also due Monday or Tuesday. Elsewhere on the busy calendar, ones to watch include German 2Q GDP (Tuesday), UK July CPI and US retail sales also on Tuesday, **EZ** 2Q GDP on Wednesday, **Australian** July labor market numbers on Thursday with EZ July CPI also on Thursday. In Asia, the **Bank of Thailand** is expected to remain static at 1.50% on Wednesday.

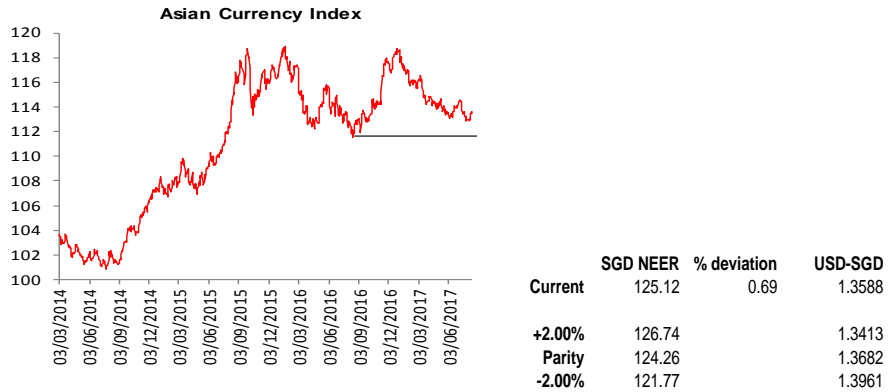
**Asian FX**

- **EPFR** data meanwhile showed a dip in net implied equity and bond inflows into Asia (ex-Japan, China) in the latest week and accompanied by the drop in **global EM equities** in the latter part of last week, sentiment in Asia may nonetheless continue to remain slightly cautious at the onset of the week. However, with no immediate escalation of the North Korean situation and Asian equities endeavoring to tick higher in line with the S&P500, USD-Asia

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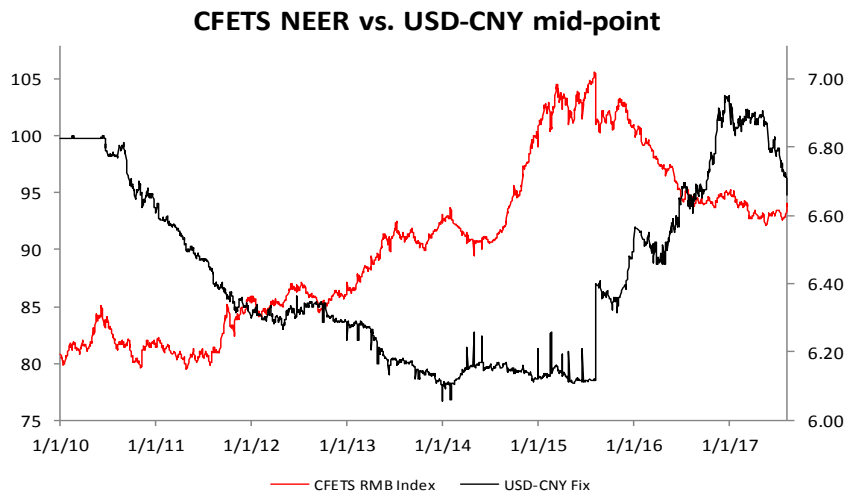
may be slightly top heavy. As such, the **ACI (Asian Currency Index)** may be expected to tick lower intra-day despite the **FXSI (FX Sentiment Index)** inching higher within Risk-Neutral territory on Friday.

- SGD NEER:** This morning, the SGD NEER is firmer on the day at around +0.68% above its perceived parity (1.3682) with NEER-implied USD-SGD thresholds having slipped slightly. At current levels, the +0.50% threshold is estimated at 1.3614 while the +0.80% threshold is seen at around 1.3573, ahead of 1.3550.



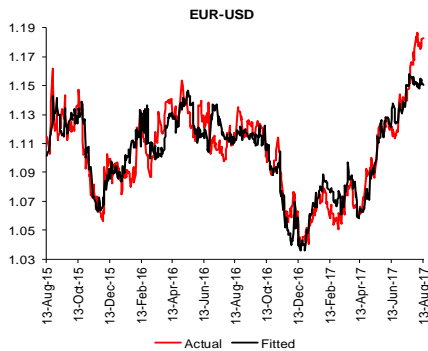
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point fell less than expected to 6.6601 from 6.6642 last Friday, pushing the CFETS RMB Index lower to 93.86 from 94.03.



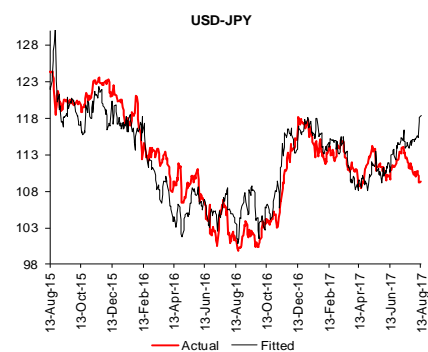
Source: OCBC Bank, Bloomberg

**G7**



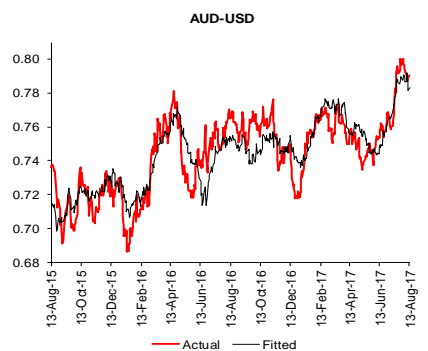
Source: OCBC Bank

- EUR-USD** EUR-USD may remain afloat despite still subdued short term implied valuations in view of the current dollar environment. Risk aversion and USD vulnerability aside, expect investors to be increasingly ECB-centric in the coming week and a half, with the ECB's Draghi expected to speak on 23 Aug 17 ahead of his attendance in Jackson Hole on 24-26 August 17. Expect 1.1800 to serve as an anchor with 1.1700-1.1900 in the interim.



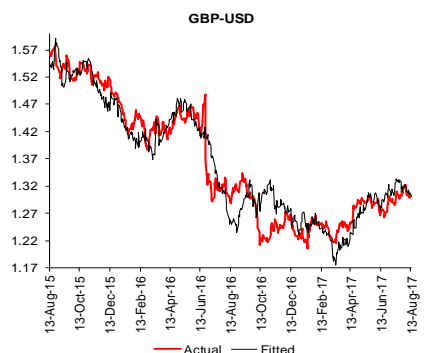
Source: OCBC Bank

- USD-JPY** Despite the firmer than expected 2Q GDP this morning, risk aversion fluctuations and dollar vulnerability may continue to have a greater bearing on the USD-JPY in the near term. The balance of risks therefore may remain tilted towards the downside at this juncture with the pair still on a tear to its short term implied valuations. Preference to be heavy within 108.75-109.60.



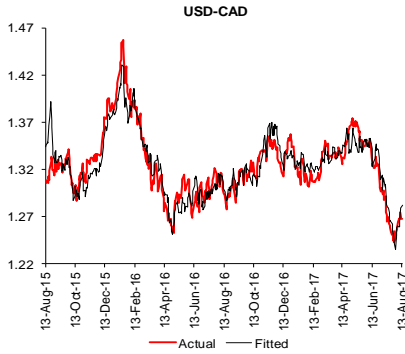
Source: OCBC Bank

- AUD-USD** The string of slightly softer than expected China data releases this morning capped the AUD-USD but downside support may emerge if global risk appetite levels attempt to stabilize further. Short term implied valuations meanwhile remain slightly hesitant to the upside for now and the pair may not venture too far above 0.7900 (0.7950 seen as initial resistance) with the 0.7850 support still in play.



Source: OCBC Bank

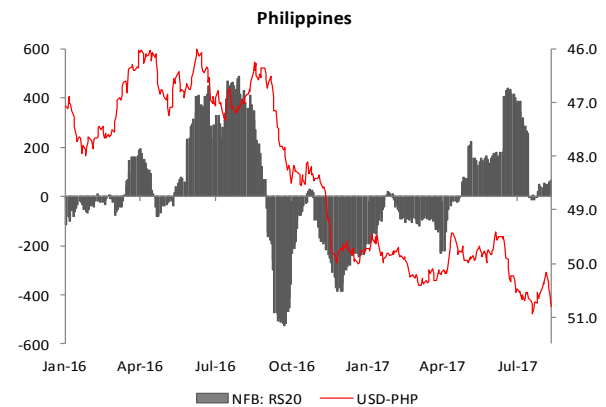
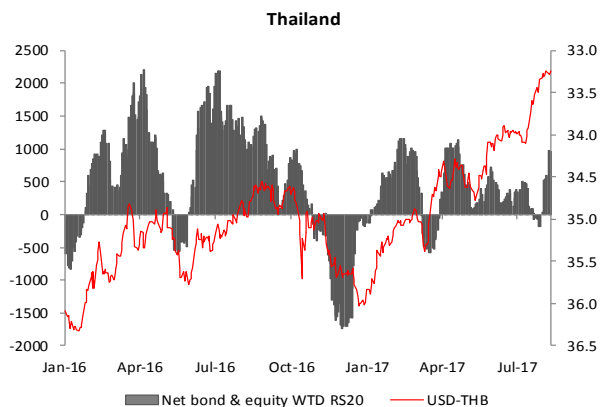
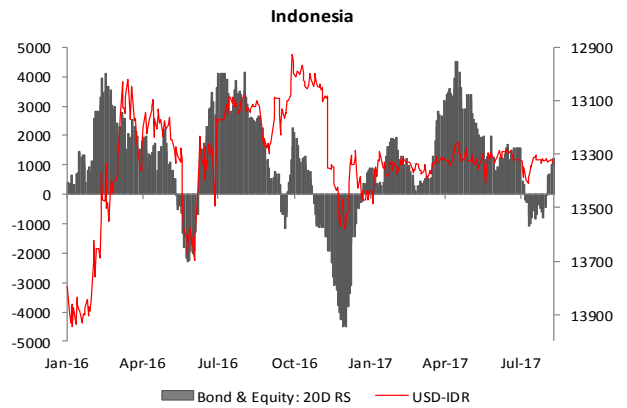
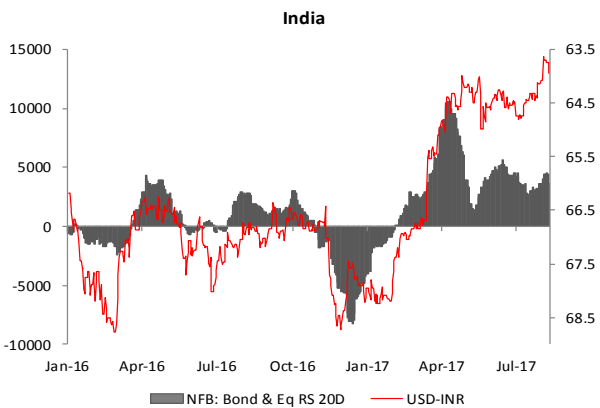
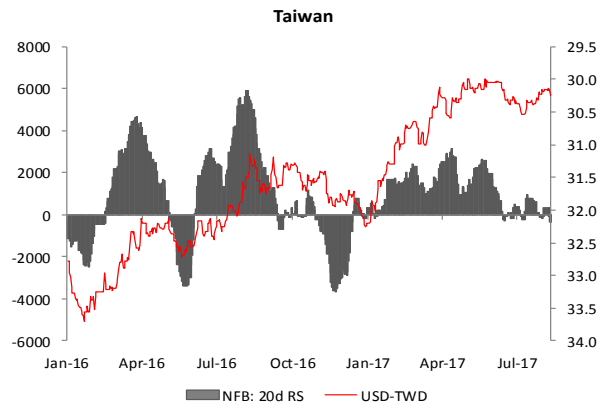
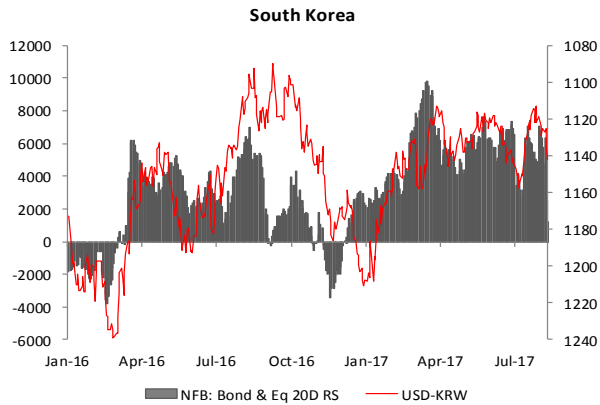
- GBP-USD** Short term implied valuations for the GP-USD remain top heavy while on other fronts, the pound continues to be on the receiving end of a firmer EUR-GBP (hawkish BOE expectations continue to be defused) in the near term. Risks for the GBP-USD to detach from 1.3000 and head towards the 55-day MA (1.2932) may remain material with the UK July CPI due on Tuesday.

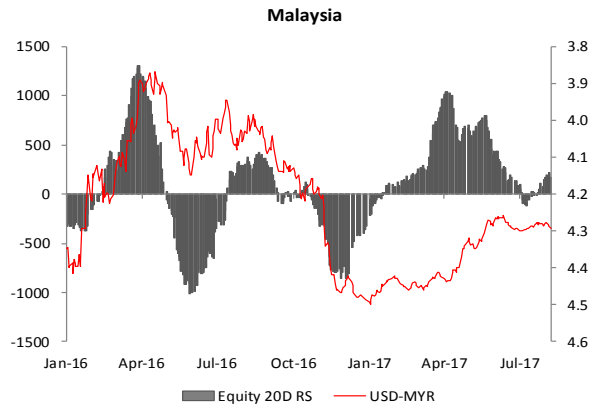


- USD-CAD** USD-CAD tailgated the broad dollar lower on Friday and the near term consolidation of risk appetite levels may keep the pair top heavy. However, note that short term implied valuations are still looking supported ahead of July CPI risks on Friday. Expect to ply a 1.2620-1.2750 range pending headline risks.

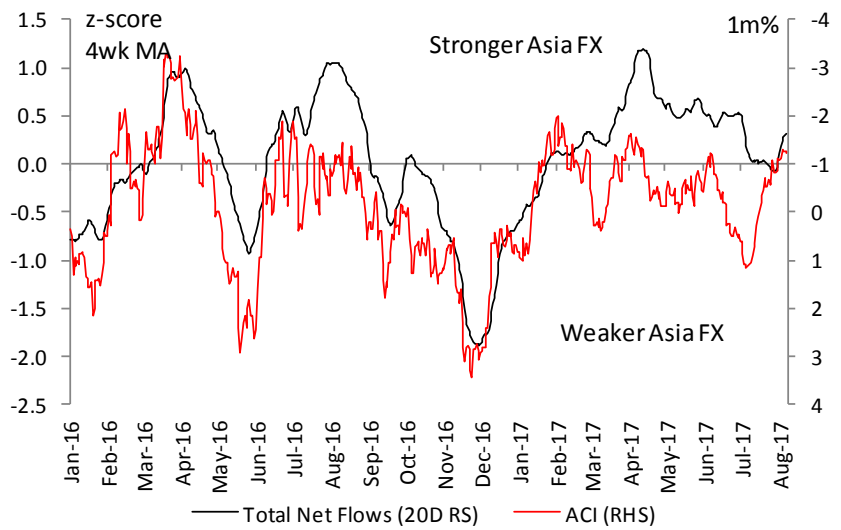
Source: OCBC Bank

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

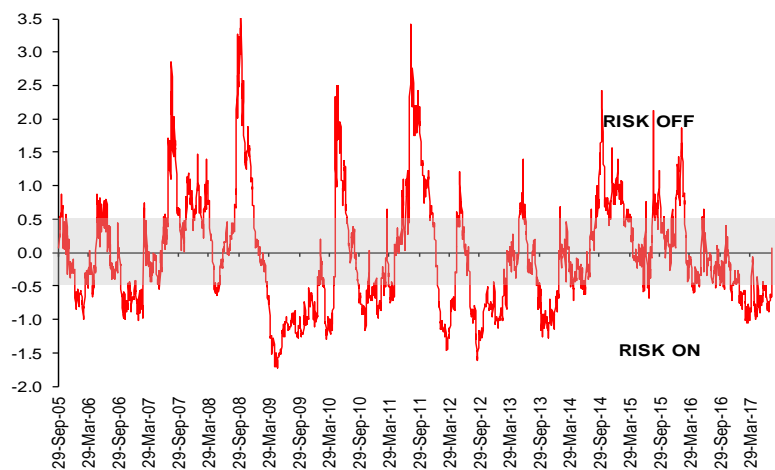




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.419	0.572	-0.037	-0.397	-0.752	0.83	-0.788	-0.336	0.015	0.598	-0.984
THB	0.88	0.416	0.73	0.037	-0.483	-0.729	0.885	-0.812	-0.453	-0.064	0.72	-0.888
SGD	0.841	0.017	0.176	-0.242	-0.356	-0.669	0.536	-0.707	-0.013	0.261	0.258	-0.784
JPY	0.83	0.732	0.881	0.376	-0.191	-0.567	1	-0.634	-0.731	-0.392	0.913	-0.838
TWD	0.676	0.071	0.511	-0.247	-0.697	-0.805	0.578	-0.837	-0.118	0.288	0.459	-0.716
CNH	0.598	0.728	0.984	0.585	-0.054	-0.429	0.913	-0.515	-0.887	-0.612	1	-0.633
CNY	0.572	0.67	1	0.546	-0.089	-0.444	0.881	-0.557	-0.865	-0.584	0.984	-0.613
INR	0.57	0.291	0.5	-0.209	-0.611	-0.658	0.541	-0.672	-0.162	0.239	0.45	-0.655
PHP	0.533	-0.206	0.029	-0.56	-0.702	-0.583	0.213	-0.622	0.321	0.623	-0.017	-0.576
USGG10	0.419	1	0.67	0.551	0.19	-0.019	0.732	-0.064	-0.68	-0.559	0.728	-0.442
CAD	0.133	-0.52	-0.545	-0.489	-0.076	-0.115	-0.28	-0.042	0.537	0.472	-0.537	-0.023
MYR	0.037	-0.533	-0.466	-0.595	-0.387	-0.146	-0.29	-0.112	0.61	0.708	-0.54	0.001
CCN12M	-0.089	-0.489	-0.128	-0.082	-0.014	-0.2	-0.183	-0.173	0.114	0.156	-0.119	0.178
NZD	-0.259	0.5	0.486	0.586	0.276	0.31	0.198	0.21	-0.559	-0.618	0.5	0.174
KRW	-0.278	-0.743	-0.791	-0.7	-0.276	0.112	-0.641	0.22	0.827	0.72	-0.82	0.349
IDR	-0.292	-0.322	-0.501	-0.492	-0.362	0.183	-0.426	0.276	0.628	0.611	-0.54	0.318
AUD	-0.406	0.261	0.22	0.526	0.347	0.513	-0.014	0.407	-0.345	-0.553	0.236	0.343
GBP	-0.496	0.302	0.097	0.313	0.269	0.528	-0.052	0.473	-0.249	-0.356	0.165	0.424
CHF	-0.508	-0.06	-0.456	0.094	0.497	0.767	-0.427	0.775	0.207	-0.223	-0.383	0.569
EUR	-0.984	-0.442	-0.613	0.049	0.452	0.769	-0.838	0.818	0.354	-0.026	-0.633	1

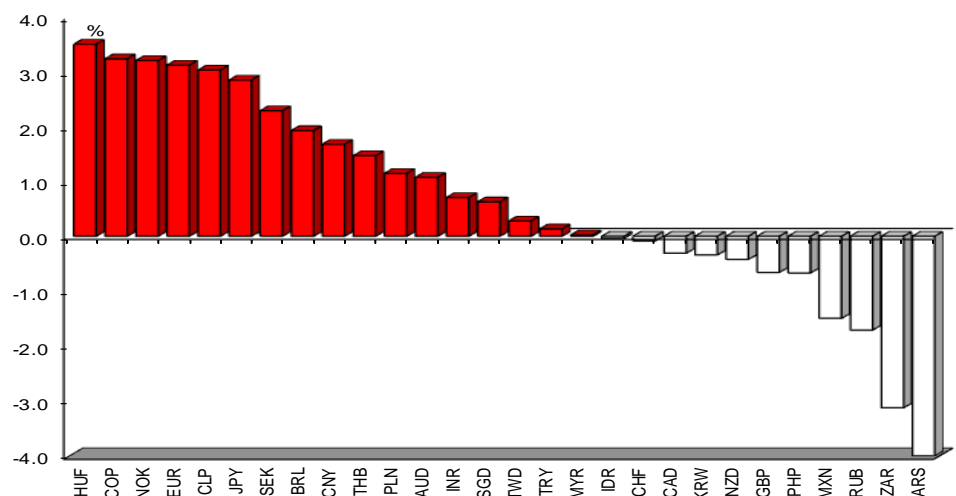
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1538	1.1800	1.1826	1.1900	1.1910
GBP-USD	1.2933	1.3000	1.3009	1.3100	1.3217
AUD-USD	0.7861	0.7900	0.7910	0.8000	0.8009
NZD-USD	0.7256	0.7300	0.7313	0.7314	0.7400
USD-CAD	1.2415	1.2600	1.2680	1.2700	1.2755
USD-JPY	108.98	109.00	109.41	110.00	111.37
USD-SGD	1.3535	1.3543	1.3596	1.3600	1.3674
EUR-SGD	1.5747	1.6000	1.6079	1.6100	1.6163
JPY-SGD	1.2329	1.2400	1.2427	1.2469	1.2472
GBP-SGD	1.7606	1.7640	1.7687	1.7700	1.7709
AUD-SGD	1.0700	1.0706	1.0755	1.0800	1.0881
Gold	1235.35	1253.04	1287.70	1289.88	1291.10
Silver	16.57	17.00	17.06	17.10	17.13
Crude	46.62	48.80	48.87	48.90	50.43

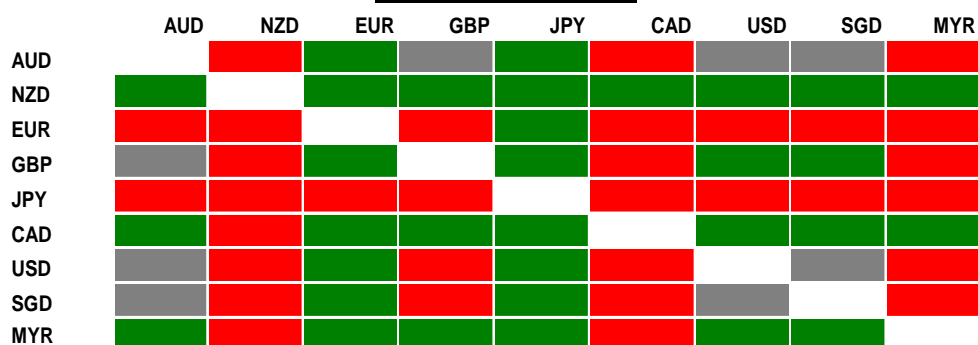
Source: OCBC Bank

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



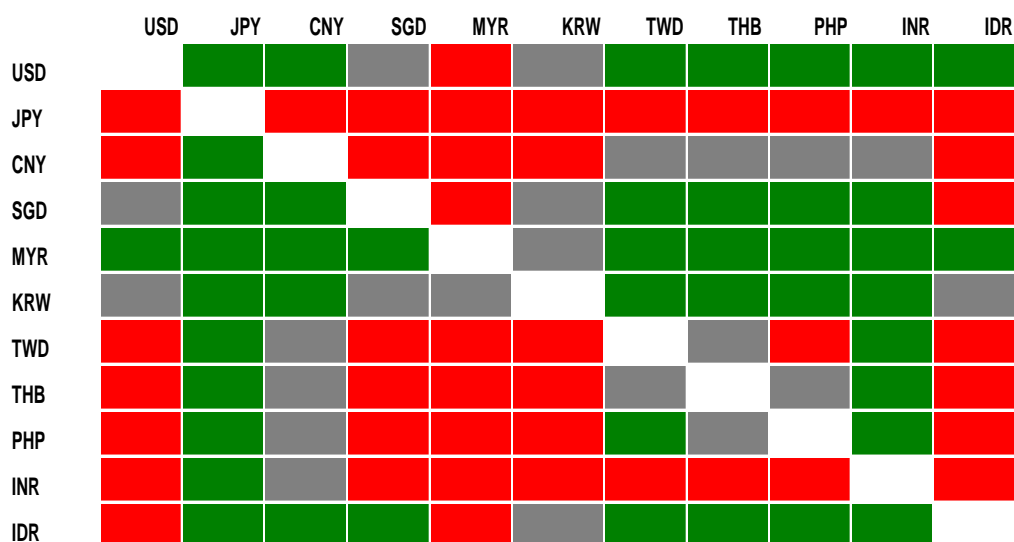
Source: Bloomberg

**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		
<b>TACTICAL</b>								
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	
<b>STRUCTURAL</b>								
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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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