

Tuesday, November 14, 2017

FX Themes/Strategy/Trading Ideas

- With the UST curve firming (and bear flattening from the front-end), the greenback floated higher against most of G10 on Monday with the cyclicals (AUD, NZD, CAD) and the GBP lagging across the board. Note that the AUD and the GBP in particular were dragged lower by domestic political concerns.
- Structurally, rate differential arguments remain in the greenback's favor in aggregate (note 10y UST has surfaced above 2.40% again) with the DXY still holding its own and circling the 94.50 neighborhood. **In such an environment, the other majors are expected to remain susceptible to idiosyncratic vulnerabilities.**
- For today, look potentially towards a slew of headlines from the ECB Conference in Frankfurt, with Yellen, Draghi, Carney, and Kuroda scheduled for a joint appearance at 1000 GMT. The Fed's Evans (0805 GMT) also speaks in Frankfurt, while Bullard, (1315 GMT) and Bostic (1805 GMT) are also penciled in. Meanwhile, the ECB's Lautenschlaeger (0900 GMT), Nouy (0900 GMT), Galhau (1245 GMT), and Coeure (1530 GMT) are also due to hit investors' screens. On the BOE front, Cunliffe is also expected at 1730 GMT. **With core global central banks taking their foot off the hawkish pedal in recent weeks in an almost orchestrated manner, the balance of potential rhetoric may leave the dollar looking none the worse for wear.**
- Given sustained investor interest towards probable central bank reaction functions, expect background interest on global price readings to sustain. To this end, look to German October CPI (0700 GMT), UK October CPI (0930 GMT) and EZ 3Q GDP (1000 GMT) today. On the China front, the October data deluge (retail sales, urban fixed asset investments, industrial production) is expected at 0200 GMT.

Asian FX

- EM FX (including Asian FX) also did not fare well against the greenback on Monday and may remain slightly on the defensive intra-day. Referencing Asian net portfolio inflows, net inflow momentum on a 1M rolling basis is moderating for the KRW and INR, but stable (but hardly significant) for the TWD. Meanwhile, net outflow momentum for the IDR continues to moderate for the IDR but outflow momentum for the THB remains a concern. **In sum, Asian FX continues to lack a significant positive backstop if the broad dollar continues to grind higher in the near term.**

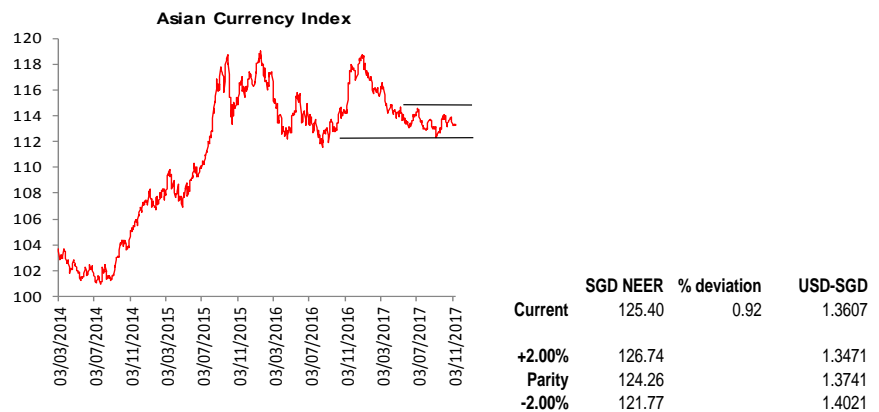
Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

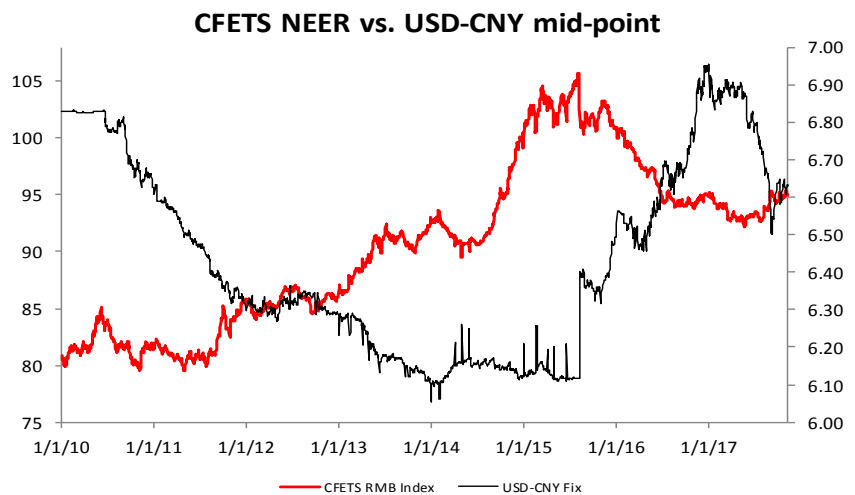
ngcyemmanuel@ocbc.com

- With the **FXSI (FX Sentiment Index)** consolidating higher again (within Risk-On territory but veering towards Risk-neutral territory), the **ACI (Asian Currency Index)** may continue to find limited room on the downside in the current USD environment.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.88% above its perceived parity (1.3741) with NEER-implied USD-SGD thresholds firmer in reaction to broad dollar strength. Expect the NEER to remain within a +0.80% (1.3632) and +1.10% (1.3519). Technically, the USD-SGD may continue to orbit its 100-day MA (1.3611) with a preference to base build.



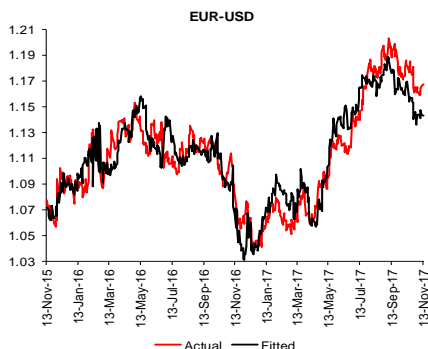
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point rose (as largely expected) to 6.6399 from 6.6347 on Monday, with the CFETS RMB Index slipping slightly to 95.01 from 95.03 yesterday.



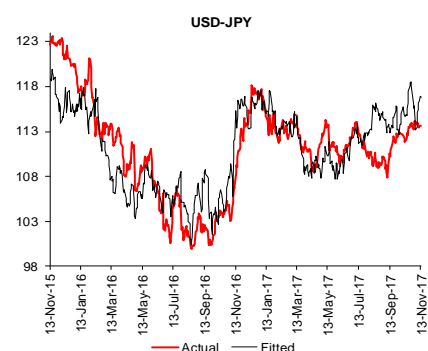
Source: OCBC Bank, Bloomberg

G7



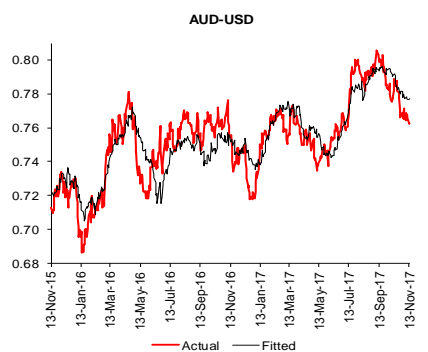
Source: OCBC Bank

- EUR-USD** Short term implied valuations continue to hold relatively steady at this juncture although we note that the pair continues to hover north of its implied confidence intervals despite somewhat supportive price action. Expect a floor towards 1.1600 for now with the 100-day MA (1.1732) capping pending further news flow.



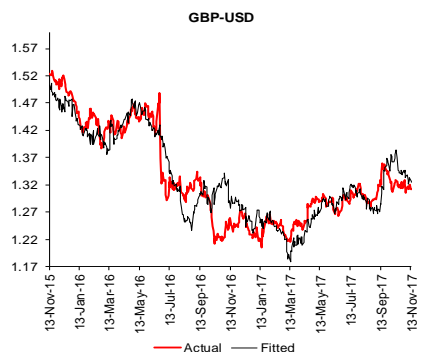
Source: OCBC Bank

- USD-JPY** Apart from central bank speak today, US tax bill headlines (Trump to address the House Republicans on Thursday ahead of their vote on the bill) may also continue to figure prominently this week. Elsewhere, with the BOJ's Kuroda continually accommodative in his remarks, the USD-JPY may remain supported on dips (towards 113.30) in the interim in line with bouncing short term implied valuations and despite recent heaviness in the pair.



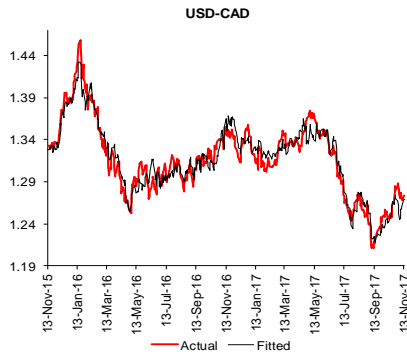
Source: OCBC Bank

- AUD-USD** The China data stream this morning came in in the vicinity of prior expectations and left the AUD largely unruffled (but note slightly soft monetary aggregates reported on Monday). On the domestic front, the October NAB business conditions index improved significantly but we note that short term implied valuations continue to remain reluctant on the upside. The floorboard at 0.7600 we think continues to remain under threat with 0.7570 in sight.



Source: OCBC Bank

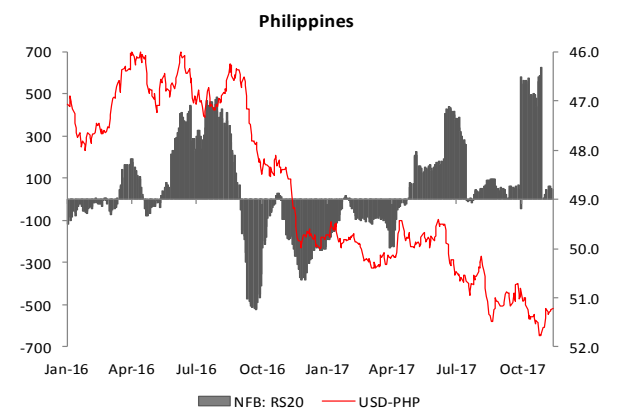
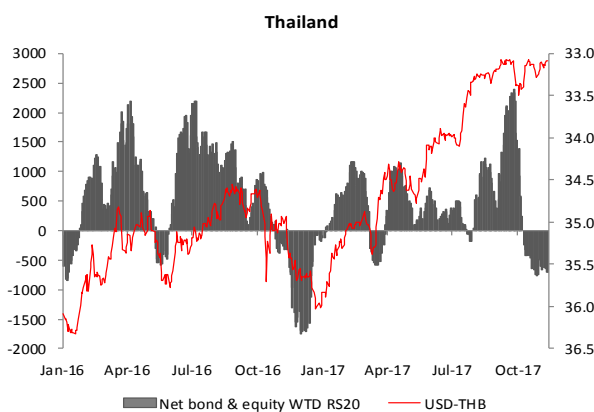
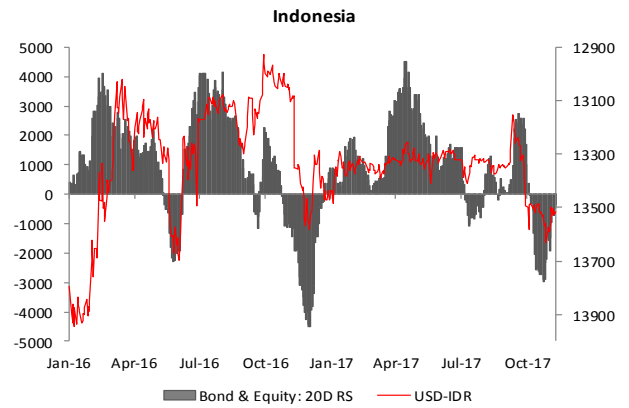
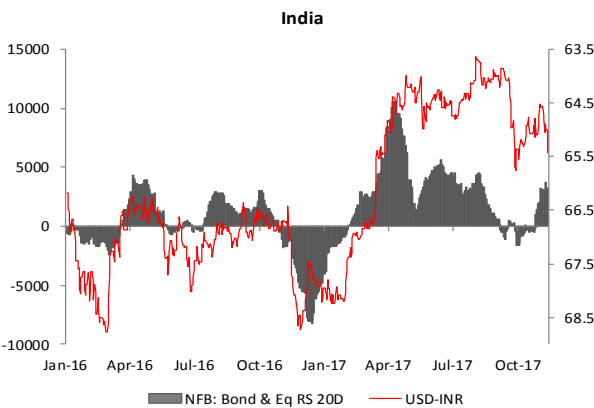
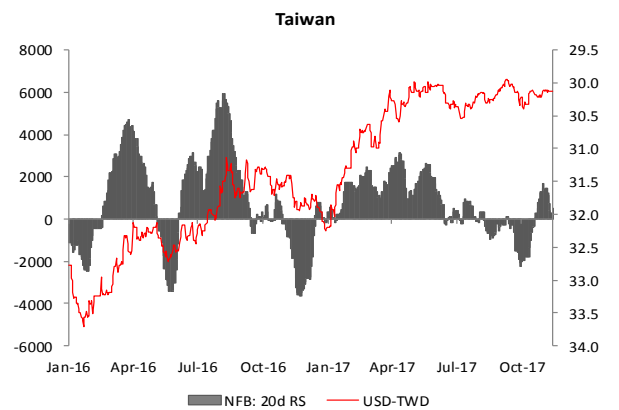
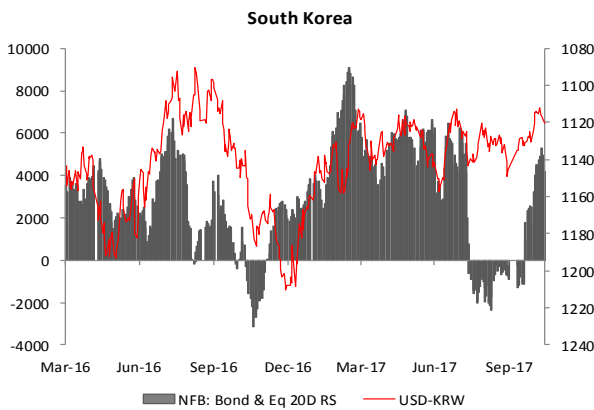
- GBP-USD** The pound may remain undermined by concerns over PM May's shelf life and Brexit-related headlines. Starting Tuesday, a 2-day debate over the EU Withdrawal Bill comes under scrutiny in Parliament. Short term implied valuations remain distinctly southbound and the pair may fade upticks towards its 55-day MA (1.3224) with risks instead skewed towards 1.3040.

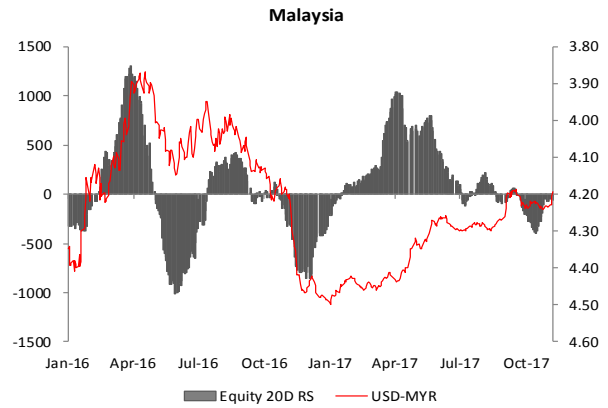


- USD-CAD** USD-CAD lifted higher in line with the dollar complex on Monday and note also potential volatility as markets head towards the NAFTA talks later this week. Short term implied valuations are also still attempting to lift and the pair may remain relatively underpinned within 1.2600-1.2800 in the interim.

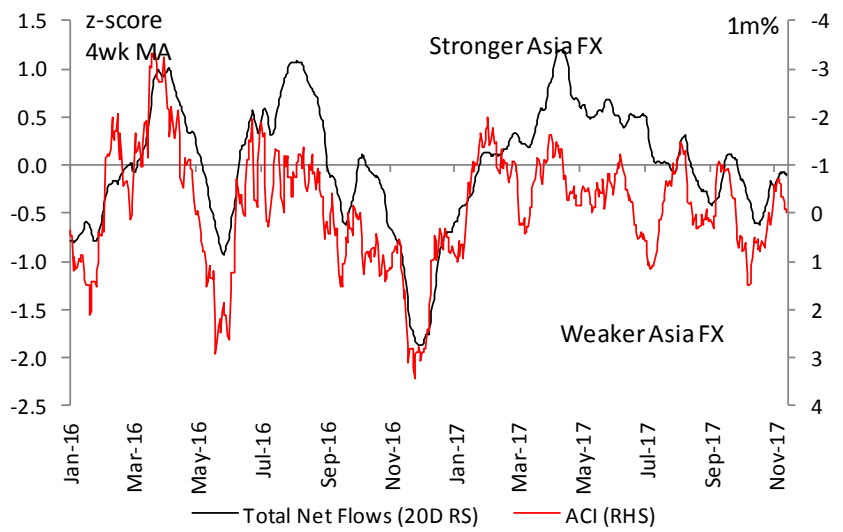
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

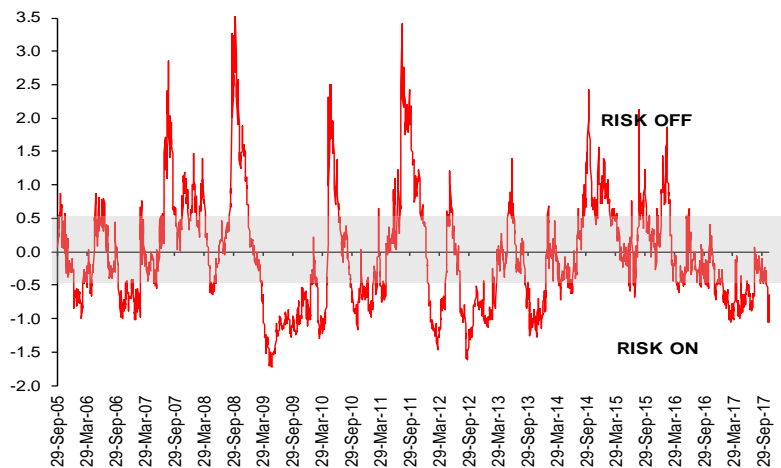




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.147	0.41	0.804	0.538	0.753	0.766	0.765	-0.215	-0.765	0.479	-0.972
CHF	0.953	0.318	0.406	0.751	0.512	0.727	0.883	0.735	-0.067	-0.736	0.539	-0.9
CAD	0.812	0.494	0.384	0.427	0.149	0.423	0.787	0.428	0.091	-0.673	0.454	-0.709
JPY	0.766	0.473	0.373	0.598	0.313	0.511	1	0.497	0.041	-0.592	0.537	-0.656
SGD	0.708	0.566	0.686	0.438	0.035	0.34	0.806	0.333	0.111	-0.428	0.717	-0.616
CNH	0.479	0.65	0.896	0.37	0.222	0.474	0.537	0.488	0.51	0.024	1	-0.434
CNY	0.41	0.474	1	0.268	0.048	0.334	0.373	0.363	0.324	-0.06	0.896	-0.378
IDR	0.384	0.689	0.386	-0.053	-0.349	-0.069	0.413	-0.061	0.343	-0.208	0.378	-0.262
USGG10	0.147	1	0.474	-0.18	-0.358	-0.119	0.473	-0.092	0.696	0.197	0.65	-0.02
THB	0.137	0.375	0.447	-0.082	-0.547	-0.245	0.186	-0.275	-0.041	-0.221	0.217	-0.065
MYR	0.091	-0.081	-0.009	-0.169	-0.537	-0.393	0.171	-0.435	-0.395	-0.495	-0.274	-0.04
CCN12M	0.027	0.162	0.578	0.099	0.164	0.188	0.037	0.177	0.22	0.219	0.528	-0.042
PHP	-0.206	0.472	0.171	-0.609	-0.824	-0.604	0.002	-0.653	0.29	0.151	-0.019	0.299
INR	-0.234	0.289	0.464	-0.018	0.097	0.091	-0.19	0.08	0.605	0.688	0.553	0.203
TWD	-0.303	0.478	0.332	-0.393	-0.701	-0.495	0.039	-0.555	0.348	0.373	0.207	0.411
GBP	-0.395	0.037	-0.211	-0.493	-0.293	-0.361	-0.348	-0.395	0.205	0.156	-0.259	0.355
NZD	-0.728	-0.633	-0.544	-0.447	-0.082	-0.422	-0.834	-0.428	-0.222	0.496	-0.653	0.586
KRW	-0.781	0.141	-0.075	-0.795	-0.828	-0.864	-0.642	-0.868	0.251	0.707	-0.243	0.794
AUD	-0.886	-0.398	-0.538	-0.684	-0.544	-0.775	-0.747	-0.796	-0.098	0.567	-0.677	0.837
EUR	-0.972	-0.02	-0.378	-0.822	-0.622	-0.792	-0.656	-0.807	0.268	0.748	-0.434	1

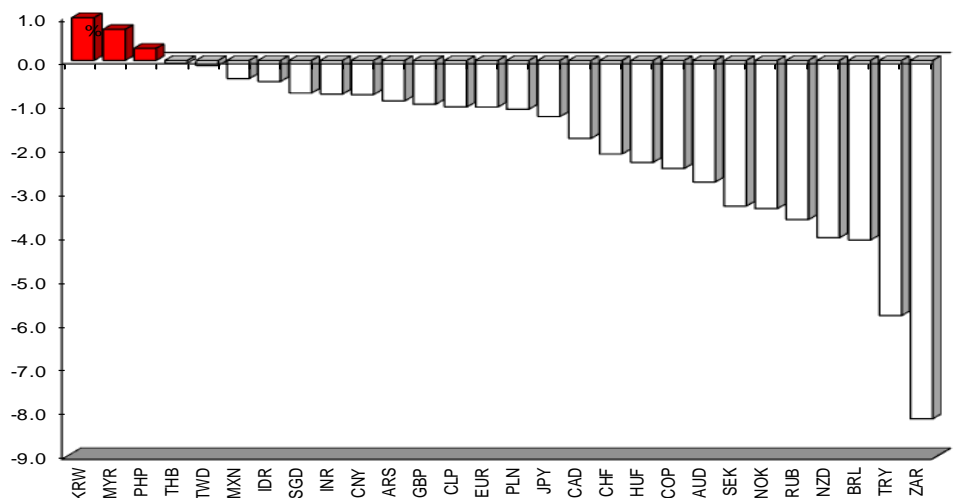
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1554	1.1600	1.1671	1.1700	1.1784
GBP-USD	1.3047	1.3100	1.3118	1.3200	1.3246
AUD-USD	0.7600	0.7610	0.7633	0.7695	0.7700
NZD-USD	0.6800	0.6818	0.6879	0.6900	0.7059
USD-CAD	1.2509	1.2700	1.2741	1.2800	1.2917
USD-JPY	112.84	113.00	113.64	114.00	114.41
USD-SGD	1.3558	1.3600	1.3609	1.3659	1.3700
EUR-SGD	1.5768	1.5800	1.5883	1.5900	1.5975
JPY-SGD	1.1905	1.1914	1.1976	1.2000	1.2040
GBP-SGD	1.7757	1.7800	1.7853	1.7900	1.7960
AUD-SGD	1.0307	1.0366	1.0388	1.0400	1.0605
Gold	1267.39	1268.46	1277.30	1289.14	1293.72
Silver	16.68	17.00	17.02	17.10	17.14
Crude	52.30	56.60	56.69	56.70	57.92

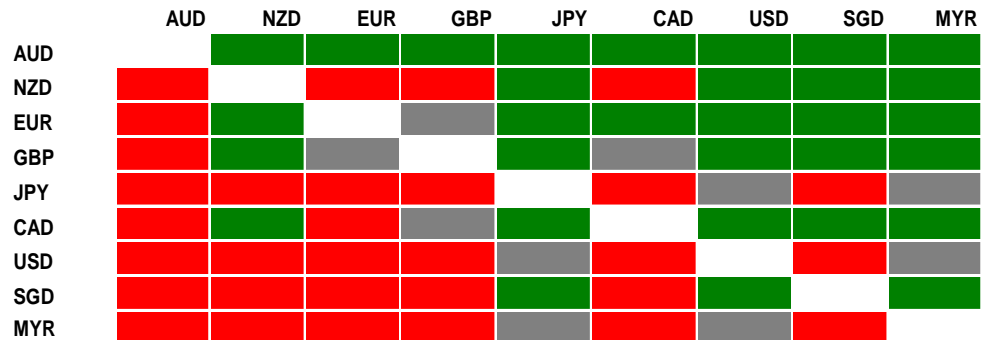
Source: OCBC Bank

FX performance: 1-month change agst USD



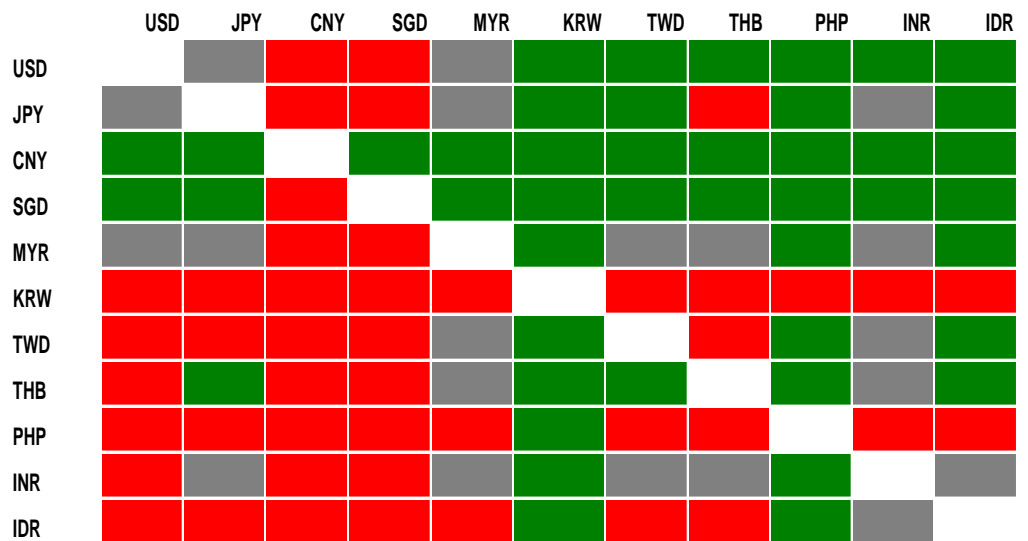
Source: Bloomberg

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	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

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.
