

Thursday, September 14, 2017

FX Themes/Strategy/Trading Ideas

- Despite softer than expected US August PPI readings, tax reform headlines coupled with climbing UST yields (10y at 2.1970%) saw the greenback pulling higher across G10 except against the CAD. Meanwhile, the ECB's Praet continued to highlight subdued wage dynamics on Wednesday, giving little positive impetus for EUR-USD upside. On other fronts, crude surging above 49.00 saw the USD-CAD topping out at intraday highs to eventually end flat to lower on the day.
- Despite the slightly softer than expected UK wage data, the primary focus today will be on the BOE MPC with investors on the lookout for the voting pattern (7:2 to 6:3?) with the accompanying statement still expected to be inherently hawkish.
- Elsewhere, note that markets may not be out of the woods just yet with respect to geopolitical risks, with scattered reports of North Korea undertaking pre-launch activity in the last two sessions.
- Today, central bank-speak include the ECB's Weidmann (1530 GMT) and Mersch (1600 GMT) while the SNB also convenes (0730 GMT). Key data points include Australian August labor market numbers (0130 GMT) and US August CPI (1230 GMT). The China data stream is scheduled at 0200 GMT with the release of August retail sales, urban fixed asset investments, and industrial production. August monetary/credit aggregates are also pending release today or tomorrow.
- **The recent consolidation higher in the greenback has been fairly rapid, with the DXY trading briefly above 92.50 overnight. In our view, the capitulation of the DXY (potential for a push towards 93.00?) and the 10y UST yield (back at our aforementioned zone of 2.20%) may be at an inflection point, especially ahead of the US CPI tonight and FOMC next week.** It remains to be seen if overnight positivity surrounding US tax reform (simply more bi-partisan?) has further legs. On this front, we'd watch for the UST2/10 to reclaim the 85-90 region as a barometer of renewed optimism.
- Post the warmer than expected UK August core CPI and PPI inflation readings, markets may continue to adopt a hawkish tilt going into the BOE MPC on Thursday. Note that leveraged CFTC positioning had gone increasingly short the pound in the last four weeks, leaving space for a partial washout of outstanding shorts. Meanwhile, short term implied valuations have also been partially lifted by compressing rate differentials. From a spot ref of 1.3325 on Wednesday, we look to a tactical long **GBP-**

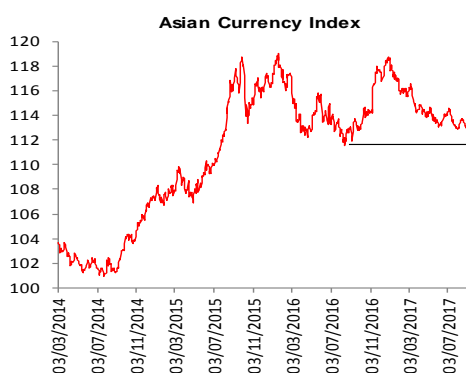
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USD targeting 1.3570 and place a stop at 1.3200.

Asian FX

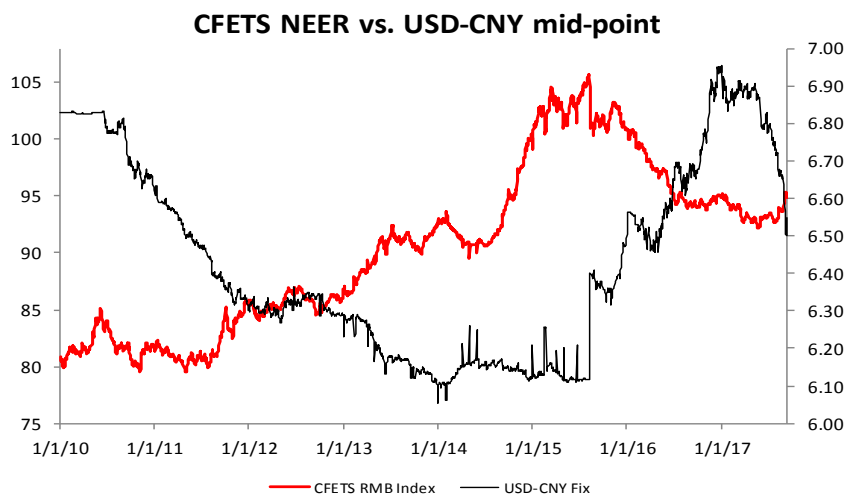
- On the Asian net portfolio inflow front, net outflows for the KRW continues to abate, the net balance situation for the TWD remains moribund. Meanwhile, net outflows for the INR continue to deepen but net inflows for the IDR and THB continue to climb significantly. The data also indicate an attempt at a recovery for net inflows for the PHP.
- With the **FXSI (FX Sentiment Index)** continuing to dip lower within Risk-Neutral territory, the **ACI (Asian Currency Index)** may be expected to be slightly top heavy after firming on Wednesday in tandem with broad dollar moves. On a structural horizon, our medium term model for the ACI meanwhile continues to head south (i.e., Asian FX resilience).
- **SGD NEER:** The SGD NEER this morning is softer on the day at around +0.54% above its perceived parity (1.3577) with NEER-implied USD-SGD thresholds marginally higher on the day. At current levels, the +0.50% threshold is estimated at 1.3509 with perhaps some scope to weakened further to +0.40% (1.3523) if the broad dollar continues to ascend. On the downside for USD-SGD, the +0.70% (1.3483) threshold may govern pending further external headlines. Meanwhile, we continue to watch the 200-week MA (1.3481) as a crucial junction for the pair on a technical basis.



	SGD NEER	% deviation	USD-SGD
Current	125.00	0.60	1.3504
+2.00%	126.74		1.3310
Parity	124.26		1.3577
-2.00%	121.77		1.3854

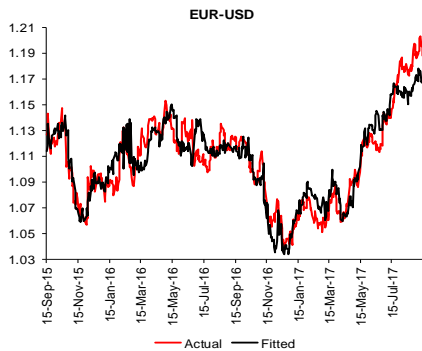
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY midpoint rose as largely expected to 6.5465 from 6.5382 on Wednesday. This saw the **CFETS RMB Index** inching higher to 94.98 from 94.86 yesterday.



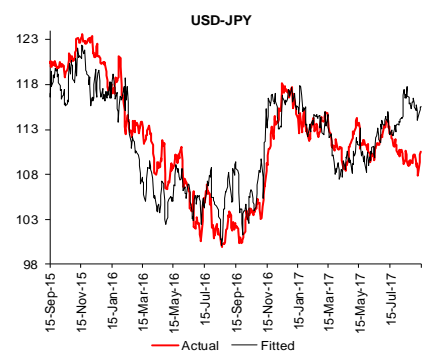
Source: OCBC Bank, Bloomberg

G7



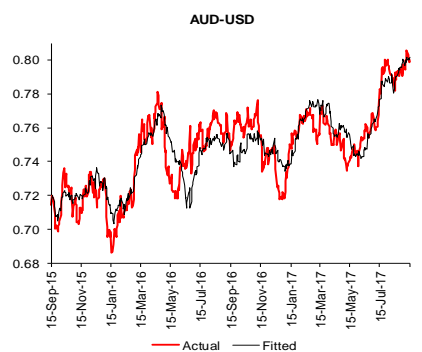
Source: OCBC Bank

- EUR-USD** German August CPI readings came in as expected on Wednesday but broad dollar moves continued to dominate. Watch for further ECB rhetoric today and we note that short term implied expectations have edged slightly lower, likely continuing to discourage fresh longs in the interim. Multi-session, watch for any breach of the 200-week MA (1.739) while intra-day, 1.1835 is expected to be the first line of defense on the downside.



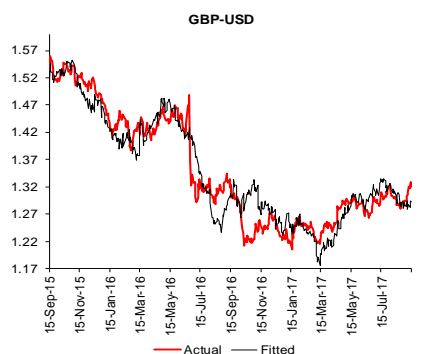
Source: OCBC Bank

- USD-JPY** Near term views remain unchanged and a firmer US yield complex may also continue to prop up the USD-JPY. Short term valuations have continued to firm in sympathy with the 55-day MA (110.79) and the 200-week MA (111.64) likely to provide interim waypoints on the upside. In the interim, investors may collect into any dips towards 110.15 ahead of the US CPI.



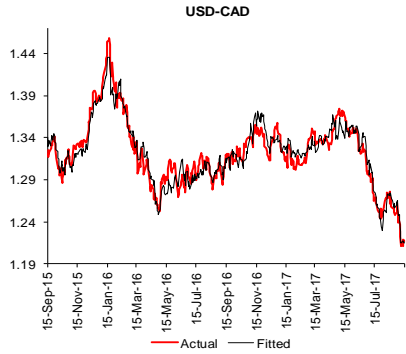
Source: OCBC Bank

- AUD-USD** The slightly soft China August data points this morning have been overshadowed by the encouraging positive surprises in the Australian August labor market numbers also reported this morning. Barring another risk appetite implosion, the 200-week MA (0.7959) may cushion on dip with short term implied valuations still looking underpinned. In the interim, investors may continue to accumulate on dips towards 0.7960/75.



Source: OCBC Bank

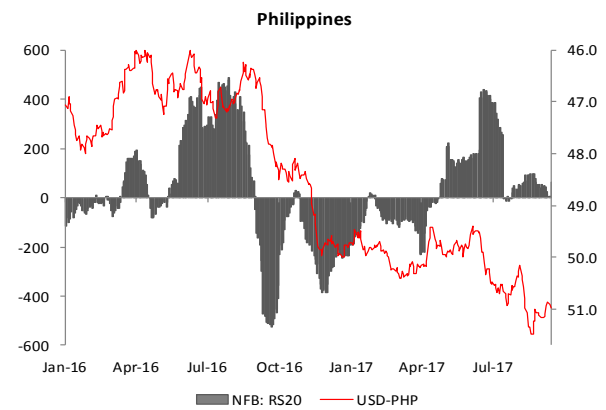
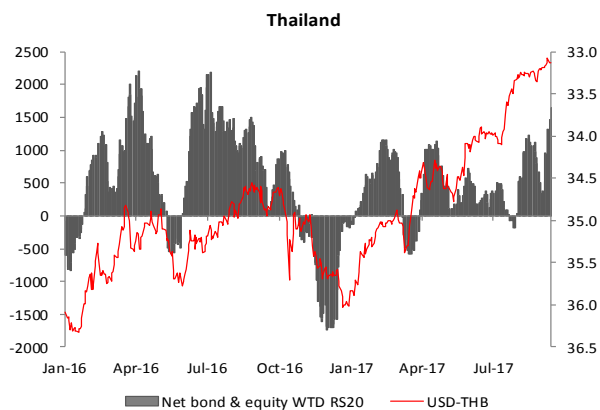
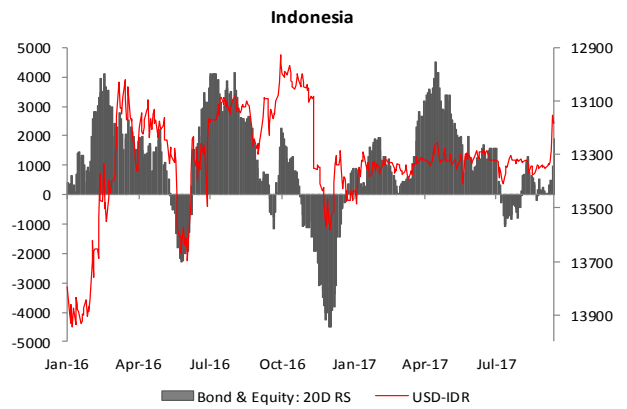
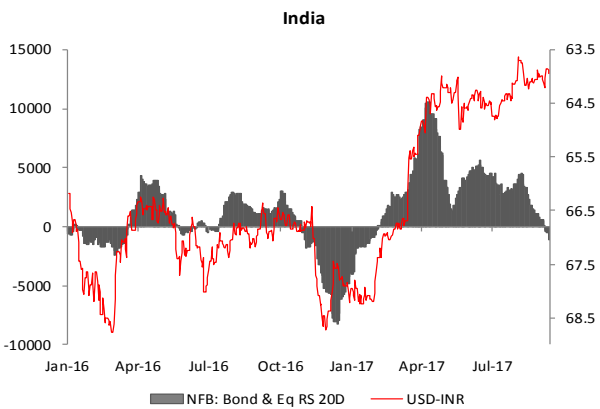
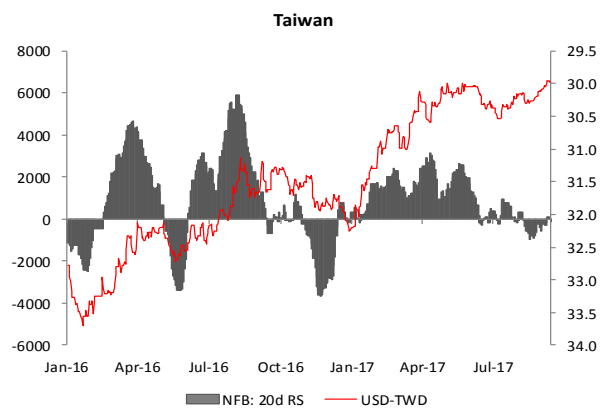
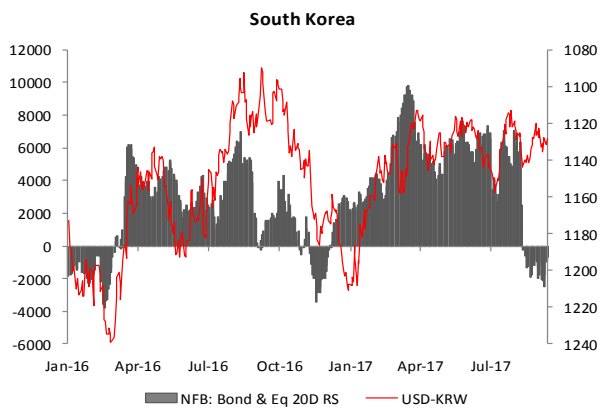
- GBP-USD** GBP-USD was taken off intra-day highs by softer than expected July wage growth readings (and despite a drop in the July unemployment rate to 4.3%). Crunch time for cable today with the BOE MPC with short term implied valuations still looking a tad supported. Expect 1.3140/60 to support pre-BOE MPC.

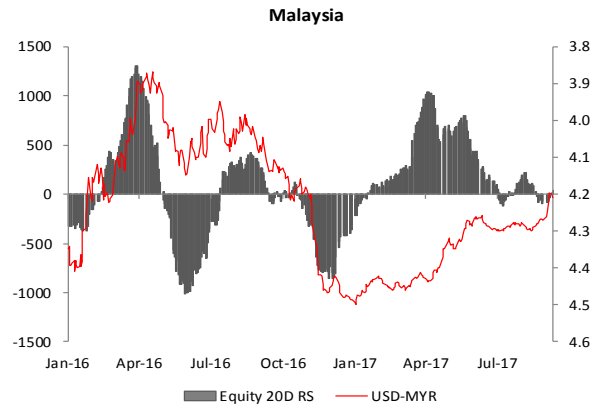


- USD-CAD** Short term view also remains unchanged and stay top heavy on the USD-CAD within 1.2130-1.2230, especially if crude continues to prove supportive of the loonie. Note that short term implied valuations remain top heavy.

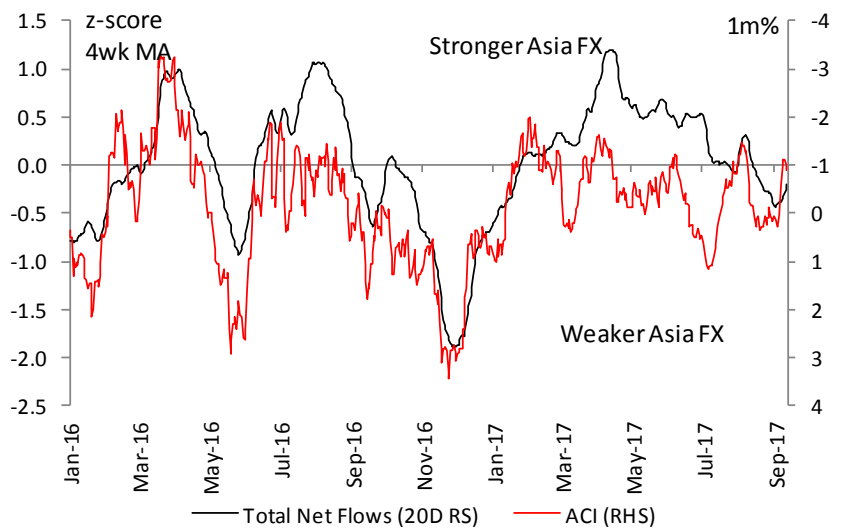
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

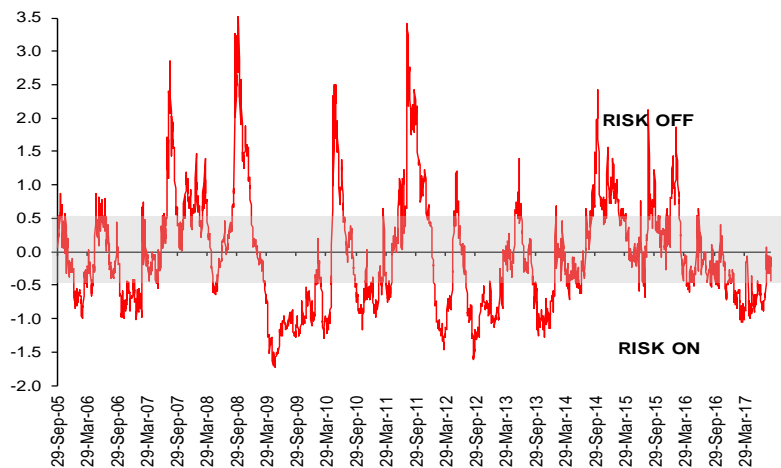




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.802	0.889	-0.452	-0.582	-0.767	0.435	-0.274	0.44	0.666	0.89	-0.966
SGD	0.96	0.757	0.897	-0.54	-0.591	-0.825	0.393	-0.43	0.478	0.733	0.904	-0.908
TWD	0.893	0.699	0.968	-0.673	-0.72	-0.886	0.23	-0.38	0.529	0.85	0.968	-0.828
CNH	0.89	0.737	0.997	-0.629	-0.632	-0.909	0.24	-0.438	0.509	0.815	1	-0.823
CNY	0.889	0.774	1	-0.624	-0.614	-0.915	0.301	-0.412	0.492	0.811	0.997	-0.825
CHF	0.861	0.878	0.717	-0.082	-0.277	-0.556	0.725	-0.085	0.112	0.395	0.686	-0.86
CAD	0.85	0.586	0.888	-0.641	-0.68	-0.9	0.247	-0.629	0.473	0.831	0.89	-0.735
MYR	0.847	0.584	0.906	-0.746	-0.765	-0.874	0.24	-0.492	0.55	0.891	0.909	-0.757
PHP	0.819	0.629	0.758	-0.527	-0.77	-0.703	0.397	-0.243	0.574	0.671	0.776	-0.802
USGG10	0.802	1	0.774	-0.138	-0.326	-0.673	0.673	-0.18	0.159	0.391	0.737	-0.782
CCN12M	0.789	0.44	0.81	-0.662	-0.78	-0.725	0.062	-0.385	0.631	0.712	0.817	-0.716
THB	0.773	0.564	0.874	-0.624	-0.502	-0.772	0.101	-0.376	0.357	0.794	0.863	-0.691
IDR	0.673	0.297	0.652	-0.719	-0.735	-0.64	0.094	-0.324	0.48	0.793	0.652	-0.546
INR	0.62	0.413	0.48	-0.321	-0.507	-0.316	0.152	0.281	0.438	0.403	0.484	-0.67
KRW	0.493	0.345	0.416	-0.3	-0.616	-0.315	-0.09	0.269	0.61	0.294	0.415	-0.611
JPY	0.435	0.673	0.301	0.392	0.155	-0.24	1	-0.144	-0.327	-0.098	0.24	-0.389
NZD	0.162	0.255	0.417	-0.311	-0.353	-0.428	-0.195	-0.033	0.516	0.294	0.408	-0.236
GBP	-0.774	-0.425	-0.809	0.747	0.659	0.784	-0.026	0.5	-0.412	-0.886	-0.807	0.65
AUD	-0.916	-0.752	-0.862	0.485	0.567	0.82	-0.458	0.427	-0.378	-0.715	-0.867	0.821
EUR	-0.966	-0.782	-0.825	0.396	0.553	0.676	-0.389	0.131	-0.518	-0.576	-0.823	1

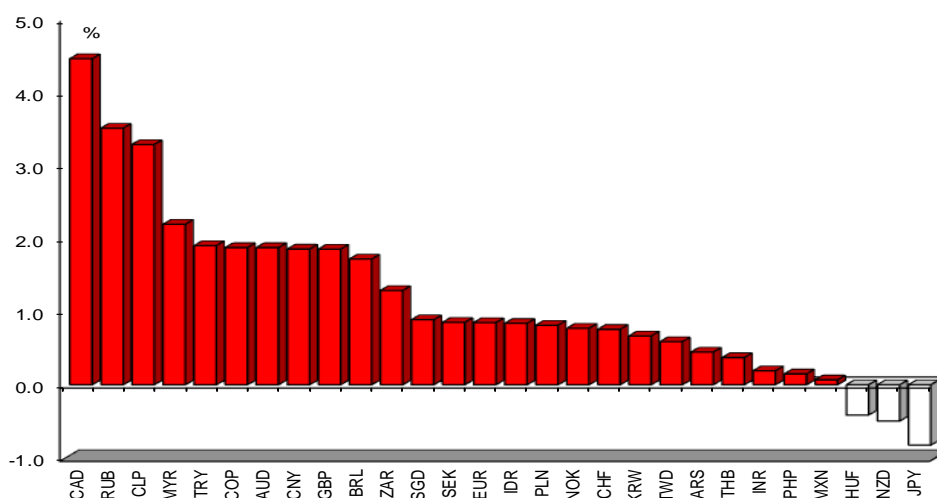
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1755	1.1800	1.1879	1.1900	1.2051
GBP-USD	1.3002	1.3200	1.3204	1.3283	1.3300
AUD-USD	0.7900	0.7907	0.7998	0.8000	0.8057
NZD-USD	0.7146	0.7200	0.7248	0.7300	0.7309
USD-CAD	1.2062	1.2100	1.2177	1.2200	1.2539
USD-JPY	108.12	110.00	110.50	110.54	110.80
USD-SGD	1.3404	1.3500	1.3504	1.3600	1.3601
EUR-SGD	1.5989	1.6000	1.6041	1.6100	1.6210
JPY-SGD	1.2200	1.2202	1.2220	1.2300	1.2306
GBP-SGD	1.7691	1.7800	1.7831	1.7853	1.7900
AUD-SGD	1.0752	1.0800	1.0801	1.0821	1.0857
Gold	1278.26	1300.00	1320.60	1354.99	1358.50
Silver	17.15	17.70	17.77	17.80	18.16
Crude	47.82	49.20	49.23	49.30	49.77

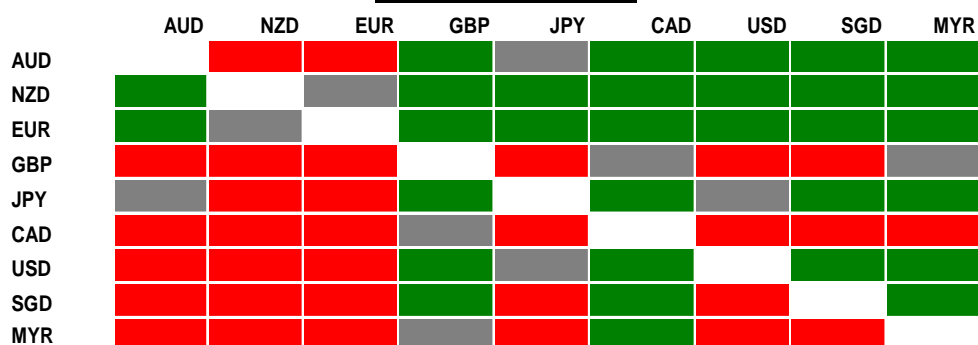
Source: OCBC Bank

FX performance: 1-month change agst USD



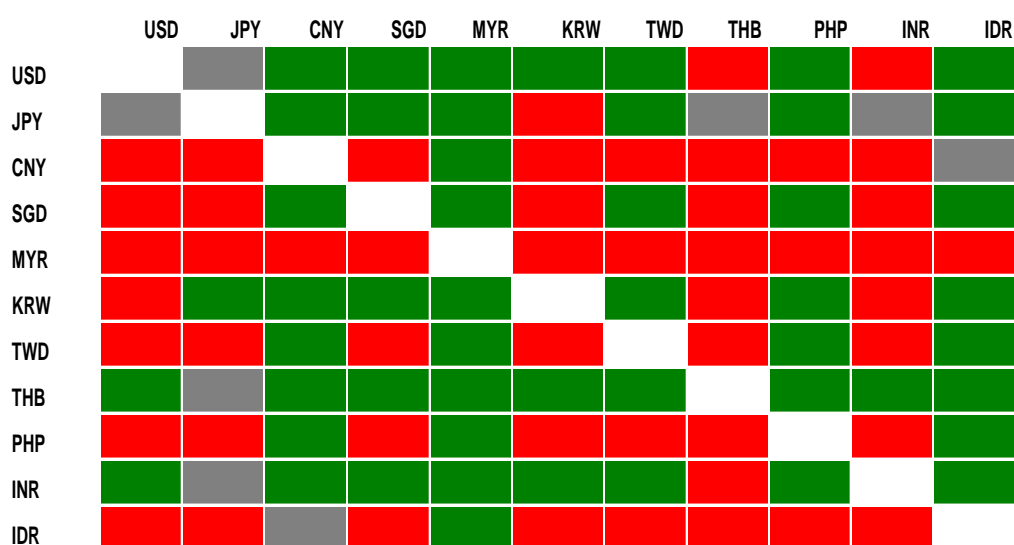
Source: Bloomberg

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	
4	13-Sep-17	B	GBP-USD	1.3325	1.3570	1.3200	Hotter than expected Aug core CPI/PPI, hawkish expectations ahead of BOE MPC	
STRUCTURAL								
5	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
6	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		
7	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		
8	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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