

Wednesday, November 15, 2017

FX Themes/Strategy/Trading Ideas

- The USD ended mixed to softer across G10 space on Tuesday with the EUR leading the way higher across the board (EUR-USD briefly above 1.1800) on the back of supportive German 3Q GDP data. Elsewhere, with risk appetite moderating on the back of negative global equities and crude testing briefly below 55.00, the cyclicals also underperformed.
- Overall, the DXY sank below 94.00 as the 10y UST yield continued to capitulate lower. **Structurally, sustained inversion behavior (2/10s and 5/30s flattest in years) along the UST curve (with the front-end firming accompanied by a softening at the back-end) may continue to present a cause for pause in terms of global risk appetite levels, especially with selected EM bond yields continuing to climb (bond market weakness) in stark contrast to their G10 counterparts.**
- On a related note, the China data stream meanwhile did not surprise drastically on the downside but continue to underscore a consolidating pace of activity. Note however continued unease in light of the current weakness in the bond market with the 10y yield breaching 4% on Tuesday. In the same vein, the Indian 10y govie yield also pierced above 7.00% on Tuesday on the back of a warmer than expected October CPI reading.
- **Investors today may have to contend with a slightly vulnerable dollar (rate differential arguments at the back-end continue to portend a soggy greenback) counterbalanced by slight apprehension towards the cyclicals on account of the commodity complex.** With the House expected to vote on the tax bill as early as Thursday and with the Senate still hammering out its version, US-centric drivers for the USD may remain on hold ahead of potential Fed-speak tonight.
- On the data front today, look to October US CPI (1330 GMT) for key cues following slightly warmer than expected October PPI readouts on Tuesday. US October retail sales are also due at 1330 GMT. Fed-speak includes Evans (0800 GMT), Rosengren (2110 GMT), while ECB appearances include Lane (0700 GMT) and Hansson *0800 GMT). In addition, the ECB's Praet and the BOE's Haldene are due at 1000 GMT at an ECB policy panel discussion. On other fronts, the RBA's Ellis is scheduled for 0700 GMT, BOE's Broadbent at 1300 GMT, followed by the BOC's Wilkins at 2345 GMT.

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Asian FX

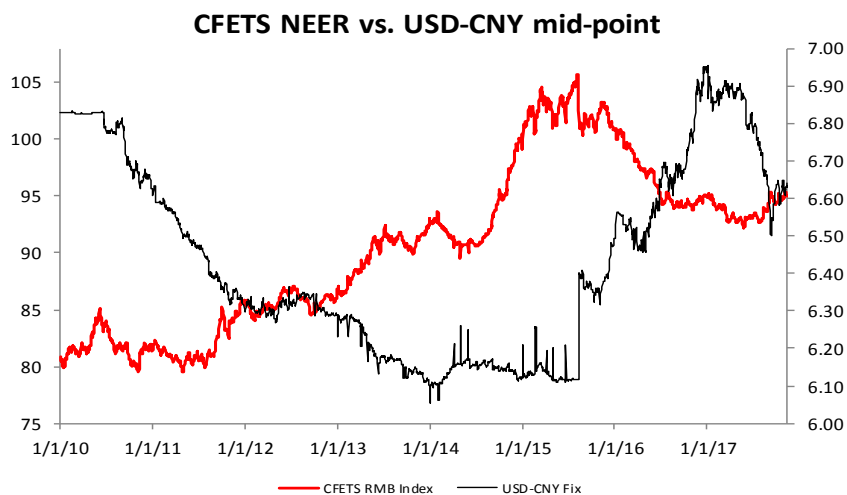
- EM FX was a mixed bag overnight with LATAM FX and the TRY and RUB slipping while the Asian and European complex benefitted from USD vulnerability. For today, the KRW and INR (although the bond market rout may dilute) may continue to derive intrinsic support from net portfolio inflow (albeit moderating slightly) momentum with inflows also picking up for the TWD. The IDR and THB meanwhile may remain hampered by net outflow momentum.
- With global EM equities crumbling for a fourth consecutive session on Tuesday and the **FXSI (FX Sentiment Index)** reacting higher and edging closer to Risk-neutral territory, the **ACI (Asian Currency Index)** may find the downside rather limited intra-day. On a structural horizon, the ACI is still seen on a supported gradient on a multi-week basis.
- **SGD NEER:** This SGD NEER this morning is slightly softer on the day at around +0.86% above its perceived parity (1.3712) with NEER-implied USD-SGD thresholds also easier. Expect the pair to continue to center itself within +0.80% (1.3604) and +1.00% (1.3576). With USD resilience losing conviction, USD-SGD may be heavy within the 55-day MA (1.3563) and the 100-day MA (1.3608) in the interim.



	SGD NEER	% deviation	USD-SGD
Current	125.34	0.87	1.3594
+2.00%	126.74		1.3443
Parity	124.26		1.3712
-2.00%	121.77		1.3992

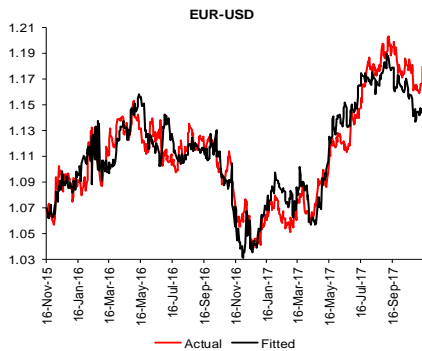
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fell (roughly in line with expectations) to 6.6263 from 6.6390 on Tuesday. This saw the CFETS RMB Index falling further to 94.94 from 95.01 yesterday.



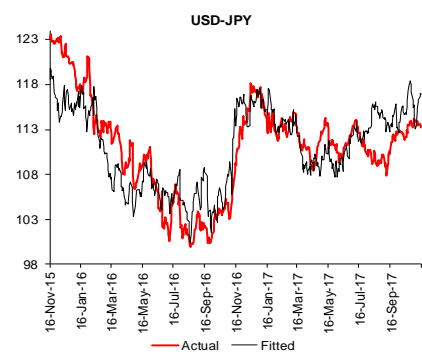
Source: OCBC Bank, Bloomberg

G7



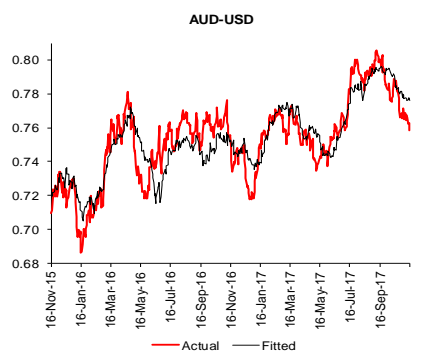
Source: OCBC Bank

- EUR-USD** The EUR-USD outpaced rising short term implied valuations on Tuesday after tripping key technical levels with the pair now looking slightly stretched on the upside. The 100-day MA (1.1737) is now expected to serve as a support after being breached with the 55-day MA (1.1796) expected to anchor the pair ahead of 1.1830 and pending further headline risks.



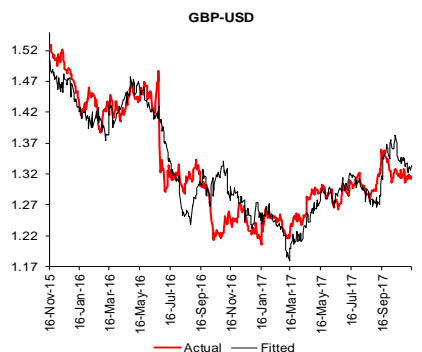
Source: OCBC Bank

- USD-JPY** Background investor jitters coupled with USD vulnerability may weigh on the USD-JPY in the short term, with the 113.00 support now under threat ahead of 112.80. Note the BOJ's Kuroda remaining sufficiently accommodative on Tuesday but central bank dichotomy may prove secondary at this juncture.



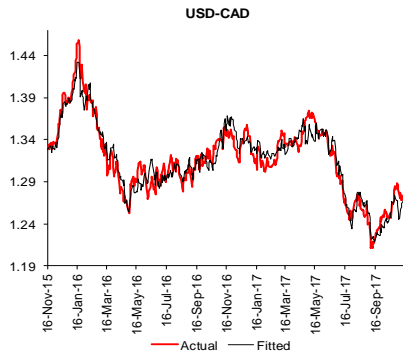
Source: OCBC Bank

- AUD-USD** Already weighed by slipping metals, the AUD-USD this morning was scythed lower following softer than expected 3Q wage price indices. Risk-reward for the pair remains on the downside in spite of relatively steady short term implied valuations and if the foothold at 0.7600 is lost on a sustained basis, expect decay towards 0.7550.



Source: OCBC Bank

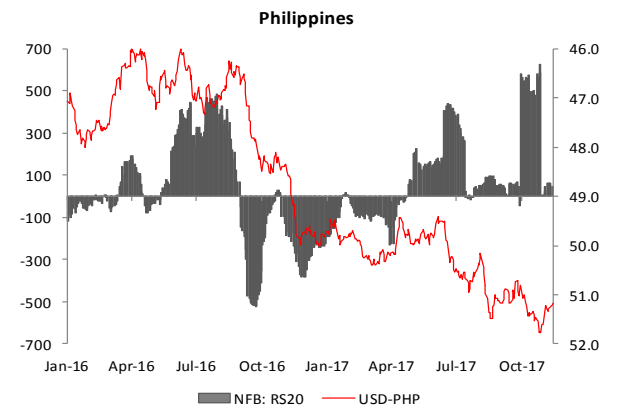
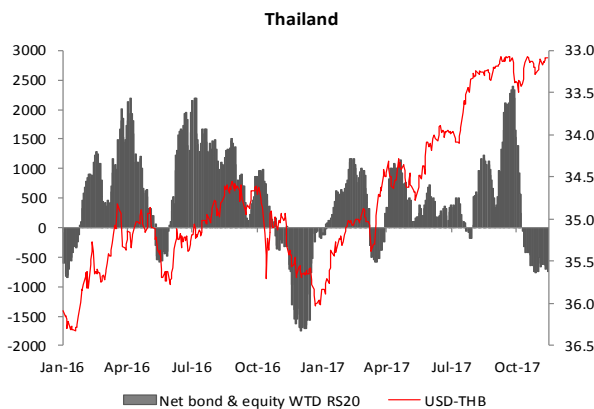
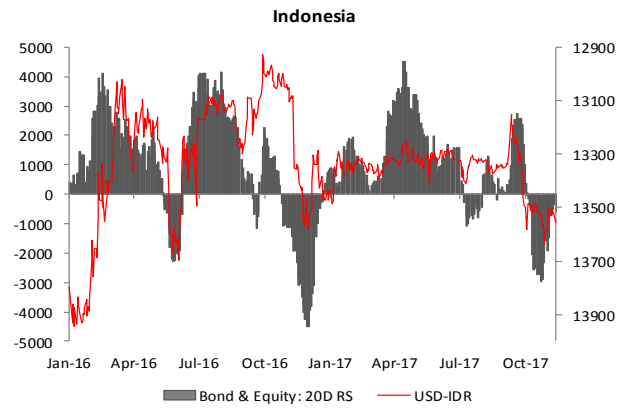
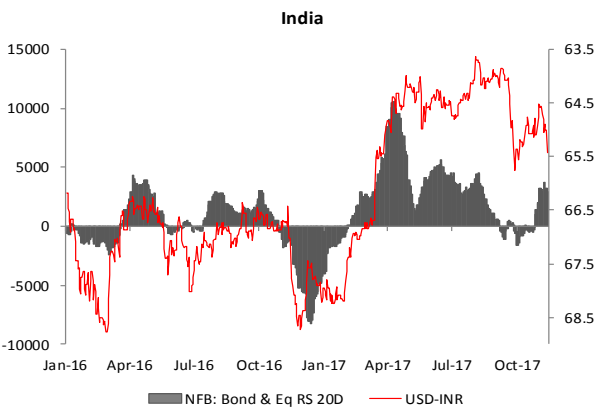
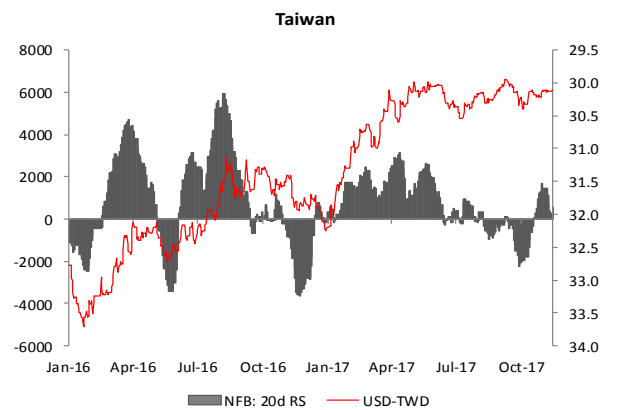
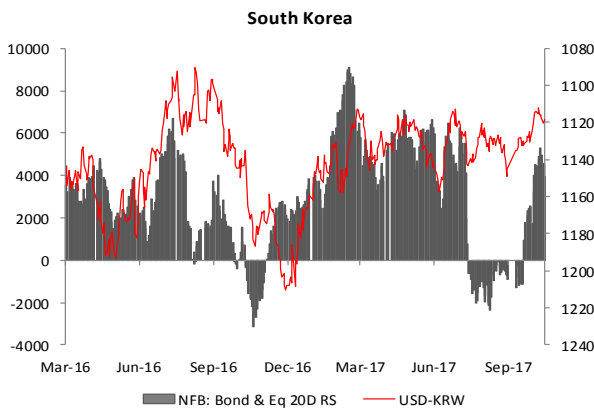
- GBP-USD** Despite softer than expected UK October CPI headlines, GBP-USD managed to float higher as the broad dollar hesitated. Ahead of the UK labor market numbers (and Brexit-related headlines) today, retain a preference to fade upticks within the 100-day MA (1.3117) and the 55-day MA (1.3229).

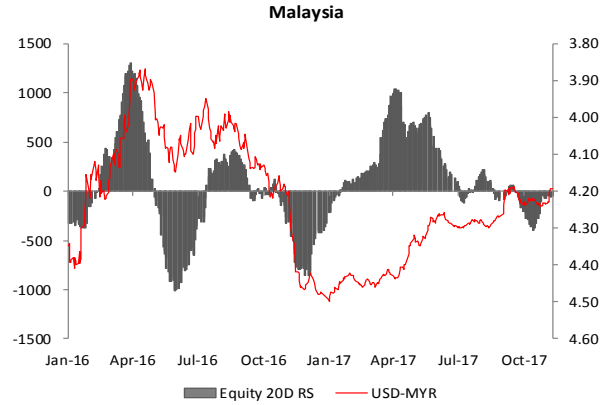


- USD-CAD** Slipping crude bolstered the USD-CAD on Tuesday despite generalized USD vulnerability. Investors meanwhile are expected to watch for NAFTA-related headlines in the interim and we note that short term implied valuations for the pair remain supported. Expect range bound behavior within 1.2630-1.2800.

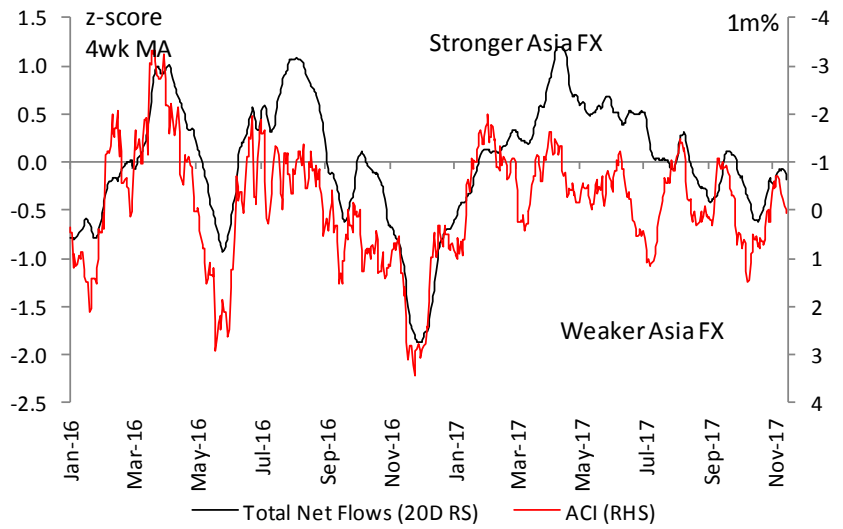
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

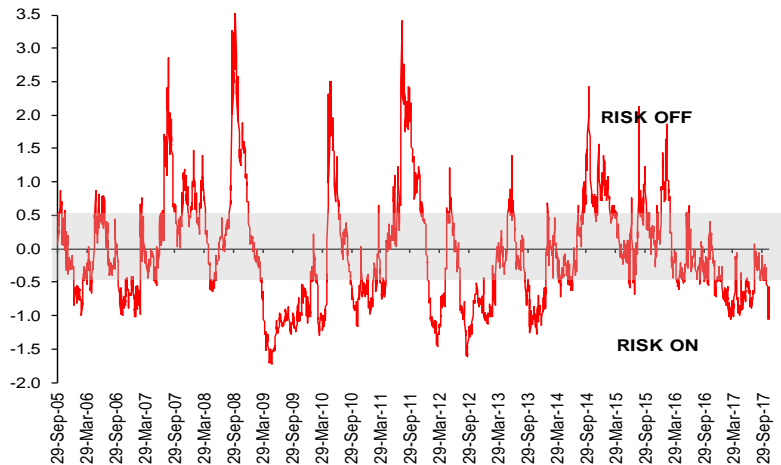




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.123	0.386	0.781	0.501	0.725	0.755	0.707	-0.256	-0.768	0.444	-0.963
CHF	0.948	0.3	0.39	0.741	0.494	0.715	0.882	0.704	-0.089	-0.722	0.519	-0.874
CAD	0.776	0.492	0.382	0.428	0.154	0.424	0.78	0.431	0.1	-0.629	0.454	-0.635
JPY	0.755	0.47	0.367	0.595	0.307	0.508	1	0.486	0.033	-0.568	0.532	-0.625
SGD	0.713	0.563	0.673	0.427	0.018	0.327	0.803	0.308	0.063	-0.437	0.705	-0.615
CNH	0.444	0.637	0.896	0.373	0.229	0.477	0.532	0.472	0.497	0.043	1	-0.373
CNY	0.386	0.464	1	0.272	0.059	0.339	0.367	0.354	0.329	-0.033	0.896	-0.338
IDR	0.356	0.702	0.393	-0.046	-0.329	-0.06	0.409	-0.045	0.352	-0.17	0.388	-0.212
MYR	0.261	0.001	0.017	-0.179	-0.541	-0.387	0.207	-0.381	-0.497	-0.562	-0.218	-0.284
THB	0.234	0.406	0.46	-0.094	-0.558	-0.257	0.204	-0.261	-0.157	-0.29	0.219	-0.215
USGG10	0.123	1	0.464	-0.177	-0.347	-0.115	0.47	-0.14	0.659	0.199	0.637	0.004
CCN12M	0.067	0.177	0.588	0.094	0.152	0.18	0.049	0.175	0.179	0.189	0.529	-0.101
PHP	-0.083	0.555	0.206	-0.598	-0.822	-0.599	0.045	-0.633	0.143	0.038	0.036	0.12
TWD	-0.209	0.501	0.346	-0.399	-0.709	-0.502	0.06	-0.545	0.255	0.3	0.211	0.256
INR	-0.299	0.27	0.439	0.014	0.15	0.115	-0.184	0.135	0.67	0.734	0.51	0.33
GBP	-0.358	0.079	-0.194	-0.494	-0.295	-0.362	-0.339	-0.369	0.177	0.139	-0.237	0.296
NZD	-0.648	-0.613	-0.539	-0.452	-0.105	-0.43	-0.809	-0.427	-0.266	0.416	-0.643	0.457
KRW	-0.695	0.163	-0.069	-0.795	-0.832	-0.865	-0.615	-0.869	0.178	0.625	-0.236	0.646
AUD	-0.72	-0.347	-0.531	-0.679	-0.559	-0.772	-0.677	-0.769	-0.179	0.451	-0.638	0.592
EUR	-0.963	0.004	-0.338	-0.77	-0.55	-0.734	-0.625	-0.696	0.34	0.768	-0.373	1

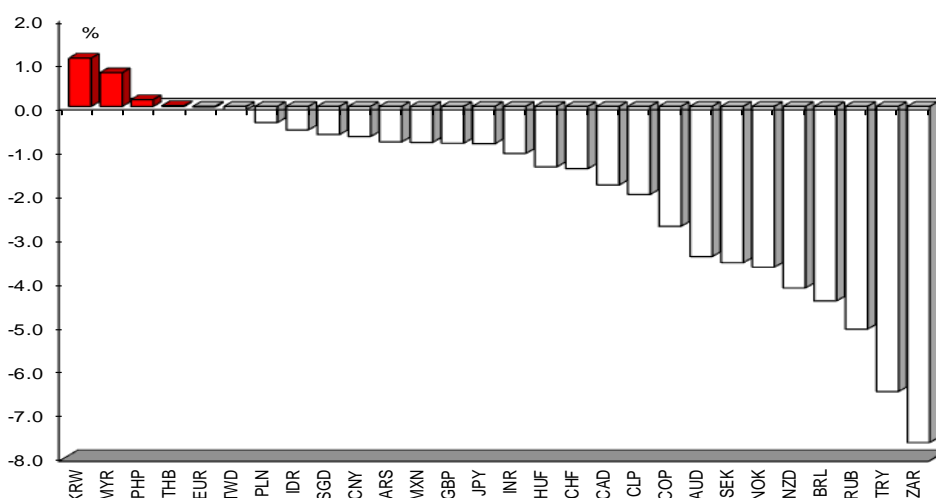
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1784	1.1792	1.1800	1.1851
GBP-USD	1.3048	1.3100	1.3134	1.3200	1.3249
AUD-USD	0.7550	0.7576	0.7579	0.7600	0.7695
NZD-USD	0.6817	0.6818	0.6879	0.6900	0.6998
USD-CAD	1.2553	1.2700	1.2745	1.2800	1.2917
USD-JPY	112.85	113.00	113.07	114.00	114.38
USD-SGD	1.3557	1.3562	1.3595	1.3600	1.3656
EUR-SGD	1.5977	1.6000	1.6031	1.6050	1.6100
JPY-SGD	1.1913	1.2000	1.2024	1.2042	1.2055
GBP-SGD	1.7756	1.7800	1.7856	1.7900	1.7966
AUD-SGD	1.0270	1.0300	1.0303	1.0400	1.0594
Gold	1267.53	1268.82	1282.30	1289.48	1292.71
Silver	16.68	17.00	17.05	17.10	17.12
Crude	52.39	55.10	55.12	55.20	57.92

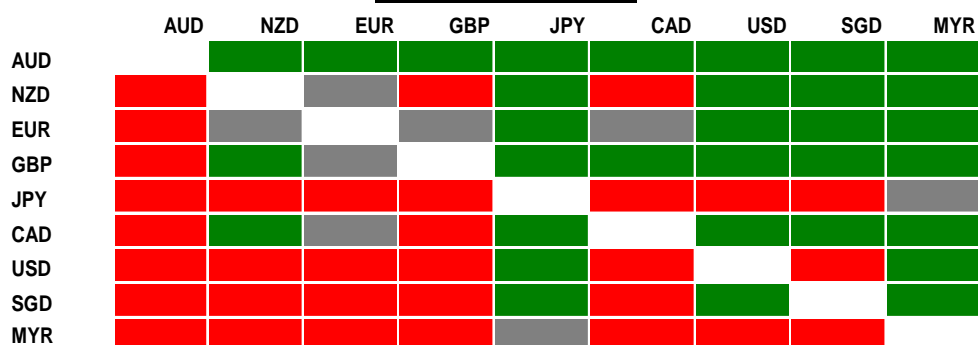
Source: OCBC Bank

FX performance: 1-month change agst USD



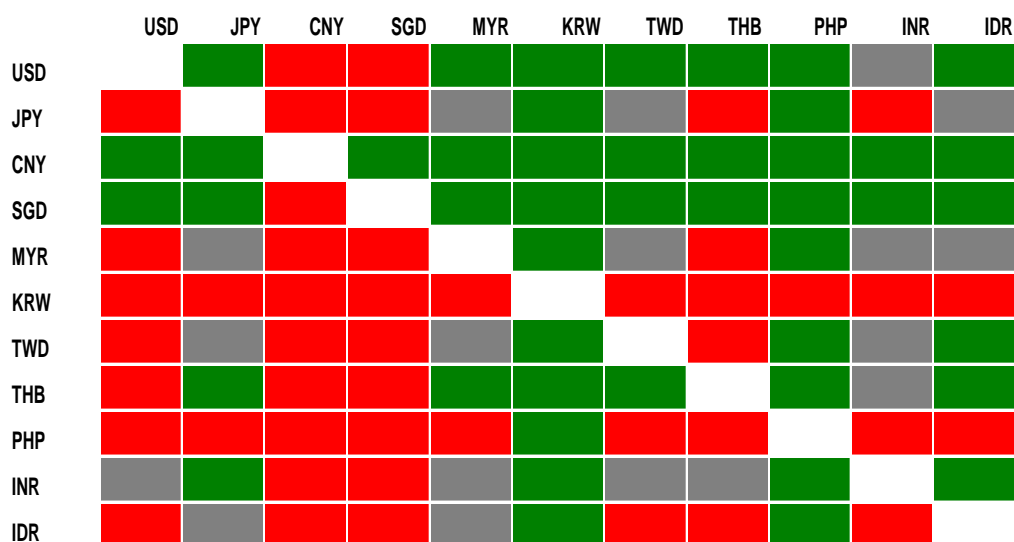
Source: Bloomberg

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

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