

Monday, October 16, 2017

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

- Softer UST yields (bull flatten from the back-end) following softer than expected US September CPI and retail sales numbers (and despite the better than expected October Michigan consumer confidence) saw the greenback ending largely weaker (except against the EUR) on Friday. Meanwhile, the antipodeans garnered further upside momentum for a second consecutive session on Friday as they outperformed (fading risk aversion and positive global equities) across G10 space.
- On the **CFTC** front, large non-commercial accounts pared their implied net short dollar bias in aggregate in the latest week but net of JPY positioning, the short dollar bias was further build up in the same period. Meanwhile, leveraged accounts (including as well as excluding JPY positioning) reduced their net implied short dollar bias in the latest week. On the other hand, asset manager accounts increased their net implied short dollar bias in the same period, but excluding JPY positioning, the aggregate short dollar bias was reduced. **Beyond the week-to-week changes, note that all three classification of accounts remain structurally, unequivocally, and significantly short the dollar.**
- **Japan's elections** on 22 Oct 17 may keep the USD\_JPY this week on a separate path this week, with the consensus favoring a return to power by the LDP-led coalition, underpinning the USD-JPY somewhat. Elsewhere, expect some market caution ahead of **China's Party Congress** (18-24 Oct 17) as investors await accompanying policy pronouncements.
- The chorus of **ECB** (despite a fairly confident Weidmann) and **Fed** rhetoric all through the weekend continued to echo a refrain of restraint and patience, especially with respect to inflation prospects. As a result, short term dollar bulls may have finally lost the plot with the DXY risking a relapse to 92.00 if the 93.00 handle is lost and with the 10y UST potentially looking to revert to 2.25% before 2.20%. **If global central bank guidance continues to lose clarity this week, expect investors to potentially revert to trading off risk appetite dynamics and the search for yield instead. To this end, the antipodeans and Asian FX may attempt to pick higher against the greenback.**
- Look towards more Fed-speak this week with Harker on Tuesday, Dudley and Kaplan on Wednesday, George on Thursday, and Mester and Yellen on Friday. Meanwhile, ECB guidance may be had from Constancio on Tuesday and Wednesday, Draghi, Praet, and Coeure on Wednesday, and Nowotny on Friday. Meanwhile, look to RBA meeting minutes and an appearance by

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Ellis on Tuesday, with Bullock also due on Wednesday-Thursday. On other fronts, the Bank of Canada's Wilkins is scheduled for Tuesday with the BOJ's Kuroda on Friday.

### Asian FX

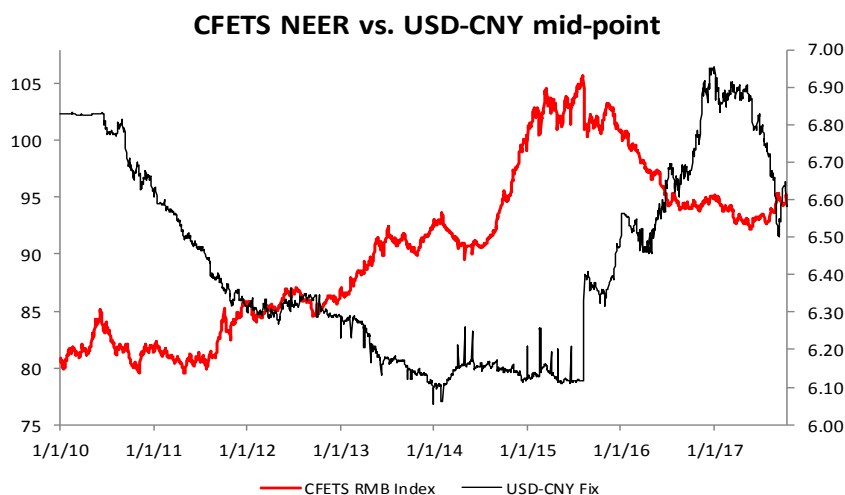
- The latest batch of September trade numbers and monetary aggregates, as well as CPI/PPI readings out of China are perceived to be supportive of general investor sentiment with all eyes expected to be on the 3Q GDP numbers due on Thursday. Elsewhere, Bank Indonesia and the Bank of Korea are expected to remain static on Thursday at their respective policy meetings.
- **EPFR flows** meanwhile showed an almost tripling of implied net inflows into Asian equities in the latest week while implied net inflows into bonds also more than doubled in the same period.
- **Net portfolio inflows in Asia** meanwhile continue to provide some scope for positivity. Net outflows for the KRW and TWD have compressed significantly, with the INR flipping over to a net inflow environment (on a 1M rolling basis). The IDR and THB we think continue to merit caution amidst deepening outflow pressures.
- Overall, despite the **FXSI (FX Sentiment Index)** edging higher within Risk-Neutral territory on Friday, the **ACI (Asian Currency Index)** may trade top heavy given the slightly more sanguine risk appetite complexion at the onset of the week.
- **SGD NEER:** This morning, the SGD NEER is slightly firmer on the day at around +1.10% above its perceived parity (1.3646) with NEER-implied USD-SGD thresholds softer on the day. Fresh after the MAS MPS last Friday, expect investors to keep a close eye on the trajectory of the NEER, especially for signs of any persistence above the +1.00% threshold (1.3511). Technically, with the key 200-week MA residing at 1.3506, expect initial support towards 1.3470 if 1.3500 is breached on a sustained basis, while short-end vols have also decompressed.



	SGD NEER	% deviation	USD-SGD
Current	125.54	1.03	1.3515
+2.00%	126.74		1.3379
Parity	124.26		1.3646
-2.00%	121.77		1.3925

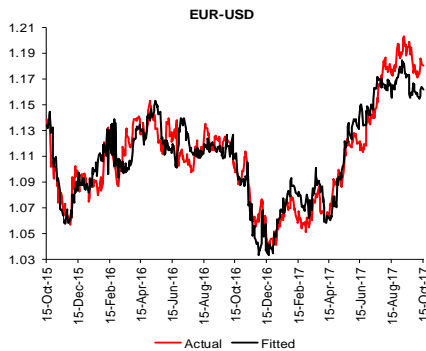
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point softened (slightly less than expected) to 6.5839 from 6.5866 on Friday. This softened the CFETS RMB Index to 94.91 from 95.00. Going ahead, expect a certain degree of stability with the imminent Party Congress this week.



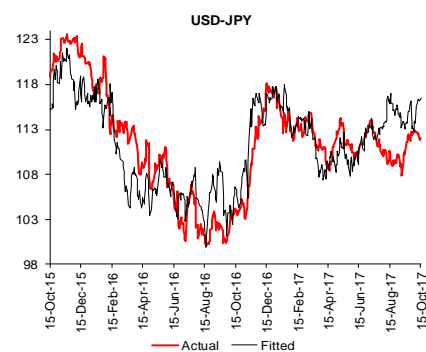
Source: OCBC Bank, Bloomberg

G7



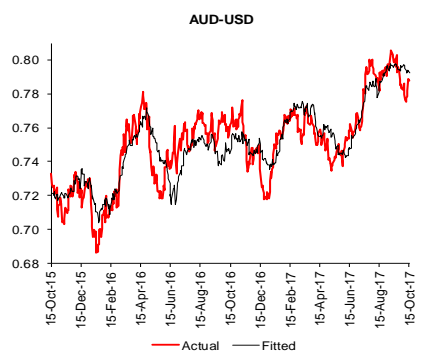
Source: OCBC Bank

- EUR-USD** EZ September CPIs are due on Tuesday but the EUR-USD may wobble at the onset of the week following Austrian and German regional election headlines over the weekend. In addition, look towards a 0800GMT headline for Catalonia's Puigdemont today. Short-end implied valuations are fading slightly with the 55-day MA (1.1843) still seen sheltering with risks towards 1.1750 perhaps more pronounced intra-day. Multi-session, expect support to also kick in towards the 200-week MA (1.1693).



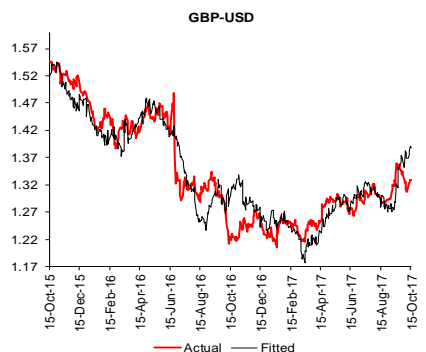
Source: OCBC Bank

- USD-JPY** The BOJ's Kuroda continued to sound sufficiently cautious over the weekend but all eyes may be on this weekend's elections. On the risk aversion front, watch also for any reaction from Pyongyang in view of the US-South Korean joint military exercise this week. Short term implied valuations for the pair meanwhile are looking underpinned with the 200-week MA (111.87) and the 200-day MA (111.79) expected to support on dips. Conflicting forces may thus imply range trading behavior in the interim.



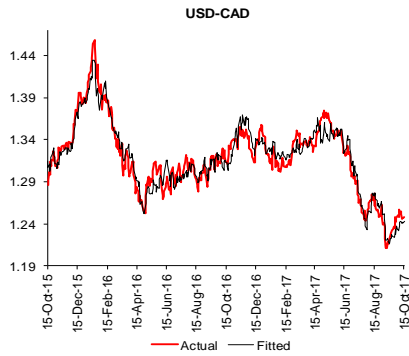
Source: OCBC Bank

- AUD-USD** Key numbers this week comes in the form of September labor market numbers on Thursday. In the interim, the pair may be underpinned slightly by positive risk appetite developments. As noted previously, short term implied valuations remain relatively steady and the pair may continue to close the gap (upwards) with implied fair value. Overall, the pair may be tempted towards its 55-day MA (0.7916) although the 200-week MA (0.7929) may cap pending fresh cues.



Source: OCBC Bank

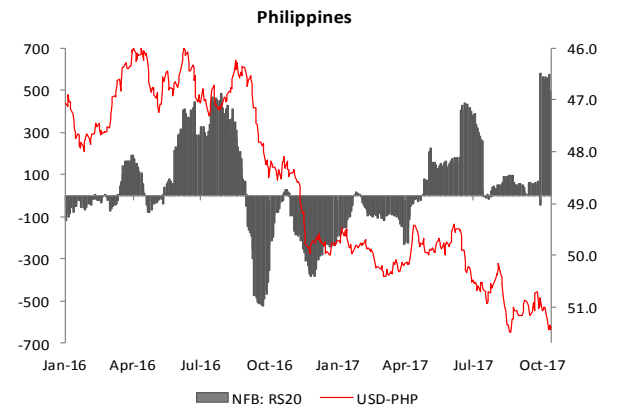
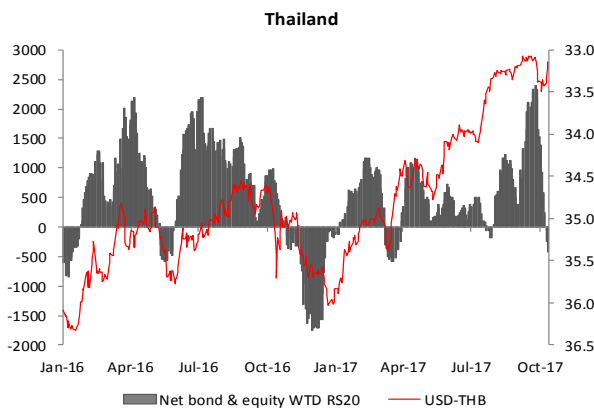
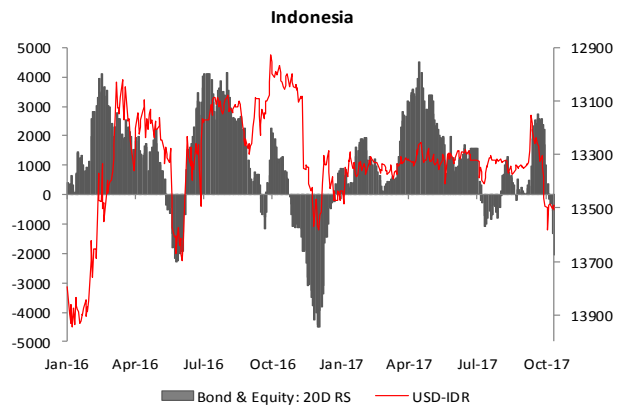
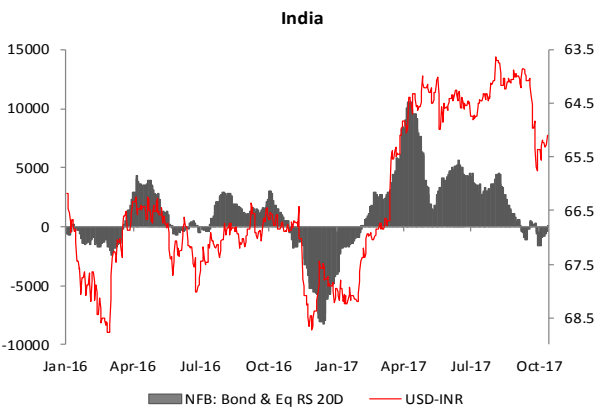
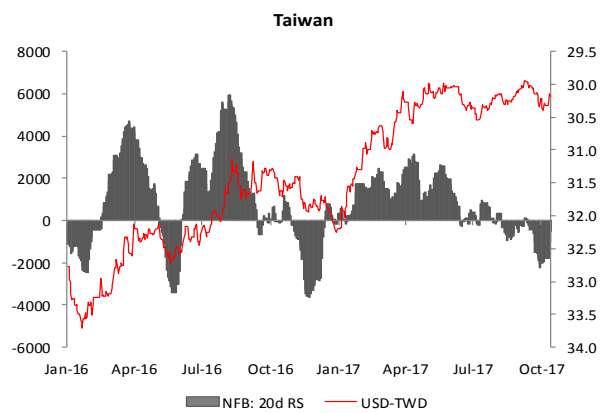
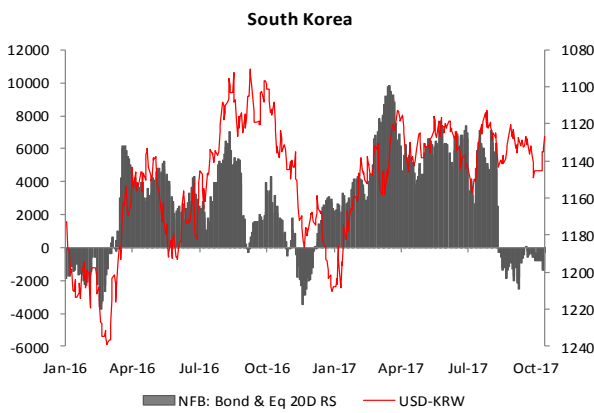
- GBP-USD** UK September CPI is due on Tuesday and we note that short term implied valuations remain relatively supported in the interim. The pair may contemplate the 1.3300 handle in the near term within its 1.3100-1.3600 range pending further Brexit-related headlines.

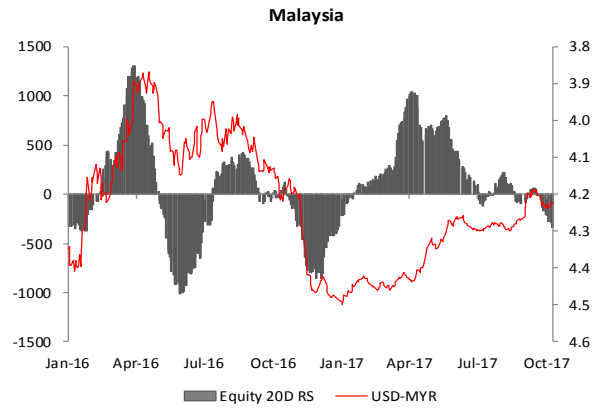


- USD-CAD** Firmer crude on the back of Iraq headlines and the positive China data-feed may keep the USD-CAD slightly top heavy despite background Nafta uncertainty and defused expectations of a BOC hike this month. Note however that short term implied valuations are attempting to inch higher and this may see the USD-CAD attempting to bounce from its 55-day MA (1.2467) towards 1.2570.

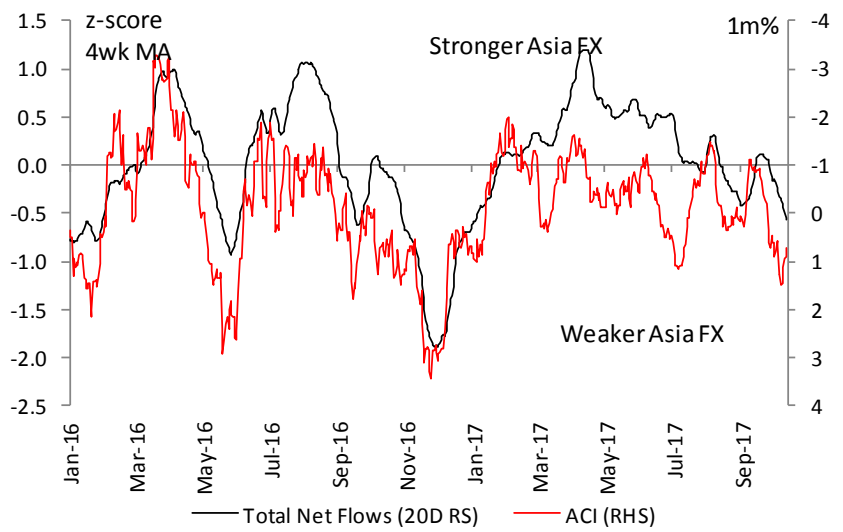
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

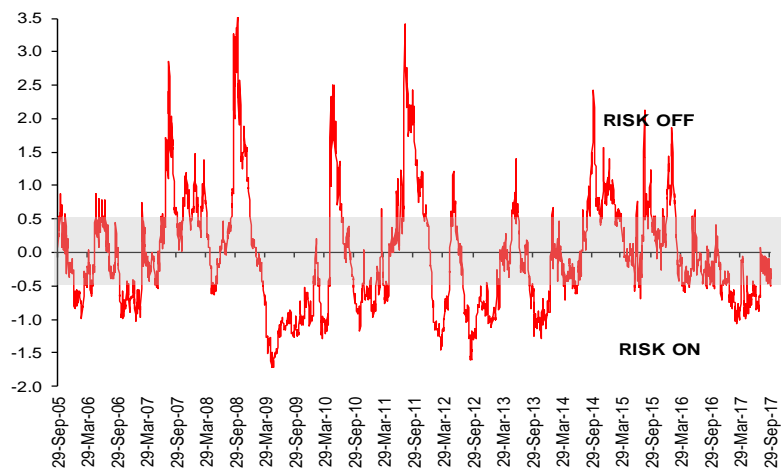




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.799	0.474	0.678	-0.005	-0.538	0.782	0.041	-0.39	0.327	0.63	-0.975
CAD	0.94	0.875	0.296	0.803	0.171	-0.51	0.696	0.016	-0.366	0.202	0.447	-0.869
SGD	0.903	0.786	0.684	0.508	-0.188	-0.728	0.852	-0.159	-0.346	0.226	0.81	-0.9
MYR	0.902	0.798	0.487	0.669	0.002	-0.62	0.71	-0.003	-0.482	0.307	0.61	-0.872
CHF	0.856	0.799	0.044	0.796	0.339	-0.489	0.685	-0.146	-0.348	0.307	0.264	-0.757
IDR	0.842	0.847	0.302	0.755	0.179	-0.519	0.737	0.059	-0.4	0.255	0.421	-0.783
TWD	0.809	0.766	0.848	0.365	-0.342	-0.752	0.815	0.057	-0.668	0.327	0.883	-0.816
THB	0.807	0.742	0.726	0.507	-0.209	-0.781	0.802	-0.165	-0.47	0.217	0.842	-0.814
USGG10	0.799	1	0.162	0.778	0.238	-0.592	0.803	-0.21	-0.373	0.109	0.392	-0.688
JPY	0.782	0.803	0.444	0.437	-0.139	-0.594	1	-0.082	-0.484	0.433	0.653	-0.753
INR	0.754	0.555	0.735	0.283	-0.352	-0.347	0.68	0.444	-0.174	0.553	0.614	-0.806
CNH	0.63	0.392	0.97	0.042	-0.617	-0.612	0.653	-0.009	-0.472	0.328	1	-0.724
CCN12M	0.508	0.421	0.767	0.08	-0.466	-0.536	0.599	-0.048	-0.538	0.156	0.861	-0.578
CNY	0.474	0.162	1	-0.293	-0.811	-0.273	0.444	0.565	-0.129	0.505	0.97	-0.63
KRW	0.404	0.444	0.846	-0.087	-0.632	-0.495	0.612	0.396	-0.476	0.456	0.811	-0.469
PHP	0.319	0.496	-0.432	0.751	0.782	-0.081	0.162	-0.208	0.119	-0.319	-0.36	-0.196
NZD	-0.795	-0.79	-0.101	-0.848	-0.375	0.45	-0.529	0.062	0.01	0.038	-0.199	0.698
AUD	-0.852	-0.869	-0.338	-0.745	-0.157	0.521	-0.691	-0.003	0.181	-0.156	-0.389	0.777
GBP	-0.86	-0.817	0.028	-0.905	-0.412	0.561	-0.563	0.249	0.225	0.048	-0.318	0.75
EUR	-0.975	-0.688	-0.63	-0.521	0.185	0.51	-0.753	-0.139	0.348	-0.395	-0.724	1

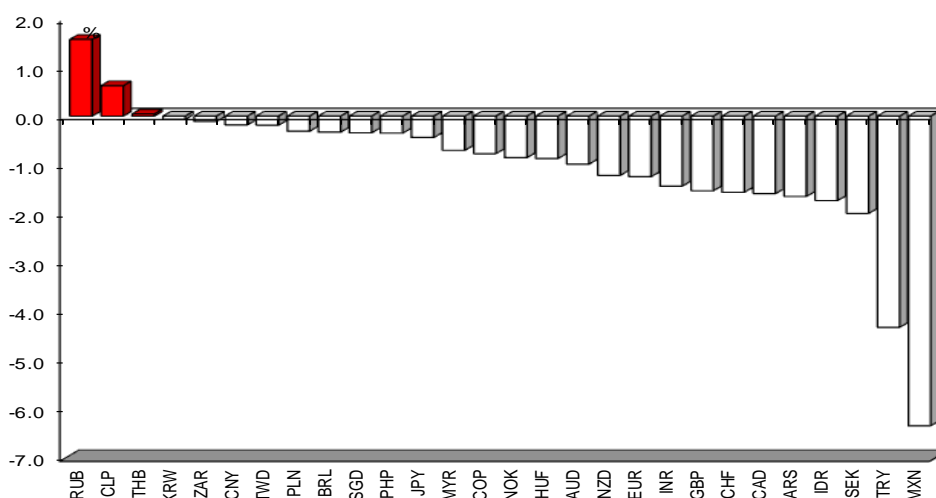
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1670	1.1800	1.1804	1.1844	1.1900
GBP-USD	1.3141	1.3200	1.3286	1.3300	1.3606
AUD-USD	0.7733	0.7800	0.7875	0.7900	0.7909
NZD-USD	0.7100	0.7155	0.7172	0.7200	0.7225
USD-CAD	1.2400	1.2449	1.2488	1.2500	1.2598
USD-JPY	111.76	112.00	112.05	113.00	113.11
USD-SGD	1.3436	1.3500	1.3517	1.3550	1.3600
EUR-SGD	1.5904	1.5939	1.5955	1.6000	1.6050
JPY-SGD	1.2000	1.2005	1.2064	1.2100	1.2113
GBP-SGD	1.7811	1.7900	1.7959	1.8000	1.8346
AUD-SGD	1.0600	1.0634	1.0643	1.0700	1.0715
Gold	1298.12	1300.00	1301.00	1314.06	1358.50
Silver	17.27	17.30	17.38	17.40	17.51
Crude	50.83	51.80	51.86	51.90	52.56

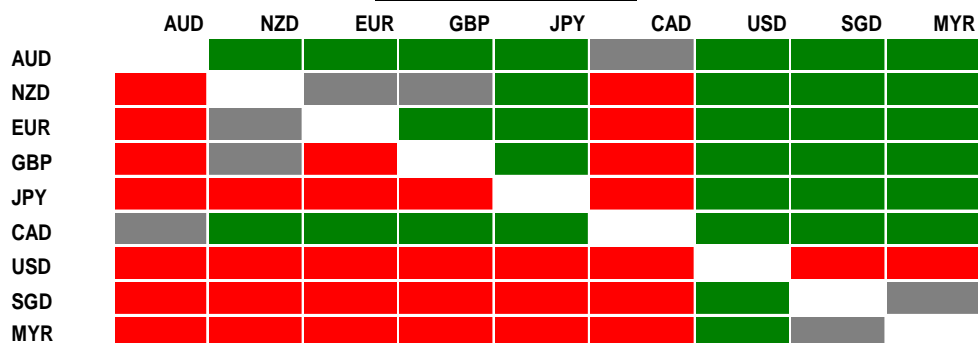
Source: OCBC Bank

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



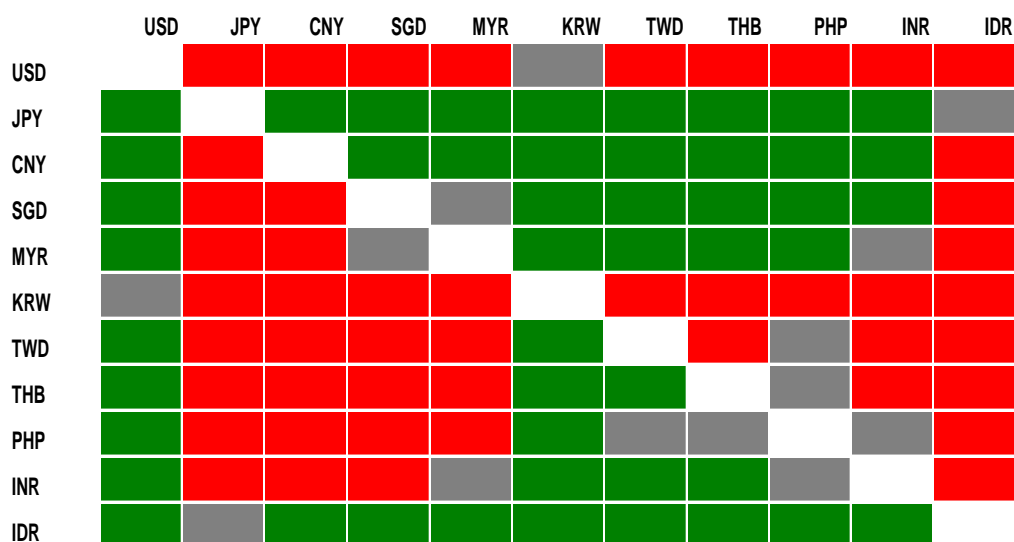
Source: Bloomberg

**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	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	S	AUD-USD	0.7816	0.7625	0.7915	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	
3	28-Sep-17	B	USD-CAD	1.2500	1.2795	1.2350	Reality check from the BOC's Poloz even as the USD garners renewed interest	
4	04-Oct-17	B	USD-SGD	1.3602	1.3750	1.3525	Potential USD resilience- Fed, geopolitical risks, static MAS, decaying capital inflows in Asia	
<b>STRUCTURAL</b>								
5	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	12-Sep-17	14-Sep-17	S	USD-SGD	1.3447	1.3525	Fade the USD relief rally, prepare for renewed interest towards EM/Asia	-0.58
2	11-Sep-17	18-Sep-17	S	USD-CAD	1.2128	1.2270	Support from earlier than expected BOC rate hike, inherent USD vulnerability	-1.16
3	20-Jul-17	21-Sep-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%. Closed at 0.7964			More positive than expected RBA minutes, supportive data, weak USD	+0.04
4	19-Sep-17	27-Sep-17	B	GBP-USD	1.3540	1.3395	Earlier than expected paradigm change by the BOE	-1.11
5	28-Sep-17	11-Oct-17	S	EUR-USD	1.1734	1.1860	Political overhang from Germany contrasting with FOMC, Yellen	-0.99
6	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
							Jan-Oct*** 2017 Return	-3.31
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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