

Thursday, August 17, 2017

## FX Themes/Strategy/Trading Ideas

- Dovish FOMC minutes saw UST yields correcting lower (flattened from the back-end) and the USD losing altitude against its G10 counterparts on Wednesday. The EUR-USD slipped briefly below 1.1700 on Wednesday after a wire article revealed that the ECB's Draghi would refrain from making any policy pronouncements at Jackson Hole, but the pair rebounded to end higher on the day post FOMC minutes. Elsewhere, the GBP-USD, already underpinned by better than expected June wage numbers, also firmed into late NY. Cyclical meanwhile outshone their G10 counterparts on the back of a positive equity/metals complex.
- According to the FOMC minutes, some participants continued to debate the transitory nature (or not) of the recent softness in inflation, with a few even questioning the usefulness of utilizing inflation expectations as a forecasting tool for inflation. Note also highlighted concerns about the uncertainty surrounding fiscal policy impacting firms' hiring behavior and spending plans. Meanwhile, comments from the Fed's Fischer also highlighted the ongoing inflation debate within the committee although he **refrained from adding his own assessment**. On balance sheet tapering, he implied a break between an announcement and the actual commencement of the process. **Overall, rhetoric from the Fed overnight left very little fodder for dollar bulls.**
- For today's calendar, look to Australian July labor market readings (0130 GMT), UK July retail sales (0830 GMT), July EZ CPI (0900 GMT), ECB minutes (1130 GMT), with US data points including initial claims (1230 GMT), August Philly Fed (1230 GMT), and July industrial production (1315 GMT).
- **In the interim, soggy vibes from the FOMC minutes and political flak (Charlottesville/business councils news flow) surrounding Trump may continue to keep the greenback on the defensive intra-day.** If risk appetite levels remain supported, expect the cyclical to attempt to gain further traction.
- Despite supportive wage numbers out of the UK on Wednesday, the recent disappointment from the CPI readings and dousing of hawkish BOE expectations, coupled with potential for a further capitulation of the USD higher, may permit the GBP-USD to search lower in the near term. From a **GBP-USD** spot ref of 1.2888, we target a tactical objective of 1.2605 and place a stop at 1.3035.

Treasury Research &  
Strategy

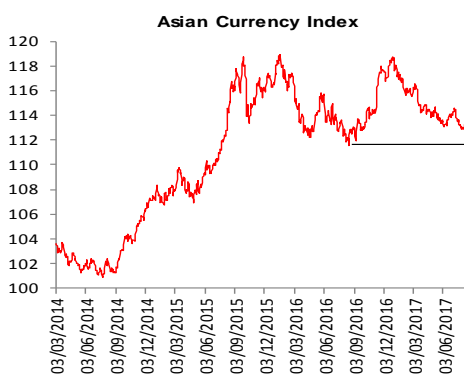
Emmanuel Ng

+65 6530 4073

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

### Asian FX

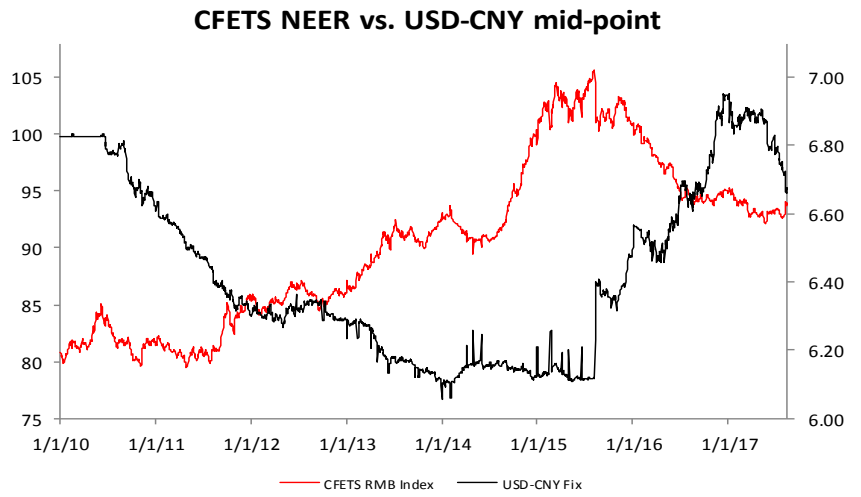
- Asian FX, taking the cue from their EM peers overnight, may be expected to feed off a vulnerable USD intra-day. On the net portfolio inflow front in Asia however, moderation in inflow momentum is being exhibited for the INR, IDR, and MYR. The THB remains significantly underpinned on this front, with improvements also being chalked up for the PHP. The KRW and TWD meanwhile are still seen vulnerable on the back of minor outflows, and it remains to be seen if improvements in global risk appetite levels will remedy this in the coming sessions.
- Overall, Asian FX resilience near term may be more a function of USD vulnerability, as opposed to strong capital inflows at this juncture.** In sum, with the **FXSI (FX Sentiment Index)** continuing to dip within Risk-Neutral territory for the third consecutive session, the **ACI (Asian Currency Index)** is set to head lower during the current session.
- SGD NEER:** The SGD NEER has gained on the day to around +0.62% (overnight implied high around +0.78%) above its perceived parity (1.3716). NEER-implied USD-SGD thresholds are lower on the day with +0.50% estimated at 1.3648 and +0.80% at 1.3607, with the latter likely to cushion the pair pending further external developments. On the macro front, July NODX came in at a softer than expected +8.50% yoy but note that the previous month was revised higher to 8.80% from 8.20% previously reported.



	SGD NEER	% deviation	USD-SGD
Current	125.02	0.61	1.3626
+2.00%	126.74		1.3447
Parity	124.26		1.3716
-2.00%	121.77		1.3996

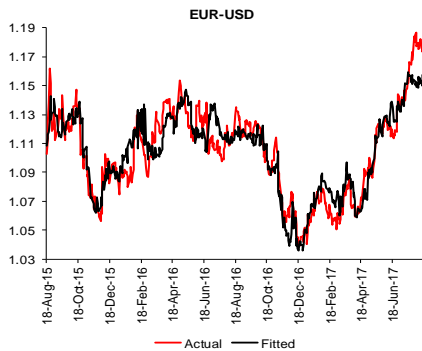
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (slightly more than expected) to 6.6709 from 6.6779 yesterday, with the CFETS RMB Index dropping to 93.73 from 93.89 on Wednesday.



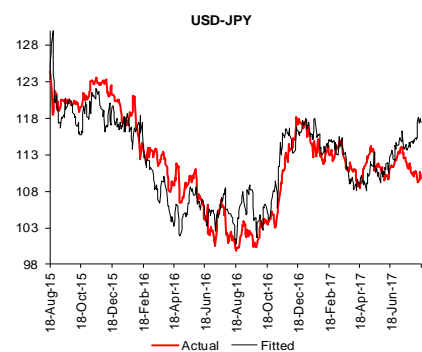
Source: OCBC Bank, Bloomberg

**G7**



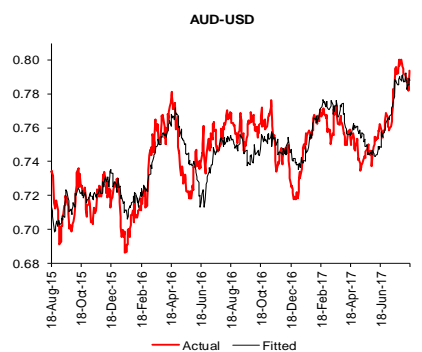
Source: OCBC Bank

- EUR-USD** New found broad USD vulnerability is propping up short term implied valuations for the EUR-USD once again may continue to keep the pair slightly buoyant within 1.1670-1.1850. Despite the wire report indicating no watershed comments to be forthcoming from the ECB's Draghi next weekend, investors are unlikely to switch out of the EUR just yet.



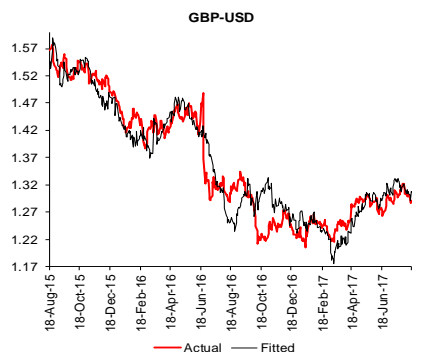
Source: OCBC Bank

- USD-JPY** Negative dollar baggage may translate a little more efficiently via a softer USD-JPY in the near term, with short term implied valuations for the pair also relapsing lower for now. Risk for the pair to continue to submerge below 110.00 if USD skepticism persists. Elsewhere, a slight re-assessment towards the EUR amidst a heavy USD-JPY may keep the EUR-JPY top heavy and eyeing the 129.00 floor.



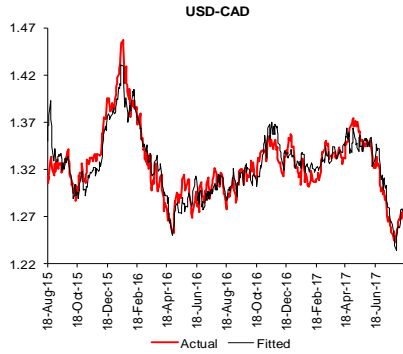
Source: OCBC Bank

- AUD-USD** Supportive July Australian labor market numbers this morning (employment change at a better than expected +27.9k with previous month revised higher to +20.0k from 14.0k) may continue to prop up the AUD-USD, with complementarity from a supportive equity/commodity complex. Short term implied valuations are also looking underpinned with 0.7950/70 looking to entice intra-day. Elsewhere, stay flat-to-bid on the AUD-NZD with initial resistance seen towards 1.0870.



Source: OCBC Bank

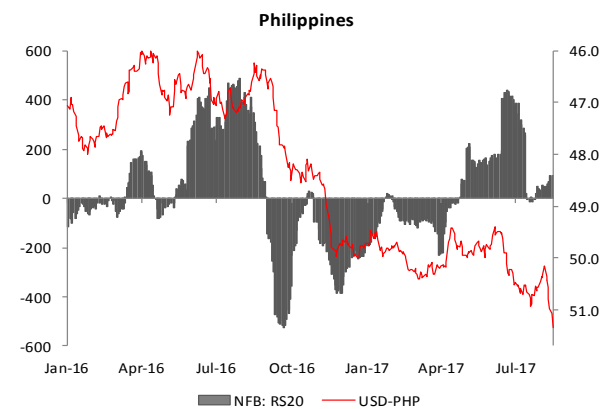
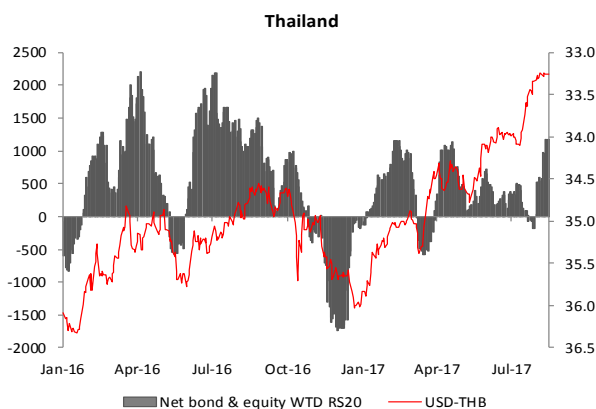
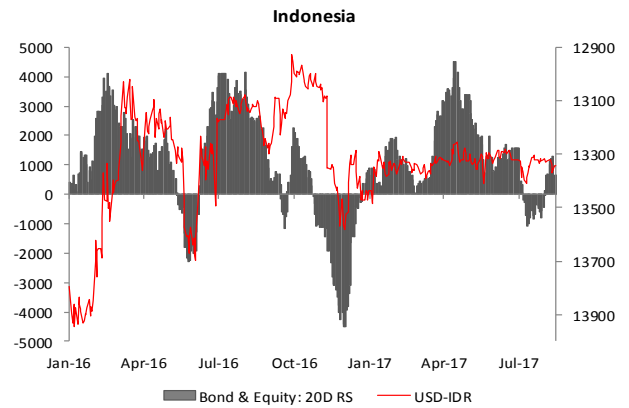
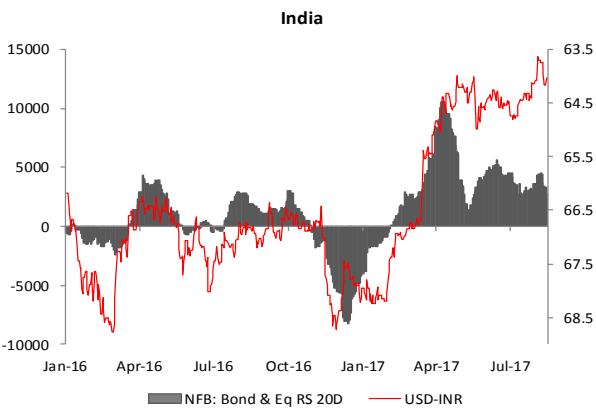
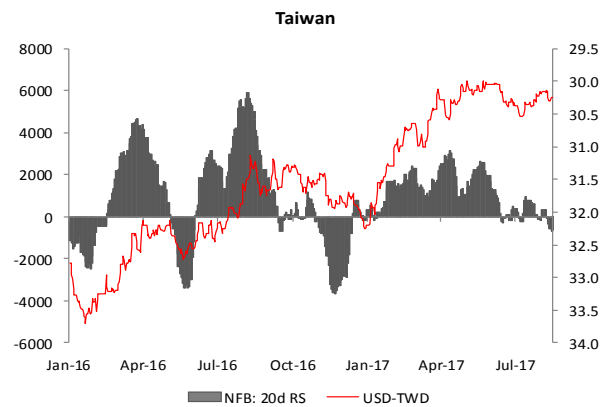
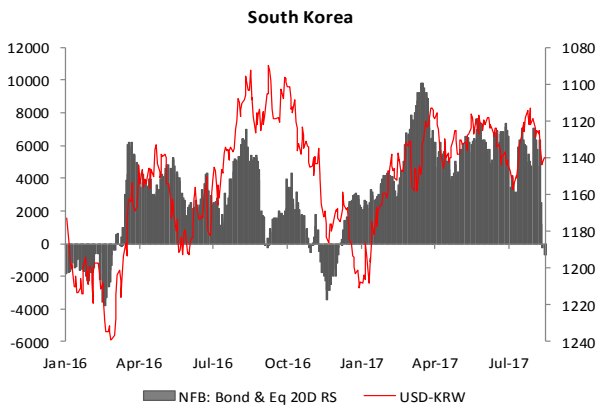
- GBP-USD** Contrasting headlines between the UK and the US managed to lift the GBP-USD higher on the day in line with firmer short term implied valuations. Ahead of the July UK retail sales numbers today, the 1.2900 handle may serve as a near term tether point. Meanwhile, GBP underperformance is still expected via the EUR-GBP, with 0.9150 likely to attract.

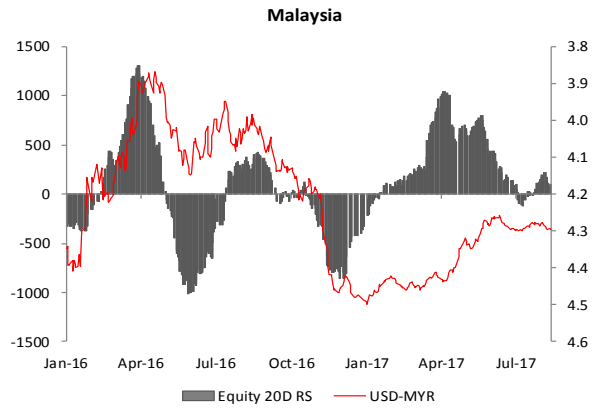


- USD-CAD** Despite NAFTA negotiations getting underway and softer crude, USD-CAD managed to sink in the face of broader USD vulnerability. Ahead of the July Canadian CPI readings tomorrow however, market conviction to push appreciably below 1.2600 to 1.2575 may be in doubt.

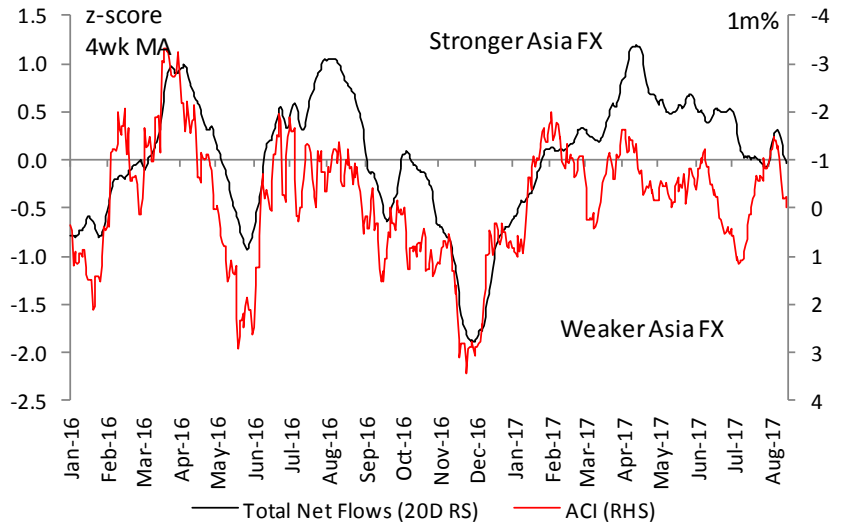
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

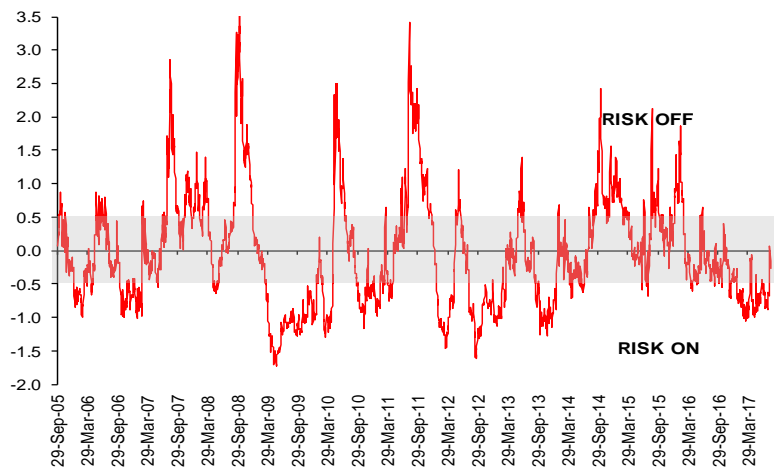




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.279	0.463	0.086	-0.262	-0.566	0.756	-0.661	-0.322	-0.077	0.466	-0.97
THB	0.81	0.326	0.713	0.18	-0.334	-0.441	0.856	-0.598	-0.484	-0.223	0.712	-0.844
JPY	0.756	0.685	0.869	0.538	0.037	-0.24	1	-0.382	-0.778	-0.568	0.879	-0.787
SGD	0.752	-0.209	-0.071	-0.198	-0.313	-0.602	0.303	-0.641	0.105	0.307	-0.052	-0.638
TWD	0.62	-0.063	0.384	-0.195	-0.617	-0.7	0.466	-0.803	-0.072	0.242	0.312	-0.658
INR	0.54	0.2	0.402	-0.174	-0.571	-0.587	0.46	-0.641	-0.126	0.216	0.342	-0.628
CNH	0.466	0.663	0.98	0.655	0.172	0.006	0.879	-0.165	-0.885	-0.761	1	-0.558
CNY	0.463	0.639	1	0.639	0.152	-0.047	0.869	-0.294	-0.878	-0.744	0.98	-0.553
PHP	0.378	-0.308	-0.31	-0.459	-0.643	-0.745	-0.051	-0.633	0.407	0.704	-0.382	-0.318
USGG10	0.279	1	0.639	0.645	0.347	0.227	0.685	0.202	-0.682	-0.642	0.663	-0.324
CAD	0.048	-0.58	-0.735	-0.463	-0.155	-0.208	-0.442	-0.077	0.621	0.571	-0.668	0.12
MYR	-0.007	-0.572	-0.642	-0.519	-0.43	-0.42	-0.417	-0.315	0.635	0.765	-0.71	0.113
AUD	-0.139	0.495	0.639	0.477	0.359	0.487	0.362	0.297	-0.553	-0.688	0.574	0.008
CCN12M	-0.15	-0.577	-0.421	-0.129	-0.183	-0.493	-0.407	-0.376	0.278	0.429	-0.515	0.292
NZD	-0.177	0.563	0.699	0.534	0.341	0.449	0.367	0.312	-0.636	-0.71	0.684	0.023
IDR	-0.234	-0.388	-0.606	-0.389	-0.389	-0.325	-0.473	-0.067	0.569	0.667	-0.679	0.334
KRW	-0.325	-0.815	-0.874	-0.636	-0.323	-0.127	-0.747	0.001	0.819	0.766	-0.899	0.427
GBP	-0.458	0.348	0.322	0.325	0.367	0.71	0.084	0.611	-0.346	-0.524	0.421	0.313
CHF	-0.571	-0.122	-0.558	0.045	0.348	0.498	-0.541	0.629	0.284	-0.014	-0.509	0.666
EUR	-0.97	-0.324	-0.553	-0.082	0.294	0.52	-0.787	0.658	0.369	0.116	-0.558	1

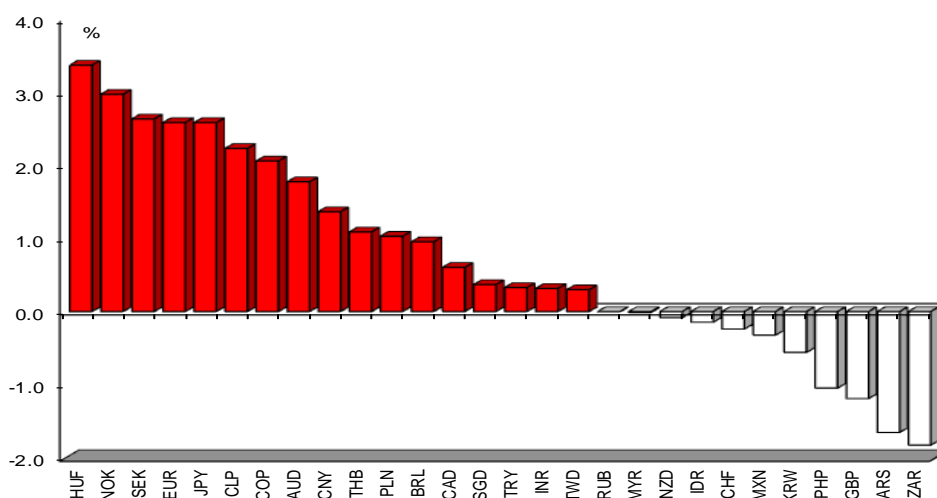
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1632	1.1700	1.1775	1.1800	1.1886
GBP-USD	1.2812	1.2836	1.2899	1.2900	1.2929
AUD-USD	0.7831	0.7900	0.7940	0.8000	0.8019
NZD-USD	0.7217	0.7300	0.7315	0.7319	0.7400
USD-CAD	1.2414	1.2600	1.2619	1.2700	1.2786
USD-JPY	109.00	109.08	109.73	110.00	111.41
USD-SGD	1.3543	1.3600	1.3630	1.3661	1.3700
EUR-SGD	1.5830	1.6000	1.6049	1.6100	1.6157
JPY-SGD	1.2317	1.2400	1.2421	1.2460	1.2487
GBP-SGD	1.7524	1.7545	1.7581	1.7600	1.7712
AUD-SGD	1.0684	1.0800	1.0822	1.0872	1.0900
Gold	1244.63	1252.31	1283.40	1290.71	1291.10
Silver	16.52	17.10	17.16	17.16	17.20
Crude	46.57	46.80	46.89	46.90	50.43

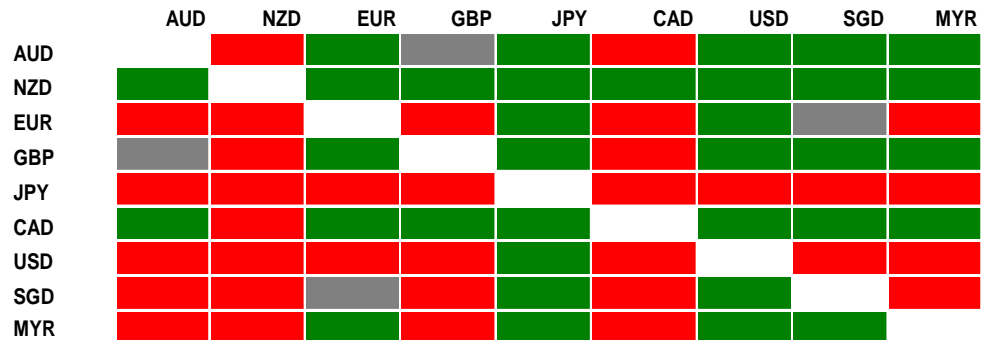
Source: OCBC Bank

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



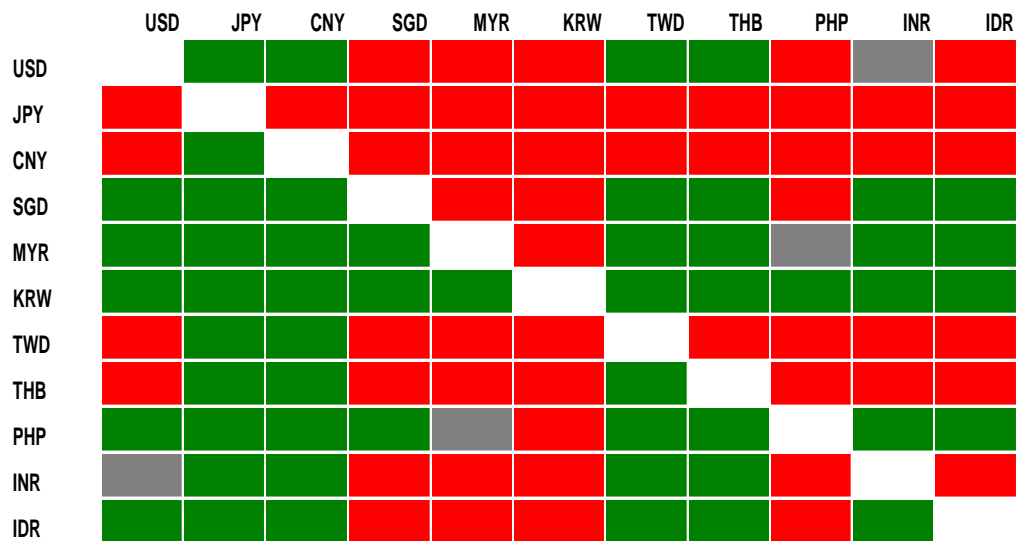
Source: Bloomberg

**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	01-Aug-17	S	USD-JPY	110.18	107.75	111.45	No surprises expected from Fed-speak after the last FOMC	
2	16-Aug-17	S	GBP-USD	1.2888	1.2605	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	
<b>STRUCTURAL</b>								
3	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
4	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		
5	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		
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		
<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
7	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
8	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
							Jan-Aug*** 2017 Return	+7.78
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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