

Monday, September 18, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- On the back of disappointing US August retail sales and industrial production numbers (although the September Empire manufacturing and Michigan consumer sentiment outperformed prior expectations), the dollar still ended mixed to weaker despite a firmer UST curve (5y sector underperformed). Elsewhere, the EUR found some support after the **ECB's Lautenschlaeger** threw her support behind paring the asset purchase program. A day after the hawkish BOE MPC, the **BOE's Vlieghe** (perennial dove) also expressed his support for the change in posture at the MPC.
- On the **CFTC** front, large non-commercial accounts and leveraged accounts increased slightly their implied net short dollar bias in aggregate in the latest week but asset manager accounts pared their implied net short dollar bias.
- This week, central bank chatter is expected to dominate with the **FOMC** on Wednesday expected to take center stage. On this front, watch for the Fed's forward guidance as well as any material change to the dot plots. Subsequently, the Fed's **Williams, George, and Kaplan** are scheduled for appearances on Friday.
- Potential **ECB rhetoric** may also be potentially headline worthy, with a busy lineup of appearances this week including Praet and Draghi on Thursday while Friday sees **Coeure, Draghi, and Constancio** on the wires. For today, **Lautenschlaeger** speaks again at 1430 GMT. The **BOJ MPC** on Thursday is not expected to spring any surprises by watch for Kuroda's subsequent press conference. Elsewhere, **RBA meeting minutes** are to be released on Tuesday, while the **RBA's Ellis** speaks on Wednesday and Lowe appears on Thursday. Meanwhile, the **BOC's Lane** also speaks today (from 1815 GMT). In Asia, the **CBC** and the **BSP** are expected to stand pat on Thursday and **Bank Indonesia** on Friday and again, we expect little discomfort towards upside inflation risks.
- With no acute risk aversion over the weekend and with TKY away on a long weekend, expect investors to ease tentatively into the central bank-related headline risks this week. **In the interim, note that markets may remain at a cross-roads with the DXY at 92.00 and the 10y UST at 2.20%.** From a structural perspective, markets are expected to revert to evolving (and often contrasting) central bank dynamics – and if the FOMC springs no surprises this week, expect the USD (and US rate) narrative to remain passive, with investors instead taking cues from the counterpart central banks as well as the ongoing hunt for yield instead. **Pending further headline risks, the path of least resistance may continue to be one of USD vulnerability**

Treasury Research &
Strategy

Emmanuel Ng

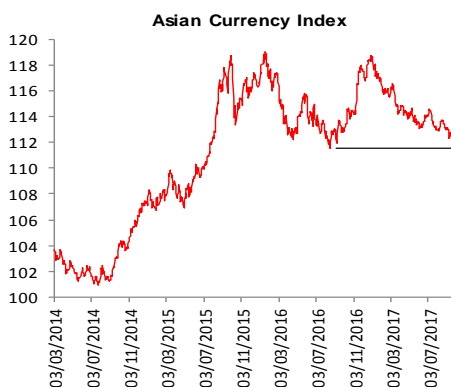
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(especially with global long-end yields outside of the US sphere climbing perceptibly into late last week).

Asian FX

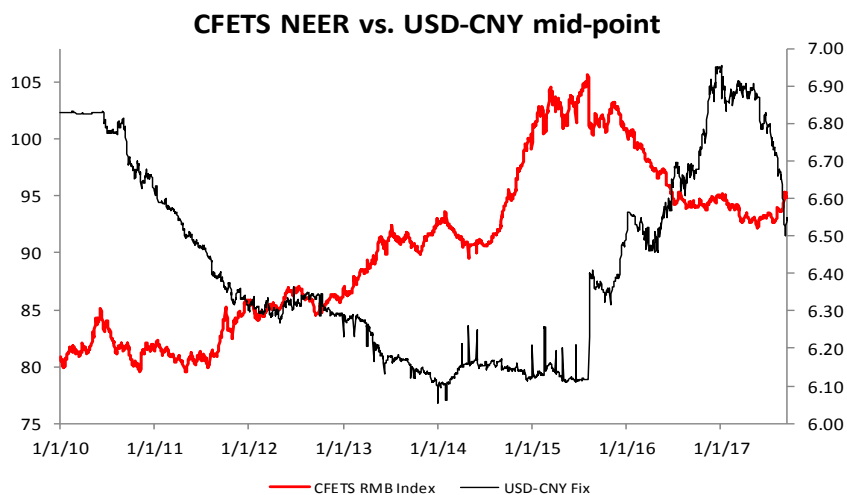
- On the **EPFR** front, implied net inflows in the Asia (excl Japan, China) increased in the latest week while net inflows into bonds dipped slightly in the same period. Meanwhile, **actual reported net portfolio inflows** for Asia continue to show moderation in outflow momentum for the KRW and heightened outflow pressures for the TWD. The INR continues to exhibit net flow pressures but the **IDR** may continue to ride higher on the back of still strong net inflows. Similarly, the **THB** remains significantly underpinned by recent net inflows but net inflows for the PHP remain middling. With the **FXSI (FX Sentiment Index)** continuing to tick lower on Friday within Risk-neutral territory, expect USD-Asia and the **ACI (Asian Currency Index)** to look south for a second consecutive session.
- **SGD NEER:** The SGD NEER is higher on the day at around +0.84% above its perceived parity this morning with the broad dollar on the defensive. Expect the +0.90% threshold at 1.3429 and the +1.00% threshold (1.3416) to cushion for the USD-SGD pending further moves in the basket's constituent currencies. With August NODX also surprising on the topside this morning, inherent risks towards 1.3400 may remain apparent and expect investors to fade upticks.



	SGD NEER	% deviation	USD-SGD
Current	125.27	0.81	1.3443
+2.00%	126.74		1.3295
Parity	124.26		1.3561
-2.00%	121.77		1.3838

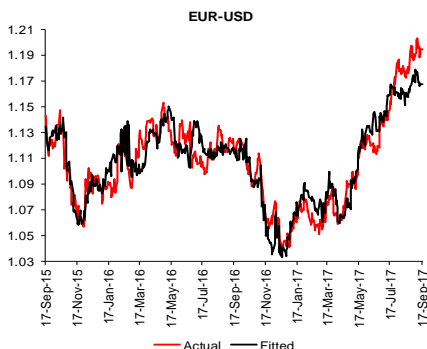
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY midpoint fell (less than expected again) to 6.5419 from 6.5423 last Friday. This saw the **CFETS RMB Index** tick incrementally higher to 94.87 from 94.86. August China monetary aggregates came in mixed but supportive new yuan loans and aggregate financing came in higher than expected. Overall, we expect relative stability in the fixings and the CFETS RMB Index as we head into the party Congress next month. In recent sessions, note also that the USD-CNY mid-points have also been set largely in line with expected parameters.



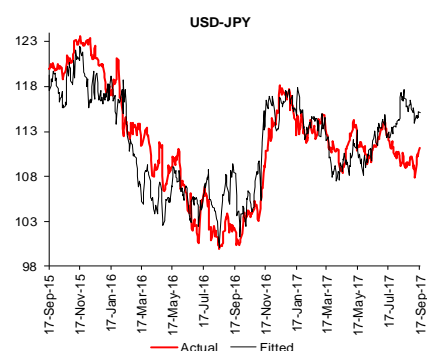
Source: OCBC Bank, Bloomberg

G7



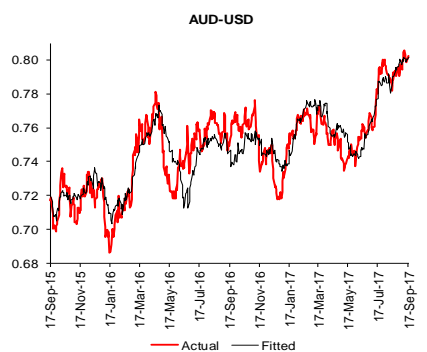
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the EUR-USD are still holding up (note also firmer bund yields from Friday) ahead of this week's headline risks (both from the FOMC as well as from the ECB). Range trading conditions may continue to persist till then with a 1.1840-1.2100 expected to hold. Multi-session, any hints of hawkishness out of the ECB we think may encourage any attempt higher for the EUR-USD.



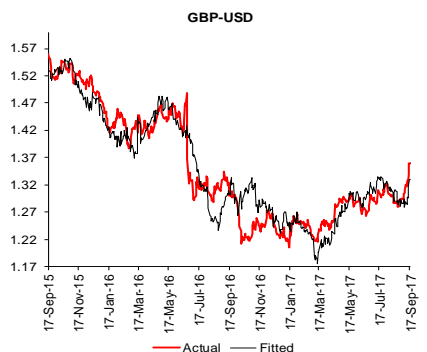
Source: OCBC Bank

- USD-JPY** Chatter about a snap elections have not materially shifted the markets as yet and the continued improvement in global risk appetite levels may continue to undermine the JPY. Short term implied valuations for the USD-JPY have also firmed, with the USD-JPY expected to base build off the 111.00 floor in the interim. Expect initial resistance at 111.60.



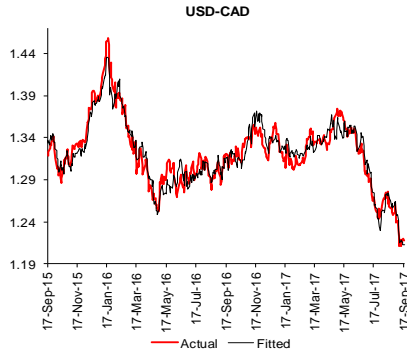
Source: OCBC Bank

- AUD-USD** Similarly, short term implied valuations for the AUD-USD continue to attempt to float higher and resist downside dips. Ahead of the RBA minutes tomorrow, the 0.8000 (and subsequently, 0.7985) neighborhood may continue to cushion dips in the pair.



Source: OCBC Bank

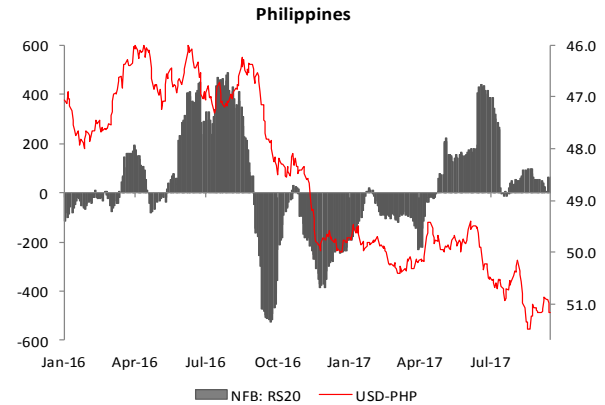
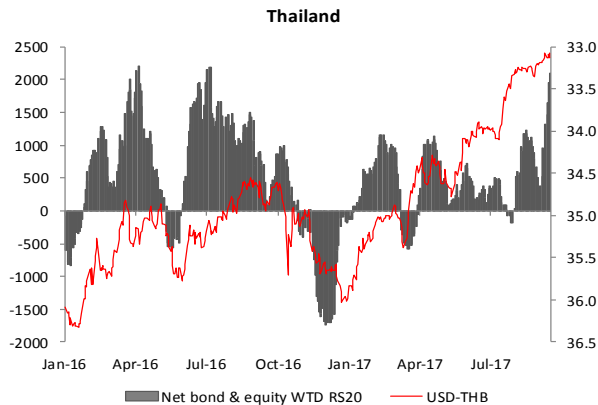
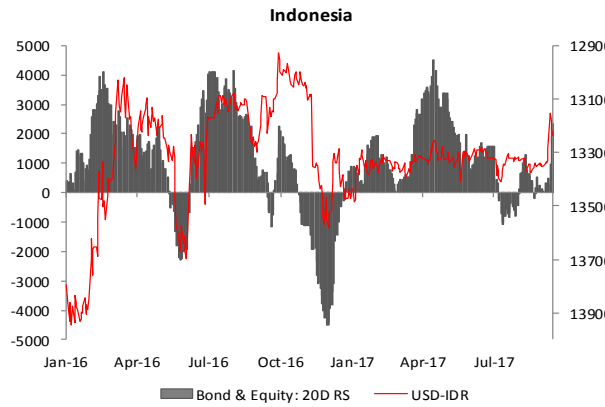
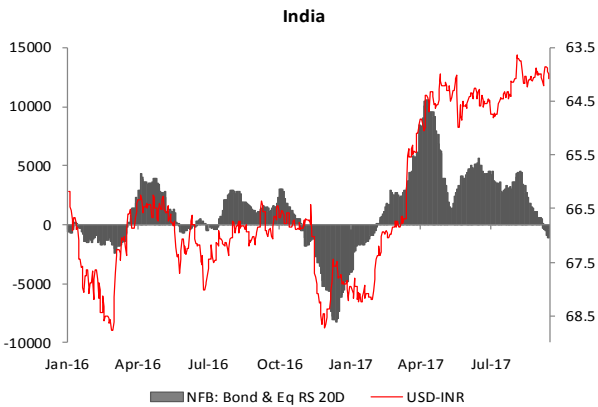
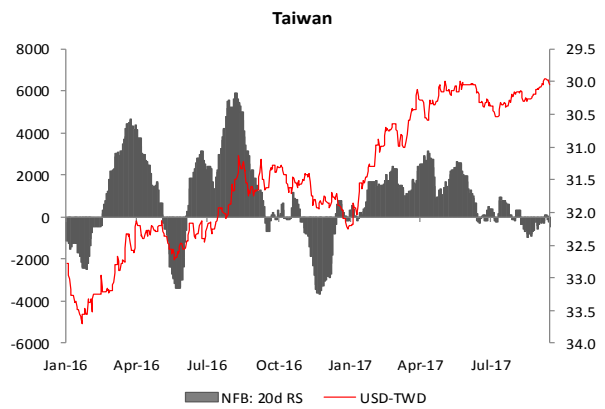
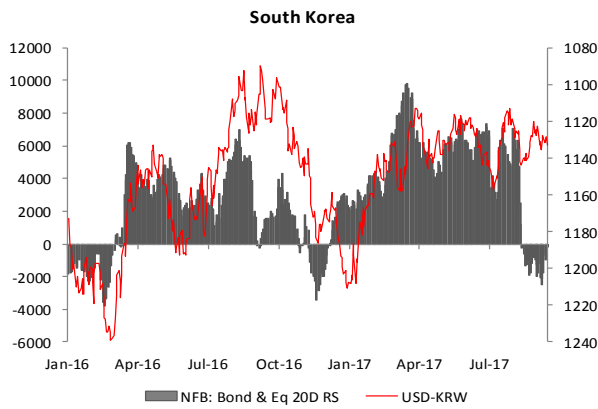
- GBP-USD** The GBP may continue to derive intrinsic support after last week's BOE MPC outcome and hawkish comments from Vlieghe last Friday (note surging 10y gilt yields). Prior GBP bears may finally pull chocks and tilt towards a firmer GBP (for now), with short term implied valuations also jumping in recent sessions. Expect the dead space at 1.3600-1.3680 to see some pause in terms of a consolidation pending further headline risks.

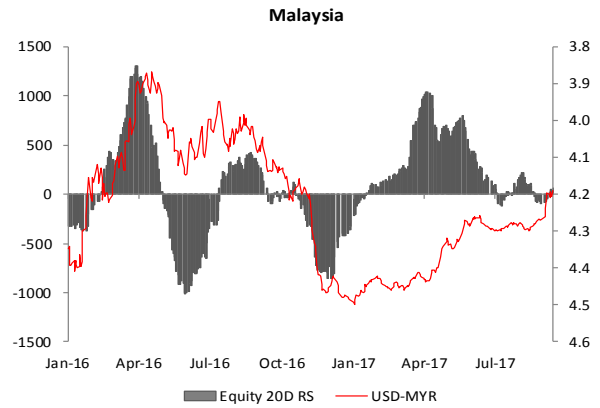


- USD-CAD** Short term implied valuations for the USD-CAD continue to be whittled lower in the current environment. As such, the pair may abstain from a breach of 1.2260, with our preference to position for 1.2060 instead on any upticks. Given the BOC's current demeanor, expect investors to be asymmetrically biased towards any hawkish surprises from the BOC of the Canadian data feed.

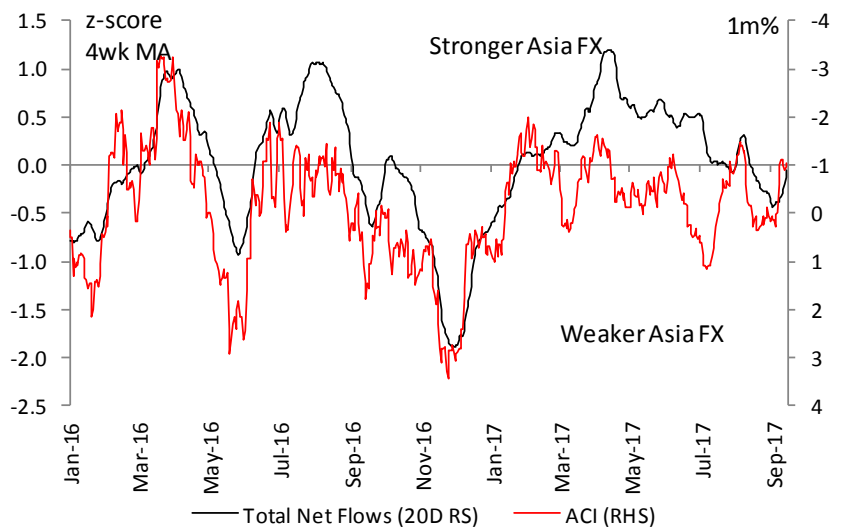
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

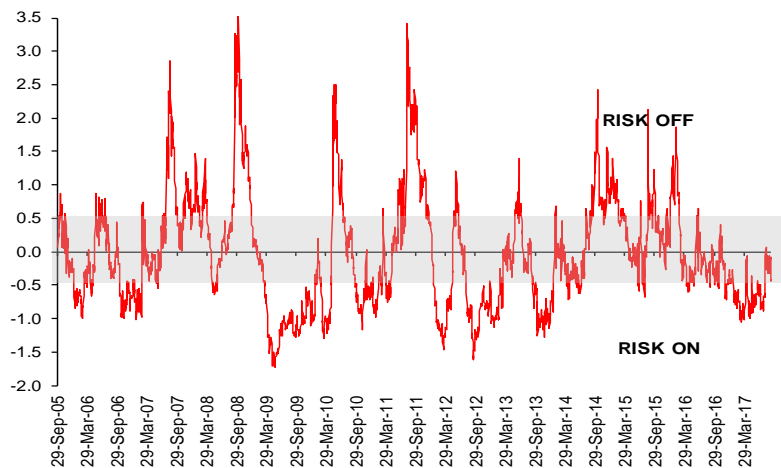




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.582	0.827	-0.514	-0.393	-0.689	0.097	-0.382	0.256	0.693	0.832	-0.936
SGD	0.95	0.516	0.84	-0.623	-0.484	-0.794	0.042	-0.561	0.341	0.781	0.851	-0.846
TWD	0.861	0.483	0.952	-0.743	-0.59	-0.823	-0.106	-0.463	0.468	0.864	0.951	-0.746
CNH	0.832	0.572	0.994	-0.688	-0.454	-0.858	0.02	-0.476	0.399	0.821	1	-0.732
CNY	0.827	0.603	1	-0.665	-0.409	-0.84	0.094	-0.429	0.378	0.795	0.994	-0.729
CAD	0.811	0.315	0.831	-0.763	-0.601	-0.885	-0.069	-0.719	0.416	0.888	0.842	-0.62
THB	0.81	0.355	0.881	-0.767	-0.528	-0.788	-0.218	-0.476	0.512	0.84	0.881	-0.694
MYR	0.801	0.208	0.837	-0.885	-0.75	-0.865	-0.308	-0.66	0.652	0.948	0.846	-0.617
CHF	0.758	0.811	0.601	0.041	0.151	-0.31	0.611	0.028	-0.201	0.207	0.579	-0.843
CCN12M	0.686	0.172	0.706	-0.737	-0.639	-0.569	-0.159	-0.345	0.445	0.75	0.713	-0.534
IDR	0.672	0.029	0.601	-0.8	-0.743	-0.622	-0.233	-0.449	0.541	0.803	0.621	-0.476
USGG10	0.582	1	0.603	0.087	0.241	-0.305	0.672	0.045	-0.27	0.102	0.572	-0.637
PHP	0.46	0.481	0.518	-0.139	-0.162	-0.302	0.529	0.096	-0.113	0.347	0.456	-0.488
INR	0.417	0.353	0.295	-0.08	-0.153	-0.01	0.218	0.438	0.175	0.147	0.276	-0.527
KRW	0.133	0.136	0.059	-0.008	-0.221	0.127	-0.111	0.508	0.35	0.027	0.056	-0.331
JPY	0.097	0.672	0.094	0.561	0.628	0.156	1	0.268	-0.736	-0.354	0.02	-0.172
NZD	-0.24	0.171	0.192	-0.064	-0.035	-0.138	-0.001	0.204	0.292	0.059	0.147	0.126
GBP	-0.715	-0.014	-0.628	0.836	0.748	0.803	0.473	0.722	-0.544	-0.874	-0.627	0.506
AUD	-0.917	-0.545	-0.866	0.598	0.406	0.803	-0.152	0.51	-0.268	-0.769	-0.871	0.779
EUR	-0.936	-0.637	-0.729	0.334	0.265	0.502	-0.172	0.137	-0.227	-0.524	-0.732	1

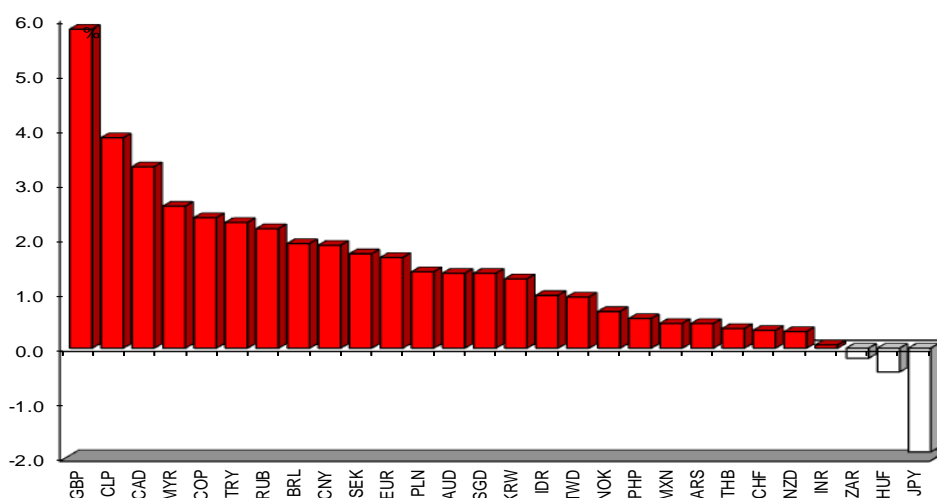
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1777	1.1900	1.1947	1.2000	1.2049
GBP-USD	1.3500	1.3543	1.3596	1.3600	1.3616
AUD-USD	0.7924	0.8000	0.8029	0.8067	0.8100
NZD-USD	0.7310	0.7318	0.7327	0.7371	0.7400
USD-CAD	1.2062	1.2100	1.2178	1.2200	1.2510
USD-JPY	110.80	111.00	111.21	111.33	112.00
USD-SGD	1.3383	1.3400	1.3439	1.3500	1.3585
EUR-SGD	1.5999	1.6000	1.6055	1.6100	1.6209
JPY-SGD	1.2000	1.2074	1.2083	1.2100	1.2121
GBP-SGD	1.8178	1.8200	1.8271	1.8300	1.8315
AUD-SGD	1.0723	1.0763	1.0790	1.0800	1.0817
Gold	1282.41	1300.00	1318.80	1354.63	1358.50
Silver	17.16	17.60	17.61	17.70	18.16
Crude	48.02	49.90	49.91	50.00	50.39

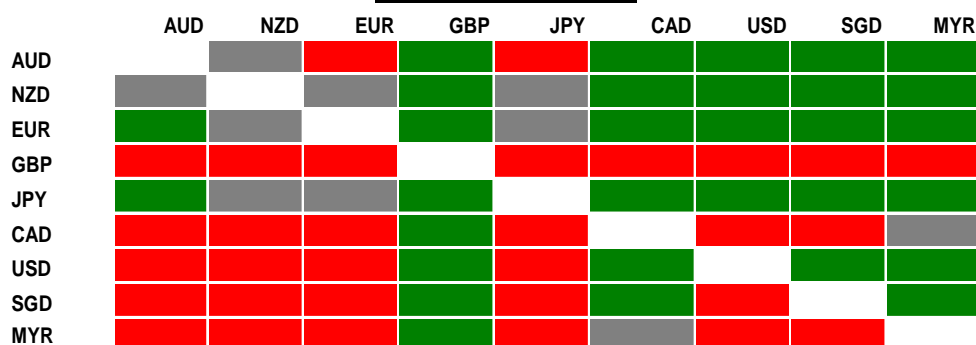
Source: OCBC Bank

FX performance: 1-month change agst USD



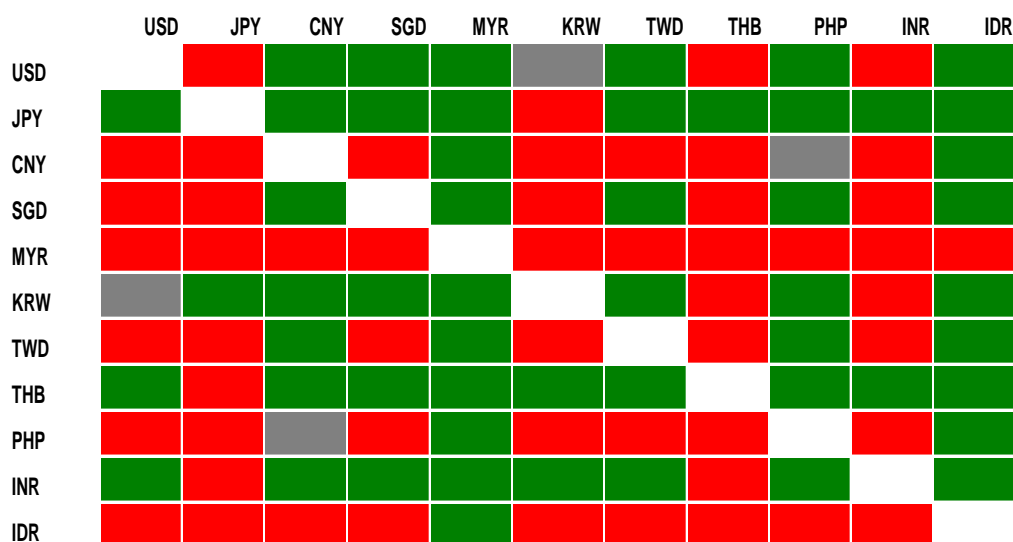
Source: Bloomberg

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	11-Sep-17	S	USD-CAD	1.2128	1.1850	1.2270	Support from earlier than expected BOC rate hike, inherent USD vulnerability	
2	12-Sep-17	S	USD-SGD	1.3447	1.3315	1.3525	Fade the USD relief rally, prepare for renewed interest towards EM/Asia	
STRUCTURAL								
3	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
4	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		
5	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		
6	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	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
2	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
3	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
4	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
5	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
6	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
7	13-Sep-17	13-Sep-17	B	GBP-USD	1.3325	1.3200	Hotter than expected Aug core CPI/PPI, hawkish expectations ahead of BOE MPC	-0.95
							Jan-Sep*** 2017 Return	+6.77
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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