

Friday, October 20, 2017

**FX Themes/Strategy/Trading Ideas**

- Amidst a report indicating that Trump is leaning towards Jerome Powell (another report also indicated Taylor also remains favored) as the next Fed chair, a softer UST curve left the USD mixed to weaker across G10 space (except against the NZD and GBP) on Thursday despite an upside surprise for the October Philly Fed.
- Slight risk aversion (from global equity weakness) early in the global session however eventually stabilized. The EUR-USD meanwhile firmed despite the Spanish PM invoking Article 155. On other fronts, the NZD-USD was the mover of the day (sub-0.7000 early Friday in Asia) after the NZ First party aligned themselves with the opposition Labour Party to form the new government. **Apart from Labour's stance stand on immigration, trade and foreign ownership, note that the kiwi may remain under threat if the new government imposes a labor market mandate on the RBNZ.**
- With the "Taylor put" now looking defused, the aggregate rate differential has moved against the greenback in the last 24 hours but markets may remain subject to evolving headline risks. **Note implicit risk of the DXY decaying back towards the 93.00 handle at this juncture if the 10y UST yield flops to 2.30%.**
- Idiosyncratic factors may dominate in the interim, and although the EUR has thus far ignored **Catalonia**-related news, a unilateral declaration of independence (perhaps within the week with the regional parliament set to convene on Monday) may impinge on the common currency. Going ahead, look also towards Japan's Sunday elections, where the LDP is expected to garner up to 300-seats – USD-JPY positive.
- For today, look to the Fed's **Mester** (1800 GMT) and **Yellen** (2330 GMT) for further potential cues while the ECB's **Nowotny** (0830 GMT) is also scheduled.

**Asian FX**

- Asian net portfolio inflows meanwhile show South Korea flipping to a net inflow situation on a 1-month rolling basis, largely on account of renewed bond inflows. Similarly, net equity inflows for the TWD have also seen the net balance reverting to a net inflow environment. Note that the IDR may continue to be crimped by sustained outflow pressure on this front despite some reported bond inflows. Elsewhere, the THB and MYR are still seen under pressure from net outflows.

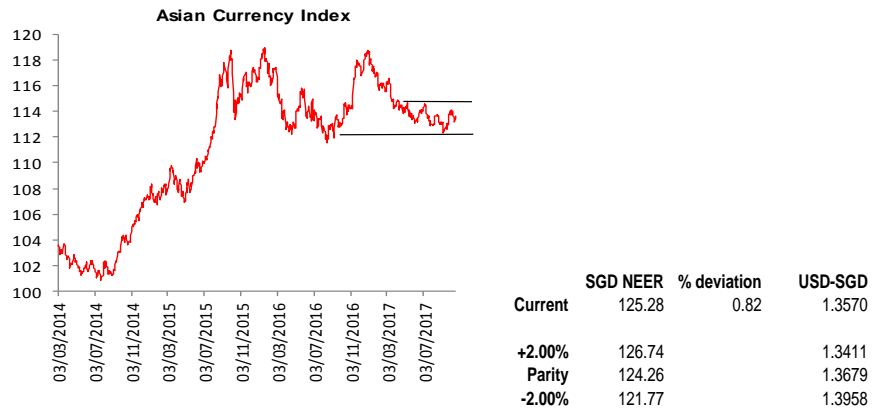
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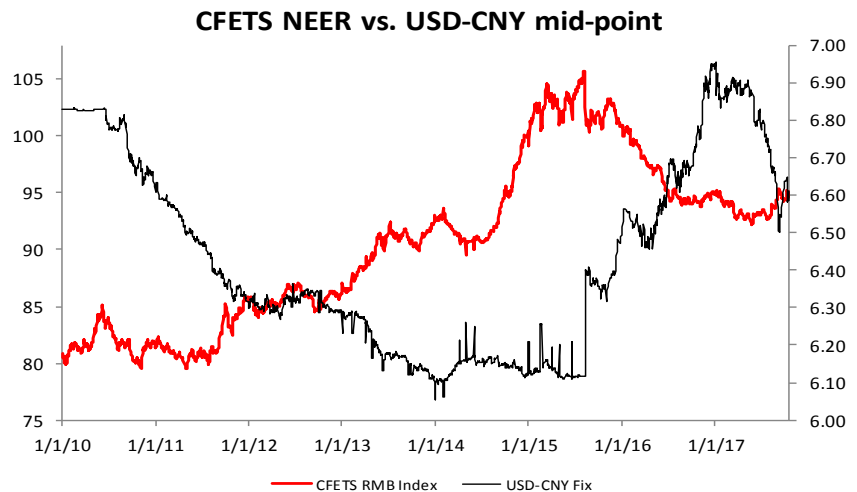
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- China 3Q GDP and September data dump on Thursday came in fairly mixed but did not present any distinct downside surprises. Elsewhere, Bank Indonesia remained static at 4.25% as widely expected and accompanying guidance from the central bank indicate that the authorities are likely to pause at this juncture. Meanwhile, assistant governor Waluyo indicated that an exchange rate of 13,500 is perceived as “competitive”, with accompanying comments indicating that the central bank remains mindful of FX volatility. Overall, the **FXSI (FX Sentiment Index)** inched higher within Risk-Neutral territory on Thursday and the **ACI (Asian Currency Index)** may take its cue from the supported broad USD during Asian trading.
- **SGD NEER:** Despite a softer DXY, the SGD NEER is lower on the day at +0.81% above its perceived parity (1.3679) given the reluctance on the downside for the USD-SGD. NEER-implied USD-SGD thresholds are softer on the day with the +1.00% threshold estimated at 1.3544, where a base for the pair is expected intra-day pending external volatility. Preference to continue to base build off the 55-day MA (1.3561).



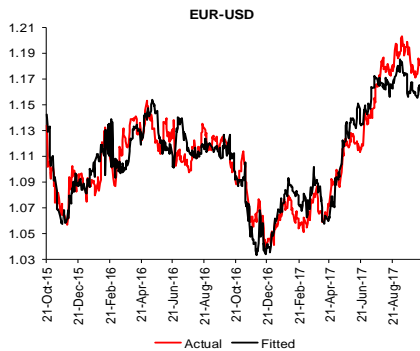
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (largely in line with expectations) to 6.6092 from 6.6093 on Thursday. This saw the CFETS RMB Index easing to 94.64 from 94.77 yesterday.



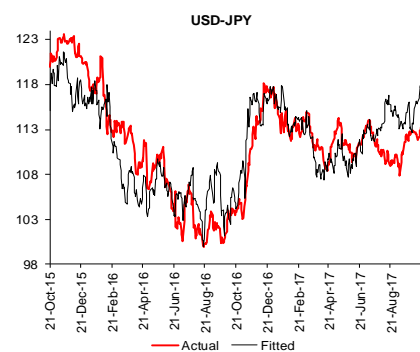
Source: OCBC Bank, Bloomberg

G7



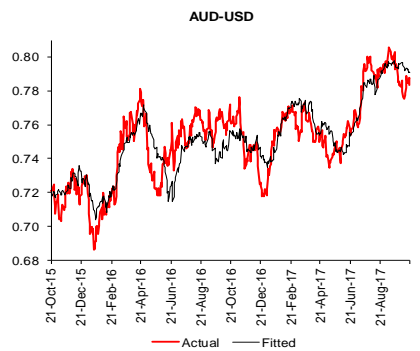
Source: OCBC Bank

- EUR-USD** Early broad USD strength (driven by firmer UST yields) in Asia on Friday has seen softer short term implied valuations for the EUR-USD manifesting at this juncture. Into the end of the week, the 55-day MA (1.1842) and the 1.1865 handle may attempt to cap with 1.1760 expected to support on initial dips.



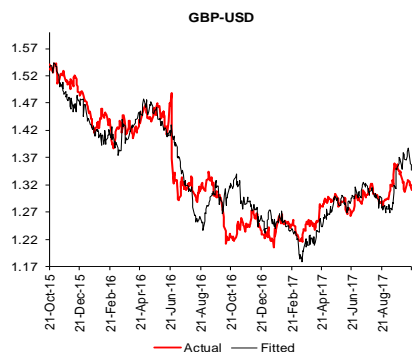
Source: OCBC Bank

- USD-JPY** In early Asia on Friday, the US Senate adopted (by a 51-49 vote) the 2018 budget resolution, sending the USD-JPY higher past 113.00. Short-end riskies may have finally turned the corner (after previously favoring USD puts significantly) while buoyant short term valuations may also aid the USD-JPY higher. Expect initial resistance towards 113.40/50.



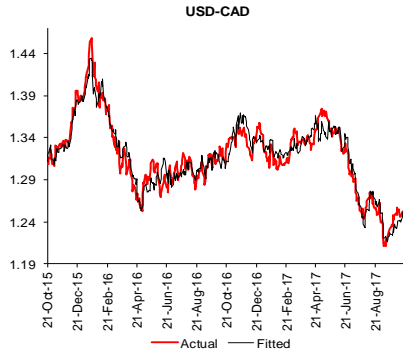
Source: OCBC Bank

- AUD-USD** Although the China data flow remains somewhat supportive and global sentiment not unduly perturbed by any potential Minsky moment, early broad USD resilience in Asia on Friday is also in line softening short term implied valuations for the AUD-USD (despite the jump in the AUD-NZD). Near term view remains unchanged and expect a top heavy tone within the 100-day MA (0.7822) and the 55-day MA (0.7908).



Source: OCBC Bank

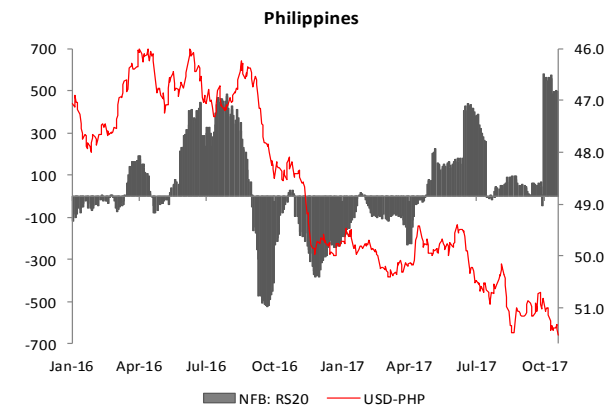
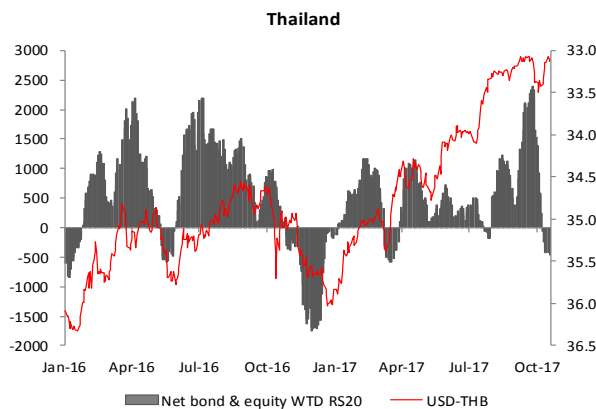
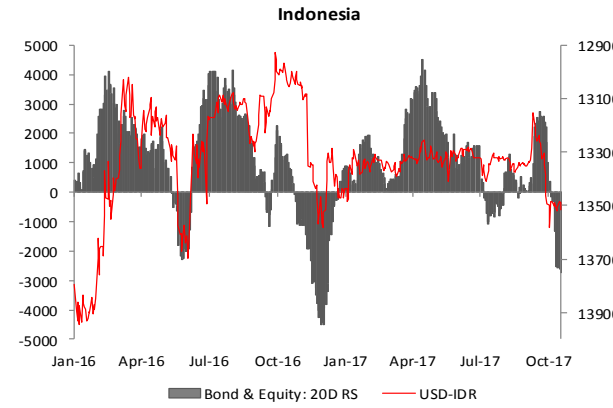
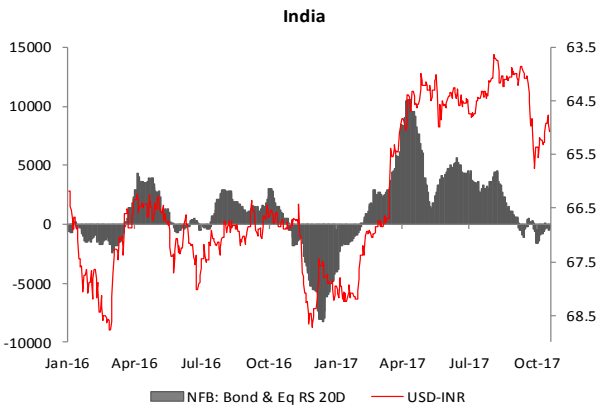
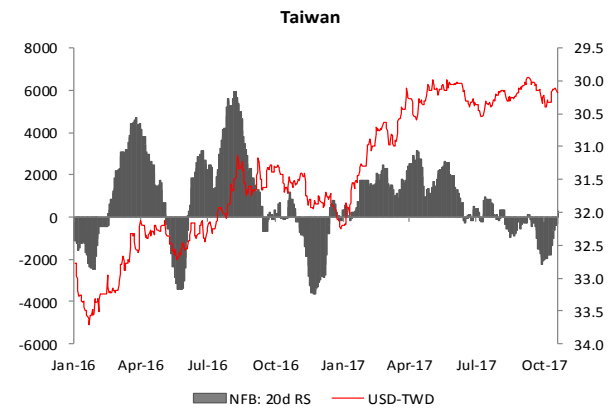
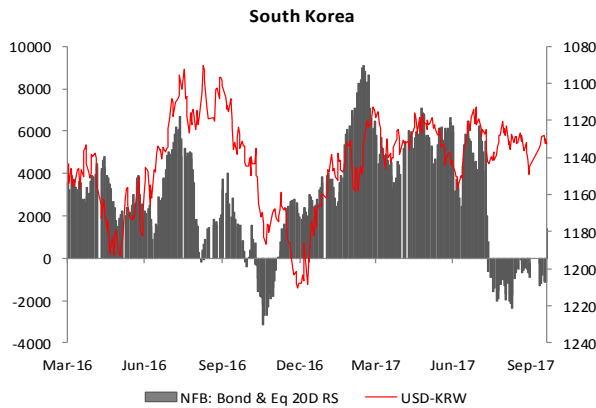
- GBP-USD** Generally benign comments from Merkel post the EU summit and neutral comments from the BOE's Cunliffe failed to lift the pound as UK September retail sales figures disappointed. Short term implied valuations continue to be chipped away and if the pivot at the 55-day MA (1.3145) is lost, expect risks to be skewed towards the 100-day MA (1.3047).

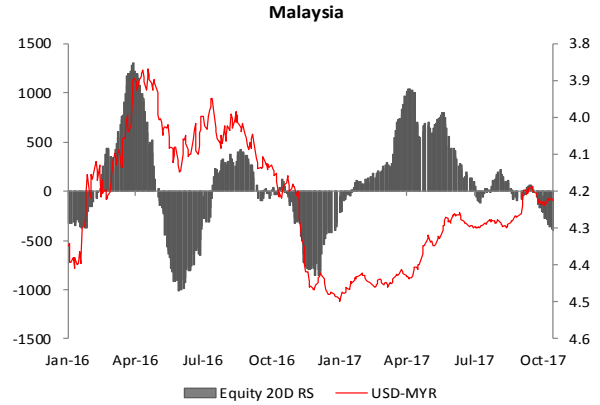


- USD-CAD** Look to the September CPI and August retail sales numbers for further cues today with the USD-CAD also dragged higher early Asia on Friday. Short term implied valuations for the USD-CAD have also been lifted (note also softer crude) and in the interim, look to collect on dips towards the 55-day MA (1.2461) for 1.2560.

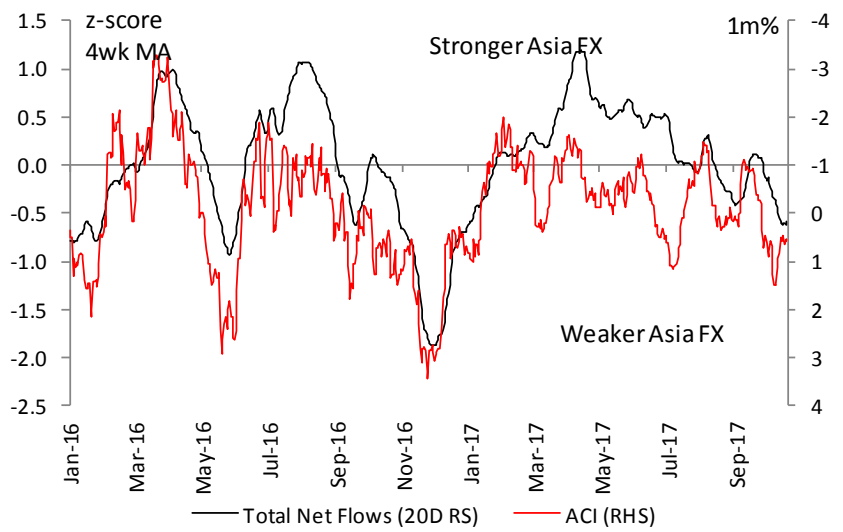
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

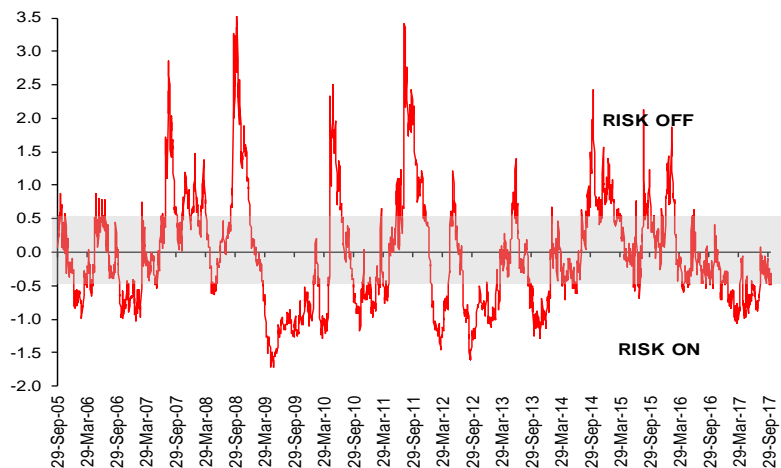




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.728	0.346	0.638	0.192	-0.518	0.615	-0.202	-0.073	-0.579	0.584	-0.931
CAD	0.913	0.798	0.119	0.777	0.379	-0.398	0.494	-0.168	-0.039	-0.718	0.326	-0.763
SGD	0.885	0.722	0.651	0.327	-0.164	-0.752	0.774	-0.356	-0.188	-0.251	0.783	-0.865
MYR	0.848	0.713	0.358	0.551	0.084	-0.655	0.523	-0.298	-0.271	-0.5	0.545	-0.762
IDR	0.746	0.777	0.126	0.734	0.399	-0.437	0.537	-0.146	-0.067	-0.733	0.231	-0.594
CHF	0.731	0.712	-0.128	0.851	0.686	-0.301	0.524	-0.306	0.137	-0.832	0.082	-0.52
USGG10	0.728	1	0.049	0.667	0.3	-0.549	0.755	-0.386	-0.169	-0.612	0.287	-0.55
THB	0.631	0.574	0.618	0.063	-0.424	-0.867	0.611	-0.465	-0.465	-0.009	0.787	-0.71
JPY	0.615	0.755	0.336	0.279	-0.034	-0.62	1	-0.307	-0.254	-0.257	0.568	-0.537
TWD	0.601	0.586	0.785	0.014	-0.439	-0.871	0.641	-0.346	-0.591	0.028	0.864	-0.657
CNH	0.584	0.287	0.971	-0.125	-0.539	-0.63	0.568	-0.125	-0.391	0.19	1	-0.722
CCN12M	0.522	0.383	0.766	0.12	-0.183	-0.385	0.613	0.003	-0.276	-0.099	0.796	-0.567
INR	0.508	0.339	0.702	-0.033	-0.437	-0.485	0.42	0.103	0.049	0.061	0.602	-0.62
PHP	0.362	0.508	-0.35	0.83	0.838	0.082	0.191	-0.057	0.341	-0.857	-0.38	-0.135
CNY	0.346	0.049	1	-0.283	-0.55	-0.31	0.336	0.455	0.08	0.321	0.971	-0.55
KRW	0.028	0.149	0.71	-0.412	-0.706	-0.745	0.187	0.144	-0.425	0.441	0.655	-0.245
NZD	-0.679	-0.687	-0.02	-0.793	-0.445	0.316	-0.437	0.118	-0.23	0.716	-0.06	0.434
AUD	-0.787	-0.82	-0.219	-0.607	-0.195	0.538	-0.52	0.223	-0.029	0.574	-0.295	0.691
GBP	-0.84	-0.752	0.08	-0.889	-0.556	0.377	-0.471	0.273	-0.078	0.815	-0.189	0.608
EUR	-0.931	-0.55	-0.55	-0.38	0.06	0.536	-0.537	0.12	0.084	0.343	-0.722	1

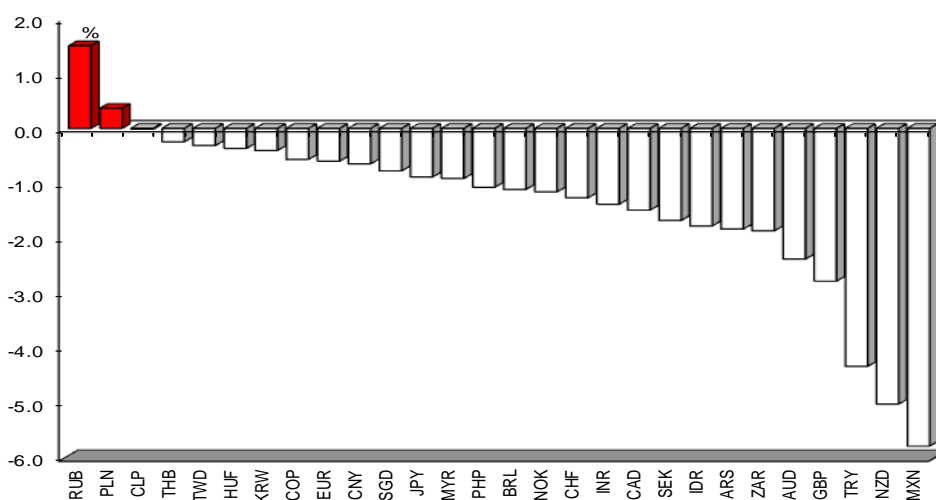
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1699	1.1800	1.1815	1.1846	1.1872
GBP-USD	1.3027	1.3100	1.3118	1.3155	1.3200
AUD-USD	0.7747	0.7800	0.7841	0.7900	0.7906
NZD-USD	0.6900	0.6972	0.6982	0.6997	0.7000
USD-CAD	1.2434	1.2500	1.2507	1.2581	1.2598
USD-JPY	111.76	113.00	113.20	113.23	113.44
USD-SGD	1.3500	1.3546	1.3588	1.3600	1.3648
EUR-SGD	1.6000	1.6048	1.6055	1.6067	1.6100
JPY-SGD	1.1969	1.2000	1.2004	1.2010	1.2100
GBP-SGD	1.7800	1.7823	1.7826	1.7900	1.8263
AUD-SGD	1.0600	1.0634	1.0655	1.0700	1.0708
Gold	1260.50	1264.43	1286.90	1299.21	1300.00
Silver	17.00	17.15	17.20	17.24	17.28
Crude	50.73	51.30	51.38	51.40	52.80

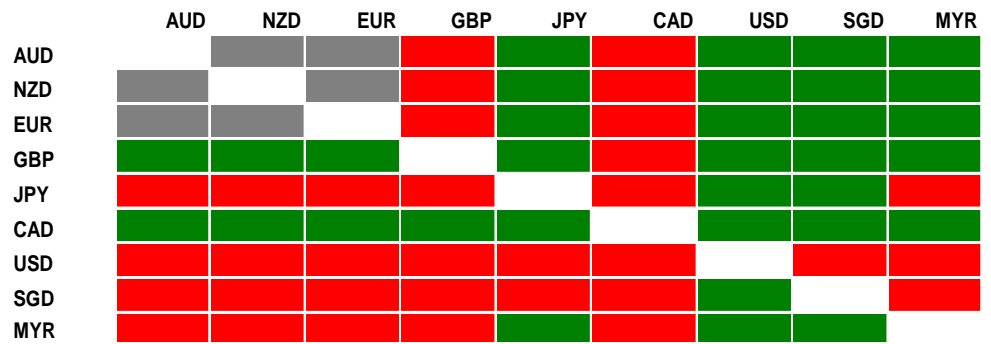
Source: OCBC Bank

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



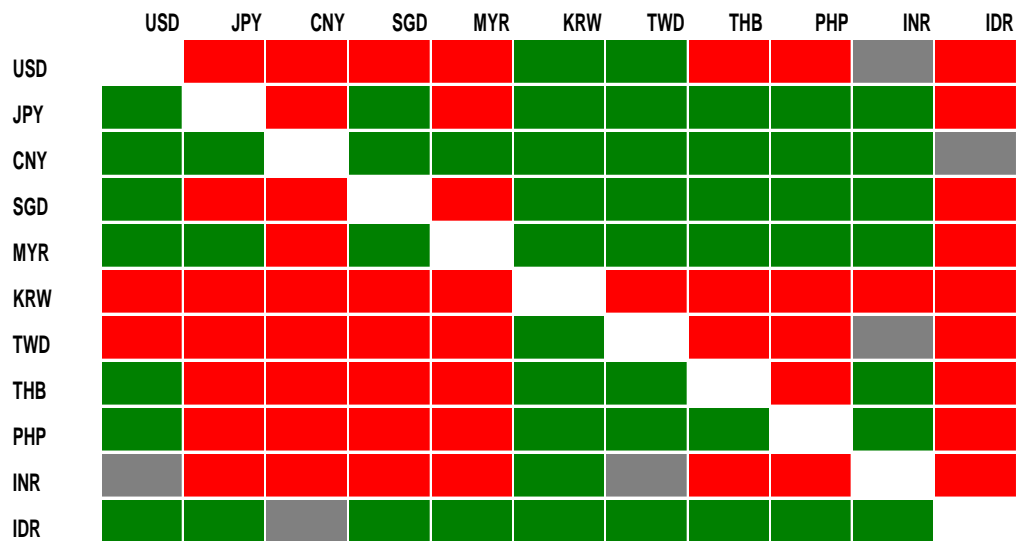
Source: Bloomberg

**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	
<b>STRUCTURAL</b>								
4	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	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
2	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
3	19-Sep-17	27-Sep-17	B	GBP-USD	1.3540	1.3395	Earlier than expected paradigm change by the BOE	-1.11
4	28-Sep-17	11-Oct-17	S	EUR-USD	1.1734	1.1860	Political overhang from Germany contrasting with FOMC, Yellen	-0.99
5	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
6	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
							Jan-Oct*** 2017 Return	-8.68
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank



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