

Monday, August 21, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite negative EZ/US equities, global risk appetite levels improved on news of chief strategist Steve Bannon's exit from the White House on Friday, with the USD trailing across G10 space and with the cyclicals outperforming across the board. UST yields were a touch firmer, presumably as haven flows sought to reverse partially.
- On the **CFTC** front, large non-commercial and leveraged accounts pared their net implied short dollar bias in aggregate in the latest week. However, asset manager accounts added significantly to their net implied short dollar bias in the latest week. This we think continues to demonstrate the cross currents between shorter term investors and more structural market participants in terms of overall positioning, leaving ample room for volatility ahead.
- Going ahead, the USD may remain somewhat vulnerable on background worries surrounding **political developments** in the US and as pointed out previously, it remains to be seen if US political developments (especially with respect to fiscal impetus) will continue to impact broader global risk aversion trends. **In the interim, investors may gingerly return towards risk-sensitive plays barring further global headlines.**
- The annual **US-South Korea** joint military exercise commencing today and running through to 31 August 2017 may continue to keep geopolitical headlines potentially humming in the background. On this front, note continued rhetoric out of Pyongyang over the weekend.
- This week, the **Jackson Hole** symposium (24-26 August 17) is expected to hold center stage with **Yellen** scheduled for 25th Aug 17 (1400 GMT) and the ECB's **Draghi** also on Friday at 1900 GMT. Note however that the ECB's **Constancio** is also due to make an appearance on Tuesday (1200 GMT) while Draghi preempts his Jackson Hole appearance with a speech on Wednesday (0700 GMT). Overall, the interplay between the Fed and the ECB is expected to remain the primary focus.
- Elsewhere on the busy global calendar, Wednesday brings a slew of global PMIs while in Asia, **Bank Indonesia** is expected to remain static on its policy parameters on Tuesday.

Treasury Research &
Strategy

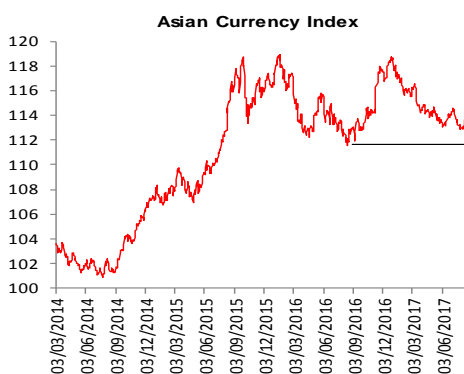
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Asian FX

- **EPFR** data meanwhile showed implied equity inflows into Asia (Ex Japan,

China) flipped to a net outflow of USD308.82mn from a net inflow from USD1.14bn the previous week. Implied net bond inflows meanwhile also shrank to USD98.04mn from USD465.86mn the previous week. With the improvement in risk appetite levels since last Wednesday, we could plausibly expect some positive turnaround into Asian assets this week.

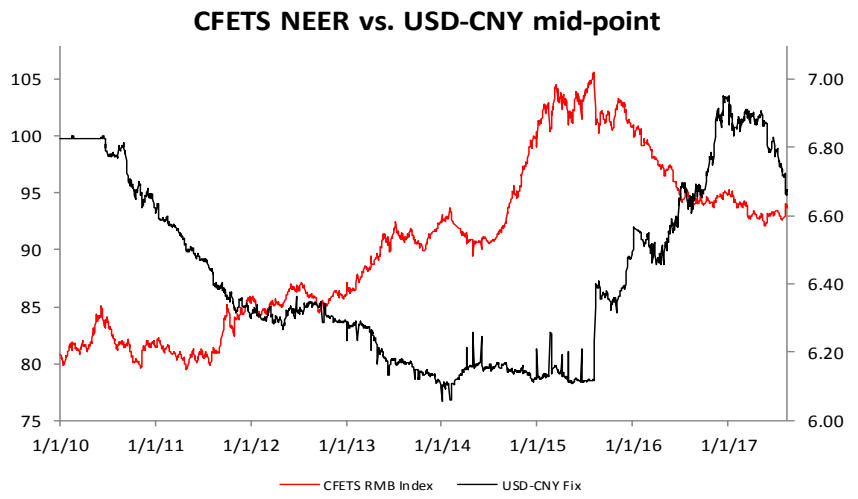
- Overall, we expect the **ACI (Asian Currency Index)** to edge lower at the onset of the week and off recent near term highs in the current environment, with the **FXSI (FX Sentiment Index)** also dipping slightly within Risk-On territory on Friday to end lower on the week (i.e., net improvement in risk appetite levels).
- **SGD NEER:** The SGD NEER starts the week slightly firmer on the day around +0.49% above its perceived parity (1.3700) with NEER-implied USD-SGD thresholds also softer on the day. If risk appetite levels remain supported, expect the NEER to be slightly tuned to the upside and fluctuate within +0.40% (1.3646) and +0.60% (1.3619) intra-day.



	SGD NEER	% deviation	USD-SGD
Current	124.93	0.54	1.3624
+2.00%	126.74		1.3432
Parity	124.26		1.3700
-2.00%	121.77		1.3980

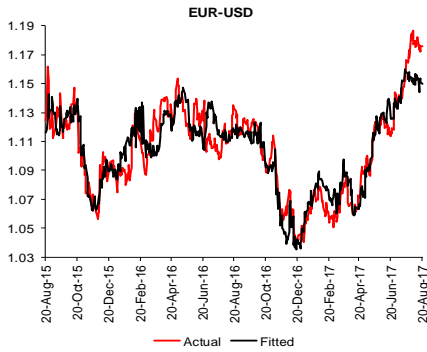
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point dropped (as largely expected) to 6.6709 from 6.6744 last Friday. This still lowered the CFETS RMB Index to 93.71 from 93.81.



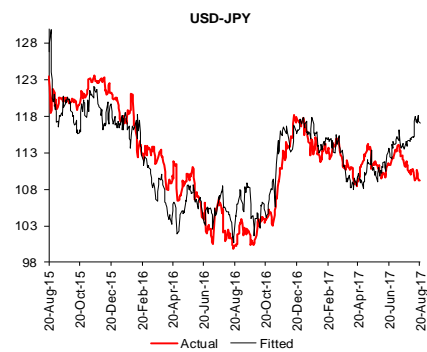
Source: OCBC Bank, Bloomberg

G7



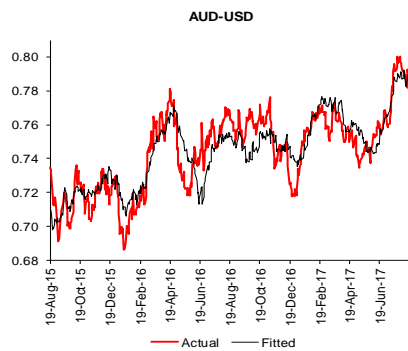
Source: OCBC Bank

- EUR-USD** Ahead of Jackson Hole this week, the EUR-USD may remain slightly top heavy as investors remain wary of any further ECB rhetoric on the EUR. Note that on the CFTC front, leveraged accounts slashed their net implied EUR-longs in the latest week, and a 1.1650-1.1850 range may prevail in the interim.



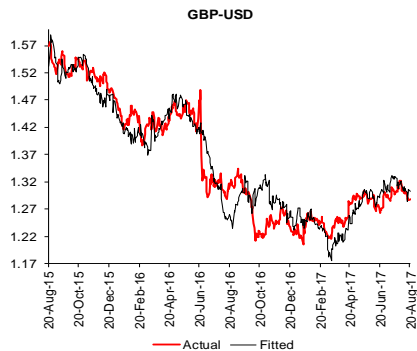
Source: OCBC Bank

- USD-JPY** Preference to remain top heavy on the USD-JPY on account of potential negative political static from the White House and lingering geopolitical concerns. Short term valuations are heavier while on the CFTC front, net leveraged JPY shorts were also pared in the latest week. Overall, risk reward may continue to auger for a violation of 109.00 towards 108.50/60.



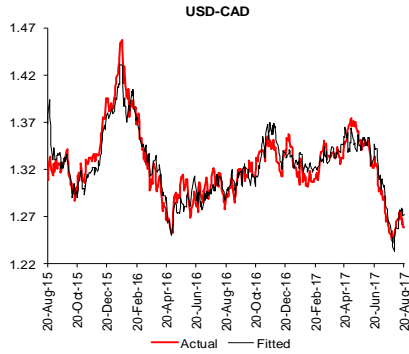
Source: OCBC Bank

- AUD-USD** Range bound behavior may prevail in the interim with domestic headlines expected to be scares this week and inspiration expected to be had from external headlines instead. Note that in the latest week, net leveraged AUD longs increased further significantly to elevated levels, setting the stage for a pull-back despite supported near term implied valuations. Favor fading upticks within 0.7820-0.8000 in the interim.



Source: OCBC Bank

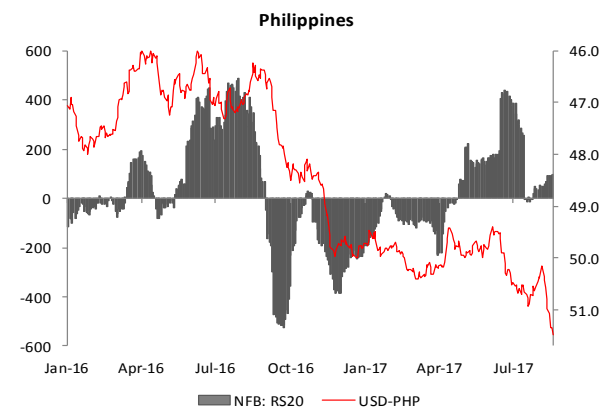
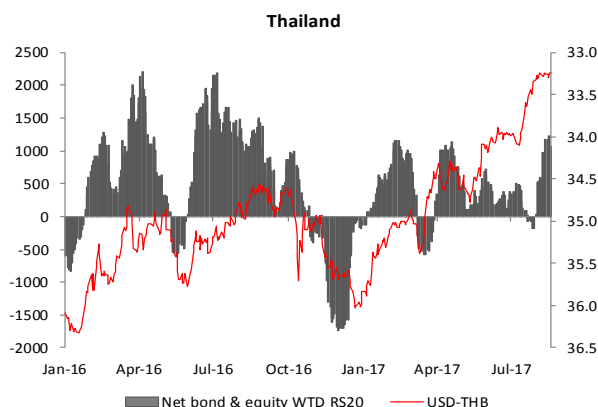
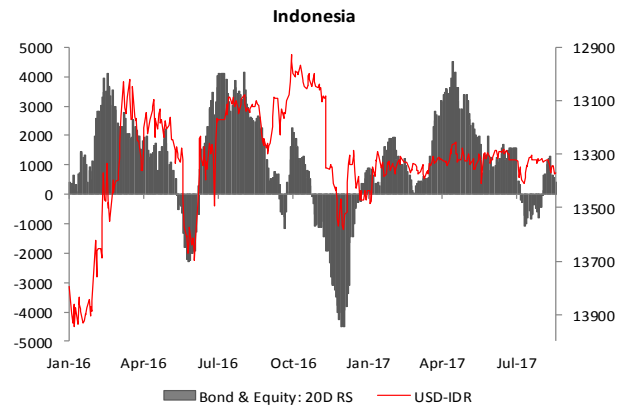
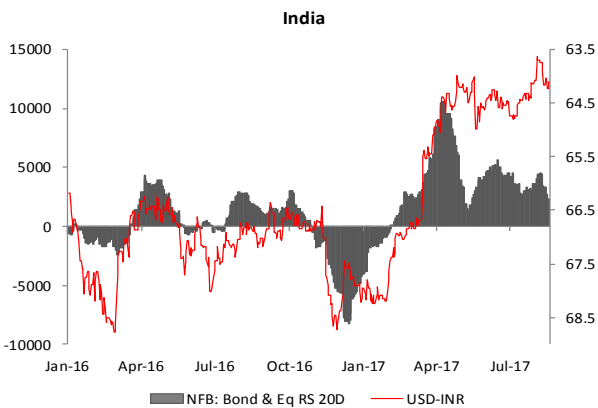
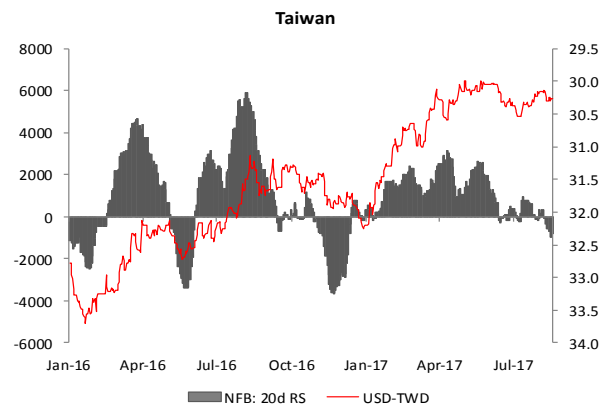
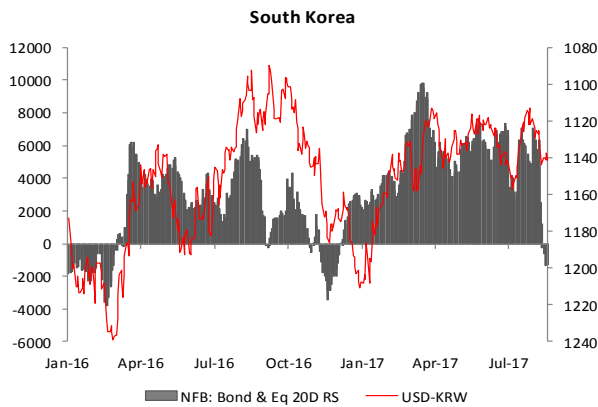
- GBP-USD** Brexit news flow may be expected to dominate this week with the British government expected to unveil 5 position papers on tis Brexit negotiation initiatives. We'd rather stay heavy on the pair in the interim with net leveraged CFTC GBP shorts increasing in the latest week. With short term implied valuations also coming off recent highs, 1.2800 may continue to attract.

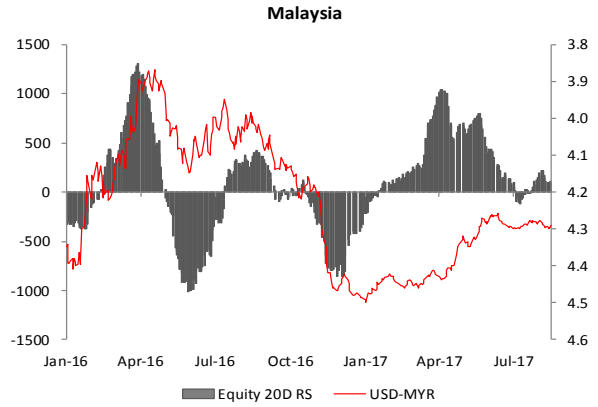


- USD-CAD** USD-CAD may remain caught between the crosswinds of risk appetite gyrations and US-centric USD volatility in the coming sessions, trapping the pair within a (supported) 1.2400-1.2800 range in the interim. On the other hand, short term implied valuations are a touch heavier with net leveraged CFTC CAD longs being built up further in the latest week, potentially capping the upside in the coming sessions.

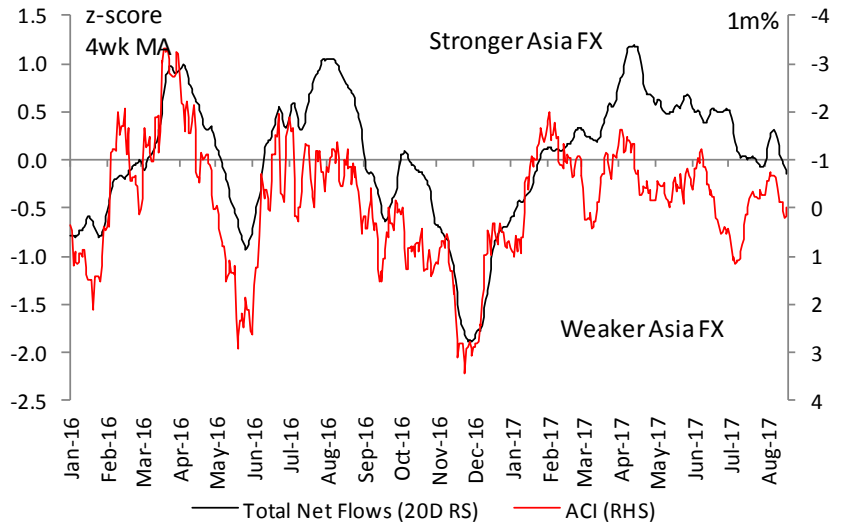
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

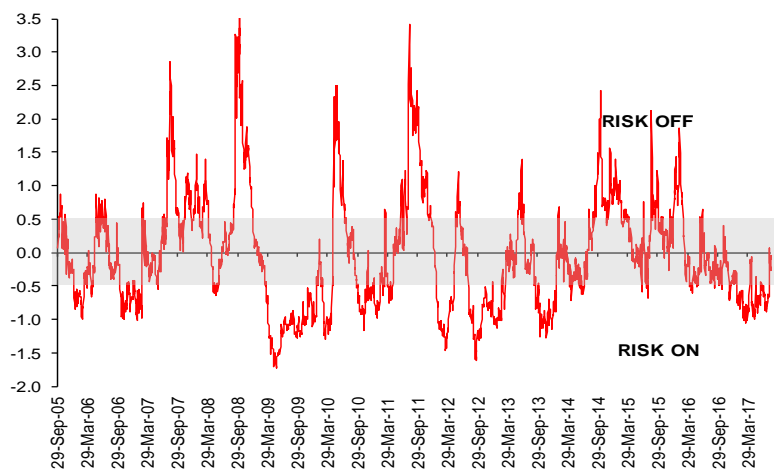




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.273	0.186	0.039	-0.009	-0.549	0.423	-0.57	-0.103	0.041	0.14	-0.936
SGD	0.546	-0.448	-0.577	-0.435	-0.152	-0.664	-0.303	-0.585	0.508	0.544	-0.572	-0.363
THB	0.509	0.664	0.738	0.447	0.022	-0.198	0.797	-0.302	-0.555	-0.342	0.705	-0.585
JPY	0.423	0.909	0.891	0.772	0.382	0.139	1	0.023	-0.847	-0.726	0.899	-0.456
TWD	0.408	-0.139	-0.045	-0.373	-0.656	-0.7	0.016	-0.66	0.284	0.528	-0.137	-0.476
INR	0.362	0.177	0.163	-0.233	-0.515	-0.509	0.17	-0.508	0.067	0.332	0.089	-0.531
PHP	0.289	-0.525	-0.599	-0.712	-0.58	-0.799	-0.471	-0.685	0.663	0.824	-0.679	-0.239
USGG10	0.273	1	0.81	0.756	0.365	0.379	0.909	0.287	-0.808	-0.722	0.831	-0.33
CNY	0.186	0.81	1	0.725	0.4	0.301	0.891	0.165	-0.879	-0.819	0.98	-0.307
CNH	0.14	0.831	0.98	0.752	0.422	0.359	0.899	0.215	-0.895	-0.836	1	-0.25
CCN12M	0.094	-0.692	-0.571	-0.483	-0.294	-0.703	-0.505	-0.597	0.497	0.558	-0.603	0.081
CAD	0.091	-0.547	-0.788	-0.362	-0.152	-0.29	-0.504	-0.203	0.593	0.519	-0.69	0.156
MYR	-0.017	-0.643	-0.809	-0.574	-0.451	-0.556	-0.626	-0.428	0.729	0.791	-0.847	0.147
IDR	-0.037	-0.513	-0.627	-0.561	-0.622	-0.582	-0.508	-0.403	0.607	0.749	-0.707	0.156
NZD	-0.206	0.669	0.845	0.576	0.346	0.579	0.612	0.455	-0.721	-0.749	0.828	0.005
KRW	-0.223	-0.882	-0.928	-0.689	-0.468	-0.38	-0.881	-0.216	0.826	0.81	-0.945	0.348
AUD	-0.33	0.487	0.709	0.397	0.373	0.546	0.406	0.479	-0.558	-0.637	0.636	0.131
CHF	-0.422	-0.13	-0.316	0.099	0.231	0.361	-0.277	0.439	0.07	-0.129	-0.256	0.587
GBP	-0.553	0.532	0.594	0.585	0.355	0.774	0.432	0.626	-0.591	-0.666	0.666	0.4
EUR	-0.936	-0.33	-0.307	-0.009	0.042	0.486	-0.456	0.552	0.138	-0.005	-0.25	1

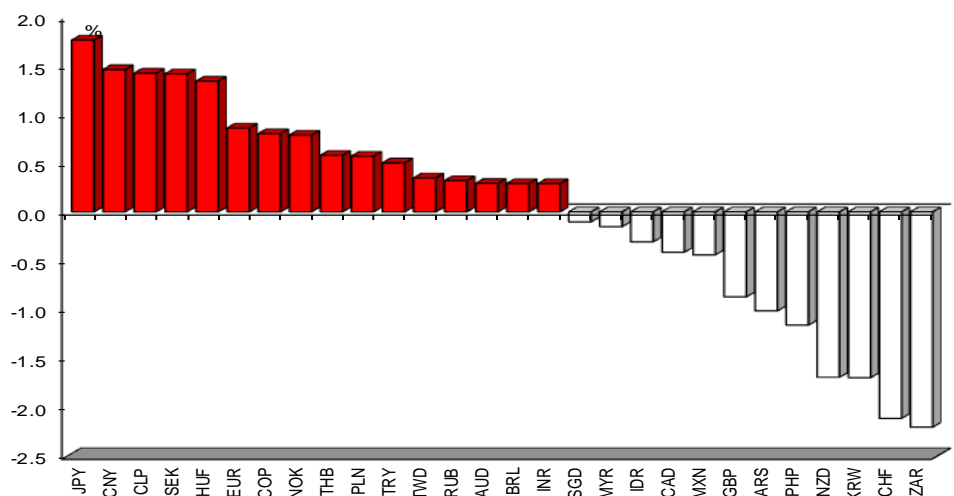
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1660	1.1700	1.1759	1.1800	1.1874
GBP-USD	1.2800	1.2812	1.2875	1.2900	1.2935
AUD-USD	0.7828	0.7900	0.7931	0.8000	0.8019
NZD-USD	0.7202	0.7300	0.7317	0.7323	0.7400
USD-CAD	1.2418	1.2500	1.2586	1.2600	1.2792
USD-JPY	108.75	109.00	109.23	110.00	111.37
USD-SGD	1.3543	1.3600	1.3625	1.3669	1.3700
EUR-SGD	1.5875	1.6000	1.6021	1.6100	1.6142
JPY-SGD	1.2400	1.2453	1.2473	1.2500	1.2534
GBP-SGD	1.7500	1.7504	1.7542	1.7600	1.7710
AUD-SGD	1.0686	1.0800	1.0806	1.0870	1.0900
Gold	1245.44	1252.54	1285.70	1293.28	1300.00
Silver	16.51	16.90	16.95	17.00	17.15
Crude	46.93	48.50	48.53	48.60	50.43

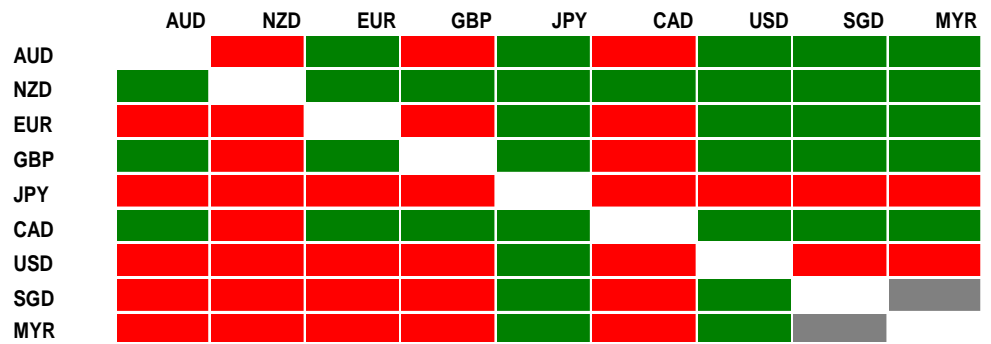
Source: OCBC Bank

FX performance: 1-month change agst USD



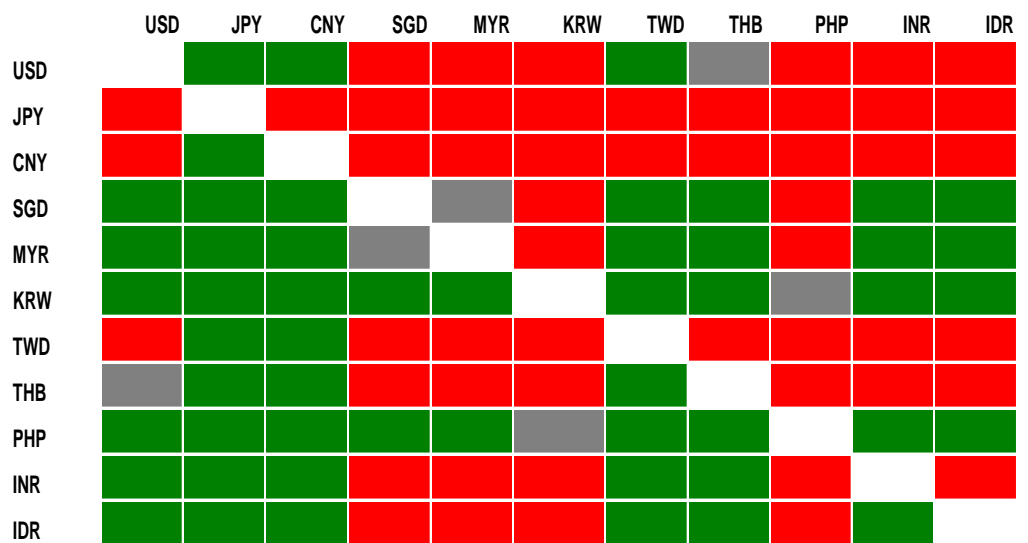
Source: Bloomberg

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		
TACTICAL								
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	
STRUCTURAL								
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		
RECENTLY CLOSED TRADE IDEAS								
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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