

Friday, September 22, 2017

FX Themes/Strategy/Trading Ideas – It's gonna be a long, long time

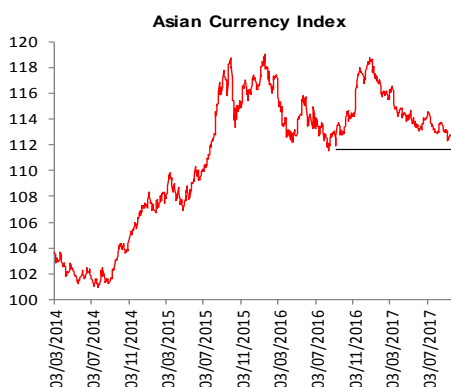
- Despite slightly firmer UST yields (5y-7y underperformed plausibly on the back of better than expected initial claims and the September Philly Fed) on Thursday, the USD softened against most of G10 with the exception of the antipodeans.
- The **RBA's Lowe** doused near term rate hike expectations in his speech on Thursday, dragging the AUD-USD lower with slipping iron ore providing further lubrication. Meanwhile, the JPY largely underperformed across the board after the **BOJ MPC** saw policy parameters unchanged (note an additional dovish slant with a new board member dissenting and calling for further easing) and with **Kuroda** remaining sufficiently dovish.
- **Overall, we think it is telling that the markets did not demonstrate a universal extension of broad dollar strength on Thursday in the wake of the FOMC.** In addition, markets were also greeted with a host of global central bankers keen to remind markets that the Fed policy did not dictate their respective policy paths – another cautionary warning we feel towards the sharp upturn in global long yields in recent weeks.
- **Pyongyang** and Trump have traded verbal barbs on the global stage in the past two sessions (with the latter pushing through new sanctions on Thursday) with the North Korean Foreign Minister on Friday also threatening a H-bomb test in the Pacific. **Expect the JPY to react accordingly and with investors likely antsy heading into the weekend.**
- For today, **Fed speak** is expected from Williams (1000 GMT), George (1330 GMT), and Kaplan (1730 GMT) and any indications of gradualism may undermine the greenback. The **ECB's** Draghi was a non-mover yesterday but markets can look forward to Coeure (0715 GMT), Draghi (0830, 0930 GMT), and Constancio (1315 GMT) for a renewed focus on the ECB's taper intentions.
- On the data front, look also towards the host of September global services/composite PMIs (from the EZ and the US). Meanwhile, the UK expects September CBI data (1000 GMT), while Canadian August CPI and July retail sales are also on tap.
- With the USD likely to derive near term resilience against the JPY on the back of the latest FOMC (and BOJ MPC) and still positive risk appetite levels, we initiate a tactical long **USD-JPY** idea. From a spot ref of 112.58 on Thursday, we target 115.05 and place a stop at 111.30.

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Asian FX

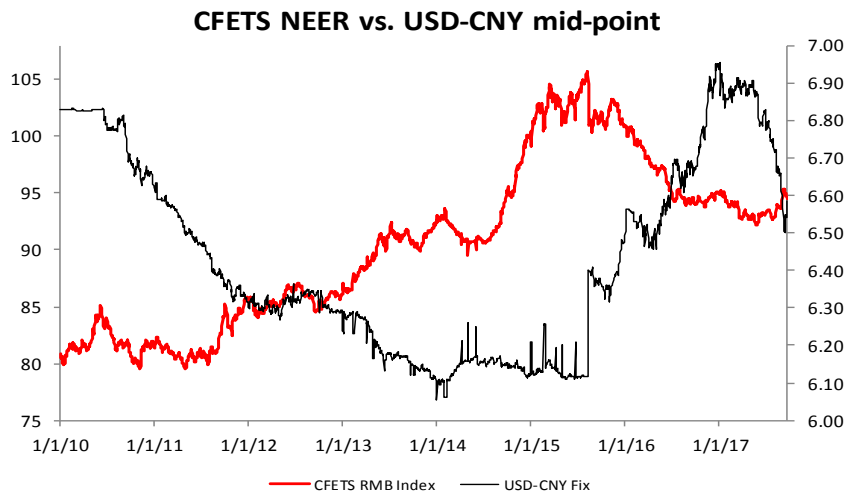
- On the Asian net portfolio inflow front, we are seeing renewed outflow pressures for the KRW and TWD. Meanwhile, the INR and IDR continue to experience a revival of inflows in recent sessions while the THB has also continued to print strong inflow momentum. Net inflows for the PHP meanwhile continue remain largely moderate. On the central bank front in Asia, the CBC and the BSP remained static at their respective policy meetings yesterday, while Bank Indonesia convenes later today (no change expected).
- After dipping slightly lower within Risk-Neutral territory on Thursday, the **FXSI (FX Sentiment Index)** may head higher into the end of the week if North Korean jitters permeate global markets. As such, downside for the **ACI (Asian Currency Index)** is expected to be limited today, with the KRW and the TWD seen relatively more vulnerable.
- **SGD NEER:** The SGD NEER this morning is firmer on the day at around +0.82% above its perceived parity (1.3606). Note however that NEER-implied USD-SGD thresholds are largely unchanged on the day and the NEER may peak out towards +0.90% (1.3485) while the +0.60% (1.3525) may attract if investor appetite sours on the back of geopolitical concerns.



	SGD NEER	% deviation	USD-SGD
Current	125.27	0.81	1.3497
+2.00%	126.74		1.3339
Parity	124.26		1.3606
-2.00%	121.77		1.3884

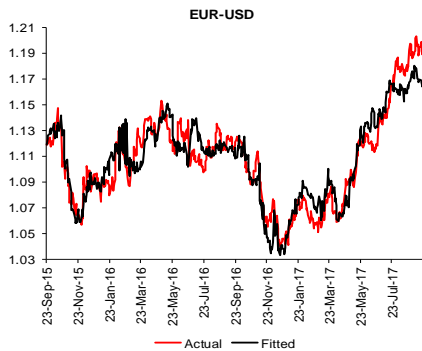
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point slipped (as largely expected) to 6.5861 from 6.5867 on Thursday. This brought the **CFETS RMB Index** marginally lower to 94.54 from 94.61 yesterday.



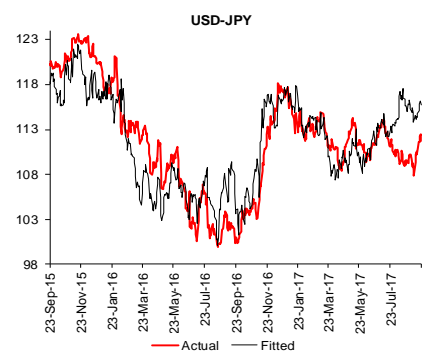
Source: OCBC Bank, Bloomberg

G7



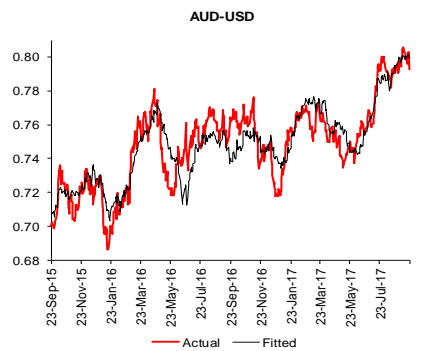
Source: OCBC Bank

- **EUR-USD** ECB rhetoric may present further headline risks for the EUR-USD today. Meanwhile, short term implied valuations are attempting to recover higher although investors may trawl a 1.1840-1.2000 range in the interim.



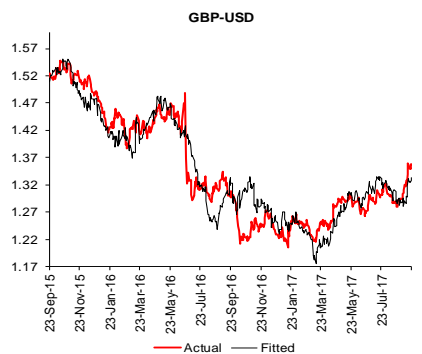
Source: OCBC Bank

- **USD-JPY** USD-JPY may look past relative central bank policy dichotomy intra-day and instead trade lower on the back of heightened geopolitical risks. Note that short term implied valuations for the pair have also stepped lower noticeably from overnight levels and 111.50 and 111.00 may attract pending further headline risks.



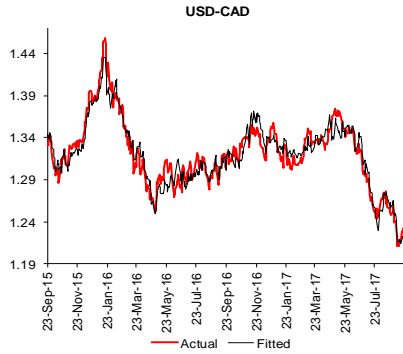
Source: OCBC Bank

- **AUD-USD** Despite still underpinned short term implied valuations, risk aversion vibes today coupled with the associated negativity from Lowe (and iron ore) yesterday may keep the AUD-USD suppressed into the end of the week. Expect a solid ceiling at 0.8000 in the interim while a breach of the 55-day MA (0.7924) may threaten 0.7900 ahead of 0.7850.



Source: OCBC Bank

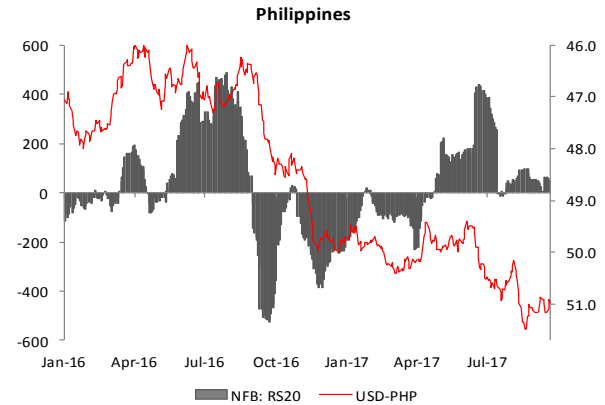
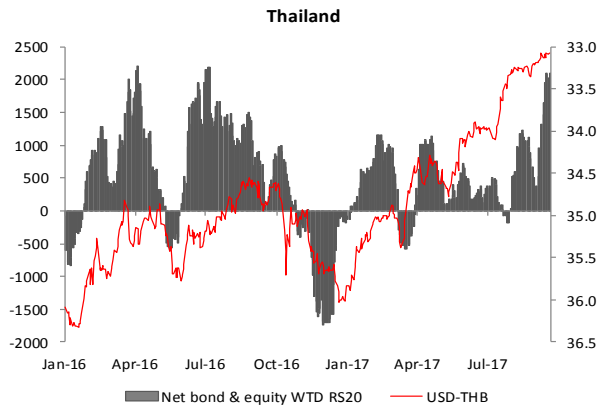
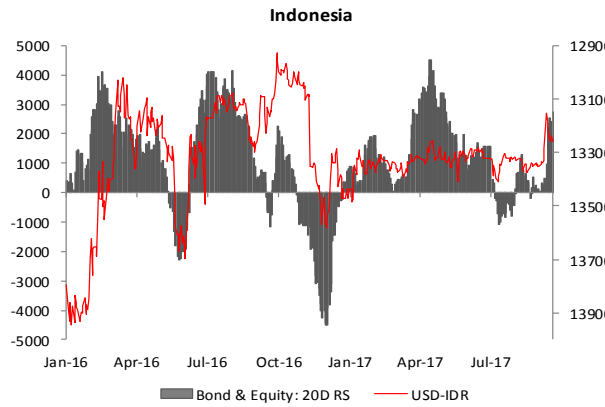
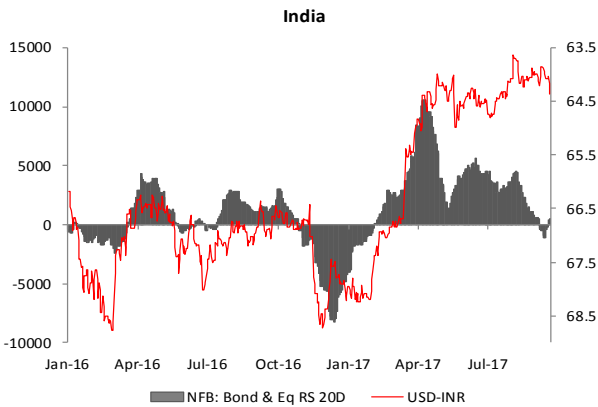
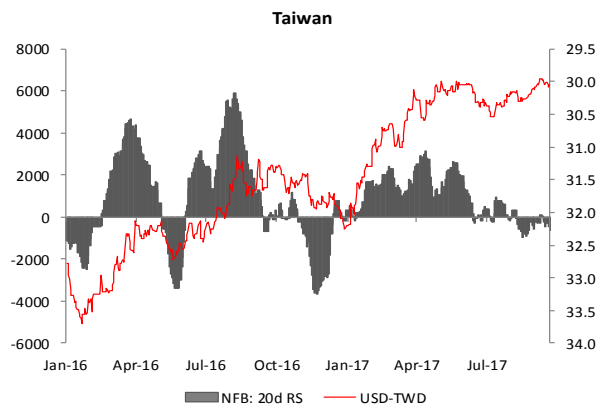
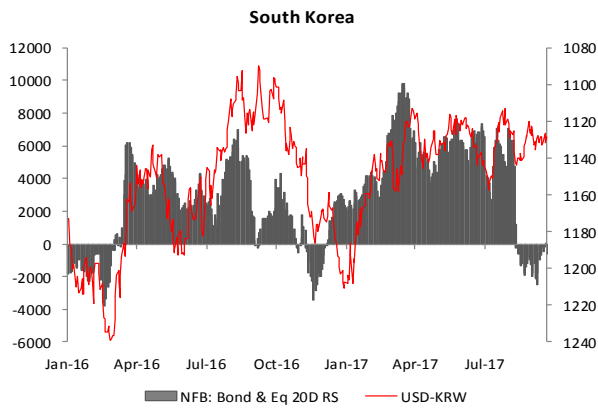
- **GBP-USD** GBP: PM May Brexit address in Florence today will be closely watched, with some indications of a softened British stance. On other fronts, short term implied valuations continue to peek higher and (risk appetite considerations permitting) an upside break of 1.3600 may invite a test towards 1.3665.

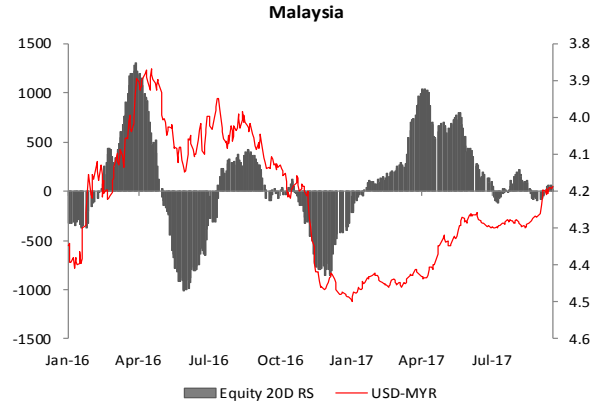


- USD-CAD** Short term implied valuations have dipped but the pair may remain hostage to geopolitical risks (afflicting cyclical currencies) and Canadian data headline risks later in the global day. Risk-reward may favor dip buying in the interim with 1.2400 expected to cap and with initial resistance seen on approach of 1.2255.

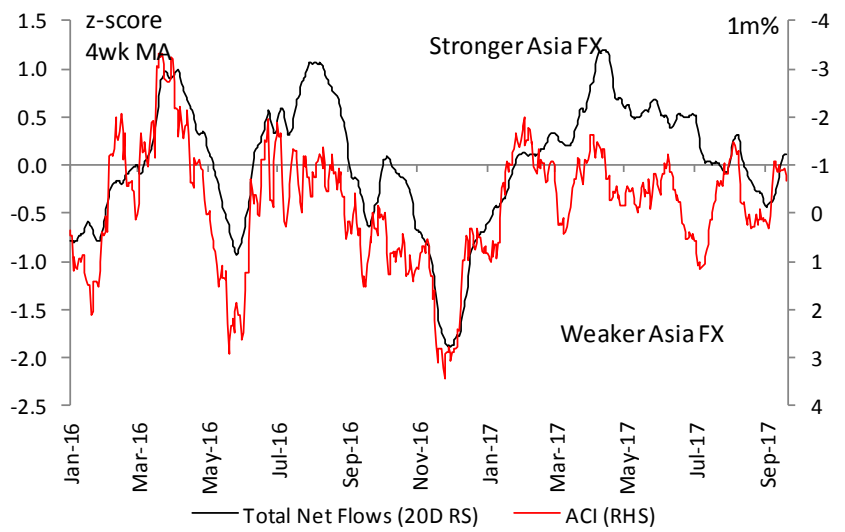
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

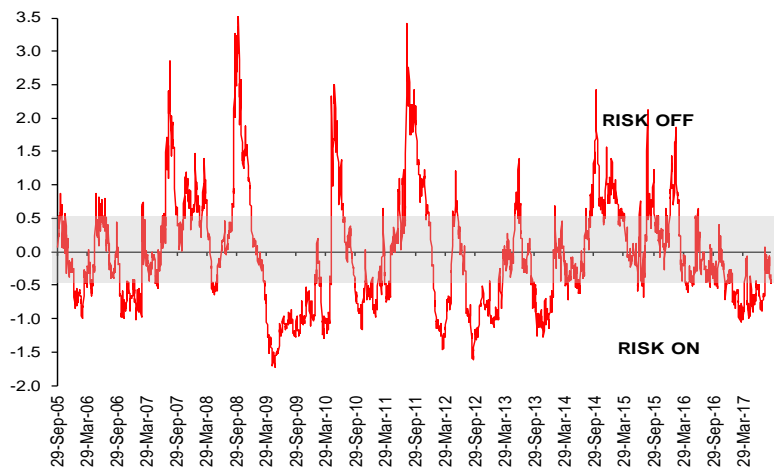




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.194	0.715	-0.427	-0.268	-0.542	0.04	-0.302	0.172	0.542	0.731	-0.921
SGD	0.923	0.093	0.74	-0.579	-0.412	-0.732	-0.071	-0.515	0.314	0.5	0.764	-0.797
THB	0.775	-0.123	0.776	-0.795	-0.582	-0.812	-0.38	-0.535	0.592	0.528	0.78	-0.651
CAD	0.76	0.079	0.782	-0.628	-0.384	-0.783	-0.018	-0.562	0.311	0.615	0.804	-0.525
TWD	0.754	0.347	0.926	-0.481	-0.177	-0.606	0.157	-0.238	0.17	0.633	0.909	-0.575
CNH	0.731	0.37	0.986	-0.458	-0.102	-0.676	0.146	-0.309	0.177	0.511	1	-0.58
CNY	0.715	0.449	1	-0.413	-0.039	-0.64	0.205	-0.262	0.125	0.502	0.986	-0.57
MYR	0.681	-0.317	0.635	-0.906	-0.759	-0.866	-0.479	-0.709	0.735	0.528	0.677	-0.473
IDR	0.643	-0.129	0.55	-0.702	-0.564	-0.563	-0.184	-0.387	0.491	0.627	0.568	-0.411
CHF	0.507	0.85	0.5	0.405	0.553	0.119	0.82	0.446	-0.555	0.276	0.434	-0.581
PHP	0.476	0.067	0.369	-0.218	-0.235	-0.244	0.056	-0.084	0.063	0.159	0.351	-0.458
CCN12M	0.401	0.434	0.628	-0.227	0.028	-0.192	0.42	0.174	0.003	0.462	0.581	-0.254
USGG10	0.194	1	0.449	0.57	0.762	0.247	0.908	0.56	-0.708	0.093	0.37	-0.242
JPY	0.04	0.908	0.205	0.739	0.856	0.446	1	0.614	-0.854	0.023	0.146	-0.079
INR	0.034	0.649	0.198	0.456	0.559	0.4	0.715	0.653	-0.481	0.274	0.1	-0.06
KRW	-0.177	0.152	-0.261	0.328	0.131	0.501	0.168	0.693	-0.037	-0.16	-0.282	-0.024
NZD	-0.481	0.513	0.002	0.536	0.646	0.422	0.531	0.565	-0.405	0.04	-0.02	0.417
GBP	-0.583	0.594	-0.343	0.903	0.87	0.824	0.725	0.823	-0.736	-0.37	-0.385	0.413
AUD	-0.777	-0.332	-0.802	0.457	0.221	0.655	-0.215	0.24	-0.165	-0.478	-0.758	0.617
EUR	-0.921	-0.242	-0.57	0.226	0.138	0.305	-0.079	0.093	-0.115	-0.385	-0.58	1

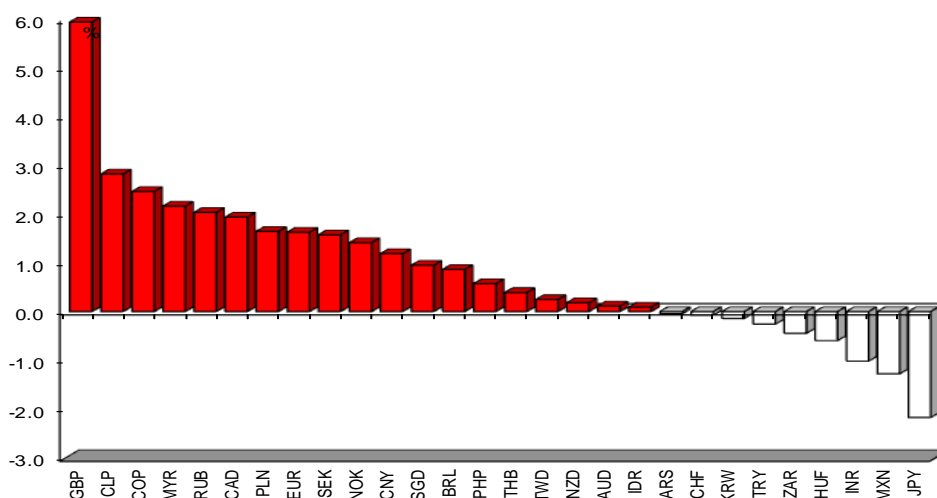
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1845	1.1900	1.1951	1.2000	1.2030
GBP-USD	1.3080	1.3500	1.3582	1.3600	1.3657
AUD-USD	0.7895	0.7900	0.7916	0.7943	0.8000
NZD-USD	0.7142	0.7200	0.7288	0.7300	0.7312
USD-CAD	1.2062	1.2300	1.2324	1.2400	1.2477
USD-JPY	110.33	112.00	112.03	112.13	112.68
USD-SGD	1.3396	1.3400	1.3496	1.3500	1.3564
EUR-SGD	1.6030	1.6100	1.6130	1.6200	1.6210
JPY-SGD	1.1993	1.2000	1.2047	1.2100	1.2295
GBP-SGD	1.7743	1.8300	1.8331	1.8349	1.8400
AUD-SGD	1.0620	1.0676	1.0684	1.0685	1.0700
Gold	1287.34	1288.79	1294.20	1300.00	1351.60
Silver	16.85	16.90	16.99	17.00	17.00
Crude	50.30	50.50	50.60	50.93	51.28

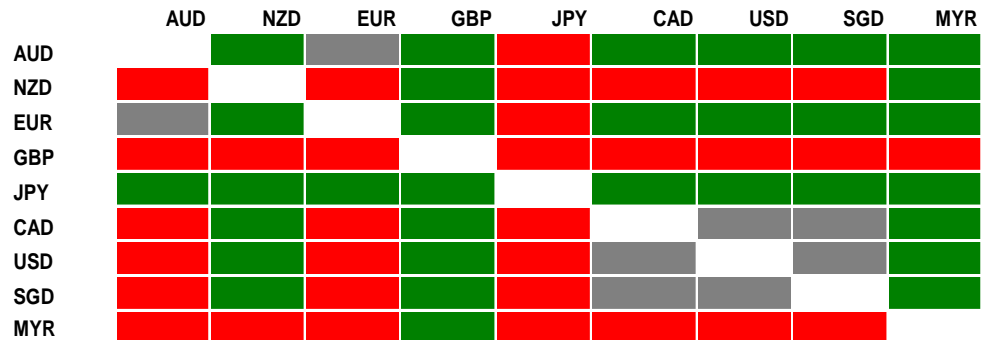
Source: OCBC Bank

FX performance: 1-month change agst USD



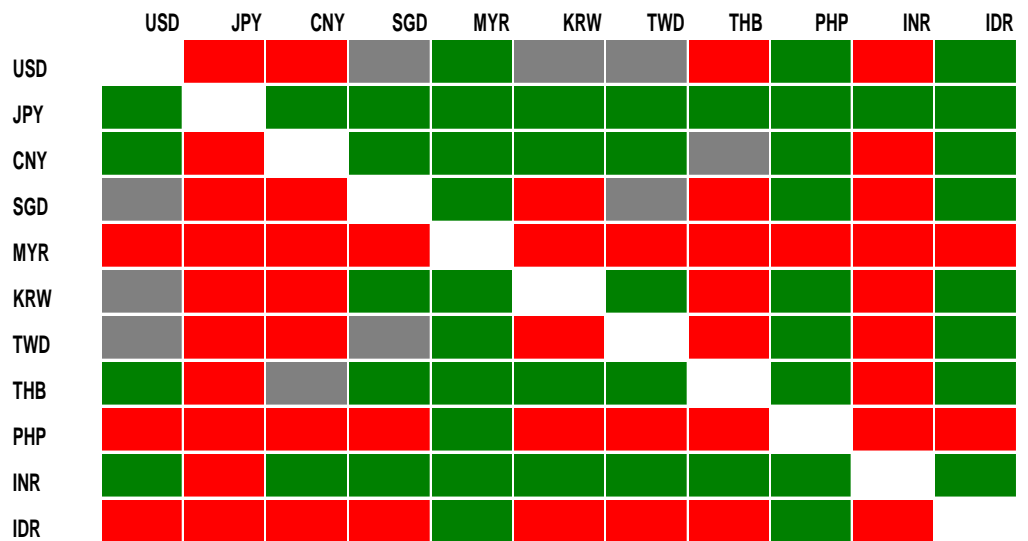
Source: Bloomberg

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	19-Sep-17	B	GBP-USD	1.3540	1.3825	1.3395	Earlier than expected paradigm change by the BOE	
2	21-Sep-17	B	USD-JPY	112.58	115.05	111.30	Policy dichotomy post FOME-BOJ + positive risk appetite levels	
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	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
2	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
3	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
4	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
5	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
6	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
7	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
8	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
							Jan-Sep*** 2017 Return	-1.56
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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