

Wednesday, August 23, 2017

FX Themes/Strategy/Trading Ideas

- Amid light headlines and flows, slightly firmer UST yields saw the majors retreating against the USD on Tuesday, with EZ/US equities also chalking up notable gains. This improvement in risk appetite also undermined the JPY, including on the crosses. The greenback meanwhile also caught a partial tailwind on a report that the US administration was making some progress in discussions on tax reform.
- With a slightly softer August German ZEW and apprehension towards potential further jawboning against the EUR by the ECB, the EUR-USD was kept off the boil with the pair testing briefly below 1.1750. Demonstrating the fragility of GBP prospects, GBP-USD also succumbed lower despite supportive data points from the August CBI and June retail sales numbers.
- The ECB's Draghi is scheduled for 0700 GMT today with all eyes on any possible rhetoric regarding balance sheet tapering or the strength of the EUR. Meanwhile, the Fed's Kaplan is due to speak at 1705 GMT. On the data front, look to the slew of global PMIs for macro-related distractions today while July US new home sales are also due (1400 GMT).
- **Overall, global markets may continue to remain on the sidelines heading into the Jackson Hole symposium. A positive global equity backdrop meanwhile may temper any undue USD resilience against the cyclical/Asia.**
- With our US Macro Surprise Indices (3M and 6M basis) having gone into negative territory and Fed rate hike prospects towards the year-end still suspect, investor confidence towards the USD is expected to remain fragile. Coupled with potential for further negative political baggage from the White House and a Fed that is expected to be gradualist and cautious with respect to its balance sheet taper, we see potential scope for the **USD-JPY** to continue to edge lower in the coming weeks. To express this view, we undertake a 2M 1X1.5 USD-JPY put spread (spot ref: 109.31; strikes 109.00, 106.04) costing an implied +0.57% of notional.

Asian FX

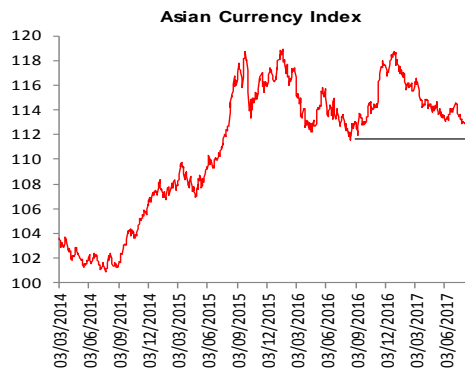
- In Asia, the tail risk emerged as **Bank Indonesia** surprised with a 25bps cut (first cut since October 2016) to its benchmark rate to 4.50% on Tuesday, with the central bank citing softer inflation (and credit creation) numbers, as well as a benign projected Fed rate hike trajectory.

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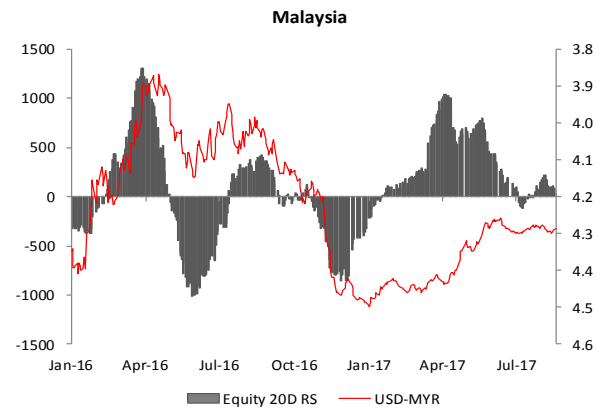
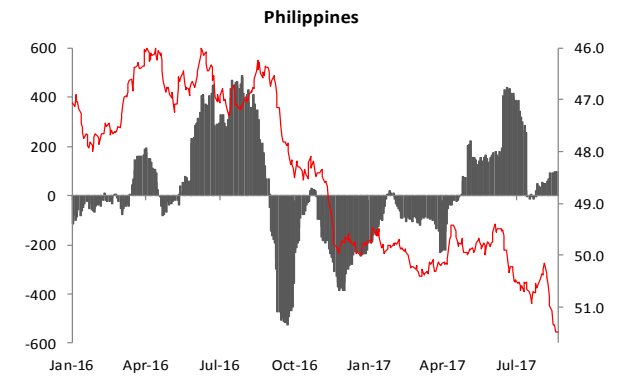
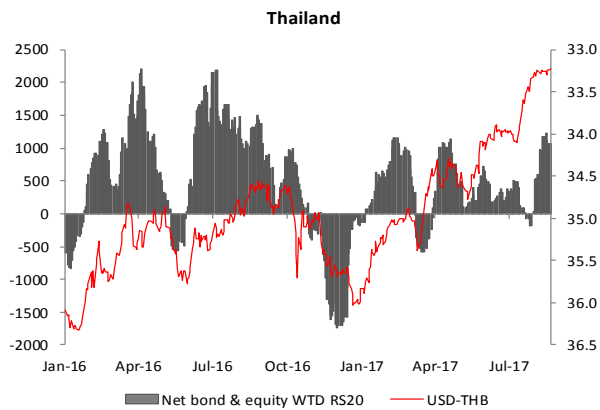
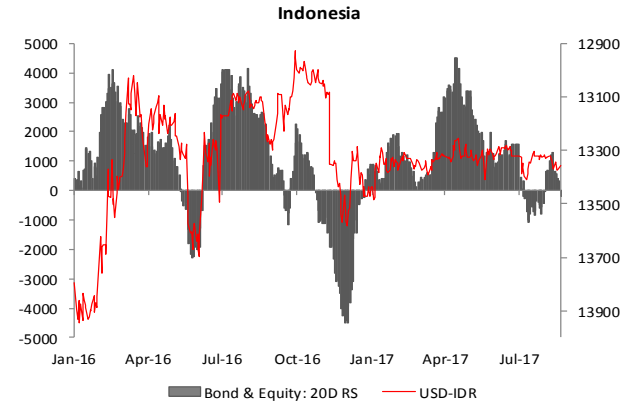
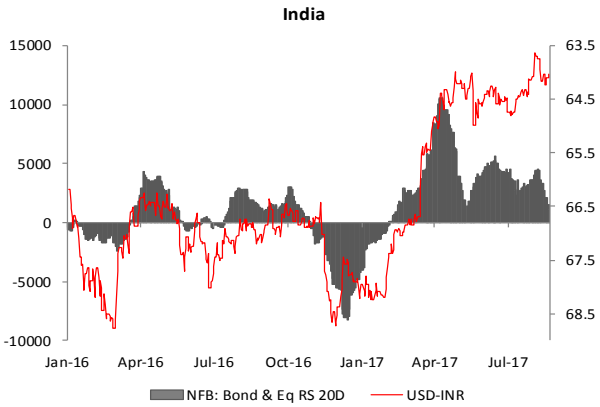
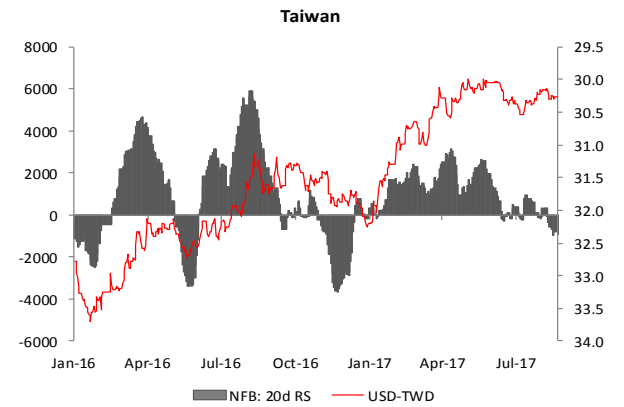
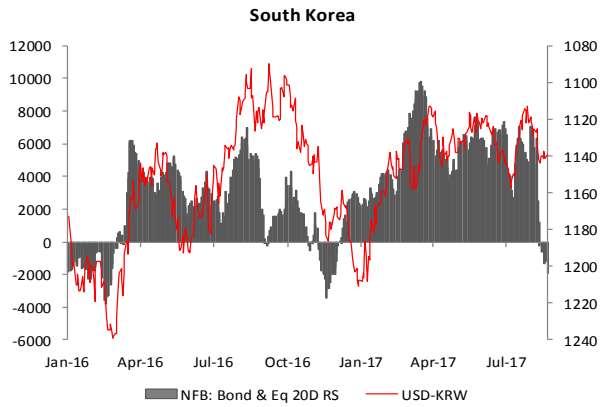
- On the net portfolio inflow front in Asia, the KRW and the TWD remain under negative pressure on reported outflows while the IDR has also witnessed net outflows in recent sessions. Elsewhere, net inflow momentum continues to moderate for the INR, THB, and MYR, although flows remain supportive of the PHP. With this metric less than constructive, Asian FX resilience may be slightly impinged, especially with the **RBI** and **Bank Indonesia** having cut rates this month.
- Overall, with the **FXSI (FX Sentiment Index)** ticking higher within Risk-neutral territory on Tuesday, with the **ACI (Asian Currency Index)** may be slightly range bound intra-day, pulled in contrasting directions by soft inflows, a resilient dollar, but positive equities.
- **SGD NEER:** In Singapore, July CPI numbers are due 0500 GMT and in the interim, the SGD NEER is relatively unchanged on the day at around +0.57% above its perceived parity (1.3703), demonstrating slight reluctance the upside for the USD-SGD. For today, expect the NEER to remain in the vicinity of +0.50% (1.3635) if not slightly lower (+0.4% at 1.3649), with risks towards 1.3650 if USD resilience continues to prevail in Asia.



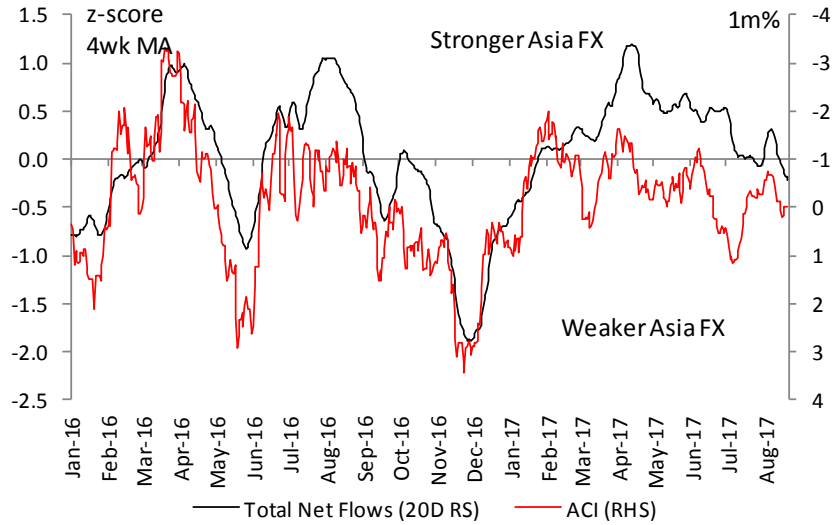
	SGD NEER	% deviation	USD-SGD
Current	124.97	0.57	1.3626
+2.00%	126.74		1.3435
Parity	124.26		1.3703
-2.00%	121.77		1.3983

Source: OCBC Bank

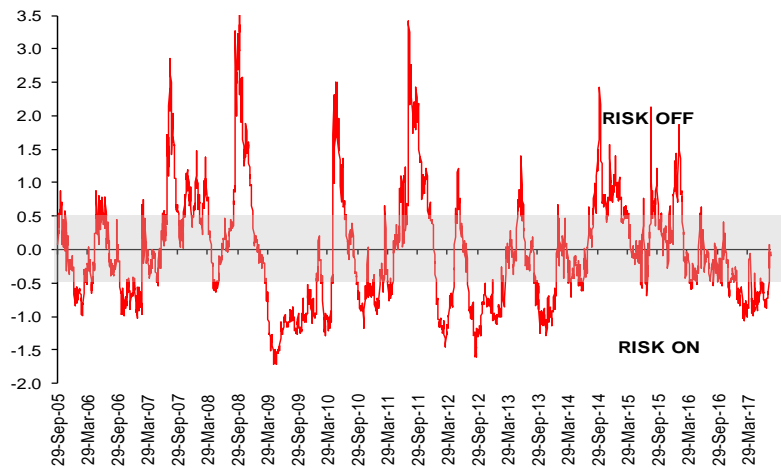
USD-Asia VS. Net Capital Flows



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	0.298	0.203	0.115	0.025	-0.464	0.444	-0.496	-0.137	-0.027	0.141	-0.936
SGD	0.552	-0.403	-0.546	-0.382	-0.136	-0.631	-0.256	-0.571	0.49	0.484	-0.514	-0.365
THB	0.504	0.663	0.74	0.469	0.03	-0.113	0.782	-0.2	-0.558	-0.385	0.691	-0.597
JPY	0.444	0.92	0.899	0.812	0.365	0.26	1	0.167	-0.817	-0.778	0.896	-0.494
TWD	0.362	-0.188	-0.092	-0.402	-0.654	-0.697	-0.052	-0.665	0.303	0.529	-0.182	-0.432
INR	0.336	0.109	0.099	-0.259	-0.51	-0.508	0.098	-0.513	0.088	0.344	0.019	-0.502
USGG10	0.298	1	0.829	0.793	0.355	0.457	0.92	0.391	-0.792	-0.766	0.838	-0.368
PHP	0.294	-0.55	-0.632	-0.721	-0.524	-0.812	-0.504	-0.7	0.634	0.838	-0.708	-0.231
CNY	0.203	0.829	1	0.747	0.366	0.392	0.899	0.26	-0.841	-0.843	0.981	-0.324
CNH	0.141	0.838	0.981	0.777	0.374	0.456	0.896	0.354	-0.835	-0.868	1	-0.267
CAD	0.1	-0.462	-0.672	-0.262	-0.145	-0.223	-0.419	-0.141	0.561	0.384	-0.55	0.134
CCN12M	0.076	-0.631	-0.531	-0.445	-0.299	-0.663	-0.447	-0.564	0.497	0.496	-0.505	0.095
MYR	-0.043	-0.537	-0.71	-0.496	-0.458	-0.49	-0.515	-0.355	0.717	0.655	-0.649	0.158
IDR	-0.07	-0.548	-0.645	-0.582	-0.61	-0.607	-0.544	-0.445	0.621	0.744	-0.707	0.184
NZD	-0.2	0.679	0.854	0.585	0.317	0.613	0.627	0.518	-0.7	-0.752	0.844	-0.009
KRW	-0.255	-0.874	-0.919	-0.708	-0.466	-0.433	-0.872	-0.281	0.825	0.804	-0.89	0.387
AUD	-0.346	0.463	0.659	0.336	0.351	0.511	0.384	0.466	-0.535	-0.553	0.601	0.145
CHF	-0.367	-0.126	-0.292	0.115	0.248	0.338	-0.261	0.391	0.051	-0.122	-0.262	0.543
GBP	-0.482	0.568	0.657	0.621	0.303	0.799	0.48	0.692	-0.558	-0.721	0.729	0.318
EUR	-0.936	-0.368	-0.324	-0.087	0.016	0.402	-0.494	0.473	0.167	0.066	-0.267	1

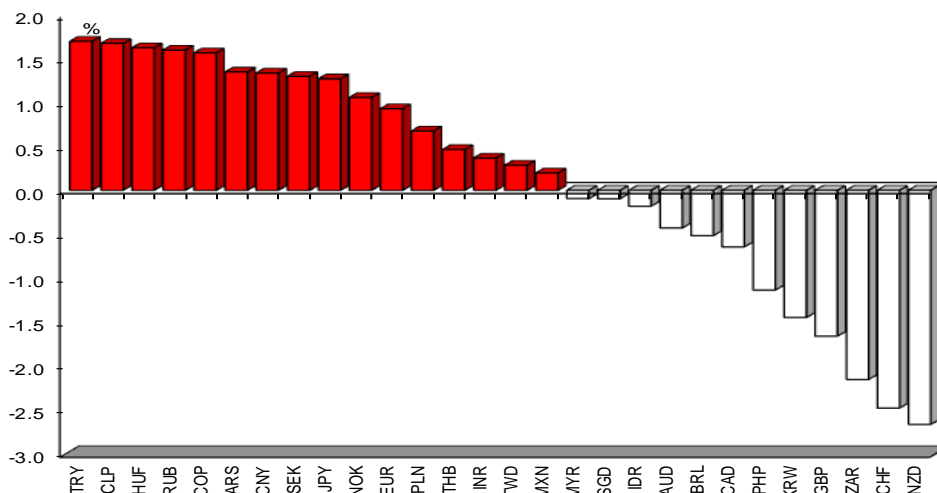
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1685	1.1700	1.1749	1.1800	1.1868
GBP-USD	1.2800	1.2808	1.2812	1.2900	1.2938
AUD-USD	0.7800	0.7828	0.7892	0.7900	0.8005
NZD-USD	0.7200	0.7224	0.7240	0.7300	0.7324
USD-CAD	1.2445	1.2500	1.2586	1.2600	1.2778
USD-JPY	108.77	109.00	109.70	110.00	111.29
USD-SGD	1.3544	1.3600	1.3627	1.3669	1.3700
EUR-SGD	1.5915	1.6000	1.6011	1.6100	1.6132
JPY-SGD	1.2310	1.2400	1.2422	1.2448	1.2500
GBP-SGD	1.7401	1.7446	1.7459	1.7500	1.7709
AUD-SGD	1.0687	1.0700	1.0755	1.0800	1.0854
Gold	1249.16	1253.32	1285.10	1296.51	1300.00
Silver	16.51	16.90	16.97	17.00	17.13
Crude	46.87	47.60	47.67	47.70	50.62

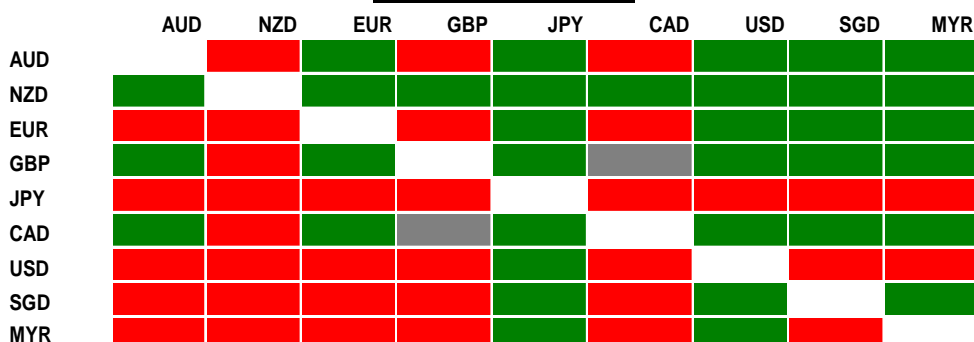
Source: OCBC Bank

FX performance: 1-month change agst USD



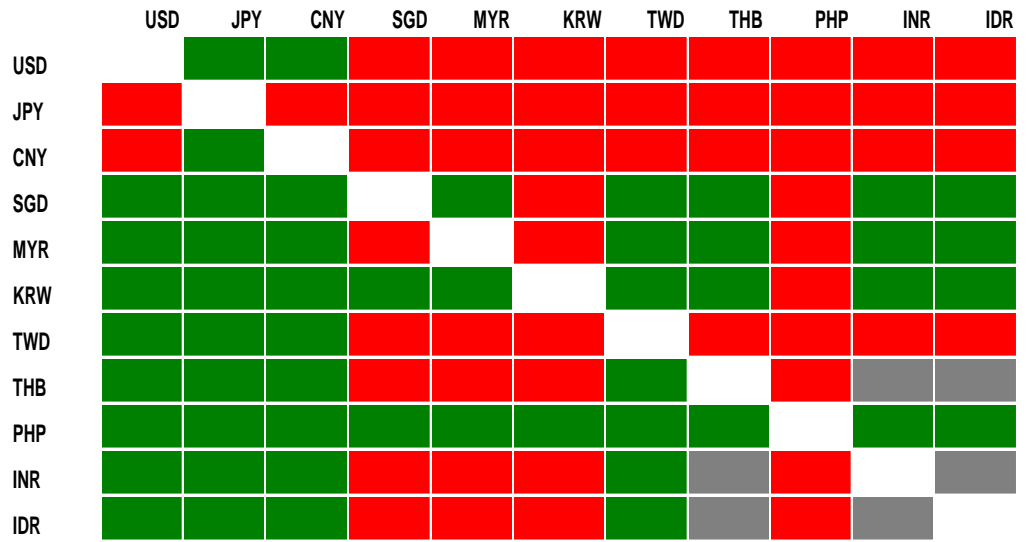
Source: Bloomberg

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			
7	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			
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	13-Jul-17	03-Aug-17	B	AUD-USD	0.7708	0.7935	Vulnerable USD, improving risk appetite, supportive China data	+2.89
2	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	
3	01-Aug-17	04-Aug-17	B	GBP-USD	1.3207	1.3060	Expected trace of hawkishness at BOE MPC	-1.14
4	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
5	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
6	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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