

Thursday, November 23, 2017

FX Themes/Strategy/Trading Ideas

- Sliding US yields (5y USTs outperformed) left the USD as a stark underperformer across the board on Wednesday as US October durable goods orders disappointed. On balance, the FOMC minutes also left the USD disadvantaged despite many participants expecting another hike “in the near term”. Specifically, the internal debate surrounding the sluggishness of inflation persisted, echoing the “very uncertain” prospects mentioned by Yellen on Tuesday.
- With NY away for Thanksgiving and investors now doubting the Fed trajectory for 2018, expect investors to continue to regard the dollar with suspicion intra-day. Structurally, although long-end rate differentials weighed on the USD in general overnight, we find that investors have increasingly attached more importance to nominal long-end US yields as a determinant. As a result, the DXY has continued to deteriorate ((now back at the 93.20 neighborhood).
- For today, central speak is expected from the ECB’s Villeroy (1200 GMT and 1830 GMT) and Coeure (1815 GMT), while ECB meeting minutes are due at 1230 GMT. The data calendar meanwhile includes German 3Q GDP (0700 GMT), a string of global November PMIs, and UK 3Q GDP (0930 GMT).

Asian FX

- EM FX climbed higher against the USD with positive EM equities and global commodities providing an additional tailwind. The net portfolio inflow situation in Asia is also expected to be conducive to Asian FX resilience. On this front, net inflow momentum for the KRW continues to moderate, TWD and THB have flipped to a net positive inflow environment, the INR is seen supported by positive and accumulating inflow momentum, while the IDR has also flipped to a net inflow balance on a 1M rolling horizon.
- Overall, with the **FXSI (FX Sentiment Index) sinking even deeper into Risk-On** territory on Wednesday, the **ACI (Asian Currency Index)** broke below 112.00 and is expected to remain suppressed intra-day.
- **SGD NEER:** This morning, the SGD NEER is stronger on the day at around +0.98% above its perceived parity (1.3600) with NEER-implied USD-SGD thresholds softer in the wake of overnight USD price action. At current levels, expect a floor for the USD-SGD at the +1.10% threshold (1.3452) with the +0.85% threshold estimated at approximately 1.3485. On the macro front, 3Q GDP came in at 5.2% yoy, above the initial flash estimate of +4.6% and

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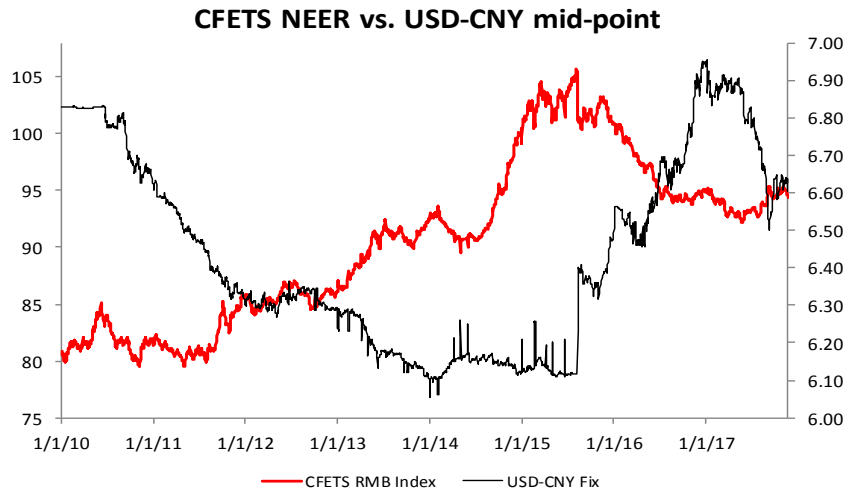
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market consensus of around +5.0% yoy. Meanwhile, the MAS reiterated that the current monetary policy stance remains appropriate. Going ahead, October CPI readings are due at 0500 GMT.



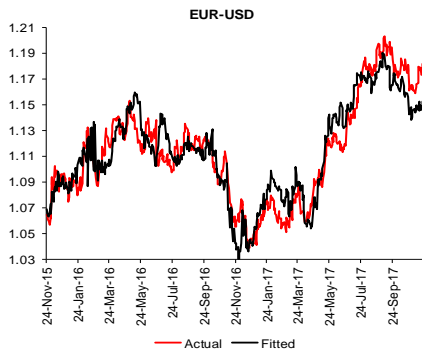
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point dropped (more than we'd expected) to 6.6021 from 6.6290 on Wednesday. Although the mid-point's inter-day down move remained within historical parameters, note that the CFETS RMB Index fell further to 94.42 from 94.50 yesterday. With little official inclination for NEER appreciation, note that the Index has latched on to the softening DXY since early November.



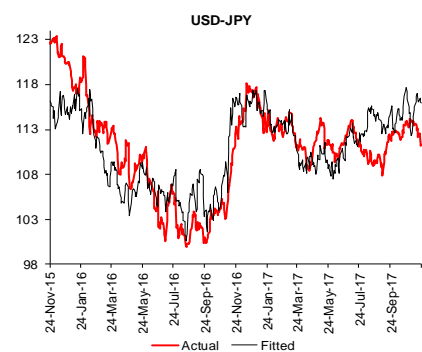
Source: OCBC Bank, Bloomberg

G7



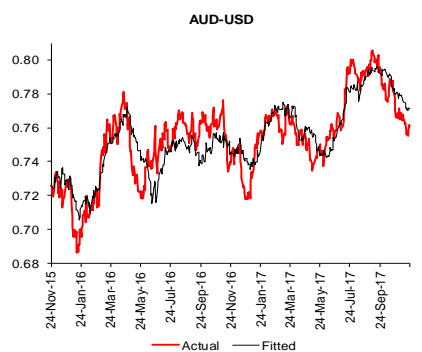
Source: OCBC Bank

- **EUR-USD** Ahead of the ECB meeting minutes and ECB-speak today, note that short term implied valuations have ticked higher in the interim. News flow out of Germany meanwhile seems to indicate continued efforts to cobble together a government, as opposed to heading towards fresh elections. Expect the EUR-USD to attempt to base build off the 55-day MA (1.1781) towards 1.1850.



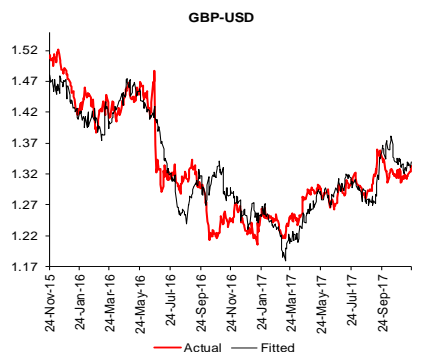
Source: OCBC Bank

- **USD-JPY** TKY is also away for a holiday today while short term implied valuations have reacted lower. Despite positive risk appetite levels, the beleaguered broad dollar may tempt the USD-JPY down towards 110.35 with the 200-day MA (111.73) now functioning as a resistance.



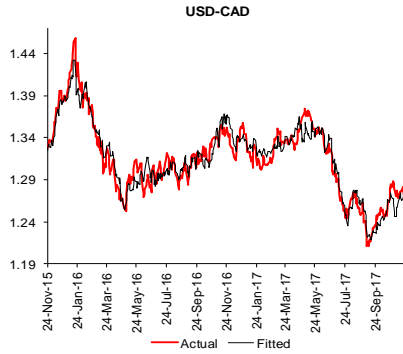
Source: OCBC Bank

- **AUD-USD** Although the AUD-USD slipped in tandem with the majors on Wednesday, note the continued underperformance of the aussie across G10. This underscores our findings that carry continues to remain out of favor at this juncture and in the near term, slightly more supported short term implied valuations for the AUD-USD may be simply a byproduct of a weak USD. Range trade 0.7585-0.7635 in the interim.



Source: OCBC Bank

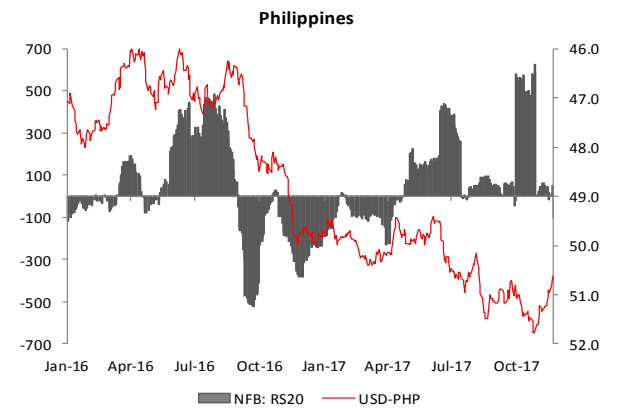
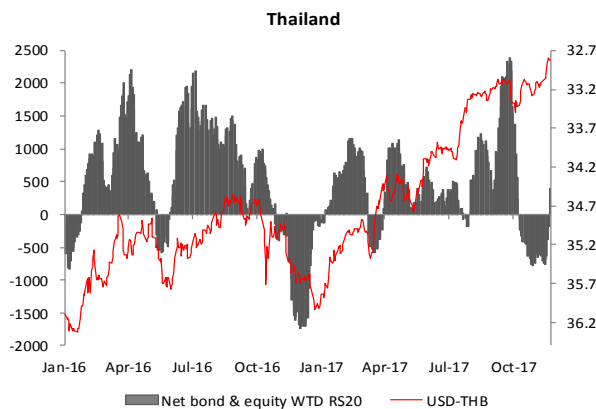
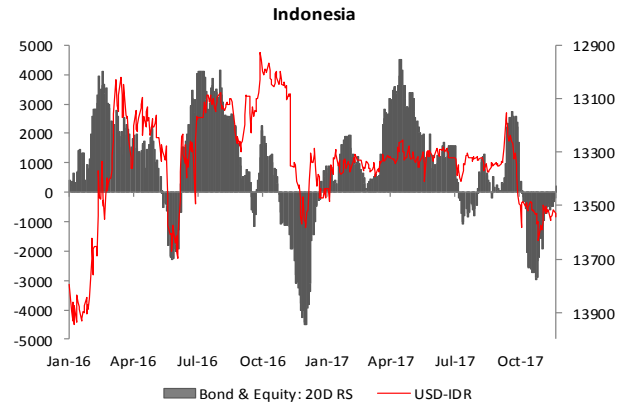
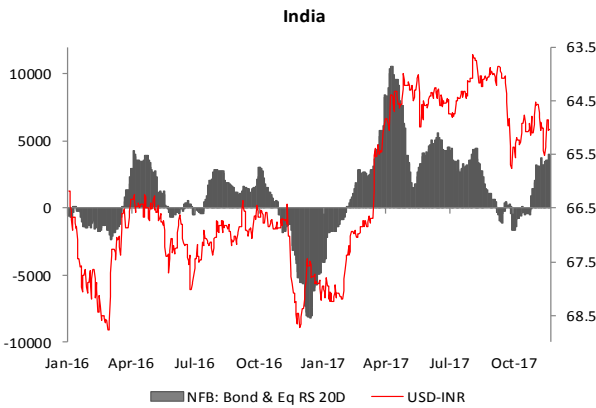
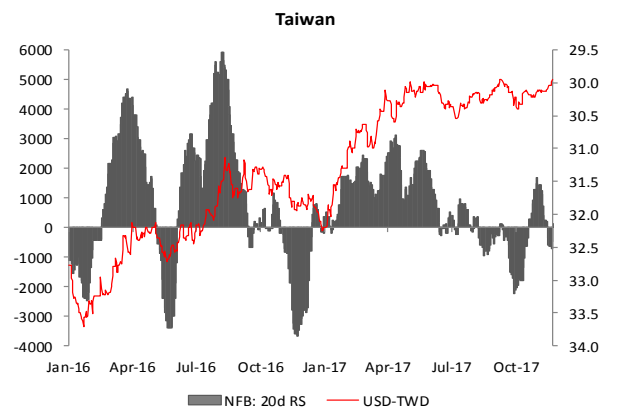
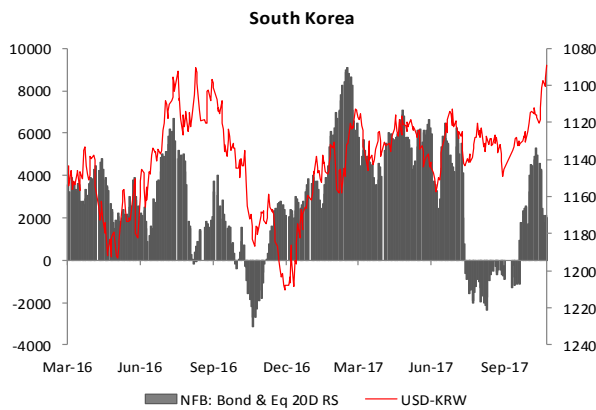
- **GBP-USD** The Brexit budget turned out to be a non-mover for markets on Wednesday with the GBP-USD surfacing above 1.3300 as the broad dollar deteriorated. With short term implied valuations pointing north, expect the 55-day MA (1.3258) to now serve as a support as the pair contemplates 1.3350 in the current USD environment.

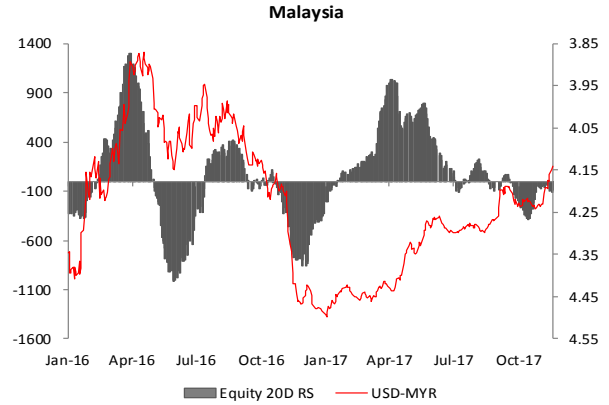


- USD-CAD** Despite a lack of headway in NAFTA talks, USD-CAD tested briefly below 1.2700 late Wed/early Thu on the back of a soft broad dollar and with crude testing above 58.00. Short term implied valuations for the pair are also tilting lower at this juncture and if 1.2700 is breached on a sustained basis, the 100-day MA (1.2569) may attract.

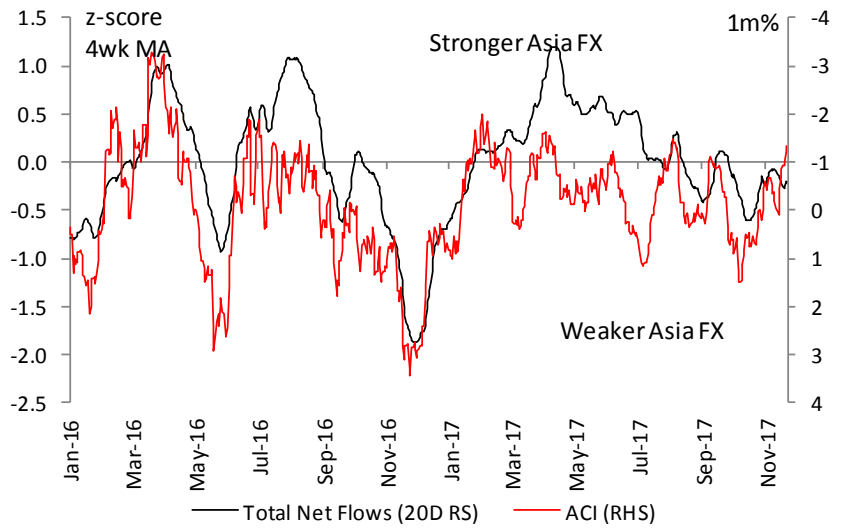
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

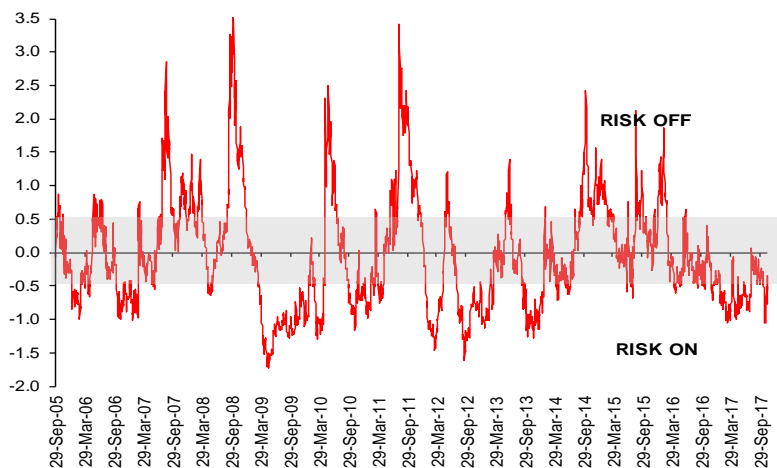




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.066	0.234	0.151	-0.162	0.111	0.792	-0.143	-0.52	-0.728	0.337	-0.973
CHF	0.952	0.166	0.086	0.107	-0.176	0.014	0.85	-0.247	-0.449	-0.701	0.331	-0.899
SGD	0.799	0.491	0.54	-0.363	-0.614	-0.312	0.914	-0.547	-0.138	-0.447	0.646	-0.716
JPY	0.792	0.393	0.239	-0.291	-0.499	-0.261	1	-0.523	-0.162	-0.526	0.459	-0.695
MYR	0.775	0.374	0.319	-0.388	-0.666	-0.371	0.927	-0.61	-0.249	-0.642	0.388	-0.695
THB	0.688	0.425	0.407	-0.444	-0.702	-0.346	0.863	-0.599	-0.113	-0.506	0.433	-0.614
PHP	0.574	0.605	0.555	-0.607	-0.8	-0.542	0.796	-0.744	-0.037	-0.383	0.509	-0.494
KRW	0.565	0.619	0.52	-0.599	-0.779	-0.488	0.826	-0.694	0.084	-0.247	0.577	-0.476
TWD	0.561	0.595	0.49	-0.577	-0.791	-0.497	0.86	-0.703	0.098	-0.23	0.584	-0.457
NZD	0.408	-0.198	0.014	0.222	0.119	0.414	0.447	0.184	-0.271	-0.358	0.035	-0.464
AUD	0.375	0.316	0.094	-0.294	-0.508	-0.312	0.622	-0.509	-0.268	-0.522	0.044	-0.387
CAD	0.374	0.289	-0.068	-0.359	-0.437	-0.559	0.283	-0.525	-0.103	-0.341	-0.02	-0.274
CNH	0.337	0.558	0.848	-0.295	-0.267	-0.04	0.459	-0.246	0.355	0.356	1	-0.289
CCN12M	0.282	0.319	0.591	-0.173	-0.104	0.137	0.383	-0.082	0.225	0.246	0.751	-0.251
IDR	0.242	0.679	0.154	-0.525	-0.658	-0.687	0.341	-0.707	0.132	-0.043	0.205	-0.136
CNY	0.234	0.4	1	-0.208	-0.35	-0.103	0.239	-0.161	0.067	0.129	0.848	-0.223
USGG10	0.066	1	0.4	-0.635	-0.645	-0.681	0.393	-0.754	0.336	0.242	0.558	0.014
INR	-0.429	0.192	0.316	-0.033	0.117	0.133	-0.264	0.173	0.684	0.802	0.485	0.454
GBP	-0.614	-0.084	-0.225	-0.02	0.184	-0.058	-0.683	0.174	0.073	0.187	-0.421	0.53
EUR	-0.973	0.014	-0.223	-0.262	0.047	-0.233	-0.695	0.013	0.599	0.75	-0.289	1

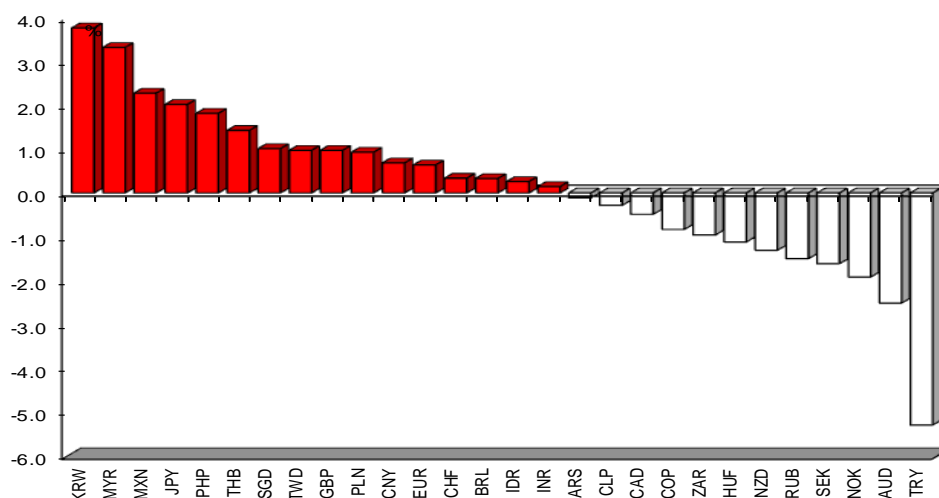
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1762	1.1800	1.1821	1.1850	1.1875
GBP-USD	1.3253	1.3300	1.3323	1.3328	1.3338
AUD-USD	0.7544	0.7600	0.7609	0.7692	0.7700
NZD-USD	0.6793	0.6800	0.6873	0.6900	0.6968
USD-CAD	1.2646	1.2700	1.2708	1.2800	1.2877
USD-JPY	111.00	111.07	111.21	111.46	111.70
USD-SGD	1.3400	1.3462	1.3476	1.3489	1.3500
EUR-SGD	1.5768	1.5900	1.5931	1.5957	1.6000
JPY-SGD	1.2100	1.2109	1.2118	1.2130	1.2200
GBP-SGD	1.7767	1.7900	1.7955	1.7983	1.8000
AUD-SGD	1.0200	1.0215	1.0255	1.0300	1.0530
Gold	1270.20	1286.41	1289.70	1293.97	1300.00
Silver	17.00	17.02	17.07	17.10	17.23
Crude	53.89	57.90	57.95	58.00	58.25

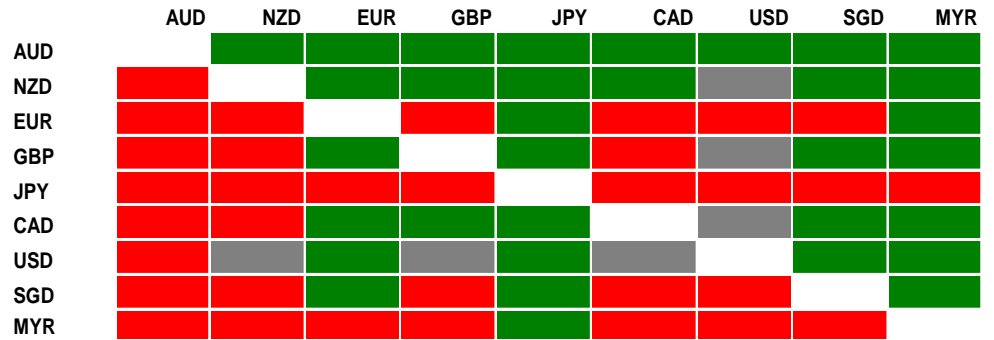
Source: OCBC Bank

FX performance: 1-month change agst USD



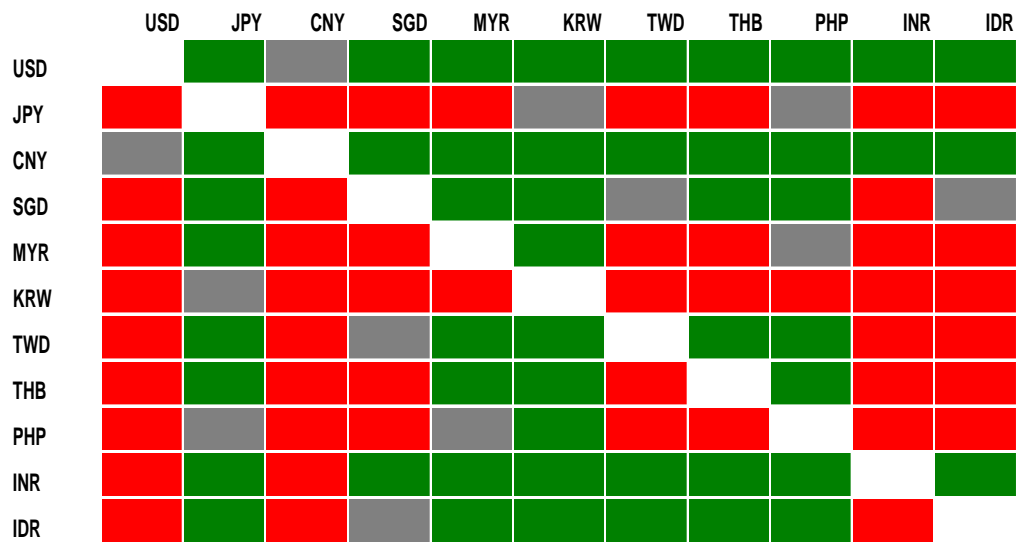
Source: Bloomberg

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	28-Sep-17	B	USD-CAD	1.2500	1.3095	1.2640	Reality check from the BOC's Poloz even as the USD garners renewed interest	
2	07-Nov-17	S	AUD-USD	0.7671	0.7510	0.7755	RBA on hold, no inflation or rate hike urgency	
3	07-Nov-17	S	GBP-USD	1.3142	1.2835	1.3300	Potential negative headline shock from upcoming BOE appearances post the dovish rate hike	
4	20-Nov-17	S	USD-JPY	112.07	109.80	113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	
5	21-Nov-17	S	USD-SGD	1.3561	1.3415	1.3640	Little contagion in geopolitical risks, sanguine portfolio inflow environment, expected USD	
STRUCTURAL								
6	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
7	07-Nov-17		Bullish 2M 1X2 USD-JPY Call Spread Spot ref: 114.15; Strikes: 113.78, 118.31; Exp: 04/01/18; Cost: 0.90%			Rate differential complex supportive of the USD, BOJ static		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	29-Aug-17	27-Oct-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	-0.31**
2	28-Sep-17	02-Nov-17	S	AUD-USD	0.7816	0.7720	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	+1.20
3	21-Sep-17	15-Nov-17	B	USD-JPY	112.58	113.13	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	+0.73
4	24-Oct-17	15-Nov-17	B	USD-SGD	1.3616	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in	-0.54
5	24-Oct-17	17-Nov-17	S	EUR-USD	1.1763	1.1812	Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow	-0.27
Jan-Nov*** 2017 Return							-12.25	
2016 Return							+6.91	
* realized **of notional ***month-to-date								

Source: OCBC Bank

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