

Thursday, August 24, 2017

FX Themes/Strategy/Trading Ideas

- Softer UST yields (bull flattened presumably on a haven bid) undermined the USD on Wednesday with the August US manufacturing PMI and July new home sales also on the wrong side of expectations.
- With Trump's shutdown threat (with respect to the US government) and NAFTA threat hitting the news, risk appetite levels also slipped. EZ/US equities were slightly negative as the cyclicals (AUD, NZD, CAD) underperformed across the board while JPY edged higher across G10 space, including against the USD.
- On the EUR front, rhetoric from the ECB's Hansson and Weidmann on Tuesday indicated comfort with the EUR's recent moves on the back of improving fundamentals while Draghi did not address the issue of the EUR at his appearance yesterday. This, together with better than expected EZ August manufacturing/composite PMIs, pushed the EUR-USD back above the 1.1800 handle.
- Today, the calendar for central bank-speak is vacant and all eyes may continue to turn to Yellen's and Draghi's address tomorrow at Jackson Hole. Intra-day, lingering USD vulnerability may persist primarily against the EUR and the JPY while price action for the cyclicals may continue to be dependent on risk appetite fluctuations.
- Structurally, US-centric USD negativity (this time from Trump) once again has pressured broader global risk appetite levels and underpinned the USD instead (especially against the cyclicals and selected EM/Asians).

Asian FX

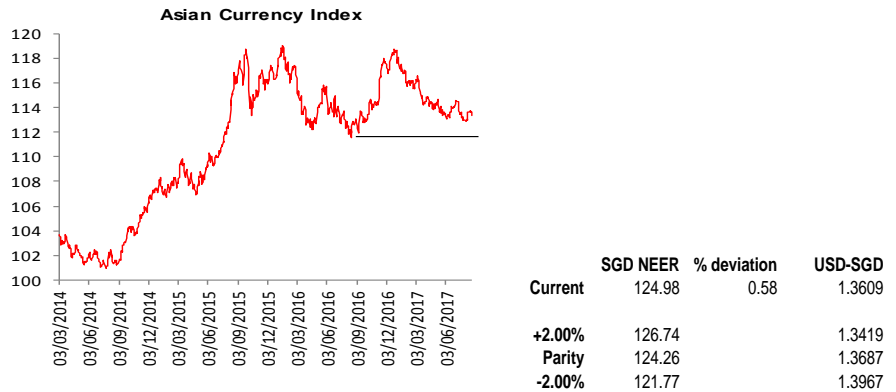
- On the Asian net portfolio inflow front, the KRW and the TWD (and even the IDR) may remain relatively more vulnerable on near term outflow pressures, while the INR is still being subject to near term moderation of inflows. Elsewhere, we detect a stabilization of net inflows for the PHP and the TWD. Near term, inherent USD shakiness may however be masked by potential risk appetite jitters in Asia, keeping the regional pairs trapped in recent ranges.
- On the risk appetite front, note that the **FXSI (FX Sentiment Index)** retracted higher (moderating risk appetite) within Risk-neutral territory on Wednesday. Meanwhile, the ACI (Asian Currency Index) may attempt to inch lower if USD vulnerability continues to permeate the market of if risk appetite levels

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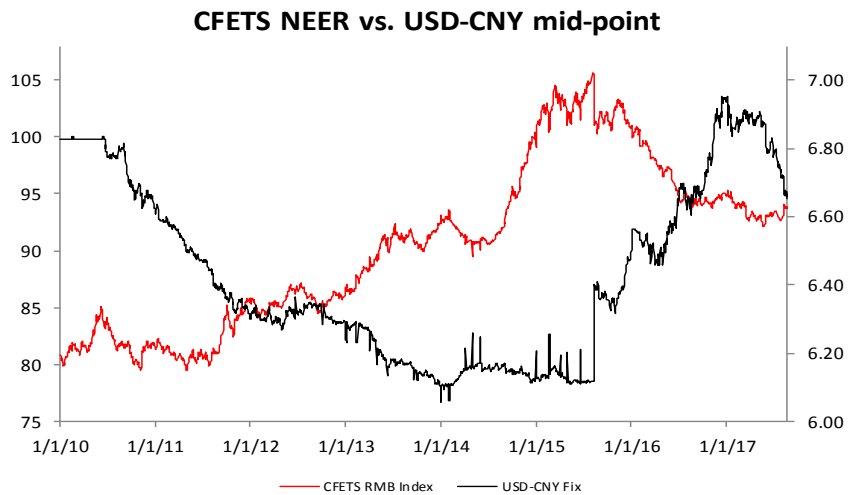
stabilize.

- SGD NEER:** The SGD NEER is firmer on the day at around +0.58% above its perceived parity (1.3687) with NEER-implied USD-SGD thresholds softer on the day following overnight USD developments. Expect the NEER to be bounded intra-day buy +0.40% (1.3633) and +0.70% (1.3592) as USD-Asia remains buffeted by cross-currents.



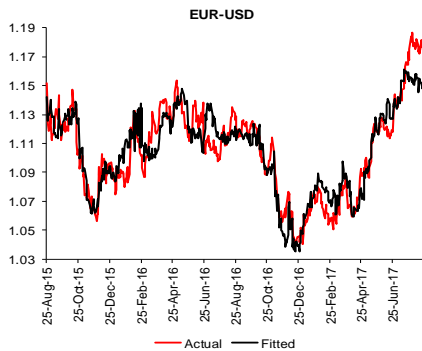
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (largely as expected) to 6.6525 from 6.6633 on Wednesday. This still saw the CFETS RMB Index weakening to 93.73 from 93.79 yesterday.



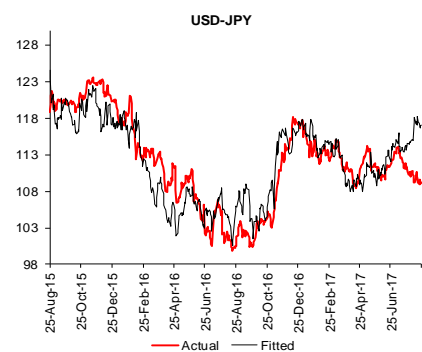
Source: OCBC Bank, Bloomberg

G7



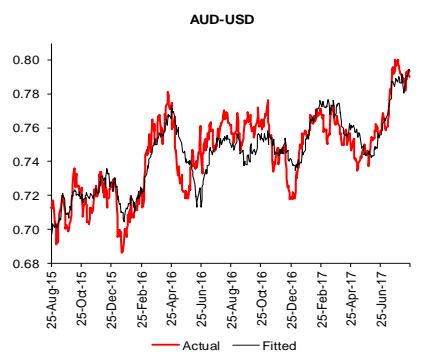
Source: OCBC Bank

- EUR-USD** EUR-USD may loiter near the upper reaches of its recent range with little jawboning from the ECB yesterday. Short term implied valuations remain slightly range bound (if a little top heavy multi-session) ahead of Draghi tomorrow. Expect a 1.1735-1.1865 corridor for the EUR-USD to prevail in the interim, with perhaps more directionality to be had from a heavy EUR-JPY.



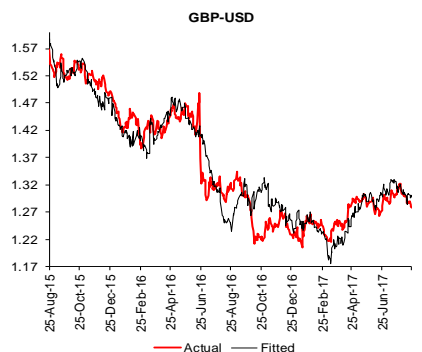
Source: OCBC Bank

- USD-JPY** A soft USD-JPY may remain the most efficient avenue to express USD vulnerability and potential for risk aversion in the near term, with 109.00 continuing to look porous. Additionally, note that short term implied valuations have continued to edge away from recent highs and 108.60 may continue to tempt.



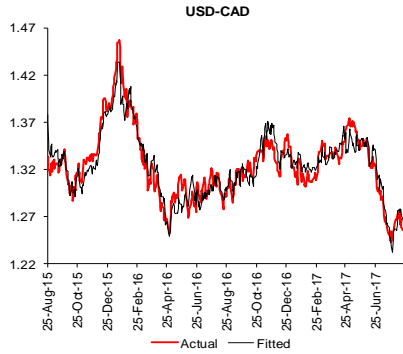
Source: OCBC Bank

- AUD-USD** With market attention likely focused on G3 into the end of the week, the AUD-USD will have to look toward risk appetite gyrations for inspiration instead. To this end, we'd retain a preference to fade upticks away from a 0.7900 central tendency in the AUD-USD in the interim despite still underpinned short term implied valuations. Elsewhere, NZD-USD tested lower after the NZ Treasury downgraded its growth forecasts and going ahead, expect markets to stay bid on the AUD-NZD with 1.1000 within reach.



Source: OCBC Bank

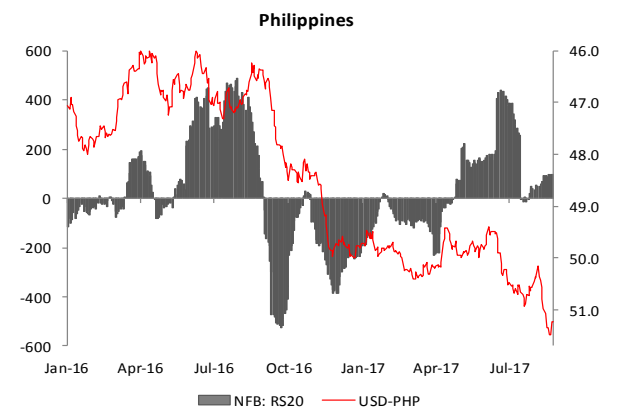
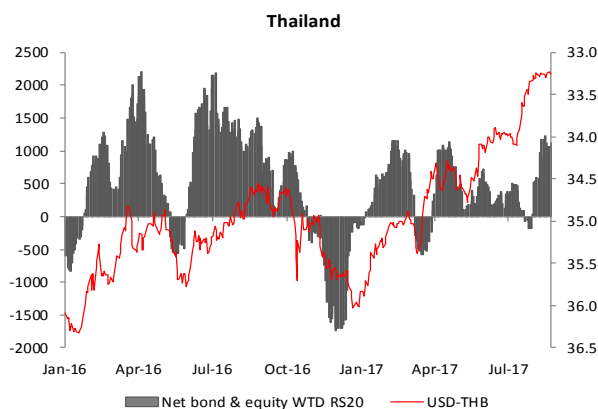
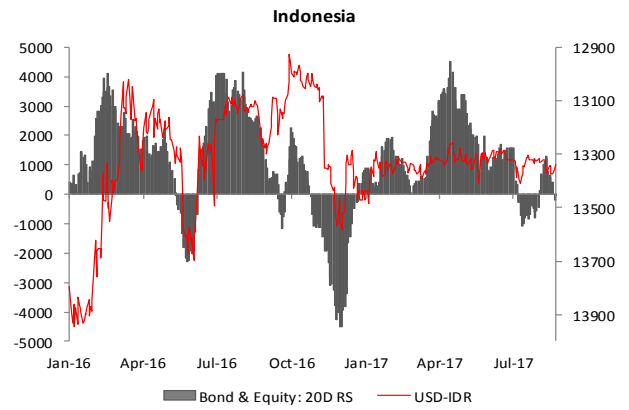
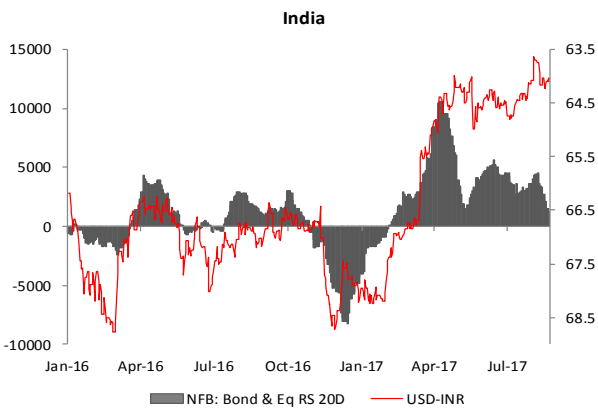
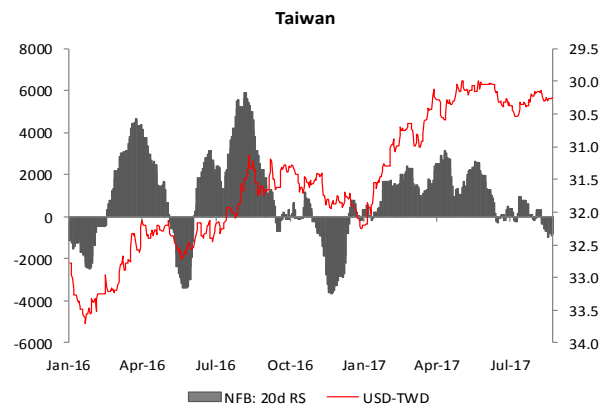
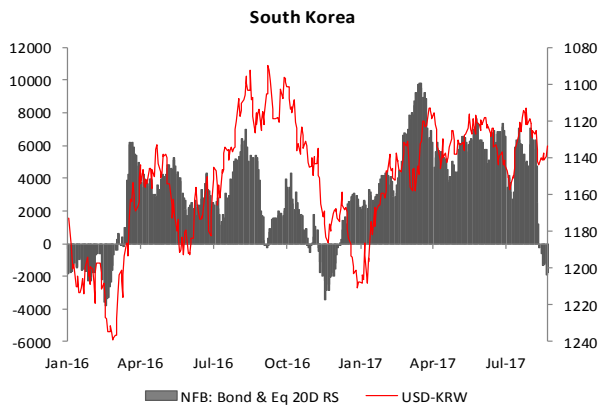
- GBP-USD** The drag from prevailing Brexit-related negativity may continue to buoy the EUR-GBP, especially with the latest breach of 0.9200. Meanwhile, with short term implied valuations also softening, cable is in danger of staging a sustained breach of 1.2800 with the 200-day MA (1.2652) looming.

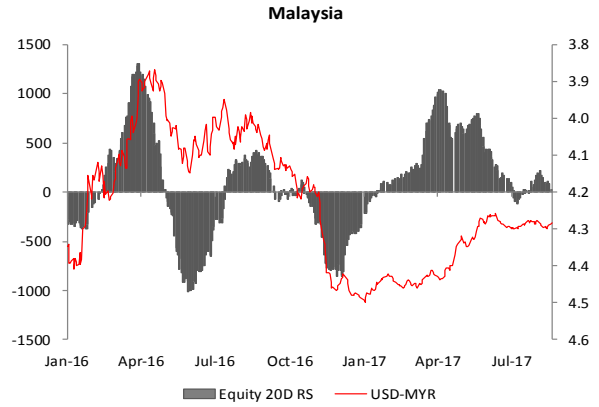


- USD-CAD** Despite slightly shaky investor sentiment and mixed USD signals, USD-CAD managed to ride lower on the back of firmer crude on Wednesday. Slightly heavier short term implied valuations may not exert discernible influence in the near term, especially if NAFTA concerns linger. Expect range bound price action within 1.2500-1.2600 in the interim.

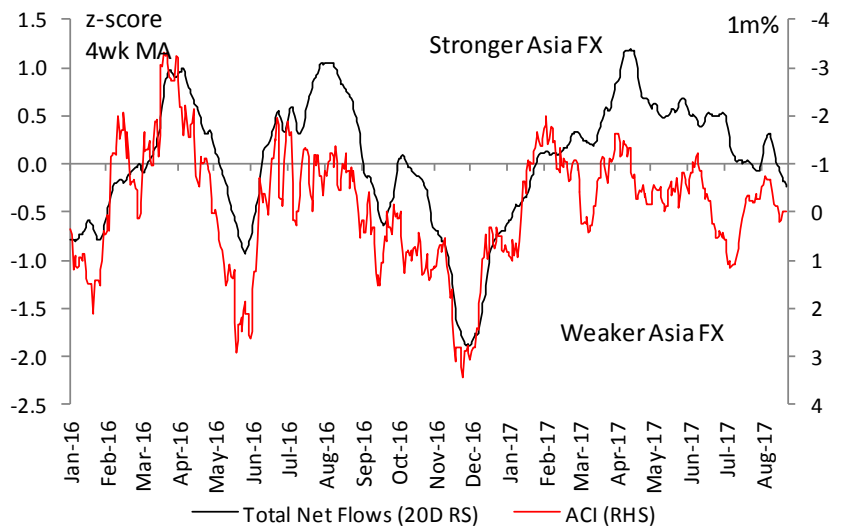
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

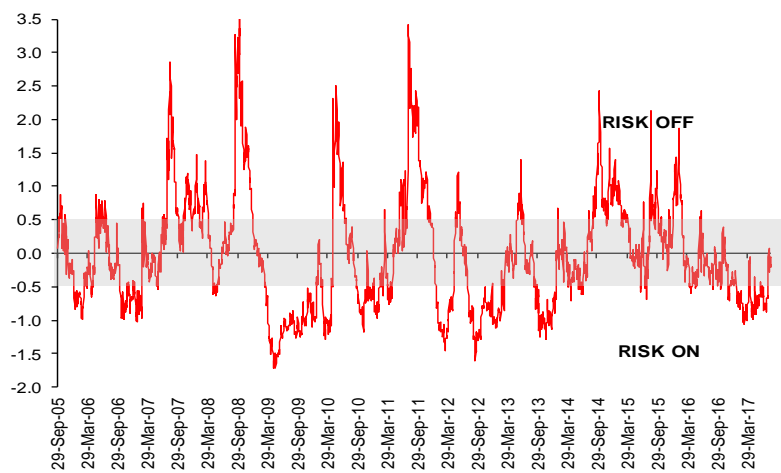




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.378	0.148	0.125	0.031	-0.373	0.461	-0.375	-0.075	-0.065	0.171	-0.937
SGD	0.557	-0.334	-0.571	-0.379	-0.131	-0.631	-0.225	-0.6	0.517	0.466	-0.472	-0.378
JPY	0.461	0.947	0.901	0.827	0.33	0.38	1	0.299	-0.784	-0.814	0.914	-0.498
USGG10	0.378	1	0.868	0.8	0.281	0.508	0.947	0.426	-0.769	-0.786	0.889	-0.451
THB	0.364	0.454	0.585	0.396	0.104	-0.044	0.545	-0.074	-0.49	-0.308	0.43	-0.44
TWD	0.297	-0.197	-0.183	-0.431	-0.65	-0.668	-0.12	-0.638	0.383	0.535	-0.265	-0.362
PHP	0.255	-0.587	-0.687	-0.74	-0.472	-0.857	-0.558	-0.791	0.645	0.849	-0.757	-0.213
INR	0.238	0.057	-0.017	-0.305	-0.489	-0.461	-0.003	-0.446	0.173	0.372	-0.096	-0.413
CAD	0.223	-0.333	-0.592	-0.218	-0.18	-0.276	-0.28	-0.267	0.527	0.338	-0.411	-0.003
CNH	0.171	0.889	0.979	0.799	0.342	0.596	0.914	0.509	-0.798	-0.907	1	-0.262
CNY	0.148	0.868	1	0.775	0.355	0.542	0.901	0.47	-0.817	-0.889	0.979	-0.242
MYR	0.112	-0.428	-0.564	-0.411	-0.517	-0.55	-0.387	-0.572	0.657	0.558	-0.55	-0.015
CCN12M	0.084	-0.563	-0.534	-0.432	-0.299	-0.677	-0.42	-0.642	0.509	0.471	-0.492	0.102
IDR	0.006	-0.611	-0.635	-0.622	-0.606	-0.798	-0.55	-0.73	0.594	0.799	-0.706	0.067
NZD	-0.128	0.738	0.869	0.607	0.264	0.697	0.677	0.612	-0.67	-0.779	0.862	-0.046
KRW	-0.151	-0.809	-0.887	-0.718	-0.521	-0.597	-0.782	-0.528	0.817	0.827	-0.803	0.265
CHF	-0.232	-0.072	-0.132	0.2	0.243	0.228	-0.107	0.218	-0.101	-0.167	-0.066	0.38
AUD	-0.318	0.453	0.695	0.351	0.332	0.536	0.397	0.506	-0.554	-0.557	0.603	0.121
GBP	-0.344	0.651	0.713	0.644	0.231	0.828	0.576	0.718	-0.552	-0.746	0.785	0.217
EUR	-0.937	-0.451	-0.242	-0.084	-0.002	0.291	-0.498	0.307	0.08	0.099	-0.262	1

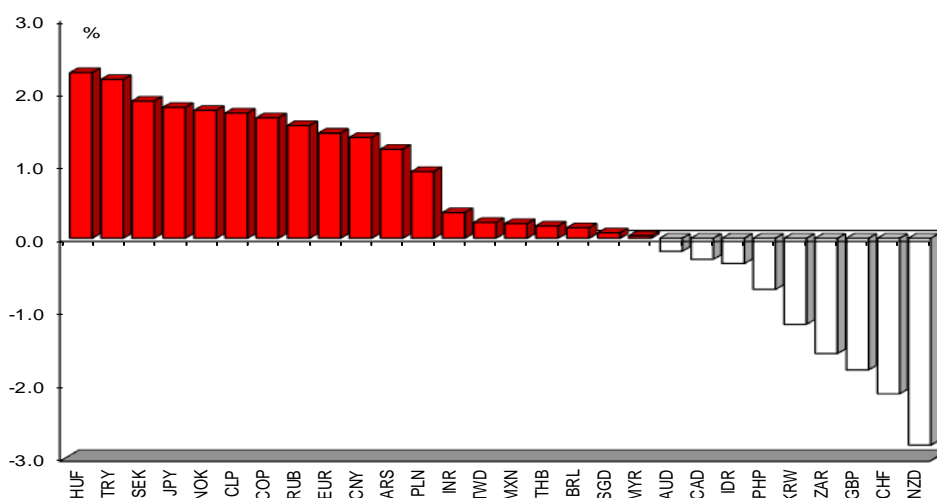
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1707	1.1800	1.1808	1.1864	1.1900
GBP-USD	1.2713	1.2780	1.2791	1.2800	1.2938
AUD-USD	0.7828	0.7900	0.7902	0.7950	0.8000
NZD-USD	0.7198	0.7200	0.7225	0.7300	0.7324
USD-CAD	1.2441	1.2500	1.2550	1.2600	1.2630
USD-JPY	108.65	109.00	109.17	110.00	111.14
USD-SGD	1.3545	1.3600	1.3609	1.3668	1.3670
EUR-SGD	1.5954	1.6000	1.6070	1.6100	1.6118
JPY-SGD	1.2400	1.2446	1.2466	1.2500	1.2544
GBP-SGD	1.7400	1.7406	1.7408	1.7500	1.7707
AUD-SGD	1.0686	1.0700	1.0754	1.0800	1.0848
Gold	1252.75	1253.76	1288.90	1296.87	1300.00
Silver	16.51	17.00	17.06	17.10	17.13
Crude	46.95	48.30	48.31	48.40	50.62

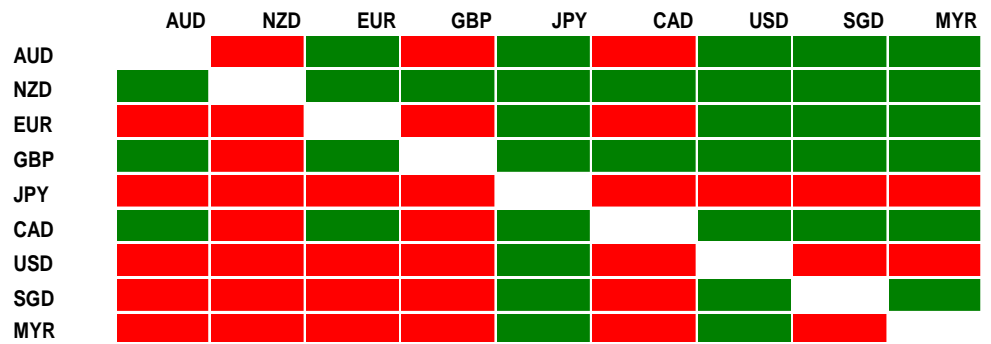
Source: OCBC Bank

FX performance: 1-month change agst USD



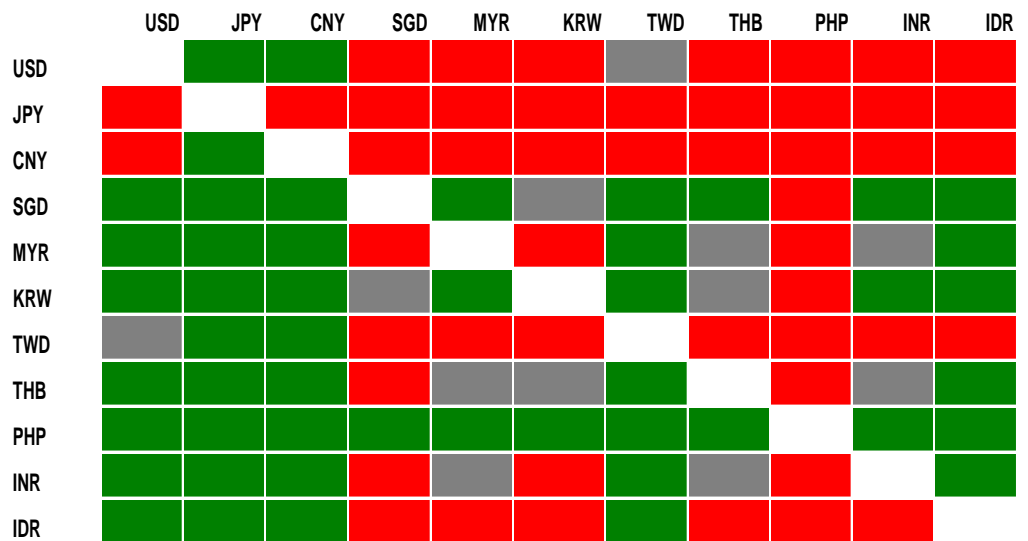
Source: Bloomberg

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		
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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