

Friday, November 24, 2017

FX Themes/Strategy/Trading Ideas

- Except against the CAD and GBP, the USD inched lower across G10 space amidst the Thanksgiving holiday. The EUR found implicit support from firmer than expected November PMI readings while the ECB meeting minutes added little additional drift despite an internal discussion to keep the asset purchase program open-ended. The CAD meanwhile underperformed its peers and the buck following disappointing September retail sales numbers.
- Going ahead, US tax bill headlines may come to the fore again next week with the Senate expected to vote on its version. In addition, look towards Powell's Senate confirmation hearing scheduled for Tuesday (with catchphrases like the "Powell hold" circulating of late). In the interim, broad dollar vulnerability may be expected to remain in play amid prevailing market suspicions surrounding Fed rate hike prospects for 2018 after the mid-week FOMC minutes.
- For today, ECB rhetoric may be expected from Nouy (1030 GMT), Constancio (1230 GMT), and Coeure (1815 GMT), while the German November Ifo is due to be released at 0900 GMT. No Fed speak is penciled in for today, although the US PMIs (1445 GMT) may provide a minor distraction into the end of the week.
- With broad USD weakness getting endemic, our 07 Nov 17 idea to be tactically short **GBP-USD** (spot ref: 1.2927) was stopped out on Wednesday at 1.3300 for an implied -1.14% loss.

Asian FX

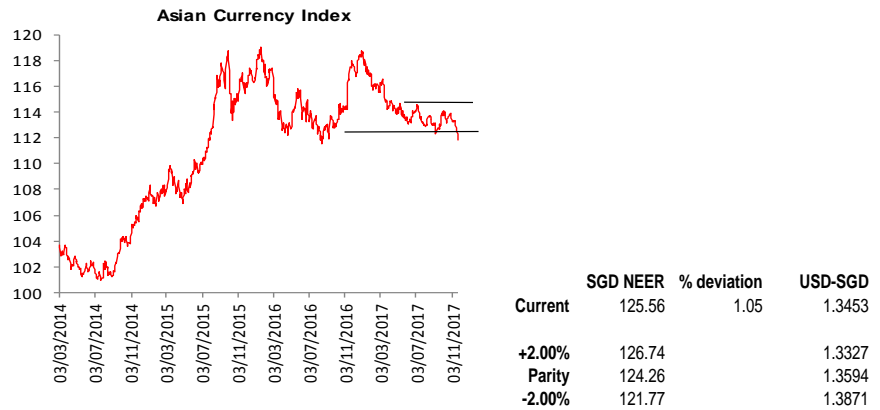
- EM FX ended mixed to firmer against the greenback on Thursday despite EM equities moderating (note the discernible drop Chinese stocks). On the risk appetite front, the **FXSI (FX Sentiment Index)** corrected higher slightly on Thursday but remained in Risk-On territory. Overall, expect the **ACI (Asian Currency Index)** to remain top heavy into the end of the week.
- On the Asian net portfolio inflow front, the KRW continues to experience a moderation of net inflow momentum but the TWD is still experiencing an encouraging compression of net outflows on a 1M rolling basis. Expect implicit positive support for the INR to persist (despite some moderation of recent strong net inflows) while net inflow momentum for the IDR continues to improve. As note previously, the net inflow balance has also turned positive for the THB. **Seasonality considerations aside, these numbers suggest potential scope for South Asian FX to play catch with the N**

Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

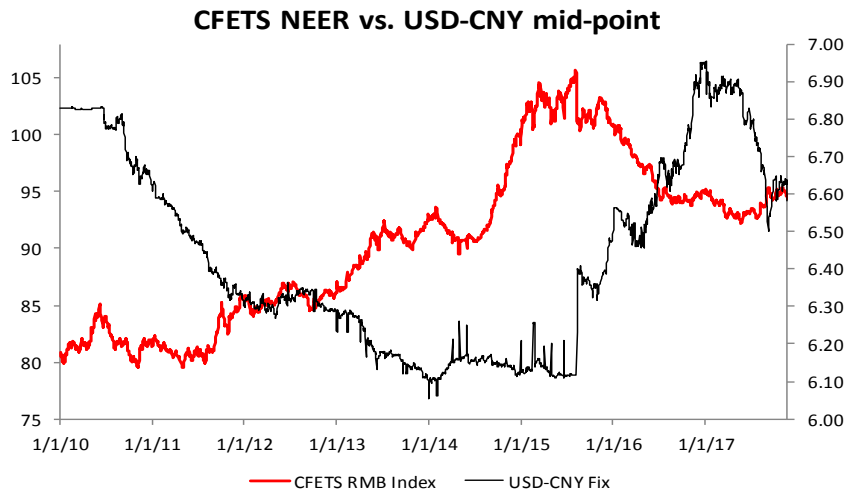
Asian currencies.

- SGD NEER:** Ahead of the October industrial production figures (0500 GMT), the SGD NEER this morning is hovering around +1.01% above its perceived parity (1.3594) with NEER-implied USD-SGD thresholds yet lower once again. Expect an interim floor towards +1.05% (1.3452) while the +0.90% threshold reside around 1.3473. Although October CPI readings released yesterday certainly do not portend near term inflationary risks, a soft USD environment may continue to see the NEER skate near its unspoken line in the sand around +1.00% in the interim.

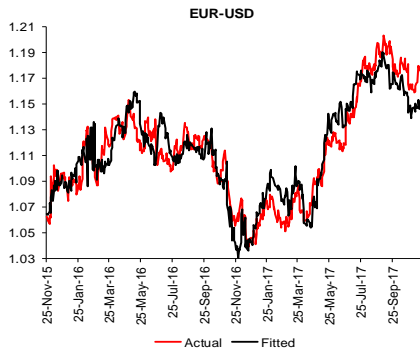


Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point fell (as largely expected) to 6.5810 from 6.6021 on Thursday, firming the CFETS RMB Index to 94.67 from 94.42. Going ahead, we'd refrain from getting too excitable about a potential collapse of the USD-CNH without a concomitant move in the majors, given that the spot CNY-CNH basis remains under wraps and as stated previously, the behavior of the CFETS RMB Index (and the USD-CNY mid-points) suggest little official discretionary intent for secular renminbi appreciation.

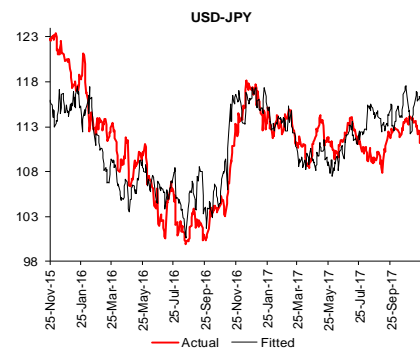


Source: OCBC Bank, Bloomberg



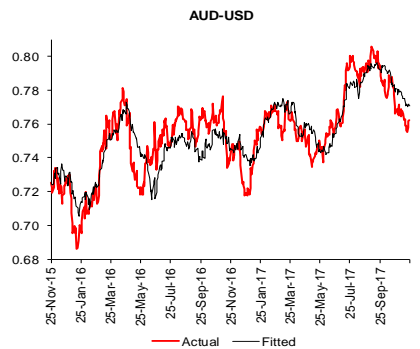
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the EUR-USD remain supportive into the end of the week. If expected ECB-speak is not unduly dovish today, expect the pair to continue to base build off 1.1800 and the 55-day MA (1.1778) with an initial cap expected into 1.1880.



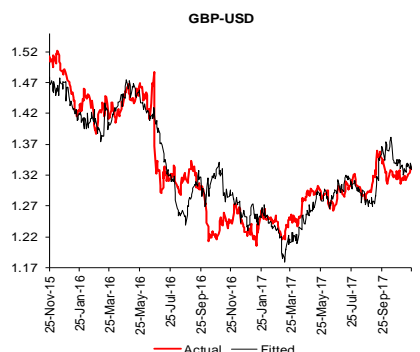
Source: OCBC Bank

- USD-JPY** Short term implied valuations for the USD-JPY are attempting to stabilize but inherent suspicion towards the broad dollar (remember that the Fed is also agonizing over sluggish inflation prospects) may keep price action heavy in the near term. Preference to fade upticks towards the 200-day MA (111.72) with 111.00 potentially still under threat.



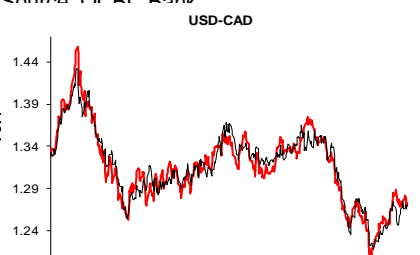
Source: OCBC Bank

- AUD-USD** Still positive risk appetite levels and dollar fragility may partially underpin the AUD-USD at this juncture. However, we continue to caution that short term implied valuations remain top heavy and expect 0.7600 to act as a short term locus in the interim.



Source: OCBC Bank

- GBP-USD** PM May's trip to Brussels today to meet with EU officials may keep the GBP-USD range bound ahead of the resultant headlines. In the interim, this may deter somewhat any significant break above 1.3300 with short term implied valuations also looking slightly consolidative.

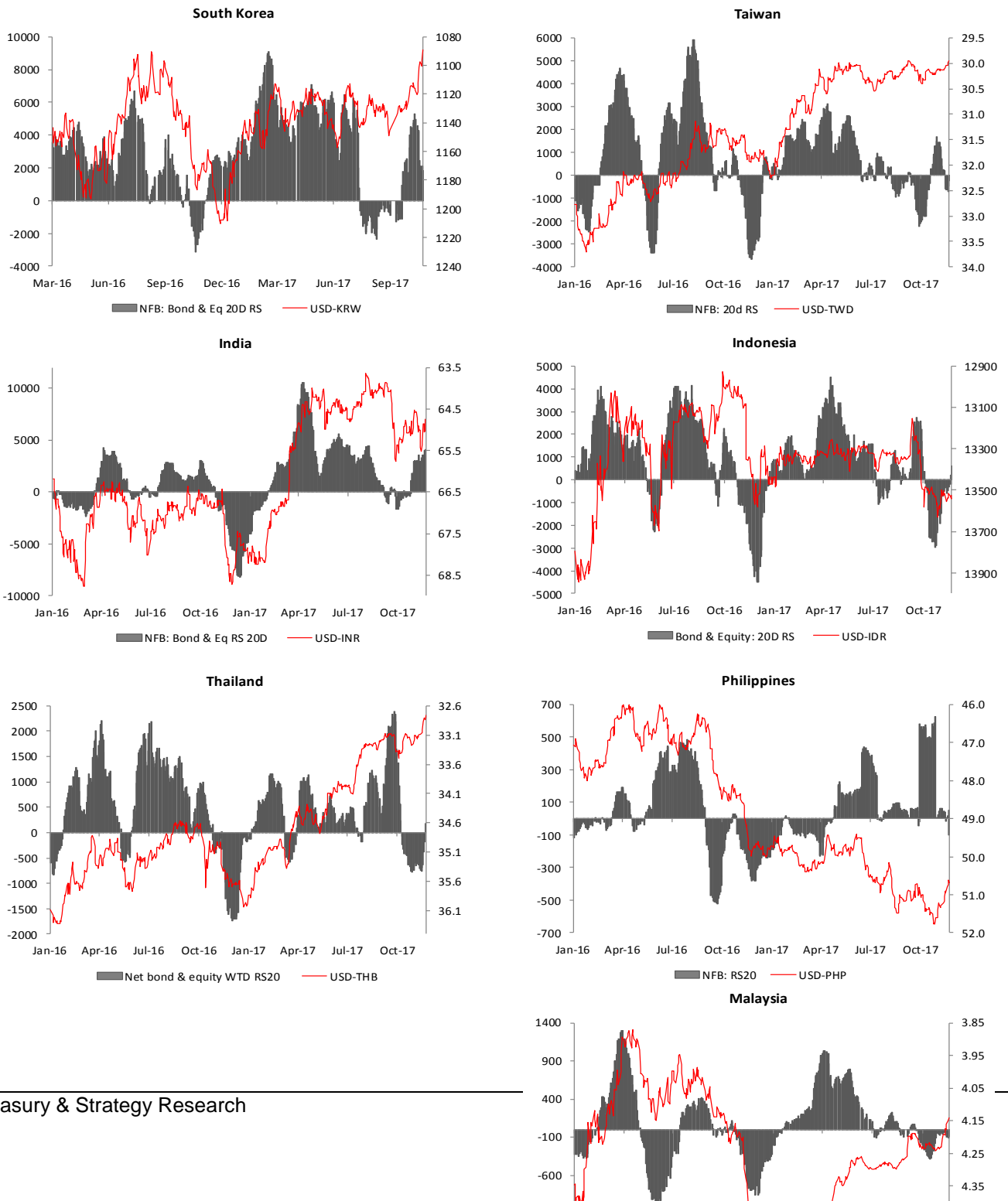


- USD-CAD** USD-CAD may remain slightly top

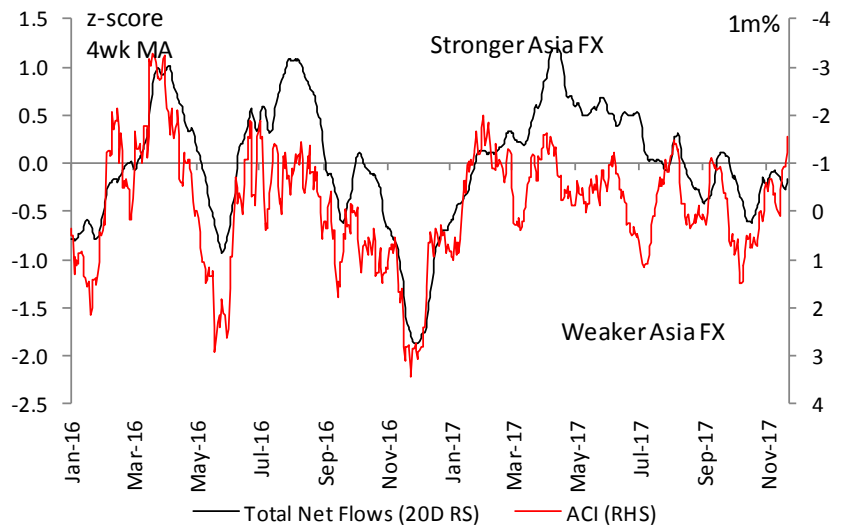
heavy (note firmer crude) despite short term implied valuations attempting to stabilize (diluted BOC rate hike expectations after last night's retail sales numbers). Into the end of the week, preference to fade any northbound departure from the 1.2700 handle.

Source: OCBC Bank

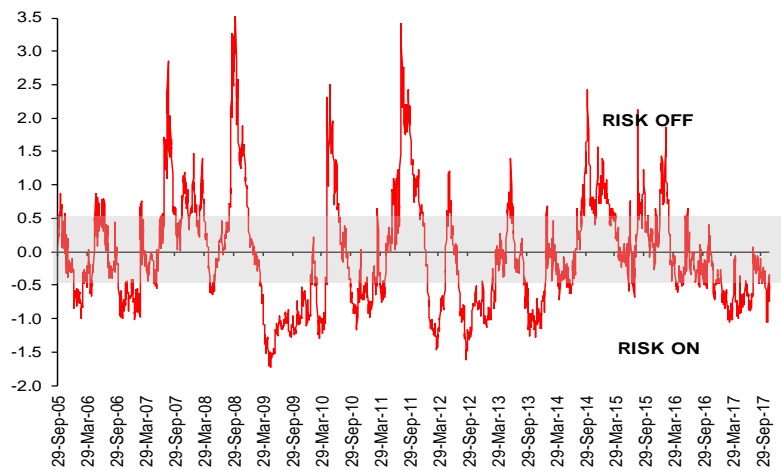
USD-Asia VS. Net Capital Flows



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	0.195	0.575	0.101	-0.367	0.032	0.881	-0.28	-0.51	-0.692	0.545	-0.979
CHF	0.963	0.262	0.525	0.072	-0.358	-0.044	0.905	-0.346	-0.439	-0.647	0.541	-0.923
JPY	0.881	0.402	0.613	-0.265	-0.552	-0.224	1	-0.529	-0.184	-0.496	0.616	-0.798
SGD	0.879	0.493	0.788	-0.344	-0.652	-0.285	0.929	-0.567	-0.157	-0.413	0.773	-0.808
MYR	0.863	0.379	0.611	-0.365	-0.699	-0.341	0.933	-0.615	-0.275	-0.613	0.534	-0.794
THB	0.79	0.434	0.668	-0.423	-0.742	-0.316	0.887	-0.62	-0.136	-0.495	0.591	-0.723
TWD	0.728	0.572	0.739	-0.544	-0.784	-0.43	0.883	-0.69	0.06	-0.265	0.701	-0.632
KRW	0.722	0.597	0.742	-0.573	-0.781	-0.437	0.86	-0.685	0.054	-0.272	0.701	-0.638
PHP	0.684	0.593	0.665	-0.585	-0.813	-0.506	0.802	-0.742	-0.065	-0.39	0.575	-0.609
CNY	0.575	0.471	1	-0.2	-0.457	-0.088	0.613	-0.353	0.06	0.05	0.934	-0.532
CNH	0.545	0.546	0.934	-0.28	-0.375	-0.005	0.616	-0.304	0.347	0.238	1	-0.497
AUD	0.534	0.2	0.136	-0.206	-0.413	-0.166	0.593	-0.37	-0.391	-0.647	0.024	-0.53
CCN12M	0.476	0.396	0.791	-0.185	-0.282	0.135	0.572	-0.161	0.231	0.152	0.843	-0.445
CAD	0.372	0.439	0.193	-0.481	-0.653	-0.766	0.389	-0.739	-0.066	-0.35	0.146	-0.289
NZD	0.35	-0.275	-0.032	0.26	0.175	0.489	0.334	0.283	-0.29	-0.365	-0.043	-0.405
IDR	0.284	0.738	0.366	-0.565	-0.755	-0.768	0.383	-0.797	0.144	-0.054	0.308	-0.196
USGG10	0.195	1	0.471	-0.61	-0.636	-0.647	0.402	-0.715	0.316	0.211	0.546	-0.115
INR	-0.221	0.238	0.431	-0.013	0.045	0.176	-0.06	0.228	0.68	0.736	0.554	0.26
GBP	-0.708	-0.085	-0.493	-0.061	0.238	-0.123	-0.706	0.127	0.095	0.21	-0.519	0.632
EUR	-0.979	-0.115	-0.532	-0.227	0.234	-0.181	-0.798	0.133	0.59	0.717	-0.497	1

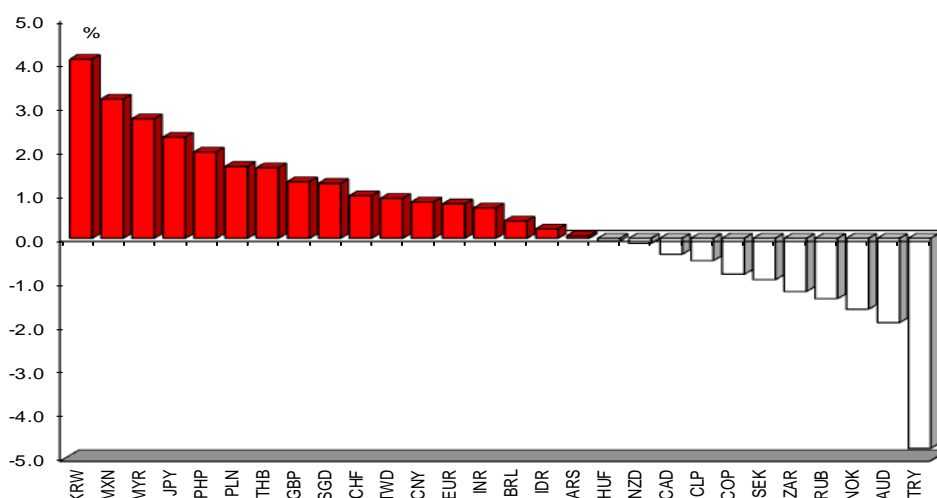
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1760	1.1800	1.1852	1.1861	1.1878
GBP-USD	1.3200	1.3247	1.3294	1.3300	#N/A
AUD-USD	0.7544	0.7600	0.7625	0.7692	0.7700
NZD-USD	0.6795	0.6800	0.6891	0.6900	0.6970
USD-CAD	1.2642	1.2700	1.2720	1.2800	1.2873
USD-JPY	111.07	111.18	111.33	111.69	112.00
USD-SGD	1.3400	1.3450	1.3456	1.3461	1.3500
EUR-SGD	1.5768	1.5900	1.5948	1.5955	1.6000
JPY-SGD	1.2000	1.2026	1.2086	1.2100	1.2114
GBP-SGD	1.7765	1.7800	1.7888	1.7900	1.7974
AUD-SGD	1.0200	1.0215	1.0260	1.0300	1.0521
Gold	1270.21	1286.45	1291.80	1294.39	1300.00
Silver	16.90	17.00	17.10	17.24	17.34
Crude	53.83	58.40	58.47	58.50	58.58

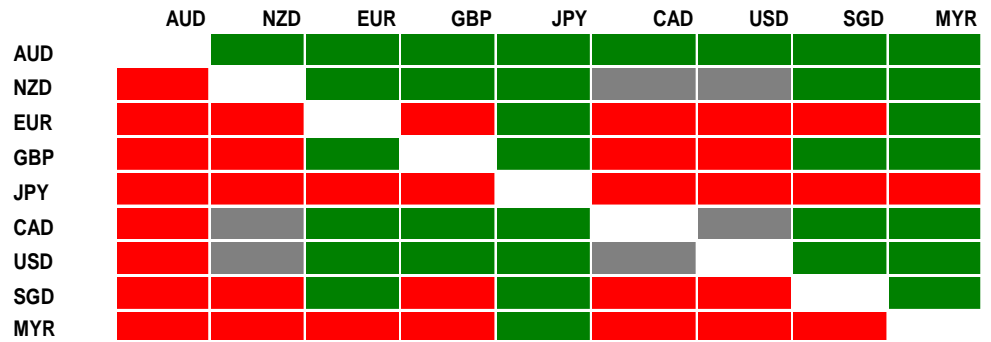
Source: OCBC Bank

FX performance: 1-month change agst USD



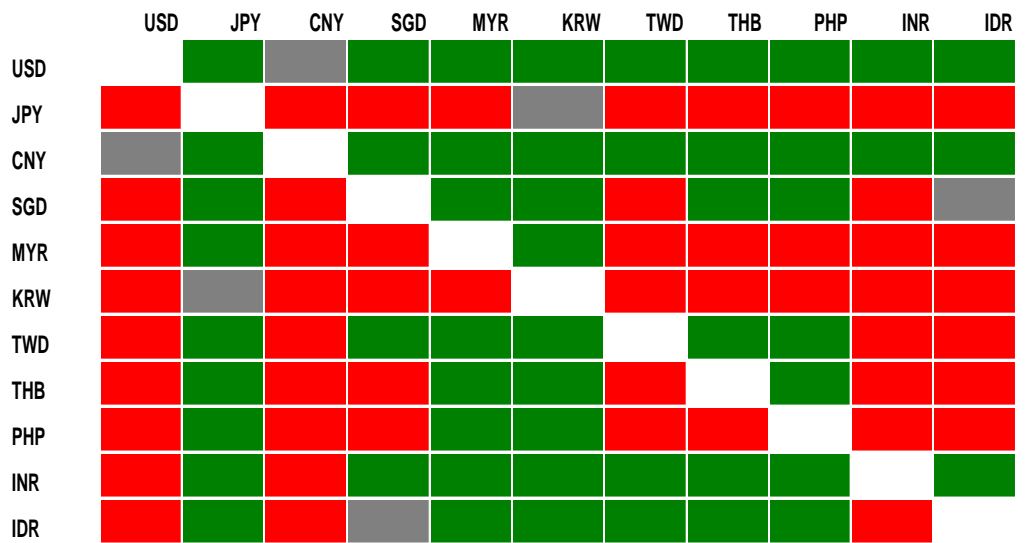
Source: Bloomberg

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 gamers 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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
