

Tuesday, October 24, 2017

FX Themes/Strategy/Trading Ideas

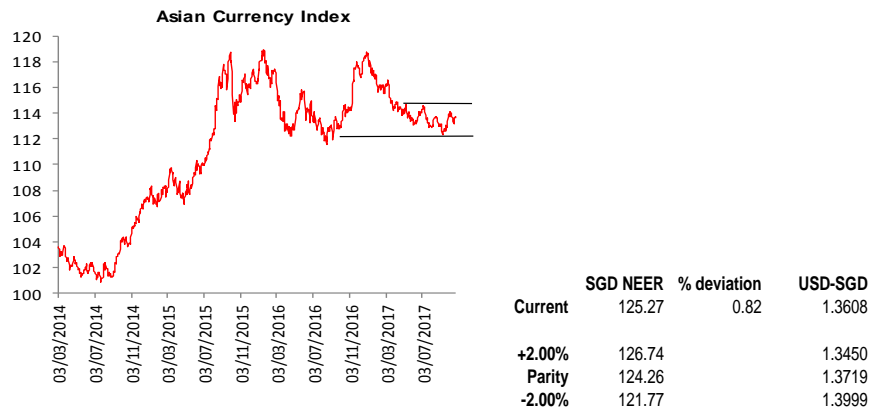
- Despite paring some intra-day gains, the greenback managed to register broad based gains across G10 space. Going ahead, although yield differential arguments may continue to provide intrinsic support for the USD, the delta of these moves have abated slightly, leaving investors on the lookout for further cues. In the interim, the DXY is still on the cusp of 94.00 although we note a softer UST curve from Monday restraining an upside break for the USD pending further headline risk.
- To this end, look towards potential drivers from US fiscal developments with an expected House vote on the budget resolution on Thursday while the Republican tax plan may be released a week after. On other fronts, latest cues indicate that President Trump is still considering Powell, Taylor, and Yellen for the post of Fed chair. With such a diverse line up, expect investors to refrain from the “Taylor put” for now.
- For the EUR, apart from the ECB, watch also for Catalonia-related headlines with the Senate in Madrid expected to vote on direct rule on Friday while the Catalan parliament will convene on Thursday. Secessionist leaders meanwhile remain defiant and the prospect of civil unrest cannot be discounted at this juncture. For today, look also to the string of October global PMIs for global macro cues.

Asian FX

- On the net portfolio inflow front in Asia, we note the strong resurgence of inflows for the KRW, and to a lesser extent, for the TWD. Elsewhere, we are still witnessing minor (and moderating) outflow pressure for the INR, with the IDR, THB and MYR still experiencing outflow pressure on 1-month rolling basis.
- Pending further cues from the end of China’s Party Congress today, the **ACI (Asian Currency Index)** may remain supported on dips with the **FXSI (FX Sentiment Index)** continuing to inch higher (i.e., moderating risk appetite) within Risk-Neutral territory on Monday.
- **SGD NEER:** The SGD NEER is slightly firmer on the day at around at around +0.81% above its perceived parity (1.3719) with NEER-implied USD-SGD thresholds a touch lower on the day. At current levels, the +1.00% threshold is estimated at 1.3583 and +1.10% at 1.3570, with the 55-day MA (1.3561) also expected to cushion on dips. In the current USD environment, risks may remain tilted towards the 100-day MA (1.3645).

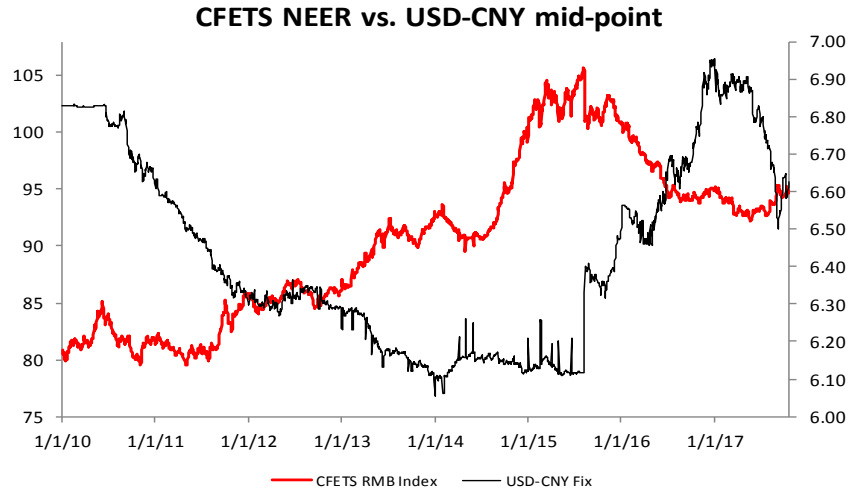
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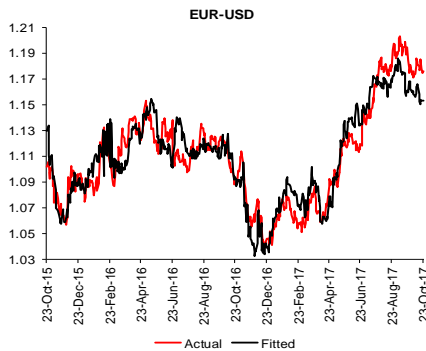
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (largely in line with expectations) to 6.6268 from 6.6205 on Monday. This resulted in the CFETS RMB Index easing slightly to 94.77 from 94.87 yesterday.



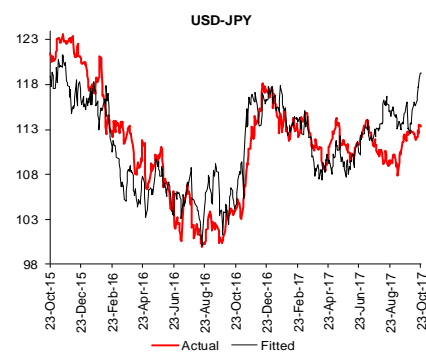
Source: OCBC Bank, Bloomberg

G7



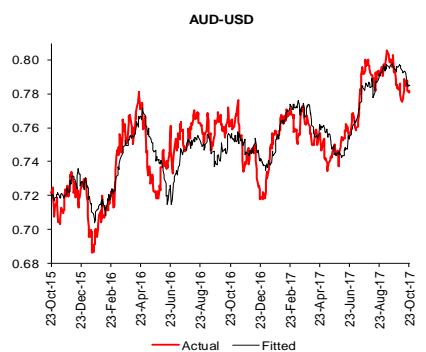
Source: OCBC Bank

- EUR-USD** Investor expectations surrounding any taper announcement from the ECB on Thursday we think are fairly benign (i.e., non-hawkish) while we note that the EUR-USD remains north of its implied confidence intervals. We retain a preference to fade upticks within the 100-day MA (1.1664) and 55-day MA (1.1841).



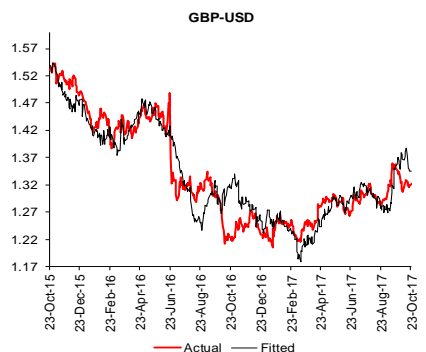
Source: OCBC Bank

- USD-JPY** Despite the Japanese election results, softening UST yields and cited cross-selling saw the USD-JPY relinquishing early Monday gains to end lower on the day. Nevertheless, short term implied valuations for the USD-JPY remain tilted to the upside and we'd expect some attempt to base build off the 113.00 neighborhood.



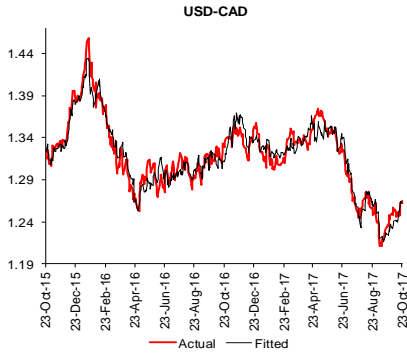
Source: OCBC Bank

- AUD-USD** With little to excite on the risk appetite front pending RBA/CPI cues, the AUD-USD may look to consolidate lower in line with its short term implied valuations. With the 100-day MA (0.7828) and 0.7850 overhead, risks for 0.7770 and 0.7750 may continue to persist in the current environment.



Source: OCBC Bank

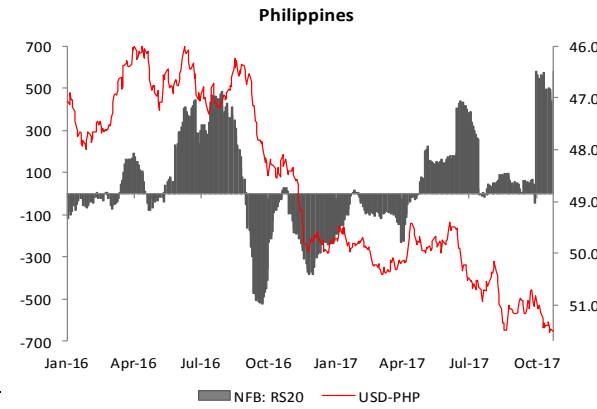
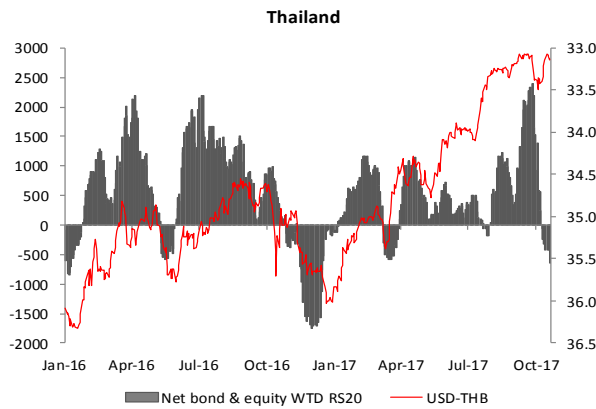
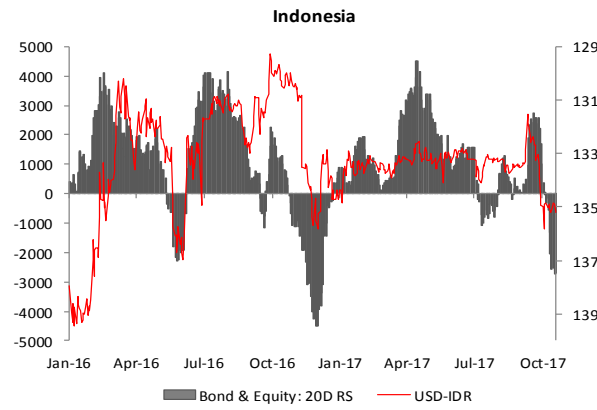
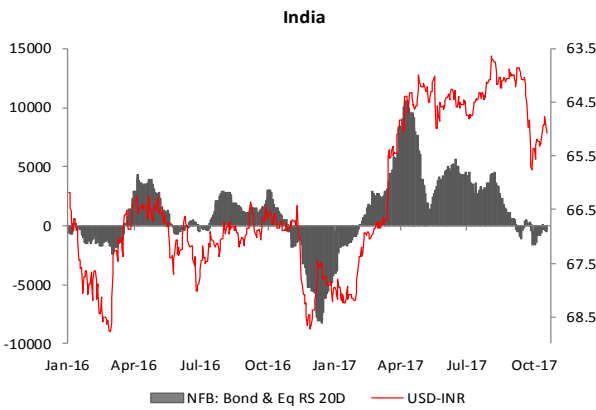
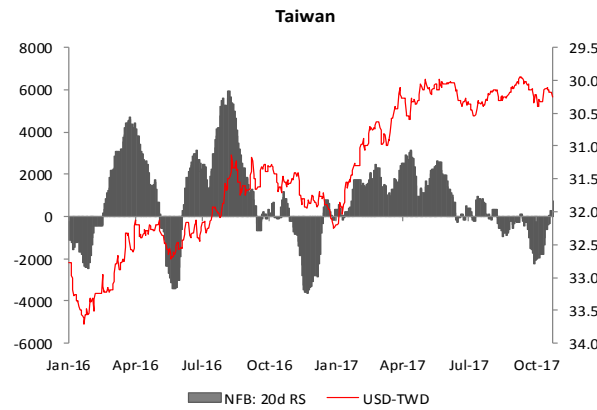
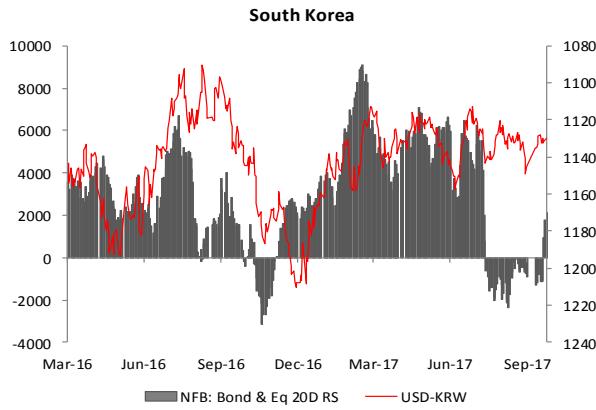
- GBP-USD** Despite PM May sounding confident about the state of Brexit negotiations on Monday, short term implied valuations remain top heavy at this juncture while the pair may remain trapped (but top heavy) within its 55-day MA (1.3154) and 1.3330.

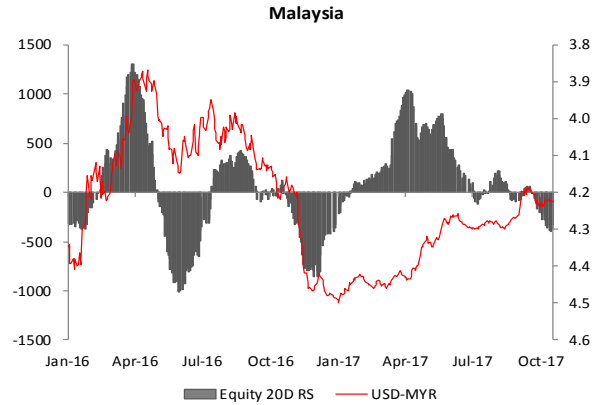


- USD-CAD** Expect the USD-CAD to be in a holding pattern ahead of the BOC policy meeting on Wednesday. Although markets are still attempting to pencil in another rate hike by the end of this year, near term prospects for the pair remain flat to firmer in the interim in line with short term implied valuations. At this juncture, the resistance levels at the 100-day MA (1.2663) and 1.2700 thereafter remain under threat amidst the current USD environment.

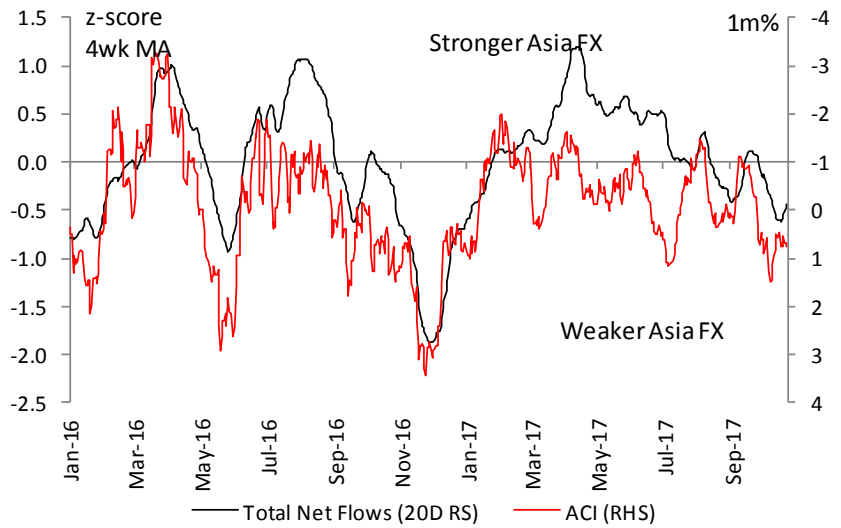
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

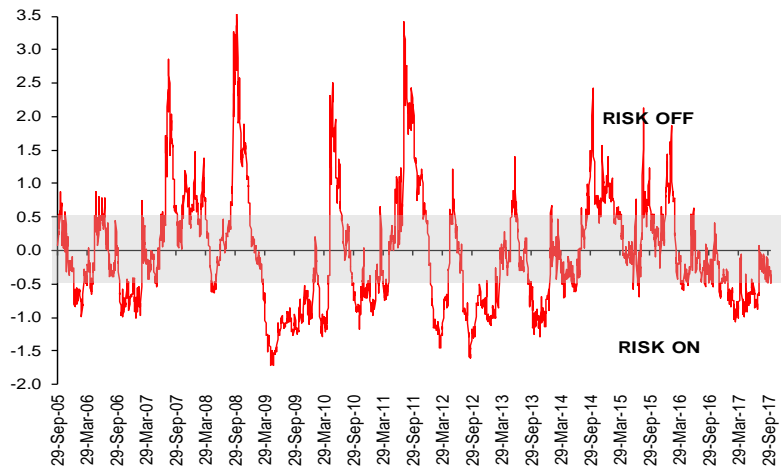




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| Security | DXY | USGG10 | CNY | SPX | MSELCA | CRY | JPY | CL1 | VIX | ITRSEX | CNH | EUR |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1 | 0.736 | 0.138 | 0.535 | 0.29 | -0.361 | 0.769 | -0.375 | 0.034 | -0.504 | 0.441 | -0.816 |
| CAD | 0.856 | 0.802 | -0.084 | 0.738 | 0.54 | -0.037 | 0.756 | -0.145 | 0.226 | -0.684 | 0.108 | -0.492 |
| SGD | 0.832 | 0.666 | 0.561 | 0.131 | -0.179 | -0.667 | 0.745 | -0.53 | -0.144 | -0.049 | 0.741 | -0.817 |
| CHF | 0.807 | 0.734 | -0.139 | 0.843 | 0.733 | 0.009 | 0.728 | -0.15 | 0.362 | -0.808 | 0.006 | -0.425 |
| MYR | 0.769 | 0.73 | 0.161 | 0.427 | 0.18 | -0.563 | 0.625 | -0.54 | -0.141 | -0.44 | 0.478 | -0.639 |
| JPY | 0.769 | 0.789 | 0.323 | 0.406 | 0.175 | -0.226 | 1 | -0.086 | 0.143 | -0.341 | 0.46 | -0.533 |
| USGG10 | 0.736 | 1 | -0.058 | 0.652 | 0.384 | -0.327 | 0.789 | -0.376 | -0.014 | -0.567 | 0.158 | -0.401 |
| IDR | 0.559 | 0.774 | -0.214 | 0.709 | 0.54 | -0.274 | 0.513 | -0.382 | -0.023 | -0.71 | 0.012 | -0.238 |
| CNH | 0.441 | 0.158 | 0.987 | -0.37 | -0.581 | -0.563 | 0.46 | -0.209 | -0.325 | 0.398 | 1 | -0.695 |
| TWD | 0.428 | 0.393 | 0.742 | -0.246 | -0.525 | -0.861 | 0.382 | -0.594 | -0.542 | 0.275 | 0.852 | -0.625 |
| THB | 0.398 | 0.33 | 0.517 | -0.243 | -0.533 | -0.875 | 0.261 | -0.668 | -0.632 | 0.273 | 0.716 | -0.616 |
| CCN12M | 0.318 | 0.204 | 0.764 | -0.121 | -0.271 | -0.366 | 0.379 | -0.079 | -0.331 | 0.125 | 0.767 | -0.448 |
| PHP | 0.296 | 0.501 | -0.562 | 0.857 | 0.896 | 0.297 | 0.301 | -0.044 | 0.422 | -0.866 | -0.569 | 0.172 |
| CNY | 0.138 | -0.058 | 1 | -0.501 | -0.588 | -0.188 | 0.323 | 0.328 | 0.093 | 0.506 | 0.987 | -0.474 |
| INR | 0.003 | 0.027 | 0.556 | -0.62 | -0.727 | -0.462 | 0.218 | -0.153 | -0.186 | 0.626 | 0.507 | -0.3 |
| KRW | -0.347 | -0.08 | 0.616 | -0.626 | -0.778 | -0.768 | -0.127 | -0.062 | -0.487 | 0.641 | 0.512 | -0.024 |
| NZD | -0.622 | -0.736 | 0.234 | -0.767 | -0.611 | -0.06 | -0.704 | 0.148 | -0.429 | 0.671 | 0.155 | 0.113 |
| AUD | -0.634 | -0.837 | 0.175 | -0.47 | -0.244 | 0.459 | -0.503 | 0.558 | -0.003 | 0.432 | -0.03 | 0.437 |
| GBP | -0.742 | -0.712 | 0.457 | -0.84 | -0.67 | 0.256 | -0.447 | 0.534 | -0.052 | 0.776 | 0.083 | 0.357 |
| EUR | -0.816 | -0.401 | -0.474 | -0.019 | 0.172 | 0.549 | -0.533 | 0.383 | 0.158 | 0.046 | -0.695 | 1 |

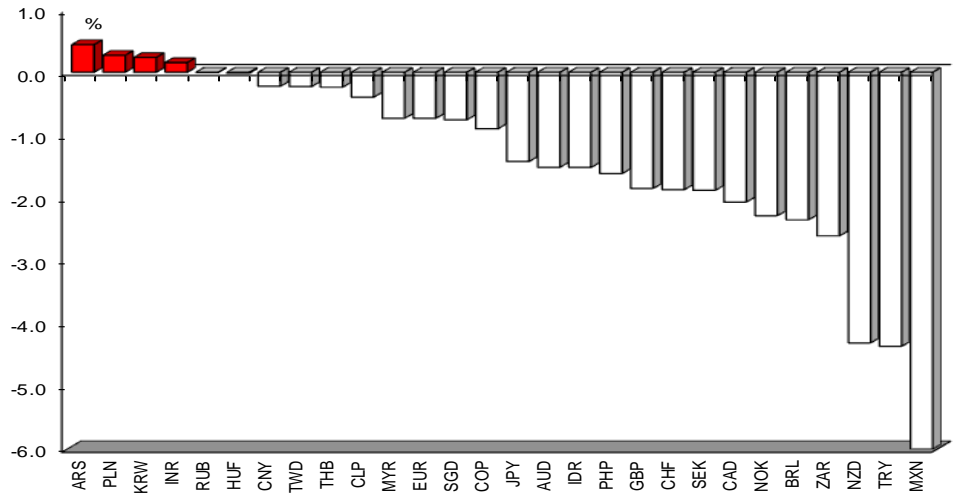
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1696 | 1.1700 | 1.1762 | 1.1800 | 1.1845 |
| GBP-USD | 1.3167 | 1.3200 | 1.3215 | 1.3300 | 1.3410 |
| AUD-USD | 0.7753 | 0.7800 | 0.7816 | 0.7893 | 0.7900 |
| NZD-USD | 0.6932 | 0.6942 | 0.6952 | 0.7000 | 0.7153 |
| USD-CAD | 1.2433 | 1.2600 | 1.2629 | 1.2631 | 1.2660 |
| USD-JPY | 111.80 | 113.00 | 113.34 | 113.50 | 114.00 |
| USD-SGD | 1.3545 | 1.3600 | 1.3605 | 1.3654 | 1.3691 |
| EUR-SGD | 1.5928 | 1.6000 | 1.6002 | 1.6046 | 1.6062 |
| JPY-SGD | 1.1988 | 1.2000 | 1.2004 | 1.2100 | 1.2116 |
| GBP-SGD | 1.7839 | 1.7900 | 1.7980 | 1.8000 | 1.8197 |
| AUD-SGD | 1.0600 | 1.0650 | 1.0634 | 1.0700 | 1.0730 |
| Gold | 1260.50 | 1264.67 | 1277.70 | 1298.79 | 1300.00 |
| Silver | 16.48 | 17.10 | 17.13 | 17.20 | 17.24 |
| Crude | 51.04 | 51.90 | 51.94 | 52.00 | 53.04 |

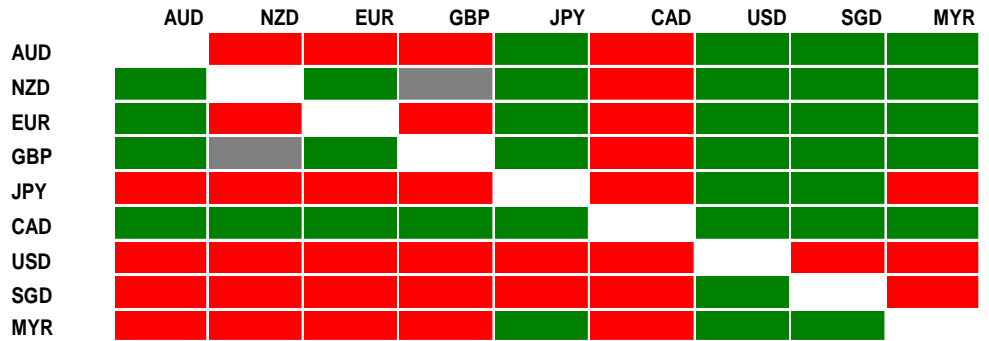
Source: OCBC Bank

FX performance: 1-month change agst USD



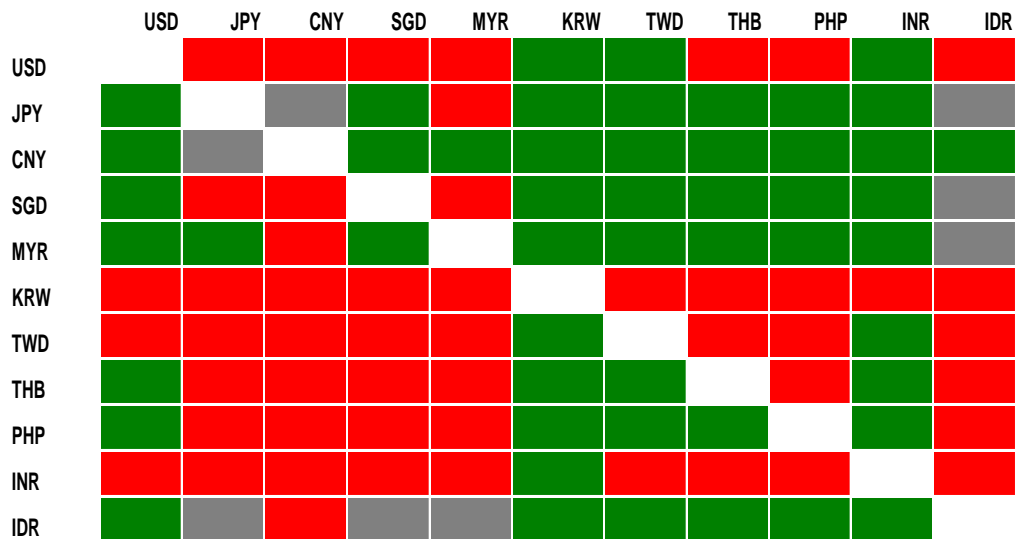
Source: Bloomberg

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 | 21-Sep-17 | B | USD-JPY | 112.58 | 115.05 | 111.30 | Policy dichotomy post FOMC-BOJ + positive risk appetite levels | |
| 2 | 28-Sep-17 | S | AUD-USD | 0.7816 | 0.7625 | 0.7915 | Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields | |
| 3 | 28-Sep-17 | B | USD-CAD | 1.2500 | 1.2795 | 1.2350 | Reality check from the BOC's Poloz even as the USD garners renewed interest | |
| STRUCTURAL | | | | | | | | |
| 4 | 09-May-17 | B | GBP-USD | 1.2927 | 1.3700 | 1.2535 | USD skepticism, UK snap elections, positioning overhang, hawkish | |
| 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 | 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 |
| 2 | 20-Jul-17 | 21-Sep-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% Closed at 0.7964 | | | More positive than expected RBA minutes, supportive data, weak USD | +0.04 |
| 3 | 19-Sep-17 | 27-Sep-17 | B | GBP-USD | 1.3540 | 1.3395 | Earlier than expected paradigm change by the BOE | -1.11 |
| 4 | 28-Sep-17 | 11-Oct-17 | S | EUR-USD | 1.1734 | 1.1860 | Political overhang from Germany contrasting with FOMC, Yellen | -0.99 |
| 5 | 09-Oct-17 | 12-Oct-17 | S | GBP-USD | 1.3116 | 1.3256 | Brexit concerns plus additional leadership threats to PM May's position | -1.05 |
| 6 | 04-Oct-17 | 12-Oct-17 | B | USD-SGD | 1.3602 | 1.3525 | Potential USD resilience- Fed, geopolitical risks, static MAS, decaying capital inflows in Asia | -0.56 |
| | | | | | | | Jan-Oct*** 2017 Return | -8.68 |
| | | | | | | | 2016 Return | +6.91 |

* realized **of notional ***month-to-date

Source: OCBC Bank

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