

Friday, August 25, 2017

FX Themes/Strategy/Trading Ideas

- Amidst a firmer UST curve (better than expected initial claims, August Kansas Fed, but July existing home sales disappointed) and despite more tweets from the White House on the debt ceiling, the greenback edged slightly higher against most of its G10 peers with the USD-JPY peaking above 109.50 (and dragging the JPY lower on the crosses).
- Ahead of Yellen (1400 GMT) and Draghi (1900 GMT) today, investors may continue to remain benched. On the Fed governor, watch for rhetoric surrounding the transiency of inflation softness, telegraphed resoluteness towards a third rate hike this year, and any effort to underscore the message that tapering will be as less disruptive as possible. The ECB president meanwhile will be watched for any discomfort towards the EUR as well as rhetoric surround balance sheet taper intentions.
- Apart from being sufficiently reserved on economic and inflation prospects (but nonetheless continue to telegraph their intentions to normalize monetary policy), we think both central bankers will be watched for any reference to currency movements impacting their respective financial conditions (including projected inflation trajectory) and whether this would impact their reaction functions.
- Beyond Friday, the conversation may revert slightly to a more US-centric nature, especially with respect to any inherent USD vulnerabilities (for e.g., lack of near term fiscal impetus, debt ceiling concerns).

Asian FX

- EM FX clocked a mixed performance against the greenback overnight while USD-Asia may start the session looking slightly supported (but still trapped in recent ranges) ahead of the headline risks during the NY session. On the net portfolio inflow front, outflow pressures on the KRW and the TWD are attempting to abate, while the IDR may once again be witnessing a renewed pickup (if nascent) in net inflows. However, inflow momentum for the INR, PHP, and MYR continues to moderate, with the situation for the THB remaining stable and supportive.
- Elsewhere, implied risk appetite levels improved and the **FXSI (FX Sentiment Index)** fell slightly within Risk-Neutral territory on Thursday but given the current market backdrop, the **ACI (Asian Currency Index)** may remain supported on dips.

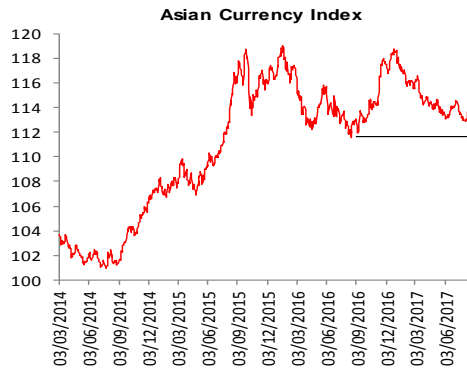
Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

ngcyemmanuel@ocbc.com

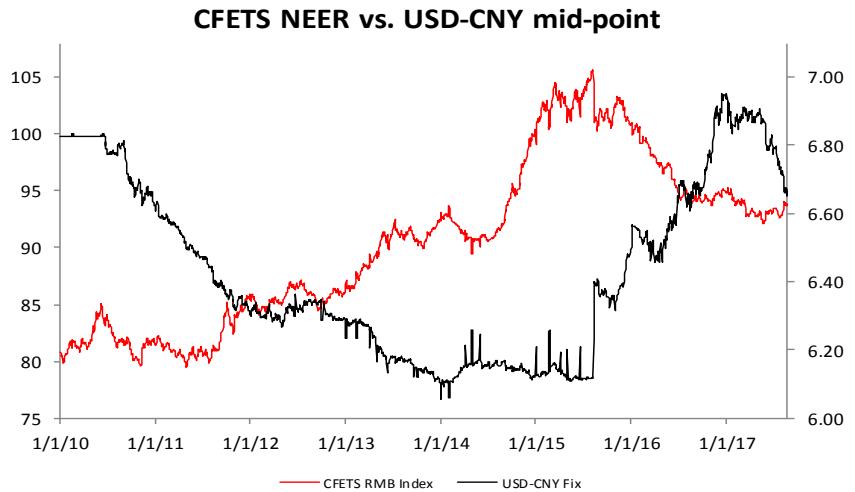
- SGD NEER:** Singapore’s July industrial production numbers are due 0500 GMT while the SGD NEER this morning is flat to marginally higher at around +0.60% above its perceived parity (1.3694). NEER-implied USD-SGD thresholds are slightly firmer on the day and +0.40% (1.3640) and +0.70% (1.3599) may continue to book-end the NEER ahead of expected headline risks later in the global session.



	SGD NEER	% deviation	USD-SGD
Current	124.98	0.58	1.3616
+2.00%	126.74		1.3426
Parity	124.26		1.3694
-2.00%	121.77		1.3974

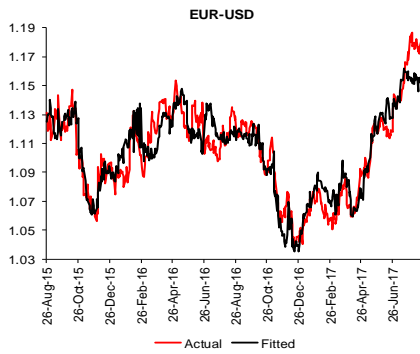
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point gained (largely as expected) to 6.6579 from 6.6525 on Thursday. Meanwhile, the CFETS RMB Index also strengthened slightly to 93.76 from 93.73 yesterday. Overall, relative Index stability we think remains a primary consideration, with the mid-points still shouldering the burden of adjustment.



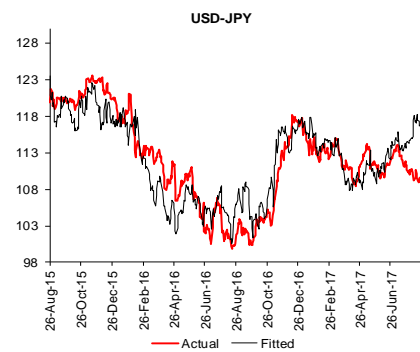
Source: OCBC Bank, Bloomberg

G7



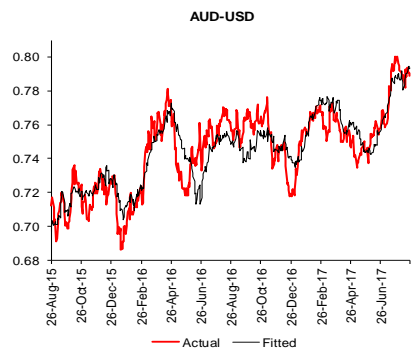
Source: OCBC Bank

- EUR-USD** Apart from Jackson hole news flow, the German August Ifo readings today are also on tap. In the interim, short term implied valuations remain off recent highs (if still top heavy) and 1.1710-1.1865 may continue to cordon the pair off ahead of Yellen/Draghi. Elsewhere, markets may also fade upticks towards 129.50 for the EUR-JPY.



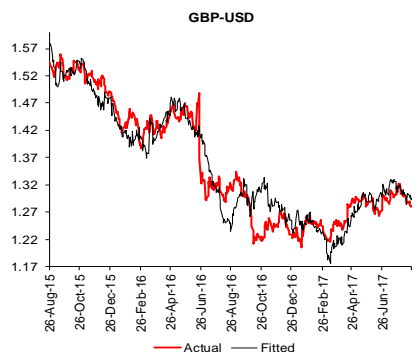
Source: OCBC Bank

- USD-JPY** US July durable goods orders are also on tap today but may not provide much distraction in view of Yellen's address. Note that the Fed's Kaplan continued to entertain prospects of a third rate hike this year but he did not exhibit any urgency on this front. Nonetheless, precautionary USD support ahead of the NY session may prevail despite slightly heavy (note as expected Japanese CPI readings this morning) short term implied valuations. Expect resistance into 110.00 pending headline risks with initial support seen at 109.30.



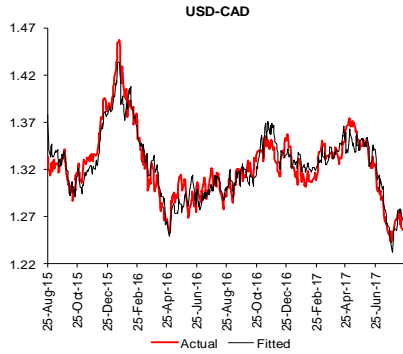
Source: OCBC Bank

- AUD-USD** The AUD remained pretty well supported across G10 space on the back of base metals. The cyclicals may remain slightly sidelined with market focus centered on the Fed and the ECB intra-day, with short term implied valuations for the AUD-USD also remaining range bound. Investor caution may linger in the interim and we'd prefer to fade upticks towards 0.7935 with 0.7850 seen offering initial support. AUD-NZD is still seen buoyant however with 1.1000 still beckoning.



Source: OCBC Bank

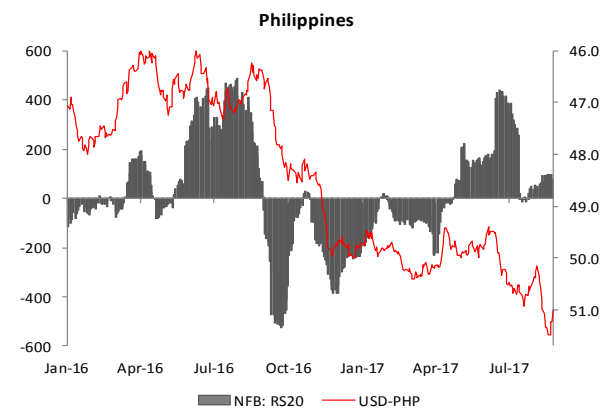
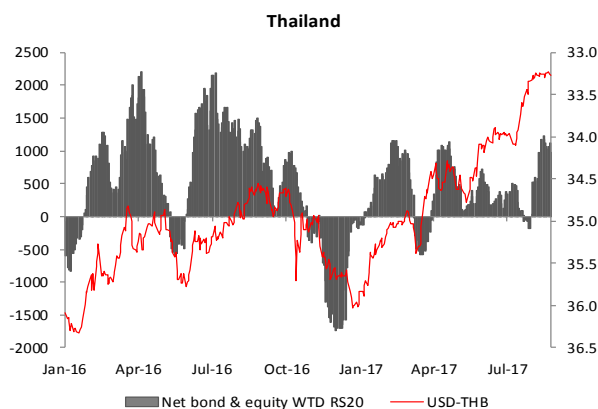
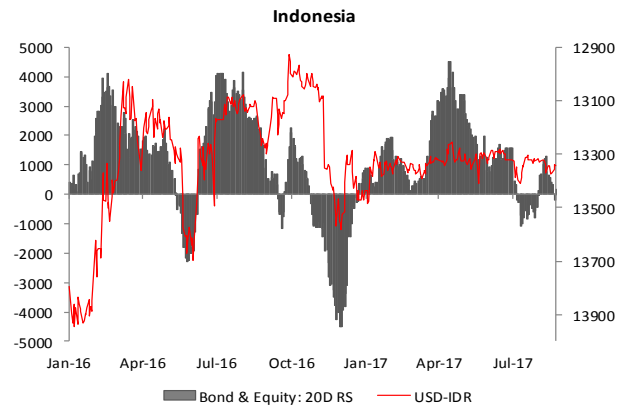
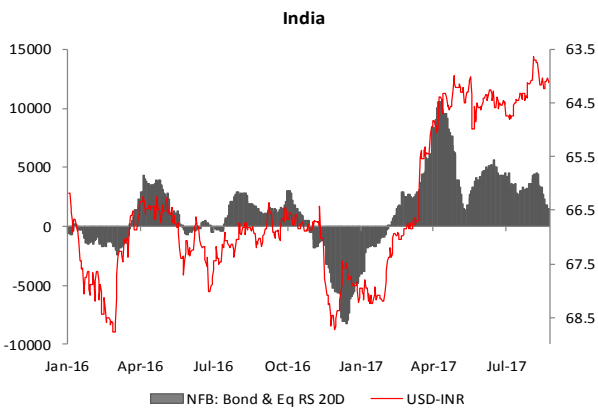
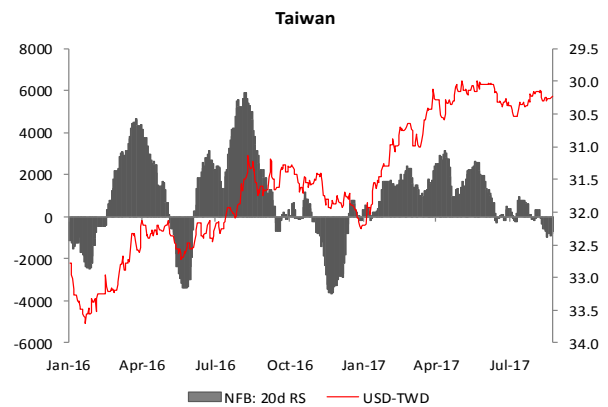
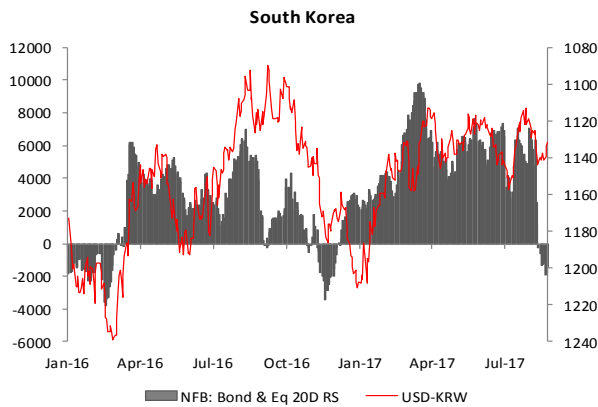
- GBP-USD** 2Q UK GDP numbers were essentially a non-mover but the GBP-USD foothold at 1.2800 may remain precarious amidst Brexit-related negativity and with the 200-day MA (1.2654) residing in close proximity. Note that short term implied valuations also remain southbound. On other fronts, EUR-GBP may attempt to base build off 0.9200 with a view towards 0.9250.

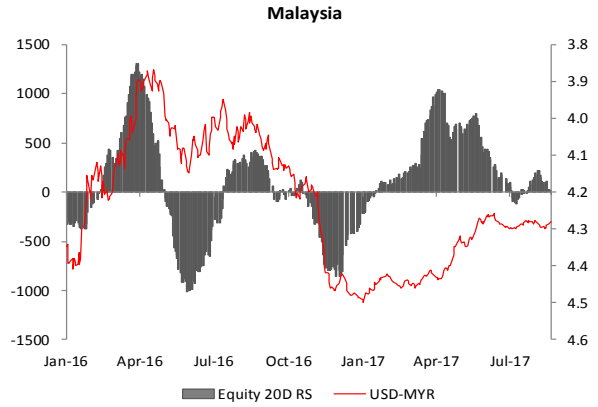


- USD-CAD** Despite softer crude, USD-CAD stepped lower on Thursday and despite short term implied valuations attempting to bounce off recent lows. Retain a preference to be heavy on the pair on the back of potential USD vulnerability and a breach of 1.2500 risks 1.2460.

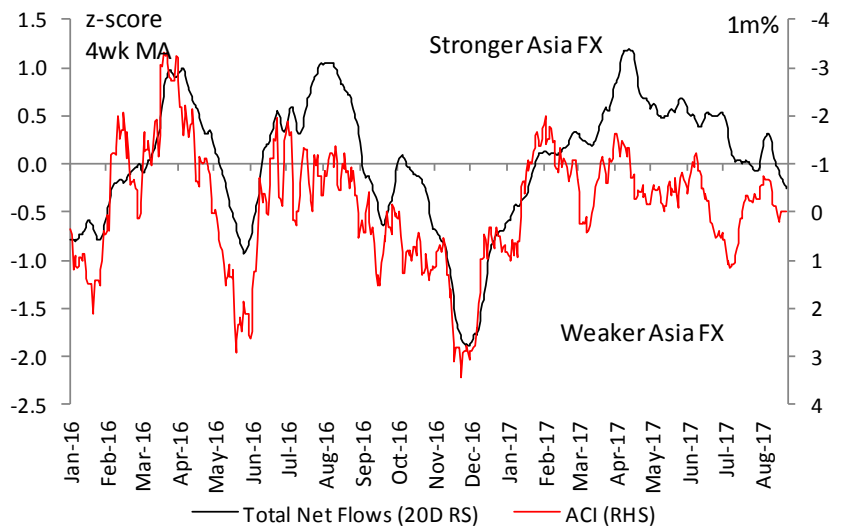
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

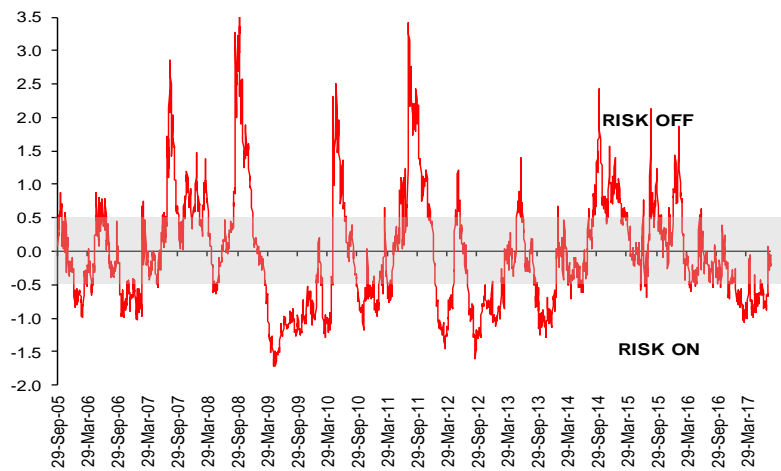




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.212	0.014	0.066	0.064	-0.332	0.304	-0.312	0.032	-0.029	-0.006	-0.924
SGD	0.573	-0.451	-0.632	-0.4	-0.109	-0.629	-0.34	-0.591	0.556	0.479	-0.569	-0.382
CAD	0.35	-0.22	-0.489	-0.124	-0.247	-0.285	-0.188	-0.207	0.478	0.27	-0.269	-0.148
PHP	0.33	-0.61	-0.695	-0.733	-0.445	-0.898	-0.587	-0.827	0.641	0.846	-0.765	-0.311
JPY	0.304	0.927	0.896	0.862	0.378	0.536	1	0.476	-0.782	-0.877	0.882	-0.314
MYR	0.22	-0.324	-0.46	-0.309	-0.572	-0.538	-0.299	-0.519	0.613	0.477	-0.414	-0.148
USGG10	0.212	1	0.858	0.827	0.293	0.661	0.927	0.615	-0.751	-0.835	0.868	-0.274
CCN12M	0.209	-0.534	-0.48	-0.39	-0.326	-0.73	-0.376	-0.672	0.478	0.448	-0.437	-0.022
TWD	0.202	-0.356	-0.287	-0.476	-0.651	-0.64	-0.297	-0.578	0.485	0.568	-0.378	-0.261
THB	0.152	0.2	0.392	0.263	0.274	0.016	0.345	-0.077	-0.406	-0.221	0.163	-0.174
INR	0.078	-0.135	-0.158	-0.392	-0.463	-0.421	-0.226	-0.389	0.29	0.436	-0.262	-0.27
IDR	0.071	-0.624	-0.635	-0.615	-0.58	-0.846	-0.563	-0.774	0.586	0.797	-0.704	-0.004
CNY	0.014	0.858	1	0.784	0.336	0.649	0.896	0.597	-0.793	-0.915	0.975	-0.096
KRW	0.007	-0.788	-0.829	-0.669	-0.601	-0.691	-0.781	-0.584	0.799	0.813	-0.745	0.104
CNH	-0.006	0.868	0.975	0.817	0.303	0.718	0.882	0.686	-0.76	-0.938	1	-0.075
CHF	-0.023	0.193	0.058	0.343	0.208	0.182	0.174	0.166	-0.27	-0.264	0.155	0.161
NZD	-0.2	0.769	0.892	0.631	0.177	0.728	0.69	0.699	-0.644	-0.784	0.897	0.015
AUD	-0.379	0.499	0.719	0.357	0.306	0.556	0.44	0.535	-0.56	-0.56	0.641	0.171
GBP	-0.399	0.709	0.764	0.677	0.137	0.834	0.616	0.785	-0.547	-0.758	0.843	0.27
EUR	-0.924	-0.274	-0.096	-0.01	-0.038	0.235	-0.314	0.221	-0.056	0.063	-0.075	1

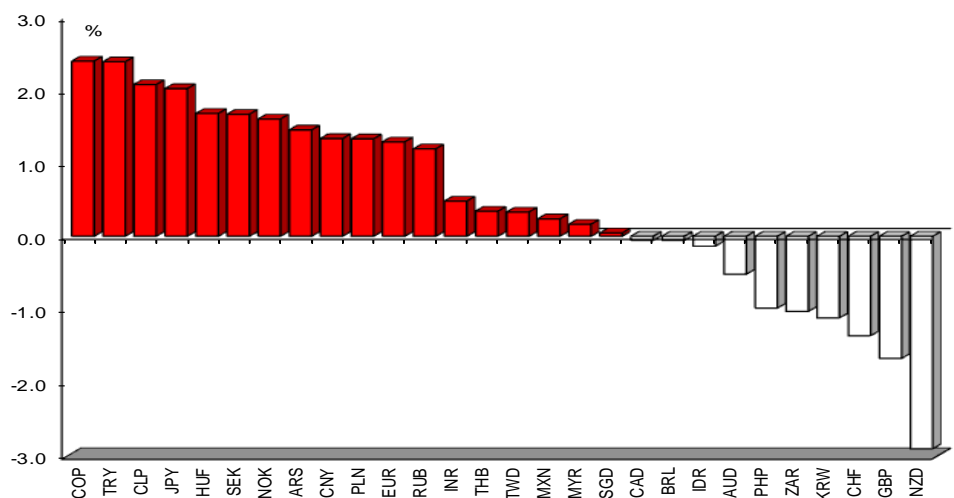
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1712	1.1796	1.1800	1.1864
GBP-USD	1.2774	1.2800	1.2806	1.2900	1.2939
AUD-USD	0.7800	0.7829	0.7895	0.7900	0.7990
NZD-USD	0.7150	0.7170	0.7200	0.7323	0.7489
USD-CAD	1.2455	1.2500	1.2514	1.2600	1.2763
USD-JPY	108.69	109.00	109.67	110.00	111.03
USD-SGD	1.3553	1.3600	1.3614	1.3667	1.3697
EUR-SGD	1.5983	1.6000	1.6059	1.6100	1.6104
JPY-SGD	1.2309	1.2400	1.2413	1.2444	1.2500
GBP-SGD	1.7387	1.7400	1.7434	1.7500	1.7707
AUD-SGD	1.0686	1.0700	1.0748	1.0800	1.0841
Gold	1254.65	1255.41	1285.40	1298.56	1300.00
Silver	16.51	16.90	16.93	17.00	17.12
Crude	46.98	47.60	47.69	47.70	50.60

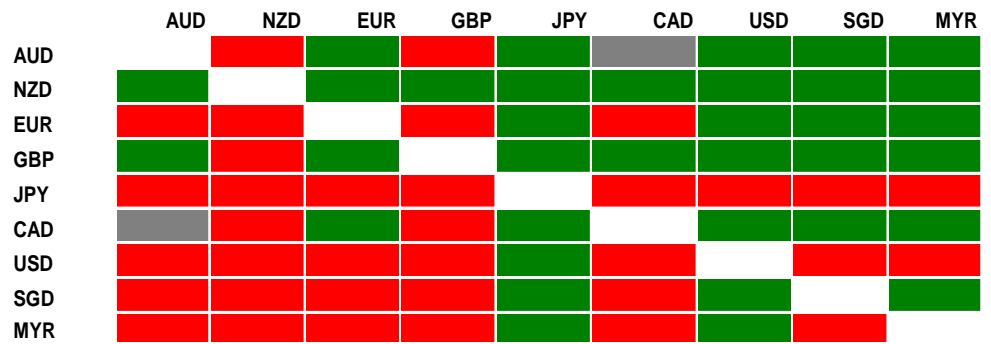
Source: OCBC Bank

FX performance: 1-month change agst USD



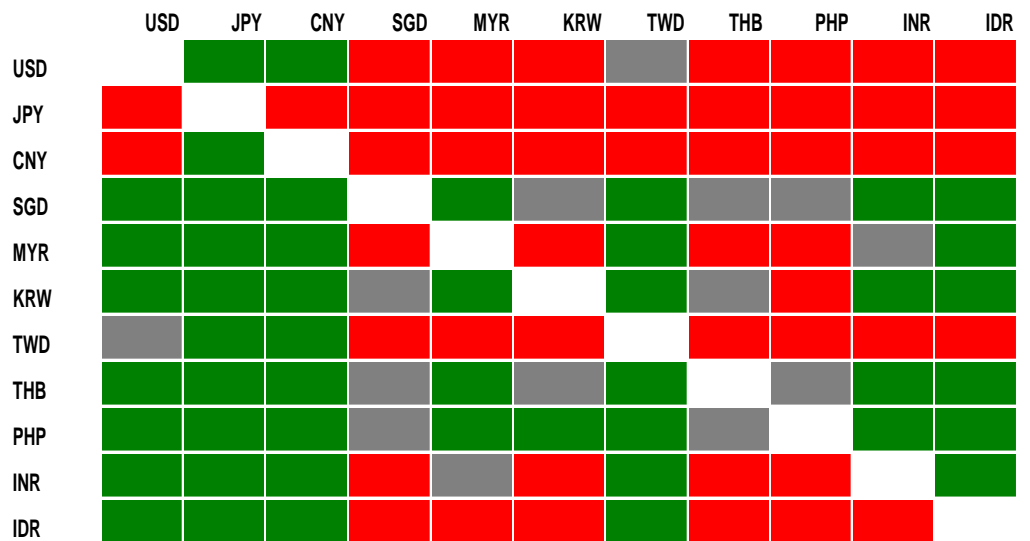
Source: Bloomberg

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

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.
