

Wednesday, October 25, 2017

FX Themes/Strategy/Trading Ideas – Watershed?

- Except against the EUR, USD outperformed across G10 space with the DXY skating closer to the 94.00 handle as the 10y UST traded to 2.428% before settling around 2.417% (UST curve bear steepened from the back-end).
- The greenback found support from a report indicating that Taylor came out tops in a Republican Senate straw poll although USD strength was diluted slightly as several Republicans reportedly broke ranks on the tax reform issue. Elsewhere, the EUR found some support from EZ PMIs and ahead of Thursday's ECB meeting.
- **At this juncture, the DXY may continue to contemplate the key 94.00 resistance while it remains to be seen if the key threshold level of 2.40% for the 10y UST yield can be breached on a sustained basis (note last attempt in May 2017 failed).** Going ahead, although companion global yields also largely rose on Tuesday (note bunds led USTs lower initially in LDN on Tuesday), the current feedback loop has continued to result in intrinsic broad dollar support. **On this front, note that rate differentials in aggregate continue to point higher for the DXY.**
- For today, the **Bank of Canada** rate decision is due at 1400 GMT with the accompanying press conference by Poloz and Wilkins at 1515 GMT. On this front, note that market expectations for a hike by the year-end have begun to creep back in.
- The data calendar meanwhile includes October German Ifo (0800 GMT), 3Q UK GDP (0830 GMT) US durable goods (1230 GMT), September new home sales (1400 GMT), with September NZ trade numbers due at 2145 GMT.
- With differing risks stacking up on both sides of the Atlantic, we think the **EUR-USD** may be subject to near term volatility. While this Thursday's ECB meeting may potentially "disappoint" the hawks (we think Draghi may remain gradualist), the greenback may potentially ride higher in the coming sessions on fiscal and Fed chair-related news flow. As such, we undertake a tactical short EUR-USD. From a spot ref of 1.1763 on Tuesday, we target 1.1535 and place a stop at 1.1875.
- With the smoke clearing after the recent MAS MPS and the ensuing behavior of the SGD NEER, outright SGD outperformance may continue to prove elusive. Coupled with the (currently) supported USD backdrop and the uneven net portfolio inflow environment for Asia, the **USD-SGD** may remain vulnerable to tactical near term upside risks. From a spot ref of 1.3616 on

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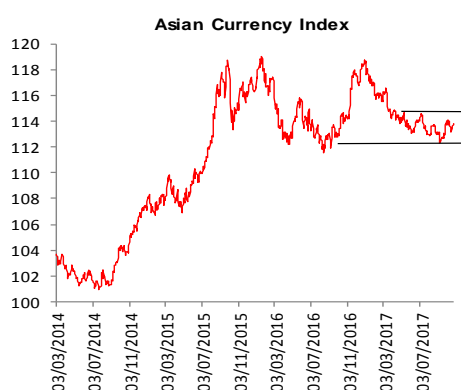
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Tuesday, we look for a 1.3765 objective and place a stop at 1.3540.

Asian FX

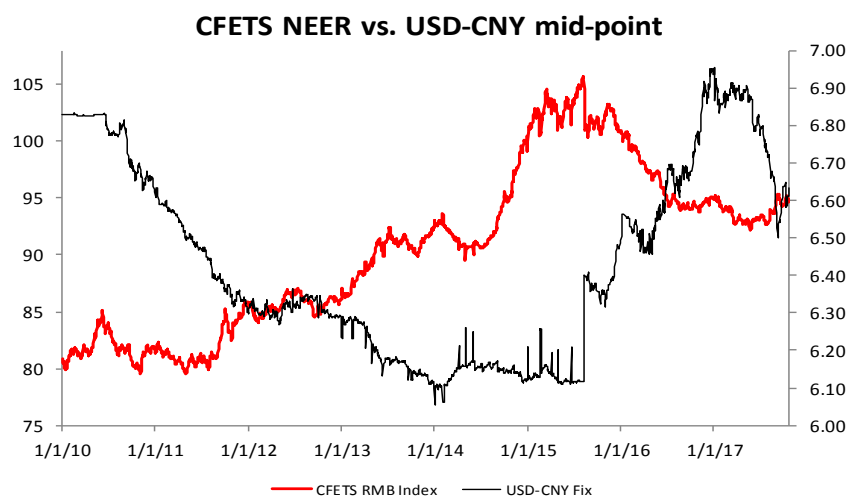
- On other fronts, global EM equities in aggregate eased on Tuesday and have fallen 5 out of the last 6 sessions. Net portfolio inflows in Asia meanwhile remained very light from the latest data points. Nonetheless, the KRW and TWD may remain relatively more underpinned on the back of rolling inflow momentum. Outflow momentum is also abating for the INR and MYR but continues to persist for the IDR and THB. **Overall, the current environment may continue to see USD-Asia reacting in sympathy to a firmer USD backdrop.**
- Overall, despite the **FXSI (FX Sentiment Index)** slipping within Risk-Neutral territory on Tuesday, expect the **ACI (Asian Currency Index)** to search higher intra-day, in line with the suggested bottoming out indicated by its medium term model.
- SGD NEER:** The SGD NEER is softer on the day at around +0.77% above its perceived parity (1.3735) with NEER-implied USD-SGD thresholds higher on the day. At current levels, the +1.00% threshold is estimated at 1.3600, where an intra-day floor for the USD-SGD may be expected. Up top, the 100-day MA (1.3643) and 1.3650 may attract if the broad dollar continues to firm. On the policy front, note that the MAS' Ravi Menon stated that "The policy stance had been appropriate for an extended period because of the prolonged period of very weak inflation we have seen" and that, "It will be hard to extrapolate from here how long more that extended period will be". **We think these comments will continue to dissuade undue upside pressure on the SGD NEER.**



	SGD NEER	% deviation	USD-SGD
Current	125.34	0.87	1.3626
+2.00%	126.74		1.3465
Parity	124.26		1.3735
-2.00%	121.77		1.4015

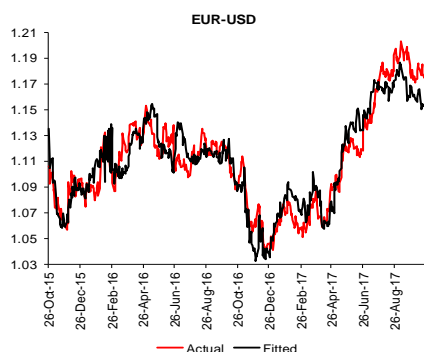
Source: OCBC Bank

- CFETS RMB Index:** With the Party Congress concluding today, the USD-CNY mid-point gained (slightly less than expected) to 6.6322 from 6.6268 on Tuesday. This saw the CFETS RMB Index firming to 94.82 from 94.77 yesterday. We will continue to monitor the reaction of the NEER in the event of potential renewed broad dollar strength. Crucially, it remains to be seen if the mantra of stability will persist after the Party Congress, or if the basket will adopt a more reactive/discretionary time path.



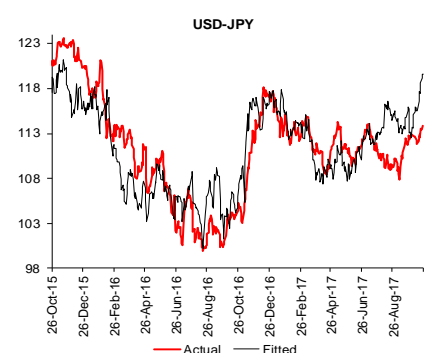
Source: OCBC Bank, Bloomberg

G7



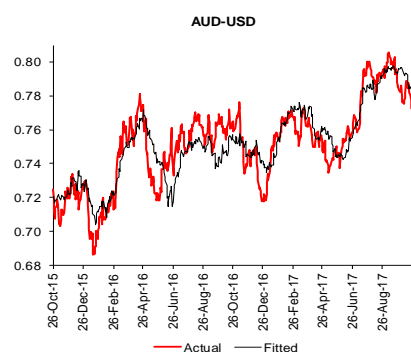
Source: OCBC Bank

- **EUR-USD** Short term implied valuations are range bound at this juncture, especially ahead of the ECB meeting tomorrow. Note however that the pair continues to trade north of its implied confidence intervals amidst a softening profile. Our near term view remains unchanged and we retain a preference to be top heavy within the 100-day MA (1.1670) and its 55-day MA (1.1841).



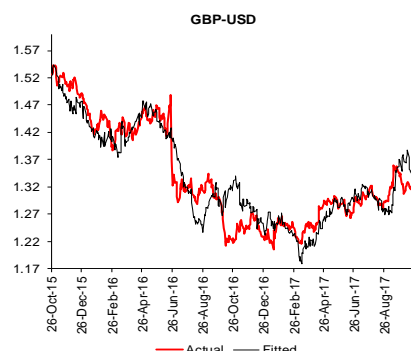
Source: OCBC Bank

- **USD-JPY** Rate differential dynamics are exerting distinctly for the USD-JPY and firming short term implied valuations may be expected to continue to buoy the pair. The 114.00 ceiling is now perceived to be under threat ahead of 114.50.



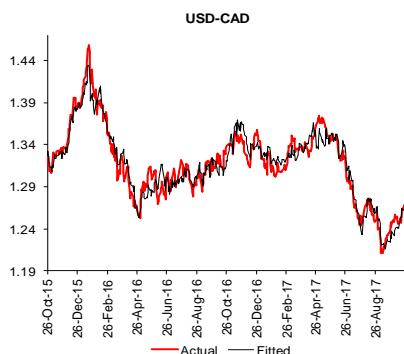
Source: OCBC Bank

- **AUD-USD** This morning, the Australian 3Q CPI (especially the trimmed mean) disappointed prior expectations and this is expected to keep the antipodeans disadvantaged. Note that the NZD was a notable casualty on Tuesday on talk that the Labour-led government may be contemplating amending the Central bank Act to have the RBNZ include employment as a key target in its mandate. Immediate risks for the AUD-USD remain skewed towards its 200-day MA (0.7694).



Source: OCBC Bank

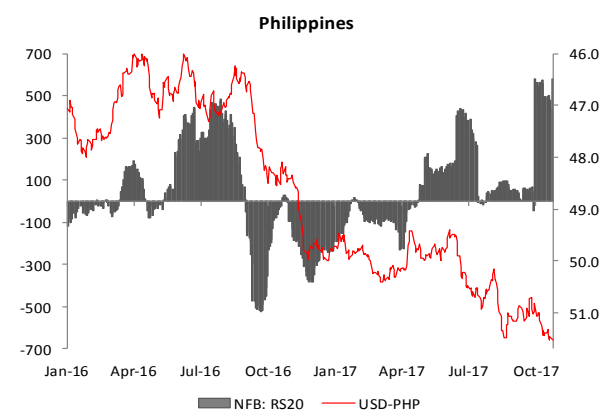
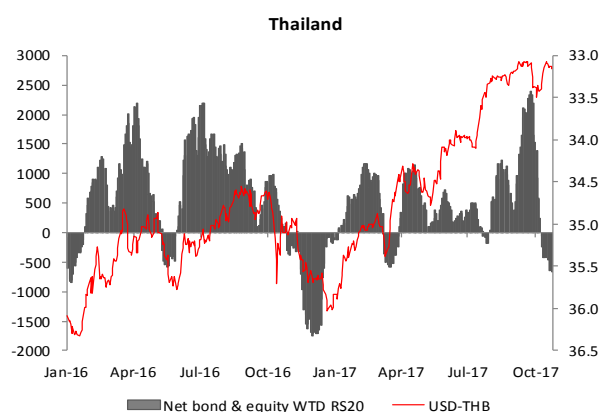
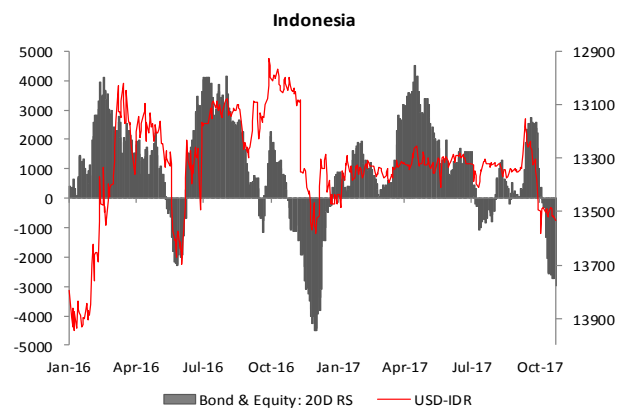
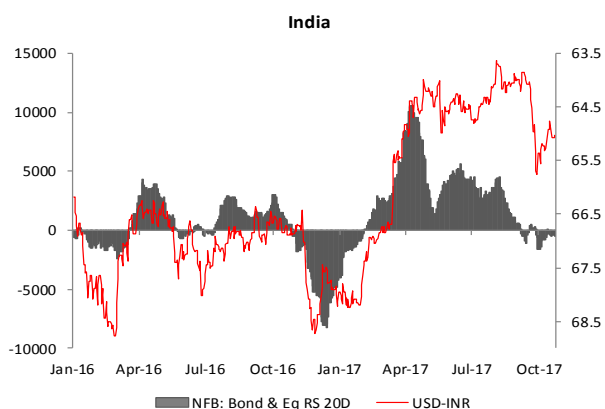
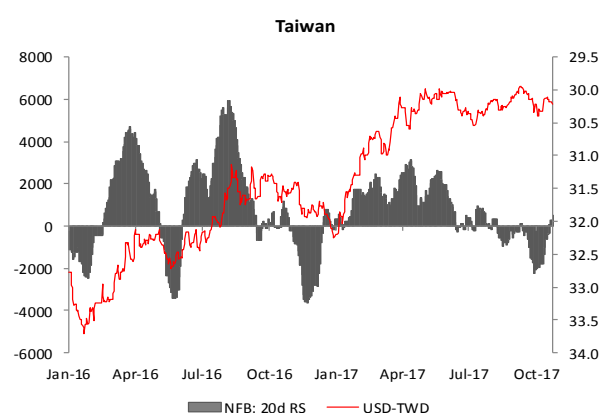
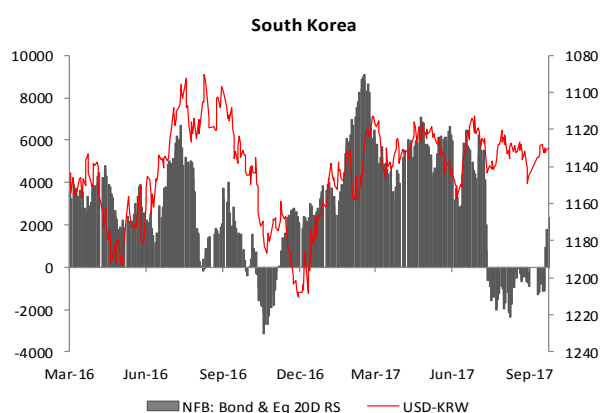
- **GBP-USD** Despite contrasting signals from the BOE's Cunliffe and the Chancellor of the Exchequer Philip Hammond, GBP-USD responded lower on Tuesday as the DXY climbed. Short term implied valuations for the pair meanwhile remain suppressed, potentially triggering a sustained departure (lower) from the 55-day MA (1.3155) towards the 100-day MA (1.3055).

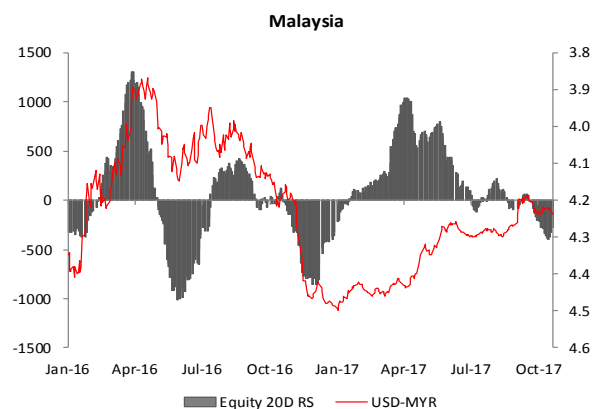


- USD-CAD** Despite firmer crude, USD-CAD still climbed on the back of a firmer broad dollar on Tuesday. Ahead of the BOC later today, short term implied valuations for the USD-CAD remain relatively aloft and any successful base building off the 100-day MA (1.2655) may heighten odds of a move towards 1.2750.

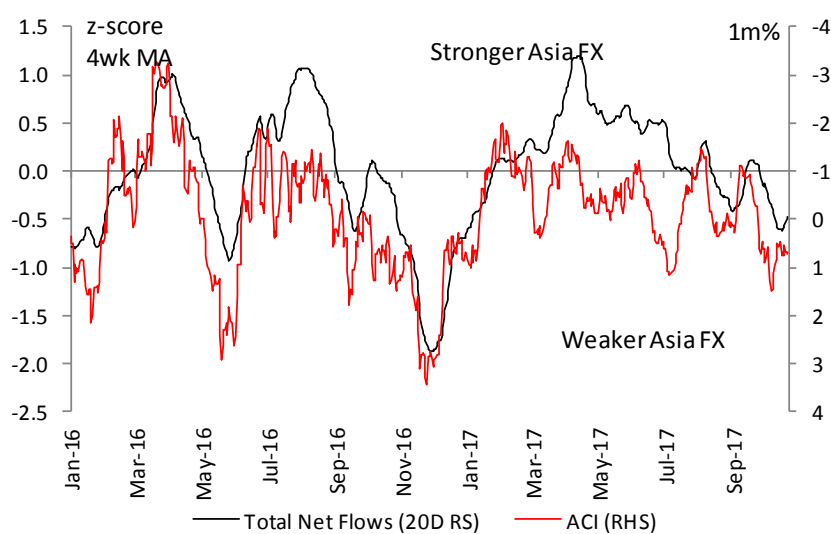
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

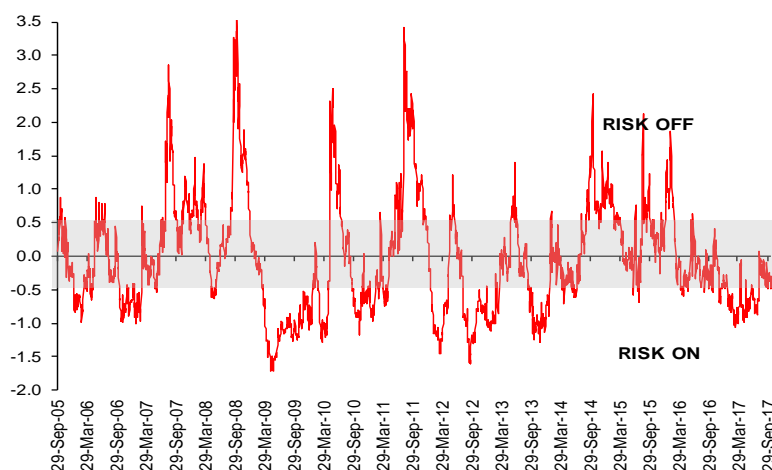




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.767	0.186	0.565	0.32	-0.222	0.775	-0.21	0.168	-0.545	0.467	-0.803
CAD	0.858	0.868	0.014	0.746	0.547	0.163	0.83	0.073	0.437	-0.729	0.18	-0.477
SGD	0.848	0.691	0.575	0.18	-0.134	-0.51	0.739	-0.366	0.008	-0.122	0.749	-0.813
CHF	0.798	0.822	-0.016	0.816	0.692	0.23	0.831	0.125	0.564	-0.82	0.11	-0.404
MYR	0.778	0.719	0.201	0.453	0.207	-0.437	0.612	-0.406	-0.016	-0.468	0.498	-0.643
JPY	0.775	0.858	0.355	0.468	0.238	0.041	1	0.163	0.406	-0.457	0.463	-0.493
USGG10	0.767	1	0.029	0.677	0.415	-0.09	0.858	-0.091	0.243	-0.631	0.222	-0.405
IDR	0.576	0.759	-0.173	0.719	0.553	-0.18	0.518	-0.302	0.079	-0.717	0.036	-0.252
CNH	0.467	0.222	0.981	-0.319	-0.543	-0.458	0.463	-0.128	-0.189	0.322	1	-0.702
TWD	0.412	0.344	0.748	-0.237	-0.517	-0.785	0.319	-0.56	-0.44	0.258	0.844	-0.62
PHP	0.353	0.571	-0.481	0.868	0.894	0.391	0.419	0.068	0.515	-0.881	-0.489	0.125
THB	0.351	0.207	0.493	-0.273	-0.546	-0.843	0.126	-0.655	-0.559	0.307	0.686	-0.61
CCN12M	0.306	0.191	0.765	-0.109	-0.261	-0.324	0.317	-0.064	-0.256	0.106	0.763	-0.445
CNY	0.186	0.029	1	-0.436	-0.549	-0.083	0.355	0.36	0.172	0.412	0.981	-0.493
INR	-0.033	-0.041	0.524	-0.625	-0.732	-0.471	0.088	-0.185	-0.226	0.627	0.475	-0.28
KRW	-0.392	-0.213	0.531	-0.654	-0.779	-0.758	-0.247	-0.193	-0.548	0.676	0.4	0.029
NZD	-0.666	-0.821	0.114	-0.767	-0.604	-0.248	-0.803	-0.093	-0.593	0.717	0.032	0.156
AUD	-0.681	-0.848	0.109	-0.507	-0.278	0.297	-0.587	0.355	-0.156	0.485	-0.086	0.454
GBP	-0.773	-0.736	0.379	-0.849	-0.682	0.138	-0.526	0.356	-0.172	0.788	0.026	0.378
EUR	-0.803	-0.405	-0.493	-0.047	0.149	0.458	-0.493	0.31	0.067	0.082	-0.702	1

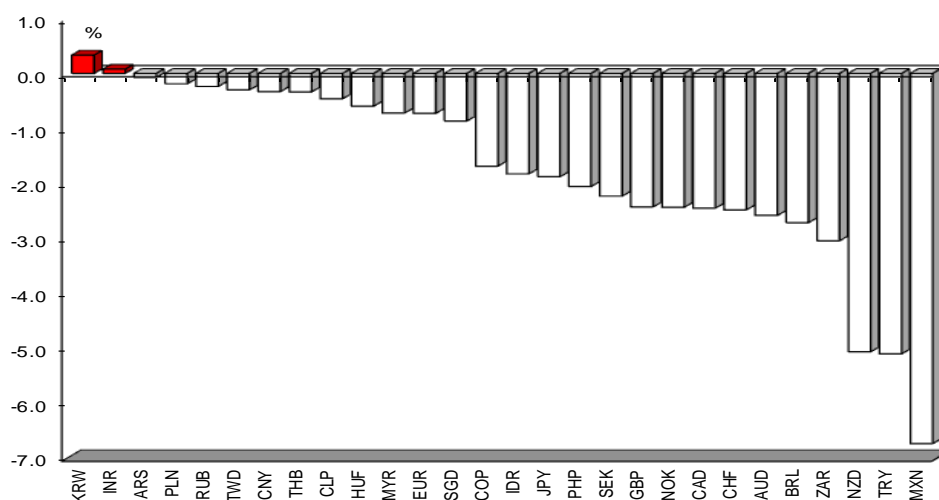
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1697	1.1700	1.1762	1.1800	1.1845
GBP-USD	1.3039	1.3100	1.3136	1.3171	1.3200
AUD-USD	0.7700	0.7722	0.7731	0.7733	0.7800
NZD-USD	0.6886	0.6897	0.6899	0.6900	0.7152
USD-CAD	1.2600	1.2671	1.2679	1.2693	1.2700
USD-JPY	113.00	113.82	113.87	114.00	114.10
USD-SGD	1.3545	1.3600	1.3621	1.3661	1.3691
EUR-SGD	1.5928	1.6000	1.6021	1.6047	1.6066
JPY-SGD	1.1948	1.1950	1.1962	1.2000	1.2128
GBP-SGD	1.7800	1.7844	1.7892	1.7900	1.8158
AUD-SGD	1.0520	1.0521	1.0531	1.0600	1.0632
Gold	1260.50	1264.44	1275.00	1298.56	1299.89
Silver	16.49	16.90	16.92	17.00	17.24
Crude	51.04	52.40	52.44	52.50	53.10

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

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	
4	24-Oct-17	S	EUR-USD	1.1763	1.1535	1.1875	Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow	
5	24-Oct-17	B	USD-SGD	1.3616	1.3765	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in	
	STRUCTURAL							
6	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
7	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	19-Sep-17	27-Sep-17	B	GBP-USD	1.3540	1.3395	Earlier than expected paradigm change by the BOE	-1.11
2	28-Sep-17	11-Oct-17	S	EUR-USD	1.1734	1.1860	Political overhang from Germany contrasting with FOMC, Yellen	-0.99
3	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
4	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
5	22-Aug-17	20-Oct-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	-0.56**
							Jan-Oct*** 2017 Return	-10.82
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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