

Monday, September 25, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- After being gripped slightly by geopolitically-driven risk aversion last Friday, expect markets to be guided by central bank rhetoric this week despite the plethora of geopolitical/political headlines over the weekend. At the onset of the week, apparent USD resilience we think would be more a function of the implicit uncertainty surrounding several of the other major G10 currencies.
- Despite **Merkel's** victory by her conservatives at the weekend German elections, the rise of the AfD's portion of votes (13.0%) and its entry into Parliament may undermine the EUR-USD at the onset of the week (with uncertainty towards an eventual ruling coalition still expected to instill some market caution), although we think that attention may ultimately swing towards the ECB this week.
- Elsewhere, the **NZ elections** over the weekend also yielded no clear majority for the incumbent National Party and the ensuing uncertainty surrounding the coalition building is also expected to keep the NZD on the defensive (including against the AUD).
- On other fronts, with **PM May's** Brexit address short on details and initiating some disappointment towards the GBP, market sentiment was also weighed slightly by the Moody's rating downgrade by one notch to Aa2.
- BOJ MPC minutes are due Tuesday but expected market attention to be focused on **PM Abe** on Monday, when he is expected to hold a press conference (in the TKY afternoon) to announce a snap election. In the interim, the JPY may remain undermined with polls indicating support for the PM and with market participants continuing to expect further stimulus if he remains firmly holding the reins.
- White noise surround the **North Korean** situation meanwhile may continue to keep the market mindful of geopolitical risks simmering in the background, with Pyongyang and the White House continuing to trade barbs over the weekend. At this juncture, investors seem to have relegated these concerns slightly pending further headline risks.
- On the **CFTC** front, large non-commercial accounts and asset managers increased their net implied short dollar bias in aggregate in the latest week (pre-FOMC) while leveraged accounts did likewise in the same period. However, excluding JPY positioning, note that leverage accounts pared slightly their implied short dollar bias – a somewhat prescient move ahead of the FOMC.

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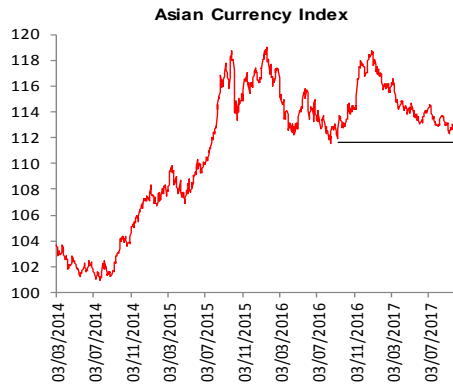
- Beyond the political and geopolitical static at the start of the week, expect markets to potentially revert to trading off relative central bank policy dynamics as the week progresses. While broad dollar prospects may be slightly muddied in the near term by competing crosswinds, we look perhaps for greater clarity on global long end yields. **Regarding the latter, it remains to be seen if the recent climb in global bond yields will be stymied by central bank speak this week.**
- **Fed-speak** is heavy this week with appearances every day and kicks off with appearances by Dudley (1230 GMT), Evans (1640 GMT), and Kashkari (2230 GMT) today, while Yellen is scheduled for Wednesday. **On this front, we look for any concerted attempts by the Fed speakers to steer the market and right any misconceptions regarding any perceived hawkishness on their part.**
- Meanwhile in the EZ, the **ECB's** Constancio (0700 GMT), Draghi (1300 GMT), Coeure (1445 GMT), and Mersch are also on tap on Monday, with ECB appearances also littered through the week with Draghi (and the BOE's Carney) again on Friday. Similarly, the balance of risks from ECB forward guidance we think may continue to err on the side of caution although still portending a taper.
- The **RBA's** Bullock is scheduled for today (2115 GMT) and Debelle is scheduled for Thursday. Look also towards the **RBNZ** policy meeting late Wednesday with the OCR expected to be kept unchanged at 1.75%. Elsewhere, the **BOC's** Poloz is due on the wires on Wednesday.

Asian FX

- Not surprisingly, the **FXSI (FX Sentiment Index)** inched higher within Risk-Neutral territory on Friday on the back of background risk aversion although the regional pairs may start the week slightly heavier on the absence of acute geopolitical risks. As such, the **(Asian Currency Index)** may be expected to be slightly heavy in the near term but still subject to external headline risks this week. In Asia, the **Bank of Thailand** convenes on Wednesday with no change in policy expected. Elsewhere, the Asian calendar will topped off by the Caixin **China** manufacturing PMI for September on Friday.
- **EPFR** data meanwhile showed a decrease in net implied equity and bond inflows into Asia (excl. Japan, China) in the latest week – a potential structural impediment to Asian FX resilience. On other fronts, **actual net portfolio inflow numbers** remain highly selective and show abating outflow momentum for KRW but increased outflow pressures on the TWD. A recent recovery of inflows for the INR also seems to be wobbling once again, while net inflow momentum for the IDR remains strong. On other fronts, net inflows for the PHP remain steady (if still lackluster) while implied inflows for the THB continue to strengthen from already elevated levels.
- **Bank Indonesia** surprised with another 25bps cut to its benchmark reverse repo rate to 4.25% on Friday, ostensibly on the back of still benign inflation

and credit growth. On our part, we had reckoned that although real interest rates were off historical lows, it did not warrant further monetary easing given the ongoing recovery in the economy. Nonetheless, we concur with the central bank that the latest cut would bring into alignment interest rates and the Bank’s latest projected macroeconomic forecasts. The central bank subsequently signaled that its policy posture would likely be maintained (i.e., done for now) pending further developments and we think that the IDR would not be expected to be impinges as a result of the latest two rate cuts.

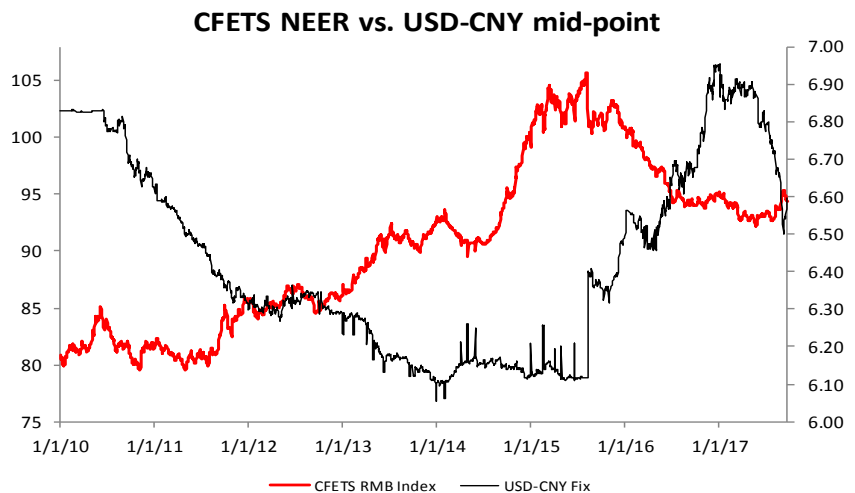
- SGD NEER:** Singapore’s August CPI readings are due at 0500 GMT today with the SGD NEER firmer on the day at around +1.00% above its perceived parity (1.3604). NEER-implied USD-SGD thresholds are largely unchanged on the day with the NEER having been driven higher by the USD-SGD’s heaviness. At current levels, the +1.20% threshold is expected at around 1.3444 and this may provide an interim base for the pair. On the topside, the 200-week MA continues to reside at 1.34090.



	SGD NEER	% deviation	USD-SGD
Current	125.56	1.05	1.3470
+2.00%	126.74		1.3338
Parity	124.26		1.3604
-2.00%	121.77		1.3882

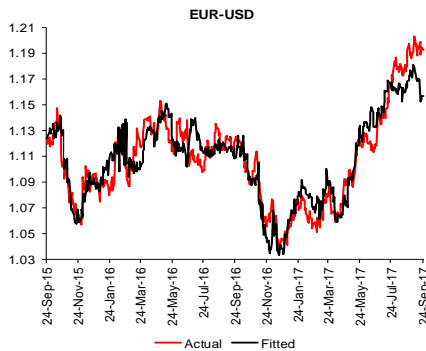
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (as largely expected) to 6.5945 from 6.5861 last Friday. This softened the **CFETS RMB Index** lower to 94.42 from 94.54.



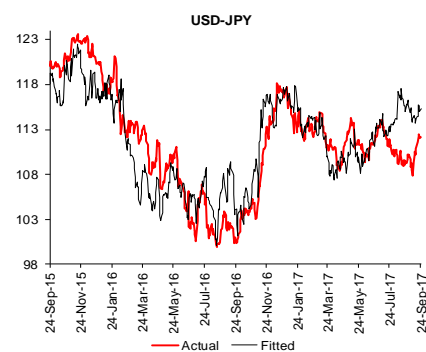
Source: OCBC Bank, Bloomberg

G7



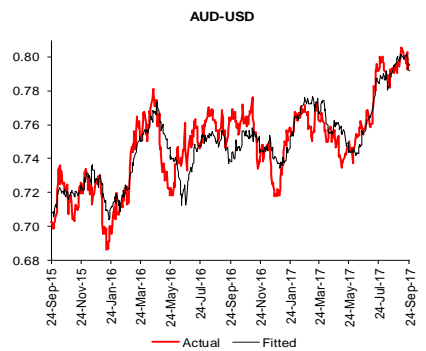
Source: OCBC Bank

- EUR-USD** Short term implied valuations remain somewhat underpinned (but off recent highs) despite the weekend German election static but we also note that the EUR-USD itself is looking somewhat distended to the upside relative to implied fair value. In the interim, we'd prefer to fade upticks towards 1.2000 with near term support expected into 1.1835.



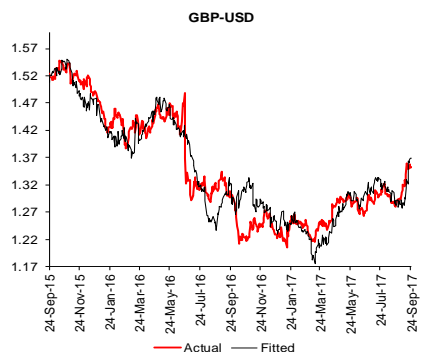
Source: OCBC Bank

- USD-JPY** Barring another outbreak of North Korean headlines, short term implied valuations for the USD-JPY remain relatively aloft at this juncture. Look to collect into dips within 111.50-112.95, with the 200-day MA (112.14) providing a convenient junction in the interim.



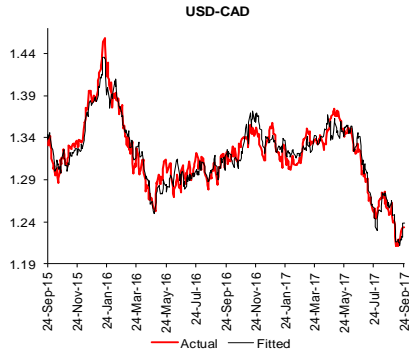
Source: OCBC Bank

- AUD-USD** Investors may not be in the mood to jump right back on the risk bandwagon just yet with short term implied valuations also stepping lower. In the interim, expect gravity to potentially pave the way towards the 55-day MA (0.7931) ahead of 0.7900.



Source: OCBC Bank

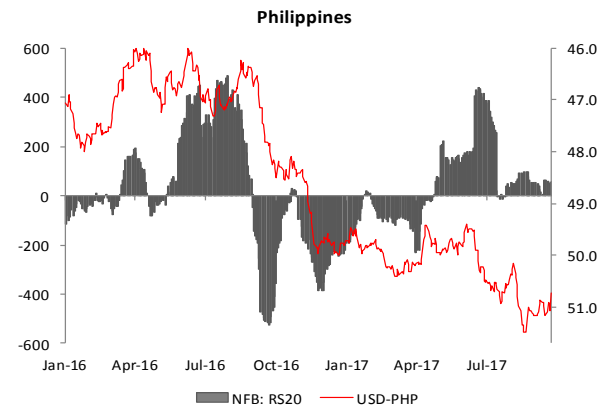
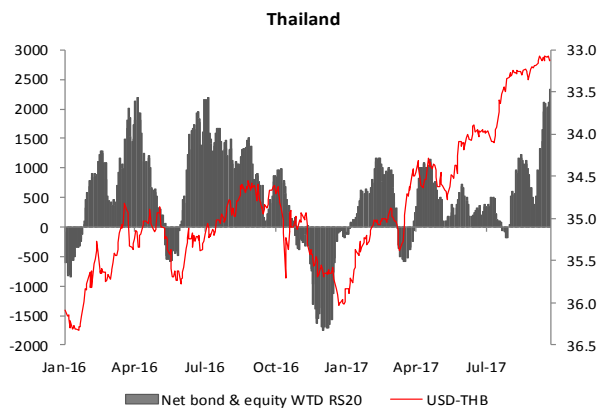
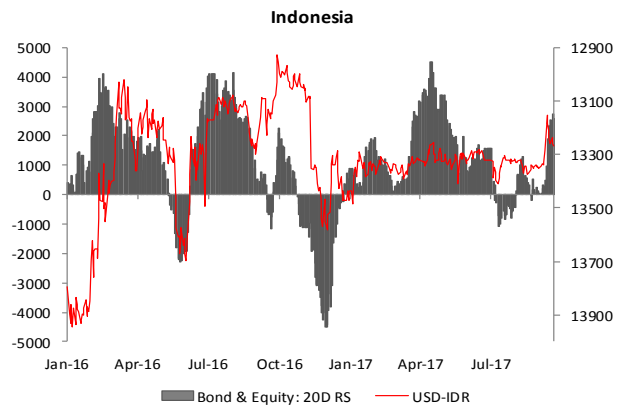
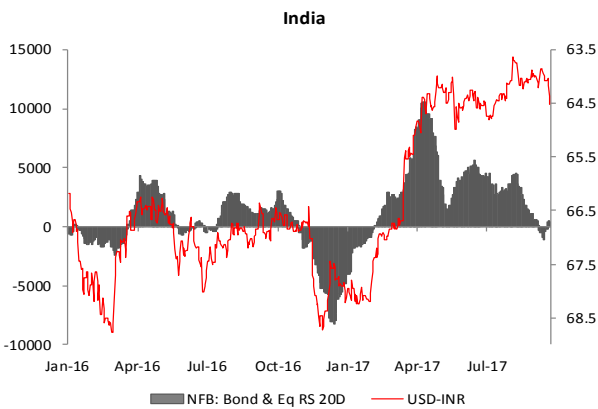
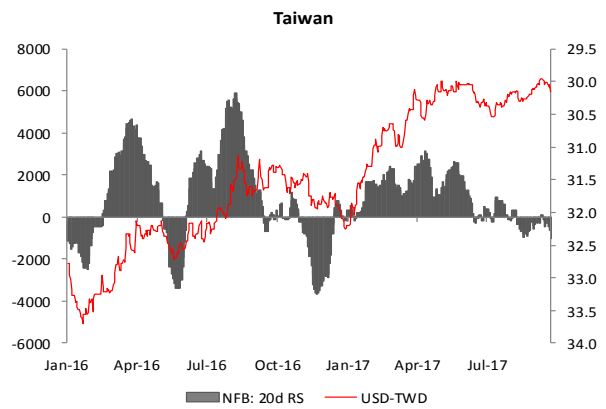
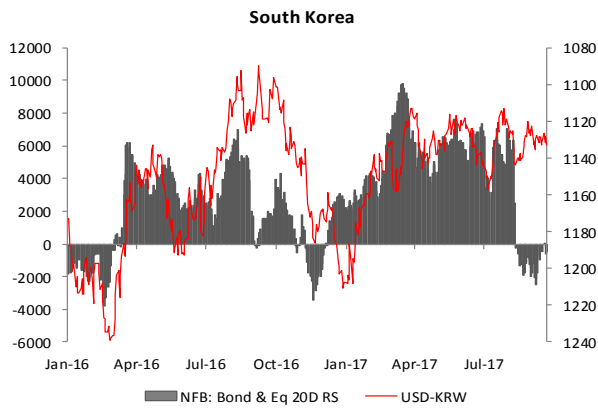
- GBP-USD** Political uncertainty on the European front and little new visibility on Brexit may keep the GBP in check in the near term, despite still supportive short term implied valuations for the GBP-USD. As such, the GBP-USD's hold on 1.3500 in the near term may be slightly tenuous with 1.3450 expected to offer initial support.

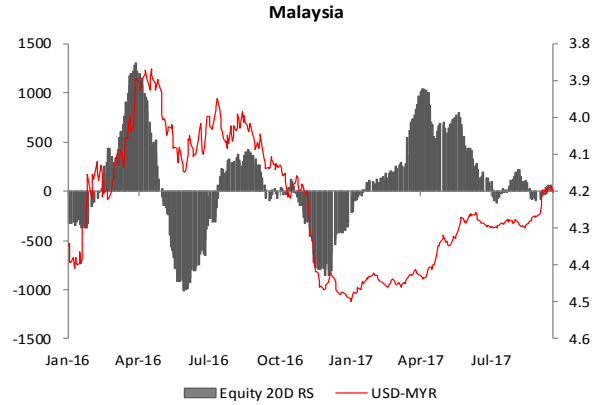


- USD-CAD** Despite underpinned crude, softer than expected August Canadian inflation readings and mixed July retail sales numbers, coupled with a supported broad dollar, kept the CAD at a disadvantage on Friday. Ahead of Poloz this week, short term implied valuations have inched higher and investors may accumulate on dips towards 1.2260 with first resistance expected around 1.2400.

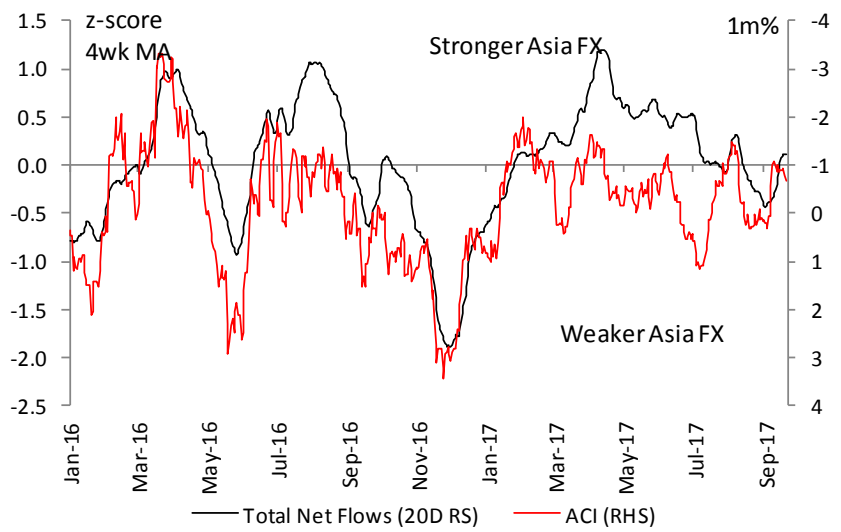
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

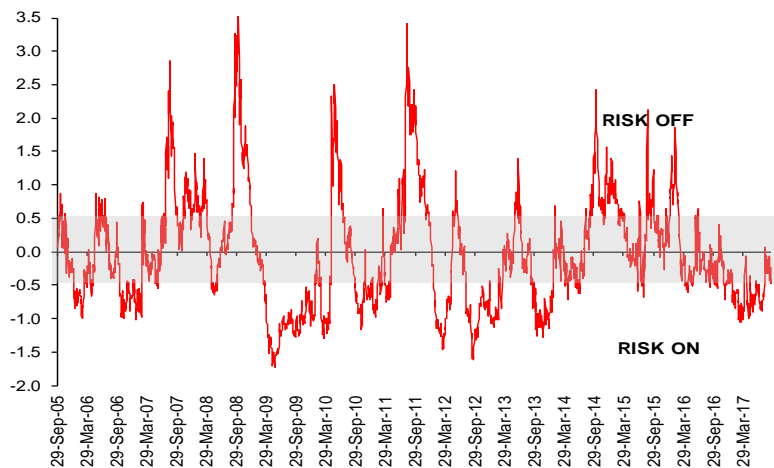




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.208	0.476	-0.107	-0.114	-0.287	0.274	-0.212	-0.23	0.366	0.524	-0.896
SGD	0.847	-0.03	0.518	-0.397	-0.333	-0.62	-0.022	-0.594	0.059	0.241	0.548	-0.673
CAD	0.684	0.071	0.723	-0.469	-0.276	-0.683	0.132	-0.514	0.072	0.495	0.756	-0.365
THB	0.555	-0.389	0.372	-0.747	-0.66	-0.771	-0.394	-0.775	0.422	0.264	0.396	-0.332
IDR	0.555	-0.116	0.416	-0.553	-0.472	-0.381	-0.005	-0.234	0.274	0.528	0.447	-0.243
TWD	0.55	0.484	0.863	-0.09	0.089	-0.291	0.56	-0.004	-0.338	0.59	0.823	-0.28
CNH	0.524	0.498	0.968	-0.062	0.187	-0.432	0.52	-0.192	-0.313	0.383	1	-0.297
CHF	0.514	0.873	0.585	0.661	0.688	0.32	0.927	0.542	-0.853	0.335	0.51	-0.569
CNY	0.476	0.587	1	0.048	0.298	-0.343	0.606	-0.122	-0.431	0.404	0.968	-0.259
MYR	0.411	-0.498	0.341	-0.859	-0.746	-0.795	-0.464	-0.761	0.657	0.401	0.375	-0.109
CCN12M	0.349	0.251	0.578	-0.071	0.121	-0.023	0.302	0.04	-0.142	0.32	0.543	-0.166
PHP	0.282	-0.272	0.172	-0.274	-0.251	-0.244	-0.307	-0.383	0.192	-0.212	0.023	-0.295
JPY	0.274	0.956	0.606	0.769	0.845	0.416	1	0.638	-0.899	0.26	0.52	-0.311
USGG10	0.208	1	0.587	0.778	0.835	0.402	0.956	0.619	-0.901	0.185	0.498	-0.265
INR	0.04	0.681	0.36	0.536	0.561	0.467	0.751	0.691	-0.615	0.488	0.205	-0.046
KRW	-0.239	0.202	-0.297	0.487	0.222	0.675	0.233	0.71	-0.23	0.022	-0.364	0.024
GBP	-0.384	0.73	0.087	0.874	0.875	0.764	0.727	0.875	-0.688	-0.069	-0.01	0.173
NZD	-0.46	0.57	0.226	0.563	0.652	0.425	0.555	0.587	-0.432	0.243	0.178	0.398
AUD	-0.712	-0.313	-0.704	0.154	0.043	0.445	-0.375	0.203	0.221	-0.364	-0.661	0.481
EUR	-0.896	-0.265	-0.259	-0.154	-0.051	-0.034	-0.311	-0.03	0.325	-0.164	-0.297	1

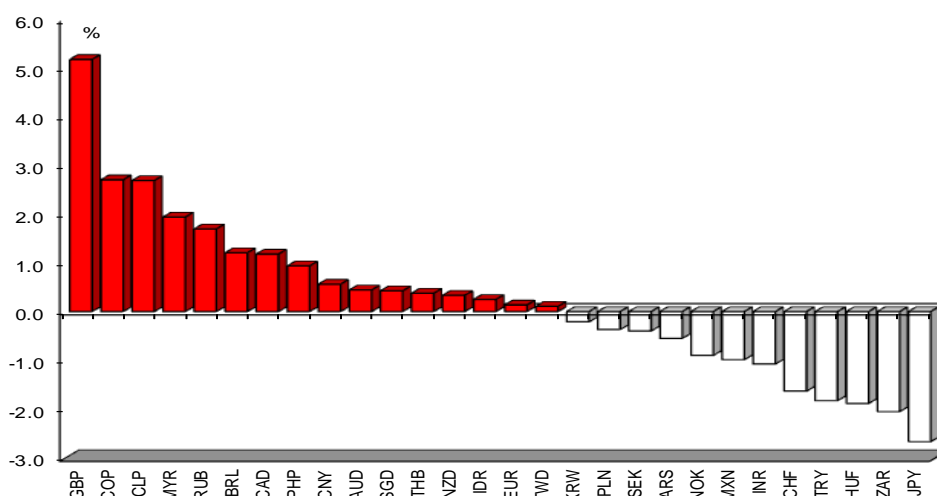
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1844	1.1900	1.1931	1.2000	1.2025
GBP-USD	1.3087	1.3500	1.3530	1.3600	1.3657
AUD-USD	0.7901	0.7947	0.7957	0.8000	0.8062
NZD-USD	0.7141	0.7200	0.7268	0.7300	0.7311
USD-CAD	1.2062	1.2300	1.2335	1.2400	1.2470
USD-JPY	112.00	112.11	112.27	112.72	112.93
USD-SGD	1.3391	1.3400	1.3474	1.3500	1.3559
EUR-SGD	1.6006	1.6036	1.6076	1.6100	1.6191
JPY-SGD	1.1969	1.2000	1.2001	1.2100	1.2292
GBP-SGD	1.7747	1.8200	1.8230	1.8300	1.8349
AUD-SGD	1.0683	1.0700	1.0721	1.0773	1.0800
Gold	1286.45	1290.00	1291.40	1300.00	1352.07
Silver	16.83	16.90	16.90	17.00	17.00
Crude	48.74	50.50	50.58	50.60	50.93

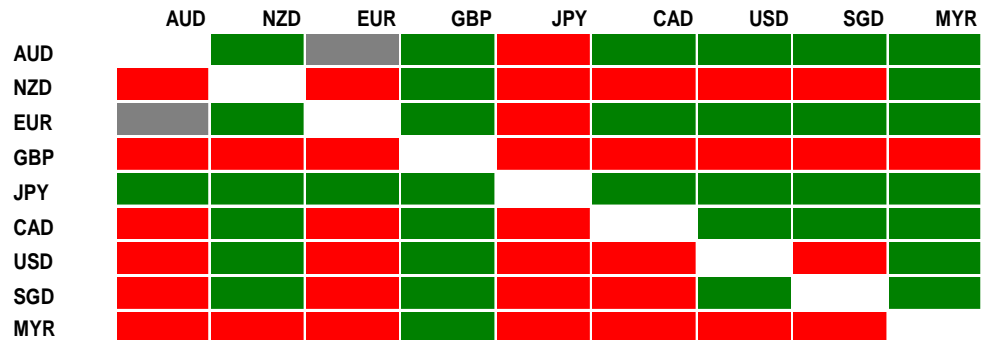
Source: OCBC Bank

FX performance: 1-month change agst USD



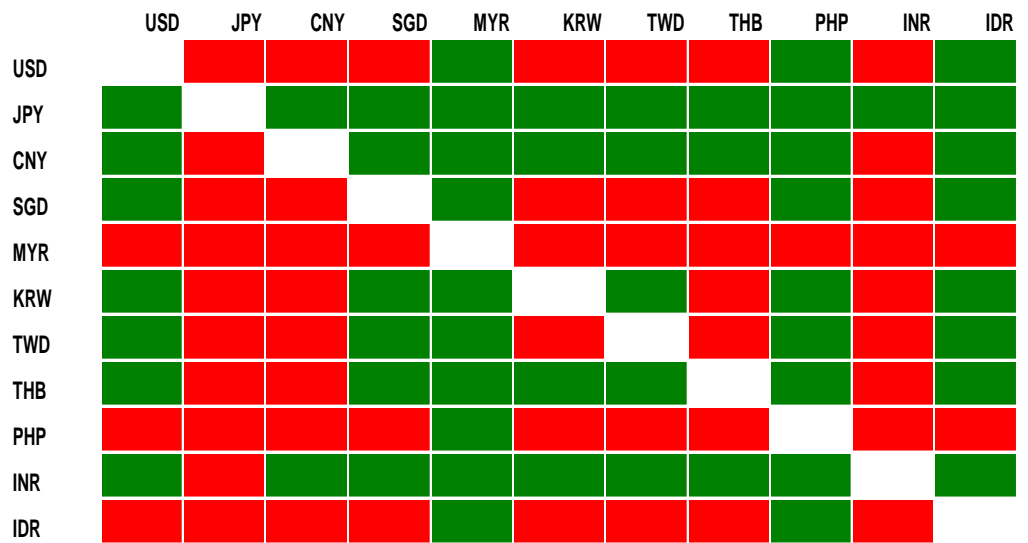
Source: Bloomberg

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	19-Sep-17	B	GBP-USD	1.3540	1.3825	1.3395	Earlier than expected paradigm change by the BOE	
2	21-Sep-17	B	USD-JPY	112.58	115.05	111.30	Policy dichotomy post FOME-BOJ + positive risk appetite levels	
STRUCTURAL								
3	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
4	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		
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	01-Aug-17	04-Sep-17	S	USD-JPY	110.18	109.79	No surprises expected from Fed-speak after the last FOMC	+0.19
2	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
3	12-Jul-17	08-Sep-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% Closed at 1.2063			ECB transitioning to neutral, Fed wavering	+0.05
4	12-Jul-17	08-Sep-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% Closed at 1.2090			Hawkish BOC being increasingly priced in	+0.09
5	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
6	13-Sep-17	13-Sep-17	B	GBP-USD	1.3325	1.3200	Hotter than expected Aug core CPI/PPI, hawkish expectations ahead of BOE MPC	-0.95
7	12-Sep-17	14-Sep-17	S	USD-SGD	1.3447	1.3525	Fade the USD relief rally, prepare for renewed interest towards EM/Asia	-0.58
8	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
							Jan-Sep*** 2017 Return	-1.56
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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