

Monday, August 28, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Post Yellen/Draghi on Friday, the USD weakened across the board (with the UST yield curve softer and bull flattening from the back-end) while the EUR-USD launched above 1.1900 to a 1.1940 high. Near term, we expect the USD to potentially remain under negative pressure despite the Fed's Mester on Sunday still supportive of interest rate normalization.
- **Essentially, the markets got what they wanted with Yellen not springing any hawkish surprises while Draghi did not elucidate further on tapering intentions nor reiterate potential for EUR overshoot.** In a subsequent Q&A, note that the ECB President continued to indicate a lack of imminent near term inflation pressures. Note that the EUR may continue to be lifted with the German Fin Min Schaeuble (note that the Bundesbank has also been quietly hawkish of late) noting on Sunday that, "we hope that interest rates will rise again, moderately, but that they will rise again."
- As a result, with the threat of tighter global monetary conditions contained, risk appetite picked higher with US equities ending in positive territory. In addition, on the **North Korean** front and despite more missile launches on Saturday, US Secretary of State Tillerson noted that the US is still looking for de-escalation and this may continue to keep geopolitical pressures at bay (in the near term). At the margins, this may continue to underpin the cyclical and EM/Asian FX.
- Elsewhere, the **BOJ's Kuroda** remained sufficiently dovish at Jackson Hole, and the JPY may continue to underperform European FX in the near term. With potential JPY underperformance on the crosses lending partial support to a heavy USD-JPY. **Overall, the DXY tripped below 93.00 on Friday and clocked new lows for the year with the 92.00 level now back on investors' radar screens once again.**
- On the **CFTC** front, large non-commercial and leveraged accounts increased their net implied short dollar bias in aggregate in the latest week, although asset managers pared slightly their (already significantly stretched) implied short dollar bias in aggregate. **Ahead of Yellen/Draghi last week, note that investors apart from the asset managers, investors on the CFTC front had moved further against the USD, and this dynamic may further deepen into this week.**
- This week, in terms of **central bank-speak**, the Fed's Powell speaks on Wednesday while the ECB's Nowotny is scheduled for Friday, with the Bundesbank's Dombret due to make an appearance on Thursday.

Treasury Research &
Strategy

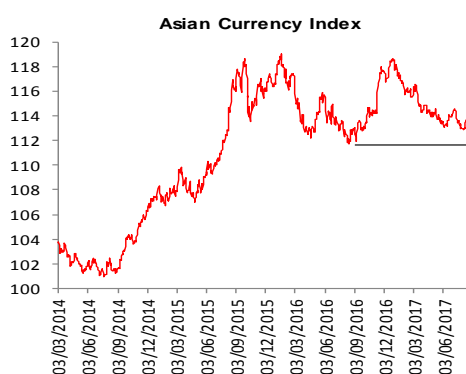
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

Elsewhere, the RBA's Harris is expected on Thursday, while the BOE's Gerken and Saunders are due on Wednesday and Thursday respectively.

- The **global data calendar** meanwhile is fairly busy this week and culminates in the release of global manufacturing PMIs (including the US ISM and the US August nonfarm payrolls (NFP) on Friday. Note that on the China front, the official NBS manufacturing and non-manufacturing PMIs will be released on Thursday, followed by the Caixin versions on Friday. On the central bank front in Asia, the BOK is expected to stand pat at 1.25% on Thursday.

Asian FX

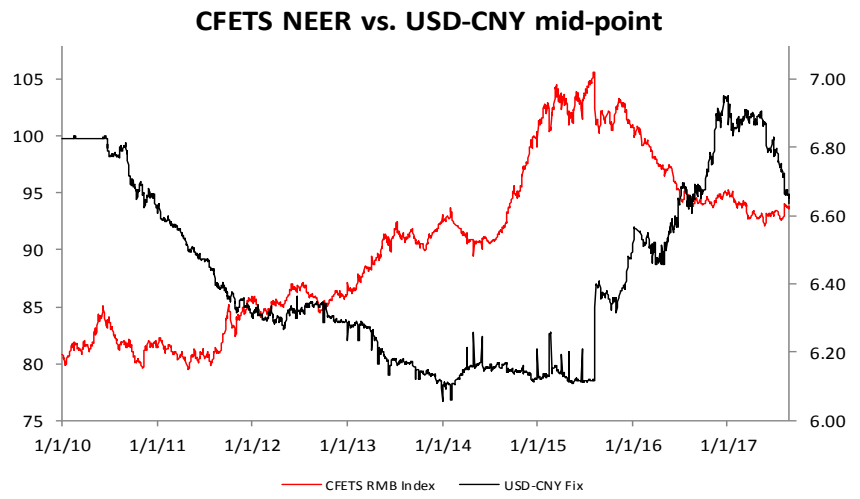
- **EPFR** data in the latest week showed a net turnaround to an implied inflow balance for Asian (excl Japan, China) equities in the latest week, while implied bond inflows also improved further in the same period. This may continue to underpin Asian FX at the onset of the week, especially given supported risk appetite levels, USD-CNH (tripping below 6.6500 on Friday) softer in sympathy, and the vulnerable broad dollar. Overall, we look for the **ACI (Asian Currency Index)** to tip lower today with the **FXSI (FX Sentiment Index)** also ticking lower within Risk-Neutral territory on Friday.
- **SGD NEER:** This morning, the SGD NEER is slightly firmer on the day at around +0.66% above its perceived parity (1.3647) with NEER-implied USD-SGD thresholds softer amidst the latest broad dollar moves. We look for the NEER to ply a rough +0.60% (1.3566) to +0.80% (1.3539) range, with +0.50% residing around 1.3579. Technically, a sustained breach of the support zone around 1.3540/50 may have to be predicated on further moves in the NEER's constituent currencies despite the better than expected July industrial production numbers.



	SGD NEER	% deviation	USD-SGD
Current	125.01	0.60	1.3563
+2.00%	126.74		1.3379
Parity	124.26		1.3647
-2.00%	121.77		1.3925

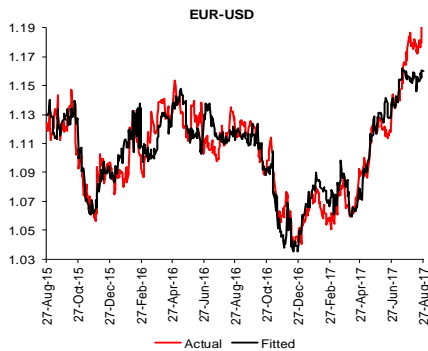
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point dropped (slightly more than expected) to 6.6353 from 6.6579, with the CFETS RMB Index also slipping 93.62 from 93.76 on Friday.



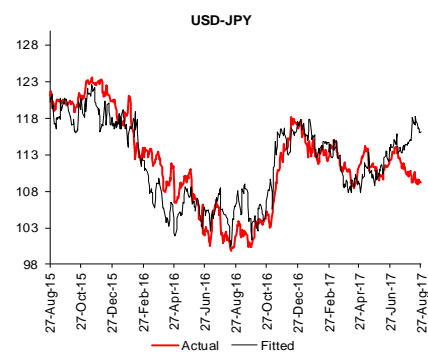
Source: OCBC Bank, Bloomberg

G7



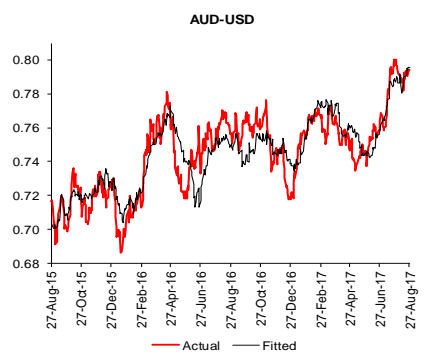
Source: OCBC Bank

- EUR-USD** Post-Draghi and with Yellen also not addressing easier monetary conditions, the EUR-USD may continue to subsist above its short term implied confidence intervals in the near term. In the interim, the 1.1970/00 neighborhood may prompt some hesitation despite the supported posture of the EUR-USD. Current EUR and JPY dynamics may meanwhile prompt the EUR-JPY to consider the 131.40 resistance multi-session as investors play off the divergent ECB/BOJ prospects.



Source: OCBC Bank

- USD-JPY** With the 10y UST yield continuing to loll around below 2.20% and implied Fed rate hike prospects deteriorating further, expect the USD-JPY to stay inherently top heavy and continuing to depart from its short term implied valuations. In the near term, the pair may attempt to veer towards 108.60 on the downside.



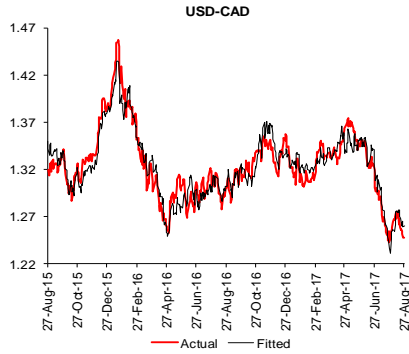
Source: OCBC Bank

- AUD-USD** Against a soggy USD backdrop and with risk appetite levels underpinned, the AUD-USD may attempt to keep up with its underpinned short term implied valuations. As such, pending risk appetite developments and this week's global manufacturing PMIs, topside resistance levels at 0.7972 and subsequently at 0.8000 may come into play as the pair attempts to feel out the upper reaches of its recent ranges. Initial support is expected into 0.7860.



Source: OCBC Bank

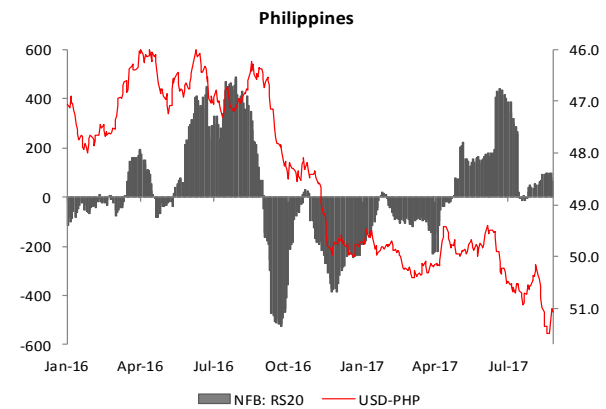
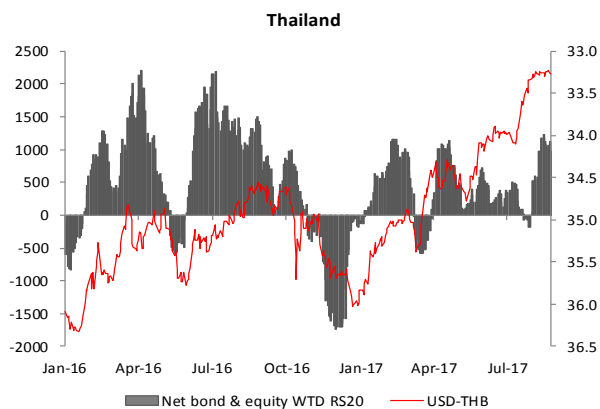
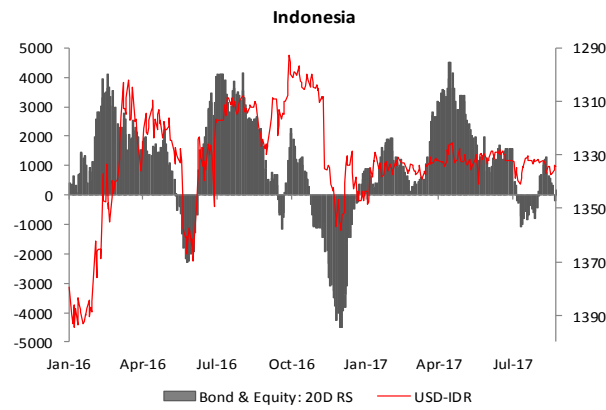
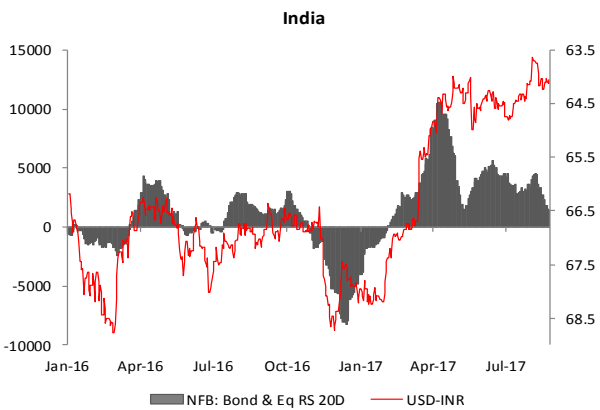
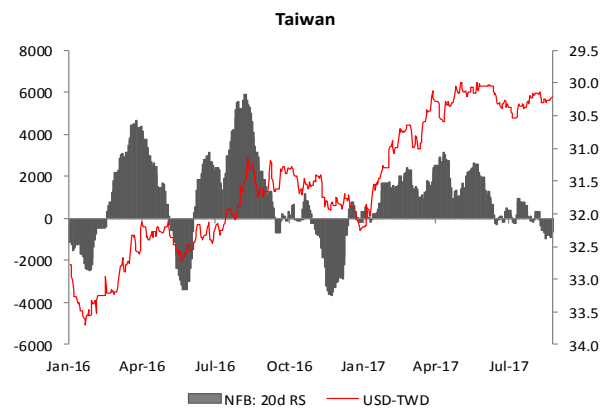
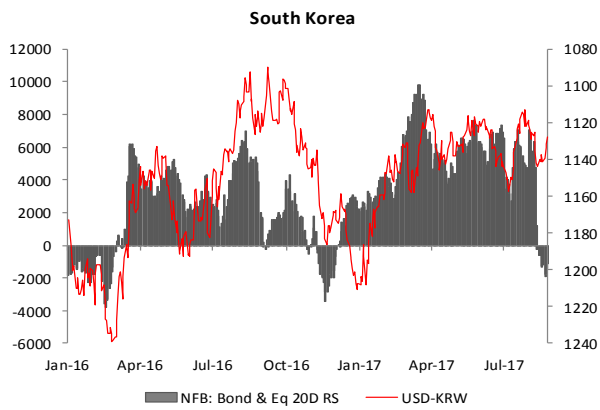
- GBP-USD** GBP-USD managed to jump past 1.2850 on Friday (and subsequently above 1.2900 briefly in early Asia on Monday) in the wake of the broad dollar's decline. Going ahead however, cable may continue to be hemmed in my background Brexit negativity (not to mention, a biddish EUR-GBP), with short term implied valuations remaining top heavy on a multi-session basis. Expect initial resistance towards the 55-day MA (1.2930) with risks towards 1.2800 expected to remain evident.

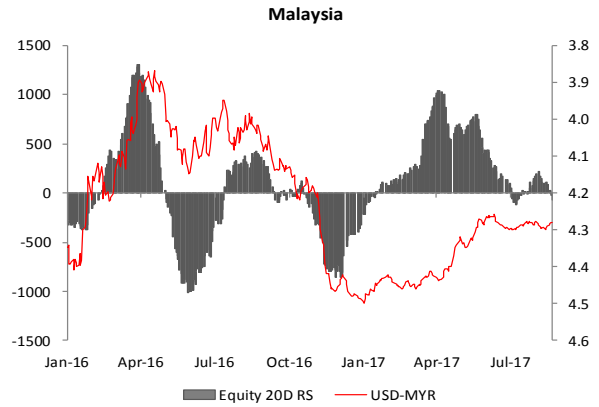


- USD-CAD** Supported crude and a fragile USD backdrop may continue to keep short term implied valuations for the pair top heavy in the near term. If the pair remains submerged below 1.2500 with any conviction, expect temptation towards 1.2420 to heighten at this juncture.

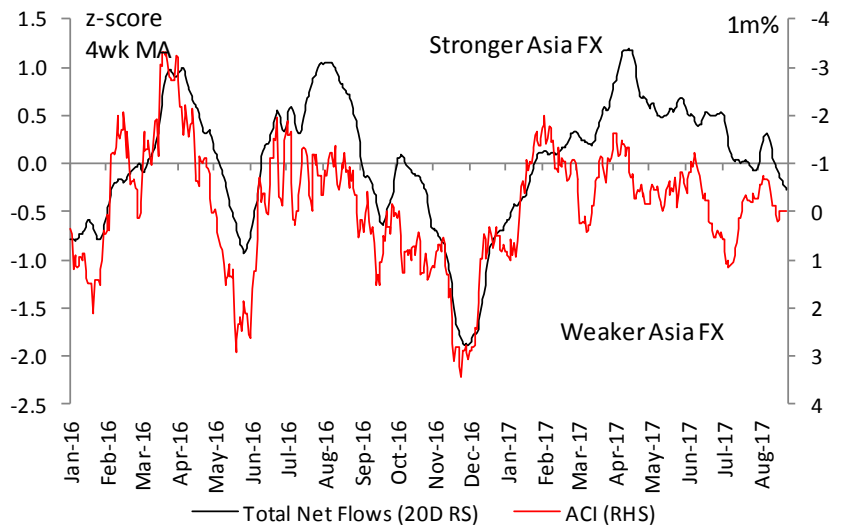
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

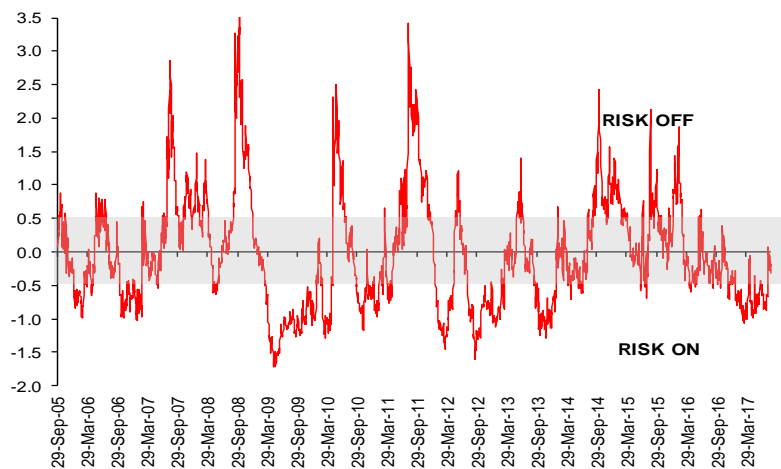




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.267	-0.102	0.024	-0.105	-0.381	0.261	-0.188	0.207	0.102	0.16	-0.953
SGD	0.901	0.026	-0.28	-0.192	-0.245	-0.482	0.06	-0.347	0.462	0.296	-0.025	-0.879
CAD	0.743	0.23	-0.079	0.127	-0.41	-0.105	0.226	-0.019	0.371	0.033	0.203	-0.698
MYR	0.665	0.179	-0.148	-0.122	-0.639	-0.372	0.097	-0.211	0.553	0.308	0.172	-0.74
CHF	0.548	0.73	0.657	0.692	0.139	0.306	0.726	0.33	-0.52	-0.573	0.735	-0.504
KRW	0.463	-0.501	-0.685	-0.6	-0.715	-0.663	-0.556	-0.502	0.794	0.757	-0.411	-0.466
CCN12M	0.39	-0.29	-0.177	-0.257	-0.388	-0.705	-0.082	-0.672	0.358	0.266	-0.185	-0.321
PHP	0.339	-0.617	-0.742	-0.729	-0.408	-0.907	-0.611	-0.829	0.606	0.859	-0.768	-0.326
USGG10	0.267	1	0.818	0.831	0.21	0.631	0.899	0.613	-0.636	-0.768	0.841	-0.263
JPY	0.261	0.899	0.848	0.884	0.358	0.512	1	0.474	-0.718	-0.857	0.83	-0.19
TWD	0.254	-0.535	-0.565	-0.627	-0.728	-0.77	-0.551	-0.689	0.727	0.791	-0.543	-0.336
CNH	0.16	0.841	0.972	0.796	0.193	0.689	0.83	0.673	-0.61	-0.873	1	-0.208
IDR	0.158	-0.578	-0.631	-0.595	-0.556	-0.842	-0.536	-0.772	0.554	0.788	-0.665	-0.149
CNY	-0.102	0.818	1	0.79	0.29	0.649	0.848	0.62	-0.695	-0.894	0.972	0.07
THB	-0.112	-0.117	-0.109	0.048	0.452	-0.111	0.031	-0.145	-0.291	0.029	-0.149	0.149
INR	-0.112	-0.512	-0.594	-0.621	-0.517	-0.59	-0.671	-0.524	0.541	0.73	-0.629	-0.074
NZD	-0.224	0.685	0.84	0.6	0.144	0.743	0.57	0.731	-0.526	-0.731	0.848	0.108
GBP	-0.337	0.676	0.763	0.653	0.106	0.836	0.58	0.78	-0.462	-0.732	0.793	0.241
AUD	-0.654	0.184	0.516	0.209	0.388	0.506	0.129	0.452	-0.465	-0.438	0.331	0.546
EUR	-0.953	-0.263	0.07	0.057	0.18	0.336	-0.19	0.137	-0.319	-0.15	-0.208	1

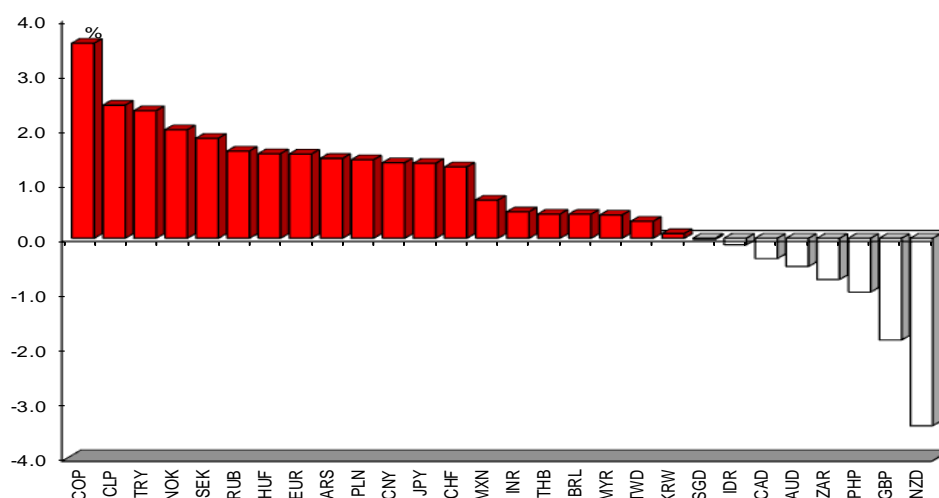
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1900	1.1912	1.1933	1.1965	1.2000
GBP-USD	1.2774	1.2800	1.2894	1.2900	1.2947
AUD-USD	0.7841	0.7900	0.7938	0.7983	0.8000
NZD-USD	0.7192	0.7200	0.7244	0.7300	0.7329
USD-CAD	1.2414	1.2451	1.2478	1.2500	1.2751
USD-JPY	108.62	109.00	109.27	110.00	111.02
USD-SGD	1.3543	1.3558	1.3563	1.3600	1.3672
EUR-SGD	1.6100	1.6161	1.6185	1.6200	1.6233
JPY-SGD	1.2312	1.2400	1.2412	1.2447	1.2500
GBP-SGD	1.7387	1.7400	1.7488	1.7500	1.7723
AUD-SGD	1.0700	1.0704	1.0766	1.0800	1.0842
Gold	1255.39	1255.86	1293.50	1300.00	1300.70
Silver	17.00	17.02	17.03	17.10	17.32
Crude	46.79	47.70	47.76	47.80	49.42

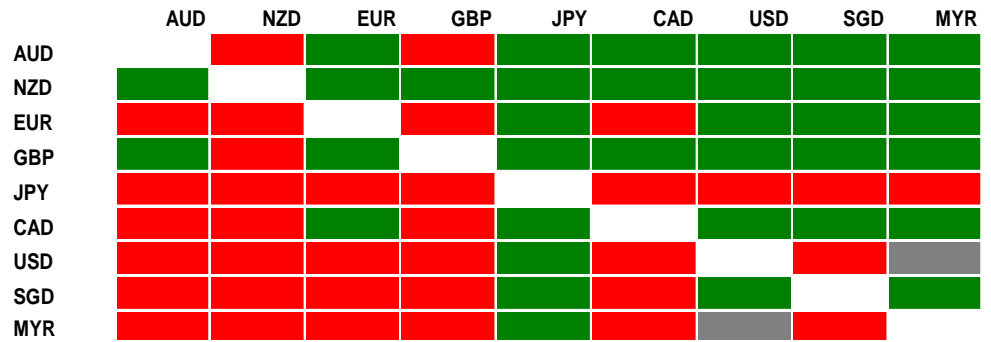
Source: OCBC Bank

FX performance: 1-month change agst USD



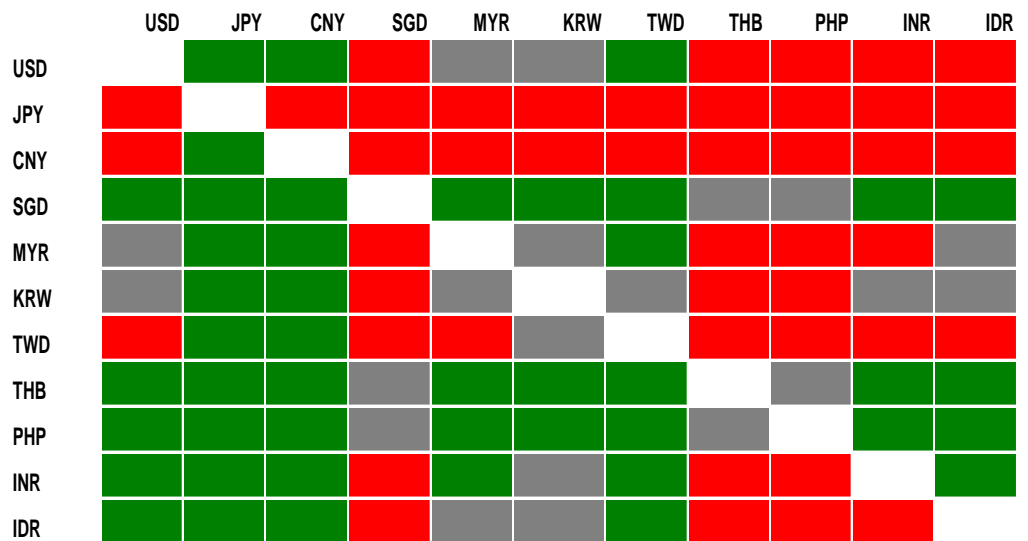
Source: Bloomberg

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		
7	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		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	13-Jul-17	03-Aug-17	B	AUD-USD	0.7708	0.7935	Vulnerable USD, improving risk appetite, supportive China data	+2.89
2	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
3	01-Aug-17	04-Aug-17	B	GBP-USD	1.3207	1.3060	Expected trace of hawkishness at BOE MPC	-1.14
4	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
5	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
6	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.

Co.Reg.no.:193200032W