

Thursday, September 28, 2017

FX Themes/Strategy/Trading Ideas

- Despite cautionary and somewhat dovish remarks from the Fed's Bullard, the greenback continued to strengthen on Wednesday (note firmer UST yields led by the 10y yield jumping to 2.3032%) on a mixture of positivity on the back of the US tax plan and from remarks from Yellen on Tuesday. On the data front, August durable goods came in better than expected but this was balanced by disappointing August pending home sales numbers.
- The **CAD** meanwhile underperformed across the board after the Bank of Canada's Poloz stated that there is no "predetermined path for interest rates" and that the central bank will proceed "cautiously". Crucially, he also addressed the issue of the exchange rate, noting that "**currency movements can affect inflation outlook, depending on cause, size, persistence**". On other fronts, the **RBNZ** kept its benchmark OCR unchanged at 1.75% as expected while the central bank remained sufficiently accommodative, whittling away at intra-day highs for the NZD-USD.
- **For today, central bank rhetoric is expected to continue to figure prominently. Fed speak** includes George (1345 GMT), Fischer (1400 GMT), and Bostic (1730 GMT). Meanwhile, the raft of **ECB** appearances include Hansson (0630 GMT), Praet (0800 GMT), and Lautenschlaeger (1110 and 1245 GMT). Elsewhere, the **RBA's Debelle** is scheduled for 0900 GMT. On the data front, look towards EZ September confidence indicators, German September CPI, US 2Q GDP, weekly initial claims, as well as the September Kansas Fed.
- Going ahead, the final form of the US tax code remains in question and it remains to be seen if the positivity on this front will persist beyond the short term. **To this end, note that key watershed levels for the DXY, 10y UST, 2/10s, 5/30s still remain intact at this juncture.**
- **Structurally, global central banks (of late, ECB, BOC, RBNZ) may continue to wrestle with the impact of exchange rate movements on their policy reaction functions.** However, we note that these policy banks remain interest rate targeters and barring acute volatility on the FX front, should not detract materially from their policy intentions, which, since the summer has been a tilt away from outright dovishness towards neutrality. **As such, evolving relative central bank dynamics between the Fed and its G10 counterparts we think will continue to be a staple into 4Q 17.**

Treasury Research &
Strategy

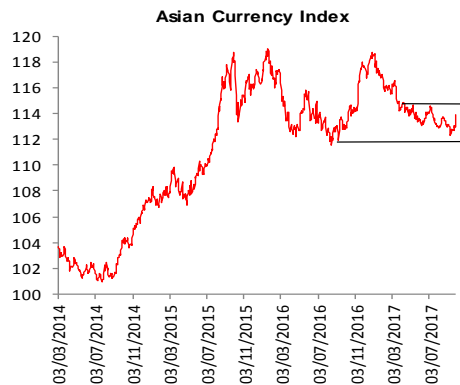
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Asian FX

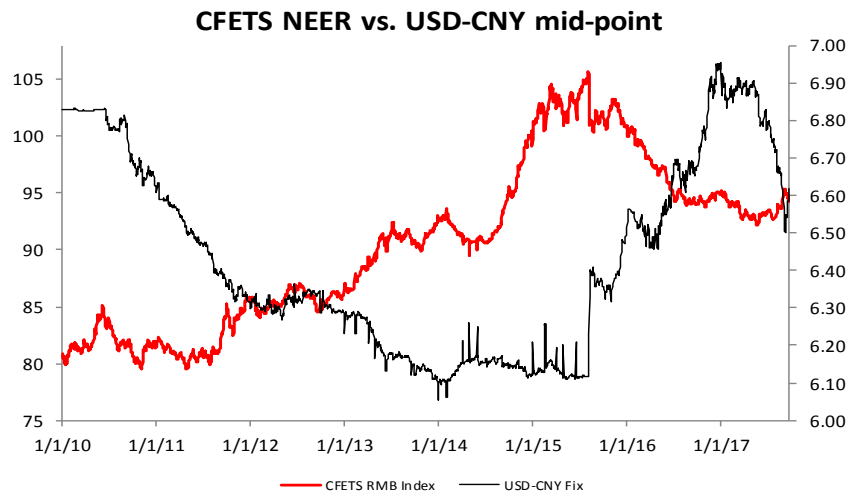
- Global EM equities continued to slip for another day on Wednesday despite the **FXSI (FX Sentiment Index)** inching lower within Risk-neutral territory on Wednesday. Meanwhile, net portfolio inflows in Asia continue to be highly fragmented with persistent and deepening short term outflow pressures for the KRW and TWD, the INR is tipping into a net outflow environment. Meanwhile, net inflow momentum for the IDR and THB remain strong, albeit moderating slightly. Overall, coupled with near term broad dollar resilience, expect the **ACI (Asian Currency Index)** to continue to respond higher at this juncture. On the central bank front, the **Bank of Thailand** remained static at 1.50% on Wednesday as widely expected.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.81% above its perceived parity (1.3702). NEER-implied USD-SGD thresholds are firmer on the day in light of overnight broad dollar moves with +1.00% estimated at 1.3567 while downside today for the NEER is expected towards +0.70% (1.3607) pending further external developments. Technically, with the 55-day MA (1.3574) also serving as an interim support, USD-SGD may attempt to veer towards 1.3635 into the end of the week in the current environment.



	SGD NEER	% deviation	USD-SGD
Current	125.34	0.87	1.3593
+2.00%	126.74		1.3434
Parity	124.26		1.3702
-2.00%	121.77		1.3982

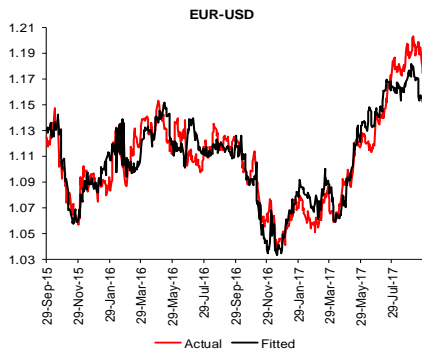
Source: OCBC Bank

- **CFETS RMB Index:** With the authorities seemingly imposing relative stability in the last few sessions, the USD-CNY mid-point was set lower than expected for the third consecutive session this morning at 6.6285 from 6.6192 on Wednesday. This lifted the **CFETS RMB Index** higher to 94.54 from 94.34 yesterday although it remains well off recent highs.



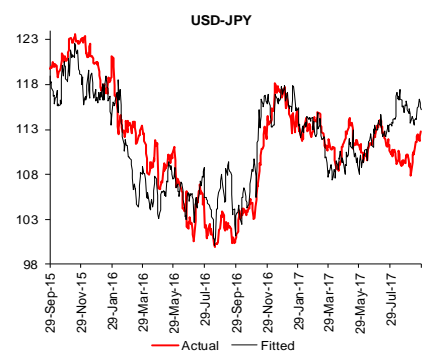
Source: OCBC Bank, Bloomberg

G7



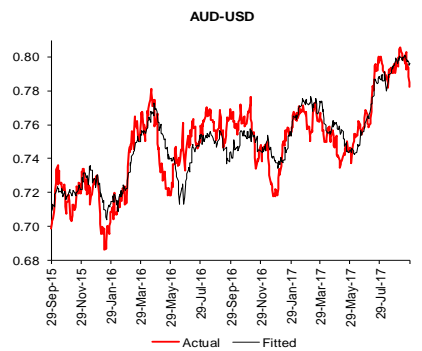
Source: OCBC Bank

- **EUR-USD** Short term implied valuations continue to slip, especially under the weight of rate differential arguments. Look towards the overall balance of central bank rhetoric from the Fed and the ECB today with the 55-day MA (1.1811) seen capping and with risk perhaps oriented towards 1.1670 instead.



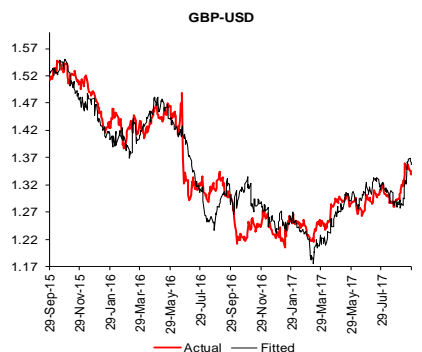
Source: OCBC Bank

- **USD-JPY** Our near term view for the USD-JPY remains unchanged and the pair may continue to reflect near term USD resilience, especially with global risk appetite levels stabilizing for now. Look for the 200-day MA (112.06) to continue to cushion while 113.30 on the topside may continue to beckon if UST yields attempt to drive higher from here.



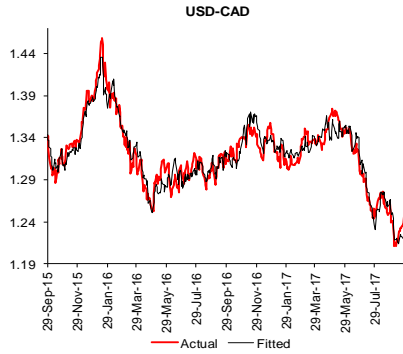
Source: OCBC Bank

- **AUD-USD** With global attention focused on the G3 in the near term, the antipodeans may remain casualties of another round of investor re-assessment. Meanwhile, short term implied valuations for the pair remain subdued and 0.7800 and the 100-day MA (0.7760) may attract. Meanwhile, with the **RBNZ** flagging slower growth prospects and stating that a further fall in the currency would help improve inflation prospects and rebalance the economy, the kiwi may remain vulnerable to the USD in the current environment.



Source: OCBC Bank

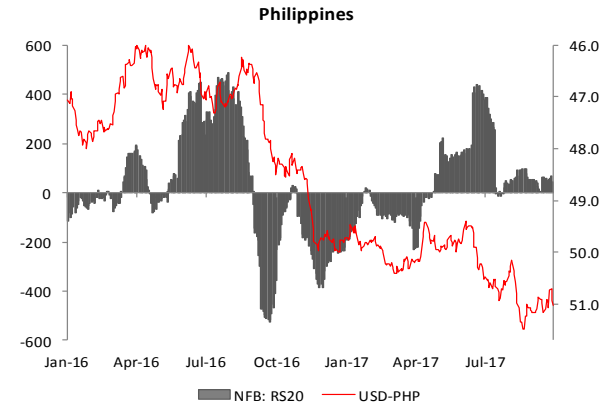
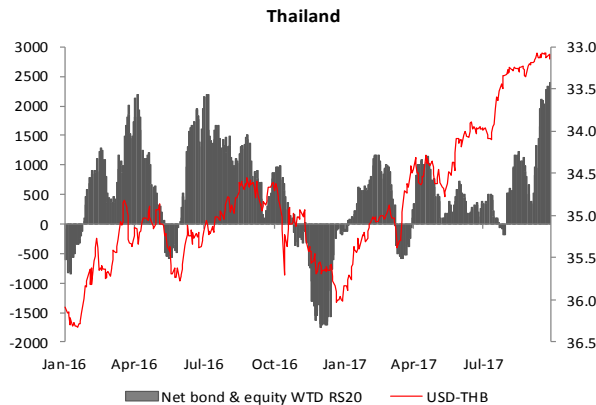
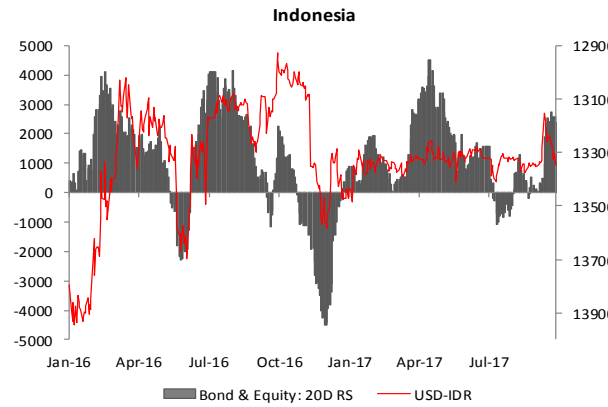
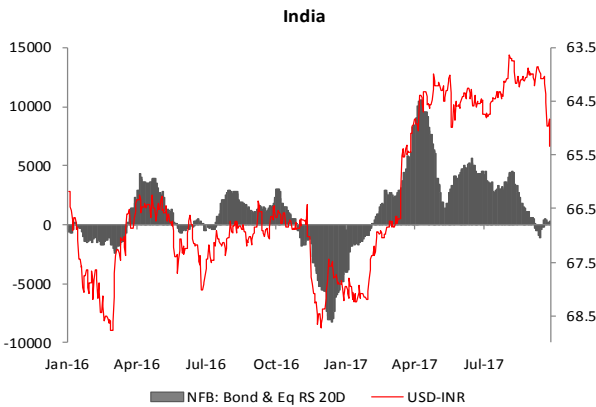
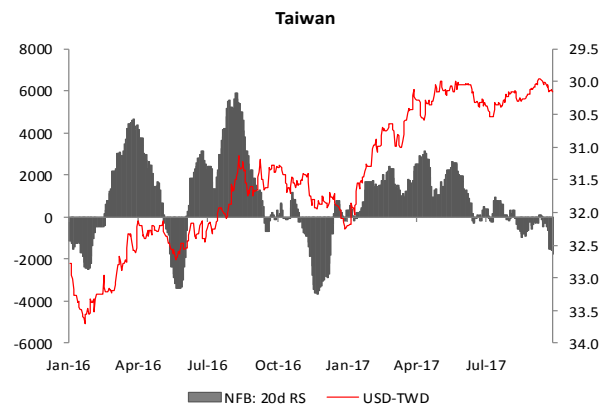
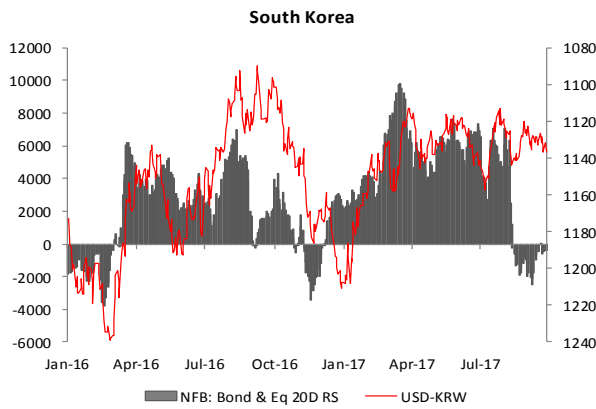
- **GBP-USD** GBP-USD was also weighed by the broad dollar on Wednesday although the EUR-GBP also weakened following strong September CBI retail sales numbers. In the interim, short term implied valuations for the GBP-USD are also tipping lower and potential for a further dip towards 1.3300 we think remain in play.

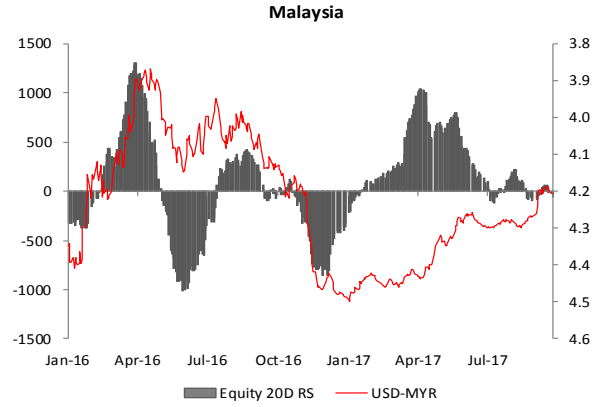


- USD-CAD** Post-Poloz, BOC rate hike bets have been dented while short term implied valuations for the USD-CAD continue to base out. Given the potential scope for a further unwind in excessive CAD bullishness in the near term, a breach of the 55-day MA (1.2480) may draw the pair higher towards 1.2650.

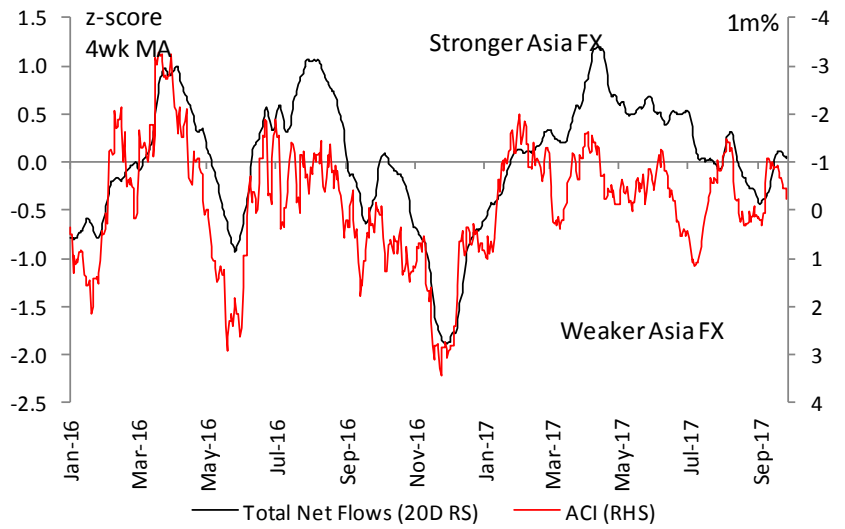
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

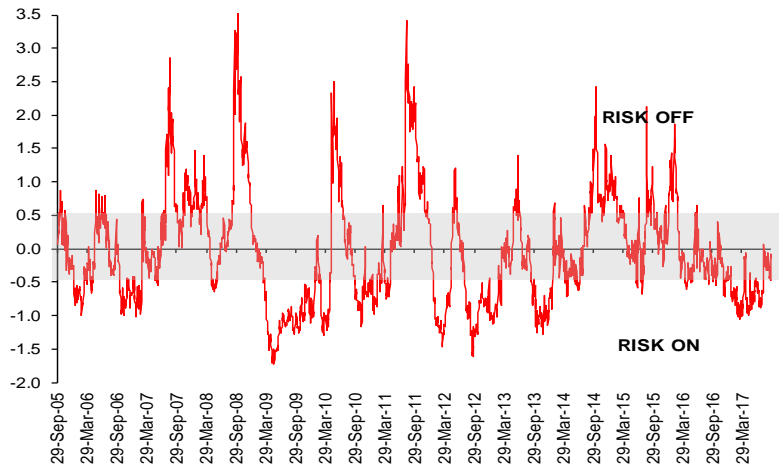




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.51	0.701	0.121	-0.227	-0.033	0.572	0.364	-0.36	0.557	0.768	-0.947
SGD	0.893	0.296	0.584	-0.157	-0.353	-0.382	0.339	0.024	-0.107	0.353	0.685	-0.777
THB	0.789	0.19	0.453	-0.322	-0.571	-0.389	0.225	0.082	0.125	0.351	0.587	-0.732
CNH	0.768	0.691	0.977	0.286	0.082	-0.029	0.779	0.418	-0.496	0.584	1	-0.732
TWD	0.736	0.612	0.896	0.193	-0.029	0.012	0.704	0.374	-0.468	0.68	0.877	-0.645
IDR	0.731	0.204	0.598	-0.172	-0.468	-0.049	0.335	0.277	-0.035	0.638	0.605	-0.615
CAD	0.729	0.263	0.658	-0.252	-0.259	-0.474	0.359	-0.065	-0.073	0.512	0.728	-0.536
CNY	0.701	0.718	1	0.376	0.143	0.065	0.816	0.451	-0.577	0.615	0.977	-0.683
CHF	0.701	0.908	0.776	0.697	0.473	0.372	0.939	0.645	-0.855	0.519	0.75	-0.719
CCN12M	0.668	0.566	0.677	0.181	0.025	0.195	0.644	0.505	-0.3	0.46	0.728	-0.639
JPY	0.572	0.972	0.816	0.79	0.574	0.466	1	0.735	-0.884	0.49	0.779	-0.615
INR	0.555	0.687	0.759	0.501	0.037	0.47	0.755	0.814	-0.528	0.694	0.674	-0.677
USGG10	0.51	1	0.718	0.855	0.63	0.497	0.972	0.725	-0.904	0.374	0.691	-0.575
KRW	0.396	0.529	0.318	0.445	-0.04	0.587	0.511	0.779	-0.302	0.367	0.382	-0.541
MYR	0.304	-0.392	0.117	-0.778	-0.68	-0.712	-0.299	-0.471	0.618	0.243	0.204	-0.136
PHP	0.111	-0.209	-0.136	-0.316	-0.119	-0.35	-0.238	-0.444	0.255	-0.4	-0.09	-0.004
GBP	-0.082	0.726	0.348	0.868	0.725	0.763	0.706	0.79	-0.698	0.154	0.257	-0.106
NZD	-0.494	0.315	0.034	0.48	0.679	0.362	0.297	0.231	-0.326	0.098	-0.043	0.427
AUD	-0.866	-0.58	-0.83	-0.149	0.165	0.08	-0.652	-0.421	0.375	-0.564	-0.826	0.813
EUR	-0.947	-0.575	-0.683	-0.293	0.171	-0.205	-0.615	-0.544	0.409	-0.514	-0.732	1

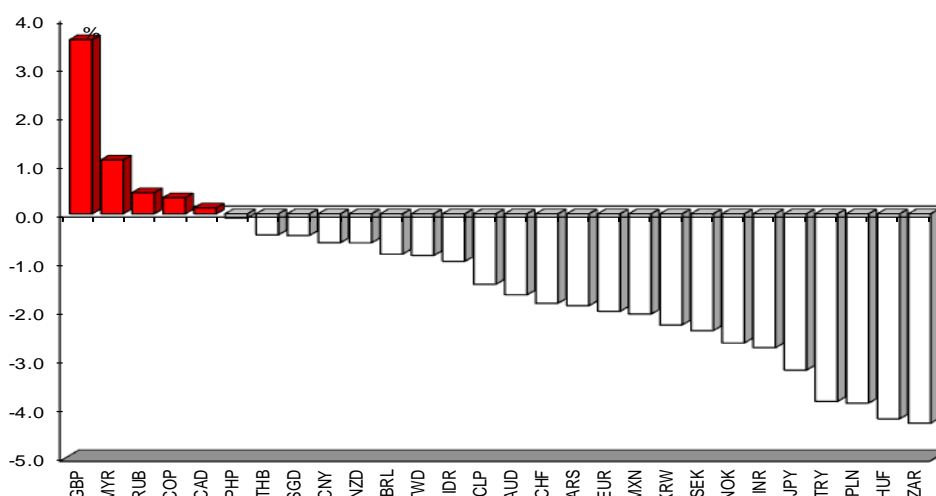
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1709	1.1738	1.1749	1.1800
GBP-USD	1.3110	1.3300	1.3391	1.3400	1.3657
AUD-USD	0.7800	0.7829	0.7834	0.7849	0.7900
NZD-USD	0.7143	0.7200	0.7211	0.7300	0.7301
USD-CAD	1.2400	1.2461	1.2491	1.2500	1.2513
USD-JPY	112.00	112.03	112.87	113.00	113.26
USD-SGD	1.3500	1.3554	1.3594	1.3596	1.3600
EUR-SGD	1.5939	1.5949	1.5957	1.6000	1.6044
JPY-SGD	1.1969	1.2000	1.2045	1.2100	1.2285
GBP-SGD	1.7772	1.8200	1.8204	1.8300	1.8349
AUD-SGD	1.0641	1.0645	1.0650	1.0700	1.0762
Gold	1277.94	1280.90	1283.70	1293.14	1300.00
Silver	16.70	16.77	16.79	16.80	17.13
Crude	50.70	51.60	52.00	52.43	52.78

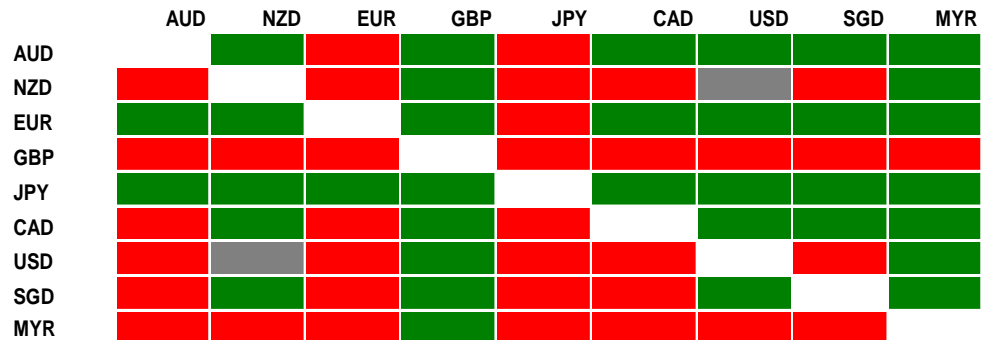
Source: OCBC Bank

FX performance: 1-month change agst USD



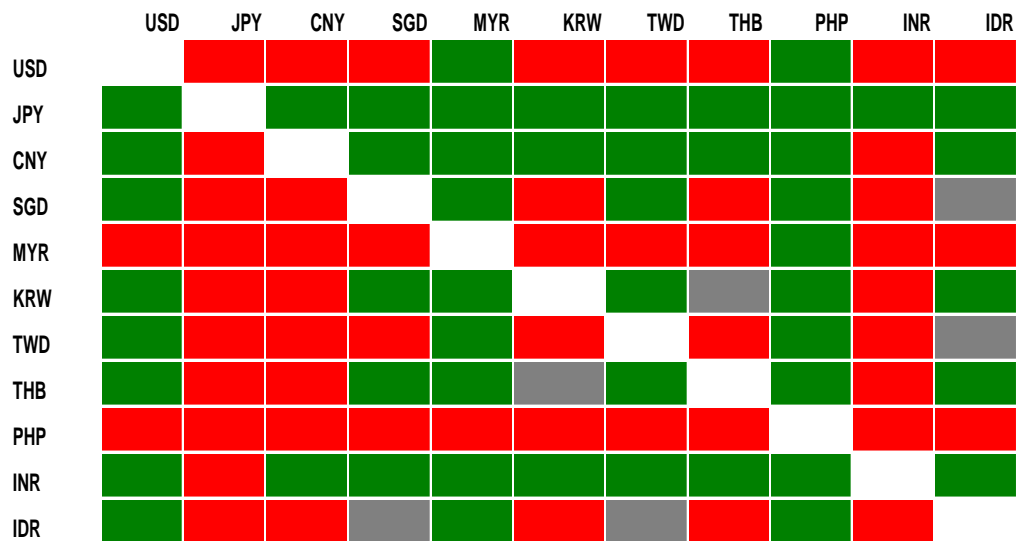
Source: Bloomberg

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	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		
5	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
9	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
							Jan-Sep*** 2017 Return	-1.44
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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