

Monday, October 30, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite better than expected US GDP readouts, news flow surrounding Powell (Trump reportedly favors him) took UST yields lower (curve bull flattened from the back end) and left the USD mixed on the day. Positive global equities (global EM also bounced) aided the cyclicals higher while softer US yields shaved the USD-JPY lower by late NY.
- The EUR meanwhile continued to underperformed across the board in the wake of the ECB on Thursday and with **Spanish** PM dissolving the Catalan government on Friday and calling for regional elections on 21 Dec 17. Expect this issue to remain a potential flashpoint for the EUR with the Catalan government on Sunday reaffirming its declaration of independence.
- This week, market influences are expected to be as diverse as numerous. In the interim, aggregate interest rate differentials imply that the USD may attempt to hold on its recent gains (especially if policy dichotomy dynamics continue to persist) pending further headline risks. **Pending further volatility, look to the USD-JPY as a barometer of greenback prospects. Going ahead, the key tactical view continues to hinge on whether the 10y UST yield can successfully carve out a new 2.40-2.60% range and the DXY can sympathetically establish a firmer 94.00-96.00 neighborhood.**
- **CFTC** positioning data meanwhile indicate shorter term players having moved in favor of the dollar in the latest week. On this front, large non-commercial accounts and leveraged accounts pared significantly their implied net short dollar bias in aggregate in the latest week. However, asset manager accounts, increased their net short dollar bias in the same period.
- The White House **Fed chair nomination** is expected Wednesday-Thursday before President Trump embarks on his Asian tour on the 03 Nov 17. If market chatter continues to hover around **Powell**, outright USD resilience may remain slightly tempered. To this end, investors may also be also slightly cautious towards the greenback following headlines regarding special prosecutor Robert **Mueller**. Nonetheless, look for potential USD resilience if the US **tax bill introduction** slated on 01 Nov 17 materializes.
- Meanwhile, the **FOMC** on Wednesday is not expected to yield any surprises (with no scheduled press conference) but watch for the voting pattern and any change in the statement's forward guidance. Subsequent **Fed-speak** may also steer USD prospects, with Potter, Powell, Dudley, and Bostic on Thursday, and Kashkari on Friday.

Treasury Research &
Strategy

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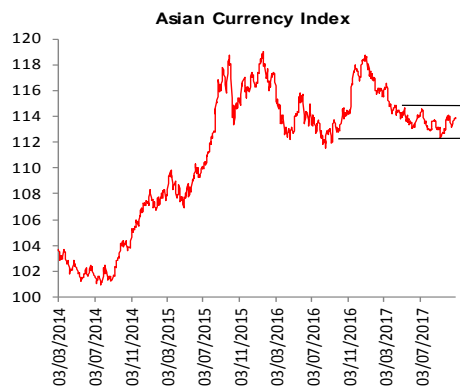
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- Outside of the US sphere, look also potentially for distraction from other major global central banks this week (akin to last week). On this front, the **ECB's** Costa (1030 GMT) and Hansson (1430 GMT) are scheduled for today, Visco on Tuesday, plus Nowotny and Coeure on Friday. Elsewhere, the **BOJ's MPC** on Tuesday is not expected to yield any hawkish surprises, while the **Bank of Canada's** Poloz and Wilkins are scheduled for Tuesday and Wednesday. The BOE's Cunliffe makes an appearance on Wednesday, with the **BOE MPC** (consensus for a hike) and BOE Inflation Report on due on Thursday.
- The global data calendar this week is also brimming with releases and may partially distract from central bank rhetoric. Note **China's** manufacturing and non-manufacturing PMIs are scheduled for Tuesday with global PMIs being released on Wednesday/Thursday and the lineup culminates with the **US October labor market report on Friday**.

Asian FX

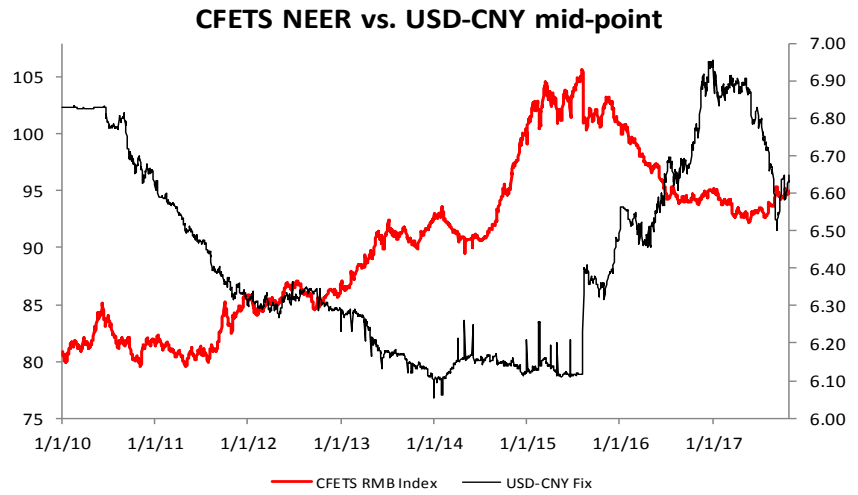
- Asian net portfolio inflows meanwhile indicate intrinsic support for the KRW, TWD, and the INR from sustained and still improving net inflows. Meanwhile, net outflow momentum is attempting to improve for the IDR but inflows remain anemic. Elsewhere, the THB may also continue to creak under net outflow pressure on a rolling basis. Overall, we do not detect any distinct flight of capital from the region despite recent USD resilience.
- On the risk appetite front, note also that the **FXSI (FX Sentiment Index)** slipped into **Risk-On** territory on Friday and the **ACI (Asian Currency Index)** may attempt to inch lower intra-day as the broad dollar consolidates ahead of the raft of headline risks this week.
- **SGD NEER:** This morning, the SGD NEER is firmer on the day at around +0.83% above its perceived parity (1.3779) with NEER-implied USD-SGD thresholds slightly firmer on the day. At current levels, the +1.00% threshold is estimated at 1.3642, with the 100-day MA (1.3638) also seen providing additional support. Going ahead, risks may remain slightly skewed towards 1.3700/30 pending further USD cues.



	SGD NEER	% deviation	USD-SGD
Current	125.31	0.84	1.3652
+2.00%	126.74		1.3509
Parity	124.26		1.3779
-2.00%	121.77		1.4060

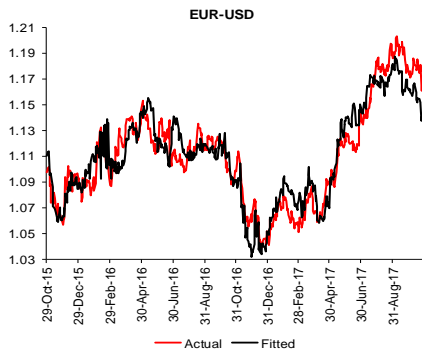
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point rose (largely in line with expectations) to 6.6487 from 6.6473 last Friday, easing the CFETS RMB Index lower to 94.99 from 95.02.



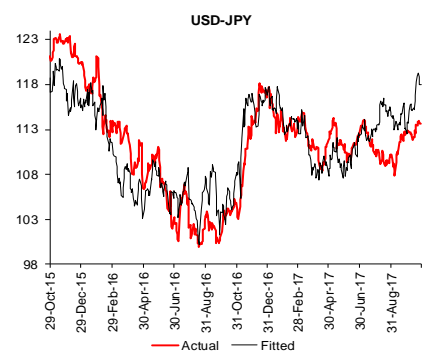
Source: OCBC Bank, Bloomberg

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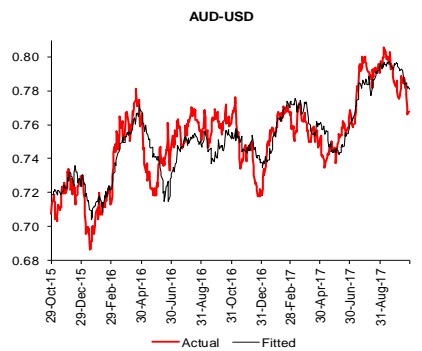
Source: OCBC Bank

- EUR-USD** Short term implied valuations remain suppressed for the EUR-USD at the onset of the week with the 1.1600 floor still seen under threat at this juncture with 1.1555 expected to offer subsequent support. Notably, short-end riskies have also collapsed in the wake of last week's ECB meeting. On the domestic front, German political news flow may impose additional negativity if coalition talks continue to be stymied.



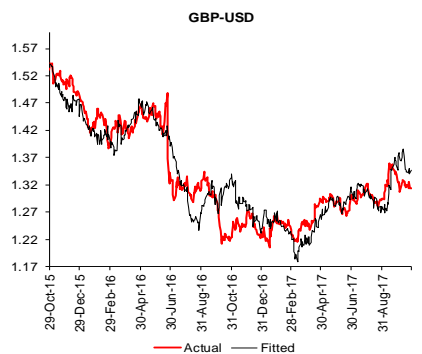
Source: OCBC Bank

- USD-JPY** The JPY may continue to manifest near term dollar prospects fairly efficiently with US-centric headlines posing significant risks for the pair this week. Short term implied valuations are consolidating slightly lower at this juncture although we'd expect some attempt to base build off 113.25 in the interim.



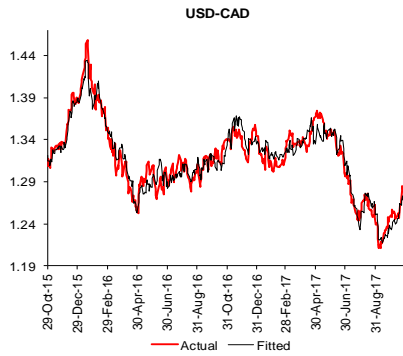
Source: OCBC Bank

- AUD-USD** Short term implied valuations for the AUD-USD remain top heavy in line with slippery near term riskies. Meanwhile, amidst some background domestic political static (02 Dec 17 by-election), the 200-day MA (0.7695) may cap with 0.7620 expected to offer initial support on dips.



Source: OCBC Bank

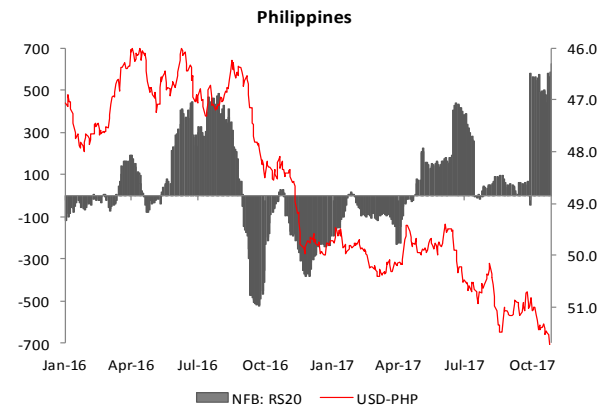
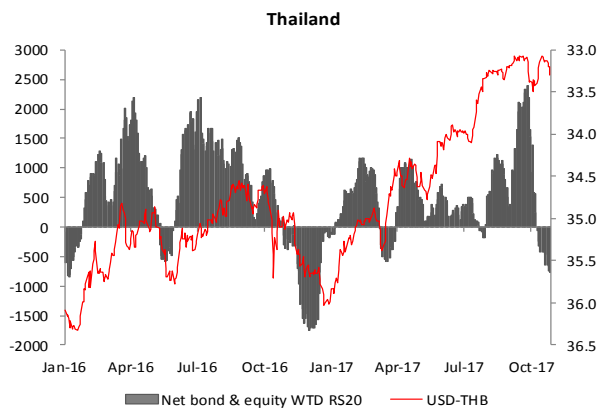
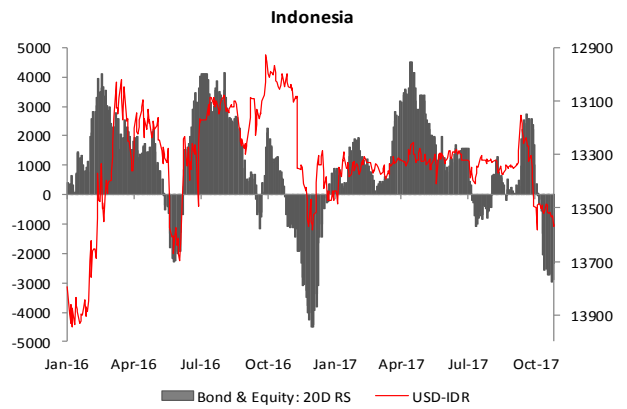
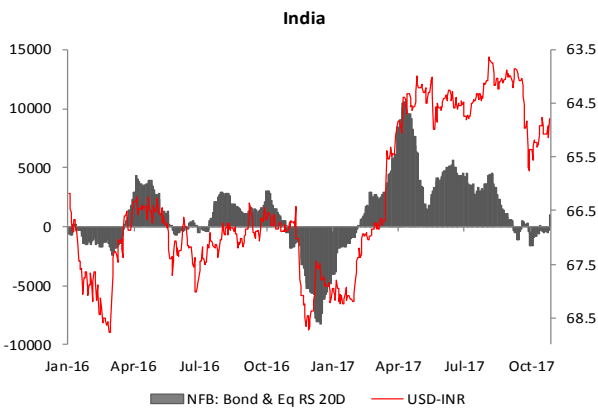
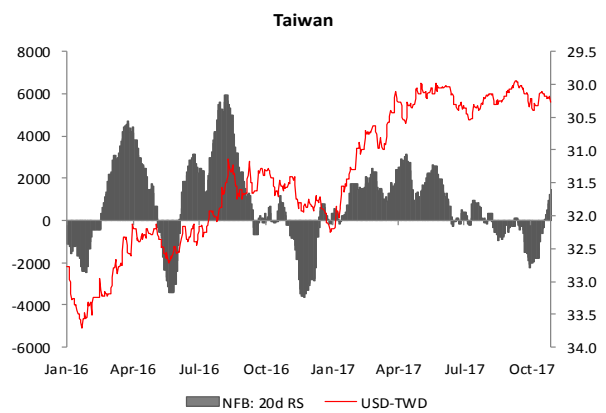
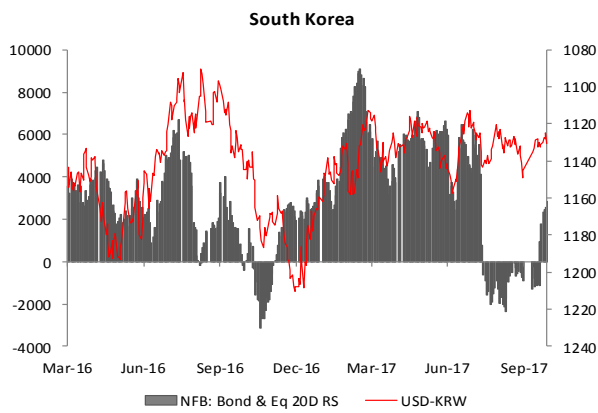
- GBP-USD** The pound may be at risk of a "dovish" hike this week at the BOE MPC (watch the voting pattern). Pending further headline risks, the 55-day MA (1.3166) may limit on the upside with the 100-day MA (1.3067) bringing up the rear. Meanwhile, note that short term implied valuations are attempting to stabilize but are off recent highs.

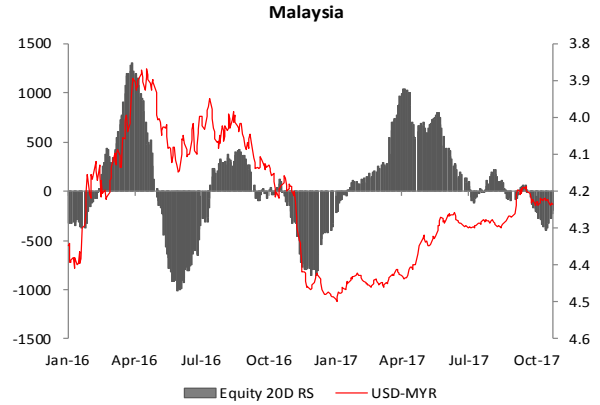


- USD-CAD** Firmer crude on Friday helped the USD-CAD lower as the broad dollar capitulated. Note however that short-end riskies are still pulling higher for the pair although short term implied valuations for the USD-CAD are attempting to consolidate. Preference to accumulate into dips on approach of 1.2775 in the interim with 1.2900 still serving as a resistance overhead.

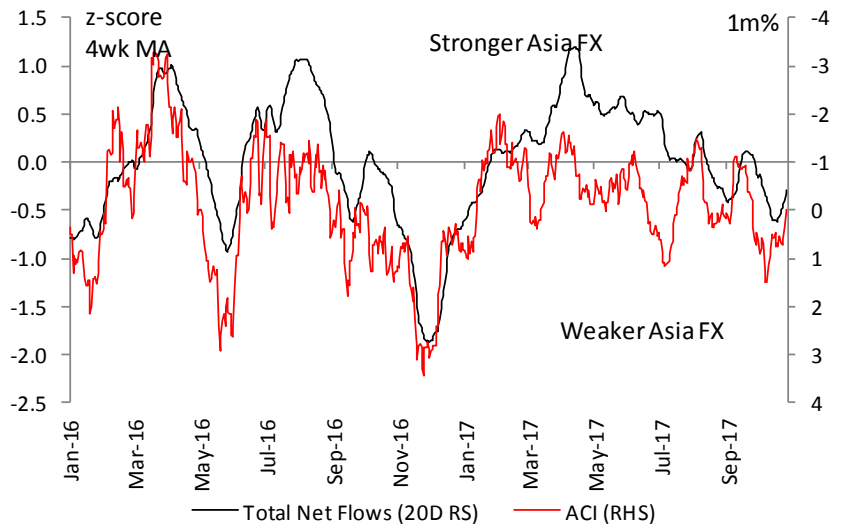
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

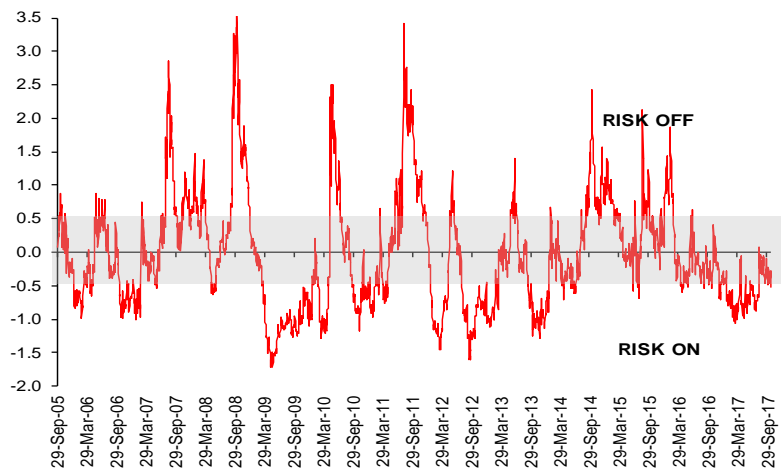




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.723	0.799	0.413	-0.002	0.381	0.77	0.604	0.301	-0.556	0.636	-0.939
CHF	0.881	0.855	0.853	0.665	0.379	0.691	0.876	0.773	0.652	-0.801	0.438	-0.721
CAD	0.871	0.874	0.761	0.543	0.269	0.641	0.866	0.721	0.657	-0.708	0.449	-0.693
SGD	0.817	0.72	0.851	0.043	-0.403	-0.101	0.763	0.149	0.222	-0.101	0.856	-0.791
CNY	0.799	0.688	1	0.589	0.202	0.467	0.823	0.566	0.636	-0.649	0.977	-0.687
MYR	0.789	0.602	0.891	0.037	-0.285	-0.002	0.705	0.307	0.237	-0.256	0.808	-0.766
JPY	0.77	0.925	0.823	0.462	0.114	0.443	1	0.58	0.623	-0.547	0.634	-0.594
USGG10	0.723	1	0.688	0.419	0.108	0.43	0.925	0.502	0.663	-0.52	0.473	-0.535
IDR	0.667	0.692	0.748	0.383	0.196	0.494	0.694	0.625	0.5	-0.603	0.358	-0.489
CNH	0.636	0.473	0.977	-0.16	-0.496	-0.194	0.634	0.071	0.053	0.03	1	-0.671
CCN12M	0.409	0.219	0.796	-0.039	-0.203	-0.094	0.406	0.139	-0.012	-0.047	0.779	-0.428
PHP	0.377	0.613	0.566	0.751	0.767	0.883	0.538	0.801	0.727	-0.832	-0.213	-0.07
THB	0.276	0.095	0.297	-0.609	-0.877	-0.706	0.088	-0.496	-0.442	0.527	0.666	-0.432
TWD	0.253	0.133	0.754	-0.579	-0.884	-0.681	0.195	-0.489	-0.325	0.502	0.794	-0.387
INR	-0.094	-0.118	-0.135	-0.488	-0.675	-0.72	-0.148	-0.62	-0.383	0.565	0.188	-0.037
GBP	-0.589	-0.44	-0.62	-0.387	0.017	-0.055	-0.391	-0.124	-0.095	0.233	-0.348	0.537
KRW	-0.604	-0.512	-0.531	-0.245	-0.374	-0.737	-0.581	-0.646	-0.582	0.543	-0.662	0.585
NZD	-0.735	-0.898	-0.717	-0.665	-0.353	-0.652	-0.873	-0.662	-0.723	0.702	-0.289	0.485
AUD	-0.806	-0.875	-0.569	-0.321	-0.043	-0.363	-0.732	-0.505	-0.493	0.508	-0.361	0.685
EUR	-0.939	-0.535	-0.687	-0.142	0.225	-0.12	-0.594	-0.452	-0.05	0.332	-0.671	1

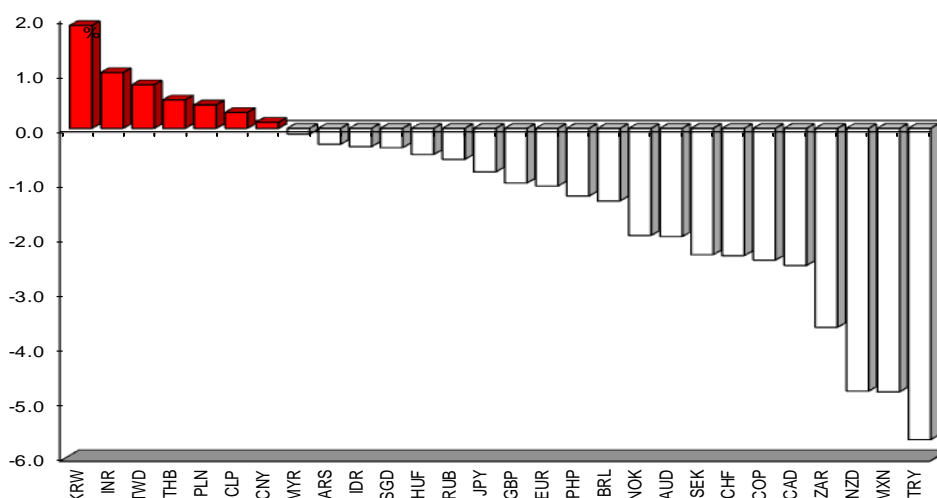
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1575	1.1600	1.1610	1.1618	1.1700
GBP-USD	1.3069	1.3100	1.3140	1.3189	1.3200
AUD-USD	0.7625	0.7654	0.7671	0.7691	0.7700
NZD-USD	0.6804	0.6818	0.6850	0.6900	0.7146
USD-CAD	1.2450	1.2800	1.2827	1.2846	1.2900
USD-JPY	111.71	113.00	113.67	114.00	114.18
USD-SGD	1.3546	1.3600	1.3654	1.3684	1.3700
EUR-SGD	1.5826	1.5850	1.5851	1.5900	1.6037
JPY-SGD	1.1948	1.2000	1.2012	1.2100	1.2121
GBP-SGD	1.7871	1.7900	1.7941	1.8000	1.8036
AUD-SGD	1.0436	1.0443	1.0474	1.0500	1.0628
Gold	1263.80	1264.90	1272.50	1300.00	1300.82
Silver	16.52	16.70	16.78	16.80	17.22
Crude	53.90	53.93	53.95	54.00	54.20

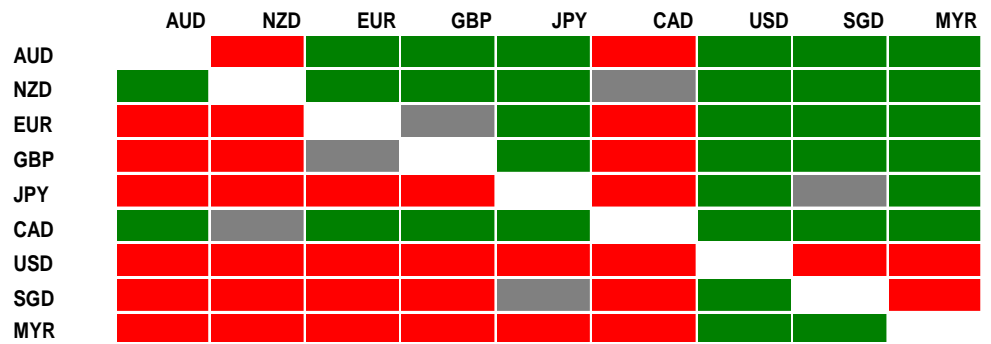
Source: OCBC Bank

FX performance: 1-month change agst USD



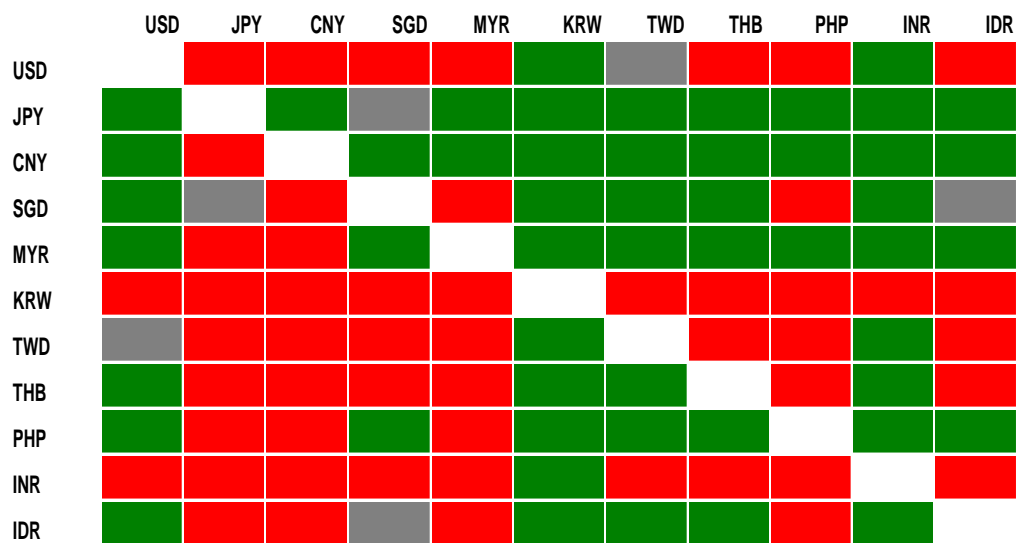
Source: Bloomberg

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	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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