

Thursday, August 31, 2017

FX Themes/Strategy/Trading Ideas

- Better than expected US data releases (ADP, 2Q GDP) lifted UST yields (5-7y sector underperformed but note that the front end and backend remained subdued) and pulled the majors lower against the USD. This saw the EUR-USD slip below 1.1900 despite warmer than expected German August CPI and August EZ confidence readings and the USD-JPY clocking a 110.43 high.
- On the risk appetite front, the US administration's rhetoric surrounding the North Korean situation meanwhile remained mixed to fairly restrained with the US President calling for a tax cut in a speech but provided no further details on the fiscal plan. Elsewhere, despite positive global equities, a soggy commodity complex also saw the cyclicals (CAD, AUD, NZD) mixed to softer against their G10 peers.
- Going ahead, near term USD vulnerability may have reached near term satiation ahead of Friday's global PMIs and US NFP (mkts: +180k) and next week's ECB Council Meeting. **As such, prior dollar bears we think will continue to remain antsy in the near term.** Regarding the latter, fears of further jawboning with respect to the EUR continue to linger and this may continue to take the positive edge off the EUR-USD.
- The calendar today includes appearances by the RBA's Harris (0300 GMT), the BOE's Saunders (0725 GMT) and the Bundesbank's Dombret (1220 GMT). Data points meanwhile include Australian July private sector credit (0130 GMT), **EZ August CPI** data (0900 GMT), US July personal income/spending data including the **core PCE deflator** (1230 GMT), Chicago PMI (1345 GMT), and US pending home sales (1400 GMT). In Asia, look to the official manufacturing and non-manufacturing PMIs for China (0100 GMT), while the **Bank of Korea** is expected to stand pat at 1.25% today at its policy meeting.

Asian FX

- Global EM equities edged higher on Wednesday and this may serve to temper USD robustness in Asia intra-day. On the net portfolio inflow front, outflow pressure for the KRW and TWD continue to persist, while the INR and the IDR may garner some underlying support from stabilizing inflows. The PHP and the THB meanwhile may remain at risk on waning inflow momentum.

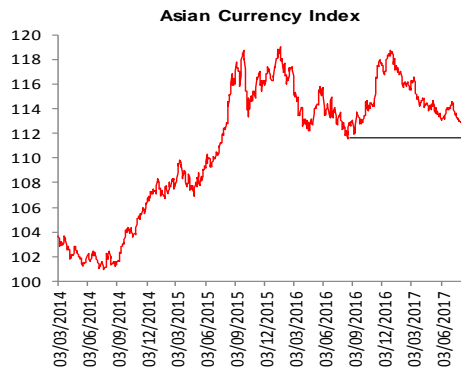
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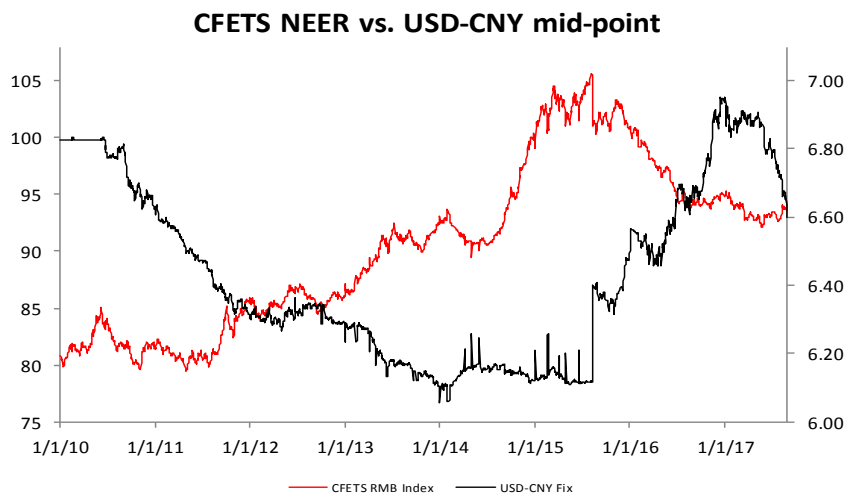
- Overall, the **FXSI (FX Sentiment Index)** softened further within Risk-Neutral territory on Wednesday but expect the **ACI (Asian Currency Index)** to tick higher - **typifying the current positive sentiment-strong dollar dynamic in the near term.**
- **SGD NEER:** The SGD NEER this morning is flat to slightly softer on the day at around +0.57% above its perceived parity (1.3655). NEER-implied USD-SGD thresholds are a touch firmer on the day and may continue to gravitate towards +0.50% (1.3587) and then 1.3600 if the broad dollar attempts to flex higher.



	SGD NEER	% deviation	USD-SGD
Current	124.93	0.54	1.3592
+2.00%	126.74		1.3387
Parity	124.26		1.3655
-2.00%	121.77		1.3934

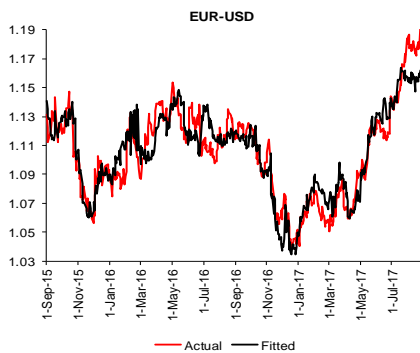
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point weakened further (largely in line with expectations) further to 6.6010 this morning from 6.6102 on Wednesday. This lifted the CFETS RMB Index higher for the third consecutive day to 94.37, from 94.03 yesterday.



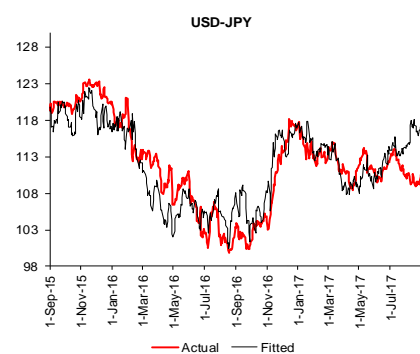
Source: OCBC Bank, Bloomberg

G7



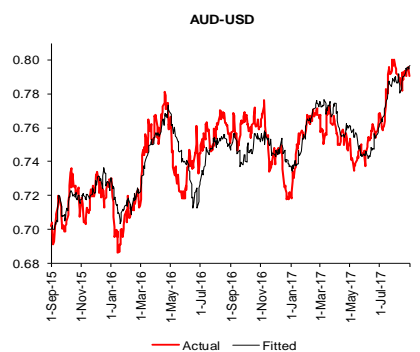
Source: OCBC Bank

- EUR-USD** Given the current environment, EUR-USD may seek to narrow the gap with its short term implied valuations in the coming sessions ahead of the ECB meeting next week. The support zone at 1.1850/70 bears watching in the near term ahead of the EZ CPI numbers today. In the interim, we continue to remain uncommitted directionally on the pair.



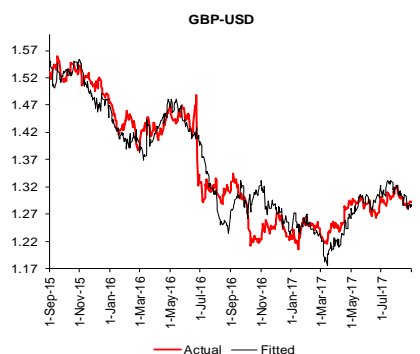
Source: OCBC Bank

- USD-JPY** Short term valuations for the USD-JPY are turning higher at this juncture (despite mixed JPY-crosses) and this may continue give the pair the opportunity to play catch-up on the upside. Beyond 111.00, the 100-day MA (111.18) and the 55-day MA (111.20) may attract.



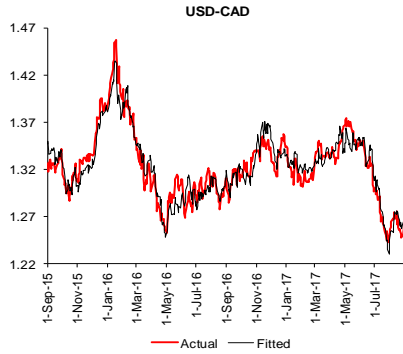
Source: OCBC Bank

- AUD-USD** AUD-USD climbed initially on better than expected 2Q construction data and July building approvals but the AUD was eventually overtaken by broad USD strength. China's August manufacturing PMI clocked a better than expected 51.7 this morning but investors were in no mood for AUD positivity. With 0.7900 looking precarious, stay top heavy on the pair in the interim with positive risk appetite likely secondary to USD resilience at this juncture and despite supportive short term implied valuations into next week's RBA meeting.



Source: OCBC Bank

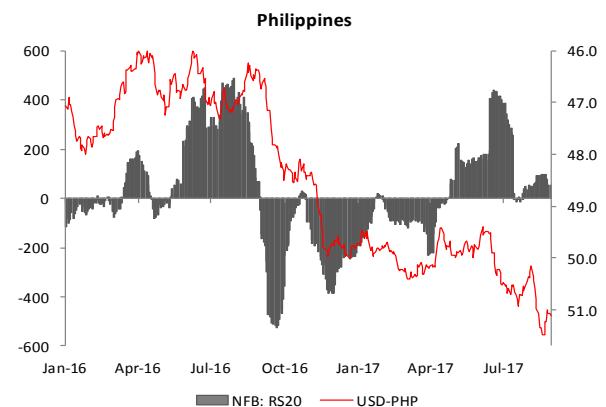
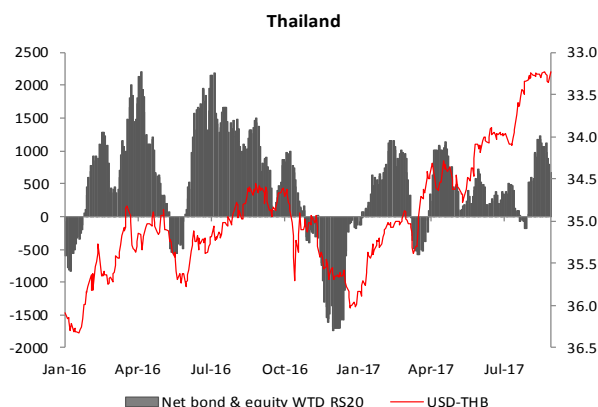
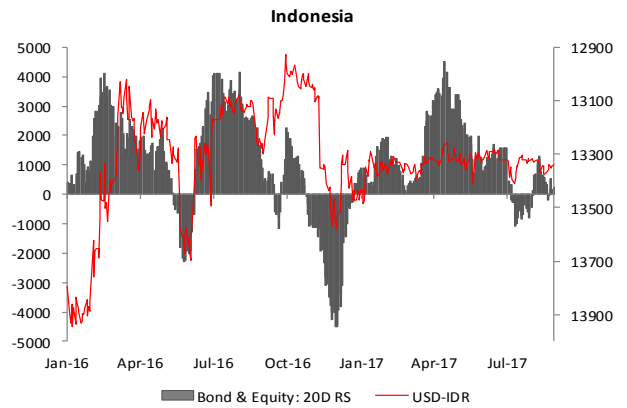
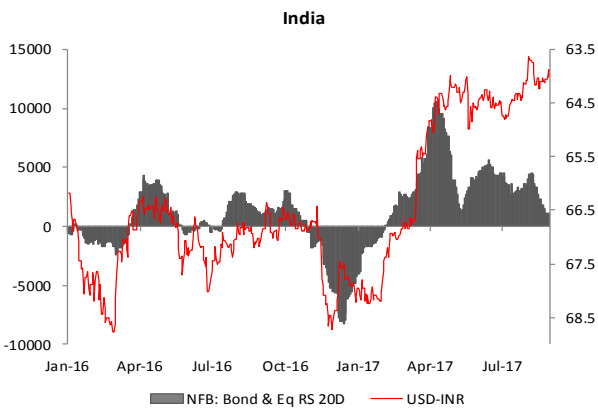
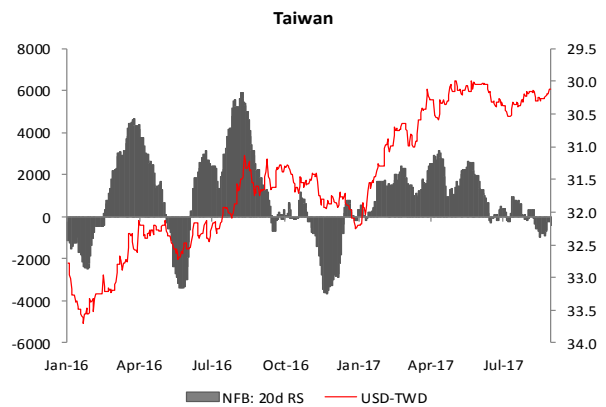
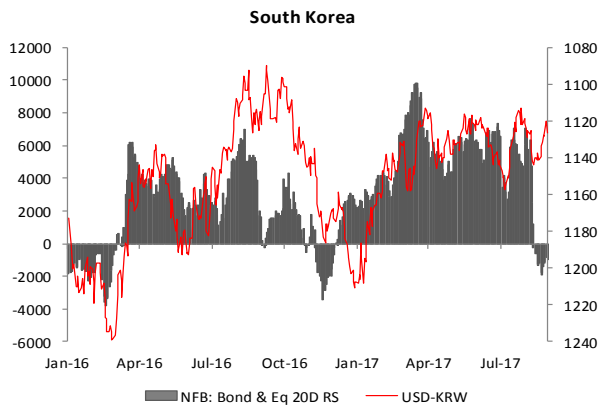
- GBP-USD** The pound managed to resist broad based USD strength, partially on the back of the sliding EUR-GBP. With short term implied valuations still top heavy, expect investors to remain skeptical towards cable upside, and the 55-day MA (1.2940) may continue to cap. Sub-1.2900, look towards 1.2870/80.

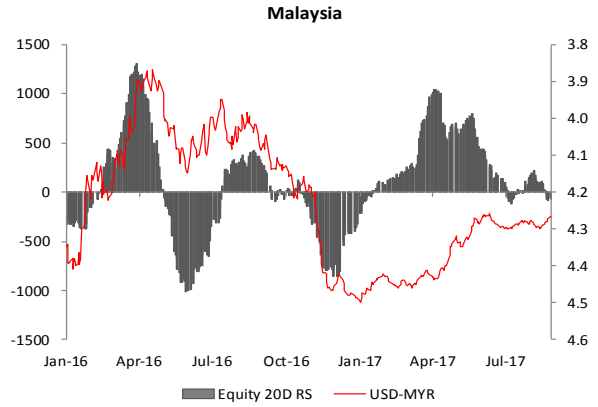


- USD-CAD** Yet lower crude mixed with USD resilience sent the USD-CAD quickly above 1.2600 on Wednesday. Look for dips to remain shallow given the market's demeanor towards a further potential USD rebound. Note that short term implied valuations are also pulling higher with the spot likely in tow. The pair meanwhile may well contemplate a breach of the 1.2640/70 zone ahead of the BOC next week.

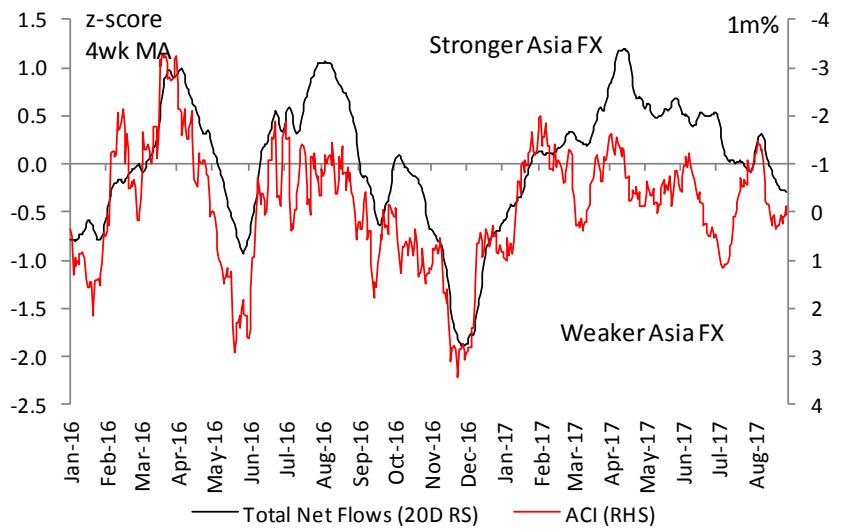
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

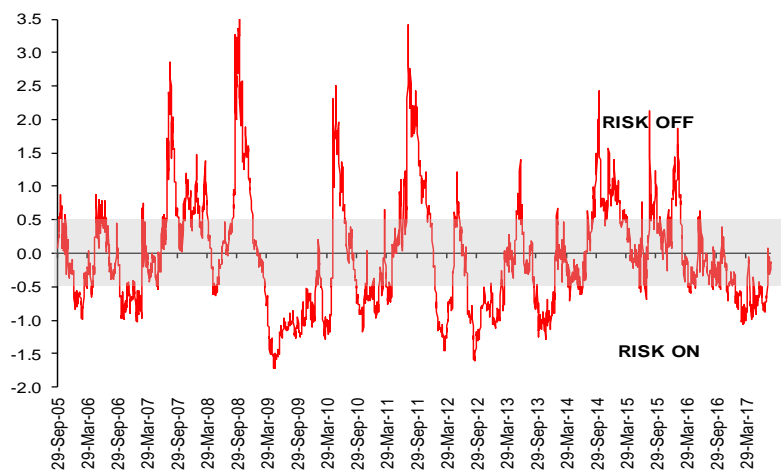




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.615	0.514	0.181	-0.197	-0.062	0.223	0.342	0.189	-0.085	0.532	-0.968
SGD	0.941	0.506	0.393	0.019	-0.319	-0.147	0.098	0.267	0.391	0.063	0.457	-0.94
MYR	0.744	0.512	0.471	0.043	-0.596	-0.093	0.068	0.256	0.472	0.093	0.512	-0.806
CAD	0.683	0.428	0.27	0.26	-0.427	0.096	0.296	0.214	0.328	-0.112	0.308	-0.632
CHF	0.679	0.797	0.757	0.656	0.012	0.351	0.623	0.509	-0.35	-0.543	0.728	-0.638
USGG10	0.615	1	0.885	0.718	0.014	0.555	0.587	0.743	-0.374	-0.664	0.902	-0.619
CNH	0.532	0.902	0.987	0.609	-0.058	0.589	0.403	0.836	-0.279	-0.673	1	-0.597
CNY	0.514	0.885	1	0.605	0.012	0.546	0.57	0.766	-0.334	-0.686	0.987	-0.546
TWD	0.508	0.118	0.204	-0.373	-0.722	-0.427	-0.356	0.012	0.629	0.504	0.209	-0.584
CCN12M	0.508	0.201	0.246	-0.155	-0.452	-0.504	-0.062	-0.091	0.325	0.11	0.294	-0.494
KRW	0.496	-0.026	-0.05	-0.454	-0.773	-0.414	-0.546	0.034	0.759	0.593	0.083	-0.537
THB	0.306	0.308	0.384	0.106	0.228	0.031	-0.024	0.317	-0.153	-0.069	0.363	-0.323
JPY	0.223	0.587	0.57	0.873	0.338	0.459	1	0.218	-0.67	-0.814	0.403	-0.123
PHP	0.092	-0.576	-0.637	-0.721	-0.359	-0.916	-0.573	-0.761	0.55	0.856	-0.661	-0.075
NZD	0.092	0.68	0.788	0.585	0.031	0.702	0.384	0.744	-0.391	-0.707	0.829	-0.2
IDR	0.068	-0.428	-0.416	-0.563	-0.529	-0.824	-0.489	-0.583	0.524	0.767	-0.445	-0.066
INR	-0.023	-0.553	-0.498	-0.671	-0.509	-0.751	-0.699	-0.527	0.626	0.841	-0.49	-0.064
GBP	-0.172	0.523	0.558	0.653	0.08	0.803	0.513	0.603	-0.397	-0.716	0.583	0.095
AUD	-0.655	-0.138	0.063	0.066	0.425	0.313	-0.002	0.095	-0.419	-0.302	0.02	0.565
EUR	-0.968	-0.619	-0.546	-0.116	0.255	0.032	-0.123	-0.411	-0.276	0.044	-0.597	1

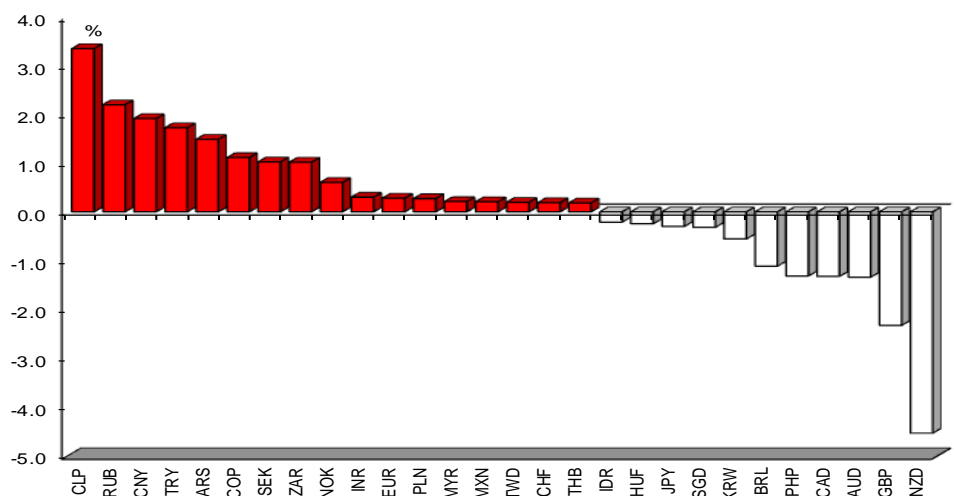
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1900	1.1975	1.1978	1.2000	1.2070
GBP-USD	1.2774	1.2900	1.2925	1.2955	1.3000
AUD-USD	0.7900	0.7984	0.7989	0.8000	0.8066
NZD-USD	0.7192	0.7200	0.7264	0.7300	0.7325
USD-CAD	1.2442	1.2500	1.2512	1.2600	1.2717
USD-JPY	108.61	109.00	109.81	110.00	110.82
USD-SGD	1.3507	1.3526	1.3541	1.3600	1.3675
EUR-SGD	1.6200	1.6213	1.6223	1.6300	1.6309
JPY-SGD	1.2300	1.2302	1.2333	1.2400	1.2437
GBP-SGD	1.7387	1.7500	1.7504	1.7600	1.7703
AUD-SGD	1.0696	1.0800	1.0817	1.0828	1.0900
Gold	1260.83	1300.00	1313.70	1317.51	1326.00
Silver	17.10	17.40	17.41	17.50	17.60
Crude	45.95	46.30	46.33	46.40	47.09

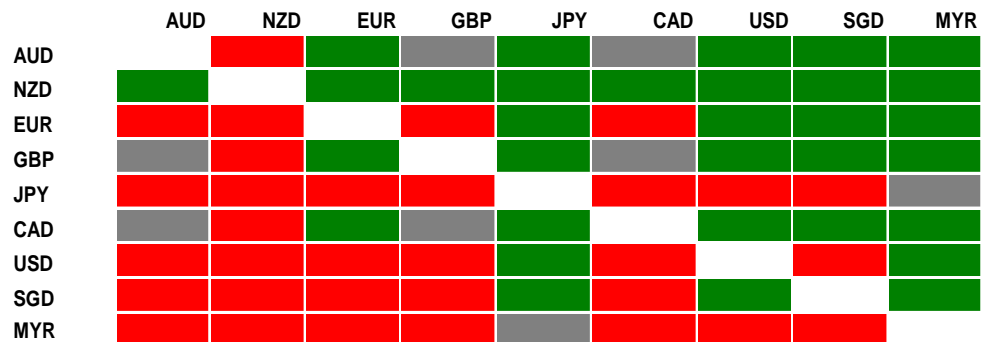
Source: OCBC Bank

FX performance: 1-month change agst USD



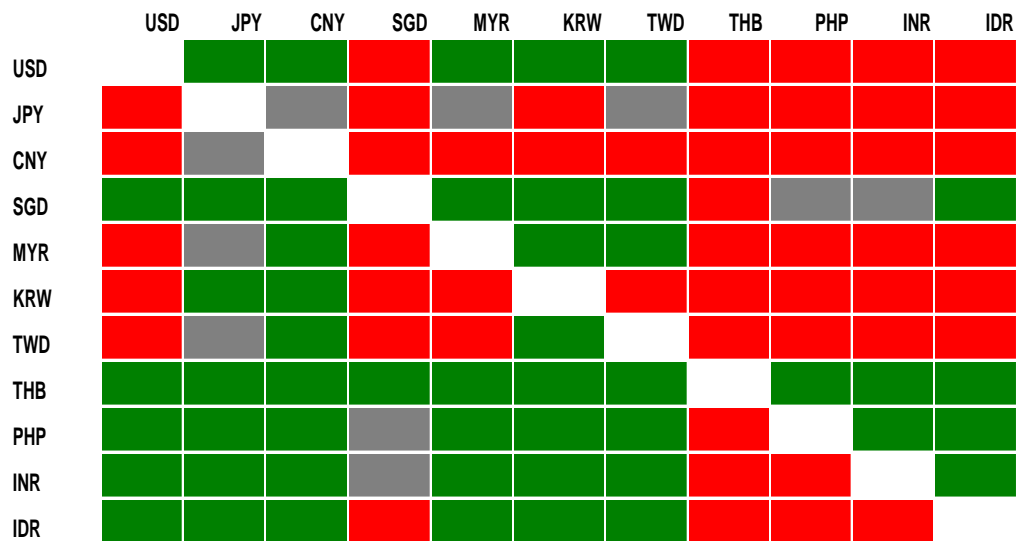
Source: Bloomberg

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		
8	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	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

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