

Thursday, November 02, 2017

FX Themes/Strategy/Trading Ideas

- The greenback ended mixed (but the DXY still managed to firm off 94.50) against its G10 counterparts on Wednesday with the FOMC on hold as expected. Meanwhile, it was revealed that President Trump will nominate Powell as the next Fed chair on Thursday. Meanwhile, the JPY underperformed across the board on still sanguine global risk appetite levels while the antipodeans also recouped higher on the day.
- In a nutshell, the FOMC statement offered no radical departure from the previous statement in September, with the Fed expressing little if any medium term caution towards the short term effects on either inflation, employment or growth prospects. Overall, no additional hawkish or dovish hints were expressed with respect to the prognosis apart from, "...economic activity has been rising at a solid rate despite hurricane-related disruptions". For any further heavy lifting for the USD today, look towards Powell (1230 GMT), Dudley (1620 GMT), and Bostic (2215 GMT) today.
- US data: October ISM slipped more than expected to 58.7 (prices paid softened less than expected but the new orders and employment sub-indices deteriorated) but the ADP clocked a higher than expected +235k (note prev month's downward revision to +110k)
- **In the near term, obvious positive dollar cues may be abating after the FOMC/Powell headlines, with investors now looking to the tax bill announcement (barring no further delays). In the interim, note positive dollar underpinnings stemming from rate differential arguments (at least from the long-end) have continued to defuse in recent sessions.** Elsewhere, look to the BOE MPC (1200 GMT) and the Carney's press conference (1230 GMT) with markets essentially looking for a "one and done" outcome.

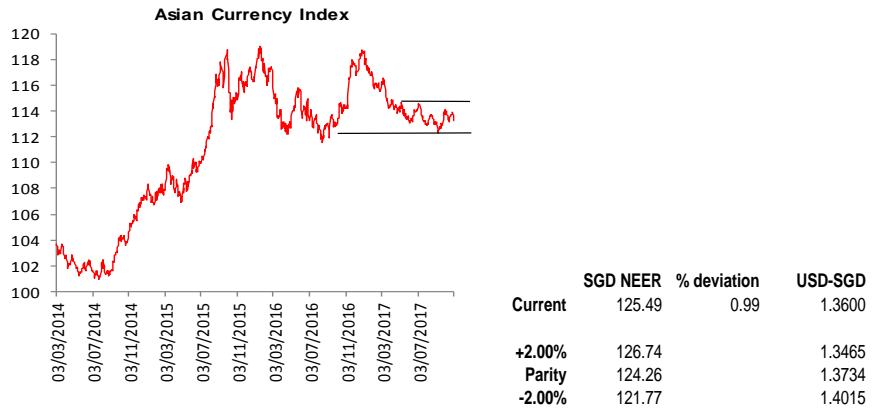
Asian FX

- Positive EZ/US/EM equities from overnight facilitated a further easing of the **FXSI (FX Sentiment Index)** into Risk-On territory on Wednesday and coupled with the latest USD hesitation, should keep the regional currencies underpinned. In terms of net portfolio inflows, expect the KRW and TWD to remain supported on sustained inflow momentum, although the latter is experiencing some fall –off in equity inflows in recent sessions. The INR is also seen buffered by strengthening inflows while net outflows for the IDR, THB and MYR continue to abate. Overall, expect the **ACI (Asian Currency Index)** to fade for the fourth consecutive session.

Treasury Research &
Strategy

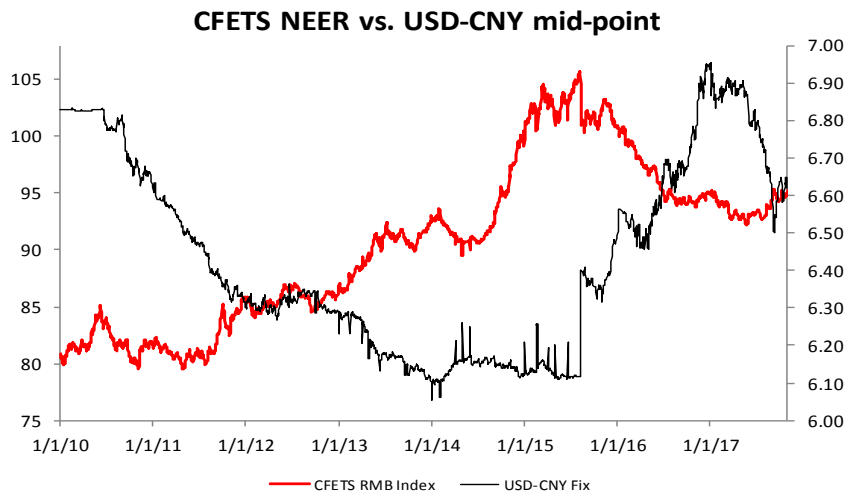
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- SGD NEER:** Today, the SGD NEER is firmer on the day at around +0.99% above its perceived parity (1.3734) with NEER-implied USD-SGD thresholds slightly softer on the day. Expect a floor for the USD-SGD towards the +1.10% threshold at 1.3585 while the topside may continue to be governed by the 100-day MA (1.3631) ahead of 1.3650. On the data front, Singapore's October PMI is also due at 1300 GMT.



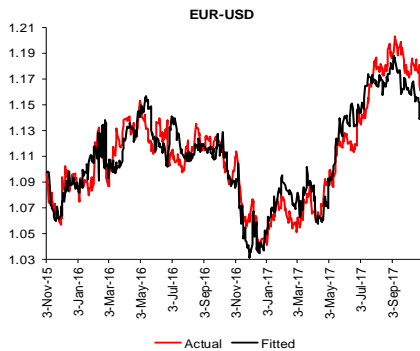
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point softened (largely in line with expectations) to 6.6196 from 6.6300 on Wednesday, resulting in the CFETS RMB Index gaining further to 95.23 (now in close proximity to long standing threshold levels) from 95.07 yesterday. NEER moves may bear close scrutiny in the coming weeks, with an upside break likely to encourage appreciation expectations.



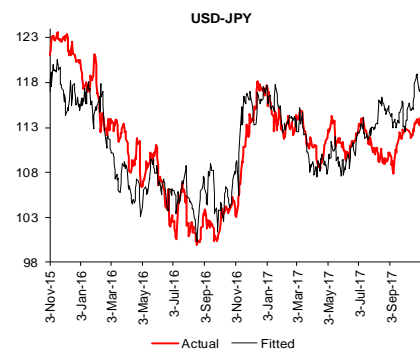
Source: OCBC Bank, Bloomberg

G7



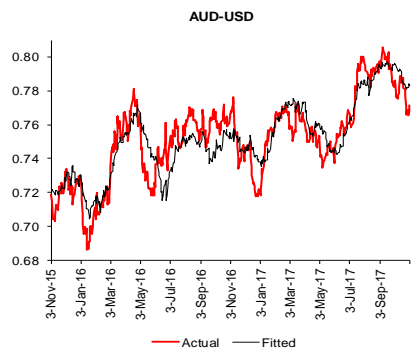
Source: OCBC Bank

- EUR-USD** Short term implied valuations are attempting to bottom out in the near term although we think that the 1.1600 support may still remain vulnerable pending the US tax bill announcement. Subsequent support is expected into 1.1550/75 with the 100-day MA (1.1697) overhead.



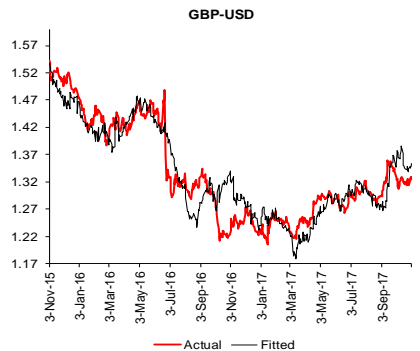
Source: OCBC Bank

- USD-JPY** With PM Abe expressing confidence in the BOJ's Kuroda, the heaviness in the USD-JPY early Thursday from the Powell-related headline may not persist beyond the very short term. Short term implied valuations meanwhile remain relatively underpinned and we expect scope for base building within 113.60-114.50.



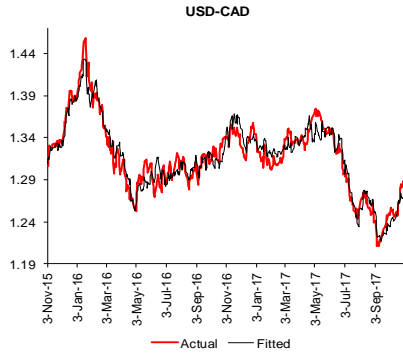
Source: OCBC Bank

- AUD-USD** September trade numbers this morning came in better than expected and coupled with some broad dollar hesitation and sanguine risk appetite levels, the downside for the AUD-USD may stall in the interim. Short term implied valuations are also attempting to consolidate higher slightly and the 200-day MA (0.7697) seen as a near term anchor.



Source: OCBC Bank

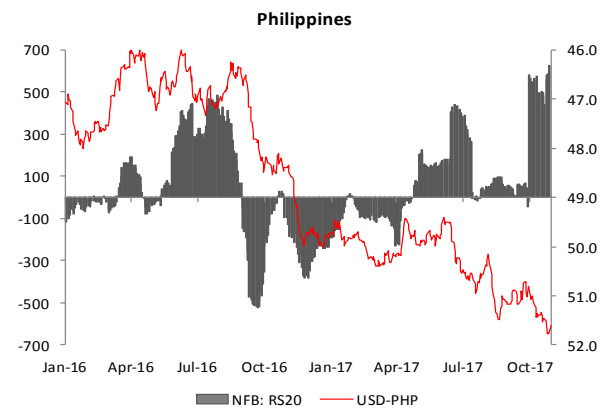
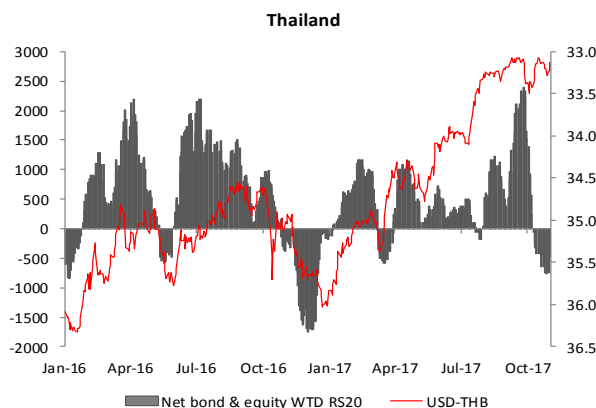
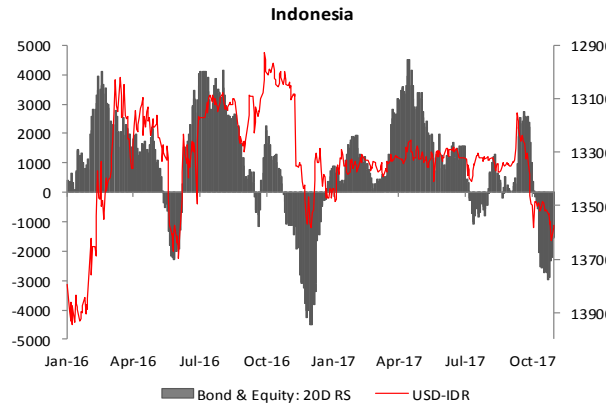
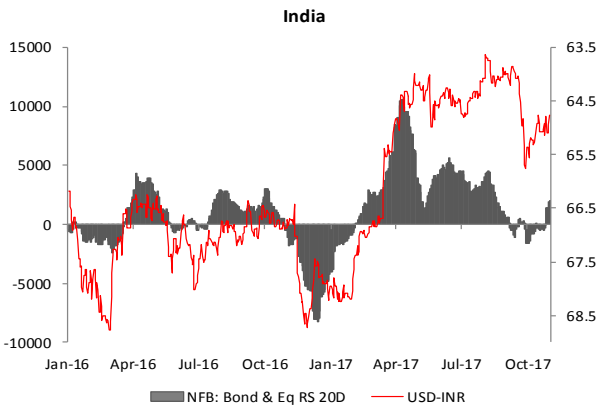
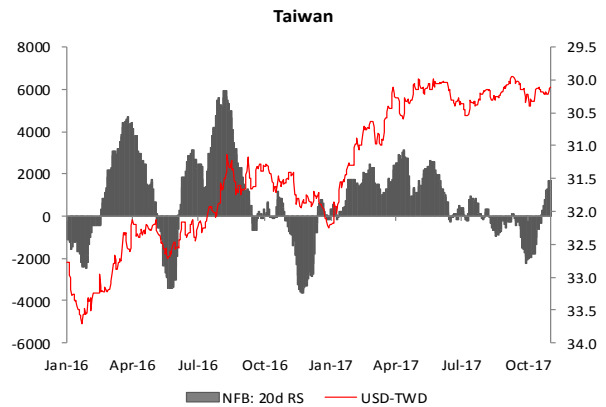
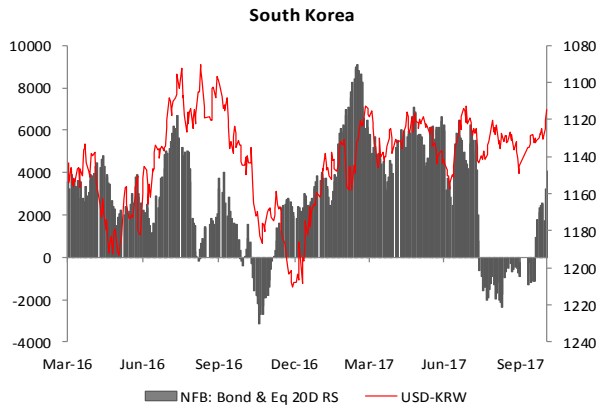
- GBP-USD** GBP-USD also slipped following the resignation of Defense Secretary Fallon and despite the better than expected October UK manufacturing PMI. Expect range trading ahead of the BOE MPC today while short term implied valuations are also peaking higher in the interim. The 55-day MA (1.3189) is expected to support while 1.3320 may offer initial resistance.

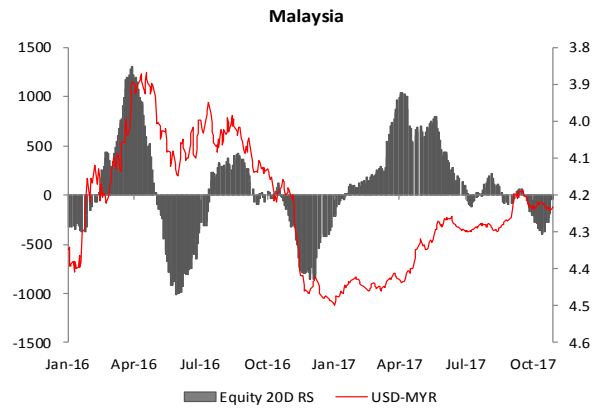


- USD-CAD** BOC's Poloz on Wednesday continued to preach caution with the October manufacturing PMI also deteriorating from the previous month. Short term implied valuations are also topping out at this juncture and intra-day risk-reward may favor a capitulation lower towards 1.2800 and 1.2775.

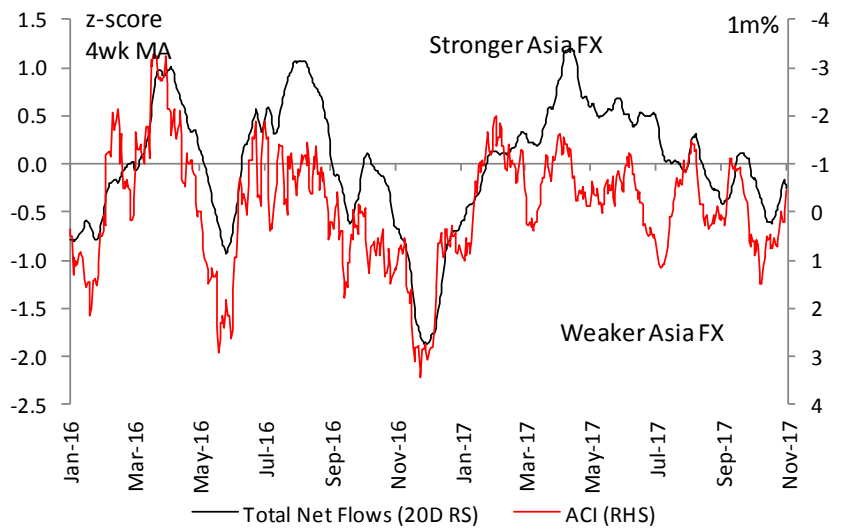
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

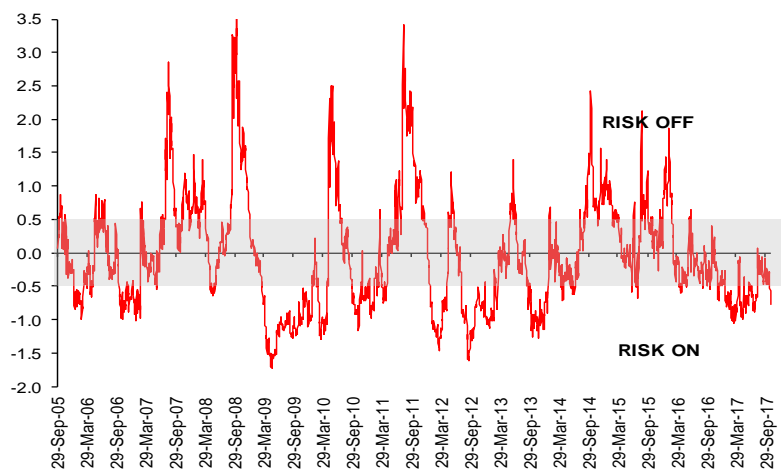




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1	0.61	0.668	0.633	0.278	0.634	0.804	0.732	0.29	-0.769	0.509	-0.961
CHF	0.92	0.689	0.67	0.776	0.539	0.807	0.891	0.848	0.527	-0.873	0.337	-0.824
CAD	0.911	0.712	0.651	0.705	0.462	0.793	0.858	0.827	0.542	-0.845	0.357	-0.798
JPY	0.804	0.827	0.679	0.61	0.312	0.578	1	0.653	0.574	-0.637	0.523	-0.675
IDR	0.755	0.674	0.693	0.611	0.435	0.68	0.733	0.734	0.521	-0.716	0.334	-0.622
SGD	0.687	0.716	0.814	0.169	-0.286	0.047	0.679	0.119	0.26	-0.216	0.867	-0.665
MYR	0.686	0.586	0.873	0.236	-0.089	0.205	0.614	0.278	0.316	-0.376	0.802	-0.652
CNY	0.668	0.654	1	0.518	0.139	0.423	0.679	0.485	0.609	-0.411	0.968	-0.583
USGG10	0.61	1	0.654	0.444	0.137	0.42	0.827	0.393	0.665	-0.399	0.501	-0.459
CNH	0.509	0.501	0.968	0.033	-0.333	-0.023	0.523	0.041	0.164	-0.112	1	-0.512
PHP	0.431	0.613	0.591	0.743	0.766	0.86	0.551	0.788	0.71	-0.754	-0.094	-0.185
CCN12M	0.195	0.19	0.759	0.012	-0.144	-0.073	0.236	-0.033	0.041	0.002	0.755	-0.196
THB	0.055	0.102	0.371	-0.522	-0.823	-0.57	-0.1	-0.517	-0.377	0.347	0.629	-0.167
TWD	-0.004	0.123	0.56	-0.543	-0.864	-0.665	0.045	-0.557	-0.241	0.496	0.674	-0.042
GBP	-0.132	-0.304	-0.474	-0.049	0.336	0.246	-0.05	0.315	-0.006	-0.222	-0.436	0.131
INR	-0.417	-0.174	-0.134	-0.664	-0.77	-0.813	-0.387	-0.754	-0.34	0.735	0.141	0.332
KRW	-0.742	-0.265	-0.295	-0.596	-0.718	-0.865	-0.657	-0.828	-0.257	0.864	-0.297	0.747
NZD	-0.797	-0.829	-0.676	-0.73	-0.421	-0.737	-0.875	-0.733	-0.639	0.741	-0.331	0.624
AUD	-0.847	-0.767	-0.532	-0.525	-0.259	-0.594	-0.756	-0.65	-0.437	0.716	-0.314	0.768
EUR	-0.961	-0.459	-0.583	-0.482	-0.159	-0.498	-0.675	-0.637	-0.118	0.694	-0.512	1

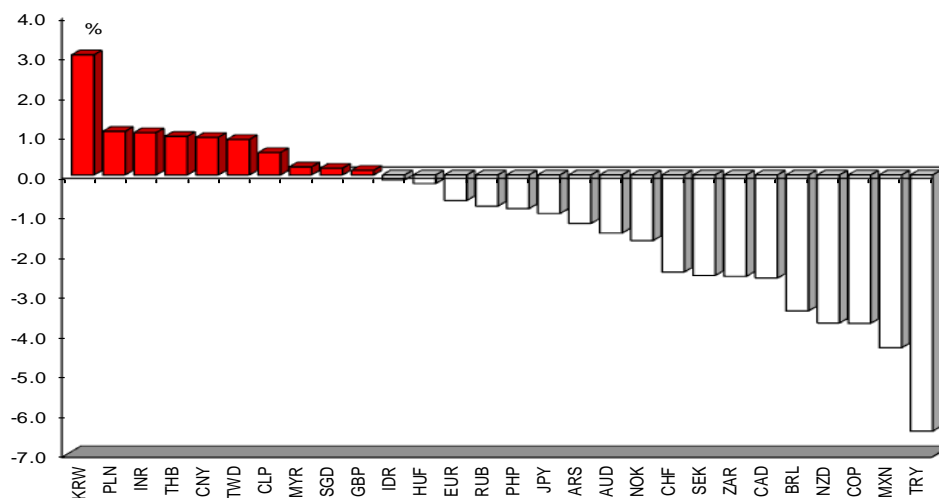
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1588	1.1600	1.1658	1.1700	1.1830
GBP-USD	1.3200	1.3218	1.3285	1.3300	1.3321
AUD-USD	0.7693	0.7700	0.7710	0.7800	0.7871
NZD-USD	0.6818	0.6900	0.6928	0.7000	0.7137
USD-CAD	1.2469	1.2800	1.2840	1.2900	1.2917
USD-JPY	111.74	113.00	113.86	114.00	114.45
USD-SGD	1.3500	1.3545	1.3584	1.3600	1.3672
EUR-SGD	1.5800	1.5805	1.5835	1.5900	1.6024
JPY-SGD	1.1912	1.1915	1.1929	1.2000	1.2117
GBP-SGD	1.7909	1.8000	1.8047	1.8075	1.8100
AUD-SGD	1.0400	1.0417	1.0473	1.0500	1.0623
Gold	1264.08	1265.78	1281.00	1299.88	1300.00
Silver	16.65	17.10	17.19	17.20	17.22
Crude	50.97	54.30	54.32	54.40	54.96

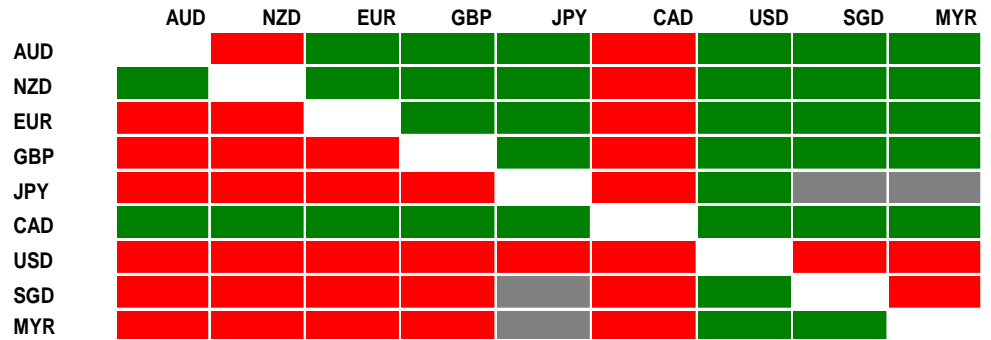
Source: OCBC Bank

FX performance: 1-month change agst USD



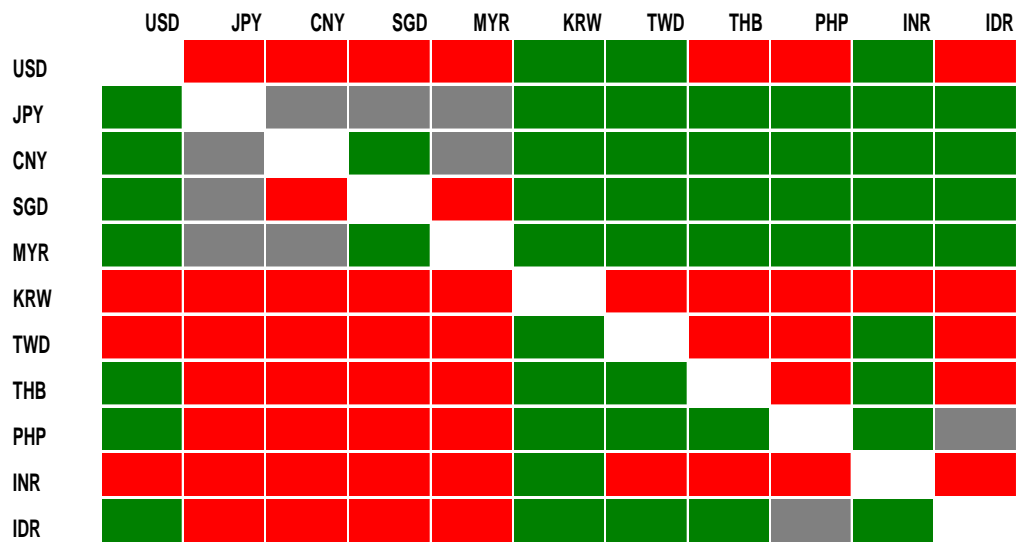
Source: Bloomberg

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 0.7440 0.7720	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			
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	28-Sep-17	11-Oct-17	S	EUR-USD	1.1734	1.1860	Political overhang from Germany contrasting with FOMC, Yellen	-0.99
2	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
3	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
4	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**	
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	-0.31**	
							Jan-Oct*** 2017 Return	-10.82
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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