

Monday, October 02, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Expect global risk appetite levels to be slightly cautious at the beginning of the week with the violence in Catalan and reports of terrorist “attacks” in Canada and France. As such, the **FXSI (FX Sentiment Index)** may tick higher (i.e., deteriorating risk appetite) today after easing on Friday.
- Over the weekend, **China’s** September manufacturing PMI came improved more than expected to 52.4 (51.7 prev) while the Caixin manufacturing PMI disappointed by falling more than expected to 51.0 from 51.6. Meanwhile, the official non-manufacturing PMI improved to 55.4 from 53.4.
- On the **CFTC** front, large non-commercial accounts and leveraged accounts increased their net implied short dollar bias in aggregate in the latest week while asset manager accounts pared their short dollar bias marginally. We expect such positioning may have shifted slightly towards the USD into this week.
- **Fed-speak** begins with Kaplan today (1800 GMT) while **Yellen** is due on Wednesday (1915 GMT) while a host of Fed speakers are scheduled for Thursday and Friday. If the Fed-chair maintains her tone from last week, expect the USD to potentially retain a slight upper hand. Meanwhile, with the extension of her tenure still up in the air (expect an announcement by the US President in the next 2-3 weeks), investors may continue to focus on her potential successors. On this front, any further static pointing to former Fed governor **Warsh** (perceived to be more hawkish than the incumbent) may further underpin the greenback.
- On the **ECB** front, Praet speaks at 1015 GMT today while markets will look to ECB “minutes” are on Thursday, with appearances from Praet and Coeure also on Thursday and from Villeroy and Nowotny on Friday. The BOEs’ McCafferty and Haldane is scheduled for Thursday and Haldane again on Friday. On other fronts, the BOC’s Leduc speaks on Tuesday while the **RBA** convenes **Tuesday** with no change on the benchmark rate of 1.50% expected. **In Asia, the RBI meets on Wednesday and with real long end yields still fairly elevated amid the current growth/inflation backdrop, further monetary easing cannot be ruled out.**
- Expect the **data stream** this week to be heavy (including global PMIS) given the onset of the month with the calendar culminating in the US September nonfarm payrolls (NFP) on Friday. For today, look towards the US September ISM readings (1400 GMT).

Treasury Research &
Strategy

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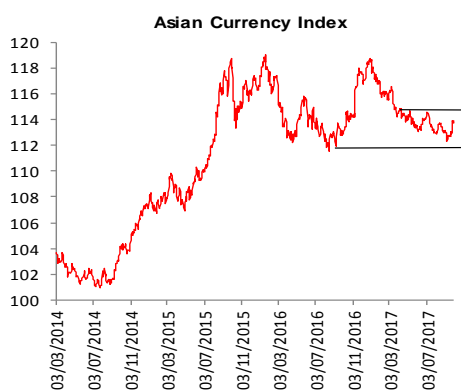
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- **Structurally**, we investors may continue to watch for key movements in broad asset price indicators (DXY threshold at 94.00; 10y UST yield threshold at 2.40%). To this end, watch for the potential for the US curve to continue to steepen. On the FX front, note that our aggregate interest rate differential index continues to indicate a tailwind for the greenback in the near term. On a related note, markets may also continue to undergo a re-assessment of sorts, with recent volatility in core yields and FX still likely to deflect attention away from cyclicals/EM/Asia. **Overall, expect a slight preference towards the USD in the interim.**

Asian FX

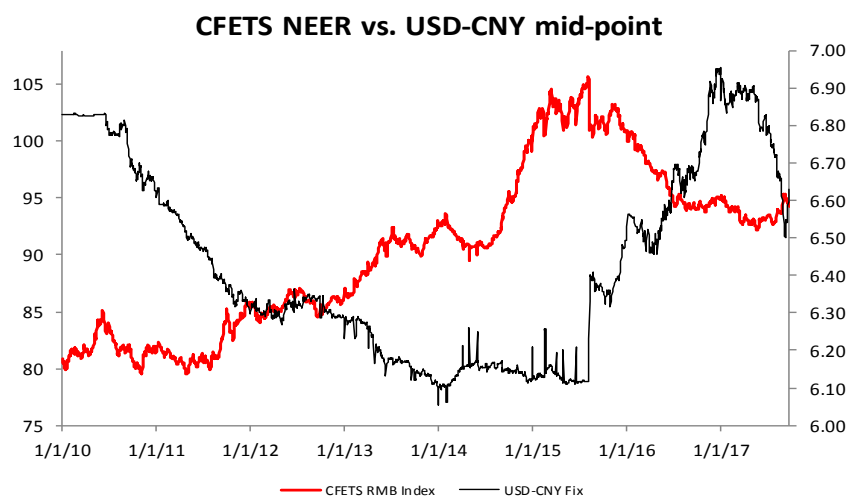
- **EPFR** data meanwhile showed a slight moderation in net implied equity and bond inflows into Asia (ex Japan, China) in the latest week for the third consecutive week. Actual **net portfolio inflow inflows** into the region meanwhile continue to indicate increasing outflow pressures for the KRW, and INR, sustained outflows for the TWD, and a significant moderation in inflows for the IDR and THB. Thus although EM risk premiums have been attempting to compress in recent sessions, Asia FX, proxied by the **ACI (Asian Currency Index)**, may continue to remain somewhat vulnerable to potential USD strength in the coming sessions.
- **SGD NEER**: This morning, the SGD NEER is softer on the day at around +0.82% above its perceived parity (1.3718). Expect the +1.00% (1.3583) threshold to continue to impose a near term ceiling for the NEER while the +0.70% (1.3623) threshold may instead attract if broad USD strength continues to flex. Meanwhile, the 55-day MA (1.3569) may also support on dips with resistance expected into 1.3650.



	SGD NEER	% deviation	USD-SGD
Current	125.28	0.82	1.3607
+2.00%	126.74		1.3449
Parity	124.26		1.3718
-2.00%	121.77		1.3998

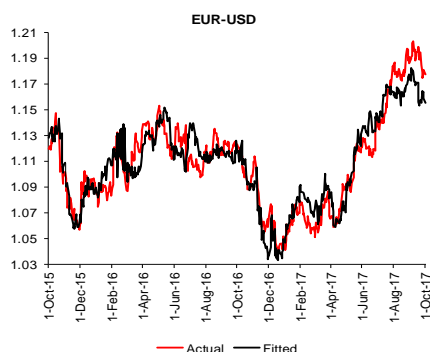
Source: OCBC Bank

- **CFETS RMB Index**: No fixings with China markets closed for the week.



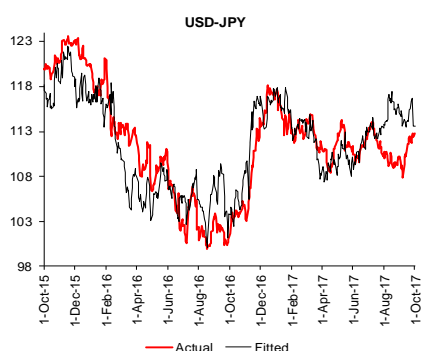
Source: OCBC Bank, Bloomberg

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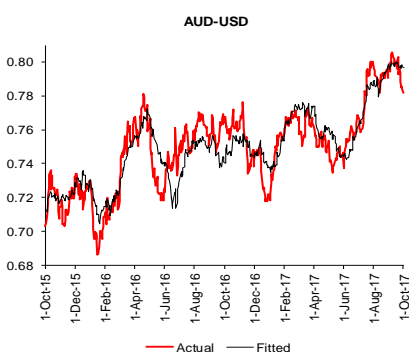
Source: OCBC Bank

- **EUR-USD** Short term implied valuations for the EUR-USD continue to be chipped away with weekend Spanish headlines although the latter is not expected to make a meaningful impact on the EUR. Nonetheless, the pair may continue to be cornered by the 200-week MA (1.1712) and the 55-day MA (1.1823) ahead of further headline risks this week. Preference to stay heavy with leveraged EUR longs in danger of being partially flushed out.



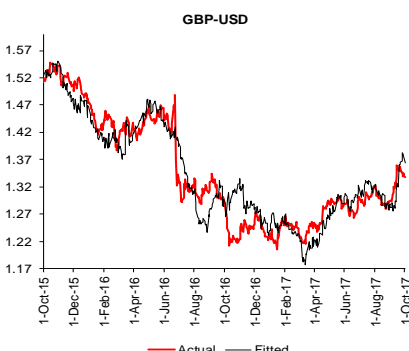
Source: OCBC Bank

- **USD-JPY** With the Fed's Harker in favor of another rate hike in December (and another 3 hikes in 2018), the USD-JPY may attempt to bounce on dips despite heavy (but conflicted) short term implied valuations for the pair. Technically, expect the 200-day MA (112.02) and the 200-week MA (111.79) to cushion for now with interest likely oriented towards 113.50 instead given also that net leveraged JPY shorts increased significantly in the latest week.



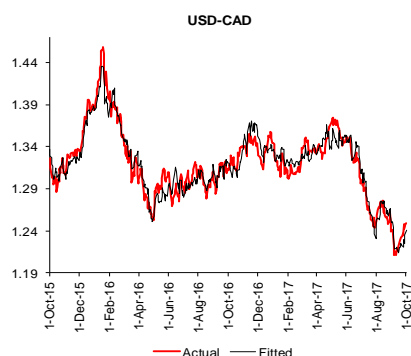
Source: OCBC Bank

- **AUD-USD** China's targeted RRR cuts are not expected to disrupt risk appetite significantly with short term implied valuations for the AUD-USD still holding up (for now). Ahead of the RBA tomorrow, expect the 0.7785/00 floor to remain under threat with 0.7870 expected to resist. Notably, net leveraged AUD longs continue to look conspicuously elevated as a proportion of open interest.



Source: OCBC Bank

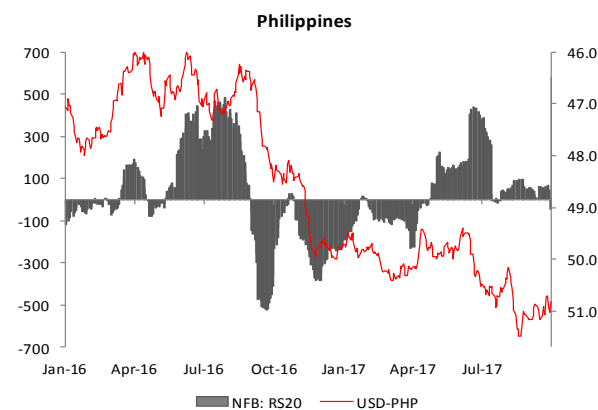
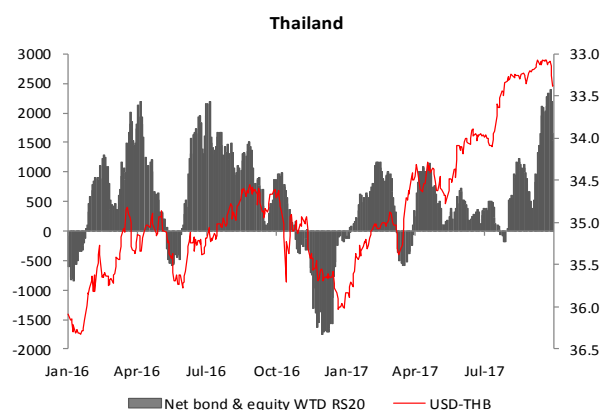
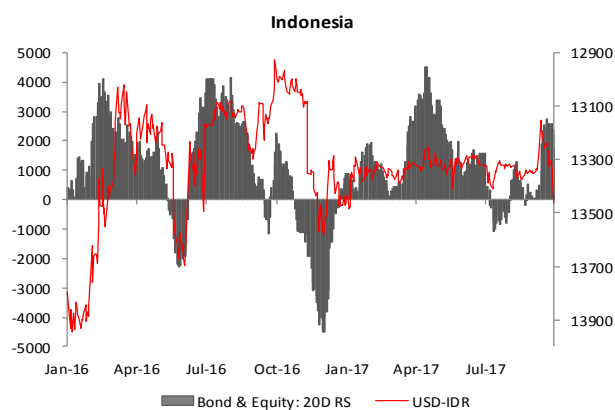
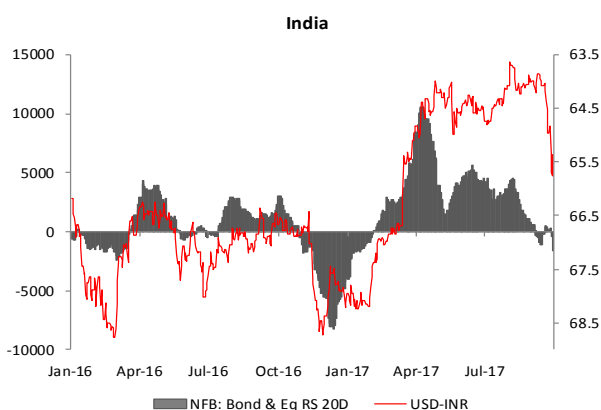
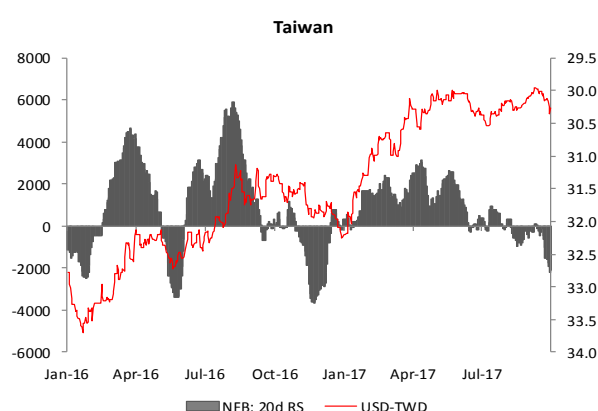
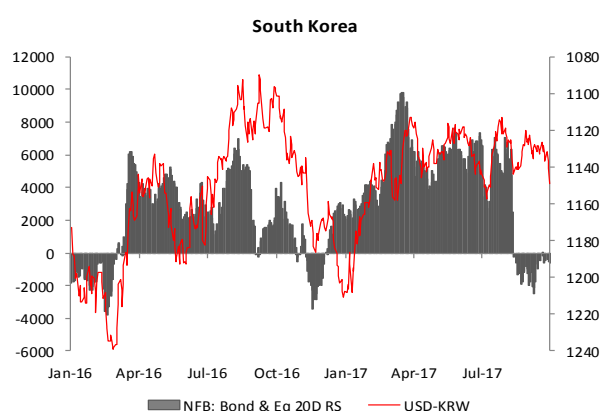
- **GBP-USD** Short term implied valuations are also tipping lower in the current USD environment in the short term with 1.3270/80 a likely waypoint if the broad dollar continues to grind higher. Expect weak leverage GBP longs to be unwound (after a flip from a net short in the latest week) if Brexit news flow continues to hamper.

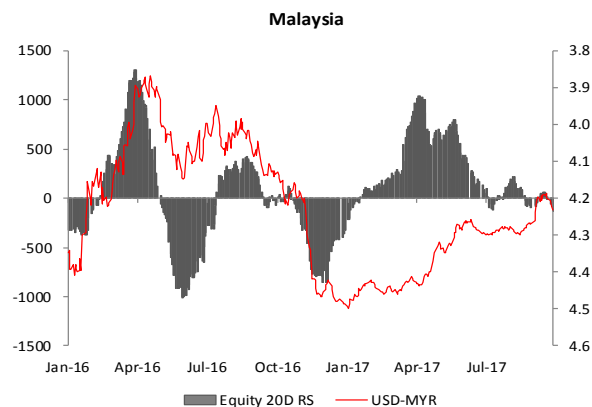


Source: OCBC Bank

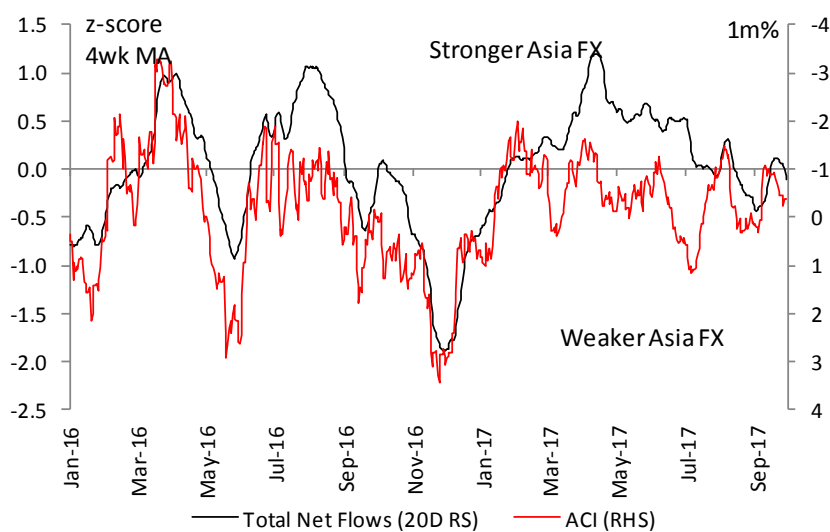
- USD-CAD** As noted previously, short term implied valuations for the USD-CAD continue to reach higher at this juncture. In the interim, the pair may continue to attempt to base build off its 55-day MA (1.2472) towards 1.2570. With net leveraged CFTC shorts continuing to accumulate in the latest week to slightly elevated levels, remain conscious of unwind risks.

USD-Asia VS. Net Capital Flows

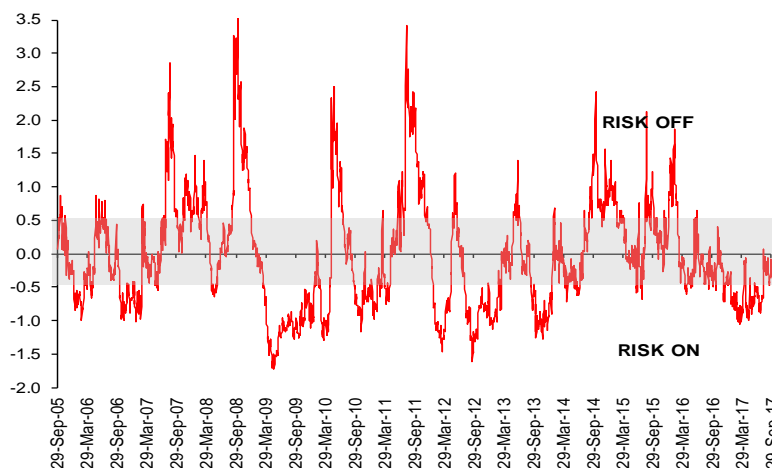




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.718	0.803	0.533	-0.271	0.497	0.7	0.85	-0.553	0.677	0.847	-0.977
SGD	0.927	0.623	0.702	0.46	-0.321	0.268	0.565	0.707	-0.431	0.494	0.761	-0.9
CNH	0.847	0.89	0.987	0.747	0.047	0.505	0.889	0.886	-0.75	0.649	1	-0.853
CAD	0.828	0.705	0.779	0.493	-0.145	0.465	0.691	0.804	-0.518	0.679	0.805	-0.761
INR	0.818	0.74	0.927	0.548	-0.187	0.448	0.782	0.909	-0.624	0.791	0.904	-0.823
TWD	0.817	0.813	0.92	0.622	-0.111	0.428	0.793	0.852	-0.681	0.706	0.907	-0.788
CNY	0.803	0.887	1	0.756	0.066	0.512	0.9	0.907	-0.778	0.669	0.987	-0.814
IDR	0.794	0.538	0.73	0.304	-0.46	0.359	0.535	0.756	-0.375	0.686	0.73	-0.748
THB	0.774	0.528	0.654	0.301	-0.491	0.001	0.426	0.551	-0.296	0.48	0.71	-0.774
CCN12M	0.751	0.713	0.798	0.468	-0.119	0.425	0.698	0.761	-0.484	0.562	0.834	-0.711
CHF	0.75	0.911	0.858	0.835	0.348	0.653	0.953	0.84	-0.893	0.617	0.838	-0.723
KRW	0.723	0.59	0.742	0.422	-0.391	0.16	0.519	0.644	-0.476	0.572	0.744	-0.72
USGG10	0.718	1	0.887	0.942	0.397	0.555	0.967	0.807	-0.949	0.516	0.89	-0.683
JPY	0.7	0.967	0.9	0.894	0.416	0.655	1	0.862	-0.932	0.584	0.889	-0.672
MYR	0.4	-0.098	0.12	-0.399	-0.7	-0.168	-0.116	0.13	0.37	0.262	0.21	-0.389
GBP	0.16	0.705	0.625	0.8	0.646	0.605	0.769	0.598	-0.839	0.297	0.555	-0.2
PHP	-0.087	-0.205	-0.318	-0.185	0.037	0.007	-0.242	-0.283	0.223	-0.496	-0.317	0.07
NZD	-0.457	0.106	-0.03	0.26	0.75	0.164	0.186	-0.203	-0.295	0.013	-0.101	0.458
AUD	-0.899	-0.783	-0.883	-0.591	0.211	-0.379	-0.75	-0.852	0.624	-0.631	-0.88	0.871
EUR	-0.977	-0.683	-0.814	-0.5	0.303	-0.463	-0.672	-0.825	0.506	-0.639	-0.853	1

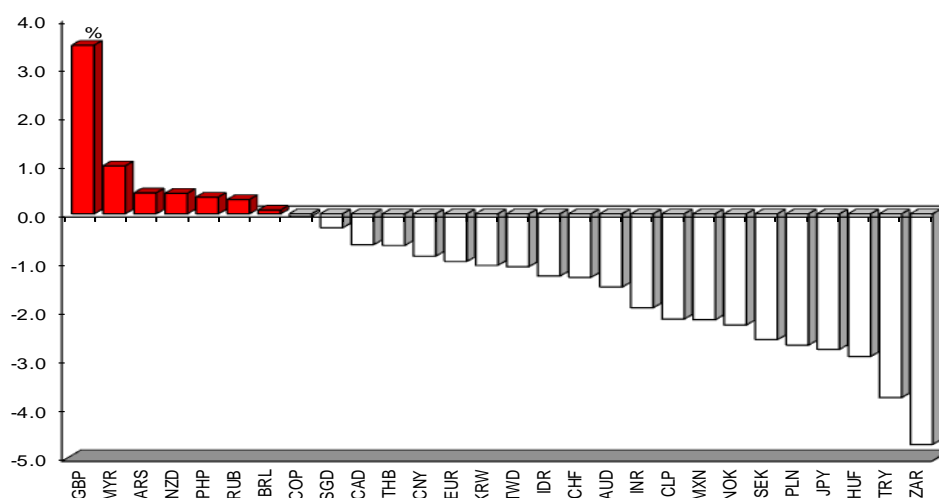
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1717	1.1738	1.1775	1.1800	1.1843
GBP-USD	1.3126	1.3300	1.3366	1.3400	1.3657
AUD-USD	0.7800	0.7812	0.7819	0.7900	0.7938
NZD-USD	0.7146	0.7162	0.7190	0.7200	0.7292
USD-CAD	1.2400	1.2458	1.2496	1.2500	1.2529
USD-JPY	111.98	112.00	112.83	113.00	113.26
USD-SGD	1.3570	1.3600	1.3606	1.3647	1.3700
EUR-SGD	1.5953	1.6000	1.6021	1.6052	1.6100
JPY-SGD	1.1969	1.2000	1.2059	1.2100	1.2278
GBP-SGD	1.7791	1.8100	1.8185	1.8200	1.8349
AUD-SGD	1.0609	1.0627	1.0639	1.0700	1.0756
Gold	1268.15	1275.00	1276.00	1294.23	1300.00
Silver	16.60	16.61	16.62	16.70	17.14
Crude	51.15	51.50	51.59	51.60	52.82

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

Source: OCBC Bank

FX Trade Ideas

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	EUR-USD	1.1734	1.1490	1.1860	Political overhang from Germany contrasting with FOMC, Yellen	
3	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	
4	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	
	STRUCTURAL							
5	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
6	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	
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	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
2	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
3	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
4	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
5	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
6	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
7	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
8	19-Sep-17	27-Sep-17	B	GBP-USD	1.3540	1.3395	Earlier than expected paradigm change by the BOE	-1.11
							Jan-Sep*** 2017 Return	-1.44
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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