

Tuesday, October 03, 2017

**FX Themes/Strategy/Trading Ideas**

- Despite dovish comments from the Fed's Kashkari, the greenback continued to chalk up minor gains across G10 space on Monday as the September ISM roundly outpaced prior expectations at 60.8 from 58.8 in August and the 10y UST yield ended a touch higher.
- EUR meanwhile continued to be weighed by concerns surrounding Catalonia with Spanish-bund spreads widening (the EU has refused to acknowledge a plea for recognition), with the ECB's Praet sounding slightly cautious. The turnout of September global manufacturing PMIs were generally supportive on Monday (note also positive global equities) and we think this lent partial support to the antipodeans on Monday although the AUD-USD still shaded lower on the day.
- On other fronts, despite the encouraging readings from the Tankan and the September Nikkei manufacturing PMI, uncertainty towards the Japanese elections and slightly firmer US yields kept the USD-JPY supported with the pair still ending firmer on the day. Meanwhile, with the Tory annual conference underway (and placing the focus squarely on Brexit negativity) and the UK September manufacturing PMI disappointing at 55.9 from a downwardly revised 56.7 the previous month, leading the GBP-USD lower.
- **In the current environment, investors may continue to look for excuses to pare their exposure to the majors in favor of the USD.** In a nutshell, any positive headlines for the USD are likely to garner better mileage while negative headlines (out of the EUR or GBP for example) from the other majors may incite further weakness in favor of the greenback. Overall, we continue to remain partial towards the USD.
- For today, look to the **RBA** policy meeting (0330 GMT) and key issues to watch out for include any hints of hawkishness (as opposed to being steadfastly neutral) and any further jawboning of the AUD. Elsewhere, the **ECB's Praet** (1300 GMT) and **Fed's Kaplan** (1800 GMT) are scheduled today, while the **Bank of Canada's Leduc** is due at 1630 GMT.

**Asian FX**

- In Asia, **manufacturing PMIs** in aggregate were mixed (Malaysia, Taiwan, and Indonesia deteriorated, while the Philippines, Thailand, and South Korea improved) and came in on both sides of expectations and look to India's Manufacturing PMI later today (0500 GMT).

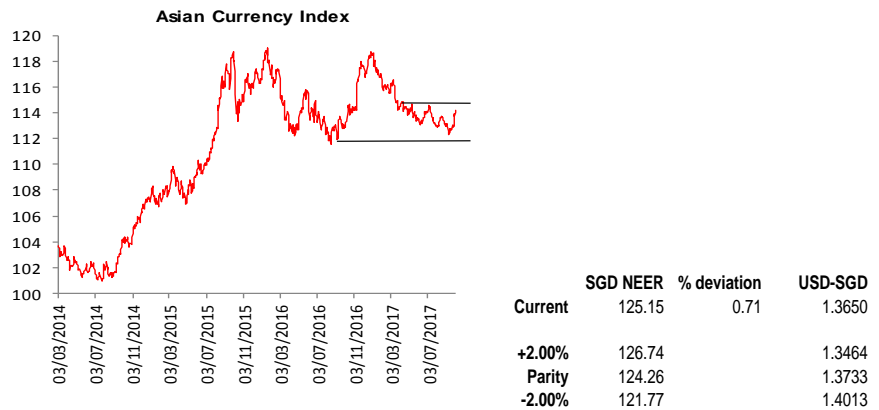
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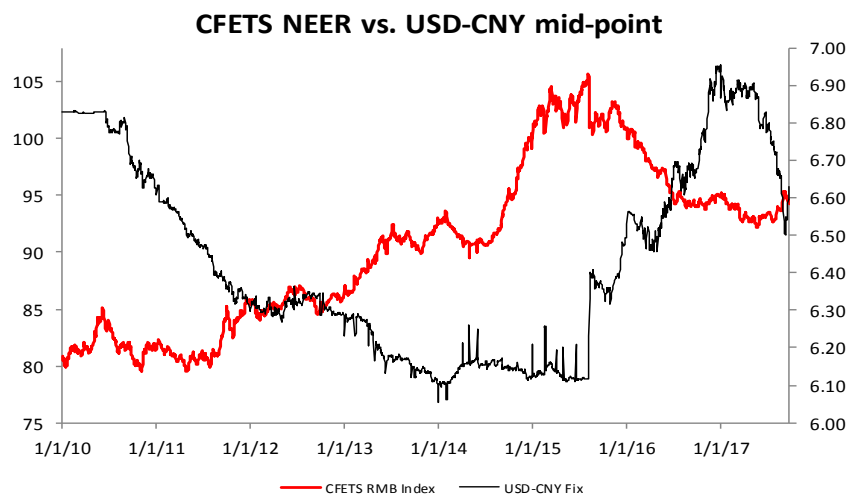
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- On the **Asian net portfolio inflow front**, we note increasing outflow pressure for the KRW and INR, some moderation in outflow pressure for the TWD, while inflows for the IDR are moderating appreciably. Elsewhere, net inflow momentum for the THB continues to moderate. **In sum, Asian FX remains increasingly vulnerable to broad USD buoyancy.**
- Global EM equities firmed slightly on the first day of 4Q 17 while EM risk premiums compressed further, helping to push the **FXSI (FX Sentiment Index)** lower within Risk-Neutral territory On Monday. Nonetheless, as alluded to above, expect the **ACI (Asian Currency Index)** to continue to search higher in the current environment.
- **SGD NEER:** The September PMIs outperformed prior market expectations on Monday but external considerations are likely to have a bigger bearing. This morning, the SGD NEER is softer on the day at +0.77% above its perceived parity (1.3733). We continue to expect the NEER to remain hemmed in within +1.00% (1.3597) and +0.70% (1.3638), with USD-SGD expected to remain reactive to firmer broad USD cues.



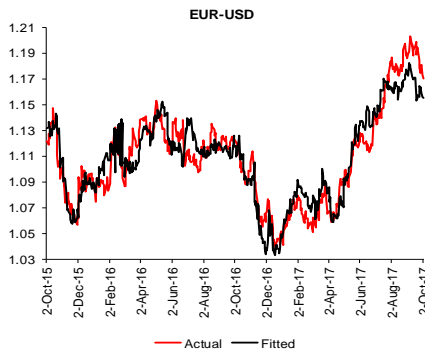
Source: OCBC Bank

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



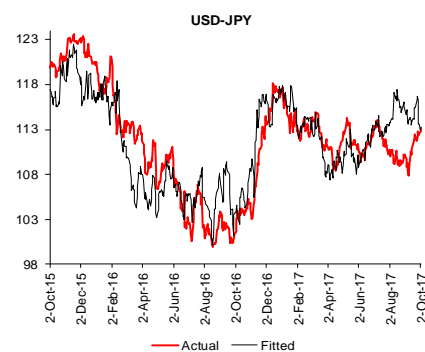
Source: OCBC Bank, Bloomberg

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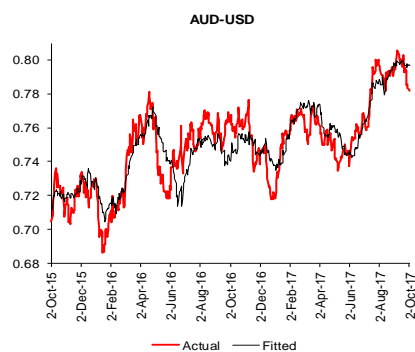
Source: OCBC Bank

- EUR-USD** The EZ September Markit manufacturing PMI disappointed slightly at 58.1 (but the German and French indices performed as expected) but Catalonia concerns may remain the primary focus (apart from ECB speak) in the near term. With short term implied valuations continuing to decay with the 55-day MA (1.1825) capping and with risks oriented towards 1.1650/60. Note also a key pivot at the 200-week MA (1.1712).



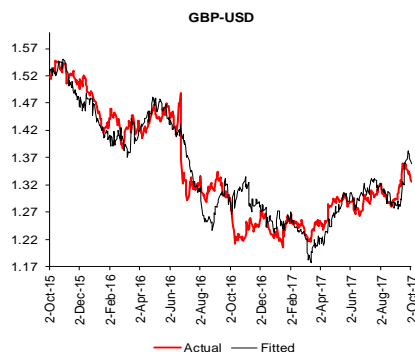
Source: OCBC Bank

- USD-JPY** The market's current positive demeanor towards the USD implies likely downside support for the USD-JPY on any dips despite still somewhat restrained short term implied valuations for the pair. Risk to still float towards 113.40/50 with 112.30 expected to cushion.



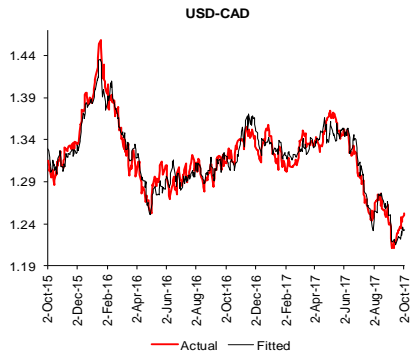
Source: OCBC Bank

- AUD-USD** Australian manufacturing PMIs deteriorated from the previous month but supported risk appetite levels tempered the heaviness of the AUD-USD on Monday. All eyes to be on the RBA meeting outcome today with the 100-day MA (0.7773) looking to entice as investors may continue to err on the side of USD resilience despite still supported short term implied valuations.



Source: OCBC Bank

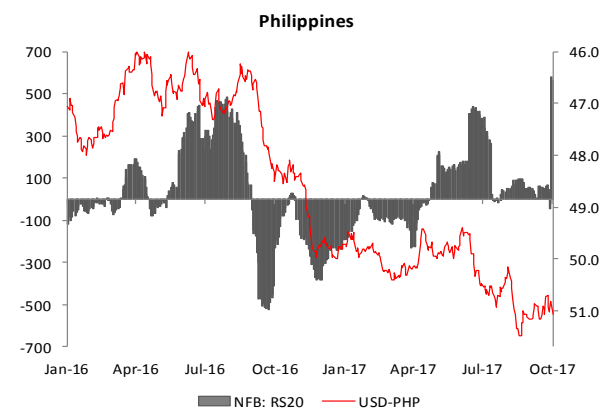
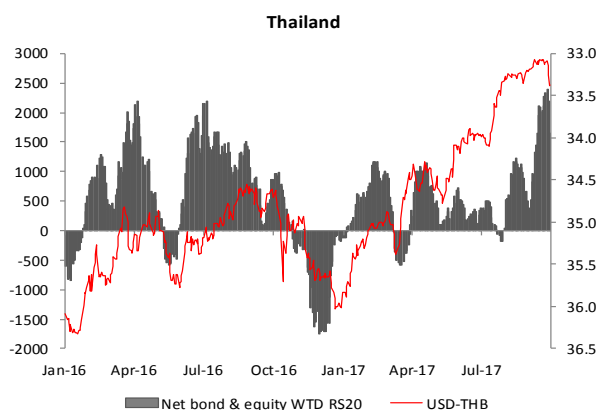
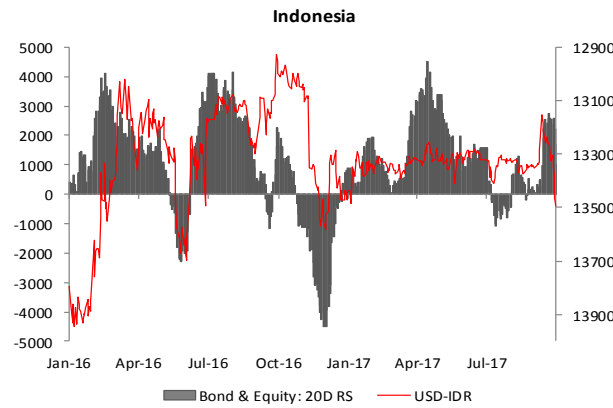
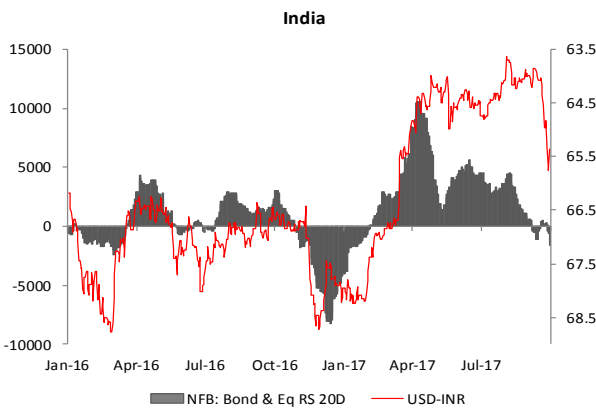
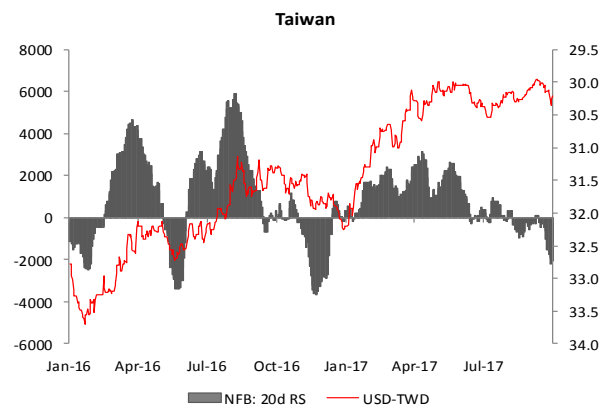
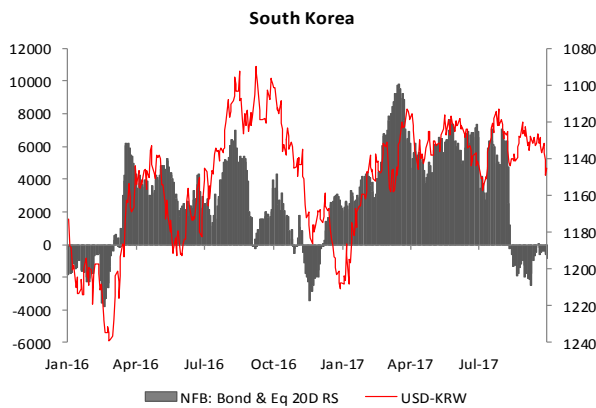
- GBP-USD** The September UK manufacturing PMI disappointed on Monday, adding further negative baggage to the pound and with EUR-GBP continuing to tilt higher. Short term implied valuations remain on a slippery slope in the interim and if 1.3200 is breached, the 55-day MA (1.3123) we think will attract.

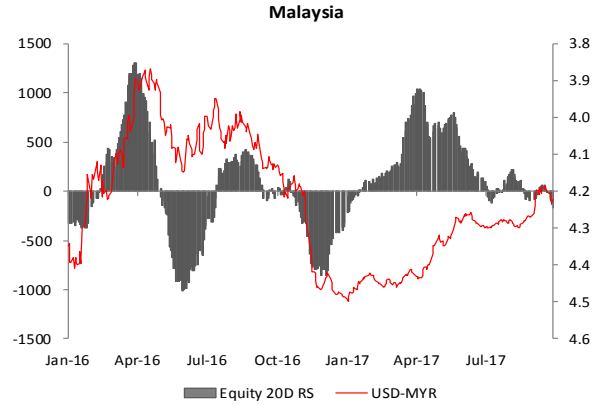


- USD-CAD** The September Markit manufacturing PMI improved more than expected to 53.1 but the near term USD backdrop is expected to dominate instead. In line with buoyant short term implied valuations (note soggy crude) for the USD-CAD, expect continued base building off the 55-day MA (1.2470) and the pair may instead gravitate towards the next resistance at 1.2585.

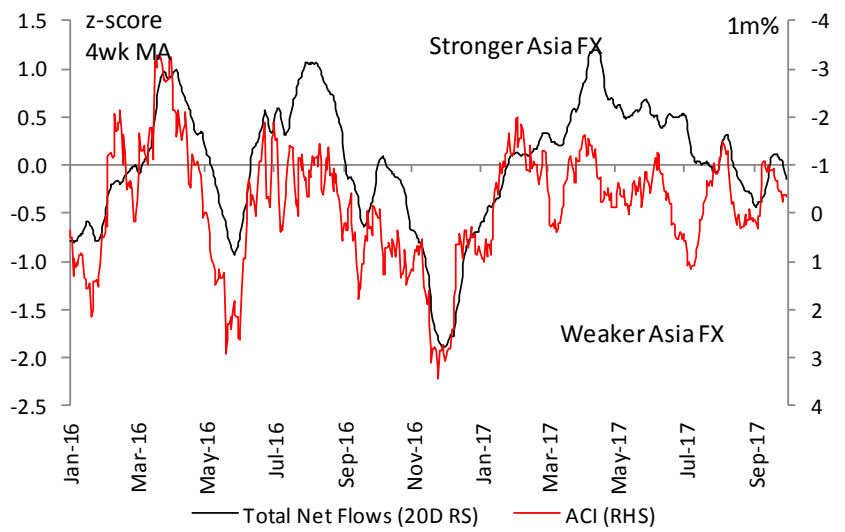
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

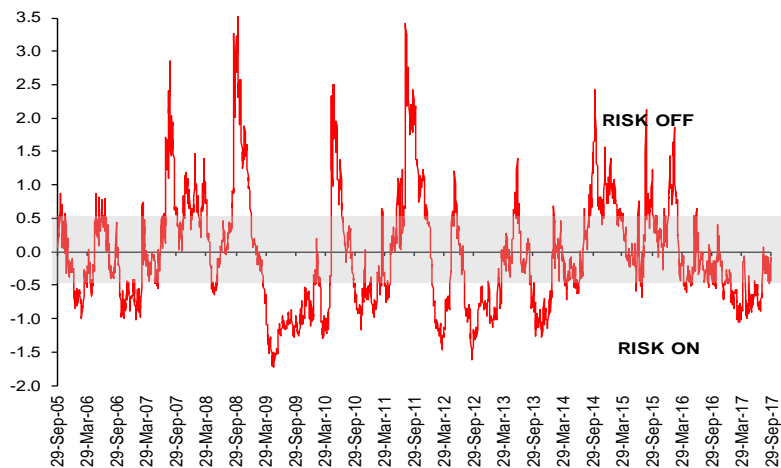




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.755	0.803	0.623	-0.233	0.171	0.719	0.731	-0.594	0.669	0.883	-0.983
SGD	0.946	0.678	0.702	0.564	-0.283	-0.006	0.609	0.605	-0.49	0.512	0.816	-0.926
CNH	0.883	0.899	0.987	0.792	0.049	0.201	0.885	0.79	-0.766	0.649	1	-0.889
CAD	0.86	0.74	0.779	0.578	-0.128	0.188	0.717	0.725	-0.564	0.682	0.84	-0.81
TWD	0.859	0.833	0.92	0.697	-0.089	0.098	0.797	0.781	-0.701	0.687	0.925	-0.834
THB	0.847	0.614	0.654	0.46	-0.397	-0.261	0.502	0.444	-0.385	0.485	0.789	-0.84
IDR	0.841	0.614	0.73	0.448	-0.384	0.048	0.59	0.7	-0.452	0.678	0.787	-0.802
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
CHF	0.803	0.937	0.858	0.856	0.331	0.384	0.956	0.792	-0.9	0.629	0.876	-0.781
CNY	0.803	0.887	1	0.756	0.066	0.512	0.9	0.907	-0.778	0.669	0.987	-0.814
USGG10	0.755	1	0.887	0.948	0.378	0.305	0.969	0.756	-0.95	0.536	0.899	-0.732
CCN12M	0.736	0.716	0.798	0.541	-0.106	0.197	0.707	0.727	-0.529	0.578	0.817	-0.714
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
JPY	0.719	0.969	0.9	0.895	0.405	0.436	1	0.833	-0.936	0.6	0.885	-0.7
MYR	0.505	0.032	0.12	-0.22	-0.665	-0.279	-0.004	0.122	0.254	0.302	0.339	-0.495
GBP	0.06	0.605	0.625	0.683	0.643	0.581	0.69	0.58	-0.779	0.281	0.418	-0.1
PHP	-0.009	-0.142	-0.318	-0.096	0.039	-0.081	-0.191	-0.265	0.168	-0.461	-0.22	-0.003
NZD	-0.535	-0.01	-0.03	0.101	0.721	0.278	0.083	-0.188	-0.192	-0.031	-0.231	0.535
AUD	-0.918	-0.807	-0.883	-0.663	0.185	-0.108	-0.768	-0.769	0.657	-0.635	-0.903	0.901
EUR	-0.983	-0.732	-0.814	-0.593	0.264	-0.16	-0.7	-0.726	0.554	-0.638	-0.889	1

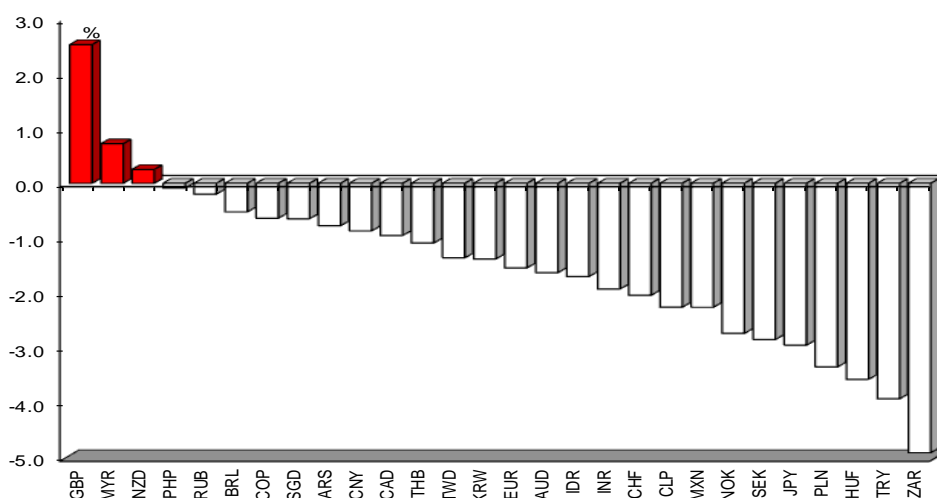
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1700	1.1706	1.1710	1.1800	1.1844
GBP-USD	1.3128	1.3200	1.3245	1.3300	1.3657
AUD-USD	0.7796	0.7800	0.7813	0.7900	0.7936
NZD-USD	0.7148	0.7155	0.7178	0.7200	0.7287
USD-CAD	1.2458	1.2500	1.2534	1.2559	1.2600
USD-JPY	111.96	113.00	113.03	113.26	114.00
USD-SGD	1.3600	1.3631	1.3651	1.3659	1.3700
EUR-SGD	1.5936	1.5939	1.5985	1.6000	1.6053
JPY-SGD	1.1969	1.2000	1.2078	1.2100	1.2276
GBP-SGD	1.7796	1.8000	1.8082	1.8100	1.8349
AUD-SGD	1.0605	1.0628	1.0666	1.0700	1.0753
Gold	1250.80	1262.12	1268.90	1268.90	1294.42
Silver	16.50	16.57	16.60	16.60	17.14
Crude	49.30	50.40	50.47	50.50	51.12

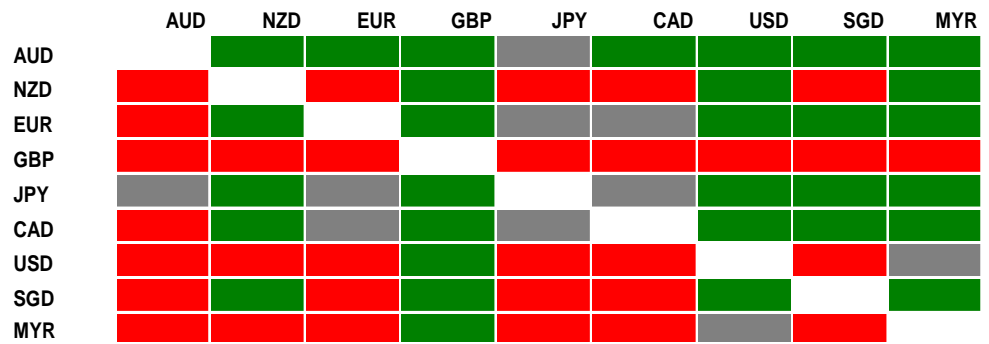
Source: OCBC Bank

### FX performance: 1-month change agst USD



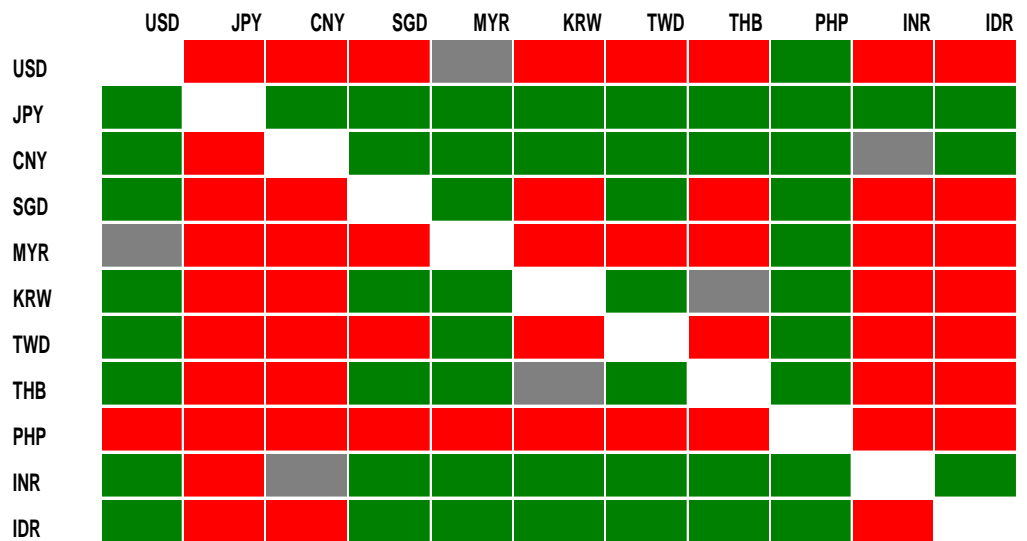
Source: Bloomberg

**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		
<b>TACTICAL</b>								
1	21-Sep-17	B	USD-JPY	112.58	115.05	111.30	Policy dichotomy post FOME-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	
<b>STRUCTURAL</b>								
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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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