

Wednesday, October 04, 2017

FX Themes/Strategy/Trading Ideas

- With UST yields softening, the USD reversed out intra-day strength to end mixed to firmer (except against the JPY, GBP, and NZD) on cited position adjustments and profit taking with little fresh headlines to distract.
- The **RBA** kept rates unchanged as expected at 1.50% with no new hints of hawkishness. However, dips below 0.7800 proved fleeting with eventual USD sogginess overtaking and lifting the pair. The **UK construction PMI** disappointed as it slipped into contraction territory (48.1) from 51.1 the previous month, capping the GBP-USD below 1.3300 while boosting the EUR-GBP. The **Bank of Canada's Leduc** meanwhile continues to see a positive output gap in the coming quarters, although growth headlines may be expected to decline. Markets continue to look towards further tightening prospects by the central bank
- **Today**, look to **Yellen** (1915 GMT) and the September ADP (1215 GMT) for headline risk, and we do not expect Yellen to depart materially from her recent guidance. Coupled with sustained chatter about Warsh and Powell (perceived as slightly dovish compared to Warsh), USD vulnerability may not dig too deep intra-day. Elsewhere, watch for potential for any flaring up of negative EUR political risk premiums if **Catalonia** declares independence in the coming days.
- On the data front, global September services/composite PMIs (Including US ISM versions) are due today with the Australian readings late Tuesday deteriorating slightly from the previous month. In Asia, the **RBI** is expected by the consensus to keep its policy parameters unchanged while we reiterate that from a real interest rate perspective, another cut may not entirely surprise if the RBI's prognosis on growth/inflation dims further.
- **Near term, we think USD resilience may not have been dislodged just yet although the DXY has shied away from the 94.00 resistance.** Aggregate interest rate differentials continue to favor the greenback for now although the 10y UST yield has also veered away from the 2.40% threshold (the 2/10s also ceased steepening at this juncture), with global long-end yields also plateauing of late – leaving space for ambiguity in the very short term.

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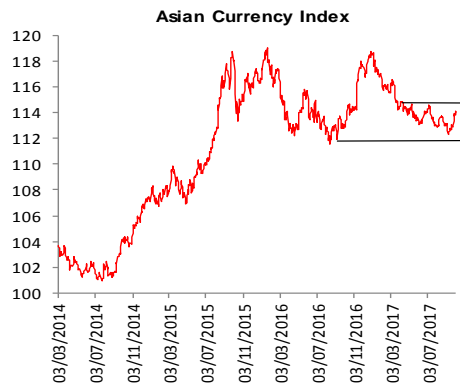
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Asian FX

- **Asian net portfolio inflows** meanwhile show some moderation of still significant outflow pressures for the TWD, lessened outflow momentum for

the INR, while inflow momentum has dropped precipitously for IDR. Note also significant moderation in inflows for the THB. Elsewhere, note net equity selling pressures for the MYR.

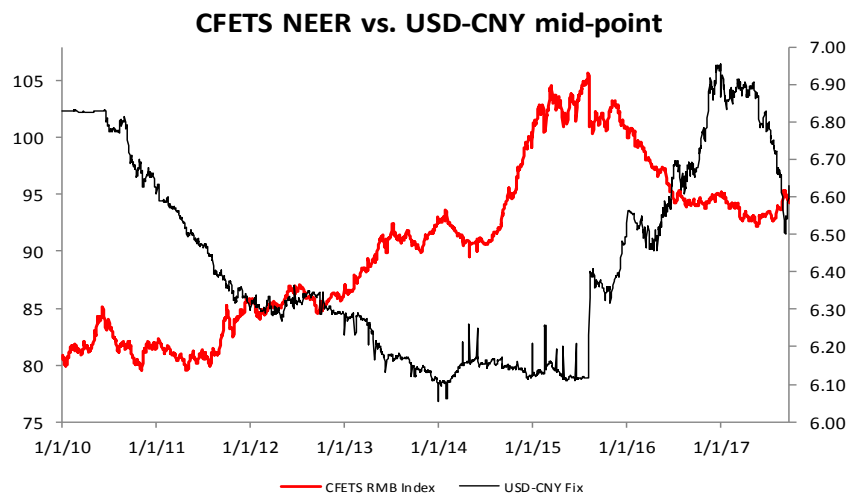
- **Nonetheless, with the FXSI (FX Sentiment Index)** dipping further (i.e., improving risk appetite levels) within Risk-Neutral territory and global EM equities pulling higher again, look for the **ACI (Asian Currency Index)** to edge lower intra-day after its recent ascent.
- **SGD NEER:** The SGD NEER is slightly firmer on the day at around +0.85% above its perceived parity (1.3719) and the basket may still be expected to remain within +0.70% (1.3624) and +1.00% (1.3583). From a technical perspective, expect supports towards the 55-day MA (1.3567) and the 200-week MA (1.3496) if the USD continues to soften ahead of tonight's headline risks.



	SGD NEER	% deviation	USD-SGD
Current	125.34	0.87	1.3593
+2.00%	126.74		1.3450
Parity	124.26		1.3719
-2.00%	121.77		1.3999

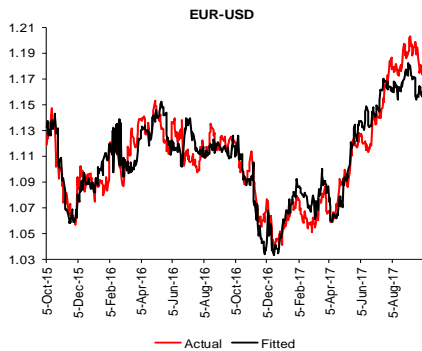
Source: OCBC Bank

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



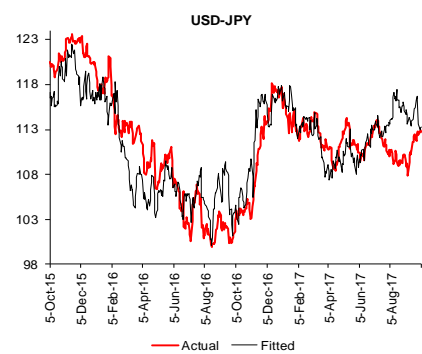
Source: OCBC Bank, Bloomberg

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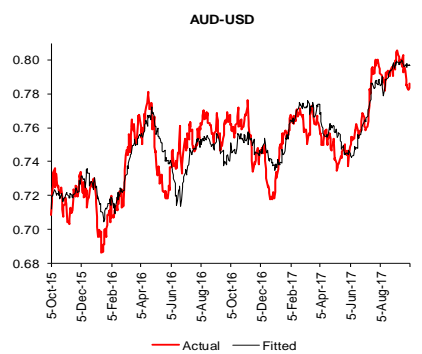
Source: OCBC Bank

- EUR-USD** The ECB's Draghi may present further headline risk today while we note that short term implied valuations have inched incrementally higher after slipping in the last few sessions. Ahead of Yellen and Draghi, expect the 55-day MA (1.1831) to continue to cap, with key support expected into 1.1670.



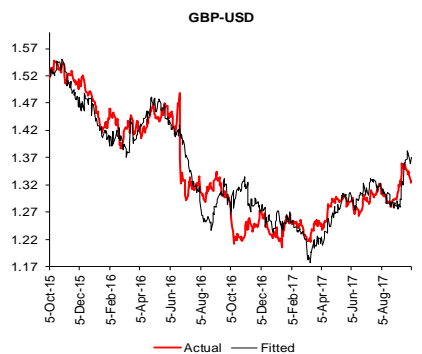
Source: OCBC Bank

- USD-JPY** Short term implied valuations for the USD-JPY are attempting to bottom out and barring excessive disappointment from the ADP and Yellen tonight, the 200-day MA (111.97) may put a near term floor on the pair. Expect potential to reach for 113.30 if USD resilience re-engages. We continue to stay constructive on the pair at this juncture.



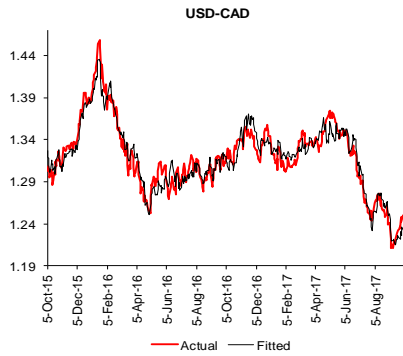
Source: OCBC Bank

- AUD-USD** The RBA remained static as expected at 1.50% on Tuesday with little discernible impact on short term implied valuations detected. After filling out the bottom of its implied confidence intervals in recent sessions, the AUD may look offshore for further cues. In the interim, preference to fade rallies within the 100-day MA (0.7777) and 0.7900.



Source: OCBC Bank

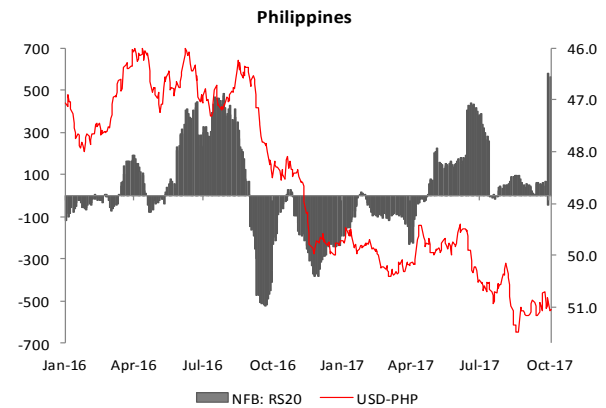
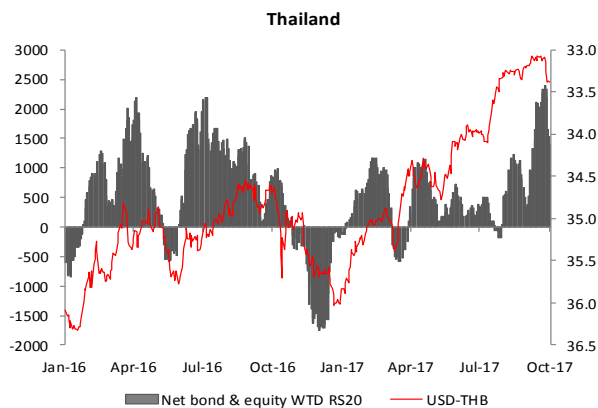
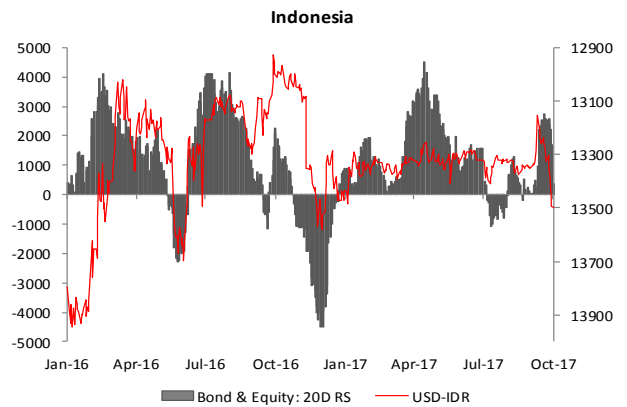
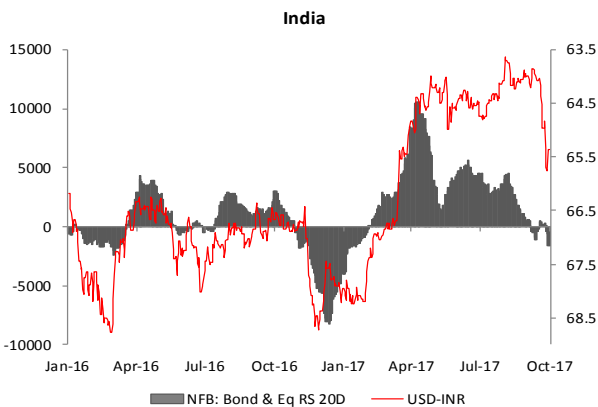
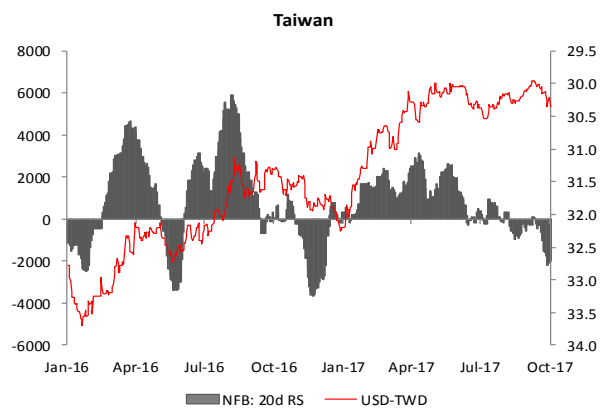
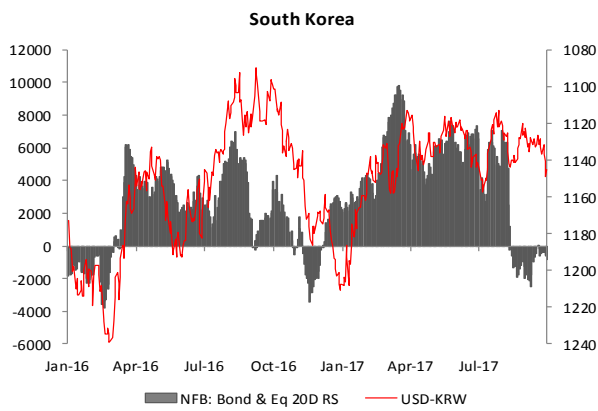
- GBP-USD** Less than conciliatory Brexit comments from Brexit minister Davis also likely exerted further negative pressure on the pound on Tuesday. Meanwhile, short term implied valuations are attempting to stay aloft, with investors obviously unconvinced. The pair may remain vulnerable to further Brexit-related negativity or disappointing data points, and a breach of 1.3200 would risk a test lower towards the 55-day MA (1.3127).

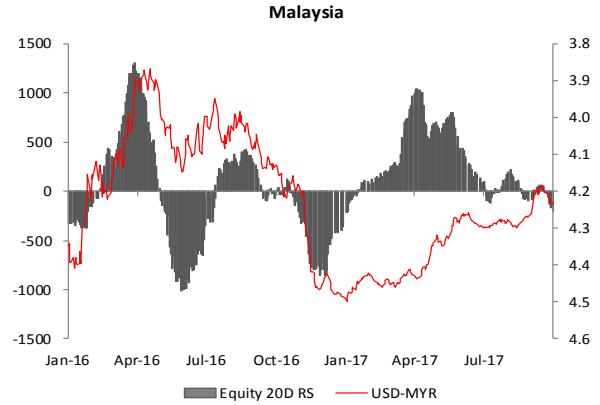


- USD-CAD** Despite southbound crude prices, the loonie may have been underpinned somewhat by Leduc's comments on Tuesday. Short term implied valuations meanwhile are attempting to top out and we think this may leave the pair slightly conflicted and hesitant pending further cues. Expect the 55-day MA (1.2467) to serve as a near term junction in the interim within a 1.2420-1.2550 range.

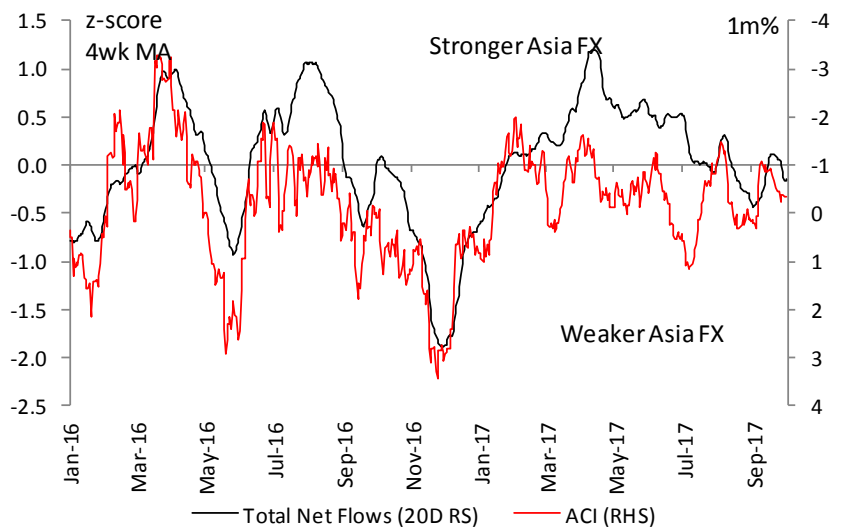
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

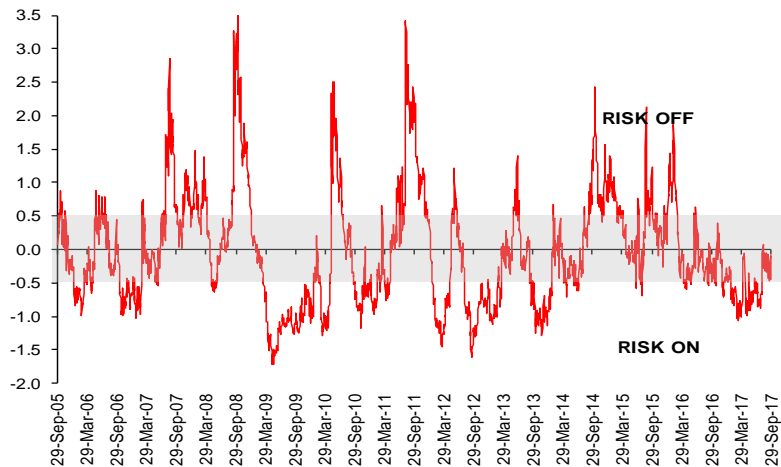




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.766	0.803	0.688	-0.113	-0.025	0.739	0.693	-0.621	0.655	0.891	-0.983
SGD	0.95	0.693	0.702	0.641	-0.159	-0.176	0.637	0.573	-0.529	0.513	0.83	-0.931
CNH	0.891	0.902	0.987	0.822	0.128	0.026	0.893	0.758	-0.778	0.644	1	-0.897
TWD	0.884	0.836	0.92	0.755	0.033	-0.111	0.801	0.716	-0.709	0.658	0.931	-0.858
IDR	0.869	0.654	0.73	0.548	-0.224	-0.135	0.631	0.658	-0.5	0.663	0.818	-0.832
CAD	0.865	0.75	0.779	0.634	-0.045	0.029	0.735	0.702	-0.594	0.68	0.848	-0.819
THB	0.851	0.625	0.654	0.569	-0.223	-0.407	0.534	0.428	-0.438	0.478	0.798	-0.845
INR	0.841	0.767	0.927	0.616	-0.089	0.212	0.802	0.873	-0.653	0.78	0.915	-0.847
CHF	0.809	0.939	0.858	0.865	0.375	0.221	0.96	0.775	-0.905	0.632	0.88	-0.789
CCN12M	0.803	0.755	0.798	0.59	-0.033	0.059	0.739	0.675	-0.558	0.585	0.865	-0.775
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	0.766	1	0.887	0.942	0.417	0.16	0.972	0.738	-0.952	0.544	0.902	-0.744
JPY	0.739	0.972	0.9	0.893	0.44	0.281	1	0.81	-0.94	0.606	0.893	-0.721
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
MYR	0.521	0.059	0.12	-0.065	-0.545	-0.364	0.036	0.12	0.162	0.326	0.362	-0.51
PHP	0.028	-0.112	-0.318	-0.041	0.059	-0.121	-0.161	-0.258	0.137	-0.446	-0.172	-0.035
GBP	0.019	0.564	0.625	0.554	0.598	0.584	0.638	0.572	-0.717	0.265	0.367	-0.063
NZD	-0.602	-0.098	-0.03	-0.089	0.566	0.399	-0.02	-0.176	-0.075	-0.073	-0.322	0.593
AUD	-0.925	-0.815	-0.883	-0.711	0.087	0.051	-0.784	-0.737	0.679	-0.632	-0.91	0.908
EUR	-0.983	-0.744	-0.814	-0.655	0.153	0.014	-0.721	-0.699	0.586	-0.633	-0.897	1

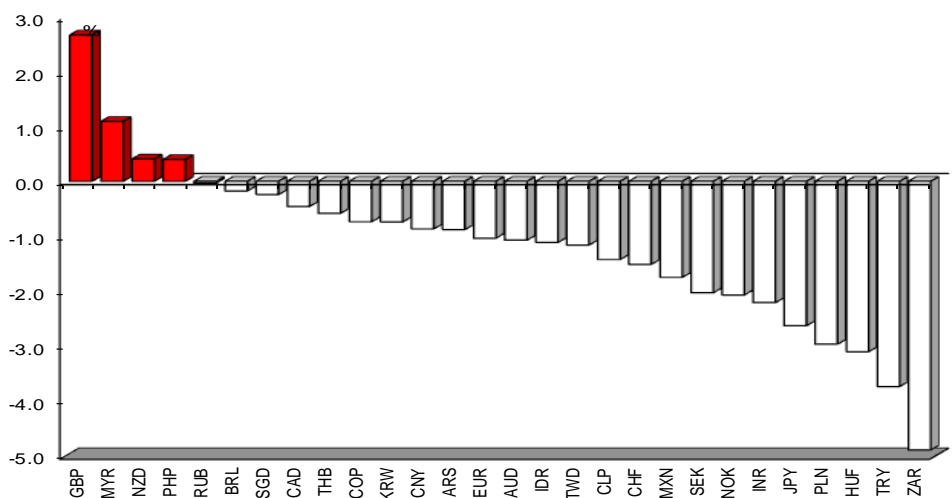
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1696	1.1700	1.1768	1.1800	1.1845
GBP-USD	1.3131	1.3200	1.3265	1.3300	1.3648
AUD-USD	0.7787	0.7800	0.7857	0.7900	0.7933
NZD-USD	0.7130	0.7149	0.7191	0.7200	0.7280
USD-CAD	1.2400	1.2458	1.2470	1.2500	1.2570
USD-JPY	111.94	112.00	112.66	113.00	113.26
USD-SGD	1.3500	1.3553	1.3598	1.3600	1.3635
EUR-SGD	1.5939	1.6000	1.6002	1.6055	1.6100
JPY-SGD	1.1969	1.2000	1.2070	1.2100	1.2273
GBP-SGD	1.7799	1.8000	1.8037	1.8100	1.8349
AUD-SGD	1.0601	1.0629	1.0684	1.0700	1.0750
Gold	1259.15	1268.60	1274.90	1294.88	1300.00
Silver	16.57	16.70	16.75	16.80	17.15
Crude	49.33	50.00	50.05	50.10	51.08

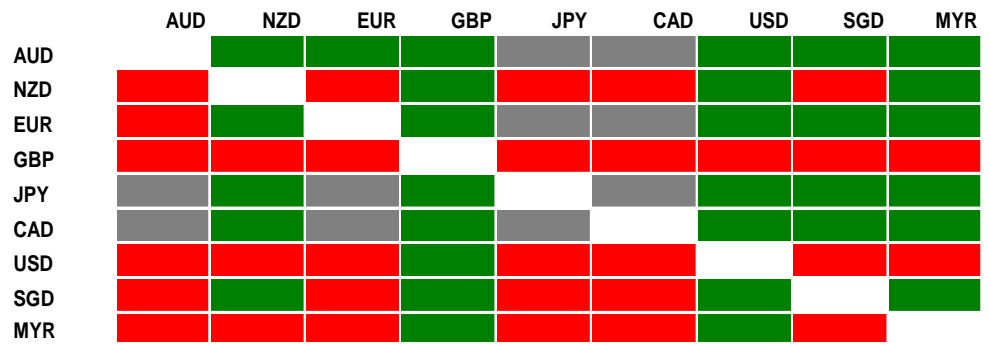
Source: OCBC Bank

FX performance: 1-month change agst USD



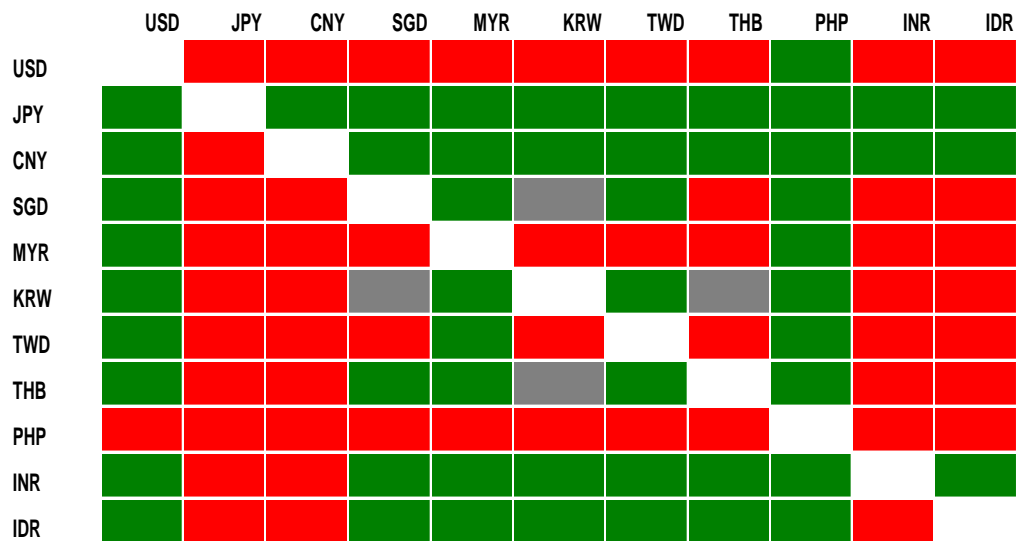
Source: Bloomberg

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 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		
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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