

Wednesday, September 06, 2017

## FX Themes/Strategy/Trading Ideas

- In the wake of dovish comments from perennial dove **Brainard** (she noted that inflation well short of target and preached caution with respect to rate hikes), UST yields slumped (led by the 10y, which slumped past 2.10% to 2.07%) and the greenback weakened across G10 space. Mixed readings from July durable goods orders failed to lend support to the greenback or US yields.
- The JPY also outperformed the USD (USD-JPY<109.00) as well as its peers amid lingering **geopolitical concerns** and with US equities slipping into the red. While more threats emanated from the North Korean ambassador to the UN, the Russian response (including from Putin) thus far has been muted, with the Russian ambassador to the UN indicating that a planned 11 Sep 17 vote on further sanctions could be premature. Note media reports of Pyongyang prepping for another launch (possibly this weekend) may continue to keep investors on their toes.
- The **RBA statement** on Tuesday was discernibly brighter in its prognosis of the local economy, especially with regards to non-mining investment and employment/wage growth. RBA comments on the AUD were verbatim from the August statement and remain matter of fact, as opposed to actual discomfort towards AUD strength. Overall, the RBA has solidified its neutrality even further, and if risk appetite resumes and the broad USD starts heading south again, little in the way from the RBA to impede further AUD resilience.
- Today, the focus turns to the **Bank of Canada** policy meeting (1400 GMT) with sufficiently neutral/hawkish expectations still being attached to this meeting. Elsewhere, the Australian 2Q GDP is due at 0.130 GMT, RBA's Heath is scheduled for 0230 GMT, while in the US, the August non-manufacturing ISM is expected at 1400 GMT, with Beige Book at 1800 GMT.
- In the near term, **geopolitical concerns and dovish Fed overtones** (not to mention concerns over Harvey and Irma) may keep the DXY biased towards the 92.00 handle once again. **In the interim, look to the CHF, (JPY for now), Treasuries, and XAU to continue to remain preferred destinations if risk aversion remains palpable.**

Treasury Research &  
Strategy

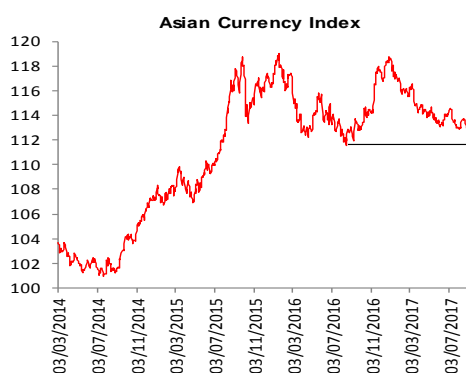
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### Asian FX

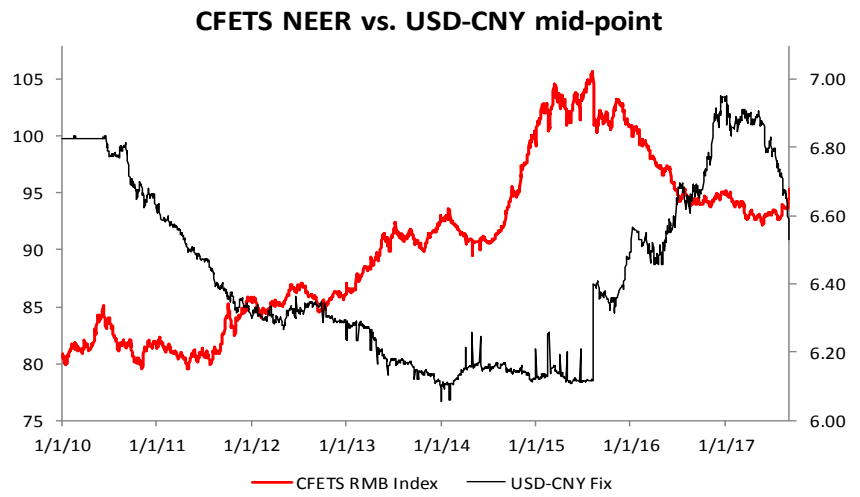
- On the Asian net portfolio inflow front, outflow pressures for the KRW seem to be abating but a high degree of uncertainty may persist in the current environment. Elsewhere, we see net outflows for TWD and still waning net inflow momentum for the INR and IDR. On the other hand, note an attempt to stabilize for the THB and the PHP in terms of net inflows in recent sessions. USD-Asia in aggregate may respond to a soggy USD in the short term, although background risk aversion (watch equities) may temper excessive downside.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** inched higher yet again within Risk-Neutral territory on Tuesday but unlike previous episodes of risk aversion, contagion thus far has remained confined, with **short term EM FX vols still underperforming G7 equivalents**. We think it is this anomaly that has continued to permit the Asian currencies to respond to a soft dollar. As such, the **ACI (Asian Currency Index)** may drip slightly lower intra-day, in line with cues from its medium term structural model.
- **SGD NEER:** The SGD NEER is firmer on the day at around +0.40% above its perceived parity (1.3584) with NEER-implied USD-SGD thresholds softer on the day. At current levels, the +0.50% threshold is estimated at 1.3517 and the pair may gravitate towards this threshold if risk aversion does not escalate.



	SGD NEER	% deviation	USD-SGD
Current	124.77	0.41	1.3526
+2.00%	126.74		1.3318
Parity	124.26		1.3584
-2.00%	121.77		1.3861

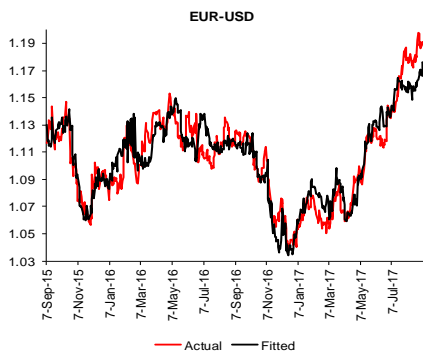
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point fell (as largely expected) to 6.5311 from 6.5370 on Tuesday. This saw the CFETS RMB Index easing to 95.02 from 95.32 yesterday.



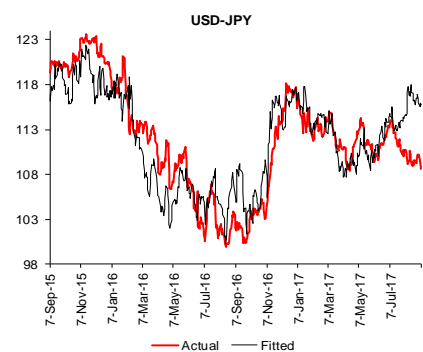
Source: OCBC Bank, Bloomberg

G7



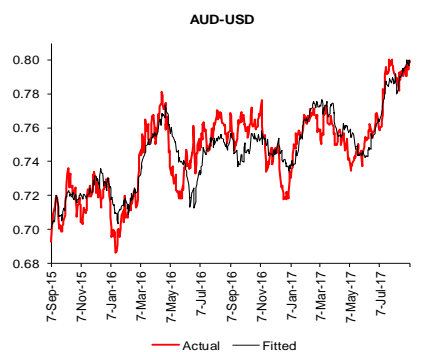
Source: OCBC Bank

- EUR-USD** The EZ August services/composite PMIs came in softer than expected but this did not deter the pair from surfacing above the 1.1900 region. Note that short term implied valuations are firmer even as we head into the ECB meeting tomorrow. In the interim, 1.1960 and 1.2000 may continue to cap, with initial supports at 1.1900 and 1.1855. We remain non-committal in the short term.



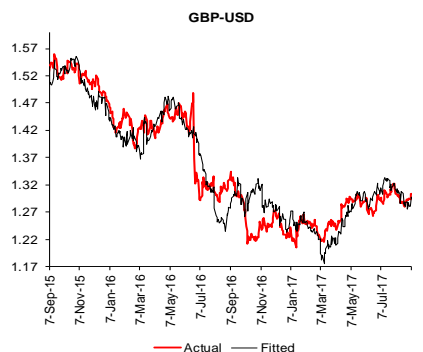
Source: OCBC Bank

- USD-JPY** Apart from Brainard, the Fed's Kashkari also was also critical of rate hikes on Tuesday and coupled with background investor jitters, investors are likely to stay heavy on the pair. Short term implied valuations are still southbound and a breach of 108.50 threatens 108.30 and 108.00 thereafter.



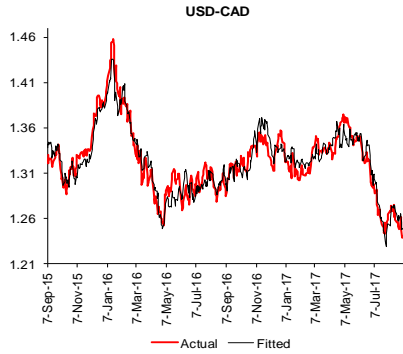
Source: OCBC Bank

- AUD-USD** Post-RBA (disappointing Australian 2Q GDP this morning notwithstanding) and with current state of the dollar, the AUD-USD may find its dips shallow if risk aversion is not aggravated. Short term implied valuations remain fairly underpinned at this juncture and still on an incline, expect attempts to base build on dips towards 0.7950/70.



Source: OCBC Bank

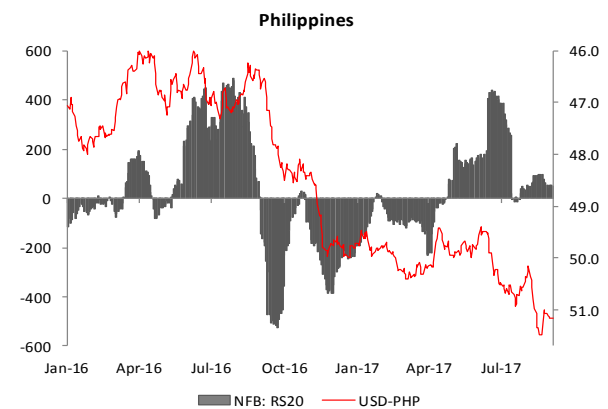
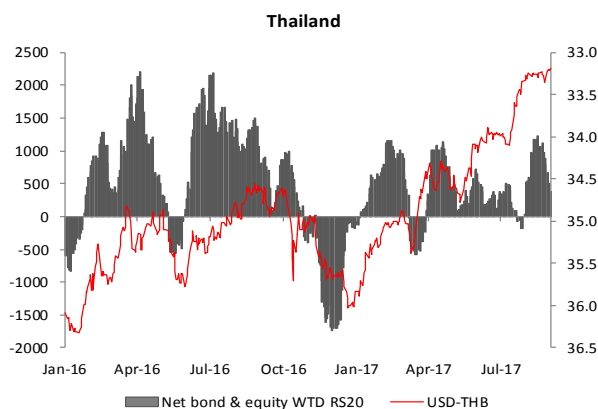
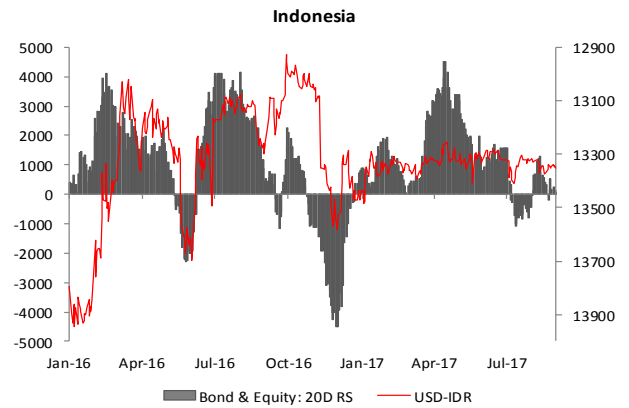
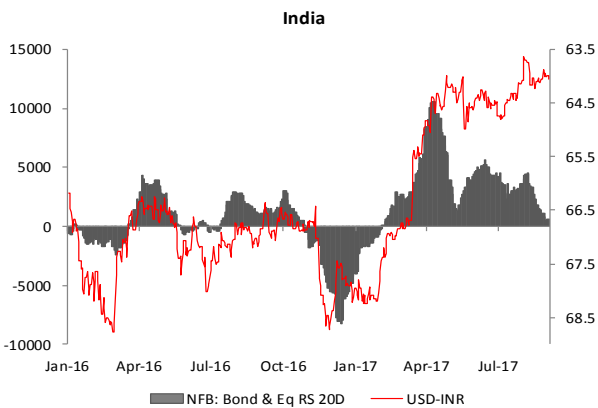
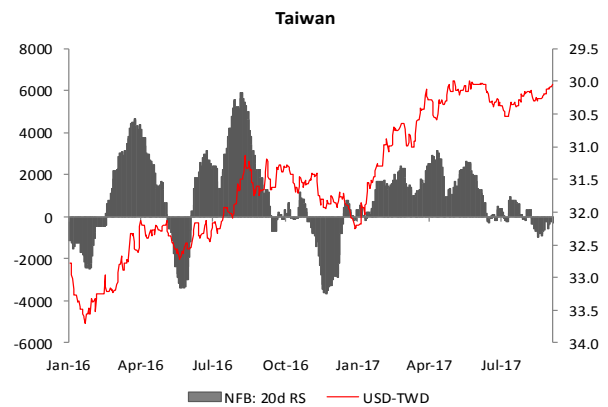
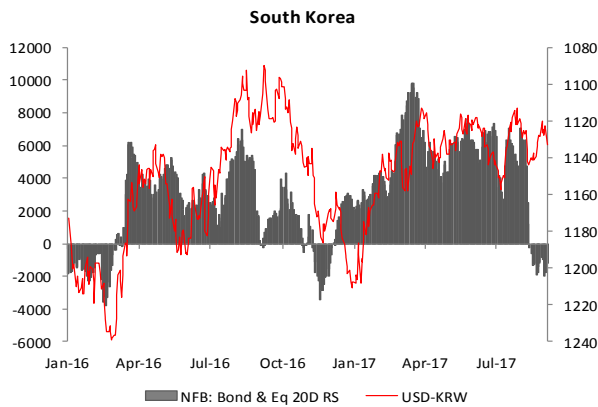
- GBP-USD** The August Markit services/composite PMIs turned in a flat to softer than expected performance but GBP-USD was still lifted by a soft USD complex. We think skepticism towards excessive upside for the pair may prevail with initial resistance expected towards 1.3050 and with the 55-day MA (1.2961) now functioning as a support. Elsewhere, risk of a further unwind in long EUR-GBP positioning post ECB tomorrow may also prove supportive of cable.

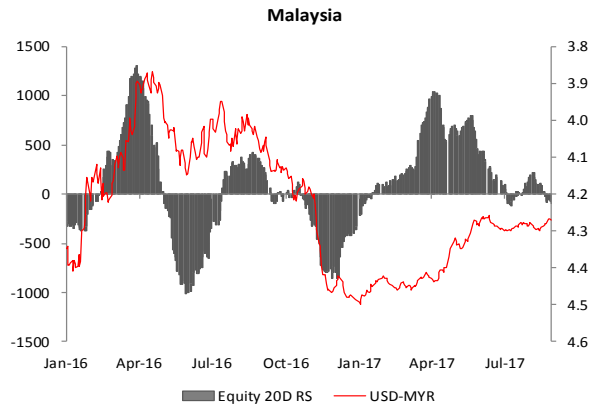


- USD-CAD** Firmer crude on Tuesday also buoyed the CAD further ahead of the BOC today. Investors we think remain aligned with heavy short term implied valuations (note no negative headlines from ongoing Nafta discussions just yet) and 1.2350 may yield support ahead of the BOC today.

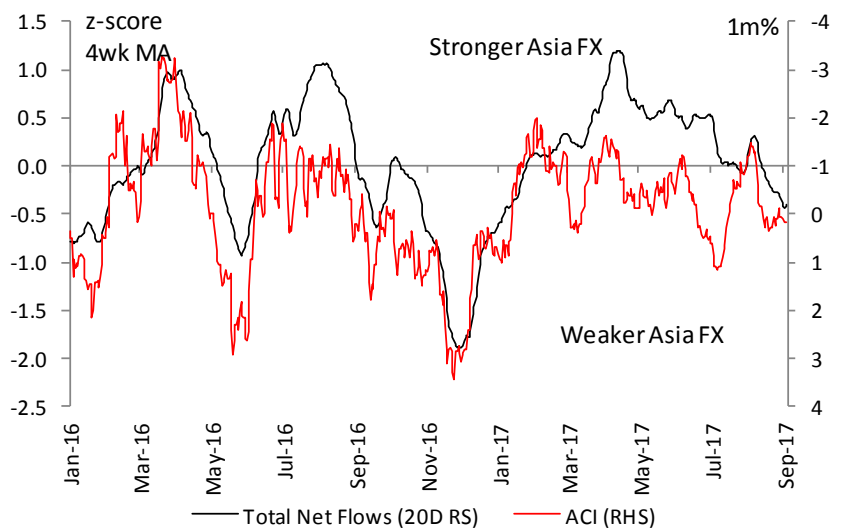
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

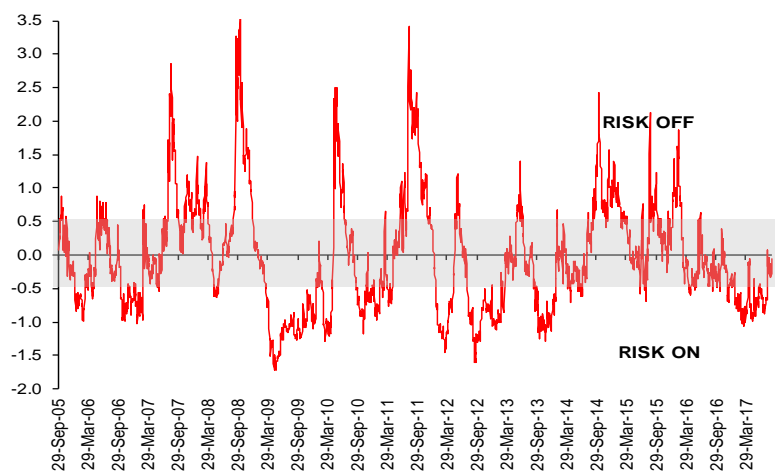




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.869	0.804	0.11	-0.317	-0.265	0.462	0.273	0.228	0.094	0.835	-0.967
SGD	0.973	0.842	0.782	-0.024	-0.422	-0.327	0.406	0.228	0.379	0.19	0.829	-0.955
USGG10	0.869	1	0.811	0.266	-0.257	-0.156	0.608	0.263	-0.014	-0.067	0.844	-0.766
MYR	0.866	0.821	0.787	0.053	-0.616	-0.291	0.436	0.089	0.44	0.152	0.875	-0.826
CHF	0.853	0.833	0.697	0.429	-0.14	-0.074	0.632	0.243	-0.145	-0.154	0.736	-0.792
CNH	0.835	0.844	0.993	-0.011	-0.38	-0.276	0.343	0.304	0.22	0.227	1	-0.759
CNY	0.804	0.811	1	-0.012	-0.335	-0.307	0.24	0.399	0.172	0.21	0.993	-0.732
CAD	0.802	0.777	0.776	0.058	-0.52	-0.25	0.411	0.19	0.385	0.218	0.849	-0.732
TWD	0.675	0.541	0.774	-0.408	-0.697	-0.624	-0.112	0.079	0.574	0.646	0.779	-0.658
THB	0.581	0.557	0.705	-0.124	-0.063	-0.309	0.132	0.179	0.03	0.261	0.704	-0.511
CCN12M	0.575	0.41	0.599	-0.179	-0.489	-0.577	0.119	-0.138	0.356	0.249	0.59	-0.582
NZD	0.5	0.537	0.786	-0.039	-0.382	-0.017	0.043	0.505	0.237	0.132	0.764	-0.509
KRW	0.482	0.249	0.374	-0.376	-0.831	-0.311	-0.35	0.284	0.734	0.518	0.374	-0.579
JPY	0.462	0.608	0.24	0.764	0.301	0.098	1	-0.099	-0.566	-0.603	0.343	-0.305
IDR	0.103	-0.068	0.045	-0.385	-0.563	-0.697	-0.226	-0.407	0.345	0.622	0.017	-0.126
INR	-0.117	-0.371	-0.221	-0.589	-0.608	-0.539	-0.642	-0.288	0.558	0.667	-0.22	-0.001
PHP	-0.157	-0.387	-0.322	-0.534	-0.323	-0.69	-0.364	-0.637	0.294	0.567	-0.343	0.106
GBP	-0.28	-0.17	-0.133	0.479	-0.004	0.728	0.03	0.478	-0.068	-0.528	-0.196	0.222
AUD	-0.801	-0.753	-0.641	-0.008	0.512	0.374	-0.407	-0.071	-0.332	-0.308	-0.73	0.716
EUR	-0.967	-0.766	-0.732	-0.029	0.368	0.21	-0.305	-0.357	-0.348	-0.125	-0.759	1

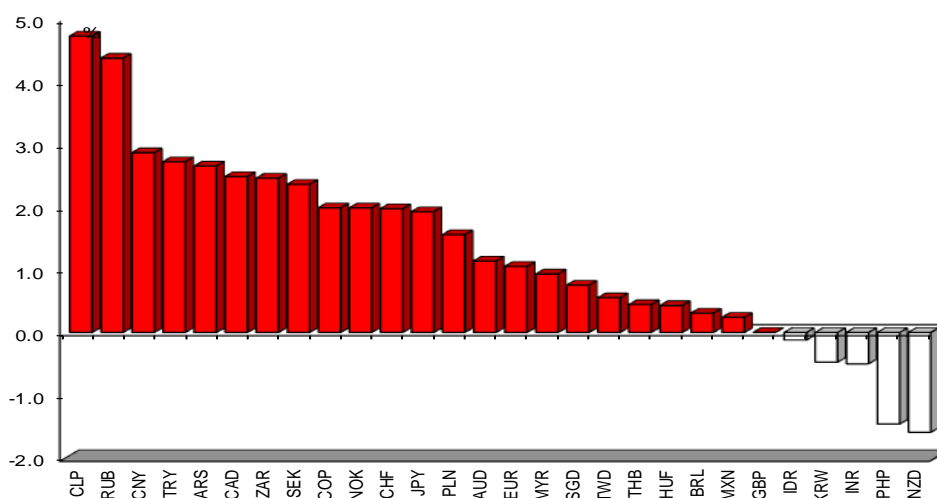
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1687	1.1900	1.1906	1.1990	1.2000
GBP-USD	1.2975	1.3000	1.3034	1.3043	1.3100
AUD-USD	0.7861	0.7900	0.7997	0.8000	0.8006
NZD-USD	0.7148	0.7200	0.7238	0.7300	0.7315
USD-CAD	1.2323	1.2336	1.2384	1.2400	1.2640
USD-JPY	108.27	108.50	108.76	109.00	110.53
USD-SGD	1.3500	1.3506	1.3527	1.3600	1.3643
EUR-SGD	1.5962	1.6100	1.6106	1.6200	1.6205
JPY-SGD	1.2400	1.2431	1.2436	1.2500	1.2524
GBP-SGD	1.7391	1.7600	1.7631	1.7695	1.7698
AUD-SGD	1.0722	1.0800	1.0818	1.0830	1.0900
Gold	1300.00	1338.37	1340.00	1345.60	1400.00
Silver	17.86	17.90	17.92	17.98	18.00
Crude	47.46	48.50	48.55	48.60	49.65

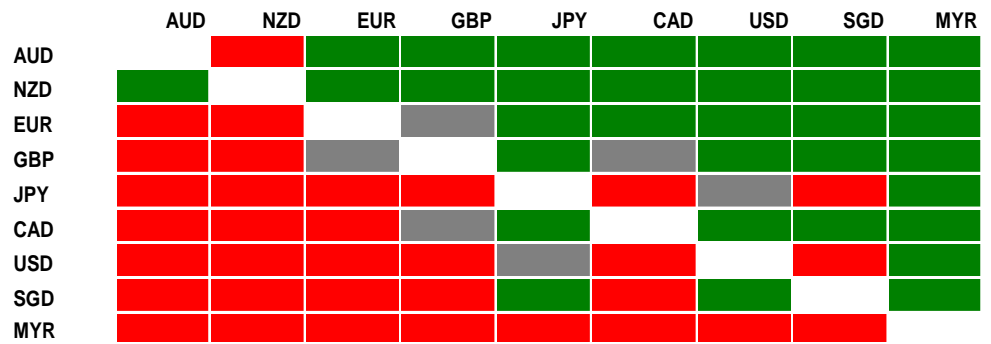
Source: OCBC Bank

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



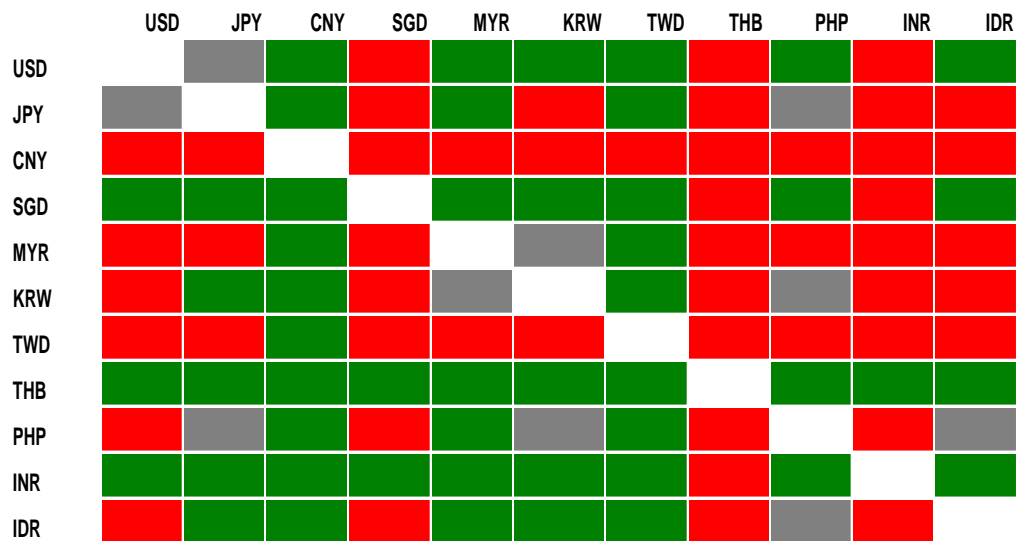
Source: Bloomberg

**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	16-Aug-17	S	GBP-USD	1.2888	1.2605 1.3035	Doused hawkish BOE expectations, space for a USD capitulation		
<b>STRUCTURAL</b>								
2	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
3	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		
4	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		
5	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		
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	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
2	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
3	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
4	01-Aug-17	04-Sep-17	S	USD-JPY	110.18	109.79	No surprises expected from Fed-speak after the last FOMC	+0.19
<b>Jan-Sep*** 2017 Return</b>							<b>+8.10</b>	
<b>2016 Return</b>							<b>+6.91</b>	
* realized **of notional ***month-to-date								

Source: OCBC Bank

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