

Thursday, September 07, 2017

## FX Themes/Strategy/Trading Ideas

- The 3-month extension of the US debt ceiling gave the dollar a little bit of a tailwind on Wednesday with UST yields (10y back above 2.10% with curve steepening from the middle to the back-end) also managing to creep higher as risk appetite levels improved.
- Elsewhere, USD-CAD crashed through 1.2200 briefly after the **Bank of Canada** surprised with an earlier than expected 25bps rate hike to 1.00% on Thursday, effectively removing its accommodation from the “emergency” rate cuts from 2015. Ensuing rhetoric from the central bank was also perceived to be leaving the door open for further rate hikes if necessary, and this may underpin the CAD in the near term.
- In other news, the resignation of **Fed vice-chair Fischer** (viewed as a bastion of economic reason) effective October may cast further uncertainty over Fed rate trajectory and balance sheet taper prospects for 2018. With Yellen’s tenure also due to expire in February 2018, uncertainty over policy continuity (or discontinuity) may not do the dollar any favors.
- The **ECB** Council meeting today (1145 GMT) is expected to hold the market’s primary focus with the Draghi’s subsequent press conference to be closely watched for any reference to the EUR’s valuation. Technical committees had convened from Wednesday but investors are of the view that no policy announcements on balance sheet tapering are expected at today’s meeting.
- On other fronts, the Fed’s **Mester** (1615 GMT) and **Dudley** (2300 GMT) are on tap while the data stream brings Australian July trade numbers and retail sales and **China’s August foreign reserves** (which are not expected to prompt strong expectations of renminbi appreciation). **BNM** meanwhile is expected to stand pat at 3.00% at 0700 GMT.
- **Geopolitical risks** meanwhile may continue to hum in the background with the US circulating a draft UN resolution for more trade sanctions. Jitters towards another missile launch from North Korea over the weekend will continue to circulate, even as THAAD systems are being deployed in South Korea.
- Overall, markets may be expected to remain in a holding pattern ahead of the ECB meeting today and we remain tactically sparse in terms of near term directionality for the majors. On a technical front however, note that the EUR-USD and the USD-CAD have breached their respective 200-week MAs

Treasury Research &  
Strategy

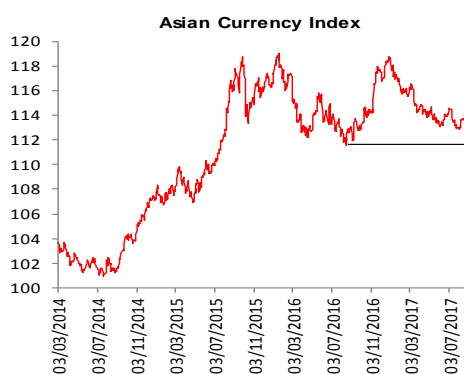
**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

and this has largely been on the back of relative and differing central bank dynamics, especially with respect to the Fed.

- With the pound buoyed by renewed USD weakness, our 16 August 17 idea to be tactically short **GBP-USD** (spot ref: 1.2888) triggered its stop loss at 1.3035 on Tuesday for an implied stop loss of -1.06%.

## Asian FX

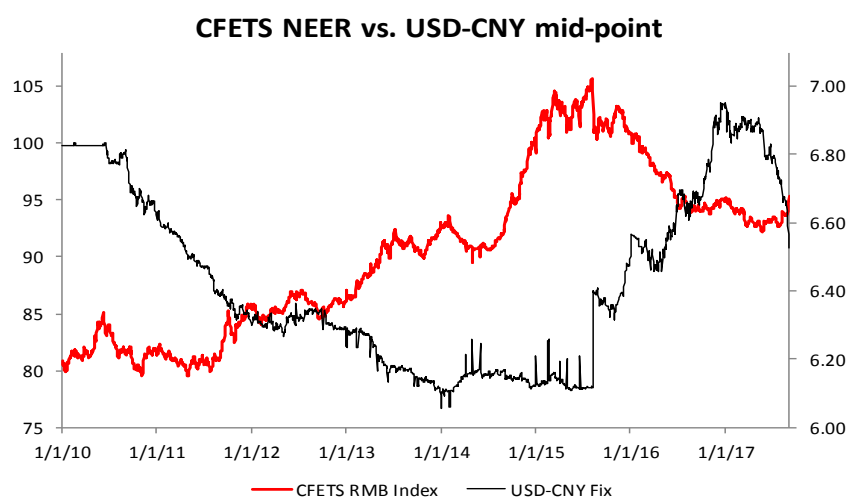
- EM FX/equities posted a mixed performance overnight and with geopolitical risks emanating from Asia and caution may continue to prevail into today. On the net portfolio inflow front, the KRW and TWD continue to experience net out flows, the INR is showing signs of outflows, while net inflows for the IDR have dried up in recent sessions. Net inflows for the PHP are holding steady while the THB is seeing positive improvements.
- **As such, any downside dips across USD-Asia will be more a reaction to positive risk appetite levels and broad USD gyrations, as opposed to inherent support from net portfolio capital inflows in the short term.**
- On the risk appetite front, the **FXSI (FX Sentiment Index)** fell on the back of improving risk appetite levels but remained within Risk-Neutral territory on Wednesday. The **ACI (Asian Currency Index)** may slip further intra-day.
- **SGD NEER:** The SGD NEER is firmer on the day again at +0.59% above its perceived parity (1.3568) with NEER-implied USD-SGD thresholds a touch softer on the day. Expect the NEER to traverse the range between +0.40% (1.3514) and +0.80% (1.3461) given current market levels.



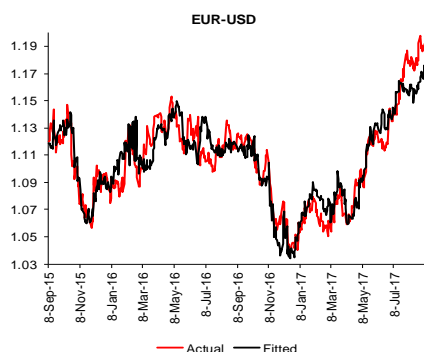
	SGD NEER	% deviation	USD-SGD
Current	125.05	0.63	1.3483
+2.00%	126.74		1.3302
Parity	124.26		1.3568
-2.00%	121.77		1.3845

Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell (as largely expected) to 6.5269 from 6.5311 on Wednesday. This took the CFETS RMB Index higher to 95.06 from 95.02 yesterday, with the Index stalling earlier this week near the previous highs of clocked in late July 2016. With renminbi appreciation expectations (or USD selling pressures) moderating, the basis between the CNY and the fix have normalized once again, and this may also deter excessive downside for the USD-CNH in the near term.

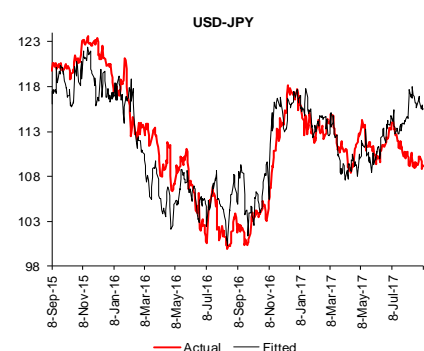


Source: OCBC Bank, Bloomberg

**G7**

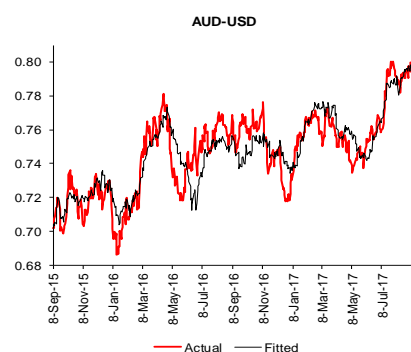
Source: OCBC Bank

- **EUR-USD** German factory orders for July disappointed prior expectations but this failed to materially dent the EUR. Expect range trading (1.1850-1.1960) behavior going into the ECB meeting later today although short term implied valuations continue to look supported.



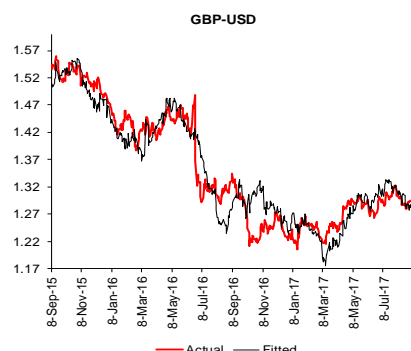
Source: OCBC Bank

- **USD-JPY** Debt ceiling agreement notwithstanding, USD bulls have little to cheer in our view, especially with technical and short term implied valuations slipping. Look towards 108.40/50 on a breach of 109.00.



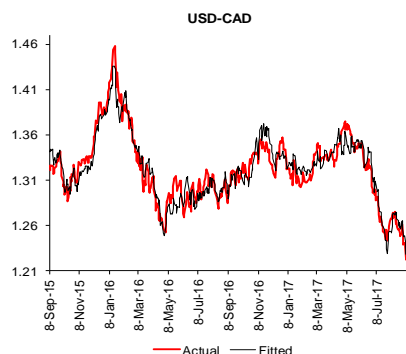
Source: OCBC Bank

- **AUD-USD** This morning, the Australian July trade surplus and retail sales numbers came in on the wrong side of expectations and this may cap near term upside for the pair. Multi-session, short term valuations remain supportive (barring acute geopolitical risk aversion) and we'd prefer to collect into dips within 0.7950-0.8050 in the interim.



Source: OCBC Bank

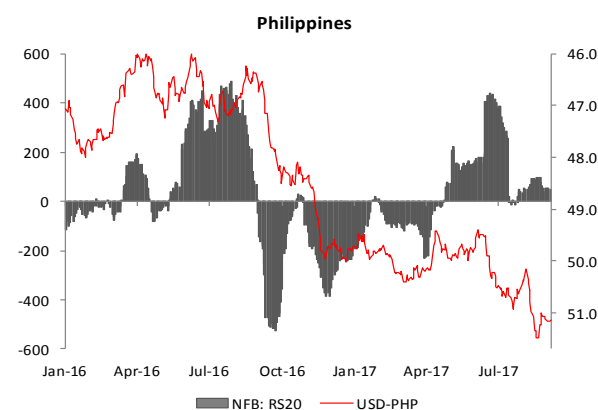
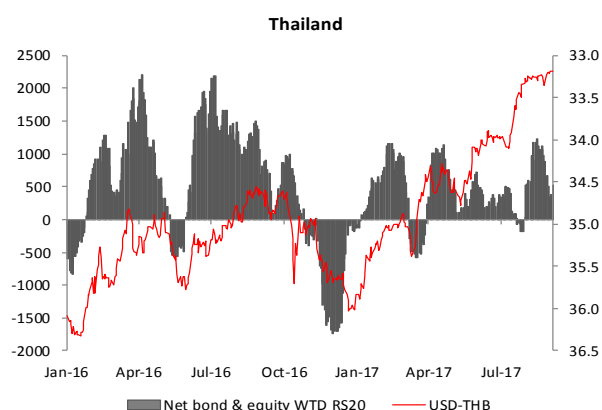
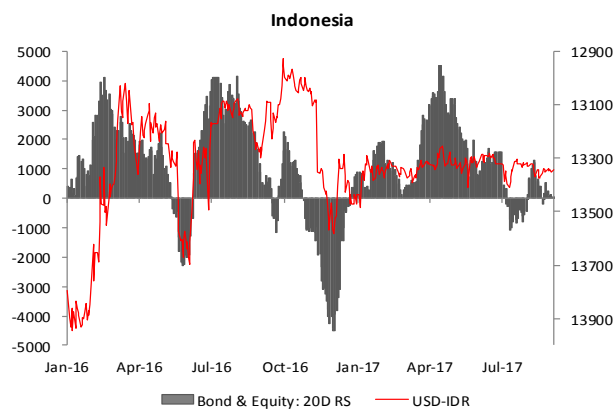
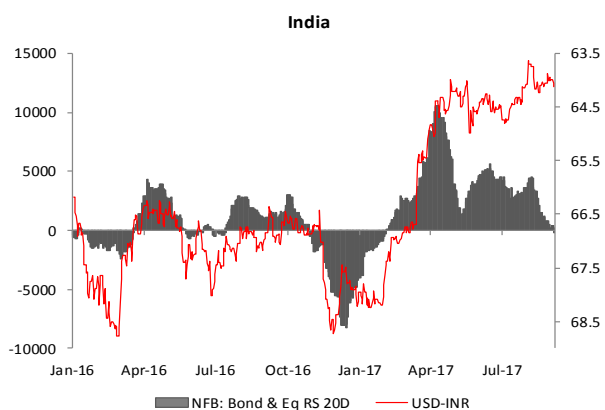
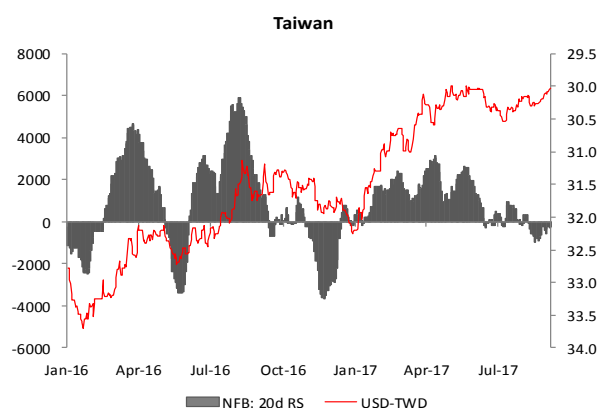
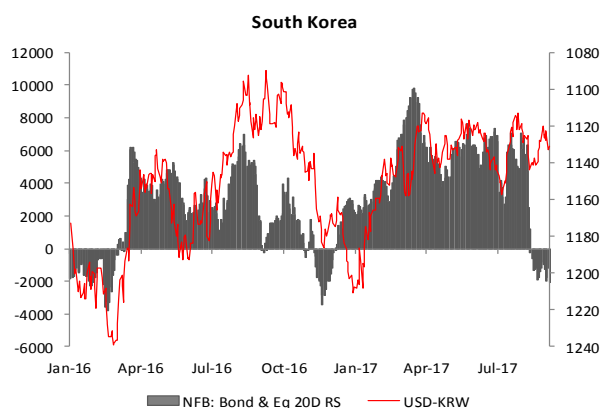
- **GBP-USD** With repeal bill discussions in Parliament likely to remain a near term overhang, GBP-USD may not be expected to derive significant upside traction. This would be despite steadier short term implied valuations and a 1.3000-1.3100 range may hold in the near term.

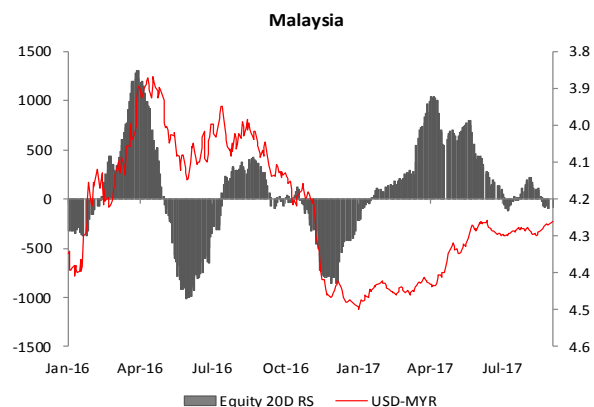


- USD-CAD** Continue to stay top heavy on USD-CAD post-BOC with short term implied valuations also tripping lower in sympathy. In the very short term, the floorboard at 1.2200 we think would remain brittle.

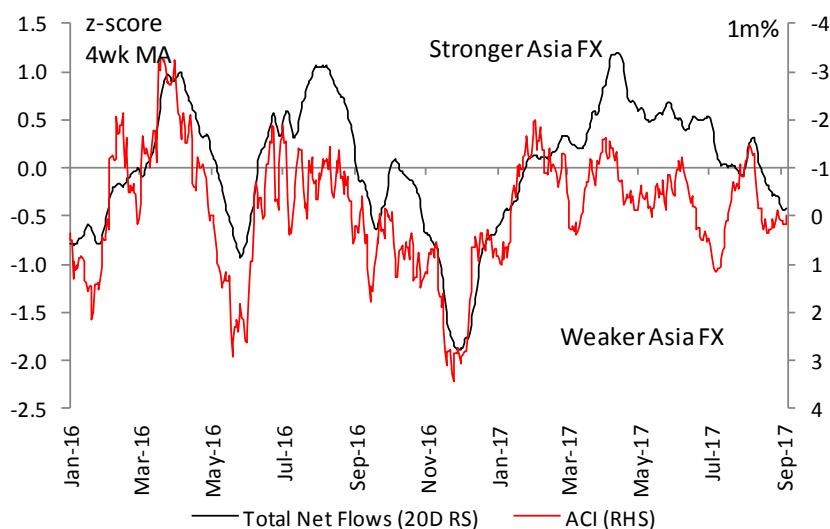
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

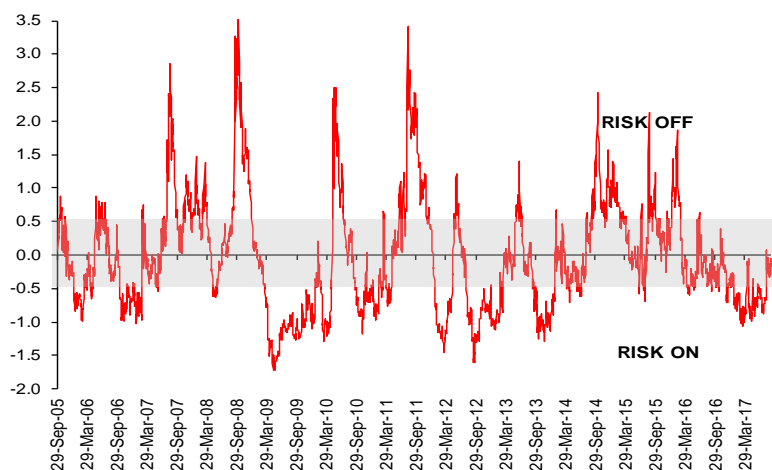




### ACI VS. Net Capital Flows



### 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

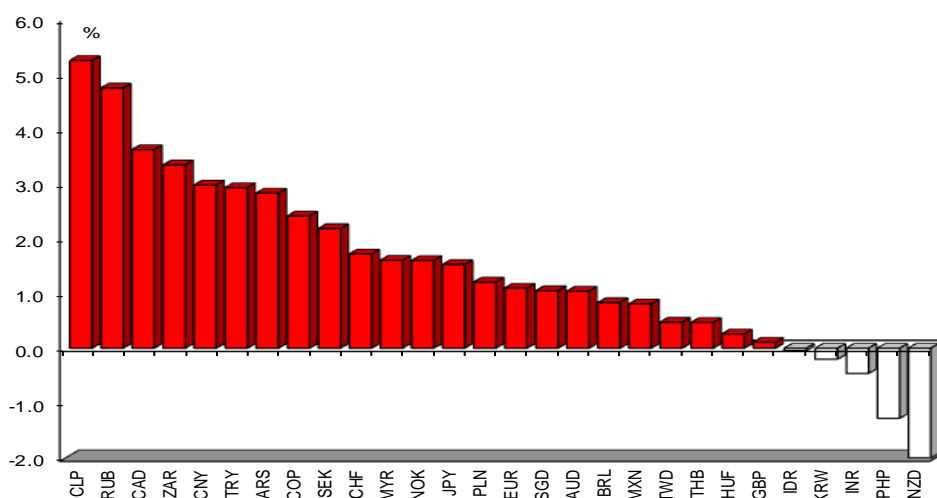
Source: Bloomberg

### Immediate technical support and resistance levels

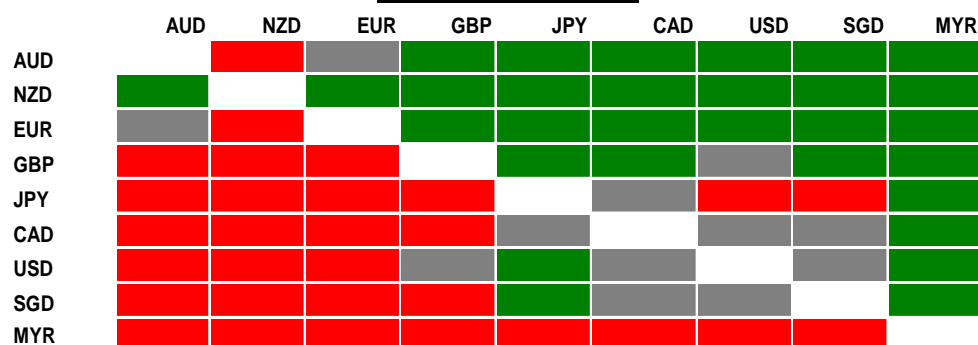
	S2	S1	Current	R1	R2
EUR-USD	1.1696	1.1900	1.1924	1.2000	1.2001
GBP-USD	1.2976	1.3000	1.3048	1.3058	1.3100
AUD-USD	0.7867	0.7900	0.7991	0.8000	0.8015
NZD-USD	0.7141	0.7200	0.7214	0.7300	0.7313
USD-CAD	1.2146	1.2200	1.2234	1.2241	1.2300
USD-JPY	108.56	109.00	109.09	110.00	110.51
USD-SGD	1.3475	1.3477	1.3485	1.3500	1.3636
EUR-SGD	1.5965	1.6000	1.6080	1.6100	1.6204
JPY-SGD	1.2299	1.2300	1.2363	1.2400	1.2430
GBP-SGD	1.7400	1.7500	1.7595	1.7600	1.7674
AUD-SGD	1.0700	1.0725	1.0776	1.0800	1.0826
Gold	1268.76	1300.00	1335.20	1341.60	1345.60
Silver	17.12	17.80	17.84	17.90	17.92
Crude	47.57	49.10	49.11	49.20	49.60

Source: OCBC Bank

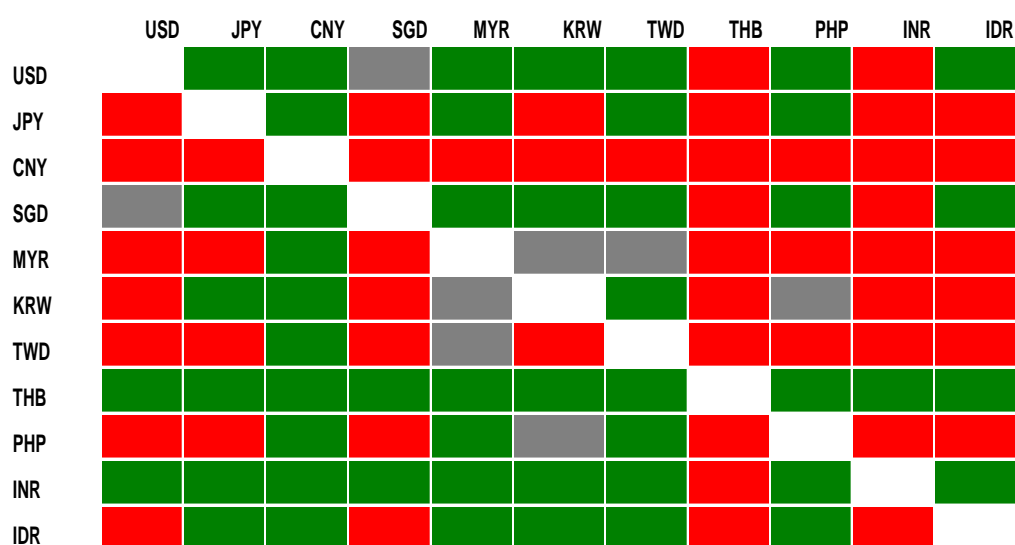
### FX performance: 1-month change agst USD



Source: Bloomberg

**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank



### FX Trade Ideas

FX Trade Ideas								
Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
	--	--	--	--	--	--	--	
STRUCTURAL								
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	
RECENTLY CLOSED TRADE IDEAS								
	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
5	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
	Jan-Sep*** 2017 Return							+8.10
	2016 Return							+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank



This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W