

Thursday, August 10, 2017

FX Themes/Strategy/Trading Ideas – Fire and fury

- Amidst Trump/Pyongyang headlines from Tuesday, the market went into a Risk-Off mode (UST and bund yields/global equities lower), on Wednesday with the JPY and the CHF outperforming across the board, while the cyclicals were also broadly undermined against their G10 counterparts. The USD meanwhile came off intra-day highs against the other majors to end the day relatively flat.
- In the near term, risk aversion may continue to circulate with chatter out of Pyongyang continuing to mention plans for a strike on Guam. While the typical haven currencies may continue to find intrinsic support, further unwinding of prior longs in the majors cannot be ruled out at this juncture. **On this front, the EUR-USD may remain most at risk, both from a positioning as well as form a short term valuation basis.**
- Late Wednesday, the **RBNZ** kept its benchmark OCR unchanged at 1.75% as widely expected, with the central bank not demonstrating any tilt towards hawkishness nor any discomfort with the NZD and remaining flatly neutral.
- Today, an appearance by the **Fed's Dudley** (1400 GMT) may steer market attention back to the Fed, with US July PPI and initial claims numbers also on tap. Late Thursday, the **RBA's Lowe** is also scheduled to appear before the House Economics Committee with investors likely on the lookout for any further rhetoric against a stronger AUD. Elsewhere in Asia, the **BSP** (0800 GMT) is expected to stand pat on its policy parameters today.
- With **USD-CAD** downside likely having reached near term satiation, we closed out our 23 May 17 idea to be tactically short USD-CAD (spot ref: 1.3494) on Tuesday at 1.2667 for an implied +6.40% gain.
- With the BOE MPC disappointing, our 01 Aug 17 idea to be tactically long **GBP-USD** (spot ref: 1.3207) was stopped out on Friday at 1.3060 for an implied -1.14% loss.

Asian FX

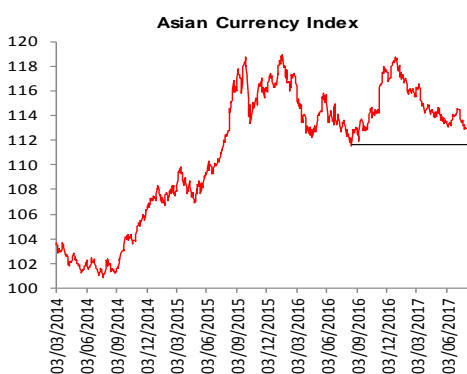
- EM FX (especially the KRW) was marked lower on Wednesday as positive risk appetite cracked and Asian currencies may continue to remain nervous although we note the potential background buffer from the renminbi complex (CNH).
- Asian net portfolio inflows remain supportive of the INR, IDR, THB, and on a

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more nascent level, the PHP and the MYR. Net inflows meanwhile for the TWD remain lackluster. Overall, with the **FXSI (FX Sentiment Index)** jumping up into Risk-Neutral territory from Risk-On territory on Wednesday, expect the **ACI (Asian Currency Index)** to remain underpinned in the near term despite the structurally heavy (model-implied) outlook for the Index on a longer term horizon.

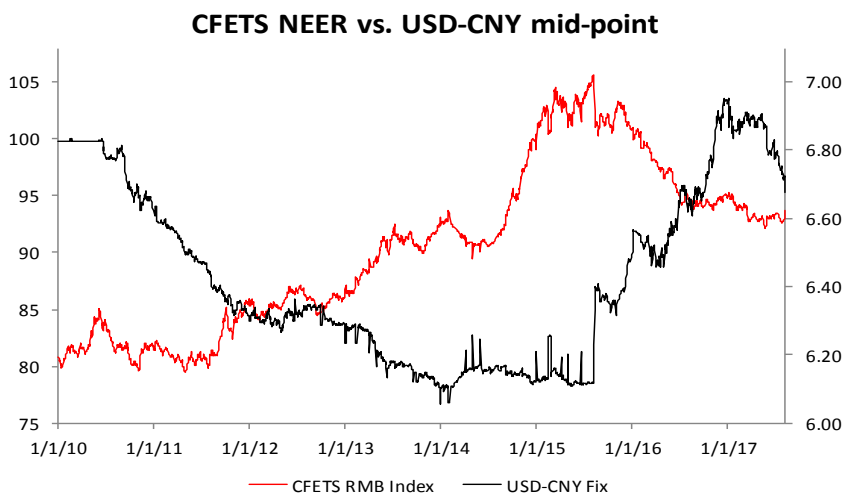
- SGD NEER:** The SGD NEER continues to soften and is currently at +0.54% above its perceived parity (1.3705). NEER-implied USD-SGD thresholds are slightly softer with +0.50% estimated at 1.3637. If the dollar continues to hold the upper hand in the current environment, expect the NEER to remain top heavy, with the immediate topside at 1.3645/50 for USD-SGD expected to be under threat if risk aversion deepens.



	SGD NEER	% deviation	USD-SGD
Current	124.99	0.59	1.3618
+2.00%	126.74		1.3436
Parity	124.26		1.3705
-2.00%	121.77		1.3985

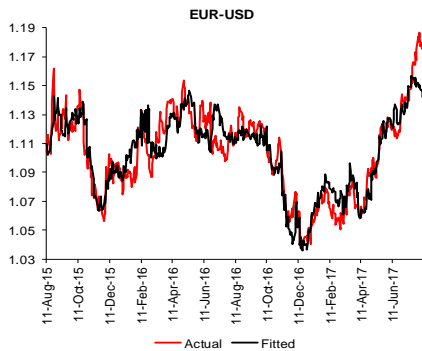
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point fell (as largely expected) to 6.6770 from 6.7075 on Wednesday, pulling the CFETS RMB Index higher to 93.76 from 93.28 yesterday.



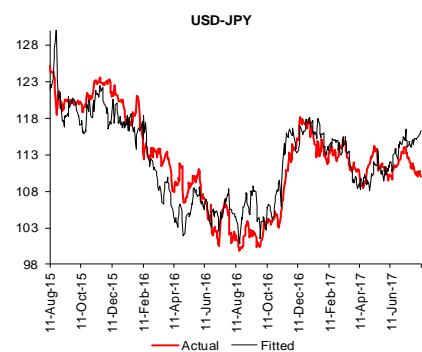
Source: OCBC Bank, Bloomberg

G7



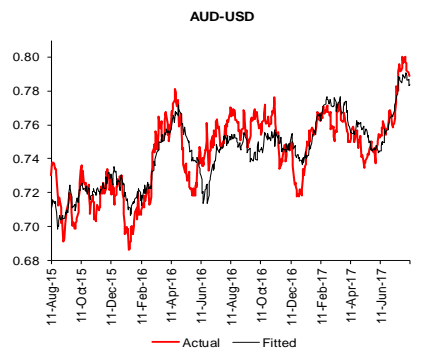
Source: OCBC Bank

- **EUR-USD** The near term view remains unchanged with short term implied valuations for the EUR-USD continuing to ease but with the pair still looking distended on the upside. As such, another probe towards 1.1670 may remain a distinct possibility in the near term.



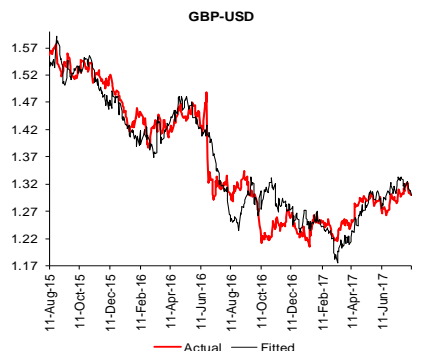
Source: OCBC Bank

- **USD-JPY** Despite the Fed's Evans (voter; dove) pointing to a balance sheet unwind announcement in September (and another hike in December or later), the USD-JPY may continue to remain top heavy. Note that this would also be despite still firming short term implied valuations. At this juncture, the pair's grip on the 110.00 level we think remains tenuous.



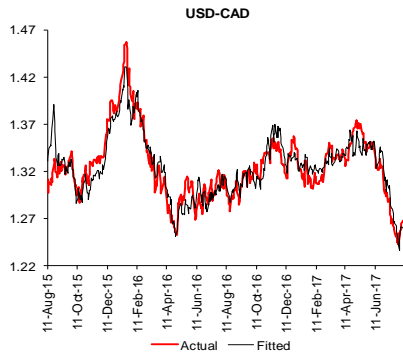
Source: OCBC Bank

- **AUD-USD** Retain a preference to fade upticks with investors likely still jumpy in the current risk aversion environment. The support at 0.7850 (ahead of 0.7830) may thus remain fragile, with short term implied valuations slipping. Elsewhere, slightly dovish NZD comments from the RBNZ's Wheeler may continue to keep the AUD-NZD bouncing on dips.



Source: OCBC Bank

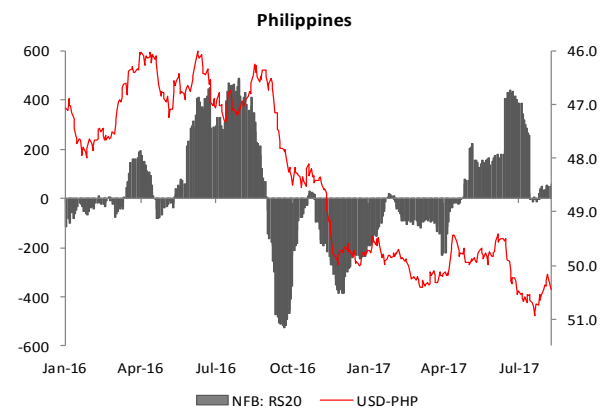
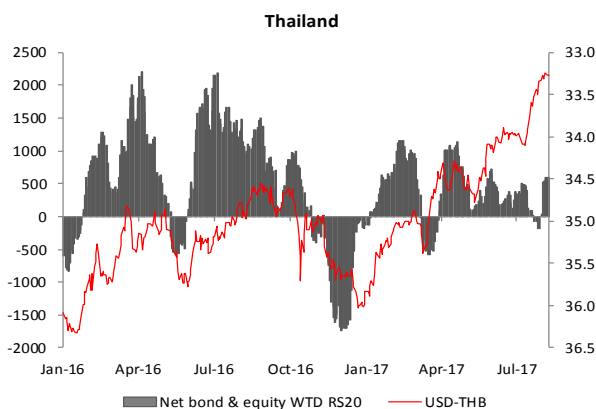
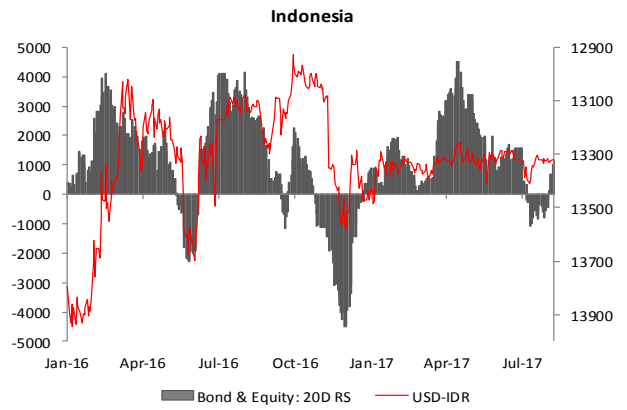
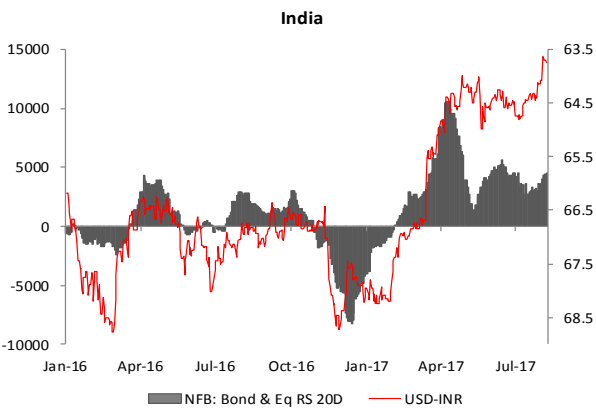
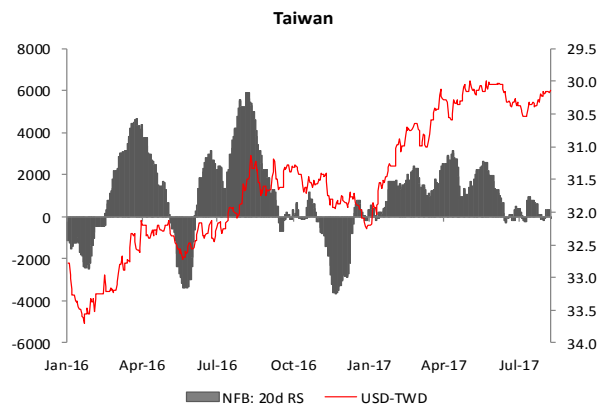
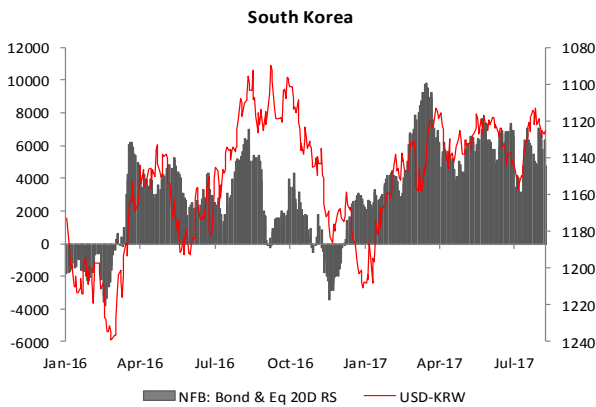
- **GBP-USD** With chatter of a Brexit "bill" still making the rounds, top heavy short term implied valuations may potentially facilitate a breach of the 1.3000 handle in the near term with the 55-day MA (1.2925) down south.

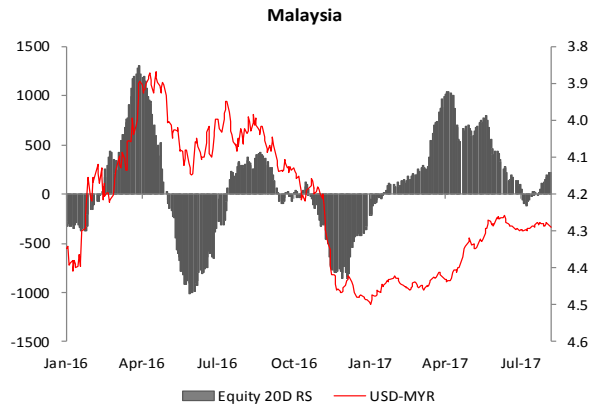


- USD-CAD** Apart from further risk-off pressures, the USD-CAD may also continue to shadow its slightly firmer short term implied valuations in the near term despite stronger than expected July housing starts and supported crude. In the current environment, the pair potentially lifting off 1.2700 towards 1.2755/60 may not be inconceivable.

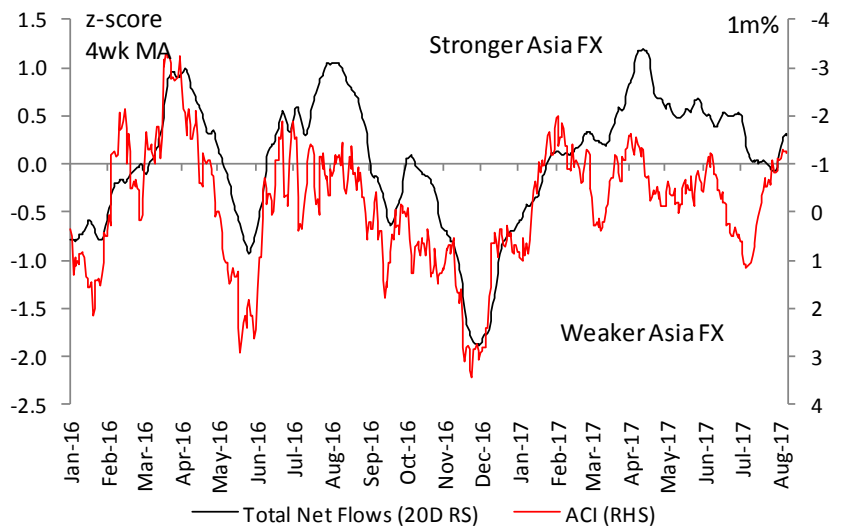
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

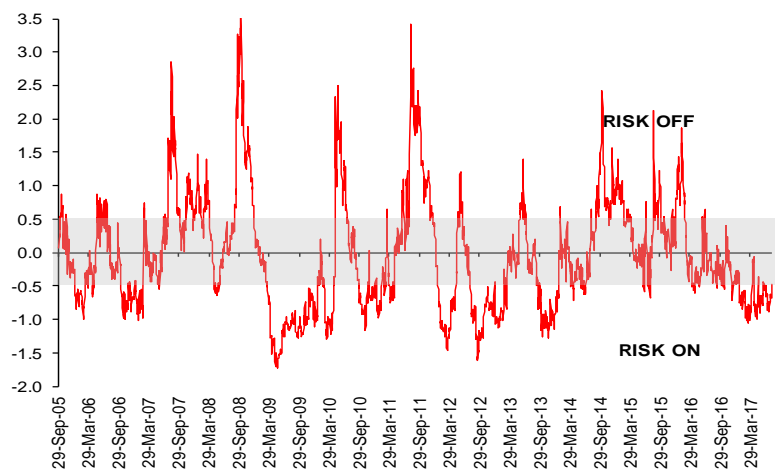




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.731	0.841	-0.837	-0.879	-0.917	0.952	-0.886	0.048	0.836	0.832	-0.986
JPY	0.952	0.812	0.917	-0.866	-0.918	-0.909	1	-0.883	0.019	0.846	0.936	-0.936
THB	0.943	0.711	0.882	-0.872	-0.941	-0.893	0.965	-0.864	-0.124	0.864	0.88	-0.921
SGD	0.935	0.685	0.759	-0.908	-0.888	-0.871	0.897	-0.836	0.292	0.919	0.767	-0.878
CNY	0.841	0.732	1	-0.771	-0.877	-0.88	0.917	-0.867	-0.202	0.723	0.98	-0.844
TWD	0.833	0.615	0.906	-0.772	-0.882	-0.879	0.886	-0.909	-0.075	0.786	0.9	-0.823
CNH	0.832	0.754	0.98	-0.821	-0.914	-0.897	0.936	-0.863	-0.103	0.777	1	-0.83
MYR	0.759	0.577	0.583	-0.77	-0.717	-0.666	0.757	-0.654	0.325	0.831	0.622	-0.7
INR	0.744	0.64	0.84	-0.626	-0.759	-0.778	0.789	-0.789	-0.236	0.647	0.804	-0.789
USGG10	0.731	1	0.732	-0.741	-0.732	-0.618	0.812	-0.518	0.164	0.734	0.754	-0.705
CAD	0.692	0.503	0.45	-0.799	-0.661	-0.623	0.625	-0.54	0.564	0.79	0.438	-0.584
IDR	0.685	0.743	0.655	-0.875	-0.822	-0.637	0.754	-0.569	0.49	0.882	0.718	-0.593
KRW	0.672	0.54	0.482	-0.847	-0.74	-0.594	0.662	-0.528	0.594	0.856	0.556	-0.566
CCN12M	0.634	0.427	0.587	-0.765	-0.705	-0.692	0.638	-0.649	0.331	0.784	0.626	-0.535
PHP	0.513	0.18	0.461	-0.227	-0.385	-0.48	0.469	-0.616	-0.312	0.281	0.414	-0.59
CHF	-0.156	0.101	-0.301	-0.075	0.13	0.346	-0.159	0.435	0.63	-0.014	-0.219	0.24
NZD	-0.759	-0.454	-0.445	0.732	0.64	0.679	-0.656	0.612	-0.408	-0.76	-0.443	0.681
GBP	-0.774	-0.447	-0.583	0.677	0.66	0.747	-0.672	0.699	-0.233	-0.676	-0.544	0.707
AUD	-0.855	-0.703	-0.702	0.936	0.868	0.832	-0.82	0.747	-0.4	-0.937	-0.699	0.783
EUR	-0.986	-0.705	-0.844	0.781	0.855	0.91	-0.936	0.895	0.061	-0.783	-0.83	1

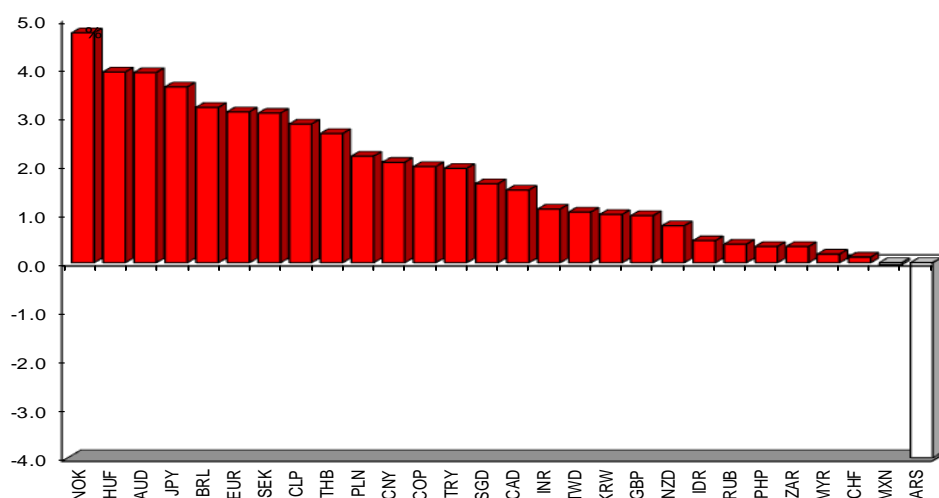
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1459	1.1700	1.1756	1.1800	1.1910
GBP-USD	1.2929	1.3000	1.3004	1.3100	1.3218
AUD-USD	0.7826	0.7900	0.7905	0.8000	0.8029
NZD-USD	0.7300	0.7309	0.7340	0.7400	0.7533
USD-CAD	1.2419	1.2700	1.2701	1.2746	1.2800
USD-JPY	109.56	110.00	110.08	111.00	111.44
USD-SGD	1.3543	1.3600	1.3619	1.3695	1.3700
EUR-SGD	1.5725	1.6000	1.6010	1.6100	1.6163
JPY-SGD	1.2300	1.2329	1.2373	1.2396	1.2400
GBP-SGD	1.7700	1.7705	1.7710	1.7761	1.7800
AUD-SGD	1.0692	1.0700	1.0766	1.0800	1.0890
Gold	1234.39	1252.28	1274.90	1277.80	1282.83
Silver	16.58	16.80	16.87	16.90	16.96
Crude	46.63	49.50	49.59	49.60	50.43

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		Red	Green	Red	Green	Red	Grey	Grey	Red
NZD	Green		Green	Green	Green	Green	Green	Green	Green
EUR	Red	Red		Red	Green	Red	Red	Red	Red
GBP	Green	Red	Green		Green	Red	Grey	Green	Red
JPY	Red	Red	Red	Red		Red	Red	Red	Red
CAD	Green	Red	Green	Green	Green		Green	Green	Grey
USD	Grey	Red	Green	Grey	Green	Red		Green	Red
SGD	Grey	Red	Green	Red	Green	Red	Red		Red
MYR	Green	Red	Green	Green	Green	Grey	Green	Green	

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Green	Green	Green	Red	Grey	Green	Green	Green	Green	Green
JPY	Red		Red	Red	Red	Red	Red	Red	Red	Red	Red
CNY	Red	Green		Red	Red	Grey	Grey	Grey	Grey	Green	Red
SGD	Red	Green	Green		Red	Grey	Green	Green	Green	Green	Red
MYR	Green	Green	Green	Green		Green	Green	Green	Green	Green	Green
KRW	Grey	Green	Grey	Grey	Red		Green	Green	Green	Green	Grey
TWD	Red	Green	Grey	Red	Red	Red		Red	Grey	Green	Red
THB	Red	Green	Grey	Red	Red	Red	Green		Grey	Green	Red
PHP	Red	Green	Grey	Red	Red	Red	Grey	Grey		Green	Red
INR	Red	Green	Red	Red	Red	Red	Red	Red	Red		Red
IDR	Red	Green	Green	Green	Red	Grey	Green	Green	Green	Green	

Source: OCBC Bank

FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	04-Jul-17	B	EUR-USD	1.1346	1.1965	1.1645	Draghi's change of stance in late June may further fuel the EUR	
2	18-Jul-17	S	USD-SGD	1.3671	1.3535	1.3740	Vulnerable USD, implicit inflow for SGD	
3	01-Aug-17	S	USD-JPY	110.18	107.75	111.45	No surprises expected from Fed-speak after the last FOMC	
STRUCTURAL								
4	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
5	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		
6	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		
7	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		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	17-Jul-17	20-Jul-17	B	GBP-USD	1.3077	1.2935	BOE rhetoric and vulnerable USD	-1.11
2	28-Jun-17	21-Jul-17	B	USD-JPY	112.31	111.05	Yield differential argument supportive of the USD-JPY	-1.04
3	13-Jul-17	03-Aug-17	B	AUD-USD	0.7708	0.7935	Vulnerable USD, improving risk appetite, supportive China data	+2.89
4	05-Jun-17	03-Aug-17		2M USD-SGD Put Spot ref: 1.3796; Strikes 1.3639; Exp: 03/08/17; Cost: 0.24%		Increasingly endemic USD weakness, +ve risk appetite	+0.01	
5	01-Aug-17	04-Aug-17	B	GBP-USD	1.3207	1.3060	Expected trace of hawkishness at BOE MPC	-1.14
6	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
* realized **of notional								
							Jan-Jun 2017 Return	-13.02
							2016 Return	+6.91

Source: OCBC Bank

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