OCBC Bank

Wednesday, October 11, 2017

FX Themes/Strategy/Trading Ideas

- A return of positive risk appetite returned and the intra-session drop in US yields put the greenback in retreat on Tuesday. The EUR meanwhile outperformed across the board as Catalan President Puigdemont did not make a declaration of independence and sought further talks with President Rajoy. Elsewhere, the cyclicals, although benefitting from a softer USD, remained partially vulnerable across G10 space.

- Uncertainty over **US tax reform** amid Trump-Corker static meanwhile threatens to weigh on the USD further (and potentially engulf prior USD positivity) despite Trump indicating that it will be tweaked in a few weeks.

- **In the interim, rate differential dynamics in favor of the dollar may be losing some steam with investors instead looking beyond the greenback towards risk appetite developments as markets remain caught in a flux**. Today, look towards the **FOMC minutes** (1800 GMT) for further cues while the **ECB's Praet** is scheduled for 1850 GMT.
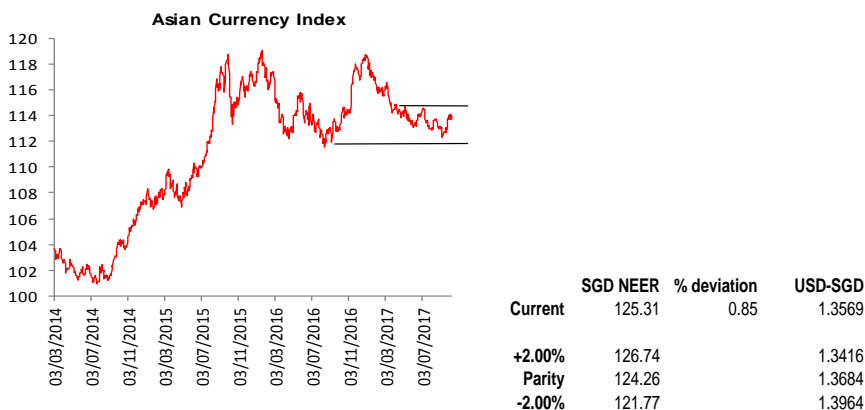
Asian FX

- Precipitated by the renminbi complex in Asia, EM FX (except for the MXN being dragged lower by Nafta concerns) also firmed against the USD on Tuesday. Note also that Global EM equities strengthened and the **FXSI (FX Sentiment Index)** edged lower within Risk-Neutral territory overnight. Overall, the **ACI (Asian Currency Index)** may pick lower again today for the third consecutive session. Note however that on a structural horizon, our ACI model continues to portend an attempt to bottom out since September.

- On the net portfolio inflow front in Asia, the KRW saw strong equity inflows on Tuesday eclipsing some bond outflows. Meanwhile, net outflow momentum for the INR continues to abate while the IDR and THB continued to register outflow momentum early this week. The MYR meanwhile may remain slightly hampered by sustained net equity outflows.

- **SGD NEER:** The SGD NEER started early Asia in close proximity of its +1.00% threshold but it has since retraced lower to around +0.80% above its perceived parity (1.3684). In a nutshell, the basket is flat to softer on the day with NEER-implied USD-SGD thresholds softer on the day. Intra-day, expect the line in the sand to remain at +1.00% (1.3549 currently) despite the heavy broad dollar tone. The 55-day MA (1.3566) meanwhile may serve as a short term locus.

Treasury Research & Strategy

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Asian Currency Index

	SGD NEER	% deviation	USD-SGD
Current	125.31	0.85	1.3569
+2.00%	126.74		1.3416
Parity	124.26		1.3684
-2.00%	121.77		1.3964

Source: OCBC Bank

- **CFETS RMB Index**: This morning, the USD-CNY mid-point fell more than expected to 6.5841 from 6.6273. This represents somewhat of an "outside" day with the mid-point dropping a significant -0.65%. This took the CFETS RMB Index up by +0.35% to 95.20 from 94.87. Going ahead, we continue to watch for a sustained break of the 95.20/35 level for any signaling intent, with today's fix behavior still indicating a preference for stability in the Index over that of the mid-points.

CFETS NEER vs. USD-CNY mid-point
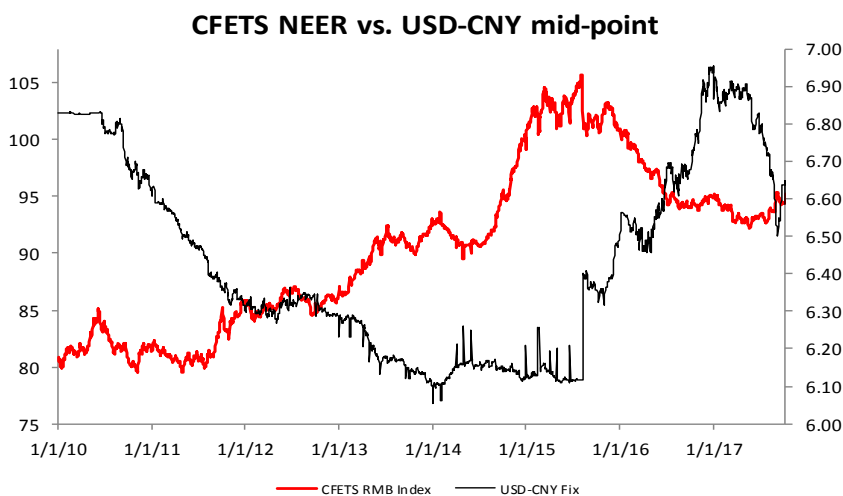


Source: OCBC Bank, Bloomberg

G7
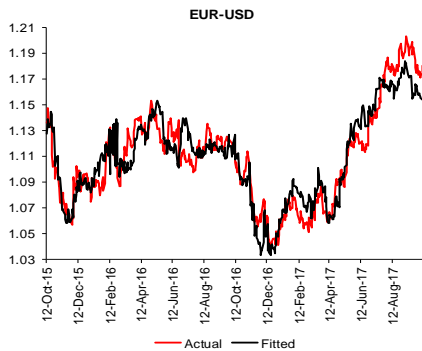
EUR-USD

Source: OCBC Bank

- **EUR-USD**   Apart from positive Catalonia-related news flow, outperforming German August exports also aided the EUR on Tuesday. However, deflating Catalonia-related negativity continues to be confronted by top heavy short term implied valuations and the 55-day MA (1.1839) may cap ahead of the FOMC minutes and Praet. Meanwhile, 1.1730 is seen cushioning on initial dips.
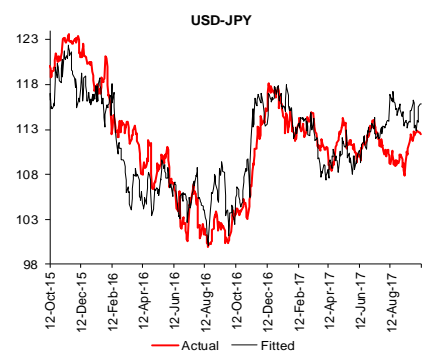
USD-JPY

Source: OCBC Bank

- **USD-JPY**   North Korean tensions may continue to lurk under the surface (note B1 and scud news flow) and coupled with the vulnerable USD, may temper the USD-JPY's upside despite still supported short term implied valuations for the pair. In the interim, look for a bounce towards the 200-day MA (111.85) with the nearest ceiling seen towards 113.30.
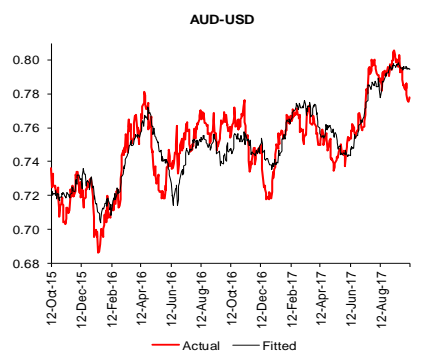
AUD-USD

Source: OCBC Bank

- **AUD-USD**   Risk appetite levels remain somewhat fragile and despite generalized USD vulnerability, note that the 0.7800 resistance for the AUD-USD remains largely intact. With macro/cyclical themes sidelined in the near term, still slightly top heavy short term implied valuations may risk a drift towards 0.7730 ahead of 0.7700.
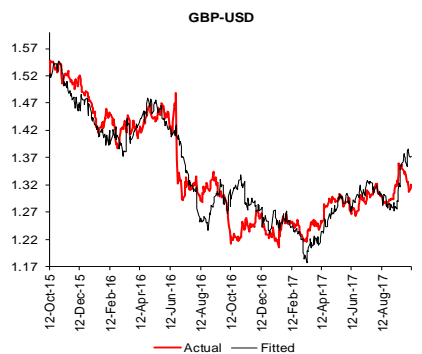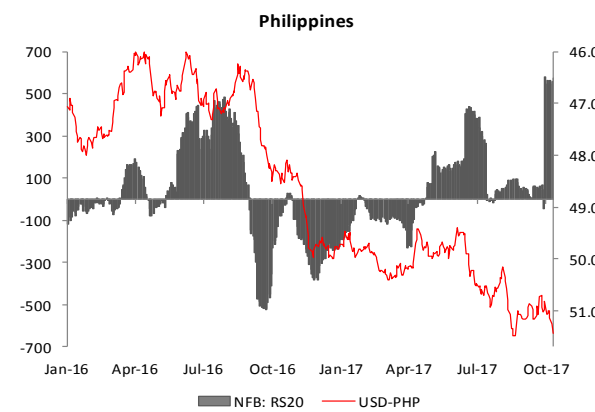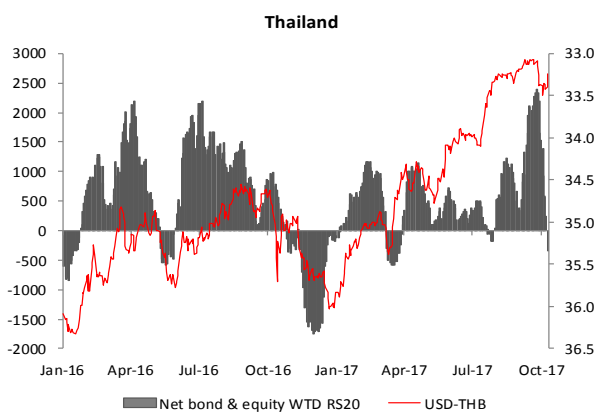
GBP-USD

Source: OCBC Bank

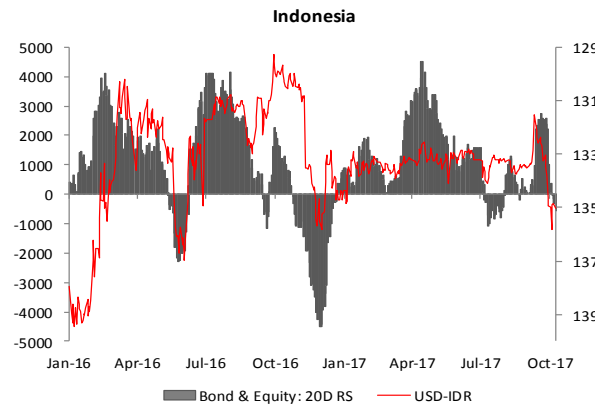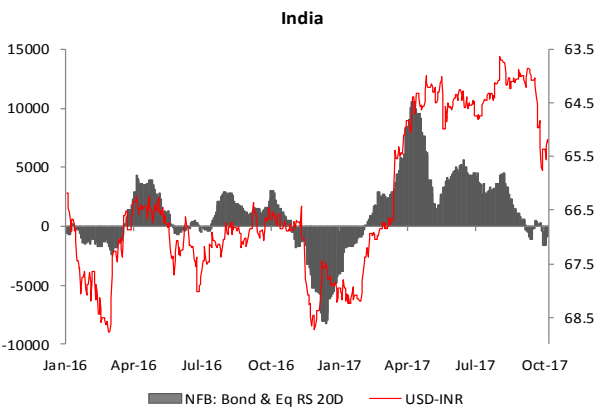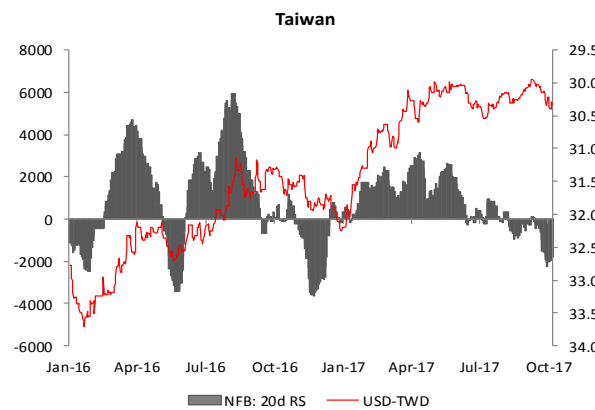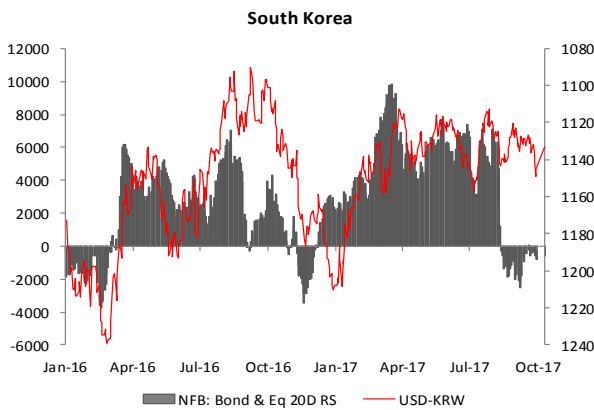- **GBP-USD**   EU President Tusk warned that glacial progress could jeopardize Brexit talks could imply an eventual collapse in negotiations. The pound may have drafted higher on the back of the latest relief buying for the EUR and the broad dollar's wobbles, and we note that short term implied valuations for the GBP-USD remain largely restrained. Preference to fade upticks towards 1.3250 instead.

USD-CAD

Source: OCBC Bank
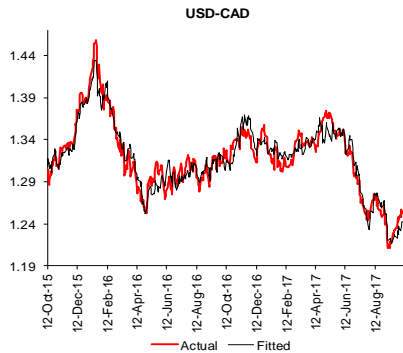
- **USD-CAD**   The loonie latched onto firmer crude prices on Tuesday as the broad dollar also retreated. Short term implied valuations are beginning to look slightly toppish at this juncture and the 55-day MA (1.2468) may attract intra-day pending further external headlines.

USD-Asia VS. Net Capital Flows

South Korea

Taiwan

India

Indonesia

Thailand

Philippines

Malaysia

Equity 20D RS ▬▬▬ USD-MYR

ACI VS. Net Capital Flows

z-score
4wk MA

Stronger Asia FX

1m%

Weaker Asia FX
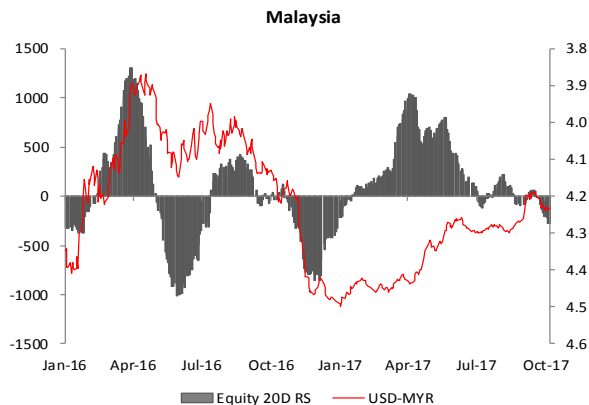
Total Net Flows (20D RS) ▬▬▬ ACI (RHS)

FX Sentiment Index

RISK OFF

RISK ON
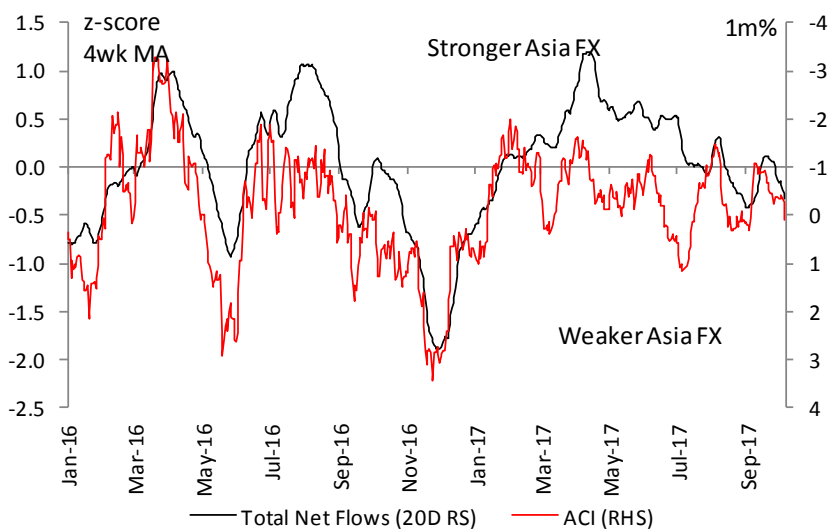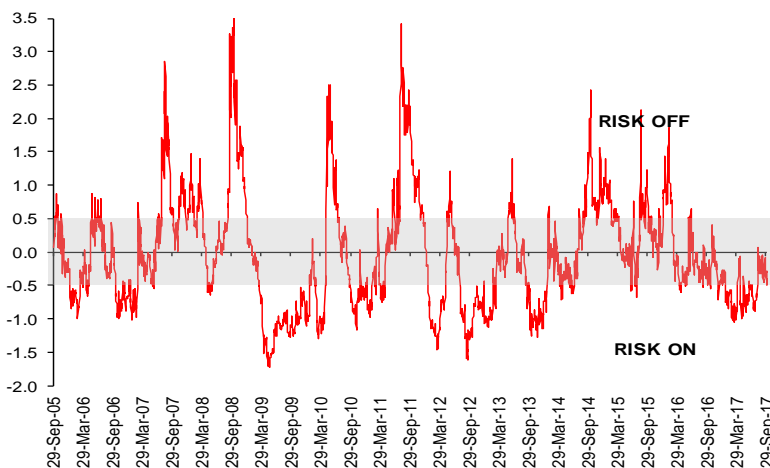
Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1	0.858	0.729	0.838	0.08	-0.402	0.783	0.399	-0.614	0.583	0.803	-0.982
SGD	0.976	0.834	0.748	0.834	0.073	-0.531	0.747	0.291	-0.586	0.488	0.832	-0.962
CHF	0.91	0.922	0.632	0.86	0.317	-0.331	0.868	0.373	-0.67	0.641	0.679	-0.841
CAD	0.907	0.966	0.794	0.854	0.199	-0.281	0.922	0.513	-0.727	0.642	0.783	-0.852
IDR	0.905	0.946	0.813	0.815	0.098	-0.389	0.885	0.5	-0.72	0.644	0.793	-0.88
THB	0.885	0.785	0.724	0.77	-0.006	-0.628	0.673	0.221	-0.6	0.451	0.833	-0.887
TWD	0.879	0.885	0.95	0.773	-0.124	-0.357	0.85	0.536	-0.846	0.623	0.932	-0.86
MYR	0.872	0.741	0.659	0.75	-0.025	-0.62	0.628	0.239	-0.583	0.517	0.775	-0.877
USGG10	0.858	1	0.698	0.877	0.307	-0.288	0.909	0.444	-0.749	0.572	0.694	-0.783
INR	0.828	0.804	0.903	0.573	-0.153	-0.142	0.842	0.692	-0.608	0.773	0.851	-0.839
CNH	0.803	0.694	0.982	0.596	-0.198	-0.313	0.79	0.506	-0.769	0.634	1	-0.831
JPY	0.783	0.909	0.807	0.686	0.167	-0.089	1	0.627	-0.813	0.719	0.79	-0.733
CNY	0.729	0.698	1	0.317	-0.441	0.193	0.807	0.831	-0.658	0.729	0.982	-0.75
CCN12M	0.653	0.662	0.894	0.529	-0.129	-0.211	0.774	0.473	-0.8	0.542	0.923	-0.672
KRW	0.634	0.564	0.805	0.323	-0.582	0	0.52	0.616	-0.643	0.567	0.781	-0.667
PHP	0.249	0.402	-0.274	0.478	0.572	-0.266	0.12	-0.168	0.137	-0.301	-0.222	-0.196
GBP	-0.618	-0.378	0.207	-0.65	-0.273	0.715	-0.096	0.334	0.006	0.029	-0.227	0.572
NZD	-0.806	-0.699	-0.302	-0.824	-0.274	0.519	-0.458	-0.123	0.194	-0.194	-0.399	0.768
AUD	-0.915	-0.908	-0.704	-0.848	-0.156	0.4	-0.78	-0.414	0.556	-0.529	-0.676	0.872
EUR	-0.982	-0.783	-0.75	-0.749	0.07	0.376	-0.733	-0.441	0.563	-0.587	-0.831	1

Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1670	1.1800	1.1802	1.1842	1.1900
GBP-USD	1.3100	1.3128	1.3195	1.3200	1.3657
AUD-USD	0.7705	0.7733	0.7782	0.7800	0.7913
NZD-USD	0.7028	0.7051	0.7082	0.7100	0.7152
USD-CAD	1.2460	1.2500	1.2515	1.2600	1.2638
USD-JPY	111.83	112.00	112.47	113.00	113.44
USD-SGD	1.3500	1.3556	1.3570	1.3600	1.3670
EUR-SGD	1.5939	1.6000	1.6015	1.6055	1.6100
JPY-SGD	1.1986	1.2000	1.2065	1.2100	1.2161
GBP-SGD	1.7803	1.7900	1.7906	1.8000	1.8349
AUD-SGD	1.0519	1.0544	1.0561	1.0600	1.0633
Gold	1258.58	1260.50	1288.20	1296.34	1300.00
Silver	16.37	17.10	17.13	17.17	17.20
Crude	50.92	51.00	51.03	51.10	52.34

Source: OCBC Bank

FX performance: 1-month change agst USD
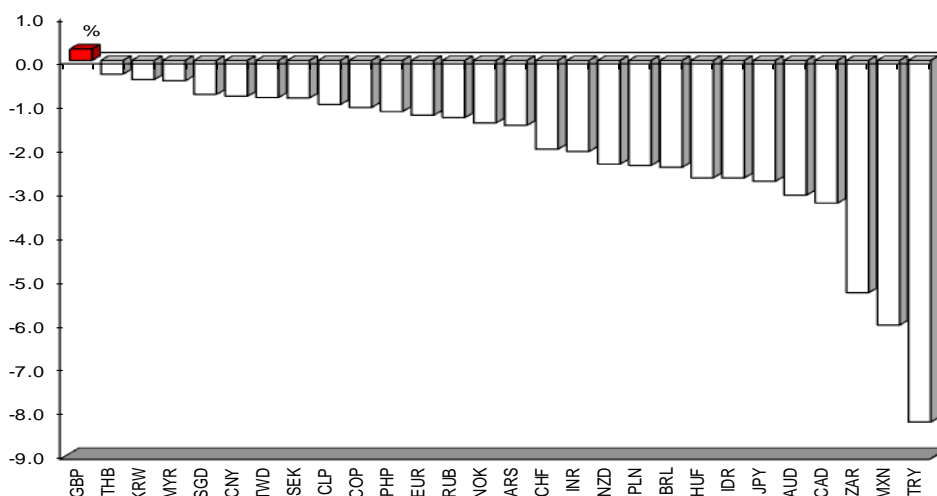
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		🟩	🟩	🟩	🟩	🟩	🟩	🟩	🟩
NZD	🟥		🟥	🟩	⬜	🟥	🟩	🟩	🟩
EUR	🟥	🟩		🟩	🟩	🟥	🟩	🟩	🟩
GBP	🟥	🟥	🟥		⬜	🟥	🟩	🟩	🟩
JPY	🟥	⬜	🟥	⬜		🟥	🟩	🟩	🟩
CAD	🟥	🟩	🟩	🟩	🟩		🟩	🟩	🟩
USD	🟥	🟥	🟥	🟥	🟥	🟥		🟥	🟥
SGD	🟥	🟥	🟥	🟥	🟥	🟥	🟩		🟩
MYR	🟥	🟥	🟥	🟥	🟥	🟥	🟩	🟥	
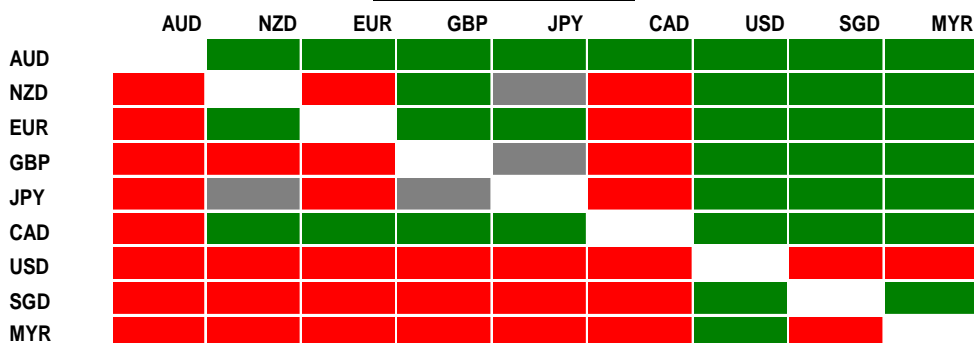
Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		🟥	🟥	🟥	🟥	🟥	🟥	🟥	⬜	🟥	🟥
JPY	🟩		🟩	🟩	🟩	🟩	🟩	🟩	🟩	🟩	🟩
CNY	🟩	🟥		🟩	🟩	🟩	🟩	🟩	🟩	🟩	⬜
SGD	🟩	🟥	🟥		🟩	🟩	🟩	🟩	🟩	⬜	🟥
MYR	🟩	🟥	🟥	🟥		⬜	🟥	🟥	🟩	🟥	🟥
KRW	🟩	🟥	🟥	🟥	⬜		⬜	🟥	🟩	🟥	🟥
TWD	🟩	🟥	🟥	🟥	🟩	⬜		🟥	🟩	🟥	🟥
THB	🟩	🟥	🟥	🟥	🟩	🟩	🟩		🟩	🟩	🟥
PHP	⬜	🟥	🟥	🟥	🟥	🟥	🟥	🟥		🟥	🟥
INR	🟩	🟥	🟥	⬜	🟩	🟩	🟩	🟩	🟩		🟥
IDR	🟩	🟥	⬜	🟩	🟩	🟩	🟩	🟩	🟩	🟩	
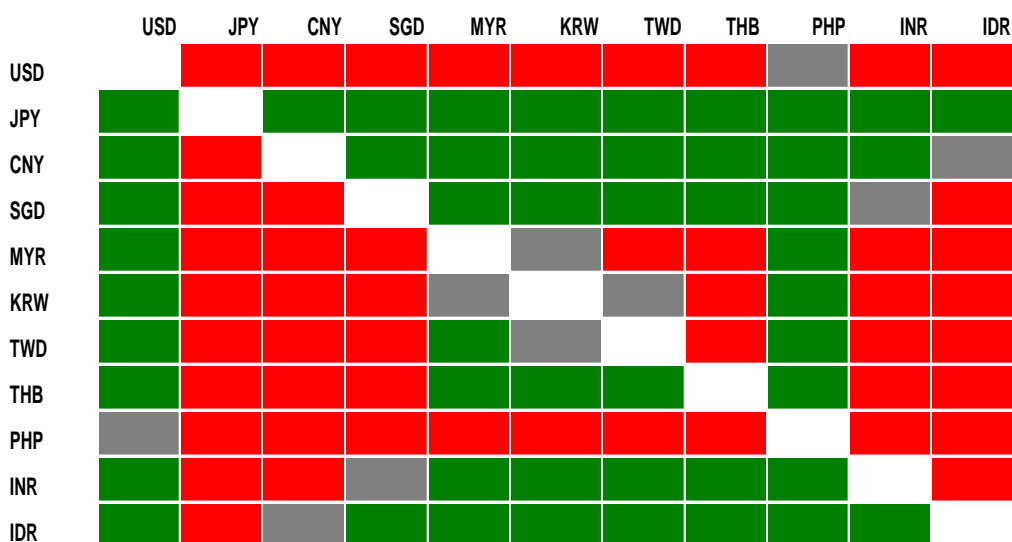
Source: OCBC Bank

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 FOMC-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	
5	04-Oct-17		B	USD-SGD	1.3602	1.3750	1.3525	Potential USD resilience- Fed, geopolitical risks, static MAS, decaying capital inflows in Asia	
6	09-Oct-17		S	GBP-USD	1.3116	1.2835	1.3260	Brexit concerns plus additional leadership threats to PM May's position	
	STRUCTURAL								
7	09-May-17		B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
8	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	
9	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%				Vunerable USD, prevailing positivity towards carry, EM/Asia	

	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)*
	RECENTLY CLOSED TRADE IDEAS								
1	07-Sep-17	12-Sep-17	S	USD-JPY	109.01		110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
2	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
3	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
4	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
5	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
6	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**	-3.31
								2016 Return	+6.91

* realized **of notional ***month-to-date

Source: OCBC Bank