

Monday, September 11, 2017

## FX Themes/Strategy/Trading Ideas – The week ahead

- Slightly firmer UST yields (bear steepened from the back end) tempered the dollar's weakness on Friday but still saw most of the majors ending slightly firmer on the day on Friday. A media report indicating that ECB officials were in broad agreement that the next policy move would be an asset purchase taper saw bund yields bottom but the EUR-USD failed to garner lasting altitude. Meanwhile, the Fed's Dudley was less than hawkish than expected in his comments but this did not deter a slight USD bounce off intra-day lows by later NY.
- Early Monday in Asia, relief dollar buying after an uneventful weekend (no North Korean missile launch, Irma hit landfall at less than Cat. 5) saw some relief USD buying (especially via USD-JPY) and this may override broader risk appetite considerations in the short term. Note however that Pyongyang-related geopolitical uncertainty may yet recur with further rhetoric early Monday out of North Korea while a UN Security Council vote on further economic sanctions is due later today.
- On the **CFTC** front, large non-commercial accounts and **asset managers** increased their net short dollar bias in aggregate in the latest week while leveraged accounts pared their implied net short dollar bias in the same week. **Structurally, note that asset manager accounts are sitting on their most extreme short dollar positioning levels since Lehman, demonstrating inherent market skepticism towards the USD.**
- This week, Fed-speak goes dark ahead of the FOMC next week but look towards a string of **ECB appearances** throughout the week starting with Coeure today (0700 GMT). Elsewhere, the **RBA's Debelle** speaks on Wednesday, while the **BOE MPC** is on Thursday.
- Notable **data points** to watch this week include UK august CPI on Tuesday, German August CPI on Wednesday, Australian August labor market numbers on Thursday, US August CPI also on Thursday, and US August retail sales on Friday. In Asia, China August monetary aggregates are due sometime this week while August readings for retail sales, urban fixed asset investments, industrial production are due on Thursday.
- With potential for further overshoot of USD weakness in the near term, we jettison our 12 Jul 17 idea to be structurally long **EUR-USD** via a 2M 1X1.5 call spread (spot ref: 1.1455; strikes:1.1492, 1.1724, exp: 12 Sep 17) at 1.2063 on Friday, implying a flattish exit at an implied +0.05% of notional.

Treasury Research &  
Strategy

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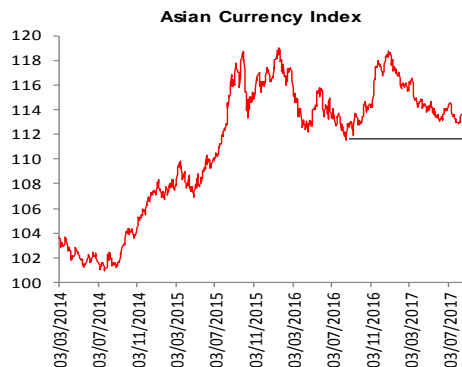
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- In the same vein, we exit our 17 Jul 17 idea to be structurally short **USD-CAD** via a 2M 1X1.5 call spread (spot ref: 1.2664; strikes: 1.2653, 1.2415; exp: 15 Sep 17) at 1.2090 on Friday roughly square (+0.085% of notional).

**Asian FX**

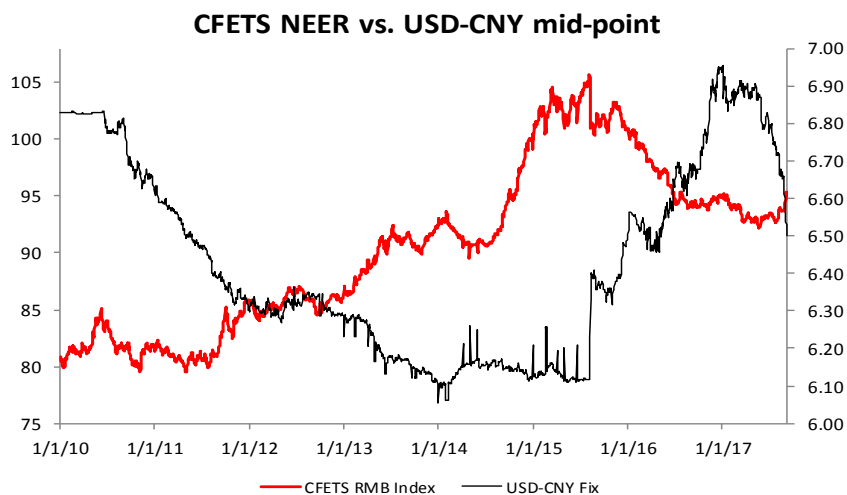
- **EPFR** data meanwhile showed net implied equity inflows into Asia (excl Japan, China) moderating significantly in the latest week while net implied bond inflows improved in the same period. In terms of **actual net portfolio inflows**, the KRW and INR a may remain under relative pressure from the weight of recent net outflows, while net outflows for the TWD have abated and the IDR is witnessing an uptick in inflows. Expect potential for the THB to continue to outperform on the back of strong inflows while the PHP is experiencing moderating inflow momentum.
- The **FXSI (FX Sentiment Index)** ticked higher within Risk-Neutral territory on Friday but may be expected to soften into today. Nonetheless, as alluded to above, the **ACI (Asian Currency Index)** may bottom out slightly intra-day on some relief USD buying.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at +0.55% above its perceived parity (1.3505) with NEER-implied USD-SGD thresholds slightly lower on the day. Expect the NEER to hover around the +0.50% (1.3438) while looking towards broader USD and risk appetite cues.



	SGD NEER	% deviation	USD-SGD
Current	124.98	0.58	1.3443
+2.00%	126.74		1.3240
Parity	124.26		1.3505
-2.00%	121.77		1.3781

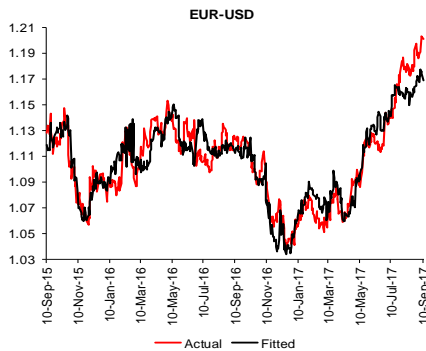
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in significantly higher than expected at 6.4997 from 6.5032 on Friday. This however still lifted the CFETS RMB Index to 95.36 from 95.16 and we continue to watch for any sustained break above the high of 95.34 chalked up in July 2016. Note that any fix closer to lower prior market expected levels for the USD-CNY would have boosted the Index uncomfortably. **At this juncture, we think the authorities may be attempting to also discourage expectations of a discretionary appreciation bias for the renminbi, especially given the track record of the Index since late July.** Note also reports that the PBOC has removed reserve requirements (for USD purchases) on FX forwards and this may also portend further two-way risks.



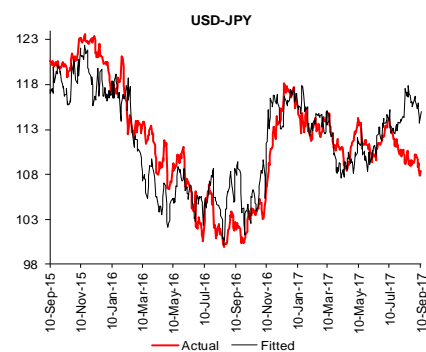
Source: OCBC Bank, Bloomberg

G7



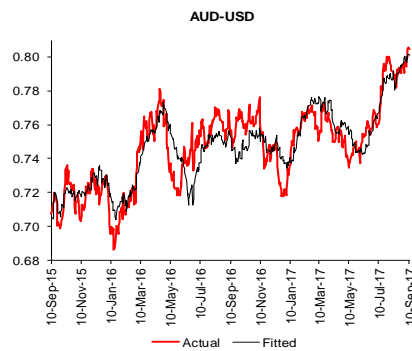
Source: OCBC Bank

- EUR-USD** Nascent fears that the ECB's taper may potentially be more aggressive than expected may put a floor on the EUR-USD, especially with the DXY still inhabiting sub-92.00 levels. Nonetheless, short term implied valuations for the EUR-USD are attempting to edge lower for now, potentially anchoring the pair in the vicinity of 1.2000 at this juncture.



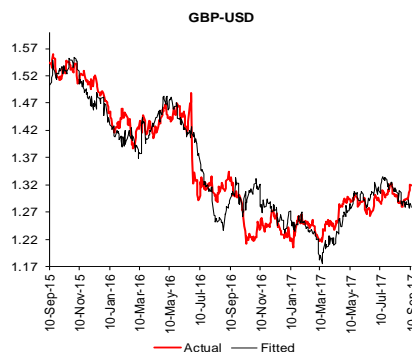
Source: OCBC Bank

- USD-JPY** Despite some relief unwinding of USD-JPY shorts post the weekend, market participants we think may refrain from turning inherently long at this juncture. In the interim, look for a near term base around the 108.00 neighborhood (and 107.85 thereafter) pending risk appetite/US-centric cues.



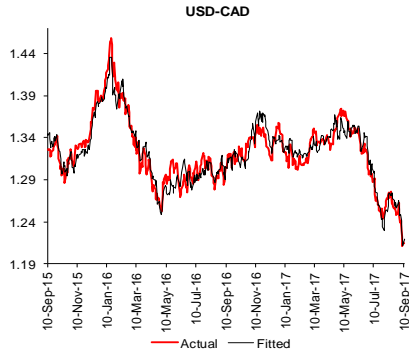
Source: OCBC Bank

- AUD-USD** The AUD-USD may be waiting in the wings with respect to improved risk appetite levels with short term implied valuations for the pair still looking supported over the past week. Note also that the China-related data stream in recent sessions would also have been mildly supportive. Overall, expect investors to attempt to base build on dips towards 0.8000.



Source: OCBC Bank

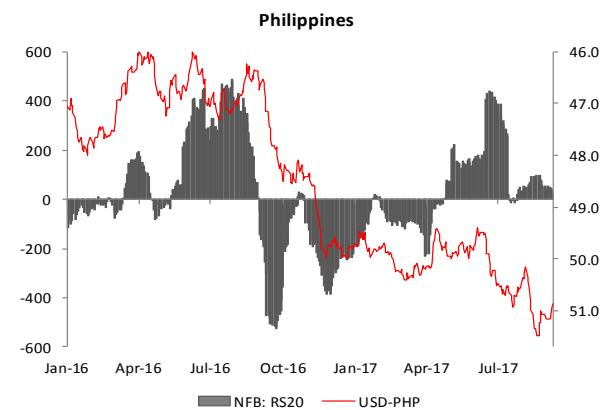
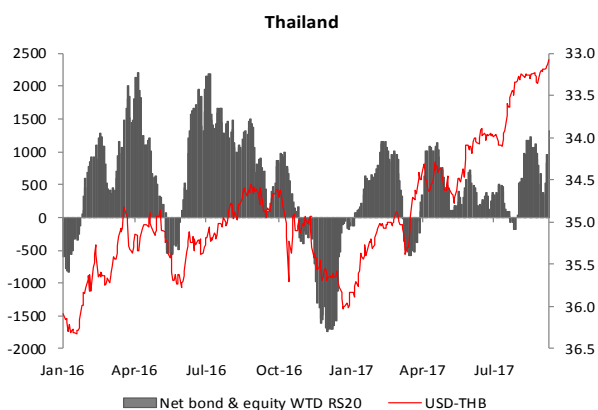
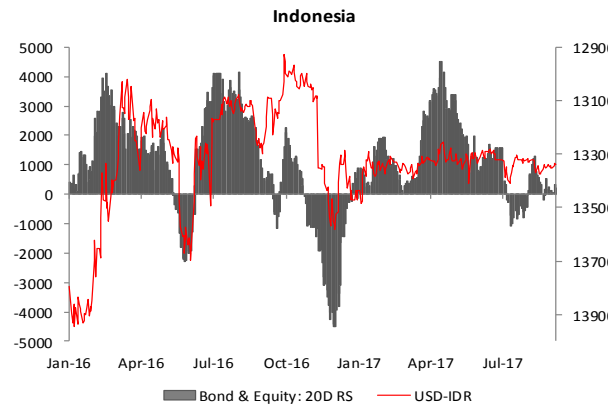
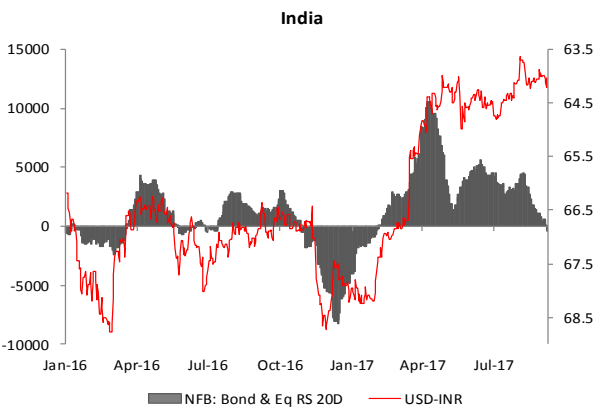
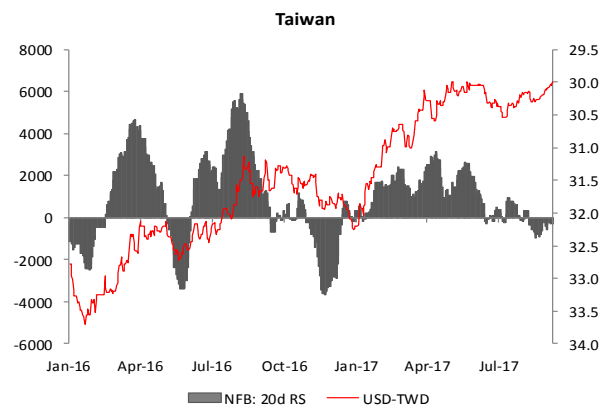
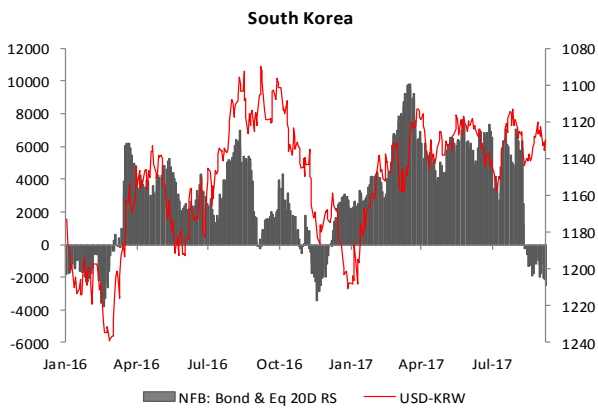
- GBP-USD** Firmer price action for the GBP-USD (after better than expected July manufacturing production data) continues to diverge from still top-heavy short term implied valuations for the pair. Caution towards the BOE MPC this week may also discourage excessive upside probes. Multi-session, expect initial support towards the 55-day MA (1.2985) with immediate resistance seen at 1.3200 ahead of 1.3270.

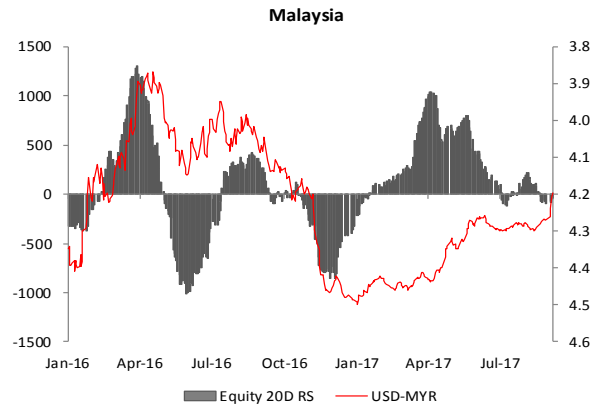


- USD-CAD** Despite a mixed August Canadian labor market report and crude dipping below 48.00, we retain a preference for a top heavy USD-CAD despite a near term bounce in short term implied valuations and in the wake of the latest BOC rate hike. Overall, look to fade upticks within 1.2060-1.2230.

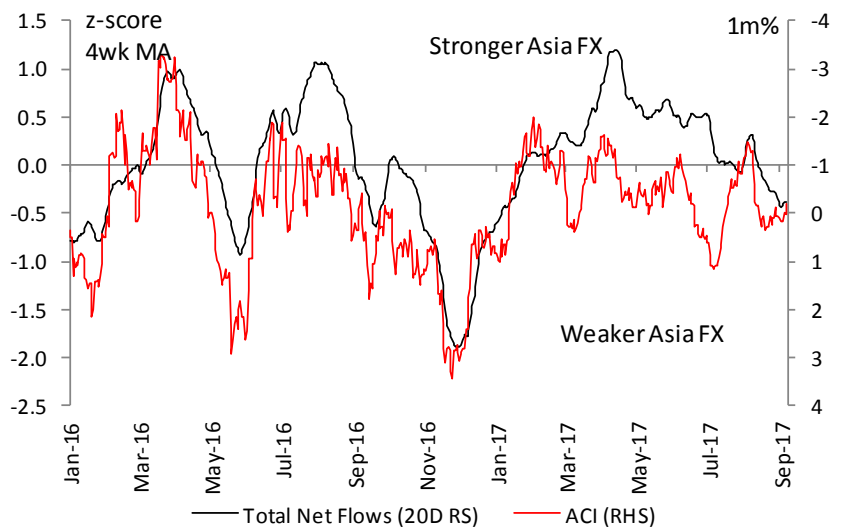
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

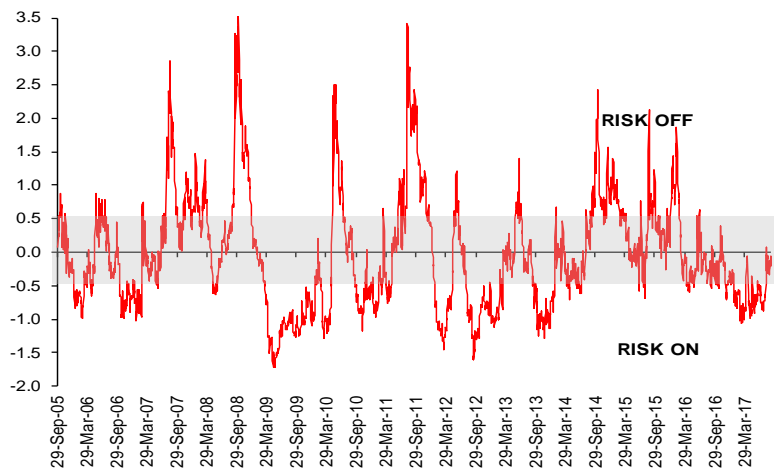




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.905	0.886	-0.259	-0.544	-0.762	0.701	-0.193	0.359	0.65	0.899	-0.974
SGD	0.967	0.893	0.886	-0.35	-0.503	-0.805	0.715	-0.318	0.384	0.702	0.9	-0.931
CHF	0.944	0.882	0.785	-0.046	-0.526	-0.641	0.751	-0.179	0.138	0.573	0.821	-0.909
MYR	0.929	0.86	0.942	-0.375	-0.548	-0.834	0.78	-0.324	0.335	0.789	0.947	-0.867
TWD	0.91	0.86	0.976	-0.442	-0.618	-0.863	0.534	-0.245	0.413	0.813	0.977	-0.867
USGG10	0.905	1	0.869	-0.222	-0.586	-0.812	0.695	-0.311	0.214	0.626	0.877	-0.852
CNH	0.899	0.877	0.996	-0.465	-0.61	-0.893	0.531	-0.303	0.417	0.838	1	-0.851
CAD	0.895	0.854	0.895	-0.306	-0.554	-0.871	0.713	-0.472	0.325	0.739	0.913	-0.821
CNY	0.886	0.869	1	-0.472	-0.57	-0.904	0.471	-0.321	0.4	0.834	0.996	-0.827
CCN12M	0.856	0.745	0.824	-0.278	-0.663	-0.649	0.563	-0.109	0.537	0.507	0.852	-0.837
PHP	0.798	0.674	0.668	-0.381	-0.538	-0.615	0.619	-0.12	0.479	0.55	0.717	-0.794
IDR	0.77	0.613	0.672	-0.214	-0.35	-0.527	0.713	-0.085	0.092	0.55	0.685	-0.685
THB	0.767	0.749	0.861	-0.432	-0.246	-0.706	0.436	-0.192	0.197	0.72	0.85	-0.714
JPY	0.701	0.695	0.471	0.254	-0.134	-0.485	1	-0.493	-0.234	0.191	0.531	-0.581
INR	0.638	0.473	0.479	-0.248	-0.603	-0.287	0.225	0.388	0.428	0.418	0.491	-0.694
KRW	0.562	0.455	0.461	-0.255	-0.824	-0.333	0.022	0.325	0.618	0.337	0.496	-0.657
NZD	0.294	0.301	0.546	-0.54	-0.687	-0.557	-0.225	-0.066	0.631	0.577	0.54	-0.343
GBP	-0.849	-0.772	-0.826	0.469	0.211	0.746	-0.645	0.259	-0.189	-0.762	-0.824	0.761
AUD	-0.912	-0.88	-0.844	0.218	0.541	0.785	-0.737	0.328	-0.266	-0.669	-0.872	0.838
EUR	-0.974	-0.852	-0.827	0.276	0.584	0.681	-0.581	0.083	-0.478	-0.599	-0.851	1

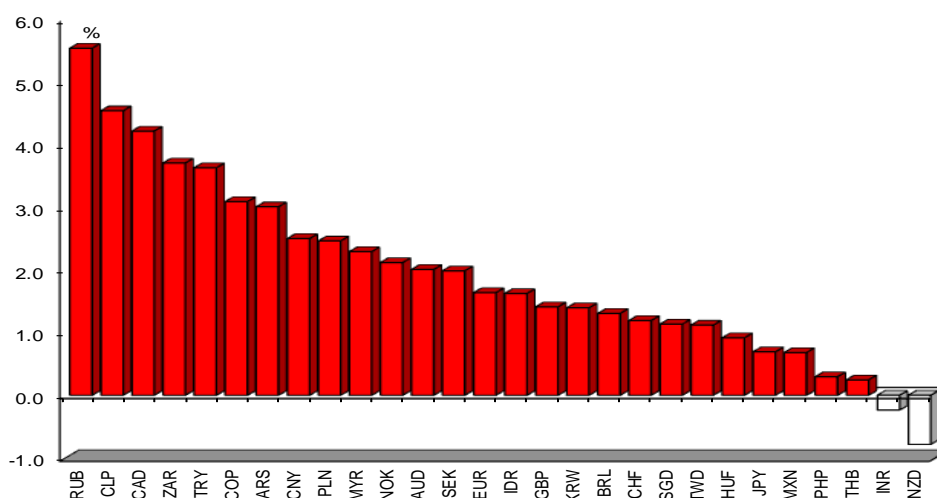
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1723	1.2000	1.2009	1.2066	1.2092
GBP-USD	1.3100	1.3157	1.3179	1.3200	1.3267
AUD-USD	0.7884	0.8000	0.8043	0.8059	0.8100
NZD-USD	0.7143	0.7200	0.7235	0.7300	0.7311
USD-CAD	1.2100	1.2110	1.2153	1.2200	1.2586
USD-JPY	108.00	108.01	108.41	109.00	110.69
USD-SGD	1.3400	1.3405	1.3434	1.3500	1.3620
EUR-SGD	1.5975	1.6100	1.6132	1.6200	1.6215
JPY-SGD	1.2300	1.2306	1.2392	1.2400	1.2429
GBP-SGD	1.7692	1.7700	1.7704	1.7800	1.8042
AUD-SGD	1.0734	1.0800	1.0805	1.0827	1.0897
Gold	1272.70	1300.00	1337.50	1354.67	1358.50
Silver	17.14	17.70	17.79	17.80	18.13
Crude	47.66	47.80	47.82	47.90	49.32

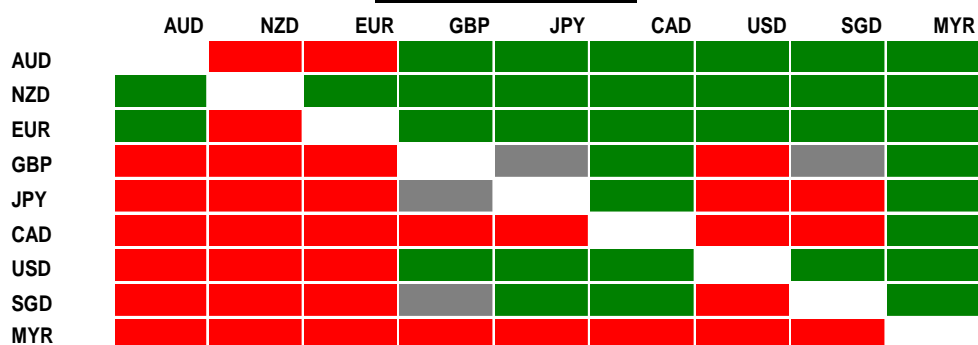
Source: OCBC Bank

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



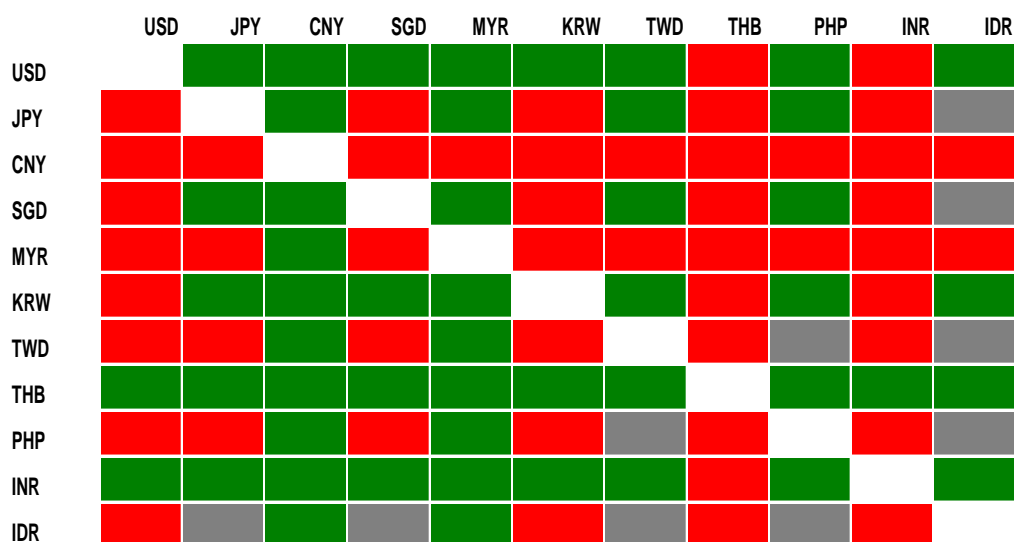
Source: Bloomberg

**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	07-Sep-17	S	USD-JPY	109.01	106.75	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	
<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	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		
4	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		
5	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	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
2	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
3	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
4	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
5	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
6	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
							Jan-Sep*** 2017 Return	+6.77
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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