

Thursday, October 12, 2017

FX Themes/Strategy/Trading Ideas

- The USD shaded lower (10y UST yield softened slightly) after the FOMC minutes continued to show many members of the FOMC still doubting the transitory nature of soft inflation while a few members were in favor of deferring further rate hikes pending the data a flow. . Meanwhile, dovish comments from the Fed's Evans (voter, waiting for stronger wage growth) were somewhat balanced out by somewhat hawkish comments from the Fed's Williams (non-voter; stating that the economy has exceeded full employment).
- Evidently, Fed chair **Yellen** put on a brave front at and post-FOMC despite the actual proceedings during the September FOMC. As such, the broad dollar may face a near term uphill battle if it is to rely on Fed-hike expectations at this juncture. **As noted yesterday, the greenback may be further impinged if aggregate rate differentials with respect to the US continue to move in favor of the majors instead.**
- Given this slightly heightened skepticism, the **US September PPI** tonight (and the **September CPI** on Fri) may garner slightly more market attention. On other fronts, central bank speak from several fronts may potentially sway global price action today. To this end, look to potential for further guidance from the Fed's **Powell** and the Fed's **Brainard** at 1430 GMT. With Powell's name now being bandied about as a favored candidate (as opposed to Warsh) as the next Fed-chair, expect closer scrutiny on any potential rhetoric from him.
- Elsewhere, **ECB** heavyweights are also on tap today, with **Draghi** (1430 GMT), Praet (1430 GMT), Coeure (23000 GMT), Lautenschlaeger (2010 GMT). The **BOE's Haldane** (1945 GMT) and the **Bank of Canada's Wilkins** (1915 GMT) are also scheduled.

Asian FX

- Global EM equities continued to chalk up further gains on Wednesday and the **FXSI (FX Sentiment Index)** slipped lower within Risk-Neutral territory with EM risk premiums compressing. This may continue to provide a positive overlay for Asia intra-day with the **ACI (Asian Currency Index)** looking to inch lower again.
- On the net portfolio inflow front in Asia, the KRW continued to show decent inflows on Wednesday, flipping the rolling 1-month balance to a net inflow.

Treasury Research &
Strategy

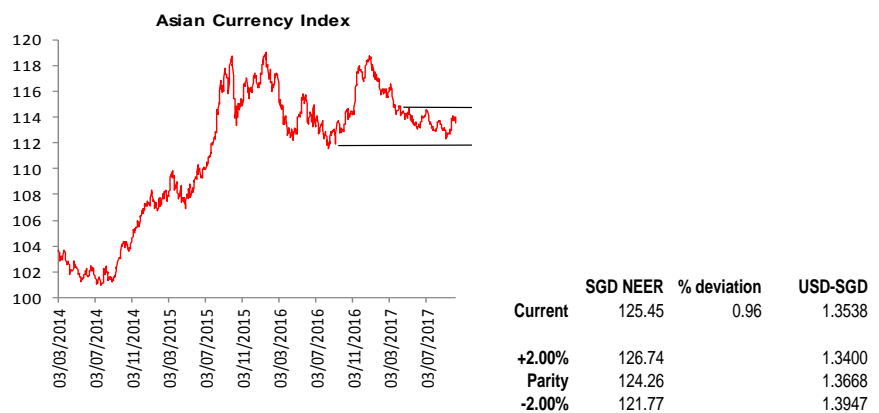
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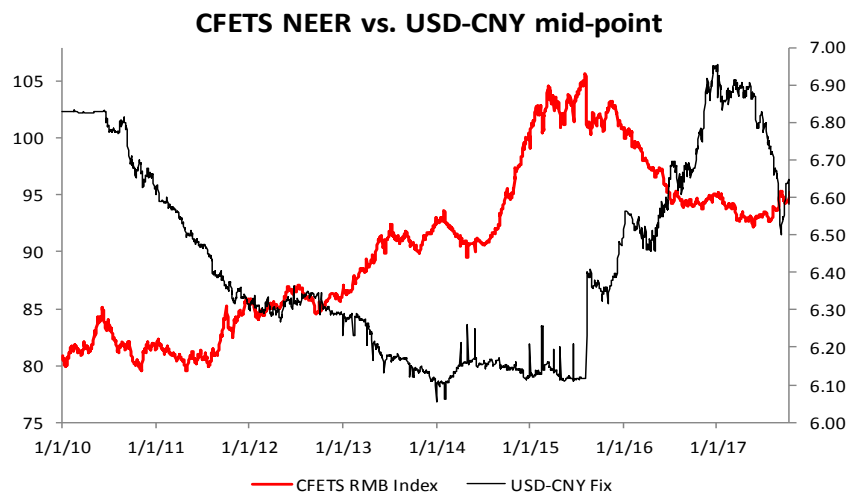
The TWD also saw equity inflows on Wednesday, significantly moderating the net outflow balance over the past month. Rolling net outflows for the INR are also continuing to moderate on renewed inflows on the bond market front. However, note sustained outflow pressure for the IDR on this front and this may continue to merit caution. The THB also continues to see sustained outflow pressures despite some net equity and bond inflows on Wednesday.

- SGD NEER:** Amid a weak broad dollar backdrop, the SGD NEER late NY/early Asia morning strayed above the +1.00% (1.3533) but it has since retraced lower to +0.96% above its perceived parity (1.3670). Despite a heavy dollar tone, downside for the pair may remain limited on account of NEER considerations, especially ahead of the MAS MPS tomorrow morning in Asia. On the upside, the 55-day MA (1.3565) may provide an initial ceiling.



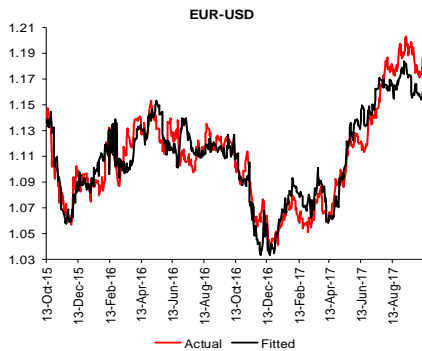
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (slightly less than expected) to 6.5808 from 6.5841 on Wednesday, pushing the CFETS RMB Index lower to 95.07 compared to 95.20 yesterday and away from the perceived ceiling at 95.20/35.



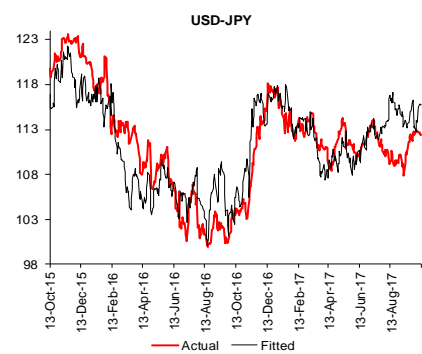
Source: OCBC Bank, Bloomberg

G7



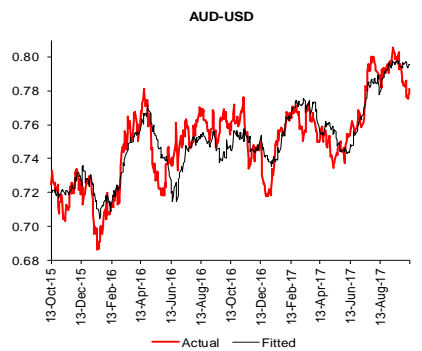
Source: OCBC Bank

- EUR-USD** The EUR also continued to lift as Spanish uncertainty defused (note however the 16 October deadline for the Catalan government) and with the ECB's Praet sounding sanguine (but slightly cautious towards anemic inflation). Note that short term implied valuations are attempting to bounce and the EUR-USD may attempt to base build off the 55-day MA (1.1844) with the nearest cap seen at 1.1900.



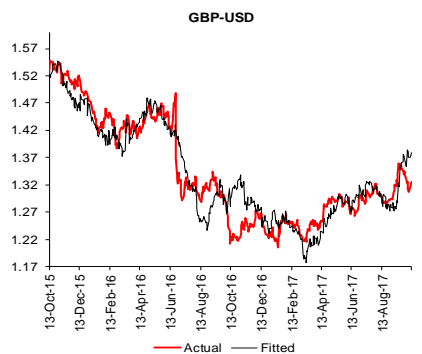
Source: OCBC Bank

- USD-JPY** Despite a poll indicating that the Abe administration may come out ahead at the 22 October Lower House election, the weak greenback continued to suppress the USD-JPY. Short term implied valuations meanwhile remain relatively underpinned. In the near term, despite a slightly top heavy posture, the 112.50 neighborhood may continue to anchor with the 200-day MA (111.84) and 113.00 bordering near term ranges at this juncture.



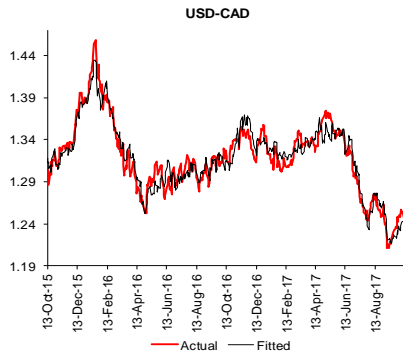
Source: OCBC Bank

- AUD-USD** Note that the antipodeans have remained relatively more restrained despite recent USD vulnerability although short term implied valuations for the AUD-USD have been attempting to inch higher in recent sessions. We watch the junction at the 100-day MA (0.7796) for any bias within a 0.7740-0.7860 band in the interim.



Source: OCBC Bank

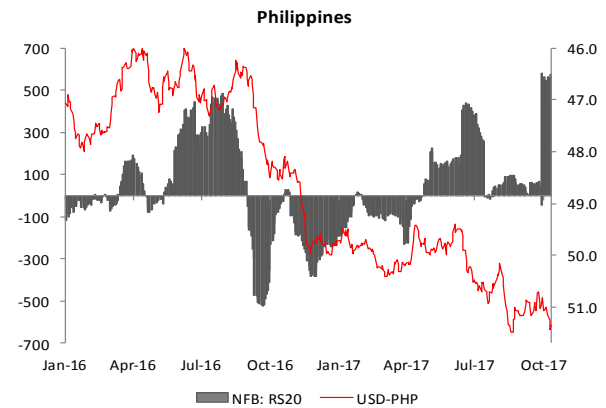
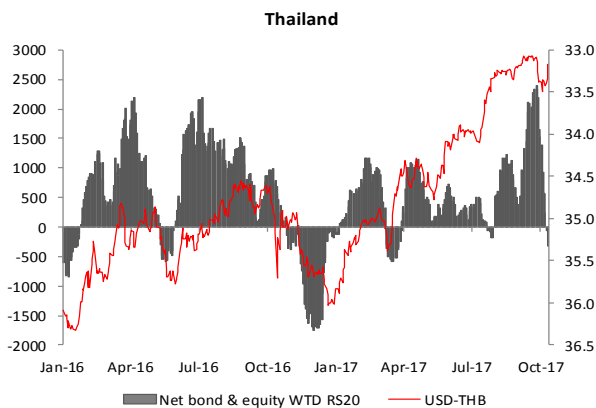
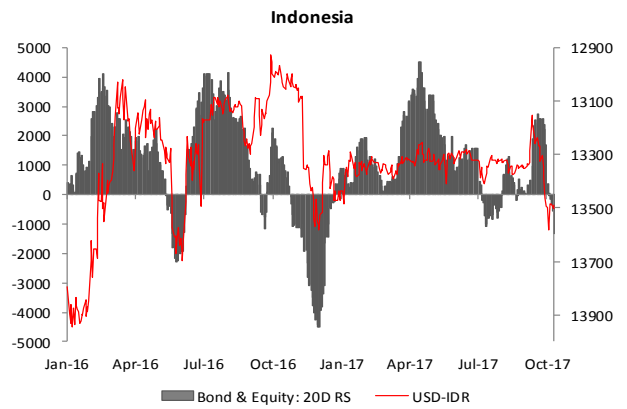
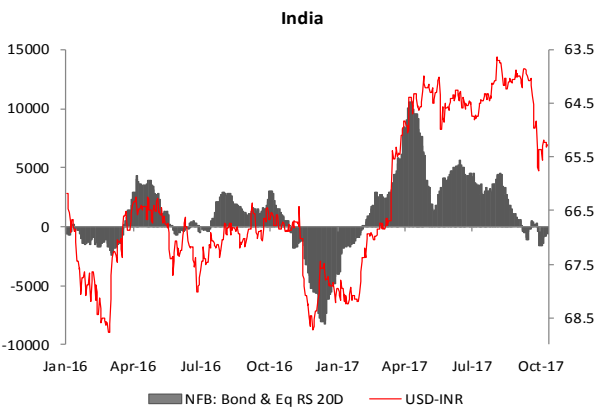
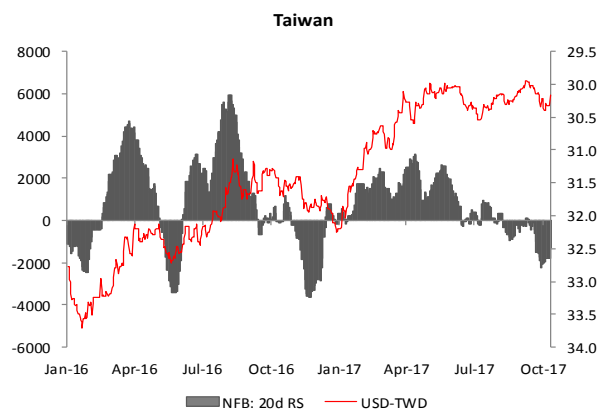
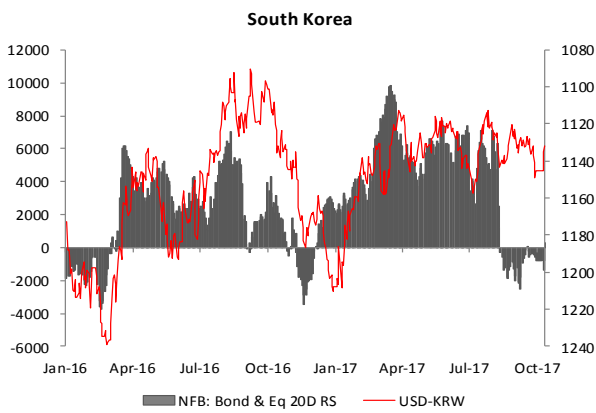
- GBP-USD** Despite the Brexit-related overhang, GBP-USD continued to draft the EUR-USD higher on Wednesday. Meanwhile, short term implied valuations are attempting to bounce at this juncture. Nonetheless, investors may be expected to tread lightly in the interim even if the GBP-USD attempts to take a stab at 1.3300/20.

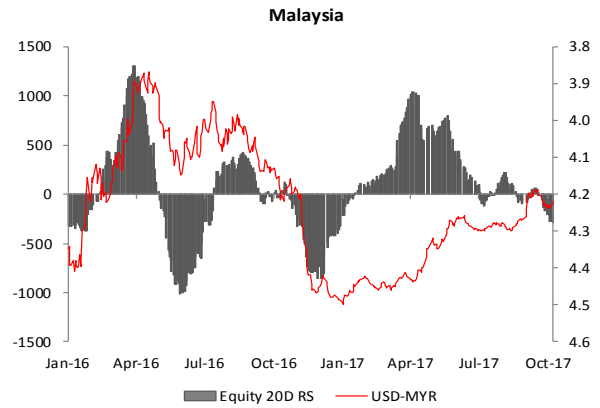


- USD-CAD** The CAD was boosted by the weak greenback, firmer intra-day crude, and headlines indicating that the Trump is open to bilateral trade agreements with Canada (and Mexico). Short term implied valuations seem to be keeling over for now and after overnight price action, the 55-day MA (1.2466) may serve as the nearest resistance, with an initial floor towards 1.2415/20.

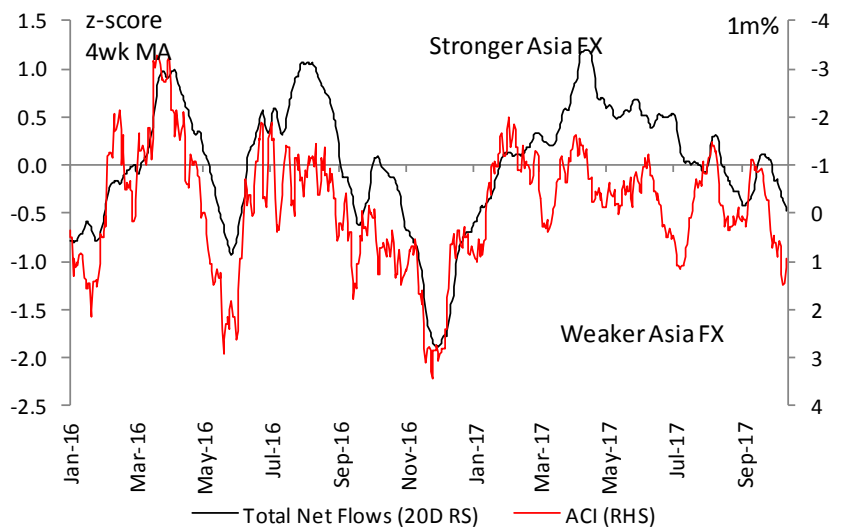
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

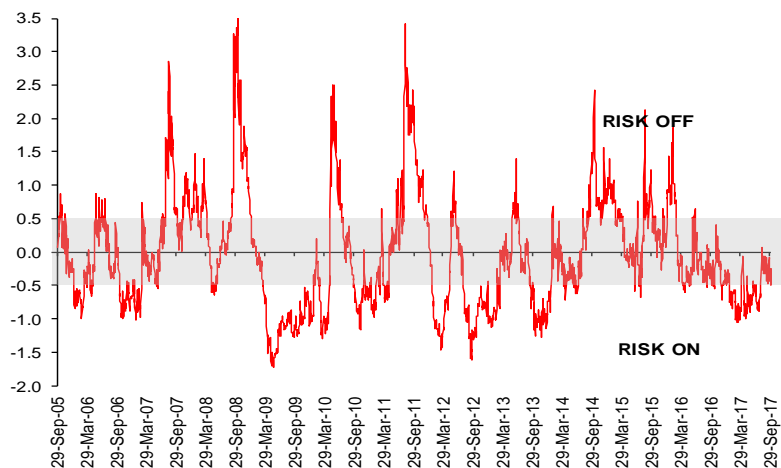




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.833	0.683	0.78	0.055	-0.476	0.776	0.309	-0.569	0.554	0.79	-0.975
SGD	0.974	0.808	0.729	0.758	0.031	-0.601	0.746	0.198	-0.552	0.46	0.831	-0.958
CHF	0.904	0.899	0.533	0.83	0.305	-0.446	0.84	0.232	-0.599	0.612	0.632	-0.819
CAD	0.901	0.951	0.729	0.82	0.185	-0.384	0.917	0.407	-0.671	0.613	0.762	-0.832
IDR	0.886	0.94	0.719	0.804	0.139	-0.456	0.877	0.409	-0.661	0.602	0.77	-0.846
THB	0.884	0.77	0.741	0.692	-0.046	-0.678	0.691	0.151	-0.594	0.433	0.844	-0.889
MYR	0.874	0.766	0.63	0.725	-0.001	-0.654	0.647	0.197	-0.566	0.493	0.736	-0.859
TWD	0.871	0.881	0.929	0.658	-0.149	-0.475	0.843	0.454	-0.827	0.599	0.933	-0.852
USGG10	0.833	1	0.589	0.874	0.333	-0.385	0.891	0.326	-0.682	0.524	0.629	-0.73
INR	0.812	0.774	0.877	0.525	-0.16	-0.222	0.838	0.649	-0.55	0.756	0.805	-0.821
CNH	0.79	0.629	0.979	0.449	-0.302	-0.412	0.762	0.409	-0.726	0.605	1	-0.836
JPY	0.776	0.891	0.756	0.651	0.136	-0.22	1	0.519	-0.769	0.724	0.762	-0.714
CNY	0.683	0.589	1	0.173	-0.493	0.061	0.756	0.784	-0.581	0.718	0.979	-0.733
CCN12M	0.665	0.672	0.873	0.419	-0.217	-0.335	0.769	0.399	-0.755	0.507	0.906	-0.686
KRW	0.631	0.546	0.829	0.246	-0.511	-0.055	0.542	0.64	-0.673	0.561	0.791	-0.675
PHP	0.207	0.357	-0.351	0.544	0.634	-0.233	0.045	-0.316	0.196	-0.33	-0.258	-0.136
GBP	-0.732	-0.571	0.066	-0.782	-0.373	0.661	-0.297	0.229	0.132	-0.028	-0.306	0.645
NZD	-0.777	-0.742	-0.268	-0.857	-0.368	0.472	-0.493	-0.128	0.176	-0.165	-0.339	0.696
AUD	-0.881	-0.91	-0.617	-0.843	-0.209	0.438	-0.773	-0.351	0.491	-0.477	-0.601	0.807
EUR	-0.975	-0.73	-0.733	-0.657	0.123	0.449	-0.714	-0.351	0.519	-0.563	-0.836	1

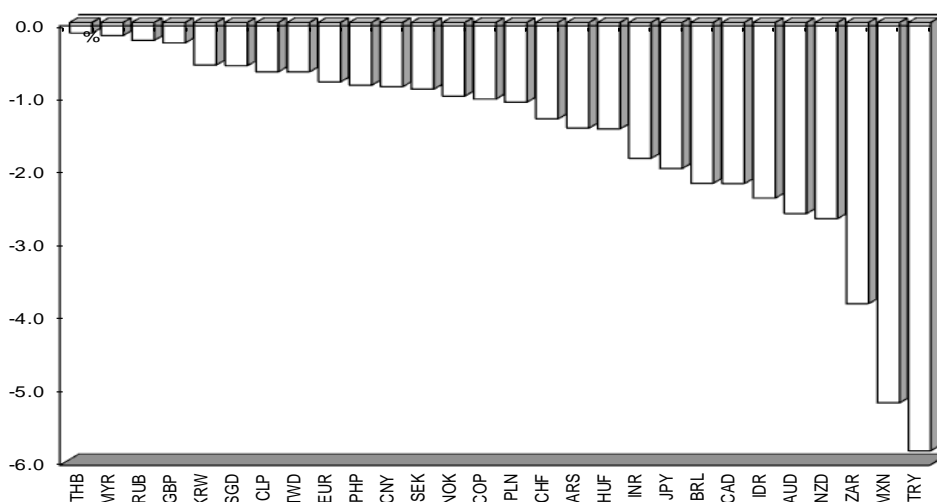
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1800	1.1843	1.1869	1.1900	1.2003
GBP-USD	1.3131	1.3200	1.3249	1.3300	1.3657
AUD-USD	0.7733	0.7800	0.7804	0.7900	0.7910
NZD-USD	0.7014	0.7051	0.7091	0.7100	0.7153
USD-CAD	1.2400	1.2456	1.2460	1.2500	1.2598
USD-JPY	111.81	112.00	112.40	113.00	113.32
USD-SGD	1.3421	1.3500	1.3545	1.3555	1.3600
EUR-SGD	1.6000	1.6055	1.6076	1.6100	1.6127
JPY-SGD	1.2000	1.2002	1.2050	1.2100	1.2125
GBP-SGD	1.7803	1.7900	1.7945	1.8000	1.8349
AUD-SGD	1.0508	1.0535	1.0570	1.0600	1.0633
Gold	1258.39	1260.50	1285.80	1296.29	1300.00
Silver	16.80	17.00	17.20	17.26	17.54
Crude	50.89	51.00	51.03	51.10	52.39

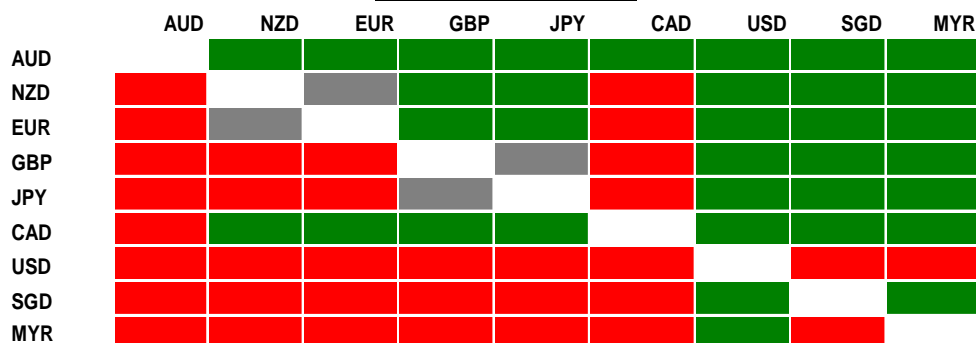
Source: OCBC Bank

FX performance: 1-month change agst USD



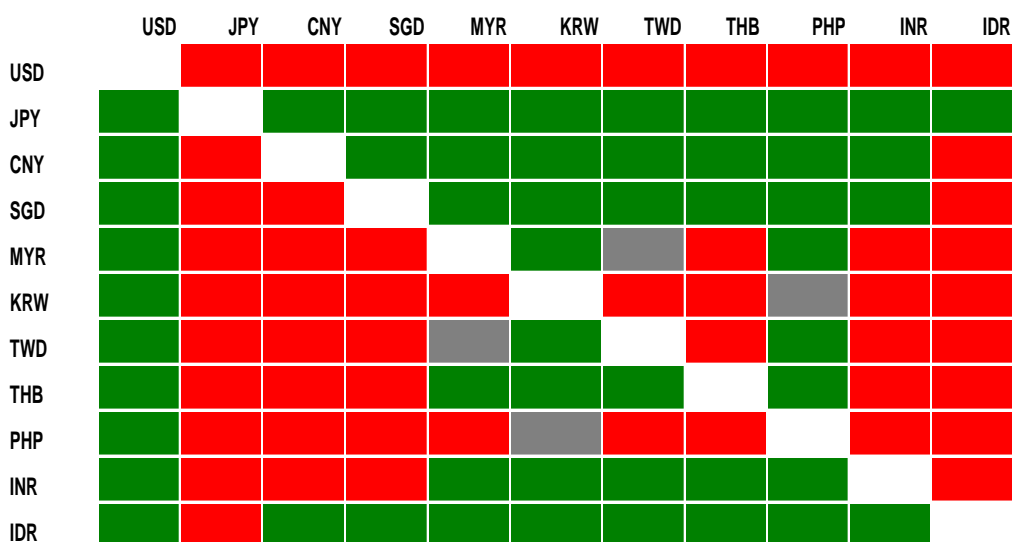
Source: Bloomberg

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		
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%			Vulnerable USD, prevailing positivity towards carry, EM/Asia		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
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

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