

Tuesday, September 12, 2017

FX Themes/Strategy/Trading Ideas

- Dissipating risk aversion (no missile launch over the weekend from Pyongyang while Irma was downgraded to a tropical storm) and a smart bounce in UST yields (10y > 2.13% with the curve bear steepening) led the USD higher against its G10 counterparts (except against the CAD) while the JPY underperformed across the board (USD-JPY circa 109.50 late NY).
- The ECB's Coeure on Monday elucidated in slightly greater detail with respect to exchange rate effects but largely parroted Draghi and the ECB statement from last Thursday. Although he noted that exogenous shocks to the exchange rate can lead to a tightening of financial conditions, "pass through is likely to have been lower in recent years". **Overall, we do not detect undue discomfort towards the EUR.**
- After the NY close, the **UN Security Council** voted unanimously to pass additional trade sanctions on North Korea, although stopping short of an outright oil embargo. Risk appetite levels remain underpinned in the interim but we'd watch for a reaction from Pyongyang going ahead.
- Today, the calendar brings an appearance by **the ECB's Constancio** (1345 GMT) and the BOE's Salmon (0920 GMT) while data points include Australian August NAB business conditions (0130 GMT) and **UK August CPI/PPI** (0830 GMT).
- **In the near term, further unwinding of risk aversion may see room for the DXY to revisit the 92.00-92.50 (especially if the 10y UST yield manages to retake 2.15%) before investors refocus on relative central bank dynamics.**
- In the wake of the earlier than expected **BOC** rate hike last week and the premise that inherent USD weakness may continue to be a staple in the near term, we undertake a tactical short **USD-CAD**. From a spot ref of 1.2128 on Monday, we target 1.1850 and place a stop at 1.2270.

Asian FX

- Positive US/EZ equities from overnight may be expected to rub off on Asian stocks and partially blunt the impact from the overnight broad dollar bounce. On the net portfolio inflow front, note moderating outflow pressures for the KRW and PHP, a recovery into inflow territory for TWD, while net outflows for the INR are increasing. Meanwhile, net inflows for the IDR and THB continue to improve.

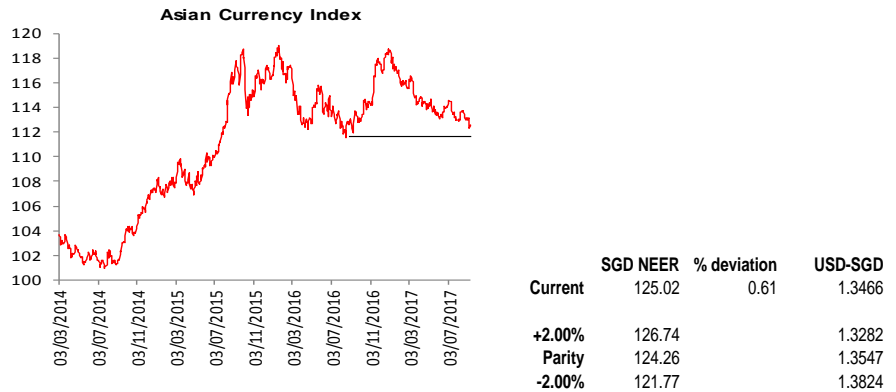
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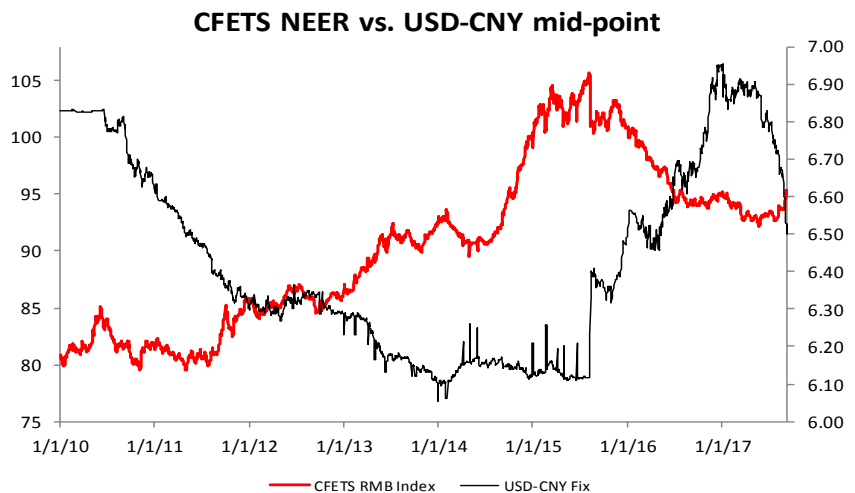
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- On the risk appetite front, the **FXSI (FX Sentiment Index)** inched lower within Risk-Neutral territory on Monday and this may temper the upside for the **ACI (Asian Currency Index)** intraday.
- **SGD NEER:** Today, the SGD NEER is slightly firmer at +0.62% above its perceived parity (1.3547). NEER–implied USD-SGD thresholds are firmer on the day with the +0.50% threshold estimated at 1.3480 and +0.80% at 1.3440. Technically, expect 1.3500/15 to cap pending further external cues.



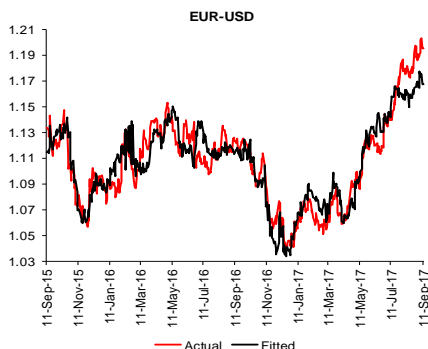
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point came in at a higher than expected 6.5277 from 6.4997 yesterday. This saw the **CFETS RMB Index** declining to 94.94 from 95.36 yesterday. Note however that the inter-session moves in the mid-points and the Index however remained primarily constrained within historical boundary constraints. As mentioned yesterday, decreasing risks of a sustained break above the 95.34 high chalked up in July 2016 may continue to discourage sustained and discretionary renminbi appreciation expectations, which we had previously noted was unwarranted on macro grounds. In the near term, this may continue to see points (across all 3 curves) bottoming/leaning right.



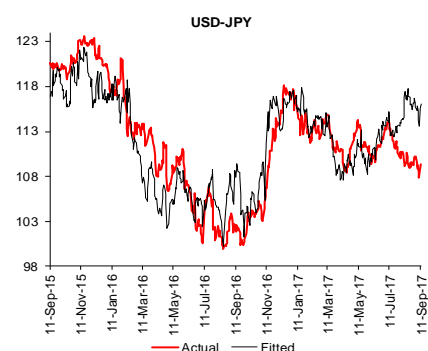
Source: OCBC Bank, Bloomberg

G7



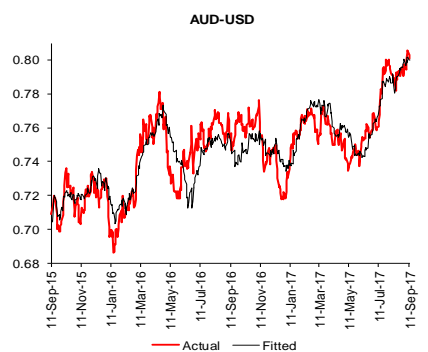
Source: OCBC Bank

- **EUR-USD** Ahead of Constancio today, the EUR-USD may remain wary of upside tests with short term implied valuations still edging lower in the interim. As such, 1.1975/00 is expected to cap with near term risks skewed towards 1.1910 if 1.1950 is breached.



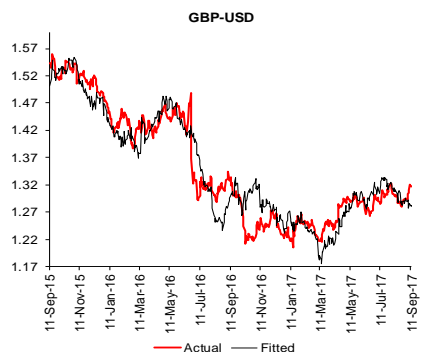
Source: OCBC Bank

- **USD-JPY** Improved risk appetite may continue to underpin the USD-JPY in the near term with short term implied valuations for the pair also bouncing significantly. Expect a supported 109.00-110.00 range in the interim.



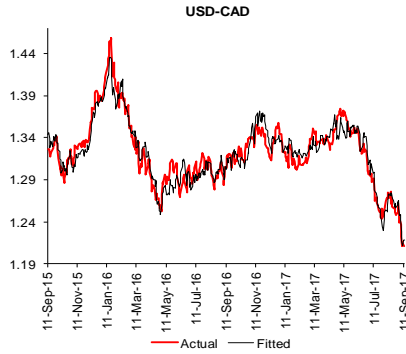
Source: OCBC Bank

- **AUD-USD** This morning, the weaker than expected August NAB business confidence reading of 5 (from 12 the previous month) took the AUD-USD lower and the pair may fade upticks in the intra-day. Note however that short term implied valuations remain stable, especially given the recent improvement in risk appetite levels. We await better levels to express upside potential for the pair.



Source: OCBC Bank

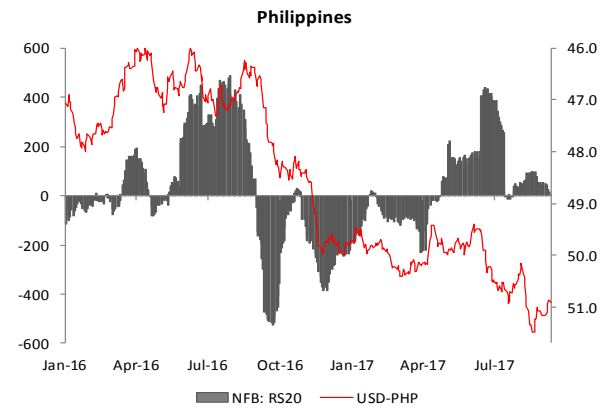
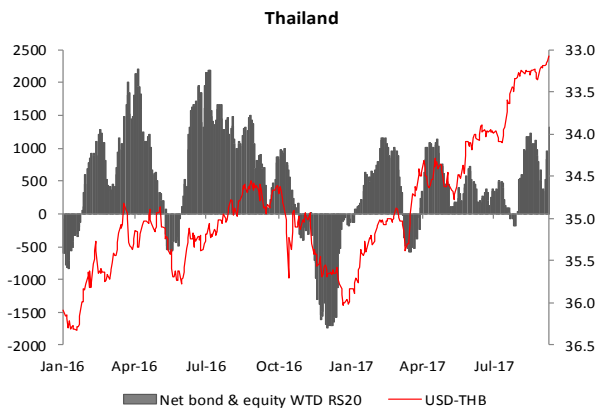
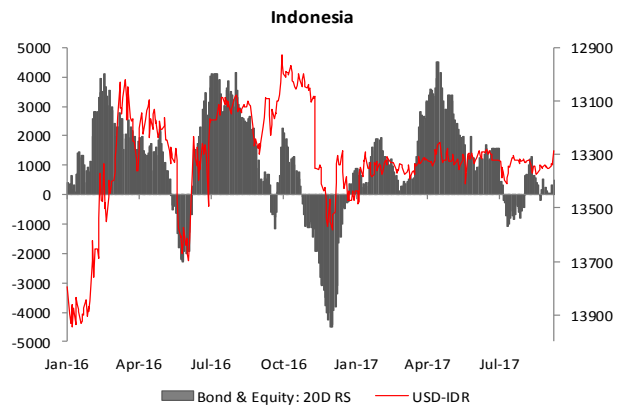
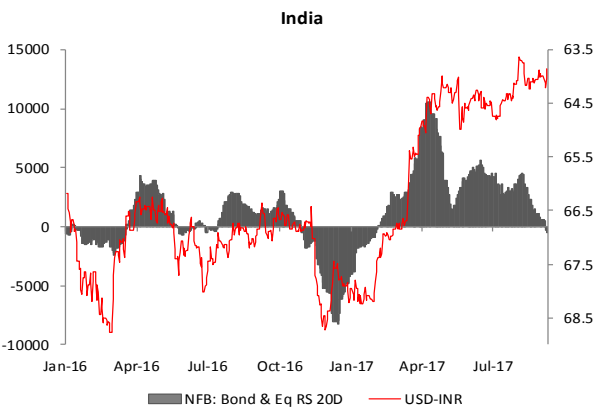
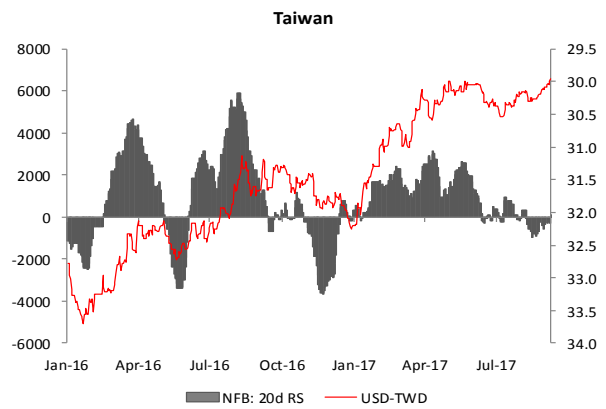
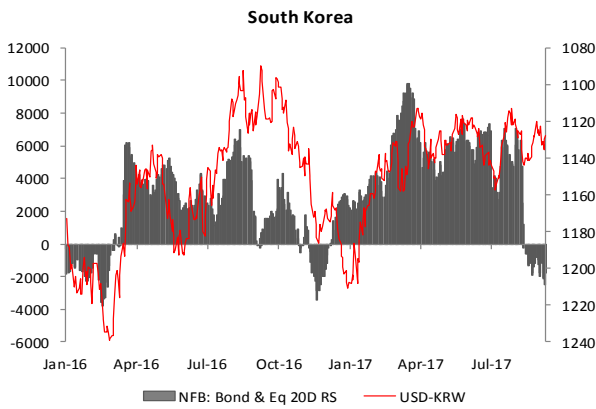
- **GBP-USD** Headline risks from the UK CPI/PPI readings later today may see the pair moribund in the interim. Meanwhile, firmer price action has continued to deviate from still top heavy short term implied valuations, typifying the lack of a unified view towards the pair. Expect range trading behavior within 1.3150-1.3200 pending the inflation readings.

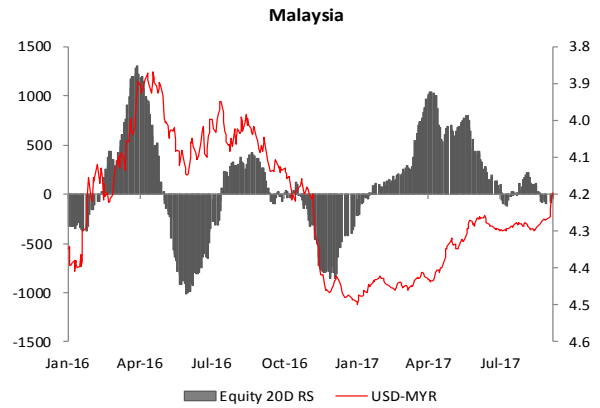


- USD-CAD** A bounce in crude and better than expected August housing starts helped pressure USD-CAD lower on Monday despite a relief rally for the broad dollar. Short term implied valuations meanwhile are top heavy and investors may attempt to angle lower multi-session. A violation of 1.2100 now risks 1.2060.

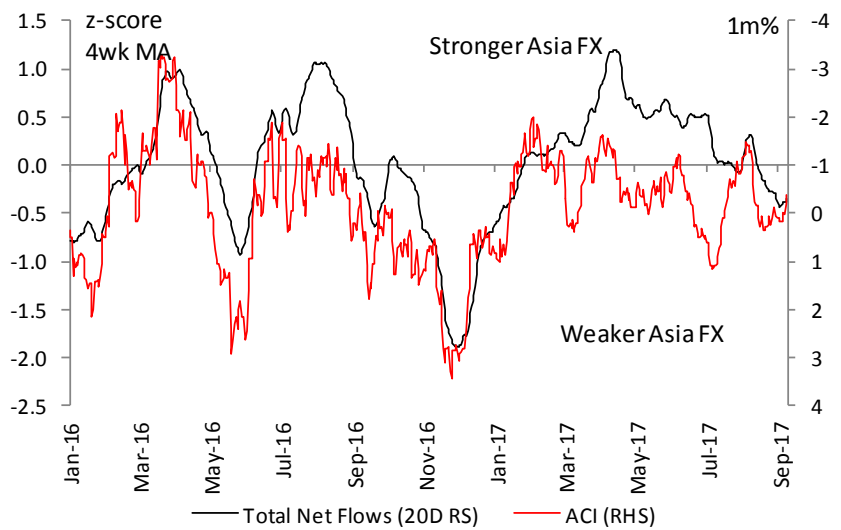
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

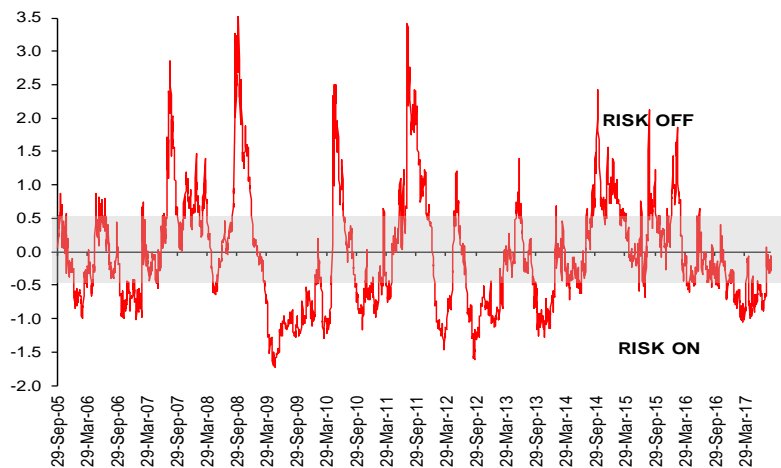




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.883	0.894	-0.361	-0.597	-0.781	0.612	-0.243	0.404	0.689	0.901	-0.969
SGD	0.967	0.865	0.894	-0.437	-0.562	-0.822	0.622	-0.367	0.428	0.735	0.901	-0.924
CHF	0.922	0.88	0.788	-0.11	-0.535	-0.65	0.708	-0.205	0.168	0.575	0.806	-0.899
MYR	0.908	0.77	0.927	-0.547	-0.658	-0.843	0.576	-0.375	0.429	0.844	0.924	-0.824
TWD	0.904	0.83	0.973	-0.538	-0.673	-0.872	0.444	-0.276	0.461	0.839	0.971	-0.849
CNH	0.901	0.86	0.996	-0.521	-0.639	-0.901	0.458	-0.344	0.454	0.838	1	-0.848
CNY	0.894	0.86	1	-0.532	-0.608	-0.911	0.461	-0.341	0.439	0.838	0.996	-0.835
CAD	0.886	0.774	0.89	-0.451	-0.634	-0.873	0.566	-0.503	0.389	0.789	0.89	-0.79
USGG10	0.883	1	0.86	-0.239	-0.572	-0.802	0.669	-0.326	0.23	0.603	0.86	-0.84
CCN12M	0.84	0.663	0.811	-0.463	-0.729	-0.673	0.404	-0.185	0.566	0.618	0.826	-0.793
THB	0.791	0.723	0.87	-0.499	-0.331	-0.728	0.369	-0.238	0.25	0.743	0.859	-0.723
PHP	0.782	0.641	0.696	-0.485	-0.607	-0.653	0.528	-0.152	0.528	0.619	0.702	-0.772
IDR	0.698	0.494	0.63	-0.509	-0.534	-0.554	0.477	-0.144	0.305	0.672	0.623	-0.584
INR	0.667	0.474	0.513	-0.339	-0.64	-0.338	0.216	0.337	0.471	0.479	0.521	-0.709
JPY	0.612	0.669	0.461	0.216	-0.132	-0.471	1	-0.502	-0.223	0.182	0.458	-0.513
KRW	0.534	0.442	0.442	-0.215	-0.741	-0.315	-0.028	0.317	0.596	0.297	0.472	-0.643
NZD	0.25	0.286	0.514	-0.462	-0.608	-0.525	-0.26	-0.055	0.605	0.497	0.501	-0.313
GBP	-0.84	-0.702	-0.828	0.583	0.358	0.764	-0.485	0.322	-0.272	-0.809	-0.811	0.732
AUD	-0.913	-0.85	-0.855	0.334	0.6	0.804	-0.648	0.374	-0.321	-0.711	-0.872	0.83
EUR	-0.969	-0.84	-0.835	0.336	0.606	0.698	-0.513	0.119	-0.504	-0.617	-0.848	1

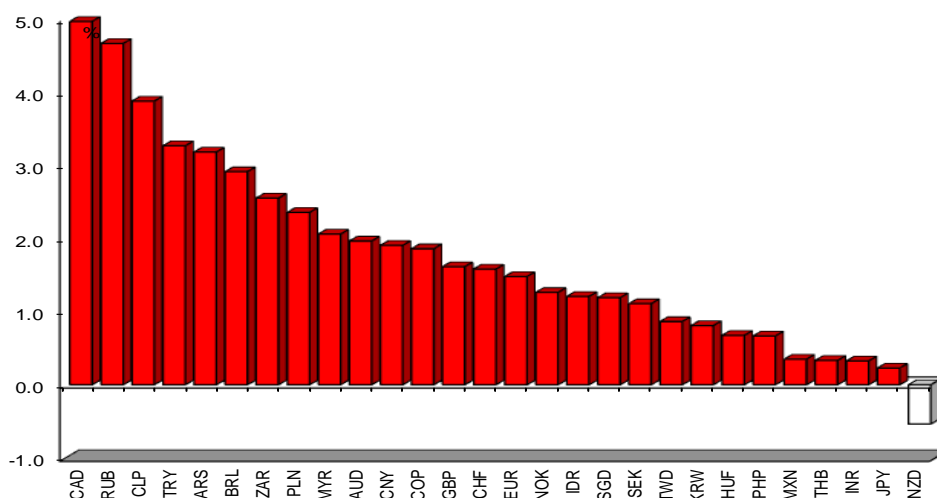
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1734	1.1900	1.1951	1.2000	1.2060
GBP-USD	1.2990	1.3100	1.3172	1.3188	1.3200
AUD-USD	0.7891	0.8000	0.8003	0.8051	0.8100
NZD-USD	0.7144	0.7200	0.7244	0.7300	0.7310
USD-CAD	1.2066	1.2100	1.2119	1.2200	1.2569
USD-JPY	108.20	109.00	109.38	110.00	110.52
USD-SGD	1.3400	1.3404	1.3466	1.3500	1.3613
EUR-SGD	1.5980	1.6000	1.6093	1.6100	1.6211
JPY-SGD	1.2300	1.2307	1.2311	1.2400	1.2428
GBP-SGD	1.7700	1.7723	1.7737	1.7800	1.8042
AUD-SGD	1.0726	1.0740	1.0777	1.0800	1.0818
Gold	1274.22	1300.00	1326.30	1355.28	1358.50
Silver	17.14	17.70	17.75	17.80	18.16
Crude	47.70	48.00	48.05	48.10	49.36

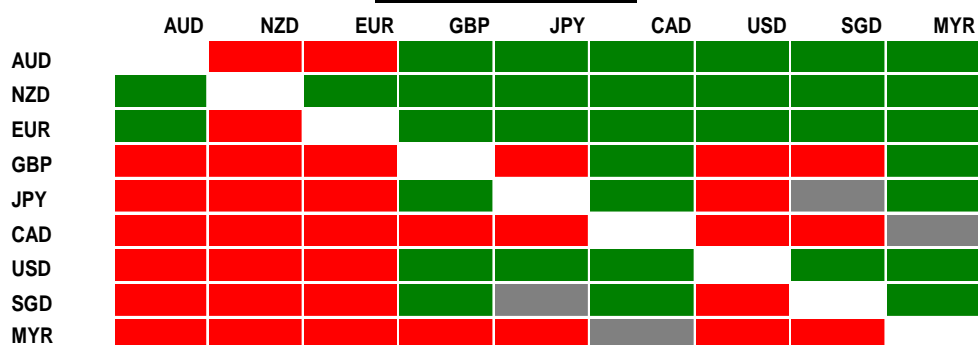
Source: OCBC Bank

FX performance: 1-month change agst USD



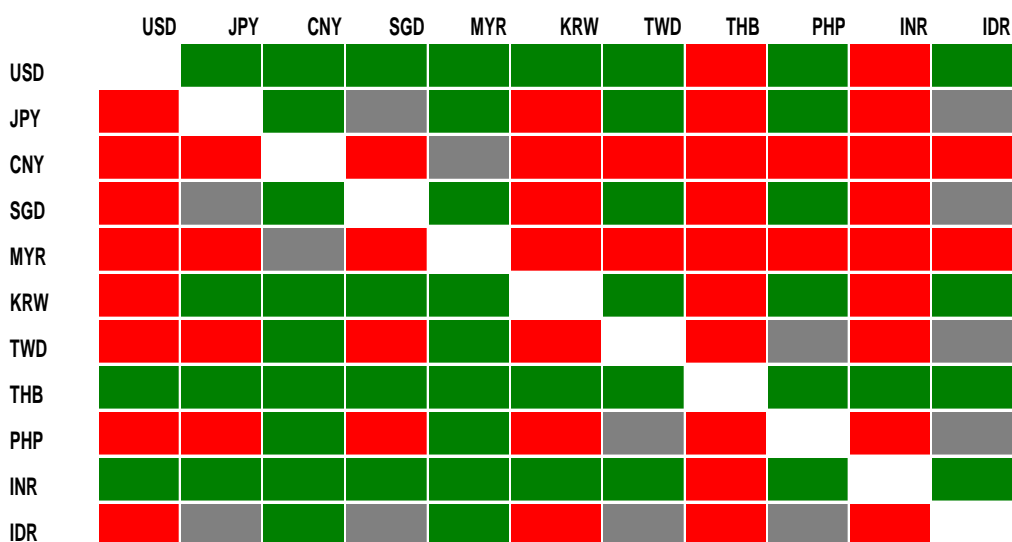
Source: Bloomberg

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	07-Sep-17	S	USD-JPY	109.01	106.75	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	
2	11-Sep-17	S	USD-CAD	1.2128	1.1850	1.2270	Support from earlier than expected BOC rate hike, inherent USD vulnerability	
STRUCTURAL								
3	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
4	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		
5	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		
6	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	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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