

Friday, September 15, 2017

FX Themes/Strategy/Trading Ideas – Dracarys (again)

- The USD ended broadly weaker against the majors despite warmer than expected August CPI readings as GBP strength grabbed the spotlight. Following its earlier threat to sink Japan, North Korea launched another missile (but reportedly not an ICBM and not on a lofted trajectory) that overflowed Hokkaido early on Friday, resulting in the USD-JPY briefly cracking below 110.00.
- The **BOE MPC** was regarded as a “hawkish hold” (still a 7:2 decision) after the statement noted that “some withdrawal of monetary stimulus was likely to be appropriate over the coming months in order to return inflation sustainably to target”. In addition, the statement noted that data points since the last meeting had been “slightly stronger picture than anticipated” while reiterating that policy could be tightened “by a somewhat greater extent” than expected by markets. Overall, market implied rate hike expectations were brought forward in the wake of the BOE MPC to early 2018 from mid-2018 previously.
- Today, the calendar includes a raft of ECB appearances from Nouy (0600 GMT), Visco (0700 GMT), Lautenschlaeger (0815 GMT), and Visco again at 1700 GMT. The data stream meanwhile includes US September Empire manufacturing index (1230 GMT), August retail sales (1230 GMT) and September Michigan consumer sentiment (1400 GMT). In Asia, look towards China August monetary aggregates with the data points on Thursday coming in slightly on the wrong side of expectations.
- Overall, despite the front-end of the US curve flattening post-US CPI, the drag from the GBP may continue to weigh on the USD at large. **From a broader perspective and ahead of the FOMC next week, we think the dollar narrative may still be perceived as passive, with investors instead continuing to heed the cues from the other major global central banks (first the Bank of Canada, and now the BOE).** On the back of this frame of reference, inherent USD vulnerability may continue to remain near the surface. Into the weekend, concerns towards further geopolitical risks may also continue to underpin the JPY.
- With the USD experiencing a mini bounce in recent sessions (on the back of a firmer US yields), our 07 Sep 17 idea to be tactically short **USD-JPY** (spot ref: 109.01) hit its 110.15 stop on Tuesday, yielding an implied -1.06% loss.
- In the same vein and despite supportive August CPI/PPI numbers, slightly disappointing wage growth numbers on Wednesday foiled our idea to be

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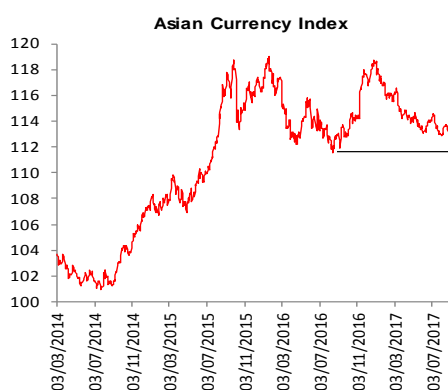
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tactically long the **GBP-USD** (spot ref: 1.3325), tripping the stop promptly at 1.3200 for an implied -0.95% loss.

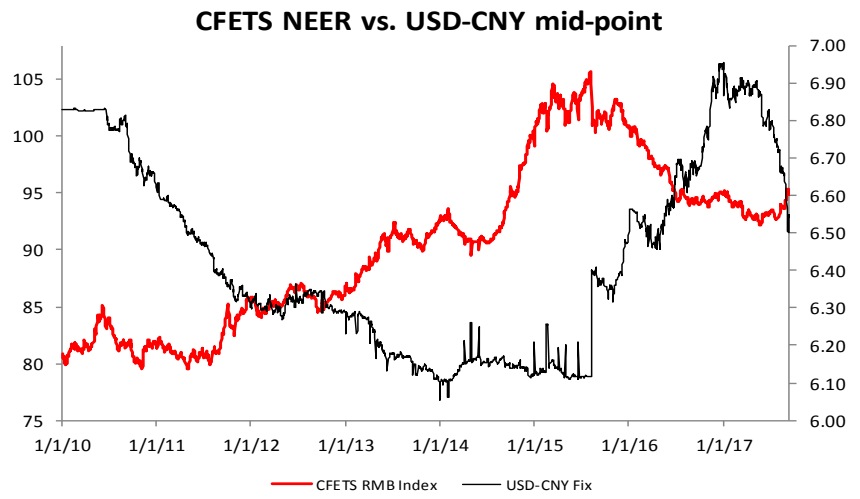
Asian FX

- The regional currency pairs may prove to be a mixed bag given background USD vulnerability but lurking geopolitical risks. On the net portfolio inflow front, the **KRW** has seen continued moderation of outflow momentum but the latest missile launch this morning could once again stymie sentiment. Meanwhile, the **TWD** may be looking relatively more vulnerably with net outflows deepening. In terms of the high yielders, we see hints of abating outflow momentum for the **INR**, while the **IDR** may remain relatively more underpinned on the back of recent strong inflow momentum. In the same vein, positive (and strengthening) inflow momentum may continue to underpin the **THB**, with net inflows for the **PHP** attempting to stage a pick up.
- The **FXSI (FX Sentiment Index)** slipped further within Risk-Neutral territory on Thursday but the latest negative headlines out of Pyongyang early Friday may result in some consolidation of risk appetite levels. Overall, expect the **ACI (Asian Currency Index)** to be supported on dips into the end of the week.
- **SGD NEER:** This morning, the SGD NEER is firmer on the day at around +0.68% above its perceived parity (1.3564). NEER-implied USD-SGD thresholds are slightly softer on the day and the basket may hesitate towards +0.80% (1.3457) ahead of 1.3450. Additionally, the +0.50% threshold is estimated at 1.3497 given current market levels. Technically, the 200-week MA (1.3481) may remain a pivotal junction with the USD-SGD expected to be top heavy but governed by its NEER thresholds.



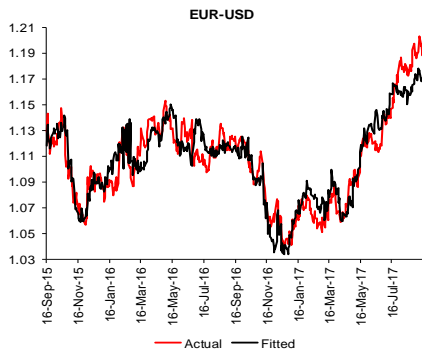
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY midpoint fell (less than expected) to 6.5423 from 6.5465 on Thursday. This brought the **CFETS RMB Index** lower again to 94.74 from 94.98 yesterday.



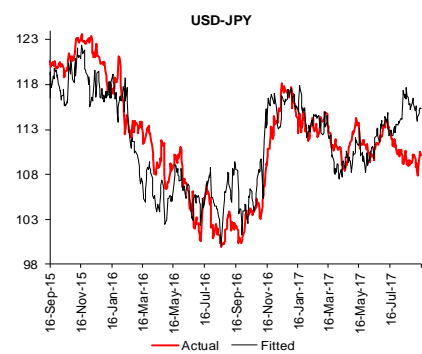
Source: OCBC Bank, Bloomberg

G7



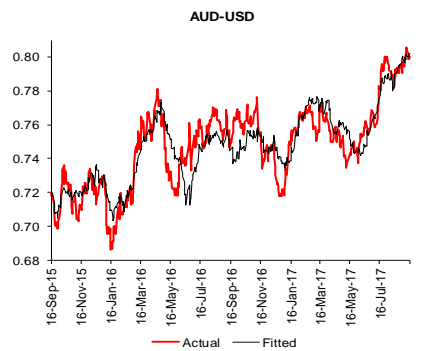
Source: OCBC Bank

- EUR-USD** Despite the ECB’s Weidmann expecting monetary policy to remain “extraordinarily accommodative”, watch for cues from further ECB rhetoric today. Short term implied valuations meanwhile are holding steady with little in the way of renewed upside hints and the EUR-USD may continue to ply a 1.1835-1.1970 range in the interim.



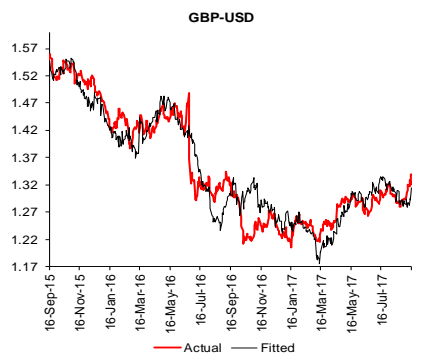
Source: OCBC Bank

- USD-JPY** Despite the warmer than expected US CPI readings (and market implied odds for a December rate hike improving to even), risk aversion into the end of the week may instead weigh on the USD-JPY instead. Short term implied valuations have dipped slightly in tandem and but watch for the tussle from US-centric influences as we head into the FOMC next week. In the interim, the 55-day MA (110.75) may cap, with an initial floor expected into 109.20.



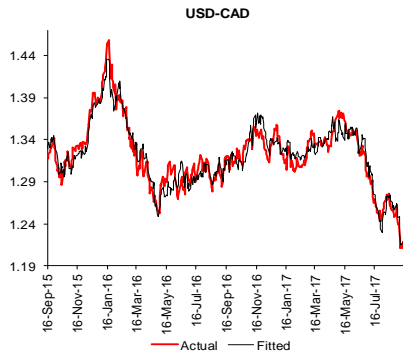
Source: OCBC Bank

- AUD-USD** Pending further Pyongyang-related headlines, we note that short term implied valuations for the AUD-USD remain underpinned, potentially imparting a positive undercurrent higher for the pair. We remain partially constructive on the pair in the interim while the 0.8000 area may function as a new term locus pending further external headlines.



Source: OCBC Bank

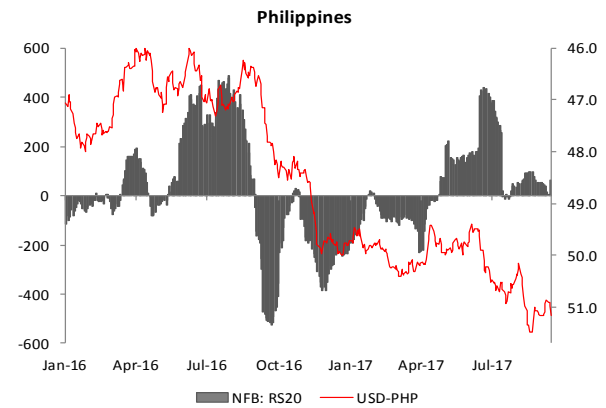
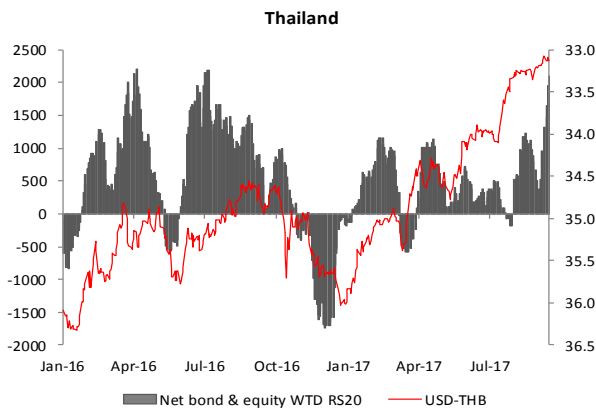
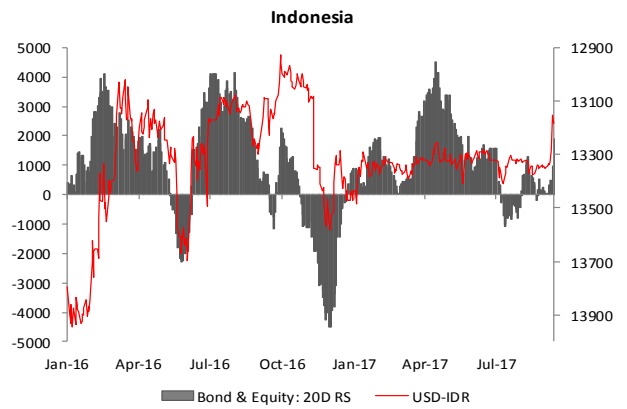
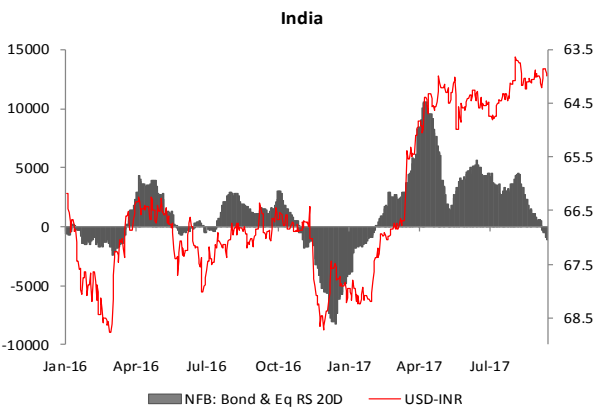
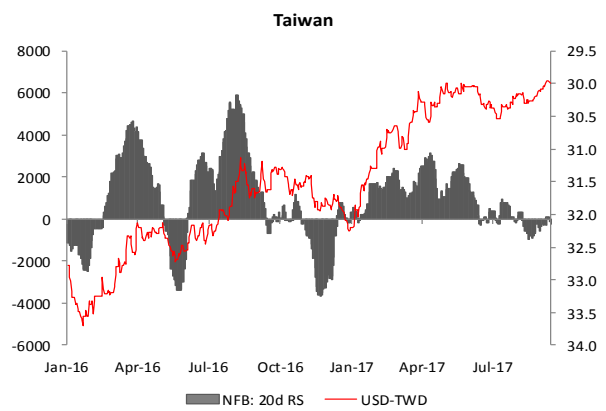
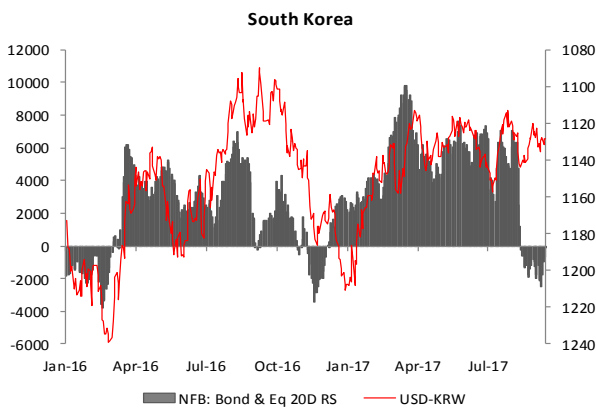
- GBP-USD** Short term implied valuations for the GBP-USD have jumped post BOE MPC with the pair still not deemed as overly extended at current levels. With the paradigm shift in the sterling narrative, EUR-GBP may attempt to settle lower towards its 100-day MA (0.8857) while cable may contemplate the key psych 1.3500 ceiling.

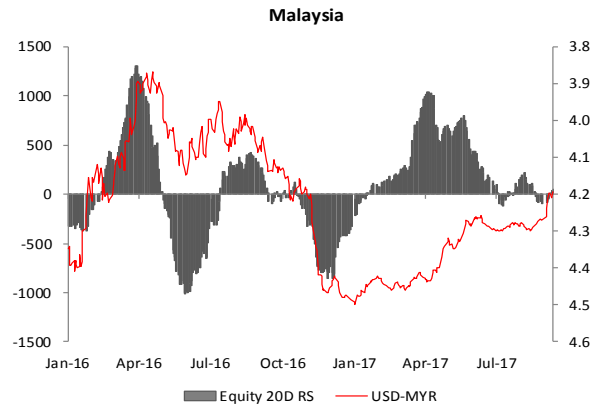


- USD-CAD** Yet firmer crude and background dollar vulnerability kept the USD-CAD suppressed on Thursday. Note that short term implied valuations for the pair continue to be laden and markets may continue to fade upticks within 1.2100-1.2240 into the end of the week.

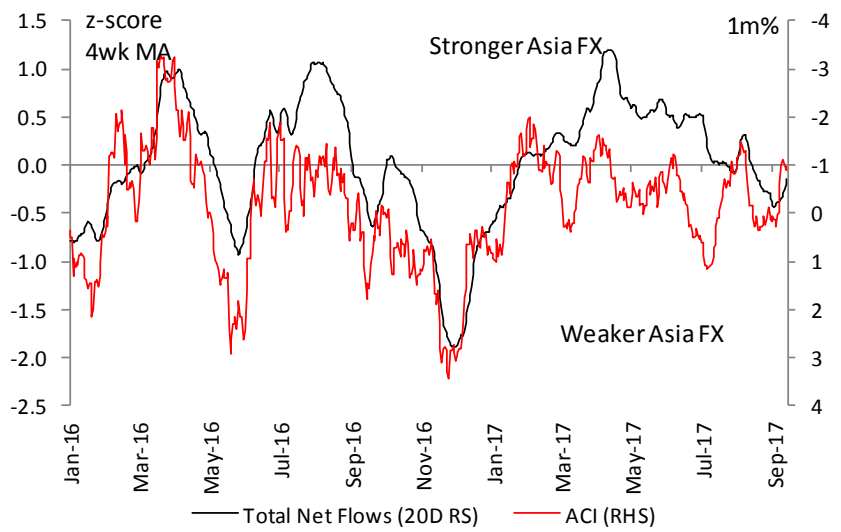
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

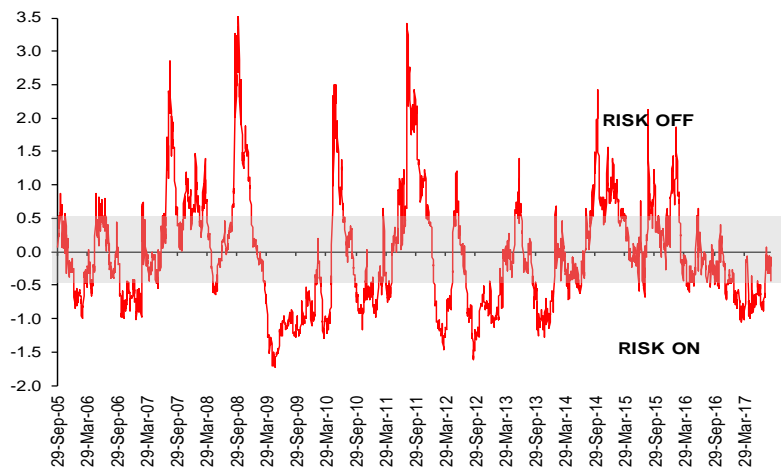




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.7	0.881	-0.536	-0.525	-0.756	0.287	-0.344	0.479	0.68	0.887	-0.954
SGD	0.957	0.638	0.884	-0.631	-0.567	-0.826	0.239	-0.503	0.522	0.758	0.896	-0.884
TWD	0.896	0.621	0.968	-0.706	-0.691	-0.868	0.085	-0.419	0.548	0.832	0.968	-0.817
CNH	0.887	0.662	0.995	-0.695	-0.597	-0.901	0.12	-0.474	0.542	0.818	1	-0.808
CNY	0.881	0.722	1	-0.67	-0.565	-0.895	0.179	-0.43	0.515	0.797	0.995	-0.809
CAD	0.846	0.446	0.87	-0.747	-0.662	-0.908	0.096	-0.685	0.526	0.865	0.88	-0.704
MYR	0.838	0.396	0.893	-0.815	-0.775	-0.879	-0.032	-0.606	0.6	0.904	0.902	-0.705
CCN12M	0.796	0.376	0.796	-0.7	-0.733	-0.7	-0.004	-0.368	0.651	0.697	0.806	-0.719
THB	0.779	0.441	0.868	-0.679	-0.523	-0.781	-0.05	-0.482	0.395	0.805	0.857	-0.66
CHF	0.778	0.852	0.659	-0.068	-0.055	-0.442	0.687	0	0.073	0.303	0.612	-0.817
PHP	0.712	0.595	0.72	-0.497	-0.623	-0.616	0.351	-0.093	0.555	0.572	0.671	-0.743
USGG10	0.7	1	0.722	-0.121	-0.086	-0.558	0.63	-0.075	0.118	0.292	0.662	-0.72
IDR	0.692	0.18	0.647	-0.752	-0.753	-0.647	-0.064	-0.398	0.505	0.795	0.664	-0.53
INR	0.565	0.433	0.445	-0.217	-0.369	-0.225	0.195	0.339	0.359	0.291	0.434	-0.638
KRW	0.45	0.359	0.404	-0.253	-0.535	-0.274	-0.061	0.293	0.577	0.248	0.383	-0.593
JPY	0.287	0.63	0.179	0.449	0.429	-0.067	1	-0.019	-0.406	-0.233	0.12	-0.279
NZD	0.22	0.265	0.453	-0.332	-0.409	-0.471	-0.247	-0.139	0.531	0.315	0.469	-0.274
GBP	-0.738	-0.213	-0.737	0.801	0.728	0.794	0.163	0.643	-0.46	-0.891	-0.743	0.563
AUD	-0.914	-0.623	-0.871	0.627	0.483	0.838	-0.294	0.498	-0.443	-0.769	-0.876	0.802
EUR	-0.954	-0.72	-0.809	0.446	0.473	0.641	-0.279	0.154	-0.54	-0.561	-0.808	1

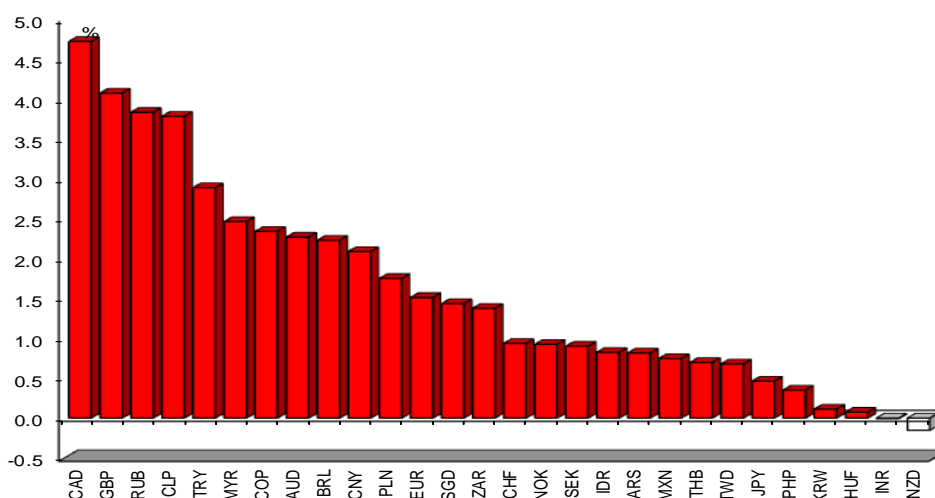
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1766	1.1900	1.1912	1.2000	1.2046
GBP-USD	1.3300	1.3390	1.3391	1.3400	1.3406
AUD-USD	0.7900	0.7916	0.7996	0.8000	0.8060
NZD-USD	0.7147	0.7200	0.7223	0.7300	0.7308
USD-CAD	1.2062	1.2100	1.2183	1.2200	1.2525
USD-JPY	108.17	110.00	110.17	110.46	110.83
USD-SGD	1.3395	1.3400	1.3469	1.3500	1.3594
EUR-SGD	1.5994	1.6000	1.6044	1.6100	1.6208
JPY-SGD	1.2187	1.2200	1.2225	1.2300	1.2308
GBP-SGD	1.7988	1.8000	1.8035	1.8088	1.8100
AUD-SGD	1.0726	1.0758	1.0770	1.0800	1.0817
Gold	1280.46	1300.00	1331.00	1356.29	1358.50
Silver	17.30	17.50	17.80	18.16	18.24
Crude	47.91	49.60	49.68	49.70	50.15

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

Source: OCBC Bank

Asia FX Heat Map

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

Source: OCBC Bank

FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	11-Sep-17	S	USD-CAD	1.2128	1.1850	1.2270	Support from earlier than expected BOC rate hike, inherent USD vulnerability	
2	12-Sep-17	S	USD-SGD	1.3447	1.3315	1.3525	Fade the USD relief rally, prepare for renewed interest towards EM/Asia	
STRUCTURAL								
3	09-May-17	B	GBP-USD	1.2927	1.3700	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	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
2	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
3	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
4	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
5	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
6	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
7	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
Jan-Sep*** 2017 Return							+6.77	
2016 Return							+6.91	
* realized **of notional ***month-to-date								

Source: OCBC Bank

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