

Friday, August 18, 2017

FX Themes/Strategy/Trading Ideas

- Shaker risk appetite (negative EZ/US equities, softer UST yields led by the back-end) on the back of Cohn news flow and Barcelona attack headlines saw the majors retreating against the USD while the JPY and CHF were underpinned.
- Meanwhile, the EUR-USD also stepped lower after the ECB meeting minutes highlighted concerns about the potential for future overshooting in the common currency. **By our estimates, the EUR is not deemed structurally overvalued at this juncture but expect markets to remain visibly spooked by the ECB minutes in the near term.**
- Today's calendar includes an appearance by the Fed's Kaplan (1415 GMT), July Canadian CPI readings (1230 GMT), and August US Michigan sentiment (1400 GMT). In Asia, look also to Malaysia's 2Q GDP (0400 GMT), Taiwan's 2Q GDP (0830 GMT) and July balance of payments numbers for the Philippines (notably especially in view of recent nervousness towards the PHP).
- Going ahead, uncertainty may continue to grip the markets and it remains to be seen if negative US political baggage will continue to infect global risk appetite levels or eventually revert to merely afflicting the USD. **In the interim, stay cautious amidst the current correlation break.** Note also that White House comments on the North Korean situation may also continue to keep investors on edge. **Apart from staying light on the cyclicals and EM/Asia pending further headlines, investors may continue to fade upticks in the EUR-USD and stay heavy on the USD-JPY.**

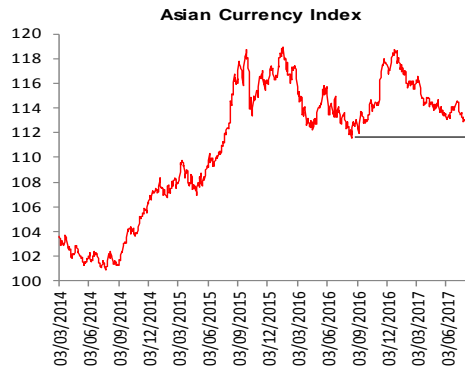
Asian FX

- EM FX also headed south overnight as risk appetite levels fell and expect USD-Asia to be on a firmer plane intra-day. On the net portfolio inflow front, net outflows remain a drag on the KRW and TWD, while we continue to note moderation of inflow momentum for the IDR, INR, and MYR. Elsewhere, we expect relatively more support on this front for the PHP and THB, with net inflows for the latter still at appreciable levels.
- Overall, with the **FXSI (FX Sentiment Index)** shrinking upwards within Risk-Neutral territory, expect the **ACI (Asian Currency Index)** to continue to probe higher.

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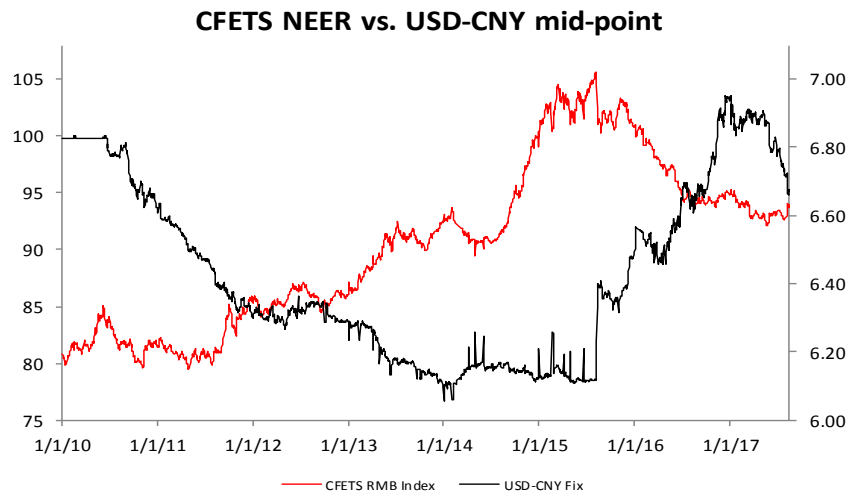
- SGD NEER:** This morning, the SGD NEER is yet softer on the day at around +0.40% above its perceived parity (1.3716). NEER-implied USD-SGD thresholds are relatively unchanged on the day after a volatile Thursday with +0.50% estimated at 1.3648. If generalized market nervousness continues to persist into the end of the week, expect potential for the NEER to continue to drift towards parity.



	SGD NEER	% deviation	USD-SGD
Current	124.82	0.46	1.3654
+2.00%	126.74		1.3447
Parity	124.26		1.3716
-2.00%	121.77		1.3996

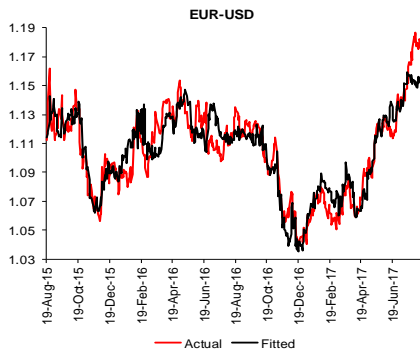
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point gained slightly (largely in line with expectations) to 6.6744 from 6.6709 on Thursday. This however still left the CFETS RMB Index a touch higher at 93.81, compared to 93.73 yesterday. Elsewhere, a comment from SAFE yesterday indicating increased yuan flexibility may continue to portend potential resilience for the renminbi complex, especially if the broad dollar continues to stumble.



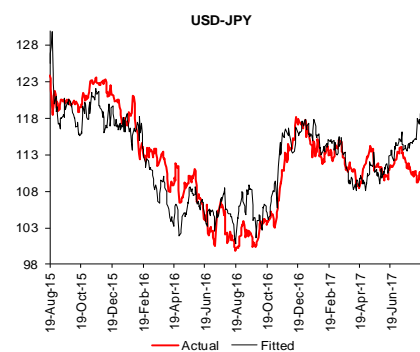
Source: OCBC Bank, Bloomberg

G7



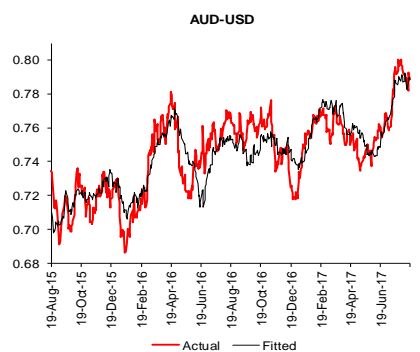
Source: OCBC Bank

- EUR-USD** The EUR-USD may remain reluctant on the upside after the sting from the ECB minutes yesterday. Meanwhile, we note that the pair has continued to compress its perceived richness relative to our short term implied valuations. On the downside, 1.1670 remains on the cards if skittishness towards the common currency persists with 1.1770 likely to cap near term.



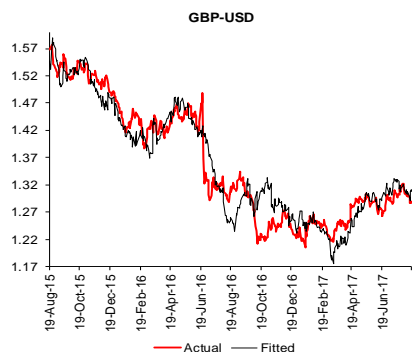
Source: OCBC Bank

- USD-JPY** Comments from the Fed's Kaplan were less than hawkish yesterday (with regards to rate hikes) while the Fed's Kashkari reminded markets that any initiation of the balance sheet taper would also have to be predicated on pre-existing conditions that would not trigger disruptions. Overall, we find little in the way of Fed-centric USD strength while near term investor jitters may continue to keep the pair at sub-110.00 levels with an eye towards the next support at 109.20.



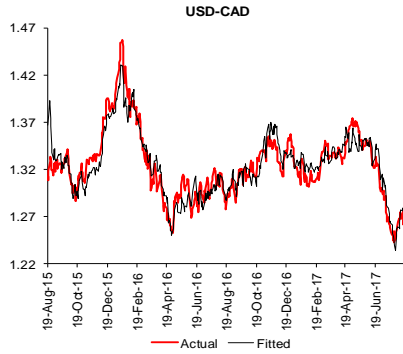
Source: OCBC Bank

- AUD-USD** Positivity from better than expected July Australian labor market numbers was eventually overtaken by global market skittishness and this latter development may continue to limit topside potential for the pair in the interim. Expect range bound (to slightly top heavy) behavior in the interim, centered around the 0.7890 neighborhood.



Source: OCBC Bank

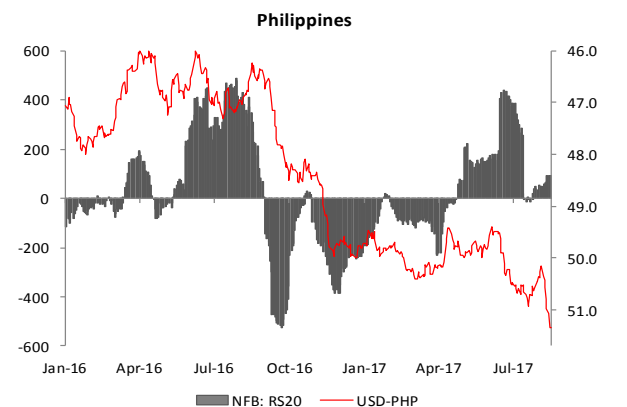
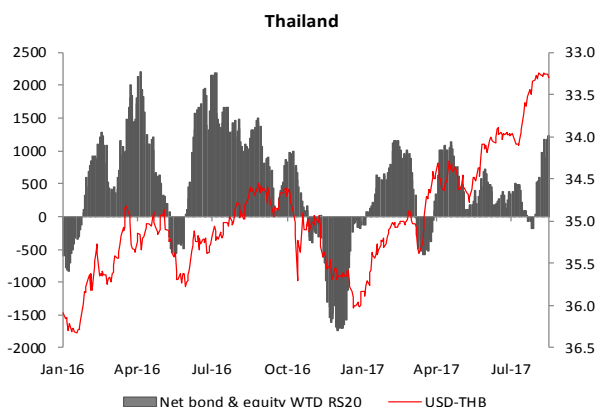
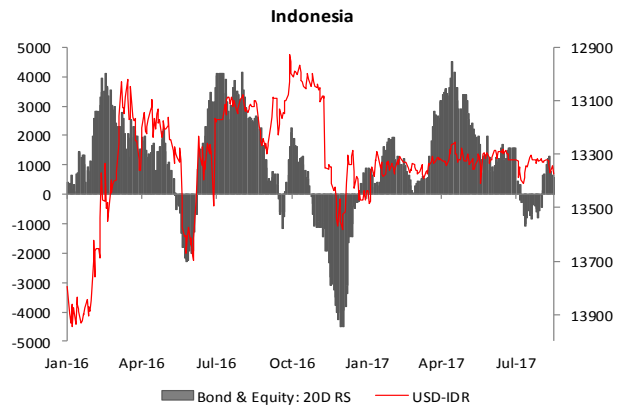
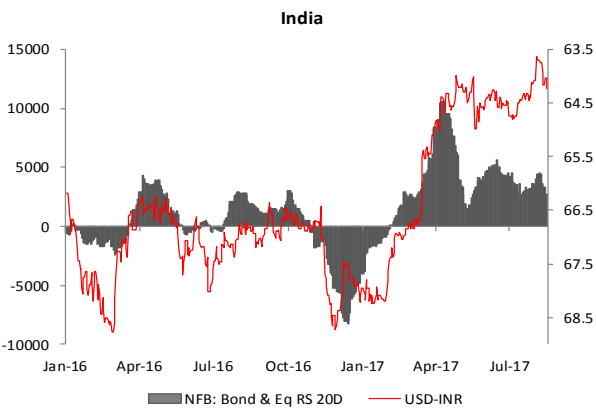
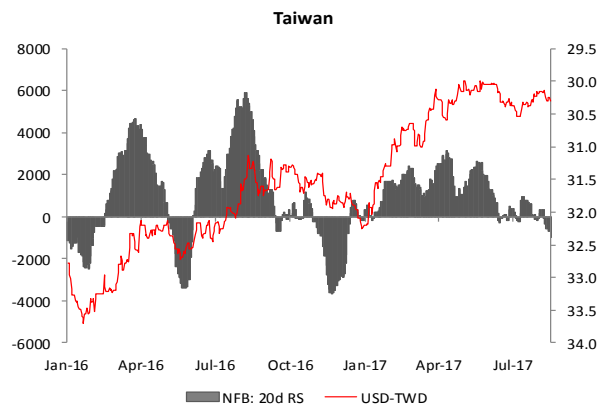
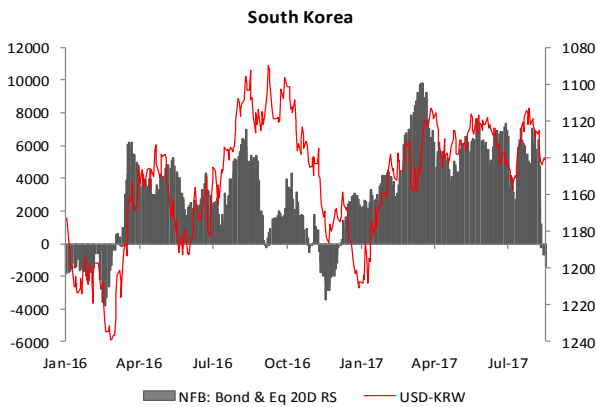
- GBP-USD** Better than expected July UK retail sales failed to keep the GBP-USD elevated for long on Thursday as the dollar caught a safe haven bid. Thus, despite relatively range bound short term implied valuations, expect risks towards 1.2850 ahead of 1.2820 to remain on the radar.

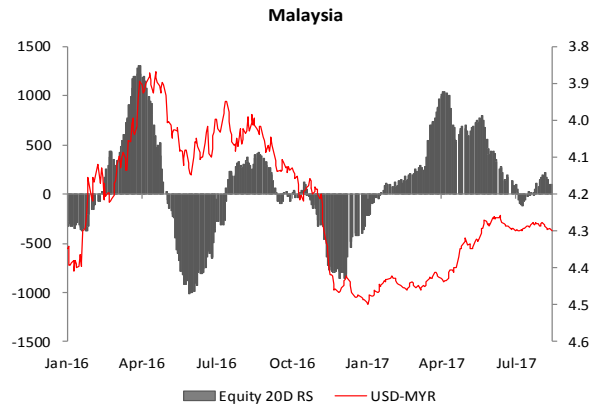


- USD-CAD** The CAD was also caught in the downdraft of market risk aversion on Thursday and ahead of the Canadian CPI numbers today, look towards risk appetite headlines for intra-day cues. Short term implied valuations meanwhile are ticking northwards, and the resistance at 1.2700 ahead of 1.2740 may remain under threat.

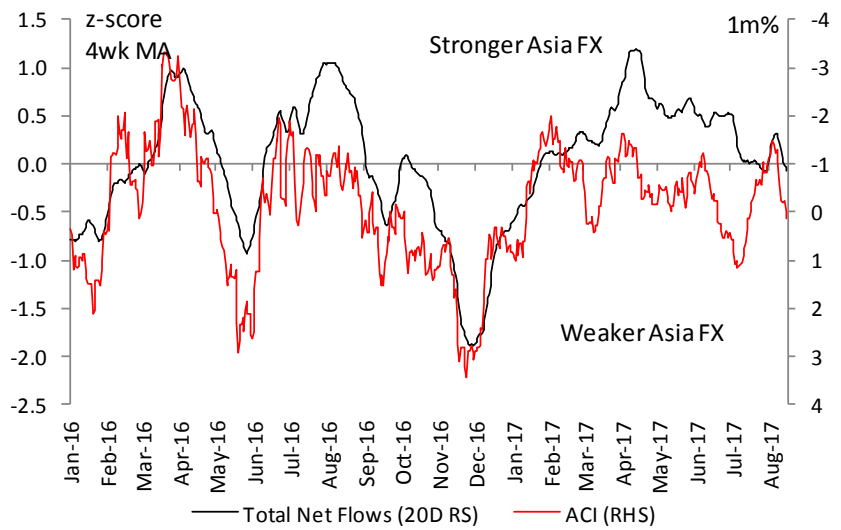
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

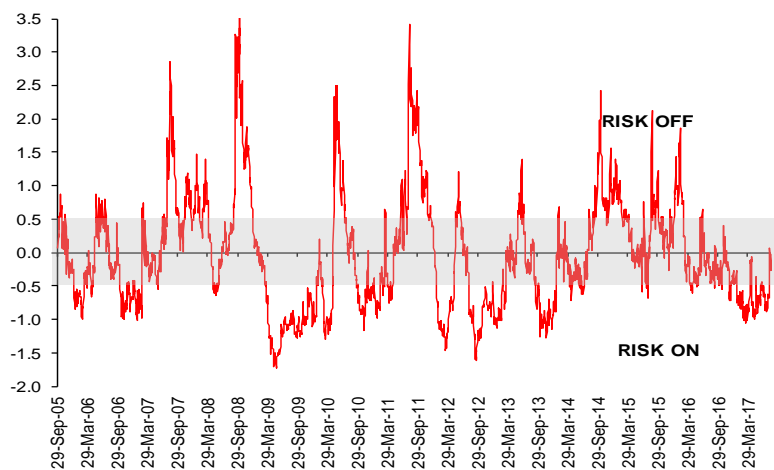




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.222	0.413	0.127	-0.144	-0.503	0.619	-0.64	-0.251	-0.083	0.375	-0.963
THB	0.745	0.384	0.721	0.323	-0.22	-0.294	0.815	-0.513	-0.494	-0.289	0.705	-0.785
SGD	0.697	-0.368	-0.202	-0.304	-0.213	-0.615	0.035	-0.648	0.273	0.37	-0.232	-0.576
JPY	0.619	0.774	0.888	0.674	0.164	-0.053	1	-0.187	-0.804	-0.646	0.904	-0.656
TWD	0.611	-0.068	0.346	-0.143	-0.6	-0.654	0.415	-0.786	-0.036	0.24	0.269	-0.655
INR	0.507	0.202	0.38	-0.138	-0.542	-0.562	0.419	-0.618	-0.105	0.214	0.315	-0.607
CNY	0.413	0.678	1	0.686	0.208	0.085	0.888	-0.182	-0.867	-0.775	0.981	-0.505
CNH	0.375	0.722	0.981	0.717	0.232	0.149	0.904	-0.059	-0.882	-0.795	1	-0.475
PHP	0.364	-0.423	-0.395	-0.58	-0.587	-0.786	-0.185	-0.668	0.532	0.726	-0.471	-0.314
USGG10	0.222	1	0.678	0.722	0.324	0.34	0.774	0.307	-0.744	-0.671	0.722	-0.269
CAD	0.043	-0.612	-0.769	-0.469	-0.131	-0.247	-0.543	-0.118	0.636	0.59	-0.728	0.139
MYR	0.033	-0.611	-0.671	-0.587	-0.427	-0.509	-0.459	-0.348	0.675	0.779	-0.72	0.072
CCN12M	0.01	-0.701	-0.46	-0.423	-0.239	-0.652	-0.469	-0.52	0.429	0.502	-0.547	0.128
AUD	-0.138	0.557	0.679	0.49	0.342	0.517	0.484	0.362	-0.583	-0.704	0.662	-0.005
IDR	-0.144	-0.399	-0.589	-0.461	-0.521	-0.417	-0.42	-0.165	0.562	0.695	-0.664	0.256
NZD	-0.174	0.629	0.756	0.568	0.299	0.489	0.505	0.336	-0.689	-0.733	0.747	0.012
KRW	-0.253	-0.841	-0.886	-0.657	-0.353	-0.229	-0.808	-0.101	0.813	0.786	-0.909	0.366
GBP	-0.519	0.48	0.392	0.47	0.344	0.764	0.224	0.659	-0.463	-0.565	0.482	0.374
CHF	-0.547	-0.092	-0.522	0.009	0.306	0.447	-0.461	0.621	0.233	-0.011	-0.451	0.655
EUR	-0.963	-0.269	-0.505	-0.112	0.176	0.46	-0.656	0.639	0.287	0.12	-0.475	1

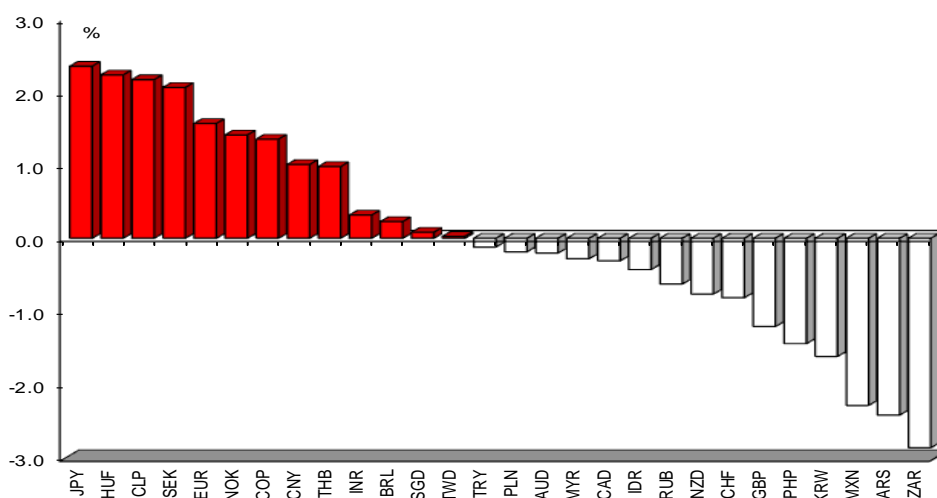
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1639	1.1700	1.1733	1.1800	1.1881
GBP-USD	1.2812	1.2814	1.2881	1.2900	1.2931
AUD-USD	0.7800	0.7825	0.7897	0.7900	0.8018
NZD-USD	0.7201	0.7202	0.7291	0.7300	0.7320
USD-CAD	1.2414	1.2600	1.2668	1.2700	1.2799
USD-JPY	108.95	109.00	109.48	110.00	111.39
USD-SGD	1.3543	1.3600	1.3655	1.3673	1.3700
EUR-SGD	1.5849	1.6000	1.6022	1.6100	1.6151
JPY-SGD	1.2400	1.2456	1.2472	1.2500	1.2516
GBP-SGD	1.7510	1.7545	1.7589	1.7600	1.7711
AUD-SGD	1.0685	1.0700	1.0783	1.0800	1.0868
Gold	1245.34	1252.56	1286.80	1291.10	1293.49
Silver	16.50	16.70	17.00	17.16	17.24
Crude	46.60	47.00	47.07	47.10	50.43

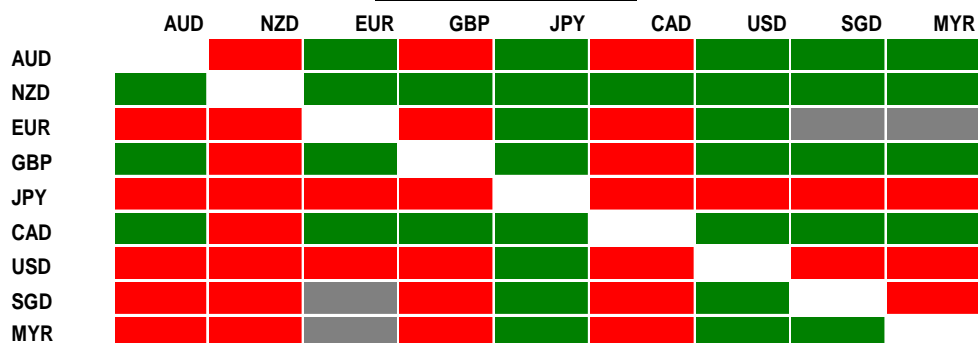
Source: OCBC Bank

FX performance: 1-month change agst USD



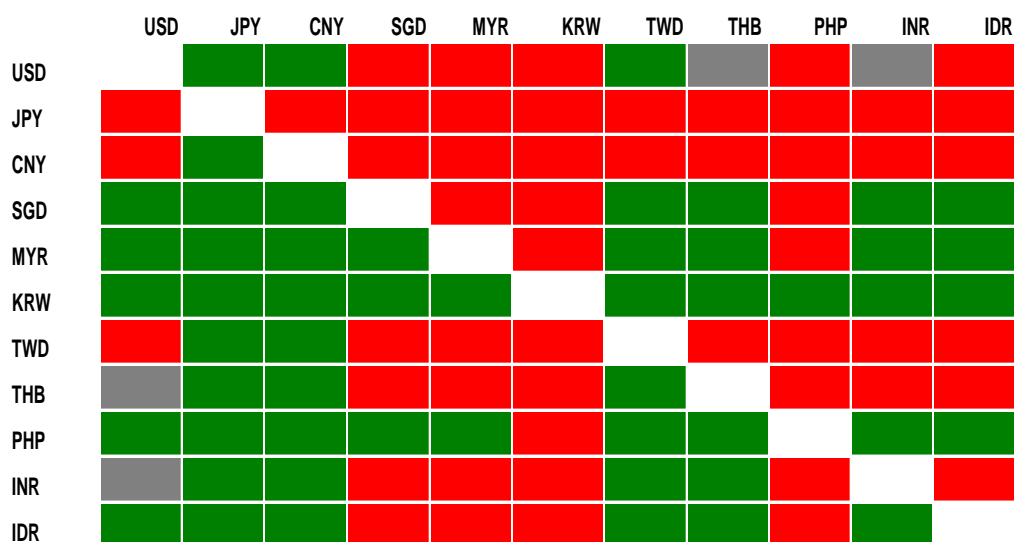
Source: Bloomberg

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	01-Aug-17	S	USD-JPY	110.18 107.75 111.45	No surprises expected from Fed-speak after the last FOMC			
2	16-Aug-17	S	GBP-USD	1.2888 1.2605 1.3035	Doused hawkish BOE expectations, space for a USD capitulation			
STRUCTURAL								
3	09-May-17	B	GBP-USD	1.2927 1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish			
4	12-Jul-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%		ECB transitioning to neutral, Fed wavering			
5	12-Jul-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%		Hawkish BOC being increasingly priced in			
6	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			
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	17-Jul-17	20-Jul-17	B	GBP-USD	1.3077	1.2935	BOE rhetoric and vulnerable USD	-1.11
2	28-Jun-17	21-Jul-17	B	USD-JPY	112.31	111.05	Yield differential argument supportive of the USD-JPY	-1.04
3	13-Jul-17	03-Aug-17	B	AUD-USD	0.7708	0.7935	Vulnerable USD, improving risk appetite, supportive China data	+2.89
4	05-Jun-17	03-Aug-17		2M USD-SGD Put Spot ref: 1.3796; Strikes 1.3639; Exp: 03/08/17; Cost: 0.24%		Increasingly endemic USD weakness, +ve risk appetite	+0.01	
5	01-Aug-17	04-Aug-17	B	GBP-USD	1.3207	1.3060	Expected trace of hawkishness at BOE MPC	-1.14
6	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
7	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
8	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
							Jan-Aug*** 2017 Return	+7.78
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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