

Tuesday, September 19, 2017

FX Themes/Strategy/Trading Ideas

- Firmer UST yields (10y at 2.229%) and profit taking ahead of the mid-week FOMC saw the USD ending flat to higher against its G10 peers on Monday. The USD-CAD consolidated higher after the BOC's Lane noted that the central bank will watch the CAD closely. Similarly, profit taking set in for the GBP-USD after the BOE's Carney on Monday preached gradualism for rate hikes despite still making a case for a potential hike in the coming months.
- Going ahead, investors may continue to square up pre-emptively on the risks that the FOMC outcome may be more hawkish than expected (especially if the temporary nature of inflation softness earlier in the year is downplayed) or simply from any announcement effect from a potential taper announcement. Note another possible tail risk from any Fed mention of still soft financial conditions despite the tightening bias. In this scenario, December rate hike prospects would be expected to solidify significantly, boosting the greenback.
- One exception plausibly may be the EUR (and the core European complex), where official forward guidance may still potentially surprise on the upside this week and with the shape and guise of the ECB's intended tapering still up in the air. **Overall, before once again re-engaging in relative central bank dynamics, expect markets to also revert to trading off rate differentials ahead of the plethora of headline risks into the latter half of the week.**
- For today, RBA meeting minutes are due at 0130 GMT and the BOE's Kohn is scheduled for 1145 GMT. Notable data points meanwhile include the German September ZEW (0900 GMT) and US August housing starts (1230 GMT).

Asian FX

- On the Asian net portfolio inflow front, the KRW is still witnessing outflow pressures, while net outflow pressures may be attempting to abate for the TWD and INR. Net inflows for the **IDR** and **THB** have continued to strengthen in recent sessions. Note also token net inflows for the PHP persisting into the end of last week. Overall, despite the uncertainty gripping G10 space, investor appetite (on a highly selective basis) for yield may persist. Overnight, the **FXSI (FX Sentiment Index)** ticked higher but remained in Risk-Neutral territory. With investor sentiment still largely sanguine at this juncture, the **ACI (Asian Currency Index)** may be partially responsive to near term broad USD resilience, although we expected net

Treasury Research &
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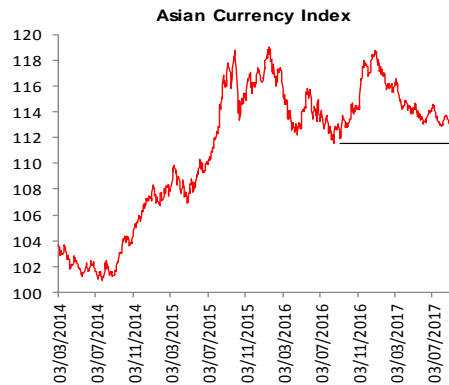
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portfolio inflow pressures to mitigate this effect.

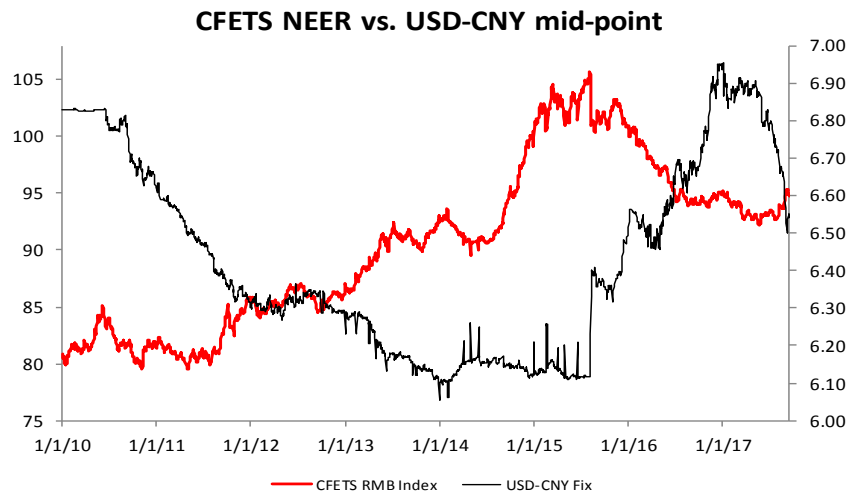
- SGD NEER:** The SGD NEER is a touch softer on the day at around +0.85% above its perceived parity (1.3583). NEER-implied USD-SGD thresholds are firmer on the day with the +0.90% threshold (1.3462) may offer initial support for the USD-SGD on dips pending further moves in the constituent currencies. Technically, the 200-week MA continues to be in close proximity 1.3486.



	SGD NEER	% deviation	USD-SGD
Current	125.35	0.88	1.3469
+2.00%	126.74		1.3316
Parity	124.26		1.3583
-2.00%	121.77		1.3860

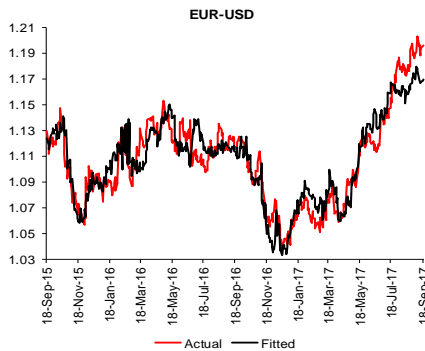
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY midpoint rose (as largely expected) to 6.5530 from 6.5419 on Monday. This lowered the **CFETS RMB Index** to 94.76 from 94.87 yesterday. Near term view on the mid-points and Index remain unchanged and we expect stability to prevail as we head into October.



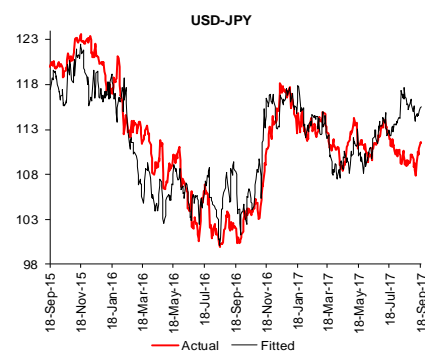
Source: OCBC Bank, Bloomberg

G7



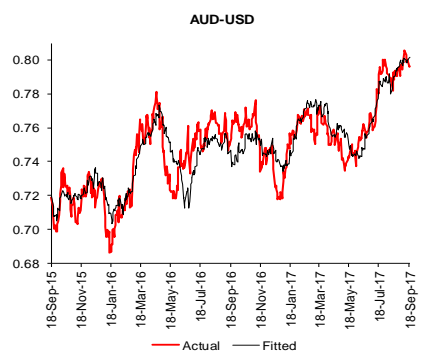
Source: OCBC Bank

- EUR-USD** Static from the upcoming German elections have not disrupted the EUR-USD as yet while we continue to note that short term implied valuations have been ticking higher incrementally. As such, we'd continue to expect the pair to bounce on dips within 1.1900-1.2040.



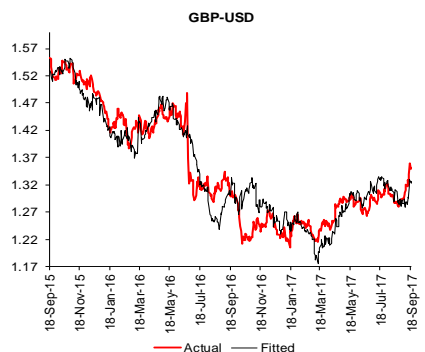
Source: OCBC Bank

- USD-JPY** Rate differential dynamics may continue to pave the way higher for the USD-JPY in the near term ahead of the FOMC. While snap election news flow may continue to circulate (potentially positive for the administration from a structural perspective), the pair may bounce on any dips towards the 55-day MA (110.70) with 112.00 likely to attract instead.



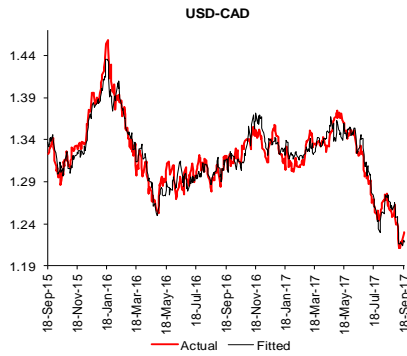
Source: OCBC Bank

- AUD-USD** The RBA minutes did not reveal any undue discomfort (beyond what the central bank had previously communicated) towards the AUD's valuation while keeping a fairly sanguine (if positive) prognosis. We reiterate that short term implied valuations for the AUD-USD remain underpinned and markets may continue to bide their time going into the FOMC before attempting to lift the pair. In the short term, expect a cushion on approach towards 0.7900/30 with resistance expected around 0.8030.



Source: OCBC Bank

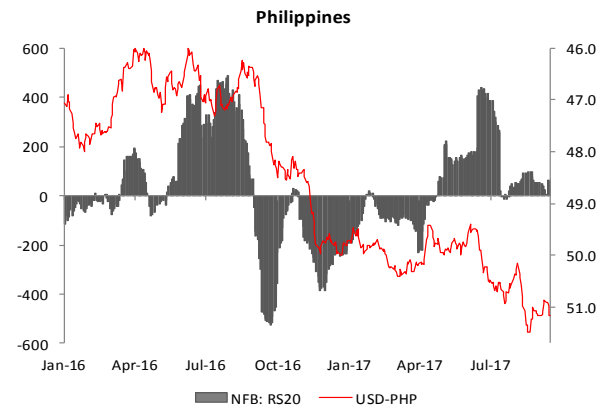
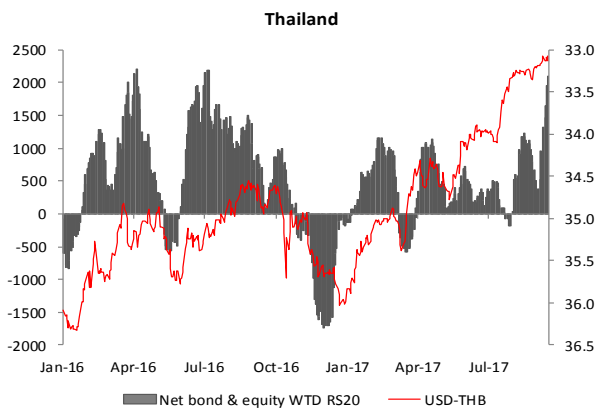
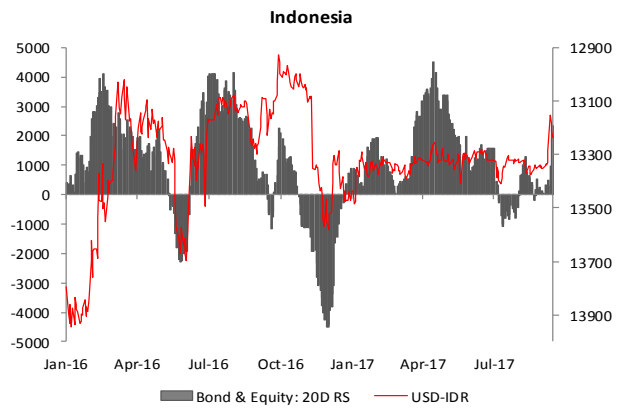
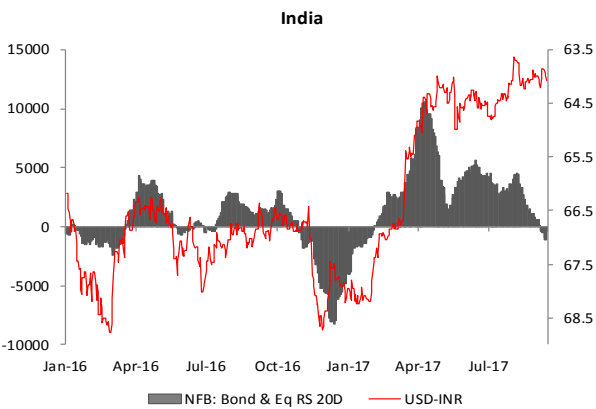
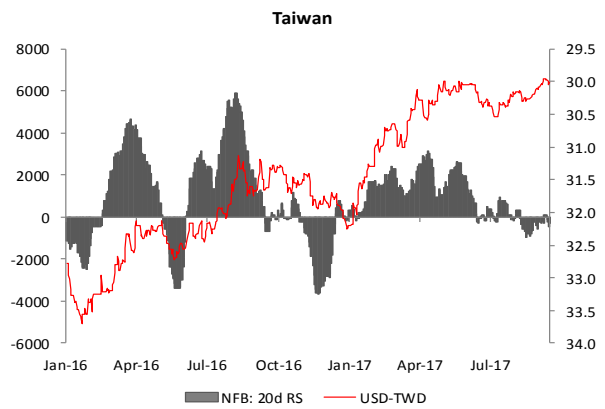
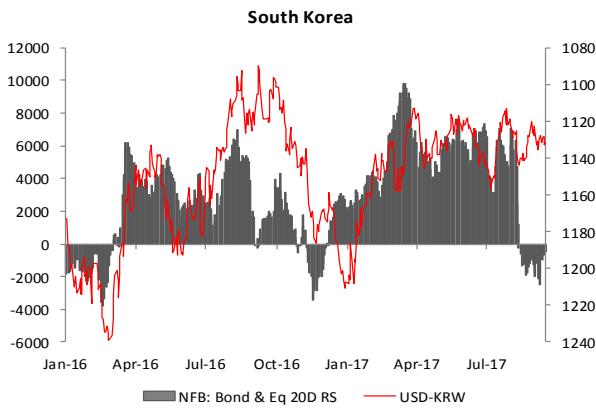
- GBP-USD** Carney's attempt yesterday at moderating excessive market bullishness may yield significant lasting impacts and dips in cable may prove shallow if markets continue to re-price the BOE's intentions. While 1.3600 up top may prompt some hesitation at this juncture, the 1.3400 neighborhood may also incite bottom fishing.

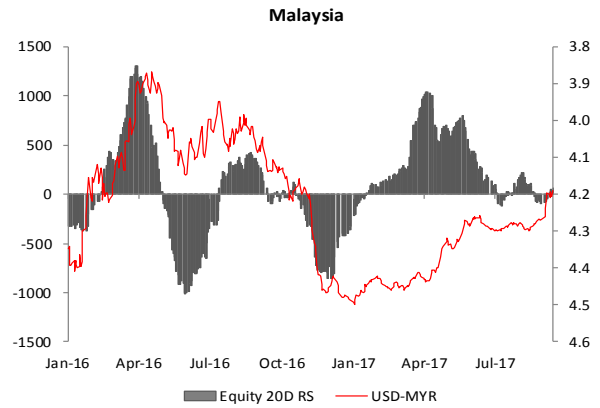


- USD-CAD** Despite comments from the BOC's Lane overnight, short term implied valuations remain top heavy even as markets take a precautionary stance towards potential USD resilience from this week's FOMC. Expect any extension towards 1.2400 to be capped with an interim floor expected towards 1.2230.

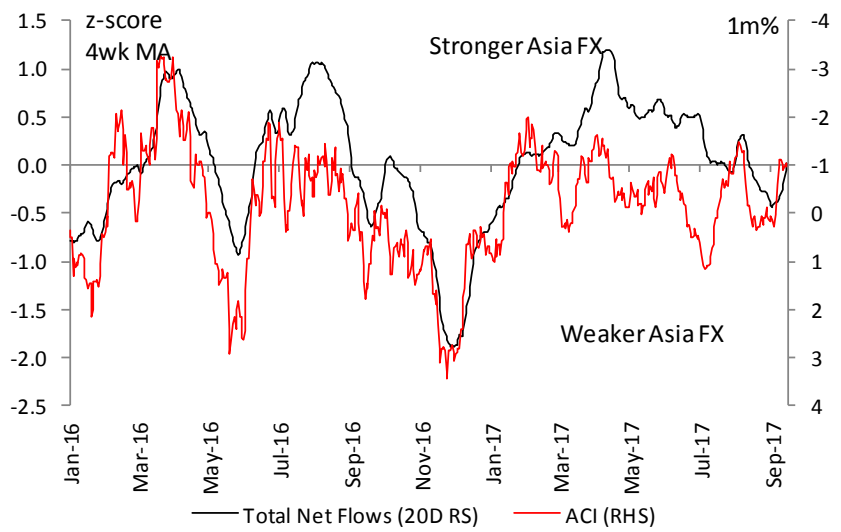
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

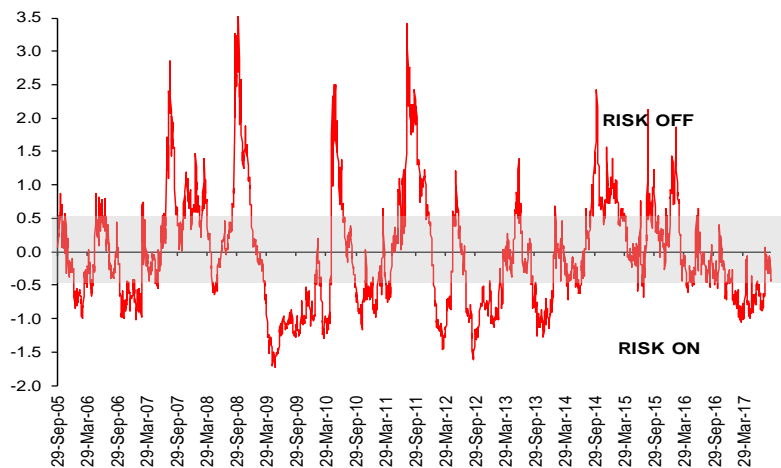




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.41	0.818	-0.528	-0.405	-0.695	0.014	-0.398	0.287	0.692	0.816	-0.942
SGD	0.95	0.34	0.829	-0.633	-0.485	-0.797	-0.041	-0.569	0.371	0.776	0.833	-0.855
TWD	0.854	0.425	0.95	-0.718	-0.517	-0.808	-0.05	-0.422	0.469	0.825	0.955	-0.745
CNY	0.818	0.563	1	-0.623	-0.331	-0.807	0.076	-0.406	0.364	0.736	0.994	-0.723
CNH	0.816	0.503	0.994	-0.649	-0.374	-0.828	0.04	-0.432	0.388	0.765	1	-0.718
THB	0.811	0.163	0.852	-0.785	-0.565	-0.804	-0.307	-0.518	0.551	0.849	0.845	-0.705
CAD	0.805	0.22	0.828	-0.739	-0.535	-0.868	-0.067	-0.679	0.422	0.852	0.839	-0.624
MYR	0.794	-0.012	0.798	-0.897	-0.761	-0.878	-0.403	-0.691	0.692	0.952	0.8	-0.634
CHF	0.735	0.775	0.598	0.07	0.173	0.575	0.062	-0.217	0.157	0.581	1	-0.807
IDR	0.667	-0.028	0.595	-0.788	-0.68	-0.631	-0.222	-0.44	0.554	0.792	0.611	-0.477
CCN12M	0.64	0.181	0.705	-0.672	-0.491	-0.533	-0.033	-0.244	0.413	0.68	0.706	-0.499
PHP	0.544	0.461	0.518	-0.102	-0.091	-0.271	0.413	0.013	-0.126	0.296	0.506	-0.536
USGG10	0.41	1	0.563	0.206	0.389	-0.168	0.742	0.243	-0.349	-0.045	0.503	-0.471
INR	0.358	0.41	0.287	0.026	0.038	0.068	0.316	0.489	0.079	0.032	0.265	-0.467
KRW	0.169	0.063	0.059	-0.054	-0.256	0.082	-0.194	0.401	0.369	0.076	0.063	-0.353
JPY	0.014	0.742	0.076	0.638	0.743	0.284	1	0.393	-0.757	-0.48	0.04	-0.054
NZD	-0.231	0.238	0.19	-0.014	0.051	-0.094	0.016	0.189	0.238	0.003	0.176	0.138
GBP	-0.71	0.233	-0.569	0.861	0.8	0.82	0.565	0.758	-0.6	-0.894	-0.566	0.54
AUD	-0.883	-0.504	-0.864	0.529	0.288	0.745	-0.21	0.416	-0.233	-0.686	-0.867	0.751
EUR	-0.942	-0.471	-0.723	0.358	0.293	0.515	-0.054	0.19	-0.256	-0.533	-0.718	1

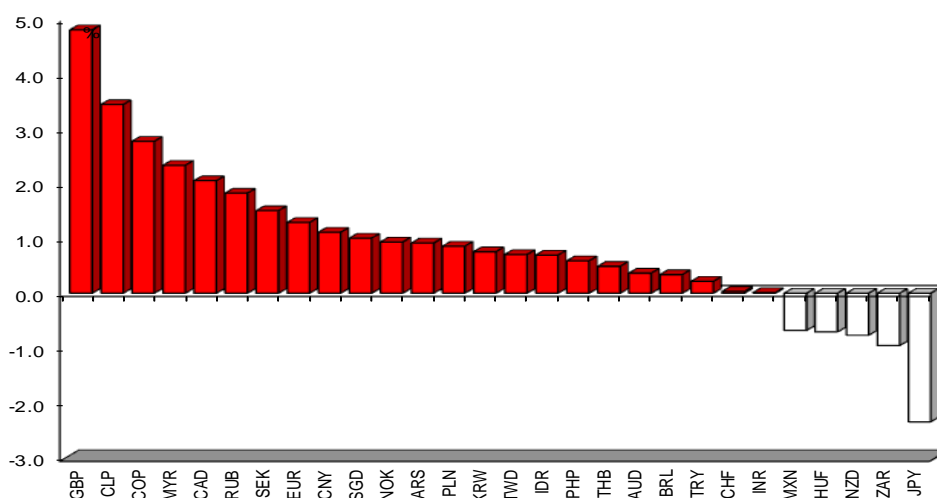
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1804	1.1900	1.1964	1.2000	1.2042
GBP-USD	1.3046	1.3500	1.3514	1.3577	1.3600
AUD-USD	0.7900	0.7929	0.7965	0.8000	0.8059
NZD-USD	0.7154	0.7200	0.7268	0.7300	0.7303
USD-CAD	1.2062	1.2300	1.2305	1.2400	1.2500
USD-JPY	110.37	111.00	111.57	111.60	111.66
USD-SGD	1.3388	1.3400	1.3472	1.3500	1.3579
EUR-SGD	1.6006	1.6100	1.6118	1.6200	1.6207
JPY-SGD	1.2000	1.2068	1.2075	1.2080	1.2100
GBP-SGD	1.7716	1.8200	1.8206	1.8234	1.8300
AUD-SGD	1.0700	1.0707	1.0731	1.0765	1.0800
Gold	1283.99	1300.00	1306.40	1353.70	1358.50
Silver	16.89	17.00	17.07	17.10	17.16
Crude	48.13	49.90	49.97	50.00	50.50

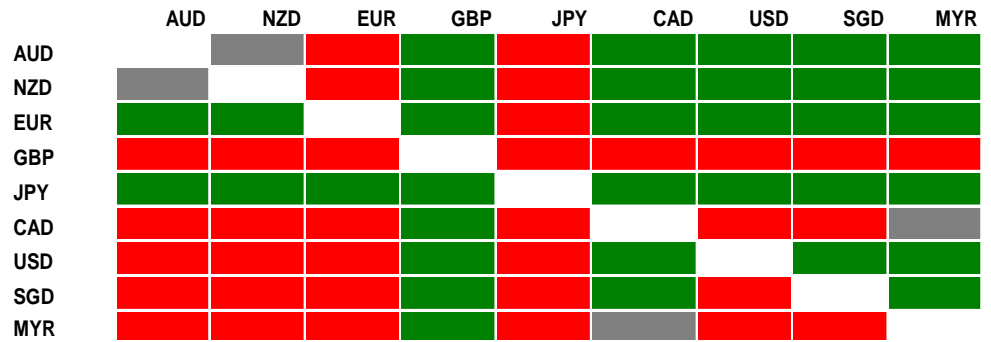
Source: OCBC Bank

FX performance: 1-month change agst USD



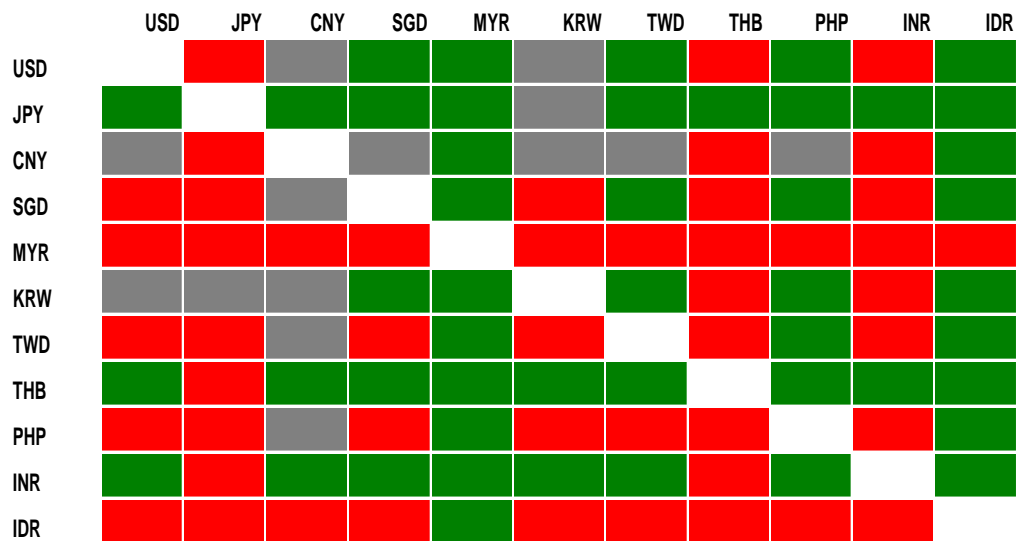
Source: Bloomberg

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	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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