

Wednesday, September 20, 2017

FX Themes/Strategy/Trading Ideas

- Despite the UST curve inching marginally higher (led by the back-end), the USD fell mostly across G10 space. Underpinned by a better than expected German September ZEW, the EUR-USD however met some upside resistance on a w report that the EUR's strength is causing some dissension within the ECB Governing Council as well as internal uncertainty on whether to set a definitive date for the cessation of the asset purchase program. Elsewhere, the antipodeans (note still upbeat RBA minutes) outperformed (and the JPY underperformed) across the board as risk appetite levels improved (note positive EZ/US equities).
- Going ahead, investors on both sides of the fence have squared up against each other ahead of the FOMC tonight. **Continue to stay uncommitted tactically on EUR-USD and AUD-USD in the interim although we retain a preference to remain constructive on the upside.**
- **Elsewhere, look to accumulate on dips for USD-JPY.** With a snap election announcement expected on 25 September 17 and FOMC headlines notwithstanding, the JPY may continue to underperform on expectations that Abenomics would continue to be prolonged. Expect buoyancy for the USD-JPY to heighten if risk appetite continues to improve and/or December Fed rate hike prospects remain in play after tonight's FOMC.
- On the calendar, expect the central focus to be on the FOMC (1800 GMT), but ahead of that, the RBA's Ellis is expected to be on the wires from 0305 GMT while UK August retail sales are due at 0830 GMT.
- Despite Carney's attempt at modulating market enthusiasm, we think the earlier than anticipated paradigm change for the BOE last week may continue to portend further upside for the GBP-USD in the near term. From a **GBP-USD** spot ref of 1.3540 on Tuesday, we target 1.3825 and place a stop at 1.3395.

Asian FX

- On the Asian net portfolio inflow front, renewed interest towards Asia has manifested visibly in recent session. The situation has turned into a net inflow situation (on a 1-mnth rolling basis) for the KRW, outflow momentum for the TWD continues to moderate, net inflows for the INR are rebounding significantly, while hitherto strong inflow momentum for the IDR and THB is moderating slightly. Elsewhere, inflow momentum for the PHP is softening slightly.

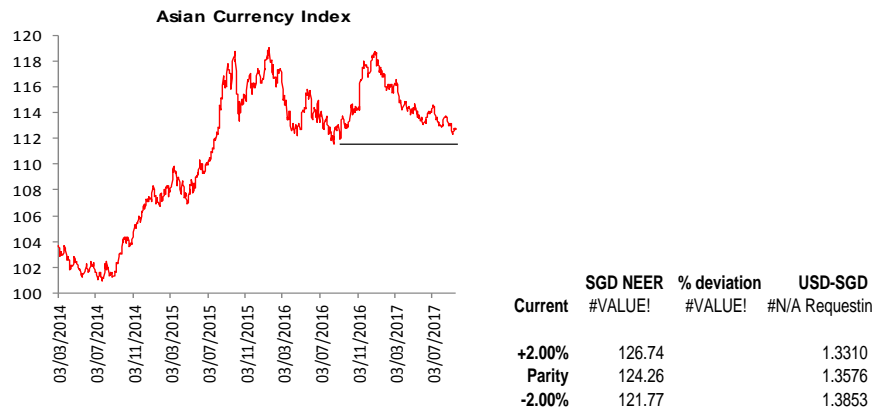
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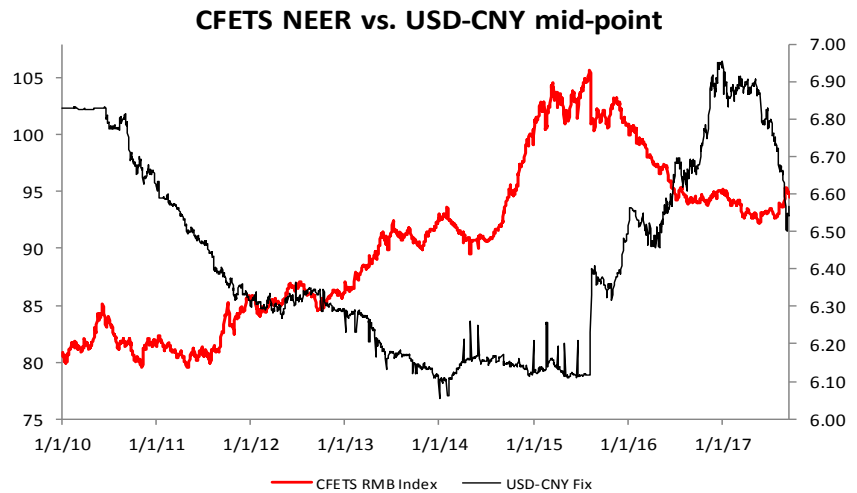
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- Overall, with the **FXSI (FX Sentiment Index)** dipping lower within Risk-neutral territory overnight (i.e., improving risk appetite), the **ACI (Asian Currency Index)** may attempt to edge lower. Note that on a medium term horizon, our structural model for the ACI continues to point south (i.e., Asian currency strength against the USD).
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.80% above its perceived parity (1.3576). NEER-implied USD-SGD thresholds are softer on the day while the NEER may continue to hover in the vicinity of +0.80%, with upside resistance still expected towards +0.90% (1.3455). Note that overhead, the 200-week MA (1.3486) remains unchallenged on a sustained basis.



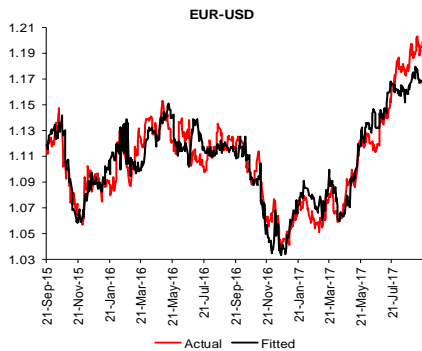
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point rose (as largely expected) to 6.5670 from 6.5530 on Tuesday. This resulted in the **CFETS RMB Index** falling to 94.54 from 94.76 yesterday.



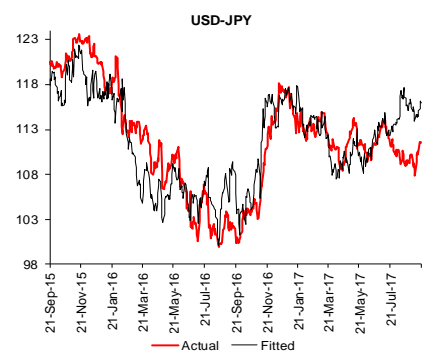
Source: OCBC Bank, Bloomberg

G7



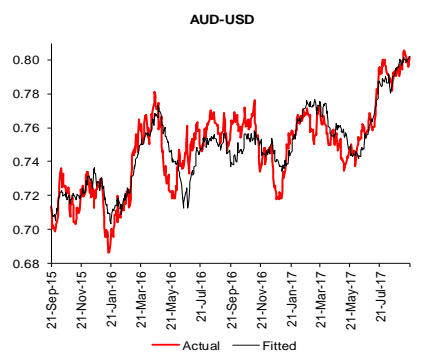
Source: OCBC Bank

- EUR-USD** The interplay between Fed and ECB dynamics may see further clarity after tonight's FOMC, with near term implied valuations for the EUR-USD looking somewhat static (and off highs witnessed two weeks ago). In the interim, expect an anchor around 1.2000.



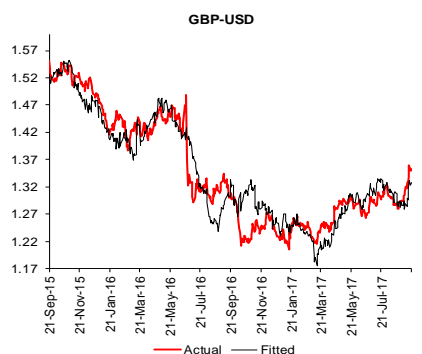
Source: OCBC Bank

- USD-JPY** As noted above, we'd retain a bias to collect on dips for the USD-JPY, with short term implied valuations still looking underpinned. In the interim, the 111.60 level may remain a hurdle of sorts for any possible extension towards the 200-day MA (112.22), while 111.20 should cushion on initial dips.



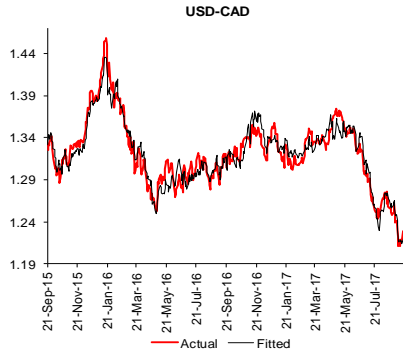
Source: OCBC Bank

- AUD-USD** Sufficiently upbeat RBA minutes coupled with investors going long risk may continue to put a solid near term floor at 0.7950. We also reiterate that short term implied valuations continue to creep higher in the background, indicating perhaps the continued buildup of positive investor risk appetite. Pending FOMC-related risks, 0.8030 may cap.



Source: OCBC Bank

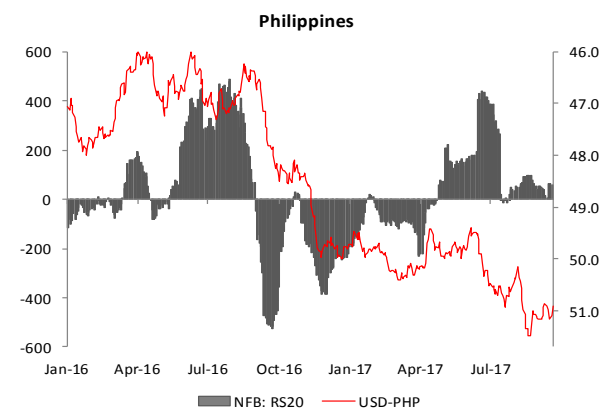
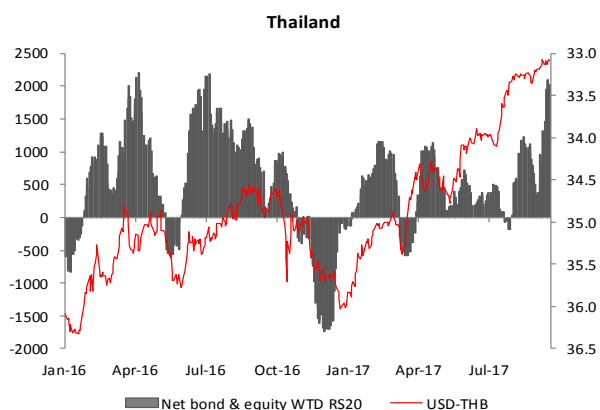
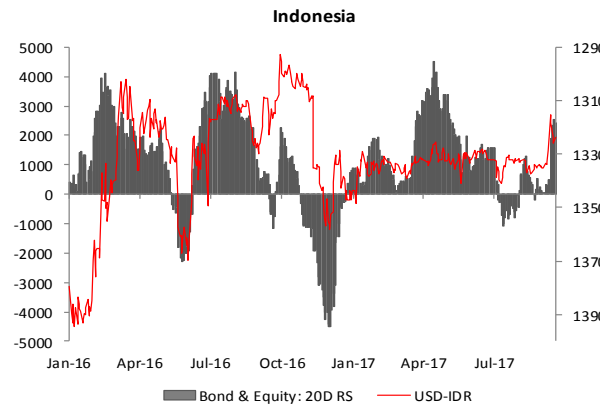
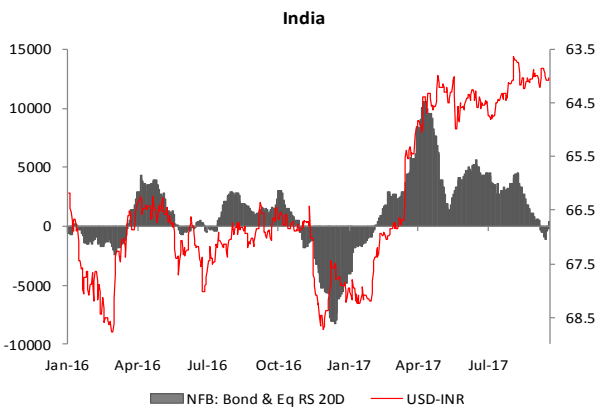
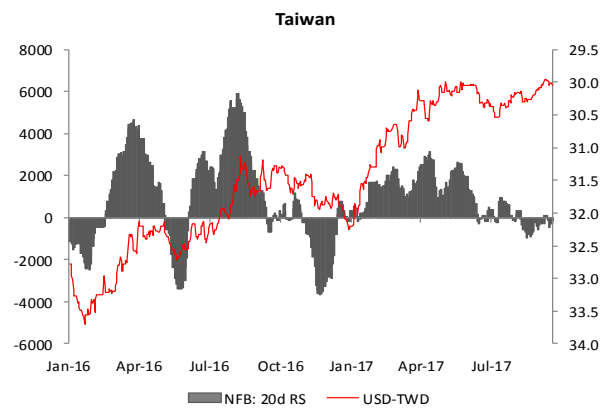
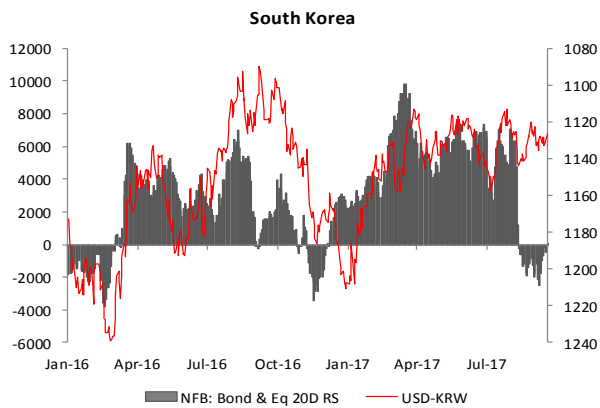
- GBP-USD** Despite rumors of a potential resignation by Foreign Secretary Boris Johnson, PM May's Brexit address on Friday is expected to be closely scrutinized. In the interim, the pound may continue to bask in the afterglow of the BOE MPC. Short term implied valuations meanwhile remain supportive and the 1.3600 may continue to remain in danger of a breach.

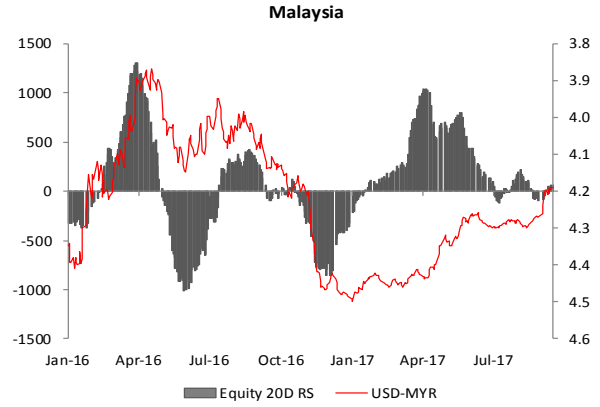


- USD-CAD** USD-CAD may look south of the border for near term inspiration with short term implied valuations now relatively more subdued. Overall, expect the loonie to be trapped in recent ranges in the interim with 1.2340 likely to limit ahead of Yellen and with 1.2220 seen supporting.

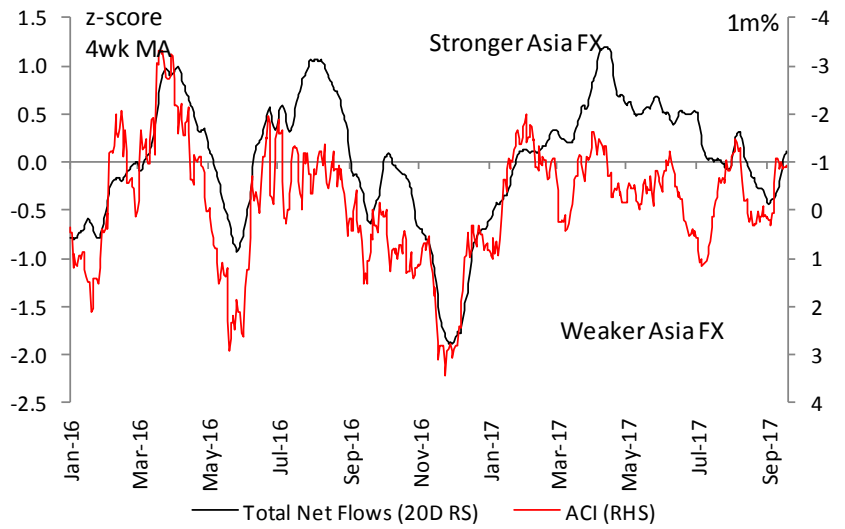
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

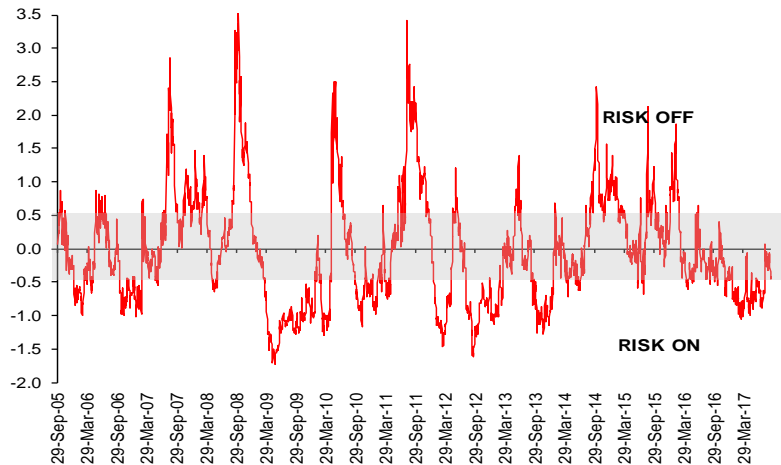




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.26	0.788	-0.564	-0.458	-0.707	-0.097	-0.438	0.333	0.711	0.777	-0.946
SGD	0.95	0.241	0.811	-0.644	-0.507	-0.803	-0.102	-0.582	0.399	0.771	0.813	-0.86
THB	0.824	0.036	0.822	-0.797	-0.597	-0.812	-0.383	-0.552	0.58	0.851	0.802	-0.729
TWD	0.811	0.375	0.949	-0.679	-0.471	-0.798	-0.04	-0.39	0.458	0.763	0.954	-0.7
MYR	0.81	-0.115	0.763	-0.904	-0.778	-0.881	-0.458	-0.705	0.718	0.949	0.764	-0.667
CAD	0.796	0.171	0.822	-0.718	-0.516	-0.866	-0.089	-0.676	0.428	0.813	0.832	-0.62
CNY	0.788	0.533	1	-0.576	-0.285	-0.79	0.079	-0.388	0.346	0.664	0.994	-0.694
CNH	0.777	0.477	0.994	-0.604	-0.328	-0.812	0.057	-0.409	0.371	0.694	1	-0.675
CHF	0.664	0.762	0.596	0.11	0.211	-0.24	0.582	0.098	-0.242	0.09	0.579	-0.72
IDR	0.66	-0.067	0.592	-0.755	-0.636	-0.63	-0.233	-0.436	0.544	0.749	0.607	-0.478
PHP	0.605	0.099	0.469	-0.226	-0.245	-0.311	-0.005	-0.173	0.007	0.403	0.411	-0.612
CCN12M	0.407	0.357	0.67	-0.467	-0.258	-0.429	0.224	-0.047	0.279	0.445	0.634	-0.27
USGG10	0.26	1	0.533	0.311	0.488	-0.085	0.789	0.314	-0.414	-0.186	0.477	-0.295
INR	0.148	0.526	0.257	0.225	0.285	0.157	0.49	0.532	-0.096	-0.207	0.233	-0.226
KRW	0.116	0.127	0.062	-0.011	-0.182	0.101	-0.087	0.452	0.322	0.028	0.064	-0.288
JPY	-0.097	0.789	0.079	0.693	0.794	0.332	1	0.439	-0.773	-0.573	0.057	0.082
NZD	-0.325	0.389	0.185	0.126	0.21	-0.015	0.238	0.31	0.105	-0.148	0.169	0.258
GBP	-0.738	0.345	-0.514	0.879	0.833	0.814	0.626	0.768	-0.638	-0.91	-0.513	0.596
AUD	-0.899	-0.341	-0.845	0.549	0.334	0.753	-0.057	0.48	-0.269	-0.691	-0.836	0.774
EUR	-0.946	-0.295	-0.694	0.411	0.364	0.536	0.082	0.253	-0.305	-0.571	-0.675	1

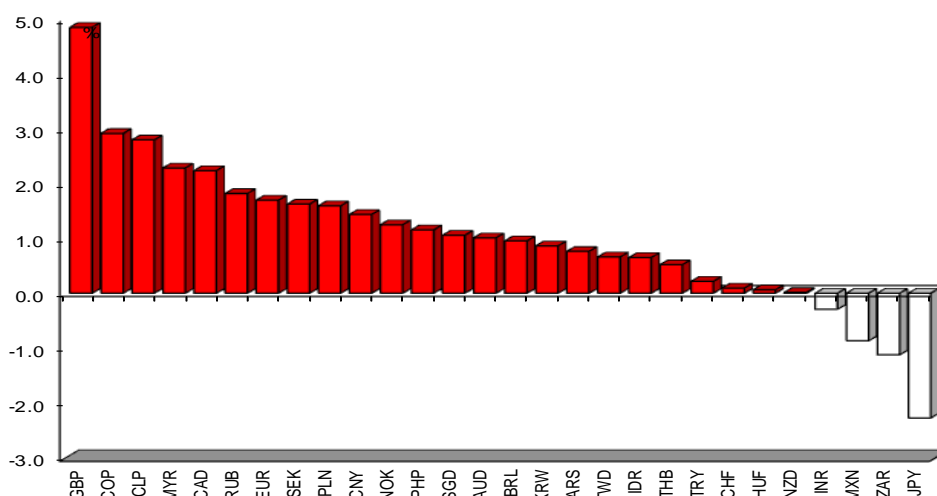
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1820	1.2000	1.2014	1.2050	1.2092
GBP-USD	1.3058	1.3500	1.3523	1.3600	1.3619
AUD-USD	0.7937	0.8000	0.8017	0.8064	0.8100
NZD-USD	0.7300	0.7312	0.7325	0.7327	0.7371
USD-CAD	1.2062	1.2200	1.2283	1.2300	1.2491
USD-JPY	110.34	111.00	111.50	111.84	111.88
USD-SGD	1.3387	1.3400	1.3462	1.3500	1.3572
EUR-SGD	1.6015	1.6100	1.6173	1.6200	1.6216
JPY-SGD	1.2041	1.2049	1.2074	1.2100	1.2302
GBP-SGD	1.7725	1.8200	1.8205	1.8289	1.8300
AUD-SGD	1.0713	1.0770	1.0792	1.0800	1.0823
Gold	1286.20	1300.00	1312.20	1352.21	1358.50
Silver	17.16	17.20	17.29	17.30	18.16
Crude	48.21	49.80	49.85	49.90	50.50

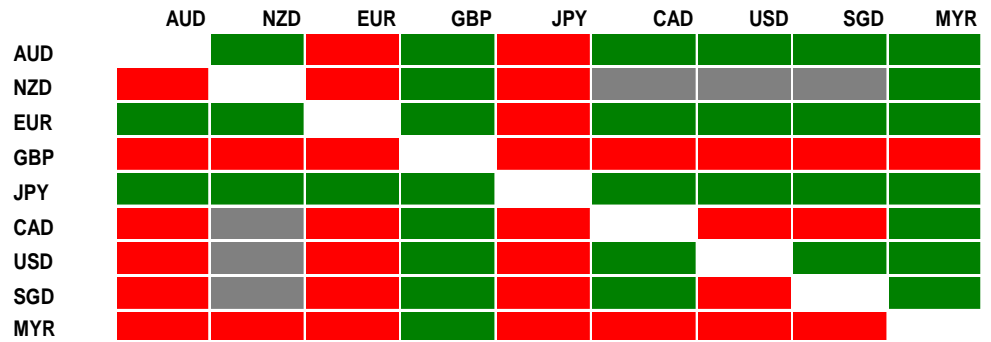
Source: OCBC Bank

FX performance: 1-month change agst USD



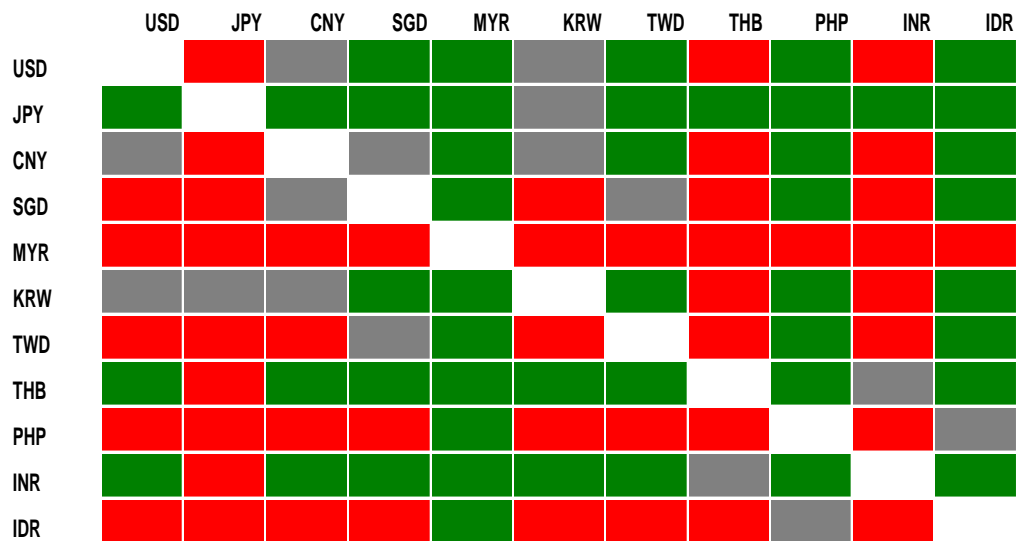
Source: Bloomberg

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	19-Sep-17	B	GBP-USD	1.3540	1.3825	1.3395	Earlier than expected paradigm change by the BOE	
STRUCTURAL								
2	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
3	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		
4	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		
5	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	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
2	16-Aug-17	05-Sep-17	S	GBP-USD	1.2888	1.3035	Doused hawkish BOE expectations, space for a USD capitulation	-1.06
3	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
4	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
5	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
6	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
7	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
8	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
							Jan-Sep*** 2017 Return	-1.56
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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