

Tuesday, November 21, 2017

FX Themes/Strategy/Trading Ideas

- With US yields rebounding slightly (5y bonds underperformed), the DXY bounced into late NY to end firmer across G10 space (except against the GBP) on Monday. Not unexpectedly, the EUR underperformed its peers on the back of German political uncertainty with Merkel expressing a preference for fresh elections (although the President has urged further efforts to form a government).
- Positive EZ/US equities and a stabilization of risk appetite meanwhile also buffered the cyclicals (AUD, NZD, CAD) with the noise from Germany essentially “siloed” at this juncture. Nonetheless, in the wake of US President Trump’s comments on Monday, the prospect of risk aversion stemming from North Korea may once again be on the cards in the coming weeks.
- Curve flattening in the US persisted overnight but at this juncture, market focus remains centered on rate differentials at the longer-end (although rolling correlations have moderated) with shorter-end differentials losing relevance altogether of late. These relationships are historically time varying but at this juncture, back-end rate differentials are translating into slight support for the broad dollar.
- Thematically, G10 carry has continued to underperform for the better part of a week now while carry within Asia has managed to hold up relatively better. Again this may point to a lack of widespread contagion with regards to potential risk aversion spreading to EM/Asia or simply waning interest in the global growth/inflation narrative in recent weeks.
- For today, look to an appearance by Fed chair Yellen (2300 GMT) while the ECB’s Coeure is slated for 1500 GMT. In the UK, the BOE’s Cunliffe, McCafferty, Saunders and Vlieghe appear before the Treasury Committee in Parliament (1000 GMT). In Asia, look to BRA meeting minutes (0030 GMT) while the RBA’s Lowe is due at 0905 GMT.
- If Yellen and the FOMC minutes fail to deliver any hawkish surprises this week, the Thanksgiving-thinned week may leave the **USD-JPY** vulnerable to the downside, especially if tax bill-related headlines remain scant and risk aversion continues to circulate in the background. To this end, we initiate a tactical short USD-JPY (spot ref: 112.07) on Monday targeting 109.80 and with a stop placed at 113.25.

Treasury Research &
Strategy

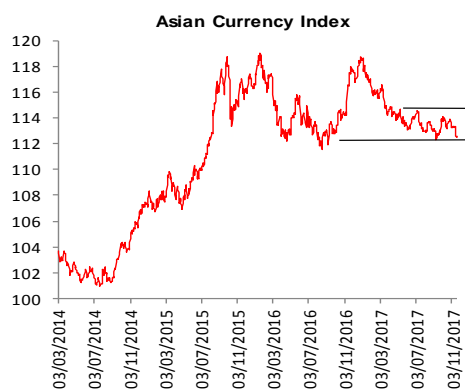
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Asian FX

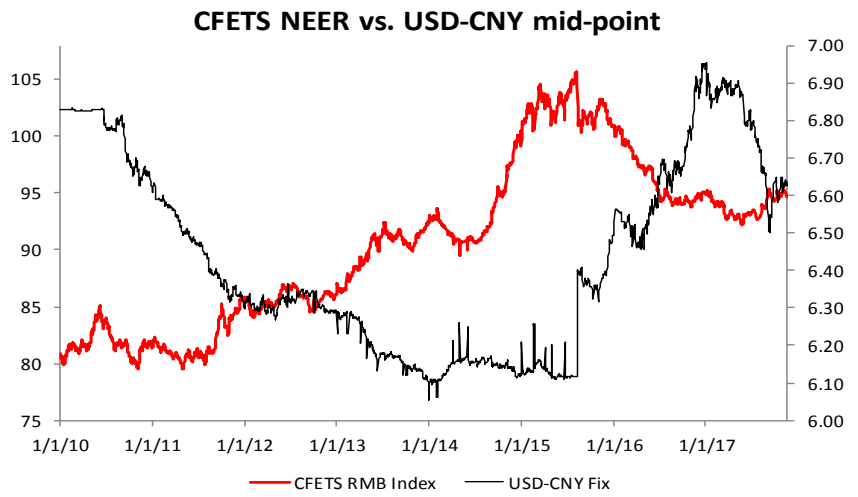
- EM FX trailed the greenback overnight with the **FXSI (FX Sentiment Index)** inching higher within Risk-On territory and on the verge of moving into Risk-Neutral territory. Given the overlay from the broad dollar currently, expect the **ACI (Asian Currency Index)** to bounce on dips intra-day.
- Asian net portfolio inflows meanwhile indicate continue moderation in inflow momentum for the KRW (perhaps indicating that the KRW may have overstayed its welcome in terms of relative outperformance) although net outflow momentum for the TWD continues to abate. Meanwhile, positive net inflow momentum for the INR continues to hold up very well but the IDR is seen hampered by slight outflow pressures. Elsewhere, net outflow momentum for the THB has continued to compress significantly and this continues to bode well of the THB's relative performance.
- **SGD NEER:** The SGD NEER is pretty much unchanged on the day at around +0.83% above its perceived parity (1.3680) with NEER-implied USD-SGD thresholds a tinge higher on the day. At current levels, the +1.00% threshold is estimated at 1.3544 while topside for the USD-SGD may kick in circa +0.75% (1.3578). In the interim, the 55-day MA (1.3563) may provide a near term anchor.



	SGD NEER	% deviation	USD-SGD
Current	125.29	0.83	1.3567
+2.00%	126.74		1.3412
Parity	124.26		1.3680
-2.00%	121.77		1.3959

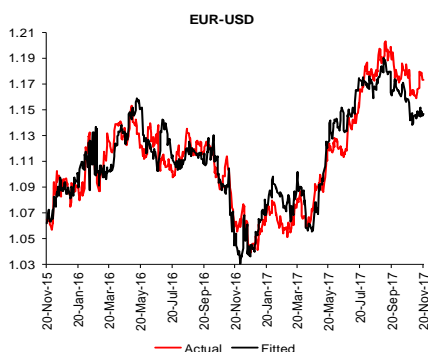
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point gained (largely as expected) to 6.6356 from 6.6271 on Monday, with the CFETS RMB Index largely static at 94.58.



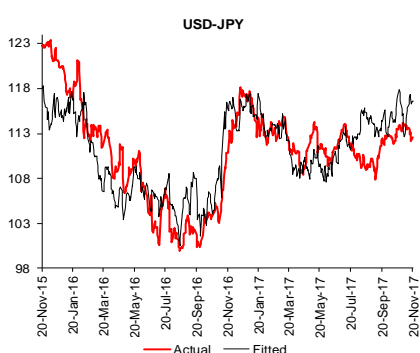
Source: OCBC Bank, Bloomberg

G7



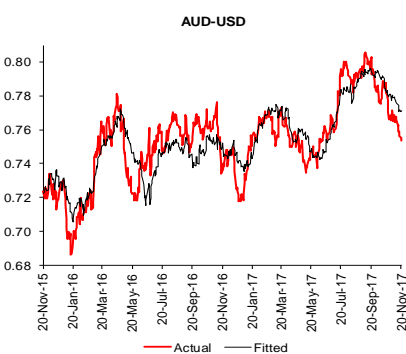
Source: OCBC Bank

- EUR-USD** The ECB's Draghi remained sufficiently accommodative on Monday in his remarks despite the Bundesbank releasing an upbeat assessment of the German economy. Meanwhile, the overhang from German political uncertainty may be expected to persist, with short term implied valuations range bound but slightly top heavy. The near term outlook for the pair has been muddled somewhat and the 55-day MA (1.1786) may continue to limit on the upside with the next key downside junction expected at 1.1700.



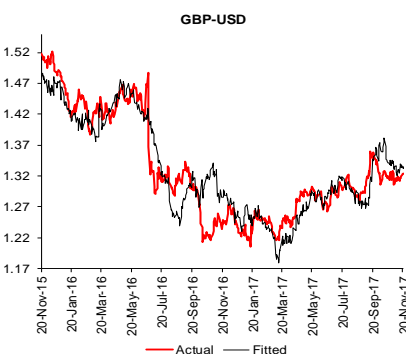
Source: OCBC Bank

- USD-JPY** USD-JPY responded to firmer US yields overnight but a potential flashpoint from North Korea may constrain excessive upside for the pair. Short term implied valuations for the USD-JPY are attempting to stabilize with respect to the downside but we remain cautious of a retest lower down past the 55-day MA (112.43) towards the 200-day MA (111.75) on the back of either risk aversion or a renewed fizzling of the USD narrative.



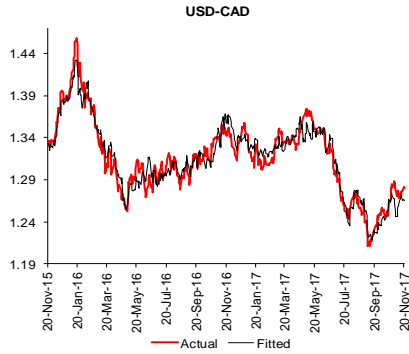
Source: OCBC Bank

- AUD-USD** RBA meeting minutes this morning were deemed as slightly "soft" (especially with respect to wage growth prospects) with the AUD-USD continuing to drop lower. As mentioned above, global carry remains benched at this juncture while short term implied valuations for the AUD-USD remain tilted south. As noted yesterday, 0.7500 remains in plain sight at this juncture.



Source: OCBC Bank

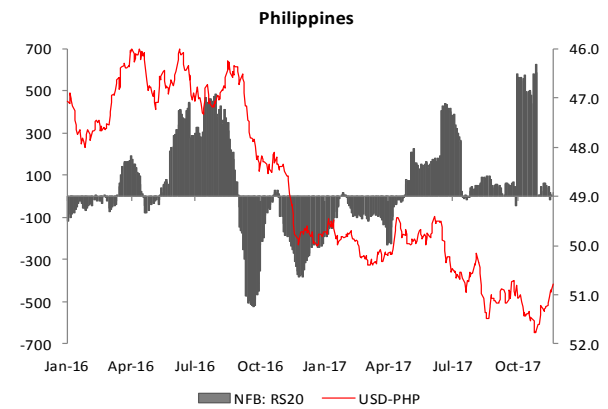
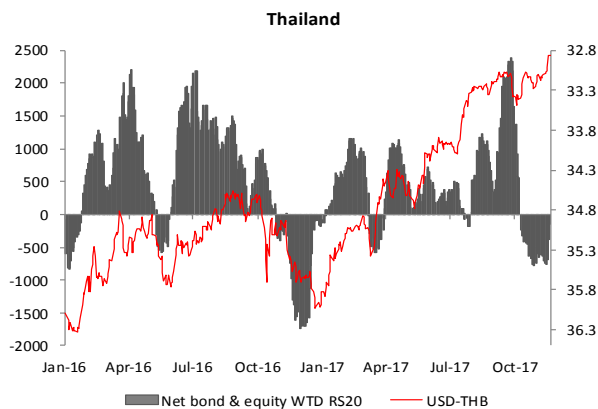
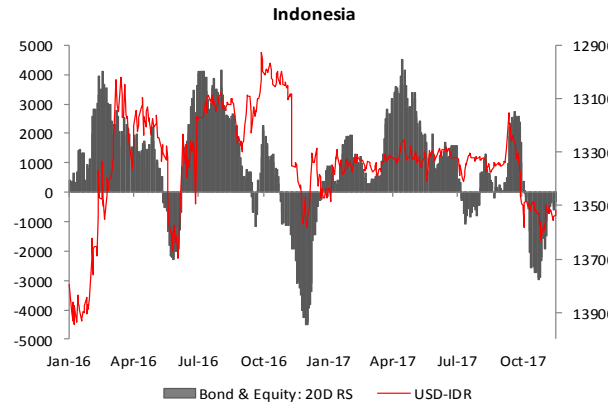
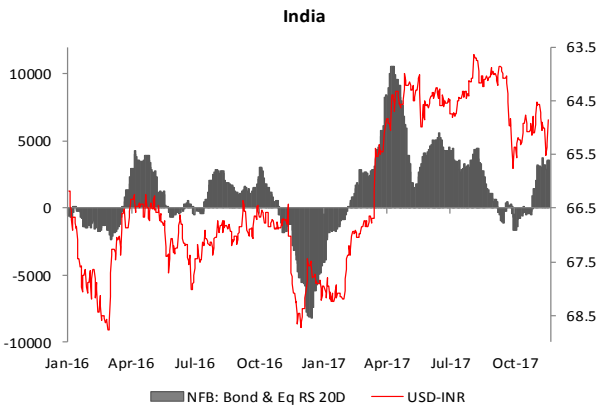
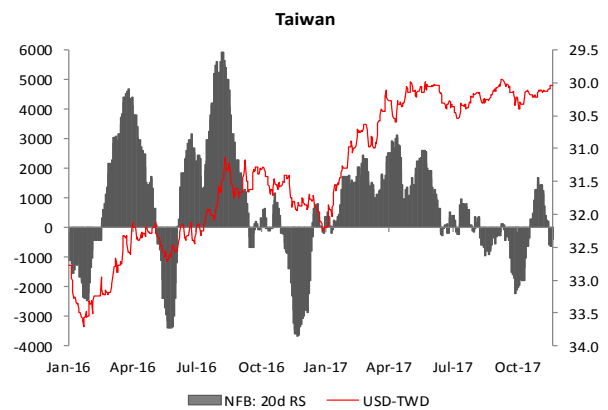
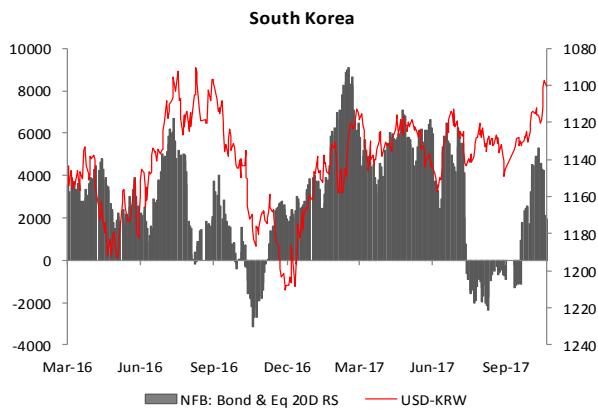
- GBP-USD** With an early December deadline for the British government to submit revised proposals to the EU ahead of the EU Summit in December (14th-15th), market participants are attempting to impute some optimism on this front. In the interim, although short term implied valuations for cable remain somewhat static and range bound, market participants may continue to attempt to shadow the firming 55-day MA (1.3249) ahead of the UK budget announcement tomorrow.

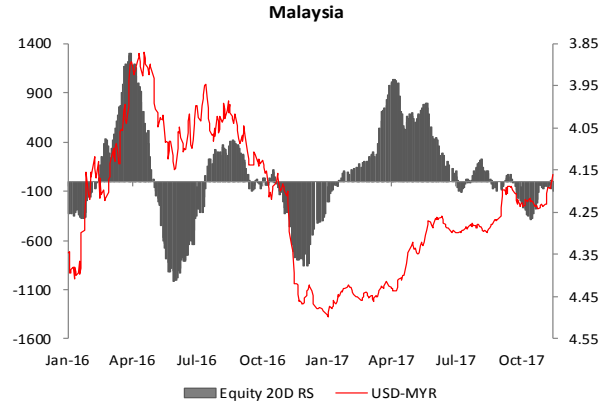


- USD-CAD** Slipping crude prices overnight and a supported broad dollar tone managed to lift the USD-CAD on Monday. Although short term implied valuations for the pair remain slightly top heavy, USD-CAD may attempt to establish a foothold at 1.2800 while bouncing on dips.

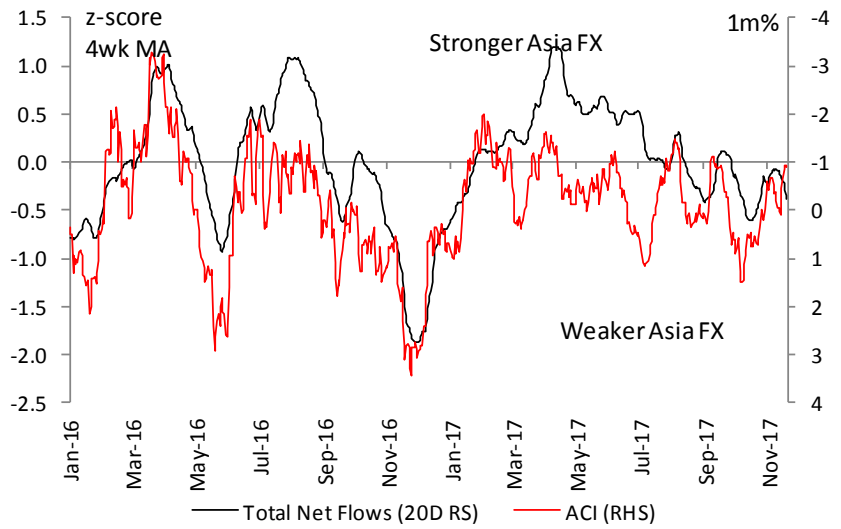
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

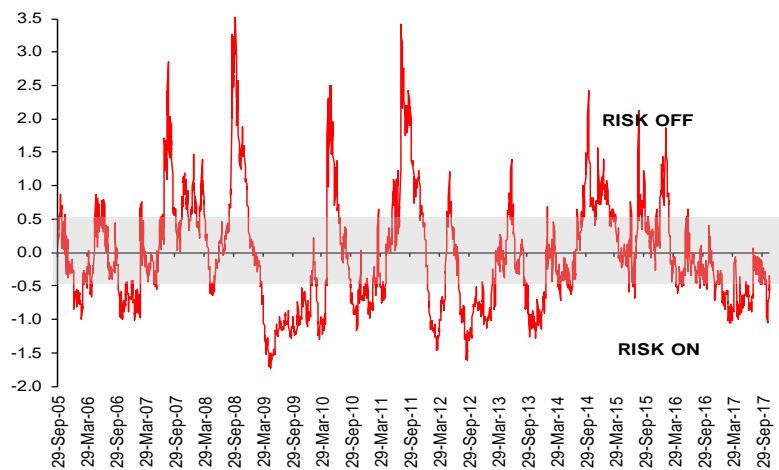




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.175	0.01	0.566	0.24	0.356	0.629	0.258	-0.794	-0.78	-0.132	-0.979
CHF	0.904	-0.073	-0.237	0.58	0.31	0.359	0.652	0.261	-0.701	-0.737	-0.242	-0.868
SGD	0.633	0.397	0.437	-0.032	-0.353	-0.203	0.732	-0.322	-0.524	-0.494	0.24	-0.619
JPY	0.629	0.241	-0.072	0.13	-0.104	-0.087	1	-0.255	-0.58	-0.621	-0.185	-0.578
MYR	0.581	0.227	0.166	-0.105	-0.473	-0.377	0.813	-0.494	-0.699	-0.735	-0.22	-0.553
THB	0.52	0.368	0.391	-0.157	-0.535	-0.358	0.758	-0.467	-0.518	-0.539	-0.02	-0.49
NZD	0.335	-0.188	0.058	0.315	0.26	0.293	0.566	0.075	-0.349	-0.217	-0.039	-0.376
CAD	0.319	0.179	-0.244	-0.191	-0.295	-0.294	0.102	-0.225	-0.174	-0.398	-0.339	-0.226
PHP	0.232	0.585	0.475	-0.494	-0.713	-0.586	0.522	-0.675	-0.295	-0.33	0.159	-0.218
KRW	0.177	0.573	0.481	-0.492	-0.685	-0.56	0.604	-0.643	-0.106	-0.093	0.201	-0.16
AUD	0.142	0.262	0.111	-0.283	-0.473	-0.459	0.609	-0.588	-0.327	-0.331	-0.135	-0.171
CCN12M	0.084	0.218	0.52	0.019	0.141	0.287	0.125	0.19	0.148	0.31	0.67	-0.103
IDR	0.037	0.641	0.098	-0.483	-0.645	-0.61	0.082	-0.593	0.086	-0.001	-0.016	0.044
TWD	0.01	0.583	0.443	-0.439	-0.705	-0.598	0.469	-0.686	-0.134	-0.066	0.224	-0.005
CNY	0.01	0.322	1	-0.091	-0.236	-0.047	-0.072	-0.063	-0.016	0.19	0.812	-0.06
CNH	-0.132	0.434	0.812	-0.092	-0.008	0.118	-0.185	0.105	0.292	0.49	1	0.054
USGG10	-0.175	1	0.322	-0.59	-0.606	-0.594	0.241	-0.652	0.292	0.295	0.434	0.199
GBP	-0.374	0.185	-0.018	-0.401	-0.217	-0.265	-0.335	-0.218	0.27	0.108	-0.026	0.333
INR	-0.528	0.186	0.323	-0.015	0.153	0.122	-0.45	0.17	0.698	0.827	0.545	0.512
EUR	-0.979	0.199	-0.06	-0.593	-0.285	-0.419	-0.578	-0.313	0.796	0.767	0.054	1

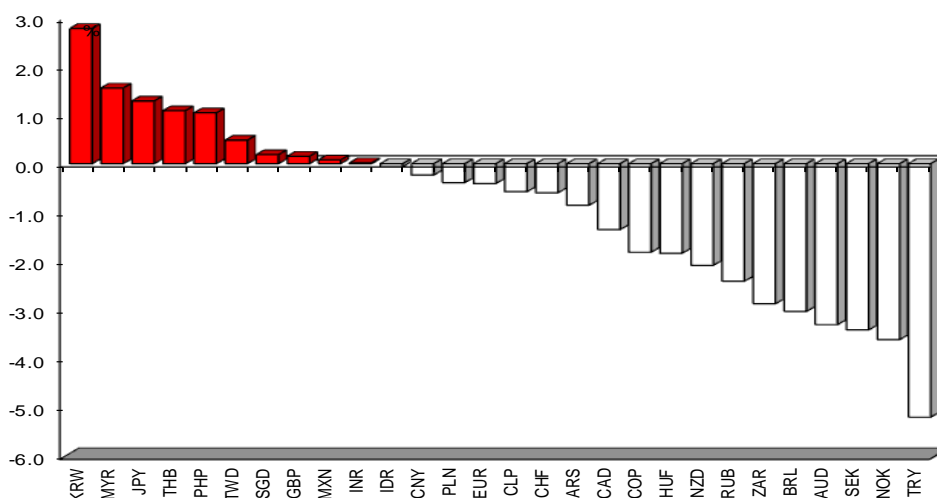
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1554	1.1700	1.1733	1.1769	1.1800
GBP-USD	1.3052	1.3100	1.3191	1.3200	1.3252
AUD-USD	0.7536	0.7548	0.7554	0.7600	0.7694
NZD-USD	0.6795	0.6800	0.6804	0.6900	0.6970
USD-CAD	1.2647	1.2700	1.2796	1.2800	1.2887
USD-JPY	111.73	112.00	112.04	112.32	112.70
USD-SGD	1.3542	1.3564	1.3574	1.3600	1.3663
EUR-SGD	1.5768	1.5900	1.5926	1.5966	1.6000
JPY-SGD	1.2077	1.2100	1.2115	1.2130	1.2200
GBP-SGD	1.7758	1.7900	1.7905	1.7980	1.8000
AUD-SGD	1.0217	1.0238	1.0254	1.0300	1.0562
Gold	1269.65	1289.25	1292.30	1292.81	1300.00
Silver	17.07	17.20	17.21	17.25	17.30
Crude	52.83	56.60	56.63	56.70	57.92

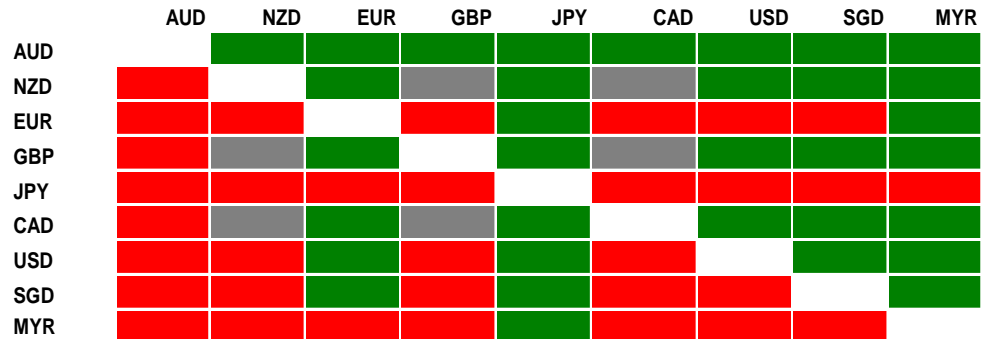
Source: OCBC Bank

FX performance: 1-month change agst USD



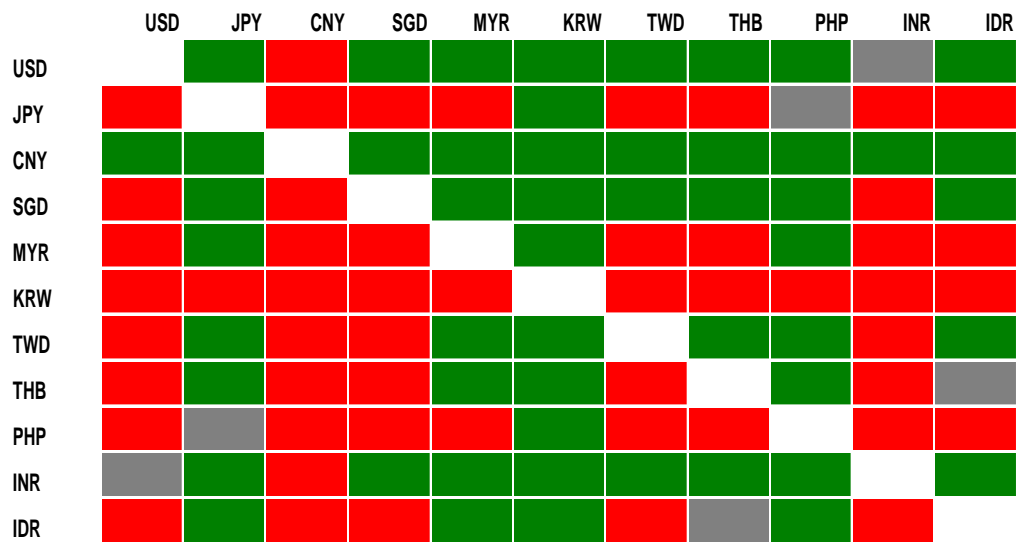
Source: Bloomberg

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	28-Sep-17	B	USD-CAD	1.2500	1.3095	1.2640	Reality check from the BOC's Poloz even as the USD garners renewed interest	
2	07-Nov-17	S	AUD-USD	0.7671	0.7510	0.7755	RBA on hold, no inflation or rate hike urgency	
3	07-Nov-17	S	GBP-USD	1.3142	1.2835	1.3300	Potential negative headline shock from upcoming BOE appearances post the dovish rate hike	
4	20-Nov-17	S	USD-JPY	112.07	109.80	113.25	Background risk aversion, little expectations of hawkish surprises from the Fed	
STRUCTURAL								
5	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
6	07-Nov-17		Bullish 2M 1X2 USD-JPY Call Spread Spot ref: 114.15; Strikes: 113.78, 118.31; Exp: 04/01/18; Cost: 0.90%				Rate differential complex supportive of the USD, BOJ static	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	29-Aug-17	27-Oct-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	-0.31**
2	28-Sep-17	02-Nov-17	S	AUD-USD	0.7816	0.7720	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	+1.20
3	21-Sep-17	15-Nov-17	B	USD-JPY	112.58	113.13	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	+0.73
4	24-Oct-17	15-Nov-17	B	USD-SGD	1.3616	1.3540	Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in	-0.54
5	24-Oct-17	17-Nov-17	S	EUR-USD	1.1763	1.1812	Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow	-0.27
							Jan-Nov*** 2017 Return	-12.25
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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