

Thursday, September 21, 2017

## FX Themes/Strategy/Trading Ideas

- Except against the antipodeans, the USD pulled higher against its G10 counterparts in the wake of the FOMC. In a nutshell, the outcome of the FOMC disappointed the bearish quarters of the market with the USD rebounding as a result. UST yields firmed overnight with the curve bear flattening from the front-end as would be expected given the outcome of the FOMC.
- The Fed's dot plots continued to imply potential for another hike in December (with market-implied odds jumping to above 70%). For 2018, the median for the dot plots remain unchanged at 2.125% and continued to portend 3 rate hikes for next year. In terms of the distribution of the dots for 2018 have coalesced towards the median with the upper ends of the range now lower to 2.6255 from 3.125% in June. Meanwhile, as largely expected, the taper is expected to commence in October, no alteration to schedule released in June.
- Meanwhile, the FOMC statement expressed relative confidence in the year to date economic recovery while essentially brushing off longer term impacts from the recent hurricanes. The Fed also reiterated that near term risks to the economic outlook remain "roughly balanced" but lowered its longer run forecasts of its FF rate for the coming years.
- Beyond the short term however, lasting positive effects on the USD are we think may continue to be dubious at this juncture, especially given the track record of the DXY after each rate hike this year. **At this juncture, the DXY is circa still 92.60 but the watershed we think is still expected at 94.00 and barring a breach back above 2.40% for the 10y UST yield, dollar prospects may not have been materially altered just yet.**
- Structurally, the Fed's relatively sanguine prognosis may continue to engender optimism towards global growth prospects and sustain the recent uptick in global long end yields as well as investor sentiment (with the latter further encouraging yield seeking behavior). **Another further source of uncertainty for the USD in the medium term is that in view of the Fed's relative confidence in its prognosis, other major global central banks may also hasten their exit from dovishness, further entrench themselves in neutrality, or venture into hawkish territory in the coming months. In this scenario, shifting relative central bank dynamics may whittle away at the USD, as has been the case in the year to date.**

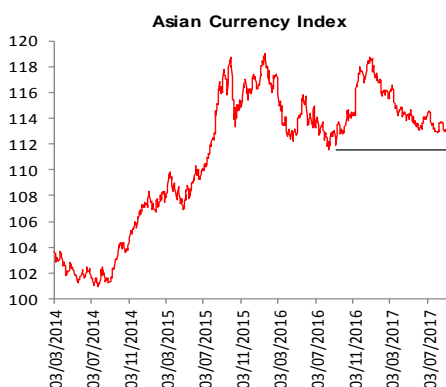
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- In the short term, the **JPY** we think remains the cleanest play with the BOJ MPC today not expected to yield any surprises and with contrasting central bank postures as well as positive risk appetite levels likely buoying the pair.

### Asian FX

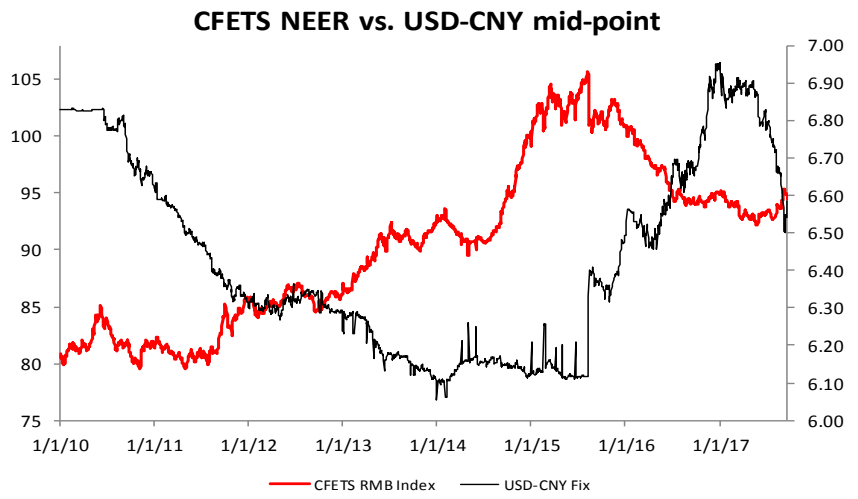
- The **ACI (Asian Currency Index)** may be expected to partially react higher post-FOMC but excessive USD bullishness may still be lacking. Meanwhile, the **FXSI (FX Sentiment Index)** ticked higher on Wednesday but still remained in Risk-Neutral territory. In terms of net portfolio inflows, note some net seeing pressure for the KRW and the TWD, while the INR continues to experience a net improvement in inflows. **Inflow momentum for the IDR and THB remain significant**, with the PHP also chalking up moderate inflows.
- Going ahead, the CBC (0800 GMT) and the BSP (0800 GMT) are expected to keep their policy parameters unchanged at their respective policy meetings today.
- **SGD NEER:** The SGD NEER is lower on the day following broad dollar moves overnight at around +0.69% above its perceived parity (1.3607). NEER-implied thresholds for the USD-SGD are firmer on the day and the basket may look to center itself within +0.60% (1.3527) and +0.80% (1.3500). If broad USD resilience deepens, the +0.50% threshold is expected at 1.3540. Meanwhile, the 200-week MA at 1.3486 may provide initial support on dips.



|         | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 125.19   | 0.75        | 1.3524  |
| +2.00%  | 126.74   |             | 1.3341  |
| Parity  | 124.26   |             | 1.3607  |
| -2.00%  | 121.77   |             | 1.3885  |

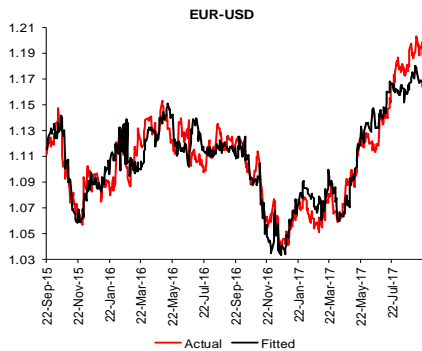
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point gained (as largely expected) to 6.5867 from 6.5670 on Thursday. This however still lifted the **CFETS RMB Index** higher slightly to 94.61 from 94.55 yesterday. Relative stability of the Index we think remains a prime concern in the near term.



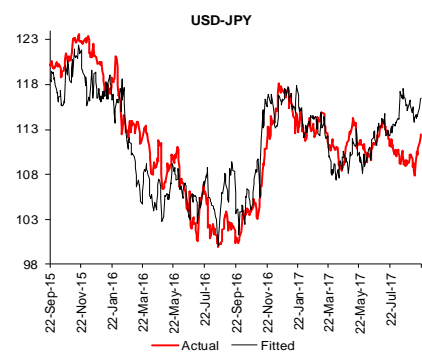
Source: OCBC Bank, Bloomberg

**G7**



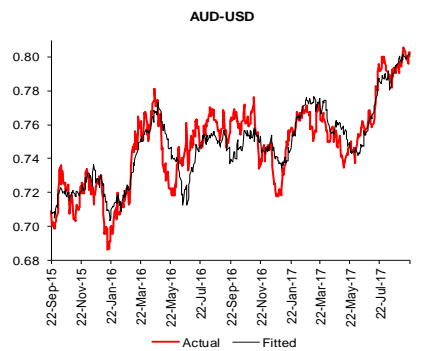
Source: OCBC Bank

- EUR-USD** Look potentially for countervailing forces today with the ECB's Smets (0655 GMT), Praet (0930 GMT), and Draghi (1330 GMT) expected on the wires today. Meanwhile, short term implied valuations for the pair have stepped lower slightly after the FOMC and the pair may attempt to gravitate towards 1.1830 pending further ECB rhetoric.



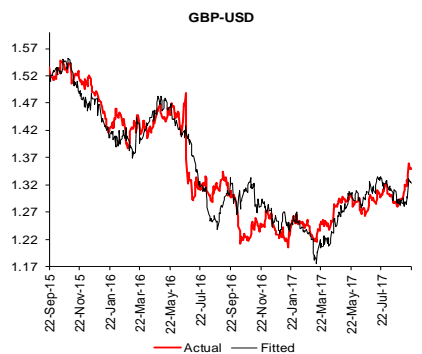
Source: OCBC Bank

- USD-JPY** The BOJ's Kuroda is expected at 0630 GMT for the post-MPC press conference and in the interim, the USD-JPY may attempt to base build of its 200-day MA (112.19) towards 112.65. Note that short term implied valuations for the USD-JPY have ticked higher for the fifth consecutive session.



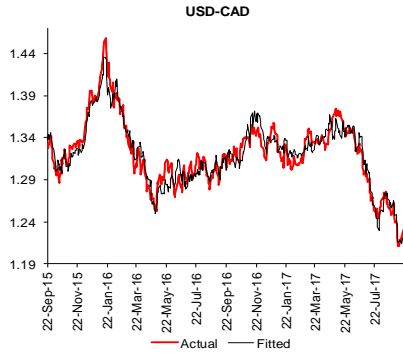
Source: OCBC Bank

- AUD-USD** The RBA's Lowe is scheduled for 0510 GMT today and note that despite the FOMC outcome, the AUD-USD has clung stubbornly onto the 0.8000 handle, plausibly on the back of positive risk appetite levels. Meanwhile, short term implied valuations for the AUD-USD have continued to keep incrementally higher in recent session, suggesting that dips may remain shallow. Preference to accumulate on dips within 0.7945-0.8065.



Source: OCBC Bank

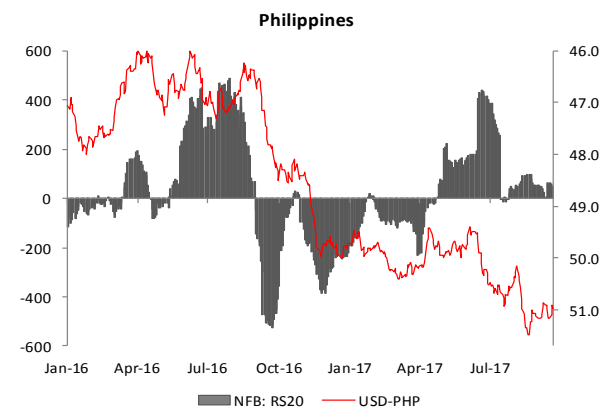
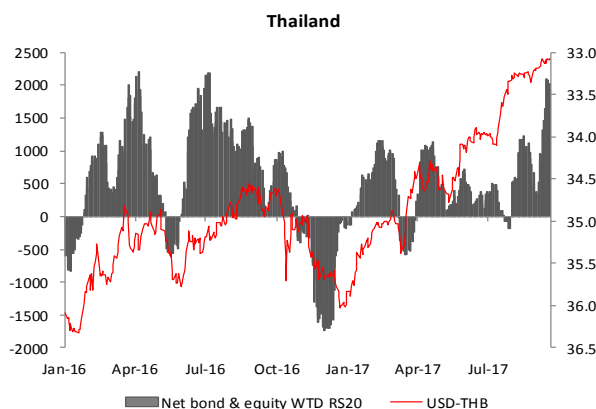
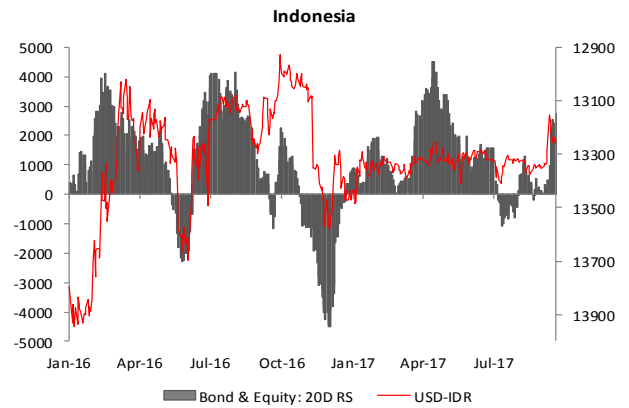
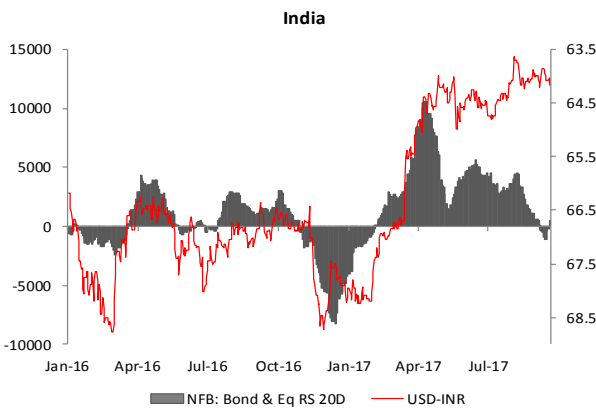
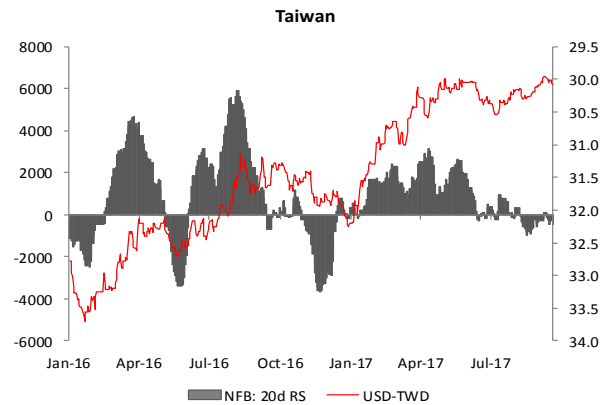
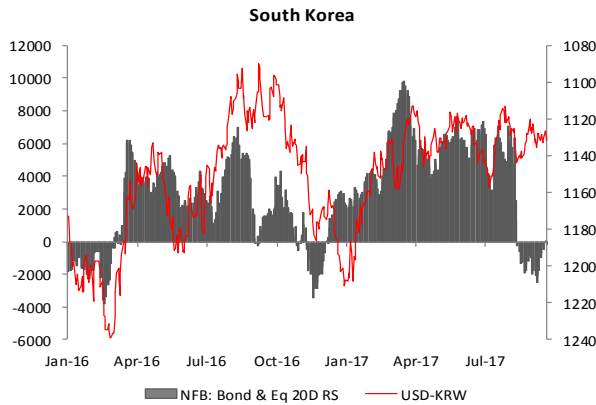
- GBP-USD** PM May's Brexit speech tomorrow may discourage excessive volatility in spite of the FOMF overnight. Short term implied valuations are a touch lower but the better than expected August retail sales from yesterday may discourage excessive heaviness. Expect an initial floor towards 1.3450 with resistance seen towards 1.3600.

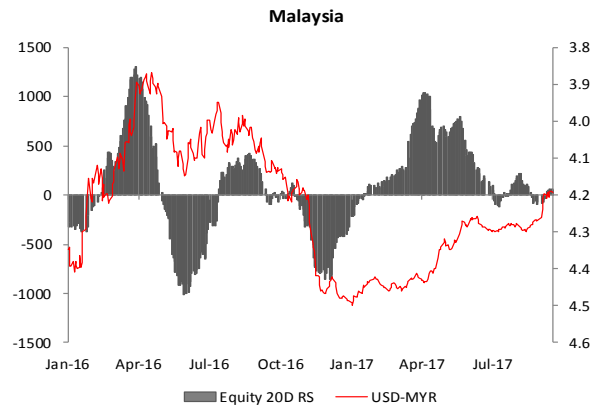


- USD-CAD** USD-CAD reacted higher in the wake of the FOMC and in tandem with slightly firmer short term implied valuations. Investors may remain buyers of the pair on near term dips (towards 1.2200) at this juncture with the next key resistance expected at 1.2400.

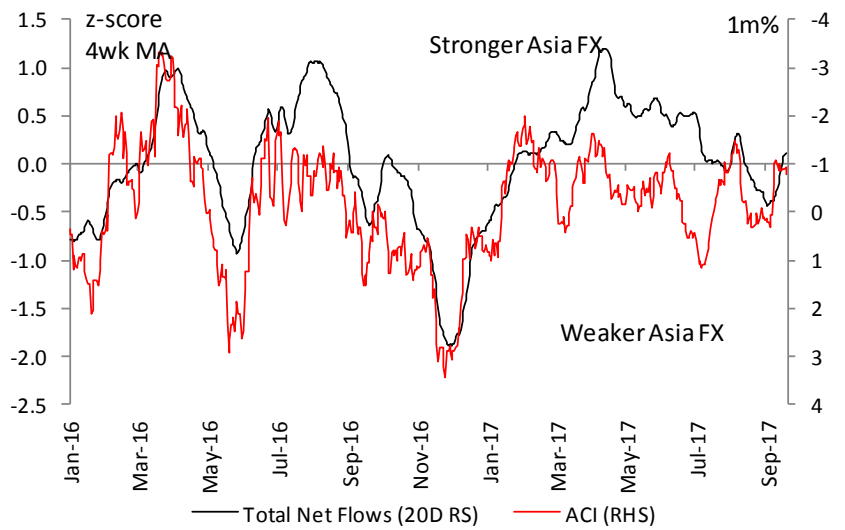
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

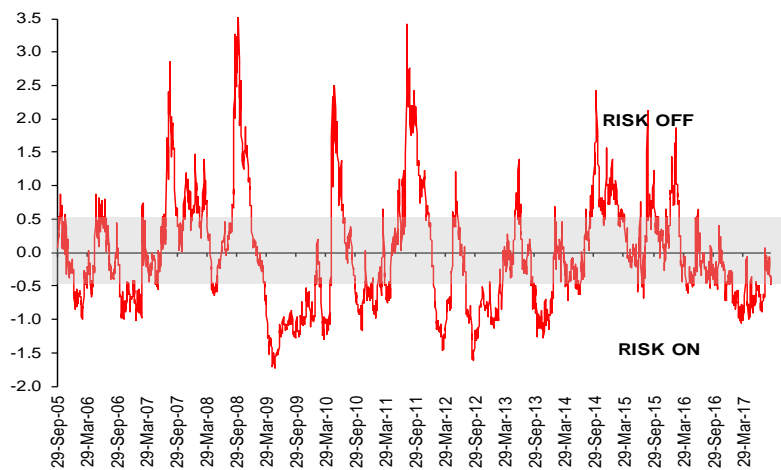




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

| Security | DXY    | USGG10 | CNY    | SPX    | MSELCA | CRY    | JPY    | CL1    | VIX    | ITRTEX | CNH    | EUR    |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY      | 1      | 0.337  | 0.768  | -0.466 | -0.344 | -0.621 | 0.095  | -0.264 | 0.194  | 0.634  | 0.78   | -0.94  |
| SGD      | 0.922  | 0.189  | 0.786  | -0.601 | -0.458 | -0.772 | -0.059 | -0.518 | 0.321  | 0.611  | 0.797  | -0.811 |
| TWD      | 0.825  | 0.341  | 0.944  | -0.585 | -0.341 | -0.73  | 0.022  | -0.367 | 0.284  | 0.641  | 0.948  | -0.689 |
| CNH      | 0.78   | 0.45   | 0.993  | -0.496 | -0.184 | -0.73  | 0.146  | -0.318 | 0.199  | 0.599  | 1      | -0.662 |
| CAD      | 0.775  | 0.142  | 0.808  | -0.661 | -0.441 | -0.818 | -0.028 | -0.588 | 0.338  | 0.697  | 0.821  | -0.575 |
| CNY      | 0.768  | 0.487  | 1      | -0.48  | -0.157 | -0.719 | 0.142  | -0.334 | 0.186  | 0.553  | 0.993  | -0.656 |
| THB      | 0.751  | -0.052 | 0.795  | -0.81  | -0.61  | -0.821 | -0.379 | -0.543 | 0.606  | 0.629  | 0.783  | -0.632 |
| MYR      | 0.686  | -0.242 | 0.706  | -0.9   | -0.769 | -0.877 | -0.48  | -0.712 | 0.712  | 0.688  | 0.7    | -0.507 |
| CHF      | 0.655  | 0.836  | 0.563  | 0.266  | 0.38   | -0.071 | 0.744  | 0.334  | -0.433 | 0.219  | 0.537  | -0.737 |
| IDR      | 0.641  | -0.086 | 0.569  | -0.713 | -0.581 | -0.585 | -0.193 | -0.402 | 0.494  | 0.642  | 0.585  | -0.44  |
| PHP      | 0.558  | 0.147  | 0.458  | -0.279 | -0.304 | -0.353 | 0.044  | -0.14  | 0.087  | 0.255  | 0.441  | -0.547 |
| CCN12M   | 0.492  | 0.395  | 0.628  | -0.302 | -0.067 | -0.271 | 0.337  | 0.072  | 0.082  | 0.454  | 0.627  | -0.365 |
| USGG10   | 0.337  | 1      | 0.487  | 0.471  | 0.646  | 0.094  | 0.866  | 0.475  | -0.625 | -0.015 | 0.45   | -0.403 |
| INR      | 0.118  | 0.599  | 0.195  | 0.427  | 0.492  | 0.346  | 0.637  | 0.643  | -0.347 | -0.052 | 0.187  | -0.198 |
| JPY      | 0.095  | 0.866  | 0.142  | 0.728  | 0.833  | 0.402  | 1      | 0.566  | -0.834 | -0.202 | 0.146  | -0.153 |
| KRW      | 0.022  | 0.136  | -0.145 | 0.207  | -0.012 | 0.311  | 0.075  | 0.605  | 0.08   | -0.178 | -0.13  | -0.216 |
| NZD      | -0.287 | 0.524  | 0.041  | 0.457  | 0.548  | 0.301  | 0.522  | 0.541  | -0.321 | -0.029 | 0.063  | 0.202  |
| GBP      | -0.592 | 0.458  | -0.461 | 0.904  | 0.861  | 0.835  | 0.664  | 0.793  | -0.693 | -0.623 | -0.45  | 0.416  |
| AUD      | -0.82  | -0.164 | -0.825 | 0.57   | 0.37   | 0.769  | 0.072  | 0.514  | -0.287 | -0.479 | -0.799 | 0.676  |
| EUR      | -0.94  | -0.403 | -0.656 | 0.283  | 0.223  | 0.424  | -0.153 | 0.054  | -0.132 | -0.501 | -0.662 | 1      |

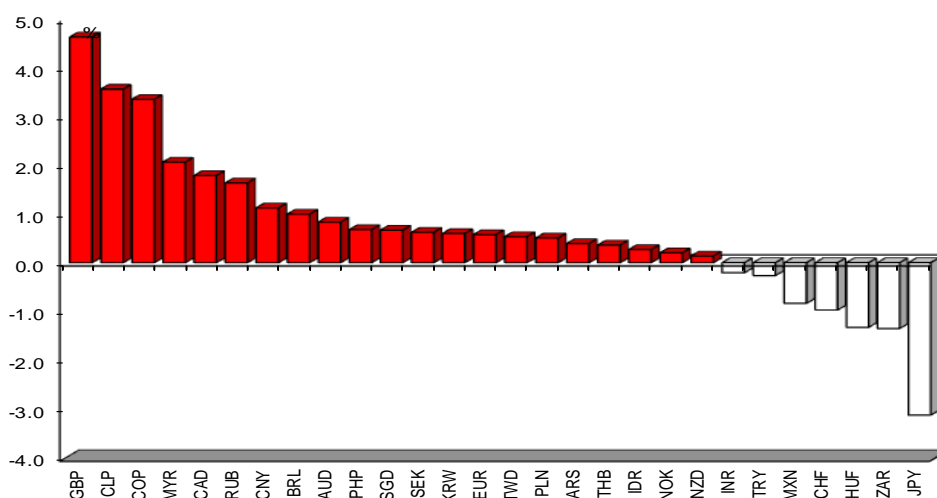
Source: Bloomberg

### Immediate technical support and resistance levels

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1807  | 1.1837  | 1.1882  | 1.1900  | 1.2029  |
| GBP-USD | 1.3069  | 1.3400  | 1.3494  | 1.3500  | 1.3649  |
| AUD-USD | 0.7943  | 0.8000  | 0.8002  | 0.8063  | 0.8100  |
| NZD-USD | 0.7300  | 0.7313  | 0.7334  | 0.7349  | 0.7400  |
| USD-CAD | 1.2062  | 1.2300  | 1.2337  | 1.2400  | 1.2484  |
| USD-JPY | 112.16  | 112.43  | 112.48  | 112.65  | 113.00  |
| USD-SGD | 1.3397  | 1.3500  | 1.3515  | 1.3568  | 1.3594  |
| EUR-SGD | 1.6001  | 1.6020  | 1.6059  | 1.6100  | 1.6212  |
| JPY-SGD | 1.1999  | 1.2000  | 1.2017  | 1.2100  | 1.2298  |
| GBP-SGD | 1.7734  | 1.8200  | 1.8237  | 1.8300  | 1.8324  |
| AUD-SGD | 1.0775  | 1.0800  | 1.0815  | 1.0835  | 1.0868  |
| Gold    | 1287.45 | 1287.74 | 1298.60 | 1300.00 | 1351.45 |
| Silver  | 17.16   | 17.20   | 17.25   | 17.30   | 18.16   |
| Crude   | 48.59   | 50.60   | 50.69   | 50.70   | 50.93   |

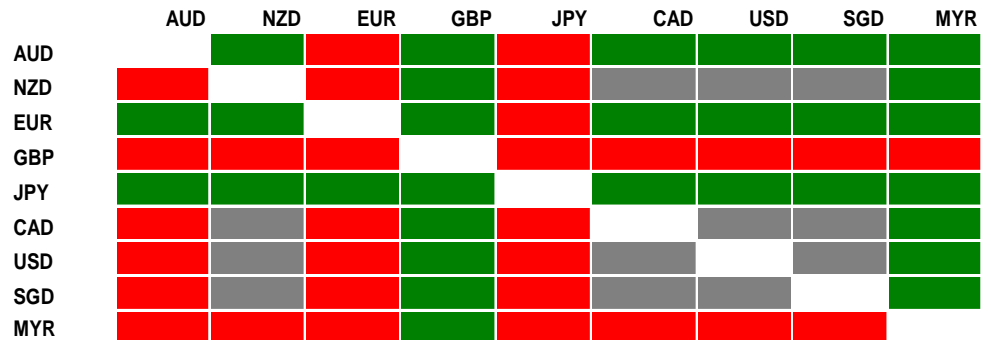
Source: OCBC Bank

### FX performance: 1-month change agst USD



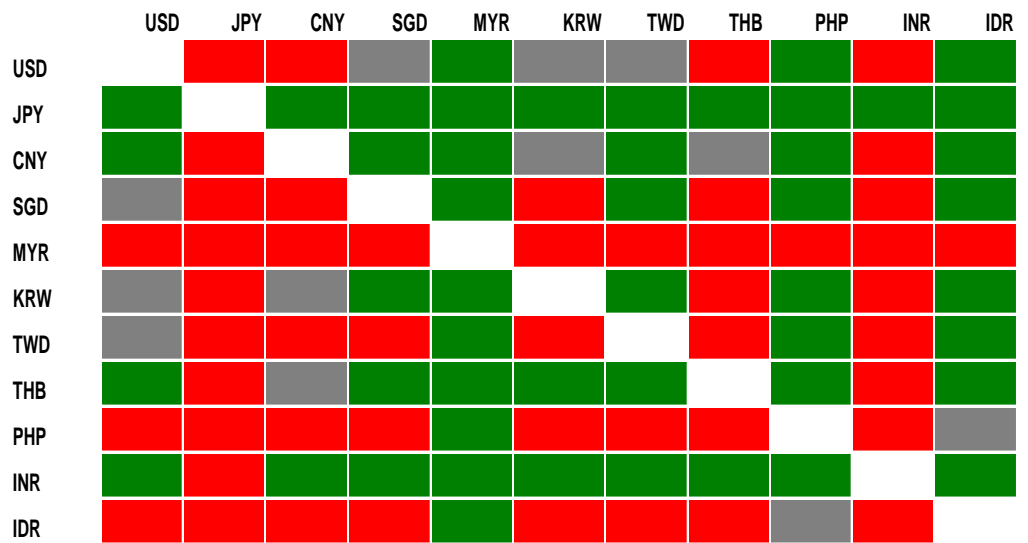
Source: Bloomberg

**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  |  |       |
|---|-----------|-----------|--|---|--------------------|--|--|-------|
| <b>TACTICAL</b>                           |           |           |  |   |                    |  |  |       |
| 1   | 19-Sep-17 | B         | GBP-USD  | 1.3540  | 1.3825             | 1.3395   | Earlier than expected paradigm change by the BOE                             |       |
| <b>STRUCTURAL</b>                         |           |           |  |   |                    |  |  |       |
| 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<br>Spot ref: 0.7915; Strikes: 0.7909, 0.8111;<br>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<br>Spot ref: 109.31; Strikes: 109.00, 106.04;<br>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<br>Spot ref: 1.3519; Strikes: 1.3511, 1.3361;<br>Exp: 27/10/17; Cost: 0.31%  |   |                    | Vulnerable USD, prevailing positivity towards carry, EM/Asia                     |  |       |
| <b>RECENTLY CLOSED TRADE IDEAS</b>        |           |           |  |   |                    |  |  |       |
| 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<br>Spot ref: 1.1455; Strikes: 1.1492, 1.1724;<br>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<br>Spot ref: 1.2664; Strikes: 1.2653, 1.2415;<br>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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