

Monday, October 23, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The USD (note firmer UST curve led by the back-end) on Friday continued to benefit after the Senate late Thursday adopted the 2018 budget resolution. Note that officials are now aiming for a tax reform (read: tax cuts) package by the end of the year although the process may still face an uphill battle on the Hill. Nonetheless, expect the greenback to start the week with an upper hand following Abe's landslide win at the weekend elections (LDP-led coalition set to garner 312 seats and maintain its "super-majority").
- Going ahead, **White House** nominations for the Fed are apparently due "in the coming days", with latest indications that both Powell and Taylor may be in the running for the top two posts of chair and vice-chair. Barring an actual announcement, the blackout period for the Fed ahead of the 01 Nov 17 FOMC, expect investors to potentially look towards the other majors for further cues (signs of vulnerability, especially if the USD remains underpinned). **In the interim, with the DXY at the border of 94.00 and 10Y UST yield in close proximity to 2.40%, expect markets to be potentially twitchy while eyeing another attempted break of these key market levels.**
- Central bank guidance may be had from the **ECB** meeting on Thursday with a taper announcement likely on the cards (watch for the speed and duration of the extension). For today, look to Praet (0700 GMT) and Nouy (1730 GMT) for verbal guidance. On other fronts, the Bank of Canada policy meeting on Wednesday is not expected to spring any surprises, although the press conference by Poloz and Wilkins will be closely watched. Meanwhile, the RBA's Debelle also speaks on Thursday. The data calendar meanwhile see the release of global October PMIs on Tuesday with Australia's Australia: 3Q CPI on Wednesday
- **CFTC** positioning data from the latest week meanwhile showed that large non-commercial as well as leveraged accounts (rightly) pared their implied short dollar bias in aggregate in the latest week. However, asset manager accounts deepened their implied short dollar bias in the same period.

Asian FX

- **EPFR** data meanwhile show net implied inflows into Asian (ex Japan, China) equities and bonds moderating significantly in the latest week. On the **net portfolio inflow** front in Asia, the KRW and TWD have staged a nice turnaround in terms of net inflows on a rolling 1-month basis. Elsewhere, we see some semblance of a return of net inflows for the IDR despite its rolling

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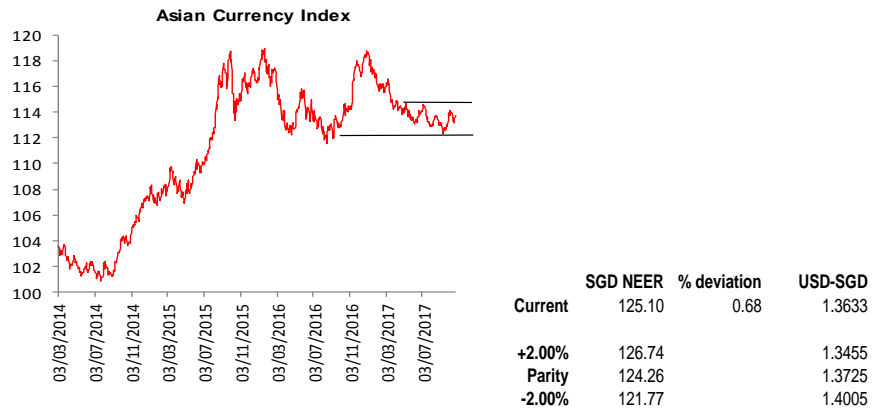
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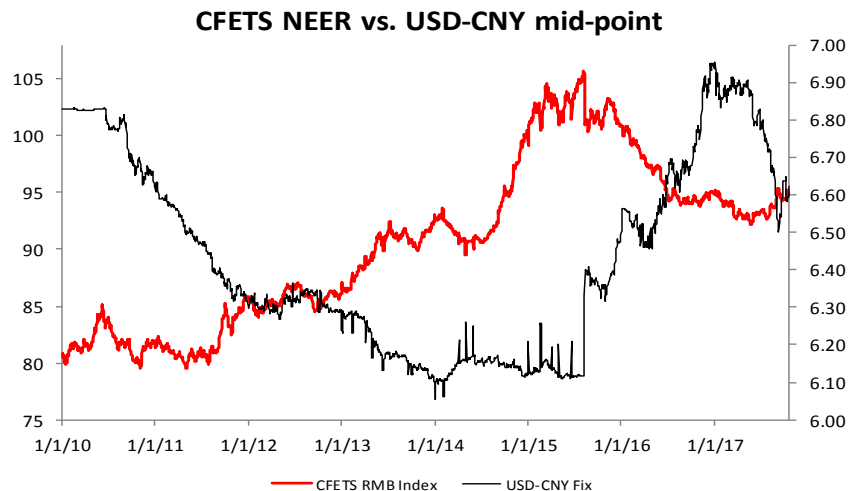
outflow situation, while outflow pressure for the THB continues to accumulate.

- Although global EM equities bounced higher on Friday and despite the S&P and N225 also providing a positive impetus, the **ACI (Asian Currency Index)** may nevertheless be led higher by the broad dollar. Meanwhile, the **FXSI (FX Sentiment Index)** inched higher within Risk-Neutral territory on Friday.
- **SGD NEER:** September CPI readings are due today (0500 GMT) with the SGD NEER meanwhile softer on the day at around +0.67% above its perceived parity (1.3725). NEER-implied USD-SGD thresholds are firmer on the day with +1.00% estimated at 1.3589. In the interim, USD-SGD may remain tilted towards its 100-day MA (1.3647) ahead of 1.3670 given the current dollar demeanor.



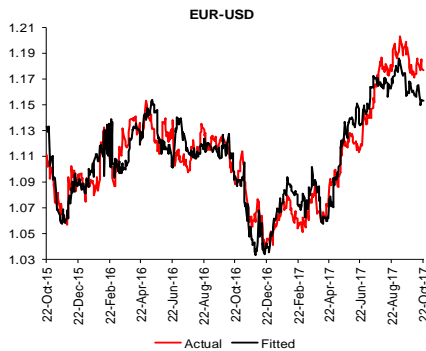
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point firmed (largely as expected) to 6.6205 from 606092 on Friday. This still saw the CFETS RMB Index rising to 94.87 from 94.64.



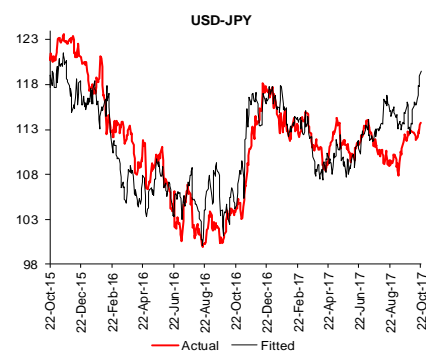
Source: OCBC Bank, Bloomberg

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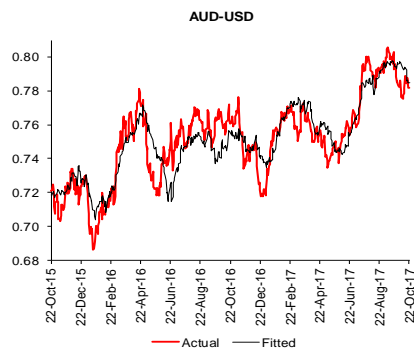
Source: OCBC Bank

- EUR-USD** Catalonia-related news flow aside (Spanish government has dismissed the Catalonia parliament), expect the primary focus to be on the ECB meeting this week with the central bank expected to maintain a gradualist approach. In the interim, short term implied valuations remain relatively suppressed and 1.1730 before 1.1700 may continue to beckon intra-day.



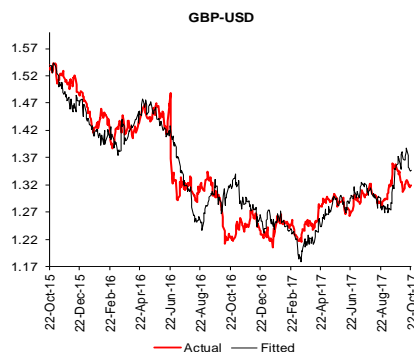
Source: OCBC Bank

- USD-JPY** Rate differential arguments in favor of the dollar are in ascendance once again and this may be magnified further for the USD-JPY in the wake of the Japan's Lower House election results. The 114.00 ceiling (ahead of 114.50) therefore may remain under threat in the near term with short term implied valuations jumping at the onset of the week.



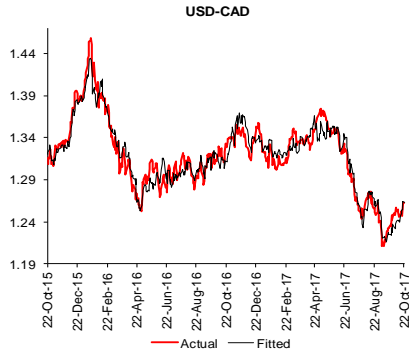
Source: OCBC Bank

- AUD-USD** In the absence of a very significant Risk-On dynamic, the AUD-USD may remain hostage to a resilient USD in the near term ahead of Debelle and the Australian inflation readings this week. Short term implied valuations meanwhile also remain slippery and with the 100-day MA (0.7825) overhead serving as a first resistance, 0.7770 and 0.7750 may attract in the near term.



Source: OCBC Bank

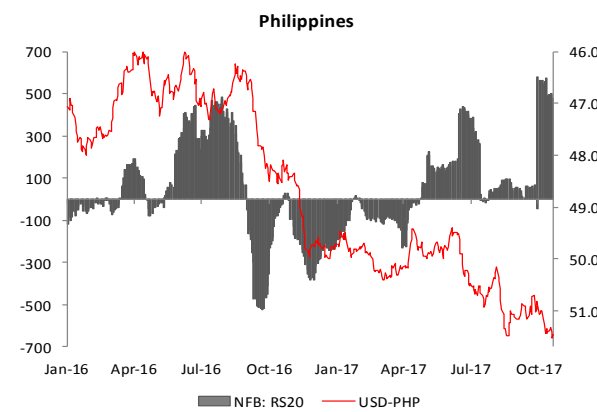
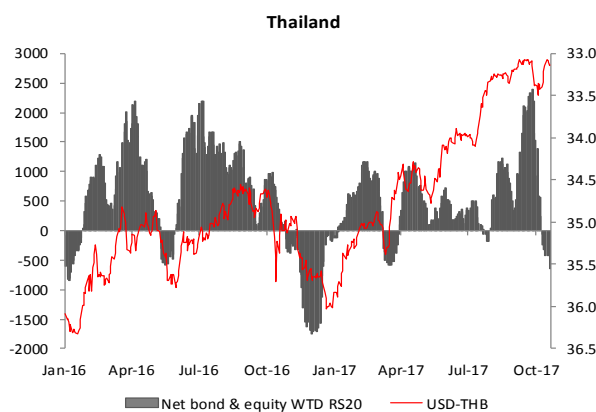
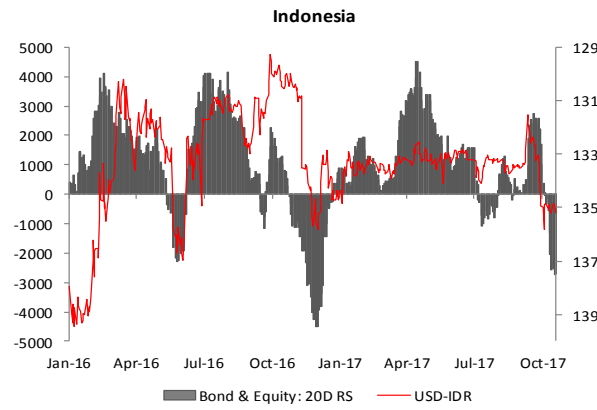
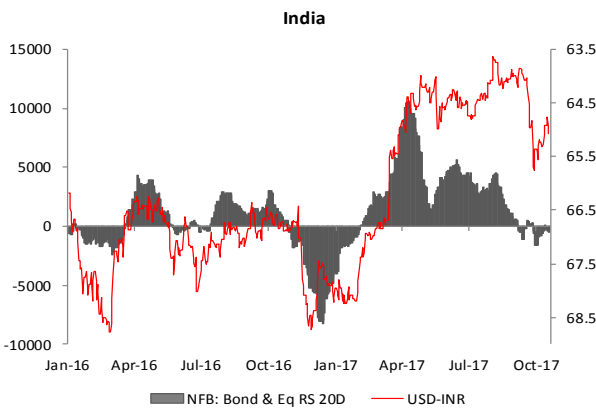
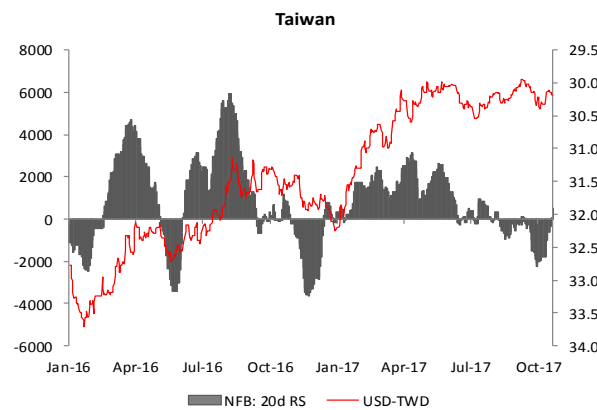
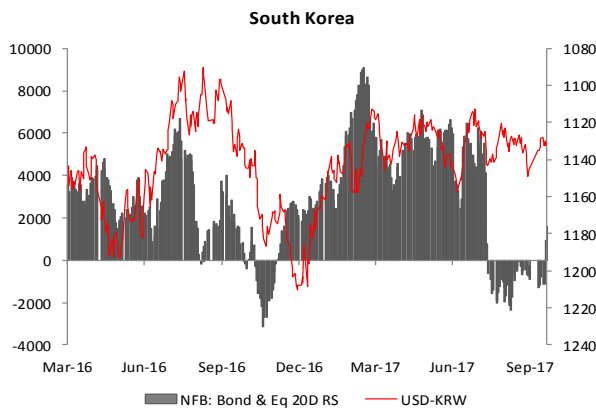
- GBP-USD** The pound managed to outperform across the board as EU rhetoric on Brexit negotiations softened slightly on Friday. "Phase two" of talks are due in December but expect choppy conditions to persist in the interim. Short term implied valuations remain top heavy in view of the latest USD environment and a breach of the 55-day MA (1.3150) risks the 100-day MA (1.3051).

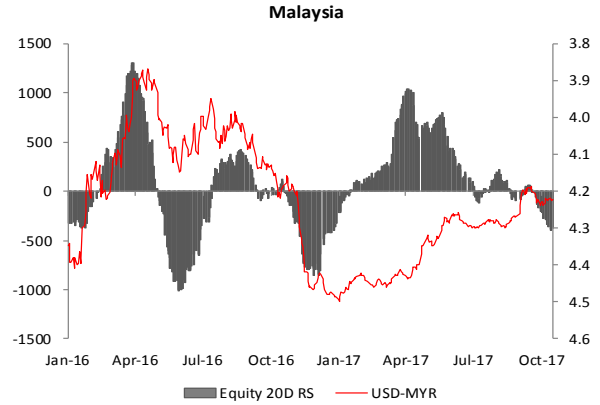


- USD-CAD** Disappointing Canadian August retail sales numbers on Friday launched the USD-CAD higher and the loonie may remain nervous going into the BOC policy meeting this week. Short term implied valuations for the USD-CAD remain buoyant at this juncture and investors may look towards the 100-day MA (1.2671) ahead of 1.2700.

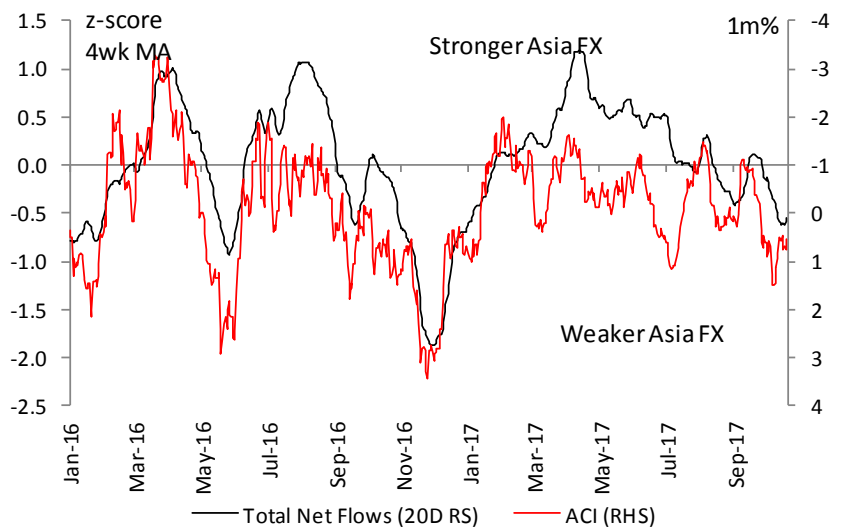
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

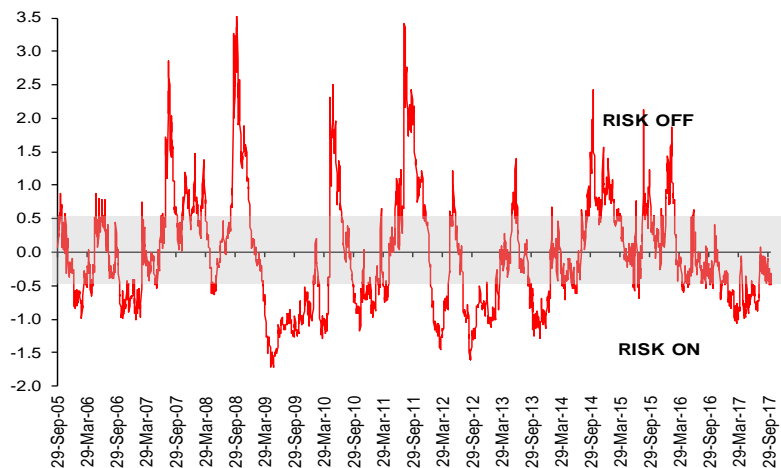




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.737	0.021	0.496	0.23	-0.516	0.729	-0.439	-0.311	-0.428	0.451	-0.812
SGD	0.849	0.674	0.53	0.089	-0.231	-0.757	0.738	-0.525	-0.367	0.02	0.741	-0.806
CAD	0.844	0.832	-0.246	0.737	0.51	-0.199	0.735	-0.23	-0.156	-0.628	0.102	-0.467
CHF	0.787	0.749	-0.28	0.848	0.727	-0.121	0.706	-0.214	0.108	-0.777	-0.005	-0.391
USGG10	0.737	1	-0.129	0.631	0.35	-0.416	0.785	-0.375	-0.237	-0.53	0.165	-0.381
MYR	0.733	0.703	0.058	0.378	0.109	-0.715	0.527	-0.641	-0.508	-0.363	0.481	-0.624
JPY	0.729	0.785	0.253	0.346	0.09	-0.394	1	-0.064	-0.219	-0.222	0.449	-0.475
IDR	0.524	0.761	-0.29	0.692	0.516	-0.355	0.471	-0.447	-0.236	-0.691	-0.013	-0.204
TWD	0.484	0.419	0.742	-0.245	-0.53	-0.883	0.446	-0.598	-0.727	0.281	0.86	-0.647
THB	0.477	0.386	0.517	-0.243	-0.533	-0.875	0.379	-0.656	-0.632	0.273	0.739	-0.658
CNH	0.451	0.165	0.986	-0.409	-0.623	-0.615	0.449	-0.211	-0.527	0.467	1	-0.696
CCN12M	0.289	0.156	0.778	-0.117	-0.27	-0.371	0.272	-0.115	-0.409	0.12	0.752	-0.435
PHP	0.206	0.463	-0.659	0.847	0.89	0.233	0.197	-0.114	0.313	-0.851	-0.63	0.241
INR	0.093	0.087	0.625	-0.601	-0.715	-0.434	0.396	-0.12	-0.08	0.609	0.546	-0.351
CNY	0.021	-0.129	1	-0.584	-0.659	-0.266	0.253	0.303	-0.108	0.638	0.986	-0.435
KRW	-0.175	0.038	0.694	-0.607	-0.769	-0.76	0.047	0.012	-0.536	0.621	0.639	-0.2
NZD	-0.58	-0.752	0.393	-0.765	-0.59	0.072	-0.705	0.192	-0.184	0.612	0.164	0.057
AUD	-0.638	-0.828	0.225	-0.454	-0.221	0.519	-0.474	0.576	0.121	0.412	-0.028	0.427
GBP	-0.759	-0.709	0.521	-0.841	-0.665	0.3	-0.433	0.542	0.037	0.789	0.081	0.349
EUR	-0.812	-0.381	-0.435	0.025	0.22	0.628	-0.475	0.42	0.374	-0.019	-0.696	1

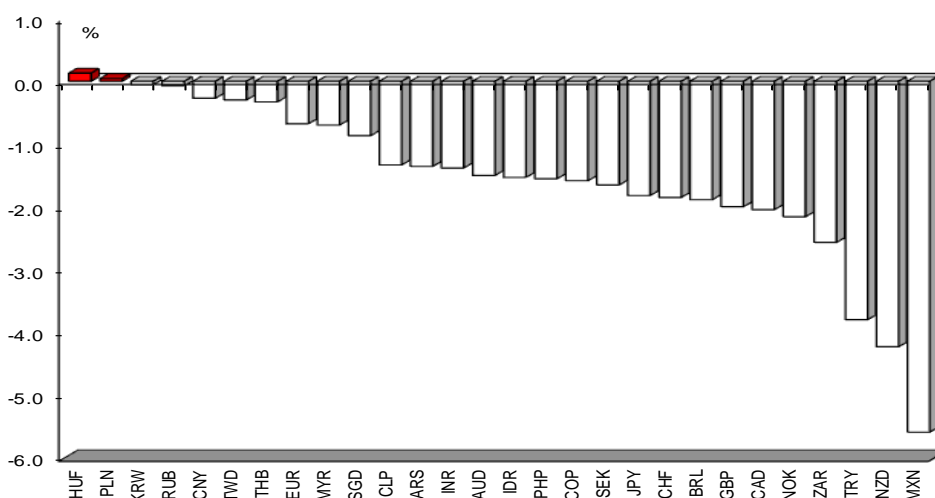
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1699	1.1700	1.1767	1.1800	1.1845
GBP-USD	1.3100	1.3160	1.3194	1.3200	1.3447
AUD-USD	0.7753	0.7800	0.7817	0.7900	0.7901
NZD-USD	0.6900	0.6932	0.6958	0.6965	0.7000
USD-CAD	1.2600	1.2620	1.2627	1.2641	1.2700
USD-JPY	113.00	113.50	113.79	114.00	114.10
USD-SGD	1.3546	1.3600	1.3621	1.3653	1.3691
EUR-SGD	1.5928	1.6000	1.6028	1.6047	1.6064
JPY-SGD	1.1900	1.1948	1.1971	1.1986	1.2000
GBP-SGD	1.7832	1.7900	1.7971	1.8000	1.8235
AUD-SGD	1.0600	1.0634	1.0648	1.0700	1.0706
Gold	1260.50	1263.66	1277.40	1299.04	1300.00
Silver	16.47	16.90	16.99	17.00	17.24
Crude	51.07	52.00	52.09	52.10	53.10

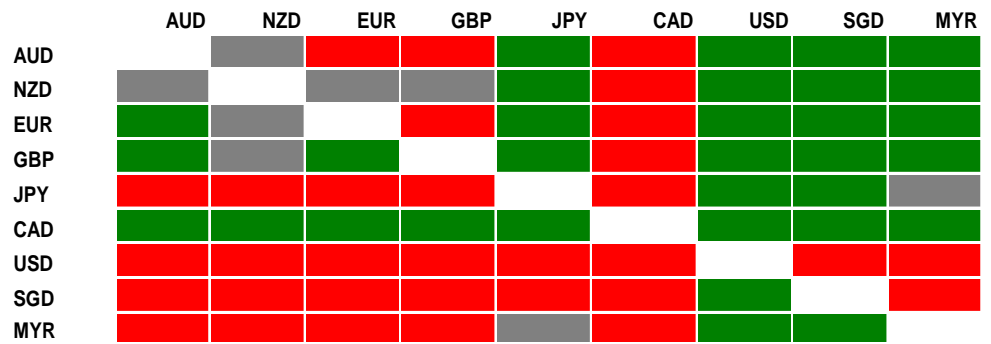
Source: OCBC Bank

FX performance: 1-month change agst USD



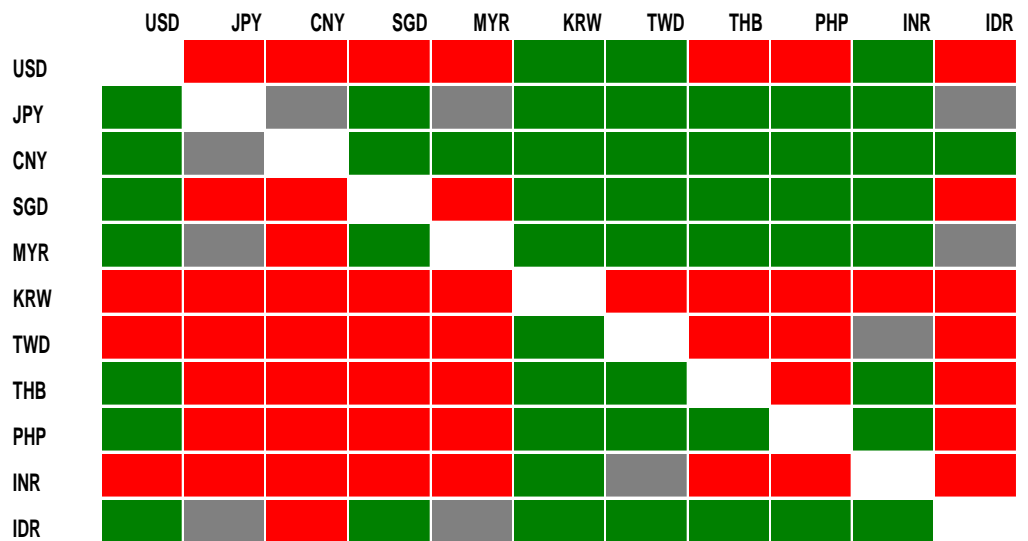
Source: Bloomberg

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	21-Sep-17	B	USD-JPY	112.58	115.05	111.30	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	
2	28-Sep-17	S	AUD-USD	0.7816	0.7625	0.7915	Cyclicals may undergo a reassessment in face of corrective moves in the USD and US yields	
3	28-Sep-17	B	USD-CAD	1.2500	1.2795	1.2350	Reality check from the BOC's Poloz even as the USD garners renewed interest	
STRUCTURAL								
4	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
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	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
2	20-Jul-17	21-Sep-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% Closed at 0.7964			More positive than expected RBA minutes, supportive data, weak USD	+0.04
3	19-Sep-17	27-Sep-17	B	GBP-USD	1.3540	1.3395	Earlier than expected paradigm change by the BOE	-1.11
4	28-Sep-17	11-Oct-17	S	EUR-USD	1.1734	1.1860	Political overhang from Germany contrasting with FOMC, Yellen	-0.99
5	09-Oct-17	12-Oct-17	S	GBP-USD	1.3116	1.3256	Brexit concerns plus additional leadership threats to PM May's position	-1.05
6	04-Oct-17	12-Oct-17	B	USD-SGD	1.3602	1.3525	Potential USD resilience- Fed, geopolitical risks, static MAS, decaying capital inflows in Asia	-0.56
							Jan-Oct*** 2017 Return	-8.68
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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