

Tuesday, September 26, 2017

**FX Themes/Strategy/Trading Ideas**

- Risk aversion gripped markets again as the North Korean Foreign Minister noted that latest comments from US Trump amounted to a declaration of war and Pyongyang reserved the right to shoot down US airplanes if they approached the border. Market reacted in typical fashion with the USD, JPY and CHF outperforming across the board while UST yields dipped on a safe haven bid. Meanwhile, note that given the immediate political overhangs, the NZD and the EUR chalked up the greatest losses against the USD on Monday.
- Fed-speak was mixed to cautious from Dudley (leaving the door open for further tightening), Evans (perennial dove and still looking for more evidence from the macro readings), and Kashkari (still sounding dovish) on Monday with little lasting impact on the USD. Overall, still a lack of a concerted voice from Fed members we think and expect investors to watch for more clarity from Yellen tonight.
- Comments from the **ECB's** Draghi, Mersch and Coeure also did not rock the boat but the message in aggregates steered away from being significantly dovish while attempting to prep the markets for the recalibration of monetary policy as well as the taper. **German political uncertainty and unwinding of EUR longs aside, we think the ECB sounded visibly more confident relative to the Fed on Monday.**
- Potential Fed-speak today may be expected from Mester (1330 GMT), Brainard (1430 GMT), Bostic (1530 GMT), and Yellen (1645 GMT). ECB appearances include Rimsevics (0700 GMT), Praet (1200 GMT).
- Post-FOMC and amidst the market's disappointment with the RBA's Lowe last Thursday, our 20 July 17 idea to be structurally long **AUD-USD** via a 2M 1X1.5 AUD-USD call spread (spot ref: 0.7915; strikes 0.7909, 0.8111) expired at 0.7964, leaving the idea essentially square with an implied +0.04% gain.

**Asian FX**

- On the **net portfolio inflow situation in Asia**, net outflows (on a 1-month rolling basis) moderated into late last week but expect potential for further outflows with North Korean tensions once again on the forefront. Meanwhile, net outflows have continued to deepen for the TWD while net inflows for the INR continue to moderate. Net inflows into the IDR and THB persisted strongly into the end of last week while the PHP continued to show minor

Treasury Research &  
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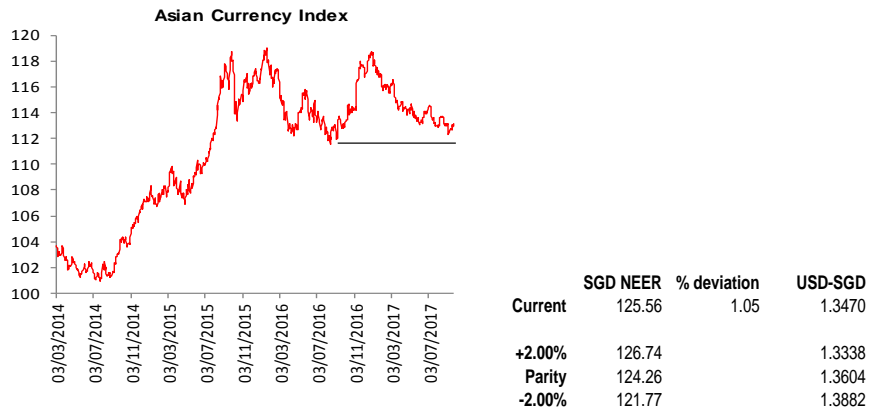
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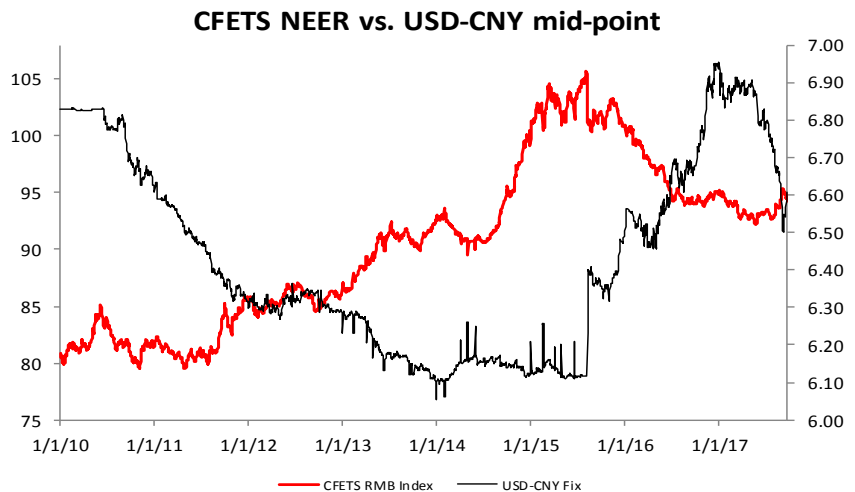
improvement in net inflows.

- On the risk appetite front, the **FXSI (FX Sentiment Index)** reacted higher within Risk-Neutral territory on the back of renewed risk aversion on Monday. In the current environment, expect the **(Asian Currency Index)** to continue to tick higher (i.e., broad USD resilience)
- **SGD NEER:** This morning, the SGD NEER is softer on the day (note softer than expected August inflation readings, with core only clocking a +1.4% yoy print) at around +0.87% above its perceived parity (1.3631). NEER-implied USD-SGD thresholds are firmer on the day given the global moves overnight with the +1.00% threshold seen at 1.3496 and +0.70% seen at 1.3536 with next technical resistance seen at 1.3550. Expect the NEER to be heavy if risk aversion deepens intra-day.



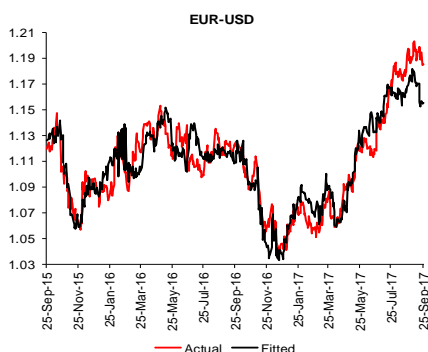
Source: OCBC Bank

- **CFETS RMB Index:** Today, despite the overnight moves in global markets, the USD-CNY mid-point rose (less than expected) to 6.6076 from 6.5945 on Monday. As a result, this left the **CFETS RMB Index** lower again at 94.29 from 94.42 yesterday.



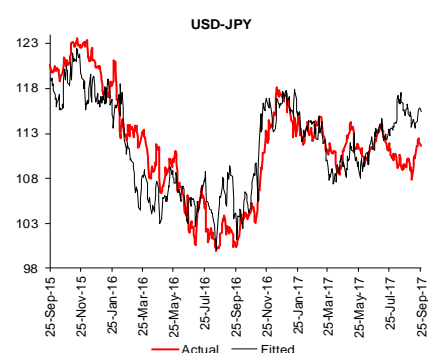
Source: OCBC Bank, Bloomberg

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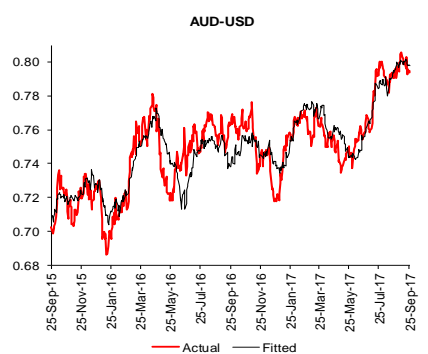
Source: OCBC Bank

- EUR-USD** Political EUR baggage and risk aversion (not to mention Draghi's reference to the EUR on Monday) may keep the EUR on the defensive in the near term despite still relatively steady short term implied valuations. Going ahead, if market nervousness is aggravated, watch for scope for the EUR-USD to continue to head south and converge with its short term implied confidence intervals. A breach of 1.1840 risks 1.1800 (where the 55-day MA also resides).



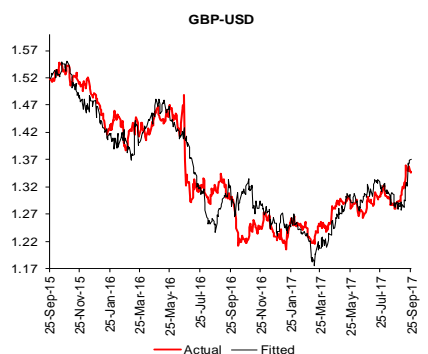
Source: OCBC Bank

- USD-JPY** Risk aversion considerations may continue to override all other macro/policy implications in the near term with short term implied valuations also softening. As such, the 200-day MA (112.11) and 112.00 may continue to shelter, with any violation of 111.50/55 likely paving the way for the 100-day MA (111.09). Beyond intra-day factors, watch also for potential headlines on the White House's tax plan this week (with potential for further disappointment).



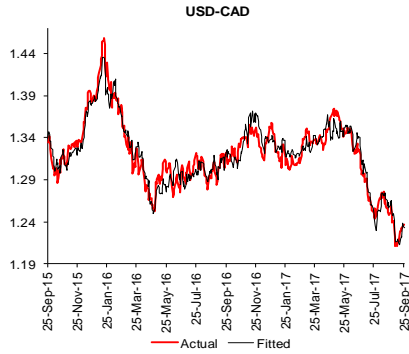
Source: OCBC Bank

- AUD-USD** Short term implied valuations continue to remain relatively supported for now although the AUD-USD may remain vulnerable to risk appetite fluctuations (note also the RBA's Bullock highlighting the vulnerability from high levels of household debt). In the near term, markets may be expected to remain heavy on the pair and a dip below the 55-day MA (0.7936) may see 0.7900 attracting.



Source: OCBC Bank

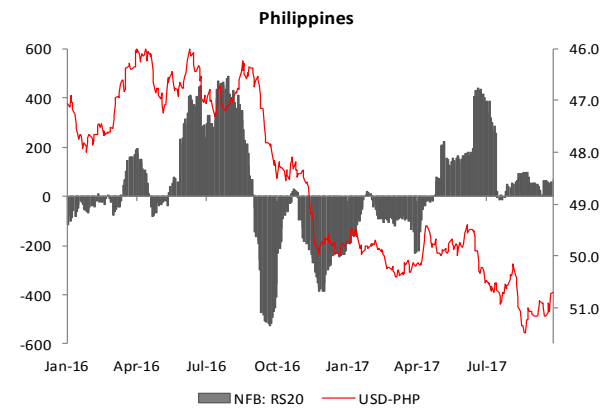
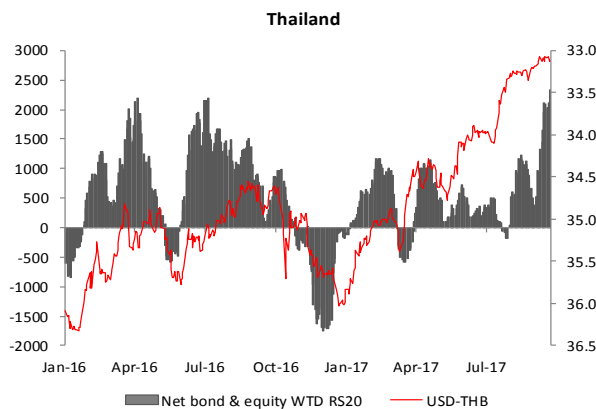
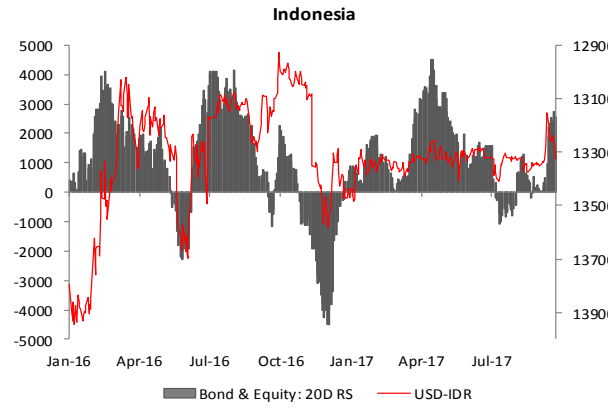
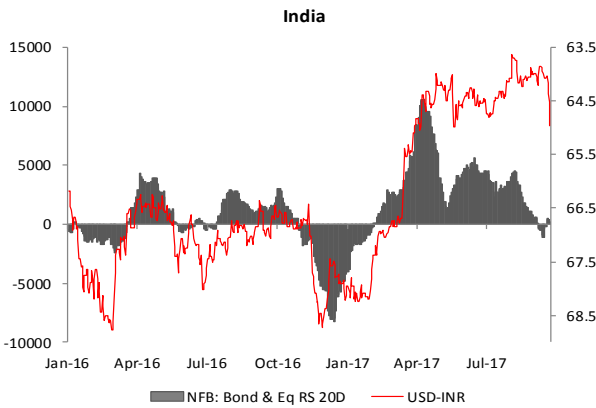
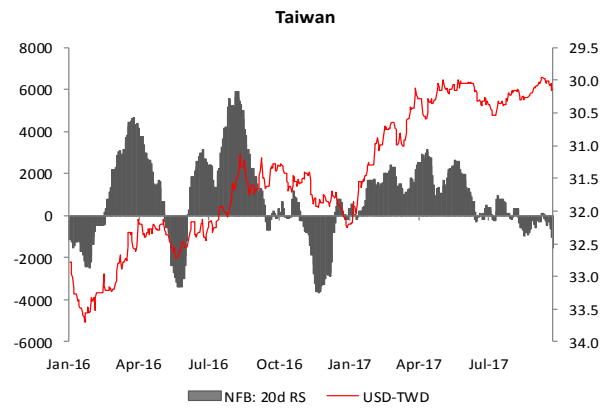
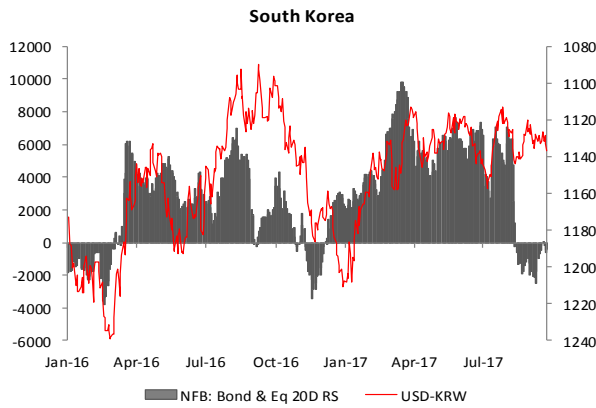
- GBP-USD** GBP-USD reacted lower in tandem with the majors on Monday and the (risk aversion induced firmer dollar complex may govern in the interim. Brexit headlines meanwhile remain less than friendly for the pound, with the EU's chief negotiator calling for clarifications on the UK's offer of concessions by PM May last week. Thus despite still underpinned short term implied valuations, the pair may anchor itself in the neighborhood of 1.3500 in the interim.

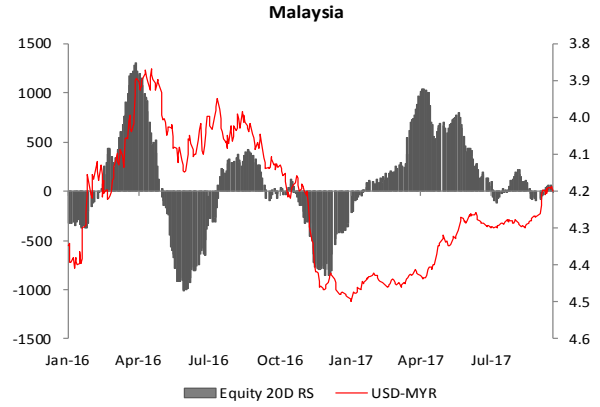


- USD-CAD** USD-CAD eventually ignored firmer crude as risk aversion drove the broad dollar higher on Monday. Expect some caution ahead of the appearance by the BOC's Poloz on Wednesday and despite short term implied valuations testing lower for the pair. Preference to accumulate on dips in the near term within 1.2230-1.2400.

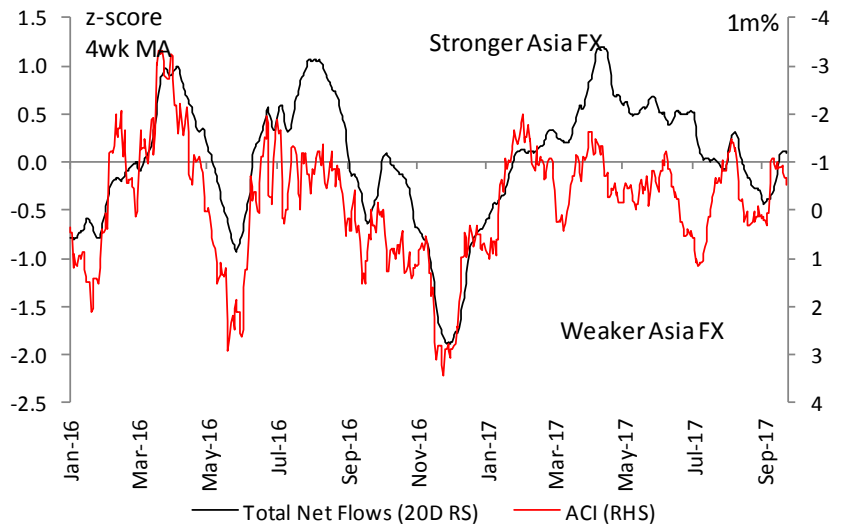
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

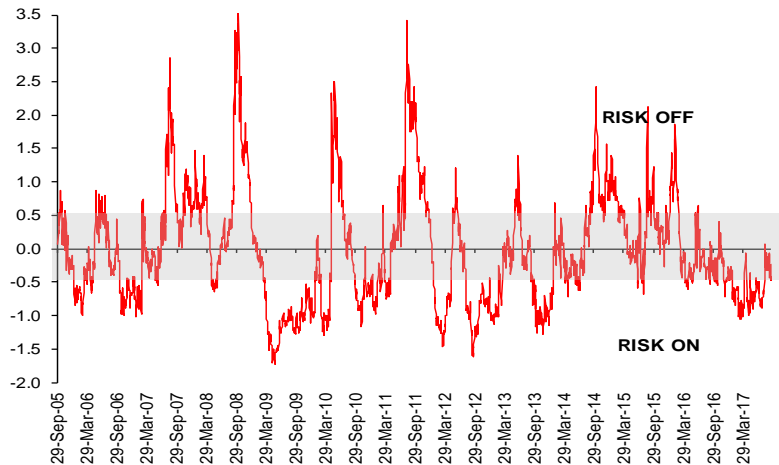




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.208	0.476	-0.107	-0.114	-0.287	0.274	-0.212	-0.23	0.366	0.524	-0.896
SGD	0.847	-0.03	0.518	-0.397	-0.333	-0.62	-0.022	-0.594	0.059	0.241	0.548	-0.673
CAD	0.684	0.071	0.723	-0.469	-0.276	-0.683	0.132	-0.514	0.072	0.495	0.756	-0.365
THB	0.555	-0.389	0.372	-0.747	-0.66	-0.771	-0.394	-0.775	0.422	0.264	0.396	-0.332
IDR	0.555	-0.116	0.416	-0.553	-0.472	-0.381	-0.005	-0.234	0.274	0.528	0.447	-0.243
TWD	0.55	0.484	0.863	-0.09	0.089	-0.291	0.56	-0.004	-0.338	0.59	0.823	-0.28
CNH	0.524	0.498	0.968	-0.062	0.187	-0.432	0.52	-0.192	-0.313	0.383	1	-0.297
CHF	0.514	0.873	0.585	0.661	0.688	0.32	0.927	0.542	-0.853	0.335	0.51	-0.569
CNY	0.476	0.587	1	0.048	0.298	-0.343	0.606	-0.122	-0.431	0.404	0.968	-0.259
MYR	0.411	-0.498	0.341	-0.859	-0.746	-0.795	-0.464	-0.761	0.657	0.401	0.375	-0.109
CCN12M	0.349	0.251	0.578	-0.071	0.121	-0.023	0.302	0.04	-0.142	0.32	0.543	-0.166
PHP	0.282	-0.272	0.172	-0.274	-0.251	-0.244	-0.307	-0.383	0.192	-0.212	0.023	-0.295
JPY	0.274	0.956	0.606	0.769	0.845	0.416	1	0.638	-0.899	0.26	0.52	-0.311
USGG10	0.208	1	0.587	0.778	0.835	0.402	0.956	0.619	-0.901	0.185	0.498	-0.265
INR	0.04	0.681	0.36	0.536	0.561	0.467	0.751	0.691	-0.615	0.488	0.205	-0.046
KRW	-0.239	0.202	-0.297	0.487	0.222	0.675	0.233	0.71	-0.23	0.022	-0.364	0.024
GBP	-0.384	0.73	0.087	0.874	0.875	0.764	0.727	0.875	-0.688	-0.069	-0.01	0.173
NZD	-0.46	0.57	0.226	0.563	0.652	0.425	0.555	0.587	-0.432	0.243	0.178	0.398
AUD	-0.712	-0.313	-0.704	0.154	0.043	0.445	-0.375	0.203	0.221	-0.364	-0.661	0.481
EUR	-0.896	-0.265	-0.259	-0.154	-0.051	-0.034	-0.311	-0.03	0.325	-0.164	-0.297	1

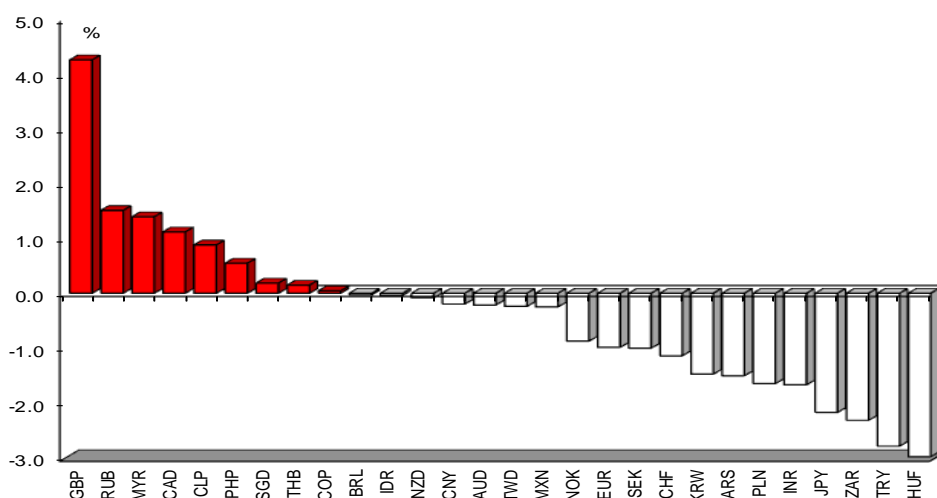
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1844	1.1900	1.1931	1.2000	1.2025
GBP-USD	1.3087	1.3500	1.3530	1.3600	1.3657
AUD-USD	0.7901	0.7947	0.7957	0.8000	0.8062
NZD-USD	0.7141	0.7200	0.7268	0.7300	0.7311
USD-CAD	1.2062	1.2300	1.2335	1.2400	1.2470
USD-JPY	112.00	112.11	112.27	112.72	112.93
USD-SGD	1.3391	1.3400	1.3474	1.3500	1.3559
EUR-SGD	1.6006	1.6036	1.6076	1.6100	1.6191
JPY-SGD	1.1969	1.2000	1.2001	1.2100	1.2292
GBP-SGD	1.7747	1.8200	1.8230	1.8300	1.8349
AUD-SGD	1.0683	1.0700	1.0721	1.0773	1.0800
Gold	1286.45	1290.00	1291.40	1300.00	1352.07
Silver	16.83	16.90	16.90	17.00	17.00
Crude	48.74	50.50	50.58	50.60	50.93

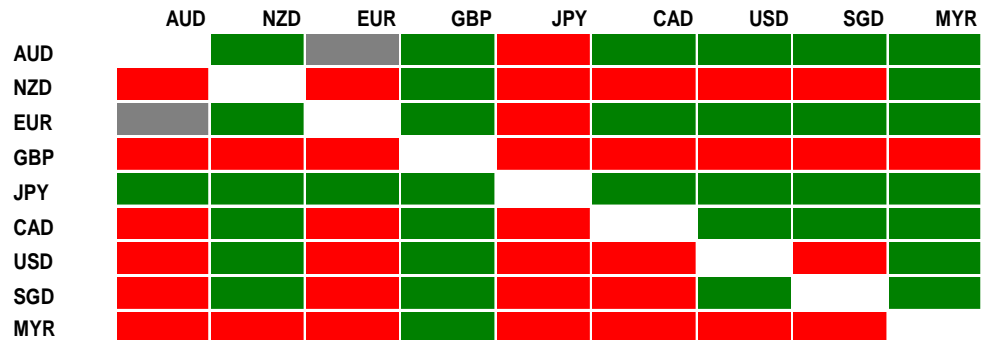
Source: OCBC Bank

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



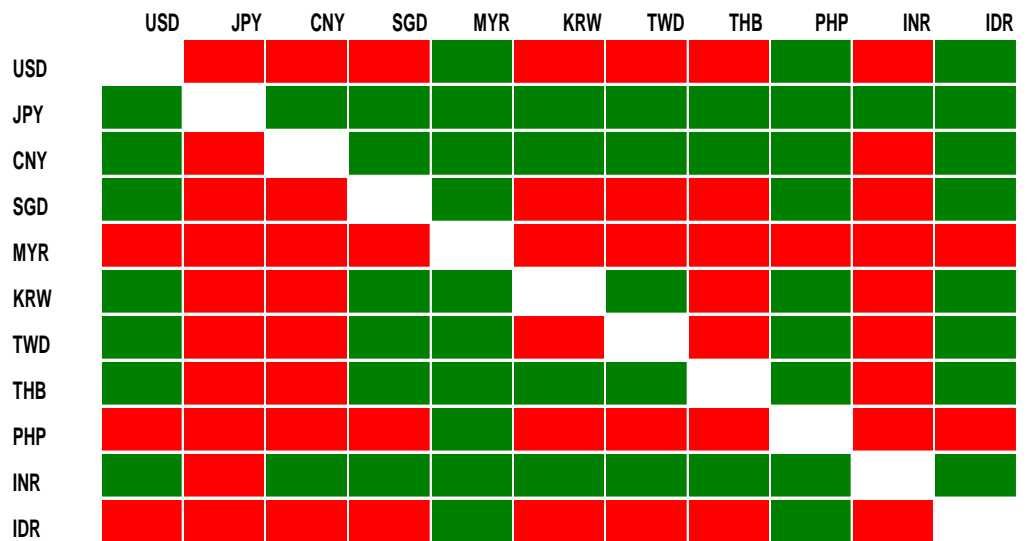
Source: Bloomberg

**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	
2	21-Sep-17	B	USD-JPY	112.58	115.05	111.30	Policy dichotomy post FOMC-BOJ + positive risk appetite levels	
<b>STRUCTURAL</b>								
3	09-May-17	B	GBP-USD	1.2927	1.3700	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
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		
<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 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
9	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
							Jan-Sep*** 2017 Return	-1.44
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank



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