

Friday, October 27, 2017

FX Themes/Strategy/Trading Ideas

- An as expected outcome from the ECB (but doused with a healthy dose of dovishness) and the passage of the budget resolution in the US buoyed the USD higher across the board on Thursday. Additionally, a report from Politico also indicated that Yellen was now out of the running for the Fed chair. The UST curve was lifted (5y sector underperformed) with the 10y yield trading above 2.46%.
- On the ECB, the EUR30bn and 9-month extension outcome was in line with baseline consensus but the EUR (and bund yields) lost altitude as Draghi left future options open ended and indicated that there would be no sudden end to the program while the extension should not be construed as a 'taper'.
- Meanwhile, the House narrowly (216-212) passed the budget resolution on Thursday and expect US fiscal headlines to continue to confront markets in the coming weeks. Expect a 01 Nov 17 target to introduce the tax bill, while deliberations are expected from 06 Nov 17, with passage before Thanksgiving (23 Nov 17).
- Going ahead, expect headline risks to mount next week with the White House Fed nominees expected to be announced before 03 Nov 17, and with the above mentioned tax bill introduction and the FOMC on 01 Nov 17.
- In the interim, rate differential dynamics on the back of policy dichotomies may continue to favor the greenback in the near term, especially with key central banks this week (BOE, BOC, RBA, ECB) taking pains to discourage excessively hawkish expectations. **In the current environment, expect investors to entertain the view that the DXY (currently at 94.82) will seek to establish a firmer trading range of 94.00-96.00. In the same vein, the 10y UST yield may once again seek to fill out the 2.40-2.60% range (last attempt in March 2017 failed miserably).**
- Our 28 Sep 17 idea to be tactically long **USD-CAD** (spot ref: 1.2500) filled its 1.2795 objective on Wednesday. Post the latest BOC meeting, we extend our objective to 1.3095, trailing the stop to 1.2640.

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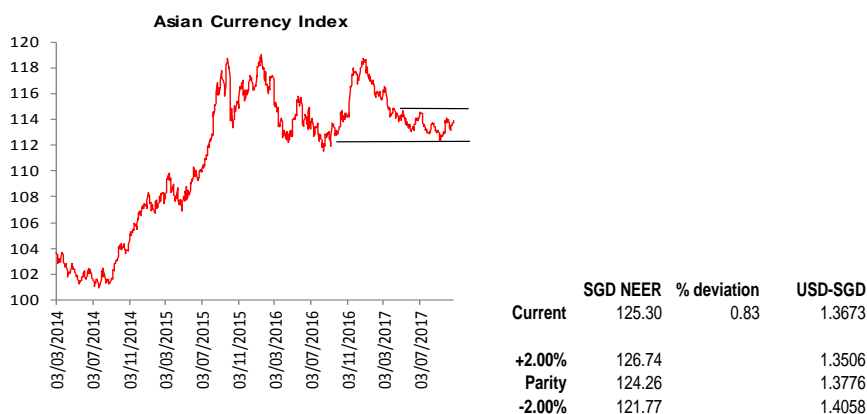
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Asian FX

- EMFX was trounced by broad USD strength on Thursday and expect USD-Asia to follow suit into the end of the week. In Asia, net portfolio inflows indicate positive momentum for the KRW despite minor outflows on Thursday, while the TWD continues to clock equity inflow momentum.

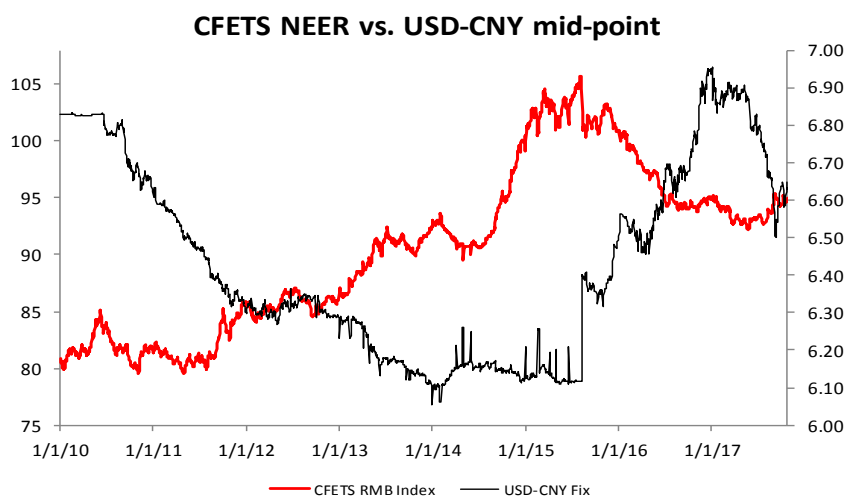
Elsewhere, a pickup in equity inflows for INR has flipped the net rolling 1M balance of inflows to positive. On other fronts, anemic appetite continues to see the IDR experiencing net outflow pressure, while net outflows for the THB continue to deepen.

- Overall, despite the **FXSI (FX Sentiment Index)** dipping into Risk-On territory on Thursday, expect the **ACI (Asian Currency Index)** to be dragged higher by the broad dollar nevertheless.
- SGD NEER:** On the back of broad dollar strength, the SGD NEER is softer on the day at around +0.66% above its perceived parity (1.3776) with NEER-implied USD-SGD thresholds also firmer on the day. At current levels, the +1.00% threshold is estimated at 1.3640 (where the 100-day MA also resides) with upside for the pair seen towards 1.3700/30 in the near term instead.



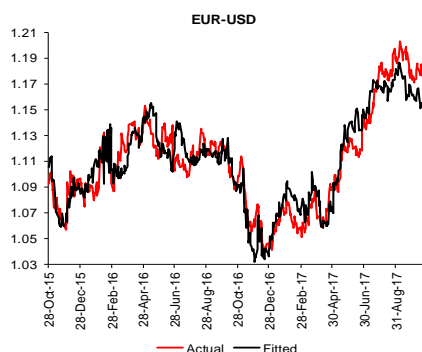
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (less than expected) to 6.6473 from 6.6288 on Thursday. This took the CFETS RMB Index higher to 95.02 from 94.78 yesterday.



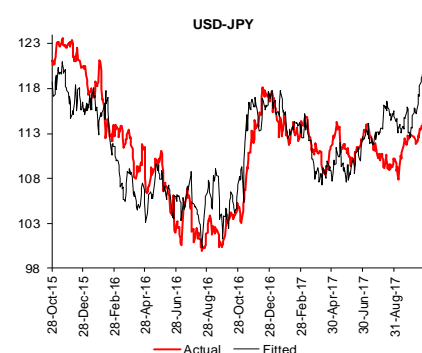
Source: OCBC Bank, Bloomberg

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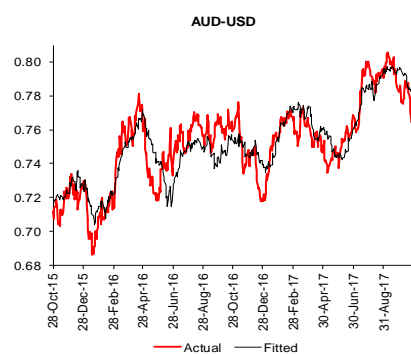
Source: OCBC Bank

- **EUR-USD** For today, look to the slew of ECB speak today (Praet, Nowotny, Angeloni, Weidmann) to either underscore or downplay Draghi's guidance from yesterday. In the interim, short term implied valuations have stepped perceptibly lower and the floor at 1.1600 is seen under threat towards 1.1555, with the 100-day MA (1.1679) seen providing initial resistance.



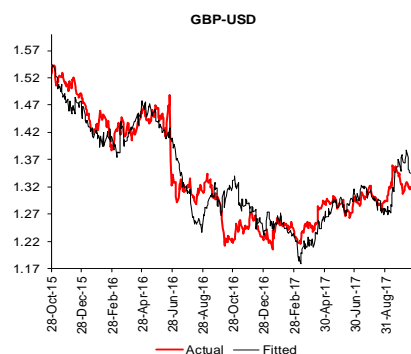
Source: OCBC Bank

- **USD-JPY** The JPY was partially underpinned on JPY-cross unwinding on Thursday and this served to temper USD-JPY upside. Going ahead, look to US 3Q GDP numbers today for further cues while we note that the pair continues to lag its firming short term implied valuations. In the interim, expect USD-JPY to attempt to establish a foothold at 114.00 for 114.50.



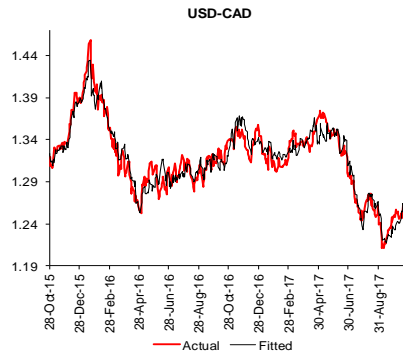
Source: OCBC Bank

- **AUD-USD** Dovish inflation comments from the RBA's Debelle on Thursday and softening 3Q PPI inflation numbers this morning may continue to keep the AUD-USD slanted south in the current USD environment amid still heavy short term implied valuations. Coupled with the potential for negative political headlines domestically, a breach of 0.7600 may threaten 0.7570.



Source: OCBC Bank

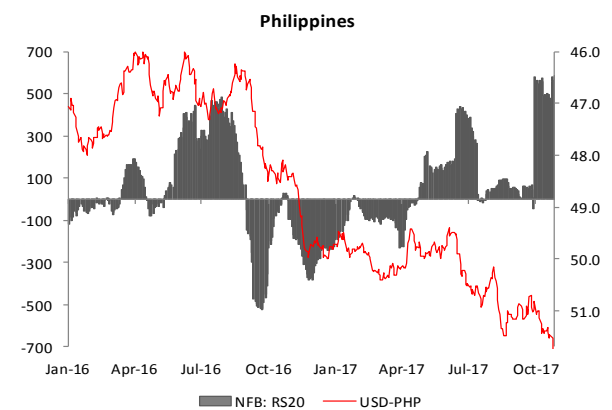
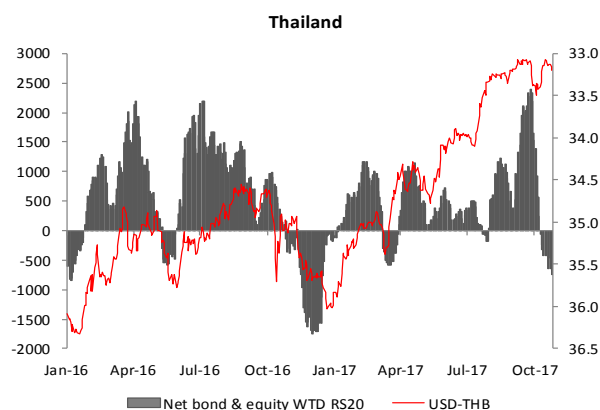
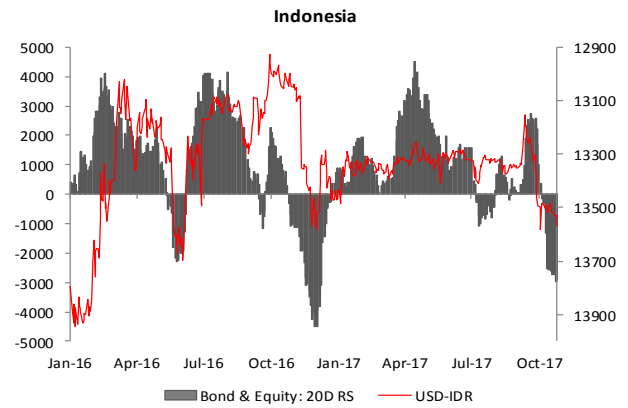
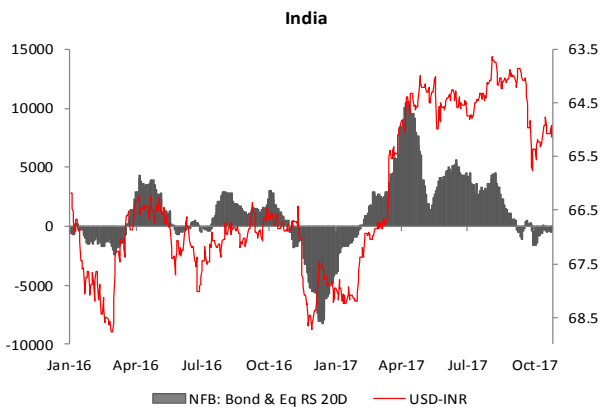
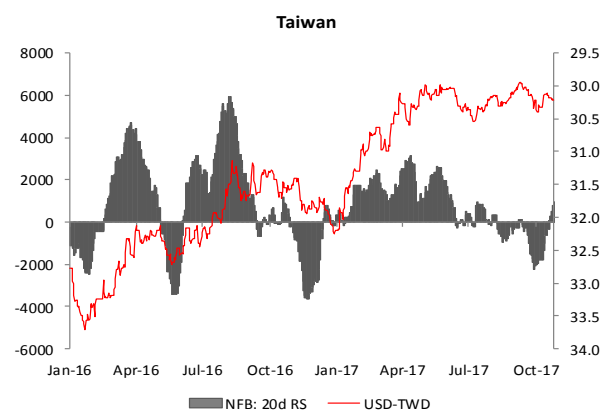
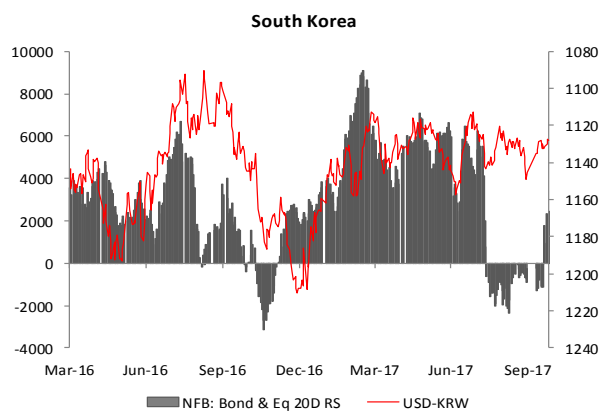
- **GBP-USD** In addition to the overhang from Brexit-related headlines, EUR-induce negativity and broad USD resilience may continue to weigh on the GBP despite an expected BOE rate hike next week. Risk to detach on a sustained basis from the 55-day MA (1.3163) and decay towards the 100-day MA (1.3062) may persist with short term implied valuations also heavier.

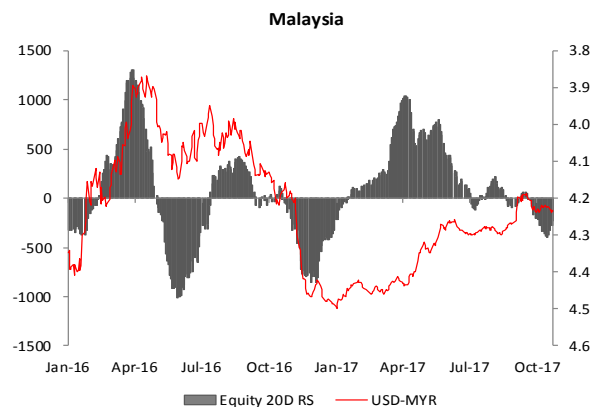


- USD-CAD** With the CAD still smarting from the BOC meeting this week, renewed USD resilience in the near term is seen aiding short term implied valuations higher. If a base is established at 1.2860, a first resistance is expected towards 1.2900 before 1.2940.

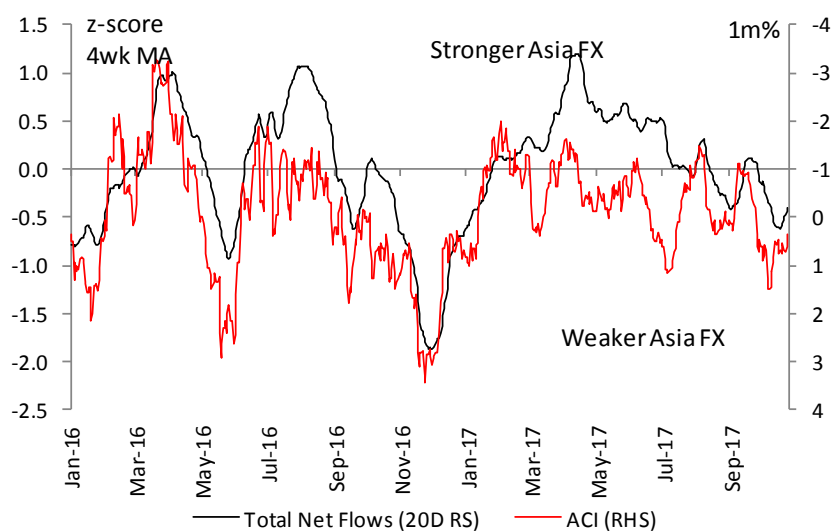
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

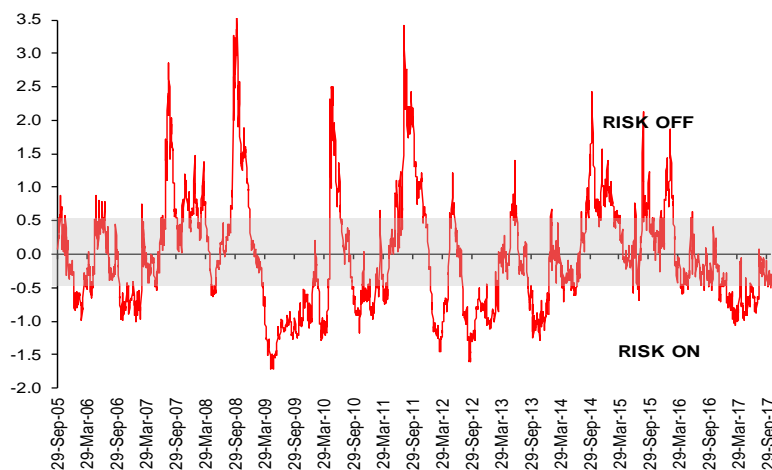




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| Security | DXY | USGG10 | CNY | SPX | MSELCA | CRY | JPY | CL1 | VIX | ITRTEX | CNH | EUR |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1 | 0.804 | 0.509 | 0.365 | 0.18 | 0.175 | 0.811 | 0.274 | 0.54 | -0.456 | 0.55 | -0.884 |
| CAD | 0.872 | 0.914 | 0.439 | 0.489 | 0.384 | 0.538 | 0.875 | 0.506 | 0.816 | -0.627 | 0.345 | -0.611 |
| CHF | 0.865 | 0.892 | 0.376 | 0.662 | 0.563 | 0.55 | 0.87 | 0.483 | 0.843 | -0.774 | 0.279 | -0.602 |
| SGD | 0.846 | 0.72 | 0.732 | -0.002 | -0.263 | -0.224 | 0.765 | -0.024 | 0.275 | -0.018 | 0.802 | -0.829 |
| JPY | 0.811 | 0.921 | 0.592 | 0.349 | 0.177 | 0.375 | 1 | 0.472 | 0.706 | -0.441 | 0.552 | -0.595 |
| USGG10 | 0.804 | 1 | 0.449 | 0.418 | 0.244 | 0.356 | 0.921 | 0.389 | 0.73 | -0.501 | 0.387 | -0.551 |
| MYR | 0.714 | 0.598 | 0.662 | 0.045 | -0.111 | -0.221 | 0.651 | -0.032 | 0.337 | -0.16 | 0.72 | -0.67 |
| IDR | 0.662 | 0.759 | 0.314 | 0.462 | 0.415 | 0.263 | 0.686 | 0.345 | 0.674 | -0.574 | 0.249 | -0.414 |
| CNH | 0.55 | 0.387 | 0.98 | -0.375 | -0.553 | -0.3 | 0.552 | 0.019 | -0.011 | 0.305 | 1 | -0.676 |
| CNY | 0.509 | 0.449 | 1 | -0.375 | -0.477 | 0.091 | 0.592 | 0.492 | 0.309 | 0.264 | 0.98 | -0.585 |
| PHP | 0.501 | 0.67 | -0.094 | 0.777 | 0.837 | 0.71 | 0.584 | 0.53 | 0.816 | -0.857 | -0.252 | -0.133 |
| THB | 0.195 | 0.004 | 0.553 | -0.638 | -0.803 | -0.812 | 0.014 | -0.571 | -0.484 | 0.678 | 0.691 | -0.475 |
| CCN12M | 0.171 | 0.068 | 0.826 | -0.375 | -0.426 | -0.2 | 0.241 | 0.072 | -0.106 | 0.326 | 0.779 | -0.294 |
| TWD | 0.084 | 0.008 | 0.779 | -0.619 | -0.797 | -0.754 | 0.07 | -0.494 | -0.393 | 0.63 | 0.787 | -0.312 |
| INR | -0.246 | -0.268 | 0.317 | -0.762 | -0.788 | -0.587 | -0.177 | -0.357 | -0.437 | 0.789 | 0.322 | -0.074 |
| KRW | -0.514 | -0.444 | 0.279 | -0.859 | -0.894 | -0.798 | -0.422 | -0.334 | -0.651 | 0.93 | 0.167 | 0.257 |
| GBP | -0.593 | -0.472 | 0.164 | -0.747 | -0.557 | 0.008 | -0.378 | 0.181 | -0.298 | 0.636 | -0.003 | 0.377 |
| NZD | -0.752 | -0.908 | -0.272 | -0.672 | -0.526 | -0.54 | -0.853 | -0.424 | -0.836 | 0.716 | -0.147 | 0.393 |
| AUD | -0.796 | -0.914 | -0.356 | -0.29 | -0.173 | -0.212 | -0.744 | -0.257 | -0.637 | 0.416 | -0.284 | 0.608 |
| EUR | -0.884 | -0.551 | -0.585 | 0.086 | 0.22 | 0.151 | -0.595 | -0.116 | -0.174 | 0.038 | -0.676 | 1 |

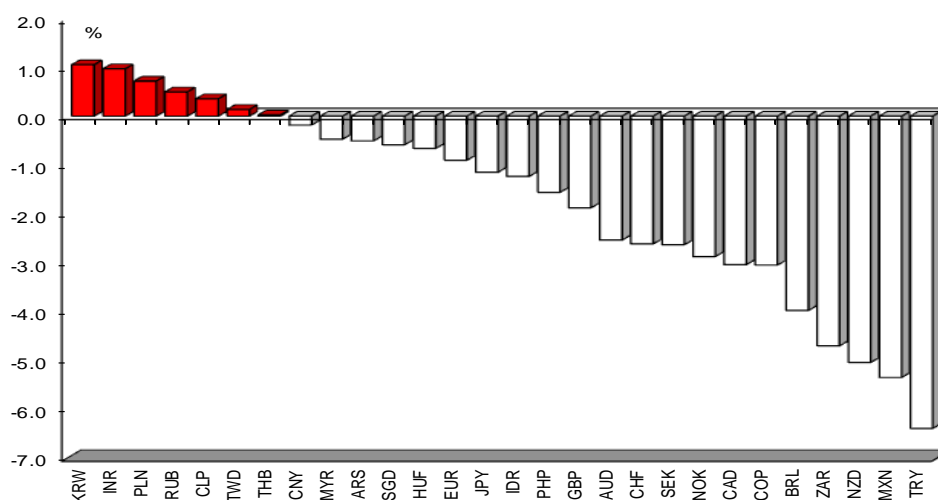
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1600 | 1.1625 | 1.1638 | 1.1651 | 1.1700 |
| GBP-USD | 1.3076 | 1.3100 | 1.3134 | 1.3184 | 1.3200 |
| AUD-USD | 0.7600 | 0.7630 | 0.7648 | 0.7666 | 0.7691 |
| NZD-USD | 0.6818 | 0.6822 | 0.6835 | 0.6900 | 0.7148 |
| USD-CAD | 1.2800 | 1.2823 | 1.2867 | 1.2874 | 1.2900 |
| USD-JPY | 111.71 | 114.00 | 114.12 | 114.19 | 114.26 |
| USD-SGD | 1.3546 | 1.3600 | 1.3669 | 1.3685 | 1.3696 |
| EUR-SGD | 1.5900 | 1.5905 | 1.5908 | 1.6000 | 1.6043 |
| JPY-SGD | 1.1928 | 1.1948 | 1.1977 | 1.2000 | 1.2125 |
| GBP-SGD | 1.7864 | 1.7900 | 1.7952 | 1.8000 | 1.8059 |
| AUD-SGD | 1.0400 | 1.0439 | 1.0454 | 1.0458 | 1.0500 |
| Gold | 1260.95 | 1261.72 | 1266.30 | 1298.30 | 1299.82 |
| Silver | 16.50 | 16.70 | 16.78 | 16.80 | 17.23 |
| Crude | 50.99 | 52.60 | 52.67 | 52.70 | 53.23 |

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

| | AUD | NZD | EUR | GBP | JPY | CAD | USD | SGD | MYR |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| AUD | | | | | | | | | |
| NZD | | | | | | | | | |
| EUR | | | | | | | | | |
| GBP | | | | | | | | | |
| JPY | | | | | | | | | |
| CAD | | | | | | | | | |
| USD | | | | | | | | | |
| SGD | | | | | | | | | |
| MYR | | | | | | | | | |

Source: OCBC Bank

Asia FX Heat Map

| | USD | JPY | CNY | SGD | MYR | KRW | TWD | THB | PHP | INR | IDR |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| USD | | | | | | | | | | | |
| JPY | | | | | | | | | | | |
| CNY | | | | | | | | | | | |
| SGD | | | | | | | | | | | |
| MYR | | | | | | | | | | | |
| KRW | | | | | | | | | | | |
| TWD | | | | | | | | | | | |
| THB | | | | | | | | | | | |
| PHP | | | | | | | | | | | |
| INR | | | | | | | | | | | |
| IDR | | | | | | | | | | | |

Source: OCBC Bank

FX Trade Ideas

| 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 | |
| 4 | 24-Oct-17 | | S | EUR-USD | 1.1763 | 1.1535 | 1.1875 | Potential disappoint from the ECB, possible USD resilience from fiscal and Fed-chair news flow | |
| 5 | 24-Oct-17 | | B | USD-SGD | 1.3616 | 1.3765 | 1.3540 | Post MAS MPS behavior of SGD NEER, broad USD resilience, uneven net portfolio inflows in | |
| | STRUCTURAL | | | | | | | | |
| 6 | 09-May-17 | | B | GBP-USD | 1.2927 | 1.3700 | 1.2535 | USD skepticism, UK snap elections, positioning overhang, hawkish | |
| 7 | 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 | 19-Sep-17 | 27-Sep-17 | B | GBP-USD | 1.3540 | | 1.3395 | Earlier than expected paradigm change by the BOE | -1.11 |
| 2 | 28-Sep-17 | 11-Oct-17 | S | EUR-USD | 1.1734 | | 1.1860 | Political overhang from Germany contrasting with FOMC, Yellen | -0.99 |
| 3 | 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 |
| 4 | 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 |
| 5 | 22-Aug-17 | 20-Oct-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 | -0.56** |
| | Jan-Oct*** 2017 Return | | | | | | | | -10.82 |
| | 2016 Return | | | | | | | | +6.91 |
| * realized **of notional ***month-to-date | | | | | | | | | |

Source: OCBC Bank

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