

Wednesday, September 27, 2017

FX Themes/Strategy/Trading Ideas

- Except against the CAD, the USD pulled higher across G10 space (firmer UST yields with 5y sector underperforming) as rhetoric from the Fed's Bostic (comfortable with a December hike) and **Yellen**. Specifically, the Fed chair cautioned that it was "imprudent to keep monetary policy on hold until inflation is back to 2 percent." And that the Fed "should also be wary of moving too gradually". Although she subsequently cautioned about the potential for downward pressures on inflation "to be unexpectedly persistent" in wide ranging remarks, markets continued to trade off her earlier remarks.
- **North Korean** related jitters were digested fairly comfortably on Tuesday despite fresh rhetoric from the US President although risk factors from this angle should not be totally discounted just yet.
- Apart from the US data feed today (August durable goods and pending home sales), prepare for another lineup of Fed speakers today with **Kashkari** (1315 GMT), **Bullard** (1730 GMT), **Brainard** (1800 GMT), and **Rosengren** (2300 GMT). **We continue to watch for a more unified posture from Fed speakers tonight.** In addition, the **US** administration is slated to announce its **tax plan** on Wednesday with investors imputing some USD positivity on this front in the interim.
- Elsewhere, the **ECB's** Rimsevics is meanwhile scheduled for 0610 GMT while the **Bank of Canada's Poloz** is due to make appearances at 1545 GMT and 1655 GMT. The **RBNZ** is expected to convene and keep its benchmark rate unchanged at 1.75% at 2000 GMT. In Asia, the **Bank of Thailand** is expected to stand pat at 1.50% (0705 GMT).
- **Overall, with implied odds of a December Fed rate hike climbing further overnight, preference to remain heavy on EUR, GBP, while staying constructive on USD-JPY. With risk appetite levels slightly shaky expect also nervousness towards the antipodeans and Asian FX.**

Asian FX

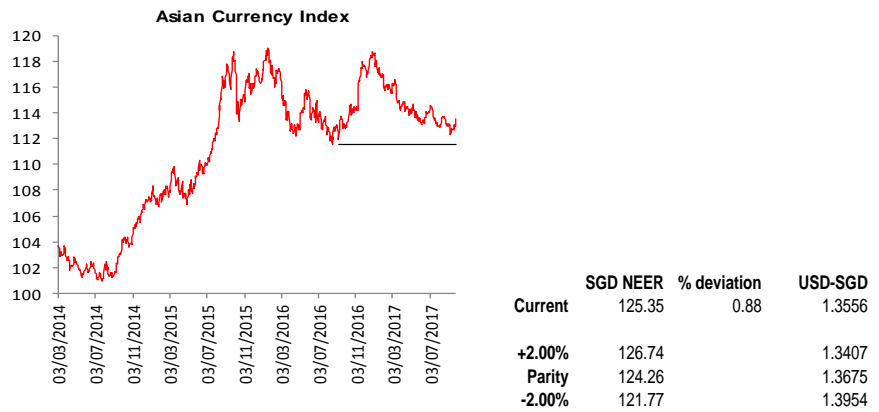
- Global EM equities weakened again overnight and the **FXSI (FX Sentiment Index)** continued to edge higher within Risk-neutral territory as EM risk premiums remain wider from a week ago.
- On the **net portfolio inflow** front in **Asia**, net outflow momentum for the KRW is attempting to moderate but continuing to deepen for the TWD. Net inflows for the INR are moribund at this juncture after the recent deterioration

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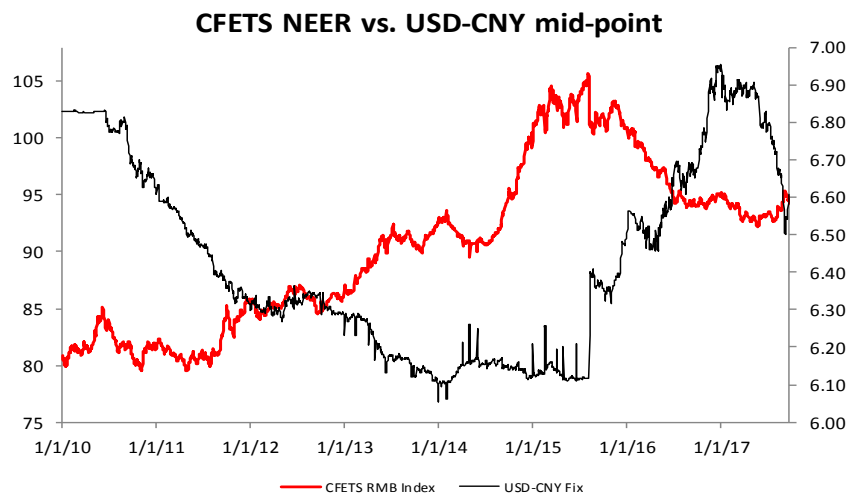
but net inflows of the IDR remain significantly positive despite the latest rate cut by Bank Indonesia. In the same vein, net inflow momentum for the THB continue to persist and significantly positive levels. On other fronts, net inflows for the PHP remain mildly supportive. Overall, we look for the **ACI (Asian Currency Index)** to continue to float higher for the third consecutive session.

- SGD NEER:** The SGD NEER is mildly firmer on the day at around +0.91% above its perceived parity (1.3675). Expect the +1.00% (1.3539) threshold to continue to cap while downside at +0.70% (1.3580) may attract if the broad dollar continues to gain traction. Note that the 55-day MA (1.3576) may also provide an interim resistance while dip buying may be expected towards the 200-week MA (1.34191). Overall, expect the pair to remain oriented northwards in the current environment.



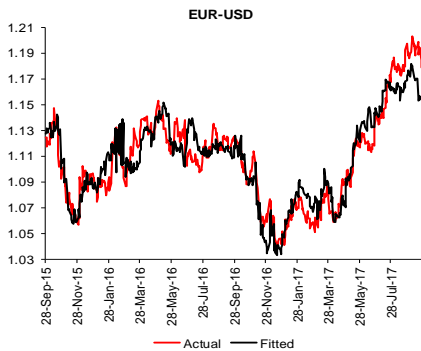
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point came in lower than expected again today at 6.6192 from 6.6076 on Tuesday. This saw the **CFETS RMB Index** higher at 94.34 compared to 94.29 yesterday.



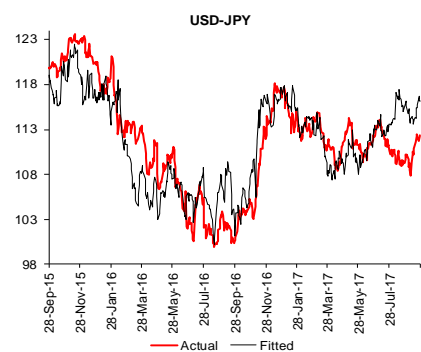
Source: OCBC Bank, Bloomberg

G7



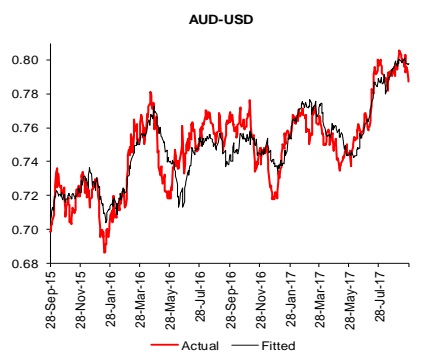
Source: OCBC Bank

- EUR-USD** Political uncertainty continued to weigh on the EUR-USD on Tuesday and with market expectations of an October ECB taper announcement still not set in stone. The ECB's Makuch also noted that the ECB should consider the EUR when deciding on its next move. In the interim, short term implied valuations continue to decay and the pair may remain slippery within 1.1720-1.1840.



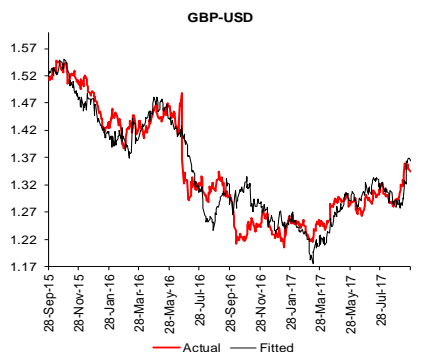
Source: OCBC Bank

- USD-JPY** Broad USD resilience may also continue to manifest via the USD-JPY with short term implied valuations still aloft. Expect base building off the floor at 112.00 towards 112.75 if the greenback continues to climb across G10 and the JPY continues to underperform on the crosses.



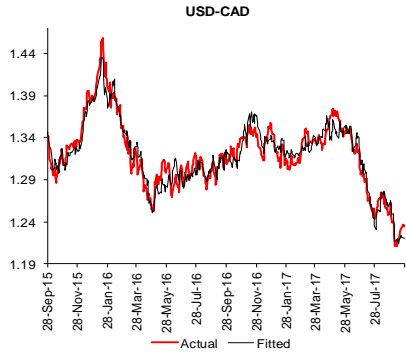
Source: OCBC Bank

- AUD-USD** Slightly shaky investor sentiment and a soggy metals complex may continue to discourage the upside for the AUD-USD in the near term. Note that the pair has cracked below its 55-day MA (0.7939) with 0.7820/50 a potential draw at this juncture. Meanwhile short term implied valuations continue to attempt to edge lower and we retain a near term heavy bias on the pair.



Source: OCBC Bank

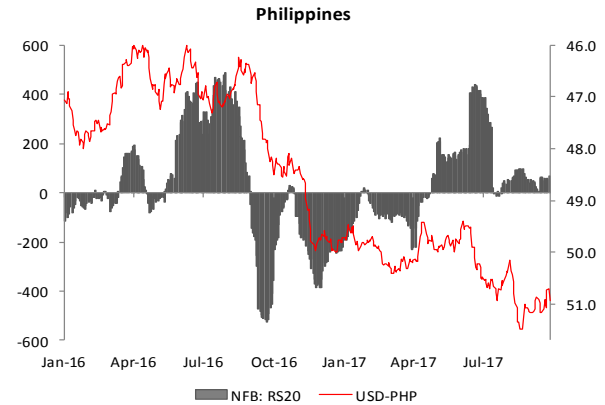
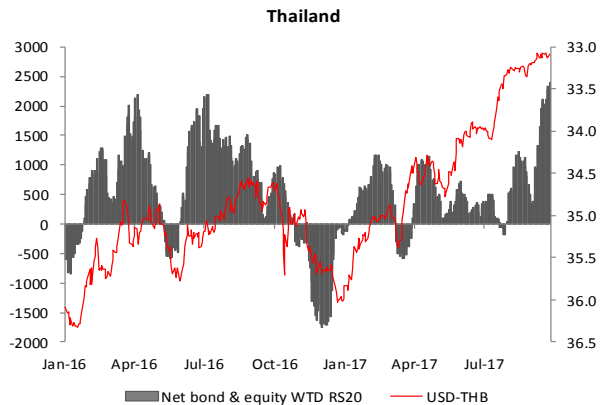
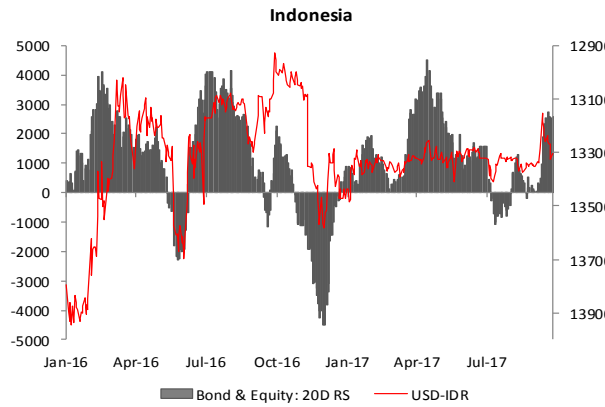
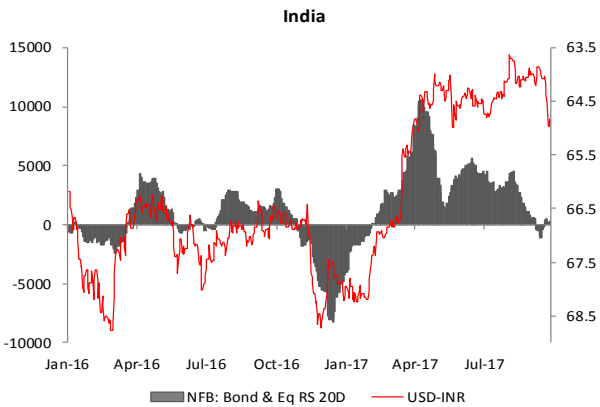
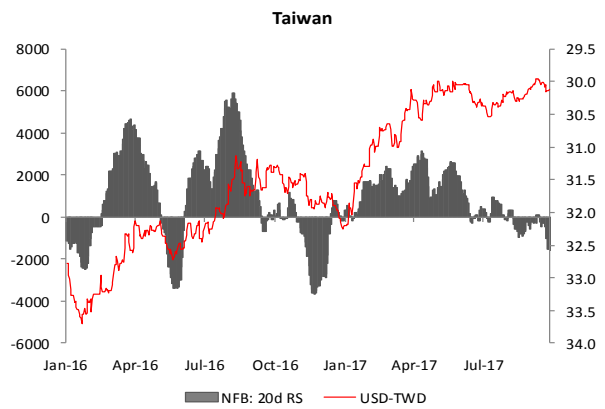
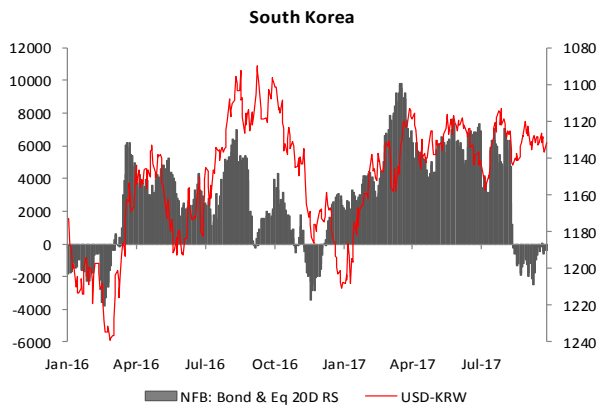
- GBP-USD** Negative Brexit headlines undermined the pound again with EU President Tusk stating that British concessions were insufficient to permit further progress towards actual negotiations. In addition, note that short term implied valuations are attempting to top out and GBP-USD may remain slightly reluctant towards upside tests. A breach below 1.3400 would risk 1.3330 with 1.3500 seen capping at this juncture.

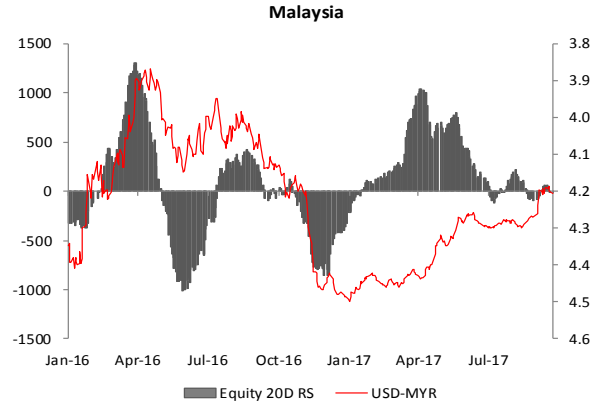


- USD-CAD** CAD outperformed across the board ahead of the BOC's Poloz today with investors keen for further hawkish hints (a December rate hike is all but priced in at this juncture). Short term implied valuations meanwhile remain fairly staid and in the current environment and look for range trading behavior within 1.2300-1.2400 in the interim.

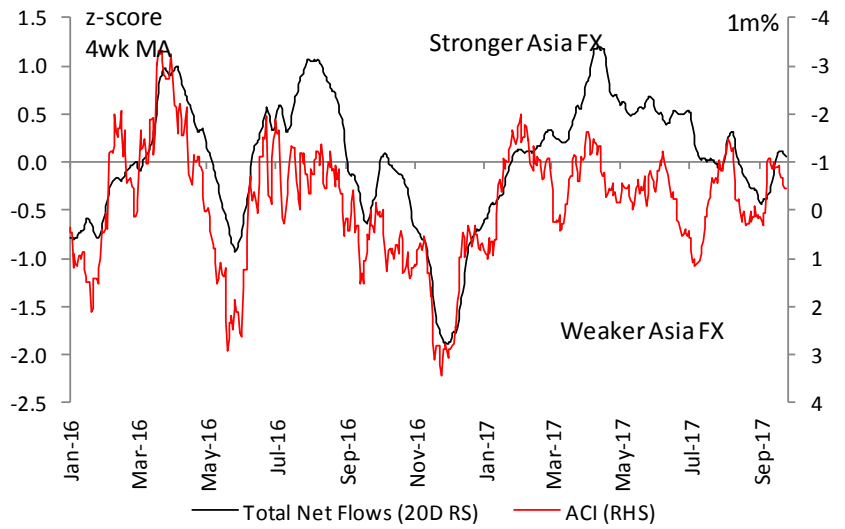
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

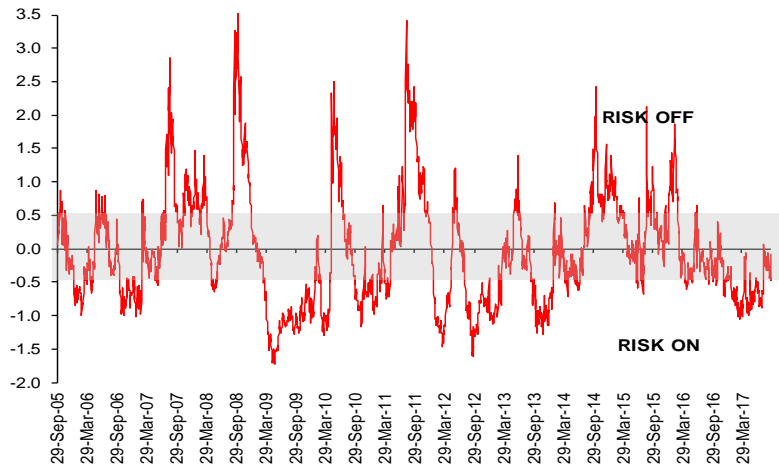




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.347	0.596	0.005	-0.189	-0.12	0.473	0.221	-0.295	0.499	0.673	-0.917
SGD	0.856	0.115	0.525	-0.333	-0.359	-0.524	0.181	-0.199	0.012	0.288	0.627	-0.674
CNH	0.673	0.567	0.974	0.05	0.066	-0.228	0.643	0.217	-0.37	0.533	1	-0.58
CHF	0.64	0.878	0.648	0.68	0.564	0.381	0.933	0.614	-0.856	0.445	0.616	-0.682
TWD	0.631	0.501	0.878	0.002	0	-0.153	0.593	0.157	-0.385	0.658	0.849	-0.443
THB	0.629	-0.194	0.357	-0.691	-0.658	-0.708	-0.117	-0.334	0.382	0.251	0.504	-0.46
CAD	0.628	0.102	0.657	-0.429	-0.287	-0.608	0.172	-0.314	0.045	0.474	0.69	-0.335
IDR	0.626	-0.017	0.521	-0.409	-0.502	-0.232	0.128	0.022	0.144	0.596	0.532	-0.409
CNY	0.596	0.625	1	0.157	0.137	-0.121	0.684	0.233	-0.468	0.57	0.974	-0.509
CCN12M	0.499	0.397	0.618	-0.007	0.047	0.042	0.498	0.294	-0.19	0.395	0.654	-0.402
JPY	0.473	0.949	0.684	0.774	0.679	0.474	1	0.709	-0.89	0.409	0.643	-0.546
INR	0.375	0.607	0.619	0.48	0.159	0.486	0.726	0.796	-0.523	0.662	0.493	-0.528
USGG10	0.347	1	0.625	0.79	0.73	0.446	0.949	0.637	-0.904	0.295	0.567	-0.416
MYR	0.268	-0.471	0.208	-0.858	-0.695	-0.786	-0.414	-0.614	0.66	0.25	0.275	-0.005
KRW	0.142	0.334	-0.03	0.512	0.122	0.675	0.43	0.779	-0.283	0.193	0.045	-0.379
PHP	0.14	-0.22	-0.141	-0.326	-0.122	-0.354	-0.248	-0.476	0.261	-0.41	-0.091	-0.017
GBP	-0.141	0.74	0.229	0.88	0.761	0.781	0.737	0.831	-0.705	0.1	0.15	-0.113
NZD	-0.511	0.431	0.129	0.512	0.655	0.376	0.347	0.262	-0.386	0.163	0.001	0.441
AUD	-0.812	-0.43	-0.78	0.017	0.14	0.225	-0.555	-0.266	0.292	-0.515	-0.774	0.717
EUR	-0.917	-0.416	-0.509	-0.252	0.087	-0.196	-0.546	-0.479	0.378	-0.426	-0.58	1

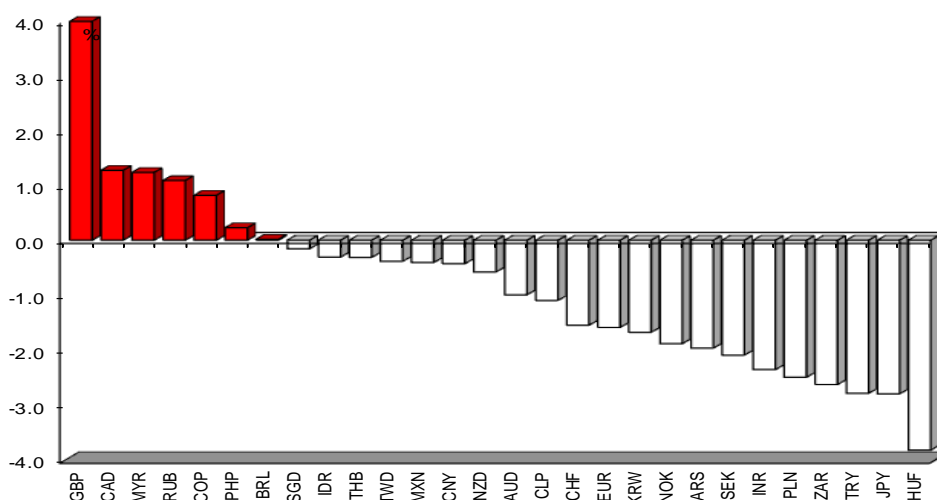
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1662	1.1700	1.1789	1.1790	1.1800
GBP-USD	1.3103	1.3400	1.3445	1.3500	1.3657
AUD-USD	0.7859	0.7881	0.7884	0.7900	0.7944
NZD-USD	0.7141	0.7200	0.7214	0.7300	0.7305
USD-CAD	1.2068	1.2300	1.2349	1.2400	1.2460
USD-JPY	112.00	112.05	112.39	112.72	113.00
USD-SGD	1.3500	1.3530	1.3555	1.3579	1.3600
EUR-SGD	1.5942	1.5970	1.5980	1.6000	1.6043
JPY-SGD	1.1969	1.2000	1.2061	1.2100	1.2288
GBP-SGD	1.7763	1.8200	1.8225	1.8300	1.8349
AUD-SGD	1.0662	1.0669	1.0687	1.0700	1.0766
Gold	1284.31	1292.55	1294.00	1300.00	1352.23
Silver	16.73	16.80	16.80	16.90	17.04
Crude	51.23	52.00	52.09	52.10	52.43

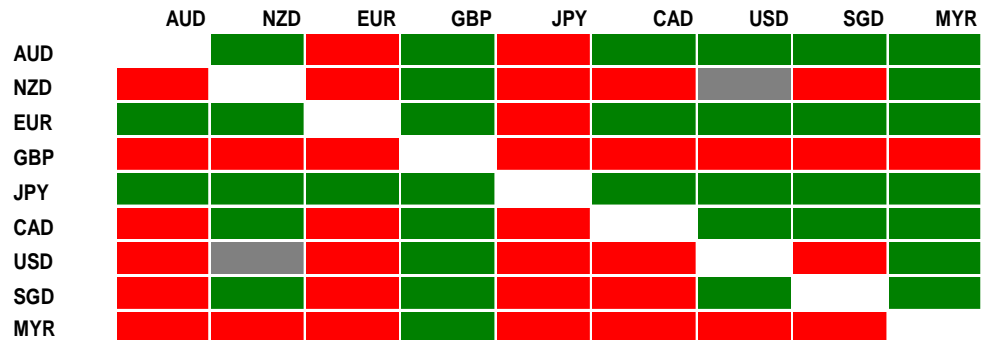
Source: OCBC Bank

FX performance: 1-month change agst USD



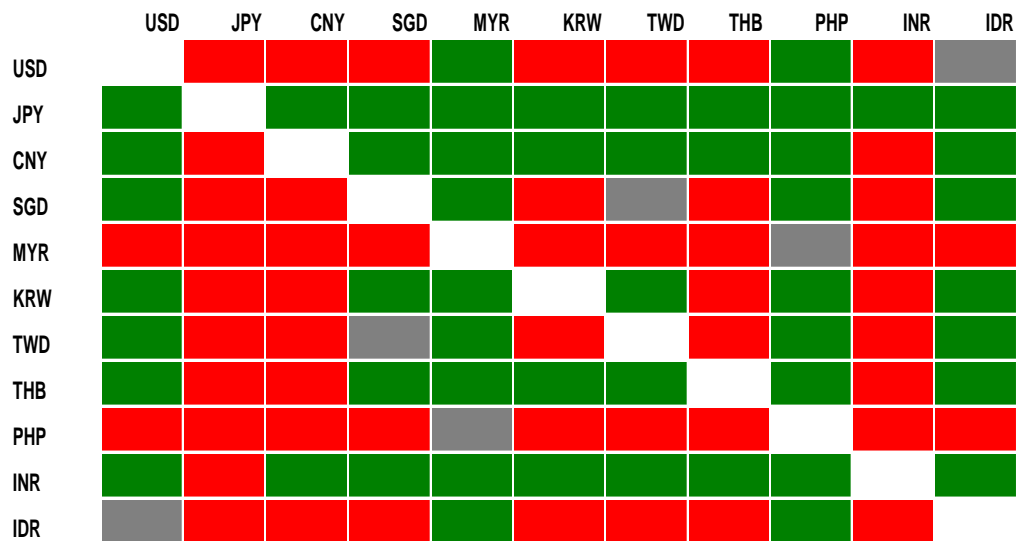
Source: Bloomberg

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	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 FOME-BOJ + positive risk appetite levels	
STRUCTURAL								
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		
RECENTLY CLOSED TRADE IDEAS								
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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