

Tuesday, August 29, 2017

FX Themes/Strategy/Trading Ideas

- Amid softer UST yields, the dollar continued to retreat against the majors on Monday in the wake of last weekend's Jackson Hole although the USD-CAD gained following the slump in crude below 47.00.
- Early on Tuesday in Asia however, a missile launch out of Pyongyang (around 2100 GMT) that reportedly overflew Japan and landed off the eastern coast of Hokkaido sparked another round of global risk aversion with the USD-JPY slumping, gold and 10y UST futures surging, cyclicals like the AUD-USD tripping lower, S&P500 futures softer and USD-KRW jumping higher. Japan has requested for an emergency US Security Council meeting and markets will continue to watch this space. **Overall, preference to stay relatively more in favor of the European complex while the cyclicals may continue to be subject to risk appetite volatility.**
- Going ahead with the global data calendar fairly light, the **DX** may still be looking to test the 92.00 support (with little in the way of significant supports till 90.00. Note that the Index has sunk below its 200-week MA (92.58) and it remains to be seen if markets retain enough conviction for a sustained break. However, geopolitical tensions may however grant the USD a brief reprieve in the short term.
- On other fronts, **EUR-USD** is threatening a sustained technical break above its 200-week MA (1.1754), setting the stage for a potential break above 1.2000. The last time the pair staged a cross-over of its 200-week MA was in August 2016. Meanwhile, USD-CHF, AUD-USD, USD-CAD, and USD-SGD continue to contemplate a sustained break of their respective 200-week MAs. From a technical perspective, the broad dollar may remain under threat in the coming weeks.

Asian FX

- Short term net portfolio inflows have been less than enthusiastic in Asia and the latest round of geopolitical risk may put a good floor on USD-Asia. The latest numbers indicate lessening pressure on net outflows for the KRW and TWD but this may be expected to be foiled if North Korean tensions persist. On other fronts, net inflow momentum for INR, THB, and PHP have continued to moderate but the IDR is seen supported on this front.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** ticked higher within Risk-neutral territory on Monday and is set to continue to edge higher in light of the latest geopolitical tensions. Overall, expect the **ACI (Asian**

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Currency Index) to bounce slightly higher intra-day.

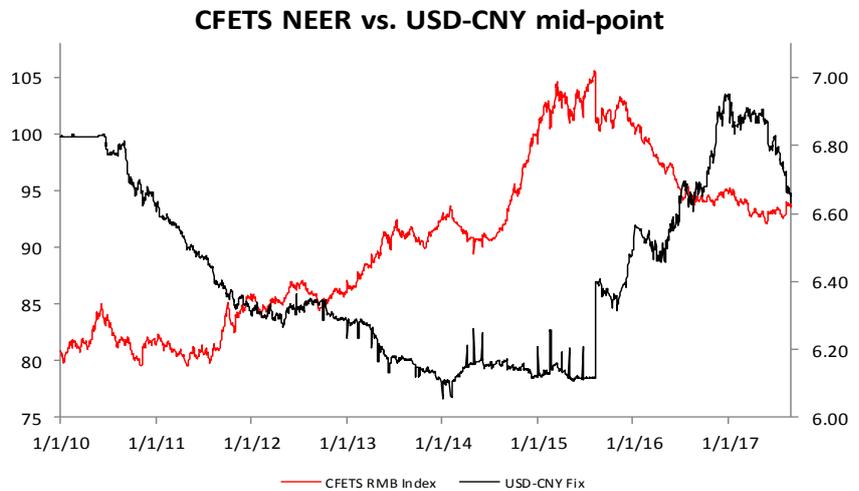
- SGD NEER:** Today, the SGD NEER is softer on the day at around +0.58% above its perceived parity (1.3625), with NEER-implied USD-SGD thresholds lower on the day. If regional risk aversion remains contained, the NEER may gravitate towards +0.70% (1.3531), with +0.80% estimated at 1.3517. If geopolitical jitters persist, the NEER may probe below +0.50% (1.3557).



	SGD NEER	% deviation	USD-SGD
Current	124.97	0.57	1.3547
+2.00%	126.74		1.3358
Parity	124.26		1.3625
-2.00%	121.77		1.3903

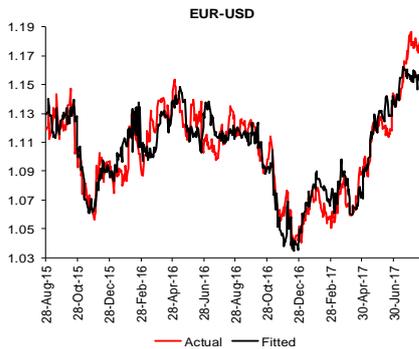
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (less than expected) to 6.6293 from 6.6353 on Monday. This took the CFETS RMB Index higher to 93.68 from 93.61 yesterday.



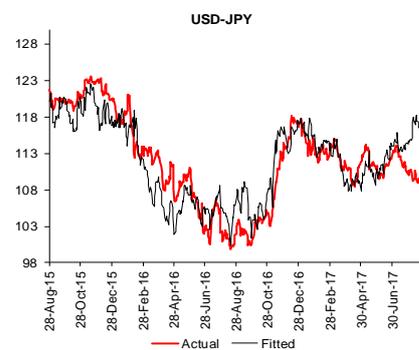
Source: OCBC Bank, Bloomberg

G7



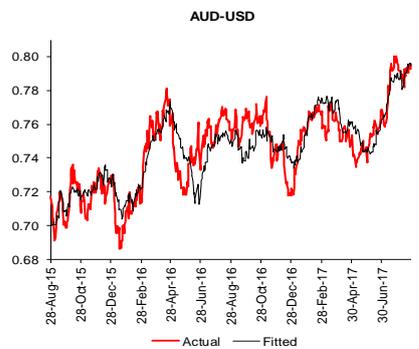
Source: OCBC Bank

- EUR-USD** Staying loaded in favor of the EUR may remain in vogue at this juncture as investors continue to play off the ECB against the Fed. Short term implied valuations remain supported for the pair and look to accumulate on dips towards 1.1920 with 1.1980/00 expected to shelter if risk aversion continues to hum in the background.



Source: OCBC Bank

- USD-JPY** While markets watch the 92.00 support for the DXY, the support at 2.10% for the 10y UST we think is also instrumental, especially for the likes of the USD-JPY. Geopolitical concerns may add further weight on the pair in the near term with short term implied valuations also sinking. A sustained test below 108.50 risks 108.00.



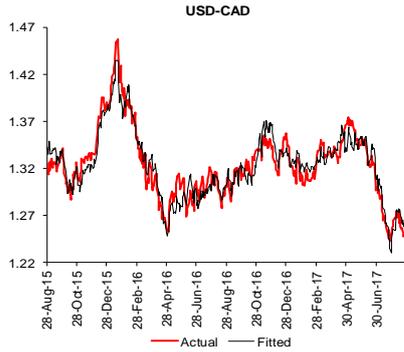
Source: OCBC Bank

- AUD-USD** AUD-USD may continue to remain trapped in a range and shy away from a topside break in the face of renewed geopolitical concerns. Short term implied valuations remain consolidative at this juncture with the AUD-USD also deemed misaligned. Expect a near term locus around 0.7950 pending geopolitical headlines.



Source: OCBC Bank

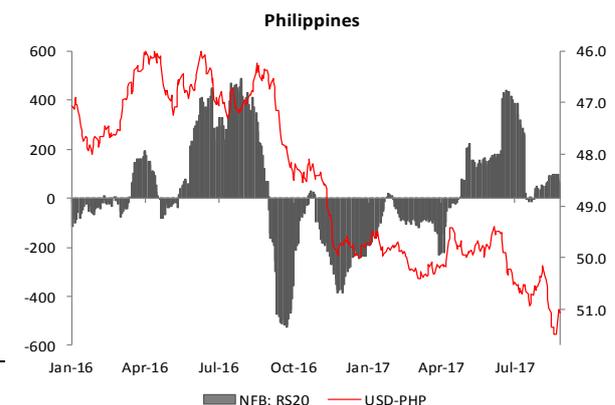
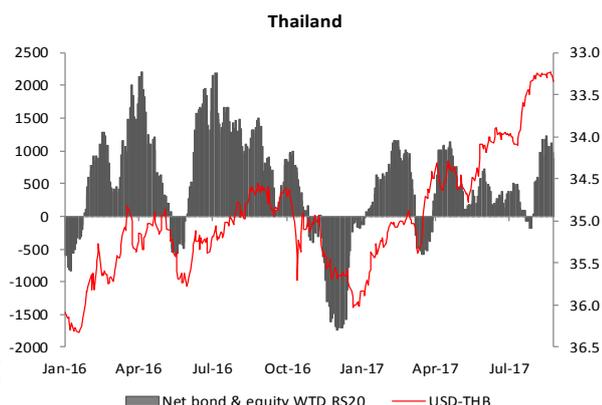
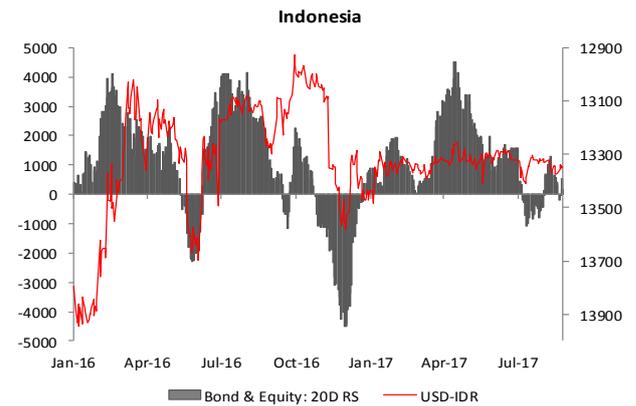
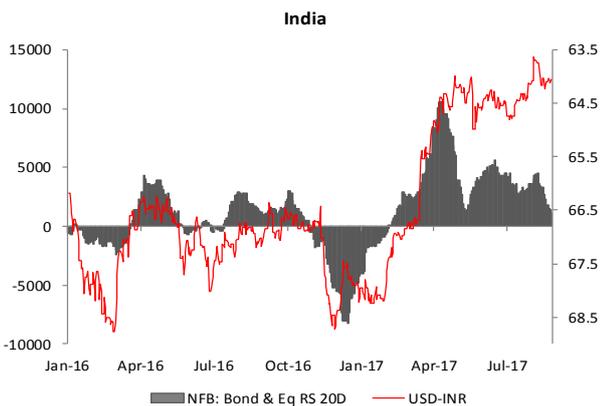
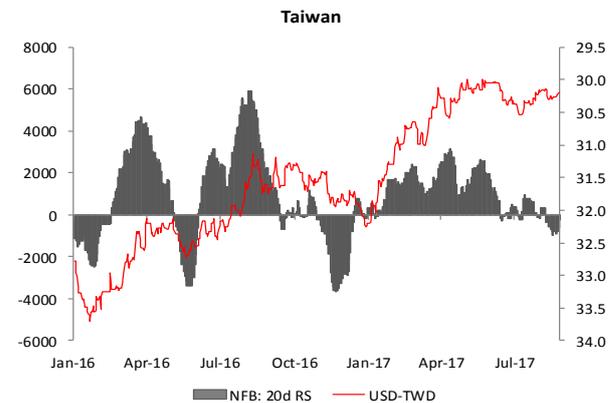
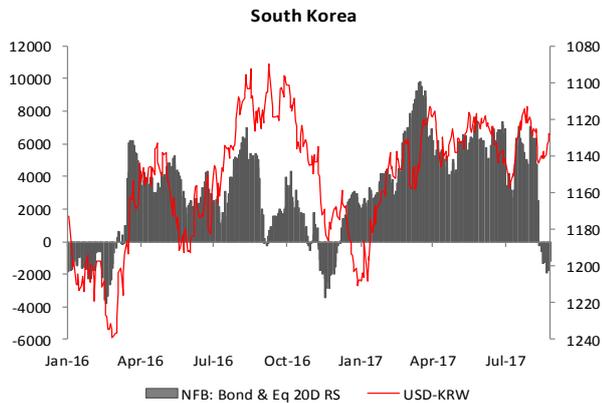
- GBP-USD** Ongoing Brexit talks in Brussels (Monday to Wednesday) with the EU still perceived to be as less than conciliatory, may continue to discourage excessive upside for the GBP-USD despite fairly endemic structural USD vulnerability. Expect the 55-day MA (1.2934) and 1.2950 to attempt to impede on the upside despite slightly supported short term implied valuations. Expect downside support to emerge towards 1.2850.

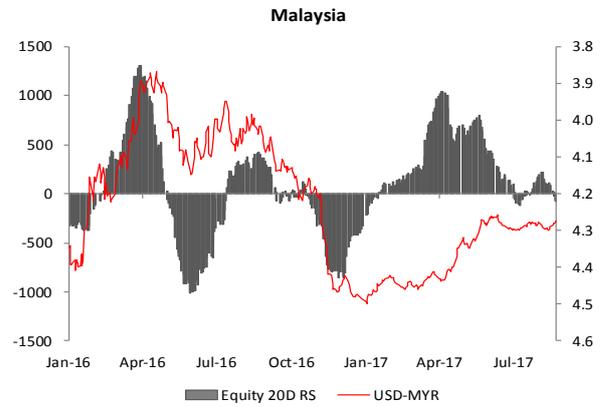


- USD-CAD** Nafta concerns and softer crude took USD-CAD slightly higher on Monday although we note that short term implied valuations remain top heavy (rate hike expectations surrounding the BOC persist). Expect a 1.2440-1.2560 range to hold in the interim.

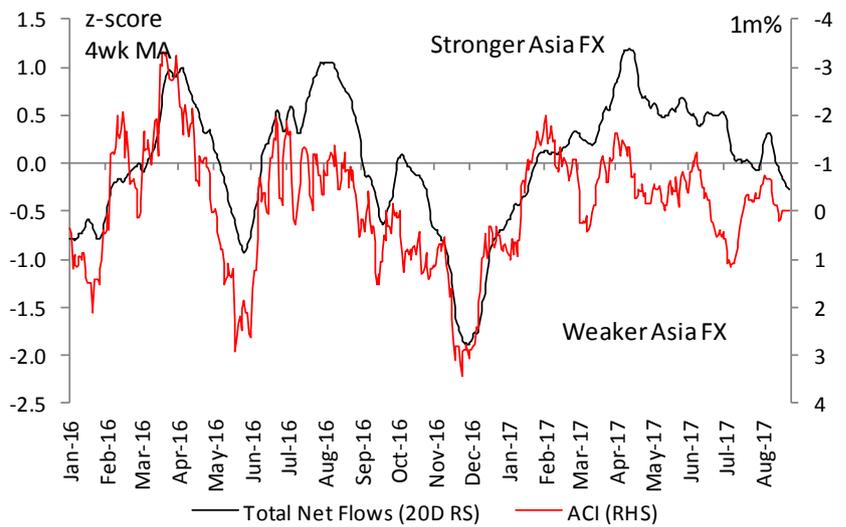
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

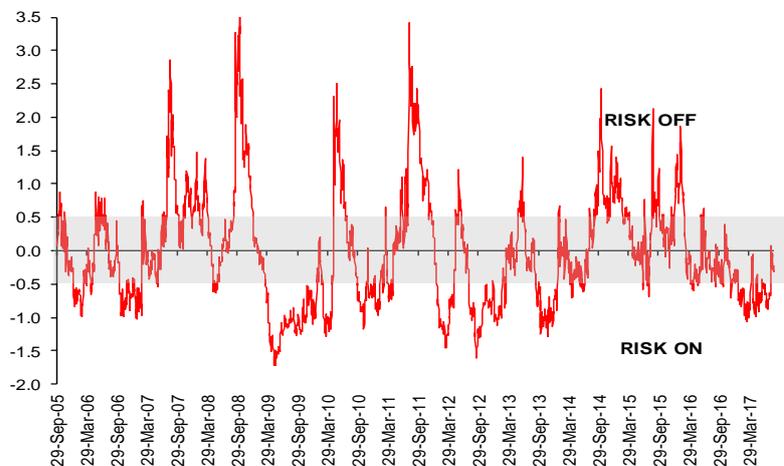




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.463	0.229	0.11	-0.176	-0.249	0.392	0.152	0.215	0.056	0.419	-0.968
SGD	0.93	0.257	0.039	-0.088	-0.287	-0.371	0.217	-0.011	0.44	0.235	0.259	-0.912
MYR	0.737	0.357	0.143	-0.017	-0.619	-0.272	0.234	0.061	0.511	0.238	0.366	-0.794
CAD	0.72	0.312	0.071	0.163	-0.432	-0.077	0.285	0.115	0.378	0.02	0.29	-0.675
CHF	0.672	0.801	0.739	0.672	0.045	0.309	0.765	0.507	-0.412	-0.52	0.807	-0.649
TWD	0.533	-0.101	-0.216	-0.471	-0.71	-0.648	-0.211	-0.251	0.678	0.683	-0.023	-0.587
CCN12M	0.487	-0.118	-0.112	-0.24	-0.394	-0.692	0.029	-0.474	0.363	0.261	-0.004	-0.429
KRW	0.484	-0.337	-0.395	-0.511	-0.714	-0.587	-0.452	-0.302	0.772	0.697	-0.226	-0.485
USGG10	0.463	1	0.841	0.822	0.139	0.618	0.907	0.697	-0.563	-0.732	0.874	-0.469
CNH	0.419	0.874	0.979	0.753	0.085	0.635	0.834	0.762	-0.481	-0.771	1	-0.468
JPY	0.392	0.907	0.828	0.885	0.311	0.517	1	0.551	-0.679	-0.844	0.834	-0.345
CNY	0.229	0.841	1	0.753	0.173	0.605	0.828	0.69	-0.561	-0.797	0.979	-0.271
PHP	0.194	-0.601	-0.742	-0.729	-0.408	-0.907	-0.608	-0.811	0.606	0.859	-0.726	-0.173
THB	0.163	0.098	0.074	0.092	0.375	-0.074	0.169	0.081	-0.247	0.012	0.109	-0.153
IDR	0.08	-0.51	-0.544	-0.584	-0.551	-0.836	-0.51	-0.677	0.553	0.787	-0.543	-0.066
INR	-0.035	-0.436	-0.465	-0.595	-0.521	-0.572	-0.634	-0.433	0.543	0.723	-0.48	-0.098
NZD	-0.083	0.685	0.811	0.611	0.11	0.743	0.589	0.738	-0.499	-0.724	0.805	-0.023
GBP	-0.265	0.617	0.696	0.655	0.093	0.837	0.556	0.72	-0.454	-0.732	0.69	0.175
AUD	-0.649	0.065	0.31	0.162	0.409	0.466	0.056	0.28	-0.469	-0.414	0.153	0.556
EUR	-0.968	-0.469	-0.271	-0.053	0.236	0.2	-0.345	-0.209	-0.298	-0.088	-0.468	1

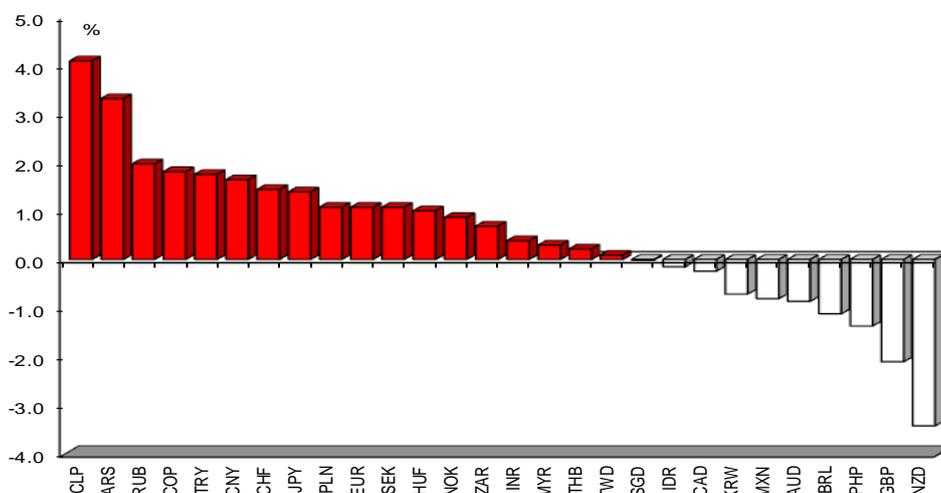
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1900	1.1951	1.1969	1.1986	1.2000
GBP-USD	1.2774	1.2900	1.2933	1.2950	1.3000
AUD-USD	0.7838	0.7900	0.7929	0.7975	0.8000
NZD-USD	0.7192	0.7200	0.7249	0.7300	0.7324
USD-CAD	1.2449	1.2500	1.2509	1.2600	1.2733
USD-JPY	108.34	108.45	108.72	109.00	110.98
USD-SGD	1.3529	1.3532	1.3550	1.3600	1.3676
EUR-SGD	1.6188	1.6200	1.6217	1.6238	1.6300
JPY-SGD	1.2400	1.2440	1.2463	1.2500	1.2536
GBP-SGD	1.7387	1.7500	1.7524	1.7600	1.7705
AUD-SGD	1.0689	1.0700	1.0743	1.0800	1.0825
Gold	1300.00	1312.37	1318.20	1319.50	1400.00
Silver	17.11	17.40	17.48	17.50	17.55
Crude	46.70	46.80	46.80	47.05	50.37

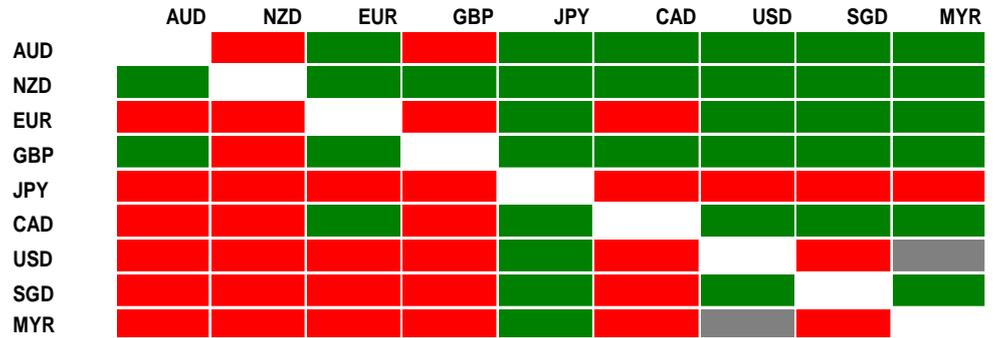
Source: OCBC Bank

FX performance: 1-month change agst USD



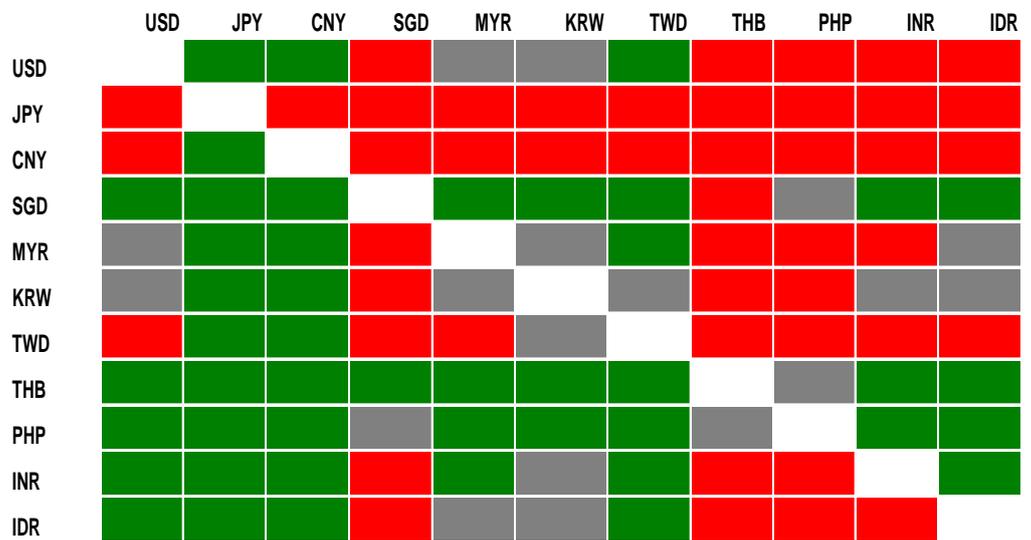
Source: Bloomberg

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	01-Aug-17	S	USD-JPY	110.18 107.75 111.45	No surprises expected from Fed-speak after the last FOMC			
2	16-Aug-17	S	GBP-USD	1.2888 1.2605 1.3035	Doused hawkish BOE expectations, space for a USD capitulation			
STRUCTURAL								
3	09-May-17	B	GBP-USD	1.2927 1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish			
4	12-Jul-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%		ECB transitioning to neutral, Fed wavering			
5	12-Jul-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%		Hawkish BOC being increasingly priced in			
6	20-Jul-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%		More positive than expected RBA minutes, supportive data, weak USD			
7	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			
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	13-Jul-17	03-Aug-17	B	AUD-USD	0.7708	0.7935	Vulnerable USD, improving risk appetite, supportive China data	+2.89
2	05-Jun-17	03-Aug-17		2M USD-SGD Put Spot ref: 1.3796; Strikes 1.3639; Exp: 03/08/17; Cost: 0.24%		Increasingly endemic USD weakness, +ve risk appetite	+0.01	
3	01-Aug-17	04-Aug-17	B	GBP-USD	1.3207	1.3060	Expected trace of hawkishness at BOE MPC	-1.14
4	23-May-17	08-Aug-17	S	USD-CAD	1.3494	1.2667	USD skepticism, sanguine risk appetite, supported crude	+6.40
5	18-Jul-17	14-Aug-17	S	USD-SGD	1.3671	1.3611	Vulnerable USD, implicit inflow for SGD	+0.40
6	04-Jul-17	16-Aug-17	B	EUR-USD	1.1346	1.1741	Draghi's change of stance in late June may further fuel the EUR	+3.14
							Jan-Aug*** 2017 Return	+7.78
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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