

Friday, September 29, 2017

FX Themes/Strategy/Trading Ideas

- Despite firmer than expected 2Q GDP numbers, broad USD strength took an off ramp on Thursday as cited end of period flows and profit taking had a dilutive effect, resulting in the majors clawing higher.
- As we head into the weekend and flow considerations aside, investor caution towards potential headline risk from **Pyongyang** may once again pick up. Meanwhile, the weekend **Catalonia** referendum may also provide an additional layer of uncertainty for the EUR, especially after last weekend's German election outcome. On the US front, investor reception may turn increasingly lukewarm to the **tax plan** and USD traction on this front may well decay beyond the short term.
- **In a nutshell, expect a period of consolidative price action intra-day as investors continue to re-price and re-assess the potential implications of the Fed's taper and the ECB's potential taper announcement in 4Q 17.**
- For today, look to the Fed's **Harker** (1500 GMT) for further potential guidance, while on the data front, ones to watch include Australian August private sector credit (0130 GMT), UK August lending/credit aggregates and 2Q GDPP (0830 GMT), EZ September CPI (0900 GMT), US August core PCE (1230 GMT), Chicago PMI (1345 GMT), and September Michigan confidence (1400 GMT). On Saturday, look to the **September Caixin and official PMIs** out of China.
- On the **net portfolio inflow front in Asia**, net outflow pressure continues to intensify for the KRW, TWD, and INR, while inflow momentum continues to moderate for the IDR and even the THB. Elsewhere, note that flows for the PHP and the MYR are tipping into outflow territory. **Overall, we do not expect a massive recovery in Asian investor inflows going into the weekend, Asian FX may remain tender and vulnerable to potential USD resilience.**
- With the political overhang from Germany and in the wake of the FOMC and Yellen in the past week, we initiate a tactical short **EUR-USD**. From a spot ref of 1.1734 on Thursday, we target 1.1490 and place a stop at 1.1860.
- Already weighed by the dollar complex and a slight capitulation of global risk appetite levels, the cyclicals (including EM/Asia) may continue to be sidelined in the near term amidst a reassessment of a firmer USD and US yield environment. As such, we undertake a tactical short **AUD-USD**. From a

Treasury Research &
Strategy

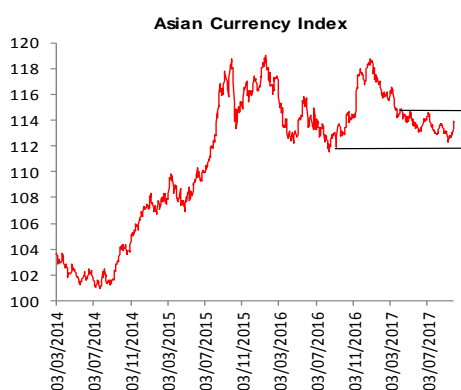
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spot ref of 0.7816 on Thursday, we look for a 0.7625 objective with a stop at 0.7915.

- With the Bank of Canada's Poloz providing a timely reality check on Wednesday right in the middle of a broad dollar bounce, we think the **USD-CAD** may be primed to continue to retrace higher in the near term. As such, we go tactically long **USD-CAD** (spot ref: 1.2500) targeting 1.2795 and place a stop at 1.2350.
- With USD positivity gathering momentum this week coupled with ongoing Brexit-related negativity, our 19 Sep 17 idea to be tactically long **GBP-USD** (spot ref: 1.3540) was stopped out on Wednesday at 1.3395 for an implied -1.11% loss.

Asian FX

- Global EM equities bled lower again on Thursday for the sixth consecutive session although EM risk premiums compressed slightly on the day, and this still managed to push the **FXSI (FX Sentiment Index)** lower (i.e., improving risk appetite) within Risk-Neutral territory. The recent significant moves in the DXY and US yields have precipitated an adverse reaction in EM and Asian assets and amid investor trepidation, expect any dips in the **ACI (Asian Currency Index)** to be shallow for now. Meanwhile, expect Asian central banks to remain on hand to curb excessive volatility (with NEER considerations secondary in this current environment).
- **SGD NEER:** Today, the SGD NEER is firmer on the day at +0.89% above its perceived parity (1.3708) with NEER-implied USD-SGD thresholds still marginally firmer on the day. Expect the +1.00% (1.3572) threshold to cap the NEER for now while the 55-day MA (1.3571) may also provide another floor with topside seen towards 1.3650. Note that our volatility measures for the spot have picked up significantly of late and expect market caution towards excessive moves to prevail.

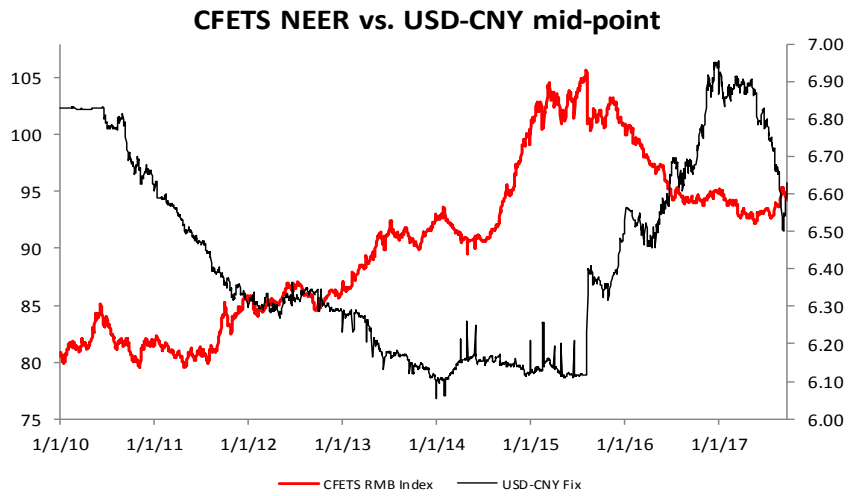


	SGD NEER	% deviation	USD-SGD
Current	125.41	0.93	1.3576
+2.00%	126.74		1.3439
Parity	124.26		1.3708
-2.00%	121.77		1.3987

Source: OCBC Bank

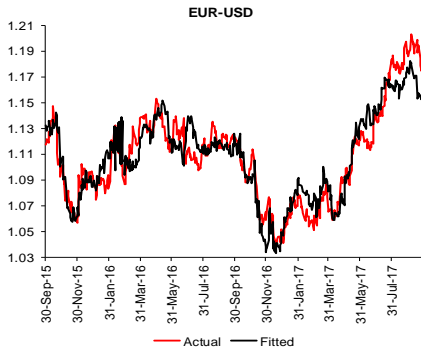
- **CFETS RMB Index:** This morning, the USD-CNY mid-point was again set lower than expected at 6.6369 from 6.6285 on Thursday. This shifted the **CFETS RMB Index** lower to 94.34 from 94.55 yesterday. Evidently, stability of the mid-points continue to supersede NEER considerations ahead of next

week's holidays.



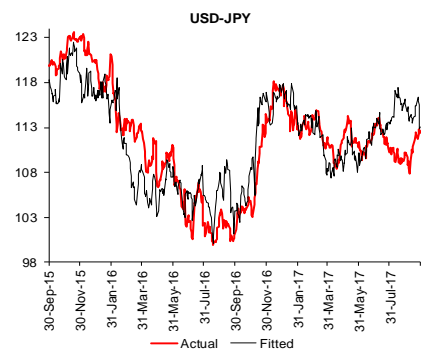
Source: OCBC Bank, Bloomberg

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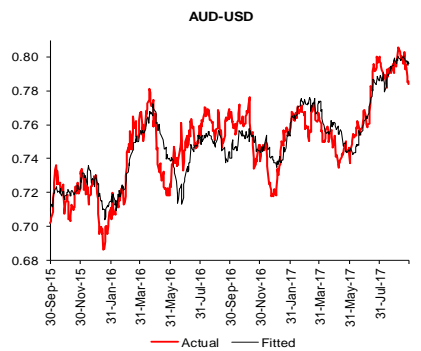
Source: OCBC Bank

- EUR-USD** Markets saw no discomfort towards EUR strength from the ECB’s Hansson on Thursday, while Villeroy spoke of moving forward with a taper of the asset purchase program. In the interim, short term implied valuations remain heavy for the pair with the 55-day MA (1.1817) expected to shelter and with risks towards 1.1700.



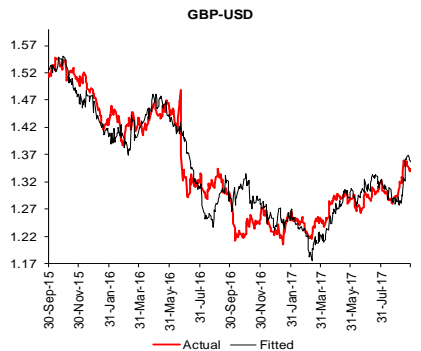
Source: OCBC Bank

- USD-JPY** BOJ MPC minutes this morning remained sufficiently dovish while the Fed’s George remained supportive for further rate normalization overnight. Despite a supportive technical setup, note however background risk aversion and the collapse in front-end riskies weighing on the short term implied valuations for the USD-JPY. Intra-day, markets may favor anchoring themselves towards the 200-day MA (112.04).



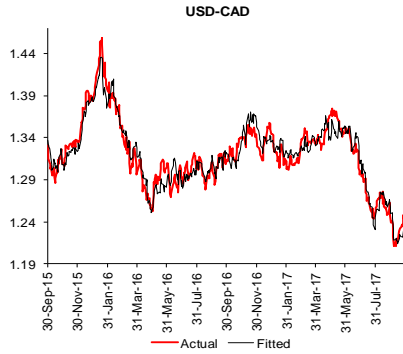
Source: OCBC Bank

- AUD-USD** Near term prospects remain range bound for the AUD-USD despite still supported short term implied valuations for the pair. Given the ongoing global re-assessment, the AUD-USD continues to trade south of its short term implied fair value ahead of the RBA next Tuesday. In the interim, 0.7800 may continue to attract.



Source: OCBC Bank

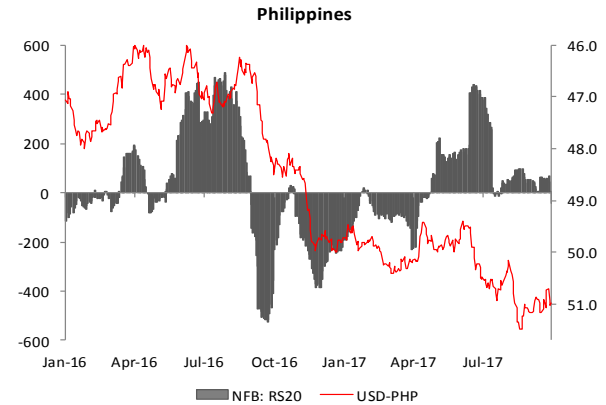
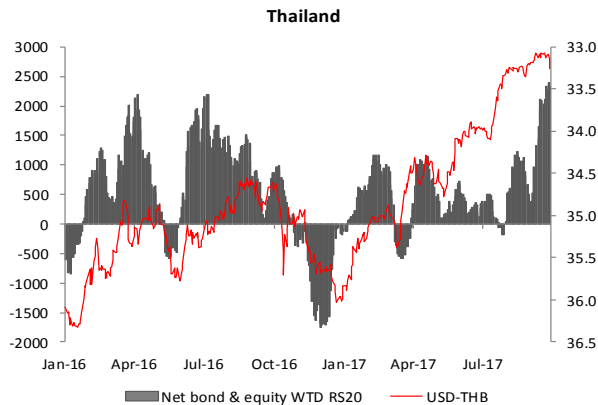
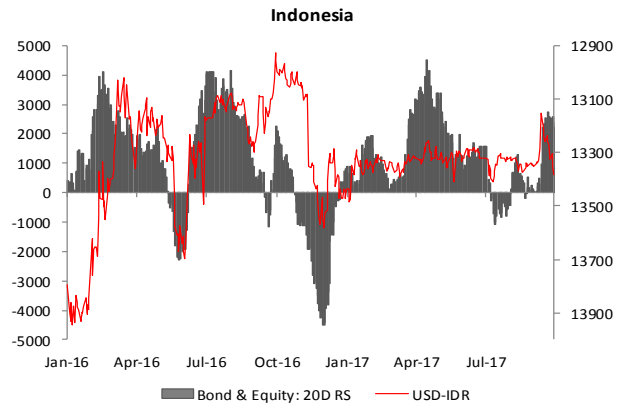
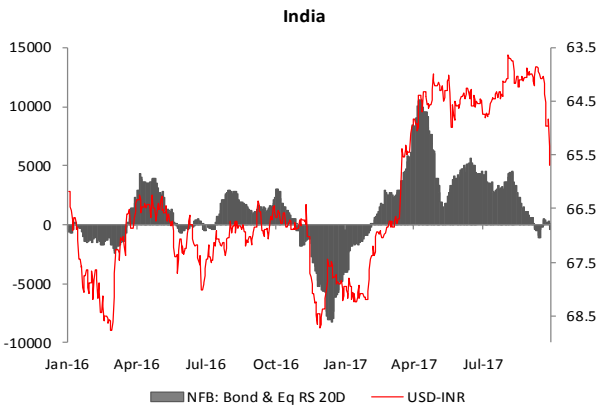
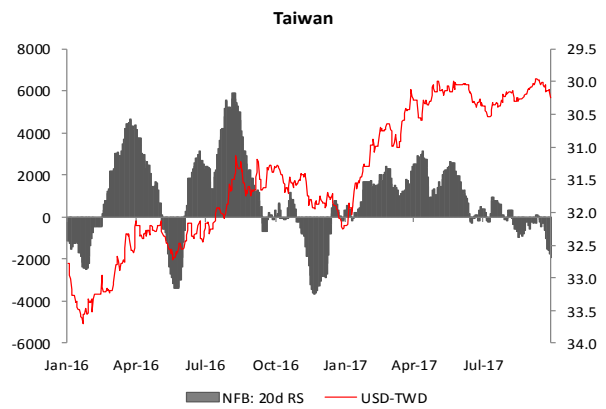
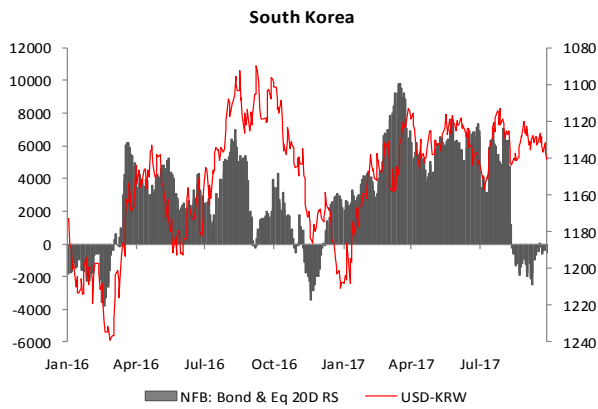
- GBP-USD** Potential Brexit negativity may be expected to persist with the EU’s Barnier skeptical of the speed of progress in the negotiations. Elsewhere, although the BOE’s Carney stated that monetary policy cannot be expected to nullify the fallout from Brexit, note that short term implied valuations for the pair continue to slip. Preference to fade upticks within 1.3330-1.3490.

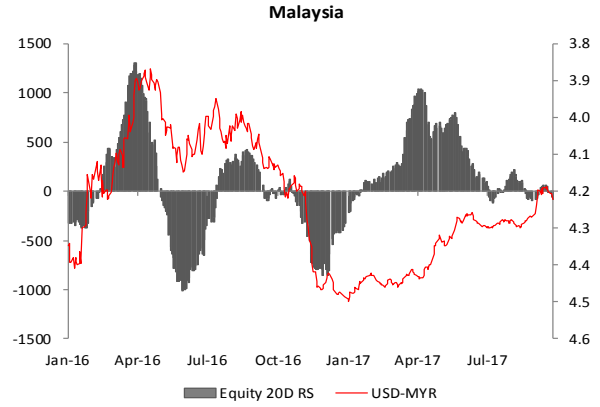


- USD-CAD** The loonie may be expected to remain on the defensive into the end of the week with short term implied valuations for the USD-CAD looking relatively supported. The 55-day MA (1.2475) we think may remain at risk of a breach with 1.2370 expected to cushion in the interim.

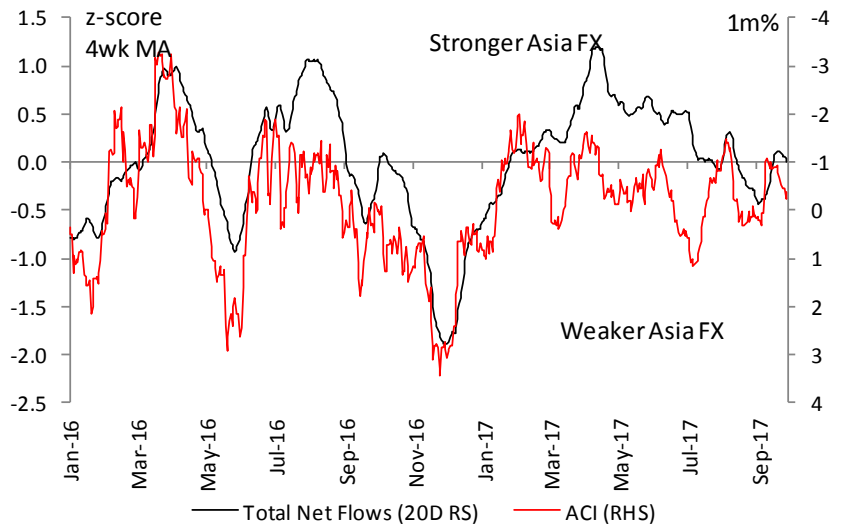
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

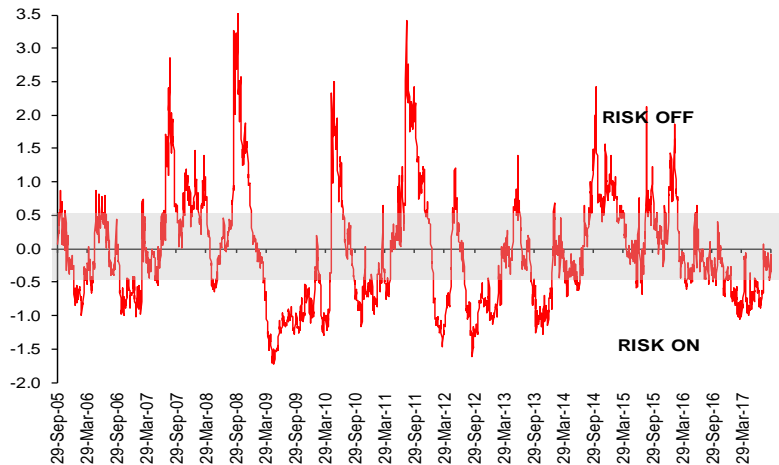




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.547	0.75	0.201	-0.301	-0.031	0.587	0.391	-0.43	0.603	0.813	-0.955
SGD	0.922	0.386	0.62	0.023	-0.358	-0.289	0.402	0.141	-0.259	0.39	0.705	-0.844
CNH	0.813	0.78	0.983	0.51	0.051	0.13	0.831	0.572	-0.653	0.615	1	-0.828
CAD	0.78	0.349	0.657	-0.056	-0.211	-0.35	0.434	0.066	-0.243	0.525	0.699	-0.629
IDR	0.769	0.388	0.688	0.073	-0.483	0.073	0.449	0.458	-0.253	0.66	0.69	-0.722
TWD	0.768	0.708	0.904	0.425	-0.099	0.165	0.74	0.552	-0.613	0.676	0.887	-0.755
THB	0.755	0.396	0.592	0.023	-0.526	-0.189	0.353	0.279	-0.164	0.418	0.696	-0.764
CNY	0.75	0.791	1	0.558	0.084	0.185	0.857	0.597	-0.697	0.643	0.983	-0.776
CHF	0.718	0.908	0.834	0.718	0.362	0.327	0.941	0.64	-0.862	0.589	0.818	-0.723
CCN12M	0.691	0.637	0.755	0.314	-0.089	0.235	0.661	0.567	-0.411	0.52	0.809	-0.693
INR	0.615	0.727	0.836	0.55	-0.098	0.453	0.767	0.838	-0.569	0.744	0.783	-0.724
JPY	0.587	0.969	0.857	0.835	0.474	0.464	1	0.746	-0.9	0.551	0.831	-0.623
USGG10	0.547	1	0.791	0.904	0.493	0.492	0.969	0.743	-0.92	0.455	0.78	-0.608
KRW	0.462	0.591	0.546	0.46	-0.236	0.453	0.523	0.729	-0.369	0.474	0.603	-0.587
MYR	0.435	-0.242	0.129	-0.613	-0.643	-0.582	-0.179	-0.258	0.458	0.245	0.221	-0.337
PHP	0.106	-0.181	-0.167	-0.234	-0.049	-0.27	-0.213	-0.38	0.192	-0.429	-0.142	-0.032
GBP	-0.059	0.728	0.446	0.853	0.636	0.731	0.717	0.775	-0.671	0.239	0.379	-0.102
NZD	-0.49	0.292	0.007	0.516	0.72	0.44	0.295	0.248	-0.319	0.08	-0.072	0.419
AUD	-0.874	-0.65	-0.862	-0.309	0.22	0.002	-0.686	-0.511	0.495	-0.602	-0.867	0.855
EUR	-0.955	-0.608	-0.776	-0.319	0.303	-0.145	-0.623	-0.542	0.445	-0.593	-0.828	1

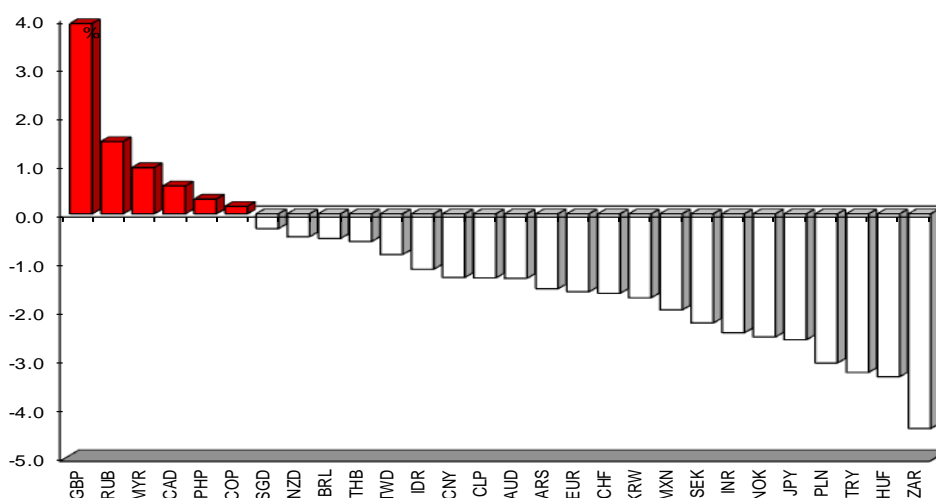
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1717	1.1748	1.1780	1.1800	1.1840
GBP-USD	1.3120	1.3400	1.3418	1.3500	1.3657
AUD-USD	0.7800	0.7836	0.7844	0.7900	0.7940
NZD-USD	0.7157	0.7200	0.7215	0.7297	0.7300
USD-CAD	1.2062	1.2400	1.2440	1.2458	1.2500
USD-JPY	112.00	112.01	112.56	113.00	113.26
USD-SGD	1.3500	1.3553	1.3592	1.3600	1.3602
EUR-SGD	1.5954	1.6000	1.6012	1.6048	1.6100
JPY-SGD	1.1969	1.2000	1.2075	1.2100	1.2282
GBP-SGD	1.7784	1.8200	1.8238	1.8300	1.8349
AUD-SGD	1.0629	1.0632	1.0661	1.0700	1.0760
Gold	1277.00	1278.33	1285.50	1293.18	1300.00
Silver	16.70	16.80	16.85	16.90	17.14
Crude	51.17	51.50	51.57	51.60	52.78

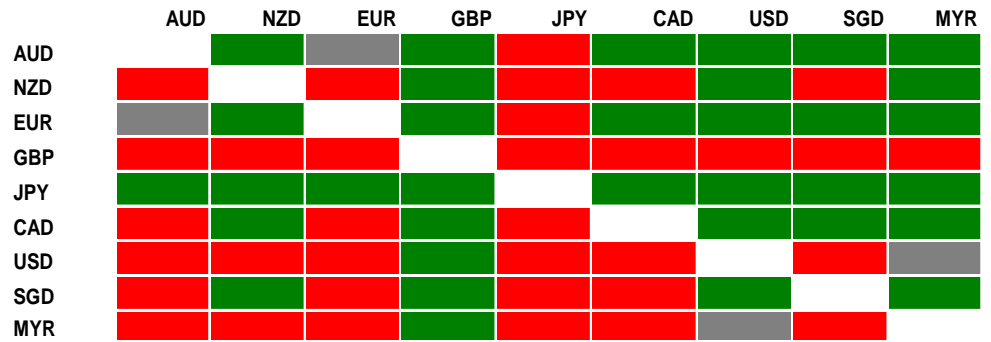
Source: OCBC Bank

FX performance: 1-month change agst USD



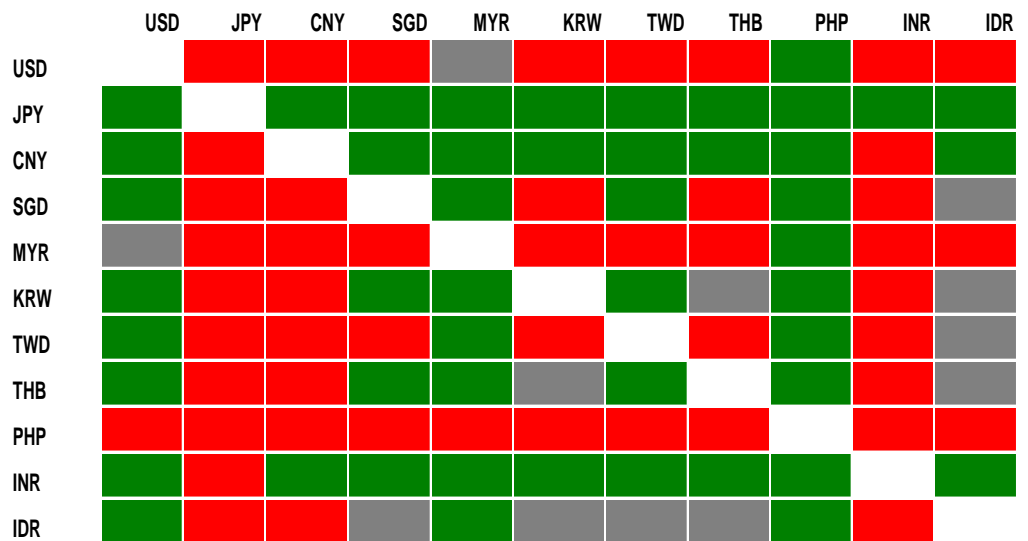
Source: Bloomberg

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 FOME-BOJ + positive risk appetite levels		
2	28-Sep-17	S	EUR-USD	1.1734	1.1490 1.1860	Political overhang from Germany contrasting with FOMC, Yellen		
3	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		
4	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								
5	09-May-17	B	GBP-USD	1.2927	1.3700 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
6	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		
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	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	
2	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	
3	07-Sep-17	12-Sep-17	S	USD-JPY	109.01	110.15	Suppressed UST yields, dovish Fed rhetoric, geopolitical risks	-1.06
4	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
5	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
6	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
7	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	
8	19-Sep-17	27-Sep-17	B	GBP-USD	1.3540	1.3395	Earlier than expected paradigm change by the BOE	-1.11
							Jan-Sep*** 2017 Return	-1.44
							2016 Return	+6.91
* realized **of notional ***month-to-date								

Source: OCBC Bank

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