

Wednesday, August 30, 2017

FX Themes/Strategy/Trading Ideas

- It was a choppy Tuesday as initial risk aversion gave way to USD selling before being replaced by a dollar retracement (10y UST yields sought to recover but the curve still ended the day lower, led by the back-end) into late NY. EUR-USD relinquished sharp intra-day gains above 1.2050 to end largely unchanged on the day. On the data front, the August Conference Board's consumer confidence index came in at a higher than expected 122.9.
- With a measured (almost reserved) reaction from US President Trump (perhaps distracted by Harvey) in relation to Pyongyang's latest missile launch, risk appetite levels recovered with the JPY leading the way lower against the USD while the former also underperformed across G10 space. Meanwhile, EM equities consolidated lower although the S&P500 managed to end in positive territory.
- Overall, the **DXY** dipped temporarily below 92.00 on Tuesday and multisession-session prospects we think remain top heavy on US-specific vulnerability. Nonetheless, geopolitical tensions may continue to hum in the background, with latest rhetoric out of Pyongyang still mentioning Guam. In the interim, inherent towards the EUR may remain a near term staple while investors continue to trade off risk appetite dynamics.
- Today's calendar includes the BOE's Charlotte at 0945 GMT, Fed's Powell at 1315 GMT, while data points include August EZ confidence indicators, German August CPI readings, the August ADP (1215 GMT), and US final 2Q GDP readings.
- Post-Jackson Hole and amidst broad-based dollar weakness and a market assured of still benign global monetary conditions in the near term, a structural short **USD-SGD** position may be attractive. To this end, we look to a 2M 1X1.5 USD-SGD put spread (spot ref: 1.3519; strikes: 1.3511, 1.3361; exp: 27 Oct 17) costing an indicative +0.31% of notional on Tuesday.

Asian FX

- On the **Asian net portfolio capital inflow front**, we await to determine if the latest provocation out of Pyongyang sparked outflows (however brief) for the KRW and TWD. Meanwhile, Signs of stabilization in inflow moderation (INR) and even improvements (IDR) are being registered selectively, although the PHP, THB continue to see waning inflow momentum in the short run. **Despite recent geopolitical volatility, we think investor hunger for yield**

Treasury Research &
Strategy

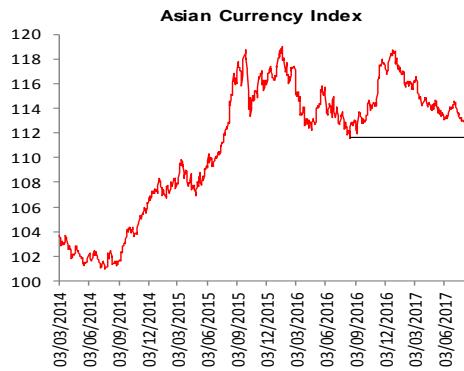
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may not be that easily dissuaded just yet, with short term EM FX vols continuing to underperform G10 vols.

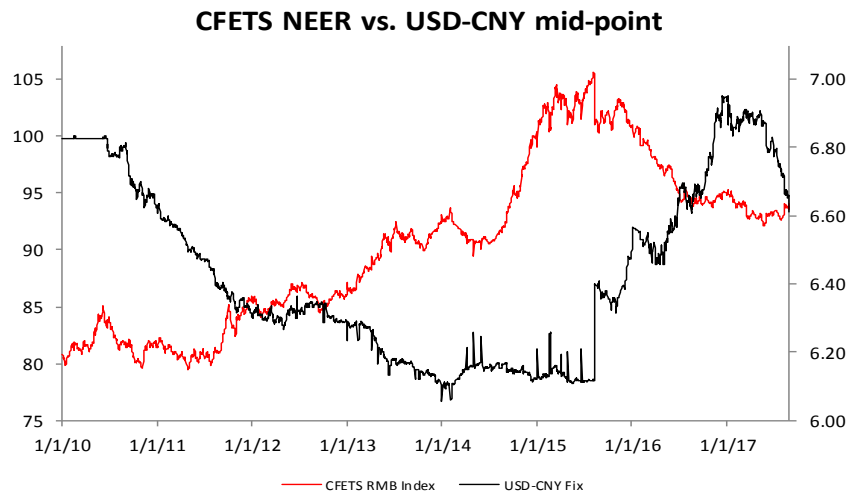
- Overall, despite the **FXSI (FX Sentiment Index)** edging lower higher within Risk-Neutral territory on Tuesday, expect the **ACI (Asian Currency Index)** to edge lower intra-day as the risk appetite environment brightens slightly. **Beyond the short term, note that our structural model for the ACI is once again southbound (i.e., portending USD vulnerability and Asian FX resilience).**
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.57% above its perceived parity (1.3631) after ranging within +0.50% and +0.70% on Tuesday. Meanwhile, NEER-implied USD-SGD thresholds are mildly firmer following overnight USD price action. At current levels, the +0.50% (1.3564) threshold and 1.3550 may remain a near term focus pending further external news flow, while we'd look for a top heavy stance for the pair if risk appetite continues to improve.



	SGD NEER	% deviation	USD-SGD
Current	124.98	0.58	1.3542
+2.00%	126.74		1.3364
Parity	124.26		1.3631
-2.00%	121.77		1.3909

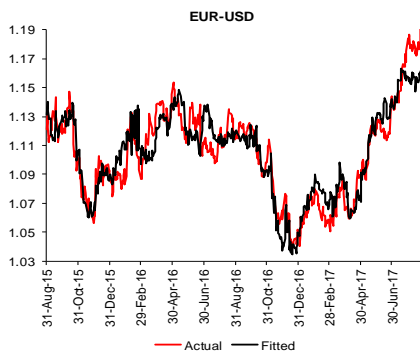
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point fell (largely in line with expectations) to 6.6102 from 6.6293 on Tuesday. This lifted the CFETS RMB Index higher to 94.03 from 93.68 yesterday. Given continued flexibility in the mid-points (and the CFETS RMB Index), the renminbi complex (CNY, CNH) may be expected to continue to reflect USD negativity.



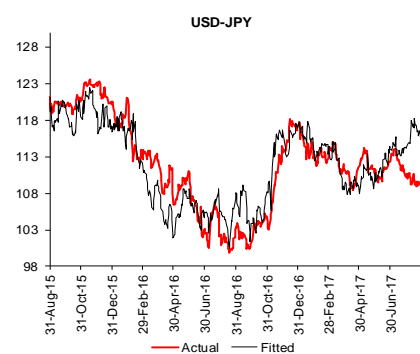
Source: OCBC Bank, Bloomberg

G7



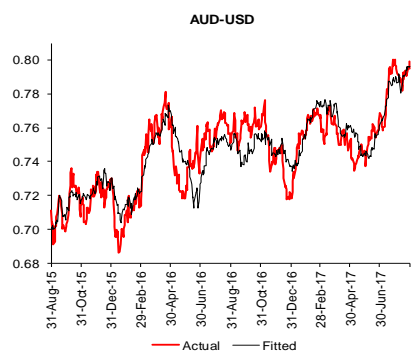
Source: OCBC Bank

- EUR-USD** Rhetoric from German officials (from Merkel and 2 German industry federations) on Tuesday exhibited little discomfort with EUR strength. This is seen supportive, with short term implied valuations for the pair still supportive at this juncture. In the near term, the resistance at 1.2000 we think will continue to remain conspicuous with immediate support seen at 1.1920.



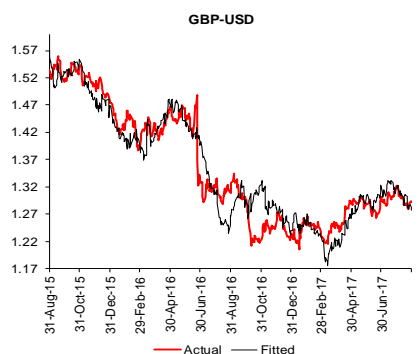
Source: OCBC Bank

- USD-JPY** If global risk appetite levels continue to improve, expect the JPY to remain under negative pressure, including on the crosses). Short term implied valuations meanwhile are also seen supportive at this juncture and while current levels may not be opportune for fresh longs, look to collect dips within 109.20-110.20.



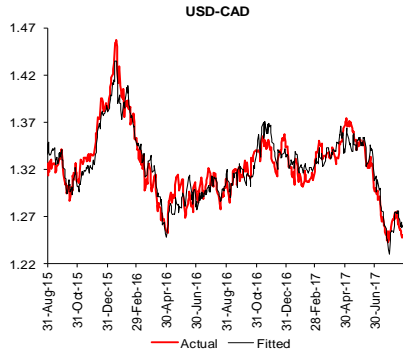
Source: OCBC Bank

- AUD-USD** A supportive commodity/risk appetite environment continues to keep short term implied valuations reluctant on the downside. Thus prospects for an eventual range break above 0.8000 continue to remain on the cards. Note the additional boost from the better than expected 2Q construction index and July building approvals this morning.



Source: OCBC Bank

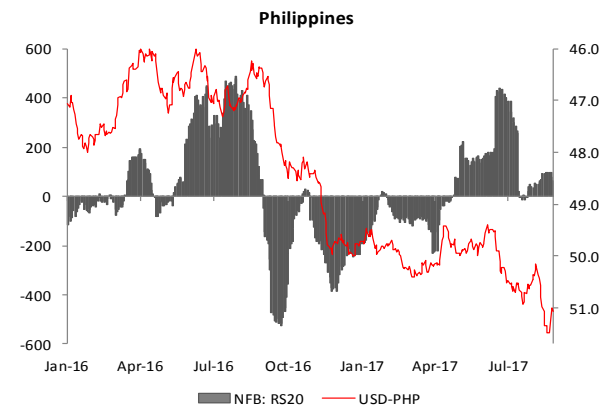
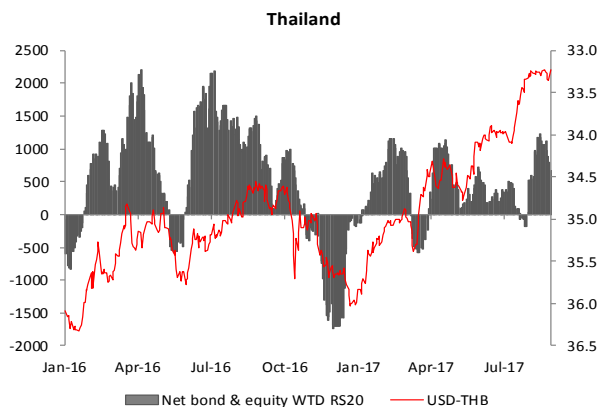
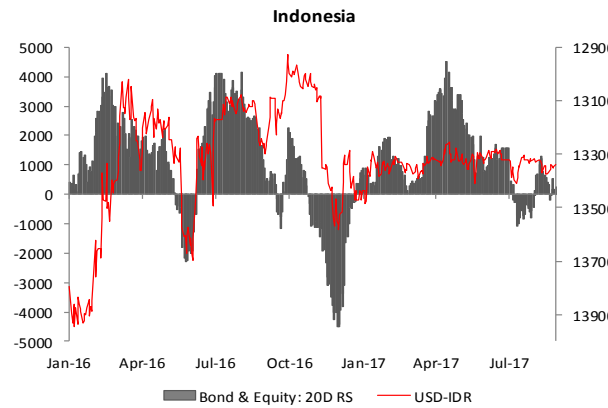
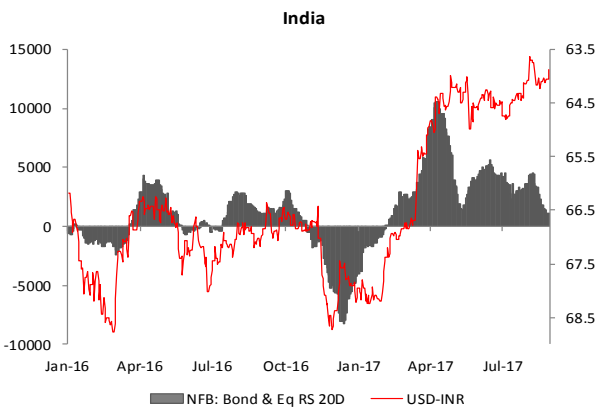
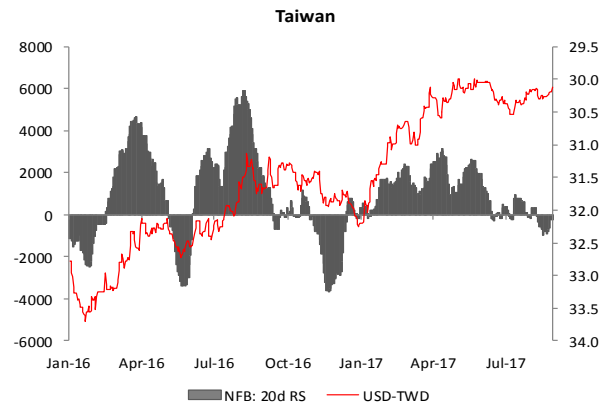
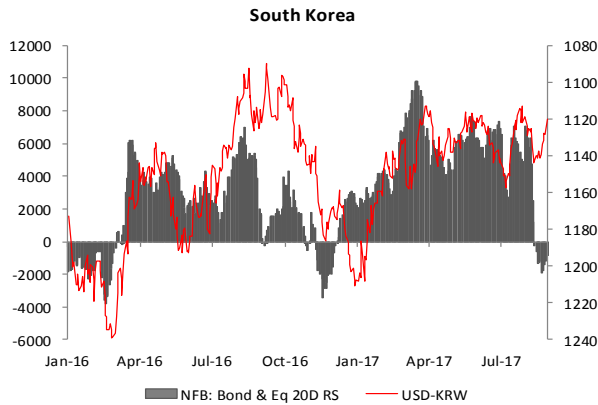
- GBP-USD** Less than conciliatory comments from the EU's Juncker with respect to ongoing Brexit negotiations only underscore the limited near term headroom for cable, especially with EUR-GBP still expected to remain buoyant. Short term implied valuations for the GBP-USD meanwhile remain under negative pressure and the 55-day MA (1.2937) may continue to impede on the upside, with the 100-day MA (1.2903) perhaps expected to offer initial support.

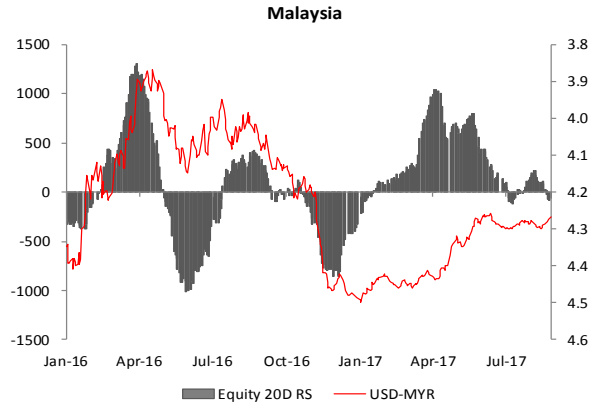


- USD-CAD** Crude continued to weaken on Tuesday, underpinning the USD-CAD amidst a partial rebound for the greenback. Short term implied valuations are supportive of the pair in the interim although we think the pair may continue to mull the 1.2500 handle while awaiting fresh cues.

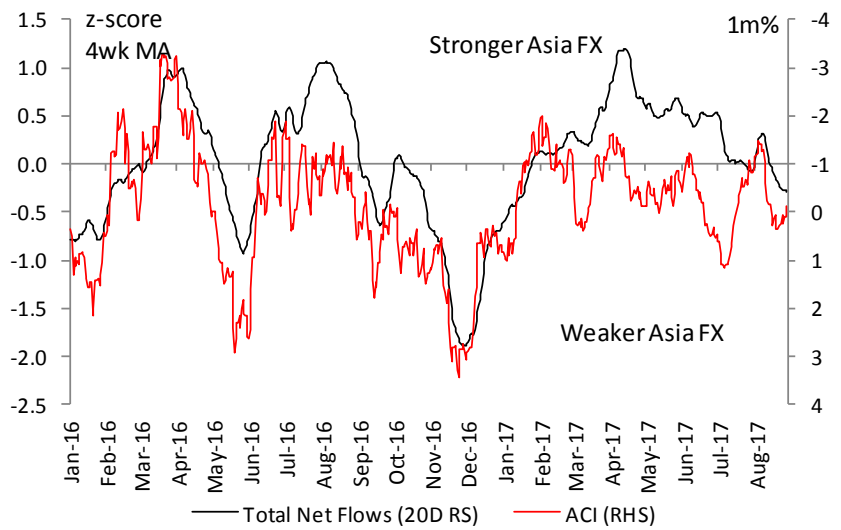
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

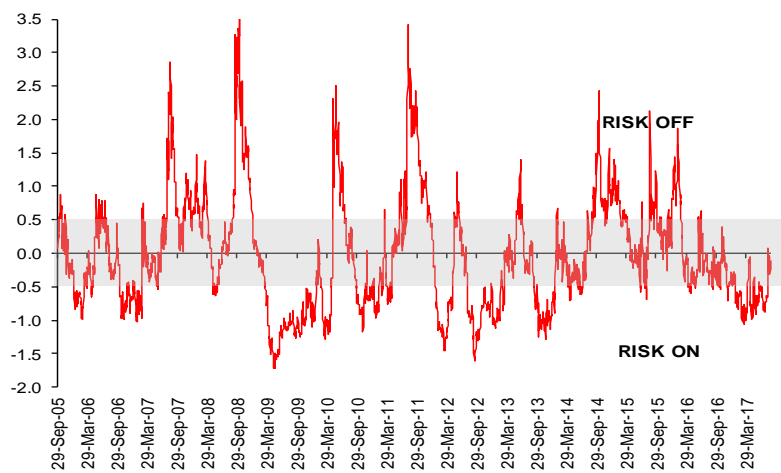




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.54	0.42	0.153	-0.163	-0.153	0.239	0.299	0.205	-0.027	0.536	-0.972
SGD	0.932	0.332	0.218	-0.038	-0.274	-0.295	0.101	0.116	0.422	0.159	0.363	-0.91
MYR	0.777	0.446	0.341	0.038	-0.561	-0.183	0.1	0.213	0.473	0.14	0.484	-0.826
CAD	0.73	0.361	0.184	0.186	-0.423	-0.042	0.215	0.195	0.375	-0.019	0.356	-0.685
CHF	0.706	0.821	0.788	0.658	0.034	0.333	0.628	0.58	-0.362	-0.533	0.835	-0.691
USGG10	0.54	1	0.874	0.785	0.117	0.608	0.773	0.745	-0.489	-0.718	0.893	-0.553
CNH	0.536	0.893	0.984	0.711	0.066	0.614	0.661	0.807	-0.403	-0.742	1	-0.588
KRW	0.516	-0.235	-0.262	-0.485	-0.707	-0.553	-0.521	-0.185	0.768	0.658	-0.099	-0.515
CCN12M	0.514	-0.039	0.026	-0.204	-0.388	-0.638	-0.035	-0.345	0.361	0.215	0.09	-0.46
TWD	0.508	-0.129	-0.044	-0.419	-0.69	-0.585	-0.346	-0.257	0.663	0.609	-0.031	-0.562
CNY	0.42	0.874	1	0.703	0.14	0.582	0.734	0.741	-0.463	-0.756	0.984	-0.46
THB	0.33	0.26	0.287	0.133	0.335	-0.004	0.081	0.256	-0.206	-0.062	0.307	-0.338
JPY	0.239	0.773	0.734	0.883	0.31	0.518	1	0.443	-0.676	-0.84	0.661	-0.182
PHP	0.172	-0.609	-0.687	-0.736	-0.399	-0.91	-0.614	-0.806	0.592	0.863	-0.715	-0.148
IDR	0.11	-0.478	-0.47	-0.579	-0.55	-0.827	-0.52	-0.641	0.552	0.778	-0.498	-0.097
NZD	-0.015	0.686	0.777	0.618	0.105	0.748	0.557	0.732	-0.484	-0.732	0.775	-0.091
INR	-0.062	-0.408	-0.424	-0.597	-0.519	-0.573	-0.635	-0.417	0.541	0.721	-0.441	-0.046
GBP	-0.197	0.611	0.642	0.658	0.091	0.839	0.569	0.695	-0.448	-0.735	0.651	0.106
AUD	-0.688	-0.04	0.173	0.138	0.406	0.433	0.085	0.146	-0.468	-0.375	0.009	0.602
EUR	-0.972	-0.553	-0.46	-0.106	0.212	0.106	-0.182	-0.362	-0.275	0.004	-0.588	1

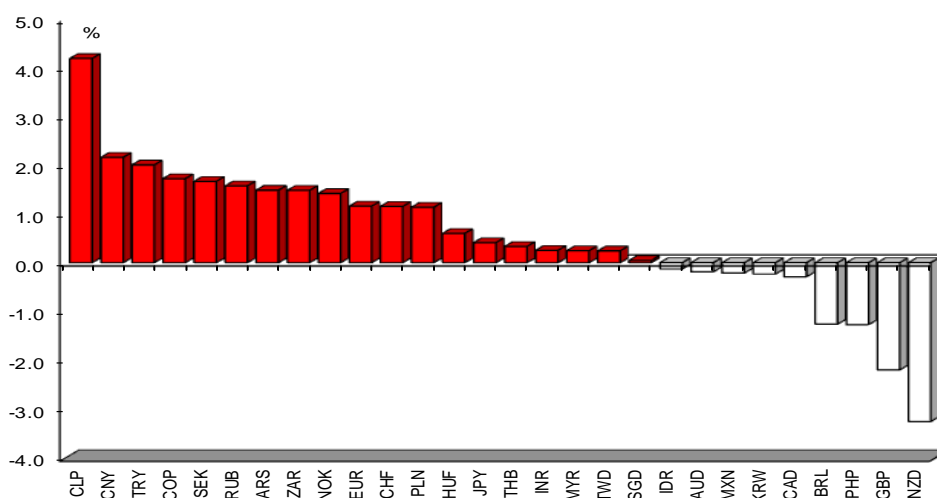
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1900	1.1975	1.1978	1.2000	1.2070
GBP-USD	1.2774	1.2900	1.2925	1.2955	1.3000
AUD-USD	0.7900	0.7984	0.7989	0.8000	0.8066
NZD-USD	0.7192	0.7200	0.7264	0.7300	0.7325
USD-CAD	1.2442	1.2500	1.2512	1.2600	1.2717
USD-JPY	108.61	109.00	109.81	110.00	110.82
USD-SGD	1.3507	1.3526	1.3541	1.3600	1.3675
EUR-SGD	1.6200	1.6213	1.6223	1.6300	1.6309
JPY-SGD	1.2300	1.2302	1.2333	1.2400	1.2437
GBP-SGD	1.7387	1.7500	1.7504	1.7600	1.7703
AUD-SGD	1.0696	1.0800	1.0817	1.0828	1.0900
Gold	1260.83	1300.00	1313.70	1317.51	1326.00
Silver	17.10	17.40	17.41	17.50	17.60
Crude	45.95	46.30	46.33	46.40	47.09

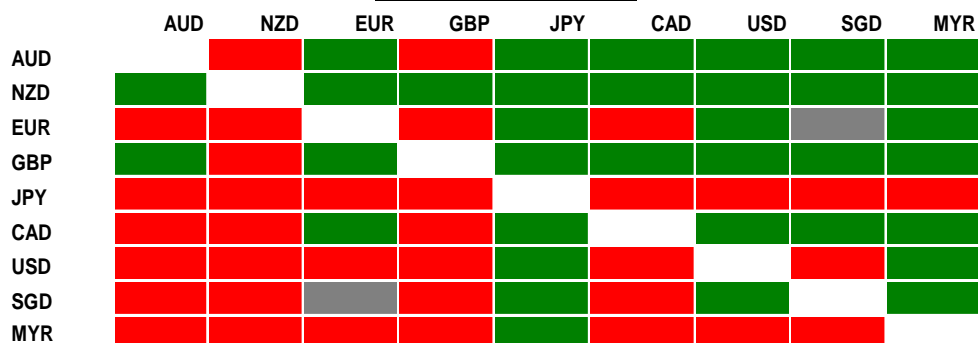
Source: OCBC Bank

FX performance: 1-month change agst USD



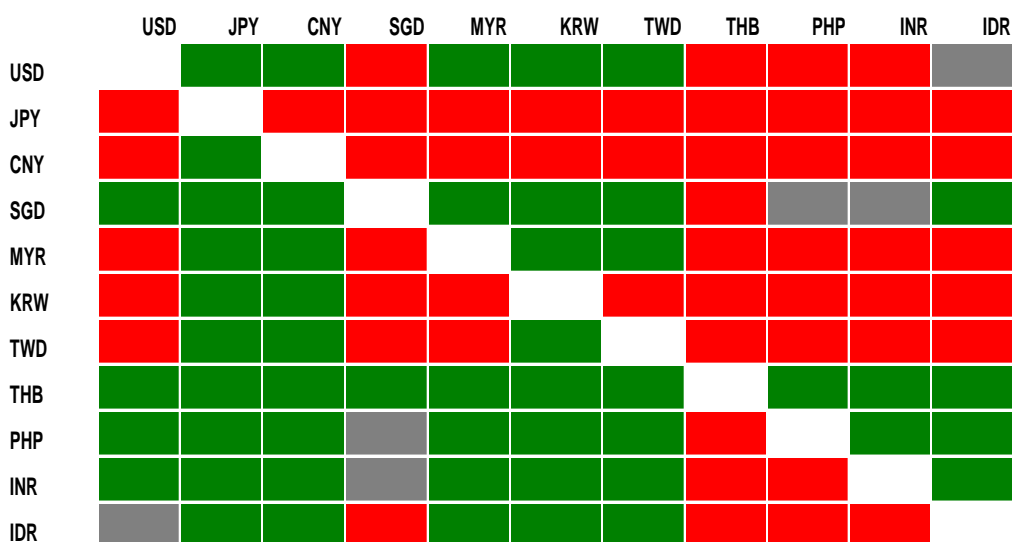
Source: Bloomberg

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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