

Tuesday, August 01, 2017

FX Themes/Strategy/Trading Ideas – Revised forecasts

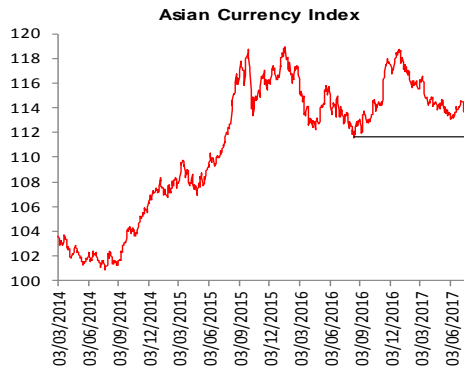
- Except against the CAD, the greenback continued to exhibit generalized weakness and leaked lower on Monday across G10 space despite stabilizing UST yields. Negative political headlines (Scaramucci's resignation), a guarded speech from the Fed's Fischer, and cited month-end flows, continued to whittle away at dollar sentiment. The US data feed was mixed, with better than expected June pending home sales balanced by a softer than expected July Chicago PMI. Elsewhere, the EUR-USD was further bolstered by a warmer than expected July core CPI reading, which helped send the pair past 1.1800, and with the common currency outperforming its G10 peers.
- The **DXY** has tripped below 93.00 at this juncture and as previously mentioned, the next pivotal support kicks in at the 200-week MA (92.32). Watch for the US July ISM and June core PCE deflator tonight for further US-centric cues. While the greenback is still seen generally vulnerable, we are also detecting some hesitation in chasing the cyclicals aggressively higher in the near term as risk appetite levels look to consolidate. On this front, note that **FXSI (FX Sentiment Index)** inched higher overnight (but still remained in Risk-On territory).
- Today, apart from the deluge of July global manufacturing PMIs, the **RBA** meeting (0430 GMT) is expected to be closely scrutinized with investors wary of any accompanying dovish rhetoric. While these fears are not unfounded, we do not think the RBA's prognosis would have turned unduly dire since its last meeting.

Asian FX

- On the **Asian net portfolio inflow** front, the KRW, TWD, and THB are still seen bereft of strong positive support on waning inflows. While net flows for the INR, PHP and the MYR are attempting to stabilize northwards, the IDR may be susceptible to any positive turn in the broad dollar or any heightened risk aversion in the near term. Nonetheless, the heavy USD backdrop may continue to weigh on the regional pairs in the interim ahead of the RBA and the Asian manufacturing PMIs. As such, expect the **ACI (Asian Currency Index)** to potentially tick lower further intra-day.
- **SGD NEER:** Today, the SGD NEER is softer on the day at around +0.94% above its perceived parity (1.3682) despite a softer broad dollar from overnight. NEER-implied USD-SGD thresholds are meanwhile lower on the day and the basket may continue to orbit the +1.00% threshold estimated at

Treasury Research &
StrategyEmmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

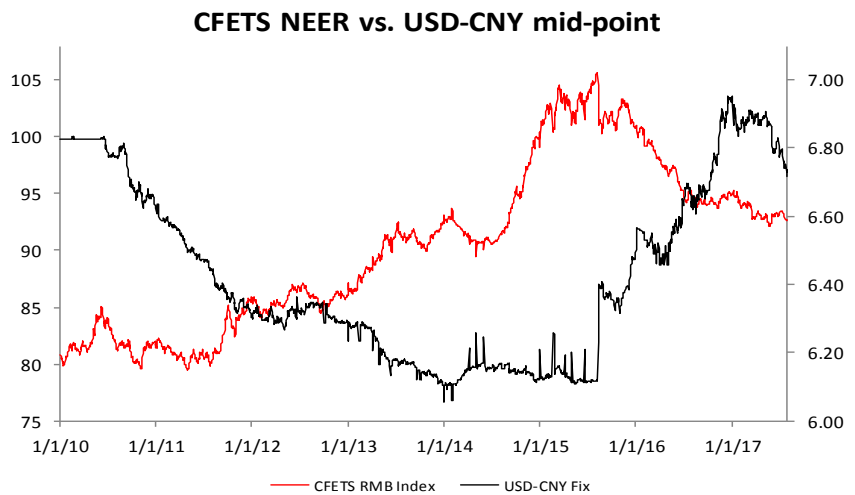
1.3546 currently. Technically, the 200-week MA (1.3447) may beckon if 1.3500 is subsequently violated multi-session on the back of broad dollar weakness.



	SGD NEER	% deviation	USD-SGD
Current	125.40	0.92	1.3553
+2.00%	126.74		1.3413
Parity	124.26		1.3682
-2.00%	121.77		1.3961

Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point dipped further (as largely expected) to 6.7148 this morning from 6.7283 yesterday. This lifted the CFETS RMB Index to 92.77 from 92.75 on Monday.



Source: OCBC Bank, Bloomberg

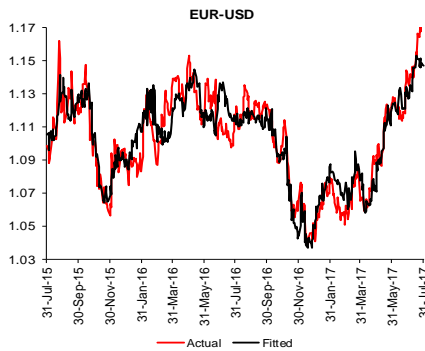
Revised central tendency forecasts – forecast rational

- Policy dichotomy is being re-priced:
 - The dollar narrative continues to collapse after the July FOMC with the DXY now attempting to test 2016 lows. In a nutshell, the Fed has continued to waffle about inflation prospects and the latest FOMC statement only increases this ambiguity. Structurally, we think this calls into question the expected sequencing of Fed events (and whether interest rate normalization remains a necessary but sufficient condition for balance sheet tapering) in the last three FOMC meetings this year and it is this ambiguity that may continue to weigh on the greenback. At this juncture, market-implied odds of another rate hike by the Fed remain significantly less than even. Note that this USD vulnerability is despite the generalized expectation that the Fed would announce its balance sheet tapering at the September FOMC. On other fronts, Trump-related headlines remain a sideshow but the negative overhang on the dollar may be expected to persist.
 - On the flip side of the equation, hitherto dovish G10 central banks (ECB, BOE, BOC) have upped the ante and adopted a more neutral stance since late June and this has further compressed the dynamic against the USD. The BOE has taken on a hawkish slant, the BOC is expected (by the markets) to hike again this year, while crucially, the ECB is widely expected to announce its balance sheet tapering intentions from the fall onwards. On the latter, watch for further verbal cues by the ECB's Draghi in August, when he is expected to attend the Kansas Fed's symposium in Jackson Hole. On this front, any sudden hawkishness from the Fed at this event may well put a floor on USD weakness.
- Despite the BOE, fade excessive GBP outperformance given Brexit negotiation uncertainty, especially with the EU still expected to be less than charitable at the bargaining table. USD-JPY may continue to be trapped in a range by a heavy USD profile but a still dovish BOJ.
- Risk appetite remains sanguine – search for yield/carry expected to persist
 - At this juncture, with the Fed now perceived as a non-mover in terms of anticipated market disruptions, global risk appetite levels will likely remain underpinned, with the antipodeans (AUD and NZD) continuing to garner investor interest in the coming weeks. Note that we'd

ascribe AUD or NZD strength to a weak USD and/or positive risk appetite levels, rather than any (misconceived) expectations of a more hawkish RBA or RBNZ. On other fronts, the CAD may continue to ride the crude gravy train if the commodity complex continues to hold up.

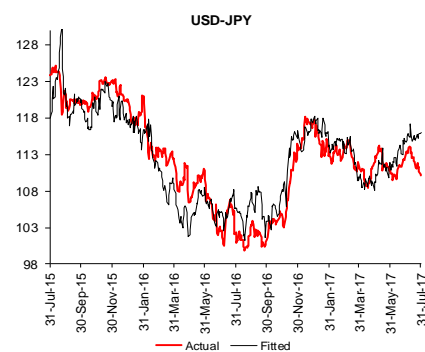
- **USD-Asia** is expected to be guided lower in tandem with the broad dollar indices, although with growth and inflation prospects not expected to pick up abruptly, expect regional central banks to remain on hand to temper excessive appreciation of their domestic currencies. At this juncture, we reiterate that the lack of aggressive inflow impetus may imply that the Asian complex continues to lag its G10 counterparts with respect to the dollar.
- On the **CNY**, the **CFETS RMB Index** is expected to remain responsive to broader G10 developments (i.e., USD weakness) given the lack of undue discretionary downside pressure on its valuation. This has permitted the USD-CNY to track lower as a result with perhaps further latitude on the downside if the DXY continues to crumble.
- **SGD prospects**
 - The SGD's (appreciating) behavior has been akin to a G10 currency amidst the USD's recent rout and this may be expected to continue. The SGD NEER meanwhile is expected to persist in the upper half of its perceived fluctuation band although official presence to temper its appreciation remains very evident.
 - Nonetheless, USD-SGD is still expected to be downwardly responsive to any further DXY weakness, and officially induced restraint on undue SGD strength may continue to imply that the likes of the EUR-SGD, AUD-SGD, NZD-USD and the CAD-SGD would remain supported on dips. Given our skepticism towards GBP outperformance, GBP-SGD may however remain top heavy.

G7



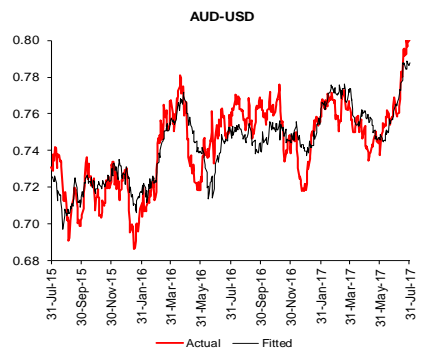
Source: OCBC Bank

- EUR-USD** Despite re-taking the 1.1800 handle, the EUR-USD continues to look rich relative to its short term implied confidence intervals. However, valuation considerations may be benched in the short term if negativity surrounding the greenback remains pervasive. The pair currently straddles its 200-week MA (1.1789) and expect some degree of consolidation (collect on dips) in the interim ahead of Friday's NFP.



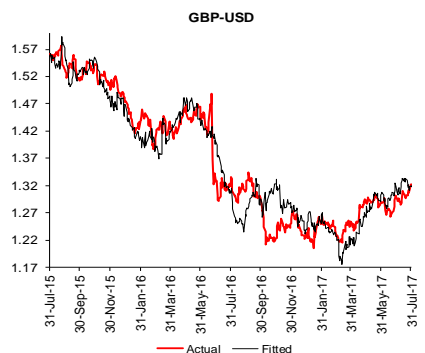
Source: OCBC Bank

- USD-JPY** USD-JPY is still attempting to diverge from its still supported short term implied valuations as USD negativity (political concerns the latest culprit) grows increasingly endemic. Near term posture for the pair we think remains heavy nonetheless with the 110.00 floor akin to thin ice at this juncture. Beyond this level, look towards the 55-week MA (109.71) to offer initial support on a breakdown.



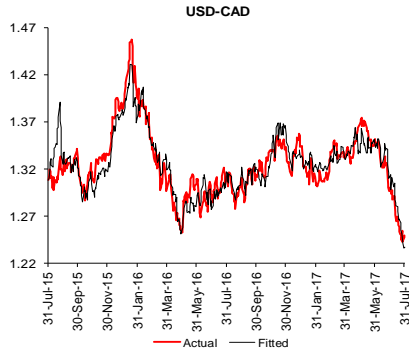
Source: OCBC Bank

- AUD-USD** This morning, the July China Caixin manufacturing PMI surprise on the upside at 51.1 from 50.4 and jumpstarted the AUD-USD back above 0.8000 before the RBA. Pending the RBA later today, expect dip buying to prevail with the pair not perceived to be unduly stretched relative to its short term implied valuations just yet. Technically, expect a pit stop at the 200-week MA (0.8005).



Source: OCBC Bank

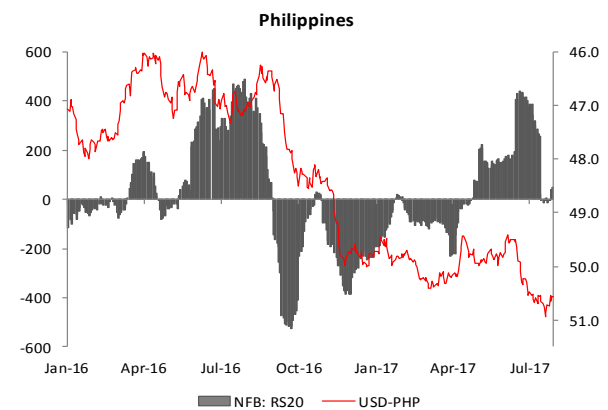
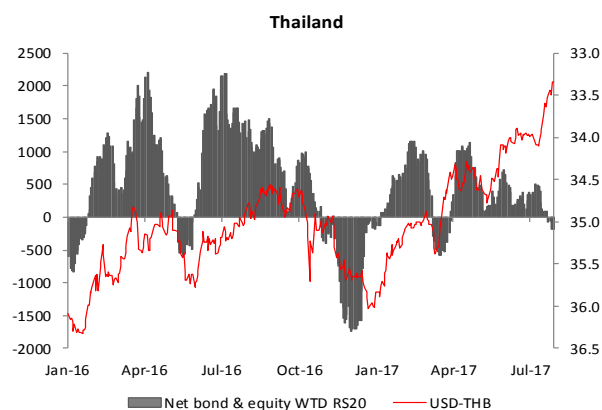
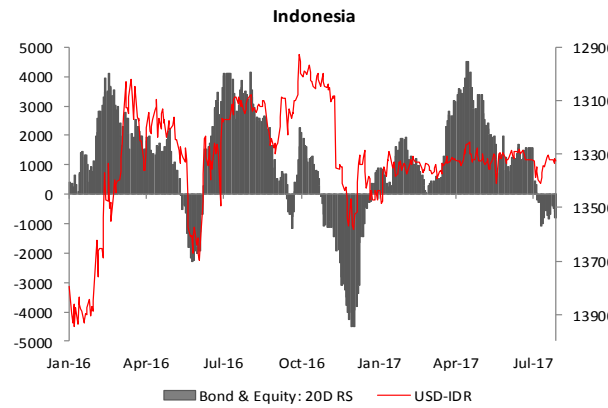
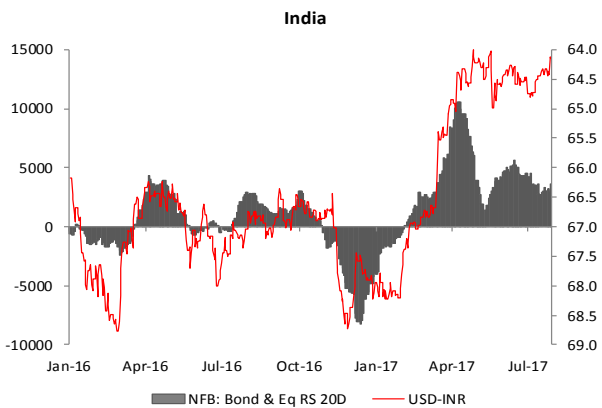
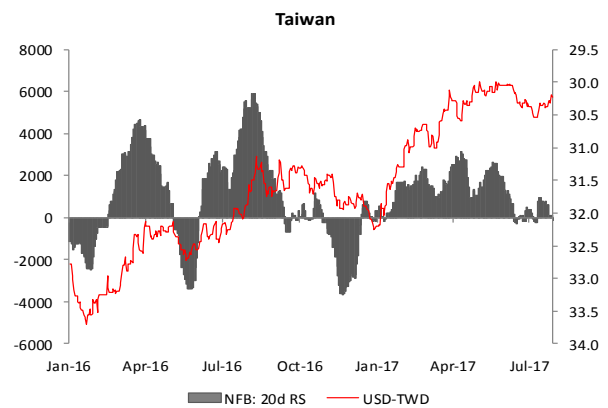
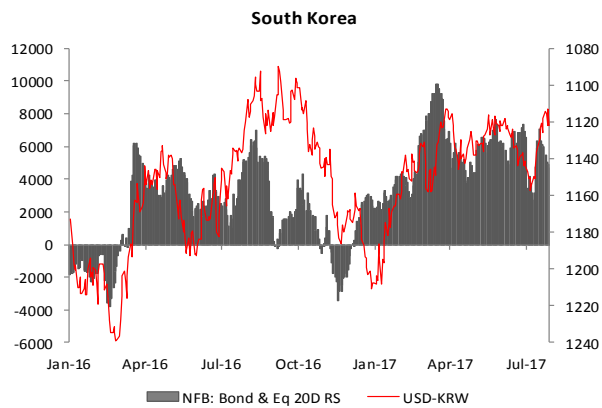
- GBP-USD** Ahead of the BOE's Super Thursday, the pound may continue to ride on the tailwind from a weak dollar and a buoyant EUR. Short term implied valuations are firmer in sympathy and the pair may continue to contemplate the 1.3200 ceiling ahead of 1.3290/00.

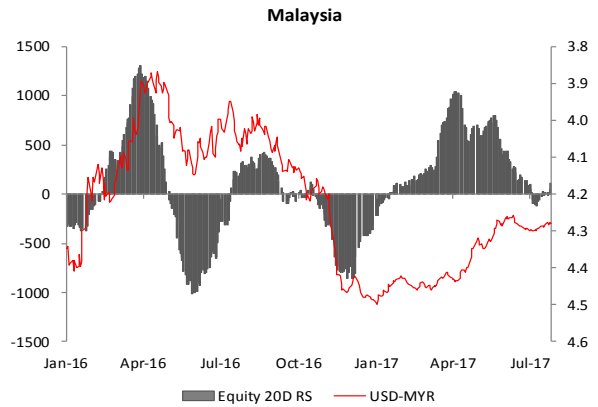


- USD-CAD** Despite USD-CAD disregarding firmer crude overnight, note that short term implied valuations for the pair continue to tilt south. Stay top heavy on the pair with the 200-week MA (1.2388) still on the horizon ahead of Friday's Canadian labor market report.

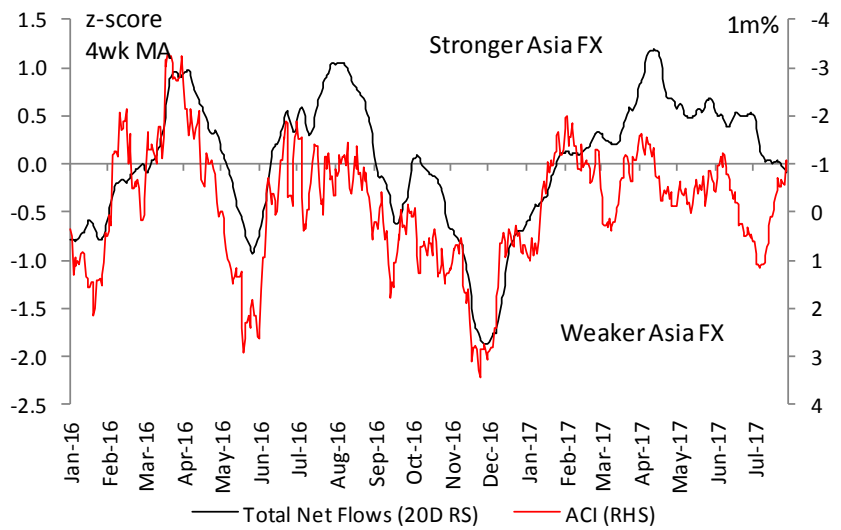
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

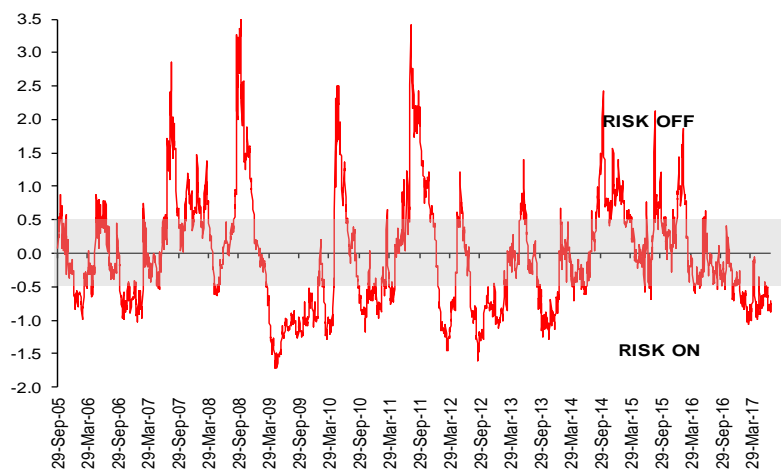




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.689	0.938	-0.859	-0.913	-0.884	0.965	-0.843	0.61	0.846	0.959	-0.991
SGD	0.974	0.734	0.962	-0.927	-0.958	-0.878	0.965	-0.844	0.71	0.913	0.983	-0.947
JPY	0.965	0.764	0.934	-0.864	-0.897	-0.891	1	-0.849	0.603	0.906	0.957	-0.941
CNH	0.959	0.752	0.981	-0.92	-0.957	-0.893	0.957	-0.853	0.711	0.91	1	-0.927
THB	0.958	0.706	0.947	-0.891	-0.921	-0.858	0.966	-0.802	0.666	0.911	0.952	-0.926
CNY	0.938	0.743	1	-0.905	-0.936	-0.896	0.934	-0.834	0.672	0.91	0.981	-0.897
CAD	0.928	0.737	0.93	-0.95	-0.947	-0.781	0.899	-0.73	0.81	0.855	0.942	-0.888
MYR	0.916	0.694	0.931	-0.891	-0.915	-0.773	0.913	-0.758	0.704	0.862	0.928	-0.877
CCN12M	0.895	0.679	0.964	-0.914	-0.94	-0.837	0.869	-0.806	0.719	0.887	0.953	-0.852
KRW	0.882	0.785	0.935	-0.966	-0.965	-0.776	0.886	-0.708	0.827	0.923	0.927	-0.829
INR	0.86	0.624	0.891	-0.847	-0.884	-0.746	0.795	-0.649	0.693	0.762	0.885	-0.815
TWD	0.777	0.568	0.885	-0.794	-0.834	-0.848	0.83	-0.871	0.599	0.86	0.87	-0.73
IDR	0.771	0.856	0.877	-0.901	-0.887	-0.705	0.849	-0.623	0.799	0.921	0.879	-0.689
USGG10	0.689	1	0.743	-0.783	-0.762	-0.569	0.764	-0.413	0.699	0.804	0.752	-0.634
CHF	0.29	0.621	0.336	-0.473	-0.454	-0.097	0.304	0.104	0.511	0.417	0.265	-0.261
PHP	-0.007	-0.472	-0.093	0.167	0.165	-0.088	-0.036	-0.271	-0.21	-0.169	-0.098	-0.041
GBP	-0.854	-0.518	-0.851	0.715	0.778	0.86	-0.884	0.876	-0.455	-0.772	-0.896	0.831
AUD	-0.937	-0.787	-0.963	0.964	0.971	0.875	-0.927	0.807	-0.773	-0.934	-0.971	0.901
NZD	-0.947	-0.646	-0.874	0.839	0.861	0.88	-0.956	0.862	-0.568	-0.866	-0.913	0.938
EUR	-0.991	-0.634	-0.897	0.802	0.871	0.876	-0.941	0.846	-0.536	-0.798	-0.927	1

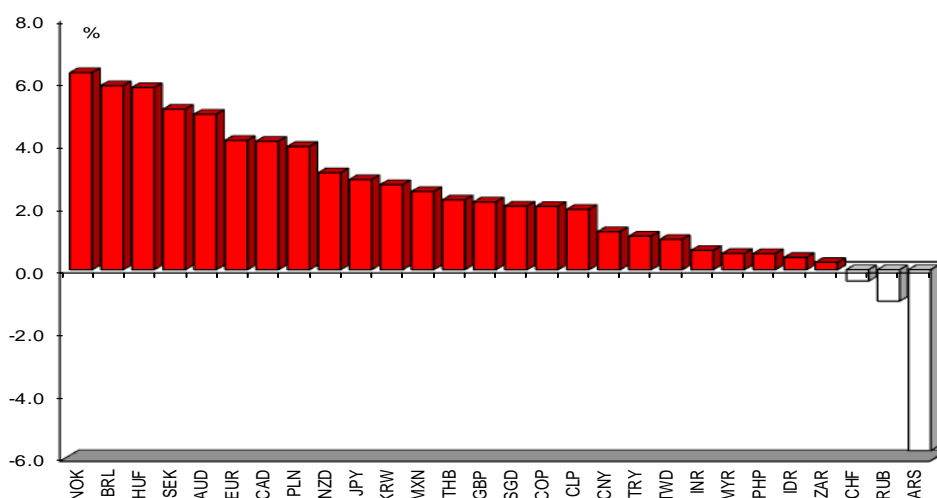
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1367	1.1800	1.1831	1.1846	1.1862
GBP-USD	1.2904	1.3200	1.3216	1.3221	1.3224
AUD-USD	0.7657	0.8000	0.8039	0.8066	0.8100
NZD-USD	0.7265	0.7500	0.7519	0.7558	0.7565
USD-CAD	1.2400	1.2414	1.2493	1.2500	1.3008
USD-JPY	110.00	110.21	110.22	111.00	111.56
USD-SGD	1.3500	1.3543	1.3551	1.3600	1.3770
EUR-SGD	1.6000	1.6029	1.6032	1.6066	1.6100
JPY-SGD	1.2098	1.2200	1.2295	1.2297	1.2300
GBP-SGD	1.7769	1.7900	1.7908	1.7947	1.7989
AUD-SGD	1.0591	1.0800	1.0894	1.0900	1.0933
Gold	1234.48	1251.70	1267.70	1274.70	1277.63
Silver	16.68	16.80	16.81	16.90	16.90
Crude	46.80	50.30	50.31	50.40	50.41

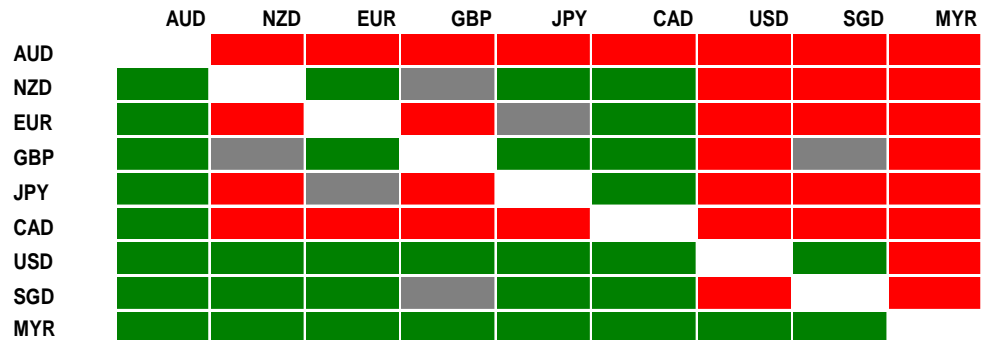
Source: OCBC Bank

FX performance: 1-month change agst USD



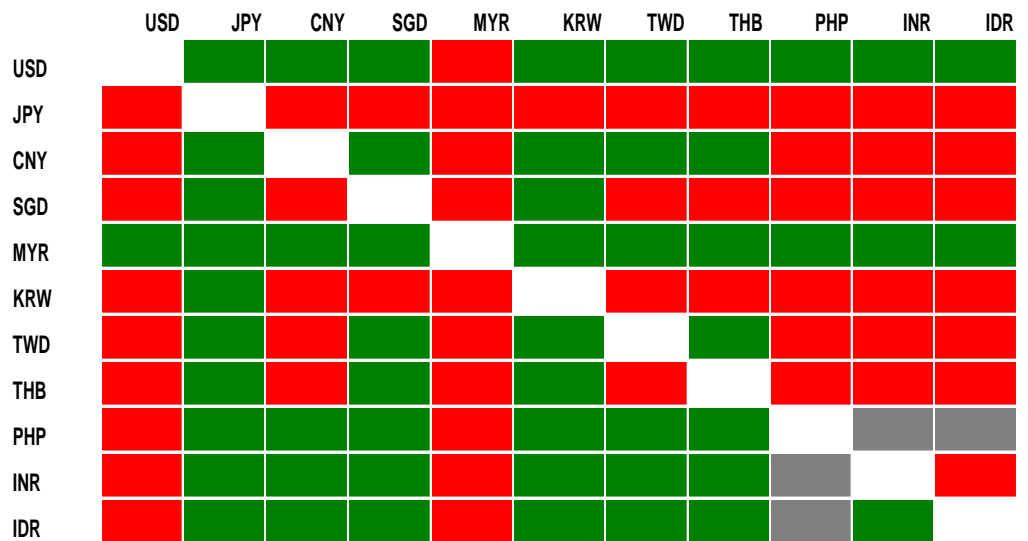
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts (31 July 2017)

	Spot	Sep-17	Dec-17	Mar-18	Jun-18
USD-JPY	110.67	109.50	109.13	111.00	114.00
EUR-USD	1.1738	1.1923	1.2043	1.1753	1.1263
GBP-USD	1.3112	1.3213	1.3277	1.3127	1.2867
AUD-USD	0.7979	0.8105	0.8220	0.8033	0.7708
NZD-USD	0.7501	0.7640	0.7697	0.7483	0.7158
USD-CAD	1.2463	1.2235	1.2175	1.2437	1.2859
USD-CHF	0.9672	0.9630	0.9493	0.9637	0.9872
USD-SGD	1.3568	1.3470	1.3413	1.3557	1.3792
USD-CNY	6.7229	6.7060	6.6640	6.7167	6.8167
USD-THB	33.285	32.95	32.77	33.23	34.03
USD-IDR	13323	13282	13258	13300	13375
USD-MYR	4.2785	4.2580	4.2220	4.2667	4.3517
USD-KRW	1119.32	1110	1095	1108	1136
USD-TWD	30.219	30.060	29.940	30.200	30.650
USD-HKD	7.8094	7.8062	7.8016	7.8067	7.8167
USD-PHP	50.52	50.32	50.08	50.50	51.25
USD-INR	64.13	63.72	63.18	64.07	65.67
EUR-JPY	129.90	130.55	131.43	130.46	128.40
EUR-GBP	0.8952	0.9024	0.9071	0.8954	0.8754
EUR-CHF	1.1353	1.1481	1.1433	1.1326	1.1119
EUR-SGD	1.5926	1.6060	1.6154	1.5934	1.5534
GBP-SGD	1.7790	1.7797	1.7808	1.7795	1.7745
AUD-SGD	1.0826	1.0917	1.1026	1.0891	1.0631
NZD-SGD	1.0177	1.0291	1.0324	1.0145	0.9873
CHF-SGD	1.4028	1.3988	1.4129	1.4068	1.3971
JPY-SGD	1.2260	1.2301	1.2291	1.2213	1.2098
SGD-MYR	3.1534	3.1611	3.1476	3.1473	3.1553
SGD-CNY	4.9550	4.9785	4.9682	4.9545	4.9426

Source: OCBC Bank

FX Trade Ideas

Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
TACTICAL								
1	23-May-17	S	USD-CAD	1.3494	1.2400 1.2720	USD skepticism, sanguine risk appetite, supported crude		
2	04-Jul-17	B	EUR-USD	1.1346	1.1965 1.1645	Draghi's change of stance in late June may further fuel the EUR		
3	13-Jul-17	B	AUD-USD	0.7708	0.8175 0.7935	Vulnerable USD, improving risk appetite, supportive China data		
4	18-Jul-17	S	USD-SGD	1.3671	1.3535 1.3740	Vulnerable USD, implicit inflow for SGD		
STRUCTURAL								
5	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?		
6	05-Jun-17		2M USD-SGD Put Spot ref: 1.3796; Strikes 1.3639; Exp: 03/08/17; Cost: 0.0.24%			Increasingly endemic USD weakness, +ve risk appetite		
7	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		
8	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		
9	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		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	08-Jun-17	04-Jul-17	B	AUD-USD	0.7550	0.7620	Supportive Aussie GDP and China trade numbers, steady risk appetite	+0.93
2	17-Jul-17	20-Jul-17	B	GBP-USD	1.3077	1.2935	BOE rhetoric and vulnerable USD	-1.11
3	28-Jun-17	21-Jul-17	B	USD-JPY	112.31	111.05	Yield differential argument supportive of the USD-JPY	-1.04
* realized **of notional							Jan-Jun 2017 Return	-13.02
							2016 Return	+6.91

Source: OCBC Bank

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