

Thursday, June 01, 2017

FX Themes/Strategy/Trading Ideas

- The dollar traded unevenly on Wednesday, slipping on inherent weakness against the likes of the EUR, JPY, and the CHF but gaining on the cyclicals (AUD, NZD, CAD) as the commodity complex (crude) sagged. US data proved mixed, with the Beige Book a non-mover, while weaker than expected April pending homes sales was balanced by an improving May Chicago PMI. Look to the Fed's Powell (1200 GMT) for further potential cues on the Fed and in the interim, we are top heavy on the USD-JPY.
- Despite EZ May inflation slightly missing the mark, ECB rhetoric (Lautenschlaeger, Weidmann, Eisenschmidt) was mixed to supported with the pair re-taking the 1.1200 handle as investors continued to impute optimism towards next week's ECB meeting. With a streak of ECB and EU appearances today, headline risks remain apparent today for the EUR. On other fronts, the GBP-USD was whipsawed by conflicting opinion polls regarding the upcoming elections before ending firmer on the day.
- For today, the China **Caixin** manufacturing PMI is due at 0145 GMT (official May manufacturing PMI reported on Wednesday was unchanged at 51.2) and this will be followed by accompanying global manufacturing PMIs (including the US ISM) later in the global session.
- In sum, with the greenback on the back foot at this juncture and lacking an inherent impetus, it may continue to respond to idiosyncratic factors in the other majors. On the risk appetite front, the **FXSI (FX Sentiment Index)** firmed for the second consecutive session within Risk-On territory on Wednesday and expect investors to remain slightly nervous in the near term.

Asian FX

- Given the somewhat fragile state of the global reflation trade, any sharp disappointments out of the global PMIs today may further endanger the cyclicals. **This is increasingly crucial for EM/Asia, with Asian currencies largely sheltered (for now) and thus far still reacting to a weaker greenback.**
- Asian net portfolio inflows meanwhile continue to indicate weakening momentum of net inflows for the KRW, TWD, IDR, relative stability for the PHP, while the INR and the THB are seen underpinned. Elsewhere, latest moves in the renminbi complex may also continue to put a damper on USD-Asia. Overall, we look for the **ACI (Asian Currency Index)** to continue to edge lower today, tracking the heavy tone of its structural implied valuation.

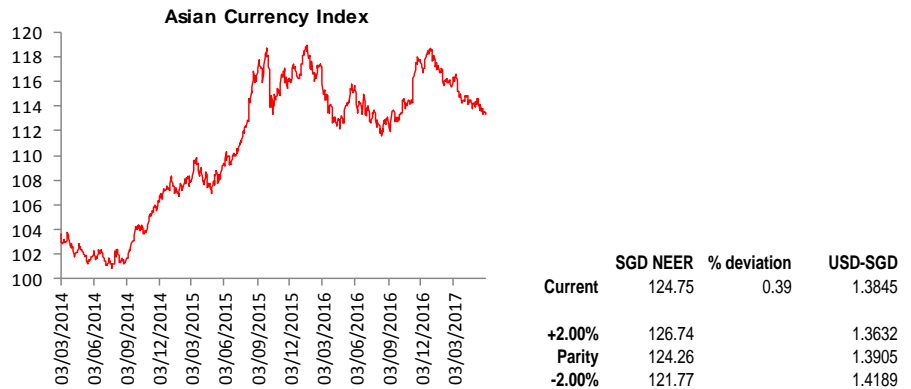
Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

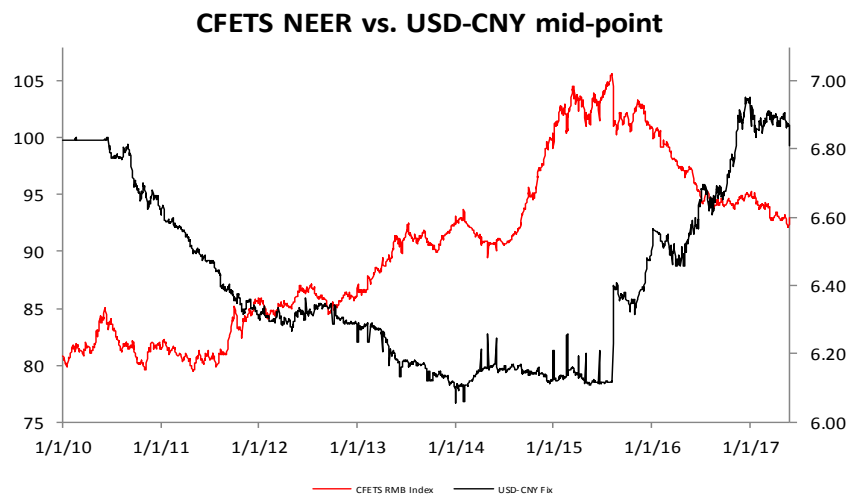
ngcyemmanuel@ocbc.com

- SGD NEER:** With its constituent currencies a mixed bag against the dollar, the SGD NEER is largely unchanged on the day at around +0.45% above its perceived parity (1.3905) this morning. NEER-implied USD-SGD thresholds are softer on the day with +0.50% estimated at 1.3836 and +0.80% at 1.3795 (hard floor in the short term). The weight of the market may continue to be a drag on the USD-SGD but NEER considerations are expected to continue to cushion.



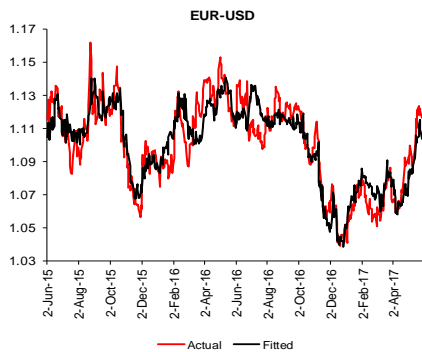
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell to 6.8090 (-0.79%) from 6.8633 yesterday, a dislocation as the authorities likely transitioned to its modified fixing regime. This also resulted in the CFETS RMB Index jumping (+0.61%) to 92.96 from 92.39 yesterday. Going ahead, we would expect less volatility in the mid-points (and the Index) after the initial transition period, with the respective basis between the CNH, CNY, and the mid-point already at extremities.



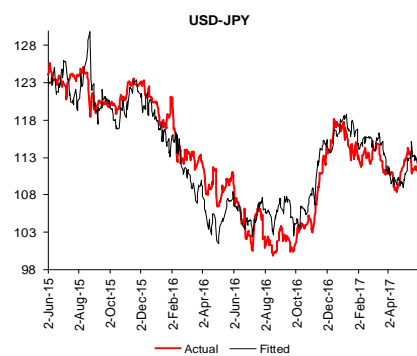
Source: OCBC Bank, Bloomberg

G7



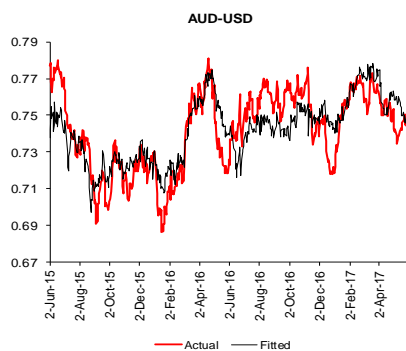
Source: OCBC Bank

- EUR-USD** Contrasting investor attitudes between the ECB and Fed may continue to underpin the EUR-USD in the near term. Short term implied valuations for the pair have bottomed out and 1.1300 (towards 1.1360) may beckon if 1.1268 is finally overcome.



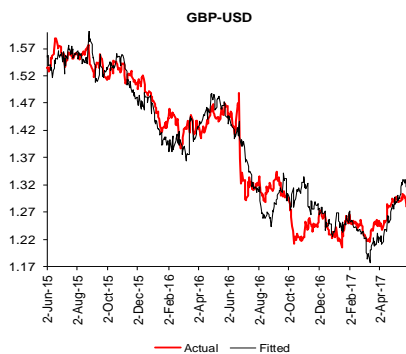
Source: OCBC Bank

- USD-JPY** Apart from skepticism towards further Fed-inspired USD strength, the US administration's ongoing political travails we think continue to remain a negative for the pair. However, short term implied valuations are attempting to bottom out in the immediate term limiting excessive downside potential in the near term barring further risk aversion. Nevertheless, we have a preference to fade upticks towards the 55-day MA (111.27) with risks instead seen tilted towards the 200-day MA (110.27).



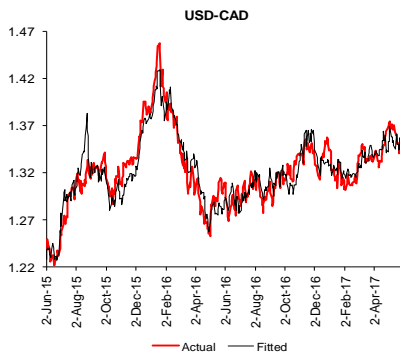
Source: OCBC Bank

- AUD-USD** This morning, the China Caixin and Australian manufacturing PMI came in on the wrong side of expectations and we note that short term implied valuations remain on a slippery slope. At this juncture, 0.7400 remains a key junction, and it may require very little to tip the pair back towards 0.7330 if investor jitters heighten.



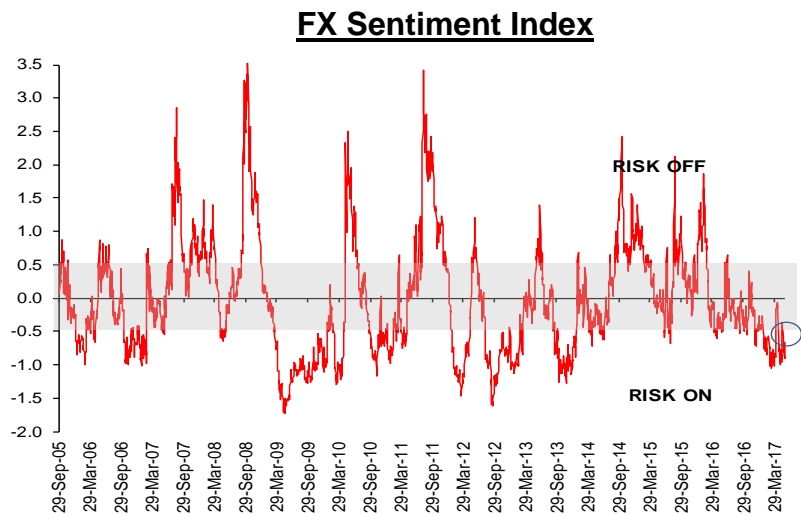
Source: OCBC Bank

- GBP-USD** The latest Yougov poll show PM May's Conservative poll only garnering a 3 percentage point lead over the Labour Party (42-39) and expect headline driven volatility to prevail in the coming week. On our end, we continue to think that hitherto GBP optimism may continue to waver despite still supported near term implied valuations. Expect a top-heavy tone within 1.2840-1.2940 intra-day.



- USD-CAD** Sinking crude and the resultant downward pressure on the cyclicals may keep the USD-CAD buoyant within recent ranges, in line with its short term implied valuations. As such, the pair may continue to bottom out, especially if it manages to lift above its 55-day MA (1.3487) on a sustained basis.

Source: OCBC Bank



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	0.887	0.709	-0.139	-0.603	-0.626	0.864	-0.739	-0.256	0.491	0.722	-0.994
CHF	0.976	0.899	0.714	-0.124	-0.489	-0.529	0.907	-0.635	-0.247	0.377	0.742	-0.965
SGD	0.924	0.936	0.738	-0.165	-0.603	-0.638	0.904	-0.748	-0.182	0.320	0.757	-0.906
CAD	0.894	0.749	0.636	-0.391	-0.755	-0.617	0.711	-0.787	-0.020	0.630	0.682	-0.907
USGG10	0.887	1.000	0.715	0.062	-0.497	-0.593	0.941	-0.694	-0.419	0.193	0.739	-0.860
JPY	0.864	0.941	0.674	0.098	-0.333	-0.489	1.000	-0.590	-0.383	0.080	0.707	-0.835
MYR	0.809	0.727	0.780	-0.541	-0.733	-0.369	0.732	-0.615	0.180	0.624	0.805	-0.800
THB	0.804	0.806	0.879	-0.461	-0.697	-0.346	0.782	-0.566	0.082	0.523	0.890	-0.783
CNH	0.722	0.739	0.992	-0.408	-0.650	-0.159	0.707	-0.307	0.008	0.429	1.000	-0.724
CNY	0.709	0.715	1.000	-0.315	-0.617	-0.208	0.674	-0.358	-0.052	0.413	0.992	-0.708
KRW	0.682	0.599	0.589	-0.089	-0.706	-0.502	0.490	-0.506	-0.235	0.588	0.535	-0.697
CCN12M	0.509	0.560	0.903	-0.580	-0.677	-0.003	0.532	-0.181	0.223	0.397	0.947	-0.551
TWD	0.416	0.473	0.425	-0.197	-0.222	-0.224	0.490	-0.228	0.103	-0.020	0.436	-0.371
PHP	0.413	0.298	0.438	-0.056	-0.506	-0.408	0.203	-0.321	-0.172	0.489	0.368	-0.443
IDR	0.327	0.206	0.239	-0.379	-0.337	-0.366	0.217	-0.393	0.316	0.259	0.211	-0.306
GBP	-0.168	-0.002	0.248	-0.391	-0.334	0.298	0.002	0.148	0.339	0.048	0.403	0.122
AUD	-0.501	-0.596	-0.295	0.041	0.064	0.517	-0.633	0.598	-0.002	0.256	-0.198	0.418
INR	-0.520	-0.433	-0.187	0.126	0.280	0.338	-0.439	0.521	0.049	-0.269	-0.231	0.525
NZD	-0.771	-0.693	-0.756	0.534	0.668	0.299	-0.726	0.528	-0.152	-0.522	-0.813	0.786
EUR	-0.994	-0.860	-0.708	0.163	0.642	0.618	-0.835	0.708	0.247	-0.554	-0.724	1.000

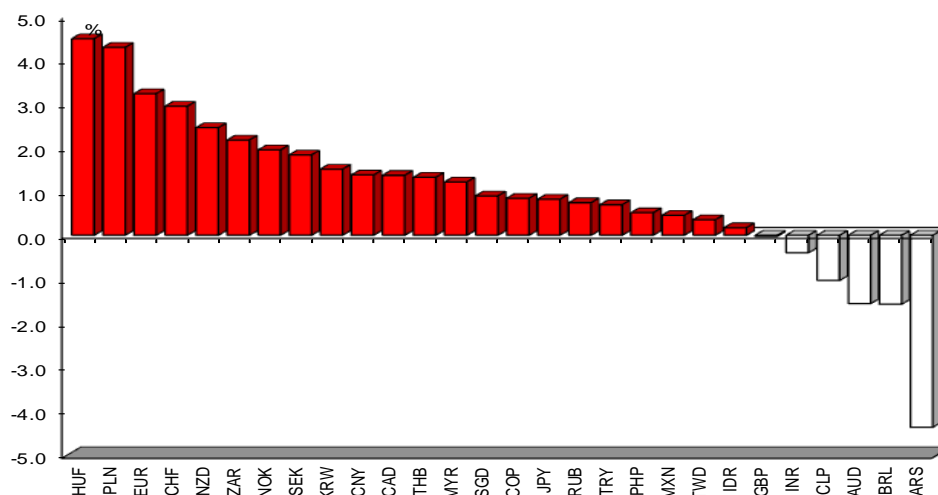
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0887	1.1200	1.1250	1.1268	1.1300
GBP-USD	1.2800	1.2808	1.2884	1.2900	1.3030
AUD-USD	0.7345	0.7400	0.7407	0.7496	0.7500
NZD-USD	0.6963	0.7000	0.7074	0.7097	0.7100
USD-CAD	1.3388	1.3400	1.3496	1.3497	1.3500
USD-JPY	110.00	110.24	110.89	111.00	111.18
USD-SGD	1.3800	1.3808	1.3843	1.3900	1.3956
EUR-SGD	1.5266	1.5500	1.5574	1.5600	1.5627
JPY-SGD	1.2297	1.2400	1.2483	1.2500	1.2545
GBP-SGD	1.7793	1.7800	1.7835	1.7900	1.8301
AUD-SGD	1.0239	1.0253	1.0254	1.0300	1.0426
Gold	1248.48	1256.47	1269.10	1280.98	1289.10
Silver	16.07	17.30	17.33	17.40	17.46
Crude	45.67	48.70	48.77	48.80	50.09

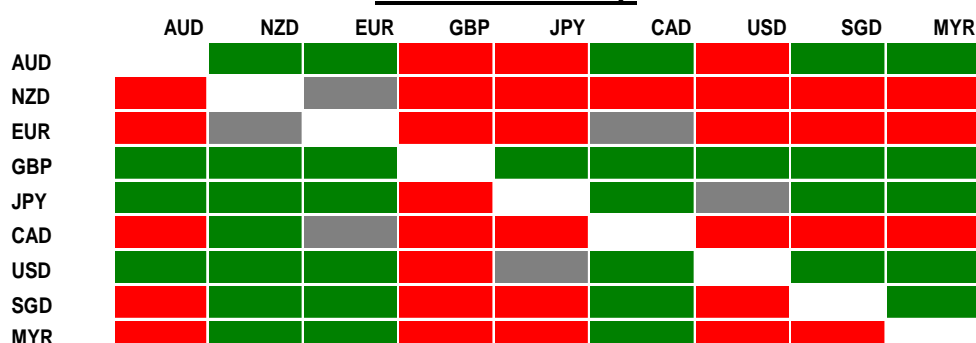
Source: OCBC Bank

FX performance: 1-month change agst USD



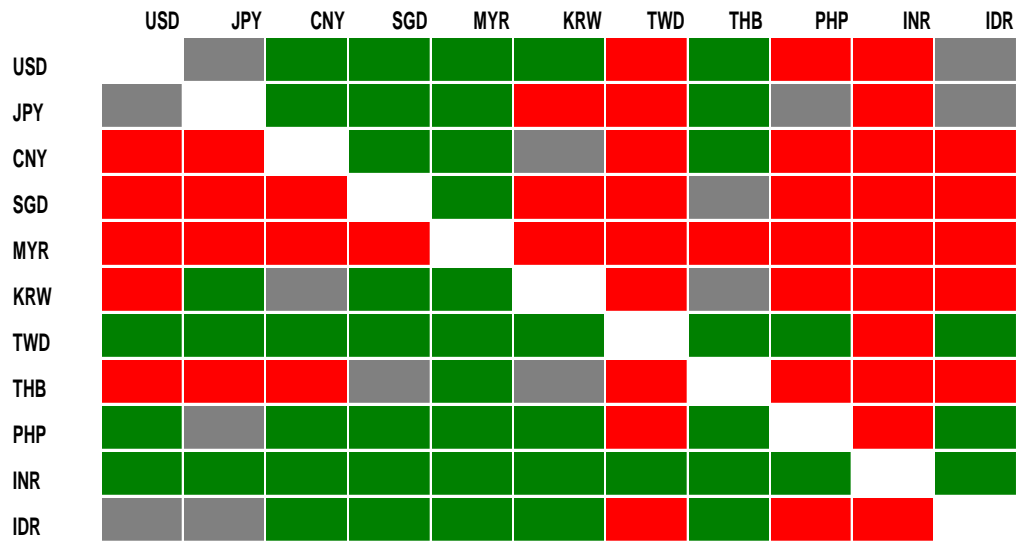
Source: Bloomberg

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	17-May-17	B	EUR-USD	1.1120	1.1320 1.1015	Disappointing US data feed, reversal of political risk premiums		
2	23-May-17	S	USD-CAD	1.3489	1.3265 1.3605	USD skepticism, sanguine risk appetite, supported crude		
3	24-May-17	S	USD-SGD	1.3899	1.3745 1.3980	Supportive Asian portfolio inflow environment, soggy USD		
STRUCTURAL								
4	24-Apr-17		Bullish 2M 1X2 EUR-USD Call Spread Spot ref: 1.0863; Strikes: 1.0894, 1.1188; Exp: 22/06/17; Cost: 0.62%			Deflating French risks, USD skepticism		
5	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
6	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	26-Apr-17	05-May-17	B	USD-CAD	1.3563	1.3670	Potential heightening of trade tensions with the US; soggy crude	+0.80
2	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
3	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
4	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14
5	18-Apr-17	29-May-17	B	GBP-USD	1.2585	1.2832	Snap UK elections, soft dollar, -ve EUR risk	+1.79
* realized **of notional							Jan-Apr 2017 Return -19.70	
							2016 Return +6.91	

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
