

Wednesday, August 02, 2017

FX Themes/Strategy/Trading Ideas

- Despite softer UST yields (weak auto sales, lackluster core PCE, and note deteriorating July ISM new orders and employment subcomponents, but warmer than expected prices paid), the USD managed to retrace slightly against across G10 space as investors continued to digest the recent USD slide. USD-JPY saw a temporary dip below 110.00 as the 10y UST dipped below 2.260%.
- The AUD-USD slipped back below 0.8000 by late NY despite generally upbeat global equities/iron but the RBA's Lowe now warning that an appreciating exchange rate would temper the pickup in activity and inflation. Elsewhere, the NOK and CAD were also weighed by crude slumping back below 49.00. NZD-USD took a dive late Tuesday after 2Q employment/wage data disappointed prior market expectations.
- Today, apart from the ADP, look to the Fed's Mester (1500 GMT) and Williams (1930 GMT) for further Fed cues while in Asia, the RBI is expected by the market to cut its benchmark repo and reverse repo by 25bps each to 6.00% and 5.75% respectively.
- Despite recent attempts at consolidation, the DXY may not be out of the woods yet, especially after the 92.78 low overnight, although further consolidation (especially in the cyclicals) may be in store pending further headline risks.
- Ahead of the BOE's Super Thursday (where a nod towards inflation pressure is still expected) and amidst G10 resilience (especially the EUR) against the USD in the interim, we initiate a tactical long **GBP-USD**. With a spot ref of 1.3207, we target 1.3495 and place a stop at 1.3060.
- Elsewhere, with Fed speak on Wednesday not expected to surprise on the hawkish side and ahead of the upcoming US NFP, we also initiate a tactical short **USD-JPY** as broad dollar vulnerability continues to circulate. From a spot ref of 110.18 on Tuesday, we look for a 107.75 objective and place a stop at 111.45.

Treasury Research &
Strategy

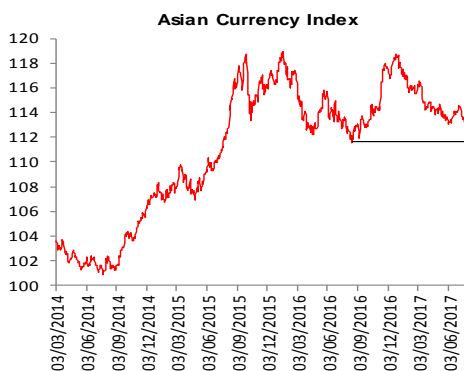
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Asian FX

- EM FX also retreated against the consolidating broad dollar overnight and expect USD-Asia to be more supported intra-day despite a positive start to Asian equities. The Asian net portfolio inflow environment meanwhile is reflecting a rebound in support for the KRW, INR, PHP, and the MYR, while

the situation remains lackluster for the TWD, THB, and IDR.

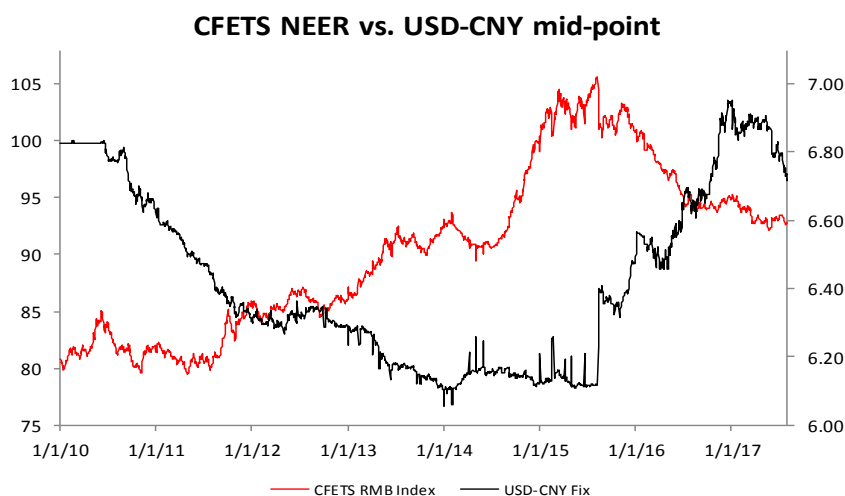
- On the macro front in Asia, manufacturing PMIs were a mixed bag, with improvements for China, Taiwan, and Malaysia, while the indices deteriorated from the previous month for South Korea, Indonesia, Philippines, and Thailand.
- Overall, with the **FXSI (FX Sentiment Index)** continuing to tick higher (still within Risk-On territory) for the fourth consecutive session, the **ACI (Asian Currency Index)** is expected to tick higher today although the latter's structural model is still portending downside potential in the coming weeks.
- **SGD NEER:** Singapore's July PMI readings are due later today but in the interim, the SGD NEER is softer on the day at around +0.79% above its perceived parity (1.3692). NEER-implied USD-SGD thresholds are slightly higher on the day with +0.50% estimated at 1.3625 (likely intra-day top) and +1.00% at 1.3557, where the pair may be cushioned.



	SGD NEER	% deviation	USD-SGD
Current	125.21	0.77	1.3588
+2.00%	126.74		1.3424
Parity	124.26		1.3692
-2.00%	121.77		1.3972

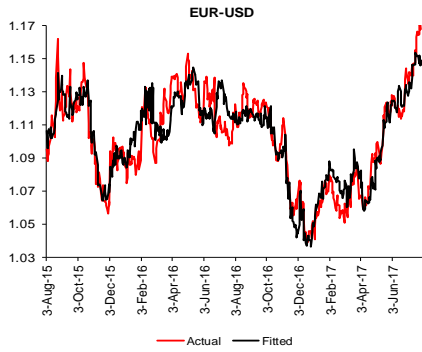
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point gained (as largely expected) to 6.7205 from 6.7148 yesterday, with the CFETS RMB Index firming to 92.83 from 92.77 on Tuesday.



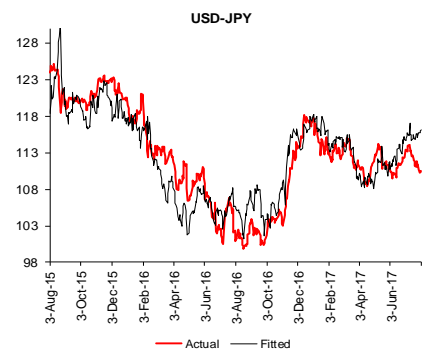
Source: OCBC Bank, Bloomberg

G7



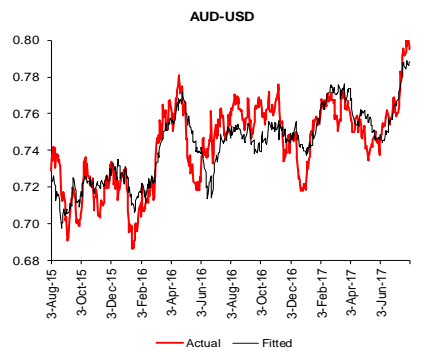
Source: OCBC Bank

- EUR-USD** Short term implied valuations continue to be chipped lower and with the pair still north of its implied valuations, a further consolidation lower in the EUR-USD may be in store. In the interim therefore, a high conviction break above the 200-day MA (1.1789) may have to be put on ice pending further headline risks (e.g. Friday's NFP).



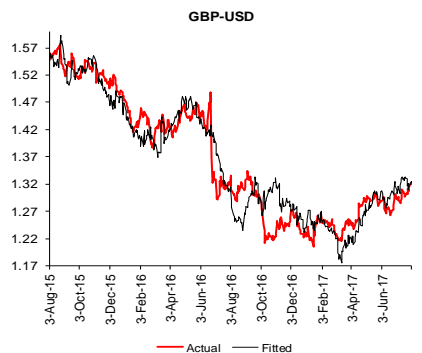
Source: OCBC Bank

- USD-JPY** The BOJ's Funo this morning remained sufficiently dovish on monetary policy and this may keep the USD-JPY supported as the broad dollar attempts a bounce. Meanwhile, short term implied valuations continue edge higher, making the USD-JPY look increasingly distended to the downside for now despite our top heavy preference.



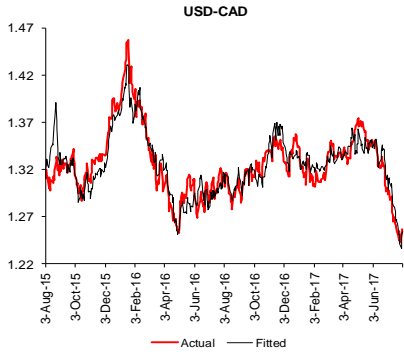
Source: OCBC Bank

- AUD-USD** AUD-USD may remain reluctant at this juncture to test the 0.8000 ceiling without a further catalyst. The RBA's prognosis yesterday we think remained encouragingly neutral and short term implied valuations continue to remain constructive. Apart from the psych resistance at 0.8000, the AUD-USD is not perceived to be overly stretched to the upside relative to its short term implied valuations as yet.



Source: OCBC Bank

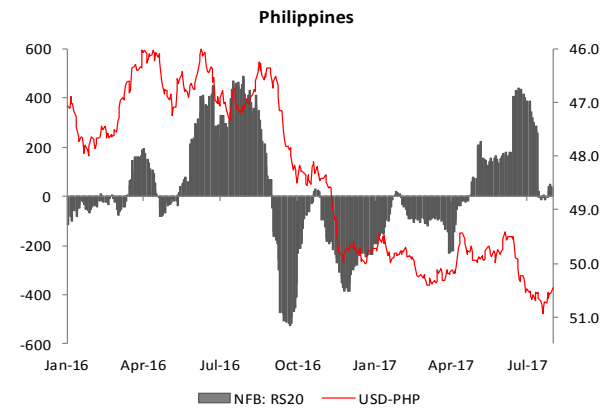
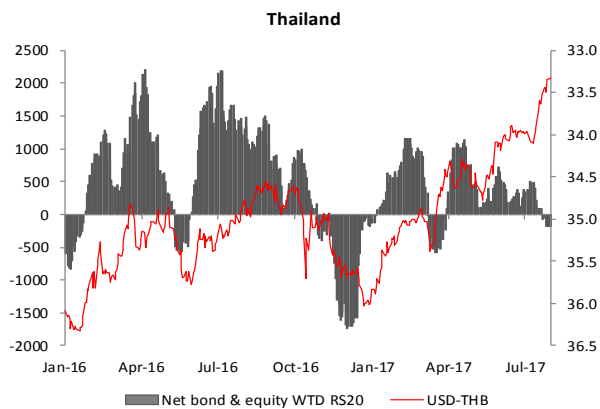
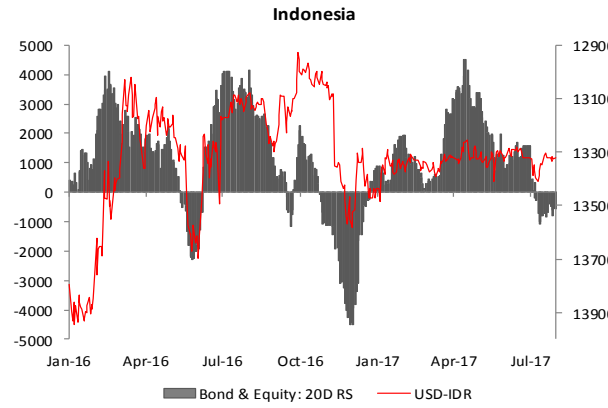
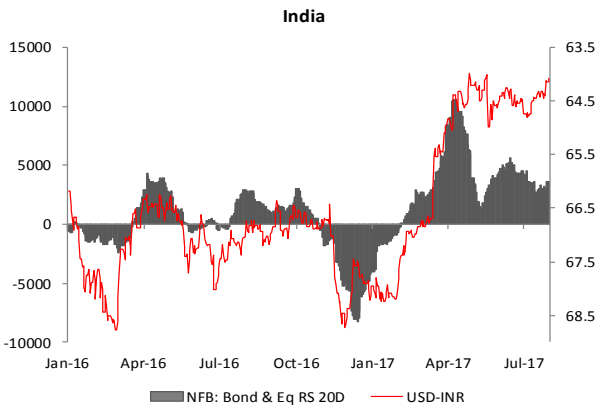
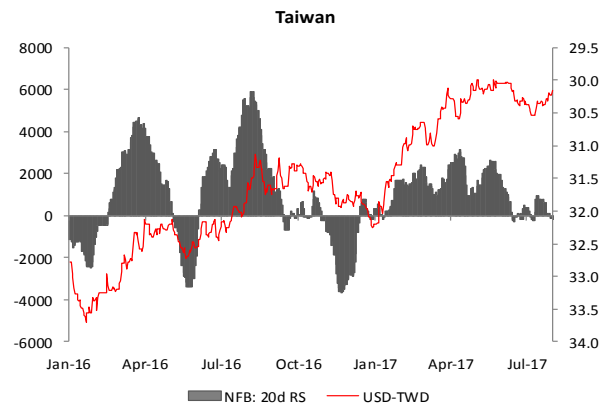
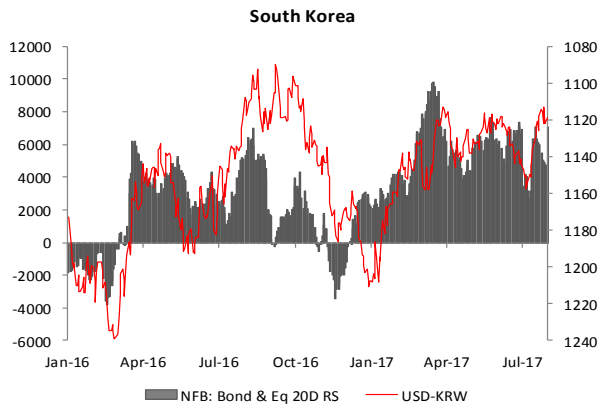
- GBP-USD** GBP-USD managed to persist above 1.3200 on Tuesday with the better than expected July UK manufacturing PMI (55.1) lending support. Look to the July construction PMI for further domestic cues ahead of the BOE MPC tomorrow. Short term implied valuations remain underpinned and the pair may attempt to base build around 1.3200.

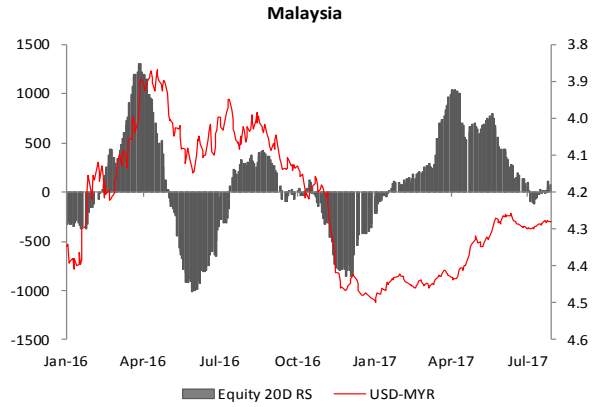


- USD-CAD** Short term implied valuations are retracing higher significantly for now with the pair also reacting in tandem. As such, a further retrace back towards 1.2600 cannot be discounted ahead of Friday's Canadian labor market numbers.

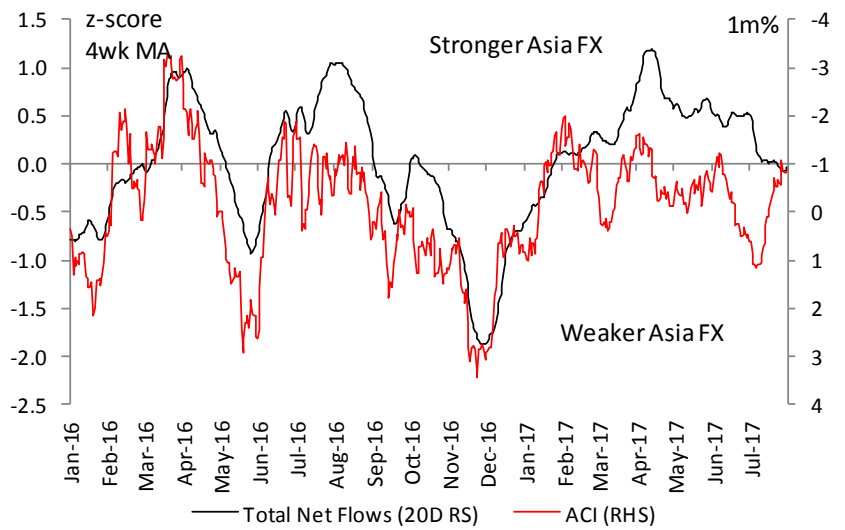
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

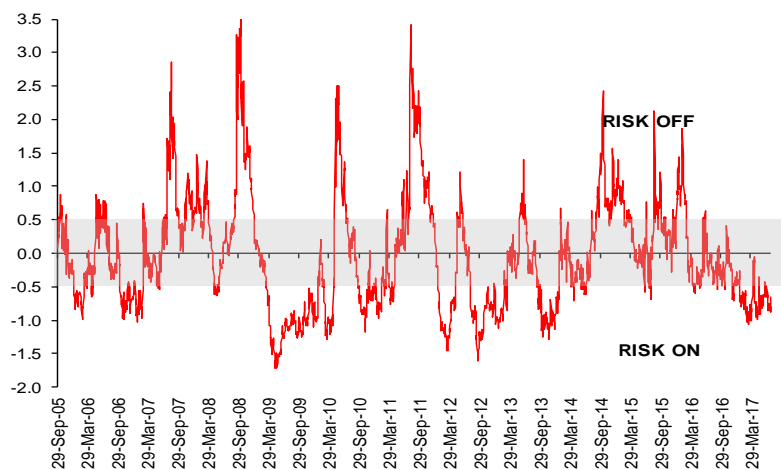




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.757	0.945	-0.861	-0.921	-0.894	0.969	-0.846	0.586	0.845	0.962	-0.992
SGD	0.969	0.778	0.954	-0.93	-0.961	-0.887	0.961	-0.849	0.696	0.915	0.979	-0.942
JPY	0.969	0.822	0.942	-0.866	-0.906	-0.9	1	-0.854	0.579	0.899	0.96	-0.946
THB	0.964	0.77	0.949	-0.893	-0.929	-0.875	0.971	-0.821	0.637	0.908	0.958	-0.935
CNH	0.962	0.81	0.979	-0.92	-0.961	-0.903	0.96	-0.856	0.686	0.907	1	-0.933
CNY	0.945	0.769	1	-0.894	-0.937	-0.901	0.942	-0.85	0.629	0.892	0.979	-0.912
CAD	0.915	0.752	0.906	-0.951	-0.942	-0.786	0.887	-0.736	0.805	0.86	0.932	-0.875
INR	0.878	0.663	0.906	-0.85	-0.894	-0.771	0.821	-0.688	0.662	0.767	0.898	-0.839
CCN12M	0.876	0.713	0.942	-0.917	-0.938	-0.842	0.85	-0.794	0.714	0.891	0.937	-0.83
MYR	0.871	0.712	0.885	-0.886	-0.9	-0.764	0.868	-0.717	0.705	0.861	0.89	-0.825
KRW	0.87	0.793	0.908	-0.965	-0.958	-0.78	0.873	-0.715	0.823	0.925	0.917	-0.817
TWD	0.803	0.61	0.897	-0.804	-0.85	-0.862	0.85	-0.884	0.58	0.86	0.884	-0.762
IDR	0.768	0.854	0.853	-0.902	-0.884	-0.711	0.839	-0.632	0.796	0.923	0.871	-0.691
USGG10	0.757	1	0.769	-0.795	-0.783	-0.606	0.822	-0.504	0.681	0.811	0.81	-0.713
CHF	0.239	0.498	0.231	-0.415	-0.377	-0.04	0.25	0.11	0.494	0.37	0.222	-0.209
PHP	0.139	-0.289	0.094	0.052	0.022	-0.201	0.117	-0.367	-0.169	-0.071	0.049	-0.185
GBP	-0.867	-0.62	-0.878	0.726	0.799	0.869	-0.894	0.868	-0.432	-0.769	-0.902	0.85
NZD	-0.925	-0.682	-0.87	0.847	0.869	0.886	-0.935	0.853	-0.562	-0.872	-0.896	0.912
AUD	-0.928	-0.812	-0.945	0.966	0.97	0.88	-0.918	0.812	-0.764	-0.937	-0.964	0.892
EUR	-0.992	-0.713	-0.912	0.808	0.883	0.887	-0.946	0.846	-0.514	-0.799	-0.933	1

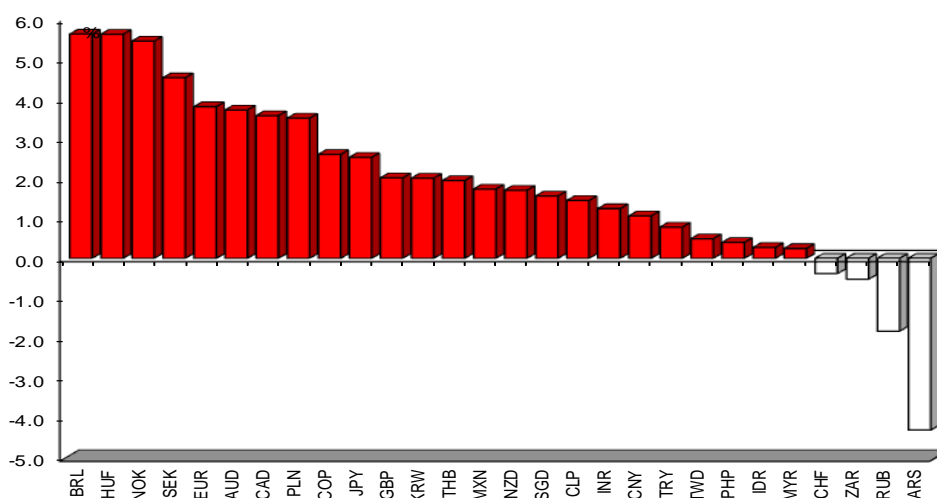
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1378	1.1700	1.1795	1.1800	1.1846
GBP-USD	1.2908	1.3100	1.3199	1.3200	1.3242
AUD-USD	0.7664	0.7900	0.7944	0.8000	0.8066
NZD-USD	0.7272	0.7400	0.7417	0.7500	0.7558
USD-CAD	1.2414	1.2500	1.2558	1.2600	1.2961
USD-JPY	109.93	110.00	110.54	111.00	111.54
USD-SGD	1.3543	1.3600	1.3610	1.3700	1.3766
EUR-SGD	1.5659	1.6000	1.6053	1.6057	1.6066
JPY-SGD	1.2096	1.2300	1.2311	1.2315	1.2342
GBP-SGD	1.7769	1.7900	1.7963	1.7968	1.7989
AUD-SGD	1.0591	1.0800	1.0812	1.0900	1.0933
Gold	1234.54	1251.89	1267.10	1274.70	1281.81
Silver	15.43	16.60	16.66	16.67	16.70
Crude	46.73	48.80	48.85	48.90	50.42

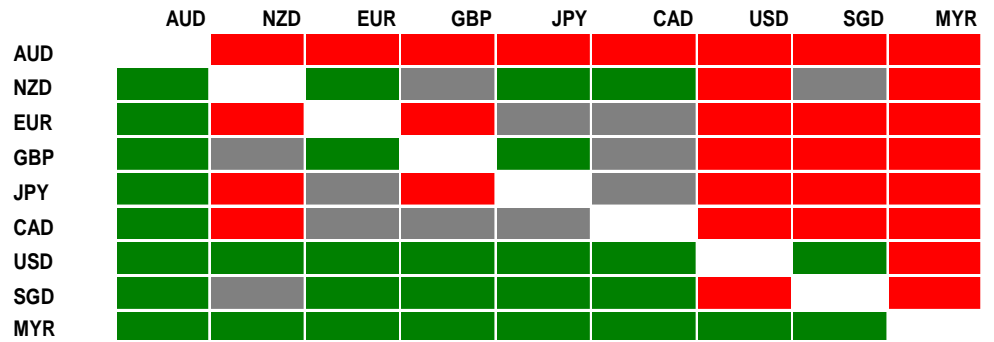
Source: OCBC Bank

FX performance: 1-month change agst USD



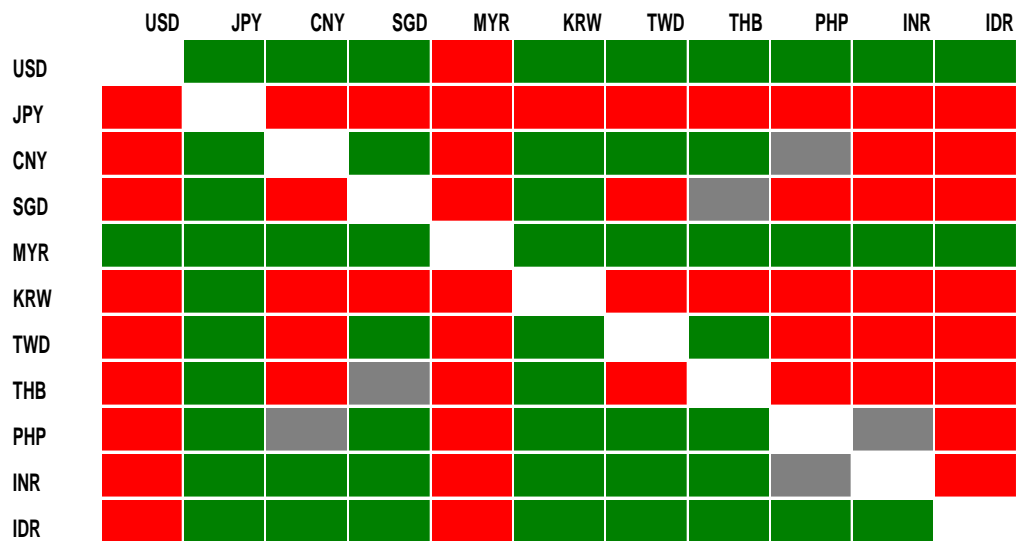
Source: Bloomberg

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	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	
5	01-Aug-17	B	GBP-USD	1.3207	1.3495	1.3060	Vulnerable dollar, hawkish risk from BOE	
6	01-Aug-17	S	USD-JPY	110.18	107.75	111.45	No surprises expected from Fed-speak after the last FOMC	
STRUCTURAL								
7	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?	
8	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		
9	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		
10	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		
11	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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