

Monday, July 03, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The USD consolidated to end mixed on Friday after a hectic week with UST yields firmer (curve bear steepened from the backend) on the back of mildly supportive data (better than expected June Chicago PMI and Michigan consumer sentiment, while May core PCE deflator came in mixed relative to prior expectations). While the USD shaded slightly firmer against the EUR, AUD, and JPY, firmer crude pushed the NOK and the CAD higher.
- Over the weekend, the ECB's Mersch and Weidmann came across as neutral to positive in their respective comments and this may continue to keep the EUR-USD supported at the start of the week. The negative showing by PM Abe LDP at the Tokyo assembly elections over the weekend and slightly supportive 2Q Tankan (large manufacturers' DI came in at a better than expected 17, from 12 prev) meanwhile may be arguably mildly supportive of the JPY in the short term.
- **CFTC** positioning meanwhile showed large non-commercial accounts pared their net implied long dollar bias in aggregate in the latest week (excl JPY positioning, these accounts flipped significantly to a short dollar bias). Meanwhile leveraged accounts also cut their implied long dollar bias for the fourth consecutive week while asset manager accounts increased their net short dollar balance (since late April 17) in the latest week. **Overall, CFTC positioning continues to be tilted against the greenback and price action may continue to be reflective of this bias pending further headline risks this week.**
- This week, the beginning of the month brings with it the slew of **June global manufacturing PMIs** (Australia's AiG manufacturing Index improved further to 55.0 from 54.8) including the US ISM and China's Caixin PMI (0145 GMT) and these readings may dictate macro sentiment at the onset of the week, with corresponding services/composite PMIs due from mid-week. Note that China's official June manufacturing and non-manufacturing PMI's reported on Friday also improved from the previous month. The data calendar will be topped off by the **US June NFP** (mkts: +177k) on Friday.
- On the central bank front, the **RBA** is expected to stand pat at 1.50% on Tuesday but all eyes will be on the accompanying statement, especially after the apparent turnaround by global central banks last week. **FOMC minutes are due on Wednesday, and together with the NFP on Friday, may grant the USD some respite if both events yield a supportive turnout.** In Asia, the **Bank of Thailand** is expected to stand pat at 1.50% on Wednesday.

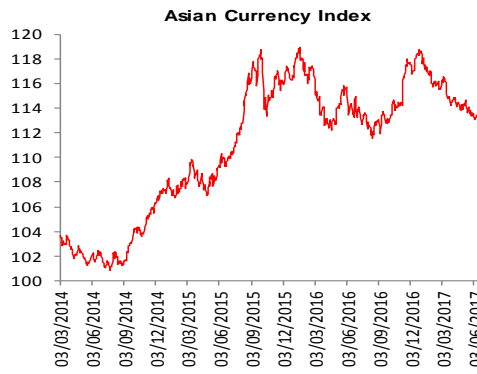
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- Central bank rhetoric this week may continue to figure prominently, and apart from the FOMC minutes, Bullard is scheduled for today (0830 GMT), while Williams, Powell, and Fischer are also scheduled for appearances this week. On Friday, the Fed publishes its July Monetary Policy Report, ahead of Yellen's testimony before Congress on 12 July 2017. The calendar for the ECB appearances this week is also fairly busy, starting with Praet, Nowotny on Tuesday. The **BOE's Carney** is due to speak today (1200 GMT), although he is not expected to touch on monetary policy.
- On the **EPFR** front, implied net flows into Asian (excl Japan, China) equities saw a drop in inflows in the latest week while net implied bond flows indicated a flip to a short net outflow in the same period. **Thus, depending on the global macro complexion, Asian currency reaction to G10 volatility (implicit USD vulnerability within G10) may also continue to be predicated on regional equity sentiment and risk appetite considerations.**
- Our 08 Jun 17 idea to be tactically long **AUD-USD** (spot ref: 0.7550) reached its 0.7695 objective on Friday. Given the current negative landscape surrounding the dollar, we extend our objective to 0.7845, trailing the stop to 0.7620.
- Elsewhere, with the dollar losing altitude and amid beefed up investor economic confidence in the wake of this week's global central bank rhetoric, our 16 May 17 idea for a structurally short **AUD-USD** (sot ref: 0.7407) was stopped out at 0.7670 on Thursday for an implied -3.46% loss.

Asian FX

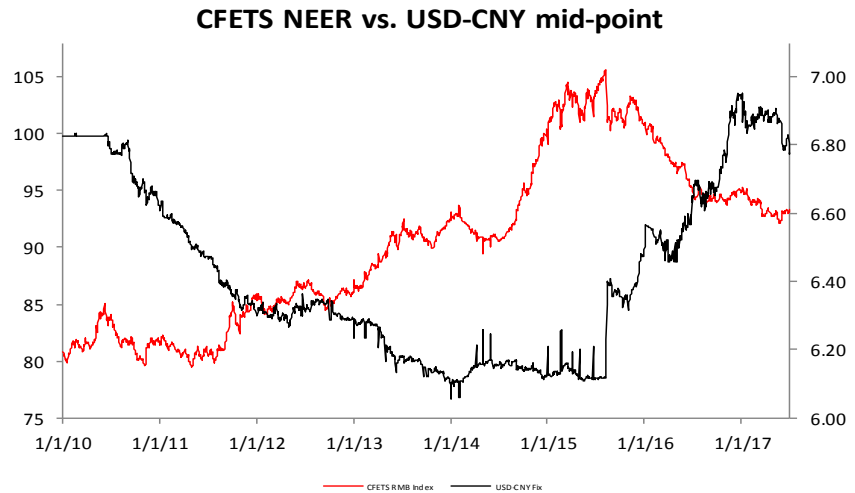
- With the **FXSI (FX Sentiment Index)** slipping (i.e., improving sentiment) within **Risk-Neutral** territory on Friday, risk appetite considerations may temper upside potential of the regional pairs intra-day, with the **ACI (Asian Currency Index)** likely consolidative at this juncture after firming slightly last week.
- **SGD NEER:** This morning, the SGD NEER is firmer on the day at around +0.73% above its perceived parity (1.3862). NEER-implied USD-SGD thresholds are largely static from last Friday and the +0.80% threshold (1.3752) may put a floor on the USD-SGD pending further moves in the basket's constituent currencies.



	SGD NEER	% deviation	USD-SGD
Current	125.12	0.69	1.3772
+2.00%	126.74		1.3590
Parity	124.26		1.3862
-2.00%	121.77		1.4145

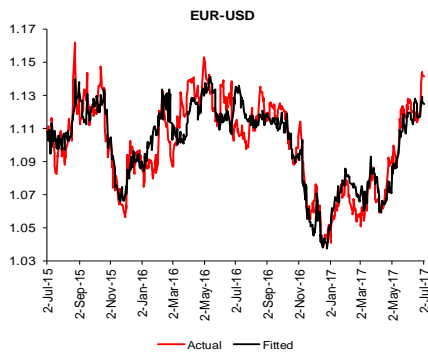
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point firmed (as largely expected) to 6.7772 from 6.7744 last Friday. This still left the CFETS RMB Index essentially static at 93.29, unchanged on the day.



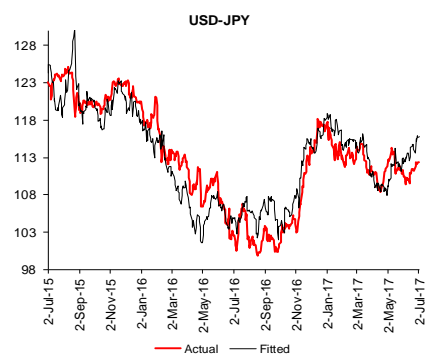
Source: OCBC Bank, Bloomberg

G7



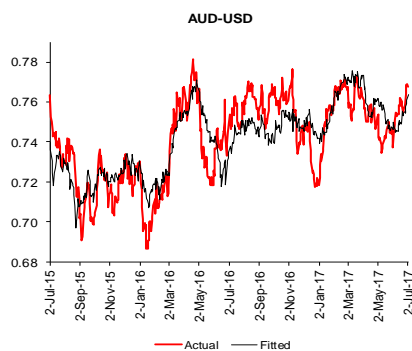
Source: OCBC Bank

- EUR-USD** Expect more consolidative price action for the EUR-USD pending further headline risks this week. Note that short term implied valuations are also taking a breather at this juncture with the pair still trading north of its implied confidence intervals. Pending a concerted launch or base building off the 1.1400 floor, expect dip buying towards 1.1350.



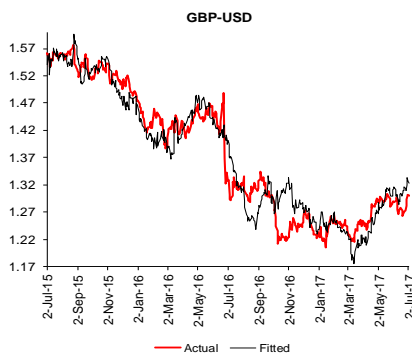
Source: OCBC Bank

- USD-JPY** The latest Tankan showed large manufacturers expecting the USD-JPY to average at 108.31 in the current fiscal year, lower from 108.43 previously. Near term however, sanguine risk appetite levels may keep the USD-JPY afloat on dips, with still firm short term implied valuations for the pair still providing significant headroom in the near term. As a result, consolidation towards 111.80/00 may continue to be met with buying interest.



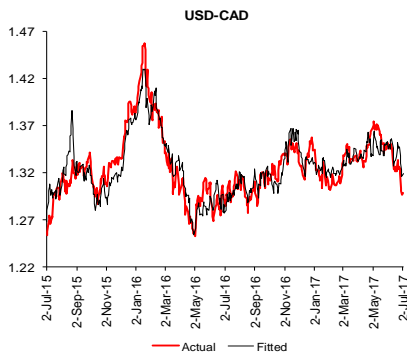
Source: OCBC Bank

- AUD-USD** This morning, the China Caixin manufacturing PMI came in above expectations at 50.4 (49.6 prev). In the interim, investors may continue to remain constructive on the AUD-USD ahead of the RBA policy meeting tomorrow, with short term implied valuations for the pair also in strong agreement. Expect a good base of support to materialize towards 0.7640/50.



Source: OCBC Bank

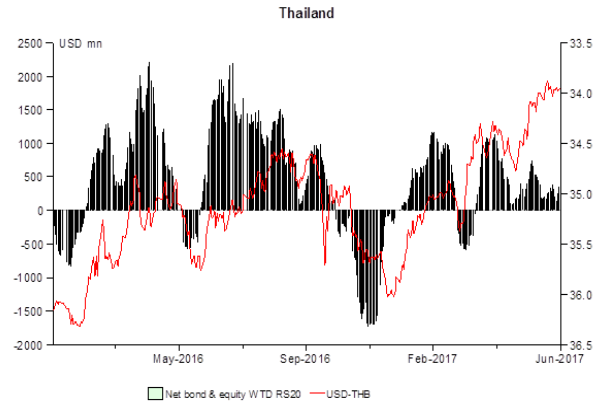
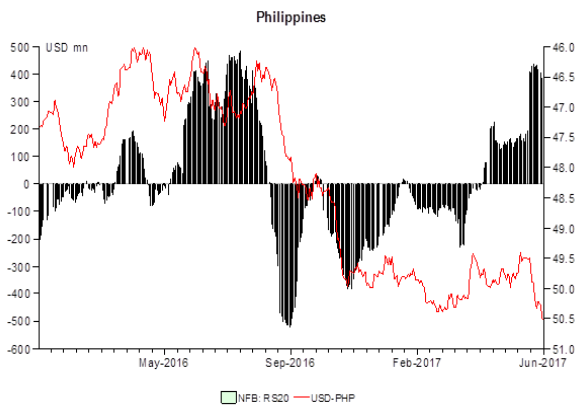
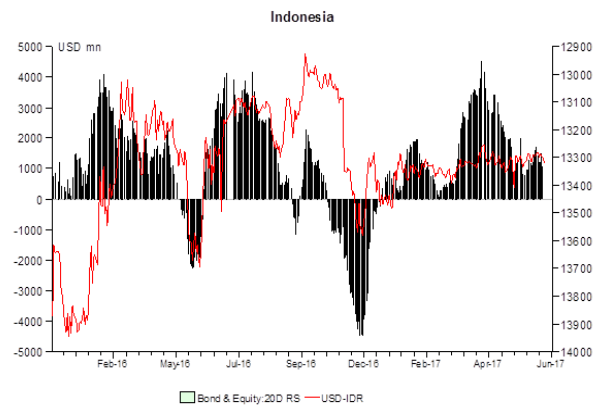
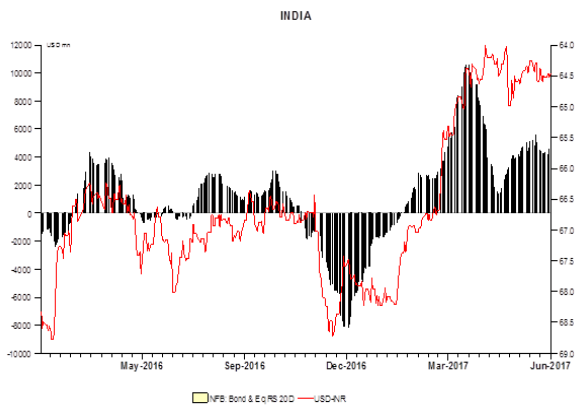
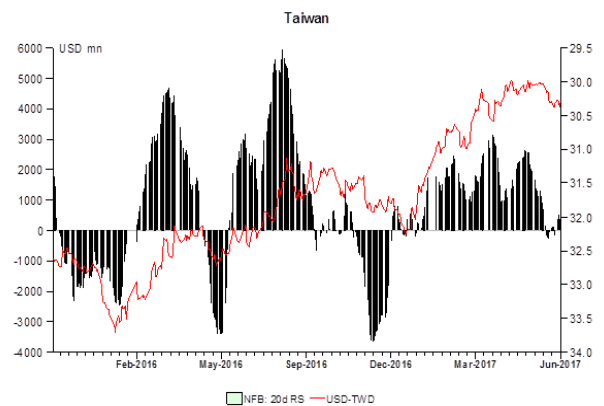
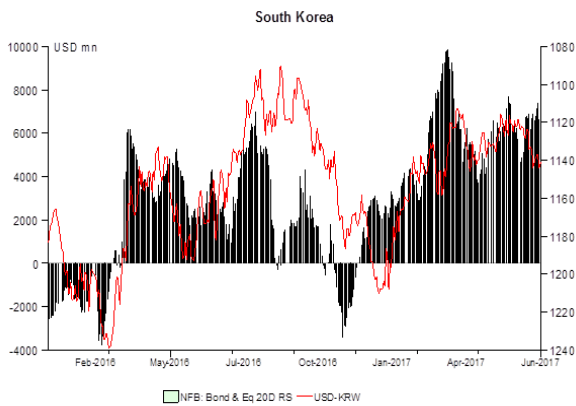
- GBP-USD** A healthy degree of skepticism towards the structural prospects for the GBP may still persist despite Carney's comments last week. Note that short term implied valuations are also capitulating lower at this juncture and ahead of the heavy data calendar this week. Rather than engage in hot pursuit of the upside, investors may instead be expected to collect into dips (towards 1.2950).



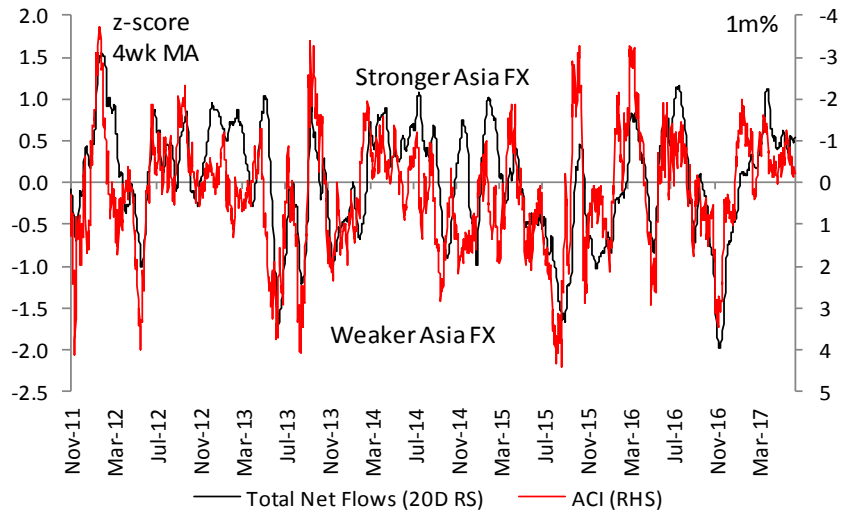
- USD-CAD** As noted previously, implied odds of a BOC rate hike continue to be penciled in at this juncture and coupled with firming crude, may continue to keep USD-CAD top heavy (despite the pair now trading slightly south of its implied short term valuations). In the interim, expect some pause in the neighborhood of 1.2950/70.

Source: OCBC Bank

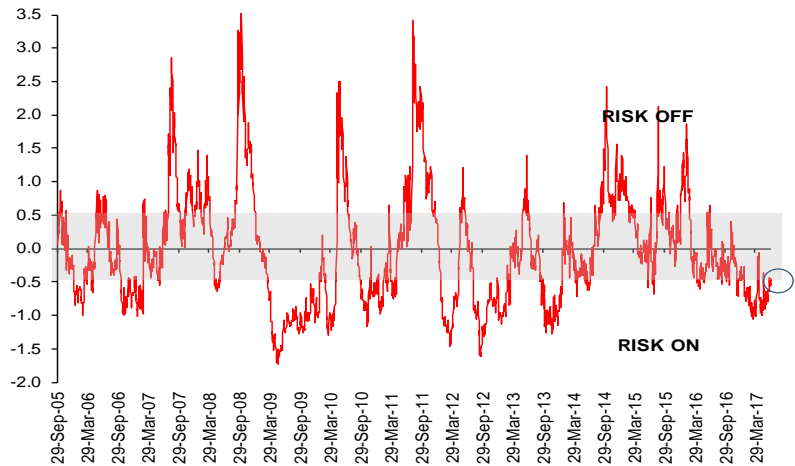
USD-Asia VS. Net Capital Flows



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	1.000	-0.734	0.719	0.560	-0.229	-0.329	-0.367	-0.473	-0.233	-0.601	0.570	-0.990
CHF	0.944	-0.654	0.606	0.597	-0.244	-0.336	-0.295	-0.511	-0.162	-0.671	0.575	-0.956
SGD	0.747	-0.395	0.881	0.265	0.211	-0.692	0.177	-0.712	-0.105	-0.654	0.816	-0.666
CNY	0.719	-0.608	1.000	0.427	0.257	-0.735	0.288	-0.702	-0.383	-0.686	0.866	-0.633
CCN12M	0.578	-0.230	0.531	0.280	0.128	-0.725	0.232	-0.766	0.167	-0.841	0.720	-0.544
CNH	0.570	-0.301	0.866	0.314	0.438	-0.901	0.477	-0.895	-0.095	-0.857	1.000	-0.494
CAD	0.529	-0.539	0.082	0.203	-0.474	0.482	-0.787	0.290	-0.408	0.372	-0.222	-0.554
IDR	0.192	-0.168	0.545	-0.196	0.048	-0.479	0.284	-0.365	-0.087	-0.057	0.359	-0.065
THB	0.085	-0.013	-0.104	-0.104	-0.341	0.486	-0.353	0.417	-0.145	0.500	-0.299	-0.070
TWD	0.000	0.179	0.432	0.007	0.477	-0.844	0.822	-0.771	0.213	-0.667	0.719	0.080
KRW	-0.215	0.292	0.306	-0.178	0.512	-0.759	0.833	-0.654	0.230	-0.457	0.586	0.306
INR	-0.249	0.292	0.279	-0.304	0.304	-0.611	0.775	-0.433	0.363	-0.284	0.482	0.336
MYR	-0.302	0.431	0.277	-0.143	0.572	-0.599	0.903	-0.455	0.192	-0.254	0.498	0.401
PHP	-0.315	0.453	0.242	-0.297	0.607	-0.737	0.907	-0.606	0.436	-0.392	0.572	0.406
JPY	-0.367	0.441	0.288	-0.172	0.664	-0.647	1.000	-0.466	0.186	-0.377	0.477	0.450
NZD	-0.434	0.366	0.076	-0.220	0.623	-0.621	0.751	-0.460	0.268	-0.437	0.326	0.464
AUD	-0.531	0.544	-0.198	-0.273	0.440	-0.404	0.707	-0.306	0.458	-0.262	0.143	0.537
USGG10	-0.734	1.000	-0.608	-0.456	0.230	0.221	0.441	0.246	0.523	0.348	-0.301	0.731
GBP	-0.873	0.545	-0.685	-0.389	0.089	0.499	0.157	0.585	-0.052	0.800	-0.674	0.836
EUR	-0.990	0.731	-0.633	-0.579	0.309	0.239	0.450	0.409	0.245	0.552	-0.494	1.000

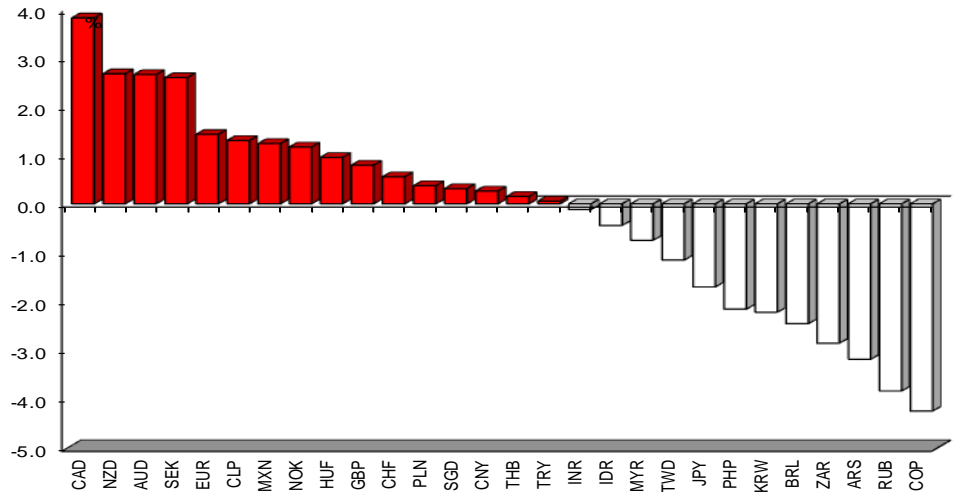
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1129	1.1400	1.1414	1.1438	1.1445
GBP-USD	1.2869	1.3000	1.3006	1.3034	1.3058
AUD-USD	0.7527	0.7600	0.7684	0.7686	0.7700
NZD-USD	0.7158	0.7300	0.7328	0.7332	0.7346
USD-CAD	1.2929	1.2947	1.2978	1.3000	1.3335
USD-JPY	111.57	112.00	112.35	112.93	113.00
USD-SGD	1.3709	1.3736	1.3772	1.3800	1.3889
EUR-SGD	1.5454	1.5700	1.5720	1.5763	1.5793
JPY-SGD	1.2230	1.2233	1.2258	1.2300	1.2448
GBP-SGD	1.7870	1.7900	1.7911	1.7982	1.8000
AUD-SGD	1.0500	1.0570	1.0583	1.0600	1.0616
Gold	1225.44	1237.10	1237.60	1241.00	1254.97
Silver	16.23	16.50	16.55	16.60	16.89
Crude	42.06	46.20	46.26	46.30	47.50

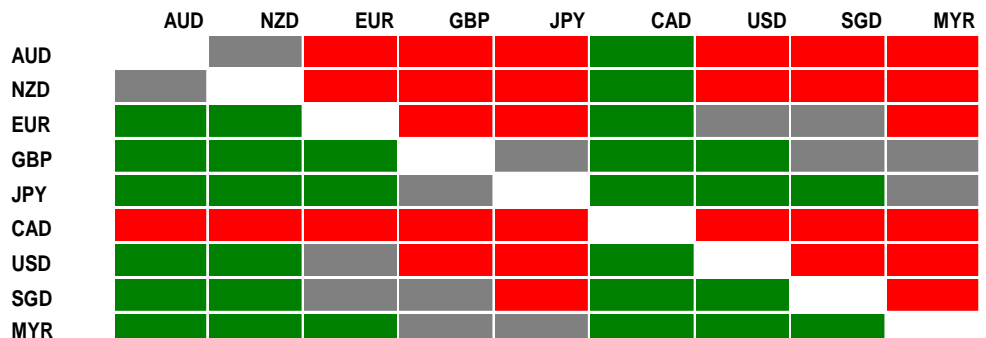
Source: OCBC Bank

FX performance: 1-month change agst USD



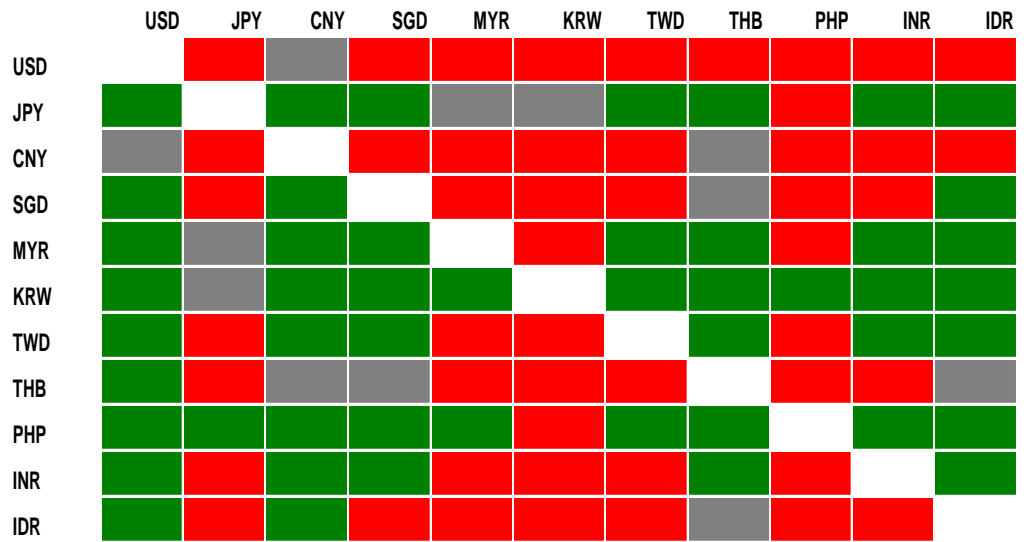
Source: Bloomberg

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	1.2825	1.3155	USD skepticism, sanguine risk appetite, supported crude	
2	08-Jun-17	B	AUD-USD	0.7550	0.7845	0.7620	Supportive Aussie GDP and China trade numbers, steady risk	
3	28-Jun-17	B	USD-JPY	112.31	114.80	111.05	Yield differential argument supportive of the USD-JPY	
STRUCTURAL								
4	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
5	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	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	17-May-17	14-Jun-17	B	EUR-USD	1.1120	1.1209	Disappointing US data feed, reversal of political risk premiums	+0.63
2	24-May-17	15-Jun-17	S	USD-SGD	1.3899	1.3828	Supportive Asian portfolio inflow environment, soggy USD	+0.49
3	01-Jun-17	22-Jun-17	S	USD-JPY	111.00	111.16	Weak broad dollar disposition	-0.25
4	24-Apr-17	22-Jun-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	+1.92**
5	12-Jun-17	28-Jun-17	S	GBP-USD	1.2760	1.2915	UK politics uncertainty/limbo	-1.13
6	16-May-17	29-Jun-17	S	AUD-USD	0.7407	0.7670	Global deflation plays to continue to wobble?	-3.46
* realized **of notional							Jan-May 2017 Return -17.04 2016 Return +6.91	

Source: OCBC Bank

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