

Wednesday, July 05, 2017

FX Themes/Strategy/Trading Ideas

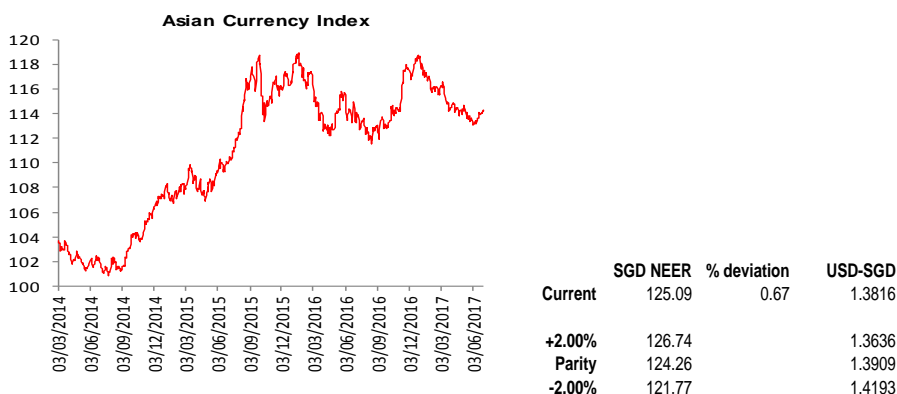
- With NY away on holiday, the USD ended mixed as markets traded off non-USD cues. The EUR-USD edged slightly lower amid balanced remarks from the ECB's **Praet** and **Nowotny** but the USD-CAD sank below 1.2950 after hawkish comments from the **BOC's Poloz**.
- Earlier in the global session, the **RBA** maintained its benchmark rate as expected and remained essentially sanguine and neutral (despite strong May labor market numbers), disappointing market participants who had been expecting a hawkish tint in the language. This sent the AUD-USD lower, with the pair testing briefly below 0.7600. On other fronts, the **Riskbank** also maintained a neutral posture, undermining the SEK.
- Today, headline risks may pick up once again and the calendar includes global services/composite PMIs (including the Caixin reading for China at 0145 GMT), US May durable goods, **FOMC minutes** (1800 GMT) while in Asia, the Bank of Thailand is expected to stand pat at 1.50%.
- Further on the **Fed minutes**, we expect no new flavor, and continue to view the June hike as a neutral/dovish hike, as opposed to the market consensus that it was a hawkish hike. Expect the USD to be undermined somewhat if the minutes indeed do not reflect notable hawkishness. On other fronts, further elucidation on the subject of balance sheet reduction may however still grant some background support for the greenback.
- Elsewhere, **geopolitical risks** may remain lurking in the background with the US confirming that Pyongyang's missile launch on Tuesday as an ICBM, with the UN Security Council expected to convene on Wednesday. Into the weekend G20 meeting, watch also for news flow from the **Xi-Trump** and **Trump-Putin** meetings. **To this end, the JPY may hold a slight edge on the crosses (potentially capping the USD-JPY) if background nervousness persists.**
- On Tuesday, we took profit on our 08 Jun 17 idea to be tactically long **AUD-USD** (spot ref: 0.7550) at the designated level of 0.7620 for an implied +0.93% profit.
- Although the risk of a further USD consolidation higher in the near term may remain apparent, we think scope for an eventual bounce higher in the **EUR-USD** (on the back of last week's comments by Draghi) cannot be discounted if ECB rhetoric this week continues to echo the ECB President. From a spot ref of 1.1346 on Tuesday, we target 1.1550 and place a stop at 1.1240.

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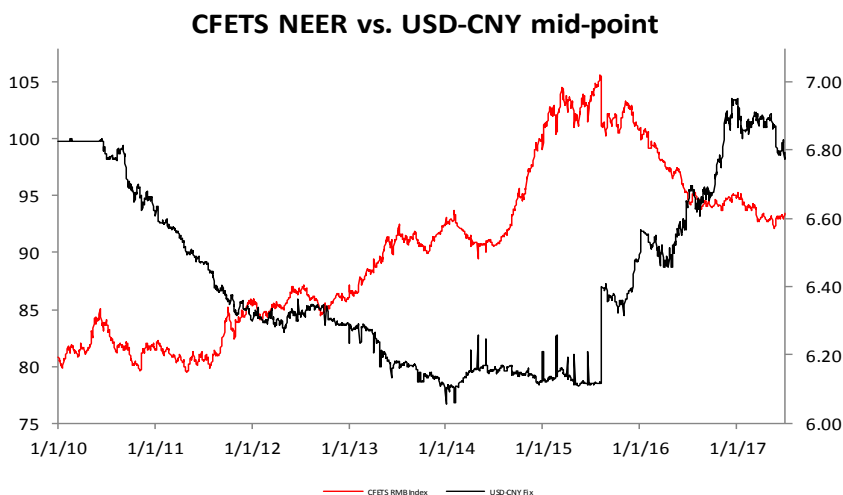
Asian FX

- With no cues from NY equities, soft Asian/EZ equities may also put a damper on Asian sentiment Wednesday morning. Note that from the perspective of net portfolio flows, inflow momentum continues to moderate, further undermining intrinsic support for the regional units. Thus despite the **FXSI (FX Sentiment Index)** dipping further into Risk-On territory on Tuesday, the **ACI (Asian Currency Index)** may see limited downside at this juncture in view of the prevailing background risks (geopolitical, equity) and despite its structural model still arguing for a heavier USD-Asia profile.
- **SGD NEER:** This morning, the SGD NEER is slightly firmer on the day at around +0.67% above its perceived parity (1.3909), with NEER-implied USD-SGD thresholds incrementally firmer on the day. At current levels, the +0.50% threshold is estimated at 1.3840 with +0.80% seen at 1.3799. The latter is expected to continue to put a floor on the USD-SGD pending headline risks.



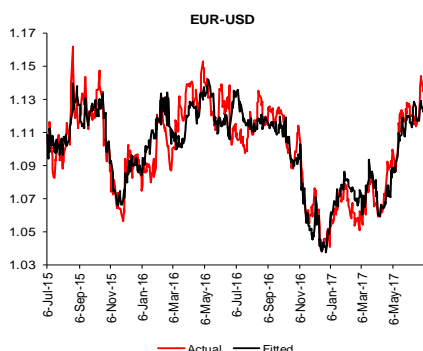
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point rose (as largely expected) to 6.7922 from 6.7889, keeping the CFETS RMB Index largely stable at 93.43, unchanged on the day.



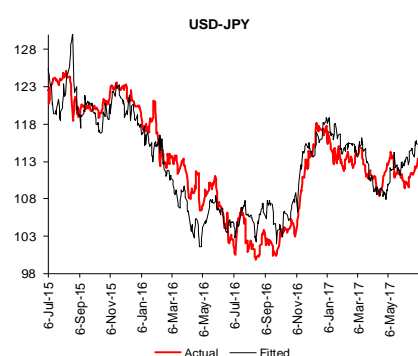
Source: OCBC Bank, Bloomberg

G7



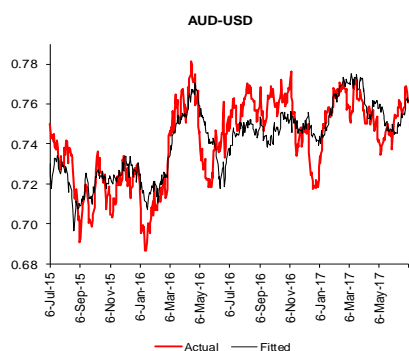
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the EUR-USD are supported ahead of the FOMC minutes today and with a lack of dovishness from the ECB on Tuesday. Overall, the pair may continue to bounce on dips within 1.1300-1.1450 in the interim.



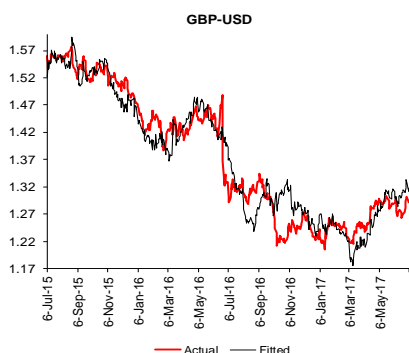
Source: OCBC Bank

- USD-JPY** Softer UST yields this morning (on the back of a safety bid?) may see the USD-JPY heavy in the immediate term, with short term implied valuations also edging lower but still on a multi-session positive gradient. For today, any further aggravation of risk aversion may pull the pair towards its immediate support expected around 112.40.



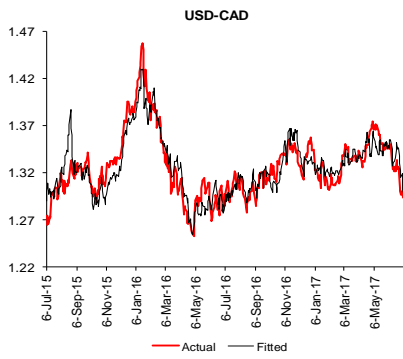
Source: OCBC Bank

- AUD-USD** This morning, the June China Caixin composite and services PMIs deteriorated from the previous month but this has so far failed to dissuade support for the AUD-USD. Short term implied valuations also remain supported and the locus around 0.7600 (subsequent support at 0.7585) may remain in play pending further external developments. Stay constructive barring a degradation go global risk appetite levels.



Source: OCBC Bank

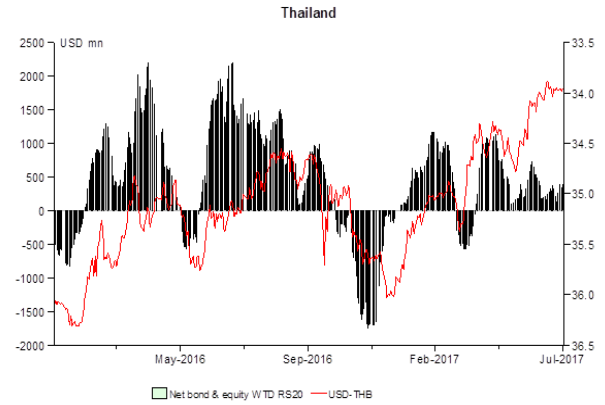
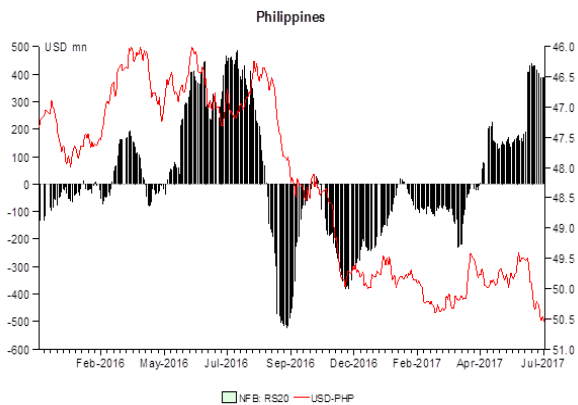
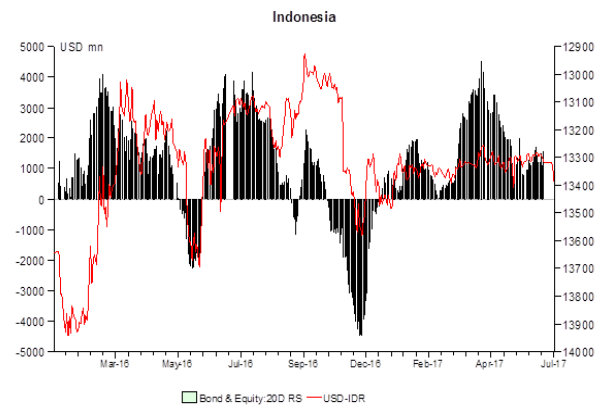
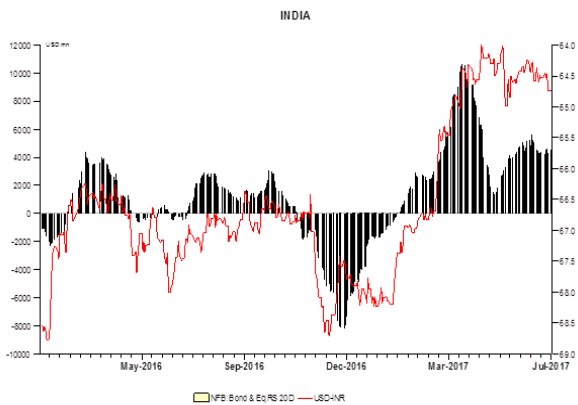
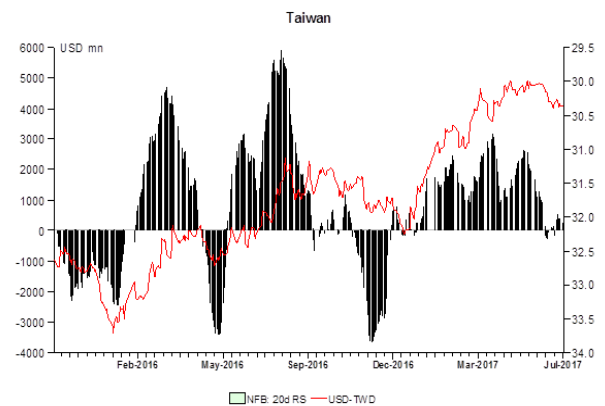
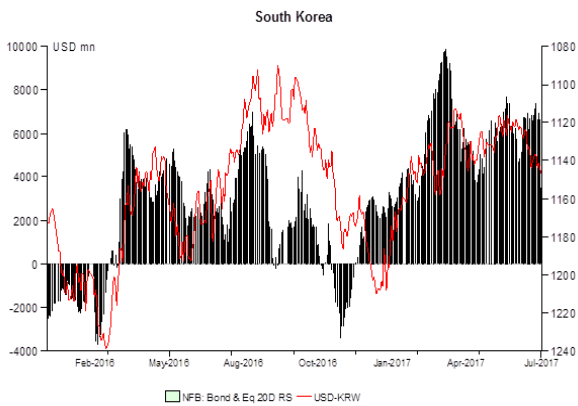
- GBP-USD** UK June services/composite PMIs are on tap today and with the big dollar on a slight defensive, the 55-day MA (1.2870) may support on dips. Short term implied valuations for the pair are also slightly supportive at this juncture despite coming off recent highs. In the interim, expect the 55-day MA (1.2870) to cushion if 1.2900 is breached and investors may be expected to accumulate on such dips if the broad dollar remains vulnerable.



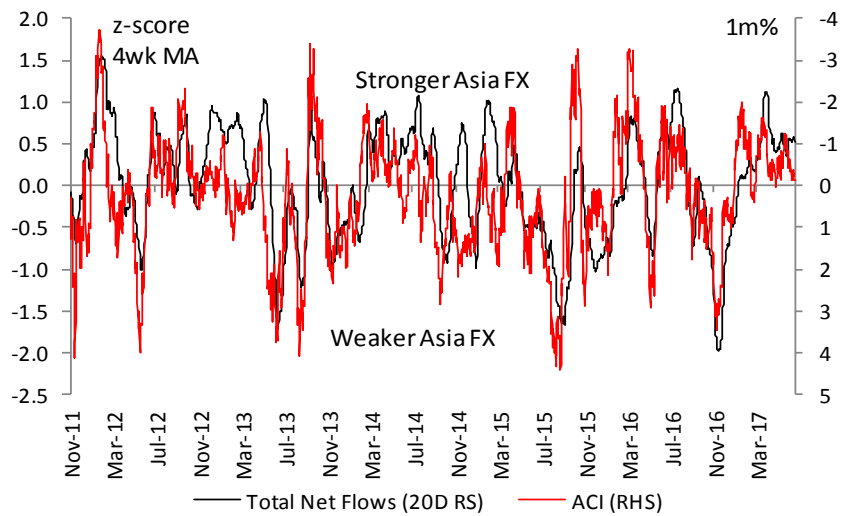
- USD-CAD** Between a hawkish BOC and a supportive crude complex, the USD-CAD continues to slide in tandem with its short term implied valuations. Next waypoint for the pair in this environment is expected towards 1.2880/00.

Source: OCBC Bank

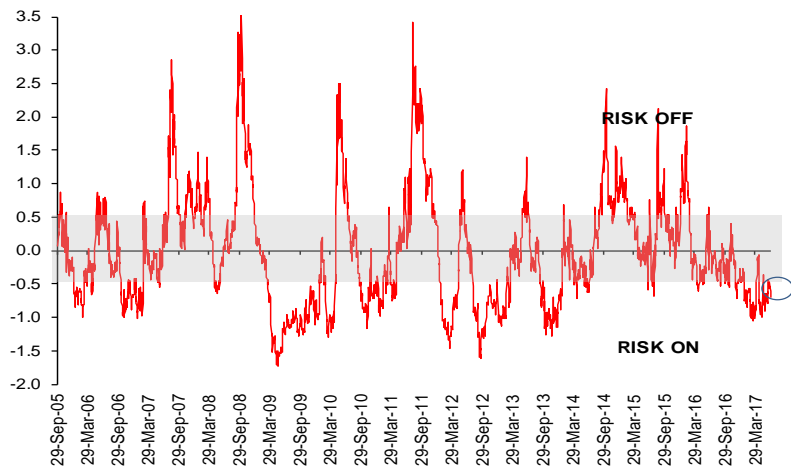
USD-Asia VS. Net Capital Flows



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	-0.722	0.721	0.591	-0.233	-0.357	-0.423	-0.495	-0.339	-0.648	0.516	-0.988
CHF	0.935	-0.575	0.627	0.648	-0.277	-0.323	-0.319	-0.496	-0.281	-0.670	0.523	-0.933
CNY	0.721	-0.505	1.000	0.438	0.252	-0.781	0.148	-0.756	-0.417	-0.735	0.887	-0.639
SGD	0.683	-0.331	0.894	0.300	0.190	-0.680	0.161	-0.687	-0.188	-0.635	0.799	-0.588
CAD	0.564	-0.683	0.141	0.207	-0.395	0.316	-0.849	0.039	-0.406	0.101	-0.229	-0.636
CCN12M	0.526	-0.344	0.578	0.363	0.087	-0.702	0.131	-0.745	0.006	-0.830	0.671	-0.493
CNH	0.516	-0.244	0.887	0.366	0.410	-0.886	0.422	-0.826	-0.210	-0.818	1.000	-0.408
THB	0.017	0.157	-0.169	-0.273	-0.360	0.377	-0.112	0.326	0.145	0.412	-0.269	0.015
TWD	-0.152	0.383	0.359	0.017	0.417	-0.740	0.836	-0.627	0.181	-0.442	0.637	0.237
KRW	-0.379	0.537	0.192	-0.188	0.415	-0.577	0.876	-0.404	0.228	-0.145	0.442	0.471
INR	-0.396	0.654	0.114	-0.321	0.274	-0.352	0.863	-0.152	0.479	-0.010	0.351	0.479
MYR	-0.412	0.624	0.175	-0.213	0.535	-0.511	0.928	-0.342	0.361	-0.110	0.469	0.508
JPY	-0.423	0.678	0.148	-0.203	0.539	-0.447	1.000	-0.173	0.268	-0.098	0.422	0.552
PHP	-0.431	0.595	0.166	-0.306	0.545	-0.572	0.914	-0.400	0.473	-0.172	0.489	0.526
NZD	-0.461	0.451	0.043	-0.202	0.608	-0.485	0.761	-0.305	0.191	-0.225	0.370	0.537
IDR	-0.544	0.801	0.073	-0.353	0.222	-0.148	0.804	0.003	0.359	0.232	0.213	0.665
AUD	-0.592	0.585	-0.247	-0.265	0.437	-0.203	0.718	-0.104	0.406	-0.016	0.137	0.630
USGG10	-0.722	1.000	-0.505	-0.431	0.162	0.345	0.678	0.426	0.569	0.483	-0.244	0.741
GBP	-0.868	0.586	-0.698	-0.438	0.115	0.508	0.287	0.614	0.074	0.822	-0.607	0.835
EUR	-0.988	0.741	-0.639	-0.613	0.313	0.268	0.552	0.467	0.369	0.598	-0.408	1.000

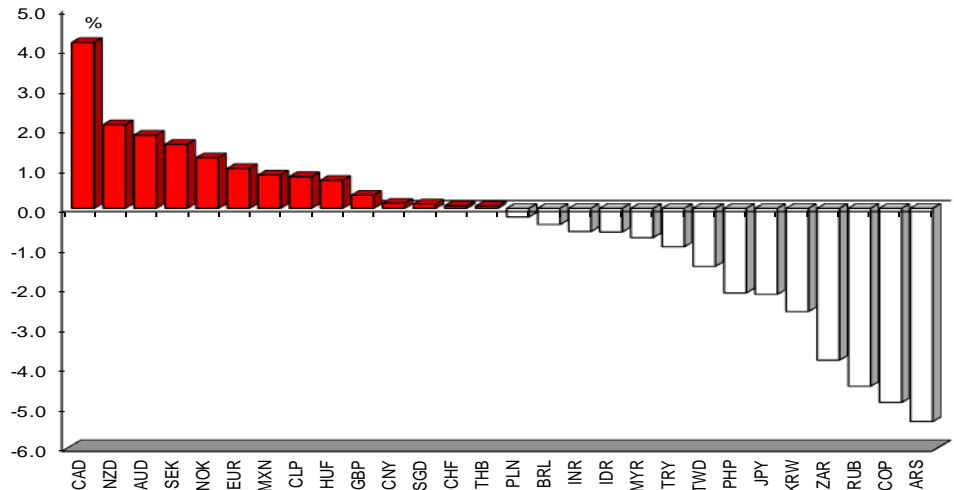
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1146	1.1300	1.1366	1.1400	1.1445
GBP-USD	1.2871	1.2900	1.2946	1.3000	1.3030
AUD-USD	0.7526	0.7600	0.7623	0.7682	0.7700
NZD-USD	0.7178	0.7200	0.7287	0.7300	0.7328
USD-CAD	1.2900	1.2913	1.2935	1.3000	1.3333
USD-JPY	111.67	112.00	112.89	113.00	113.47
USD-SGD	1.3745	1.3800	1.3802	1.3885	1.3900
EUR-SGD	1.5472	1.5600	1.5687	1.5700	1.5790
JPY-SGD	1.2183	1.2200	1.2226	1.2300	1.2433
GBP-SGD	1.7616	1.7800	1.7867	1.7868	1.7900
AUD-SGD	1.0411	1.0500	1.0521	1.0570	1.0600
Gold	1218.00	1220.43	1227.40	1240.48	1253.57
Silver	15.50	15.70	16.00	16.84	17.43
Crude	42.21	47.00	47.01	47.10	47.46

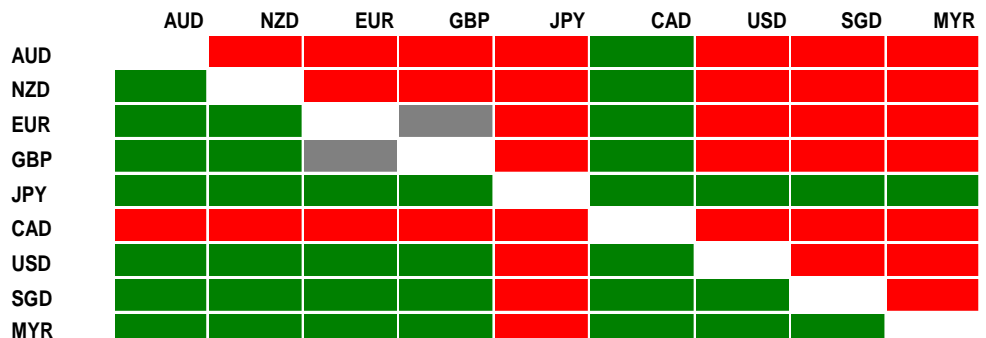
Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Red	Green	Red	Red	Red	Red	Red	Red	Red	Red
JPY	Green		Green	Green	Green	Red	Green	Green	Green	Green	Green
CNY	Red	Red		Red	Red	Red	Red	Red	Red	Red	Red
SGD	Green	Red	Green		Red	Red	Red	Red	Red	Red	Red
MYR	Green	Red	Green	Green		Red	Green	Green	Red	Green	Green
KRW	Green	Green	Green	Green	Green		Green	Green	Green	Green	Green
TWD	Green	Red	Green	Green	Red	Red		Green	Red	Green	Green
THB	Green	Red	Green	Green	Red	Red	Red		Red	Red	Red
PHP	Green	Red	Green	Green	Green	Red	Green	Green		Green	Green
INR	Green	Red	Green	Green	Red	Red	Red	Green	Red		Green
IDR	Green	Red	Green	Green	Red	Red	Red	Green	Red	Red	

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	28-Jun-17	B	USD-JPY	112.31	114.80	111.05	Yield differential argument supportive of the USD-JPY	
3	04-Jul-17	B	EUR-USD	1.1346	1.1550	1.1240	Draghi's change of stance in lat June may further fuel the EUR	
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 polticy concertainty/limbo	-1.13
6	16-May-17	29-Jun-17	S	AUD-USD	0.7407	0.7670	Global reflation plays to continue to wobble?	-3.46
7	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
* realized **of notional							Jan-May 2017 Return -17.04	
							2016 Return +6.91	

Source: OCBC Bank

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