

Monday, June 05, 2017

FX Themes/Strategy/Trading Ideas – The week ahead/Revised forecasts

- Despite supportive remarks from the Fed's Harker, Friday's miss in the May NFP numbers dragged the USD lower across the board and sent the 10y UST yield below 2.20% (curve bull flattened from the back end). Expect the dollar to start the week on an unsteady gait as markets reassess odds of a third FOMC hike this year, with a hike this month still pretty much in the bag.
- On the **CFTC** front, large noncommercial/leveraged accounts in aggregate pared their implied net long dollar bias in the latest week while asset managers increased their implied net short dollar bias in aggregate. Again, the synchronicity of positioning in the latest week may continue to weigh on the greenback.
- This week, the focus may shift away from the USD per se (with the blackout period ahead of the FOMC in force) but expect headline risks to be potentially prominent. Look to the **ECB** council meeting on Thursday amid heavy expectations for a slight change in tone with respect to its forward guidance. Note that any 'disappointment' on this front may significant unwind risk for the EUR. Meanwhile, the **RBA** also convenes on Tuesday with no change in the policy rate expected. Following the weekend attacks in London, the snap elections on Thursday in the UK may also impart additional volatility
- On the data front, the busy global release calendar this week begins with the slew of services/composite PMIs today (**China Caixin indices** at 0145 GMT) and may also set the tone towards macro trades. Note that China's May trade numbers are also due on Thursday. Meanwhile, the **RBI** is expected to stand pat on Wednesday.
- Overall, the greenback may remain under a negative light post the latest NFP with investors likely to trade off EUR and GBP specific headlines this week. Meanwhile, for as long as the global macro environment is not called into question in the near term, the G10 cyclicals may also continue to benefit (albeit cautiously).

Asian FX

- **EPFR** data meanwhile showed an increase in net implied bond and equity inflows into Asia (excl Japan/China) the latest week. On a related note, with flows into EM outpacing that of DM at this juncture, expect inherent support for Asian FX in the current environment of a weak USD and still sanguine risk appetite levels. On the risk appetite front, note that the **FXSI (FX**

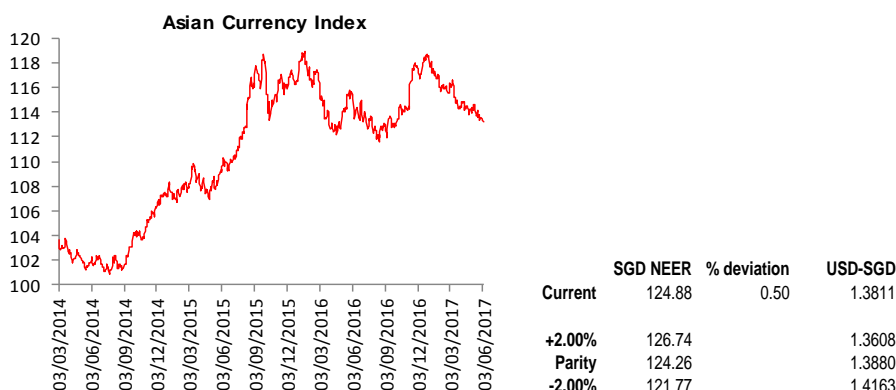
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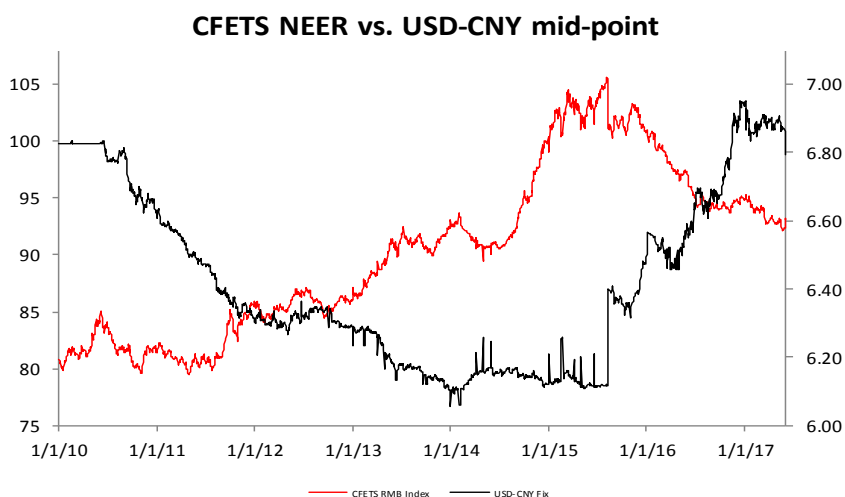
Sentiment Index) fell deeper into Risk-On territory on Friday. Overall, we'd expect the **ACI (Asian Currency Index)** to continue to sink in the current environment.

- SGD NEER:** The SGD NEER starts the week slightly firmer on the day at around +0.50 above its perceived parity (1.3880) in the face of the weakened dollar backdrop. NEER-implied USD-SGD thresholds are softer on the day with +0.50% estimated at 1.3811 while +0.80% is seen at 1.3770. Expect the NEER to continue to hover in the vicinity of +0.50% while the USD-SGD may have to contend with the key psychological support residing at 1.3800 despite an inherently heavy tone for USD-Asia at this juncture.



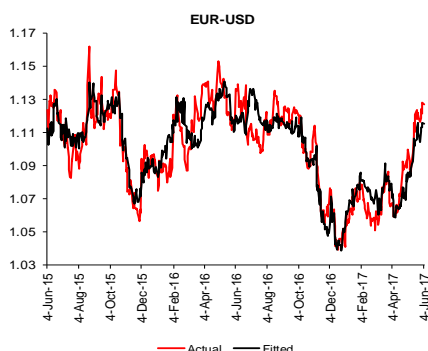
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point reacted lower (by more than expected) to 6.7935 from 6.8070 on Friday. This took the CFETS RMB Index lower to 93.06 from 93.16.



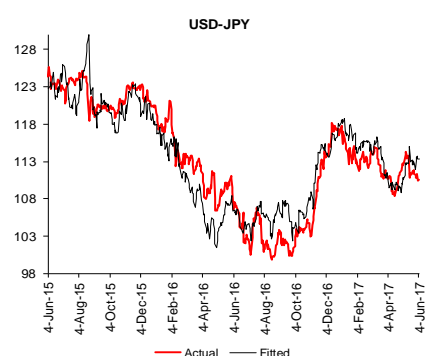
Source: OCBC Bank, Bloomberg

G7



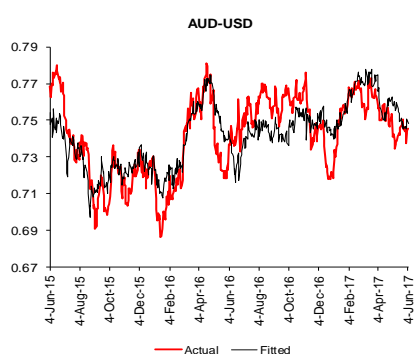
Source: OCBC Bank

- EUR-USD** Short term implied valuations are firmer post-NFP while on the CFTC front, leveraged accounts pared significantly their net implied net short EUR positions in the latest week. In the near term, the ceiling at 1.1300 we think is now at risk. Multi-session, Draghi's press conference may hold the principle risk for the EUR this week.



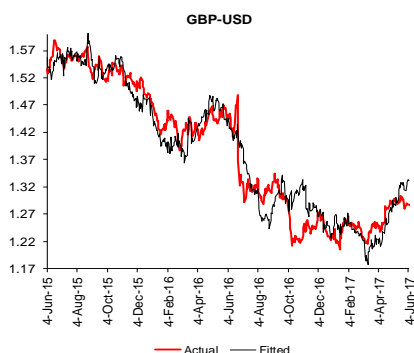
Source: OCBC Bank

- USD-JPY** Comey's testimony before Congress on Thursday may throw the spotlight back on the political baggage attached to the USD. In the interim, short term implied valuations for USD-JPY have once again reverted lower. Although net leveraged CFTC JPY shorts increased in the latest week, expect sentiment to have shifted in the wake of the latest US labor market numbers. Stay heavy on the pair with the 200-day MA (110.36) at risk of a sustained breach towards 110.00.



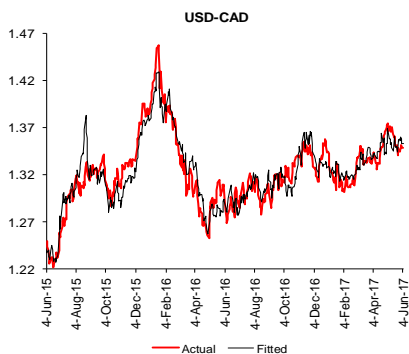
Source: OCBC Bank

- AUD-USD** The better than expected China Caixin composite/services indices this morning, coupled with a soggy dollar backdrop, may continue to keep the AUD-USD underpinned, in line with its short term implied valuation. On the CFTC front, net leveraged AUD shorts were pared in the latest week and in the coming sessions, investors may attempt to lift the pair higher within its recent 0.7300-0.7500 range ahead of the RBA this week.



Source: OCBC Bank

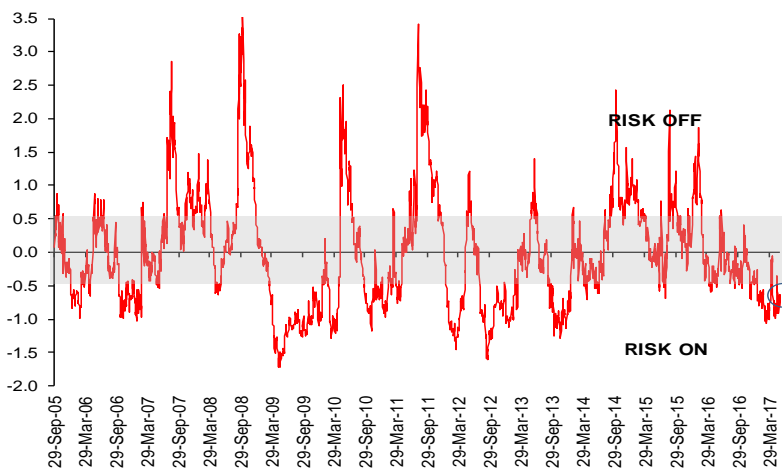
- GBP-USD** Expect the GBP-USD to start the week on a softer footing in the wake of the weekend attacks. Look towards headline-induced volatility on Thursday, especially if the snap elections ultimately result in the Tories paring their majority in parliament. In the interim, the GBP-USD may continue to be somewhat lead footed despite firmer short term implied valuations. Note that on the CFTC front, net leveraged GBP shorts were increased in the latest week and investors may have a preference to fade upticks towards 1.2900 for a move towards 1.2800 instead.



Source: OCBC Bank

- USD-CAD** The weak dollar overrode softer crude on Friday and pulled the USD-CAD below 1.3500. The BOC's Poloz is scheduled for an appearance on Thursday but in the interim, note that short term implied valuations for the pair have softened slightly, in line with a slightly paring of net leveraged CFTC CAD shorts in the latest week. Such leveraged shorts as a percentage of open interest remain at historically elevated levels, leaving the pair vulnerable to unwind risk. We continue to favor a top heavy posture, especially if the pair manages to detach from its 55-day MA (1.3492).

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	0.933	0.698	-0.272	-0.589	-0.414	0.950	-0.585	-0.128	0.470	0.740	-0.998
CHF	0.991	0.940	0.724	-0.304	-0.559	-0.337	0.952	-0.517	-0.116	0.440	0.763	-0.990
SGD	0.970	0.937	0.721	-0.319	-0.704	-0.434	0.924	-0.627	-0.082	0.506	0.763	-0.973
JPY	0.950	0.963	0.698	-0.151	-0.509	-0.313	1.000	-0.479	-0.283	0.317	0.741	-0.942
USGG10	0.933	1.000	0.775	-0.219	-0.617	-0.304	0.963	-0.544	-0.256	0.340	0.778	-0.933
CAD	0.893	0.798	0.606	-0.414	-0.667	-0.417	0.817	-0.690	0.104	0.583	0.657	-0.898
THB	0.859	0.829	0.867	-0.579	-0.774	-0.095	0.819	-0.372	0.184	0.661	0.885	-0.858
MYR	0.839	0.763	0.768	-0.614	-0.788	-0.146	0.767	-0.506	0.267	0.729	0.783	-0.844
CNH	0.740	0.778	0.987	-0.620	-0.726	0.159	0.741	-0.095	0.173	0.555	1.000	-0.742
TWD	0.717	0.606	0.595	-0.408	-0.630	-0.256	0.605	-0.370	0.134	0.542	0.608	-0.719
CNY	0.698	0.775	1.000	-0.629	-0.739	0.185	0.698	-0.108	0.152	0.569	0.987	-0.703
KRW	0.640	0.580	0.459	-0.107	-0.570	-0.253	0.532	-0.313	-0.173	0.473	0.465	-0.653
CCN12M	0.602	0.645	0.927	-0.706	-0.780	0.236	0.603	-0.003	0.325	0.569	0.942	-0.605
IDR	0.459	0.276	0.345	-0.454	-0.506	-0.306	0.287	-0.401	0.344	0.540	0.313	-0.467
PHP	0.437	0.504	0.609	-0.330	-0.559	-0.085	0.382	-0.118	-0.006	0.419	0.514	-0.445
GBP	0.030	0.123	0.421	-0.520	-0.582	0.377	0.093	0.209	0.369	0.381	0.505	-0.037
INR	-0.386	-0.340	-0.057	0.024	0.035	0.217	-0.400	0.437	0.013	0.036	-0.099	0.378
AUD	-0.753	-0.622	-0.159	0.042	0.322	0.679	-0.666	0.807	0.101	-0.269	-0.216	0.751
NZD	-0.799	-0.754	-0.824	0.661	0.717	-0.031	-0.794	0.259	-0.286	-0.658	-0.837	0.804
EUR	-0.998	-0.933	-0.703	0.285	0.609	0.417	-0.942	0.590	0.114	-0.490	-0.742	1.000

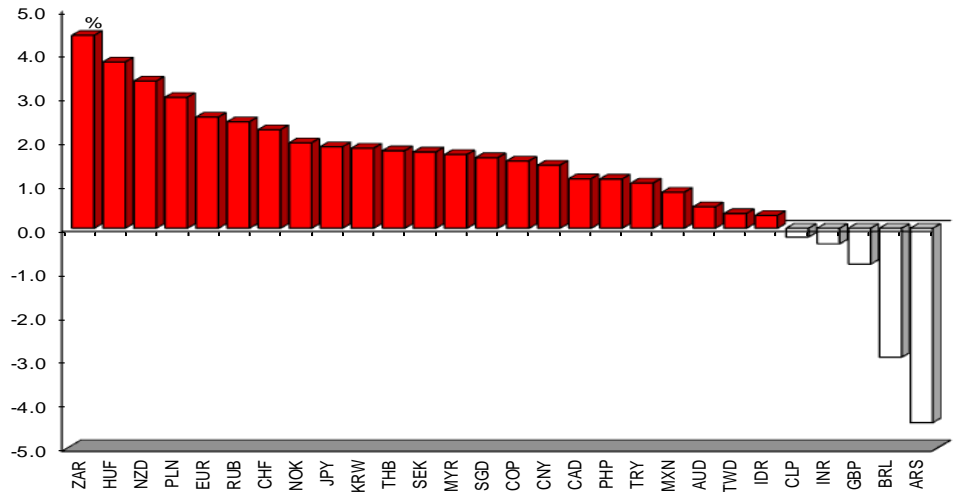
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0904	1.1200	1.1271	1.1285	1.1300
GBP-USD	1.2799	1.2800	1.2868	1.2900	1.3022
AUD-USD	0.7346	0.7400	0.7448	0.7488	0.7500
NZD-USD	0.7096	0.7100	0.7133	0.7147	0.7167
USD-CAD	1.3388	1.3400	1.3495	1.3500	1.3502
USD-JPY	110.00	110.32	110.52	111.00	111.17
USD-SGD	1.3800	1.3805	1.3820	1.3900	1.3950
EUR-SGD	1.5279	1.5500	1.5576	1.5600	1.5628
JPY-SGD	1.2296	1.2500	1.2504	1.2548	1.2556
GBP-SGD	1.7646	1.7700	1.7784	1.7800	1.7806
AUD-SGD	1.0205	1.0226	1.0294	1.0300	1.0423
Gold	1247.72	1257.57	1281.00	1281.10	1288.99
Silver	17.45	17.50	17.53	17.60	17.69
Crude	46.17	47.70	47.78	47.80	50.04

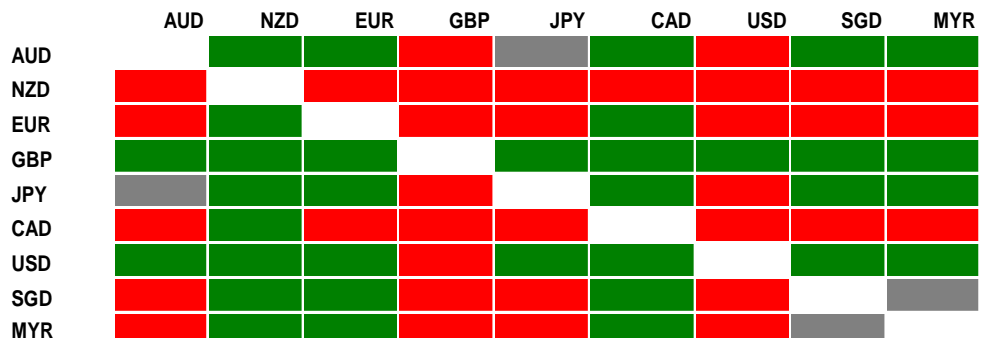
Source: OCBC Bank

FX performance: 1-month change agst USD



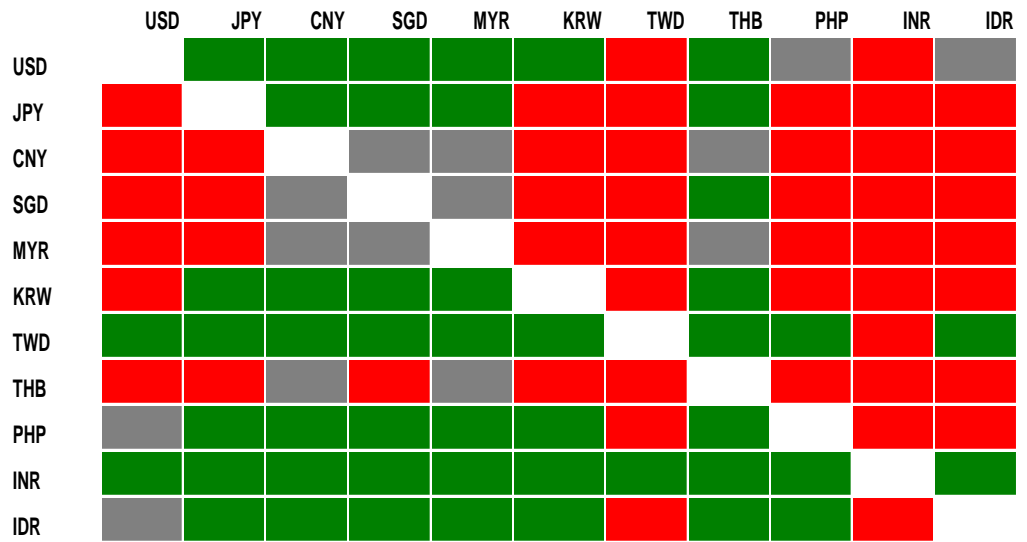
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts

	Spot	Jun-17	Sep-17	Dec-17	Mar-18
USD-JPY	111.50	110.50	110.62	112.64	114.66
EUR-USD	1.1222	1.1360	1.1367	1.1117	1.0867
GBP-USD	1.2866	1.2825	1.3033	1.2683	1.2333
AUD-USD	0.7382	0.7335	0.7268	0.7216	0.7164
NZD-USD	0.7079	0.7150	0.7122	0.7039	0.6956
USD-CAD	1.3535	1.3400	1.3658	1.3711	1.3764
USD-CHF	0.9711	0.9647	0.9631	0.9769	0.9908
USD-SGD	1.3861	1.3810	1.3811	1.3949	1.4088
USD-CNY	6.8204	6.7916	6.7530	6.8635	6.9386
USD-THB	34.15	34.00	34.02	34.39	34.76
USD-IDR	13315	13309	13299	13356	13412
USD-MYR	4.2810	4.3070	4.2489	4.3356	4.4222
USD-KRW	1121.88	1110	1108	1131	1154
USD-TWD	30.12	30.150	30.033	30.583	31.133
USD-HKD	7.7931	7.7926	7.7946	7.7966	7.7987
USD-PHP	49.511	49.50	49.62	50.14	50.66
USD-INR	64.47	64.20	64.07	65.17	66.27
USD-VND					
EUR-JPY	125.13	125.53	125.74	125.22	124.59
EUR-GBP	0.8722	0.8858	0.8721	0.8765	0.8811
EUR-CHF	1.0898	1.0959	1.0947	1.0860	1.0766
EUR-SGD	1.5555	1.5688	1.5699	1.5507	1.5309
GBP-SGD	1.7834	1.7711	1.8000	1.7693	1.7375
AUD-SGD	1.0232	1.0129	1.0038	1.0066	1.0093
NZD-SGD	0.9812	0.9874	0.9837	0.9819	0.9799
CHF-SGD	1.4274	1.4315	1.4340	1.4279	1.4219
JPY-SGD	1.2431	1.2497	1.2485	1.2384	1.2287
SGD-MYR	3.0885	3.1188	3.0764	3.1080	3.1390
SGD-CNY	4.9206	4.9180	4.8895	4.9203	4.9253

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		
4	01-Jun-17	S	USD-JPY	111.00	108.60 112.25	Weak broad dollar disposition		
STRUCTURAL								
5	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		
6	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
7	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

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