

Tuesday, June 06, 2017

**FX Themes/Strategy/Trading Ideas**

- After its universal slump on Friday, the dollar (and UST yields) consolidated on Monday with markets responding instead to non-USD cues. The GBP eventually shrugged off the weekend attacks and recovered above 1.2900 on mixed opinion poll headlines while the AUD outperformed across the board on better than expected May China Caixin composite/services PMIs. Crude resumed its bearish tint after initial excitement over the Qatar news flow, although the USD-CAD continued to succumb to a weak USD.
- On the macro front, US indicators failed instill new bullishness for the greenback. US May durable goods came in mixed to weaker than expected while the May non-manufacturing composite ISM and 1Q unit labor costs also clocked softer than expected prints.
- Today, the **RBA** meeting (0430 GMT) is not expected to rock the boat significantly while investors may wait patiently at the sidelines ahead of headline risks towards the latter half of this week. This includes the ECB and UK elections on Thursday, Comey's testimony before a Senate Committee also on Thursday, while French legislative elections are on Sunday. In the interim, the dollar may remain inherently fragile pending further news flow.
- With USD vulnerability increasingly endemic (especially after the latest NFP) in an environment of sanguine risk appetite levels and sustained investor interest towards EM/Asian assets, we see potential scope for **USD-SGD** to drift lower in the summer (with little argument from the front end of the vol surface). Under these circumstances, we undertake a structurally bearish USD-SGD view via a 2M USD-SGD put (spot ref: 1.3796; OTM strike: 1.3639) costing an implied +0.24% of notional.

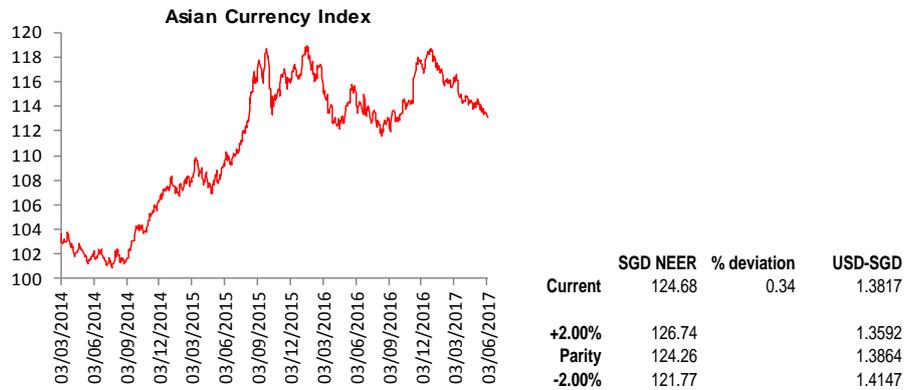
**Asian FX**

- Meanwhile, net portfolio inflows in Asia indicate improved positive momentum for KRW, TWD, INR, IDR, THB, while outflows continue to dog the PHP. This may continue to bode well for Asian FX in the current environment of USD vulnerability. On the risk appetite front, the **FXSI (FX Sentiment Index)** ticked higher on Monday but remained in Risk-On territory. Overall, we expect the **ACI (Asian Currency Index)** to remain top heavy at this juncture.
- **SGD NEER:** The SGD NEER this morning is softer on the day at around +0.34% above its perceived parity (1.3864). Note that NEER-implied USD-SGD thresholds are yet softer on the day with +0.50% estimated at 1.3795.

Treasury Research &  
Strategy

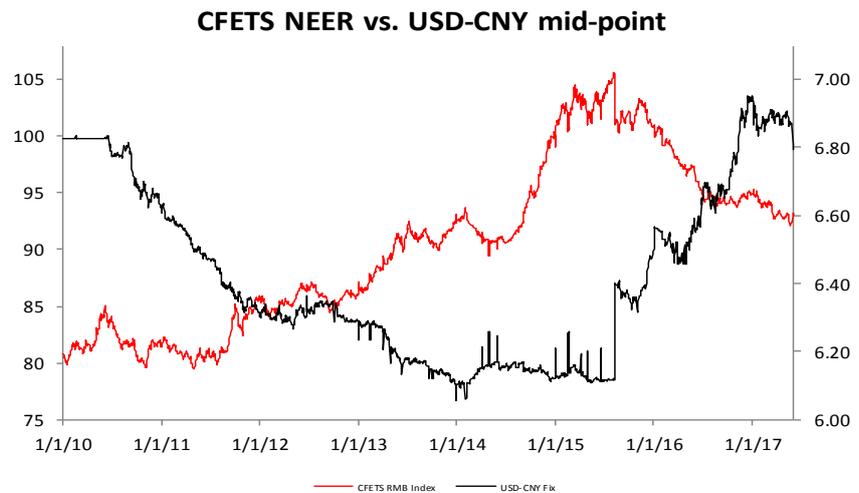
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Note also that over the past week, the +0.60% (1.3781) has also served as a cap for the NEER. Key support to watch remains at 1.3800 with the NEER seen slightly heavy if the USD continues to stabilize intra-day.



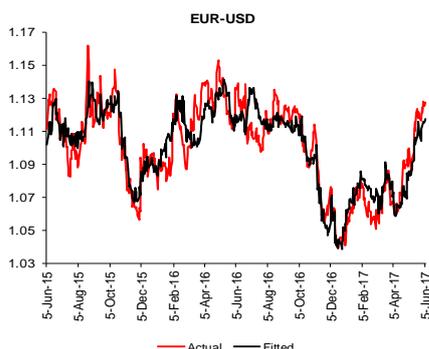
Source: OCBC Bank

- CFETS RMB Index:** Today, with some semblance of stability returning, the USD-CNY ticked lower (as largely expected) to 6.7934 from 6.7935 yesterday, pulling the CFETS RMB Index lower to 92.97 from 93.06 yesterday.



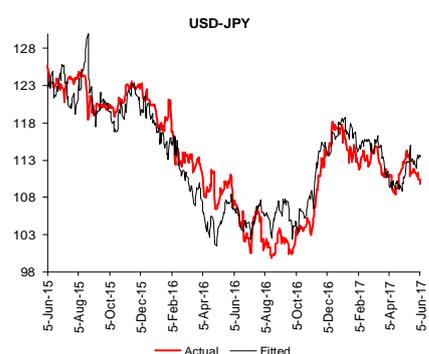
Source: OCBC Bank, Bloomberg

## G7



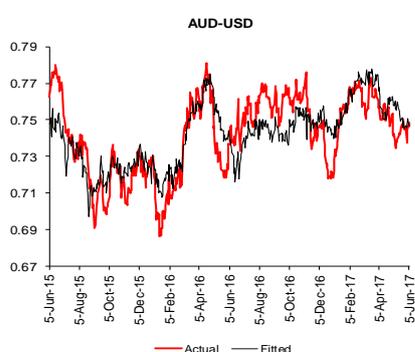
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the EUR-USD remain supported (note supportive May EZ services/composite PMIs) despite the pair having gone parabolic in recent weeks. As noted previously, any extension from current levels may be predicated heavily on this Thursday's ECB meeting (i.e., any shift in its forward guidance). Expect the 1.1200-1.1300 range to hold pending headline risks.



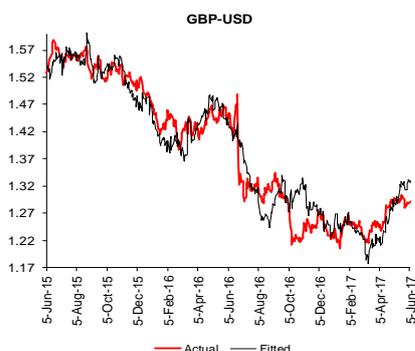
Source: OCBC Bank

- USD-JPY** Hints of risk aversion in Asia on Tuesday and softening UST yields are expected to continue to weigh on the USD-JPY. As such, the pair may continue to push at boundaries of its short term implied confidence intervals. A sustained breach of 110.00 risks 109.25.



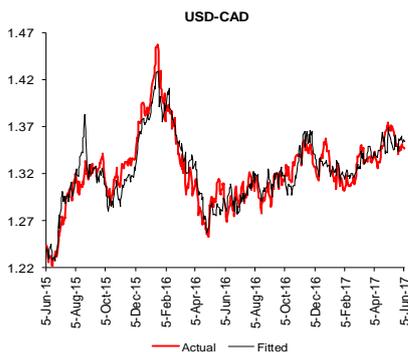
Source: OCBC Bank

- AUD-USD** Apart from the RBA meeting today, investors may continue to remain cautious towards developments in the Mid-East (WTI is threatening 47.00 currently) and its risk appetite impact on G10 cyclicals as well as on EM/Asian FX. In the interim, the AUD-USD may remain bookended by 0.7420 on the downside and its 200-day MA (0.7529) up top. Some caution may also be warranted with short term implied valuations edging slightly lower with the wider than expected 1Q current account deficit reported this morning not helping matters either.



Source: OCBC Bank

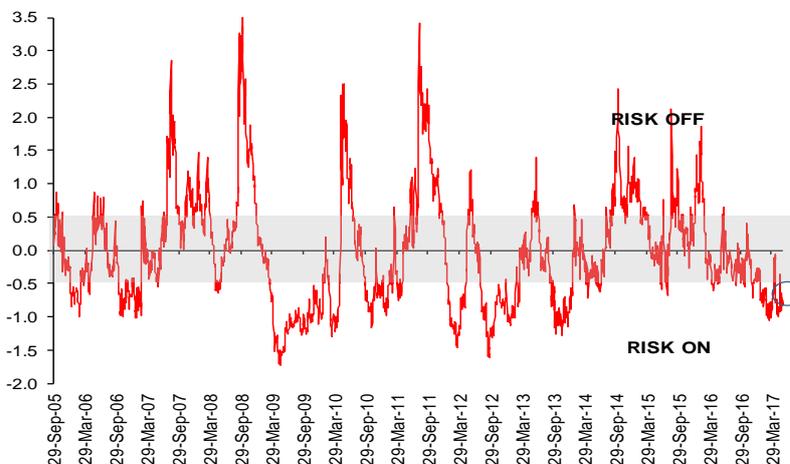
- GBP-USD** GBP-USD may remain subject to (often conflicting) poll headlines ahead of this Thursday's election with economic releases assuming secondary importance for now. If a comfortable Tory victory materializes as expected, expect the pair to push higher within its implied confidence intervals. Short term implied valuations meanwhile remain somewhat static, likely keeping the GBP-USD hemmed in within 1.2800-1.3000 in the interim.



- USD-CAD** It remains to be seen if the USD-CAD can remain persistently heavy if the commodity complex continues to sag in the near term. Barring the above, note that short term implied valuations are slightly soft at this juncture. In sum, a failure to overcome the 55-day MA (1.3494) may usher the pair back towards 1.3400, ahead of the 200-day MA (1.3324).

Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	0.936	0.710	-0.340	-0.643	-0.263	0.949	-0.564	-0.091	0.492	0.729	-0.998
CHF	0.995	0.952	0.748	-0.375	-0.664	-0.202	0.955	-0.446	-0.079	0.489	0.777	-0.993
SGD	0.975	0.939	0.726	-0.387	-0.715	-0.258	0.936	-0.505	-0.044	0.504	0.768	-0.978
JPY	0.949	0.969	0.729	-0.245	-0.592	-0.161	1.000	-0.379	-0.235	0.364	0.756	-0.942
USGG10	0.936	1.000	0.788	-0.306	-0.659	-0.128	0.969	-0.423	-0.209	0.365	0.789	-0.934
CAD	0.897	0.797	0.616	-0.459	-0.690	-0.272	0.828	-0.584	0.135	0.581	0.669	-0.906
THB	0.852	0.834	0.883	-0.654	-0.818	0.129	0.837	-0.167	0.230	0.675	0.897	-0.854
MYR	0.841	0.771	0.799	-0.684	-0.838	0.081	0.785	-0.328	0.309	0.741	0.797	-0.843
TWD	0.734	0.634	0.629	-0.471	-0.724	-0.114	0.635	-0.282	0.164	0.582	0.637	-0.733
CNH	0.729	0.789	0.979	-0.673	-0.795	0.318	0.756	0.035	0.208	0.583	1.000	-0.743
CNY	0.710	0.788	1.000	-0.705	-0.828	0.386	0.729	0.061	0.197	0.619	0.979	-0.709
KRW	0.661	0.608	0.506	-0.190	-0.603	-0.125	0.563	-0.229	-0.138	0.513	0.503	-0.671
CCN12M	0.577	0.658	0.923	-0.746	-0.831	0.391	0.612	0.116	0.356	0.583	0.942	-0.599
IDR	0.501	0.343	0.464	-0.550	-0.621	-0.094	0.355	-0.263	0.375	0.598	0.400	-0.504
PHP	0.462	0.530	0.702	-0.490	-0.648	0.232	0.449	0.113	0.078	0.491	0.557	-0.458
GBP	-0.050	0.090	0.393	-0.521	-0.528	0.488	0.037	0.318	0.397	0.333	0.439	0.037
INR	-0.332	-0.275	0.017	-0.025	-0.080	0.222	-0.339	0.443	0.022	0.107	-0.039	0.327
NZD	-0.790	-0.770	-0.855	0.716	0.810	-0.209	-0.807	0.127	-0.313	-0.693	-0.846	0.802
AUD	-0.795	-0.665	-0.289	0.158	0.459	0.519	-0.738	0.650	0.060	-0.352	-0.355	0.804
EUR	-0.998	-0.934	-0.709	0.347	0.656	0.271	-0.942	0.508	0.080	-0.505	-0.743	1.000

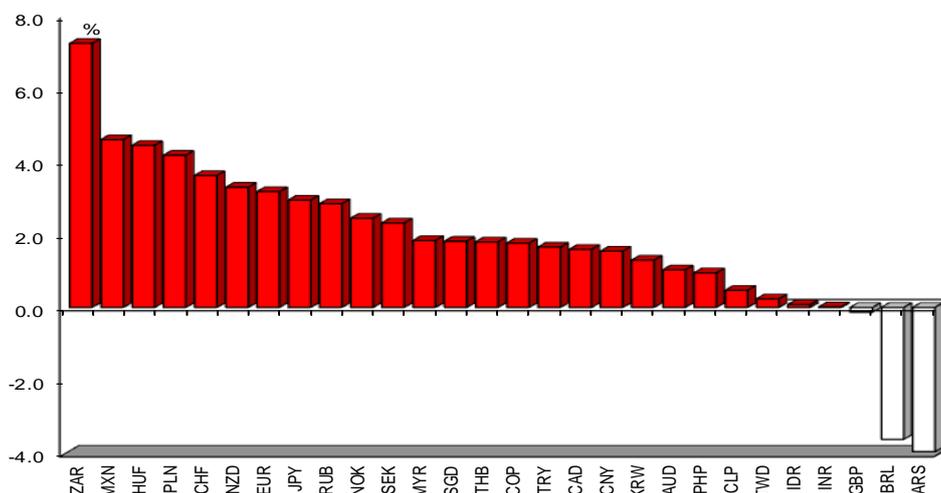
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.0912	1.1200	1.1266	1.1285	1.1300
<b>GBP-USD</b>	1.2802	1.2900	1.2917	1.3000	1.3021
<b>AUD-USD</b>	0.7359	0.7400	0.7464	0.7485	0.7500
<b>NZD-USD</b>	0.7095	0.7100	0.7132	0.7150	0.7185
<b>USD-CAD</b>	1.3388	1.3400	1.3477	1.3500	1.3504
<b>USD-JPY</b>	109.99	110.00	110.06	110.36	111.00
<b>USD-SGD</b>	1.3787	1.3800	1.3810	1.3900	1.3946
<b>EUR-SGD</b>	1.5295	1.5500	1.5559	1.5600	1.5628
<b>JPY-SGD</b>	1.2296	1.2500	1.2547	1.2548	1.2573
<b>GBP-SGD</b>	1.7800	1.7816	1.7838	1.7900	1.8202
<b>AUD-SGD</b>	1.0227	1.0300	1.0308	1.0400	1.0421
<b>Gold</b>	1247.32	1258.13	1280.70	1282.00	1292.06
<b>Silver</b>	17.45	17.50	17.57	17.60	17.68
<b>Crude</b>	46.50	47.00	47.10	50.00	51.83

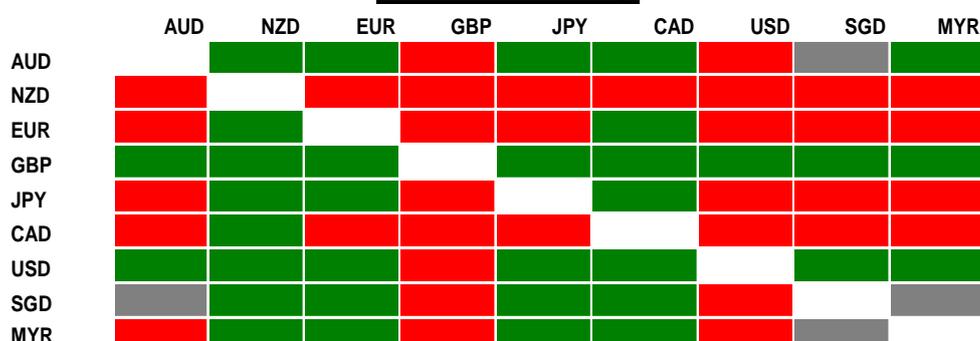
Source: OCBC Bank

**FX performance: 1-month change agst USD**



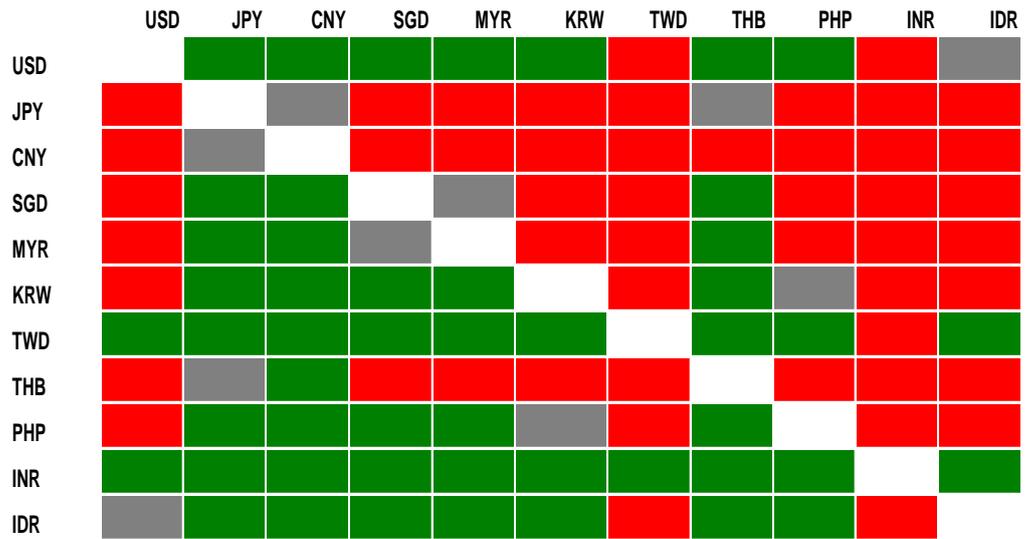
Source: Bloomberg

**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		
<b>TACTICAL</b>								
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		
<b>STRUCTURAL</b>								
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?		
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
2	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
3	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14
4	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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