

Thursday, June 08, 2017

FX Themes/Strategy/Trading Ideas

- Firmer UST yields (10y UST briefly above 2.180%) saw the USD consolidating higher on Wednesday against the EUR and JPY while the CAD (and NOK) was additionally weighed by plunging crude (WTI <46.0). However, the AUD was bolstered by flat to better GDP numbers and outperformed across the board. With risk appetite levels stabilizing somewhat, the JPY also underperformed across G10 space. Elsewhere, GBP-USD also firmed above 1.2950 ahead of Thursday's elections as investors staked their bets on a 'market friendly' Conservative victory despite last minute polls continuing to show a narrowing margin of victory.
- The confluence of event/headline risks today may portend choppy price action. Although a downward revision of EZ inflation forecasts (but upward revision of growth projections) by the ECB has been largely expected, the EUR's immediate prospects may be determined more by the ECB's forward guidance (1145 GMT), especially Draghi's press conference (1230 GMT).
- Comey's testimony (1400 GMT), with a written version already circulating but not eliciting undue market volatility overnight, may not yield undue excitement although markets are expected to remain wary ahead of the actual testimony.
- UK elections are expected to hold the market's focus with an exit poll expected at 2100 GMT and with results expected to stream in well into Friday morning in Asia. **Overall, not a day to initiate fresh macro plays amid the slew of headline risks.**

Asian FX

- Despite a positive overhang from US equities, slumping crude may provide some cause for pause with respect to EM/Asian FX (and on a structural note, prospects for cyclical plays), especially with the USD on slightly firmer footing overnight.
- Asian net portfolio inflows continue to indicate waning inflow momentum for KRW, TWD, THB, while yielding intrinsic support for the INR, IDR, PHP. Overall, USD-Asia may still persist in seeking out firmer ground intra-day, in tandem with the broader EM complex. As such, the **ACI (Asian Currency Index)** is expected to tick higher for the third consecutive session today after the **FXSI (FX Sentiment Index)** also consolidated higher for the fourth consecutive session within Risk-On territory on Wednesday.

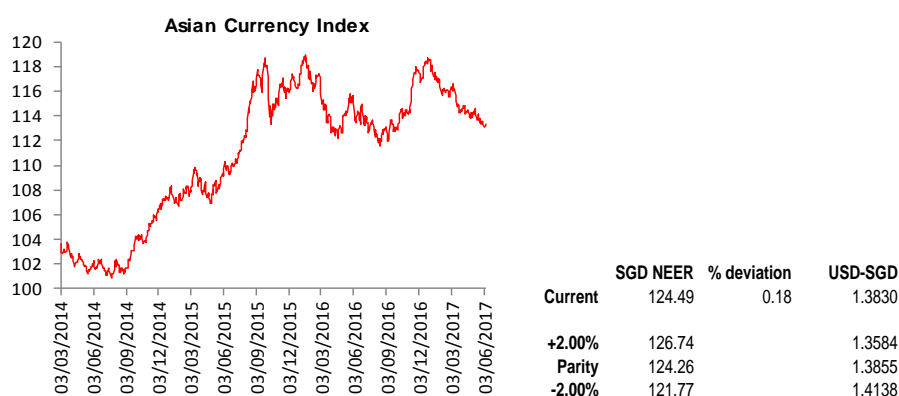
Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4073

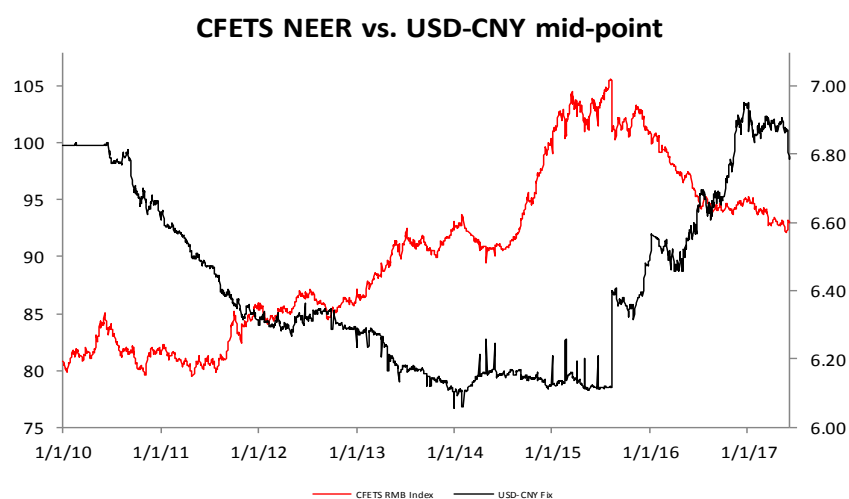
ngcyemmanuel@ocbc.com

- In sum, risk appetite considerations meanwhile may also remain apparent, amid Pyongyang's latest missile launch and the ongoing situation surrounding Qatar.
- **SGD NEER:** This morning, the SGD NEER is yet softer at +0.19% above its perceived parity (1.3855) with NEER-implied USD-SGD thresholds slightly higher on the day. The NEER (and the USD-SGD) is expected to remain reactive to near term headline induced volatility with the +0.50% threshold estimated at 1.3787. The current market complexion may however indicate a more supported tone for the pair, with initial resistance expected into 1.3860/70.

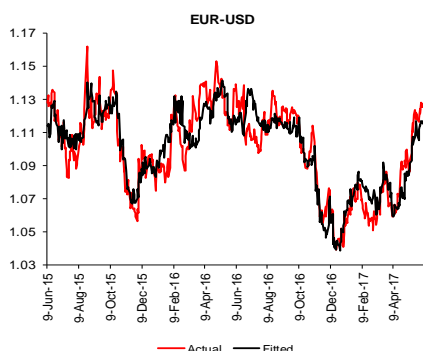


Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point firmed (as largely expected) to 6.7930 from 6.7858 on Wednesday. This resulted in the CFETS RMB Index inching higher to 93.00 from 92.95 yesterday.

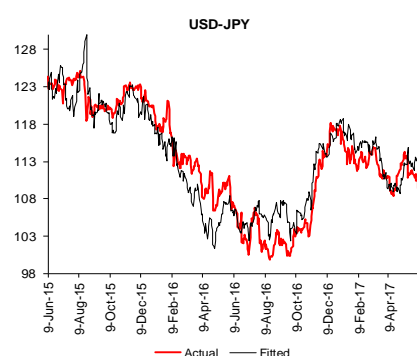


Source: OCBC Bank, Bloomberg

G7

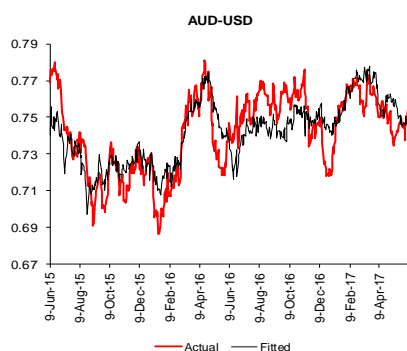
Source: OCBC Bank

- **EUR-USD** EUR-USD may remain in a holding pattern ahead of the ECB with short term implied valuations capitulating lower in the past few sessions. With the pair still circulating within the upper reaches of its implied confidence intervals, we note significant unwind risks if Draghi 'disappoints'. Look for a 1.1200-1.1300 range to continue to prevail in the interim.



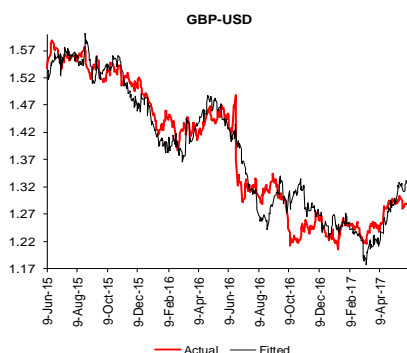
Source: OCBC Bank

- **USD-JPY** Japan's 1Q GDP numbers clocked lower than expected readings this morning but Comey and risk appetite levels today may potentially exert a greater influence on the USD-JPY. Short term implied valuations meanwhile remain underpinned, slightly at odds with the still (preferred) top heavy posture of the USD-JPY. Support is expected into 109.00 with the 200-day MA (110.46) capping for now.



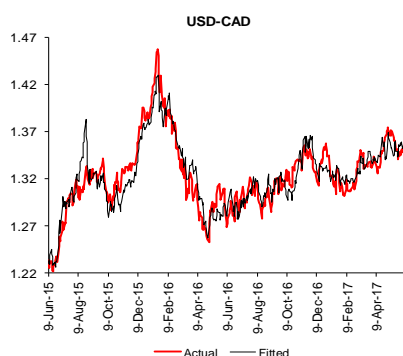
Source: OCBC Bank

- **AUD-USD** Early Thursday, the smaller than expected April trade surplus shaved the AUD-USD lower with all eyes now turning to China May trade numbers due later in the session. Short term implied valuations meanwhile remain somewhat subdued to heavy on a multi-session basis and the pair may attempt to base build off its 200-day MA (0.7529) pending further headline risks.



Source: OCBC Bank

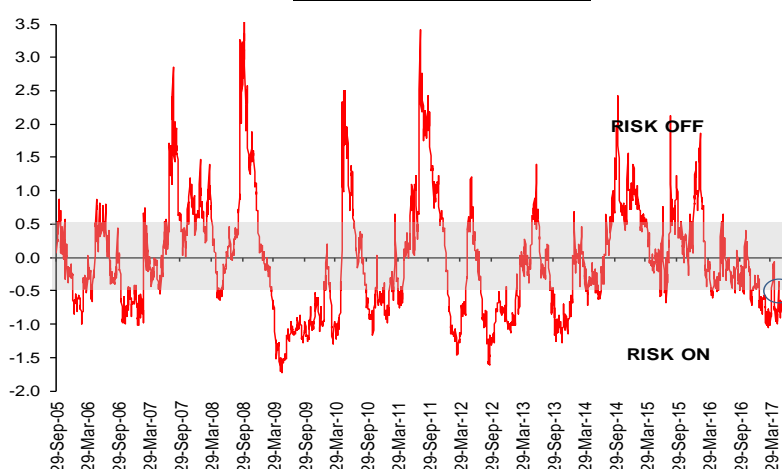
- **GBP-USD** Day of reckoning for the GBP today while we note that short term implied valuations continue to consolidate lower. Expect any departure of the actual elections results from the baseline scenario of the Conservatives retaining (or widening slightly) their majority to swing the GBP accordingly. In the absence of this, the GBP-USD may remain confined within its recent 1.2800-1.3050 range.



Source: OCBC Bank

- USD-CAD** USD-CAD may continue to orbit its 55-day MA (1.3500) while gyrating along with swings in crude prices. Meanwhile, short term implied valuations are a touch firmer and this may underpin the USD-CAD somewhat intra-day. Initial upside resistance is expected on approach of 1.3550/80.

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	0.940	0.745	-0.428	-0.689	-0.064	0.942	-0.375	-0.060	0.555	0.763	-0.998
CHF	0.995	0.956	0.781	-0.463	-0.711	-0.003	0.951	-0.223	-0.046	0.558	0.806	-0.993
SGD	0.977	0.941	0.755	-0.464	-0.747	-0.070	0.925	-0.302	-0.016	0.562	0.789	-0.979
JPY	0.942	0.973	0.807	-0.393	-0.670	0.103	1.000	-0.085	-0.164	0.481	0.809	-0.931
USGG10	0.940	1.000	0.831	-0.422	-0.716	0.087	0.973	-0.219	-0.156	0.466	0.829	-0.936
CAD	0.897	0.799	0.637	-0.501	-0.701	-0.131	0.798	-0.438	0.148	0.606	0.669	-0.901
THB	0.869	0.861	0.907	-0.713	-0.848	0.310	0.865	0.054	0.243	0.727	0.912	-0.866
MYR	0.859	0.808	0.844	-0.739	-0.865	0.275	0.822	-0.102	0.314	0.782	0.831	-0.856
CNH	0.763	0.829	0.977	-0.729	-0.830	0.454	0.809	0.205	0.219	0.653	1.000	-0.768
TWD	0.758	0.670	0.658	-0.527	-0.749	0.035	0.667	-0.154	0.180	0.625	0.672	-0.757
CNY	0.745	0.831	1.000	-0.762	-0.861	0.540	0.807	0.232	0.208	0.696	0.977	-0.736
KRW	0.635	0.574	0.439	-0.171	-0.562	-0.123	0.515	-0.215	-0.140	0.481	0.468	-0.649
CCN12M	0.630	0.712	0.931	-0.787	-0.857	0.500	0.677	0.251	0.356	0.645	0.947	-0.641
IDR	0.545	0.414	0.507	-0.587	-0.651	0.037	0.429	-0.155	0.385	0.632	0.467	-0.546
PHP	0.541	0.622	0.781	-0.589	-0.716	0.412	0.581	0.267	0.106	0.585	0.652	-0.530
GBP	-0.075	0.049	0.286	-0.436	-0.434	0.366	-0.063	0.145	0.383	0.265	0.294	0.101
INR	-0.267	-0.192	0.081	-0.076	-0.126	0.262	-0.225	0.458	0.033	0.149	0.022	0.268
AUD	-0.797	-0.721	-0.519	0.347	0.573	0.094	-0.797	0.149	0.005	-0.483	-0.514	0.785
NZD	-0.805	-0.812	-0.903	0.768	0.842	-0.413	-0.857	-0.153	-0.302	-0.746	-0.875	0.803
EUR	-0.998	-0.936	-0.736	0.428	0.695	0.082	-0.931	0.296	0.051	-0.563	-0.768	1.000

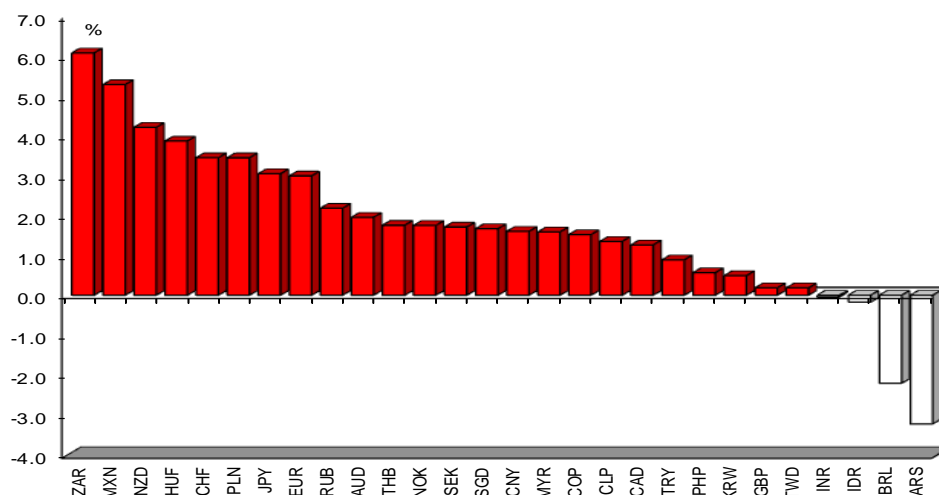
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0996	1.1200	1.1249	1.1285	1.1300
GBP-USD	1.2804	1.2900	1.2959	1.3000	1.3028
AUD-USD	0.7500	0.7525	0.7527	0.7540	0.7566
NZD-USD	0.7095	0.7100	0.7197	0.7200	0.7207
USD-CAD	1.3500	1.3511	1.3520	1.3600	1.3663
USD-JPY	109.07	109.12	109.91	110.00	110.42
USD-SGD	1.3785	1.3800	1.3834	1.3900	1.3941
EUR-SGD	1.5358	1.5500	1.5562	1.5600	1.5628
JPY-SGD	1.2500	1.2551	1.2587	1.2600	1.2621
GBP-SGD	1.7837	1.7900	1.7928	1.8000	1.8119
AUD-SGD	1.0222	1.0400	1.0413	1.0428	1.0437
Gold	1246.80	1259.60	1284.80	1295.20	1299.16
Silver	17.43	17.50	17.57	17.60	17.66
Crude	45.00	45.50	45.90	49.90	52.00

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Grey	Red	Green	Grey	Red	Red	Red
NZD	Red		Red	Red	Red	Red	Red	Red	Red
EUR	Grey	Green		Red	Green	Green	Red	Red	Red
GBP	Green	Green	Green		Green	Green	Green	Green	Green
JPY	Red	Green	Red	Red		Grey	Red	Red	Red
CAD	Grey	Green	Red	Red	Grey		Red	Red	Red
USD	Green	Green	Green	Red	Green	Green		Green	Green
SGD	Green	Green	Green	Red	Green	Green	Red		Red
MYR	Green	Green	Green	Red	Green	Green	Red	Green	

Source: OCBC Bank

Asia FX Heat Map

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

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, positoning 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	
	RECENTLY CLOSED TRADE IDEAS							
	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-May 2017 Return							-17.04
	2016 Return							+6.91

Source: OCBC Bank

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