

Friday, June 09, 2017

**FX Themes/Strategy/Trading Ideas**

- The USD caught a bid on firmer UST yields, a softening EUR post-ECB and post-NY/early Asia on Friday, the exit poll indicating a hung parliament in the UK elections. Meanwhile, the Comey testimony did not elicit an appreciable response from markets. Elsewhere, crude continued to plumb new lows on Thursday, keeping the USD-CAD afloat.
- On the EUR (note softer bund yields), despite the ECB sounding more balanced and removing its forwards guidance for further interest rate cuts but noted that the Council did not discuss a tapering. As speculated, the ECB also cut its inflation forecasts (with Draghi subsequently advising patience with regards to the gentle upward trajectory of inflation) but revised higher its growth projections. **Overall, the ECB came across as unhurried, undermining the EUR.**
- Going ahead, global risk aversion seems to be contained at this juncture despite the uncertainty surrounding the **UK election results**. Nonetheless, expect the greenback to remain in favor at this juncture. Cyclical plays meanwhile may remain in the background despite a still soggy crude complex as investors remain distracted by UK election news flow.
- Pending the final count from the UK election, prospects for a hung parliament, a minority government, a poorer showing in the number of seats compared to the status quo (i.e. less than 330 seats), potential for PM May's departure, and a delay in Brexit negotiations, may continue to weigh considerably on the GBP in the next few hours.
- With the latest Aussie GDP and China trade numbers providing a constructive backdrop amid a relatively resilient risk appetite environment, the AUD-USD may benefit from a short term tailwind. From an **AUD-USD** spot ref of 0.7550 on Thursday, we set a tactical objective of 0.7695 and place a stop at 0.7475.

**Asian FX**

- On the Asian front, net portfolio capital inflows continue to imply moderating inflow momentum for the KRW, TWD, and THB, a potential topping out of inflow momentum for the INR, but increased support for the IDR. Meanwhile, the PHP may continue to garner intrinsic support from stable net inflows.
- Overall, expect USD-Asia to start the day on a supported tone given the dollar backdrop and uncertainty surrounding the UK election results. Thus

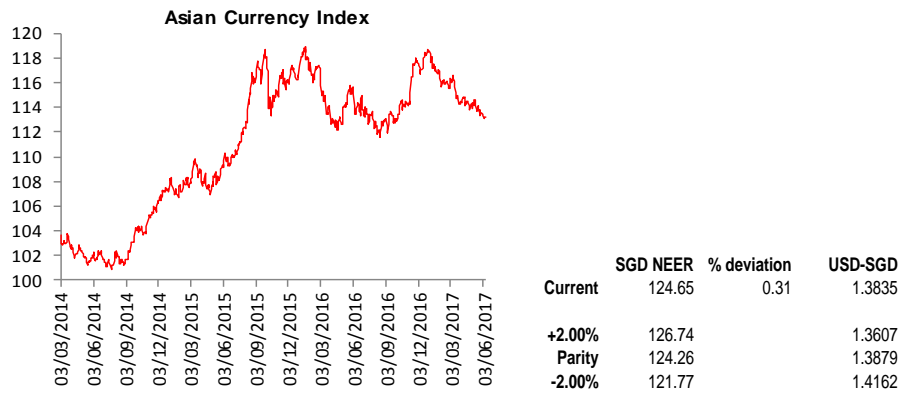
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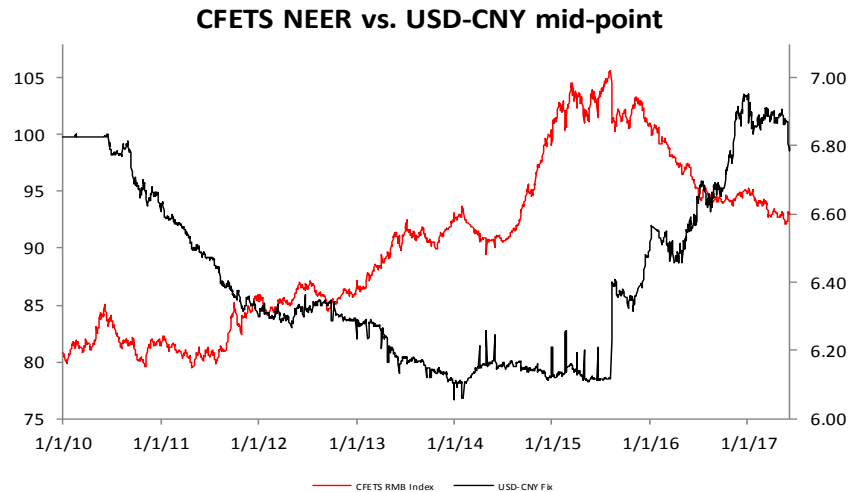
despite the **FXSI (FX Sentiment Index)** inching lower within Risk-On territory on Thursday, the **ACI (Asian Currency Index)** may remain supported on dips pending the results of the UK election.

- SGD NEER:** The SGD NEER this morning is firmer on the day at around +0.32% above its perceived parity (1.3879). NEER-implied USD-SGD thresholds are marginally higher on the day following overnight dollar moves, with the +0.50% threshold estimated at 1.3810. The NEER may be expected to continue to see a range between parity and +0.50% into the end of the week.



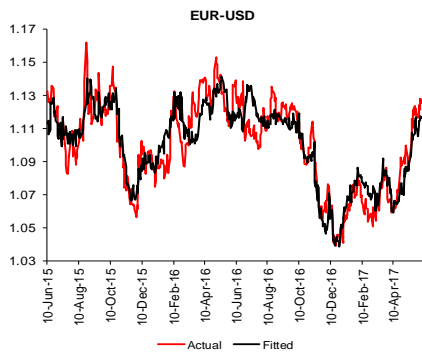
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (as largely expected) to 6.7971 from 6.7930 on Thursday, lifting the CFETS RMB Index slightly to 93.09 from 93.00.



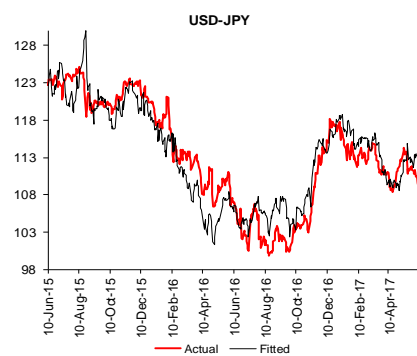
Source: OCBC Bank, Bloomberg

**G7**



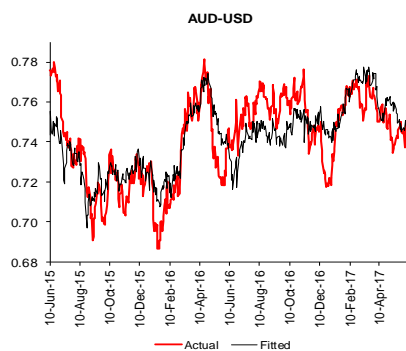
Source: OCBC Bank

- EUR-USD** Essentially, we think the EUR succumbed to a buy rumor-sell fact dynamic in terms of the ECB’s altered forward guidance, with the common currency currently also in the shade of the GBP. Meanwhile, short term implied valuations for the EUR-USD continue to consolidate lower and the pair may begin to back away from the upper reaches of its implied confidence intervals in the near term with 1.1200 a key pivot point ahead of 1.1140.



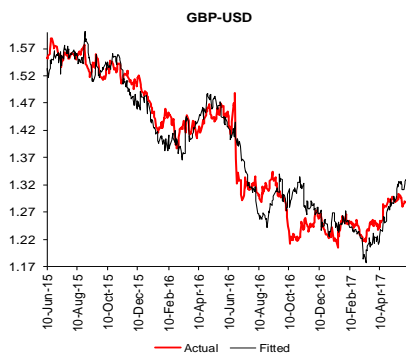
Source: OCBC Bank

- USD-JPY** Chatter about a quiet taper by the BOJ may not weigh on the USD-JPY in the near term with the USD gaining mileage broadly in the near term. Meanwhile, short term implied valuations continue to be buoyant but the pair would have to overcome its 200-day MA (110.49) to make further upside headway.



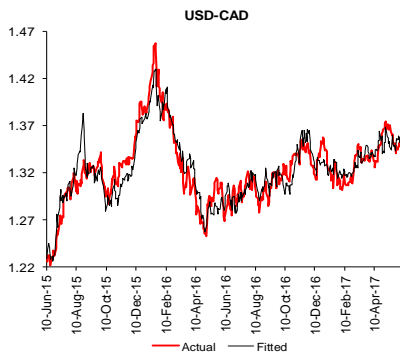
Source: OCBC Bank

- AUD-USD** Despite supportive China macro data flow (May trade and CPI), the AUD-USD may hesitate slightly into the end of the week in view of the near term dollar tone. Short term implied valuations remain top heavy but a clearer read on domestic drivers may have to come from next week’s May labor market data. In the interim, the pair may continue to find support around the 200-day MA (0.7529) before the 55-day MA (0.7497).



Source: OCBC Bank

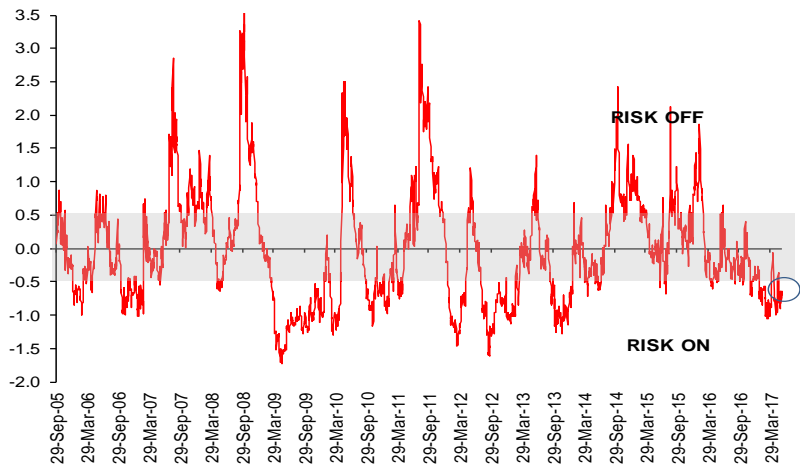
- GBP-USD** If 1.2700 is breached, technical levels to fill include 1.2600 in the event of protracted political uncertainty, with the 200-day MA also residing at 1.2578. In the interim, expect the pair to remain south of its implied confidence intervals.



- USD-CAD** Apart from weak crude and an underpinned greenback, look towards May employment numbers today for further domestic cues. With short term implied valuations attempting to orient higher, we remain cautious towards the possibility of the pair detaching higher on a sustained basis from its 55-day MA (1.3502) towards 1.3550 and 1.3575 in the near term.

Source: OCBC Bank

**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	0.938	0.737	-0.452	-0.658	0.055	0.938	-0.222	-0.004	0.534	0.755	-0.997
CHF	0.995	0.957	0.774	-0.489	-0.685	0.116	0.942	-0.111	0.010	0.542	0.793	-0.990
SGD	0.977	0.936	0.749	-0.494	-0.713	0.062	0.922	-0.159	0.049	0.539	0.780	-0.973
JPY	0.938	0.976	0.813	-0.433	-0.648	0.235	1.000	0.065	-0.106	0.500	0.803	-0.909
USGG10	0.938	1.000	0.829	-0.456	-0.674	0.228	0.976	-0.040	-0.093	0.449	0.826	-0.928
CAD	0.887	0.774	0.611	-0.514	-0.660	-0.028	0.774	-0.335	0.216	0.546	0.642	-0.894
THB	0.861	0.857	0.907	-0.743	-0.840	0.445	0.857	0.197	0.313	0.718	0.907	-0.842
MYR	0.852	0.803	0.845	-0.766	-0.862	0.408	0.820	0.081	0.381	0.770	0.828	-0.844
TWD	0.773	0.693	0.662	-0.539	-0.784	0.097	0.676	-0.071	0.205	0.619	0.683	-0.777
CNH	0.755	0.826	0.974	-0.753	-0.825	0.566	0.803	0.326	0.278	0.650	1.000	-0.742
CNY	0.737	0.829	1.000	-0.790	-0.864	0.661	0.813	0.408	0.269	0.719	0.974	-0.717
CCN12M	0.620	0.706	0.928	-0.804	-0.860	0.599	0.675	0.379	0.411	0.636	0.947	-0.609
IDR	0.616	0.503	0.567	-0.615	-0.751	0.090	0.495	-0.091	0.390	0.690	0.533	-0.626
KRW	0.586	0.499	0.375	-0.169	-0.479	-0.008	0.459	-0.065	-0.082	0.398	0.412	-0.597
PHP	0.543	0.630	0.798	-0.625	-0.721	0.528	0.602	0.424	0.157	0.630	0.664	-0.520
GBP	-0.124	-0.007	0.219	-0.374	-0.438	0.314	0.082	0.342	0.380	0.160	0.351	0.057
INR	-0.178	-0.084	0.194	-0.150	-0.219	0.302	-0.113	0.486	0.032	0.289	0.121	0.190
AUD	-0.774	-0.709	-0.561	0.414	0.543	-0.105	-0.796	-0.037	-0.066	-0.550	-0.504	0.735
NZD	-0.789	-0.807	-0.909	0.792	0.850	-0.546	-0.855	-0.324	-0.350	-0.777	-0.862	0.755
EUR	-0.997	-0.928	-0.717	0.445	0.657	-0.028	-0.909	0.212	-0.006	-0.520	-0.742	1.000

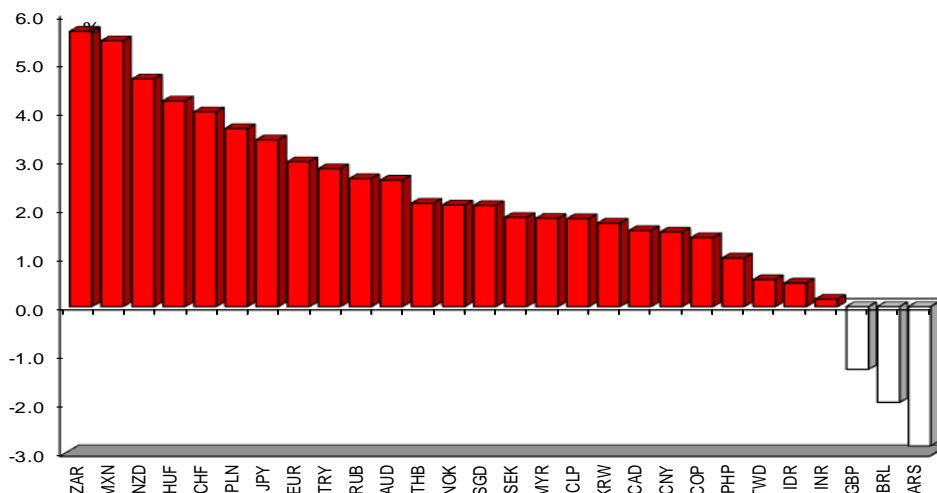
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1051	1.1100	1.1195	1.1200	1.1285
GBP-USD	1.2695	1.2700	1.2766	1.2781	1.2800
AUD-USD	0.7500	0.7525	0.7533	0.7552	0.7566
NZD-USD	0.7095	0.7200	0.7212	0.7223	0.7261
USD-CAD	1.3388	1.3500	1.3510	1.3514	1.3600
USD-JPY	109.12	110.00	110.21	110.45	111.00
USD-SGD	1.3785	1.3800	1.3826	1.3900	1.3938
EUR-SGD	1.5390	1.5400	1.5478	1.5500	1.5611
JPY-SGD	1.2313	1.2500	1.2546	1.2551	1.2600
GBP-SGD	1.7629	1.7647	1.7650	1.7700	1.7838
AUD-SGD	1.0219	1.0400	1.0415	1.0424	1.0446
Gold	1246.39	1259.80	1274.50	1295.20	1297.11
Silver	16.44	17.30	17.36	17.40	17.40
Crude	45.33	45.60	45.69	45.70	49.80

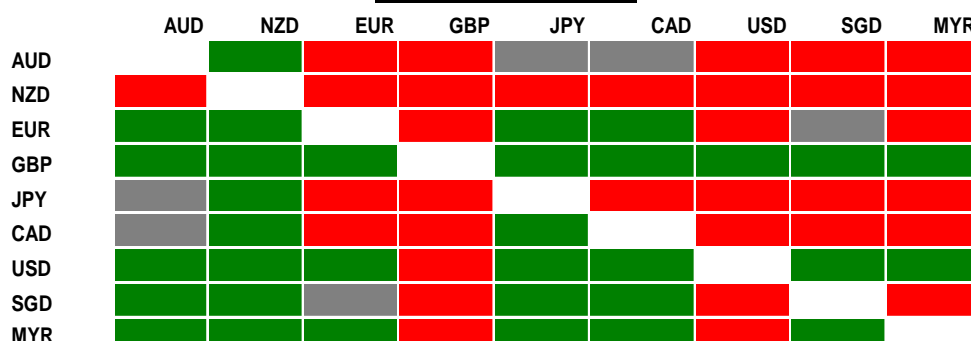
Source: OCBC Bank

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



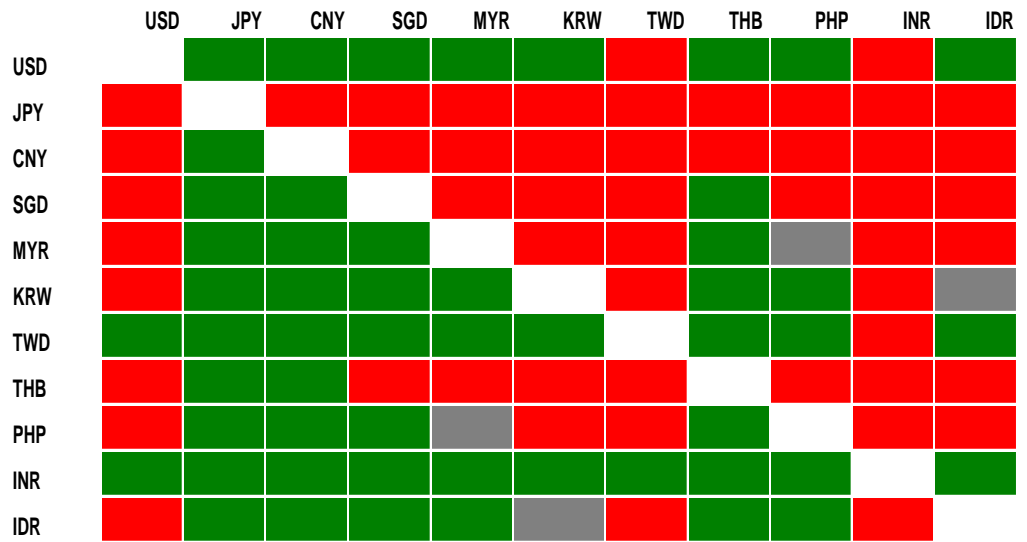
Source: Bloomberg

**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	
5	08-Jun-17	B	AUD-USD	0.7550	0.7695	0.7475	Supportive Aussie GDP and China trade numbers, steady risk	
<b>STRUCTURAL</b>								
6	24-Apr-17		<b>Bullish 2M 1X2 EUR-USD Call Spread</b> Spot ref: 1.0863; Strikes: 1.0894, 1.1188; Exp: 22/06/17; Cost: 0.62%			Deflating French risks, USD skepticism		
7	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
8	16-May-17	S	AUD-USD	0.7407	0.6890	0.7670	Global reflation plays to continue to wobble?	
9	05-Jun-17		<b>2M USD-SGD Put</b> 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-May 2017 Return -17.04 2016 Return +6.91	

Source: OCBC Bank

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