

Monday, July 10, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The mixed signals from the US NFP numbers (headline at a better than expected +222k, 2-month revisions +47k, but the unemployment rate rose to 4.4%) left an uneven mark on the majors despite firmer UST yields with USD-JPY firming past 114.00 (pair was also boosted by the BOJ's efforts to anchor the yield curve) and the EUR-USD softening below 1.1400.
- However, USD strength did not prove universal (in view of the softer than expected June hourly earnings at +0.2% mom while the previous month was also revised lower to +0.1%) with positive risk appetite levels still resulting in the cyclical edging higher on the day. On this front, the **USD-CAD** also plunged below 1.2900 on better than expected June Canadian labor market numbers and despite continued crude weakness.
- On the **CFTC** front, large non-commercial accounts flipped to a net short USD bias in the latest week while leveraged accounts continued to pare their net implied long dollar bias for the 7th consecutive week to near neutral levels. Meanwhile, asset managers boosted their net implied short dollar bias in the latest week. **Overall, the community had continued to move against the greenback in the latest week in unison.**
- **Yellen** this week testifies before the House Services Committee on Wednesday but the calendar will also be populated by numerous Fed appearances starting from Tuesday. Investors will also be on the lookout for rhetoric from the **ECB** this week, with Draghi and Couere attending a Eurogroup meeting on Monday. Meanwhile, the **BOE's** Haldene and Broadbent are scheduled for Tuesday appearances.
- The data calendar this week is also fairly dense, culminating in US June retail sales and CPI readings. The **Bank of Canada** is heavily expected to hike its benchmark rate by 25bps to 0.75% on Wednesday with the pair also partially weighted by such expectations over the past week.
- **Overall, we think the NFP numbers seem to imply that the Fed may remain on track this year but without inciting additional bullishness.** However, any carryover of USD resilience from last Friday may continue to be selective, and at this juncture, may primarily continue to manifest more effectively via USD-JPY. Meanwhile, the balance of evolving global central bank rhetoric may continue to remain in play and potentially still impinge on the USD.

Treasury Research &
Strategy

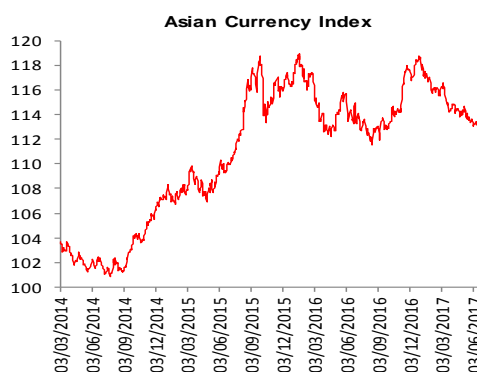
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Asian FX

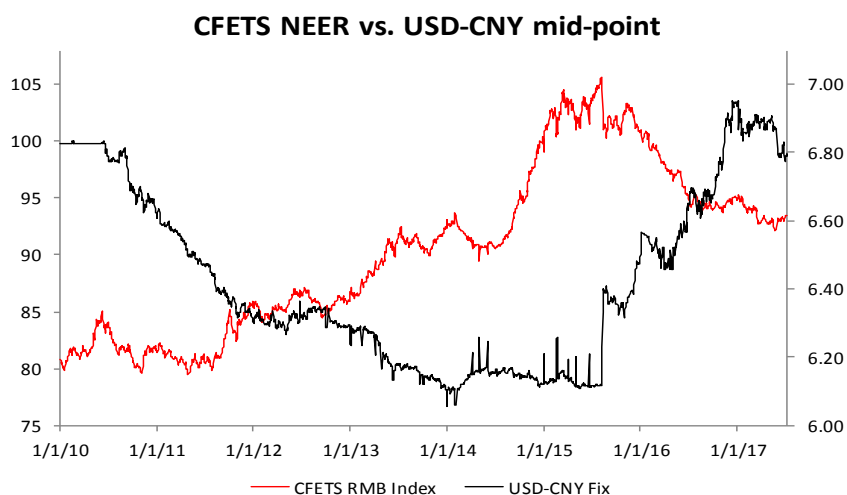
- Pending global re-balancing flows, if positive risk appetite levels continue to accumulate, the cyclicals/EM/Asians may potentially look to gain against the dollar ahead of Yellen this week. Thus, EMFX on Friday also clocked a mixed performance against the USD post-NFP and the regional currency pairs may attempt to edge lower (for now) at the onset of the week. On the risk appetite front, note also that the **FXSI (FX Sentiment Index)** edged lower within Risk-On territory on Friday, leaving space for the **ACI (Asian Currency Index)** to test lower today after easing on Friday.
- **EPFR** data showed a very incremental increase in net implied equity inflows into Asia (excl China, Japan) and a flip to a small net bond inflow during the same period. Overall, little strong impetus for Asian FX outperformance and this is largely in line with the situation depicted by actual reported net portfolio equity/bond inflows.
- In Asia, look also to **China** June monetary aggregates during the course of this week with China June trade numbers scheduled on Thursday and June CPI numbers today. June foreign reserves reported last Friday continued to show minor improvements over the previous month, and this should continue to whittle away at discretionary depreciation inclinations. Elsewhere in Asia, **BNM** and the **BOK** are expected to remain static at their respective policy meetings on Thursday.
- **SGD NEER:** This morning, the SGD NEER is firmer on the day at around +0.81% above its perceived parity with NEER-implied USD-SGD thresholds also higher from last Friday. In the near term, the USD-SGD may be expected to be slightly hesitant between +0.80% (1.3815) and +1.00% (1.3788) and any renewed push lower for the pair we think would have to be predicated by external influences.



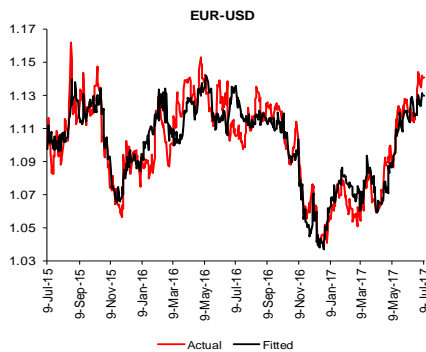
| | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 125.26 | 0.81 | 1.3817 |
| +2.00% | 126.74 | | 1.3653 |
| Parity | 124.26 | | 1.3926 |
| -2.00% | 121.77 | | 1.4210 |

Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point rose as largely expected to 6.7964 from 6.7914 on Friday. This resulted in the CFETS RMB Index softening to 93.50 from 93.52 as of the previous fix.

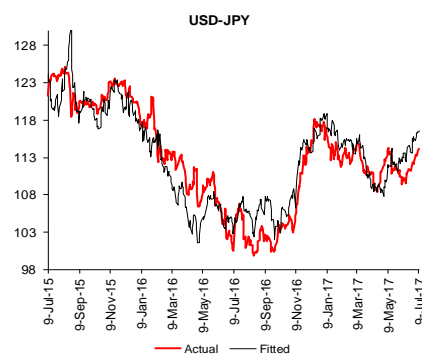


Source: OCBC Bank, Bloomberg

G7

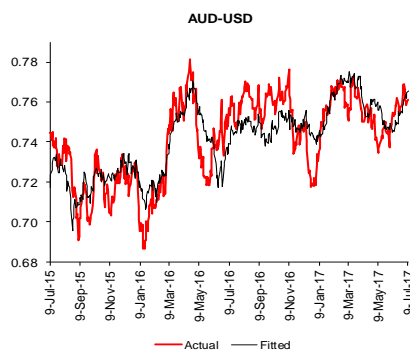
Source: OCBC Bank

- **EUR-USD** EUR-USD may seek to shake off the slight heaviness from last Friday with short term implied valuations still looking underpinned. Expect some base building around 1.1380 with 1.1450 providing initial resistance. On the CFTC front, net leveraged EUR shorts were also pared in the latest week.



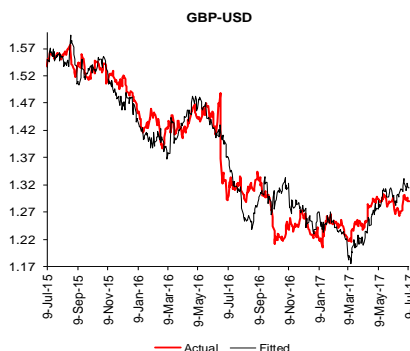
Source: OCBC Bank

- **USD-JPY** Perceived policy dichotomy between the Fed and BOJ may continue to keep the JPY vulnerable against the USD (as well as on the crosses). Short term implied valuations for the USD-JPY meanwhile remain tilted to the upside and as noted last week, 114.35/40 may continue to attract. Note that leveraged CFTC JPY shorts were increased in the latest week.



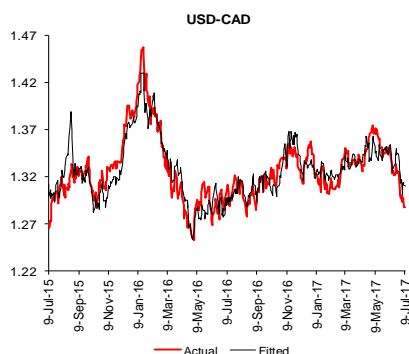
Source: OCBC Bank

- **AUD-USD** China's June CPI came in at a softer than expected +1.50% this morning but this is not expected to deter risk-seeking behavior at this juncture. Short term implied valuations for the AUD-USD continue to tick higher and if positive investor sentiment continues to accumulate, the pair may continue to bounce on dips within 0.7570-0.7650. On the CFTC front, note that net leveraged AUD longs were further built up in the latest week.



Source: OCBC Bank

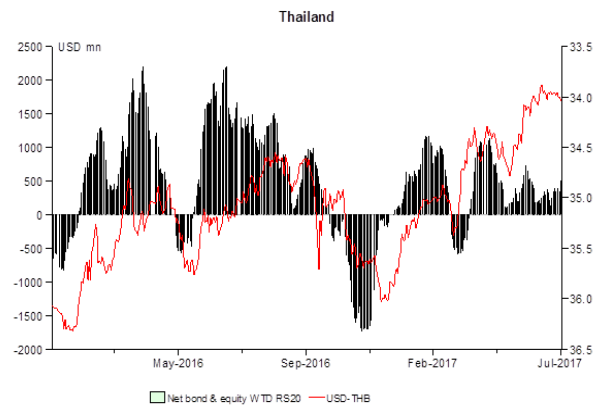
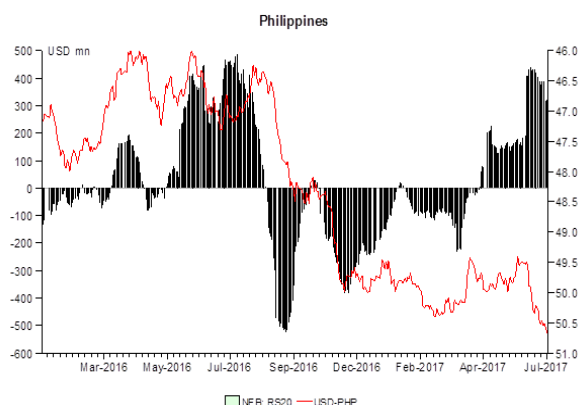
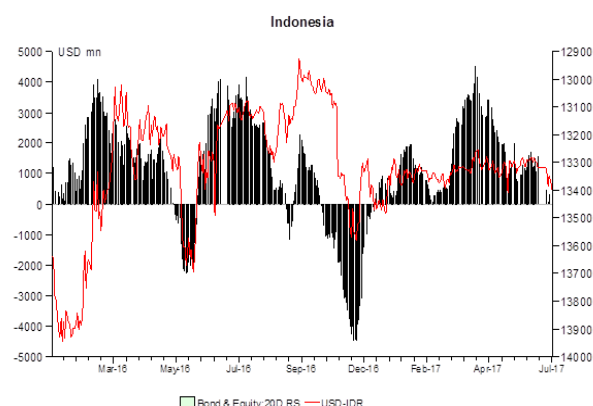
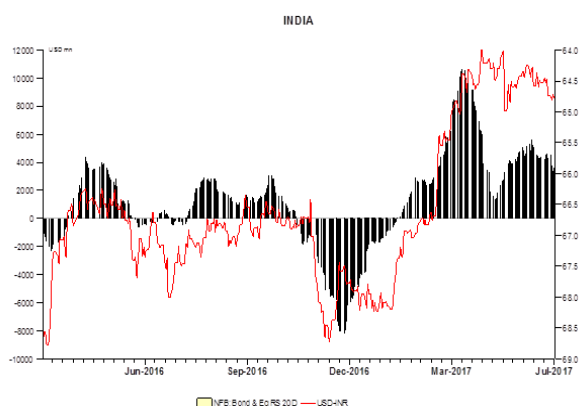
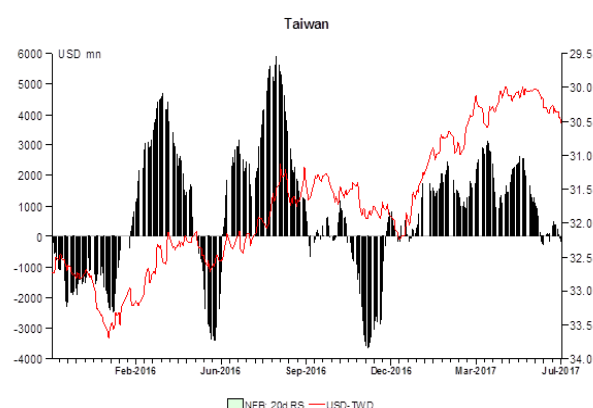
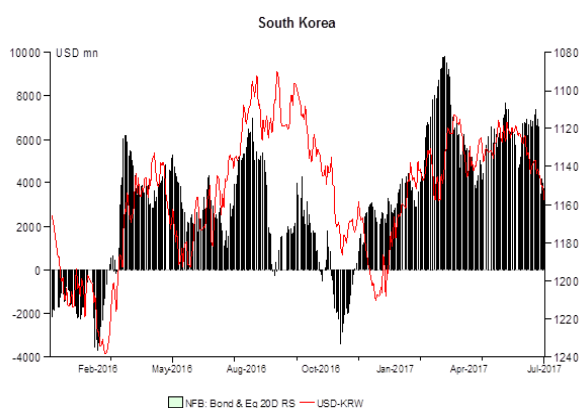
- **GBP-USD** The GBP-USD was undermined on Friday by disappointing May industrial production numbers (-0.1% mom) and subsequent USD support post-NFP. Short term implied valuations are attempting to consolidate lower with net leveraged GBP shorts increasingly slightly in the latest week. In the near term, the pair may find support emerging on dips towards the 55-day MA (1.2876), ahead of 1.2825.



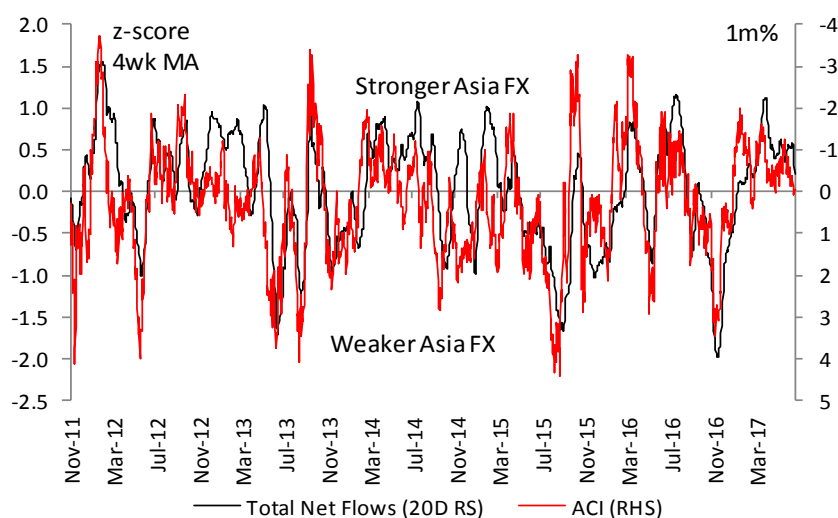
Source: OCBC Bank

- USD-CAD** Amid the recent slump in the pair and with investor expectations towards a BOC rate hikes essentially fully loaded, risks for a retracement in the event of any perceived disappointment from the central bank cannot be ruled out. Expect 1.2800 to provide a base in the interim. Elsewhere, net leveraged CFTC CAD shorts continued to be pared further (off extreme levels) in the latest week.

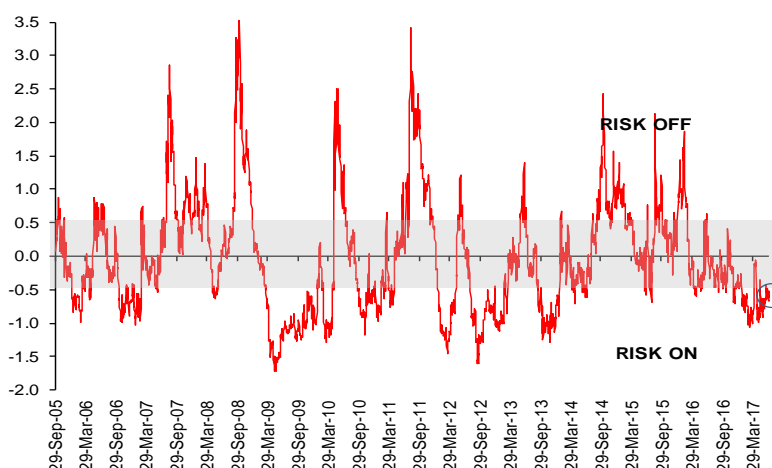
USD-Asia VS. Net Capital Flows



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 | -0.809 | 0.708 | 0.663 | -0.232 | -0.402 | -0.681 | -0.499 | -0.546 | -0.803 | 0.589 | -0.991 |
| CHF | 0.942 | -0.688 | 0.614 | 0.679 | -0.375 | -0.283 | -0.584 | -0.433 | -0.491 | -0.679 | 0.516 | -0.943 |
| CAD | 0.853 | -0.841 | 0.429 | 0.456 | -0.192 | -0.177 | -0.868 | -0.248 | -0.44 | -0.75 | 0.299 | -0.868 |
| CNY | 0.708 | -0.543 | 1 | 0.423 | 0.168 | -0.804 | -0.08 | -0.813 | -0.501 | -0.618 | 0.96 | -0.638 |
| SGD | 0.687 | -0.446 | 0.893 | 0.306 | 0.099 | -0.666 | -0.096 | -0.672 | -0.326 | -0.56 | 0.843 | -0.606 |
| CCN12M | 0.671 | -0.711 | 0.548 | 0.518 | -0.117 | -0.567 | -0.538 | -0.475 | -0.447 | -0.749 | 0.45 | -0.686 |
| CNH | 0.589 | -0.481 | 0.96 | 0.4 | 0.261 | -0.847 | 0.005 | -0.817 | -0.494 | -0.58 | 1 | -0.519 |
| THB | -0.266 | 0.565 | -0.164 | -0.502 | -0.319 | 0.297 | 0.384 | 0.176 | 0.568 | 0.647 | -0.191 | 0.314 |
| TWD | -0.483 | 0.61 | 0.116 | -0.332 | 0.193 | -0.31 | 0.858 | -0.25 | 0.31 | 0.489 | 0.207 | 0.546 |
| INR | -0.561 | 0.719 | -0.051 | -0.483 | 0.262 | -0.037 | 0.855 | 0.111 | 0.52 | 0.534 | 0.066 | 0.612 |
| MYR | -0.621 | 0.706 | -0.005 | -0.461 | 0.378 | -0.178 | 0.924 | -0.033 | 0.419 | 0.548 | 0.145 | 0.695 |
| KRW | -0.624 | 0.746 | -0.014 | -0.463 | 0.258 | -0.154 | 0.906 | -0.061 | 0.414 | 0.623 | 0.079 | 0.691 |
| PHP | -0.653 | 0.695 | -0.038 | -0.506 | 0.388 | -0.192 | 0.909 | -0.031 | 0.471 | 0.552 | 0.113 | 0.721 |
| JPY | -0.681 | 0.799 | -0.08 | -0.452 | 0.322 | -0.048 | 1 | 0.023 | 0.391 | 0.65 | 0.005 | 0.749 |
| AUD | -0.694 | 0.458 | -0.467 | -0.267 | 0.335 | 0.152 | 0.527 | 0.289 | 0.186 | 0.39 | -0.289 | 0.68 |
| NZD | -0.704 | 0.465 | -0.181 | -0.307 | 0.562 | -0.144 | 0.661 | 0.033 | 0.042 | 0.401 | -0.044 | 0.72 |
| USGG10 | -0.809 | 1 | -0.543 | -0.599 | 0.016 | -0.513 | 0.799 | 0.554 | 0.69 | 0.921 | -0.481 | 0.831 |
| IDR | -0.853 | 0.909 | -0.145 | -0.672 | 0.197 | 0.063 | 0.916 | 0.121 | 0.636 | 0.857 | -0.051 | 0.909 |
| GBP | -0.949 | 0.797 | -0.672 | -0.57 | 0.264 | 0.401 | 0.698 | 0.507 | 0.475 | 0.766 | -0.536 | 0.935 |
| EUR | -0.991 | 0.831 | -0.638 | -0.683 | 0.286 | 0.343 | 0.749 | 0.436 | 0.56 | 0.813 | -0.519 | 1 |

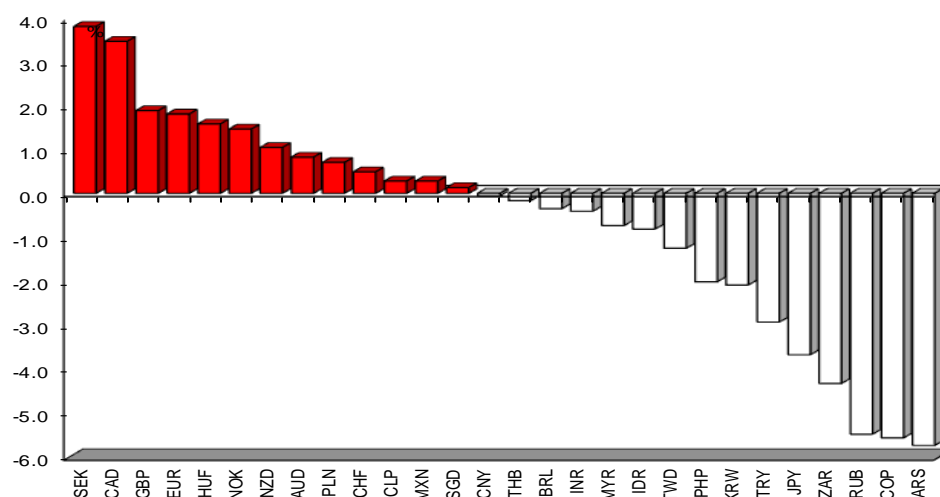
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1177 | 1.1400 | 1.1404 | 1.1445 | 1.1450 |
| GBP-USD | 1.2800 | 1.2871 | 1.2895 | 1.2900 | 1.3030 |
| AUD-USD | 0.7525 | 0.7600 | 0.7604 | 0.7676 | 0.7700 |
| NZD-USD | 0.7200 | 0.7201 | 0.7269 | 0.7300 | 0.7325 |
| USD-CAD | 1.2815 | 1.2860 | 1.2878 | 1.2900 | 1.3330 |
| USD-JPY | 111.82 | 114.00 | 114.12 | 114.20 | 114.42 |
| USD-SGD | 1.3743 | 1.3800 | 1.3818 | 1.3876 | 1.3900 |
| EUR-SGD | 1.5505 | 1.5700 | 1.5758 | 1.5800 | 1.5830 |
| JPY-SGD | 1.2100 | 1.2102 | 1.2108 | 1.2200 | 1.2410 |
| GBP-SGD | 1.7619 | 1.7800 | 1.7818 | 1.7857 | 1.7900 |
| AUD-SGD | 1.0412 | 1.0500 | 1.0507 | 1.0571 | 1.0598 |
| Gold | 1206.60 | 1208.17 | 1210.60 | 1238.78 | 1250.30 |
| Silver | 15.30 | 15.30 | 15.39 | 15.40 | 15.50 |
| Crude | 42.23 | 44.50 | 44.58 | 44.60 | 47.10 |

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 | | | | | | | | | |
| NZD | | | | | | | | | |
| EUR | | | | | | | | | |
| GBP | | | | | | | | | |
| JPY | | | | | | | | | |
| CAD | | | | | | | | | |
| USD | | | | | | | | | |
| SGD | | | | | | | | | |
| MYR | | | | | | | | | |

Source: OCBC Bank

Asia FX Heat Map

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

Source: OCBC Bank

FX Trade Ideas

| 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, positoning 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 politiccy cuncertainty/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-Jun 2017 Return | | | | | | | | | -13.02 |
| 2016 Return | | | | | | | | | +6.91 |

Source: OCBC Bank

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