

Wednesday, July 12, 2017

FX Themes/Strategy/Trading Ideas

- Political static (Trump Jr./Russia) put the hurt on the USD (USD-JPY < 114.00) and pulled UST yields lower on Tuesday. Meanwhile, the Fed's Brainard signaled no rush in terms of rate trajectory but noted "...it would be appropriate soon to commence..." a balance sheet roll-off. In addition, the Fed's Harker also hinted at a possibility of a rate pause pending the inflation trajectory and the Fed's Kashkari also saw little signs of overheating in the labor market (echoing his comments from late June).
- Elsewhere, the GBP-USD fell (with the pound underperforming across the board) after the BOE's Broadbent failed to address monetary policy at his appearance on Tuesday, in contrast to some prior expectations of a hawkish tilt. On other fronts, still sanguine risk appetite levels (on the back of the equity/commodity complex) continued to bolster the AUD, which outperformed across the board.
- Today, Yellen's semi-annual testimony before the House Financial Services Committee (speech released at 1230 GMT, testimony at 1400 GMT) and the BOC policy meeting (1400 GMT) are expected to be heavily scrutinized, with the latter expected to deliver a 25bps hike.
- In the interim, the greenback may be expected to remain relatively vulnerable, especially as investors attempt to digest comments from the Fed overnight. **Structurally, relative central bank dynamics may have begun to shift once again (2 weeks ago, it was the ECB, BOE, BOC pushing against the USD), this time on the back of a perceived softening in the Fed's posture.** Meanwhile, a supportive risk appetite/commodity complex may also serve to bolster EM/Asia in the interim.

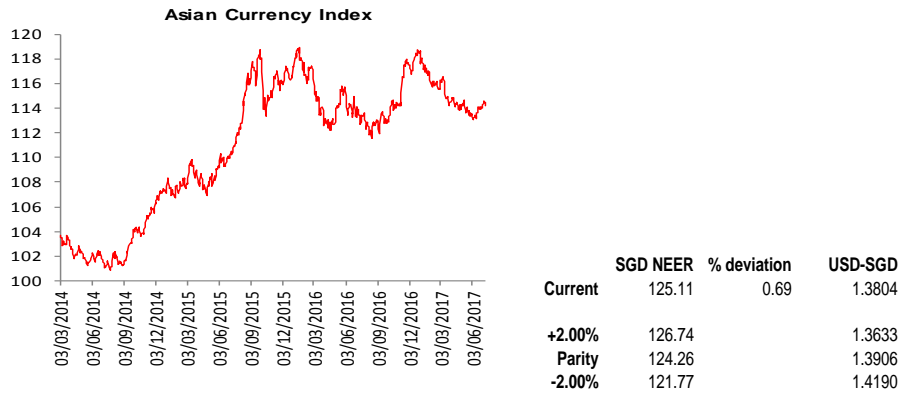
Asian FX

- With EMFX mixed but positively tinted overnight, USD-Asia may take the cue from a softer DXY (note also the heavy USD-CNH) and supported risk appetite levels overnight although the generally weak net portfolio inflow environment may temper the downside for the regional pairs.
- In sum, the **ACI (Asian Currency Index)** is expected to seek out lower ground today with the **FXSI (FX Sentiment Index)** still in Risk-On territory despite inching higher overnight. Structurally, our medium term model for the ACI continues to orient southwards.
- **SGD NEER:** The SGD NEER is slightly firmer on the day following overnight

Treasury Research &
Strategy

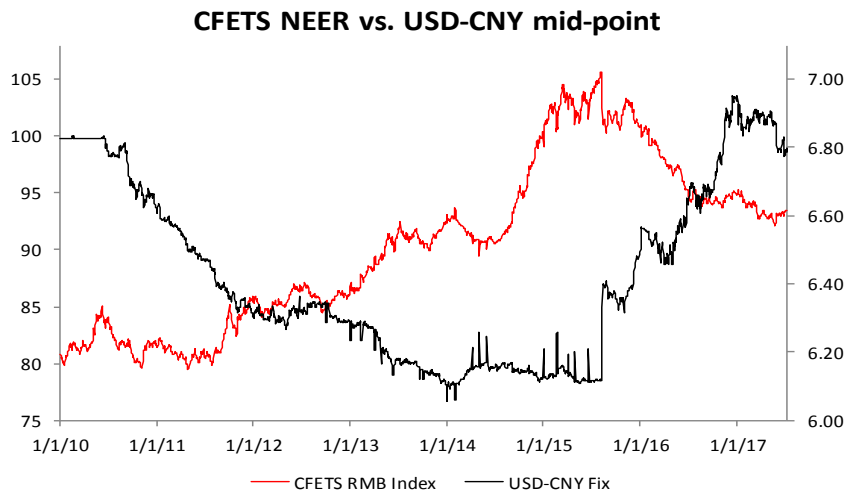
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

price action and is currently around +0.70% above its perceived parity (1.3906). Not surprisingly, NEER-implied USD-SGD thresholds have dripped lower on the day with +0.80% (1.3796) expected to provide an immediate floor for the pair. At current levels, the +1.00% threshold is estimated at 1.3768.



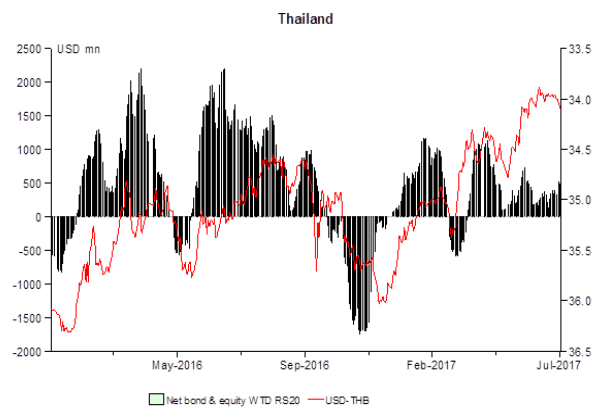
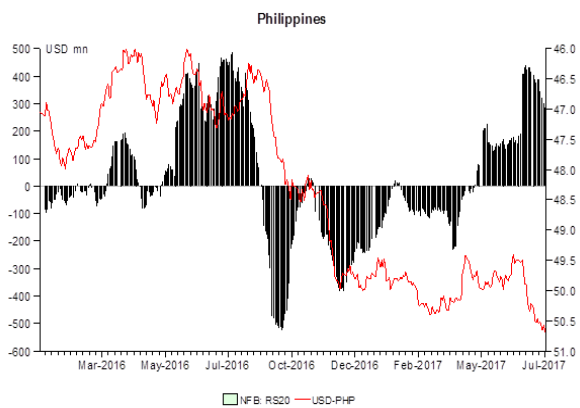
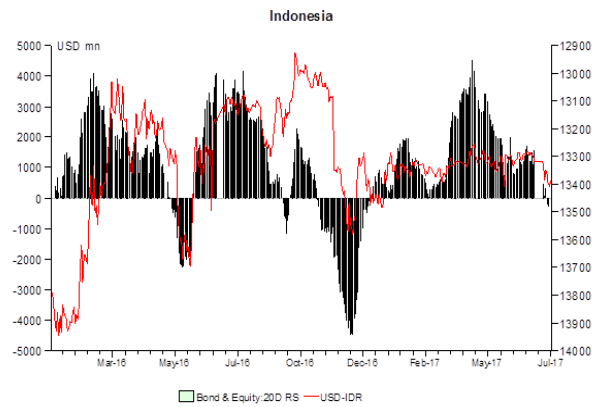
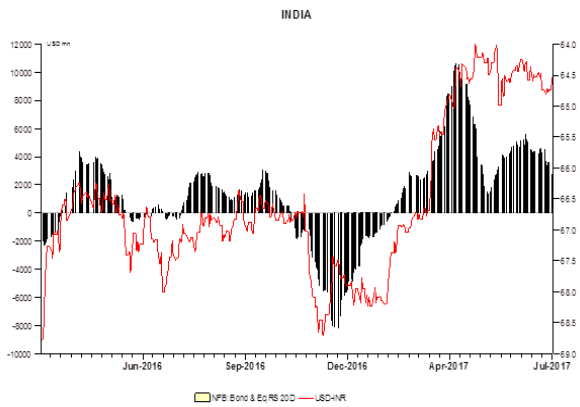
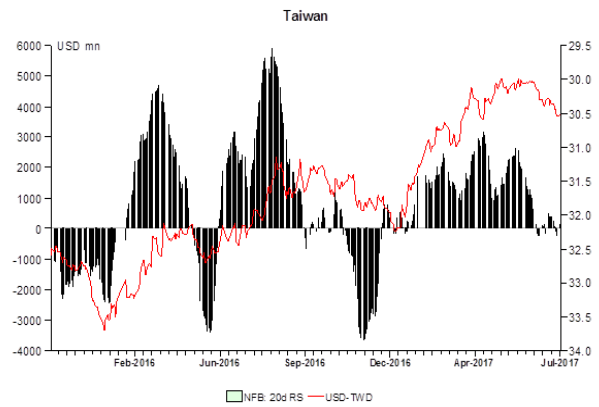
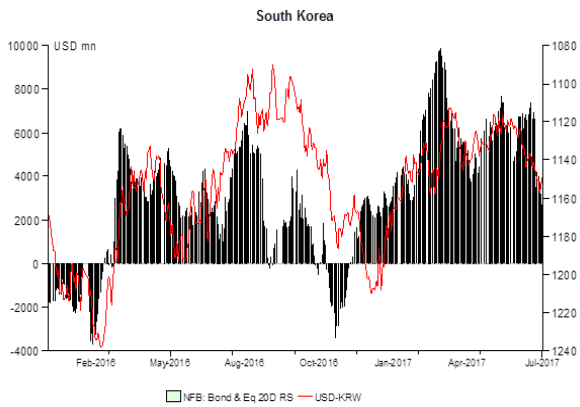
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (as largely expected) to 6.7868 from 6.7983, keeping the CFETS RMB Index largely unchanged at 93.48

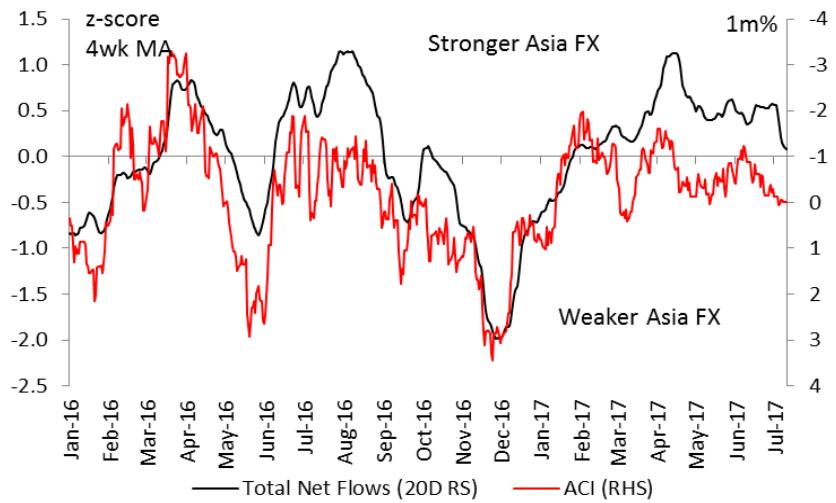


Source: OCBC Bank, Bloomberg

USD-Asia VS. Net Capital Flows

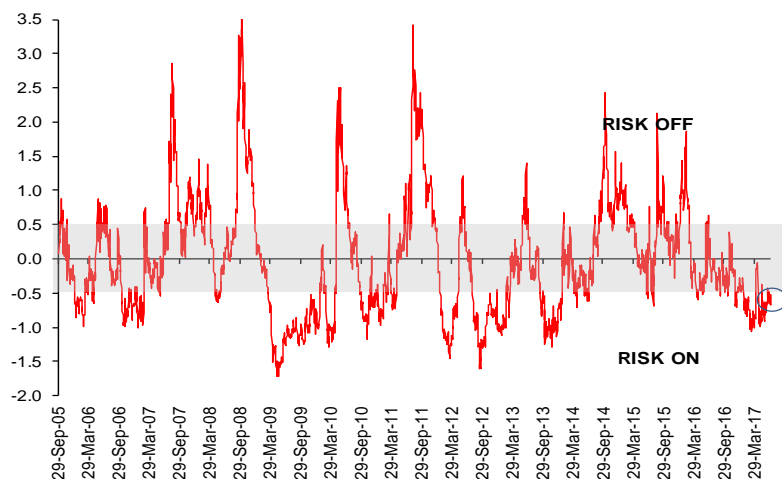


ACI VS. Net Capital Flows



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	-0.845	0.734	0.681	-0.305	-0.511	-0.723	-0.574	-0.528	-0.84	0.659	-0.99
CHF	0.916	-0.671	0.639	0.689	-0.389	-0.345	-0.577	-0.487	-0.49	-0.642	0.567	-0.899
CAD	0.897	-0.928	0.547	0.531	-0.265	-0.417	-0.887	-0.429	-0.449	-0.896	0.479	-0.912
CCN12M	0.791	-0.792	0.53	0.558	-0.222	-0.529	-0.657	-0.561	-0.466	-0.804	0.462	-0.812
CNY	0.734	-0.551	1	0.438	0.123	-0.813	-0.165	-0.804	-0.518	-0.579	0.965	-0.657
SGD	0.66	-0.42	0.902	0.309	0.056	-0.723	-0.095	-0.71	-0.317	-0.486	0.88	-0.574
CNH	0.659	-0.522	0.965	0.423	0.206	-0.839	-0.116	-0.815	-0.525	-0.546	1	-0.584
THB	-0.451	0.722	-0.113	-0.494	0.046	0.197	0.686	0.086	0.571	0.747	-0.12	0.524
NZD	-0.454	0.259	-0.216	-0.28	0.429	-0.07	0.386	0.026	0.03	0.294	-0.06	0.426
INR	-0.517	0.679	-0.126	-0.534	0.28	0.14	0.745	0.232	0.536	0.523	-0.062	0.561
TWD	-0.569	0.744	-0.043	-0.437	0.279	-0.054	0.892	-0.109	0.371	0.701	0.005	0.645
MYR	-0.648	0.727	-0.031	-0.476	0.469	-0.097	0.911	-0.028	0.323	0.615	0.073	0.719
PHP	-0.664	0.731	-0.084	-0.497	0.465	-0.069	0.926	-0.028	0.343	0.658	-0.001	0.74
KRW	-0.668	0.803	-0.107	-0.523	0.315	0.027	0.899	0.065	0.425	0.729	-0.072	0.729
AUD	-0.717	0.504	-0.561	-0.311	0.389	0.329	0.536	0.425	0.182	0.454	-0.437	0.704
JPY	-0.723	0.861	-0.165	-0.49	0.376	0.118	1	0.157	0.378	0.772	-0.116	0.789
IDR	-0.763	0.921	-0.324	-0.588	0.157	0.299	0.893	0.259	0.517	0.904	-0.283	0.813
USGG10	-0.845	1	-0.551	-0.605	0.109	0.566	0.861	0.548	0.643	0.941	-0.522	0.866
GBP	-0.9	0.754	-0.706	-0.582	0.259	0.481	0.66	0.555	0.48	0.721	-0.592	0.864
EUR	-0.99	0.866	-0.657	-0.693	0.362	0.448	0.789	0.513	0.532	0.858	-0.584	1

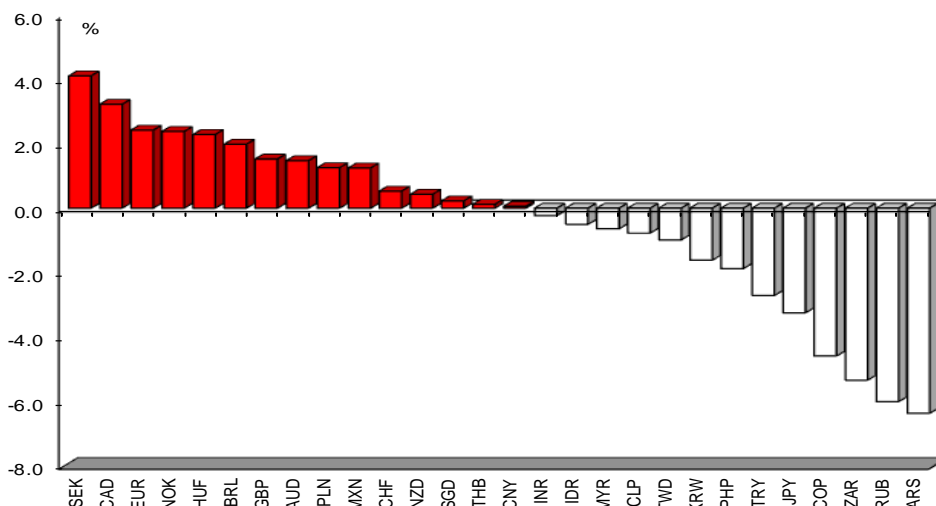
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1199	1.1400	1.1474	1.1480	1.1500
GBP-USD	1.2604	1.2800	1.2851	1.2868	1.2900
AUD-USD	0.7526	0.7600	0.7653	0.7684	0.7700
NZD-USD	0.7199	0.7200	0.7228	0.7300	0.7326
USD-CAD	1.2860	1.2900	1.2907	1.3000	1.3327
USD-JPY	111.87	113.00	113.60	114.00	114.49
USD-SGD	1.3755	1.3800	1.3804	1.3871	1.3900
EUR-SGD	1.5531	1.5800	1.5839	1.5861	1.5900
JPY-SGD	1.2096	1.2100	1.2152	1.2200	1.2399
GBP-SGD	1.7622	1.7700	1.7739	1.7800	1.7847
AUD-SGD	1.0440	1.0500	1.0564	1.0572	1.0595
Gold	1204.00	1204.21	1219.20	1237.49	1248.51
Silver	15.40	15.70	15.77	15.80	16.67
Crude	42.36	45.70	45.76	45.80	46.79

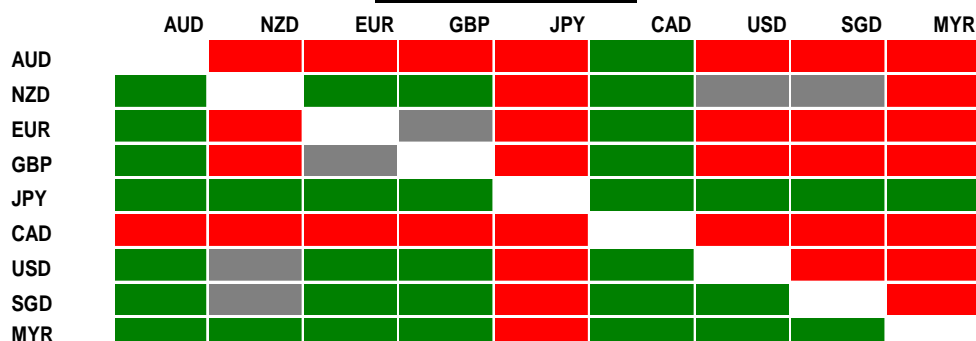
Source: OCBC Bank

FX performance: 1-month change agst USD



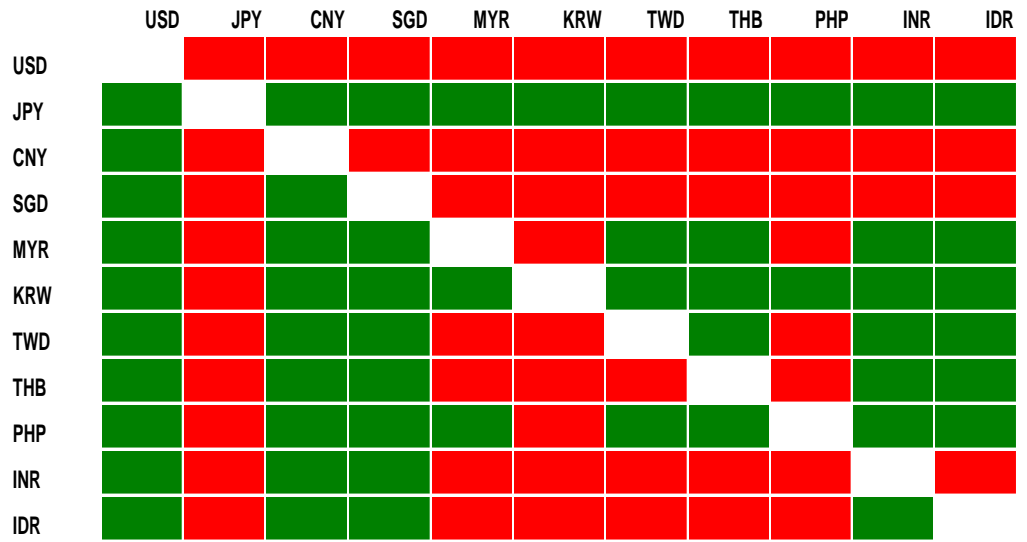
Source: Bloomberg

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			
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, positioning 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 politic uncertainty/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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