

Monday, July 17, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Disappointing US June CPI and retail sales numbers dragged the USD (and UST yields) lower across G10 on Friday with positive risk appetite levels also resulting in the AUD outperforming across the board.
- On the **CFTC** front, large non-commercial accounts increased their implied net short dollar bias in aggregate in the latest week while leveraged accounts continued to pare their implied net long dollar bias. Meanwhile, asset managers pared their net implied short dollar bias but such outstanding positions remained at historically elevated levels not seen since late 2010. Overall, the community continued to move against the USD in the latest week, even before Yellen's mid-week appearances mid-week.
- This week, with USD vulnerability still humming in the background and with no Fed appearances or first tier US data, market attention will likely turn to the Fed's counterparts, including the **BOJ** and **ECB** policy meetings on Thursday. While the BOJ is expected to stick to the script in terms of yield curve anchoring, markets may continue to search for cues on balance sheet tapering from the **ECB's Draghi**. Elsewhere, **RBA meeting minutes** are due on Tuesday (June labor market numbers on Thursday) and resulting headlines may fuel further interest towards the antipodeans in the event of any hawkish hints.
- Overall, USD weakness is not perceived to be overly saturated as yet with various currency pairs (G10 as well as USD-Asia) breaching or threatening to breach year-to-date levels. To this end, the 95.00 support may prove pivotal for the DXY this week. **Thus, the interplay of central bank dynamics may continue to figure prominently (in the current environment, against the USD) and if risk appetite remains at sanguine levels, expect EM/Asia to continue to ride on USD bearishness.**

Asian FX

- **EPFR** fund flow data meanwhile demonstrated a slight increase in net implied inflows into Asian (ex Japan, China) equities but net implied bond inflows dropped significantly in the latest week. This positive development corroborates with higher frequency daily readings of net bond/equity inflows into Asia and may continue to weigh on USD-Asia.
- In Asia, Bank Indonesia is expected to stand pat on its policy parameters also on Thursday and for today, look to China's 2Q GDP (0200 GMT) and June economic releases to set the tone for Asia at the onset of the week.

Treasury Research &
Strategy

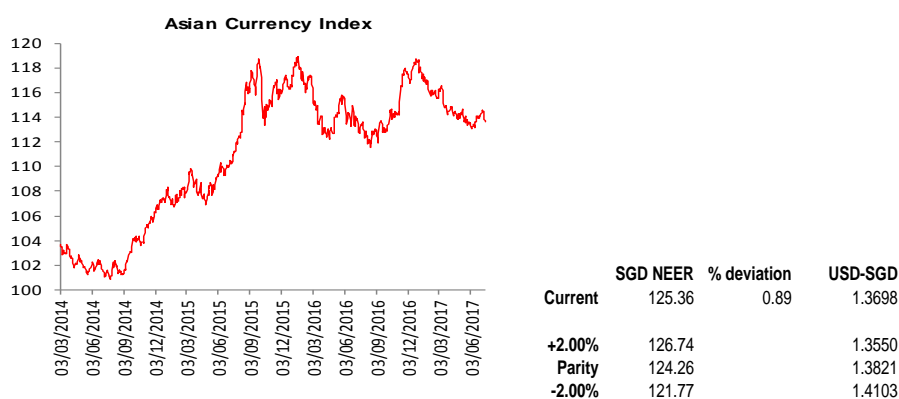
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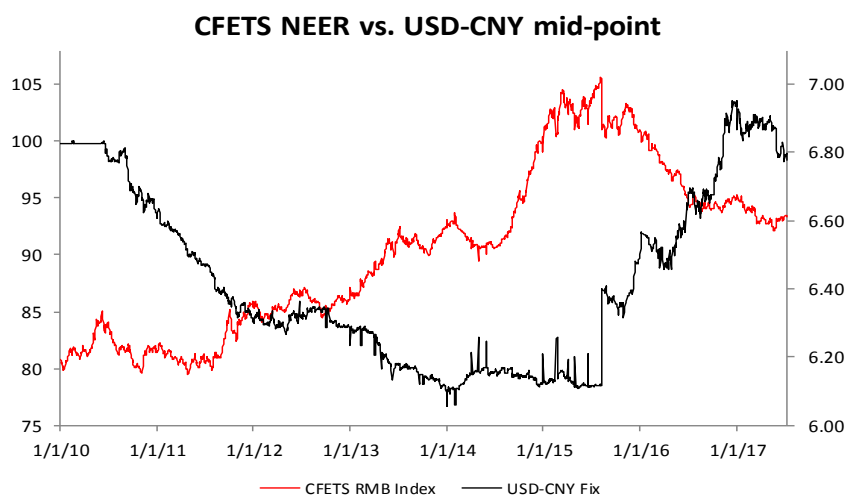
With the USD-CNH and the USD-CNY mid-point providing southward cues and the **FXSI (FX Sentiment Index)** continuing to drill deeper into **Risk-On** territory, the **ACI (Asian Currency Index)** is seen sinking further for a 7th consecutive session today.

- SGD NEER:** Despite the better than expected June NODX numbers this morning (+8.2% yoy), the SGD NEER this morning is a touch firmer on the day at around +0.91% above its perceived parity (1.3821). NEER-implied USD-SGD thresholds are softer on the day in view of the broad dollar's descent, although we'd expect the NEER to continue to bounce the +0.80% (1.3711) and +1.00% (1.3684) threshold pending broader external cues. Excessive and accelerated downside in the pair meanwhile may continue to be tempered with our volatility indicators for the USD-SGD beginning to light up.

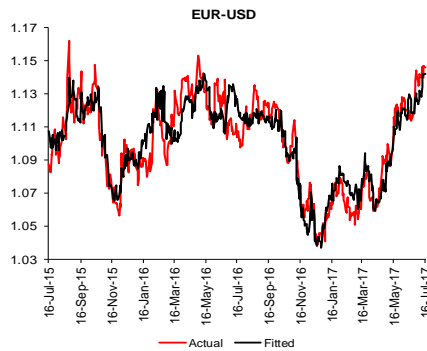


Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY fell more than expected to 6.7562 from 6.7774 last Friday. This however still took the CFETS RMB Index down to 93.16 from 93.34, with both the daily change in the mid-point and Index pushing towards (but still within) historical tolerances.

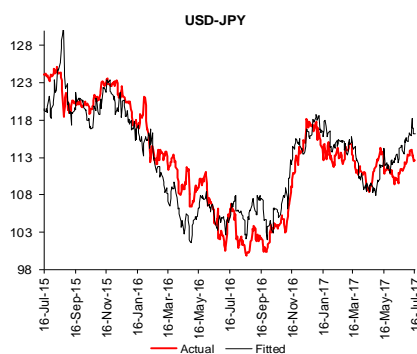


Source: OCBC Bank, Bloomberg

G7

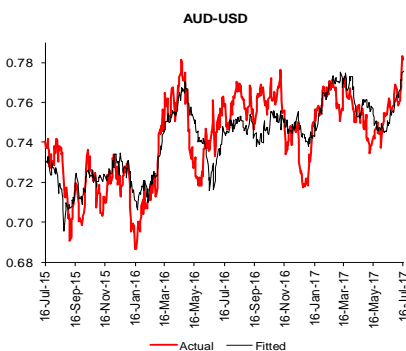
Source: OCBC Bank

- **EUR-USD** Short term implied valuations continue to attempt to inch higher ahead of the ECB this week. In the interim, the 1.1500 resistance remains a key area to watch, with this level unchallenged since May 2016.



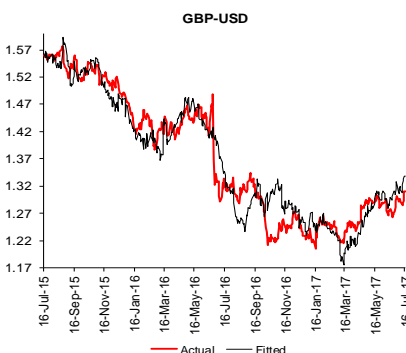
Source: OCBC Bank

- **USD-JPY** Despite positive risk appetite improvements, the USD-JPY has instead taken its cue from inherent USD vulnerability on the back of yield differential arguments. In the near term therefore, expect upside potential to be blunted, in line with its short term implied valuations. Fade upticks towards 113.00/40 in the interim, with risks towards the 55-day MA (111.96) instead.



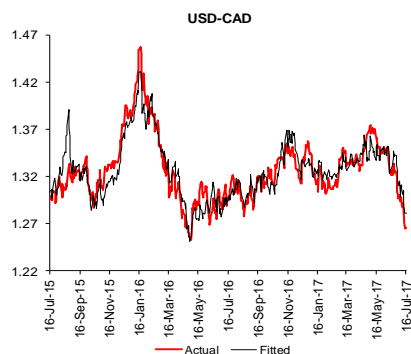
Source: OCBC Bank

- **AUD-USD** The AUD-USD may continue to be fueled by a mixture of USD vulnerability and a supportive equity/commodity complex ahead of domestic headline risks this week. Meanwhile, short term implied valuations are also buoyant with the 0.7850 ceiling now being eyed and 0.7750 expected to cushion on dips.



Source: OCBC Bank

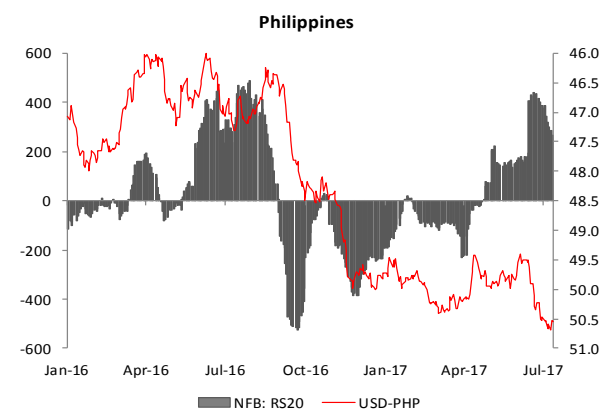
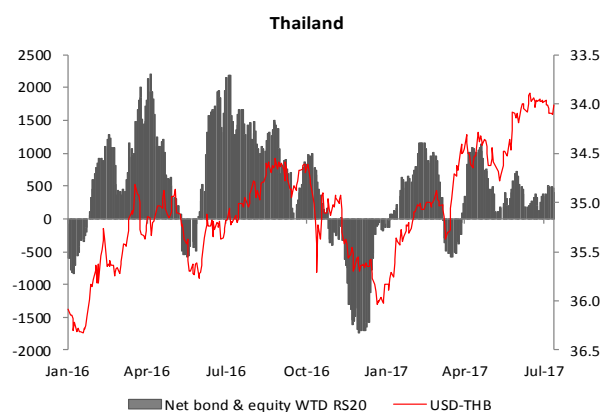
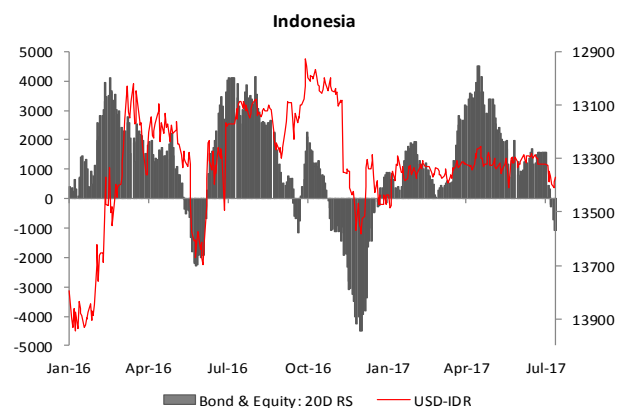
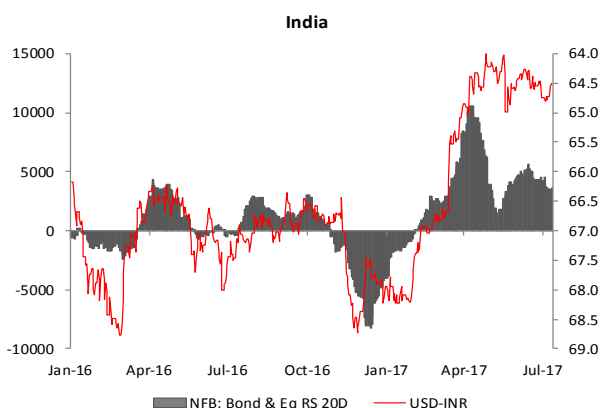
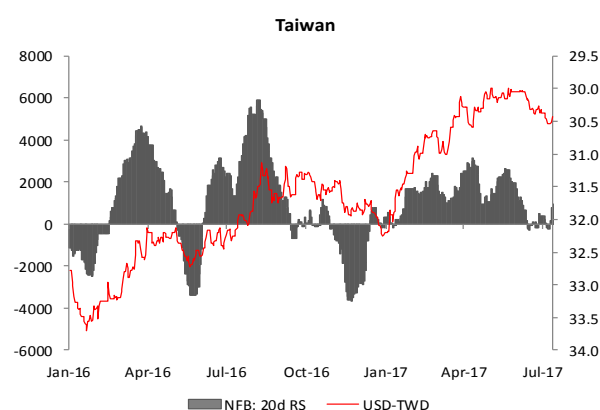
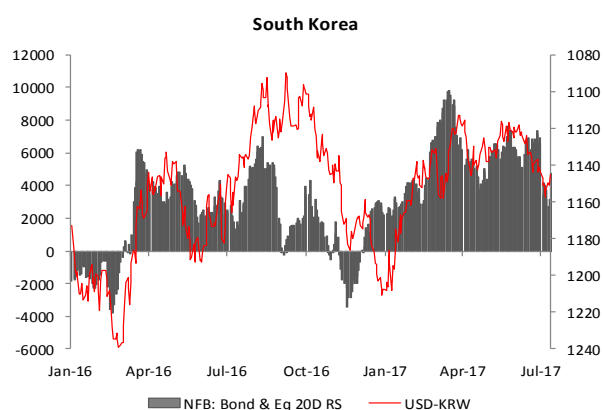
- **GBP-USD** June CPI readings on Tuesday may be scrutinized for potential BOE hawkishness. Elsewhere, firming short term implied valuations for the GBP-USD provided the necessary lift for the pair beyond 1.3000 (and then 1.3100) on Friday and the pair may attempt to base build around current levels pending further headline risks.

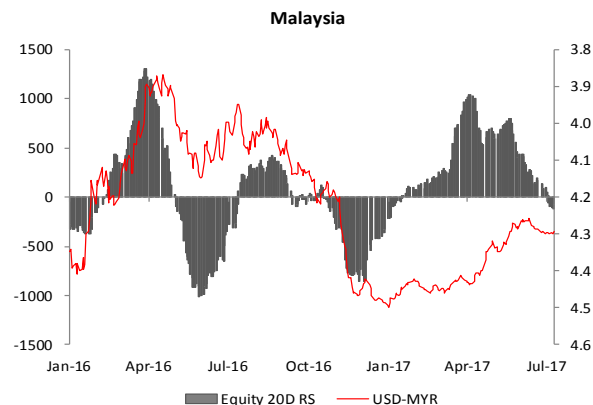


- USD-CAD** Look towards June CPI numbers on Friday and if USD vulnerability and crude remain supportive of the loonie, 1.2500 on the downside may look increasingly fragile. Note that short term implied valuations for the pair have continued to slump with the pair continuing to skate near the lower boundaries of its implied confidence intervals.

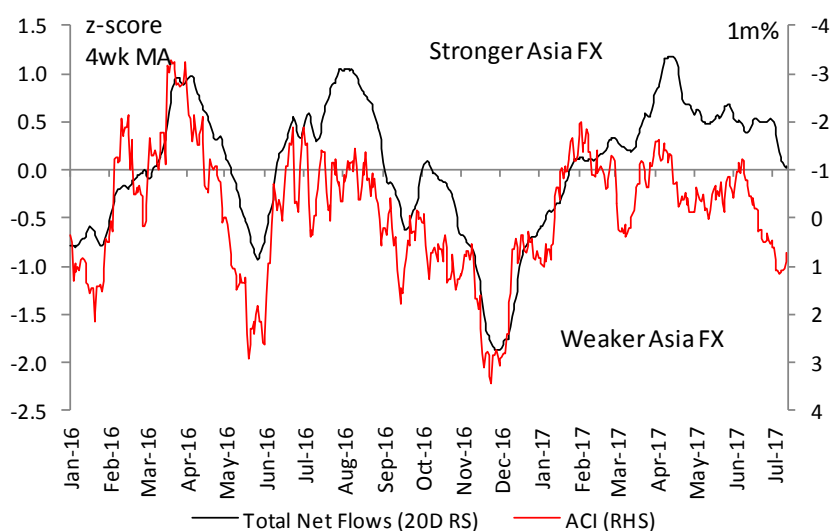
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

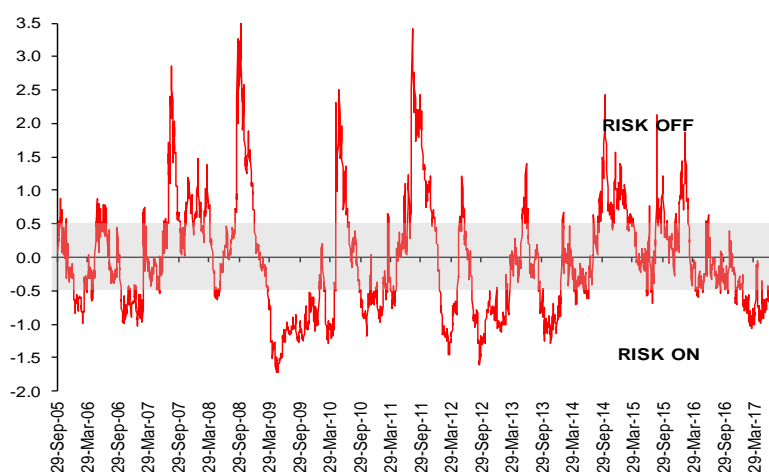




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	-0.831	0.927	0.19	-0.423	-0.829	-0.673	-0.839	-0.176	-0.796	0.919	-0.988
CNY	0.927	-0.772	1	0.008	-0.475	-0.866	-0.593	-0.873	-0.108	-0.659	0.978	-0.889
CNH	0.919	-0.776	0.978	-0.004	-0.49	-0.874	-0.533	-0.88	-0.109	-0.663	1	-0.876
CAD	0.898	-0.853	0.879	-0.136	-0.545	-0.841	-0.681	-0.815	0.057	-0.763	0.901	-0.859
SGD	0.887	-0.685	0.935	-0.178	-0.642	-0.826	-0.429	-0.855	0.111	-0.572	0.936	-0.818
CCN12M	0.859	-0.743	0.765	-0.149	-0.671	-0.747	-0.626	-0.777	0.164	-0.663	0.792	-0.817
CHF	0.813	-0.572	0.724	0.532	-0.094	-0.557	-0.482	-0.606	-0.414	-0.608	0.659	-0.842
THB	0.142	0.411	0.043	-0.604	-0.494	0.069	0.43	-0.267	0.58	0.575	0.291	-0.016
KRW	-0.181	0.645	-0.197	-0.673	-0.521	0.316	0.636	0.023	0.692	0.742	-0.006	0.297
INR	-0.187	0.415	-0.093	-0.614	-0.416	0.318	0.404	0.341	0.679	0.39	-0.092	0.25
TWD	-0.38	0.684	-0.219	-0.439	-0.372	0.339	0.716	0.133	0.516	0.788	-0.262	0.454
MYR	-0.549	0.819	-0.564	-0.538	-0.041	0.611	0.782	0.399	0.409	0.817	-0.337	0.643
NZD	-0.644	0.323	-0.599	0.136	0.435	0.473	0.14	0.65	-0.222	0.218	-0.651	0.553
JPY	-0.673	0.936	-0.593	-0.316	0.05	0.736	1	0.576	0.347	0.924	-0.533	0.742
IDR	-0.743	0.878	-0.495	-0.615	-0.128	0.524	0.922	0.416	0.45	0.964	-0.47	0.817
AUD	-0.769	0.486	-0.832	0.396	0.798	0.74	0.241	0.804	-0.33	0.337	-0.858	0.68
PHP	-0.818	0.828	-0.672	-0.319	0.187	0.653	0.787	0.621	0.262	0.826	-0.701	0.844
USGG10	-0.831	1	-0.772	-0.261	0.134	0.876	0.936	0.766	0.382	0.942	-0.776	0.854
GBP	-0.94	0.767	-0.922	-0.125	0.383	0.845	0.533	0.885	0.179	0.677	-0.904	0.901
EUR	-0.988	0.854	-0.889	-0.286	0.346	0.816	0.742	0.804	0.26	0.844	-0.876	1

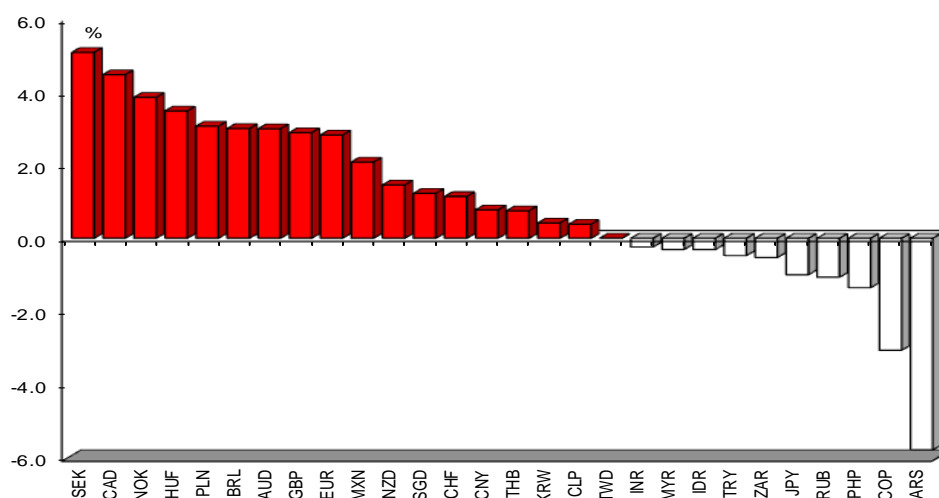
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1226	1.1400	1.1461	1.1489	1.1500
GBP-USD	1.2875	1.3100	1.3102	1.3117	1.3143
AUD-USD	0.7794	0.7800	0.7824	0.7836	0.7900
NZD-USD	0.7213	0.7300	0.7334	0.7346	0.7369
USD-CAD	1.2600	1.2640	1.2653	1.2700	1.3284
USD-JPY	111.87	112.00	112.61	113.00	114.39
USD-SGD	1.3691	1.3693	1.3698	1.3700	1.3850
EUR-SGD	1.5650	1.5670	1.5700	1.5861	1.5883
JPY-SGD	1.2096	1.2100	1.2164	1.2200	1.2382
GBP-SGD	1.7831	1.7900	1.7947	1.7989	1.8000
AUD-SGD	1.0687	1.0700	1.0717	1.0764	1.0800
Gold	1204.00	1204.03	1230.50	1235.83	1247.27
Silver	15.35	15.80	15.88	15.90	16.64
Crude	46.00	46.50	46.70	46.85	47.37

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											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

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	1.2610	1.2935	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		
4	13-Jul-17	B	AUD-USD	0.7708	0.7860	0.7630	Vulnerable USD, improving risk appetite, supportive China data		
	STRUCTURAL								
5	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
6	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		
7	12-Jul-17		Bullish 2M 1X1.5 EUR-USD Call Spread Spot ref: 1.1455; Strikes: 1.1492, 1.1724; Exp: 12/09/17; Cost: 0.46%				ECB transitioning to neutral, Fed wavering		
	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 polity 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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