

Monday, June 19, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Undermined by disappointing economic readings (May housing starts and June Michigan sentiment), the greenback weakened across the board (note softer UST yields with the curve bull steepening) on Friday. Comments from the Fed's Kashkari and Kaplan also did not inspire USD resilience and instead remained cautious. Meanwhile, the JPY underperformed across G10 space while the antipodeans gained against their peers amid positive EZ/US equities.
- Projections indicate that PM Macron's party secured an absolute majority after the second round of the parliamentary elections over the weekend and this should underpin the EUR at the margins. Meanwhile, Brexit negotiations are scheduled to commence today in Brussels under a veil of uncertainty
- The **BOJ's Kuroda** remained sufficiently dovish on Friday with respect to inflation prospects, yield curve anchoring, and added that discussing exit simulations at this juncture in the public domain would be premature. In sun, the BOJ MPC proved a non-starter as widely expected with the **USD-JPY** still expected to be steered by USD and risk appetite fluctuations in the coming sessions.
- On the **CFTC** front, large non-commercial and leveraged accounts reduced their net implied long dollar bias in the latest week while asset manager accounts in aggregate increased their net implied short dollar bias. Although these readings pre-dated the FOMC, this synchronized move away from the dollar we think may have remained intact into the end of the week. Also of interest is the flip in leveraged positioning to a net long EUR balance in the latest week.
- This week, **Fed-speak** picks up again after last week's FOMC, with Dudley (1200 GMT) and Evans (2300 GMT) kicking off the week today. Crucially, investors are expected to be on the lookout for further rhetoric regarding eventual balance sheet reduction this year.
- Elsewhere on the calendar, **RBA** June policy meeting minutes are due on Tuesday, the **RBNZ** is expected to stand pat at 1.75% on Wednesday, while global June PMIs are scheduled to be released on Friday. In Asia, the **CBC** and **BSP** are expected to remain static at their respective policy meetings on Thursday. Overall, we expect global central banks to remain less concerned about inflation prospects but retain sufficient caution towards growth prospects.

Treasury Research &
Strategy

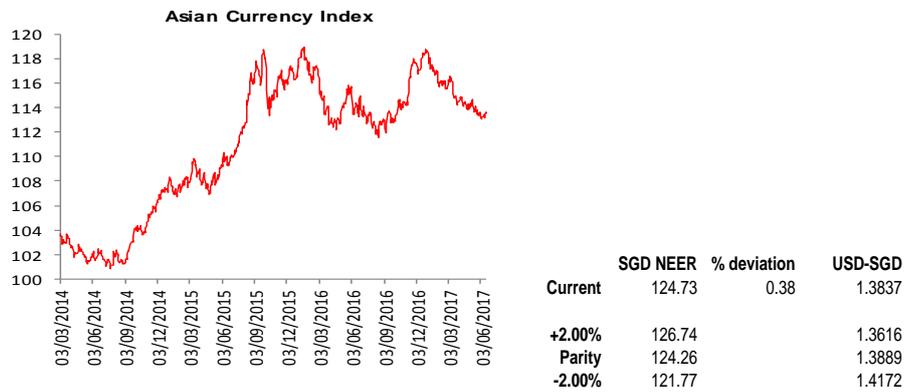
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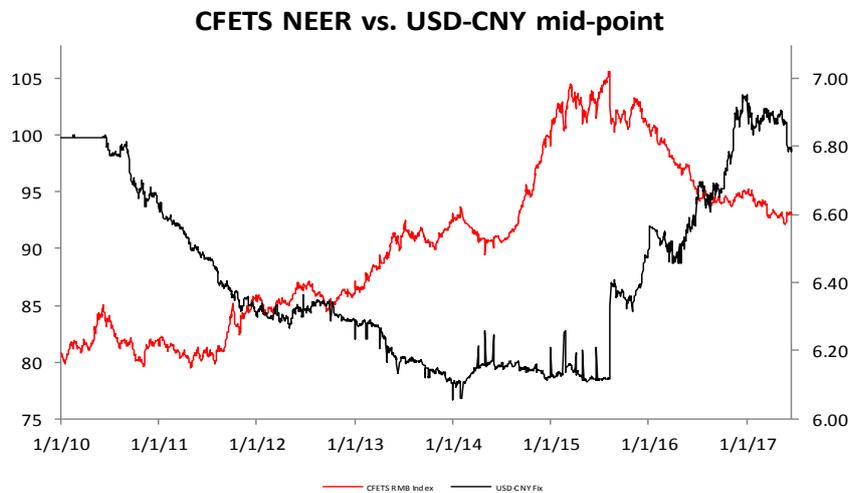
Asian FX

- EPFR** data meanwhile show a net implied increase into Asian (excl Japan, China) equities in the latest week although this was set off by a flip to net implied bond outflows in the same period. Overall, net flows in the last few weeks continue to portend moderating underpinnings for discretionary regional currency strength. To this end, Asian FX may increasingly be dependent on, and sensitive to, broad USD directionality. Overall, the **ACI (Asian Currency Index)** may be slightly heavy intra-day despite the **FXSI (FX Sentiment Index)** inching higher (denoting investor caution) for the third consecutive session within Risk-On territory on Friday.
- SGD NEER:** The SGD NEER starts the week softer on the day at around +0.39% above its perceived parity (1.3889), with NEER-implied USD-SGD thresholds slightly lower. The basket may be expected to remain range bound between parity and the +0.50% threshold (1.3820) with the key psychological support also at 1.3800.



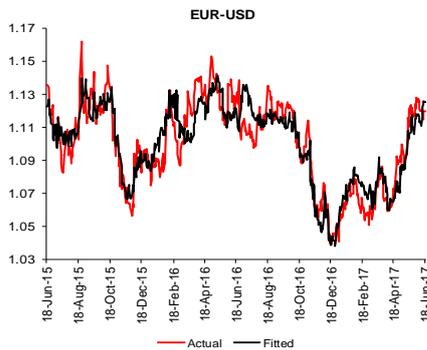
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose fell (against prior expectations) to 6.7972 from 6.7995 on Friday, pulling the CFETS RMB Index lower to 93.16 from 93.24.



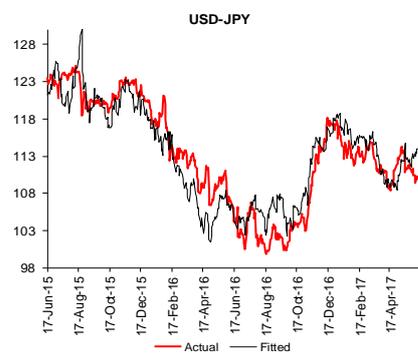
Source: OCBC Bank, Bloomberg

G7



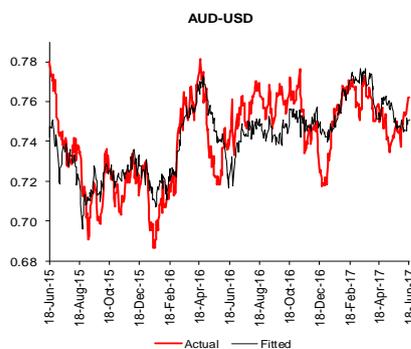
Source: OCBC Bank

- EUR-USD** Underpinned short term implied valuations, weekend French election news, and the flip in CFTC leveraged positioning to a net long EUR balance, continue to argue against somewhat heavy technical for the pair. This may make for further range trading behavior within 1.1140-1.1285 pending further headline risks.



Source: OCBC Bank

- USD-JPY** Short term implied valuations for the USD-JPY continue to edge higher (especially with the BOJ compliantly dovish on Friday) despite net leveraged CFTC JPY shorts being pared in the latest week. Any potential USD resilience may continue to manifest via the USD-JPY and a break above the 55-day MA (111.01) may shine the way to 111.50, with the 200-day MA (110.73) serving as a near term support.



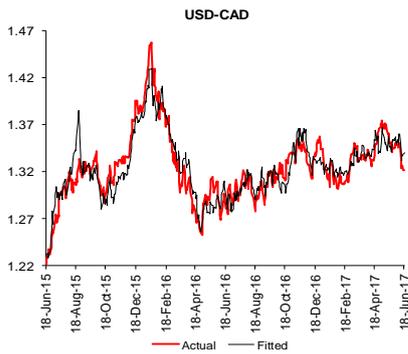
Source: OCBC Bank

- AUD-USD** Supportive comments from the RBA's Lowe this morning and still relatively sanguine risk appetite levels should continue to keep the AUD-USD afloat. With net leveraged CFTC AUD shorts pared further in the latest week and short term implied valuations continuing to firm, the pair may attempt to stage a breakout from its recent 0.7570-0.7650 range towards 0.7700.



Source: OCBC Bank

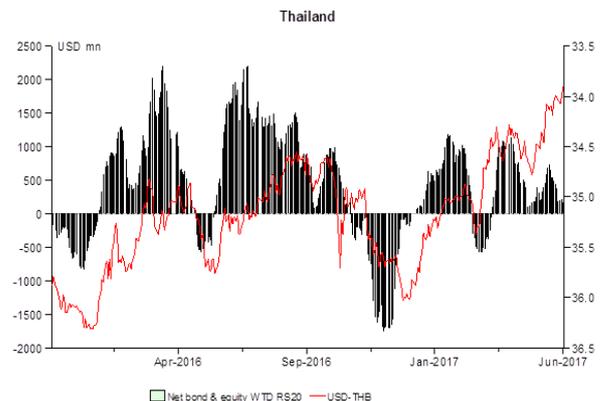
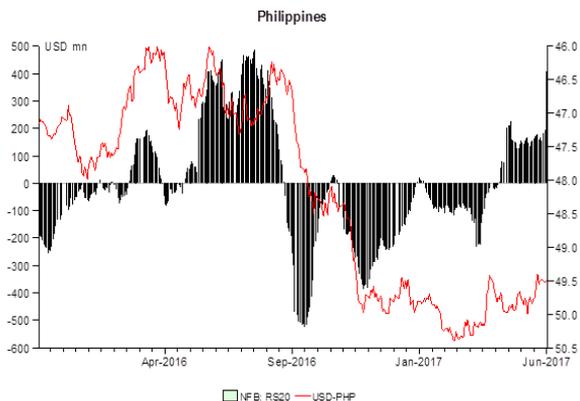
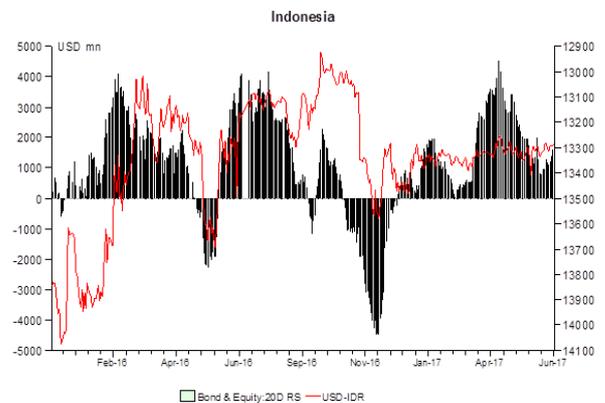
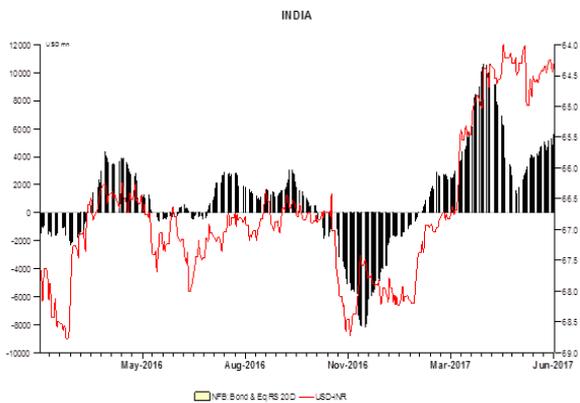
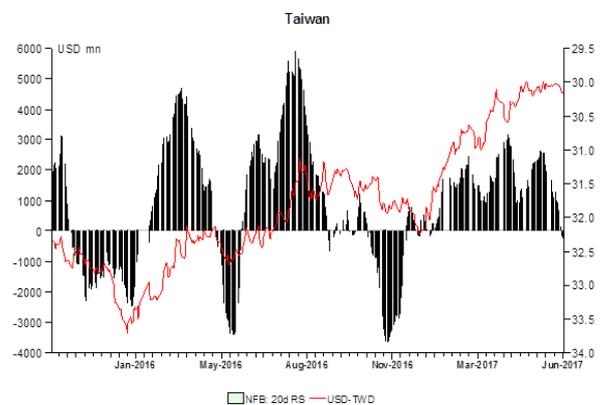
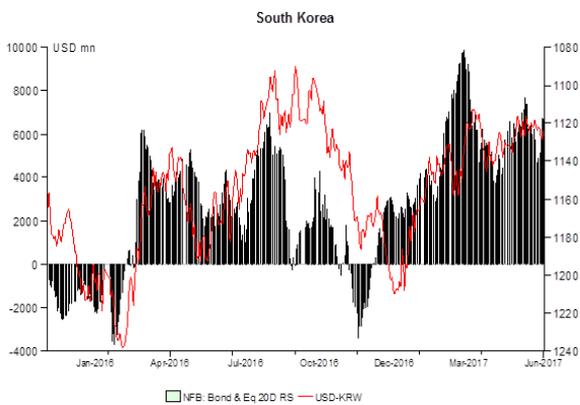
- GBP-USD** Headlines out of the initial Brexit meeting today in Brussels and from an EU summit on Thursday and Friday may dictate the pounds trajectory this week. Elsewhere, a coalition between the Conservatives and the DUP has yet to be sealed. Although short term implied valuations remain steady on a multi-session horizon, note that net leveraged CFTC GBP shorts picked up in the latest week, likely ensuring that the GBP-USD continues to hug the lower reaches of its implied confidence intervals with the 55-day MA (1.2806) still seen capping.



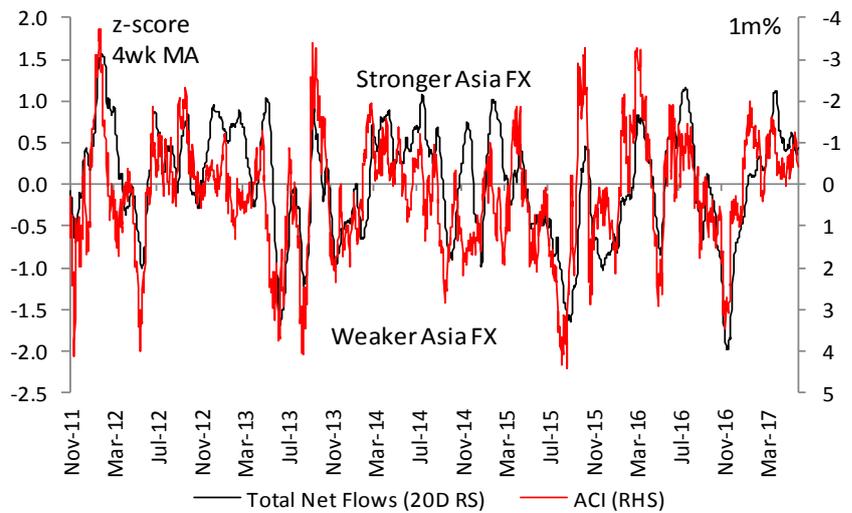
Source: OCBC Bank

- USD-CAD** Short term implied valuations for the USD-CAD are attempting to base out after last week's precipitous fall. Meanwhile, net leveraged CFTC CAD shorts were pared slightly in the latest week but these shorts as a percentage of open interest remain at elevated levels. Overall, despite countervailing influences, near term risk-reward for the pair may remain tilted south if crude stabilizes and the broad USD remains inherently vulnerable. A breach of 1.3200 towards 1.3150 may remain on the cards.

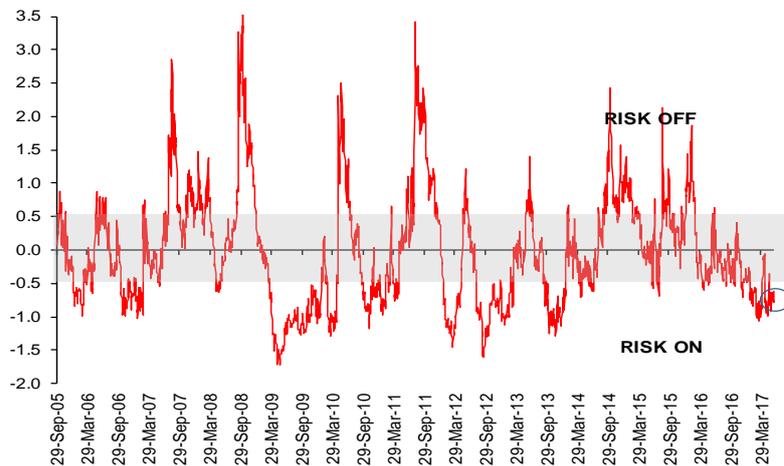
USD-Asia VS. Net Capital Flows



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	1.000	0.573	0.455	-0.363	-0.383	0.245	0.689	0.212	0.133	-0.004	0.515	-0.923
CHF	0.892	0.575	0.624	-0.541	-0.529	0.362	0.729	0.264	0.235	0.054	0.670	-0.857
JPY	0.689	0.774	0.820	-0.674	-0.708	0.680	1.000	0.621	-0.075	0.524	0.679	-0.461
PHP	0.624	0.567	0.744	-0.686	-0.780	0.552	0.786	0.570	0.139	0.405	0.627	-0.443
SGD	0.593	0.804	0.654	-0.649	-0.678	0.631	0.787	0.544	0.233	0.505	0.587	-0.436
USGG10	0.573	1.000	0.820	-0.738	-0.665	0.829	0.774	0.784	0.100	0.592	0.696	-0.367
CNH	0.515	0.696	0.901	-0.776	-0.699	0.688	0.679	0.596	0.333	0.334	1.000	-0.397
INR	0.459	0.642	0.820	-0.752	-0.847	0.717	0.748	0.769	0.159	0.541	0.709	-0.271
CNY	0.455	0.820	1.000	-0.908	-0.843	0.898	0.820	0.867	0.164	0.645	0.901	-0.215
CCN12M	0.368	0.477	0.793	-0.669	-0.635	0.515	0.531	0.452	0.441	0.111	0.907	-0.314
TWD	0.316	-0.307	-0.125	0.149	-0.021	-0.441	-0.024	-0.413	0.291	-0.628	0.124	-0.497
THB	0.273	0.753	0.911	-0.870	-0.826	0.898	0.671	0.857	0.250	0.692	0.776	-0.043
MYR	0.214	0.577	0.805	-0.881	-0.887	0.805	0.642	0.737	0.491	0.634	0.662	-0.048
IDR	0.144	0.423	0.523	-0.689	-0.669	0.592	0.430	0.555	0.291	0.701	0.312	-0.024
KRW	0.128	-0.269	-0.165	0.109	-0.045	-0.319	-0.222	-0.288	0.345	-0.456	0.075	-0.276
AUD	-0.109	-0.539	-0.398	0.423	0.425	-0.668	-0.456	-0.730	0.256	-0.784	-0.036	-0.147
CAD	-0.119	0.438	0.361	-0.447	-0.316	0.639	0.256	0.632	-0.140	0.861	0.074	0.322
GBP	-0.238	0.361	0.608	-0.616	-0.528	0.680	0.361	0.659	-0.050	0.796	0.388	0.382
NZD	-0.314	-0.794	-0.874	0.884	0.847	-0.936	-0.734	-0.911	-0.146	-0.841	-0.602	0.062
EUR	-0.923	-0.367	-0.215	0.181	0.206	0.024	-0.461	0.081	-0.277	0.266	-0.397	1.000

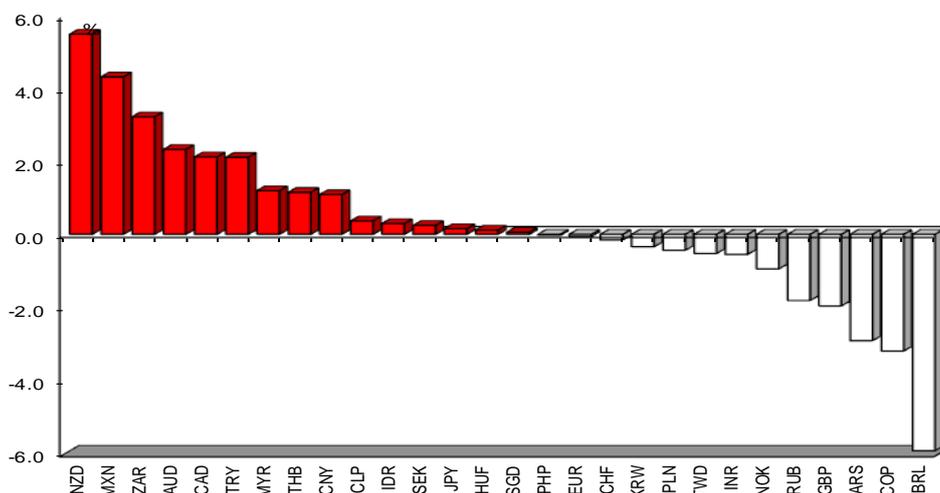
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1143	1.1195	1.1200	1.1278
GBP-USD	1.2666	1.2700	1.2769	1.2800	1.2838
AUD-USD	0.7524	0.7600	0.7625	0.7633	0.7636
NZD-USD	0.7090	0.7200	0.7279	0.7300	0.7309
USD-CAD	1.3194	1.3200	1.3226	1.3300	1.3335
USD-JPY	110.70	111.00	111.03	112.00	112.06
USD-SGD	1.3758	1.3800	1.3827	1.3892	1.3900
EUR-SGD	1.5400	1.5402	1.5480	1.5500	1.5591
JPY-SGD	1.2373	1.2400	1.2454	1.2500	1.2535
GBP-SGD	1.7600	1.7616	1.7656	1.7700	1.7859
AUD-SGD	1.0500	1.0541	1.0544	1.0555	1.0557
Gold	1243.86	1244.72	1254.00	1260.82	1290.69
Silver	16.30	16.50	16.60	17.23	17.59
Crude	44.22	44.50	44.52	44.60	49.02

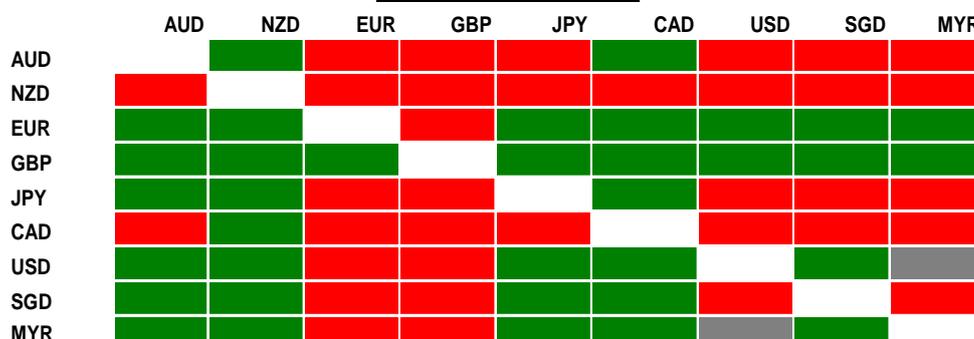
Source: OCBC Bank

FX performance: 1-month change agst USD



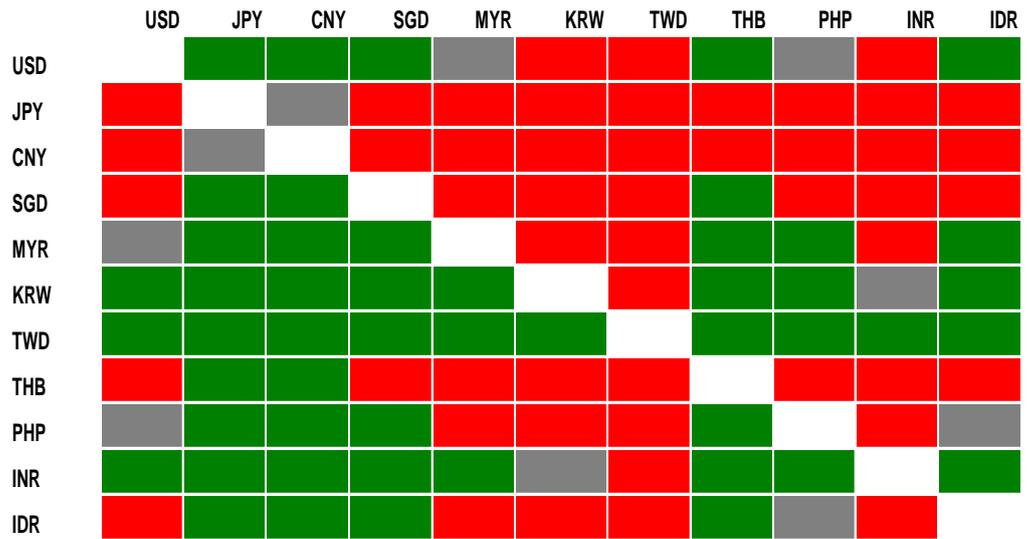
Source: Bloomberg

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	1.3045 1.3380	USD skepticism, sanguine risk appetite, supported crude		
2	01-Jun-17	S	USD-JPY	111.00	108.60 112.25	Weak broad dollar disposition		
3	08-Jun-17	B	AUD-USD	0.7550	0.7695 0.7475	Supportive Aussie GDP and China trade numbers, steady risk		
4	12-Jun-17	S	GBP-USD	1.2760	1.2455 1.2915	UK politics uncertainty/limbo		
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, positioning 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	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14
2	18-Apr-17	29-May-17	B	GBP-USD	1.2585	1.2832	Snap UK elections, soft dollar, -ve EUR risk	+1.79
3	17-May-17	14-Jun-17	B	EUR-USD	1.1120	1.1209	Disappointing US data feed, reversal of political risk premiums	+0.63
4	24-May-17	15-Jun-17	S	USD-SGD	1.3899	1.3828	Supportive Asian portfolio inflow environment, soggy USD	+0.49
* realized **of notional							Jan-May 2017 Return -17.04	2016 Return +6.91

Source: OCBC Bank

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