

Wednesday, June 21, 2017

FX Themes/Strategy/Trading Ideas

- Although comments from the Fed's Kaplan, Evans, and Rosengren were essentially balanced, the USD retained an upper hand on lingering FOMC positivity while wavering risk appetite levels and scattered comments indicating intentions for tax reform by end-2017 also lent the greenback a hand.
- The UST curve was softer on a safety bid given slumping crude (at the gates of 43.00), metals, and negative EZ/US equities, with the AUD and the CAD also pressured lower by the USD.
- Not surprisingly, USD-JPY settled below 111.50 with the JPY outperforming across G10 space. Notably, the pound was battered following dovish remarks from the BOE's Carney (Fin Min Hammond was also suitably cautious) dragged the GBP-USD to a 1.2603 low.
- Overall, preference to stay top heavy on the EUR-USD (our **Heat Map** indicates continued broad-based vulnerability for the EUR and GBP) and the USD-JPY on FOMC and risk appetite considerations, with any deterioration in the later expected to inflict further downside pressure on the likes of the AUD.
- No Fed/ECB-speak is scheduled for today but potentially expect some sensitivity to US May existing home sales prints. Meanwhile, the RBNZ (2100 GMT) is expected to stand pat at 1.75%.

Asian FX

- EM FX also retreated overnight amidst the pullback in risk appetite levels (note wider EM risk premiums). Despite the MSCI inclusion of China 'A' shares overnight, sentiment in the region is expected to be fragile with Asian equities off to a rocky start. The Asian net portfolio environment meanwhile continues to denote intrinsic support for the KRW, THB, PHP, moderating positive momentum for INR, IDR, and continued vulnerability for the TWD.
- In sum, USD-Asia may remain oriented to the upside at this juncture with the **ACI (Asian Currency Index)** expected to climb for the 5th consecutive session despite its structural model still inherently heavy (denoting Asian resilience) on a multi-week horizon. Our **Heat Map** also indicates fragility for the KRW, TWD, and the MYR relative to their peers.
- On the risk appetite front, note that the **FXSI (FX Sentiment Index)** jumped

Treasury Research &
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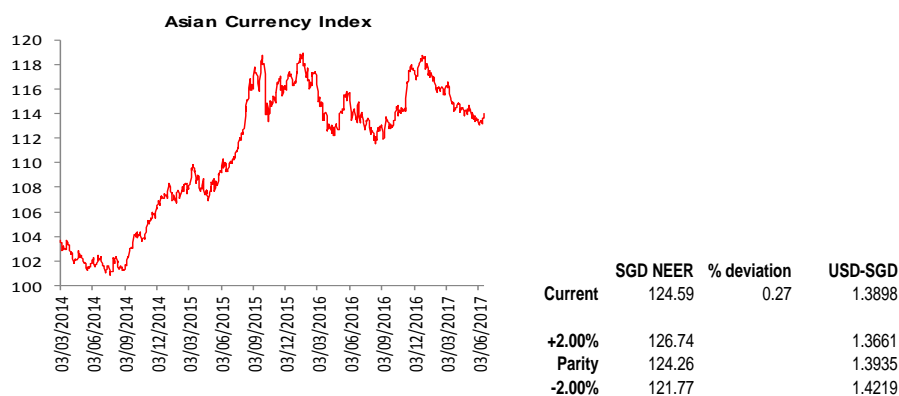
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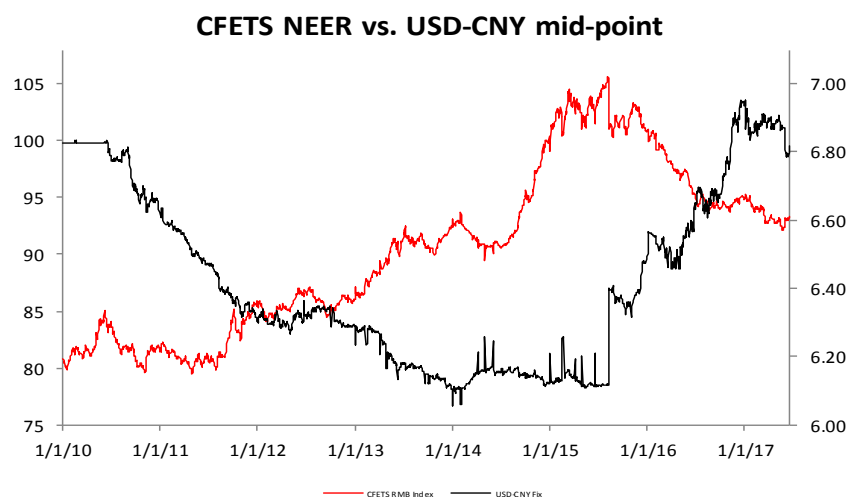
within Risk-On territory on Tuesday but any further deterioration of investor sentiment will likely push the Index back into Risk-Neutral territory.

- SGD NEER:** The SGD NEER is weaker again on the day at around +0.26% above its perceived parity (1.3935) with NEER-implied USD-SGD thresholds firmer after the broad dollar moves overnight. In the current environment, the basket is expected to be bounded by parity and the +0.50% (1.3866) threshold, with an expected inclination to continue to drift towards parity. Technically, the 55-day MA (1.3928) may be increasingly eyed.



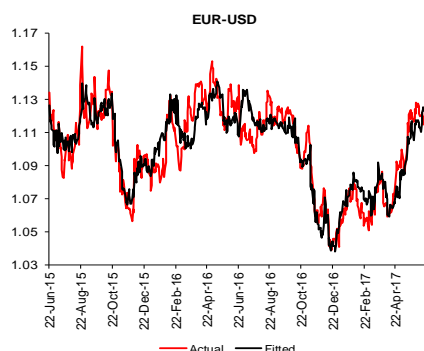
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point firmed (as largely expected) to 6.8193 from 6.8096 yesterday. This resulted in the CFETS RMB Index inching higher to 93.31 from 93.26 on Tuesday.



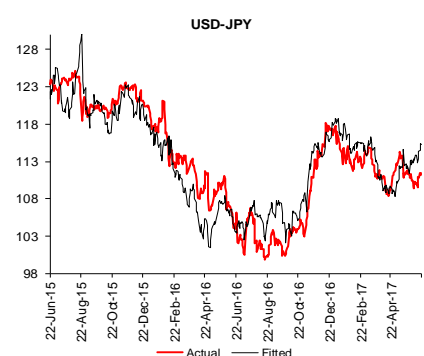
Source: OCBC Bank, Bloomberg

G7



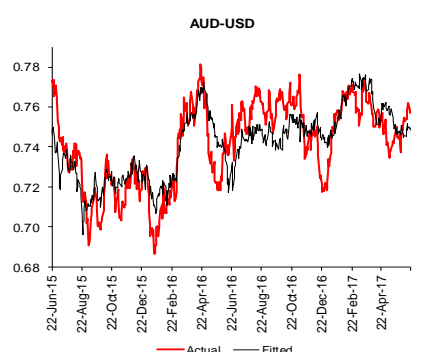
Source: OCBC Bank

- **EUR-USD** Despite the recent compression of EZ-specific risk factors and fairly static short term implied valuations, the EUR-USD may continue to trade south of its short term implied valuations in the current USD environment. With 1.1140 having been breached, risks remain tilted towards 1.1100 and 1.1075.



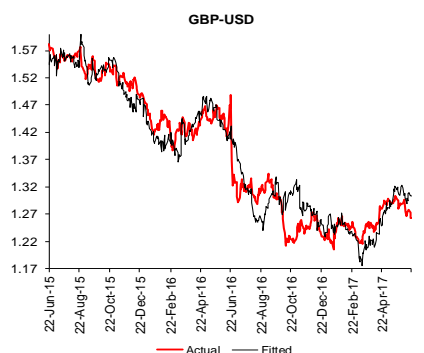
Source: OCBC Bank

- **USD-JPY** With no additional cues from the BOJ MPC minutes this morning, USD-JPY may settle in the vicinity of its 55-day MA (111.05) pending further risk appetite developments. Topside in the interim is expected to be capped towards 112.00. **Nevertheless, if risk aversion proves transient, USD-JPY may potentially be winding up for a test higher, in line with firmer short term implied valuations.**



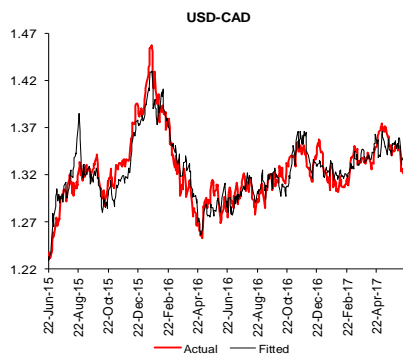
Source: OCBC Bank

- **AUD-USD** A soggy commodity complex may increasingly neutralize the pair's recent upturn, with short term implied valuations also retracing lower slightly. However, the 100-day MA (0.7559) may support barring a further meltdown in investor sentiment while 0.7635 should cap intra-day.



Source: OCBC Bank

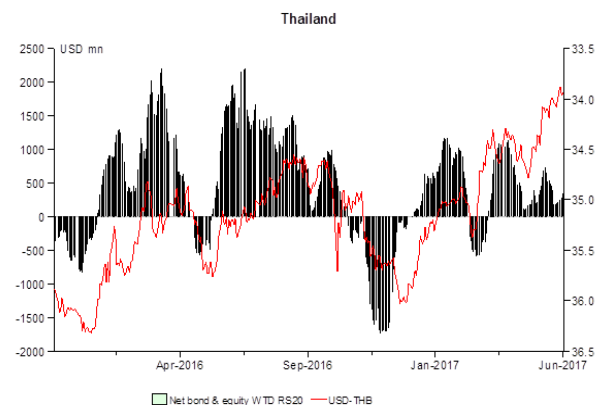
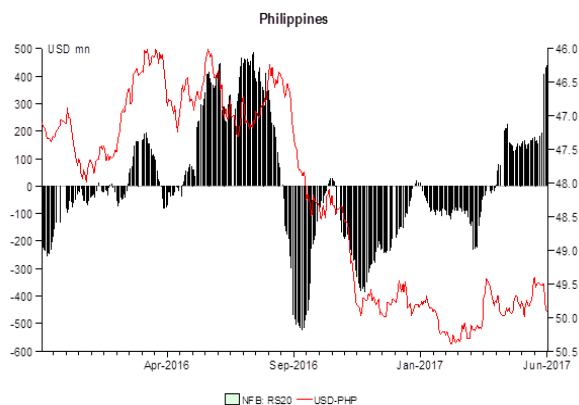
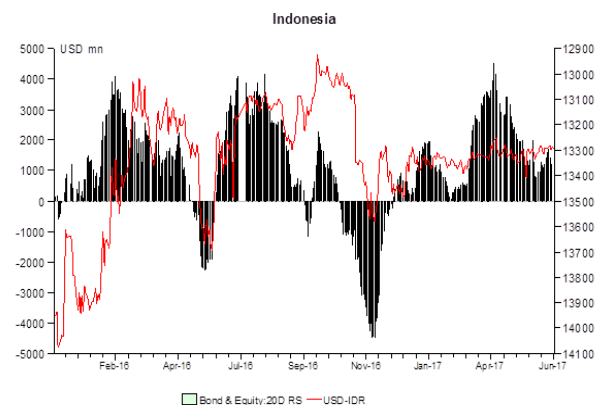
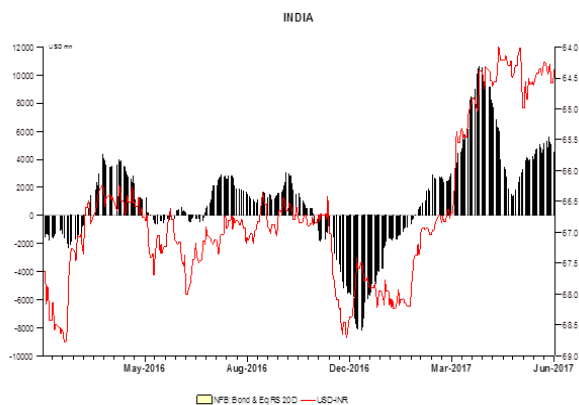
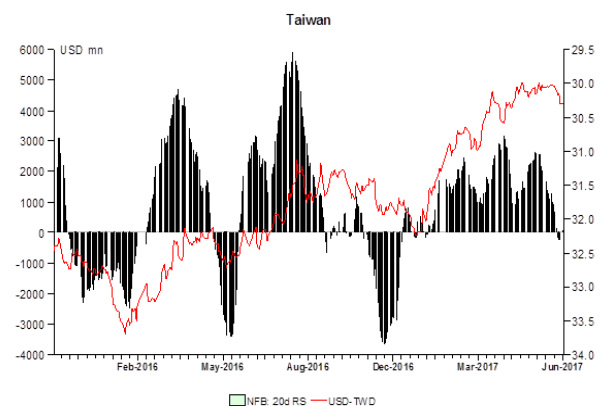
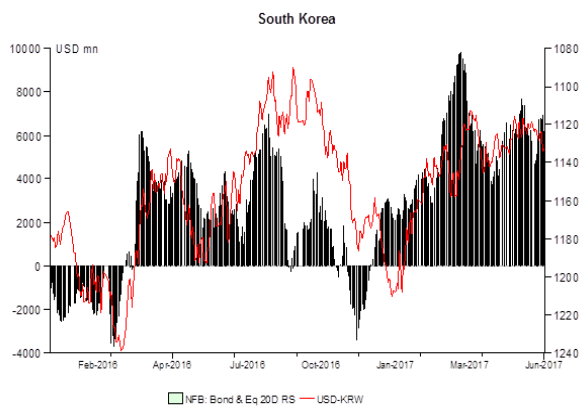
- **GBP-USD** Post-Carney and with the political/Brexit environment still in limbo, expect the GBP-USD to continue to track its softening short term implied valuations in the near term. Risks for a violation of 1.2600 towards the 200-day MA (1.2555) remain live.



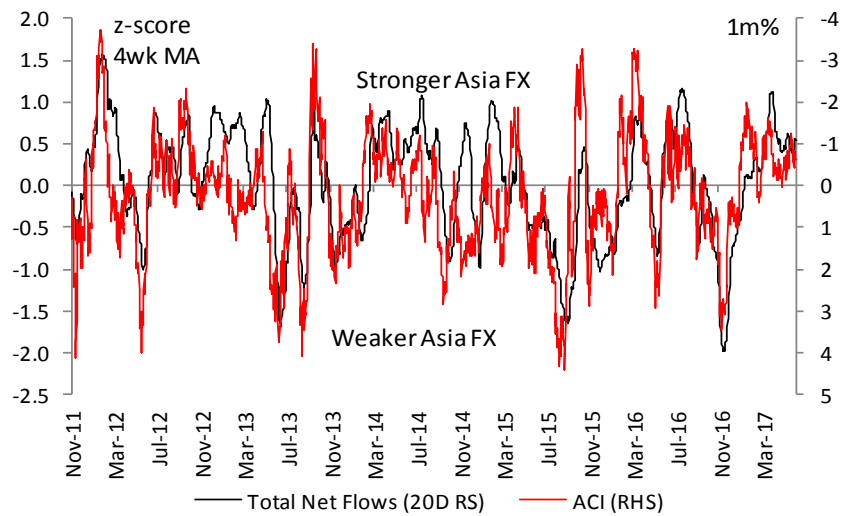
Source: OCBC Bank

- USD-CAD** Firmer than expected May wholesale trade numbers were overshadowed by the slump in crude on Tuesday. With short term implied valuations being bumped higher on the back of flailing crude, the pair may hold off on drilling for now lows in the interim. Look towards range bound (if not top heavy) behavior within 1.3200-1.3300 in the interim.

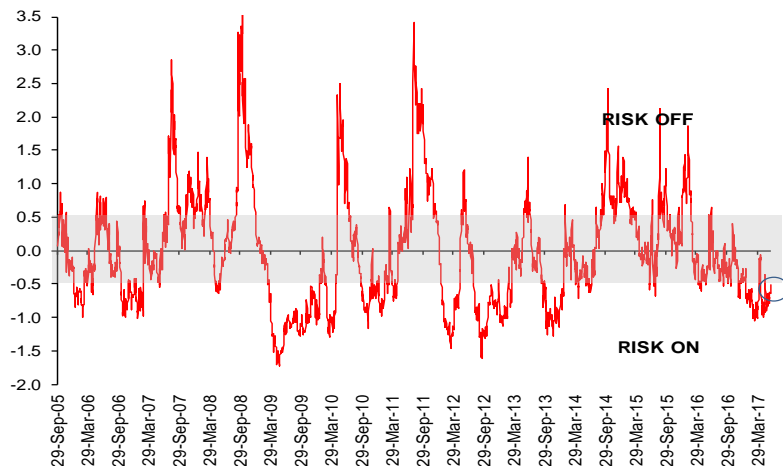
USD-Asia VS. Net Capital Flows



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	1.000	0.320	0.372	-0.053	-0.022	-0.165	0.716	-0.141	0.208	-0.348	0.521	-0.946
CHF	0.878	0.452	0.565	-0.305	-0.291	0.064	0.761	-0.003	0.219	-0.177	0.688	-0.851
PHP	0.741	0.326	0.596	-0.313	-0.333	0.063	0.784	0.122	0.099	-0.071	0.577	-0.598
JPY	0.716	0.636	0.776	-0.447	-0.445	0.352	1.000	0.299	-0.191	0.191	0.681	-0.550
SGD	0.690	0.589	0.572	-0.358	-0.330	0.213	0.800	0.084	0.205	0.091	0.565	-0.609
TWD	0.601	-0.394	-0.145	0.478	0.400	-0.709	0.192	-0.645	0.280	-0.833	0.167	-0.695
CNH	0.521	0.629	0.870	-0.579	-0.466	0.443	0.681	0.380	0.153	0.110	1.000	-0.421
CCN12M	0.468	0.355	0.730	-0.390	-0.300	0.196	0.566	0.108	0.268	-0.175	0.881	-0.453
KRW	0.461	-0.400	-0.204	0.442	0.376	-0.623	0.012	-0.555	0.330	-0.718	0.095	-0.535
INR	0.376	0.604	0.812	-0.713	-0.775	0.592	0.692	0.660	0.032	0.418	0.678	-0.219
CNY	0.372	0.794	1.000	-0.819	-0.709	0.736	0.776	0.741	-0.106	0.477	0.870	-0.166
USGG10	0.320	1.000	0.794	-0.747	-0.690	0.800	0.636	0.767	-0.075	0.581	0.629	-0.172
MYR	0.282	0.560	0.786	-0.674	-0.645	0.585	0.708	0.587	0.073	0.393	0.612	-0.093
AUD	0.141	-0.550	-0.332	0.511	0.535	-0.726	-0.256	-0.758	0.484	-0.818	0.090	-0.382
THB	0.074	0.763	0.858	-0.855	-0.797	0.860	0.508	0.832	-0.052	0.675	0.657	0.164
IDR	-0.067	0.424	0.343	-0.574	-0.587	0.559	0.216	0.565	-0.207	0.693	0.076	0.167
NZD	-0.074	-0.829	-0.799	0.847	0.820	-0.924	-0.551	-0.922	0.301	-0.839	-0.438	-0.205
CAD	-0.359	0.454	0.278	-0.538	-0.438	0.711	0.036	0.684	-0.366	0.887	-0.076	0.545
GBP	-0.492	0.399	0.451	-0.581	-0.551	0.728	0.050	0.737	-0.460	0.830	0.134	0.643
EUR	-0.946	-0.172	-0.166	-0.106	-0.116	0.348	-0.550	0.419	-0.341	0.519	-0.421	1.000

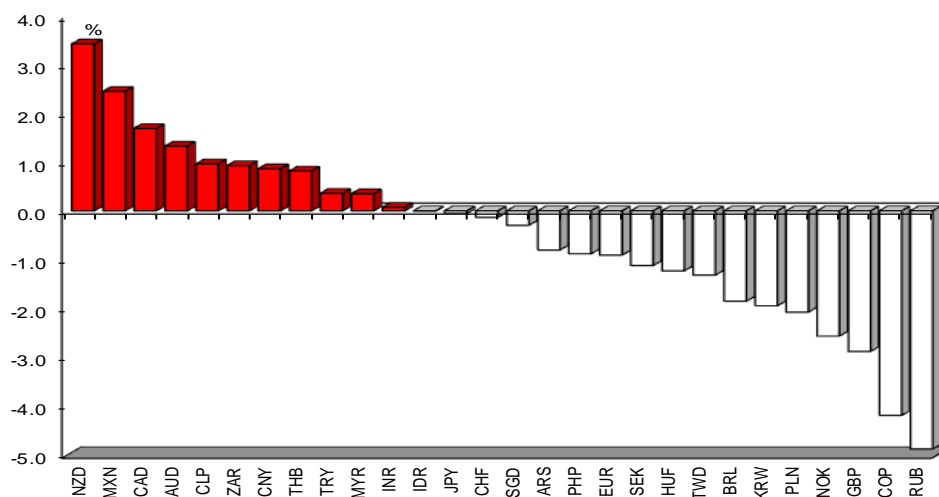
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1117	1.1135	1.1200	1.1286
GBP-USD	1.2604	1.2605	1.2625	1.2700	1.2842
AUD-USD	0.7500	0.7525	0.7577	0.7600	0.7636
NZD-USD	0.7090	0.7200	0.7233	0.7300	0.7308
USD-CAD	1.3165	1.3200	1.3279	1.3300	1.3336
USD-JPY	111.00	111.09	111.37	112.00	112.05
USD-SGD	1.3756	1.3800	1.3893	1.3900	1.3901
EUR-SGD	1.5395	1.5400	1.5469	1.5500	1.5581
JPY-SGD	1.2381	1.2400	1.2475	1.2500	1.2522
GBP-SGD	1.7486	1.7500	1.7539	1.7600	1.7611
AUD-SGD	1.0411	1.0500	1.0526	1.0560	1.0574
Gold	1236.73	1243.54	1244.10	1260.16	1293.70
Silver	16.33	16.40	16.46	16.50	17.16
Crude	43.03	43.50	43.52	43.60	48.89

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

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 politycncy 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, positoning 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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