

Monday, May 22, 2017

**FX Themes/Strategy/Trading Ideas – The week ahead**

- Despite firmer UST yields and supportive comments from the Fed's Williams, the USD fell across G10 space again on Friday on US political worries while the JPY also underperformed across the board on improving global sentiment/equities (note EM FX also strode higher in sympathy on Friday).
- On the **CFTC** front, large non-commercial/leveraged accounts deepened their net implied long dollar bias in aggregate in the latest week while asset manager accounts showed an increase in net implied short dollar bias.
- While **FOMC minutes** are due on Wednesday, **Fed-speak** this week beginning with Harker (1400 GMT), Kashkari (1430 GMT), Brainard (2300 GMT) today may potentially rock the boat. On the other end of the equation, look also towards the **ECB's** Coeure on Tuesday, Praet and **Draghi** on Wednesday, and Constancio on Thursday.
- Meanwhile, the fairly busy data calendar meanwhile includes global May flash PMIs on Tuesday and German May Ifo also on Tuesday. In Asia, The Bank of Thailand is expected to stand pat at 1.50% on Wednesday, with the Bank of Korea is also expected to remain static at 1.25% on Thursday.
- Overall, US political worries may continue to keep the USD on the back foot at the onset of the week. Elsewhere, the EUR may remain particularly sensitive, given currently in-built optimism towards the ECB. With crude (WTI) re-taking the 50.00 handle on Friday, the global reflation trade may also attempt to find a second wind in the near term, underpinning the cyclicals and EM/Asia FX, and unfortunately weighing on the greenback further.

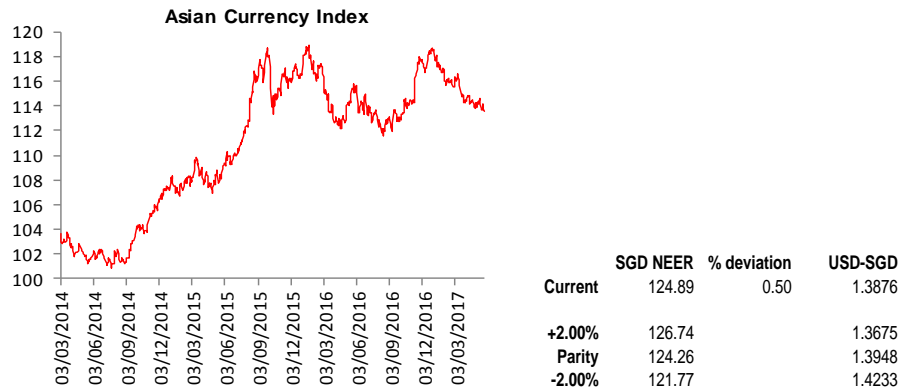
**Asian FX**

- **EPFR** data meanwhile show a significant implied increase in equity inflows into Asia (ex-Japan, China) while net implied bond inflows sustained its previous week's momentum. Overall, this may lend structural support to Asian FX (weekend North Korean missile launch notwithstanding), especially if the broad dollar continues to waver. Incidentally, The Indonesia rating upgrade by S&P should also give positive sentiment towards Asian FX another shot in the arm. On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped lower back into Risk-On territory from Risk-Neutral Territory on Friday, and this should also aid the **ACI (Asian Currency Index)** lower for a second consecutive session today.

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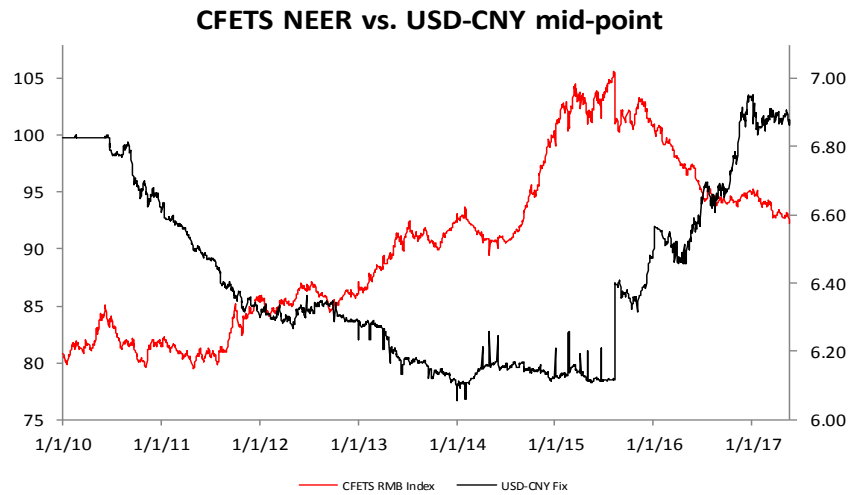
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- SGD NEER:** The USD-SGD finally broke below 1.3900 convincingly on Friday on the back of renewed broad USD weakness. The SGD NEER is therefore significantly stronger on the day at around +0.61% above its perceived parity (1.3948). NEER-implied USD-SGD thresholds are softer on the day and expect an initial cap on the NEER at around +0.80% (1.3838). Despite a heavy broad dollar, realized volatility considerations (for both the NEER and USD-SGD) meanwhile also argue for caution towards an unduly accelerated down move in USD-SGD.



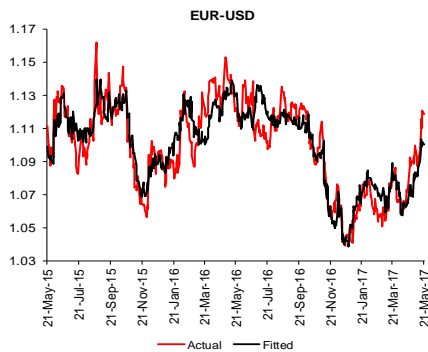
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell to 6.8673 from 6.8786 on Friday, although this still left the CFETS RMB Index softer (but largely within historical parameters) on the day at 92.29 from 92.49.



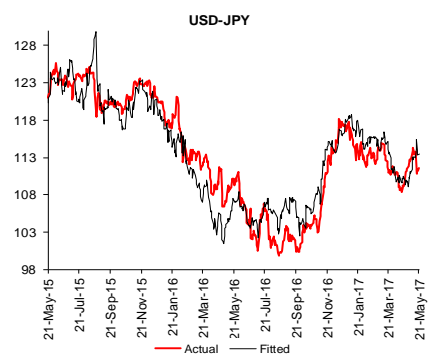
Source: OCBC Bank, Bloomberg

**G7**



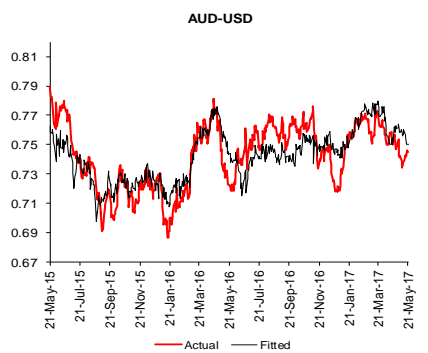
Source: OCBC Bank

- EUR-USD** On the EUR front, note potential background support following fairly neutral comments (as opposed to dovish) from ECB council member and Bundesbank President Weidmann. Short term implied valuations remain underpinned while leveraged CFTC accounts also reduced their net short EUR positions in the latest week. In the interim, markets may continue to contemplate a sustained break above 1.1200 towards 1.1265.



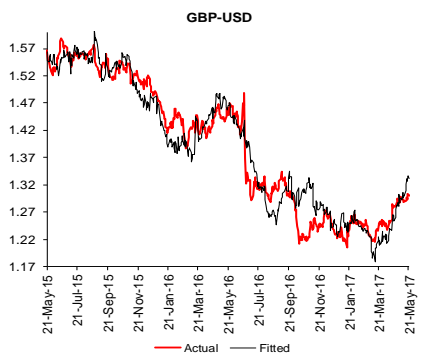
Source: OCBC Bank

- USD-JPY** Dollar prospects this week may also hinge slightly on the Trump's budget proposal scheduled to be released on Tuesday while the Treasury Secretary testifies before the House on the budget on Wednesday. Leveraged CFTC positioning moved significantly into short JPY in the latest week while short term implied valuations are still looking supported. However, given USD skepticism, the pair may continue to mull its Fibo retracement level at 111.25 with risks towards .110.50.



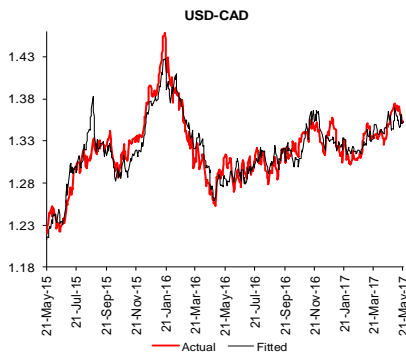
Source: OCBC Bank

- AUD-USD** Still heavy short term implied valuations run counter to the slight pickup in optimism towards the cyclicals. On the CFTC front, net leveraged AUD longs were also pared significantly in the latest week. While technicals for the pair may be looking supported, a failure to breach 0.7460/80 on a sustained basis may risk an eventual relapse lower.



Source: OCBC Bank

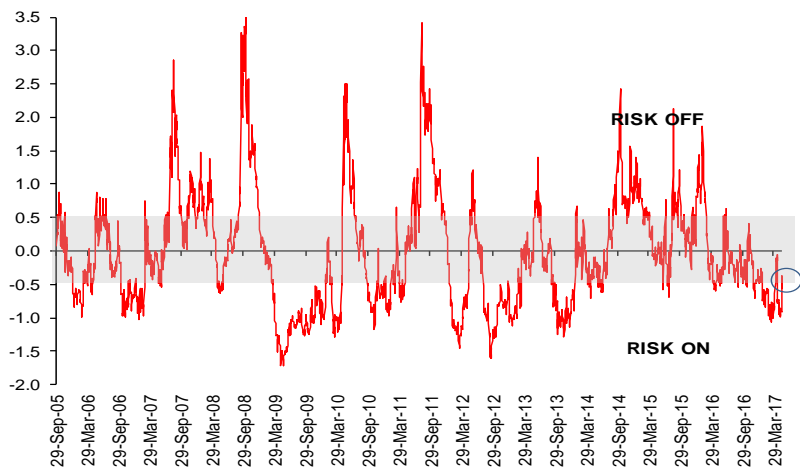
- GBP-USD** Short term implied valuations for the pair remain positioned against the USD while CFTC leveraged accounts continued to pare their net implied GBP shorts in the latest week. As such, investors may continue to entertain prospects for an eventual sustained breach of 1.3000, with an initial resistance towards 1.3060.



Source: OCBC Bank

- USD-CAD** The BOC is expected to keep its benchmark rate unchanged at 0.50% on Wednesday. In the interim, supported crude, better looking risk indicators, overlaid with a soggy USD, may imply a top heavy USD-CAD in sympathy with its short term implied valuations. The tumble in the pair on Friday may also have negated the increase in leveraged CFTC CAD shorts in the latest week. Risk rewards favors there a potential test towards the 55-day MA (1.3481).

### 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	0.736	0.742	0.554	-0.189	-0.616	0.488	-0.565	-0.724	0.198	0.862	-0.970
CHF	0.958	0.786	0.711	0.566	0.010	-0.495	0.588	-0.502	-0.663	0.031	0.855	-0.900
CNH	0.862	0.791	0.915	0.604	-0.087	-0.702	0.607	-0.644	-0.656	-0.022	1.000	-0.799
SGD	0.794	0.899	0.891	0.637	0.177	-0.754	0.794	-0.801	-0.548	-0.360	0.900	-0.656
CNY	0.742	0.779	1.000	0.685	0.090	-0.745	0.742	-0.745	-0.649	-0.267	0.915	-0.619
USGG10	0.736	1.000	0.779	0.816	0.152	-0.703	0.798	-0.703	-0.724	-0.341	0.791	-0.592
CAD	0.655	0.560	0.747	0.439	0.230	-0.652	0.650	-0.787	-0.399	-0.316	0.660	-0.543
KRW	0.578	0.326	0.591	0.231	-0.454	-0.550	0.092	-0.375	-0.485	0.331	0.693	-0.607
THB	0.560	0.629	0.791	0.433	0.363	-0.569	0.739	-0.709	-0.311	-0.446	0.745	-0.407
MYR	0.522	0.392	0.229	0.218	-0.441	-0.185	-0.050	0.032	-0.354	0.550	0.512	-0.586
JPY	0.488	0.798	0.742	0.736	0.634	-0.435	1.000	-0.643	-0.449	-0.746	0.607	-0.289
PHP	0.335	0.200	0.610	0.148	-0.077	-0.492	0.232	-0.460	-0.203	-0.076	0.481	-0.322
TWD	0.170	0.174	0.156	-0.078	-0.098	-0.076	0.060	0.003	-0.005	0.044	0.313	-0.136
IDR	-0.020	0.036	0.301	-0.199	0.247	-0.190	0.303	-0.299	0.252	-0.431	0.235	0.151
CCN12M	-0.112	0.206	0.469	0.080	0.393	-0.285	0.454	-0.394	0.134	-0.636	0.270	0.243
AUD	-0.153	-0.543	-0.604	-0.338	-0.668	0.359	-0.793	0.530	0.025	0.796	-0.413	-0.050
INR	-0.224	-0.184	0.060	-0.317	-0.055	0.032	-0.077	0.023	0.311	-0.076	0.024	0.243
NZD	-0.232	-0.262	-0.449	-0.353	-0.488	0.115	-0.525	0.250	0.200	0.348	-0.330	0.143
GBP	-0.609	-0.158	0.061	-0.036	0.418	0.059	0.107	0.009	0.314	-0.605	-0.219	0.691
EUR	-0.970	-0.592	-0.619	-0.450	0.394	0.535	-0.289	0.431	0.713	-0.436	-0.799	1.000

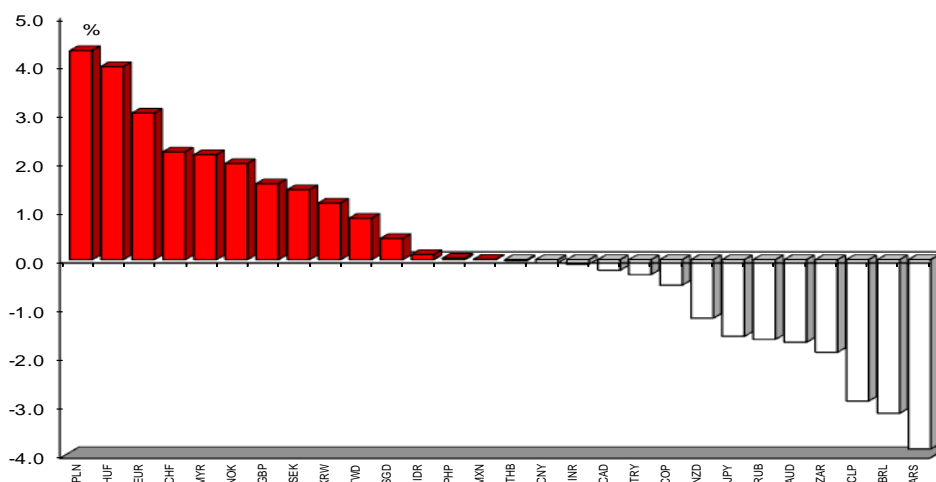
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1150	1.1192	1.1200	1.1212
GBP-USD	1.2828	1.2900	1.2993	1.3000	1.3012
AUD-USD	0.7329	0.7400	0.7440	0.7500	0.7530
NZD-USD	0.6838	0.6900	0.6929	0.6952	0.6956
USD-CAD	1.3500	1.3517	1.3529	1.3600	1.3773
USD-JPY	111.00	111.39	111.50	112.00	114.37
USD-SGD	1.3832	1.3838	1.3867	1.3900	1.3982
EUR-SGD	1.5147	1.5500	1.5519	1.5542	1.5552
JPY-SGD	1.2282	1.2400	1.2436	1.2500	1.2552
GBP-SGD	1.7852	1.8000	1.8017	1.8100	1.8245
AUD-SGD	1.0296	1.0300	1.0317	1.0400	1.0507
Gold	1250.78	1251.38	1254.20	1278.72	1296.90
Silver	16.03	16.70	16.78	16.80	17.41
Crude	49.73	50.60	50.68	50.70	51.13

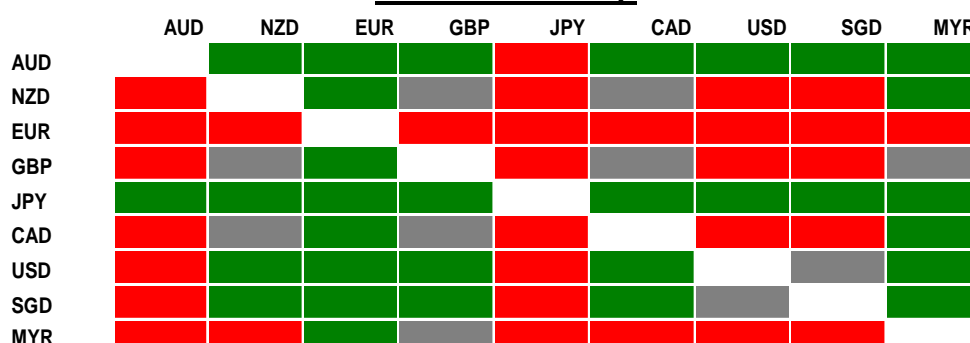
Source: OCBC Bank

**FX performance: 1-month change agst USD**



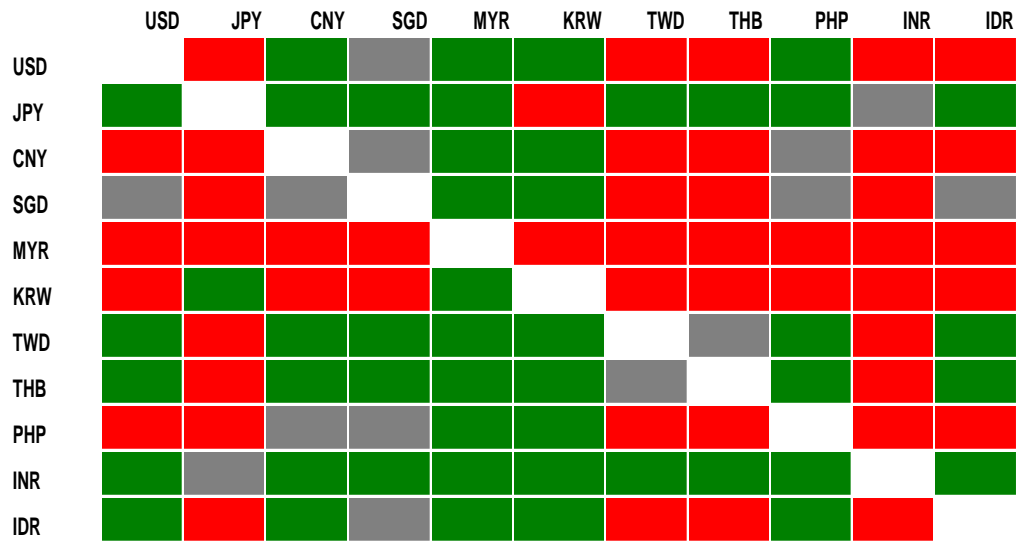
Source: Bloomberg

**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		
<b>TACTICAL</b>								
1	05-Apr-17	S	AUD-USD	0.7580	0.7235 0.7490	Fragile risk appetite, slightly apprehensive RBA		
2	18-Apr-17	B	GBP-USD	1.2585	1.3140 1.2715	Snap UK elections, soft dollar, -ve EUR risk		
3	17-May-17	B	EUR-USD	1.1120	1.1320 1.1015	Disappointing US data feed, reversal of political risk premiums		
<b>STRUCTURAL</b>								
4	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		
5	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
6	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
2	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
3	26-Apr-17	05-May-17	B	USD-CAD	1.3563	1.3670	Potential heightening of trade tensions with the US; soggy crude	+0.80
4	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
5	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
* realized **of notional							Jan-Mar 2017 Return -11.88	
							2016 Return +6.91	

Source: OCBC Bank

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