

Monday, July 24, 2017

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

- With **softer UST yields** weighing, the USD continued to retreat across G10 space on Friday and we note the USD-JPY crashing right through 111.00 early Monday in Asia. USD-CAD also was weighed following the flat to warmer than expected June CPI readings on Friday.
- Elsewhere, the AUD-USD was capped after the RBA's Debelle on Friday attempted to dampen hawkish expectations surrounding the RBA with the ADU also underperforming against its G10 counterparts.
- **Strength in the majors last week may mutate to dollar weakness this week as US political risks stack up.** On this front, following WH press secretary Spicer's resignation, senior presidential advisor Kushner is due to appear before the Senate intelligence committee on Monday, Trump Jr. and former campaign manager Manafort are scheduled before Senate Committees on Wednesday, while the healthcare vote is expected on Tuesday. **Overall, with the DXY attempting to persist below 94.00, downside supports at 93.00, the 200-week MA (92.26) and 92.00 may remain on the radar at this juncture if investors continue to seek closure.**
- On the **CFTC front**, net large non-commercial accounts jacked up their net implied short dollar positioning in the latest week while leveraged accounts continued to slash their long dollar bias in the same period. Meanwhile, asset managers also increase their net implied short dollar bias in the latest week. Note that positioning against the USD continued to accumulate even before the ECB last Thursday.
- **The highlight of the global calendar this week is expected to be centered on the FOMC on Wednesday with little in the way of hawkish surprises expected – leaving the USD on the defensive in the interim.**
- On the data front, global PMIs kick off a busy week on Monday, while notable ones to watch include the German July Ifo on Tuesday and Australian 2Q CPI on Wednesday. Central bank speak includes the BOE's Brazier and the ECB's Smets today, the BOE's Haldane on Tuesday, and the RBA's Lowe on Wednesday.
- With the USD collapsing on itself, our 28 Jun 17 idea to be tactically long **USD-JPY** (spot ref: 112.31) was stopped out on Friday at 111.05 for an implied -1.04% loss.

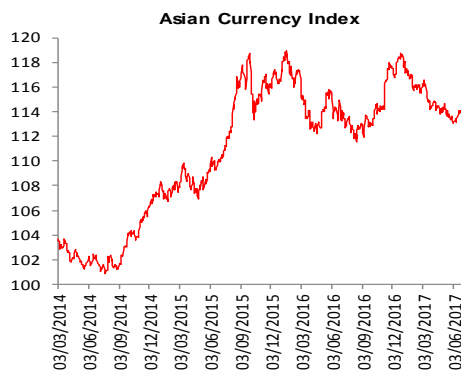
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- Amid waning enthusiasm for GBP resilience (baggage from Brexit talks) and EUR outperformance, our 17 Jul 17 idea to be tactically long **GBP-USD** (spot ref: 1.3077) proved short lived as the stop at 1.2935 was triggered on Thursday for an implied -1.11% loss.

**Asian FX**

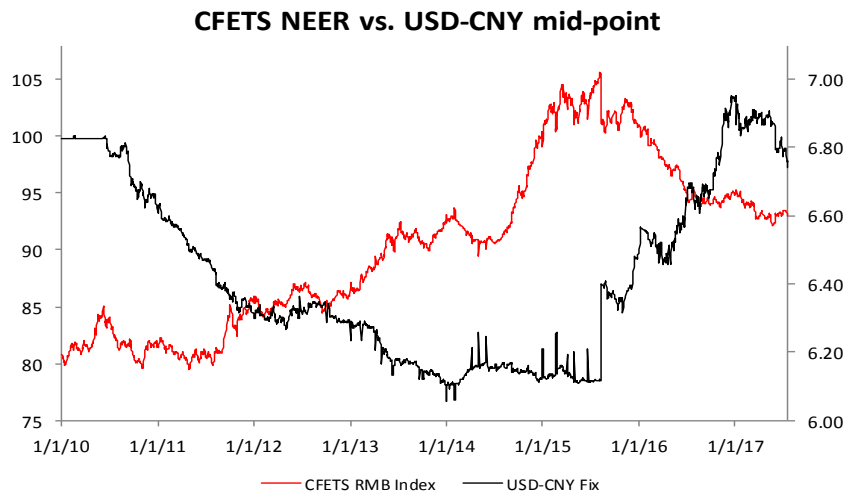
- EM FX ended mixed on Friday but USD-Asia may fade upticks on the upside although downside potential for the regional pairs may be tempered by shaky Asian equities early Monday, and still resistant Asian central banks. Meanwhile, **EPFR** data remain supportive of Asian FX, with the data in the latest week showing an implied increase in portfolio inflows into Asian (ex-Japan, China) equities but a decrease in net implied bond inflows. Overall, expect the **ACI (Asian Currency Index)** to remain top heavy with the **FXSI (FX Sentiment Index)** ticking higher on Friday but remaining very much in Risk-On territory.
- **SGD NEER:** The SGD NEER is firmer on the day this morning in reaction to generalized USD weakness and the basket is hovering at around +0.94% above its perceived parity (1.3751). Note that the NEER clocked intra-day highs just shy of +1.04% on Friday. NEER-implied USD-SGD thresholds are lower on the day and in the near term, the USD-SGD is seen inherently heavy amidst the current dollar environment. Initial downside for the pair is seen towards the +1.00% threshold (1.3615) and +0.90% (1.3629) pending further moves in the constituent currencies.



	SGD NEER	% deviation	USD-SGD
Current	125.43	0.94	1.3623
+2.00%	126.74		1.3481
Parity	124.26		1.3751
-2.00%	121.77		1.4032

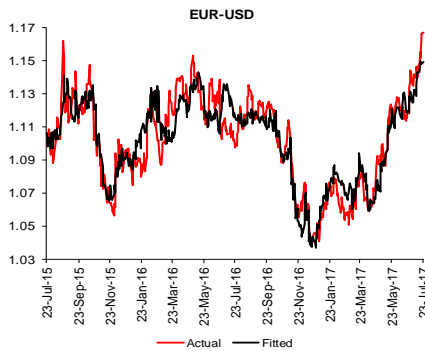
Source: OCBC Bank

- **CFETS RMB Index:** This morning, in reaction to broad-based dollar weakness from Friday, the USD-CNY mid-point inched lower (as largely expected) to 6.7410 from 6.7415 on Friday. This took the CFETS RMB Index lower to 92.71 from 92.91 last Friday.



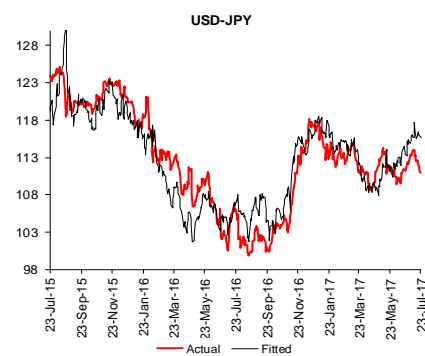
Source: OCBC Bank, Bloomberg

**G7**



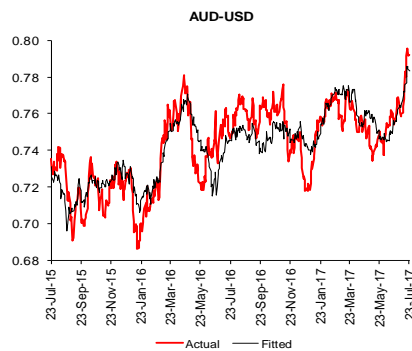
Source: OCBC Bank

- EUR-USD** Apart from the USD-JPY, EUR-USD this week may remain relatively more reactive to any potential USD vulnerability. Pending USD-specific cues in the coming sessions, the EUR-USD remains a touch rich relative to (still firming) short term implied confidence intervals. Preference to collect into dips instead but multi-session waypoints include 1.1714 (24 May 2015), and 1.1798 (200-week MA).



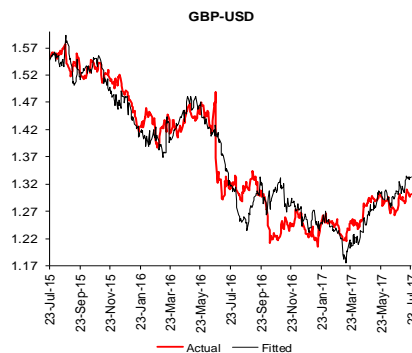
Source: OCBC Bank

- USD-JPY** We stay negative on the USD-JPY in line with weakening short term implied valuations in view of potentially mounting negative USD-specific risks this week. Note that the pair has punctured previously mentioned 200-day (112.00), 55-day (111.87), and 100-day (111.69) Mas and a sustained breach of 111.00 risks further deterioration towards 110.40 as a first stop and ahead of the key 110.00.



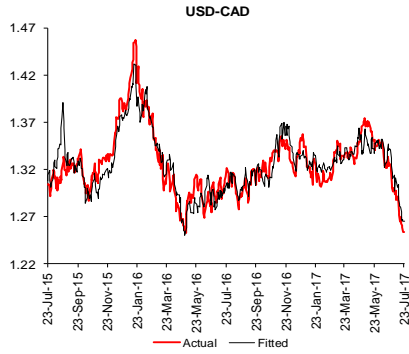
Source: OCBC Bank

- AUD-USD** After the reality check from the RBA's Debelle, expect scope for further consolidation ahead of domestic headline risks this week, and especially if global risk appetite levels are dented further. Slippage towards 0.7850 cannot be discounted if 0.7900 is perforated despite a still constructive set up for the pair.



Source: OCBC Bank

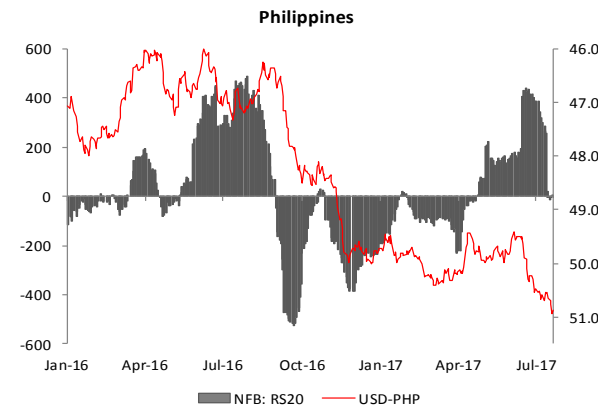
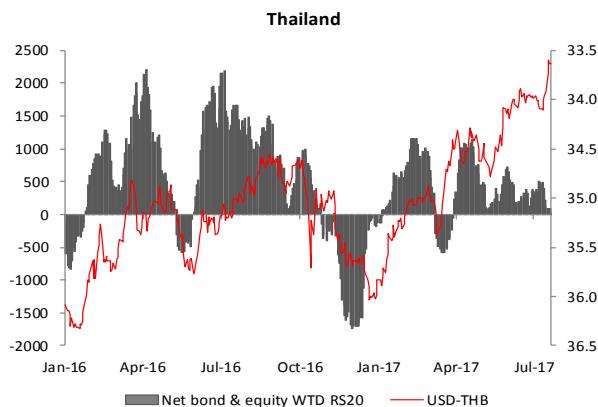
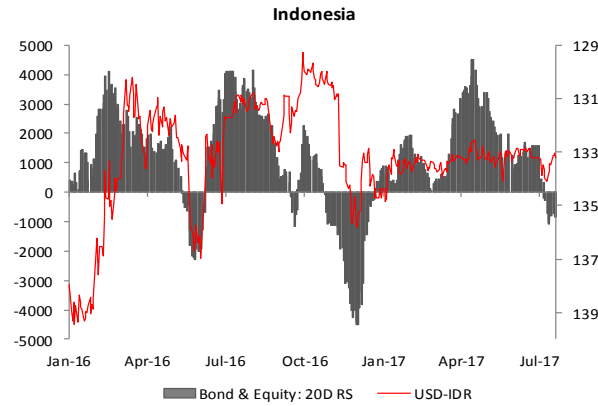
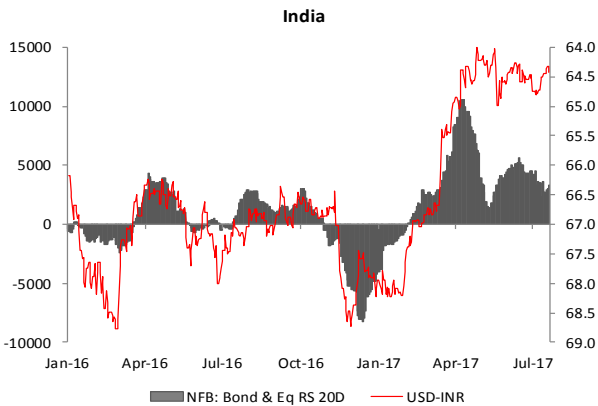
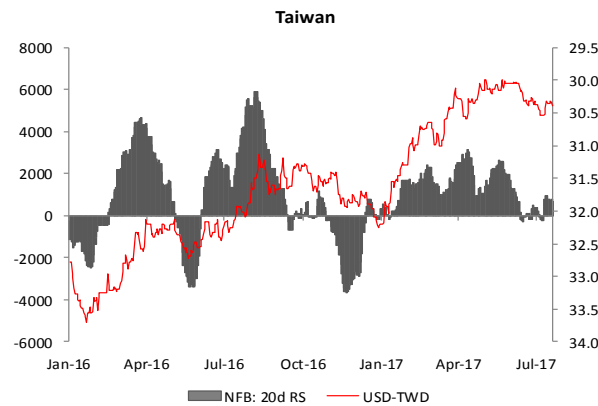
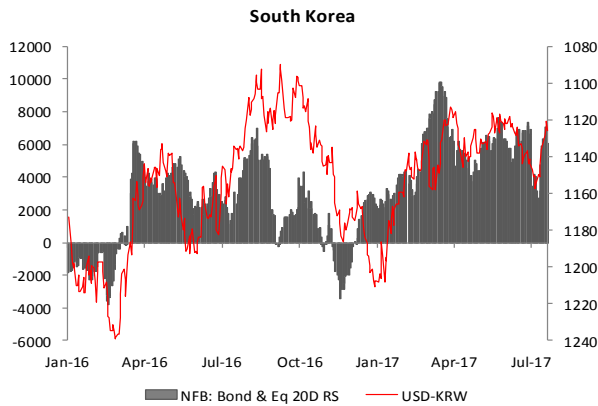
- GBP-USD** Continued GBP under performance should not surprise from a macro viewpoint. In the interim, short term implied valuations remain relatively static pending an appearance by the BOE's Brazier today and Haldane tomorrow and the pair may continue to be tethered to the 1.3000 neighborhood.

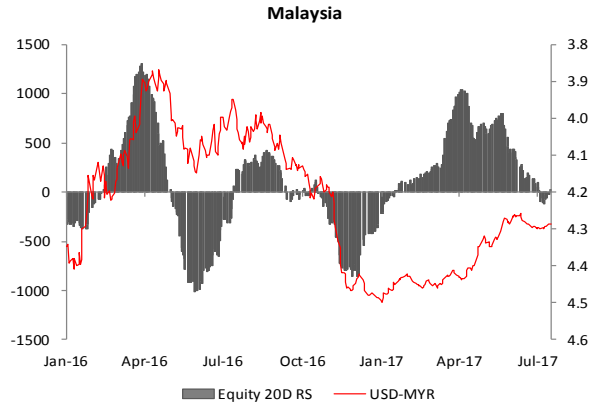


- USD-CAD** USD-CAD may continue to shadow its short term implied valuations lower with USD vulnerability seen overriding in the near term. Expect the key psychological 1.2500 level to offer initial support at this juncture.

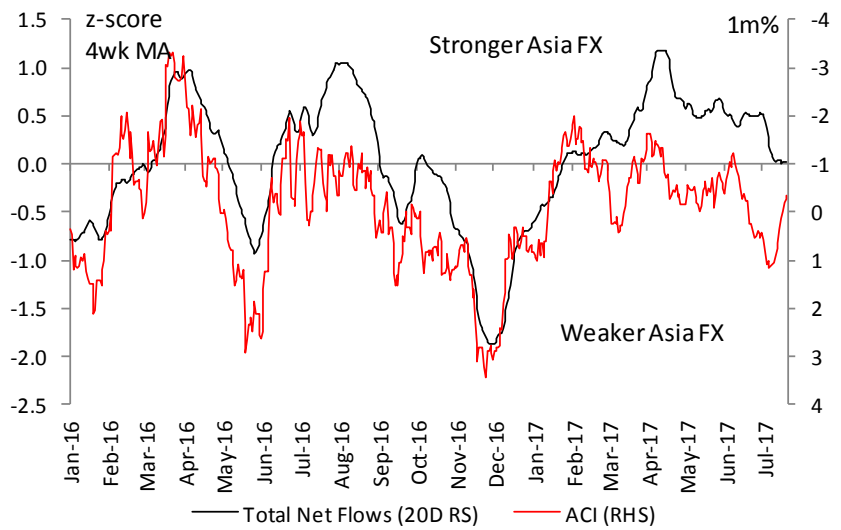
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**

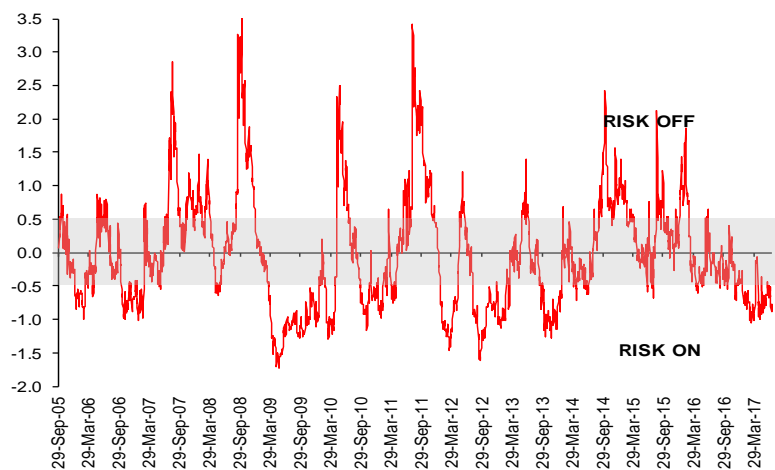




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	0.081	0.913	-0.714	-0.799	-0.826	0.564	-0.624	0.477	0.277	0.931	-0.988
SGD	0.947	0.17	0.93	-0.848	-0.89	-0.833	0.634	-0.674	0.648	0.429	0.936	-0.9
CNH	0.931	-0.063	0.979	-0.704	-0.772	-0.892	0.432	-0.798	0.466	0.234	1	-0.892
CNY	0.913	-0.05	1	-0.721	-0.781	-0.864	0.417	-0.802	0.48	0.312	0.979	-0.861
MYR	0.909	0.715	0.929	-0.835	-0.868	-0.655	0.833	-0.431	0.743	0.74	0.916	-0.845
CAD	0.901	-0.114	0.878	-0.806	-0.803	-0.854	0.353	-0.671	0.597	0.164	0.915	-0.864
CHF	0.87	0.324	0.704	-0.449	-0.556	-0.558	0.716	-0.409	0.22	0.39	0.721	-0.884
THB	0.849	0.438	0.773	-0.856	-0.877	-0.646	0.814	-0.472	0.689	0.696	0.761	-0.8
CCN12M	0.832	0.139	0.859	-0.851	-0.89	-0.788	0.508	-0.608	0.658	0.394	0.837	-0.778
IDR	0.794	0.892	0.92	-0.904	-0.886	-0.833	0.911	-0.727	0.807	0.954	0.924	-0.678
INR	0.762	0.472	0.765	-0.795	-0.816	-0.43	0.581	-0.273	0.81	0.576	0.757	-0.691
KRW	0.739	0.593	0.699	-0.876	-0.913	-0.513	0.834	-0.45	0.812	0.808	0.689	-0.671
JPY	0.564	0.82	0.417	-0.58	-0.627	-0.185	1	-0.202	0.562	0.882	0.432	-0.51
USGG10	0.081	1	-0.05	-0.295	-0.308	0.309	0.82	0.232	0.443	0.858	-0.063	-0.042
TWD	0.048	0.731	0.212	-0.369	-0.442	0.043	0.709	-0.179	0.499	0.796	0.132	0.06
PHP	-0.689	0.021	-0.702	0.676	0.641	0.821	-0.261	0.605	-0.398	-0.278	-0.686	0.684
GBP	-0.708	0.204	-0.824	0.44	0.511	0.745	-0.315	0.755	-0.212	-0.086	-0.844	0.649
NZD	-0.825	-0.405	-0.691	0.782	0.756	0.614	-0.808	0.476	-0.636	-0.615	-0.719	0.782
AUD	-0.901	-0.272	-0.908	0.905	0.936	0.824	-0.667	0.71	-0.715	-0.558	-0.894	0.85
EUR	-0.988	-0.042	-0.861	0.633	0.734	0.8	-0.51	0.575	-0.387	-0.191	-0.892	1

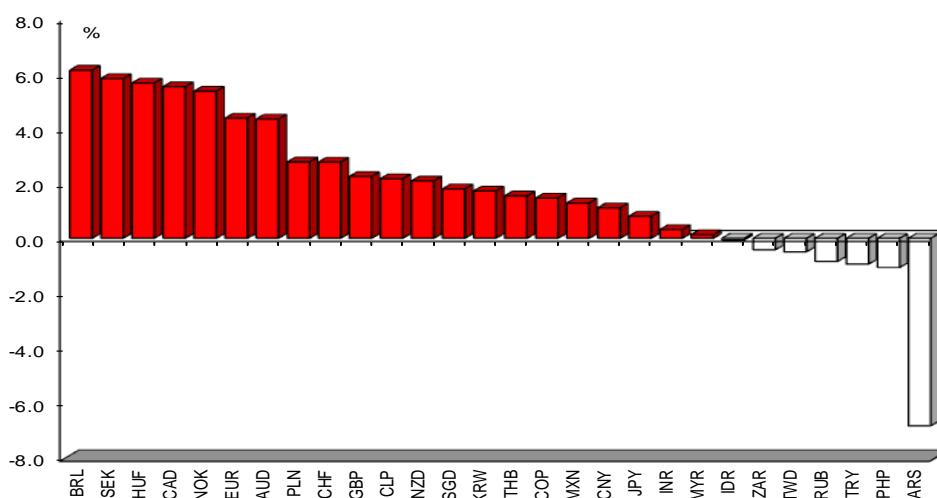
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1600	1.1654	1.1670	1.1684	1.1700
GBP-USD	1.2884	1.3000	1.3008	1.3099	1.3100
AUD-USD	0.7591	0.7900	0.7913	0.7989	0.7992
NZD-USD	0.7400	0.7428	0.7440	0.7464	0.7500
USD-CAD	1.2500	1.2522	1.2549	1.2600	1.3174
USD-JPY	108.83	110.00	110.95	110.97	111.00
USD-SGD	1.3600	1.3614	1.3630	1.3700	1.3809
EUR-SGD	1.5891	1.5900	1.5906	1.5929	1.6000
JPY-SGD	1.2096	1.2200	1.2285	1.2300	1.2328
GBP-SGD	1.7669	1.7700	1.7731	1.7790	1.7800
AUD-SGD	1.0584	1.0700	1.0786	1.0800	1.0881
Gold	1234.47	1249.74	1254.70	1262.99	1279.10
Silver	15.34	16.40	16.41	16.50	16.64
Crude	43.66	45.60	45.67	45.70	46.85

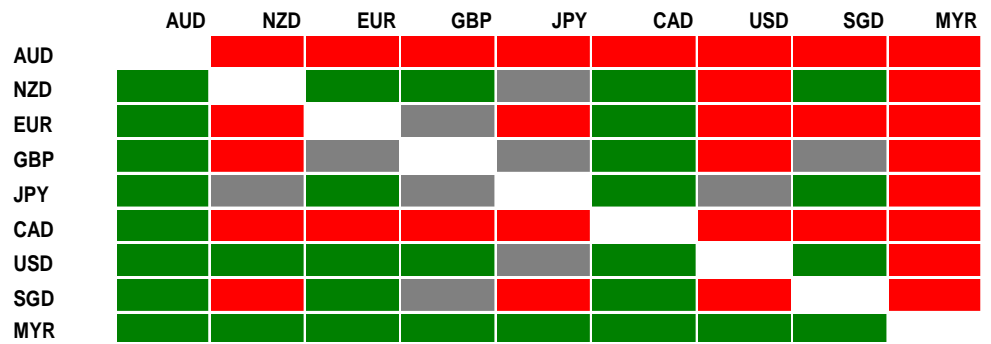
Source: OCBC Bank

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



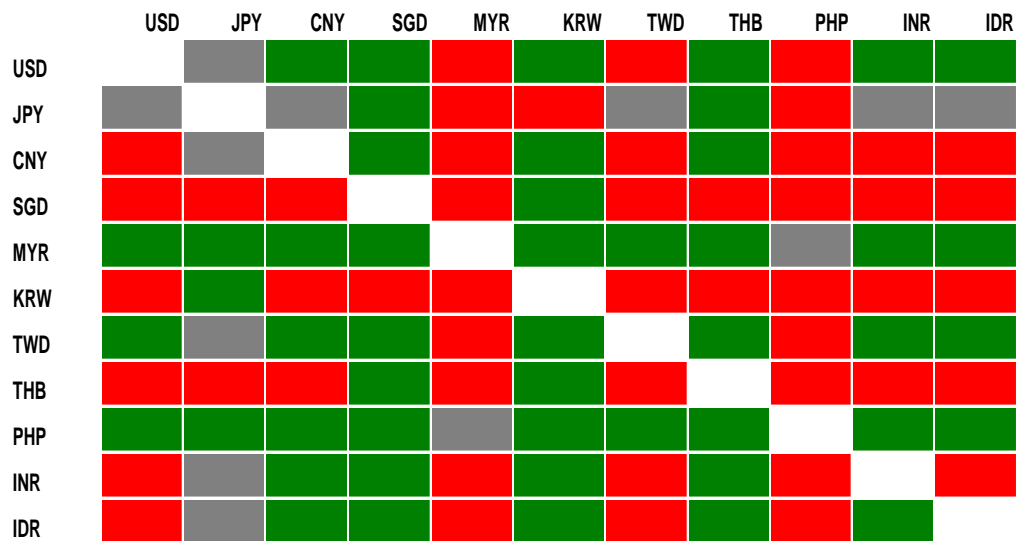
Source: Bloomberg

**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	23-May-17	S	USD-CAD	1.3494	1.2400 1.2720	USD skepticism, sanguine risk appetite, supported crude		
2	04-Jul-17	B	EUR-USD	1.1346	1.1755 1.1445	Draghi's change of stance in late June may further fuel the EUR		
3	13-Jul-17	B	AUD-USD	0.7708	0.8015 0.7780	Vulnerable USD, improving risk appetite, supportive China data		
4	18-Jul-17	S	USD-SGD	1.3671	1.3535 1.3740	Vulnerable USD, implicit inflow for SGD		
<b>STRUCTURAL</b>								
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		
8	12-Jul-17		Bearish 2M 1X1.5 USD-CAD Put Spread Spot ref: 1.2664; Strikes: 1.2653, 1.2415; Exp: 15/09/17; Cost: 0.50%			Hawkish BOC being increasingly priced in		
9	20-Jul-17		Bullish 2M 1X1.5 AUD-USD Call Spread Spot ref: 0.7915; Strikes: 0.7909, 0.8111; Exp: 21/09/17; Cost: 0.65%			More positive than expected RBA minutes, supportive data, weak USD		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	12-Jun-17	28-Jun-17	S	GBP-USD	1.2760	1.2915	UK political uncertainty/limbo	-1.13
2	16-May-17	29-Jun-17	S	AUD-USD	0.7407	0.7670	Global deflation plays to continue to wobble?	-3.46
3	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
4	17-Jul-17	20-Jul-17	B	GBP-USD	1.3077	1.2935	BOE rhetoric and vulnerable USD	-1.11
5	28-Jun-17		B	USD-JPY	112.31	114.80 111.05	Yield differential argument supportive of the USD-JPY	-1.04
* realized **of notional								
							Jan-Jun 2017 Return	-13.02
							2016 Return	+6.91

Source: OCBC Bank

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