

Thursday, May 25, 2017

FX Themes/Strategy/Trading Ideas

- The USD trailed its peers in the wake of the FOMC minutes and as UST yields softened. As such, the EUR-USD lifted above 1.1200 even despite the ECB's Draghi seeing no reason to deviate from the plan to extend QE until the end of the year. Meanwhile, the BOC remained static (but perhaps sounded slightly more sanguine) as expected although the USD-CAD (watch OPEC headlines today) still responded lower to a weaker greenback. On other fronts, the GBP continued to underperform across the board in the wake of the Manchester bombing.
- While the **FOMC** minutes were generally supportive, dollar bulls were unnerved by the fact that "a few" participants were concerned about the wavering inflation trajectory, with the committee also of the view that awaiting more evidence that the economic weakness was "transitory" before removing further accommodation. On balance sheet reduction (note: as long as rate hikes remain on track), while the process is expected to be initiated this year, the operative word remains gradual, with the intention to increase run-off caps every three months.
- Going ahead, while market-implied odds of a June rate hike remain essentially in the bag (Fed's Harker noted that every meeting is live) but as stated previously, the bar remains very high for renewed outright dollar bullishness. Fed-speak today includes Evans (0125 GMT) and Brainard (1400 GMT) while the ECB's Constancio is due at 1700 GMT.
- Elsewhere, preference to buy into weakness in the **AUD-USD** amidst risk appetite levels still on an even keel (+ve global equities) and fading ripples from China's rating downgrade. On the risk appetite front, note that the **FXSI (FX Sentiment Index)** stretched deeper into Risk-On territory on Wednesday.
- With the net portfolio inflow environment in Asia still supportive and investors still somewhat leery of a 'strong' dollar narrative, we think that the latest blip in **USD-SGD** provides an opportunity to initiate a tactical short on the pair. From a spot ref of 1.3899 on Wednesday, we target 1.3745 and place a stop at 1.3980.

Asian FX

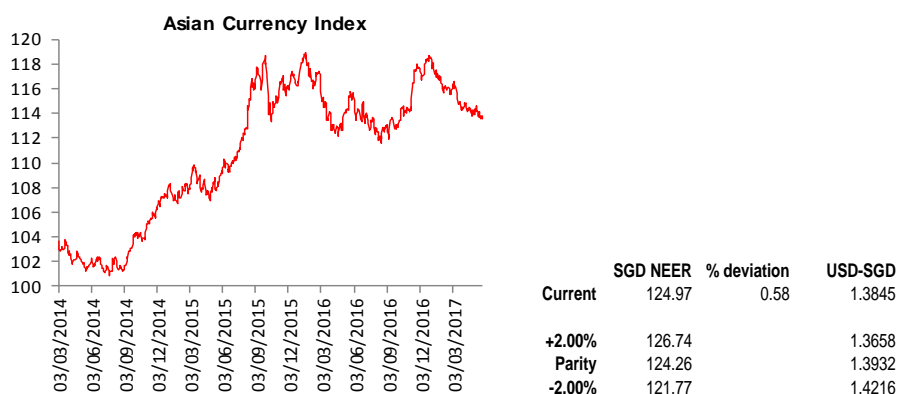
- EM FX in general also floated higher in reaction to a weakened dollar overnight and this should portend a heavier tone for USD-Asia intra-day. Net portfolio inflows meanwhile are supportive of the KRW, TWD, INR, THB, and

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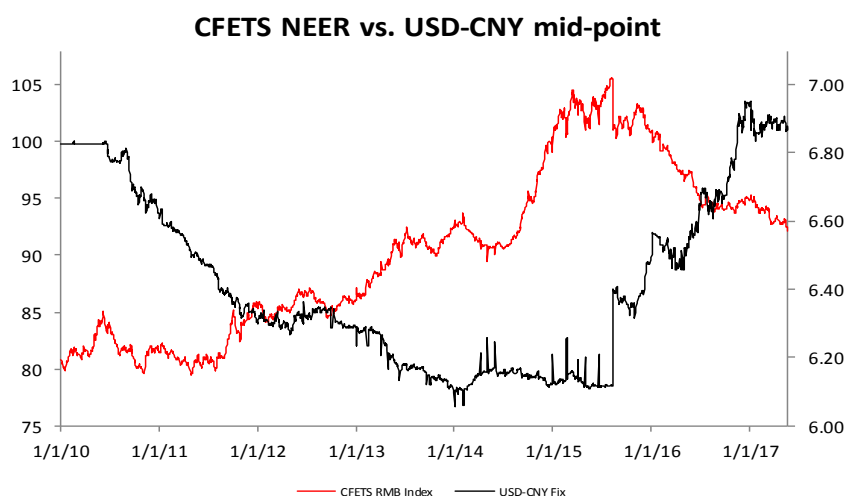
PHP. We continue to detect waning inflow momentum for the IDR, with the Jakarta explosion also likely to put a damper on sentiment. Overall, we look for the **ACI (Asian Currency Index)** to edge lower today once again. Elsewhere in Asia, the **Bank of Korea** is expected to remain static at 1.25% while the **Bank of Thailand** kept its benchmark interest rate unchanged at 1.50% as widely expected.

- SGD NEER:** 1Q 17 GDP numbers disappointed slightly this morning at -1.3% saar qoq (revised higher by less than expected from the flash estimates). Meanwhile, the MAS also noted that its April policy statement remains appropriate. In the meantime, the SGD NEER is firmer on the day at around +0.57% above its perceived parity (1.3932), off early Thursday highs near +0.70%. Inherent greenback weakness may underpin the NEER between +0.50% (1.3863) and +0.70% and +0.80% (1.3822). Realized short term volatility for the NEER and USD-SGD we think are also stretched, potentially slowing any excessive descent of the USD-SGD.



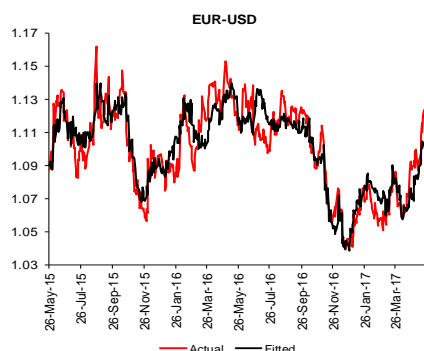
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point fell largely as expected to 6.8695 from 6.8758 yesterday. This saw the CFETS RMB Index easing slightly to 92.12 from 92.16 yesterday.



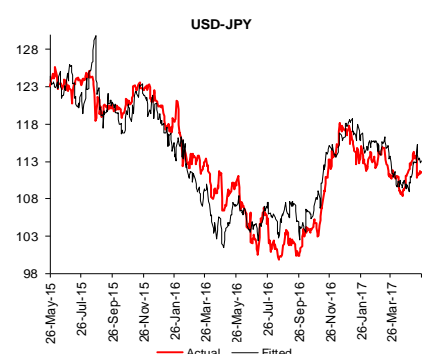
Source: OCBC Bank, Bloomberg

G7



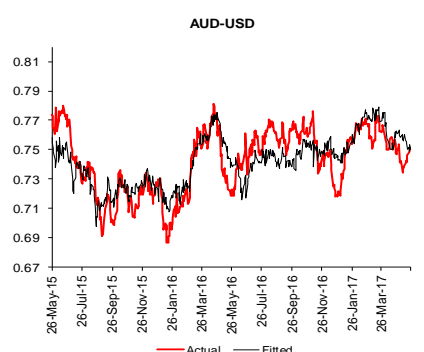
Source: OCBC Bank

- **EUR-USD** Short term implied valuations have been prodded higher in the wake of the FOMC minutes and despite still measured responses from ECB rhetoric. Risk-rewards may favor the upside within 1.1180-1.1300 for today.



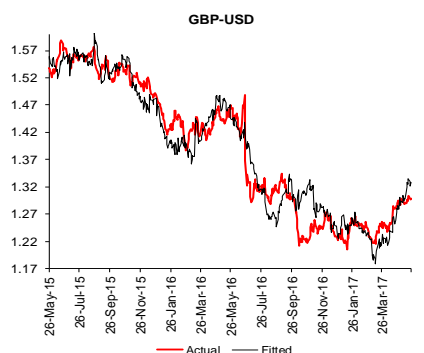
Source: OCBC Bank

- **USD-JPY** USD-JPY may still remain locked in a range, this time bound by a vulnerable greenback although risk appetite remains positive. The BOJ meanwhile remains intent on monetary accommodation but amidst relatively static short term implied valuations, we have a preference to fade excessive upside probes north of the 55-day MA (111.56).



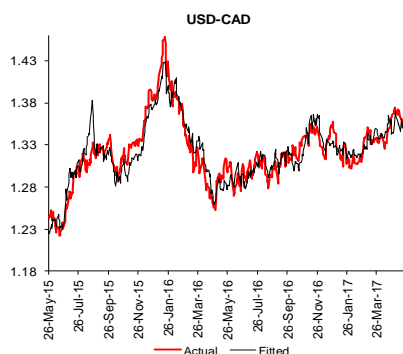
Source: OCBC Bank

- **AUD-USD** As noted above, preference to accumulate on any weakness in the pair today in view of the anemic USD and supportive global risk appetite levels. Meanwhile, we find that short term implied valuations are also attempting to stabilize at this juncture. Expect initial support towards 0.7475, with the 200-day MA (0.7535) likely to attract.



Source: OCBC Bank

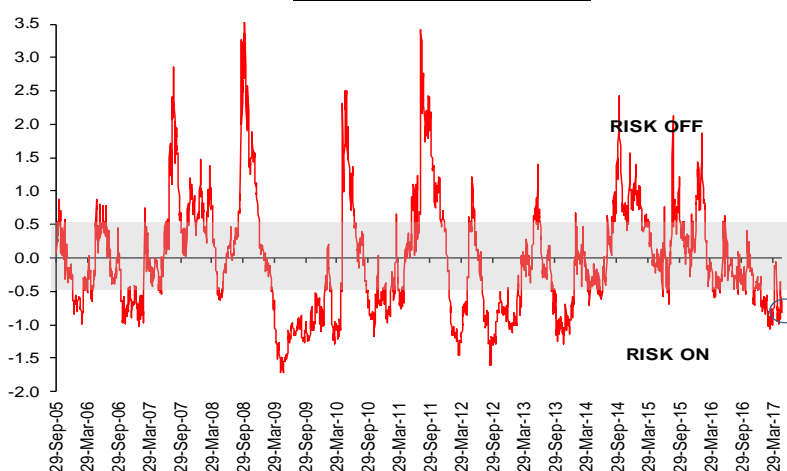
- **GBP-USD** After retracing back above 1.2950 on Wednesday, GBP-USD may continue to mull recent ranges ahead of the 1Q 17 GDP data later today. Technical price action is looking fatigued at this juncture despite the pair still trawling the bottom end of its short term implied confidence intervals. Meanwhile, campaigning for elections is set to resume on Friday and watch for ongoing opinion poll results for near term directionality. Expect top heavy price action within 1.2935-1.3050 in the interim.



Source: OCBC Bank

- USD-CAD** Expect the pair to remain top heavy ahead of the OPEC headlines later in the global session. In the interim, we stay bearish on the pair, in line with slipping short term implied valuations and any sustained breach of 1.3400 risks further deterioration to the 100-day MA (1.3346).

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	0.791	0.793	0.229	-0.432	-0.766	0.605	-0.744	-0.458	0.369	0.896	-0.984
CHF	0.967	0.838	0.782	0.279	-0.250	-0.669	0.698	-0.679	-0.454	0.219	0.899	-0.932
CNH	0.896	0.827	0.909	0.340	-0.408	-0.767	0.626	-0.710	-0.531	0.250	1.000	-0.873
SGD	0.875	0.901	0.861	0.309	-0.210	-0.825	0.795	-0.848	-0.394	-0.033	0.912	-0.801
CAD	0.855	0.630	0.666	-0.029	-0.390	-0.795	0.531	-0.879	-0.202	0.224	0.714	-0.825
CNY	0.793	0.793	1.000	0.476	-0.251	-0.795	0.741	-0.746	-0.595	0.022	0.909	-0.740
USGG10	0.791	1.000	0.793	0.586	-0.140	-0.745	0.833	-0.738	-0.631	-0.107	0.827	-0.721
MYR	0.782	0.538	0.415	-0.124	-0.614	-0.528	0.210	-0.573	-0.112	0.623	0.657	-0.804
THB	0.760	0.693	0.775	0.129	-0.110	-0.719	0.678	-0.801	-0.233	-0.038	0.789	-0.681
KRW	0.651	0.448	0.683	0.163	-0.552	-0.614	0.256	-0.522	-0.409	0.400	0.745	-0.662
JPY	0.605	0.833	0.741	0.557	0.286	-0.542	1.000	-0.635	-0.463	-0.484	0.626	-0.478
TWD	0.345	0.366	0.387	0.000	-0.005	-0.263	0.371	-0.260	0.013	-0.093	0.483	-0.286
PHP	0.237	0.123	0.543	0.130	-0.196	-0.434	0.156	-0.268	-0.225	0.046	0.343	-0.237
IDR	0.178	0.131	0.378	-0.259	0.056	-0.324	0.355	-0.403	0.267	-0.268	0.321	-0.086
CCN12M	-0.078	0.076	0.311	-0.072	0.157	-0.195	0.253	-0.273	0.134	-0.485	0.183	0.151
AUD	-0.416	-0.596	-0.611	-0.105	-0.303	0.481	-0.767	0.626	-0.004	0.521	-0.502	0.289
INR	-0.527	-0.322	-0.135	0.002	0.312	0.359	-0.156	0.397	0.152	-0.378	-0.229	0.555
GBP	-0.675	-0.443	-0.267	-0.076	0.348	0.310	-0.205	0.257	0.269	-0.534	-0.424	0.712
NZD	-0.732	-0.450	-0.478	0.157	0.307	0.531	-0.398	0.661	0.048	-0.311	-0.546	0.727
EUR	-0.984	-0.721	-0.740	-0.172	0.549	0.723	-0.478	0.676	0.446	-0.518	-0.873	1.000

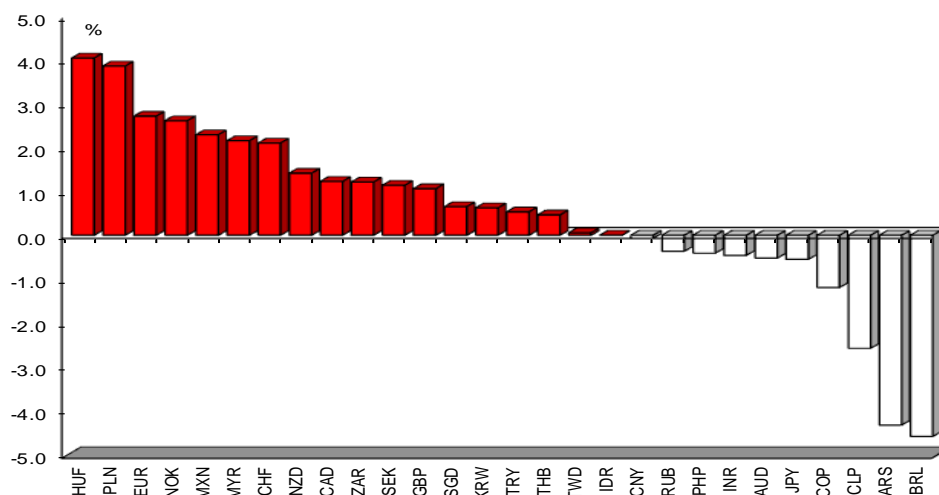
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0844	1.1200	1.1222	1.1268	1.1291
GBP-USD	1.2855	1.2900	1.2976	1.3000	1.3017
AUD-USD	0.7329	0.7400	0.7498	0.7500	0.7521
NZD-USD	0.7000	0.7033	0.7045	0.7059	0.7100
USD-CAD	1.3299	1.3400	1.3407	1.3419	1.3484
USD-JPY	111.00	111.26	111.67	112.00	114.37
USD-SGD	1.3800	1.3838	1.3847	1.3900	1.3971
EUR-SGD	1.5153	1.5500	1.5539	1.5600	1.5622
JPY-SGD	1.2350	1.2370	1.2400	1.2545	1.2556
GBP-SGD	1.7869	1.7900	1.7968	1.8000	1.8237
AUD-SGD	1.0296	1.0300	1.0382	1.0400	1.0483
Gold	1250.08	1253.98	1256.80	1274.76	1296.90
Silver	16.03	17.00	17.08	17.10	17.36
Crude	50.22	51.80	51.81	51.90	52.42

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

Source: OCBC Bank

FX Trade Ideas

FX Trade Ideas									
	Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
	TACTICAL								
1	18-Apr-17	B	GBP-USD	1.2585	1.3140	1.2715	Snap UK elections, soft dollar, -ve EUR risk		
2	17-May-17	B	EUR-USD	1.1120	1.1320	1.1015	Disappointing US data feed, reversal of political risk premiums		
3	23-May-17	S	USD-CAD	1.3489	1.3265	1.3605	USD skepticism, sanguine risk appetite, supported crude		
4	24-May-17	S	USD-SGD	1.3899	1.3745	1.3980	Supportitve Asian portfolio inflow environment, soggy USD		
	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?		
	RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	26-Apr-17	05-May-17	B	USD-CAD	1.3563	1.3670	Potnential heightneing of trade tensions with the US; soggy crude	+0.80	
2	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98	
3	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04	
4	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14	
	* realized **of notional							Jan-Apr 2017 Return 2016 Return	-19.70 +6.91

Source: OCBC Bank

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