

Wednesday, July 26, 2017

**FX Themes/Strategy/Trading Ideas**

- By late NY, the USD bounced off intra-day lows on the back of firmer UST yields (note better than expected July Conference Board consumer sentiment and Philly Fed, coupled with a Senate vote to proceed with a debate of Obamacare) to end in familiar territory against most of the majors.
- The EUR-USD was given an initial boost by firmer than expected German July Ifo readings and touched a high of 1.1711 (highest since August 2015) but eventually relapsed to end largely unchanged. USD-JPY however remained a bellwether of interest rate differentials with the pair firming past 111.50 and is trading slightly north of 112.00 early Wednesday in Asia. On other fronts, the **RBNZ's** McDermott did not shake the NZD in his speech, stating that inflationary pressures remained "moderate".
- Ahead of the FOMC today, look to Australian 2Q CPI readings and a speech by the RBA's Lowe (0305 GMT) for potential Asian volatility. Apart from this, market participants may remain cautious ahead of the FOMC statement tonight while lightening up from prior dollar shorts. A supportive risk appetite environment meanwhile may underpin the cyclicals slightly across G10 space while USD-JPY will likely remain a function of rate differential dynamics.
- Note that the **FOMC today (1800 GMT)** is a non-press conference event and may leave little room for additional ambiguity although the statement may encompass language indicating readiness for balance sheet tapering soon or relatively soon. Overall, cross asset (equity/bonds) signals seem to indicate little inherent "fear" of a tighter Fed posture, underpinning our near term bearish dollar stance.

**Asian FX**

- Elsewhere, a positive global equity/commodity landscape may only serve to temper an expected slight upside bias for USD-Asia ahead of the FOMC tonight. Asian net portfolio inflows meanwhile continue to demonstrate waning inflow momentum for the KRW, TWD, INR, and PHP, while the THB continues to look stretched with respect to this metric. On a brighter note, net flows continue to prove supportive of the IDR.
- Thus despite the **FXSI (FX Sentiment Index)** easing lower (i.e., improving risk appetite) within Risk-On territory overnight, the **ACI (Asian Currency Index)** may find support on dips intra-day. Note however that on a structural horizon, our medium term ACI model continues to portend a softer profile on

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a multi-week basis.

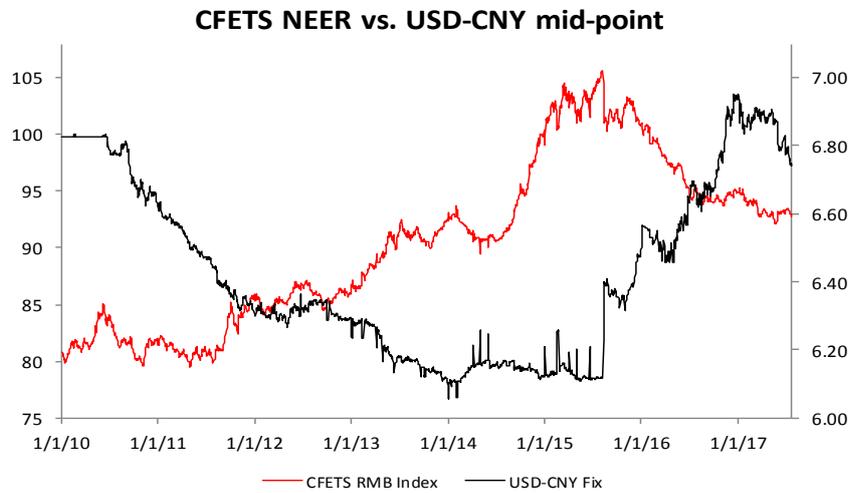
- SGD NEER:** Today, the SGD NEER is slightly firmer on the day at around +0.96% above its perceived parity (1.3763) with NEER-implied USD-SGD thresholds a touch firmer on the day. At current levels, the +0.90% threshold is estimated at 1.3640 and +1.00% at 1.3626, with the latter likely a floor pending further headline risks.



	SGD NEER	% deviation	USD-SGD
Current	125.52	1.02	1.3632
+2.00%	126.74		1.3493
Parity	124.26		1.3763
-2.00%	121.77		1.4043

Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (as largely expected) to 6.7529 from 6.7485 yesterday, firming up the CFETS RMB Index to 92.77 from 92.72 yesterday.



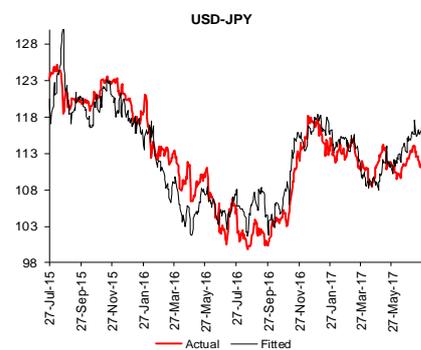
Source: OCBC Bank, Bloomberg

**G7**



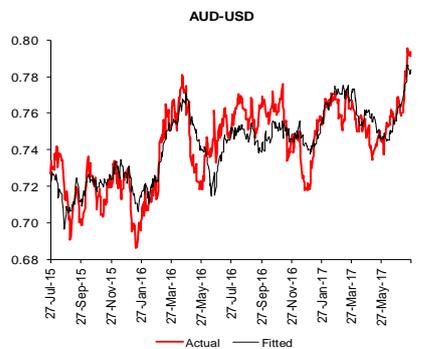
Source: OCBC Bank

- EUR-USD** Short term implied valuations are off recent highs ahead of the FOMC tonight despite the German Ifo yesterday and the ECB's Nowotny indicating that it would be "...wise to gently step off the gas pedal" with regards to monetary stimulus. Expect a near term locus around the 1.1650 region in the interim.



Source: OCBC Bank

- USD-JPY** Apart from FOMC-related risks, expect sustained political chatter surrounding the dollar (Senate votes on various aspects of Obamacare) to keep price action choppy in the near term. On the other end of the equation, we note that BOJ rhetoric on Tuesday remained sufficiently dovish. Intra-day, expect a more supported tone for the USD-JPY pending FOMC risks with the pair now sandwiched between the 55-day MA (111.79) and the 200-day MA (112.09).



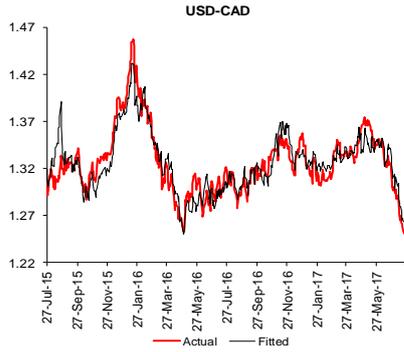
Source: OCBC Bank

- AUD-USD** This morning, headline 2Q CPI readings came in softer than expected although the trimmed and weighted measures came in largely as expected. Nevertheless, these readings may keep the AUD slightly heavy despite positive global risk appetite levels ahead of the FOMC with 0.7570/90 expected to support on dips in the interim.



Source: OCBC Bank

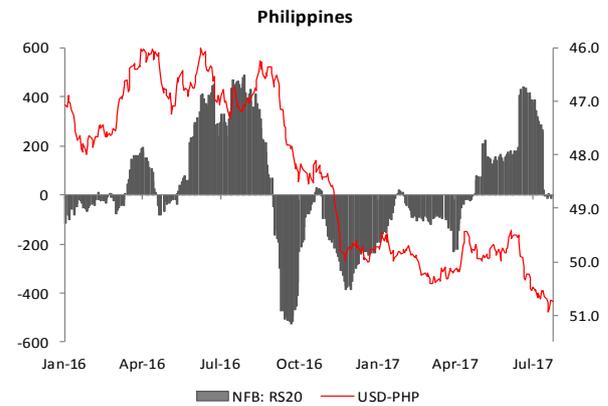
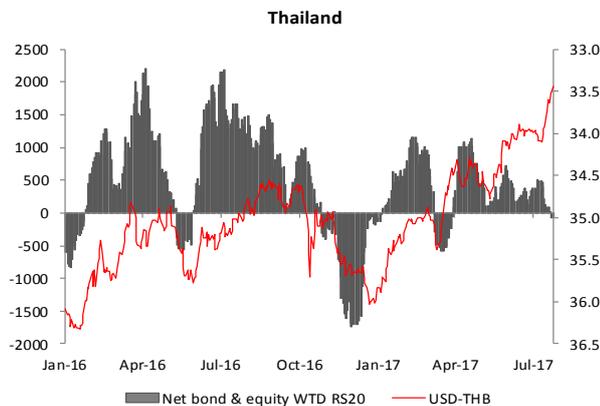
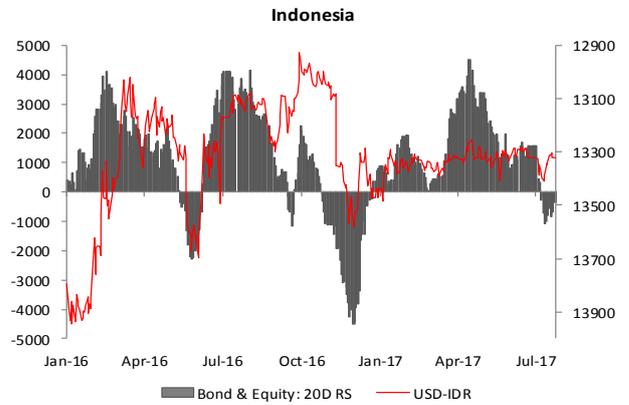
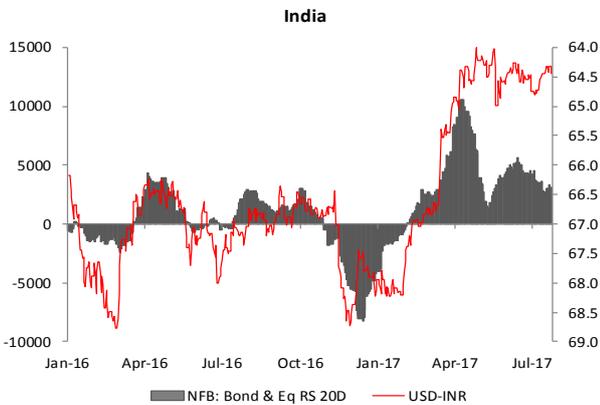
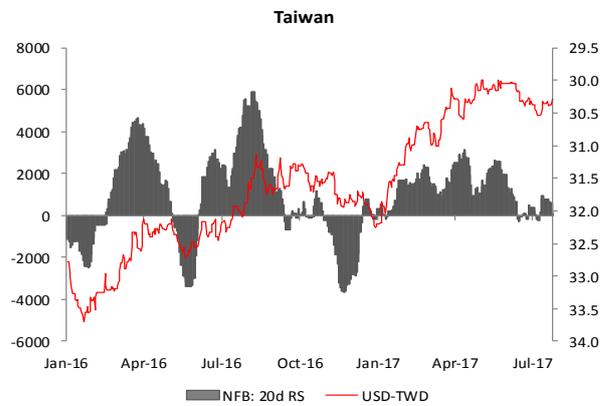
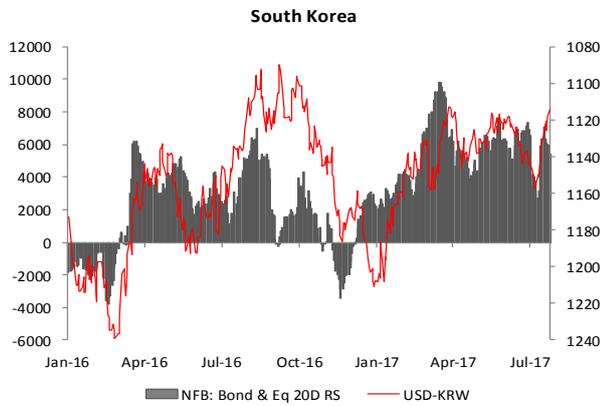
- GBP-USD** GBP-USD came off intra-day highs around 1.3084 to end largely unchanged on Tuesday and the pair may remain sidelined in the near term with Brexit nervousness in slight abeyance thus far this week. Short term implied valuations are relatively static in the meantime and 1.2970/00 may continue to cushion on intra-day dips.

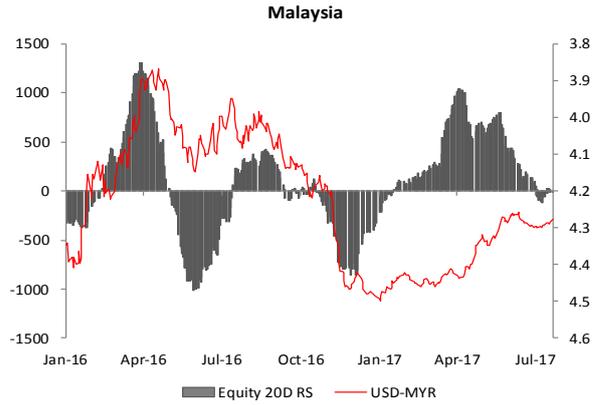


- USD-CAD** USD-CAD continued to attempt to shade lower under the weight of firmer crude on Tuesday and despite some positive dollar blowback against the other majors. Short term implied valuations for the USD-CAD meanwhile continue to retain a significant degree of downside conviction and the 1.2500 floor remains in clear jeopardy.

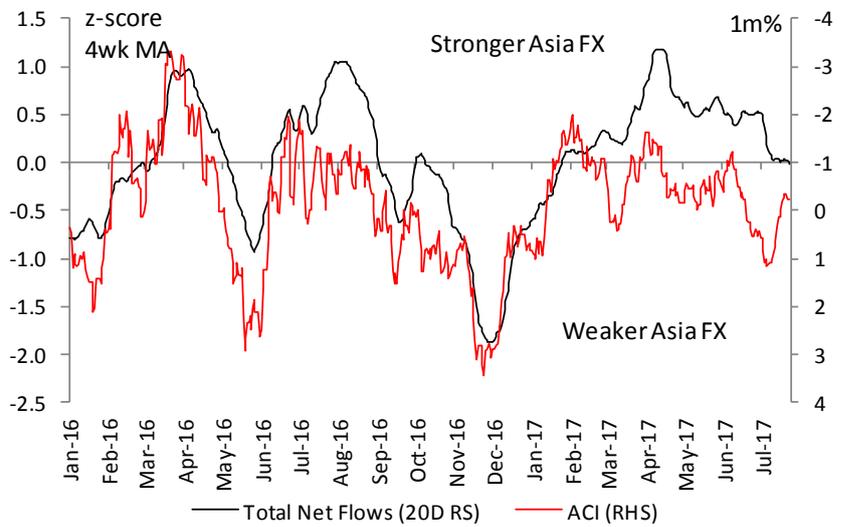
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

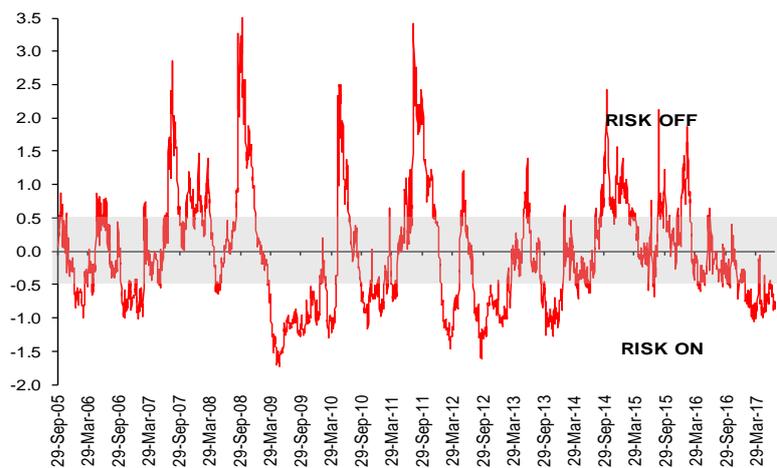




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.01	0.931	-0.778	-0.848	-0.825	0.586	-0.753	0.572	0.361	0.938	-0.99
SGD	0.958	0.077	0.944	-0.88	-0.916	-0.831	0.652	-0.787	0.708	0.487	0.938	-0.92
CNH	0.938	-0.108	0.979	-0.749	-0.81	-0.891	0.484	-0.803	0.543	0.305	1	-0.905
CNY	0.931	-0.036	1	-0.777	-0.828	-0.868	0.527	-0.821	0.566	0.385	0.979	-0.891
CAD	0.924	-0.175	0.904	-0.846	-0.847	-0.858	0.414	-0.764	0.665	0.26	0.921	-0.895
MYR	0.915	0.559	0.926	-0.843	-0.879	-0.651	0.824	-0.593	0.761	0.723	0.908	-0.861
THB	0.879	0.303	0.822	-0.876	-0.9	-0.663	0.799	-0.667	0.731	0.682	0.79	-0.84
CHF	0.877	0.241	0.764	-0.561	-0.657	-0.591	0.726	-0.548	0.362	0.442	0.764	-0.884
CCN12M	0.841	0.014	0.881	-0.878	-0.906	-0.81	0.486	-0.758	0.707	0.457	0.854	-0.794
IDR	0.825	0.866	0.926	-0.907	-0.901	-0.822	0.922	-0.712	0.832	0.946	0.937	-0.734
INR	0.78	0.464	0.79	-0.813	-0.834	-0.48	0.637	-0.355	0.831	0.613	0.787	-0.723
KRW	0.778	0.471	0.771	-0.899	-0.932	-0.571	0.836	-0.576	0.835	0.791	0.719	-0.717
JPY	0.586	0.755	0.527	-0.646	-0.697	-0.273	1	-0.34	0.625	0.861	0.484	-0.531
TWD	0.214	0.683	0.331	-0.459	-0.526	-0.06	0.741	-0.286	0.56	0.809	0.246	-0.128
USGG10	-0.01	1	-0.036	-0.249	-0.274	0.303	0.755	0.255	0.405	0.805	-0.108	0.055
PHP	-0.583	-0.032	-0.616	0.589	0.571	0.747	-0.272	0.47	-0.368	-0.258	-0.633	0.57
GBP	-0.745	0.228	-0.83	0.498	0.562	0.762	-0.378	0.739	-0.29	-0.149	-0.859	0.696
NZD	-0.858	-0.294	-0.765	0.826	0.816	0.645	-0.798	0.665	-0.696	-0.629	-0.763	0.822
AUD	-0.922	-0.19	-0.927	0.924	0.95	0.836	-0.689	0.788	-0.76	-0.597	-0.904	0.881
EUR	-0.99	0.055	-0.891	0.717	0.799	0.806	-0.531	0.73	-0.501	-0.292	-0.905	1

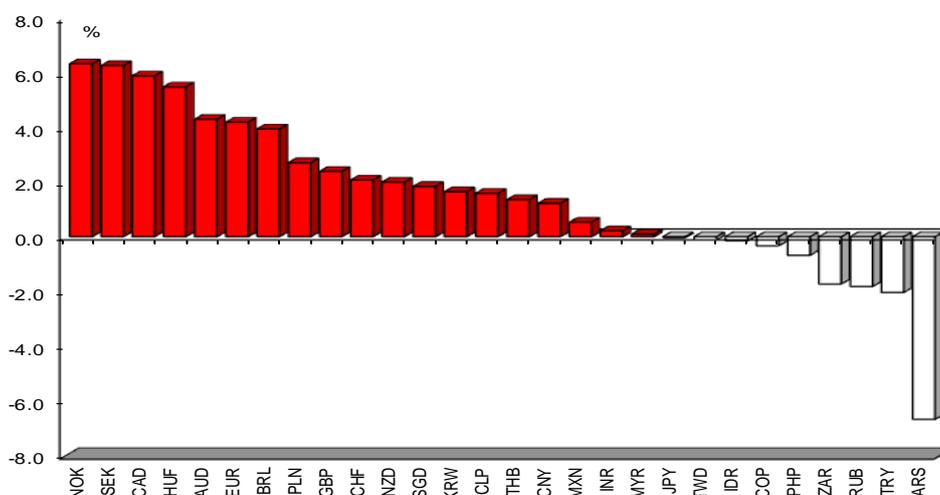
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1318	1.1600	1.1647	1.1695	1.1700
GBP-USD	1.2888	1.3000	1.3025	1.3100	1.3104
AUD-USD	0.7611	0.7900	0.7909	0.7989	0.8000
NZD-USD	0.7219	0.7400	0.7434	0.7456	0.7464
USD-CAD	1.2481	1.2500	1.2506	1.2600	1.3123
USD-JPY	111.00	111.64	111.89	112.00	112.05
USD-SGD	1.3593	1.3600	1.3626	1.3700	1.3797
EUR-SGD	1.5620	1.5800	1.5870	1.5900	1.5908
JPY-SGD	1.2100	1.2102	1.2179	1.2200	1.2278
GBP-SGD	1.7662	1.7700	1.7748	1.7780	1.7800
AUD-SGD	1.0586	1.0700	1.0776	1.0800	1.0918
Gold	1204.00	1234.39	1247.70	1250.53	1263.69
Silver	15.37	16.30	16.40	16.40	16.65
Crude	48.19	48.20	48.29	48.30	48.66

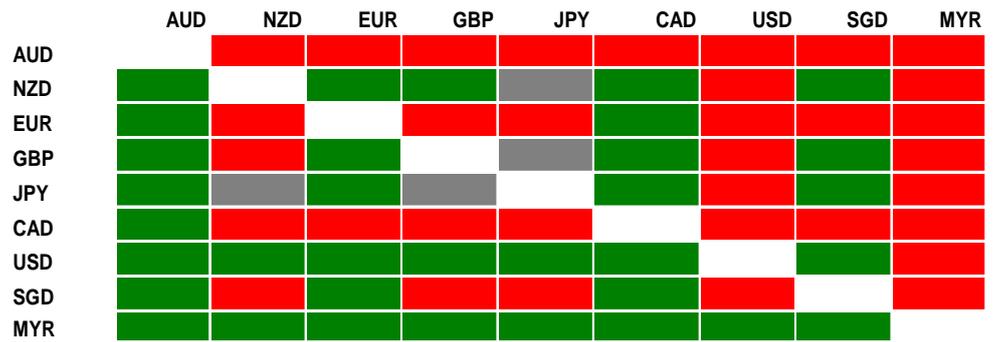
Source: OCBC Bank

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



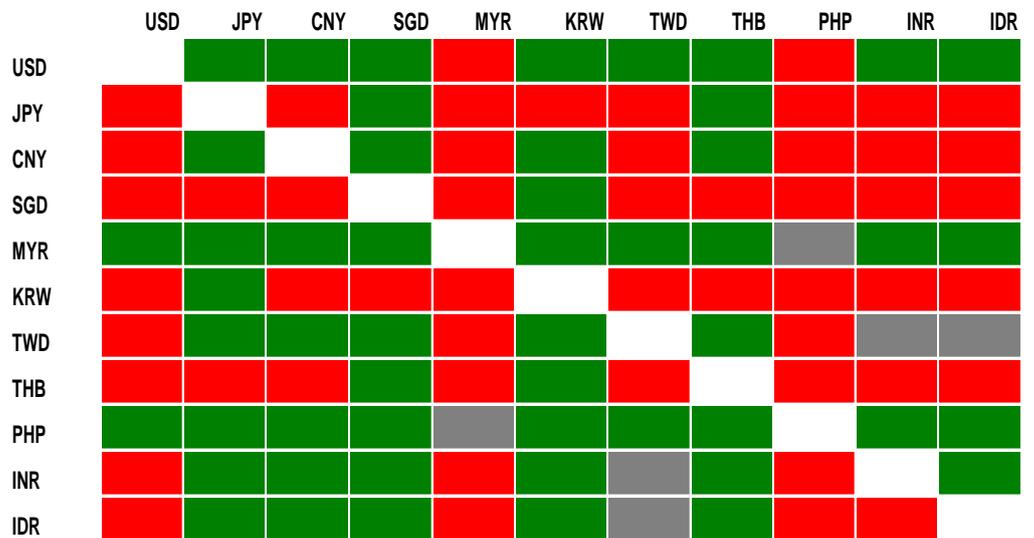
Source: Bloomberg

**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 lat 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 politycuncertainty/limbo	-1.13
2	16-May-17	29-Jun-17	S	AUD-USD	0.7407	0.7670	Global reflation 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	21-Jul-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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