

Friday, May 26, 2017

FX Themes/Strategy/Trading Ideas

- Flailing crude (WTI<49.00) after the OPEC meeting yielded as expected production cuts dragged the cyclicals lower while supportive comments from the Fed's Brainard and slightly firmer UST yields, saw the USD recovering across G10 space on Thursday. Meanwhile, the EUR outperformed on the crosses despite the ECB's Constancio still noting that risks remain tilted to the downside. On the other hand, the GBP meanwhile underperformed on disappointing 1Q 17 GDP data.
- Overall, USD performance we think was more reflexive, as opposed to any renewed confidence in the Fed/Trump. To this end, we still see little urgent directional impetus for the USD-JPY in the near term.
- Into the weekend G7 meeting, expect some headline risks, starting with a scheduled Trump-Abe meeting today. In Asia, look also to the Fed's Bullard at 0200 GMT. In the interim, with little spillover momentum from overnight price action and short end vols still at depressed levels, markets may be tempted to revert to a vulnerable USD backdrop ahead of the US long weekend.

Asian FX

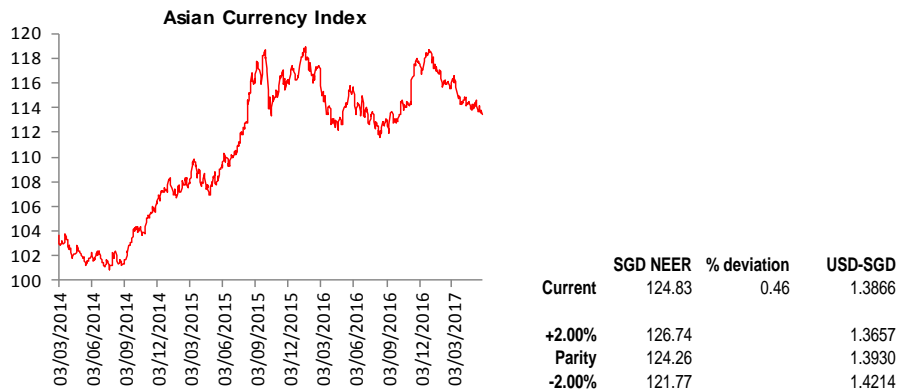
- EM FX retreated slightly against a recovering USD on Thursday but the overflow from positive US equities may temper greenback resilience in Asia intra-day, especially if skepticism towards the dollar continues to lurk. On the net portfolio inflow front, expect implicit support for the KRW, INR, THB, PHP, although some waning inflow momentum is being witnessed for the IDR and TWD.
- Overall, with the **FXSI (FX Sentiment Index)** consolidated higher within Risk-On territory on Thursday, the **ACI (Asian Currency Index)** will likely tick higher slightly into the end of the week.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.45% above its perceived parity (1.3930). NEER-implied USD-SGD thresholds are largely unchanged on the day with +0.50% threshold estimated at 1.3861 and +0.80% at 1.3820. We expect the basket to hover in the vicinity of its +0.50% threshold pending further exogenous influences with 1.3900 seen capping the pair in the near term.

Treasury Research &
Strategy

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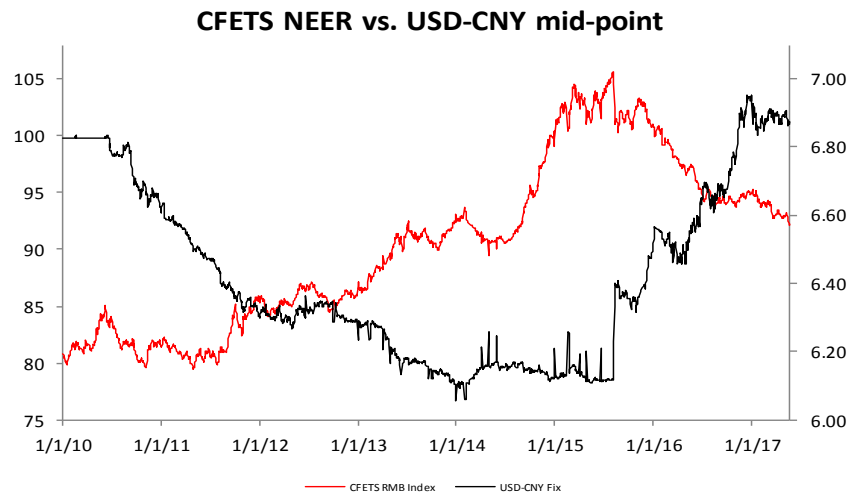
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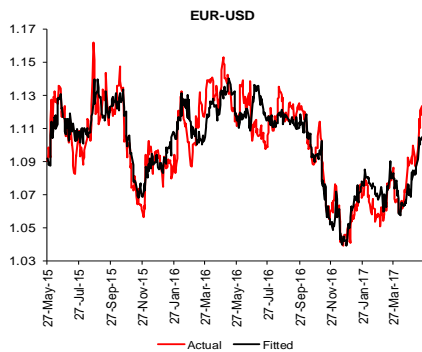
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY rose as largely expected to 6.8698 from 6.8695 on Thursday. This pushed the CFETS RMB Index higher (but well within historical deltas) to 92.26 from 92.12 yesterday, in line with the bottoming out of the DXY.



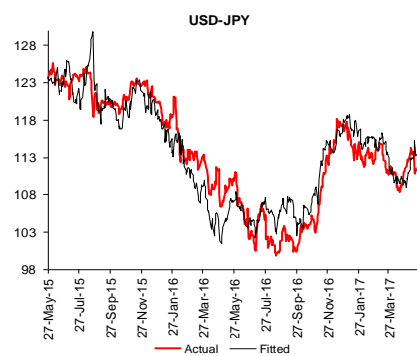
Source: OCBC Bank, Bloomberg

G7



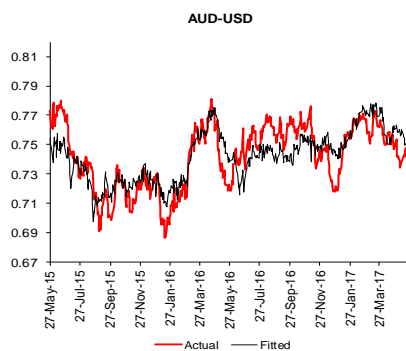
Source: OCBC Bank

- EUR-USD** Short term implied valuations have consolidated lower and we note the pair is still slightly north of its implied confidence intervals – leaving space for a further capitulation lower in during the current session. In the interim, expect the EUR-USD to orbit the 1.1200 neighborhood and we retain a bias to collect into dips towards 1.1150/75.



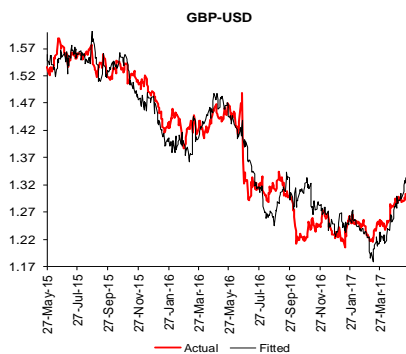
Source: OCBC Bank

- USD-JPY** USD-JPY is slipping in Asia with the Fed's Bullard (non-voter) suggesting that the Fed's projected rate trajectory may be overly aggressive. However, this is in contrast to slightly more underpinned short term implied valuations, potentially keeping the pair tethered around its 55-day MA (111.50).



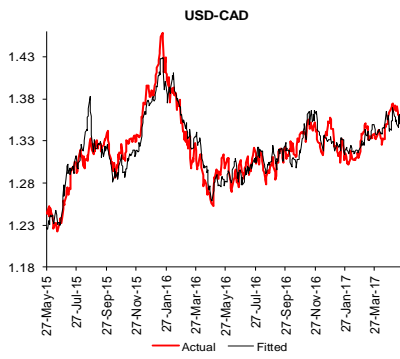
Source: OCBC Bank

- AUD-USD** The cyclical, including the AUD, may continue to smart from a soggy commodity complex into the end of the week. Furthermore, short term implied valuations are heavier, potentially painting the way lower towards 0.7400 if the foothold at 0.7430 is lost.



Source: OCBC Bank

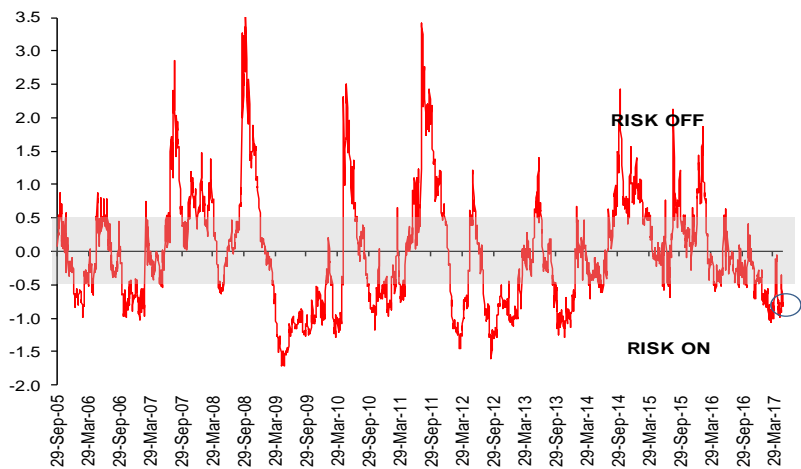
- GBP-USD** GBP has been additionally weighed by an opinion poll showing PM May's Conservatives dropping another one percentage point on the week (down 5% from two weeks ago) to 43%-35% (Labor) ahead of the national election. Short term implied valuations are at risk of topping out further at this juncture with the GBP-USD likely to continue to inhabit the lower end of its confidence intervals. Risk to probe towards 1.2850 cannot be discounted at this juncture after repeated failures to overcome 1.3000 on a sustained basis.



- USD-CAD** Not surprisingly, the CAD fell victim to slumping crude on Thursday while short term implied valuations have also reacted significantly higher. Note however that a failure to lift measurably above the 55-day MA (1.3481) may blunt upside momentum into the end of the week.

Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.794	0.801	0.063	-0.506	-0.719	0.601	-0.678	-0.384	0.418	0.873	-0.984
CHF	0.968	0.838	0.789	0.105	-0.353	-0.626	0.685	-0.602	-0.380	0.281	0.874	-0.938
CNH	0.873	0.774	0.939	0.005	-0.551	-0.610	0.532	-0.532	-0.343	0.341	1.000	-0.862
SGD	0.871	0.904	0.845	0.148	-0.305	-0.784	0.787	-0.785	-0.332	0.040	0.869	-0.812
CAD	0.850	0.637	0.716	-0.166	-0.476	-0.741	0.540	-0.792	-0.140	0.288	0.759	-0.840
CNY	0.801	0.752	1.000	0.114	-0.433	-0.638	0.653	-0.639	-0.395	0.159	0.939	-0.759
USGG10	0.794	1.000	0.752	0.429	-0.216	-0.723	0.829	-0.718	-0.579	-0.048	0.774	-0.721
MYR	0.770	0.539	0.575	-0.318	-0.698	-0.437	0.192	-0.423	-0.014	0.649	0.746	-0.801
THB	0.750	0.685	0.845	-0.108	-0.299	-0.614	0.606	-0.613	-0.124	0.094	0.874	-0.711
KRW	0.654	0.452	0.734	-0.035	-0.628	-0.536	0.244	-0.421	-0.307	0.456	0.768	-0.669
JPY	0.601	0.829	0.653	0.466	0.219	-0.538	1.000	-0.644	-0.444	-0.445	0.532	-0.475
TWD	0.352	0.373	0.446	-0.115	-0.123	-0.247	0.365	-0.197	0.054	-0.019	0.514	-0.299
PHP	0.277	0.146	0.475	0.109	-0.186	-0.434	0.170	-0.327	-0.219	0.049	0.318	-0.273
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	0.066	0.161	0.489	-0.251	-0.072	-0.163	0.279	-0.263	0.184	-0.304	0.517	-0.134
AUD	-0.370	-0.574	-0.523	-0.077	-0.255	0.480	-0.763	0.610	-0.010	0.494	-0.385	0.243
INR	-0.557	-0.354	-0.234	0.095	0.369	0.344	-0.169	0.395	0.112	-0.412	-0.310	0.583
GBP	-0.644	-0.421	-0.229	-0.044	0.340	0.308	-0.190	0.201	0.257	-0.531	-0.315	0.648
NZD	-0.721	-0.449	-0.581	0.303	0.431	0.474	-0.397	0.532	-0.016	-0.377	-0.671	0.751
EUR	-0.984	-0.721	-0.759	-0.008	0.610	0.676	-0.475	0.589	0.369	-0.556	-0.862	1.000

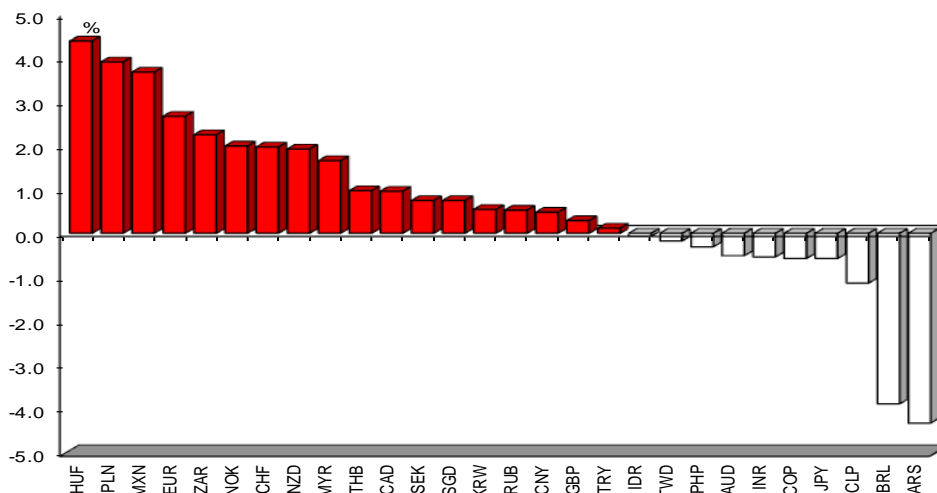
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0853	1.1100	1.1192	1.1200	1.1268
GBP-USD	1.2800	1.2850	1.2885	1.2900	1.3013
AUD-USD	0.7331	0.7400	0.7437	0.7500	0.7515
NZD-USD	0.6960	0.7000	0.7019	0.7040	0.7059
USD-CAD	1.3421	1.3488	1.3489	1.3500	1.3793
USD-JPY	111.00	111.24	111.68	112.00	114.37
USD-SGD	1.3800	1.3823	1.3856	1.3900	1.3968
EUR-SGD	1.5173	1.5500	1.5507	1.5600	1.5626
JPY-SGD	1.2297	1.2400	1.2406	1.2500	1.2532
GBP-SGD	1.7800	1.7835	1.7853	1.7900	1.8248
AUD-SGD	1.0296	1.0300	1.0305	1.0400	1.0475
Gold	1249.60	1254.51	1256.10	1272.55	1296.90
Silver	16.90	17.00	17.10	17.36	17.42
Crude	45.59	48.80	48.89	48.90	50.13

Source: OCBC Bank

FX performance: 1-month change agst USD



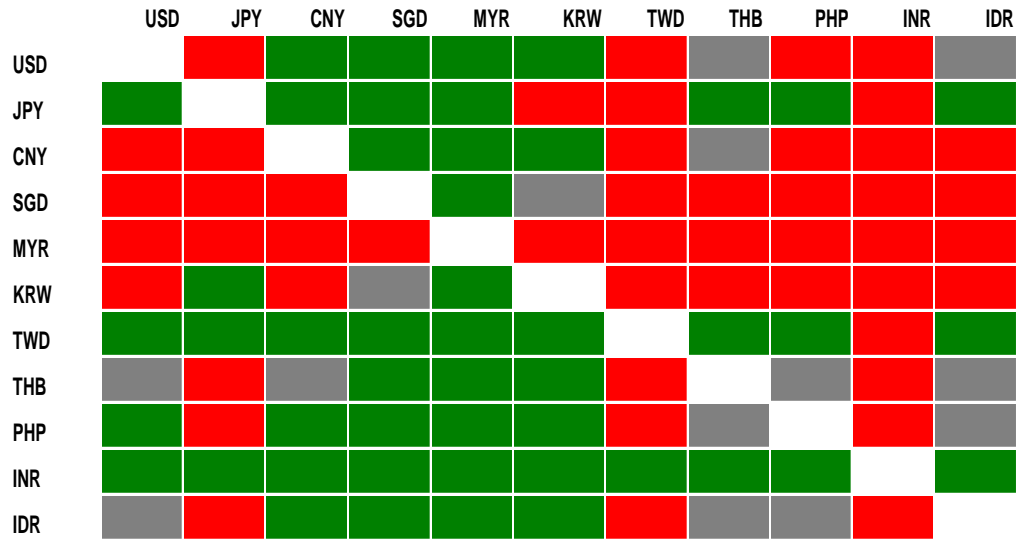
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Green	Red	Red	Green	Red	Green	Green
NZD	Red		Green	Red	Red	Red	Red	Red	Red
EUR	Red	Red		Red	Red	Red	Red	Red	Red
GBP	Green	Green	Green		Grey	Green	Grey	Green	Green
JPY	Green	Green	Green	Grey		Green	Green	Green	Green
CAD	Red	Green	Green	Red	Red		Red	Red	Red
USD	Green	Green	Green	Grey	Red	Green		Green	Green
SGD	Red	Green	Green	Red	Red	Green	Red		Green
MYR	Red	Green	Green	Red	Red	Green	Red	Red	

Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

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	Supportive 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, positioning 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	Potential heightening 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 -19.70 2016 Return +6.91	

Source: OCBC Bank

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