

Tuesday, June 27, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The USD tracked yield behavior and bounced off intra-day lows (tracking 10y UST yields) to end mixed against its G10 counterparts despite a net softening in the UST yields on the day. The yen bore the brunt of the USD rebound with the USD-JPY firming above 111.80 while the EUR-USD also slipped below 1.1200 despite an outperforming German June Ifo.
- On other fronts, the GBP-USD managed to lift temporarily after PM May's Conservatives managed to seal a deal with the DUP, although cable eventually succumbed lower under the weight of the USD. The PM unveiled a work and residential proposal for EU citizens residing in the UK but the EU's response was frosty – a cautionary signal.
- Earlier in the session, the greenback had dropped after May durable goods orders and Chicago Fed disappointed, and despite the Fed's Williams echoing rhetoric for gradual rate hikes. Elsewhere, a positive equity landscape still resulted in the cyclicals outperforming across the board, with the AUD-USD reaching towards 0.7600. USD-CAD meanwhile retraced intraday losses despite yet firmer crude.
- On the **CFTC** front, net large non-commercial/leveraged accounts pared their implied long dollar bias in aggregate in the latest week while asset managers reduced their net implied short dollar bias in aggregate during the same period. Notably, excluding JPY positioning, asset manager accounts increased their net dollar shorts in the latest week. **Overall, dollar skepticism remains apparent from positioning data.**
- Apart from the busy data calendar this week (note China June PMIs due Friday), global central bank rhetoric may dictate market directionality. **While the USD may find some near term resilience in a carryover from overnight markets, this theme may be diluted by Wednesday if the Fed's counterparts continue to lean away from being excessively dovish (but nevertheless refraining from sounding hawkish).**
- Going ahead, today is loaded with Fed-speak with Williams (0805 GMT), Harker (1500 GMT), **Yellen (1700 GMT)**, and Kashkari (2130 GMT). The ECB's Draghi speaks at 0800 GMT while the RBA's Debelle is also scheduled at 0830 GMT.
- Meanwhile the ongoing **ECB Forum** (running till Wednesday) sees Draghi, the BOE's Carney, the BOC's Poloz, and the BOJ's Kuroda in attendance with markets likely on guard for the slew of central bank rhetoric on

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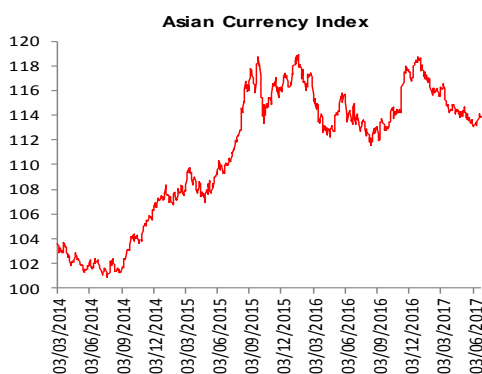
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Wednesday. Also today, look to the **BOE's** Financial Stability Report, with **Carney's** accompanying press conference (1000 GMT) presenting potential headline risk.

Asian FX

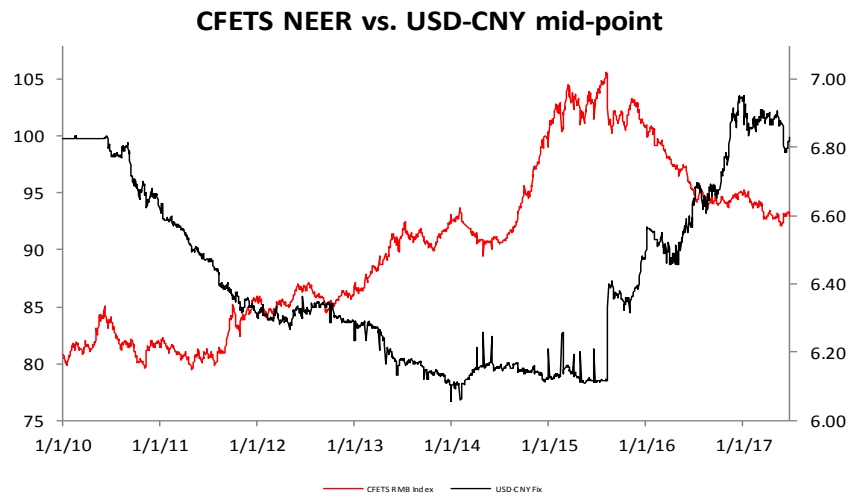
- **EPFR** data meanwhile show improved net implied equity inflow into Asia (excl Japan, China) and a turnaround in net bond flows to an inflow in the latest week. This is structurally supportive of Asian FX with positive risk appetite levels and the relative resilience of the cyclicals (AUD and other major EM FX) also likely supportive factors.
- On the risk appetite front, note that the **FXSI (FX Sentiment Index)** dipped further into Risk-On territory on Monday. Intra-day however, dollar dynamics may exert a countervailing pull on the regionals. Overall, the **ACI (Asian Currency Index)** may bounce on dips.
- **SGD NEER:** Today, the SGD NEER is softer on the day (but firmer compared to last Friday) at around +0.33% above its perceived parity (1.3928). The NEER is expected to remain trapped between its parity and the +0.50% threshold (1.3859). The 55-day MA (1.3916) may continue to cap while investors may collect into 1.3830/50 ahead of Yellen today.



	SGD NEER	% deviation	USD-SGD
Current	124.68	0.34	1.3881
+2.00%	126.74		1.3655
Parity	124.26		1.3928
-2.00%	121.77		1.4212

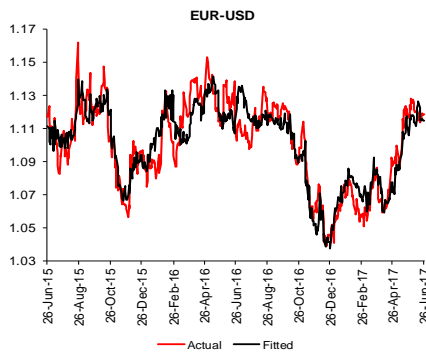
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point gained to 6.8292 this morning from 6.8220, pulling the CFETS RMB Index lower to 92.97 from 93.03 on Monday.



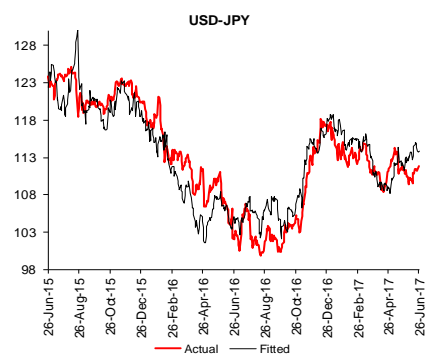
Source: OCBC Bank, Bloomberg

G7



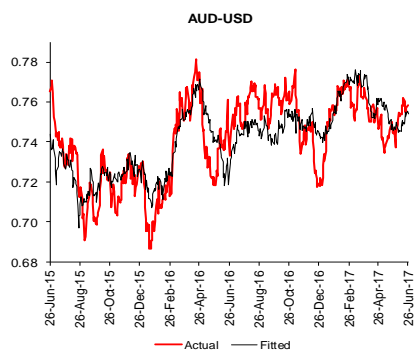
Source: OCBC Bank

- EUR-USD** The ECB's Draghi continued to push away from implicit pressure to hasten an exit from QE on Monday and this may continue to detract from EUR resilience in the short term. Short term implied valuations meanwhile have remained static over the past week and investors may fade upticks towards 1.1250 with an interim floor expected into 1.1150.



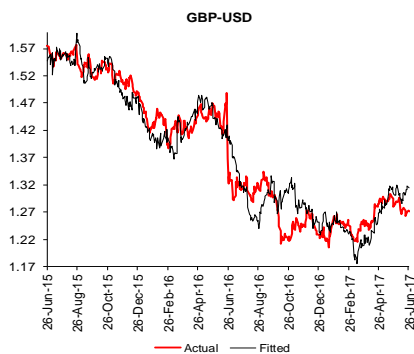
Source: OCBC Bank

- USD-JPY** The Fed's Dudley on Monday also noted that looser financial conditions may provide additional impetus for the Fed to remove its monetary policy accommodation. Market may buy into dips for the pair ahead of Yellen today with the 200-day MA (111.01) providing a near term floor with 112.25 within reach. We reiterate that the pair remains at the lower boundary of its implied confidence intervals – portending further potential head room.



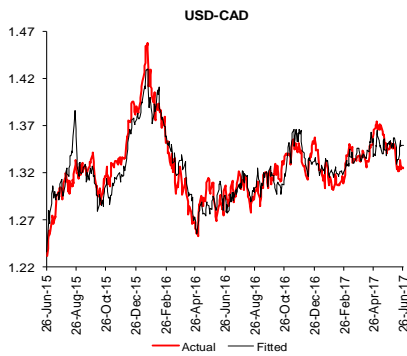
Source: OCBC Bank

- AUD-USD** After its weakening for most of last week, the risk appetite/commodity backdrop in the near term is now slightly more conducive for the AUD with short term implied valuations still aloft. Remain constructive on the AUD-USD within a 0.7550-0.7640 range.



Source: OCBC Bank

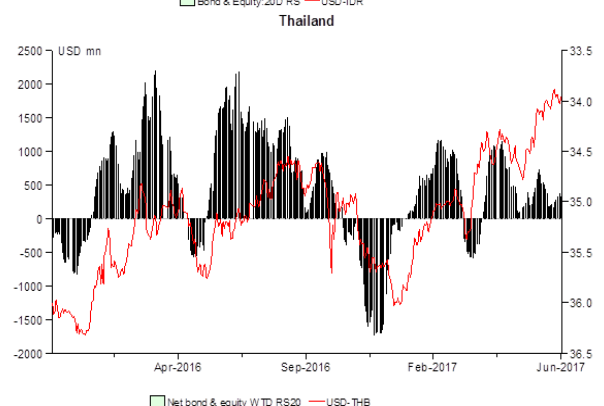
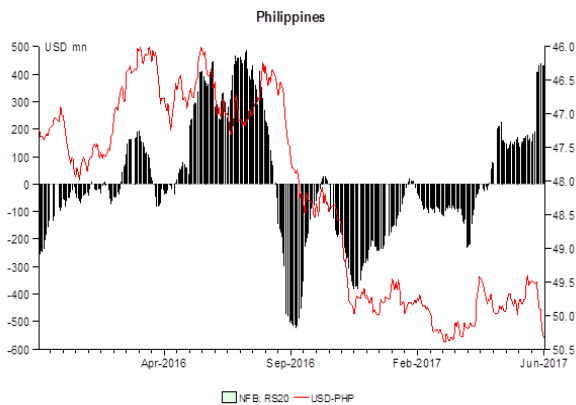
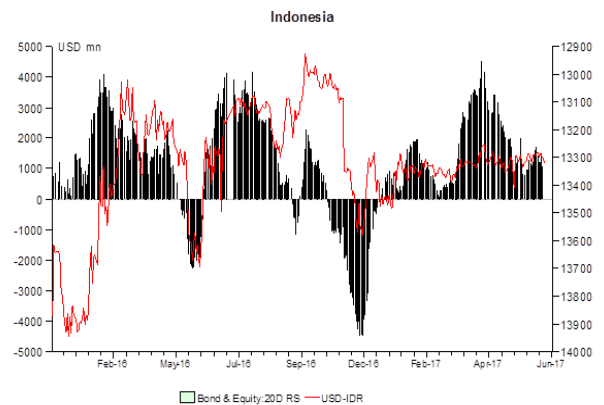
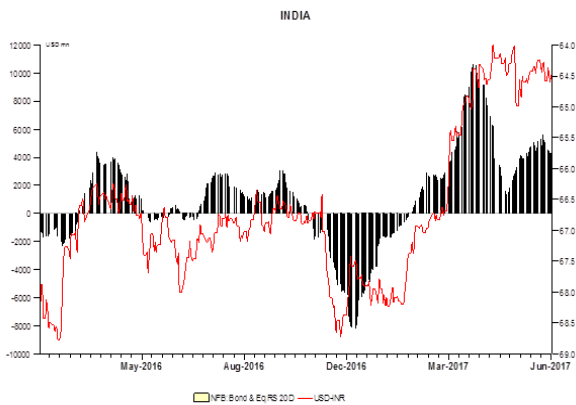
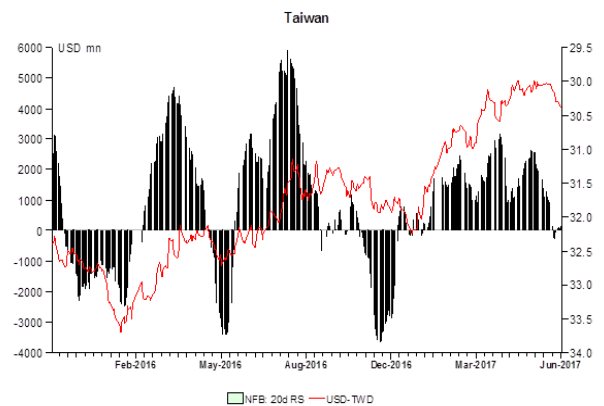
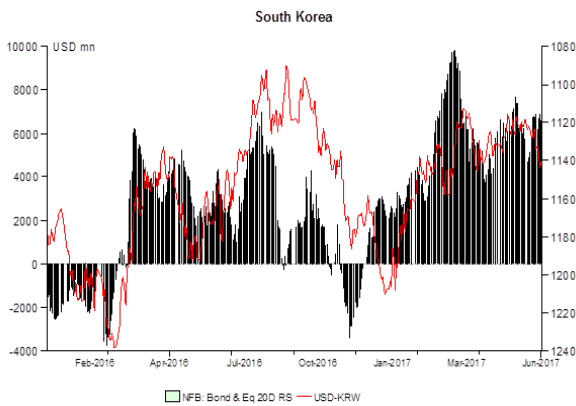
- GBP-USD** Background skepticism towards the Brexit negotiations remain apparent with short term implied valuations tipping lower slightly for now (but still holding within weekly ranges). Meanwhile, investor attention will likely to turn to Carney's address today and expect a sustained tendency by investors to continue to fade up moves within 1.2630-1.2800 pending further BOE/Brexit cues.



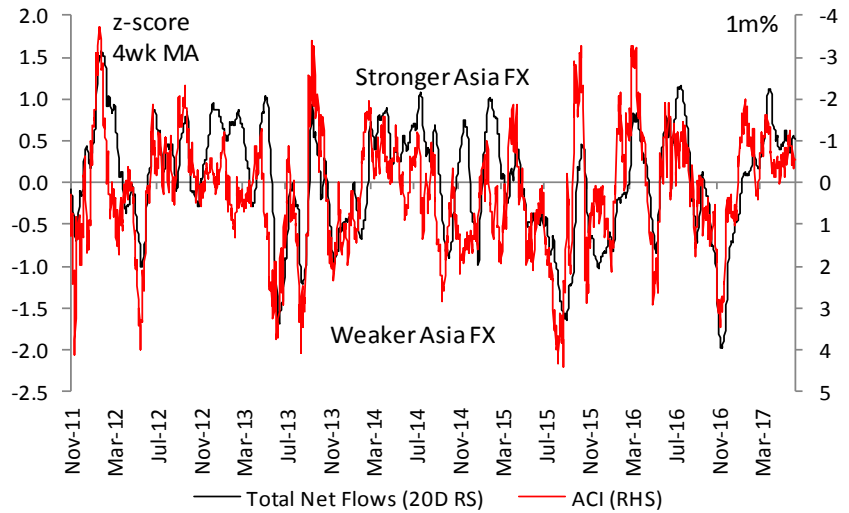
- USD-CAD** USD-CAD may remain slightly top heavy for as long as the cyclicals are able to strike out on their own (on the back of positive risk appetite levels) and despite still supported short term implied valuations for the pair. Expect the 200-day MA (1.3342) to limit on the upside with an interim floor expected into 1.3200.

Source: OCBC Bank

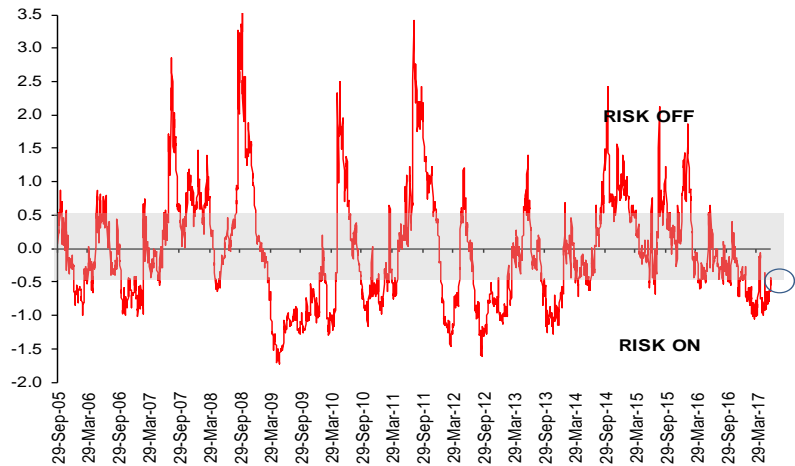
USD-Asia VS. Net Capital Flows



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	1.000	-0.021	0.696	0.215	0.284	-0.670	0.800	-0.664	0.310	-0.626	0.762	-0.960
CHF	0.860	0.160	0.474	0.110	0.010	-0.450	0.670	-0.472	0.296	-0.430	0.635	-0.903
SGD	0.844	0.013	0.828	0.118	0.257	-0.604	0.861	-0.564	0.052	-0.404	0.674	-0.713
TWD	0.809	-0.468	0.756	0.435	0.490	-0.932	0.680	-0.889	0.169	-0.883	0.886	-0.781
JPY	0.800	-0.078	0.884	0.170	0.211	-0.541	1.000	-0.495	-0.222	-0.377	0.699	-0.673
PHP	0.768	-0.212	0.931	0.059	0.191	-0.737	0.784	-0.621	0.216	-0.544	0.730	-0.662
CNH	0.762	-0.311	0.737	0.372	0.518	-0.779	0.699	-0.741	0.093	-0.691	1.000	-0.733
CNY	0.696	-0.365	1.000	0.175	0.446	-0.750	0.884	-0.641	-0.224	-0.540	0.737	-0.555
CCN12M	0.691	-0.416	0.425	0.559	0.498	-0.792	0.411	-0.793	0.327	-0.863	0.698	-0.736
KRW	0.677	-0.536	0.769	0.361	0.535	-0.881	0.590	-0.815	0.129	-0.790	0.784	-0.591
MYR	0.548	-0.015	0.882	-0.142	-0.030	-0.322	0.798	-0.188	-0.193	-0.155	0.403	-0.376
INR	0.504	0.019	0.753	-0.366	-0.363	-0.192	0.635	-0.021	0.072	-0.038	0.448	-0.402
AUD	0.333	-0.596	0.188	0.545	0.613	-0.700	0.090	-0.789	0.371	-0.814	0.577	-0.427
NZD	0.293	-0.738	0.365	0.621	0.783	-0.834	0.132	-0.879	0.202	-0.862	0.573	-0.325
IDR	0.187	0.292	0.558	-0.576	-0.438	-0.002	0.376	0.124	-0.134	0.352	0.217	-0.075
USGG10	-0.021	1.000	-0.365	-0.369	-0.562	0.630	-0.078	0.600	0.159	0.535	-0.311	-0.025
THB	-0.167	0.589	-0.198	-0.573	-0.588	0.661	-0.044	0.689	-0.163	0.745	-0.349	0.249
CAD	-0.559	0.492	-0.438	-0.523	-0.492	0.755	-0.383	0.742	-0.297	0.902	-0.685	0.613
GBP	-0.754	0.270	-0.512	-0.344	-0.429	0.722	-0.459	0.720	-0.534	0.854	-0.671	0.724
EUR	-0.960	-0.025	-0.555	-0.241	-0.264	0.644	-0.673	0.662	-0.397	0.653	-0.733	1.000

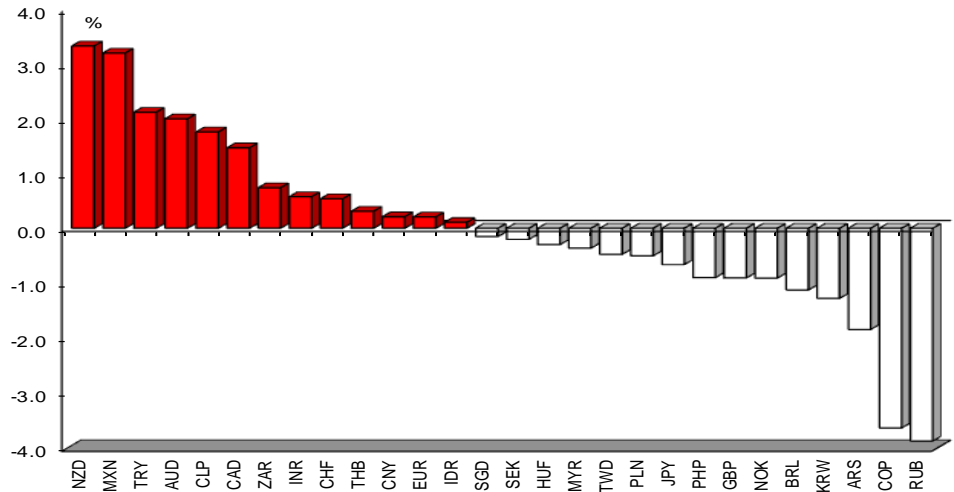
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1120	1.1186	1.1200	1.1284
GBP-USD	1.2589	1.2700	1.2720	1.2800	1.2851
AUD-USD	0.7500	0.7526	0.7585	0.7600	0.7636
NZD-USD	0.7089	0.7200	0.7286	0.7300	0.7320
USD-CAD	1.3165	1.3200	1.3254	1.3300	1.3338
USD-JPY	111.00	111.32	111.99	112.00	112.23
USD-SGD	1.3754	1.3800	1.3881	1.3900	1.3904
EUR-SGD	1.5412	1.5500	1.5527	1.5581	1.5600
JPY-SGD	1.2327	1.2381	1.2395	1.2400	1.2489
GBP-SGD	1.7600	1.7608	1.7656	1.7700	1.7865
AUD-SGD	1.0405	1.0500	1.0528	1.0565	1.0574
Gold	1233.59	1242.02	1246.30	1258.38	1294.02
Silver	16.23	16.50	16.52	16.60	17.01
Crude	42.05	43.30	43.38	43.40	47.98

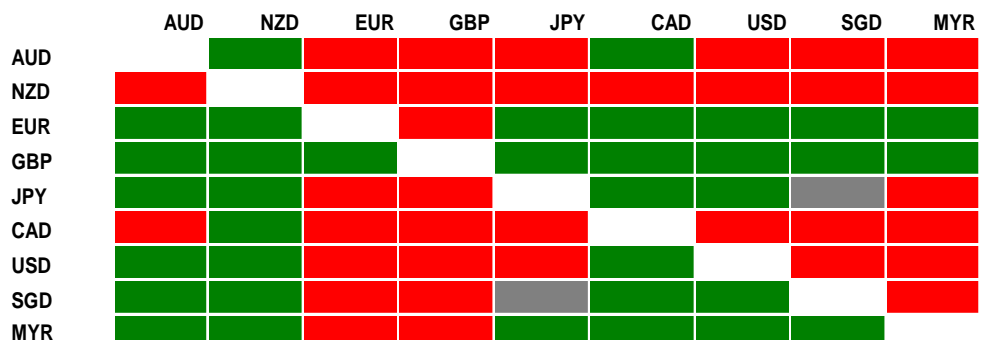
Source: OCBC Bank

FX performance: 1-month change agst USD



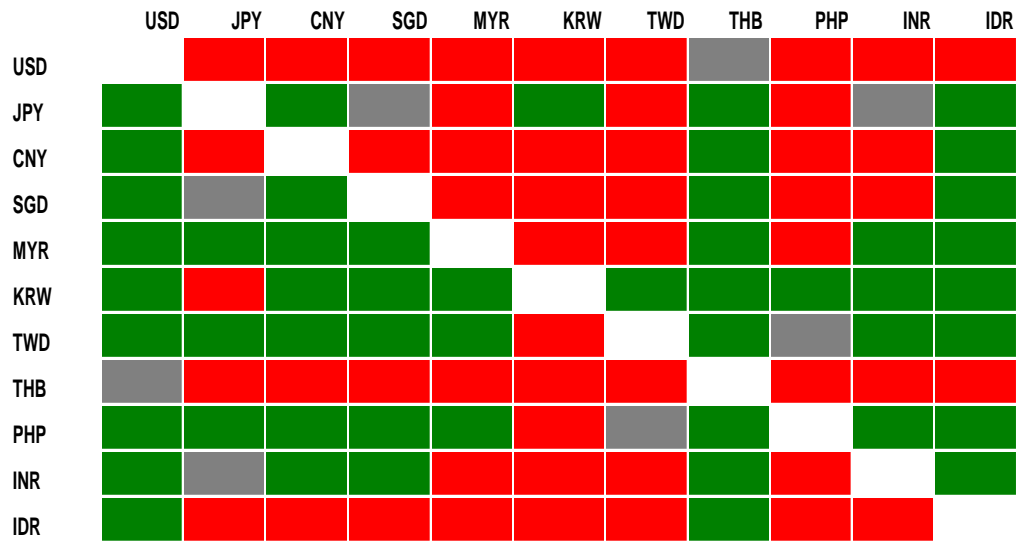
Source: Bloomberg

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		
TACTICAL								
1	23-May-17	S	USD-CAD	1.3494	1.3045 1.3380	USD skepticism, sanguine risk appetite, supported crude		
2	08-Jun-17	B	AUD-USD	0.7550	0.7695 0.7475	Supportive Aussie GDP and China trade numbers, steady risk		
3	12-Jun-17	S	GBP-USD	1.2760	1.2455 1.2915	UK polinticy concertainty/limbo		
STRUCTURAL								
4	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
5	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
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		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14
2	18-Apr-17	29-May-17	B	GBP-USD	1.2585	1.2832	Snap UK elections, soft dollar, -ve EUR risk	+1.79
3	17-May-17	14-Jun-17	B	EUR-USD	1.1120	1.1209	Disappointing US data feed, reversal of political risk premiums	+0.63
4	24-May-17	15-Jun-17	S	USD-SGD	1.3899	1.3828	Supportive Asian portfolio inflow environment, soggy USD	+0.49
5	01-Jun-17	22-Jun-17	S	USD-JPY	111.00	111.16	Weak broad dollar disposition	-0.25
6	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	+1.92**	
* realized **of notional							Jan-May 2017 Return -17.04	
							2016 Return +6.91	

Source: OCBC Bank

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