

Wednesday, June 28, 2017

**FX Themes/Strategy/Trading Ideas**

- Global FX markets traded on slightly separate tracks as central bank rhetoric took center stage. The EUR (and the European complex) jumped against the USD (EUR-USD > 1.1300) and its G10 peers after the ECB's Draghi essentially shifted away from being distinctly dovish to a neutral stance by stating that "deflationary forces have been replaced by reflationary ones."
- Meanwhile, despite the Fed's Yellen (and Harker) offering no strong impetus for dollar strength, a higher EUR-JPY and a firmer UST yield curve (bear steepened from the back-end) taking the cue from bunds lifted the USD-JPY past 112.00 to a 112.46 high. Elsewhere, a delay in a Senate healthcare vote also did the dollar no favors but took a toll on the S&P500, which was already weighed by the tech sector.
- Elsewhere, the antipodeans we think bore some burden of adjustment in the crosses as the AUD-USD came off intraday highs above 0.7620 to end flat to softer on the day.
- As noted previously, as various global central banks continue to dismiss recent inflation softness as temporary and veer towards a neutral posture from a dovish stance, the dollar narrative is expected to continue to be diluted. **For today, expect more of the same with scheduled appearances by the Fed's Williams (0730 GMT), while investors are expected to be on the lookout for comments from the ECB's Draghi, the BOE's Carney, the BOC's Poloz, and the BOJ's Kuroda.**

**Asian FX**

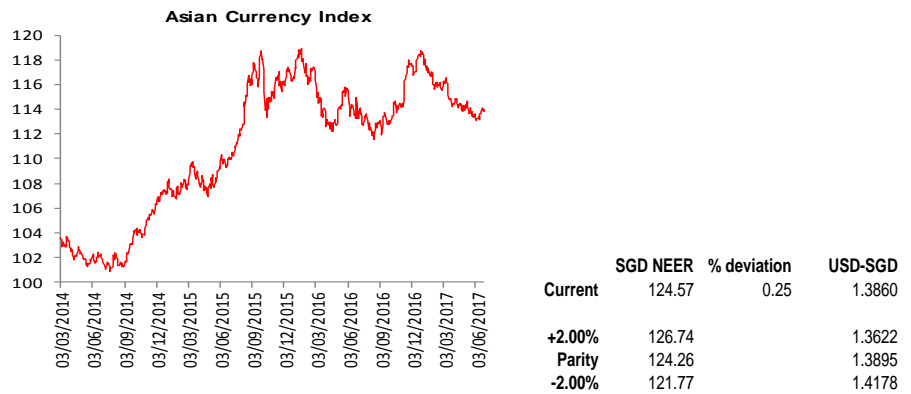
- EM FX was a mixed bag overnight and this may continue to translate into Asian trading today, especially if (tech) equity weakness continues to weigh on selected Asians. Meanwhile net portfolio capital inflows in the region denote ongoing support for the KRW and the PHP, some nascent support for the TWD (after recent outflows), while the INR and the THB may be relatively more vulnerable on the back of moderating inflows. On an aggregate basis however, we continue to detect weakening support for Asian FX on this front.
- Overall, expect the **ACI (Asian Currency Index)** to trade flat to supported intra-day as risk appetite levels come under scrutiny with the **FXSI (FX Sentiment Index)** ticking higher within Risk-On territory on Tuesday. Going forward, as we head towards the month of July, we note little in the way of strong **historical seasonality** for USD-Asia, with the regional pairs expected

Treasury Research &  
Strategy

**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

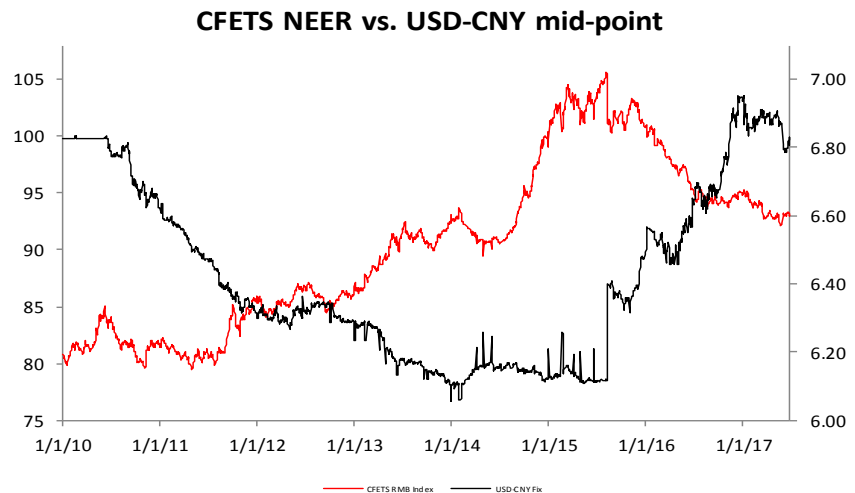
instead to look to external cues in the coming month. To this end, note that our structural (weekly) model for the **ACI (Asian Currency Index)** is now suggesting potential for further bottoming in the Asian currency pairs despite a negative DXY backdrop.

- SGD NEER:** This morning, the SGD NEER is lower on the day at around +0.25% above its perceived parity (1.3895) with the USD-SGD slightly reluctant on the downside despite NEER-implied USD-SGD thresholds slightly softer on the day. The NEER may be expected to remain within parity and its +0.50% threshold (1.3826) with the USD-SGD likely top heavy and with the 55-day MA (1.3915) still seen capping.



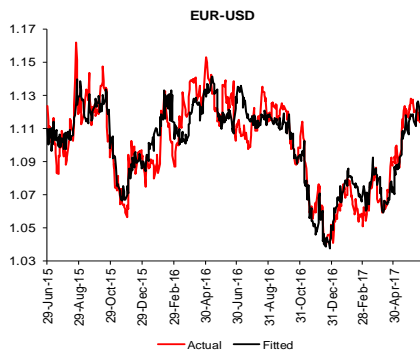
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point fell (in line with expectations but perhaps slightly more than expected) to 6.8053 from 6.8292 yesterday. This represented a significant -0.35% drop in the mid-point, lifting the CFETS RMB Index higher to 93.13 from 92.97 on Tuesday. Given their alleged presence, the authorities continue to exhibit little tolerance for a positive basis between USD-CNH and USD-CNY and between the USD-CNY and its mid-point.



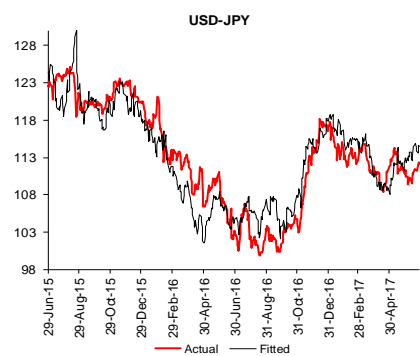
Source: OCBC Bank, Bloomberg

**G7**



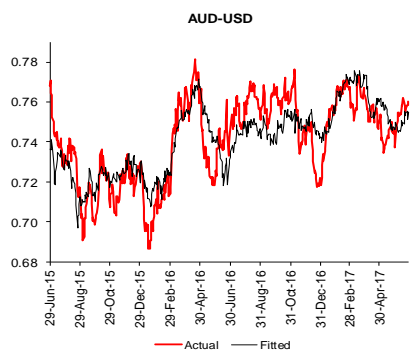
Source: OCBC Bank

- EUR-USD** On a structural note, the DXY is once again threatening a breach of the 96.00 level for the third time this month, with the current attempt fronted by the EUR. Short term implied valuations for the EUR-USD meanwhile have also reacted higher post-Draghi. Expect a near term pit stop at 1.1400 with investors expected to look to any further rhetoric from Draghi today.



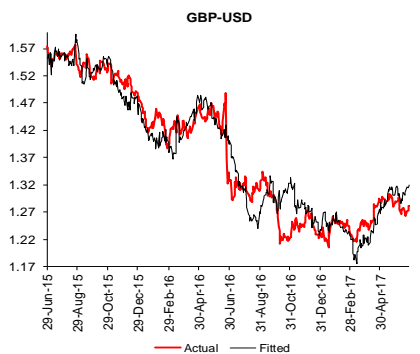
Source: OCBC Bank

- USD-JPY** Short term implied valuations for the USD-JPY have also stepped higher and the pair may well head north from the lower boundaries of its implied confidence intervals in the near term. The pair is now sitting atop its 100-day MA (111.81) and 112.80 may attract in the interim if US yields continue to firm. At this juncture, US yield differential dynamics may continue to manifest more efficiently via the USD-JPY with the other majors likely distracted by other idiosyncratic factors.



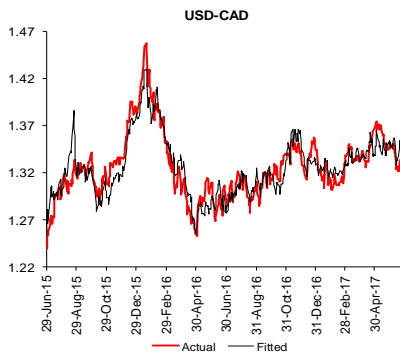
Source: OCBC Bank

- AUD-USD** The likes of the AUD may continue to remain sidelined although we note the gravitational pull on the pair from rate differential dynamics. Short term implied valuations meanwhile remain somewhat range bound and the pair may continue to ply a 0.7560-0.7640 corridor in the interim.



Source: OCBC Bank

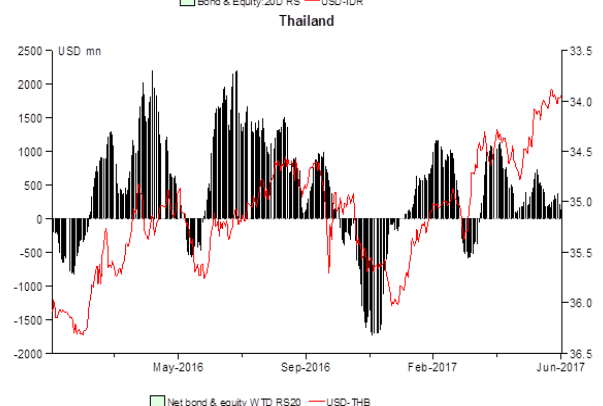
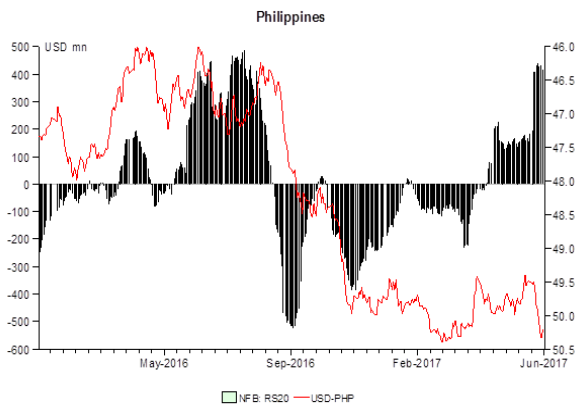
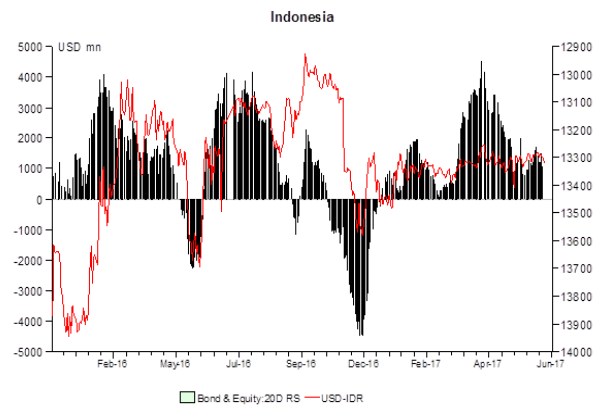
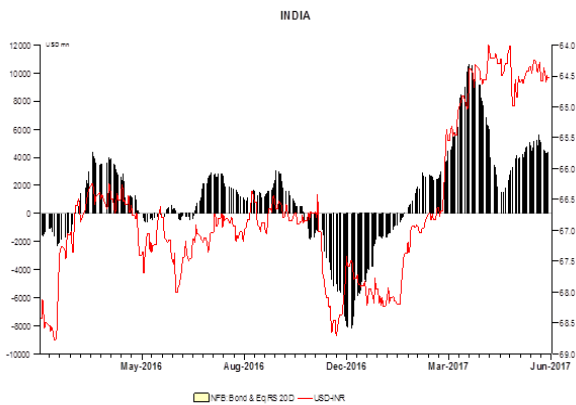
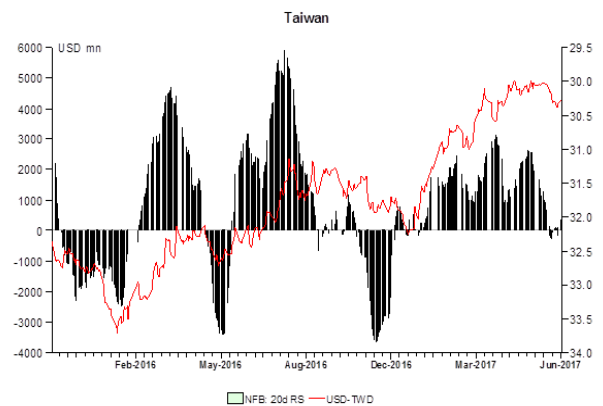
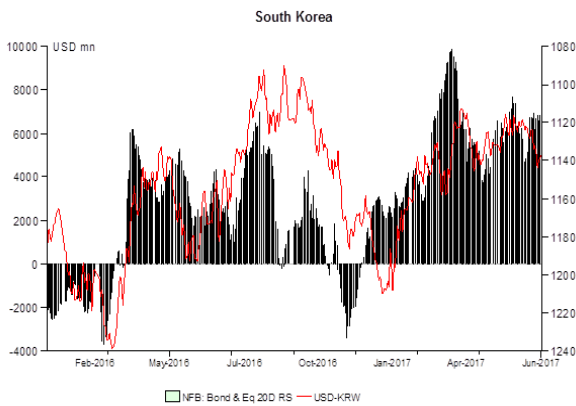
- GBP-USD** The pound benefitted from the EUR's updraft on Tuesday with short term implied valuations for the GBP-USD edging higher within recent ranges. Overall, this may continue to put a near term floor on the pair. Pending further headline risks, the 55-day MA (1.2839) and 1.2850 may limit on the upside for now. Structurally, the increase in the BOE's countercyclical buffer has also been interpreted as slightly hawkish despite little new cues from Carney yesterday.



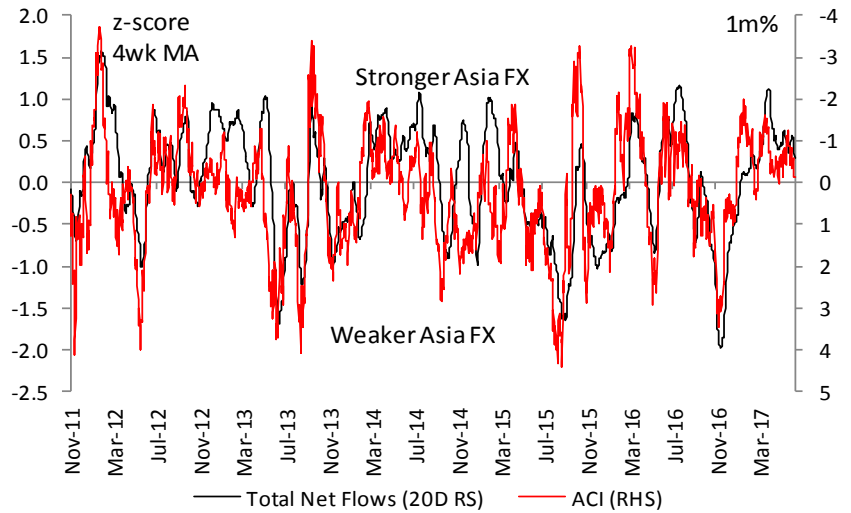
- USD-CAD** Short term implied valuations continue to be chipped away (on the back of yield differential arguments) for the USD-CAD with the pair responding accordingly of late. Ahead of expected comments from Poloz later in the global session, the pair may remain heavy footed within 1.3100-1.3200.

Source: OCBC Bank

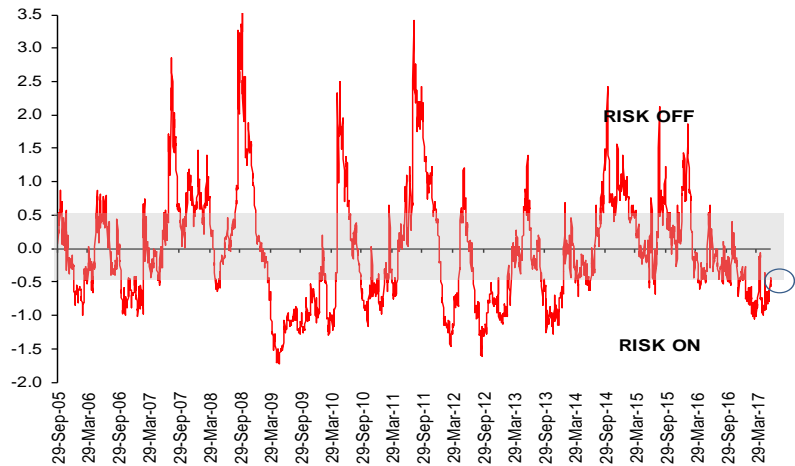
### USD-Asia VS. Net Capital Flows



### 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	-0.074	0.611	0.335	0.084	-0.482	0.424	-0.503	0.102	-0.493	0.627	-0.964
CHF	0.890	0.079	0.413	0.248	-0.139	-0.293	0.149	-0.228	0.090	-0.326	0.448	-0.930
SGD	0.651	0.099	0.816	0.050	0.295	-0.618	0.819	-0.562	0.109	-0.416	0.660	-0.345
CNH	0.627	-0.225	0.732	0.313	0.520	-0.780	0.616	-0.732	0.124	-0.695	1.000	-0.442
TWD	0.612	-0.391	0.743	0.310	0.518	-0.934	0.681	-0.890	0.220	-0.882	0.886	-0.514
CNY	0.611	-0.349	1.000	0.156	0.424	-0.737	0.787	-0.636	-0.209	-0.538	0.732	-0.448
CCN12M	0.592	-0.398	0.424	0.515	0.483	-0.782	0.379	-0.792	0.320	-0.861	0.727	-0.483
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
PHP	0.451	-0.116	0.869	-0.076	0.306	-0.750	0.818	-0.627	0.348	-0.552	0.719	-0.284
KRW	0.432	-0.446	0.746	0.248	0.570	-0.886	0.604	-0.809	0.198	-0.789	0.779	-0.295
JPY	0.424	0.088	0.787	-0.011	0.325	-0.565	1.000	-0.491	-0.031	-0.388	0.616	-0.026
INR	0.353	0.052	0.739	-0.402	-0.261	-0.227	0.634	-0.051	0.130	-0.062	0.460	-0.218
IDR	0.187	0.292	0.559	-0.576	-0.438	-0.002	0.376	0.124	-0.134	0.352	0.217	-0.075
AUD	0.184	-0.522	0.187	0.445	0.630	-0.711	0.169	-0.793	0.404	-0.816	0.568	-0.104
NZD	0.119	-0.646	0.357	0.492	0.795	-0.842	0.209	-0.876	0.263	-0.860	0.541	0.008
THB	-0.056	0.533	-0.197	-0.483	-0.601	0.671	-0.120	0.699	-0.203	0.749	-0.349	0.019
USGG10	-0.074	1.000	-0.349	-0.418	-0.460	0.548	0.088	0.519	0.226	0.499	-0.225	0.071
CAD	-0.322	0.383	-0.422	-0.375	-0.541	0.767	-0.484	0.741	-0.365	0.891	-0.661	0.112
GBP	-0.679	0.247	-0.511	-0.339	-0.392	0.696	-0.333	0.679	-0.488	0.842	-0.653	0.555
EUR	-0.964	0.071	-0.448	-0.378	-0.016	0.395	-0.026	0.302	-0.112	0.461	-0.442	1.000

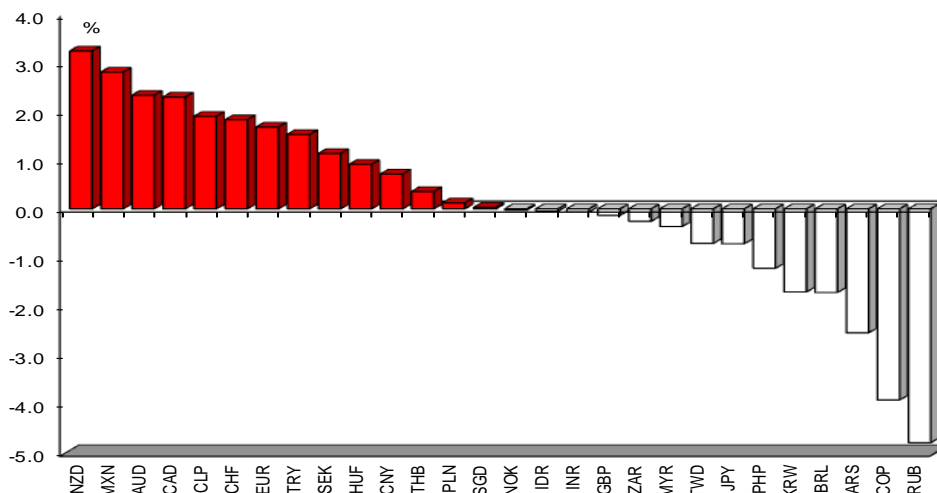
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1332	1.1350	1.1356	1.1400
GBP-USD	1.2591	1.2800	1.2820	1.2854	1.2900
AUD-USD	0.7526	0.7600	0.7609	0.7636	0.7656
NZD-USD	0.7103	0.7200	0.7280	0.7300	0.7323
USD-CAD	1.3100	1.3139	1.3146	1.3200	1.3338
USD-JPY	111.39	112.00	112.10	112.47	112.49
USD-SGD	1.3756	1.3800	1.3859	1.3900	1.3901
EUR-SGD	1.5676	1.5700	1.5730	1.5738	1.5800
JPY-SGD	1.2333	1.2350	1.2363	1.2400	1.2478
GBP-SGD	1.7609	1.7700	1.7767	1.7800	1.7865
AUD-SGD	1.0406	1.0500	1.0546	1.0566	1.0574
Gold	1236.30	1241.57	1246.40	1257.48	1294.17
Silver	16.23	16.70	16.72	16.80	16.98
Crude	42.05	44.10	44.11	44.20	47.81

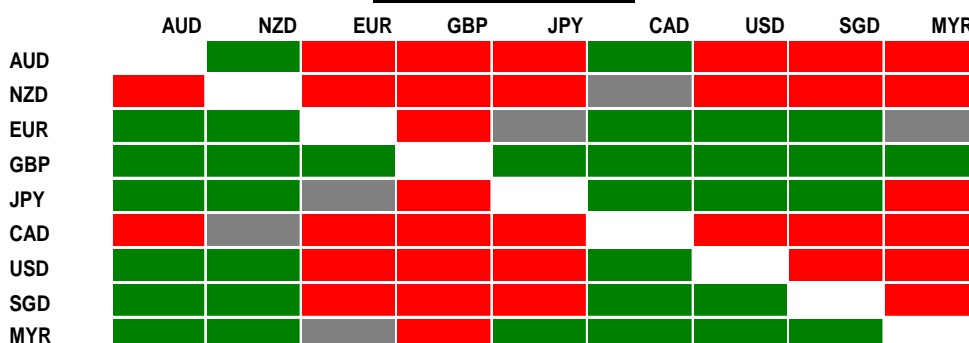
Source: OCBC Bank

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



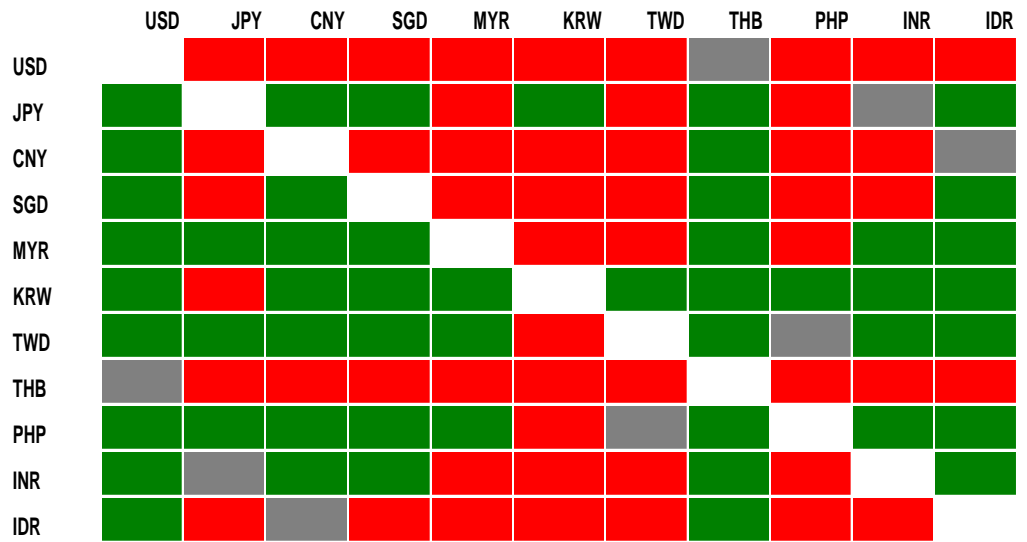
Source: Bloomberg

**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	1.3045 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		
<b>STRUCTURAL</b>								
4	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positoning 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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	18-Apr-17	29-May-17	B	GBP-USD	1.2585	1.2832	Snap UK elections, soft dollar, -ve EUR risk	+1.79
2	17-May-17	14-Jun-17	B	EUR-USD	1.1120	1.1209	Disappointing US data feed, reversal of political risk premiums	+0.63
3	24-May-17	15-Jun-17	S	USD-SGD	1.3899	1.3828	Supportive Asian portfolio inflow environment, soggy USD	+0.49
4	01-Jun-17	22-Jun-17	S	USD-JPY	111.00	111.16	Weak broad dollar disposition	-0.25
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	+1.92**	
* realized **of notional							Jan-May 2017 Return -17.04	
							2016 Return +6.91	

Source: OCBC Bank



---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

---