

**Monday, May 29, 2017**

### **FX Themes/Strategy/Trading Ideas – The week ahead**

- Amid softer UST yields and upwardly revised US 1Q GDP numbers (+1.2% qoq saar), the dollar struck a mixed tone within G10 on Friday slipping against the JPY and NZD but pulling higher against the GBP as UK election jitters emerged.
- This morning, news of another **North Korean missile launch** early Monday may keep investors on their toes slightly although long weekends for LDN, NY, and China, may keep price action sketchy.
- While background USD weakness may continue to circulate, headline risk is expected to be significant this week. On other fronts, **GBP** vulnerability may continue to prevail if investor jitters towards the 8 June snap elections heighten.
- This week, **Fed speak** is scheduled every day and kicks off with includes Williams today (0115 GMT). On this front watch for verbal cues with respect to rate hike trajectory and balance sheet reduction intentions. The busy US data calendar (including April inflation and the Beige Book) meanwhile culminates with the May NFP numbers on Friday. Elsewhere, global **manufacturing PMIs** are due on Thursday, while the beginning of another new month also brings trade numbers out of Asia.
- On the **CFTC** front, large non-commercial/leveraged accounts pared their net implied long dollar bias in aggregate in the latest week while asset manager accounts increased their net short dollar bias during the same period. **Overall, this synchronicity in positioning may exert inherent downside pressure on the greenback or alternatively, indicate significant unwind risk on a turn higher by the dollar.**

### **Asian FX**

- **EPFR** data meanwhile showed a sharp fall in implied net equity inflows into Asian (ex-Japan, China) equities in the latest week, while net implied bond inflows remained steady and less than significant. Structurally, this may impair Asian currencies somewhat in spite of a shaky USD outlook. On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped slightly within Risk-On territory on Friday but we'd expect some retracement higher today. As such, the **ACI (Asian Currency Index)** may continue to bounce on dips.
- **SGD NEER:** Today, the SGD NEER is firmer on the day at around +0.67<sup>^</sup> above its perceived parity (1.3924). NEER-implied USD-SGD thresholds are

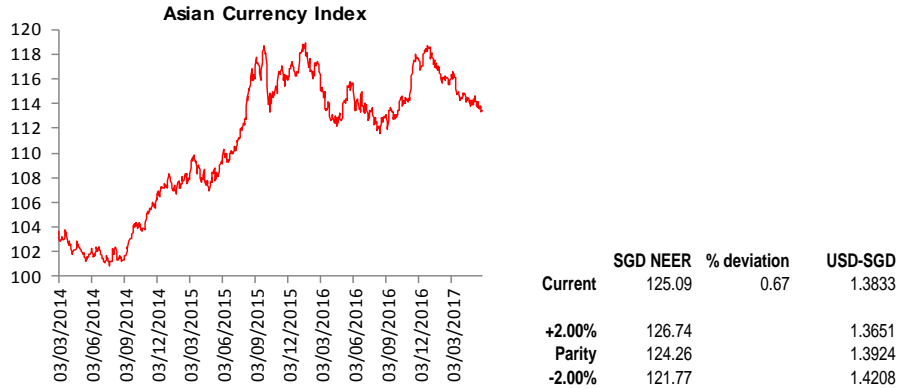
Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4073

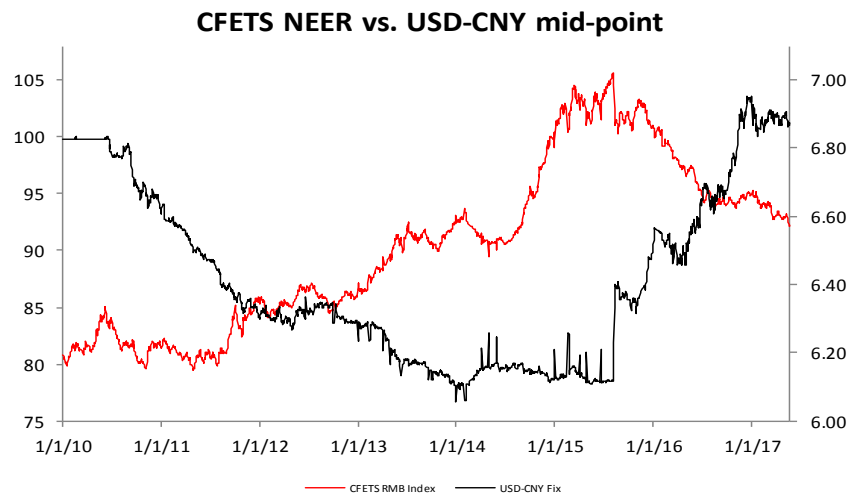
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

softer on the day with +0.50% estimated at 1.3855 and +0.80% (1.3814). Downside risks for the USD-SGD in the interim may continue to be tempered by investor caution.



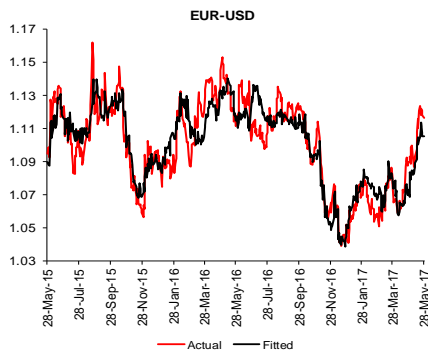
Source: OCBC Bank

- CFETS RMB Index:** Public holiday in China today – no USD-CNY mid-point. In the interim, the continued funding squeeze in the USD-CNH and the consequent collapse in USD-CNH spot will continue to keep investors extremely cautious with respect to official intentions. In the interim, market participants will attempt to incorporate a “counter-cyclical” component into their respective USD-CNY mid-point models. Structurally, we think this anticipated change in the determination of the mid-points will influence the CFETS RMB Index’s behavior. Going by the latter’s track record since mid-April (closely correlated with the broad dollar), we think that the overarching intention (apart from tempering day-to-day volatility of the USD-CNY mid-points) may be to continue to grant the Index a degree of flexibility and responsiveness to its constituent currencies.



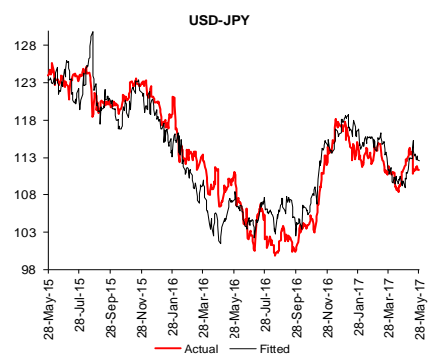
Source: OCBC Bank, Bloomberg

**G7**



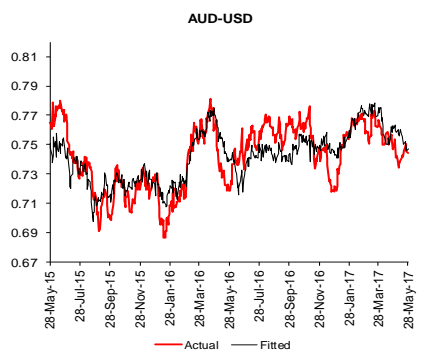
Source: OCBC Bank

- EUR-USD** The ECB’s Nowotny (0715 GMT) and Draghi (1300 GMT) are due to appear today with multiple ECB appearances also scheduled this week (watch for rhetoric on inflation, QE, and the EUR). In the interim, short term implied valuations are a touch softer despite net CFTC leveraged EUR shorts being pared significantly in the latest week. Pending further headline risks, investors may abstain from re-testing the 1.1200 ceiling in the interim.



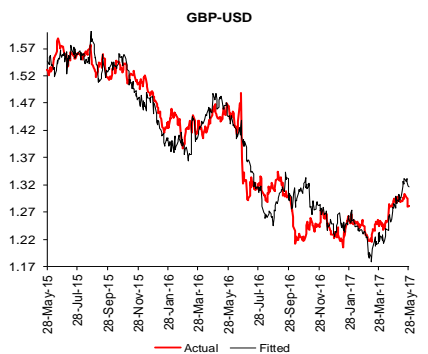
Source: OCBC Bank

- USD-JPY** The risk of political fallout (Comey to testify this week?) may continue to hang over the dollar’s head in the near term. Pending risk aversion headlines, short term implied valuations for USD-JPY have edged lower despite net leveraged CFTC JPY shorts remaining static in the latest week. As such, the 111.30 support may continually be tested, with the next way point expected at 110.50.



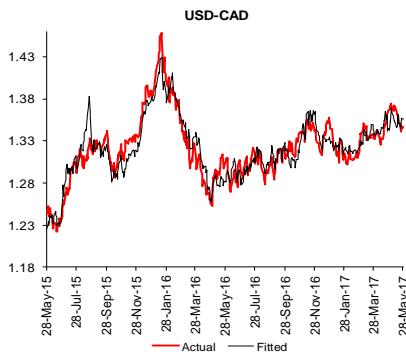
Source: OCBC Bank

- AUD-USD** With the verdict on the global reflation trade still in limbo, the AUD-USD may await global PMI headline risks later this week, while short term implied valuations remain slightly top heavy in the interim. On the CFTC front, note also that the net leveraged AUD balance flipped to a net short balance in the latest week after 17 weeks of being net long. In the near term therefore, the 0.7400 floor may remain under threat.



Source: OCBC Bank

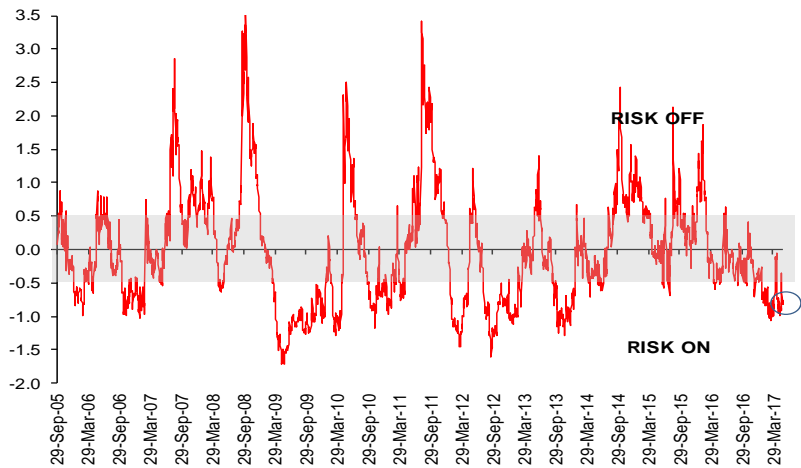
- GBP-USD** Opinion polls over the weekend continue to show a paring of implied support for PM May’s party for the upcoming snap elections and expect increasingly jittery price action in the coming sessions. For today, look to the televised May-Corbyn debate for immediate cues. Meanwhile, despite net leveraged CFTC GBP shorts being reduced in the latest week, we note that short term implied valuations continue to tip lower with technicals also arguing for a breach of 1.2800 towards the 55-day MA (1.2696).



Source: OCBC Bank

- USD-CAD** Recovering crude prices saw the USD-CAD softening on Friday but still underpinned short term implied valuations may continue to trap the pair in recent ranges. Elsewhere further conflicting forces remain at play - Net leveraged CAD shorts on the CFTC front jumped two weeks ago and remained relatively static last week, seemingly at odds with still heavy price action for the pair. In the interim, preference to trade a range within the 100-day MA (1.3351) and the 55-day MA (1.34181).

### 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	0.831	0.772	-0.013	-0.534	-0.723	0.789	-0.762	-0.321	0.444	0.768	-0.991
CHF	0.973	0.859	0.772	0.008	-0.402	-0.624	0.845	-0.686	-0.311	0.320	0.784	-0.953
SGD	0.902	0.916	0.843	-0.019	-0.487	-0.746	0.859	-0.806	-0.244	0.202	0.862	-0.868
CAD	0.886	0.680	0.750	-0.296	-0.673	-0.704	0.620	-0.817	-0.065	0.532	0.791	-0.895
USGG10	0.831	1.000	0.740	0.302	-0.309	-0.729	0.923	-0.750	-0.524	0.005	0.738	-0.784
JPY	0.789	0.923	0.679	0.333	-0.083	-0.589	1.000	-0.658	-0.463	-0.155	0.650	-0.723
MYR	0.789	0.614	0.852	-0.459	-0.664	-0.469	0.582	-0.622	0.132	0.553	0.885	-0.790
CNY	0.772	0.740	1.000	-0.167	-0.671	-0.518	0.679	-0.597	-0.186	0.412	0.978	-0.771
THB	0.768	0.724	0.905	-0.329	-0.603	-0.519	0.672	-0.629	0.010	0.424	0.950	-0.752
CNH	0.768	0.738	0.978	-0.241	-0.669	-0.488	0.650	-0.569	-0.132	0.432	1.000	-0.769
KRW	0.685	0.494	0.664	-0.106	-0.800	-0.519	0.320	-0.444	-0.249	0.699	0.687	-0.722
TWD	0.402	0.405	0.444	-0.180	-0.245	-0.247	0.395	-0.206	0.083	0.104	0.504	-0.367
IDR	0.397	0.252	0.461	-0.448	-0.432	-0.362	0.245	-0.389	0.320	0.288	0.520	-0.372
PHP	0.383	0.255	0.473	0.000	-0.511	-0.448	0.147	-0.332	-0.194	0.487	0.400	-0.414
CCN12M	0.320	0.320	0.750	-0.527	-0.650	-0.179	0.173	-0.258	0.247	0.323	0.778	-0.342
GBP	-0.245	-0.257	0.166	-0.315	-0.175	0.295	-0.168	0.109	0.324	-0.052	0.369	0.232
AUD	-0.468	-0.650	-0.447	-0.023	-0.048	0.516	-0.718	0.592	0.003	0.365	-0.341	0.384
INR	-0.513	-0.372	-0.206	0.074	0.256	0.357	-0.355	0.487	0.079	-0.273	-0.211	0.522
NZD	-0.746	-0.531	-0.692	0.427	0.581	0.441	-0.558	0.609	-0.108	-0.501	-0.761	0.759
EUR	-0.991	-0.784	-0.771	0.057	0.602	0.697	-0.723	0.731	0.304	-0.538	-0.769	1.000

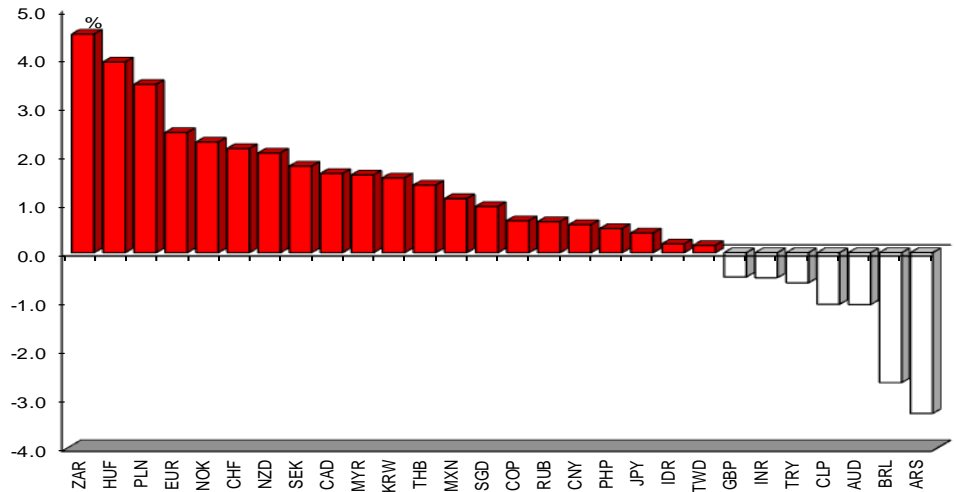
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.0861	1.1100	1.1166	1.1200	1.1268
<b>GBP-USD</b>	1.2800	1.2812	1.2819	1.2900	1.3034
<b>AUD-USD</b>	0.7336	0.7400	0.7447	0.7500	0.7510
<b>NZD-USD</b>	0.6961	0.7000	0.7046	0.7063	0.7089
<b>USD-CAD</b>	1.3391	1.3400	1.3462	1.3489	1.3500
<b>USD-JPY</b>	111.00	111.21	111.38	112.00	114.37
<b>USD-SGD</b>	1.3800	1.3808	1.3838	1.3900	1.3964
<b>EUR-SGD</b>	1.5199	1.5400	1.5451	1.5500	1.5614
<b>JPY-SGD</b>	1.2298	1.2400	1.2424	1.2500	1.2524
<b>GBP-SGD</b>	1.7700	1.7735	1.7739	1.7772	1.7800
<b>AUD-SGD</b>	1.0266	1.0300	1.0304	1.0400	1.0453
<b>Gold</b>	1249.25	1255.44	1266.60	1276.44	1296.90
<b>Silver</b>	16.03	17.30	17.35	17.40	17.46
<b>Crude</b>	45.61	49.70	49.73	49.80	50.13

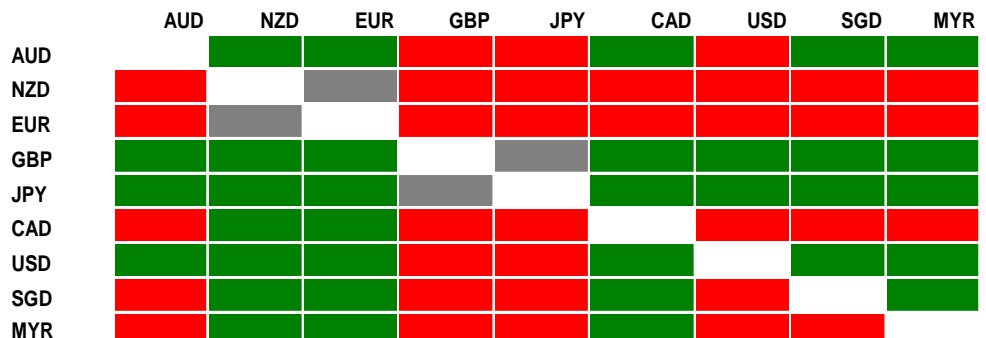
Source: OCBC Bank

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



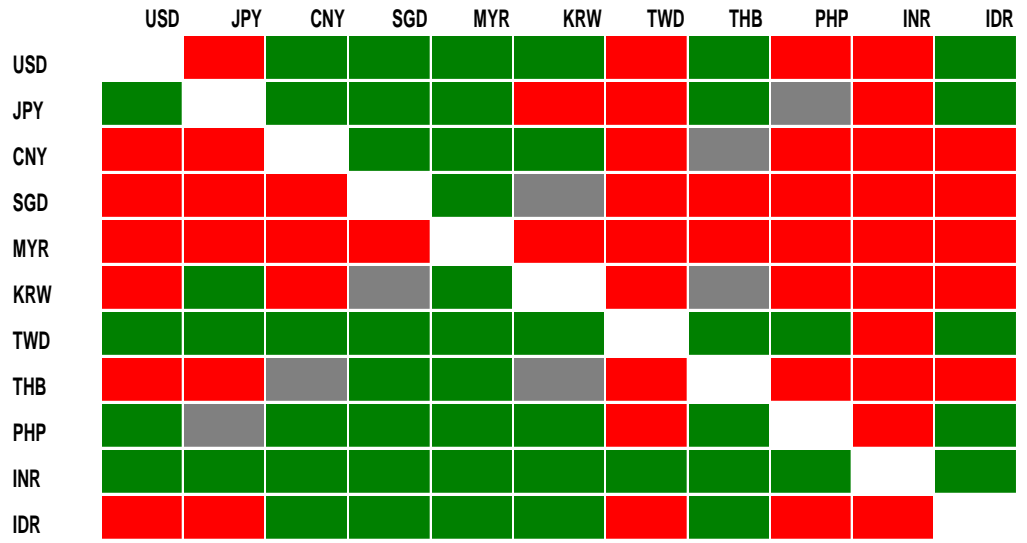
Source: Bloomberg

**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	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	
<b>STRUCTURAL</b>								
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?	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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

---

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.

---