

Tuesday, May 30, 2017

FX Themes/Strategy/Trading Ideas

- The majors were generally flattish against the USD with LDN/NY away for a long weekend and with the dollar underpinned mildly by supportive comments from the Fed's Williams.
- However, the **EUR-USD** crashed out early Tuesday in Asia as investors reacted belatedly to comments from the ECB's Draghi, who said that "We remain firmly convinced that an extraordinary amount of monetary policy support, including through our forward guidance, is still necessary". He also added that "It is still very early to think we are going to change the monetary policy stance".
- Elsewhere, GBP-USD has also shadowed EUR-USD lower early Tuesday after firming slightly on Monday. Note that another opinion poll showed that decreasing prospects of a landslide win in the upcoming elections (43-37 against Labor).
- For today, look to the Fed's **Brainard** (1700 GMT) and the ECB's **Liikanen** (1015 GMT) for central bank rhetoric, while data points include Australian April building approvals, EZ May confidence indicators, German May CPI, US May personal income and spending (including the core PCE deflator), and US May consumer confidence.
- In the interim, markets may be reduced to headline watching, although we'd expect the EUR to remain somewhat tender (given also some background Italian election chatter), imparting also some upside dollar resilience against the other majors and the Asians.
- With near term optimism towards the pound fading, we took profit on our 18 Apr 17 idea to be tactically long **GBP-USD** (spot ref: 1.2585) at 1.2832 on Monday for an implied +1.79% gain.

Asian FX

- Further on Asia, net portfolio inflow data show nascent signs of moderation in inflow momentum for the TWD, INR, KRW, stability for the PHP, but intrinsic support for the THB. Asian central banks meanwhile remain implicitly (and explicitly) uncomfortable with excessive strength of their domestic currencies and should be assuaged somewhat by the slightly more supported regional pairs into today. Expect the **ACI (Asian Currency Index)** to inch higher for a second consecutive session (note soggy start to Asian equities on Tuesday) despite the **FXSI (FX Sentiment Index)** softening

Treasury Research &
Strategy

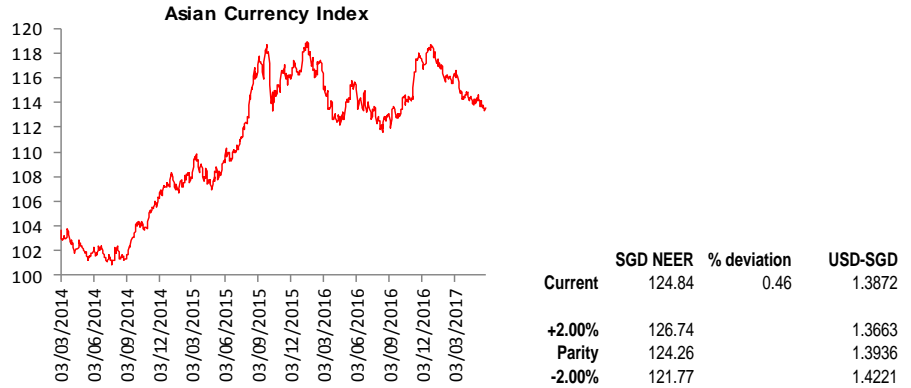
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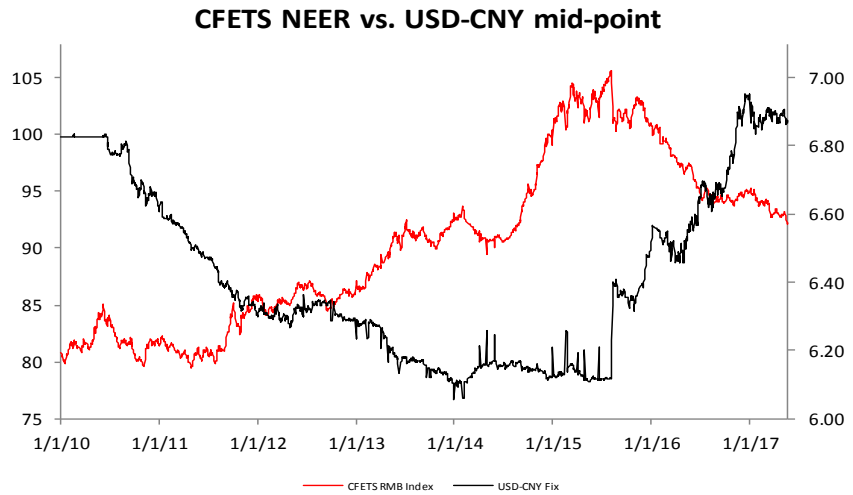
within Risk-On territory on Monday.

- SGD NEER:** This morning, the SGD NEER is a touch softer at around +0.47% above its perceived parity (1.3937), with NEER-implied USD-SGD thresholds mildly firmer on the day. Going ahead, we continue to expect the NEER to hover in the vicinity of +0.50% (1.3867) with a ceiling still expected to kick in at +0.80% (1.3825). Initial topside for the pair, given the slightly more supported dollar tone this morning in Asia, is expected towards 1.3900/10.



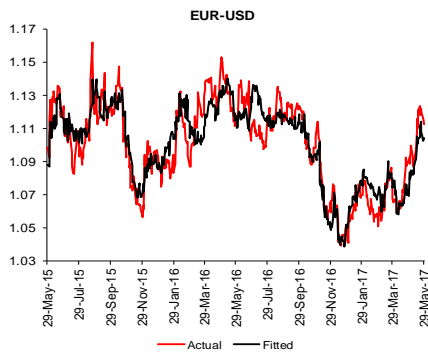
Source: OCBC Bank

- CFETS RMB Index:** Public holiday in China today.



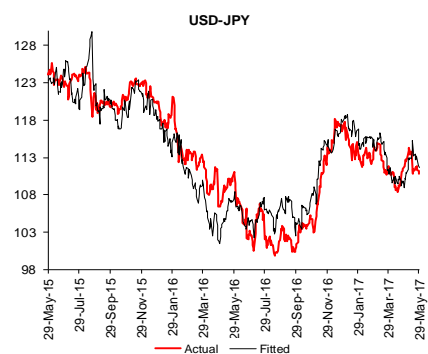
Source: OCBC Bank, Bloomberg

G7



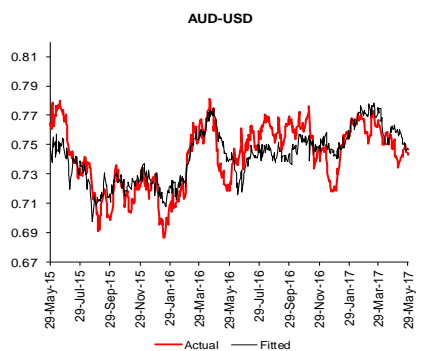
Source: OCBC Bank

- EUR-USD** Intra-day, EUR-USD may continue to smart from this morning's reaction to Italian election risks (note wider Italian-bund spreads), reports that Greece may forgo its next debt repayment failing a compromise agreement with its creditors, and Draghi's comments from yesterday. Meanwhile, guidance from short term implied valuations also suggests a softer profile in the immediate term with risks tilted towards 1.1080/00.



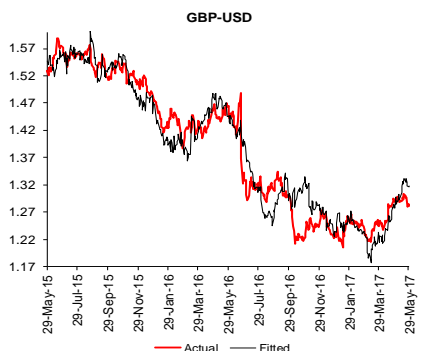
Source: OCBC Bank

- USD-JPY** Slight risk aversion vibes (note firmer gold on re-emerging geopolitical risks) are manifesting through a positive JPY on its crosses and a heavy USD-JPY in Asia on Tuesday. Note that short end implied valuations continue to slip and as noted previously, the pair may now take a stab towards 110.50.



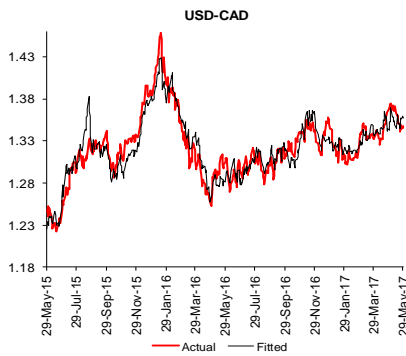
Source: OCBC Bank

- AUD-USD** Fade upside ticks in the current environment with positive risk appetite levels abating with short term implied valuations still top heavy. In the interim, expect potential for a consolidation towards the 0.7400 neighborhood ahead of 0.7360 despite the better than expected April building approval numbers this morning.



Source: OCBC Bank

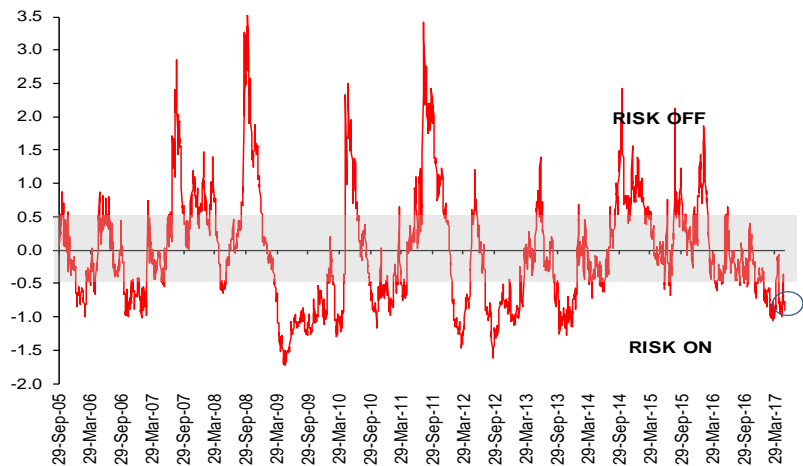
- GBP-USD** Political risk premiums may be once again entering the GBP's domain with short term implied valuations also having detached slightly lower from late last week. At this juncture, the 1.2800 support is deemed at risk, with the 55-day MA (1.2709) a distinct possibility if election news flow remains negative for PM May.



- USD-CAD** Short term implied valuations for the USD-CAD are relatively static in the near term but intra-day investor jitters may underpin the pair somewhat in the interim within 1.3400-1.3515.

Source: OCBC Bank

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	0.870	0.776	0.010	-0.550	-0.737	0.844	-0.789	-0.323	0.465	0.741	-0.993
CHF	0.973	0.887	0.774	0.025	-0.422	-0.631	0.886	-0.703	-0.312	0.341	0.742	-0.958
SGD	0.914	0.930	0.843	-0.016	-0.547	-0.747	0.886	-0.818	-0.244	0.276	0.826	-0.887
CAD	0.884	0.730	0.749	-0.288	-0.722	-0.709	0.672	-0.836	-0.064	0.614	0.800	-0.896
USGG10	0.870	1.000	0.749	0.291	-0.411	-0.730	0.933	-0.758	-0.529	0.126	0.751	-0.842
JPY	0.844	0.933	0.703	0.314	-0.227	-0.596	1.000	-0.654	-0.475	0.005	0.707	-0.800
CNY	0.776	0.749	1.000	-0.163	-0.704	-0.520	0.703	-0.605	-0.185	0.502	0.982	-0.784
MYR	0.767	0.688	0.862	-0.442	-0.694	-0.484	0.699	-0.668	0.141	0.609	0.915	-0.760
THB	0.762	0.763	0.908	-0.314	-0.655	-0.528	0.745	-0.666	0.014	0.509	0.947	-0.743
CNH	0.741	0.751	0.982	-0.225	-0.712	-0.496	0.707	-0.595	-0.131	0.493	1.000	-0.737
KRW	0.684	0.609	0.708	-0.039	-0.731	-0.576	0.486	-0.548	-0.263	0.593	0.604	-0.698
CCN12M	0.394	0.447	0.750	-0.521	-0.702	-0.182	0.365	-0.323	0.249	0.409	0.878	-0.400
PHP	0.386	0.262	0.473	0.000	-0.501	-0.448	0.157	-0.332	-0.194	0.483	0.367	-0.417
TWD	0.380	0.440	0.446	-0.151	-0.182	-0.259	0.459	-0.237	0.089	-0.048	0.490	-0.332
IDR	0.374	0.254	0.460	-0.441	-0.386	-0.366	0.260	-0.404	0.325	0.275	0.403	-0.349
GBP	-0.209	-0.032	0.164	-0.307	-0.261	0.294	-0.065	0.101	0.326	-0.006	0.444	0.213
INR	-0.500	-0.397	-0.200	0.051	0.227	0.365	-0.402	0.511	0.076	-0.238	-0.196	0.507
AUD	-0.518	-0.621	-0.476	0.011	0.036	0.524	-0.688	0.584	0.006	0.280	-0.344	0.454
NZD	-0.733	-0.628	-0.702	0.409	0.612	0.459	-0.652	0.650	-0.113	-0.514	-0.796	0.737
EUR	-0.993	-0.842	-0.784	0.025	0.598	0.721	-0.800	0.774	0.309	-0.535	-0.737	1.000

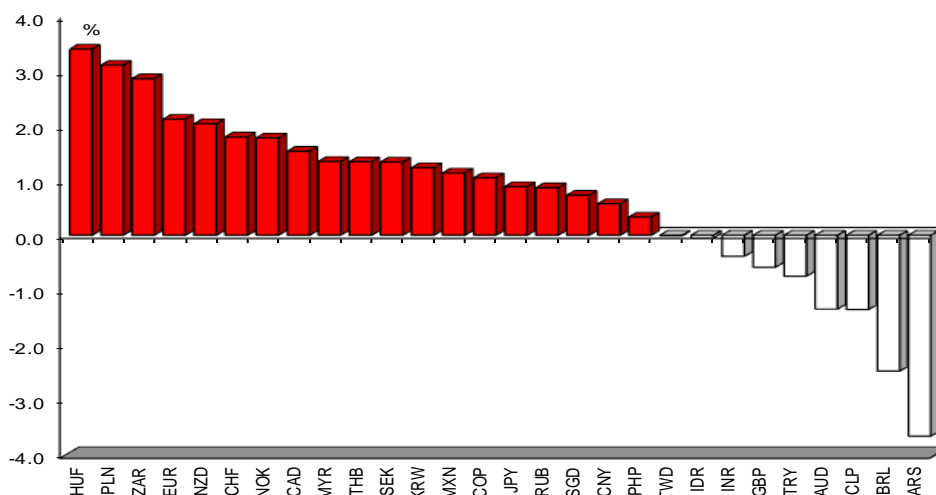
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0867	1.1100	1.1128	1.1200	1.1268
GBP-USD	1.2799	1.2800	1.2810	1.2900	1.3037
AUD-USD	0.7345	0.7400	0.7426	0.7499	0.7500
NZD-USD	0.6961	0.7000	0.7045	0.7079	0.7089
USD-CAD	1.3376	1.3400	1.3473	1.3491	1.3500
USD-JPY	110.10	110.13	110.83	111.00	111.19
USD-SGD	1.3800	1.3808	1.3867	1.3900	1.3962
EUR-SGD	1.5227	1.5400	1.5431	1.5500	1.5609
JPY-SGD	1.2294	1.2500	1.2512	1.2538	1.2556
GBP-SGD	1.7700	1.7713	1.7763	1.7779	1.7800
AUD-SGD	1.0239	1.0276	1.0297	1.0300	1.0421
Gold	1249.26	1255.48	1268.80	1276.87	1292.70
Silver	16.07	17.40	17.43	17.46	17.50
Crude	45.60	49.80	49.89	49.90	50.14

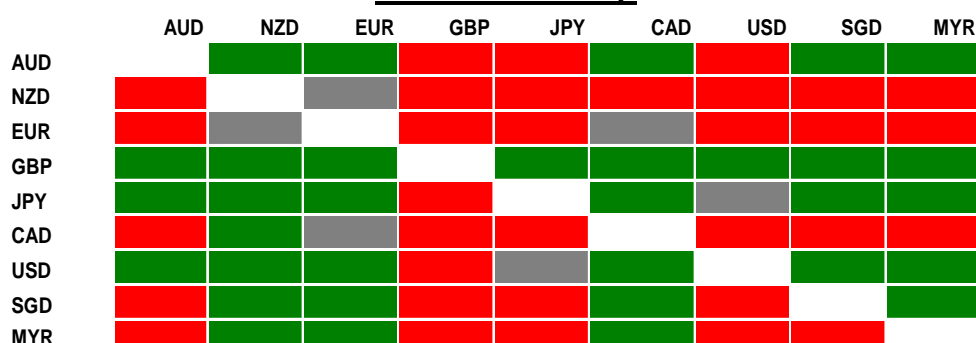
Source: OCBC Bank

FX performance: 1-month change agst USD



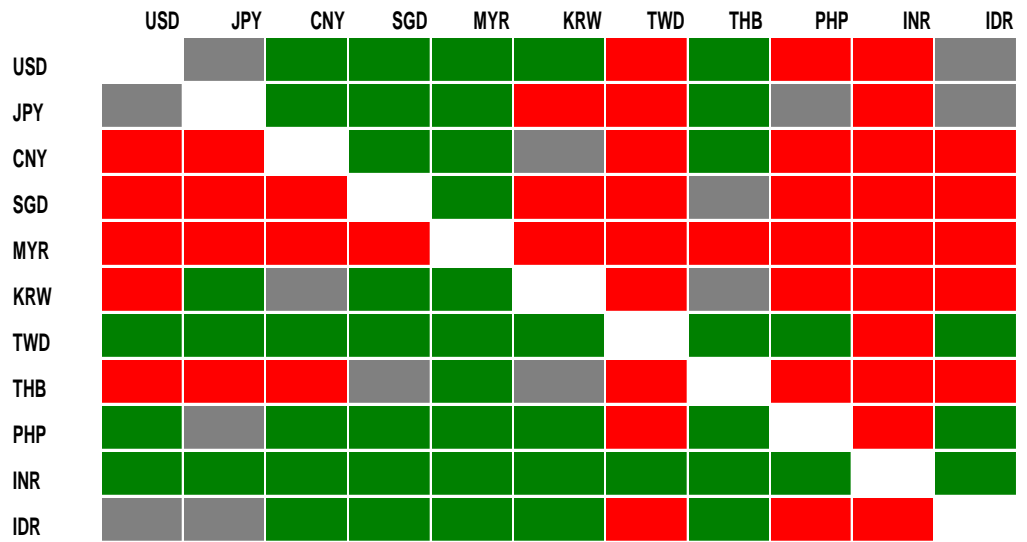
Source: Bloomberg

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	17-May-17	B	EUR-USD	1.1120	1.1320 1.1015	Disappointing US data feed, reversal of political risk premiums		
2	23-May-17	S	USD-CAD	1.3489	1.3265 1.3605	USD skepticism, sanguine risk appetite, supported crude		
3	24-May-17	S	USD-SGD	1.3899	1.3745 1.3980	Supportive Asian portfolio inflow environment, soggy USD		
STRUCTURAL								
4	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		
5	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
6	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
5	18-Apr-17	29-May-17	B	GBP-USD	1.2585	1.2832	Snap UK elections, soft dollar, -ve EUR risk	+1.79
* realized **of notional								
							Jan-Apr 2017 Return	-19.70
							2016 Return	+6.91

Source: OCBC Bank

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