

Friday, June 02, 2017

FX Themes/Strategy/Trading Ideas

- Firmer UST yields on the back of above consensus ADP numbers (+253k vs. +180k exp) saw the dollar shading higher against its G10 counterparts. Elsewhere, the May ISM came in slightly above expectations at 54.9 but the price paid component dropped more than expected to 60.5 – **a cautionary side note for Fed/USD bulls.**
- Mixed EZ PMIs (Italy, France) on Thursday saw the EUR putting up little resistance against a firming USD. However, supportive comments from the ECB's Weidmann on Wednesday and German Finance Minister Schaeuble may continue to grant underlying support for the EUR ahead of next week's ECB council meeting.
- Elsewhere, the cyclicals continued to underperform across the board as crude revisited sub-48.00 levels by late NY. Earlier on Thursday, the global macro trade also was dented after the Caixin China manufacturing PMI came in below expectations at 49.6. However, with risk appetite still sanguine (positive EZ, US equities), the JPY still underperformed across the board despite the weaker cyclical currencies.
- The **US NFP** tonight (mkts: +185k) is expected to set the tone into the end of the week but in the interim, investors may remain cautious towards a re-balancing away from cyclical plays, with positive risk appetite levels, although still sanguine, likely on a nervous perch ahead of next week's event risks.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** retraced lower within Risk-On territory on Thursday (note positive equities in Asia early Friday) although we would **continue to monitor the uneasy alliance between dovish cyclical currencies but still supported positive risk appetite levels.**
- With prospects for inherent USD resilience continually under threat (not least from the continued waning of yield differential support) despite the upcoming FOMC this month and the US NFP this Friday, we initiate a tactical short USD-JPY. With a **USD-JPY** spot ref of 111.00 on Thursday, we look for a 108.60 objective and place a stop at 112.25.

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Asian FX

- EM FX were generally mixed to softer overnight with USD-Asia expected to respond slightly higher to the greenback. As such, the **ACI (Asian Currency**

Index) may be expected to remain supported pending further news flow. On **net portfolio inflows**, we note some improvement for the KRW, ongoing support for the INR and the THB, stabilization for the PHP, while the TWD and IDR may potentially be undermined by waning inflow momentum.

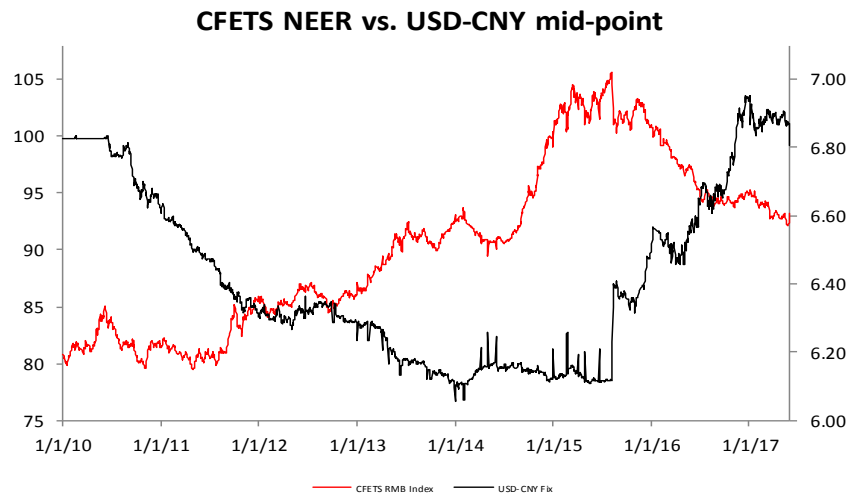
- On the macro front, except for an improvement in the Philippines, the respective **manufacturing PMIs** for India, Malaysia, Thailand, South Korea, and Taiwan, slipped from the previous month. The PMIs for Indonesia and Singapore are due later today with May composite and services PMIs out of **China** at 0145 GMT.
- **SGD NEER:** This morning, the SGD NEER is slightly easier on the day at around +0.41% above its perceived parity (1.3921). In view of the USD backdrop, NEER-implied USD-SGD thresholds are higher on the day with +0.50% estimated at 1.3852 and +0.80% at 1.3810. Pending further global headlines, expect the NEER to fluctuate around +0.50% with initial topside for the pair seen towards 1.3890/00. Our volatility indicators (for the USD-SGD and the NEER) meanwhile seem to suggest little expected official discomfort at this juncture.



	SGD NEER	% deviation	USD-SGD
Current	124.77	0.42	1.3860
+2.00%	126.74		1.3648
Parity	124.26		1.3921
-2.00%	121.77		1.4205

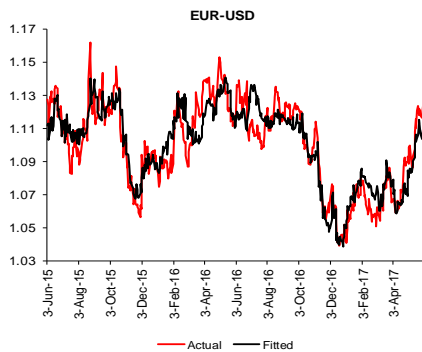
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning stabilized (as largely expected) at 6.8070 versus 6.8090 on Thursday. This lifted the CFETS RMB Index to 93.16 from 92.96 yesterday. As noted yesterday, after the switch to the 'new' fixing regime earlier this week, we would expect volatility of the mid-points to moderate as well as the eventual normalization of the respective basis amongst the mid-point, USD-CNY, as well as the USD-CNH.



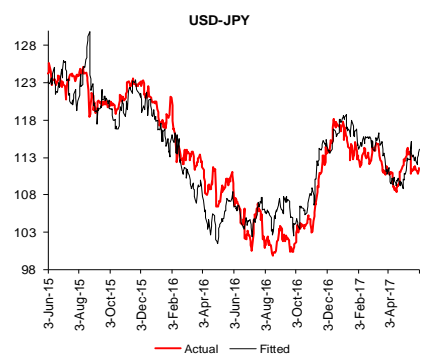
Source: OCBC Bank, Bloomberg

G7



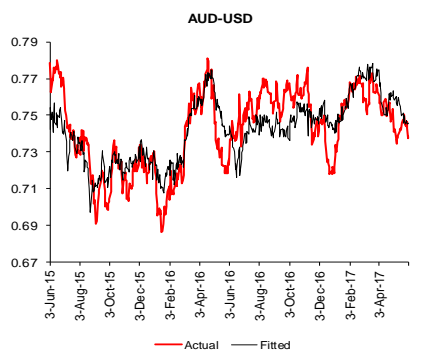
Source: OCBC Bank

- EUR-USD** Apart from US NFP risks, the ECB council meeting next week may be expected to present considerable headline-induced volatility in the coming sessions. In our view, the major unwind risk for the pair next week may materialize if the ECB leaves its forward guidance untouched. In the interim, short term implied valuations for the EUR-USD pair remain underpinned and the pair may continue to hug the 1.1200 neighborhood in the interim.



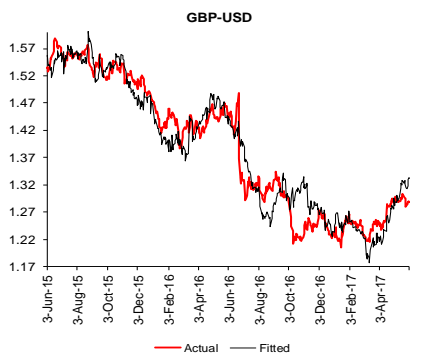
Source: OCBC Bank

- USD-JPY** With the N225 above 20k this morning, the USD-JPY may be expected to retain a positive spin. Meanwhile, short term implied valuations have blipped higher for the USD-JPY but this may well prove transient in our view, especially if the June FOMC “disappoints”. Ahead of the NFP numbers, expect a supported tone within 111.00-112.00.



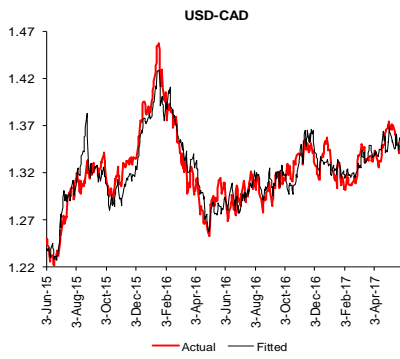
Source: OCBC Bank

- AUD-USD** The likes of the AUD may continue to feel the heat as market positioning with respect to G10 cyclical continues to undergo a reassessment. Elsewhere, our short term implied valuations for the pair remain repressed and a further deterioration 0.7330 may remain on the card in the current environment.



Source: OCBC Bank

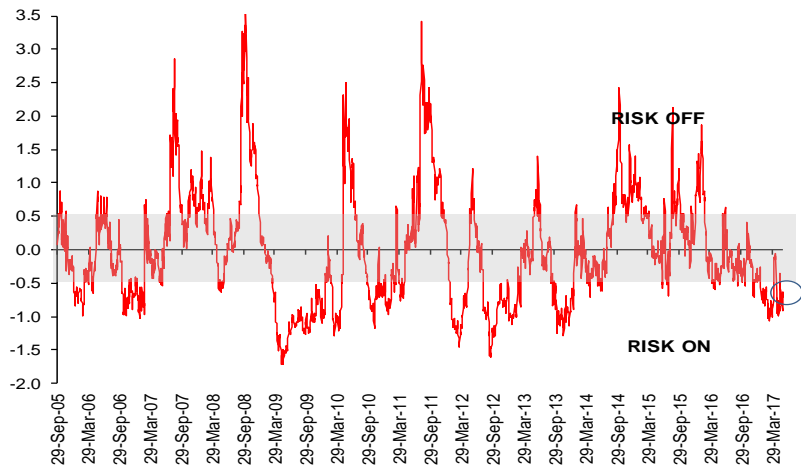
- GBP-USD** Our core near term view for the pair remains intact - consolidation but subject to poll headline risks despite supported short term implied valuations. Preference to fade upticks within 1.2800-1.2930.



Source: OCBC Bank

- USD-CAD** Depressed crude, shaky G10 cyclicals, and near term resilience in the USD, make for a supported tone in the USD-CAD, with short term valuations for the pair still holding up. Intra-day, expect support to kick in towards the 55-day MA (1.3490). Technically, the pair has also violated a downward trend line from mid-May crimping downside potential in the near term.

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	0.897	0.679	-0.208	-0.607	-0.572	0.901	-0.736	-0.199	0.508	0.701	-0.995
CHF	0.977	0.908	0.687	-0.201	-0.499	-0.472	0.930	-0.610	-0.189	0.384	0.719	-0.967
SGD	0.934	0.936	0.685	-0.229	-0.636	-0.580	0.911	-0.722	-0.146	0.392	0.714	-0.921
JPY	0.901	0.950	0.632	-0.003	-0.406	-0.440	1.000	-0.569	-0.361	0.194	0.665	-0.877
USGG10	0.897	1.000	0.713	-0.066	-0.538	-0.512	0.950	-0.666	-0.355	0.237	0.739	-0.878
CAD	0.893	0.755	0.599	-0.411	-0.754	-0.578	0.735	-0.779	0.023	0.686	0.634	-0.904
MYR	0.818	0.743	0.754	-0.583	-0.749	-0.298	0.740	-0.586	0.211	0.643	0.777	-0.810
THB	0.813	0.821	0.859	-0.538	-0.722	-0.256	0.785	-0.525	0.127	0.553	0.872	-0.795
CNH	0.701	0.739	0.994	-0.554	-0.672	-0.022	0.665	-0.209	0.102	0.483	1.000	-0.705
KRW	0.685	0.603	0.515	-0.131	-0.703	-0.453	0.498	-0.494	-0.213	0.594	0.501	-0.700
CNY	0.679	0.713	1.000	-0.521	-0.657	-0.034	0.632	-0.263	0.059	0.467	0.994	-0.681
CCN12M	0.535	0.598	0.912	-0.657	-0.715	0.074	0.525	-0.133	0.272	0.472	0.932	-0.563
PHP	0.442	0.340	0.473	-0.153	-0.536	-0.348	0.232	-0.308	-0.133	0.514	0.424	-0.470
TWD	0.434	0.490	0.413	-0.240	-0.255	-0.191	0.504	-0.224	0.122	0.016	0.431	-0.391
IDR	0.327	0.206	0.239	-0.379	-0.337	-0.366	0.217	-0.393	0.316	0.259	0.211	-0.306
GBP	-0.105	0.051	0.321	-0.452	-0.430	0.331	-0.011	0.177	0.345	0.206	0.426	0.076
INR	-0.515	-0.426	-0.172	0.128	0.278	0.324	-0.438	0.520	0.043	-0.269	-0.210	0.520
AUD	-0.550	-0.568	-0.049	-0.039	0.133	0.576	-0.564	0.624	0.086	0.064	-0.015	0.448
NZD	-0.779	-0.714	-0.766	0.585	0.694	0.227	-0.733	0.484	-0.202	-0.595	-0.797	0.792
EUR	-0.995	-0.878	-0.681	0.228	0.637	0.571	-0.877	0.696	0.185	-0.552	-0.705	1.000

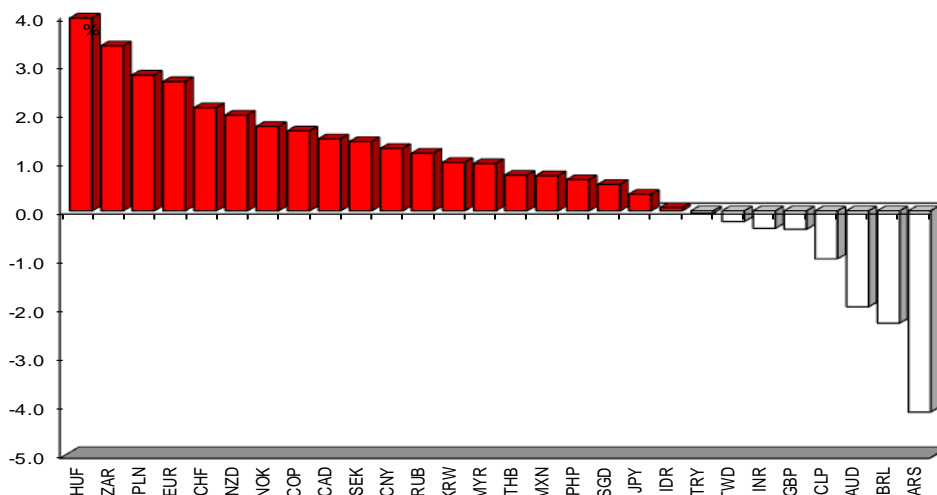
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0894	1.1200	1.1216	1.1268	1.1300
GBP-USD	1.2800	1.2806	1.2887	1.2900	1.3024
AUD-USD	0.7329	0.7338	0.7389	0.7400	0.7490
NZD-USD	0.6964	0.7000	0.7070	0.7096	0.7100
USD-CAD	1.3470	1.3500	1.3508	1.3600	1.3751
USD-JPY	111.00	111.20	111.61	112.00	114.37
USD-SGD	1.3800	1.3808	1.3859	1.3900	1.3954
EUR-SGD	1.5270	1.5500	1.5544	1.5600	1.5628
JPY-SGD	1.2297	1.2400	1.2416	1.2500	1.2537
GBP-SGD	1.7800	1.7802	1.7860	1.7900	1.8273
AUD-SGD	1.0220	1.0231	1.0240	1.0300	1.0428
Gold	1247.99	1256.64	1262.00	1282.21	1289.10
Silver	16.07	17.20	17.21	17.30	17.45
Crude	46.02	48.10	48.12	48.20	50.07

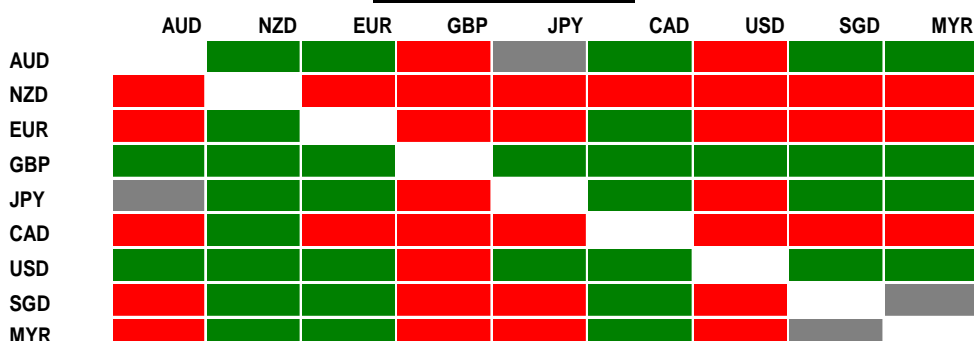
Source: OCBC Bank

FX performance: 1-month change agst USD



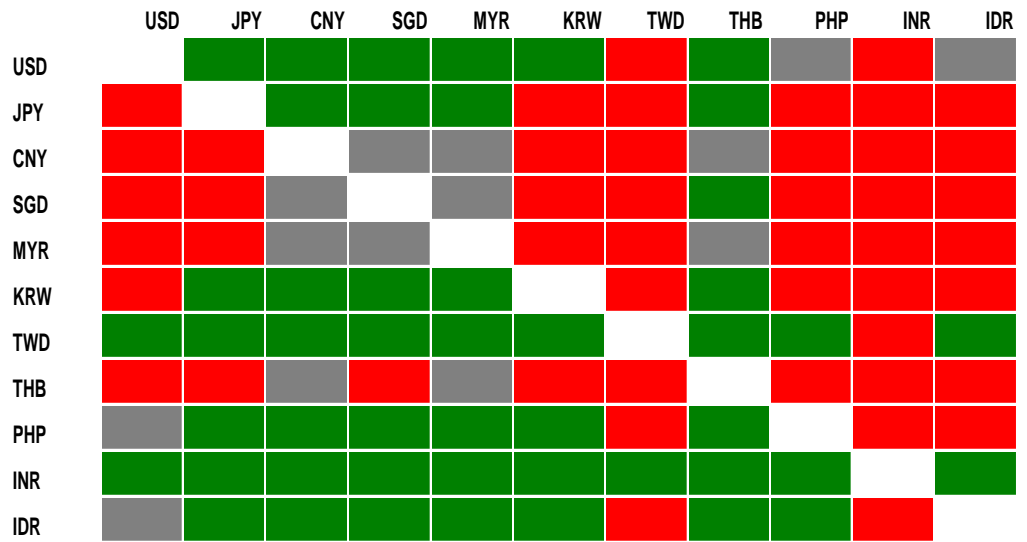
Source: Bloomberg

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		
4	01-Jun-17	S	USD-JPY	111.00	108.60 112.25	Weak broad dollar disposition		
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
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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