

Thursday, August 03, 2017

FX Themes/Strategy/Trading Ideas

- Despite firmer UST yields (note supportive ADP numbers), the USD ended mixed across G10 space on Wednesday. Following dovish remarks (with respect to rate hike prospects) from the Fed's Mester, Williams, and Bullard, greenback vulnerability manifested via the EUR-USD (high of 1.1909), which was also given a lift on cited cross buying (EUR-JPY, EUR-CHF). Meanwhile, Williams and Rosengren also indicated that an announcement of the balance sheet unwind may be appropriate at the September FOMC. On other fronts, weakness across the cyclicals, (loonie and antipodeans) lent support to the USD despite generally supportive global equities.
- Going ahead, with Fed rate hike prospects increasingly in question, USD resilience may have to be increasingly reliant on balance sheet reduction dynamics. However, with the ECB also slated to broach the issue in the fall, the EUR (underpinned by supportive data flow), may continue to attempt to lean against the USD. In this environment, diversion away from the cyclicals may linger temporarily, with further gains likely going to have to be predicated on the global macro backdrop.
- The DXY meanwhile chalked up a low of 92.548 on Wednesday (weighed by the EUR) and further skepticism towards the greenback may continue to linger with the 200-week MA situated at 92.32.
- For today, no Fed-speak is scheduled but markets will be primed for the **BOE's** Super Thursday (1100 GMT; Carney's press conference at 1130 GMT) with Australian June trade numbers due in Asia (0130 GMT). Overlaid across most markets will be the release of global services/composite PMIs (including the China Caixin indices at 0145 GMT and the US non-manufacturing ISM later tonight).

Asian FX

- EM FX were mixed to positive overnight but Asian currencies are also expected to be on a slightly more cautious (despite the as expected cut by the RBI yesterday and the INR's positive reaction) footing intra-day with **DX** vulnerability losing its ability to translate to a softer USD-Asia profile. Note also the negative start to Asian equities (e.g., KOSPI) and this may put a further floor on the regional pairs.
- On the net portfolio front, we continue to see supportive flows for the KRW and INR, while minor improvements are being witnessed for the PHP, MYR, and THB. Net inflows for TWD remain lackluster although the recent net

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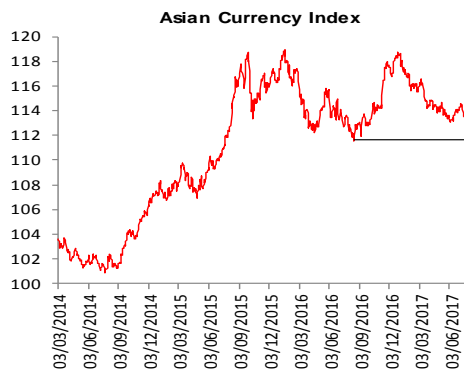
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outflow situation for the IDR is improving. Overall, with the **FXSI (FX Sentiment Index)** inching higher again (within Risk-On territory), we look for the **ACI (Asian Currency Index)** to search higher in the near term.

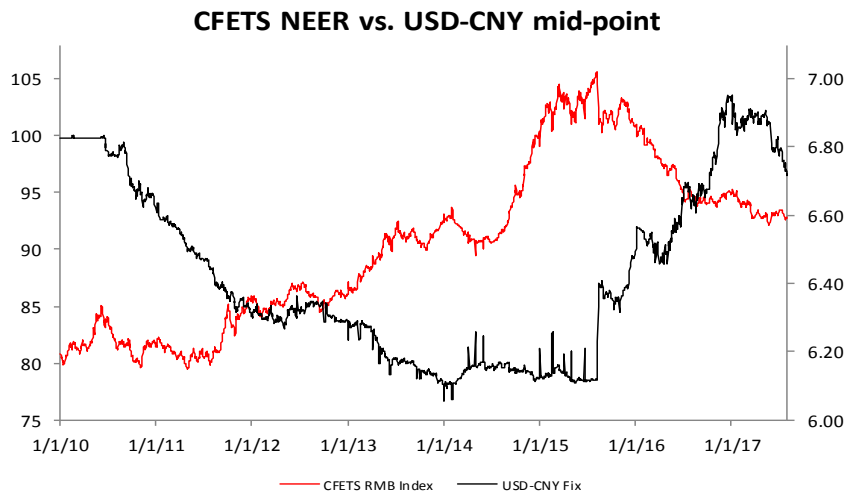
- SGD NEER:** The SGD NEER is yet softer on the day at around +0.64% above its perceived parity (1.3696) with NEER-implied USD-SGD thresholds slightly firmer on the day. At current levels, the +1.00% threshold is estimated at 1.3561 but given the current market's cautious demeanor (and despite improving July PMIs), gravitational pull towards +0.50% (1.3629) may be expected instead intra-day.



	SGD NEER	% deviation	USD-SGD
Current	125.08	0.66	1.3616
+2.00%	126.74		1.3428
Parity	124.26		1.3696
-2.00%	121.77		1.3976

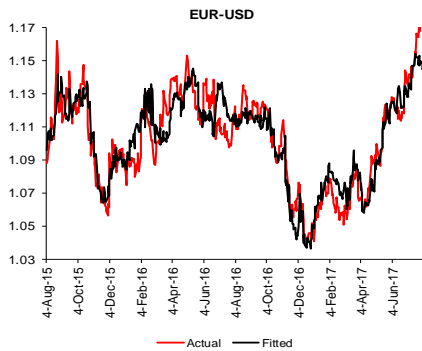
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point ticked higher slightly to 6.7211 (reflecting early Thursday USD resilience) from 6.7205 yesterday. This brought the CFETS RMB Index 92.86 from 92.83 yesterday.



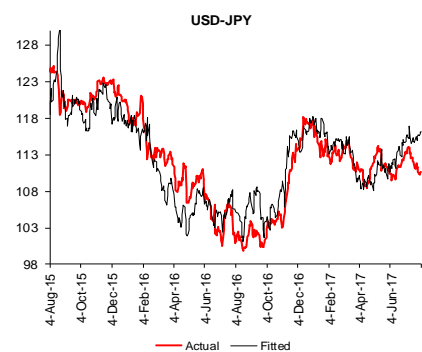
Source: OCBC Bank, Bloomberg

G7



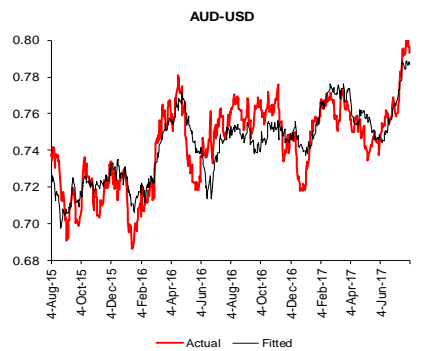
Source: OCBC Bank

- EUR-USD** Despite overnight price action in the EUR-USD, short term implied valuations are still attempting to consolidate lower, leaving the pair relatively rich at this juncture even as markets continue to re-price shifting relative Fed-ECB dynamics. In the interim, expect 1.1785 to cushion with 1.1900 up top to cap while the pivotal junction at the 200-week MA (1.1789) remains in play.



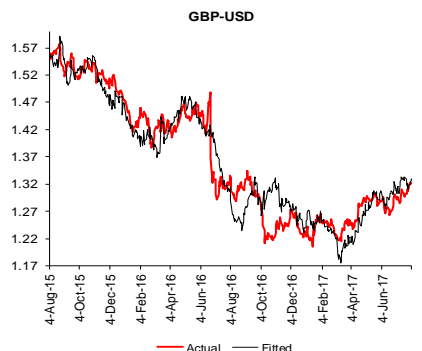
Source: OCBC Bank

- USD-JPY** USD-JPY may remain a conflicted mess of cross-plays and interest rate differential arguments, coupled with uncertainty surrounding an expected Cabinet reshuffle today. In the interim, short term implied valuations continue to peek higher and as stated yesterday, making the USD-JPY look increasingly distended to the downside for now despite our top heavy preference. Expect 110.00-111.00 to prevail in the interim.



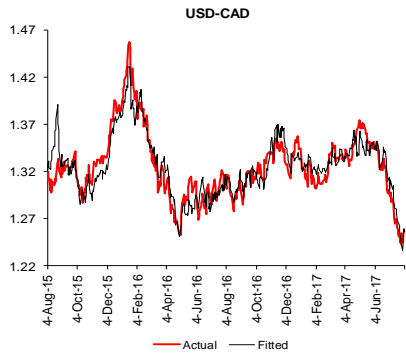
Source: OCBC Bank

- AUD-USD** AUD-USD bled lower below 0.7950 this morning with the June trade surplus coming in at a smaller than expected AUD856mn. Short term implied valuations remain reasonably underpinned in the interim but the ongoing re-assessment with respect to the cyclicals have continued to discourage near term upside probes for the pair. Technically, the 200-week MA (0.8004) remains a significant hurdle, and a further consolidation towards 0.7880/00 cannot be ruled out.



Source: OCBC Bank

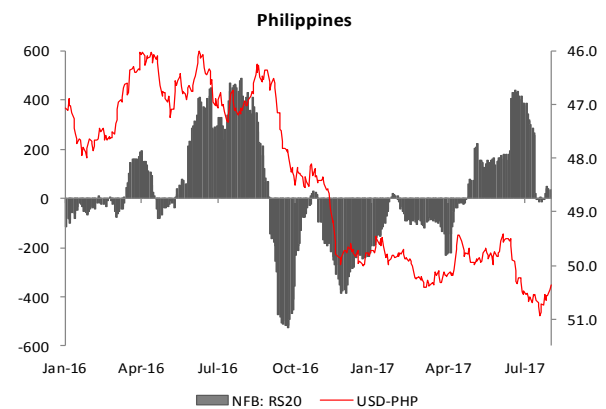
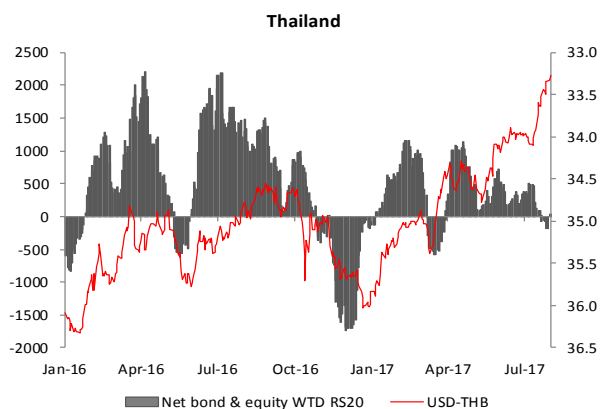
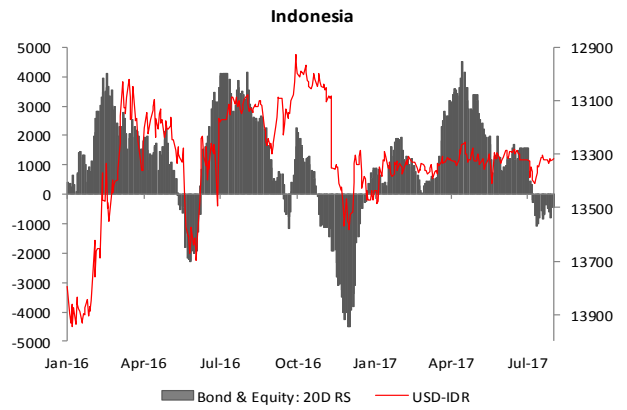
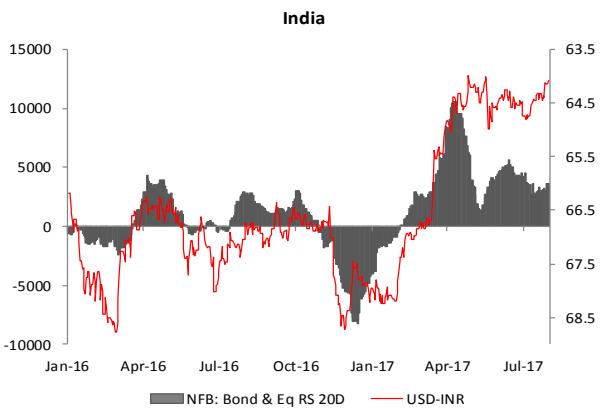
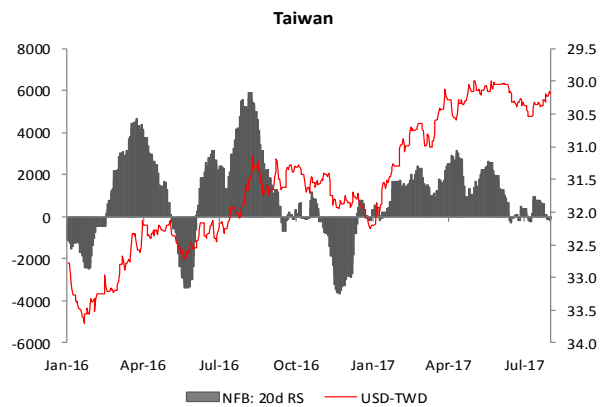
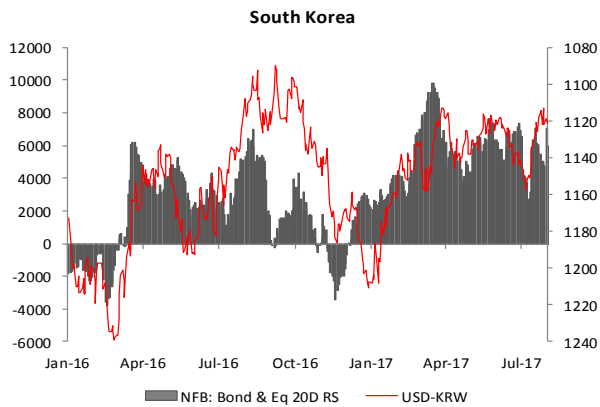
- GBP-USD** GBP-USD continued to remain underpinned ahead of the BOE today, with trace elements of hawkishness still expected out of the central bank. Short term implied valuations are still attempting to sneak higher, and a 1.3165-1.3250 range may govern in the interim.

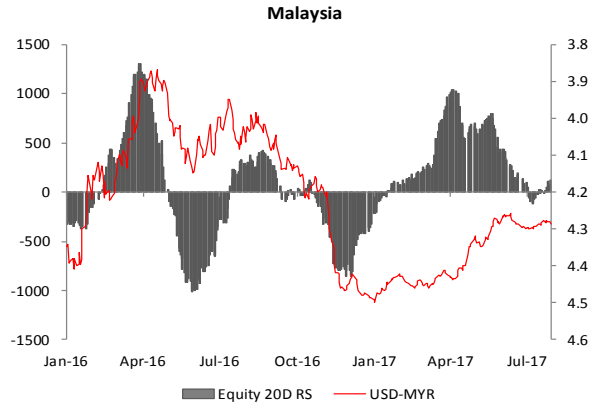


- USD-CAD** USD-CAD is expected to continue to latch onto the latest corrective upswing in short term implied valuations, and as alluded to above, amidst the current re-assessment towards global cyclicals. Beyond 1.2600, 1.2670 may attract ahead of the confluence of US/Canadian labor market data.

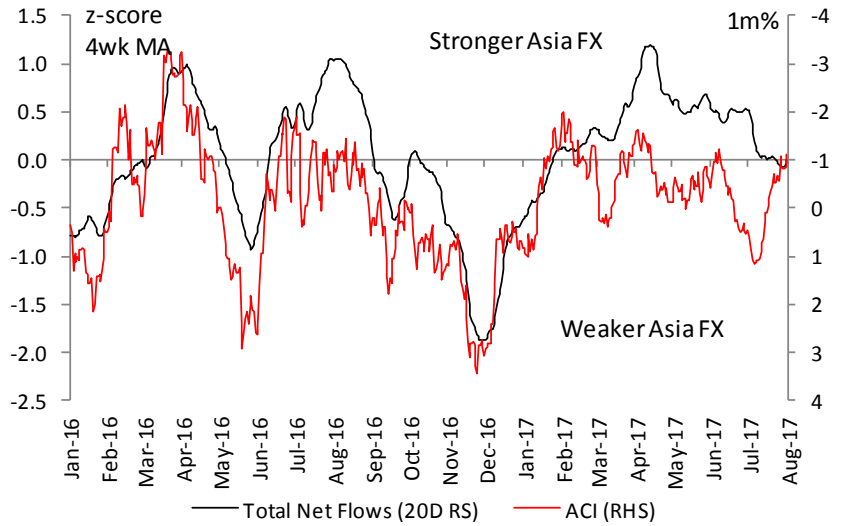
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

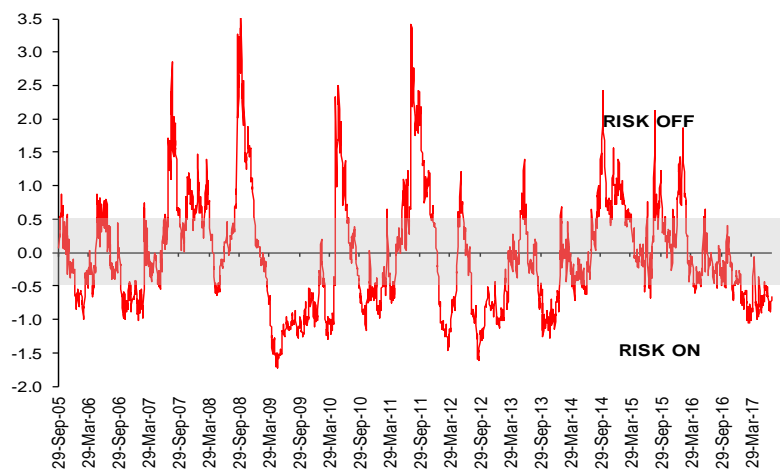




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.747	0.948	-0.851	-0.92	-0.931	0.966	-0.909	0.506	0.852	0.962	-0.991
JPY	0.966	0.817	0.942	-0.866	-0.91	-0.916	1	-0.888	0.529	0.904	0.96	-0.938
THB	0.966	0.762	0.953	-0.892	-0.935	-0.896	0.971	-0.866	0.571	0.909	0.96	-0.934
CNH	0.962	0.804	0.979	-0.915	-0.962	-0.929	0.96	-0.905	0.625	0.912	1	-0.929
SGD	0.957	0.773	0.948	-0.928	-0.96	-0.913	0.963	-0.893	0.648	0.929	0.976	-0.921
CNY	0.948	0.765	1	-0.886	-0.936	-0.93	0.942	-0.904	0.556	0.894	0.979	-0.918
CAD	0.887	0.748	0.886	-0.951	-0.933	-0.82	0.888	-0.793	0.781	0.889	0.924	-0.835
INR	0.867	0.627	0.894	-0.782	-0.851	-0.836	0.799	-0.8	0.478	0.746	0.871	-0.85
TWD	0.852	0.639	0.933	-0.838	-0.89	-0.877	0.877	-0.897	0.561	0.865	0.917	-0.812
CCN12M	0.842	0.702	0.913	-0.907	-0.922	-0.853	0.842	-0.828	0.681	0.906	0.922	-0.786
MYR	0.839	0.702	0.855	-0.873	-0.882	-0.768	0.86	-0.743	0.673	0.871	0.874	-0.783
KRW	0.834	0.781	0.882	-0.959	-0.946	-0.775	0.858	-0.716	0.805	0.927	0.895	-0.768
IDR	0.756	0.853	0.838	-0.903	-0.88	-0.711	0.834	-0.652	0.779	0.924	0.863	-0.675
USGG10	0.747	1	0.765	-0.793	-0.783	-0.625	0.817	-0.541	0.649	0.817	0.804	-0.699
PHP	0.25	-0.204	0.206	-0.029	-0.074	-0.302	0.2	-0.445	-0.171	0.002	0.149	-0.302
CHF	0.06	0.381	0.085	-0.305	-0.25	0.078	0.12	0.233	0.467	0.28	0.074	-0.01
GBP	-0.885	-0.615	-0.893	0.728	0.812	0.888	-0.888	0.904	-0.366	-0.765	-0.904	0.873
NZD	-0.899	-0.674	-0.852	0.844	0.863	0.875	-0.928	0.846	-0.534	-0.873	-0.882	0.871
AUD	-0.917	-0.81	-0.935	0.965	0.968	0.889	-0.919	0.838	-0.731	-0.943	-0.961	0.872
EUR	-0.991	-0.699	-0.918	0.795	0.881	0.92	-0.938	0.905	-0.427	-0.801	-0.929	1

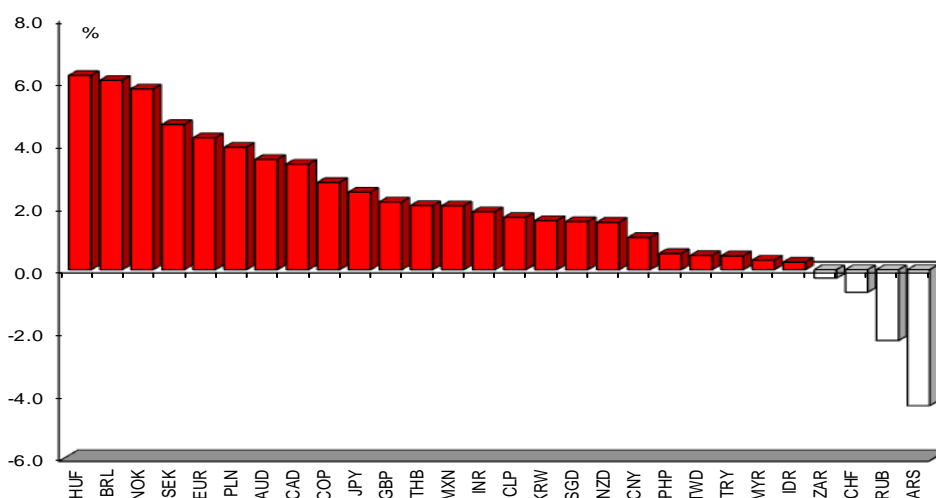
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1391	1.1800	1.1839	1.1900	1.1910
GBP-USD	1.2914	1.3200	1.3215	1.3251	1.3272
AUD-USD	0.7674	0.7900	0.7925	0.8000	0.8066
NZD-USD	0.7279	0.7300	0.7399	0.7400	0.7558
USD-CAD	1.2414	1.2500	1.2585	1.2600	1.2902
USD-JPY	109.93	110.00	110.66	111.00	111.52
USD-SGD	1.3543	1.3600	1.3616	1.3700	1.3760
EUR-SGD	1.6100	1.6114	1.6121	1.6163	1.6200
JPY-SGD	1.2096	1.2300	1.2304	1.2321	1.2340
GBP-SGD	1.7900	1.7980	1.7994	1.8000	1.8016
AUD-SGD	1.0592	1.0700	1.0791	1.0800	1.0933
Gold	1234.56	1252.12	1263.20	1274.70	1284.75
Silver	15.45	16.50	16.56	16.60	16.66
Crude	46.69	49.40	49.47	49.50	50.43

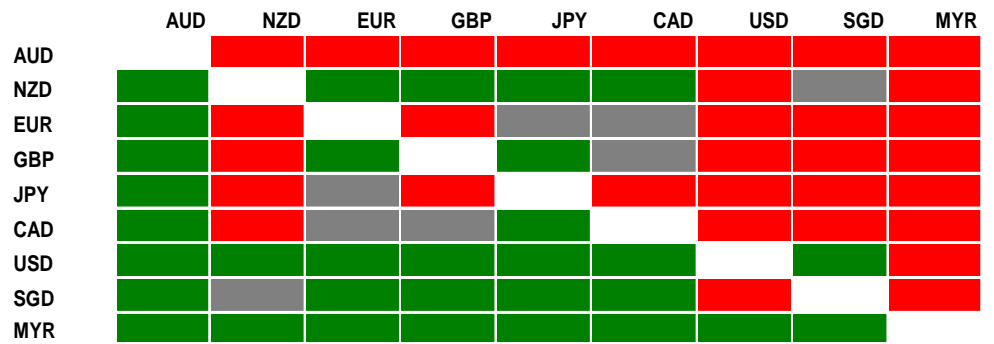
Source: OCBC Bank

FX performance: 1-month change agst USD



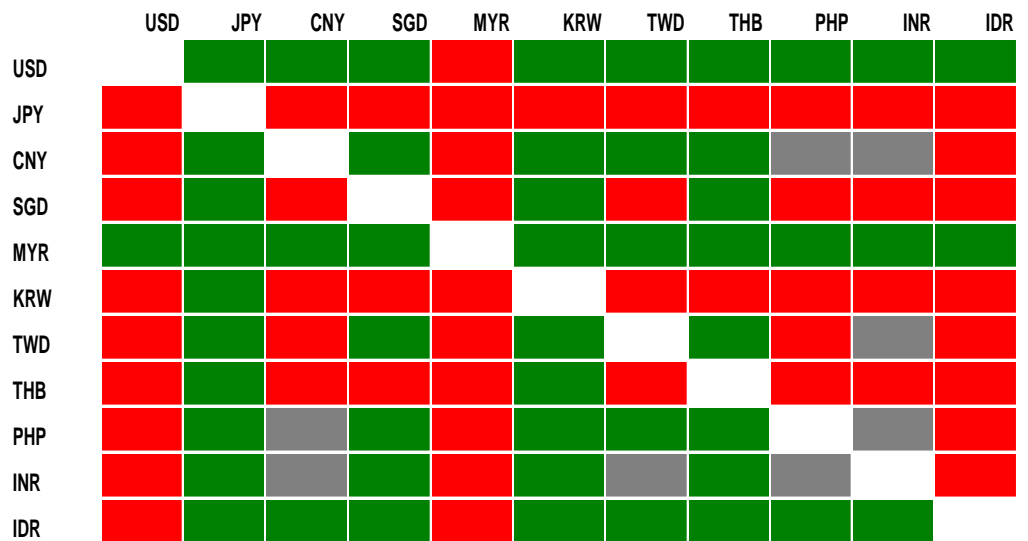
Source: Bloomberg

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	1.2400 1.2720	USD skepticism, sanguine risk appetite, supported crude		
2	04-Jul-17	B	EUR-USD	1.1346	1.1965 1.1645	Draghi's change of stance in late June may further fuel the EUR		
3	13-Jul-17	B	AUD-USD	0.7708	0.8175 0.7935	Vulnerable USD, improving risk appetite, supportive China data		
4	18-Jul-17	S	USD-SGD	1.3671	1.3535 1.3740	Vulnerable USD, implicit inflow for SGD		
5	01-Aug-17	B	GBP-USD	1.3207	1.3495 1.3060	Vulnerable dollar, hawkish risk from BOE		
6	01-Aug-17	S	USD-JPY	110.18	107.75 111.45	No surprises expected from Fed-speak after the last FOMC		
STRUCTURAL								
7	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish BOE?		
8	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		
9	12-Jul-17		Bullish 2M 1X1.5 EUR-USD Call Spread Spot ref: 1.1455; Strikes: 1.1492, 1.1724; Exp: 12/09/17; Cost: 0.46%			ECB transitioning to neutral, Fed wavering		
10	12-Jul-17		Bearish 2M 1X1.5 USD-CAD Put Spread Spot ref: 1.2664; Strikes: 1.2653, 1.2415; Exp: 15/09/17; Cost: 0.50%			Hawkish BOC being increasingly priced in		
11	20-Jul-17		Bullish 2M 1X1.5 AUD-USD Call Spread Spot ref: 0.7915; Strikes: 0.7909, 0.8111; Exp: 21/09/17; Cost: 0.65%			More positive than expected RBA minutes, supportive data, weak USD		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	08-Jun-17	04-Jul-17	B	AUD-USD	0.7550	0.7620	Supportive Aussie GDP and China trade numbers, steady risk appetite	+0.93
2	17-Jul-17	20-Jul-17	B	GBP-USD	1.3077	1.2935	BOE rhetoric and vulnerable USD	-1.11
3	28-Jun-17	21-Jul-17	B	USD-JPY	112.31	111.05	Yield differential argument supportive of the USD-JPY	-1.04
* realized **of notional							Jan-Jun 2017 Return -13.02	2016 Return +6.91

Source: OCBC Bank

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