

Tuesday, July 04, 2017

FX Themes/Strategy/Trading Ideas – Revised forecasts

- The greenback retraced higher across G10 post the better than expected headline ISM (57.8 from 54.9) amidst a truncated NY session and with UST yields continuing to firm (bear steepened from the back-end). A disappointing June UK manufacturing PMI reading also weighed on the pound, although firming crude blunted the USD's gains on the CAD and the NOK.
- Price action into the Independence Day holiday may be expected to be choppy with investors not likely to extrapolate too heavily from pre-holiday trade overnight. However, the ISM data points (jump in the employment index despite a sharper than expected drop in the prices paid index) may provide enough fuel to sustain some further dollar consolidation intra-day.
- Note however that with risk appetite levels still sanguine, the cyclicals still managed to outperform overnight, and the likes of the AUD may remain slightly more resistant to a USD bounce.
- On other fronts, USD-JPY may remain retain a slightly higher beta to US-centric (including yield differential arguments) factors, as well as any risk appetite gyrations. On our end, we continue to remain constructive towards further upside for the pair.
- Outside of the vacant US calendar today, look to scheduled appearances by the ECB's Praet (1230 GMT) and Nowotny (1630 GMT). During the Asian session, the RBA policy meeting (0430 GMT) may prove pivotal, especially after the volatility caused by rhetoric from the ECB, BOE, and the BOC. The Riksbank policy meeting outcome is also scheduled at 0730 GMT.

Asian FX

- Elsewhere, USD-Asia (including the USD-SGD) may also be reactive to a slightly firmer USD tone despite sanguine risk appetite levels (and supported equities) as net portfolio inflows into the region continue to remain restrained. As such, the **ACI (Asian Currency Index)** is expected to tick higher for today. On the risk appetite front, the **FXSI (FX Sentiment Index)** dipped back into **Risk-On** territory on Monday with EM risk premiums continuing to compress.
- **SGD NEER:** The SGD NEER this morning is softer on the day at around +0.64% above its perceived parity (1.3901). NEER-implied USD-SGD thresholds are firmer on the day with +0.50% estimated at 1.3832 and

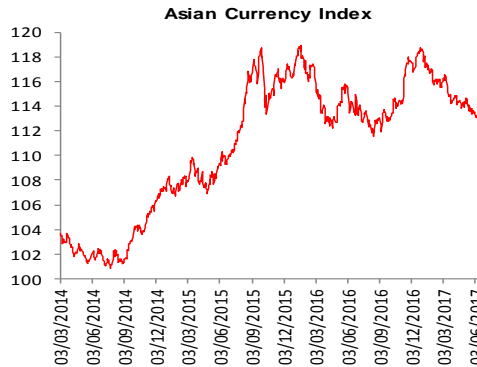
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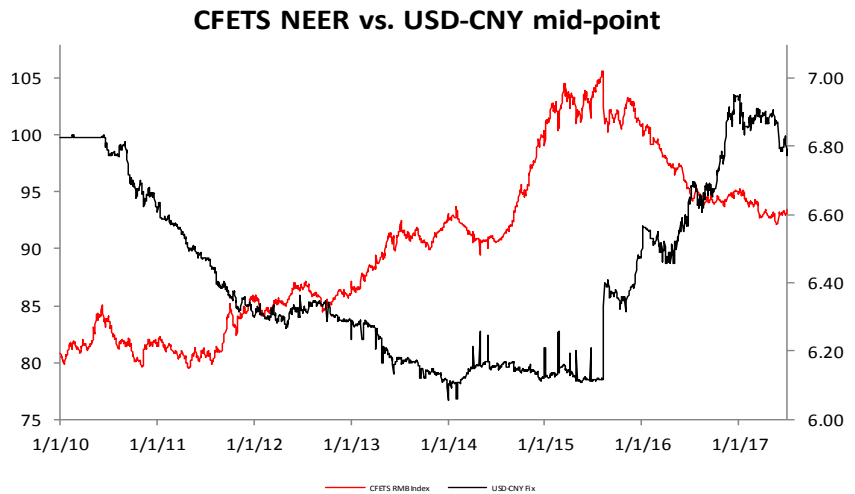
+0.80% at 1.3790. Initial resistance zone for the pair is anticipated at 1.3850/70.



	SGD NEER	% deviation	USD-SGD
Current	125.01	0.61	1.3820
+2.00%	126.74		1.3628
Parity	124.26		1.3901
-2.00%	121.77		1.4184

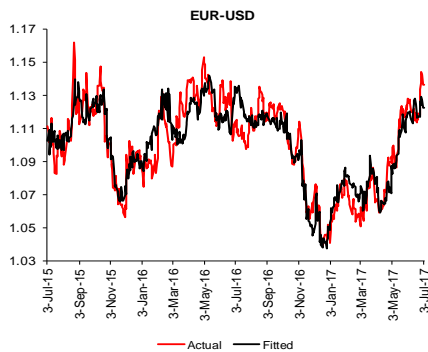
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point came in slightly higher than expected at 6.7889 from 6.7772 on Monday. This however still resulted in the CFETS RMB Index gaining to 93.43 from 93.29 yesterday.



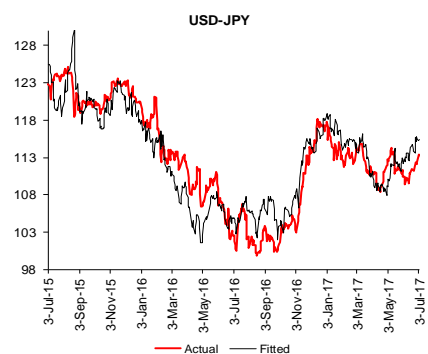
Source: OCBC Bank, Bloomberg

G7



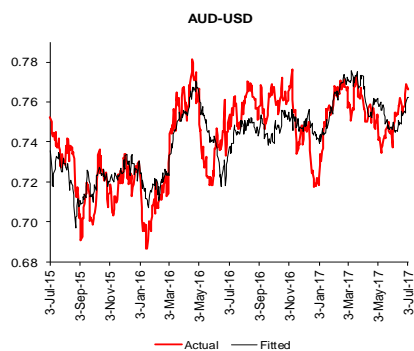
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the EUR-USD edged lower slightly overnight but investors may look towards potential verbal guidance from ECB appearances today. As mentioned previously, the pair continues to trade north of its implied confidence intervals but in the current environment, expect some support to kick in towards 1.1350.



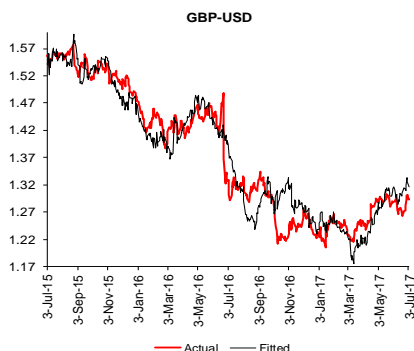
Source: OCBC Bank

- USD-JPY** Another North Korean missile launch this morning may pose a slight setback to USD-JPY bulls during the Asian session but US-specific USD weakness from overnight may eventually be expected to dominate. Note also JPY underperformance on the crosses. Short term implied valuations for USD-JPY remain elevated and immediate risk may be for the pair to continue to test the 113.50 ceiling.



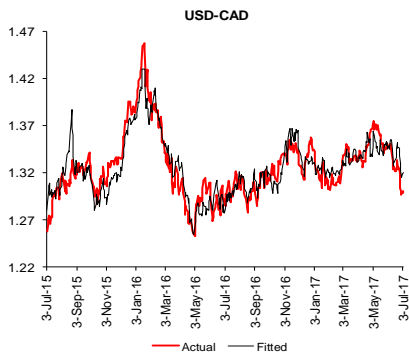
Source: OCBC Bank

- AUD-USD** This morning, Australian May retail sales came in at a better than expected +0.60% mom but all eyes are expected to be on the RBA later today. In this current environment, any hints of hawkishness by the central bank may continue to generate lift for the pair. In the interim, note that short term implied valuations for the AUD-USD remain buoyant and key resistance zone is expected into 0.7700/20.



Source: OCBC Bank

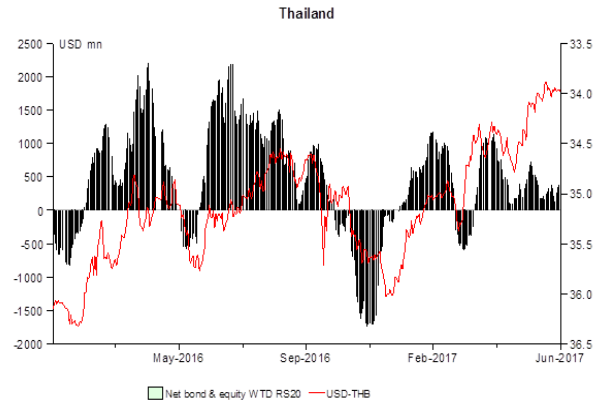
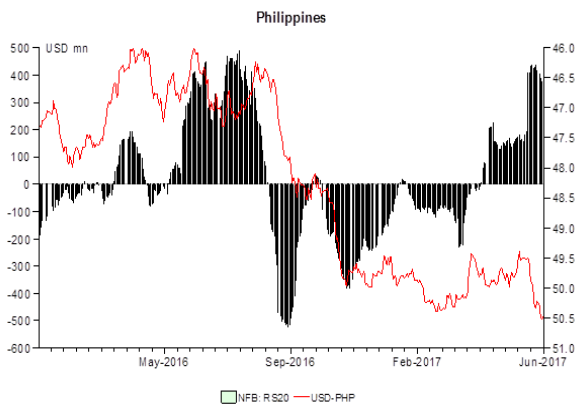
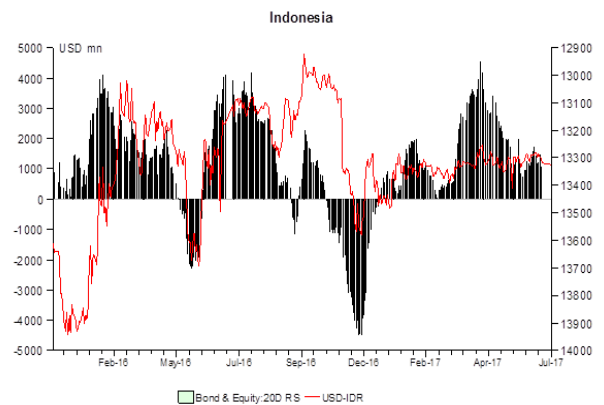
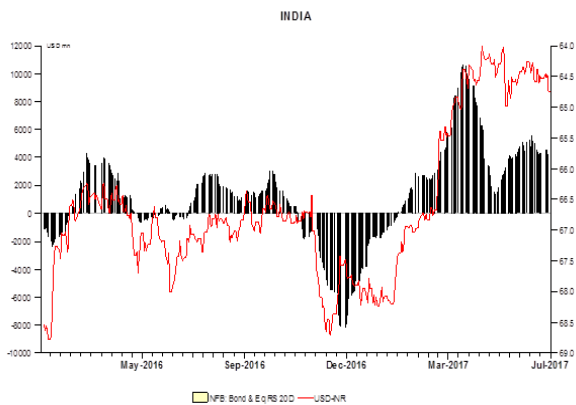
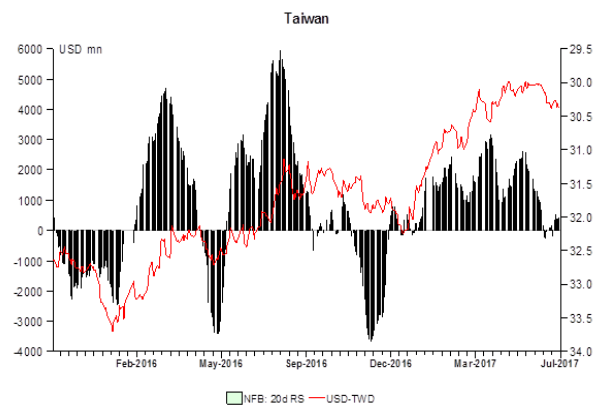
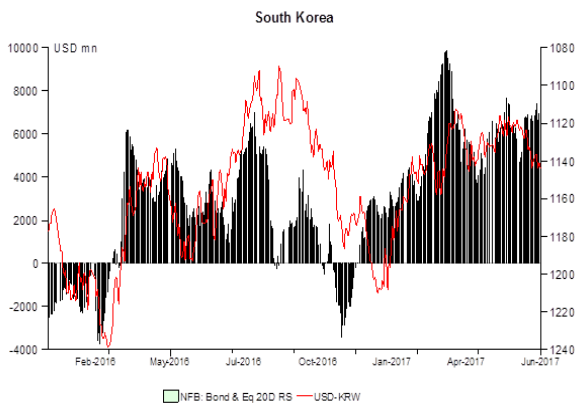
- GBP-USD** Look to the June UK construction Index and the BRC Index for domestic cues with no BOE appearances scheduled. Meanwhile, short term implied valuations for the pair have continued to consolidate lower, although support towards 1.2900 and the 55-day MA (1.2868) may be expected to buffer on dips.



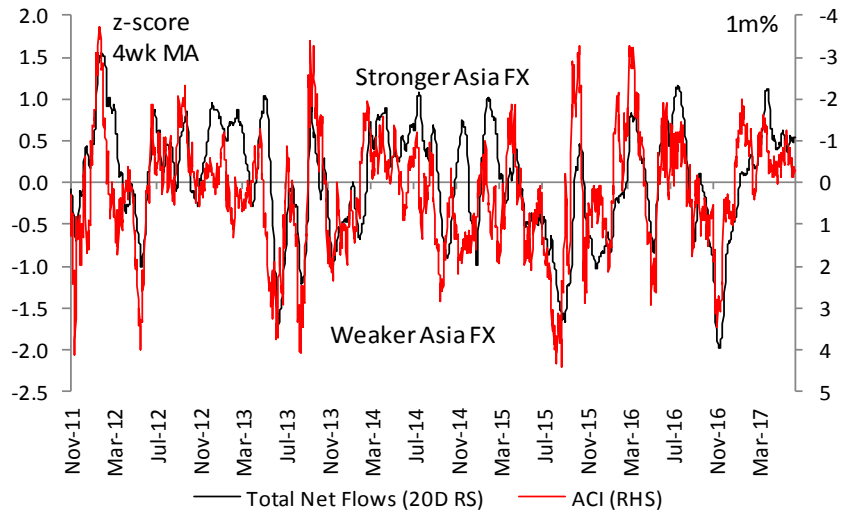
Source: OCBC Bank

- USD-CAD** Crude's continued bounce may continue to weigh on the USD-CAD with investors (already primed for a BOC rate hike next week) expected to watch for the release of the June Markit manufacturing PMI today. To this end, note that the pair continue to trade slightly south of its still heavy implied confidence intervals, with 1.3000 likely to serve as a near term junction in the interim.

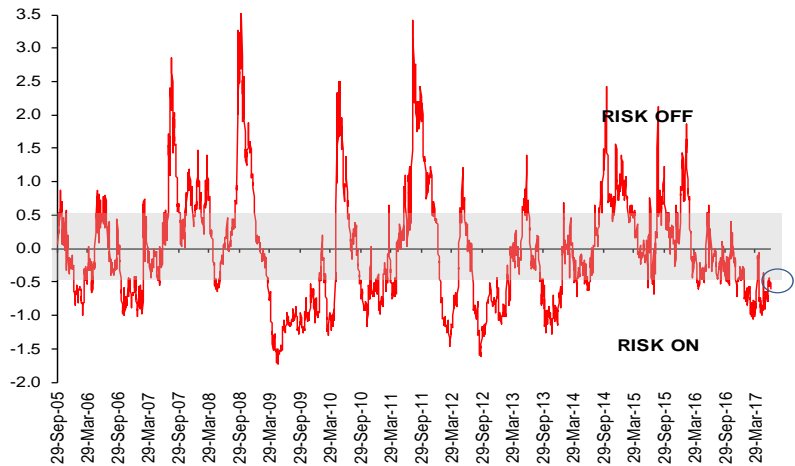
USD-Asia VS. Net Capital Flows



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	-0.732	0.722	0.591	-0.262	-0.357	-0.432	-0.529	-0.339	-0.630	0.533	-0.988
CHF	0.943	-0.614	0.624	0.648	-0.285	-0.323	-0.332	-0.505	-0.281	-0.670	0.535	-0.945
CNY	0.722	-0.535	1.000	0.437	0.246	-0.781	0.204	-0.756	-0.416	-0.735	0.894	-0.637
SGD	0.696	-0.370	0.895	0.300	0.187	-0.680	0.167	-0.694	-0.188	-0.641	0.806	-0.598
CAD	0.568	-0.666	0.112	0.207	-0.470	0.316	-0.824	0.071	-0.406	0.204	-0.213	-0.616
CNH	0.533	-0.289	0.894	0.366	0.414	-0.886	0.403	-0.852	-0.210	-0.841	1.000	-0.442
CCN12M	0.515	-0.316	0.573	0.363	0.075	-0.702	0.200	-0.744	0.006	-0.826	0.690	-0.472
THB	0.046	0.091	-0.154	-0.273	-0.351	0.377	-0.219	0.307	0.145	0.386	-0.287	-0.044
TWD	-0.079	0.257	0.417	0.017	0.477	-0.740	0.813	-0.627	0.181	-0.556	0.669	0.173
INR	-0.344	0.580	0.157	-0.321	0.326	-0.352	0.839	-0.152	0.479	-0.094	0.358	0.436
IDR	-0.369	0.684	0.183	-0.353	0.276	-0.148	0.713	0.003	0.359	0.128	0.209	0.528
KRW	-0.383	0.523	0.257	-0.188	0.501	-0.577	0.873	-0.244	0.228	-0.271	0.412	0.483
PHP	-0.394	0.551	0.199	-0.306	0.599	-0.572	0.915	-0.400	0.473	-0.241	0.496	0.495
MYR	-0.421	0.629	0.216	-0.213	0.599	-0.511	0.930	-0.223	0.361	-0.188	0.434	0.522
JPY	-0.432	0.678	0.204	-0.203	0.630	-0.447	1.000	-0.167	0.268	-0.203	0.403	0.532
NZD	-0.462	0.448	0.064	-0.202	0.640	-0.485	0.749	-0.319	0.191	-0.278	0.357	0.517
AUD	-0.621	0.676	-0.239	-0.265	0.450	-0.203	0.777	-0.049	0.406	-0.040	0.105	0.654
USGG10	-0.732	1.000	-0.535	-0.431	0.243	0.345	0.678	0.486	0.569	0.448	-0.289	0.760
GBP	-0.871	0.605	-0.696	-0.438	0.134	0.508	0.258	0.616	0.074	0.814	-0.635	0.832
EUR	-0.988	0.760	-0.637	-0.613	0.344	0.268	0.532	0.468	0.369	0.577	-0.442	1.000

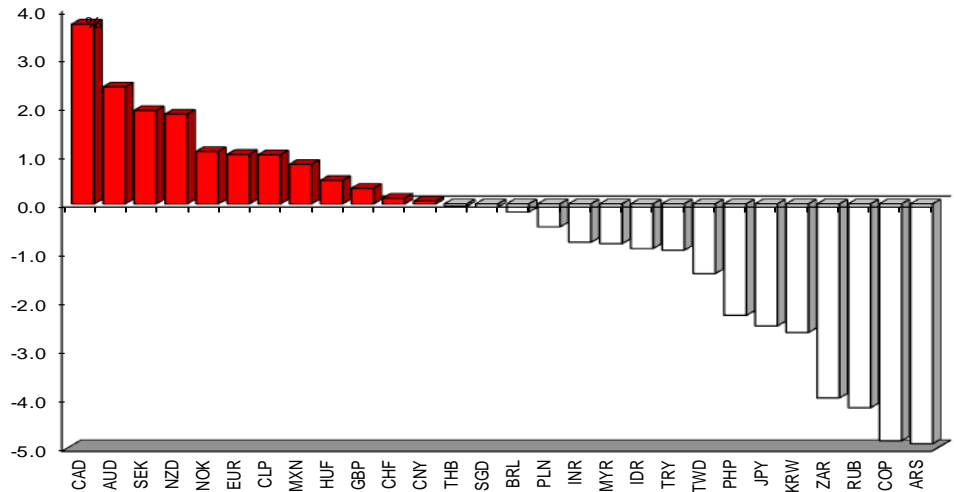
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1137	1.1300	1.1368	1.1400	1.1440
GBP-USD	1.2869	1.2900	1.2943	1.3000	1.3030
AUD-USD	0.7526	0.7600	0.7665	0.7688	0.7700
NZD-USD	0.7171	0.7200	0.7269	0.7300	0.7324
USD-CAD	1.2908	1.2947	1.2994	1.3000	1.3334
USD-JPY	111.64	113.00	113.27	113.47	113.49
USD-SGD	1.3746	1.3800	1.3824	1.3888	1.3900
EUR-SGD	1.5463	1.5700	1.5714	1.5782	1.5793
JPY-SGD	1.2185	1.2200	1.2229	1.2300	1.2440
GBP-SGD	1.7870	1.7900	1.7904	1.7991	1.8000
AUD-SGD	1.0500	1.0571	1.0572	1.0600	1.0623
Gold	1218.00	1219.19	1221.80	1240.45	1253.46
Silver	16.00	16.03	16.06	16.10	16.84
Crude	42.23	46.80	46.83	46.90	47.46

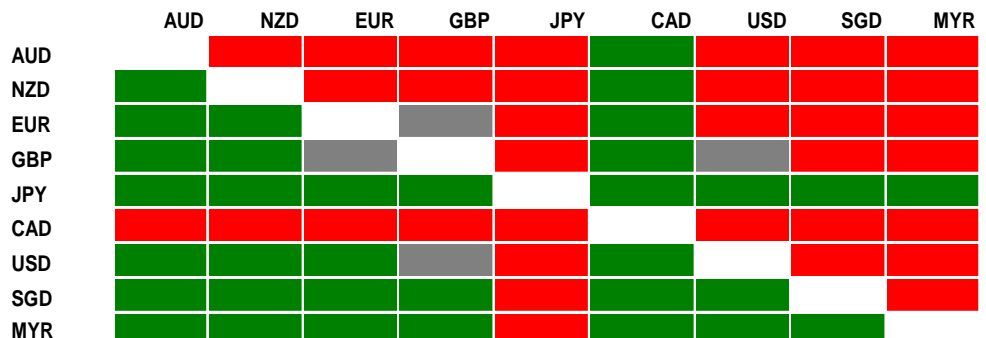
Source: OCBC Bank

FX performance: 1-month change agst USD



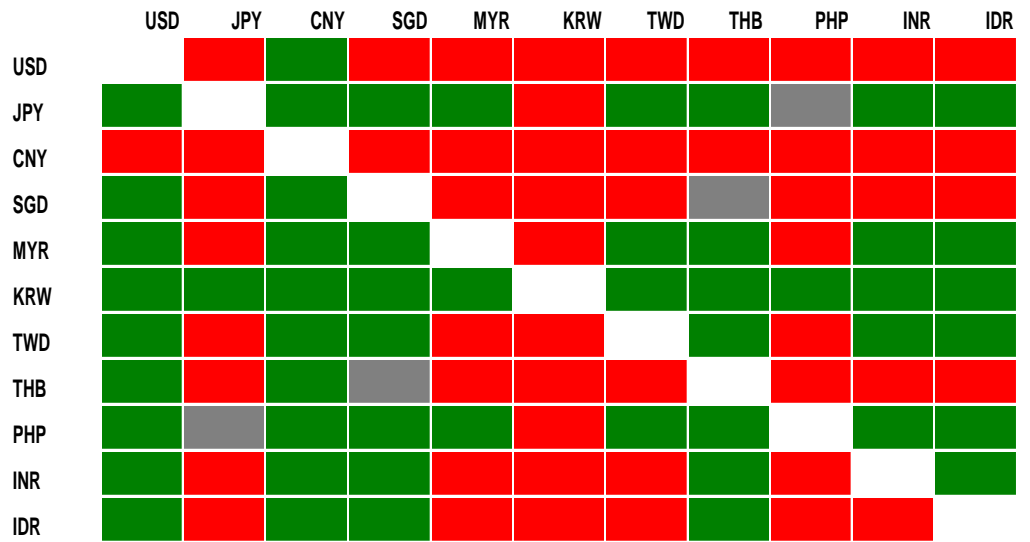
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts

	Spot	Sep-17	Dec-17	Mar-18	Jun-18
USD-JPY	112.57	114.00	115.33	116.67	118.00
EUR-USD	1.1407	1.1650	1.1367	1.1083	1.0800
GBP-USD	1.3003	1.3200	1.2967	1.2733	1.2500
AUD-USD	0.7669	0.7750	0.7657	0.7563	0.7470
NZD-USD	0.7306	0.7450	0.7300	0.7150	0.7000
USD-CAD	1.2993	1.2800	1.2967	1.3133	1.3300
USD-CHF	0.9599	0.9435	0.9573	0.9712	0.9850
USD-SGD	1.3787	1.3700	1.3828	1.3957	1.4085
USD-CNY	6.7886	6.7473	6.8070	6.8679	6.9297
USD-THB	33.974	33.70	34.05	34.40	34.75
USD-IDR	13337	13360	13383	13407	13430
USD-MYR	4.2975	4.2400	4.3142	4.3883	4.4625
USD-KRW	1147.13	1160	1165	1170	1175
USD-TWD	30.427	30.600	30.900	31.200	31.500
USD-HKD	7.8109	7.8093	7.8129	7.8164	7.8200
USD-PHP	50.603	50.90	51.10	51.30	51.50
USD-INR	64.77	65.00	65.67	66.33	67.00
EUR-JPY	128.41	132.81	131.10	129.31	127.44
EUR-GBP	0.8773	0.8826	0.8766	0.8704	0.8640
EUR-CHF	1.0950	1.0992	1.0882	1.0764	1.0638
EUR-SGD	1.5727	1.5961	1.5718	1.5469	1.5212
GBP-SGD	1.7927	1.8084	1.7931	1.7771	1.7606
AUD-SGD	1.0573	1.0618	1.0588	1.0556	1.0521
NZD-SGD	1.0073	1.0207	1.0095	0.9979	0.9860
CHF-SGD	1.4363	1.4520	1.4445	1.4371	1.4299
JPY-SGD	1.2247	1.2018	1.1990	1.1963	1.1936
SGD-MYR	3.1171	3.0949	3.1198	3.1443	3.1683
SGD-CNY	4.9239	4.9250	4.9225	4.9209	4.9199

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	1.2825	1.3155	USD skepticism, sanguine risk appetite, supported crude	
2	08-Jun-17	B	AUD-USD	0.7550	0.7845	0.7620	Supportive Aussie GDP and China trade numbers, steady risk	
3	28-Jun-17	B	USD-JPY	112.31	114.80	111.05	Yield differential argument supportive of the USD-JPY	
STRUCTURAL								
4	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
5	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	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	17-May-17	14-Jun-17	B	EUR-USD	1.1120	1.1209	Disappointing US data feed, reversal of political risk premiums	+0.63
2	24-May-17	15-Jun-17	S	USD-SGD	1.3899	1.3828	Supportive Asian portfolio inflow environment, soggy USD	+0.49
3	01-Jun-17	22-Jun-17	S	USD-JPY	111.00	111.16	Weak broad dollar disposition	-0.25
4	24-Apr-17	22-Jun-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**
5	12-Jun-17	28-Jun-17	S	GBP-USD	1.2760	1.2915	UK politics uncertainty/limbo	-1.13
6	16-May-17	29-Jun-17	S	AUD-USD	0.7407	0.7670	Global reflation plays to continue to wobble?	-3.46
* realized **of notional							Jan-May 2017 Return -17.04	
							2016 Return +6.91	

Source: OCBC Bank

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