

Thursday, July 06, 2017

FX Themes/Strategy/Trading Ideas

- With the **FOMC minutes** offering little hawkish hints (UST yields softer with the curve flattening from the back-end), the USD relinquished intra-day gains to end essentially flat across G10 on Wednesday. US data points meanwhile saw May factory orders contracting more than expected while May durable goods orders were mildly supportive.
- Despite neutral remarks from the **ECB's Coeure** (discussions on a change in monetary policy had not begun), the EUR–USD also bounced off intra-day lows to end flat on the day with EZ services/composite PMIs improving from the previous month (as opposed to prior expectations for a deterioration). Elsewhere, another plunge in **crude (WTI briefly below 45.00)** undermined the NOK and also left the USD-CAD higher on the day despite a vulnerable greenback.
- In a nutshell, the **FOMC minutes** displayed no heightened urgency for interest rate normalization despite highlighting that financial conditions had eased despite higher rates. In addition, no definite timeframe for the initiation of balance sheet reduction has yet been agreed upon with the committee still spilt on inflation prospects.
- Today, the notable data releases include Australian May trade numbers (0130 GMT), the US ADP (1215 GMT), May non-manufacturing ISM (1400 GMT), while ECB meeting "minutes" are due at 1130 GMT. **Central bank rhetoric** restarts today with the Fed's Williams (0745 GMT), Powell (1400 GMT), and Fischer (2330 GMT), while ECB appearances include Praet (100 GMT), and Weidmann and Nowotny (1600 GMT).
- On the geopolitical front, new sanctions on **North Korea** are likely to be proposed by the US in the coming days and investors are expected to keep a close eye in this space and with **risk aversion** lurking in the background. On this front, note that the **FXSI (FX Sentiment Index)** firmed within Risk-On territory on Wednesday – demonstrating moderating optimism.
- **Overall, ahead of Fed/ECB rhetoric later today, a shaky commodity complex coupled with lingering geopolitical risk may continue to impinge on the cyclical while underpinning the JPY.**

Treasury Research &
Strategy

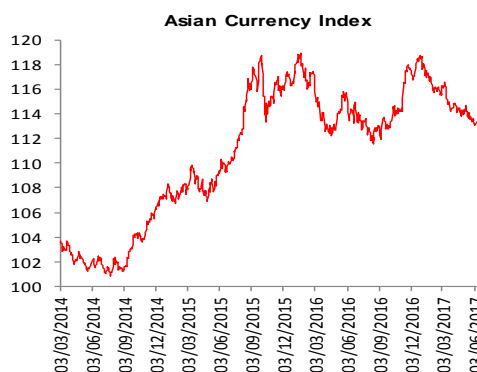
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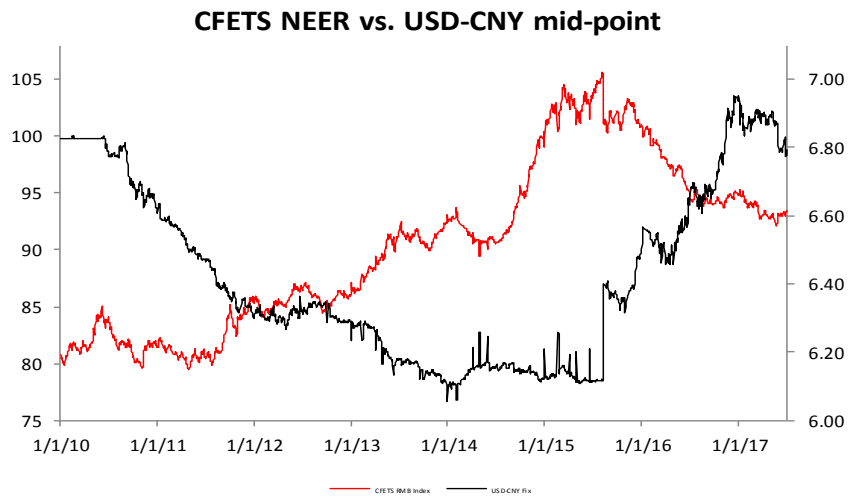
Asian FX

- Meanwhile, positive global equities failed to bolster EM FX overnight and Asian currencies may remain soggy with respect to the USD and continue to disregard USD vulnerability within G10. Net portfolio flows in Asia meanwhile continue to denote weakening net inflow momentum, notably for the **IDR** and **KRW**. Overall, expect the **ACI (Asian Currency Index)** to continue to search higher (i.e. stronger dollar), not least from waning portfolio inflow momentum.
- On the macro front, the May Caixin services/composite PMIs for China came in on the wrong end of expectations but the Nikkei India services/composite PMIs improved instead. The BOT remained static on Wednesday at 1.50% as widely expected.
- **SGD NEER:** This morning, the SGD NEER is higher on the day at around +0.79% above its perceived parity (1.3914). NEER-implied USD-SGD thresholds are slightly firmer on the day and expect intrinsic support for the USD-SGD to kick in around +0.80% (1.3804), with the +1.00% threshold estimated at 1.3777. Note that our volatility indicators for the USD-SGD are also beginning to light up, a potential warning signal against accelerated down moves in the pair.



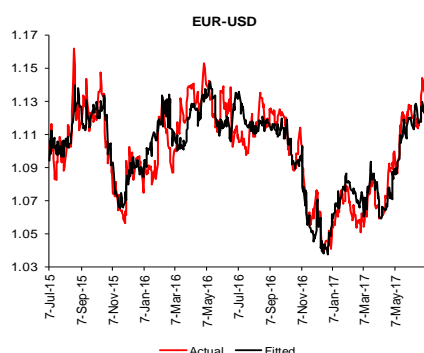
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point increased slightly (as largely expected) to 6.7953 from 6.7922 on Wednesday, lifting the CFETS RMB Index to 93.51 from 93.43 yesterday.



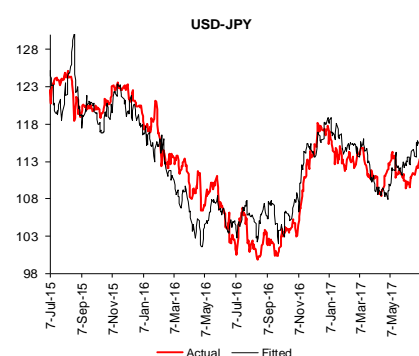
Source: OCBC Bank, Bloomberg

G7



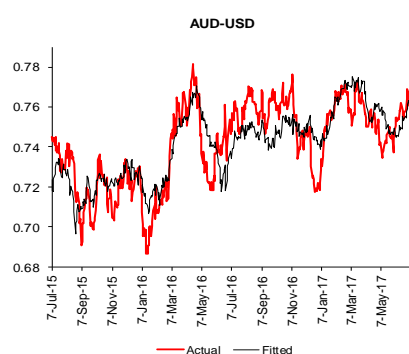
Source: OCBC Bank

- EUR-USD** Ahead of potential rhetoric from the ECB today, EUR-USD upside may be blunted somewhat by lurking risk aversion despite still supported short term implied valuations. Expect the 1.1300 support to hold given the less than hawkish overtones from the FOMC minutes.



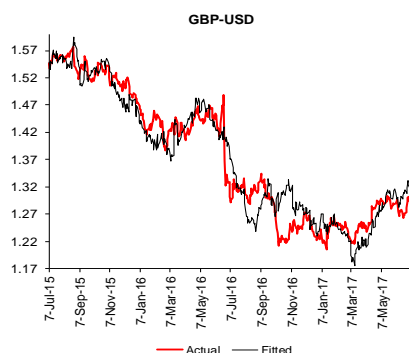
Source: OCBC Bank

- USD-JPY** background dollar vulnerability and a hint of risk aversion are expected to keep the USD-JPY (and the JPY-crosses) top heavy in the near term. Underlying support may emerge on dips with short term implied valuations still underpinned and oriented north. Barring an implosion on the risk appetite front, expect investors to collect on dips towards 112.60.



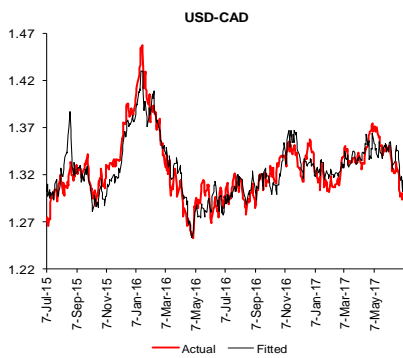
Source: OCBC Bank

- AUD-USD** The AUD-USD is heavy despite the significantly larger than expected May Australian trade balance reported this morning with the crude/copper dynamic continuing to exert down force and in the wake of comments (perceived as unhurried with respect to rate hikes) from the RBA's Harper on Wednesday. In the current environment, the AUD-USD may abandon any intention of an upside range break (for now), with short term implied valuations also consolidating. Expect the 100-day MA (0.7553) to cushion if 0.7600 is breached aggressively.



Source: OCBC Bank

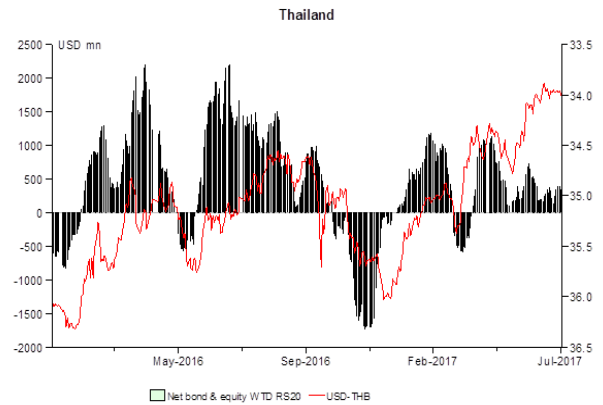
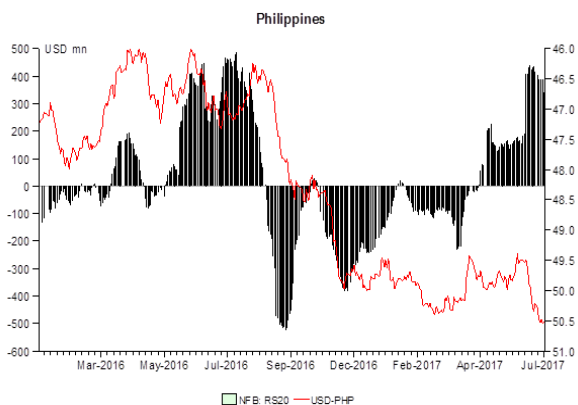
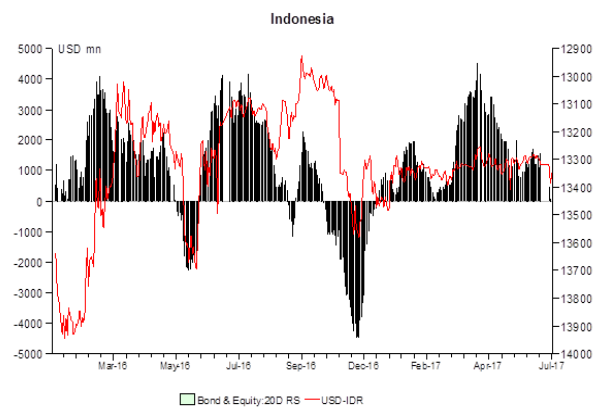
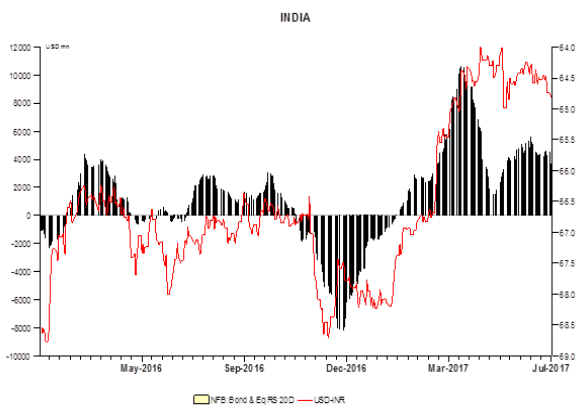
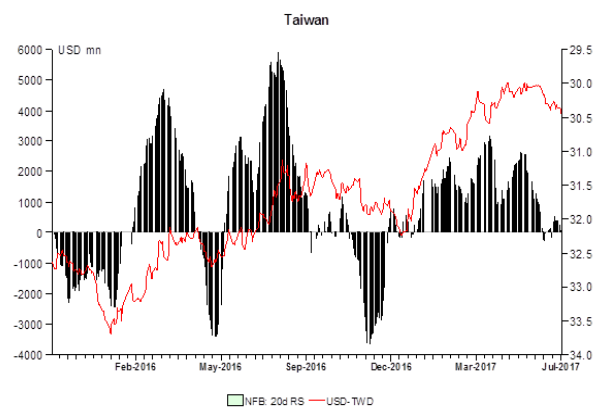
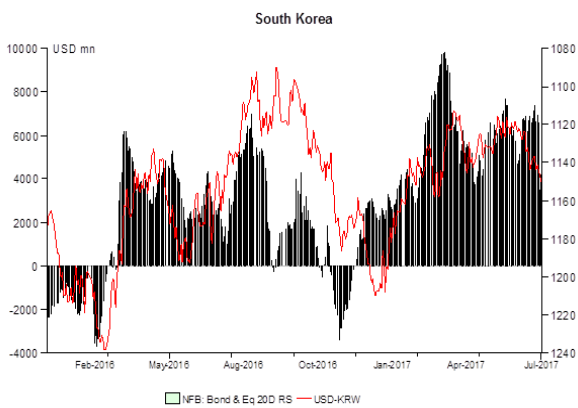
- GBP-USD** Domestic economic/central bank headline flow is scheduled to be quiet today (June services/composite PMIs were mixed yesterday) and the GBP-USD may have to look offshore for cues. Short term implied valuations meanwhile remain underpinned, underscoring the shallow dips in the pair in the last 2 sessions. As such, expect the 55-day MA (1.2872) to support on dips (preference to accumulate here) with immediate resistance expected at 1.2990.



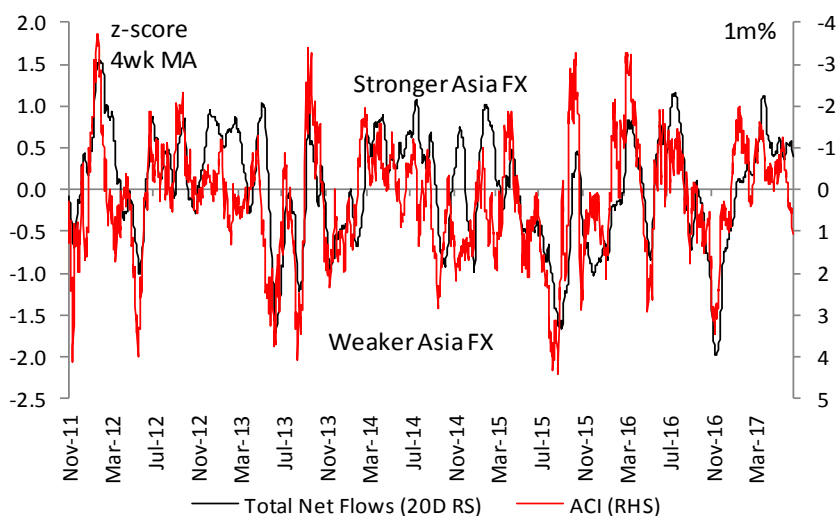
- USD-CAD** We retain a preference to be still heavy on the pair although this view may be temporarily stymied by collapsing crude. Short term implied valuations for the pair have bottomed slightly as a result. Range trade 1.2930-1.3015 in the interim.

Source: OCBC Bank

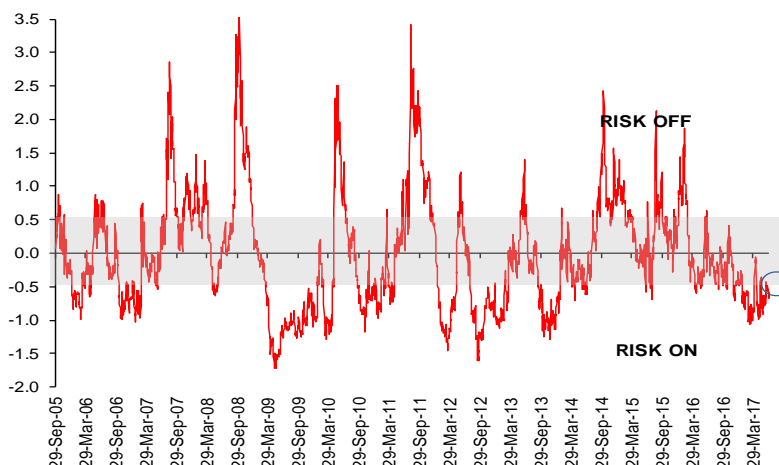
USD-Asia VS. Net Capital Flows



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	1.000	-0.732	0.720	0.589	-0.258	-0.367	-0.465	-0.509	-0.390	-0.692	0.519	-0.988
CHF	0.937	-0.588	0.628	0.658	-0.304	-0.314	-0.359	-0.489	-0.340	-0.684	0.524	-0.937
CNY	0.720	-0.500	1.000	0.444	0.234	-0.801	0.105	-0.787	-0.454	-0.753	0.896	-0.638
SGD	0.694	-0.370	0.893	0.312	0.154	-0.680	0.071	-0.699	-0.253	-0.648	0.797	-0.610
CAD	0.618	-0.734	0.179	0.192	-0.401	0.207	-0.866	0.024	-0.399	-0.083	-0.144	-0.680
CCN12M	0.549	-0.398	0.587	0.393	0.039	-0.680	0.024	-0.727	-0.095	-0.823	0.658	-0.527
CNH	0.519	-0.258	0.896	0.391	0.388	-0.883	0.346	-0.868	-0.280	-0.794	1.000	-0.430
THB	-0.032	0.244	-0.179	-0.280	-0.302	0.367	0.012	0.292	0.226	0.445	-0.267	0.076
TWD	-0.219	0.453	0.324	0.033	0.424	-0.649	0.862	-0.530	0.156	-0.262	0.577	0.309
INR	-0.440	0.702	0.078	-0.293	0.301	-0.271	0.879	-0.085	0.490	0.142	0.296	0.526
KRW	-0.461	0.614	0.139	-0.175	0.415	-0.431	0.906	-0.227	0.202	0.106	0.335	0.556
MYR	-0.463	0.666	0.146	-0.213	0.546	-0.428	0.935	-0.255	0.363	0.048	0.417	0.561
JPY	-0.465	0.720	0.105	-0.191	0.541	-0.367	1.000	-0.193	0.299	0.044	0.346	0.583
PHP	-0.488	0.648	0.134	-0.291	0.551	-0.474	0.932	-0.292	0.458	0.012	0.428	0.586
NZD	-0.567	0.517	0.005	-0.194	0.649	-0.387	0.795	-0.230	0.109	-0.017	0.297	0.632
AUD	-0.655	0.593	-0.294	-0.259	0.434	-0.097	0.690	-0.007	0.350	0.144	0.057	0.676
IDR	-0.666	0.848	0.006	-0.346	0.325	-0.071	0.847	0.065	0.414	0.188	0.152	0.777
USGG10	-0.732	1.000	-0.500	-0.397	0.195	0.363	0.720	0.437	0.598	0.576	-0.258	0.757
GBP	-0.880	0.626	-0.699	-0.453	0.160	0.488	0.358	0.575	0.164	0.833	-0.604	0.850
EUR	-0.988	0.757	-0.638	-0.605	0.337	0.279	0.583	0.447	0.420	0.650	-0.430	1.000

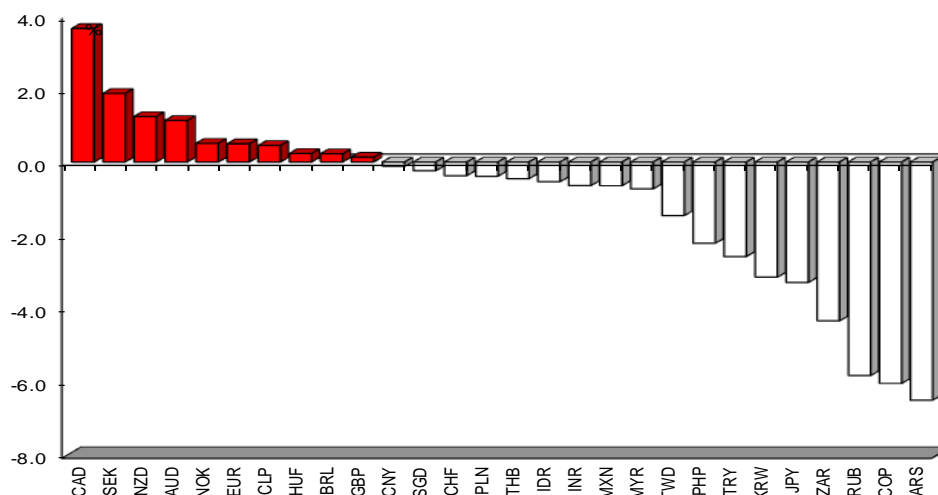
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1155	1.1300	1.1332	1.1400	1.1445
GBP-USD	1.2871	1.2900	1.2923	1.3000	1.3030
AUD-USD	0.7503	0.7525	0.7589	0.7600	0.7680
NZD-USD	0.7183	0.7200	0.7268	0.7300	0.7329
USD-CAD	1.2900	1.2913	1.2980	1.3000	1.3332
USD-JPY	111.72	113.00	113.12	113.69	113.87
USD-SGD	1.3747	1.3800	1.3822	1.3882	1.3900
EUR-SGD	1.5481	1.5600	1.5664	1.5700	1.5793
JPY-SGD	1.2171	1.2200	1.2219	1.2300	1.2425
GBP-SGD	1.7616	1.7800	1.7863	1.7865	1.7900
AUD-SGD	1.0400	1.0412	1.0490	1.0500	1.0571
Gold	1216.50	1218.32	1224.30	1239.96	1252.56
Silver	15.85	15.90	15.98	16.00	16.80
Crude	45.00	45.30	45.30	47.32	47.42

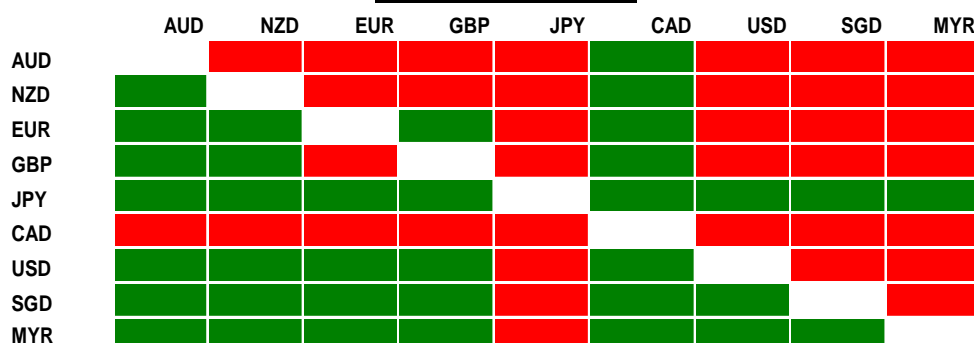
Source: OCBC Bank

FX performance: 1-month change agst USD



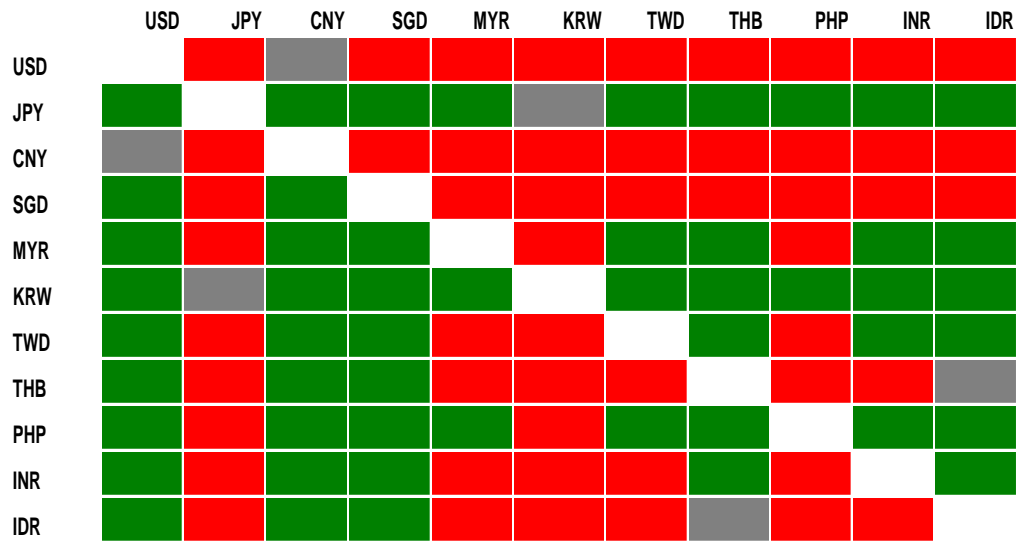
Source: Bloomberg

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	1.2825	1.3155	USD skepticism, sanguine risk appetite, supported crude	
2	28-Jun-17	B	USD-JPY	112.31	114.80	111.05	Yield differential argument supportive of the USD-JPY	
3	04-Jul-17	B	EUR-USD	1.1346	1.1550	1.1240	Draghi's change of stance in lat June may further fuel the EUR	
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 polticy concertainty/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
7	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
* realized **of notional							Jan-May 2017 Return	-17.04
							2016 Return	+6.91

Source: OCBC Bank

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