

Friday, July 07, 2017

FX Themes/Strategy/Trading Ideas

- Mixed to soft US data points were eclipsed by supportive rhetoric from the ECB and despite firmer UST yields (curve bear steepened from the back-end), crimping the dollar as yield differential arguments weighed in the wake of a bund-led global bond sell-off. On the US data front, the weaker than expected June ADP (+158k vs. +188k expected) and higher than expected weekly initial claims overshadowed a better than expected June non-manufacturing composite ISM as its employment sub-index deteriorated from the previous month.
- Meanwhile, bund yields also jumped as the ECB minutes revealed discussions on balance sheet reduction (while removing an easing bias) while the ECB's Weidmann also addressed prospects of an exit from QE. This bumped the EUR-USD above 1.1400 with the common currency also outpacing all its G10 peers. Overall, the USD retreated against most of its G10 counterparts except against the cyclicals (AUD, NZD, CAD) as a negative equity/crude landscape and re-balancing flows saw the latter losing favor.
- The US NFP tonight (mkts:+179k) is expected to determine the path of the USD into the end of the week. Failure to significantly surprise on the upside (either from the headline number or hourly earnings) may keep the USD on the defensive within G10. On the periphery, investors may also look towards potential head line risks from the Xi-Trump and Trump-Putin meetings on the sidelines of the weekend G20 meetings.
- From a structural viewpoint, the re-balancing away from hitherto cyclical trades (or partial unwind of carry) given the ECB's slightly more confident tone may see the USD trading mixed across the G10 map but ultimately retain a vulnerable tone in the near term.

Asian FX

- The re-pricing of global bond curves (and monetary policy expectations) we think may continue to result in cross-asset implications into equities and FX. To this end, the above mentioned partial re-balancing (out of carry) may continue to negatively impact EM/Asian assets. Note that EM risk premiums are widening and on the Asian front, net portfolio inflow momentum continues to deteriorate appreciably. As such, USD-Asia in aggregate may be expected to continue to search out higher ground in the interim. In addition, risk appetite considerations may also present an additional negative for EM/Asia, with the **FXSI (FX Sentiment Index)** edging higher

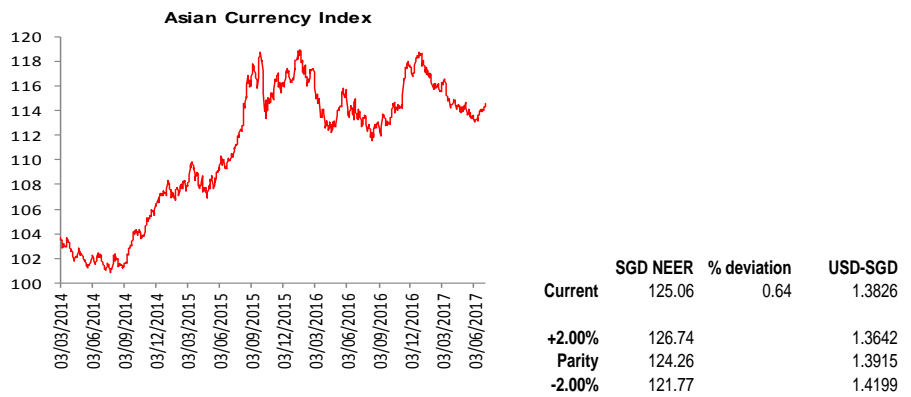
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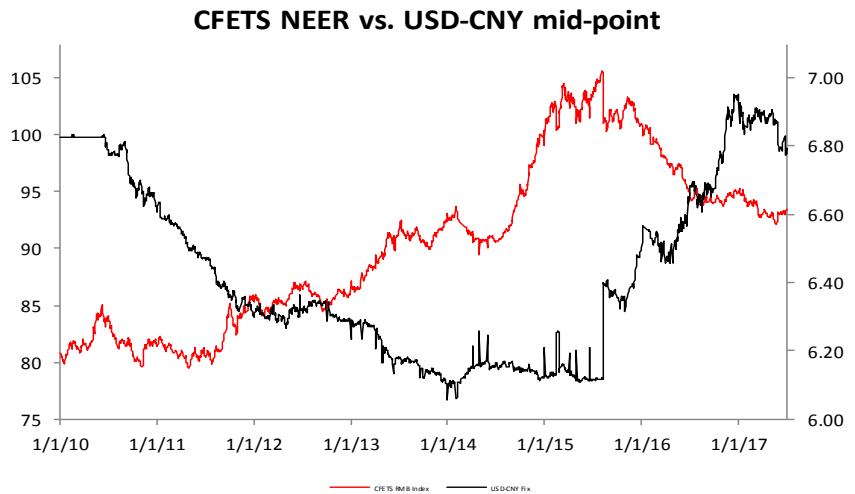
again overnight within Risk-On territory and towards Risk-Neutral territory. In sum, the **ACI (Asian Currency Index)** is expected to tick higher again into the end of the week.

- SGD NEER:** Today, the SGD NEER softer on the day at around +0.64% above its perceived parity (1.3915) with USD-SGD firming slightly in the last 24 hours. NEER-implied USD-SGD thresholds are essentially unchanged on the day with +0.80% estimated at 1.3805. Overall, if sentiment remains nervy, the pair may exhibit a slight tilt firmer within recent ranges ahead of the US NFP.



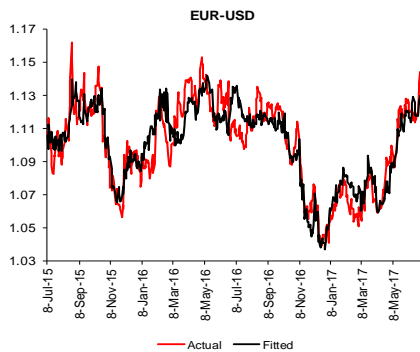
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point slipped to 6.7914 (surprising on the downside) from 6.7953 on Thursday, lifting the CFETS RMB Index to 93.52 from 93.51 yesterday.



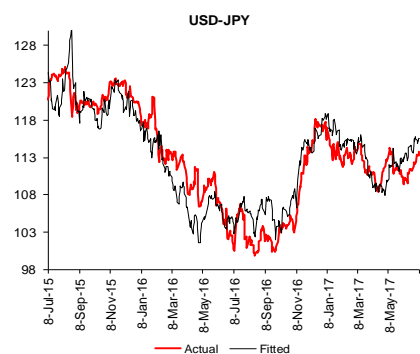
Source: OCBC Bank, Bloomberg

G7



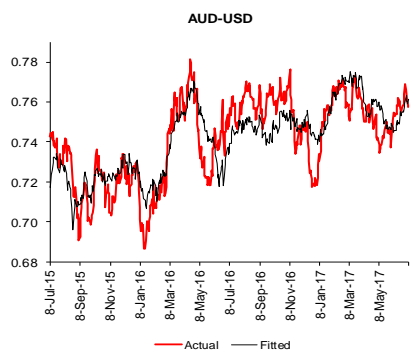
Source: OCBC Bank

- EUR-USD** The EUR-USD may continue to attempt to edge higher and threaten the 1.1445 area ahead of the US NFP later in the global day. Short term implied valuations for the pair have also shifted higher slightly with immediate support expected into 1.1370.



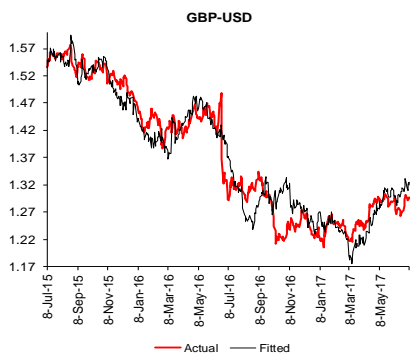
Source: OCBC Bank

- USD-JPY** Yield differential arguments are back in play for the USD-JPY with short term implied valuations continuing to be buoyant. This may override re-balancing flows (on the JPY crosses) with 114.35/40 potentially to attract and a base towards 113.00 expected.



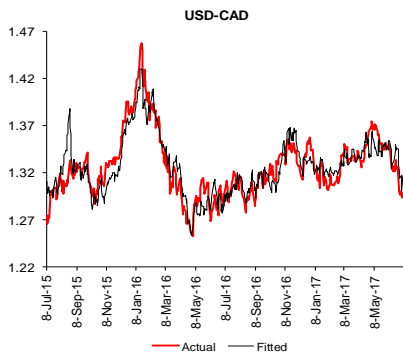
Source: OCBC Bank

- AUD-USD** As alluded to above, the likes of the AUD may be left on the sidelines as some winding of carry ensues. Thus, although short term implied valuations for the AUD-USD remain steady to underpinned in the near term, risks for the pair to fade upticks may remain apparent at this juncture. The 100-day MA (0.7552) may beckon with upside seen capped towards 0.7630.



Source: OCBC Bank

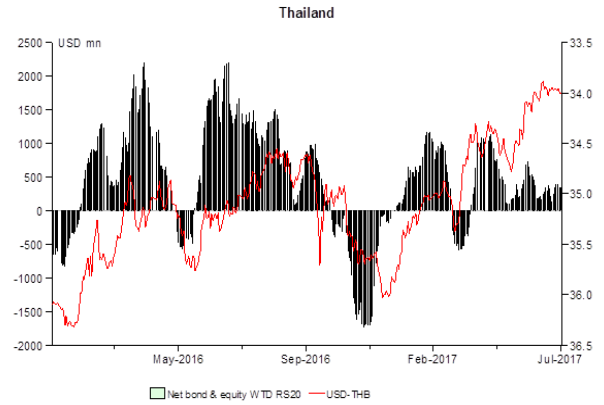
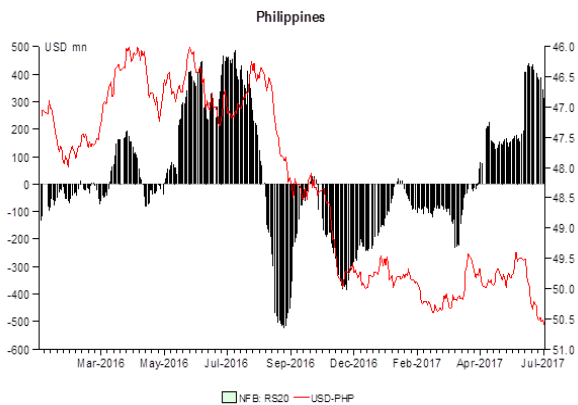
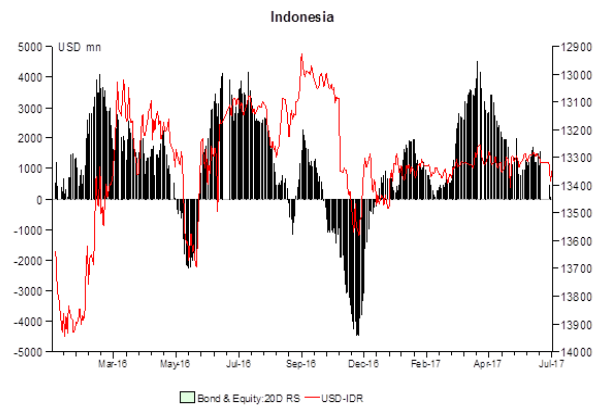
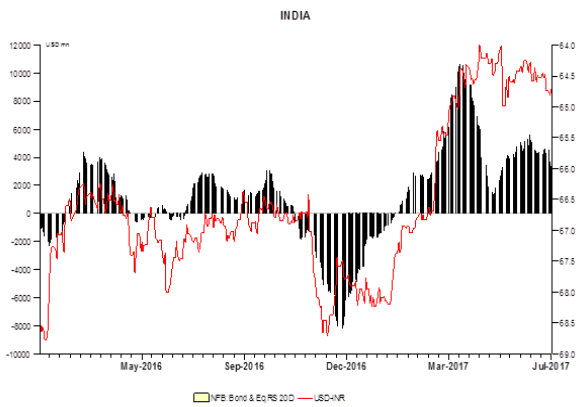
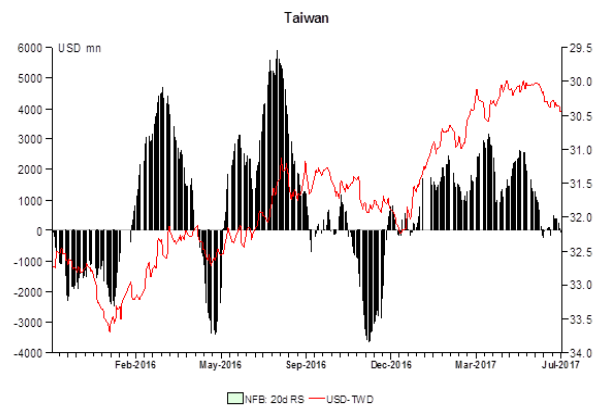
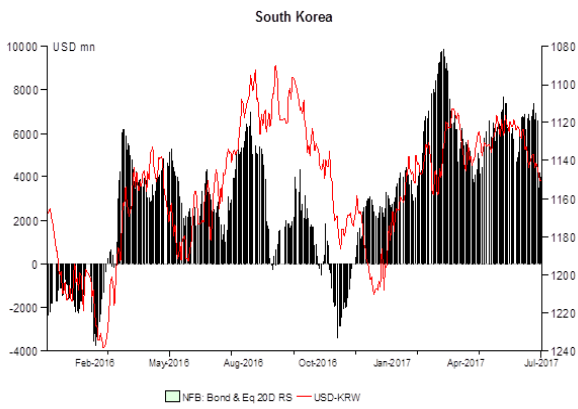
- GBP-USD** GBP-USD may continue to draft behind the EUR-USD in the current environment, albeit at a more measure pace. Overall, short term implied valuations are on a slightly firmer plane and expect investors to accumulate on dips towards 1.2900 and the 55-day MA (1.2876) with 1.3050 an immediate topside waypoint.



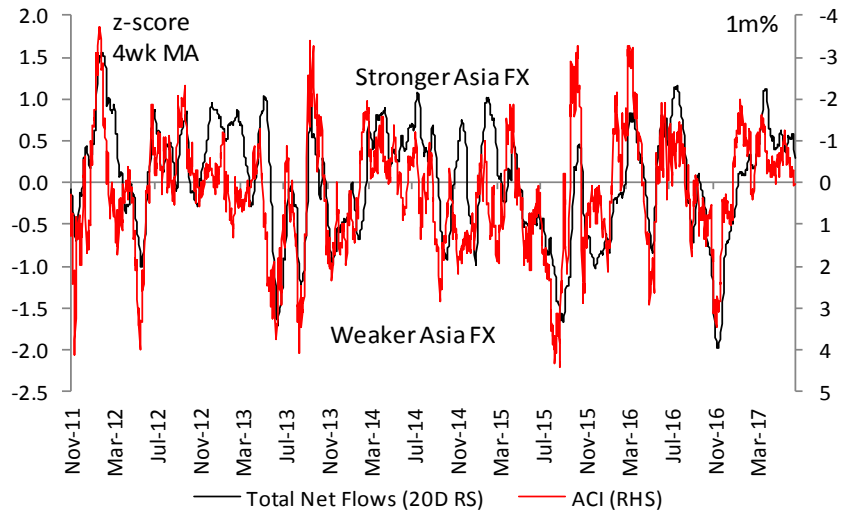
- USD-CAD** Expect range (to slightly top heavy) behavior to persist for now with short term implied valuations looking supported. A 1.2930-1.3020 range be continue to persist ahead of the US NFP and Canadian labor market numbers tonight.

Source: OCBC Bank

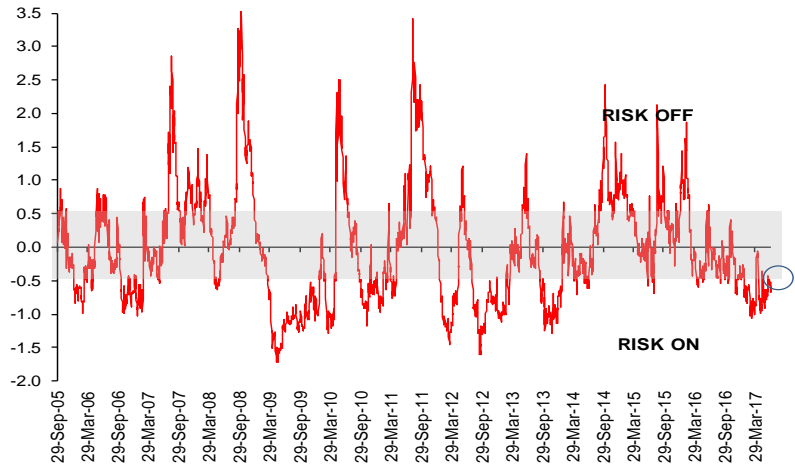
USD-Asia VS. Net Capital Flows



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	-0.793	0.705	0.649	-0.288	-0.383	-0.612	-0.544	-0.514	-0.750	0.533	-0.990
CHF	0.950	-0.683	0.615	0.668	-0.380	-0.286	-0.533	-0.465	-0.447	-0.694	0.494	-0.952
CAD	0.724	-0.746	0.255	0.370	-0.347	0.061	-0.862	-0.162	-0.486	-0.304	0.002	-0.759
CNY	0.705	-0.531	1.000	0.406	0.194	-0.807	0.021	-0.829	-0.420	-0.711	0.934	-0.625
SGD	0.670	-0.427	0.892	0.290	0.094	-0.661	-0.006	-0.695	-0.272	-0.595	0.803	-0.582
CCN12M	0.619	-0.538	0.576	0.425	-0.071	-0.640	-0.180	-0.669	-0.250	-0.791	0.595	-0.593
CNH	0.533	-0.384	0.934	0.344	0.306	-0.864	0.199	-0.832	-0.318	-0.709	1.000	-0.446
THB	-0.254	0.422	-0.181	-0.457	-0.226	0.360	0.229	0.277	0.470	0.539	-0.241	0.279
TWD	-0.363	0.520	0.227	-0.257	0.350	-0.473	0.859	-0.324	0.370	0.050	0.428	0.447
INR	-0.510	0.739	0.035	-0.442	0.291	-0.191	0.915	0.003	0.577	0.308	0.253	0.589
KRW	-0.538	0.691	0.084	-0.407	0.390	-0.303	0.910	-0.131	0.458	0.285	0.270	0.624
MYR	-0.542	0.686	0.086	-0.393	0.510	-0.314	0.945	-0.113	0.458	0.249	0.331	0.632
PHP	-0.571	0.670	0.064	-0.447	0.500	-0.345	0.936	-0.126	0.520	0.235	0.320	0.661
JPY	-0.612	0.744	0.021	-0.399	0.483	-0.204	1.000	0.000	0.433	0.301	0.199	0.691
AUD	-0.640	0.506	-0.382	-0.262	0.373	0.036	0.589	0.205	0.244	0.270	-0.119	0.644
NZD	-0.643	0.480	-0.070	-0.276	0.614	-0.273	0.760	-0.048	0.130	0.159	0.147	0.685
USGG10	-0.793	1.000	-0.531	-0.594	0.154	0.477	0.744	0.614	0.715	0.759	-0.384	0.815
IDR	-0.797	0.886	-0.084	-0.662	0.343	0.036	0.876	0.188	0.683	0.639	0.060	0.876
GBP	-0.897	0.706	-0.686	-0.506	0.220	0.478	0.494	0.574	0.319	0.843	-0.598	0.866
EUR	-0.990	0.815	-0.625	-0.672	0.359	0.303	0.691	0.477	0.546	0.722	-0.446	1.000

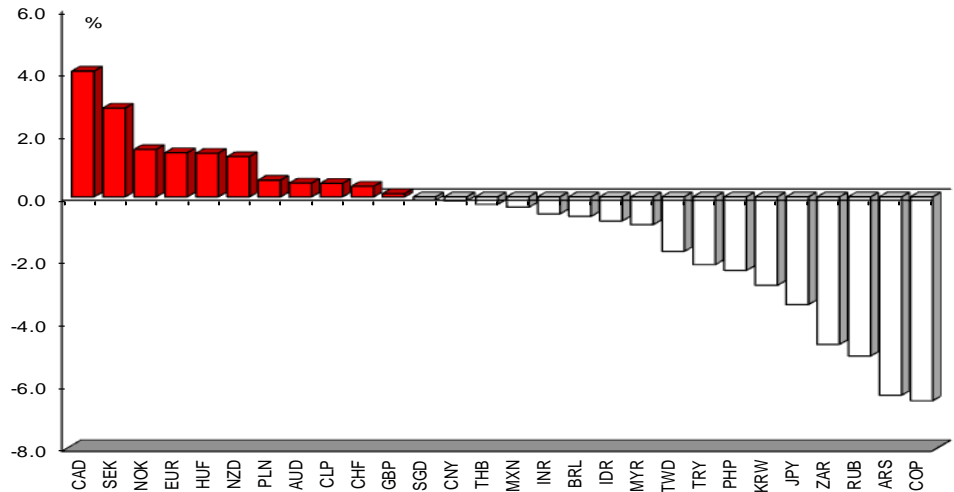
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1167	1.1400	1.1412	1.1445	1.1488
GBP-USD	1.2872	1.2900	1.2970	1.3000	1.3030
AUD-USD	0.7509	0.7525	0.7578	0.7600	0.7676
NZD-USD	0.7191	0.7200	0.7285	0.7300	0.7330
USD-CAD	1.2900	1.2913	1.2987	1.3000	1.3331
USD-JPY	111.77	113.00	113.72	113.77	114.00
USD-SGD	1.3747	1.3800	1.3835	1.3879	1.3900
EUR-SGD	1.5496	1.5700	1.5788	1.5800	1.5830
JPY-SGD	1.2104	1.2161	1.2165	1.2200	1.2418
GBP-SGD	1.7864	1.7900	1.7944	1.7967	1.8000
AUD-SGD	1.0403	1.0412	1.0484	1.0500	1.0571
Gold	1215.09	1216.50	1218.90	1239.45	1251.62
Silver	15.61	15.70	15.75	15.76	15.80
Crude	42.28	44.80	44.87	44.90	47.22

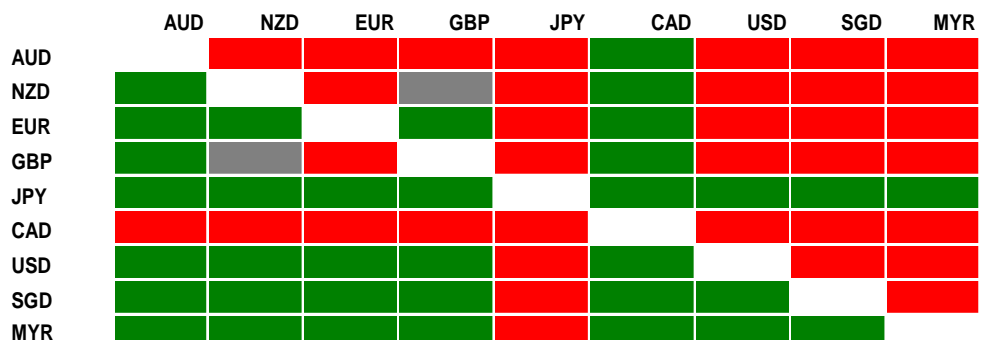
Source: OCBC Bank

FX performance: 1-month change agst USD



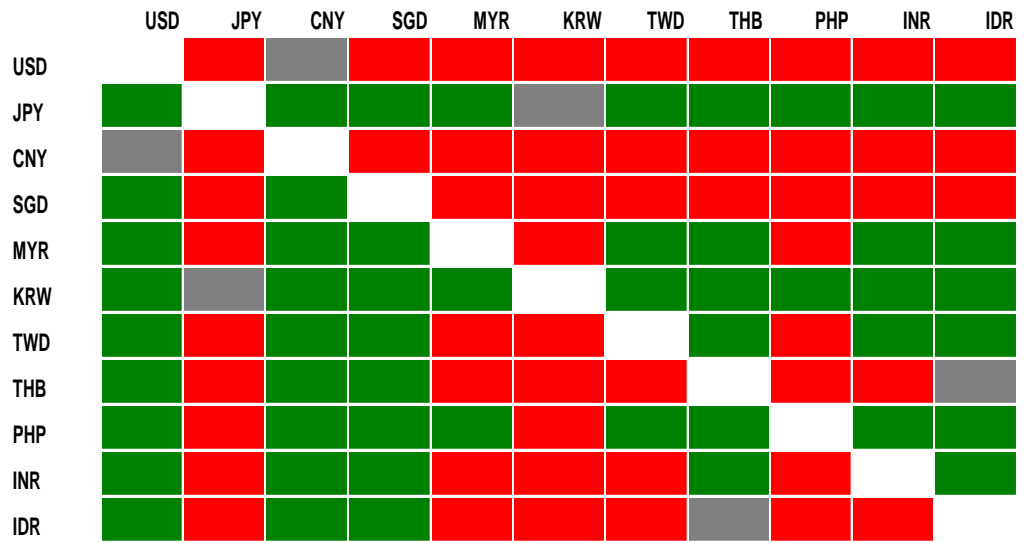
Source: Bloomberg

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-Jun 2017 Return -13.02 2016 Return +6.91	

Source: OCBC Bank

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