

Wednesday, June 07, 2017

FX Themes/Strategy/Trading Ideas – Watching and waiting

- The USD continued slip across G10 space as UST yields softened (10y<2.150%). The JPY led the way higher while also outperforming against its peers on traces of investor caution (note wavering EZ/US equities). The EUR maintained positive leverage against the USD with an Ipsos poll indicating that Macron's Republican Party would secure an absolute majority at the French elections. Elsewhere, the AUD-USD had a choppy day after the RBA remained decidedly neutral, with the pair eventually lifting above 0.7500. GBP-USD trade on both side of 1.2900 before ending relatively unchanged on conflicting opinion polls.
- Ahead of the confluence of event risks tomorrow (**Comey, ECB, UK elections**) and amid lingering unease over the Qatar situation, investors may remain on the sidelines while steering clear of the greenback.
- For the **USD-JPY**, apart from the tightknit correlation to US yields, the pair is seen additionally weighed by the potential for risk aversion. To this end, we note a heavy USD-CHF, slippery UST yields, supported XAU, and a firming VVIX. Watch for the kicker if crude collapse below 46.00.
- Ones to watch today include Australian 1Q GDP (0130 GMT) and the **RBI** monetary policy decision (0900 GMT), with the central bank expected to stand pat on its policy parameters.

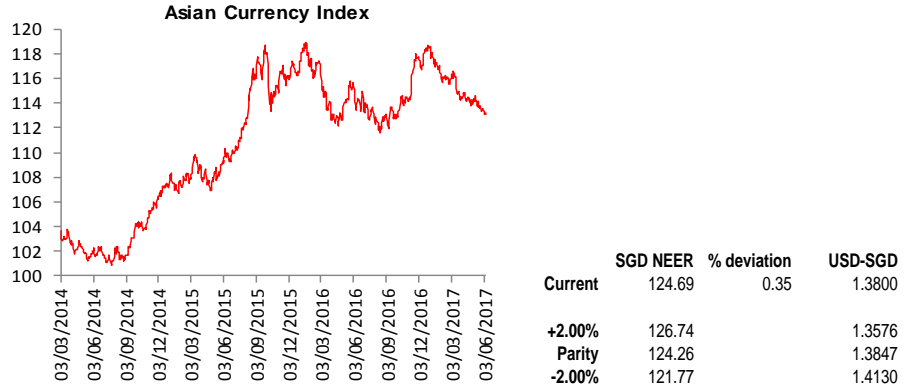
Asian FX

- In line with the EM complex overnight, Asian currencies intraday may be slightly supported but ultimately trapped in a range, cordoned off by a weaker dollar and background risk aversion. On net portfolio inflows, despite a weak USD backdrop, note waning/consolidative positive momentum for the KRW, TWD, IDR, and THB. Meanwhile, the INR and PHP may continue to benefit from improving inflow momentum.
- On the risk appetite front, note some further consolidation in positive appetite levels as the **FXSI (FX Sentiment Index)** inched higher again within **Risk-On** territory. In a nutshell, expect the **ACI (Asian Currency Index)** to be flat to firmer intraday despite its structural model still portending a heavy posture on a longer horizon.
- **SGD NEER:** The SGD NEER is largely unchanged on the day at around +0.34% above its perceived parity (1.3847). With NEER-implied USD-SGD thresholds softer on the day, the implication is that the USD-SGD remains

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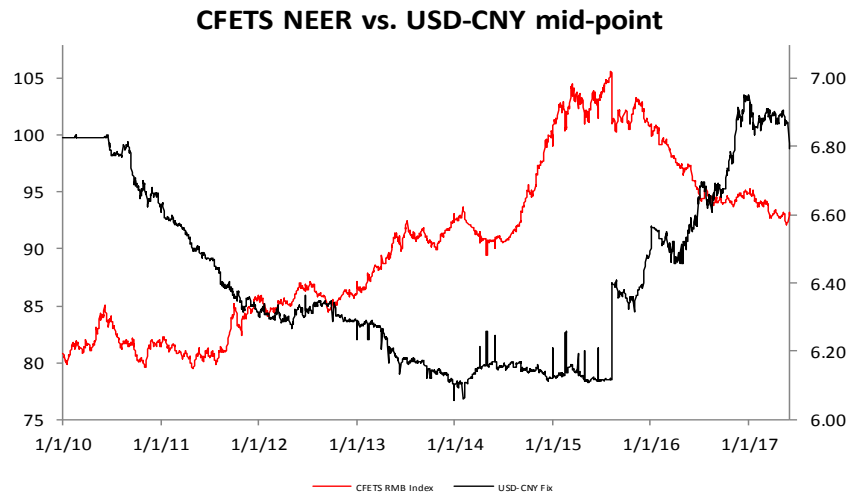
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

reactive to the NEER's constituent currencies. In the interim, expect the basket to remain around recent levels with USD-SGD expected to straddle 1.3800 pending further external developments. At current levels, the +0.50% threshold is estimated at 1.3779 and +0.60% at 1.3765.



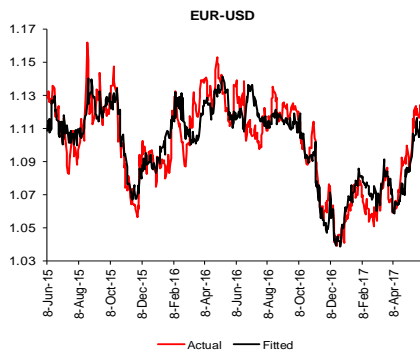
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point softened (as largely expected) to 6.7858 from 6.7934 on Tuesday. This still took the CFETS RMB Index lower to 92.95 from 92.97 yesterday.



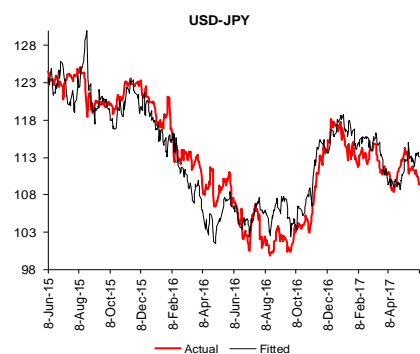
Source: OCBC Bank, Bloomberg

G7



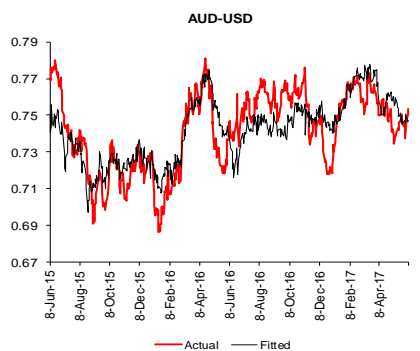
Source: OCBC Bank

- EUR-USD** Short term implied valuations remain steady at firmer levels compared to a week ago. Barring a drastic 'disappointment' by Draghi tomorrow, investors may remain buyers on dips given the optimism attached to Sunday's French elections. Preference to collect into dips within 1.1200-1.1320 in the interim.



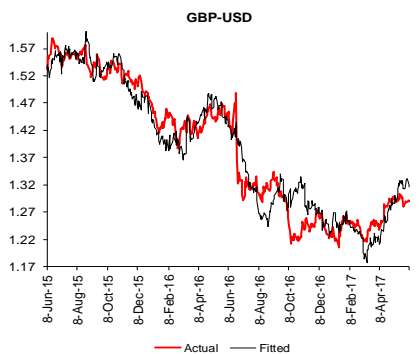
Source: OCBC Bank

- USD-JPY** Minsky moment for Trump? Apart from soggy USD yield support, Comey's testimony tomorrow, although not expected to be a watershed, typifies the political baggage increasingly being tagged to the USD. Against a backdrop of mild risk aversion and investor caution, expect the USD-JPY to push the lower boundaries of its short term implied confidence intervals. Risks remain tilted towards 108.80/00.



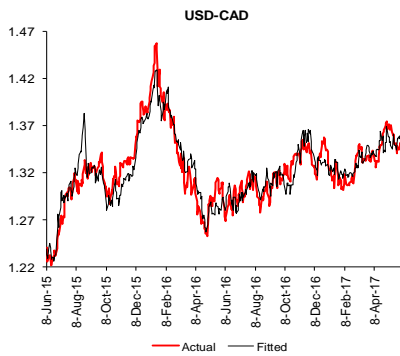
Source: OCBC Bank

- AUD-USD** This morning, Australia's 1Q GDP came in mixed to better than expected at 1.7% yoy with investors jacking the pair higher as a result. Given the current negative demeanor surrounding the USD, AUD-USD may find support on dips intra-day despite somewhat static short term implied valuations. Expect inherent risk to hold above the 200-day MA (0.7529) if global risk aversion remains contained.



Source: OCBC Bank

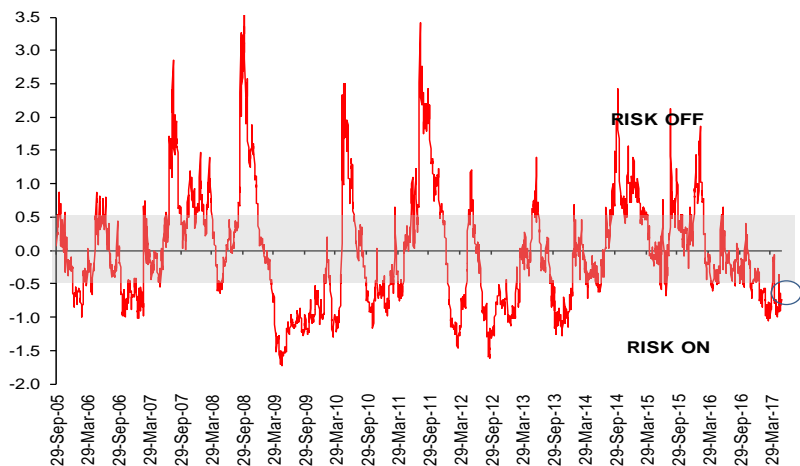
- GBP-USD** Expect GBP-USD to remain trapped in limbo ahead of tomorrow's elections. Although the broad dollar backdrop remains negative, note however that short term implied valuations for the pair have also consolidated lower. In sum, expect a nexus around 1.2900 in the interim.



- USD-CAD** Slightly firmer crude on Tuesday played into a softer greenback, permitting the USD-CAD to ease for the second consecutive session. Preference to remain heavy in the interim and as noted previously, a failure to overcome the 55-day MA (1.3494 may usher the pair back towards 1.3400, ahead of the 200-day MA (1.3325).

Source: OCBC Bank

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	0.937	0.732	-0.389	-0.670	-0.175	0.942	-0.521	-0.074	0.529	0.749	-0.998
CHF	0.995	0.954	0.772	-0.426	-0.693	-0.109	0.949	-0.425	-0.060	0.531	0.799	-0.993
SGD	0.976	0.941	0.750	-0.434	-0.737	-0.168	0.929	-0.483	-0.028	0.541	0.788	-0.979
JPY	0.942	0.972	0.781	-0.331	-0.637	-0.031	1.000	-0.314	-0.192	0.434	0.802	-0.928
USGG10	0.937	1.000	0.820	-0.375	-0.694	-0.021	0.972	-0.364	-0.177	0.427	0.817	-0.934
CAD	0.902	0.805	0.646	-0.495	-0.708	-0.192	0.828	-0.559	0.143	0.606	0.694	-0.912
THB	0.863	0.850	0.896	-0.685	-0.834	0.207	0.857	-0.156	0.236	0.703	0.908	-0.863
MYR	0.853	0.793	0.821	-0.712	-0.852	0.160	0.803	-0.280	0.311	0.763	0.816	-0.853
CNH	0.749	0.817	0.981	-0.704	-0.815	0.385	0.802	0.046	0.211	0.625	1.000	-0.760
TWD	0.748	0.654	0.645	-0.502	-0.739	-0.050	0.652	-0.258	0.172	0.606	0.656	-0.747
CNY	0.732	0.820	1.000	-0.734	-0.846	0.452	0.781	0.089	0.201	0.662	0.981	-0.727
KRW	0.661	0.608	0.506	-0.190	-0.603	-0.125	0.563	-0.229	-0.138	0.513	0.503	-0.671
CCN12M	0.609	0.692	0.928	-0.768	-0.846	0.441	0.666	0.117	0.354	0.618	0.946	-0.630
IDR	0.533	0.396	0.505	-0.581	-0.647	-0.021	0.411	-0.233	0.380	0.625	0.452	-0.535
PHP	0.508	0.588	0.744	-0.540	-0.684	0.303	0.527	0.135	0.091	0.541	0.616	-0.501
GBP	-0.040	0.095	0.380	-0.513	-0.512	0.482	0.052	0.319	0.398	0.327	0.416	0.026
INR	-0.307	-0.238	0.034	-0.038	-0.091	0.227	-0.286	0.446	0.025	0.117	-0.017	0.304
NZD	-0.801	-0.802	-0.884	0.742	0.827	-0.297	-0.849	0.099	-0.305	-0.723	-0.874	0.807
AUD	-0.810	-0.707	-0.408	0.244	0.517	0.369	-0.788	0.583	0.037	-0.418	-0.464	0.813
EUR	-0.998	-0.934	-0.727	0.393	0.680	0.187	-0.928	0.493	0.064	-0.539	-0.760	1.000

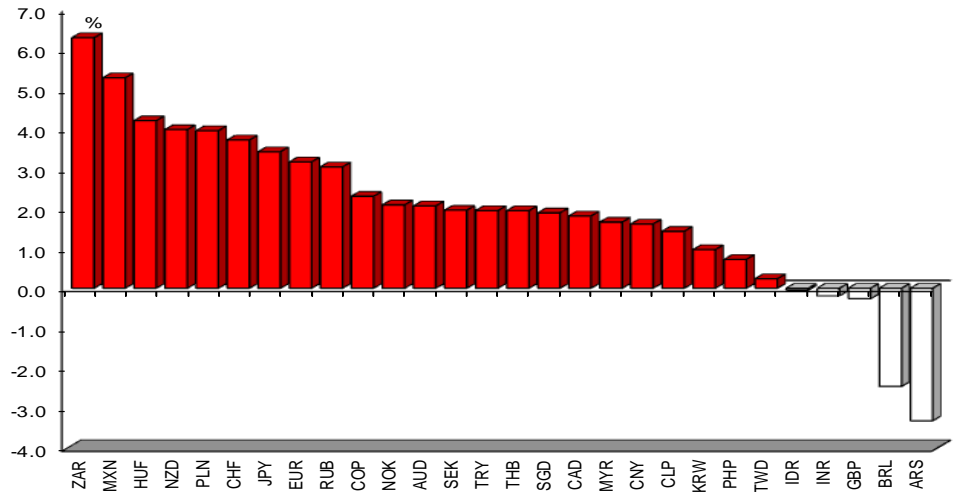
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0933	1.1200	1.1269	1.1285	1.1300
GBP-USD	1.2800	1.2900	1.2902	1.3000	1.3019
AUD-USD	0.7525	0.7530	0.7540	0.7556	0.7600
NZD-USD	0.7095	0.7100	0.7182	0.7200	0.7205
USD-CAD	1.3388	1.3400	1.3446	1.3500	1.3506
USD-JPY	109.03	109.23	109.52	110.00	110.39
USD-SGD	1.3720	1.3785	1.3798	1.3800	1.3943
EUR-SGD	1.5319	1.5500	1.5549	1.5600	1.5628
JPY-SGD	1.2500	1.2550	1.2599	1.2600	1.2607
GBP-SGD	1.7664	1.7800	1.7803	1.7825	1.7900
AUD-SGD	1.0227	1.0400	1.0404	1.0427	1.0433
Gold	1247.39	1258.41	1294.40	1295.08	1295.20
Silver	17.60	17.67	17.68	17.70	17.75
Crude	46.67	48.00	48.04	48.10	50.01

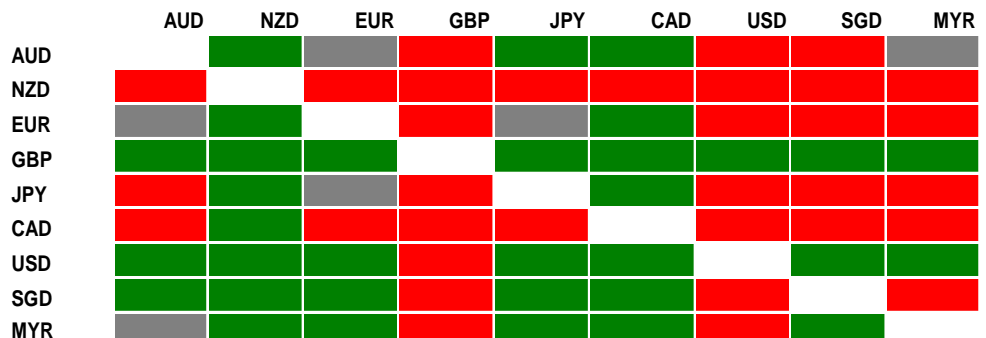
Source: OCBC Bank

FX performance: 1-month change agst USD



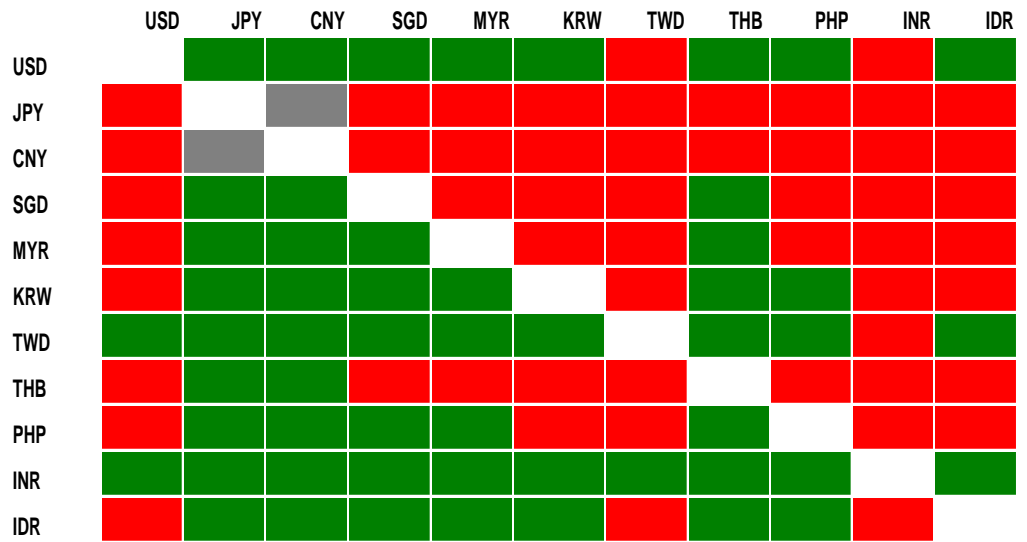
Source: Bloomberg

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?		
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		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
2	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
3	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14
4	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-May 2017 Return -17.04	2016 Return +6.91

Source: OCBC Bank

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