

Monday, June 12, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- UK election volatility saw the USD (bolstered by firmer UST yields) ending higher against the majors, with the GBP-USD leading the way lower to an intra-day low of 1.2635 before stabilizing back above 1.2700. Meanwhile, the CAD was the sole outperformer following better than expected May labor market numbers.
- On other fronts, global risk appetite levels meanwhile managed to hold steady (US tech equity weakness on Friday notwithstanding) as global political risk premiums deflated post the late-week headline risks. Note that the **FXSI (FX Sentiment Index)** managed to inch lower within Risk-On territory on Friday.
- Although short-end vols have collapsed, uncertainty towards the **GBP** may remain visible amid ongoing political uncertainty. Note that PM May is set to meet the leader of the DUP (perceived as euroskeptic) on Tuesday to cobble together a minority government with the coalition still not sealed. Reports indicate that the PM may continue to remain in office but this remains another potential source of uncertainty at this juncture.
- Going ahead, Brexit negotiations with the EU are scheduled for 19 Jun 17 and it remains to be seen if this will be postponed. Overall, although prospects for a “hard” Brexit may seemingly have moderated without an overwhelming Conservative majority, expect investor caution to continue to dominate.
- **CFTC** positioning for the latest week meanwhile show large non-commercial accounts slightly increasing their implied net long dollar bias in aggregate and asset manager accounts pared their implied short dollar bias. Meanwhile, but leveraged accounts reduced their implied net long dollar bias instead. **Overall, inherent risks for further USD vulnerability may heighten for the overall long dollar bias for the large non-commercial and leveraged accounts to further unwind if the FOMC this week disappoints.**
- This week, the **FOMC** on Wednesday is widely expected to result in a “dovish” hike and any less dovish than expected forward guidance may invoke further volatility. Meanwhile, polls following the first round of the **French** Parliamentary elections indicate an overwhelming majority for PM Macron’s centrist party and this should afford some stability for the EUR at the onset of the week. Needless to say, the **BOE** is expected to stand pat on Thursday. The **BOJ** is also expected to remain static on Friday with

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investors on the lookout for the central bank’s economic prognosis.

- **Global cyclical plays** meanwhile may remain a function of risk appetite levels and the crowded data calendar this week. On this front, China May monetary aggregates are due this week while Wednesday brings May retail sales, urban fixed asset investments, and industrial production numbers. In the interim, we believe investors remain somewhat sanguine with respect to the cyclical/EM narrative.

Asian FX

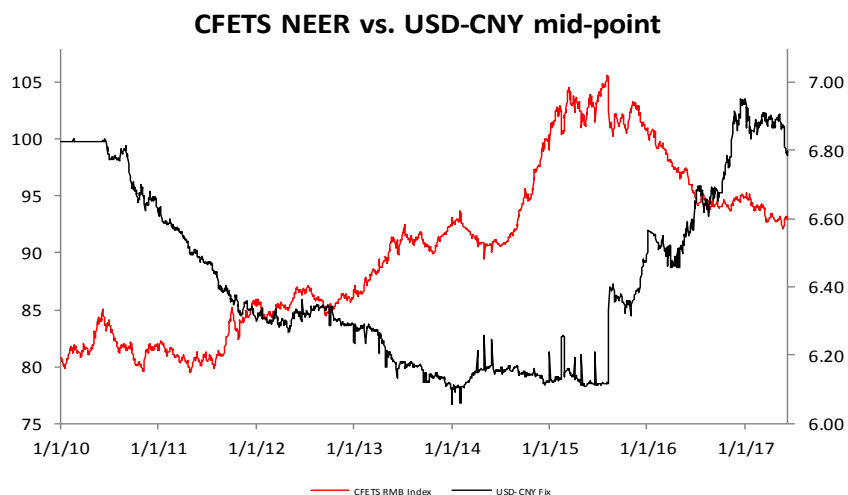
- On the **EPFR** front, implied net equity/bond inflows into Asia (excl Japan, China) improved in the latest week while inflow momentum into EM continued to outstrip that of implied inflows into DM, laying a buffer for underlying support for Asian FX.
- However, given the slightly supported USD tone at the beginning of the week, expect the **ACI (Asian Currency Index)** may be flat to firmer in the short term with Asian equities slightly unsteady. On the central bank front this week, **Bank Indonesia** is also expected to remain on hold with respect to its policy parameters on Thursday.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.26% above its perceived parity (1.3878). NEER-implied USD-SGD thresholds are approximately unchanged on the day while the NEER may be expected to remain in the space between parity and +0.50% (1.3810). Topside for the pair is expected into 1.3860/70 at this juncture.



	SGD NEER	% deviation	USD-SGD
Current	124.57	0.25	1.3844
+2.00%	126.74		1.3606
Parity	124.26		1.3878
-2.00%	121.77		1.4162

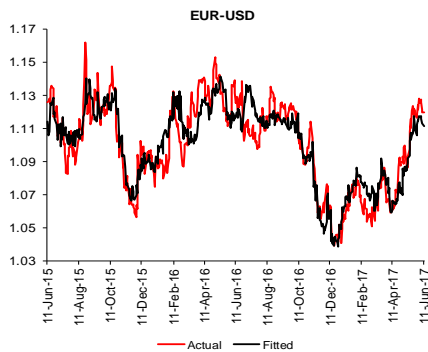
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning slipped (as largely expected) to 6.7948 from 6.7971 on Friday. This saw the CFETS RMB Index firming slightly to 93.17 from 93.09.



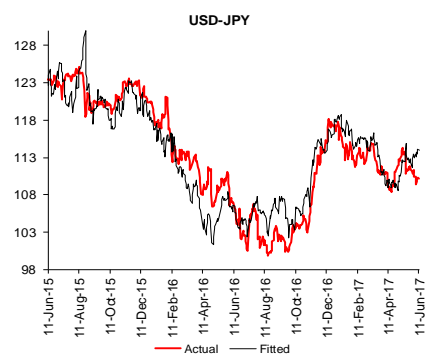
Source: OCBC Bank, Bloomberg

G7



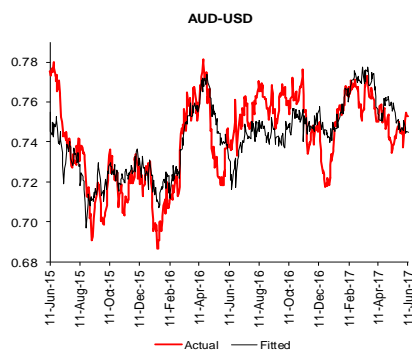
Source: OCBC Bank

- EUR-USD** Ahead of the FOMC and post-ECB, the EUR-USD may remain slightly top heavy in line with its short term implied valuations, especially if the common currency continues to experience any negative ripples from the GBP. If the foothold at 1.1200 is finally lost on a sustained basis, a first way point is expected at 1.1140.



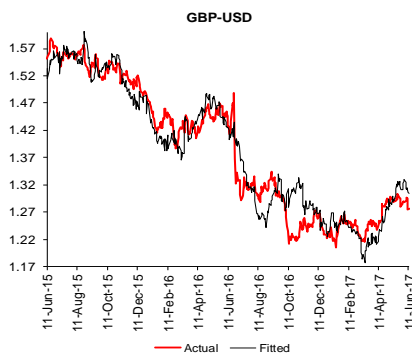
Source: OCBC Bank

- USD-JPY** The USD may find further underpinnings if Fed rhetoric this week continues to underscore prospects of a third rate hike this year. Apart from still relatively sanguine investor risk appetite levels, we think investors may remain cognizant of this risk, with short term implied valuations also orienting higher at this juncture. In the coming sessions, any violation of the 200-day MA (110.52) and the 55-day MA (111.09) bears watching.



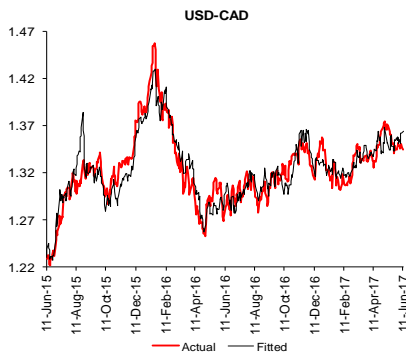
Source: OCBC Bank

- AUD-USD** Pending the global/China data flow this week and the evolution of risk appetite levels, the AUD-USD may attempt to hold in recent ranges. On the domestic front, Australian May labor market numbers are also due on Thursday. In the interim, a 0.7500-0.7570 range may prevail intra-day.



Source: OCBC Bank

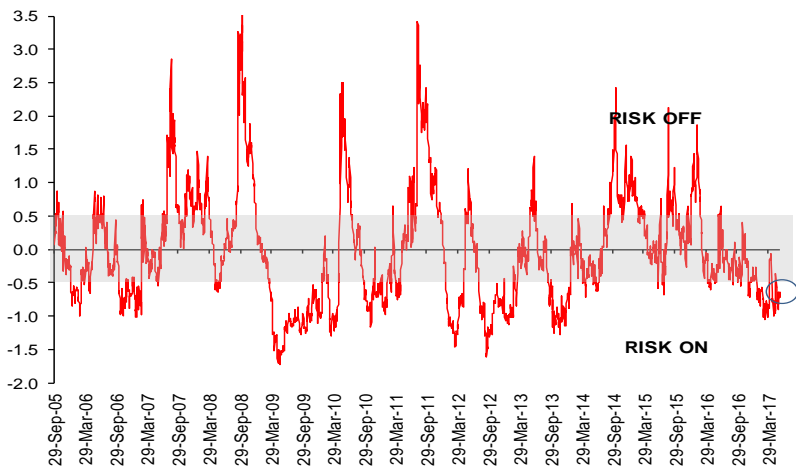
- GBP-USD** Expect the GBP-USD to remain beholden to headline risks in the coming sessions as the political drama continues to unfold. Despite containment of excessive bearishness for the pound, we think the risk-reward profile may continue to tilt to the south for the pair. As such, GBP-USD is expected to remain at the bottom of its (softening) implied confidence intervals. With the 55-day MA (1.2782) now functioning as a resistance, a sustained break below 1.2700 may invite probes towards the 200-day MA (1.2576).



- USD-CAD** USD-CAD may remain conflicted amid still soggy crude prices but the positive afterglow from the better than expected labor market readings from Friday. Overall, despite short term implied valuations remaining underpinned, investors may retain a preference to fade upticks towards 1.3500 while initial support is expected on approach of 1.3385.

Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	0.853	0.670	-0.500	-0.553	0.383	0.876	0.138	0.175	0.513	0.674	-0.994
CHF	0.981	0.902	0.754	-0.574	-0.626	0.500	0.910	0.263	0.199	0.569	0.752	-0.975
SGD	0.945	0.854	0.727	-0.606	-0.663	0.462	0.873	0.205	0.290	0.585	0.737	-0.943
JPY	0.876	0.963	0.785	-0.459	-0.603	0.578	1.000	0.415	-0.004	0.515	0.741	-0.848
USGG10	0.853	1.000	0.833	-0.515	-0.609	0.647	0.963	0.429	0.032	0.453	0.801	-0.832
CAD	0.801	0.598	0.501	-0.550	-0.536	0.225	0.664	-0.025	0.417	0.532	0.531	-0.818
THB	0.780	0.789	0.906	-0.805	-0.837	0.728	0.795	0.501	0.456	0.714	0.897	-0.762
MYR	0.774	0.711	0.833	-0.826	-0.863	0.676	0.749	0.410	0.524	0.772	0.796	-0.765
CNH	0.674	0.801	0.963	-0.786	-0.786	0.823	0.741	0.626	0.405	0.627	1.000	-0.659
CNY	0.670	0.833	1.000	-0.820	-0.871	0.905	0.785	0.741	0.373	0.736	0.963	-0.641
TWD	0.536	0.375	0.562	-0.613	-0.699	0.412	0.409	0.327	0.457	0.640	0.564	-0.545
CCN12M	0.475	0.631	0.912	-0.834	-0.811	0.838	0.570	0.673	0.542	0.610	0.933	-0.460
IDR	0.327	0.160	0.498	-0.724	-0.719	0.395	0.223	0.284	0.641	0.780	0.403	-0.342
PHP	0.303	0.480	0.768	-0.655	-0.741	0.793	0.460	0.799	0.261	0.666	0.582	-0.261
KRW	0.244	0.047	0.160	-0.110	-0.278	0.099	0.060	0.108	-0.012	0.306	0.192	-0.263
GBP	-0.091	0.070	0.399	-0.447	-0.476	0.447	0.116	0.488	0.331	0.459	0.415	0.079
INR	-0.295	-0.134	0.227	-0.187	-0.328	0.397	-0.136	0.613	0.055	0.361	0.137	0.312
AUD	-0.584	-0.512	-0.470	0.438	0.553	-0.410	-0.675	-0.395	-0.201	-0.618	-0.340	0.549
NZD	-0.748	-0.821	-0.907	0.816	0.889	-0.772	-0.851	-0.600	-0.440	-0.793	-0.839	0.728
EUR	-0.994	-0.832	-0.641	0.495	0.534	-0.346	-0.848	-0.092	-0.194	-0.498	-0.659	1.000

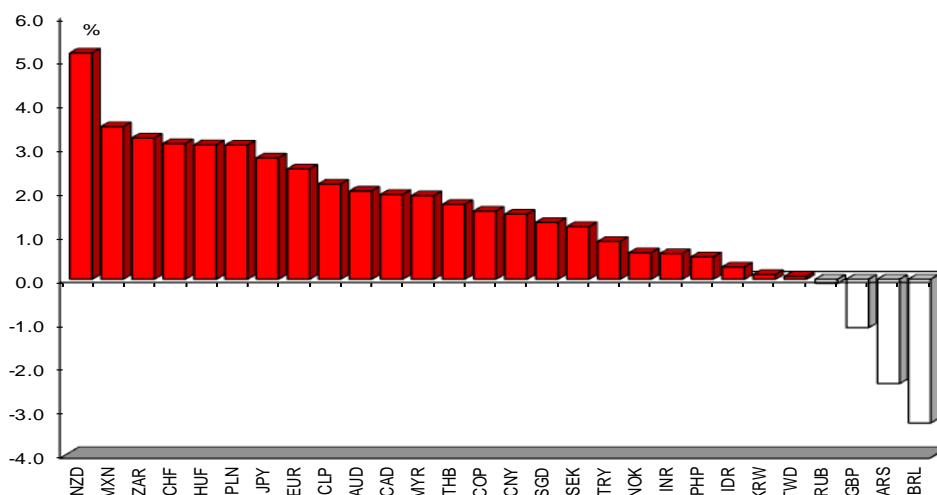
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1103	1.1199	1.1200	1.1285
GBP-USD	1.2636	1.2700	1.2744	1.2747	1.2800
AUD-USD	0.7500	0.7525	0.7530	0.7555	0.7566
NZD-USD	0.7094	0.7200	0.7210	0.7223	0.7272
USD-CAD	1.3388	1.3400	1.3447	1.3500	1.3515
USD-JPY	109.30	110.00	110.27	110.49	111.00
USD-SGD	1.3785	1.3800	1.3845	1.3900	1.3933
EUR-SGD	1.5426	1.5500	1.5505	1.5591	1.5600
JPY-SGD	1.2500	1.2550	1.2554	1.2600	1.2613
GBP-SGD	1.7610	1.7627	1.7644	1.7700	1.7841
AUD-SGD	1.0400	1.0419	1.0426	1.0450	1.0500
Gold	1246.03	1260.07	1266.80	1294.66	1295.20
Silver	16.57	17.10	17.15	17.20	17.38
Crude	45.06	46.00	46.07	46.10	49.70

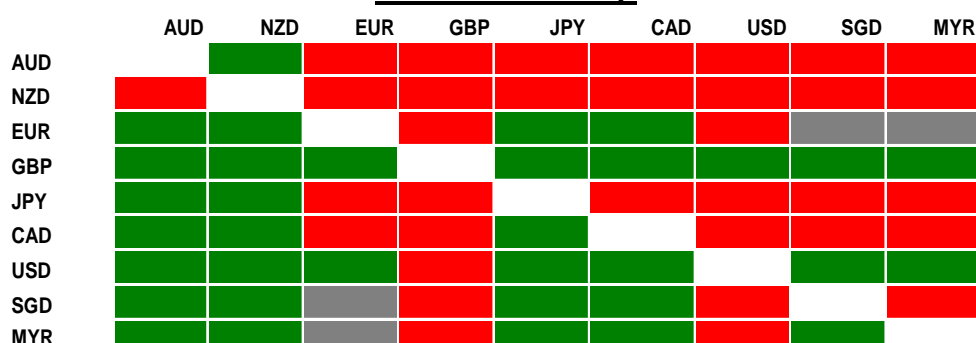
Source: OCBC Bank

FX performance: 1-month change agst USD



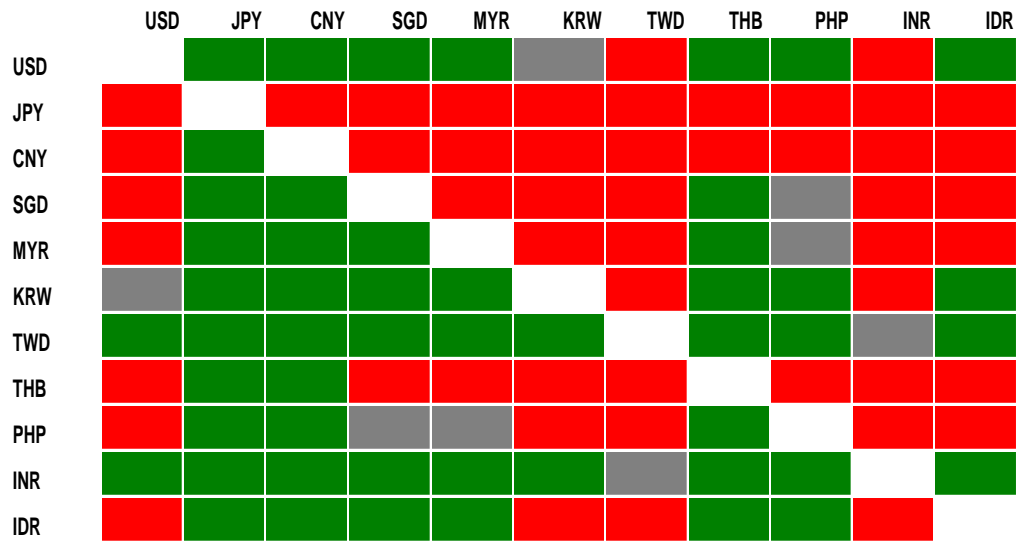
Source: Bloomberg

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		
5	08-Jun-17	B	AUD-USD	0.7550	0.7695 0.7475	Supportive Aussie GDP and China trade numbers, steady risk		
STRUCTURAL								
6	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		
7	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
8	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
9	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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