

Tuesday, June 13, 2017

FX Themes/Strategy/Trading Ideas

- Despite UST yields edging higher, the USD ended mixed to weaker ahead of the mid-week FOMC. Notably, the USD-CAD slumped below 1.3400 and 1.3350 after the Bank of Canada's Wilkins signaled a potential paradigm shift as she noted that the central bank "will be assessing whether all of the considerable monetary policy stimulus presently in place is still required".
- Meanwhile, the EUR-USD firmed on encouraging news flow out of the weekend French elections but came off intra-day highs to end largely unchanged, partially on the back of more guarded comments from the ECB's Coeure.
- On other fronts, the GBP saw renewed weakness within G10 space as political uncertainty persisted. Note that PM May is scheduled to meet with Arlene Foster, the leader of the DUP today, amid backroom negotiations and with investors on the alert for resulting headlines today. Note also current market skepticism regarding chatter about prospects for a "soft" Brexit.
- Elsewhere, the JPY rose across the board (USD-JPY <110.00) as slight risk aversion crept into the markets on the back of global equity weakness. Risk aversion however remained under wraps (for now) with the AUD-USD still managing to shade higher on the day.
- Overall, we remain inherent dollar skeptics heading into the mid-week FOMC, supported on the EUR, negative on the GBP, while keeping an eye out on cyclical plays, now potentially threatened by potential contagion from the tech space and amid investor appetite fluctuations.
- With the latest UK election outcome and the resultant political limbo in the interim, we think that another layer of uncertainty may have been overlaid on the pound. To this end, the **GBP-USD** may potentially travel to the lower reaches of its recent range. We therefore initiate a tactical short idea for the GBP-USD from a spot ref of 1.2760 on Monday, targeting 1.2455, and with a stop placed at 1.2915.

Asian FX

- In Asia, the North-South divide may continue to persist in the near term with the likes of the TWD and KRW slightly more vulnerable to equity tech sector uncertainty while the South Asian units remain somewhat underpinned by net portfolio inflows. On this front, note that net portfolio inflow momentum continues to wane for the likes of the KRW, TWD, THB, while the INR, PHP,

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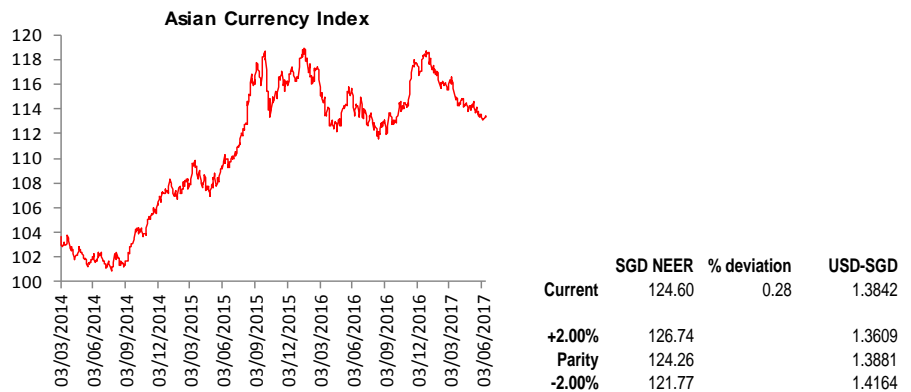
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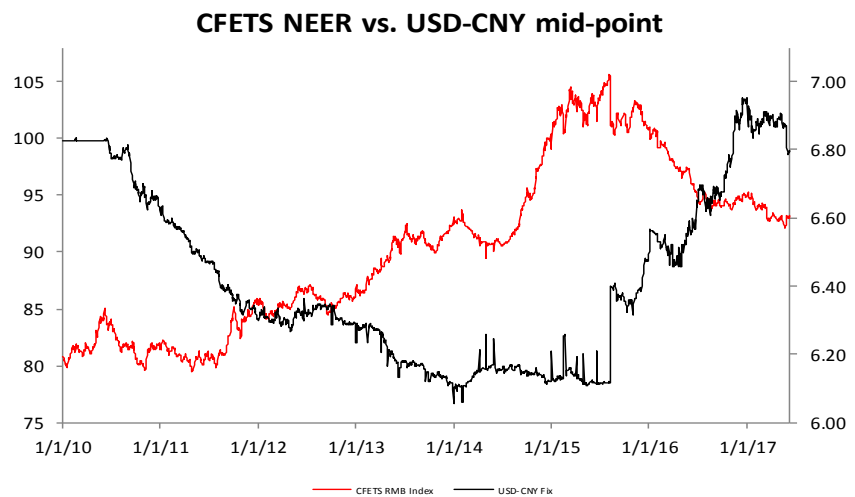
and the IDR may remain supported by this dynamic. On the risk appetite front, note that the **FXSI (FX Sentiment Index)** firmed slightly on Monday but stayed within Risk-On territory. Overall, expect the **ACI (Asian Currency Index)** to remain trapped in recent ranges, buffeted by inherent dollar vulnerability and potential risk aversion.

- SGD NEER:** Today, the SGD NEER is a touch firmer on the day at around +0.29% above its perceived parity (1.3881) with NEER-implied USD-SGD thresholds firming slightly. The basket may continue to be range bound within parity and +0.50% (1.3812) with external drivers likely to continue to dominate in the near term.



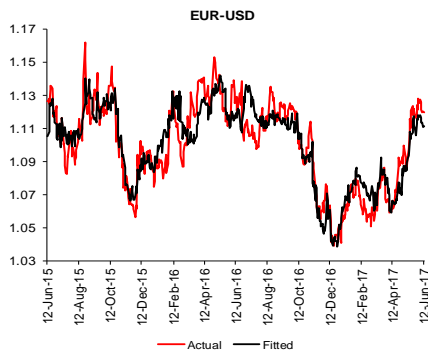
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose to 6.7954 from 6.7948 on Monday. This softened the CFETS RMB Index to 93.14 from 93.17 yesterday.



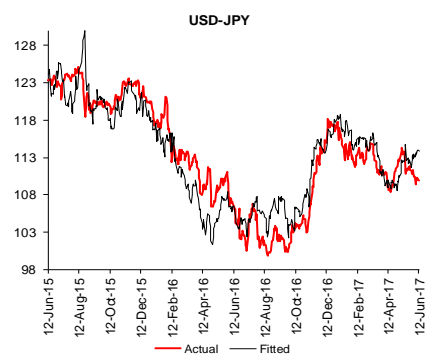
Source: OCBC Bank, Bloomberg

G7



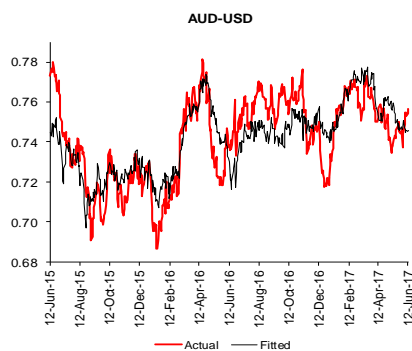
Source: OCBC Bank

- EUR-USD** Short term implied valuations for the pair remain subdued at this juncture and despite linger broad dollar skepticism ahead of the FOMC, risks to detach from the 1.1200 handle towards 1.1140 remain visible, especially if the ECB's Weidmann proves dovish today.



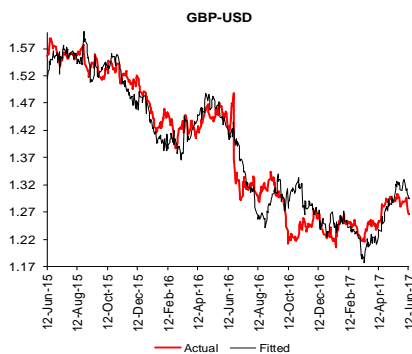
Source: OCBC Bank

- USD-JPY** USD heaviness mixed with potential for risk aversion may argue for a heavy posture for the USD-JPY in the near term despite slightly firm short term implied valuations. In the interim, the USD-JPY may remain cordoned by the 200-day MA (110.56) and 109.40 down south.



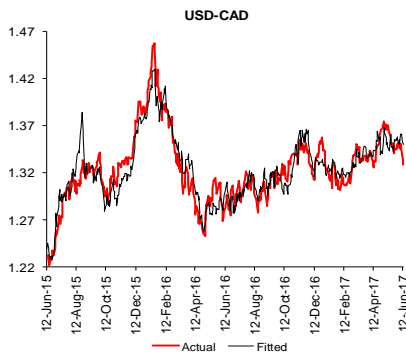
Source: OCBC Bank

- AUD-USD** With global cyclical plays still intact (watch broader risk aversion levels), the AUD-USD may remain underpinned in line with its short term implied valuations and stay in the upper reaches of its implied confidence intervals. On the domestic front, Australian May labor market numbers are also due on Thursday. With the 200-day MA (0.7528) serving as a support, immediate resistance is expected towards 0.7575.



Source: OCBC Bank

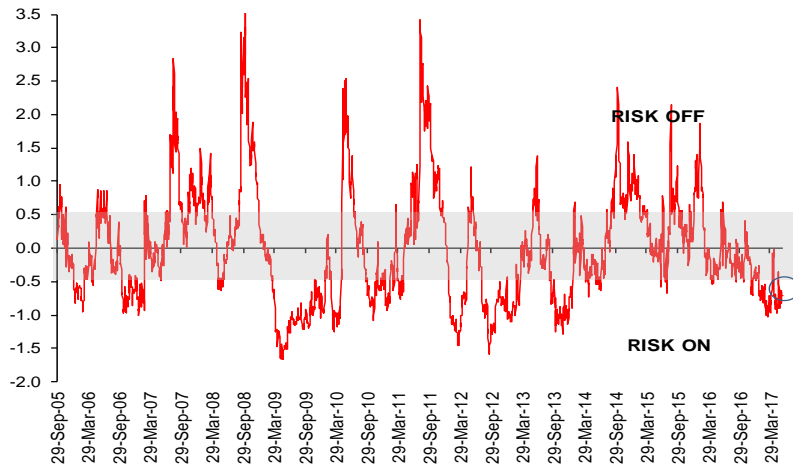
- GBP-USD** Political baggage for the GBP remains very apparent at this stage and a further decay towards the 200-day MA (1.2571) cannot be discounted. Short term implied valuations remain on a lower plane since the election results and the GBP-USD may continue to hug the lower bounds of its implied confidence intervals.



- USD-CAD** The dollar may continue to smart from overnight comments by the BOC's Wilkins as investors re-price BOC rate hike expectations. Short term implied valuations have detached lower as a result and a sustained breach below 1.3300 may well be on the cards in the near term.

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	0.848	0.649	-0.507	-0.522	0.441	0.857	0.270	0.280	0.357	0.659	-0.989
CHF	0.972	0.905	0.761	-0.600	-0.614	0.588	0.892	0.419	0.295	0.453	0.751	-0.956
SGD	0.910	0.846	0.726	-0.644	-0.667	0.542	0.837	0.345	0.420	0.454	0.738	-0.904
JPY	0.857	0.940	0.781	-0.454	-0.569	0.643	1.000	0.560	0.009	0.480	0.706	-0.789
USGG10	0.848	1.000	0.802	-0.491	-0.572	0.660	0.940	0.510	0.062	0.332	0.778	-0.816
THB	0.701	0.741	0.917	-0.839	-0.844	0.803	0.748	0.642	0.538	0.635	0.900	-0.665
MYR	0.697	0.647	0.825	-0.853	-0.869	0.735	0.684	0.528	0.633	0.729	0.777	-0.684
CNH	0.659	0.778	0.951	-0.784	-0.772	0.834	0.706	0.681	0.433	0.550	1.000	-0.632
CNY	0.649	0.802	1.000	-0.821	-0.854	0.932	0.781	0.826	0.376	0.717	0.951	-0.604
CAD	0.603	0.439	0.493	-0.556	-0.464	0.373	0.610	0.284	0.425	0.598	0.430	-0.542
CCN12M	0.476	0.618	0.907	-0.830	-0.805	0.829	0.538	0.669	0.551	0.552	0.936	-0.452
TWD	0.401	0.247	0.400	-0.511	-0.611	0.286	0.214	0.263	0.516	0.314	0.453	-0.423
PHP	0.335	0.494	0.778	-0.653	-0.751	0.792	0.478	0.816	0.268	0.691	0.590	-0.279
IDR	0.225	0.071	0.472	-0.723	-0.703	0.423	0.159	0.361	0.672	0.720	0.367	-0.240
KRW	-0.024	-0.147	-0.070	0.028	-0.145	-0.051	-0.223	0.023	0.045	-0.055	0.026	-0.014
GBP	-0.041	0.123	0.503	-0.471	-0.461	0.541	0.306	0.551	0.191	0.692	0.408	0.032
INR	-0.267	-0.085	0.270	-0.217	-0.381	0.392	-0.077	0.578	0.044	0.383	0.192	0.289
AUD	-0.508	-0.427	-0.465	0.438	0.512	-0.484	-0.664	-0.519	-0.199	-0.632	-0.275	0.429
NZD	-0.738	-0.775	-0.907	0.822	0.872	-0.823	-0.848	-0.702	-0.454	-0.766	-0.810	0.679
EUR	-0.989	-0.816	-0.604	0.494	0.494	-0.385	-0.789	-0.194	-0.307	-0.324	-0.632	1.000

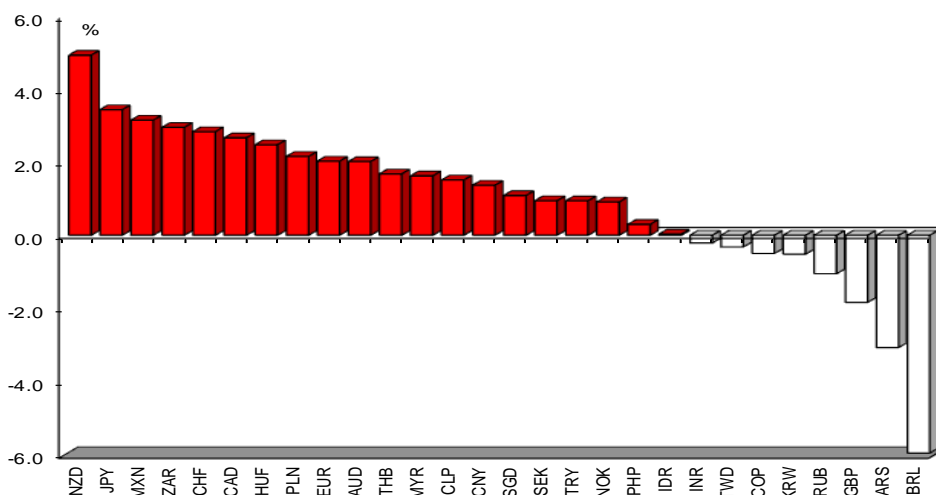
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1125	1.1198	1.1200	1.1285
GBP-USD	1.2600	1.2636	1.2658	1.2680	1.2700
AUD-USD	0.7500	0.7524	0.7561	0.7566	0.7571
NZD-USD	0.7093	0.7200	0.7216	0.7223	0.7279
USD-CAD	1.3200	1.3274	1.3278	1.3300	1.3325
USD-JPY	109.50	109.80	110.00	110.53	111.02
USD-SGD	1.3785	1.3800	1.3828	1.3900	1.3913
EUR-SGD	1.5400	1.5430	1.5484	1.5500	1.5589
JPY-SGD	1.2500	1.2549	1.2571	1.2600	1.2617
GBP-SGD	1.7494	1.7500	1.7503	1.7520	1.7600
AUD-SGD	1.0400	1.0417	1.0456	1.0467	1.0500
Gold	1245.71	1260.37	1264.80	1292.12	1295.20
Silver	16.60	16.80	16.89	16.90	17.35
Crude	44.77	46.20	46.24	46.30	49.60

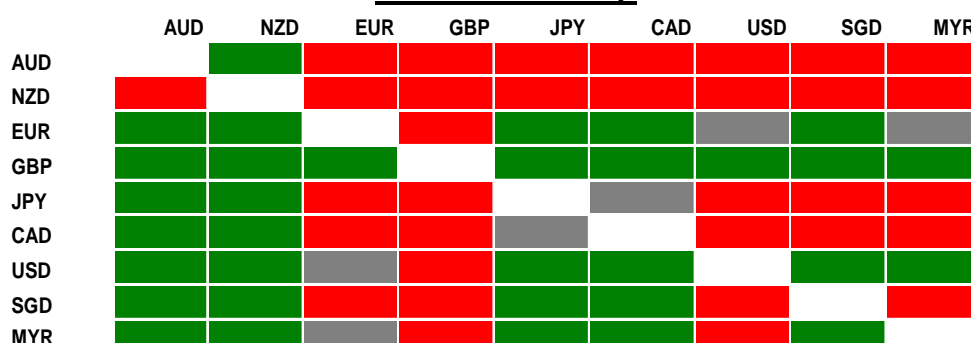
Source: OCBC Bank

FX performance: 1-month change agst USD



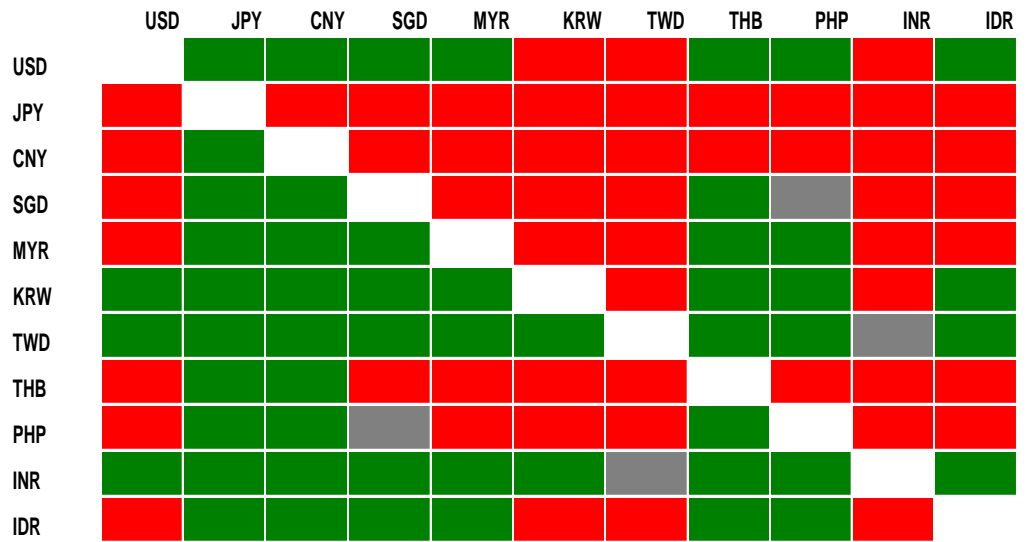
Source: Bloomberg

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		
6	12-Jun-17	S	GBP-USD	1.2760	1.2455 1.2915	UK political uncertainty/limbo		
STRUCTURAL								
7	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		
8	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
9	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
10	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	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
2	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14
3	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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