

Friday, July 14, 2017

**FX Themes/Strategy/Trading Ideas**

- Despite slightly firmer UST yields, USD weakness (higher than expected initial claims at +247k and mixed June PPI readings) continued to linger on Thursday with no new cues from Yellen (although she did reiterate her belief that soft inflation would prove transitory – too little too late) as she appeared before the Senate Banking Committee. In addition, cues from the Fed's Kaplan and Brainard on Thursday also showed little urgency on the rate trajectory.
- On other fronts, fatigue towards the EUR persisted and cited EUR-cross selling (German June CPI as expected at +0.2% mom) continued to trap the EUR-USD lower to sub-1.1400 levels. Note that this was despite a WSJ article indicating that the ECB would address the winding down of its asset purchase program at its September Council Meeting.
- Meanwhile, a positive equities/commodity complex and positive risk appetite levels, together with supportive June China trade numbers, continued to bolster the antipodeans across G10 space while undermining the JPY across the board (including against the USD).
- Today, with Fed policy increasingly focused on the inflation outcome, the focus will turn to the slate of US data releases including June US CPI, real average hourly earnings, retail sales, industrial production, and July Michigan sentiment. In addition, The Fed's Kaplan speaks at 1330 GMT, while a speech by Evans will be posted on the Fed's website. Elsewhere, the ECB's Nowotny is scheduled for 0800 GMT.
- **Overall, expect more of the same ahead today ahead of the US data stream, i.e., generalized dollar vulnerability aggravated by yield seeking behavior on the back of sanguine risk appetite levels.**
- Amidst a vulnerable broad dollar backdrop, improving risk appetite levels, and a supportive China data stream, we engage in a tactical long **AUD-USD**. From a spot ref of 0.7708 on Thursday, we target 0.7860 and place a stop at 0.7630.

Treasury Research &  
Strategy

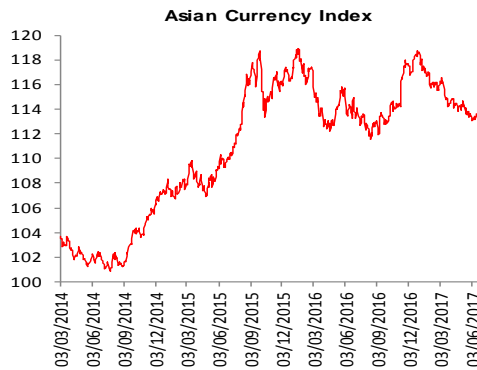
**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

**Asian FX**

- EMFX generally continued to benefit from the wobbly dollar overnight and USD-Asia is expected to continue to remain suppressed into the end of the week. On the net portfolio inflow front, we are also detecting some pick up for KRW, TWD, INR, as well as the THB. Thus, with the **FXSI (FX**

**Sentiment Index**) digging deeper into Risk-On territory once again on Thursday, we look for the **ACI (Asian Currency Index)** to remain top heavy. On the central bank front, both the BOK and BNM remained static (and neutral) on their policy parameters at their respective policy meetings on Thursday.

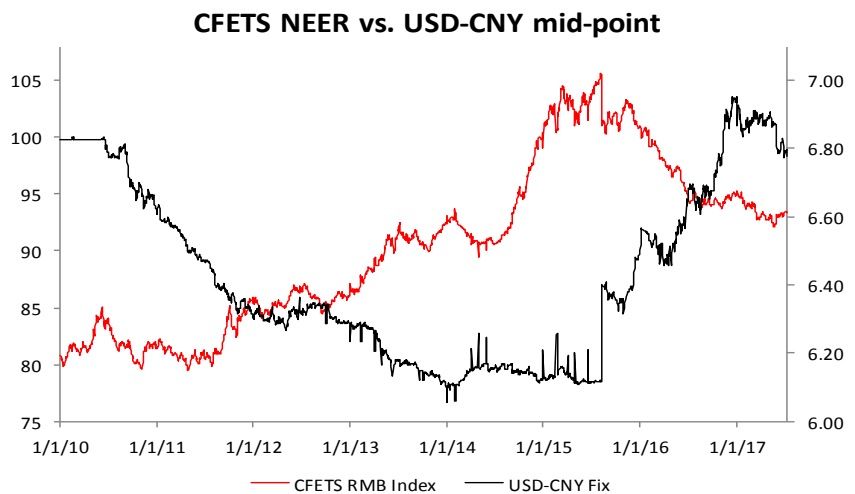
- **SGD NEER:** Amidst broad dollar weakness, the SGD NEER printed a high just above +1.00% early Friday in Asia although for today, we would expect a general capitulation back within the +0.80% (1.3763) and +1.00% (1.3736) zone.
- At this juncture, the NEER is sitting at around +0.90% above its perceived parity (1.3873), with NEER-implied USD-SGD thresholds softer on the day. Technically, if USD weakness becomes endemic multi-session, the USD-SGD may be expected to lose its foothold at 1.3750 and bleed towards 1.3700 despite the softer than expected 2Q GDP numbers this morning.



	SGD NEER	% deviation	USD-SGD
Current	125.31	0.85	1.3758
+2.00%	126.74		1.3601
Parity	124.26		1.3873
-2.00%	121.77		1.4156

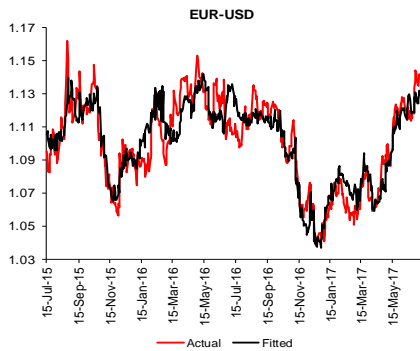
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY fell slightly (as largely expected) to 6.7774 from 6.7802 on Thursday, although this saw the CFETS RMB Index softening further to 93.34 from 93.37 yesterday.



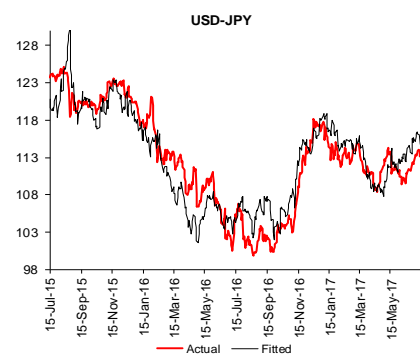
Source: OCBC Bank, Bloomberg

**G7**



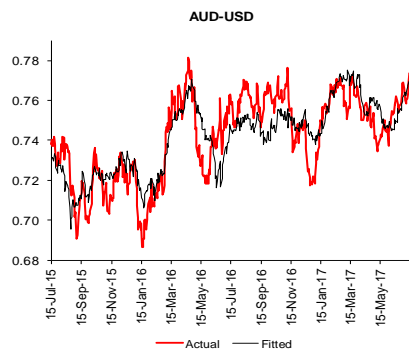
Source: OCBC Bank

- EUR-USD** Headline risk for the EUR-USD may remain significant with the ECB's Draghi scheduled at Jackson Hole next month. Short term implied valuations are also sitting on a higher ledge after Yellen this week and the pair may continue to base build off 1.1400 while eyeing further potential upside into next week.



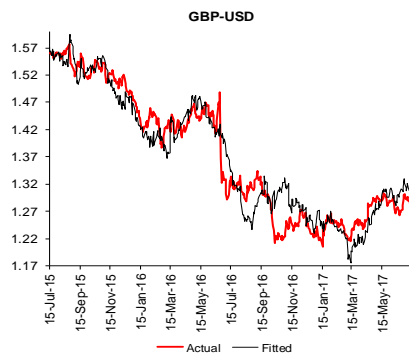
Source: OCBC Bank

- USD-JPY** The JPY may remain somewhat vulnerable with the BOJ expected to pare its inflation outlook next week and with positive risk appetite levels providing support on dips for the USD-JPY in the short term. In the interim however, short term implied valuations remain slightly heavy and the pair may continue to trawl a 112.80-114.00 range pending further news flow.



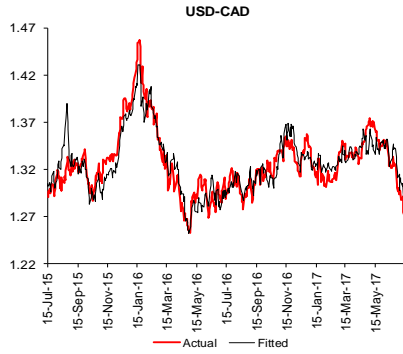
Source: OCBC Bank

- AUD-USD** Amidst a conducive environment and ahead of June labor market numbers and RBA minutes next week, the AUD-USD may continue to remain relatively buoyant (in line with its short term implied valuations) as investor interest recirculates back into the cyclicals. Upside waypoints at this juncture include 0.7750 and 0.7770.



Source: OCBC Bank

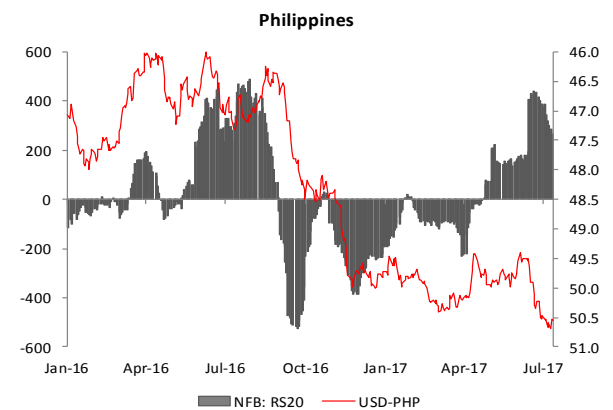
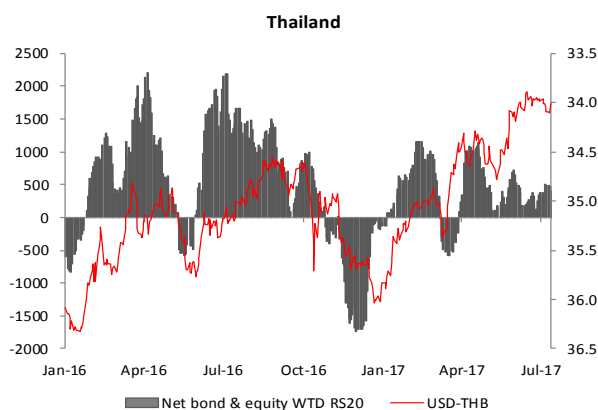
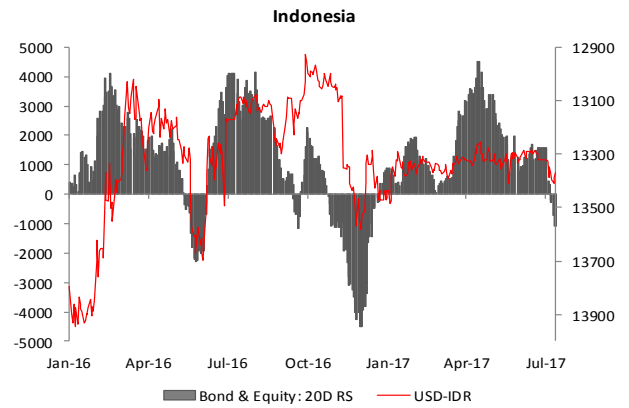
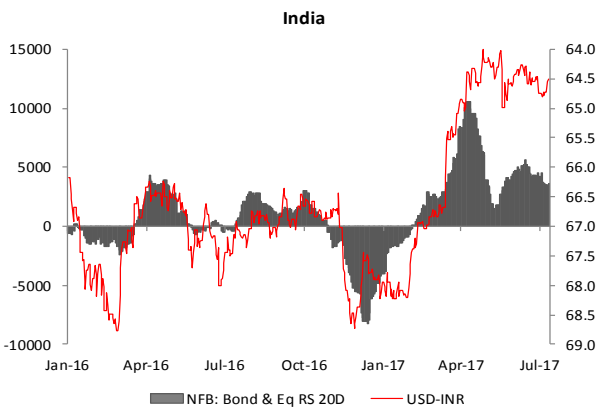
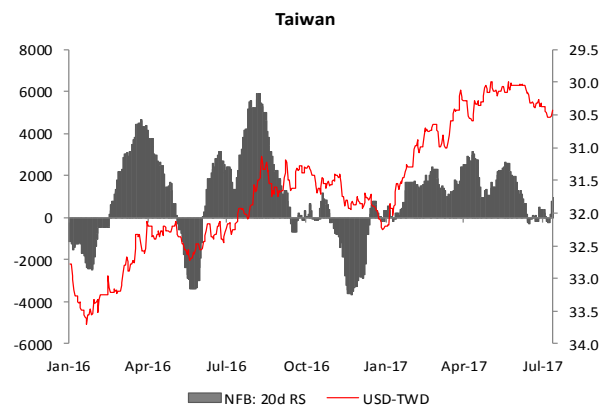
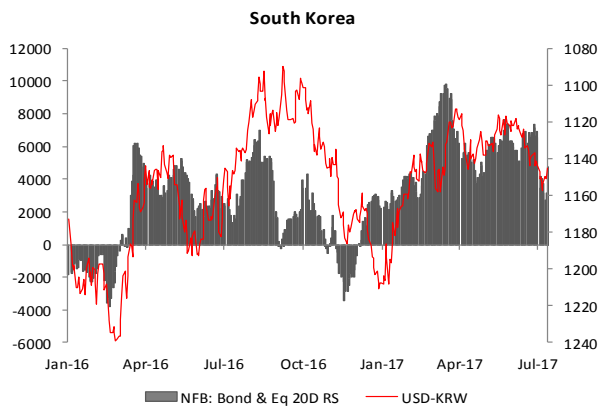
- GBP-USD** GBP-USD managed to step higher on the back of a soft broad dollar on Thursday. The calendar is scheduled to be quiet and the pair may continue to drift along with externally driven headlines in the near term. Preference to pick up on dips (in line with slightly supported short term implied valuations) within 1.2900-1.3000.

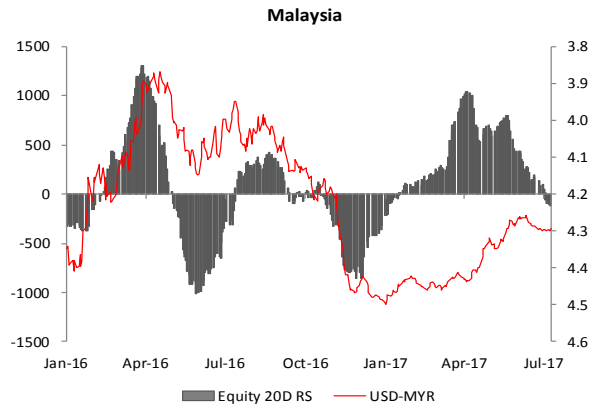


- USD-CAD** Hawkish expectations continue to surround the BOC at this juncture and post the rate hike this week, investors may continue to attempt to feel out the lower end of the USD-CAD's implied confidence intervals (we reckon 1.2680/00) in the near term.

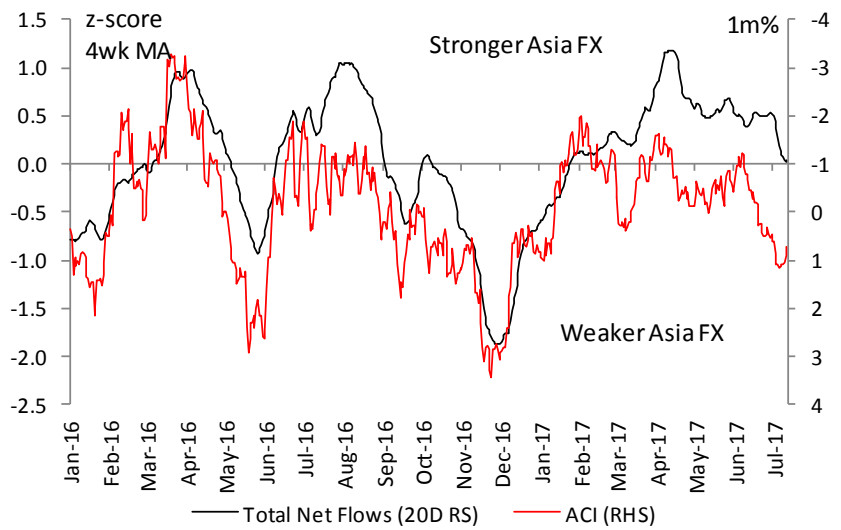
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows

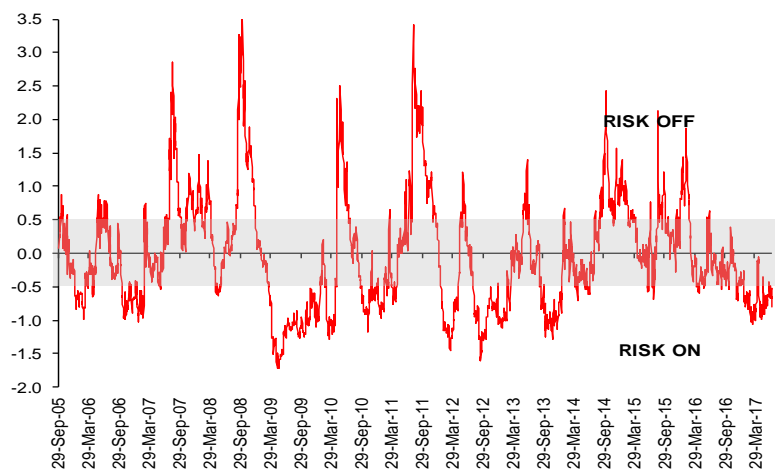




### ACI VS. Net Capital Flows



### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.852	0.822	0.444	-0.399	-0.692	-0.75	-0.754	-0.377	-0.839	0.791	-0.99
CAD	0.878	-0.896	0.733	0.14	-0.482	-0.681	-0.827	-0.717	-0.176	-0.841	0.728	-0.858
CHF	0.854	-0.622	0.625	0.62	-0.278	-0.424	-0.57	-0.525	-0.472	-0.636	0.548	-0.872
CNY	0.822	-0.625	1	0.22	-0.255	-0.834	-0.375	-0.839	-0.301	-0.616	0.975	-0.756
CCN12M	0.818	-0.788	0.627	0.124	-0.621	-0.572	-0.752	-0.664	-0.085	-0.726	0.623	-0.793
CNH	0.791	-0.632	0.975	0.241	-0.213	-0.838	-0.379	-0.833	-0.336	-0.614	1	-0.726
SGD	0.734	-0.523	0.923	0.047	-0.348	-0.776	-0.284	-0.798	-0.091	-0.507	0.913	-0.647
THB	-0.36	0.553	-0.132	-0.46	-0.06	0.263	0.61	0.054	0.458	0.746	-0.079	0.442
INR	-0.391	0.6	-0.109	-0.541	-0.049	0.308	0.611	0.391	0.605	0.479	-0.104	0.444
TWD	-0.517	0.76	-0.124	-0.406	0.005	0.213	0.816	0.128	0.429	0.767	-0.134	0.594
KRW	-0.555	0.731	-0.175	-0.503	0.059	0.242	0.785	0.192	0.495	0.75	-0.124	0.638
NZD	-0.599	0.427	-0.424	-0.133	0.385	0.255	0.386	0.503	-0.019	0.296	-0.417	0.558
MYR	-0.654	0.773	-0.201	-0.378	0.349	0.207	0.868	0.301	0.298	0.662	-0.158	0.721
PHP	-0.719	0.816	-0.283	-0.387	0.388	0.246	0.892	0.343	0.326	0.716	-0.252	0.776
AUD	-0.728	0.562	-0.787	0.058	0.592	0.677	0.462	0.793	-0.064	0.45	-0.743	0.666
JPY	-0.75	0.932	-0.375	-0.334	0.325	0.475	1	0.498	0.336	0.844	-0.379	0.8
USGG10	-0.852	1	-0.625	-0.401	0.244	0.704	0.932	0.689	0.488	0.934	-0.632	0.872
IDR	-0.857	0.934	-0.4	-0.556	0.246	0.415	0.932	0.396	0.451	0.941	-0.375	0.909
GBP	-0.925	0.8	-0.826	-0.445	0.25	0.741	0.659	0.825	0.437	0.746	-0.765	0.897
EUR	-0.99	0.872	-0.756	-0.491	0.391	0.651	0.8	0.703	0.416	0.866	-0.726	1

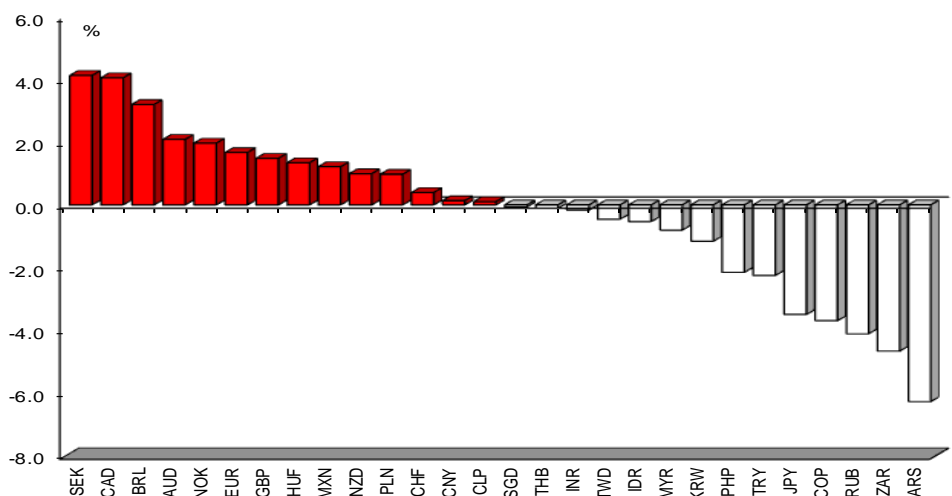
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1214	1.1400	1.1404	1.1489	1.1500
GBP-USD	1.2869	1.2900	1.2939	1.3000	1.3030
AUD-USD	0.7700	0.7731	0.7738	0.7746	0.7800
NZD-USD	0.7212	0.7300	0.7321	0.7335	0.7369
USD-CAD	1.2681	1.2700	1.2731	1.2800	1.3306
USD-JPY	111.90	113.00	113.51	114.00	114.30
USD-SGD	1.3709	1.3730	1.3763	1.3800	1.3859
EUR-SGD	1.5539	1.5600	1.5695	1.5700	1.5861
JPY-SGD	1.2096	1.2100	1.2126	1.2200	1.2387
GBP-SGD	1.7628	1.7800	1.7808	1.7833	1.7900
AUD-SGD	1.0600	1.0634	1.0649	1.0660	1.0700
Gold	1202.19	1204.00	1215.30	1236.25	1247.01
Silver	15.30	15.50	15.59	15.60	16.63
Crude	42.32	46.00	46.03	46.10	46.83

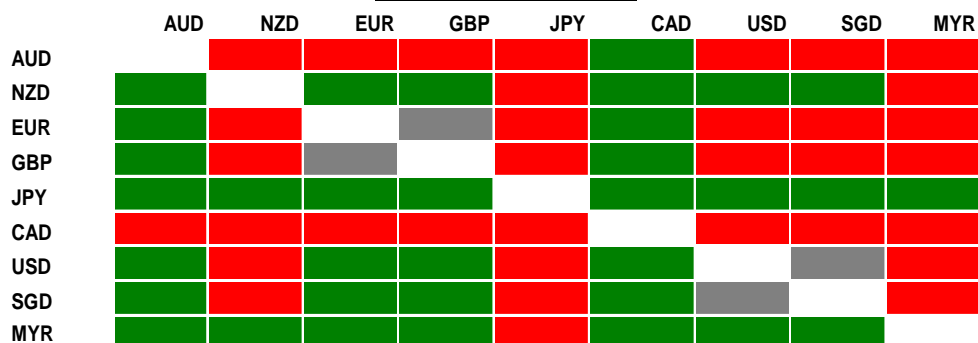
Source: OCBC Bank

### FX performance: 1-month change agst USD



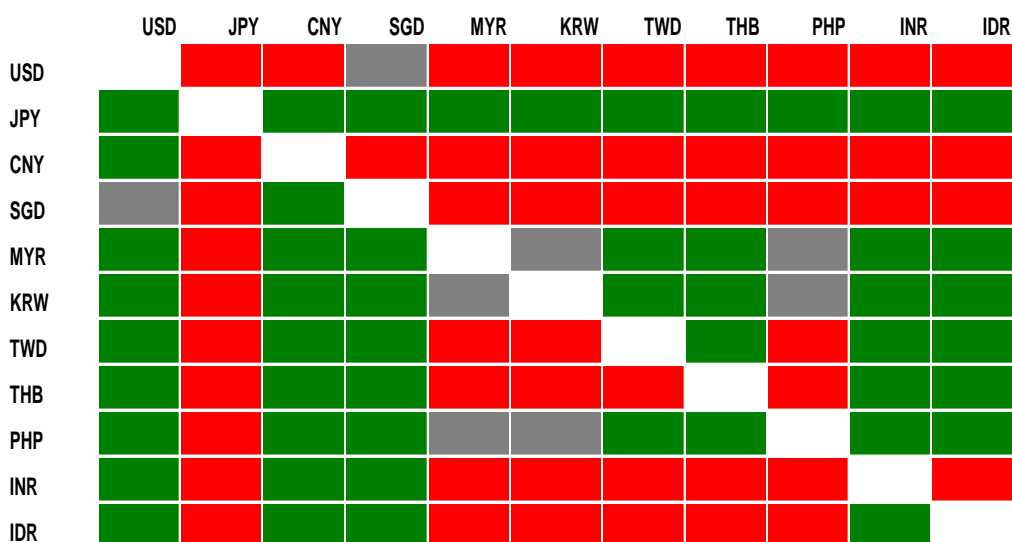
Source: Bloomberg

**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		
<b>TACTICAL</b>								
1	23-May-17	S	USD-CAD	1.3494	1.2610	1.2935	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	
4	13-Jul-17	B	AUD-USD	0.7708	0.7860	0.7630	Vulnerable USD, improving risk appetite, supportive China data	
<b>STRUCTURAL</b>								
5	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
6	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	
7	12-Jul-17		Bullish 2M 1X1.5 EUR-USD Call Spread Spot ref: 1.1455; Strikes: 1.1492, 1.1724; Exp: 12/09/17; Cost: 0.46%				ECB transitioning to neutral, Fed wavering	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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 politycuncertainty/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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