

Wednesday, July 19, 2017

FX Themes/Strategy/Trading Ideas

- Initial stop and flow driven USD weakness, later fueled by more positive than expected RBA meeting minutes, was further aggravated on Tuesday by the failure to repeal Obamacare (one of the cornerstones of Trump's campaign last year) and the subsequent drop in UST yields (note also cooler than expected June US import prices). Meanwhile, the EUR was also buoyed by a wire report indicating that ECB staffers are set to embark on preliminary work to study different scenarios for QE tapering.
- Outside of dollar space, while the AUD led the way higher against the USD and outperformed across the board, the GBP trailed its G10 counterparts following weaker than expected UK June CPI readings.
- The calendar today is relatively quiet today with notable releases including US June housing starts while no central bank speak is scheduled. Markets may therefore continue to consolidate (or possibly retrace partially, given that price action of late has gone convex) ahead of the headline risks from the ECB and BOJ policy meetings on Thursday.
- Having violated the 95.00 level cleanly, the **DX** may now have to contend with 94.00 support next. Structurally, the Fed's anticipated trajectory is essentially a known unknown with markets looking for a taper announcement and potentially another hike in December (the hitherto positive Trump (Trump dynamic is now buried for all intents and purposes). What is more uncertain however has been the realization that several other G10 central banks have essentially turned the corner and abandoning the low for long mantra.
- **Thus the continued evolution of central banks' policy dynamics between the Fed and its counterparts may continue to lean against the USD. As it stands, the environment has morphed from one of USD "selling" earlier this year to the current landscape of "buying" of the majors, with the greenback a convenient currency on the flip side of the trade.**
- In the wake of the RBA meeting minutes on Tuesday, our 13 Jul 17 idea to be tactically long **AUD-USD** (spot ref: 0.7708) hit its objective of 0.7860. The minutes we think provide sufficient fodder for further potential upside in the pair given the current USD backdrop. As such, we extend our objective to 0.8015, trailing the stop to 0.7780.
- Our 23 May 17 idea to be tactically short **USD-CAD** (spot ref: 1.3494)

Treasury Research &
Strategy

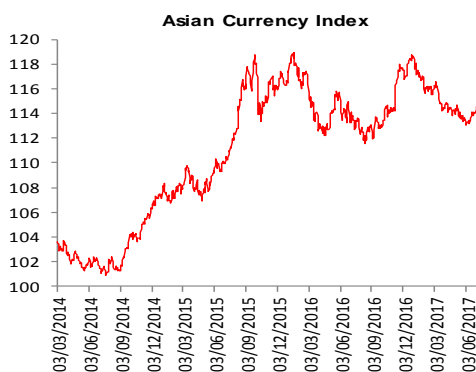
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fulfilled its 1.2610 target on Tuesday as the pair continued to hemorrhage on the back of broad-based USD weakness. We extend our objective to 1.2400, trailing the stop to 1.2720.

- With dollar vulnerability increasingly pervasive in the near term within G10 and increasingly for USD-Asia, we initiate a tactical short **USD-SGD** (weighed by implicit inflows) on Tuesday. From a spot ref of 1.3671, we target 1.3535 and place a stop at 1.3740.

Asian FX

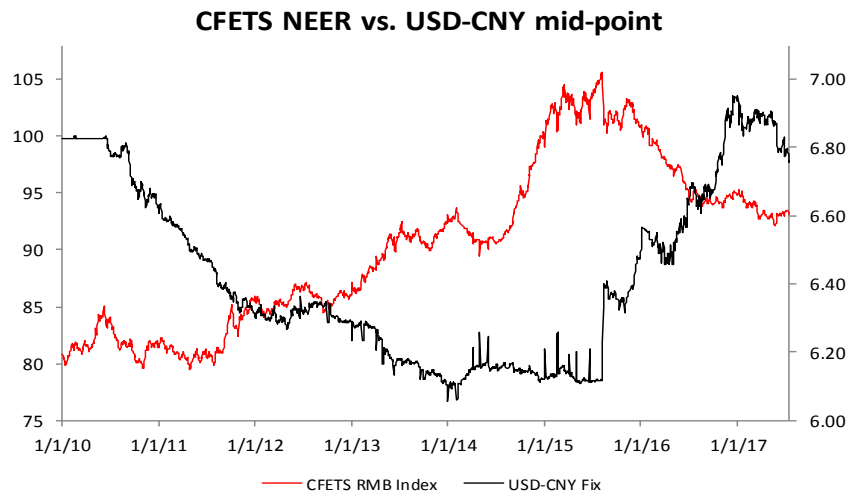
- EM FX in general also pulled higher against the USD on Tuesday and with the aid of the renminbi complex, should see USD-Asia remaining top heavy into today's session. Asian net portfolio inflows meanwhile remain supportive of the KRW and the TWD, while previous weakness for INR and the IDR seem to be stabilizing. Meanwhile, the PHP and the THB remain somewhat bereft of implicit support on this front. Overall, despite the **FXSI (FX Sentiment Index)** continuing to capitulate higher (but remaining in Risk-On territory), the **ACI (Asian Currency Index)** is still seen top heavy in the near term, in line with its medium term structural model.
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.86% above its perceived parity (1.3776). In the aftermath of the USD slide, NEER-implied USD-SGD thresholds are lower on the day with +0.80% estimated at 1.3667 and +1.00% at 1.3640. Pending further headline risks on Thursday, expect the NEER to continue to hit a glass ceiling between these two thresholds.



	SGD NEER	% deviation	USD-SGD
Current	125.30	0.84	1.3666
+2.00%	126.74		1.3506
Parity	124.26		1.3776
-2.00%	121.77		1.4058

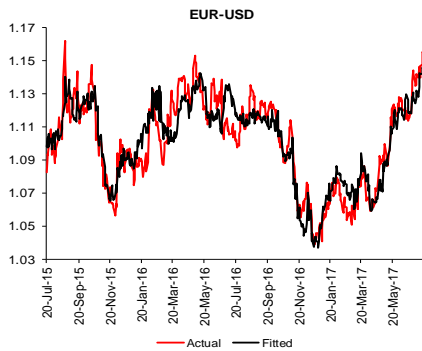
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point fell (as largely expected) to 6.7451 from 6.7611 on Tuesday, with the CFETS RMB Index easing lower again to 93.01 from 93.12 yesterday.



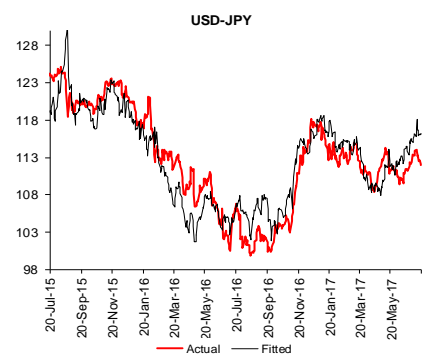
Source: OCBC Bank, Bloomberg

G7



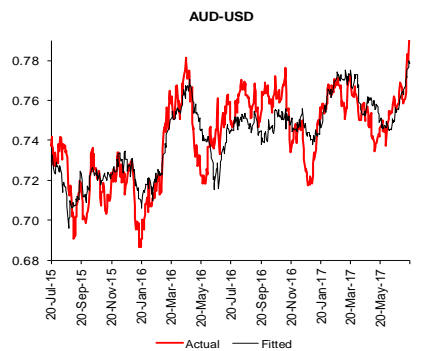
Source: OCBC Bank

- EUR-USD** Short term implied valuations continue to step higher with the EUR-USD attempting to cling to the upper boundaries of its implied confidence intervals. In the interim, the pair is seen supported on dips ahead of the ECB council meeting tomorrow and beyond 1.1600, upside targets include: 1.1616 (03 May 2016), 1.1714 (24 May 2015), and 1.1806 (200-week MA).



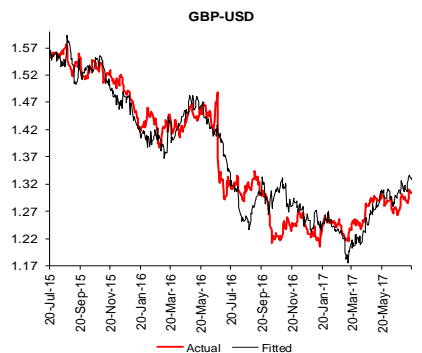
Source: OCBC Bank

- USD-JPY** Short term implied valuations for the pair continue to top out in the face of the current dollar environment and despite little or no hawkish expectations being attached to the BOJ MPC tomorrow. In the interim, expect some support to gather at the convergence of the 55-day MA (111.95), the 200-day MA (111.89), and the 100-day MA (111.78).



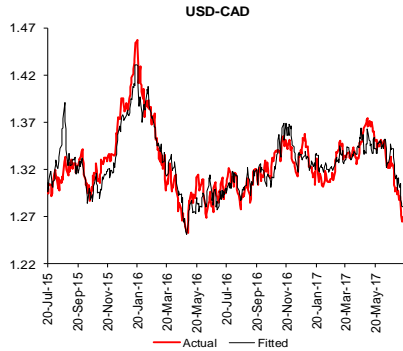
Source: OCBC Bank

- AUD-USD** The global monetary policy tilt was shaken up post the RBA minutes yesterday with the RBA joining the fray and following in the footsteps of the ECB, BOE, BOC. Despite sharply higher short term implied valuations, we note a degree of overshooting behavior in the immediate term. Nonetheless, retracements at this juncture are likely to be shallow pending the ECB tomorrow and if global risk appetite levels remain sanguine.



Source: OCBC Bank

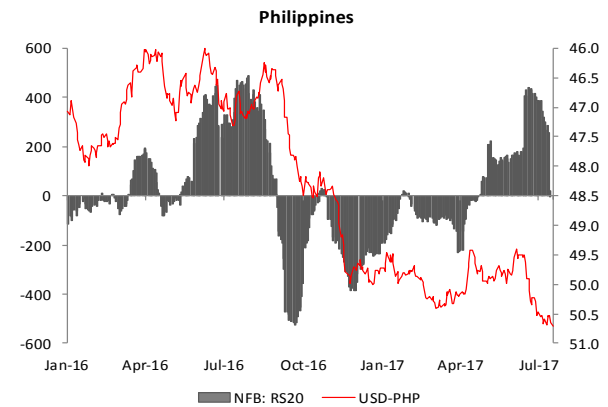
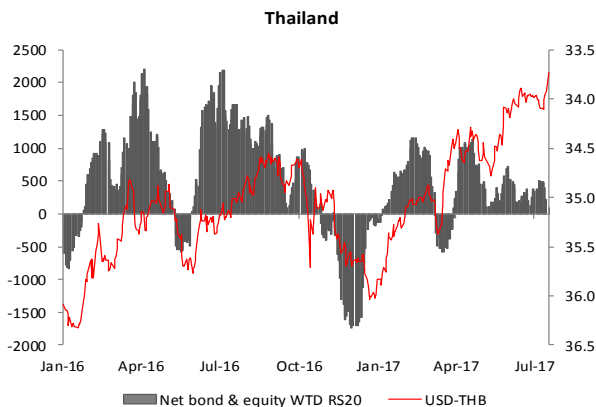
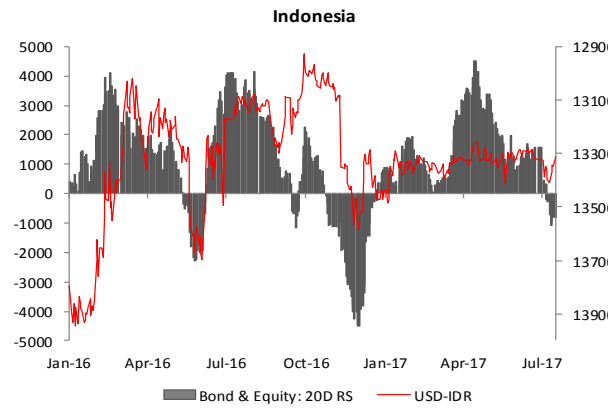
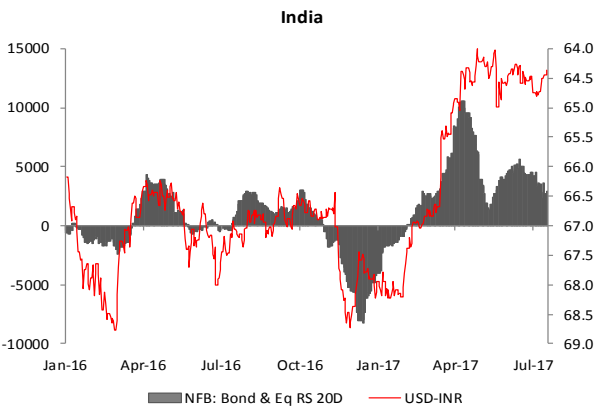
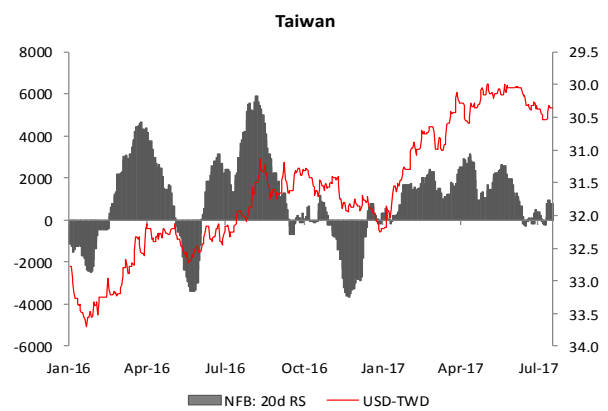
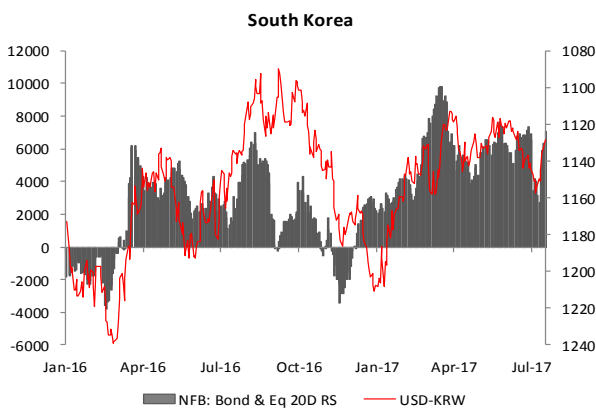
- GBP-USD** As noted above, the disappointing UK CPI numbers on Tuesday left the GBP out in the cold and dented BOE expectations) but dips into 1.3000 may find some support given the current USD, EUR backdrop. In the interim, short term implied valuations have inched lower, although we'd still have a preference to collect into dips circa 1.2930.

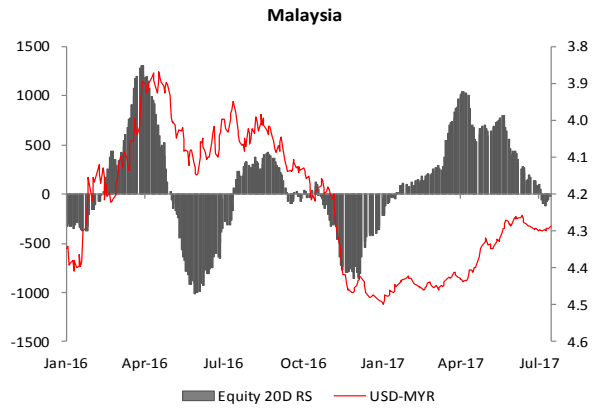


- USD-CAD** At this juncture, the star continue to be aligned (for now) for the CAD, with short term implied valuations continuing to descend. Outside of the dollar sphere, look towards potential for domestic distraction from the June CPI data due Friday. In the interim, expect some consolidative price action in the vicinity of 1.2600.

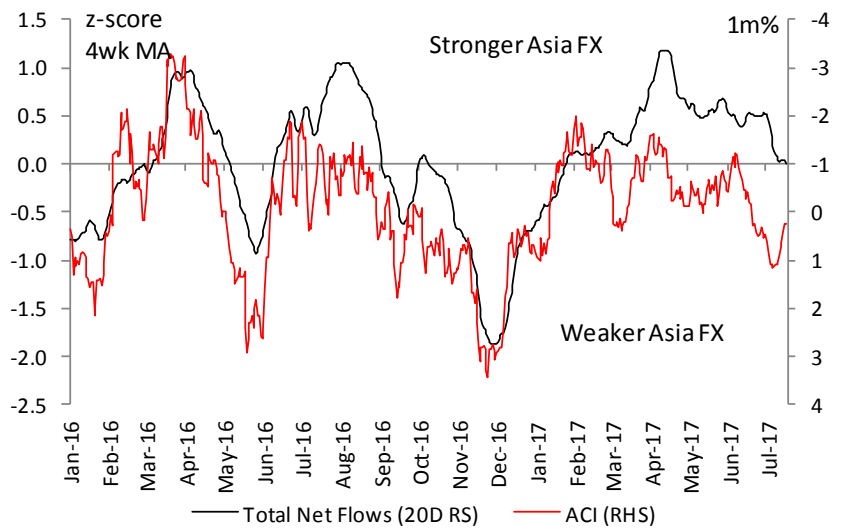
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

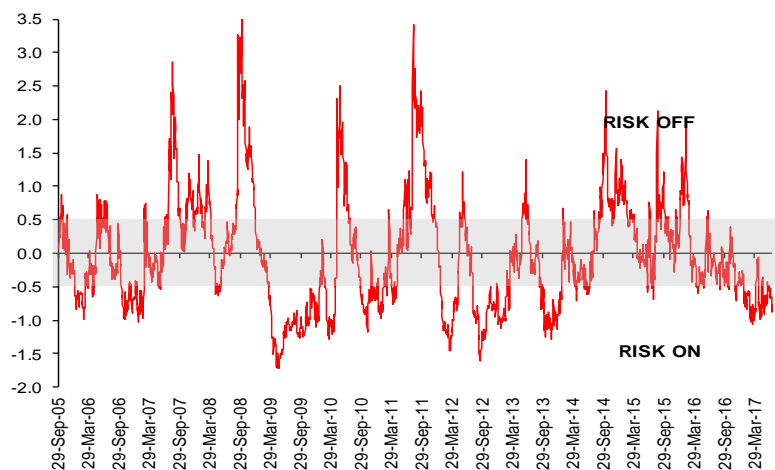




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	-0.682	0.94	-0.143	-0.602	-0.863	-0.478	-0.847	0.037	-0.601	0.938	-0.991
CNY	0.94	-0.616	1	-0.335	-0.677	-0.878	-0.396	-0.858	0.138	-0.413	0.983	-0.901
CNH	0.938	-0.582	0.983	-0.327	-0.681	-0.892	-0.312	-0.859	0.126	-0.441	1	-0.903
CAD	0.922	-0.712	0.901	-0.373	-0.678	-0.873	-0.514	-0.827	0.224	-0.582	0.919	-0.895
SGD	0.909	-0.474	0.955	-0.481	-0.799	-0.844	-0.207	-0.82	0.316	-0.318	0.959	-0.856
CCN12M	0.879	-0.469	0.862	-0.475	-0.816	-0.783	-0.282	-0.744	0.357	-0.36	0.875	-0.838
CHF	0.87	-0.483	0.761	0.204	-0.296	-0.62	-0.313	-0.681	-0.228	-0.487	0.763	-0.883
THB	0.502	0.119	0.563	-0.721	-0.753	-0.355	0.358	-0.403	0.563	0.39	0.633	-0.42
KRW	0.198	0.438	0.256	-0.781	-0.71	-0.041	0.596	-0.176	0.728	0.674	0.374	-0.1
INR	0.132	0.336	0.275	-0.731	-0.619	0.011	0.392	0.081	0.737	0.419	0.268	-0.048
TWD	-0.211	0.661	-0.031	-0.466	-0.405	0.21	0.718	0.048	0.539	0.793	-0.082	0.298
MYR	-0.264	0.73	-0.191	-0.602	-0.249	0.382	0.801	0.281	0.479	0.82	-0.017	0.351
IDR	-0.396	0.843	-0.081	-0.661	-0.308	0.3	0.915	0.245	0.519	0.962	-0.102	0.503
JPY	-0.478	0.919	-0.396	-0.302	-0.018	0.623	1	0.487	0.346	0.922	-0.312	0.554
USGG10	-0.682	1	-0.616	-0.181	0.133	0.807	0.919	0.709	0.329	0.922	-0.582	0.728
NZD	-0.722	0.267	-0.703	0.351	0.581	0.575	0.032	0.679	-0.343	0.118	-0.734	0.655
AUD	-0.823	0.291	-0.899	0.621	0.875	0.769	0.029	0.753	-0.463	0.114	-0.905	0.759
PHP	-0.845	0.766	-0.719	-0.028	0.381	0.709	0.678	0.672	0.074	0.682	-0.744	0.868
GBP	-0.934	0.697	-0.901	0.134	0.53	0.87	0.45	0.892	0.003	0.552	-0.883	0.915
EUR	-0.991	0.728	-0.901	0.034	0.521	0.85	0.554	0.828	0.059	0.676	-0.903	1

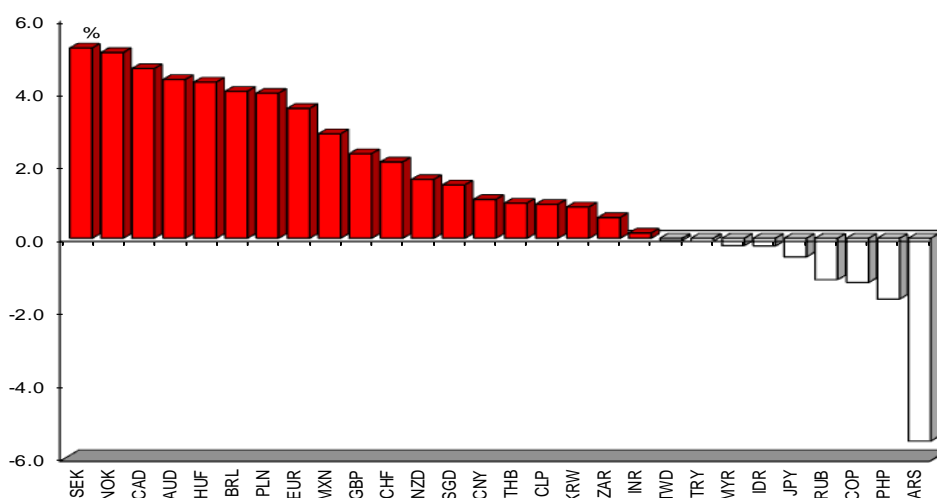
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1254	1.1500	1.1543	1.1583	1.1595
GBP-USD	1.2878	1.3000	1.3029	1.3100	1.3126
AUD-USD	0.7890	0.7900	0.7924	0.7943	0.8000
NZD-USD	0.7227	0.7300	0.7344	0.7354	0.7373
USD-CAD	1.2581	1.2600	1.2633	1.2700	1.3242
USD-JPY	111.86	112.00	112.08	113.00	114.30
USD-SGD	1.3649	1.3654	1.3666	1.3700	1.3832
EUR-SGD	1.5564	1.5700	1.5775	1.5800	1.5861
JPY-SGD	1.2096	1.2100	1.2193	1.2200	1.2375
GBP-SGD	1.7643	1.7800	1.7806	1.7812	1.7900
AUD-SGD	1.0783	1.0800	1.0829	1.0852	1.0900
Gold	1204.29	1235.01	1241.00	1247.87	1262.20
Silver	15.34	16.20	16.22	16.30	16.63
Crude	42.40	46.20	46.27	46.30	46.81

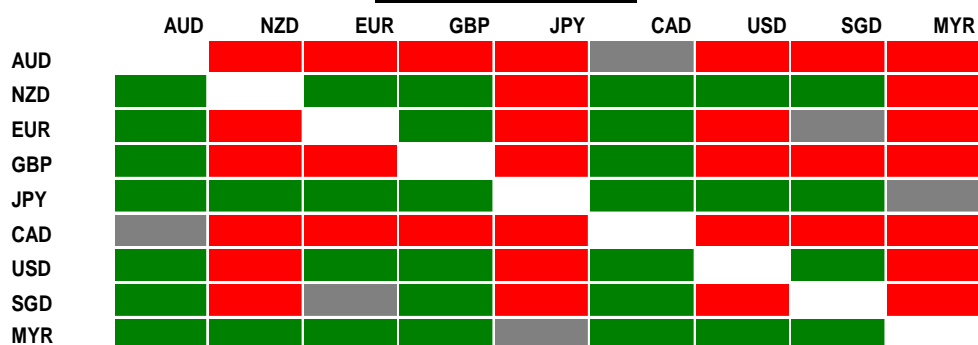
Source: OCBC Bank

FX performance: 1-month change agst USD



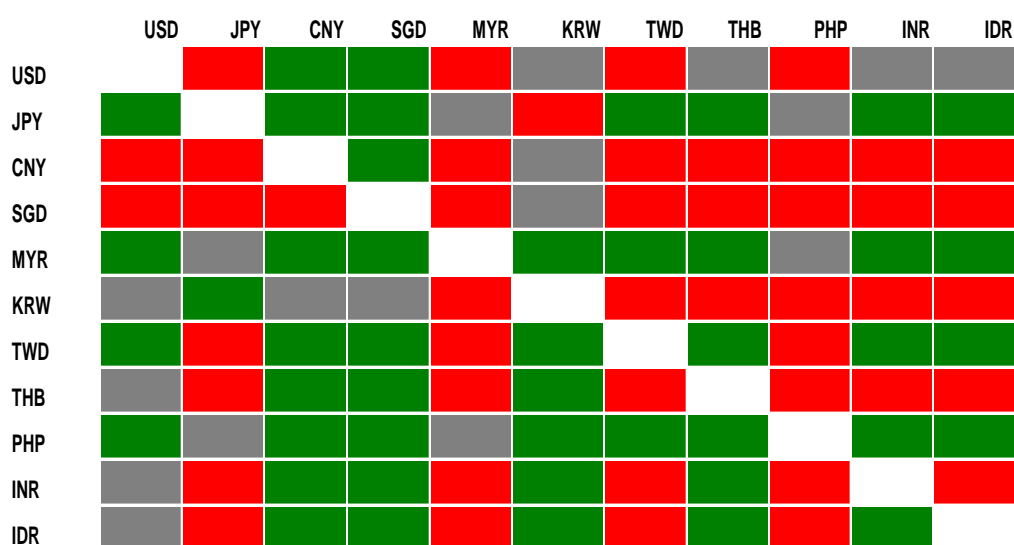
Source: Bloomberg

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	1.2400	1.2720	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	0.8015	0.7780	Vulnerable USD, improving risk appetite, supportive China data	
5	17-Jul-17	B	GBP-USD	1.3077	1.3355	1.2935	BOE rhetoric and vulnerable USD	
6	18-Jul-17	S	USD-SGD	1.3671	1.3535	1.3740	Vulnerable USD, implicit inflow for SGD	
STRUCTURAL								
7	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
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		
9	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		
10	12-Jul-17		Bearish 2M 1X1.5 USD-CAD Put Spread Spot ref: 1.2664; Strikes: 1.2653, 1.2415; Exp: 15/09/17; Cost: 0.50%			Hawkish BOC being increasingly priced in		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	01-Jun-17	22-Jun-17	S	USD-JPY	111.00	111.16	Weak broad dollar disposition	-0.25
2	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**	
3	12-Jun-17	28-Jun-17	S	GBP-USD	1.2760	1.2915	UK polity concertainty/limbo	-1.13
4	16-May-17	29-Jun-17	S	AUD-USD	0.7407	0.7670	Global reflation plays to continue to wobble?	-3.46
5	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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