

Friday, July 21, 2017

FX Themes/Strategy/Trading Ideas

- The EUR stole the show and pretty much led the way higher against the USD (note slightly softer UST yields with a softer than expected July Philly Fed) on Thursday after the **ECB's Draghi's** comments were interpreted as **resolutely neutral** while the ECB President also confirmed that the Bank would discuss possible tweaks to its asset buying program in the autumn. In essence, while dovish rhetoric was still present (including the pledge to expand/extend QE if warranted), the ECB President characterized the economy as having undergone a "robust recovery", and instead of highlighting downside risk, he preached patience in waiting for "wages and prices" to follow suit.
- Meanwhile, the USD also came under additional downside pressure after it was revealed that special counsel Robert **Mueller** is probing the financial transactions of the **President Trump's** businesses. On other fronts, the **BOJ MPC** proved uneventful (inflation projections lowered and 2% inflation timetable delayed as expected).
- Within G10 space, while the EUR outperformed against its peers, the GBP instead trailed its cohorts despite better than expected June retail sales readings and as the EUR-GBP surged post-Draghi.
- For today, the **RBA's** Debelle (0240 GMT) and Bullock (0415 GMT) are scheduled to speak today while **Canadian June CPI** and May retail sales may present significant headline risks for the loonie.
- **Overall, we think Draghi has closed the loop since his Sintra speech and if negative political static continues to dog the dollar, the DXY may continue to contemplate the 94.00 floor. With global risk appetite levels underpinned at this juncture, expect also continued interest towards the cyclicals, EM, and carry.**
- In the wake of the latest RBA minutes and supportive Australian data stream set against the current dollar backdrop, the **AUD-USD**, currently on the cusp of a 2-year breakout on the upside, may retain scope to edge higher in the coming weeks. Despite the vol surface having already reacted, we still see a favorable risk-reward profile and look to a 2M 1X1.5 AUD-USD call spread (spot ref: 0.7915; strikes: 0.7909, 0.8111; exp: 21 Sep 17) costing +0.65% of notional.
- Our 04 Jul 17 idea to be tactically long **EUR-USD** (spot ref: 1.1346) reached its 1.1550 objective on 18 Jul 17. We have extended our target to 1.1755,

Treasury Research &
Strategy

Emmanuel Ng

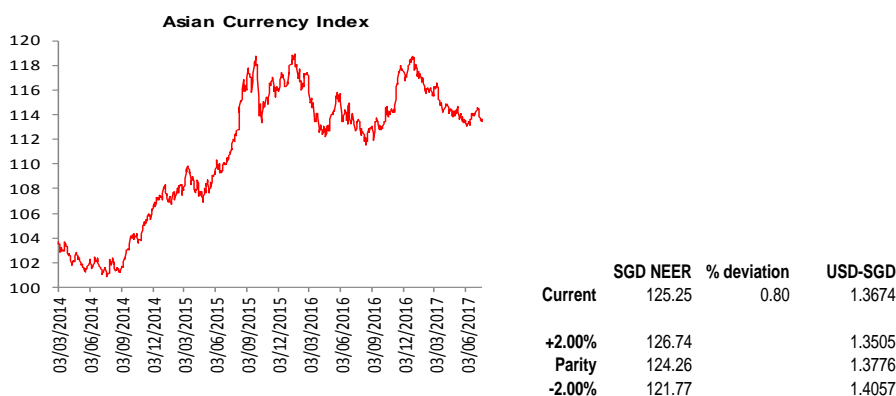
+65 6530 4073

ngcyemmanuel@ocbc.com

trailing the stop to 1.1455.

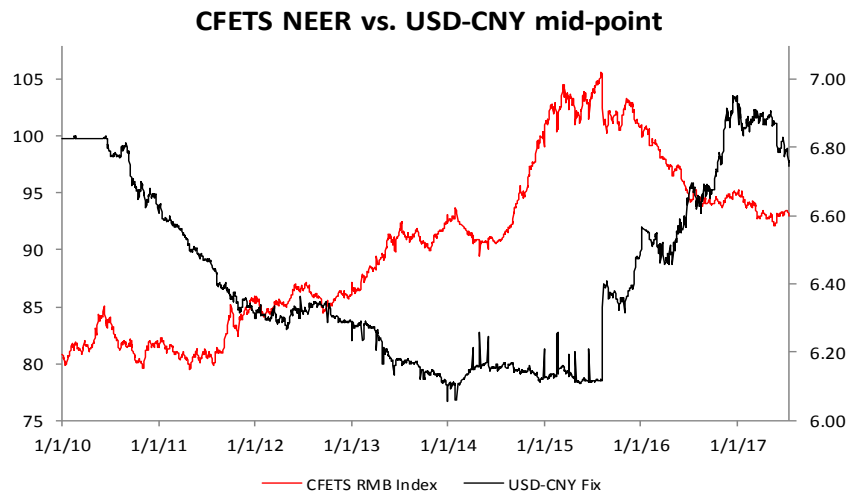
Asian FX

- Asian FX** are expected to take the cue from positive EM FX performance overnight and with global risk seeking behavior still intact (note the recent strength in EM equities), expect USD-Asia to search lower into the end of the week despite persistent resistance from regional central banks. As such, the **ACI (Asian Currency Index)** is expected to end lower on the week, accompanied by a lower **FXSI (FX Sentiment Index)** denoting improved risk appetite levels.
- On the **net portfolio inflow front**, the KRW is seen relatively more supported, while the IDR and MYR see continued improvements, while the PHP remains particularly vulnerable. Elsewhere, the INR and the THB are perceived as being slightly stretched to the upside. Elsewhere, **Bank Indonesia** remained static at 4.75% as expected on Thursday.
- SGD NEER:** This morning, the SGD NEER is slightly firmer on the day at around +0.81% above its perceived parity (1.3776) with NEER-implied USD-SGD thresholds a touch softer. At current levels, the +0.80% threshold is estimated at 1.3666 and +1.00% at 1.3639, where USD-SGD may continue to find a floor pending external headlines.



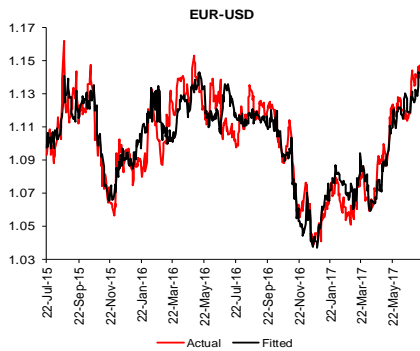
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point slipped slightly (as largely expected) to 6.7415 from 6.7464 on Thursday, with the CFETS RMB Index yet lower at 92.91 compared to 92.98 yesterday.



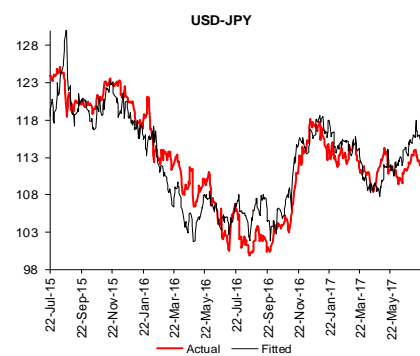
Source: OCBC Bank, Bloomberg

G7



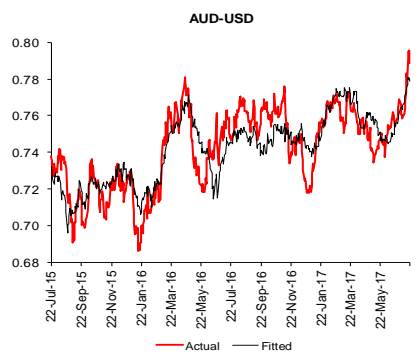
Source: OCBC Bank

- EUR-USD** The interest rate reaction to Draghi was slightly more muted compared to the EUR's and the pair may have slightly over reached itself in the near term despite still relatively supported short term implied valuations. Preference to accumulate on dips towards 1.1550/80. Meanwhile, multi-session waypoints include 1.1714 (24 May 2015), and 1.1807 (200-week MA).



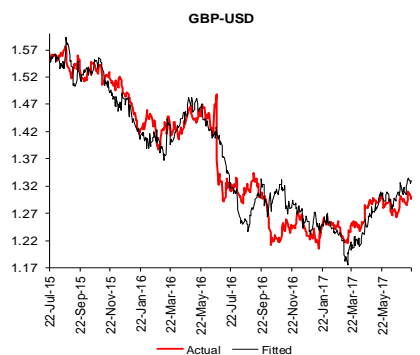
Source: OCBC Bank

- USD-JPY** Despite dovish implications from the latest BOJ MPC, USD-JPY may continue to decay in line with the beleaguered broad dollar, in line with short term implied valuations for the pair. In the interim, the pair continues threaten a breach of the convergence region of the 55-day MA (111.92), 200-day MA (111.97) and the 100-day MA (111.73).



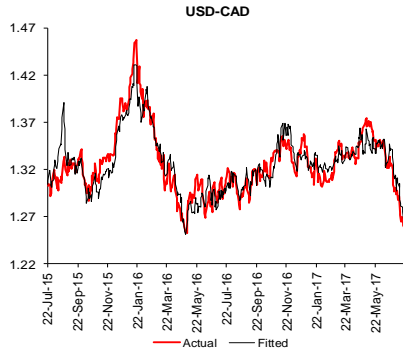
Source: OCBC Bank

- AUD-USD** Comments from the RBA's Debelle this morning was less than hawkish and may provide cause for pause for the AUD-USD in the near term despite short term implied valuations still looking underpinned multi-session (albeit slightly consolidative today). Expect support to emerge on approach of 0.7850.



Source: OCBC Bank

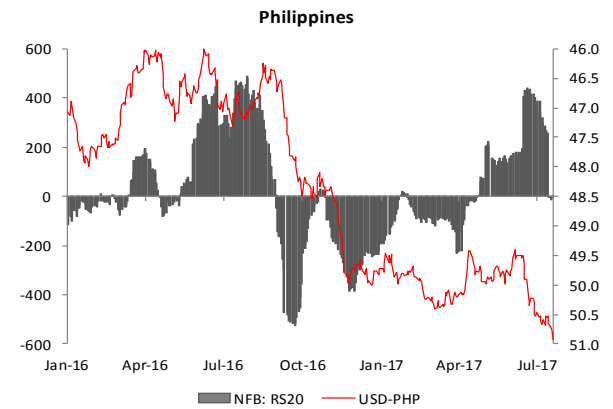
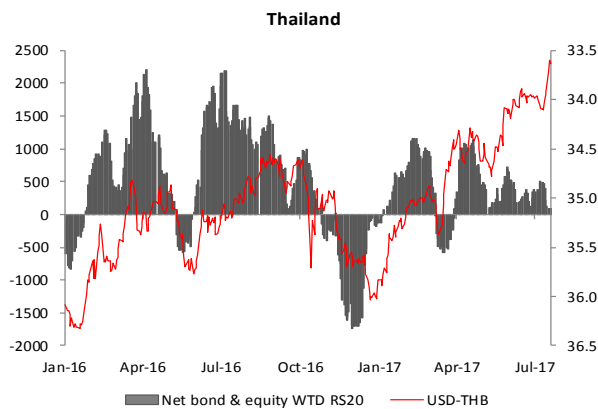
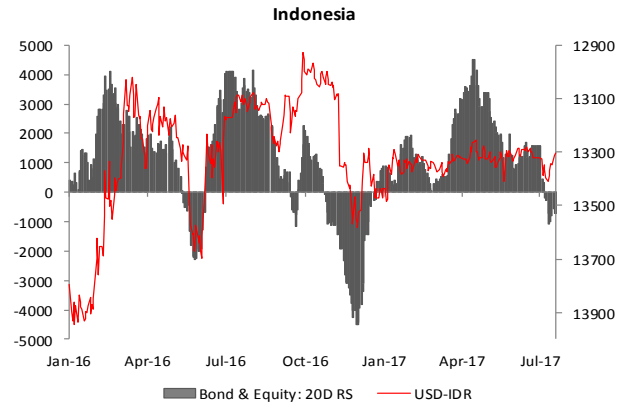
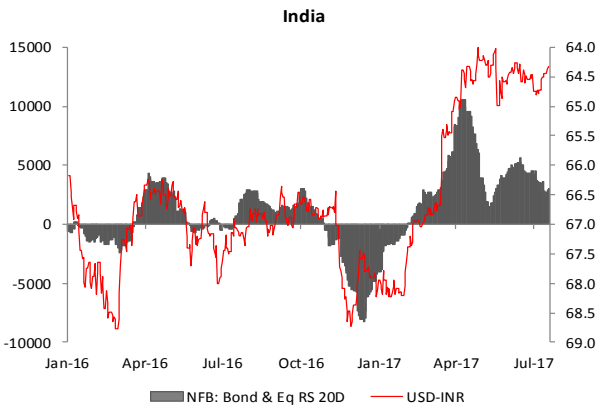
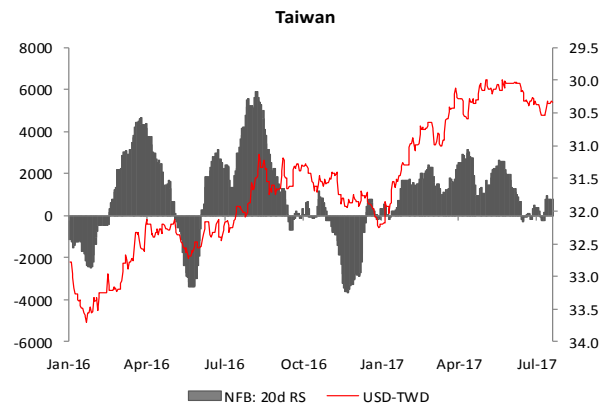
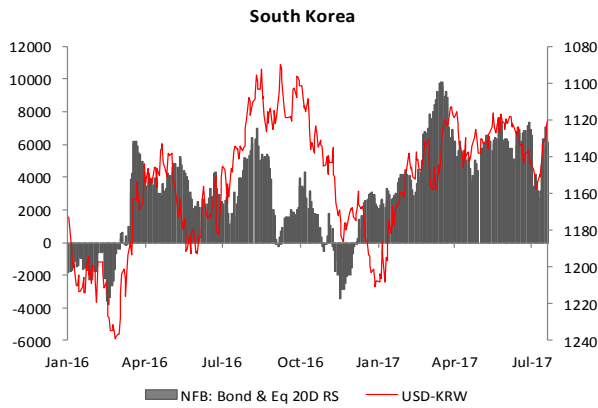
- GBP-USD** Short term implied valuations continue to bounce within a range but with little positives from the initial Brexit talks, the GBP-USD may continue to fade towards 1.2940 and its 55-day MA (1.2888) instead.

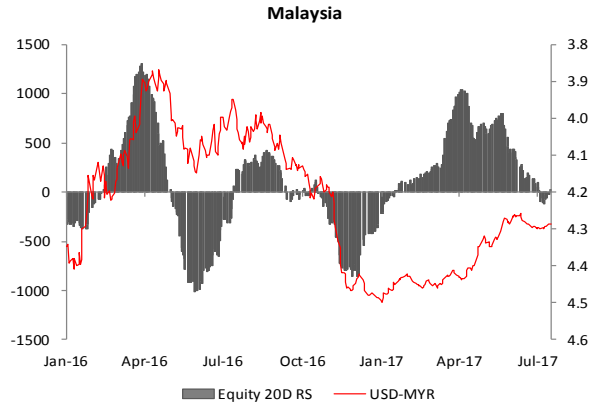


- USD-CAD** USD-CAD may continue to hover in the neighborhood of 1.2600 ahead of the CPI numbers tonight. Meanwhile, short term implied valuations remain heavy for the USD-CAD and investors may continue to sell into rallies approaching 1.2630/50.

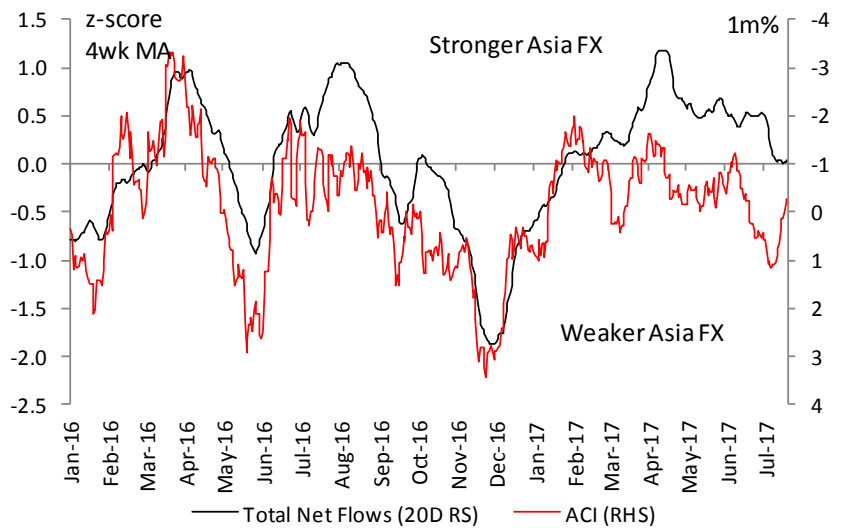
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

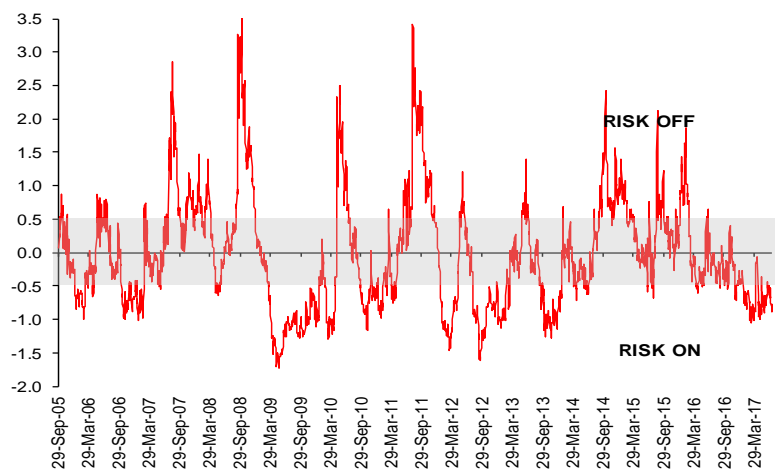




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1	-0.487	0.96	-0.52	-0.74	-0.923	-0.181	-0.882	0.229	-0.226	0.961	-0.99
CNH	0.961	-0.473	0.986	-0.587	-0.756	-0.918	-0.125	-0.897	0.286	-0.152	1	-0.928
CNY	0.96	-0.455	1	-0.603	-0.768	-0.906	-0.135	-0.877	0.299	-0.099	0.986	-0.92
SGD	0.936	-0.318	0.959	-0.731	-0.867	-0.881	0.024	-0.857	0.464	0.015	0.96	-0.89
CAD	0.93	-0.556	0.915	-0.644	-0.767	-0.907	-0.268	-0.856	0.377	-0.256	0.933	-0.901
CCN12M	0.877	-0.305	0.888	-0.753	-0.885	-0.84	-0.039	-0.798	0.5	0.008	0.879	-0.831
CHF	0.874	-0.251	0.809	-0.284	-0.526	-0.727	0.025	-0.739	-0.003	-0.074	0.799	-0.885
THB	0.68	0.153	0.712	-0.844	-0.855	-0.558	0.447	-0.568	0.631	0.528	0.702	-0.621
KRW	0.525	0.376	0.556	-0.852	-0.86	-0.363	0.591	-0.438	0.782	0.682	0.562	-0.447
INR	0.458	0.284	0.531	-0.765	-0.737	-0.253	0.404	-0.177	0.773	0.459	0.516	-0.372
IDR	0.231	0.772	0.404	-0.747	-0.615	-0.087	0.9	-0.195	0.697	0.945	0.415	-0.124
MYR	0.129	0.703	0.205	-0.633	-0.513	0.106	0.8	0.034	0.63	0.788	0.253	-0.042
TWD	-0.051	0.628	0.097	-0.383	-0.407	0.101	0.675	-0.044	0.533	0.76	0.029	0.138
JPY	-0.181	0.896	-0.135	-0.348	-0.223	0.375	1	0.262	0.429	0.912	-0.125	0.247
USGG10	-0.487	1	-0.455	-0.134	0.024	0.661	0.896	0.571	0.354	0.878	-0.473	0.525
NZD	-0.761	0.044	-0.75	0.71	0.751	0.684	-0.272	0.726	-0.521	-0.274	-0.752	0.712
GBP	-0.85	0.618	-0.88	0.34	0.552	0.87	0.291	0.868	-0.076	0.324	-0.871	0.816
PHP	-0.859	0.498	-0.826	0.543	0.656	0.89	0.244	0.806	-0.199	0.196	-0.832	0.855
AUD	-0.886	0.139	-0.908	0.834	0.929	0.825	-0.185	0.808	-0.577	-0.21	-0.895	0.837
EUR	-0.99	0.525	-0.92	0.432	0.673	0.911	0.247	0.859	-0.137	0.307	-0.928	1

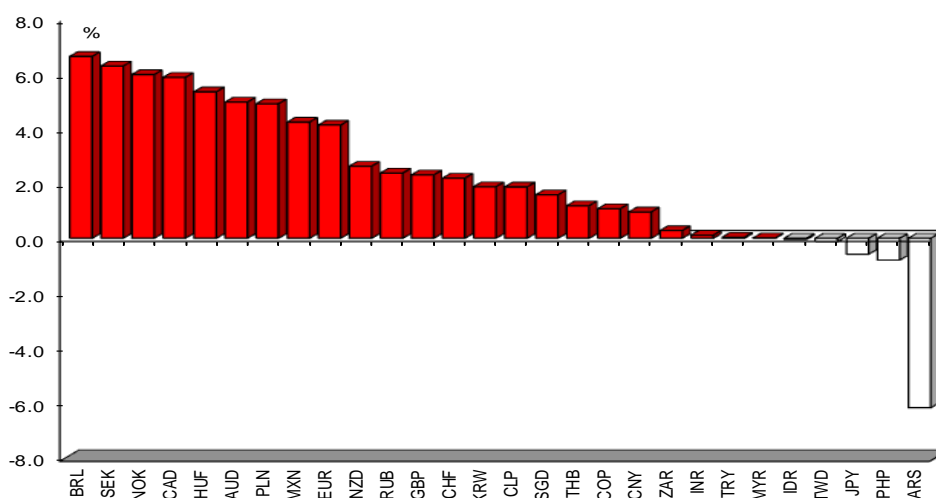
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1283	1.1600	1.1626	1.1629	1.1658
GBP-USD	1.2881	1.2900	1.2959	1.3000	1.3111
AUD-USD	0.7582	0.7900	0.7921	0.7971	0.7989
NZD-USD	0.7300	0.7392	0.7396	0.7400	0.7415
USD-CAD	1.2500	1.2541	1.2594	1.2600	1.3197
USD-JPY	111.94	112.00	112.03	113.00	114.18
USD-SGD	1.3625	1.3648	1.3675	1.3700	1.3817
EUR-SGD	1.5800	1.5897	1.5899	1.5900	1.5918
JPY-SGD	1.2096	1.2200	1.2207	1.2300	1.2355
GBP-SGD	1.7658	1.7700	1.7722	1.7797	1.7800
AUD-SGD	1.0584	1.0800	1.0832	1.0874	1.0900
Gold	1204.45	1234.50	1244.00	1248.93	1261.77
Silver	15.34	16.20	16.25	16.30	16.64
Crude	46.90	46.93	46.95	47.00	47.68

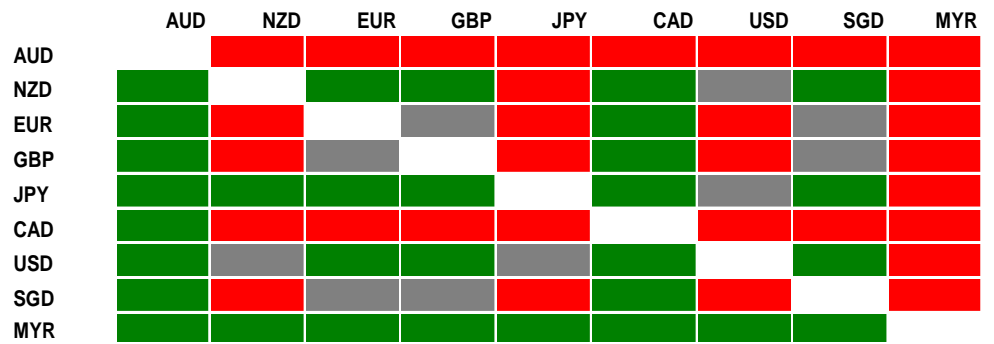
Source: OCBC Bank

FX performance: 1-month change agst USD



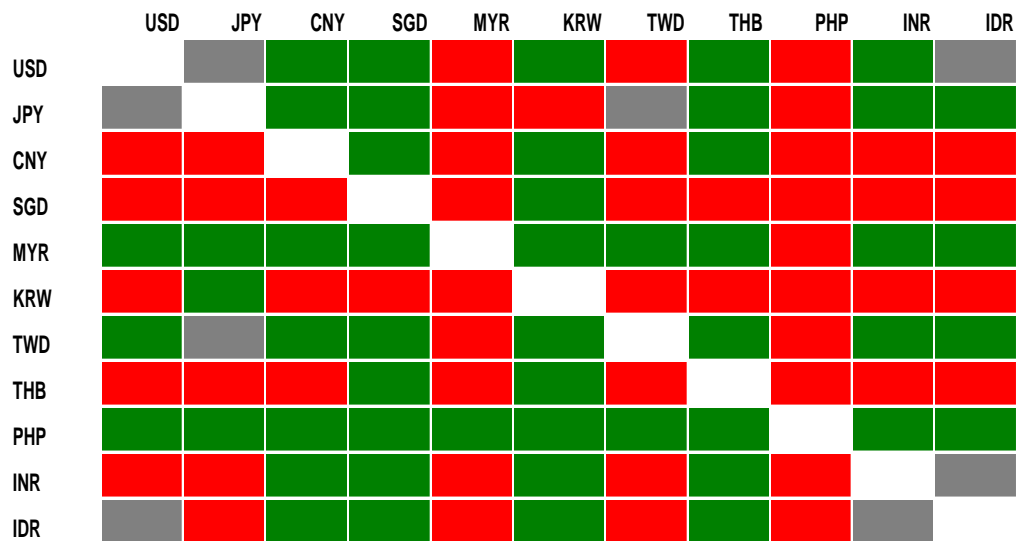
Source: Bloomberg

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	1.1755 1.1445	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		
11	20-Jul-17		Bullish 2M 1X1.5 AUD-USD Call Spread Spot ref: 0.7915; Strikes: 0.7909, 0.8111; Exp: 21/09/17; Cost: 0.65%			More positive than expected RBA minutes, supportive data, weak USD		
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 politycuncertainty/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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