

Wednesday, May 24, 2017

## FX Themes/Strategy/Trading Ideas - Stasis

- Except against the NZD, firmer UST yields in NY bolstered the USD higher against its G10 counterparts on Tuesday. The US data feed was nothing to write home about, with the May manufacturing PMI, April new home sales and the May Richmond Fed disappointing, although the May composite PMI improved from the previous month.
- Meanwhile, the EUR-USD consolidated lower despite supportive data points. In addition to the outperforming May German Ifo, the EZ May flash manufacturing and composite PMIs outperformed expectations while the services PMI trailed prior estimates (note firmer bund curve). Elsewhere, the ECB's **Coeure** remained sufficiently accommodative, stating that there would be no rate hikes before the end of asset purchases. For today, note room for headline volatility come in the form of the ECB's Praet (0830 GMT) and **Draghi** (1245 GMT). Elsewhere, German Finance Minister Schaeuble stated that the EUR is a little too low for Germany, a slightly more explicit version of Merkel's earlier comments, although this comment was largely ignored by investors.
- Meanwhile, the JPY underperformed across the board with the cyclicals generally underpinned on the crosses as global risk appetite levels (note firmer crude and positive EZ/US equities) remained sanguine. Despite a positive start to Asian equities on Wednesday, this may however only serve to temper intra-day USD resilience.
- Going ahead, with the Fed's **Harker** (voter) calling a June rate hike "a distinct possibility", the dollar may continue to garner background support ahead of tonight's **FOMC minutes** (1800 GMT). On balance sheet reduction, the Philly Fed governor also added it would probably start this year, although "it will be the policy equivalent of watching paint dry". Elsewhere, the Fed's **Kashkari** also came across as sufficiently dovish on Tuesday.
- Note however skepticism towards US fiscal impetus may persist (budget proposal on Tuesday did not yield significant surprises), with US Treasury Secretary **Mnuchin** not expecting a tax reform plan before August. Accompanying Fed-speak today includes **Kaplan** (2200 GMT) and **Kashkari** (2230 GMT).
- On other fronts, we remain sidelined on the **USD-JPY** in the interim on a multi-session horizon, while the EUR-USD and the **cyclicals** may be expected to remain slightly consolidative (if not mildly supported) intra-day.

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- Our 05 Apr 17 idea to be tactically short **AUD-USD** (spot ref: 0.7580) met its profit stop on Tuesday at 0.7490, yielding an implied +1.14% gain.
- Amidst prevailing dollar skepticism, still sanguine investor appetite and supported crude in the near term, we undertake a tactical short **USD-CAD**. From a spot ref of 1.3489 on Tuesday, we target 1.3265 and place a stop at 1.3605.

### Asian FX

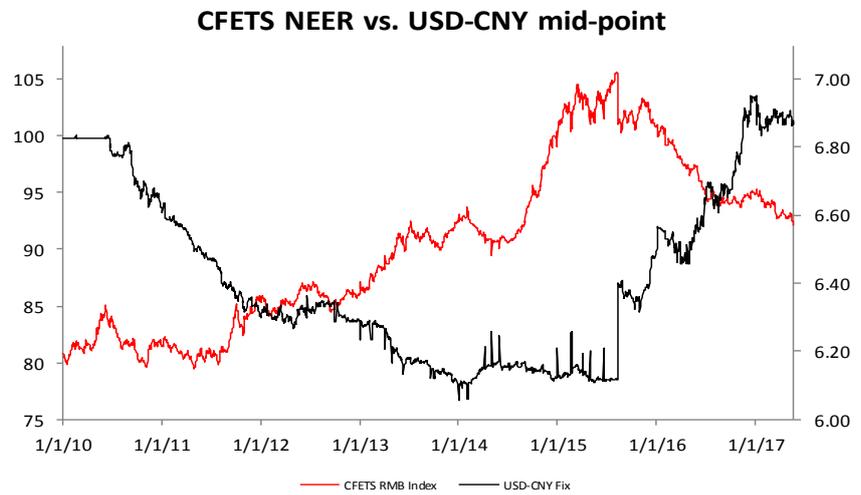
- Except for some notable exceptions (ZAR, ARS), **EM FX** also trailed the greenback in tandem with their G10 counterparts indicating that **Asian FX is not immune to USD resilience**. In Asia, **net portfolio capital inflows** remain supportive of KRW, TWD, INR, while the IDR, THB, and the PHP may experience moderating support on this front.
- Overall, expect USD-Asia to attempt to bottom out somewhat in the current session with the early Wednesday morning **China rating downgrade** by Moody's (downgraded to A1 from Aa3, outlook changed from negative to stable) likely to provide further upside room for USD-Asia today while also denting global sentiment.
- On this front, the **FXSI (FX Sentiment Index)** may tick higher today after sinking deeper into Risk-On territory on Tuesday. Overall, the **ACI (Asian Currency Index)** is slated to firm again today (KRW potentially also laden with background geopolitical risk) despite its medium term model still portending a downside bias beyond the short term. On the central bank front, the **Bank of Thailand** is expected to remain static at 1.50% at its MPC today.
- **SGD NEER:** The SGD NEER is softer on the day following the broad dollar bounce on Tuesday, with the NEER at around +0.32% above its perceived parity (1.3957). Expect the basket to circulate within parity and +0.50% in the interim. Meanwhile, NEER implied USD-SGD thresholds are slightly firmer on the day with +0.50% estimated at 1.3888. Overall, the pair may be slightly more supported within 1.3850-1.3950 intra-day although we remain broad somewhat skeptical of broad dollar prospects beyond the immediate term.



	SGD NEER	% deviation	USD-SGD
Current	124.72	0.37	1.3907
+2.00%	126.74		1.3683
Parity	124.26		1.3957
-2.00%	121.77		1.4242

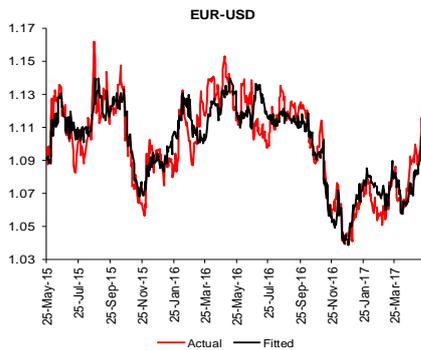
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose less than expected to 6.8758 from 6.8661 on Tuesday, edging the CFETS RMB Index higher to 92.16 from 92.14 yesterday.



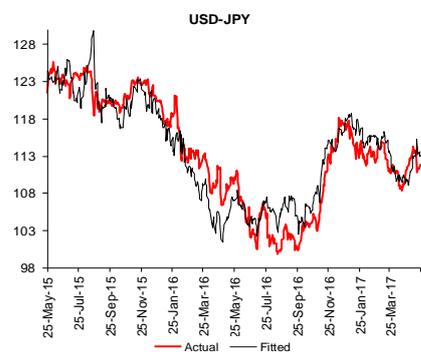
Source: OCBC Bank, Bloomberg

**G7**



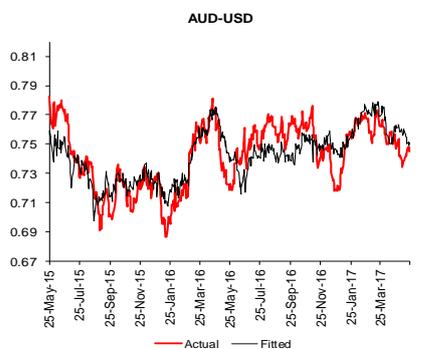
Source: OCBC Bank

- EUR-USD** The pullback in the EUR-USD may serve as a gentle reminder for EUR bulls that the ECB remains less than enthusiastic about telegraphing a hawkish posture at this juncture. Meanwhile, technicals for the pair remain relatively supported, in line with static short term implied valuations. In the interim, expect investors to collect into dips around 1.1135 with 1.1300 serving as resistance.



Source: OCBC Bank

- USD-JPY** USD-JPY may remained tensioned by opposing forces in the near term (USD bounce vs. slight risk aversion) with short term implied valuations also going nowhere fast. We'd expect the sensitivity of the pair to Fed-inspired volatility to resume with the FOMC minutes on tap tonight. In the interim, the 55-day MA (111.63) is now functioning as a support after the rejection at 111.25.



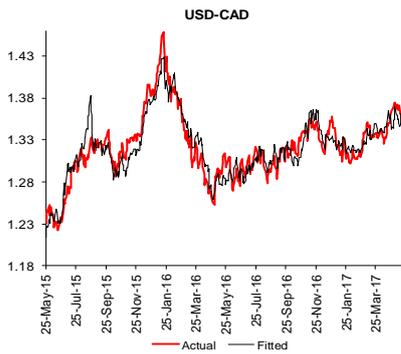
Source: OCBC Bank

- AUD-USD** The China rating downgrade has impinged on investor risk appetite levels this morning although we expect the impact to be limited beyond the short term. Nonetheless, investors may continue to fade upticks within 0.7400-0.7500, in line with heavy short term implied valuations.



Source: OCBC Bank

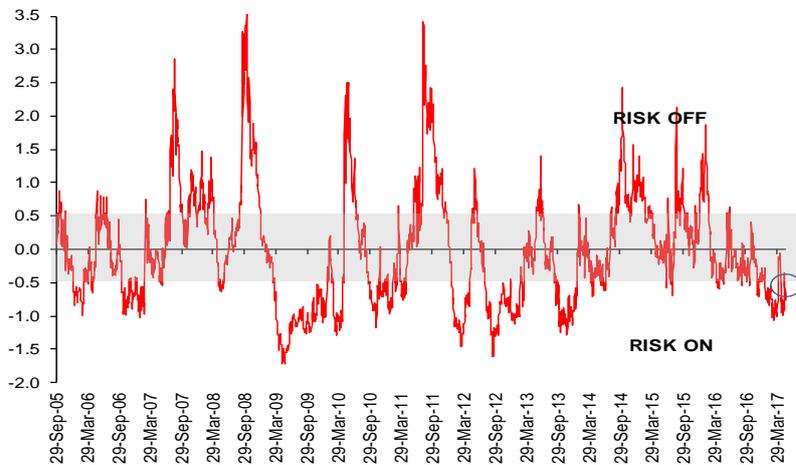
- GBP-USD** In the UK, the wider than expected April fiscal deficit and the disappointing May CBI numbers imposed additional weight on the GBP. Elsewhere, election campaigning has been suspended in the wake of the Manchester bombing. Cable may therefore continue to shy away from the 1.3000 neighborhood in the near term amid short term implied valuations topping out slightly. Fade up moves within 1.2900-1.3050 in the interim.



Source: OCBC Bank

- USD-CAD** Ahead of the BOC meeting and FOMC minutes today (1400 GMT) and the OPEC meeting tomorrow, USD-CAD may continue to remain slightly conflicted. We note however that short term implied valuations remain southbound for the pair and in sync with heavy technicals. As such, the 55-day MA (1.3484) may remain at risk pending headline risks.

### 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	0.740	0.734	0.413	-0.315	-0.715	0.482	-0.570	-0.610	0.281	0.843	-0.972
CHF	0.954	0.796	0.723	0.464	-0.123	-0.600	0.613	-0.573	-0.594	0.122	0.857	-0.912
CNH	0.843	0.806	0.920	0.547	-0.166	-0.724	0.629	-0.668	-0.626	0.042	1.000	-0.793
SGD	0.796	0.901	0.888	0.545	0.037	-0.795	0.800	-0.828	-0.502	-0.240	0.901	-0.711
USGG10	0.740	1.000	0.791	0.757	0.060	-0.718	0.804	-0.726	-0.697	-0.265	0.806	-0.622
CNY	0.734	0.791	1.000	0.639	0.014	-0.743	0.751	-0.757	-0.627	-0.204	0.920	-0.633
CAD	0.666	0.599	0.755	0.350	0.066	-0.723	0.665	-0.822	-0.355	-0.184	0.682	-0.639
KRW	0.651	0.385	0.614	0.163	-0.514	-0.629	0.143	-0.468	-0.436	0.388	0.720	-0.674
MYR	0.647	0.462	0.314	0.134	-0.530	-0.385	0.069	-0.171	-0.293	0.584	0.569	-0.693
THB	0.557	0.656	0.802	0.377	0.238	-0.616	0.749	-0.752	-0.290	-0.348	0.761	-0.514
JPY	0.482	0.804	0.751	0.702	0.540	-0.458	1.000	-0.663	-0.440	-0.678	0.629	-0.350
PHP	0.380	0.240	0.627	0.125	-0.129	-0.513	0.259	-0.490	-0.195	-0.033	0.506	-0.369
TWD	0.355	0.261	0.234	-0.116	-0.215	-0.272	0.130	-0.163	0.004	0.132	0.390	-0.328
IDR	0.086	0.086	0.335	-0.214	0.155	-0.259	0.333	-0.347	0.252	-0.365	0.277	0.024
CCN12M	-0.127	0.167	0.425	0.091	0.408	-0.187	0.402	-0.294	0.132	-0.642	0.220	0.289
AUD	-0.201	-0.552	-0.614	-0.321	-0.593	0.370	-0.805	0.559	0.023	0.743	-0.453	0.053
INR	-0.320	-0.238	-0.001	-0.273	0.031	0.154	-0.117	0.119	0.293	-0.132	-0.049	0.335
NZD	-0.387	-0.342	-0.493	-0.262	-0.268	0.316	-0.559	0.461	0.171	0.198	-0.454	0.443
GBP	-0.598	-0.229	-0.019	0.002	0.478	0.214	0.043	0.112	0.291	-0.630	-0.261	0.716
EUR	-0.972	-0.622	-0.633	-0.326	0.481	0.654	-0.350	0.538	0.602	-0.479	-0.793	1.000

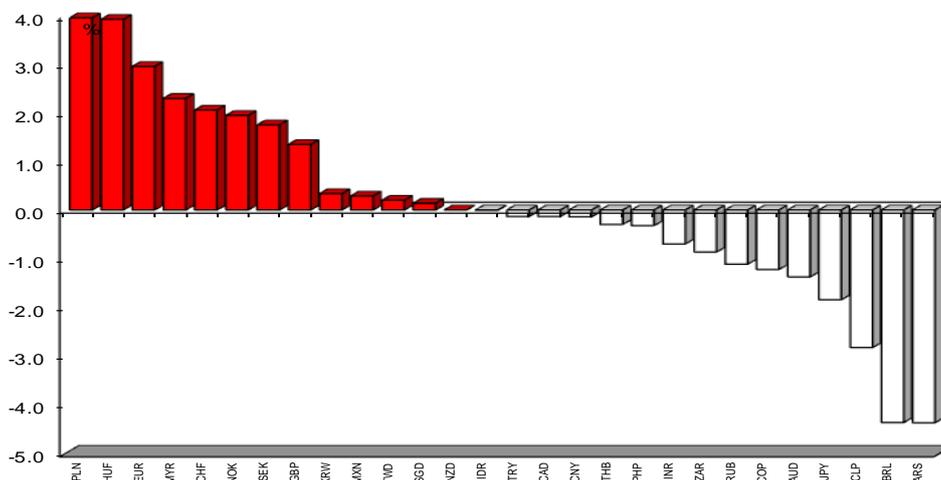
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0834	1.1100	1.1186	1.1200	1.1258
GBP-USD	1.2853	1.2900	1.2966	1.3000	1.3012
AUD-USD	0.7332	0.7400	0.7465	0.7500	0.7524
NZD-USD	0.7000	0.7003	0.7014	0.7054	0.7100
USD-CAD	1.3485	1.3500	1.3517	1.3600	1.3787
USD-JPY	111.00	111.30	111.82	112.00	114.37
USD-SGD	1.3838	1.3900	1.3907	1.3975	1.4000
EUR-SGD	1.5152	1.5500	1.5557	1.5600	1.5614
JPY-SGD	1.2291	1.2400	1.2439	1.2500	1.2556
GBP-SGD	1.7884	1.8000	1.8032	1.8100	1.8234
AUD-SGD	1.0296	1.0300	1.0382	1.0400	1.0485
Gold	1214.30	1250.53	1252.20	1252.88	1276.14
Silver	16.03	16.90	16.99	17.00	17.38
Crude	50.20	51.50	51.58	51.60	52.10

Source: OCBC Bank

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



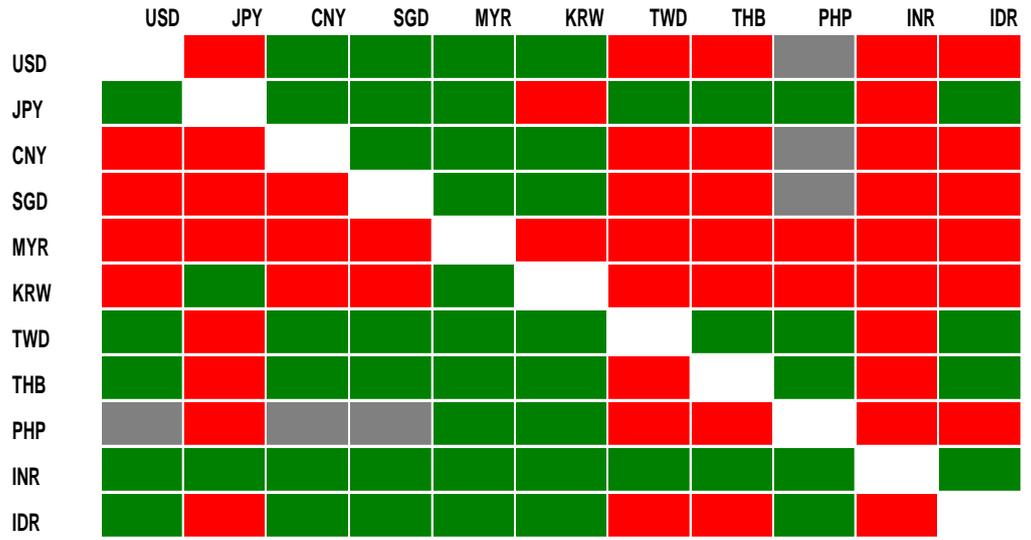
Source: Bloomberg

**G10 FX Heat Map**

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Green	Grey	Red	Green	Grey	Green	Green
NZD	Red		Green	Red	Red	Grey	Red	Red	Grey
EUR	Red	Red		Red	Red	Red	Red	Red	Red
GBP	Grey	Green	Green		Red	Green	Red	Grey	Green
JPY	Green	Green	Green	Green		Green	Green	Green	Green
CAD	Red	Grey	Green	Red	Red		Red	Red	Grey
USD	Grey	Green	Green	Green	Red	Green		Green	Green
SGD	Red	Green	Green	Grey	Red	Green	Red		Green
MYR	Red	Grey	Green	Red	Red	Grey	Red	Red	

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	18-Apr-17	B	GBP-USD	1.2585	1.3140 1.2715	Snap UK elections, soft dollar, -ve EUR risk		
2	17-May-17	B	EUR-USD	1.1120	1.1320 1.1015	Disappointing US data feed, reversal of political risk premiums		
3	23-May-17	S	USD-CAD	1.3489	1.3265 1.3605	USD skepticism, sanguine risk appetite, supported crude		
<b>STRUCTURAL</b>								
4	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		
5	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
6	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	26-Apr-17	05-May-17	B	USD-CAD	1.3563	1.3670	Potential heightening of trade tensions with the US; soggy crude	+0.80
2	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
3	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
4	05-Apr-17	23-May-17	S	AUD-USD	0.7580	0.7490	Fragile risk appetite, slightly apprehensive RBA	+1.14
* realized **of notional							<b>Jan-Apr 2017 Return -19.70</b> <b>2016 Return +6.91</b>	

Source: OCBC Bank

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