

Tuesday, July 25, 2017

FX Themes/Strategy/Trading Ideas

- Amidst slightly firmer UST yields (stronger than expected Markit US manufacturing PMI of 53.2 but weaker than expected June existing home sales), the USD managed to bounce off intra-day lows and stabilized to end mixed with Kushner headlines somewhat a non-event. Elsewhere, the EUR found little support from slightly soft July market PMIs on Monday while the USD-JPY fell below but re-took the 111.00 handle, tracking UST yields.
- Markets may be reduced to data watching today with German July Ifo, UK July CBI readings, US July Conference Board consumer confidence and the Richmond Fed. Instead, central bank speak may continue to have a more significant bearing on markets, with BOE's Haldane (1700 GMT), the ECB's Mersch (0400 GMT), and the RBNZ's McDermott (2015 GMT), scheduled for today.
- Despite some room for consolidation across the majors (especially after the recent strong run up in the cyclicals) in the short term, potential US political baggage and uncertainty ahead of Wednesday's FOMC may continue to keep the USD on the defensive, with TY and XAU also looking slightly supported in the interim and implied expectations for another FOMC rate hike at this juncture still shy of even.
- As noted yesterday, with the **DXY** attempting to persist below 94.00, downside supports at 93.00, the 200-week MA (92.26) and 92.00 may remain on the radar at this juncture if investors continue to seek closure.

Asian FX

- In Asia, net portfolio inflows are demonstrating some moderation in inflow momentum for KRW, TWD, and the THB, but should prove mildly supportive for the INR and IDR.
- Overall, with EM FX soggy against the USD overnight, expect USD-Asia to adopt a steadier tone intra-day ahead of upcoming headline risks and with Asian central banks still mindful of excessive downside for their respective currency pairs. Overall, expect the **ACI (Asian Currency Index)** to be slightly more supported intra-day with the **(FX Sentiment Index)** also ticking higher overnight (but still remaining in Risk-On territory).
- **SGD NEER:** This morning, the SGD NEER is softer on the day at around +0.91% above its perceived parity (1.3751) and in the wake of intra-day highs near +1.05% on Monday. NEER-implied USD-SGD thresholds are

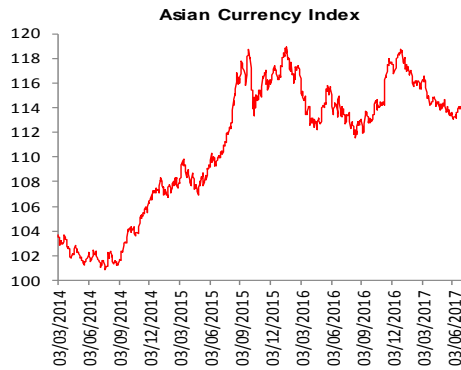
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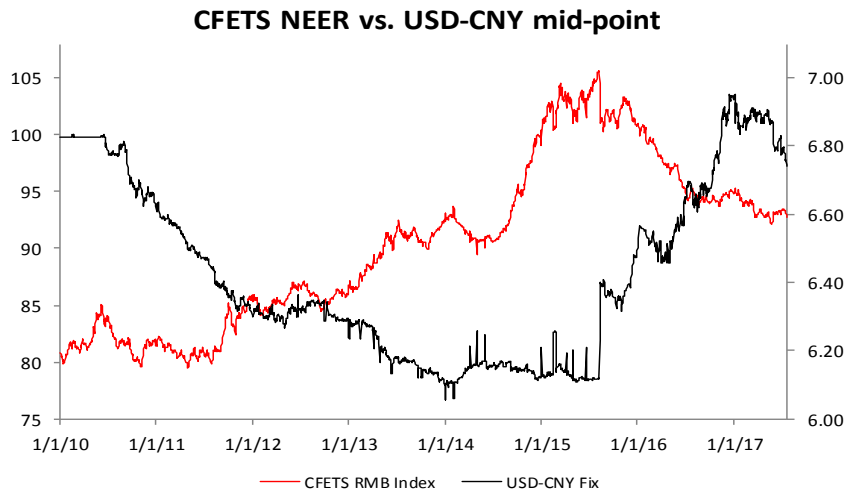
largely unchanged on the day with +0.80% estimated at 1.3642 and +1.00% at 1.3614 – with the latter expected to cushion on initial dips in the USD-SGD.



	SGD NEER	% deviation	USD-SGD
Current	125.40	0.92	1.3630
+2.00%	126.74		1.3481
Parity	124.26		1.3750
-2.00%	121.77		1.4031

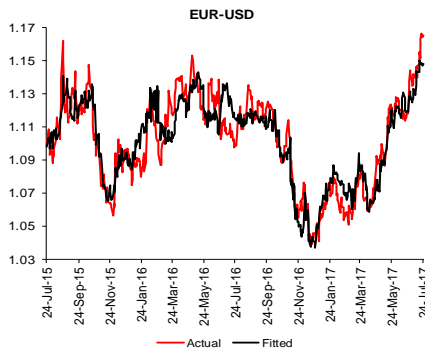
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point gained (as largely expected) to 6.7485 from 6.7410 yesterday, lifting the CFETS RMB Index to 92.72 from 92.71 yesterday.



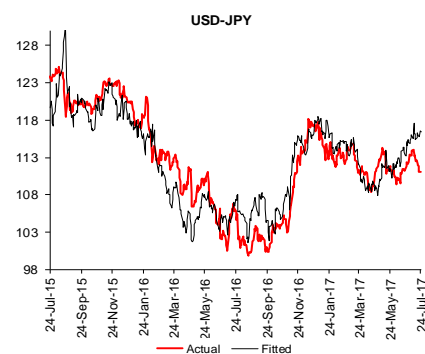
Source: OCBC Bank, Bloomberg

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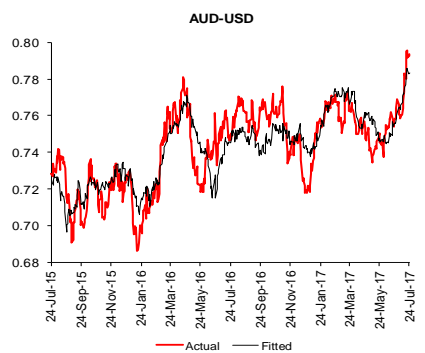
Source: OCBC Bank

- EUR-USD** Wobbly July PMIs notwithstanding, if the ECB’s Mersch reads from the same script as Draghi today, the EUR-USD may well find a floor ahead of Wednesday’s FOMC. In the interim, short term implied valuations for the pair remain supported although the pair continues to trade slightly north of its implied confidence intervals. Expect a 1.1600-1.1700 range to govern in the interim.



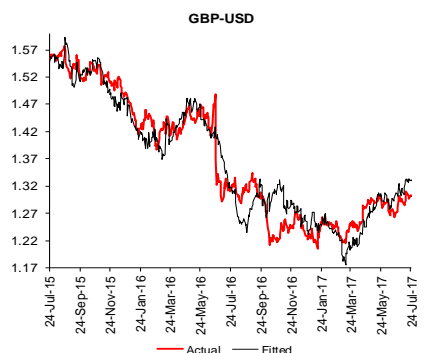
Source: OCBC Bank

- USD-JPY** USD-JPY heaviness may not be out of the woods just yet given the outstanding negative political risk premiums being attached to the greenback. BOJ minutes revealing discussions regarding QE exit plans we think are moot given that the BOJ is miles away from its inflation target. Overall, the pair may continue to diverge from its still supported short term implied valuations in the near term. A sustained breach of 111.00 risks 110.40 before 110.00.



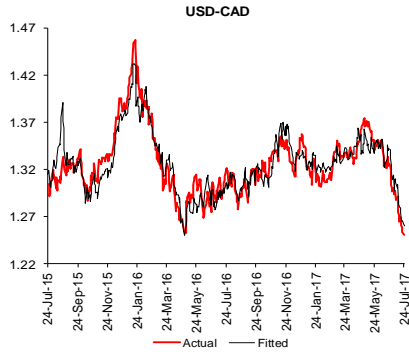
Source: OCBC Bank

- AUD-USD** Despite risks centers around the CPI data and an appearance by the RBA’s Lowe tomorrow. Meanwhile, despite a still constructive set up for the pair, short term implied valuations have also edged lower and slippage towards 0.7850/70 cannot be discounted if 0.7900 is perforated.



Source: OCBC Bank

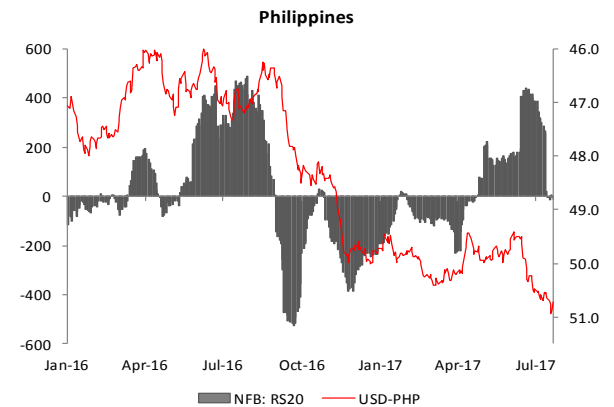
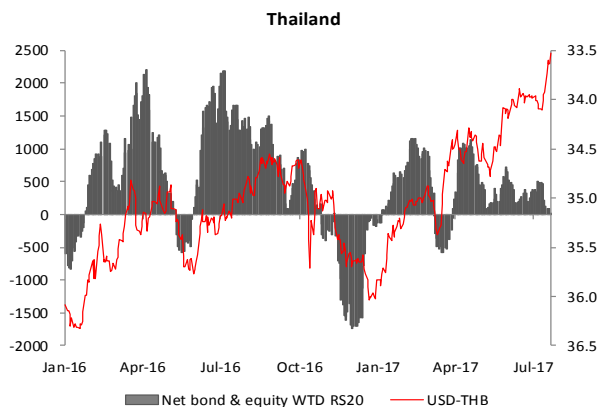
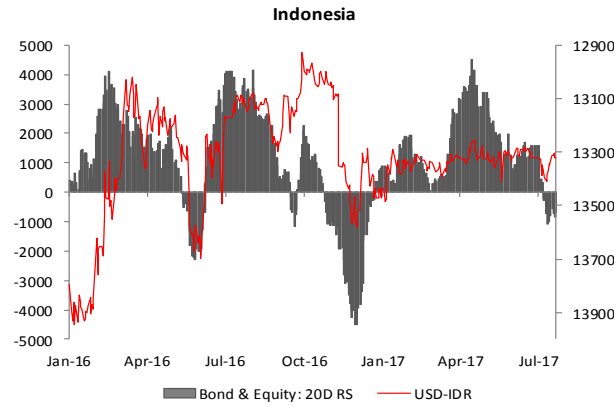
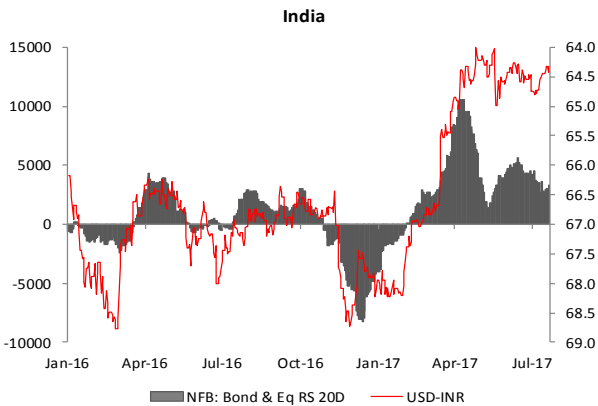
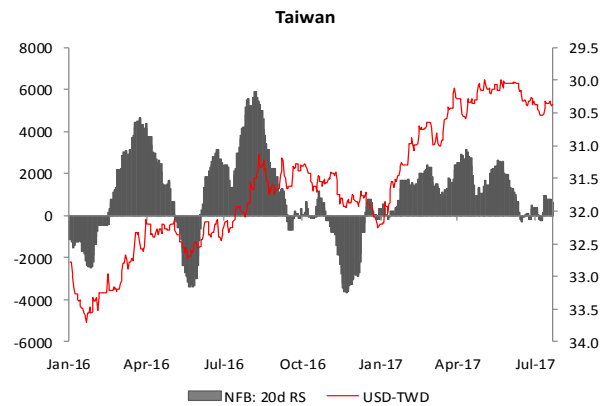
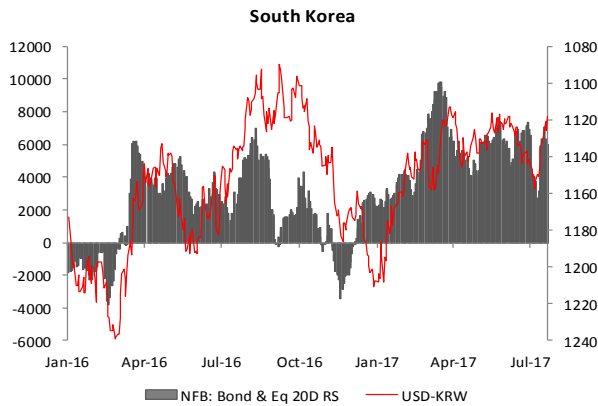
- GBP-USD** With EUR-GBP buoyancy taking a breather, GBP-USD managed to edge back above 1.3000 on Monday but much will rest on the BOE’s Haldane today. Short term implied valuations continue to be relatively static and cable may continue to remain anchored in the vicinity of 1.3000.

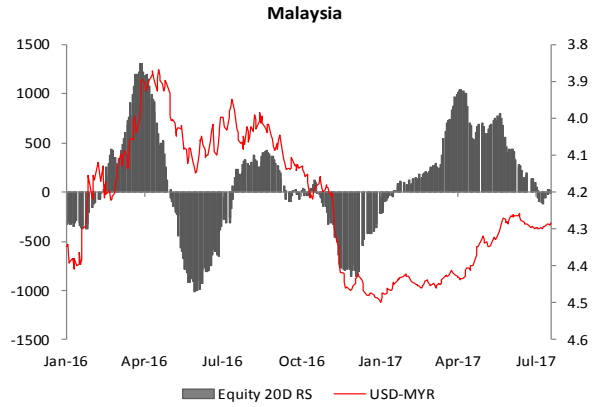


- USD-CAD** Firmer crude and better than expected May wholesale trade numbers continued to depress the USD-CAD on Monday with the 1.2500 floor now increasingly fragile (note brief probes below this level overnight). Short term implied valuations meanwhile continue to pave the way lower and 1.2550 may continue to invite bears.

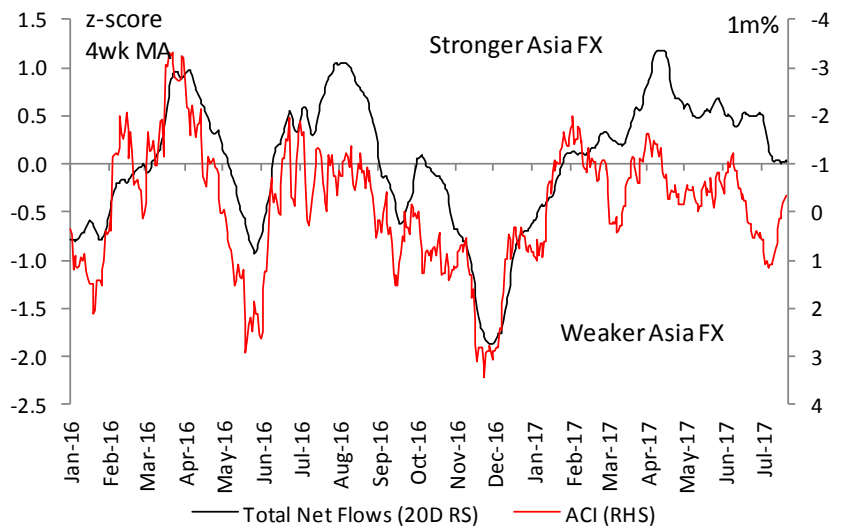
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

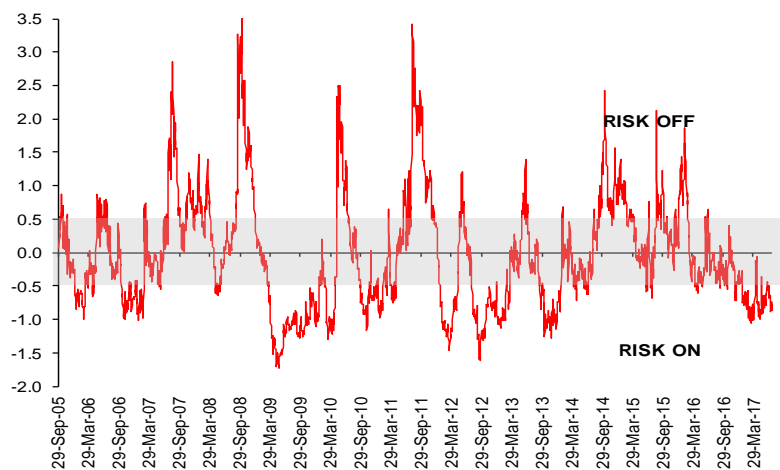




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.087	0.924	-0.747	-0.828	-0.81	0.602	-0.687	0.533	0.312	0.944	-0.99
SGD	0.953	0.176	0.938	-0.862	-0.905	-0.817	0.67	-0.728	0.683	0.449	0.945	-0.91
CNH	0.944	-0.037	0.981	-0.734	-0.799	-0.885	0.493	-0.825	0.515	0.269	1	-0.912
CNY	0.924	0.006	1	-0.751	-0.809	-0.857	0.5	-0.802	0.529	0.341	0.981	-0.879
CAD	0.916	-0.085	0.893	-0.827	-0.829	-0.846	0.422	-0.713	0.636	0.206	0.924	-0.883
MYR	0.914	0.693	0.916	-0.819	-0.865	-0.61	0.85	-0.514	0.742	0.699	0.917	-0.859
CHF	0.883	0.315	0.746	-0.524	-0.63	-0.563	0.741	-0.498	0.32	0.411	0.76	-0.892
THB	0.864	0.416	0.8	-0.858	-0.888	-0.631	0.833	-0.546	0.71	0.665	0.789	-0.818
IDR	0.825	0.906	0.931	-0.912	-0.9	-0.816	0.919	-0.724	0.824	0.945	0.935	-0.727
CCN12M	0.809	0.099	0.867	-0.86	-0.894	-0.794	0.475	-0.693	0.681	0.415	0.853	-0.752
INR	0.777	0.503	0.784	-0.811	-0.83	-0.452	0.621	-0.306	0.824	0.594	0.777	-0.716
KRW	0.776	0.573	0.742	-0.884	-0.924	-0.527	0.857	-0.517	0.823	0.783	0.727	-0.712
JPY	0.602	0.797	0.5	-0.631	-0.683	-0.235	1	-0.297	0.607	0.856	0.493	-0.545
TWD	0.148	0.737	0.281	-0.418	-0.491	-0.001	0.729	-0.215	0.534	0.799	0.205	-0.05
USGG10	0.087	1	0.006	-0.322	-0.338	0.278	0.797	0.187	0.461	0.861	-0.037	-0.043
PHP	-0.684	-0.017	-0.705	0.685	0.65	0.826	-0.306	0.616	-0.423	-0.61	-0.691	0.68
GBP	-0.735	0.179	-0.827	0.472	0.541	0.753	-0.371	0.773	-0.256	-0.114	-0.852	0.684
NZD	-0.843	-0.391	-0.735	0.801	0.793	0.611	-0.825	0.559	-0.67	-0.605	-0.758	0.801
AUD	-0.913	-0.277	-0.919	0.915	0.944	0.822	-0.7	0.751	-0.74	-0.57	-0.905	0.867
EUR	-0.99	-0.043	-0.879	0.676	0.773	0.789	-0.545	0.647	-0.453	-0.234	-0.912	1

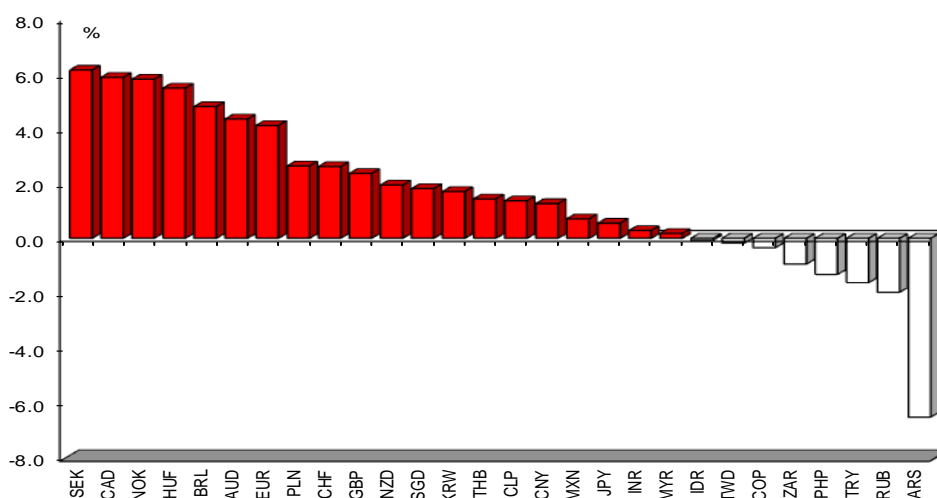
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1308	1.1600	1.1640	1.1670	1.1684
GBP-USD	1.2887	1.3000	1.3023	1.3098	1.3100
AUD-USD	0.7601	0.7900	0.7914	0.7989	0.8000
NZD-USD	0.7210	0.7400	0.7430	0.7444	0.7464
USD-CAD	1.2484	1.2500	1.2508	1.2600	1.3149
USD-JPY	110.84	111.00	111.24	111.61	112.00
USD-SGD	1.3598	1.3600	1.3630	1.3700	1.3802
EUR-SGD	1.5619	1.5800	1.5866	1.5893	1.5900
JPY-SGD	1.2097	1.2200	1.2253	1.2300	1.2303
GBP-SGD	1.7668	1.7700	1.7750	1.7785	1.7800
AUD-SGD	1.0585	1.0700	1.0787	1.0800	1.0900
Gold	1234.45	1250.22	1253.30	1263.87	1279.10
Silver	15.36	16.30	16.40	16.40	16.65
Crude	44.06	46.60	46.61	46.70	46.82

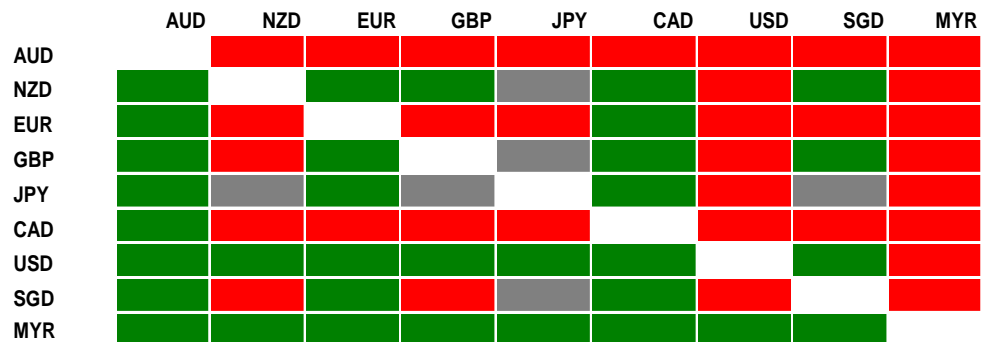
Source: OCBC Bank

FX performance: 1-month change agst USD



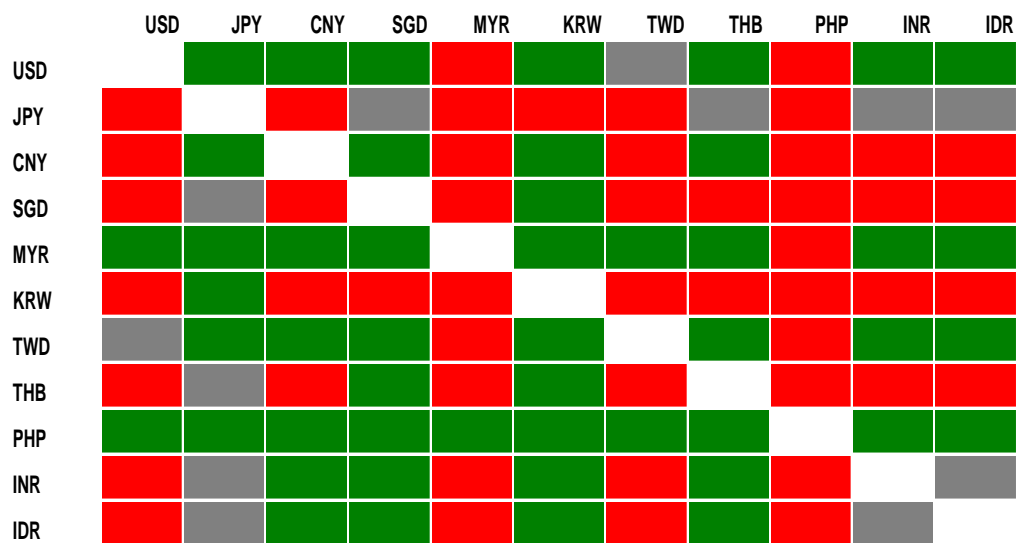
Source: Bloomberg

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	04-Jul-17	B	EUR-USD	1.1346	1.1755	1.1445	Draghi's change of stance in late June may further fuel the EUR		
3	13-Jul-17	B	AUD-USD	0.7708	0.8015	0.7780	Vulnerable USD, improving risk appetite, supportive China data		
4	18-Jul-17	S	USD-SGD	1.3671	1.3535	1.3740	Vulnerable USD, implicit inflow for SGD		
STRUCTURAL									
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		
8	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		
9	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	12-Jun-17	28-Jun-17	S	GBP-USD	1.2760	1.2915	UK political uncertainty/limbo	-1.13	
2	16-May-17	29-Jun-17	S	AUD-USD	0.7407	0.7670	Global deflation plays to continue to wobble?	-3.46	
3	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	
4	17-Jul-17	20-Jul-17	B	GBP-USD	1.3077	1.2935	BOE rhetoric and vulnerable USD	-1.11	
5	28-Jun-17		B	USD-JPY	112.31	114.80	111.05	Yield differential argument supportive of the USD-JPY	-1.04
* realized **of notional							Jan-Jun 2017 Return	-13.02	
							2016 Return	+6.91	

Source: OCBC Bank

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