

Thursday, July 27, 2017

FX Themes/Strategy/Trading Ideas - Ouch

- With the Fed choosing not to rock the markets in its FOMC statement, the markets took UST yields (5y sector outperformed) and the USD lower across the board with the antipodeans also outperforming across the board.
- As expected, the Fed stated that it “expects to begin implementing its balance sheet normalization program **relatively soon** (bold are author’s own)...”. This was largely in line with prior market expectations (but evidently insufficiently hawkish to incite any positive reaction in UST yields or the USD), with markets still angling for an announcement/commencement at the September FOMC. Meanwhile, the Fed stated that “Job gains have been solid,...”, as opposed to “job gains have moderated but have been solid,...” at the June FOMC – indicating continued official confidence in the job market.
- On inflation however, the statement was a little more ambiguous and open to interpretation with the Fed stating that headline and core inflation “have declined”, a subtle change from “declined recently” in the June statement. **Given the reaction in interest rates and FX overnight, market participants may have interpreted this alteration in language as a lack of conviction that inflation measures would correct higher with any sense of urgency in the near term.**
- **Structurally, we think this calls into question the expected sequencing of Fed events (and whether interest rate normalization remains a necessary but sufficient condition for balance sheet tapering) in the last three FOMC meetings this year and it is this ambiguity that may continue to weigh on the greenback.**
- As hazarded yesterday, the failure to surprise significantly on the hawkish front by the FOMC may continue to engender broad dollar vulnerability going ahead. **With the DXY now sub-93.50, downside pit stops include 93.00 before the 200-week MA of 92.26 and 92.00.**

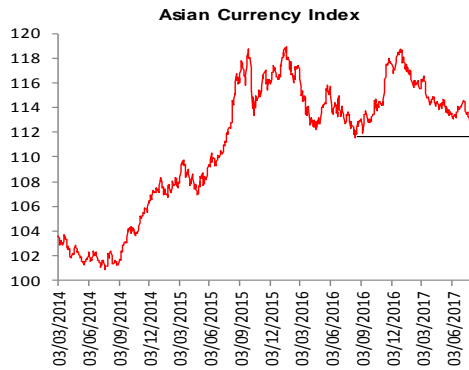
Asian FX

- If the macro/equity/commodity space is continues to draw strength from a perception of a placid Fed, we’d also expect sustained interest towards carry and the search for yield, with EM and Asian FX expected to ride higher although we note that Asian central banks remain on hand to temper excessive appreciation.
- Against the current DXY backdrop, cues from renminbi space, and a grind

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lower in the **FXSI (FX Sentiment Index)**, expect the **ACI (Asian Currency Index)** to continue to sink, with the August 2016 low of 111.55 now within sight.

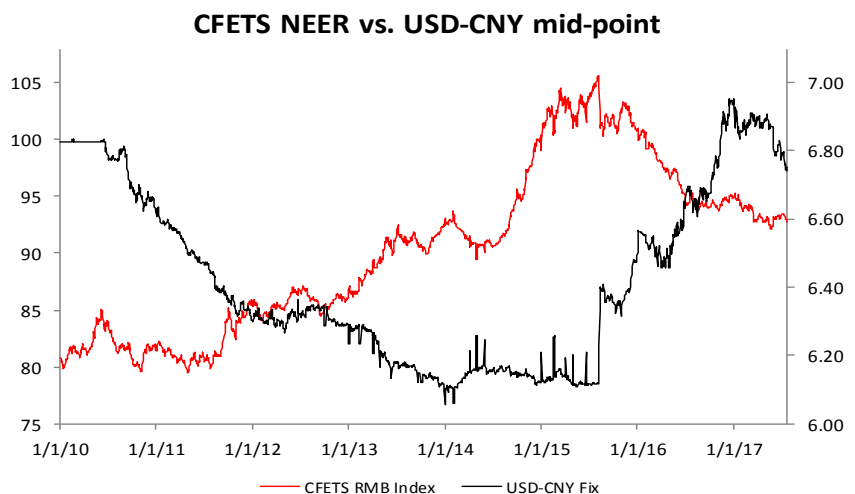
- Meanwhile, **net portfolio inflows** across Asia continue to indicate a lack of support for the KRW, TWD, while net flows are increasingly supportive of the INR and IDR. Elsewhere, we find little directional cues can be had from the MYR, PHP and THB from this perspective.
- **SGD NEER:** This morning, the SGD NEER is firmer on the day at around +1.17% above its perceived parity (1.3718) with the basket clocking a high near +1.40% overnight. NEER-implied USD-SGD thresholds are of course lower on the day post-FOMC with +1.00% estimated at 1.3582 and +1.50% at 1.3516. Intra-day, USD-SGD trajectory may be more a function of technical supports (i.e. 1.3550) and less a function of the relative position of the NEER, although we'd expect some effort to mean revert back towards +1.00%.



	SGD NEER	% deviation	USD-SGD
Current	125.55	1.04	1.3568
+2.00%	126.74		1.3449
Parity	124.26		1.3718
-2.00%	121.77		1.3998

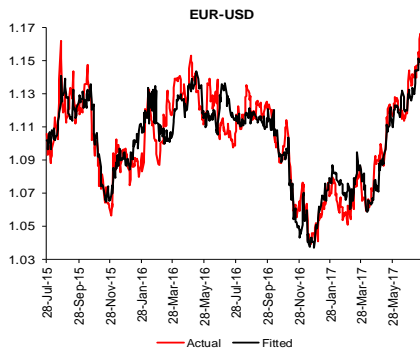
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point dropped (slightly more than expected but within historical parameters) to 6.7307 from 6.7529 on Wednesday, with the CFETS RMB Index slipping to 92.64 from 92.77.



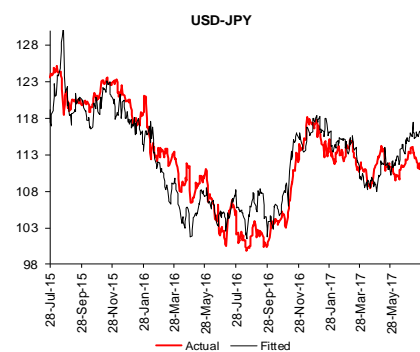
Source: OCBC Bank, Bloomberg

G7



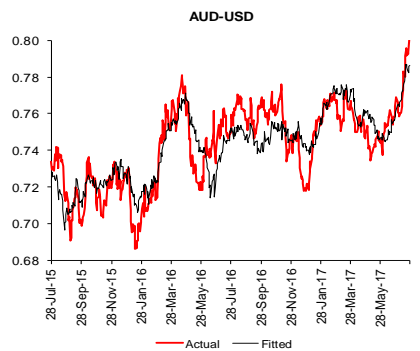
Source: OCBC Bank

- EUR-USD** Short term implied valuations are firmer in the wake of the FOMC with 1.1750 an immediate ceiling and the crucial 200-week MA residing at 1.1798. Overshooting behavior may persist in the near term despite the pair still trading north of its implied confidence intervals.



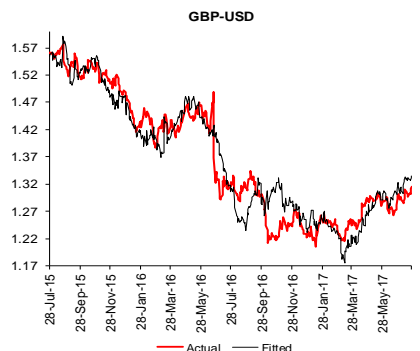
Source: OCBC Bank

- USD-JPY** In addition to potential negative overhang from static surrounding Senate proceedings on Obamacare, the current dollar environment may continue to keep the USD-JPY submerged below 111.00 in the near term with short term implied valuations wobbling lower slightly. Preference to sell into rallies for now and on a multi-session basis, any ability to persist below the 200-week MA (111.25) would threaten the 55-week MA (109.62).



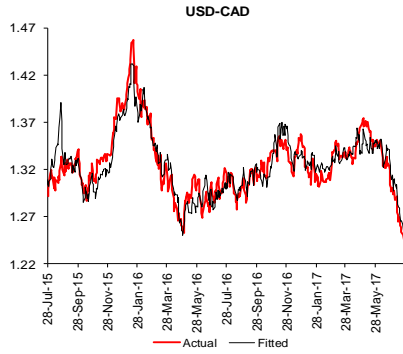
Source: OCBC Bank

- AUD-USD** Post-FOMC and further boosted by an uplift in investor sentiment, the AUD-USD erased intra-day negativity from 2Q CPI readings and somewhat cautious remarks from the RBA's Lowe and tracked firming short term implied valuations higher. Technically, the 0.8000 zone has been sacrosanct since May 2015 and the crucial 200-week MA (0.8012) provides a crucial junction going ahead. Stay constructive on dips.



Source: OCBC Bank

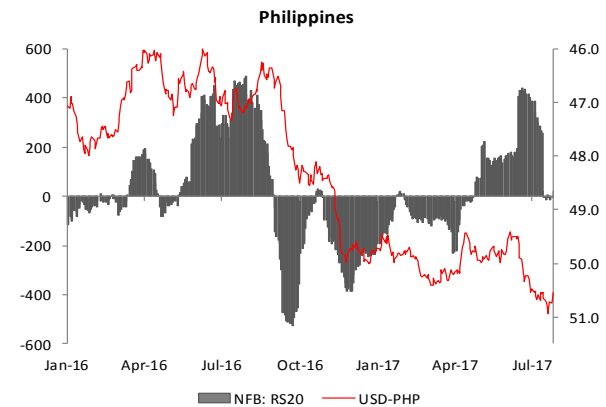
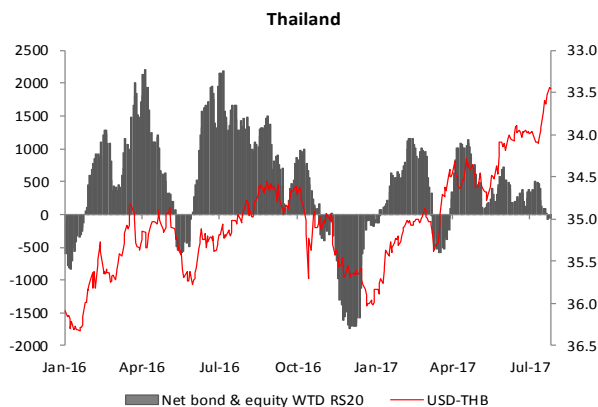
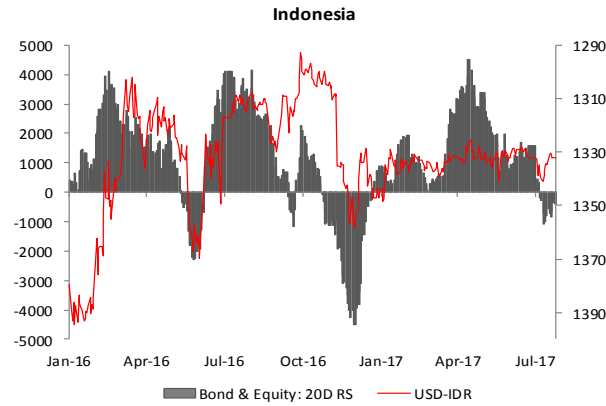
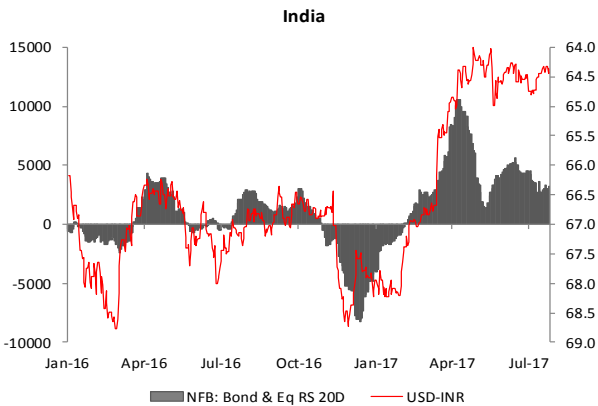
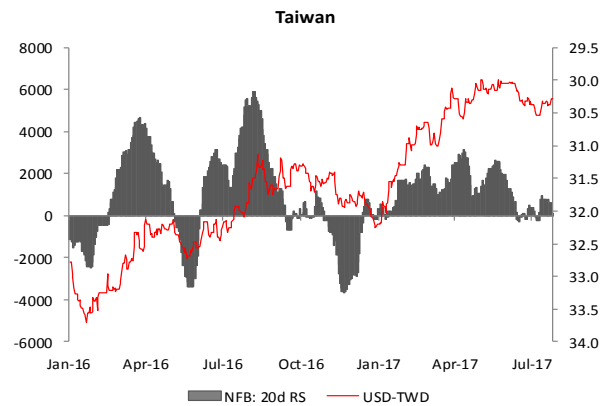
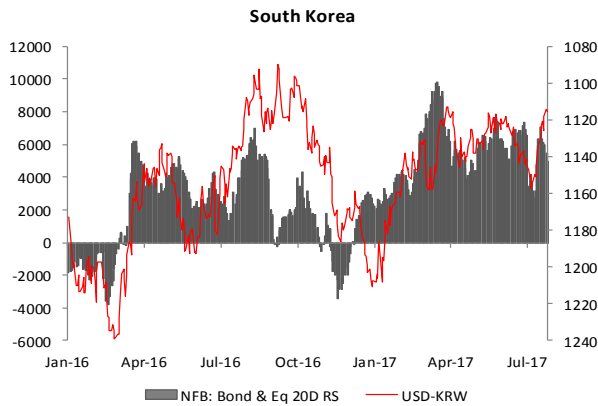
- GBP-USD** Short term implied valuations for the GBP-USD have drafted higher in sync with the other majors after the FOMC with the pair slicing cleanly above 1.3100. Overall, expect support to emerge on near term dips although the pound is still seen lagging its peers and 1.3200 (before 1.3430) may provide some cause for pause.

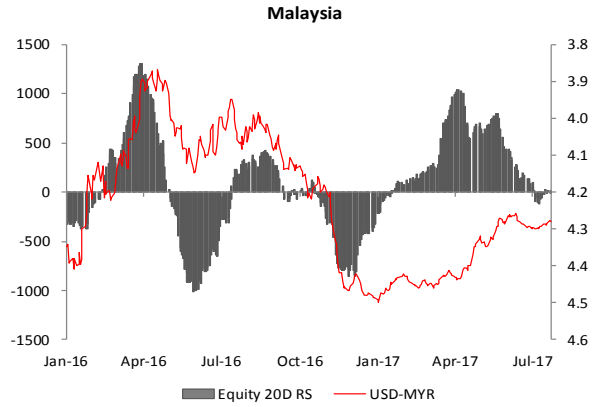


- USD-CAD** Firmer crude and a battered dollar pulled the USD-CAD below 1.2450 on Wednesday and the 1.2400 floor remains under threat. Short term implied valuations continue to sink and in contrast to some of its peers, the pair is not perceived to be excessively depressed relative to its implied confidence intervals just yet. Beyond the short term, note that the pair is also approaching the crucial 200-week MA (1.2377) junction.

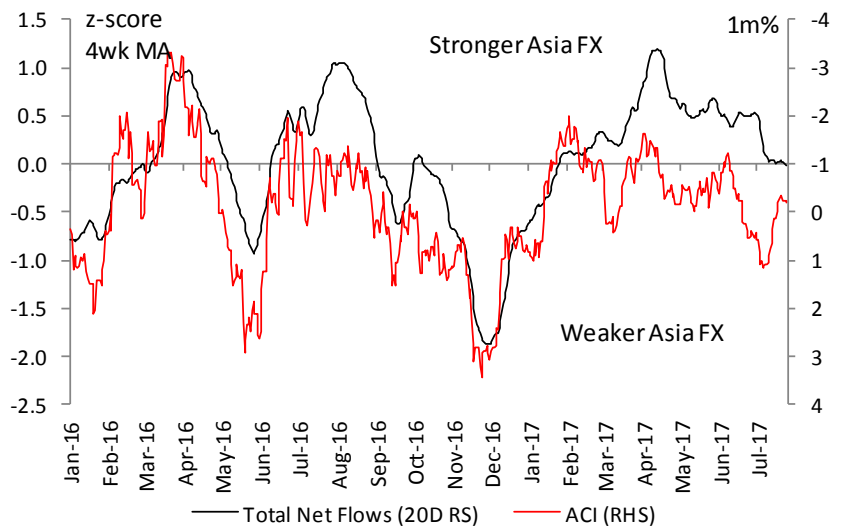
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

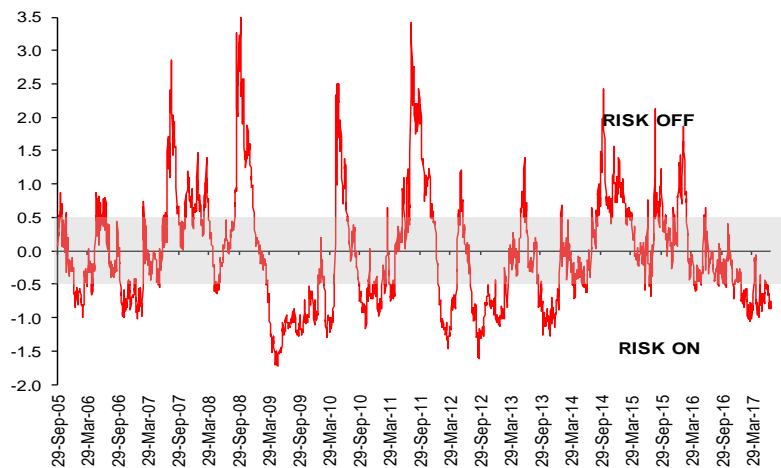




ACI VS. Net Capital Flows



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.377	0.911	-0.878	-0.922	-0.806	0.834	-0.768	0.746	0.662	0.944	-0.989
SGD	0.973	0.352	0.95	-0.92	-0.941	-0.845	0.823	-0.823	0.801	0.696	0.98	-0.943
THB	0.947	0.459	0.907	-0.89	-0.911	-0.741	0.886	-0.737	0.768	0.791	0.919	-0.913
CNH	0.944	0.359	0.973	-0.907	-0.933	-0.874	0.797	-0.822	0.791	0.679	1	-0.901
MYR	0.925	0.566	0.931	-0.853	-0.885	-0.677	0.857	-0.694	0.772	0.743	0.921	-0.879
CAD	0.919	0.146	0.891	-0.923	-0.904	-0.846	0.643	-0.759	0.813	0.521	0.933	-0.887
CNY	0.911	0.372	1	-0.889	-0.912	-0.835	0.77	-0.769	0.766	0.703	0.973	-0.853
KRW	0.899	0.572	0.906	-0.905	-0.938	-0.681	0.876	-0.707	0.85	0.845	0.903	-0.848
CHF	0.856	0.637	0.73	-0.63	-0.706	-0.534	0.907	-0.519	0.497	0.694	0.741	-0.853
CCN12M	0.847	0.211	0.922	-0.903	-0.92	-0.845	0.611	-0.747	0.776	0.615	0.909	-0.799
JPY	0.834	0.758	0.77	-0.708	-0.769	-0.516	1	-0.62	0.637	0.872	0.797	-0.8
IDR	0.793	0.867	0.916	-0.891	-0.882	-0.776	0.892	-0.644	0.832	0.926	0.908	-0.692
INR	0.778	0.469	0.799	-0.818	-0.836	-0.51	0.655	-0.399	0.838	0.633	0.791	-0.716
TWD	0.447	0.66	0.599	-0.516	-0.6	-0.288	0.73	-0.498	0.563	0.793	0.552	-0.369
USGG10	0.377	1	0.372	-0.348	-0.414	-0.011	0.758	-0.094	0.41	0.785	0.359	-0.343
PHP	-0.543	-0.035	-0.6	0.566	0.547	0.695	-0.266	0.409	-0.365	-0.257	-0.601	0.514
GBP	-0.752	-0.202	-0.782	0.629	0.67	0.723	-0.7	0.782	-0.493	-0.502	-0.839	0.704
NZD	-0.922	-0.411	-0.806	0.825	0.823	0.736	-0.868	0.799	-0.7	-0.727	-0.869	0.915
AUD	-0.953	-0.417	-0.964	0.946	0.961	0.871	-0.82	0.827	-0.827	-0.758	-0.975	0.918
EUR	-0.989	-0.343	-0.853	0.826	0.879	0.784	-0.8	0.758	-0.679	-0.609	-0.901	1

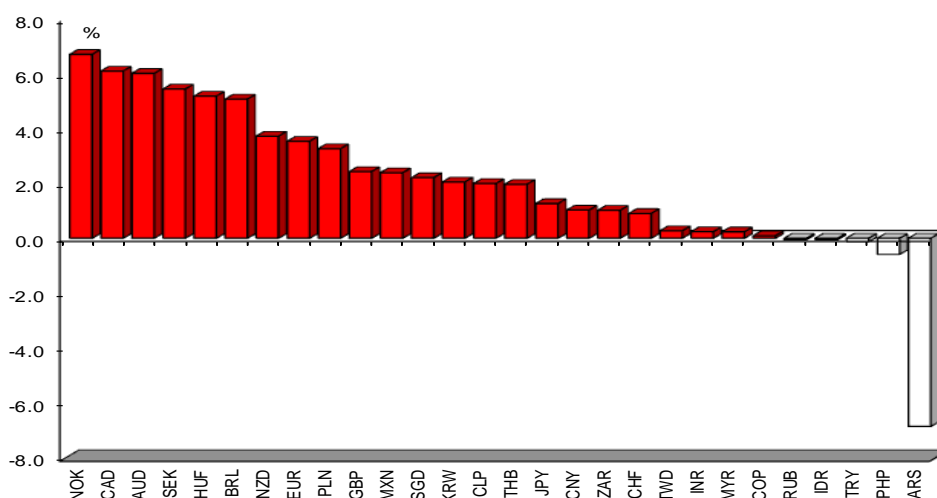
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1332	1.1700	1.1738	1.1748	1.1754
GBP-USD	1.2893	1.3100	1.3122	1.3127	1.3141
AUD-USD	0.7626	0.8000	0.8036	0.8043	0.8092
NZD-USD	0.7500	0.7514	0.7536	0.7541	0.7600
USD-CAD	1.2400	1.2414	1.2442	1.2500	1.3105
USD-JPY	110.58	110.62	110.94	111.00	111.62
USD-SGD	1.3532	1.3556	1.3565	1.3600	1.3788
EUR-SGD	1.5622	1.5900	1.5923	1.5936	1.5941
JPY-SGD	1.2112	1.2200	1.2227	1.2264	1.2300
GBP-SGD	1.7750	1.7770	1.7800	1.7949	1.7989
AUD-SGD	1.0587	1.0900	1.0901	1.0927	1.0965
Gold	1234.39	1251.07	1262.90	1266.57	1274.70
Silver	16.60	16.64	16.65	16.70	16.84
Crude	46.81	48.60	48.63	48.68	48.70

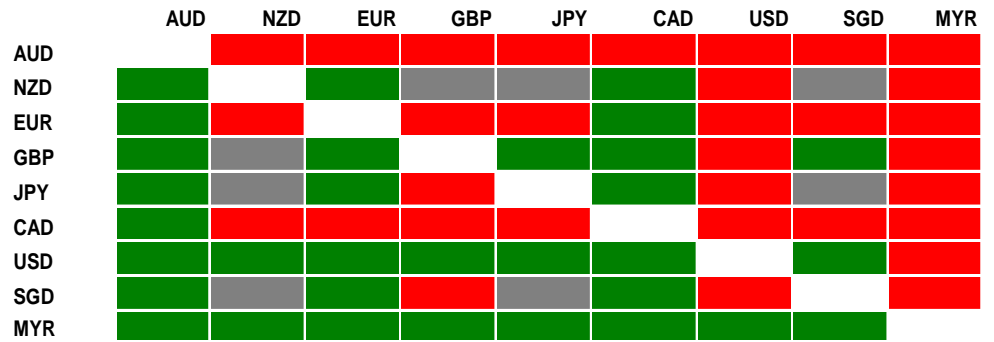
Source: OCBC Bank

FX performance: 1-month change agst USD



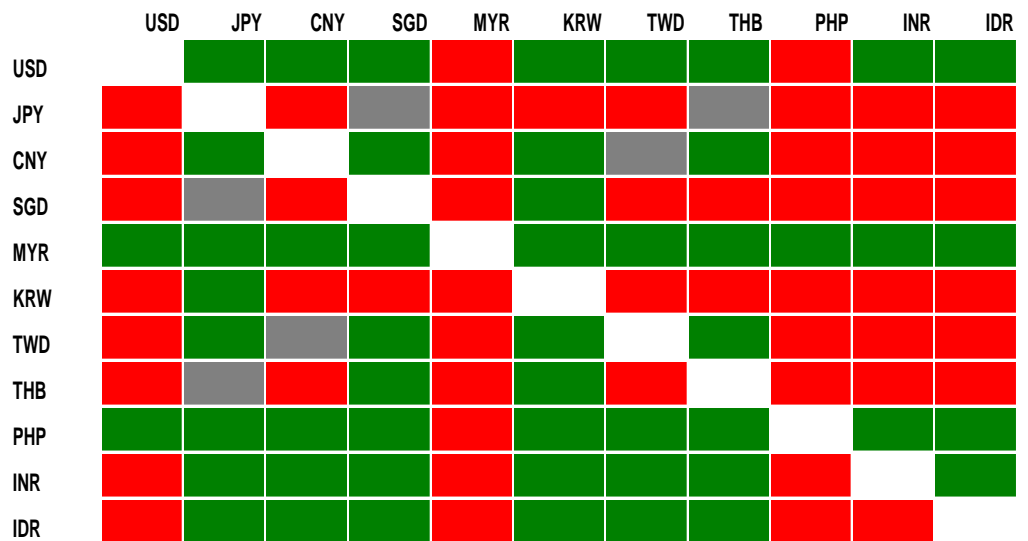
Source: Bloomberg

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	21-Jul-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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