

Thursday, June 29, 2017

FX Themes/Strategy/Trading Ideas

- Despite some attempt at damage control by ECB officials (e.g. Constancio), the EUR-USD rebounded off intra-day lows to end higher on the day. Meanwhile, non-dovish to neutral comments from the BOC's Poloz and BOE's Carney (the latter even sounding hawkish) saw the CAD and the GBP leading the way higher against the USD. With global sentiment boosted by positive US equities/commodities and more sanguine global central banks, the antipodeans also got in on the weak dollar story on Wednesday. Not surprisingly, the JPY underperformed against the USD and across G10 as risk appetite brightened.
- Although it remains to be seen if global reflation (in terms of price pressures and economic activity) will indeed continue to improve at a discernible pace, the recent chorus of central banks steering onto a neutral plane may continue to see a re-pricing across asset markets in the near term. A corollary meanwhile is that risk appetite levels have also gotten a shot in the arm, engendering interest towards EM/Asia. **As noted previously, shifting dynamics amongst global central banks may in the short term continue to inflict volatility while detracting from the greenback.**
- For today, look towards the Fed's **Bullard** (1700 GMT) for further verbal cues. With no other major central bank appearances scheduled, market attention may then turn towards the data stream even as the above mentioned re-pricing/re-balancing ensues. Notably ones to watch include German June CPI, July Gfk confidence, EZ June confidence indicators, and UK May monetary aggregates. The Asian calendar brings China's 1Q current account numbers and South Korea's May industrial production numbers.
- With yield differentials blipping higher in favor of the USD vs. the JPY in the near term as global curves adjust post-Draghi, we undertake a tactical long USD-JPY. From a **USD-JPY** spot ref of 112.31 on Wednesday, we target 114.80 and place a stop at 111.05.

Asian FX

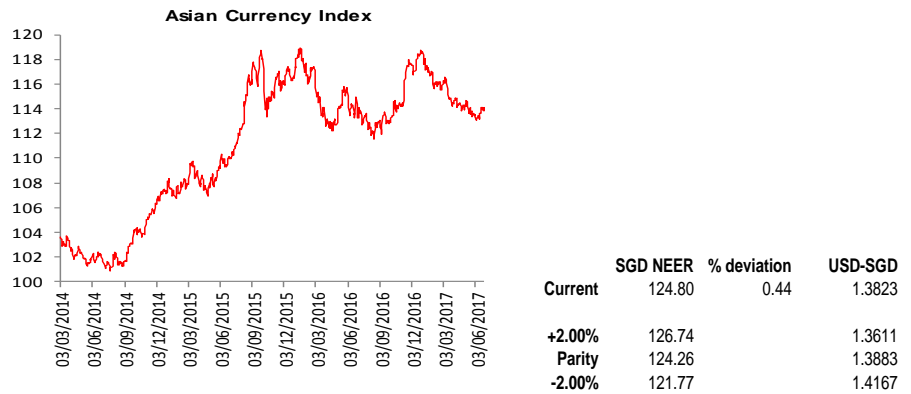
- EM FX also lifted higher against the greenback in tandem with their G10 counterparts on Wednesday and given a more sanguine equity/commodity complex, expect USD-Asia to respond to the vulnerable dollar. From the net portfolio inflow perspective, the KRW and PHP are expected to see intrinsic support, the situation is improving for the TWD and THB, while some moderation in net inflows continue to be experienced for the INR.

Treasury Research &
Strategy**Emmanuel Ng**

+65 6530 4073

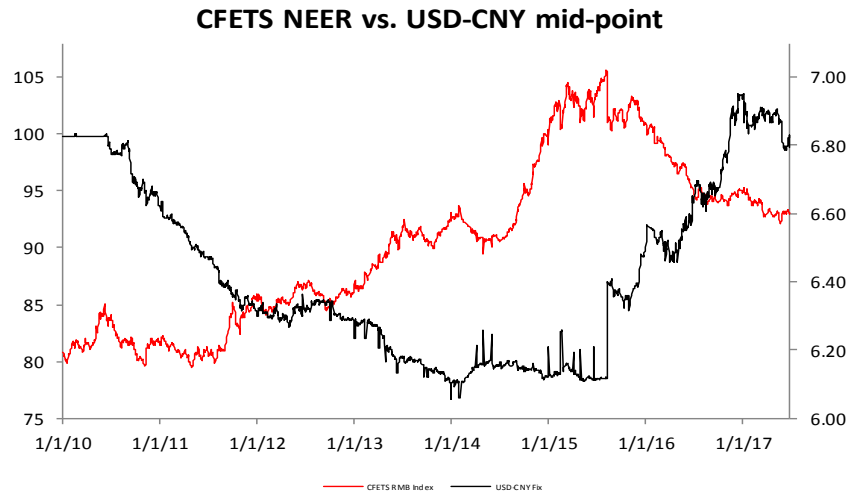
ngcyemmanuel@ocbc.com

- Overall, some stability on the net portfolio front within Asia may lend further support to the regional currencies, with the **FXSI (FX Sentiment Index)** softening deeper into Risk-On territory on Wednesday. As such, the **ACI (Asian Currency Index)** may be expected to edge lower intra-day.
- **SGD NEER:** Today, the SGD NEER is firmer on the day at around +0.45% above its perceived parity (1.3883) after highs near +0.56% overnight. NEER-implied USD-SGD thresholds are lower on the day and the immediate bottom end of for the USD-SGD may kick in around +0.60% (1.3801) ahead of 1.3780/90.



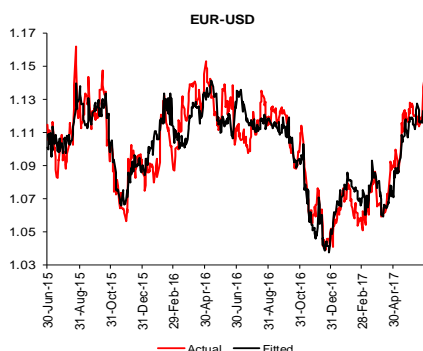
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point fell further (as largely expected) to 6.7940 from 6.8053 on Wednesday. This took the CFETS RMB Index higher to 93.14 from 93.13 yesterday.



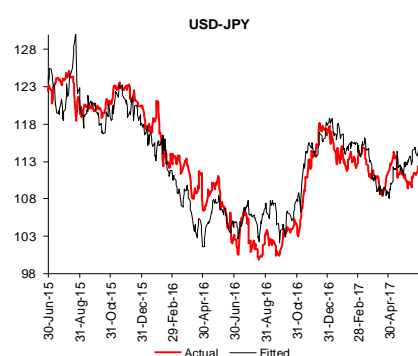
Source: OCBC Bank, Bloomberg

G7



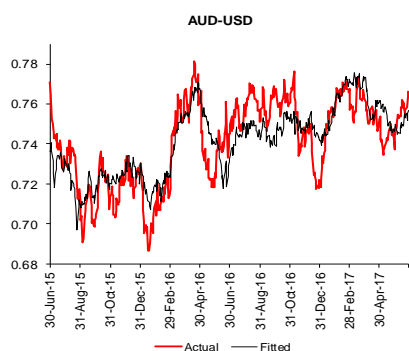
Source: OCBC Bank

- EUR-USD** As mentioned yesterday, the **DX** is now threatening a sustained breach of the 96.00 level (towards 95.00) as the greenback continues to retreat universally. The EUR-USD's enthusiastic reaction in recent sessions has taken it north of its short term confidence intervals but we note that implied valuations also remain underpinned. In the interim, markets may remain bid on the pair.



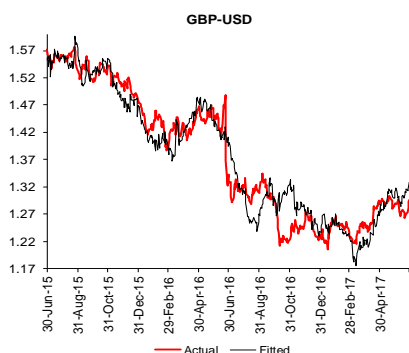
Source: OCBC Bank

- USD-JPY** Given the latest slew of central bank rhetoric this week, the BOJ's monetary policy demeanor places it at the relatively more dovish end of the spectrum. Meanwhile, yield differential arguments are expected to keep the pair supported on dips ahead of Bullard later in the global session. Short term implied valuations are also seen supportive of the pair with 112.30/50 expected to provide initial resistance. On the downside, support is expected into 111.80.



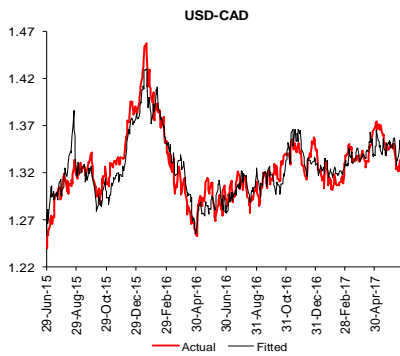
Source: OCBC Bank

- AUD-USD** With the improvement in May new home sales reported this morning, the AUD-USD may continue to tilt higher in the current environment in tandem with its short term implied valuations ticking higher. Expect some resistance to kick in towards 0.7690 intra-day, where the upper boundary of its implied confidence intervals also resides.



Source: OCBC Bank

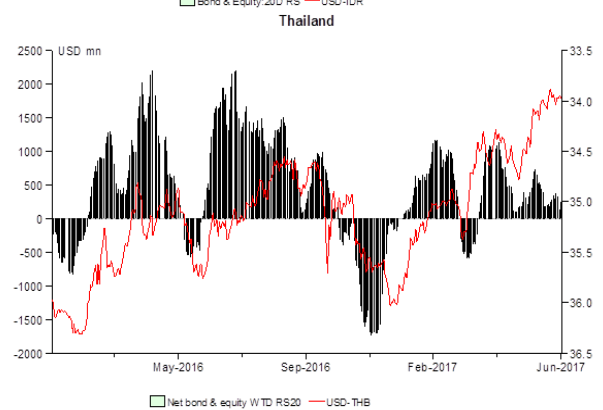
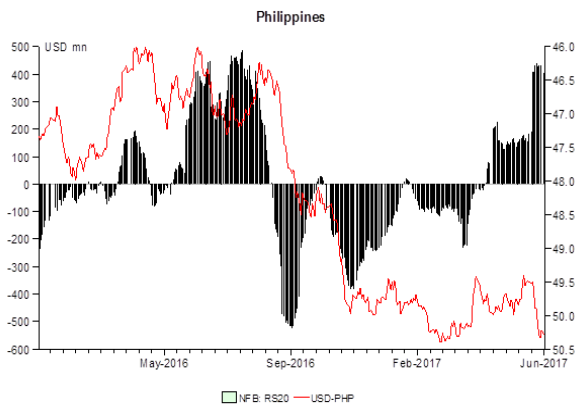
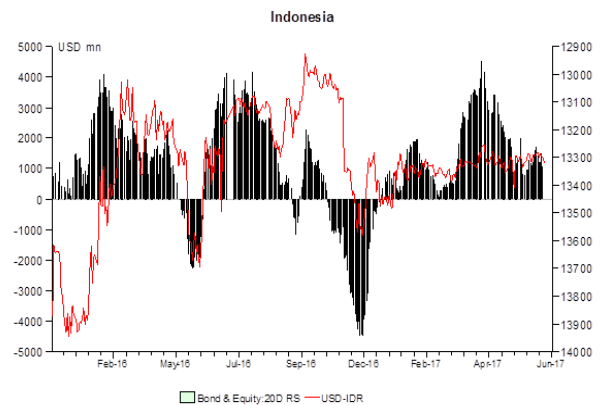
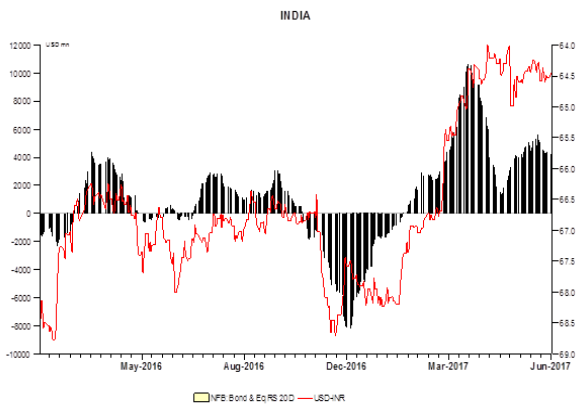
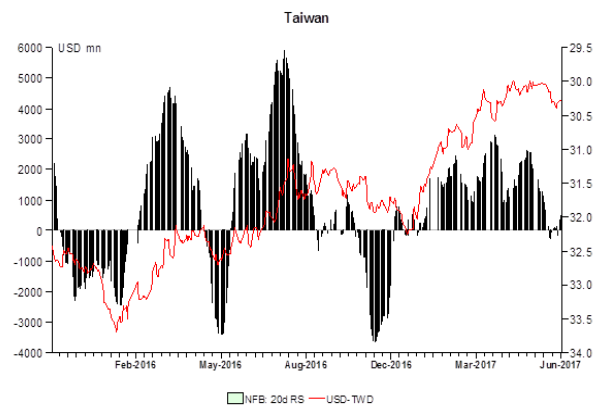
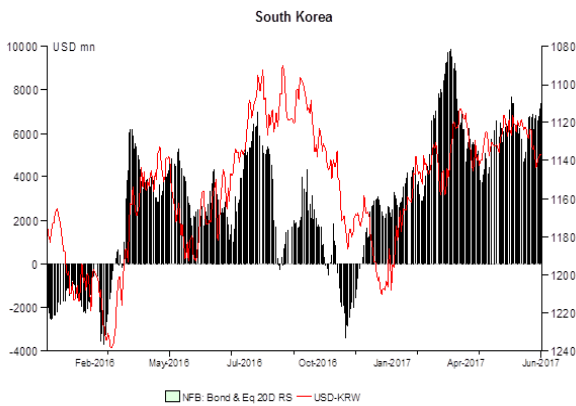
- GBP-USD** GBP-USD burst above 1.2900 and then 1.2950 post-Carney on Wednesday and we note that short term implied valuations have also ratcheted higher. The pair may continue to resonate following Carney's apparent U-turn on policy posture in the near term, although 1.3000/50 may prove a hard habit to break in the near term.



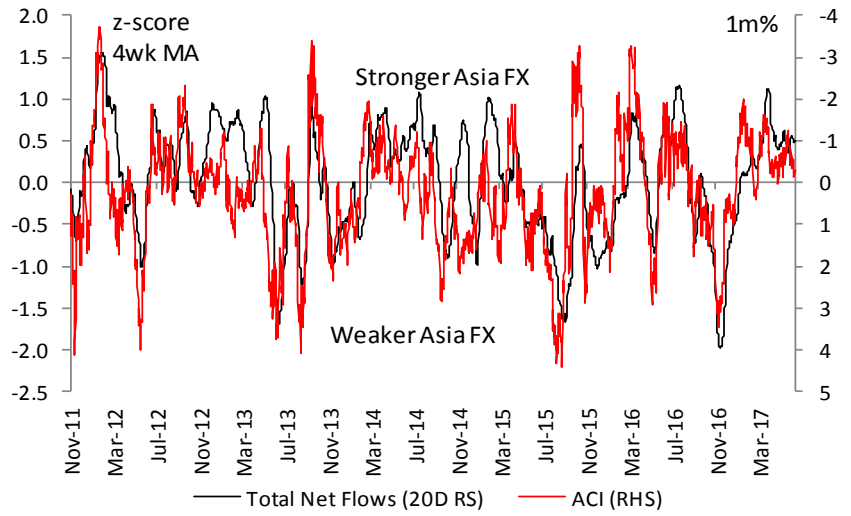
- USD-CAD** Improving crude, renewed interest towards the cyclicals, and generalized USD weakness, have pulled short term implied valuations lower for USD-CAD. The pair meanwhile has outpaced the (sliding) lower boundary of its implied short term valuations but the pair may remain technically top heavy nonetheless. Expect some consolidation in the 1.3000 neighborhood.

Source: OCBC Bank

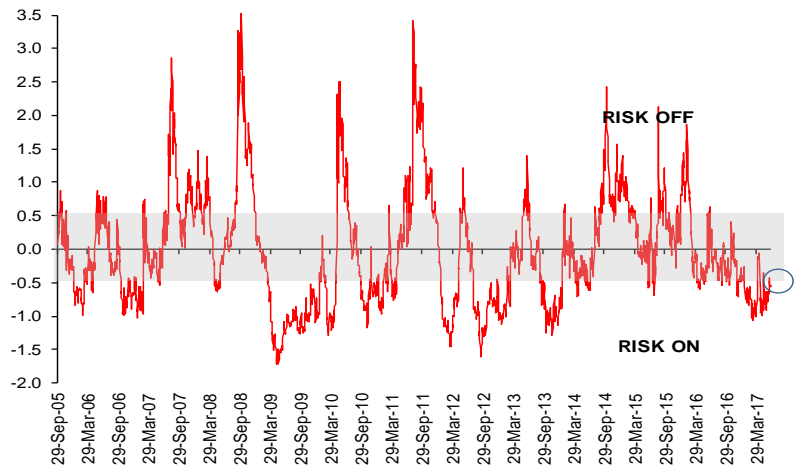
USD-Asia VS. Net Capital Flows



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	1.000	-0.236	0.597	0.169	-0.051	-0.312	-0.080	-0.289	0.202	-0.337	0.465	-0.981
CHF	0.918	-0.067	0.443	0.139	-0.213	-0.196	-0.034	-0.213	0.172	-0.242	0.449	-0.931
CNY	0.597	-0.386	1.000	0.118	0.373	-0.693	0.643	-0.612	-0.162	-0.509	0.714	-0.461
SGD	0.595	0.051	0.819	0.025	0.258	-0.587	0.609	-0.518	0.133	-0.393	0.647	-0.462
CNH	0.465	-0.207	0.714	0.312	0.513	-0.775	0.534	-0.725	0.115	-0.692	1.000	-0.401
CCN12M	0.375	-0.361	0.410	0.514	0.482	-0.780	0.374	-0.799	0.301	-0.859	0.722	-0.349
TWD	0.308	-0.217	0.641	0.346	0.545	-0.923	0.717	-0.866	0.138	-0.866	0.854	-0.217
CAD	0.236	0.161	-0.275	-0.411	-0.565	0.733	-0.599	0.641	-0.206	0.830	-0.518	-0.266
IDR	0.187	0.292	0.559	-0.576	-0.438	-0.002	0.376	0.124	-0.134	0.352	0.217	-0.075
INR	0.171	0.113	0.659	-0.345	-0.197	-0.253	0.649	-0.070	0.073	-0.088	0.459	-0.056
MYR	0.096	0.149	0.677	-0.041	0.103	-0.364	0.843	-0.215	-0.283	-0.203	0.380	0.060
KRW	0.086	-0.263	0.596	0.295	0.595	-0.861	0.667	-0.770	0.093	-0.764	0.717	0.026
PHP	0.069	0.060	0.668	0.022	0.376	-0.730	0.851	-0.597	0.180	-0.548	0.655	0.065
THB	0.065	0.490	-0.191	-0.481	-0.597	0.669	-0.141	0.693	-0.190	0.748	-0.329	-0.039
JPY	-0.080	0.199	0.643	0.062	0.375	-0.572	1.000	-0.453	-0.112	-0.402	0.534	0.212
AUD	-0.187	-0.355	0.111	0.474	0.651	-0.711	0.311	-0.747	0.295	-0.802	0.499	0.173
NZD	-0.199	-0.486	0.275	0.517	0.805	-0.836	0.318	-0.833	0.176	-0.850	0.485	0.214
USGG10	-0.236	1.000	-0.386	-0.312	-0.359	0.447	0.199	0.448	0.124	0.432	-0.207	0.239
GBP	-0.718	0.311	-0.532	-0.270	-0.311	0.622	-0.104	0.598	-0.517	0.773	-0.615	0.668
EUR	-0.981	0.239	-0.461	-0.195	0.111	0.231	0.212	0.236	-0.214	0.302	-0.401	1.000

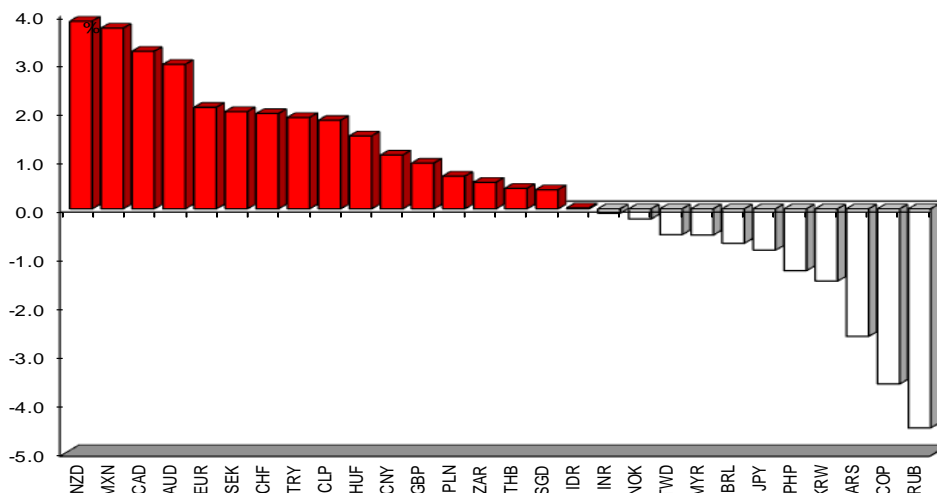
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1371	1.1395	1.1396	1.1400
GBP-USD	1.2859	1.2900	1.2957	1.3000	1.3004
AUD-USD	0.7600	0.7658	0.7659	0.7660	0.7700
NZD-USD	0.7270	0.7300	0.7325	0.7344	0.7400
USD-CAD	1.3013	1.3021	1.3025	1.3100	1.3337
USD-JPY	111.45	112.00	112.20	112.47	112.66
USD-SGD	1.3752	1.3800	1.3806	1.3897	1.3900
EUR-SGD	1.5700	1.5708	1.5731	1.5781	1.5800
JPY-SGD	1.2293	1.2300	1.2305	1.2309	1.2400
GBP-SGD	1.7800	1.7866	1.7889	1.7900	1.7935
AUD-SGD	1.0500	1.0568	1.0574	1.0578	1.0600
Gold	1241.10	1241.89	1250.70	1256.98	1293.91
Silver	16.23	16.70	16.79	16.80	16.95
Crude	42.05	44.80	44.88	44.90	47.69

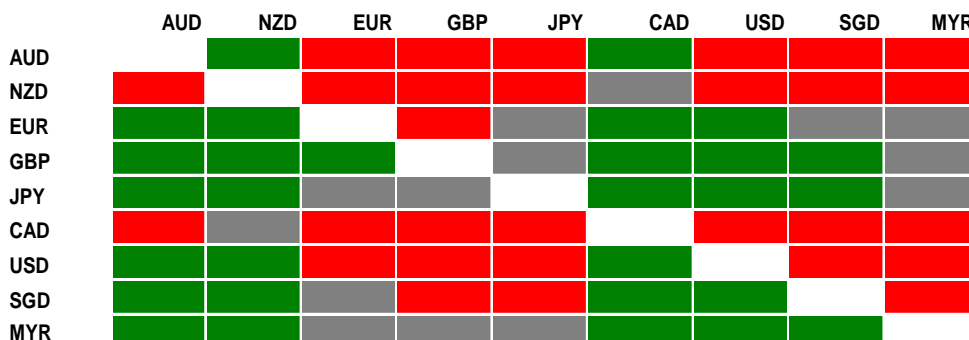
Source: OCBC Bank

FX performance: 1-month change agst USD



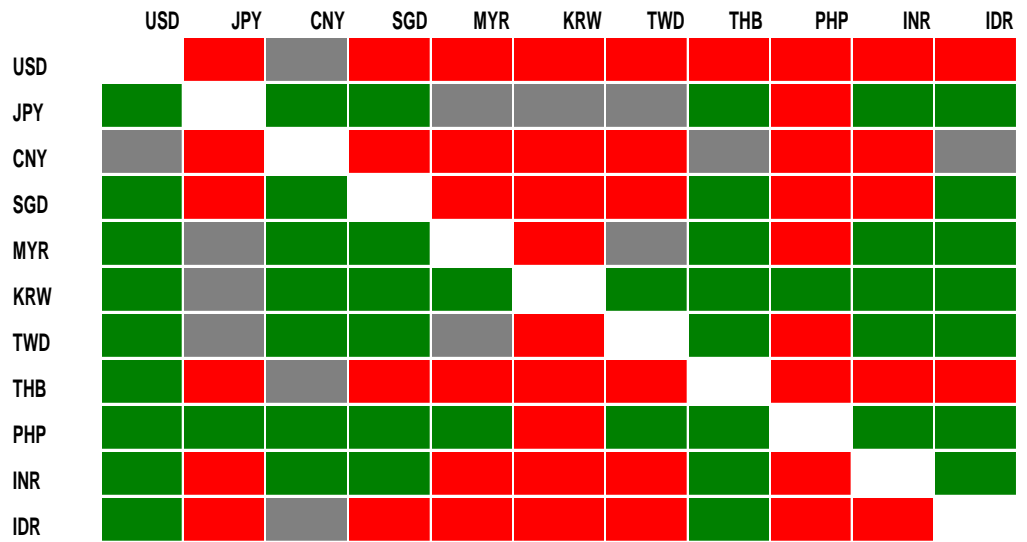
Source: Bloomberg

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	1.3045	1.3380	USD skepticism, sanguine risk appetite, supported crude	
2	08-Jun-17	B	AUD-USD	0.7550	0.7695	0.7475	Supportive Aussie GDP and China trade numbers, steady risk	
3	12-Jun-17	S	GBP-USD	1.2760	1.2455	1.2915	UK polinty concertainty/limbo	
4	28-Jun-17	B	USD-JPY	112.31	114.80	111.05	Yield differential argument supportive of the USD-JPY	
STRUCTURAL								
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?	
7	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	
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	17-May-17	14-Jun-17	B	EUR-USD	1.1120	1.1209	Disappointing US data feed, reversal of political risk premiums	+0.63
2	24-May-17	15-Jun-17	S	USD-SGD	1.3899	1.3828	Supportive Asian portfolio inflow environment, soggy USD	+0.49
3	01-Jun-17	22-Jun-17	S	USD-JPY	111.00	111.16	Weak broad dollar disposition	-0.25
4	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**	
* realized **of notional							Jan-May 2017 Return -17.04	
							2016 Return +6.91	

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
