

Tuesday, May 02, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite the disappointing US data feed (March personal income/spending, April ISM) on Monday, the greenback still managed to firm incrementally on Monday after the US Congress agreed on a bi-partisan USD1tn bill to avert a government shutdown till September. Meanwhile, firmer UST yields led the USD-JPY higher after US Treasury Secretary Mnuchin indicated that the treasury may be examining the possibility of ultra-long bonds.
- Elsewhere, despite disappointing China April PMIs, the antipodeans reversed higher and may imply that the recent re-balancing may have run its course – portending a bottoming out in the AUD while the EUR pauses and awaits French election headlines from this coming weekend. **As such, the Risk-On/Risk/Off dynamic (and its impact on the cyclical) may bear watching after the recent correlation breakdown.**
- On the **CFTC** front, large non-commercial accounts in the latest week increased slightly their net implied long dollar bias in aggregate but leveraged accounts went in the other direction and decreased their long dollar bias instead. Elsewhere, asset manager accounts flipped to an implied net short dollar positioning balance instead. **This may remain representative of the current disparate state of markets and investors this week are likely to focus their energies on the FOMC/NFP (USD-JPY) and French election risks (EUR-USD).**
- Elsewhere, on the global calendar, apart from the stream of global PMIs this week, look to the **RBA meeting** today (0430 GMT) with the **US labor market numbers** on Friday rounding off a fairly crowded schedule. With a rate hike pretty much priced in for June, investors will look to the two-day **FOMC** (Tues-wed) to telegraph or at least lay the ground work for the anticipated hike. EUR-related risks this week will rest on the **7th May French Presidential runoff elections** although if expectations are for Macron to still come out on top ahead of Le Pen by a wide margin, the EUR-USD may continue to deny excessive downside dips.

Asian FX

- For the other Asians, intrinsic support may remain in the background with EPFR data showing implied net equity inflows increasing significantly in the latest week, while net implied bond inflows remained relatively static. On other fronts, positive risk appetite levels may also induce further heaviness in the regional pairs. Note that the **FXSI (FX Sentiment Index)** is sitting significantly deeper on the week in **Risk-On** territory, potentially keeping the

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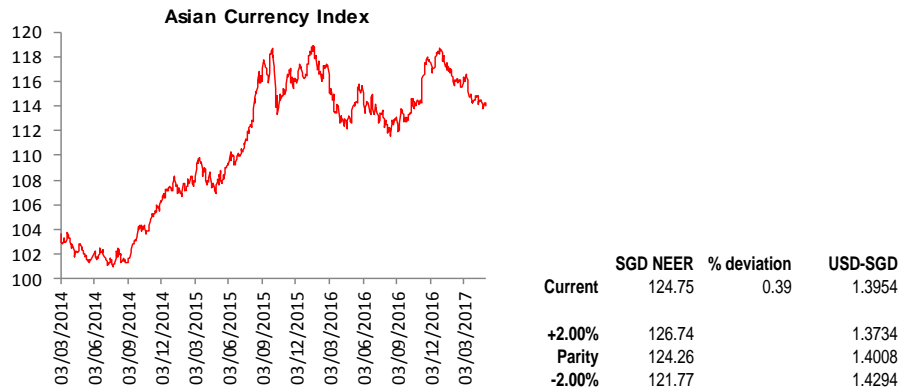
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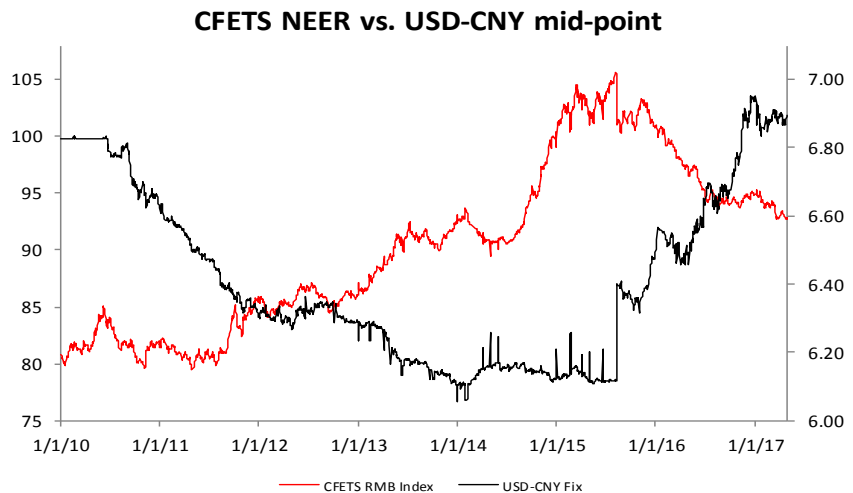
ACI (Asian Currency Index) top heavy.

- The April China Caixin manufacturing PMI is due at 0145 GMT today (composite and services PMIs on Thursday) while we also note that latest comments from the **US Treasury Secretary** regarding **China** and the CNY were decidedly non-confrontational – potentially leaving Chinese authorities to their own devices – i.e., keeping the CFETS RMB Index relatively stable while managing onshore liquidity/credit creation.
- **SGD NEER:** This morning, SGD NEER is flat to slightly softer from last Friday at around +0.38% above its perceived parity (1.4008). NEER-implied USD-SGD thresholds are also softer from last Friday and the NEER may remain within parity and +0.50% (1.3939) pending further external headlines. Risks for a drift towards +0.50% cannot be discounted if risk appetite remains underpinned and the USD is uncommitted. Technically, investors may continue to monitor the fate of the 200-day MA (1.3973) with immediate support expected into 1.3930/40 ahead of 1.3900.



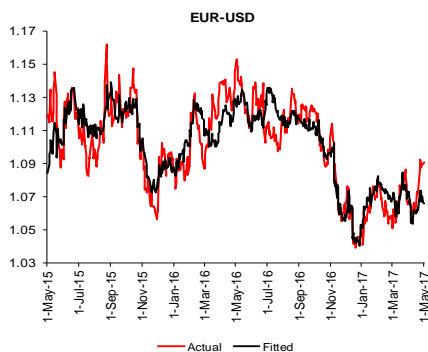
Source: OCBC Bank

- **CFETS RMB Index:** Today, the USD-CNY mid-point rose slightly to 6.8956 from 6.8931 last Friday, although this still resulted in the **CFETS RMB Index** remaining largely static at 92.78.



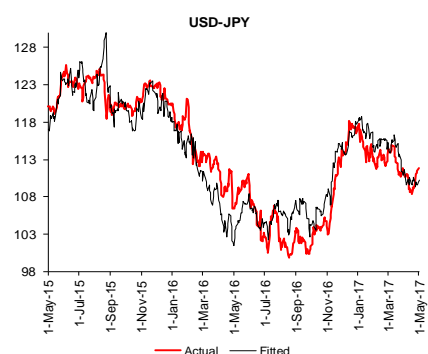
Source: OCBC Bank, Bloomberg

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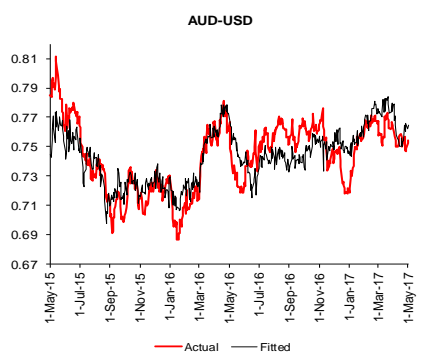
Source: OCBC Bank

- EUR-USD** With OAT-Bund spreads still relatively suppressed and the French CAC retaining its gains, the EUR-USD may remain underpinned, although further upside may be limited by the fact that the pair is still trading north of its short term implied confidence intervals. In the interim, the 200-day MA (1.0835) may cushion with initial resistance expected into 1.0950 ahead of 1.1000.



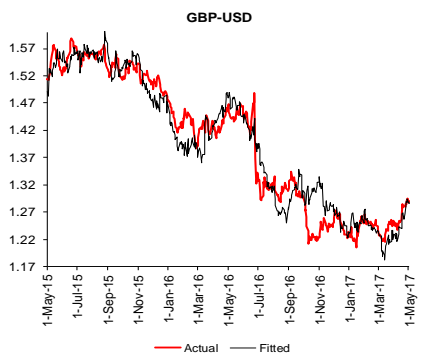
Source: OCBC Bank

- USD-JPY** USD-JPY may attempt to cling on to its recent gains pre-FOMC, with the Atlanta Fed also revising higher its 2Q GDP projections. Expect the USD-JPY to trade off FOMC/NFP headlines for the rest of the week. Although short term implied valuations meanwhile continue to remain relatively static, the 55-day MA (111.86) may be in danger of a sustained breach if USD resilience (against the JPY) accumulates further.



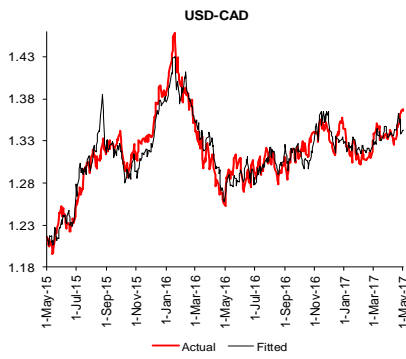
Source: OCBC Bank

- AUD-USD** The AUD may have also been underpinned by an improved April AiG manufacturing index on Monday. For today, look towards any brightening of the RBA's economic prognosis. This morning, the disappointing April China Caixin manufacturing PMI (50.3) put a halt to AUD gains with short term implied valuations also stalling after firming in recent sessions. Expect the 200-day MA (0.7552) and the 55-day MA (0.7600) to impede on the upside, with 0.7500 seen supporting.



Source: OCBC Bank

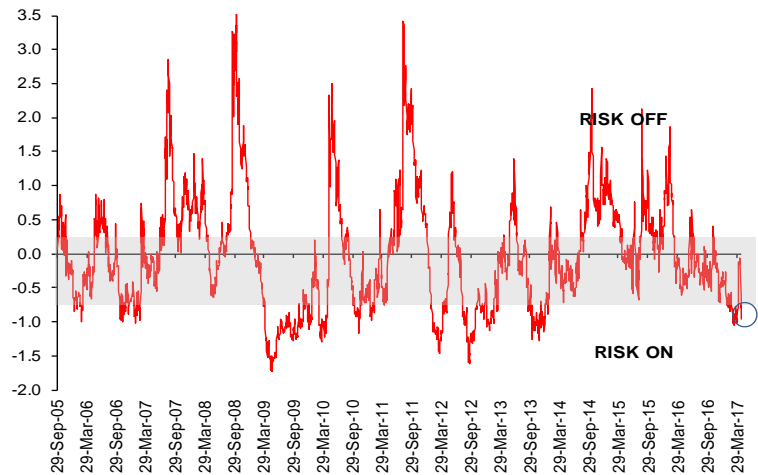
- GBP-USD** Look to the UK manufacturing PMI later today for domestic cues while the GBP-USD may continue to ignore negative UK-EU chatter in the near term. While positivity continue to surround the upcoming snap elections, short term implied valuations meanwhile continue to lift, potentially underpinning the pair within 1.2840-1.3070 amidst a still heavy EUR-GBP.



- USD-CAD** Still soggy crude, selective USD resilience and the imminent FOMC may continue to keep the USD-CAD north of its short term implied confidence intervals in the short term. At this juncture, investors may attempt to bounce on any dips to 1.3615 and angle for 1.3700 instead.

Source: OCBC Bank

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	0.264	0.401	-0.678	-0.509	0.859	-0.217	0.786	0.613	0.703	-0.112	-0.953
CHF	0.941	0.296	0.383	-0.607	-0.422	0.889	-0.228	0.833	0.558	0.597	-0.045	-0.918
MYR	0.907	0.219	0.168	-0.703	-0.661	0.839	-0.257	0.731	0.570	0.765	-0.318	-0.903
TWD	0.877	0.204	0.365	-0.605	-0.578	0.782	-0.206	0.759	0.613	0.643	0.108	-0.852
SGD	0.733	0.500	0.667	-0.317	-0.217	0.625	0.122	0.562	0.295	0.291	0.373	-0.687
INR	0.510	-0.124	-0.187	-0.583	-0.593	0.403	-0.338	0.279	0.461	0.727	-0.630	-0.548
CNY	0.401	0.751	1.000	0.180	0.399	0.213	0.702	0.165	-0.215	-0.276	0.754	-0.192
NZD	0.331	-0.469	-0.626	-0.729	-0.864	0.361	-0.774	0.392	0.615	0.784	-0.750	-0.539
AUD	0.274	-0.154	-0.574	-0.402	-0.410	0.285	-0.358	0.173	0.198	0.491	-0.798	-0.337
USGG10	0.264	1.000	0.751	0.422	0.409	0.057	0.818	-0.065	-0.499	-0.396	0.410	-0.030
PHP	0.238	0.614	0.521	0.165	0.101	-0.075	0.641	-0.305	-0.508	-0.116	-0.069	-0.138
THB	0.216	0.480	0.923	0.268	0.481	0.124	0.618	0.040	-0.179	-0.351	0.814	0.045
KRW	0.161	-0.462	-0.105	-0.351	-0.353	0.327	-0.533	0.477	0.573	0.308	0.314	-0.294
CCN12M	0.065	0.448	0.722	0.344	0.497	0.080	0.655	-0.059	-0.231	-0.376	0.662	0.221
IDR	0.001	0.343	0.213	0.266	0.001	-0.338	0.432	-0.511	-0.490	-0.158	-0.060	0.083
CNH	-0.112	0.410	0.754	0.480	0.557	-0.196	0.557	-0.177	-0.287	-0.575	1.000	0.283
JPY	-0.217	0.818	0.702	0.775	0.750	-0.362	1.000	-0.516	-0.818	-0.758	0.557	0.498
CAD	-0.838	0.141	0.049	0.811	0.677	-0.897	0.645	-0.912	-0.797	-0.858	0.448	0.905
GBP	-0.943	-0.426	-0.424	0.541	0.396	-0.837	0.157	-0.761	-0.432	-0.583	0.204	0.881
EUR	-0.953	-0.030	-0.192	0.830	0.684	-0.896	0.498	-0.858	-0.761	-0.845	0.283	1.000

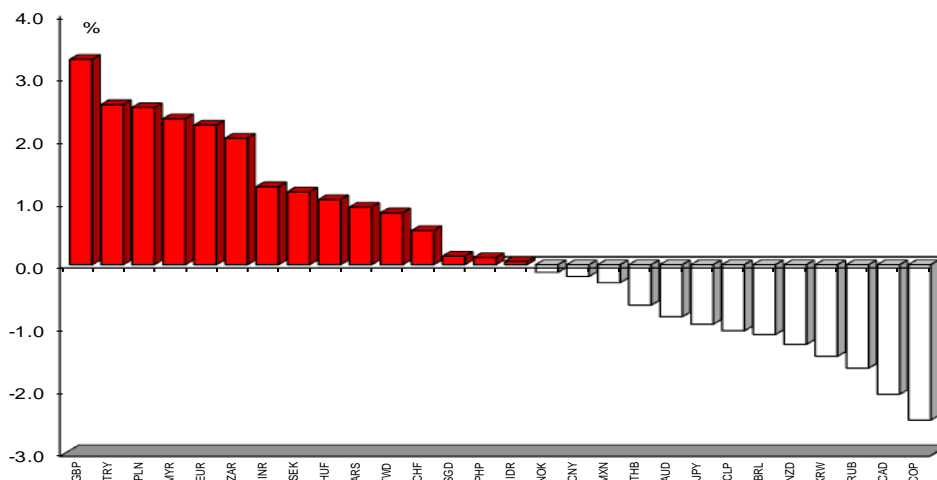
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0833	1.0900	1.0908	1.0951	1.0981
GBP-USD	1.2602	1.2800	1.2895	1.2900	1.2966
AUD-USD	0.7456	0.7500	0.7539	0.7548	0.7588
NZD-USD	0.6859	0.6900	0.6926	0.7000	0.7002
USD-CAD	1.3390	1.3600	1.3660	1.3697	1.3700
USD-JPY	111.00	111.67	111.93	112.00	112.20
USD-SGD	1.3907	1.3913	1.3948	1.3964	1.4000
EUR-SGD	1.5118	1.5200	1.5213	1.5275	1.5300
JPY-SGD	1.2427	1.2457	1.2461	1.2500	1.2550
GBP-SGD	1.7592	1.7900	1.7986	1.8000	1.8123
AUD-SGD	1.0413	1.0500	1.0516	1.0539	1.0600
Gold	1241.60	1250.51	1257.90	1258.95	1296.90
Silver	16.80	16.85	16.88	16.90	17.80
Crude	47.58	48.70	48.76	48.80	51.46

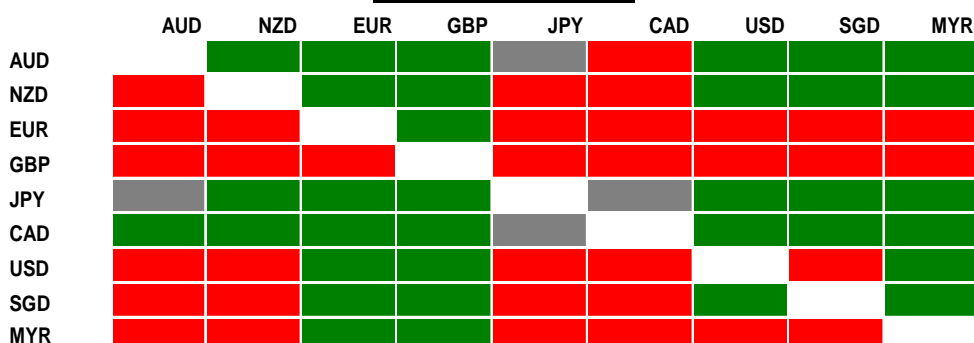
Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Red	Grey	Red	Green	Red	Grey	Red	Grey	Red	Red
JPY	Green		Green	Green	Green	Grey	Green	Green	Green	Green	Green
CNY	Grey	Red		Red	Green	Red	Grey	Red	Grey	Red	Red
SGD	Green	Red	Green		Green	Red	Green	Red	Green	Red	Green
MYR	Red	Red	Red	Red		Red	Red	Red	Red	Red	Red
KRW	Green	Grey	Green	Green	Green		Green	Green	Green	Green	Green
TWD	Grey	Red	Grey	Red	Green	Red		Red	Grey	Red	Red
THB	Green	Red	Green	Green	Green	Red	Green		Green	Green	Green
PHP	Grey	Red	Grey	Red	Green	Red	Grey	Red		Red	Grey
INR	Green	Red	Green	Green	Green	Red	Green	Red	Green		Green
IDR	Green	Red	Green	Red	Green	Red	Green	Red	Grey	Red	

Source: OCBC Bank

FX Trade Ideas

	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
1	05-Apr-17		S	AUD-USD	0.7580	0.7405 0.7670	Fragile risk appetite, slightly apprehensive RBA	
2	18-Apr-17		B	GBP-USD	1.2585	1.3140 1.2715	Snap UK elections, soft dollar, -ve EUR risk	
3	26-Apr-17		B	EUR-USD	1.0943	1.1135 1.0845	French-election optimism, generalized improvement in risk	
4	26-Apr-17		B	USD-CAD	1.3563	1.3785 1.3450	Potential heightening of trade tensions with the US; soggy crude	
	STRUCTURAL							
5	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	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46
2	17-Mar-17	03-Apr-17	B	EUR-USD	1.0766	1.0645	Dutch election news flow, abating le Pen concerns, weekend USD	-1.14
3	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029	1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
4	01-Mar-17	11-Apr-17	B	USD-CAD	1.3326	1.3322	BOC static in March, sharp contrast with Fed's recent posture	+0.04
5	14-Feb-17	14-Apr-17		Bearish 2M USD-CAD Put Spread Spot ref: 1.3055; Strikes: 1.3049, 1.2500; Exp: 14/04/17; Cost: 1.19%			Underlying growth theme in spite of the Trump/FOMC trade	-1.19**
6	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
7	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298	1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
8	22-Feb-17	20-Apr-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041; Exp: 20/04/17; Cost: 1.19%			Global reflation trade, Fed expected to hike later rather than sooner	-1.18**
9	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
10	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
	* realized **of notional							Jan-Mar 2017 Return -11.88 2016 Return +6.91

Source: OCBC Bank

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