

Monday, April 03, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar ended mixed on Friday amid softer UST yields (bull steepened from the front end) and mixed remarks from the Fed's Dudley (no rush to tighten, could trim Fed balance sheet later this year or next), Bullard, and Kashkari. US data points meanwhile disappointed with real Feb personal spending at -0.1% (although the March Chicago PMI came in at a better than expected 57.7).
- On the **CFTC** front, net large non-commercial/leveraged accounts pared their implied net long dollar bias in the latest week while asset managers increased their implied short dollar bias, leaving the community wrong footed again as the DXY climbed after a weak start at the beginning of last week.
- This week, ones to watch include the **FOMC minutes** on Wednesday and **March NFP** numbers (mkts: +180k) on Friday, while Fed-speak begins with Dudley (1430 GMT) and Harker (1900 GMT) on Monday. Meanwhile, the stream of global manufacturing/services/composite PMIs (including the ISM) starting today may serve to give a better read on the global economy.
- In the near term, slightly more staid Fed rhetoric may rein in excessive USD bullishness, with chatter of balance sheet reduction may be expected to take a backseat (for now). In terms of price action, the DXY capitulated lower in 1Q 17 (reassessment of the Trump trade) even as the Fed managed to flatten the UST curve (10y yield essentially static on the quarter) via its rhetoric. Going ahead, we expect ambiguity towards the greenback to remain significant given that the Fed is effectively mid-cycle in terms of its normalization policy and as markets continue to agonize over the trajectory of future rate hikes.
- A saving grace however is that risk appetite levels remain sanguine, with the **FXSI (FX Sentiment Index)** inching higher slightly on Friday but ending down on the week (indicating improved investor sentiment).

Asian FX

- On the Asian front, the March **China** Caixin composite/services PMIs are due Thursday (followed by March foreign reserves on Friday) while the **RBI** is expected to remain static also on Thursday. Meanwhile, still positive risk appetite levels have permitted the Asian currencies to distance themselves somewhat from the firmer DXY over the past week with the **ACI (Asian Currency Index)** edging lower in recent sessions. We think this may continue to be predicated upon positive short term capital inflows. **EPFR**

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

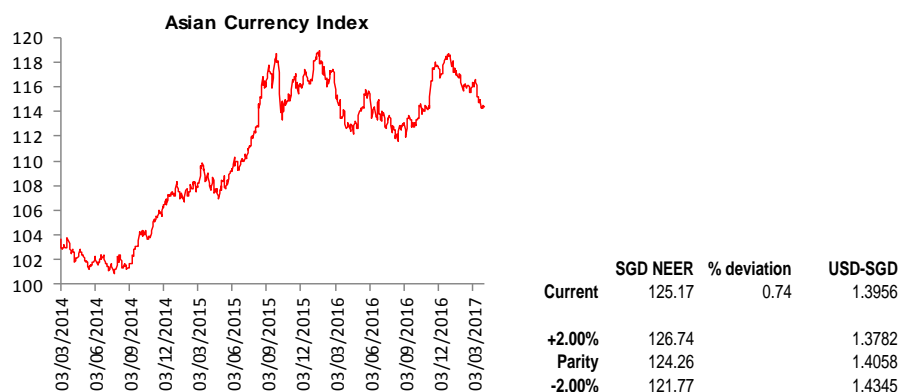
Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

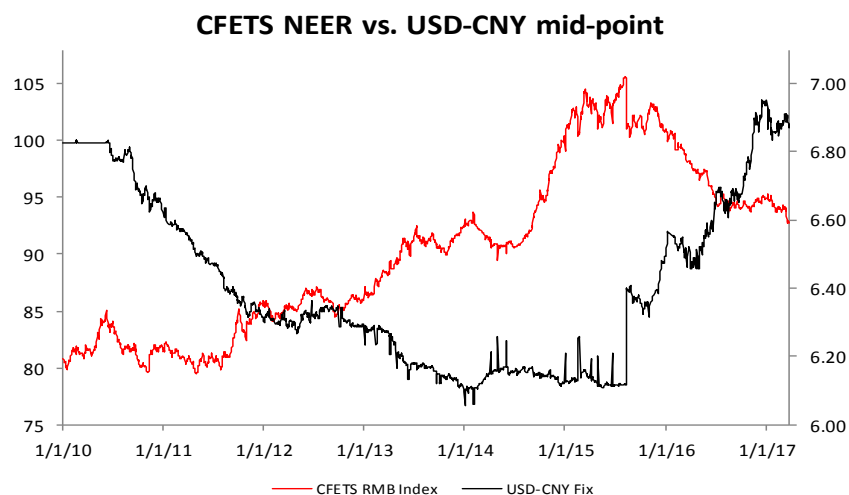
data meanwhile continue to show healthy implied net inflows (bonds and equities) into the region in the latest week.

- SGD NEER:** At the start of the week, the SGD NEER firmer on the day at around +0.73% above its perceived parity (1.4058) with NEER-implied USD-SGD thresholds lower on the day in line with the broad dollar. Given current market levels, the NEER may be expected to top out at around +0.80% (1.3947) although multi-session risks may continue to point towards the 200-day MA (1.3923).



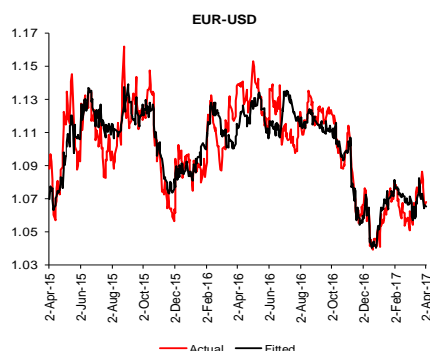
Source: OCBC Bank

- CFETS RMB Index:** Public holiday on Monday.



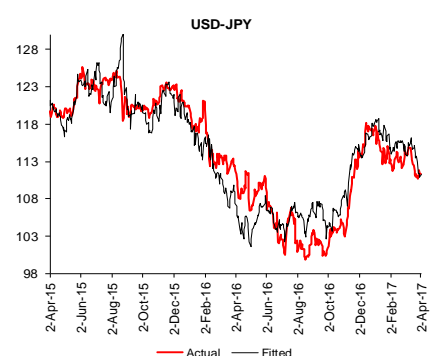
Source: OCBC Bank, Bloomberg

G7



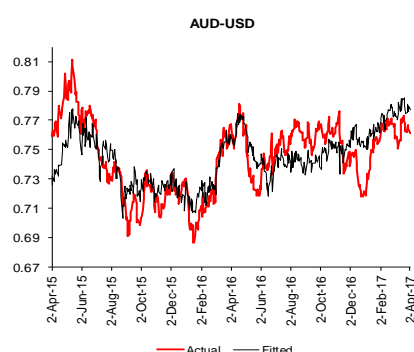
Source: OCBC Bank

- EUR-USD** Proceedings of the ECB policy meeting and Draghi's scheduled appearance on Thursday may present further EUR-centric risks this week. Short term implied valuations for the pair meanwhile have been heavier with spot in tow. In addition, note softer than expected March EZ CPI and sufficiently dovish comments from the ECB's Jazbec over the weekend. If the foothold at the 55-day MA (1.0675) is lost, expect the EUR-USD to gravitate towards the 100-day MA (1.0625).



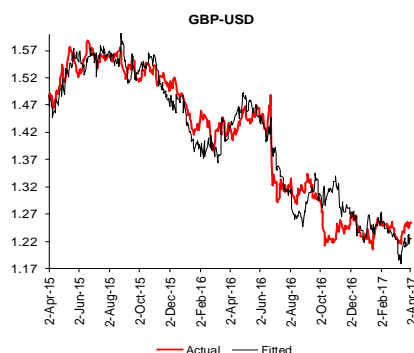
Source: OCBC Bank

- USD-JPY** USD-JPY detached itself from the 112.00 handle on Friday and ended sub-111.50 by late NY. This morning, the 1Q Tankan data points were mixed but generally supportive, in line with sliding short term implied valuations for the USD-JPY. With 112.00 seen capping for now, continue to expect inherent risks towards 110.50.



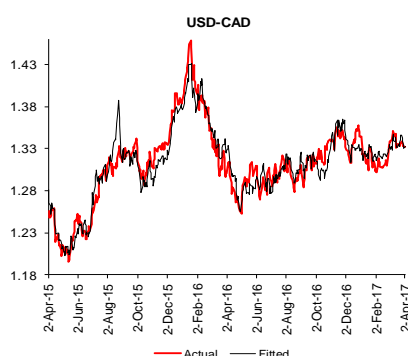
Source: OCBC Bank

- AUD-USD** The AUD-USD drew little inspiration (note continued soft iron ore/copper prices) from the mixed March China PMIs on Friday, with the pair softening on the day by late NY. Over the weekend, note that the March Caixin manufacturing PMI also disappointed at 51.2. In the interim, the RBA is expected to stand pat at 1.50% on Tuesday with short term implied valuations for the AUD-USD still exhibiting little in the way of directionality in the near term. Preference to lean towards the 200-day MA (0.7551) if the 55-day MA (0.7626) and 0.7600 levels are breached.



Source: OCBC Bank

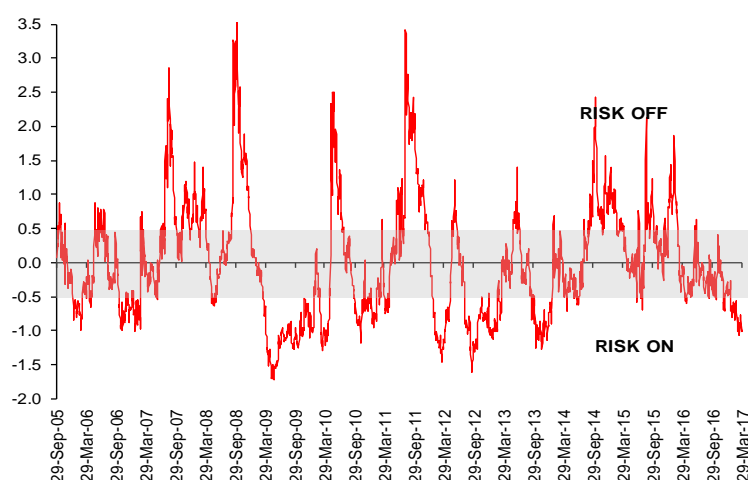
- GBP-USD** Expect closer scrutiny on UK economic data points following the triggering of A50 with last Friday's smaller than expected 4Q current account deficit providing some lift for the pound. Apart from background Brexit concerns, note also that Scotland continues to angle for a second referendum. Nonetheless, expect cautious near term upside for the GBP-USD with a cap seen into the 200-day MA (1.2660).



- USD-CAD** USD-CAD reversed lower on Friday on better than expected January GDP numbers and a firmer crude complex. With a unified positive dollar narrative fracturing in the near term, the pair's motivation to move higher significantly from here may be moderating, especially if background global macroeconomic readings continue to demonstrate resilience. Crucially, a dip below the 100-day MA (1.3292), threatening a dip towards the 55-day MA (1.3239).

Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	0.631	0.456	0.647	-0.827	0.478	0.912	0.653	-0.402	-0.641	0.653	-0.969
CHF	0.984	0.656	0.485	0.585	-0.823	0.432	0.924	0.631	-0.406	-0.621	0.734	-0.957
MYR	0.917	0.730	0.578	0.642	-0.813	0.290	0.923	0.500	-0.414	-0.681	0.604	-0.838
JPY	0.912	0.855	0.678	0.678	-0.719	0.185	1.000	0.425	-0.559	-0.669	0.717	-0.829
SGD	0.905	0.789	0.555	0.412	-0.756	0.176	0.916	0.422	-0.309	-0.564	0.812	-0.860
INR	0.895	0.406	0.152	0.525	-0.942	0.669	0.764	0.820	-0.235	-0.586	0.516	-0.921
TWD	0.866	0.824	0.709	0.641	-0.819	0.261	0.942	0.491	-0.554	-0.683	0.670	-0.781
KRW	0.855	0.747	0.618	0.624	-0.822	0.247	0.895	0.475	-0.518	-0.703	0.667	-0.758
THB	0.795	0.892	0.749	0.576	-0.652	-0.015	0.947	0.266	-0.458	-0.554	0.630	-0.711
IDR	0.748	0.721	0.547	0.638	-0.722	0.136	0.853	0.336	-0.404	-0.689	0.484	-0.633
CCN12M	0.728	0.789	0.684	0.502	-0.595	0.046	0.878	0.219	-0.539	-0.563	0.698	-0.587
CNH	0.653	0.721	0.638	0.214	-0.370	-0.006	0.717	0.185	-0.467	-0.453	1.000	-0.614
USGG10	0.631	1.000	0.863	0.431	-0.372	-0.289	0.855	-0.072	-0.532	-0.489	0.721	-0.468
PHP	0.535	0.398	0.321	0.123	-0.624	0.084	0.493	0.245	0.017	-0.291	0.431	-0.495
CAD	0.527	0.738	0.586	-0.067	-0.396	-0.310	0.582	-0.098	-0.168	-0.212	0.801	-0.409
CNY	0.456	0.863	1.000	0.400	-0.122	-0.401	0.678	-0.236	-0.621	-0.375	0.638	-0.260
NZD	-0.276	-0.811	-0.769	0.065	0.075	0.588	-0.498	0.357	0.364	0.235	-0.709	0.137
AUD	-0.588	-0.587	-0.321	0.062	0.616	0.072	-0.561	-0.154	0.052	0.294	-0.664	0.518
GBP	-0.906	-0.851	-0.727	-0.588	0.705	-0.131	-0.973	-0.392	0.505	0.576	-0.755	0.826
EUR	-0.969	-0.468	-0.260	-0.574	0.840	-0.606	-0.829	-0.760	0.250	0.565	-0.614	1.000

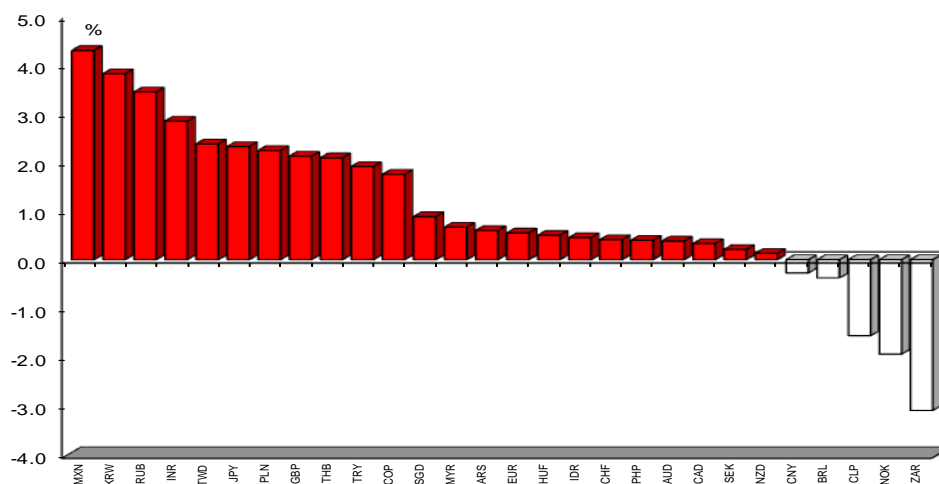
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0600	1.0671	1.0676	1.0700	1.0867
GBP-USD	1.2427	1.2500	1.2535	1.2600	1.2615
AUD-USD	0.7547	0.7600	0.7619	0.7630	0.7700
NZD-USD	0.6890	0.7000	0.7012	0.7092	0.7100
USD-CAD	1.3251	1.3300	1.3322	1.3400	1.3504
USD-JPY	110.11	111.00	111.36	112.00	113.00
USD-SGD	1.3909	1.3913	1.3959	1.4000	1.4096
EUR-SGD	1.4863	1.4900	1.4903	1.5000	1.5041
JPY-SGD	1.2473	1.2500	1.2536	1.2600	1.2659
GBP-SGD	1.7141	1.7400	1.7499	1.7500	1.7521
AUD-SGD	1.0590	1.0600	1.0635	1.0700	1.0758
Gold	1200.00	1229.13	1247.60	1262.99	1264.90
Silver	18.15	18.20	18.25	18.30	18.50
Crude	47.01	50.50	50.58	50.60	51.92

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									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

Source: OCBC Bank

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
	TACTICAL								
1	01-Mar-17	B	USD-CAD	1.3326	1.3605	1.3185	BOC static in March, sharp contrast with Fed's recent posture		
2	17-Mar-17	B	EUR-USD	1.0766	1.1000	1.0645	Dutch election news flow, abating le Pen concerns, weekend USD		
3	17-Mar-17	S	USD-SGD	1.4029	1.3800	1.4145	Vulnerable USD, positive risk appetite, tolerant MAS		
4	22-Mar-17	S	USD-JPY	111.62	108.40	113.25	Trump trade unwind, mild risk aversion		
5	27-Mar-17	B	GBP-USD	1.2570	1.2925	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed		
	STRUCTURAL								
6	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ		
7	14-Feb-17		Bearish 2M USD-CAD Put Spread Spot ref: 1.3055; Strikes: 1.3049, 1.2500 Cost: 1.19%				Underlying growth theme in spite of the Trump/FOMC trade		
8	22-Feb-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 Cost: 1.19%				Global reflation trade, Fed expected to hike later rather than sooner		
	RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	12-Jan-17	08-Mar-17	S	USD-JPY	114.63	113.91	Downward consolidation post-Trump press conference	+0.31	
2	22-Feb-17	10-Mar-17	S	EUR-USD	1.0548	1.0695	Potential near term USD strength, brewing EZ political risks	-1.30	
3	10-Mar-17	15-Mar-17	S	AUD-USD	0.7519	0.7605	Compression in cyclical vs. USD strength		
4	25-Oct-16	20-Mar-17	B	USD-SGD	1.3919	1.3984	Bullish dollar prospects, negative space for SGD NEER	+0.54	
5	03-Mar-17	20-Mar-17	S	GBP-USD	1.2253	1.2435	Sustained Brexit risks vs. recent USD resilience	-1.46	
6	28-Nov-16	27-Mar-17	S	EUR-USD	1.0641	1.0843	USD in ascendance, political risk premium in EZ	-1.04	
7	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46	
	* realized							Jan-Feb 2017 Return	-7.14
								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.
