

Wednesday, May 03, 2017

**FX Themes/Strategy/Trading Ideas – Revised forecasts**

- Even as the 2-day FOMC got underway, softer UST yields weighed on the dollar against the EUR and GBP (firmer than expected April manufacturing PMI of 57.3) while also permitting the AUD (**RBA** static and neutral as expected) and the JPY to bounce off intra-day lows against the greenback. Elsewhere, slumping crude also boosted the USD-CAD above 1.3700. Late Tuesday, the NZD-USD also spiked on the back of better than expected 1Q labor market numbers (1Q unemployment rate dropped to 4.9% from 5.1%).
- Overall, we saw little in the way of anticipatory buying of the USD ahead of the FOMC statement today (1800 GMT but no press conference) while still relatively sanguine risk appetite levels saw the JPY underperforming across G10 space. Regarding the FOMC statement, we look for any nuanced change in the economic prognosis as well any tempering of the language with respect to asset purchases, although the latter may be unlikely at this juncture. In the interim, expect investors to be reduced to headline watching.
- On the EUR, the ECB's Nowotny on Tuesday indicated that the central bank would discuss its exit strategy at its June policy meeting but investors did not react significantly with markets likely more preoccupied by the French Presidential runoff election instead. On this front, a poll still showed Macron coming out ahead at 59% compared to 41% for Le Pen. To this end, EUR-USD may attempt to base build.
- With potential USD resilience still manifesting effectively against the JPY in the current environment, we initiate a tactical long **USD-JPY** ahead of the FOMC/NFP this week, with the recent improvement in global risk appetite levels also undermining the JPY on the crosses. From a spot ref of 112.08 on Tuesday, we target 114.45 and place a stop at 110.85.

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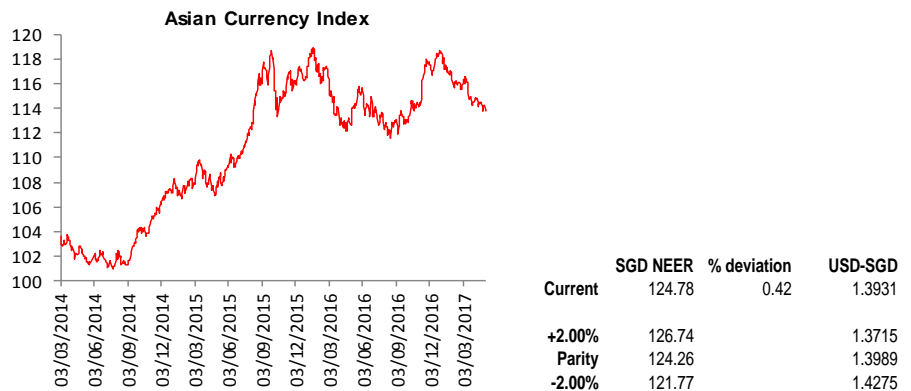
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**Asian FX**

- In Asia, the slew of PMIs saw improvements for Malaysia, Indonesia, South Korea, while China, Philippines, Thailand (back into contraction territory), Taiwan, and Singapore saw a slight deterioration from the previous month. India's April PMI came in unchanged at 52.5. In spite of these numbers, Asian FX may continue to respond to USD vulnerability ahead of the FOMC. On the net portfolio capital inflow front, the environment remains supportive of the KRW, TWD, IDR, and PHP, not so much the INR and THB.
- Meanwhile, it is also worth highlighting that the **MYR** has been relatively more efficient at reaping gains on the back of the recent compression in EM

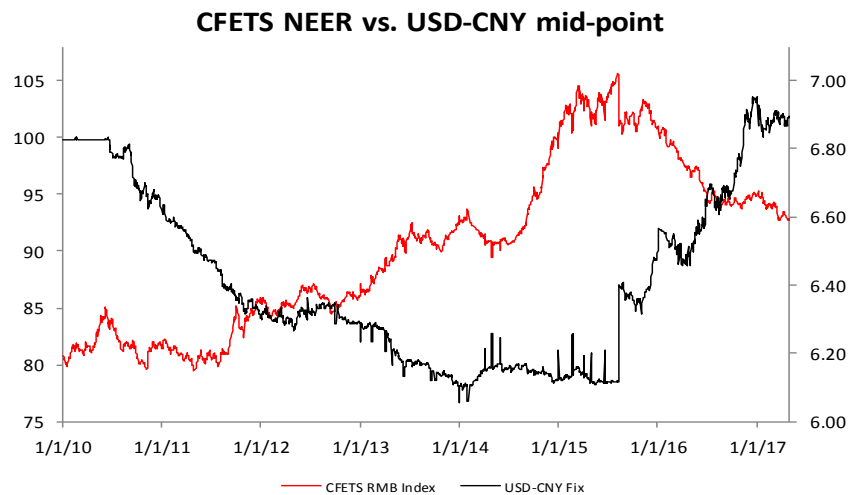
risk premiums. On the risk appetite front, the **FXSI (FX Sentiment Index)** firmed on Tuesday but remains very much in Risk-On territory. Overall, note that our **ACI (Asian Currency Index)** model continues to portend a heavy profile for USD-Asia with the Index likely heavier for the second consecutive session.

- SGD NEER:** Today, the SGD NEER is slightly firmer on the day at around +0.42% above its perceived parity (1.3989). NEER-implied USD-SGD thresholds are softer on the day and if the greenback remains soggy, the NEER may continue to gravitate towards +0.50% (1.3920). A hard floor may however be expected to materialize towards +0.80% (1.3879). Technically, the 200-day MA (1.3975) may continue to cap, with risks perhaps towards 1.3905/10 in the Asian session.



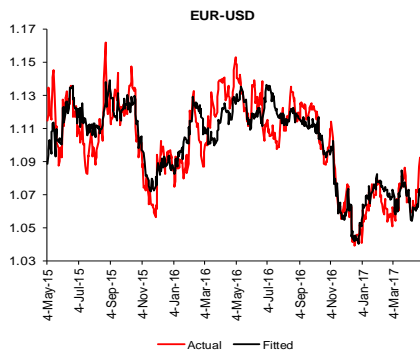
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY slipped (as largely expected) to 6.8892 from 92.78 on Tuesday. Stability continues to remain the primary consideration at this juncture with the realized volatility of the mid-points having collapsed since April.

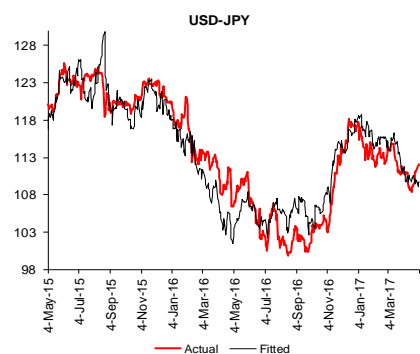


Source: OCBC Bank, Bloomberg

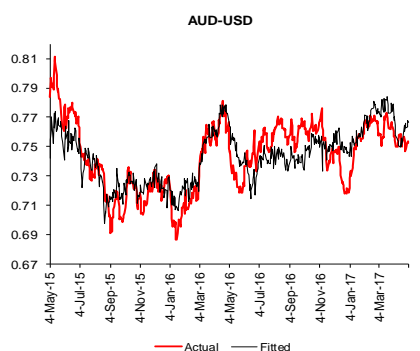
## G7



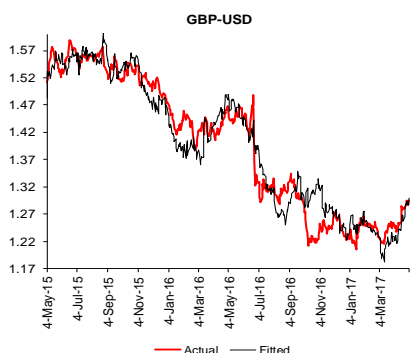
Source: OCBC Bank



Source: OCBC Bank



Source: OCBC Bank



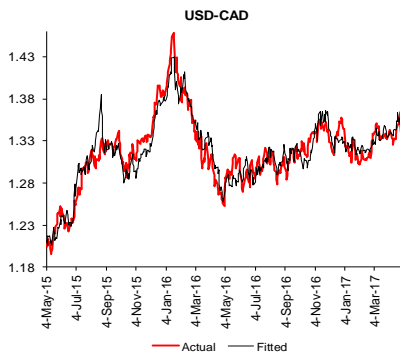
Source: OCBC Bank

- EUR-USD** Supportive EZ manufacturing PMIs and steady short term implied valuations may encourage the EUR-USD to remain slightly north of its implied confidence intervals as we head into the French elections this weekend. In the interim, expect the pair to bounce within 1.0850-1.0950 with a view towards 1.1000. Elsewhere, EUR-JPY may continue to reach towards 124.00 given also the vulnerable JPY narrative.

- USD-JPY** Universal JPY bearishness across the board may remain a fixture in the near term in view of still positive risk appetite levels. USD-JPY may however top out towards 112.50 pending FOMC headlines, with short term implied valuations looking staid at this juncture. Immediate support is expected at the 55-day MA (111.82) with risk-reward tilted towards 112.65 pending risk appetite/FOMC/NFP developments.

- AUD-USD** Outside of the EM sphere, we note that cyclicals like the AUD (with the RBA appearing unhurried yesterday) have thus far refused to step higher with any degree of conviction despite sanguine risk appetite levels. As such, the AUD-USD continues to loiter at the lower bound of its (still firming) near term implied confidence intervals. In the interim, the 200-day MA (0.7552) may continue to cap with an initial floor at 0.7470 seen attracting if the commodity complex remains southbound.

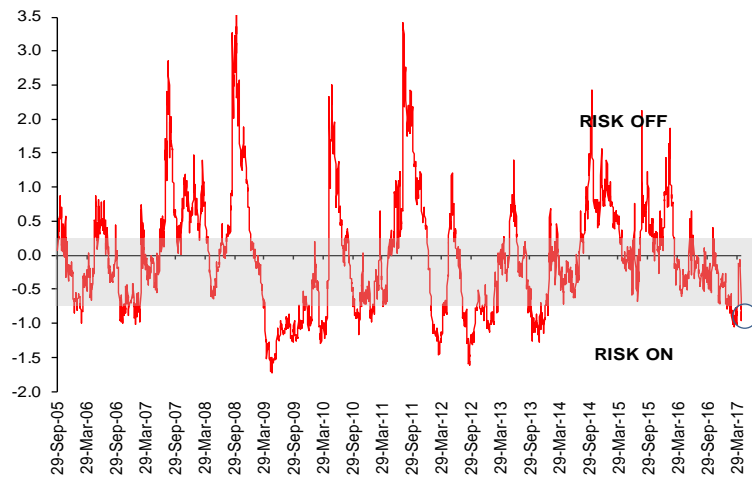
- GBP-USD** GBP-USD may continue to solidify yesterday's PMI-inspired gains with still buoyant with short term implied valuations continuing to afford headroom for the pair. With EUR-GBP still saggy, GBP-USD may continue to eye the 1.3000 neighborhood.



Source: OCBC Bank

- USD-CAD** With the crude soft and potential negative NAFTA chatter in the background, the loonie may continue to feel the heat from the USD. We think that with a market that had been already predisposed to CAD vulnerability, the perceived short term overshoot on the upside for USD-CAD may yet persist. Expect base building off 1.3685/00 ahead of the FOMC.

### 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	0.260	0.317	-0.708	-0.564	0.871	-0.295	0.803	0.642	0.731	-0.114	-0.955
CHF	0.944	0.287	0.281	-0.655	-0.511	0.902	-0.352	0.866	0.597	0.655	-0.001	-0.937
MYR	0.910	0.203	0.056	-0.757	-0.742	0.865	-0.394	0.794	0.630	0.820	-0.293	-0.920
TWD	0.885	0.183	0.242	-0.669	-0.665	0.812	-0.346	0.806	0.661	0.713	0.096	-0.876
SGD	0.754	0.487	0.573	-0.381	-0.310	0.659	-0.045	0.641	0.347	0.370	0.380	-0.746
INR	0.550	-0.115	-0.230	-0.624	-0.632	0.460	-0.408	0.365	0.507	0.748	-0.611	-0.592
NZD	0.356	-0.460	-0.637	-0.725	-0.829	0.384	-0.728	0.363	0.625	0.765	-0.731	-0.503
CNY	0.317	0.738	1.000	0.234	0.435	0.131	0.707	0.058	-0.259	-0.329	0.741	-0.101
USGG10	0.260	1.000	0.738	0.382	0.353	0.066	0.757	-0.043	-0.471	-0.348	0.409	-0.038
AUD	0.260	-0.154	-0.555	-0.369	-0.363	0.261	-0.309	0.121	0.185	0.442	-0.814	-0.287
THB	0.179	0.474	0.916	0.281	0.462	0.084	0.538	0.072	-0.198	-0.352	0.798	-0.009
KRW	0.176	-0.459	-0.131	-0.349	-0.343	0.329	-0.520	0.454	0.565	0.308	0.310	-0.300
PHP	0.154	0.591	0.544	0.234	0.193	-0.145	0.655	-0.360	-0.537	-0.201	-0.058	-0.036
CCN12M	-0.013	0.426	0.733	0.401	0.545	-0.012	0.676	-0.149	-0.283	-0.437	0.590	0.274
IDR	-0.027	0.338	0.229	0.277	0.042	-0.343	0.430	-0.486	-0.489	-0.179	-0.058	0.111
CNH	-0.114	0.409	0.741	0.458	0.508	-0.192	0.468	-0.100	-0.283	-0.532	1.000	0.201
JPY	-0.295	0.757	0.707	0.803	0.785	-0.437	1.000	-0.592	-0.831	-0.791	0.468	0.561
CAD	-0.849	0.117	0.131	0.837	0.737	-0.908	0.695	-0.929	-0.809	-0.883	0.342	0.917
GBP	-0.948	-0.414	-0.333	0.589	0.473	-0.853	0.251	-0.787	-0.477	-0.631	0.142	0.894
EUR	-0.955	-0.038	-0.101	0.851	0.731	-0.908	0.561	-0.879	-0.781	-0.867	0.201	1.000

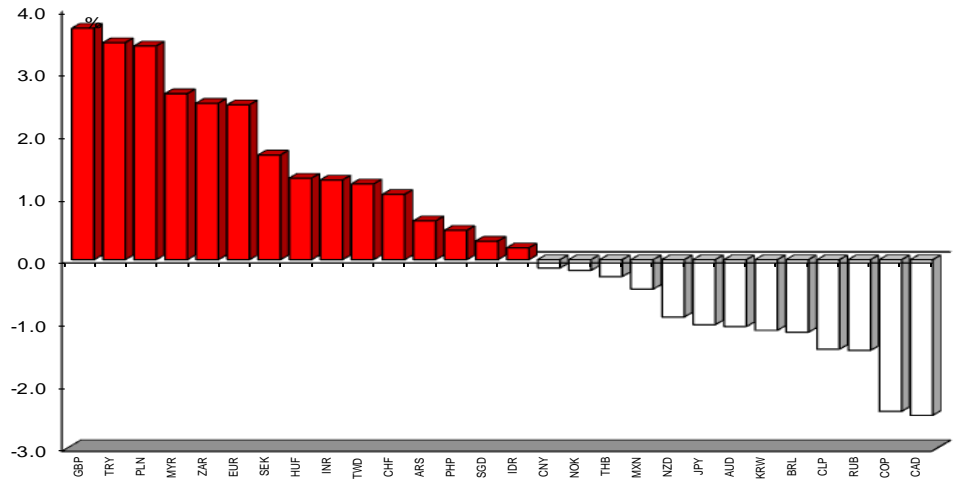
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0832	1.0900	1.0933	1.0951	1.1000
GBP-USD	1.2601	1.2900	1.2945	1.2966	1.3000
AUD-USD	0.7456	0.7500	0.7524	0.7548	0.7584
NZD-USD	0.6859	0.6900	0.6952	0.6997	0.7000
USD-CAD	1.3402	1.3700	1.3718	1.3758	1.3769
USD-JPY	111.64	112.00	112.05	112.31	112.63
USD-SGD	1.3905	1.3907	1.3926	1.3966	1.4000
EUR-SGD	1.5119	1.5200	1.5225	1.5275	1.5300
JPY-SGD	1.2400	1.2420	1.2428	1.2500	1.2549
GBP-SGD	1.7593	1.8000	1.8027	1.8100	1.8123
AUD-SGD	1.0400	1.0413	1.0478	1.0500	1.0541
Gold	1241.48	1250.82	1257.10	1258.55	1296.90
Silver	16.75	16.80	16.81	16.90	17.77
Crude	47.35	48.10	48.11	48.20	51.29

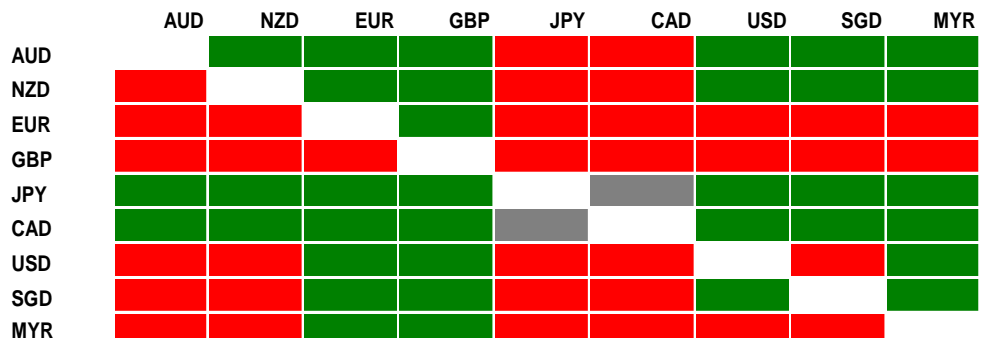
Source: OCBC Bank

**FX performance: 1-month change agst USD**



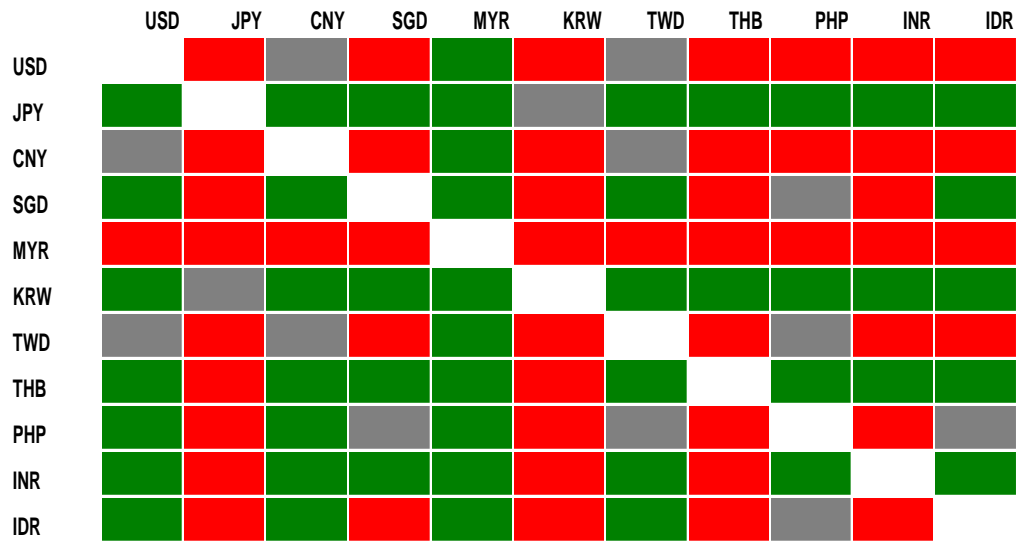
Source: Bloomberg

**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	
<b>TACTICAL</b>								
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	
5	02-May-17	B	USD-JPY	112.08	114.45	110.85	USD resilience against JPY ahead of FOMC/NFP	
<b>STRUCTURAL</b>								
6	24-Apr-17		<b>Bullish 2M 1X2 EUR-USD Call Spread</b> Spot ref: 1.0863; Strikes: 1.0894, 1.1188; Exp: 22/06/17; Cost: 0.62%				Deflating French risks, USD skepticism	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029	1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
2	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
3	14-Feb-17	14-Apr-17		<b>Bearish 2M USD-CAD Put Spread</b> 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**
4	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
5	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298	1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
6	22-Feb-17	20-Apr-17		<b>Bullish 2M AUD-USD 1X1.5 Call Spread</b> 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**
7	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
8	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

### Revised central tendency forecasts

	<b>Spot</b>	<b>Jun-17</b>	<b>Sep-17</b>	<b>Dec-17</b>	<b>Mar-18</b>
<b>USD-JPY</b>	112.15	112.93	113.94	116.11	118.28
<b>EUR-USD</b>	1.0909	1.1040	1.0928	1.0744	1.0561
<b>GBP-USD</b>	1.2875	1.3075	1.2796	1.2369	1.1942
<b>AUD-USD</b>	0.7532	0.7468	0.7423	0.7383	0.7343
<b>NZD-USD</b>	0.6916	0.6825	0.6733	0.6654	0.6576
<b>USD-CAD</b>	1.3663	1.3818	1.3898	1.3984	1.4071
<b>USD-CHF</b>	0.9947	0.9885	0.9947	1.0056	1.0164
<b>USD-SGD</b>	1.3948	1.3903	1.3954	1.4102	1.4251
<b>USD-CNY</b>	6.8966	6.8626	6.8920	6.9463	7.0013
<b>USD-THB</b>	34.477	34.40	34.44	34.81	35.18
<b>USD-IDR</b>	13313	13335	13372	13427	13482
<b>USD-MYR</b>	4.3278	4.3117	4.3377	4.3987	4.4597
<b>USD-KRW</b>	1131	1123	1127	1146	1164
<b>USD-TWD</b>	30.033	29.800	29.989	30.422	30.856
<b>USD-HKD</b>	7.7796	7.7650	7.7567	7.7667	7.7767
<b>USD-PHP</b>	50.026	50.15	50.33	50.83	51.33
<b>USD-INR</b>	64.17	63.50	63.67	64.67	65.67
<b>EUR-JPY</b>	122.34	124.67	124.52	124.75	124.91
<b>EUR-GBP</b>	0.8473	0.8444	0.8540	0.8687	0.8844
<b>EUR-CHF</b>	1.0851	1.0913	1.0870	1.0804	1.0734
<b>EUR-SGD</b>	1.5216	1.5348	1.5248	1.5152	1.5050
<b>GBP-SGD</b>	1.7958	1.8178	1.7855	1.7443	1.7018
<b>AUD-SGD</b>	1.0506	1.0382	1.0358	1.0412	1.0465
<b>NZD-SGD</b>	0.9646	0.9488	0.9395	0.9384	0.9371
<b>CHF-SGD</b>	1.4022	1.4064	1.4028	1.4024	1.4021
<b>JPY-SGD</b>	1.2437	1.2311	1.2246	1.2145	1.2048
<b>SGD-MYR</b>	3.1028	3.1014	3.1086	3.1191	3.1295
<b>SGD-CNY</b>	4.9445	4.9362	4.9391	4.9257	4.9130

Source: OCBC Bank



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