

Tuesday, April 04, 2017

FX Themes/Strategy/Trading Ideas – Revised forecasts

- Despite March ISM on point (headline 57.2 and employment index improving to 58.9), UST yields softened (bull flattened on cited allocation flows) with the USD ending mixed on skepticism towards the Trump trade (Supreme Court nominee vote was blocked on Monday) and scattered risk aversion (negative US/EZ equities).
- On the risk appetite front, the **FXSI (FX Sentiment Index)** flipped higher 9 for the second consecutive session) but remained in Risk-On territory on Monday. Overall, markets remain diffused and a lack of a coherent theme remains apparent, with investors trading instead off idiosyncratic factors. Biggies this week of course remain the FOMC minutes on Wednesday, Xi-Trump meetings (Thu-Fri) and the US NFP on Friday.
- Fed-speak today sees Tarullo scheduled at 2030 GMT while US data points include Feb durable goods orders and factory orders. To this end, we note decreasing sensitivity to Fed-speak, and the broad dollar may not derive much traction barring surprisingly hawkish commentary.

Asian FX

- USD-Asia may remain top heavy (and rangy) with the net portfolio capital inflow (especially for TWD, INR, and IDR) situation still inherently supportive in recent weeks. As such, the **ACI (Asian Currency Index)** maybe expected to stay suppressed for now.
- **SGD NEER:** This morning, the SGD NEER is a touch softer on the day at +0.71% above its perceived parity (1.4065) with NEER-implied USD-SGD thresholds slightly firmer on the day. Top side for the NEER is still expected to kick in at around +0.80% (1.3954), laying the intra-day floor for the USD-SGD at current levels. Although risk appetite levels are getting slightly more cautious, we would still like to remain top heavy on the pair between the 200-day MA (1.3925) and 1.4000.

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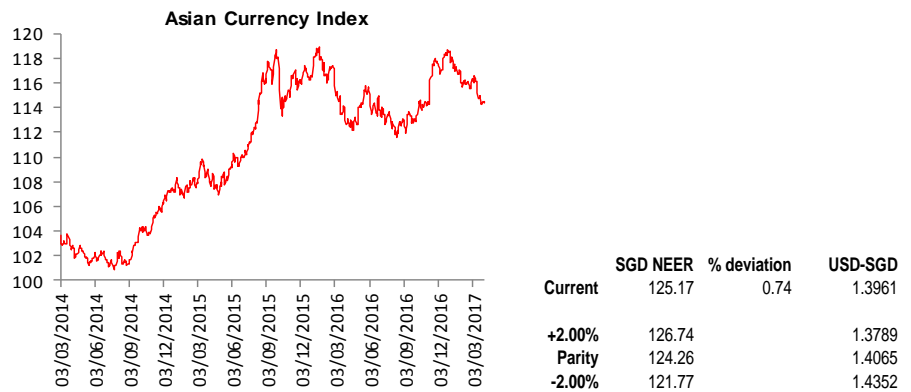
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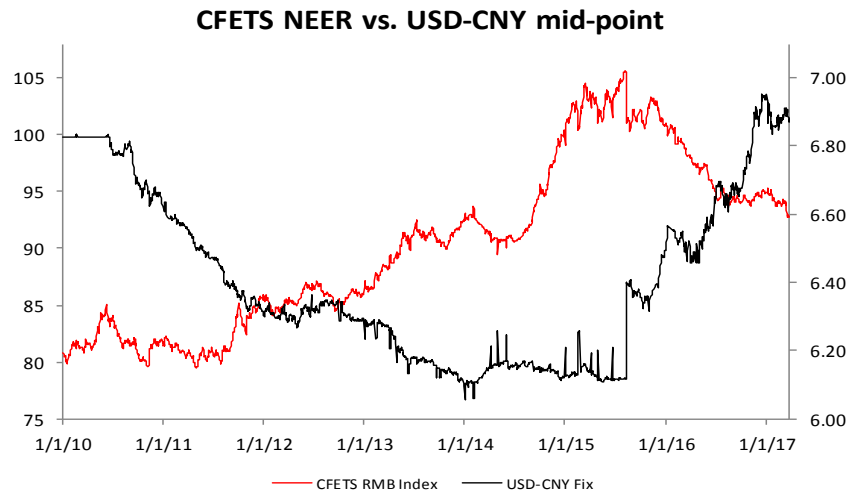
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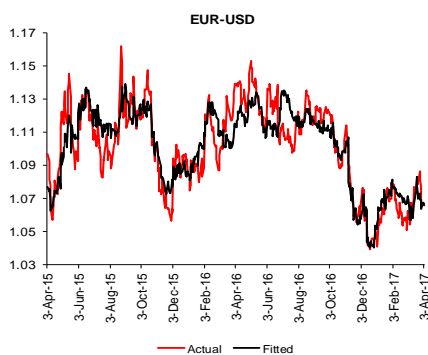
Source: OCBC Bank

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



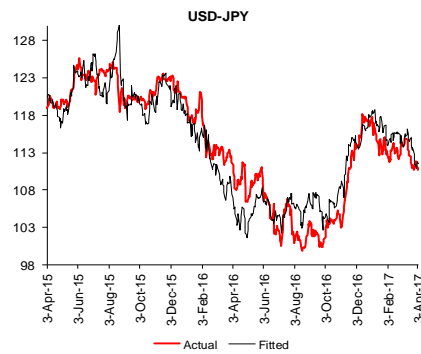
Source: OCBC Bank, Bloomberg

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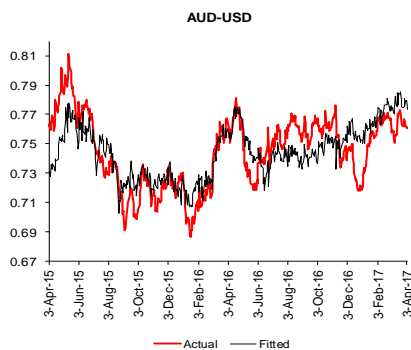


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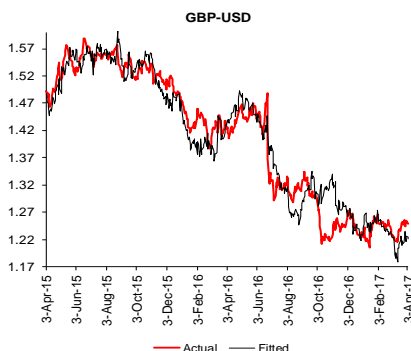
- **EUR-USD** EUR-USD found support from an improving manufacturing PMI (56.2) with headline risk turning toward another presidential candidate debate later today (watch Macron-Le Pen news flow). ECB rhetoric we think remains sufficiently dovish (latest comments from Praet) at this juncture to lean against a market looking for any neutrality from the monetary policy front. Short-term implied valuations for the pair meanwhile remain slightly soggy with the 55-day MA (1.0674) now serving as a resistance and the 100-day MA (1.0624) a potential prospect.



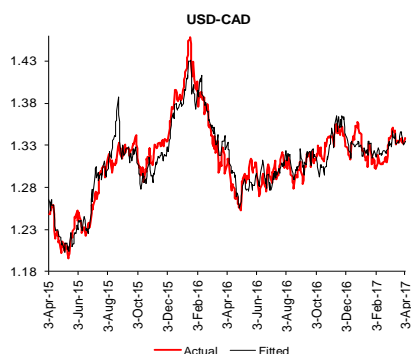
Source: OCBC Bank



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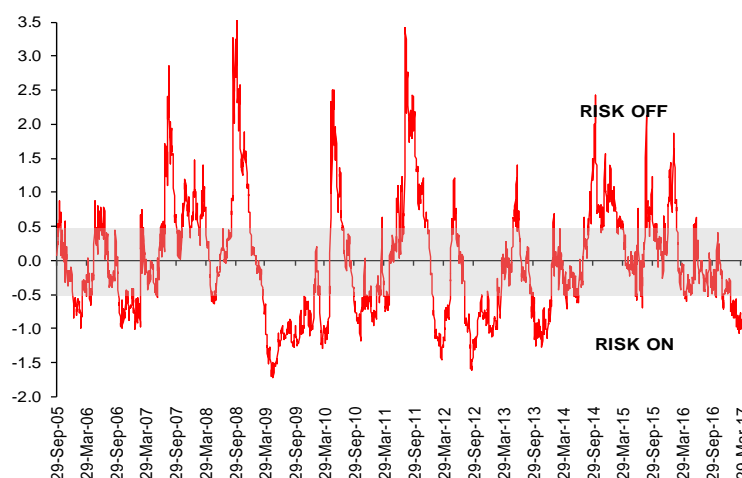
- USD-JPY** USD-JPY cracked below 111.00 and apart from dollar dynamics, JPY was also underpinned on the crosses on slight risk aversion (St. Petersburg news) and unwinding activity. We continue to favor USD-JPY from the short side with the JPY-crosses also expected to remain heavy if investor appetite remains skittish. Further deterioration towards 110.00 cannot be discounted at this juncture, either on the back of a further fracture in the Trump trade, or from heightened risk aversion.

- AUD-USD** Meanwhile, we would like to stay top heavy on the AUD-USD with the pair unimpressed by the latest round of China PMIs, hampered by slight risk aversion, and with the RBA meeting later today (0430 GMT) the next event risk. The RBA's Lowed is also scheduled for 0915 GMT. This morning, the trade surplus surprised with a significantly larger than expected AUD3.574 print but the floor at 0.7600 (towards 0.7560) may remain at risk despite short term implied valuations static at this juncture.

- GBP-USD** GBP-USD slipped a notch to below 1.2500 on Monday following the weaker than expected March manufacturing PMI of 54.2. The pair seems intent on shaking off Brexit related structural concerns and may look to the construction PMI for further cues today. The 55-day MA (1.2429) meanwhile remains a support zone.

- USD-CAD** The USD-CAD was: boosted by suspected M&A-related flows on Monday with softer crude also lending support. The pair may remain slightly ambivalent in the interim with short term implied valuations attempting to base out at this juncture. Expect a 1.3365-1.3435 range to hold in the interim.

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	0.768	0.823	0.567	-0.804	0.260	0.893	0.542	-0.387	-0.617	0.818	-0.950
CHF	0.982	0.697	0.767	0.542	-0.772	0.322	0.809	0.597	-0.379	-0.598	0.820	-0.965
SGD	0.906	0.880	0.738	0.360	-0.875	0.018	0.919	0.249	-0.192	-0.578	0.834	-0.772
JPY	0.893	0.958	0.895	0.635	-0.828	-0.006	1.000	0.192	-0.444	-0.678	0.733	-0.687
MYR	0.891	0.853	0.848	0.537	-0.868	0.024	0.922	0.294	-0.225	-0.652	0.649	-0.765
KRW	0.862	0.863	0.773	0.529	-0.928	0.092	0.931	0.330	-0.286	-0.690	0.656	-0.723
TWD	0.857	0.909	0.839	0.552	-0.865	0.012	0.945	0.272	-0.259	-0.640	0.635	-0.717
CNY	0.823	0.865	1.000	0.724	-0.602	-0.087	0.895	0.151	-0.449	-0.544	0.602	-0.687
CNH	0.818	0.680	0.602	0.298	-0.591	0.202	0.733	0.349	-0.296	-0.458	1.000	-0.790
INR	0.816	0.782	0.618	0.315	-0.929	0.227	0.839	0.409	-0.230	-0.604	0.714	-0.689
CCN12M	0.788	0.859	0.796	0.500	-0.799	-0.033	0.922	0.117	-0.294	-0.584	0.668	-0.587
THB	0.786	0.945	0.873	0.541	-0.829	-0.151	0.954	0.027	-0.291	-0.617	0.590	-0.536
USGG10	0.768	1.000	0.865	0.562	-0.756	-0.168	0.958	0.042	-0.386	-0.635	0.680	-0.586
IDR	0.754	0.862	0.763	0.542	-0.813	-0.203	0.885	0.097	-0.243	-0.656	0.509	-0.590
CAD	0.731	0.685	0.524	0.050	-0.740	-0.162	0.689	0.115	-0.007	-0.307	0.815	-0.653
PHP	0.592	0.572	0.439	0.079	-0.788	-0.037	0.601	0.158	0.225	-0.277	0.439	-0.531
AUD	-0.664	-0.507	-0.314	0.051	0.731	0.038	-0.520	-0.298	-0.125	0.266	-0.666	0.679
NZD	-0.836	-0.812	-0.640	-0.323	0.740	0.106	-0.826	-0.222	0.197	0.505	-0.806	0.764
GBP	-0.914	-0.897	-0.873	-0.583	0.839	-0.039	-0.962	-0.254	0.443	0.627	-0.751	0.719
EUR	-0.950	-0.586	-0.687	-0.469	0.696	-0.393	-0.687	-0.678	0.290	0.525	-0.790	1.000

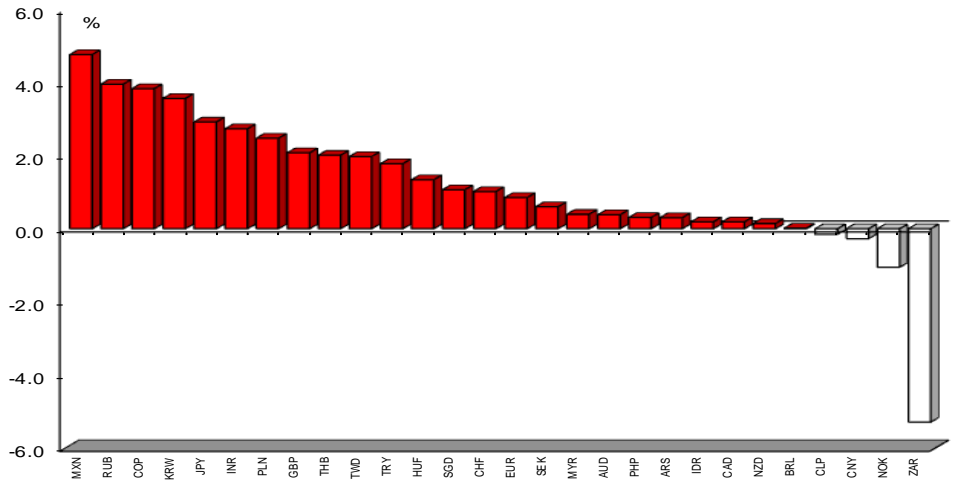
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0600	1.0650	1.0670	1.0700	1.0865
GBP-USD	1.2400	1.2425	1.2486	1.2500	1.2615
AUD-USD	0.7548	0.7600	0.7608	0.7630	0.7700
NZD-USD	0.6893	0.7000	0.7004	0.7093	0.7100
USD-CAD	1.3256	1.3300	1.3385	1.3400	1.3503
USD-JPY	110.00	110.11	110.66	111.00	112.92
USD-SGD	1.3909	1.3916	1.3969	1.4000	1.4091
EUR-SGD	1.4861	1.4900	1.4906	1.5000	1.5034
JPY-SGD	1.2477	1.2600	1.2625	1.2659	1.2691
GBP-SGD	1.7141	1.7400	1.7443	1.7500	1.7513
AUD-SGD	1.0581	1.0600	1.0628	1.0700	1.0755
Gold	1200.00	1229.97	1256.10	1262.79	1264.90
Silver	17.70	18.00	18.30	18.50	18.63
Crude	47.28	50.20	50.23	50.30	51.31

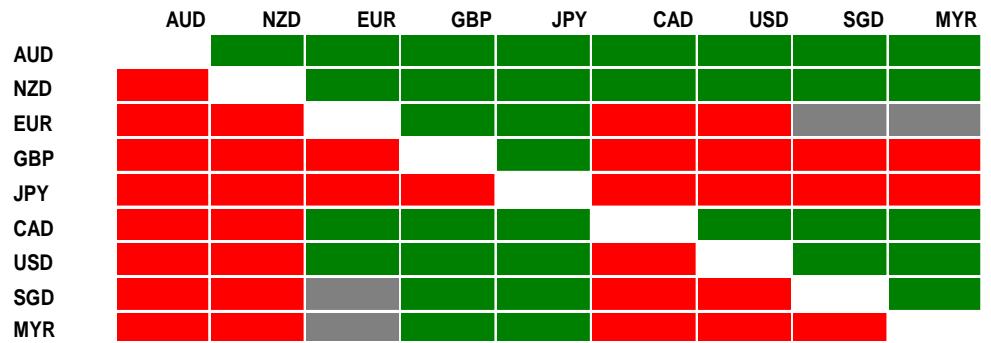
Source: OCBC Bank

FX performance: 1-month change agst USD



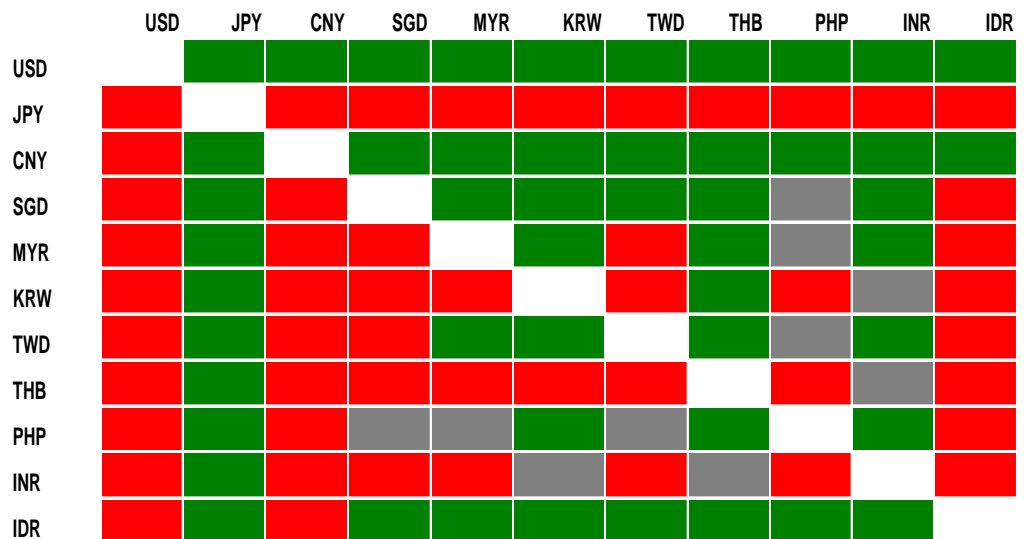
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts

	Spot	Jun-17	Sep-17	Dec-17	Mar-18
USD-JPY	111.52	109.85	112.90	115.95	119.00
EUR-USD	1.0671	1.0770	1.0580	1.0390	1.0200
GBP-USD	1.2543	1.2685	1.2513	1.2342	1.2170
AUD-USD	0.7605	0.7735	0.7580	0.7425	0.7270
NZD-USD	0.6994	0.6865	0.6793	0.6722	0.6650
USD-CAD	1.3325	1.3395	1.3485	1.3575	1.3665
USD-CHF	1.0013	0.9930	1.0053	1.0177	1.0300
USD-SGD	1.3973	1.3835	1.4023	1.4212	1.4400
USD-CNY	6.8872	6.8387	6.9236	7.0087	7.0940
USD-THB	34.34	34.00	34.33	34.67	35.00
USD-IDR	13325	13250	13333	13417	13500
USD-MYR	4.4265	4.4075	4.4550	4.5025	4.5500
USD-KRW	1115	1085	1120	1155	1190
USD-TWD	30.348	29.750	30.417	31.083	31.750
USD-HKD	7.7714	7.7719	7.7746	7.7773	7.7800
USD-PHP	50.155	49.85	50.57	51.28	52.00
USD-INR	64.91	64.00	65.17	66.33	67.50
EUR-JPY	119.00	118.31	119.45	120.47	121.38
EUR-GBP	0.8508	0.8490	0.8455	0.8419	0.8381
EUR-CHF	1.0685	1.0695	1.0636	1.0574	1.0506
EUR-SGD	1.4911	1.4900	1.4837	1.4766	1.4688
GBP-SGD	1.7526	1.7550	1.7548	1.7540	1.7525
AUD-SGD	1.0626	1.0701	1.0630	1.0552	1.0469
NZD-SGD	0.9773	0.9498	0.9527	0.9553	0.9576
CHF-SGD	1.3955	1.3933	1.3949	1.3965	1.3981
JPY-SGD	1.2530	1.2594	1.2421	1.2257	1.2101
SGD-MYR	3.1679	3.1858	3.1768	3.1682	3.1597
SGD-CNY	4.9289	4.9430	4.9372	4.9317	4.9264

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

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