

Wednesday, April 05, 2017

FX Themes/Strategy/Trading Ideas

- Risk aversion abated slightly by late NY (note firmer UST yields) but this still left the USD broadly firmer across G10, with the antipodeans fronting the pack lower. Into LDN, JPY had gained on the USD and on the crosses, with the antipodeans (post-RBA) still the largest casualties (both against the USD as well as against the JPY) by the end of the global day. Meanwhile, Trump indicated that infrastructure spending could top USD1tn, while the greenback also found support from improving Feb trade deficit, factory orders and durable goods numbers.
- **EM FX** may continue to feel ripples of caution (not background stress on the ZAR) into today with the **Xi-Trump meeting** looming tomorrow and Friday and with USD-Asia likely reluctant on the downside. Note the latest North Korean missile launch on Wednesday with the **FXSI (FX Sentiment Index)** creeping higher for the third consecutive session on Tuesday within Risk-On territory.
- For today, look to the **FOMC minutes** for further US-centric cues, although it remains to be seen if this can change the complexion of prevailing rate hike expectations. The global **data calendar** also brings the stream of services/composite PMIs today, although the Caixin China equivalents are due only on Thursday.
- Overall, markets may be left with little substantial to bite on intra-day apart from headline watching. Risk appetite conditions may remain skittish with **USD-JPY** likely top heavy. Meanwhile, we look to turn near term bearish on the **AUD-USD** with investors slightly less enamored with the global reflation trade for now.

Asian FX

- As alluded to above, the **ACI (Asian Currency Index)** may float higher intra-day given the slightly nervous market environment despite our model for the Index arguing for a lower profile (on the back of net portfolio inflows) beyond the short term.
- **SGD NEER:** This morning, the SGD NEER relatively static at around +0.70% (low around +0.55% overnight) above its perceived parity (1.4080) with NEER-implied USD-SGD thresholds marginally firmer on the day. The basket should continue to ply a +0.50% (1.4011) and +0.80% (1.3969) range, with USD-SGD seen slightly more supported in a 1.3945-1.4020 range.

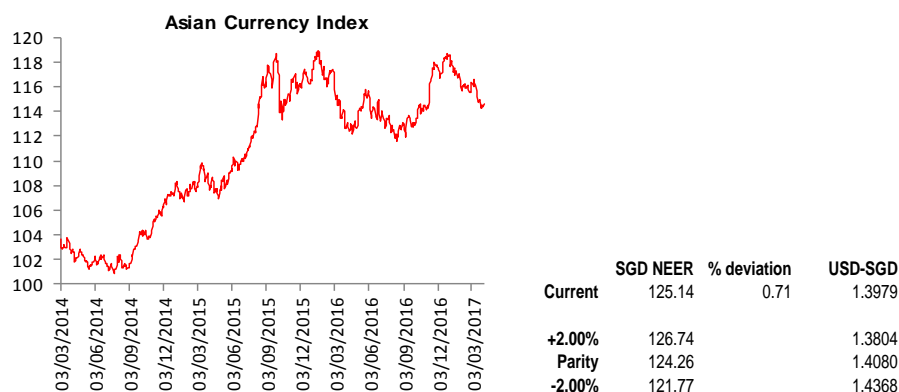
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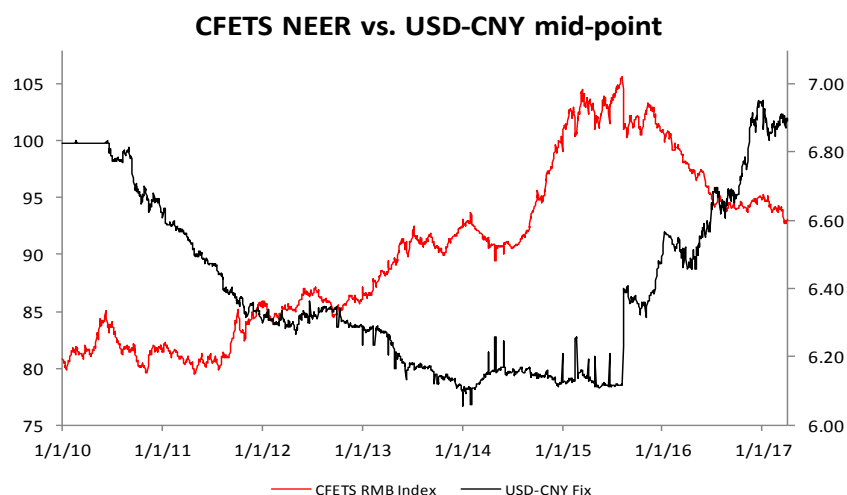
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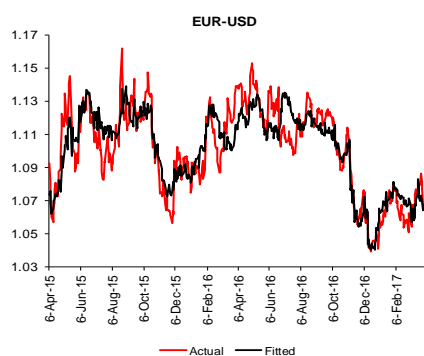
Source: OCBC Bank

- CFETS RMB Index:** After a 2-day hiatus, the USD-CNY mid-point this morning firmed largely as expected to 6.8906, lifting the **CFETS RMB Index** to 93.10 from 92.93 last.



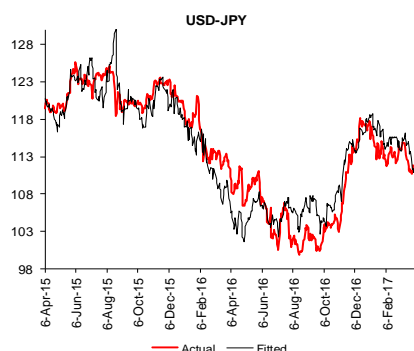
Source: OCBC Bank, Bloomberg

G7



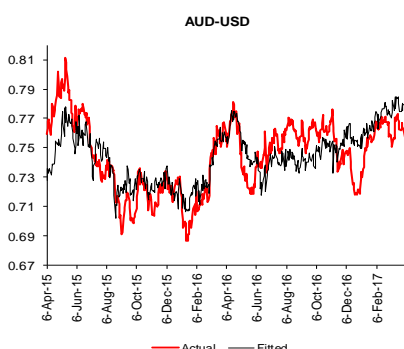
Source: OCBC Bank

- EUR-USD** Le Pen was essentially bruised in overnight's Presidential candidate election debate, permitting the EUR-USD to etch out minor gains on the day, although the common unit continued to trail its G10 counterparts. Note however that market participants may also be paring expectations of near term ECB hawkishness. Meanwhile, short term implied valuations are stepping lower and if the foothold at the 55-day MA (1.0675) is lost, expect risk towards the 100-day MA (1.0624). Elsewhere, EUR-JPY negativity remains live at this juncture, with a key support seen at the 200-day MA (117.75).



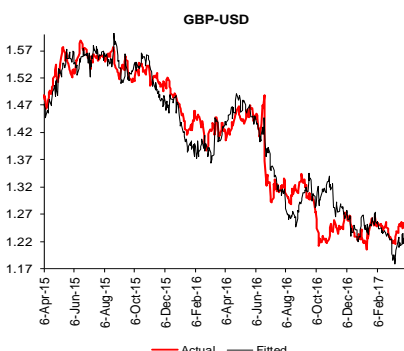
Source: OCBC Bank

- USD-JPY** 110.00 on the downside remains fair game for the USD-JPY if background risk aversion continues to circulate in the background or if USD skepticism gains momentum again. Meanwhile, short term implied valuations for the pair remain repressed and we expect a heavy tone within 110.00-112.00.



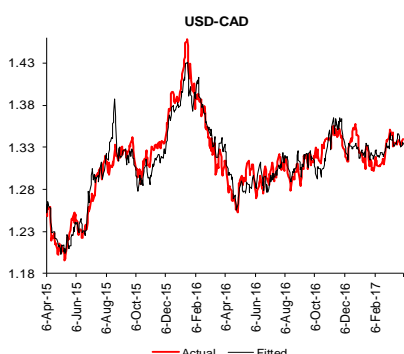
Source: OCBC Bank

- AUD-USD** while the AUD-USD tripped below 0.7600 post-RBA after the central bank highlighted recent weakness in labor market conditions, with sentiment aggravated by generalized risk aversion. Note that the APRA has warned of further prudential action on the housing market if necessary. The antipodeans have fallen out of favor now (see Heat Maps) and short term implied valuations for the AUD-USD have detached lower post-RBA. On the downside, 0.7550 remains pivotal ahead of the 100-day MA (0.7510).



Source: OCBC Bank

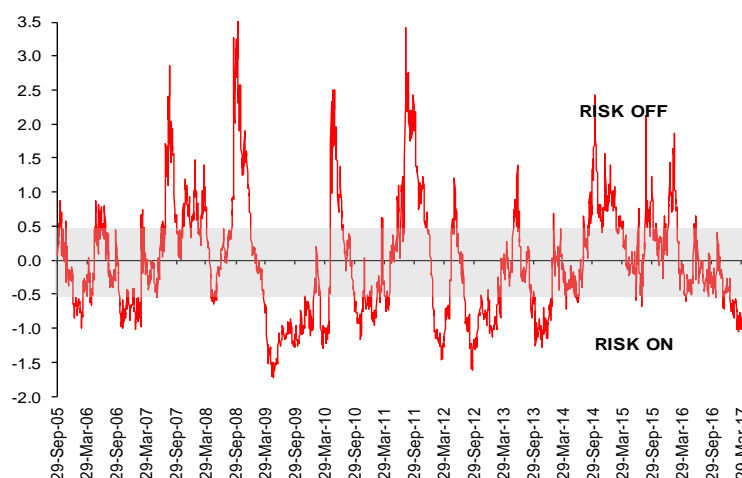
- GBP-USD** GBP-USD also chopped lower on broader dollar gains and with remarks from the EU's Weber regarding Brexit less than conciliatory towards the UK. Although bearish GBP positioning has been stretched, we note that short term implied valuations remain top heavy and the pair is trading on the wrong side of fair value. For today, look towards UK PMIs and an appearance by the BOE's Gertjan (1230 GMT) with the pair seen attempting to base build near the 55-day MA (1.2432).



Source: OCBC Bank

- USD-CAD** After a high of 1.3451, USD-CAD fell towards 1.3400 with WTI gaining above 51.00, with the loonie managing to shake off most of the negativity from a surprise trade deficit in February. Range bound behavior (mild preference to collect dips) may continue to persist in the interim within 1.3300-1.3460.

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	0.743	0.823	0.567	-0.792	0.255	0.866	0.523	-0.385	-0.613	0.818	-0.946
CHF	0.981	0.665	0.767	0.540	-0.753	0.322	0.782	0.576	-0.379	-0.589	0.822	-0.966
SGD	0.900	0.876	0.738	0.364	-0.877	-0.001	0.910	0.202	-0.183	-0.586	0.829	-0.772
MYR	0.890	0.836	0.848	0.539	-0.862	0.015	0.905	0.270	-0.221	-0.653	0.649	-0.757
JPY	0.866	0.961	0.895	0.627	-0.835	-0.042	1.000	0.100	-0.414	-0.683	0.711	-0.659
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
KRW	0.856	0.859	0.773	0.531	-0.928	0.072	0.925	0.286	-0.276	-0.696	0.654	-0.706
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	0.662	0.602	0.299	-0.586	0.196	0.711	0.326	-0.294	-0.457	1.000	-0.795
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	0.779	0.862	0.796	0.501	-0.805	-0.057	0.924	0.052	-0.280	-0.593	0.658	-0.571
THB	0.767	0.948	0.873	0.538	-0.836	-0.179	0.955	-0.040	-0.270	-0.626	0.577	-0.524
IDR	0.751	0.855	0.763	0.544	-0.814	-0.216	0.877	0.066	-0.234	-0.662	0.510	-0.578
USGG10	0.743	1.000	0.865	0.556	-0.766	-0.198	0.961	-0.025	-0.357	-0.642	0.662	-0.544
CAD	0.729	0.642	0.524	0.046	-0.713	-0.152	0.644	0.133	-0.011	-0.295	0.810	-0.657
PHP	0.585	0.590	0.439	0.088	-0.795	-0.061	0.616	0.109	0.230	-0.294	0.438	-0.509
AUD	-0.647	-0.423	-0.314	0.062	0.663	0.009	-0.413	-0.354	-0.112	0.230	-0.634	0.675
NZD	-0.831	-0.754	-0.640	-0.316	0.706	0.091	-0.735	-0.265	0.200	0.485	-0.788	0.781
GBP	-0.909	-0.889	-0.873	-0.585	0.840	-0.022	-0.948	-0.216	0.433	0.633	-0.747	0.724
EUR	-0.946	-0.544	-0.687	-0.463	0.668	-0.398	-0.659	-0.664	0.293	0.509	-0.795	1.000

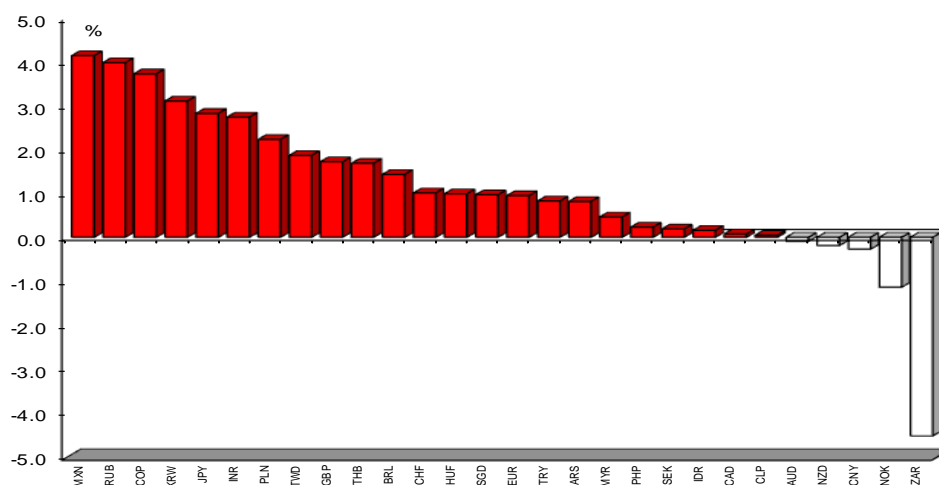
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0600	1.0668	1.0680	1.0700	1.0863
GBP-USD	1.2400	1.2421	1.2444	1.2500	1.2615
AUD-USD	0.7506	0.7548	0.7573	0.7600	0.7629
NZD-USD	0.6900	0.6902	0.6980	0.7000	0.7088
USD-CAD	1.3262	1.3300	1.3399	1.3400	1.3489
USD-JPY	110.00	110.11	110.78	111.00	112.88
USD-SGD	1.3909	1.3918	1.3983	1.4000	1.4089
EUR-SGD	1.4864	1.4900	1.4934	1.5000	1.5029
JPY-SGD	1.2480	1.2600	1.2622	1.2687	1.2700
GBP-SGD	1.7350	1.7370	1.7400	1.7503	1.7573
AUD-SGD	1.0555	1.0558	1.0590	1.0600	1.0751
Gold	1200.00	1230.78	1253.70	1262.56	1264.90
Silver	18.16	18.20	18.26	18.30	18.50
Crude	47.22	51.10	51.19	51.20	51.45

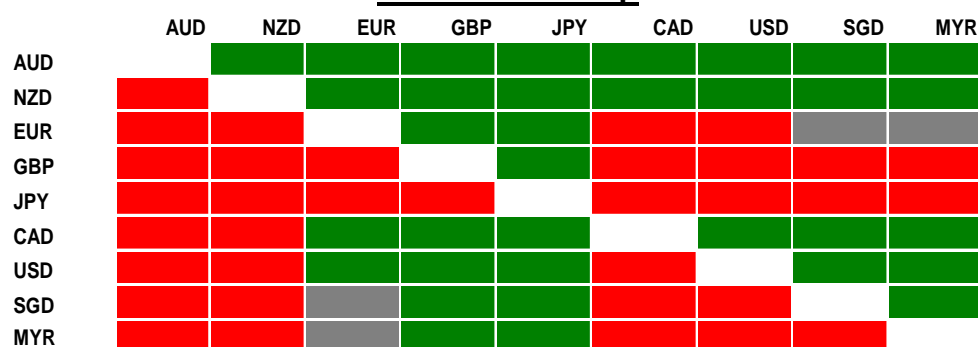
Source: OCBC Bank

FX performance: 1-month change agst USD



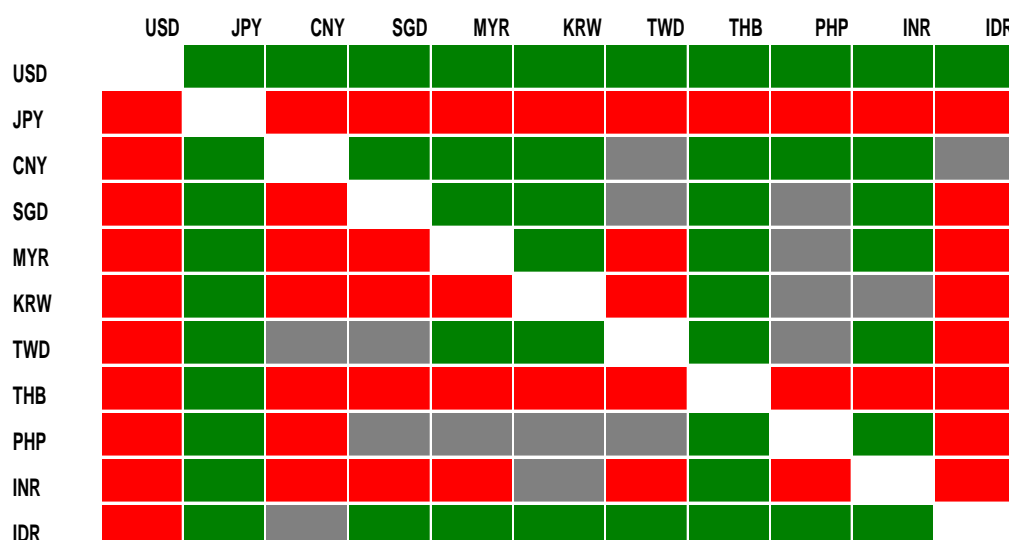
Source: Bloomberg

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	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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