

Friday, May 05, 2017

FX Themes/Strategy/Trading Ideas

- Despite a firmer UST curve (supportive March durable goods orders, lower than expected weekly initial claims but disappointing 1Q nonfarm productivity and march factor orders), any FOMC-related USD resilience scattered as investors traded off non-US cues instead. This was despite the House of Representatives managing to pass (217-213) a healthcare bill to repeal parts of Obamacare. Note however the bill is expected to face an uphill battle in the Senate.
- Apart from the US NFP readings tonight, watch also for **Fed-speak** from Fischer (1530 GMT), Williams (1645 GMT), while Rosengren, Evans, and Bullard are due to appear together at 1730 GMT. Crucially, Yellen speaks at 1730 GMT) and tonight we think could be prime time for Fed commentary to underscore this week's FOMC statement while continuing to lay the ground work for another two hikes in 2017 (starting with an expected hike at next month's FOMC). If however the market does not receive further affirmation on this front, expect USD skepticism to materialize once again.
- With April services/composite PMIs outperforming, EUR-USD surged past 1.0980 to 1.0984 as optimism towards the weekend **French Presidential runoff elections** mounted (latest poll indicated a 61% to 39% victory in favor of Macron with Macron also coming out ahead in a televised debate with Le Pen on Wednesday).
- By late NY, USD-JPY reversed lower to the 112.50 neighborhood from intraday highs (briefly above 113.00), partially on a slight wavering in risk appetite levels. On this front, AUD-USD continued to flail and repeatedly probed below 0.7400 on Thursday as the commodity complex continued to melt. In a similar vein, USD-CAD blipped above 1.3750 as WTI submerged below 46.00 and subsequently below 45.50.
- **The USD may trade on two divergent paths into the end of the week.** With XAU slipping and USD-CHF crumbling below 0.9900, an environment of USD skepticism and still steady global risk appetite levels may continue to prevail into the **US NFP (mkts: +190k)** at 1230 GMT. Meanwhile, EUR-USD may endeavor to retain its recent gains ahead Sunday's French Presidential runoff elections.
- On other fronts however, the antipodeans (RBA Monetary Policy Statement at 0130 GMT) may continue to remain heavy, with Asian FX (**Caixin China composite/services PMIs** softened from the previous month) also seen slightly vulnerable to the USD ahead of the NFP (watch also hourly earnings)

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and heightened prospects of a June FOMC hike.

Asian FX

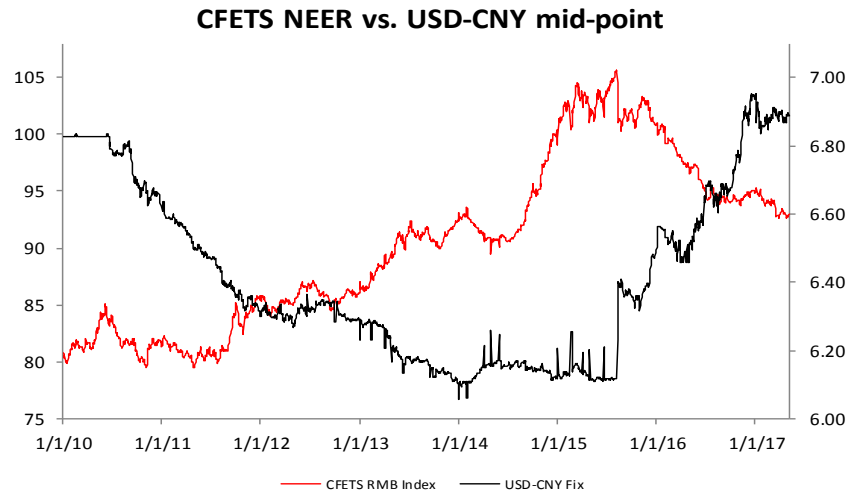
- With regards to net portfolio capital flows in Asia, the TWD and PHP may continue to receive relatively better support on this front, while the INR, IDR, and THB may be undermined by waning inflow momentum. With Asian equities also shaky, expect the **ACI (Asian Currency Index)** to test higher for the second consecutive session. On the risk appetite front, note also that the **FXSI (FX Sentiment Index)** ticked higher within **Risk-On** territory on Thursday as investor sentiment consolidated.
- **SGD NEER:** This morning, the SGD NEER is significantly lower on the day at around +0.17% above its perceived parity (1.4027) with USD-SGD firming in tandem with the Asian complex despite softer NEER-implied USD-SGD thresholds. Expect the NEER to hover in the vicinity of its parity if USD resilience persists intra-day. At current levels, the +0.50% threshold is estimated at 1.3958. Meanwhile, the 200-day MA (1.3981) now serves as an initial support, with risk tilted towards the 55-day MA (1.4026) instead in the current environment.



	SGD NEER	% deviation	USD-SGD
Current	124.49	0.18	1.4002
+2.00%	126.74		1.3752
Parity	124.26		1.4027
-2.00%	121.77		1.4314

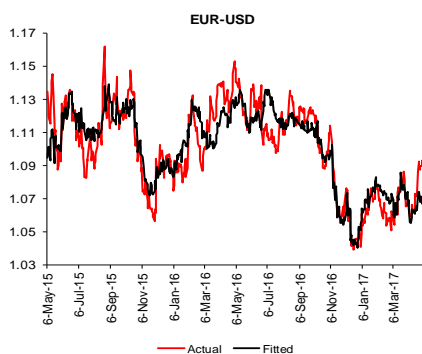
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point today fell 9as largely expected) to 6.8884 from 6.8957 yesterday, lifting the CFETS RMB Index to 93.00 from 92.92 on Thursday.



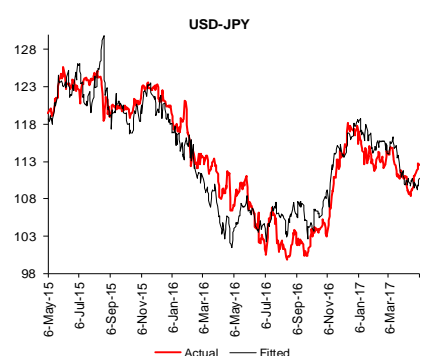
Source: OCBC Bank, Bloomberg

G7



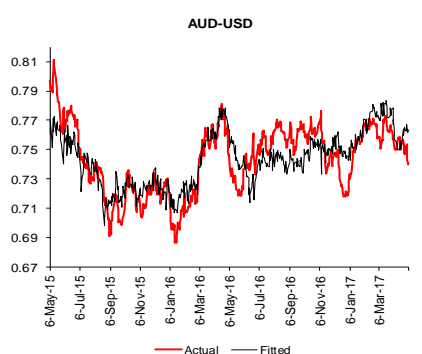
Source: OCBC Bank

- EUR-USD** With the ECB's Praet also sounding more sanguine and exploring the potential for a more upbeat prognosis in the Bank's forward guidance, expect the common unit to retain its positive traction against the USD. In the interim, expect room for potential volatility in Asia on Monday post the French election results. Intra-day, expect the EUR-USD to continue to outstrip its relatively static short term implied valuations. The resistance at 1.1000 remains pivotal, ahead of 1.1055.



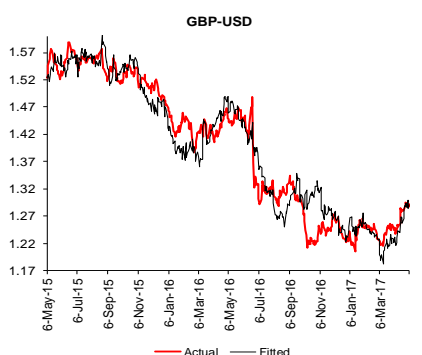
Source: OCBC Bank

- USD-JPY** USD-JPY may consolidate slightly on the back of the current shakeup in the metals/crude complex despite short term implied valuations for the pair ticking slightly higher. In the interim, we retain a preference to accumulate into weakness within the 55-day MA (111.81) and the 100-day MA (113.20).



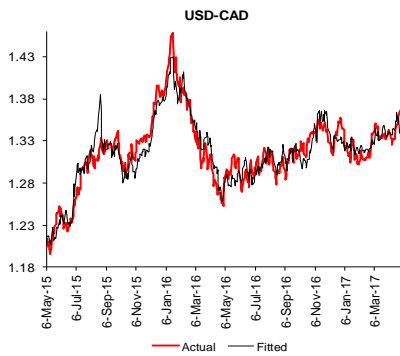
Source: OCBC Bank

- AUD-USD** This morning, the RBA Monetary Policy Statement was essentially balanced (if not slightly upbeat) but still cautioned on house process and the AUD. Markets were less than impressed and pulled the pair below 0.7400 once again. If this region is violated on a sustained basis, expect scope towards 0.7340 despite the pair now already overrunning its short term implied confidence intervals.



Source: OCBC Bank

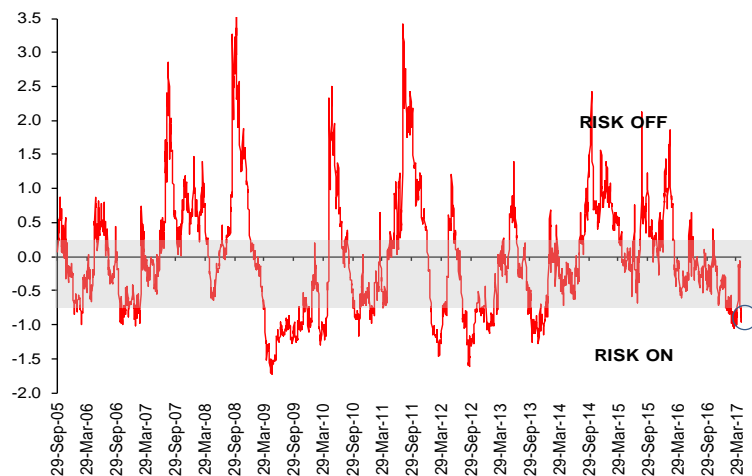
- GBP-USD** GBP-USD was buoyed above 1.2900 by better than expected April services/composite PMIs on Thursday. With the EUR also providing a tailwind, GBP-USD may continue to remain underpinned in line with its supported short term implied valuations. Note however that the bottoming EUR-GBP may put a lid on excessive upside for cable in the near term. Continue to watch for a breach of 1.3000 for an extension towards 1.3990/00.



Source: OCBC Bank

- USD-CAD** Ahead of the US/Canadian labor market reports tonight, USD-CAD may continue to search for higher ground in the current environment of sliding crude and despite the sharply narrower March trade deficit. With firming short term implied valuations leading the way higher, the ceiling at 1.3800 remains under threat ahead of 1.3845.

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	0.212	0.240	-0.726	-0.582	0.884	-0.399	0.822	0.678	0.731	-0.105	-0.954
CHF	0.952	0.249	0.206	-0.671	-0.539	0.904	-0.391	0.859	0.621	0.671	-0.044	-0.937
MYR	0.893	0.101	-0.075	-0.793	-0.783	0.895	-0.554	0.863	0.695	0.853	-0.284	-0.919
TWD	0.882	0.109	0.115	-0.706	-0.712	0.833	-0.459	0.833	0.693	0.757	0.036	-0.883
SGD	0.769	0.490	0.534	-0.384	-0.317	0.645	0.012	0.559	0.346	0.375	0.375	-0.712
INR	0.578	-0.278	-0.299	-0.758	-0.733	0.596	-0.658	0.567	0.698	0.818	-0.527	-0.662
NZD	0.400	-0.513	-0.671	-0.760	-0.853	0.455	-0.853	0.533	0.680	0.792	-0.716	-0.583
AUD	0.321	-0.261	-0.597	-0.469	-0.470	0.392	-0.644	0.458	0.322	0.539	-0.705	-0.438
KRW	0.305	-0.457	-0.131	-0.425	-0.457	0.384	-0.518	0.474	0.616	0.459	0.155	-0.420
CNY	0.240	0.744	1.000	0.298	0.491	0.036	0.728	-0.052	-0.315	-0.403	0.744	-0.019
USGG10	0.212	1.000	0.744	0.406	0.390	0.026	0.727	-0.074	-0.480	-0.395	0.502	0.010
THB	0.194	0.526	0.879	0.265	0.425	0.085	0.571	-0.010	-0.216	-0.296	0.785	-0.008
PHP	0.069	0.595	0.564	0.291	0.269	-0.191	0.622	-0.372	-0.554	-0.309	0.094	0.049
IDR	-0.071	0.325	0.238	0.287	0.078	-0.343	0.388	-0.455	-0.475	-0.218	0.026	0.146
CNH	-0.105	0.502	0.744	0.489	0.520	-0.230	0.588	-0.222	-0.346	-0.521	1.000	0.239
CCN12M	-0.117	0.447	0.756	0.457	0.599	-0.113	0.731	-0.259	-0.344	-0.514	0.663	0.314
JPY	-0.399	0.727	0.728	0.826	0.835	-0.510	1.000	-0.663	-0.831	-0.860	0.588	0.608
CAD	-0.832	0.175	0.232	0.852	0.770	-0.921	0.774	-0.958	-0.833	-0.899	0.395	0.907
GBP	-0.950	-0.361	-0.254	0.615	0.497	-0.874	0.324	-0.810	-0.525	-0.637	0.134	0.894
EUR	-0.954	0.010	-0.019	0.863	0.749	-0.920	0.608	-0.892	-0.809	-0.868	0.239	1.000

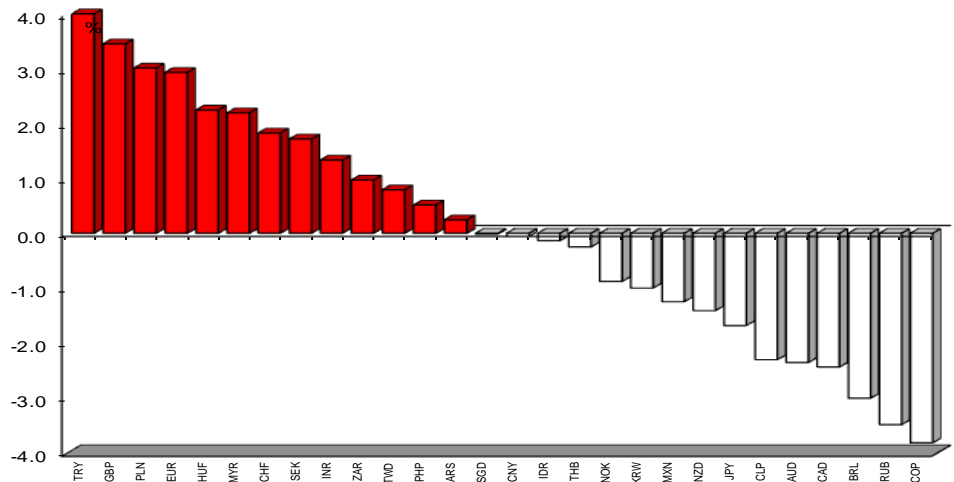
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0830	1.0900	1.0975	1.0987	1.1000
GBP-USD	1.2598	1.2900	1.2912	1.2966	1.3000
AUD-USD	0.7300	0.7383	0.7391	0.7400	0.7420
NZD-USD	0.6831	0.6840	0.6865	0.6900	0.6982
USD-CAD	1.3429	1.3700	1.3767	1.3776	1.3800
USD-JPY	111.67	112.00	112.59	113.00	113.05
USD-SGD	1.4000	1.4010	1.4012	1.4032	1.4082
EUR-SGD	1.5123	1.5300	1.5378	1.5389	1.5400
JPY-SGD	1.2370	1.2400	1.2445	1.2500	1.2546
GBP-SGD	1.7596	1.8000	1.8092	1.8100	1.8123
AUD-SGD	1.0341	1.0350	1.0356	1.0400	1.0542
Gold	1200.00	1225.70	1228.70	1230.46	1250.01
Silver	16.21	16.30	16.33	16.40	17.70
Crude	45.29	45.50	45.57	45.60	50.89

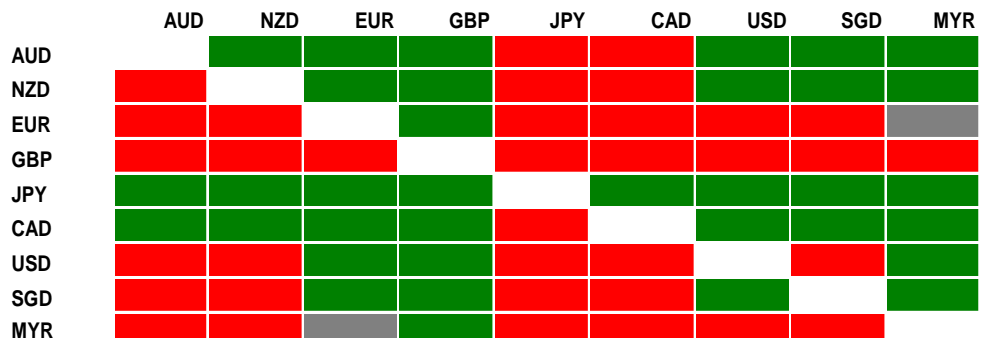
Source: OCBC Bank

FX performance: 1-month change agst USD



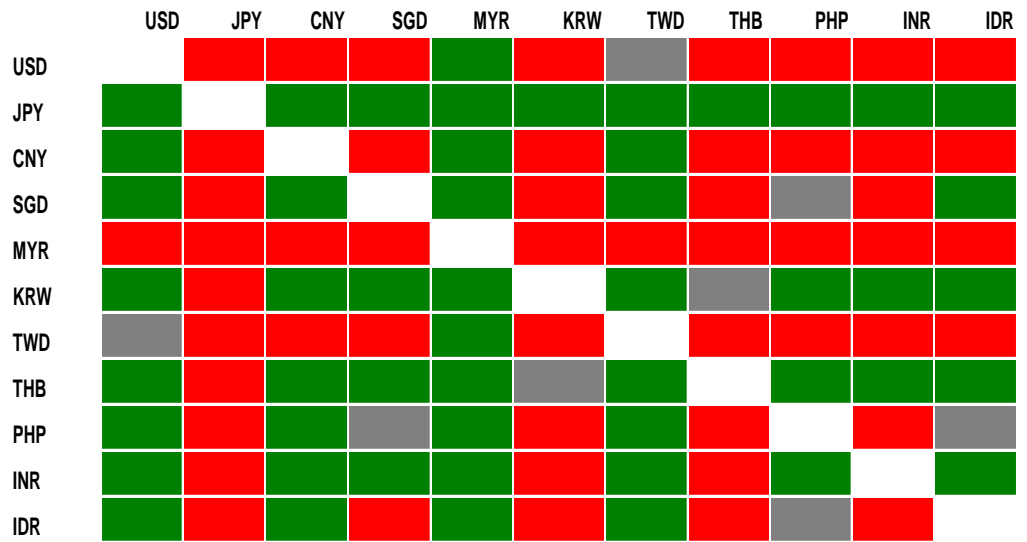
Source: Bloomberg

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	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		
STRUCTURAL								
6	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	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		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**
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		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**
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

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