

Thursday, April 06, 2017

FX Themes/Strategy/Trading Ideas

- Despite a significantly better than expected ADP (+263k vs. +245k revised), FOMC minutes were interpreted as less than hawkish, leading UST yields lower. Elsewhere, the House Speaker Ryan also that tax reform could take longer than expected. As a result, USD came off intra-day highs and ended mixed against its cohorts. Elsewhere, the March non-manufacturing ISM also disappointed at 55.2.
- Overall, we retain our view that the Fed remains in no rush to pare its balance sheet and the gradual process (likely a roll-off) would be initiated against a backdrop of suitable economic conditions and when rate hikes are “well underway”. Going ahead, we think the Fed would be keen to communicate that balance sheet reduction should be construed as a consequence of, and not a tool for, tighter monetary policy conditions.
- Fed-speak today from Williams at 1330 GMT while China’s Caixin PMIs are due 0145 GMT. All eyes however will be on headlines out of the **Xi-Trump** meetings today and tomorrow in Florida, where we expect the Trump administration to come off as less than confrontational – averting market concerns. Background caution may continue to circulate in the markets despite the **FXSI (FX Sentiment Index)** inching lower within Risk-On territory on Wednesday.
- With risk appetite still fragile, the RBA slightly apprehensive towards labor market conditions, and with investors likely having had their fill of the global reflation trade in the near term, we initiate a tactical short **AUD-USD** on Wednesday. With a spot ref at 0.7580, we target 0.7405 and place a stop at 0.7670.

Asian FX

- EM FX overnight was mixed but saw notable weakness in the ZAR, BRL and TRY, with the Asian units likely cautious intra-day (USD-Asia likely supported on dips) following negative US equity cues overnight. From the net portfolio inflow perspective, we detect waning support for the **KRW**, while the **IDR**, **INR**, and **THB** remain underpinned. Overall, we look for the **ACI (Asian Currency Index)** to tick higher intra-day. Elsewhere, the RBI is expected to remain static on its policy parameters today at its policy meeting (0900 GMT).
- **SGD NEER**: This morning, the SGD NEER is softer on the day at around +0.54% above its perceived parity (1.4075), partially on the back of risk

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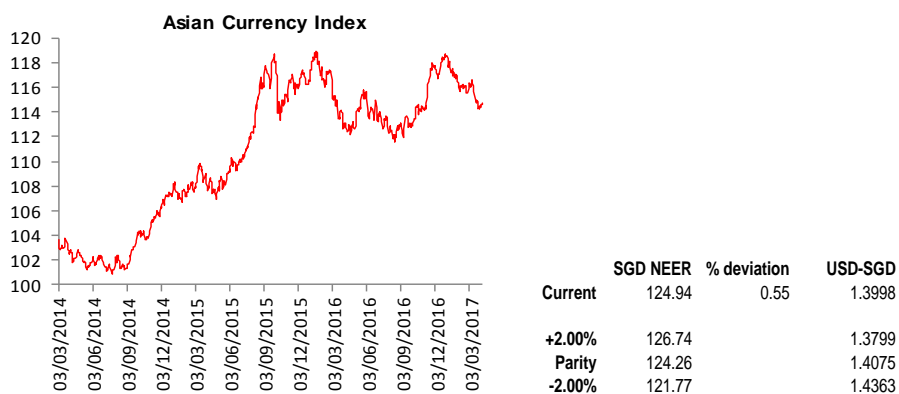
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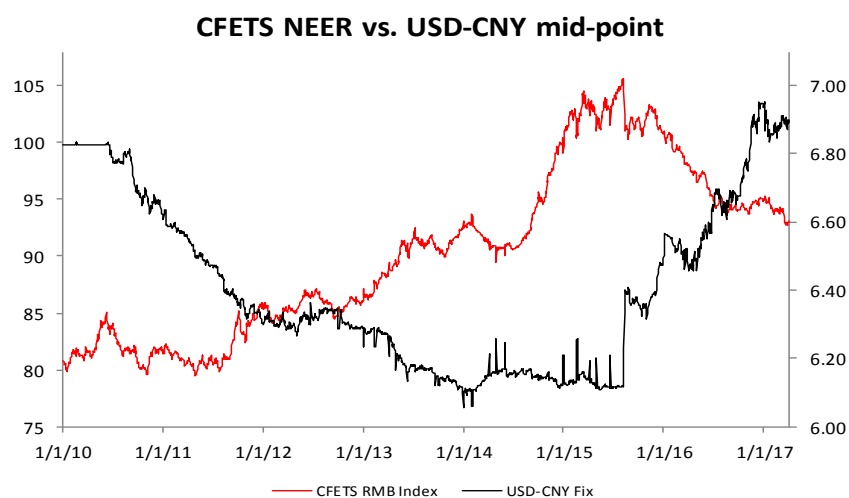
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aversion induced USD strength. NEER-implied USD-SGD thresholds are however slightly softer on the day with +0.50% estimated at 1.4006. The NEER is expected to hover in its current vicinity and the USD-SGD may attempt to base build within 1.3980-1.4030 pending external news flow.



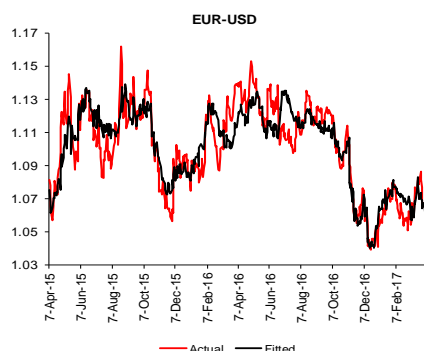
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (largely as expected) to 6.8930 from 6.8906, lifting the **CFETS RMB Index** to 93.11 from 93.10 on Wednesday.



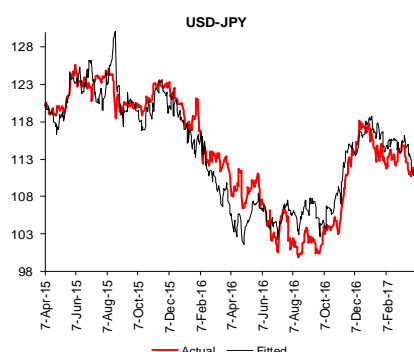
Source: OCBC Bank, Bloomberg

G7



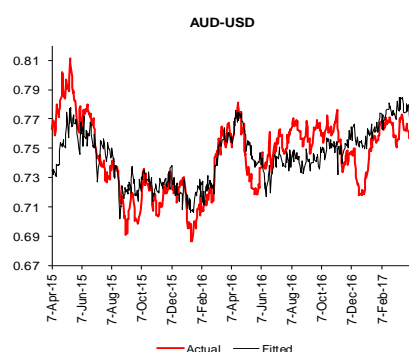
Source: OCBC Bank

- EUR-USD** EZ PMIs disappointed and kept the EUR-USD range bound on Wednesday but look to Draghi at 0700 GMT today, and ECB 'minutes' at 1130 GMT. Ahead of these headline risks, short term implied valuations remain top heavy, essentially we think under the baggage from potential EZ negatives. As noted previously, if the 55-day MA (1.0675) is lost, the EUR-USD may veer towards the 100-day MA (1.0624) instead. Elsewhere, EUR-JPY remains heavy with the 200-day MA (117.76) now under imminent threat.



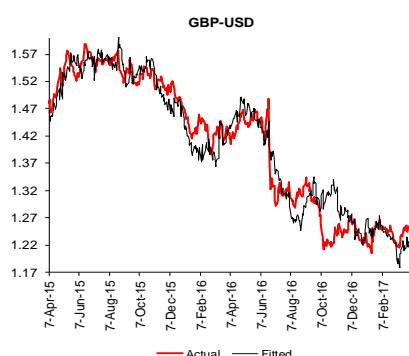
Source: OCBC Bank

- USD-JPY** Ahead of pivotal event risks today and tomorrow, the pair may remain top heavy with the JPY outperforming on its crosses Thursday morning in Asia. We'd prefer to continue to track the southbound short term implied valuations from here, with the 110.00 support now increasingly conspicuous (next stop 109.20).



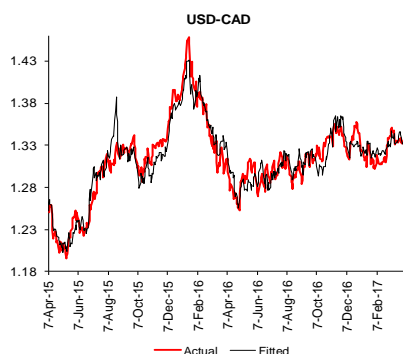
Source: OCBC Bank

- AUD-USD** The AUD-USD may continue to remain slightly under the weather with the RBA's Lowe continuing to highlight risks in the housing sector. A confluence of negative headlines may conspire to keep the pair heavy at this juncture in line with its short term implied valuations. Any sustained detachment from the 200-day MA (0.7552) risks a deterioration to 0.7490/00.



- GBP-USD** On other fronts, GBP-USD blipped higher after better than expected march services/composite PMI readings. With nothing on the calendar today, the GBP-USD may look elsewhere for inspiration amidst somewhat supported short term implied valuations. In the interim, expect support to kick in towards the 55-day MA (1.2435), with a heavy EUR-GBP also potentially lending support to the cable.

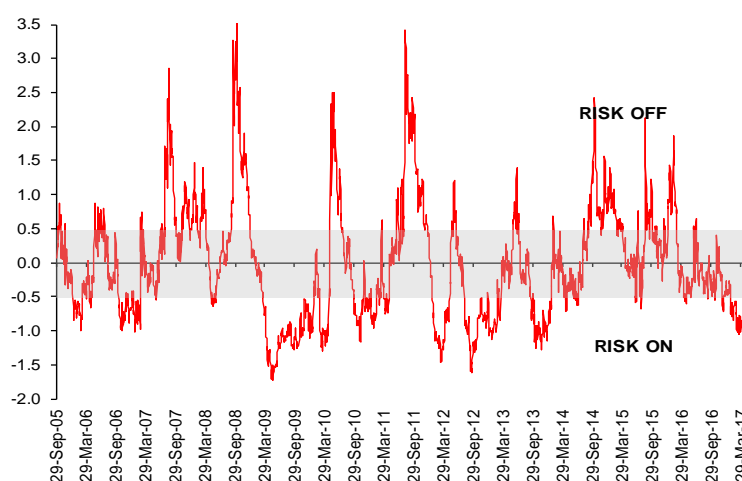
Source: OCBC Bank



- USD-CAD** Softer crude and a slight wavering in interest towards the cyclicals may crimp the loonie slightly in the near term, in line with near term implied valuations for the pair. Preference to continue to accumulate on dips for 1.3470/80.

Source: OCBC Bank

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	0.710	0.823	0.560	-0.760	0.249	0.841	0.506	-0.368	-0.613	0.817	-0.941
CHF	0.976	0.602	0.759	0.513	-0.690	0.333	0.713	0.591	-0.327	-0.582	0.823	-0.967
SGD	0.899	0.851	0.739	0.369	-0.855	-0.013	0.885	0.199	-0.192	-0.587	0.821	-0.767
MYR	0.889	0.815	0.848	0.541	-0.843	0.001	0.891	0.246	-0.230	-0.653	0.647	-0.746
KRW	0.853	0.844	0.772	0.538	-0.912	0.050	0.916	0.253	-0.292	-0.696	0.649	-0.690
TWD	0.845	0.897	0.832	0.567	-0.864	-0.026	0.942	0.211	-0.299	-0.638	0.623	-0.684
JPY	0.841	0.962	0.869	0.642	-0.845	-0.089	1.000	0.040	-0.459	-0.672	0.658	-0.605
CNY	0.823	0.819	1.000	0.718	-0.583	-0.093	0.869	0.134	-0.437	-0.545	0.601	-0.679
CNH	0.817	0.626	0.601	0.291	-0.555	0.195	0.658	0.346	-0.273	-0.456	1.000	-0.800
INR	0.792	0.797	0.606	0.344	-0.933	0.164	0.850	0.320	-0.292	-0.595	0.685	-0.639
CCN12M	0.769	0.860	0.789	0.516	-0.809	-0.088	0.921	0.020	-0.315	-0.591	0.630	-0.545
THB	0.758	0.940	0.863	0.551	-0.836	-0.205	0.951	-0.029	-0.304	-0.624	0.566	-0.524
IDR	0.743	0.854	0.758	0.559	-0.818	-0.243	0.879	0.022	-0.274	-0.658	0.499	-0.552
CAD	0.717	0.551	0.509	0.015	-0.623	-0.112	0.536	0.186	0.045	-0.283	0.802	-0.661
USGG10	0.710	1.000	0.819	0.574	-0.787	-0.246	0.962	-0.096	-0.419	-0.624	0.626	-0.488
PHP	0.574	0.613	0.436	0.121	-0.805	-0.101	0.636	0.053	0.145	-0.296	0.424	-0.475
AUD	-0.636	-0.344	-0.301	0.090	0.575	-0.026	-0.348	-0.375	-0.160	0.219	-0.647	0.680
NZD	-0.823	-0.674	-0.629	-0.286	0.633	0.064	-0.674	-0.282	0.148	0.476	-0.793	0.784
GBP	-0.896	-0.888	-0.863	-0.598	0.842	0.014	-0.951	-0.158	0.460	0.630	-0.715	0.682
EUR	-0.941	-0.488	-0.679	-0.438	0.609	-0.407	-0.605	-0.669	0.247	0.503	-0.800	1.000

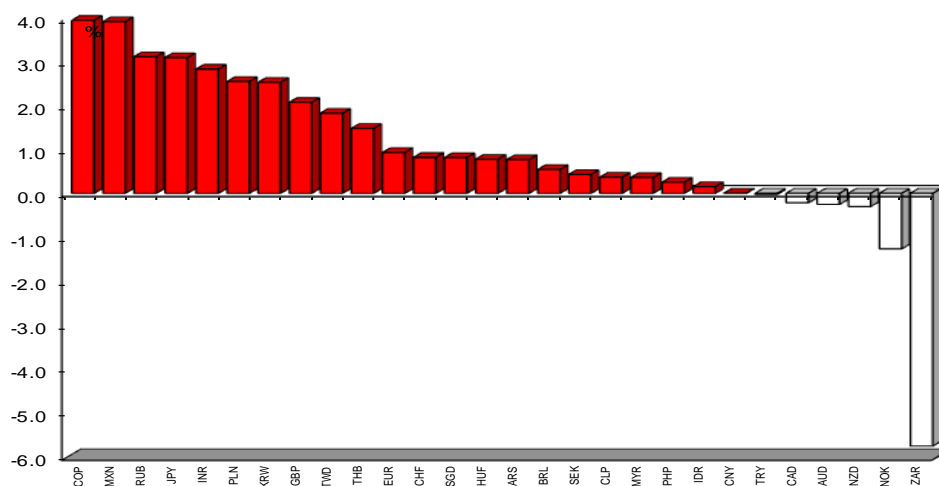
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0600	1.0668	1.0679	1.0700	1.0861
GBP-USD	1.2400	1.2419	1.2488	1.2500	1.2615
AUD-USD	0.7518	0.7549	0.7562	0.7600	0.7630
NZD-USD	0.6900	0.6913	0.6974	0.7000	0.7082
USD-CAD	1.3271	1.3400	1.3438	1.3477	1.3500
USD-JPY	110.00	110.11	110.48	111.00	112.79
USD-SGD	1.3921	1.4000	1.4005	1.4084	1.4100
EUR-SGD	1.4858	1.4900	1.4957	1.5000	1.5024
JPY-SGD	1.2485	1.2600	1.2676	1.2692	1.2700
GBP-SGD	1.7158	1.7400	1.7490	1.7496	1.7500
AUD-SGD	1.0551	1.0555	1.0591	1.0600	1.0749
Gold	1200.00	1231.71	1253.80	1262.40	1264.90
Silver	18.16	18.20	18.27	18.30	18.50
Crude	47.18	50.80	50.86	50.90	51.55

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

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		S	USD-SGD	1.4029	1.3800	1.4145	Vulnerable USD, positive risk appetite, tolerant MAS	
3	22-Mar-17		S	USD-JPY	111.62	108.40	113.25	Trump trade unwind, mild risk aversion	
4	05-Apr-17		S	AUD-USD	0.7580	0.7405	0.7670	Fragile risk appetite, slightly apprehensive RBA	
	STRUCTURAL								
5	22-Nov-16		B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
6	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	
7	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
8	17-Mar-17	03-Apr-17	B	EUR-USD	1.0766		1.0645	Dutch election news flow, abating le Pen concerns, weekend USD	-1.14
	* realized								
	Jan-Feb 2017 Return								-7.14
	2016 Return								+6.9

Source: OCBC Bank

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