

Friday, April 07, 2017

FX Themes/Strategy/Trading Ideas

- Slightly firmer UST yields permitted the USD to edge mildly higher against most of its G10 counterparts as investors prepared for end-of week headline risks. The EUR-USD was pressured lower by (expectedly) dovish rhetoric from the ECB's Draghi while elsewhere, the AUD remained an all-round underperformer and the CAD firmed as crude rebounded.
- For today, look to potential Xi-Trump headlines as well as the US NFP (mkts: +180k) for volatility risks. Regarding the former, there are indications of a softened stance from the Trump administration, with a US official on Thursday referring to "currency misalignment" instead of "manipulation". Elsewhere, the BOE's Carney speaks at 0900 GMT. Preference to stay heavy on the **EUR-USD** and **AUD-USD** (heavy iron ore?) pending further headline risks today while USD-JPY may be subject to US-centric volatility today.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** ticked higher within Risk-On territory on Thursday, with the Index likely to end higher on the week, denoting a slightly more cautious market environment.

Asian FX

- EM FX was mixed overnight but positive EZ/US equities may temper USD resilience in Asia. Meanwhile, the net portfolio inflow situation remains supportive of regional currencies, with better interest towards South Korea once again and moderating equity outflows out of the Philippines. Note however that latest chatter out of the missile launch in Syria (Friday in Asia) would potentially ratchet risk appetite lower and underpin the USD. As such, the **ACI (Asian Currency Index)** would be expected to seek higher ground.
- On the central bank front, the **RBI** kept its benchmark repo rate unchanged at 6.25% as expected and raised its 2008 inflation forecasts. However the central bank surprised by hiking its reverse repo rate to 6.00% from 5.75%. Expect the slight hawkish slant to continue to underpin the INR.
- **SGD NEER:** Today, the SGD NEER flat to slightly firmer at around +0.57% above its perceived parity (1.4104), with NEER-implied USD-SGD threshold having shifted higher overnight in line with the broad dollar. Pending event/headline risks later in the global session, the NEER may remain heavy within +0.50% (1.4034) and +0.80% (1.3992). Technically, the pair may continue to attempt a bottoming out towards 1.4050, with the 55-day MA residing at 1.4099.

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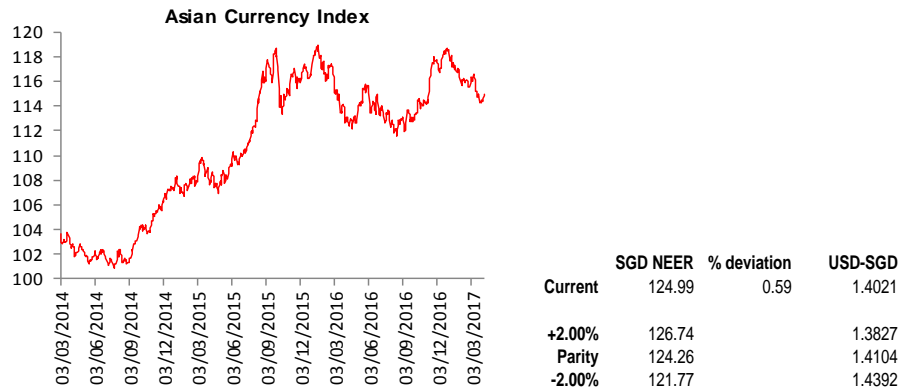
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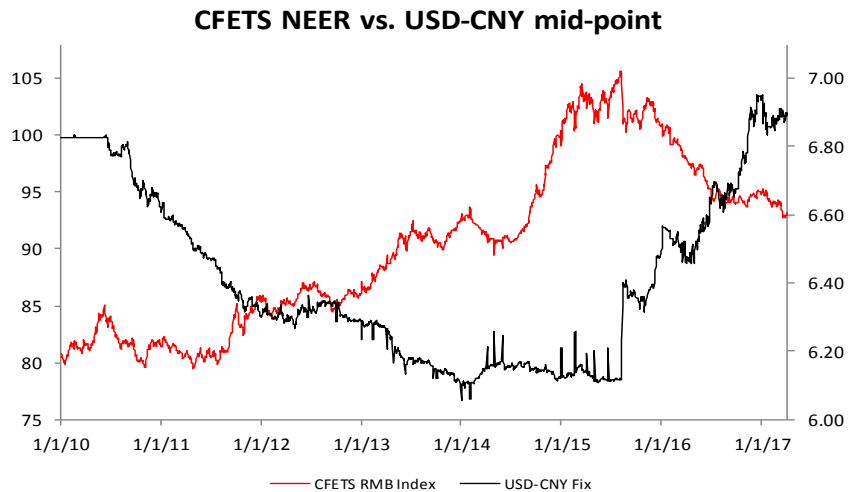
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

- The **MAS MPS (Monetary Policy Statement)** is scheduled for 13 Apr 17 and on this front, although we expect no change in policy parameters, there remains a distinct and non-trivial possibility that the monetary authority may lean towards greater neutrality, as opposed to "...a neutral policy stance will be needed for an extended period...". To this end, expect some knee jerk reaction (USD-SGD lower, forwards points leaning slightly left, NEER slightly firmer) but this eventuality has increasingly crept into the market's consciousness of late, ruling out a significant or prolonged reaction.



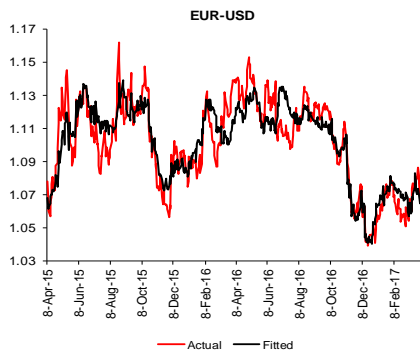
Source: OCBC Bank

- **CFETS RMB Index:** Today, (and amidst the Xi-Trump meeting), the USD-CNY mid-point came in at a lower than expected 6.8949 from 6.8930 on Thursday. This lifted the **CFETS RMB Index** to 93.21 from 93.11 yesterday.



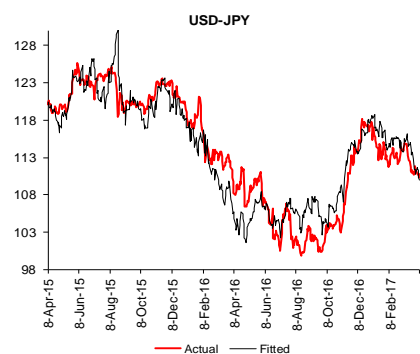
Source: OCBC Bank, Bloomberg

G7



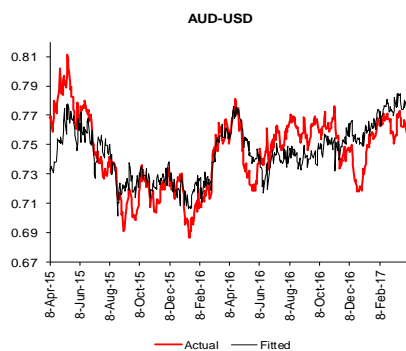
Source: OCBC Bank

- **EUR-USD** Stay top heavy on the EUR-USD with the ECB decidedly (and explicitly) still neutral and in little hurry to signal any shift towards hawkishness. With the 55-day MA (1.0674) still serving as a near term resistance, implied risks towards 1.0600/25 remain apparent.



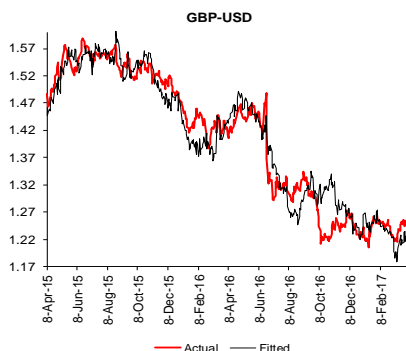
Source: OCBC Bank

- **USD-JPY** With risk appetite souring in the wake of the US missile launches in Syria, expect USD-JPY to be funneled lower, with the pair still likely to be confronted by heavy headline risks into the end of the week. Expect a test of the 110.00 support if investor sentiment continues to deteriorate in the interim, with subsequent support seen towards 109.25.



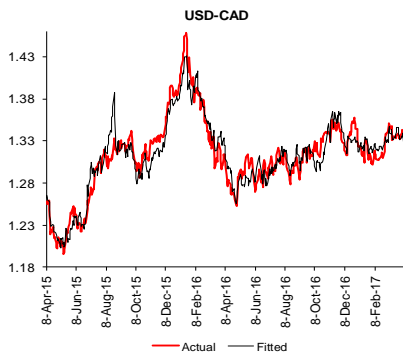
Source: OCBC Bank

- **AUD-USD** Expect implicit downside pressure on the cyclicals like the AUD-USD given the latest geopolitical developments this morning, with short term implied valuations for the pair still looking heavy. A test below 0.7500 paves the way to 0.7450/70.



Source: OCBC Bank

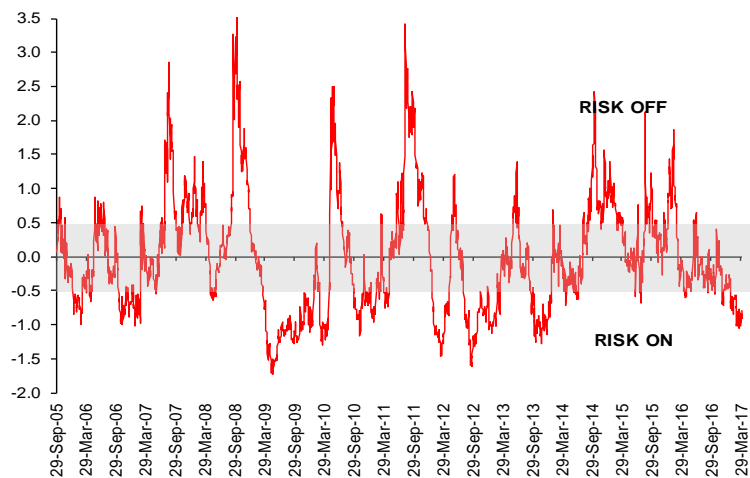
- **GBP-USD** GBP-USD is still seen trapped in recent ranges with short term implied valuations attempting to edge higher. Rhetoric out of the EU regarding Brexit negotiations remain less than conciliatory but investors may be losing interest in chasing the Brexit trade at this juncture. Look towards the heavy UK data stream later today, with the pair seen anchored near its 55-day MA (1.2436) pending further headline risks.



Source: OCBC Bank

- USD-CAD** Firmer crude on the back of the Syrian news flow may see the USD-CAD sitting heavy intra-day with short term implied valuations also a touch heavier. Domestically, look also to the March Canadian labor market numbers today. Expect a 1.3380-1.3470 range to prevail in the interim.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXY	1.000	0.681	0.857	0.528	-0.713	0.106	0.809	0.425	-0.312	-0.572	0.801	-0.930
CHF	0.971	0.550	0.790	0.468	-0.614	0.227	0.663	0.545	-0.255	-0.539	0.814	-0.964
SGD	0.891	0.831	0.758	0.336	-0.835	-0.203	0.866	0.094	-0.142	-0.549	0.795	-0.739
MYR	0.885	0.779	0.866	0.514	-0.815	-0.146	0.859	0.168	-0.180	-0.634	0.627	-0.729
CNY	0.857	0.776	1.000	0.732	-0.607	-0.107	0.855	0.153	-0.447	-0.584	0.620	-0.704
KRW	0.841	0.832	0.833	0.498	-0.866	-0.223	0.896	0.089	-0.209	-0.648	0.616	-0.655
TWD	0.830	0.882	0.868	0.542	-0.836	-0.276	0.925	0.050	-0.247	-0.593	0.585	-0.640
JPY	0.809	0.967	0.855	0.627	-0.855	-0.326	1.000	-0.130	-0.446	-0.619	0.586	-0.533
CNH	0.801	0.568	0.620	0.237	-0.472	0.082	0.586	0.310	-0.202	-0.408	1.000	-0.793
THB	0.758	0.940	0.869	0.540	-0.855	-0.371	0.950	-0.146	-0.282	-0.625	0.527	-0.485
IDR	0.743	0.827	0.765	0.549	-0.821	-0.391	0.861	-0.051	-0.254	-0.660	0.483	-0.536
CCN12M	0.732	0.877	0.808	0.490	-0.795	-0.395	0.925	-0.200	-0.276	-0.517	0.550	-0.457
CAD	0.723	0.501	0.509	-0.012	-0.601	-0.168	0.529	0.185	0.081	-0.278	0.819	-0.673
INR	0.712	0.840	0.608	0.297	-0.921	-0.220	0.858	0.009	-0.230	-0.461	0.565	-0.500
USGG10	0.681	1.000	0.776	0.570	-0.822	-0.446	0.967	-0.241	-0.428	-0.585	0.568	-0.422
PHP	0.522	0.629	0.452	0.068	-0.785	-0.428	0.628	-0.174	0.224	-0.184	0.349	-0.392
AUD	-0.615	-0.247	-0.296	0.142	0.484	-0.016	-0.258	-0.435	-0.230	0.200	-0.657	0.689
NZD	-0.858	-0.625	-0.627	-0.285	0.646	0.036	-0.661	-0.344	0.141	0.520	-0.826	0.822
GBP	-0.878	-0.889	-0.870	-0.583	0.843	0.228	-0.950	-0.006	0.439	0.584	-0.656	0.622
EUR	-0.930	-0.422	-0.704	-0.384	0.515	-0.335	-0.533	-0.647	0.163	0.454	-0.793	1.000

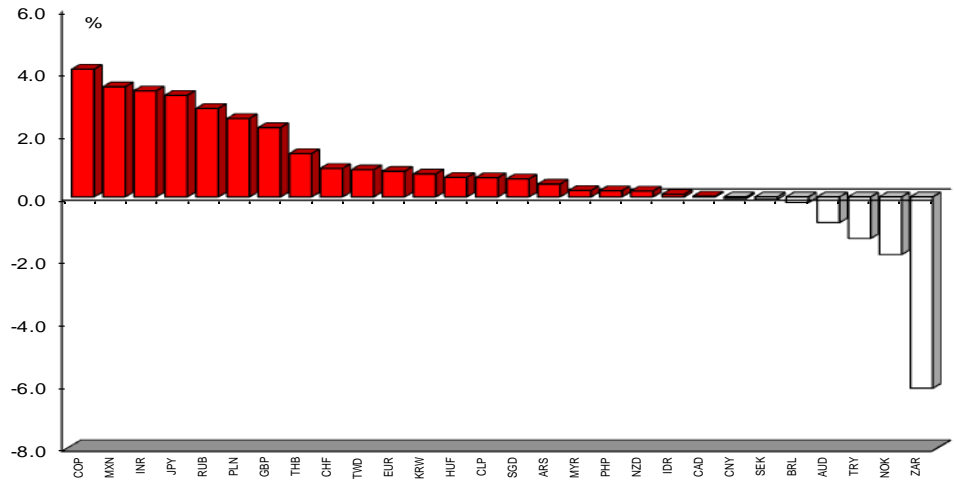
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0581	1.0600	1.0651	1.0666	1.0700
GBP-USD	1.2400	1.2417	1.2465	1.2500	1.2615
AUD-USD	0.7500	0.7511	0.7522	0.7549	0.7600
NZD-USD	0.6900	0.6922	0.6965	0.7000	0.7078
USD-CAD	1.3277	1.3400	1.3414	1.3463	1.3500
USD-JPY	110.00	110.11	110.38	111.00	112.71
USD-SGD	1.3924	1.4000	1.4033	1.4079	1.4100
EUR-SGD	1.4846	1.4900	1.4946	1.5000	1.5016
JPY-SGD	1.2490	1.2700	1.2713	1.2725	1.2749
GBP-SGD	1.7400	1.7486	1.7492	1.7500	1.7580
AUD-SGD	1.0532	1.0551	1.0555	1.0600	1.0744
Gold	1204.32	1233.03	1261.10	1262.31	1264.90
Silver	18.17	18.30	18.40	18.40	18.50
Crude	52.20	52.22	52.28	52.30	55.51

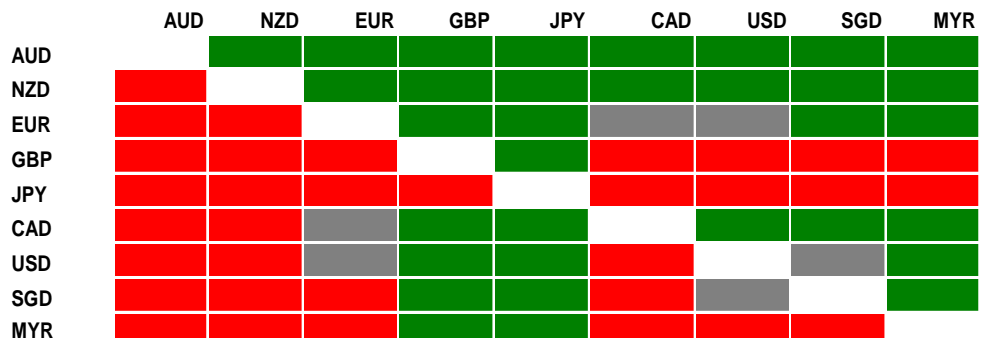
Source: OCBC Bank

FX performance: 1-month change agst USD



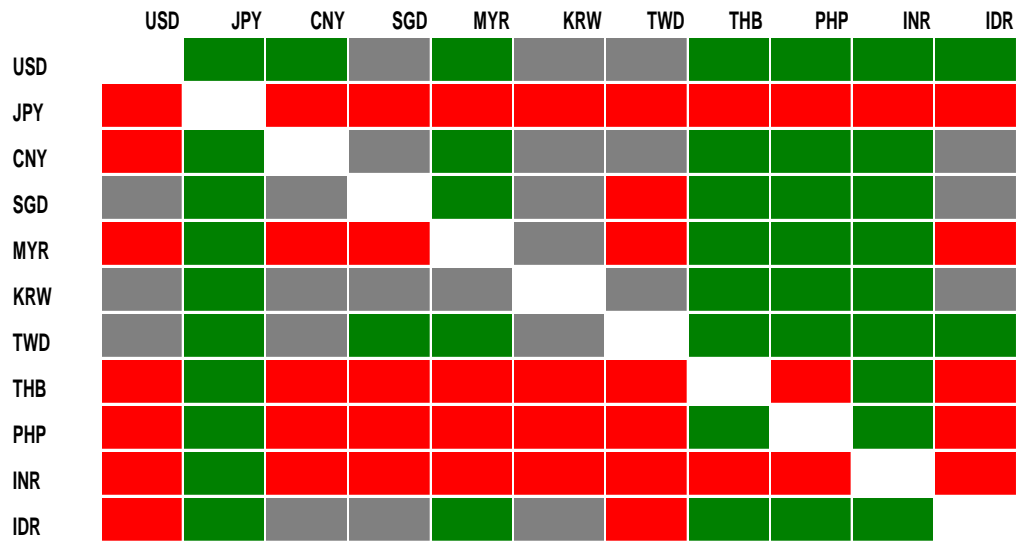
Source: Bloomberg

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	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 cyclicals 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 +6.91	

Source: OCBC Bank

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