

Monday, May 08, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The EUR-USD touched a 1.1024 high early Asia on Monday (before reversing back below 1.1000) after centrist Macron looked set to win the French Presidential elections (pollsters indicate a 65% to 35% victory over Le Pen).
- The **French election results** are expected to put a positive spin on global risk appetite levels, while the EUR may also be underpinned by Merkel's CDU clinching a victory in German state elections on Sunday. The ECB's **Draghi** is due to make an appearance on Wednesday with investors likely on the lookout for any verbal (EUR positive) hints of alleviated political risks or a more neutral stance with respect to QE.
- **Meanwhile, the greenback may also exhibit little intrinsic robustness at the onset of the week despite somewhat supportive April NFP headlines on Friday.** The headline NFP reading came in at a better than expected +211k, unemployment rate surprised with a dip to 4.4% from 4.5%, although average hourly earnings were mixed at +0.3% mom with the previous month revised lower to +0.1%. **Overall, without a unified USD theme, expect investors to continue trade off idiosyncratic currency factors, risk appetite developments, as well as prospects for global deflation instead.**
- **Fed speak** in aggregate on Friday was also less than stridently hawkish and failed to generate meaningful lift for the greenback as the cyclicals bounced from intra-week lows (minor losses for the JPY and CHF across the board with EM FX looking slightly brighter on the day).
- On the **CFTC** front, large non-commercial/leveraged accounts trimmed their net implied long dollar bias in aggregate in the latest week while asset managers increased their net short dollar bias. With regards to the EUR, large non-commercial (now effectively neutral with regards to the EUR) and leveraged accounts pared their net implied EUR shorts, while asset managers increased their net implied EUR longs in the latest week. In terms of net positioning as a percentage of open interests, asset manager EUR longs are looking somewhat elevated, leaving large non-commercial accounts some latitude to have further pared their EUR shorts into the end of last week.
- On the **EPFR** front, net implied bond and equity inflows into Asia (ex-Japan, China) increased in the latest week, with such inherent flow support potentially keeping USD-Asia heavy into the onset of this week, especially if

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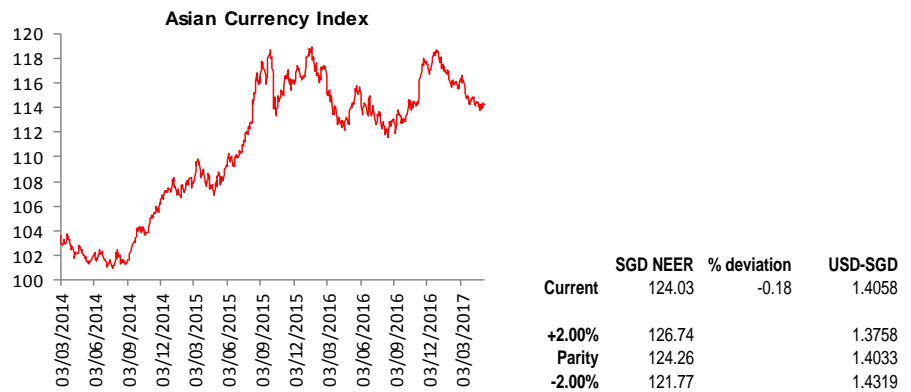
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global risk appetite levels receive a boost from moderating EZ political risks in the near term.

- This week, **Fed speak** is also expected to be heavy, starting with Mester and Bullard today, while Fed appearances expected in every session this week. However, dollar skepticism may deepen in verbal vocal guidance comes across as less than hawkish. Elsewhere on the global calendar, the **RBNZ** is expected to stand pat at 1.75% on Wednesday, as is the **BOE** on Thursday (look for additional cues from the **BOE Inflation Report** however).
- In Asia, look to **China's** April trade numbers today with potential leads for the state of the global deflation trade. China is also due to release April CPI readings on Wednesday, while April monetary aggregates are also due sometime this week. Note that China's April foreign reserves rose slightly to USD3.03tn from USD3.02tn in March. On other fronts, the **BSP** is expected to stand pat on Thursday, while **BNM** is also expected to remain static on Friday.
- Our 05 Apr 17 idea to be tactically short **AUD-USD** (spot ref: 0.7580) reached its 0.7405 objective on 04 May 17. Given that the metals/commodity complex continues to melt and the global deflation is undergoing a reassessment as a consequence, we extend our target to 0.7235, trailing the stop to 0.7490.
- Our 26 Apr 17 idea to be tactically long **USD-CAD** (spot ref: 1.3563) hit its 1.3785 target on Friday. With the loonie still expected to buckle under the weight of slumping crude and potential NAFTA-related negativity, we extend our objective to 1.4010, trailing the stop to 1.3670.

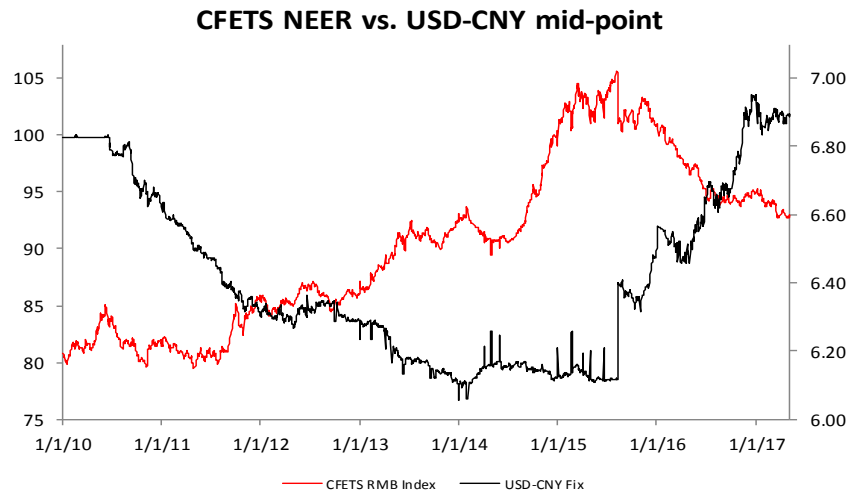
Asian FX

- As alluded to above, USD-Asia may be top heavy at the onset of the week with the **ACI (Asian Currency Index)** likely oriented south. On the risk appetite front, the **FXSI (FX Sentiment Index)** also softened within Risk-On territory on Friday, with the Index likely headed yet lower today. On other fronts, look towards **Presidential elections** in **South Korea** on Tuesday, although market nervousness is not deemed pronounced at this juncture.
- **SGD NEER:** The SGD NEER dipped below parity on Friday and is notably softer on the day on Monday in Asia at around -0.18% below its perceived parity (1.4033). Meanwhile, NEER-implied USD-SGD thresholds are a touch firmer on the day with +0.50% estimated at 1.3964 and -0.50% at 1.4104. Reflux from a consolidating EUR-USD after initial highs this morning may underpin the USD-SGD somewhat, while on a technical basis note that the pair has staged technical breakouts on several fronts, with the 200-day MA (1.3984) now a distant support at this juncture. Intra-day, risks may be skewed towards 1.4085 ahead of 1.4100 with a bounce towards the vicinity of the 55-day MA (1.4025).



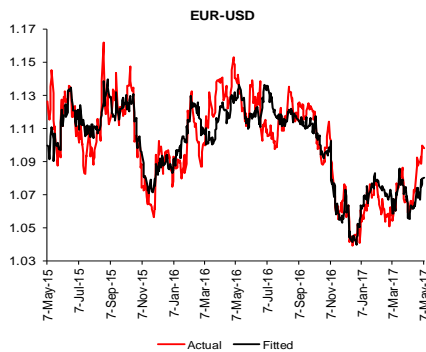
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning rose (as largely expected) to 6.8947 from 6.8884 on Friday. This softened the **CFETS RMB Index** to 92.90 from 93.00.



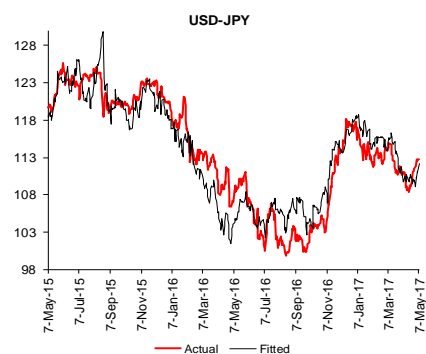
Source: OCBC Bank, Bloomberg

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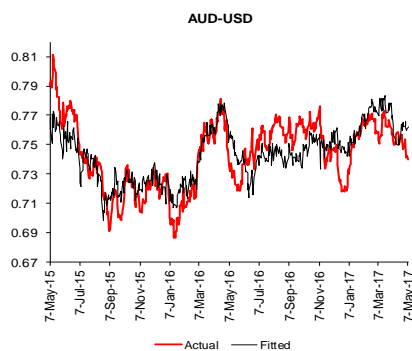
Source: OCBC Bank

- EUR-USD** EUR-USD may continue to trade consolidative after retracing lower from early Monday highs while awaiting European market reaction. The pair also continues to trade slightly north of its implied short term confidence intervals, blunting potential for an excessive overshoot on the upside in the near term. In the interim, preference to remain supported within 1.0950-1.1050, although any sustained break higher in the EUR-JPY above 124.00 is also likely to buoy the EUR-USD.



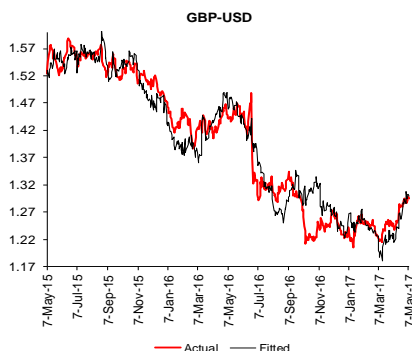
Source: OCBC Bank

- USD-JPY** With the improvement in global risk appetite levels, and the dollar managing to hold a slight edge during the Asian session, USD-JPY may attempt to float higher in tandem with its short term implied valuations (note firmer UST yields this morning). A violation of the 100-day MA (113.16) sets the pair up to test towards 113.60.



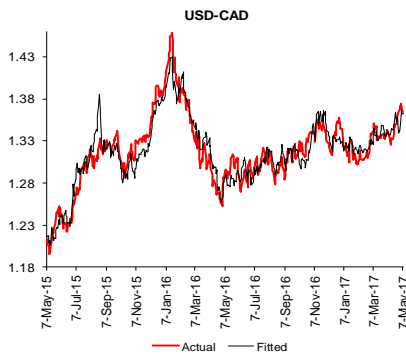
Source: OCBC Bank

- AUD-USD** This disappointing March building approvals (-13.4% mom) fed into AUD-USD softness this morning in Asia. Despite the pickup in Asian equities, if the global reflation trade fails to regain traction in the near term, the pair may continue to remain soft relative to its short term implied valuations. On this front, we think investors may not be ready as yet, and risks may remain tilted towards 0.7350 for the AUD-USD.



Source: OCBC Bank

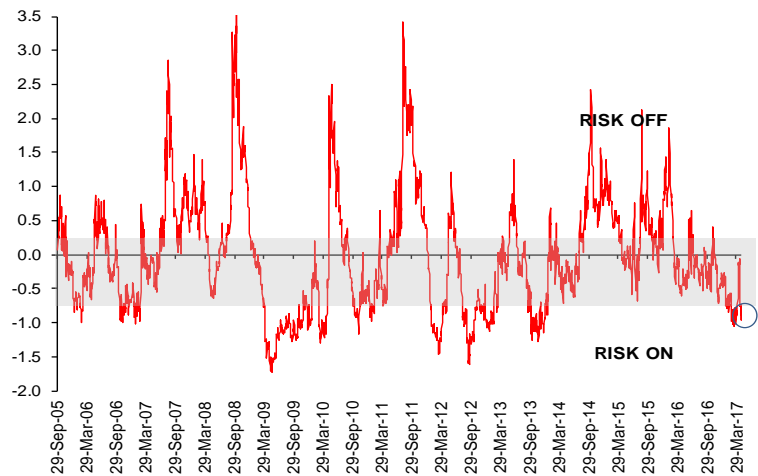
- GBP-USD** GBP-USD continued to gain on Friday on the back of the EUR-USD and the string of relatively supportive UK data points earlier in the week (as well as a Conservative victory in local elections). Expect the spotlight to fall on the BOE this week but with short term implied valuations still looking supported, markets may continue to contemplate a break above 1.3000 towards 1.3115.



Source: OCBC Bank

- USD-CAD** A rebound in crude on Friday coupled overshadowed disappointing April Canadian labor market numbers and plunged the USD-CAD below 1.3700. Going ahead, NAFTA-related uncertainty may however continue to circulate, and with short term implied valuations still looking stubborn on the downside, a rebound back above the pair above 1.3700 towards 1.3800 cannot be discounted.

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	-0.324	-0.170	-0.808	-0.638	0.886	-0.695	0.879	0.878	0.822	-0.208	-0.963
CHF	0.941	-0.310	-0.248	-0.747	-0.605	0.932	-0.687	0.932	0.777	0.786	-0.194	-0.947
MYR	0.892	-0.452	-0.440	-0.868	-0.849	0.900	-0.836	0.905	0.921	0.926	-0.321	-0.927
TWD	0.869	-0.297	-0.197	-0.750	-0.765	0.800	-0.667	0.802	0.820	0.817	-0.074	-0.860
INR	0.704	-0.565	-0.456	-0.821	-0.895	0.669	-0.804	0.663	0.846	0.863	-0.468	-0.760
KRW	0.680	-0.332	-0.061	-0.584	-0.618	0.610	-0.495	0.568	0.656	0.670	-0.056	-0.697
NZD	0.548	-0.699	-0.726	-0.787	-0.885	0.580	-0.863	0.608	0.728	0.821	-0.734	-0.682
AUD	0.499	-0.628	-0.762	-0.585	-0.555	0.598	-0.783	0.663	0.493	0.654	-0.681	-0.615
SGD	0.165	0.422	0.528	-0.065	-0.113	0.137	0.293	-0.072	0.204	0.059	0.588	-0.075
CNY	-0.170	0.726	1.000	0.522	0.634	-0.342	0.772	-0.381	-0.422	-0.599	0.835	0.365
CNH	-0.208	0.778	0.835	0.553	0.555	-0.299	0.703	-0.344	-0.453	-0.536	1.000	0.353
THB	-0.219	0.633	0.889	0.502	0.544	-0.306	0.706	-0.403	-0.381	-0.513	0.848	0.397
CCN12M	-0.276	0.640	0.856	0.567	0.648	-0.337	0.777	-0.403	-0.445	-0.627	0.710	0.459
USGG10	-0.324	1.000	0.726	0.717	0.686	-0.468	0.828	-0.485	-0.618	-0.730	0.778	0.507
IDR	-0.623	0.222	0.237	0.565	0.337	-0.783	0.505	-0.776	-0.576	-0.547	0.260	0.627
PHP	-0.670	0.386	0.504	0.718	0.618	-0.801	0.726	-0.809	-0.747	-0.747	0.441	0.686
JPY	-0.695	0.828	0.772	0.909	0.898	-0.742	1.000	-0.799	-0.853	-0.952	0.703	0.824
CAD	-0.897	0.511	0.444	0.862	0.791	-0.925	0.850	-0.933	-0.896	-0.912	0.443	0.925
GBP	-0.948	0.179	0.159	0.711	0.550	-0.881	0.627	-0.873	-0.770	-0.730	0.184	0.905
EUR	-0.963	0.507	0.365	0.908	0.779	-0.928	0.824	-0.927	-0.932	-0.926	0.353	1.000

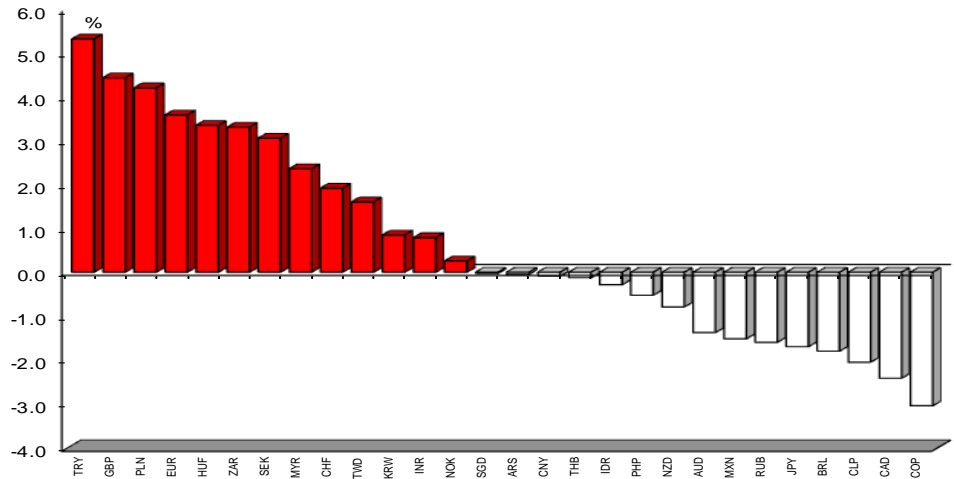
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0829	1.0900	1.0976	1.1000	1.1023
GBP-USD	1.2597	1.2900	1.2959	1.2989	1.3000
AUD-USD	0.7368	0.7388	0.7393	0.7400	0.7546
NZD-USD	0.6840	0.6900	0.6903	0.6977	0.7000
USD-CAD	1.3436	1.3600	1.3654	1.3700	1.3793
USD-JPY	111.67	112.00	112.85	113.00	113.13
USD-SGD	1.4011	1.4040	1.4049	1.4082	1.4100
EUR-SGD	1.5125	1.5400	1.5421	1.5486	1.5487
JPY-SGD	1.2370	1.2400	1.2449	1.2500	1.2546
GBP-SGD	1.7600	1.8200	1.8206	1.8261	1.8300
AUD-SGD	1.0332	1.0347	1.0385	1.0400	1.0544
Gold	1221.00	1225.72	1231.10	1249.38	1256.92
Silver	16.19	16.30	16.38	16.40	17.65
Crude	44.95	46.70	46.78	46.80	50.73

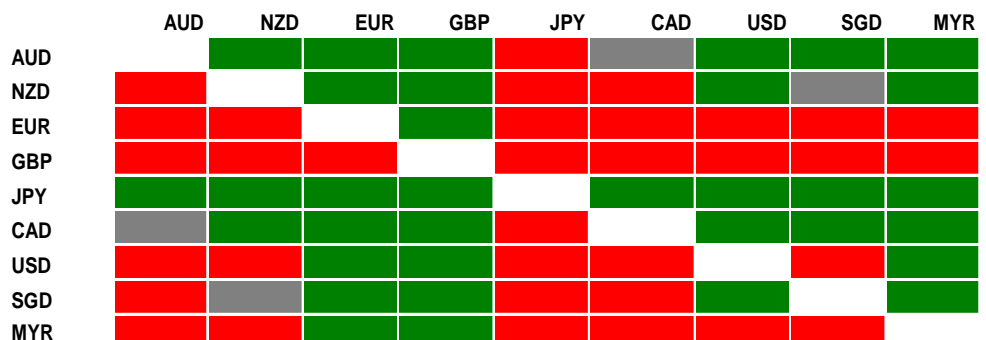
Source: OCBC Bank

FX performance: 1-month change agst USD



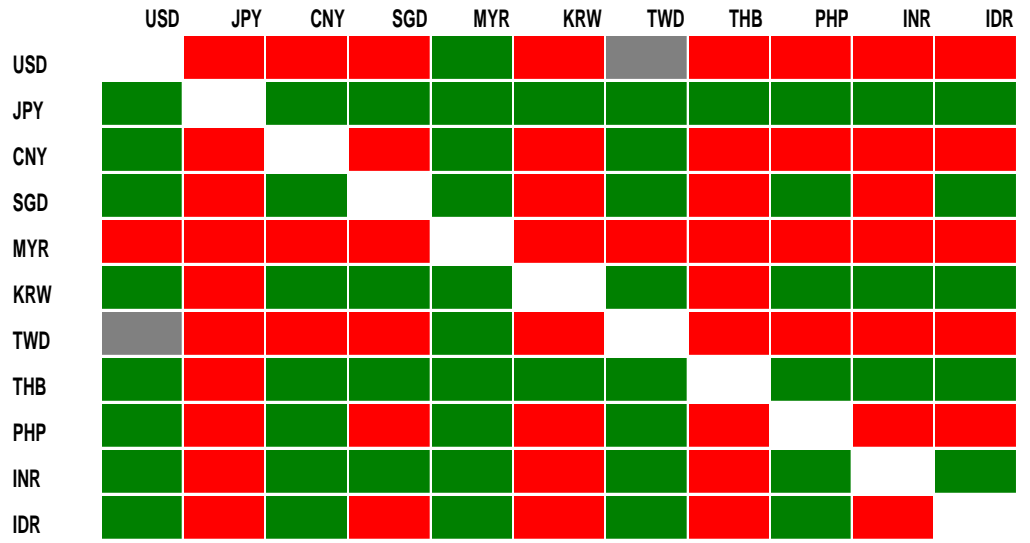
Source: Bloomberg

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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