

Monday, May 15, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The greenback was pulled lower on Friday across the board under the weight of softer than expected April core CPI and retail sales numbers pulled UST yields (belly outperforming) lower. Elsewhere, the G7 communique is not expected to elicit any significant market reaction despite watered down language with respect to trade.
- While the USD may be expected to start the week on the defensive, the EUR may also garner additional background resilience following a victory by Merkel's CDU in state elections. A press conference is scheduled for 12pm in Berlin on Monday.
- On the **CFTC** front, large non-commercial accounts pared their implied net long dollar bias in aggregate in the latest week but leveraged accounts increased their implied net long dollar balance and asset manager accounts reduced their net implied short dollar bias. In particular, we note that leveraged JPY positioning flipped from a net JPY long to a net JPY short balance in the latest week. **Overall, a slight shift towards the dollar in the latest week may risk some unwind if the greenback continues to underperform.**
- This week, look to the interplay of central bank rhetoric this week. The **ECB's** Nouy, Praet, and Angeloni kick off a week of fairly busy ECB appearances, with Draghi also due to make an appearance on Thursday. On this front, investors are still hoping for hints of hawkishness out of the ECB, although the Bundesbank's Weidmann noted on Saturday that domestic price pressures are developing very gradually.
- Meanwhile, **Fed-speak** is not expected till Thursday (Bullard and Mester) and Friday (Bullard and Williams). At this juncture, note that markets continue to struggle to price in another two Fed rate hikes for this year, although a hike at the June FOMC is essentially in the bag (according to FF futures implied pricing).
- On other fronts, look also to **RBA** meeting minutes on Tuesday as well as Australian April labor market numbers on Thursday. In Asia, the string of April data points out of **China** (retail sales, urban fixed asset investments, industrial production) today may provide some regional focus as well as further clarity on the **global reflation trade**, while **Bank Indonesia** is expected to stand pat on Thursday.

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Asian FX

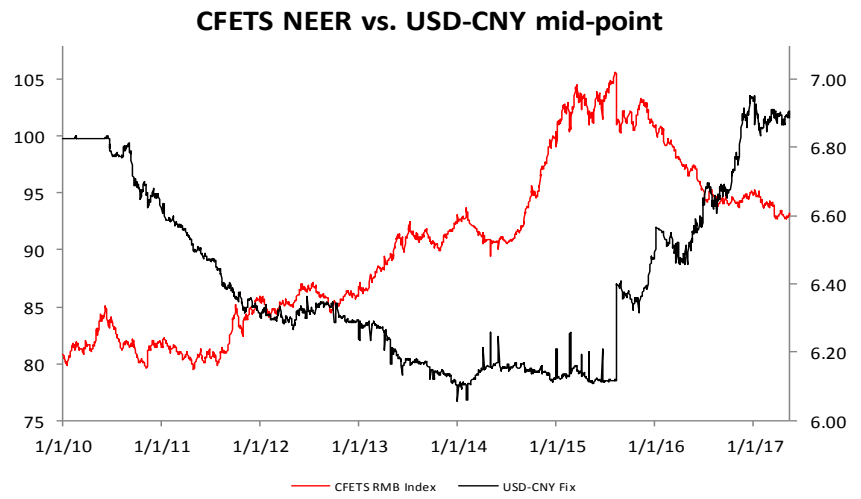
- **EPFR** data meanwhile still indicate net inflows into Asian (ex Japan, China) equities (albeit slightly reduced) while net inflows into Asian bonds weakened considerably in the latest week. If regional equity sentiment remains on an even keel (pending market reaction to the weekend North Korean missile test), this may well continue to underpin regional currencies amid a slightly vulnerable USD environment.
- As such, the **ACI (Asian Currency Index)** may test lower again for the fourth consecutive session. Meanwhile, global risk appetite levels may also remain conducive to supported regional currencies. The **FXSI (FX Sentiment Index)** ticked higher on Friday but remained very much in Risk-On territory.
- **SGD NEER:** This morning, the SGD NEER is slightly firmer on the day at around +0.05% above its perceived parity (1.4045). With the broad USD under negative pressure from Friday, NEER-implied USD-SGD thresholds are softer on the day, with -0.50% estimated at 1.4116 and +0.50% estimated at 1.3976. Technically, USD-SGD may run into a support zone at the 55-day MA (1.4023) before 1.4000 while 1.4085 may pose initial resistance.



	SGD NEER	% deviation	USD-SGD
Current	124.31	0.04	1.4039
+2.00%	126.74		1.3770
Parity	124.26		1.4045
-2.00%	121.77		1.4332

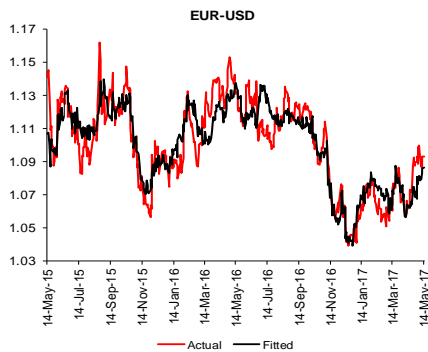
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a lower than expected 6.8852, from 6.8948 on Friday. This however still left the **CFETS RMB Index** slightly lower at 93.04, compared to 93.06. At this juncture, stability of the Index we think remains the principle objective, with the mid-points absorbing the resultant (relatively higher) volatility.



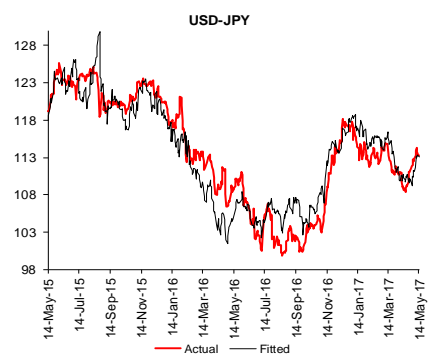
Source: OCBC Bank, Bloomberg

G7



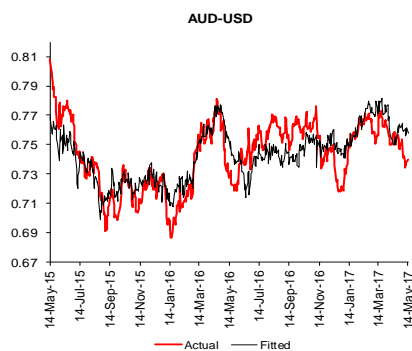
Source: OCBC Bank

- EUR-USD** With the EUR-USD softening in the face of recently firming short term implied valuations, the pair is no longer perceived to be overly stretched on the upside. ECB forward guidance we think may be the principle driver in the -coming sessions. In the interim, the pair may remain relatively aloft, with support seen towards 1.0875-1.0900 while 1.0950 on the topside continues to be eyed.



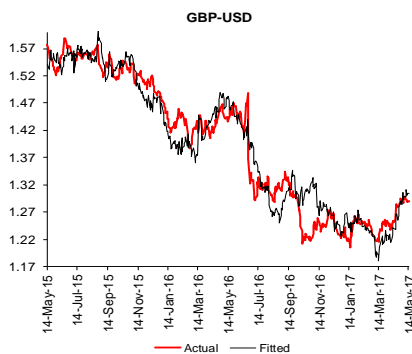
Source: OCBC Bank

- USD-JPY** Intra-day, we find that short term implied valuations remain supported while the weekend North Korean missile test has also not disrupted market sentiment. Expect initial support towards the 100-day MA (112.98), a near term Fibo support at 112.90, and the 55-day MA (111.90). Expect investors to potentially accumulate on dips pending Fed-speak, especially if global risk appetite levels remain underpinned.



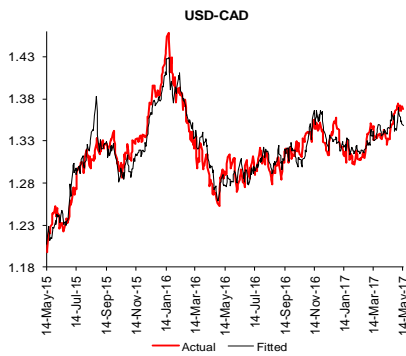
Source: OCBC Bank

- AUD-USD** The string of China April data points this morning came in slightly below prior market expectations and this may keep the 0.7400 level overhead for the AUD-USD intra-day – in line with slightly heavy short term implied valuations. For today, any failure to retake 0.7400 risks 0.7350. Pending domestic news flow this week, investors meanwhile may take comfort from expectations that the Chinese authorities remain largely supportive of growth – blunting excessive down moves in the AUD-USD.



Source: OCBC Bank

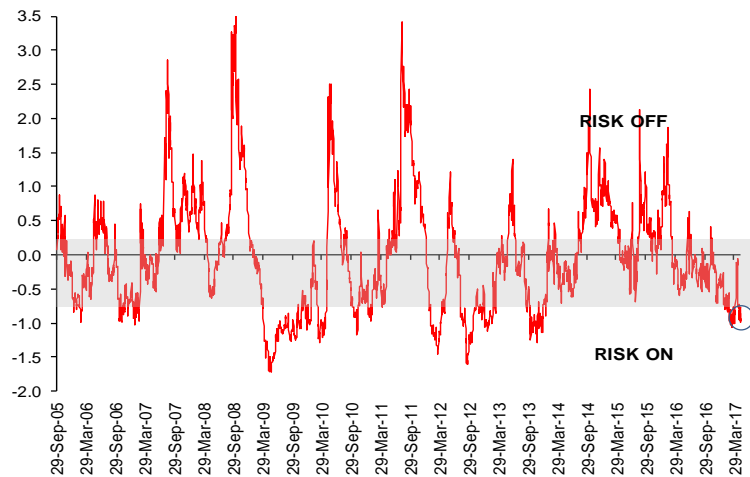
- GBP-USD** Despite a neutral BOE last week, short term implied valuations for the GBP-USD still remain perched at firmer levels ahead of the busy data calendar this week. While near term upside impetus may be stalling for now, expect some support to materialize into 1.2800 while 1.3000 is still seen capping.



Source: OCBC Bank

- USD-CAD** USD-CAD floated higher slightly on Friday to end a touch firmer on the week as investors remained nervous towards the loonie. Note that on the CFTC front, leveraged accounts increased their net implied CAD shorts again in the latest week to levels not seen since 2014, although the caveat is that leveraged positioning as a proportion of net open interest is now at extreme levels. This heightens the risk of a near term sharp retracement lower (with short term implied valuations also softening in tandem). Range trade 1.3600-1.3800 in the interim.

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	-0.302	-0.323	-0.630	-0.378	0.547	-0.366	0.504	0.694	0.561	-0.210	-0.876
TWD	0.736	-0.563	-0.557	-0.814	-0.733	0.601	-0.645	0.611	0.822	0.785	-0.422	-0.840
INR	0.722	-0.410	-0.372	-0.674	-0.597	0.406	-0.480	0.389	0.693	0.615	-0.309	-0.711
MYR	0.720	-0.746	-0.815	-0.912	-0.856	0.801	-0.867	0.822	0.924	0.930	-0.703	-0.889
CHF	0.702	0.270	0.189	-0.036	0.209	0.174	0.252	0.090	0.085	-0.025	0.349	-0.390
KRW	0.581	-0.587	-0.432	-0.709	-0.646	0.518	-0.535	0.491	0.716	0.666	-0.417	-0.711
NZD	0.495	-0.695	-0.780	-0.811	-0.861	0.625	-0.816	0.670	0.795	0.832	-0.709	-0.742
SGD	0.183	0.733	0.768	0.460	0.565	-0.513	0.731	-0.603	-0.344	-0.547	0.782	0.226
AUD	0.175	-0.816	-0.922	-0.685	-0.757	0.728	-0.883	0.794	0.612	0.774	-0.859	-0.547
IDR	0.014	0.551	0.638	0.441	0.502	-0.613	0.632	-0.642	-0.398	-0.529	0.679	0.312
CNH	-0.210	0.869	0.917	0.795	0.804	-0.756	0.877	-0.763	-0.738	-0.820	1.000	0.571
USGG10	-0.302	1.000	0.837	0.879	0.857	-0.795	0.928	-0.825	-0.808	-0.907	0.869	0.675
CNY	-0.323	0.837	1.000	0.823	0.850	-0.800	0.931	-0.857	-0.774	-0.880	0.917	0.668
CCN12M	-0.357	0.775	0.929	0.780	0.786	-0.726	0.889	-0.799	-0.725	-0.839	0.839	0.659
PHP	-0.366	0.581	0.766	0.689	0.645	-0.776	0.701	-0.764	-0.657	-0.715	0.678	0.583
JPY	-0.366	0.928	0.931	0.912	0.948	-0.778	1.000	-0.851	-0.851	-0.962	0.877	0.745
THB	-0.374	0.767	0.925	0.759	0.830	-0.716	0.894	-0.776	-0.723	-0.819	0.874	0.675
CAD	-0.584	0.761	0.862	0.870	0.864	-0.845	0.887	-0.883	-0.862	-0.918	0.763	0.853
GBP	-0.651	0.555	0.746	0.727	0.629	-0.784	0.693	-0.772	-0.715	-0.738	0.687	0.783
EUR	-0.876	0.675	0.668	0.890	0.733	-0.795	0.745	-0.800	-0.904	-0.872	0.571	1.000

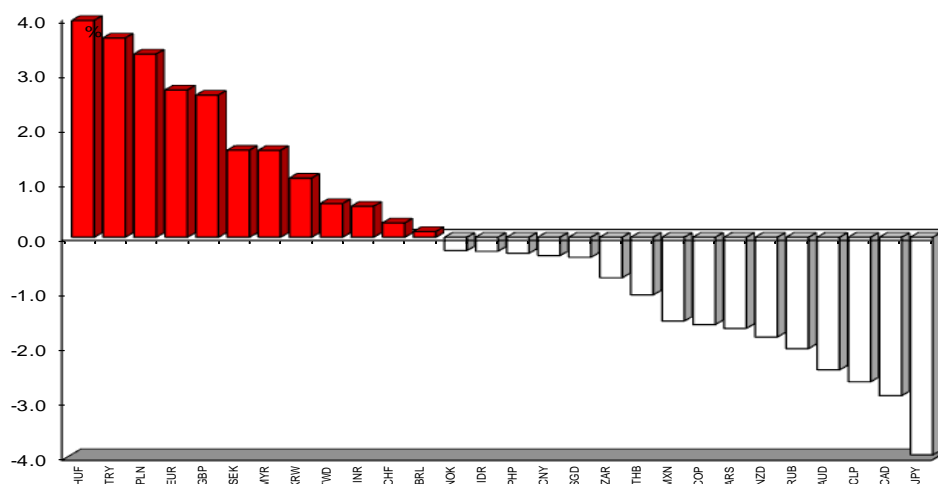
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0823	1.0900	1.0928	1.1000	1.1023
GBP-USD	1.2767	1.2800	1.2887	1.2900	1.2989
AUD-USD	0.7329	0.7400	0.7401	0.7500	0.7540
NZD-USD	0.6804	0.6818	0.6876	0.6900	0.6957
USD-CAD	1.3471	1.3700	1.3709	1.3793	1.3800
USD-JPY	111.68	113.00	113.39	114.00	114.37
USD-SGD	1.4000	1.4009	1.4030	1.4100	1.4105
EUR-SGD	1.5135	1.5300	1.5332	1.5400	1.5487
JPY-SGD	1.2300	1.2325	1.2373	1.2400	1.2543
GBP-SGD	1.7765	1.8000	1.8082	1.8100	1.8276
AUD-SGD	1.0308	1.0330	1.0385	1.0400	1.0547
Gold	1202.12	1214.30	1229.10	1246.97	1254.18
Silver	16.03	16.40	16.43	16.50	17.46
Crude	44.93	47.90	47.91	48.00	49.97

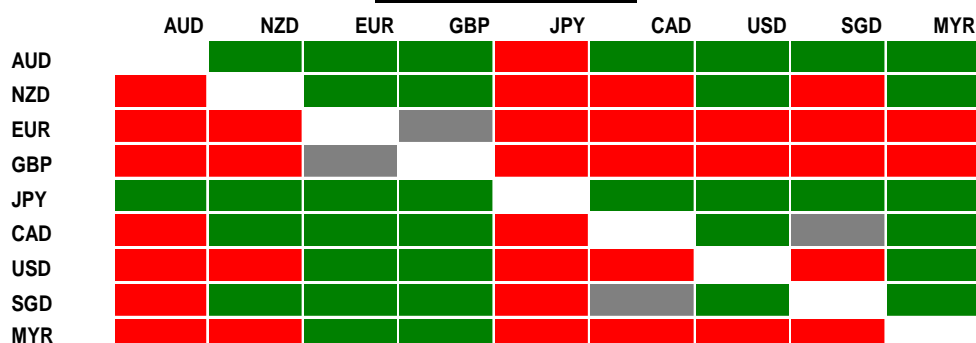
Source: OCBC Bank

FX performance: 1-month change agst USD



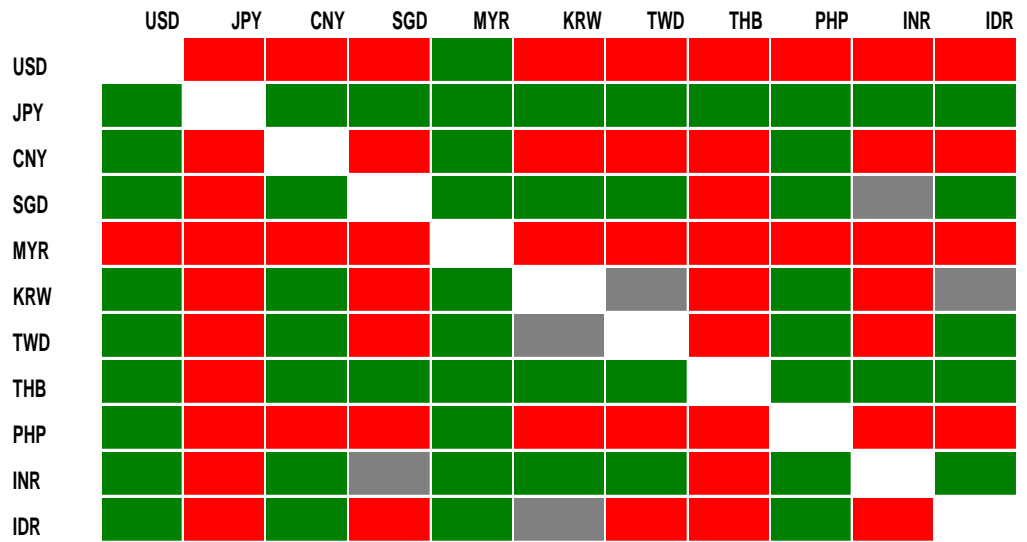
Source: Bloomberg

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	02-May-17	B	USD-JPY	112.08	114.45 110.85	USD resilience against JPY ahead of FOMC/NFP		
STRUCTURAL								
5	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		
6	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
2	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298	1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
3	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**
4	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
5	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
6	26-Apr-17	05-May-17	B	USD-CAD	1.3563	1.3670	Potential heightening of trade tensions with the US; soggy crude	+0.80
* realized **of notional							Jan-Mar 2017 Return -11.88	
							2016 Return +6.91	

Source: OCBC Bank

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