

Tuesday, May 16, 2017

**FX Themes/Strategy/Trading Ideas**

- The broad dollar retreated again (despite stable to mildly firmer UST yields) on Monday as the May Empire manufacturing Index disappointed at -1.0 (mkts: +7.5), while a jump in crude (subsequently shadowed by the commodity complex) also fueled the cyclical higher. Not surprisingly, the CAD led the way higher, with USD-CAD slumping to near the 1.3600 neighborhood.
- With risk appetite sanguine (note positive global equities), the JPY also underperformed across the board. Specifically, positive risk appetite levels remained bolstered with the **FXSI (FX Sentiment Index)** dipping lower again within **Risk-On** territory on Monday.
- While it remains to be seen if the crude oil-driven optimism may grant more than transient traction to the cyclicals/EM (note that China data flow has been less than inspiring), still positive risk appetite levels and a vulnerable greenback (market continue to struggle to price in another two hikes this year) may be expected to impart a positive tailwind for the cyclicals/EM in the interim.
- We continue to remain constructive to potential EUR-USD upside in the interim. Risk appetite plays meanwhile may remain volatile, although this may continue to lend support to the USD-JPY despite a patchy greenback.
- Today, look to RBA meeting minutes (0130 GMT) for further cues for the AUD, while any outperformance by the German ZEW (0900 GMT) may continue to underpin the EUR. On this front, the ECB's Nowotny (1530 GMT) and Coeure (1700 GMT) are scheduled today.

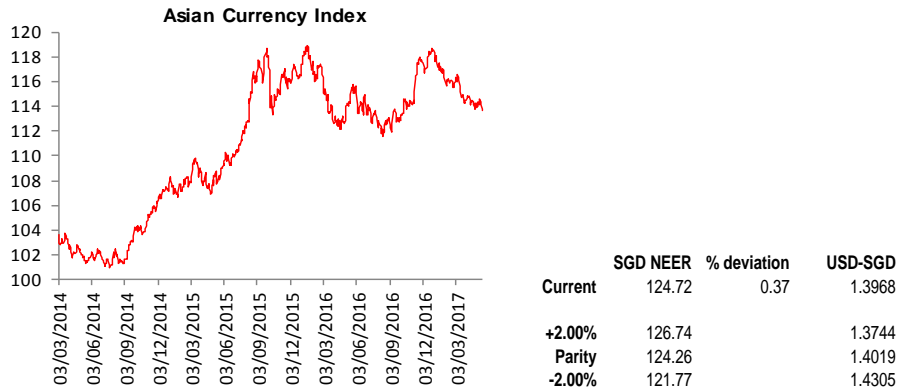
**Asian FX**

- Elsewhere, a vulnerable USD and a conducive environment for cyclicals also benefitted EM FX, with USD-Asia likely looking heavy into Tuesday in Asia. With regards to net portfolio inflows in Asia, expect intrinsic support for the KRW, TWD, with positive momentum in net portfolio inflows also recovering for the INR and THB. Meanwhile, the IDR and the PHP may be hampered slightly by a moderation in inflow momentum. Overall, we would still look for the **ACI (Asian Currency Index)** to head lower for the fifth consecutive session.
- **SGD NEER:** In the wake of a broad dollar retreat, the SGD NEER is noticeably firmer on the day at +0.36% above its perceived parity (1.4019).

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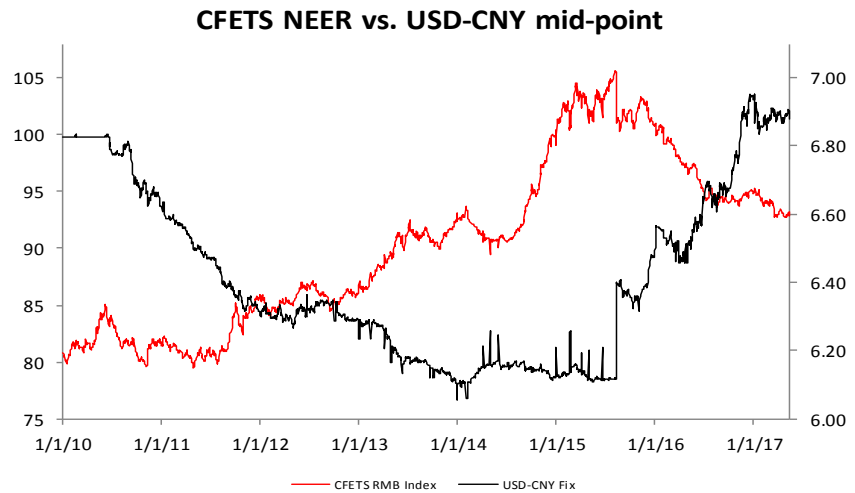
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Not surprisingly, NEER-implied USD-SGD thresholds are softer on the day with +0.50% estimated at 1.3949. Expect some stalling in SGD NEER upside towards +0.80% (1.3908). For the USD-SGD, the 200-day MA (1.4003) was breached on Monday and now serves as an immediate resistance, with 1.3925/30 attracting if 1.3950 is violated intra-day.



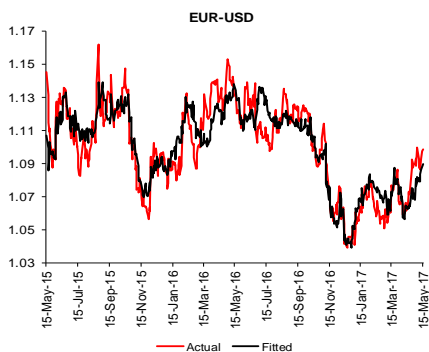
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point came in lower than expected once again at 6.8790 from 6.8852 on Monday. However, this still pulled the **CFETS RMB Index** lower for the third consecutive session to 92.81 from 93.04. We note the increased tracking error between market estimates and the eventual mid-points in recent weeks, although the end result has been that the **CFETS RMB Index** has continually tracked the broad dollar lower (i.e., positive correlation) – sustaining the regime change witnessed since the onset of the year.



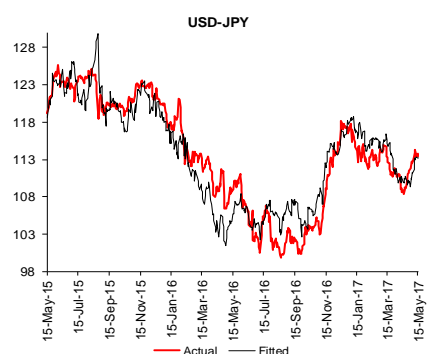
Source: OCBC Bank, Bloomberg

**G7**



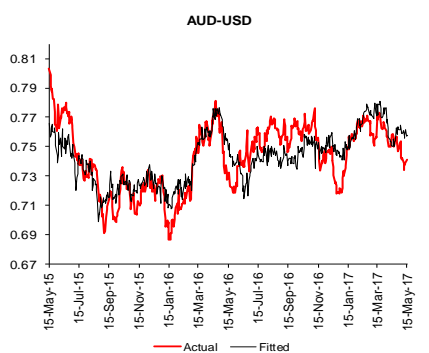
Source: OCBC Bank

- EUR-USD** Firmer short term implied valuations once again may continue to generate lift for the EUR-USD in the near term. Pending ECB rhetoric later today, investors may continue to look towards waypoints at the psychological 1.1000, ahead of 1.1050.



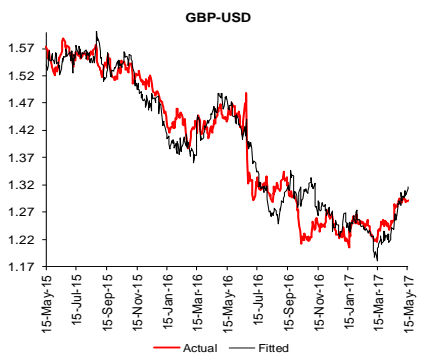
Source: OCBC Bank

- USD-JPY** USD-JPY may still remain supported on dips (in line with short term implied valuations) given a sanguine risk appetite environment and despite a somewhat wobbly USD narrative. In the interim, investors may continue to accumulate dips within 113.00-114.00.



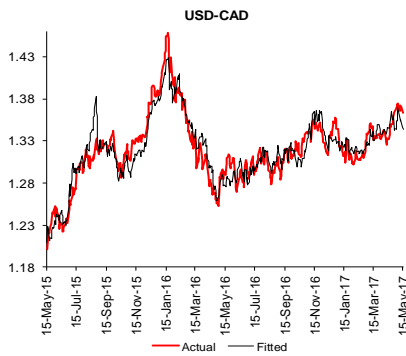
Source: OCBC Bank

- AUD-USD** The AUD-USD rode higher on the back of the commodity complex on Monday while disregarding background China concerns. RBA meeting minutes early Tuesday were mildly neutral (with a hint of optimism) but markets eventually faded the initial uptick in the AUD-USD. As alluded to yesterday, short term implied valuations for the pair remain top heavy, and the pair runs the risk of submerging to sub-0.7400 levels towards 0.7380 once again once/if the euphoria surround crude dissipates.



Source: OCBC Bank

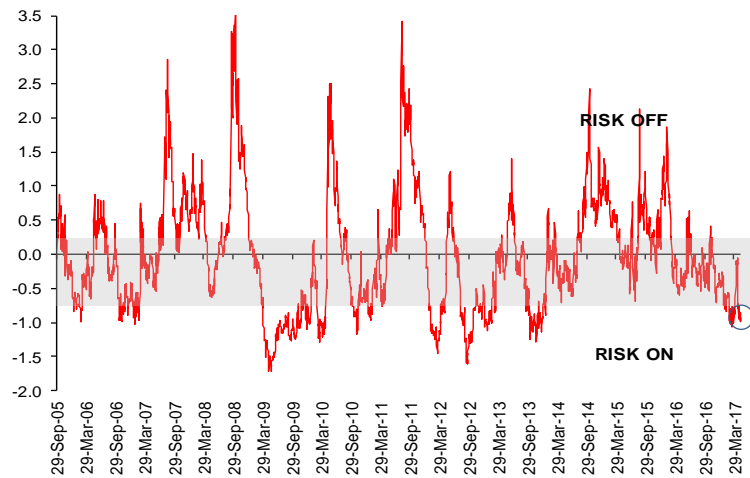
- GBP-USD** GBP-USD came off intra-day highs on Monday but managed to clock a firmer close on the day on Monday. The pair remains trapped within 1.2800-1.3000 and remain conflicted, given that technical are a touch heavy and leveraged shorts have already been pared substantially (limiting position squeezes) but our short term implied valuations continue to climb. A potential trigger for another up move may come in the form of the raft of April CPI/RPI/PPI numbers due today.



Source: OCBC Bank

- USD-CAD** The loonie made the most of the jump in crude prices on Monday and short term implied valuations have also been undermined as a result. Markets may continue to fade upticks in the short term, especially if 1.3600 continues to be threatened (next pit stop estimated at 1.3565).

### 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	-0.319	-0.314	-0.648	-0.416	0.505	-0.398	0.488	0.700	0.580	-0.186	-0.884
TWD	0.744	-0.572	-0.547	-0.819	-0.737	0.566	-0.657	0.599	0.826	0.791	-0.403	-0.843
MYR	0.733	-0.752	-0.790	-0.917	-0.861	0.744	-0.874	0.795	0.924	0.934	-0.665	-0.896
INR	0.732	-0.436	-0.347	-0.701	-0.651	0.328	-0.537	0.356	0.691	0.643	-0.266	-0.735
CHF	0.708	0.265	0.189	-0.041	0.188	0.169	0.197	0.104	0.087	-0.018	0.343	-0.412
KRW	0.614	-0.598	-0.412	-0.738	-0.697	0.432	-0.593	0.459	0.715	0.695	-0.365	-0.743
NZD	0.516	-0.700	-0.765	-0.818	-0.858	0.586	-0.817	0.643	0.798	0.838	-0.659	-0.749
SGD	0.205	0.716	0.766	0.429	0.507	-0.516	0.633	-0.597	-0.331	-0.518	0.783	0.149
AUD	0.196	-0.819	-0.908	-0.696	-0.760	0.690	-0.879	0.771	0.619	0.781	-0.812	-0.562
IDR	0.041	0.522	0.634	0.391	0.416	-0.619	0.564	-0.640	-0.371	-0.481	0.681	0.264
CNH	-0.186	0.851	0.915	0.752	0.731	-0.757	0.781	-0.759	-0.720	-0.783	1.000	0.483
PHP	-0.288	0.525	0.742	0.581	0.498	-0.777	0.584	-0.744	-0.591	-0.617	0.670	0.472
CNY	-0.314	0.829	1.000	0.796	0.797	-0.795	0.895	-0.857	-0.765	-0.856	0.915	0.642
USGG10	-0.319	1.000	0.829	0.877	0.843	-0.766	0.921	-0.816	-0.811	-0.906	0.851	0.680
CCN12M	-0.327	0.752	0.925	0.728	0.701	-0.729	0.801	-0.796	-0.701	-0.792	0.838	0.583
THB	-0.374	0.761	0.924	0.738	0.782	-0.708	0.843	-0.778	-0.718	-0.801	0.866	0.644
JPY	-0.398	0.921	0.895	0.917	0.950	-0.711	1.000	-0.790	-0.848	-0.963	0.781	0.770
CAD	-0.583	0.761	0.860	0.856	0.830	-0.831	0.851	-0.881	-0.860	-0.906	0.747	0.816
GBP	-0.650	0.558	0.743	0.721	0.616	-0.766	0.691	-0.765	-0.716	-0.734	0.667	0.769
EUR	-0.884	0.680	0.642	0.896	0.754	-0.728	0.770	-0.733	-0.899	-0.879	0.483	1.000

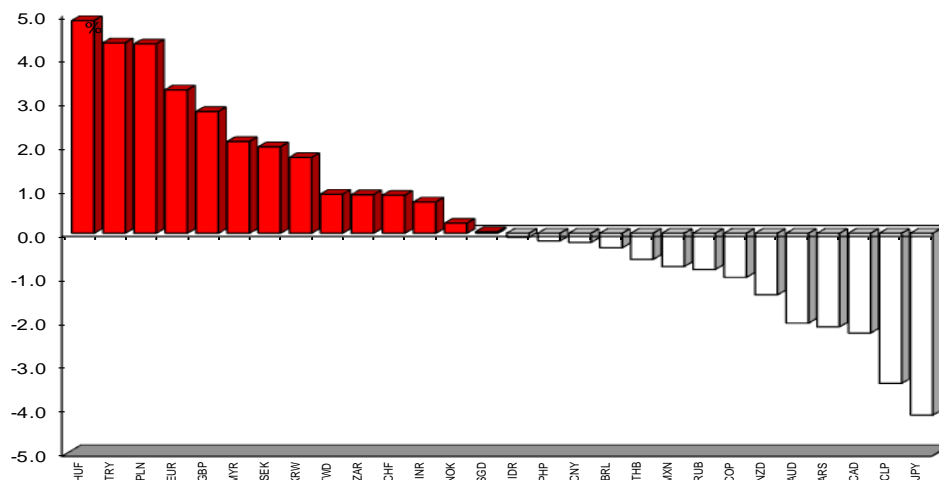
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0823	1.0900	1.0988	1.1000	1.1023
GBP-USD	1.2771	1.2900	1.2914	1.2989	1.2995
AUD-USD	0.7329	0.7400	0.7431	0.7500	0.7538
NZD-USD	0.6818	0.6900	0.6906	0.6957	0.7000
USD-CAD	1.3473	1.3600	1.3621	1.3700	1.3793
USD-JPY	111.68	113.00	113.61	114.00	114.37
USD-SGD	1.3900	1.3907	1.3974	1.3993	1.4000
EUR-SGD	1.5137	1.5300	1.5355	1.5400	1.5487
JPY-SGD	1.2200	1.2280	1.2299	1.2300	1.2540
GBP-SGD	1.7773	1.8000	1.8046	1.8100	1.8273
AUD-SGD	1.0304	1.0330	1.0384	1.0400	1.0548
Gold	1202.16	1214.30	1232.50	1247.09	1253.56
Silver	16.03	16.60	16.64	16.70	17.44
Crude	45.38	49.10	49.11	49.20	49.88

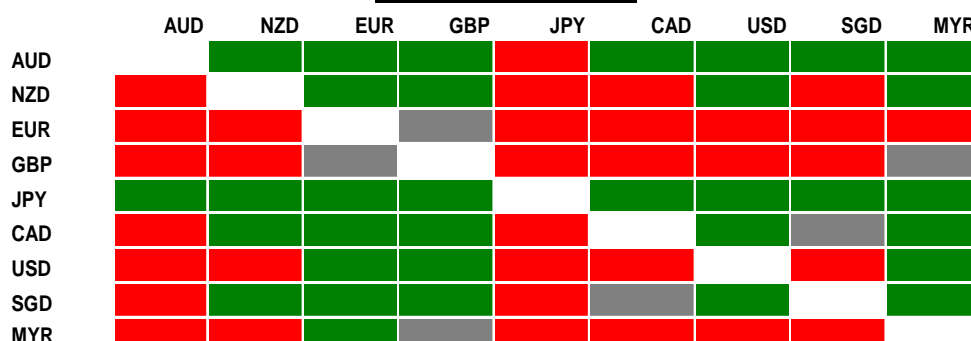
Source: OCBC Bank

**FX performance: 1-month change agst USD**



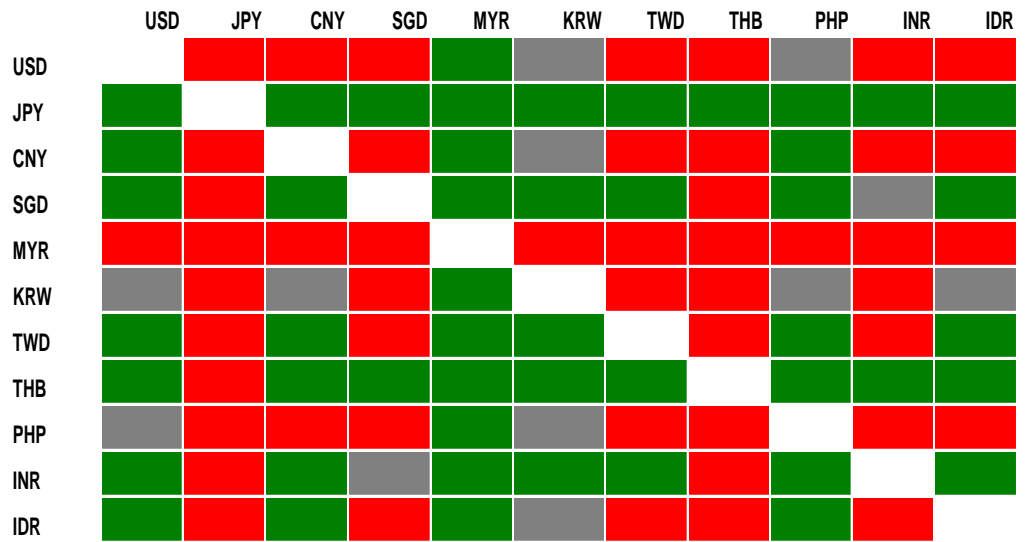
Source: Bloomberg

**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		
<b>TACTICAL</b>								
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	02-May-17	B	USD-JPY	112.08	114.45	110.85	USD resilience against JPY ahead of FOMC/NFP	
<b>STRUCTURAL</b>								
4								
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		
5	09-May-17	B	GBP-USD	1.2927	1.3500	1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
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 heightening of trade tensions with the US; soggy crude	+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
7	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
* realized **of notional							Jan-Mar 2017 Return	-11.88
							2016 Return	+6.91

Source: OCBC Bank

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