

Wednesday, May 17, 2017

## FX Themes/Strategy/Trading Ideas

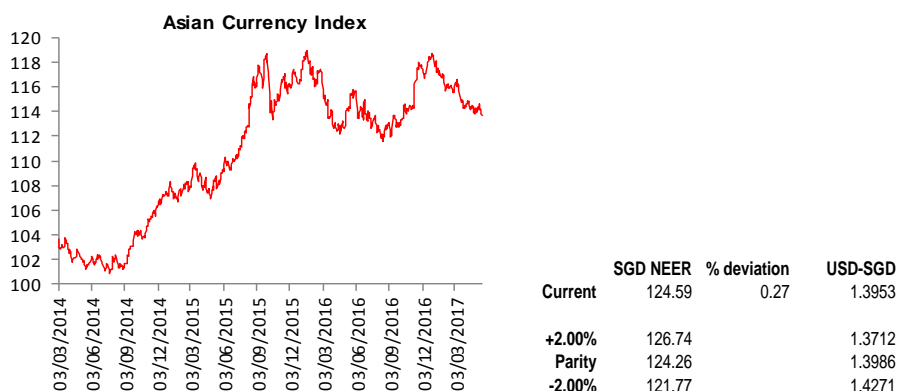
- The EUR-USD continued to hog the spotlight on Tuesday as the USD continued to slide across G10 space. With political risk premium compression still serving as a backdrop, the EUR continued to witness buying interest with the German May ZEW and EZ March trade surplus outstripping expectations. Investors meanwhile also disregarded sufficiently dovish/neutral comments from the ECB's Coeure. Look towards any firmer than expected April EZ CPI numbers (0900 GMT) to provide further fodder for EUR bulls.
- The greenback was undermined by Trump security concerns (you couldn't make this up even if you tried) and another layer of disappointing economic releases. April housing starts and building permits came in on the wrong side of expectations on Tuesday although April industrial production outperformed expectations. The resultant drop in UST yields eroded yield support for the greenback.
- Apart from USD vulnerability, we note also that the cyclicals (AUD, NZD, CAD) also underperformed across G10 space as commodities (including crude) headed south. **Thus, although EM FX also rode higher on Tuesday with Asian FX generally responding in tandem, we remain on the lookout for a further impingement on the global deflation trade.** On this front, note that WTI crude is currently threatening the 48.00 handle.
- For today, lessened headline risk from the scheduled calendar (no ECB or Fed appearances) from both sides of the Atlantic may see some consolidative price action although the path of least resistance may remain one of dollar vulnerability. On other fronts, ones to watch include Australia's 1Q wage price index (0130 GMT) and UK labor market numbers. **Overall, higher beta views for today potentially include a potentially firmer EUR-USD and softer USD-JPY. The fate of the cyclicals we think remain finely balanced with inherent risks of negativity continuing to seep in.**
- Going ahead, we note that the pace of economic activity in the China/EM/Asian complex may likely continue to have room to capitulate lower in the coming months (referencing the respective manufacturing PMIs and Macro Surprise Indices). In short, with the global deflation narrative still at risk of de-gassing, we think the **AUD-USD** may remain vulnerable to a downward drift, especially with the RBA still essentially on a neutral rut. From a spot ref of 0.7407 on Tuesday, we target 0.6890 and place a stop at 0.7670.

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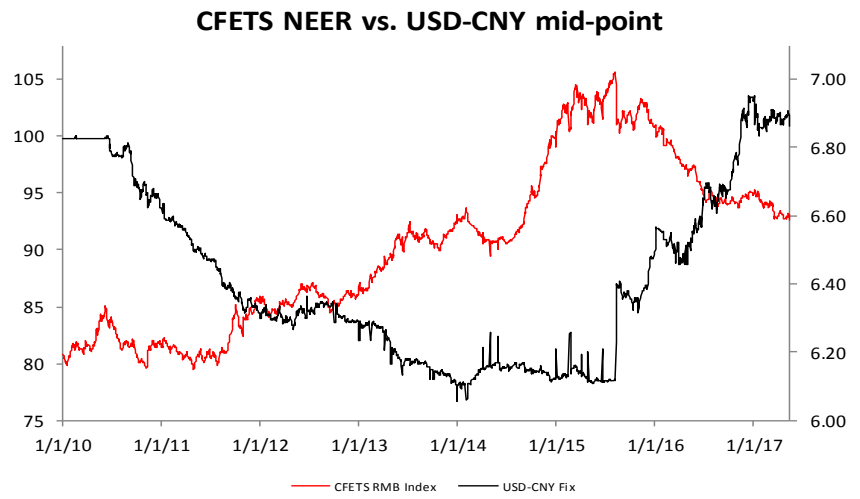
### Asian FX

- Despite a weak greenback backdrop, Asian equities in the red on Wednesday morning and the threat of deeper risk aversion (note anecdotal spread buying) may temper USD-Asia downside. On the risk appetite front, note that the **FXSI (FX Sentiment Index)** slipped deeper into Risk-On territory on Tuesday but the situation remains fluid. As such, the **ACI (Asian Currency Index)** may stabilize slightly today after its recent descent and despite its structural model still portending a top heavy posture. Elsewhere, Asian net portfolio inflows meanwhile show some moderation in inflows for the KRW, PHP and the IDR, while underlying support for the TWD, THB and INR has been improving.
- **SGD NEER:** Despite a heavy broad dollar, a slightly more reluctant USD-SGD on the downside sees the SGD NEER slightly softer on the day at around +0.27% above its perceived parity (1.3986). NEER-implied USD-SGD thresholds are easier on the day, creating space for further heaviness in the pair (disappointing Apr NODX notwithstanding). However, note intrinsic supports for USD-SGD at the +0.50% threshold (1.3917) and +0.80% (1.3875).



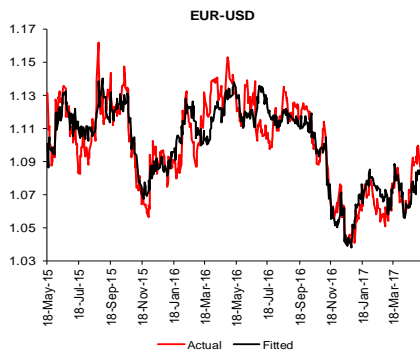
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point this morning was set below expectations again at 6.8635 (largest daily % chg since 19 Apr 17) from 6.8790. This however still resulted in an as expected drop in the **CFETS RMB Index** to 92.64 (lowest year-to-date) from 92.80 yesterday. This reinforces what we highlighted yesterday: 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.



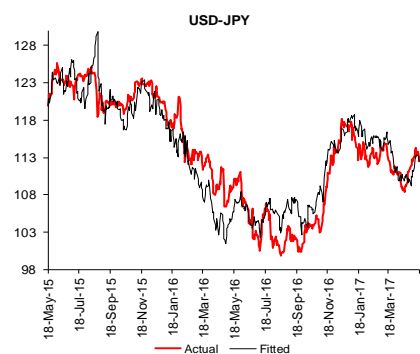
Source: OCBC Bank, Bloomberg

**G7**



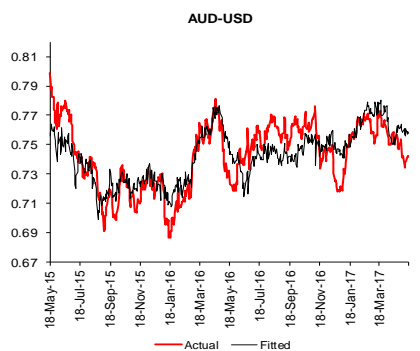
Source: OCBC Bank

- EUR-USD** On the macro front, our MSIs (Macro Surprise Indices) for the EZ have continued to recover and this may continue to encourage a structurally firmer EUR-USD. With short term implied valuations also jacked, the pair may be tempted beyond 1.1100 on a sustained basis towards 1.1170 before 112.50 on a multi-session basis.



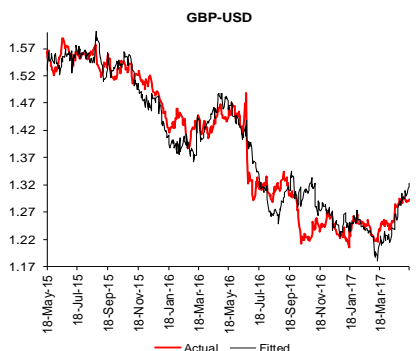
Source: OCBC Bank

- USD-JPY** Increasingly entrenched USD weakness weighed on the USD-JPY, with the pair cracking below 113.00 to 112.50 (Flynn-Comey headlines) as markets continued to pile on political risk premiums onto the greenback. The **DX** (now looking decidedly bearish) is a hair's breath away from pre-US election levels and USD-JPY weakness may also be aggravated (short term implied valuations are lower) by any potential heightening of risk aversion. If the Fibonaci support at 112.90 is lost convincingly, the next 382 Fibonaci support kicks in only at 111.99.



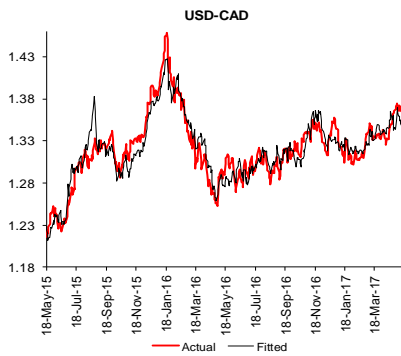
Source: OCBC Bank

- AUD-USD** Markets were less than impressed with the as expected Aussie 1Q wage numbers this morning and note similar skepticism yesterday post RBA meeting minutes on Tuesday. Short term implied valuations continue to drip lower in the interim. We remain tactically heavy on the pair and a failure to re-take 0.7450/80 risks 0.7365.



Source: OCBC Bank

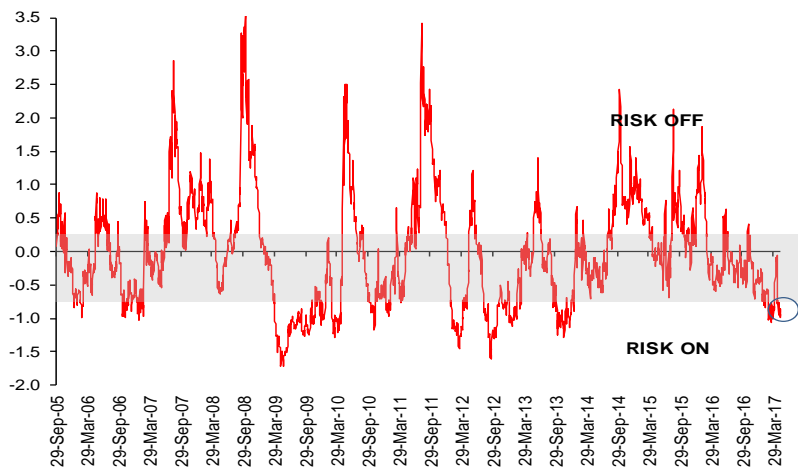
- GBP-USD** Despite warmer than expected UK inflation prints, the GBP-USD traded choppy before heading higher on eventual USD weakness. Apart from the EUR, look towards domestic wage/labor data points for further cues, with short term implied valuations still buoyant at this juncture. Expect investors to accumulate on dips within 1.2865-1.3000.



- USD-CAD** USD-CAD also tripped lower on Tuesday despite softer crude – underscoring the increasing negativity enveloping the USD. Meanwhile, short term implied valuations continue to percolate lower for the USD-CAD and a sustained breach of 1.3600 may pave the way to 1.3565 and 1.3500.

Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

| Security | DXY    | USGG10 | CNY    | SPX    | MSELCA | CRY    | JPY    | CL1    | VIX    | ITRXEX | CNH    | EUR    |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY      | 1.000  | -0.304 | -0.168 | -0.650 | -0.506 | 0.396  | -0.424 | 0.420  | 0.647  | 0.613  | 0.039  | -0.907 |
| INR      | 0.758  | -0.439 | -0.267 | -0.719 | -0.689 | 0.290  | -0.562 | 0.341  | 0.687  | 0.674  | -0.115 | -0.765 |
| CHF      | 0.758  | 0.221  | 0.243  | -0.116 | 0.038  | 0.128  | 0.077  | 0.110  | 0.116  | 0.082  | 0.507  | -0.585 |
| MYR      | 0.742  | -0.744 | -0.693 | -0.921 | -0.871 | 0.698  | -0.878 | 0.768  | 0.916  | 0.939  | -0.483 | -0.893 |
| KRW      | 0.737  | -0.542 | -0.237 | -0.726 | -0.736 | 0.331  | -0.598 | 0.403  | 0.655  | 0.716  | -0.060 | -0.808 |
| TWD      | 0.733  | -0.571 | -0.485 | -0.827 | -0.750 | 0.535  | -0.669 | 0.586  | 0.825  | 0.802  | -0.289 | -0.834 |
| NZD      | 0.521  | -0.700 | -0.710 | -0.823 | -0.853 | 0.565  | -0.821 | 0.645  | 0.800  | 0.841  | -0.486 | -0.713 |
| SGD      | 0.268  | 0.691  | 0.775  | 0.374  | 0.409  | -0.519 | 0.583  | -0.564 | -0.307 | -0.444 | 0.789  | -0.013 |
| AUD      | 0.230  | -0.818 | -0.865 | -0.702 | -0.753 | 0.674  | -0.882 | 0.775  | 0.624  | 0.781  | -0.635 | -0.544 |
| IDR      | 0.120  | 0.502  | 0.645  | 0.342  | 0.324  | -0.621 | 0.516  | -0.630 | -0.345 | -0.413 | 0.684  | 0.162  |
| CNH      | 0.039  | 0.768  | 0.905  | 0.610  | 0.522  | -0.729 | 0.609  | -0.645 | -0.633 | -0.609 | 1.000  | 0.100  |
| PHP      | -0.147 | 0.505  | 0.751  | 0.521  | 0.402  | -0.776 | 0.535  | -0.733 | -0.558 | -0.539 | 0.680  | 0.336  |
| CNY      | -0.168 | 0.801  | 1.000  | 0.726  | 0.677  | -0.793 | 0.834  | -0.842 | -0.728 | -0.764 | 0.905  | 0.485  |
| CCN12M   | -0.280 | 0.750  | 0.908  | 0.712  | 0.662  | -0.728 | 0.807  | -0.795 | -0.698 | -0.765 | 0.736  | 0.496  |
| USGG10   | -0.304 | 1.000  | 0.801  | 0.869  | 0.814  | -0.759 | 0.916  | -0.814 | -0.811 | -0.890 | 0.768  | 0.636  |
| THB      | -0.321 | 0.758  | 0.909  | 0.720  | 0.733  | -0.706 | 0.813  | -0.771 | -0.714 | -0.770 | 0.789  | 0.491  |
| JPY      | -0.424 | 0.916  | 0.834  | 0.919  | 0.940  | -0.686 | 1.000  | -0.805 | -0.848 | -0.961 | 0.609  | 0.722  |
| CAD      | -0.500 | 0.759  | 0.844  | 0.837  | 0.782  | -0.829 | 0.846  | -0.882 | -0.856 | -0.875 | 0.656  | 0.688  |
| GBP      | -0.615 | 0.560  | 0.703  | 0.725  | 0.616  | -0.750 | 0.702  | -0.764 | -0.719 | -0.735 | 0.508  | 0.721  |
| EUR      | -0.907 | 0.636  | 0.485  | 0.879  | 0.784  | -0.622 | 0.722  | -0.650 | -0.847 | -0.876 | 0.100  | 1.000  |

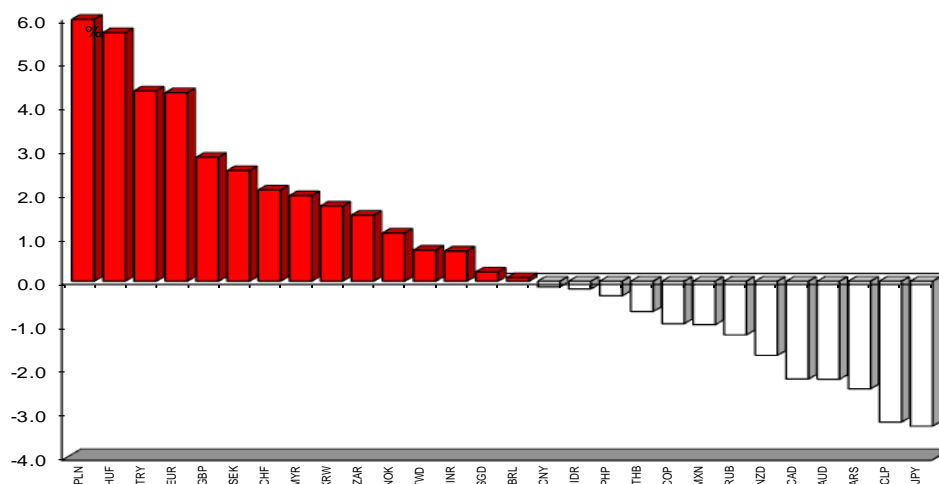
Source: Bloomberg

**Immediate technical support and resistance levels**

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1000  | 1.1094  | 1.1098  | 1.1099  | 1.1100  |
| GBP-USD | 1.2790  | 1.2900  | 1.2916  | 1.2989  | 1.2990  |
| AUD-USD | 0.7329  | 0.7400  | 0.7415  | 0.7500  | 0.7536  |
| NZD-USD | 0.6811  | 0.6818  | 0.6884  | 0.6900  | 0.6955  |
| USD-CAD | 1.3480  | 1.3600  | 1.3616  | 1.3700  | 1.3730  |
| USD-JPY | 111.64  | 112.00  | 112.60  | 113.00  | 114.37  |
| USD-SGD | 1.3900  | 1.3907  | 1.3952  | 1.3996  | 1.4000  |
| EUR-SGD | 1.5140  | 1.5400  | 1.5483  | 1.5490  | 1.5500  |
| JPY-SGD | 1.2280  | 1.2300  | 1.2392  | 1.2400  | 1.2541  |
| GBP-SGD | 1.7791  | 1.8000  | 1.8020  | 1.8100  | 1.8268  |
| AUD-SGD | 1.0300  | 1.0330  | 1.0345  | 1.0400  | 1.0548  |
| Gold    | 1203.06 | 1214.30 | 1242.30 | 1247.65 | 1253.00 |
| Silver  | 16.03   | 16.80   | 16.86   | 16.90   | 17.43   |
| Crude   | 45.47   | 48.10   | 48.13   | 48.20   | 49.75   |

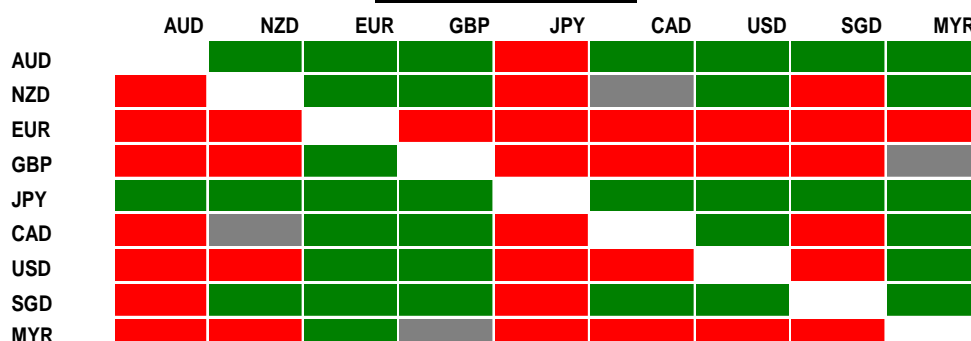
Source: OCBC Bank

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



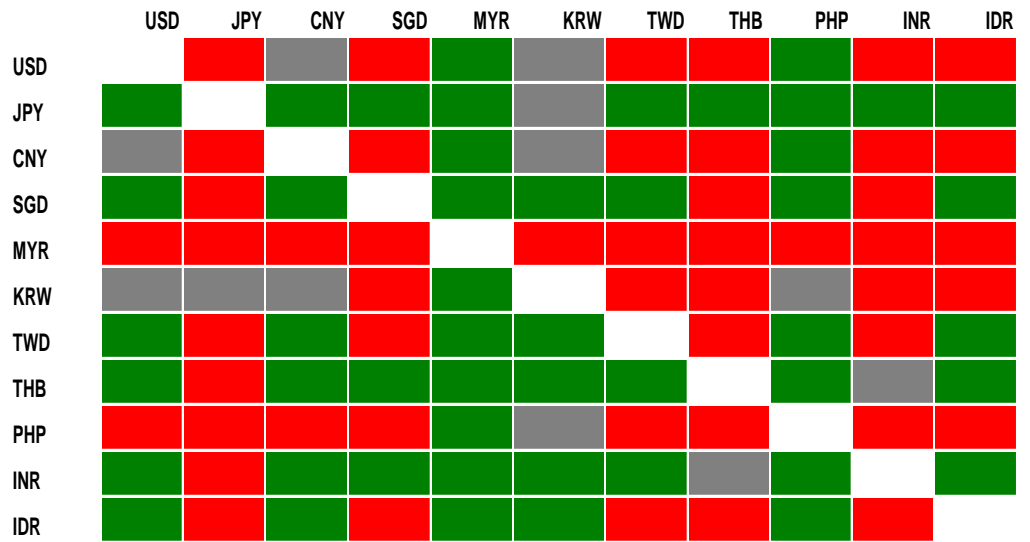
Source: Bloomberg

**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   | 0.7235             | 0.7490                                 | 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                                  | 24-Apr-17 |           | Bullish 2M 1X2 EUR-USD Call Spread<br>Spot ref: 1.0863; Strikes: 1.0894, 1.1188;<br>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      |         |
| 6                                  | 16-May-17 | S         | AUD-USD  | 0.7407   | 0.6890             | 0.7670                                 | Global reflation plays to continue to wobble?                         |         |
| <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<br>Spot ref: 0.7688; Strikes: 0.7677, 0.8041;<br>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   |
| 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<br>2016 Return +6.91                       |         |

Source: OCBC Bank



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