

Wednesday, April 19, 2017

FX Themes/Strategy/Trading Ideas – The PM's gambit

- Except against the AUD and CAD, softer UST yields (led by the back-end on a partial safety bid) pushed the USD lower on Tuesday, with the GBP leading the pack higher (EUR-USD also in tow above 1.0700) after PM May called for snap elections to be held on 8 Jun 17. On other fronts, yet softer crude contributed to a firmer USD-CAD while fading iron ore and negative global equities also sank the AUD-USD.
- Going ahead, with the USD narrative relegated to the background, idiosyncratic risk factors may continue to hold sway as investors focus on currency specific factors. We remain in favor of a heavy USD-JPY profile. The calendar meanwhile sees the Fed's Rosengren scheduled for 1630 GMT while EZ March CPI is also due to be released.
- Meanwhile, the **FXSI (FX Sentiment Index)** blipped higher again within Risk-Neutral territory on Tuesday, indicating increasing investor caution across global markets.
- **UK PM Theresa May** on Tuesday called for snap elections to be held on 8 Jun 17. Ostensibly, an anticipated stronger mandate after the elections (polls currently indicate Conservatives far ahead of Labour) may result in a more unified and coherent stance from Britain when sitting across the table from the EU.
- Meanwhile, with dollar vulnerability still expected to be a recurring theme and caution towards the EUR (keeping the EUR-GBP heavy) on account of the upcoming French Presidential elections, **GBP-USD** may have space to look higher in the near term. With a GBP-USD spot ref at 1.2585 on Tuesday, we target 1.2860 and leave a stop at 1.2445. Update: With GBP-USD subsequently touching a high of 1.2904 in NY, we extend our tactical GBP-USD objective to 1.3140, trailing the stop to 1.2715.
- Elsewhere, with the GBP rubbing off on the EUR on Tuesday, our 10 Apr 17 idea to be tactically short **EUR-USD** (spot ref: 1.0585) was stopped out on Tuesday for an implied -0.90% loss.

Asian FX

- With EM FX mixed overnight, USD-Asia may potentially diverge further, with the likes of the SGD responding to USD vulnerability while KRW strength may remain checked by background geopolitical risks. However, the negative start to Asian equities in early trade may also be a cautionary

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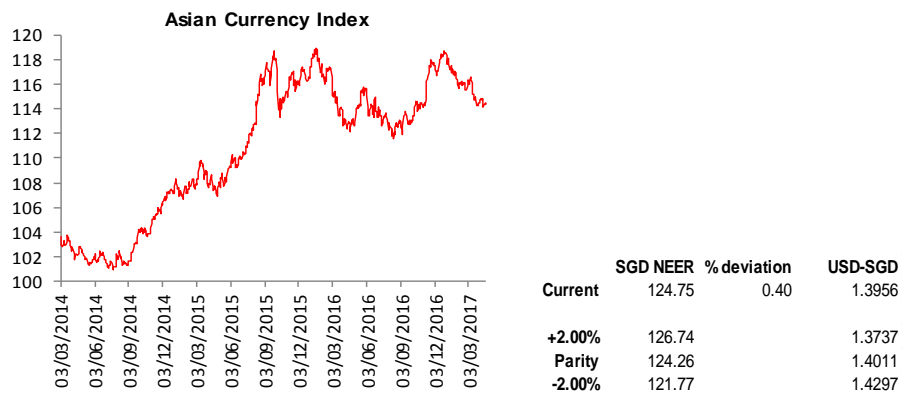
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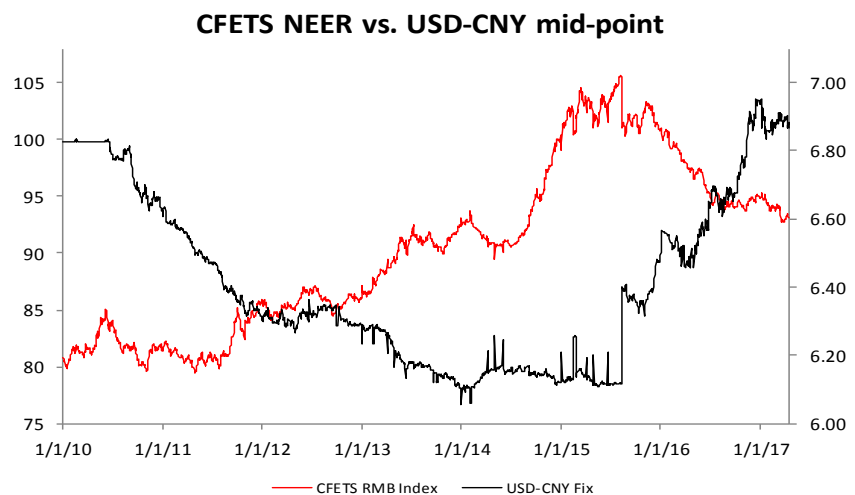
reflection of investor uncertainty. From the net portfolio inflow perspective, the KRW (apart from geopolitical risks), TWD, and INR may continue to stall, while the IDR and PHP may continue to derive background support. In the interim, the **ACI (Asian Currency Index)** may remain trapped in a supported range.

- SGD NEER:** This morning, the SGD NEER is a touch softer at around +0.40% above its perceived parity (1.4011) with NEER-implied USD-SGD thresholds yet softer on the day. The NEER may continue to hover around current levels with the +0.50% locus estimated at 1.3942. This also coincides with technical support at the 200-day MA (1.3954), with risks towards 1.3930 if the broad dollar retreats further. Topside resistance is expected into 1.3985/00 if risk aversion materializes. Preference to remain top heavy on the pair.



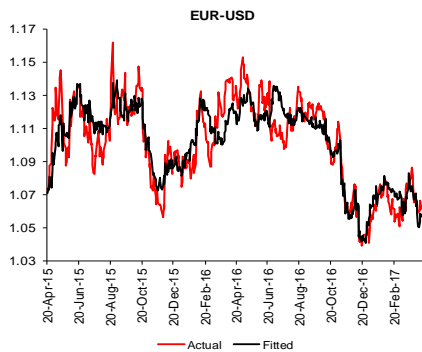
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (as largely expected) to 6.8664 from 6.8849 yesterday, lifting the **CFETS RMB Index** to 93.08 from 93.03 on Tuesday.



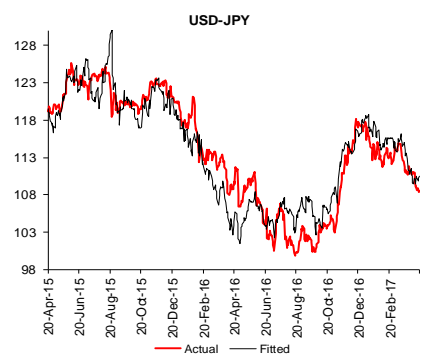
Source: OCBC Bank, Bloomberg

G7



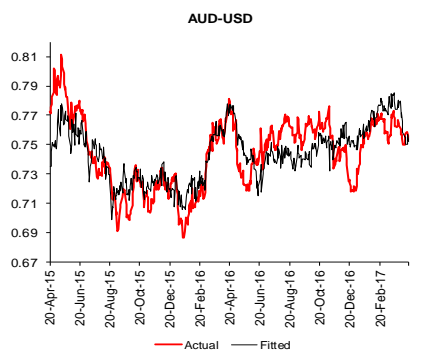
Source: OCBC Bank

- EUR-USD** French election risks are expected to continue to manifest significantly (e.g., front end in option space) in the coming sessions. Investors may also be wary of a bull trap spillover from the GBP, with short term implied valuations for the EUR-USD slightly less enthusiastic than actual spot moves. Expect a 1.0670-1.0770 range to prevail in the interim.



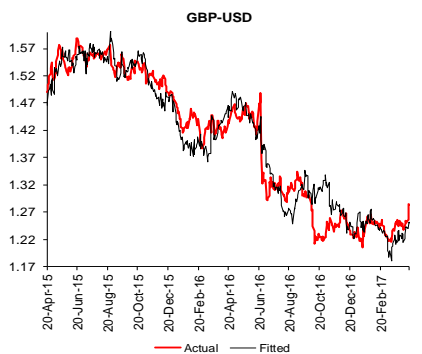
Source: OCBC Bank

- USD-JPY** Scattered indications of investor nervousness and uninspiring US data points are likely to keep USD-JPY continually top heavy in the near term. Note that rate supportive comments from the Fed's George on Tuesday also failed to grant the greenback support. Expect the pair to continue to gravitate towards the lower bound of its short term implied valuations. With the 200-day MA (108.86) now serving as a near term resistance the floor at 108.00 remains conspicuous.



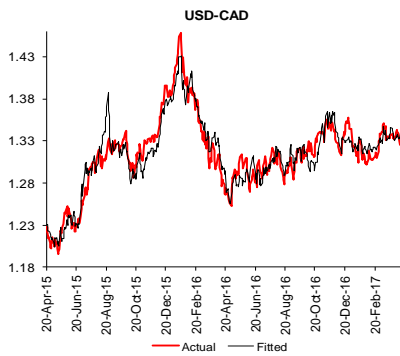
Source: OCBC Bank

- AUD-USD** The AUD-USD may remain victim to dovish RBA minutes, sketchy investor appetite, and soft iron ore prices. Short term implied valuations are also heavier currently and the pair may well threaten its 100-day MA (0.7523) ahead of 0.7500.



Source: OCBC Bank

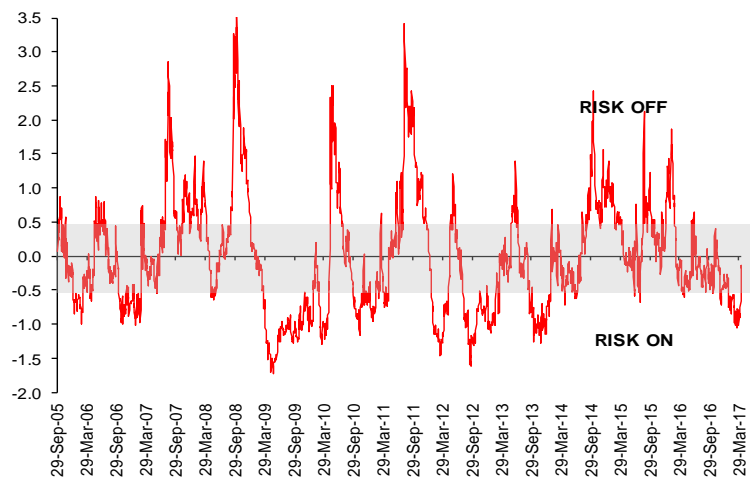
- GBP-USD** In the near term, expect GBP-USD may be expected to remain underpinned in the aftermath of PM May's election announcement. However, the pair is already trading slightly north of its implied confidence interval, portending perhaps some short term consolidation in store in the interim.



Source: OCBC Bank

- USD-CAD** The Canadian data calendar is empty today and the pair may continue to look towards WTI, DXY prospects, and generalized risk appetite levels. Structurally, any further wavering of the global reflation trade may also undermine the loonie. Meanwhile, short term implied valuations are also looking supportive for the pair and a sustained breach of 1.3400 paves the way to 1.3455.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	-0.187	0.766	0.339	0.756	0.754	-0.083	0.711	0.244	-0.576	0.843	-0.905
CHF	0.939	-0.410	0.627	0.215	0.703	0.891	-0.233	0.808	0.390	-0.488	0.846	-0.982
CNH	0.843	-0.206	0.759	0.254	0.628	0.766	-0.093	0.664	0.341	-0.475	1.000	-0.809
CNY	0.766	0.185	1.000	0.503	0.636	0.458	0.323	0.335	-0.051	-0.480	0.759	-0.545
SGD	0.607	0.104	0.541	0.097	0.398	0.455	0.175	0.326	0.165	-0.637	0.752	-0.562
TWD	0.547	-0.001	0.650	0.073	0.235	0.386	0.037	0.331	0.316	-0.206	0.656	-0.427
KRW	0.483	-0.687	0.266	-0.282	0.250	0.808	-0.696	0.793	0.788	0.007	0.680	-0.647
MYR	0.456	0.424	0.644	0.346	0.278	0.104	0.492	0.070	-0.147	-0.504	0.388	-0.203
CCN12M	0.224	0.393	0.597	0.206	0.251	0.009	0.504	-0.176	-0.031	-0.060	0.371	0.019
THB	0.060	0.527	0.528	-0.037	0.055	-0.200	0.531	-0.382	-0.050	-0.024	0.280	0.147
JPY	-0.083	0.956	0.323	0.628	-0.030	-0.583	1.000	-0.682	-0.837	-0.345	-0.093	0.318
CAD	-0.106	0.232	0.056	0.120	-0.012	-0.263	0.219	-0.176	-0.474	-0.389	-0.072	0.147
USGG10	-0.187	1.000	0.185	0.514	-0.145	-0.652	0.956	-0.751	-0.782	-0.304	-0.206	0.475
IDR	-0.237	0.674	-0.001	0.461	-0.246	-0.649	0.705	-0.639	-0.846	-0.269	-0.367	0.395
PHP	-0.329	0.794	-0.090	0.220	-0.246	-0.761	0.791	-0.772	-0.824	-0.170	-0.451	0.479
GBP	-0.451	-0.668	-0.570	-0.491	-0.445	0.087	-0.705	0.267	0.424	0.561	-0.303	0.139
AUD	-0.592	0.581	-0.199	0.240	-0.338	-0.741	0.579	-0.835	-0.617	0.409	-0.608	0.685
INR	-0.638	0.648	-0.238	0.086	-0.452	-0.902	0.585	-0.918	-0.529	0.462	-0.606	0.809
NZD	-0.833	0.250	-0.461	-0.114	-0.632	-0.719	0.096	-0.647	-0.324	0.683	-0.726	0.784
EUR	-0.905	0.475	-0.545	-0.163	-0.596	-0.892	0.318	-0.856	-0.447	0.423	-0.809	1.000

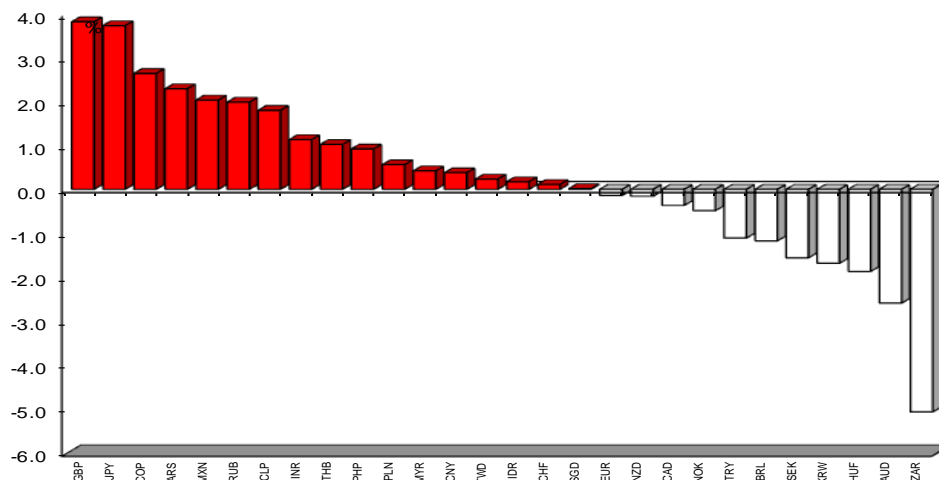
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0650	1.0700	1.0726	1.0800	1.0840
GBP-USD	1.2751	1.2800	1.2830	1.2900	1.2905
AUD-USD	0.7474	0.7500	0.7533	0.7549	0.7600
NZD-USD	0.6923	0.7000	0.7044	0.7047	0.7063
USD-CAD	1.3270	1.3300	1.3397	1.3400	1.3439
USD-JPY	108.08	108.13	108.46	108.83	109.00
USD-SGD	1.3919	1.3945	1.3962	1.4000	1.4040
EUR-SGD	1.4900	1.4968	1.4975	1.5000	1.5107
JPY-SGD	1.2800	1.2832	1.2873	1.2894	1.2900
GBP-SGD	1.7805	1.7900	1.7914	1.8000	1.8019
AUD-SGD	1.0468	1.0500	1.0517	1.0525	1.0600
Gold	1242.50	1260.76	1286.30	1292.03	1294.80
Silver	18.16	18.20	18.24	18.30	18.66
Crude	52.01	52.30	52.34	52.40	53.82

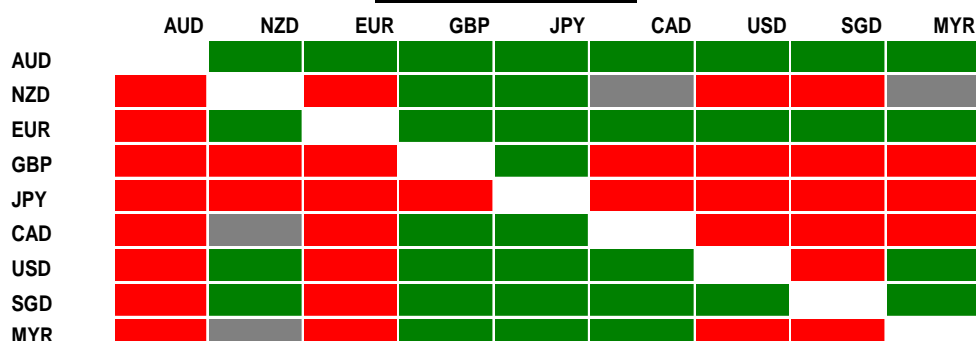
Source: OCBC Bank

FX performance: 1-month change agst USD



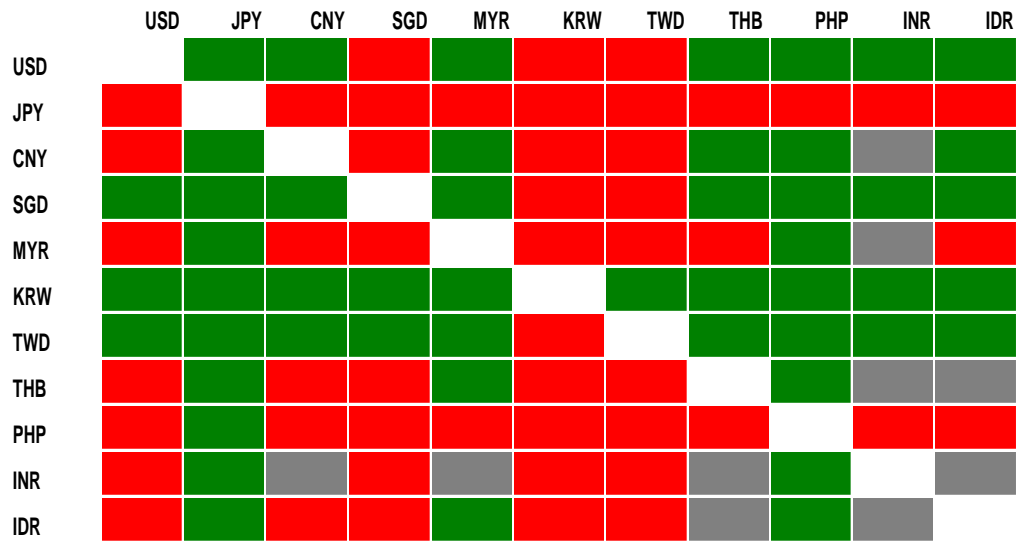
Source: Bloomberg

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	22-Mar-17	S	USD-JPY	111.62	105.30	110.00	Trump trade unwind, mild risk aversion	
2	05-Apr-17	S	AUD-USD	0.7580	0.7405	0.7670	Fragile risk appetite, slightly apprehensive RBA	
4	17-Apr-17	S	USD-CAD	1.3298	1.3065	1.3415	Vulnerable USD; supported crude on geopolitics	
5	18-Apr-17	B	GBP-USD	1.2585	1.3140	1.2715	Snap UK elections, soft dollar, -ve EUR risk	
STRUCTURAL								
6	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
7	22-Feb-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 deflation trade, Fed expected to hike later rather than sooner	
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	25-Oct-16	20-Mar-17	B	USD-SGD	1.3919	1.3984	Bullish dollar prospects, negative space for SGD NEER	+0.54
2	03-Mar-17	20-Mar-17	S	GBP-USD	1.2253	1.2435	Sustained Brexit risks vs. recent USD resilience	-1.46
3	28-Nov-16	27-Mar-17	S	EUR-USD	1.0641	1.0843	USD in ascendance, political risk premium in EZ	-1.04
4	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46
5	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
6	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029	1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
7	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
8	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**
9	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
* realized **of notional								
								Jan-Mar 2017 Return -11.88
								2016 Return +6.91

Source: OCBC Bank

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