

Friday, May 19, 2017

FX Themes/Strategy/Trading Ideas

- The USD managed to stage a rebound across G10 on Thursday on the back of better than expected initial claims and Philly Fed after the recent string of disappointing US data points. Meanwhile, the USD also garnered marginal support from firmer UST yields, which bear flattened from the front end. Investor jitters also managed to stabilize amid US equity gains, leaving the JPY trailing its G10 peers.
- On other fronts, ECB minutes on Thursday came in largely defused and balanced and despite slightly supportive comments from the ECB's Draghi, the EUR-USD still consolidated lower after 4 consecutive sessions of gains. Elsewhere, GBP-USD managed a temporary break above 1.3000 following better than expected April retail sales data but subsequently retraced to end lower on the day.
- Fed speak today includes Bullard (1315 GMT) and Williams (1740 GMT) while investors may also look forward to ECB appearances from Praet (0900 GMT) and Constancio (1200 GMT). **Overall, expect investors to remain wary of extension trades and instead stay on the sidelines pending further headline risks. Structurally, we remain dollar skeptics and still suspicious of the global reflation trade.**
- With USD-JPY continuing to trip lower on Wednesday, our 02 May 17 idea to be tactically long **USD-JPY** (spot ref: 112.08) was stopped out early Thursday in Asia at 110.85 for an implied -1.04% loss.

Asian FX

- EM FX may remain slightly unsteady (note the BRL's and INR's slide on Thursday) despite some moderation in global risk aversion levels (positive equities early Friday). On this front, firmer US yields may still lay a floor on USD-Asia into the end of the week with risk/reward for the regional pairs still oriented higher at this juncture. Asian net portfolio inflows meanwhile indicate some caution may be warranted for the IDR and PHP amid moderating momentum. On the central bank front, **Bank Indonesia** remained static on its policy parameters as expected on Thursday.
- Overall, expect the **ACI (Asian Currency Index)** to inch higher for the third consecutive session today with the **FXSI (FX Sentiment Index)** climbing further (note the blowout in EM risk premiums on Thursday) within Risk-Neutral territory on Thursday.

Treasury Research &
Strategy

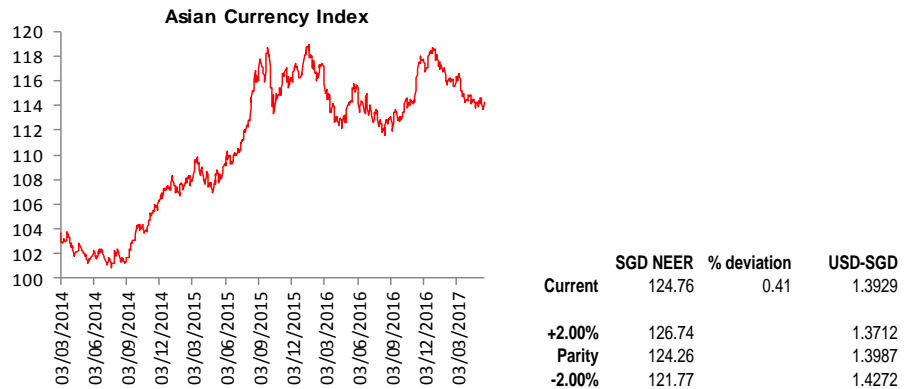
Tel: 6530-8384

Emmanuel Ng

+65 6530 4073

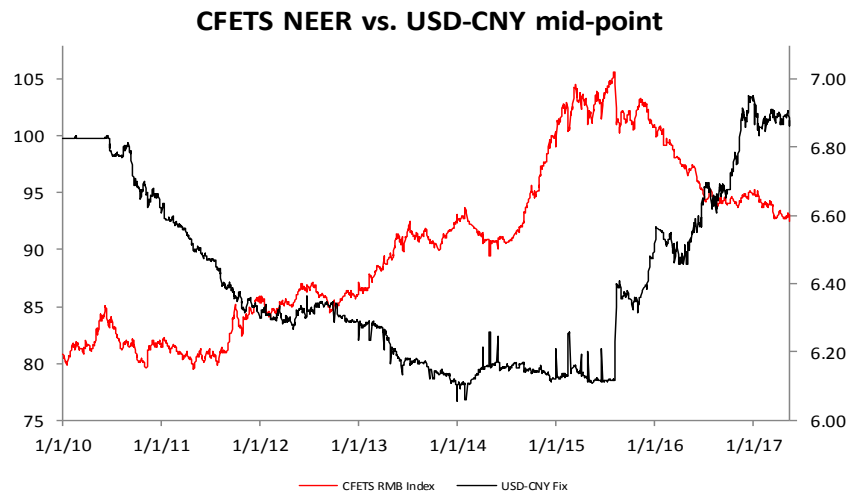
ngcyemmanuel@ocbc.com

- SGD NEER:** This morning, the SGD NEER is slightly higher on the day at around +0.41% above its perceived parity (1.3987) with NEER-implied USD-SGD thresholds firmer on the day following the USD's NY rebound. At current levels, expect some hesitation towards +0.50% (1.3918) and +0.80% (1.3876). In the interim, investors may look to buy into dips intra-day with initial resistance likely into 1.3970.



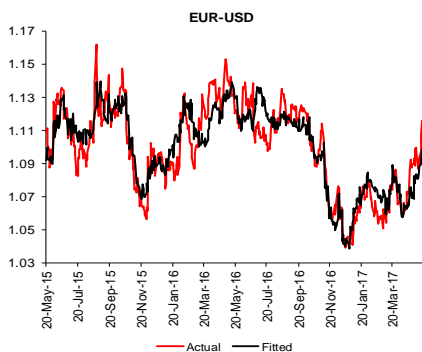
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point was (again) fixed at a lower than expected 6.8786 from 6.8612 yesterday. This resulted in the CFETS RMB Index easing to 92.49 from 92.51 on Thursday. Structurally, the rolling correlation between the Index and the DXY has picked up noticeably in recent weeks, signaling perhaps little discretionary impetus for the CNY NEER.



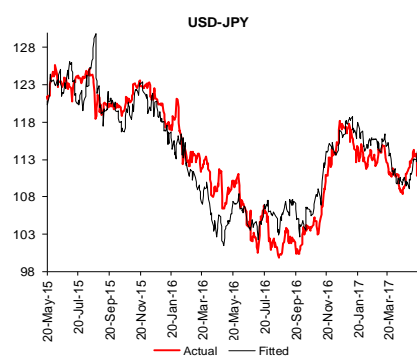
Source: OCBC Bank, Bloomberg

G7



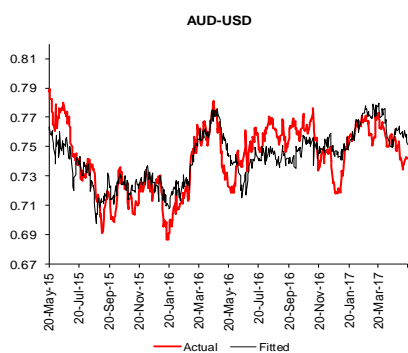
Source: OCBC Bank

- EUR-USD** Apart from headline risks from US political developments, investors may continue to monitor the interplay of Fed vs. ECB (largely non-committal yesterday) rhetoric later today. Short term implied valuations for the pair have also stepped a touch lower for today and we look to some room for consolidation in the vicinity of 1.1100 in the interim with 1.1200 still sheltering up top.



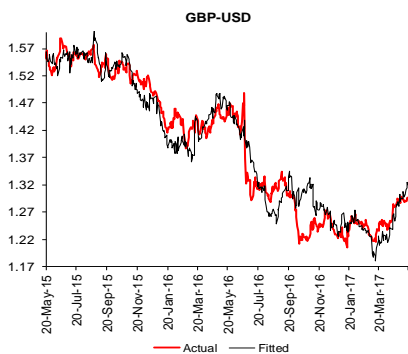
Source: OCBC Bank

- USD-JPY** Despite supportive comments from the Fed's Mester on Thursday, broad dollar prospects remain uncertain, especially if risk aversion continues to lurk. In the interim, the USD-JPY may continue to ply the lower bounds of its short term implied confidence intervals. Technically, the pair may continue to mull its Fibo retracement level around 111.25 before a reassessment.



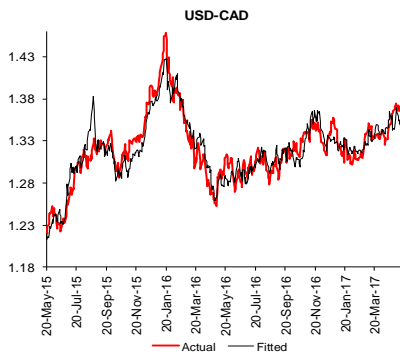
Source: OCBC Bank

- AUD-USD** As hazarded previously, markets eventually faded the better than expected April labor market numbers on Thursday. Short term implied valuations remain heavy in the near term and any sustained failure to re-take 0.7450/70 risks a further decay towards 0.7380 and 0.7350.



Source: OCBC Bank

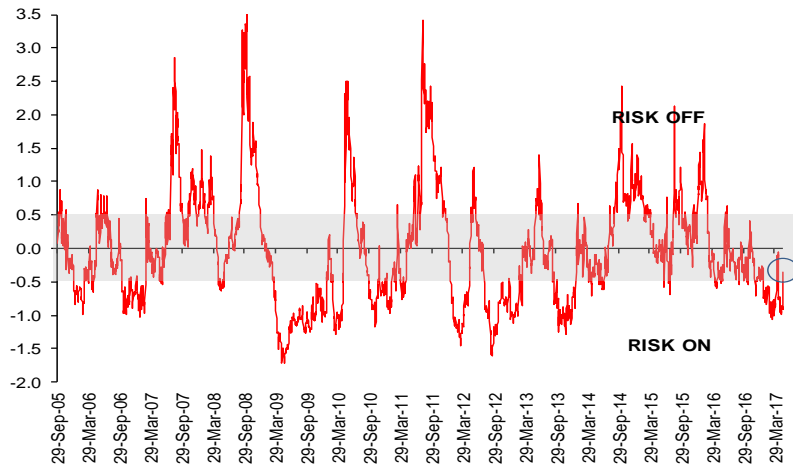
- GBP-USD** Longer term investors may remain suspicious of the GBP's structural prospects but on a shorter term horizon, short term implied valuations remain underpinned. In the interim, as the broader market catches its breath, expect a supported 1.2865-1.3050 range to prevail.



Source: OCBC Bank

- USD-CAD** Uncertainty for the CAD may persist as we head into the NAFTA renegotiations in August. In the near term however, firmer crude mixed with USD uncertainty make for a very fluid situation. Short term implied valuations meanwhile are supportive of the pair but run counter to currently heavy technicals. Expect noisy price action within 1.3530-1.3660 in the interim.

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	0.209	0.337	-0.110	-0.472	-0.143	-0.095	0.008	-0.141	0.506	0.545	-0.937
CHF	0.858	0.530	0.538	0.226	-0.065	-0.222	0.297	-0.198	-0.396	0.105	0.713	-0.730
KRW	0.777	-0.108	0.195	-0.353	-0.695	-0.158	-0.359	0.056	0.094	0.646	0.414	-0.820
MYR	0.682	-0.391	-0.340	-0.662	-0.847	0.354	-0.725	0.526	0.470	0.908	-0.043	-0.823
TWD	0.574	-0.338	-0.241	-0.663	-0.683	0.283	-0.533	0.398	0.532	0.738	-0.006	-0.683
CNH	0.545	0.760	0.902	0.561	0.194	-0.672	0.584	-0.590	-0.644	-0.285	1.000	-0.335
SGD	0.533	0.778	0.836	0.453	0.229	-0.645	0.633	-0.675	-0.453	-0.308	0.852	-0.321
CNY	0.337	0.794	1.000	0.685	0.400	-0.755	0.760	-0.768	-0.702	-0.509	0.902	-0.065
INR	0.293	-0.312	-0.059	-0.547	-0.450	0.059	-0.359	0.146	0.512	0.437	0.045	-0.342
NZD	0.288	-0.524	-0.580	-0.701	-0.769	0.335	-0.738	0.444	0.574	0.747	-0.364	-0.485
PHP	0.218	0.323	0.646	0.304	0.155	-0.608	0.347	-0.545	-0.325	-0.260	0.550	-0.095
USGG10	0.209	1.000	0.794	0.853	0.546	-0.727	0.858	-0.753	-0.814	-0.659	0.760	0.088
AUD	0.107	-0.642	-0.684	-0.501	-0.699	0.465	-0.798	0.627	0.291	0.716	0.468	-0.387
IDR	0.026	0.166	0.348	0.020	0.233	-0.348	0.316	-0.398	0.083	-0.276	0.341	0.130
THB	-0.030	0.698	0.816	0.623	0.642	-0.596	0.804	-0.719	-0.527	-0.683	0.685	0.269
JPY	-0.095	0.858	0.760	0.868	0.845	-0.551	1.000	-0.729	-0.699	-0.888	0.584	0.360
CAD	-0.128	0.670	0.761	0.740	0.703	-0.649	0.816	-0.782	-0.670	-0.779	0.556	0.341
CCN12M	-0.261	0.516	0.669	0.491	0.623	-0.558	0.683	-0.647	-0.317	-0.737	0.458	0.506
GBP	-0.532	0.389	0.444	0.542	0.705	-0.469	0.611	-0.562	-0.287	-0.796	0.223	0.722
EUR	-0.937	0.088	-0.065	0.359	0.718	-0.071	0.360	-0.199	-0.070	-0.759	-0.335	1.000

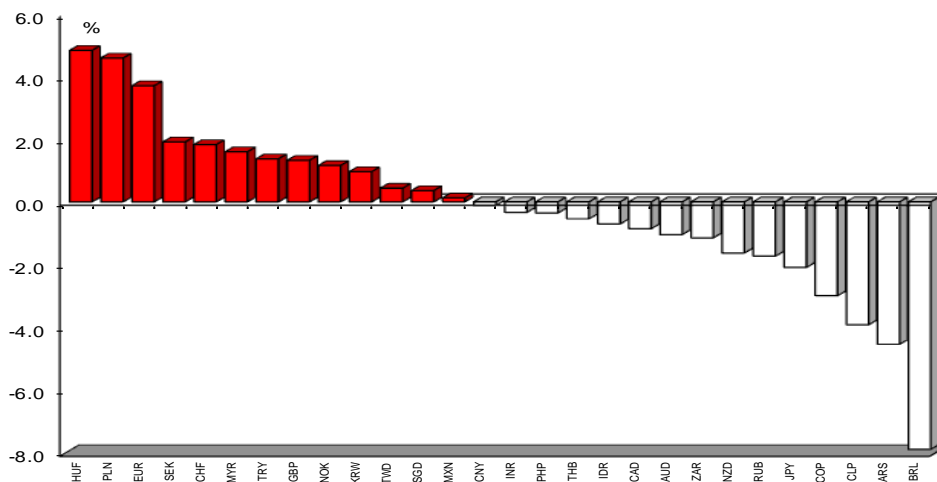
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0823	1.1100	1.1107	1.1130	1.1172
GBP-USD	1.2818	1.2900	1.2946	1.2995	1.3000
AUD-USD	0.7329	0.7400	0.7416	0.7500	0.7532
NZD-USD	0.6818	0.6823	0.6889	0.6900	0.6956
USD-CAD	1.3529	1.3600	1.3601	1.3700	1.3768
USD-JPY	109.79	111.00	111.15	111.46	112.00
USD-SGD	1.3891	1.3900	1.3927	1.3990	1.4000
EUR-SGD	1.5145	1.5400	1.5469	1.5500	1.5527
JPY-SGD	1.2280	1.2500	1.2529	1.2551	1.2600
GBP-SGD	1.7827	1.8000	1.8030	1.8100	1.8259
AUD-SGD	1.0300	1.0306	1.0329	1.0400	1.0528
Gold	1214.30	1249.69	1249.70	1251.92	1282.38
Silver	16.03	16.50	16.54	16.60	17.40
Crude	45.62	49.50	49.52	49.60	49.70

Source: OCBC Bank

FX performance: 1-month change agst USD



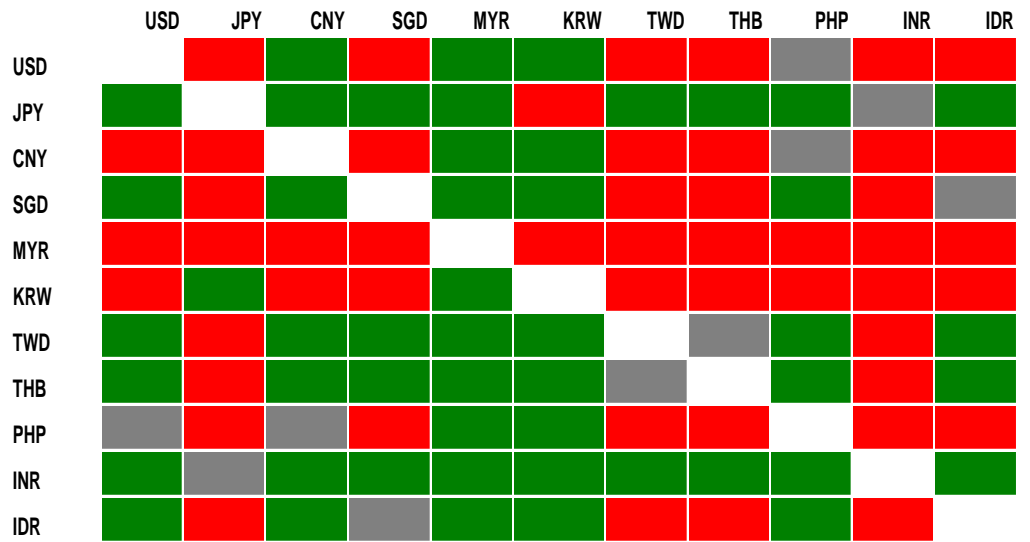
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Green	Green	Green	Red	Green	Green	Green	Green
NZD	Red		Green	Green	Red	Grey	Grey	Red	Green
EUR	Red	Red		Green	Red	Red	Red	Red	Red
GBP	Red	Red	Green		Red	Red	Red	Red	Green
JPY	Green	Green	Green	Green		Green	Green	Green	Green
CAD	Red	Grey	Green	Green	Red		Grey	Red	Green
USD	Red	Grey	Green	Green	Red	Grey		Red	Green
SGD	Red	Green	Green	Green	Red	Green	Green		Green
MYR	Red	Red	Green	Red	Red	Red	Red	Red	

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	0.7235 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	17-May-17	B	EUR-USD	1.1120	1.1320 1.1015	Disappointing US data feed, reversal of political risk premiums		
STRUCTURAL								
4	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		
6	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	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**
2	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
3	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
4	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
5	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
6	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
* realized **of notional							Jan-Mar 2017 Return -11.88	
							2016 Return +6.91	

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
