

Thursday, April 20, 2017

FX Themes/Strategy/Trading Ideas

- With WTI crashing out (50.65), the dollar firmed across G10 space with the cyclicals leading the way lower and also underperforming across the board. The greenback was also aided by slightly firmer UST yields (steepened from the back-end). Meanwhile, the Fed's Rosengren addressed the issue of balance sheet reduction, he added that this should have a minimal impact on rate trajectory.
- In the near term, if the global reflation trade remains under compression and potential risk aversion continues to lurk, expect the greenback to hold a slight edge intra-day.
- Beyond the short term however, note that FF futures-implied odds of a June FOMC rate hike continue to deflate in the month to date (***with the implied probability of two hikes this year falling off the charts***) while our US MSI (Macro Surprise Index) on a 3m and 6m horizon continue to show signs of topping out - whittling away at the dollar narrative on a structural basis. For more Fed cues, Powell speaks at 1200 GMT today.
- Despite calmer short-end FX vols, background risk aversion meanwhile is expected to remain very near the surface, with the **FXSI (FX Sentiment Index)** on Wednesday inching higher for the second consecutive session within Risk-Neutral territory.
- With crude slumping, our 17 Apr 17 idea to be tactically short **USD-CAD** (spot ref: 1.3928) was stopped out on Wednesday at 1.3415 for an implied - 0.88% loss.

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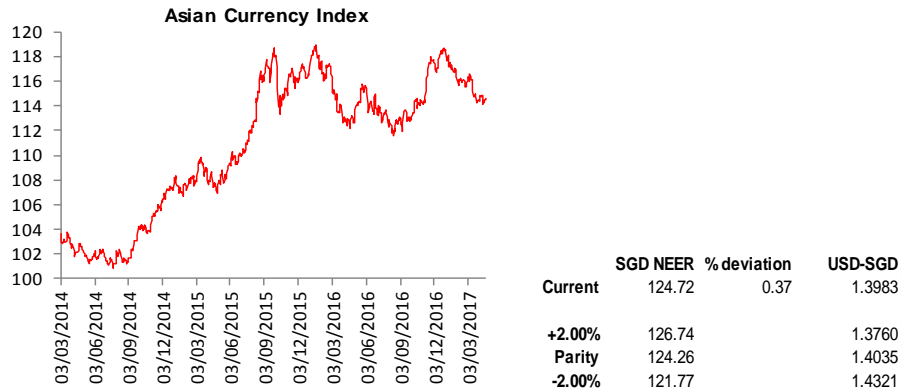
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Asian FX

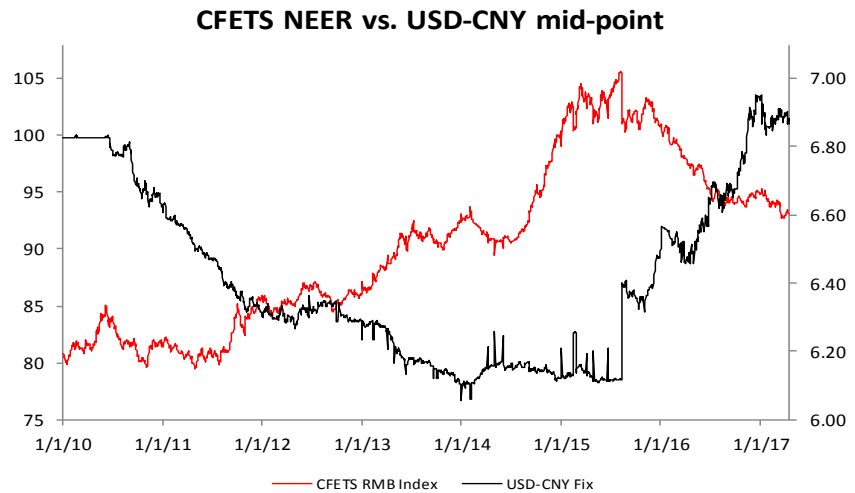
- In Asia, expect the regional currencies to also react in line with overnight EM FX, retreating against the USD intra-session if the commodity/risk appetite complex remains skittish. In the background, net portfolio capital inflows continue to consolidate lower for KRW, TWD, PHP, INR, while the IDR and THB may remain relatively more underpinned on this front. In the current session however, the **ACI (Asian Currency Index)** may continue to be supported on dips for a second consecutive session.
- Beyond the short term however, our modelling continues to argue for a top heavy stance for USD-Asia on a multi-week horizon. For today, **Bank Indonesia** is expected to keep its policy parameters unchanged at its policy meeting today.

- SGD NEER:** Today, the SGD NEER softer again on the day at around +0.34% above its perceived parity (1.4035), with NEER-implied USD-SGD thresholds slightly firmer compared to yesterday morning in Asia. Expect the NEER to bounce within its parity and +0.50% (1.3964) threshold, with a possible heavy tone towards parity if broad USD strength deepens. Meanwhile, the +0.80% threshold is estimated at 1.3924. USD-SGD meanwhile is expected to find a floor towards its 200-day MA (1.3957), with potential risk towards 1.4020 intraday.



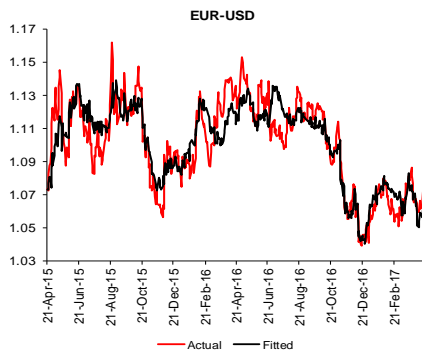
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning rose (less than expected) to 6.8792 from 6.8664, although this continued to keep the **CFETS RMB Index** relatively stable at 93.04 from 93.08 on Wednesday.



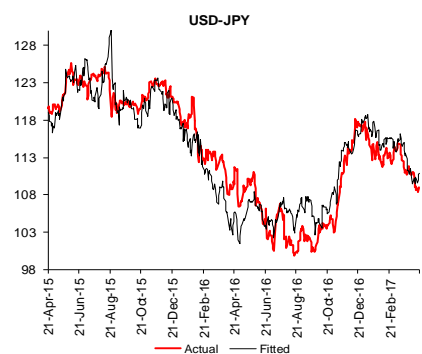
Source: OCBC Bank, Bloomberg

G7



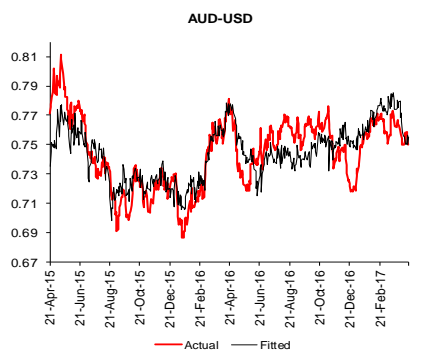
Source: OCBC Bank

- EUR-USD** According to latest polls, centrist Macron is expected to win by a narrow margin over Le Pen at this weekend's French Presidential elections, although second round the run off remains very much in play. Expect caution to prevail, with the ECB's Villeroy remaining suitable accommodative on Wednesday. Short term implied valuations still remain slightly elevated but the pair remains near its implied upper confidence interval. Expect continued two-way risks within 1.0670-1.0770.



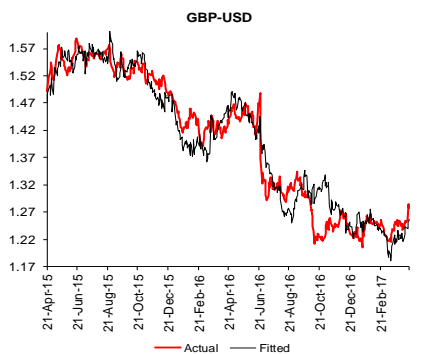
Source: OCBC Bank

- USD-JPY** The Fed's Beige Book did not signal heightened inflation pressures and coupled with background risk aversion may continue to keep USD-JPY south of its short term implied fair value. In the interim, the pair may continue to orbit its 200-day MA (108.88) after failing to stage a clean break lower in the last few sessions.



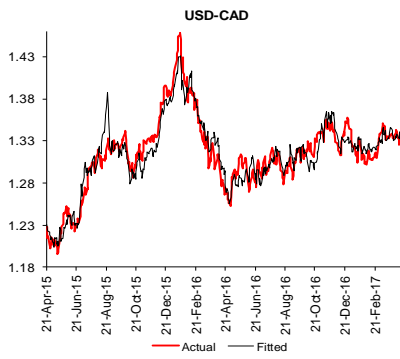
Source: OCBC Bank

- AUD-USD** The risk/macro backdrop remains less than conducive to the cyclicals at this juncture with short term implied valuations remaining depressed. In the interim, the AUD-USD may continue to oscillate around 0.7500 while remaining at risk for another test towards 0.7465. Early Thursday, the NZD-USD was given a boost following sharply higher than expected 1Q CPI inflation readings, with the AUD-NZD still seen on a slippery slope.



Source: OCBC Bank

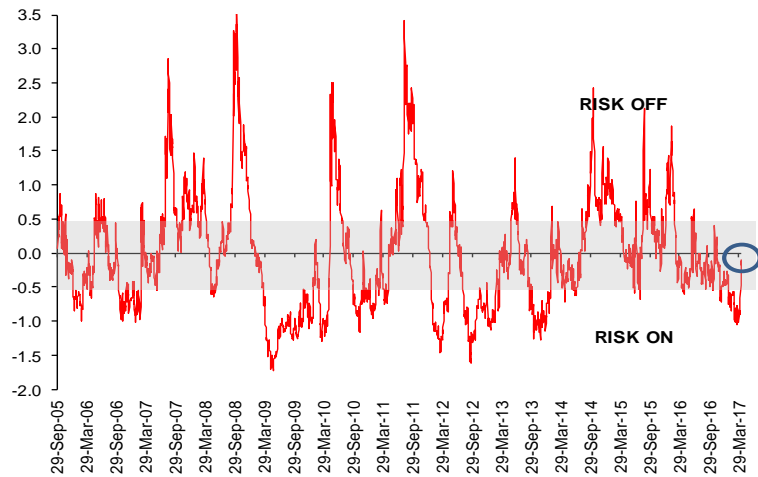
- GBP-USD** GBP-USD consolidated lower on Wednesday after the surge on Tuesday. Expect range bound behavior in the near with short term implied valuations still looking supported. For today, the BOE's Carney is scheduled to speak at 1530 GMT and 1630 GMT today.



- USD-CAD** USD-CAD continued to ascend on Tuesday on the back of falling crude and firming implied short term valuations may continue to provide lift for the pair in the near term. Top side resistance levels are seen at 1.3500 and 1.3535 with initial support expected into 1.3435/50.

Source: OCBC Bank

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	-0.101	0.757	0.377	0.741	0.765	-0.013	0.697	0.172	-0.597	0.801	-0.891
CHF	0.928	-0.367	0.628	0.218	0.629	0.876	-0.247	0.850	0.362	-0.486	0.826	-0.983
CNH	0.801	-0.225	0.753	0.211	0.485	0.716	-0.176	0.689	0.354	-0.436	1.000	-0.796
CNY	0.757	0.184	1.000	0.492	0.562	0.453	0.317	0.334	-0.059	-0.473	0.753	-0.545
SGD	0.599	0.106	0.542	0.100	0.353	0.448	0.109	0.382	0.152	-0.624	0.742	-0.560
TWD	0.541	0.008	0.650	0.079	0.216	0.382	0.043	0.331	0.296	-0.206	0.650	-0.427
MYR	0.492	0.511	0.588	0.435	0.447	0.204	0.558	0.063	-0.261	-0.544	0.300	-0.193
KRW	0.405	-0.711	0.250	-0.340	0.076	0.692	-0.719	0.762	0.804	0.066	0.679	-0.619
CCN12M	0.237	0.398	0.597	0.227	0.260	0.033	0.449	-0.133	-0.059	-0.079	0.346	0.037
THB	0.095	0.550	0.520	0.036	0.144	-0.148	0.530	-0.345	-0.110	-0.071	0.218	0.162
JPY	-0.013	0.960	0.317	0.666	0.135	-0.449	1.000	-0.608	-0.850	-0.392	-0.176	0.327
USGG10	-0.101	1.000	0.184	0.566	0.060	-0.503	0.960	-0.697	-0.801	-0.358	-0.225	0.437
IDR	-0.201	0.669	0.005	0.475	-0.143	-0.591	0.700	-0.632	-0.842	-0.290	-0.375	0.387
CAD	-0.203	-0.013	0.027	-0.074	-0.300	-0.344	-0.086	-0.142	-0.217	-0.178	0.044	0.129
PHP	-0.267	0.801	-0.080	0.285	-0.085	-0.667	0.800	-0.753	-0.833	-0.219	-0.461	0.465
AUD	-0.483	0.626	-0.178	0.312	-0.111	-0.608	0.649	-0.757	-0.651	0.301	-0.618	0.621
GBP	-0.483	-0.713	-0.498	-0.555	-0.599	-0.055	-0.716	0.155	0.494	0.587	-0.152	0.113
INR	-0.574	0.659	-0.224	0.133	-0.288	-0.814	0.602	-0.901	-0.549	0.398	-0.611	0.791
NZD	-0.814	0.237	-0.461	-0.107	-0.538	-0.697	0.135	-0.713	-0.313	0.662	-0.689	0.780
EUR	-0.891	0.437	-0.545	-0.160	-0.525	-0.871	0.327	-0.886	-0.424	0.417	-0.796	1.000

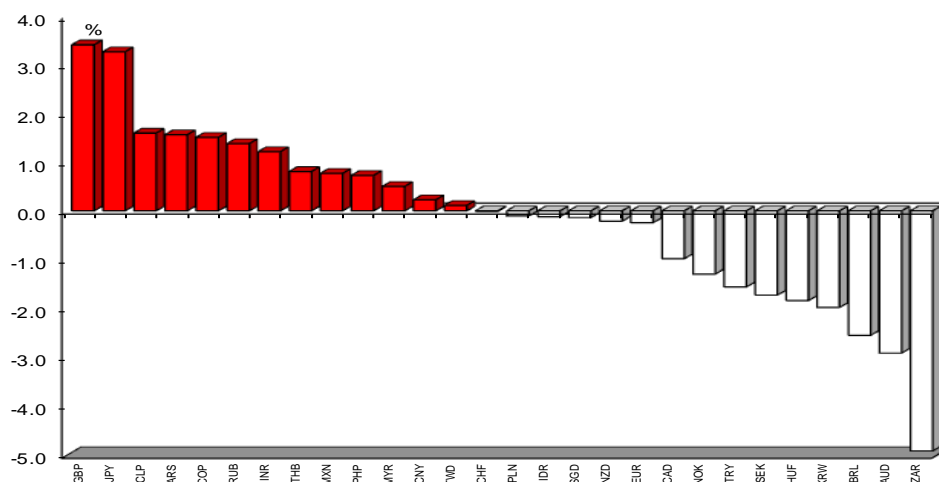
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0651	1.0700	1.0714	1.0800	1.0832
GBP-USD	1.2700	1.2774	1.2776	1.2800	1.2905
AUD-USD	0.7473	0.7500	0.7504	0.7548	0.7600
NZD-USD	0.6924	0.7000	0.7038	0.7043	0.7059
USD-CAD	1.3400	1.3479	1.3482	1.3500	1.3515
USD-JPY	108.13	108.85	108.96	109.00	112.08
USD-SGD	1.3920	1.3947	1.3983	1.4000	1.4039
EUR-SGD	1.4900	1.4965	1.4981	1.5000	1.5108
JPY-SGD	1.2800	1.2832	1.2834	1.2894	1.2900
GBP-SGD	1.7800	1.7846	1.7865	1.7900	1.8019
AUD-SGD	1.0448	1.0468	1.0493	1.0500	1.0526
Gold	1243.28	1260.32	1279.70	1293.27	1294.80
Silver	18.10	18.15	18.17	18.20	18.61
Crude	47.22	50.70	50.79	50.80	51.78

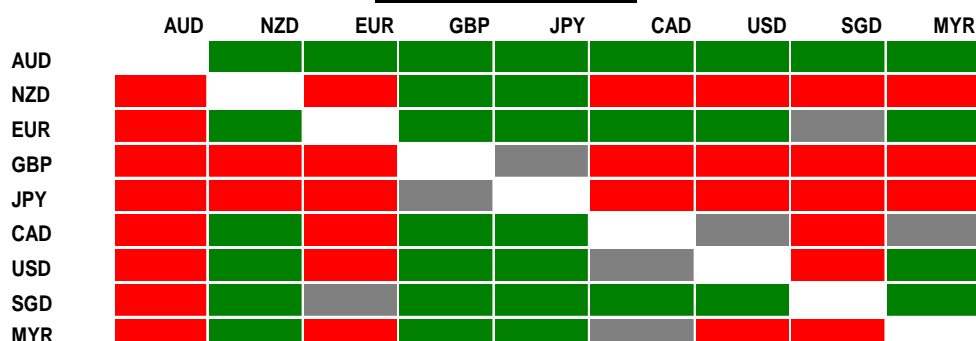
Source: OCBC Bank

FX performance: 1-month change agst USD



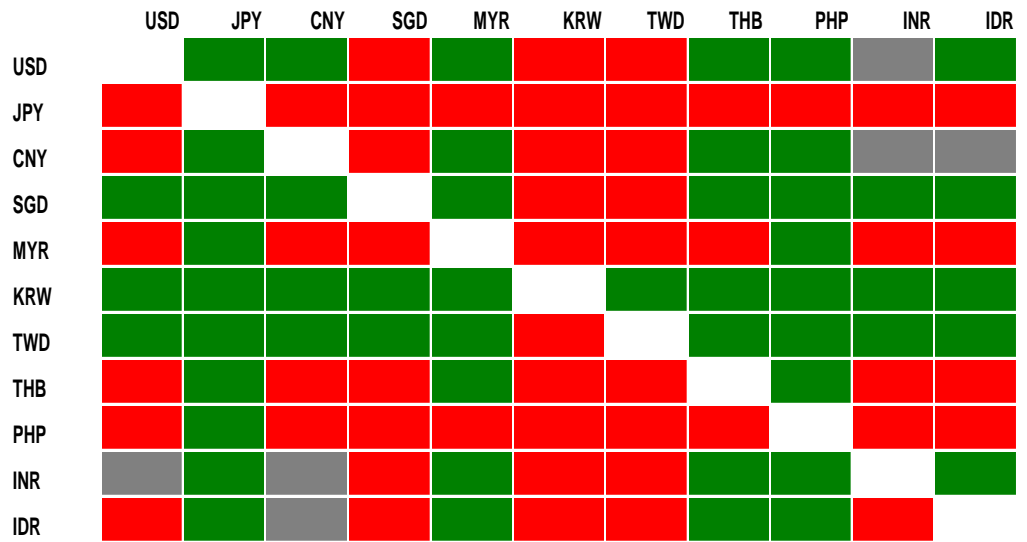
Source: Bloomberg

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		
3	18-Apr-17	B	GBP-USD	1.2585	1.3140 1.2715	Snap UK elections, soft dollar, -ve EUR risk		
STRUCTURAL								
4	22-Nov-16	B	USD-JPY	110.81	123.40 104.50	Potential for a more activist Fed, static BOJ		
5	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 reflation trade, Fed expected to hike later rather than sooner		
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Nov-16	27-Mar-17	S	EUR-USD	1.0641	1.0843	USD in ascendance, political risk premium in EZ	-1.04
2	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46
3	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
4	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029	1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
5	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
6	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**
7	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
8	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298	1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
* realized **of notional							Jan-Mar 2017 Return	-11.88
							2016 Return	+6.91

Source: OCBC Bank

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