

Friday, April 21, 2017

## FX Themes/Strategy/Trading Ideas

- Despite receiving received verbal support from the US Treasury Secretary Mnuchin (tax reform plans have bi-partisan support and are progressing) and the Fed's Kaplan (still looking for 3 hikes this year) on Thursday, the dollar still ended mixed. Where the dollar managed traction was via the USD-JPY, with the BOJ's Kuroda remaining sufficiently accommodative (easing will stay in place for some time, exchange rate can influence inflation).
- Elsewhere, retracing and consolidating cyclicals (AUD, NZD, CAD) detracted from potential dollar strength on Thursday, although we do not expect significant follow through given that global reflation plays are now slightly hesitant.
- Although the UST yield curve was lifted on Thursday (led by the 5y) and FF-implied odds of a rate hike in June improved, note that investor buy-in was less than universal on Thursday, presumably on account of distractions from background geopolitical risks. **On this front, USD-JPY remains our key barometer of US-centric dollar dynamics and global risk aversion levels.**
- The calendar today includes a raft of flash global PMIs while the Fed's Kashkari is due at 1330 GMT. With the French Presidential elections on Sunday (polls show Macron ahead of Le Pen), the European complex may keep in a range.
- On the risk appetite front, slighting abating risk aversion levels saw the **FXSI (FX Sentiment Index)** inch lower within Risk-Neutral territory on Thursday, although we note that background nervousness persists with short-end FX vols still elevated.

## Asian FX

- Meanwhile in Asia, positive equities may help temper USD strength. On the net portfolio inflow front, note continued moderation in inflows for the KRW, TWD, INR, IDR (cues for PHP are neutral in the short term), while the THB may continue to derive implicit support on this front. On the central bank front, **Bank Indonesia** remained static on its benchmark interest rate as expected on Thursday. For today, the **ACI (Asian Currency Index)** may continue to bounce around in recent ranges while awaiting external headlines.
- **SGD NEER:** Amidst a mixed broad dollar, the SGD NEER this morning is flat

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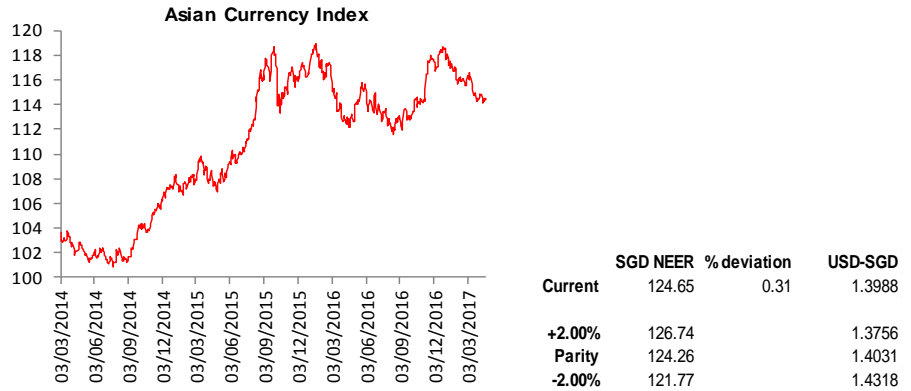
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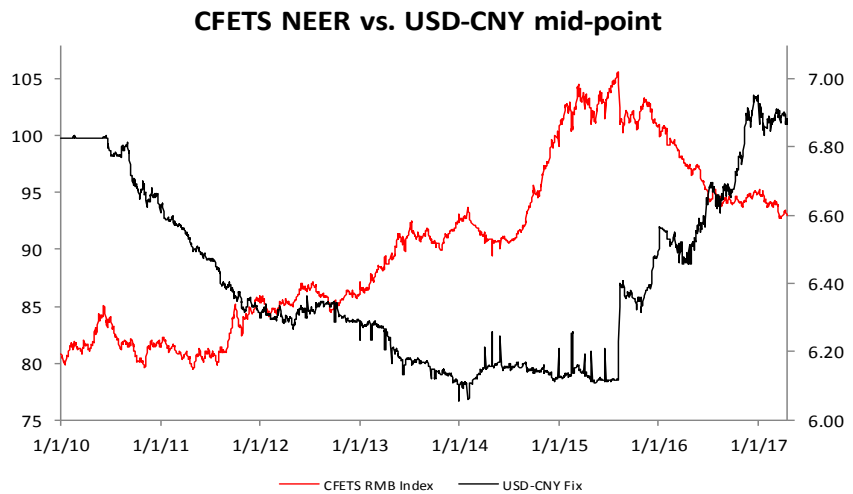
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to slightly lower on the day at around +0.33% above its perceived parity (1.4031). NEER-implied USD-SGD thresholds are marginally softer with +0.50% estimated at 1.3962. The NEER is still expected to trade within parity and +0.50%, although further greenback resilience may keep the NEER heavy (USD-SGD supported). In the interim, USD-SGD may remain book-ended by the 200-day MA (1.3959) and 1.4015/20.



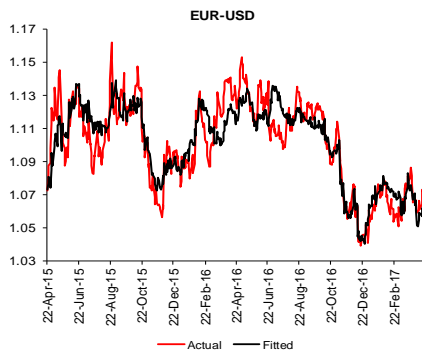
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose more than expected to 6.8823 from 6.8792 on Thursday, weighing the **CFETS RMB Index** lower to 92.98 from 93.04 yesterday.



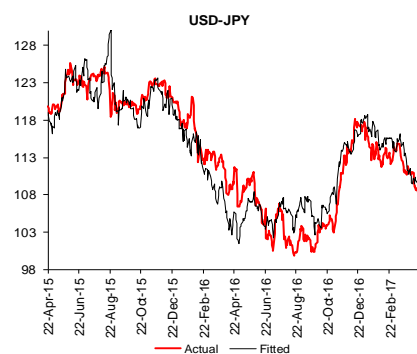
Source: OCBC Bank, Bloomberg

**G7**



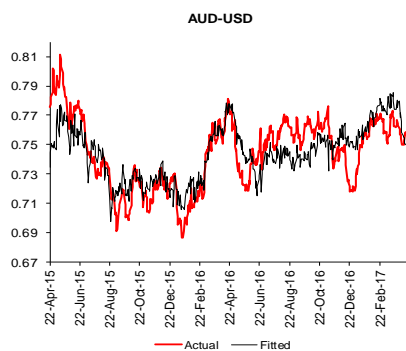
Source: OCBC Bank

- EUR-USD** Short-end vols (in terms of levels and premia) remain elevated despite the temporary blip in the EUR-USD above 1.0750 yesterday, demonstrating prevailing market nervousness ahead of Sunday's French Presidential elections. Although short term implied valuations for the pair remain supportive, investors are expected to be wary of two-way risks as we cross the weekend. Expect 1.0700 to remain a near term anchor point.



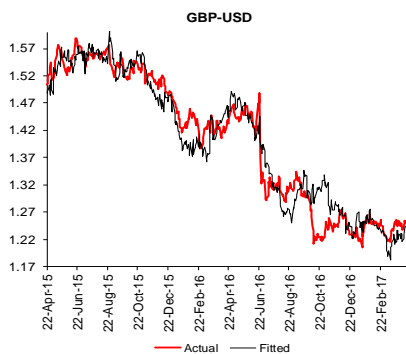
Source: OCBC Bank

- USD-JPY** The BOJ's Kuroda yesterday only underscored the perception that the central bank would remain suitably accommodative at this juncture. Short term implied valuations are fairly static although we note the short term vol surface still remains relatively jittery. Expect a 108.60-109.60 range pending further headline risks.



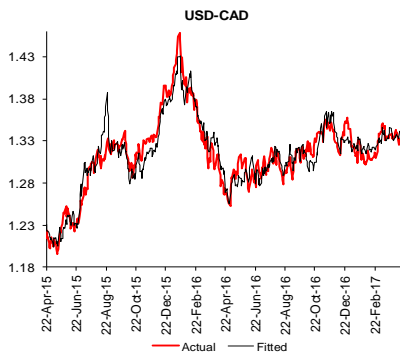
Source: OCBC Bank

- AUD-USD** With global reflation trades likely sidelined (if not still fragile) in the near term, expect the AUD-USD to remain centered within its short term implied confidence intervals. Preference to fade up moves towards the 200-day MA (0.7552) with an eye back towards 0.7490 instead.



Source: OCBC Bank

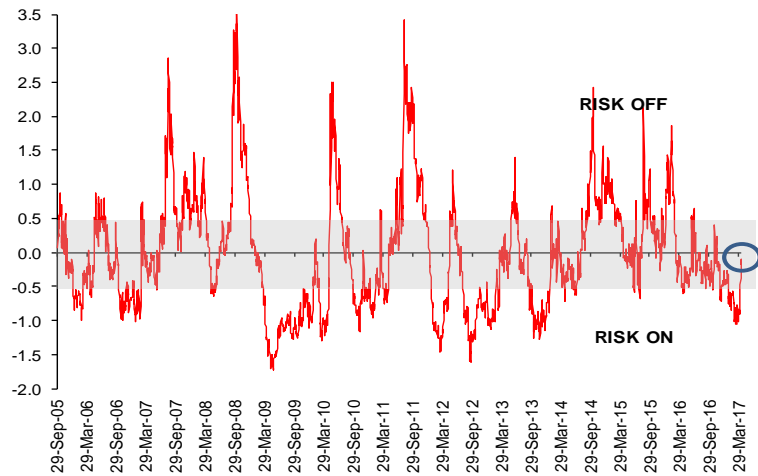
- GBP-USD** UK March retail sales numbers are due today while the BOE's Saunders is scheduled for 1145 GMT. GBP-USD is looking slightly rich relative to short term implied valuations but Investor attention may however remain focused on the EUR into the weekend. Expect the pair to be moored around 1.2800 in the interim.



Source: OCBC Bank

- USD-CAD** USD-CAD came off intra-day highs at 1.3500 to end relatively flat on the day despite crude inching lower. For today, apart from crude, dollar-specific and risk appetite cues, look also to March CPI data points. Note however that short term implied valuations continue to point north for the pair and we'd prefer to collect into dips within 1.3435-1.3500.

### 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	-0.076	0.846	0.359	0.750	0.783	-0.004	0.733	0.173	-0.598	0.771	-0.898
CHF	0.927	-0.345	0.761	0.262	0.626	0.840	-0.253	0.868	0.356	-0.482	0.843	-0.985
CNY	0.846	0.064	1.000	0.287	0.650	0.628	0.171	0.554	0.102	-0.643	0.769	-0.699
CNH	0.771	-0.308	0.769	0.161	0.455	0.675	-0.263	0.757	0.432	-0.476	1.000	-0.820
SGD	0.618	0.175	0.740	0.179	0.368	0.437	0.186	0.363	0.105	-0.609	0.775	-0.555
TWD	0.534	-0.044	0.658	-0.014	0.214	0.401	-0.024	0.393	0.368	-0.240	0.635	-0.455
MYR	0.510	0.564	0.643	0.352	0.485	0.331	0.597	0.088	-0.288	-0.487	0.225	-0.203
KRW	0.363	-0.726	0.351	-0.275	0.030	0.549	-0.738	0.726	0.807	0.078	0.719	-0.587
CCN12M	0.264	0.332	0.476	-0.032	0.315	0.180	0.397	-0.009	0.062	-0.168	0.257	-0.034
THB	0.102	0.528	0.427	-0.219	0.177	-0.026	0.467	-0.271	-0.038	-0.126	0.140	0.136
JPY	-0.004	0.958	0.171	0.548	0.171	-0.328	1.000	-0.569	-0.840	-0.475	-0.263	0.309
USGG10	-0.076	1.000	0.064	0.441	0.106	-0.351	0.958	-0.634	-0.781	-0.407	-0.308	0.400
IDR	-0.227	0.614	-0.075	0.517	-0.171	-0.597	0.680	-0.640	-0.832	-0.307	-0.372	0.387
PHP	-0.242	0.822	-0.112	0.275	-0.055	-0.572	0.847	-0.750	-0.857	-0.225	-0.487	0.453
CAD	-0.254	-0.114	-0.035	-0.006	-0.355	-0.441	-0.090	-0.162	-0.157	-0.178	0.070	0.144
GBP	-0.501	-0.704	-0.441	-0.367	-0.626	-0.244	-0.660	0.072	0.452	0.551	-0.069	0.152
AUD	-0.522	0.591	-0.495	0.107	-0.092	-0.512	0.575	-0.744	-0.622	0.266	-0.786	0.642
INR	-0.578	0.634	-0.434	-0.040	-0.268	-0.699	0.567	-0.872	-0.510	0.376	-0.706	0.778
NZD	-0.887	0.121	-0.795	-0.300	-0.583	-0.684	0.093	-0.717	-0.230	0.650	-0.833	0.806
EUR	-0.898	0.400	-0.699	-0.224	-0.528	-0.833	0.309	-0.893	-0.406	0.405	-0.820	1.000

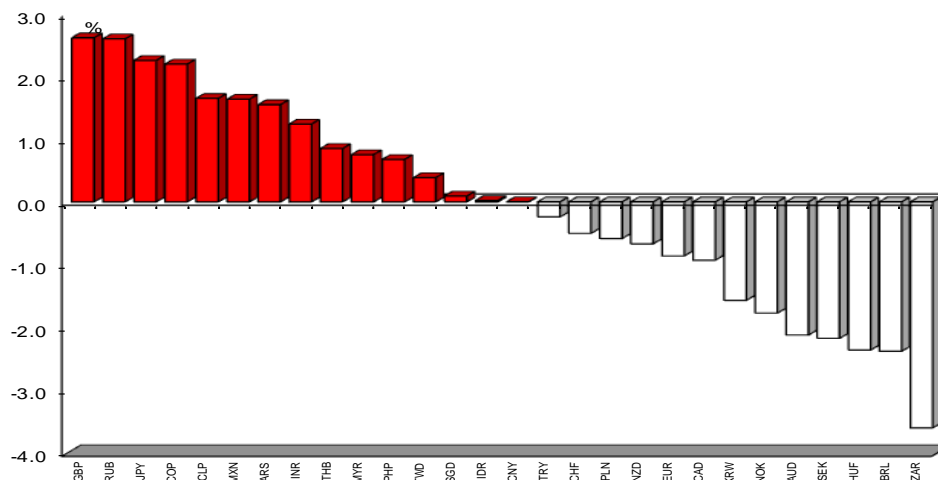
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0653	1.0700	1.0717	1.0800	1.0821
GBP-USD	1.2613	1.2800	1.2804	1.2824	1.2900
AUD-USD	0.7473	0.7500	0.7525	0.7548	0.7600
NZD-USD	0.6900	0.6926	0.6993	0.7000	0.7039
USD-CAD	1.3316	1.3400	1.3476	1.3490	1.3500
USD-JPY	108.88	109.00	109.24	110.00	112.01
USD-SGD	1.3920	1.3950	1.3981	1.4000	1.4039
EUR-SGD	1.4900	1.4964	1.4984	1.5000	1.5097
JPY-SGD	1.2543	1.2700	1.2798	1.2800	1.2832
GBP-SGD	1.7589	1.7900	1.7901	1.7916	1.8000
AUD-SGD	1.0468	1.0500	1.0521	1.0528	1.0600
Gold	1243.33	1260.33	1281.90	1293.64	1294.80
Silver	17.90	17.90	17.99	18.00	18.14
Crude	48.04	50.70	50.77	50.80	52.20

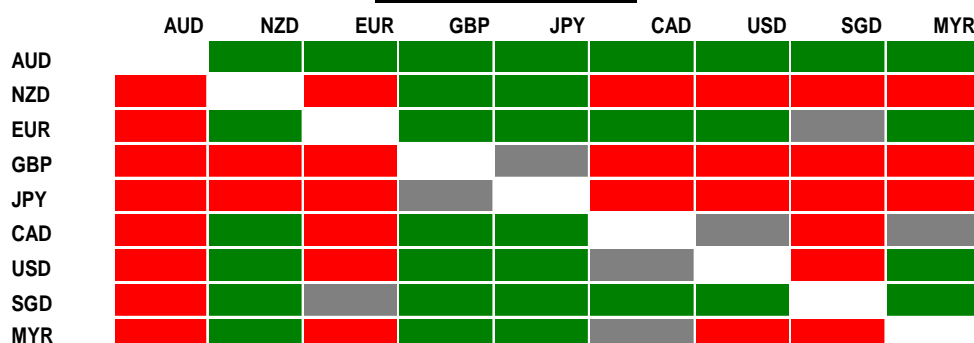
Source: OCBC Bank

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



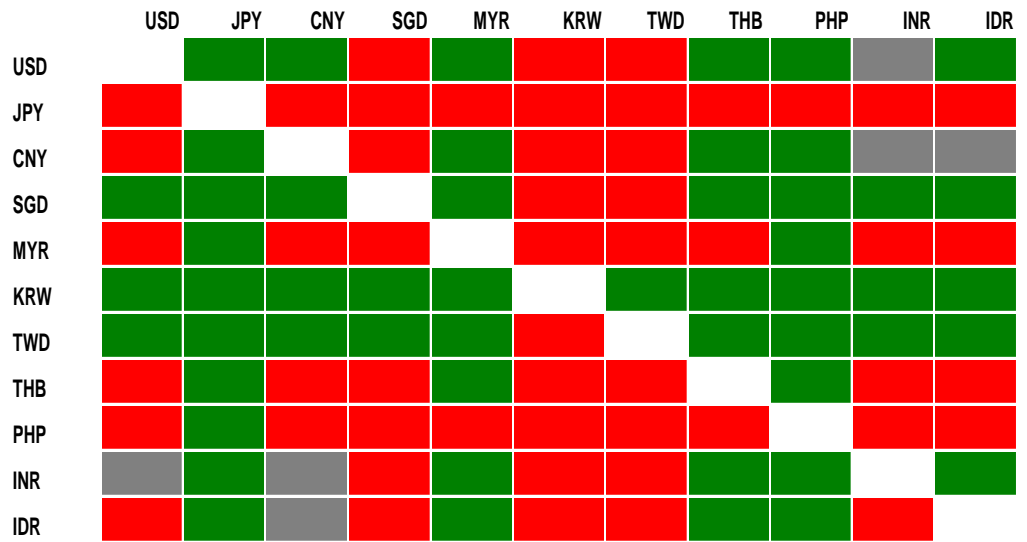
Source: Bloomberg

**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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