

Monday, March 27, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The USD ended mixed on Friday amidst softer 10y UST yields as the Republicans pulled their healthcare bill vote. Early Monday in Asia, USD pessimism kicked in with the JPY (USD-JPY <110.50) and the EUR (EUR-USD >1.0840) are leading the way higher against the USD as disappointment towards the dollar set in.
- Fed rhetoric meanwhile saw hawkish commentary from Williams and Dudley balanced by a more staid Bullard. Expect a continued stream of **Fed-speak this week**, starting with Evans (1715 GMT) and Kaplan (2230 GMT) today. On this front, any references to potential fiscal stimulus (or lack of) may invoke further volatility in the greenback.
- Structurally, dollar skepticism may deepen in the near term after the failure of the health care bill (to even muster a vote) as prospects for promised tax reform and infrastructure spending are now under increased scrutiny. The **DXY** meanwhile may continue to set its sights on 99.00, with the pre-election level of 98.00 in plain sight at this juncture.
- In a nutshell, barring a significant deterioration in global risk appetite levels, USD vulnerability may take a hold at the onset of the week. For global reflation plays, look towards China PMI releases on Fri. Tactically, we remain long EUR-USD, short USD-JPY and USD-SGD.
- On the **CFTC** front, large non-commercial/leveraged accounts increased their net implied long dollar bias in the latest week but the asset managers continued to call it right, flipping to a net short dollar bias (first time in 8 weeks) in the latest week. On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped deeper into Risk-On territory on Friday.

Asian FX

- With global risk appetite levels still relatively sanguine, USD-Asia early Monday has reacted lower in the wake of renewed broad USD negativity, with the **ACI (Asian Currency Index)** lower as a result. Note that latest **EPFR** flow numbers (Asia ex-JP, China) will also prove intrinsically support for regional currencies, with implied net equity flows flipping to a net inflow in the latest week, while implied net bond inflows increased from the previous week.
- **SGD NEER:** In view of the latest broad dollar price action, the **SGD NEER** is slightly firmer on the day at around +0.48% above its perceived parity

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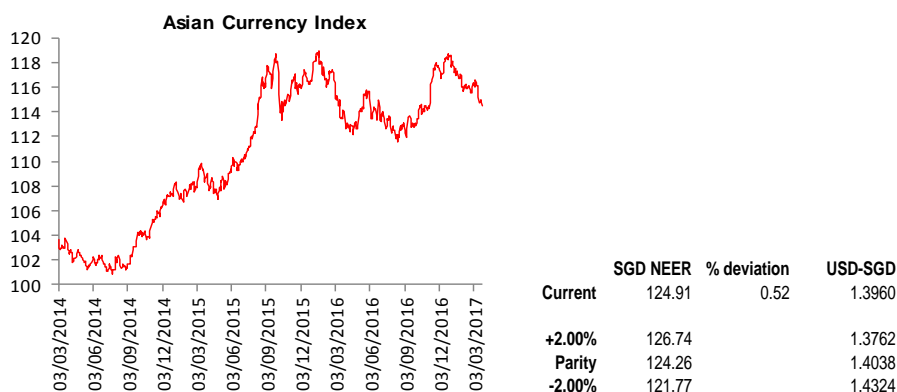
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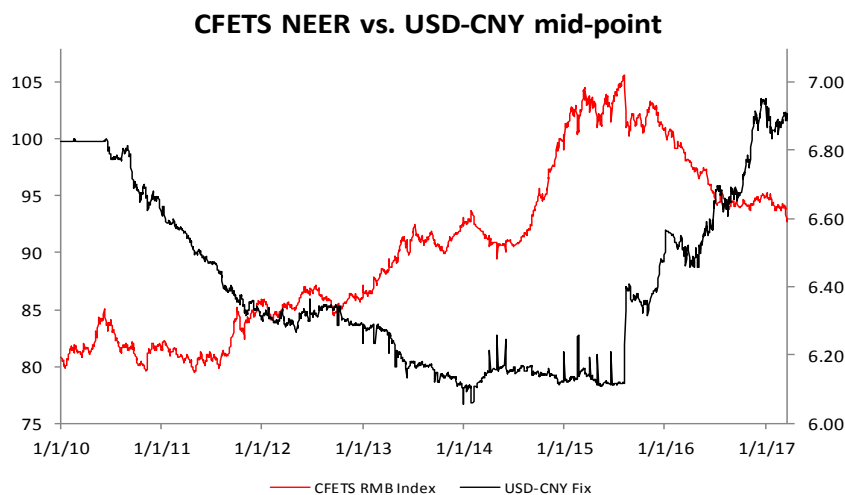
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(1.4038), with NEER-implied USD-SGD thresholds lower compared to last Friday. A near term floor for the USD-SGD (given current market levels) may be expected around +0.70% (1.3940) and the pair may remain heavy under the weight of broad dollar skepticism if risk appetite levels remain relatively sanguine. Technically, the 200-day MA (1.3911) may attract if 1.3945 is breached multi-session. Note that at the low 1.3900 neighborhood, the USD-SGD would have exorcised Trump-related gains chalked up since early November 2016.

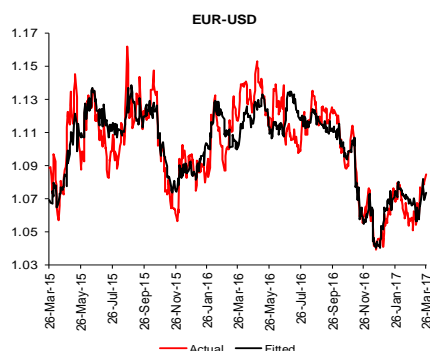


Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell more than expected to 6.8701 from 6.8845 last Friday, easing the **CFETS RMB Index** lower (as largely expected) to 92.84 from 92.91.

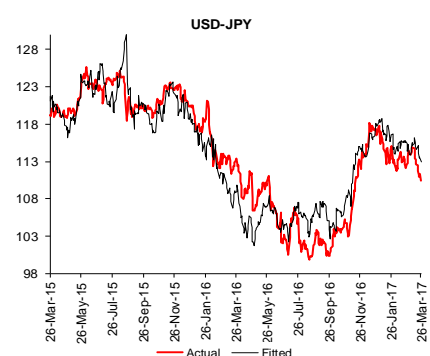


Source: OCBC Bank, Bloomberg

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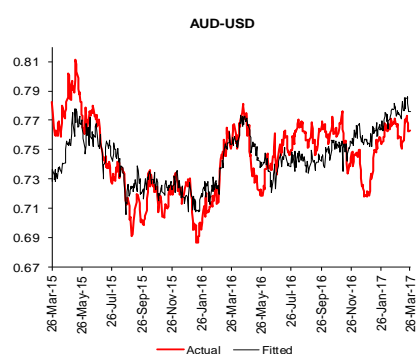
Source: OCBC Bank

- **EUR-USD** With Merkel's win in state elections over the weekend and firmer than expected EZ manufacturing PMI on Fri, ongoing USD vulnerability may continue to keep the EUR-USD buoyed despite fairly static short term implied valuations. Multi-session, a test towards the 200-day MA (1.0882) cannot be discounted, especially if investors continue to flee the Trump trade.



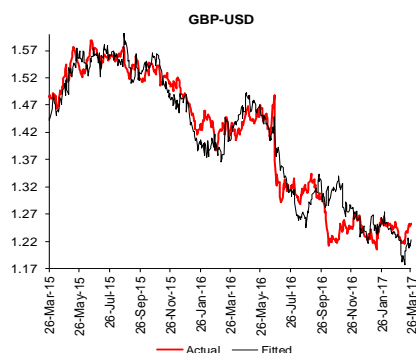
Source: OCBC Bank

- **USD-JPY** The 110.00 support may look increasingly enticing for USD bears in the near term with the pair still relatively more responsive to US-centric cues. At this juncture, implied short term valuations for USD-JPY continue to be slippery. On other fronts, EUR-JPY is looking increasingly heavy, especially if the cross detaches lower past 120.00 on a sustained basis.



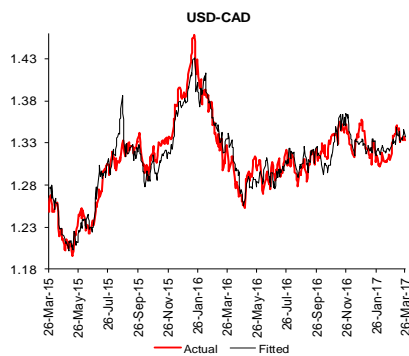
Source: OCBC Bank

- **AUD-USD** AUD-USD may be trapped by heavy iron ore prices and broad dollar weakness in the near term and we remain hands-off on the pair in the interim. Short term valuations for the pair are also slightly repressed ahead of the China PMIs at the end of the week. We prefer to fade upticks in the pair despite the vulnerable broad dollar, and a breach of 0.7600 risks a deterioration to 0.7560.



Source: OCBC Bank

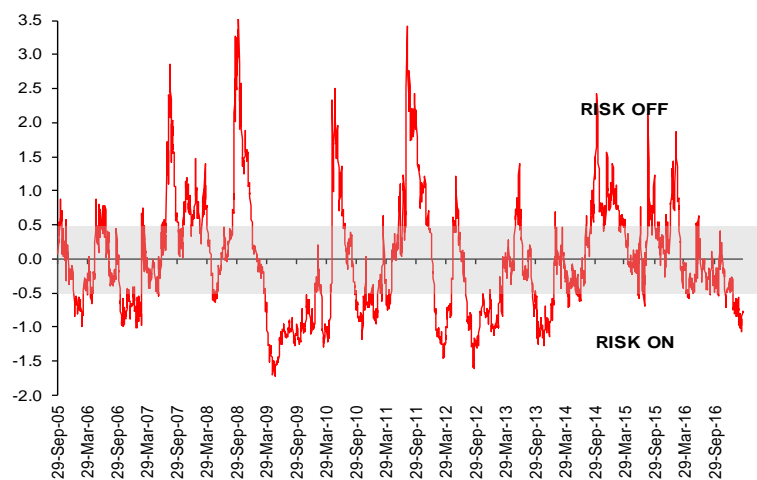
- **GBP-USD** On the GBP, dovish comments from the BOE's Vlieghe undermined the pound on Fri and this week, the primary headline risk is expected to center on the invoking of Article 50 by PM May on Wed. In the near term, the pair may continue to remain conflicted between USD weakness and A50 risks within 1.2400-1.2600, although investors we think may buy into dips gingerly.



Source: OCBC Bank

- USD-CAD** Range bound behavior may continue to prevail in the near term for the USD-CAD, in line with its short term implied valuations. Note that Feb CPI readings also came in largely as expected and were a non-mover. Some preference to remain top heavy given the dollar backdrop with a 1.3280-1.3400 range expected to hold pending external head line risks.

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 | 0.364 | 0.186 | 0.398 | -0.799 | 0.304 | 0.798 | 0.479 | -0.106 | -0.461 | 0.499 | -0.909 |
| CHF | 0.965 | 0.301 | 0.127 | 0.281 | -0.827 | 0.321 | 0.788 | 0.542 | -0.126 | -0.372 | 0.498 | -0.921 |
| SGD | 0.867 | 0.629 | 0.400 | 0.142 | -0.657 | -0.060 | 0.879 | 0.179 | -0.072 | -0.454 | 0.704 | -0.716 |
| MYR | 0.847 | 0.494 | 0.313 | 0.382 | -0.757 | 0.095 | 0.830 | 0.297 | -0.172 | -0.534 | 0.417 | -0.689 |
| INR | 0.820 | -0.008 | -0.267 | 0.261 | -0.929 | 0.662 | 0.549 | 0.807 | 0.010 | -0.289 | 0.202 | -0.898 |
| JPY | 0.798 | 0.815 | 0.632 | 0.439 | -0.537 | -0.230 | 1.000 | 0.046 | -0.259 | -0.620 | 0.687 | -0.573 |
| TWD | 0.761 | 0.669 | 0.491 | 0.394 | -0.788 | -0.030 | 0.905 | 0.206 | -0.291 | -0.583 | 0.551 | -0.562 |
| KRW | 0.760 | 0.604 | 0.461 | 0.405 | -0.713 | -0.044 | 0.847 | 0.164 | -0.303 | -0.624 | 0.576 | -0.528 |
| THB | 0.641 | 0.761 | 0.610 | 0.296 | -0.505 | -0.338 | 0.909 | -0.027 | -0.215 | -0.434 | 0.495 | -0.468 |
| PHP | 0.610 | 0.437 | 0.344 | 0.103 | -0.667 | -0.083 | 0.631 | 0.084 | 0.047 | -0.358 | 0.448 | -0.423 |
| IDR | 0.607 | 0.601 | 0.416 | 0.459 | -0.580 | -0.138 | 0.800 | 0.038 | -0.160 | -0.610 | 0.391 | -0.370 |
| CCN12M | 0.549 | 0.548 | 0.448 | 0.168 | -0.457 | -0.173 | 0.742 | -0.031 | -0.340 | -0.368 | 0.541 | -0.338 |
| CNH | 0.499 | 0.764 | 0.706 | 0.046 | -0.143 | -0.397 | 0.687 | -0.248 | -0.277 | -0.509 | 1.000 | -0.250 |
| USGG10 | 0.364 | 1.000 | 0.890 | 0.208 | -0.036 | -0.692 | 0.815 | -0.550 | -0.234 | -0.540 | 0.764 | 0.009 |
| CAD | 0.352 | 0.875 | 0.804 | 0.023 | -0.062 | -0.627 | 0.649 | -0.501 | 0.002 | -0.483 | 0.848 | -0.011 |
| CNY | 0.186 | 0.890 | 1.000 | 0.202 | 0.165 | -0.774 | 0.632 | -0.673 | -0.367 | -0.454 | 0.706 | 0.203 |
| NZD | -0.205 | -0.921 | -0.900 | 0.031 | -0.099 | 0.779 | -0.591 | 0.640 | 0.222 | 0.464 | -0.809 | -0.154 |
| GBP | -0.691 | -0.850 | -0.770 | -0.324 | 0.420 | 0.392 | -0.912 | 0.138 | 0.165 | 0.562 | -0.785 | 0.422 |
| AUD | -0.724 | -0.691 | -0.490 | 0.022 | 0.562 | 0.254 | -0.802 | 0.033 | 0.030 | 0.432 | -0.786 | 0.507 |
| EUR | -0.909 | 0.009 | 0.203 | -0.274 | 0.828 | -0.597 | -0.573 | -0.746 | -0.032 | 0.216 | -0.250 | 1.000 |

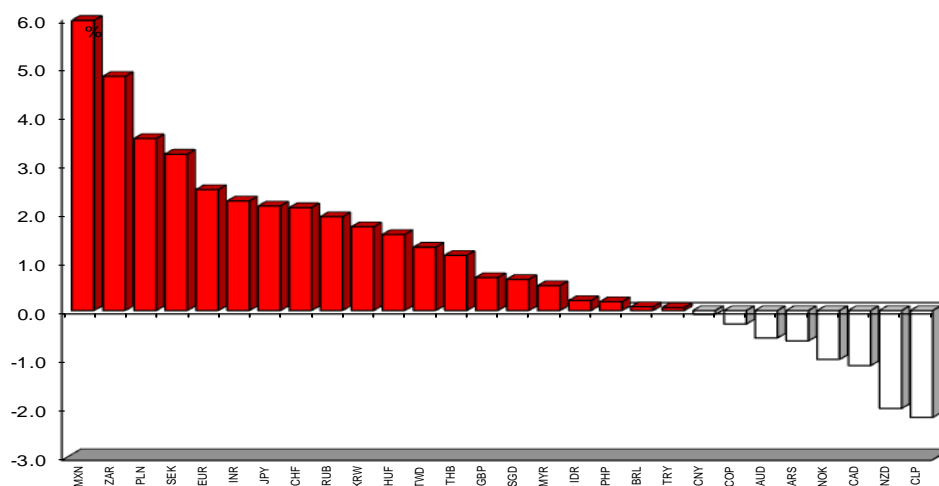
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0668 | 1.0800 | 1.0848 | 1.0849 | 1.0880 |
| GBP-USD | 1.2416 | 1.2500 | 1.2524 | 1.2568 | 1.2570 |
| AUD-USD | 0.7600 | 0.7621 | 0.7627 | 0.7700 | 0.7748 |
| NZD-USD | 0.6890 | 0.7000 | 0.7046 | 0.7100 | 0.7136 |
| USD-CAD | 1.3254 | 1.3300 | 1.3329 | 1.3400 | 1.3508 |
| USD-JPY | 110.00 | 110.26 | 110.33 | 110.36 | 111.00 |
| USD-SGD | 1.3909 | 1.3949 | 1.3952 | 1.4000 | 1.4122 |
| EUR-SGD | 1.5100 | 1.5113 | 1.5135 | 1.5171 | 1.5185 |
| JPY-SGD | 1.2600 | 1.2620 | 1.2644 | 1.2659 | 1.2700 |
| GBP-SGD | 1.7141 | 1.7400 | 1.7474 | 1.7500 | 1.7516 |
| AUD-SGD | 1.0611 | 1.0629 | 1.0641 | 1.0700 | 1.0766 |
| Gold | 1200.00 | 1224.85 | 1256.50 | 1264.08 | 1264.90 |
| Silver | 17.51 | 17.70 | 17.72 | 17.80 | 18.11 |
| Crude | 47.01 | 47.80 | 47.85 | 47.90 | 52.04 |

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 | | | | | | | | | |
| NZD | | | | | | | | | |
| EUR | | | | | | | | | |
| GBP | | | | | | | | | |
| JPY | | | | | | | | | |
| CAD | | | | | | | | | |
| USD | | | | | | | | | |
| SGD | | | | | | | | | |
| MYR | | | | | | | | | |

Source: OCBC Bank

Asia FX Heat Map

| | USD | JPY | CNY | SGD | MYR | KRW | TWD | THB | PHP | INR | IDR |
|-----|------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| USD | | Green | Grey | Green | Green | Green | Green | Green | Green | Green | Green |
| JPY | Red | | Red | Red | Red | Grey | Red | Red | Red | Grey | Red |
| CNY | Grey | Green | | Green | Green | Green | Green | Green | Green | Green | Green |
| SGD | Red | Green | Red | | Green | Green | Red | Green | Red | Green | Red |
| MYR | Red | Green | Red | Red | | Green | Red | Green | Red | Green | Red |
| KRW | Red | Grey | Red | Red | Red | | Red | Red | Red | Green | Red |
| TWD | Red | Green | Red | Green | Green | Green | | Green | Grey | Green | Grey |
| THB | Red | Green | Red | Red | Red | Green | Red | | Red | Green | Red |
| PHP | Red | Green | Red | Green | Green | Green | Grey | Green | | Green | Red |
| INR | Red | Grey | Red | Red | Red | Red | Red | Red | Red | | Red |
| IDR | Red | Green | Red | Green | Green | Green | Grey | Green | Green | Green | |

Source: OCBC Bank

FX Trade Ideas

| | Inception | B/S | Currency | Spot | Target | Stop/Trailing Stop | Rationale | | |
|---|-----------------------------|--|----------|----------|--------|--------------------|---|---------------------|-------|
| | TACTICAL | | | | | | | | |
| 1 | 01-Mar-17 | B | USD-CAD | 1.3326 | 1.3605 | 1.3185 | BOC static in March, sharp contrast with Fed's recent posture | | |
| 2 | 17-Mar-17 | B | EUR-USD | 1.0766 | 1.1000 | 1.0645 | Dutch election news flow, abating le Pen concerns, weekend USD | | |
| 3 | 17-Mar-17 | S | USD-SGD | 1.4029 | 1.3800 | 1.4145 | Vulnerable USD, positive risk appetite, tolerant MAS | | |
| 4 | 22-Mar-17 | S | USD-JPY | 111.62 | 108.40 | 113.25 | Trump trade unwind, mild risk aversion | | |
| | STRUCTURAL | | | | | | | | |
| 5 | 22-Nov-16 | B | USD-JPY | 110.81 | 123.40 | 104.50 | Potential for a more activist Fed, static BOJ | | |
| 6 | 28-Nov-16 | S | EUR-USD | 1.0641 | 0.9855 | 1.1035 | USD in ascendance, poiltical risk premium in EZ | | |
| 7 | 14-Feb-17 | Bearish 2M USD-CAD Put Spread Spot ref: 1.3055; Strikes: 1.3049, 1.2500 Cost: 1.19% | | | | | Underlying growth theme in spite of the Trump/FOMC trade | | |
| 8 | 22-Feb-17 | Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 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 | 25-Jan-17 | 01-Mar-17 | B | GBP-USD | 1.2528 | 1.2383 | Subsidence of acute A50 concerns in the short term | -1.26 | |
| 2 | 12-Jan-17 | 02-Mar-17 | B | AUD-USD | 0.7463 | 0.7560 | Reflation may dominate as the Trump trade pauses | +1.35 | |
| 3 | 20-Jan-17 | 02-Mar-17 | S | USD-SGD | 1.4240 | 1.4125 | Potential for Trump's inauguration to disappoint USD bulls | +0.81 | |
| 4 | 12-Jan-17 | 08-Mar-17 | S | USD-JPY | 114.63 | 113.91 | Downward consolidation post-Trump press conference | +0.31 | |
| 5 | 22-Feb-17 | 10-Mar-17 | S | EUR-USD | 1.0548 | 1.0695 | Potential near term USD strength, brewing EZ political risks | -1.30 | |
| 6 | 10-Mar-17 | 15-Mar-17 | S | AUD-USD | 0.7519 | 0.7605 | Compression in cyclical vs. USD strength | | |
| 7 | 25-Oct-16 | 20-Mar-17 | B | USD-SGD | 1.3919 | 1.3984 | Bullish dollar prospects, negative space for SGD NEER | +0.54 | |
| 8 | 03-Mar-17 | 20-Mar-17 | S | GBP-USD | 1.2253 | 1.2435 | Sustained Brexit risks vs. recent USD resilience | -1.46 | |
| | * realized | | | | | | | Jan-Feb 2017 Return | -7.14 |
| | | | | | | | | 2016 Return | +6.91 |

Source: OCBC Bank

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