

Friday, April 28, 2017

FX Themes/Strategy/Trading Ideas

- With UST yields adjusting lower slightly, the dollar traded mixed to firmer in the absence of a definitive US-centric bias with markets responding to idiosyncratic factors instead. Note disappointing March durable goods data points while weekly initial claims came in firmer than expected.
- With the **ECB's Draghi** decidedly accommodative (as opposed to a slightly less dire policy statement) on Thursday, the EUR-USD fell through the 1.0900 handle (note firmer bunds) with the common unit also underperforming across G10 space.
- Elsewhere, the **BOJ MPC** yielded little in the way of surprises (**Kuroda** remained sufficiently dovish) trapping the USD-JPY in recent ranges. Note however that early Friday in Asia, Japan's March core-core inflation shrank - 0.1%, the first contraction since July 2013. Meanwhile, the SEK fell against the USD and the EUR after the **Riksbank** extended its asset purchase program.
- Today, the calendar includes Aussie March private sector credit, EZ Apr CPI, while the NY session brings the April Chicago PMI, U of Michigan consumer sentiment, as well as 1Q GDP numbers.
- Of greater consequence we think would be the **FOMC** next week on Wednesday, and whether the Fed would actually telegraph a June rate hike. Given that the latest vibes from the BOJ, ECB and Riksbank may have polarized the USD world view slightly, any hawkish hints from the Fed next week may underpin the greenback slightly.
- Into the end of this week, the week however, the likes of the EUR and the AUD may remain top heavy. Elsewhere **risk correlations** may also remain slightly distorted with the oil complex still soggy with EM/Asia not likely to garner much traction. On this front, the **FXSI (FX Sentiment Index)** softened within **Risk-On** territory on Thursday but EM/Asia may not derive much traction from this development in the near term.

Asian FX

- In Asia, the net portfolio inflow narrative is slightly supportive of the KRW and the PHP, while the rest of the other regionals continue to experience a moderation in inflow momentum. Downside for USD-Asia is thus expected to remain slightly hesitant. Overall, would expect the **ACI (Asian Currency Index)** to trade flat to bullish into the end of the week.

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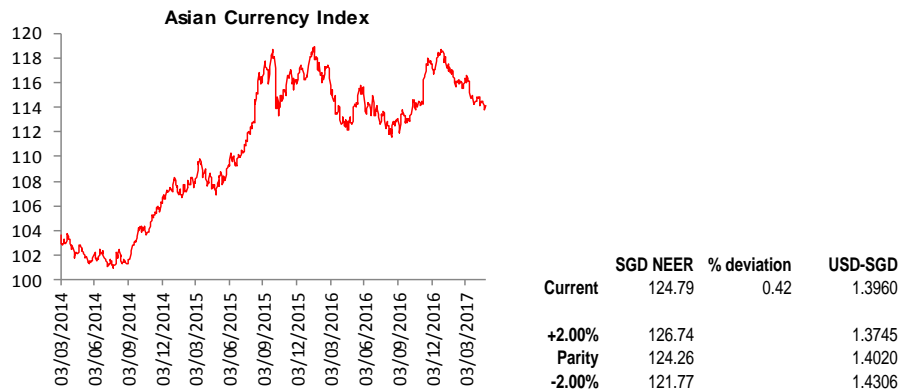
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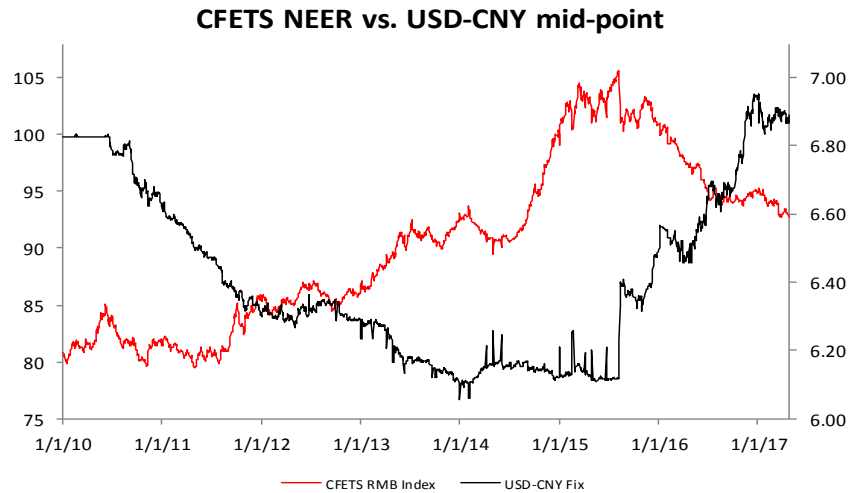
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- SGD NEER:** The SGD NEER is a touch firmer this morning at +0.43% above its perceived parity (1.4020). NEER-implied USD-SGD thresholds are firmer on the day with +0.50% estimated at 1.3950 and +0.80% at 1.3909. We expect markets to accumulate on dips. Technically, the pair is still orbiting its 200-day MA (1.3970) while resistance from a downward trend line established from early Jan 17 sits around 1.3983/85. Failure to overcome these levels risks a detachment lower to 1.3900 and then 1.3820.



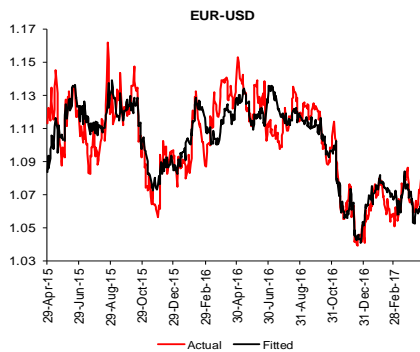
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point rose (slightly more than expected) to 6.8931 from 6.8896 on Thursday, lifting the **CFETS RMB Index** to 92.78 from 92.76 yesterday.



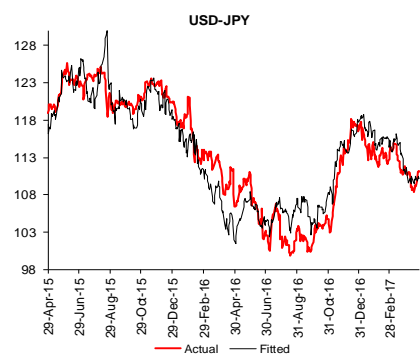
Source: OCBC Bank, Bloomberg

G7



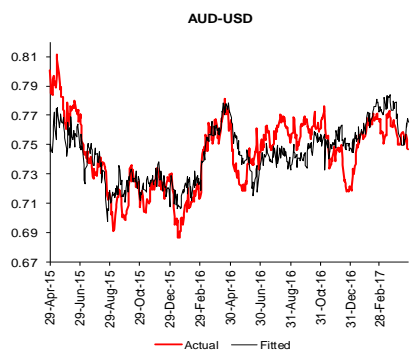
Source: OCBC Bank

- EUR-USD** EUR-USD may continue to capitulate lower post-Draghi, with short term implied valuations also reacting lower on Thursday. To this end, the pair may well be drawn towards its 200-day MA (1.0836). Meanwhile, any violation of the 120.77 and 100-day MA (120.64) by the EUR-JPY may invite a move towards 120.20.



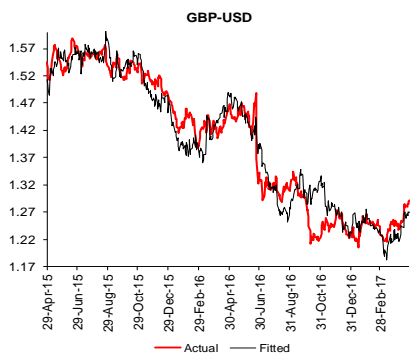
Source: OCBC Bank

- USD-JPY** USD-JPY may continue to go nowhere fast although Kuroda and the latest core-core CPI print may deter excessive downside in the near term. The pair remains trapped within its short term implied confidence intervals in the interim with the 55-day MA (111.93) seen capping and 110.65 seen providing initial support. Preference to collect into weakness.



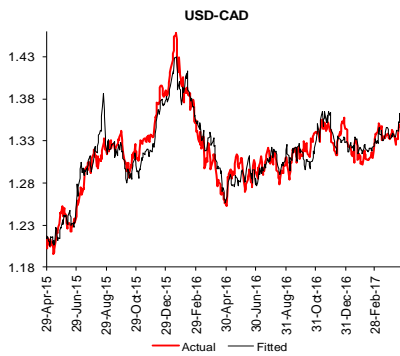
Source: OCBC Bank

- AUD-USD** In the current landscape, investors may continue to remain wary of building bullish AUD views in the near term despite still supported short term implied valuations. At this juncture, the pair remains slightly stretched on the downside, and may have to await the RBA policy meeting next Tuesday. In the interim, risks towards 0.7450 and then 0.7400 remain on the cards we think. On other fronts, we'd also watch the EUR-AUD for any indications that the recent re-balancing may have run its course.



Source: OCBC Bank

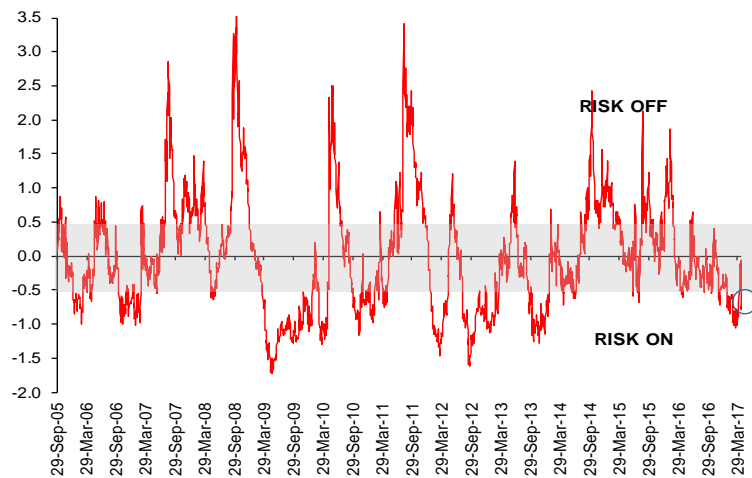
- GBP-USD** GBP-USD edged firmer on Thursday (partially on the back of a heavy EUR-GBP). Short term implied valuations meanwhile remain underpinned and despite less than charitable comments from Merkel yesterday with respect to Brexit negotiations, near term prospects for GBP-USD may remain positive (likely on the back of lingering snap election positivity). Topside at 1.3000 remains fair game.



Source: OCBC Bank

- USD-CAD** CAD may remain unsteady on the back of vacillating NAFTA rhetoric out of the White House and still soggy crude. However, short term implied valuations have stepped lower, putting a damper on excessive upside for the pair. Into the end of the week, USD-CAD may still bounce towards 1.3700 pending the February GDP numbers later today.

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	0.241	0.455	-0.569	-0.353	0.835	-0.006	0.690	0.489	0.609	0.055	-0.939
CHF	0.903	0.082	0.485	-0.498	-0.247	0.829	-0.150	0.836	0.518	0.449	0.146	-0.921
MYR	0.874	0.280	0.191	-0.598	-0.583	0.817	-0.013	0.544	0.385	0.700	-0.265	-0.824
TWD	0.817	-0.078	0.471	-0.550	-0.426	0.716	-0.256	0.777	0.625	0.508	0.332	-0.816
SGD	0.711	0.274	0.628	-0.287	-0.137	0.578	0.124	0.545	0.306	0.213	0.483	-0.672
CNY	0.455	0.345	1.000	0.129	0.413	0.252	0.440	0.320	-0.070	-0.263	0.663	-0.288
CCN12M	0.437	0.244	0.774	0.060	0.271	0.400	0.332	0.398	0.139	-0.085	0.613	-0.180
INR	0.436	0.239	-0.181	-0.372	-0.524	0.346	0.075	0.031	0.146	0.671	-0.681	-0.440
THB	0.339	0.302	0.900	0.145	0.415	0.217	0.388	0.182	-0.033	-0.244	0.729	-0.076
USGG10	0.241	1.000	0.345	0.417	0.220	0.085	0.910	-0.278	-0.599	-0.236	-0.060	-0.005
PHP	0.215	0.738	0.211	0.185	-0.018	-0.024	0.733	-0.424	-0.578	0.000	-0.325	-0.102
KRW	0.171	-0.687	0.122	-0.385	-0.212	0.263	-0.715	0.634	0.686	0.201	0.540	-0.334
AUD	0.126	0.384	-0.472	-0.135	-0.340	0.175	0.123	-0.146	-0.196	0.404	-0.856	-0.192
IDR	0.121	0.441	0.130	0.218	-0.174	-0.243	0.445	-0.494	-0.478	-0.002	-0.251	-0.051
NZD	0.110	-0.192	-0.648	-0.569	-0.794	0.199	-0.447	0.102	0.326	0.693	-0.766	-0.344
CNH	0.055	-0.060	0.663	0.259	0.458	-0.078	0.119	0.147	0.064	-0.460	1.000	0.084
JPY	-0.006	0.910	0.440	0.670	0.466	-0.164	1.000	-0.450	-0.785	-0.497	0.119	0.277
CAD	-0.763	-0.105	0.044	0.645	0.530	-0.863	0.259	-0.662	-0.531	-0.783	0.454	0.797
GBP	-0.847	-0.579	-0.345	0.350	0.224	-0.754	-0.210	-0.464	-0.128	-0.465	0.264	0.735
EUR	-0.939	-0.005	-0.288	0.722	0.531	-0.867	0.277	-0.791	-0.660	-0.741	0.084	1.000

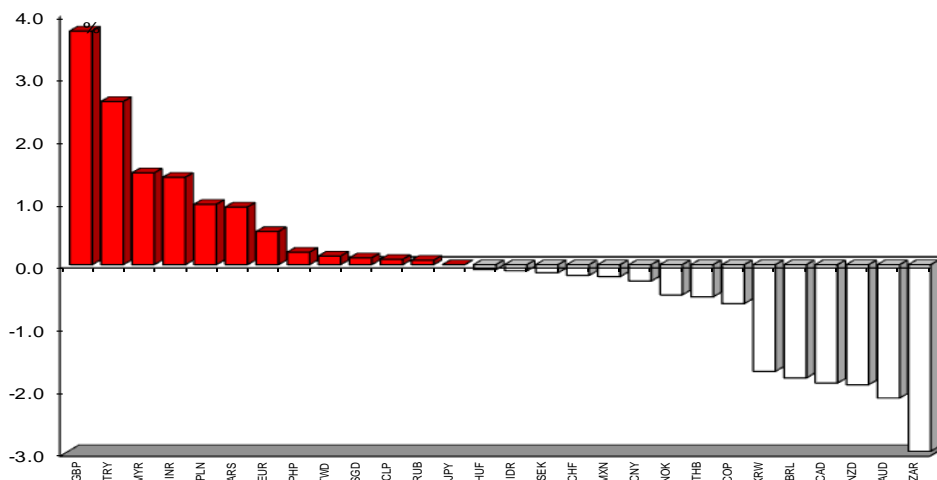
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0800	1.0833	1.0870	1.0900	1.0930
GBP-USD	1.2605	1.2900	1.2909	1.2917	1.3000
AUD-USD	0.7440	0.7449	0.7469	0.7500	0.7548
NZD-USD	0.6848	0.6873	0.6876	0.6900	0.7012
USD-CAD	1.3368	1.3600	1.3639	1.3655	1.3671
USD-JPY	108.99	111.00	111.15	111.72	112.00
USD-SGD	1.3917	1.3960	1.3963	1.4000	1.4024
EUR-SGD	1.5100	1.5115	1.5177	1.5200	1.5238
JPY-SGD	1.2500	1.2552	1.2563	1.2600	1.2828
GBP-SGD	1.7591	1.8000	1.8024	1.8057	1.8100
AUD-SGD	1.0400	1.0408	1.0429	1.0500	1.0536
Gold	1249.89	1259.75	1266.00	1296.90	1299.49
Silver	17.20	17.20	17.28	17.28	17.30
Crude	48.13	49.20	49.28	49.30	51.71

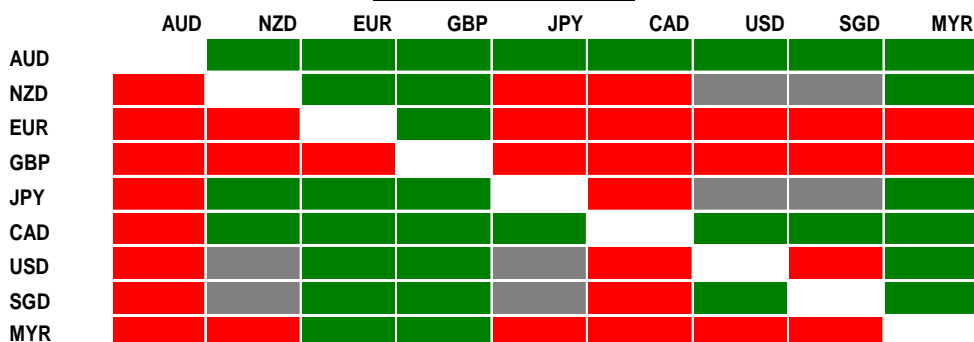
Source: OCBC Bank

FX performance: 1-month change agst USD



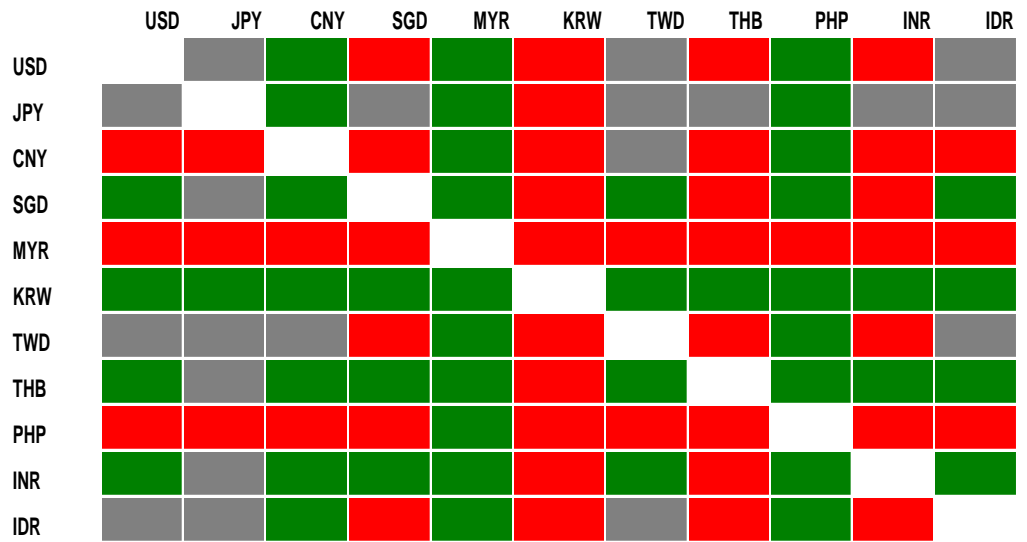
Source: Bloomberg

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	05-Apr-17	S	AUD-USD	0.7580	0.7405	0.7670	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	26-Apr-17	B	EUR-USD	1.0943	1.1135	1.0845	French-election optimism, generalized improvement in risk	
4	26-Apr-17	B	USD-CAD	1.3563	1.3785	1.3450	Potential heightening of trade tensions with the US; soggy crude	
STRUCTURAL								
5	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	
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46
2	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
3	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029	1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
4	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
5	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**
6	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
7	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298	1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
8	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**
9	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
10	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
							* realized **of notional	
							Jan-Mar 2017 Return	-11.88
							2016 Return	+6.91

Source: OCBC Bank

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