

Tuesday, May 09, 2017

FX Themes/Strategy/Trading Ideas

- Firmer UST yields (bear steepening from the back-end) led the USD higher across G10 space on Monday while the EUR succumbed to profit taking following the French Presidential election results. On the risk appetite front, compression of risk premiums post French elections also saw the USD-CHF jumping higher with the swissie underperforming across the board while XAU also edged lower.
- On the USD front, the Fed's Mester was sufficiently committed to the Fed's upward rate trajectory while Bullard was slightly more dovish. Look towards more Fed speak later today with Kashkari (1300 GMT), George (1540 GMT), Rosengren (1700 GMT), Kaplan (2015 GMT).
- On other fronts, China's April trade numbers provided some cause for pause for the cyclicals (and base metals), especially the softer than expected import performance for the month. On this front, the global reflation trade we think may remain under scrutiny in the near term pending further developments in commodity space, keeping a lid on the likes of the AUD.
- Despite FF futures all but pricing in a June FOMC hike, background suspicion towards outright USD resilience may remain in circulation. Pending **Fed-speak** later today, we continue to look to **USD-JPY** as a Fed-related play. We also remain fairly guarded towards the **cyclicals** on account of doubts surrounding the global reflation trade. Elsewhere, the **EUR** and **GBP** may continue to exhibit a relative of resilience given alleviated political risk premiums.
- With **USD-CAD** retracing lower on Friday, our 26 Apr 17 idea to be tactically long the pair (spot ref: 1.3563) was closed out at the profit stop of 1.3670 for an implied +0.80% gain.

Asian FX – USD turning?

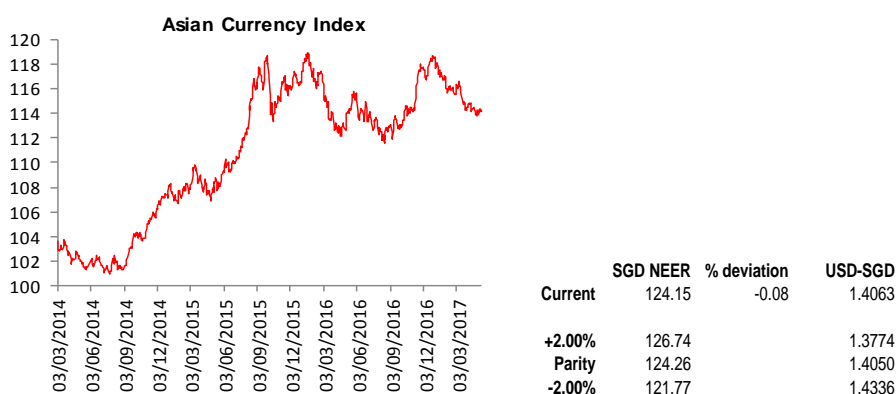
- Meanwhile, the net portfolio flow situation in Asia is perceived to be supportive of the KRW (holiday today on account of the Presidential elections), TWD, and PHP. On the other hand, we continue to detect waning support for the THB, IDR and INR within this framework. Asian central banks remain hesitant towards excessive strength of their domestic currencies but we think their fears may be slightly allayed in the coming weeks if the USD gains some traction ahead of the June FOMC.
- For today, despite risk appetite levels improving as largely expected (**FXSI**

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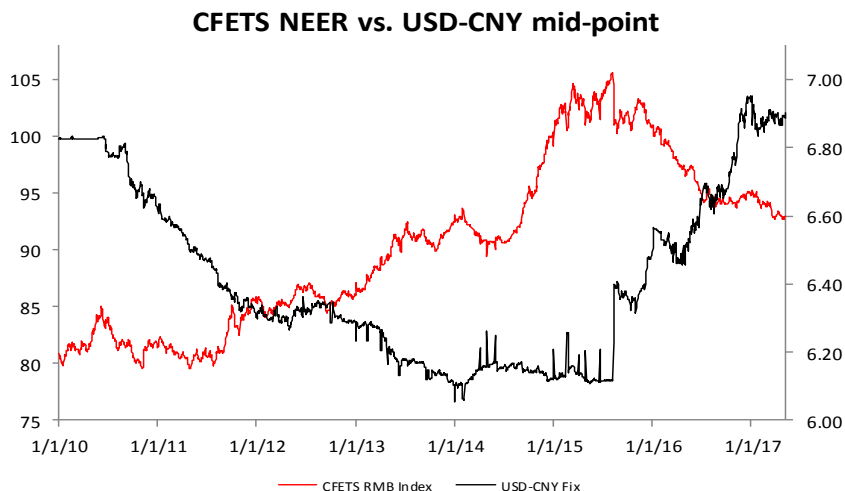
(FX Sentiment Index) dipping further into Risk-On territory on Monday), investors may continue to refrain from typical **Risk-On/Risk-Off** plays and instead look to the broad dollar. As such, the **ACI (Asian Currency Index)** may look to firmer ground intra-day (note cues provided by the USD-CNH above 6.9100 this morning).

- SGD NEER:** The SGD NEER this morning is slightly firmer on the day at around -0.11% below its perceived parity (1.4050). NEER-implied USD-SGD thresholds are also slightly stronger on the day and the NEER may remain just shy of its parity if the broad dollar maintains its partial resilience. At current levels, the -0.50% threshold is estimated at 1.4120. Technically, support is expected into the 55-day MA (1.4022) while risks towards 1.4085 and 1.4100 we think remain apparent.



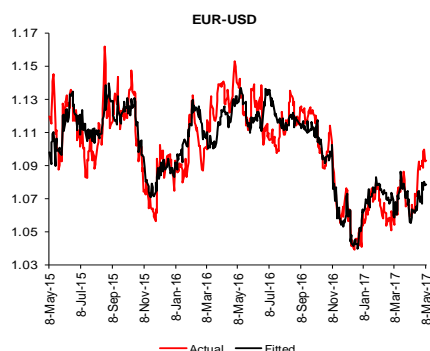
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning gained to 6.9037 from 6.8947 yesterday, inching the **CFETS RMB Index** higher to 92.91 from 92.90 yesterday. With realized vol of the mid-points still running slightly north of the Index and with relative NEER stability still expected to be a major policy objective, expect the USD-CNY mid-points to maintain sufficient latitude to lift higher in tandem with any potential broad dollar resilience.



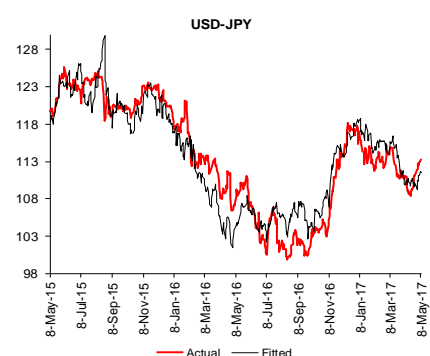
Source: OCBC Bank, Bloomberg

G7



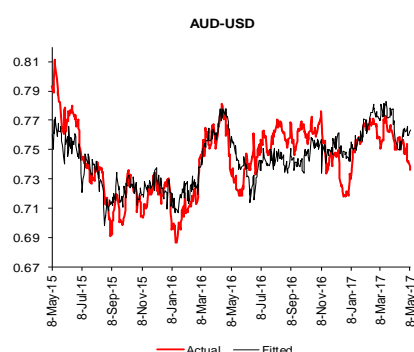
Source: OCBC Bank

- **EUR-USD** Investors will be looking towards Draghi's appearance tomorrow with the ECB's Mersch on Monday calling for more balanced forward guidance. In the interim, the EUR-USD may be content to sit slightly atop its short term implied confidence intervals (with EUR-JPY on pause at this juncture). Preference to buy dips within 1.0900-1.1000.



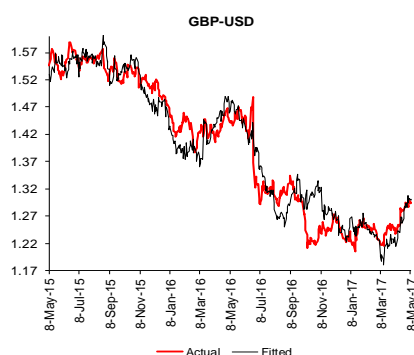
Source: OCBC Bank

- **USD-JPY** Pending a whole host of Fed-speak later in NY, rate differential arguments are expected to keep the USD-JPY afloat in the near term, in line with a pickup in short term implied valuations. Any ability to lift convincingly above the 100-day MA (113.12) may pave the way towards 113.75-114.00.



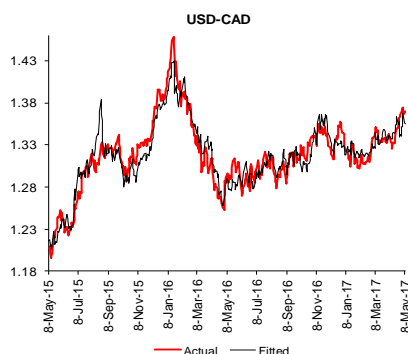
Source: OCBC Bank

- **AUD-USD** Disappointing March retail sales (-0.1% vs. +0.3% expected) this morning and amidst mounting fiscal concerns in the background (budget announcement today, expect the AUD-USD to remain on a southward tear relative to its short term implied valuations. In the near term, expect inherent risk to bleed towards 0.7335 ahead of 0.7300.



Source: OCBC Bank

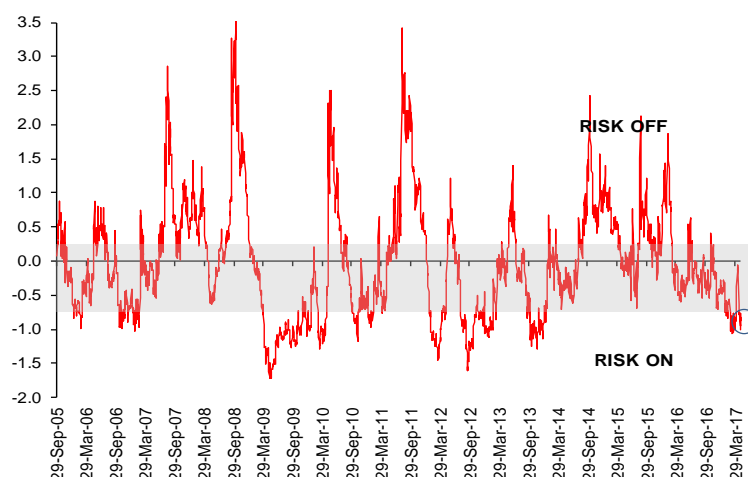
- **GBP-USD** GBP-USD drifted lower in concert with the majors on Monday with investors awaiting the BOE MPC and Inflation Report (note background hawkish expectations still attached to the BOE) on Thursday for further directionality. Meanwhile, short term implied valuations remain underpinned and the 1.3000 watershed remains pivotal.



Source: OCBC Bank

- USD-CAD** USD-CAD managed to bounce as previously hazarded on Monday with the commodity complex still imparting buoyancy to the pair. However, with short term implied valuations consolidating at this juncture (narrowing rate differentials), USD-CAD may stall pending further headline risks. Preference to accumulate within 1.3650-1.3775 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	-0.359	-0.224	-0.808	-0.649	0.881	-0.670	0.862	0.876	0.821	-0.204	-0.960
CHF	0.917	-0.264	-0.211	-0.693	-0.561	0.867	-0.545	0.808	0.728	0.732	-0.084	-0.890
MYR	0.895	-0.505	-0.492	-0.876	-0.859	0.905	-0.842	0.909	0.924	0.929	-0.391	-0.931
TWD	0.873	-0.341	-0.250	-0.755	-0.768	0.803	-0.672	0.802	0.823	0.818	-0.145	-0.865
INR	0.709	-0.556	-0.461	-0.810	-0.877	0.667	-0.775	0.660	0.836	0.847	-0.467	-0.762
KRW	0.690	-0.364	-0.132	-0.592	-0.625	0.616	-0.502	0.574	0.661	0.669	-0.125	-0.705
NZD	0.539	-0.698	-0.728	-0.791	-0.882	0.595	-0.830	0.604	0.736	0.822	-0.695	-0.683
AUD	0.466	-0.700	-0.806	-0.635	-0.613	0.648	-0.823	0.706	0.550	0.697	-0.766	-0.611
SGD	0.217	0.535	0.617	0.086	0.053	-0.030	0.412	-0.190	0.041	-0.099	0.694	-0.026
THB	-0.175	0.683	0.902	0.557	0.595	-0.380	0.740	-0.457	-0.445	-0.567	0.870	0.403
CNH	-0.204	0.819	0.865	0.606	0.612	-0.390	0.767	-0.456	-0.513	-0.596	1.000	0.400
CNY	-0.224	0.774	1.000	0.581	0.683	-0.425	0.810	-0.465	-0.491	-0.652	0.865	0.416
CCN12M	-0.311	0.685	0.874	0.609	0.684	-0.403	0.819	-0.508	-0.495	-0.665	0.766	0.520
USGG10	-0.359	1.000	0.774	0.747	0.723	-0.534	0.856	-0.554	-0.656	-0.762	0.819	0.539
IDR	-0.627	0.239	0.252	0.562	0.347	-0.767	0.496	-0.757	-0.572	-0.543	0.272	0.629
JPY	-0.670	0.856	0.810	0.915	0.907	-0.770	1.000	-0.823	-0.863	-0.955	0.767	0.812
PHP	-0.679	0.416	0.522	0.723	0.630	-0.802	0.720	-0.807	-0.751	-0.750	0.463	0.697
CAD	-0.894	0.552	0.498	0.870	0.804	-0.928	0.855	-0.937	-0.902	-0.916	0.506	0.930
GBP	-0.945	0.250	0.233	0.727	0.578	-0.884	0.641	-0.872	-0.782	-0.744	0.268	0.907
EUR	-0.960	0.539	0.416	0.909	0.789	-0.928	0.812	-0.919	-0.933	-0.925	0.400	1.000

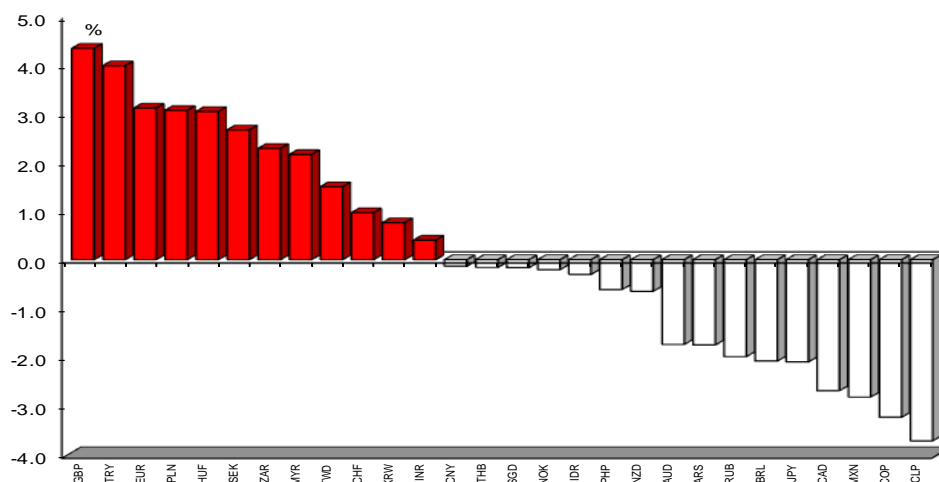
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0828	1.0900	1.0924	1.1000	1.1023
GBP-USD	1.2595	1.2900	1.2948	1.2989	1.3000
AUD-USD	0.7364	0.7366	0.7368	0.7400	0.7545
NZD-USD	0.6840	0.6900	0.6918	0.6972	0.7000
USD-CAD	1.3445	1.3600	1.3690	1.3700	1.3793
USD-JPY	111.69	113.00	113.29	113.38	114.00
USD-SGD	1.4012	1.4052	1.4067	1.4082	1.4100
EUR-SGD	1.5127	1.5300	1.5367	1.5400	1.5487
JPY-SGD	1.2370	1.2400	1.2418	1.2500	1.2545
GBP-SGD	1.7601	1.8200	1.8213	1.8261	1.8300
AUD-SGD	1.0330	1.0332	1.0365	1.0400	1.0545
Gold	1220.45	1221.00	1227.30	1248.63	1256.38
Silver	16.10	16.19	16.20	16.20	17.65
Crude	44.59	46.60	46.62	46.70	50.55

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

Source: OCBC Bank

Asia FX Heat Map

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

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	02-May-17		B	USD-JPY	112.08	114.45	110.85	USD resilience against JPY ahead of FOMC/NFP	
	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	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029		1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
2	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
3	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**
4	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585		1.0685	Policy dichotomy, French election risks	-0.90
5	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298		1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
6	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 deflation trade, Fed expected to hike later rather than sooner	-1.18**
7	22-Mar-17	24-Apr-17	S	USD-JPY	111.62		110.00	Trump trade unwind, mild risk aversion	+1.31
8	22-Nov-16	24-Apr-17	B	USD-JPY	110.81		110.20	Potential for a more activist Fed, static BOJ	+0.45
9	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
	* realized **of notional								
	Jan-Mar 2017 Return								-11.88
	2016 Return								+6.91

Source: OCBC Bank

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