

Thursday, April 13, 2017

FX Themes/Strategy/Trading Ideas – Trump; MAS

- After attempting to edge higher throughout the global day, the USD was trounced in late NY after US President Trump stated (in the WSJ) that the greenback “is getting too strong”, adding that he likes a “low interest rate policy”. The UST curve (10y dropped to 2.24%) also jerked lower with the middle sector outperforming. **On the back of this, we retain our view to remain tactically short USD-JPY.**
- The calendar today includes China March trade numbers (March CPI reported on Wednesday was softer than expected) and Australian March labor market numbers (0130 GMT). On the central bank front, the Bank of Korea is expected to stand pat at 1.25% today.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** inched higher again and remained in Risk-Neutral territory for the second consecutive session on Wednesday.

Asian FX

- With geopolitical concerns already abating slightly (China leaning on North Korea, Tillerson-Putin meeting), the latest hit on the dollar from Trump should pressure USD-Asia lower (USD-CNH slumped below 6.8900) into the end of the week. On China, the WSJ also quoted Trump as saying that “They’re not currency manipulators” despite noting elsewhere that “...other countries are devaluing their currency”. Note also that the net portfolio capital inflows in Asia had also been supportive of late, and this may inflict further weight on the USD-Asian complex today and keep the **ACI (Asian Currency Index)** pointed south into the end of the week..
- **SGD NEER:** This morning, 1Q advance estimates of 1Q GDP came in at a softer than expected -1.9% qoq saar and the MAS, in its Monetary Policy Statement (MPS), kept its policy parameters unchanged as widely expected. However, contrary to some pockets of expectations, the MAS noted that, “As indicated in the October 2016 MPS, a neutral policy stance is appropriate **for an extended period** (*bold italics* are author’s) and should ensure medium-term price stability”.
- Meanwhile, the official core inflation projection remained unchanged at 1-2% with the monetary authority attributing potential pressures to oil related items while “A number of administrative price adjustments¹ this year will also contribute to a temporary increase in CPI inflation”. **Of greater importance we think is the official expectation that “conditions in the labour market**

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have slackened since the last policy review” and that, **“demand-driven inflationary pressures will likely be restrained”** – key ingredients we think for maintaining the official view that the current policy stance would be maintained “...for an extended period”.

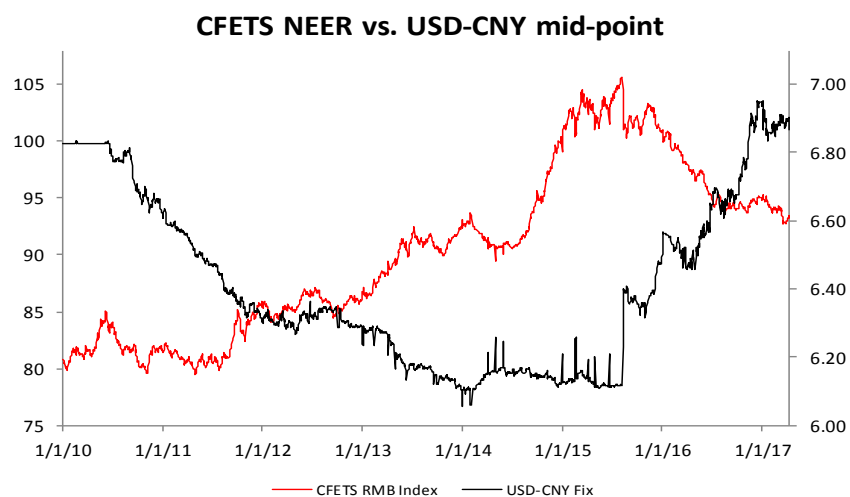
- On other fronts, the growth outlook/prognosis in the accompanying statement came across as slight more sanguine (“The outlook for the global economy has improved slightly since the October 2016 MPS”).
- On the SGD NEER, the USD-SGD blipped higher briefly post the MPS and the NEER is hovering around +0.68% above its perceived parity (1.4054). NEER-implied USD-SGD thresholds are significantly lower on the day post – Trump and the NEER is expected to bounce around between +0.50% (1.3985) and +0.80% (1.3943) pending further broad USD moves.
- Meanwhile, the 200-day MA (1.3944) may remain under threat in the short term, beyond which, the next subsequent support is expected towards 1.3910. Overall, we expect the Trump effect to override the MAS MPS this morning and continue to keep USD-SGD suppressed, although the higher forwards points post MPS we think are reflecting the still neutral stance of the MAS.



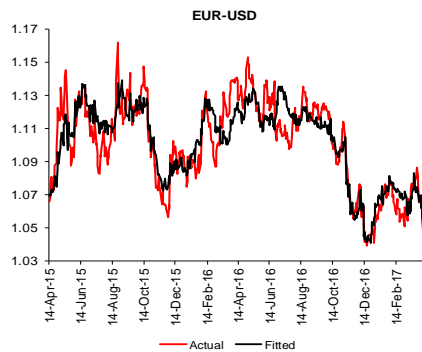
	SGD NEER	% deviation	USD-SGD
Current	125.06	0.65	1.3963
+2.00%	126.74		1.3779
Parity	124.26		1.4054
-2.00%	121.77		1.4341

Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a significantly lower than expected 6.8651 (testing the lower boundary constraints for inter-day changes in the mid-points) from 6.8940 on Wednesday. Nonetheless, this still pulled the **CFETS RMB Index** lower (as largely expected) to 93.26 from 93.43. Today's fix behavior and its impact on the basket we think may presumably be an attempt at maintaining stability in the NEER.

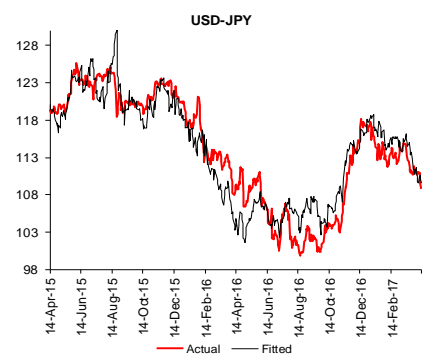


Source: OCBC Bank, Bloomberg

G7

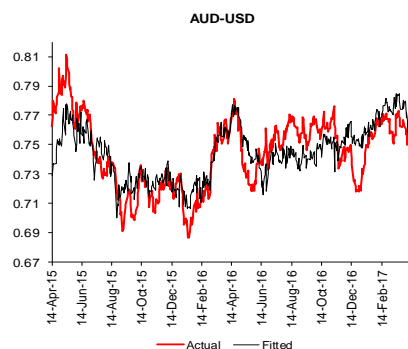
Source: OCBC Bank

- **EUR-USD** The latest comments out of Trump and the resultant impact on yields are likely to keep the USD under near term pressure across the board. Short term implied valuations for the EUR-USD have ticked higher for now and the pair may remain supported within 1.0630-1.0700 in the interim, with the 55-day MA (1.0666) likely serving as a near term anchor.



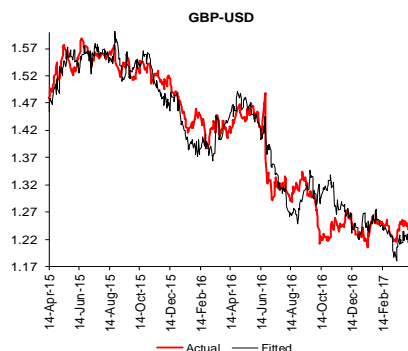
Source: OCBC Bank

- **USD-JPY** Caution towards the US Treasury's semi-annual report due tomorrow have deflated somewhat in the wake of Trump's comments. Meanwhile, North Korean geopolitical risks over the weekend may remain a cue for concern into the end of the week. Coupled with Trump's latest comments, USD-JPY is set to remain top heavy in tandem with its short term implied valuations. At this juncture, the 200-day MA (108.75) is under threat, with the next support expected into 108.00.



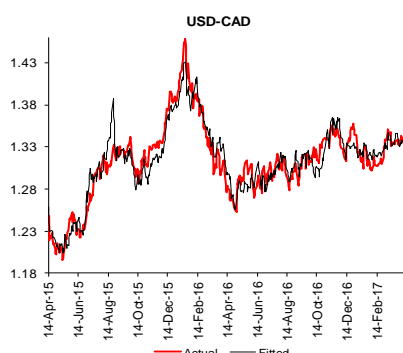
Source: OCBC Bank

- **AUD-USD** This morning, the stronger than expected set of Australian march labor market numbers fueled an added boost to the AUD-USD despite still staid short term implied valuations for the pair. We look for a near term locus in the vicinity of the 200-day MA (0.7553) with 0.7600 likely to cap.



Source: OCBC Bank

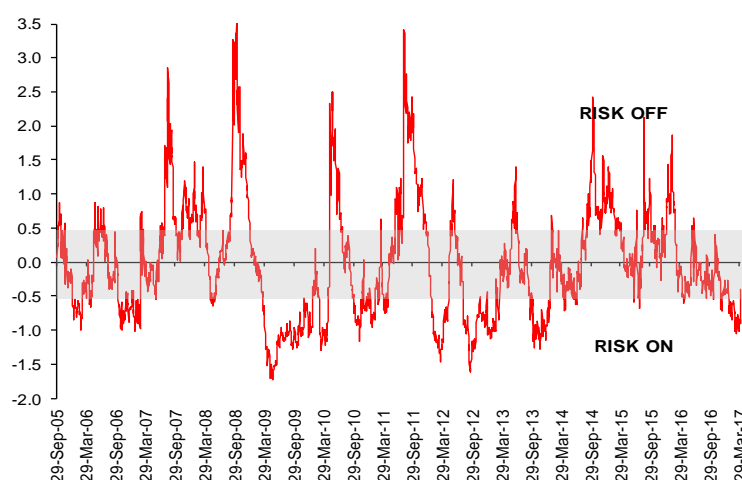
- **GBP-USD** Supportive UK February wage growth numbers and Trump have bumped the GBP-USD higher, with the pair also tracking its short term implied valuations. Ahead of the March retail sales numbers today, the pair may attempt to drift in the direction of 1.2600 if broad dollar negativity persists.



Source: OCBC Bank

- USD-CAD** The Bank of Canada kept policy unchanged as expected but now expects the output gap to close in 1H 18, earlier than previously expected. Comments from the BOC's Poloz were also slightly more sanguine/neutral. Coupled with the latest Trump effect, USD-CAD is trading sub-1.3250, weighed by its short term implied valuations. If the 200-day MA (1.3222) is breached, 1.3200 will attract.

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	0.244	0.835	0.439	-0.191	0.289	0.374	0.470	0.121	-0.388	0.699	-0.890
CHF	0.949	0.021	0.692	0.299	0.030	0.515	0.116	0.642	0.244	-0.323	0.772	-0.976
CNY	0.835	0.564	1.000	0.713	-0.397	-0.031	0.676	0.088	-0.224	-0.519	0.452	-0.573
MYR	0.776	0.513	0.863	0.518	-0.521	-0.070	0.592	0.095	-0.012	-0.513	0.356	-0.544
KRW	0.770	0.266	0.726	0.287	-0.370	0.200	0.312	0.354	0.379	-0.389	0.532	-0.615
SGD	0.752	0.617	0.709	0.321	-0.524	-0.153	0.663	-0.066	-0.043	-0.427	0.600	-0.524
TWD	0.743	0.584	0.844	0.490	-0.592	-0.160	0.637	0.015	0.008	-0.437	0.390	-0.477
CNH	0.699	0.032	0.452	0.049	0.198	0.460	0.037	0.501	0.299	-0.200	1.000	-0.767
CCN12M	0.597	0.708	0.804	0.473	-0.584	-0.343	0.676	-0.218	-0.121	-0.328	0.355	-0.257
THB	0.499	0.842	0.795	0.573	-0.769	-0.494	0.853	-0.379	-0.281	-0.480	0.146	-0.121
JPY	0.374	0.971	0.676	0.703	-0.749	-0.659	1.000	-0.623	-0.665	-0.467	0.037	0.025
CAD	0.306	0.392	0.268	-0.001	-0.279	-0.351	0.502	-0.339	-0.337	-0.127	0.287	-0.152
USGG10	0.244	1.000	0.564	0.627	-0.767	-0.715	0.971	-0.655	-0.656	-0.454	0.032	0.114
IDR	0.210	0.813	0.498	0.585	-0.695	-0.709	0.838	-0.607	-0.729	-0.491	-0.211	0.105
PHP	-0.205	0.624	0.077	0.251	-0.529	-0.769	0.609	-0.761	-0.755	-0.110	-0.407	0.372
INR	-0.234	0.766	0.208	0.322	-0.715	-0.896	0.721	-0.866	-0.493	-0.010	-0.457	0.551
AUD	-0.528	0.399	-0.064	0.381	-0.201	-0.579	0.418	-0.750	-0.657	-0.026	-0.641	0.720
GBP	-0.665	-0.811	-0.852	-0.658	0.637	0.396	-0.868	0.315	0.424	0.464	-0.308	0.269
NZD	-0.813	-0.104	-0.459	-0.086	0.077	-0.335	-0.128	-0.511	-0.280	0.327	-0.763	0.810
EUR	-0.890	0.114	-0.573	-0.197	-0.110	-0.593	0.025	-0.732	-0.335	0.241	-0.767	1.000

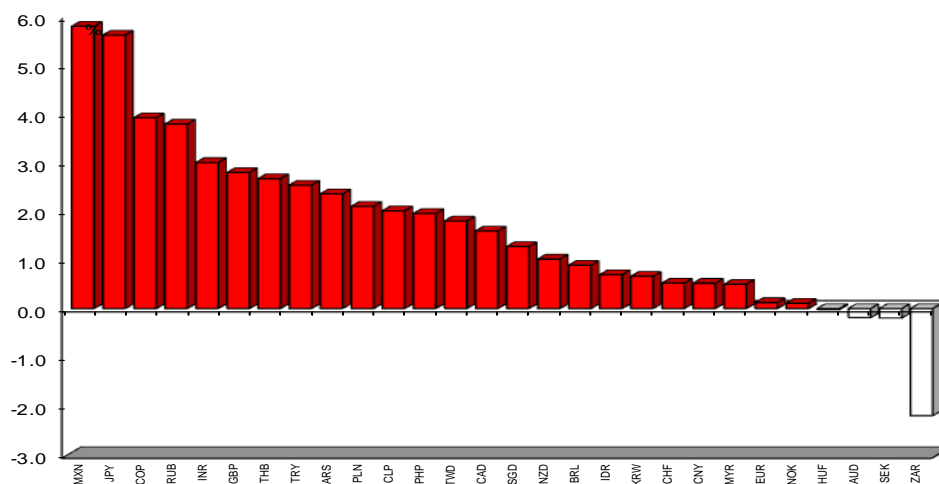
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0600	1.0655	1.0665	1.0700	1.0849
GBP-USD	1.2410	1.2500	1.2558	1.2583	1.2600
AUD-USD	0.7500	0.7549	0.7558	0.7600	0.7622
NZD-USD	0.6900	0.6923	0.6988	0.7000	0.7069
USD-CAD	1.3219	1.3233	1.3234	1.3253	1.3279
USD-JPY	108.72	108.75	108.79	109.00	109.06
USD-SGD	1.3922	1.3934	1.3964	1.4000	1.4044
EUR-SGD	1.4800	1.4834	1.4892	1.4900	1.4988
JPY-SGD	1.2800	1.2823	1.2833	1.2836	1.2841
GBP-SGD	1.7462	1.7500	1.7535	1.7580	1.7600
AUD-SGD	1.0500	1.0518	1.0553	1.0600	1.0725
Gold	1261.44	1277.70	1286.60	1286.70	1300.00
Silver	18.17	18.50	18.51	18.58	18.60
Crude	52.13	52.90	52.94	53.00	54.15

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

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	108.40	113.25	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	10-Apr-17	S	EUR-USD	1.0585	1.0390	1.0685	Policy dichotomy, Frechh election risks	
	STRUCTURAL							
4	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
5	14-Feb-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	
6	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 deflation trade, Fed expected to hike later rather than sooner	
	RECENTLY CLOSED TRADE IDEAS							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	10-Mar-17	15-Mar-17	S	AUD-USD	0.7519	0.7605	Compression in cyclical vs. USD strength	
2	25-Oct-16	20-Mar-17	B	USD-SGD	1.3919	1.3984	Bullish dollar prospects, negative space for SGD NEER	+0.54
3	03-Mar-17	20-Mar-17	S	GBP-USD	1.2253	1.2435	Sustained Brexit risks vs. recent USD resilience	-1.46
4	28-Nov-16	27-Mar-17	S	EUR-USD	1.0641	1.0843	USD in ascendance, political risk premium in EZ	-1.04
5	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46
6	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
7	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029	1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
8	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
	* realized							
	Jan-Mar 2017 Return							-11.88
	2016 Return							+6.9

Source: OCBC Bank

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