

Thursday, May 18, 2017

### FX Themes/Strategy/Trading Ideas – Trump trade?

- Sustained Trump-related political woes (impeachment chatter) dragged EZ/US equities lower (S&P -1.82%) depressed the UST curve further (bull flattened from the back-end with the 10y down to 2.22%) and took the USD-JPY below 111.00 as the greenback retreated against its G10 counterparts and the JPY gained universally on a safety bid. On other fronts however, the AUD and CAD also underperformed across the board as risk aversion began to materialize.
- Going ahead, the **DXY** has effectively relinquished its post-election gains with the Trump USD trade finally exorcised although the evolution of the UST (10y at a 1.90%-2.00% threshold) and SPX (2,200?) equivalents of the Trump trade may now come under increased scrutiny. FF-implied odds of FOMC hikes have also been moderating and this is expected to keep the greenback on the defensive in the short term. **Overall, immediate themes continue to include EUR resilience, US-centric dollar weakness, and potential for heightened risk aversion.**
- **Global technical FX levels under increased scrutiny:** Watch for a sustained break of the USD-CHF below 0.9800 (0.9775 low on Wednesday) for a green light to sink lower significantly lower, especially if USD bearishness grows increasingly endemic. Regarding the latter, it may take very little for investors to jump on a weak DXV gravy train, given that post US election gains have now been extinguished. In this scenario, the SNB is not likely to object, given that the EUR-CHF has already surged to highs not seen since Oct 2016. This negative USD-CHF eventuality may thus trigger sympathetic reactions for the other currency pairs in the vicinity of their respective key/psychological support/resistance levels (e.g. 110.00 for USD-JPY, 1.3900 for USD-SGD, 1.3000 for GBP-USD etc).
- Today, ones to watch include Australian April labor market numbers (0130 GMT) and expect investors to be asymmetrically sensitive to any negative surprises. Meanwhile, ECB “minutes” are due at 1130 GMT while the US calendar brings initial claims and the Philly Fed. Crucially, the **Fed’s Mester** is scheduled at 1715 GMT. Expect implicit headline risk for the EUR-USD given the slew of **ECB appearances** today culminating with **Draghi** at 1700 GMT). In Asia, **Bank Indonesia** is expected to stand pat on its policy parameters when it convenes today.
- On the back of the recent re-balancing towards the EUR and away from the USD on the basis of a reversal in political risk premiums, further upside may be in store for the **EUR-USD**. With short term valuations also on the rise, we

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initiate a tactical long EUR-USD. From a spot ref of 1.1120 on Wednesday, we target 1.1320 and place a stop at 1.1015.

### Asian FX

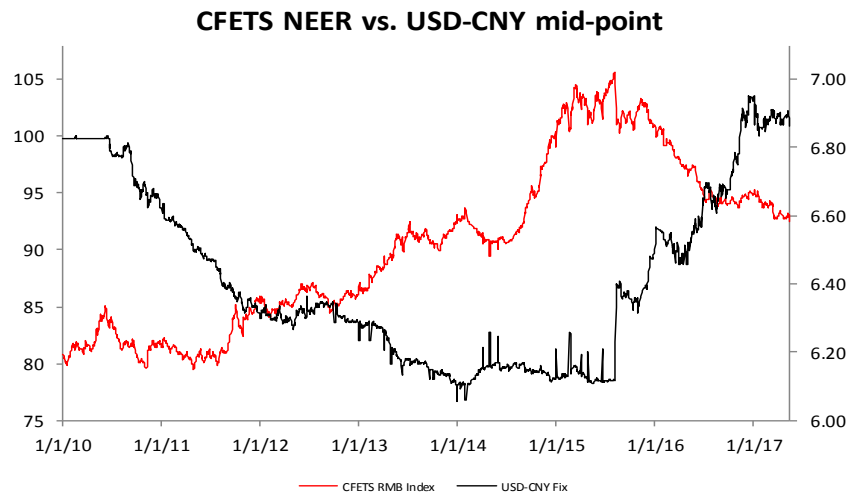
- EM FX meanwhile were divided with non-European units (especially Latam FX) weakening as market nervousness picked up (VIX jumped above 15.00 and XAU climbed 1,250.00). As hazarded previously, contagion on the risk appetite front may thus increasingly put a floor on USD-Asia despite the weak DXY.
- With Asian equities in the red this morning, expect therefore for the **ACI (Asian Currency Index)** to head higher for a second consecutive session today. On the risk appetite front, note that the **FXSI (FX Sentiment Index)** jumped significantly from **Risk-On** territory to **Risk-Neutral** territory on Wednesday.
- **SGD NEER:** The SGD NEER is slightly firmer on the day at around +0.32% above its perceived parity (1.3956). Given the broad dollar backdrop, NEER-implied USD-SGD thresholds are lower on the day with +0.50% estimated at 1.3887 and +0.80% at 1.3846. With realized short term vols for the NEER and USD-SGD close to perceived threshold levels, USD-SGD may however remain somewhat reluctant on the downside, especially if global risk aversion accumulates.



	SGD NEER	% deviation	USD-SGD
Current	124.67	0.33	1.3910
+2.00%	126.74		1.3682
Parity	124.26		1.3956
-2.00%	121.77		1.4241

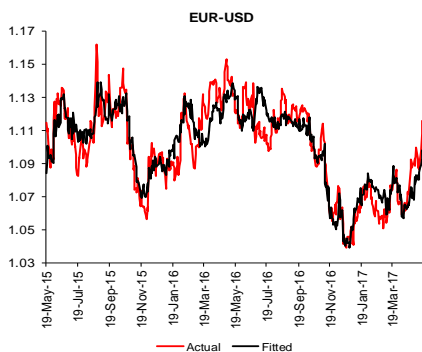
Source: OCBC Bank

- **CFETS RMB Index:** Tis morning, the USD-CNY mid-point came in at a lower than expected 6.8612 from 6.8635 yesterday. However, this still pulled the **CFETS RMB Index** lower (in tandem with the DXY) to 92.51 from 92.64 on Wednesday.



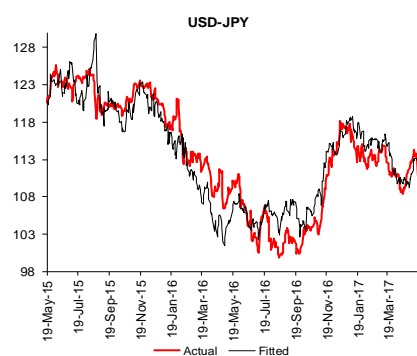
Source: OCBC Bank, Bloomberg

**G7**



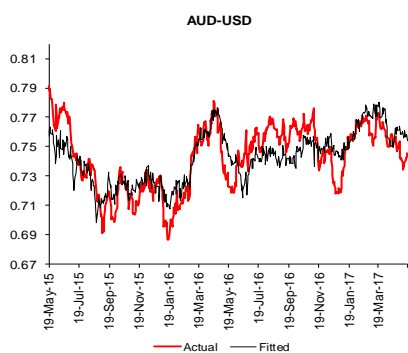
Source: OCBC Bank

- EUR-USD** In the current environment, the EUR-USD may continue to sit atop its (still firm) short term implied confidence intervals. As noted above, look towards ECB rhetoric as well as ECB minutes for further headline risks. Expect initial resistance towards 1.1200 in the interim.



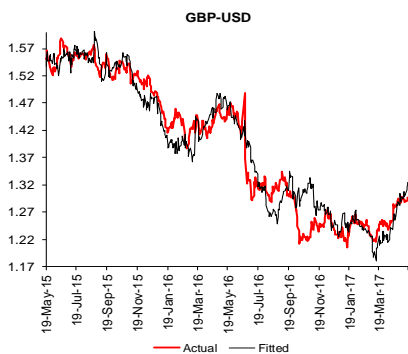
Source: OCBC Bank

- USD-JPY** USD-JPY may be doubly weighed by dollar as well as potential for heightened risk aversion. As such, the pair may continue to trade near the bottom of its implied confidence intervals after violating a host of technical supports on Wednesday. In the interim, expect investors to fade up moves towards 111.25 and 112.00 neighborhood with risks towards the 618 Fibo retracement at 110.51 still on the cards at this juncture.



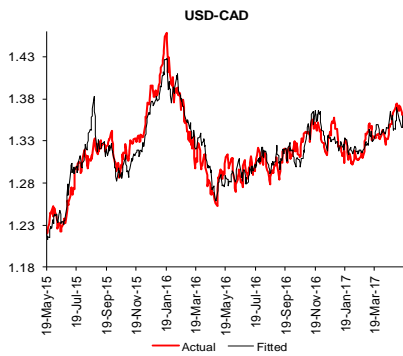
Source: OCBC Bank

- AUD-USD** This morning, the April Australian labor market numbers came in above expectations with employment change at +37.4k (mkt: +5.0k). AUD resilience may however be blunted if risk aversion deepens during the global day. We expect good resistance into 0.7475 and retain a preference to fake near term up moves. Short term implied valuations meanwhile continue to be heavy and a breach of 0.7400 may see 0.7360 attracting.



Source: OCBC Bank

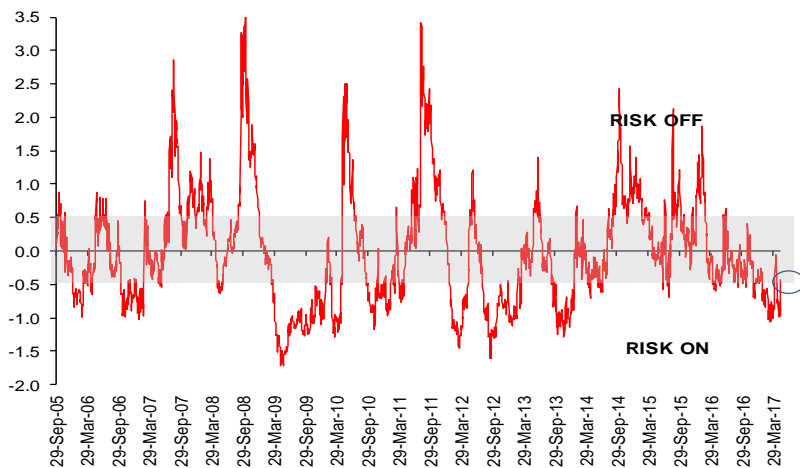
- GBP-USD** Despite mixed wage data points, GBP-USD continued to coast higher partially on the coattails of the EUR-USD while short term implied valuations for the former (partially buoyed by the weak USD) also continue to gain traction. For today, look to April retail sales for domestic cues while 1.3000 (and then 1.3030) still remains in the firing line.



- USD-CAD** USD-CAD price action remained noisy on Wednesday from conflicting signals from firmer crude, broad based USD weakness, and negative spillover on cyclical currencies. Still heavy short term implied valuations in the interim square with the downcast technical for the pair and a concerted violation of 1.3600 opens the way to 1.3565 and then 1.3535.

Source: OCBC Bank

**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	0.003	0.250	-0.268	-0.486	0.021	-0.182	0.150	0.078	0.522	0.424	-0.914
CHF	0.820	0.394	0.506	0.128	-0.022	-0.125	0.271	-0.096	-0.255	0.074	0.704	-0.680
KRW	0.779	-0.332	0.040	-0.504	-0.734	0.130	-0.472	0.286	0.287	0.704	0.203	-0.847
INR	0.712	-0.328	-0.106	-0.609	-0.688	0.162	-0.498	0.258	0.474	0.668	0.045	-0.750
MYR	0.668	-0.611	-0.466	-0.785	-0.871	0.556	-0.803	0.683	0.650	0.931	-0.247	-0.846
TWD	0.653	-0.471	-0.331	-0.729	-0.740	0.435	-0.610	0.524	0.621	0.793	-0.135	-0.784
SGD	0.460	0.725	0.832	0.436	0.297	-0.599	0.628	-0.614	-0.421	-0.361	0.847	-0.248
CNH	0.424	0.779	0.912	0.606	0.327	-0.706	0.631	-0.622	-0.668	-0.423	1.000	-0.235
NZD	0.317	-0.670	-0.645	-0.790	-0.804	0.509	-0.802	0.606	0.708	0.799	-0.487	-0.483
CNY	0.250	0.814	1.000	0.715	0.487	-0.766	0.786	-0.778	-0.742	-0.587	0.912	0.085
IDR	0.200	0.416	0.494	0.217	0.275	-0.523	0.437	-0.559	-0.165	-0.342	0.533	0.057
PHP	0.164	0.483	0.694	0.443	0.287	-0.704	0.463	-0.653	-0.454	-0.409	0.627	0.044
AUD	0.109	-0.751	-0.737	-0.603	-0.731	0.572	-0.835	0.714	0.438	0.747	-0.530	-0.414
USGG10	0.003	1.000	0.814	0.879	0.684	-0.790	0.905	-0.814	-0.820	-0.791	0.779	0.353
THB	-0.103	0.729	0.830	0.656	0.686	-0.625	0.813	-0.732	-0.584	-0.712	0.716	0.293
JPY	-0.182	0.905	0.786	0.899	0.881	-0.646	1.000	-0.784	-0.772	-0.916	0.631	0.444
CAD	-0.230	0.765	0.774	0.800	0.763	-0.751	0.848	-0.846	-0.739	-0.845	0.602	0.461
CCN12M	-0.238	0.640	0.731	0.590	0.648	-0.634	0.724	-0.721	-0.473	-0.746	0.499	0.515
GBP	-0.527	0.496	0.503	0.612	0.707	-0.528	0.622	-0.604	-0.421	-0.774	0.233	0.735
EUR	-0.914	0.353	0.085	0.557	0.764	-0.301	0.444	-0.382	-0.337	-0.809	-0.235	1.000

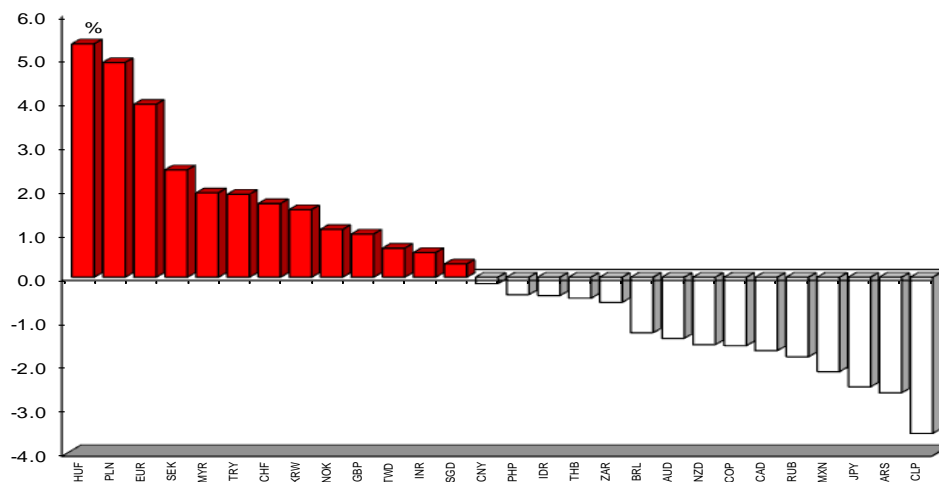
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.1100	1.1138	1.1152	1.1172	1.1200
<b>GBP-USD</b>	1.2798	1.2900	1.2964	1.2991	1.3000
<b>AUD-USD</b>	0.7329	0.7400	0.7456	0.7500	0.7535
<b>NZD-USD</b>	0.6820	0.6900	0.6932	0.6957	0.6990
<b>USD-CAD</b>	1.3505	1.3600	1.3607	1.3700	1.3780
<b>USD-JPY</b>	109.70	111.00	111.18	111.53	112.00
<b>USD-SGD</b>	1.3891	1.3900	1.3915	1.3993	1.3998
<b>EUR-SGD</b>	1.5143	1.5500	1.5518	1.5542	1.5557
<b>JPY-SGD</b>	1.2280	1.2500	1.2516	1.2547	1.2600
<b>GBP-SGD</b>	1.7805	1.8000	1.8039	1.8100	1.8267
<b>AUD-SGD</b>	1.0300	1.0306	1.0375	1.0400	1.0539
<b>Gold</b>	1248.94	1252.52	1259.50	1289.71	1296.90
<b>Silver</b>	16.03	16.80	16.85	16.90	17.43
<b>Crude</b>	45.62	48.90	48.94	49.00	49.71

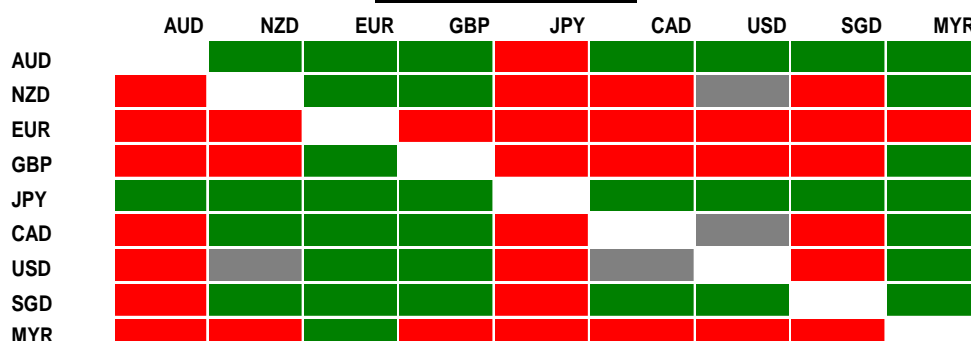
Source: OCBC Bank

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



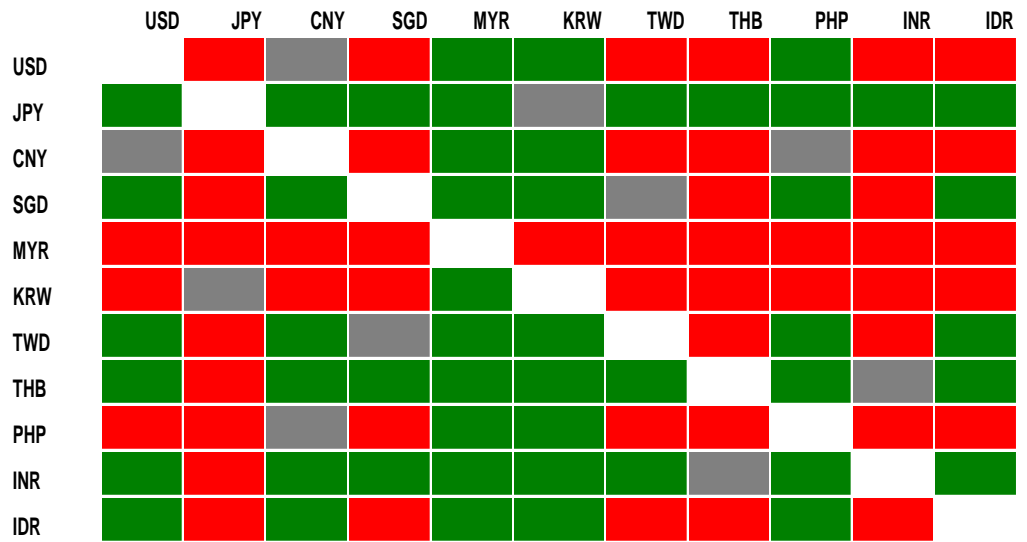
Source: Bloomberg

**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		
<b>TACTICAL</b>								
1	05-Apr-17	S	AUD-USD	0.7580	0.7235 0.7490	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	02-May-17	B	USD-JPY	112.08	114.45 110.85	USD resilience against JPY ahead of FOMC/NFP		
4	17-May-17	B	EUR-USD	1.1120	1.1320 1.1015	Disappointing US data feed, reversal of political risk premiums		
<b>STRUCTURAL</b>								
5	24-Apr-17		<b>Bullish 2M 1X2 EUR-USD Call Spread</b> Spot ref: 1.0863; Strikes: 1.0894, 1.1188; Exp: 22/06/17; Cost: 0.62%			Deflating French risks, USD skepticism		
6	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
7	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
2	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298	1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
3	22-Feb-17	20-Apr-17		<b>Bullish 2M AUD-USD 1X1.5 Call Spread</b> 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**
4	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
5	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
6	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
7	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
* realized **of notional							Jan-Mar 2017 Return -11.88	
							2016 Return +6.91	

Source: OCBC Bank



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