

Tuesday, May 23, 2017

FX Themes/Strategy/Trading Ideas

- With little positive dollar inspiration despite firmer UST yields and the Fed's Kaplan indicating that two more rate hikes are appropriate, the other majors found excuses to climb against the former. EUR-USD lifted above 1.1250 briefly after German Chancellor Merkel described the EUR as "too weak" on account on the ECB's monetary policies. With crude (WTI) firming above 51.00, the NOK led the way higher against the greenback while NZD continued to gain on expectations of increased fiscal stimulus (budget announcement on Thursday). GBP underperformed across the board as polls showed a narrowing lead by PM May for next month's snap elections and confrontational remarks from Britain's Brexit minister Davis.
- Going ahead, background risk aversion from the Manchester explosion coupled with a Washington Post Report regarding **Trump** may continue to keep the USD-JPY top heavy. On other fronts, a supported **EUR-USD** may continue to hog the spotlight in G10 space intraday despite the **ECB's Weidmann** reiterating that inflation pressures are muted. Elsewhere, expect **USD-Asia** to remain suppressed on a mixture of sanguine equities/commodities and a vulnerable broad dollar.
- Further on the USD, markets may also remain on the lookout for potentially volatile headlines as US President Trump continues his world "tour" culminating at the weekend G7 leaders' summit in Sicily. For today, the White House releases its "**budget request**" with market skepticism still running high.
- Meanwhile, **Fed-speak** is expected from Kashkari (1300 GMT and 1900 GMT), Harker (2100 GMT) while **ECB rhetoric** is due at 1500 GMT (Coere). On the data calendar, global flash May PMIs are due today while the German May Ifo (0800 GMT) is on tap.

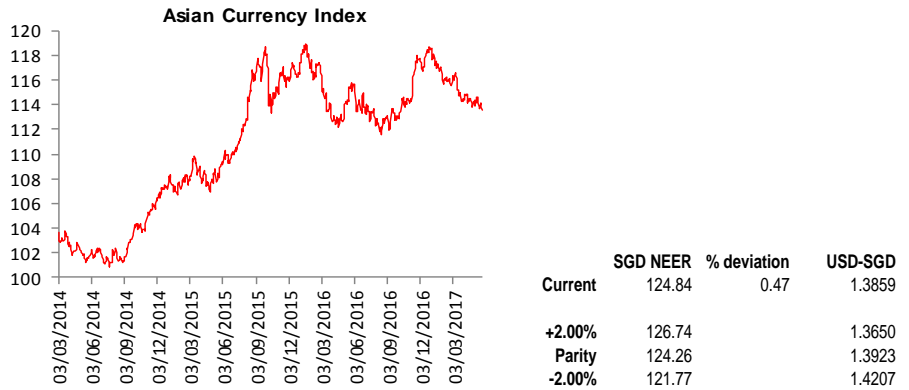
Asian FX

- Risk appetite remains relatively sanguine on a global basis with the **FXSI (FX Sentiment Index)** digging deeper into **Risk-On** territory on Monday. With regards to **net portfolio inflows** (bond and equities) in Asia, we continue to infer implicit support for KRW, TWD, and INR, while support for the IDR, THB, PHP may be waning somewhat on this front. With a weak broad dollar serving as a backdrop, **ACI (Asian Currency Index)** is expected to edge lower again intra-day.
- **SGD NEER**: This morning, amidst a reluctance to test the downside in a

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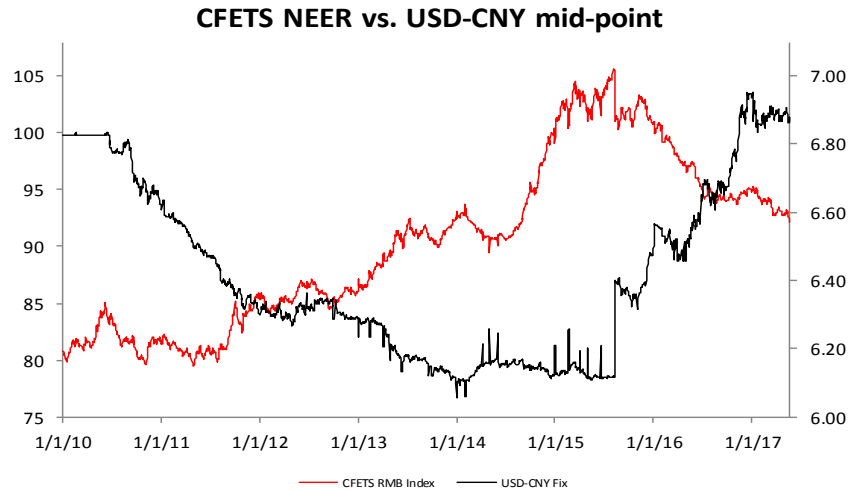
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hurry by the USD-SGD, the SGD NEER is slightly softer on the day at around +0.43% above its perceived parity (1.3923) with NEER-implied USD-SGD thresholds marginally softer on the day. We look for the basket to hover around the +0.50% threshold (1.3854) with the +0.80% threshold at 1.3813 expected to put a hard floor on the pair at current market levels. Nevertheless, under the weight of the DXY and USD-Asia in general (barring further risk aversion headlines), expect implicit risk of a breach of 1.3850 towards 1.3830.



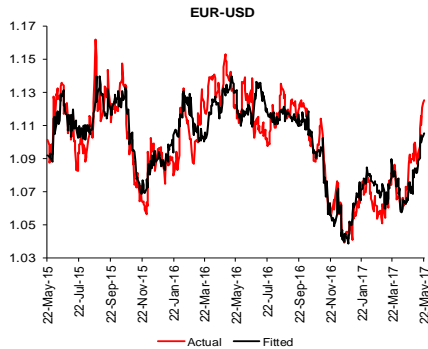
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point came in slightly below expectations at 6.8661 this morning from 6.8673 yesterday. This however still pulled the CFETS RMB Index lower to 92.14 from 92.29 on Monday, with the Index continuing to sync up with the DXY.



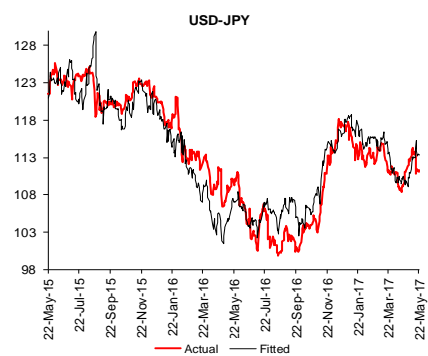
Source: OCBC Bank, Bloomberg

G7



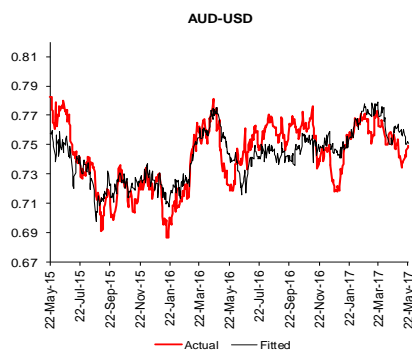
Source: OCBC Bank

- EUR-USD** The EUR-USD may remain a hotspot within G10 space with momentum plays granting a tailwind. We note however that the pair would be trading north of its (still supported) short term implied confidence intervals for the third consecutive session today ahead of the flurry of Fed vs. ECB rhetoric in the latter half of the week. At this juncture, a test towards 1.1300 may remain on the cards.



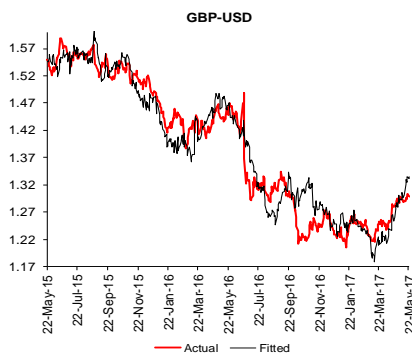
Source: OCBC Bank

- USD-JPY** USD-JPY may potentially be weighed by pockets of risk aversion while we note that short term implied valuations have stalled. Despite recent correlations fading somewhat, we expect the pair to regain its sensitivity to (negative?) US-centric news flow in due course. Preference to sell rallies towards the 55-day MA (111.66) while watching for a sustained break below 111.25 towards 110.50.



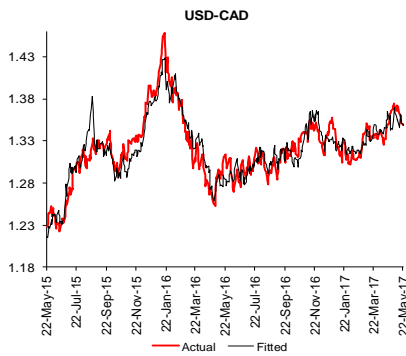
Source: OCBC Bank

- AUD-USD** A supportive risk appetite/equity/commodity (crude and metals) environment may keep the AUD-USD tilted to the upside despite still relatively subdued looking short term implied valuations. Despite this caveat, investors may in the interim choose to pick bottoms towards 0.7450 and angle for a test towards the 200-day MA (0.7537) instead.



Source: OCBC Bank

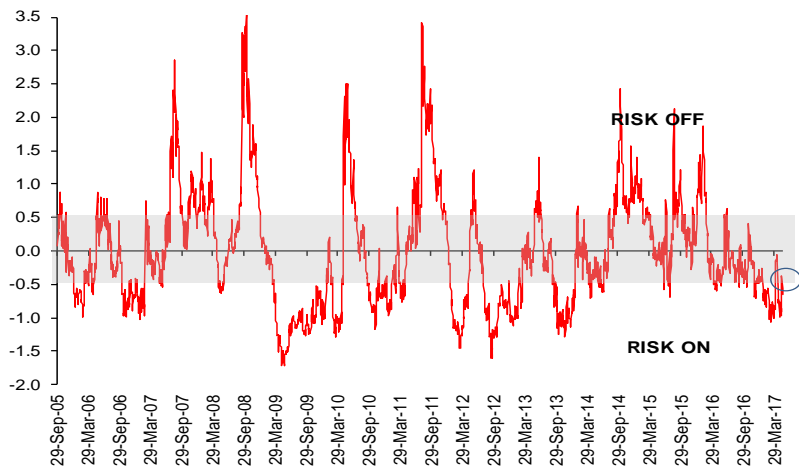
- GBP-USD** The unfortunate Manchester explosion headlines may continue to weigh on the cable, with the biddish EUR-GBP a contributory factor. This would be despite still supported short term implied valuations and if near term jitters manage to dissipate, the GBP-USD may continue to bounce within 1.2940-1.3050.



Source: OCBC Bank

- USD-CAD** USD-CAD slipped below 1.3500 on Monday as crude firmed and we are increasingly heavy on the pair, especially ahead of Thursday's OPEC meeting. Pending the BOC meeting tomorrow, we also note that short term implied valuations for the USD-CAD have also continued to drip lower since the latter half of last week. TO this end, a break below the 55-day MA (1.38482) risks further slippage towards 1.3400 in the near term.

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	0.740	0.734	0.413	-0.315	-0.715	0.482	-0.570	-0.610	0.281	0.843	-0.972
CHF	0.954	0.796	0.723	0.464	-0.123	-0.600	0.613	-0.573	-0.594	0.122	0.857	-0.912
CNH	0.843	0.806	0.920	0.547	-0.166	-0.724	0.629	-0.668	-0.626	0.042	1.000	-0.793
SGD	0.796	0.901	0.888	0.545	0.037	-0.795	0.800	-0.828	-0.502	-0.240	0.901	-0.711
USGG10	0.740	1.000	0.791	0.757	0.060	-0.718	0.804	-0.726	-0.697	-0.265	0.806	-0.622
CNY	0.734	0.791	1.000	0.639	0.014	-0.743	0.751	-0.757	-0.627	-0.204	0.920	-0.633
CAD	0.666	0.599	0.755	0.350	0.066	-0.723	0.665	-0.822	-0.355	-0.184	0.682	-0.639
KRW	0.651	0.385	0.614	0.163	-0.514	-0.629	0.143	-0.468	-0.436	0.388	0.720	-0.674
MYR	0.647	0.462	0.314	0.134	-0.530	-0.385	0.069	-0.171	-0.293	0.584	0.569	-0.693
THB	0.557	0.656	0.802	0.377	0.238	-0.616	0.749	-0.752	-0.290	-0.348	0.761	-0.514
JPY	0.482	0.804	0.751	0.702	0.540	-0.458	1.000	-0.663	-0.440	-0.678	0.629	-0.350
PHP	0.380	0.240	0.627	0.125	-0.129	-0.513	0.259	-0.490	-0.195	-0.033	0.506	-0.369
TWD	0.355	0.261	0.234	-0.116	-0.215	-0.272	0.130	-0.163	0.004	0.132	0.390	-0.328
IDR	0.086	0.086	0.335	-0.214	0.155	-0.259	0.333	-0.347	0.252	-0.365	0.277	0.024
CCN12M	-0.127	0.167	0.425	0.091	0.408	-0.187	0.402	-0.294	0.132	-0.642	0.220	0.289
AUD	-0.201	-0.552	-0.614	-0.321	-0.593	0.370	-0.805	0.559	0.023	0.743	-0.453	0.053
INR	-0.320	-0.238	-0.001	-0.273	0.031	0.154	-0.117	0.119	0.293	-0.132	-0.049	0.335
NZD	-0.387	-0.342	-0.493	-0.262	-0.268	0.316	-0.559	0.461	0.171	0.198	-0.454	0.443
GBP	-0.598	-0.229	-0.019	0.002	0.478	0.214	0.043	0.112	0.291	-0.630	-0.261	0.716
EUR	-0.972	-0.622	-0.633	-0.326	0.481	0.654	-0.350	0.538	0.602	-0.479	-0.793	1.000

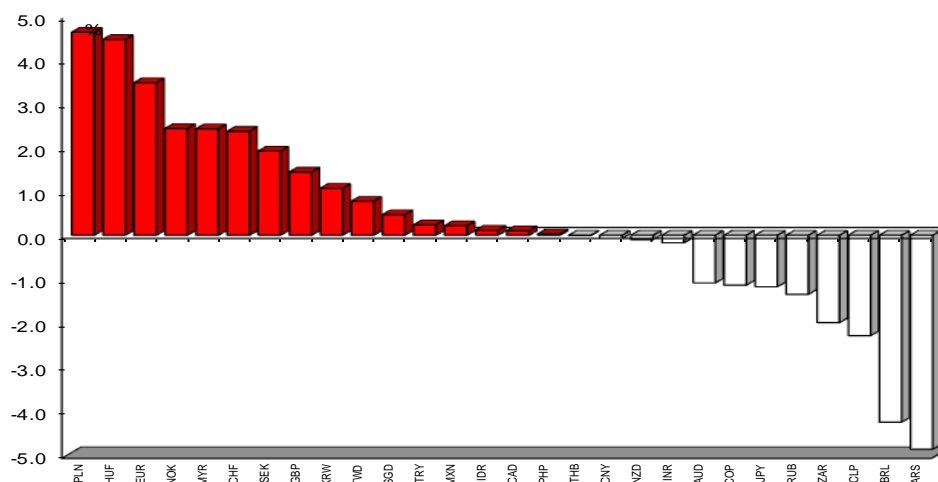
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0826	1.1200	1.1244	1.1246	1.1264
GBP-USD	1.2839	1.2900	1.2979	1.3000	1.3016
AUD-USD	0.7332	0.7400	0.7486	0.7500	0.7529
NZD-USD	0.6983	0.7000	0.7007	0.7054	0.7100
USD-CAD	1.3400	1.3479	1.3485	1.3492	1.3500
USD-JPY	110.10	111.00	111.06	111.32	112.00
USD-SGD	1.3817	1.3838	1.3861	1.3900	1.3976
EUR-SGD	1.5150	1.5500	1.5585	1.5598	1.5600
JPY-SGD	1.2286	1.2400	1.2481	1.2500	1.2555
GBP-SGD	1.7868	1.7900	1.7990	1.8000	1.8238
AUD-SGD	1.0296	1.0300	1.0377	1.0400	1.0489
Gold	1251.01	1252.08	1262.90	1278.82	1296.90
Silver	16.03	17.10	17.14	17.20	17.41
Crude	50.15	51.00	51.09	51.10	51.74

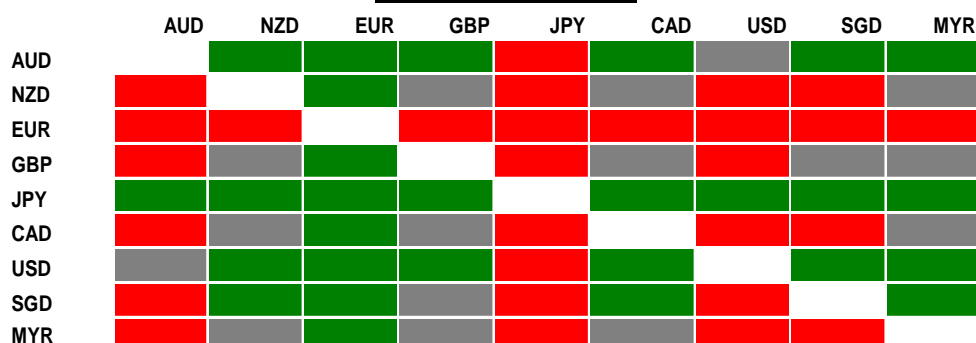
Source: OCBC Bank

FX performance: 1-month change agst USD



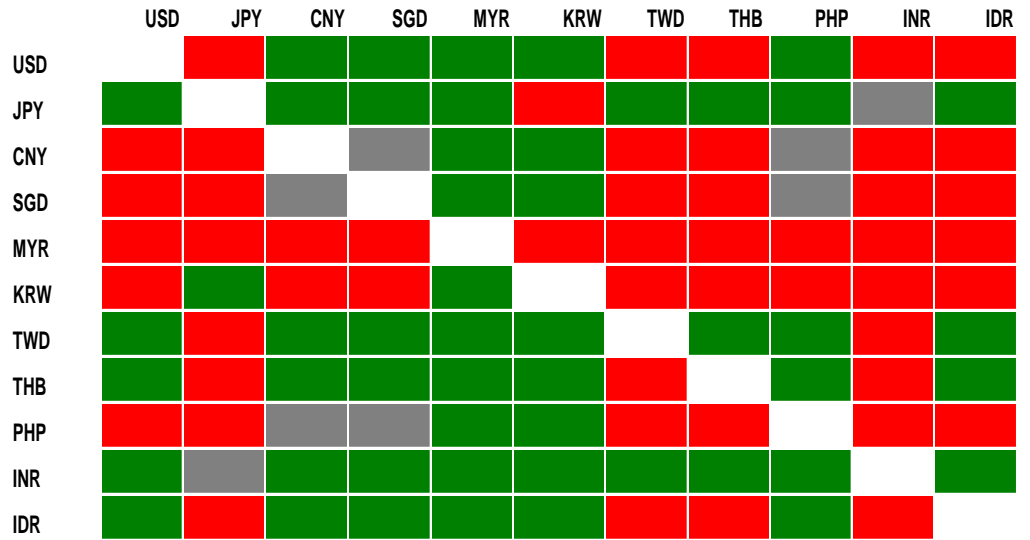
Source: Bloomberg

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	0.7235 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	17-May-17	B	EUR-USD	1.1120	1.1320 1.1015	Disappointing US data feed, reversal of political risk premiums		
STRUCTURAL								
4	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		
5	09-May-17	B	GBP-USD	1.2927	1.3500 1.2535	USD skepticism, UK snap elections, positioning overhang, hawkish		
6	16-May-17	S	AUD-USD	0.7407	0.6890 0.7670	Global reflation plays to continue to wobble?		
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
2	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
3	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
4	26-Apr-17	11-May-17	B	EUR-USD	1.0943	1.0845	French-election optimism, generalized improvement in risk	-0.98
5	02-May-17	17-May-17	B	USD-JPY	112.08	110.85	USD resilience against JPY ahead of FOMC/NFP	-1.04
* realized **of notional							Jan-Apr 2017 Return -19.70	
							2016 Return +6.91	

Source: OCBC Bank

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