

Monday, April 24, 2017

FX Themes/Strategy/Trading Ideas – Vive la France?

- The EUR-USD jumped and risk aversion deflated (USD-JPY>110.00, XAU briefly below 1,270) late Sunday/early Monday as Macron (23.86%) and Le Pen (21.47%) won the first round of the French Presidential elections. Both candidates will head to the 7 May 17 runoff with pollsters (Ipsos survey expecting 62% vs.38%) and markets expecting Macron to win by a significant margin.
- Expect risk appetite levels to remain bolstered at the onset of the week with the JPY underperforming across G10 space during early Asia. Currencies in the European complex are expected to be underpinned in the wake of the French election results, while the cyclical may instead look to any further improvement in risk appetite levels (S&P futures, 10y UST yields are firmer from Friday) once the initial EUR euphoria wanes.
- **CFTC** data showed large non-commercial/leveraged accounts moving deeper into a net implied long dollar balance in aggregate in the latest week while asset managers trimmed their implied long dollar bias. In terms of EUR positioning, CFTC data however indicate that markets may not have a massive EUR overhang to unwind, with net large non-commercial positioning as a proportion of open interest at about 5% ahead of last weekend. By a similar metric, net leveraged EUR shorts increased to around 19% from 17% the previous week and 14% the prior week.
- This week, the calendar includes Australian 1Q CPI on Wednesday, while the ECB/BOJ meetings are on Thursday. For Fed-centric USD cues, look to **Kashkari** today (1530 GMT and 1915 GMT) and **Harker** on Friday.
- Elsewhere, markets will also be keeping an eye on a “big announcement” by the **White House** announcement on Wednesday regarding tax reduction and tax reform. Beyond “broad principles and priorities”, market participants may remain skeptical in the interim, keeping potential dollar strength at bay. **Overall, EUR-USD and USD-JPY remain prime movers in the short term, while potential strength in the cyclical would have to be predicated on a further improvement in risk appetite levels.**
- With regards to risk appetite, the **FXSI (FX Sentiment Index)** rose further within Risk-Neutral territory on Friday but in the wake of the French Presidential election results, expect the Index to dip perceptibly today.

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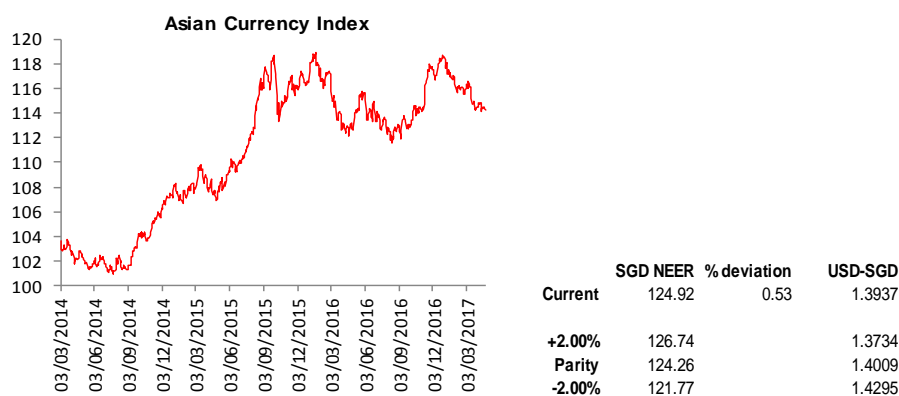
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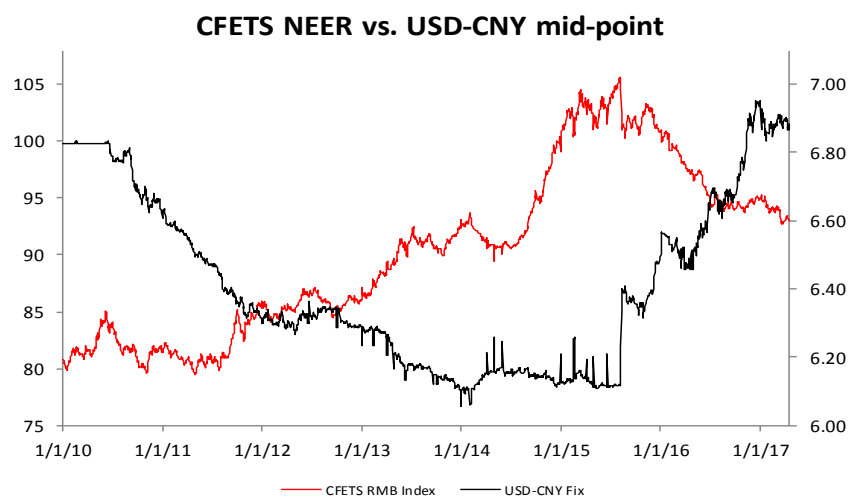
Asian FX

- Elsewhere in Asia, North Korean tensions may well continue to circulate in the background ahead of the 85th anniversary of the North Korean Army on Tuesday with rhetoric out of Pyongyang in recent day increasingly vocal. In the interim, USD-Asia may be expected to begin the week on a heavier tone as risk aversion dissipates following Sunday's French election results.
- **EPFR** data showed a sharp falloff in implied net equity/bond inflows for Asia in the latest week but a resurgence of such flows this week may further yield support for Asian FX. Needless to say, expect the **ACI (Asian Currency Index)** to start the week on a heavy note.
- **SGD NEER**: This morning, the SGD NEER is perceptibly firmer at around +0.55% above its perceived parity (1.4009). Improved risk appetite the consequent implied USD weakness across the board are buoying the NEER with implied USD-SGD thresholds lower compared to last Friday. In the current environment therefore, the NEER is expected to hover within +0.50% (1.3940) and +0.80% (1.3898). Meanwhile, the USD-SGD may be threatening to unhinge from its 200-day MA (1.3962) while 1.3900/20 may cushion initial dips.



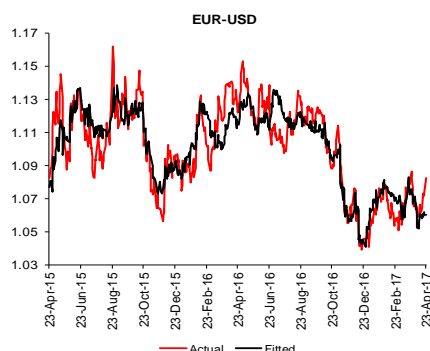
Source: OCBC Bank

- **CFETS RMB Index**: Today, the USD-CNY mid-point fell (as largely expected) to 6.8673 from 6.8823 on Friday. This pulled the **CFETS RMB Index** lower again to 92.90 from 92.98. Meanwhile, we note that mid-point behavior in recent weeks does suggest an implicit preference for Index stability, further alleviating volatility concerns.

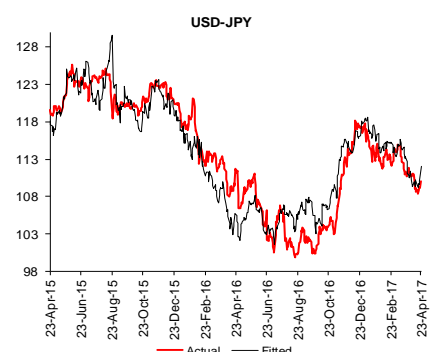


Source: OCBC Bank, Bloomberg

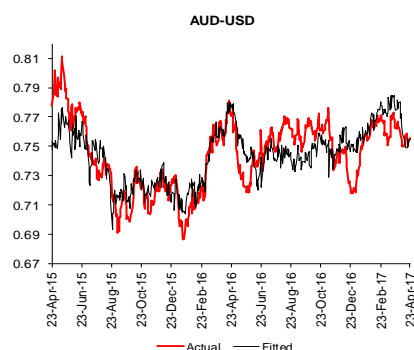
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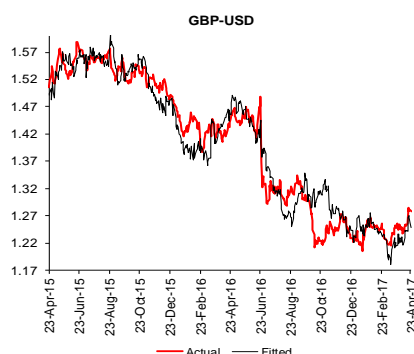
Source: OCBC Bank



Source: OCBC Bank



Source: OCBC Bank



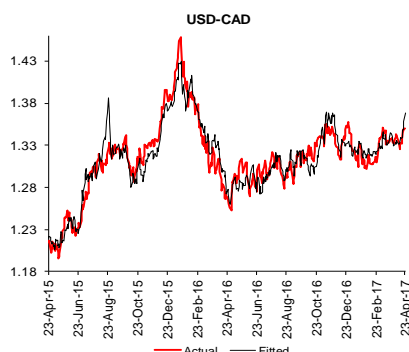
- EUR-USD** EUR-USD may be given to further profit taking despite the late Sunday/early Monday surge as investors take stock of the French Presidential election results. However, we also expect the ECB on Thursday to continue to dissuade any expectations of policy normalization despite the latest positive surprises in the April PMIs. Meanwhile, our short term model for the pair is also suggesting a degree of overshoot on the back of relief buying. The pair may consolidate in the vicinity of its 200-day MA (1.0838) in the interim.

- USD-JPY** Compression in risk aversion (firmer US yields) may continue to prop up the USD-JPY in the short term but we remain cognizant of prevailing background USD skepticism. Pending further headline risks, the pair may continue to straddle the 110.00 support.

- AUD-USD** As alluded to above, further upside for the AUD-USD from here may be predicated on the USD and risk appetite narrative, rather than on the back of any EUR optimism. Apart from the 1Q Australian CPI numbers on Wednesday, the RBA's Lowe is also scheduled to speak mid-week. Nonetheless, short term implied valuations are slightly firmer on the day and the pair may attempt to bounce off its 200-day MA (0.7552) intra-day.

- GBP-USD** GBP-USD was lifted higher briefly early Monday in Asia by the EUR-USD, with cable already hampered on the upside by disappointing March retail sales numbers on Friday. Note that also on Friday, sterling also failed to garner support from slightly hawkish comments from the BOE's Saunders. At this juncture, the GBP-USD may continue to trade within the confines of its post-snap election announcement range (1.2750-1.2850) or more broadly, 1.2700-1.2900.

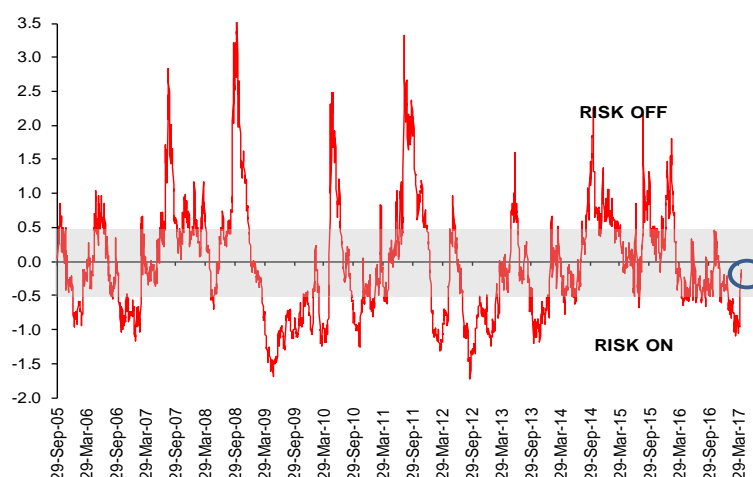
Source: OCBC Bank



Source: OCBC Bank

- USD-CAD** Softer than expected March Canadian CPI readings on Friday pressured the USD-CAD higher, with the pair bouncing off intra-day lows early Monday trade near late Friday's levels. Meanwhile, the BOC's Poloz, in his comments on Saturday, remained sufficiently cautious on economic prospects. Note also implicitly higher short term implied valuations for the pair. As such, we'd expect a floor towards 1.3435 with risks towards 1.3535 instead, especially if crude remains soggy.

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	0.099	0.855	0.320	0.767	0.716	0.146	0.691	0.109	-0.530	0.634	-0.917
CHF	0.913	-0.161	0.778	0.203	0.620	0.782	-0.086	0.852	0.291	-0.364	0.747	-0.966
CNY	0.855	0.154	1.000	0.279	0.644	0.584	0.251	0.589	0.061	-0.617	0.756	-0.728
SGD	0.717	0.193	0.751	0.203	0.385	0.473	0.203	0.494	0.088	-0.644	0.781	-0.703
TWD	0.639	-0.102	0.717	0.021	0.292	0.501	-0.059	0.609	0.380	-0.327	0.761	-0.615
CNH	0.634	-0.208	0.756	0.081	0.398	0.472	-0.185	0.678	0.438	-0.390	1.000	-0.685
MYR	0.634	0.563	0.697	0.412	0.570	0.550	0.611	0.294	-0.323	-0.549	0.264	-0.368
CCN12M	0.530	0.268	0.646	0.129	0.330	0.475	0.296	0.412	0.134	-0.293	0.492	-0.353
THB	0.459	0.409	0.650	-0.015	0.384	0.306	0.375	0.178	0.016	-0.466	0.456	-0.299
KRW	0.299	-0.715	0.325	-0.348	-0.008	0.405	-0.724	0.721	0.805	0.156	0.716	-0.542
JPY	0.146	0.963	0.251	0.681	0.241	-0.087	1.000	-0.423	-0.853	-0.630	-0.185	0.122
USGG10	0.099	1.000	0.154	0.604	0.222	-0.097	0.963	-0.475	-0.812	-0.616	-0.208	0.223
PHP	-0.108	0.800	-0.032	0.466	0.055	-0.351	0.853	-0.662	-0.903	-0.436	-0.415	0.318
IDR	-0.153	0.517	-0.019	0.597	-0.100	-0.548	0.592	-0.634	-0.783	-0.489	-0.258	0.310
AUD	-0.325	0.506	-0.491	0.292	0.001	-0.301	0.485	-0.603	-0.662	0.114	-0.773	0.426
CAD	-0.460	-0.141	-0.095	-0.074	-0.408	-0.656	-0.083	-0.413	-0.073	-0.150	0.040	0.398
INR	-0.476	0.511	-0.416	0.140	-0.145	-0.499	0.516	-0.760	-0.548	0.200	-0.664	0.673
GBP	-0.647	-0.730	-0.461	-0.399	-0.640	-0.453	-0.634	-0.122	0.476	0.538	-0.080	0.401
NZD	-0.879	-0.118	-0.828	-0.240	-0.593	-0.632	-0.135	-0.648	-0.141	0.567	-0.728	0.780
EUR	-0.917	0.223	-0.728	-0.144	-0.543	-0.762	0.122	-0.824	-0.354	0.288	-0.685	1.000

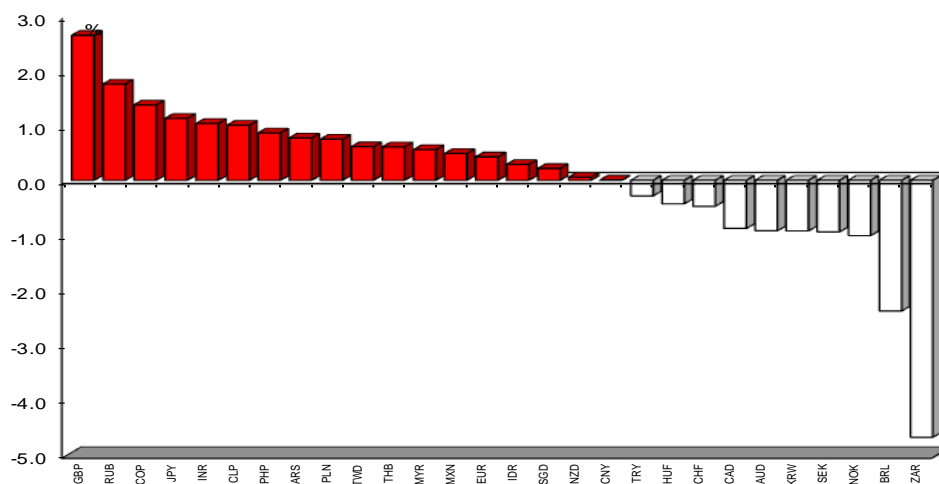
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0814	1.0836	1.0844	1.0900	1.0937
GBP-USD	1.2610	1.2700	1.2799	1.2800	1.2856
AUD-USD	0.7500	0.7548	0.7551	0.7600	0.7608
NZD-USD	0.6927	0.7000	0.7027	0.7036	0.7048
USD-CAD	1.3325	1.3400	1.3492	1.3500	1.3509
USD-JPY	108.89	110.00	110.05	111.00	111.93
USD-SGD	1.3909	1.3921	1.3944	1.3952	1.4000
EUR-SGD	1.5100	1.5109	1.5121	1.5200	1.5241
JPY-SGD	1.2546	1.2600	1.2672	1.2700	1.2832
GBP-SGD	1.7589	1.7800	1.7847	1.7900	1.7946
AUD-SGD	1.0468	1.0500	1.0528	1.0529	1.0600
Gold	1245.03	1259.43	1273.30	1294.80	1297.46
Silver	17.80	17.85	17.86	17.90	17.90
Crude	48.17	49.80	49.88	49.90	52.16

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

Source: OCBC Bank

FX Trade Ideas

FX Trade Ideas									
	Inception		B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale	
	TACTICAL								
1	22-Mar-17		S	USD-JPY	111.62	105.30	110.00	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	18-Apr-17		B	GBP-USD	1.2585	1.3140	1.2715	Snap UK elections, soft dollar, -ve EUR risk	
	STRUCTURAL								
4	22-Nov-16		B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
5	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 reflation trade, Fed expected to hike later rather than sooner	
	RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)
1	28-Nov-16	27-Mar-17	S	EUR-USD	1.0641		1.0843	USD in ascendance, political risk premium in EZ	-1.04
2	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570		1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46
3	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
4	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029		1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
5	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
6	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**
7	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585		1.0685	Policy dichotomy, French election risks	-0.90
8	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298		1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
	* realized **of notional								
	Jan-Mar 2017 Return								-11.88
	2016 Return								+6.9%

Source: OCBC Bank

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