

Tuesday, April 25, 2017

### FX Themes/Strategy/Trading Ideas

- As risk aversion deflated after the French Presidential election results, the EUR managed to outperform most of its peers while the JPY underperformed. Firmer UST yields (slight bear flattening) saw the USD cross the finish line generally mixed to weaker by late NY.
- Global equities also greeted the French headlines with relief (note the OAT-Bund spread and bund spreads in general collapsing to late January levels) and the **FXSI (FX Sentiment Index)** collapsing back into **Risk-On** territory.
- On other fronts however, the continued softness in crude (**WTI** failed to retake 50.00 successfully overnight) may temper excessive upside for the cyclicals and EM/Asian units, with the global reflation story having also undertaken a pause in recent weeks.
- Going ahead, the global data (central bank) calendar is fairly light and investors are expected to look towards potential geopolitical headline risks from Pyongyang today and the **White House** announcement on the tax reform plan (including new revised tax rates) on Wednesday. A detailed proposal is not expected to be ready until June, according to the White House budget director. **Overall, we'd not expect significant follow through in terms of market positioning pending further headline risks.**
- Our 22 Mar 17 idea to be tactically short **USD-JPY** (spot ref: 111.62) hit its profit-stop at 110.00 on Monday in Asia as risk aversion collapsed, yielding an implied +1.31% gain.
- With the positive structural dollar narrative having been eroded since inception, we closed out our 22 Nov 16 idea to be structurally long **USD-JPY** (spot ref: 110.81) on Monday at 110.20 for an implied +0.45% gain.
- Although the runoff for the 7 May 17 French Presidential elections are now in focus after the weekend, investors have all but priced in a 'market friendly' outcome. Meanwhile, we do not expect the Fed to significantly surprise on the hawkish front in the next two FOMCs, with USD skepticism still likely the path of least resistance. As such, the **EUR-USD** may continue to trade on a higher plane in the coming months. To this end, we look to a 2M 1X2 EUR-USD call spread (spot ref: 1.0863; strikes 1.0894, 1.1188; exp: 22 Jun 17) costing an indicative 0.62% of notional.

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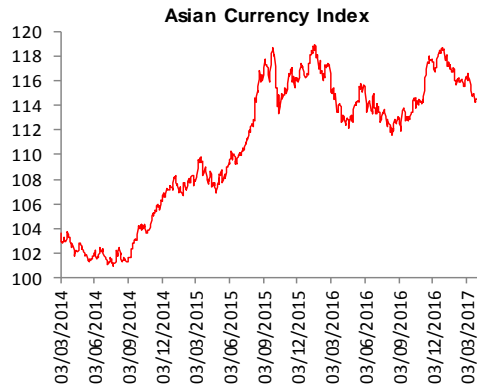
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Strategy  
Tel: 6530-4887

**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

### Asian FX

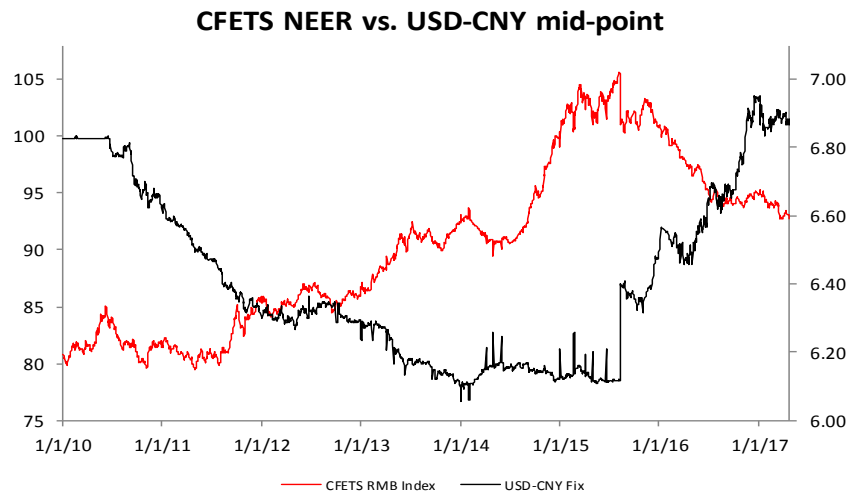
- South Asian currencies may be a touch supported although the ongoing hesitation in the global reflation trade may temper excessive strength. Overall, the **ACI (Asian Currency Index)** would still be expected to inch lower for the fourth consecutive session today.
- **SGD NEER:** This morning, the SGD NEER is steady to slightly softer on the day at around +0.54% above its perceived parity (1.4005). NEER-implied USD-SGD thresholds are also flat to slightly easier on the day and the NEER is expected to remain within +0.50% (1.3936) and +0.80% (1.3894) if the broad dollar remains slightly on the defensive. Immediate top side for the USD-SGD is expected into the 200-day MA (1.3964) with the 1.3890/00 floor expected to support on dips.



	SGD NEER	% deviation	USD-SGD
Current	124.93	0.54	1.3928
+2.00%	126.74		1.3730
Parity	124.26		1.4005
-2.00%	121.77		1.4291

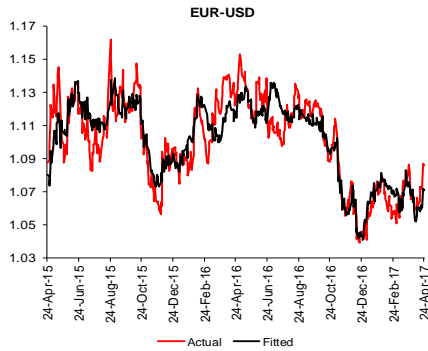
Source: OCBC Bank

- **CFETS RMB Index:** The USD-CNY mid-point today rose (as largely expected) to 6.8833 from 6.8673 on Monday. This pulled the **CFETS RMB Index** yet lower to 92.70 from 92.90 yesterday. Although we continue to think that currency stability (nominal as well as on an effective basis) remains a principle motivation (realized volatility of the mid-points have collapsed of late, we note that the Index has tracked the broad dollar lower in the year-to-date and former is within reach of lows chalked up in mid-March 2017.



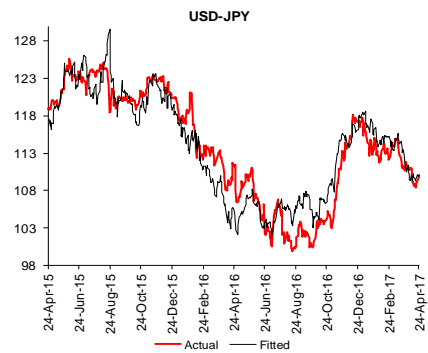
Source: OCBC Bank, Bloomberg

**G7**



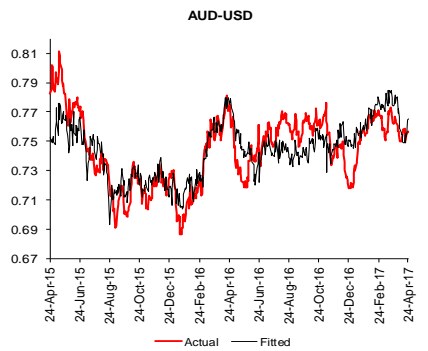
Source: OCBC Bank

- EUR-USD** Near term view for the pair remains unchanged and we expect some consolidation (albeit supported tone) to continue to ensue. Short term valuations are still firm but the EUR-USD is also pushing the envelope and trading outside its implied confidence interval. Intra-day, expect 1.0850 to anchor with the 200-day MA (108.94) expected to support.



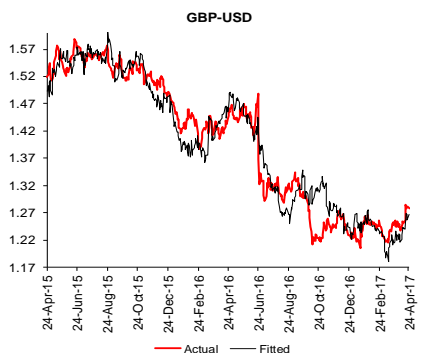
Source: OCBC Bank

- USD-JPY** Risk aversion alleviation may have run its course for now with short term implied valuations for the USD-JPY still relatively static. Pending headlines out of North Korea, the pair may continue to remain within reach of the psychological 110.00 neighborhood. Initial support is expected into 109.30, with the near term range expected to be capped by 110.70.



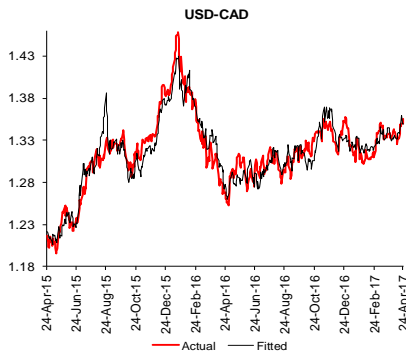
Source: OCBC Bank

- AUD-USD** With positive risk appetite levels looking bolstered, short term implied valuations also portend some potential for further upside multi-session. Market may not be willing to commit just yet ahead of the 1Q CPI numbers due on Wednesday. In the interim, the 0.7590/00 region and the 55-day MA (0.7614) may continue to cap, with the 100-day MA (0.7526) to attract if risk appetite sours.



- GBP-USD** Little on the data/BOE calendar to excite today and cable may continue to look towards the EUR for motivation. Short term implied valuations meanwhile remain fairly static after firming in recent sessions, leaving intact well-worn ranges carved out in the past week as the pair continues to consolidate its gains.

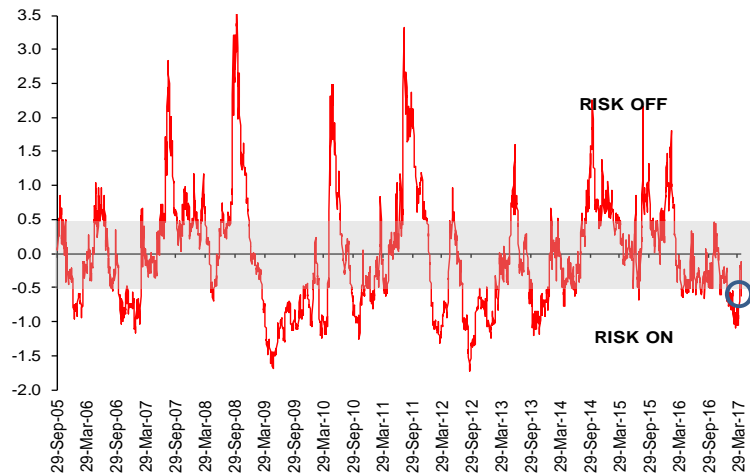
Source: OCBC Bank



- USD-CAD** USD-CAD blipped higher early Tuesday in Asia after a report indicated that Trump may impose an import tariff on dairy/lumber products. Expect the loonie to remain nervous ahead of the White announcement on Wednesday with short term implied valuations still underpinned. If 1.3535 is breached successfully, USD-CAD may set its sights on 1.3600.

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	0.099	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

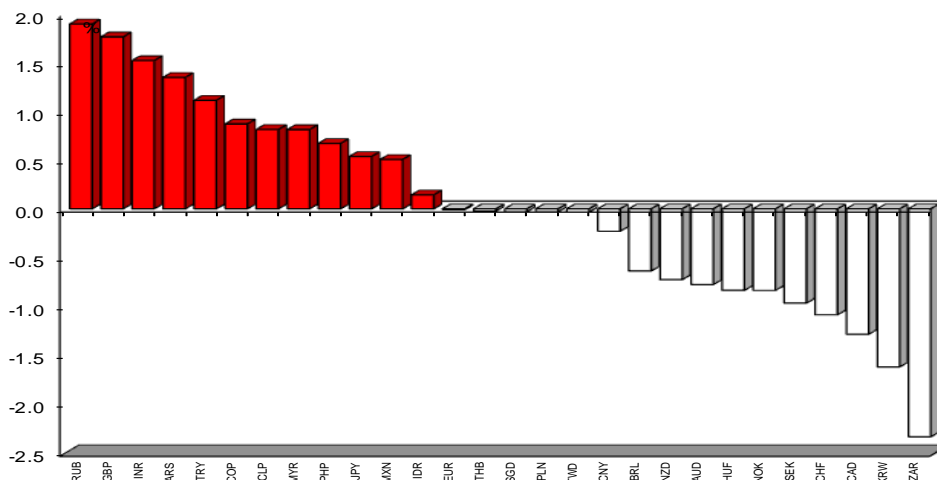
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0834	1.0835	1.0862	1.0900	1.0937
GBP-USD	1.2609	1.2700	1.2778	1.2800	1.2882
AUD-USD	0.7500	0.7548	0.7558	0.7600	0.7607
NZD-USD	0.6910	0.6928	0.6992	0.7000	0.7033
USD-CAD	1.3500	1.3539	1.3550	1.3560	1.3600
USD-JPY	108.91	110.00	110.07	111.00	111.84
USD-SGD	1.3909	1.3912	1.3935	1.3954	1.4000
EUR-SGD	1.5100	1.5110	1.5136	1.5200	1.5241
JPY-SGD	1.2550	1.2600	1.2661	1.2700	1.2831
GBP-SGD	1.7589	1.7800	1.7805	1.7900	1.7968
AUD-SGD	1.0500	1.0531	1.0532	1.0600	1.0679
Gold	1245.90	1259.01	1276.90	1294.80	1298.86
Silver	17.50	17.70	17.90	18.12	18.55
Crude	48.34	49.40	49.47	49.50	52.03

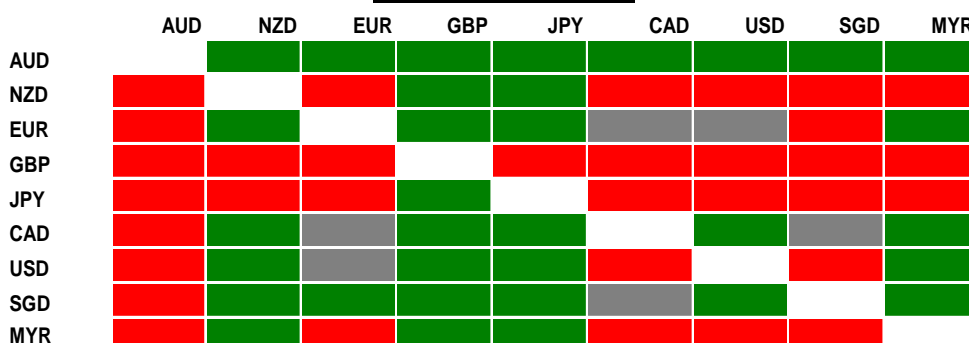
Source: OCBC Bank

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



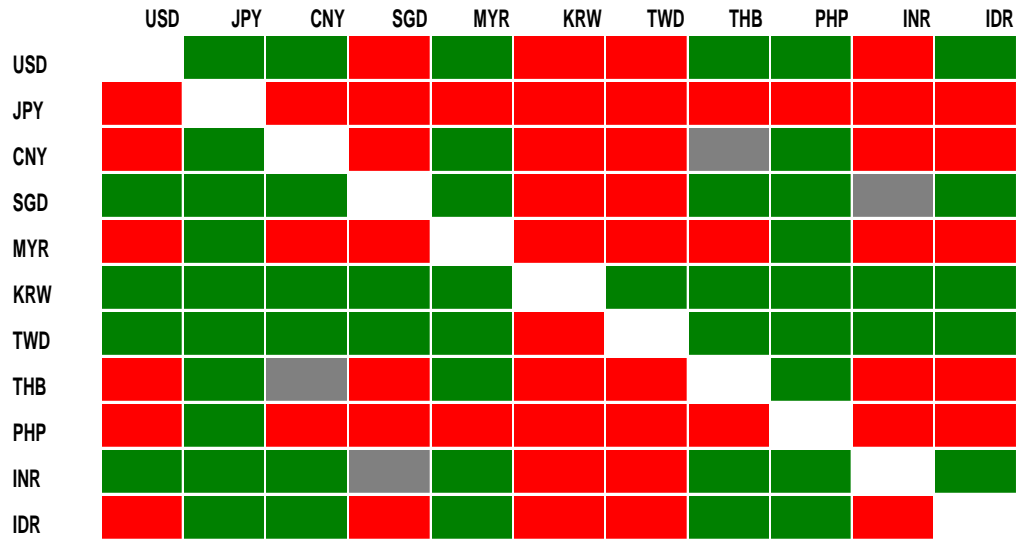
Source: Bloomberg

**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	0.7405	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	
<b>STRUCTURAL</b>								
3	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	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	27-Mar-17	29-Mar-17	B	GBP-USD	1.2570	1.2390	Spillover from buoyant EUR-USD, GBP shorts wrong footed	-1.46
2	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
3	17-Mar-17	10-Apr-17	S	USD-SGD	1.4029	1.4067	Vulnerable USD, positive risk appetite, tolerant MAS	-0.27
4	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
5	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**
6	10-Apr-17	18-Apr-17	S	EUR-USD	1.0585	1.0685	Policy dichotomy, French election risks	-0.90
7	17-Apr-17	19-Apr-17	S	USD-CAD	1.3298	1.3415	Vulnerable USD; supported crude on geopolitics	-0.88
8	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 reflation trade, Fed expected to hike later rather than sooner	-1.18**
9	22-Mar-17	24-Apr-17	S	USD-JPY	111.62	110.00	Trump trade unwind, mild risk aversion	+1.31
10	22-Nov-16	24-Apr-17	B	USD-JPY	110.81	110.20	Potential for a more activist Fed, static BOJ	+0.45
* realized **of notional								
								Jan-Mar 2017 Return -11.88 2016 Return +6.91

Source: OCBC Bank



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