

Thursday, April 27, 2017

FX Themes/Strategy/Trading Ideas

- With little in the way of funding details in the White House tax reform announcement, the EUR-USD halved its intra-day drop and the USD-JPY relinquished its intra-day gains. In a similar reaction, UST yields softened while the S&P500 stalled and reversed lower on the day.
- Meanwhile, the antipodeans continued to underperform across the board significantly with aussie 1Q CPI readings mixed to softer than expected on Wednesday. Elsewhere, the CAD (and MXN) continued to retreat against the USD on a Washington Post report indicating potential US intent to withdraw from NAFTA within 6 months.
- For today, look to the **BOJ** and **ECB** (1145 GMT; press conference 1230 GMT) policy meetings with attention likely focused more on the latter. On this front, investors will be on the lookout for a brighter prognosis, although this eventuality we think may only occur at the June policy meeting.
- In the interim, with the Trump trade likely still in stasis after the tax reform proposals, investors, while awaiting BOJ/ECB headlines, may continue to trade off currency specific factors – e.g., background preference for the EUR while wariness towards the antipodeans may persist.
- On the risk appetite front, markets saw some consolidation with the **FXSI (FX Sentiment Index)** ticking higher but remaining within **Risk-On** territory.
- With French-election optimism still accumulating (Macron widely expected to win by a wide margin in the runoffs) amidst a generalized improvement in global risk appetite levels, we establish a tactical long **EUR-USD** trade idea on Wednesday ahead of the ECB meeting on Thursday. From a spot ref of 1.0943, we target 1.1135 and place a stop at 1.0845.
- Meanwhile, the CAD has succumbed to downward pressure on multiple fronts, including the US imposition of lumber duties (and further potential trade tensions arising from the renegotiation of NAFTA), soggy crude, as well as some hesitation in the global deflation trade. With a **USD-CAD** spot ref of 1.3563 on Wednesday, we target 1.3785 and place a stop at 1.3450.

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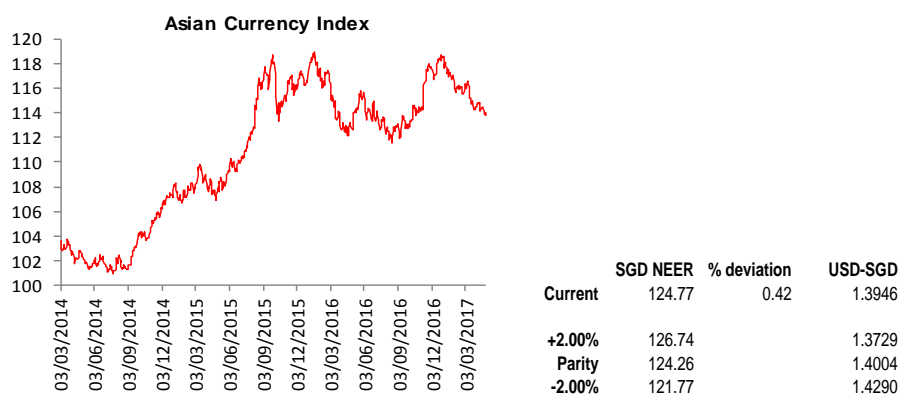
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Asian FX

- In Asia, with the broad dollar wobbling, USD-Asia may be tempted to seek lower ground if risk appetite levels remain conducive. Note however, that shaky equities in the region may also put a quick floor on the regional

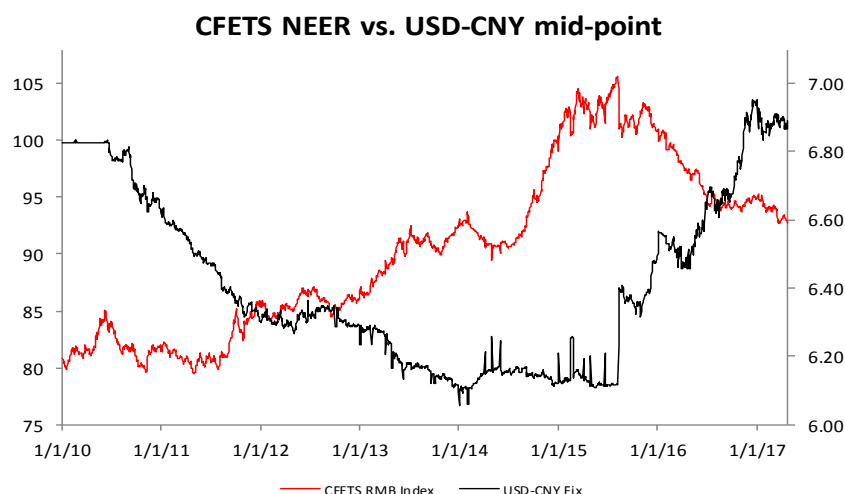
pairings. In addition, with the ongoing global market re-balancing, positive risk appetite levels may continue to fail to inspire outright bullishness towards EM/Asia. Overall, the **ACI (Asian Currency Index)** is expected to remain flattish.

- SGD NEER:** The SGD NEER is marginally softer on the day at around +0.40% above its perceived parity (1.4004) and the basket may gravitate towards the +0.50% (1.3935) handle if the broad dollar continues to edge lower. NEER-implied USD-SGD thresholds are a touch firmer on the day and the +0.80% threshold is estimated at 1.3893. For the USD-SGD, the 200-day MA (1.3968) may shelter in the near term amidst a top heavy tone.



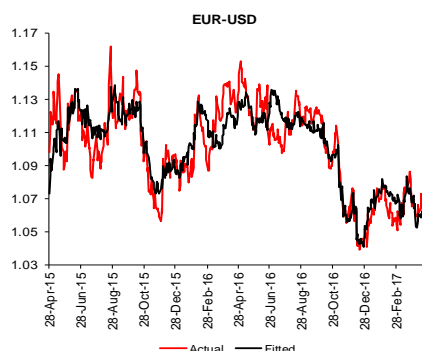
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose to 6.8896 from 6.8845 on Wednesday. Nonetheless, this pulled the **CFETS RMB Index** off its year-to-date lows to 92.76 from 92.67 yesterday.



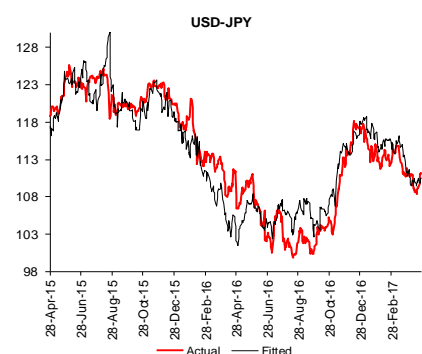
Source: OCBC Bank, Bloomberg

G7



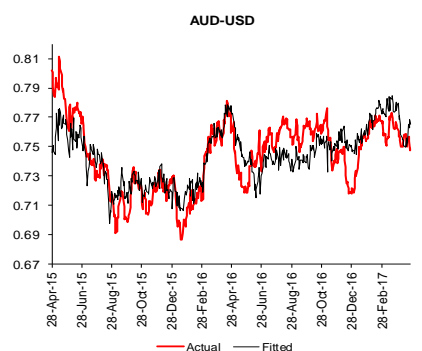
Source: OCBC Bank

- EUR-USD** Pending the ECB today, the EUR-USD may remain range bound, albeit still slightly north of the upper bound of its short term implied confidence intervals. In the interim, investors may still collect on dips and good support is still expected on dips towards the 200-day MA (1.0837).



Source: OCBC Bank

- USD-JPY** Although no radical departure from the status quo is expected from the BOJ MPC today, there may be a tail risk (we think not likely) from the central bank to roll back on its QE commitment of JPY80tn a year. With short term implied valuations flat lining, the USD-JPY may remain relatively static pending BOJ headlines. Expect price action to be centered around the 111.00 handle with support expected to materialize into 110.65.



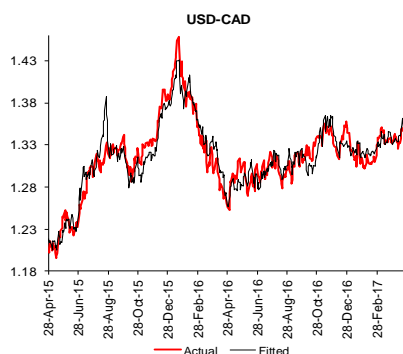
Source: OCBC Bank

- AUD-USD** The RBA's Lowe speaks at 0910 GMT today but in the interim, the AUD-USD may continue to lick its wounds after slipping below 0.7500. On a multi-session horizon however, we note that short term implied valuations continue to portend a firmer profile for the pair.



Source: OCBC Bank

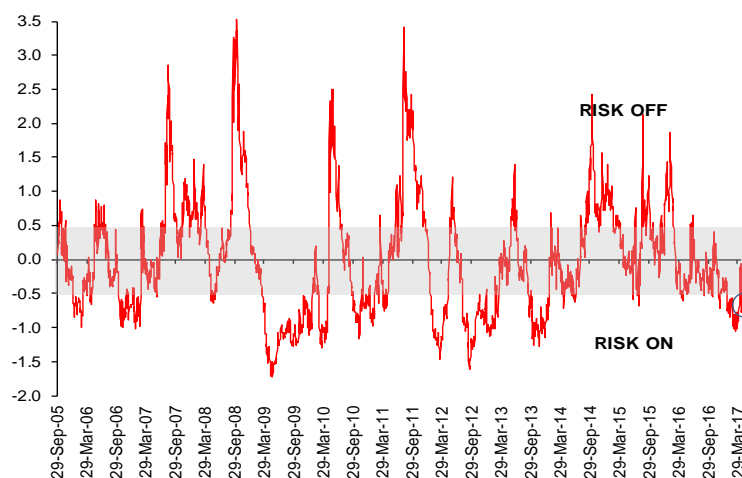
- GBP-USD** GBP-USD continued to float higher (as EUR-GBP softened) on Wednesday despite late day consolidation in the EUR-USD. Meanwhile, PM May's meetings with EU officials failed to excite with any concrete headlines. Short term implied valuations meanwhile continue to be inclined higher for the pair and the 1.2900 resistance bears watching.



Source: OCBC Bank

- USD-CAD** In Asia on Thursday, the White House stated that the President would not terminate NAFTA “at this time”, sending the USD-CAD crashing lower past 1.3600 to the 1.3550 neighborhood. This puts the pair pretty much back at its short term implied valuation, although further downside may be limited given the still buoyant valuations.

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	0.155	0.657	-0.396	-0.091	0.821	0.032	0.703	0.434	0.470	0.329	-0.940
CHF	0.886	-0.052	0.715	-0.229	0.082	0.781	-0.142	0.855	0.436	0.240	0.479	-0.902
MYR	0.805	0.302	0.371	-0.453	-0.389	0.736	0.123	0.424	0.240	0.581	-0.075	-0.738
TWD	0.799	-0.128	0.617	-0.423	-0.242	0.694	-0.219	0.751	0.586	0.397	0.503	-0.801
SGD	0.757	0.192	0.710	-0.199	-0.012	0.629	0.088	0.614	0.312	0.156	0.583	-0.729
CNY	0.657	0.204	1.000	0.118	0.426	0.464	0.293	0.561	0.076	-0.202	0.727	-0.517
THB	0.540	0.329	0.812	-0.021	0.273	0.466	0.300	0.410	0.126	-0.084	0.582	-0.324
CCN12M	0.532	0.219	0.723	0.026	0.249	0.531	0.273	0.532	0.214	-0.028	0.543	-0.310
CNH	0.329	-0.156	0.727	0.229	0.452	0.177	-0.016	0.455	0.215	-0.371	1.000	-0.188
KRW	0.266	-0.704	0.296	-0.315	-0.108	0.337	-0.718	0.708	0.711	0.164	0.640	-0.427
INR	0.177	0.320	-0.295	-0.312	-0.490	0.117	0.207	-0.274	-0.033	0.607	-0.701	-0.164
PHP	0.170	0.754	0.046	0.112	-0.119	-0.039	0.737	-0.463	-0.594	0.060	-0.413	-0.055
USGG10	0.155	1.000	0.204	0.414	0.188	0.028	0.935	-0.357	-0.653	-0.248	-0.156	0.076
IDR	0.128	0.448	0.032	0.176	-0.272	-0.231	0.439	-0.455	-0.481	0.064	-0.287	-0.069
JPY	0.032	0.935	0.293	0.616	0.367	-0.102	1.000	-0.414	-0.777	-0.441	-0.016	0.256
AUD	-0.067	0.428	-0.467	-0.033	-0.251	-0.017	0.224	-0.337	-0.365	0.308	-0.803	-0.039
NZD	-0.191	-0.168	-0.665	-0.479	-0.741	-0.107	-0.362	-0.174	0.144	0.597	-0.732	-0.141
CAD	-0.674	-0.109	-0.070	0.552	0.370	-0.800	0.189	-0.536	-0.442	-0.721	0.309	0.731
GBP	-0.773	-0.604	-0.418	0.229	0.046	-0.687	-0.319	-0.345	-0.002	-0.357	0.129	0.658
EUR	-0.940	0.076	-0.517	0.543	0.278	-0.849	0.256	-0.788	-0.605	-0.607	-0.188	1.000

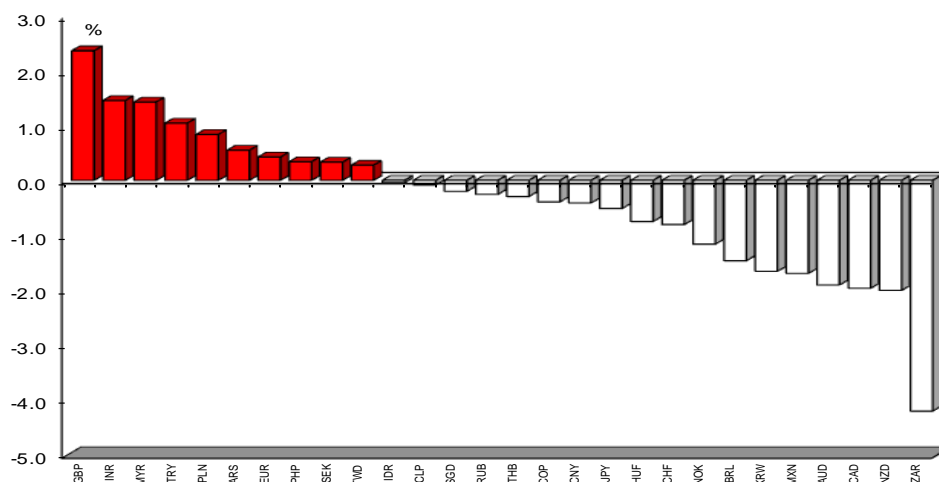
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0834	1.0900	1.0909	1.0917	1.0951
GBP-USD	1.2605	1.2800	1.2852	1.2900	1.2905
AUD-USD	0.7450	0.7455	0.7472	0.7500	0.7548
NZD-USD	0.6895	0.6900	0.6901	0.7000	0.7019
USD-CAD	1.3600	1.3626	1.3644	1.3648	1.3700
USD-JPY	108.97	111.00	111.25	111.75	112.00
USD-SGD	1.3916	1.3950	1.3958	1.4000	1.4028
EUR-SGD	1.5200	1.5220	1.5226	1.5259	1.5300
JPY-SGD	1.2478	1.2500	1.2546	1.2552	1.2600
GBP-SGD	1.7590	1.7900	1.7938	1.8000	1.8057
AUD-SGD	1.0419	1.0425	1.0430	1.0500	1.0534
Gold	1249.30	1260.18	1267.40	1296.90	1300.00
Silver	17.00	17.20	17.40	17.45	17.87
Crude	48.41	49.30	49.35	49.40	51.83

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

Source: OCBC Bank

FX Trade Ideas

FX Trade Ideas								
	Inception		B/S	Currency	Spot	Target Stop/Trailing Stop	Rationale	
	TACTICAL							
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	
3	26-Apr-17		B	EUR-USD	1.0943	1.1135 1.0845	French-election optimism, generalized improvement in risk	
4	26-Apr-17		B	USD-CAD	1.3563	1.3785 1.3450	Potential heightneing of trade tensions with the US; soggy crude	
	STRUCTURAL							
5	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	
	RECENTLY CLOSED TRADE IDEAS							
	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, Frecnh 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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