

Thursday, November 10, 2016

### FX Themes/Strategy/Trading Ideas

- After the initial rout in global markets, investors rapidly jumped on the reflation bandwagon (note higher US TIPS yields) and risk appetite recovered, with (most) asset prices retracing and breaking new ground in the opposite direction. The SPX ended +1.11% and the 10 UST yield surged to highs near 2.092% from intra-day lows near 1.716% before ending around 2.077%. Gold (and the VIX) meanwhile crashed from intra-day highs above 1,330 to eventually end largely unchanged around 1,277.69 (+0.21%)
- Elsewhere, initial dollar pessimism in Asia quickly gave way to (US-focused) optimism in LDN/NY with the DXY ending the day at +0.66% while implied odds of a Dec FOMC rate hike recovered sharply from intraday lows to effectively fully priced levels.
- Elsewhere, the **FXSI (FX Sentiment Index)** fell within Risk-Neutral territory on improved risk appetite levels. As an aside, the RBNZ delivered a 25bps rate cut to 1.75% as largely expected with the central bank effectively telegraphing an end to its rate cut cycle.
- In the near term, expect investors to trade off yield differential dynamics with the USD-JPY seen most responsive on this front. While the reflation narrative (for the US economy) is dominating markets in the short term, we feel that a more ominous theme of fiscal largesse may also be a contributory factor.
- In the interim, the perceived negativity surrounding EM/Asia may not subside in hurry just yet. For more, please refer to **FX Viewpoint: A Trump Presidency and FX – Initial thoughts, 09 Nov 16**.

### Asian FX

- Asian equities have latched on to the positive tone in US equities this morning but as alluded to above, the **ACI (Asian Currency Index)** is expected to find any dips shallow.
- **SGD NEER:** In the wake of yesterday's market volatility, the **SGD NEER** is lower on the day at -0.69% below its perceived parity (1.3899). NEER-implied USD-SGD thresholds are perceptibly higher on the day and the NEER may continue to ply a -0.50% (1.3969) and -1.00% (1.4039). Note that the NEER plunged temporarily to as low as -1.05% at the height of the volatility.

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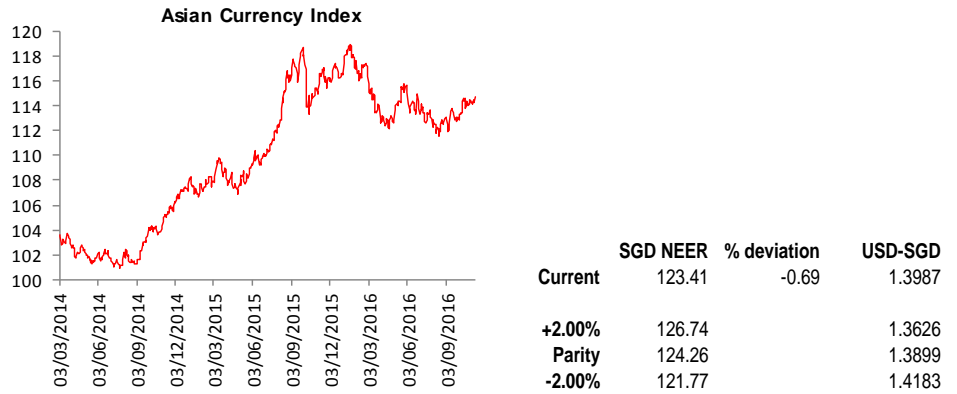
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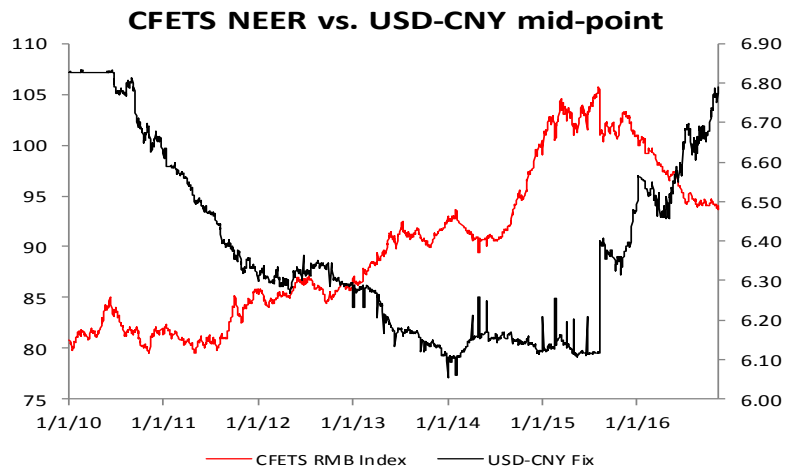
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- Our vol indicators for both the NEER and USD-SGD meanwhile remain in manageable territory. With the previous high around 1.3960 being taken out, we look to an extension target of 1.4100 if EM prospects continue to be viewed negatively under the new world regime.



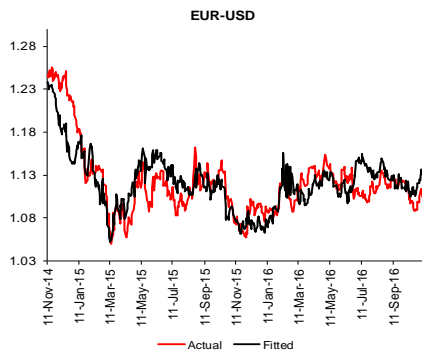
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a lower than expected 6.7885 from 6.7832 on Wednesday. This lifted the **CFETS RMB Index** back above 94.00 to 94.11, ostensibly to temper undue RMB depreciation expectations and put a lid on the CNH-CNY spot basis.



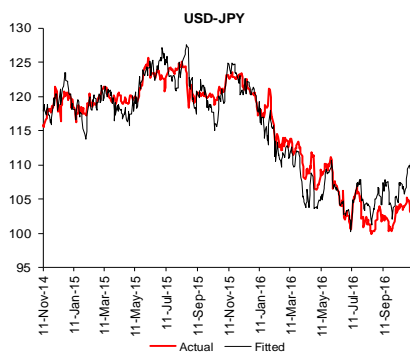
Source: OCBC Bank, Bloomberg

**G7**



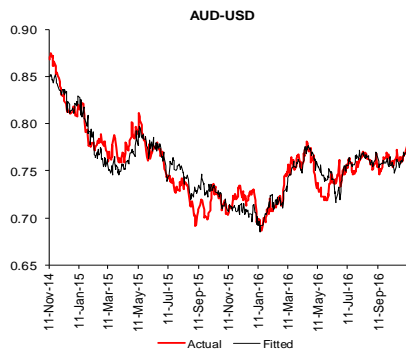
Source: OCBC Bank

- **EUR-USD** Short-term implied valuations have slipped post US elections and the EUR-USD may continue to eye the 1.0900 floor ahead of 1.0850 with the short term vol surface also capitulating lower for the pair fairly abruptly. Overall, our near term view remains unchanged for a top heavy stance.



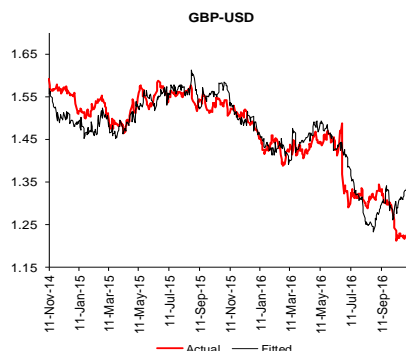
Source: OCBC Bank

- **USD-JPY** With FOMC rate hike expectations back online and the US reflation theme the flavor of the day, expect USD-JPY to continue to eye the upside. As noted previously, the pair continues to remain soft relative to perceived short-term valuation and markets may continue to contemplate a break above 106.00 in the current environment.



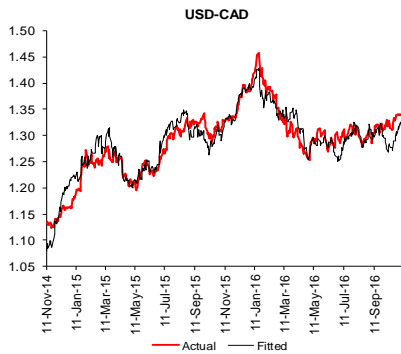
Source: OCBC Bank

- **AUD-USD** Near term prospects for the AUD-USD have been significantly and negatively affected and short-term valuations have corrected lower. At this juncture, expect risks towards the 55-day MA (0.7611) ahead of 0.7600 as global growth prospects and the cyclicals remain under scrutiny in view of the new US administration.



- **GBP-USD** GBP-USD may continue to hug the 1.2400 region as the US election outcome trumps Brexit in terms of shock value. Short-term valuations have also settled lower in tandem with the other majors at this juncture and a top heavy stance may continue to prevail in the interim.

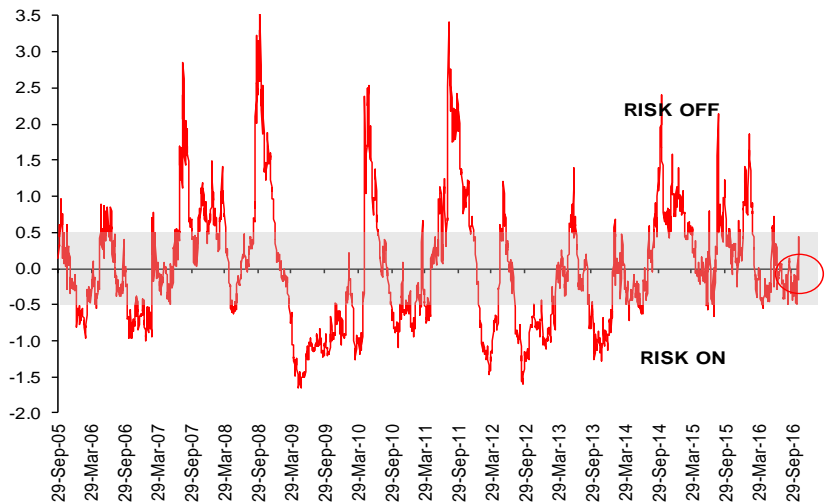
Source: OCBC Bank



- USD-CAD** The USD-CAD may now see additional headroom on the upside for obvious reasons in the wake of the US elections and short-term valuations have also lifted higher. In the near term, 1.3450 is expected to be a key near term resistance level to watch.

Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462	-0.279	-0.949
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658	-0.565	-0.968
JPY	0.537	-0.135	-0.823	0.460	0.272	-0.541	1.000	0.483	-0.279	-0.681	-0.802	-0.638
SGD	0.339	-0.346	0.480	-0.307	-0.237	-0.558	-0.195	-0.568	0.344	0.269	0.607	-0.190
AUD	0.054	0.298	-0.478	0.694	0.621	0.833	0.153	0.804	-0.582	-0.630	-0.532	-0.245
PHP	-0.042	-0.266	0.129	-0.635	-0.650	-0.587	0.083	-0.442	0.646	0.593	0.135	0.090
IDR	-0.155	-0.110	-0.188	-0.370	-0.710	-0.208	0.342	-0.313	0.724	0.199	-0.061	0.100
TWD	-0.263	0.063	0.703	-0.490	-0.106	-0.626	-0.676	-0.656	0.228	0.407	0.659	0.375
GBP	-0.264	-0.275	-0.684	-0.049	-0.334	0.450	0.454	0.293	0.435	-0.238	-0.598	0.067
CAD	-0.270	0.095	0.972	-0.574	-0.382	-0.910	-0.763	-0.837	0.290	0.813	0.936	0.490
CNH	-0.279	0.107	0.957	-0.496	-0.450	-0.842	-0.802	-0.763	0.345	0.808	1.000	0.478
CNY	-0.289	0.208	1.000	-0.467	-0.338	-0.857	-0.823	-0.745	0.233	0.806	0.957	0.483
CCN12M	-0.319	0.066	0.784	-0.395	-0.273	-0.582	-0.801	-0.567	0.258	0.566	0.858	0.488
INR	-0.319	-0.111	-0.460	-0.126	-0.558	0.185	0.330	0.083	0.547	0.004	-0.302	0.182
THB	-0.330	-0.068	0.850	-0.728	-0.499	-0.854	-0.727	-0.849	0.520	0.788	0.879	0.529
KRW	-0.339	-0.098	0.462	-0.761	-0.846	-0.736	-0.319	-0.786	0.792	0.679	0.565	0.460
USGG10	-0.374	1.000	0.208	0.249	0.076	-0.022	-0.135	0.072	-0.285	0.057	0.107	0.366
MYR	-0.377	0.101	0.882	-0.527	-0.571	-0.854	-0.725	-0.734	0.442	0.892	0.875	0.527
NZD	-0.465	0.486	0.793	-0.068	-0.118	-0.434	-0.851	-0.328	-0.069	0.573	0.711	0.544
EUR	-0.949	0.366	0.483	-0.523	-0.574	-0.446	-0.638	-0.498	0.466	0.606	0.478	1.000

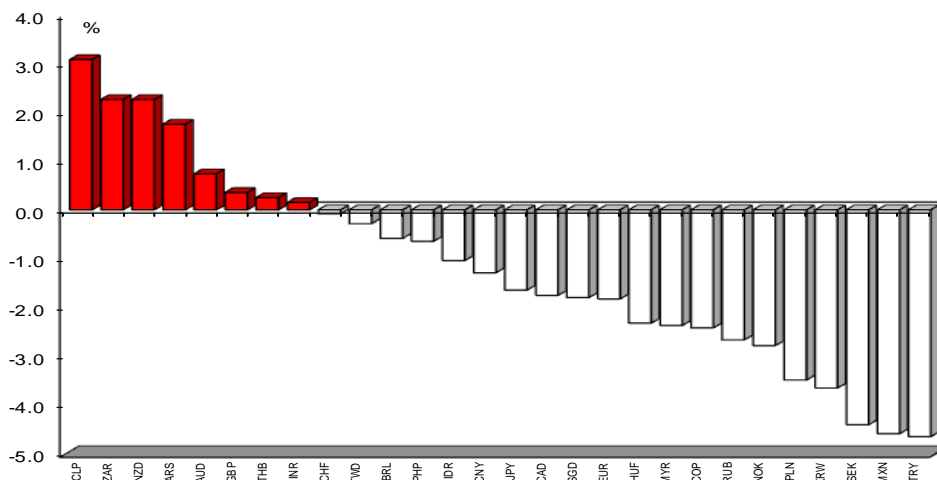
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.0851	1.0900	1.0932	1.1000	1.1104
<b>GBP-USD</b>	1.2079	1.2400	1.2406	1.2489	1.2500
<b>AUD-USD</b>	0.7600	0.7614	0.7660	0.7700	0.7739
<b>NZD-USD</b>	0.7200	0.7239	0.7295	0.7300	0.7384
<b>USD-CAD</b>	1.3201	1.3400	1.3410	1.3500	1.3525
<b>USD-JPY</b>	103.02	105.00	105.38	105.71	105.96
<b>USD-SGD</b>	1.3900	1.3987	1.3992	1.4000	1.4030
<b>EUR-SGD</b>	1.5248	1.5250	1.5296	1.5300	1.5405
<b>JPY-SGD</b>	1.3196	1.3200	1.3279	1.3300	1.3333
<b>GBP-SGD</b>	1.7300	1.7354	1.7359	1.7400	1.7408
<b>AUD-SGD</b>	1.0515	1.0700	1.0719	1.0739	1.0794
<b>Gold</b>	1251.10	1281.07	1284.30	1295.15	1300.00
<b>Silver</b>	18.49	18.50	18.55	18.60	18.76
<b>Crude</b>	43.07	45.00	45.08	45.10	46.51

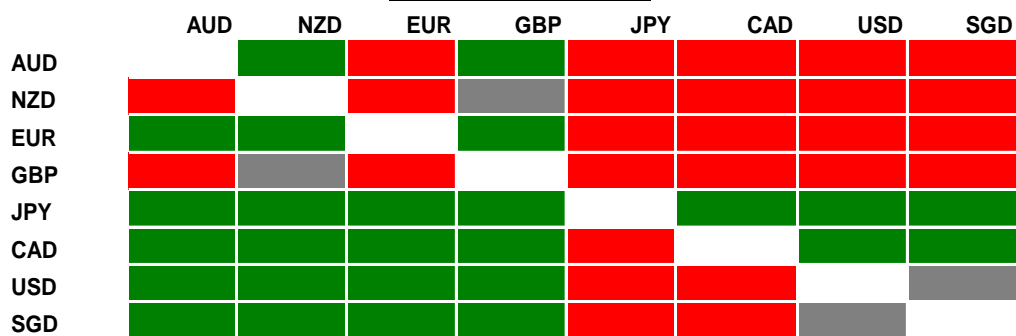
Source: OCBC Bank

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



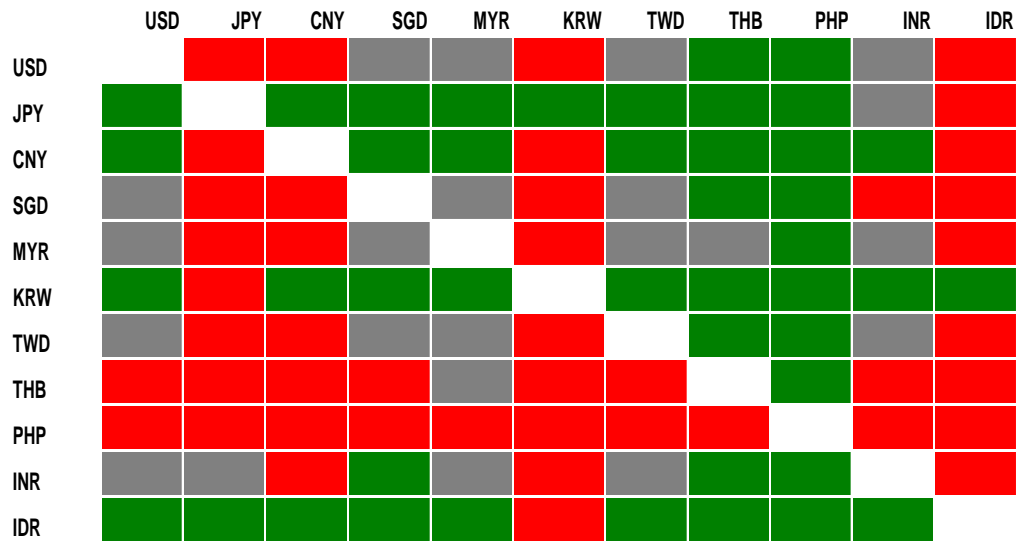
Source: Bloomberg

**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	26-Oct-16		B	USD-CAD	1.3356	1.3635 1.3210	Softening crude, dovish BOC, potential USD strength	
	<b>STRUCTURAL</b>							
2	07-Mar-16		B	AUD-USD	0.7412	0.7955 0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
3	25-Oct-16		B	USD-SGD	1.3919	1.4630 1.3560	Bullish dollr prospects, negative space for SGD NEER	
	<b>RECENTLY CLOSED</b>							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
2	04-Jul-16	19-Oct-16	S	USD-JPY	102.58	103.88	Yield differentials to weigh on the pair, esp if Fed hesitates	-1.59
3	12-Oct-16	19-Oct-16	S	AUD-USD	0.7585	0.7690	"Yield" may be subjugated by dollar	-1.38
4	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
5	27-Oct-16	28-Oct-16	B	AUD-USD	0.7618	0.7587	Supportive risk appetite, metals, positioning, and positioning	-0.38
6	05-Oct-16	03-Nov-16	S	EUR-USD	1.1222	1.1125	Fade ECB-taper talk, potential US resilience	+1.00
7	12-Oct-16	04-Nov-16	S	GBP-USD	1.2271	1.2464	Fade GBP-USD upticks	-1.50
8	25-Aug-16	07-Nov-16	B	USD-SGD	1.3527	1.3866	Moderating net inflows in Asia, potential for broad USD uptick	+2.39
9	08-Nov-16	09-Nov-16	B	AUD-USD	0.7708	0.7610	Accumulating risk appetite despite USD resilience	-1.29
10	06-Oct-16	09-Nov-16	B	USD-JPY	103.48	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	-1.60
							<b>Jan-Oct 2016 Return</b>	<b>+3.91</b>

Source: OCBC Bank

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