

Tuesday, December 13, 2016

FX Themes/Strategy/Trading Ideas

- Investors may continue to pare positioning as we head into Wednesday's FOMC, leaving the dollar vulnerable to further pullbacks. Elsewhere, supported crude prices may also continue to lend a hand to the commodity complex and the cyclicals in the interim. On other fronts, the **FXSI (FX Sentiment Index)** ticked higher on Monday within Risk-On territory, with benign risk appetite levels also seen supportive for the risk-sensitive and cyclical currencies.
- While another Fed hike is essentially priced in, the shape and guise of the accompanying statement and forward guidance (dot plots, economic projections etc) may set the USD tone for the rest of the month and the onset of next year. Specifically, watch for references to the dollar as well as any discussions surrounding fiscal spending-inflation dynamic.
- Ahead of the mid-week FOMC, we stand aside selectively and took profit this morning on our 14 Nov 16 idea to be tactically long **USD-SGD** (spot ref: 1.4172) at 1.4236 for an implied +0.45% gain.

Asian FX

- Asian currencies may breathe slightly easier as the greenback capitulates but note that the perceived emerging specter of global inflation may put a floor on the regional pairs. Nonetheless, expect the **ACI (Asian Currency Index)** to remain top heavy intra-day ahead of the raft of China data points (Nov industrial production, retail sales, urban fixed asset investments).
- **SGD NEER:** As the broad dollar retreated on Monday, the **SGD NEER** reacted higher and is firmer on the day at -0.12% below its perceived parity (1.4214), compared to around -0.53% yesterday. At current levels, the -0.50% threshold is estimated at around 1.4286, with 1.4200 expected to yield support for the USD-SGD on initial dips. Expect a top heavy to neutral tone for the pair in the interim.

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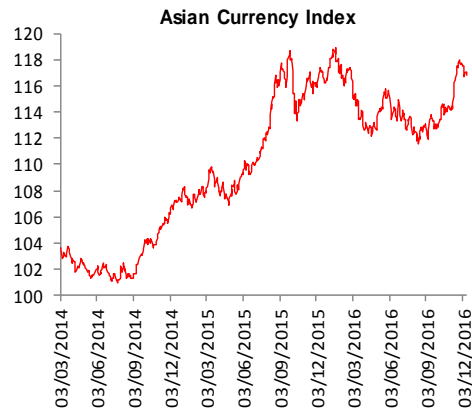
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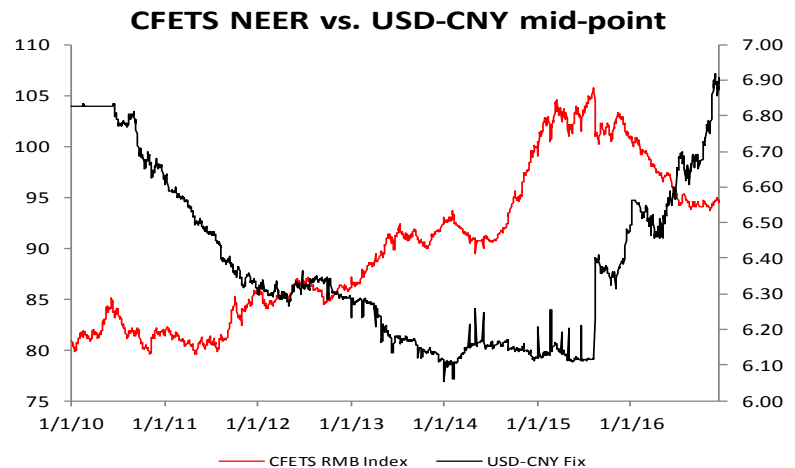
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	SGD NEER	% deviation	USD-SGD
Current	123.52	-0.59	1.4246
+2.00%	126.74		1.3935
Parity	124.26		1.4214
-2.00%	121.77		1.4504

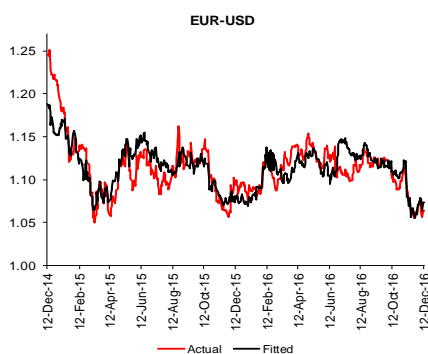
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning eased to 6.8934 from 6.9086 yesterday in sympathy with a retreating greenback. In spite of the lower mid-point, the **CFETS RMB Index** still eased slightly to 94.50 from 94.73 yesterday. Near term, the authorities may continue to put a lid on the realized volatility of the mid-points and the Index, although implied market pricing continues to angle for renminbi depreciation ahead.



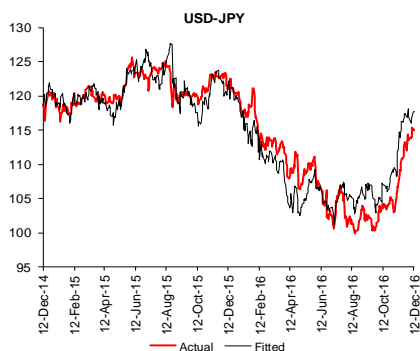
Source: OCBC Bank, Bloomberg

G7



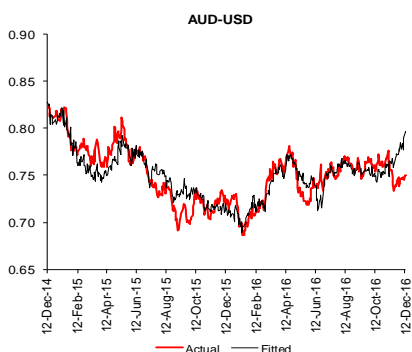
Source: OCBC Bank

- EUR-USD** In the near term, the EUR-USD may continue to spin its wheels within its implied confidence intervals with little indication of a short-term misalignment. With little in the way of EZ data points today, look instead to scheduled appearances by ECB officials (including Nowotny) today, with a 1.0585-1.0670 range expected to hold in the interim.



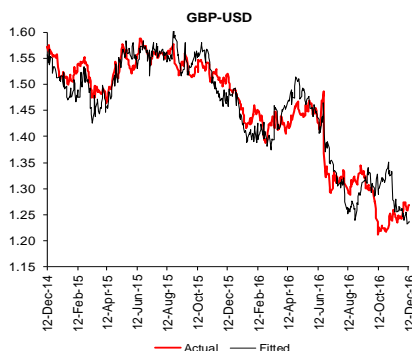
Source: OCBC Bank

- USD-JPY** USD-JPY may strive to hold the line at 115.00 with the 4Q Tankan due early Thursday in Asia and pending further broad dollar cues. The pair is sitting at the bottom of its implied confidence intervals and may remain equipped to blip higher on further dollar cues.



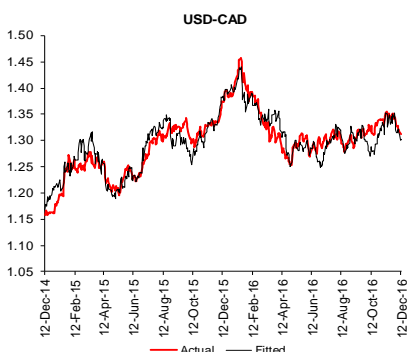
Source: OCBC Bank

- AUD-USD** AUD-USD continues to be a laggard relative to its short-term implied valuation, especially with the commodity complex providing a lift. To this end, we look to potentially exit from our tactical short-AUD-USD, especially if the 0.7500 level is breached on a sustained basis. Up top, look for initial resistance to kick in at the 200-day MA (0.7533).



Source: OCBC Bank

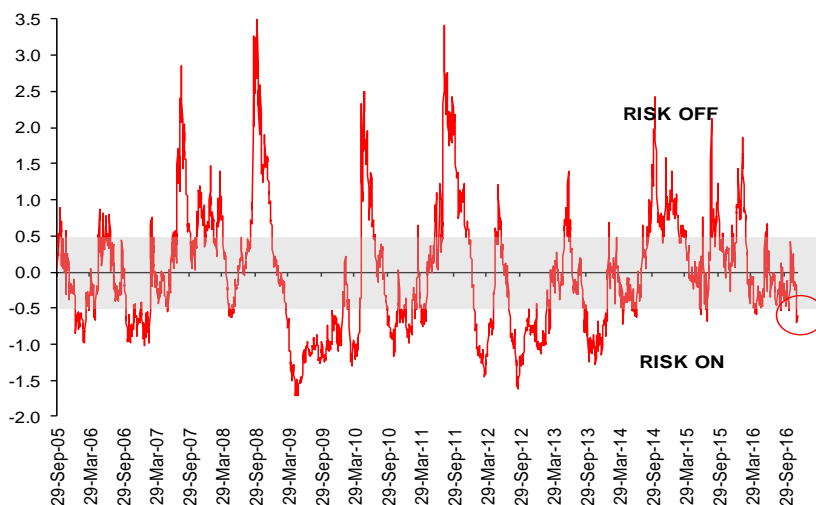
- GBP-USD** Implied short-term valuations for the GBP-USD continue to slant south but this impetus may continue to be tempered if the greenback continues to capitulate lower. Market participants expect the BOE's next move (no change in parameters expected at this week's BOE MPC) in 2017 to be a hike despite background Brexit concerns with the string of November inflation numbers due later in the session. In the interim, if the pair can bounce towards 1.2640, 1.2730 may come into play.



Source: OCBC Bank

- USD-CAD** Firmer oil prices may continue to put a damper on the USD-CAD in the near term with the next key support expected towards the 200-day MA (1.3074). In the interim, the pair is expected to remain in tunes with still softening short-term implied 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	0.398	0.833	0.313	0.464	0.137	0.396	0.105	-0.244	0.057	0.869	-0.974
CHF	0.929	0.521	0.780	0.336	0.531	0.282	0.533	0.239	-0.338	-0.006	0.773	-0.865
SGD	0.869	0.246	0.907	0.490	0.443	0.090	0.372	0.075	-0.489	-0.079	1.000	-0.835
JPY	0.863	0.660	0.794	0.625	0.779	0.554	0.755	0.516	-0.471	-0.334	0.785	-0.780
CNY	0.833	0.380	1.000	0.488	0.537	0.270	0.480	0.176	-0.464	-0.105	0.907	-0.762
CNH	0.711	0.610	0.764	0.553	0.603	0.545	0.662	0.461	-0.570	-0.239	0.685	-0.608
USGG10	0.572	0.654	0.676	0.432	0.706	0.638	0.796	0.542	-0.354	-0.228	0.493	-0.416
TWD	0.498	0.701	0.549	0.464	0.748	0.556	0.820	0.506	-0.230	-0.362	0.406	-0.347
CAD	0.469	0.101	0.514	-0.312	0.142	0.031	0.221	-0.032	0.263	0.476	0.320	-0.364
IDR	0.404	-0.133	0.569	-0.485	-0.073	-0.178	-0.028	-0.297	0.246	0.663	0.371	-0.310
MYR	0.398	1.000	0.380	0.686	0.780	0.831	0.894	0.842	-0.367	-0.682	0.246	-0.298
KRW	0.396	0.894	0.480	0.771	0.896	0.892	1.000	0.869	-0.481	-0.724	0.372	-0.246
PHP	0.225	0.686	0.467	0.926	0.738	0.665	0.751	0.689	-0.584	-0.872	0.413	-0.138
THB	0.186	-0.248	0.149	-0.470	-0.578	-0.348	-0.360	-0.383	-0.090	0.590	0.149	-0.227
CCN12M	0.122	-0.701	-0.022	-0.804	-0.677	-0.863	-0.739	-0.901	0.393	0.928	0.025	-0.175
INR	-0.166	-0.003	-0.183	-0.360	-0.466	-0.051	-0.149	-0.068	-0.108	0.304	-0.253	0.167
GBP	-0.366	0.587	-0.165	0.463	0.447	0.801	0.660	0.829	-0.168	-0.705	-0.316	0.447
NZD	-0.476	0.357	-0.299	0.581	0.436	0.576	0.466	0.645	-0.094	-0.757	-0.316	0.482
AUD	-0.635	-0.280	-0.381	0.037	-0.079	-0.083	-0.124	-0.012	0.242	-0.250	-0.407	0.627
EUR	-0.974	-0.298	-0.762	-0.241	-0.332	0.011	-0.246	0.001	0.189	-0.117	-0.835	1.000

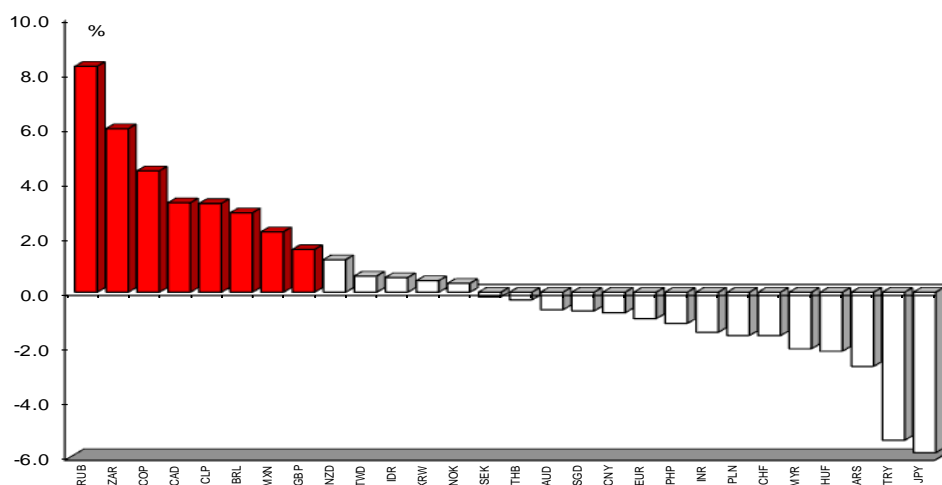
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0512	1.0600	1.0633	1.0700	1.0752
GBP-USD	1.2413	1.2600	1.2679	1.2700	1.2764
AUD-USD	0.7450	0.7470	0.7500	0.7529	0.7530
NZD-USD	0.7100	0.7141	0.7199	0.7200	0.7213
USD-CAD	1.3100	1.3109	1.3124	1.3200	1.3329
USD-JPY	109.46	115.00	115.12	116.00	116.12
USD-SGD	1.4133	1.4200	1.4245	1.4300	1.4330
EUR-SGD	1.5019	1.5100	1.5146	1.5200	1.5207
JPY-SGD	1.2300	1.2332	1.2371	1.2400	1.2864
GBP-SGD	1.7518	1.8000	1.8061	1.8100	1.8144
AUD-SGD	1.0580	1.0600	1.0684	1.0700	1.0717
Gold	1144.04	1153.00	1164.00	1200.00	1228.71
Silver	16.27	17.10	17.12	17.20	17.22
Crude	49.06	52.60	52.65	52.70	53.89

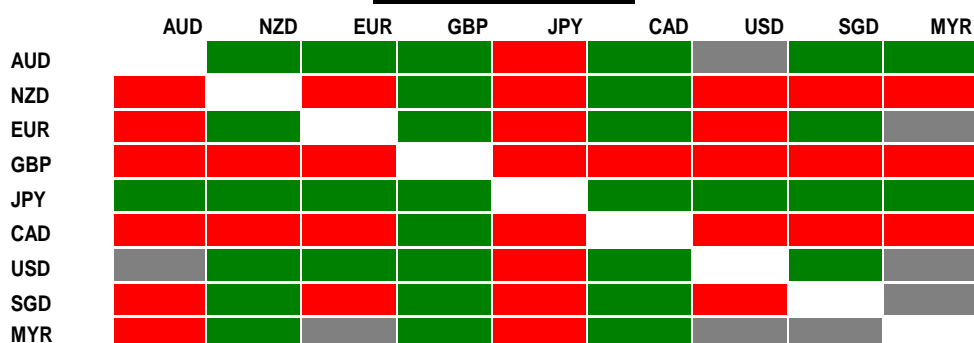
Source: OCBC Bank

FX performance: 1-month change agst USD



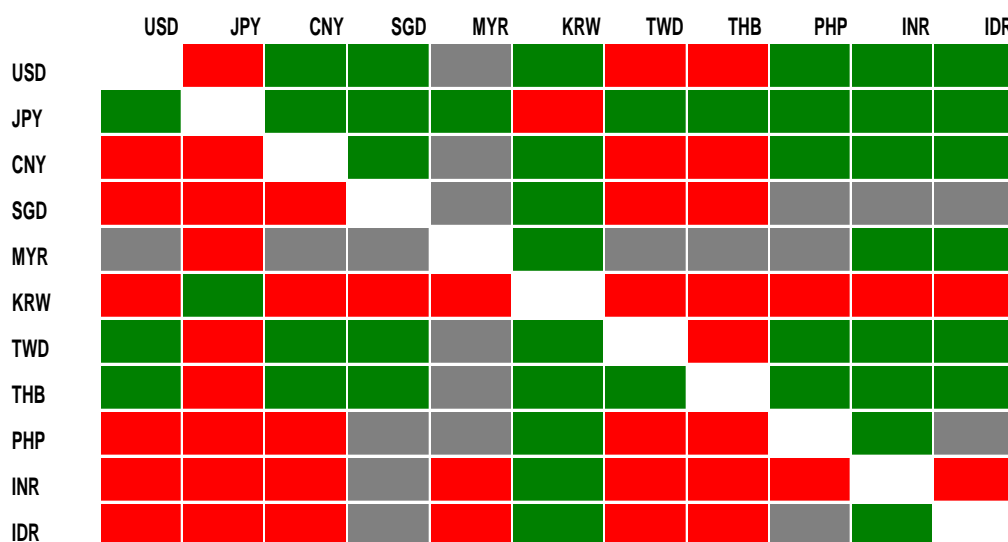
Source: Bloomberg

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	26-Oct-16	B	USD-CAD	1.3356	1.3635	1.3210	Softening crude, dovish BOC, potential USD strength	
2	18-Nov-18	S	AUD-USD	0.7397	0.7190	0.7505	Potential negative side effects from new US administration	
3	21-Nov-16	B	USD-JPY	114.54	118.50	112.55	New lease of life for USD from higher UST yields	
STRUCTURAL								
4	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr prospects, negative space for SGD NEER	
5	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
6	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	18-Nov-18	28-Nov-16	B	USD-JPY	110.19	111.95	Firmer USD post-Yellen	+1.57
2	07-Mar-16	28-Nov-16	B	AUD-USD	0.7412	0.7483	Potential risk appetite, abating global growth concerns, static Fed expectations	+2.09
3	21-Nov-16	05-Dec-16	S	EUR-USD	1.0605	1.0730	USD, resilience, policy dichotomy, potential EZ political tensions	-1.07
4	18-Nov-18	08-Dec-16	S	AUD-USD	0.7397	0.7505	Potential negative side effects from new US administration	-1.44
5	14-Nov-16	13-Dec-16	B	USD-SGD	1.4172	1.4236	USD strength and EM jitters post-US elections	+0.45
Jan-Oct 2016 Return								+3.91

Source: OCBC Bank

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