

Thursday, December 15, 2016

FX Themes/Strategy/Trading Ideas – 3 for 2017

- In the wake of the FOMC (and Yellen), expect global policy dichotomy to be brought into sharp relief with the DXY now having popped above the 102.00 handle and the 10y UST yield surging above 2.50%. The latter metric (and the yield differential argument) is expected to invariably favor the USD for now, especially against the JPY.
- With the raised dot plots (now 3 rate hikes penciled in compared to 2 previously) and economic forecasts for 2017 being interpreted as a vote of confidence in structural growth/inflation prospects, the 5y UST underperformed overnight even as the curve lifted higher – indicating perhaps that dollar resilience may attempt to persist into the year-end as market participants position for January.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped further within Risk-On territory on Wednesday although the negative reaction by global equities to higher US interest rates may only exacerbate USD strength, especially against EM/Asia.

Asian FX

- Expect the greenback to once again put the hurt on the Asian currencies in the after math of the more hawkish than expected FOMC outcome. In this environment, expect the **ACI (Asian Currency Index)** to continue to reach towards and float above the year-to-date high. Immediate and relatively more vulnerable units are expected to be the KRW (on the coattails of the JPY) and the SGD (give the perceived latitude for NEER downside). Elsewhere, the **BOK** held its benchmark rate at 1.25% as expected.
- **SGD NEER:** Post-FOMC, the **SGD NEER** is significantly lower at around -0.78% below its perceived parity, compared to around -0.10% early Wednesday. Apart from 'relative' CNY stability, expect downside pressure on the NEER to also stem primarily from USD outperformance in the near term.
- Meanwhile, NEER-implied USD-SGD thresholds are also appreciably higher on the day, with parity this morning sitting at around 1.4320, compared to around 1.4220 a day ago. Coupled with risks that the NEER may drift further south towards -1.00% (1.4465), USD-SGD remains bullish intra-day after clearing the previous high of 1.4365.

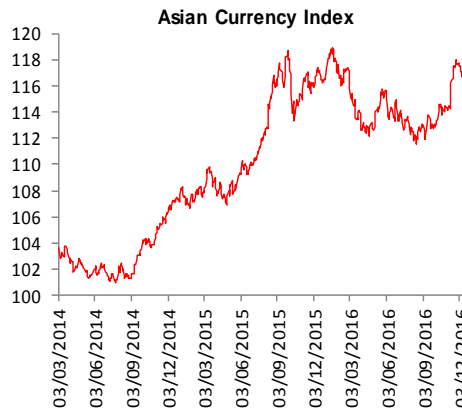
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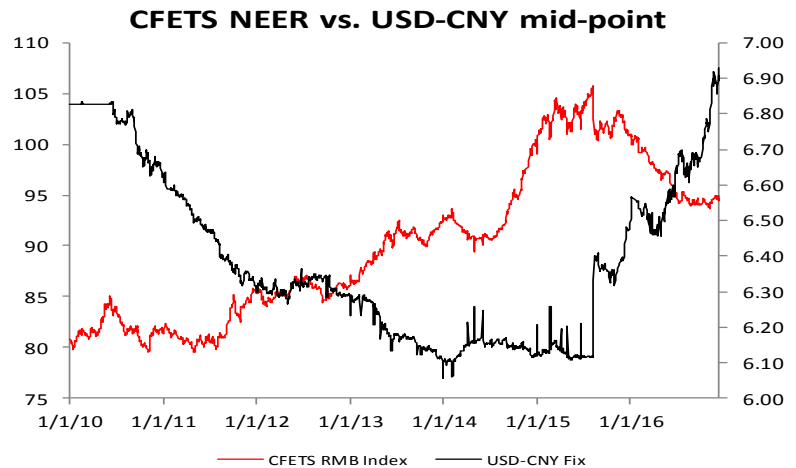
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	SGD NEER	% deviation	USD-SGD
Current	123.82	-0.35	1.4367
+2.00%	126.74		1.4039
Parity	124.26		1.4320
-2.00%	121.77		1.4612

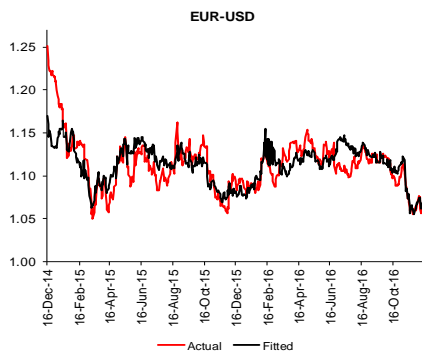
Source: OCBC Bank

- CFETS RMB Index:** The PBOC stuck to its guns despite the latest USD volatility and set the USD-CNY mid-point within the confines of its historical parameters. The USD-CNY mid-point rose to 6.9289 this morning from 6.9028 yesterday. This perceived preference to retain relative stability in the USD-CNY mid-point saw the **CFETS RMB Index** rising appreciably to 94.94 from 94.42 on Wednesday.



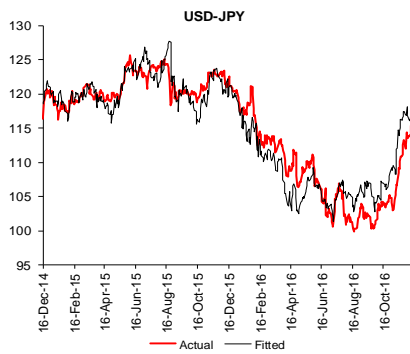
Source: OCBC Bank, Bloomberg

G7



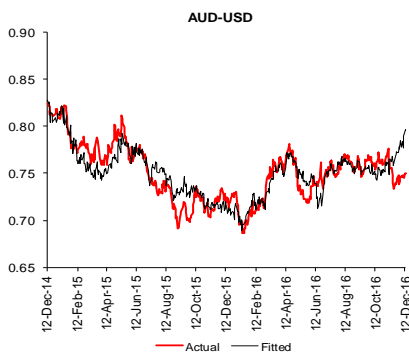
Source: OCBC Bank

- EUR-USD** Short-term implied valuations have collapsed post-FOMC with the EUR-USD looking slightly rich despite testing briefly below 1.0500 this morning. We put an interim floor towards 1.0400 in the current environment, with ECB officials still making references to the negative inflation gap in the EZ and highlighting scope for political uncertainty in 2017.



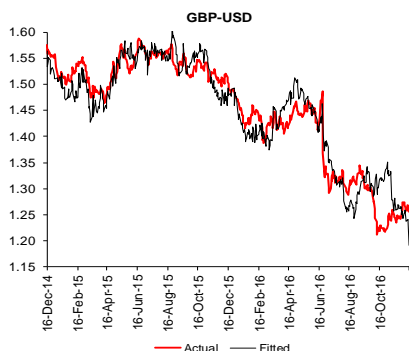
Source: OCBC Bank

- USD-JPY** As hazarded previously, the USD-JPY has firmed to more comfortable levels within its implied confidence intervals after the FOMC. Going ahead, implied valuations continue to point north in the near term and the pair remains our poster boy to express Fed-driven USD strength. In the near term, 118.65 may present itself as the nearest notable ceiling.



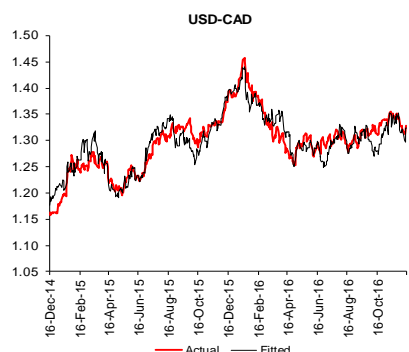
Source: OCBC Bank

- AUD-USD** Supportive November Aussie labor market numbers early Thursday are aiding the AUD at the margins after the pair's reaction lower overnight. In the interim, the AUD-USD continues to remain detached from its (higher) short-term implied valuations due to the downdraft from the FOMC. The pair may remain somewhat conflicted and rangy to top heavy price action is expected in the near term within 0.7350-0.7500.



Source: OCBC Bank

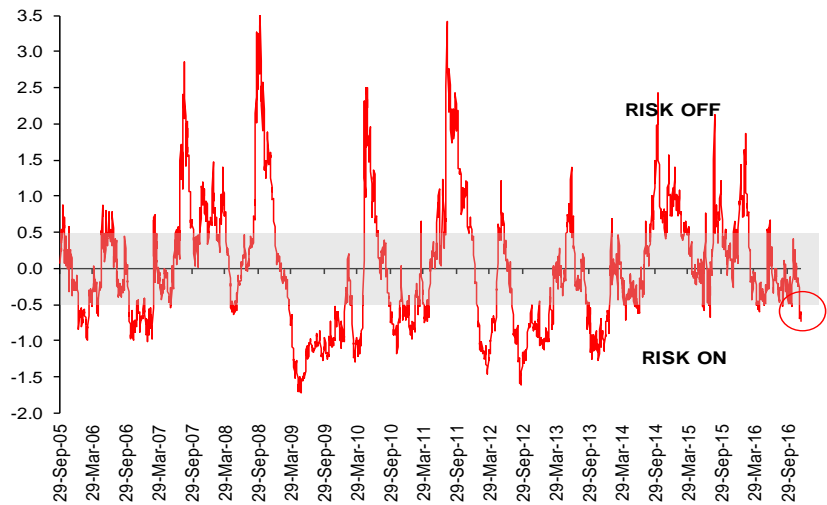
- GBP-USD** Already weighed by disappointing October labor market numbers, the GBP-USD was pummeled below 1.2600 after the FOMC on Thursday. Not surprisingly, short-term implied valuations have ratcheted lower, imparting implicit downside pressure on the GBP-USD. Expect initial supports at the 1.2500 level as well as the 55-day MA (1.2448) if the broad dollar attempts another leg higher.



Source: OCBC Bank

- USD-CAD** The CAD also felt the heat from a stronger USD post-FOMC with slipping crude an added negative. Nevertheless, the pair's move higher is perceived to be in tandem with short-term implied valuations. Expect a supported tone in the interim with 1.3200 expected to offer support while the 55-day MA (1.3322) may continue to be threatened intra-day.

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

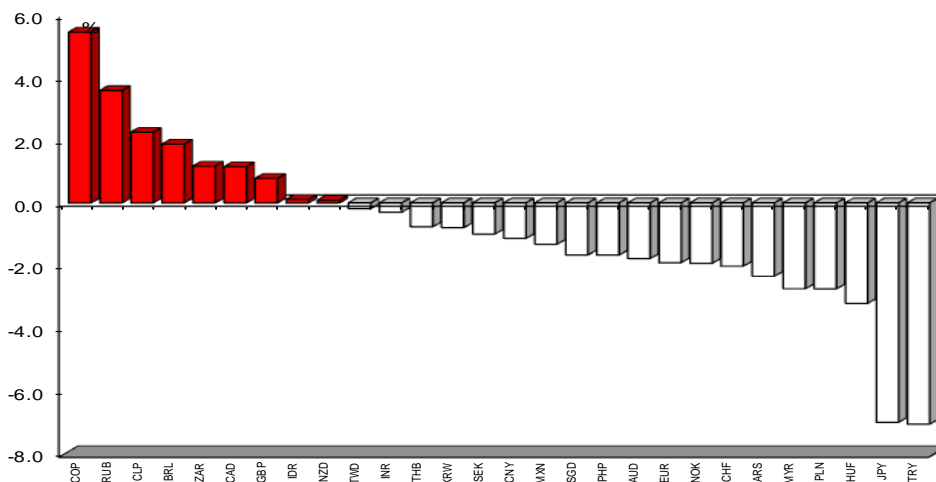
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0486	1.0500	1.0517	1.0600	1.0751
GBP-USD	1.2408	1.2500	1.2547	1.2600	1.2761
AUD-USD	0.7339	0.7400	0.7424	0.7500	0.7523
NZD-USD	0.7061	0.7100	0.7103	0.7139	0.7200
USD-CAD	1.3087	1.3200	1.3293	1.3300	1.3333
USD-JPY	117.00	117.18	117.38	117.86	118.00
USD-SGD	1.4300	1.4367	1.4368	1.4400	1.4436
EUR-SGD	1.5023	1.5100	1.5111	1.5199	1.5200
JPY-SGD	1.2200	1.2233	1.2240	1.2300	1.2864
GBP-SGD	1.7586	1.8000	1.8028	1.8100	1.8152
AUD-SGD	1.0589	1.0600	1.0667	1.0700	1.0729
Gold	1100.00	1134.60	1136.40	1137.59	1200.00
Silver	16.26	17.10	17.15	17.20	17.24
Crude	49.09	50.80	50.89	50.90	54.20

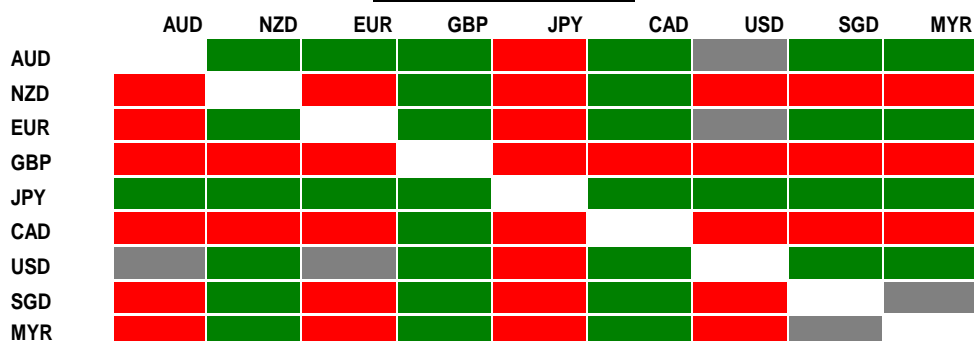
Source: OCBC Bank

FX performance: 1-month change agst USD



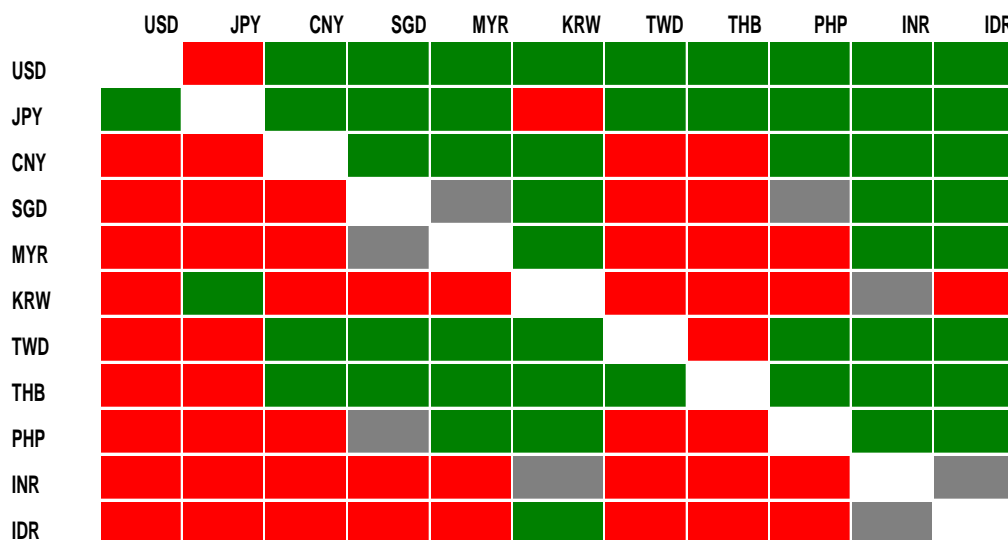
Source: Bloomberg

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	21-Nov-16	B	USD-JPY	114.54	118.50	112.55	New lease of life for USD from higher UST yields	
STRUCTURAL								
2	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr prospects, negative space for SGD NEER	
3	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
4	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, poiltical 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	26-Oct-16	30-Nov-16	B	USD-CAD	1.3356	1.3431	Softening crude, dovish BOC, potential USD strength	+0.59
4	21-Nov-16	05-Dec-16	S	EUR-USD	1.0605	1.0730	USD, resilience, policy dichotomy, potential EZ political tensions	-1.07
5	18-Nov-18	08-Dec-16	S	AUD-USD	0.7397	0.7505	Potential negative side effects from new US administration	-1.44
6	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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