

Monday, November 21, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- The path of least resistance for the broad dollar may remain tilted to the upside this week. Apart from the fairly busy global data calendar, FOMC minutes are also due on Wednesday, while investors will be expected to continue to closely scrutinize comments from Fischer today (1300 GMT). Note that in the past week (even till last Friday), Fed rhetoric has continued to underpin rate hike expectations for December.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** ticked higher on Friday within Risk-Neutral territory to end slightly higher on the week. In the coming sessions however, expect EM risk appetite indicators to continue to bear the brunt of global market unease.
- On the **CFTC** front, large non-commercial and leveraged accounts pared their respective net implied long dollar bias in the latest week, although these readings pre-dated the continued rise in UST yields and affirmative Fed-speak, especially from Yellen. Elsewhere, asset managers got in on the game early by paring their implied short dollar bias in aggregate in the latest week.
- With broad USD resilience gaining the necessary traction and the EUR dogged by policy dichotomy and background political tensions, we undertake a tactical short EUR-USD recommendation. From a **EUR-USD** spot ref at 1.0605 on Monday, we look for a 1.0360 objective, and place a stop at 1.0730.

Portfolio capital flow update – Come Undone

- In the wake of the US election outcome, implied fund flows jumped into equities on a global scale and fled global bonds. Developed markets (**DM**) saw a jump in implied flows (surge into equities as bonds saw an implied outflow). Meanwhile, emerging market (**EM**) funds experienced a collapse in investor interest with implied bond outflows outpacing equity outflows.
- Within Asia, both equities and bonds hemorrhaged significantly in the latest week. **While implied net equity inflows in the year to date have been largely inconsequential on this front, what continues to prove potentially disconcerting in our view is that despite the latest week of implied significant bond outflows, a sizeable overhang of net bond inflows chalked up in the year-to-date remains susceptible to a further withdrawal – portending significant potential negatives for regional bonds and FX.** To this end, the **INR, IDR, PHP, and MYR** are deemed

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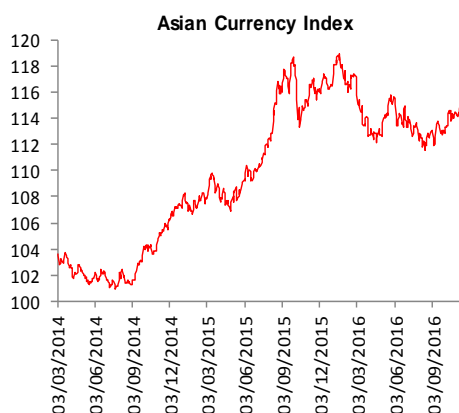
Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

relatively more vulnerable.

Asian FX

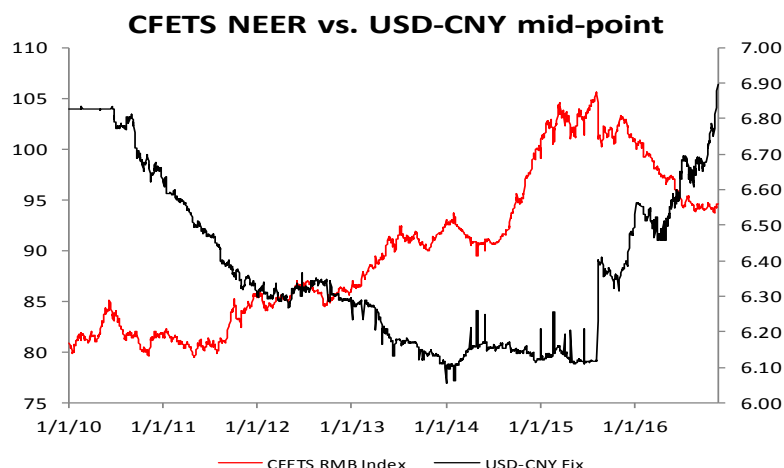
- With USD strength expected to continue taking a toll on EM/Asian risk appetite, we expect the **ACI (Asian Currency Index)** to continue to eye the upside in the coming sessions. On the central bank front, **BNM** is expected to stand pat at 3.00% on Wednesday, Singapore reports 3Q 16 GDP numbers on Thursday, and Taiwan also prints 3Q 16 GDP numbers on Friday.
- **SGD NEER:** The **SGD NEER** is relatively firmer on the day at around -0.33% below its perceived parity (1.4210) but this belies the firmer broad dollar tone. NEER-implied USD-SGD thresholds are firmer on the day with -0.50% estimated at 1.4281 and we expect this are to serve as a near term locus if broad USD strength persists.
- Meanwhile, the -1.00% threshold is estimated at 1.4353. Going ahead, USD-SGD has tracked the short-term vol surface higher in recent sessions but we note that our volatility indicators for the spot are perceived to be at fairly elevated levels, suggesting perhaps slightly more tempered upside in the near term and pending further external cues. Expect room for some consolidation around 1.4240 with key upside waypoints at 1.4272 and 1.4300 still live.



	SGD NEER	% deviation	USD-SGD
Current	123.69	-0.46	1.4258
+2.00%	126.74		1.3887
Parity	124.26		1.4165
-2.00%	121.77		1.4454

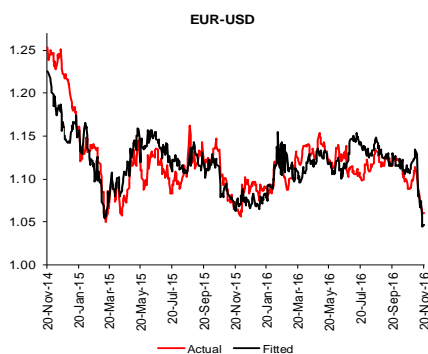
Source: OCBC Bank

- **CFETS RMB Index:** Our short term view remains unchanged and near term priority may remain one of containing undue depreciation expectations and “protecting” or tempering the implied upward drift for the USD-CNY and USD-CNH. This morning, the **CFETS RMB Index** firmed on the day to 94.59 from 94.54 on Friday as the USD-CNY mid-point rose (largely as expected) to 6.8985 compared to 6.8796 on Friday.



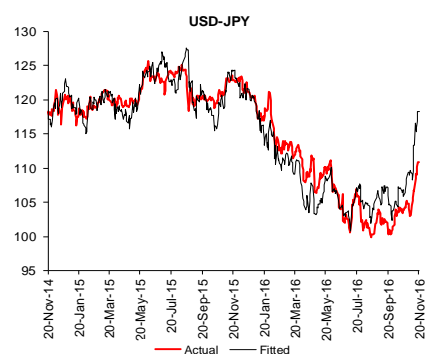
Source: OCBC Bank, Bloomberg

G7



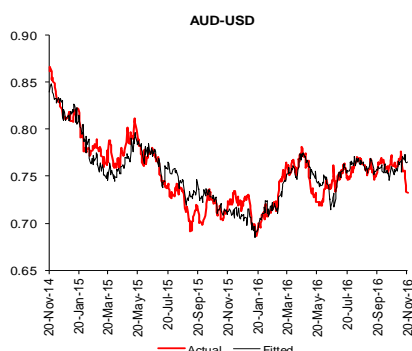
Source: OCBC Bank

- **EUR-USD** ECB rhetoric this week may provide further fuel for EUR heaviness. Meanwhile, the EUR-USD is perceived to be on a very slippery slope in the near term in line with sliding implied valuations. As noted last week, any sustained breach of 1.0600 potentially lights the way to 1.0524.



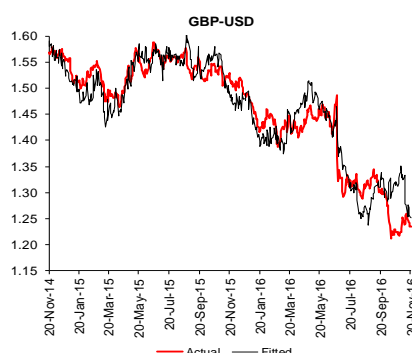
Source: OCBC Bank

- **USD-JPY** Core near term view remains unchanged and expect USD-JPY to remain relatively more responsive to US-centric dynamics. Near term implied valuations continue to push the envelope on the upside for the USD-JPY and we continue to expect sustained buoyancy for the pair towards 111.45.



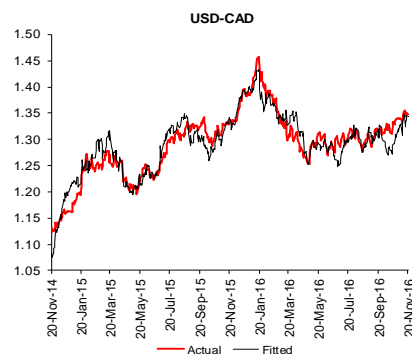
Source: OCBC Bank

- AUD-USD** As noted previously, the AUD-USD may remain slightly conflicted but may crumble on the back of any further wavering of the commodity complex at large. Look potential toward RBA commentary (Aylmer late Monday at 2325 GMT and Kent on Tue at 0745 GMT) for further near term guidance. In the interim, any wobble out of China may encourage further AUD queasiness, with an initial floor at 0.7285 expected before 0.7200.



Source: OCBC Bank

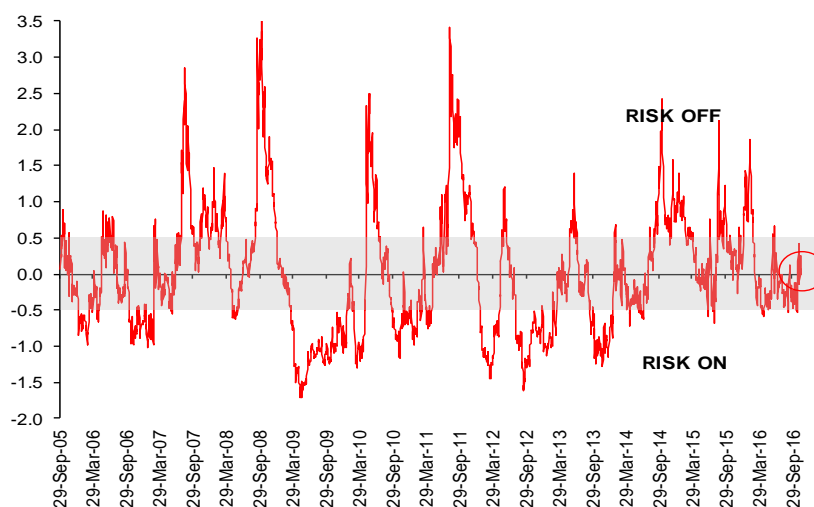
- GBP-USD** The data calendar for the pound is fairly crowded this week but expect Brexit-related news flow and dollar prospects to continue to exert external pressures. Prospects for the pair may remain slightly top heavy in the current environment ahead of the BOE's Haldene today (1925 GMT) while the BOE's Forbes is also due to appear on Tuesday (1130 GMT). In the near term, any failure to re-take 1.2400 risks a breach of 1.2318 towards 1.2240.



Source: OCBC Bank

- USD-CAD** Implied short-term valuations for the USD-CAD remain aloft, especially in the current environment. As such, the pair may resist dips within a 1.3400-1.3600 range in the coming sessions.

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	0.835	0.932	0.895	-0.441	-0.236	0.949	-0.037	-0.799	0.458	0.916	-0.994
CHF	0.956	0.644	0.787	0.836	-0.182	0.053	0.827	0.227	-0.878	0.210	0.776	-0.961
SGD	0.949	0.953	0.982	0.863	-0.669	-0.498	1.000	-0.310	-0.612	0.652	0.983	-0.931
JPY	0.939	0.956	0.936	0.883	-0.622	-0.486	0.965	-0.293	-0.685	0.641	0.947	-0.934
CNY	0.932	0.938	1.000	0.828	-0.692	-0.529	0.982	-0.347	-0.576	0.681	0.975	-0.913
CNH	0.916	0.957	0.975	0.843	-0.740	-0.559	0.983	-0.367	-0.557	0.663	1.000	-0.904
USGG10	0.913	0.931	0.932	0.796	-0.666	-0.526	0.942	-0.328	-0.593	0.721	0.920	-0.900
TWD	0.895	0.782	0.850	0.716	-0.447	-0.304	0.834	-0.112	-0.664	0.609	0.761	-0.880
CAD	0.886	0.780	0.919	0.657	-0.549	-0.361	0.874	-0.148	-0.502	0.650	0.847	-0.858
IDR	0.840	0.951	0.955	0.742	-0.792	-0.666	0.952	-0.520	-0.424	0.778	0.959	-0.814
MYR	0.835	1.000	0.938	0.799	-0.800	-0.670	0.953	-0.536	-0.499	0.775	0.957	-0.819
KRW	0.835	0.969	0.940	0.759	-0.795	-0.686	0.945	-0.532	-0.456	0.805	0.947	-0.814
PHP	0.801	0.944	0.920	0.716	-0.822	-0.727	0.906	-0.566	-0.423	0.843	0.903	-0.782
THB	0.800	0.943	0.911	0.655	-0.839	-0.680	0.910	-0.547	-0.383	0.877	0.908	-0.765
CCN12M	0.688	0.791	0.682	0.547	-0.667	-0.647	0.762	-0.477	-0.362	0.797	0.726	-0.660
INR	0.644	0.840	0.700	0.490	-0.755	-0.676	0.739	-0.593	-0.276	0.849	0.727	-0.619
GBP	0.101	0.576	0.395	0.246	-0.760	-0.897	0.310	-0.860	0.142	0.676	0.381	-0.108
NZD	-0.883	-0.580	-0.688	-0.679	0.131	-0.087	-0.750	-0.238	0.787	-0.294	-0.678	0.873
AUD	-0.912	-0.780	-0.831	-0.684	0.453	0.236	-0.871	0.067	0.624	-0.565	-0.847	0.894
EUR	-0.994	-0.819	-0.913	-0.914	0.409	0.212	-0.931	0.007	0.835	-0.409	-0.904	1.000

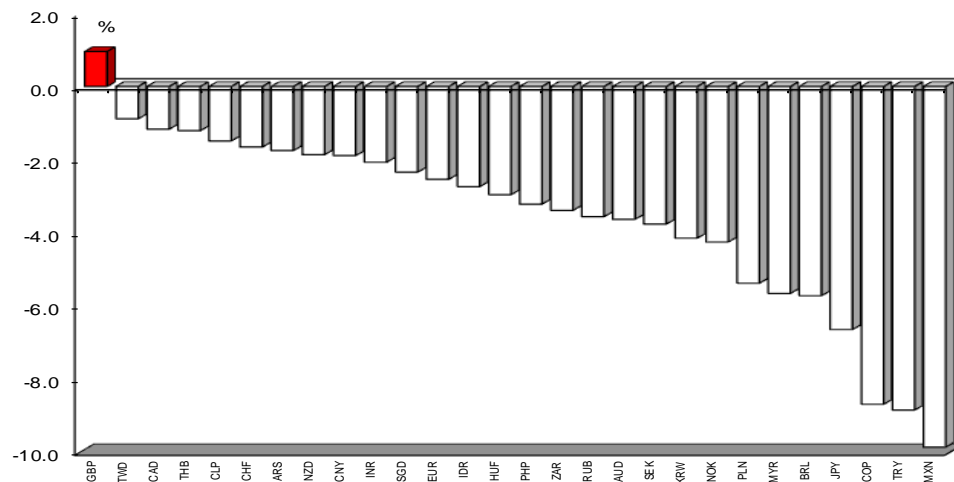
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0569	1.0600	1.0603	1.0700	1.1029
GBP-USD	1.2112	1.2300	1.2341	1.2400	1.2555
AUD-USD	0.7300	0.7314	0.7326	0.7348	0.7400
NZD-USD	0.6985	0.7000	0.7005	0.7022	0.7100
USD-CAD	1.3294	1.3400	1.3477	1.3500	1.3555
USD-JPY	106.42	110.00	110.97	111.00	111.12
USD-SGD	1.3827	1.4200	1.4266	1.4287	1.4289
EUR-SGD	1.5074	1.5100	1.5126	1.5200	1.5230
JPY-SGD	1.2836	1.2848	1.2856	1.2900	1.3300
GBP-SGD	1.7359	1.7600	1.7606	1.7700	1.7859
AUD-SGD	1.0400	1.0447	1.0450	1.0496	1.0500
Gold	1200.00	1201.30	1211.40	1278.74	1283.26
Silver	16.43	16.60	16.65	16.70	17.69
Crude	42.20	46.10	46.17	46.20	46.68

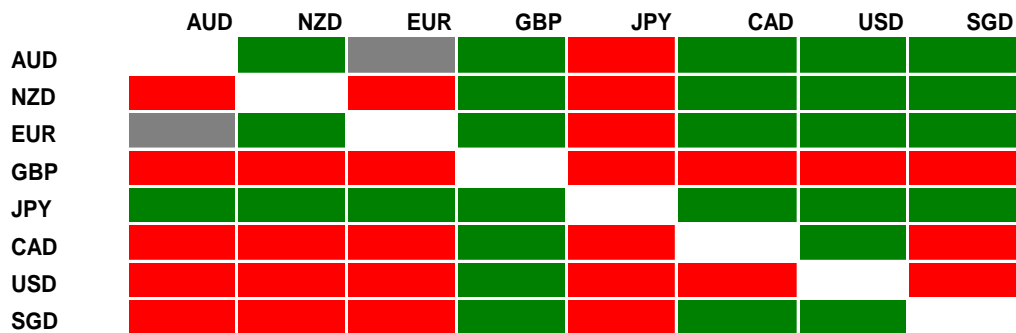
Source: OCBC Bank

FX performance: 1-month change agst USD

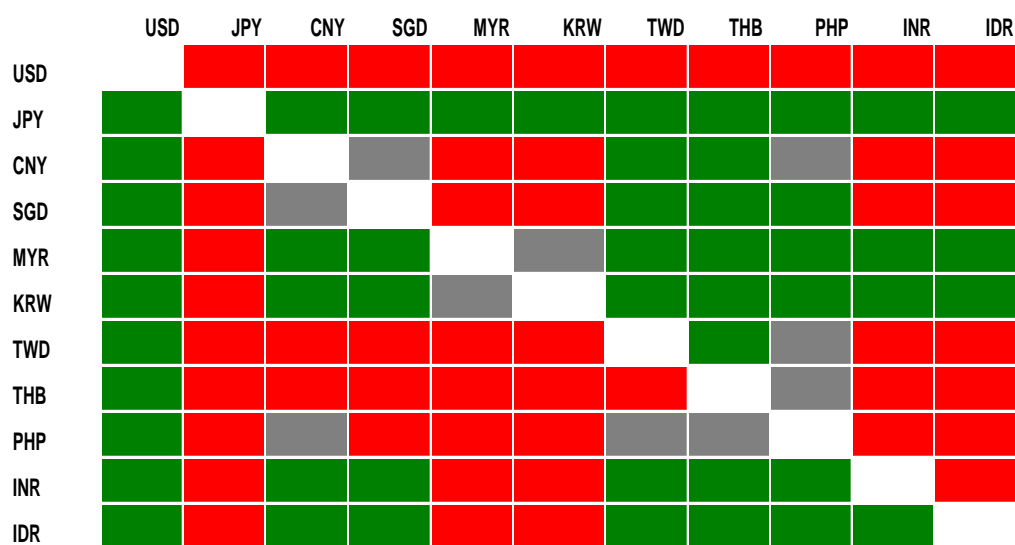


Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

FX Trade Ideas

FX Trade Table								
	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	14-Nov-16	B	USD-SGD	1.4172	1.4375	1.4070	USD strength and EM jitters post-US elections	
3	18-Nov-18	B	USD-JPY	110.19	113.90	108.30	Firmer USD post-Yellen	
4	18-Nov-18	S	AUD-USD	0.7397	0.7190	0.7505	Potential negative side effects from new US administration	
5	21-Nov-16	S	EUR-USD	1.0605	1.0360	1.0730	USD, resilience, policy dichotomy, potential EZ political tensions	
	STRUCTURAL							
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
7	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr prospects, negative space for SGD NEER	
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
2	27-Oct-16	28-Oct-16	B	AUD-USD	0.7618	0.7587	Supportive risk appetite, metals, positioning, and positoning	-0.38
3	05-Oct-16	03-Nov-16	S	EUR-USD	1.1222	1.1125	Fade ECB-taper talk, potential US resilience	+1.00
4	12-Oct-16	04-Nov-16	S	GBP-USD	1.2271	1.2464	Fade GBP-USD upticks	-1.50
5	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
6	08-Nov-16	09-Nov-16	B	AUD-USD	0.7708	0.7610	Accumulating risk appetite despite USD resilience	-1.29
7	06-Oct-16	09-Nov-16	B	USD-JPY	103.48	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	-1.60
	Jan-Oct 2016 Return							+3.91

Source: OCBC Bank

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