

Monday, November 28, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- This week's busy data calendar schedule culminates with the US Nov NFP numbers on Friday but barring a jarringly negative shock, investors may instead pay more attention to expected Fed rhetoric this week. Look towards Dudley and Powell on Tuesday, Kaplan, Powell and Mester on Wednesday, Kaplan and Mester on Thursday, while Brainard and Tarullo are scheduled for Friday.
- Elsewhere, global manufacturing PMIs from Thursday will populate investors' screens but may not detract substantially from background concerns towards the Italian referendum on 04 Dec 16. On the risk appetite front, the **FXSI (FX Sentiment Index)** inched slightly higher on Friday but still ended slightly softer on the week, indicating some containment of investor concerns (for now), particularly towards EM. Meanwhile, the continued early week stumble in crude may potentially take the shine off global equities.
- In the interim, the broad dollar may attempt to continue to feel out a near term base while awaiting a further validation of its most recent resilience. Note that the DXY in the past week managed to eke out further gains despite the truncated Thanksgiving week, accompanied by a bear flattening of the UST curve (from the front-end). Pending further cues however, some consolidation back towards 101.80-102.00 for the DXY cannot be discounted as investors attempt to lock down some profits and with a Dec rate hike already fully priced in.

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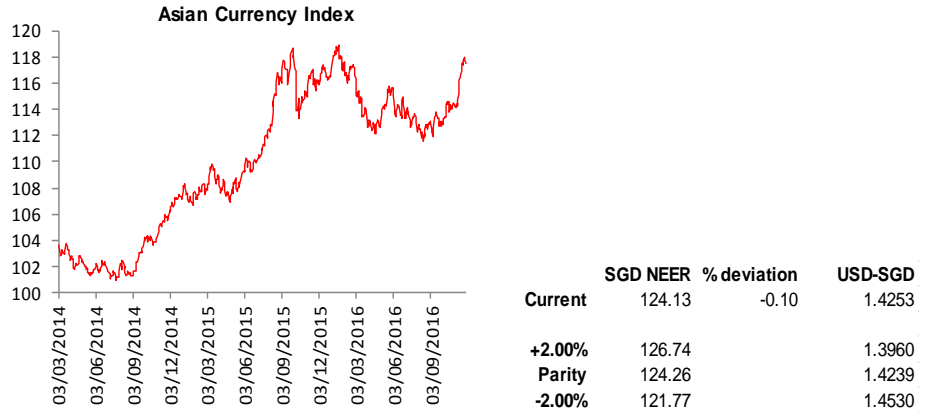
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Asian FX

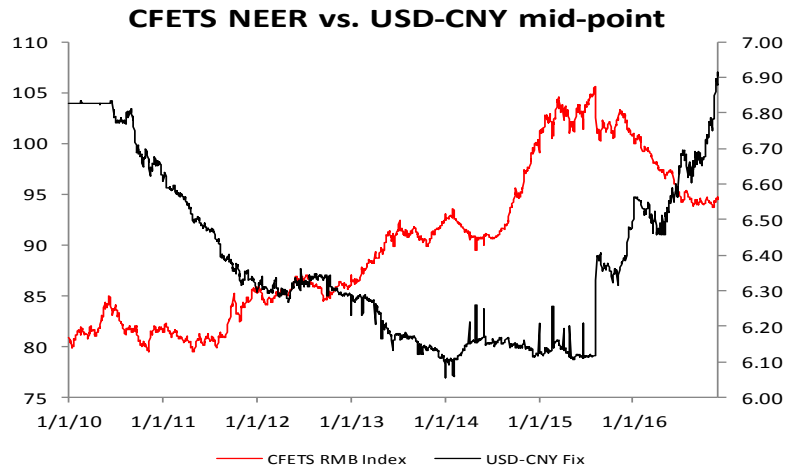
- Regional manufacturing PMIs and trade numbers are due on Thursday but the dollar's near term prospects and investor demeanor towards EM/Asia may continue to hold precedence this week. Given the state of the greenback at the onset of the week, expect a pause in the **ACI (Asian Currency Index)** after its near vertical ascent post-US elections.
- To reiterate, although net fund flow data indicate smaller net outflows from both Asian equities and bonds in the latest week, the potential for further leakage remains apparent while the implicit upside pressure on USD-Asia stemming from the outflows chalked up in the last two weeks remains in play.
- **SGD NEER:** With the broad dollar consolidating lower, the **SGD NEER** is firmer on the day at around -0.11% below its perceived parity (1.4242) with

NEER-implied USD-SGD thresholds also softer on the day. At current levels, the -0.50% threshold is estimated at 1.4311 and -1.00% resides at around 1.4383. Technically, if the foothold at 1.4272 is lost on a sustained basis, expect further space to consolidate back towards 1.4200 ahead of 1.4150 and 1.4126. Multisession, we see scope for a revisit lower for the SGD NEER if USD strength re-engages, with the basket partially supported by JPY and MYR underperformance.



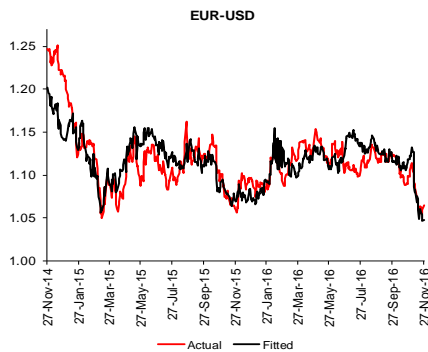
Source: OCBC Bank

- CFETS RMB Index:** This USD-CNY mid-point this morning eased (largely as expected with rule-based forecasts finally gaining some traction amidst calmer global market conditions) to 6.9042 from 6.9168 from last Friday in the wake of the broad dollar's capitulation. Nonetheless, this saw the **CFETS RMB Index** easing to 94.63 from 94.67 on Friday.



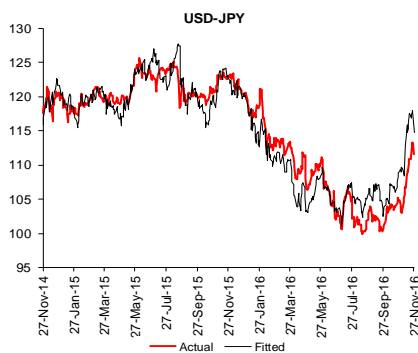
Source: OCBC Bank, Bloomberg

G7



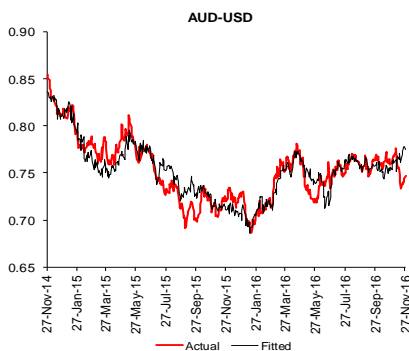
- EUR-USD** The ECB's Draghi is due to make appearances on Monday and Wednesday **but the** Italian referendum on 04 Dec 2016 may hold center stage in the interim and potentially keep the pair suppressed on fears that a negative outcome would reverberate through the EZ. Nonetheless, the EUR-USD may attempt to base build off the 1.0600 floor in the near term despite still depressed short-term valuations and with 1.0700 a temporary resistance.

Source: OCBC Bank



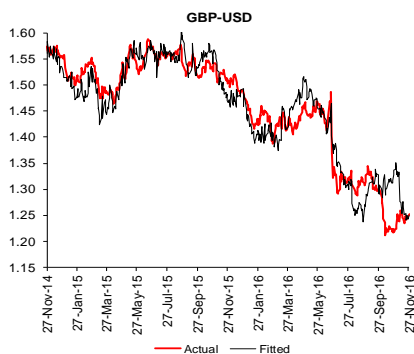
- USD-JPY** If USD resilience continues to be less than single-minded in the coming sessions, fading US yield support may encourage further downside for the USD-JPY, as implied by short-term valuations. Expect initial psychological support to emerge around 111.00.

Source: OCBC Bank



- AUD-USD** The antipodeans may attempt to make the most of the USD's latest consolidation with the commodity complex (iron ore) still offering intrinsic support. With dollar strength taking a breather for now, the AUD-USD may then attempt to sync up with firmer short-term valuations in the coming sessions pending further news flow. At this juncture, the 200-day MA (0.7523) may attract.

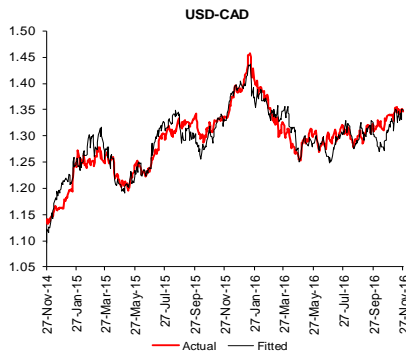
Source: OCBC Bank



- GBP-USD** GBP-USD managed to shade higher on Friday as the broad dollar stuttered. However, we think the overhang from A50 (note increased and perceived hostility on the part of the EU) may continue to contain excessive upside probes barring a further capitulation of the broad dollar. In the interim, the GBP-USD is expected to loiter comfortably within its short-term confidence intervals and amid a stable outlook. Technically, the pair would need to overcome 1.2520 and the 55-

Source: OCBC Bank

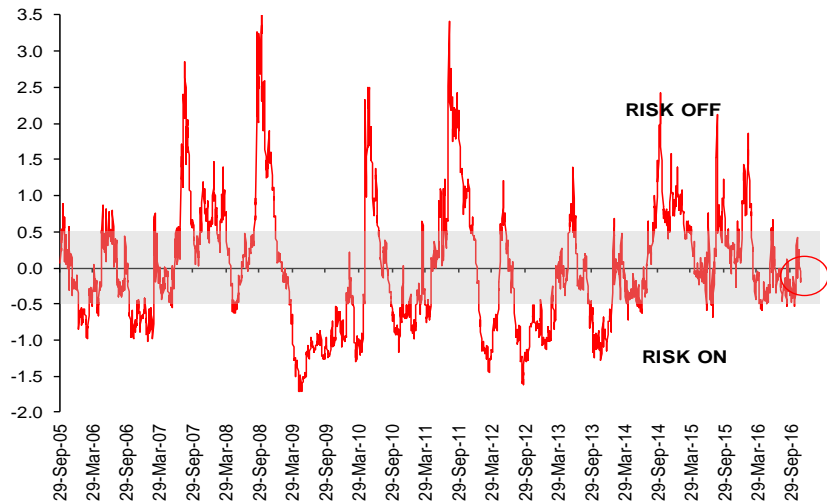
day MA (1.2566) to stage a meaningful upside extension on the upside.



- USD-CAD** USD-CAD floated higher on Friday despite the softer greenback as crude stumbled lower. However, expect the loonie to once again react unfavorably if USD robustness resumes, and with short-term valuations still oriented north for the pair. In the interim, USD-CAD may be expected to range within 1.3400-1.3600.

Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.96	0.988	0.94	-0.461	0.159	0.987	0.313	-0.914	0.673	0.976	-0.997
CHF	0.992	0.932	0.971	0.922	-0.398	0.25	0.975	0.397	-0.908	0.626	0.959	-0.985
SGD	0.988	0.954	1	0.927	-0.482	0.118	0.99	0.296	-0.864	0.685	0.987	-0.985
JPY	0.987	0.95	0.99	0.951	-0.409	0.171	1	0.287	-0.891	0.628	0.989	-0.98
CNY	0.98	0.96	0.987	0.917	-0.49	0.109	0.986	0.27	-0.852	0.715	0.982	-0.977
CNH	0.976	0.951	0.987	0.942	-0.467	0.141	0.989	0.261	-0.868	0.624	1	-0.975
USGG10	0.976	0.985	0.964	0.947	-0.486	0.069	0.969	0.209	-0.923	0.701	0.962	-0.982
TWD	0.972	0.926	0.975	0.887	-0.374	0.251	0.972	0.424	-0.819	0.671	0.967	-0.964
CAD	0.965	0.949	0.982	0.891	-0.543	0.013	0.97	0.186	-0.829	0.764	0.963	-0.963
IDR	0.96	1	0.954	0.943	-0.593	-0.03	0.95	0.145	-0.915	0.726	0.951	-0.974
MYR	0.958	0.926	0.961	0.837	-0.493	0.029	0.95	0.175	-0.812	0.804	0.932	-0.95
KRW	0.95	0.88	0.967	0.817	-0.396	0.272	0.95	0.459	-0.76	0.764	0.94	-0.934
PHP	0.947	0.944	0.938	0.847	-0.63	0.025	0.92	0.209	-0.839	0.829	0.914	-0.95
THB	0.931	0.907	0.917	0.821	-0.529	0.041	0.897	0.236	-0.827	0.822	0.86	-0.927
CCN12M	0.848	0.814	0.849	0.778	-0.238	0.175	0.878	0.191	-0.747	0.659	0.857	-0.828
INR	0.688	0.755	0.636	0.584	-0.517	-0.316	0.657	-0.211	-0.642	0.765	0.645	-0.701
GBP	0.296	0.461	0.346	0.358	-0.581	-0.53	0.344	-0.558	-0.219	0.476	0.381	-0.325
NZD	-0.92	-0.857	-0.87	-0.788	0.351	-0.209	-0.874	-0.396	0.852	-0.701	-0.842	0.912
AUD	-0.932	-0.892	-0.901	-0.806	0.447	-0.226	-0.894	-0.388	0.822	-0.737	-0.887	0.931
EUR	-0.997	-0.974	-0.985	-0.948	0.506	-0.109	-0.98	-0.277	0.923	-0.68	-0.975	1

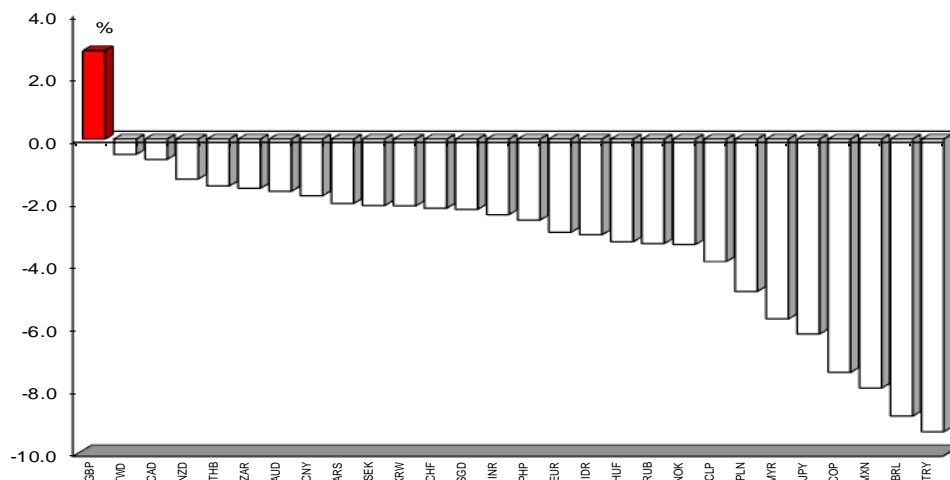
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0518	1.0600	1.0651	1.0700	1.0967
GBP-USD	1.2400	1.2490	1.2493	1.2500	1.2588
AUD-USD	0.7311	0.7400	0.7460	0.7500	0.7520
NZD-USD	0.7000	0.7032	0.7068	0.7100	0.7172
USD-CAD	1.3319	1.3400	1.3482	1.3500	1.3571
USD-JPY	106.39	111.00	111.61	112.00	113.90
USD-SGD	1.3889	1.4200	1.4215	1.4300	1.4365
EUR-SGD	1.5074	1.5100	1.5141	1.5200	1.5218
JPY-SGD	1.2579	1.2700	1.2734	1.2800	1.2856
GBP-SGD	1.7345	1.7700	1.7760	1.7800	1.7874
AUD-SGD	1.0529	1.0600	1.0604	1.0700	1.0783
Gold	1162.21	1170.30	1195.00	1200.00	1268.83
Silver	16.15	16.70	16.76	16.80	17.71
Crude	43.87	45.70	45.73	45.80	47.63

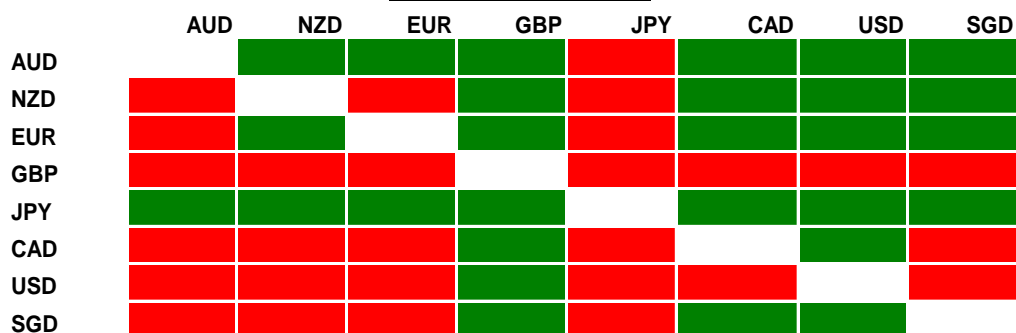
Source: OCBC Bank

FX performance: 1-month change agst USD



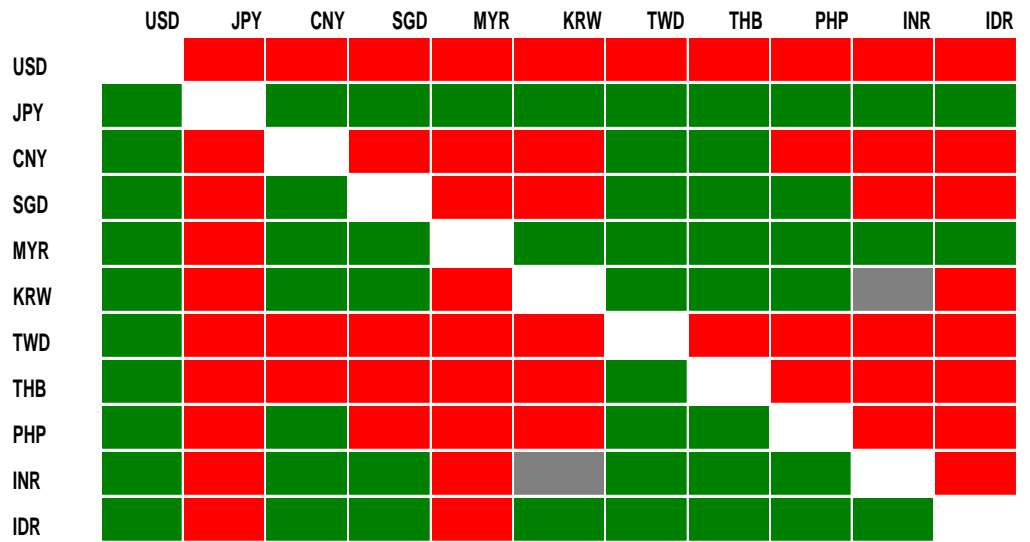
Source: Bloomberg

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	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	
8	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	05-Oct-16	03-Nov-16	S	EUR-USD	1.1222	1.1125	Fade ECB-taper talk, potential US resilience	+1.00
2	12-Oct-16	04-Nov-16	S	GBP-USD	1.2271	1.2464	Fade GBP-USD upticks	-1.50
3	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
4	08-Nov-16	09-Nov-16	B	AUD-USD	0.7708	0.7610	Accumulating risk appetite despite USD resilience	-1.29
5	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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