

Friday, March 03, 2017

## FX Themes/Strategy/Trading Ideas – Revised forecasts

- With UST yields (10y briefly >2.50%, curve bear flattened from the front end, while initial claims clocked a lower than expected +223k) inching higher and investors increasingly wary of the Fed (Powell: case for a March meeting has “come together”), the USD climbed universally within G10 (EUR-USD briefly <1.0500, AUD-USD<0.7600, USD-CNH>6.8850) with AUD fronting the pack of losers (antipodeans also underperformed across G10). On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped deeper into Risk-On territory on Thu despite negative US equities.
- On the data front, look to the slew of global services/composite PMIs with the Caixin China composite/services PMIs at 0145 GMT. Further on China, watch for policy pronouncements with the **Chinese People’s Political Consultative Conference** commencing today, with the **NPC (National People’s Congress)** also starting on Monday.
- Up ahead, with markets shaping up for an inflexion point in the USD (CME implied odds of a March hike at >80%), comments from Fischer (1730) and Yellen (1800 GMT) will be closely parsed, with Williams (0200 GMT), Evans and Lacker (1515 GMT), and Powell again (1715 GMT) also scheduled for a Fed-heavy global session.
- To this end, note that on Thu, we had taken profit on our previous tactical long **AUD-USD** and short **USD-SGD** trade ideas. Meanwhile, we also retain our tactical short **EUR-USD** and long **USD-CAD** going into Yellen tonight.
- As noted above, our 20 Jan 17 idea to be tactically short **USD-SGD** (spot ref: 1.4240) was closed out at the profit stop of 1.4125 on Thu for an implied +0.81% profit.
- In addition, the 12 Jan 17 recommendation to be tactically long **AUD-USD** (spot ref: 0.7463) was also closed out at the designated profit stop of 0.7560 for an implied +1.35% gain.

## Asian FX

- EM FX also retreated against the USD overnight and the **ACI (Asian Currency Index)** is expected to continue to correct higher ahead of the inherent USD risks later in the global session.
- **SGD NEER:** The **SGD NEER** this morning is around +0.58% above its perceived parity (1.4205), slightly firmer on the day and with NEER-implied

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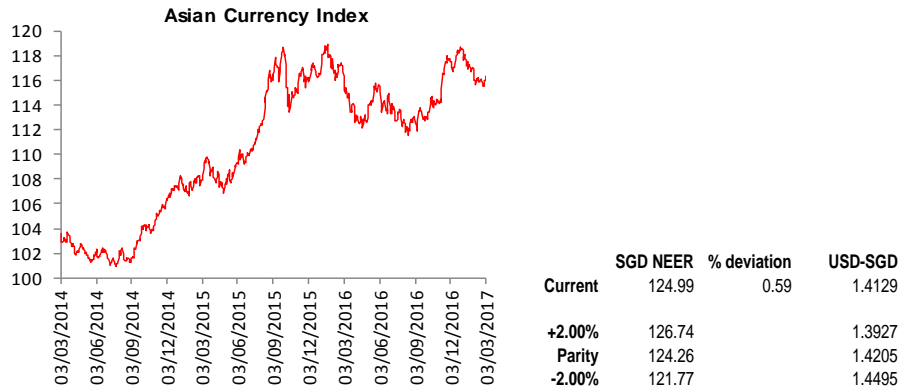
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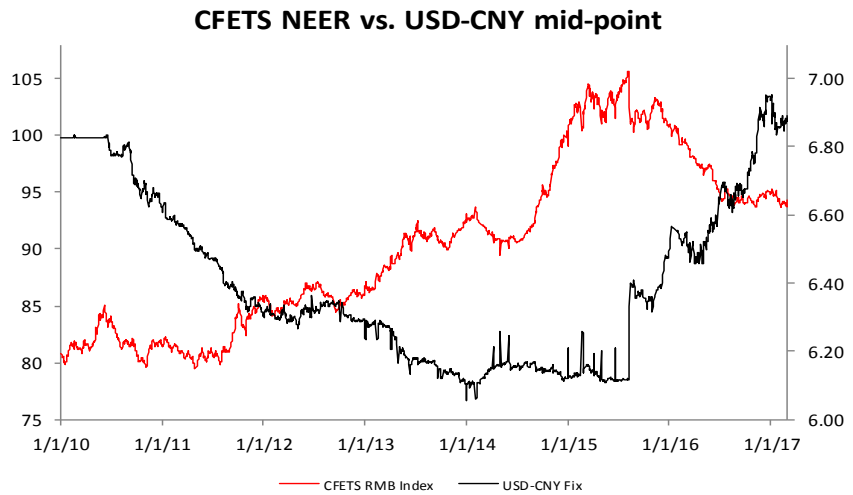
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USD-SGD thresholds also higher on the day following overnight USD price action. Potential line in the sand may remain at around +0.70% (1.4107) while +0.50% is estimated at 1.4135. Technical top side for the pair is expected into 1.4165/70 pending further DXY moves today. Curiously, even with the broad dollar climbing in the last two sessions, the SGD NEER has stubbornly remained north of parity with USD-SGD upside heavy footed. We think this has been afforded by still generally sanguine risk appetite levels and background optimism towards EM – often a fragile construct.



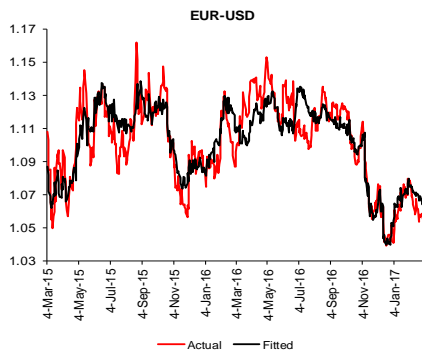
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point gained further to 6.8896 from 6.8809 on Thu, lifting the **CFETS RMB Index** further for the fourth consecutive session to 94.28 from 94.09 yesterday.



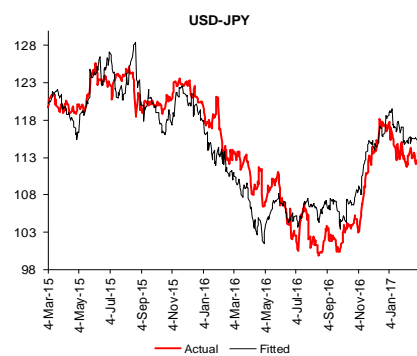
Source: OCBC Bank, Bloomberg

**G7**



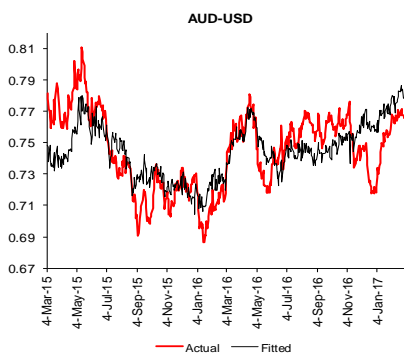
Source: OCBC Bank

- EUR-USD** Short term implied valuations continue to be chipped away in the current USD environment with the pair gravitating towards the lower bounds of its implied confidence intervals. In the near term, the overhang from a supported dollar may continue to threaten the 1.0500 floor, ahead of 1.0440.



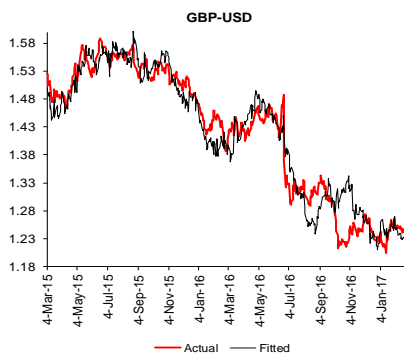
Source: OCBC Bank

- USD-JPY** Into the end of the week, markets have been essentially reduced to a USD story with the USD-JPY trading slightly more comfortably now after having now having closed the negative gap with its short term implied valuation. We note however that a further sharp rebound higher in the USD-JPY would have to be predicated on Fed-speak tonight, with the 55-day MA (114.60) likely to cap in the interim.



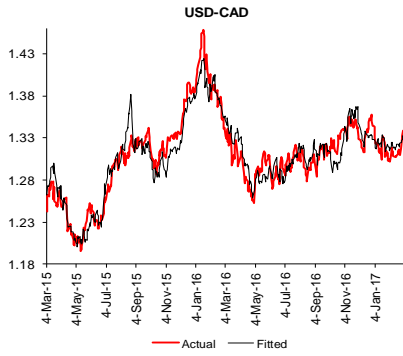
Source: OCBC Bank

- AUD-USD** Markets essentially cashed out of the AUD-USD (and its associated crosses) after its recent run-up and its continued inability to surpass 0.7700 on a sustained basis, with yesterday's disappointing trade surplus and tumbling Dalian iron ore) a catalyst (Feb svc PMI also disappointed at 49.0 early Fri). Meanwhile, we note that implied valuations remain slightly more subdued relative to Thu's price action, and implicit longs may not have morphed into outright AUD shorts just yet. In the interim, expect support from the 200-day MA (0.7525) and the 55-day MA (0.7497).



Source: OCBC Bank

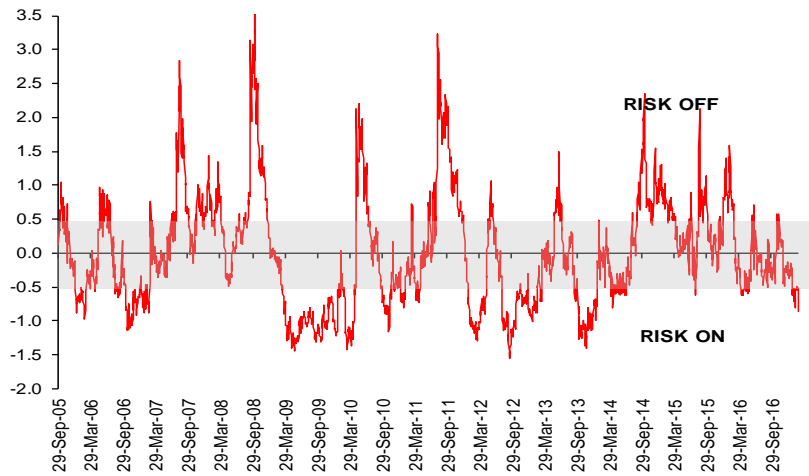
- GBP-USD** Expect GBP-USD to remain top heavy in the current USD climate, with short term implied valuations continuing to slip. Expect little patience for any negative surprises from the Feb services/composite PMIs today. Initial support is expected into 1.2200/20.



- USD-CAD** A stronger USD and crumbling crude complex made for further USD-CAD gains on Thu as investors continued to cash out of prior cyclical plays. Note that spot was almost in lockstep (and then some) with jumping short term implied valuations yesterday. For today, 1.3400-1.3440 may limit pending Fed-speak.

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	1.000	0.255	0.546	0.870	0.719	-0.568	0.704	0.231	0.441	-0.678	0.836	-0.955
CHF	0.944	0.113	0.548	0.853	0.766	-0.568	0.672	0.234	0.384	-0.527	0.846	-0.974
CNH	0.836	0.068	0.496	0.646	0.629	-0.396	0.694	-0.017	0.210	-0.341	1.000	-0.861
PHP	0.791	-0.024	0.392	0.927	0.812	-0.673	0.342	0.582	0.619	-0.555	0.608	-0.831
JPY	0.704	0.770	0.447	0.467	0.411	-0.048	1.000	-0.122	0.030	-0.585	0.694	-0.642
CAD	0.637	0.060	0.504	0.529	0.213	-0.754	0.391	-0.209	0.649	-0.599	0.579	-0.609
MYR	0.625	0.268	0.237	0.633	0.824	-0.050	0.635	0.167	0.153	-0.190	0.708	-0.671
IDR	0.561	0.251	0.491	0.650	0.541	-0.484	0.315	0.380	0.475	-0.492	0.218	-0.543
CNY	0.546	0.227	1.000	0.255	0.139	-0.373	0.447	-0.158	0.024	-0.295	0.496	-0.496
USGG10	0.255	1.000	0.227	0.119	0.020	0.187	0.770	-0.154	-0.033	-0.575	0.068	-0.070
SGD	-0.065	0.397	0.226	-0.379	-0.115	0.542	0.409	-0.484	-0.617	0.322	0.191	0.089
AUD	-0.142	-0.038	-0.406	0.186	0.359	0.433	-0.290	0.657	0.171	0.174	-0.395	0.217
KRW	-0.224	0.319	0.328	-0.487	-0.244	0.554	0.219	-0.380	-0.605	0.308	0.048	0.295
THB	-0.380	0.309	0.220	-0.585	-0.371	0.608	0.110	-0.420	-0.573	0.285	-0.218	0.351
CCN12M	-0.411	0.298	-0.068	-0.370	-0.247	0.602	0.026	0.124	-0.567	0.163	-0.336	0.455
TWD	-0.608	-0.088	-0.009	-0.861	-0.821	0.418	-0.267	-0.528	-0.625	0.508	-0.295	0.661
GBP	-0.675	-0.374	-0.396	-0.634	-0.257	0.592	-0.520	0.082	-0.567	0.808	-0.490	0.580
INR	-0.800	-0.048	-0.169	-0.775	-0.661	0.436	-0.516	-0.492	-0.485	0.497	-0.736	0.805
NZD	-0.910	-0.287	-0.465	-0.740	-0.654	0.445	-0.786	0.006	-0.255	0.580	-0.922	0.865
EUR	-0.955	-0.070	-0.496	-0.870	-0.810	0.570	-0.642	-0.190	-0.437	0.498	-0.861	1.000

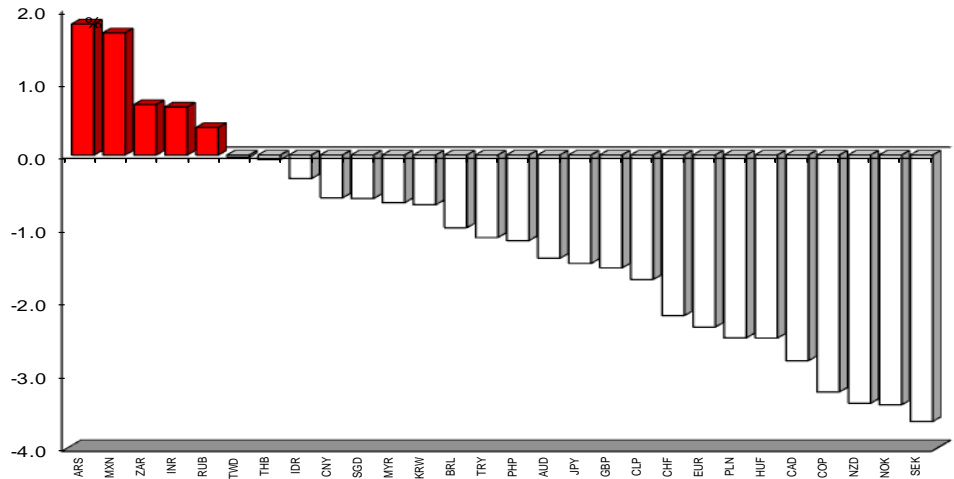
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.0494	1.0500	1.0520	1.0600	1.0609
<b>GBP-USD</b>	1.2200	1.2243	1.2274	1.2280	1.2300
<b>AUD-USD</b>	0.7519	0.7522	0.7556	0.7577	0.7600
<b>NZD-USD</b>	0.7000	0.7036	0.7043	0.7060	0.7100
<b>USD-CAD</b>	1.3300	1.3367	1.3394	1.3400	1.3402
<b>USD-JPY</b>	111.60	114.00	114.23	114.27	114.70
<b>USD-SGD</b>	1.4013	1.4100	1.4139	1.4200	1.4229
<b>EUR-SGD</b>	1.4800	1.4810	1.4875	1.4900	1.5096
<b>JPY-SGD</b>	1.2332	1.2338	1.2379	1.2400	1.2450
<b>GBP-SGD</b>	1.7289	1.7300	1.7354	1.7400	1.7632
<b>AUD-SGD</b>	1.0600	1.0669	1.0684	1.0689	1.0700
<b>Gold</b>	1204.74	1217.59	1232.90	1259.76	1264.90
<b>Silver</b>	17.43	17.70	17.76	17.80	18.05
<b>Crude</b>	52.37	52.70	52.74	52.80	53.65

Source: OCBC Bank

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



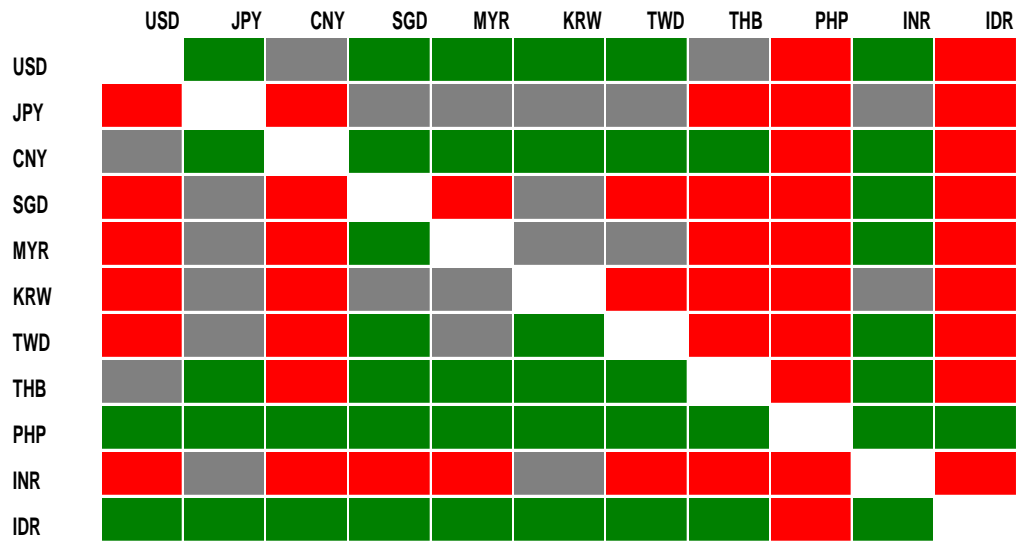
Source: Bloomberg

**G10 FX Heat Map**

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		Red	Red	Red	Green	Red	Grey	Green	Green
NZD	Green		Green	Green	Green	Grey	Green	Green	Green
EUR	Green	Red		Grey	Green	Red	Green	Green	Green
GBP	Green	Red	Grey		Green	Red	Green	Green	Green
JPY	Red	Red	Red	Red		Red	Red	Grey	Grey
CAD	Green	Grey	Green	Green	Green		Green	Green	Green
USD	Grey	Red	Red	Red	Green	Red		Green	Green
SGD	Red	Red	Red	Red	Grey	Red	Red		Red
MYR	Red	Red	Red	Red	Grey	Red	Red	Green	

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	12-Jan-17	S	USD-JPY	114.63	110.50	116.75	Downward consolidation post-Trump press conference	
2	22-Feb-17	S	EUR-USD	1.0548	1.0265	1.0695	Potential near term USD strength, brewing EZ political risks	
3	01-Mar-17	B	USD-CAD	1.3326	1.3605	1.3185	BOC static in March, sharp contrast with Fed's recent posture	
<b>STRUCTURAL</b>								
4	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar 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	
7	14-Feb-17		Bearish 2M USD-CAD Put Spread Spot ref: 1.3055; Strikes: 1.3049, 1.2500 Cost: 1.19%				Underlying growth theme in spite of the Trump/FOMC trade	
8	22-Feb-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 Cost: 1.19%				Global reflation trade, Fed expected to hike later rather than sooner	
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	09-Jan-17	06-Feb-17	S	USD-CAD	1.3264	1.3135	Supportive crude and labor market numbers	+0.92
2	18-Jan-17	21-Feb-17	B	EUR-USD	1.0688	1.0588	Dollar hiccup, hint of inflation in EZ	-1.11
3	16-Feb-17	22-Feb-17	S	USD-CAD	1.3060	1.3127	Global reflation, supportive domestic data, USD hesitation	-0.52
4	25-Jan-17	01-Mar-17	B	GBP-USD	1.2528	1.2383	Subsidence of acute A50 concerns in the short term	-1.26
5	12-Jan-17	02-Mar-17	B	AUD-USD	0.7463	0.7560	Reflation may dominate as the Trump trade pauses	+1.35
6	20-Jan-17	02-Mar-17	S	USD-SGD	1.4240	1.4125	Potential for Trump's inauguration to disappoint USD bulls	+0.81
* realized								<b>Jan 2017 Return</b> -6.78 <b>2016 Return</b> +6.91

Source: OCBC Bank

**Revised central tendency forecasts**

	<b>Spot</b>	<b>Mar-17</b>	<b>Jun-17</b>	<b>Sep-17</b>	<b>Dec-17</b>
<b>USD-JPY</b>	114.13	114.85	116.73	119.08	121.43
<b>EUR-USD</b>	1.0533	1.0450	1.0260	1.0140	1.0020
<b>GBP-USD</b>	1.2283	1.2200	1.2156	1.2022	1.1889
<b>AUD-USD</b>	0.7658	0.7620	0.7760	0.7550	0.7340
<b>NZD-USD</b>	0.7128	0.7070	0.6967	0.6867	0.6767
<b>USD-CAD</b>	1.3348	1.3440	1.3522	1.3589	1.3656
<b>USD-CHF</b>	1.0103	1.0175	1.0241	1.0319	1.0398
<b>USD-SGD</b>	1.4114	1.4175	1.4098	1.4271	1.4444
<b>USD-CNY</b>	6.8856	6.9215	6.9545	7.0157	7.0774
<b>USD-THB</b>	35.00	35.10	34.83	35.23	35.63
<b>USD-IDR</b>	13363	13385	13439	13481	13522
<b>USD-MYR</b>	4.4508	4.4500	4.4722	4.5389	4.6056
<b>USD-KRW</b>	1142	1155	1160	1175	1190
<b>USD-TWD</b>	30.797	31.050	30.639	30.906	31.172
<b>USD-HKD</b>	7.7629	7.7630	7.7666	7.7716	7.7766
<b>USD-PHP</b>	50.325	50.60	51.34	51.78	52.21
<b>USD-INR</b>	66.74	66.40	66.40	67.00	67.60
<b>EUR-JPY</b>	120.21	120.02	119.77	120.75	121.68
<b>EUR-GBP</b>	0.8575	0.8566	0.8441	0.8434	0.8428
<b>EUR-CHF</b>	1.0641	1.0633	1.0507	1.0464	1.0419
<b>EUR-SGD</b>	1.4866	1.4813	1.4464	1.4471	1.4473
<b>GBP-SGD</b>	1.7336	1.7294	1.7137	1.7157	1.7173
<b>AUD-SGD</b>	1.0809	1.0801	1.0940	1.0775	1.0602
<b>NZD-SGD</b>	1.0060	1.0022	0.9821	0.9799	0.9774
<b>CHF-SGD</b>	1.3970	1.3931	1.3766	1.3829	1.3892
<b>JPY-SGD</b>	1.2367	1.2342	1.2077	1.1984	1.1895
<b>SGD-MYR</b>	3.1535	3.1393	3.1723	3.1805	3.1885
<b>SGD-CNY</b>	4.8786	4.8829	4.9330	4.9160	4.8997

Source: OCBC Bank



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