

Wednesday, January 04, 2017

FX Themes/Strategy/Trading Ideas – Revised forecasts

- While the dollar managed to claw slightly higher against the EUR and JPY (on the back of the better than expected Dec ISM), the **FXSI (FX Sentiment Index)** meanwhile edged slightly lower (note positive global equities) within Risk-Neutral territory on Tuesday, with the sanguine environment helping to underpin the cyclicals instead despite softer commodities.
- For today, look towards the stream of global services/composite PMIs for further cues while the FOMC minutes (1900 GMT) are also on tap. Going ahead, although a structurally bullish dollar outlook may be intuitively appealing after the US elections and the last FOMC, market participants at this juncture are not perceived to be fully committed to this trade just yet pending this Friday's NFP.

Asian FX

- Sentiment towards Asian currencies remains guarded with the **ACI (Asian Currency Index)** edging higher despite the lower than expected USD-CNY mid-point on Tuesday. Notably, the EM complex may remain fragile on the back of the Trump trade, with the MXN (Trump-GM news flow) a notable underperformer overnight.
- **SGD NEER:** The **SGD NEER** has firmed slightly on the day to -0.45% below its perceived parity (1.4437) although we note that NEER-implied USD-SGD thresholds are firmer on the day. Dec PMI readings (like the 4Q GDP headlines) were slightly better than expected overnight but these numbers are not seen distracting the MAS from its current accommodative stance with regards to the NEER.
- At current levels, the -0.50% threshold is estimated at 1.4510 while -1.00% is estimated at a 1.4583. In the near term, price action for the USD-SGD may remain slightly consolidative within familiar ranges and barring exhaustion from the broad dollar, dips in the pair may continue to be met with underlying bids.

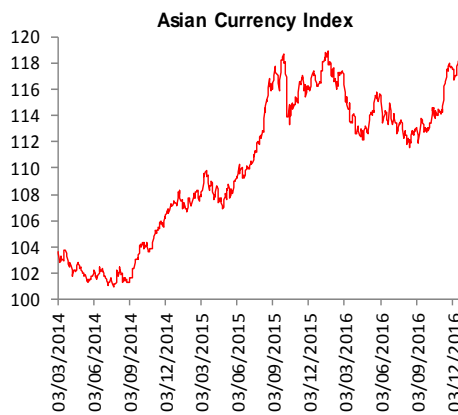
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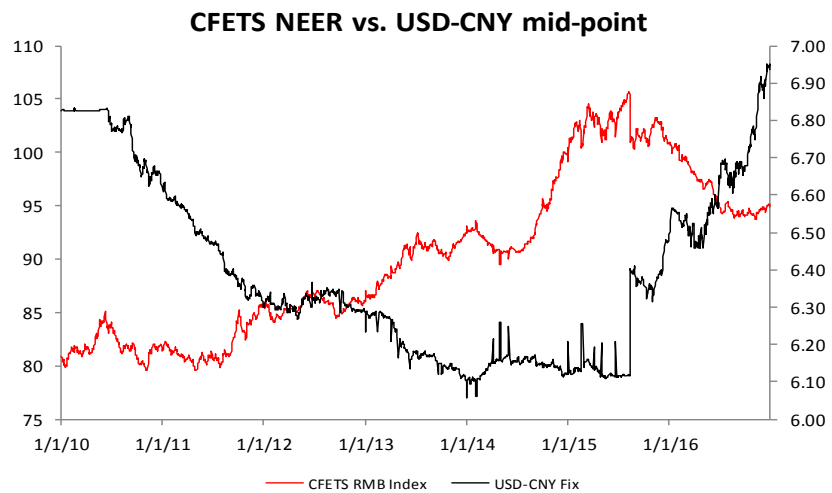
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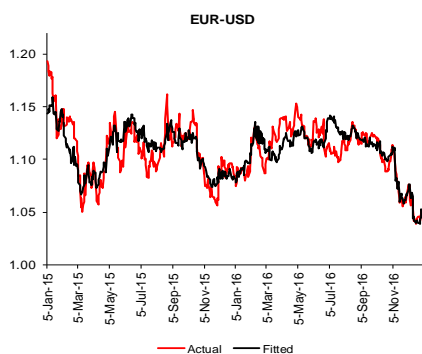
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point moved higher incrementally (but by a less than expected magnitude) to 6.9526 from 6.9498 yesterday. This saw the **CFETS RMB Index** inching higher again to an estimated 94.97 from 94.88 yesterday. Thus far this year (and in a similar vein from late 2016), containment of negative sentiment surrounding the bilateral exchange rate may be taking precedence, with the NEER continuing to be lifted as a result.



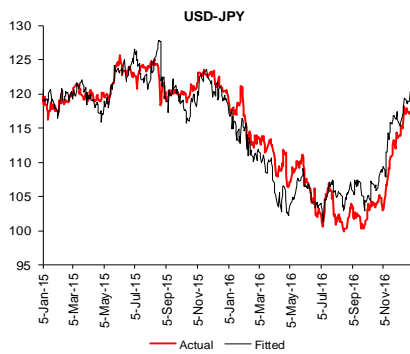
Source: OCBC Bank, Bloomberg

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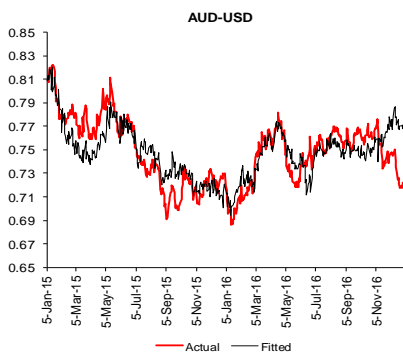
Source: OCBC Bank

- EUR-USD** Some room for capitulation higher for the EUR-USD may be on the cards if the EZ services/composite PMIs and CPI readings for December come in warmer than expected today (note higher than expected German CPI numbers yesterday). While the pair remains comfortably within its short term valuation confidence intervals, the 1.0400 support remains pivotal for another leg lower.



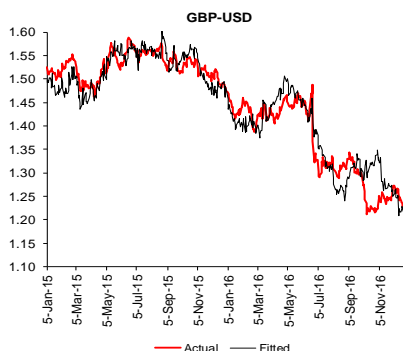
Source: OCBC Bank

- USD-JPY** USD-JPY may stall temporarily on the upside on the back of portfolio capital flow and yield differential arguments take a breather. Our short term model continues to preach a buy dips posture although the technical picture in the near term remains a little less than convinced at this juncture. The recent high around 118.66 bears watching in the interim.



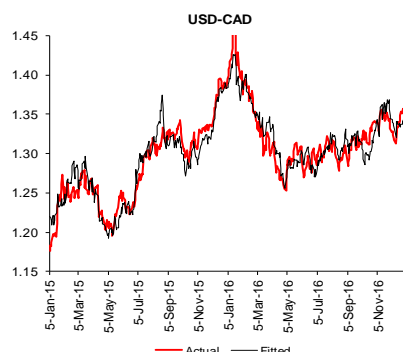
Source: OCBC Bank

- AUD-USD** The AUD-USD remains well south of short-term implied valuations with the latest PMI readings out of China still lending support to the AUD. Nonetheless, preference to fade on excessive upticks may be prudent given that the may remain susceptible to volatility on the risk appetite front. Expect initial resistance into 0.7250.



Source: OCBC Bank

- GBP-USD** Despite the better than expected UK Dec manufacturing PMI, the GBP-USD took another step lower on Tuesday. Meanwhile, sentiment remained somewhat nervous with A50 news flow coming to the fore again with the resignation of Britain's envoy to the EU. Fade upticks towards the 55-day MA (1.2411).



Source: OCBC Bank

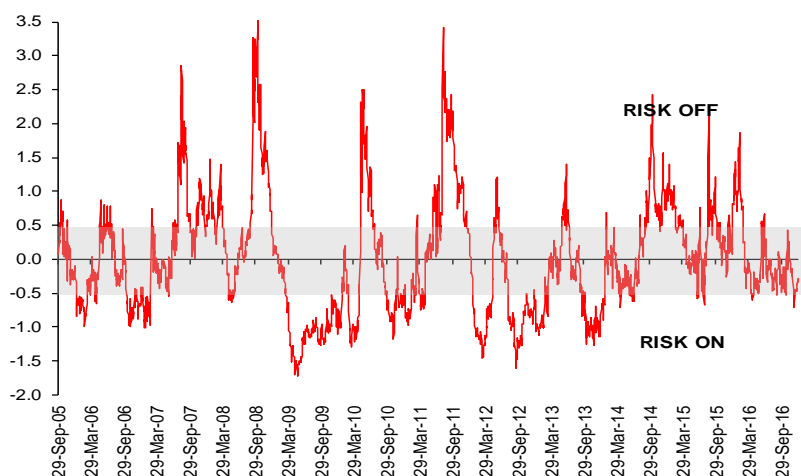
- USD-CAD** Softer crude may underpin the USD-CAD in the short term with the pair in close proximity to short term implied valuations. Expect a bounce on dips with initial support towards 1.3400 while the upside may be bounded by 1.3500 intra-day.

Revised central tendency forecasts

	Spot	Mar-17	Jun-17	Sep-17	Dec-17
USD-JPY	117.78	123.45	124.63	125.82	127.00
EUR-USD	1.0460	1.0200	1.0158	1.0117	1.0075
GBP-USD	1.2287	1.2100	1.1900	1.1700	1.1500
AUD-USD	0.7217	0.7150	0.7011	0.6953	0.6895
NZD-USD	0.6947	0.6825	0.6773	0.6722	0.6670
USD-CAD	1.3424	1.3550	1.3643	1.3736	1.3829
USD-CHF	1.0241	1.0349	1.0408	1.0466	1.0525
USD-SGD	1.4485	1.4610	1.4735	1.4860	1.4985
USD-CNY	6.9555	7.0700	7.1093	7.1049	7.1378
USD-THB	35.853	36.00	36.17	36.33	36.50
USD-IDR	13470	13540	13638	13737	13835
USD-MYR	4.4930	4.6300	4.7033	4.7767	4.8500
USD-KRW	1203	1235	1243	1252	1260
USD-TWD	32.235	32.500	32.633	32.767	32.900
USD-HKD	7.7565	7.7613	7.7660	7.7707	7.7754
USD-PHP	49.78	50.45	50.80	51.15	51.50
USD-INR	68.15	68.85	69.23	69.62	70.00
EUR-JPY	123.20	125.92	126.61	127.28	127.95
EUR-GBP	0.8513	0.8430	0.8536	0.8647	0.8761
EUR-CHF	1.0712	1.0556	1.0572	1.0588	1.0604
EUR-SGD	1.5151	1.4902	1.4968	1.5033	1.5097
GBP-SGD	1.7798	1.7678	1.7535	1.7386	1.7233
AUD-SGD	1.0454	1.0446	1.0331	1.0332	1.0332
NZD-SGD	1.0063	0.9971	0.9981	0.9988	0.9995
CHF-SGD	1.4144	1.4117	1.4158	1.4198	1.4238
JPY-SGD	1.2298	1.1835	1.1823	1.1811	1.1799
SGD-MYR	3.1018	3.1691	3.1919	3.2144	3.2366
SGD-CNY	4.8019	4.8392	4.8248	4.7812	4.7633

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	0.749	0.967	0.660	-0.539	-0.476	0.948	0.522	-0.114	-0.904	0.814	-0.988
CHF	0.983	0.796	0.923	0.666	-0.505	-0.509	0.936	0.425	-0.126	-0.858	0.757	-0.981
CNY	0.967	0.699	1.000	0.577	-0.547	-0.346	0.915	0.620	0.007	-0.884	0.865	-0.941
SGD	0.963	0.658	0.964	0.539	-0.563	-0.385	0.931	0.609	-0.002	-0.904	0.869	-0.940
JPY	0.948	0.812	0.915	0.644	-0.487	-0.469	1.000	0.454	-0.026	-0.898	0.798	-0.950
THB	0.893	0.563	0.872	0.444	-0.700	-0.394	0.794	0.611	-0.239	-0.798	0.698	-0.838
MYR	0.841	0.520	0.913	0.339	-0.658	-0.230	0.823	0.685	0.083	-0.815	0.749	-0.783
CNH	0.814	0.498	0.865	0.583	-0.302	-0.175	0.798	0.682	0.284	-0.849	1.000	-0.798
KRW	0.768	0.323	0.826	0.245	-0.674	-0.141	0.706	0.767	0.067	-0.774	0.782	-0.691
CAD	0.768	0.410	0.771	0.193	-0.776	-0.228	0.686	0.623	-0.046	-0.713	0.681	-0.683
CCN12M	0.757	0.498	0.840	0.473	-0.329	-0.070	0.762	0.705	0.449	-0.829	0.904	-0.740
USGG10	0.749	1.000	0.699	0.680	-0.463	-0.310	0.812	0.314	-0.187	-0.669	0.498	-0.767
IDR	0.619	0.231	0.697	0.020	-0.737	-0.150	0.563	0.657	-0.062	-0.576	0.524	-0.530
TWD	0.559	0.065	0.659	-0.016	-0.589	0.034	0.501	0.722	0.180	-0.568	0.660	-0.468
PHP	0.526	0.720	0.511	0.640	-0.285	-0.407	0.511	0.075	-0.449	-0.431	0.141	-0.567
INR	0.410	-0.003	0.507	-0.167	-0.507	0.046	0.378	0.538	0.004	-0.338	0.316	-0.335
AUD	-0.883	-0.478	-0.896	-0.384	0.683	0.334	-0.812	-0.665	0.046	0.844	-0.821	0.828
NZD	-0.893	-0.531	-0.890	-0.381	0.744	0.431	-0.831	-0.576	0.204	0.826	-0.747	0.838
GBP	-0.899	-0.459	-0.891	-0.479	0.565	0.395	-0.813	-0.616	-0.024	0.862	-0.843	0.857
EUR	-0.988	-0.767	-0.941	-0.702	0.437	0.494	-0.950	-0.471	0.091	0.892	-0.798	1.000

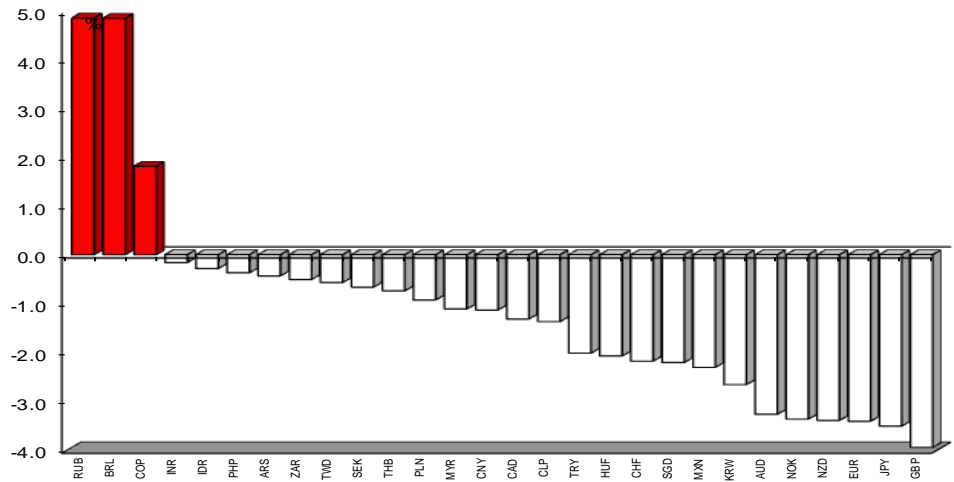
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0319	1.0341	1.0398	1.0400	1.0627
GBP-USD	1.2180	1.2200	1.2229	1.2300	1.2420
AUD-USD	0.7160	0.7200	0.7228	0.7300	0.7424
NZD-USD	0.6800	0.6862	0.6896	0.6900	0.7072
USD-CAD	1.3396	1.3400	1.3445	1.3500	1.3599
USD-JPY	114.66	117.00	117.95	118.00	118.66
USD-SGD	1.4229	1.4400	1.4494	1.4500	1.4547
EUR-SGD	1.4970	1.5000	1.5070	1.5100	1.5163
JPY-SGD	1.2200	1.2201	1.2287	1.2300	1.2461
GBP-SGD	1.7675	1.7700	1.7724	1.7800	1.8074
AUD-SGD	1.0356	1.0400	1.0476	1.0500	1.0559
Gold	1120.54	1125.40	1159.10	1180.64	1200.00
Silver	15.75	16.40	16.42	16.50	17.02
Crude	51.18	52.60	52.65	52.70	54.59

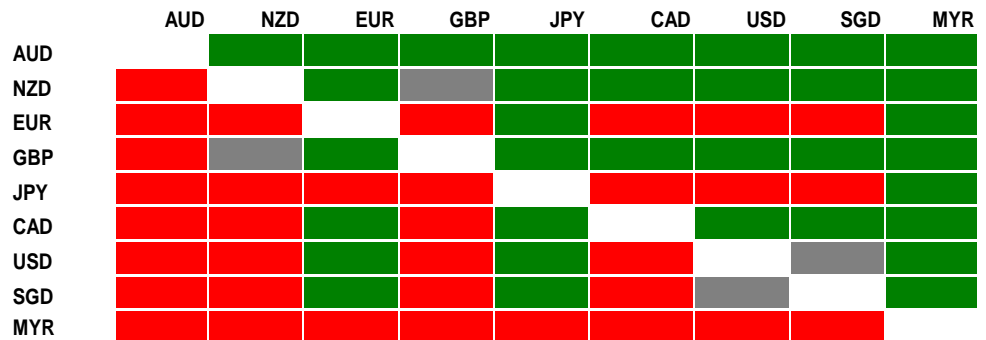
Source: OCBC Bank

FX performance: 1-month change agst USD



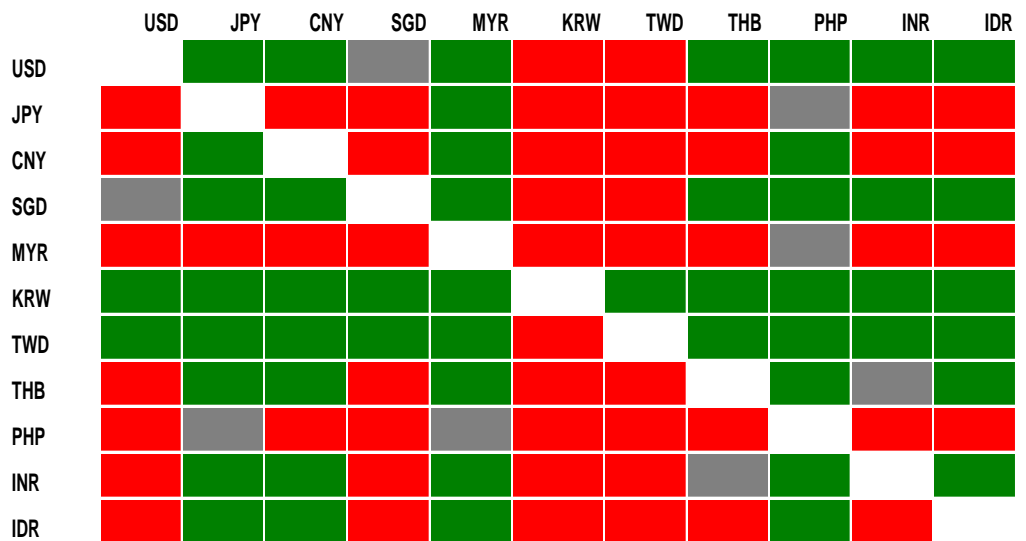
Source: Bloomberg

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	19-Dec-16	S	AUD-USD	0.7294	0.7095 0.7395	FOMC outcome forcing a near term reassessment of carry		
2	20-Dec-16	B	USD-SGD	1.4481	1.4695 1.4375	Hostile USD/risk appetite environment for Asian FX, SGD		
3	27-Dec-16	S	GBP-USD	1.2276	1.1805 1.2515	A50 risks, UK current account deficits, broad USD strength		
STRUCTURAL								
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	20-Dec-16		Bearish 2M AUD-USD Seagull Spot: 0.7243; Strikes: 0.7007, 0.7232, 0.7451; Cost: 0.41%			USD resilience, reassessment of carry, static RBA, sketchy fiscal outlook		
RECENTLY CLOSED								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	21-Nov-16	05-Dec-16	S	EUR-USD	1.0605	1.0730	USD, resilience, policy dichotomy, potential EZ political tensions	-1.07
2	18-Nov-16	08-Dec-16	S	AUD-USD	0.7397	0.7505	Potential negative side effects from new US administration	-1.44
3	14-Nov-16	13-Dec-16	B	USD-SGD	1.4172	1.4236	USD strength and EM jitters post-US elections	+0.45
4	01-Dec-16	29-Dec-16	B	USD-JPY	114.54	116.40	New lease of life for USD from higher UST yields	+1.78
5	19-Dec-16	30-Dec-16	S	EUR-USD	1.0464	1.0620	Ensuing hawkish Fed rhetoric post-FOMC	-1.41
6	27-Dec-16	02-Jan-17	B	USD-CAD	1.3530	1.3390	Policy dichotomy, Trump Trade, slight de-linking with crude	-1.09
2016 Return							+6.91	

Source: OCBC Bank

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