

Thursday, January 05, 2017

### FX Themes/Strategy/Trading Ideas

- Dollar bulls broke camp and headed home (DXY fell through 103.00) on Wednesday after the FOMC minutes (note the reference to the appreciating dollar as well as rhetoric implying potential collision between fiscal and monetary policy), aggravating the weak greenback tone from Asia as the USD-CNH collapsed.
- Elsewhere, risk appetite levels remained largely sanguine with **FXSI (FX Sentiment Index)** inching slightly lower within Risk-Neutral territory amidst positive global markets. Going ahead, although the cyclicals led the way higher against the greenback on Wednesday, the latest FX moves have been USD-centric, with carry still underperforming despite steady investor sentiment. Dollar fragility may be expected to persist intra-day.
- With the USD landscape altering perceptibly in the short term, we abandon our tactical long **USD-SGD** from 20 Dec 16 (spot ref: 1.4481) at 1.4399 this morning, yielding an implied -0.57% loss.

### Asian FX

- With EM/Asian currencies making the most of the USD capitulation and sustained cues from the renminbi complex, expect the **ACI (Asian Currency Index)** to continue to consolidate lower in the near term. Except for a couple of exceptions, note that the latest episode of Asian FX resilience is a mirror image of the post-US election-FOMC weakness incurred in the latter months of 2016. As such, the North Asians (together with the SGD) may continue to benefit relatively more from further USD exhaustion.
- **SGD NEER:** With the broad dollar retracing, the **SGD NEER** (aided by the drop of the USD-SGD) has firmed to around its perceived parity (1.4368) at around -0.05%. Needless to say, NEER-implied USD-SGD thresholds are significantly lower compared to yesterday and we look for the NEER to trade around its parity in the near term.
- At current levels, the +0.50% threshold is estimated at 1.4297 and -0.50% at 1.4440 with risks of veering towards +0.50% in the current environment. A breach below 1.4360/75 would effectively fill the gap, opening the way to 1.4335 ahead of 1.4300.

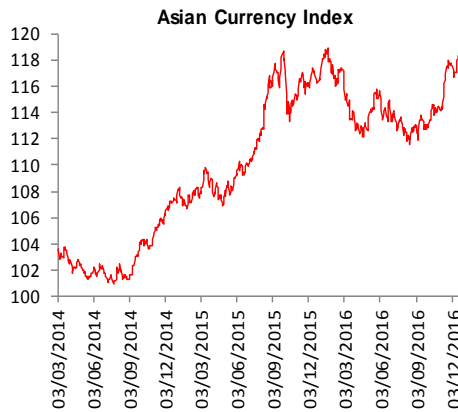
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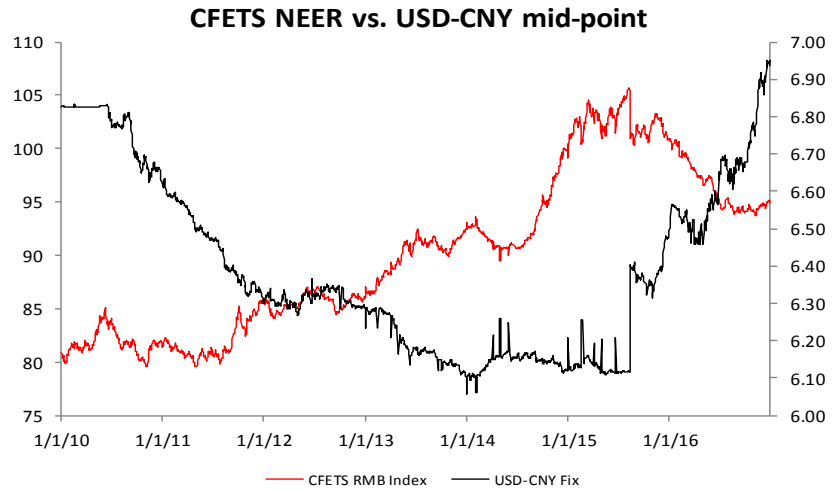
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	SGD NEER	% deviation	USD-SGD
Current	123.98	-0.22	1.4390
+2.00%	126.74		1.4086
Parity	124.26		1.4368
-2.00%	121.77		1.4661

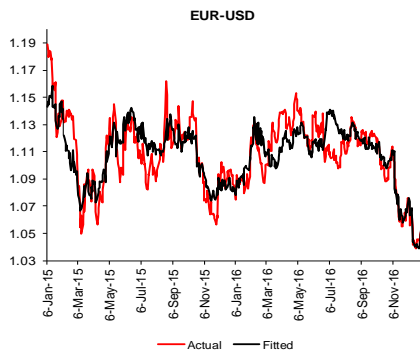
Source: OCBC Bank

- CFETS RMB Index:** As noted yesterday, containment of the bilateral exchange rates (via mid-points and market presence in spot and the short-end) may continue to take precedence in the near term. To this end, the 3M realized vol of the mid-points has continued to converge lower with the relative stability of the Index's vol.
- This morning, the USD-CNY mid-point came in below expectations again at 6.9307 (6.9526 on Wednesday) although we note that the mid-point remained within historical boundary constraints. This saw the **CFETS RMB Index** easing slightly to an implied 94.91 from 94.97 yesterday.



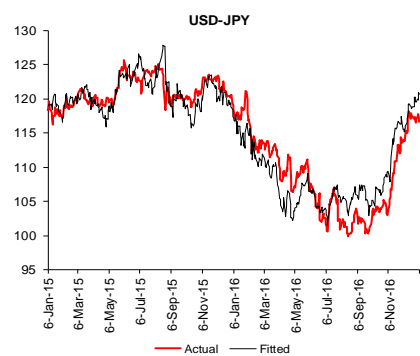
Source: OCBC Bank, Bloomberg

## G7



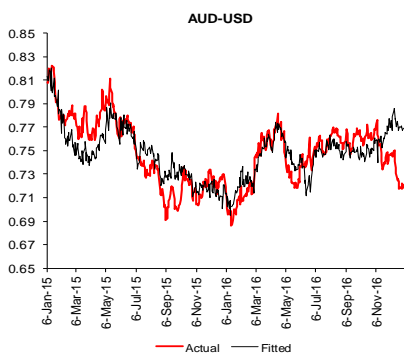
Source: OCBC Bank

- **EUR-USD** Warmer than expected EZ services/composite PMIs and CPI readings coupled with the broad dollar retreat may keep the EUR-USD aligned with firming short-term implied valuations. Look towards 1.0570/00 as the next key resistance region.



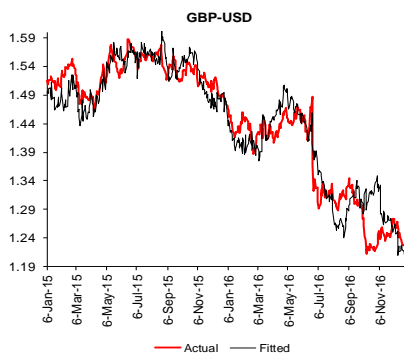
Source: OCBC Bank

- **USD-JPY** Expect potential for overshooting behavior on the downside for the USD-JPY with the pair departing lower from short-term implied valuations at this juncture. Key support level is expected into 116.00 pending a further read from the US NFP tomorrow.



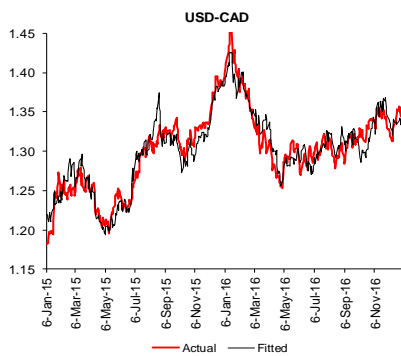
Source: OCBC Bank

- **AUD-USD** Sanguine risk appetite levels and the slightly more optimistic US economic outlook from the FOMC 9in addition to largely supportive global PMIs this week) may continue to prop the AUD at this juncture, especially with the greenback retreating across G10 space. Thus, the AUD-USD may finally be looking to pare its deficit with the firmer implied short term implied valuations. On the upside 0.7300/10 would be the key resistance to watch.



Source: OCBC Bank

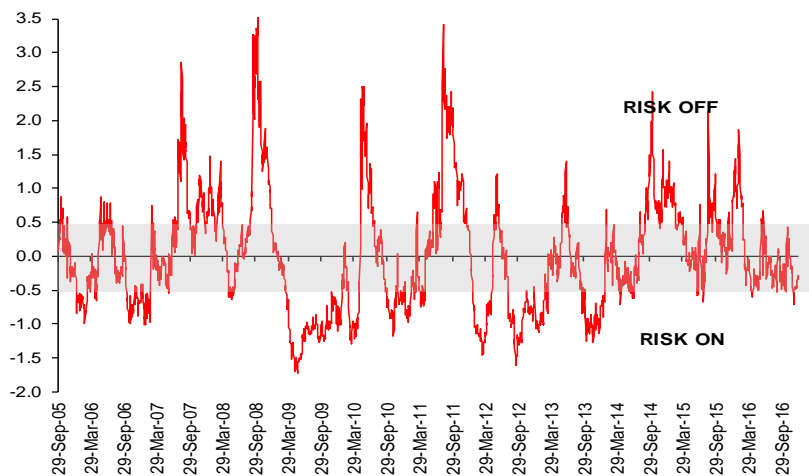
- **GBP-USD** GBP-USD was also lifted higher in line with its G10 peers on Wednesday while the better than expected UK manufacturing and construction PMIs also provided a tailwind finally. In the near term, implied valuations are attempting to float higher with the spot potentially in tow. In the near term, the 55-day MA (1.2414) may elicit headwinds against excessive GBP strength.



- USD-CAD** With an added benefit of firming crude, the USD-CAD also rode on the same dynamics as the antipodeans and fell briefly below 1.3300 on Wednesday. In the interim, the pair remains in sync with its short term implied valuations and a sustained breach below 1.3300 risks an extension towards the 100-day MA (1.3260).

Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

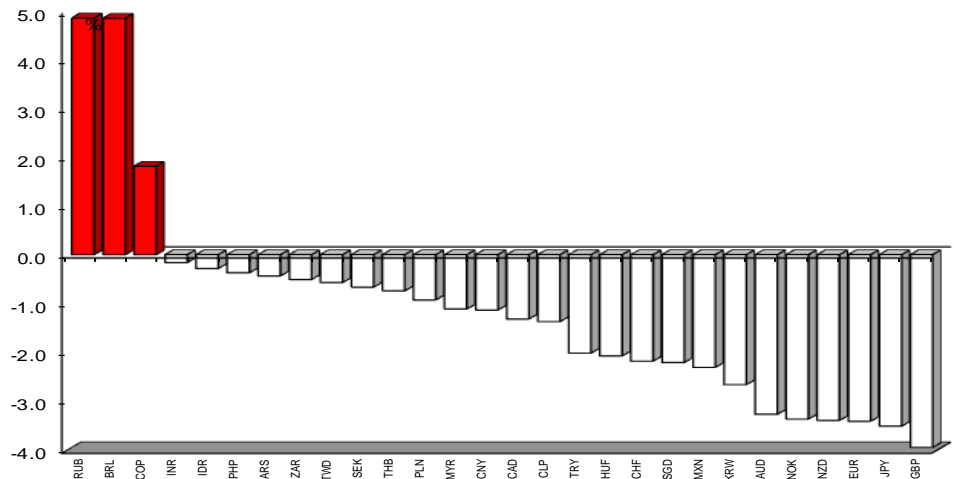
Source: Bloomberg

**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

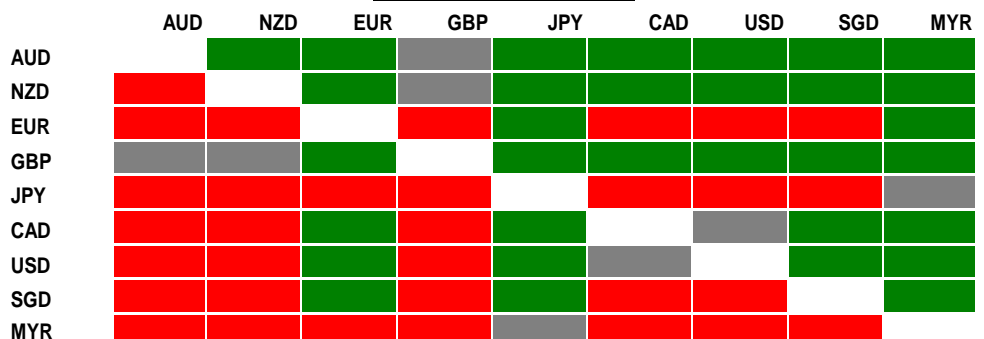
Source: OCBC Bank

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



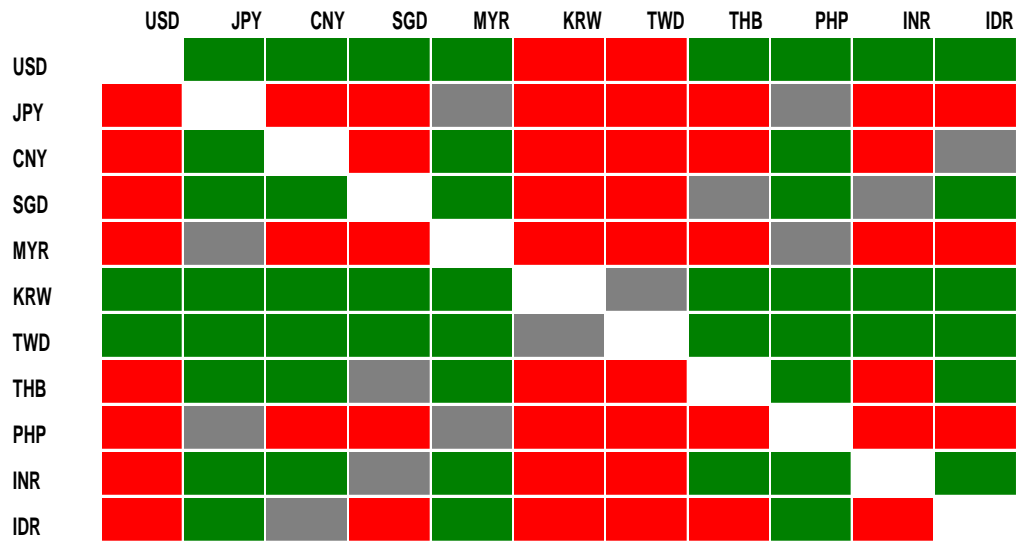
Source: Bloomberg

**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	
<b>TACTICAL</b>								
1	19-Dec-16	S	AUD-USD	0.7294	0.7095	0.7395	FOMC outcome forcing a near term reassessment of carry	
2	27-Dec-16	S	GBP-USD	1.2276	1.1805	1.2515	A50 risks, UK current account deficits, broad USD strength	
<b>STRUCTURAL</b>								
3	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER	
4	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
5	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ	
6	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	
<b>RECENTLY CLOSED</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	18-Nov-18	08-Dec-16	S	AUD-USD	0.7397	0.7505	Potential negative side effects from new US administration	-1.44
2	14-Nov-16	13-Dec-16	B	USD-SGD	1.4172	1.4236	USD strength and EM jitters post-US elections	+0.45
3	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
4	19-Dec-16	30-Dec-16	S	EUR-USD	1.0464	1.0620	Ensuing hawkish Fed rhetoric post-FOMC	-1.41
5	27-Dec-16	02-Jan-17	B	USD-CAD	1.3530	1.3390	Policy dichotomy, Trump Trade, slight de-linking with crude	-1.09
6	20-Dec-16	05-Jan-17	B	USD-SGD	1.4481	1.4399	Hostile USD/risk appetite environment for Asian FX, SGD	-0.57
<b>2016 Return</b>								<b>+6.91</b>

Source: OCBC Bank

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