

Friday, January 06, 2017

### FX Themes/Strategy/Trading Ideas

- The market collective abandoned the broad dollar with the JPY leading the way higher despite largely supportive US data points (ADP, initial claims, non-manufacturing ISM) and with the UST curve flattening from the back-end.
- Earlier in the global day, USD fragility continued to be exacerbated by the sustained acute squeeze in the CNH and the collapse in the USD-CNH spot. Elsewhere, the **FXSI (FX Sentiment Index)** firmed slightly within Risk-Neutral territory with market participants distracted by USD volatility instead.
- Ahead, wariness towards the USD may continue to circulate ahead of the US NFP (1330 GMT) with some investor caution after the slightly underwhelming ADP last night. Essentially, the Trump trade may continue to undergo a re-assessment at this juncture with supports for the DXY expected at 101.35 ahead of 101.00.

### Asian FX

- EM/Asian currencies floated higher again on Thursday and expect more of the same on the primary focus still expected to be on the renminbi and tonight's US NFP numbers.
- Over the weekend, China's foreign reserve numbers (watch the USD3tn handle) are scheduled to be released and expect potential for headline-induced volatility next Monday. In the interim, the **ACI (Asian Currency Index)**, after continuing to slip on Thursday for the second consecutive session, may be expected to track any further downside in the broad dollar.
- **SGD NEER:** The USD-SGD may continue to trade lock-step with its NEER-implies into the end of the week. At current levels, the NEER is still relatively unchanged at around -0.07% below its perceived parity (1.4284). NEER-implies USD-SGD thresholds are perceptibly lower with -0.50% at 1.4356 and +0.50% at 1.4213, although we note persistent reluctance of the NEER to persist above parity.
- Meanwhile, note also that several volatility indicators for the SGD NEER and for USD-SGD have lit up, implying some cause for caution with respect to excessive spot moves. Technically, expect 1.4270/75 ahead of the 55-day MA (1.4221) to support ahead of the NFP barring further broad dollar gyrations in the interim.

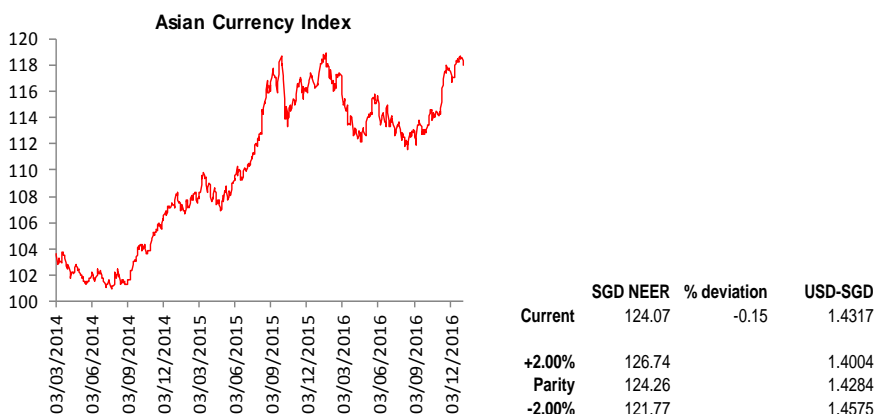
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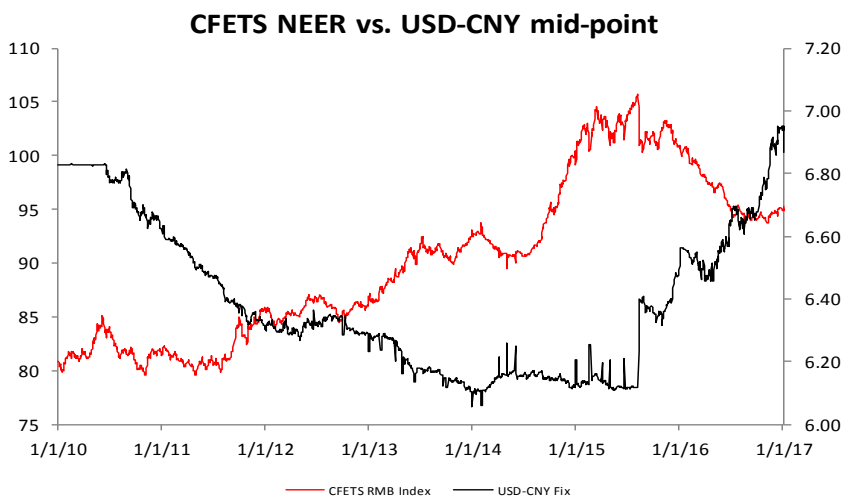
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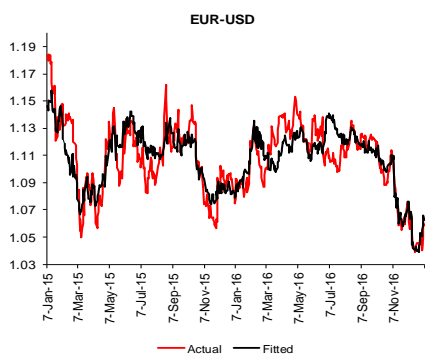
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point fell further to 6.8668 this morning from 6.9307 on Thursday (-0.92%), resulting in the **CFETS RMB Index** strengthening further to an implied 95.26 (+0.37%) at the fix (from 94.91 yesterday). With funding still elevated in the CNH and cited official presence, expect official management of the bilateral exchange rates to continue to take precedence. In the current USD environment, this has had the effect of propping the CFETS RMB Index higher.



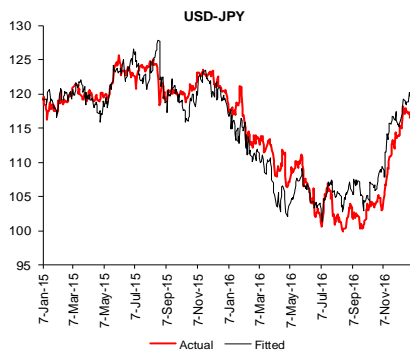
Source: OCBC Bank, Bloomberg

**G7**



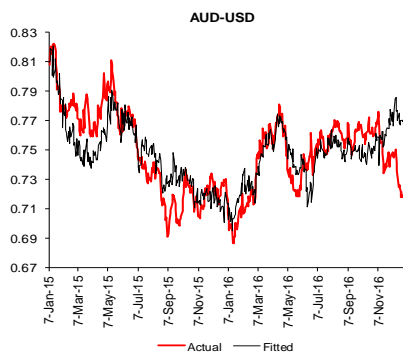
Source: OCBC Bank

- EUR-USD** EUR-USD may continue to shadow its firming short term implied valuations in the near term. EZ December confidence indicators are on tap today but the final arbiter for the pair would be expected to be the US NFP. A break above 1.0615 risks an extension to 1.0650 and the 55-day MA (1.0677).



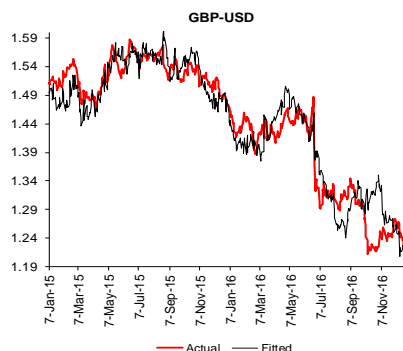
Source: OCBC Bank

- USD-JPY** Short term re-positioning may continue to trump (pun intended) implied valuations for the USD-JPY, with the spot likely to remain slightly dislocated and south of its model-implied confidence intervals. Stay top heavy and if 115.00 is perforated, the pair may search lower towards 114.55.



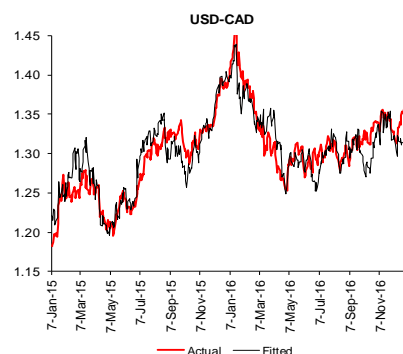
Source: OCBC Bank

- AUD-USD** The surprise Australian trade surplus for November implies that the AUD-USD may continue to attempt to hook up with its relatively higher short term implied valuation. Expect investors to remain constructive on the pair in the near term after the break above 0.7300 with 0.7400 now on the horizon.



Source: OCBC Bank

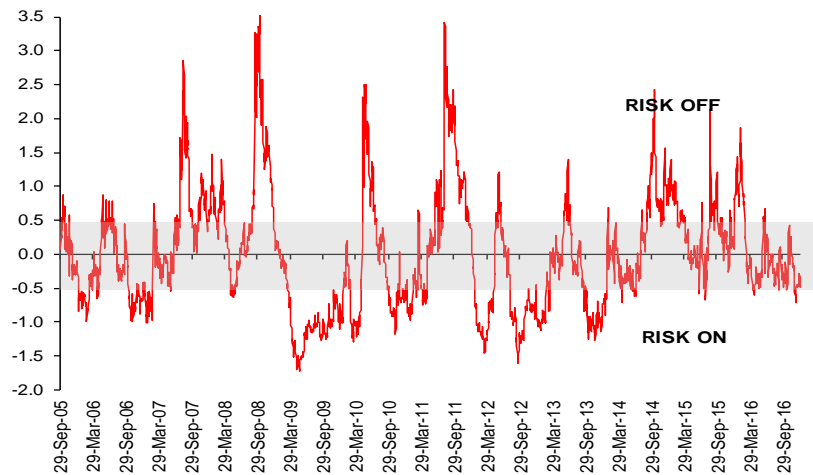
- GBP-USD** GBP continued to capitalize on USD weakness on Wednesday while the better than expected services/composite PMIs also provided a tailwind at the margins. In the near term therefore, the GBP-USD would have no qualms about tracking its firmer short term implied valuations. Technically however, expect the pair to be hampered somewhat by the 55-day MA (1.2418) and thereafter at 1.2450. Overall, not the best pairing to express near term USD fragility.



Source: OCBC Bank

- USD-CAD** Once again, USD-CAD managed to test briefly below 1.3200 on a mixture of firmer crude and a softer dollar landscape on Thursday. Meanwhile, implied short term valuations for the pair continue to soften and downside waypoints include 1.3200 before 1.3145 and the 200-day MA (1.3098).

### 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	0.610	0.865	0.434	0.319	0.108	0.560	0.124	-0.034	-0.283	0.755	-0.982
SGD	0.939	0.694	0.801	0.456	0.415	0.243	0.671	0.236	-0.109	-0.332	0.701	-0.906
CHF	0.920	0.775	0.825	0.626	0.574	0.409	0.795	0.399	-0.169	-0.511	0.672	-0.871
CNY	0.865	0.530	1.000	0.539	0.403	0.203	0.559	0.160	-0.256	-0.310	0.836	-0.816
CNH	0.755	0.294	0.836	0.477	0.372	-0.007	0.323	-0.056	-0.337	-0.164	1.000	-0.761
PHP	0.640	0.545	0.726	0.496	0.498	0.440	0.569	0.361	-0.394	-0.243	0.626	-0.573
USGG10	0.610	1.000	0.530	0.769	0.646	0.728	0.939	0.763	-0.144	-0.816	0.294	-0.554
THB	0.567	0.621	0.605	0.432	0.615	0.468	0.747	0.414	-0.101	-0.363	0.348	-0.454
JPY	0.560	0.939	0.559	0.806	0.768	0.796	1.000	0.788	-0.222	-0.818	0.323	-0.468
CCN12M	0.512	0.846	0.581	0.934	0.615	0.627	0.851	0.656	-0.306	-0.936	0.419	-0.476
MYR	0.494	0.548	0.604	0.338	0.629	0.538	0.672	0.425	-0.120	-0.208	0.391	-0.375
KRW	0.236	-0.162	0.202	-0.406	-0.634	-0.394	-0.283	-0.414	-0.098	0.452	0.147	-0.257
IDR	0.140	-0.261	0.229	-0.557	-0.084	-0.219	-0.148	-0.301	0.337	0.640	0.123	-0.069
CAD	0.112	-0.594	0.014	-0.766	-0.667	-0.858	-0.624	-0.887	0.254	0.820	0.158	-0.157
INR	0.092	-0.381	0.267	-0.603	-0.207	-0.317	-0.282	-0.433	0.192	0.706	0.205	-0.035
TWD	-0.094	-0.125	-0.101	-0.385	-0.502	-0.087	-0.184	-0.111	-0.233	0.367	-0.232	0.120
GBP	-0.409	0.358	-0.255	0.382	0.473	0.803	0.455	0.794	-0.136	-0.509	-0.416	0.478
NZD	-0.410	0.278	-0.273	0.569	0.539	0.667	0.368	0.678	-0.141	-0.626	-0.333	0.441
AUD	-0.614	-0.288	-0.364	0.099	0.099	0.104	-0.151	0.104	0.021	-0.168	-0.349	0.628
EUR	-0.982	-0.554	-0.816	-0.398	-0.242	-0.009	-0.468	-0.049	0.004	0.249	-0.761	1.000

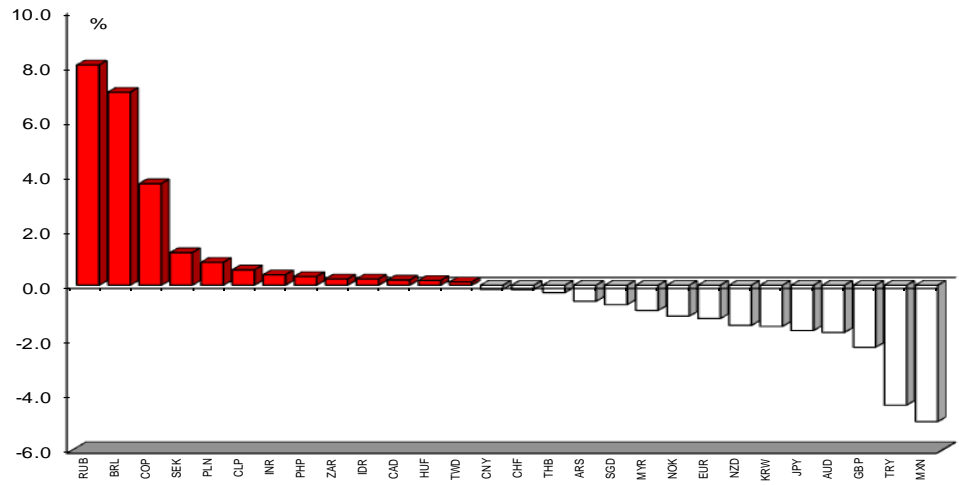
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0341	1.0500	1.0586	1.0600	1.0631
GBP-USD	1.2200	1.2300	1.2390	1.2400	1.2431
AUD-USD	0.7160	0.7300	0.7332	0.7400	0.7415
NZD-USD	0.6862	0.7000	0.7016	0.7070	0.7074
USD-CAD	1.3124	1.3200	1.3251	1.3300	1.3387
USD-JPY	115.00	115.16	115.91	116.00	118.66
USD-SGD	1.4243	1.4300	1.4308	1.4400	1.4547
EUR-SGD	1.5003	1.5100	1.5147	1.5160	1.5193
JPY-SGD	1.2211	1.2300	1.2345	1.2400	1.2434
GBP-SGD	1.7700	1.7706	1.7728	1.7800	1.8056
AUD-SGD	1.0356	1.0400	1.0490	1.0500	1.0556
Gold	1119.02	1125.40	1177.50	1184.10	1199.53
Silver	15.75	16.60	16.62	16.70	16.98
Crude	53.00	53.50	53.70	54.54	55.58

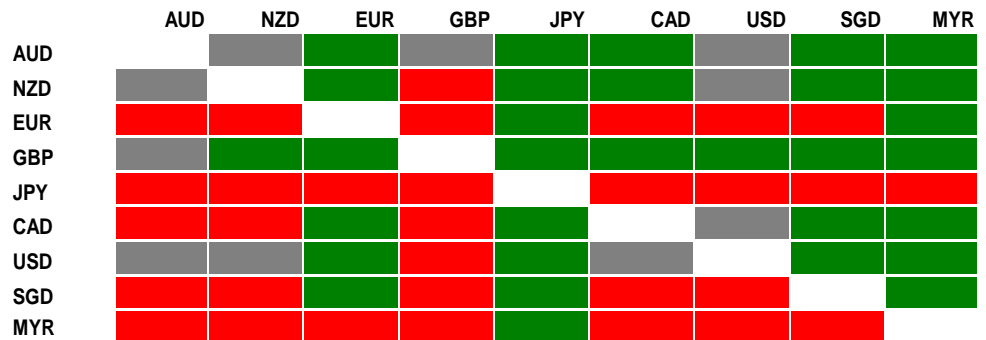
Source: OCBC Bank

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



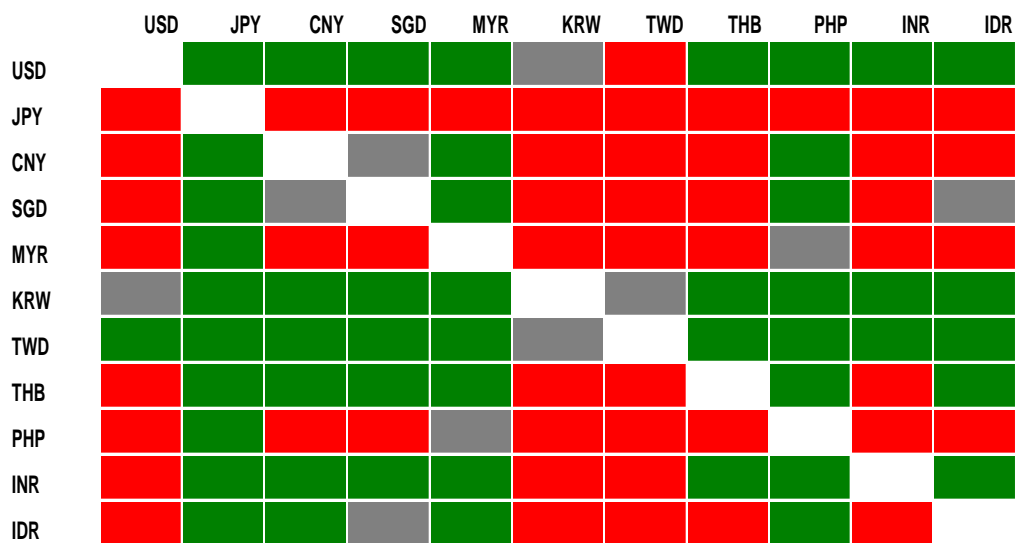
Source: Bloomberg

**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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