

Monday, March 06, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Except against the NZD, the USD reversed lower across G10 on Fri (EUR-USD>1.0600, USD-JPY<114.00) despite Fed chair Yellen and vice-chair Fischer essentially telegraphing a March hike – buy rumor, sell fact? With the blackout period in force ahead of the FOMC, no Fed-speak is scheduled this week, although explicit and overt Fed rhetoric in the past week has had the markets essentially pricing in a March move.
- Market focus may then quickly move towards the speed and trajectory of subsequent hikes this year – potentially tempering outright USD gains as we approach 15 March 17. With the **FXSI (FX Sentiment Index)** easing deeper into **Risk-On** territory on Fri (and on the week), global reflation plays may potentially attempt to fill any space vacated by the USD this week. Meanwhile, we have **RBA** on Tue (mkts: no chg), **ECB** on Thu (mkts: no chg to rates or QE) and US NFP (mkts:+190k) on Fri. Expect markets to also attempt to capitalize on policy dichotomy plays instead.
- Overall, after the capitulation of global reflation trades last week, watch for any cues of any renewed interest on this front (AUD a bellwether) in the coming sessions. To this end, EM and Asian FX may attempt to reassert if the broad dollar stutters. Elsewhere, USD-JPY remains the cleanest play with respect to dollar directionality, while the EUR and GBP are expected to remain noisy and structurally hampered by political static.
- On the **CFTC** front, large non-commercial/leveraged/asset manager accounts pared their net implied long dollar bias in the latest week. Needless to say, this slice of the community was blindsided by subsequent hawkish Fed rhetoric and the USD's rebound in the latter part of the week.
- With the GBP still expected to be fraught with Brexit-related headline risks (House of Lords final debate and vote on A50 on 07 Mar 17) and with the greenback now having found a second wind, we initiate a tactical short **GBP-USD** on Friday. With a spot ref of 1.2253 on Fri, we target 1.1900 with a stop placed at 1.2435.

Asian FX

- In Asia, China's National People's Congress commences today with investors likely tuned in for further policy cues. Look also towards China foreign reserve data on Tue and Feb trade numbers on Wed, and Feb CPI on Fri. Meanwhile, despite some geopolitical concerns out of Pyongyang, the **ACI (Asian Currency Index)** may remain somewhat consolidative in line

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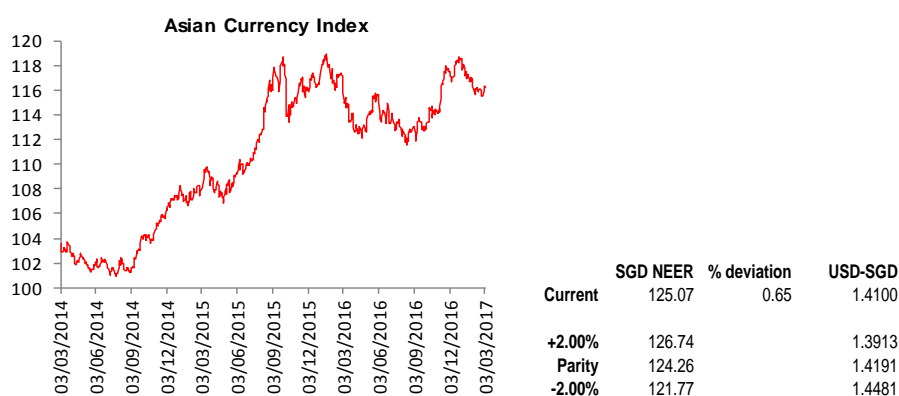
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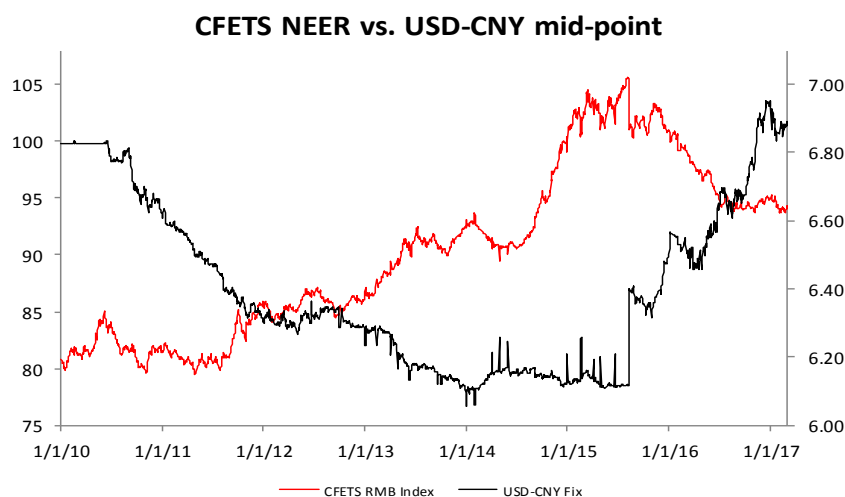
with its G10 counterparts. Upside risks for USD-Asia cannot be wholly dismissed however, with latest **EPFR** data indicating a drying up of net inflows into Asian (ex Japan, China) equities and bonds in the latest week to register small implied net outflows.

- SGD NEER:** This morning, the **SGD NEER** is hovering slightly higher on the day at around +0.65% above its perceived parity (1.4191) with spot falling slightly faster than NEER-implied USD-SGD thresholds. Intra-day, floor for USD-SGD may be expected towards +0.70% to +0.80% (1.4070/90 at current levels), with downside for the pair also limited by volatility considerations. Expect a top heavy tone for USD-SGD to take a hold if risk appetite levels remain sanguine and strong dollar satiation spreads.



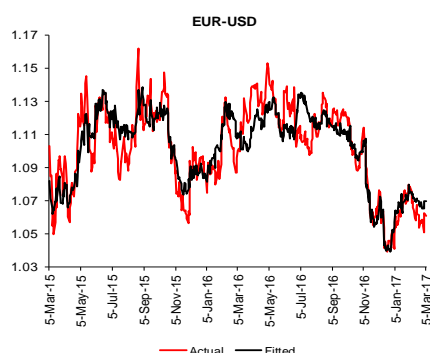
Source: OCBC Bank

- CFETS RMB Index:** Latest comments from PM Li Keqiang (and the PBOC's Yi Gang) over the weekend portend intended currency stability for the CNY this year with a slight tightening bias from the monetary policy front. To this end, this bias we think has been confirmed by the inter-day reactions of the USD-CNY mid-points and CFETS RMB Index thus far this year – FX policy this year will likely be on lock-down in terms of volatility with little discretionary policy guidance to appreciate or depreciate the basket. This morning, the USD-CNY mid-point fell (as largely expected) to 6.8790 from 6.8896 last Fri, with the **CFETS RMB Index** easing to 94.10 from 94.28.



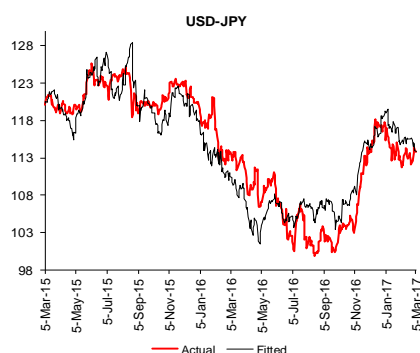
Source: OCBC Bank, Bloomberg

G7



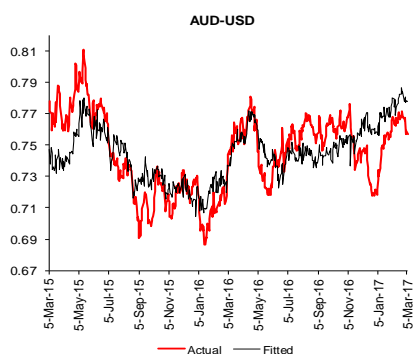
Source: OCBC Bank

- **EUR-USD** The ECB is expected to remain static this week, with Draghi not expected to venture anywhere towards a further moderation of QE just yet. On other fronts, watch for ensuing headlines from a Merkel/Trump meeting scheduled Tue. For today, French Presidential election headlines may also dominate, with Fillon steadfastly refusing to pull out of the race. Short term implied valuations are looking underpinned in the interim after the surge last Fri with EUR-USD likely to consolidate around its 55-day MA (1.0600) pending further cues with investors potentially looking to fade upticks to 1.0635.



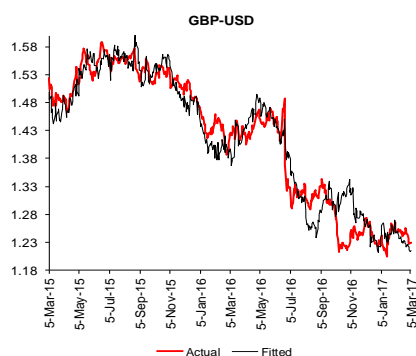
Source: OCBC Bank

- **USD-JPY** USD-JPY has submerged below 114.00 once again with market fervor towards a March FOMC hike having reached satiation – in line with our softening short term implied valuations. Expect some consolidation to ensue and expect resistance to kick in around the 55-day MA (114.54) with some levelling out on approach of 113.50 expected.



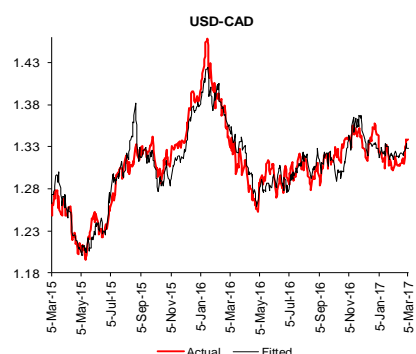
Source: OCBC Bank

- **AUD-USD** The RBA this week may set the tone for the AUD (with the central bank expected to remain sufficiently neutral). Short term implied valuations meanwhile continue to remain static although risks to test towards the 200-day MA (0.7527) cannot be discounted if global risk appetite levels are impinged in the coming sessions.



Source: OCBC Bank

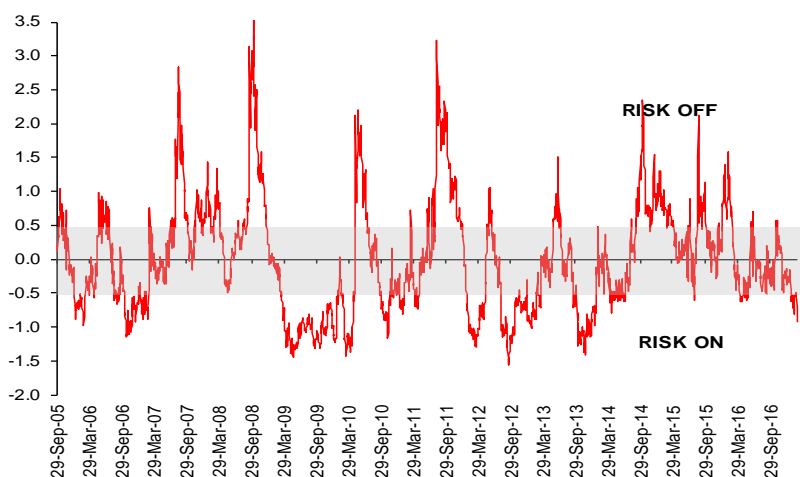
- GBP-USD** This week, the House of Lords votes on A50 on Tue while Chancellor of the Exchequer Hammond makes his budget announcement on Wed. Short term valuations meanwhile continue to remain relatively depressed with odds likely stacked against significant upside for the GBP-USD. A potential relapse back towards 1.2200 may thus remain on the cards.



Source: OCBC Bank

- USD-CAD** After the run up in the past week, USD-CAD may attempt to consolidate with short term implied valuations now looking range bound in the near term and technicals looking overbought. However, markets may remain poised to take the pair higher and a push above 1.3400 risks 1.3450 once again.

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	0.255	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

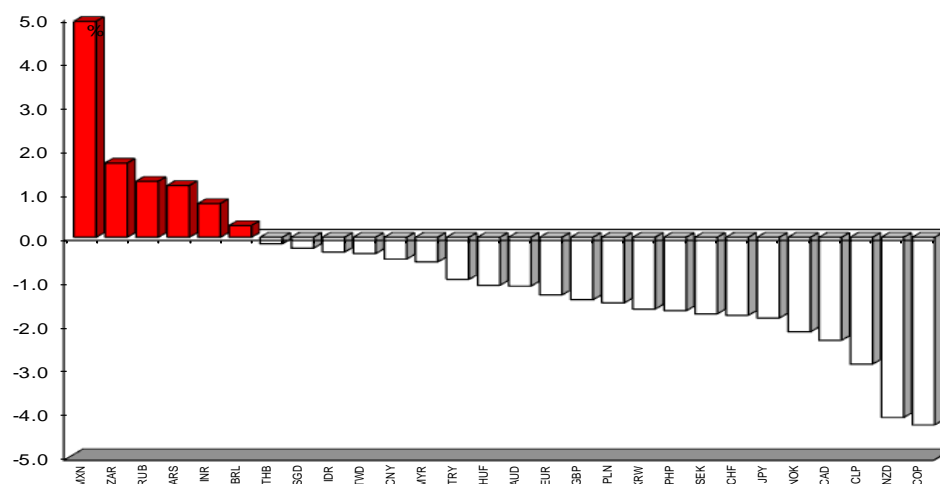
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0502	1.0600	1.0609	1.0614	1.0697
GBP-USD	1.2215	1.2258	1.2285	1.2300	1.2388
AUD-USD	0.7528	0.7550	0.7573	0.7600	0.7734
NZD-USD	0.7000	0.7003	0.7016	0.7029	0.7100
USD-CAD	1.3202	1.3300	1.3395	1.3396	1.3400
USD-JPY	111.81	113.00	113.81	114.00	114.20
USD-SGD	1.4012	1.4100	1.4110	1.4200	1.4221
EUR-SGD	1.4810	1.4900	1.4969	1.5000	1.5095
JPY-SGD	1.2326	1.2332	1.2398	1.2400	1.2451
GBP-SGD	1.7275	1.7300	1.7334	1.7400	1.7623
AUD-SGD	1.0669	1.0675	1.0685	1.0700	1.0708
Gold	1206.62	1219.10	1234.60	1259.08	1264.90
Silver	17.49	17.80	17.84	17.90	18.06
Crude	52.42	53.10	53.14	53.20	53.64

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

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Green	Grey	Green	Green	Grey	Grey	Grey	Red	Green	Red
JPY	Red		Red	Green	Grey	Grey	Grey	Red	Red	Grey	Red
CNY	Grey	Green		Green	Green	Grey	Grey	Green	Red	Green	Red
SGD	Red	Red	Red		Red	Grey	Red	Red	Red	Green	Red
MYR	Red	Grey	Red	Green		Grey	Red	Red	Red	Green	Red
KRW	Grey	Grey	Grey	Grey	Grey		Grey	Grey	Red	Grey	Grey
TWD	Grey	Grey	Grey	Green	Green	Grey		Grey	Red	Green	Grey
THB	Grey	Green	Red	Green	Green	Grey	Grey		Red	Green	Red
PHP	Green	Green	Green	Green	Green	Green	Green	Green		Green	Green
INR	Red	Grey	Red	Red	Red	Grey	Red	Red	Red		Red
IDR	Green	Green	Green	Green	Green	Grey	Grey	Green	Red	Green	

Source: OCBC Bank

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing Stop	Rationale		
	TACTICAL								
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		
4	03-Mar-17	S	GBP-USD	1.2253	1.1900	1.2435	Sustained Brexit risks vs. recent USD resilience		
	STRUCTURAL								
5	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER		
6	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ		
7	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ		
8	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		
9	22-Feb-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 Cost: 1.19%				Global deflation trade, Fed expected to hike later rather than sooner		
	RECENTLY CLOSED TRADE IDEAS								
	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 deflation, 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	Deflation 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								
								Jan 2017 Return	-6.78
								2016 Return	+6.91

Source: OCBC Bank

Revised central tendency forecasts

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

Source: OCBC Bank

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