

Tuesday, March 07, 2017

**FX Themes/Strategy/Trading Ideas**

- Despite mixed Jan durable goods numbers, the broad dollar drifted higher across G10 space on the back of a slightly firmer UST curve and with markets near unanimous in terms of expecting a FOMC hike next week. Elsewhere, the **FXSI (FX Sentiment Index)** continued to sink lower into **Risk-On** territory despite US equity losses.
- On tap today are China's Feb foreign reserves although latest official remarks from the NPC may work to allay concerns of discretionary depreciation pressures.
- Overall, markets may not be at a watershed just yet in turns of a sharp USD bounce (with our short term models also less than convinced), especially if investor attention continues to tilt towards the shape and guise of the Fed hikes after March. In the interim, we look to continue to lighten up on our tactical short USD recommendations.

**Asian FX**

- In EM space, the net portfolio situation has been looking slightly nervous and markets may have to brace for potential USD resilience into and around next week's FOMC. Although sentiment in Asia today may however still be bolstered by a positive start to regional equities, the **ACI (Asian Currency Index)** may be reluctant on downside dips.
- **SGD NEER:** Today, the **SGD NEER** is softer on the day at around +0.51% above its perceived parity (1.4199), a reaction to the slightly stronger USD environment. Expect the NEER to hover in the vicinity of +0.50% (1.4129) with +0.70% (1.4101) a likely intraday floor. If the USD continues to assert itself, expect some drift towards +0.40% (1.4143). Technically, expect resistance levels into 1.4155/65 pending further broad USD moves.

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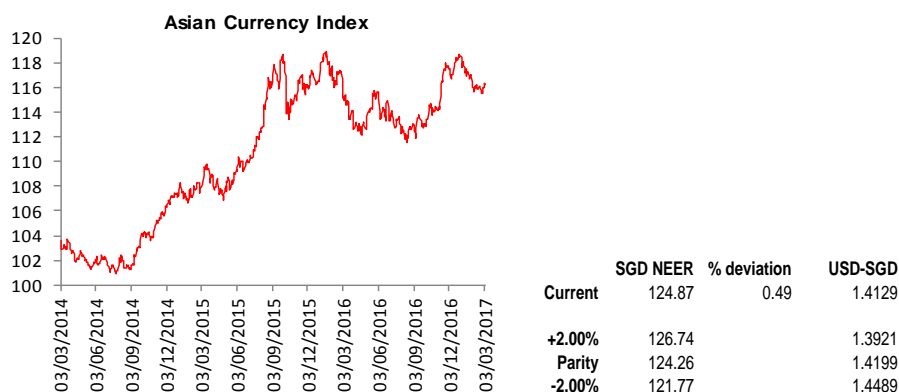
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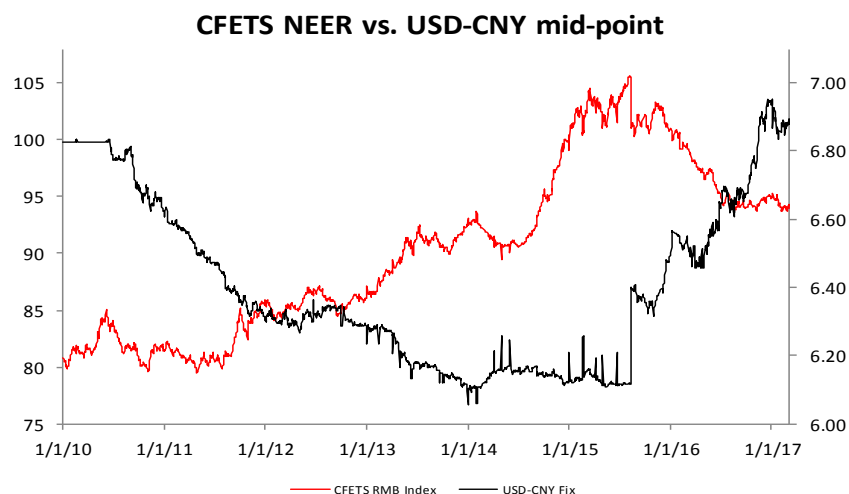
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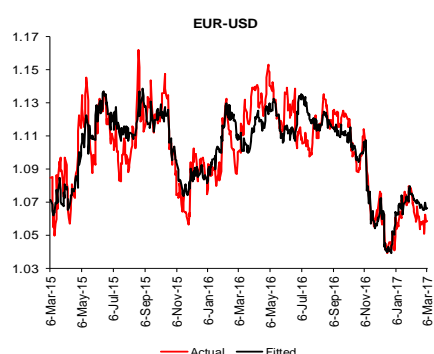
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a lower than expected 6.8957 compared to 6.8790 yesterday. This however still managed to result in a lower (as largely expected) **CFETS RMB Index** reading of 94.00, from 94.10 yesterday.



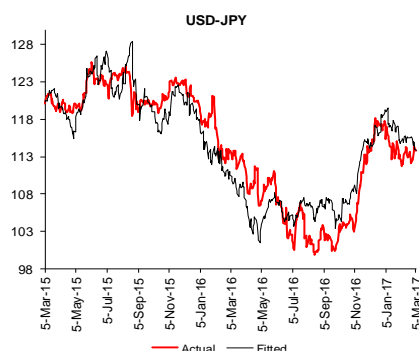
Source: OCBC Bank, Bloomberg

## G7



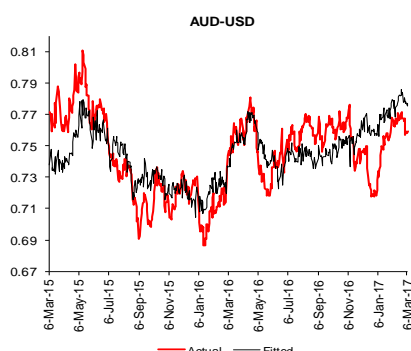
Source: OCBC Bank

- EUR-USD** EUR meanwhile remains subject to French election chatter, with Fillon finally receiving the backing of the Republican Party (with Juppe declining to step in to replace the former) to proceed in the elections. Latest polls however continue to indicate a Le Pen loss in a run-off vote. Despite improving Mar investor confidence, short term valuations meanwhile remain flat/slippy and the EUR-USD may continue to be repelled on approach of 1.0600 with 1.0550 still looking conspicuous.



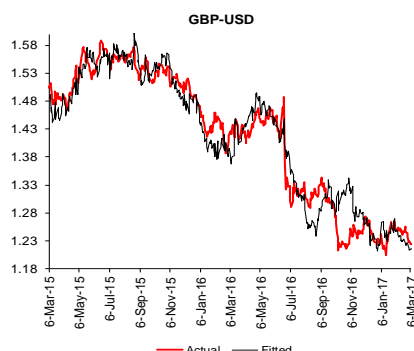
Source: OCBC Bank

- USD-JPY** With Trump/FOMC cues absent in the near term, USD-JPY may remain trapped between still soft short term implied valuations and relatively more supported technical. In the interim, the 55-day MA (114.47) may cap, with supports expected into 113.40 before 113.00.



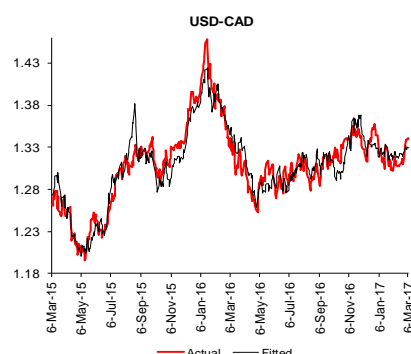
Source: OCBC Bank

- AUD-USD** Preference to sell rallies in AUD-USD with the dollar complex attempting to tilt higher and with the RBA today (0330 GMT) expected to remain essentially neutral at its policy meeting. Short term valuations meanwhile continue to stabilize and look to fade on moves towards 0.7640 towards the 200-day MA (0.7529).



Source: OCBC Bank

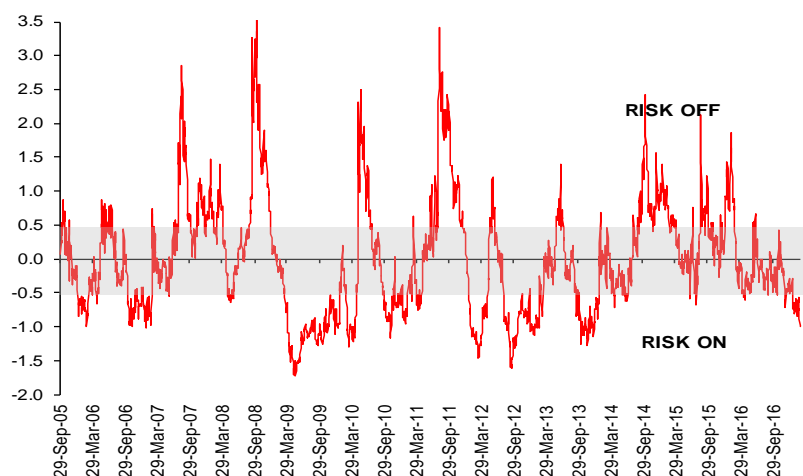
- GBP-USD** Risks against the GBP continue to stack up this week (in line with short term valuations) with the House of Lord's vote on A50 today and the budget announcement on Wed. Overall, a potential relapse back towards 1.2200 may thus remain on the cards, especially with EU comments regarding Brexit continuing to be less than charitable.



Source: OCBC Bank

- USD-CAD** Look towards trade and the Ivey PMI for domestic cues later today with any disappointments potentially permitting the USD-CAD to launch off the 1.3400 floor. The pair is however trading near the upper extremes of its confidence intervals, limiting initial moves to 1.3440/50.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

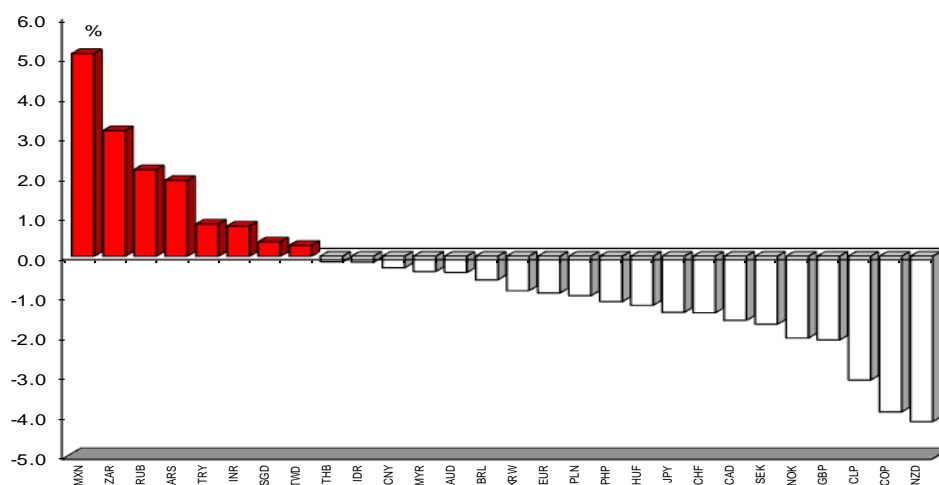
Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1.000	0.551	0.583	0.842	0.510	-0.622	0.682	0.261	0.247	-0.825	0.727	-0.872
CHF	0.916	0.391	0.566	0.808	0.587	-0.627	0.580	0.362	0.206	-0.674	0.707	-0.899
PHP	0.774	0.241	0.503	0.915	0.688	-0.744	0.307	0.540	0.377	-0.708	0.627	-0.733
CNH	0.727	0.567	0.732	0.550	0.170	-0.585	0.644	-0.002	-0.195	-0.805	1.000	-0.429
JPY	0.682	0.923	0.483	0.407	0.228	-0.136	1.000	-0.116	-0.147	-0.661	0.644	-0.474
IDR	0.677	0.379	0.591	0.741	0.559	-0.608	0.382	0.274	0.288	-0.609	0.449	-0.591
CAD	0.649	0.398	0.687	0.540	-0.001	-0.807	0.383	-0.134	0.276	-0.800	0.760	-0.362
CNY	0.583	0.484	1.000	0.322	-0.034	-0.550	0.483	-0.188	-0.209	-0.607	0.732	-0.341
USGG10	0.551	1.000	0.484	0.348	0.159	-0.134	0.923	-0.220	-0.098	-0.679	0.567	-0.262
MYR	0.351	0.531	0.141	0.455	0.651	0.078	0.553	0.209	-0.148	-0.297	0.310	-0.293
KRW	0.049	0.493	0.606	-0.157	-0.219	0.048	0.367	-0.398	-0.618	-0.258	0.532	0.289
CCN12M	-0.078	0.297	0.224	-0.111	0.134	0.332	0.268	-0.007	-0.593	0.001	0.294	0.166
THB	-0.151	0.346	0.420	-0.375	-0.254	0.307	0.281	-0.463	-0.579	0.003	0.241	0.316
AUD	-0.320	-0.324	-0.638	-0.010	0.411	0.592	-0.343	0.551	0.318	0.510	-0.718	0.048
SGD	-0.323	0.331	0.021	-0.610	-0.348	0.627	0.297	-0.515	-0.636	0.358	-0.133	0.367
TWD	-0.389	0.002	0.262	-0.649	-0.806	0.105	-0.071	-0.595	-0.628	0.153	0.173	0.631
INR	-0.743	-0.301	-0.227	-0.729	-0.481	0.457	-0.457	-0.604	-0.303	0.613	-0.634	0.699
NZD	-0.782	-0.651	-0.681	-0.636	-0.275	0.602	-0.675	-0.007	0.124	0.866	-0.970	0.464
GBP	-0.793	-0.577	-0.634	-0.705	-0.194	0.711	-0.550	0.038	-0.249	0.884	-0.812	0.485
EUR	-0.872	-0.262	-0.341	-0.785	-0.665	0.494	-0.474	-0.451	-0.372	0.508	-0.429	1.000

Source: Bloomberg

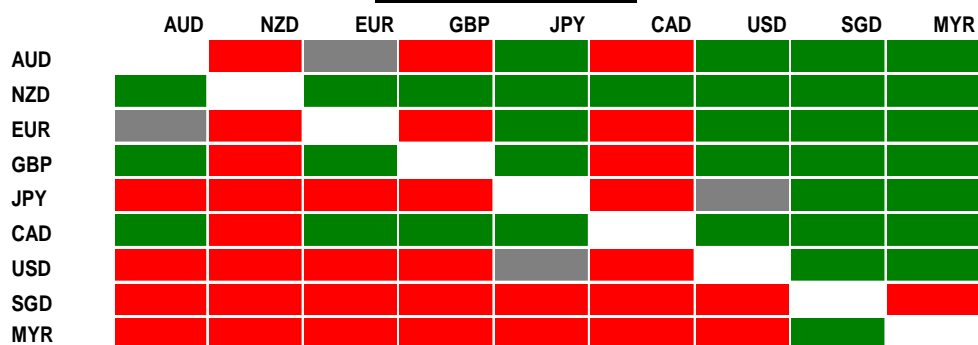
### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0500	1.0503	1.0584	1.0600	1.0617
GBP-USD	1.2215	1.2219	1.2244	1.2300	1.2386
AUD-USD	0.7536	0.7569	0.7594	0.7600	0.7735
NZD-USD	0.6900	0.6983	0.6996	0.7000	0.7002
USD-CAD	1.3198	1.3300	1.3398	1.3400	1.3431
USD-JPY	111.91	113.00	113.98	114.00	114.14
USD-SGD	1.4011	1.4100	1.4121	1.4200	1.4214
EUR-SGD	1.4810	1.4900	1.4946	1.5000	1.5090
JPY-SGD	1.2322	1.2332	1.2390	1.2400	1.2452
GBP-SGD	1.7200	1.7257	1.7290	1.7300	1.7612
AUD-SGD	1.0700	1.0714	1.0723	1.0800	1.0960
Gold	1208.28	1217.10	1226.10	1259.64	1264.90
Silver	17.47	17.70	17.73	17.80	18.06
Crude	52.42	53.10	53.14	53.20	53.63

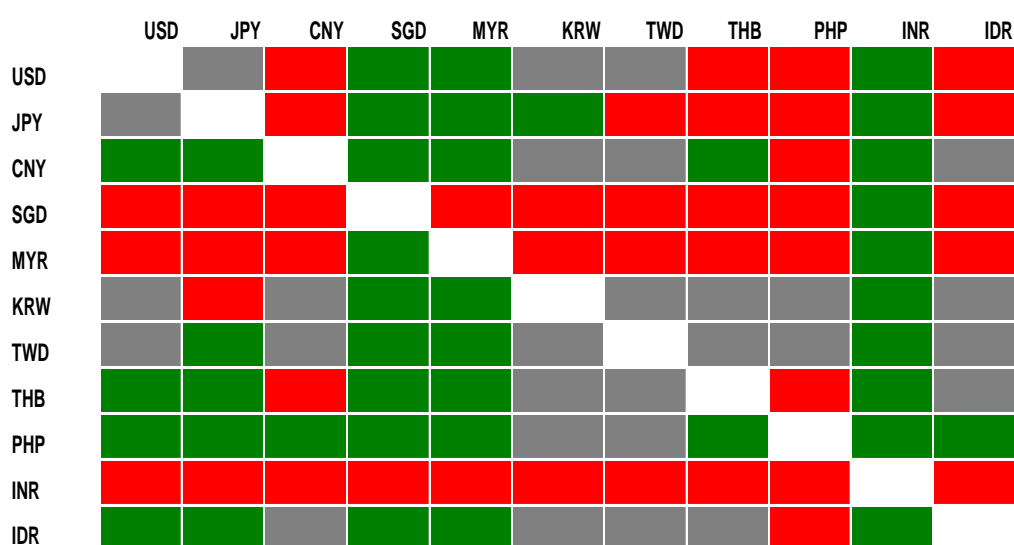
Source: OCBC Bank

**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	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 (%)*
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-Feb 2017 Return								-7.14
	2016 Return								+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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