

Thursday, February 09, 2017

FX Themes/Strategy/Trading Ideas

- Despite positive EZ/US equities, XAU was yet firmer, the UST curve bull flattened from the back-end, and the greenback trailed its counterparts (except against the NZD) within G10 space. The NZD-USD crashed out after the RBNZ remained static at 1.75% but the RBNZ's Wheeler surprised markets by underscoring the intent of the central bank to keep a neutral stance for a considerable period.
- Elsewhere, despite some ability by EM FX to capitalize on USD vulnerability on Wednesday, we note generalized market apprehension with the JPY and CHF outperforming on the crosses while the EUR continued to trail its G10 cohorts. Elsewhere, the **FXSI (FX Sentiment Index)** inched lower within Risk-On territory, belying we think the slight underlying tensions within the markets. Expect investors to remain slightly jumpy.
- Overall, the greenback may remain mixed top heavy intra-day on waning yield differential support but acute risk-off sentiment may well drive interest towards the dollar instead.

Asian FX

- As alluded to yesterday, the **ACI (Asian Currency Index)** may once again revert to tracking its softer model-implied cues with Asian equities also chalking up early session gains on Thursday.
- On the central bank front, the **Bank of Thailand** (sounding sanguine) remained static at 1.50% as widely expected. However, the **RBI** surprised by keeping its interest rate unchanged (as opposed to widely expect cuts) and explicitly shifted to a neutral stance, leaving the INR the best performer for the day.
- **SGD NEER:** This morning, the SGD NEER's is relatively position is unchanged at around -0.39% below its perceived parity (1.4111). Given the current state of the dollar, NEER-implied USD-SGD thresholds are softer on the day with spot tracking lower in tandem. At current levels, the -0.50% threshold is estimated at 1.4182 with a subsequent resistance expected into 1.4200.
- Volatility considerations we think are still in play and NEER/spot fluctuations may thus continue to be self-governing at his juncture. Near term, we look for support towards the 100-day MA (1.4121).

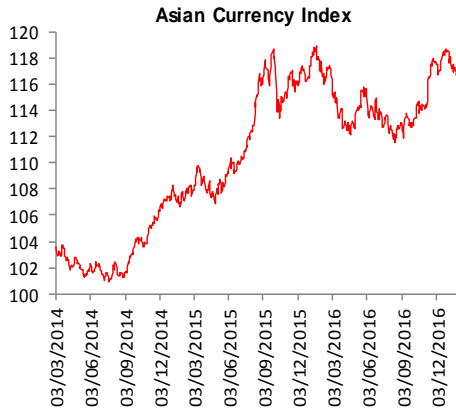
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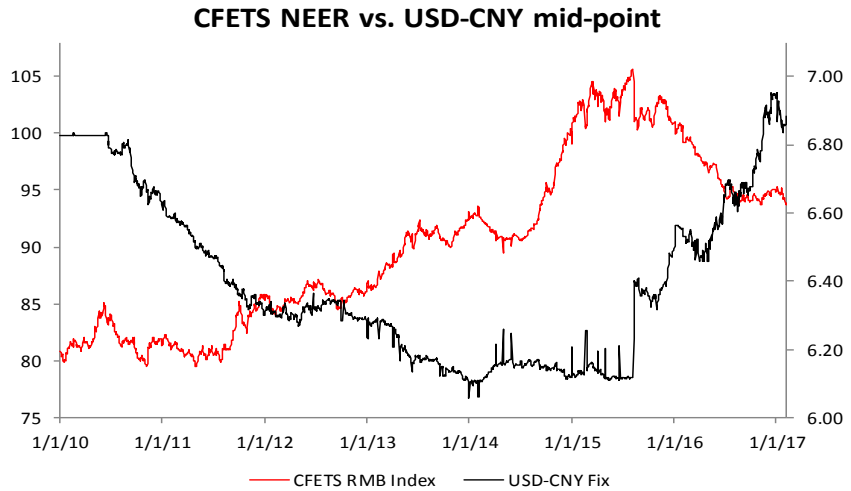
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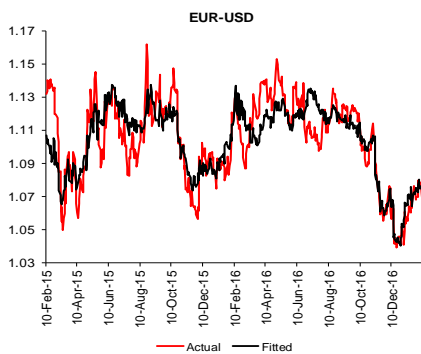
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point slipped to 6.8710 (as largely expected) from 6.8849 on Wednesday. This lifted the **CFETS RMB Index** to 93.88 from 93.74.



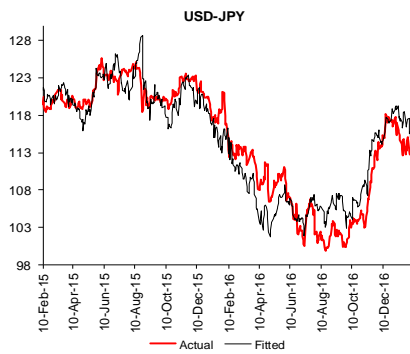
Source: OCBC Bank, Bloomberg

G7



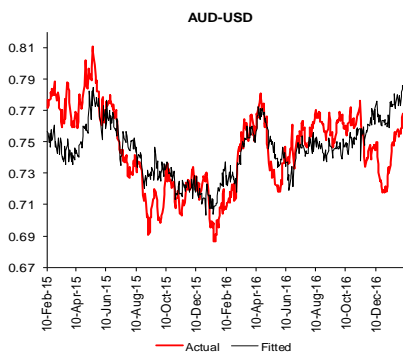
Source: OCBC Bank

- EUR-USD** In the near term, the EUR-USD may continue to grind towards the lower bounds of its model-implied valuations if political jitters continue to circulate. Expect initial support towards 1.0645 before the 55-day MA (1.0605). Meanwhile, expect investors to continue to monitor bund spreads as a bellwether for EZ political risk premiums.



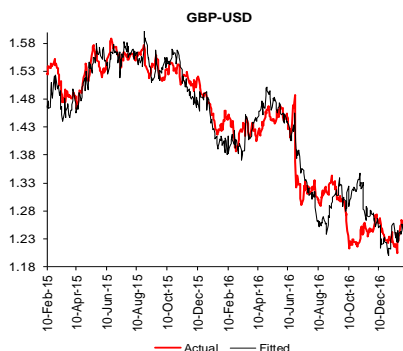
Source: OCBC Bank

- USD-JPY** Expects to adopt a wait-and-see attitude ahead of the Abe/Trump meeting scheduled on Friday. Our near term tactical view remains intact and the pair may continue to fade upticks in the interim with support at 111.60 still holding on the downside.



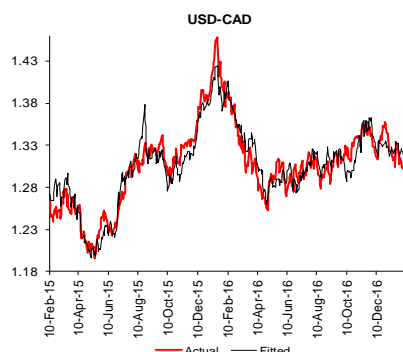
Source: OCBC Bank

- AUD-USD** For as long as global risk appetite levels remain relatively sanguine, the AUD-USD may continue to attempt to stay aloft above the 0.7600 handle despite some headwinds from the NZD. Note that the RBNZ central bank governor characterized the market as getting “a bit ahead of itself” while underscoring a neutral posture, reminding the markets that “Monetary policy will remain accommodative for a considerable period”.



Source: OCBC Bank

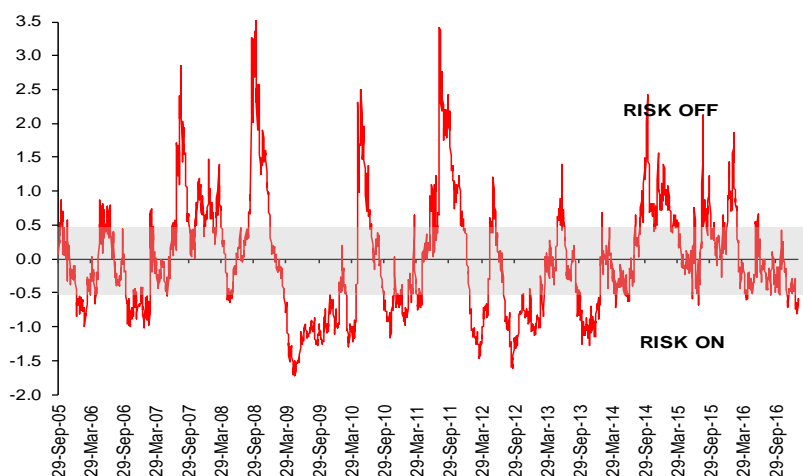
- GBP-USD** GBP-USD traded range bound on Wednesday even as the BOE’s Cunliffe highlighted weak business investment trend and the Lower House passed the Brexit bill (vote by the House of Lords expected on 7 March 17). In the interim, cable may continue to base out around the 100-day MA (1.2445) and the 55-day MA (1.2432) if 1.2500 is broken. Topside is still expected towards 1.2600.



Source: OCBC Bank

- USD-CAD** A heavy greenback coupled with firmer crude made for a lower USD-CAD on Wednesday although we note that short term implied valuations may still be attempting to base out. On this front, watch for any sustained departure from the 200-day MA (1.3140) and towards the 1.3200 ceiling.

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	-0.452	0.787	-0.528	-0.588	-0.267	0.838	-0.673	0.067	-0.516	0.807	-0.960
CHF	0.966	-0.434	0.745	-0.543	-0.662	-0.114	0.826	-0.629	0.044	-0.595	0.726	-0.929
TWD	0.921	-0.362	0.652	-0.734	-0.770	-0.118	0.883	-0.563	0.232	-0.569	0.774	-0.835
SGD	0.892	-0.214	0.642	-0.425	-0.490	-0.167	0.894	-0.561	-0.034	-0.539	0.815	-0.874
MYR	0.891	-0.627	0.704	-0.645	-0.704	-0.179	0.645	-0.630	0.171	-0.411	0.668	-0.845
THB	0.883	-0.296	0.728	-0.635	-0.735	-0.191	0.886	-0.518	0.079	-0.620	0.711	-0.760
KRW	0.860	-0.361	0.711	-0.675	-0.755	-0.140	0.862	-0.506	0.111	-0.563	0.764	-0.770
JPY	0.838	0.011	0.697	-0.445	-0.499	-0.122	1.000	-0.404	-0.015	-0.625	0.775	-0.741
CNH	0.807	-0.185	0.842	-0.239	-0.193	-0.474	0.775	-0.510	-0.081	-0.204	1.000	-0.829
CNY	0.787	-0.211	1.000	-0.145	-0.236	-0.536	0.697	-0.251	-0.256	-0.173	0.842	-0.763
INR	0.654	-0.030	0.386	-0.649	-0.720	0.169	0.770	-0.462	0.071	-0.764	0.519	-0.534
CAD	0.624	-0.150	0.140	-0.526	-0.521	-0.173	0.522	-0.708	0.329	-0.454	0.456	-0.550
CCN12M	0.265	0.313	0.521	-0.287	-0.330	0.160	0.587	0.172	-0.092	-0.376	0.420	-0.183
IDR	-0.201	0.432	-0.147	-0.152	-0.269	0.091	0.050	0.070	0.238	-0.266	-0.168	0.287
PHP	-0.443	0.536	-0.604	-0.008	-0.017	0.329	-0.213	0.193	0.265	-0.166	-0.444	0.478
USGG10	-0.452	1.000	-0.211	0.377	0.332	0.160	0.011	0.419	-0.151	-0.162	-0.185	0.482
GBP	-0.866	0.550	-0.600	0.620	0.684	0.189	-0.629	0.627	-0.240	0.433	-0.548	0.844
AUD	-0.885	0.333	-0.766	0.540	0.602	0.248	-0.876	0.541	-0.034	0.479	-0.809	0.844
NZD	-0.948	0.508	-0.707	0.648	0.714	0.163	-0.794	0.632	-0.148	0.500	-0.737	0.907
EUR	-0.960	0.482	-0.763	0.414	0.454	0.326	-0.741	0.674	-0.050	0.377	-0.829	1.000

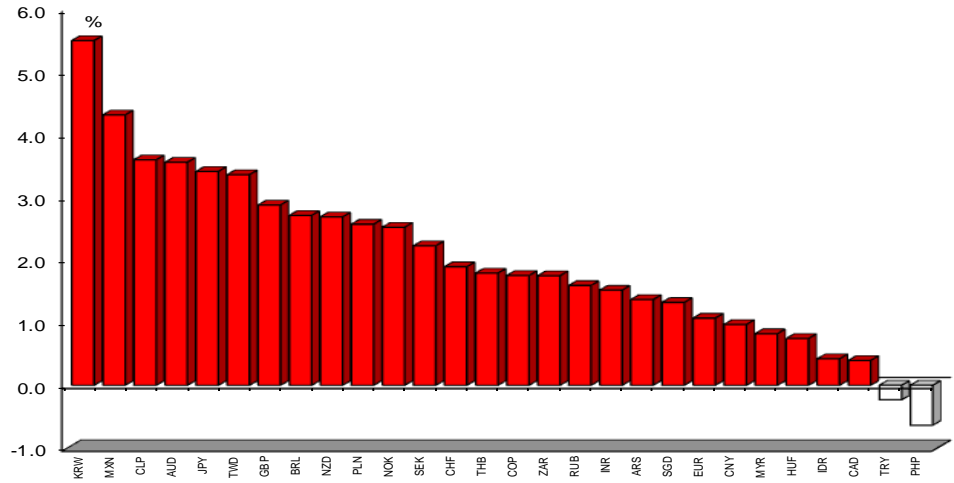
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0600	1.0603	1.0685	1.0700	1.0811
GBP-USD	1.2417	1.2500	1.2507	1.2600	1.2706
AUD-USD	0.7490	0.7600	0.7616	0.7683	0.7696
NZD-USD	0.7111	0.7200	0.7208	0.7300	0.7364
USD-CAD	1.3100	1.3138	1.3161	1.3200	1.3248
USD-JPY	111.60	112.00	112.18	113.00	115.07
USD-SGD	1.4054	1.4100	1.4174	1.4200	1.4290
EUR-SGD	1.5100	1.5103	1.5146	1.5148	1.5176
JPY-SGD	1.2418	1.2600	1.2634	1.2651	1.2672
GBP-SGD	1.7309	1.7700	1.7728	1.7752	1.7800
AUD-SGD	1.0663	1.0700	1.0795	1.0800	1.0839
Gold	1180.73	1200.00	1240.40	1240.87	1243.90
Silver	16.81	17.70	17.77	17.80	17.88
Crude	51.83	52.50	52.56	52.60	53.19

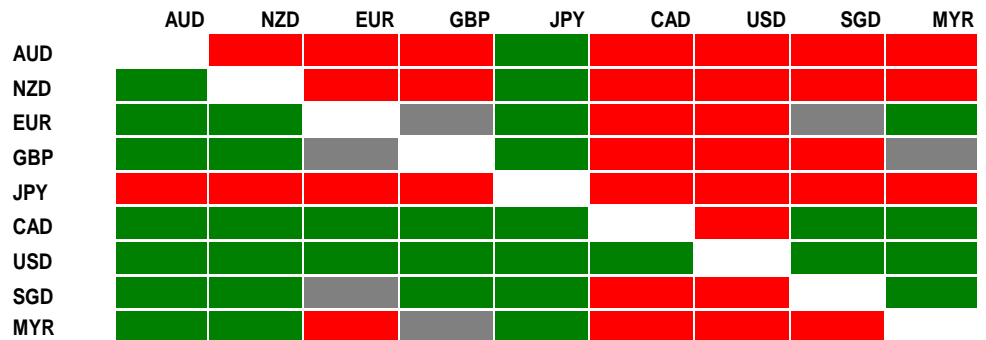
Source: OCBC Bank

FX performance: 1-month change agst USD



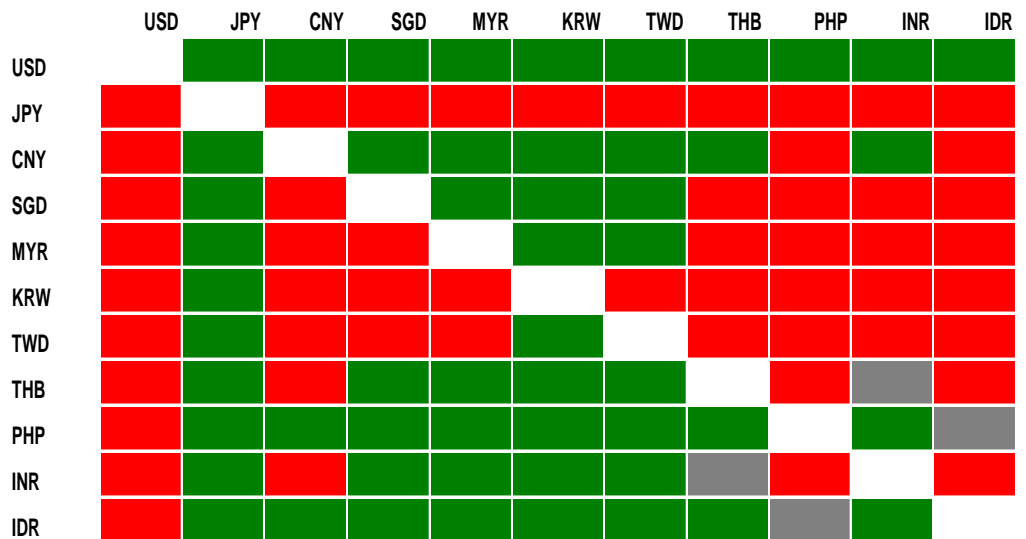
Source: Bloomberg

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	12-Jan-17	B	AUD-USD	0.7463	0.7880	0.7560	Reflation may dominate as the Trump trade pauses	
3	18-Jan-17	B	EUR-USD	1.0688	1.1015	1.0520	Dollar hiccup, hint of inflation in EZ	
4	20-Jan-17	S	USD-SGD	1.4240	1.4005	1.4360	Potential for Trump's inauguration to disappoint USD bulls	
5	25-Jan-17	B	GBP-USD	1.2528	1.2910	1.2335	Subsidence of acute A50 concerns in the short term	
STRUCTURAL								
6	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER	
7	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
8	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	19-Dec-16	10-Jan-17	S	AUD-USD	0.7294	0.7359	FOMC outcome forcing a near term reassessment of carry	-0.93
2	20-Dec-16	12-Jan-17	CLS	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	-1.75*
3	27-Dec-16	23-Jan-17	CLS	GBP-USD	1.2276	1.2386	A50 risks, UK current account deficits, broad USD strength	-0.77
4	09-Jan-17	06-Feb-17	S	USD-CAD	1.3264	1.3135	Supportive crude and labor market numbers	0.92
*of notional								Jan 2017 Return -6.78 2016 Return +6.91

Source: OCBC Bank

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