

Friday, February 10, 2017

## FX Themes/Strategy/Trading Ideas

- Thursday was another Trump driven day as the US President promised a “phenomenal” tax plan in “two or three weeks”. USD-JPY surged above 113.00 with USD (UST curve bear steepens from the back-end with the 10y yield gaining to around 2.3948%) outperforming across G10. Meanwhile, weekly initial claims also came in below expectations, lending marginal support to the greenback.
- On the risk appetite front, the resurgence of the Trump-trade boosted positive sentiment (S&P +0.58%) and saw the **FXSI (FX Sentiment Index)** heading lower within Risk-On territory.
- For today, look also towards the release of China January trade numbers, although the 2-day Abe/Trump meeting (Trump aide says FX not a top priority of discussion) is likely to remain the central focus into the end of the week.
- On a structural note, the USD may continue to derive inspiration from Fed-speak with Bullard slightly neutral on rates but noting that the impact of stronger dollar on the US “overblown”. In addition, Evans added that 3 rate hikes isn’t unreasonable. In sum, although the shelf life of the latest Trump utterance remains in question, USD strength may continue to ripple into the Asian session, primarily at the expense of the yen.

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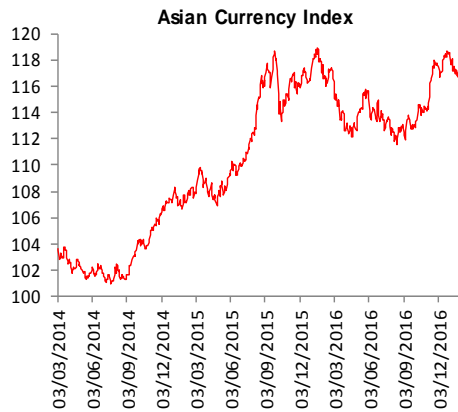
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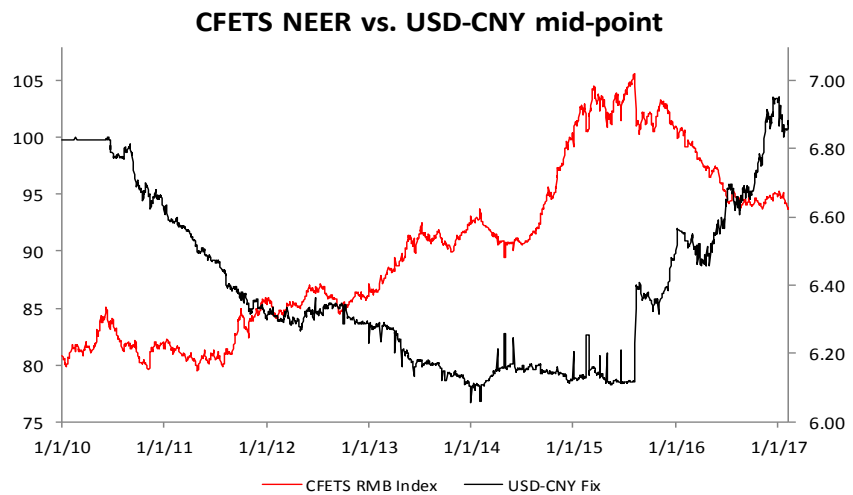
## Asian FX

- Despite the positive spillage on Asian equities from the US this morning and the improvement in global risk appetite levels, regional currency pairs are expected to be buoyed, leading the **ACI (Asian Currency Index)** higher. On a multi-session horizon, note that the usual suspects, KRW, TWD, and SGD remain relatively more attuned to (non-risk aversion motivated) USD strength.
- **SGD NEER:** More of the same this morning with a firmer broad dollar, a softer NEER at -0.50% below its perceived parity (1.4149), and higher NEER-implied USD-SGD thresholds. At current levels, the -0.50% threshold corresponds to around 1.4221 but the NEER may bleed incrementally lower in the face of persistent USD strength to around -0.60% (1.4235). Technically, after clearing 1.4200, may also run into a road block towards 1.4245/50.



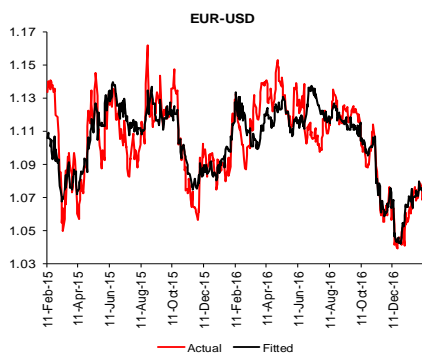
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning firmed to 6.8819 from 6.8710 in view of the firmer broad dollar, lifting the **CFETS RMB Index** to 94.03 from 93.88 on Thursday. Thus far, the line at around 93.70 for the Index continues to hold with relative calm returning (compression of CNH spot premium over CNY and stabilization of CNH, NDF forward premiums).



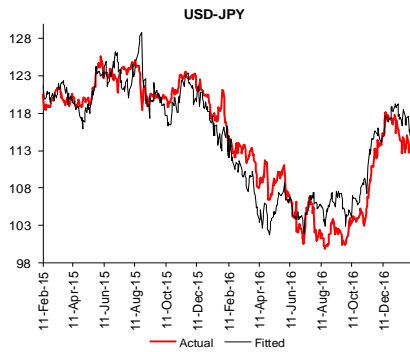
Source: OCBC Bank, Bloomberg

**G7**



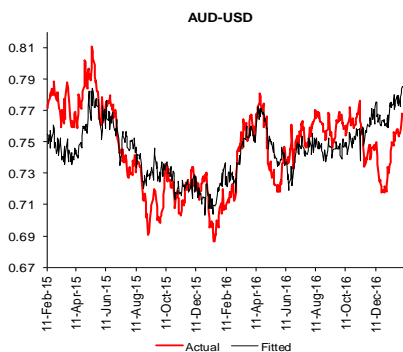
Source: OCBC Bank

- EUR-USD** With EZ political risks still harboring in the background, short term implied valuations for the pair have stepped lower slightly following Trump's remarks overnight and as noted yesterday, the EUR-USD may continue to grind lower. Expect initial support on approach of 1.0645/50 before the 55-day MA (1.0606).



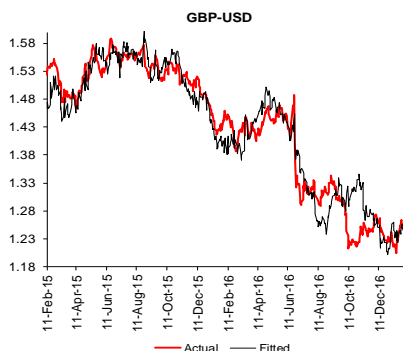
Source: OCBC Bank

- USD-JPY** As noted above, the Abe/Trump meeting will be on the watch list today amidst slightly higher short term implied valuations. However, if the pair is repelled at 114.00, we run the risk of relapsing back towards 112.00 if the Trump-effect fades again.



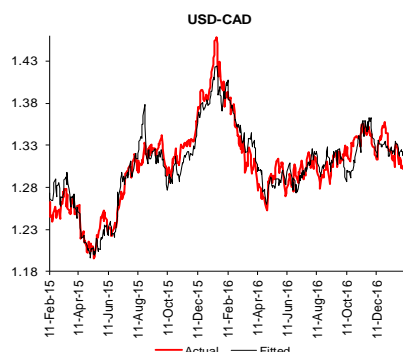
Source: OCBC Bank

- AUD-USD** This morning's RBA Statement on Monetary Policy proved largely uneventful while China trade numbers today may impart some volatility. With the RBA's Lowe also not uncomfortable with the AUD's levels and global risk appetite levels supportive, expect the pair to stay generally supported on dips within 0.7600-0.7650. Elsewhere, the sharp implied policy preference between the RBA and the RBNZ highlighted in the last 24 hours may prime the AUD-NZD to potentially test yet higher towards 1.0650.



Source: OCBC Bank

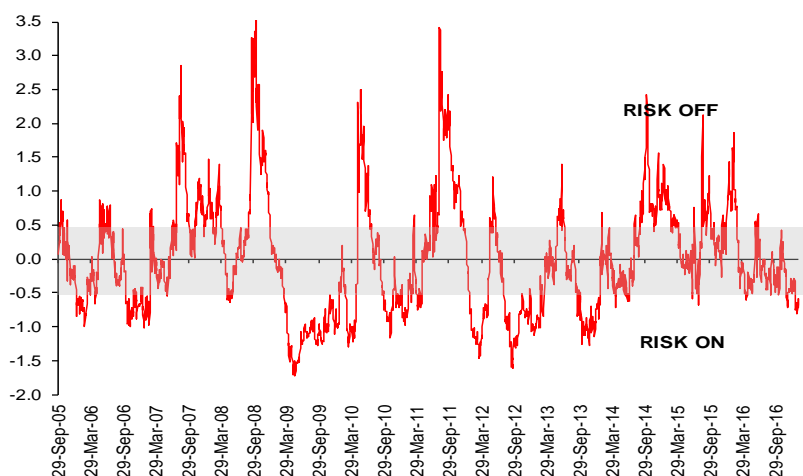
- GBP-USD** With headline-induced volatility subsiding slightly for the pound (despite accelerating Jan house price growth), short term implied valuations for the pair have instead responded to the broad dollar's latest bounce. Expect a familiar range of 1.2450-1.2550 to prevail in the interim.



Source: OCBC Bank

- USD-CAD** Short term valuations continue to stabilize at this juncture with the USD-CAD still orbiting its (slightly inclined) 200-day MA (1.3141). The BOC's Schembri also displayed no urgency to shift from a neutral stance, leaving the loonie slightly at the mercy of USD gyrations in the near term.

### 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	-0.400	0.734	-0.417	-0.464	-0.115	0.802	-0.661	0.052	-0.483	0.781	-0.951
CHF	0.961	-0.382	0.698	-0.438	-0.554	0.056	0.792	-0.618	0.030	-0.567	0.694	-0.922
SGD	0.872	-0.135	0.561	-0.340	-0.388	-0.003	0.885	-0.545	-0.042	-0.519	0.779	-0.850
MYR	0.870	-0.598	0.632	-0.626	-0.660	0.026	0.580	-0.626	0.174	-0.400	0.627	-0.820
TWD	0.864	-0.254	0.554	-0.757	-0.759	0.170	0.844	-0.568	0.306	-0.628	0.638	-0.739
THB	0.803	-0.146	0.623	-0.680	-0.735	0.082	0.825	-0.554	0.154	-0.680	0.553	-0.626
JPY	0.802	0.128	0.631	-0.393	-0.421	0.059	1.000	-0.412	-0.003	-0.626	0.743	-0.708
KRW	0.793	-0.246	0.617	-0.697	-0.736	0.156	0.820	-0.501	0.186	-0.610	0.641	-0.671
CNH	0.781	-0.144	0.792	-0.078	-0.022	-0.411	0.743	-0.430	-0.132	-0.120	1.000	-0.816
CNY	0.734	-0.112	1.000	-0.083	-0.129	-0.372	0.631	-0.216	-0.284	-0.171	0.792	-0.708
CAD	0.616	-0.113	0.088	-0.450	-0.456	-0.113	0.526	-0.692	0.320	-0.427	0.418	-0.525
INR	0.534	0.078	0.342	-0.724	-0.771	0.286	0.700	-0.435	0.200	-0.757	0.322	-0.369
CCN12M	0.198	0.389	0.489	-0.361	-0.386	0.281	0.563	0.129	-0.014	-0.413	0.241	-0.053
IDR	-0.286	0.502	-0.224	-0.268	-0.349	0.205	0.020	0.061	0.305	-0.319	-0.274	0.388
PHP	-0.367	0.465	-0.576	0.033	-0.026	0.225	-0.139	0.170	0.216	-0.151	-0.350	0.393
USGG10	-0.400	1.000	-0.112	0.238	0.194	0.075	0.128	0.375	-0.112	-0.228	-0.144	0.445
AUD	-0.841	0.220	-0.693	0.530	0.552	0.019	-0.845	0.569	-0.070	0.504	-0.715	0.768
GBP	-0.845	0.496	-0.557	0.565	0.628	0.037	-0.578	0.630	-0.260	0.424	-0.463	0.798
NZD	-0.938	0.465	-0.634	0.524	0.586	-0.015	-0.758	0.608	-0.132	0.460	-0.708	0.895
EUR	-0.951	0.445	-0.708	0.259	0.296	0.209	-0.708	0.623	-0.010	0.311	-0.816	1.000

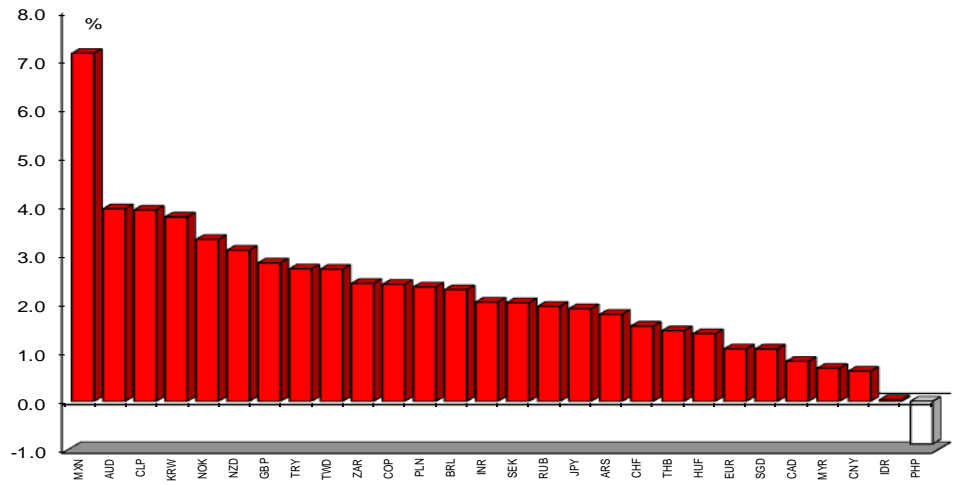
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0600	1.0604	1.0666	1.0700	1.0810
GBP-USD	1.2413	1.2500	1.2519	1.2600	1.2706
AUD-USD	0.7492	0.7600	0.7655	0.7690	0.7696
NZD-USD	0.7113	0.7200	0.7203	0.7300	0.7359
USD-CAD	1.2969	1.3100	1.3125	1.3139	1.3200
USD-JPY	111.60	113.00	113.61	114.00	115.10
USD-SGD	1.4054	1.4200	1.4208	1.4292	1.4300
EUR-SGD	1.5100	1.5149	1.5154	1.5174	1.5200
JPY-SGD	1.2416	1.2500	1.2506	1.2600	1.2636
GBP-SGD	1.7700	1.7747	1.7787	1.7800	1.8002
AUD-SGD	1.0800	1.0864	1.0876	1.0878	1.0900
Gold	1182.38	1200.00	1223.60	1240.93	1243.90
Silver	16.83	17.50	17.57	17.60	17.88
Crude	52.70	53.00	53.10	53.32	54.07

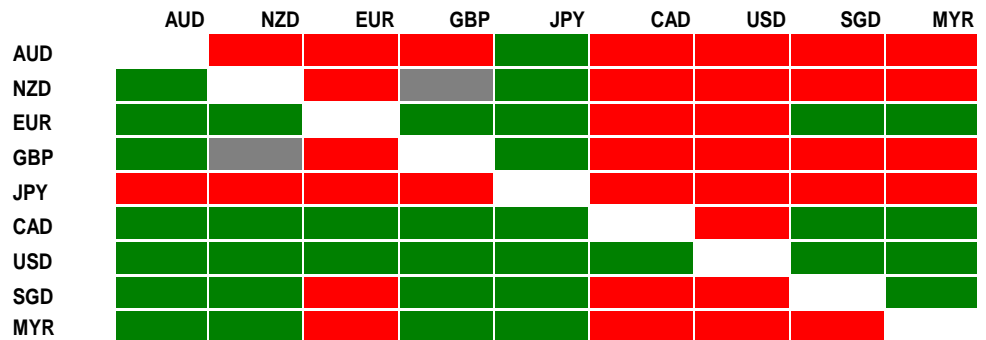
Source: OCBC Bank

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



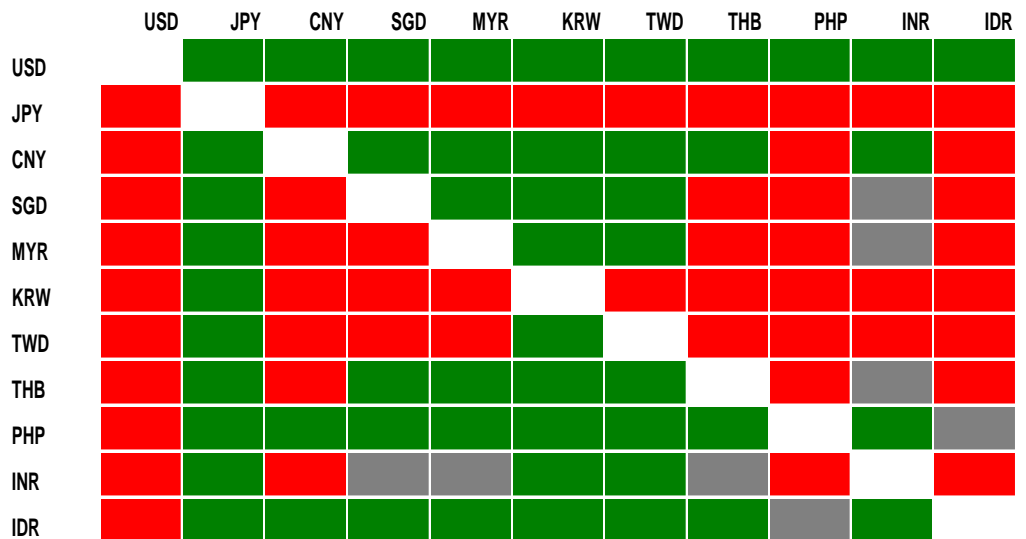
Source: Bloomberg

**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	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	
<b>STRUCTURAL</b>								
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	
<b>RECENTLY CLOSED</b>								
	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								<b>Jan 2017 Return -6.78</b> <b>2016 Return +6.91</b>

Source: OCBC Bank

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