

Monday, January 16, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The greenback (and pretty much the GBP) continued to edge lower across G10 space on Friday despite Dec retail sales numbers avoiding the bearish end of prior market forecasts. Investors are likely to start the week on a cautious note with the greenback still expected to be on the back foot ahead of the myriad list of headline risks this week.
- On the **CFTC** front, large non-commercial/leveraged accounts pare slightly their implied net dollar longs in the latest week while asset managers slashed such implied dollar longs during the same period. Overall, CFTC positioning seems to have been particularly prescient given the greenback's stumble last Wednesday.
- The **FXSI (FX Sentiment Index)** dropped further within Risk-Neutral territory on Friday but still ended marginally firmer on the week. Overall, despite the prospect of potential headline risks in the coming weeks, global risk appetite levels remain largely sanguine at this juncture.
- NY is away for the MLK long weekend today but this week, expect risk for heightened volatility from UK PM May's Brexit speech on Tuesday and Trumps' inauguration on 20 Jan 17. The possibility for further Fed-centric volatility also cannot be discounted with a string of scheduled Fed appearances this week with Yellen expected on Wednesday and Friday.
- Meanwhile, the **Bank of Canada** is expected to remain static at 0.50% on Wednesday, Dec 16 Australian labor market numbers are due on Thursday. Notably, the **ECB** policy decision (and press conference) also on Thursday will be loosely scrutinized.

Asian FX

- Despite the shaky broad dollar, regional currencies are expected to remain cautious towards the upside despite a supportive implied net portfolio inflow environment. Expect the **ACI (Asian Currency Index)** to continue to look towards the DXY for multi-session cues.
- This week, **BNM** and **BI** are expected to keep their benchmark rates unchanged at 3.00% and 4.75% respectively on Thursday. Markets may however place more emphasis on **China's** 4Q GDP numbers scheduled for release on Friday.

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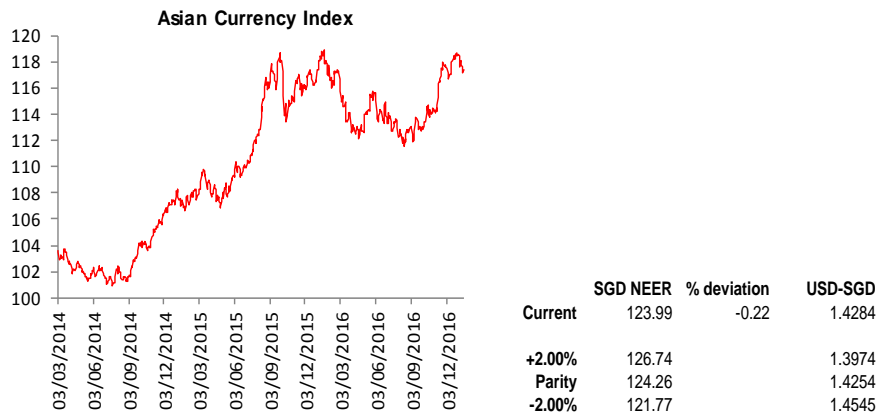
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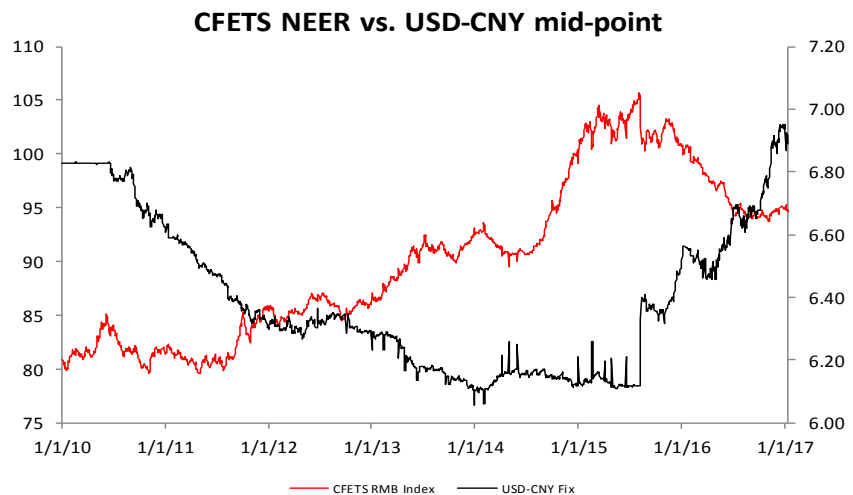
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- **EPFR** data show an implied flip to a net positive inflow towards Asian equities in the latest week, while implied bond inflows continued to demonstrate net positive (and improving) inflows for the second consecutive week.
- **SGD NEER:** The SGD NEER is yet softer at around -0.22% below its perceived parity (1.4254) early Monday in Asia with USD-SGD a sliver firmer despite relatively static (on the day) NEER-implied USD-SGD thresholds. At current levels, the -0.50% threshold is estimated at 1.4326 and while the pair is still seen top heavy, downside supports are expected towards the 55-day MA (1.4264) and implied parity. On the data front, Dec 16 NODX numbers are due on Tuesday.



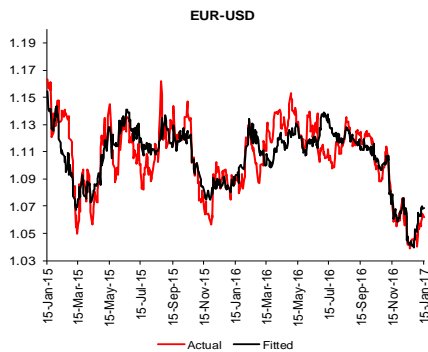
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point softened further to 6.8874 from 6.8909 on Friday, pulling the **CFETS RMB Index** lower (as largely expected) to 94.65 from 94.78.



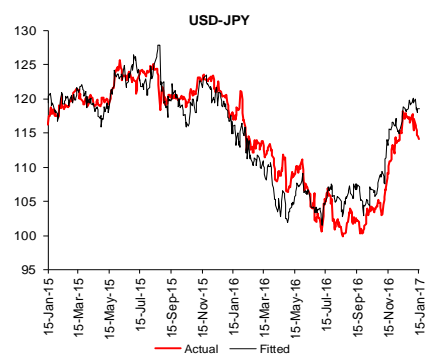
Source: OCBC Bank, Bloomberg

G7



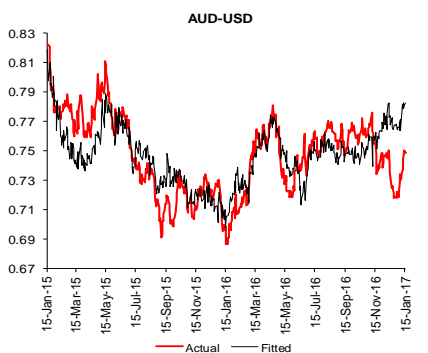
Source: OCBC Bank

- EUR-USD** Short-term implied valuations are slightly lower relative to late last week but investors may remain uncommitted in the near term. Net leveraged CFTC EUR shorts were pared in the latest week and we suspect a buy dips posture may be prudent pending headline risks later this week. We look for a 1.0550 base while the 55-day MA (1.0640) may be continually tested if USD skepticism persists.



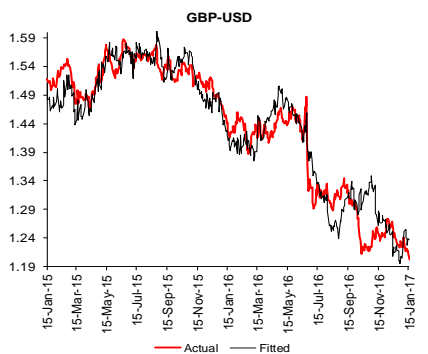
Source: OCBC Bank

- USD-JPY** Any fallout from Brexit-related jitters may serve to keep the JPY-crosses heavy at the onset of the week. Meanwhile, the USD-JPY continues to overrun its short term implied valuations on the downside. Note also that on the CFTC front, net leveraged JPY shorts were reduced significantly in the latest week. If the .236 Fibon retracement at 114.33 is breached on a sustained basis, the 55-day MA (113.09) and the .382 Fibon level of 111.61 may attract.



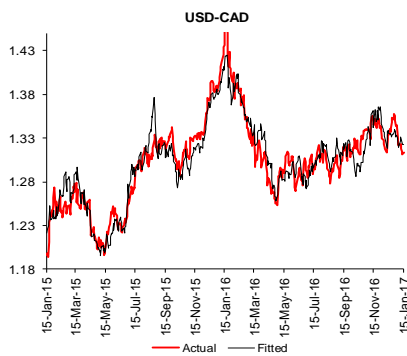
Source: OCBC Bank

- AUD-USD** The AUS may remain a function of the global deflation trade and structural dollar prospects, with the former likely in a more dominant position in the near term. In addition, short term valuations continue to remain buoyant, despite net leveraged AUD shorts on the CFTC front being accumulated significantly further in the latest week. If the pair manages to finally lift above 0.7500, expect a test towards 0.7545.



Source: OCBC Bank

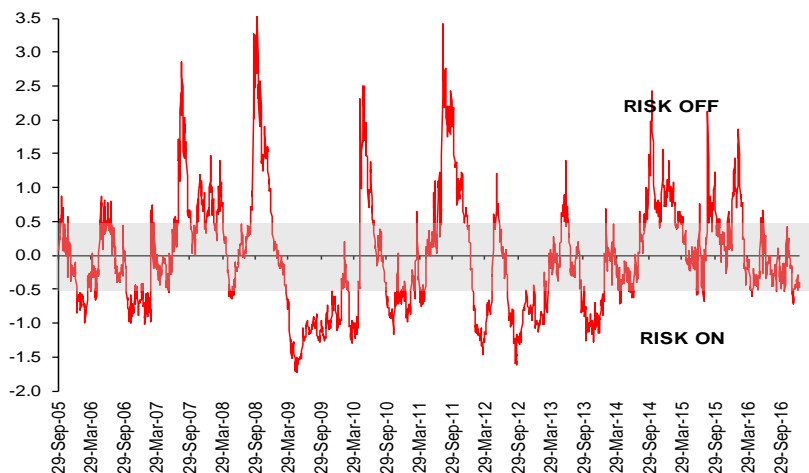
- GBP-USD** The pound choked early Monday (and tested below 1.2000 briefly) in Asia after the Sunday Times implied that PM May would signal a ‘hard’ Brexit) during her address on Tuesday. The Chancellor of the Exchequer Hammond also noted over the weekend that Britain’s economic model would have to be changed in the event of a “hard” Brexit. On the CFTC front, leveraged accounts piled on significantly more net GBP shorts in the latest week and we continue to stay heavy on the pair, especially this week.



- USD-CAD** On the CFTC front, net leveraged CAD shorts were reduced in the latest week, continuing to lay the groundwork for a heavy USD-CAD stance. Our preference remains to fade upticks in this environment, with space towards 1.3100 and 1.3030 on the cards ahead of the BOC on Wednesday.

Source: OCBC Bank

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	0.852	0.863	-0.399	-0.877	-0.641	0.933	0.109	0.252	-0.403	0.787	-0.988
CHF	0.991	0.881	0.877	-0.410	-0.890	-0.634	0.923	0.089	0.261	-0.352	0.829	-0.980
JPY	0.933	0.793	0.813	-0.386	-0.819	-0.635	1.000	0.153	0.274	-0.425	0.731	-0.929
SGD	0.926	0.784	0.857	-0.622	-0.893	-0.571	0.898	0.216	0.478	-0.313	0.875	-0.915
THB	0.913	0.772	0.705	-0.444	-0.916	-0.592	0.877	0.320	0.280	-0.510	0.681	-0.890
CNY	0.863	0.738	1.000	-0.508	-0.707	-0.640	0.813	-0.054	0.412	-0.142	0.883	-0.845
CAD	0.860	0.750	0.734	-0.637	-0.925	-0.416	0.786	0.409	0.502	-0.362	0.835	-0.824
USGG10	0.852	1.000	0.738	-0.331	-0.900	-0.477	0.793	0.067	0.118	-0.199	0.712	-0.835
PHP	0.826	0.911	0.743	-0.457	-0.834	-0.586	0.759	-0.083	0.132	-0.148	0.738	-0.857
CNH	0.787	0.712	0.883	-0.706	-0.759	-0.551	0.731	0.015	0.555	-0.012	1.000	-0.780
IDR	0.766	0.629	0.657	-0.620	-0.832	-0.439	0.786	0.417	0.543	-0.578	0.660	-0.740
TWD	0.635	0.354	0.626	-0.597	-0.606	-0.303	0.632	0.460	0.662	-0.436	0.598	-0.564
CCN12M	0.550	0.446	0.624	-0.852	-0.632	-0.149	0.512	0.399	0.881	-0.142	0.720	-0.539
MYR	0.524	0.191	0.424	-0.448	-0.415	-0.325	0.574	0.233	0.541	-0.562	0.285	-0.498
KRW	0.506	0.154	0.543	-0.404	-0.404	-0.349	0.473	0.315	0.486	-0.374	0.511	-0.421
GBP	0.504	0.530	0.215	-0.219	-0.490	-0.199	0.643	0.138	0.111	-0.079	0.253	-0.538
INR	-0.251	-0.550	-0.086	0.149	0.525	0.093	-0.316	-0.143	0.063	0.049	-0.117	0.240
AUD	-0.876	-0.678	-0.718	0.601	0.896	0.501	-0.883	-0.399	-0.487	0.458	-0.759	0.853
NZD	-0.910	-0.757	-0.736	0.431	0.892	0.649	-0.930	-0.225	-0.272	0.492	-0.742	0.897
EUR	-0.988	-0.835	-0.845	0.405	0.853	0.645	-0.929	-0.067	-0.250	0.367	-0.780	1.000

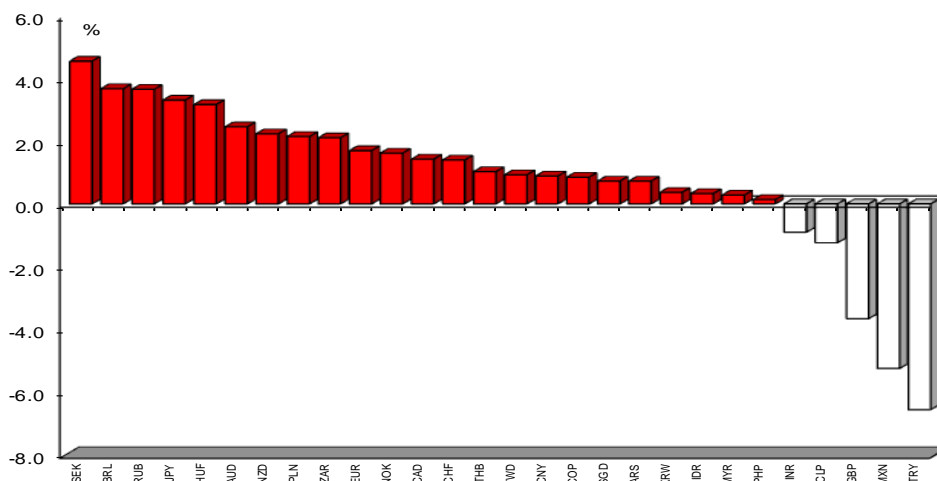
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0591	1.0600	1.0619	1.0658	1.0700
GBP-USD	1.1986	1.2000	1.2021	1.2073	1.2100
AUD-USD	0.7386	0.7400	0.7476	0.7497	0.7500
NZD-USD	0.7044	0.7081	0.7097	0.7100	0.7116
USD-CAD	1.3099	1.3100	1.3141	1.3200	1.3360
USD-JPY	113.99	114.00	114.12	114.21	115.00
USD-SGD	1.4226	1.4293	1.4298	1.4300	1.4547
EUR-SGD	1.5100	1.5137	1.5183	1.5187	1.5200
JPY-SGD	1.2486	1.2500	1.2530	1.2534	1.2544
GBP-SGD	1.7100	1.7110	1.7188	1.7200	1.7259
AUD-SGD	1.0556	1.0600	1.0690	1.0698	1.0700
Gold	1188.96	1200.00	1203.30	1207.20	1212.81
Silver	16.80	16.83	16.87	16.90	17.09
Crude	51.41	52.50	52.58	52.60	54.56

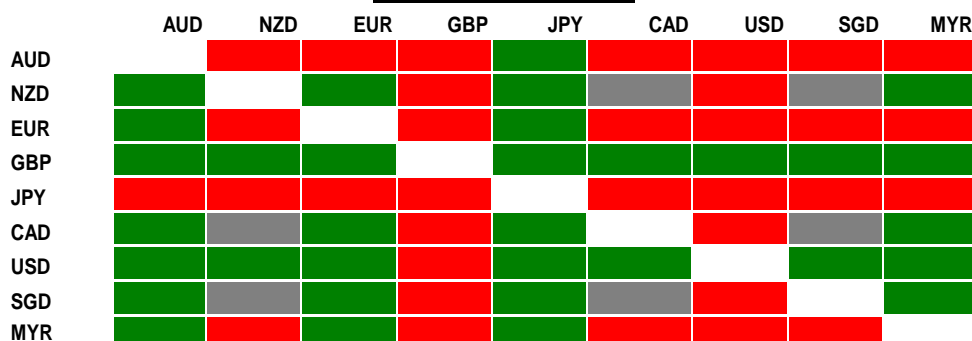
Source: OCBC Bank

FX performance: 1-month change agst USD



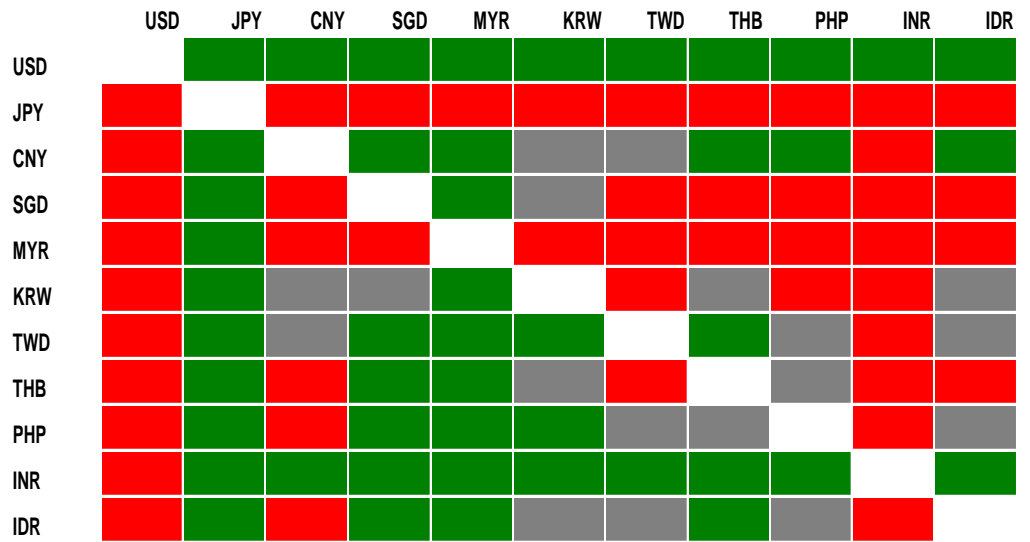
Source: Bloomberg

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	27-Dec-16	S	GBP-USD	1.2276	1.1805	1.2515	A50 risks, UK current account deficits, broad USD strength	
2	09-Jan-17	S	USD-CAD	1.3264	1.3000	1.3400	Supportive crude and labor market numbers	
3	12-Jan-17	S	USD-JPY	114.63	110.50	116.75	Downward consolidation post-Trump press conference	
4	12-Jan-17	B	AUD-USD	0.7463	0.7670	0.7355	Reflation may dominate as the Trump trade pauses	
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	
RECENTLY CLOSED								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	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
2	19-Dec-16	30-Dec-16	S	EUR-USD	1.0464	1.0620	Ensuing hawkish Fed rhetoric post-FOMC	-1.41
3	27-Dec-16	02-Jan-17	B	USD-CAD	1.3530	1.3390	Policy dichotomy, Trump Trade, slight de-linking with crude	-1.09
4	20-Dec-16	05-Jan-17	B	USD-SGD	1.4481	1.4399	Hostile USD/risk appetite environment for Asian FX, SGD	-0.57
5	19-Dec-16	10-Jan-17	S	AUD-USD	0.7294	0.7359	FOMC outcome forcing a near term reassessment of carry	-0.93
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	-1.75*	
*of notional						2016 Return	+6.91	

Source: OCBC Bank

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