

Thursday, March 16, 2017

FX Themes/Strategy/Trading Ideas

- The **FOMC** “disappointed” with no additional hawkishness after the expected 25bps hike (to 0.75% to 1.00%) with the 10y UST yield plunging below 2.50%. The USD collapsed against its G10 peers, with the cyclicals (AUD being the largest gainer) fronting the charge higher. EM FX also made the most of USD weakness, with the ZAR, MXN and BRL gaining > 2.0%.
- **What the USD bulls didn’t get:** The Fed retained expectations for 3 hikes in 2017, instead of 4 as some had hoped; no additional bullishness for 2018 with the projected rate trajectory for 2018 was also retained at 3 hikes; no additional cues on Fed balance sheet reduction; no upwardly revised forecasts for macro variables except for a slight uptick in core inflation to 1.9% for 2017 from 1.8% previously; no potential hint of additional hawkishness with regards to the Trump administration with Yellen noting that the 2.0% inflation target was “symmetric” and “not a ceiling”. Overall, the Fed demonstrated little urgency to accelerate the process of monetary policy normalization with current market-implied odds of another two hikes in 2017 only just above even.
- Going ahead, expect near term dollar bulls to continue to be shaken out and USD-Asia is also expected to be on a downward slant, with investors expected to turn to growth/cyclical dynamics instead. To this end, note that the **FXSI (FX Sentiment Index)** fell further within Risk-On territory as US equities maintained gains post-FOMC. Meanwhile, the **DXY** is contemplating the 100.50 area after slumping from 101.50 pre-FOMC and a further deterioration to 100.00 cannot be discounted if US yields continue head south.
- With the USD suffering negative whiplash after the FOMC, our 10 Mar 17 idea to be tactically long **AUD-USD** (spot ref: 0.7519) was stopped out at the designated level of 0.7605 on Wed.

Asian FX

- Expect the regional pairs to continue to take the cue from the vulnerable USD, with the KRW, TWD, and SGD to retain higher sensitivities on this front. Overall, the **ACI (Asian Currency Index)** is slated to head lower for the fifth consecutive session today. On the central bank front, **Bank Indonesia** is expected to remain static with respect to its policy parameters at its meeting today.
- **SGD NEER:** This morning, the **SGD NEER** is around +0.74% above its

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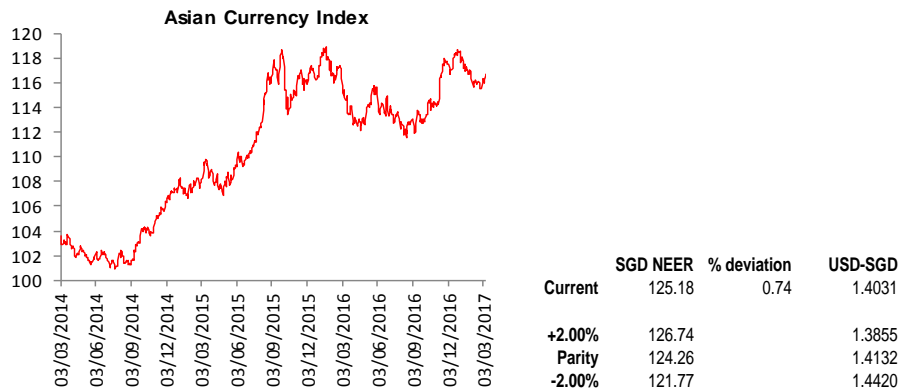
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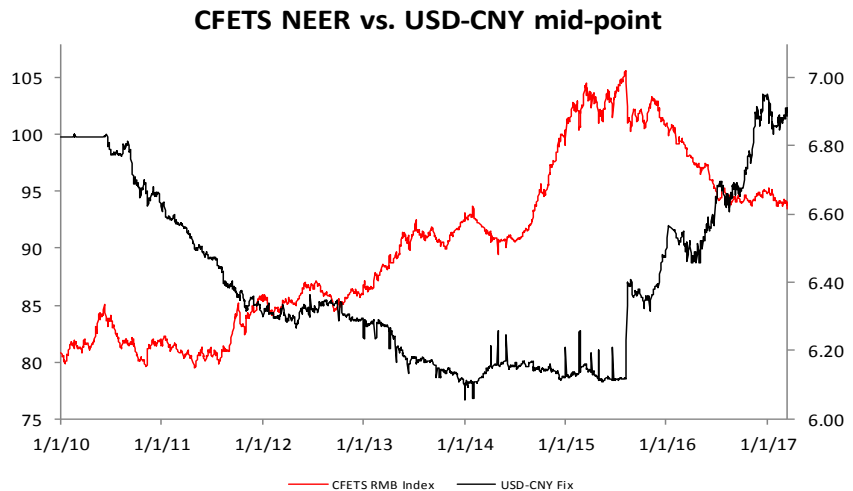
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perceived parity (1.4132), stronger from the +0.48% on Wed morning and after consolidating lower after clocking a high around +0.95% in late NY (as the USD-SGD crashed through 1.4050). NEER-implied USD-SGD thresholds are significantly lower on the day in reaction to the broad dollar's slide overnight and the NEER may be expected to fluctuate within +0.50% (1.4062) and +1.00% (1.3992), with +0.70% to +0.80% likely a more realistic floor for the USD-SGD. From a technical perspective the 1.4000 may remain a hard floor pending a further broad USD deterioration. Structurally, the NEER may remain underpinned amidst broad USD underperformance, as well as the 'reluctance' of the USD-CNY to react proportionately lower.



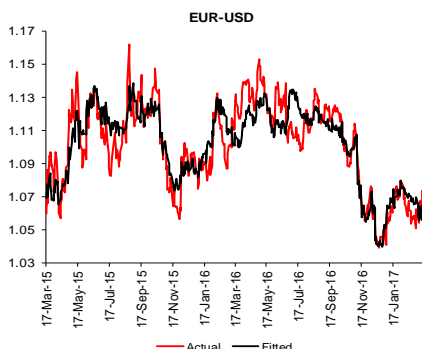
Source: OCBC Bank

- CFETS RMB Index:** This morning, despite underlying guidance from the USD's drop, the USD-CNY mid-point was set at a higher than expected 6.8862 compared to 6.9115. This saw the **CFETS RMB Index** easing to 93.47 from 93.92 yesterday. Going ahead, if the broad dollar continues to be whittled away, the **CFETS RMB Index** may be permitted to bleed towards 93.00. Elsewhere, the USD-CNH (and forward premiums) crashed below 6.8600 overnight in the wake of the FOMC but has bounced, aided we think by the firmer than expected USD-CNY mid-point and the PBOC's OMO reverse repo rates firming this morning compared to last week.



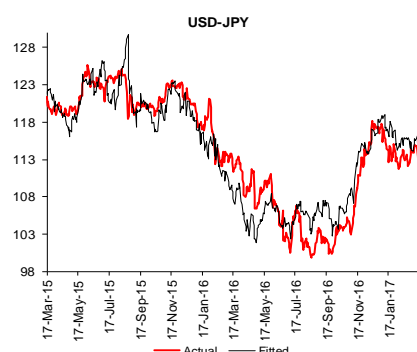
Source: OCBC Bank, Bloomberg

G7



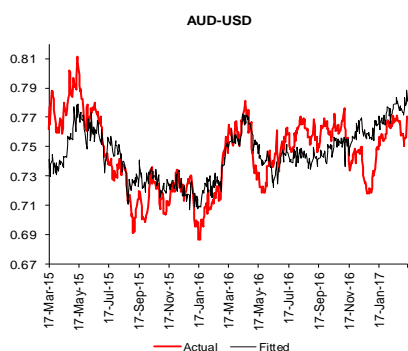
Source: OCBC Bank

- EUR-USD** Although the EUR-USD received another kicker post-FOMC, the pair earlier derived implicit support after exit polls in the Dutch elections showed the PM's VVD Party 32 of 150 seats in Parliament, trouncing the far right's Party for Freedom (lower than expected 19 seats at the time of writing). In the near term, the valuation implied upper bound for the pair is estimated at around 1.0765 and we look to initiate a tactical long pending further price action today.



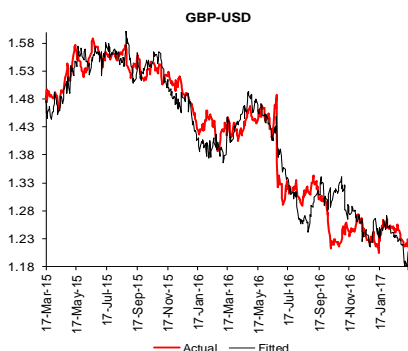
Source: OCBC Bank

- USD-JPY** This morning, the BOJ kept its policy variables and economic assessment unchanged at its MPC. With little on the BOJ front to disrupt investor expectations, expect rate differential arguments to continue to weigh on the USD-JPY. Short term implied valuations tripped overnight with the theoretical lower bound now opening up to around 112.45. In the interim, the technical tone for the pair is expected to be top-heavy, with initial support seen at 113.00 while the 55-day MA (114.10) now functioning as initial resistance.



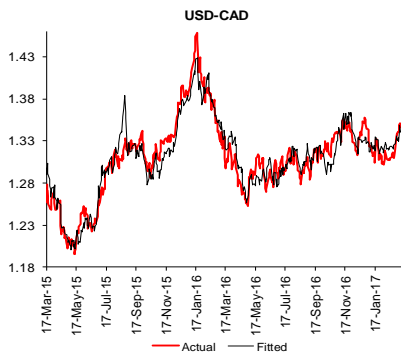
Source: OCBC Bank

- AUD-USD** After its run higher overnight, the AUD-USD has consolidated slightly lower following disappointing Feb labor market numbers. With investors likely to revert to carry and global-reflation plays at this juncture, we also note the AUD-USD has finally sprung back into its model-implied confidence intervals. Expect initial resistance towards the 0.7750 neighborhood.



Source: OCBC Bank

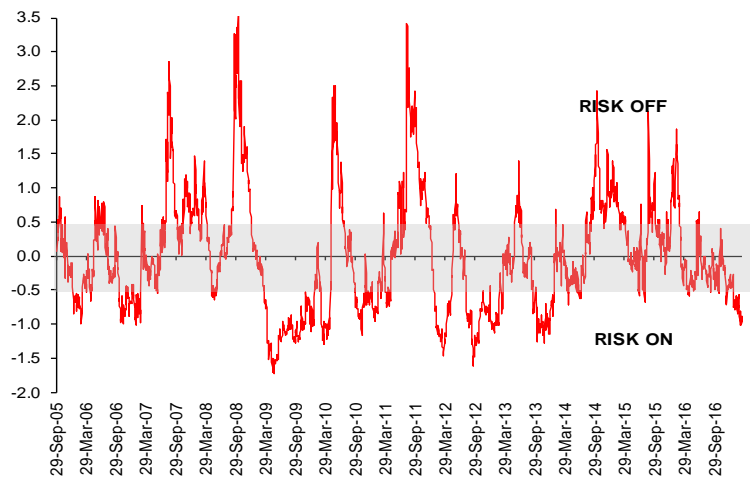
- GBP-USD** The BOE MPC later today (1200 GMT) may deter near term probes towards 1.2300 after yesterday's bounce. Despite broad-based USD vulnerability in the near term, the overhang from Brexit-related concerns we think may continue to temper discretionary upside potential. Expect investors to remain top-heavy on the pair.



- USD-CAD** USD-CAD behavior remains somewhat predictable relative to its short term drivers, reacting to USD softness and firmer crude prices from overnight. If 1.3300 is breached on a sustained basis, the 55-day MA (1.3220) may come into view. Expect investors to fade rallies in the interim.

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	0.477	0.547	0.413	-0.202	-0.322	0.609	-0.046	0.106	-0.642	0.795	-0.717
CHF	0.907	0.365	0.492	0.276	-0.152	-0.301	0.507	0.006	0.032	-0.475	0.752	-0.724
CNH	0.795	0.804	0.775	0.239	-0.202	-0.643	0.843	-0.441	-0.119	-0.714	1.000	-0.269
CAD	0.669	0.857	0.866	0.419	-0.146	-0.804	0.862	-0.665	0.103	-0.780	0.876	-0.015
PHP	0.630	0.503	0.767	0.642	0.011	-0.606	0.587	-0.440	-0.028	-0.629	0.668	-0.141
JPY	0.609	0.949	0.824	0.266	0.006	-0.748	1.000	-0.682	-0.041	-0.650	0.843	-0.001
CNY	0.547	0.864	1.000	0.420	0.180	-0.895	0.824	-0.828	-0.146	-0.623	0.775	0.185
USGG10	0.477	1.000	0.864	0.155	0.105	-0.844	0.949	-0.853	-0.039	-0.573	0.804	0.240
IDR	0.452	0.536	0.662	0.480	0.035	-0.522	0.659	-0.470	-0.049	-0.436	0.498	-0.001
SGD	0.367	0.442	0.175	-0.415	0.001	-0.129	0.486	-0.105	-0.149	0.050	0.432	-0.333
KRW	0.363	0.675	0.601	0.229	-0.201	-0.452	0.707	-0.462	-0.382	-0.558	0.644	0.195
TWD	0.339	0.835	0.744	0.196	-0.289	-0.690	0.823	-0.644	-0.106	-0.635	0.774	0.313
THB	0.213	0.901	0.850	0.073	0.260	-0.907	0.808	-0.918	-0.075	-0.362	0.602	0.381
MYR	0.124	0.376	0.232	-0.198	0.101	-0.161	0.427	-0.263	-0.209	-0.060	0.232	0.039
CCN12M	0.088	0.448	0.274	-0.266	-0.023	-0.274	0.476	-0.264	-0.388	-0.080	0.361	0.084
INR	-0.076	-0.465	-0.663	-0.341	-0.452	0.727	-0.320	0.718	-0.131	0.216	-0.165	-0.391
NZD	-0.522	-0.936	-0.933	-0.243	-0.003	0.873	-0.883	0.794	0.129	0.686	-0.856	-0.162
GBP	-0.591	-0.877	-0.880	-0.369	0.125	0.821	-0.845	0.732	-0.044	0.740	-0.833	-0.091
EUR	-0.717	0.240	0.185	-0.032	0.199	-0.369	-0.001	-0.544	-0.241	0.010	-0.269	1.000
AUD	-0.742	-0.811	-0.731	-0.097	0.262	0.702	-0.834	0.495	0.031	0.646	-0.946	0.239

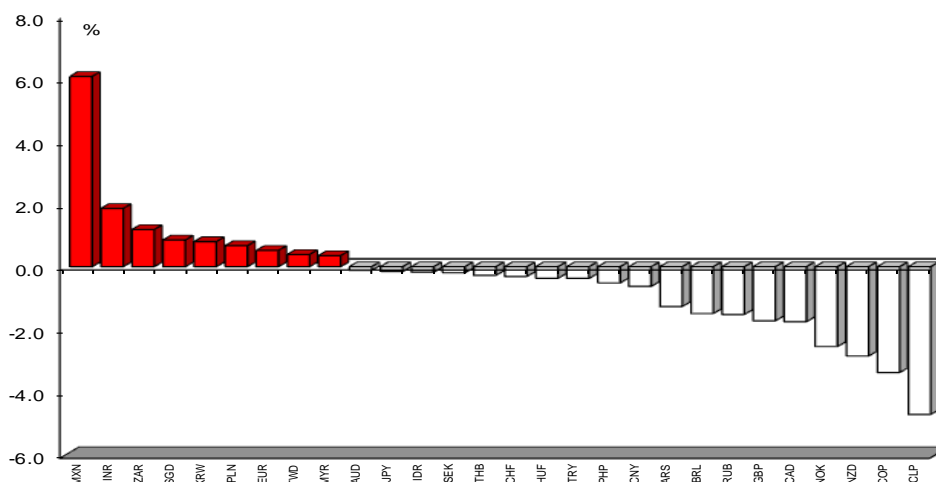
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0700	1.0712	1.0727	1.0800	1.0802
GBP-USD	1.2110	1.2200	1.2271	1.2300	1.2373
AUD-USD	0.7586	0.7600	0.7685	0.7700	0.7741
NZD-USD	0.6890	0.7000	0.7002	0.7100	0.7138
USD-CAD	1.3202	1.3300	1.3302	1.3400	1.3535
USD-JPY	111.98	113.00	113.38	113.78	114.00
USD-SGD	1.3991	1.4000	1.4046	1.4100	1.4169
EUR-SGD	1.4810	1.5000	1.5067	1.5074	1.5100
JPY-SGD	1.2277	1.2300	1.2388	1.2400	1.2451
GBP-SGD	1.7141	1.7200	1.7236	1.7300	1.7537
AUD-SGD	1.0700	1.0752	1.0793	1.0800	1.0919
Gold	1200.00	1216.48	1224.50	1264.18	1264.90
Silver	16.82	17.40	17.41	17.41	17.50
Crude	47.27	49.10	49.14	49.20	51.43

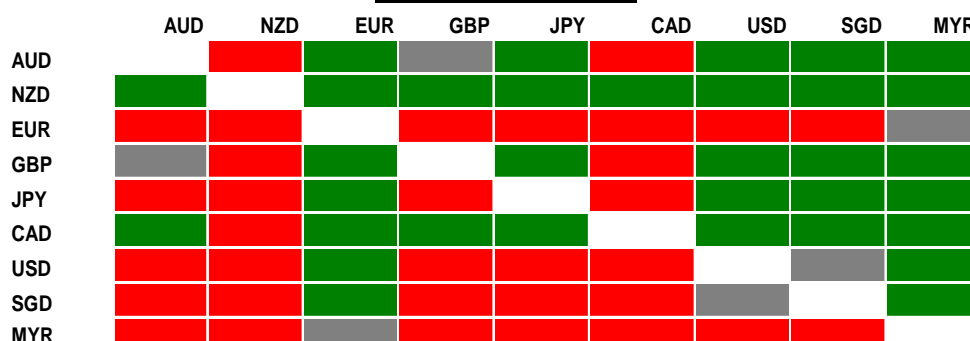
Source: OCBC Bank

FX performance: 1-month change agst USD



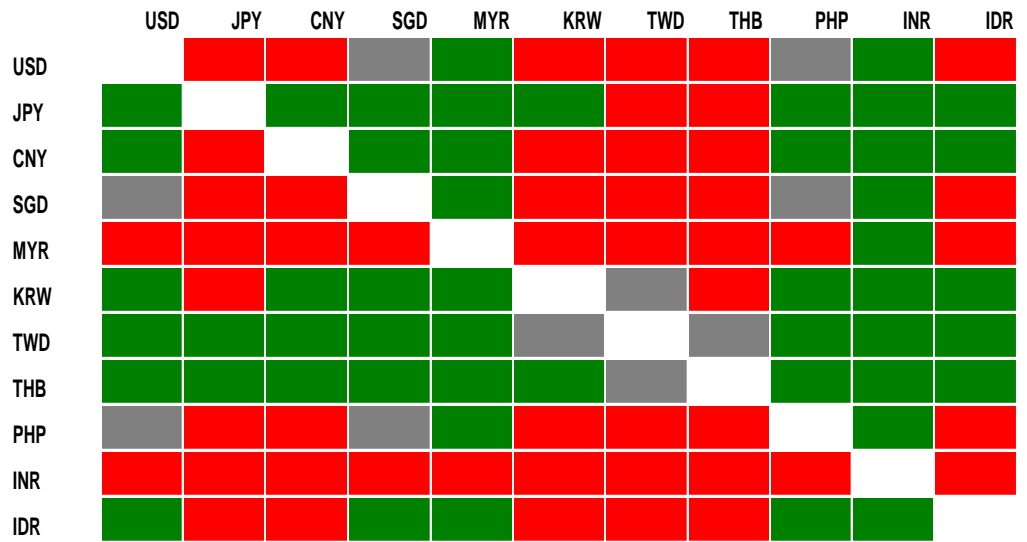
Source: Bloomberg

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	01-Mar-17	B	USD-CAD	1.3326	1.3605	1.3185	BOC static in March, sharp contrast with Fed's recent posture	
2	03-Mar-17	S	GBP-USD	1.2253	1.1900	1.2435	Sustained Brexit risks vs. recent USD resilience	
STRUCTURAL								
3	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER	
4	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
5	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ	
6	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	
7	22-Feb-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 Cost: 1.19%				Global reflation trade, Fed expected to hike later rather than sooner	
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	18-Jan-17	21-Feb-17	B	EUR-USD	1.0688	1.0588	Dollar hiccup, hint of inflation in EZ	-1.11
2	16-Feb-17	22-Feb-17	S	USD-CAD	1.3060	1.3127	Global reflation, supportive domestic data, USD hesitation	-0.52
3	25-Jan-17	01-Mar-17	B	GBP-USD	1.2528	1.2383	Subsidence of acute A50 concerns in the short term	-1.26
4	12-Jan-17	02-Mar-17	B	AUD-USD	0.7463	0.7560	Reflation may dominate as the Trump trade pauses	+1.35
5	20-Jan-17	02-Mar-17	S	USD-SGD	1.4240	1.4125	Potential for Trump's inauguration to disappoint USD bulls	+0.81
6	12-Jan-17	08-Mar-17	S	USD-JPY	114.63	113.91	Downward consolidation post-Trump press conference	+0.31
7	22-Feb-17	10-Mar-17	S	EUR-USD	1.0548	1.0695	Potential near term USD strength, brewing EZ political risks	-1.30
8	10-Mar-17	15-Mar-17	S	AUD-USD	0.7519	0.7605	Compression in cyclicals vs. USD strength	
* realized								
								Jan-Feb 2017 Return -7.14
								2016 Return +6.91

Source: OCBC Bank

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