

Friday, February 17, 2017

FX Themes/Strategy/Trading Ideas

- Despite supportive US data flow (Philly Fed, initial claims) and hawkish comments from Fed's Fischer and Lockhart, a softer UST curve (middle sector outperformed after leading the way lower in recent sessions) sent the USD lower across G10.
- With positive investor appetite crimped slightly (wobbly EZ/US equities), the **FXSI (FX Sentiment Index)** consolidated higher within Risk-On territory after chalking up 6 consecutive sessions of declines. Overall, with little US-specific leads expected today (no first tier US data or Fed speeches scheduled), investors may revert to slight dollar skepticism instead while keeping an eye on potential risk aversion – making for a rangy and noisy trading range.
- With the global reflation trade increasingly in the driver's seat at this juncture and the domestic data flow largely supportive (Jan labor market numbers for e.g.), we undertake a tactical short **USD-CAD**. From a spot ref at 1.3060 on Thursday, we target 1.2785 and place a stop at 1.3200.

Asian FX

- Asia may be expected to start the day with some dollar vulnerability although and lingering caution on the risk appetite front may prove supportive on the downside for the Asian pairs. As such, the **ACI (Asian Currency Index)** may be expected to tick higher into the end of the week. Elsewhere, Bank Indonesia remained static on its policy parameters at its policy meeting as expected.
- **SGD NEER:** The SGD NEER is slightly softer on the day this morning at around -0.35% below its perceived parity (1.4131) despite the broadly softer greenback (implying downside reluctance for the USD-SGD). NEER-implied USD-SGD thresholds are softer on the day with -0.50% estimated at 1.4202. Despite the better than expected 4Q GDP numbers, note that Jan NODX disappointed prior expectations. Volatility constraints remain in force for the SGD, restraining excessive moves in USD-SGD. Expect initial support into the 100-day MA (1.4157) with topside for the pair potentially governed by the -0.50% to -0.60% (1.4216) NEER-implied threshold pending further broad USD moves.

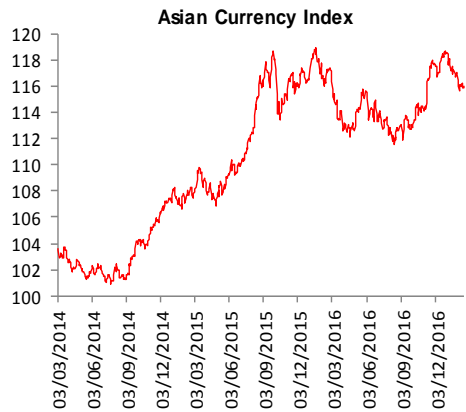
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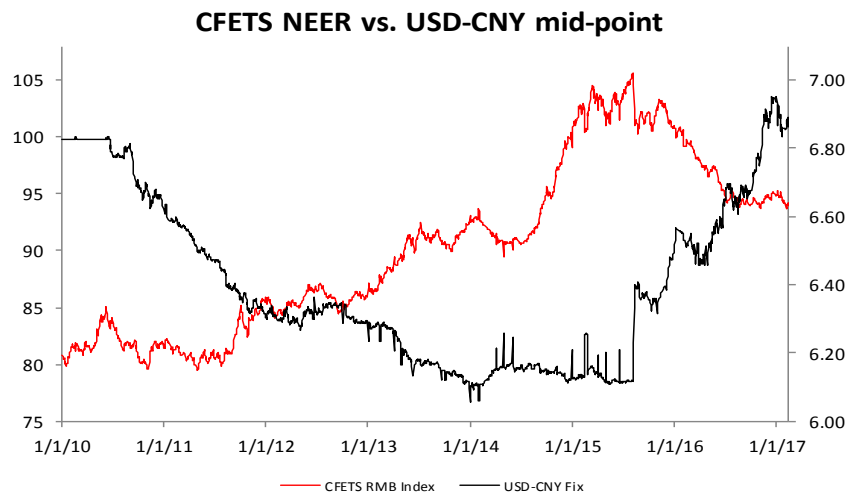
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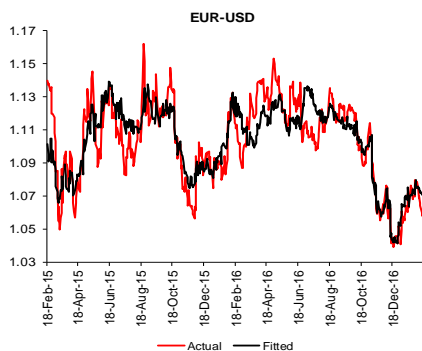
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point printed at a lower than expected 6.8456 this morning from 6.8629 yesterday. This resulted in the **CFETS RMB Index** gaining to 94.21 from 94.10 on Thursday. On the domestic front, officially-linked media continues to reiterate that monetary policy will remain “neutral and prudent”, squaring with the fact that the CNY NEER established a solid floor since early February.



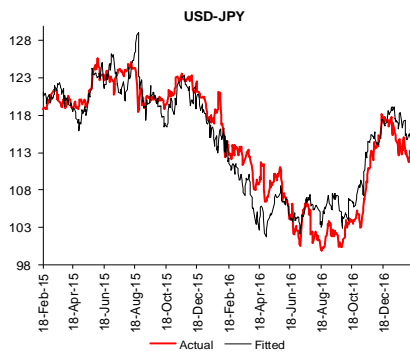
Source: OCBC Bank, Bloomberg

G7



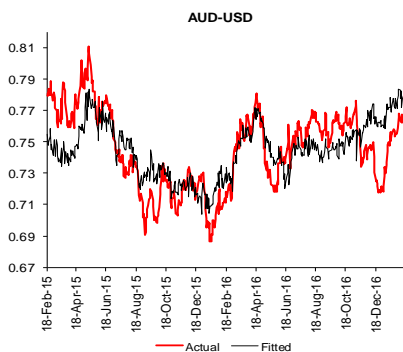
Source: OCBC Bank

- EUR-USD** The EUR-USD firmed despite ECB minutes indicating a willingness for some concessions (to maintain QE) via “limited and temporary deviations” from the capital key “were possible and inevitable”. Structural impediments may continue to limit excessive upside for the pair and we’d prefer to fade discretionary upticks within the 55-day MA (1.0605) and the 100-day MA (1.0734).



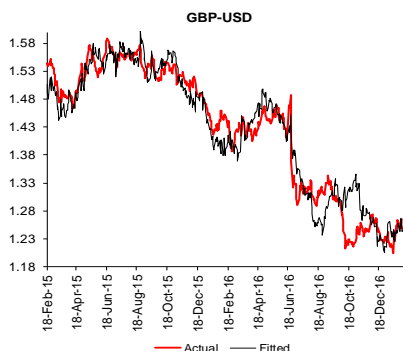
Source: OCBC Bank

- USD-JPY** Expect USD-JPY to remain suppressed in the current vulnerable USD environment with the pair trading pretty much in tandem with its short term valuations and interest rate differential dynamics. Expect initial support on dips towards 112.80 if 113.00 is violated.



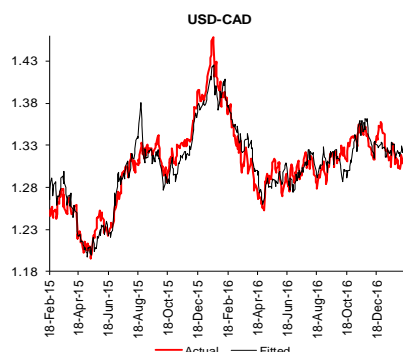
Source: OCBC Bank

- AUD-USD** The AUD finally took a slight breather after recent gains against the USD while the cyclicals as a whole on Thursday retreated across G10 as investor optimism moderated. Expect some consolidation in the near term with 0.7700 serving as a short term locus and the AUD is expected to respond willingly to any improvement in global risk appetite levels. On other fronts, the RBNZ is apparently looking for a softer NZD profile in a published speech.



Source: OCBC Bank

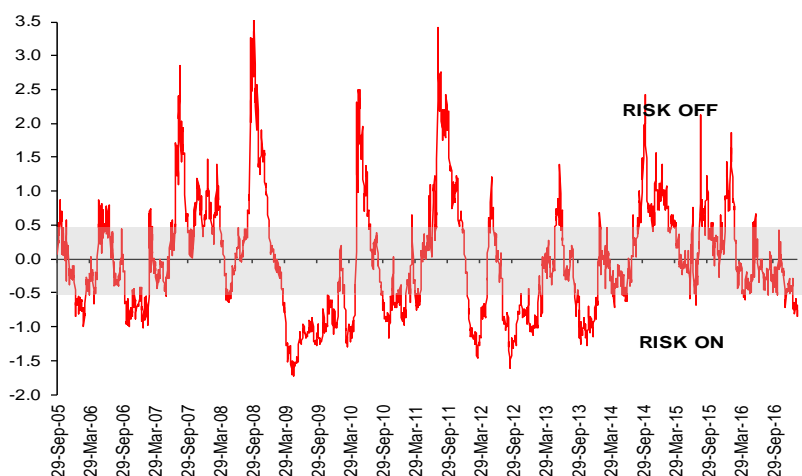
- GBP-USD** Implied short term valuations continue to sink and this may ultimately weigh on the pair on a multi-session horizon. With A50 news flow subsiding of late, GBP-USD may instead attempt to trade off domestic data flow (Jan retail sales today). The 100-day MA (1.2415) and 55-day MA (1.2427) may attract if the foothold at 1.2500 is lost.



Source: OCBC Bank

- USD-CAD** USD-CAD may remain trapped within 1.3000-1.3200 pending fresh external cues with little in the way of data releases today. Short term valuations meanwhile have remained relatively static. Preference to sell rallies in the interim.

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	0.059	0.104	0.401	0.323	-0.085	0.645	-0.349	0.020	-0.358	0.640	-0.923
CHF	0.920	0.067	0.085	0.269	0.148	0.167	0.672	-0.384	0.000	-0.495	0.496	-0.828
SGD	0.731	0.184	0.139	-0.016	-0.025	0.086	0.837	-0.376	-0.067	-0.414	0.653	-0.607
MYR	0.663	-0.296	-0.345	0.248	0.176	0.179	0.246	-0.340	0.286	-0.286	0.302	-0.598
PHP	0.647	0.260	-0.008	0.295	0.234	0.126	0.611	-0.082	0.185	-0.437	0.461	-0.511
JPY	0.645	0.610	0.187	0.053	-0.014	0.180	1.000	-0.194	0.022	-0.610	0.569	-0.493
CNH	0.640	0.215	0.456	0.474	0.560	-0.362	0.569	-0.016	-0.248	0.119	1.000	-0.725
CAD	0.450	-0.061	-0.040	-0.438	-0.466	0.052	0.444	-0.717	0.336	-0.398	0.153	-0.191
CNY	0.104	0.458	1.000	0.235	0.232	-0.300	0.187	0.231	-0.497	0.090	0.456	-0.182
THB	0.075	0.180	-0.078	-0.738	-0.779	0.405	0.498	-0.486	0.293	-0.595	-0.062	0.219
USGG10	0.059	1.000	0.458	0.159	0.093	0.031	0.610	0.265	-0.097	-0.447	0.215	0.005
AUD	0.034	-0.139	0.083	0.725	0.705	-0.293	-0.452	0.496	-0.184	0.389	-0.003	-0.195
TWD	-0.009	-0.081	-0.210	-0.862	-0.878	0.597	0.335	-0.572	0.376	-0.558	-0.257	0.277
KRW	-0.015	0.040	-0.162	-0.734	-0.770	0.611	0.374	-0.449	0.390	-0.552	-0.203	0.265
IDR	-0.104	0.380	0.048	-0.620	-0.671	0.328	0.377	-0.241	0.392	-0.496	-0.203	0.361
INR	-0.182	0.179	-0.255	-0.793	-0.833	0.384	0.309	-0.494	0.342	-0.553	-0.301	0.443
CCN12M	-0.432	0.508	0.019	-0.551	-0.514	0.366	0.311	0.138	0.100	-0.275	-0.109	0.578
GBP	-0.591	0.208	0.435	0.155	0.242	0.060	-0.314	0.655	-0.510	0.384	-0.014	0.427
NZD	-0.819	0.116	0.209	-0.184	-0.102	-0.186	-0.575	0.333	-0.144	0.353	-0.503	0.750
EUR	-0.923	0.005	-0.182	-0.597	-0.564	0.246	-0.493	0.204	0.085	0.097	-0.725	1.000

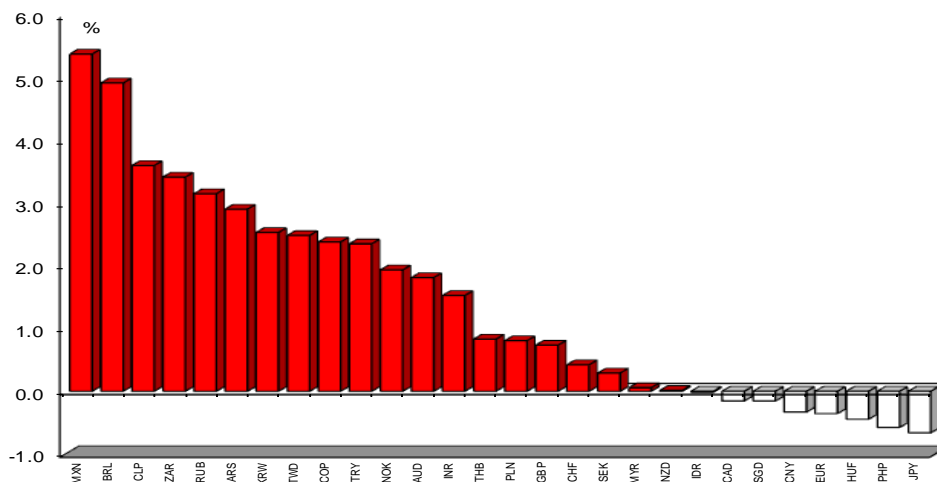
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0594	1.0600	1.0675	1.0700	1.0821
GBP-USD	1.2411	1.2500	1.2502	1.2600	1.2629
AUD-USD	0.7515	0.7700	0.7703	0.7729	0.7732
NZD-USD	0.7147	0.7200	0.7212	0.7300	0.7340
USD-CAD	1.2985	1.3000	1.3062	1.3100	1.3143
USD-JPY	111.64	113.00	113.35	114.00	114.90
USD-SGD	1.4054	1.4100	1.4174	1.4200	1.4286
EUR-SGD	1.5013	1.5100	1.5131	1.5136	1.5161
JPY-SGD	1.2419	1.2500	1.2505	1.2600	1.2629
GBP-SGD	1.7536	1.7700	1.7720	1.7721	1.7800
AUD-SGD	1.0658	1.0900	1.0918	1.0950	1.0960
Gold	1186.07	1200.00	1240.00	1243.90	1249.46
Silver	18.00	18.02	18.05	18.10	18.14
Crude	53.37	53.40	53.46	53.50	54.10

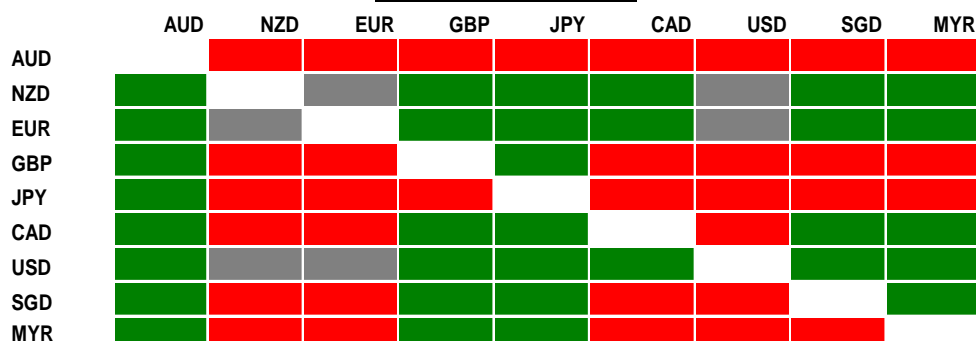
Source: OCBC Bank

FX performance: 1-month change agst USD



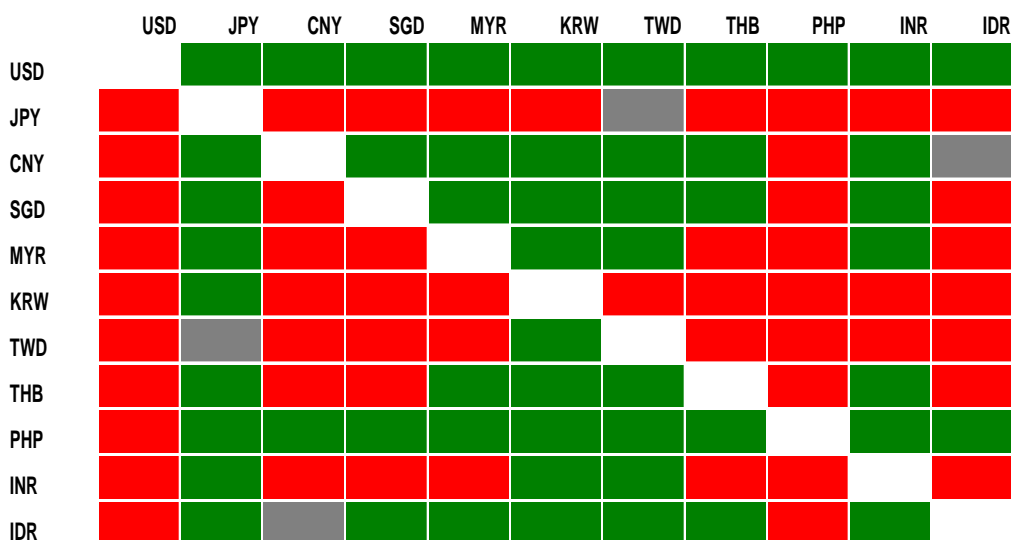
Source: Bloomberg

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	
6	16-Feb-17	S	USD-CAD	1.3060	1.2785	1.3200	Global reflation, supportive domestic data, USD hesitation	
STRUCTURAL								
7	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER	
8	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
9	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ	
10	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	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	27-Dec-16	23-Jan-17	CLS	GBP-USD	1.2276	1.2386	A50 risks, UK current account deficits, broad USD strength	-0.77
2	09-Jan-17	06-Feb-17	S	USD-CAD	1.3264	1.3135	Supportive crude and labor market numbers	0.92
* realized								Jan 2017 Return -6.78 2016 Return +6.91

Source: OCBC Bank

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