

Friday, March 17, 2017

FX Themes/Strategy/Trading Ideas

- Despite a firmer UST curve and supportive data points (Feb housing starts and Mar Philly Fed), the USD ended mixed as the cyclicals consolidated slightly lower after Wed's climb, while the EUR and GBP were boosted by domestic factors. The greenback however found some support after US Treasury Secretary Mnuchin noted the importance of the USD as a stable reserve currency. On the risk appetite front, the **FXSI (FX Sentiment Index)** inched yet lower within Risk-On territory.
- **After the USD's track record in the wake of the NFP and the FOMC, the bar may now have been set very high for discretionary and outright dollar bullishness. Instead, investors may periodically continue to focus on the global deflation trade as well as idiosyncratic factors outside of the dollar sphere.**
- In terms of strategy, following Dutch election news flow and some smoothing over of Le Pen concerns (not to mention remarks from the ECB's Nowotny overnight), we look to initiate a tactical long **EUR-USD** today. From a spot ref of 1.0766, we target 1.1000 and place a stop at 1.0645.
- With the greenback in a weakened state amid still sanguine global risk appetite levels, **USD-SGD** may have room to test lower on a multi-session horizon. Although we do not expect the MAS to shift from its current neutral stance next month, we do note greater implicit tolerance for the SGD NEER to venture above its perceived parity, especially on the back of broad USD vulnerability. With spot ref of 1.4029 on Fri, we look for a 1.3800 objective, leaving a stop at 1.4145.

Asian FX

- EM FX continued to ride higher against the USD post FOMC with USD-Asia also softer on the day. USD-Asia should thus continue to sit heavy today, especially amidst positive Asian equities this morning. As such, the **ACI (Asian Currency Index)** may continue to shade towards 115.00 and continue to set year-to-date lows.
- **SGD NEER:** The **SGD NEER** is slightly softer on the day earl Fri at around +0.67% above its perceived parity (1.4119), with NEER-implied USD-SGD thresholds also marginally lower on the day. The NEER may be expected to trawl a +0.50% (1.4049) to +0.80% (1.4007) range, while USD-SGD may remain poised to potentially bleed lower to 1.3950 pending broader USD/risk appetite moves.

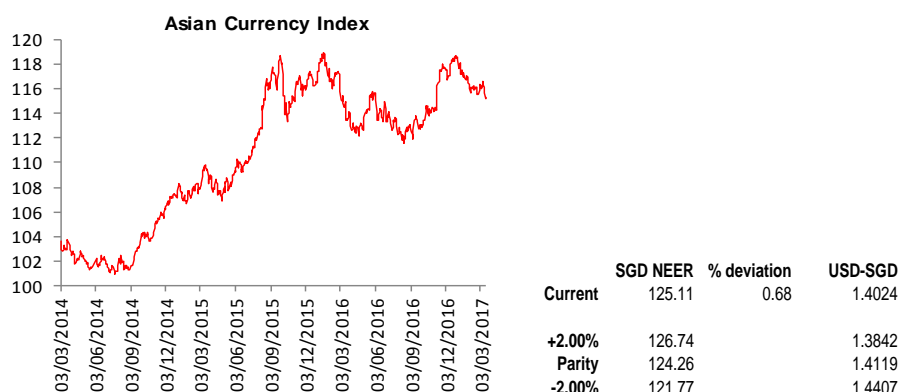
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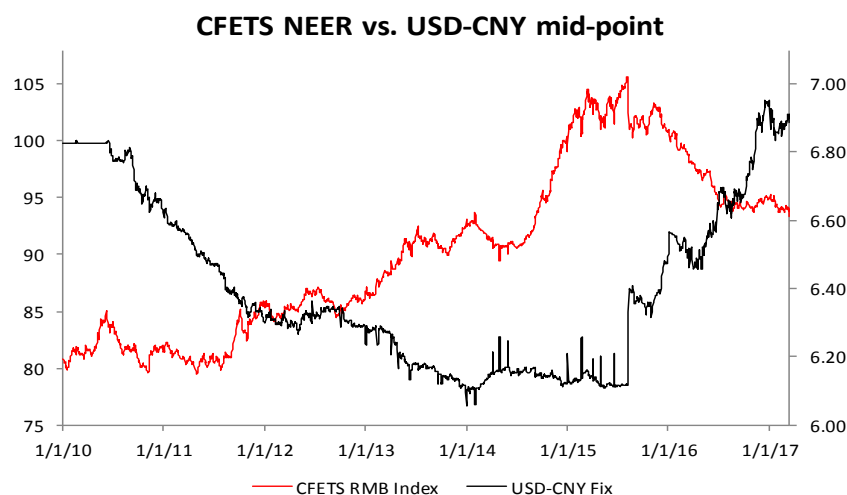
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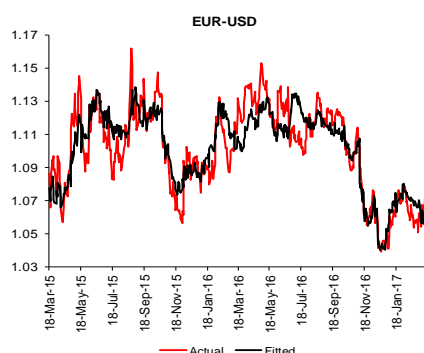
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point inched incrementally higher to 6.8873 from 6.8862 yesterday. This saw the **CFETS RMB Index** slipping further to 93.32 (year-to-date low) from 93.47.



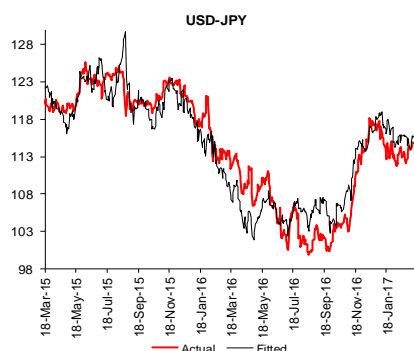
Source: OCBC Bank, Bloomberg

G7



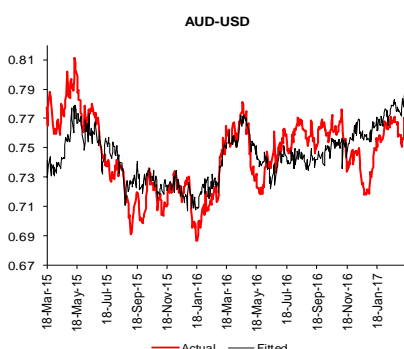
Source: OCBC Bank

- EUR-USD** The EUR-USD stepped above 1.0750 on Thu after the ECB's Nowotny noted that the central bank could consider raising rates before ending its QE (further fueling background speculation). Going ahead, with implied valuations slightly supported in the near term, the pair may have some upside potential if political risk compression persists. Initial resistance is expected into 1.0800/30.



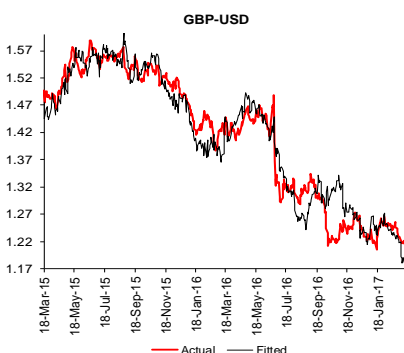
Source: OCBC Bank

- USD-JPY** The BOJ remained static as expected on Thu with the USD-JPY consolidative. Tone for the pair may remain top heavy given the current market demeanor towards the dollar with our model-implied short term valuations also slightly heavy. The 55-day MA (114.03) may continue to cap while initial support is expected towards 112.60 113.00 is breached.



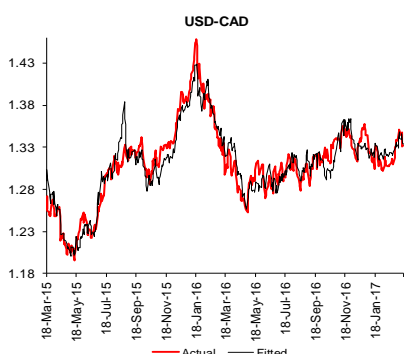
Source: OCBC Bank

- AUD-USD** In the near term, it may be back to the drawing board for USD bulls while reflation trades come to the forefront once again. This regime switch (or more aptly, reversion) continues to manifest in firm short term valuations for the pair. We look for supported price action within 0.7610-0.7730 in the interim.



Source: OCBC Bank

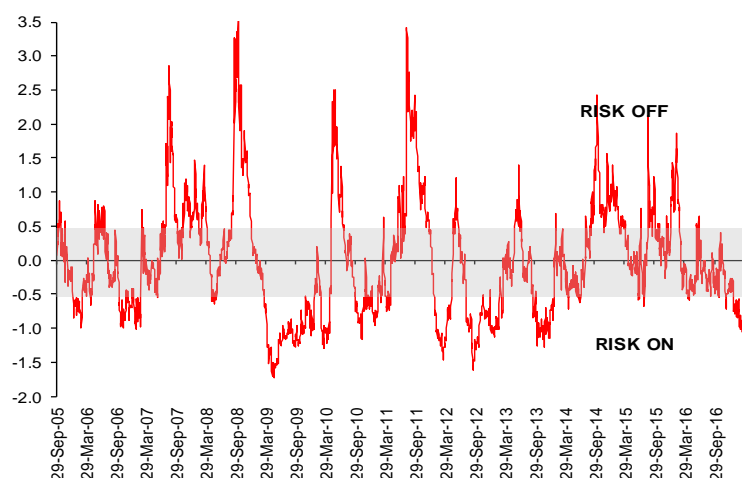
- GBP-USD** The GBP-USD jumped above 1.2350 after the BOE's Forbes voted for a rate hike at Thu's MPC (8-1 to remain unchanged) while meeting minutes showed some MPC members increasing watchful towards further potential upside in "activity or inflation". In the near term, broad dollar vulnerability may continue to buoy short term valuations for the GBP-USD. Expect however resistance to kick in towards the 55-day MA (1.2376) ahead of the 100-day MA (1.2410).



Source: OCBC Bank

- USD-CAD** After the dislocation lower on Wed, the USD-CAD may continue to consolidate at slightly more subdued levels in the near term in line with its near term implied valuations. Topside is expected to be capped at 1.3400 with inherent risks towards the 55-day MA (1.3218) instead.

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	0.346	0.329	0.070	-0.490	-0.042	0.615	0.055	0.236	-0.416	0.706	-0.719
CHF	0.897	0.220	0.225	-0.148	-0.505	0.028	0.482	0.265	0.189	-0.225	0.578	-0.813
CNH	0.706	0.793	0.748	0.104	-0.195	-0.570	0.853	-0.445	-0.101	-0.665	1.000	-0.131
JPY	0.615	0.914	0.841	0.199	-0.067	-0.690	1.000	-0.601	-0.010	-0.593	0.853	-0.041
CAD	0.579	0.877	0.847	0.296	-0.096	-0.759	0.867	-0.647	0.102	-0.761	0.884	0.094
PHP	0.567	0.478	0.636	0.385	-0.216	-0.426	0.637	-0.303	0.054	-0.529	0.640	-0.143
SGD	0.514	0.357	0.226	-0.423	-0.265	-0.080	0.525	-0.016	-0.031	0.118	0.437	-0.514
KRW	0.467	0.564	0.550	0.073	-0.379	-0.319	0.691	-0.303	-0.254	-0.407	0.625	-0.028
TWD	0.396	0.753	0.731	0.069	-0.390	-0.570	0.819	-0.500	-0.014	-0.520	0.766	0.139
INR	0.384	-0.471	-0.537	-0.324	-0.713	0.689	-0.138	0.731	0.108	0.285	-0.019	-0.729
MYR	0.384	0.280	0.259	-0.218	-0.221	-0.088	0.452	-0.122	-0.070	0.031	0.284	-0.258
USGG10	0.346	1.000	0.921	0.167	0.192	-0.863	0.914	-0.850	-0.081	-0.587	0.793	0.322
CNY	0.329	0.921	1.000	0.284	0.206	-0.881	0.841	-0.844	-0.182	-0.621	0.748	0.357
IDR	0.293	0.548	0.569	0.304	-0.024	-0.420	0.688	-0.419	-0.037	-0.380	0.440	0.101
THB	0.238	0.875	0.870	-0.011	0.140	-0.861	0.818	-0.862	-0.053	-0.317	0.632	0.327
CCN12M	0.193	0.391	0.329	-0.281	-0.210	-0.235	0.506	-0.269	-0.286	-0.026	0.380	0.004
NZD	-0.408	-0.953	-0.940	-0.167	-0.112	0.862	-0.838	0.808	0.171	0.686	-0.852	-0.323
GBP	-0.583	-0.870	-0.861	-0.237	0.141	0.752	-0.863	0.637	-0.064	0.691	-0.863	-0.058
AUD	-0.699	-0.765	-0.690	0.063	0.312	0.597	-0.847	0.443	-0.018	0.559	-0.932	0.201
EUR	-0.719	0.322	0.357	0.260	0.536	-0.553	-0.041	-0.650	-0.356	-0.188	-0.131	1.000

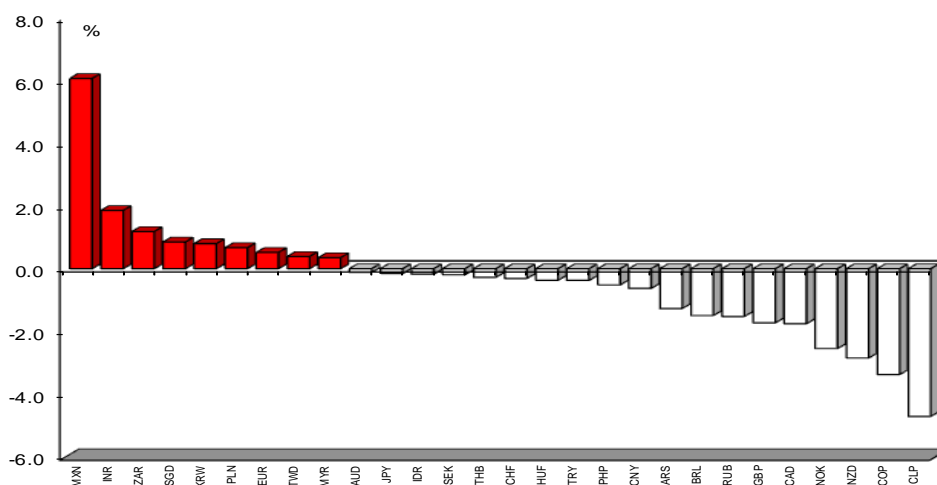
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0700	1.0753	1.0773	1.0800	1.0802
GBP-USD	1.2110	1.2300	1.2352	1.2376	1.2400
AUD-USD	0.7594	0.7600	0.7684	0.7700	0.7741
NZD-USD	0.6890	0.6900	0.6984	0.7000	0.7138
USD-CAD	1.3204	1.3300	1.3318	1.3400	1.3535
USD-JPY	112.06	113.00	113.47	113.71	114.00
USD-SGD	1.3978	1.4000	1.4034	1.4100	1.4161
EUR-SGD	1.5100	1.5117	1.5118	1.5134	1.5200
JPY-SGD	1.2277	1.2300	1.2368	1.2400	1.2453
GBP-SGD	1.7141	1.7300	1.7335	1.7400	1.7532
AUD-SGD	1.0700	1.0758	1.0783	1.0800	1.0908
Gold	1200.00	1217.73	1226.80	1264.23	1264.90
Silver	16.82	17.20	17.28	17.30	17.42
Crude	47.09	48.80	48.82	48.90	51.40

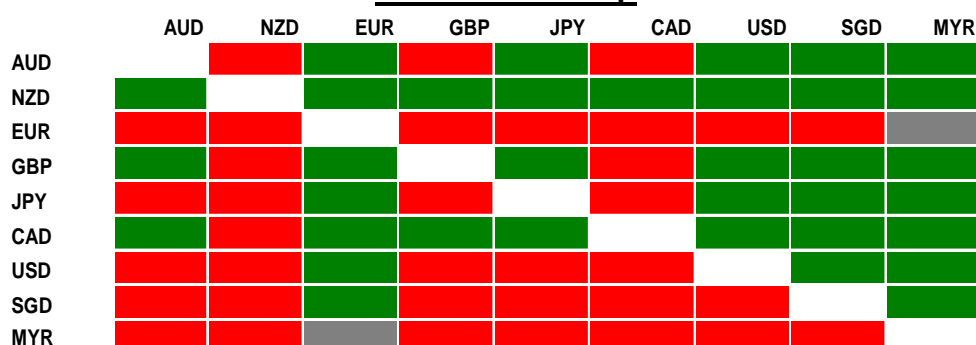
Source: OCBC Bank

FX performance: 1-month change agst USD



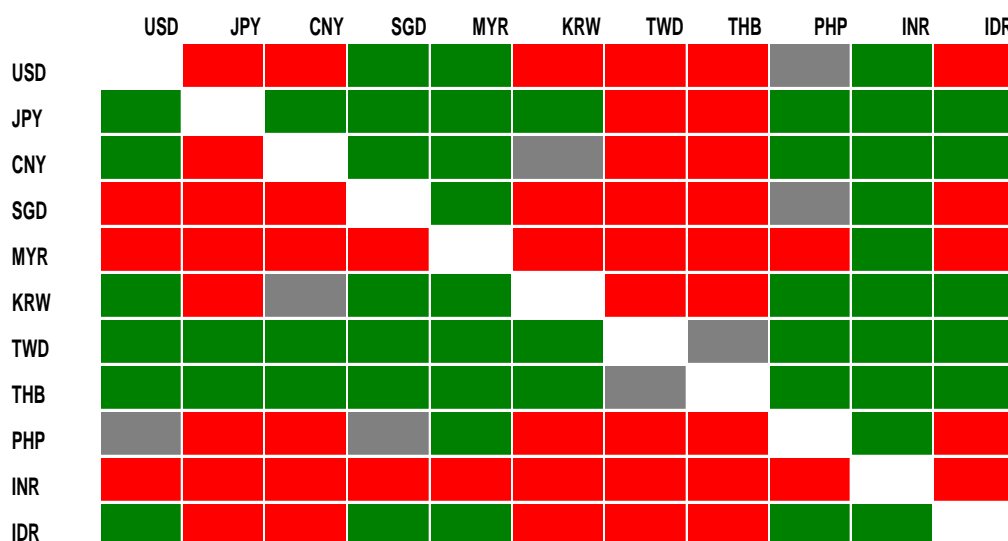
Source: Bloomberg

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	
3	17-Mar-17	B	EUR-USD	1.0766	1.1000	1.0645	Dutch election news flow, abating le Pen concerns, weekend USD	
4	17-Mar-17	S	USD-SGD	1.4029	1.3800	1.4145	Vulnerable USD, positive risk appetite, tolerant MAS	
	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	
8	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	
9	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 cyclical vs. USD strength	
	* realized							
	Jan-Feb 2017 Return							-7.14
	2016 Return							+6.91

Source: OCBC Bank

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