

Wednesday, January 18, 2017

FX Themes/Strategy/Trading Ideas

- The dollar got smoked (amidst a softer UST curve) on Tuesday, first stung by a random comment from President-elect Trump regarding a strong dollar (accompanied by the collapse in the USD-CNH), and subsequently as the pound surged in the wake of PM May's Brexit speech. As an aside and apart from the GBP, the NZD also led the way higher against the greenback, presumably on the back of carry as the dollar was defused.
- In a nutshell, the GBP was triggered higher on short-covering (as opposed to fresh longs) after PM May stated that both houses of Parliament would be given a vote on the Brexit deal. In the near term, the Trump trade may continue to undergo a re-assessment despite supportive/hawkish comments from the Fed's Brainard and Williams. On this front, look to further appearances by Kaplan (1400 GMT), Kashkari (1600 GMT) and Yellen (2000 GMT) later today while US Dec CPI readings are also due.
- On the risk appetite front, negative global equities lifted the **FXSI (FX Sentiment Index)** higher within Risk-Neutral territory on Tuesday.

Asian FX

- The **ACI (Asian Currency Index)** may be expected to remain suppressed for a second day running on the back of a weakened greenback. Within the region, the SGD remains relatively more responsive to dollar and CNH cues.
- **SGD NEER:** After the volatility on Tuesday, the SGD NEER is a touch firmer at around -0.15% above its perceived parity (1.4157). With the damage wrought on the broad dollar, NEER-implied USD-SGD thresholds are significantly lower as a result. Elsewhere, we continue to note the inability of the NEER to persist above parity for an extended period of time.
- At current market levels, the -0.50% threshold corresponds to 1.4229 and if the if broad USD continues to slide, expect some potential to seep towards +0.10% (circa 1.414/5 at current levels). Technically, the next retracement way point comes at the 382 Fibo level of 1.4089 but with volatility indicators for USD-SGD lighting up, an extension lower for the pair would have to be predicated on the DXY.

Asia – Net portfolio capital inflow update

- The net portfolio inflow environment in Asia remains largely supportive and should bolster the regional currencies if the broad dollar continues to flail.

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

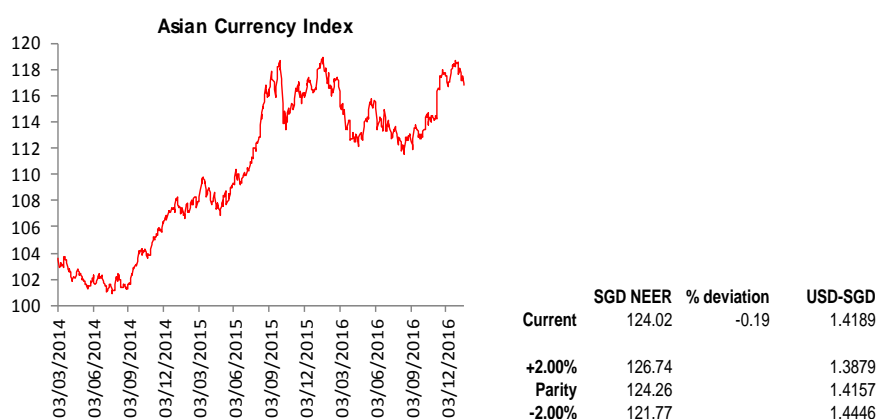
Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

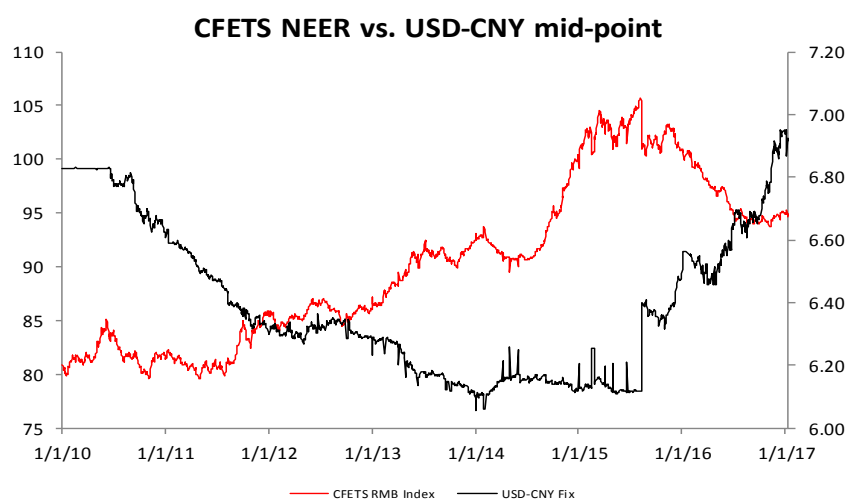
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

- Within the construct of this metric, the KRW and the INR continue to have relatively more potential upside (in the face of a further dollar retreat) while the PHP can continue to inch higher in line with its improving portfolio situation.
- Meanwhile, the TWD is looking slightly rich on a short term horizon relative to its subdued equity inflows. Elsewhere, net inflows for the IDR have moderated and may limit the local unit's potential for appreciation in the short term.

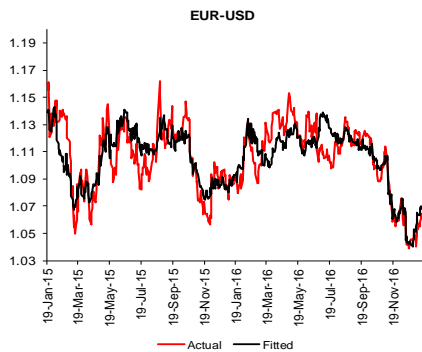


Source: OCBC Bank

- **CFETS RMB Index:** In the aftermath of the dollar slide on Tuesday, the USD-CNY mid-point stuck to the script and fell (as largely expected) to 6.8525 from 6.8992 on Tuesday. This saw the **CFETS RMB Index** inching slightly higher to 94.65 from 94.63 and remaining largely stable.

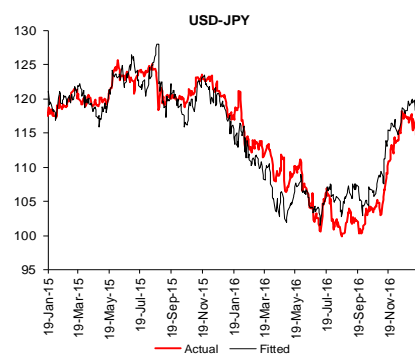


Source: OCBC Bank, Bloomberg

G7

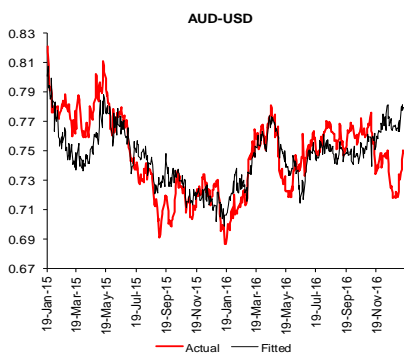
Source: OCBC Bank

- **EUR-USD** EUR-USD may continue to lift higher in tandem with short term implied valuations and pending further cues from the ECB's Draghi tomorrow. After breaking above its 55-day MA (1.0626), any potential dollar retreat may incite a test towards 1.0790.



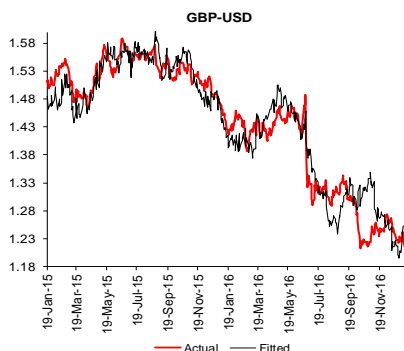
Source: OCBC Bank

- **USD-JPY** Despite some indications of an overshoot, USD-JPY we think may continue to be on a slippery slope, led also by softening short term implied valuations. As noted previously, the 382 Fibo retracement at 111.61 may beckon, especially after yesterday's violation of the 55-day MA (113.42).



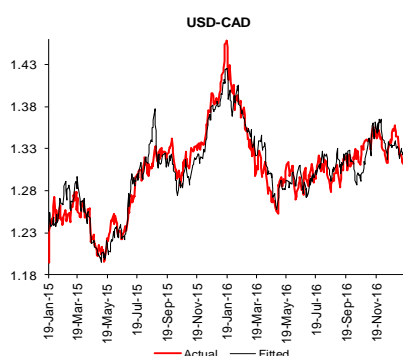
Source: OCBC Bank

- **AUD-USD** This morning, the Jan Westpac consumer confidence index improved to 97.4 (97.3 prev) and this may continue to prop the AUD-USD in the near term. Near term view remains unchanged and the pair may continue to chase buoyant short term implied valuations although some pause for cause may kick in towards 0.7600 in the near term.



Source: OCBC Bank

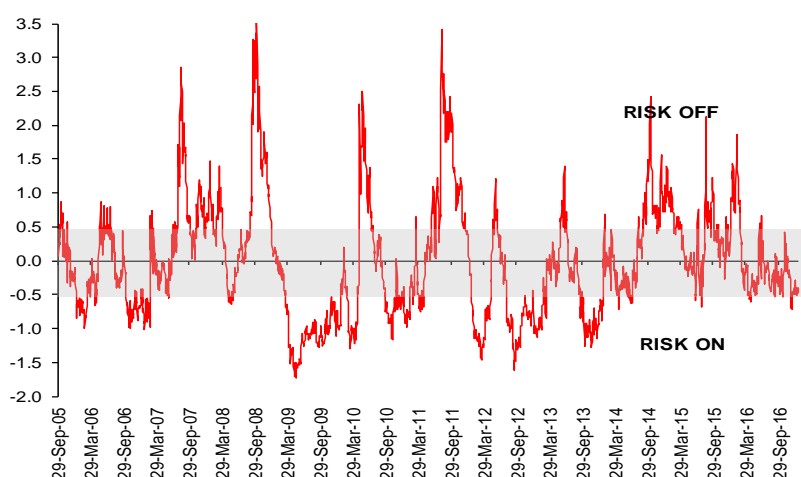
- **GBP-USD** It remains to be seen if the euphoria surrounding the GBP-USD can be prolonged beyond the short term. Meanwhile, the pair remains comfortably within its implied short term confidence intervals. In the interim, expect a sticking point around the 55-day MA (1.2414) with short term vibes slightly more neutral after yesterday's price action.



Source: OCBC Bank

- USD-CAD** Amid a crumbling dollar and supported crude, the USD-CAD was able to sink below 1.3100 and subsequently below 1.3050 briefly on Tuesday. The Bank of Canada meeting today may present the next domestic focus but in the interim, USD-CAD may continue to track lower in line with short term implied valuations. Expect some consolidation on approach of 1.3000 nevertheless.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| Security | DXY | USGG10 | CNY | SPX | MSELCA | CRY | JPY | CL1 | VIX | ITRTEX | CNH | EUR |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | 0.868 | 0.912 | -0.357 | -0.852 | -0.714 | 0.960 | 0.163 | 0.205 | -0.550 | 0.818 | -0.986 |
| CHF | 0.989 | 0.900 | 0.915 | -0.371 | -0.872 | -0.707 | 0.947 | 0.171 | 0.217 | -0.516 | 0.876 | -0.987 |
| JPY | 0.960 | 0.783 | 0.890 | -0.321 | -0.786 | -0.709 | 1.000 | 0.237 | 0.204 | -0.596 | 0.802 | -0.947 |
| SGD | 0.943 | 0.836 | 0.912 | -0.548 | -0.868 | -0.662 | 0.941 | 0.262 | 0.396 | -0.456 | 0.911 | -0.946 |
| THB | 0.941 | 0.853 | 0.813 | -0.425 | -0.909 | -0.682 | 0.930 | 0.337 | 0.243 | -0.601 | 0.789 | -0.929 |
| CNY | 0.912 | 0.758 | 1.000 | -0.418 | -0.701 | -0.712 | 0.890 | 0.076 | 0.312 | -0.374 | 0.884 | -0.892 |
| CAD | 0.887 | 0.853 | 0.814 | -0.615 | -0.932 | -0.529 | 0.853 | 0.413 | 0.460 | -0.453 | 0.898 | -0.878 |
| USGG10 | 0.868 | 1.000 | 0.758 | -0.305 | -0.929 | -0.556 | 0.783 | 0.210 | 0.091 | -0.454 | 0.754 | -0.873 |
| CNH | 0.818 | 0.754 | 0.884 | -0.660 | -0.783 | -0.627 | 0.802 | 0.120 | 0.504 | -0.215 | 1.000 | -0.844 |
| TWD | 0.781 | 0.549 | 0.778 | -0.584 | -0.684 | -0.459 | 0.805 | 0.441 | 0.600 | -0.499 | 0.730 | -0.713 |
| IDR | 0.738 | 0.716 | 0.644 | -0.635 | -0.853 | -0.481 | 0.734 | 0.430 | 0.541 | -0.631 | 0.702 | -0.738 |
| KRW | 0.725 | 0.450 | 0.772 | -0.477 | -0.555 | -0.526 | 0.746 | 0.273 | 0.481 | -0.396 | 0.717 | -0.642 |
| MYR | 0.649 | 0.349 | 0.579 | -0.451 | -0.506 | -0.436 | 0.693 | 0.258 | 0.509 | -0.642 | 0.437 | -0.618 |
| CCN12M | 0.640 | 0.554 | 0.699 | -0.820 | -0.671 | -0.284 | 0.617 | 0.428 | 0.820 | -0.259 | 0.779 | -0.634 |
| PHP | 0.503 | 0.744 | 0.406 | -0.411 | -0.699 | -0.468 | 0.375 | -0.032 | 0.100 | -0.200 | 0.541 | -0.596 |
| GBP | 0.229 | 0.270 | -0.023 | -0.122 | -0.419 | 0.021 | 0.073 | 0.192 | 0.069 | -0.273 | -0.106 | -0.094 |
| INR | -0.109 | -0.396 | 0.063 | 0.080 | 0.462 | -0.024 | -0.108 | -0.263 | 0.109 | 0.177 | 0.005 | 0.116 |
| AUD | -0.921 | -0.787 | -0.835 | 0.558 | 0.891 | 0.615 | -0.940 | -0.393 | -0.422 | 0.536 | -0.849 | 0.908 |
| NZD | -0.951 | -0.822 | -0.863 | 0.385 | 0.853 | 0.725 | -0.975 | -0.245 | -0.220 | 0.569 | -0.833 | 0.937 |
| EUR | -0.986 | -0.873 | -0.892 | 0.373 | 0.847 | 0.715 | -0.947 | -0.143 | -0.212 | 0.516 | -0.844 | 1.000 |

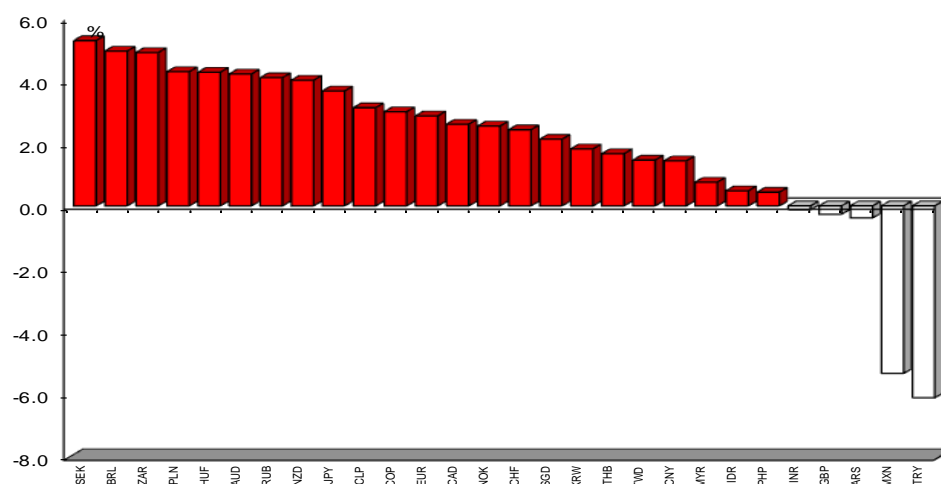
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0581 | 1.0600 | 1.0699 | 1.0700 | 1.0712 |
| GBP-USD | 1.2073 | 1.2300 | 1.2360 | 1.2400 | 1.2404 |
| AUD-USD | 0.7496 | 0.7500 | 0.7546 | 0.7569 | 0.7588 |
| NZD-USD | 0.7199 | 0.7200 | 0.7201 | 0.7239 | 0.7300 |
| USD-CAD | 1.3000 | 1.3019 | 1.3066 | 1.3100 | 1.3102 |
| USD-JPY | 112.00 | 112.57 | 112.94 | 112.98 | 113.00 |
| USD-SGD | 1.4150 | 1.4153 | 1.4186 | 1.4200 | 1.4303 |
| EUR-SGD | 1.5100 | 1.5132 | 1.5178 | 1.5186 | 1.5200 |
| JPY-SGD | 1.2518 | 1.2551 | 1.2560 | 1.2586 | 1.2600 |
| GBP-SGD | 1.7262 | 1.7500 | 1.7534 | 1.7600 | 1.7747 |
| AUD-SGD | 1.0556 | 1.0700 | 1.0705 | 1.0731 | 1.0755 |
| Gold | 1187.32 | 1200.00 | 1213.50 | 1218.90 | 1221.81 |
| Silver | 16.81 | 17.10 | 17.19 | 17.20 | 17.25 |
| Crude | 51.36 | 52.50 | 52.54 | 52.60 | 54.56 |

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

| | AUD | NZD | EUR | GBP | JPY | CAD | USD | SGD | MYR |
|-----|-------|-------|-------|-----|-------|-------|-------|-------|-------|
| AUD | | Red | Red | Red | Green | Red | Red | Red | Red |
| NZD | Green | | Grey | Red | Green | Red | Red | Red | Grey |
| EUR | Green | Grey | | Red | Green | Red | Red | Red | Red |
| GBP | Green | Green | Green | | Green | Green | Green | Green | Green |
| JPY | Red | Red | Red | Red | | Red | Red | Red | Red |
| CAD | Green | Green | Green | Red | Green | | Red | Green | Grey |
| USD | Green | Green | Green | Red | Green | Green | | Green | Green |
| SGD | Green | Green | Green | Red | Green | Red | Red | | Grey |
| MYR | Green | Grey | Green | Red | Green | Grey | Red | Grey | |

Source: OCBC Bank

Asia FX Heat Map

| | USD | JPY | CNY | SGD | MYR | KRW | TWD | THB | PHP | INR | IDR |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| USD | | | | | | | | | | | |
| JPY | | | | | | | | | | | |
| CNY | | | | | | | | | | | |
| SGD | | | | | | | | | | | |
| MYR | | | | | | | | | | | |
| KRW | | | | | | | | | | | |
| TWD | | | | | | | | | | | |
| THB | | | | | | | | | | | |
| PHP | | | | | | | | | | | |
| INR | | | | | | | | | | | |
| IDR | | | | | | | | | | | |

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
