

Monday, February 20, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite a softer UST curve, the greenback managed to end firmer on the day (except against the JPY) on Friday with the DXY also marginally firmer on the week. Slight investor caution took the shine off the cyclicals while the USD-JPY bled lower on the day. On this front, the **FXSI (FX Sentiment Index)** inched higher within Risk-On territory on Friday to also end firmer on the week (slightly less optimistic).
- This week, biggies to watch include global February PMIs on Tuesday and FOMC minutes on Wednesday, while Fed speak is scheduled for every day this week starting with Mester today (0115 GMT and 1415 GMT). **Expect therefore potential for further USD-specific gyrations this week.**
- US markets are away for a long weekend for the Presidents' Day holiday but any dollar skepticism/risk aversion we think would continue to manifest most effectively via the USD-JPY. It remains to be seen if the **DX** can overcome 101.00 once again or relapse back towards 100.00.
- On **CFTC** front, large non-commercial and leveraged accounts paired their respective implied net long dollar bias in aggregate in the latest week. Meanwhile, asset managers increased significantly their implied long dollar bias in the latest week, and excluding JPY positioning, asset managers paired their implied short dollar bias. Overall, real money seems to be accumulating their structural dollar longs while leveraged accounts continue to be leery of leeching on to a strong dollar narrative.

Asian FX

- On the Asian front, a wobbly start to early Asian equities may leave the dollar with a slight upper hand at the onset of the Asian session amid background investor jitters. The **ACI (Asian Currency Index)** is essentially unchanged from a week ago, tracking general moves in the DXY and with implied net portfolio capital inflows still supportive. EPFR data showed a significant pickup in implied equity inflows into Asia (Ex Japan, China) despite implied bond inflows weakening in the latest week. Asian currencies therefore remain equipped to ride on any potential USD weakness.
- **SGD NEER:** Budget announcement is due today (0730 GMT) and in the interim, the SGD NEER is slightly firmer on the day at round -0.27% (below its perceived parity (1.4140) with USD-SGD upside since Friday lagging the firmer NEER-implied USD-SGD thresholds. At current levels, the -0.50% threshold is estimated at 1.4211. Pending further external cues, the USD-

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

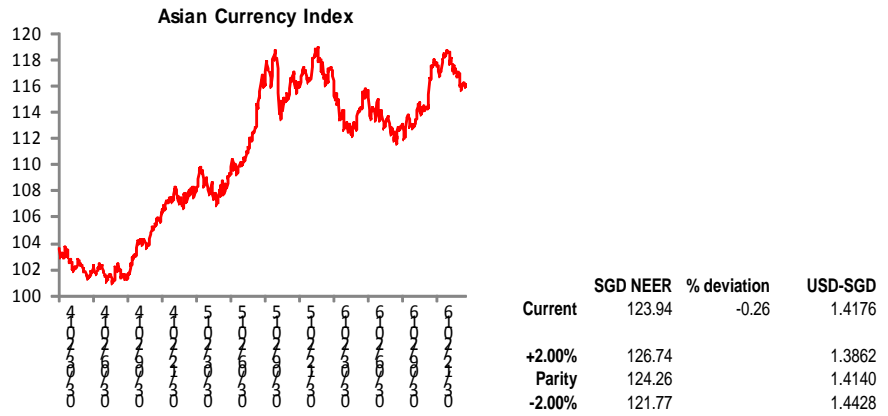
Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

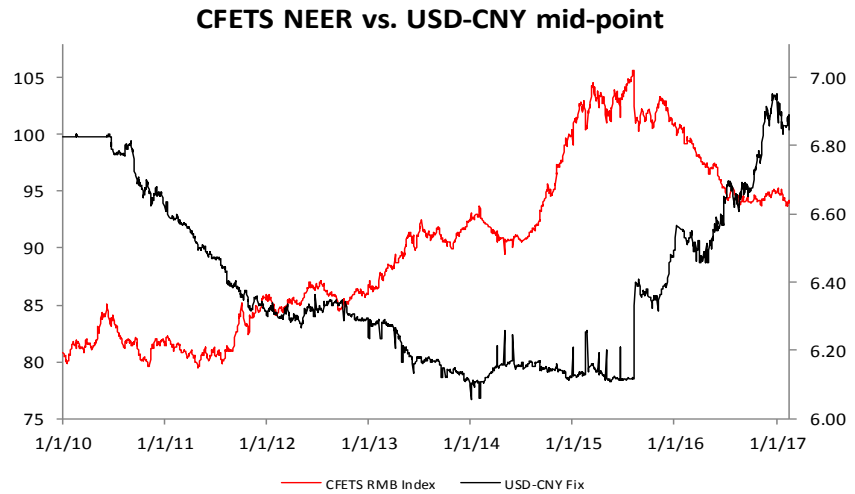
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

SGD may continue be range bound within its 100-day MA (1.4162) and initial topside resistance at 1.4230. Volatility indicators for spot and the NEER have also moderated.



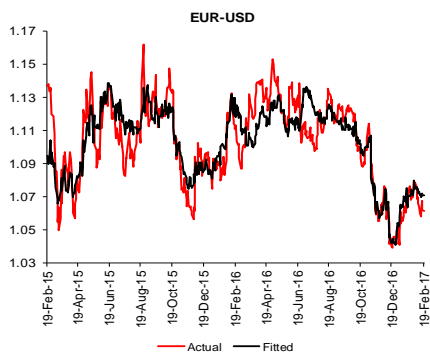
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose largely as expected (and within the confines of its boundary parameters) to 6.8743 from 6.8456 last Friday, with the **CFETS RMB Index** slipping to 94.01 from 94.21.



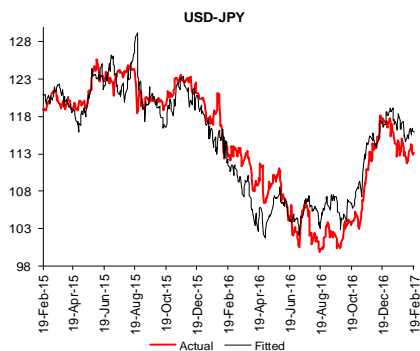
Source: OCBC Bank, Bloomberg

G7



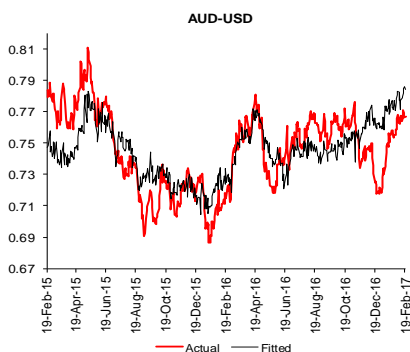
Source: OCBC Bank

- EUR-USD** The EUR-USD remained under pressure from background (French) political risk premiums on Friday on reports that the left may close ranks against the far right’s Le Pen, setting the stage for a protracted Presidential election process. On the German front, the SPD also moved ahead of Merkel’s CDU/CSU in the latest opinion poll. Net leveraged CFTC EUR shorts were increased in the latest week and coupled with softening short term implied valuations, the 55-day MA (1.0601) remains under threat with 1.0575 a subsequent support.



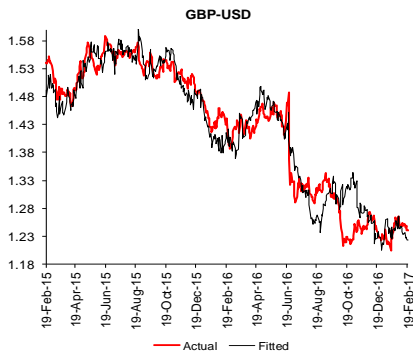
Source: OCBC Bank

- USD-JPY** USD-JPY tripped below 113.00 on Friday and on the CFTC front, net leveraged JPY shorts were reduced significantly in the latest week. Short term implied valuations are softer and if the foothold at 113.00 is lost, expect further subsidence towards 112.30.



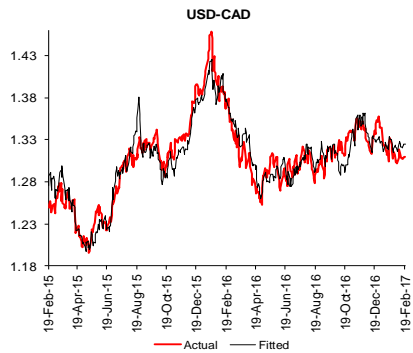
Source: OCBC Bank

- AUD-USD** RBA meeting minutes are due on Tuesday, the RBA’s Lowe speaks late Tuesday, and testifies before Parliament late Thursday. Net leveraged AUD longs on the CFTC front were built up further in the latest week and barring an acute episode of risk aversion or USD surge, dips in the AUD-USD may continue to be shallow. Short term implied valuations are still generally supportive and investors may persist in picking bottoms within 0.7630-0.7700.



- GBP-USD** Disappointing retail sales tripped the GBP-USD lower on Friday and the pair may continue to respond lower despite net leveraged CFTC GBP shorts being pared incrementally in the latest week. In addition, we note that implied short term valuations continue to sink and if the pair caves below 1.2400, 1.2340 is expected to attract.

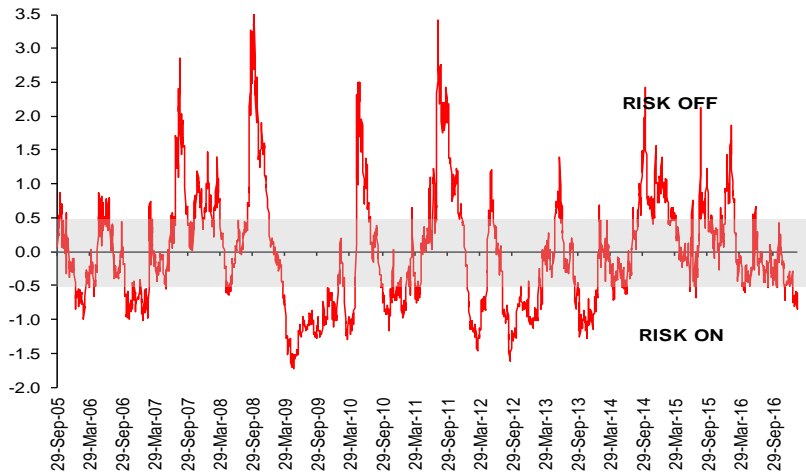
Source: OCBC Bank



- USD-CAD** In the near term, USD-CAD may continue to be range bound in line with its relatively static short term implied valuations. On the CFTC front, net leveraged CFTC CAD longs were given a boost in the latest week but the pair remain bounded by its 200-day MA (1.3147) and 1.3030 pending further external cues.

Source: OCBC Bank

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 | 0.059 | 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 |

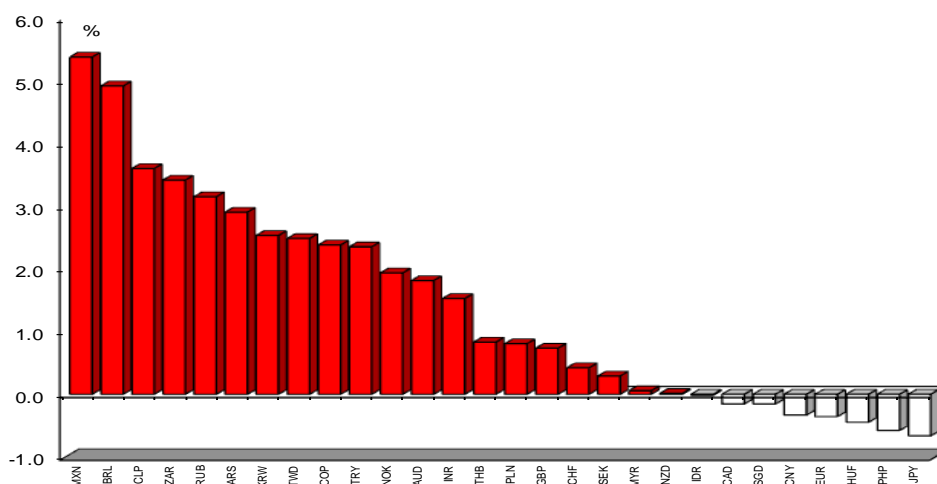
Source: Bloomberg

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 |

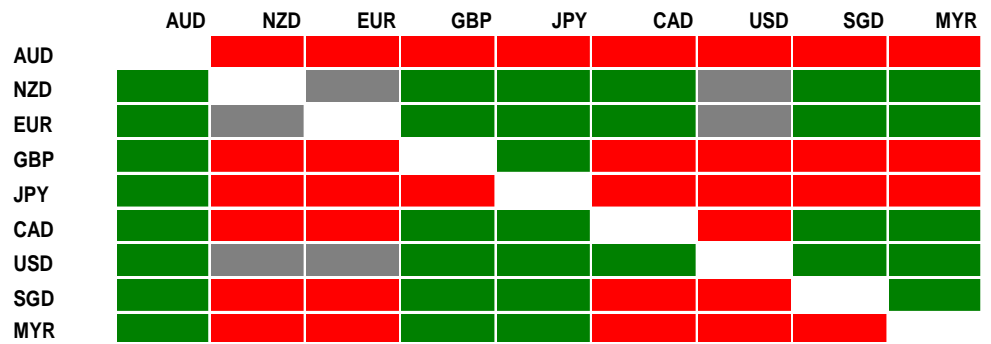
Source: OCBC Bank

FX performance: 1-month change agst USD



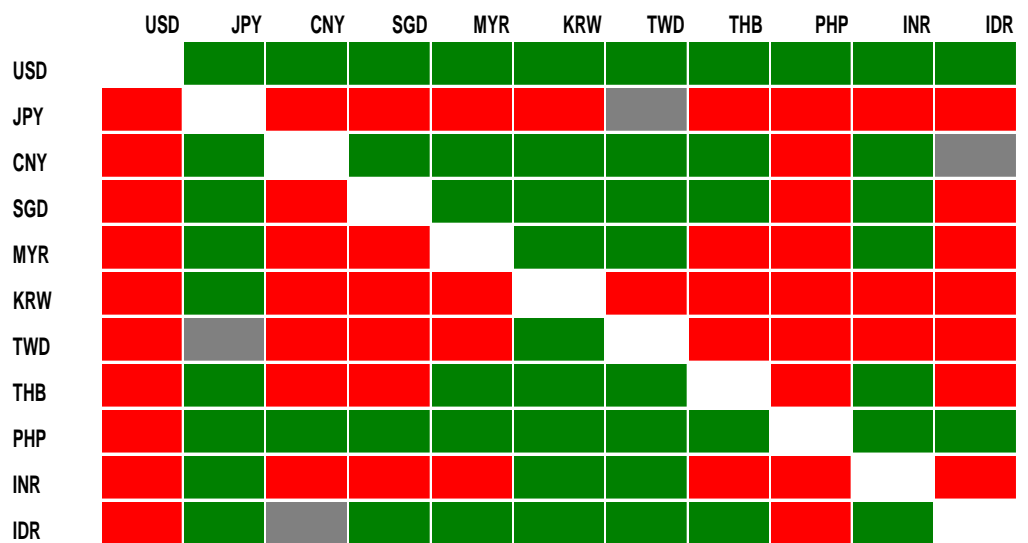
Source: Bloomberg

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

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.
