

Monday, March 20, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- With the USDT curve softening (bull flattening from the back-end following softer readings from the U of Michigan inflation expectations surveys), the USD ended mixed on Fri, continuing to smart from post-FOMC negativity. Headlines from the weekend G20 meeting are not expected to impart much volatility despite the conspicuous lack of emphasis on free trade pledges and a reiteration of the usual stance against competitive FX devaluations.
- This week, the **RBNZ** is expected to remain static (1.75%) on Wed while the stream of global PMIs are slated for Fri. Heavy **Fed-speak** this week begins anew, starting with Evans today (1710 GMT) and includes Yellen on Thu. In Asia, the **BSP** and **CBC** are expected to remain static on Thu.
- Going ahead, it remains to be seen if Fed commentary this week can egg the USD higher, especially after last week's 'disappointment' with the FOMC. In our view, with the overshoot in market positioning deflated after last week's price action, markets may be slightly more consolidative (note collapse in front-end vols) pending this week's Fed-speak. Overall, we think background skepticism towards the greenback may continue to hum in the background (short-end vol surface moving against the USD) if global central banks turn increasingly neutral.
- Elsewhere, with global sentiment still largely sanguine, expect the cyclical to continue to garner implicit support against the USD. On this front, note that the **FXSI (FX Sentiment Index)** ticked higher on Fri but remained squarely in **Risk-On** territory.
- Latest **CFTC** positioning numbers demonstrated how the market was wrong footed going into and the post-FOMC. Large non-commercial and leveraged accounts increased their net long dollar bias in aggregate. However, asset manager accounts called it right in the latest week, paring their net implied long dollar bias ahead of the FOMC.

Asian FX

- With regards to Asian FX, EM FX was also similarly mixed to firmer to Fri but discretionary Asian FX resilience may be less than forthcoming. We note EPFR data indicating implied net equity outflows for the region (Asia ex JP, CN) in the latest week, while implied net bond inflows also weakened in the same period. Nonetheless, guidance from the DXY (which is still eyeing the 100.00 support) has depressed the **ACI (Asian Currency Index)** to sub-115.00 levels. We note that the Index has essentially quashed post-US

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

Investments &
Structured Product
Tel: 6349-1886

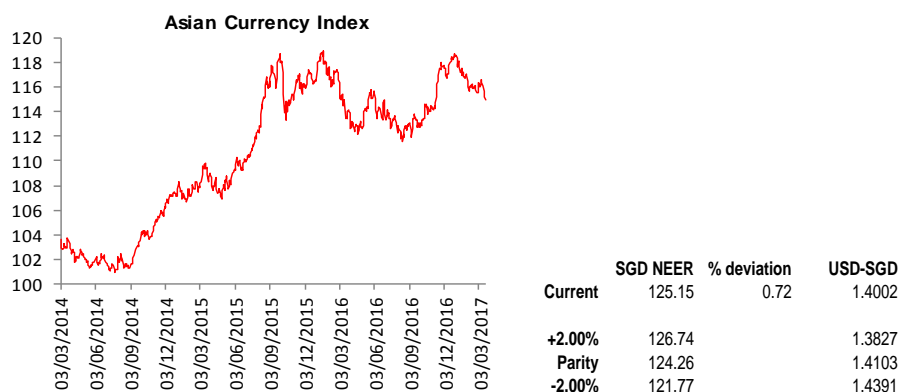
Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

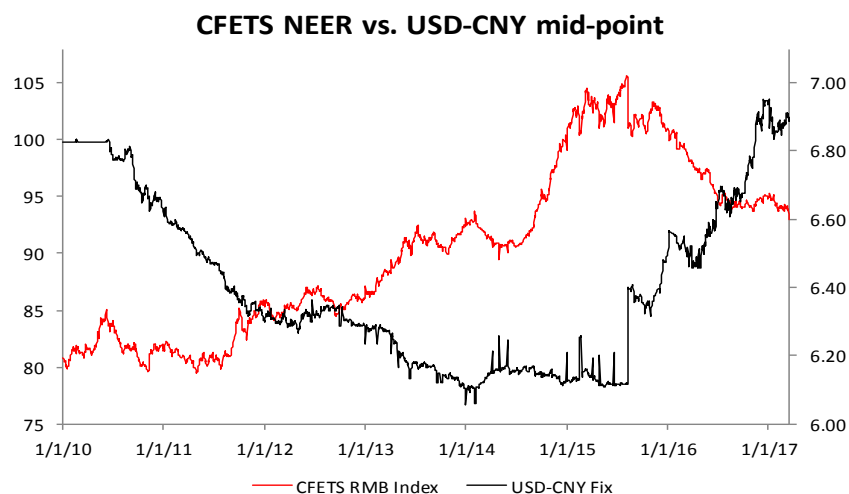
election gains.

- SGD NEER:** With the broad USD still wobbly, the **SGD NEER** is slightly firmer on the day at around +0.70% above its perceived parity (1.4103). NEER-implied USD-SGD thresholds are yet softer with the +0.50% threshold estimated at 1.4033, while the Index may be capped towards +0.80% (1.3991) in the immediate term. In the interim, the USD-SGD is expected to remain heavy with initial supports expected at 1.3975/90 if 1.4000 is breached.



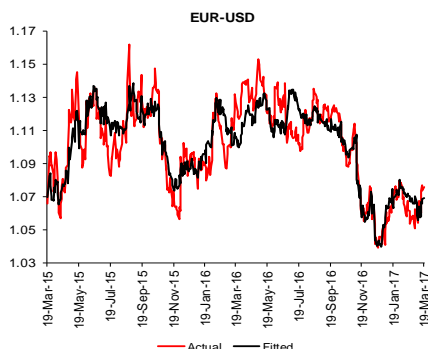
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose to 6.8998 from 6.8873 on Fri, pulling the **CFETS RMB Index** lower to 93.03 from 93.32. With a break of the 93.00 level imminent, expect the next key level to materialize at 92.50.

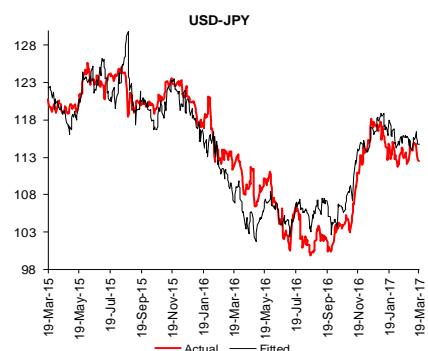


Source: OCBC Bank, Bloomberg

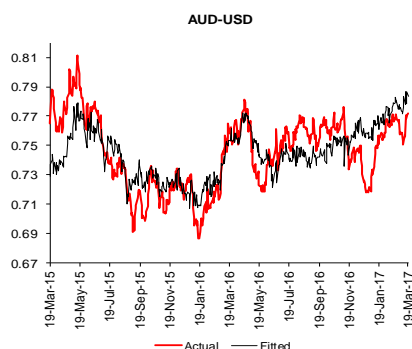
G7



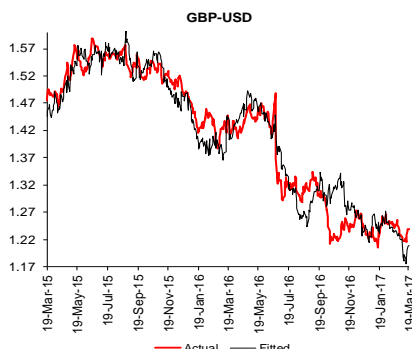
Source: OCBC Bank



Source: OCBC Bank



Source: OCBC Bank



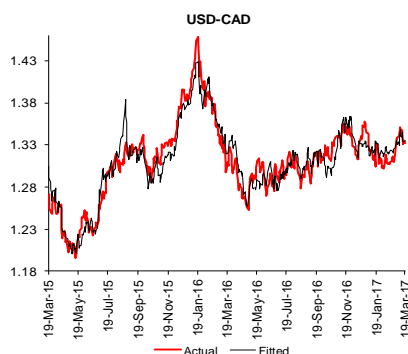
Source: OCBC Bank

- **EUR-USD** Weekend opinion polls show Le Pen still only expected to have an outside chance of a victory in the run-off Presidential elections. Short term implied valuations for the pair meanwhile continue to creep higher with 1.0800/30 still on the cards. Look also to an appearance by the Bundesbank's Weidmann today (1645 GMT) and markets my pounce on any hint of hawkishness. We stay constructive on the pair near term.

- **USD-JPY** TKY is away for a long weekend today but the USD-JPY may remain top heavy after losing its foothold at 113.00 on Fri. Outside of the global reflation playbook, the USD-JPY remains suitably responsive to inherent USD weakness with short term implied valuations also continuing to bleed lower. Fade rallies towards the 100-day MA (113.28) and a break of 112.50 threatens 112.00/30.

- **AUD-USD** Buoyed by positive risk appetite levels, supported near term valuations, and a beleaguered dollar, the AUD-USD may attempt to seek higher ahead of the RBA meeting minutes on Tue. The RBA's Debelle also speaks on Wed and in the interim, the pair may continue to contemplate a break above 0.7750.

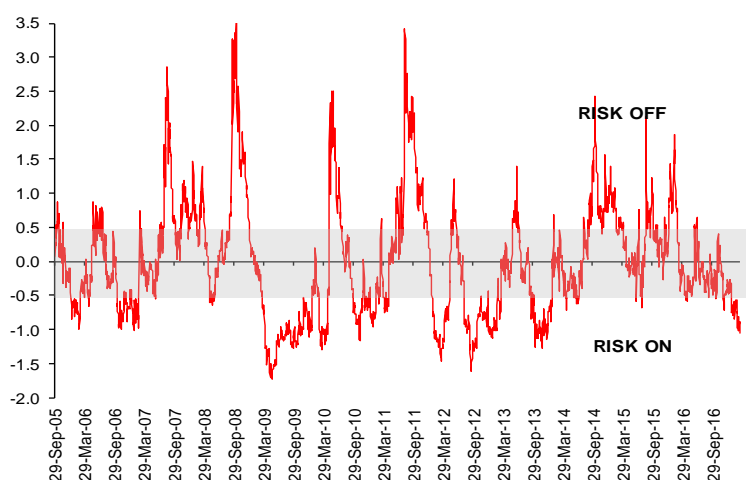
- **GBP-USD** Markets may remain on the lookout for any hawkishness from the BOE's Broadbent this week on Thu, especially after last week's MPC showed a dissenting vote from Forbes. Ahead of a fairly busy economic release calendar this week, supported short term implied valuations may continue to tempt the GBP-USD above its 55-day MA (1.2379) and 1.2400 towards 1.2435.



Source: OCBC Bank

- USD-CAD** Crude continues to remain slightly under the weather and amid the current USD environment, short term implied valuations for the pair remain subdued at this juncture. Price action in the interim is expected to remain consolidative, with the 55-day MA (1.3216) likely to offer support while 1.3400 is expected to continue to cap.

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	0.261	0.183	-0.103	-0.654	0.116	0.662	0.292	0.291	-0.163	0.472	-0.815
CHF	0.929	0.141	0.071	-0.364	-0.669	0.200	0.566	0.378	0.242	0.018	0.413	-0.843
SGD	0.694	0.383	0.276	-0.364	-0.381	-0.100	0.686	0.012	0.077	0.137	0.449	-0.582
PHP	0.677	0.480	0.530	0.004	-0.527	-0.235	0.725	-0.158	0.023	-0.298	0.595	-0.273
JPY	0.662	0.864	0.756	0.053	-0.236	-0.570	1.000	-0.418	0.022	-0.424	0.731	-0.186
INR	0.591	-0.407	-0.498	-0.264	-0.794	0.666	0.104	0.743	0.262	0.339	0.010	-0.816
KRW	0.560	0.536	0.523	0.046	-0.478	-0.269	0.749	-0.205	-0.160	-0.293	0.602	-0.165
MYR	0.541	0.252	0.220	-0.213	-0.418	-0.030	0.550	-0.005	0.055	0.137	0.258	-0.407
TWD	0.502	0.660	0.601	-0.083	-0.569	-0.400	0.834	-0.302	0.069	-0.284	0.652	-0.062
CNH	0.472	0.789	0.727	-0.023	-0.129	-0.536	0.731	-0.468	-0.160	-0.627	1.000	-0.023
THB	0.413	0.805	0.776	-0.134	-0.105	-0.730	0.842	-0.554	0.006	-0.150	0.497	0.011
CAD	0.413	0.885	0.827	0.155	-0.078	-0.727	0.787	-0.633	0.049	-0.709	0.874	0.130
CCN12M	0.336	0.405	0.361	-0.250	-0.318	-0.231	0.609	-0.208	-0.189	0.007	0.413	-0.127
IDR	0.302	0.509	0.470	0.129	-0.174	-0.299	0.682	-0.316	-0.041	-0.213	0.354	0.028
USGG10	0.261	1.000	0.926	0.103	0.173	-0.851	0.864	-0.826	-0.114	-0.557	0.789	0.325
CNY	0.183	0.926	1.000	0.170	0.229	-0.871	0.756	-0.848	-0.262	-0.587	0.727	0.415
NZD	-0.240	-0.953	-0.940	-0.072	-0.123	0.848	-0.759	0.776	0.221	0.654	-0.865	-0.310
GBP	-0.557	-0.850	-0.828	-0.145	0.212	0.685	-0.853	0.538	-0.075	-0.592	-0.816	0.012
AUD	-0.729	-0.721	-0.626	0.179	0.407	0.499	-0.865	0.294	-0.060	0.421	-0.831	0.312
EUR	-0.815	0.325	0.415	0.352	0.654	-0.612	-0.186	-0.694	-0.406	-0.326	-0.023	1.000

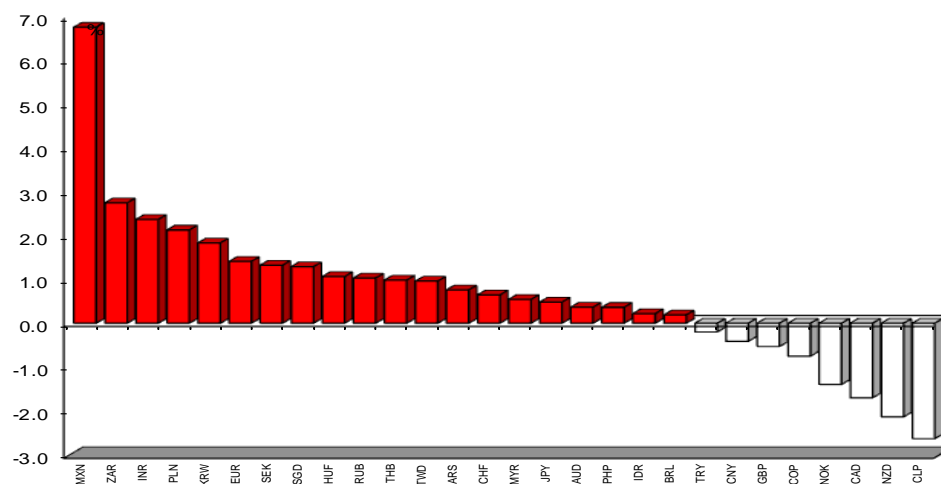
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0648	1.0700	1.0759	1.0767	1.0782
GBP-USD	1.2300	1.2382	1.2387	1.2400	1.2550
AUD-USD	0.7601	0.7700	0.7716	0.7741	0.7765
NZD-USD	0.6890	0.7000	0.7033	0.7100	0.7139
USD-CAD	1.3206	1.3300	1.3327	1.3400	1.3535
USD-JPY	111.88	112.00	112.53	113.00	113.62
USD-SGD	1.3962	1.3975	1.3996	1.4000	1.4154
EUR-SGD	1.4810	1.5000	1.5058	1.5071	1.5100
JPY-SGD	1.2277	1.2400	1.2436	1.2455	1.2500
GBP-SGD	1.7141	1.7300	1.7336	1.7400	1.7531
AUD-SGD	1.0700	1.0762	1.0799	1.0800	1.0890
Gold	1200.00	1218.81	1233.00	1264.32	1264.90
Silver	16.82	17.30	17.38	17.40	17.43
Crude	47.09	48.30	48.37	48.40	51.37

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	Green	Grey	Green	Red	Green	Green	Green
NZD	Green		Green	Green	Green	Green	Green	Green	Green
EUR	Red	Red		Red	Red	Red	Red	Red	Red
GBP	Grey	Red	Green		Green	Red	Green	Green	Green
JPY	Red	Red	Green	Red		Red	Grey	Green	Green
CAD	Green	Red	Green	Green	Green		Green	Green	Green
USD	Red	Red	Green	Red	Grey	Red		Green	Green
SGD	Red	Red	Green	Red	Red	Red	Red		Green
MYR	Red	Red	Green	Red	Red	Red	Red	Red	

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Grey	Red	Green	Green	Grey	Red	Red	Green	Green	Red
JPY	Grey		Grey	Green	Green	Green	Red	Red	Green	Green	Grey
CNY	Green	Grey		Green	Green	Grey	Grey	Grey	Green	Green	Green
SGD	Red	Red	Red		Green	Red	Red	Red	Grey	Green	Red
MYR	Red	Red	Red	Red		Red	Red	Red	Red	Green	Red
KRW	Grey	Red	Grey	Green	Green		Red	Red	Green	Green	Grey
TWD	Green	Green	Grey	Green	Green	Green		Green	Green	Green	Green
THB	Green	Green	Grey	Green	Green	Green	Red		Green	Green	Green
PHP	Red	Red	Red	Grey	Green	Red	Red	Red		Green	Red
INR	Red	Red	Red	Red	Red	Red	Red	Red	Red		Red
IDR	Green	Grey	Red	Green	Green	Grey	Red	Red	Green	Green	

Source: OCBC Bank

FX Trade Ideas

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

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.
