

Tuesday, February 21, 2017

### FX Themes/Strategy/Trading Ideas

- The USD ended mixed and largely uneventful amidst a NY long weekend, with AUD and GBP touch firmer while JPY retreated. Together with the AUD, EM FX also scraped mildly higher against a defensive USD. On the risk appetite front, slight background investor caution continued to circulate with the **FXSI (FX Sentiment Index)** ticking higher within Risk-On territory on Monday.
- Fed speak today includes Kashkari, Harker, and Williams, with markets likely to watch for any reiteration of Yellen's confidence in the rate hike trajectory. Note Mester remaining supportive of rate hikes on Monday.
- Overall, calm in the markets expected to remain fragile and markets may continue to nibble around positive risk appetite and global reflation trades in the short term, while picking apart vulnerable currencies (EUR, GBP), reverting only to USD strength plays on the back of Fed-speak/US data points.
- With inherent political risk premiums continuing to accumulate in the EZ and ahead of the swath of Fed speak this week, we exit our 18 Jan 17 idea to be tactically long **EUR-USD** (spot ref: 1.0688) at 1.0588 this morning for an implied -1.11% loss.

### Asian FX

- The greenback caught a bid early Asia on Tuesday, presumably on EZ jitters and the **ACI (Asian Currency Index)** may attempt to inch higher for the fourth consecutive session.
- **SGD NEER:** The SGD NEER is still hovering relatively unchanged on the day at around -0.28% below its perceived parity (1.4148). NEER-implied USD-SGD thresholds are slightly firmer on the day with -0.50% estimated at 1.4219 and this region may function as a near term ceiling barring further discrete USD strength. USD-SGD may therefore trade rather placid with the 100-day MA (1.4167) before 1.4130 offering initial support on dips. Volatility indicators (both for the NEER and spot) meanwhile have stopped issuing cautionary signals.

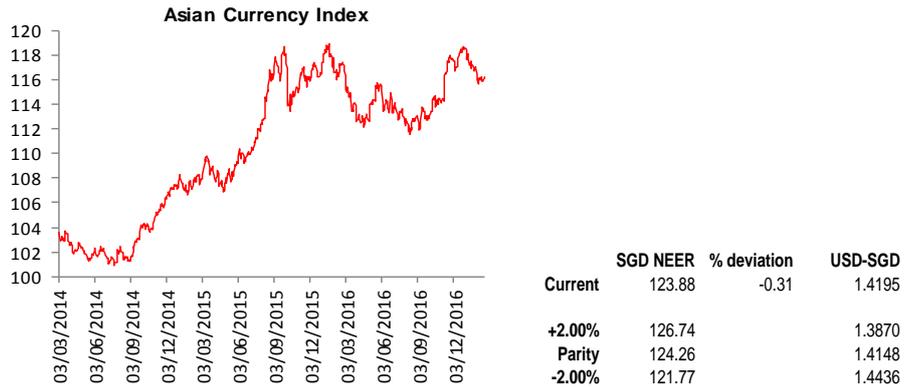
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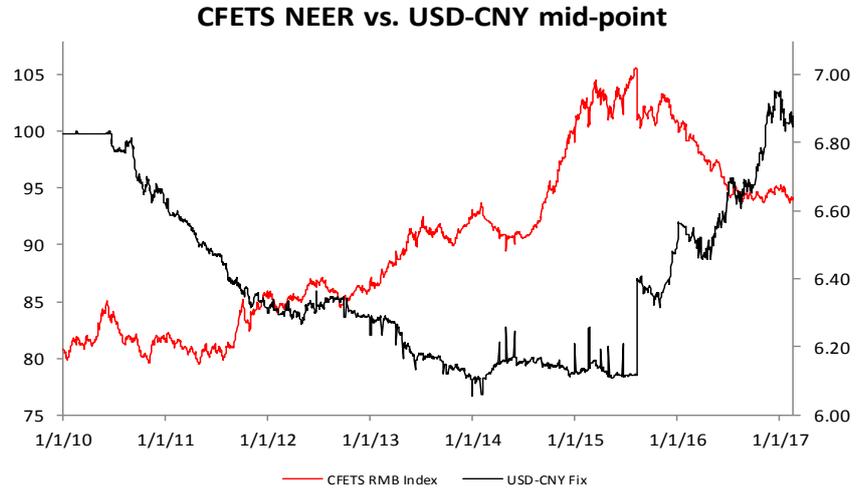
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Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning rose (largely as expected) to 6.8790 from 6.8743, resulting in the **CFETS RMB Index** softening further to 93.96 from 94.01.



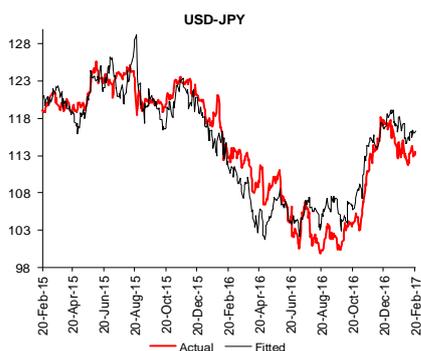
Source: OCBC Bank, Bloomberg

**G7**



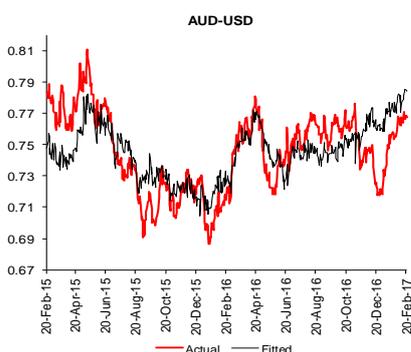
Source: OCBC Bank

- EUR-USD** Going ahead, risks to the EUR from French political risks (watch OAT-bund spreads) and Greek headlines (discussions with IMF officials are resuming) continue to bear watching. Investor wariness saw the pair break below 1.0600 early Asia on Tuesday and the pair may remain on a slippery slope in the near term. With short term implied valuations softening, 1.0550 remains in sight.



Source: OCBC Bank

- USD-JPY** Apart from diversionary flows on the back of potential risk aversion, a swath of expected Fed-speak this week may also leave space of added volatility. Short term valuations meanwhile have picked up slightly and investors may potentially search out the upper reaches of the 112.50-1140.00 band in the interim.



Source: OCBC Bank

- AUD-USD** A robust commodity complex may continue to keep dips in the AUD-USD shallow in the near term. The RBA's Lowe speaks 2130 GMT but slight USD support and marginal investor caution may crimp the upside for the AUD-USD temporarily in the near term. Expect 0.7650-0.7735 to prevail in the interim.



Source: OCBC Bank

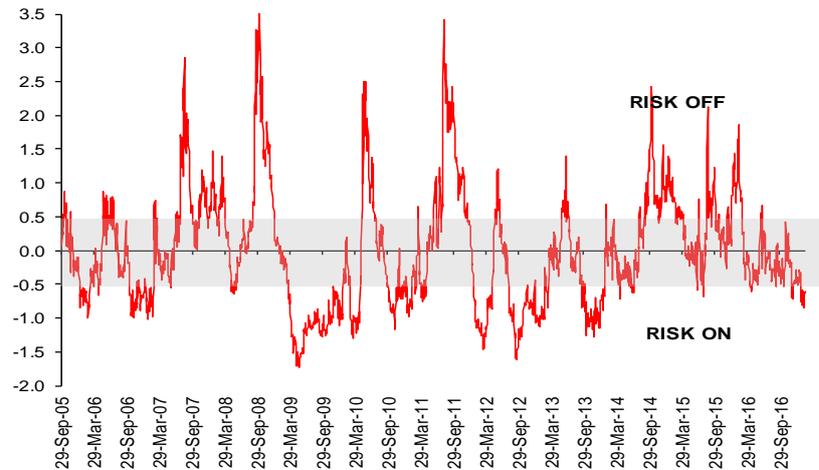
- GBP-USD** Headline risks may be heightened for today as the House of Lords debates A50 for the 2<sup>nd</sup> day of its 2-day debate while the BOE's Carney speaks in Parliament at 1000 GMT. Watch also for the BOE's Annual MPC Report to be released today. Expect the pound to defer to any potential USD resilience in the near term, with the 1.2400 neighborhood still likely to attract.



Source: OCBC Bank

- USD-CAD** The pair may attempt to reach higher in tandem with a more supported USD tone with short term valuations also in agreement. With crude largely static, USD-specific influences may remain in the driver's seat at this juncture. Expect a change in the USD-CAD's near term demeanor if the 200-day MA (1.3148) is surpassed.

### 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	-0.070	0.169	0.766	0.753	-0.172	0.469	-0.013	-0.322	-0.138	0.723	-0.963
CHF	0.925	0.060	0.349	0.675	0.612	0.075	0.552	0.096	-0.464	-0.305	0.671	-0.887
MYR	0.798	-0.198	-0.049	0.813	0.812	-0.171	0.160	0.056	0.063	0.019	0.639	-0.803
CNH	0.723	-0.014	0.394	0.508	0.639	-0.288	0.574	-0.003	-0.317	0.150	1.000	-0.781
SGD	0.634	0.131	0.288	0.221	0.249	0.092	0.773	-0.003	-0.519	-0.242	0.738	-0.559
PHP	0.622	0.021	0.046	0.654	0.677	0.044	0.315	0.264	0.009	-0.131	0.485	-0.598
JPY	0.469	0.677	0.258	0.240	0.180	0.281	1.000	0.281	-0.393	-0.527	0.574	-0.387
AUD	0.387	-0.347	-0.203	0.660	0.652	-0.256	-0.340	0.210	0.207	0.202	0.026	-0.467
CAD	0.205	-0.453	-0.236	-0.260	-0.214	0.064	0.002	-0.530	-0.123	-0.009	0.112	-0.097
CNY	0.169	0.248	1.000	0.037	0.112	-0.128	0.258	-0.030	-0.557	0.057	0.394	-0.294
USGG10	-0.070	1.000	0.248	0.017	-0.132	0.315	0.677	0.376	-0.090	-0.664	-0.014	0.121
THB	-0.372	0.422	0.081	-0.675	-0.687	0.399	0.370	-0.147	-0.098	-0.393	-0.112	0.526
KRW	-0.415	0.276	0.077	-0.598	-0.624	0.652	0.167	-0.022	-0.034	-0.340	-0.252	0.514
IDR	-0.442	0.495	0.098	-0.530	-0.412	0.306	0.162	0.074	0.308	-0.230	-0.270	0.489
TWD	-0.540	0.121	0.035	-0.828	-0.857	0.685	0.051	-0.123	-0.313	-0.359	-0.380	0.620
INR	-0.540	0.354	-0.218	-0.731	-0.785	0.342	0.132	-0.286	0.077	-0.381	-0.374	0.673
CCN12M	-0.566	0.581	0.002	-0.599	-0.619	0.424	0.311	0.213	0.085	-0.287	-0.213	0.658
GBP	-0.598	0.333	0.342	-0.561	-0.555	0.461	0.138	0.004	-0.076	-0.100	-0.184	0.569
NZD	-0.851	0.192	0.040	-0.682	-0.702	-0.040	-0.371	-0.248	0.255	0.039	-0.702	0.848
EUR	-0.963	0.121	-0.294	-0.815	-0.840	0.304	-0.387	-0.037	0.275	-0.022	-0.781	1.000

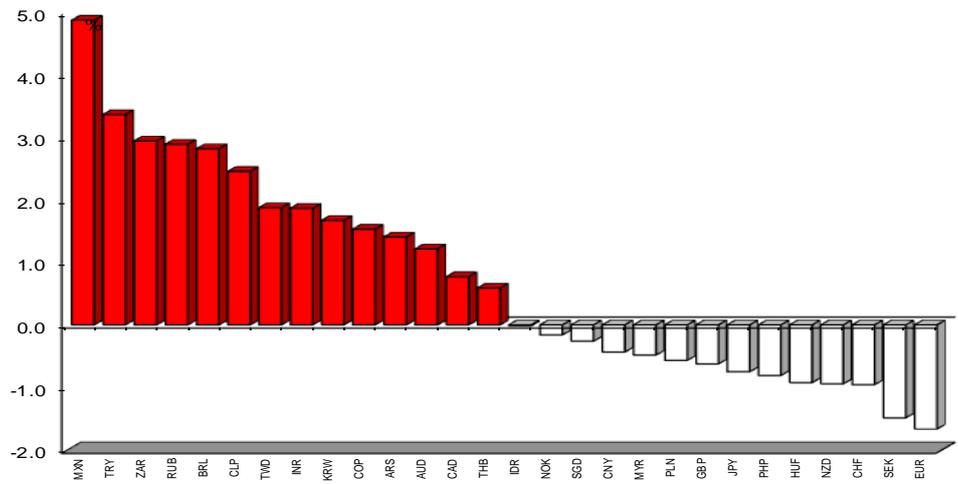
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0500	1.0543	1.0585	1.0591	1.0600
GBP-USD	1.2387	1.2400	1.2452	1.2500	1.2634
AUD-USD	0.7526	0.7600	0.7673	0.7700	0.7732
NZD-USD	0.7126	0.7127	0.7161	0.7200	0.7344
USD-CAD	1.3002	1.3100	1.3135	1.3145	1.3174
USD-JPY	111.62	113.00	113.53	114.00	114.86
USD-SGD	1.4054	1.4200	1.4210	1.4286	1.4287
EUR-SGD	1.4998	1.5000	1.5041	1.5100	1.5131
JPY-SGD	1.2427	1.2500	1.2515	1.2600	1.2628
GBP-SGD	1.7502	1.7600	1.7695	1.7700	1.7704
AUD-SGD	1.0668	1.0900	1.0903	1.0960	1.0961
Gold	1188.60	1200.00	1234.60	1243.90	1253.40
Silver	16.98	18.00	18.02	18.02	18.10
Crude	53.41	53.70	53.71	53.80	54.15

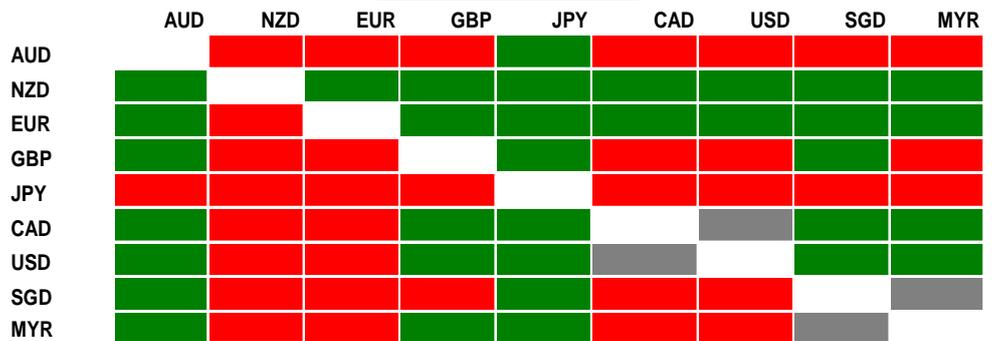
Source: OCBC Bank

**FX performance: 1-month change agst USD**



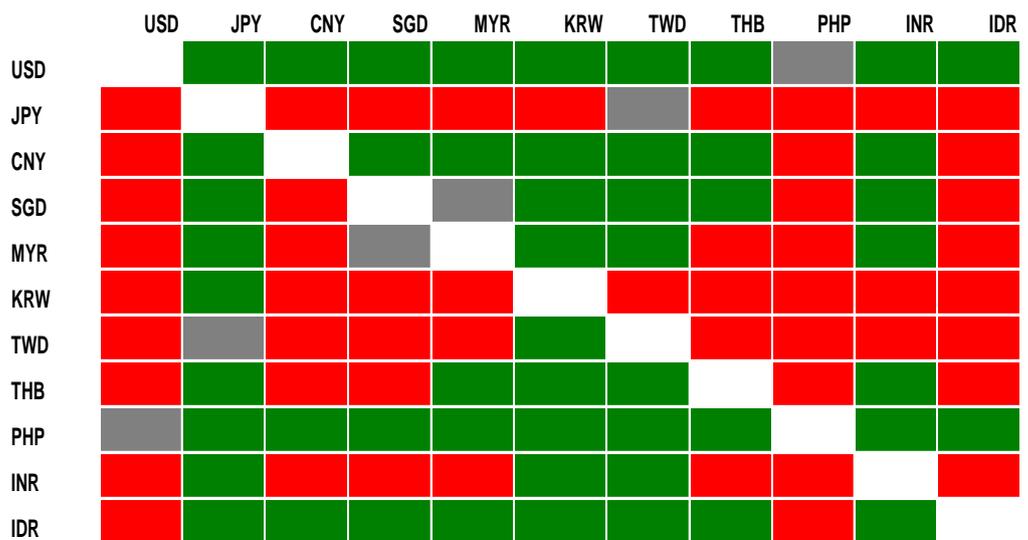
Source: Bloomberg

**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			
<b>TACTICAL</b>								
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	20-Jan-17	S	USD-SGD	1.4240 1.4005 1.4360	Potential for Trump's inauguration to disappoint USD bulls			
4	25-Jan-17	B	GBP-USD	1.2528 1.2910 1.2335	Subsidence of acute A50 concerns in the short term			
5	16-Feb-17	S	USD-CAD	1.3060 1.2785 1.3200	Global reflation, supportive domestic data, USD hesitation			
<b>STRUCTURAL</b>								
6	25-Oct-16	B	USD-SGD	1.3919 1.4630 1.3560	Bullish dollar prospects, negative space for SGD NEER			
7	22-Nov-16	B	USD-JPY	110.81 123.40 104.50	Potential for a more activist Fed, static BOJ			
8	28-Nov-16	S	EUR-USD	1.0641 0.9855 1.1035	USD in ascendance, political risk premium in EZ			
9	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			
<b>RECENTLY CLOSED</b>								
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
3	18-Jan-17	21-Feb-17	B	EUR-USD	1.0688	1.0588	Dollar hiccup, hint of inflation in EZ	-1.11
* realized						Jan 2017 Return	-6.78	
						2016 Return	+6.91	

Source: OCBC Bank

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