

Tuesday, March 21, 2017

FX Themes/Strategy/Trading Ideas

- UST yields softened further on Monday and the curve bull flattened from the back end again, leaving the USD lower against the antipodeans and the JPY. Slightly shaky global equities (unease about protectionism post-G20) however saw some heaviness across some JPY-crosses.
- Meanwhile, Fed speak was mixed, with hawkish comments from Evans (who noted that the Fed would wait till June for a next reassessment) balanced by more dovish overtones from Kashkari (sole dissenter at the latest FOMC).
- Today, scheduled Fed speak is heavy with Dudley, George, and Mester on tap and as mentioned previously, although the bar has been set very high for further dollar strength (implied odds of another hike in June are barely above even), market participants are expected to look to Fed rhetoric nonetheless. In the interim, apart from inherent dollar vulnerability, the focus may remain on the reflation trade. On this front, note that the **FXSI (FX Sentiment Index)** inched higher for a second consecutive session but remained well within **Risk-On** territory.
- Structurally, the **DXY** may continue to threaten the key 100.00 level, especially if skepticism towards additional US fiscal impetus continues to circulate. In this environment, market derived expectations for an even more hawkish Fed will also be expected to fade further.
- With the broad dollar in danger of further dislocating lower amidst an environment of positive risk appetite levels, we closed out our 25 Oct 16 recommendation to be structurally long **USD-SGD** (spot ref: 1.3919) at 1.3984 on Monday for an implied +0.54% gain.

Asian FX

- EM FX meanwhile continued to edge higher in general on Monday and this may continue to portend heaviness in USD-Asia although Asian equity performance and general risk appetite levels bear watching intra-day. From the flow perspective, the KRW, TWD, INR, and IDR remained underpinned by net bond/equity inflows. As such, the **ACI (Asian Currency Index)** may be expected to dip lower 8th consecutive session.
- **SGD NEER:** Background broad dollar vulnerability and a heavy USD-SGD has translated into a firmer **SGD NEER** at +0.84% above its perceived parity (1.4080) this morning. NEER-implied USD-SGD thresholds are lower on the day with +1.00% estimated at 1.3941 although the NEER may be slightly

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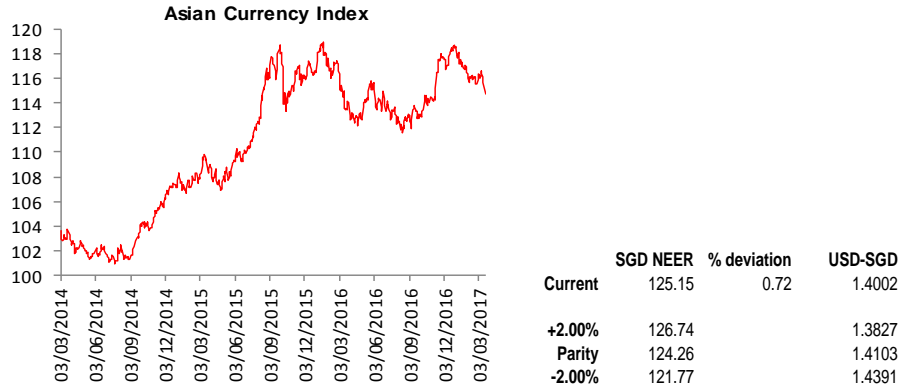
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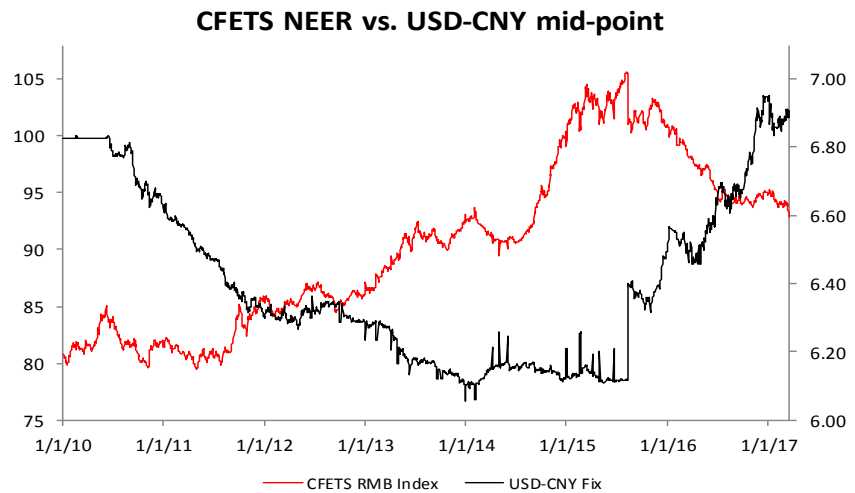
Emmanuel Ng
+65 6530 4073
ngcvemmanuel@ocbc.com

more comfortable hovering around +0.70% (1.3982) and +0.80% (1.3969). USD-SGD downside meanwhile may be tempered by the fact that our volatility indicators for spot are heating up. Technically, downside support at 1.3947 may continue to attract in the current environment.



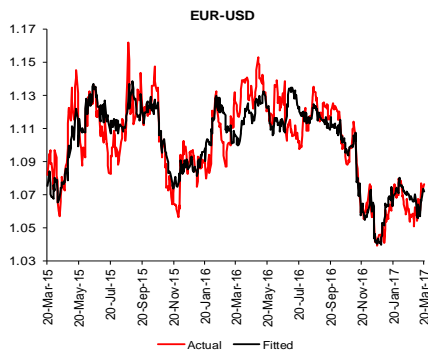
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point came in slightly higher than expected at 6.9071 from 6.8998 yesterday. This resulted in the **CFETS RMB Index** sinking for the third consecutive session to 92.79 – representing a break below 93.00. Next key support is expected towards 92.45/50 if a bounce fails to materialize.



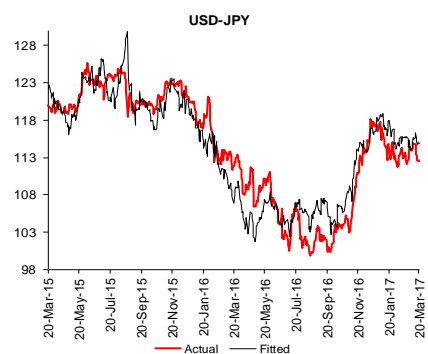
Source: OCBC Bank, Bloomberg

G7



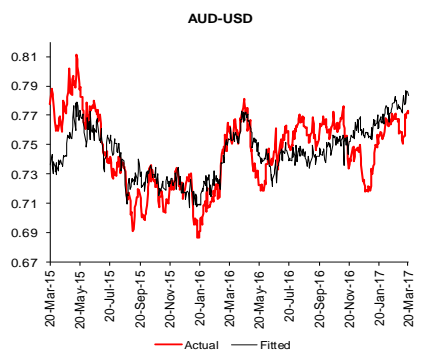
Source: OCBC Bank

- EUR-USD** EUR-USD softened to end essentially flat despite neutral remarks from the ECB’s Weidmann. Note however a renewed push higher by the pair in Asia on Tuesday on the lack of notable negativity from the French Presidential debate. Short term implied valuations for the pair continue to lift higher and the ceiling at 1.0800 remains under threat.



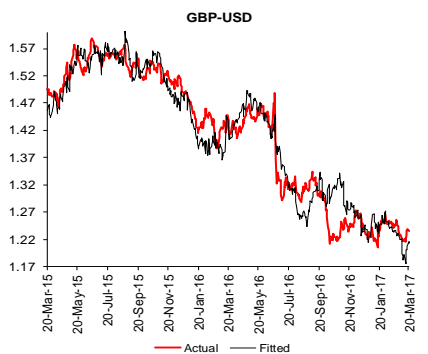
Source: OCBC Bank

- USD-JPY** Look to sell rallies on USD-JPY with near term implied valuations relatively static. Another leg lower in the USD-JPY may have to be predicated on renewed USD negativity, given that the pair continues to bounce along its lower confidence interval. In the interim, expect support into 111.70 with the 100-day MA (113.37) seen capping.



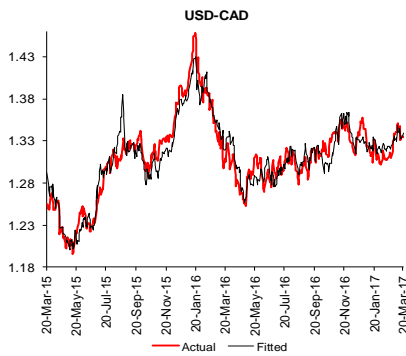
Source: OCBC Bank

- AUD-USD** Look to accumulate AUD-USD on dips intra-day with the RBA meeting minutes this morning not perceived as being significantly disruptive (despite concerns over the housing market). Short term implied valuations are however pausing slightly on the upside in the near term although the multi-session uptrend remains intact. Expect support towards 0.7700 while the upside is expected to be populated by resistance levels at 0.7750, 0.7758, and 0.7777.



Source: OCBC Bank

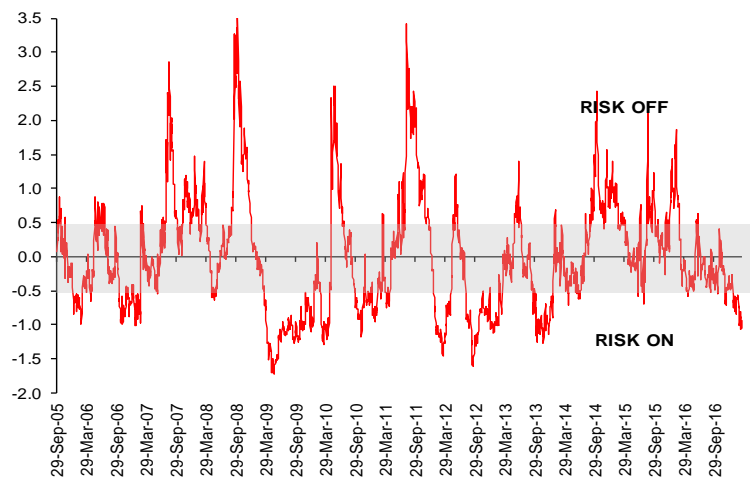
- GBP-USD** On other fronts, GBP-USD slipped briefly below 1.2350 after it was revealed that A50 would be invoked on 29 Mar 17. Look towards CPI/PPI numbers later today while A50 uneasiness may limit excessive upside for the GBP-USD pending further broad dollar cues. In the interim, the 55-day MA (1.2381) and 100-day MA (1.2413) may be expected to cap.



Source: OCBC Bank

- USD-CAD** The BOC's Schembri speaks later today and despite a wobbly greenback, fragile crude continues to support short term implied valuations for the USD-CAD. Ranga behavior may continue to prevail in the interim within 1.3240 and 1.3425.

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	0.243	0.068	-0.102	-0.731	0.170	0.662	0.298	0.334	-0.212	0.465	-0.818
CHF	0.927	0.120	-0.052	-0.340	-0.759	0.249	0.600	0.439	0.291	-0.023	0.337	-0.870
SGD	0.785	0.436	0.224	-0.334	-0.524	-0.012	0.786	0.162	0.149	-0.093	0.421	-0.673
PHP	0.723	0.423	0.332	-0.006	-0.681	-0.114	0.741	0.019	0.111	-0.334	0.437	-0.415
INR	0.715	-0.286	-0.501	-0.234	-0.848	0.662	0.288	0.771	0.324	0.059	0.019	-0.865
MYR	0.705	0.306	0.134	-0.183	-0.601	0.076	0.673	0.170	0.150	-0.154	0.231	-0.554
JPY	0.662	0.838	0.647	0.045	-0.357	-0.488	1.000	-0.290	0.074	-0.450	0.655	-0.263
KRW	0.660	0.521	0.383	0.009	-0.614	-0.148	0.790	-0.024	-0.048	-0.434	0.506	-0.325
TWD	0.591	0.615	0.417	-0.072	-0.696	-0.261	0.850	-0.102	0.148	-0.390	0.517	-0.241
CNH	0.465	0.769	0.718	-0.021	-0.070	-0.543	0.655	-0.476	-0.175	-0.541	1.000	0.012
THB	0.438	0.751	0.604	-0.129	-0.315	-0.572	0.848	-0.283	0.085	-0.245	0.361	-0.172
IDR	0.438	0.458	0.282	0.098	-0.414	-0.155	0.707	-0.092	0.065	-0.325	0.236	-0.186
CAD	0.391	0.889	0.817	0.155	-0.072	-0.722	0.744	-0.617	0.042	-0.628	0.871	0.152
CCN12M	0.380	0.414	0.319	-0.249	-0.364	-0.193	0.634	-0.140	-0.149	-0.046	0.395	-0.187
USGG10	0.243	1.000	0.894	0.101	0.108	-0.827	0.838	-0.769	-0.100	-0.529	0.769	0.286
CNY	0.068	0.894	1.000	0.171	0.285	-0.875	0.647	-0.852	-0.287	-0.474	0.718	0.461
NZD	-0.245	-0.952	-0.921	-0.072	-0.093	0.835	-0.734	0.729	0.216	0.596	-0.849	-0.289
GBP	-0.533	-0.846	-0.788	-0.143	0.243	0.659	-0.826	0.503	-0.088	0.551	-0.798	0.014
AUD	-0.737	-0.691	-0.506	0.175	0.516	0.409	-0.876	0.160	-0.115	0.442	-0.732	0.394
EUR	-0.818	0.286	0.461	0.332	0.717	-0.622	-0.263	-0.726	-0.438	-0.202	0.012	1.000

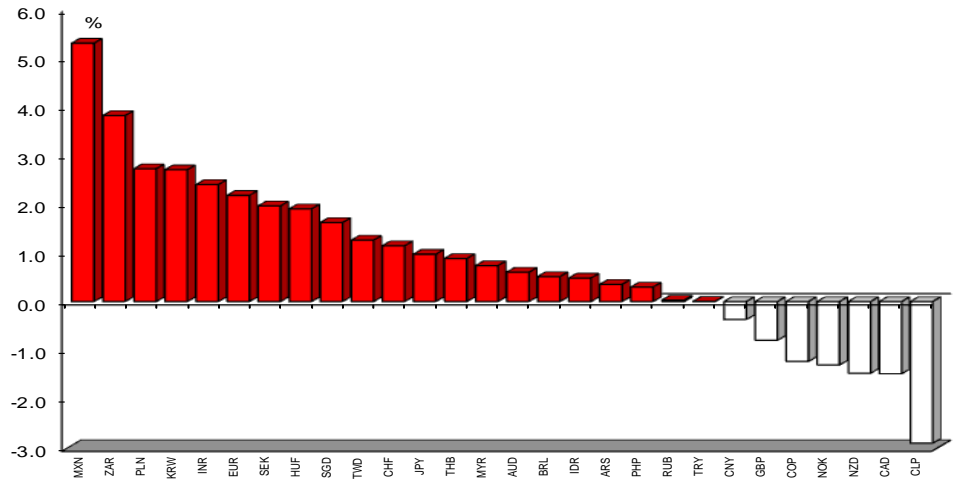
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0652	1.0700	1.0764	1.0782	1.0783
GBP-USD	1.2110	1.2300	1.2372	1.2385	1.2400
AUD-USD	0.7609	0.7700	0.7720	0.7748	0.7774
NZD-USD	0.6890	0.7000	0.7053	0.7100	0.7141
USD-CAD	1.3209	1.3300	1.3337	1.3400	1.3535
USD-JPY	111.77	112.00	112.58	113.00	113.56
USD-SGD	1.3947	1.3956	1.3978	1.4000	1.4146
EUR-SGD	1.4810	1.5000	1.5046	1.5067	1.5100
JPY-SGD	1.2280	1.2400	1.2415	1.2455	1.2500
GBP-SGD	1.7141	1.7200	1.7293	1.7300	1.7525
AUD-SGD	1.0700	1.0767	1.0791	1.0800	1.0868
Gold	1200.00	1219.91	1228.80	1264.23	1264.90
Silver	16.82	17.40	17.40	17.44	17.50
Crude	47.09	48.30	48.39	48.40	51.34

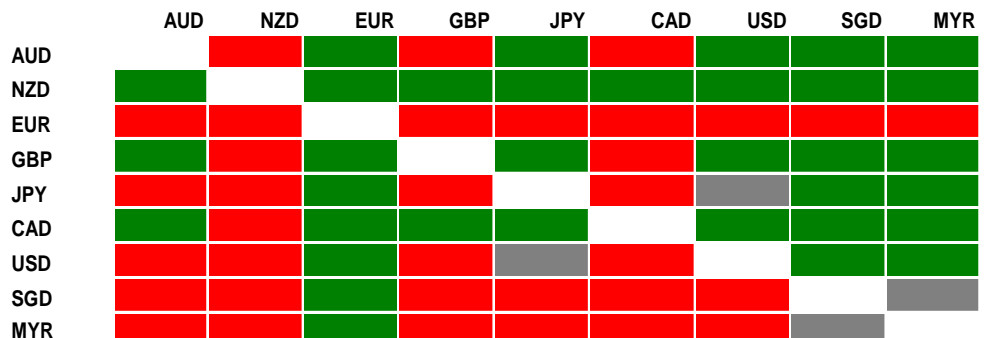
Source: OCBC Bank

FX performance: 1-month change agst USD



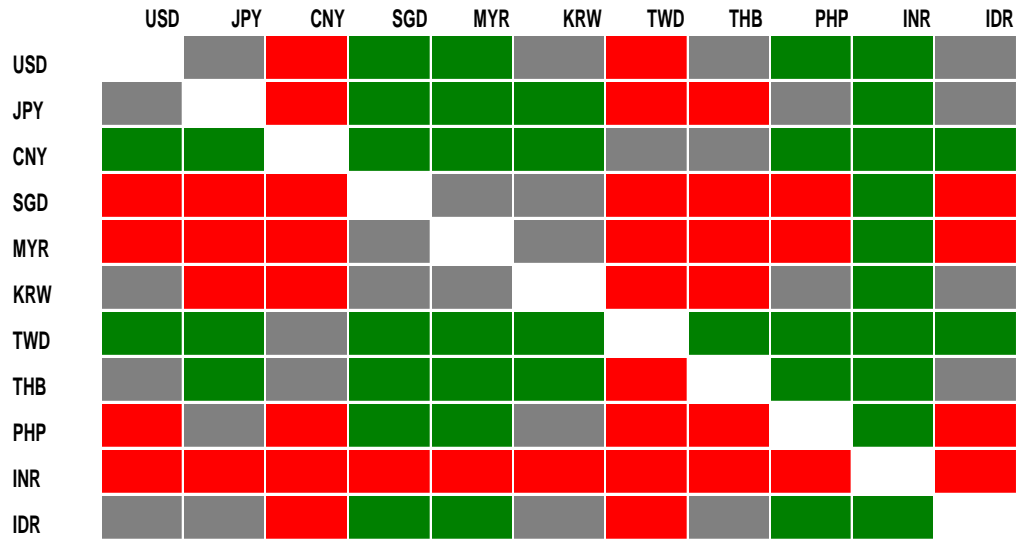
Source: Bloomberg

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	22-Nov-16	B	USD-JPY	110.81	123.40 104.50	Potential for a more activist Fed, static BOJ		
6	28-Nov-16	S	EUR-USD	1.0641	0.9855 1.1035	USD in ascendance, political risk premium in EZ		
7	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		
8	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	16-Feb-17	22-Feb-17	S	USD-CAD	1.3060	1.3127	Global reflation, supportive domestic data, USD hesitation	-0.52
2	25-Jan-17	01-Mar-17	B	GBP-USD	1.2528	1.2383	Subsidence of acute A50 concerns in the short term	-1.26
3	12-Jan-17	02-Mar-17	B	AUD-USD	0.7463	0.7560	Reflation may dominate as the Trump trade pauses	+1.35
4	20-Jan-17	02-Mar-17	S	USD-SGD	1.4240	1.4125	Potential for Trump's inauguration to disappoint USD bulls	+0.81
5	12-Jan-17	08-Mar-17	S	USD-JPY	114.63	113.91	Downward consolidation post-Trump press conference	+0.31
6	22-Feb-17	10-Mar-17	S	EUR-USD	1.0548	1.0695	Potential near term USD strength, brewing EZ political risks	-1.30
7	10-Mar-17	15-Mar-17	S	AUD-USD	0.7519	0.7605	Compression in cyclicals vs. USD strength	
8	25-Oct-16	20-Mar-17	B	USD-SGD	1.3919	1.3984	Bullish dollar prospects, negative space for SGD NEER	+0.54
* realized							Jan-Feb 2017 Return	-7.14
							2016 Return	+6.91

Source: OCBC Bank

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