

Wednesday, January 25, 2017

FX Themes/Strategy/Trading Ideas

- With headlines from the Trump administration slightly more domestically oriented, UST yields lifted higher (despite disappointing Dec existing home sales although the Richmond Fed improved more than expected) from the back-end and saw the DXY bounce off the 100.00 floor after brief tests lower. Again, the JPY proved to be the most reactive as the USD pulled higher across the board (except against the CAD and NZD). Meanwhile, positive global equities on Tuesday pulled the **FXSI (FX Sentiment Index)** lower into Risk-On territory for the first time since early January 2017.
- Overall, both sides of the Trump trade have played their opening gambits since the inauguration and investors are likely less than decisive in the near term. Nevertheless, short term dollar skeptics may continue to stand their ground in the interim. Elsewhere, with risk appetite still supportive, expect the cyclical (softer than expected CPI data for the AUD notwithstanding) to attempt to creep higher.

Asian FX

- Positive Asian equities this morning and generalized positive investor sentiment may dilute any background greenback resilience during the Asian session, putting a lid on the **ACI (Asian Currency Index)**. Overall, although our model denotes some expected USD capitulation in Asia in the short term, multi-session prospects at this juncture still argue for a still resilient greenback.
- **SGD NEER:** The SGD NEER this morning is slightly lower on the day at around -0.30% below its perceived parity (1.4157) with the dollar broadly firmer and USD-SGD reacting higher in tandem. NEER-implied USD-SGD thresholds are slightly firmer on the day with -0.50% estimated at 1.4229. We'd expect the NEER to bounce around between -0.20% to -0.50% intra-day. Technically, initial resistance is expected towards 1.4230 within 1.4150-1.4250.

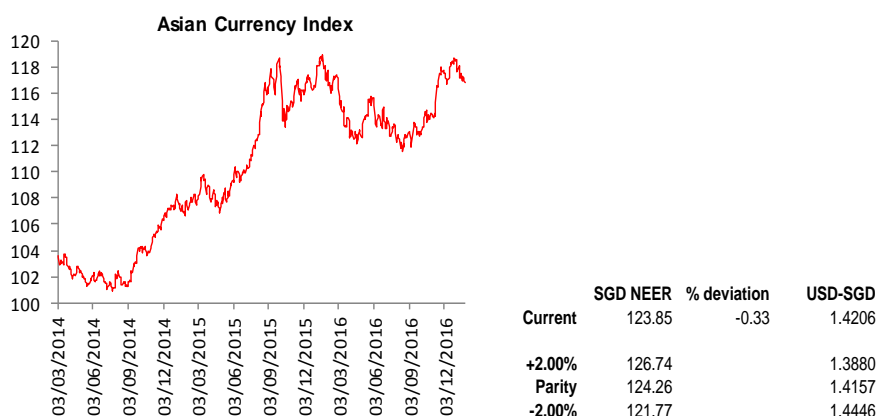
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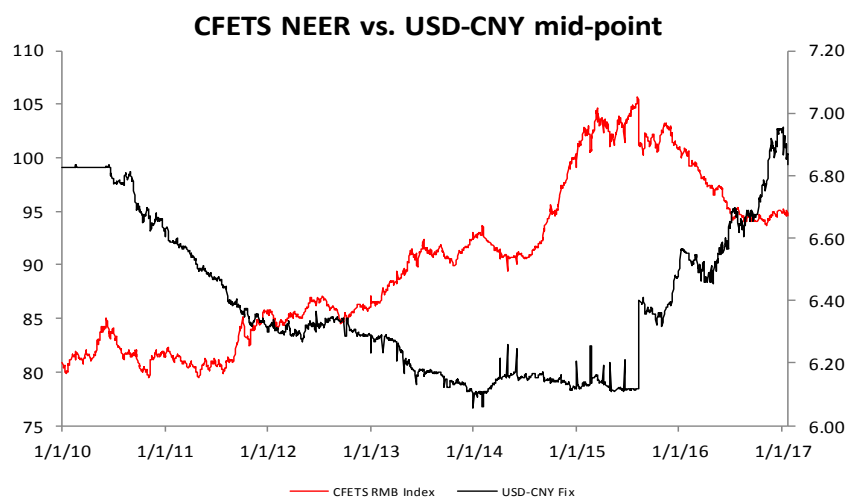
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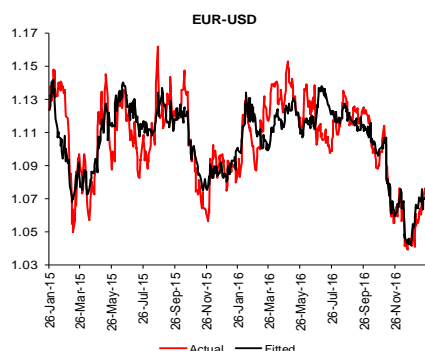
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point rose (as largely expected) to 6.8596 this morning from 6.8331 yesterday, resulting in the **CFETS RMB Index** easing slightly to 94.48 from 94.62. Thus far, relative stability of the Index still seems to be the name of the game, leaving the mid-points to shoulder the burden of adjustment.



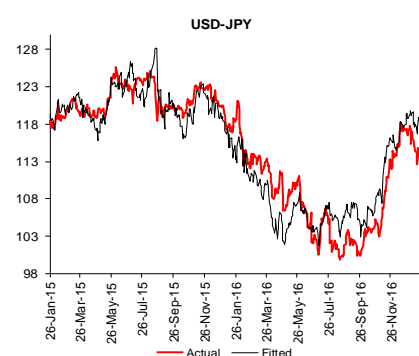
Source: OCBC Bank, Bloomberg

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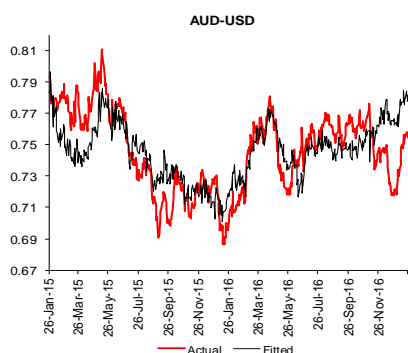
Source: OCBC Bank

- **EUR-USD** With ECB rhetoric still essentially accommodative (not forgetting Le Pen risks), the pair may be a tad heavy intra-day while short term implied valuations are also relatively static. The ECB's Weidmann is due to make an appearance later today and we expect investors may collect on dips within 1.0700-1.0600.



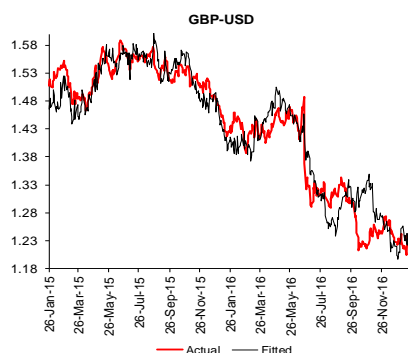
Source: OCBC Bank

- **USD-JPY** Preference remains to fade upticks for now with short term implied still looking heavy. Barring a breach of Japan's flash manufacturing and the 55-day MA (114.33), the pair may be expected to seek out 112.50 once again.



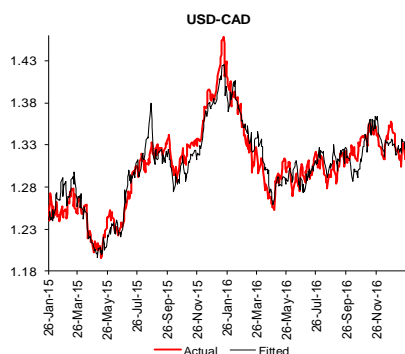
Source: OCBC Bank

- **AUD-USD** This morning's 4Q Australian CPI readings came in cooler than expected but we believe the broader narrative of positive risk appetite levels and supportive commodities may continue to prevail. Expect good support on dips towards the 200-day MA (0.7494) while any break above 0.7600 may pave the way to 0.7645.



Source: OCBC Bank

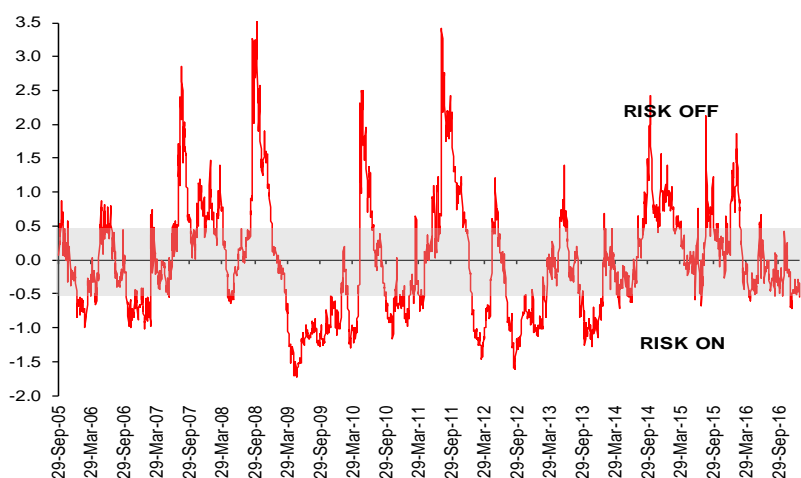
- **GBP-USD** As widely expected, the UK Supreme Court ruled in favor of Parliament with regards to A50 on Tuesday. Nascent optimism (or relief) may continue to keep cable afloat in the near term with Jan CBI data providing some distraction today. The BOE's Carney speaks later today (1600 GMT) and we see scope to test towards 1.2600 in the absence any overt bearishness.



Source: OCBC Bank

- USD-CAD** Keystone and Dakota pipeline news flow on Tuesday saw the USD-CAD dripping lower to test towards 1.3100. Next up on the downside, the 200-day MA (1.3117) may offer some support in the near term with the pair now sitting at the lower end of its short term implied valuations.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXY	1.000	0.515	0.936	-0.469	-0.818	-0.656	0.961	0.389	0.440	-0.496	0.852	-0.988
CHF	0.988	0.514	0.931	-0.462	-0.820	-0.640	0.938	0.347	0.442	-0.439	0.875	-0.992
JPY	0.961	0.529	0.895	-0.411	-0.767	-0.670	1.000	0.357	0.422	-0.564	0.814	-0.946
SGD	0.953	0.605	0.905	-0.590	-0.868	-0.633	0.949	0.374	0.581	-0.433	0.917	-0.958
TWD	0.952	0.381	0.912	-0.568	-0.817	-0.639	0.916	0.455	0.506	-0.417	0.815	-0.940
THB	0.946	0.494	0.878	-0.516	-0.880	-0.559	0.903	0.544	0.424	-0.458	0.782	-0.927
CNY	0.936	0.428	1.000	-0.475	-0.720	-0.683	0.895	0.370	0.375	-0.359	0.879	-0.916
KRW	0.927	0.304	0.935	-0.473	-0.726	-0.670	0.875	0.362	0.336	-0.325	0.806	-0.902
MYR	0.856	0.061	0.815	-0.458	-0.673	-0.589	0.801	0.396	0.366	-0.444	0.617	-0.857
CNH	0.852	0.591	0.879	-0.707	-0.813	-0.617	0.814	0.243	0.657	-0.199	1.000	-0.861
CCN12M	0.785	0.513	0.801	-0.810	-0.845	-0.427	0.745	0.549	0.740	-0.305	0.861	-0.789
CAD	0.776	0.835	0.673	-0.670	-0.906	-0.431	0.772	0.394	0.697	-0.435	0.837	-0.759
IDR	0.658	0.631	0.598	-0.704	-0.873	-0.393	0.664	0.489	0.726	-0.584	0.667	-0.646
USGG10	0.515	1.000	0.428	-0.309	-0.714	-0.120	0.529	0.337	0.424	-0.471	0.591	-0.476
INR	-0.031	-0.147	0.058	0.080	0.316	-0.417	-0.053	-0.387	-0.151	0.125	0.062	0.041
PHP	-0.266	0.517	-0.291	-0.280	-0.093	0.189	-0.291	-0.110	0.445	-0.093	0.014	0.256
GBP	-0.415	0.074	-0.502	0.071	0.056	0.514	-0.393	0.226	-0.049	-0.081	-0.429	0.532
AUD	-0.954	-0.475	-0.890	0.573	0.886	0.585	-0.936	-0.496	-0.515	0.423	-0.849	0.954
NZD	-0.962	-0.412	-0.905	0.460	0.807	0.649	-0.943	-0.366	-0.411	0.439	-0.823	0.965
EUR	-0.988	-0.476	-0.916	0.485	0.803	0.649	-0.946	-0.330	-0.474	0.467	-0.861	1.000

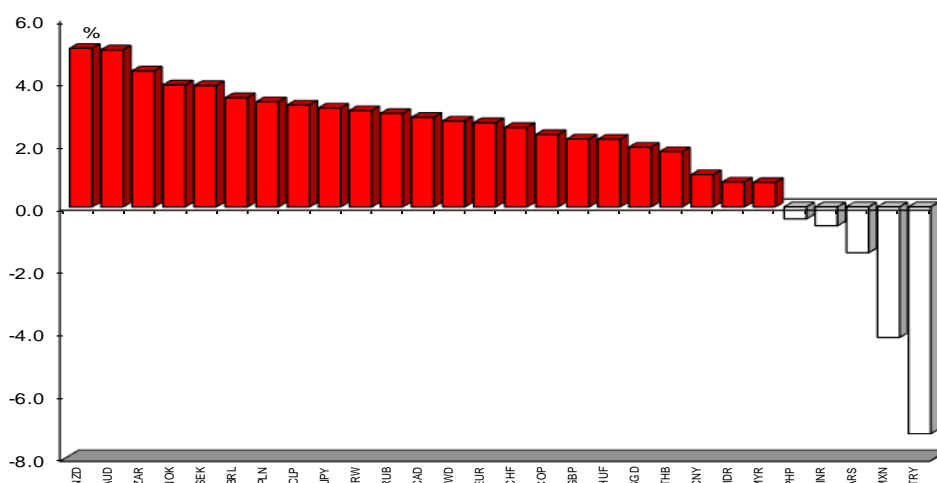
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0573	1.0700	1.0729	1.0775	1.0792
GBP-USD	1.2398	1.2500	1.2533	1.2560	1.2568
AUD-USD	0.7491	0.7500	0.7542	0.7600	0.7609
NZD-USD	0.7090	0.7200	0.7242	0.7277	0.7298
USD-CAD	1.3100	1.3115	1.3128	1.3200	1.3327
USD-JPY	112.53	113.00	113.48	114.00	114.91
USD-SGD	1.4105	1.4148	1.4195	1.4200	1.4314
EUR-SGD	1.5185	1.5200	1.5230	1.5263	1.5300
JPY-SGD	1.2456	1.2500	1.2508	1.2586	1.2595
GBP-SGD	1.7700	1.7752	1.7791	1.7800	1.7951
AUD-SGD	1.0566	1.0700	1.0706	1.0800	1.0808
Gold	1179.98	1200.00	1207.40	1220.10	1233.44
Silver	16.67	17.00	17.06	17.10	17.36
Crude	52.16	53.00	53.02	53.10	55.38

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

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	09-Jan-17	S	USD-CAD	1.3264	1.3000	1.3400	Supportive crude and labor market numbers	
2	12-Jan-17	S	USD-JPY	114.63	110.50	116.75	Downward consolidation post-Trump press conference	
3	12-Jan-17	B	AUD-USD	0.7463	0.7670	0.7355	Reflation may dominate as the Trump trade pauses	
4	18-Jan-17	B	EUR-USD	1.0688	1.1015	1.0520	Dollar hiccup, hint of inflation in EZ	
5	20-Jan-17	S	USD-SGD	1.4240	1.4005	1.4360	Potential for Trump's inauguration to disappoint USD bulls	
STRUCTURAL								
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	
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	12-Jan-17	CLS	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*
7	27-Dec-16	23-Jan-17	CLS	GBP-USD	1.2276	1.2386	A50 risks, UK current account deficits, broad USD strength	-0.77
*of notional								
2016 Return								+6.91

Source: OCBC Bank

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