

Friday, January 27, 2017

FX Themes/Strategy/Trading Ideas

- Although UST yields relinquished intra-session gains post the 7y auction, the greenback managed to hold on to yield-inspired gains into late NY with the DXY bouncing back above 100.00 and the JPY (unsurprisingly) leading the way lower. On the data front, note however that weekly initial claims and Dec new home sales came in on the wrong side of expectations. Elsewhere, global risk appetite levels remained positive with the **FXSI (FX Sentiment Index)** easing further into **Risk-On**.
- Correlation breaks between the USD and US yields may continue to prove intermittent and brief, as demonstrated by the broad dollar finally catching a break and latching on to (initially) firming UST yields overnight. Note however that the UST curve eventually closed flat to lower on the day and it may be dicey to expect an extension of USD strength purely on yield differentials into today's session.
- Next up, look to the FOMC on 1 Feb 17 when investors are expected to get a refresh on the Fed's intentions, with current market-implied expectations still a mile away relative to the dot plots. Overall, apart from random tweets, rate differentials (nominal or real) may be expected to remain the final arbiter for FX directionality.

Asian FX

- Regional currency pairs may find an interim floor in tandem with the DXY and with the **ACI (Asian Currency Index) basing out intra-day**. Note however that as a result of broad dollar skepticism over the past month, the Index has softened -1.2% as the broad dollar hesitated.
- **SGD NEER**: This morning, the SGD NEER is significantly lower on the day at around -0.52% below its implied parity (1.4184) with NEER-implied USD-SGD thresholds firmer on the day in line with overnight greenback moves. At current levels, the -1.00% threshold is estimated at 1.4327 and -0.50% at 1.4255. Barring further impetus from the greenback, the NEER may continue to mull the -0.50% region in the interim.
- Overnight USD-SGD moves may have neutralized somewhat its down move since the beginning of the year although the pair may be rangy within 1.4200-1.4300 in the interim with the 55-day MA (1.4312) in close proximity.

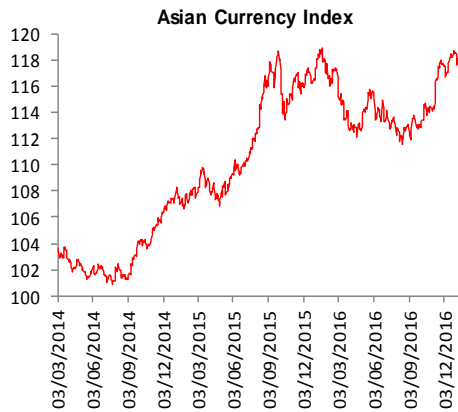
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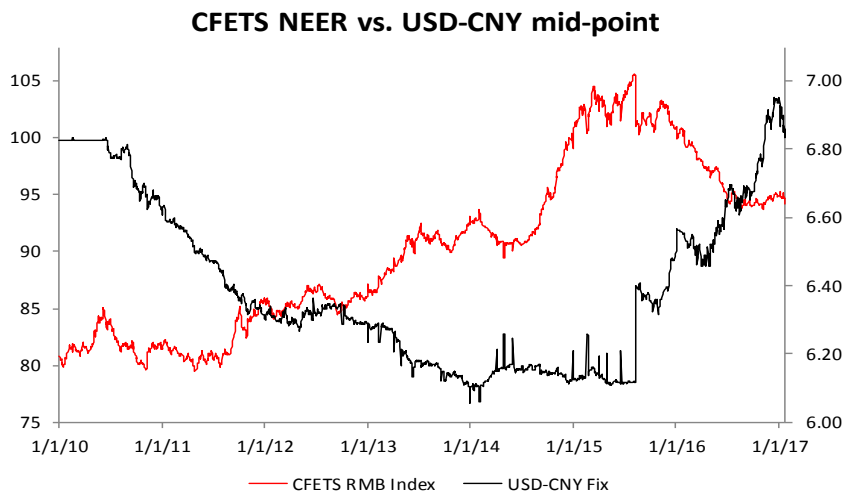
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	SGD NEER	% deviation	USD-SGD
Current	123.68	-0.47	1.4254
+2.00%	126.74		1.3906
Parity	124.26		1.4184
-2.00%	121.77		1.4473

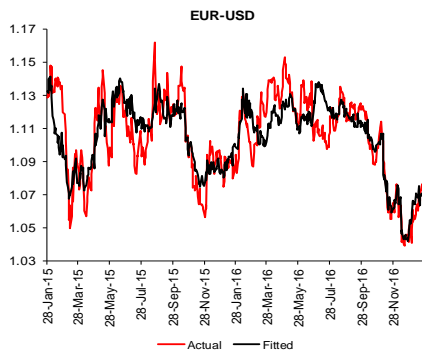
Source: OCBC Bank

- **CFETS RMB Index:** China holiday.



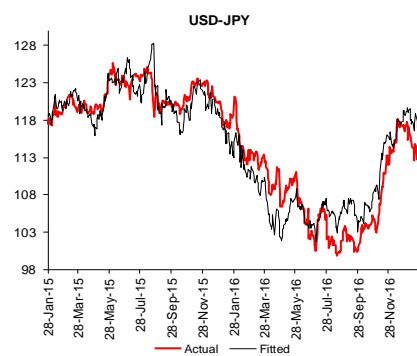
Source: OCBC Bank, Bloomberg

G7



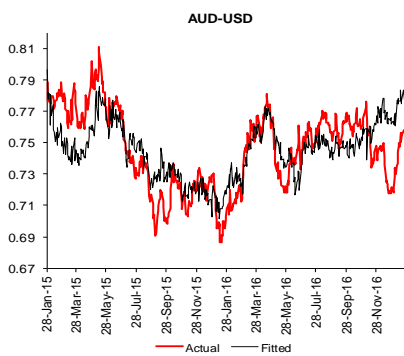
Source: OCBC Bank

- EUR-USD** Perceived discord within the ECB Governing Council with respect to inflation prospects and the eventual winding down of QE we think continues to create room for ambiguity (not to mention looming political risks). In the interim, the EUR-USD is hovering close to its near term implied valuation with little urgency in either direction.



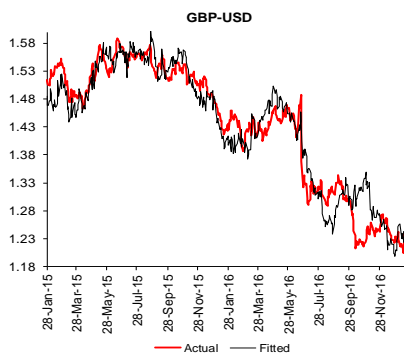
Source: OCBC Bank

- USD-JPY** Short term implied valuations are still oriented southwards despite the greenback's short burst higher overnight. A near term junction is expected at the 55-day MA (114.61) and any failure to overcome may invite a retracement back towards 112.40.



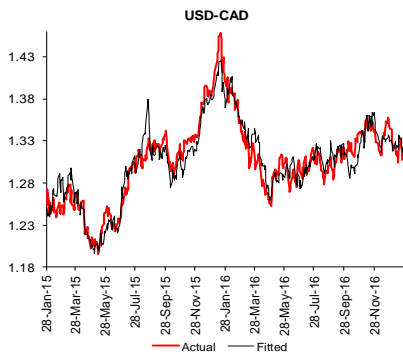
Source: OCBC Bank

- AUD-USD** A still supportive commodity complex and warmer than expected 4Q export price index may provide a buffer against near term USD resilience. In the interim, continue to expect some consolidative price action within 0.7500-0.7600 with short term implied valuations also stalling for now. Note significant supported expected towards the confluence of the 100-day MA (0.7497) and the 200-day MA (0.7492).



Source: OCBC Bank

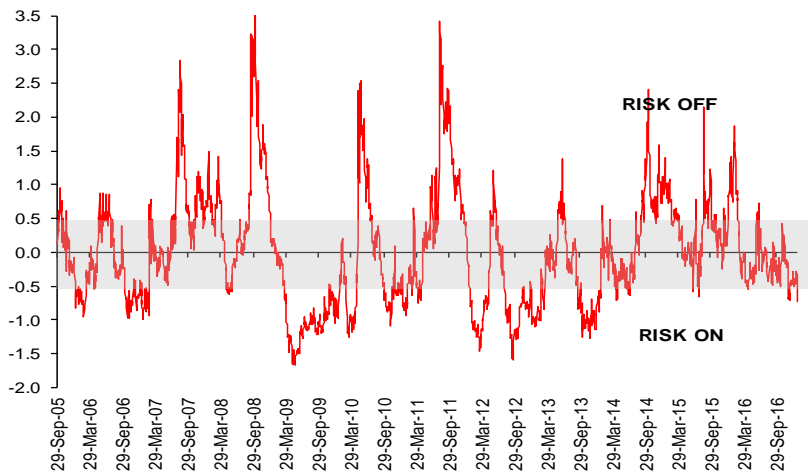
- GBP-USD** Better than expected UK 4Q GDP numbers failed to cushion the GBP-USD on Thursday as a firmer USD took control. Today, PM May is scheduled to meet with President Trump today with some optimism already being priced in. In the interim, near term implied valuations are still looking somewhat supported with GBP-USD seen fenced within 1.2500-1.2700 in the interim.



- USD-CAD** Preference to remain top heavy (note firmer crude) for USD-CAD remains intact with short term implied valuations still soggy. Next key resistance is expected towards the 200-day MA (1.3121) and if repelled, the pair may once again test towards 1.3050

Source: OCBC Bank

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	0.207	0.906	-0.608	-0.839	-0.665	0.955	0.280	0.549	-0.383	0.830	-0.986
CHF	0.989	0.211	0.910	-0.588	-0.837	-0.656	0.925	0.207	0.544	-0.336	0.843	-0.986
TWD	0.959	0.070	0.874	-0.691	-0.855	-0.648	0.903	0.317	0.612	-0.310	0.785	-0.939
JPY	0.955	0.306	0.882	-0.499	-0.781	-0.678	1.000	0.288	0.492	-0.477	0.805	-0.947
SGD	0.949	0.331	0.876	-0.645	-0.869	-0.636	0.949	0.301	0.631	-0.321	0.898	-0.956
THB	0.947	0.198	0.858	-0.613	-0.891	-0.582	0.893	0.412	0.523	-0.323	0.745	-0.923
KRW	0.936	0.034	0.899	-0.614	-0.791	-0.678	0.863	0.223	0.486	-0.252	0.784	-0.903
CNY	0.906	0.266	1.000	-0.467	-0.715	-0.694	0.882	0.325	0.413	-0.305	0.876	-0.898
MYR	0.877	-0.155	0.783	-0.630	-0.738	-0.604	0.794	0.243	0.511	-0.366	0.612	-0.861
CNH	0.830	0.412	0.876	-0.637	-0.799	-0.629	0.805	0.203	0.659	-0.123	1.000	-0.846
CAD	0.798	0.526	0.661	-0.723	-0.916	-0.469	0.773	0.244	0.750	-0.332	0.810	-0.774
CCN12M	0.766	0.375	0.801	-0.697	-0.859	-0.447	0.737	0.499	0.727	-0.262	0.863	-0.777
IDR	0.656	0.494	0.610	-0.626	-0.857	-0.418	0.662	0.426	0.720	-0.569	0.672	-0.646
USGG10	0.207	1.000	0.266	0.072	-0.379	-0.023	0.306	0.360	0.163	-0.400	0.412	-0.209
INR	0.182	0.082	0.248	0.016	0.045	-0.423	0.112	-0.385	-0.114	-0.021	0.284	-0.158
PHP	-0.279	0.508	-0.301	-0.094	-0.044	0.207	-0.302	-0.084	0.324	-0.094	-0.002	0.270
GBP	-0.573	0.317	-0.506	0.495	0.301	0.513	-0.457	0.313	-0.332	-0.100	-0.433	0.596
AUD	-0.951	-0.231	-0.883	0.617	0.894	0.607	-0.935	-0.394	-0.579	0.338	-0.835	0.952
NZD	-0.965	-0.069	-0.857	0.636	0.827	0.650	-0.923	-0.207	-0.542	0.308	-0.778	0.953
EUR	-0.986	-0.209	-0.898	0.579	0.818	0.661	-0.947	-0.243	-0.554	0.367	-0.846	1.000

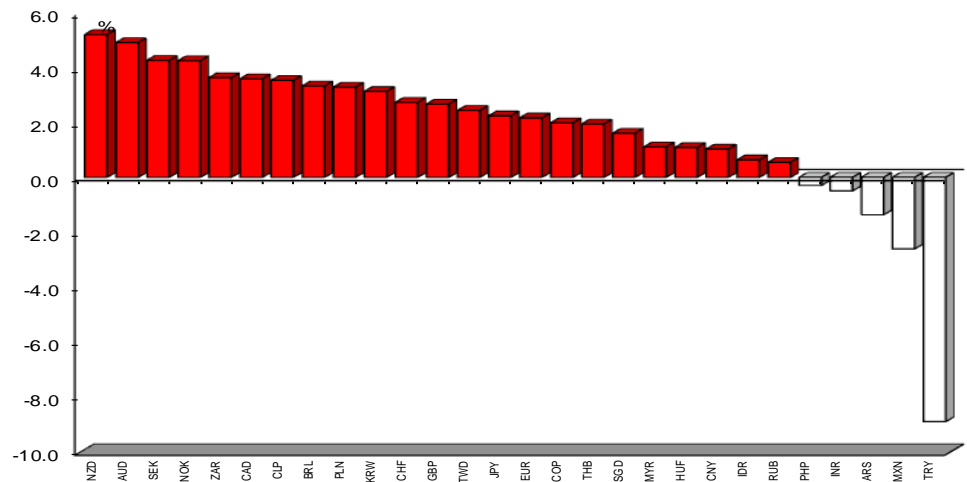
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0577	1.0600	1.0681	1.0700	1.0775
GBP-USD	1.2409	1.2500	1.2594	1.2600	1.2665
AUD-USD	0.7489	0.7500	0.7534	0.7600	0.7609
NZD-USD	0.7094	0.7200	0.7245	0.7300	0.7313
USD-CAD	1.3019	1.3100	1.3102	1.3119	1.3200
USD-JPY	112.53	114.00	114.83	115.00	115.07
USD-SGD	1.4112	1.4200	1.4255	1.4300	1.4314
EUR-SGD	1.5185	1.5200	1.5226	1.5267	1.5300
JPY-SGD	1.2254	1.2400	1.2413	1.2438	1.2500
GBP-SGD	1.7767	1.7900	1.7953	1.8000	1.8026
AUD-SGD	1.0576	1.0700	1.0739	1.0800	1.0808
Gold	1151.90	1178.31	1185.20	1200.00	1220.10
Silver	16.65	16.70	16.74	16.80	17.36
Crude	52.46	53.70	53.74	53.80	55.09

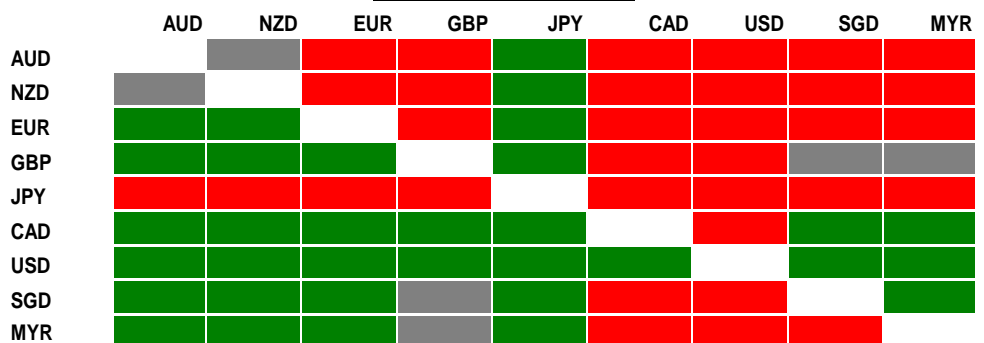
Source: OCBC Bank

FX performance: 1-month change agst USD



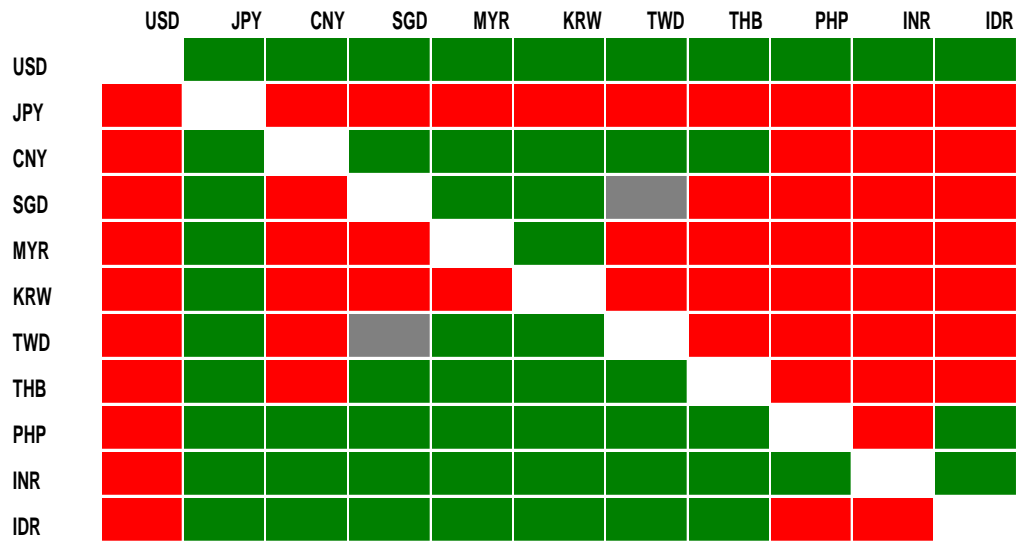
Source: Bloomberg

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	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		
6	25-Jan-17	B	GBP-USD	1.2528	1.2910 1.2335	Subsidence of acute A50 concerns in the short term		
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		
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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