

Thursday, December 01, 2016

**FX Themes/Strategy/Trading Ideas**

- With the 10y UST revisiting recent highs again (note firmer crude post-OPEC agreement to cut output), the DXY has also floated higher in tandem with last night's Nov Chicago PMI and ADP numbers coming in above prior expectations. Dollar bulls may remain emboldened after Steve Mnuchin (the President-elect's pick for the post of Treasury Secretary), did not make any negative reference to the stronger dollar on Wednesday. Notably, FF futures continue to price a FOMC hike this month to the hilt with the Fed's Mester noting that an interest rate increase would be a "prudent step".
- On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped lower on the day within Risk-Neutral territory on Wednesday as global appetite levels maintained an even keel despite the USD and with energy counters bolstering global equities.
- With the broad dollar finding a new lease of life from firmer US yields, we re-engage in a tactical long **USD-JPY**. With a USD-JPY spot ref at 114.54 on Thursday, we target 118.50 and place a stop at 112.55.

**Asian FX**

- Expect the **ACI (Asian Currency Index)** to be on firmer ground once again in the wake of the broad dollar's rebound, while nascent prospects of firmer global inflation (spillover from last night's crude oil headlines) may present an additional drag for the Asian units. If the current dollar ascent persists, we fully expect the ACI to hurdle its year-to-date high chalked up in Jan 16.
- **SGD NEER:** With the big dollar climbing overnight, the **SGD NEER** has reacted lower to around -0.43% below its perceived parity (1.4266) this morning, from around -0.15% yesterday. NEER-implied USD-SGD thresholds are understandably higher on the day with -0.50% estimated at 1.4338 and -1.00% at 1.4410. Note the recent high of 1.4365 within striking distance with our tactical target (from 14 Nov 16) at 1.4375. In the interim, USD-SGD may attempt to base out around the -0.40% to -0.50% neighborhood with the NEER's inherent heaviness from the USD counterbalanced by JPY underperformance.

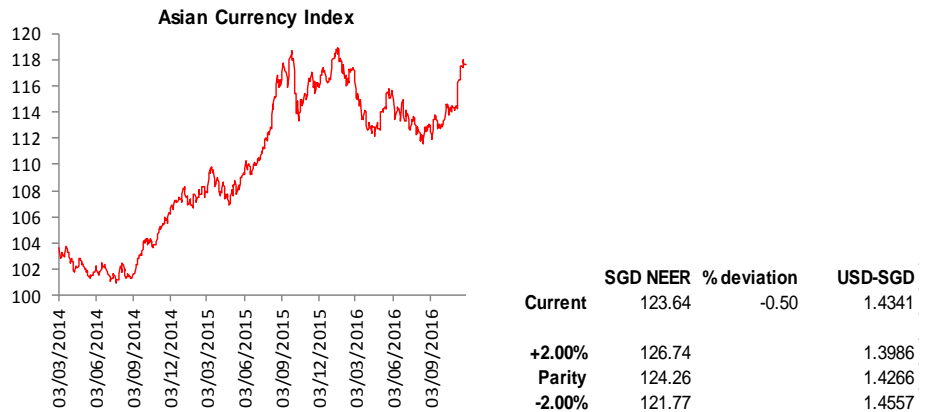
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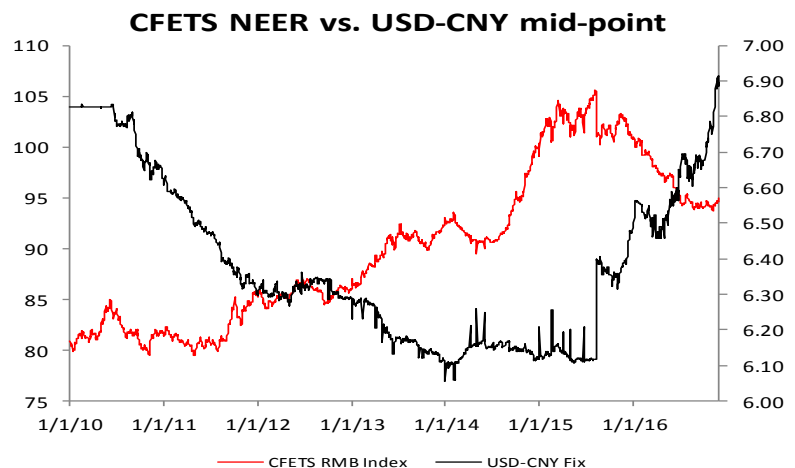
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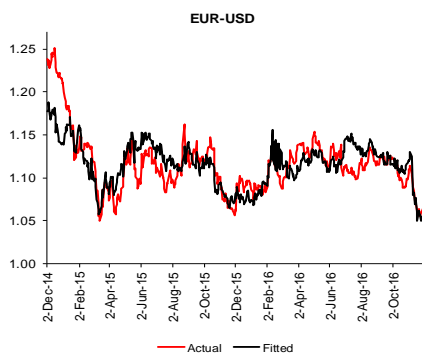
Source: OCBC Bank

- CFETS RMB Index:** In the face of the resurgent broad dollar, the USD-CNY mid-point this morning rose to 6.8958 from 6.8865 yesterday. As noted previously, upside containment of the USD-CNY may remain the primary mandate in the current environment, with the **CFETS RMB Index** gaining further to 94.95 from 94.68 yesterday.



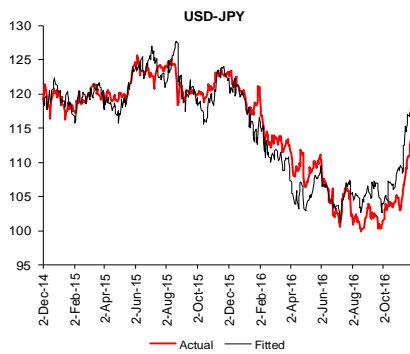
Source: OCBC Bank, Bloomberg

**G7**



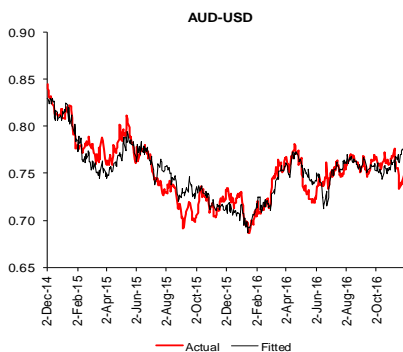
Source: OCBC Bank

- EUR-USD** Despite firming Nov EZ inflation (note that the ECB's Draghi did not expect heightened inflation risks on Wednesday), the EUR-USD may continue to fade under the weight of the USD, especially ahead of the weekend Italian referendum. As such, the pair's hold on the 1.0600 handle may remain tenuous, with risks still skewed towards 1.0550 ahead of 1.0500.



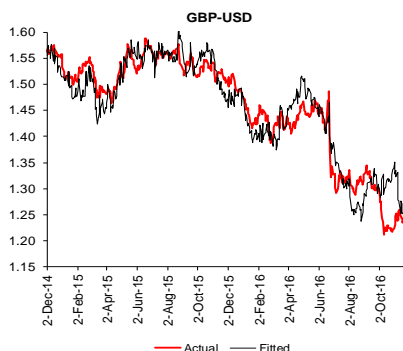
Source: OCBC Bank

- USD-JPY** The dollar's newfound resilience coupled with still dovish comments from the BOJ's Sakurai this morning may see the USD-JPY attempting to reach higher in the near term with the next major psychological resistance seen at 115.00.



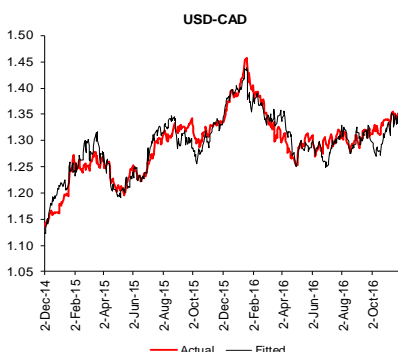
Source: OCBC Bank

- AUD-USD** The fairly supportive PMIs out of China this morning may grant a soft floor to the AUD-USD in the near term. Meanwhile, short-term implied valuations remain counter intuitively (or not) elevated on the back of the commodity complex. However, we stay heavy on the pair in the interim with initial support seen towards 0.7350.



Source: OCBC Bank

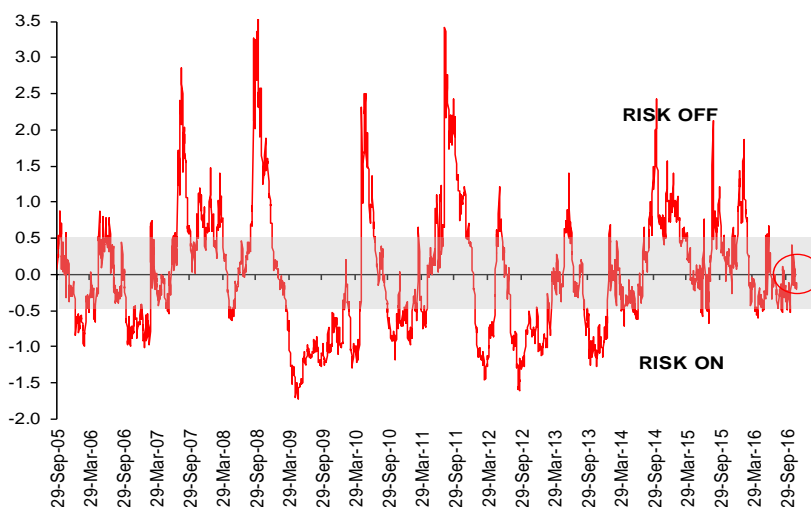
- GBP-USD** Despite a cautionary tone from the BOE's Financial Stability Report, the GBP-USD lifted higher by late NY, with partial support from the slumping EUR-GBP. Short-term valuations are ticking lower slightly although we reiterate that the pair remains comfortably within its fair value confidence intervals. An ability to clear the 55-day MA (1.2515) may invite a test towards 1.2600. Investors may attempt to collect on dips in the interim.



Source: OCBC Bank

- USD-CAD** Against the backdrop of firmer oil prices, short-term valuations for the USD-CAD have reacted lower. As such, the pair may continue to flatten out and threaten a breach of the 1.3400 floor despite a firmer broad dollar. On the downside, the next support thereafter is expected at 1.3365 and then at the 55-day MA (1.3310).

### 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	0.974	0.988	0.944	-0.245	0.432	0.979	0.570	-0.916	0.624	0.985	-0.997
CHF	0.996	0.969	0.986	0.940	-0.209	0.472	0.985	0.637	-0.902	0.598	0.982	-0.990
SGD	0.988	0.948	1.000	0.932	-0.220	0.419	0.971	0.533	-0.880	0.614	0.987	-0.981
JPY	0.985	0.949	0.987	0.948	-0.198	0.467	0.965	0.595	-0.895	0.543	1.000	-0.981
CNY	0.980	0.950	0.981	0.919	-0.160	0.472	0.983	0.607	-0.860	0.606	0.972	-0.970
CNH	0.979	0.944	0.971	0.937	-0.104	0.517	1.000	0.676	-0.875	0.523	0.965	-0.962
USGG10	0.979	0.987	0.954	0.946	-0.226	0.397	0.968	0.573	-0.930	0.622	0.957	-0.980
TWD	0.977	0.923	0.976	0.895	-0.148	0.514	0.973	0.668	-0.846	0.622	0.967	-0.966
CAD	0.974	1.000	0.948	0.948	-0.334	0.321	0.944	0.506	-0.947	0.645	0.949	-0.983
IDR	0.966	0.931	0.974	0.894	-0.189	0.409	0.972	0.515	-0.838	0.642	0.950	-0.954
MYR	0.955	0.926	0.956	0.851	-0.203	0.344	0.954	0.530	-0.818	0.715	0.922	-0.943
KRW	0.945	0.877	0.966	0.835	-0.132	0.530	0.943	0.622	-0.769	0.699	0.936	-0.925
PHP	0.929	0.927	0.910	0.829	-0.482	0.257	0.862	0.449	-0.858	0.804	0.894	-0.937
THB	0.913	0.905	0.891	0.807	-0.407	0.224	0.854	0.398	-0.830	0.814	0.847	-0.914
CCN12M	0.832	0.802	0.853	0.793	0.038	0.419	0.843	0.440	-0.757	0.573	0.839	-0.814
INR	0.562	0.633	0.519	0.479	-0.498	-0.258	0.439	-0.144	-0.584	0.747	0.495	-0.565
GBP	0.223	0.377	0.236	0.298	-0.288	-0.177	0.305	-0.087	-0.240	0.280	0.258	-0.265
NZD	-0.927	-0.912	-0.897	-0.819	0.317	-0.307	-0.852	-0.490	0.863	-0.763	-0.885	0.929
AUD	-0.928	-0.918	-0.891	-0.810	0.309	-0.427	-0.891	-0.614	0.823	-0.720	-0.898	0.932
EUR	-0.997	-0.983	-0.981	-0.950	0.291	-0.389	-0.962	-0.565	0.932	-0.627	-0.981	1.000

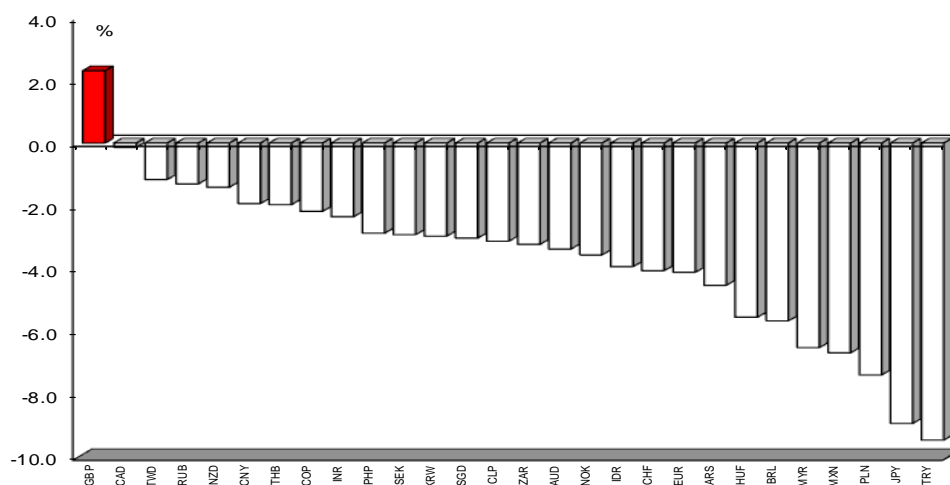
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0500	1.0518	1.0598	1.0600	1.0932
GBP-USD	1.2456	1.2500	1.2523	1.2573	1.2600
AUD-USD	0.7300	0.7311	0.7393	0.7400	0.7523
NZD-USD	0.7000	0.7038	0.7080	0.7100	0.7158
USD-CAD	1.3326	1.3400	1.3407	1.3500	1.3566
USD-JPY	106.41	114.00	114.36	114.83	115.00
USD-SGD	1.3933	1.4300	1.4317	1.4365	1.4400
EUR-SGD	1.5074	1.5100	1.5174	1.5200	1.5214
JPY-SGD	1.2497	1.2500	1.2519	1.2600	1.2857
GBP-SGD	1.7355	1.7900	1.7929	1.7976	1.8000
AUD-SGD	1.0500	1.0548	1.0584	1.0600	1.0787
Gold	1142.92	1161.00	1168.00	1200.00	1260.08
Silver	16.15	16.20	16.29	16.30	17.72
Crude	49.45	49.50	49.59	49.60	52.53

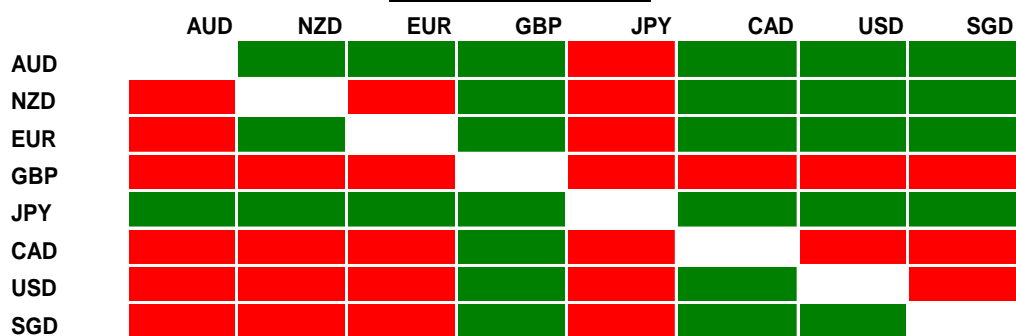
Source: OCBC Bank

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



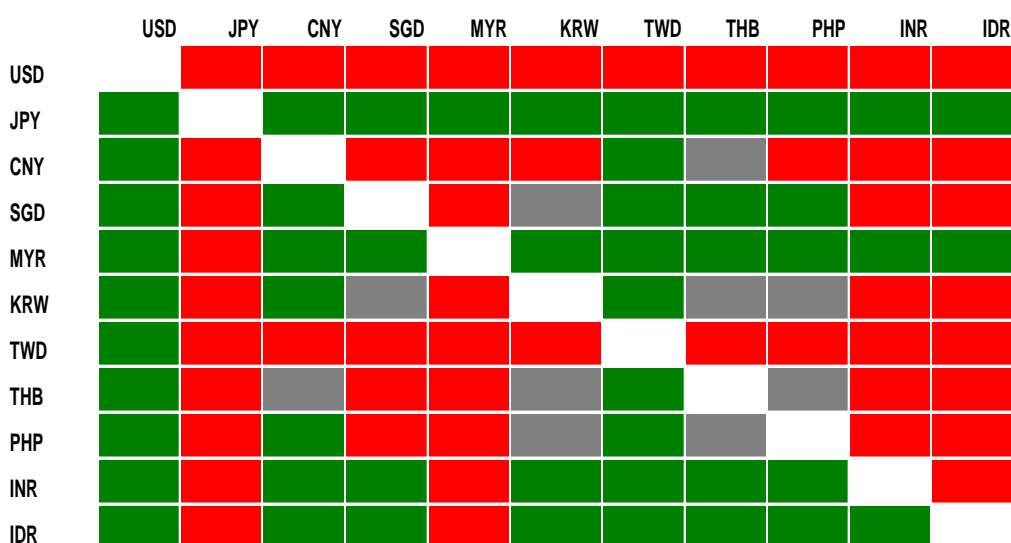
Source: Bloomberg

### 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	26-Oct-16	B	USD-CAD	1.3356	1.3635	1.3210	Softening crude, dovish BOC, potential USD strength	
2	14-Nov-16	B	USD-SGD	1.4172	1.4375	1.4070	USD strength and EM jitters post-US elections	
3	18-Nov-18	S	AUD-USD	0.7397	0.7190	0.7505	Potential negative side effects from new US administration	
4	21-Nov-16	S	EUR-USD	1.0605	1.0360	1.0730	USD, resilience, policy dichotomy, potential EZ political tensions	
5	21-Nov-16	B	USD-JPY	114.54	118.50	112.55	New lease of life for USD from higher UST yields	
<b>STRUCTURAL</b>								
6	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr 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, poiltical risk premium in EZ	
<b>RECENTLY CLOSED</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	05-Oct-16	03-Nov-16	S	EUR-USD	1.1222	1.1125	Fade ECB-taper talk, potential US resilience	+1.00
2	12-Oct-16	04-Nov-16	S	GBP-USD	1.2271	1.2464	Fade GBP-USD upticks	-1.50
3	25-Aug-16	07-Nov-16	B	USD-SGD	1.3527	1.3866	Moderating net inflows in Asia, potential for broad USD uptick	+2.39
4	08-Nov-16	09-Nov-16	B	AUD-USD	0.7708	0.7610	Accumulating risk appetite despite USD resilience	-1.29
5	06-Oct-16	09-Nov-16	B	USD-JPY	103.48	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	-1.60
6	18-Nov-18	28-Nov-16	B	USD-JPY	110.19	111.95	Firmer USD post-Yellen	+1.57
7	07-Mar-16	28-Nov-16	B	AUD-USD	0.7412	0.7483	Potential risk appetite, abating global growth concerns, static Fed expectations	+2.09
<b>Jan-Oct 2016 Return</b>								<b>+3.91</b>

Source: OCBC Bank

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