

Tuesday, November 22, 2016

FX Themes/Strategy/Trading Ideas

- The greenback consolidated lower against the majors on Monday with Fukushima news flow pressuring the USD-JPY lower into late NY. The greenback (and the UST curve) may continue to pause for breath despite latest comments from the Fed's Fischer essentially underpinning expectations for a December FOMC rate hike. Fed-speak is not scheduled for today and investors may have to look towards the FOMC minutes on Wednesday for further cues. Expect liquidity to thin out into the Thanksgiving weekend with the US bond market shut on Thursday. On the risk appetite front, the **FXSI (FX Sentiment Index)** inched lower within Risk-Neutral territory on Monday amidst positive global equities.

Asian FX

- EM/Asian currencies may see a brief reprieve in the short term but background concerns surrounding the incoming US administration's posture towards trade agreements may keep the downside for USD-Asia shallow. Note that President-elect Trump has stated that he will withdraw from the TPP (Trans-Pacific Partnership) agreement on his first day in office. Nevertheless, positive Asian equities this morning and the easier USD-JPY should keep the **ACI (Asian Currency Index)** suppressed in the current session.
- **SGD NEER:** With the broad dollar consolidating, the **SGD NEER** is slightly firmer on the day again at -0.26% below its perceived parity (1.4179). NEER-implied USD-SGD thresholds are also lower on the day with -0.50% estimated at 1.4250 and -1.00% at 1.4322. Note room for a drift back towards -0.50% and beyond if the broad dollar re-asserts itself. Intra-day, expect some room for capitulation towards 1.4200 with upside expected to be capped around 1.4275 pending external cues.

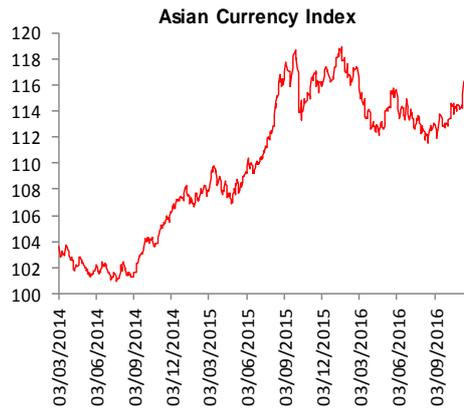
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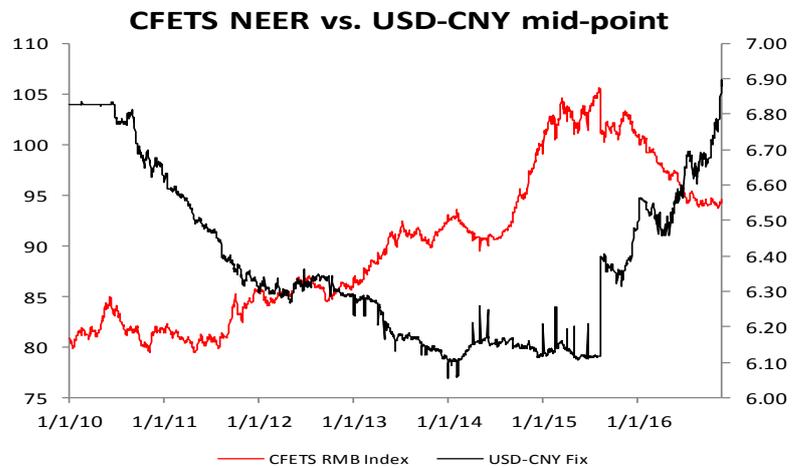
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	SGD NEER	% deviation	USD-SGD
Current	123.93	-0.26	1.4218
+2.00%	126.74		1.3901
Parity	124.26		1.4179
-2.00%	121.77		1.4468

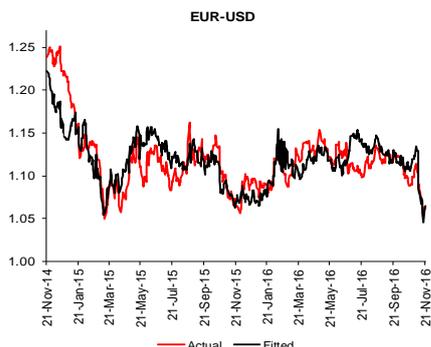
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point softened to (a lower than expected) 6.8779 from 6.8985 on Monday as the broad dollar consolidated lower overnight. Nonetheless, this still resulted in the **CFETS RMB Index** easing minutely to 94.58 from 94.59 yesterday. On a multi-session horizon, the Index may continue to find a floor around the 94.00 neighborhood while the authorities remain preoccupied with containing the volatility of the spot. On this front, we note that the realized vol of the mid-point has been progressively pressured lower in recent months.



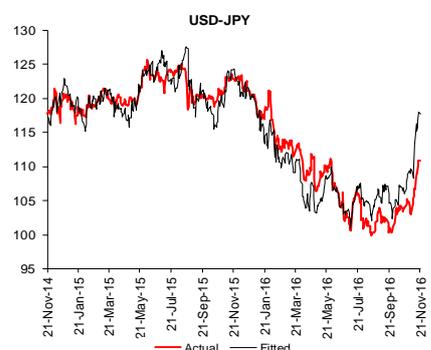
Source: OCBC Bank, Bloomberg

G7



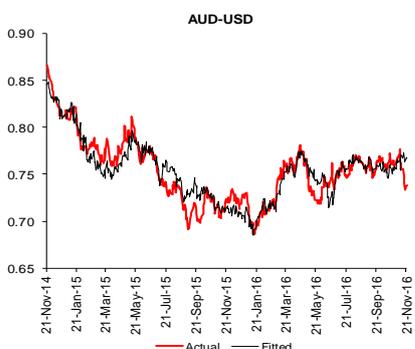
Source: OCBC Bank

- EUR-USD** ECB rhetoric this week may provide further fuel for EUR heaviness although we note short-term implied valuations bouncing overnight on the back of rate differentials. As such, expect some soul searching in the vicinity of 1.0600 despite the ECB’s Draghi remaining sufficiently accommodative on Monday. On a multi-session horizon however, potential political concerns may continue to brew, with the Italian referendum on 04 Dec 16.



Source: OCBC Bank

- USD-JPY** Expect some near term heaviness for the pair on the back of the earthquake-related headlines. Note however that the pair seems to have found a floor so far during the TKY session on headlines indicating limited damage from the quake. Elsewhere, remarks from the BOJ’s Kuroda this morning indicate little prospect of an exit policy as yet, keeping the JPY at risk with respect to the USD. Expect a 110.20-111.20 range in the interim.



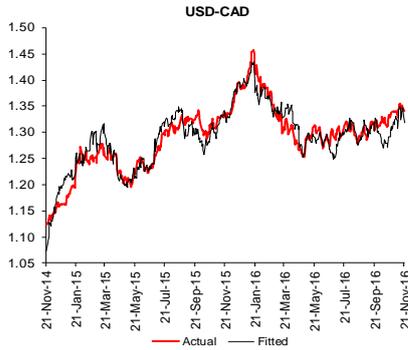
Source: OCBC Bank

- AUD-USD** AUD-USD may contemplate the 0.7400 ceiling in the near term as markets undergo a period of reassessment. A further probe beyond this level towards implied valuations (bolstered by metals and global risk appetite levels) cannot be discounted if the greenback backtracks further.



- GBP-USD** GBP-USD blipped higher on Monday as PM May attempted to assuage investors with respect to the shape and guise of Brexit. Expect room for volatility tomorrow in the form of the budget announcement by Chancellor Hammond. Meanwhile, cable continues to sync up with short term valuations and remains comfortably within its implied confidence intervals. Initial support is expected into 1.2440 with the 55-day MA (1.2618) residing up top.

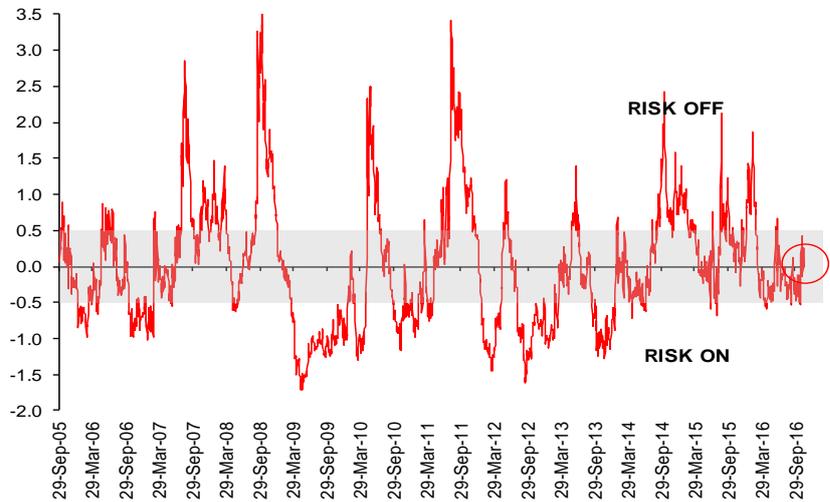
Source: OCBC Bank



- USD-CAD** Investors have continued to reverse out prior long positions in the pair, especially with crude garnering some tractions, and with the 1.3400 support now at risk. Elsewhere, near term valuations have also capitulated lower overnight. Beyond 1.3400, the next support is expected into 1.3365.

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	0.874	0.952	0.910	-0.499	-0.150	0.959	0.025	-0.830	0.524	0.926	-0.995
CHF	0.961	0.728	0.844	0.861	-0.282	0.087	0.868	0.316	-0.887	0.319	0.824	-0.965
SGD	0.959	0.956	0.985	0.895	-0.672	-0.344	1.000	-0.107	-0.700	0.666	0.984	-0.950
JPY	0.952	0.943	1.000	0.863	-0.696	-0.377	0.985	-0.223	-0.664	0.696	0.978	-0.940
CNY	0.938	0.972	0.948	0.901	-0.654	-0.376	0.970	-0.150	-0.739	0.679	0.955	-0.942
CNH	0.926	0.960	0.978	0.879	-0.739	-0.408	0.984	-0.167	-0.655	0.674	1.000	-0.929
USGG10	0.910	0.959	0.947	0.820	-0.712	-0.445	0.955	-0.205	-0.643	0.769	0.937	-0.908
TWD	0.910	0.835	0.885	0.754	-0.515	-0.235	0.874	-0.078	-0.700	0.676	0.813	-0.896
CAD	0.906	0.823	0.940	0.715	-0.595	-0.232	0.903	-0.064	-0.571	0.702	0.881	-0.881
IDR	0.877	0.946	0.961	0.794	-0.776	-0.470	0.958	-0.364	-0.536	0.775	0.961	-0.857
MYR	0.874	1.000	0.943	0.843	-0.796	-0.534	0.956	-0.417	-0.611	0.777	0.960	-0.869
KRW	0.869	0.971	0.949	0.804	-0.794	-0.526	0.953	-0.410	-0.554	0.812	0.954	-0.854
PHP	0.846	0.943	0.925	0.721	-0.823	-0.496	0.923	-0.398	-0.501	0.869	0.919	-0.819
THB	0.833	0.951	0.926	0.758	-0.831	-0.604	0.914	-0.476	-0.515	0.855	0.912	-0.821
CCN12M	0.663	0.820	0.731	0.615	-0.688	-0.513	0.746	-0.451	-0.452	0.819	0.708	-0.640
INR	0.572	0.780	0.626	0.467	-0.717	-0.639	0.587	-0.562	-0.331	0.809	0.581	-0.526
GBP	0.209	0.582	0.420	0.306	-0.759	-0.819	0.434	-0.736	0.042	0.675	0.494	-0.265
NZD	-0.868	-0.639	-0.725	-0.702	0.200	-0.115	-0.751	-0.322	0.806	-0.367	-0.685	0.862
AUD	-0.907	-0.824	-0.871	-0.735	0.511	0.129	-0.896	-0.087	0.669	-0.624	-0.874	0.901
EUR	-0.995	-0.869	-0.94	-0.926	0.479	0.149	-0.95	-0.102	0.857	-0.487	-0.929	1.000

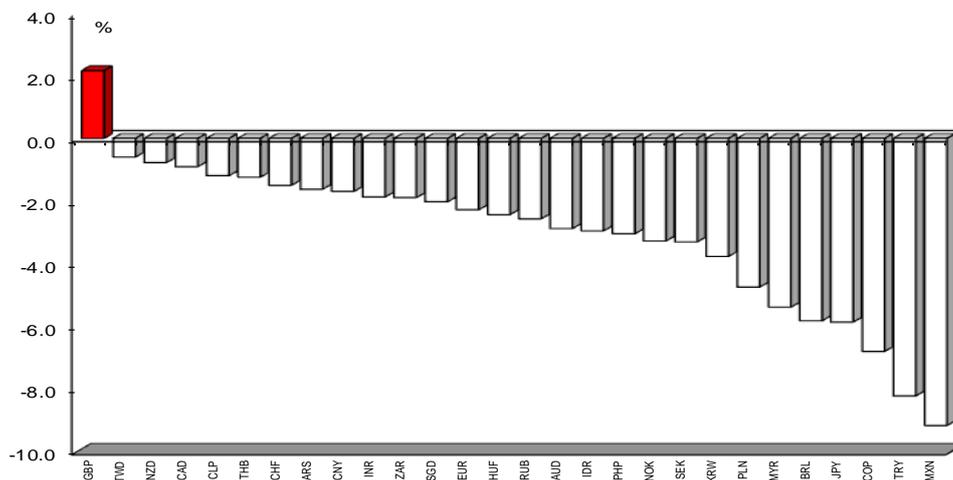
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0569	1.0600	1.0634	1.0700	1.1017
GBP-USD	1.2400	1.2450	1.2500	1.2545	1.2629
AUD-USD	0.7311	0.7332	0.7389	0.7400	0.7515
NZD-USD	0.7000	0.7024	0.7080	0.7100	0.7193
USD-CAD	1.3299	1.3400	1.3405	1.3500	1.3548
USD-JPY	106.40	110.00	110.68	111.00	111.36
USD-SGD	1.3838	1.4200	1.4220	1.4289	1.4300
EUR-SGD	1.5074	1.5100	1.5121	1.5200	1.5228
JPY-SGD	1.2800	1.2818	1.2848	1.2851	1.2900
GBP-SGD	1.7357	1.7700	1.7775	1.7800	1.7859
AUD-SGD	1.0500	1.0503	1.0508	1.0600	1.0773
Gold	1200.00	1201.30	1219.40	1276.68	1283.33
Silver	16.43	16.80	16.83	16.90	17.69
Crude	48.14	48.60	48.68	48.70	50.29

Source: OCBC Bank

FX performance: 1-month change agst USD



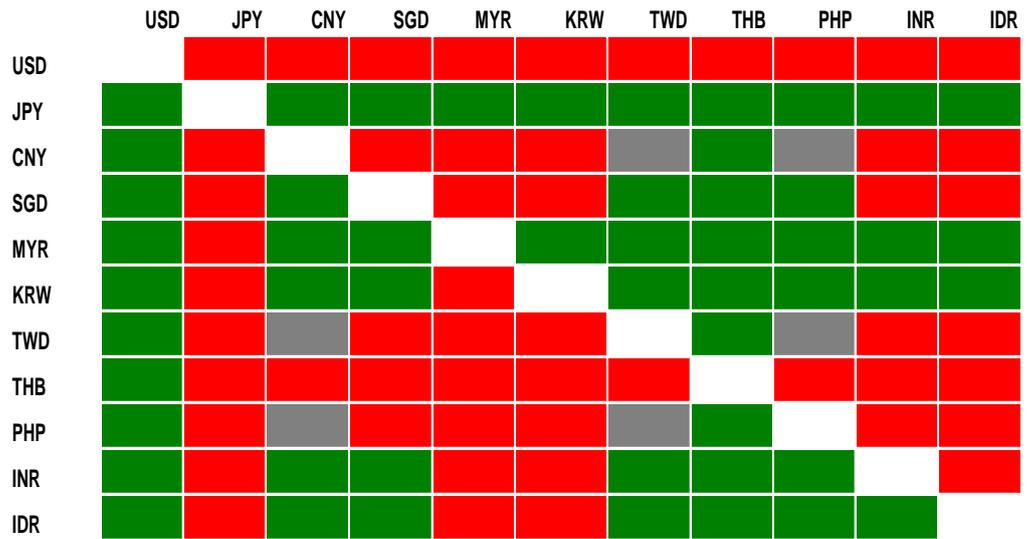
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD		Green	Green	Green	Red	Green	Green	Green
NZD	Red		Red	Red	Red	Green	Green	Green
EUR	Red	Green		Green	Red	Green	Green	Green
GBP	Red	Red	Red		Red	Red	Red	Red
JPY	Green	Green	Green	Green		Green	Green	Green
CAD	Red	Red	Red	Red	Red		Green	Red
USD	Red	Red	Red	Green	Red	Red		Red
SGD	Red	Red	Red	Green	Red	Green	Green	

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	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	B	USD-JPY	110.19	113.90	108.30	Firmer USD post-Yellen	
4	18-Nov-18	S	AUD-USD	0.7397	0.7190	0.7505	Potential negative side effects from new US administration	
5	21-Nov-16	S	EUR-USD	1.0605	1.0360	1.0730	USD, resilience, policy dichotomy, potential EZ political tensions	
STRUCTURAL								
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
7	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr prospects, negative space for SGD NEER	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
2	27-Oct-16	28-Oct-16	B	AUD-USD	0.7618	0.7587	Supportive risk appetite, metals, positioning, and positioning	-0.38
3	05-Oct-16	03-Nov-16	S	EUR-USD	1.1222	1.1125	Fade ECB-taper talk, potential US resilience	+1.00
4	12-Oct-16	04-Nov-16	S	GBP-USD	1.2271	1.2464	Fade GBP-USD upticks	-1.50
5	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
6	08-Nov-16	09-Nov-16	B	AUD-USD	0.7708	0.7610	Accumulating risk appetite despite USD resilience	-1.29
7	06-Oct-16	09-Nov-16	B	USD-JPY	103.48	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	-1.60
Jan-Oct 2016 Return								+3.91

Source: OCBC Bank

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