

Wednesday, February 01, 2017

FX Themes/Strategy/Trading Ideas

- The broad dollar may be expected to remain on the defensive in the wake of the latest comments from the Trump administration on currency devaluations by other countries (namely, Japan, China, and Germany). In the interim, we would continue to watch bellwethers CHF and XAU, with the DXY relapsing below 100.00 again overnight. On other fronts, the UST curve also bull flattened from the back-end amid disappointing 4Q ECI, Jan Chicago PMI and consumer confidence indices.
- Elsewhere, the specter of global protectionism may continue to circulate in the market, with the antipodeans also underperforming across G10 space overnight and in early Asia today. This is despite still sanguine risk appetite levels, with the **FXSI (FX Sentiment Index)** inching lower within **Risk-On** territory. Further on the macro front, the global data calendar today includes the stream of January manufacturing PMIs with China's manufacturing PMI slipping slightly 51.3 (51.4 prev) while the non-manufacturing PMI improved to 54.6 from 54.5.
- Although nascent questions surrounding the Trump administration's posture towards the dollar (not to mention trade relations) are beginning to surface, dollar vulnerability may hesitate slightly ahead of the FOMC today (1900 GMT), albeit with little market expectations for any departure from the recent script. However, a failure to deliver heightened bullishness above and beyond the previous meeting (which is highly likely) risks undermining the broad USD in the current environment.
- Our tactical short **USD-CAD** idea from 09 Jan 17 (spot ref: 1.3264) filled its 1.3000 objective on Tuesday on the back of Trump rhetoric and better than expected Canadian GDP numbers. We extend our objective to 1.2740, trailing the stop to 1.3135.

Asian FX

- Expect the **ACI (Asian Currency Index)** to continue to probe lower for the third consecutive session in sympathy with the DXY while awaiting further cues from the Fed later in the global session. Meanwhile, our model also portends ample space for the Index to continue to edge lower.
- **SGD NEER:** With the broad dollar bleeding out overnight, the SGD NEER firmed towards +0.40% but has since softened to around +0.13% above its perceived parity (1.4132). NEER-implied USD-SGD thresholds have been pressured lower as a result of the greenback's retreat with -0.50% estimated

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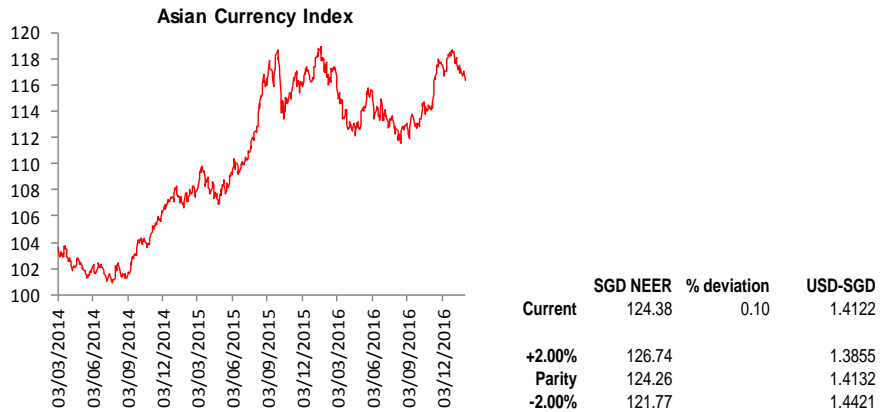
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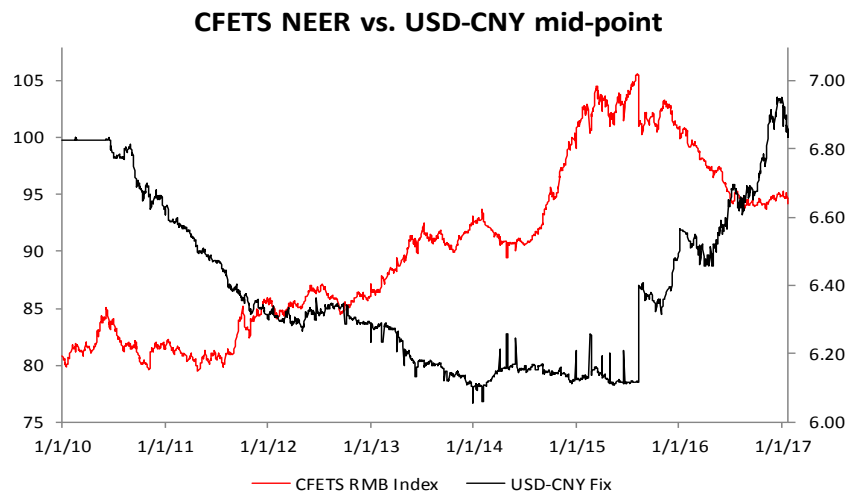
at 1.4204 and +0.50% at 1.4062.

- Expect a certain degree of investor wariness towards rapid SGD strength at current levels, with our volatility indicators (for the NEER and USD-SGD) at cautionary levels and the generalized expectation that the NEER would be uncomfortable above its parity for an extended period of time. USD-SGD meanwhile is in danger of breaching its 382 Fibo retracement of 1.4089 (100-day MA also at 1.4090) on a sustained basis, with the next key target at the 50% retracement at 1.3947.



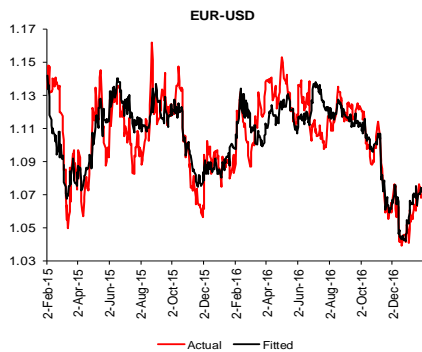
Source: OCBC Bank

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



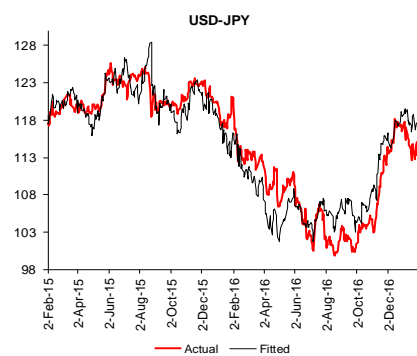
Source: OCBC Bank, Bloomberg

G7



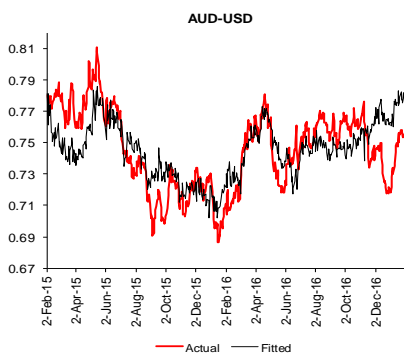
Source: OCBC Bank

- EUR-USD** Amid warmer than expected EZ GDP and CPI numbers, the EUR-USD also found further lift following the US administration's comments on currency manipulation. Note that the pair may thus test higher in line with firming short term implied valuations. A break above the cluster of minor resistance levels around 1.0800/25 would open the way to 1.0875.



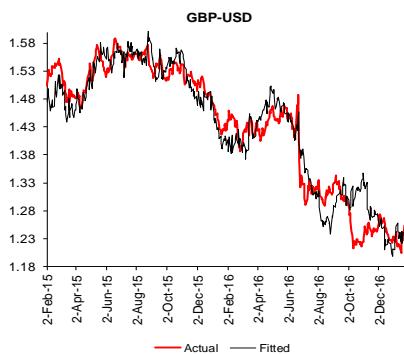
Source: OCBC Bank

- USD-JPY** The BOJ yielded little surprises (note however upgraded growth projections while inflation forecasts were left untouched) as it remained static at its MPC on Tuesday. Going ahead, the USD-JPY will be expected to continue to be steered by the broad dollar. Note that short term implied valuations meanwhile continue to be heavy and the pair is expected to continue to eye the 112.00 neighborhood.



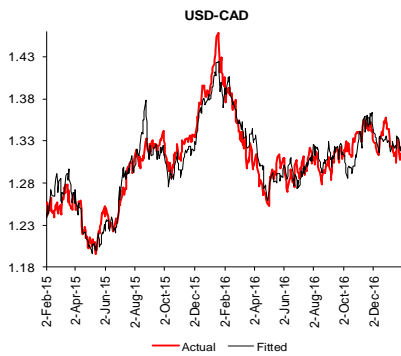
Source: OCBC Bank

- AUD-USD** With China PMIs a mixed bag this morning but short term implied valuations for the AUD-USD still remain largely underpinned. With the broad dollar on the defensive, 0.7600/100 may continue to be challenged.



Source: OCBC Bank

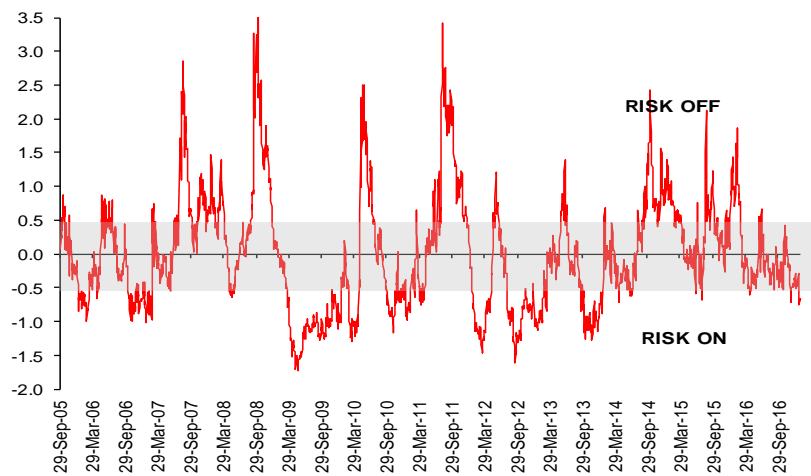
- GBP-USD** Parliamentary proceedings currently underway may continue to keep A50 concerns near the surface and discourage excessive upside for cable. However, the dollar's current demeanor may imply some scope for the pair to test higher (despite rather flattish Dec monetary aggregates) in line with firming short term implied valuations. Upside waypoints beyond 1.2600 include 1.2670.



Source: OCBC Bank

- USD-CAD** Better than expected Canadian GDP numbers on Tuesday and the greenback's broad retreat resulted in a brief dip below 1.3000 and we would expect another attempt at a meaningful break sub-1.3000 if USD strength continues to be diluted going ahead.

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	-0.278	0.865	-0.529	-0.803	-0.482	0.942	-0.109	0.318	-0.620	0.721	-0.984
CHF	0.979	-0.335	0.870	-0.507	-0.793	-0.399	0.904	-0.153	0.276	-0.646	0.689	-0.976
TWD	0.956	-0.414	0.802	-0.551	-0.802	-0.713	0.870	-0.030	0.392	-0.459	0.610	-0.922
JPY	0.942	-0.037	0.838	-0.302	-0.711	-0.498	1.000	0.010	0.179	-0.607	0.735	-0.938
SGD	0.928	-0.082	0.802	-0.375	-0.735	-0.477	0.954	-0.087	0.217	-0.568	0.787	-0.945
KRW	0.921	-0.375	0.854	-0.497	-0.755	-0.629	0.846	-0.092	0.218	-0.412	0.702	-0.885
THB	0.903	-0.498	0.732	-0.432	-0.787	-0.375	0.845	0.058	0.089	-0.546	0.326	-0.868
MYR	0.895	-0.558	0.732	-0.603	-0.848	-0.459	0.730	-0.056	0.357	-0.588	0.444	-0.870
CNY	0.865	-0.075	1.000	-0.174	-0.511	-0.761	0.838	0.006	0.049	-0.434	0.832	-0.851
CAD	0.752	0.037	0.390	-0.629	-0.794	-0.379	0.772	-0.276	0.561	-0.622	0.628	-0.741
CNH	0.721	0.108	0.832	-0.209	-0.511	-0.740	0.735	-0.353	0.211	-0.209	1.000	-0.754
CCN12M	0.632	0.082	0.750	-0.228	-0.563	-0.550	0.630	0.174	0.255	-0.397	0.653	-0.665
INR	0.480	-0.072	0.438	-0.367	-0.360	-0.249	0.385	-0.427	0.080	-0.439	0.577	-0.435
IDR	0.454	0.236	0.368	-0.325	-0.688	-0.365	0.489	0.106	0.457	-0.638	0.312	-0.445
USGG10	-0.278	1.000	-0.075	0.599	0.285	-0.045	-0.037	0.148	-0.163	-0.016	0.108	0.242
PHP	-0.490	0.556	-0.479	0.102	0.260	0.157	-0.445	-0.164	0.232	0.077	-0.145	0.472
GBP	-0.674	0.579	-0.528	0.640	0.460	0.315	-0.539	0.456	-0.347	0.245	-0.467	0.702
AUD	-0.938	0.260	-0.817	0.432	0.842	0.520	-0.916	-0.056	-0.250	0.531	-0.694	0.936
NZD	-0.964	0.443	-0.793	0.582	0.827	0.406	-0.892	0.109	-0.296	0.575	-0.628	0.949
EUR	-0.984	0.242	-0.851	0.466	0.779	0.502	-0.938	0.103	-0.319	0.582	-0.754	1.000

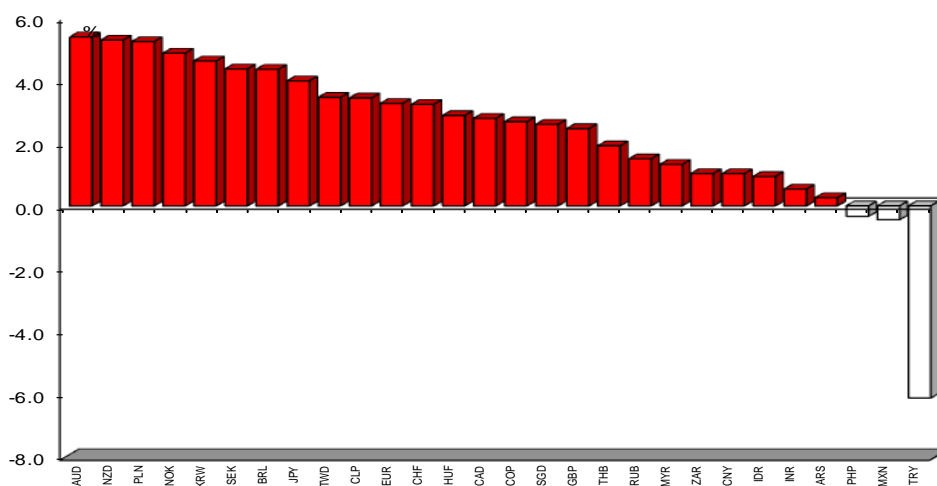
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0586	1.0700	1.0793	1.0800	1.0812
GBP-USD	1.2414	1.2500	1.2574	1.2600	1.2673
AUD-USD	0.7487	0.7500	0.7563	0.7600	0.7609
NZD-USD	0.7100	0.7200	0.7281	0.7300	0.7350
USD-CAD	1.2970	1.3000	1.3068	1.3100	1.3125
USD-JPY	112.08	112.11	112.97	113.00	115.18
USD-SGD	1.4089	1.4100	1.4132	1.4200	1.4308
EUR-SGD	1.5185	1.5200	1.5252	1.5285	1.5300
JPY-SGD	1.2420	1.2500	1.2507	1.2586	1.2595
GBP-SGD	1.7700	1.7767	1.7769	1.7800	1.8020
AUD-SGD	1.0588	1.0600	1.0687	1.0700	1.0859
Gold	1177.20	1200.00	1209.20	1220.10	1223.27
Silver	16.69	17.50	17.54	17.55	17.60
Crude	52.70	52.72	52.73	52.80	54.68

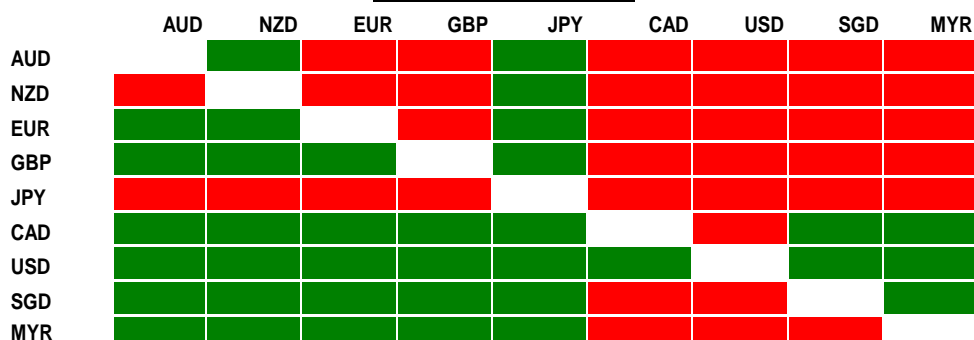
Source: OCBC Bank

FX performance: 1-month change agst USD



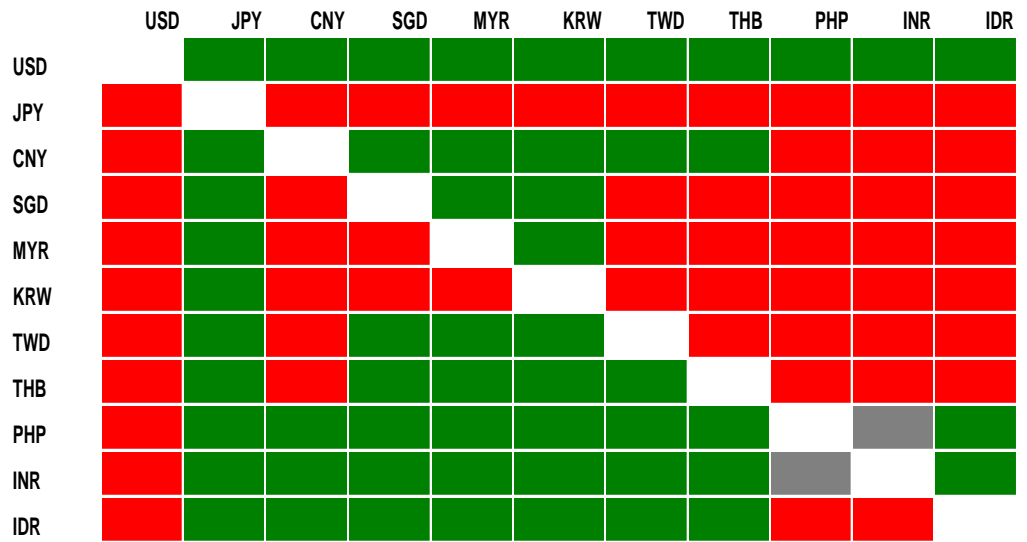
Source: Bloomberg

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	1.2740	1.3135	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	27-Dec-16	02-Jan-17	B	USD-CAD	1.3530	1.3390	Policy dichotomy, Trump Trade, slight de-linking with crude	-1.09	
2	20-Dec-16	05-Jan-17	B	USD-SGD	1.4481	1.4399	Hostile USD/risk appetite environment for Asian FX, SGD	-0.57	
3	19-Dec-16	10-Jan-17	S	AUD-USD	0.7294	0.7359	FOMC outcome forcing a near term reassessment of carry	-0.93	
4	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*	
5	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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