

Wednesday, March 01, 2017

### FX Themes/Strategy/Trading Ideas – Serious consideration

- The USD received another boost (and reversed intra-day weakness borne partially out of mixed US GDP numbers) after hawkish comments from Fed's Williams (March being given "serious consideration") and Dudley ("Fairly soon" means relatively near future, case for tightening since the election has become "a lot more compelling").
- With hawkish Fed-speak increasingly trenchant (ostensibly to keep every meeting "live"), price action on the UST curve overnight is instructive, with the front end underperforming and the entire curve lifting higher while bear flattening. Risk appetite levels meanwhile improved, with the **FXSI (FX Sentiment Index)** sinking deeper into Risk-On territory on Tuesday despite negative US equities.
- Look to Trump's appearance before Congress today during Asian hours (0200 GMT) where investors will be gauging the amount of hyperbole vs. substance. Crucially, look for cues of size of intended fiscal stimulus for 2017. Also a big day for data watchers with global manufacturing PMIs (China PMI at 0100 GMT, Caixin @ 0145 GMT) and Australian GDP (0030 GMT). Fed speak today includes Kaplan (1800 GMT) and Brainard (2300 GMT), while the Bank of Canada policy decision is at 1500 GMT (no change, expect neutrality).
- Playbook for today we think will be a tossup between the USD or favoring the cyclicals instead with price action likely discrete and gappy on the back of heavy headline risks from official rhetoric and data points. Meanwhile, USD-JPY remains a potent barometer of the Trump/FOMC dynamic.
- Our 20 Jan 17 idea to be tactically short **USD-SGD** (spot ref: 1.4240) fulfilled its 1.4005 objective on Monday. Given our belief that USD skepticism remains non-trivial at this juncture, we extend our objective to 1.3775, trailing the stop to 1.4125.

### Asian FX

- Expect the **ACI (Asian Currency Index)** to be slightly supported going into Trump at 0200 GMT despite sanguine risk appetite levels and with Asian equities getting off to a mixed start.
- **SGD NEER:** The **SGD NEER** firmed to slightly above +0.90% overnight on USD vulnerability before retracing lower in tandem with the subsequent USD bounce. This morning, the NEER's relative position is slightly firmer on the

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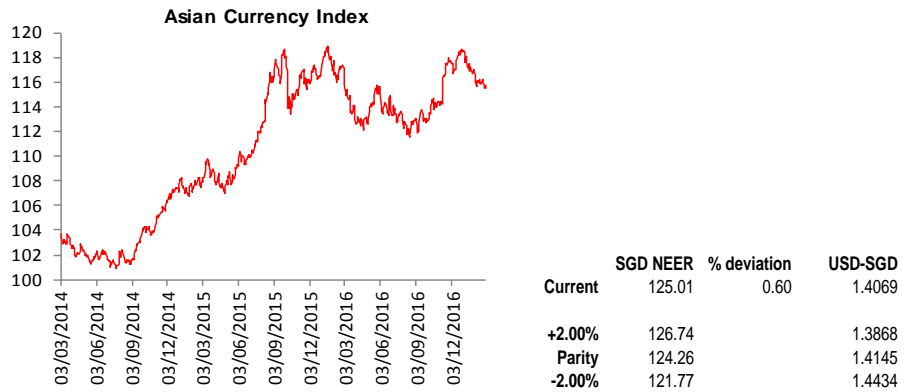
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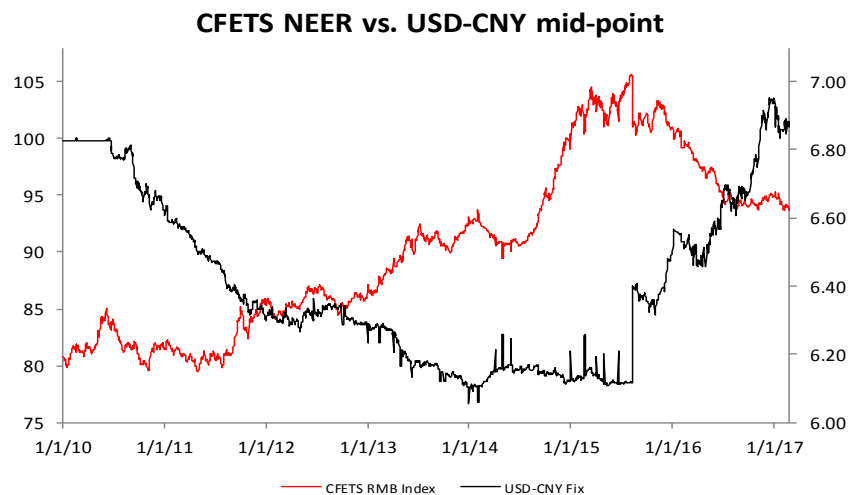
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day at around +0.58% above its perceived parity (1.4145), with NEER-implied USD-SGD thresholds higher on the day. At current levels, the +0.50% threshold is estimated at 1.4075 and +1.00% at around 1.4005. In the current environment, investors will continue to monitor official tolerance for NEER strength, while we reiterate that volatility indicators (for the NEER as well as USD-SGD remain active). Technical tone for USD-SGD remains heavy ahead of Trump although the above mentioned factors may continue to restrain excessive downside moves. Expected intra-day range seen within 1.4000-1.4100 pending news flow.



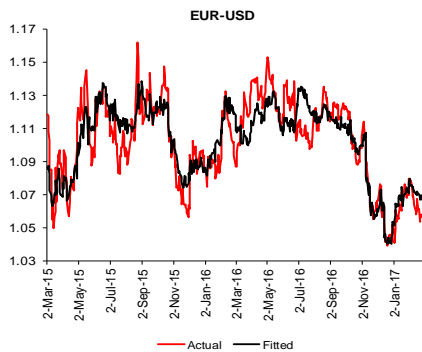
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point rose (more than expected) to 6.8798 from 6.8750 yesterday. This however still resulted in the **CFETS RMB Index** still firming to 93.95 from 93.84 on Tuesday. Nonetheless, no implicit policy signals are being detected with mid-point and Index behavior still within historical parameters.



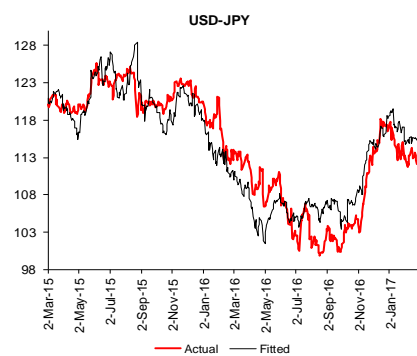
Source: OCBC Bank, Bloomberg

**G7**



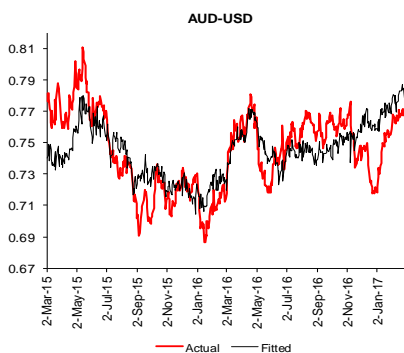
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- **EUR-USD** Amid hawkish Fed-speak and heavy short term implied valuations, the EUR-USD may remain slanted lower in the near term pending headline risks. The failure to overcome the 55-day MA (1.0592) now turns the focus to 1.0550 and 1.0520.



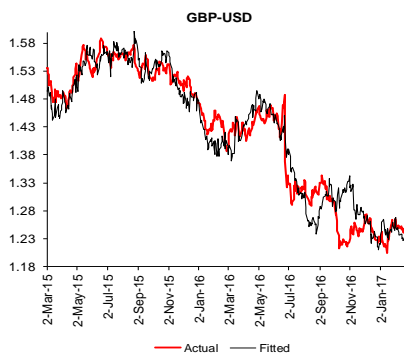
Source: OCBC Bank

- **USD-JPY** Despite supportive price action this week, our prevailing short-term skepticism towards the greenback squares with still heavy short term implied valuations for the USD-JPY. Near term prospects for USD-JPY may remain predicated on Trump's address this morning and whether the promise of US fiscal stimulus in 2017 will be "Yuge".



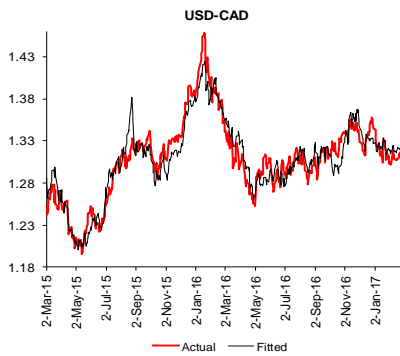
Source: OCBC Bank

- **AUD-USD** Aussie GDP and China PMIs this morning proved supportive, with short term implied valuations looking supported despite the continued inability of the AUD-USD to surmount 0.7700 on a sustained basis. A break below 0.7650 may see a consolidation towards 0.7620 but an attempt towards 0.7690 cannot be discounted if Trump 'disappoints'.



Source: OCBC Bank

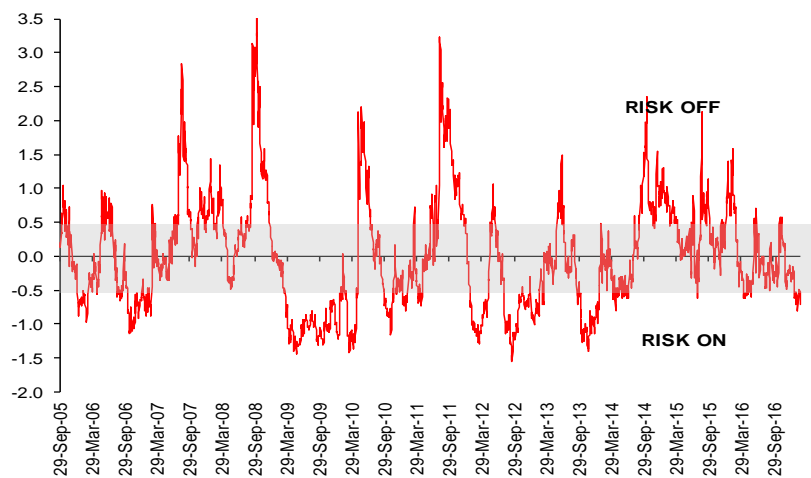
- **GBP-USD** Meanwhile, given the inherent structural domestic baggage for the pound, GBP-USD may remain responsive to any USD upticks. Short term implied valuations remain top heavy and if the foothold at 1.2380 is lost, expect a stumble towards 1.2340/45.



- USD-CAD** Cad may remain somewhat in the spotlight in view of Trump’s address this morning. Short term implied valuations continue to lift higher and the pair may remain poised to base build off 1.3300 pending further news flow.

Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	-0.239	0.324	0.892	0.859	-0.545	0.457	0.277	0.117	-0.426	0.818	-0.983
CHF	0.963	-0.252	0.415	0.879	0.834	-0.573	0.448	0.395	0.151	-0.397	0.821	-0.971
CNH	0.818	-0.275	0.345	0.646	0.703	-0.343	0.503	0.145	-0.030	-0.039	1.000	-0.832
MYR	0.773	0.040	0.194	0.723	0.857	-0.117	0.594	0.173	0.000	-0.156	0.785	-0.748
PHP	0.751	-0.308	0.235	0.895	0.836	-0.644	0.184	0.671	0.459	-0.450	0.581	-0.797
AUD	0.520	-0.017	-0.186	0.644	0.655	-0.243	0.114	0.330	0.160	-0.668	0.085	-0.401
JPY	0.457	0.663	0.271	0.265	0.322	0.298	1.000	0.085	-0.129	-0.354	0.503	-0.391
CAD	0.435	-0.506	0.188	0.411	0.304	-0.702	-0.122	0.086	0.511	0.023	0.408	-0.504
CNY	0.324	0.035	1.000	-0.004	0.060	-0.088	0.271	-0.071	-0.189	0.284	0.345	-0.348
SGD	0.112	0.403	0.361	-0.224	-0.019	0.473	0.569	-0.561	-0.610	0.302	0.294	-0.002
IDR	0.047	0.277	0.377	0.170	0.203	-0.014	0.179	0.502	0.420	-0.133	-0.109	-0.101
USGG10	-0.239	1.000	0.035	-0.283	-0.244	0.640	0.663	-0.031	-0.073	-0.317	-0.275	0.315
KRW	-0.455	0.452	0.389	-0.617	-0.392	0.759	0.254	-0.245	-0.405	0.544	-0.097	0.471
GBP	-0.575	0.173	0.060	-0.592	-0.426	0.561	-0.021	-0.147	-0.231	0.506	-0.272	0.542
THB	-0.600	0.487	0.306	-0.726	-0.510	0.818	0.097	-0.294	-0.399	0.493	-0.450	0.624
CCN12M	-0.613	0.557	0.078	-0.528	-0.468	0.750	0.150	0.209	-0.182	0.183	-0.412	0.611
TWD	-0.678	0.095	0.126	-0.911	-0.840	0.479	-0.207	-0.534	-0.444	0.587	-0.327	0.691
NZD	-0.868	0.102	-0.214	-0.739	-0.762	0.293	-0.589	-0.306	-0.009	0.251	-0.922	0.857
INR	-0.877	0.342	0.052	-0.831	-0.736	0.509	-0.315	-0.381	-0.218	0.454	-0.726	0.845
EUR	-0.983	0.315	-0.348	-0.895	-0.875	0.603	-0.391	-0.314	-0.171	0.363	-0.832	1.000

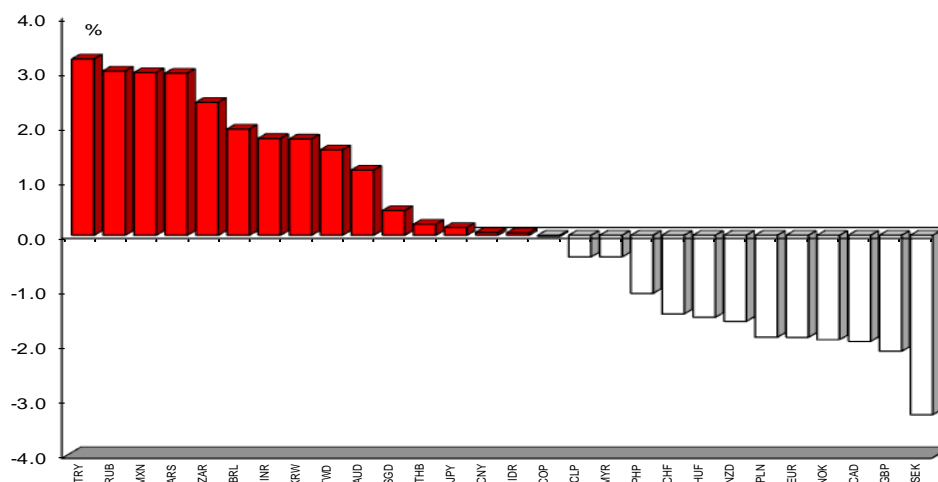
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0494	1.0500	1.0574	1.0600	1.0607
GBP-USD	1.2376	1.2389	1.2392	1.2400	1.2559
AUD-USD	0.7600	0.7617	0.7674	0.7700	0.7715
NZD-USD	0.7128	0.7140	0.7168	0.7200	0.7311
USD-CAD	1.3250	1.3270	1.3300	1.3388	1.3400
USD-JPY	111.60	113.00	113.03	114.00	114.27
USD-SGD	1.3997	1.4000	1.4049	1.4100	1.4242
EUR-SGD	1.4800	1.4810	1.4856	1.4900	1.5106
JPY-SGD	1.2387	1.2400	1.2429	1.2450	1.2500
GBP-SGD	1.7380	1.7400	1.7409	1.7500	1.7651
AUD-SGD	1.0700	1.0729	1.0782	1.0800	1.0942
Gold	1200.98	1210.33	1245.90	1262.54	1264.90
Silver	18.05	18.20	18.28	18.30	18.48
Crude	53.71	54.00	54.03	54.10	54.73

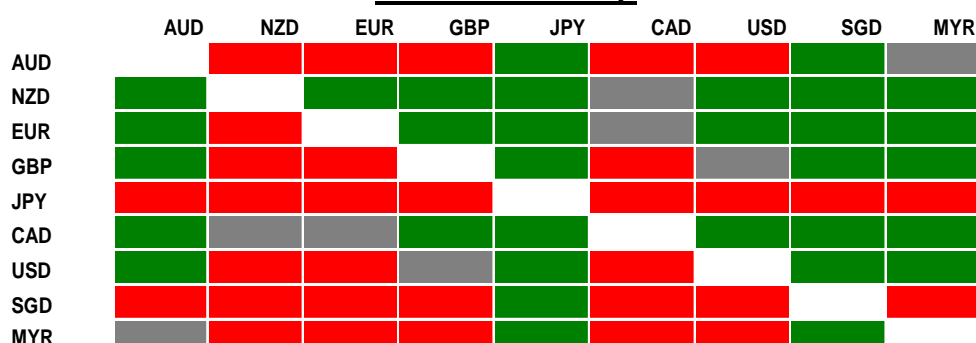
Source: OCBC Bank

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



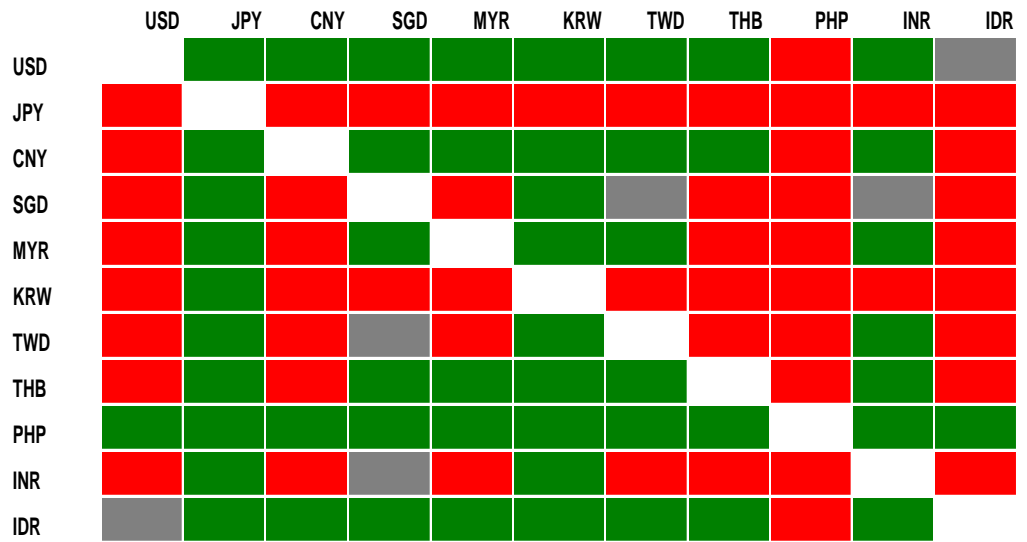
Source: Bloomberg

**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	12-Jan-17	S	USD-JPY	114.63	110.50 116.75	Downward consolidation post-Trump press conference		
2	12-Jan-17	B	AUD-USD	0.7463	0.7880 0.7560	Reflation may dominate as the Trump trade pauses		
3	20-Jan-17	S	USD-SGD	1.4240	1.3775 1.4125	Potential for Trump's inauguration to disappoint USD bulls		
4	25-Jan-17	B	GBP-USD	1.2528	1.2910 1.2335	Subsidence of acute A50 concerns in the short term		
5	22-Feb-17	S	EUR-USD	1.0548	1.0265 1.0695	Potential near term USD strength, brewing EZ political risks		
<b>STRUCTURAL</b>								
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		
9	14-Feb-17		Bearish 2M USD-CAD Put Spread Spot ref: 1.3055; Strikes: 1.3049, 1.2500 Cost: 1.19%			Underlying growth theme in spite of the Trump/FOMC trade		
10	22-Feb-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 Cost: 1.19%			Global reflation trade, Fed expected to hike later rather than sooner		
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	09-Jan-17	06-Feb-17	S	USD-CAD	1.3264	1.3135	Supportive crude and labor market numbers	0.92
2	18-Jan-17	21-Feb-17	B	EUR-USD	1.0688	1.0588	Dollar hiccup, hint of inflation in EZ	-1.11
3	16-Feb-17	22-Feb-17	S	USD-CAD	1.3060	1.3127	Global reflation, supportive domestic data, USD hesitation	-0.52
* realized								<b>Jan 2017 Return -6.78</b> <b>2016 Return +6.91</b>

Source: OCBC Bank

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