

Thursday, March 02, 2017

### FX Themes/Strategy/Trading Ideas

- Except against the AUD, the USD (bolstered by a firmer UST curve as bond markets continued to play catch up) firmed across G10 on Wed with the JPY leading the way lower. The USD remained underpinned by hawkish Fed comments from Tue (Brainard, a perennial dove, on Wed also noted “continued progress in the labor market”, hike “will likely be appropriate soon”), while Jan Core PCE came in as expected, Feb ISM came in better than expected (57.7), and the Beige Book described the labor market as “tight”. Trump’s address before Congress offered little new details with only equities deriving support from his speech.
- Meanwhile, EM FX turned in a mixed performance on Wed (although Asian FX retreated), partially supported by positive investor appetite while global risk appetite levels continued to be buoyed by positive equities. On this front, the **FXSI (FX Sentiment Index)** dipped further into Risk-On territory on Wed.
- All eyes will now turn to Fischer and Yellen (as well as Mester, Evans, and Powell) scheduled for Fri while no scheduled Fed appearances are slated for today. We expect our long standing short term dollar skepticism to be further eroded if Fed speak on Fri is full-on hawkish – signaling a hike this month (a view that market-implied pricing have shifted towards in recent sessions). For today, ones to watch include Aussie trade (0030 GMT), BNM (0700 GMT), Singapore’s PMI (1300 GMT), as well as EZ CPI.
- In a nutshell, markets are trading along familiar fault lines. Inherent USD strength is being manifested efficiently via the JPY, while a positive risk appetite complexion and a global reflation play is floating the likes of the AUD instead.
- With the GBP continuing to struggle on the upside even in the absence of adverse Brexit headlines and with the broad dollar concurrently attempting to gain traction of late, we closed out our 25 Jan 17 idea to be tactically long **GBP-USD** (spot ref: 1.2528) at 1.2383 this morning for an implied -1.26% loss.
- Although the **USD-CAD** may be looking technically stretched on the upside, we see scope for further upside in the near term with the Bank of Canada expected to remain static on 01 Mar 17 (accompanied by largely neutral forward guidance despite the recent uptick in inflation readings), putting into sharp relief the increasingly hawkish rhetoric from the Fed. From a spot ref of 1.3326 on Wednesday, we target 1.3605 and place a stop at 1.3185.

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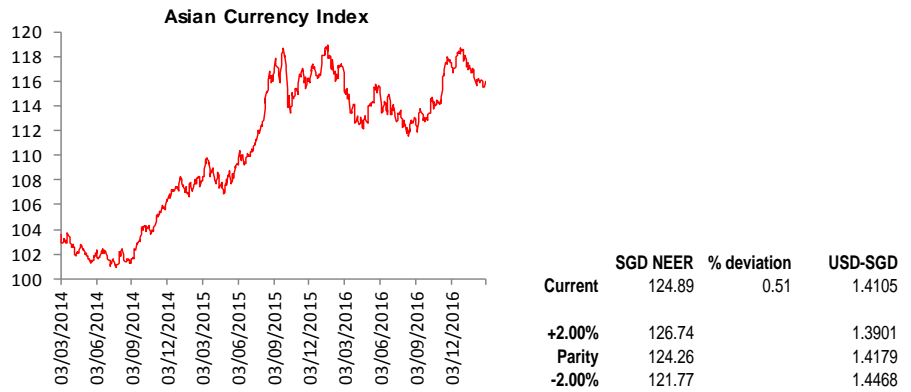
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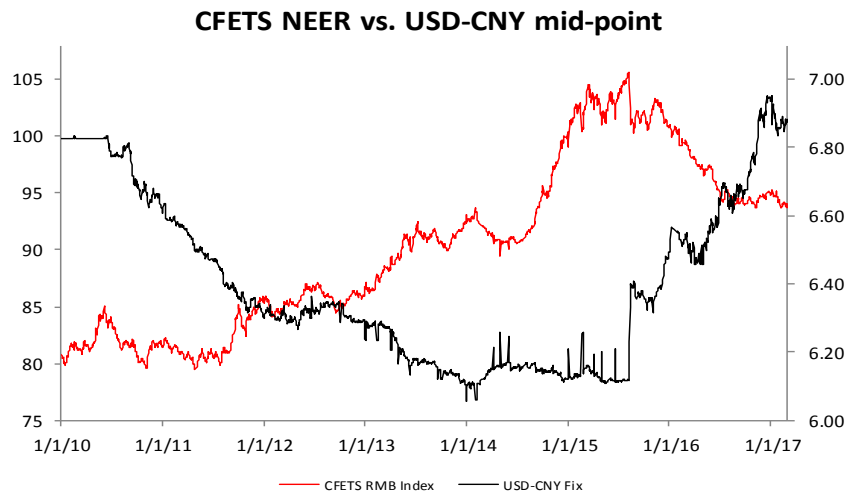
### Asian FX

- Despite positive cues from China’s latest PMIs and a supported net portfolio capital inflow environment (positive Asian equities this morning), Asian FX are still expected to be subservient to further broad dollar gains multi-session. As such, expect the **ACI (Asian Currency Index)** to remain supported in the near term, and it remains to be seen if the Index can remain detached from the DXY for much longer.
- **SGD NEER:** The **SGD NEER** is softer on the day at around +0.50% above its perceived parity (1.4179) this morning. Given the broad dollar backdrop, NEER-implied USD-SGD thresholds are also firmer on the day, with +1.0% at 1.4038 although useable space is likely limited to around +0.80% (1.4066) at a stretch. Note that various vol indicators (for the NEER and USD-SGD) remain somewhat elevated. Meanwhile, expect initial resistance at 1.4130 ahead of 1.4165 amidst a slightly supported tone intra-day.



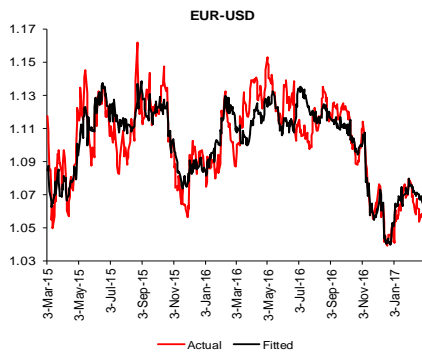
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point rose (largely as expected) to 6.8809 from 6.8798 yesterday, lifting the **CFETS RMB Index** further for the third consecutive session to 94.09.



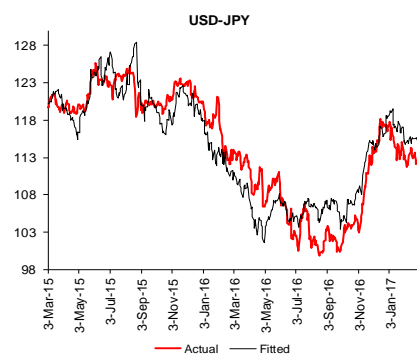
Source: OCBC Bank, Bloomberg

**G7**



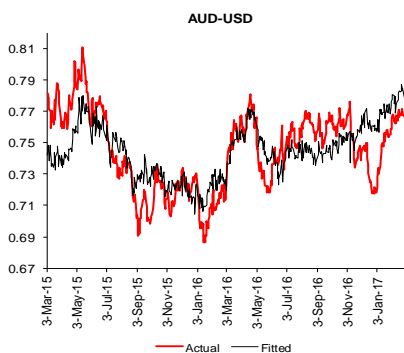
Source: OCBC Bank

- EUR-USD** German Feb CPI was a hotter than expected at +2.2% yoy with Bundesbank's Weidmann also sounding hawkish on inflation prospects. In addition, despite slightly alleviating French Presidential election concerns, EUR-USD continued to sink in sympathy with heavy short term implied valuations. In the near term, the overhang from a supported dollar may threaten the 1.0500 floor, ahead of 1.0460.



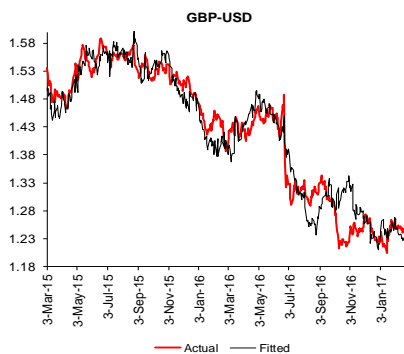
Source: OCBC Bank

- USD-JPY** Any further ability the USD-JPY to sustain above 114.00 113.77 and 114.00 may denude our top heavy posture for the pair going ahead. Short term implied valuations have also flicked higher slightly with earliest resistance now seen around 114.50.



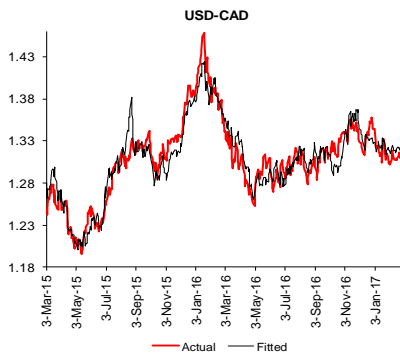
Source: OCBC Bank

- AUD-USD** A softer than expected Australian Jan trade surplus this morning deflated the AUD-USD slightly. Meanwhile, short term implied valuations have rebounded slightly despite Fed rhetoric. In the near term, expect some consolidative price action within 0.7620 and 0.7700. Elsewhere, the RBNZ's Wheeler was essentially neutral (risks are "equally weighted") in his comments late Wed, continuing to prop up the AUD-NZD.



Source: OCBC Bank

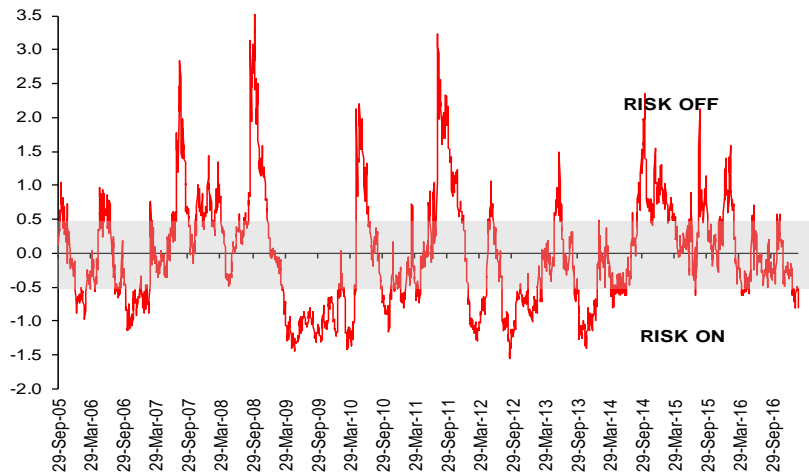
- GBP-USD** GBP-USD decayed below 1.2300 on Wed as it continued to shadow short term implied valuations lower. The Feb manufacturing PMI missed the mark at 54.6 and further baggage from A50 headline risks may continue to keep the pair on a slippery slope. Nearest technical support is expected into 1.2240, before 1.2200.



- USD-CAD** The Bank of Canada remained static at 0.50% as widely expected, noting “persistent economic slack” and “significant uncertainties”. After surfacing above 1.3310, expect potential for further headroom afforded by firmer short term implied valuations although this is caveated by slightly overbought conditions. Expect resistance levels on approach of 1.3350 and 1.3388.

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	-0.038	0.409	0.897	0.801	-0.464	0.596	0.420	0.339	-0.500	0.845	-0.970
CHF	0.953	-0.123	0.457	0.862	0.809	-0.528	0.580	0.488	0.283	-0.397	0.837	-0.973
CNH	0.845	-0.178	0.395	0.668	0.690	-0.336	0.589	0.205	0.101	-0.151	1.000	-0.858
PHP	0.792	-0.204	0.301	0.918	0.823	-0.665	0.260	0.718	0.551	-0.501	0.602	-0.823
MYR	0.737	0.057	0.207	0.699	0.858	-0.135	0.595	0.187	0.048	-0.177	0.778	-0.743
JPY	0.596	0.681	0.323	0.389	0.379	0.227	1.000	0.133	-0.025	-0.462	0.589	-0.548
CAD	0.532	-0.254	0.324	0.518	0.252	-0.652	0.201	0.150	0.656	-0.324	0.481	-0.551
CNY	0.409	0.099	1.000	0.136	0.078	-0.138	0.323	-0.019	-0.028	0.013	0.395	-0.400
IDR	0.377	0.229	0.437	0.474	0.387	-0.306	0.218	0.501	0.482	-0.433	0.040	-0.368
AUD	0.343	0.201	-0.160	0.543	0.619	0.020	0.199	0.598	0.305	-0.511	0.019	-0.280
SGD	0.005	0.384	0.279	-0.313	-0.055	0.569	0.463	-0.558	-0.621	0.379	0.248	0.041
USGG10	-0.038	1.000	0.099	-0.097	-0.153	0.544	0.681	-0.049	-0.021	-0.463	-0.178	0.170
KRW	-0.299	0.379	0.389	-0.536	-0.287	0.692	0.242	-0.390	-0.552	0.460	-0.013	0.346
THB	-0.506	0.389	0.253	-0.655	-0.446	0.778	0.035	-0.382	-0.501	0.387	-0.401	0.512
CCN12M	-0.518	0.449	-0.004	-0.463	-0.376	0.695	0.051	0.090	-0.424	0.117	-0.442	0.543
GBP	-0.561	-0.152	-0.172	-0.623	-0.278	0.405	-0.381	-0.310	-0.580	0.674	-0.356	0.500
TWD	-0.685	0.054	0.060	-0.884	-0.838	0.512	-0.245	-0.553	-0.478	0.562	-0.364	0.707
INR	-0.830	0.196	-0.020	-0.789	-0.708	0.415	-0.436	-0.560	-0.366	0.403	-0.755	0.820
NZD	-0.884	-0.030	-0.290	-0.755	-0.728	0.256	-0.712	-0.375	-0.175	0.341	-0.920	0.866
EUR	-0.970	0.170	-0.400	-0.879	-0.849	0.543	-0.548	-0.424	-0.324	0.369	-0.858	1.000

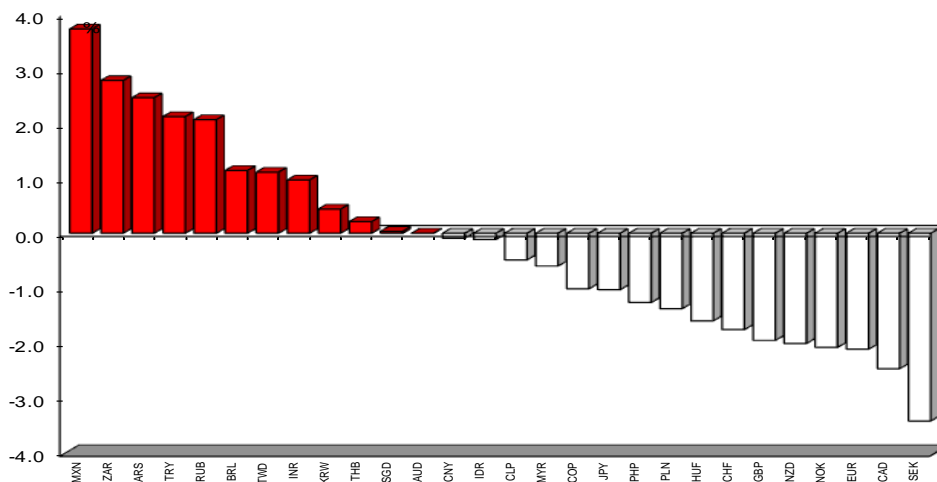
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.0494	1.0500	1.0533	1.0600	1.0608
<b>GBP-USD</b>	1.2200	1.2261	1.2279	1.2300	1.2313
<b>AUD-USD</b>	0.7600	0.7617	0.7656	0.7700	0.7715
<b>NZD-USD</b>	0.7102	0.7133	0.7139	0.7142	0.7200
<b>USD-CAD</b>	1.3300	1.3315	1.3352	1.3388	1.3400
<b>USD-JPY</b>	111.60	113.00	113.96	114.00	114.32
<b>USD-SGD</b>	1.4002	1.4100	1.4107	1.4200	1.4235
<b>EUR-SGD</b>	1.4800	1.4810	1.4858	1.4900	1.5101
<b>JPY-SGD</b>	1.2360	1.2364	1.2380	1.2400	1.2450
<b>GBP-SGD</b>	1.7303	1.7311	1.7322	1.7400	1.7639
<b>AUD-SGD</b>	1.0750	1.0770	1.0800	1.0942	1.0960
<b>Gold</b>	1203.23	1215.63	1246.70	1261.62	1264.90
<b>Silver</b>	18.06	18.30	18.38	18.40	18.48
<b>Crude</b>	53.70	53.70	53.72	53.80	54.66

Source: OCBC Bank

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



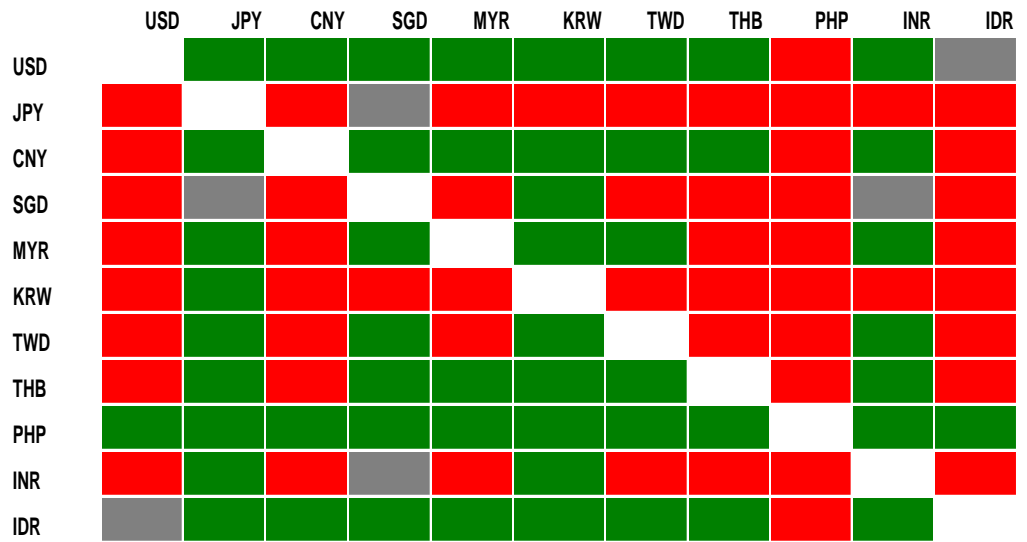
Source: Bloomberg

**G10 FX Heat Map**

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

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	22-Feb-17	S	EUR-USD	1.0548	1.0265 1.0695	Potential near term USD strength, brewing EZ political risks		
5	01-Mar-17	B	USD-CAD	1.3326	1.3605 1.3185	BOC static in March, sharp contrast with Fed's recent posture		
<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 deflation 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 deflation, supportive domestic data, USD hesitation	-0.52
4	25-Jan-17	01-Mar-17	B	GBP-USD	1.2528	1.2383	Subsidence of acute A50 concerns in the short term	-1.26
* realized								
								Jan 2017 Return -6.78
								2016 Return +6.91

Source: OCBC Bank

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