

Friday, February 03, 2017

FX Themes/Strategy/Trading Ideas - No pasaran

- The broad dollar was understandably vulnerable on Thursday after the Wed FOMC yielded little in the way of hawkish surprises. The AUD was boosted by a significantly larger than expected December trade surplus early in the global day, igniting widespread USD weakness across the board. Into LDN, the GBP was pounded (pun intended) lower after Carney warned of further risks from Brexit despite the BOE Inflation Report raising its inflation/growth forecast profile.
- Despite the UST curve steepening from the front and the back-end (10y) holding up, the broad dollar managed to recoup some intraday losses by late NY ahead of Friday's NFP. Nonetheless, note that the DXY is still at sub-100 levels.
- Going ahead, the NFP (mkt:+175K) at 1330 GMT will provide the central focus into the end of the week (barring another US Presidential tweet). Given the market's current demeanor, any downside surprises (despite better than expected ADP and initial claims numbers) from the US labor market numbers may exacerbate USD vulnerability once again.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** fell for the third consecutive session and dug deeper into Risk-On territory on Thursday. Despite a positive start to Asian equities, investor jitters may continue to circulate just below the surface on the back of Tehran headlines.
- Our 12 Jan 17 idea to be tactically long **AUD-USD** (spot ref: 0.7463) met its 0.7670 target on Thursday as above forecast Aussie trade surplus numbers and the anemic dollar provided the final push higher for the pair. We extend our objective to 0.7880 and trail the stop to 0.7560.

Asian FX

- Short term correlations between the regional currency pairs and the DXY remain significant and apart from some dip buying, expect a top heavy stance ahead of the US NFP. Meanwhile, the **ACI (Asian Currency Index)** had continued to sink lower on Thursday alongside dollar vulnerability.
- **SGD NEER:** USD-SGD bounced from overnight lows below 1.4100 in tandem with the broad dollar's NY recovery and we note that the SGD has essentially been trading largely in sync with its constituent currencies. As such, the NEER is slightly softer on the day at around -0.02% below its perceived parity (1.4115). At current levels, the -0.50% threshold is

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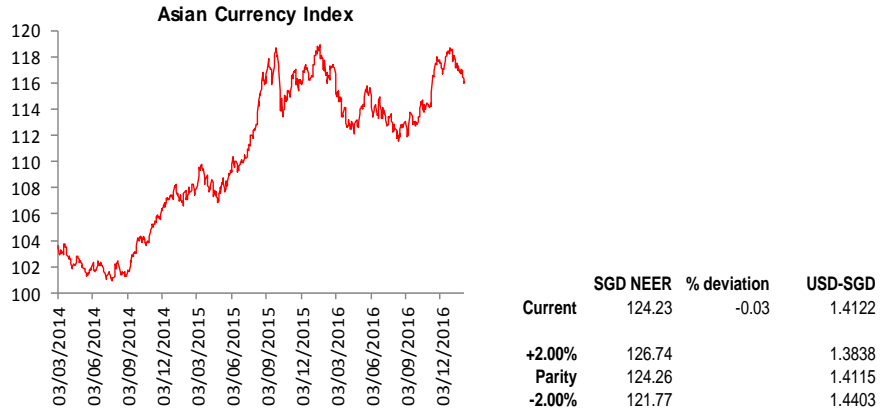
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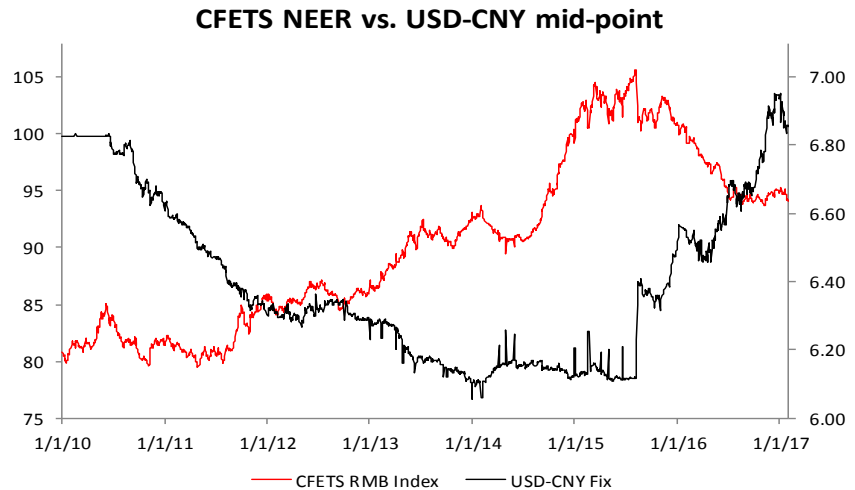
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estimated at 1.4186. Meanwhile, investors may remain mindful of excessive dips in USD-SGD (without accompanying USD weakness) in view of volatility considerations. Technically, a congestion of supports (including the +0.20% NEER region of 1.4087) continue to reside at or around the 382 Fibonaci of 1.4089.



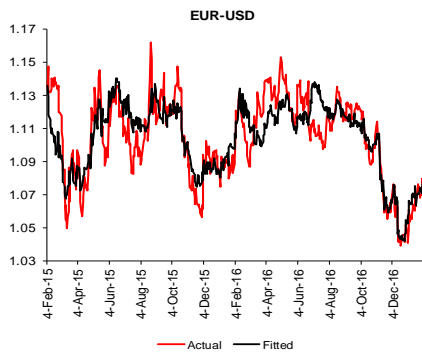
Source: OCBC Bank

- CFETS RMB Index:** After a week long hiatus and against a backdrop of a lower DYX, the USD-CNY mid-point was set lower (within implied policy parameters) at 6.8556 from 6.8588 previous. This saw the **CFETS RMB Index** softening slightly to 94.03 from 94.07. Overall, despite the week-long break, the determination of the mid-point seems time independent and NEER stability may remain the prime consideration. Going ahead however, the key region at 93.70-94.00 bears watching.



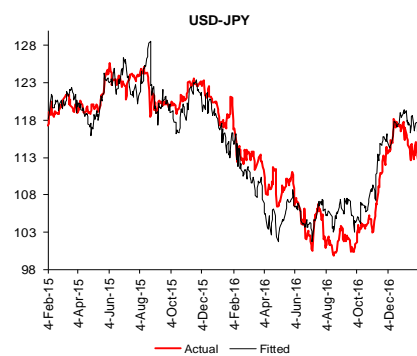
Source: OCBC Bank, Bloomberg

G7



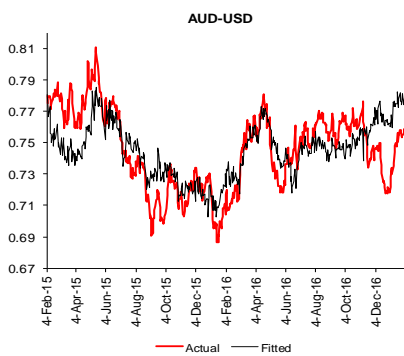
Source: OCBC Bank

- EUR-USD** ECB officials pushed back against suggestions regarding QE tapering on Thursday with the EUR-USD also retracing back below 1.0800 as the dollar recovered some color in its cheeks by late NY. Short term implied valuations are still relatively supported but the pair would have to clear a host of resistance levels in the vicinity of 1.0800 to establish a beachhead for another push higher towards 1.0875.



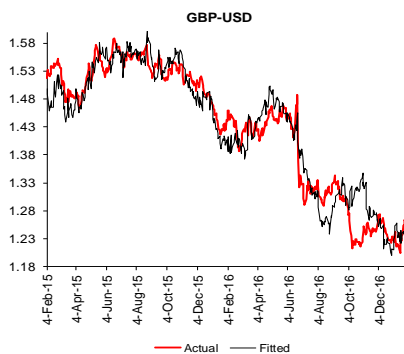
Source: OCBC Bank

- USD-JPY** Pending the US NFP later in the global day, market precepts of a structurally strong USD may continue to be challenged. To this end, short-term implied valuations remain southbound and the pair may well take another stab at breaking the 112.00 floor.



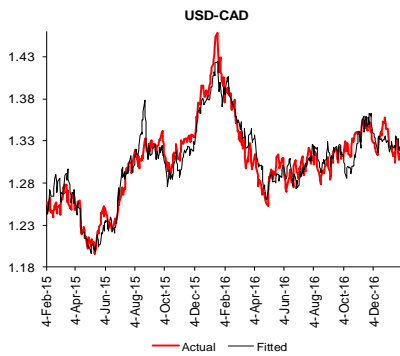
Source: OCBC Bank

- AUD-USD** The softer than expected Caixin China manufacturing PMI of 51.0 this morning may be further cause for pause for the AUD-USD, especially after its surge on Thursday. However, short term model-implied valuations continue to tilt higher and look towards if 0.7715 if 0.7700 is successfully overcome.



Source: OCBC Bank

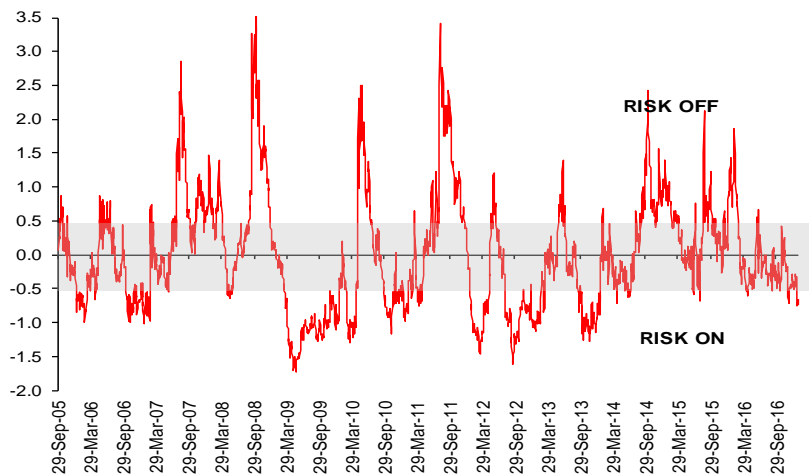
- GBP-USD** The BOE's Carney provided a sobering market reminder of sorts via his comments on Thursday (note diminished implied rate hike odds) and the GBP-USD may stall somewhat in the near term. To this end, the pair retains a fair amount of free play towards the downside in the event of a short term retracement, with the 100-day MA (1.2467) and the 55-day MA (1.2429) notable junctions.



Source: OCBC Bank

- USD-CAD** While NAFTA renegotiations expected to be directed primarily angled towards the south instead, model-implied short term valuations for the USD-CAD are still perceived to be heavy. As such, another attempt at the 1.3000 floor (towards 1.2965) cannot be ruled out despite the CAD looking slightly rich.

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	-0.394	0.865	-0.535	-0.800	-0.496	0.939	-0.246	0.234	-0.720	0.692	-0.983
CHF	0.980	-0.447	0.870	-0.517	-0.791	-0.419	0.902	-0.325	0.197	-0.736	0.683	-0.974
TWD	0.958	-0.468	0.802	-0.561	-0.812	-0.644	0.881	-0.142	0.291	-0.594	0.636	-0.923
JPY	0.939	-0.155	0.838	-0.331	-0.680	-0.507	1.000	-0.166	0.119	-0.685	0.716	-0.933
SGD	0.934	-0.229	0.802	-0.396	-0.687	-0.486	0.951	-0.282	0.136	-0.704	0.755	-0.939
THB	0.921	-0.546	0.732	-0.440	-0.805	-0.386	0.865	-0.178	-0.007	-0.650	0.425	-0.886
KRW	0.919	-0.521	0.854	-0.522	-0.756	-0.596	0.843	-0.254	0.126	-0.586	0.666	-0.878
MYR	0.906	-0.585	0.732	-0.605	-0.852	-0.443	0.757	-0.133	0.291	-0.645	0.487	-0.879
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	0.757	-0.107	0.390	-0.625	-0.752	-0.399	0.760	-0.430	0.448	-0.745	0.552	-0.723
CNH	0.692	0.009	0.832	-0.236	-0.331	-0.734	0.716	-0.429	0.168	-0.312	1.000	-0.740
CCN12M	0.591	0.055	0.750	-0.234	-0.537	-0.523	0.613	0.142	0.231	-0.337	0.652	-0.631
INR	0.567	-0.294	0.438	-0.354	-0.430	-0.260	0.463	-0.544	-0.057	-0.652	0.494	-0.499
IDR	0.406	0.230	0.368	-0.320	-0.645	-0.350	0.456	0.107	0.452	-0.508	0.304	-0.408
USGG10	-0.394	1.000	-0.075	0.610	0.439	-0.006	-0.155	0.224	-0.124	0.127	0.009	0.358
PHP	-0.487	0.558	-0.479	0.115	0.281	0.179	-0.445	-0.100	0.240	0.133	-0.156	0.475
GBP	-0.733	0.620	-0.528	0.632	0.548	0.353	-0.575	0.562	-0.268	0.409	-0.530	0.740
AUD	-0.938	0.399	-0.817	0.450	0.802	0.521	-0.920	0.141	-0.180	0.640	-0.629	0.941
NZD	-0.962	0.545	-0.793	0.590	0.828	0.426	-0.889	0.259	-0.232	0.655	-0.598	0.950
EUR	-0.983	0.358	-0.851	0.482	0.764	0.516	-0.933	0.260	-0.249	0.677	-0.740	1.000

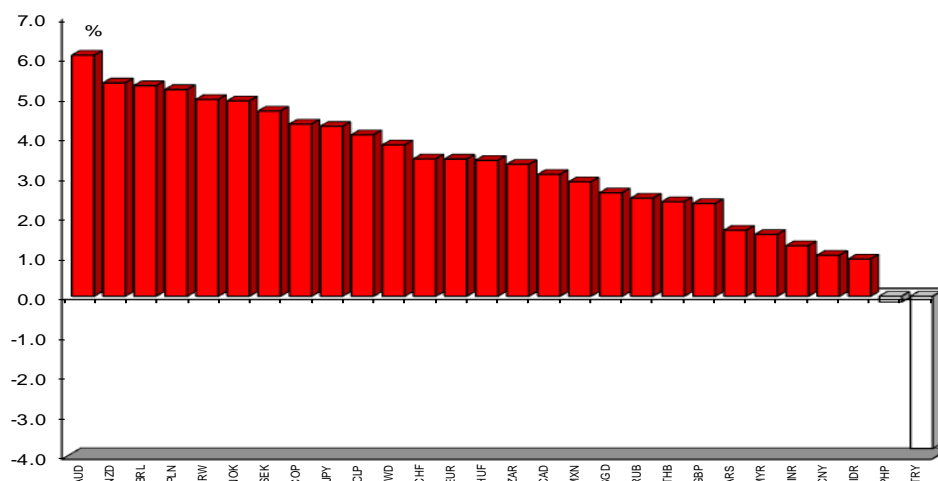
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0594	1.0700	1.0762	1.0800	1.0826
GBP-USD	1.2418	1.2500	1.2519	1.2600	1.2706
AUD-USD	0.7488	0.7600	0.7653	0.7685	0.7696
NZD-USD	0.7104	0.7200	0.7286	0.7300	0.7350
USD-CAD	1.2969	1.3000	1.3026	1.3100	1.3130
USD-JPY	112.03	112.06	112.93	113.00	115.17
USD-SGD	1.4069	1.4100	1.4131	1.4200	1.4301
EUR-SGD	1.5183	1.5200	1.5209	1.5278	1.5300
JPY-SGD	1.2416	1.2500	1.2514	1.2577	1.2595
GBP-SGD	1.7220	1.7600	1.7691	1.7700	1.7766
AUD-SGD	1.0600	1.0800	1.0815	1.0848	1.0859
Gold	1177.28	1200.00	1212.60	1223.59	1224.20
Silver	16.72	17.40	17.41	17.50	17.60
Crude	52.92	53.80	53.89	53.90	54.56

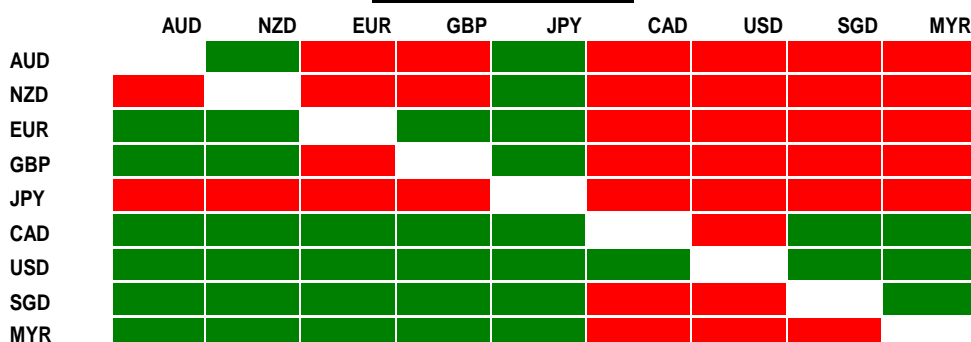
Source: OCBC Bank

FX performance: 1-month change agst USD



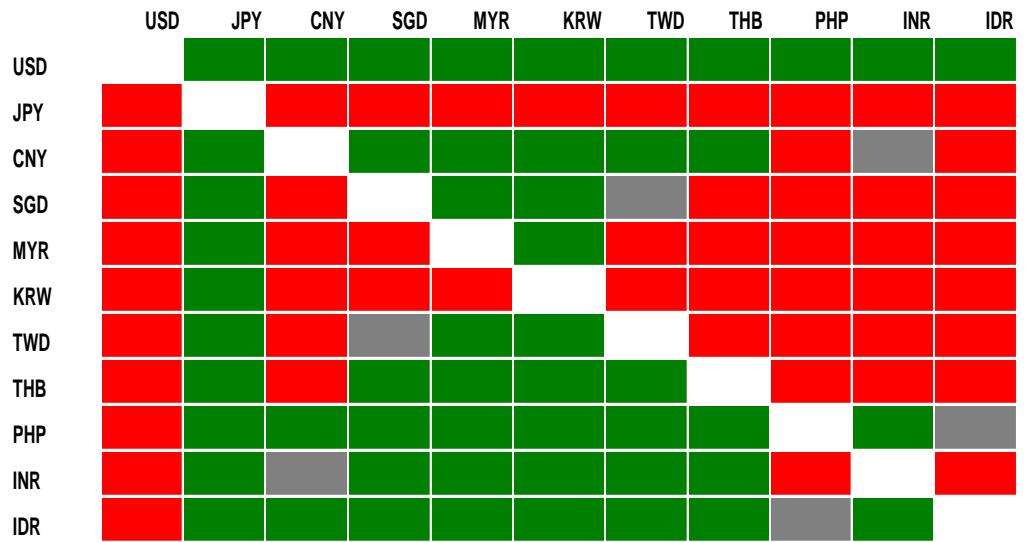
Source: Bloomberg

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	0.7880 0.7560	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	20-Dec-16	05-Jan-17	B	USD-SGD	1.4481	1.4399	Hostile USD/risk appetite environment for Asian FX, SGD	-0.57	
2	19-Dec-16	10-Jan-17	S	AUD-USD	0.7294	0.7359	FOMC outcome forcing a near term reassessment of carry	-0.93	
3	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*	
4	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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