

**Tuesday, January 03, 2017**

**FX Themes/Strategy/Trading Ideas – The week ahead**

- As we kick off 2017, note that our short-term **Heat Maps** indicate ongoing USD robustness against the cyclicals (and the GBP) while in Asia, USD outperformance is primarily focused on the North Asians (at this juncture).
- Apart from digesting the slew of global PMIs this week, look towards FOMC minutes on Wednesday and the US December payrolls report to potentially kick off the tone for the USD this year. Note that the Fed's Lacker and Evans are also scheduled to make appearances on Friday.
- The **FXSI (FX Sentiment Index)** starts the year in Risk-Neutral territory, where it has spent most of the last three preceding three quarters. On this front, any deterioration of global sentiment may further aggravate EM (and Asian) currency sensitivity to potential USD resilience.
- On the **CFTC** front, large non-commercial accounts increased their implied net long dollar bias by about 9% in the latest week but note that leveraged accounts and asset managers increased their implied long dollar positioning by roughly 40% and 49% respectively. Overall, leveraged accounts remain the most aggressively positioned for potential USD strength going ahead.
- Our 27 Dec 16 idea to be tactically long **USD-CAD** (spot ref: 1.3530) was stopped out on Monday at 1.3390 for an implied -1.03% loss.

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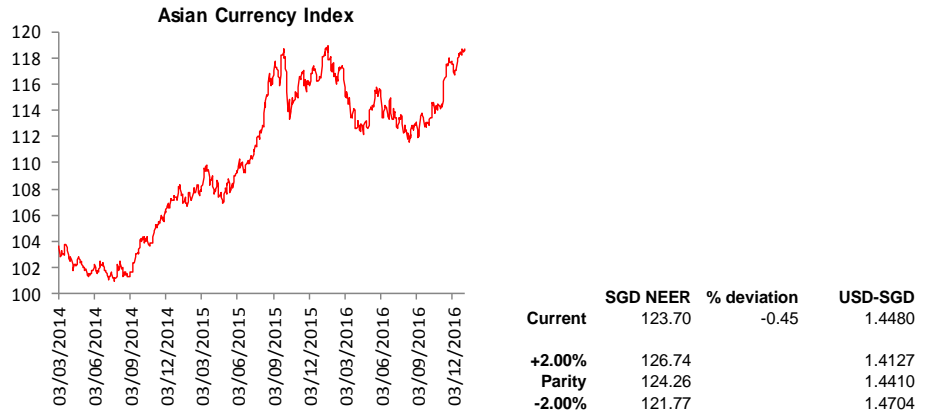
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**Asian FX**

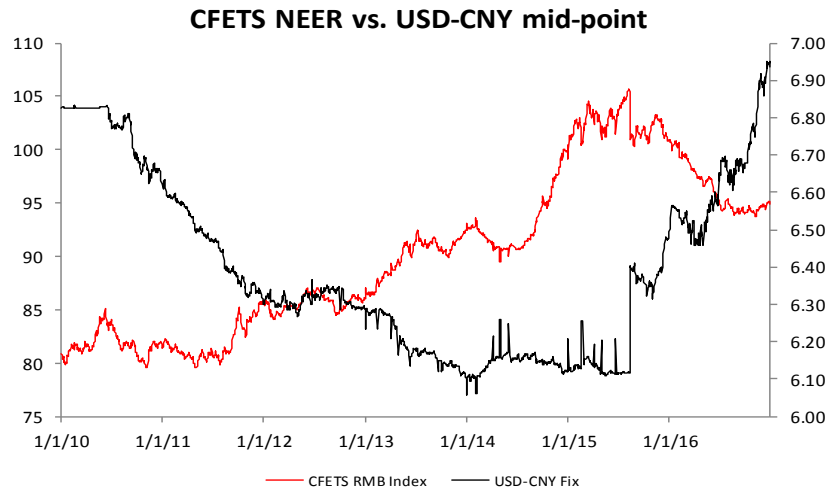
- Expect Asian currencies to remain tethered to broad dollar directionality as we kick off the new year, with the renminbi continuing to add another element of potential vulnerability for the Asian units. Although the **ACI (Asian Currency Index)** only rose +1.60% in 2016, note that the Index essentially moved in locked step with the DXY when the latter bottomed out in Aug 16.
- **SGD NEER:** This morning, the **SGD NEER** is relatively softer at -0.59% below its perceived parity (1.4410) compared to last Friday (-0.57%). Note however that NEER-implied USD-SGD thresholds are a touch firmer on with the -0.50% threshold estimated at 1.4483 and -1.00% at 1.4555. Intra-day, expect the NEER to ply a -0.50% to -0.70% range despite the better than expected flash 4Q 16 GDP headline of +1.80% yoy. Structurally, potential broad USD strength ahead a still accommodative policy stance from the MAS should continue to confine the SGD NEER to the lower half of its fluctuation band. Ahead, look towards the Dec 16 PMI (1300 GMT) with

USD-SGD expected to remain within 1.4470-1.4540 in the interim.



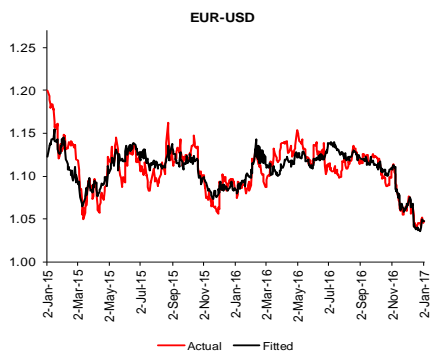
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a lower than expected at 6.9498 from 6.9370 last Friday. By our calculations, this brought the newly expanded **CFETS RMB Index** higher to 94.88 from 94.83.



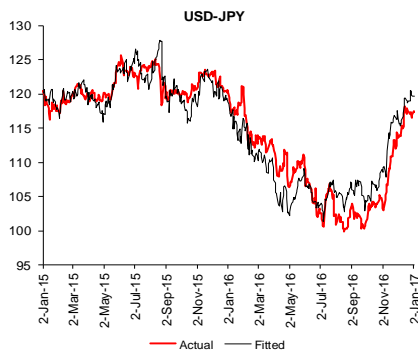
Source: OCBC Bank, Bloomberg

**G7**



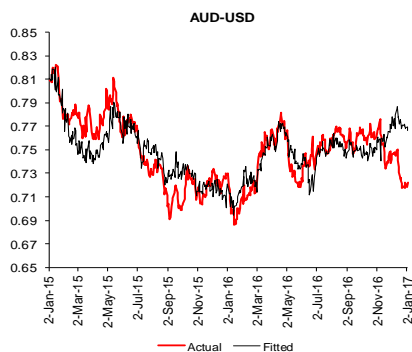
Source: OCBC Bank

- EUR-USD** The EUR-USD is in close proximity to its short-term implied valuations with the near term profile for the pair still expected to be heavy. On the CFTC front, net leveraged EUR shorts increased in the latest week with positioning as a percentage of open interest at elevated levels. In the interim, the EUR-USD may be slightly rangy within 1.0400-1.0520.



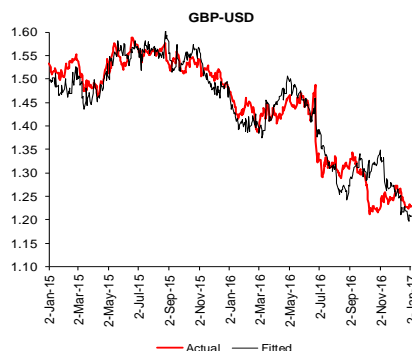
Source: OCBC Bank

- USD-JPY** TKY is on holiday today but the USD-JPY is still expected to be relatively more responsive (read: sensitivity to further upside) to broad USD cues. On the CFTC front, net leveraged JPY shorts jumped in the latest week but positioning as a proportion of open interest has not approached acutely elevated levels just yet. In the near term however, market participants may refrain from lifting the pair higher while awaiting the FOMC minutes and the NFP report this week.



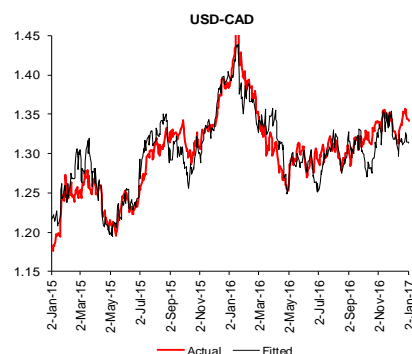
Source: OCBC Bank

- AUD-USD** The AUD-USD remains on a tear relative to its currently higher short term implied valuations (underpinned by the metals complex). On the CFTC front, net leveraged positioning flipped to a net short balance with respect to the AUD-USD in the latest week and this may continue to threaten a dislocation below 0.7200 in the near term.



Source: OCBC Bank

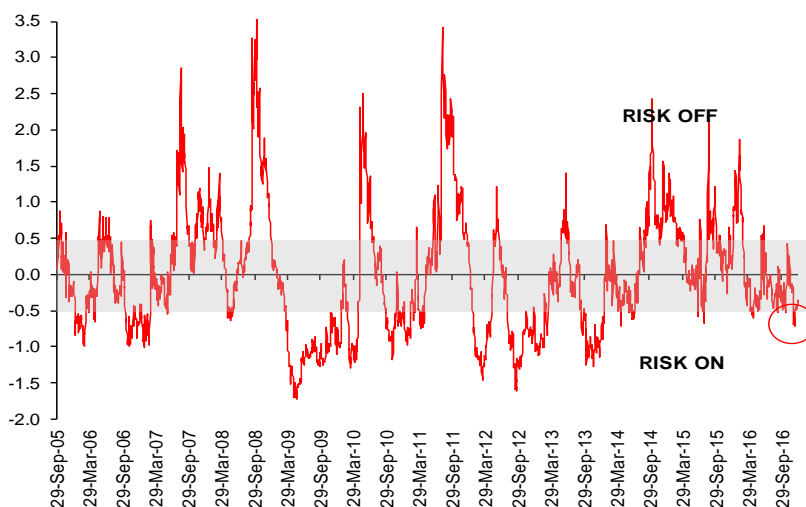
- GBP-USD** The GBP-USD is still expected to be inherently top heavy with respect to its short term implied valuations. On the CFTC front, note that net leveraged GBP shorts also increased in the latest week, underscoring the technically heavy bias for the pair. On the upside, the 55-day MA (1.2413) is expected to cap, with risks towards 1.2200 still apparent.



Source: OCBC Bank

- USD-CAD** In the near term, the USD-CAD may be slightly heavy as the broad dollar capitulates, although we expect the loonie to remain at risk from the Trump trade. Short-term implied valuations for the pair also remain somewhat static at this juncture. On the CFTC front, net leveraged CAD shorts were pared in the latest week (crimping our tactical short USD-CAD). In the interim, the 55-day MA (1.3387) may offer initial support on dips.

### 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	0.804	0.966	0.662	-0.610	-0.439	0.946	0.532	-0.156	-0.901	0.808	-0.988
CHF	0.982	0.846	0.922	0.667	-0.568	-0.480	0.932	0.437	-0.163	-0.854	0.736	-0.981
CNY	0.966	0.773	1.000	0.580	-0.640	-0.285	0.912	0.638	-0.037	-0.876	0.861	-0.938
SGD	0.962	0.711	0.963	0.538	-0.636	-0.337	0.928	0.647	-0.040	-0.901	0.864	-0.934
JPY	0.946	0.867	0.912	0.645	-0.554	-0.433	1.000	0.482	-0.063	-0.895	0.786	-0.946
THB	0.890	0.600	0.871	0.440	-0.763	-0.365	0.783	0.593	-0.273	-0.793	0.666	-0.832
MYR	0.834	0.607	0.908	0.334	-0.792	-0.140	0.817	0.714	0.032	-0.799	0.739	-0.771
CNH	0.808	0.535	0.861	0.582	-0.351	-0.120	0.786	0.730	0.261	-0.847	1.000	-0.779
USGG10	0.804	1.000	0.773	0.700	-0.446	-0.388	0.867	0.320	-0.166	-0.740	0.535	-0.826
CAD	0.767	0.432	0.773	0.187	-0.823	-0.199	0.686	0.631	-0.068	-0.714	0.676	-0.683
KRW	0.758	0.366	0.816	0.236	-0.754	-0.066	0.694	0.787	0.028	-0.763	0.775	-0.677
CCN12M	0.745	0.563	0.829	0.472	-0.408	0.017	0.750	0.726	0.427	-0.818	0.902	-0.725
IDR	0.599	0.286	0.676	0.002	-0.846	-0.066	0.540	0.678	-0.112	-0.544	0.502	-0.502
PHP	0.551	0.721	0.550	0.648	-0.279	-0.458	0.534	0.077	-0.444	-0.464	0.153	-0.595
TWD	0.536	0.107	0.634	-0.038	-0.683	0.149	0.477	0.752	0.139	-0.538	0.649	-0.439
INR	0.371	0.059	0.460	-0.214	-0.659	0.208	0.339	0.578	-0.071	-0.273	0.281	-0.284
AUD	-0.879	-0.516	-0.893	-0.379	0.750	0.288	-0.807	-0.698	0.082	0.841	-0.818	0.820
NZD	-0.889	-0.572	-0.887	-0.375	0.815	0.395	-0.825	-0.602	0.245	0.821	-0.736	0.830
GBP	-0.895	-0.521	-0.883	-0.481	0.661	0.330	-0.804	-0.673	0.025	0.853	-0.841	0.845
EUR	-0.988	-0.826	-0.938	-0.706	0.507	0.455	-0.946	-0.490	0.134	0.887	-0.779	1.000

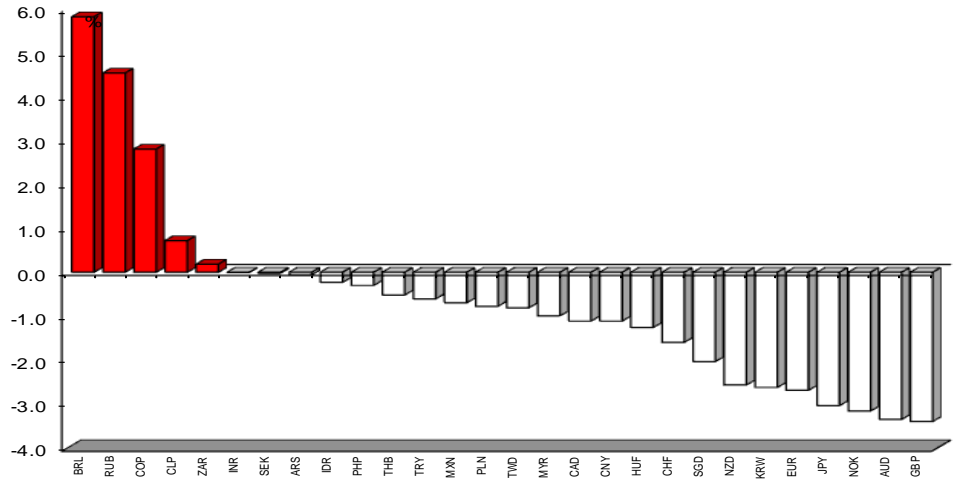
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0352	1.0400	1.0475	1.0500	1.0673
GBP-USD	1.2200	1.2201	1.2298	1.2300	1.2421
AUD-USD	0.7160	0.7200	0.7221	0.7300	0.7433
NZD-USD	0.6862	0.6900	0.6955	0.7000	0.7072
USD-CAD	1.3395	1.3400	1.3418	1.3500	1.3599
USD-JPY	114.13	117.00	117.38	118.00	118.66
USD-SGD	1.4214	1.4400	1.4473	1.4500	1.4537
EUR-SGD	1.4996	1.5100	1.5160	1.5166	1.5197
JPY-SGD	1.2202	1.2300	1.2331	1.2400	1.2478
GBP-SGD	1.7550	1.7580	1.7800	1.8071	1.8152
AUD-SGD	1.0356	1.0400	1.0452	1.0500	1.0562
Gold	1119.65	1125.40	1158.00	1182.77	1200.00
Silver	15.75	16.10	16.11	16.20	17.04
Crude	51.23	54.00	54.06	54.10	54.74

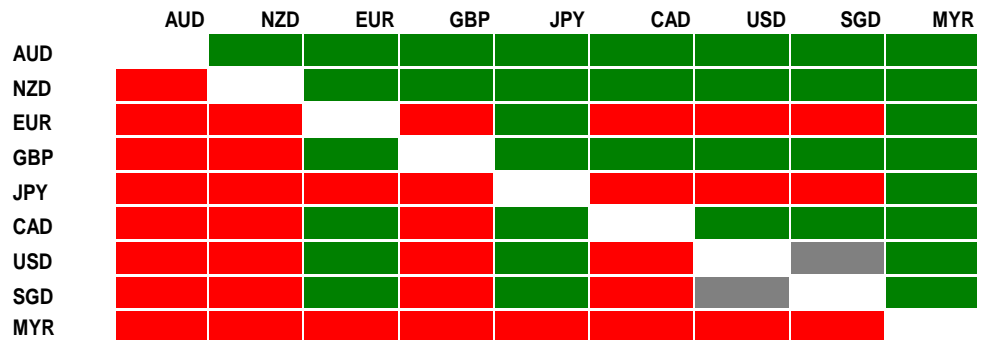
Source: OCBC Bank

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



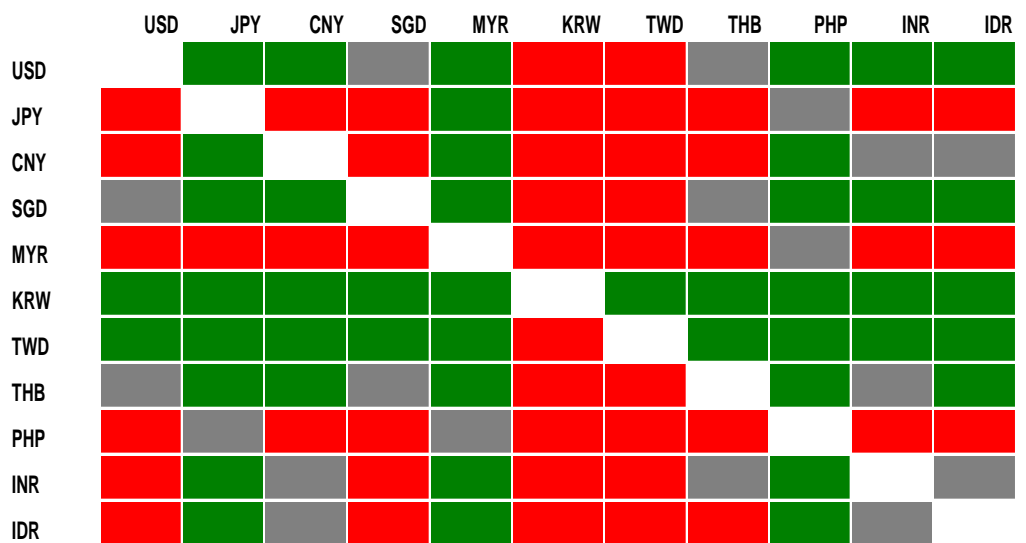
Source: Bloomberg

**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	19-Dec-16	S	AUD-USD	0.7294	0.7095	0.7395	FOMC outcome forcing a near term reassessment of carry	
2	20-Dec-16	B	USD-SGD	1.4481	1.4695	1.4375	Hostile USD/risk appetite environment for Asian FX, SGD	
3	27-Dec-16	S	GBP-USD	1.2276	1.1805	1.2515	A50 risks, UK current account deficits, broad USD strength	
<b>STRUCTURAL</b>								
4	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER	
5	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
6	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ	
7	20-Dec-16		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	
<b>RECENTLY CLOSED</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	21-Nov-16	05-Dec-16	S	EUR-USD	1.0605	1.0730	USD, resilience, policy dichotomy, potential EZ political tensions	-1.07
2	18-Nov-16	08-Dec-16	S	AUD-USD	0.7397	0.7505	Potential negative side effects from new US administration	-1.44
3	14-Nov-16	13-Dec-16	B	USD-SGD	1.4172	1.4236	USD strength and EM jitters post-US elections	+0.45
4	01-Dec-16	29-Dec-16	B	USD-JPY	114.54	116.40	New lease of life for USD from higher UST yields	+1.78
5	19-Dec-16	30-Dec-16	S	EUR-USD	1.0464	1.0620	Ensuing hawkish Fed rhetoric post-FOMC	-1.41
6	27-Dec-16	02-Jan-17	B	USD-CAD	1.3530	1.3390	Policy dichotomy, Trump Trade, slight de-linking with crude	-1.09
							<b>2016 Return</b>	<b>+6.91</b>

Source: OCBC Bank

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