

Monday, February 06, 2017

FX Themes/Strategy/Trading Ideas – Revised forecasts

- Despite a better than expected headline number (+227K), the USD was broadly undermined by weak hourly earnings (+0.1% mom) and a rise in the unemployment rate (+4.8%). Despite the positive S&P and hawkish comments from the Fed's Evans and Williams (3 rate hikes still a reasonable guess, some arguments for a March hike) providing a partial boost for UST yields (curve still softer on the day), the dollar found little respite.
- On the **CFTC** front, large non-commercial/leveraged accounts pared their net implied long dollar bias in aggregate in the latest week, with a significant moderation chalked up by the latter. Meanwhile, it's also notable that asset manager positioning reverted to an implied short dollar bias in the latest week.
- The calendar this week includes the **RBA** (mkts: no chg) policy meeting on Tuesday and the **RBNZ** (mkts: no chg) on Wednesday while in Asia, the **Bank of Thailand** (mkts: no chg) and **RBI** convene on Wednesday, with the Indian monetary authority expected to cut its benchmark repo and reverse repo by 25bps respectively. On Thursday, the **BSP** is expected to remain static on its policy rates while **China's** January trade numbers are due to be released on Friday.
- Going ahead, the dollar is still threatening to unlash itself from yield differential arguments (markets still coalescing onto a June hike with consensus only expecting two hikes this year) while positive risk appetite levels should underpin the antipodeans. On this front, note that the **FXSI (FX Sentiment Index)** pushed yet deeper into Risk-On territory on Friday to end lower on the week.
- While the so-called Trump trade is holding up for equities (Trump moved against the Dodd-Frank on Fri) and USTs, the broad dollar has been pretty much shut down (see **Heat Maps**) on this front. We retain our tactically bearish views on the USD.

Asian FX

- Apart from the vulnerable dollar, expect Asian FX to be underpinned also by firmer regional equities in early trade on Monday. Overall, the **ACI (Asian Currency Index)** may remain poised to soften further after weakening in the past week, with **EPFR** data indicating a further improvement in implied net equity inflows (and a flip to net inflows for bonds) into the region in the latest week.

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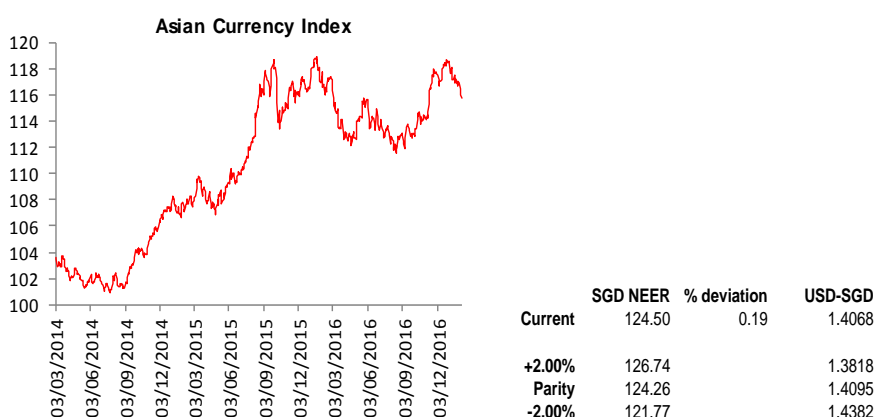
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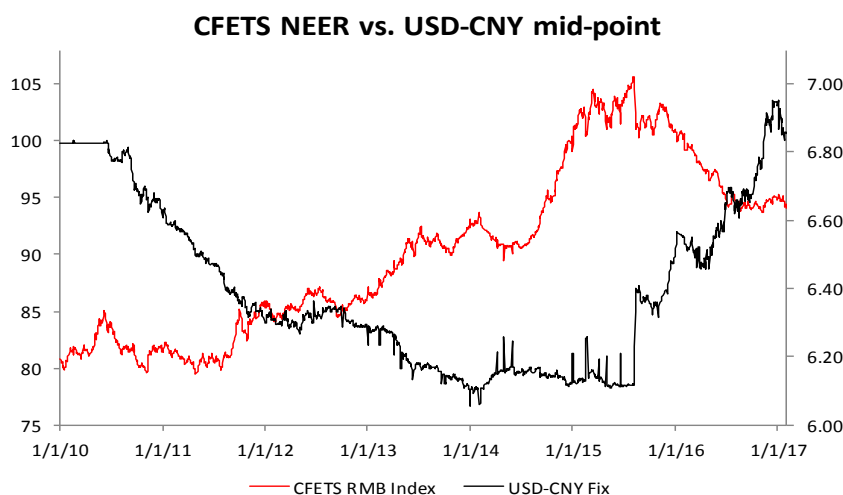
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- SGD NEER:** The SGD NEER is a touch firmer at around +0.19% above its perceived parity (1.4095) with the USD-SGD softening slightly less rapidly compared to its implied thresholds amid broad dollar weakness post-NFP. At current levels, the +0.3% threshold is estimated at 1.4053 and the NEER may continue to be repelled around these levels, given also that volatility indicators for the USD-SGD and the NEER are suggesting caution towards excessive moves in the spot.
- Nevertheless, pending the larger dollar narrative, the violation of 1.4089 opens the way to 1.4000 and 1.3947 thereafter. In the interim, near term resistance levels are expected around the 1.4100 neighborhood.



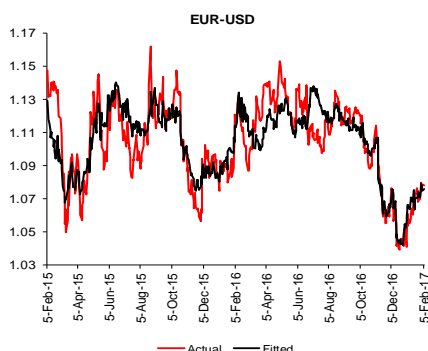
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning gained slightly to 6.8606 from 6.8556 last Friday, with any implied drop in the mid-point hampered by its Friday close. Meanwhile, the **CFETS RMB Index** fell below 94.00 to 93.75 from 94.03 on Friday. As noted previously, the key region at 93.70-94.00 bears watching and rate hikes by the PBOC on Friday notwithstanding, the Index may remain top heavy in the near term.



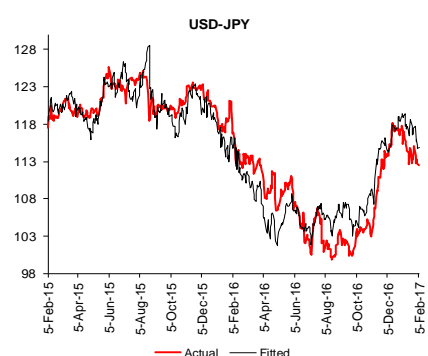
Source: OCBC Bank, Bloomberg

G7



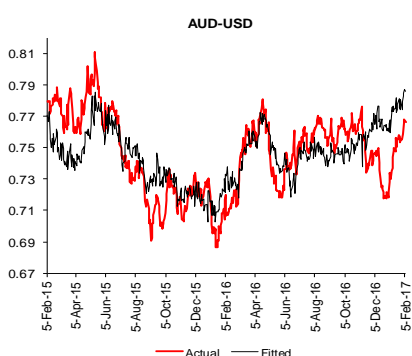
Source: OCBC Bank

- EUR-USD** EZ data flow provided little in the way for upside impetus for the common currency with the soggy dollar doing the heavy lifting for the pair instead. On the CFTC front, net leveraged EUR shorts were pared in the latest week for the fourth consecutive week while short term implied valuations for the EUR-USD remain underpinned. If 1.0800 is breached, markets may attempt to move towards 1.0826 and 1.0845.



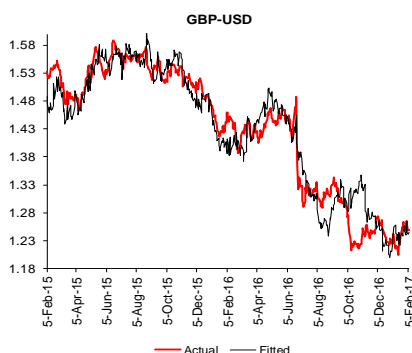
Source: OCBC Bank

- USD-JPY** PM Abe is scheduled to meet with US President Trump on Friday-Saturday but in the interim, US-specific dynamics may continue to hold sway (read: down) despite the BOJ last Friday attempting to anchor domestic yields. Net leveraged CFTC JPY shorts were also reduced for the fourth consecutive week in the latest week and the USD-JPY may attempt to mirror softer model-implied valuations. Any violation of 112.00 is expected to pave the way to 111.60.



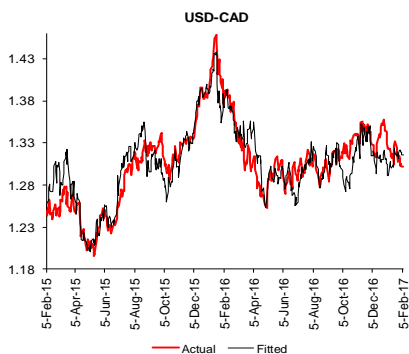
Source: OCBC Bank

- AUD-USD** As noted previously, sanguine risk appetite levels and the neutered dollar continue to leave headroom for the AUD-USD. CFTC positioning data showed net leveraged AUD longs jumping in the latest week while short term implied valuations are still attempting to reach higher. Potential upside junctions include 0.7700 and 0.7735.



Source: OCBC Bank

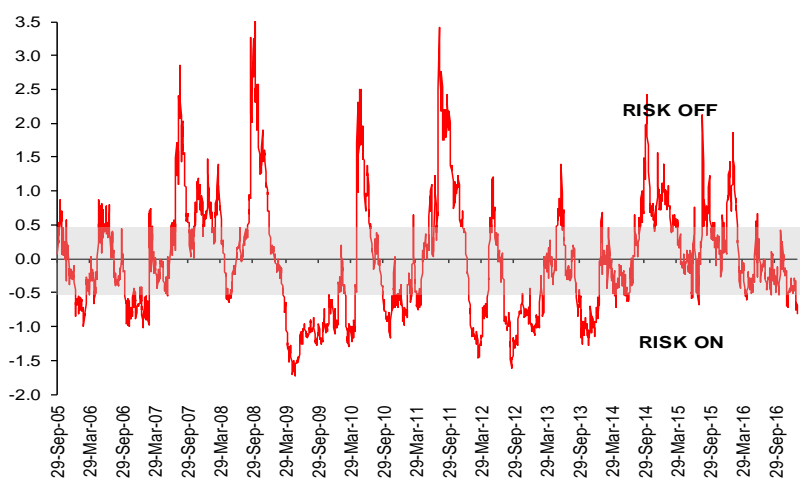
- GBP-USD** GBP went against the grain on Friday and stepped below 1.2500. Elsewhere, net leveraged GBP shorts on the CFTC front were reduced in the latest week even before the BOE's Carney provided a reality check. Short term implied valuations remain slightly under the weather despite the broad dollar's vulnerability and the GBP-USD may continue to fade rallies. Downside supports are expected into the 100-day MA (1.2461) and the 55-day MA (1.2428).



Source: OCBC Bank

- USD-CAD** Supported crude and a vulnerable greenback put a lid on the USD-CAD on Friday while on the CFTC front, we note that leveraged accounts increased their implied net CAD longs in the latest week. Short term implied valuations are somewhat static at this juncture although another attempt at the 1.3000 floor (towards 1.2970) cannot be ruled out despite the CAD looking slightly rich and if USD resilience continues to be unwound.

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 | -0.559 | 0.819 | -0.454 | -0.643 | -0.345 | 0.910 | -0.495 | 0.002 | -0.560 | 0.765 | -0.976 |
| CHF | 0.976 | -0.607 | 0.795 | -0.443 | -0.674 | -0.230 | 0.859 | -0.505 | -0.023 | -0.600 | 0.711 | -0.970 |
| TWD | 0.949 | -0.665 | 0.746 | -0.590 | -0.693 | -0.503 | 0.836 | -0.464 | 0.159 | -0.330 | 0.795 | -0.918 |
| THB | 0.936 | -0.575 | 0.828 | -0.481 | -0.700 | -0.435 | 0.869 | -0.492 | -0.013 | -0.516 | 0.748 | -0.899 |
| SGD | 0.911 | -0.357 | 0.682 | -0.319 | -0.501 | -0.287 | 0.939 | -0.450 | -0.101 | -0.554 | 0.787 | -0.917 |
| JPY | 0.910 | -0.242 | 0.782 | -0.227 | -0.430 | -0.362 | 1.000 | -0.342 | -0.122 | -0.503 | 0.797 | -0.901 |
| KRW | 0.902 | -0.677 | 0.808 | -0.527 | -0.675 | -0.484 | 0.800 | -0.470 | 0.004 | -0.403 | 0.798 | -0.864 |
| MYR | 0.888 | -0.777 | 0.737 | -0.585 | -0.741 | -0.324 | 0.655 | -0.462 | 0.121 | -0.409 | 0.625 | -0.861 |
| CNY | 0.819 | -0.294 | 1.000 | -0.048 | -0.255 | -0.659 | 0.782 | -0.058 | -0.287 | -0.113 | 0.823 | -0.784 |
| CNH | 0.765 | -0.257 | 0.823 | -0.177 | -0.121 | -0.622 | 0.797 | -0.512 | -0.115 | -0.169 | 1.000 | -0.789 |
| CAD | 0.675 | -0.178 | 0.141 | -0.577 | -0.623 | -0.181 | 0.670 | -0.613 | 0.310 | -0.618 | 0.490 | -0.600 |
| INR | 0.615 | -0.397 | 0.309 | -0.477 | -0.484 | -0.102 | 0.525 | -0.622 | -0.033 | -0.605 | 0.534 | -0.557 |
| CCN12M | 0.112 | 0.044 | 0.721 | 0.231 | 0.245 | -0.337 | 0.206 | 0.223 | -0.358 | 0.334 | 0.490 | -0.153 |
| IDR | -0.227 | 0.364 | -0.163 | -0.009 | -0.163 | -0.026 | -0.091 | 0.110 | 0.202 | -0.134 | -0.274 | 0.271 |
| USGG10 | -0.559 | 1.000 | -0.294 | 0.674 | 0.650 | 0.043 | -0.242 | 0.378 | -0.194 | 0.125 | -0.257 | 0.536 |
| PHP | -0.597 | 0.492 | -0.739 | 0.089 | 0.253 | 0.287 | -0.526 | 0.054 | 0.276 | 0.036 | -0.506 | 0.609 |
| GBP | -0.830 | 0.708 | -0.577 | 0.604 | 0.676 | 0.283 | -0.604 | 0.582 | -0.208 | 0.406 | -0.571 | 0.830 |
| AUD | -0.916 | 0.524 | -0.809 | 0.370 | 0.596 | 0.396 | -0.895 | 0.389 | 0.057 | 0.393 | -0.767 | 0.928 |
| NZD | -0.963 | 0.661 | -0.762 | 0.534 | 0.740 | 0.289 | -0.856 | 0.467 | -0.063 | 0.478 | -0.696 | 0.953 |
| EUR | -0.976 | 0.536 | -0.784 | 0.390 | 0.567 | 0.341 | -0.901 | 0.469 | 0.001 | 0.486 | -0.789 | 1.000 |

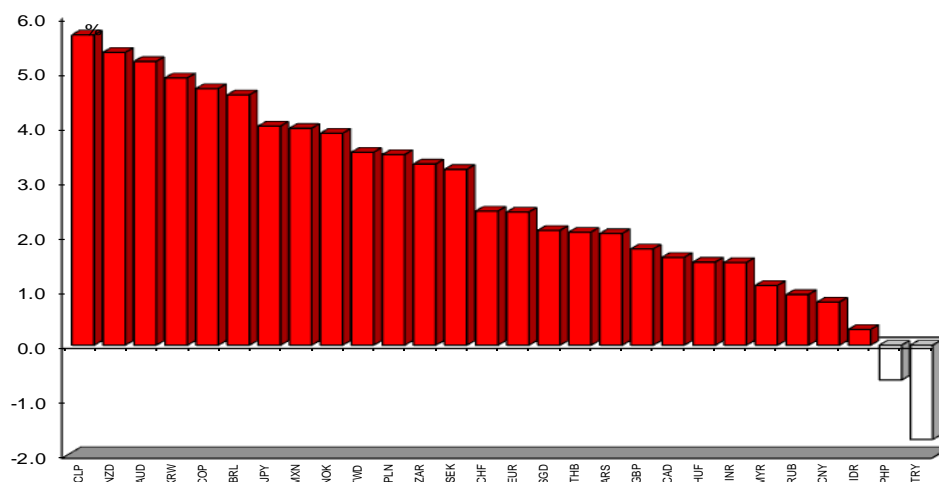
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0598 | 1.0700 | 1.0782 | 1.0800 | 1.0829 |
| GBP-USD | 1.2400 | 1.2418 | 1.2490 | 1.2500 | 1.2706 |
| AUD-USD | 0.7488 | 0.7600 | 0.7660 | 0.7689 | 0.7696 |
| NZD-USD | 0.7105 | 0.7300 | 0.7319 | 0.7350 | 0.7386 |
| USD-CAD | 1.2969 | 1.3000 | 1.3024 | 1.3100 | 1.3132 |
| USD-JPY | 112.00 | 112.06 | 112.42 | 113.00 | 115.17 |
| USD-SGD | 1.4036 | 1.4054 | 1.4079 | 1.4100 | 1.4297 |
| EUR-SGD | 1.5100 | 1.5151 | 1.5180 | 1.5182 | 1.5200 |
| JPY-SGD | 1.2412 | 1.2500 | 1.2523 | 1.2576 | 1.2595 |
| GBP-SGD | 1.7226 | 1.7500 | 1.7585 | 1.7600 | 1.7762 |
| AUD-SGD | 1.0607 | 1.0700 | 1.0785 | 1.0800 | 1.0840 |
| Gold | 1200.00 | 1224.20 | 1224.20 | 1225.82 | 1267.74 |
| Silver | 16.74 | 17.60 | 17.62 | 17.66 | 17.70 |
| Crude | 53.00 | 53.50 | 53.90 | 54.34 | 56.04 |

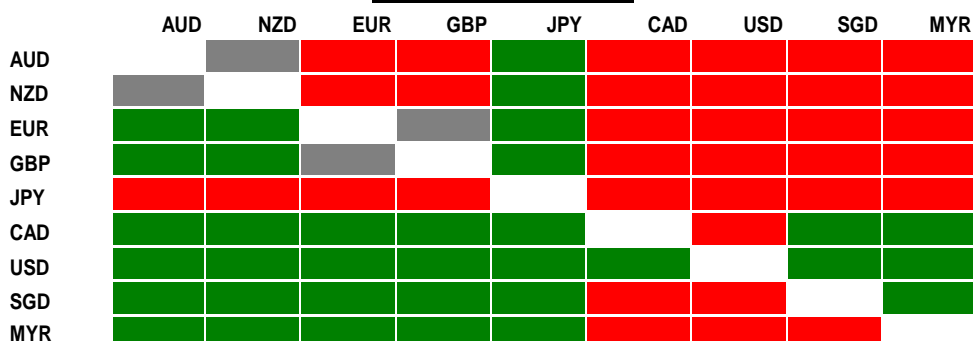
Source: OCBC Bank

FX performance: 1-month change agst USD



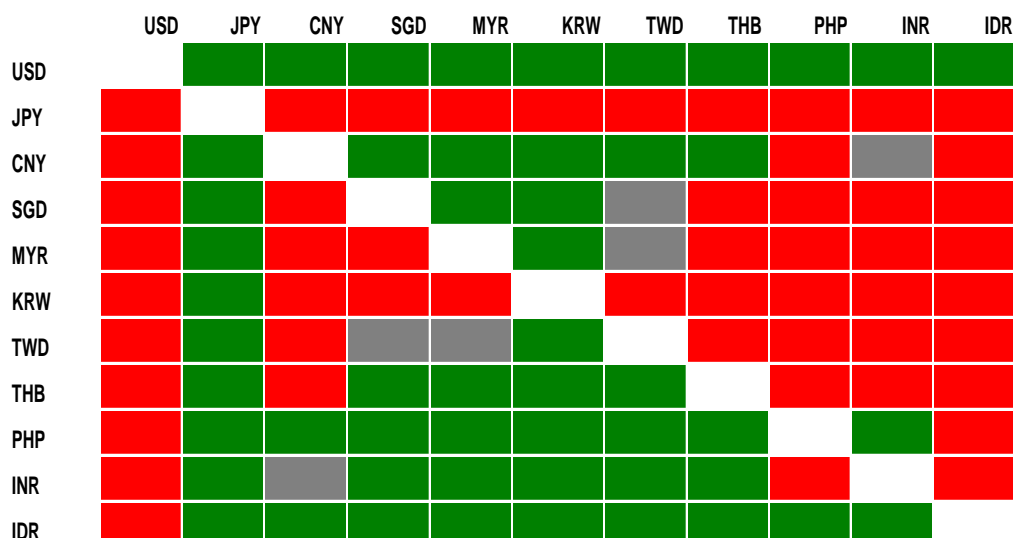
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts

| | Spot | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|---------|--------|--------|--------|--------|--------|
| USD-JPY | 112.59 | 111.50 | 114.89 | 119.22 | 123.56 |
| EUR-USD | 1.0792 | 1.0925 | 1.0792 | 1.0556 | 1.0319 |
| GBP-USD | 1.2673 | 1.2923 | 1.2722 | 1.2327 | 1.1932 |
| AUD-USD | 0.7643 | 0.7838 | 0.7756 | 0.7539 | 0.7322 |
| NZD-USD | 0.7300 | 0.7503 | 0.7432 | 0.7226 | 0.7019 |
| USD-CAD | 1.3008 | 1.2870 | 1.2972 | 1.3156 | 1.3339 |
| USD-CHF | 0.9907 | 0.9775 | 0.9872 | 1.0056 | 1.0239 |
| USD-SGD | 1.4105 | 1.3993 | 1.4118 | 1.4303 | 1.4488 |
| USD-CNY | 6.8840 | 6.8108 | 6.8583 | 6.9581 | 7.0645 |
| USD-THB | 35.085 | 34.80 | 34.99 | 35.36 | 35.73 |
| USD-IDR | 13356 | 13300 | 13389 | 13522 | 13656 |
| USD-MYR | 4.4383 | 4.3825 | 4.4100 | 4.5000 | 4.5900 |
| USD-KRW | 1146 | 1118 | 1132 | 1166 | 1199 |
| USD-TWD | 31.113 | 30.635 | 30.833 | 31.333 | 31.833 |
| USD-HKD | 7.7595 | 7.7612 | 7.7668 | 7.7724 | 7.7780 |
| USD-PHP | 49.76 | 49.60 | 49.91 | 50.38 | 50.84 |
| USD-INR | 67.43 | 67.05 | 67.31 | 67.93 | 68.54 |
| EUR-JPY | 121.51 | 121.81 | 123.99 | 125.85 | 127.50 |
| EUR-GBP | 0.8516 | 0.8454 | 0.8483 | 0.8563 | 0.8648 |
| EUR-CHF | 1.0692 | 1.0679 | 1.0654 | 1.0614 | 1.0565 |
| EUR-SGD | 1.5222 | 1.5287 | 1.5237 | 1.5098 | 1.4950 |
| GBP-SGD | 1.7875 | 1.8082 | 1.7961 | 1.7631 | 1.7287 |
| AUD-SGD | 1.0780 | 1.0967 | 1.0950 | 1.0783 | 1.0609 |
| NZD-SGD | 1.0297 | 1.0498 | 1.0493 | 1.0335 | 1.0169 |
| CHF-SGD | 1.4237 | 1.4315 | 1.4301 | 1.4224 | 1.4150 |
| JPY-SGD | 1.2528 | 1.2549 | 1.2289 | 1.1997 | 1.1726 |
| SGD-MYR | 3.1466 | 3.1320 | 3.1236 | 3.1461 | 3.1681 |
| SGD-CNY | 4.8805 | 4.8675 | 4.8577 | 4.8647 | 4.8760 |

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 | 19-Dec-16 | 10-Jan-17 | S | AUD-USD | 0.7294 | 0.7359 | FOMC outcome forcing a near term reassessment of carry | -0.93 | |
| 2 | 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* | |
| 3 | 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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