

Tuesday, February 07, 2017

**FX Themes/Strategy/Trading Ideas**

- Despite generalized USD strength, cited JPY-cross unwinding saw the JPY outperforming across G10 space on slight risk aversion (Le Pen headlines out of the EZ). On this front, note the **FXSI (FX Sentiment Index)** retracing higher (negative EZ/US equities) but still staying within Risk-On territory on Monday.
- This atmosphere of slight investor apprehension may continue to permeate the market intra-day with near term USD resilience more a consequence of unwinding and risk aversion (note higher XAU), as opposed to Fed/Trump positives. Notably, Treasuries caught a bid on Monday with the curve settling lower.
- Up ahead, China foreign reserves (investors still fixated on the USD3tn watermark) are scheduled to be released today, while the RBA (0330 GMT) statement is due at 0330 GMT.

**Asian FX**

- The slight wobble in investor appetite on Tuesday implies that the recent decent of the **ACI (Asian Currency Index)** is expected to pause. Look also to the string of regional foreign reserve numbers for January to be published today.
- **SGD NEER:** The SGD NEER is softer on the day on the back of the broad dollar retracement at around -0.15% below its perceived parity (1.4094). However NEER-implied USD-SGD thresholds are relatively static on the day (JPY outperformance mitigating weakening of the other constituents in the basket).
- Nonetheless, the dynamics may be slightly different today, with an implied tendency to towards -0.50% (1.4165) if the broad dollar continues to find its footing intra-day. Technically, an interim base for USD-SGD is expected within 1.4089/00.

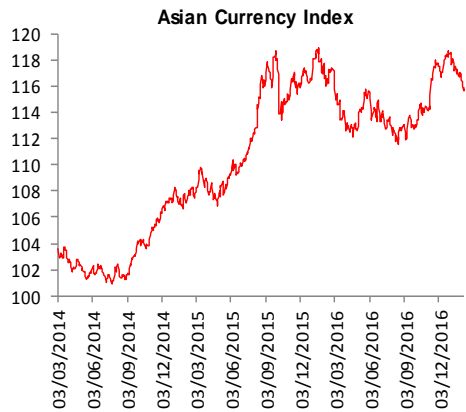
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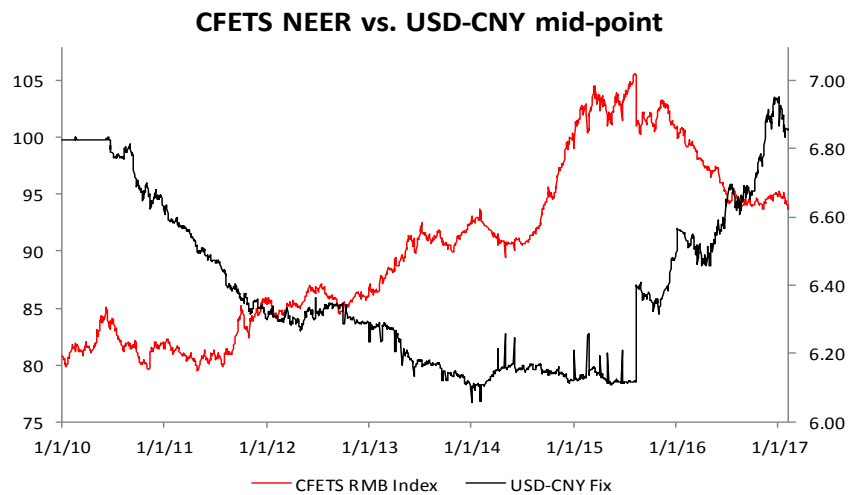
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|         | SGD NEER | % deviation | USD-SGD |
|---------|----------|-------------|---------|
| Current | 124.04   | -0.18       | 1.4120  |
| +2.00%  | 126.74   |             | 1.3817  |
| Parity  | 124.26   |             | 1.4094  |
| -2.00%  | 121.77   |             | 1.4381  |

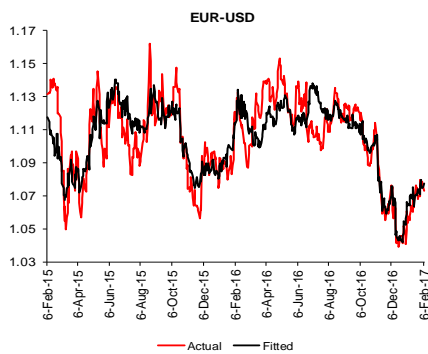
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point this morning remained largely unchanged at 6.8604 from 6.8606 on Monday, lifting the **CFETS RMB Index** to 93.82 from 93.75. Amid some semblance of calm, we note CNH and NDF points continue to lean left while CNH continues to hold a sizeable premium over the CNY on the spot.



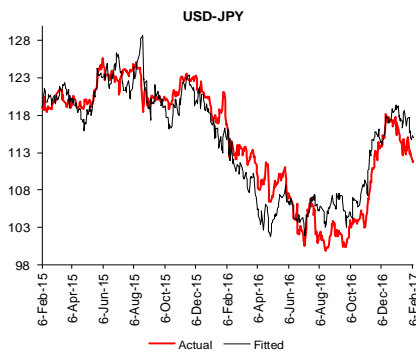
Source: OCBC Bank, Bloomberg

**G7**



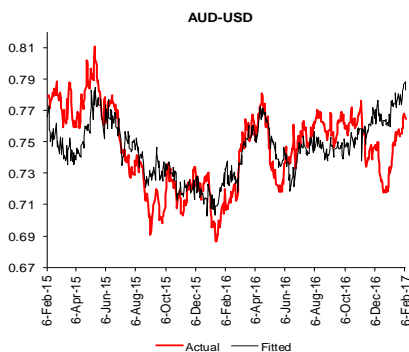
Source: OCBC Bank

- EUR-USD** With the ECB's Draghi still sounding neutral to dovish, the much touted expected political uncertainty for the EZ surfaced on Monday with La Pen initiated her Presidential bid, eclipsing any positivity from stronger than expected German December factory orders. Short term implied valuations are a touch softer with scope to for the pair to venture towards 1.0700 and 1.0670 if EZ political jitters deepen.



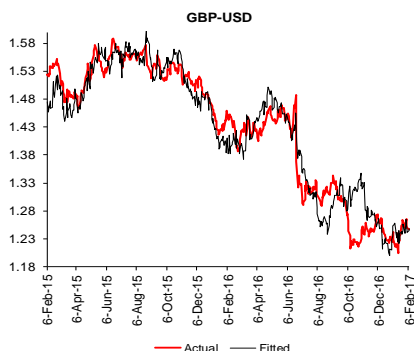
Source: OCBC Bank

- USD-JPY** Prodded by risk aversion, USD-JPY finally punctured the 112.00 floor on Monday, aggravating the prevailing heavy tone for the pair. Short term implied valuations have also headed yet lower and as noted yesterday, any violation of 112.00 is expected to pave the way to 111.60 (rough 382 Fibo retracement) ahead of 110.00.



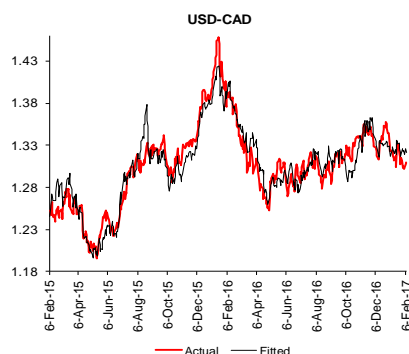
Source: OCBC Bank

- AUD-USD** The AUD was weighed somewhat by soggy commodities and the pair's prospects today may be determined by the RBA's meeting statement. Specifically, apart from any prevailing risk aversion vibes, investors may be on the lookout for any wavering in the RBA's prognosis. In the interim, expect the AUD-USD to sulk in the vicinity of 0.7650 pending further external cues.



Source: OCBC Bank

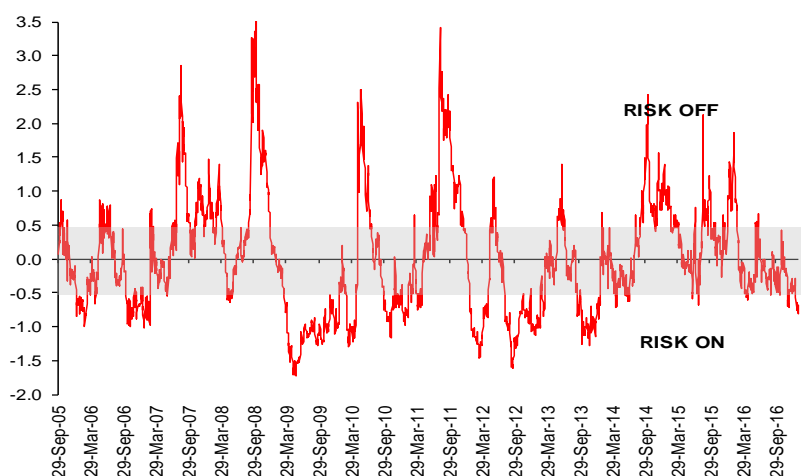
- GBP-USD** The House of Commons votes Wednesday on A50 (already a contentious issue) while investors may look to EZ political risk premiums and generalized USD cues for directionality in the interim. Elsewhere, short-term implied valuations for the pair have edged lower on the day and the GBP-USD may seek shelter towards its 100-day MA (1.2456) and the 55-day MA (1.2429) in the short term.



Source: OCBC Bank

- USD-CAD** The CAD was undermined by softer crude as well as the bounce in the greenback on Monday, with the pair reacting higher in line with its short term implied valuations. Expect potential headroom on the upside for the pair if the broad dollar continues to benefit from risk aversion with the 200-day MA (1.3137) perched above.

### 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  | -0.549 | 0.798  | -0.521 | -0.595 | -0.333 | 0.870  | -0.705 | 0.056  | -0.546 | 0.812  | -0.969 |
| CHF      | 0.969  | -0.571 | 0.756  | -0.517 | -0.650 | -0.186 | 0.847  | -0.694 | 0.031  | -0.599 | 0.771  | -0.955 |
| TWD      | 0.936  | -0.583 | 0.695  | -0.681 | -0.724 | -0.336 | 0.863  | -0.672 | 0.213  | -0.443 | 0.843  | -0.894 |
| THB      | 0.912  | -0.518 | 0.783  | -0.570 | -0.681 | -0.370 | 0.870  | -0.669 | 0.049  | -0.519 | 0.821  | -0.855 |
| SGD      | 0.890  | -0.304 | 0.641  | -0.400 | -0.471 | -0.231 | 0.940  | -0.612 | -0.047 | -0.556 | 0.847  | -0.888 |
| MYR      | 0.888  | -0.744 | 0.716  | -0.643 | -0.736 | -0.262 | 0.648  | -0.665 | 0.161  | -0.425 | 0.673  | -0.855 |
| KRW      | 0.885  | -0.584 | 0.761  | -0.611 | -0.704 | -0.339 | 0.837  | -0.616 | 0.072  | -0.440 | 0.832  | -0.838 |
| JPY      | 0.870  | -0.175 | 0.738  | -0.339 | -0.378 | -0.298 | 1.000  | -0.556 | -0.054 | -0.509 | 0.900  | -0.840 |
| CNH      | 0.812  | -0.206 | 0.857  | -0.250 | -0.205 | -0.517 | 0.900  | -0.532 | -0.085 | -0.235 | 1.000  | -0.834 |
| CNY      | 0.798  | -0.293 | 1.000  | -0.113 | -0.202 | -0.617 | 0.738  | -0.259 | -0.261 | -0.129 | 0.857  | -0.763 |
| INR      | 0.688  | -0.289 | 0.399  | -0.556 | -0.623 | 0.017  | 0.710  | -0.622 | 0.017  | -0.659 | 0.599  | -0.621 |
| CAD      | 0.642  | -0.151 | 0.131  | -0.596 | -0.614 | -0.155 | 0.634  | -0.713 | 0.341  | -0.610 | 0.482  | -0.563 |
| CCN12M   | 0.234  | 0.103  | 0.650  | -0.029 | -0.024 | -0.107 | 0.450  | 0.102  | -0.218 | 0.072  | 0.559  | -0.249 |
| IDR      | -0.243 | 0.389  | -0.177 | -0.075 | -0.191 | 0.022  | -0.055 | 0.040  | 0.226  | -0.165 | -0.180 | 0.298  |
| PHP      | -0.476 | 0.514  | -0.663 | 0.046  | 0.064  | 0.336  | -0.315 | 0.188  | 0.270  | -0.096 | -0.453 | 0.497  |
| USGG10   | -0.549 | 1.000  | -0.293 | 0.609  | 0.613  | 0.067  | -0.175 | 0.410  | -0.191 | 0.081  | -0.206 | 0.530  |
| GBP      | -0.864 | 0.691  | -0.601 | 0.602  | 0.679  | 0.270  | -0.585 | 0.687  | -0.230 | 0.397  | -0.560 | 0.866  |
| AUD      | -0.897 | 0.517  | -0.793 | 0.478  | 0.540  | 0.390  | -0.868 | 0.652  | -0.009 | 0.376  | -0.881 | 0.906  |
| NZD      | -0.953 | 0.654  | -0.733 | 0.624  | 0.707  | 0.268  | -0.821 | 0.705  | -0.130 | 0.465  | -0.773 | 0.939  |
| EUR      | -0.969 | 0.530  | -0.763 | 0.450  | 0.504  | 0.340  | -0.840 | 0.686  | -0.052 | 0.462  | -0.834 | 1.000  |

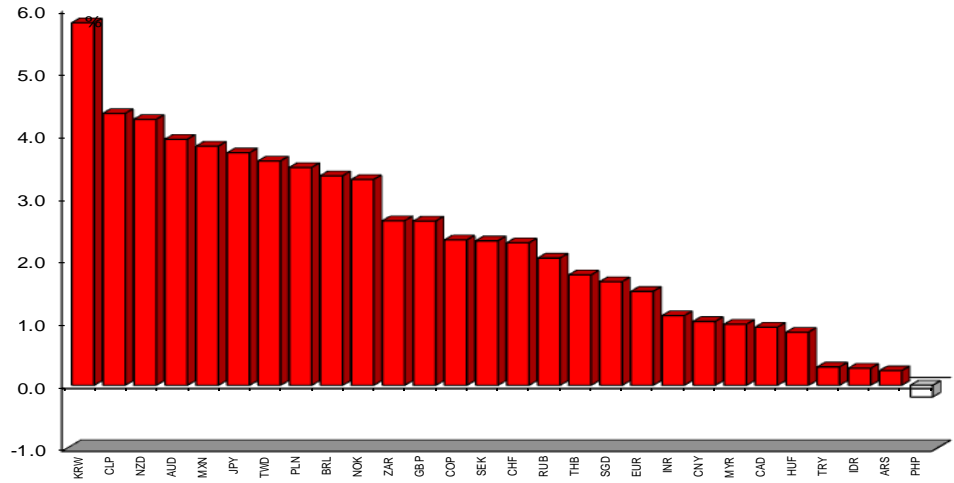
Source: Bloomberg

### Immediate technical support and resistance levels

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0599  | 1.0700  | 1.0731  | 1.0800  | 1.0825  |
| GBP-USD | 1.2400  | 1.2418  | 1.2474  | 1.2500  | 1.2706  |
| AUD-USD | 0.7488  | 0.7600  | 0.7641  | 0.7682  | 0.7696  |
| NZD-USD | 0.7107  | 0.7300  | 0.7312  | 0.7350  | 0.7380  |
| USD-CAD | 1.2969  | 1.3000  | 1.3094  | 1.3100  | 1.3135  |
| USD-JPY | 111.52  | 111.60  | 111.83  | 112.00  | 115.15  |
| USD-SGD | 1.4054  | 1.4100  | 1.4127  | 1.4200  | 1.4294  |
| EUR-SGD | 1.5100  | 1.5149  | 1.5160  | 1.5180  | 1.5200  |
| JPY-SGD | 1.2600  | 1.2618  | 1.2634  | 1.2650  | 1.2700  |
| GBP-SGD | 1.7236  | 1.7600  | 1.7622  | 1.7700  | 1.7757  |
| AUD-SGD | 1.0636  | 1.0700  | 1.0794  | 1.0800  | 1.0832  |
| Gold    | 1200.00 | 1231.50 | 1233.50 | 1235.40 | 1267.75 |
| Silver  | 16.77   | 17.70   | 17.72   | 17.75   | 17.77   |
| Crude   | 53.05   | 53.10   | 53.19   | 53.20   | 54.25   |

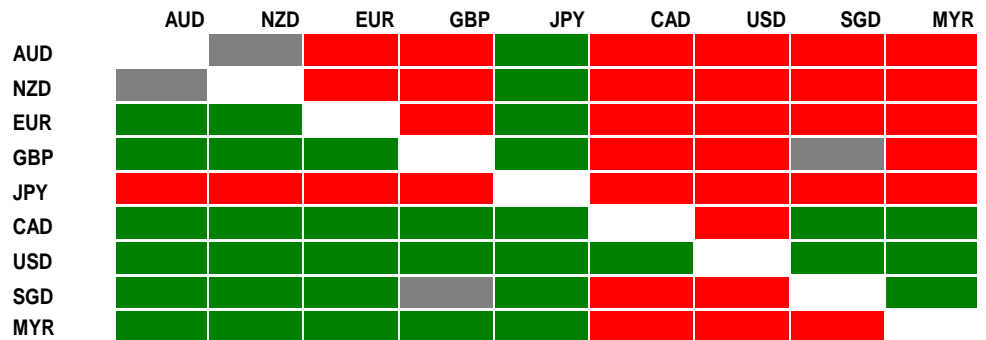
Source: OCBC Bank

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



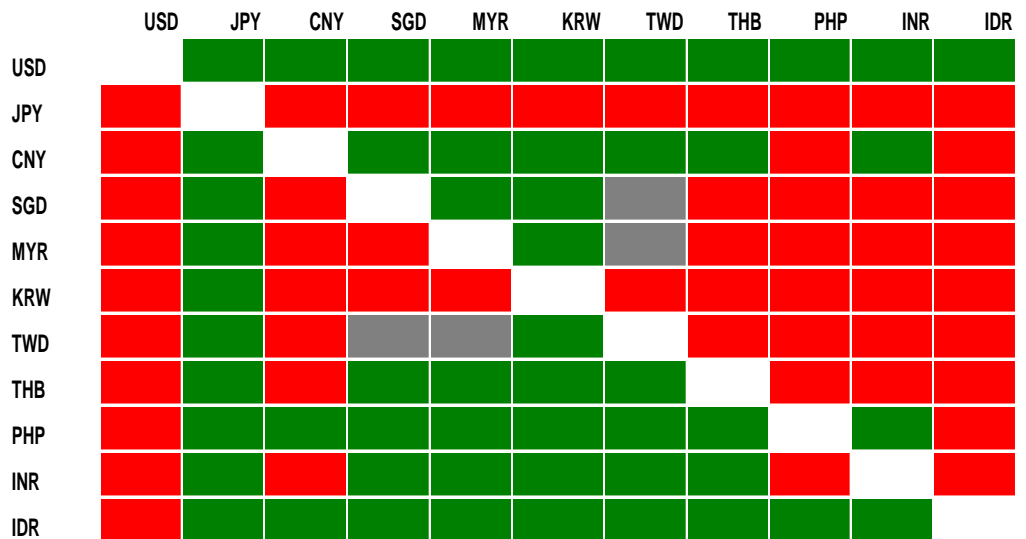
Source: Bloomberg

**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                      | 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                        |  |
| <b>STRUCTURAL</b>      |           |           |     |   |        |                           |   |  |
| 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                           |  |
| <b>RECENTLY CLOSED</b> |           |           |     |   |        |                           |   |  |
|                        | 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<br>Spot: 0.7243; Strikes: 0.7007, 0.7232, 0.7451;<br>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           |           |           |     |   |        |                           |   | Jan 2017 Return -6.78<br>2016 Return +6.91 |

Source: OCBC Bank

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