

Wednesday, February 08, 2017

FX Themes/Strategy/Trading Ideas

- Despite falling 10y UST yields and restrained comments from the Fed's Kashkari, the USD still took a bite out of the majors on Tuesday, lifting the DXY back above the 100 level. Meanwhile, the global reflation play may still have legs yet with the antipodeans holding their own across G10 space on Tue.
- Overall, the greenback may continue to hold a slight edge into today's session on the back of risk aversion, position reassessments, and non US-specific influences. A unified USD narrative based on the Trump trade and/or FOMC expectations still remains less than solid at this juncture. In addition, note also nascent worries that the Trump trade in USTs may be waning somewhat (US 10y breakeven back below 2.00%).
- On the risk appetite front, note that the **FXSI (FX Sentiment Index)** continued to shrink higher for the second consecutive session although it still remained within Risk-On territory. To this end, note that XAU is still elevated.
- Our 9 Jan 17 idea to be tactically short **USD-CAD** (spot ref: 1.3264) was closed at the designated profit stop of 1.3135 on Monday for an implied +0.92% gain.

Asian FX

- Elsewhere, EM FX is expected to remain vulnerable to the USD with USD-CNH flipping higher post China forex reserve numbers (technically <USD3.00tn). As such, the **ACI (Asian Currency Index)** is likely to head higher for a second day in a row despite the medium term model-implied valuations for the Index heading lower.
- On the central bank front, the BOT is expected to stand pat at 1.50% at today's MPC while the consensus expects the RBI to reduce its benchmark repo and reverse repo by 25bps each to 6.000% and 5.50% while keeping the CRR unchanged at 4.00%.
- **SGD NEER:** For today, expect to be back to the familiar environment of a stronger broad dollar and a SGD NEER at sub-parity levels. The NEER is currently softer on the day at around -0.40% below its implied parity (1.4134) with NEER-implied USD-SGD thresholds at firmer levels from a day ago. At current levels, the -0.50% threshold is estimated at 1.4205 (with the next expected technical resistance at 1.4240) and this level may continue to attract if the greenback gains further upside traction. Volatility considerations

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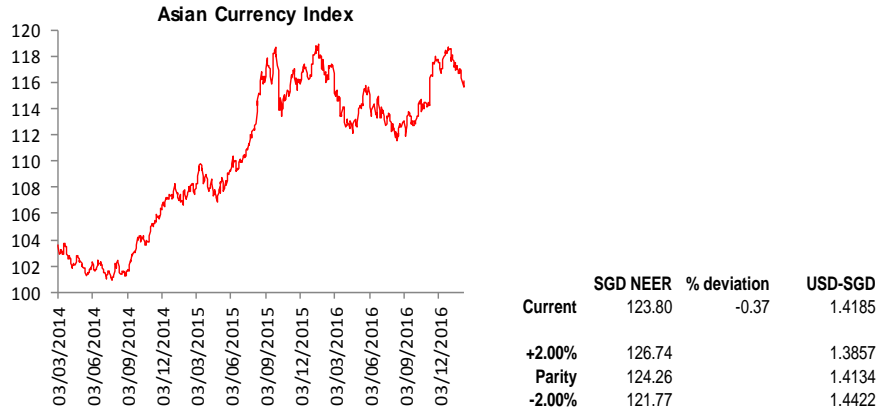
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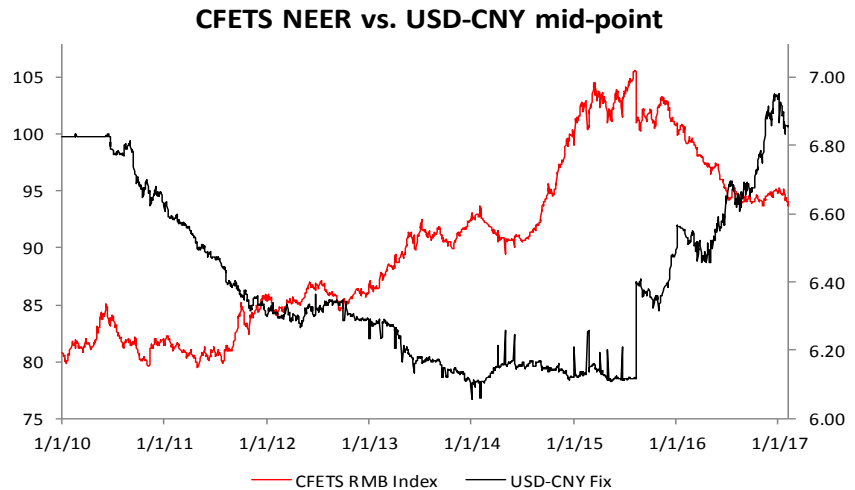
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however may continue to restrain the velocity of spot moves.



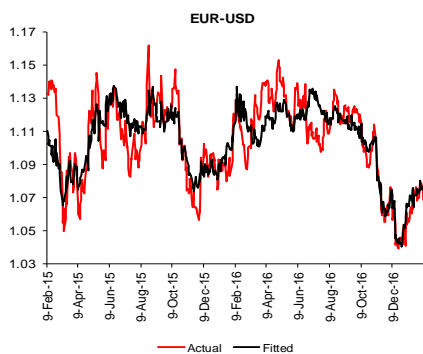
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point came in at a slightly lower than expected 6.8849 from 6.8604 yesterday. This however still left the **CFETS RMB Index** lower on the day at 93.74 from 93.82 yesterday.



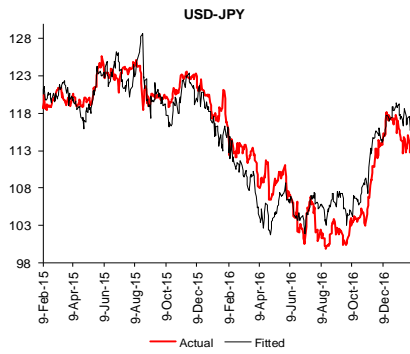
Source: OCBC Bank, Bloomberg

G7



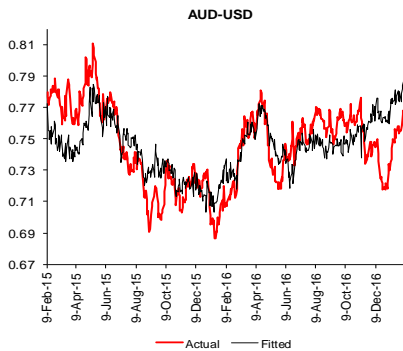
Source: OCBC Bank

- EUR-USD** The EUR continued to be weighed by political uncertainty (including Greek bailout and French presidential election news flow) despite the Bundesbank's Weidmann pushing back against previous accusations of currency manipulation by the Trump administration. Going ahead, markets may continue to eye French-Bund spreads (note also the 3M skew is portending a softer profile) and the EUR-USD may continue to seek out the lower reaches of its short term valuation confidence intervals. Next waypoint lower is expected at 1.0645 ahead of the 55-day MA (1.0603).



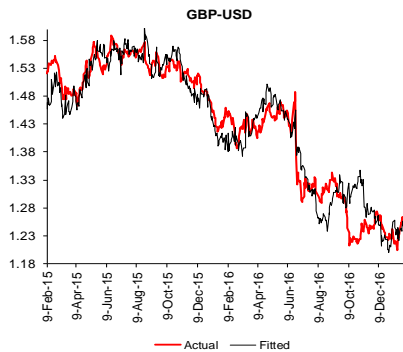
- USD-JPY** Investors may continue to look towards the Abe/Trump meeting scheduled on Friday. In the interim, short term implied valuations are still perceived to be implicitly top heavy for the pair although we would expect some interim congestion into 111.60 and 112.00.

Source: OCBC Bank



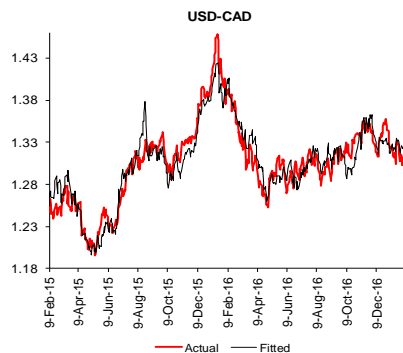
- AUD-USD** Despite a fairly upbeat RBA statement, AUD resilience proved short-lived on Tuesday as broader dollar dynamics took control. Going ahead, risk aversion may continue to lurk, in line with a slight topping out of short term implied valuations for the pair. A consolidative 0.7600-0.7650 range may hold pending further external cues. Elsewhere, the RBNZ (watch the forward guidance) is expected to remain static at 1.75% late Wednesday.

Source: OCBC Bank



- GBP-USD** The GBP supported by hawkish comments from BOE's Forbes. Meanwhile, the GBP-USD is still looking largely in tune with static (read: zero drift) to supported short term implied valuations. In the interim, investors are likely to look to news flow from the House of Commons vote on A50 scheduled for later today, with the GBP-USD likely to continue to base out at the 1000-day MA (1.2451) and the 55-day MA (1.2430).

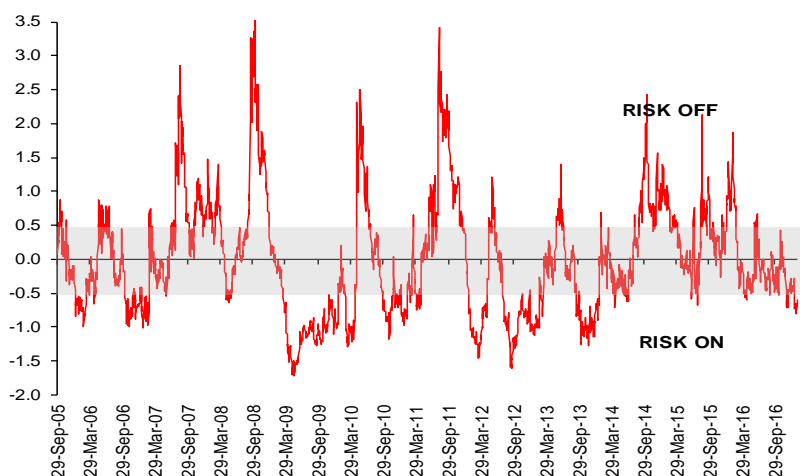
Source: OCBC Bank



- USD-CAD** Apart from the greenback, the loonie was also undermined by slumping crude on Tuesday. As a result, short term implieds have also stepped higher on the day with spot also in tow. Having cleared the 200-day MA (1.3139), the pair may eye 1.3245 and the 55-day MA (1.3275) if 1.3200 is breached.

Source: OCBC Bank

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	-0.522	0.780	-0.526	-0.597	-0.285	0.860	-0.684	0.065	-0.536	0.811	-0.962
CHF	0.969	-0.543	0.737	-0.522	-0.651	-0.145	0.820	-0.600	0.040	-0.586	0.749	-0.942
TWD	0.924	-0.498	0.639	-0.713	-0.760	-0.173	0.877	-0.595	0.233	-0.539	0.805	-0.847
THB	0.896	-0.440	0.722	-0.605	-0.709	-0.245	0.874	-0.451	0.075	-0.577	0.751	-0.771
SGD	0.891	-0.282	0.630	-0.409	-0.478	-0.189	0.905	-0.533	-0.037	-0.544	0.830	-0.879
MYR	0.890	-0.706	0.696	-0.651	-0.735	-0.196	0.656	-0.638	0.171	-0.434	0.672	-0.845
KRW	0.868	-0.502	0.701	-0.648	-0.737	-0.194	0.851	-0.542	0.104	-0.517	0.798	-0.790
JPY	0.860	-0.121	0.692	-0.390	-0.429	-0.185	1.000	-0.362	-0.025	-0.563	0.842	-0.773
CNH	0.811	-0.196	0.855	-0.252	-0.210	-0.478	0.842	-0.478	-0.081	-0.233	1.000	-0.828
CNY	0.780	-0.292	1.000	-0.101	-0.178	-0.583	0.692	-0.260	-0.262	-0.082	0.855	-0.762
INR	0.680	-0.216	0.353	-0.602	-0.664	0.120	0.736	-0.541	0.057	-0.706	0.577	-0.577
CAD	0.626	-0.163	0.131	-0.546	-0.558	-0.176	0.526	-0.702	0.329	-0.510	0.451	-0.549
CCN12M	0.251	0.175	0.509	-0.182	-0.188	0.101	0.516	0.155	-0.120	-0.196	0.482	-0.193
IDR	-0.221	0.404	-0.176	-0.113	-0.226	0.068	-0.007	0.058	0.237	-0.216	-0.170	0.297
PHP	-0.476	0.503	-0.662	0.054	0.069	0.308	-0.309	0.182	0.266	-0.075	-0.454	0.496
USGG10	-0.522	1.000	-0.292	0.533	0.533	0.114	-0.121	0.422	-0.172	0.005	-0.196	0.526
GBP	-0.865	0.656	-0.584	0.608	0.682	0.218	-0.614	0.588	-0.238	0.411	-0.562	0.849
AUD	-0.893	0.463	-0.760	0.508	0.568	0.296	-0.871	0.490	-0.028	0.426	-0.844	0.856
NZD	-0.948	0.598	-0.697	0.643	0.723	0.185	-0.828	0.547	-0.146	0.502	-0.737	0.890
EUR	-0.962	0.526	-0.762	0.425	0.478	0.333	-0.773	0.655	-0.049	0.411	-0.828	1.000

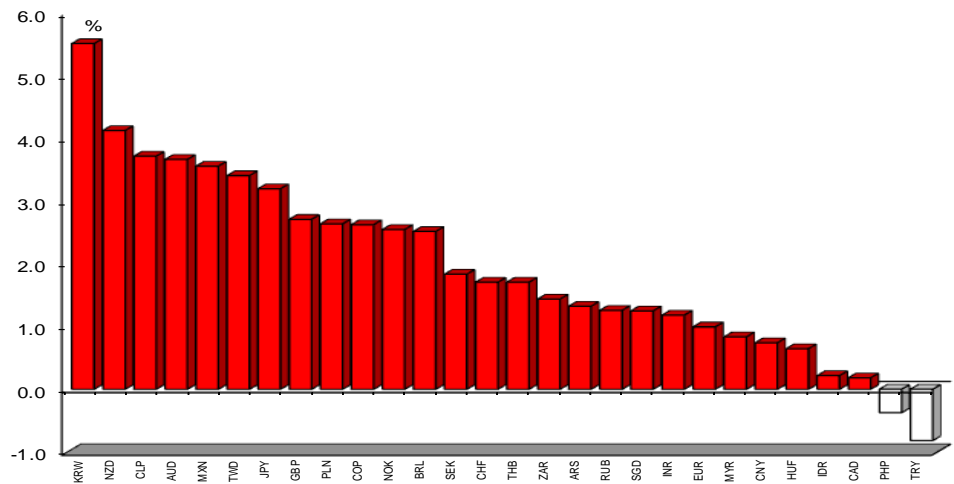
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0599	1.0600	1.0676	1.0700	1.0815
GBP-USD	1.2400	1.2418	1.2486	1.2500	1.2706
AUD-USD	0.7489	0.7600	0.7621	0.7678	0.7696
NZD-USD	0.7109	0.7300	0.7303	0.7376	0.7377
USD-CAD	1.3100	1.3137	1.3191	1.3200	1.3252
USD-JPY	111.60	112.00	112.42	113.00	115.12
USD-SGD	1.4054	1.4100	1.4186	1.4200	1.4293
EUR-SGD	1.5100	1.5101	1.5145	1.5149	1.5177
JPY-SGD	1.2414	1.2600	1.2618	1.2624	1.2659
GBP-SGD	1.7266	1.7700	1.7713	1.7756	1.7800
AUD-SGD	1.0656	1.0800	1.0810	1.0833	1.0860
Gold	1181.98	1200.00	1231.50	1234.49	1236.20
Silver	16.79	17.60	17.67	17.70	17.80
Crude	51.24	51.40	51.42	51.50	51.66

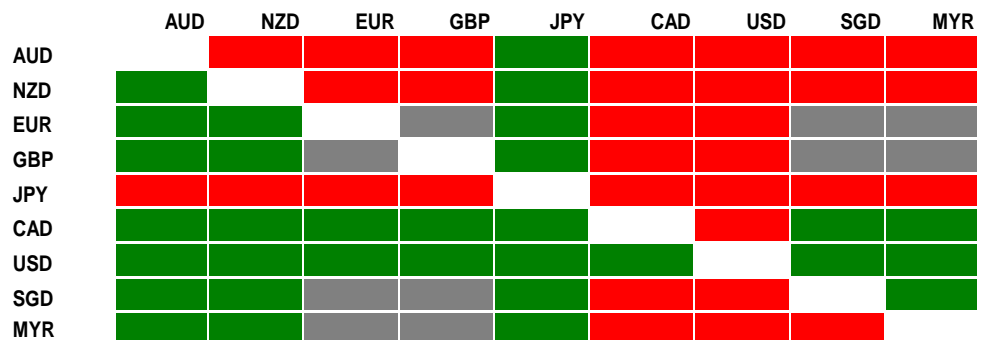
Source: OCBC Bank

FX performance: 1-month change agst USD



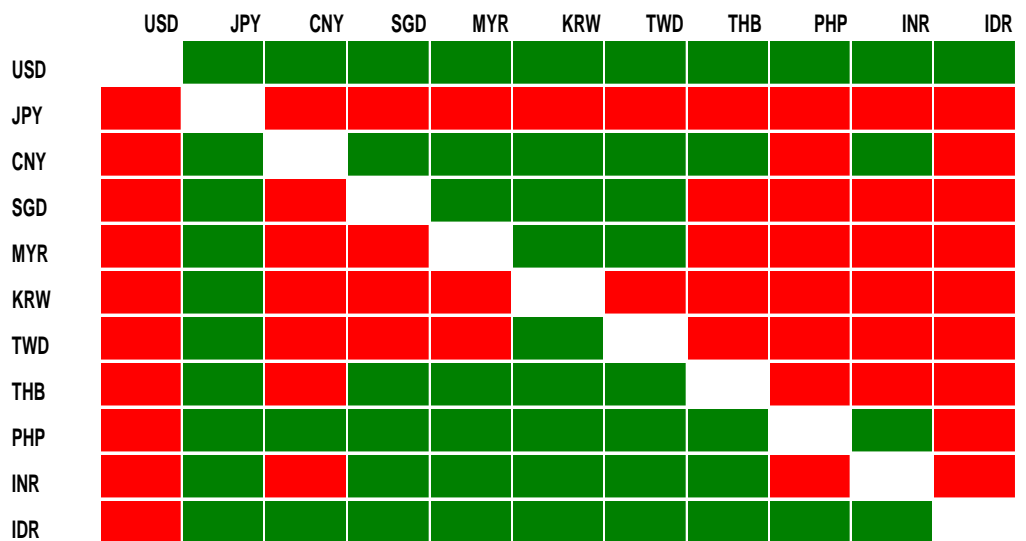
Source: Bloomberg

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	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	18-Jan-17	B	EUR-USD	1.0688	1.1015	1.0520	Dollar hiccup, hint of inflation in EZ	
4	20-Jan-17	S	USD-SGD	1.4240	1.4005	1.4360	Potential for Trump's inauguration to disappoint USD bulls	
5	25-Jan-17	B	GBP-USD	1.2528	1.2910	1.2335	Subsidence of acute A50 concerns in the short term	
STRUCTURAL								
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	
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
4	09-Jan-17	06-Feb-17	S	USD-CAD	1.3264	1.3135	Supportive crude and labor market numbers	0.92
*of notional								Jan 2017 Return -6.78 2016 Return +6.91

Source: OCBC Bank

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