

**Monday, January 09, 2017**

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

- Despite the “disappointing” headline NFP reading of +156K, the +19k 2M revision and better than expected hourly earnings numbers (+0.4% mom) took the greenback and UST yields (10y 2.419%) higher on Friday. Note that the JPY and the GBP were the lead underperformers on Friday, demonstrating the market’s readiness to revert to being bearish on relative structural laggards on any signs of a dollar bottoming.
- Going ahead, the greenback may attempt to find its footing at the onset of the week, especially post-NFP and with supportive Fed-speak (Kaplan, Lacker) over the weekend sounding generally more hawkish on rate hike prospects relative to market-implied pricing. Fed rhetoric could potentially be headline moving this week, with Rosengren and Lockhart due to make an appearance today and Yellen scheduled for Thursday.
- Risk appetite considerations meanwhile continue to take a backseat to USD headlines, with the **FXSI (FX Sentiment Index)** dipping into Risk-On territory on Friday. At the margins however, still positive risk appetite levels may imply a certain resilience if US-centric USD vulnerability re-emerges. Tactically, we are fairly light in terms of recommendations (see back page) although we retain a structurally bullish view on our medium term trade ideas.
- Latest **CFTC** data show investors started the week loading up on the dollar at the onset of the year. Net large non-commercial/leveraged accounts/asset managers increased their long dollar positioning in aggregate in the latest week. The dollar’s subsequent mid-week detachment lower may have taken out marginal long dollar positioning but the weight of the market we believe may remain in favor of greenback prospects this week, especially post-NFP.

### Asian FX

- Meanwhile, implied net portfolio capital flows (**EPFR**) showed moderating net outflows from the region (Asia ex JP, CN) compared to the previous week on the equity front while implied net bond inflows also improved from the previous week. Overall, as mentioned previously, investor sentiment towards EM/Asia may remain fairly sanguine in the wake of the latest global PMI readings – underscoring somewhat the reflation trade.
- Elsewhere, **China’s** foreign reserves fell in December to USD3.01tn but remained above the “crucial” USD3tn mark. Despite background depreciation concerns surrounding the renminbi, the **ACI (Asian Currency**

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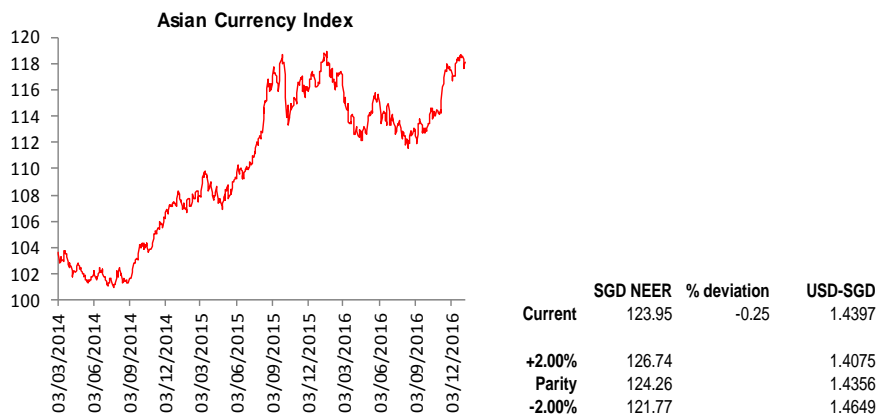
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**Emmanuel Ng**  
+65 6530 4073  
[ngcvemmanuel@ocbc.com](mailto:ngcvemmanuel@ocbc.com)

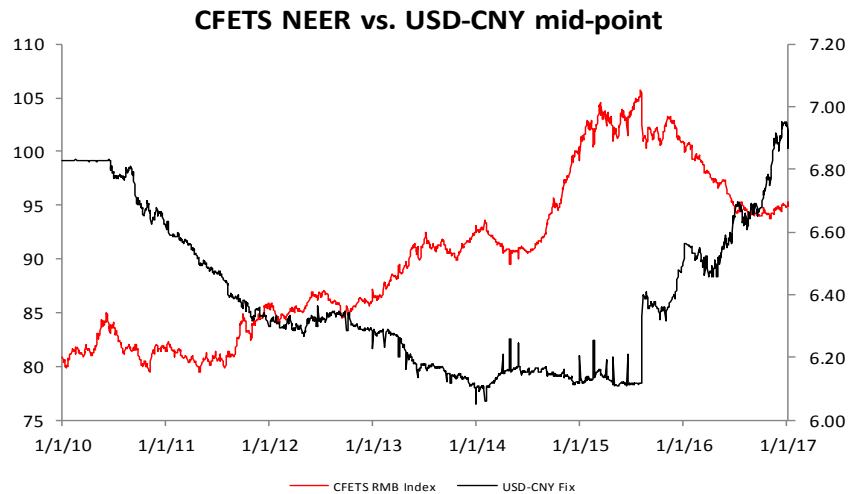
**Index)** may remain in a consolidative mode but still expected to be responsive to further dollar cues.

- **SGD NEER:** With the dollar re-bounding slightly post-NFP, NEER-implied USD-SGD thresholds are firmer on the day with the NEER softer on the day around -0.28% below its perceived parity (1.4356). At current levels, the -0.50% threshold is estimated at around 1.4429.
- We continue to note the inability of the NEER to persist above parity on a sustained basis and expect this behavior to continue to persist. Our volatility indicators for the USD NEER and USD-SGD have eased away from elevated levels and expect range bound behavior for the USD-SGD to ensue in the near term, centered around 1.4400.



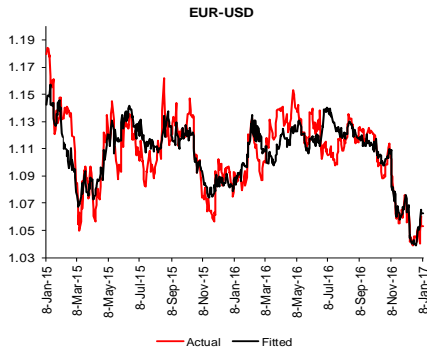
Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY reacted higher to a firmer USD environment by gaining to 6.9262 from 6.8668 last Friday. This saw the **CFETS RMB Index** softening to 94.87 from 95.25. Market wariness towards containment of bilateral renminbi exchange rate depreciation expectations are still expected to be fairly evident at this juncture. As a result, the Index (which has effectively firmed in the first week of the year) may continue to be called upon to shoulder the adjustment.



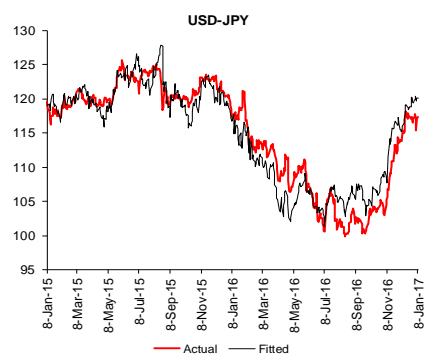
Source: OCBC Bank, Bloomberg

**G7**



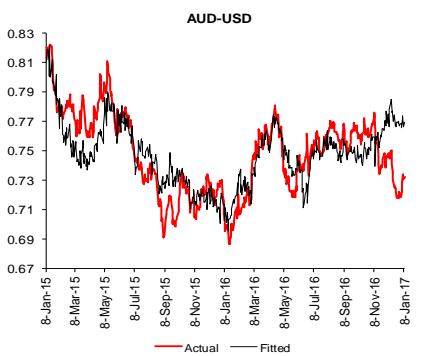
Source: OCBC Bank

- EUR-USD** EUR-USD may remain slightly ambivalent in the near term amidst still firm short term implied valuations and with a more supported USD tone providing a counterbalance. On the CFTC front, net leveraged EUR shorts were increased in the latest week and the pair may be trapped within 1.0400 on the south side and the 55-day MA (1.0669) up top.



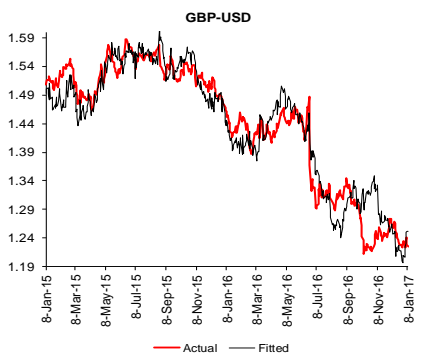
Source: OCBC Bank

- USD-JPY** The key support at 115.00 is still intact at this juncture and as alluded to above, USD-JPY remains relatively sensitive to US-centric dollar directionality. Net leveraged CFTC JPY shorts were increased in the latest week and in the wake of the US NFP, the pair may re-consider playing catch-up with its firmer short-term implied valuations with 118.00 a near term resistance.



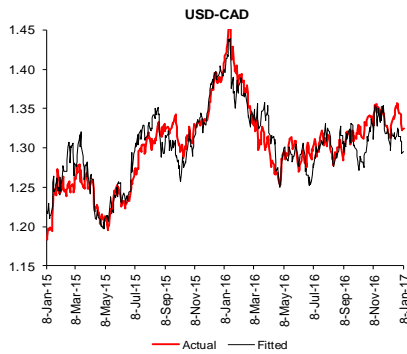
Source: OCBC Bank

- AUD-USD** The disparity between the AUD-USD and its implied short term valuations remains apparent with the reflation trade likely propping up the latter. Net leveraged AUD shorts were increased significantly in the latest week but these positions may have been stymied in the latter half of last week. Overall, investors may attempt to pick a bottom in the pair pending further Fed cues.



Source: OCBC Bank

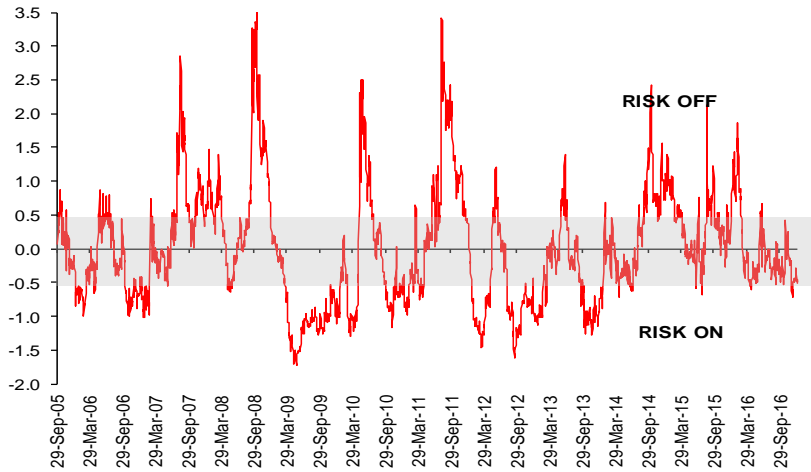
- GBP-USD** Expect potential risks from A50-related news flow in the coming sessions, especially following remarks from PM. Leveraged accounts on the CFTC front also loaded up on net GBP shorts in the latest week and we would expect investors to continue to fade any upticks towards the 55-day MA (1.2417) and angle for 1.2200 instead.



- USD-CAD** The USD-CAD slipped on the back of better than expected Canadian labor market numbers last Friday and despite positive vibes from the US NFP. On the CFTC front, leveraged accounts continued to accumulate further their implied CAD shorts in the latest week but we feel that the pair may attempt to track its softening short term valuations in the coming sessions. Watch the key 1.3200 support.

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	0.610	0.865	0.434	0.319	0.108	0.560	0.124	-0.034	-0.283	0.755	-0.982
SGD	0.939	0.694	0.801	0.456	0.415	0.243	0.671	0.236	-0.109	-0.332	0.701	-0.906
CHF	0.920	0.775	0.825	0.626	0.574	0.409	0.795	0.399	-0.169	-0.511	0.672	-0.871
CNY	0.865	0.530	1.000	0.539	0.403	0.203	0.559	0.160	-0.256	-0.310	0.836	-0.816
CNH	0.755	0.294	0.836	0.477	0.372	-0.007	0.323	-0.056	-0.337	-0.164	1.000	-0.761
PHP	0.640	0.545	0.726	0.496	0.498	0.440	0.569	0.361	-0.394	-0.243	0.626	-0.573
USGG10	0.610	1.000	0.530	0.769	0.646	0.728	0.939	0.763	-0.144	-0.816	0.294	-0.554
THB	0.567	0.621	0.605	0.432	0.615	0.468	0.747	0.414	-0.101	-0.363	0.348	-0.454
JPY	0.560	0.939	0.559	0.806	0.768	0.796	1.000	0.788	-0.222	-0.818	0.323	-0.468
CCN12M	0.512	0.846	0.581	0.934	0.615	0.627	0.851	0.656	-0.306	-0.936	0.419	-0.476
MYR	0.494	0.548	0.604	0.338	0.629	0.538	0.672	0.425	-0.120	-0.208	0.391	-0.375
KRW	0.236	-0.162	0.202	-0.406	-0.634	-0.394	-0.283	-0.414	-0.098	0.452	0.147	-0.257
IDR	0.140	-0.261	0.229	-0.557	-0.084	-0.219	-0.148	-0.301	0.337	0.640	0.123	-0.069
CAD	0.112	-0.594	0.014	-0.766	-0.667	-0.858	-0.624	-0.887	0.254	0.820	0.158	-0.157
INR	0.092	-0.381	0.267	-0.603	-0.207	-0.317	-0.282	-0.433	0.192	0.706	0.205	-0.035
TWD	-0.094	-0.125	-0.101	-0.385	-0.502	-0.087	-0.184	-0.111	-0.233	0.367	-0.232	0.120
GBP	-0.409	0.358	-0.255	0.382	0.473	0.803	0.455	0.794	-0.136	-0.509	-0.416	0.478
NZD	-0.410	0.278	-0.273	0.569	0.539	0.667	0.368	0.678	-0.141	-0.626	-0.333	0.441
AUD	-0.614	-0.288	-0.364	0.099	0.099	0.104	-0.151	0.104	0.021	-0.168	-0.349	0.628
EUR	-0.982	-0.554	-0.816	-0.398	-0.242	-0.009	-0.468	-0.049	0.004	0.249	-0.761	1.000

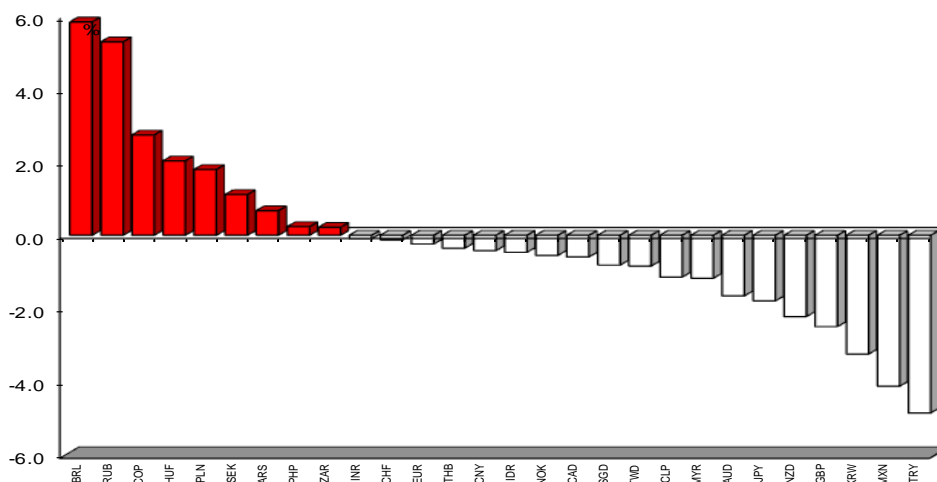
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0341	1.0500	1.0532	1.0550	1.0600
GBP-USD	1.2170	1.2200	1.2249	1.2300	1.2429
AUD-USD	0.7160	0.7300	0.7321	0.7400	0.7408
NZD-USD	0.6862	0.6900	0.6967	0.7000	0.7066
USD-CAD	1.3145	1.3200	1.3248	1.3300	1.3383
USD-JPY	115.65	117.00	117.31	118.00	118.57
USD-SGD	1.4284	1.4400	1.4403	1.4500	1.4547
EUR-SGD	1.5100	1.5158	1.5168	1.5192	1.5200
JPY-SGD	1.2200	1.2203	1.2277	1.2300	1.2426
GBP-SGD	1.7590	1.7600	1.7642	1.7700	1.7718
AUD-SGD	1.0356	1.0500	1.0545	1.0555	1.0600
Gold	1119.02	1125.40	1176.00	1184.16	1197.61
Silver	15.75	16.50	16.51	16.60	16.95
Crude	53.50	53.80	53.80	54.58	55.58

Source: OCBC Bank

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



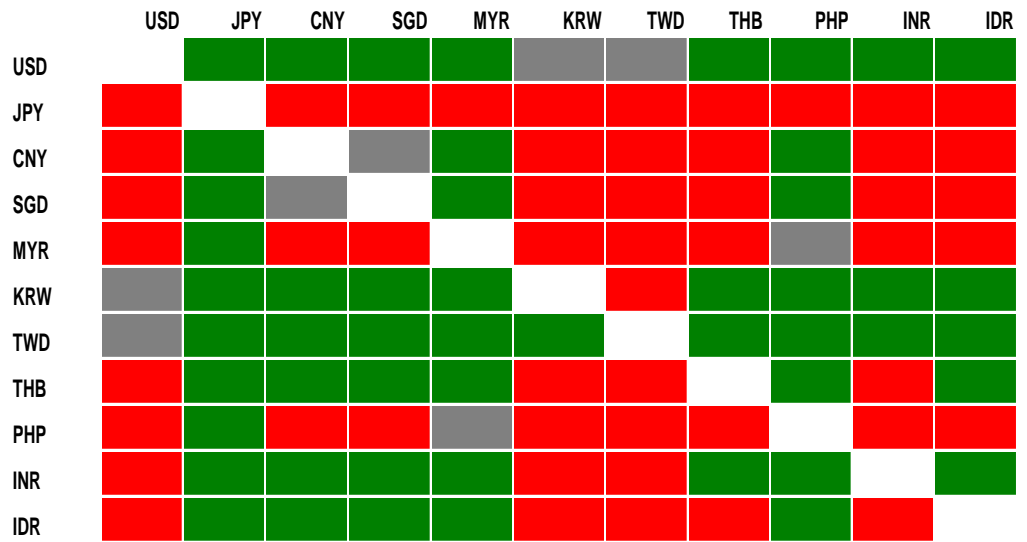
Source: Bloomberg

**G10 FX Heat Map**

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD	Grey	Green	Red	Red	Green	Green	Grey	Green	Green
NZD	Grey	White	Green	Red	Green	Green	Green	Green	Green
EUR	Red	Red	White	Red	Green	Red	Red	Red	Green
GBP	Green	Green	Green	White	Green	Green	Green	Green	Green
JPY	Red	Red	Red	Red	White	Red	Red	Red	Red
CAD	Red	Red	Green	Red	Green	White	Green	Green	Green
USD	Grey	Red	Green	Red	Green	Green	White	Green	Green
SGD	Red	Red	Green	Red	Green	Red	Red	White	Green
MYR	Red	Red	Red	Red	Green	Red	Red	Red	White

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	27-Dec-16	S	GBP-USD	1.2276	1.1805	1.2515	A50 risks, UK current account deficits, broad USD strength	
<b>STRUCTURAL</b>								
3	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER	
4	22-Nov-16	B	USD-JPY	110.81	123.40	104.50	Potential for a more activist Fed, static BOJ	
5	28-Nov-16	S	EUR-USD	1.0641	0.9855	1.1035	USD in ascendance, political risk premium in EZ	
6	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	14-Nov-16	13-Dec-16	B	USD-SGD	1.4172	1.4236	USD strength and EM jitters post-US elections	+0.45
2	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
3	19-Dec-16	30-Dec-16	S	EUR-USD	1.0464	1.0620	Ensuing hawkish Fed rhetoric post-FOMC	-1.41
4	27-Dec-16	02-Jan-17	B	USD-CAD	1.3530	1.3390	Policy dichotomy, Trump Trade, slight de-linking with crude	-1.09
5	20-Dec-16	05-Jan-17	B	USD-SGD	1.4481	1.4399	Hostile USD/risk appetite environment for Asian FX, SGD	-0.57
<b>2016 Return</b>								<b>+6.91</b>

Source: OCBC Bank

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