

Tuesday, January 10, 2017

FX Themes/Strategy/Trading Ideas

- Except against the GBP, the dollar edged lower across G10 space on Monday as the UST curve flattened from the back-end. This was despite slightly hawkish remarks from the Fed's Rosengren (unemployment is at long-run sustainable level), while Lockhart's comments were slightly more balanced. Meanwhile, the GBP underperformed across the board as Brexit headlines re-surfaced.
- With global equities hesitating on Monday, the **FXSI (FX Sentiment Index)** consolidated higher within Risk-Neutral territory. Despite this, note that G10 carry meanwhile has continued to perform and remain in positive territory since the onset of this year. **With investors still finding their feet at the onset of the year, we continue to refrain from loading up on tactical dollar bullishness in the interim.**
- Despite relative structural underpinnings pointing otherwise, we think that tactically, there may be some space for the **USD-CAD** to test lower for the short term in the wake of the latest Canadian labor market numbers and if the crude complex remains supported. With a spot ref at 1.3264 on Monday, we target 1.3000 and place a stop at 1.3400.
- With the big dollar wobbly in the near term, we decided to exit our 19 Dec 16 idea to be tactically short **AUD-USD** (spot ref: 0.7294) at 0.7359 this morning for an implied -0.93% loss.

Asian FX

- Unlike their G10 counterparts, EM FX were mixed on Monday and the **ACI (Asian Currency Index)** may continue to be somewhat reluctant to test the downside excessively despite the current dollar consolidation. To this end, we note the IDR's relative outperformance within the region on relatively more sheltered and stable domestic growth dynamics as well as still largely sanguine investor sentiment.
- **SGD NEER:** With the majors clawing higher against the USD, NEER-implied USD-SGD thresholds are softer on the day. With the USD-SGD slipping slightly more than proportionately, the NEER is also firmer on the day at around -0.12%. We however reiterate that the Index is not expected to persist above its perceived parity (1.4338) beyond temporary spikes. At current levels, the -0.50% threshold is estimated at 1.4410, demarking the upper bound intra-day for USD-SGD pending further DXY moves. Technically, markets may also look to fade upticks towards 1.4450.

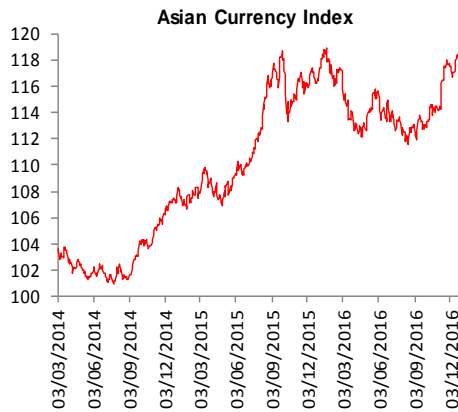
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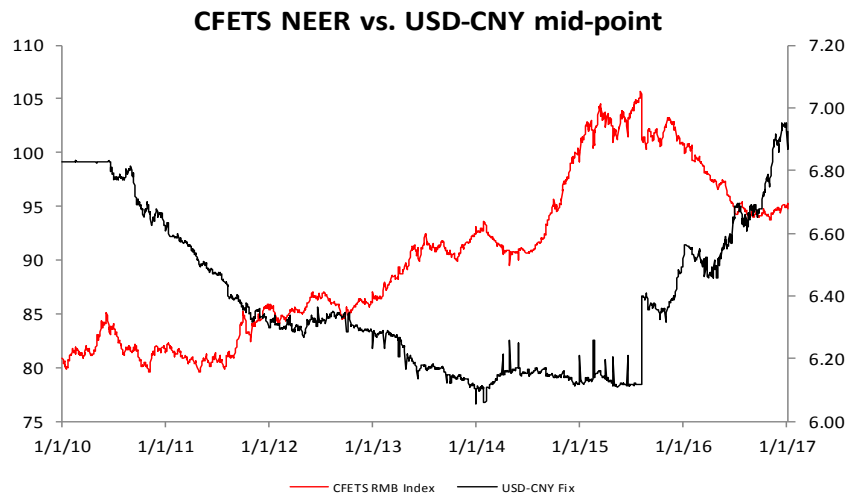
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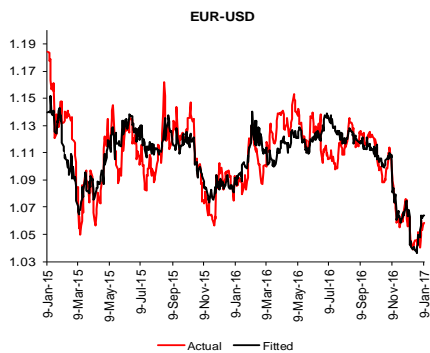
Source: OCBC Bank

- CFETS RMB Index:** Today, the USD-CNY mid-point fell slightly (as largely expected) to 6.9234 from 6.9262 yesterday. Some semblance of normality may be returning after the previous two mid-points, while the **CFETS RMB Index** ticked lower to 94.79 from 94.87 yesterday.



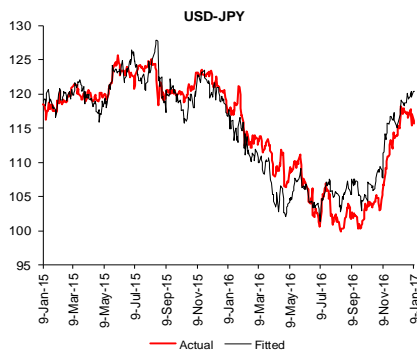
Source: OCBC Bank, Bloomberg

G7



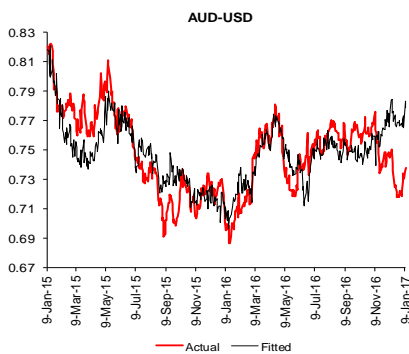
Source: OCBC Bank

- EUR-USD** Short-term implied valuations continue to remain elevated and the EUR-USD may continue to recoil from significant downside probes towards 1.0500 in the near term. Market participants are also looking towards an ECB QE reduction after April, according to a Reuters poll. Topside resistance meanwhile may be expected to emerge towards the 55-day MA (1.0665) if 1.0650 is taken out.



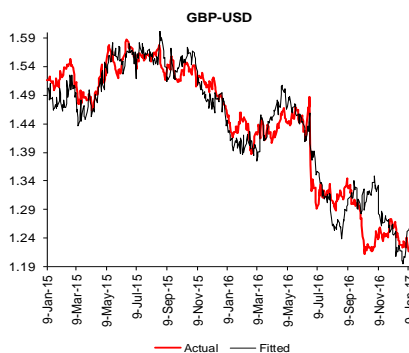
Source: OCBC Bank

- USD-JPY** TKY returns from a long weekend today and look potentially towards President-elect Trump's first press conference on Wednesday for further US-centric FX cues. With risk appetite slightly shaky, the USD-JPY may be slightly top heavy (with added weight from the JPY-crosses) despite firming short-term implied valuations for the pair. The psychological support at 115.00 remains pivotal.



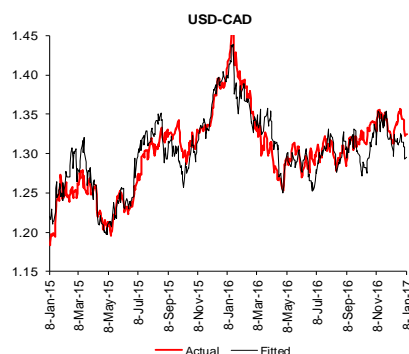
Source: OCBC Bank

- AUD-USD** November retail sales were softer than expected this morning but the AUD-USD may remain constructive towards near term upside attempts if the DXY continues slip. A caveat may be forthcoming from the commodity complex however, with iron ore forecasts from large miners softening for 2017. Elsewhere, note that our short-term model continues to look north with respect to the pair and a stab at the 55-day MA (0.7428) cannot be discounted.



Source: OCBC Bank

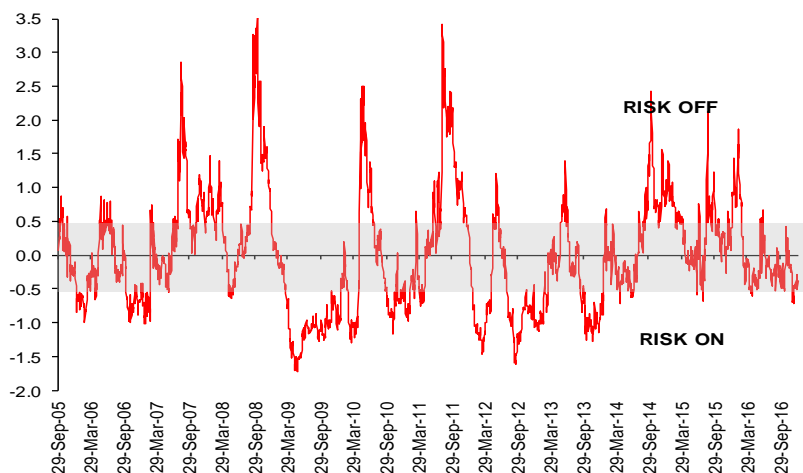
- GBP-USD** With PM May getting increasingly explicit with regards to A50 and the upcoming negotiations with the EU, expect the pound to remain subject to inherent vulnerability if the headlines veer towards a "hard" Brexit (note Merkel warned that there would be no 'cherry picking'). Prepare for potential volatility with the BOE's Carney scheduled to appear before Parliament's Treasury Select Committee. Our preference remains to fade upticks with 1.2100 in sight and despite the pair stretching the downside relative to its short term valuations.



Source: OCBC Bank

- USD-CAD** Despite the tumble in crude, USD-CAD managed to pick lower on Monday on the back of the softening greenback. The pair is at the cusp of a 1.3200 break towards 1.3150, especially if the 100-day MA (1.3269) is not threatened. On a valuation basis, the USD-CAD is also perceived to have sufficient downside space to soften within its implied confidence intervals.

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

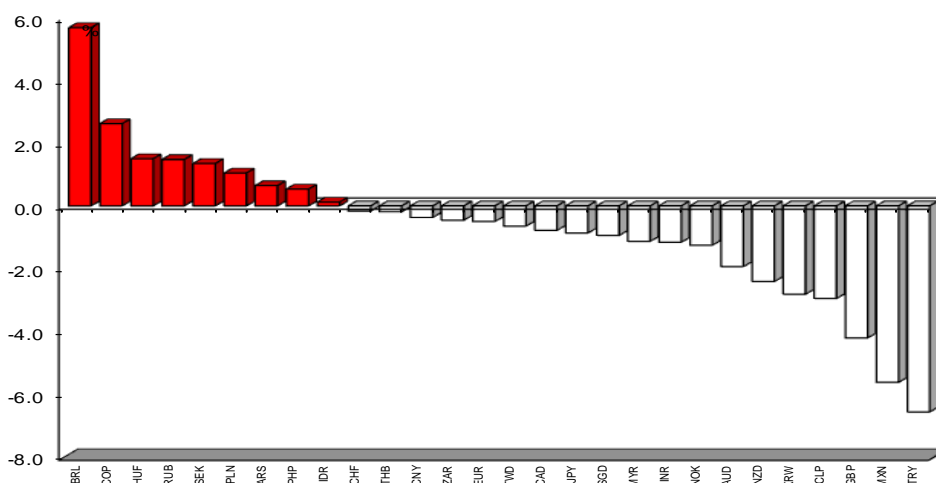
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0345	1.0500	1.0583	1.0596	1.0600
GBP-USD	1.2108	1.2125	1.2143	1.2200	1.2426
AUD-USD	0.7160	0.7300	0.7350	0.7398	0.7400
NZD-USD	0.6862	0.7000	0.7015	0.7063	0.7072
USD-CAD	1.3162	1.3200	1.3232	1.3300	1.3380
USD-JPY	115.72	116.00	116.03	117.00	118.45
USD-SGD	1.4300	1.4311	1.4366	1.4400	1.4547
EUR-SGD	1.5191	1.5200	1.5203	1.5224	1.5300
JPY-SGD	1.2206	1.2300	1.2382	1.2400	1.2435
GBP-SGD	1.7400	1.7430	1.7443	1.7484	1.7500
AUD-SGD	1.0500	1.0554	1.0558	1.0600	1.0614
Gold	1116.73	1125.40	1182.00	1189.45	1196.01
Silver	15.75	16.60	16.62	16.70	16.93
Crude	51.66	52.00	52.02	52.10	54.62

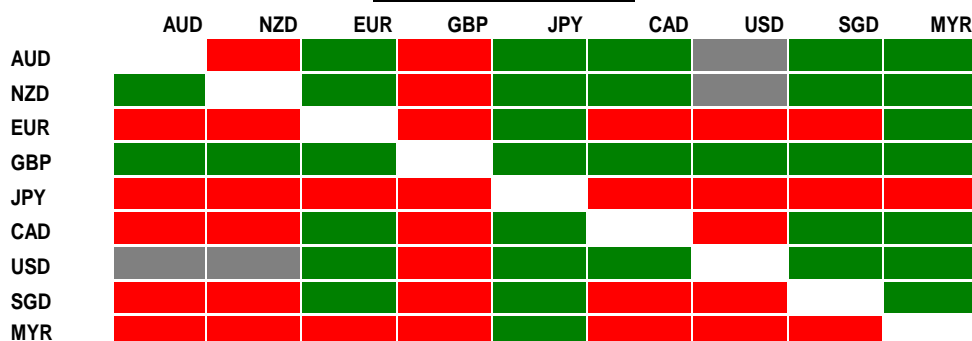
Source: OCBC Bank

FX performance: 1-month change agst USD



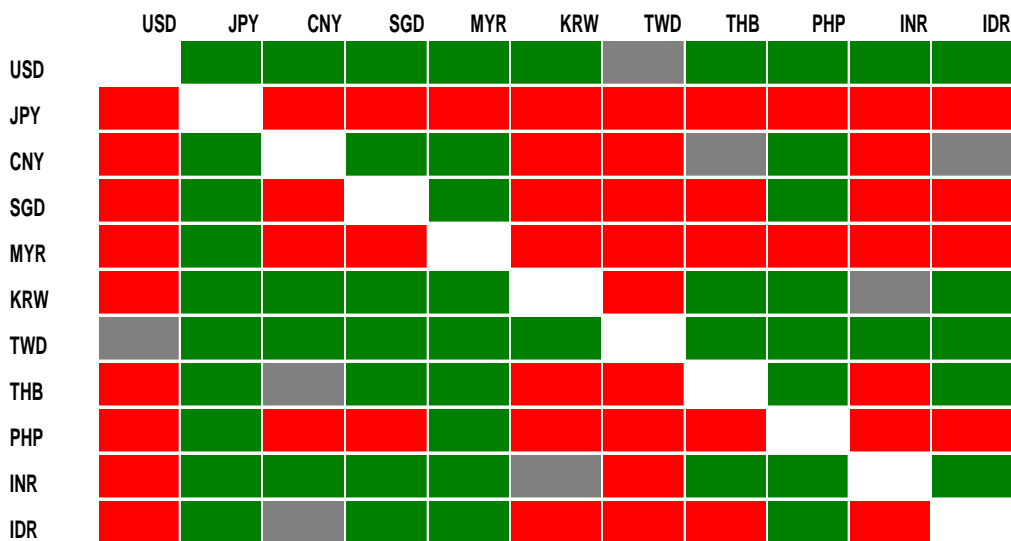
Source: Bloomberg

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	27-Dec-16	S	GBP-USD	1.2276	1.1805 1.2515	A50 risks, UK current account deficits, broad USD strength		
2	09-Jan-17	S	USD-CAD	1.3264	1.3000 1.3400	Supportive crude and labor market numbers		
STRUCTURAL								
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		
RECENTLY CLOSED								
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
6	19-Dec-16	10-Jan-17	S	AUD-USD	0.7294	0.7359	FOMC outcome forcing a near term reassessment of carry	-0.93
2016 Return							+6.91	

Source: OCBC Bank

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