DAILY FX OUTLOOK

Wednesday, February 15, 2017

FX Themes/Strategy/Trading Ideas

- After softening earlier in the global day on the back of the resignation of Trump's national security advisor, the dollar regained its composure in the wake of Yellen's appearance. In her testimony and Q&A session, Yellen stuck to the script (every meeting is "live", "waiting too long to remove accommodation would be unwise") and was perceived to be sufficiently hawkish to drive the USD higher. Comments from the Fed's Kaplan and Lacker also on Tuesday were sufficiently hawkish. Meanwhile, Lockhart was slightly more "agnostic" but nevertheless positive. Implied rate hike odds (markets coalescing towards a June hike with the implied probability of 3 hikes now not trivial) and the UST curve (middle sector underperforming) shifted higher slightly post-Yellen.

- Structurally, we think a firmer USD narrative over the medium term remains intact despite the Fed governor not mentioning the required number of rate hikes this year, nor implying any urgency towards a March move. Overall, the Fed's current posture continues to be one where the economy is at/near full employment with the committee poised to pull the trigger. Additionally, this policy normalization narrative does not as yet explicitly take into account any potential fiscal impacts from the Trump administration.

- In the near term expect USD resilience against the weakest links (JPY and EUR). The cyclicals (AUD) and EM meanwhile proved slightly more resistant to the USD overnight. As such, AUD may continue to hold its own, including in the crosses. On other fronts, China data flow (CPI, monetary aggregates) meanwhile remains supportive, and coupled with speculation surrounding a tightening of monetary conditions, should continue to temper CNY depreciation expectations.

- Positive US/EZ equities meanwhile continued to weigh the **FXSI (FX Sentiment Index**) yet deeper into Risk-On territory on Tuesday for the fifth consecutive session. Notably, the Index has not demonstrated such an extended foray into Risk-On territory since late 2013.

- With the dollar potentially still waffling along in the coming months, we think the other alternative theme of global recovery may continue to hum quietly alongside the Trump/FOMC dynamic. To this end, we initiate a bearish 2M **USD-CAD** put spread (spot ref: 1.3055; strikes: 1.3049, 1.2500) for an implied cost of 1.19%.

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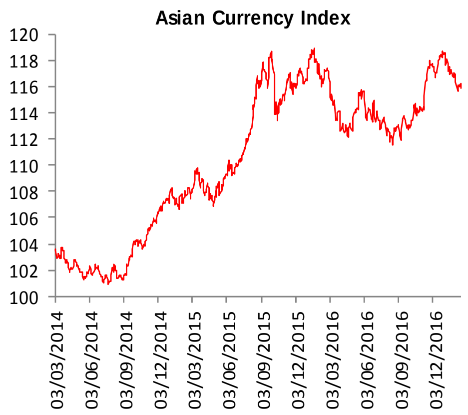
Asian FX

- Positive Asian equities and generalized investor optimism may continue to restrain the **ACI (Asian Currency Index)** on the upside despite the impact on the dollar from Yellen. Elsewhere, given the somewhat supportive backdrop of net portfolio inflows, our model for the ACI suggests potential (and ample) room for Asian currency strength if the USD wavers once again.

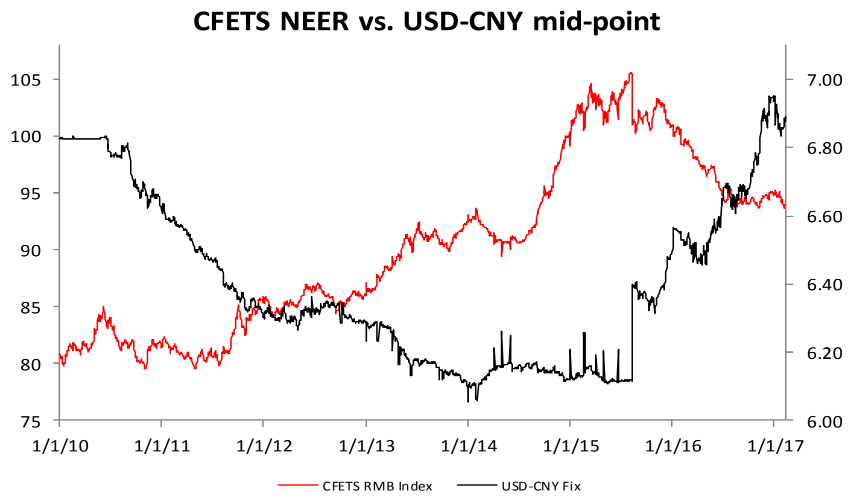
- **SGD NEER:** After a see-saw session, the SGD NEER is pretty much static on the day at around -0.40% (high of around -0.17% in the last 24 hours) below its perceived parity (1.4161). Post-Yellen, NEER-implied USD-SGD thresholds are only marginally higher on the day, with -0.50% estimated at 1.4232 although if USD resilience gains further traction, NEER-implieds may creep higher and expect the NEER to potentially drift towards -0.60%. As has been the case of late, volatility considerations are expected to put a drag on spot moves. Technically, players may be expected to collect into dips within 1.4185-1.4270.



	SGD NEER	% deviation	USD-SGD
Current	123.74	-0.42	1.4223
+2.00%	126.74		1.3883
Parity	124.26		1.4161
-2.00%	121.77		1.4450

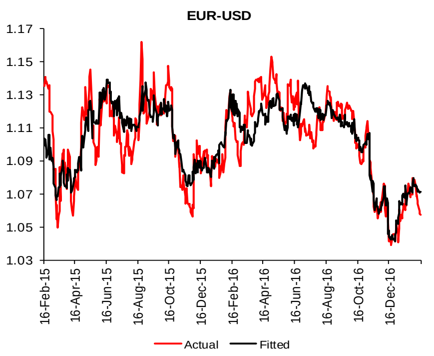
Source: OCBC Bank

- **CFETS RMB Index**: This morning, the USD-CNY mid-point softened to 6.8632 from 6.8806 on Tuesday. As such, the **CFETS RMB Index** gained for the second consecutive session to 94.25 from 94.06 yesterday.



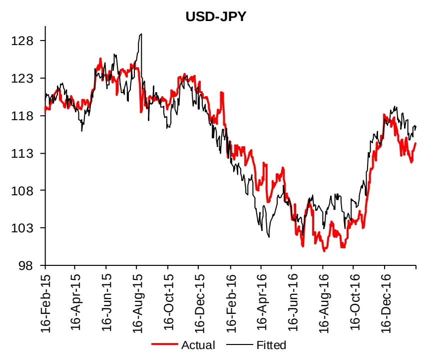
Source: OCBC Bank, Bloomberg

G7



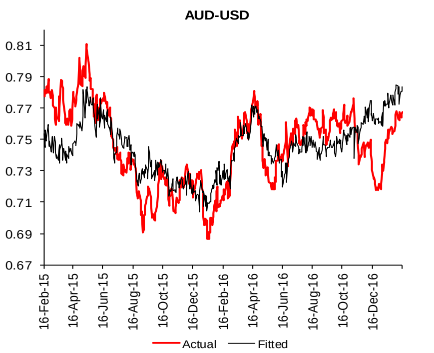
Source: OCBC Bank

- **EUR-USD** The EUR-USD was already weighed by disappointing 4Q GDP numbers on Tuesday pre-Yellen. Implied short term valuations continue to point south despite the pair already at the lower boundary of its confidence intervals. Expect markets to stay inherently top heavy in the near term and with the break below the 55-day MA (1.0604), immediate supports are seen into 1.0550 ahead of 1.0520.



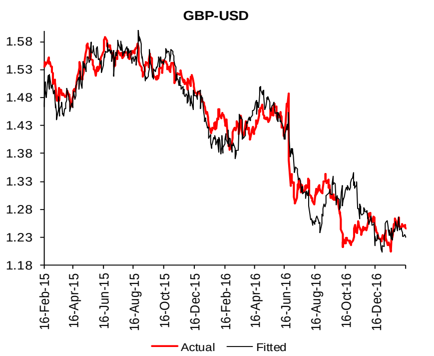
Source: OCBC Bank

- **USD-JPY** Some further base building and bottoming out for the pair may dominate in the near term in the current environment. If US CPI/retail sales numbers tonight run hotter than expected, the 55-day MA (115.03) may be challenged, especially if investors remain primed to jump on positive economic releases post-Yellen.



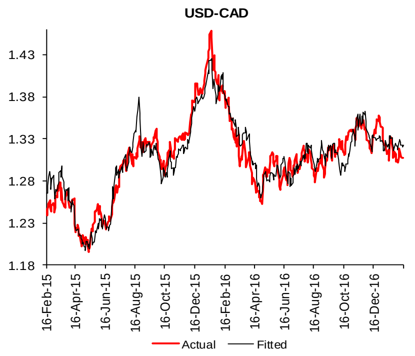
Source: OCBC Bank

- **AUD-USD** The AUD continues to be bolstered by supportive domestic data flow (Jan NAB business conditions, Feb Westpac consumer sentiment) despite the DXY. We continue to expect the aussie to be relatively more unperturbed by broad USD gyrations in the near term, with short term implied valuations still looking buoyant with the 0.7700 resistance still being eyed and likely to be tested again.



Source: OCBC Bank

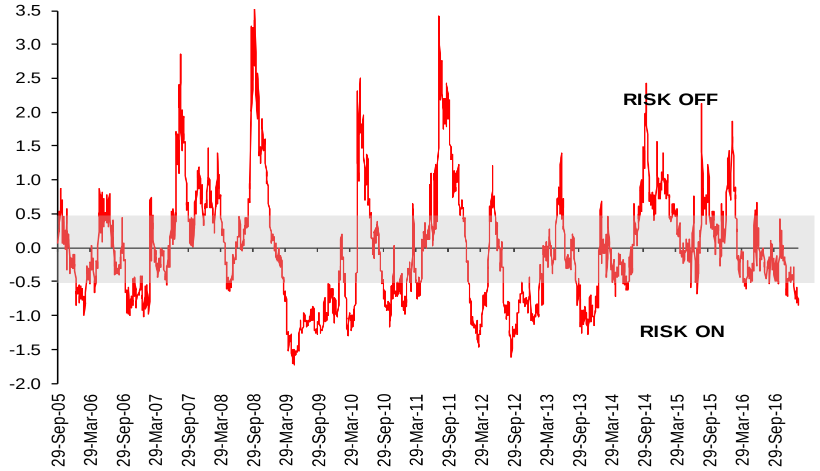
- **GBP-USD** Apart from the greenback, the GBP was also pressured lower on the back of softer than expected CPI readings (despite firmer than expected PPI numbers) and note that labor market numbers are also on tap today. In the interim, the weight of the broad dollar may continue to keep the GBP-USD and its implied short term valuations top heavy. As noted previously, the 100-day MA (1.2425) and 55-day MA (1.2433) may continue to attract.



Source: OCBC Bank

- **USD-CAD** Yellen-inspired USD resilience hardly dented the loonie on Tuesday while short term implied valuations continue to remain relatively static. The pair is however already hugging its lower confidence interval and may require a further exogenous push lower in the near term. Preference to fade rallies in the pair remains in the vicinity of 1.3100.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	**1.000**	-0.079	0.259	0.328	0.114	-0.091	**0.648**	-0.402	-0.051	-0.367	**0.675**	**-0.925**
CHF	**0.923**	-0.078	0.291	0.245	-0.056	0.165	**0.670**	-0.377	-0.045	**-0.505**	**0.565**	**-0.863**
SGD	**0.810**	0.114	0.304	0.037	-0.083	0.079	**0.831**	-0.361	-0.057	-0.456	**0.692**	**-0.665**
MYR	**0.724**	-0.427	0.104	0.003	-0.225	0.236	0.298	-0.449	0.227	-0.316	0.342	**-0.646**
CNH	**0.675**	0.158	**0.556**	**0.522**	**0.513**	-0.358	**0.612**	-0.045	-0.284	0.097	**1.000**	**-0.753**
PHP	**0.655**	0.196	0.144	0.024	-0.077	0.173	**0.666**	-0.166	0.111	-0.441	0.465	-0.479
JPY	**0.648**	**0.547**	0.252	-0.006	-0.122	0.178	**1.000**	-0.188	-0.004	**-0.616**	**0.612**	**-0.534**
CAD	**0.531**	-0.055	-0.035	-0.440	-0.473	0.041	0.440	**-0.704**	0.387	-0.443	0.183	-0.221
THB	0.320	0.167	0.115	**-0.716**	**-0.789**	0.408	**0.523**	-0.446	0.412	**-0.708**	0.068	0.025
TWD	0.275	-0.024	-0.065	**-0.808**	**-0.846**	**0.645**	**0.509**	**-0.572**	**0.617**	**-0.720**	-0.077	-0.012
CNY	0.259	0.336	**1.000**	0.478	0.211	-0.356	0.252	0.301	**-0.508**	-0.002	**0.556**	-0.346
KRW	0.225	0.034	0.047	**-0.708**	**-0.770**	**0.624**	0.496	-0.429	**0.516**	**-0.656**	-0.019	-0.001
INR	-0.011	0.235	-0.126	**-0.791**	**-0.842**	0.401	0.413	-0.475	0.461	**-0.683**	-0.217	0.265
IDR	-0.024	0.343	0.123	**-0.609**	**-0.685**	0.318	0.398	-0.217	0.432	**-0.538**	-0.136	0.252
USGG10	-0.079	**1.000**	0.336	0.061	0.050	0.032	**0.547**	0.256	-0.149	-0.382	0.158	0.147
CCN12M	-0.238	**0.509**	0.244	-0.494	-0.497	0.371	0.396	0.190	0.180	-0.373	-0.007	0.370
AUD	-0.267	-0.155	-0.132	**0.598**	**0.628**	-0.312	**-0.521**	0.470	-0.356	**0.561**	-0.139	0.029
GBP	**-0.633**	0.293	-0.152	0.275	0.457	0.059	-0.328	**0.680**	**-0.506**	0.384	-0.149	0.489
NZD	**-0.868**	0.205	-0.103	-0.134	0.114	-0.199	**-0.611**	0.360	-0.122	0.383	**-0.536**	**0.803**
EUR	**-0.925**	0.147	-0.346	**-0.561**	-0.364	0.258	**-0.534**	0.236	0.175	0.103	**-0.753**	**1.000**

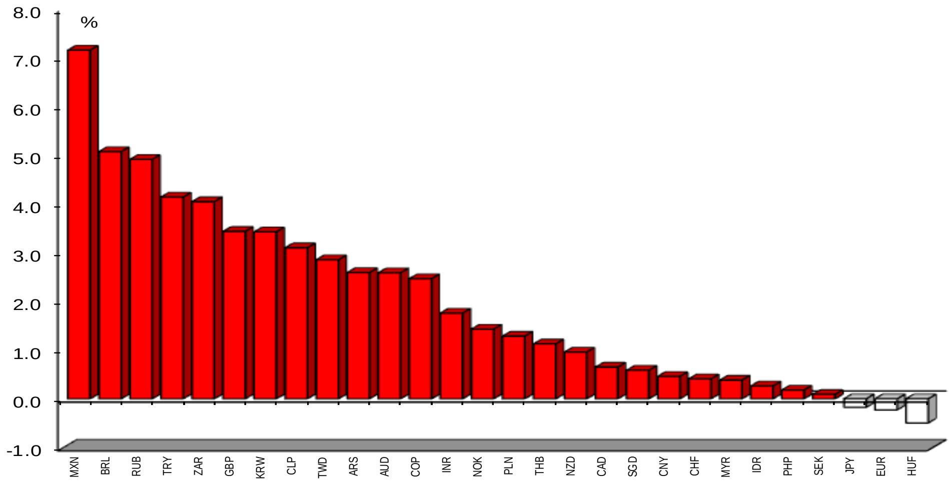
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0500	1.0568	1.0572	1.0590	1.0600
GBP-USD	1.2385	1.2400	1.2454	1.2500	1.2654
AUD-USD	0.7511	0.7600	0.7667	0.7696	0.7699
NZD-USD	0.7118	0.7128	0.7166	0.7200	0.7347
USD-CAD	1.2969	1.3000	1.3085	1.3100	1.3141
USD-JPY	111.60	114.00	114.36	115.00	115.10
USD-SGD	1.4054	1.4200	1.4215	1.4293	1.4300
EUR-SGD	1.5010	1.5017	1.5028	1.5100	1.5135
JPY-SGD	1.2400	1.2417	1.2430	1.2500	1.2632
GBP-SGD	1.7514	1.7700	1.7703	1.7731	1.7800
AUD-SGD	1.0850	1.0865	1.0900	1.0909	1.0933
Gold	1183.80	1200.00	1223.90	1243.90	1244.51
Silver	16.92	17.90	17.93	18.00	18.02
Crude	52.03	52.90	52.99	53.00	53.36

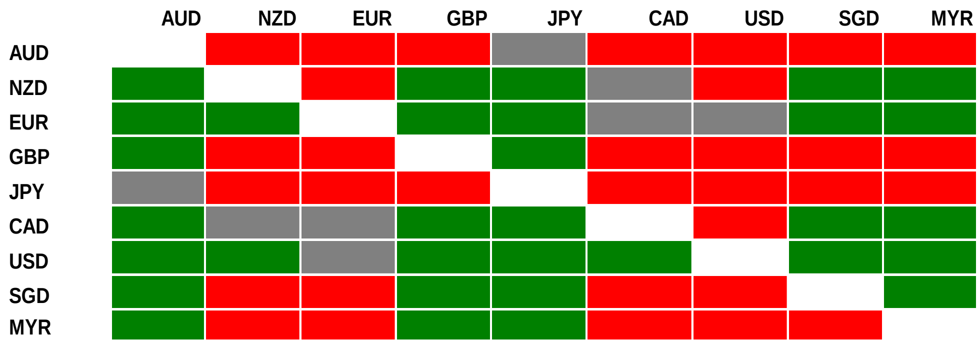
Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

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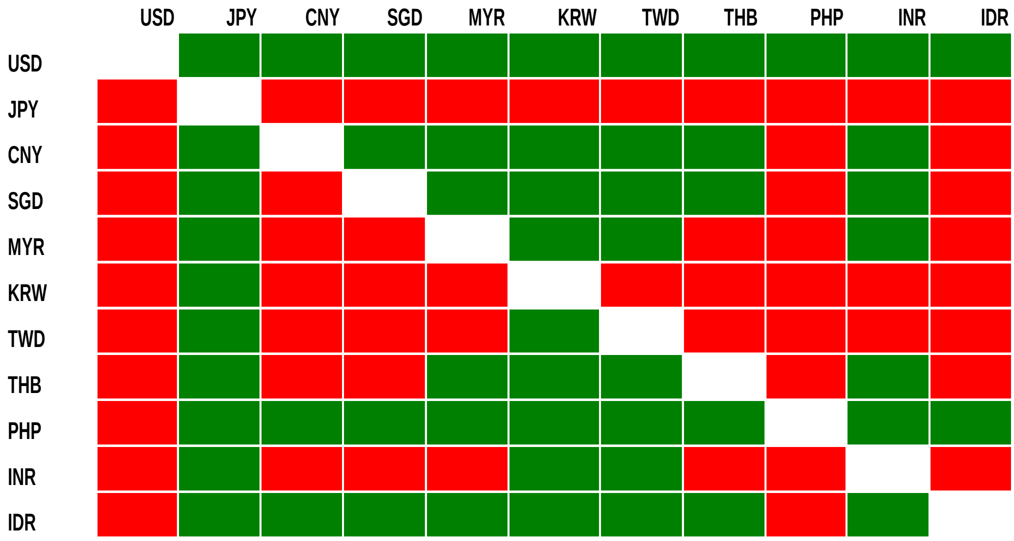
Asia FX Heat Map



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, poiltical risk premium in EZ	
9	14-Feb-17			Bearish 2M USD-CAD Put Spread Spot ref: 1.3055; Strikes: 1.3049, 1.2500 Cost: 1.19%				Underlying growth theme in spite of the Trump/FOMC trade	
	RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)*
1	27-Dec-16	23-Jan-17	CLS	GBP-USD	1.2276		1.2386	A50 risks, UK current account deficits, broad USD strength	-0.77
2	09-Jan-17	06-Feb-17	S	USD-CAD	1.3264		1.3135	Supportive crude and labor market numbers	0.92
	* realized							Jan 2017 Return	-6.78
								2016 Return	+6.91

Source: OCBC Bank

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