

Thursday, February 16, 2017

FX Themes/Strategy/Trading Ideas

- Initial date-driven gains (hotter than expected Jan CPI & retail sales) and hawkish comments from the Fed's Harker/Rosengren failed to sustain and the USD subsequently relapsed with the DXY ending lower on the day. This was despite a firmer UST curve (5y sector again underperforming) and implied FOMC odds gaining.
- Notably, the antipodeans lead the way higher against USD (and across G10 space) on the back of positive equities/commodities. Elsewhere, the continued accumulation of positive investor sentiment continues unabated with the **FXSI (FX Sentiment Index)** drilling deeper into Risk-On territory for the 6th consecutive session. No surprise then that EM FX also rode generally higher against USD overnight and this may be expected to carry over into Asia on Thursday.
- The disconnect between the greenback and US yields/Fed speak plus the lack of follow through by market participants (with respect to USD strength) may continue to recur as investors struggle for a consensus on the next Fed hike. In the interim, dollar skepticism may continue to be evident, with Yellen overnight also stating "it's not quite accurate" that the Fed would simply respond to changes in fiscal policy. We continue to stay tactically short the USD.

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

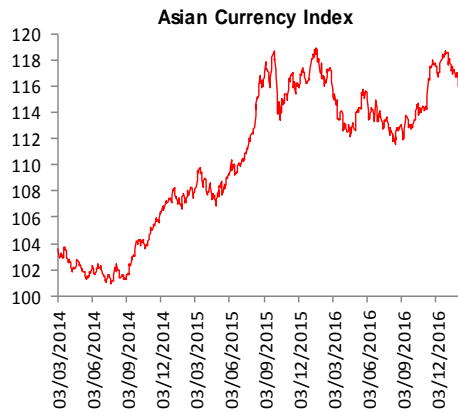
Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

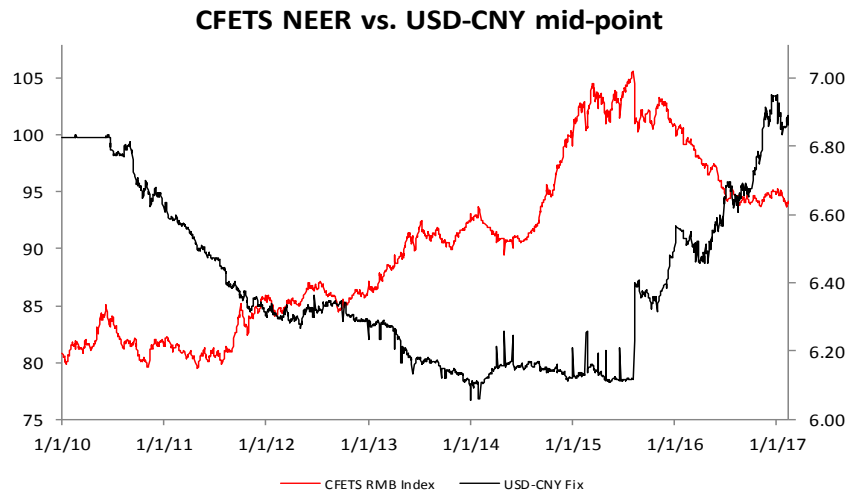
Asian FX

- The **ACI (Asian Currency Index)** may continue to seek out lower territory in the face of positive risk appetite and a vulnerable greenback in the current session. Note also the PBOC stating yesterday that no huge adjustments in the yuan are expected this year. On the central bank front, Bank Indonesia is expected to remain static on its policy parameters at its policy meeting today.
- **SGD NEER:** Following another eventful global session, the SGD NEER this morning is slightly firmer on the day at -0.30% below its perceived parity (1.4138). NEER-implied USD-SGD thresholds are lower on the day amidst a soft USD environment with -0.50% estimated at 1.4209 while the -0.20% threshold (1.4152) may put a near term floor on the USD-SGD intra-day pending further DXY moves and with realized volatility considerations still in play. Technically, note that the 100-day MA (1.4152) also resides in that vicinity while initial resistance is expected into 1.4235.



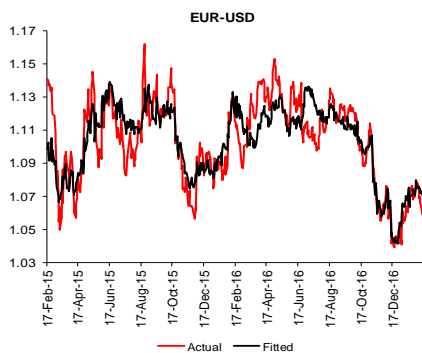
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell less than expected to 6.8629 from 6.8632 yesterday. This saw the **CFETS RMB Index** easing to 94.10 from 94.25 on Wednesday.



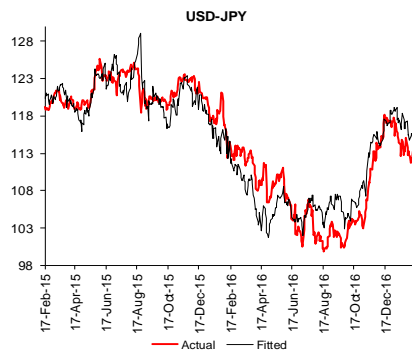
Source: OCBC Bank, Bloomberg

G7



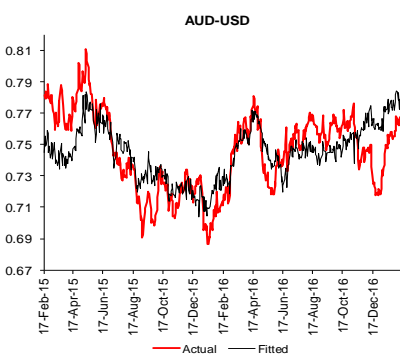
Source: OCBC Bank

- EUR-USD** ECB policy meeting minutes are due today while investors may continue to fade excessive upticks in the pair. Structural support for the common currency meanwhile remains less than significant, with the ECB’s Jazbec describing any QE tapering is still “hypothetical”. In the interim, a top heavy tone may prevail with a near term anchor situated around the 55-day MA (1.0603) with initial support expected into 1.0575.



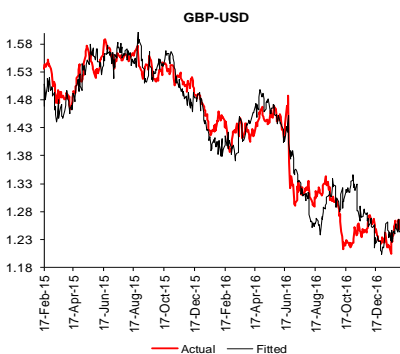
Source: OCBC Bank

- USD-JPY** Despite supported near term implied valuations, we think near term heaviness may continue to be in store for the USD-JPY even as FOMC members close ranks behind Yellen. In the interim, the 55-day MA (115.02) should cap while 1132.25 may lend support on initial dips.



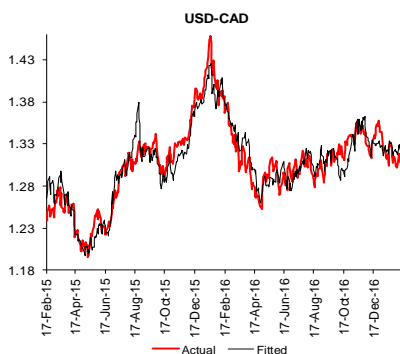
Source: OCBC Bank

- AUD-USD** The better than expected January Aussie labor market number this morning tops off the recent string of positive data surprises for the AUD-USD. AUD-USD may then continue to remain buoyant in tandem with its implied short term valuations. After finally surmounting 0.7700, 0.7750 may be increasingly viable.



Source: OCBC Bank

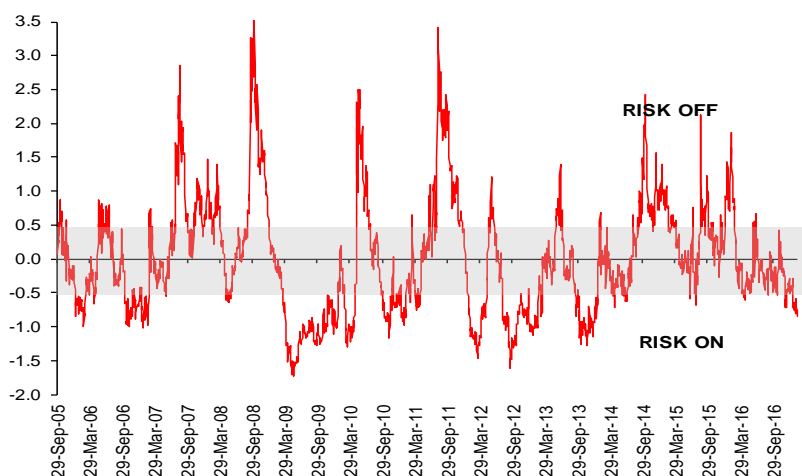
- GBP-USD** Sterling was sabotaged yet again by softer than expected economic data prints (this time by labor market data points). Cable is thus expected to shadow its implied short term valuations lower in the near term. To reiterate, the 100-day MA (1.2420) and 55-day MA (1.2430) may continue to attract.



Source: OCBC Bank

- USD-CAD** Short term implied valuations continue to remain largely static despite the broad dollar attempting to gain traction thus far this week. With the CAD now behaviorally more a cyclical than a Trump-target, the pair may shy away from its 200-day MA (1.3145) and instead eye the downside towards 1.3025 intra-day.

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	-0.004	0.248	0.443	0.238	-0.084	0.656	-0.354	0.019	-0.388	0.660	-0.932
CHF	0.924	-0.026	0.287	0.342	0.050	0.160	0.674	-0.350	0.009	-0.518	0.542	-0.867
SGD	0.762	0.105	0.303	0.024	-0.086	0.079	0.815	-0.362	-0.058	-0.447	0.696	-0.631
MYR	0.729	-0.368	0.105	0.127	-0.116	0.227	0.316	-0.415	0.263	-0.328	0.350	-0.656
PHP	0.683	0.244	0.141	0.167	0.055	0.168	0.675	-0.140	0.157	-0.458	0.464	-0.522
CNH	0.660	0.168	0.555	0.478	0.484	-0.356	0.596	-0.046	-0.263	0.087	1.000	-0.710
JPY	0.656	0.561	0.250	0.084	-0.038	0.177	1.000	-0.175	0.028	-0.624	0.596	-0.541
CAD	0.465	-0.080	-0.036	-0.429	-0.472	0.040	0.420	-0.706	0.355	-0.419	0.196	-0.188
CNY	0.248	0.325	1.000	0.429	0.192	-0.356	0.250	0.304	-0.480	-0.003	0.555	-0.332
THB	0.203	0.096	0.105	-0.717	-0.791	0.394	0.473	-0.450	0.337	-0.639	0.082	0.087
KRW	0.126	-0.034	0.043	-0.717	-0.779	0.606	0.421	-0.431	0.435	-0.591	-0.044	0.080
TWD	0.108	-0.130	-0.063	-0.843	-0.873	0.594	0.384	-0.557	0.452	-0.606	-0.106	0.117
USGG10	-0.004	1.000	0.325	0.170	0.146	0.032	0.561	0.265	-0.100	-0.400	0.168	0.066
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
INR	-0.105	0.141	-0.127	-0.798	-0.853	0.377	0.335	-0.477	0.374	-0.596	-0.227	0.336
AUD	-0.110	-0.049	-0.116	0.685	0.695	-0.280	-0.385	0.442	-0.234	0.453	-0.132	-0.109
CCN12M	-0.297	0.422	0.235	-0.539	-0.544	0.357	0.339	0.165	0.121	-0.322	-0.023	0.420
GBP	-0.611	0.280	-0.151	0.183	0.394	0.059	-0.330	0.669	-0.511	0.384	-0.151	0.488
NZD	-0.837	0.191	-0.103	-0.150	0.083	-0.198	-0.591	0.370	-0.133	0.384	-0.520	0.750
EUR	-0.932	0.066	-0.332	-0.629	-0.451	0.241	-0.541	0.207	0.095	0.140	-0.710	1.000

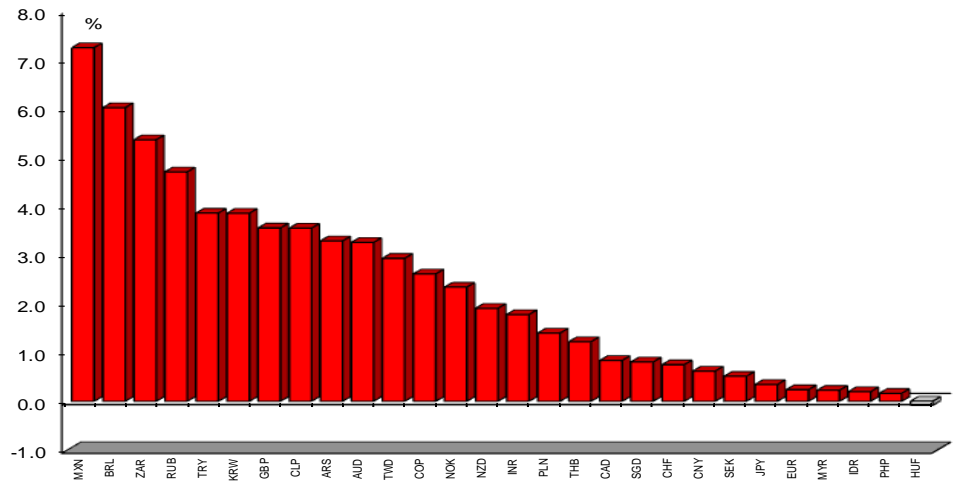
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0591	1.0600	1.0619	1.0700	1.0823
GBP-USD	1.2398	1.2400	1.2466	1.2500	1.2641
AUD-USD	0.7507	0.7700	0.7717	0.7724	0.7732
NZD-USD	0.7140	0.7200	0.7230	0.7300	0.7344
USD-CAD	1.2969	1.3000	1.3065	1.3100	1.3142
USD-JPY	111.62	113.00	113.82	114.00	114.30
USD-SGD	1.4054	1.4100	1.4188	1.4200	1.4292
EUR-SGD	1.5000	1.5007	1.5066	1.5100	1.5135
JPY-SGD	1.2400	1.2416	1.2464	1.2500	1.2630
GBP-SGD	1.7526	1.7600	1.7685	1.7700	1.7726
AUD-SGD	1.0900	1.0945	1.0948	1.0960	1.1000
Gold	1185.96	1200.00	1234.50	1243.90	1248.49
Silver	18.00	18.02	18.03	18.09	18.10
Crude	52.17	53.00	53.07	53.10	53.35

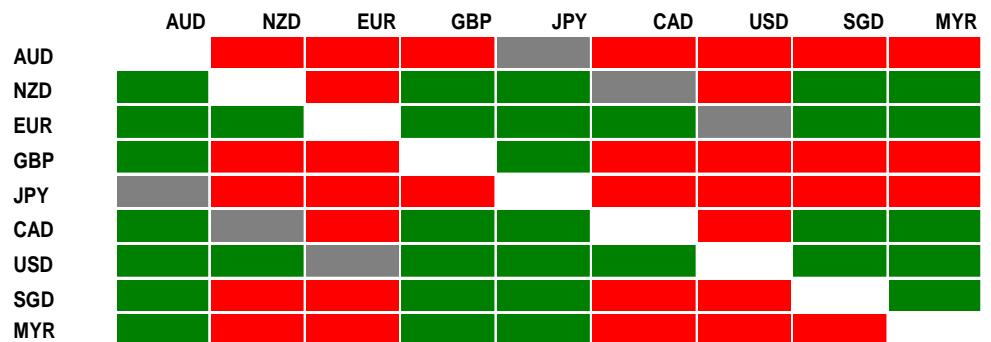
Source: OCBC Bank

FX performance: 1-month change agst USD



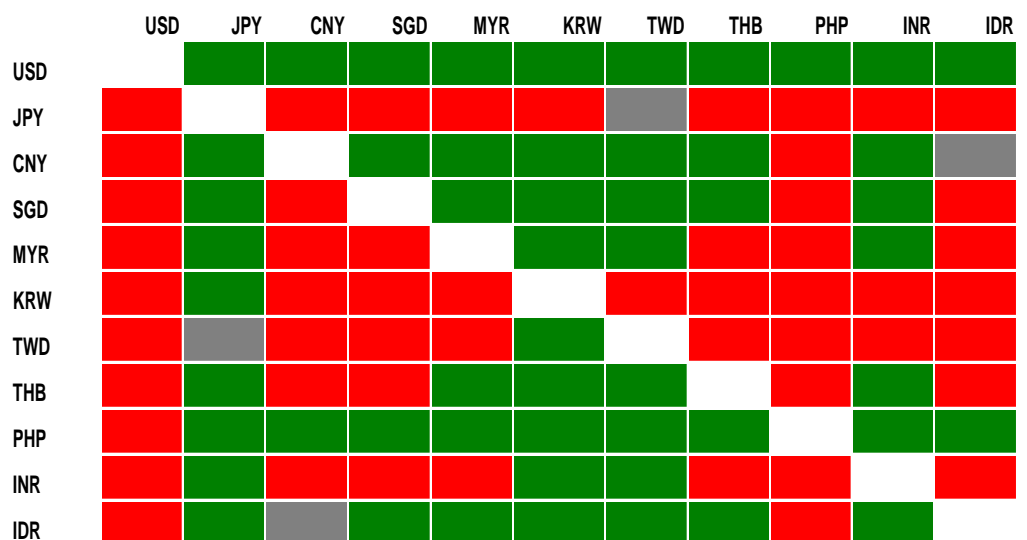
Source: Bloomberg

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		
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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
