

Thursday, January 19, 2017

FX Themes/Strategy/Trading Ideas – A few means more than a couple

- The broad dollar received a respite (UST curve also bear steepened) on the back of hawkish comments from the Fed's Yellen in NY, with the USD-JPY being the most responsive. Elsewhere, US Dec CPI readings came in largely within expectations, with the Beige Book mentioning a tightening labor market.
- Overall, we think markets may not expect significant follow-through for the dollar ahead of Trump's inauguration tomorrow. Thus, our countertrend and tactical dollar shorts may have been crimped after last night but certainly not shut down as yet.
- For today, look towards the ECB meeting (press conference @ 1330 GMT) for EUR-specific cues. Meanwhile, there is no Fed-speak scheduled for today but tomorrow sees Yellen, Harker, and Williams, although Trump's inauguration speech may portend greater scope for volatility.
- To this end, note heightened volatility for the MXN and CAD overnight after Wilbur Ross (Trump's Commerce Secretary nominee) noted that NAFTA would need to be re-negotiated.
- Global risk appetite levels meanwhile remained relatively static as EZ/USD equities clocked minor gains. As a result, the **FXSI (FX Sentiment Index)** inched slightly lower within Risk-Neutral territory.
- With the broad dollar still hesitating and skepticism running fairly high in the near term, we initiate a tactical long **EUR-USD** ahead of the ECB tomorrow and amidst static regarding nascent price pressures in the EZ. From a spot ref of 1.0688 on Wednesday, we target 1.1015 and place a stop at 1.0520.

Asian FX

- Expect the **ACI (Asian Currency Index)** to base out today in line with the stabilizing greenback. The negative overhang from potential Trumponomics (inauguration day tomorrow) may also be expected put a good floor on regional pairings today. On the central bank front, BNM and Bank Indonesia are expected to remain static at 3.00% and 4.75% today. Asian central banks overall remain somewhat cautious, with the BOK's Cho sounding guarded on growth prospects.
- **SGD NEER:** With USD-SGD reacting significantly higher post-Yellen, the SGD NEER this morning is softer on the day at around -0.53% below its

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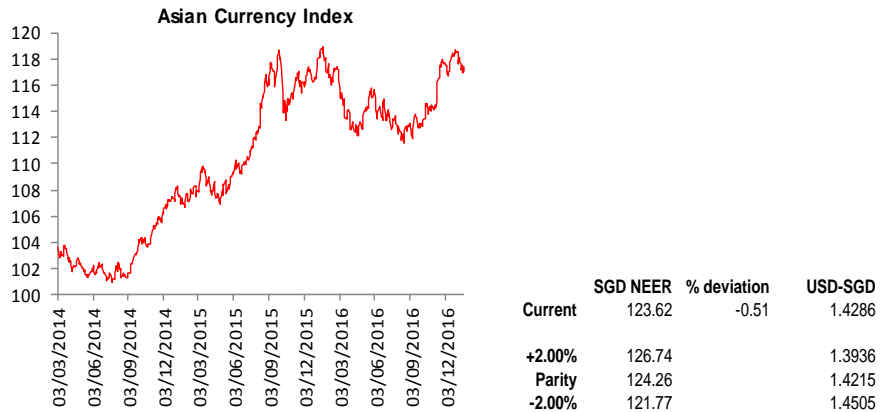
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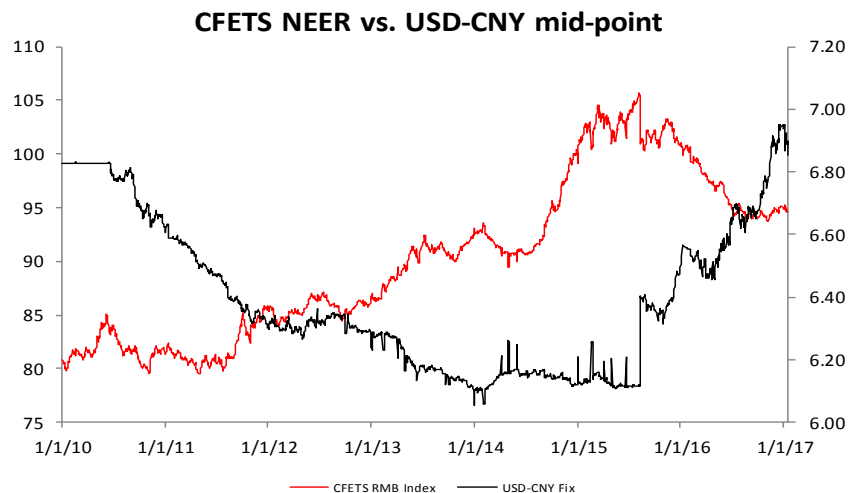
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perceived parity (1.4215). NEER-implied USD-SGD thresholds are understandably higher on the day with -0.50% estimated at 1.4287 and -1.00% at 1.4358 given current market levels. The NEER may bottom out around -0.70% (1.4315) pending further broad dollar moves. As noted previously, the SGD remains relatively more responsive to DXY and CNH cues within Asia and the pair may sit on its 55-day MA (1.4286) pending further external cues.



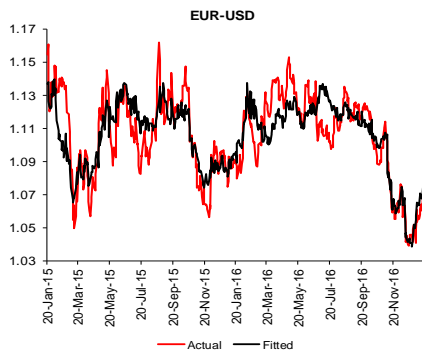
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point rose (less than expected) to 6.8568 from 6.8525 yesterday, lifting the **CFETS RMB Index** significantly to 95.15 from 94.65 on Wednesday. Note slightly asymmetric behavior with respect to implied up moves in the implied USD-CNY mid-points, presumably a partial consequence of attempting to contain upside moves for the bilateral exchange rates.



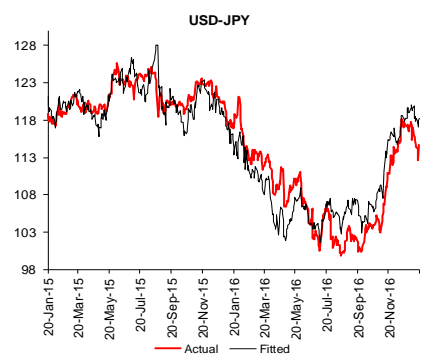
Source: OCBC Bank, Bloomberg

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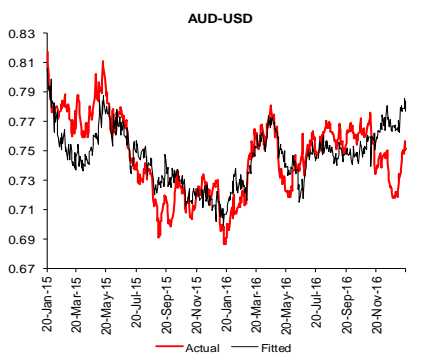
Source: OCBC Bank

- EUR-USD** Watch for ensuing commentary from the ECB’s press conference today. Meanwhile, note that Yellen’s comments from overnight only mildly tempered the still buoyant short term implied valuations. Expect some support to kick in towards the 55-day MA (1.0617).



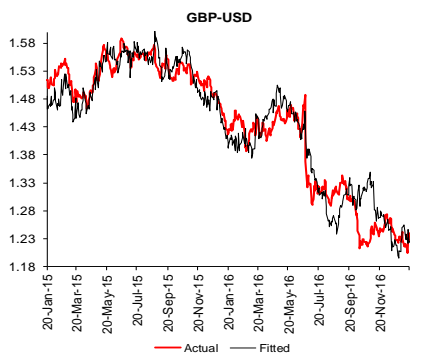
Source: OCBC Bank

- USD-JPY** Likewise, the heavy short term implieds for the USD-JPY may have bottomed out somewhat overnight but certainly not reversed just yet. Despite media reports indicating the BOJ’s intention to upgrade its economic assessment at its next MPC, the pair we think will continue to be driven by Fed/Trump dynamics in the near term. Intra-day, the 55-day MA (113.66) may cushion with 115.35 seen capping



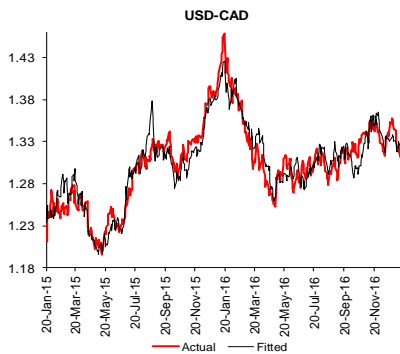
Source: OCBC Bank

- AUD-USD** A disappointing set of Aussie labor market numbers this morning may further cap the pair in the near term, especially in light of the dollar’s resilience overnight. We look for some consolidative behavior pending offshore cues with a near term junction expected at the 200-day MA (0.7498).



Source: OCBC Bank

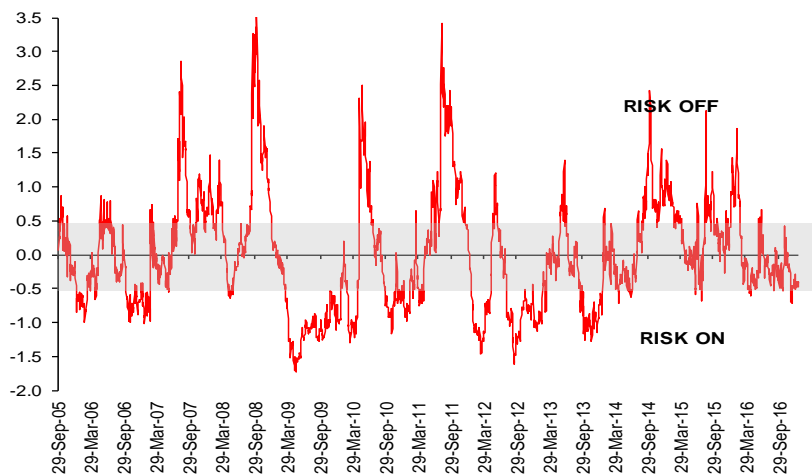
- GBP-USD** The pair may continue to sit slightly softer with the impact of PM May’s speech fading and with the dollar finding its near term footing. Expect a near term ceiling towards the 55-day MA (1.2410) while a near term lower bound may be expected into 1.2200.



- USD-CAD** With the BOC's Poloz continuing to entertain the potential for a rate cut (if warranted) coupled with the broad dollar bounce, the USD-CAD managed to flip higher past 1.3250 overnight. Expect a consolidative 1.3200-1.3320 range ahead of Trump tomorrow, with the 55-day MA (1.3357) the next upside resistance to watch.

Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

Security	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	0.835	0.913	-0.387	-0.861	-0.712	0.960	0.292	0.130	-0.552	0.829	-0.985
CHF	0.990	0.870	0.911	-0.399	-0.880	-0.709	0.941	0.336	0.148	-0.521	0.872	-0.985
JPY	0.960	0.770	0.873	-0.350	-0.800	-0.715	1.000	0.370	0.147	-0.601	0.794	-0.945
THB	0.947	0.807	0.844	-0.447	-0.908	-0.671	0.913	0.518	0.139	-0.590	0.777	-0.916
SGD	0.940	0.827	0.880	-0.564	-0.875	-0.671	0.934	0.362	0.344	-0.466	0.906	-0.940
CNY	0.913	0.687	1.000	-0.439	-0.714	-0.681	0.873	0.278	0.182	-0.379	0.866	-0.880
CAD	0.864	0.853	0.750	-0.619	-0.922	-0.535	0.824	0.422	0.436	-0.459	0.873	-0.844
USGG10	0.835	1.000	0.687	-0.310	-0.912	-0.558	0.770	0.215	0.081	-0.457	0.744	-0.854
CNH	0.829	0.744	0.866	-0.672	-0.797	-0.638	0.794	0.248	0.440	-0.234	1.000	-0.839
TWD	0.809	0.528	0.816	-0.591	-0.708	-0.474	0.816	0.543	0.469	-0.501	0.747	-0.737
KRW	0.760	0.416	0.830	-0.487	-0.590	-0.517	0.749	0.440	0.253	-0.396	0.722	-0.671
IDR	0.750	0.710	0.651	-0.647	-0.860	-0.497	0.748	0.472	0.486	-0.635	0.717	-0.751
MYR	0.690	0.309	0.699	-0.451	-0.542	-0.431	0.688	0.447	0.297	-0.576	0.484	-0.637
CCN12M	0.679	0.543	0.733	-0.818	-0.696	-0.313	0.646	0.504	0.714	-0.280	0.794	-0.664
PHP	0.445	0.737	0.312	-0.388	-0.655	-0.447	0.342	-0.069	0.119	-0.188	0.505	-0.551
GBP	0.223	0.271	-0.008	-0.130	-0.411	0.012	0.244	0.238	0.058	-0.273	0.008	-0.236
INR	-0.112	-0.397	0.036	0.082	0.453	-0.021	-0.111	-0.246	0.110	0.179	-0.001	0.119
AUD	-0.930	-0.760	-0.849	0.573	0.897	0.620	-0.935	-0.541	-0.330	0.539	-0.843	0.904
NZD	-0.956	-0.797	-0.868	0.413	0.863	0.724	-0.968	-0.410	-0.149	0.571	-0.828	0.933
EUR	-0.985	-0.854	-0.880	0.400	0.857	0.720	-0.945	-0.284	-0.155	0.524	-0.839	1.000

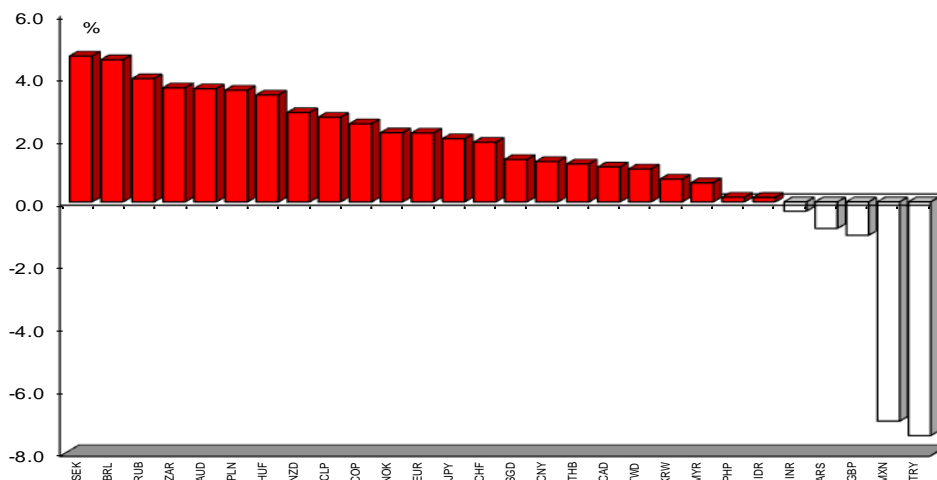
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0574	1.0600	1.0630	1.0700	1.0707
GBP-USD	1.2075	1.2200	1.2260	1.2300	1.2396
AUD-USD	0.7494	0.7500	0.7504	0.7569	0.7600
NZD-USD	0.7085	0.7100	0.7125	0.7197	0.7200
USD-CAD	1.3105	1.3200	1.3260	1.3300	1.3349
USD-JPY	114.00	114.48	114.75	115.00	118.66
USD-SGD	1.4167	1.4200	1.4293	1.4300	1.4308
EUR-SGD	1.5129	1.5185	1.5193	1.5200	1.5212
JPY-SGD	1.2235	1.2400	1.2456	1.2500	1.2501
GBP-SGD	1.7256	1.7500	1.7524	1.7600	1.7743
AUD-SGD	1.0556	1.0700	1.0726	1.0755	1.0787
Gold	1185.21	1200.00	1201.60	1218.90	1225.30
Silver	16.78	17.00	17.03	17.10	17.36
Crude	50.92	51.40	51.47	51.50	54.68

Source: OCBC Bank

FX performance: 1-month change agst USD



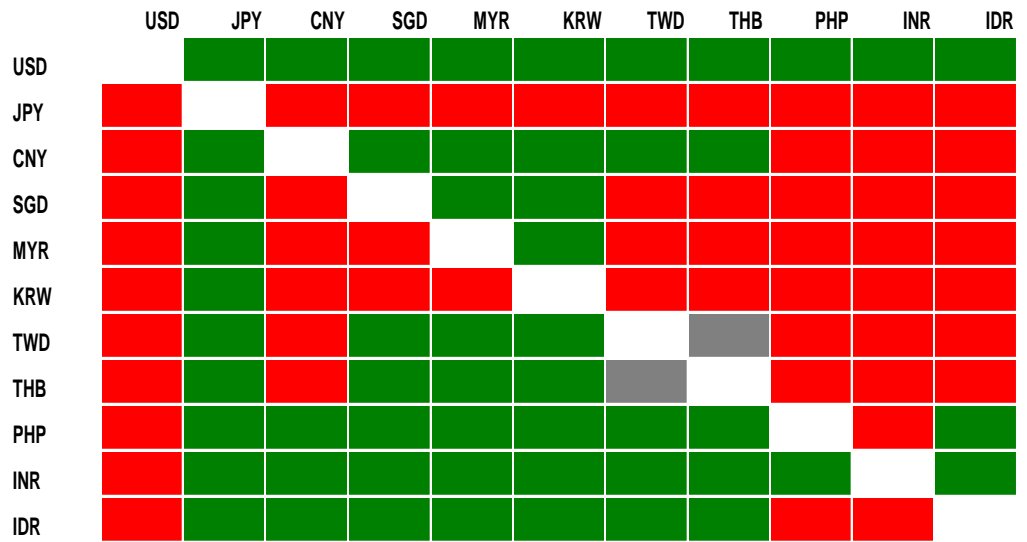
Source: Bloomberg

G10 FX Heat Map

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

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		
3	12-Jan-17	S	USD-JPY	114.63	110.50 116.75	Downward consolidation post-Trump press conference		
4	12-Jan-17	B	AUD-USD	0.7463	0.7670 0.7355	Reflation may dominate as the Trump trade pauses		
5	18-Jan-17	B	EUR-USD	1.0688	1.1015 1.0520	Dollar hiccup, hint of inflation in EZ		
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	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
2	19-Dec-16	30-Dec-16	S	EUR-USD	1.0464	1.0620	Ensuing hawkish Fed rhetoric post-FOMC	-1.41
3	27-Dec-16	02-Jan-17	B	USD-CAD	1.3530	1.3390	Policy dichotomy, Trump Trade, slight de-linking with crude	-1.09
4	20-Dec-16	05-Jan-17	B	USD-SGD	1.4481	1.4399	Hostile USD/risk appetite environment for Asian FX, SGD	-0.57
5	19-Dec-16	10-Jan-17	S	AUD-USD	0.7294	0.7359	FOMC outcome forcing a near term reassessment of carry	-0.93
6	20-Dec-16	12-Jan-17		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*
	*of notional						2016 Return	+6.91

Source: OCBC Bank

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