

Wednesday, March 22, 2017

### FX Themes/Strategy/Trading Ideas

- Except against the antipodeans, the USD fell across G10 space on softening UST yields (curve once again bull flattening from the back-end on cited safety bids with the 10y down to 2.43%). On the dollar front, somewhat hawkish comments from the Fed's Esther George and Mester (subject of balance sheet reduction was broached) failed to lend the greenback intrinsic support. Meanwhile, souring global equities (SPX -1.24%, WTI<48.50) undermined risk appetite and resulted in across the board JPY outperformance while the antipodeans weakened against the USD and their G10 peers. For today, Fed's **Rosengren** is scheduled at 0145 GMT while the **RBNZ** (2000 GMT) is expected to remain static and come across as still being cautious.
- Going ahead, markets are now being confronted with two contrasting themes: Firstly, a vulnerable greenback on the back of sustained skepticism towards FOMC/Trump dynamics (additional US fiscal impetus is being relegated to a 2018 proposition), with the USD seen weak against the EUR, GBP, and JPY.
- Secondly, Risk Off? Near term deterioration of positive sentiment may continue to result in a retracement lower of the cyclicals/EM/FX while again underpinning the JPY. To this end, we think caution is warranted in Asia and remain mindful of a firmer USD-Asia profile today (1s overnight in NY firmer and watch Asian equities today). For today, pet trade near term would be to short USD-JPY.
- With regards to the **DXY**, the Index fell through 100.00 on Tuesday and the next support is expected around 99.40. Tone for DXY is expected to be bearish in the near term with the pre-Trump level around 98.00.
- With the broad dollar continuing to be on the defensive, our 3 Mar 17 idea to be tactically short **GBP-USD** (spot ref: 1.2253) was stopped out at 1.2435 on Monday for an implied -1.46% loss.
- With the USD under pressure from unwinding in the Trump trade and the JPY underpinned by slightly shaky investor sentiment, we undertake a tactical short **USD-JPY**. With a spot ref at 111.62 on Wednesday, we target 108.40 and place a stop at 113.25.

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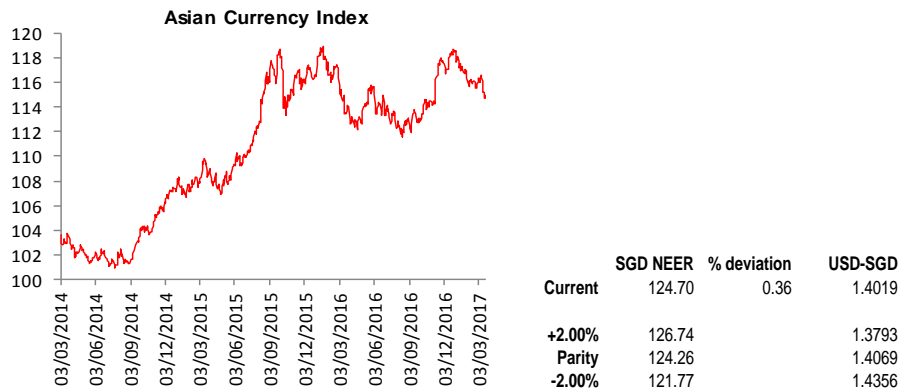
**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

### Asian FX

- EM FX also felt the heat from shaky investment sentiment on Tuesday with

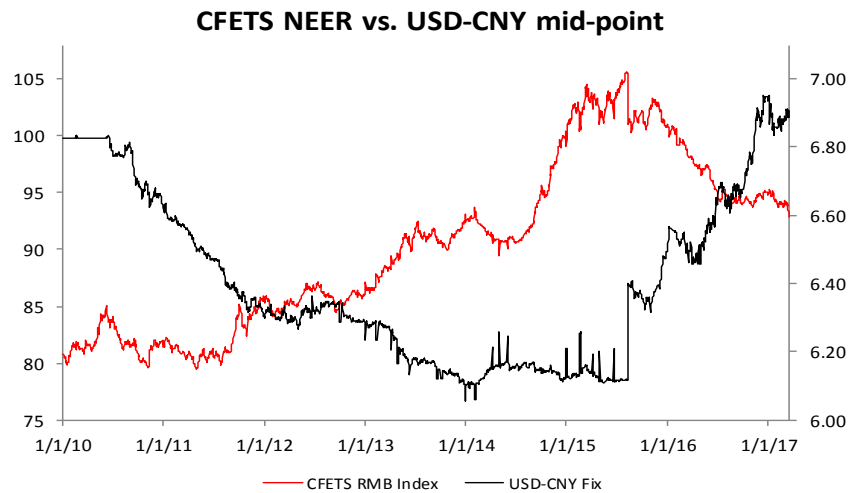
the RUB, MXN, BRL, and TRY leading the way lower. No surprise then that the **FXSI (FX Sentiment Index)** consolidated higher for the third consecutive session within Risk-On territory. Expect therefore the **ACI (Asian Currency Index)** to tick higher today.

- SGD NEER:** This morning, the **SGD NEER** is significantly lower on the day at around +0.37% above its perceived parity (1.4069) with the USD leaning against the Asians on the back of risk aversion. NEER-implied USD-SGD thresholds are slightly lower on the day and the NEER may drift towards parity if risk appetite levels deteriorate further. Expect a supported tone within 1.3970-1.4050 for USD-SGD intra-day.



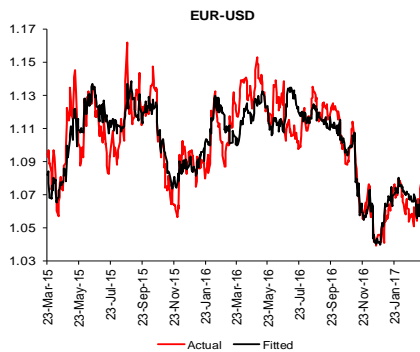
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell but was set at a slightly firmer than expected 6.8889, compared to 6.9071 yesterday. Nonetheless, still left the **CFETS RMB Index** higher (as largely expected) to 92.92 from 92.78 on Tuesday.



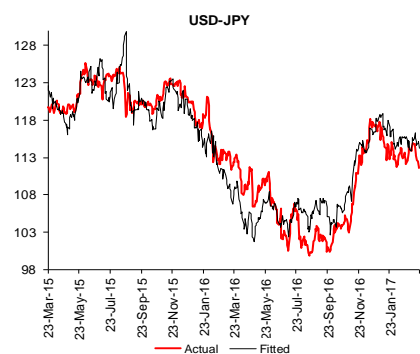
Source: OCBC Bank, Bloomberg

**G7**



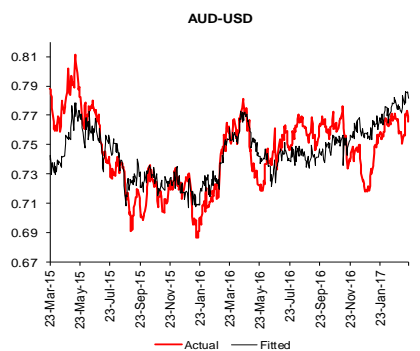
Source: OCBC Bank

- EUR-USD** EUR-USD surfaced above 1.0800 on Tuesday on USD vulnerability and as Macron positivity persisted. Short term implied valuations for the pair remain supportive (Bunds softer on Tue) ahead of the ECB's Villeroy and Lautenschlaeger today. Immediate resistance is expected into 1.0830 before 1.0850.



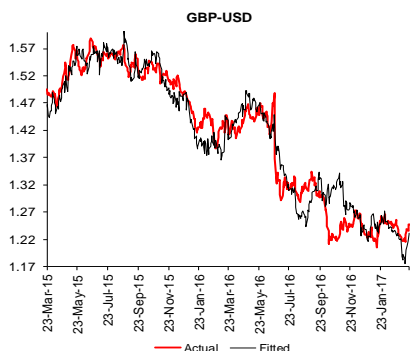
Source: OCBC Bank

- USD-JPY** In the current environment, USD-JPY may continue to test the 111.50/60 floor intra-day with short term implied valuations also detaching lower. Next pit stop lower is expected towards 111.00. Structurally, January BOJ MPC minutes underscored policymaker's view that JGB purchases should not be construed as a policy signal beyond the intent to achieve the Bank's target yield.



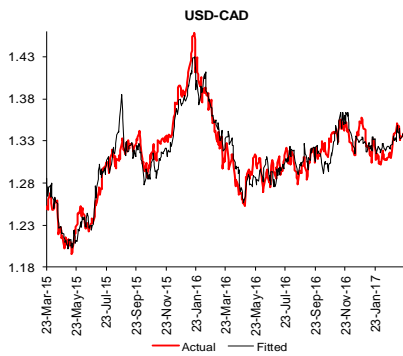
Source: OCBC Bank

- AUD-USD** Wobbly investor sentiment will likely continue to put the squeeze on the AUD in the near term. Short term implied valuations are also edging slightly lower as a result with the 0.7650 support under immediate threat ahead of 0.7600. At this moment however, it may be slightly premature to conclude that multi-session AUD positivity has fractured just yet.



Source: OCBC Bank

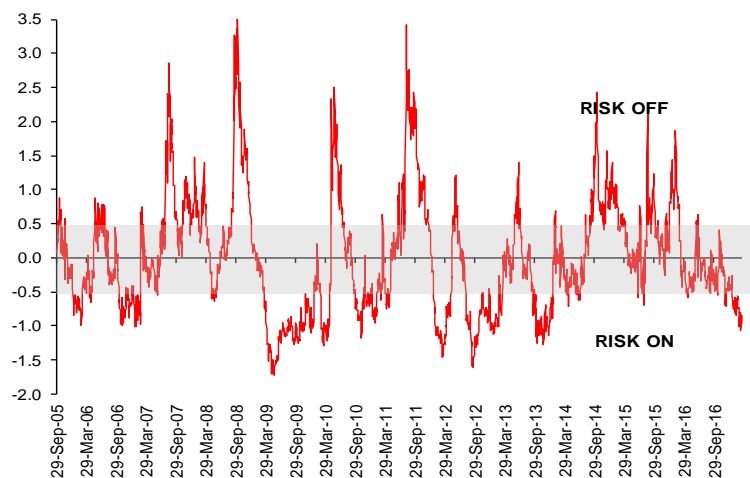
- GBP-USD** The GBP-USD was boosted by warmer than expected Feb inflation readings on Tuesday with additional tailwind provided by a weaker broad USD. A50 concerns may be put on the backburner in the interim with short term implied valuations also seen supportive of the pair. Top side resistance however may be expected on approach of the 1.2550 neighborhood if 1.2500 is breached.



Source: OCBC Bank

- USD-CAD** The CAD is being caught in the cross wind between a softer USD and sketchy commodities/weakened investor sentiment. USD-CAD meanwhile is floating higher in tandem with its short term implied valuations, indicating that global negativity may hold sway in the interim. Watch for a potential break of 1.3400 towards 1.3435.

### 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	0.302	0.114	0.236	-0.797	0.236	0.737	0.414	0.109	-0.324	0.455	-0.877
CHF	0.946	0.203	0.015	0.059	-0.816	0.290	0.718	0.521	0.089	-0.171	0.385	-0.915
SGD	0.846	0.561	0.320	-0.032	-0.609	-0.082	0.852	0.146	0.071	-0.303	0.605	-0.686
MYR	0.799	0.402	0.209	0.206	-0.708	0.080	0.766	0.259	-0.017	-0.352	0.304	-0.645
INR	0.775	-0.157	-0.402	0.084	-0.877	0.671	0.439	0.804	0.147	-0.070	0.060	-0.890
JPY	0.737	0.828	0.629	0.295	-0.493	-0.375	1.000	-0.070	-0.077	-0.526	0.645	-0.484
PHP	0.733	0.446	0.342	0.138	-0.704	-0.054	0.756	0.113	0.018	-0.380	0.443	-0.494
KRW	0.728	0.561	0.409	0.291	-0.688	-0.096	0.830	0.097	-0.187	-0.532	0.523	-0.456
TWD	0.707	0.629	0.431	0.263	-0.779	-0.122	0.888	0.107	-0.113	-0.475	0.501	-0.459
THB	0.563	0.746	0.586	0.154	-0.459	-0.445	0.886	-0.152	-0.067	-0.325	0.436	-0.357
IDR	0.559	0.529	0.335	0.352	-0.530	-0.140	0.773	0.008	-0.060	-0.478	0.298	-0.319
CNH	0.455	0.764	0.714	0.007	-0.114	-0.493	0.645	-0.365	-0.209	-0.522	1.000	-0.110
CCN12M	0.408	0.503	0.395	-0.074	-0.391	-0.284	0.656	-0.166	-0.173	-0.190	0.489	-0.181
CAD	0.356	0.884	0.820	0.068	-0.074	-0.681	0.662	-0.566	0.024	-0.560	0.869	0.084
USGG10	0.302	1.000	0.891	0.164	0.003	-0.772	0.828	-0.650	-0.161	-0.535	0.764	0.135
CNY	0.114	0.891	1.000	0.177	0.198	-0.846	0.629	-0.764	-0.316	-0.465	0.714	0.334
NZD	-0.216	-0.937	-0.916	-0.019	-0.078	0.814	-0.635	0.681	0.223	0.548	-0.840	-0.216
GBP	-0.625	-0.850	-0.778	-0.254	0.376	0.525	-0.898	0.254	0.037	0.543	-0.770	0.306
AUD	-0.728	-0.695	-0.503	0.053	0.547	0.340	-0.827	0.110	-0.038	0.450	-0.788	0.433
EUR	-0.877	0.135	0.334	-0.082	0.792	-0.598	-0.484	-0.742	-0.227	0.009	-0.110	1.000

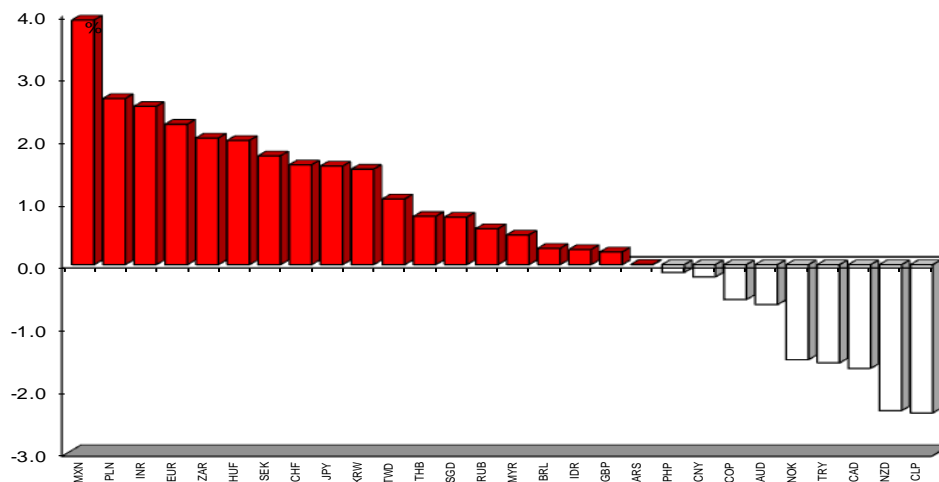
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0657	1.0700	1.0793	1.0800	1.0818
GBP-USD	1.2392	1.2400	1.2471	1.2500	1.2553
AUD-USD	0.7600	0.7613	0.7653	0.7700	0.7750
NZD-USD	0.6890	0.7000	0.7021	0.7100	0.7140
USD-CAD	1.3213	1.3300	1.3383	1.3400	1.3535
USD-JPY	111.32	111.43	111.54	112.00	113.46
USD-SGD	1.3956	1.4000	1.4014	1.4100	1.4141
EUR-SGD	1.5100	1.5114	1.5126	1.5162	1.5167
JPY-SGD	1.2500	1.2548	1.2564	1.2600	1.2672
GBP-SGD	1.7141	1.7400	1.7477	1.7500	1.7530
AUD-SGD	1.0632	1.0700	1.0725	1.0768	1.0800
Gold	1200.00	1221.45	1245.60	1264.29	1264.90
Silver	17.48	17.50	17.54	17.60	18.10
Crude	47.99	48.10	48.17	48.20	52.19

Source: OCBC Bank

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



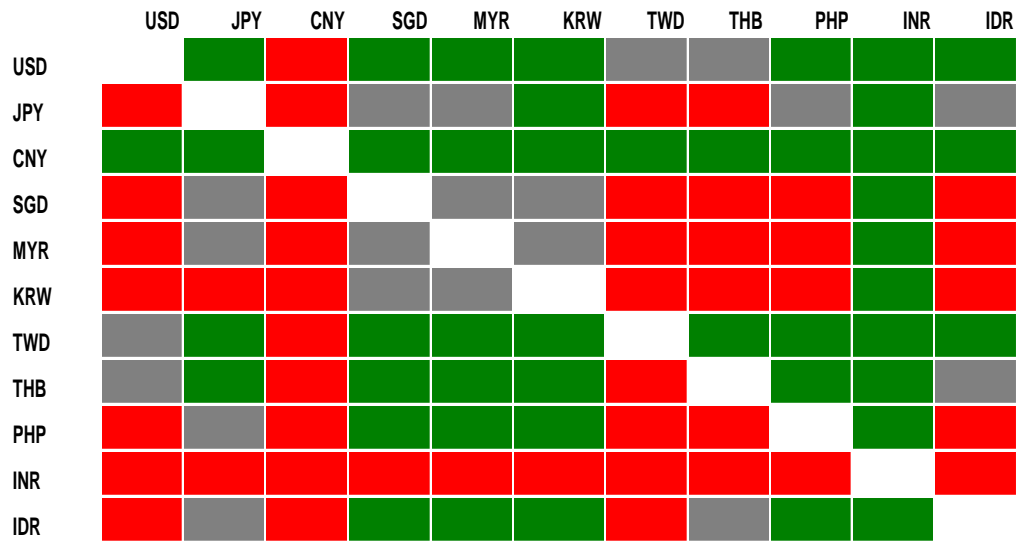
Source: Bloomberg

**G10 FX Heat Map**

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

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	01-Mar-17	B	USD-CAD	1.3326	1.3605 1.3185	BOC static in March, sharp contrast with Fed's recent posture		
2	17-Mar-17	B	EUR-USD	1.0766	1.1000 1.0645	Dutch election news flow, abating le Pen concerns, weekend USD		
3	17-Mar-17	S	USD-SGD	1.4029	1.3800 1.4145	Vulnerable USD, positive risk appetite, tolerant MAS		
4	22-Mar-17	S	USD-JPY	111.62	108.40 113.25	Trump trade unwind, mild risk aversion		
<b>STRUCTURAL</b>								
5	22-Nov-16	B	USD-JPY	110.81	123.40 104.50	Potential for a more activist Fed, static BOJ		
6	28-Nov-16	S	EUR-USD	1.0641	0.9855 1.1035	USD in ascendance, political risk premium in EZ		
7	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		
8	22-Feb-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 Cost: 1.19%			Global reflation trade, Fed expected to hike later rather than sooner		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	25-Jan-17	01-Mar-17	B	GBP-USD	1.2528	1.2383	Subsidence of acute A50 concerns in the short term	-1.26
2	12-Jan-17	02-Mar-17	B	AUD-USD	0.7463	0.7560	Reflation may dominate as the Trump trade pauses	+1.35
3	20-Jan-17	02-Mar-17	S	USD-SGD	1.4240	1.4125	Potential for Trump's inauguration to disappoint USD bulls	+0.81
4	12-Jan-17	08-Mar-17	S	USD-JPY	114.63	113.91	Downward consolidation post-Trump press conference	+0.31
5	22-Feb-17	10-Mar-17	S	EUR-USD	1.0548	1.0695	Potential near term USD strength, brewing EZ political risks	-1.30
6	10-Mar-17	15-Mar-17	S	AUD-USD	0.7519	0.7605	Compression in cyclicals vs. USD strength	
7	25-Oct-16	20-Mar-17	B	USD-SGD	1.3919	1.3984	Bullish dollar prospects, negative space for SGD NEER	+0.54
8	03-Mar-17	20-Mar-17	S	GBP-USD	1.2253	1.2435	Sustained Brexit risks vs. recent USD resilience	-1.46
* realized								
							Jan-Feb 2017 Return	-7.14
							2016 Return	+6.91

Source: OCBC Bank

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