

Thursday, February 23, 2017

FX Themes/Strategy/Trading Ideas – Fairly soon but dollar

- The broad dollar was taken down a notch (note softer 10y UST yield) post FOMC minutes with USD-JPY briefly below 113.00 despite sufficiently hawkish comments from the Fed's Powell. Note however an attempt by the greenback to regain (limited) traction after US Treasury Secretary Mnuchin, in a WSJ article, noted that a strong dollar is a vote of economic confidence. However, we think the hit on the greenback from the FOMC minutes may continue to override.
- Going ahead, expectations for a March FOMC hike remain subdued (despite implied odds ticking higher slightly) given a lack of undue urgency (especially with regards to inflation prospects) out of the FOMC minutes. In the interim, markets may then revert to a vulnerable greenback on a selected basis (via JPY for e.g.).
- As noted previously, the global reflation trade running concurrently meanwhile may continue to be supportive of the cyclical, EM, and carry strategies. For today, watch for Fed-speak from Lockhart (1335 GMT) and Kaplan (1800 GMT).
- With the global reflation theme currently running alongside the strong dollar narrative and the Fed not implicitly expected by the consensus to hike in March, we think the **AUD-USD** may still have legs yet on the upside despite the riskies already having moderated from being significantly favoring puts over. As such, we undertake a 2M AUD-USD 1X1.5 call spread (spot: 0.7688; strikes: 0.7677, 0.8041) costing an implied 1.19% of notional. Alternatively, investors with a higher conviction for AUD bullishness and skeptical of any mean reversion in the pair during this period may also choose to throw in a RKI in the first leg for a more attractive pay-off profile, albeit with the associated trade-offs.

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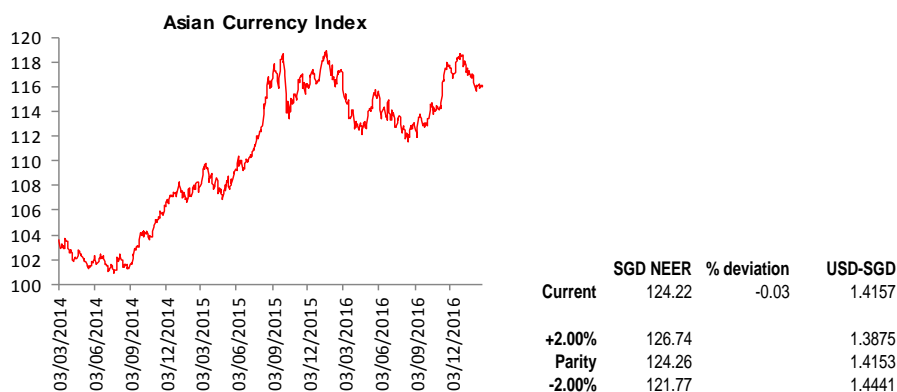
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Asian FX

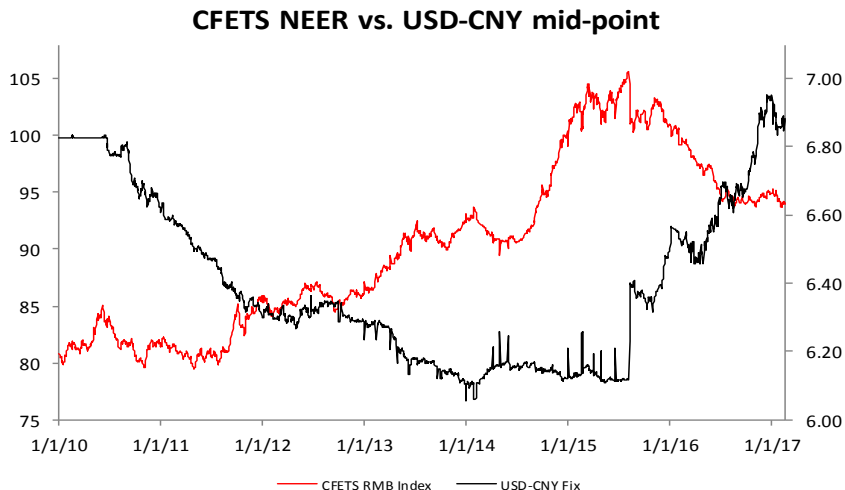
- Elsewhere, except for the RUB, EM FX managed to ride higher against the greenback. Risk appetite levels also remained conducive, with the **FXSI (FX Sentiment Index)** ticking lower within Risk-On territory. USD-Asia is likely to continue to trade top heavy in the interim (see **Heat Map**) with the **ACI (Asian Currency Index)** looking slightly soft on the day after edging lower yesterday.
- **SGD NEER:** The **SGD NEER** hovering around its perceived parity (1.4153) this morning, compared to around -0.23% 24 hours ago and with NEER-

implied USD-SGD thresholds having shaded lower. Note that the NEER rose to above +0.20% in the wake of the FOMC minutes but it has since retraced lower. Broad dollar vulnerability may keep the NEER underpinned on dips but excessive upside we think will continue to be discouraged. At current levels, +0.20% is estimated at around 1.4125 while -0.50% is estimated at 1.4224. Technically, the 100-day MA (1.4176) and 1.4200 may cap in the near term amidst an expected top heavy tone for the pair.



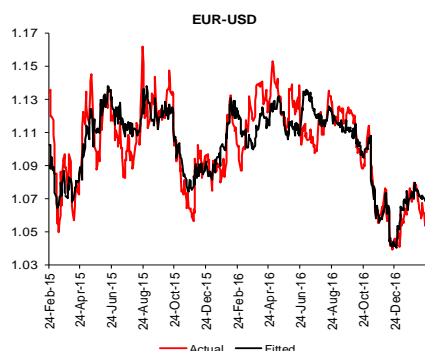
Source: OCBC Bank

- CFETS RMB Index:** With the broad dollar easing, the USD-CNY mid-point this morning slipped to 6.8695 from 6.8830 on Wednesday. This managed to prod the **CFETS RMB Index** slightly higher to 94.06 from 93.99 yesterday.



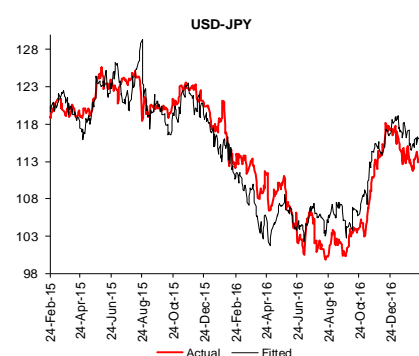
Source: OCBC Bank, Bloomberg

G7



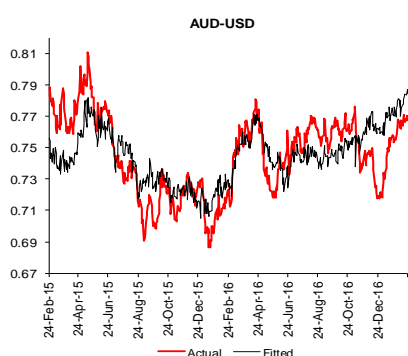
Source: OCBC Bank

- **EUR-USD** Even before the FOMC minutes, EUR-USD bounced from sub-1.0500 lows as centrist Bayrou pulled out of the French Presidential race to throw his support behind Macron (centrist, independent) against the National Front's Le Pen. Expect the EUR-USD to remain whippy on the back of French political headlines and we look for the pair to continue to track soft implied valuations. In the current environment, 1.0500/20 may continue to beckon.



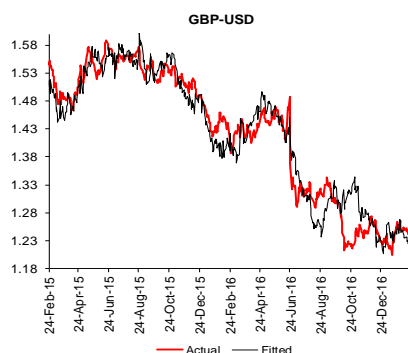
Source: OCBC Bank

- **USD-JPY** In addition to firming against the USD, the JPY also outperformed across G10 on cited unwinding on the crosses on Wednesday. At this juncture, short term implied valuations are a touch softer but essentially still lightly supported on a multi-session horizon. Nonetheless, preference to fade upticks within 112.85-113.85 intra-day.



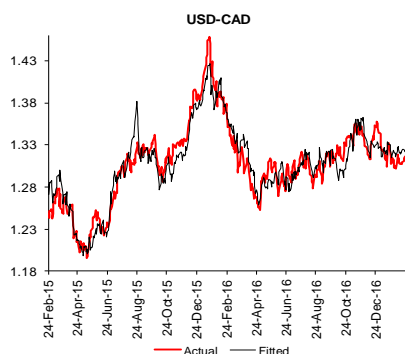
Source: OCBC Bank

- **AUD-USD** The antipodeans (AUD boosted also by largest ever govie bond sale and neutral RBA meeting minutes) gained on the dollar and across G10 space on Wednesday but the AUD-USD was tripped by weaker than expected 4Q private capital expenditure readings this morning. Nonetheless, solid support on further dips towards 0.7650 may materialize if the risk appetite/commodity/USD complex remains supportive. 0.7730 may remain on the cards.



Source: OCBC Bank

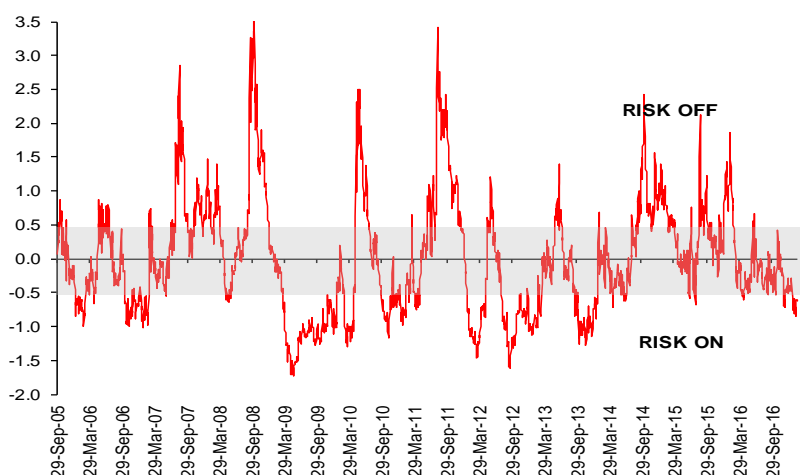
- **GBP-USD** Despite GBP-USD easing slightly, note that the GBP trailed its cohorts (note mixed 4Q UK GDP numbers). Going ahead, the GBP-USD may continue to shy away from the 1.2500 ceiling and succumb towards the 1.2400 neighborhood, shadowing the still soggy short term implied valuations.



Source: OCBC Bank

- USD-CAD** The CAD was undermined by slumping crude (and disappointing Dec retail sales) although a weaker greenback managed to pull the USD-CAD away from the 1.3200 handle. Short term implied valuations are a tad softer on the day but we note that pair still persisting above its 200-day MA (1.3149). Overall, a somewhat conflicted tone may persist although the short term risk-reward profile may favor collecting on dips in the interim.

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	-0.132	0.309	0.830	0.808	-0.317	0.452	0.193	-0.169	-0.110	0.737	-0.969
CHF	0.938	-0.033	0.458	0.786	0.728	-0.163	0.477	0.356	-0.241	-0.236	0.667	-0.926
MYR	0.839	-0.240	0.104	0.862	0.842	-0.332	0.188	0.186	0.173	0.047	0.658	-0.831
CNH	0.737	-0.043	0.453	0.554	0.653	-0.349	0.580	0.117	-0.244	0.150	1.000	-0.763
PHP	0.716	-0.104	0.273	0.771	0.775	-0.300	0.266	0.458	0.187	-0.068	0.498	-0.740
SGD	0.517	0.150	0.251	0.137	0.152	0.134	0.746	-0.045	-0.520	-0.238	0.658	-0.364
AUD	0.475	-0.378	-0.085	0.706	0.700	-0.361	-0.292	0.326	0.267	0.198	0.098	-0.554
JPY	0.452	0.657	0.292	0.242	0.190	0.236	1.000	0.294	-0.369	-0.523	0.580	-0.367
CNY	0.309	0.205	1.000	0.232	0.249	-0.242	0.292	0.148	-0.367	0.076	0.453	-0.417
CAD	0.303	-0.474	-0.129	-0.040	-0.022	-0.054	0.028	-0.279	-0.053	-0.002	0.197	-0.281
IDR	-0.097	0.373	0.279	-0.062	-0.051	0.082	0.193	0.252	0.374	-0.201	-0.112	0.088
USGG10	-0.132	1.000	0.205	-0.081	-0.195	0.353	0.657	0.296	-0.124	-0.659	-0.043	0.177
THB	-0.419	0.440	0.017	-0.660	-0.677	0.445	0.340	-0.226	-0.140	-0.390	-0.158	0.541
KRW	-0.455	0.298	0.013	-0.600	-0.633	0.671	0.141	-0.078	-0.086	-0.336	-0.282	0.528
INR	-0.565	0.371	-0.245	-0.733	-0.774	0.387	0.123	-0.320	0.035	-0.375	-0.394	0.682
CCN12M	-0.570	0.597	-0.021	-0.593	-0.617	0.467	0.302	0.166	0.032	-0.286	-0.219	0.623
TWD	-0.619	0.154	-0.089	-0.851	-0.871	0.735	-0.007	-0.272	-0.394	-0.356	-0.446	0.683
GBP	-0.633	0.359	0.227	-0.606	-0.601	0.522	0.108	-0.133	-0.136	-0.103	-0.240	0.616
NZD	-0.875	0.226	-0.093	-0.744	-0.744	0.108	-0.385	-0.383	0.144	0.028	-0.722	0.863
EUR	-0.969	0.177	-0.417	-0.876	-0.879	0.435	-0.367	-0.298	0.103	-0.030	-0.763	1.000

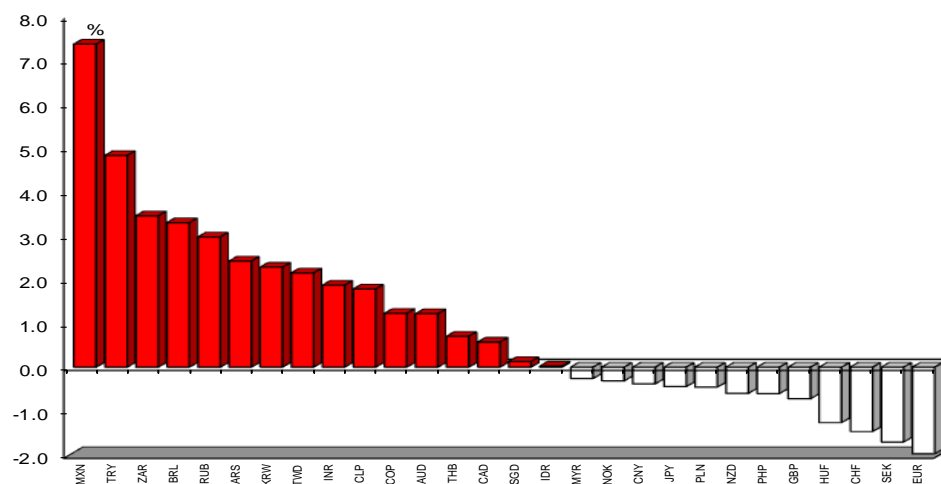
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0500	1.0503	1.0552	1.0594	1.0600
GBP-USD	1.2385	1.2400	1.2440	1.2500	1.2601
AUD-USD	0.7550	0.7600	0.7673	0.7700	0.7732
NZD-USD	0.7119	0.7131	0.7187	0.7200	0.7337
USD-CAD	1.3100	1.3146	1.3160	1.3193	1.3200
USD-JPY	111.67	113.00	113.19	114.00	114.71
USD-SGD	1.4054	1.4100	1.4158	1.4200	1.4272
EUR-SGD	1.4900	1.4904	1.4939	1.5000	1.5124
JPY-SGD	1.2436	1.2500	1.2508	1.2600	1.2628
GBP-SGD	1.7493	1.7600	1.7613	1.7689	1.7700
AUD-SGD	1.0696	1.0800	1.0863	1.0900	1.0960
Gold	1191.38	1200.00	1236.10	1243.90	1255.82
Silver	17.02	17.90	18.00	18.00	18.03
Crude	53.71	54.00	54.04	54.10	54.55

Source: OCBC Bank

FX performance: 1-month change agst USD

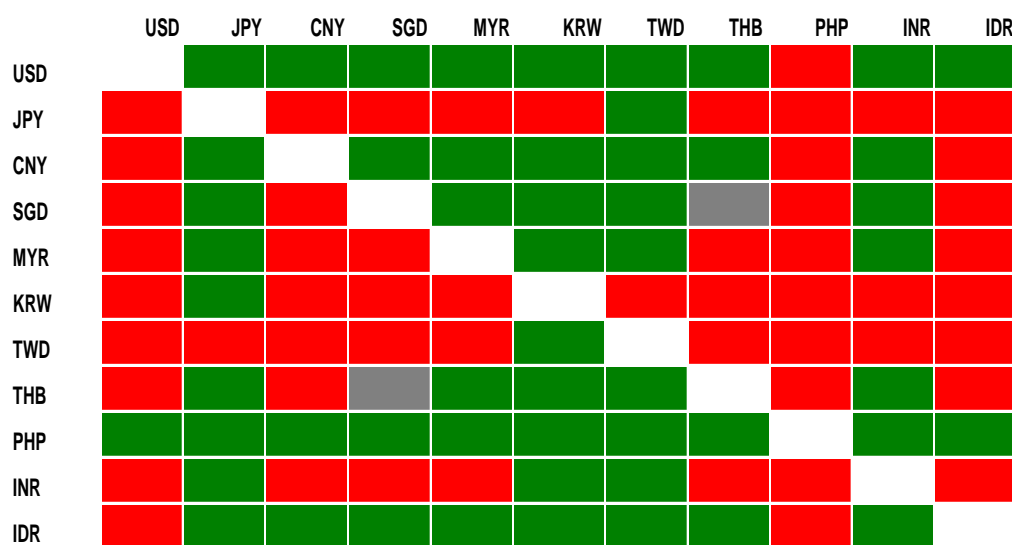


Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

FX Trade Ideas

FX Trade Road										
	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	20-Jan-17		S	USD-SGD	1.4240	1.4005	1.4360	Potential for Trump's inauguration to disappoint USD bulls		
4	25-Jan-17		B	GBP-USD	1.2528	1.2910	1.2335	Subsidence of acute A50 concerns in the short term		
5	22-Feb-17		S	EUR-USD	1.0548	1.0265	1.0695	Potential near term USD strength, brewing EZ political risks		
	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		
10	22-Feb-17		Bullish 2M AUD-USD 1X1.5 Call Spread Spot ref: 0.7688; Strikes: 0.7677, 0.8041 Cost: 1.19%					Global deflation trade, Fed expeted to hike later rather than sooner		
	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)	
1	09-Jan-17	06-Feb-17	S	USD-CAD	1.3264		1.3135	Supportive crude and labor market numbers	0.92	
2	18-Jan-17	21-Feb-17	B	EUR-USD	1.0688		1.0588	Dollar hiccup, hint of inflation in EZ	-1.11	
3	16-Feb-17	22-Feb-17	S	USD-CAD	1.3060		1.3127	Global deflation, supportive domestic data, USD hesitation	-0.52	
	* realized									
	Jan 2017 Return									-6.78
	2016 Return									+6.9%

Source: OCBC Bank

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