

Monday, January 23, 2017

FX Themes/Strategy/Trading Ideas – The week ahead

- The greenback softened across G10 space as amidst Trump's inauguration on Friday with little for USD bulls (note UST curve softer and bull steepening from the front-end) to chew on. At the onset of the week, the USD will probably continue to ignore hawkish comments from the Fed's Williams and Harker as the Trump unwind (note mild concerns surrounding protectionism beginning to filter to the USD) ensues. Apart from the data calendar, investors will have little to trade on with Fed-speak absent ahead of the FOMC next week.
- On the **CFTC** front, large non-commercial/leveraged/asset manager accounts pared their implied long dollar positioning in the latest week, well ahead of the Presidential inauguration on Friday. Interestingly, net of JPY positioning, asset managers increased significantly their implied short dollar bias in the latest week.
- The **FXSI (FX Sentiment Index)** dipped slightly within Risk-Neutral territory on Friday with the Index firmer on the week, denoting a slightly pullback in overall risk appetite levels.
- With the **GBP-USD** stabilizing in the near term, we closed out our 27 Dec 16 idea to be tactically short GBP-USD (spot ref: 1.2276) at 1.2386 this morning for an implied -0.77% loss.
- If Trump's inauguration disappoints dollar bulls (who have been pretty much held in check all week), we see scope for the **USD-SGD** to search lower in the near term. With a spot ref at 1.4240 on Friday, we initiated a tactical short on Friday targeting 1.4005 and placed a stop at 1.4360.

Asian FX

- USD-Asia may continue to sit slightly heavy in light of the broad dollar's demeanor currently and with global risk appetite levels still relatively sanguine. As such, the **ACI (Asian Currency Index)** will likely heavy for a second consecutive session.
- On the flow front, **EPFR** data showed an implied net outflow from Asian (ex Japan, China) equities and bonds in the latest week. Regarding implied net equity flows, we note the inherent outflows in recent weeks (for the last 5 out of 7) with respect to Korean equities.
- **SGD NEER:** The SGD may derive some positive mileage from the continued

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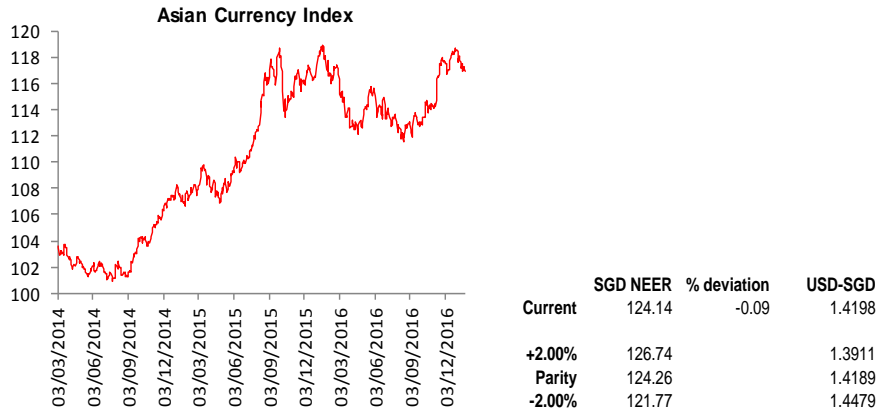
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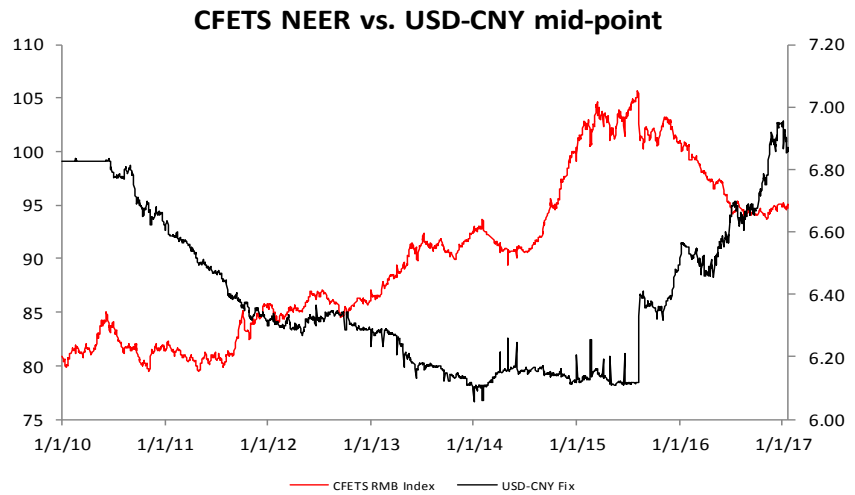
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soft tone in the broad USD with the SGD NEER around -0.14% below its perceived parity (1.4189). NEER-implied USD-SGD thresholds are lower on the day from last Friday and may continue to afford downside potential for the USD-SGD. At current levels, the -0.50% threshold is estimated at around 1.4261 while parity to +0.10% may attract if the DXY continues to head lower intra-day. Technically, if 1.4264 is not reclaimed, the 382 Fibo retracement at 1.4089 becomes conspicuous.



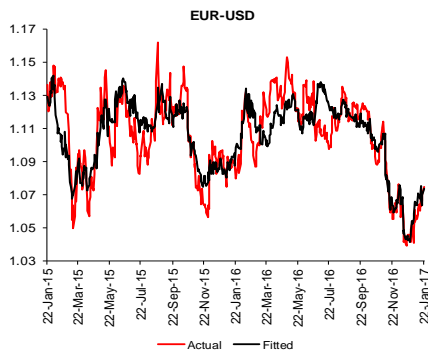
Source: OCBC Bank

- CFETS RMB Index:** The USD-CNY mid-point tracked the big dollar lower this morning to 6.8572 (as largely expected) from 6.8693 last Friday. This pulled the **CFETS RMB Index** lower to 94.72 from 94.86 with little impetus for the CNY NEER to push higher of its own accord.



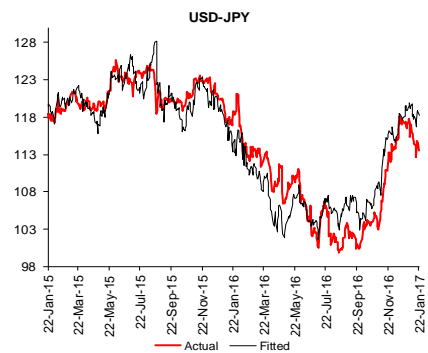
Source: OCBC Bank, Bloomberg

G7



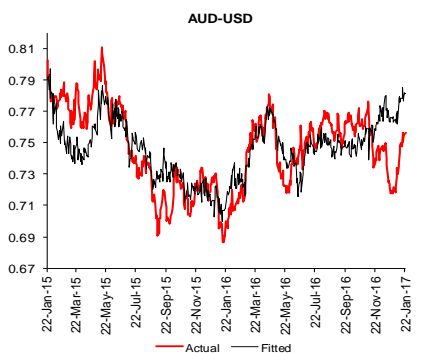
Source: OCBC Bank

- EUR-USD** Short-term implied valuations are firmer from last Friday while we also note the EUR-USD has a ways to go before hitting its head against its implied confidence intervals. We look for an initial near term resistance to materialize at 1.0783 before 1.0800. On the CFTC front, net leveraged EUR shorts were also pared in the latest week while such positioning as a percentage of open interest still remains somewhat loaded.



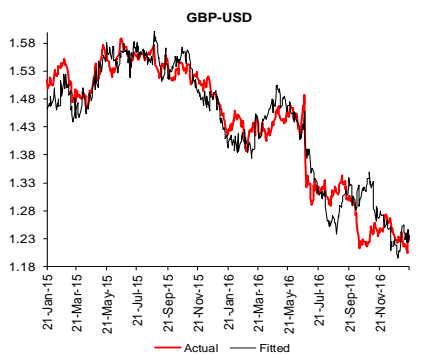
Source: OCBC Bank

- USD-JPY** With the dollar continuing to look defused, the USD-JPY is also expected to continue tracking its softening short term implied valuations. If the pair loses its grip on its 55-day MA (114.04) markets may seek out 112.40. On the CFTC front, net leveraged JPY shorts were also reduced in the latest week.



Source: OCBC Bank

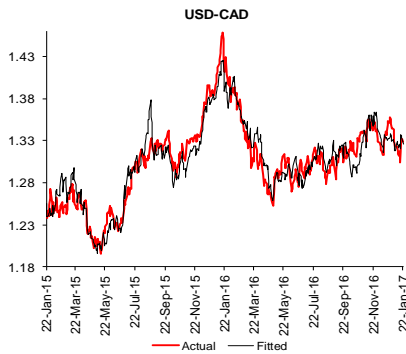
- AUD-USD** Australian 4Q CPI numbers are due on Wednesday awhile investors would also have to contend with global risk appetite levels while awaiting a clearer verdict on the short term dollar. In the interim, AUD-USD may be expected to remain supported on dips and if 0.7600 is challenged successfully, look towards 0.7630. On the CFTC front, note that net leveraged AUD shorts were cut drastically in the latest week. As a proportion of open interest, such poisoning is essentially very light, leaving potential for the pair to swing fairly freely (i.e. in either direction).



Source: OCBC Bank

- GBP-USD** PM Theresa May is due to meet with President Trump this week while the UK Supreme Court on Tuesday will rule on the legality of Brexit proceedings without tacit approval of Parliament. On the CFTC front, net leveraged GBP shorts were increased in the latest week but the softer weaker USD environment since the data may imply weak GBP shorts bailing. Nervousness however remains lurking in the background, with such positioning as a percentage of open interest still looking elevated. Expect slightly supported price action of the pair in the interim with investors

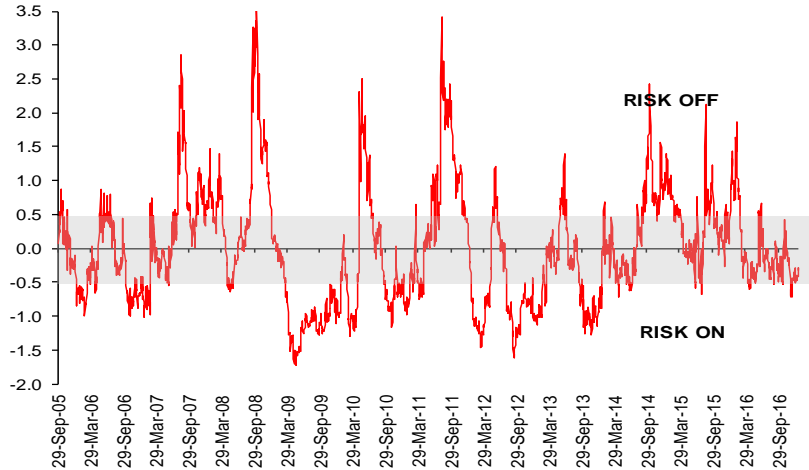
likely to watch for a sustained breach of the 55-day MA (1.2409).



Source: OCBC Bank

- USD-CAD** The CAD may remain to NAFTA-related headlines flow in the coming sessions but in the interim, the pair may attempt cling on to recent ranges amid conflicting signals. On the CFTC front, net leveraged CAD shorts were also reduced significantly in the latest week but USD-CAD may continue to be limited by the 55-day MA (1.3355) up top while expecting initial support at 1.3230.

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	0.641	0.920	-0.444	-0.833	-0.627	0.958	0.432	0.298	-0.469	0.846	-0.985
CHF	0.986	0.639	0.917	-0.450	-0.844	-0.616	0.926	0.405	0.305	-0.401	0.865	-0.990
JPY	0.958	0.632	0.875	-0.404	-0.778	-0.645	1.000	0.418	0.304	-0.539	0.796	-0.938
SGD	0.950	0.699	0.885	-0.589	-0.868	-0.604	0.944	0.425	0.473	-0.395	0.909	-0.954
THB	0.947	0.619	0.855	-0.481	-0.892	-0.542	0.903	0.613	0.271	-0.452	0.766	-0.921
TWD	0.935	0.486	0.894	-0.557	-0.808	-0.571	0.899	0.588	0.401	-0.369	0.793	-0.921
CNY	0.920	0.513	1.000	-0.452	-0.702	-0.637	0.875	0.453	0.258	-0.308	0.865	-0.900
KRW	0.904	0.392	0.922	-0.465	-0.707	-0.618	0.846	0.477	0.200	-0.262	0.780	-0.874
CNH	0.846	0.670	0.865	-0.698	-0.806	-0.601	0.796	0.281	0.543	-0.161	1.000	-0.851
CCN12M	0.793	0.558	0.801	-0.812	-0.812	-0.395	0.755	0.593	0.674	-0.283	0.854	-0.809
CAD	0.776	0.899	0.678	-0.628	-0.909	-0.466	0.765	0.442	0.557	-0.448	0.825	-0.742
MYR	0.775	0.121	0.758	-0.422	-0.599	-0.458	0.721	0.544	0.258	-0.385	0.527	-0.776
IDR	0.682	0.712	0.596	-0.679	-0.859	-0.399	0.696	0.527	0.624	-0.597	0.674	-0.676
USGG10	0.641	1.000	0.513	-0.373	-0.799	-0.294	0.632	0.326	0.365	-0.514	0.670	-0.602
INR	-0.039	-0.260	0.076	0.081	0.398	-0.230	-0.046	-0.382	-0.013	0.151	0.031	0.031
PHP	-0.098	0.547	-0.159	-0.382	-0.217	0.016	-0.132	-0.129	0.529	-0.207	0.164	0.081
GBP	-0.177	0.105	-0.296	-0.114	-0.176	0.337	-0.084	0.275	0.193	-0.348	-0.235	0.240
AUD	-0.954	-0.584	-0.865	0.548	0.892	0.561	-0.934	-0.549	-0.373	0.395	-0.831	0.953
NZD	-0.957	-0.562	-0.880	0.415	0.834	0.628	-0.946	-0.461	-0.235	0.413	-0.813	0.955
EUR	-0.985	-0.602	-0.900	0.474	0.821	0.615	-0.938	-0.402	-0.349	0.432	-0.851	1.000

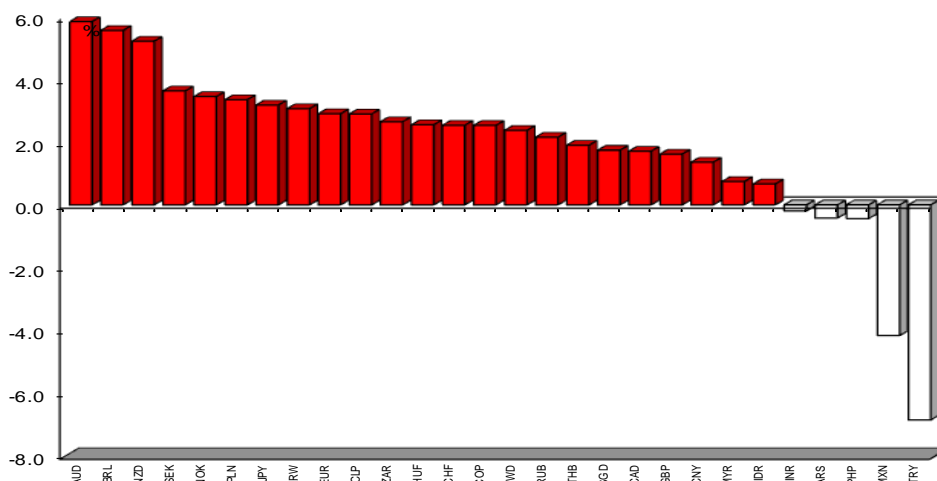
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0572	1.0700	1.0747	1.0750	1.0760
GBP-USD	1.2393	1.2400	1.2437	1.2460	1.2500
AUD-USD	0.7493	0.7500	0.7577	0.7588	0.7600
NZD-USD	0.7088	0.7200	0.7208	0.7239	0.7246
USD-CAD	1.3110	1.3200	1.3283	1.3300	1.3340
USD-JPY	112.80	113.00	113.53	114.00	114.75
USD-SGD	1.4126	1.4152	1.4185	1.4200	1.4311
EUR-SGD	1.5200	1.5241	1.5245	1.5300	1.5398
JPY-SGD	1.2400	1.2473	1.2496	1.2500	1.2548
GBP-SGD	1.7261	1.7600	1.7642	1.7700	1.7742
AUD-SGD	1.0561	1.0700	1.0749	1.0800	1.0808
Gold	1182.52	1200.00	1217.90	1219.40	1232.53
Silver	16.73	17.20	17.24	17.30	17.36
Crude	51.95	53.20	53.29	53.30	55.44

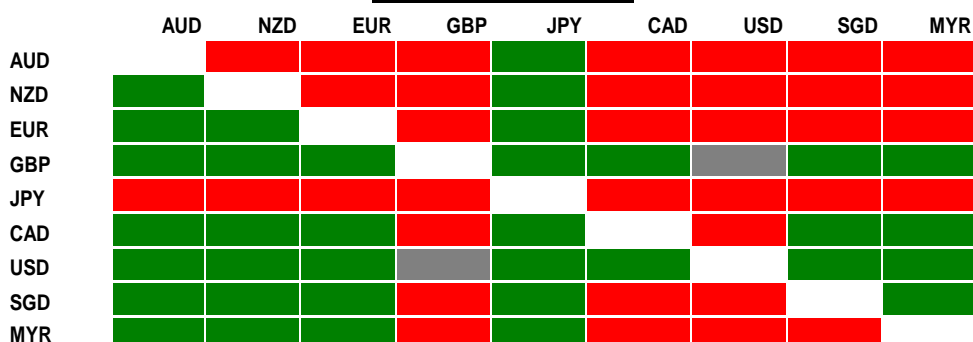
Source: OCBC Bank

FX performance: 1-month change agst USD



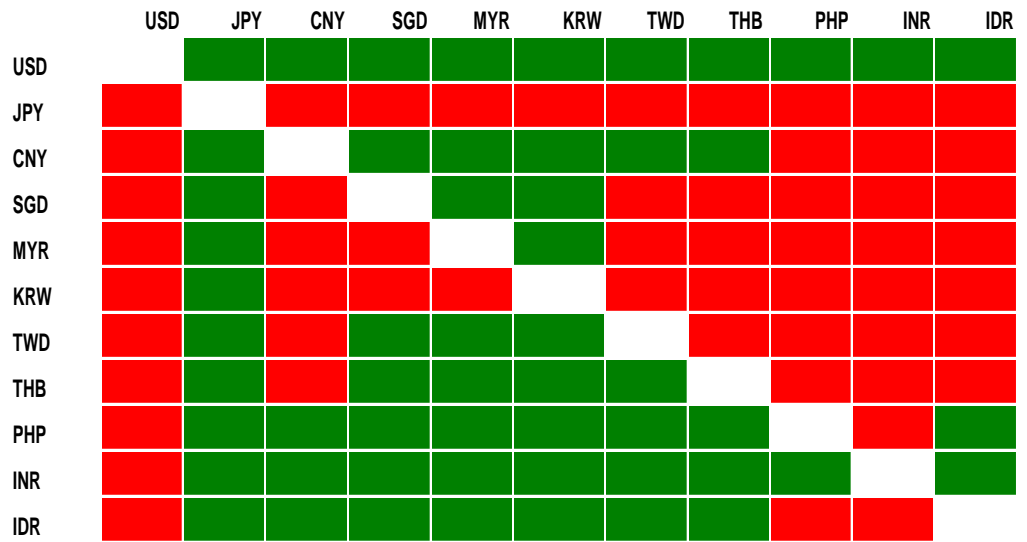
Source: Bloomberg

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	09-Jan-17	S	USD-CAD	1.3264	1.3000 1.3400	Supportive crude and labor market numbers		
2	12-Jan-17	S	USD-JPY	114.63	110.50 116.75	Downward consolidation post-Trump press conference		
3	12-Jan-17	B	AUD-USD	0.7463	0.7670 0.7355	Reflation may dominate as the Trump trade pauses		
4	18-Jan-17	B	EUR-USD	1.0688	1.1015 1.0520	Dollar hiccup, hint of inflation in EZ		
5	20-Jan-17	S	USD-SGD	1.4240	1.4005 1.4360	Potential for Trump's inauguration to disappoint USD bulls		
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	CLS	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*	
7	27-Dec-16	23-Jan-17	CLS	GBP-USD	1.2276	1.2386	A50 risks, UK current account deficits, broad USD strength	-0.77
*of notional						2016 Return	+6.91	

Source: OCBC Bank

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