

Friday, February 24, 2017

FX Themes/Strategy/Trading Ideas

- The USD was dragged almost universally lower after US Treasury Secretary Mnuchin hit the wires (again) by stating that the effects of fiscal stimulus this year may be limited and that “There are certain issues” with a strong dollar. As a result, the UST curve sank (middle sector outperformed) despite hawkish remarks from Fed’s Kaplan (“sooner rather than later”).
- Negative EZ/US equities but mixed commodities leave little clear impetus from the risk appetite front although the **FXSI (FX Sentiment Index)** dipped lower within Risk-On territory on Thursday. As such, and carry may continue to perform, especially with the USD-strength narrative being relegated once again overnight.
- There is no Fed-speak scheduled for today but the greenback is expected to retain a negative after taste into the end of the week – JPY remains relatively more sensitive on this front and we remain tactically positioned against the USD in the near term.

Asian FX

- EM FX made the most of the greenback’s retreat on Thursday and given that EM risk premium compression continues to ensue, we look for further downside room for USD-Asia and the **ACI (Asian Currency Index)**.
- **SGD NEER:** Singapore’s Jan core CPI came in at a warmer than expected +1.5% yoy and together with renewed broad USD vulnerability overnight, the SGD NEER is firmer on the day at around +0.27% above its perceived parity (1.4123). Overnight, the NEER was clocked near +0.50% and investors will continue to monitor official tolerance boundaries for the basket in the current environment.
- NEER-implied USD-SGD thresholds are softer on the day with +0.50% estimated at 1.4053 although the comfort zone we reckon may be closer to +0.20% (1.4095). Meanwhile, volatility considerations may also be coming to the fore again, potentially dampening the velocity of spot moves despite a top heavy stance.

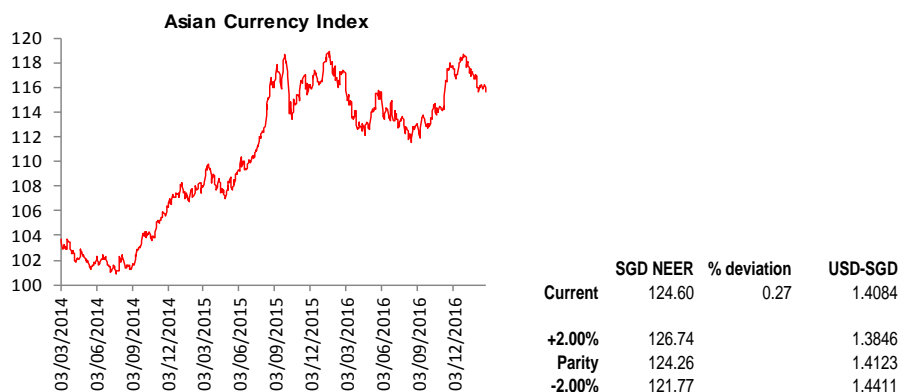
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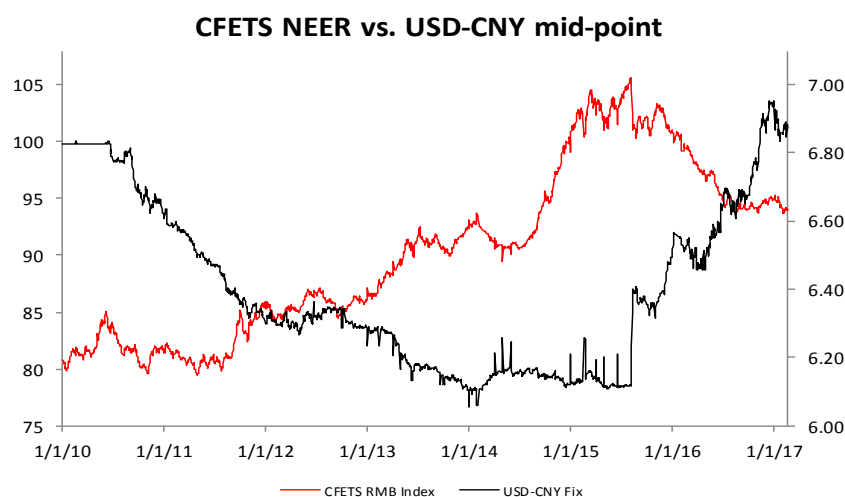
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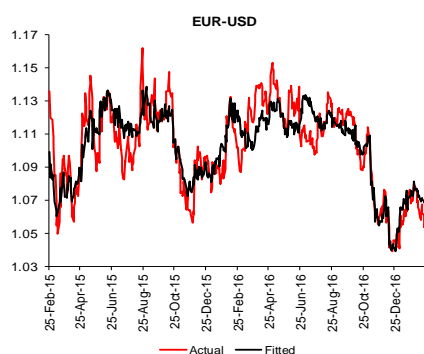
Source: OCBC Bank

- CFETS RMB Index:** On China, US Treasury Secretary Mnuchin also stated that no currency manipulation announcement would be made before the scheduled April report, adding further weight to the USD-CNH overnight. This morning, the USD-CNY mid-point fell to 6.8655 from 6.8695, shifting the **CFETS RMB Index** lower to 93.84 from 94.06 on Thursday.



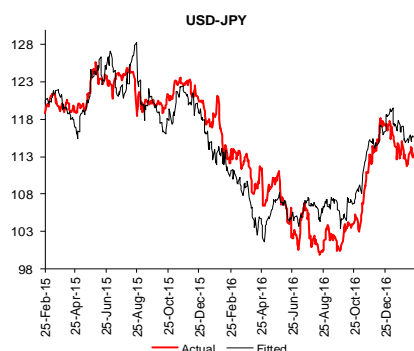
Source: OCBC Bank, Bloomberg

G7



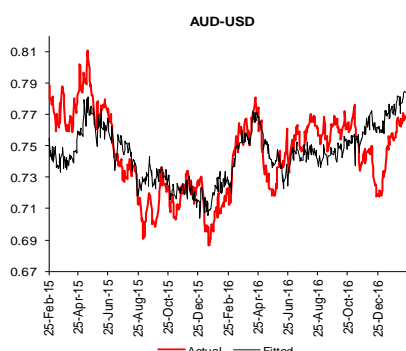
Source: OCBC Bank

- EUR-USD** EUR-USD floated higher with French political risk premium alleviating although caution may still be warranted (note anti EU rhetoric from Le Pen) as the common currency continued to underperform across G10 overnight. Into the end of the week, the pair may be slightly underpinned although upticks are unlikely to be excessive pending further political headlines. Initial resistance expected into the 55-day MA (1.0594), where we expect the pair to run out of puff while 1.0535 may cushion on dips.



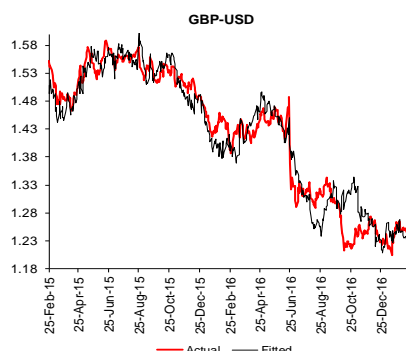
Source: OCBC Bank

- USD-JPY** USD-JPY stepped below 113.00 as the broad dollar stumbled, with the JPY-crosses also in tow. Technical considerations and short term implied valuations continue to vector south for the USD-JPY with 112.30 now the next visible support.



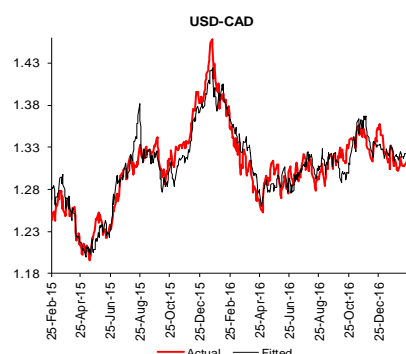
Source: OCBC Bank

- AUD-USD** This morning, the RBA's Lowe came across as sanguine and neutral, adding that its "hard to say the AUD is fundamentally overvalued" but "It would be better if it were lower". Short term implied valuations are looking slightly consolidative into the end of the week and the AUD-USD may then attempt to base build around the 0.7700 neighborhood.



Source: OCBC Bank

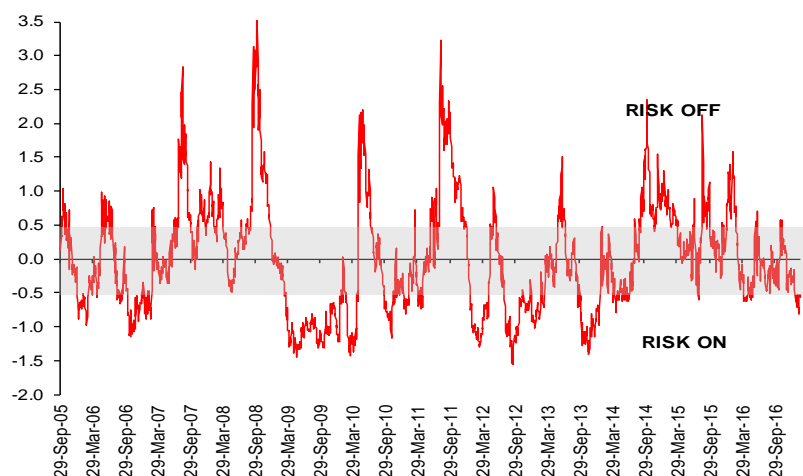
- GBP-USD** The GBP-USD firmed despite Austrian Chancellor Kern tagging a EUR60bn bill on the UK for Brexit. Filtering out the discretionary USD impact from overnight, near term prospects for the cable are slightly supported to mixed at this juncture with 1.2550 a likely sticking point. However, given the current balance of headline chatter between the UK and the EZ meanwhile, investors may remain heavy on the EUR-GBP towards 0.8400.



Source: OCBC Bank

- USD-CAD** Firmer crude and a weak USD worked in conjunction to pull the USD-CAD briefly below 1.3100 on Thursday. Ahead of the Jan CPI numbers tonight, expect some consolidative price action to persist with spot attempting to converge with short term implied valuations in recent sessions. In the interim, 1.3080 is seen offering initial support while the 200-day MA (1.3148) is expected to offer resistance up top. Collect dips.

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	-0.224	0.201	0.846	0.829	-0.333	0.385	0.254	-0.104	-0.157	0.731	-0.976
CHF	0.940	-0.134	0.367	0.810	0.759	-0.187	0.380	0.384	-0.174	-0.280	0.651	-0.931
MYR	0.850	-0.293	0.048	0.916	0.893	-0.385	0.150	0.260	0.213	0.030	0.681	-0.859
CNH	0.731	-0.127	0.351	0.497	0.593	-0.292	0.535	0.056	-0.185	0.093	1.000	-0.723
PHP	0.731	-0.226	0.196	0.841	0.850	-0.380	0.170	0.575	0.244	-0.104	0.495	-0.775
AUD	0.495	-0.500	-0.284	0.727	0.720	-0.371	-0.409	0.419	0.353	0.127	0.031	-0.562
CAD	0.439	-0.415	0.166	0.165	0.218	-0.275	0.115	-0.252	-0.185	0.124	0.399	-0.415
JPY	0.385	0.659	0.272	0.120	0.068	0.334	1.000	0.083	-0.369	-0.543	0.535	-0.242
SGD	0.384	0.265	0.311	-0.019	-0.002	0.218	0.765	-0.284	-0.548	-0.184	0.596	-0.200
CNY	0.201	0.176	1.000	0.004	0.017	-0.063	0.272	-0.019	-0.301	0.007	0.351	-0.268
IDR	-0.046	0.374	0.421	0.052	0.065	-0.012	0.207	0.325	0.357	-0.175	-0.050	0.009
USGG10	-0.224	1.000	0.176	-0.272	-0.389	0.501	0.659	0.060	-0.134	-0.659	-0.127	0.308
THB	-0.435	0.605	0.321	-0.641	-0.648	0.409	0.483	-0.280	-0.260	-0.317	-0.056	0.540
KRW	-0.478	0.486	0.289	-0.586	-0.611	0.654	0.261	-0.131	-0.236	-0.236	-0.207	0.521
GBP	-0.578	0.312	0.276	-0.519	-0.518	0.474	0.078	0.064	-0.124	-0.103	-0.184	0.477
CCN12M	-0.580	0.688	0.196	-0.597	-0.618	0.465	0.368	0.084	-0.043	-0.230	-0.180	0.624
INR	-0.595	0.557	0.015	-0.717	-0.752	0.336	0.235	-0.362	-0.094	-0.276	-0.325	0.682
TWD	-0.628	0.348	0.163	-0.838	-0.856	0.716	0.119	-0.313	-0.627	-0.269	-0.370	0.664
NZD	-0.874	0.226	-0.092	-0.763	-0.772	0.136	-0.372	-0.324	0.144	0.026	-0.755	0.855
EUR	-0.976	0.308	-0.268	-0.878	-0.882	0.429	-0.242	-0.338	0.009	0.044	-0.723	1.000

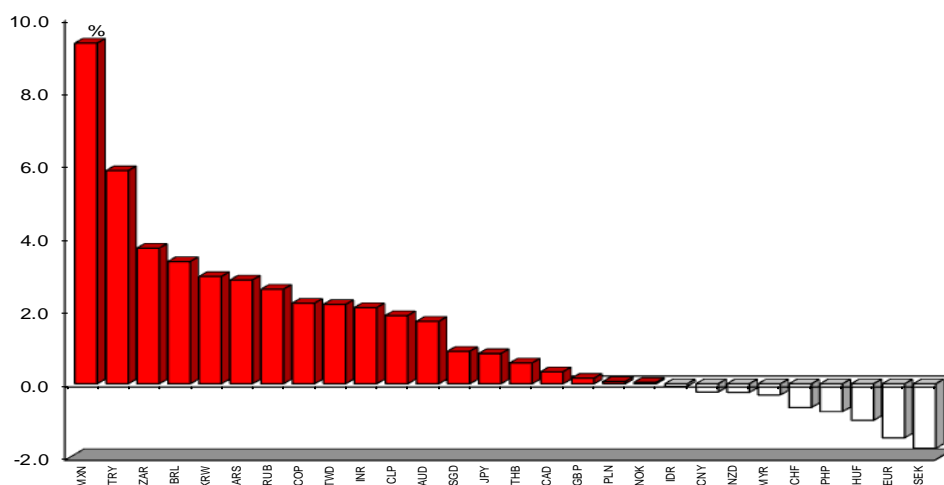
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0498	1.0500	1.0572	1.0597	1.0600
GBP-USD	1.2389	1.2500	1.2539	1.2600	1.2607
AUD-USD	0.7568	0.7700	0.7706	0.7740	0.7741
NZD-USD	0.7133	0.7200	0.7228	0.7300	0.7337
USD-CAD	1.3003	1.3100	1.3113	1.3146	1.3182
USD-JPY	111.75	112.00	112.83	113.00	114.34
USD-SGD	1.4041	1.4051	1.4084	1.4100	1.4252
EUR-SGD	1.4853	1.4870	1.4890	1.4900	1.5120
JPY-SGD	1.2402	1.2441	1.2483	1.2500	1.2625
GBP-SGD	1.7519	1.7600	1.7660	1.7683	1.7700
AUD-SGD	1.0700	1.0800	1.0854	1.0900	1.0960
Gold	1191.66	1200.00	1250.20	1250.30	1258.19
Silver	18.03	18.10	18.17	18.20	18.21
Crude	53.70	54.30	54.35	54.40	54.68

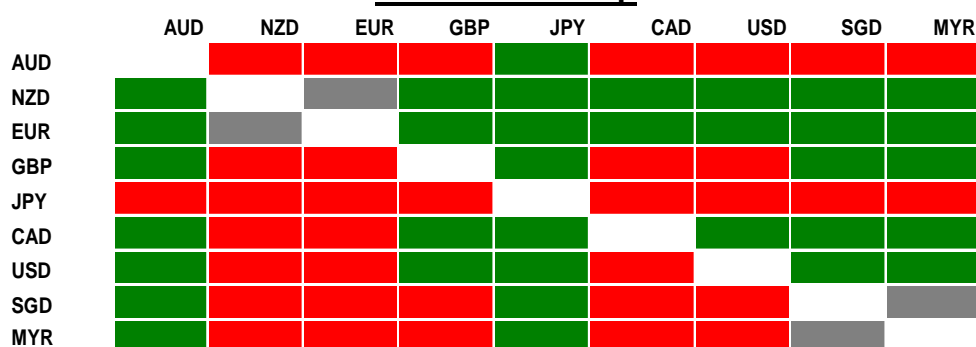
Source: OCBC Bank

FX performance: 1-month change agst USD



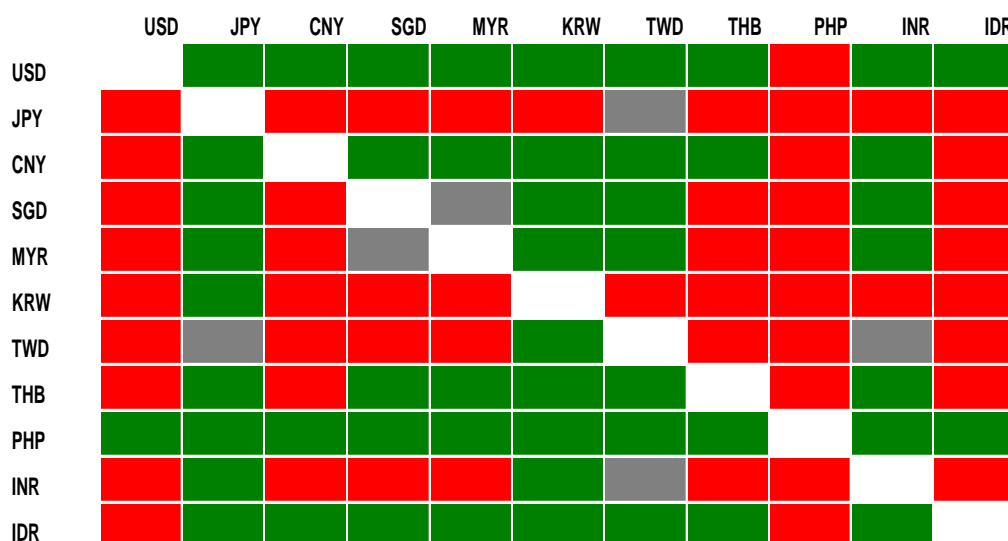
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

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, 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			
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 expected 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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