

Tuesday, January 24, 2017

FX Themes/Strategy/Trading Ideas

- Expect the USD vulnerability (UST curve lower and bull flatten from the long end) to persist into the Asian session as markets increasingly dwell on the negative aspects of implied US protectionism. Overnight, President Trump moved to terminate the TPP and also to renegotiate NAFTA, while also promising border taxes. To further aggravate matters, note that late Monday/early Tuesday, US Treasury Secretary nominee Mnuchin also noted that an excessively strong dollar may be negative in the short term. He also added that he would assess the damage from China's FX intervention.
- Overall, if the market continues to be fed protectionist and mercantilist headlines from the US administration while details of the much heralded US fiscal stimulus remains scant, expect the broad USD to continue to capitulate lower across the board. Elsewhere, despite rate hike supportive comments from the Fed's Lacker, the Trump unwind trade may continue to dominate.
- The DXY has tested below 100.00 with the USD-JPY still seen most reactive in the current environment, with the JPY also benefiting in the face of background risk aversion. Overall, not much of a reach for the DXY to relapse further back to pre-election levels circa 98.00. We remain tactically short the USD.
- Despite negative EZ/US equities, the **FXSI (FX Sentiment Index)** slipped slightly within Risk-Neutral territory on Monday despite background investor uncertainty.

Asian FX

- We look for the **ACI (Asian Currency Index)** to continue to seek lower in the current dollar environment. With the regionals also taking cues from the JPY and CNY, note that the North Asians (KRW, TWD) and the SGD may continue to be relatively more reactive.
- **SGD NEER:** The SGD NEER this morning is hovering around -0.25% below its perceived parity (1.4142). Give broad dollar weakness, NEER-implied USD-SGD thresholds continue to shade lower with -0.50% estimated at 1.4214. What is instructive in the current episode of broad dollar weakness is that the SGD NEER has not had the inclination to materially test above its perceived parity and we think that this may be partially attributable to increasingly shaky risk appetite levels.
- Note also volatility indicators for the USD-SGD are also beginning to light up,

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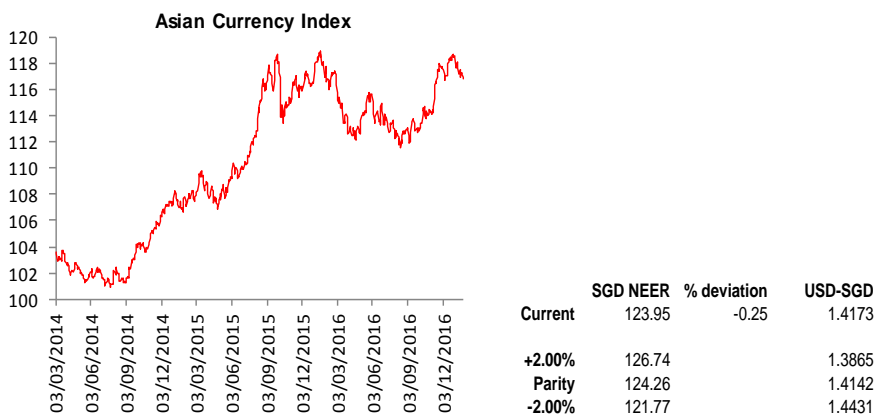
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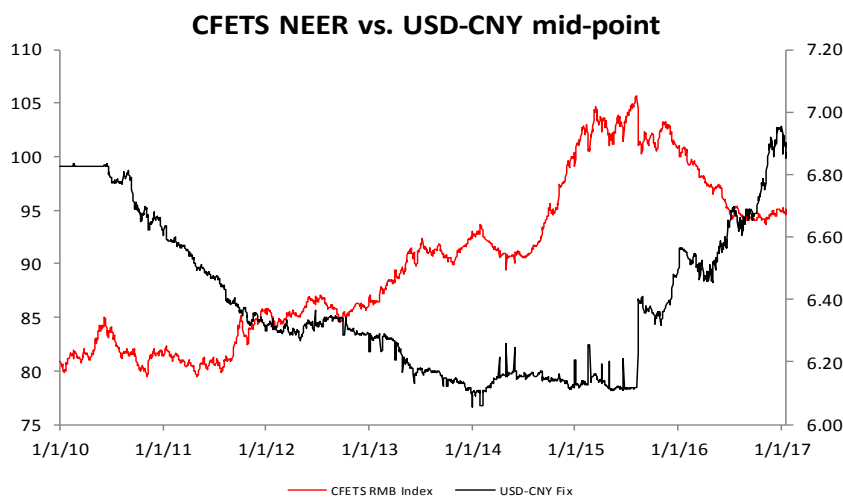
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

potentially tempering the speed of the pair's descent. In the interim, USD-SGD may be expected to remain heavy and as stated previously, the 382 Fibo retracement at 1.4089 is now increasingly conspicuous, although a pit stop is expected into 1.4120.



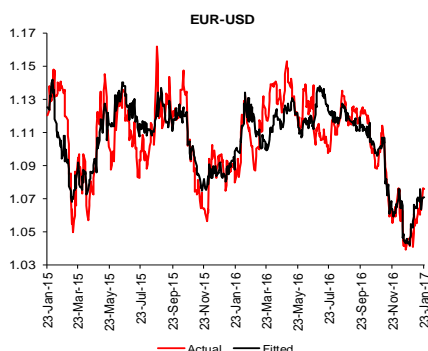
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point weakened further to 6.8331 (as largely expected) from 6.8572 on Monday. This saw the **CFETS RMB Index** easing again to 94.63 from 94.72.



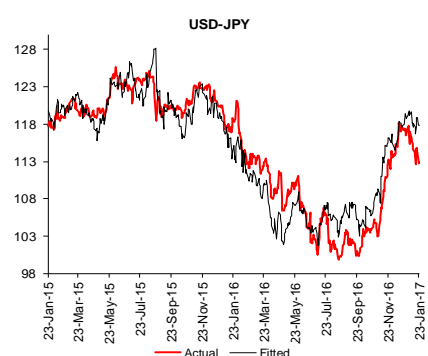
Source: OCBC Bank, Bloomberg

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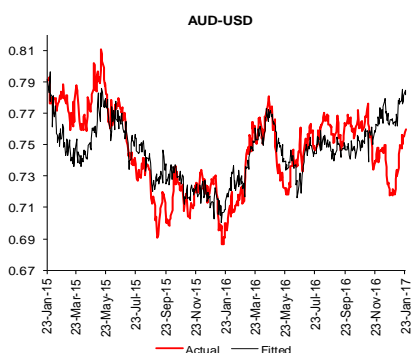
Source: OCBC Bank

- **EUR-USD** EUR-USD has thus far ignored brewing political concerns (La Pen headlines) and the pair may continue to reach for the upper end of its short term implied valuations. Technically, expect some resistance into the 1.0800 zone intra-day ahead of the 100-day MA (1.0829).



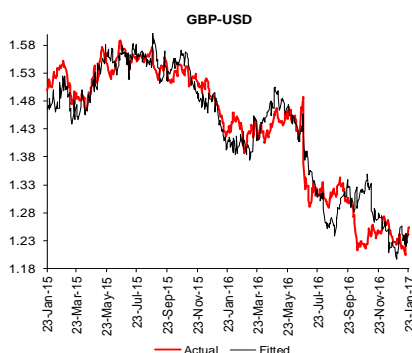
Source: OCBC Bank

- **USD-JPY** Japan's flash manufacturing PMI for Jan 17 improved further but this will continue to prove secondary to the current broad dollar retracement lower. Short term implied valuations for the USD-JPY have also turned lower on the back of lower UST yields. After violating the 55-day MA (114.17), we look towards initial support on approach of 112.40 before 112.00.



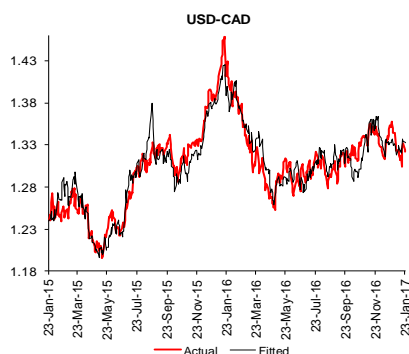
Source: OCBC Bank

- **AUD-USD** AUD-USD is expected to continue to attempt to play catch up with its still firming short term implied valuations and with risk appetite levels still sanguine on the surface. The pair is on the verge of breaking above 0.7600 on a sustained basis with the next waypoint expected at 0.7640.



Source: OCBC Bank

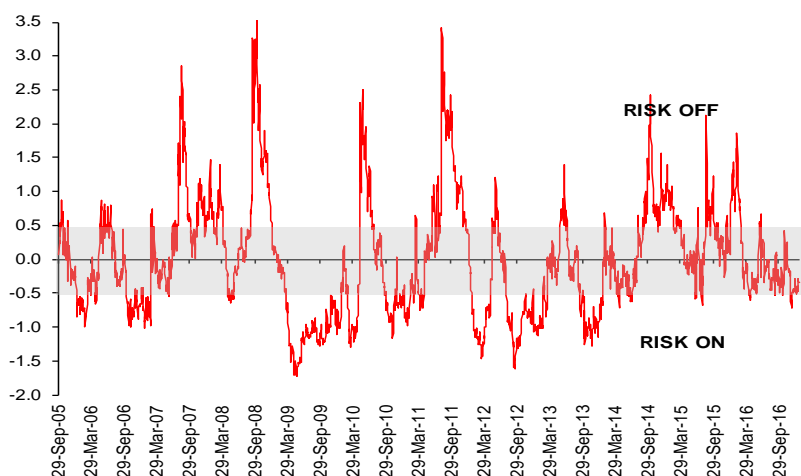
- **GBP-USD** The Supreme Court ruling on A50 is scheduled at 0930 GMT today with investors expecting a ruling in favor of Parliament. With acute pessimism kept at bay (for now), GBP-USD has managed to lift higher (slightly) in line with its peers. We are increasingly constructive on GBP-USD in the near term and if the pair can successfully break away from its 100-day MA (1.2520), look towards 1.2565 before 1.2600.



Source: OCBC Bank

- USD-CAD** The CAD may continue to suspend NAFTA concerns in the near term with the USD-CAD sinking below 1.3250 overnight. Note also that a Trump advisor also stated that Canada has a “very special status”, allaying concerns somewhat. Continue to fade upticks with potential to sink below 1.3200 towards 1.3175.

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	0.597	0.930	-0.405	-0.808	-0.617	0.960	0.451	0.381	-0.491	0.842	-0.986
CHF	0.987	0.588	0.925	-0.404	-0.810	-0.602	0.942	0.385	0.388	-0.430	0.869	-0.992
JPY	0.960	0.590	0.886	-0.355	-0.753	-0.640	1.000	0.376	0.373	-0.559	0.806	-0.952
SGD	0.950	0.671	0.897	-0.552	-0.860	-0.601	0.948	0.410	0.545	-0.422	0.914	-0.958
TWD	0.947	0.469	0.905	-0.509	-0.811	-0.593	0.913	0.537	0.448	-0.408	0.805	-0.933
THB	0.939	0.574	0.866	-0.459	-0.877	-0.506	0.897	0.619	0.365	-0.453	0.774	-0.913
CNY	0.930	0.493	1.000	-0.421	-0.702	-0.652	0.886	0.420	0.319	-0.344	0.872	-0.908
KRW	0.918	0.374	0.930	-0.399	-0.710	-0.634	0.866	0.430	0.257	-0.307	0.794	-0.890
CNH	0.842	0.648	0.872	-0.685	-0.803	-0.587	0.806	0.275	0.632	-0.179	1.000	-0.857
MYR	0.838	0.149	0.799	-0.375	-0.655	-0.533	0.790	0.488	0.283	-0.445	0.586	-0.838
CCN12M	0.777	0.556	0.792	-0.804	-0.838	-0.393	0.733	0.583	0.728	-0.290	0.855	-0.782
CAD	0.766	0.890	0.655	-0.650	-0.902	-0.394	0.728	0.442	0.679	-0.425	0.817	-0.717
IDR	0.638	0.692	0.574	-0.686	-0.867	-0.352	0.646	0.525	0.710	-0.579	0.650	-0.625
USGG10	0.597	1.000	0.493	-0.387	-0.770	-0.181	0.590	0.326	0.498	-0.493	0.648	-0.557
INR	-0.012	-0.157	0.082	0.068	0.310	-0.454	-0.039	-0.394	-0.142	0.119	0.079	0.021
PHP	-0.230	0.503	-0.260	-0.375	-0.133	0.145	-0.264	-0.134	0.534	-0.112	0.053	0.219
GBP	-0.318	0.017	-0.436	-0.095	-0.050	0.441	-0.387	0.192	0.101	-0.144	-0.396	0.489
AUD	-0.950	-0.545	-0.880	0.526	0.880	0.541	-0.933	-0.557	-0.468	0.413	-0.844	0.948
NZD	-0.958	-0.506	-0.898	0.384	0.800	0.604	-0.957	-0.445	-0.338	0.433	-0.825	0.964
EUR	-0.986	-0.557	-0.908	0.423	0.792	0.609	-0.952	-0.377	-0.419	0.461	-0.857	1.000

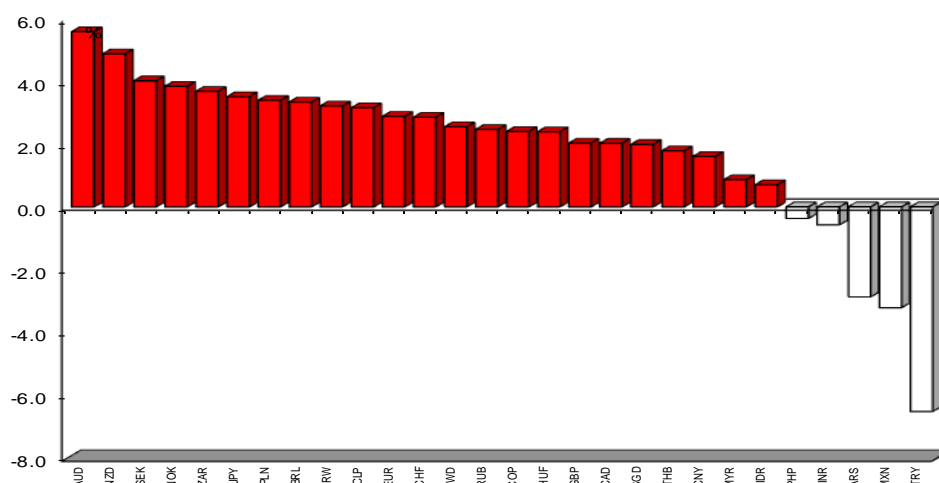
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0573	1.0700	1.0750	1.0772	1.0787
GBP-USD	1.2396	1.2500	1.2518	1.2522	1.2600
AUD-USD	0.7492	0.7500	0.7586	0.7600	0.7602
NZD-USD	0.7089	0.7200	0.7230	0.7265	0.7273
USD-CAD	1.3113	1.3200	1.3234	1.3300	1.3335
USD-JPY	112.53	113.00	113.07	114.00	114.81
USD-SGD	1.4108	1.4152	1.4183	1.4200	1.4312
EUR-SGD	1.5185	1.5200	1.5247	1.5257	1.5300
JPY-SGD	1.2466	1.2500	1.2543	1.2585	1.2595
GBP-SGD	1.7700	1.7747	1.7753	1.7800	1.7938
AUD-SGD	1.0563	1.0700	1.0759	1.0800	1.0808
Gold	1181.30	1200.00	1216.10	1220.10	1234.40
Silver	16.71	17.20	17.23	17.30	17.36
Crude	52.04	52.90	52.98	53.00	55.42

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	Grey	Red	Green	Green
JPY	Red	Red	Red	Red		Red	Red	Red	Red
CAD	Green	Green	Green	Grey	Green		Red	Green	Green
USD	Green	Green	Green	Green	Green	Green		Green	Green
SGD	Green	Green	Green	Red	Green	Red	Red		Green
MYR	Green	Green	Green	Red	Green	Red	Red	Red	

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

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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