

**Monday, February 27, 2017**

**FX Themes/Strategy/Trading Ideas – The week ahead**

- Despite a softer UST curve, the USD climbed across G10 except the JPY, with the latter underpinned by cited investor nervousness (shaky global equities and softer EZ/US govie yields). Thus, the **FXSI (FX Sentiment Index)** shrank back higher into Risk-Neutral territory from Risk-On territory.
- This week, US President Trump addresses a joint session of Congress on Tuesday and headline risks for the dollar and the Trump-trade in general may be in focus, with investors likely in stasis in the interim (note however some background skepticism that the speech would provide further fuel to the fiscally-induced Trump-trade). The Beige Book is due on Wednesday while the Fed speak schedule this week is filled and starts with Kaplan today (1600 GMT) today and ends with Fischer and Fed chair Yellen (who will present on the economic outlook) on Friday.
- Elsewhere on the global calendar, global manufacturing PMIs are due on Wednesday (and services/composite PMIS on Friday), and absent any drastic downside surprises, may continue to underpin the global deflation trade if risk appetite levels permit. Overall, short term dollar vulnerability may slow/pause ahead of Trump and react further to Fed rhetoric this week. EUR vulnerability meanwhile may linger, with JPY potentially to benefit if risk aversion spreads.
- On the **CFTC** front, large non-commercial accounts increased ever so slightly their net implied long dollar positioning in aggregate but leveraged accounts went in the opposite direction and trimmed slightly their implied long dollar bias. Meanwhile, asset managers bumped up their implied long dollar positioning in the latest week. Overall, large non-commercial accounts and asset managers may have been prepping for some USD resilience, only to be met with the DXY softening into the latter part of the week.

**Asian FX**

- EM (Asian FX) may not be wholly immune to any USD resilience in the near term, especially if it is borne out of investor jitters. Note that Asian equities have also gotten off to a negative start early Asian morning on Monday. From a flow perspective, EPFR data meanwhile showed a drastic fall of in implied net equity inflows in Asia (ex-Japan, China) in the latest week although implied net bond inflows improved. As such, the **ACI (Asian Currency Index)** may be tempted higher in the short term. On the central bank front, BNM is expected to stand pat at 3.00% on Thursday.

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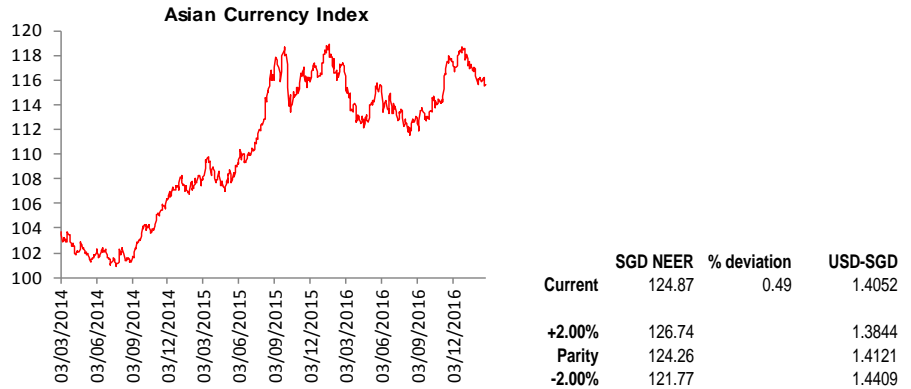
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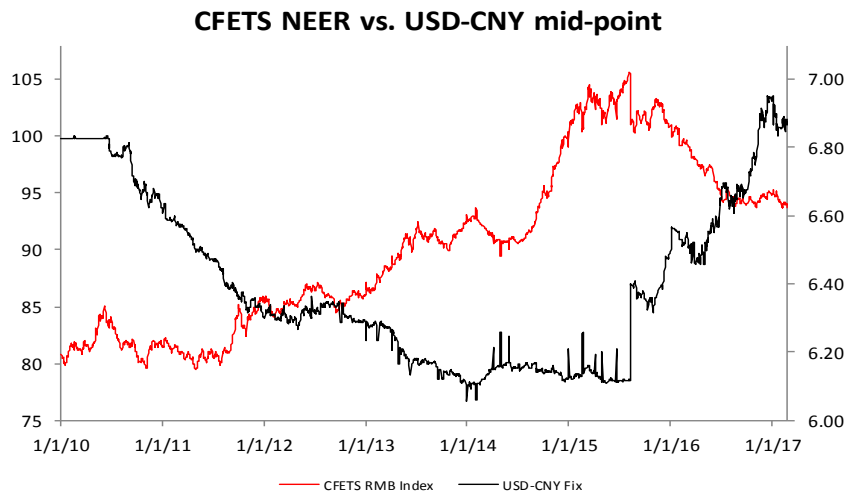
**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

- SGD NEER:** This morning, the SGD NEER is firmer at +0.49% above its perceived parity (1.4120) despite NEER-implied USD-SGD thresholds essentially unchanged on the day from last Friday. Markets are likely to continue to monitor official tolerance levels for the SGD NEER's recent rise. On this front, our volatility indicators (for the NEER and USD-SGD) are preaching caution. At current levels, the +0.50% threshold is estimated at 1.4049, where the basket may be expected to oscillate pending further external influences. The technical tone for the USD-SGD meanwhile remains heavy, with a near term floor expected into 1.4015.



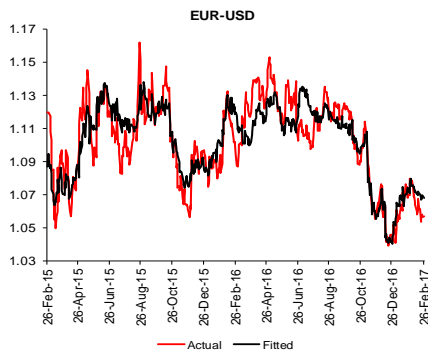
Source: OCBC Bank

- CFETS RMB Index:** Official chatter continues to dispel any notions of outright yuan depreciation, especially for trade competitiveness reasons. This week, look to the **China PMIs** (Wed and Fri) for macro cues while the **Chinese People's Political Consultative Conference** (from Friday) and the **National People's Congress** (from next Monday) may be expected to provide policy direction for markets. This morning, the USD-CNY mid-point firmed to 6.8814 from 6.8655, pulling the **CFETS RMB Index** lower to 93.75 from 93.84 last Friday. The basket is already at recent historical lows with investors likely on the lookout for further softening up ahead.



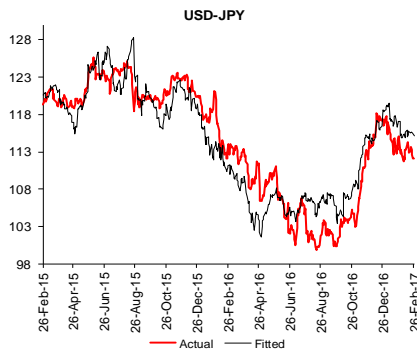
Source: OCBC Bank, Bloomberg

**G7**



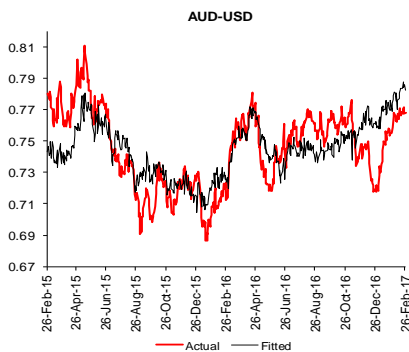
Source: OCBC Bank

- EUR-USD** EZ CPI numbers due this week although the consensus is that any pickup in headline numbers are unlikely to deter the ECB at this juncture. EUR fragility may persist with latest opinion poll showing support for Le Pen at 27% vs. 25% for macron, although the former is still seen being defeated in the second round. On the CFTC front, net leveraged EUR shorts were increased in the latest week and although short term implied valuations are static, the pair is expected to remain heavy on a multi-session horizon. Resistance is expected into the 55-day MA (1.0592) with the 1.0550 support still at risk towards 1.0520.



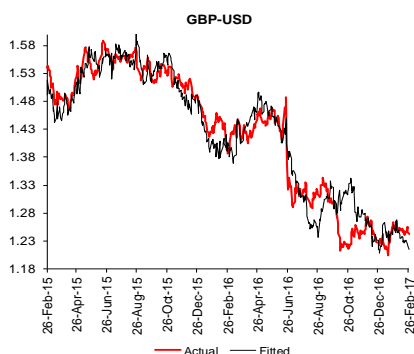
Source: OCBC Bank

- USD-JPY** Background risk aversion may continue to see the 112.00 support under continual threat in the near term, while Trump's address on Tuesday may portend further headline risks. Short term implied valuations remain top heavy while on the CFTC front, net leveraged JPY shorts were also trimmed slightly in the latest week. Pivotal support is seen towards the 100-day MA (111.81) and a violation risks 111.60 and 111.00.



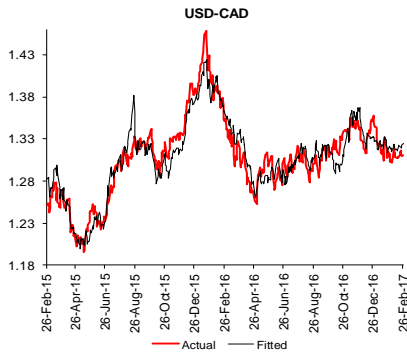
Source: OCBC Bank

- AUD-USD** The pair may have a lot to contend with this week from the likes of USD dynamics, China news flow, generalized risk appetite levels, global reflation trade prospects, as well as domestic data flow. On the CFTC front, net leveraged AUD longs accumulated significantly in the latest week although the pair may be slightly more consolidative (but supported) pending global news flow. Support structures are expected towards 0.7650 and 0.7620.



- GBP-USD** The GBP-USD tripped further early Monday in Asia on Scottish referendum jitters while the House of Lords will also hold a detailed review of the A50 bill today (1500 GMT). On the CFTC front, net leveraged GBP shorts were increased in the latest week. Meanwhile, with short term implied valuations still slippery, GBP-USD upside remains a big no and a breach below 1.2400 lights the way to 1.2380 and 1.2350.

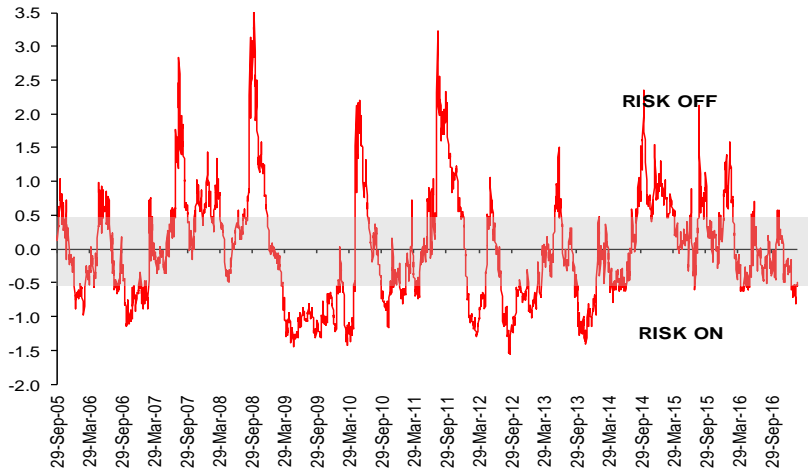
Source: OCBC Bank



- USD-CAD** With crude consolidating, the USD-CAD may be left to react to USD dynamics and global risk appetite gyrations. Elsewhere, look also to the Bank of Canada on Wednesday, when policy is expected to be kept unchanged. On the CFTC front, net leveraged CAD longs increased in the latest week but the pair may be buoyed somewhat by solidifying short term implied valuations. In the interim, USD-CAD may continue to anchor itself around 1.3100, preferring to bounce on dips.

Source: OCBC Bank

### 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	-0.234	0.361	0.862	0.857	-0.360	0.290	0.327	-0.198	-0.405	0.736	-0.980
CHF	0.966	-0.265	0.461	0.872	0.857	-0.336	0.255	0.434	-0.177	-0.377	0.699	-0.976
MYR	0.840	-0.139	0.181	0.870	0.906	-0.282	0.295	0.298	0.111	-0.170	0.712	-0.839
CNH	0.736	-0.096	0.366	0.466	0.557	-0.208	0.559	0.035	-0.292	-0.090	1.000	-0.707
PHP	0.734	-0.283	0.301	0.864	0.867	-0.426	0.143	0.642	0.163	-0.365	0.491	-0.790
AUD	0.508	-0.336	-0.205	0.730	0.689	-0.118	-0.295	0.482	0.135	-0.375	-0.072	-0.531
CAD	0.457	-0.383	0.452	0.213	0.298	-0.438	0.078	-0.271	-0.226	0.197	0.511	-0.467
CNY	0.361	0.020	1.000	0.025	0.068	-0.171	0.265	-0.048	-0.174	0.262	0.366	-0.389
JPY	0.290	0.681	0.265	0.108	0.129	0.294	1.000	-0.040	-0.269	-0.481	0.559	-0.179
SGD	0.189	0.402	0.380	-0.094	-0.020	0.244	0.779	-0.432	0.511	-0.079	0.566	-0.078
IDR	-0.038	0.389	0.385	0.010	0.059	0.024	0.288	0.364	0.443	-0.165	-0.054	0.012
USGG10	-0.234	1.000	0.020	-0.336	-0.336	0.483	0.681	-0.073	0.080	-0.389	-0.096	0.338
THB	-0.511	0.559	0.415	-0.665	-0.592	0.210	0.481	-0.381	0.006	0.133	0.008	0.583
KRW	-0.526	0.410	0.409	-0.599	-0.489	0.491	0.150	-0.193	0.152	0.508	-0.093	0.533
CCN12M	-0.577	0.624	0.024	-0.594	-0.588	0.408	0.343	0.042	0.135	0.029	-0.143	0.622
GBP	-0.621	0.155	-0.016	-0.545	-0.483	0.408	0.122	-0.093	0.128	0.355	-0.186	0.577
INR	-0.625	0.465	0.014	-0.728	-0.697	0.007	0.187	-0.349	0.119	0.125	-0.180	0.671
TWD	-0.678	0.095	-0.126	-0.911	-0.840	0.479	-0.207	-0.534	-0.444	0.587	-0.327	0.691
NZD	-0.871	0.185	-0.237	-0.774	-0.797	0.110	-0.332	-0.357	0.246	0.227	-0.775	0.866
EUR	-0.980	0.338	-0.389	-0.891	-0.889	0.441	-0.179	-0.354	0.107	0.313	-0.707	1.000

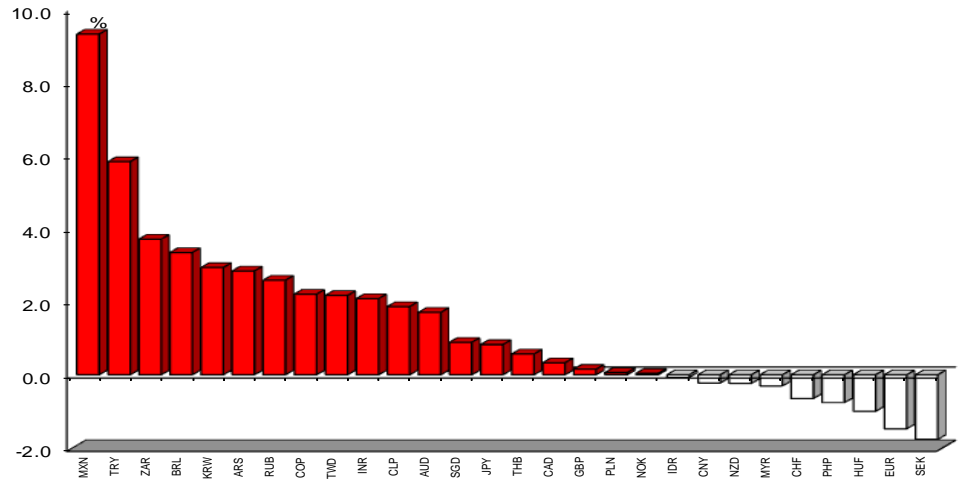
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.0494	1.0500	1.0573	1.0600	1.0630
<b>GBP-USD</b>	1.2388	1.2400	1.2426	1.2500	1.2604
<b>AUD-USD</b>	0.7587	0.7600	0.7688	0.7700	0.7729
<b>NZD-USD</b>	0.7118	0.7135	0.7197	0.7200	0.7330
<b>USD-CAD</b>	1.3002	1.3100	1.3105	1.3146	1.3179
<b>USD-JPY</b>	111.60	112.00	112.01	113.00	114.31
<b>USD-SGD</b>	1.4016	1.4022	1.4037	1.4100	1.4255
<b>EUR-SGD</b>	1.4810	1.4819	1.4841	1.4900	1.5114
<b>JPY-SGD</b>	1.2445	1.2500	1.2532	1.2600	1.2627
<b>GBP-SGD</b>	1.7188	1.7400	1.7443	1.7452	1.7500
<b>AUD-SGD</b>	1.0700	1.0704	1.0792	1.0800	1.0958
<b>Gold</b>	1200.00	1200.06	1258.50	1260.20	1263.26
<b>Silver</b>	18.04	18.30	18.37	18.40	18.40
<b>Crude</b>	53.67	53.90	53.98	54.00	54.66

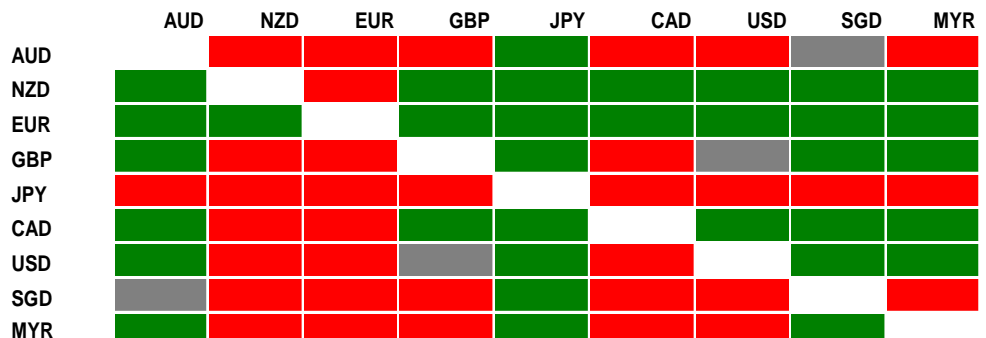
Source: OCBC Bank

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



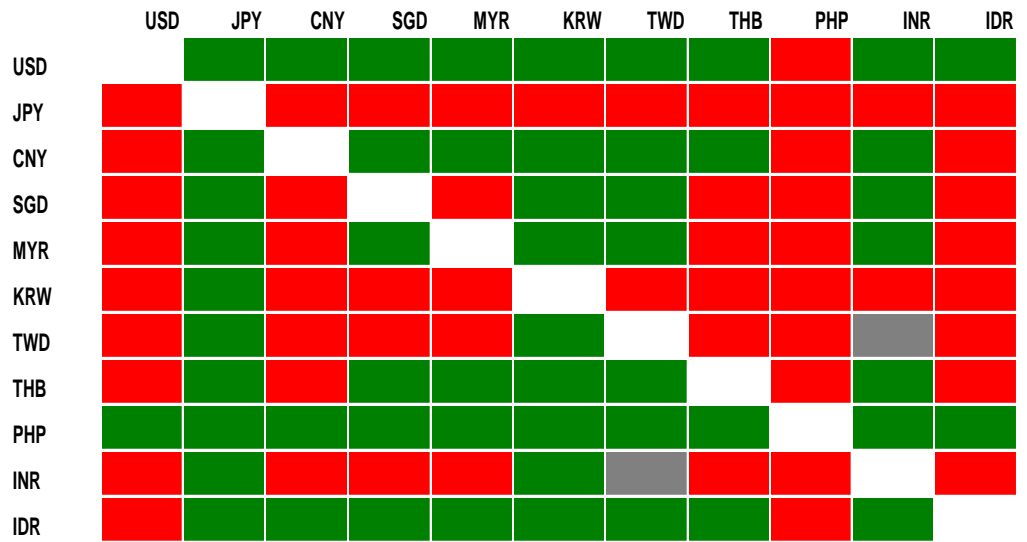
Source: Bloomberg

**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	
<b>TACTICAL</b>								
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	
<b>STRUCTURAL</b>								
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 reflation 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 reflation, supportive domestic data, USD hesitation	-0.52
* realized								Jan 2017 Return -6.78 2016 Return +6.91

Source: OCBC Bank

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