

**Monday, February 01, 2016**

## **FX Themes/Strategy/Trading Ideas**

- This week, apart from the aftershocks from the BOJ's surprise move into negative interest rate territory, the interplay of conflicting influences may continue to keep the market environment in a flux. Note that the BOJ's action has also depressed global curves (including USTs) while global equities also responded positively to the BOJ on Friday with the **FXSI (FX Sentiment Index)** easing again within Risk-Off territory. On the **CFTC** front, implied net non-commercial dollar longs were pared in the latest week but implied net leveraged dollar longs were beefed up in the same period. Overall, expect the JPY to continue to fade across the board.
- The **global calendar** kicks off with the China PMIs (0100 GMT) heralding the slew of global PMIs throughout the trading day. The crowded calendar will be topped off by the US January NFP numbers on Friday. On the central bank front, the RBI convenes on Tuesday, the BOT on Wednesday. In G7 space, look to the RBA policy meeting on Tuesday and the BOE MPC (including the Inflation Report) on Thursday. In a nutshell, we look for a healthy dose of dovishness from global central bankers this week.
- Early Monday, we closed off our previous 04 Jan 16 idea to be long **USD-SGD** (sot ref: 1.4230) at 1.4240 essentially at cost. Near term, markets may attempt to feed off positive risk appetite developments and keep the USD-SGD top heavy, despite our structural misgivings towards Asian FX and the SGD.

## **BOJ and the dollars, RMB, and Asia**

- With the **BOJ** on Friday pulling out all the stops and dipping into negative interest rate territory (and promising more QE if needed), the implications may be several fold:
- In the **dollar arena**, today's move will likely result in generalized positive underpinnings for the USD with policy dichotomy dynamics (any hesitation in the Fed notwithstanding) once again called into play. As mentioned previously, the recent deeper collapse of the global commodity/inflation dynamic since end 3Q 15 risked a repeat of central bank behavior witnessed during end-2014/early 2015, when global central banks' inflation forecasts were ratcheted lower and monetary accommodation stepped up across the globe in the face of anemic (still anemic today) global growth. Whereas the RBNZ earlier this week hesitated and eased into this mode, the BOJ pulled the trigger on Friday. The implication then is Kuroda's counterparts in the other major central banks (including in EM and Asia) may be tempted to

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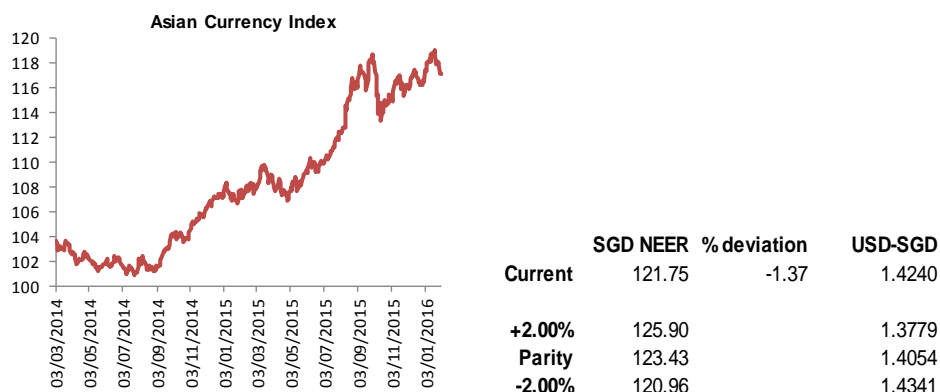
follow suit – widening the perceived gulf with the FOMC.

- Meanwhile, implicit pressure on **CNY** (and **CNH** depreciation) will likely heighten for now. Although the JPY's weighting of 14.7% in the CFETS basket implies that a 1% increase in the USD-JPY would imply an approximate 0.15% increase in the CFETS RMB Index (and the USD-CNY), the compound effects from the above mentioned effects of the weaker JPY on the other major currencies in the basket would potentially amplify the upward impetus on the basket, the USD-CNY, and USD-CNH. Given ongoing capital outflow concerns and barely stabilizing macro underpinnings, the authorities may once again have to lean against the wind (i.e., permit latitude for a higher USD-CNY) to temper the CFETS RMB Index.
- In **Asia**, the immediate knee jerk reaction post-BOJ has been an across the board USD sell-off. We surmise that this is on the back of a further unwind in previous long USD (risk aversion) positioning. Beyond the short term, we think the shelf life of this phenomenon may be suspect. Note that macro fundamentals for Asia (including fast dissipating inflation dynamics once again), net capital flow environment, and neutral to dovish regional central banks, would arguably make for a firmer USD-Asia profile in the wake of the BOJ. This view is all the more compelling if you throw in the JPY's anticipated impact on the other majors and the CNY into this mix.

## Asian FX

- The **ACI (Asian Currency Index)** slipped post-BOJ on Friday but the index is stabilizing on Monday in Asia (with the weaker than expected China PMIs a sobering reminder). As alluded to above, downside dips in USD-Asia beyond the near term may prove elusive.
- This morning, the **USD-CNY mid-point** was fixed higher at 6.5539 compared to 6.5516 on Friday. By our estimates, the CFETS RMB Index is higher at 100.57 compared to 100.15 on Friday. We think the higher index reading is in line with the impact on the basket's constituent currencies in the wake of the BOJ.
- This morning, the **SGD NEER** is firmer relative to its perceived midpoint (1.4054) at around -1.37%. NEER-implied USD-SGD thresholds are firmer on the day with the -2.00% lower extreme for the NEER fluctuation band estimated at around 1.4341. This week January PMIs are due on Tuesday and in the near term, the pair may test towards a key support at 1.4225 ahead of 1.4200 if risk appetite levels continue to be buffered. Topside at 1.4330 is expected to cap for now.
- Note that the NEER's "up move" post-BOJ has been primarily driven by the weak JPY, significantly outweighing the impact of the SGD's gains against the USD. Additionally, the basket's buoyancy has also been tempered significantly by the relative outperformance of the MYR. A possible implication then is that when the MYR outperformance wanes, the implicit upside pressure on the SGD NEER would increase without any necessitating any moves in the USD-SGD. At that juncture, the SGD NEER could

potentially be deemed too rich, limiting discretionary USD-SGD downside.

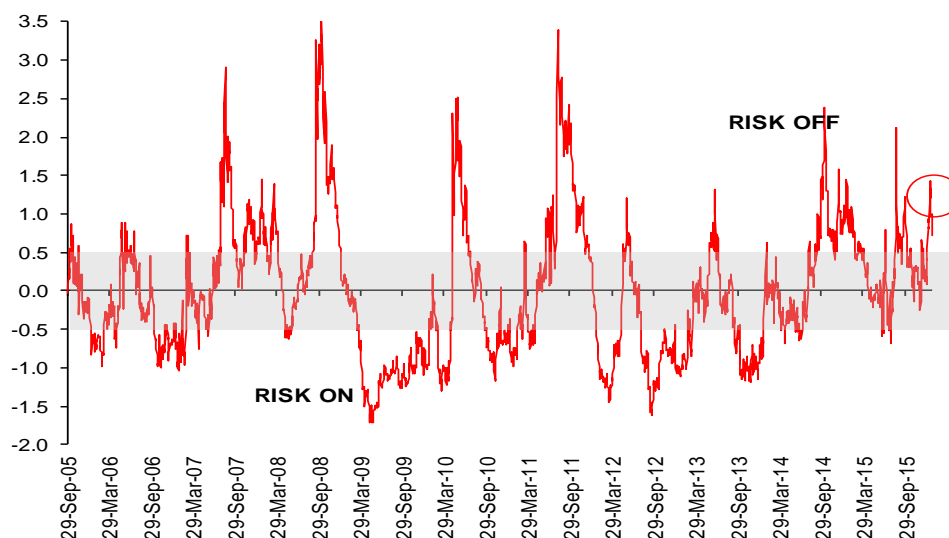


Source: OCBC Bank

## G7

- EUR-USD** The EUR-USD may continue to test its 55-day MA (1.0837) in the current environment ahead of 1.0800 and 1.0780. On the CFTC front, leveraged EUR shorts were pared in the latest week but this may have been reversed since Friday.
- USD-JPY** On the CFTC front, net leveraged JPY shorts were stacked higher in the latest week but note that this data pre-dated the BOJ on Friday. As such, the expected collapse of JPY longs may ultimately drive the USD-JPY above its 200-day MA (121.50) with 120.00 now expected to be a line in the sand.
- AUD-USD** In the near term, the AUD-USD may be trapped in a range with an initial floor at 0.7000 with the 100-day MA (0.7148) capping the upside. On the CFTC front, net leveraged aussie shorts were pared slightly in the latest week. We note however that as a percentage of open interest, positioning is relatively light, leaving the pair fairly flexible with respect to headline risks.
- GBP-USD** Expect the market to continue to fade upticks in the pair ahead of the BOE MPC and Inflation Report this week. On the CFTC front, net leveraged GBP shorts were accumulated further in the latest week and a bearish GBP remains one of our higher conviction calls. Initial upside for the pair is expected around 1.4435 while the 1.4200 support is seen at risk and the recent low around 1.4080 remains a potential support multi-session.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

|        | DXY    | USGG10 | CNY    | SPX    | MSELCA | CRY    | JPY    | CL1    | VIX    | ITRSEX |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY    | 1.000  | -0.374 | -0.289 | 0.409  | 0.517  | 0.240  | 0.537  | 0.313  | -0.458 | -0.462 |
| CHF    | 0.879  | -0.330 | -0.568 | 0.604  | 0.623  | 0.584  | 0.636  | 0.643  | -0.522 | -0.658 |
| JPY    | 0.537  | -0.135 | -0.823 | 0.460  | 0.272  | 0.541  | 1.000  | 0.483  | -0.279 | -0.681 |
| SGD    | 0.339  | -0.346 | 0.480  | -0.307 | -0.237 | -0.558 | -0.195 | -0.568 | 0.344  | 0.269  |
| AUD    | 0.054  | 0.298  | -0.478 | 0.694  | 0.621  | 0.833  | 0.153  | 0.804  | -0.582 | -0.630 |
| PHP    | -0.042 | -0.266 | 0.129  | -0.635 | -0.650 | -0.587 | 0.083  | -0.442 | 0.646  | 0.593  |
| IDR    | -0.155 | -0.110 | -0.188 | -0.370 | -0.710 | -0.208 | 0.342  | -0.313 | 0.724  | 0.199  |
| TWD    | -0.263 | 0.063  | 0.703  | -0.490 | -0.106 | -0.626 | -0.676 | -0.656 | 0.228  | 0.407  |
| GBP    | -0.264 | -0.275 | -0.684 | -0.049 | -0.334 | 0.450  | 0.454  | 0.293  | 0.435  | -0.238 |
| CAD    | -0.270 | 0.095  | 0.972  | -0.574 | -0.382 | -0.910 | -0.763 | -0.837 | 0.290  | 0.813  |
| CNH    | -0.279 | 0.107  | 0.957  | -0.496 | -0.450 | -0.842 | -0.802 | -0.763 | 0.345  | 0.808  |
| CNY    | -0.289 | 0.208  | 1.000  | -0.467 | -0.338 | -0.857 | -0.823 | -0.745 | 0.233  | 0.806  |
| CCN12M | -0.319 | 0.066  | 0.784  | -0.395 | -0.273 | -0.582 | -0.801 | -0.567 | 0.258  | 0.566  |
| INR    | -0.319 | -0.111 | -0.460 | -0.126 | -0.558 | 0.185  | 0.330  | 0.083  | 0.547  | 0.004  |
| THB    | -0.330 | -0.068 | 0.850  | -0.728 | -0.499 | -0.854 | -0.727 | -0.849 | 0.520  | 0.788  |
| KRW    | -0.339 | -0.098 | 0.462  | -0.761 | -0.846 | -0.736 | -0.319 | -0.786 | 0.792  | 0.679  |
| USGG10 | -0.374 | 1.000  | 0.208  | 0.249  | 0.076  | -0.022 | -0.135 | 0.072  | -0.285 | 0.057  |
| MYR    | -0.377 | 0.101  | 0.882  | -0.527 | -0.571 | -0.854 | -0.725 | -0.734 | 0.442  | 0.892  |
| NZD    | -0.465 | 0.486  | 0.793  | -0.068 | -0.118 | -0.434 | -0.851 | -0.328 | -0.069 | 0.573  |
| EUR    | -0.949 | 0.366  | 0.483  | -0.523 | -0.574 | -0.446 | -0.638 | -0.498 | 0.466  | 0.606  |

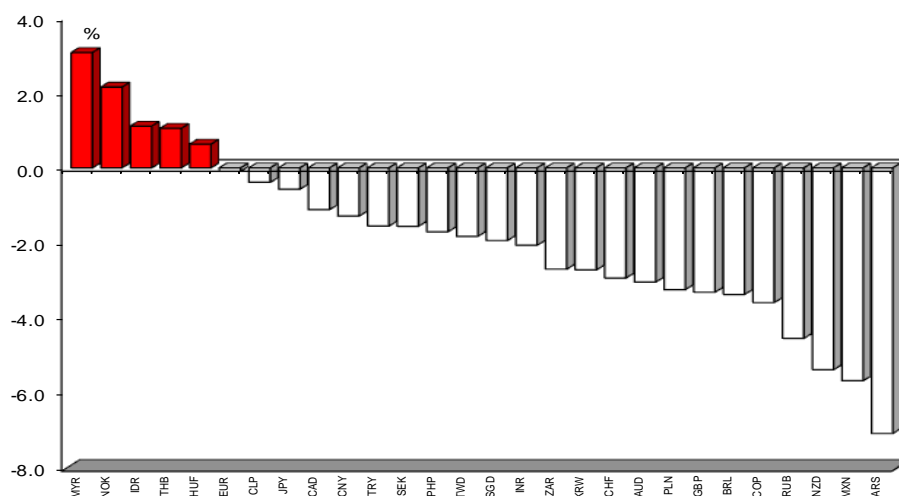
Source: Bloomberg

### Immediate technical support and resistance levels

|         | S2      | S1      | Current | R1      | R2      |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0769  | 1.0800  | 1.0846  | 1.0854  | 1.0900  |
| GBP-USD | 1.4080  | 1.4200  | 1.4258  | 1.4300  | 1.4674  |
| AUD-USD | 0.6842  | 0.7000  | 0.7066  | 0.7100  | 0.7143  |
| NZD-USD | 0.6356  | 0.6400  | 0.6470  | 0.6500  | 0.6634  |
| USD-CAD | 1.3889  | 1.4400  | 1.4463  | 1.4500  | 1.4614  |
| USD-JPY | 120.55  | 121.00  | 121.24  | 121.49  | 121.69  |
| USD-SGD | 1.4200  | 1.4223  | 1.4256  | 1.4300  | 1.4432  |
| EUR-SGD | 1.5392  | 1.5400  | 1.5462  | 1.5500  | 1.5772  |
| JPY-SGD | 1.1591  | 1.1700  | 1.1759  | 1.1786  | 1.1800  |
| GBP-SGD | 2.0154  | 2.0300  | 2.0327  | 2.0400  | 2.0873  |
| AUD-SGD | 0.9852  | 1.0000  | 1.0073  | 1.0100  | 1.0123  |
| Gold    | 1081.22 | 1100.00 | 1120.20 | 1127.08 | 1128.00 |
| Silver  | 14.08   | 14.20   | 14.29   | 14.30   | 14.54   |

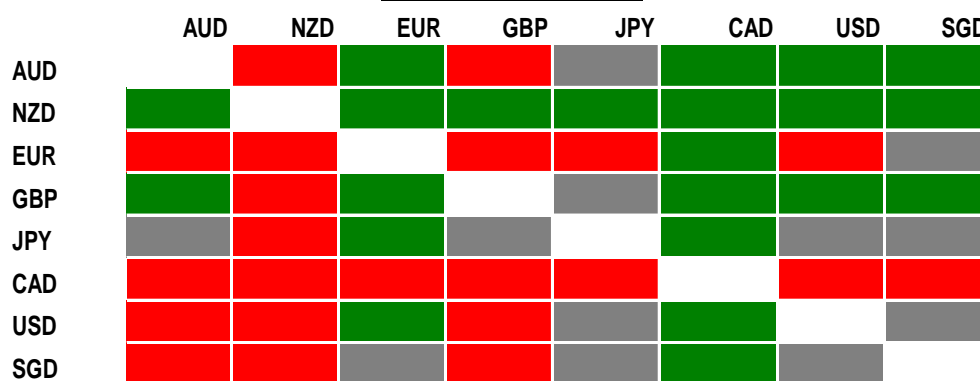
Source: OCBC Bank

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



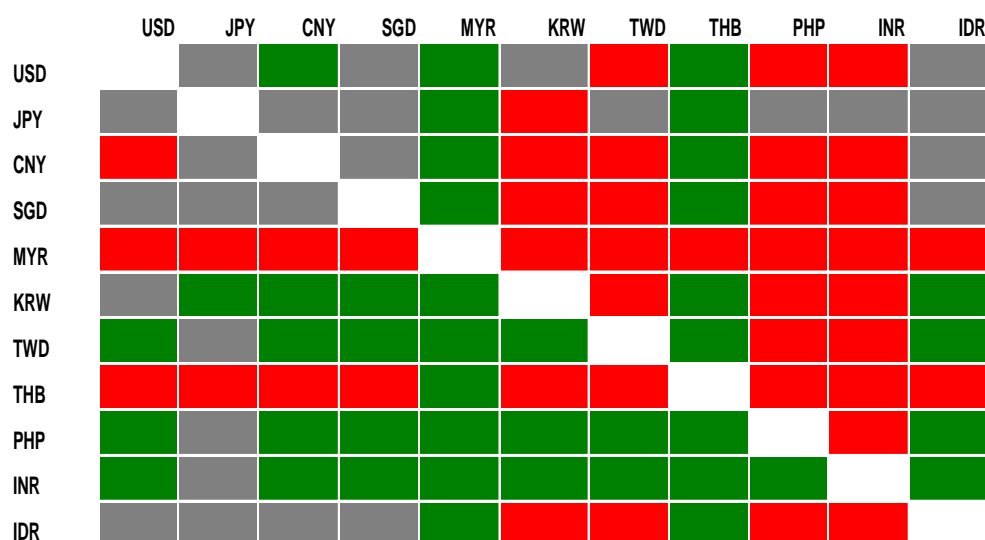
Source: Bloomberg

### G10 FX Heat Map



Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### FX Trade Ideas

| FX Trade Ideas |                 |           |     |          |        |        |   |   |
|----------------|-----------------|-----------|-----|----------|--------|--------|---|---|
|                | Inception       |           | B/S | Currency | Spot   | Target | Stop/Trailing stop  | Rationale   |
| 1              | 21-Dec-15       |           | S   | GBP-USD  | 1.4917 | 1.4045 | 1.4475  | Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness   |
| 2              | 08-Jan-16       |           | B   | EUR-USD  | 1.0888 | 1.1220 | 1.0720  | Risk of Fed/dollar "disappointment"   |
|                | STRUCTURAL      |           |     |          |        |        |   |   |
| 3              | 29-Dec-15       |           | S   | USD-JPY  | 120.25 | 113.45 | 123.70  | Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY |
|                | RECENTLY CLOSED |           |     |          |        |        |   |   |
|                | Inception       | Close     | B/S | Currency | Spot   | Close  | Rationale   | P/L (%)   |
| 1              | 29-Dec-15       | 15-Jan-16 | B   | USD-CAD  | 1.3886 | 1.4520 | Central bank policy dichotomy in additon to structurally soft crude                         | +4.38   |
| 2              | 08-Jan-16       | 19-Jan-16 | S   | AUD-USD  | 0.7056 | 0.6950 | Fragile global/equity/commodity/RMB backdrop  | +1.47   |
| 3              | 18-Dec-15       | 19-Jan-16 | S   | GBP-USD  | 1.4909 | 1.4195 | Broad dollar strength post-liftoff may be expected to continue to have traction against GBP | +5.03   |
| 4              | 21-Dec-15       | 21-Jan-16 | S   | USD-JPY  | 121.15 | 117.45 | Disappointment towards a less dovish than expected BOJ                                      | +3.06   |
| 5              | 10-Nov-15       | 21-Jan-16 | B   | USD-CAD  | 1.3276 | 1.4390 | USD strength vs. weak crude   | +7.75   |
| 6              | 04-Jan-16       | 01-Feb-16 | B   | USD-SGD  | 1.4229 | 1.4240 | Asian FX weakness, RMB jitters  | +0.01   |

Source: OCBC Bank

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