

Tuesday, February 02, 2016

FX Themes/Strategy/Trading Ideas

- Following a generalized decline on Monday following dovish comments from the Fed's Fischer (who highlighted global market volatility as a source of concern), the broad dollar may continue to remain on the defensive into Tuesday. Although global policy dichotomy is still expected to be at play, continued dilution of Fed rhetoric will keep the situation in a flux. In addition, the current gulf between market-implied expectations and the FOMC's perceived intentions also leave ample altitude for volatility.
- In the interim, across the board JPY underperformance may remain in play but this would have to be predicated on a continued improvement in risk appetite levels. Note that the **FXSI (FX Sentiment Index)** inched higher on Monday within Risk-Off territory.
- Elsewhere, with the official January China PMIs coming in on the wrong side of expectations, the prospect of weak global growth prospects will continue to mar investor sentiment, keeping a check on the cyclical/EM currencies.
- Today, look the **RBA** (0330 GMT) and **RBI** (0530 GMT) policy meetings and although no rate changes are expected, investors are expecting a healthy dose of caution from the policy makers.

Asian FX

- The fragile state of the global economy and implied negative pressure from the RMB complex on the rest of the Asian currencies may persist going ahead. As such, the **ACI (Asian Currency Index)** is expected to inch higher today after edging lower on Monday.
- The **USD-CNY mid-point** was fixed lower at 6.5510 this morning (compared to 6.5539 on Monday), implying an as expected weakening of the estimated CFETS RMB Index. The Index is estimated at 100.48 this morning relative to an estimated 100.57 at Monday's fix. Despite the relative stability of the Index and the USD-CNY fix, note that option market positioning (skew) remains decidedly bearish on the CNH. This view may continue to retain traction going ahead given that Index stability (or depreciation) would necessitate some degree of USD-CNY headroom in the face of broad dollar strength.
- Today, the **SGD NEER** is trading approximately softer relative to its perceived midpoint (1.4031) at around -1.50%. However, NEER-implied USD SGD thresholds are a touch lower in the wake of overnight moves in global

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

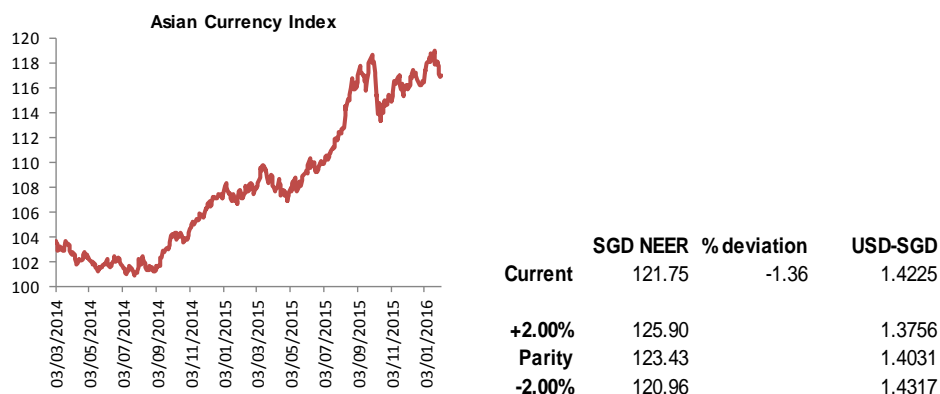
Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

currencies. At current levels, the -2.00% lower extreme of the NEER fluctuation band is estimated at 1.4317. Look to January PMIs (1300 GMT) for today and the pair may trade top heavy with support expected at the 55-day MA (1.4185).

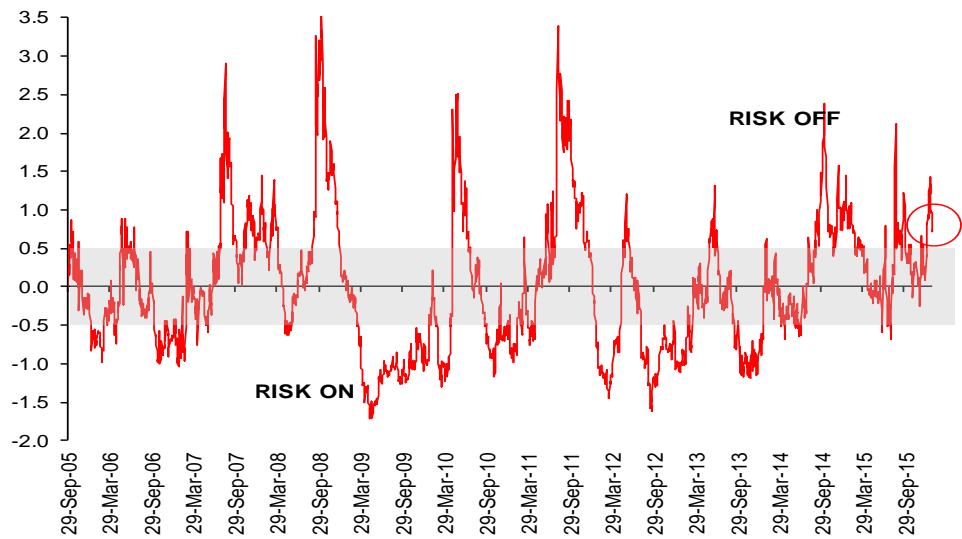


Source: OCBC Bank

G7

- **EUR-USD** The ECB's Draghi noted on Monday that the ECB stands ready to review monetary policy settings in early March. However, ECB Nowotny noted earlier in the global session that the market had expected too much of the ECB in December 2016. We also note that the manufacturing PMIs out of the EZ were in line with expectations. In the near term, the EUR-USD is seen supported and may bounce off its 55-day MA (1.0843) with initial resistance expected into 1.0960.
- **USD-JPY** On the data front, note that Dec US core PCE deflator and the Jan ISM proved disappointing on Monday, dovetailing with the Fischer's comments. Nevertheless, investor may collect into dips for the pair with first support expected at the 55-day MA (120.52).
- **AUD-USD** Watch for any dovish tilt in the RBA's rhetoric at its policy meeting today. Any excessively dovish overtones may risk a test towards 0.7030 while the resistance at the 55-day MA (0.7149) may cap. In the absence of a negative surprise by the RBA, the current inclination is expected to be neutral to slightly positive for the pair in the near term.
- **GBP-USD** The pound was lifted on Monday by broad dollar weakness as well as a better than expected UK manufacturing PMI reading of 52.9. Going ahead, first resistance is expected at 1.4435 ahead of 1.4450 while 1.4350 may support if broad based dollar vulnerability persists.

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

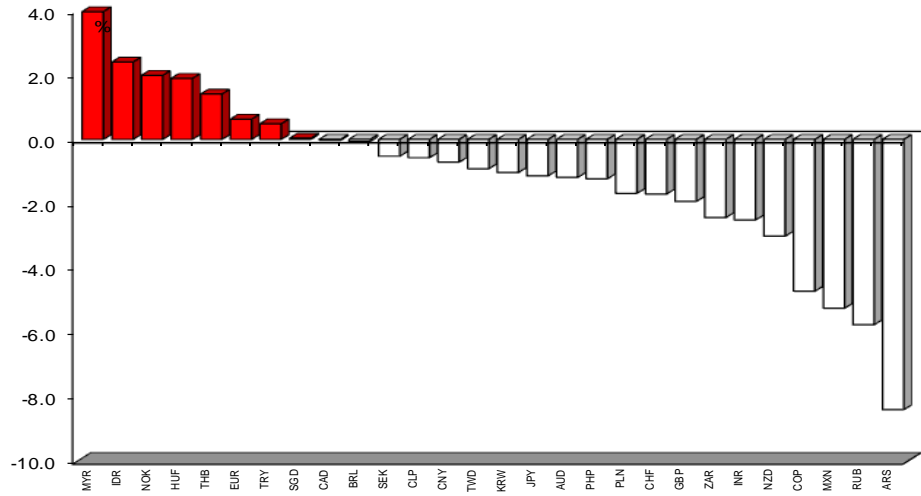
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0800	1.0860	1.0899	1.0900	1.0957
GBP-USD	1.4083	1.4400	1.4432	1.4500	1.4637
AUD-USD	0.6846	0.7100	0.7106	0.7138	0.7142
NZD-USD	0.6380	0.6500	0.6547	0.6600	0.6621
USD-CAD	1.3901	1.4400	1.4463	1.4500	1.4621
USD-JPY	120.27	120.81	120.82	121.00	121.50
USD-SGD	1.4200	1.4211	1.4230	1.4300	1.4438
EUR-SGD	1.5404	1.5500	1.5509	1.5600	1.5748
JPY-SGD	1.1700	1.1769	1.1778	1.1792	1.1800
GBP-SGD	2.0154	2.0500	2.0536	2.0600	2.0863
AUD-SGD	0.9862	1.0100	1.0111	1.0122	1.0170
Gold	1082.55	1100.00	1127.40	1130.00	1131.84
Silver	14.08	14.30	14.31	14.40	14.56

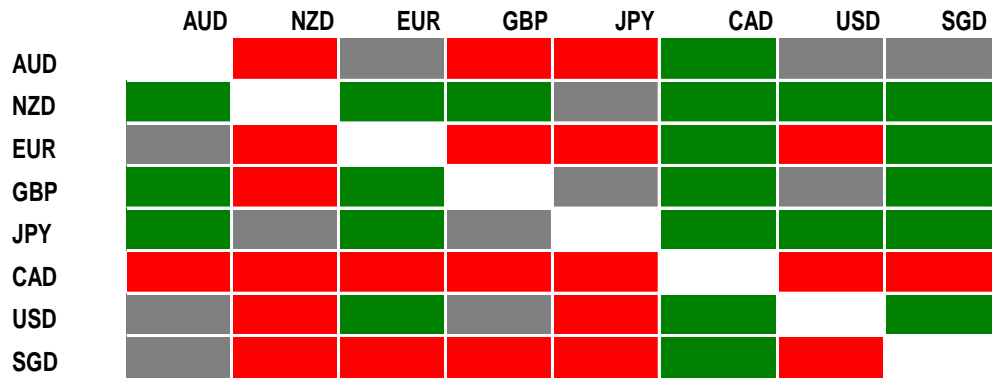
Source: OCBC Bank

FX performance: 1-month change agst USD



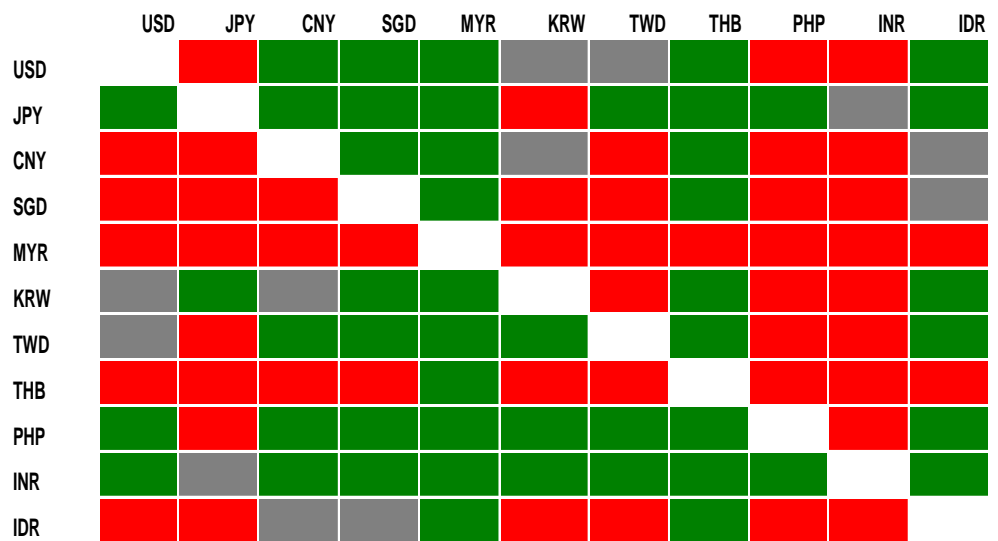
Source: Bloomberg

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	
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 addition 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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
