

**Friday, September 02, 2016**

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

- A disappointing US ISM (49.4) saw the dollar flip lower in favor of yield on Thursday as investors pared prior dollar longs. With even Fed officials expected to be paying attention to tonight's US NFP numbers (mkt: +180k), expect potential for heightened volatility into the end of the week. On the risk appetite front, the **FXSI (FX Sentiment Index)** continued to tick higher for the fourth consecutive session although the Index remained very much in Risk-Neutral territory.
- Elsewhere, the Fed's Mester (voter) joined the chorus of recent Fed officials by stating that "The economy is basically at full employment" and that "...a gradual increase...is pretty compelling". Currently, FF futures imply a 34% probability of a September hike and a 59.8% probability of a December hike, which to our mind is still a country mile away from fully pricing in a hike at either meeting. Nonetheless, we think the FOMC has succeeded into "re-aligning" market implied expectations towards a more data dependent posture, as opposed to entirely dismissing the prospect of rate hikes for the next few quarters.
- For tonight, anything in the ballpark of +/-20k around the consensus of +180k may not dislodge the Fed's view that the economy remains close to full employment.
- Ahead of Friday's NFP and amidst continued bearishness attached to the upcoming BOJ MPC this month, we undertake a tactical long **USD-JPY**. With a spot ref of 103.33 on Thursday, we target 108.15 and place a stop at 100.90.

### **Asian FX**

- Expect the regional pairs and the **Asian Currency Index (ACI)** to be in a consolidative mood ahead of the NFP numbers despite some EM FX attempting to capitalize on the USD's hesitation overnight.
- With the dollar dented overnight and the USD-SGD reacting lower in sympathy (and then some), the **SGD NEER** is firmer on the day at around +0.17% above its perceived parity. NEER-implied USD-SGD thresholds are slightly lower on the day and the basket is still expected to bounce around within +0.50% (1.3554) and -0.50% (1.3690) although background expectations of dollar resilience may keep the NEER heavy and the USD-SGD reluctant on the downside. Technically, 1.3575 and the 100-day MA (1.3549) may cushion with the upside open towards 1.3650.

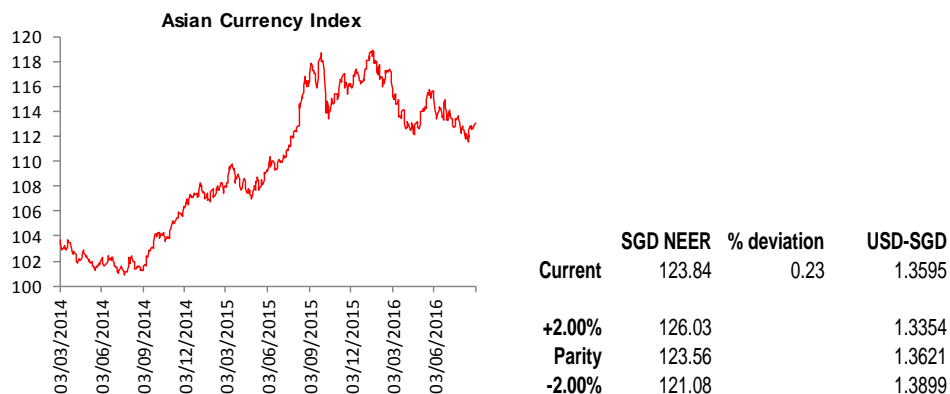
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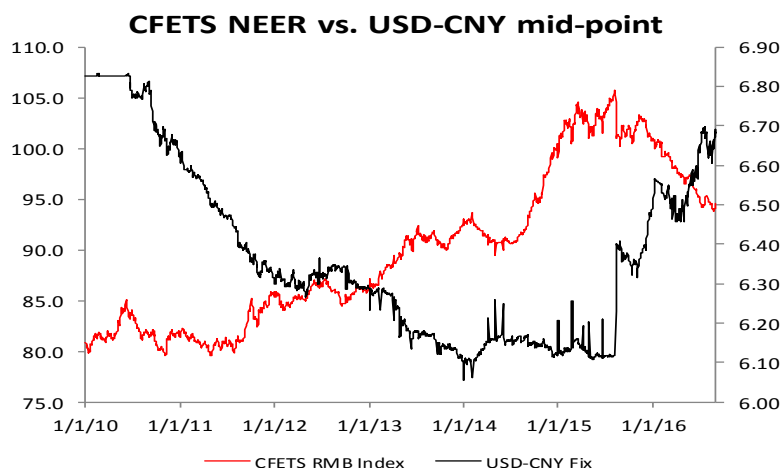
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Source: OCBC Bank

- The **CFETS RMB Index** inched slightly lower to 94.53 from 94.54 on Thursday with the USD-CNY mid-point also slightly lower as expected at 6.6727 from 6.6784 yesterday. Conspiracy theories aside, we will continue to monitor for a structural break in the NEER's depreciation trend post the G20 meeting.



Source: OCBC Bank, Bloomberg

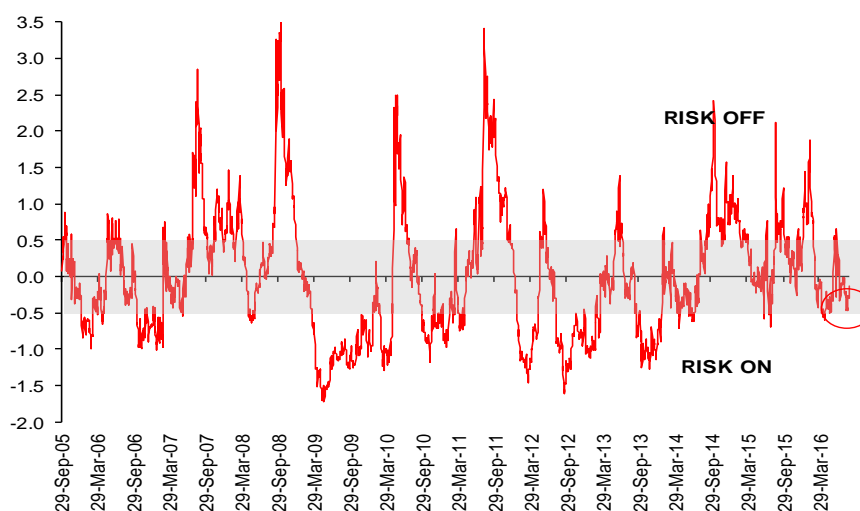
## G7

- EUR-USD** Expect the EUR-USD to be reined in by its 100-day MA (1.1215) and its 55-day MA (1.1148) in the hours ahead of the US NFP numbers, with the 200-day MA (1.1127) a first stop on any NFP-inspired descent.
- USD-JPY** We continue to expect the USD-JPY to be relatively more susceptible to USD-inspired dynamics and any hawkish outcome from tonight's NFP numbers may encourage the pair higher. Technically, USD-JPY continues to subsist above its 55-day MA (102.82) for the third consecutive session, with 104.00 expected to be the nearest ceiling.
- AUD-USD** The near term expected shelf life of the search for yield may be dependent on the US labor market numbers tonight and barring an outsized positive surprise from the NFP headlines, the hunt for yield may

continue to persist beyond the short term. In the interim, the floor at 0.7500 remains intact while the 55-day MA (0.7557) may not hold if the cyclical regain traction.

- GBP-USD** GBP-USD jumped higher on the back of a positive surprise from the August Markit manufacturing PMI (53.3) and the pound may continue to trade on a different page compared to its peers. Essentially, the re-calibration of short term expectations on the back of the economic data stream may continue to underpin the cable in the near term. Nonetheless, expect an immediate sticking point at the 55-day MA (1.3272) with investors perhaps having little appetite to venture too far above ahead of the US labor market report.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462	-0.279	-0.949
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658	-0.565	-0.968
JPY	0.537	-0.135	-0.823	0.460	0.272	0.541	1.000	0.483	-0.279	-0.681	-0.802	-0.638
SGD	0.339	-0.346	0.480	-0.307	-0.237	-0.558	-0.195	-0.568	0.344	0.269	0.607	-0.190
AUD	0.054	0.298	-0.478	0.694	0.621	0.833	0.153	0.804	-0.582	-0.630	-0.532	-0.245
PHP	-0.042	-0.266	0.129	-0.635	-0.650	-0.587	0.083	-0.442	0.646	0.593	0.135	0.090
IDR	-0.155	-0.110	-0.188	-0.370	-0.710	-0.208	0.342	-0.313	0.724	0.199	-0.061	0.100
TWD	-0.263	0.063	0.703	-0.490	-0.106	-0.626	-0.676	-0.656	0.228	0.407	0.659	0.375
GBP	-0.264	-0.275	-0.684	-0.049	-0.334	0.450	0.454	0.293	0.435	-0.238	-0.598	0.067
CAD	-0.270	0.095	0.972	-0.574	-0.382	-0.910	-0.763	-0.837	0.290	0.813	0.936	0.490
CNH	-0.279	0.107	0.957	-0.496	-0.450	-0.842	-0.802	-0.763	0.345	0.808	1.000	0.478
CNY	-0.289	0.208	1.000	-0.467	-0.338	-0.857	-0.823	-0.745	0.233	0.806	0.957	0.483
CCN12M	-0.319	0.066	0.784	-0.395	-0.273	-0.582	-0.801	-0.567	0.258	0.566	0.858	0.488
INR	-0.319	-0.111	-0.460	-0.126	-0.558	0.185	0.330	0.083	0.547	0.004	-0.302	0.182
THB	-0.330	-0.068	0.850	-0.728	-0.499	-0.854	-0.727	-0.849	0.520	0.788	0.879	0.529
KRW	-0.339	-0.098	0.462	-0.761	-0.846	-0.736	-0.319	-0.786	0.792	0.679	0.565	0.460
USGG10	-0.374	1.000	0.208	0.249	0.076	-0.022	-0.135	0.072	-0.285	0.057	0.107	0.366
MYR	-0.377	0.101	0.882	-0.527	-0.571	-0.854	-0.725	-0.734	0.442	0.892	0.875	0.527
NZD	-0.465	0.486	0.793	-0.068	-0.118	-0.434	-0.851	-0.328	-0.069	0.573	0.711	0.544
EUR	-0.949	0.366	0.483	-0.523	-0.574	-0.446	-0.638	-0.498	0.466	0.606	0.478	1.000

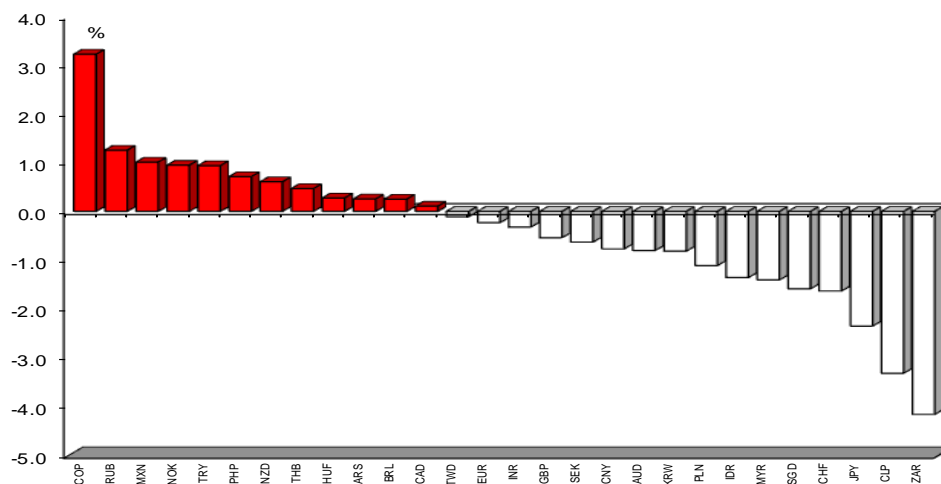
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1126	1.1135	1.1197	1.1200	1.1366
GBP-USD	1.3147	1.3200	1.3286	1.3300	1.3313
AUD-USD	0.7500	0.7501	0.7545	0.7561	0.7600
NZD-USD	0.7174	0.7200	0.7284	0.7300	0.7333
USD-CAD	1.3000	1.3017	1.3096	1.3100	1.3191
USD-JPY	102.66	103.00	103.33	103.73	104.00
USD-SGD	1.3550	1.3570	1.3600	1.3656	1.3661
EUR-SGD	1.5017	1.5200	1.5228	1.5298	1.5300
JPY-SGD	1.3100	1.3147	1.3163	1.3200	1.3517
GBP-SGD	1.7733	1.8000	1.8068	1.8100	1.8122
AUD-SGD	1.0200	1.0226	1.0261	1.0300	1.0338
Gold	1302.10	1305.72	1313.10	1336.32	1359.05
Silver	18.37	18.90	18.93	19.00	19.55
Crude	41.82	43.60	43.64	43.70	45.51

Source: OCBC Bank

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



Source: Bloomberg

### G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD								
NZD								
EUR								
GBP								
JPY								
CAD								
USD								
SGD								

Source: OCBC Bank

### Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Red	Grey	Red	Red	Red	Red	Green	Green	Red	Red
JPY	Green		Green	Green	Green	Grey	Green	Green	Green	Green	Grey
CNY	Grey	Red		Red	Red	Red	Red	Green	Green	Red	Red
SGD	Green	Red	Green		Green	Red	Green	Green	Green	Green	Red
MYR	Green	Red	Green	Red		Red	Grey	Green	Green	Green	Red
KRW	Green	Grey	Green	Green	Green		Green	Green	Green	Green	Green
TWD	Green	Red	Green	Red	Grey	Red		Green	Green	Green	Red
THB	Red	Red	Red	Red	Red	Red	Red		Green	Red	Red
PHP	Red	Red	Red	Red	Red	Red	Red	Red		Red	Red
INR	Green	Red	Green	Red	Red	Red	Red	Green	Green		Red
IDR	Green	Grey	Green	Green	Green	Red	Green	Green	Green	Green	

Source: OCBC Bank

### FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
	TACTICAL							
1	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
3	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
4	01-Sep-16	B	USD-JPY	103.33	108.15	100.90	Ahead of NFP numbers and BOJ MPC	
	STRUCTURAL							
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
7	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield	
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
10	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
11	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	15-Aug-16	B	USD-CAD	1.2991	1.2805	Concerns over the global deflationary impact from Brexit	-0.23
2	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
3	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
4	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
5	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
	Jan-Aug 2016 Return							+7.80

Source: OCBC Bank

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