

Thursday, February 04, 2016

FX Themes/Strategy/Trading Ideas

- The broad dollar may continue to retreat in the wake of comments from the Fed's Dudley with market-implied odds of any rate hikes this year now essentially quashed. In the near term, expect investors continue to mull the prospect that the broad dollar narrative may eventually turn out to be not as advertised. For today, look towards further rhetoric from the Fed's Mester, Kaplan and Rosengren while the BOE MPC (and Inflation Report) is also expected to be under the spotlight.
- Elsewhere, despite a weaker dollar and a stabilization in commodities, the **FXSI (FX Sentiment Index)** continued to push higher on Wednesday within Risk-Off territory, a reminder that background market nervousness may continue to remain very close to the surface.
- Recent central bank rhetoric (latest from RBA, RBNZ, RBI) indicate little immediate urgency to jump on the BOJ bandwagon just yet given that any monetary easing from hereon would essentially be on the back of disinflation dynamics, rather than any strong belief that any incremental easing would kick start growth. The latest tidbit from the Fed last night also demonstrates the implicit hesitation griping global policymakers. The implication then is that policy paralysis and ambiguity would make for sustained volatility across asset markets.
- We revisit the same page from our playbook and reinstitute a structural short **GBP-USD**. Apart from central bank policy dichotomy, background Brexit concerns may continue to circulate. From a valuation perspective, the GBP we think also has room for a further capitulation lower. With a spot ref of 1.4401 on Wednesday, we target 1.3700 and place a stop at 1.4755.

Asian FX

- EM currencies rode higher against the USD in tandem with their G10 brethren on Wednesday and with regional equities (outside of the Nikkei) getting off to a positive start, the **ACI (Asian Currency Index)** is expected to shade lower on the day after ticking higher on Wednesday. The BOT remained static at 1.50% as expected on Wednesday and the services/composite PMI readings for China and India clocked improvements. Today, the calendar is very sparse today, leaving the regional pairs to fluctuate in line with external developments.
- The **USD-CNY mid-point** was set significantly lower at 6.5419 compared to 6.5521 on Wednesday. By our estimates, this brings the **CFETS RMB Index**

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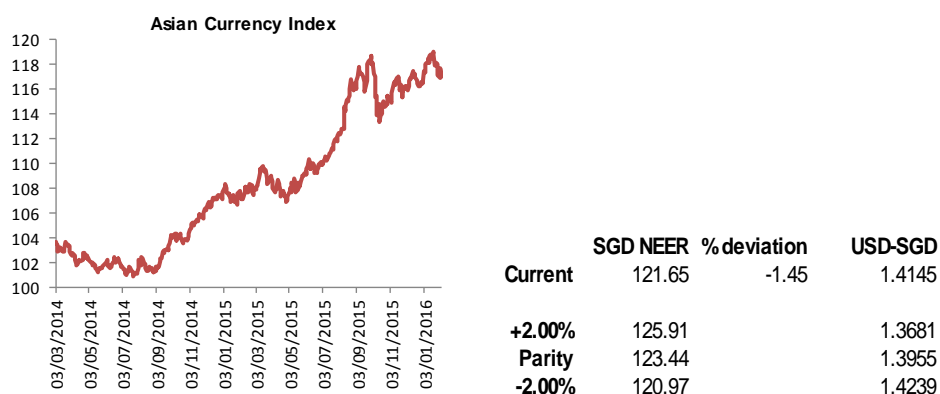
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lower (as expected) on the day to 99.60, from 100.63 yesterday. At this juncture, market uncertainty towards the USD-CNY fix continues to stem from the fact that the PBOC retains a sufficient degree of discretion in terms of the fixings in the cross rates, although we continue to note the official willingness to permit the CFETS Index to respond to changes in the constituent currencies.

- To boot, the **CFETS RMB index** is now at its lowest point in the year-to-date and we reiterate that the often touted 100.00 imaginary line in the sand may be just that, imaginary. Structurally, a further measured consolidation lower in the Index (when necessary) to reflect underlying balance of payments realities should not surprise.
- With the Fed's Dudley taking a swipe at the dollar overnight, USD-SGD collapsed overnight with the **SGD NEER** currently around -1.47% below its perceived parity (1.3955). This puts the index firmer relative to its mid-point from yesterday (-1.68%). NEER-implied USD-SGD thresholds are also lower on the day with the -2.00% lower extreme of the estimated NEER fluctuation band at around 1.4239. Ahead of this level, the 55-day MA(1.4185) may cap initial upticks, while the 1.4115/20 is expected to cushion near term dips.



Source: OCBC Bank

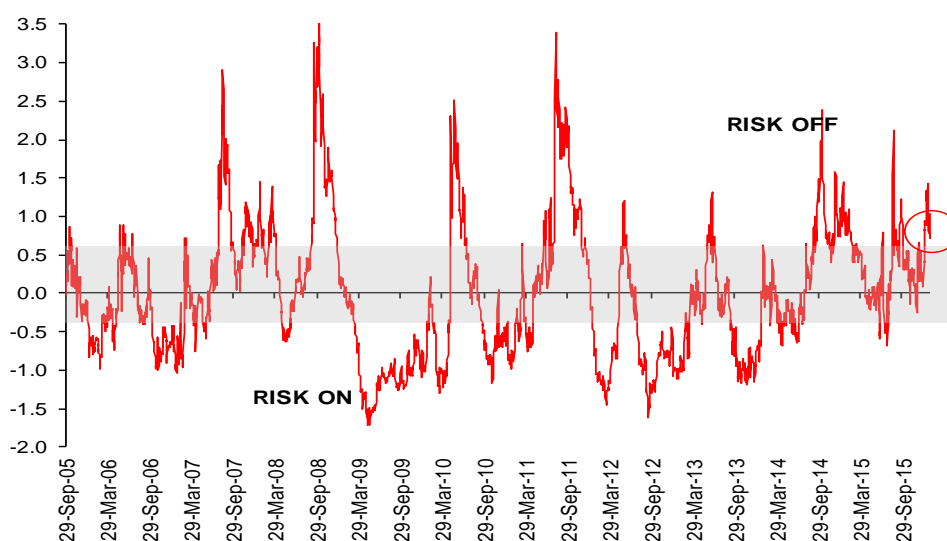
G7

- **EUR-USD** We are sitting on a potential range break for the EUR-USD with the EZ Jan services/composite PMIs essentially neutral relative to prior market expectations. Tactically, we remain bullish EUR-USD from 08 Jan 16 (please refer to **FX Trade Ideas** table).
- **USD-JPY** On a medium term horizon, the failure by the USD-JPY to re-take 120.00 with any conviction is negative for the pair's outlook. Apart from Dudley's negative comments, note that the Markit US services/composite PMIs also came in on the wrong side of expectations. For today, apart from Fed-speak, look also to Dec durable goods numbers. In the interim, the pair's hold on 118.00 remains tenuous.
- **AUD-USD** In the short term, the AUD-USD may attempt to make a break for the 0.7200 resistance although we think investors may choose to

collect on dips instead. Essentially, yesterday's buoyancy in the pair was borne out of USD weakness, rather than any overnight turnaround in global macro fundamentals. The 55-day MA (0.7149) may serve as a near term junction, and a breach may open the way to 0.7100.

- GBP-USD** The BOE is expected to remain sidelined at its MPC although investor will be on the lookout for any hint of dovishness (including from the Inflation Report). In the interim, the better than expected UK Jan services and composite PMIs and broad dollar vulnerability should buffer initial dips in the pair. Expect strong resistance towards the 55-day MA (1.4741) while a technical floor at 1.4435 may hold in the interim.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX
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

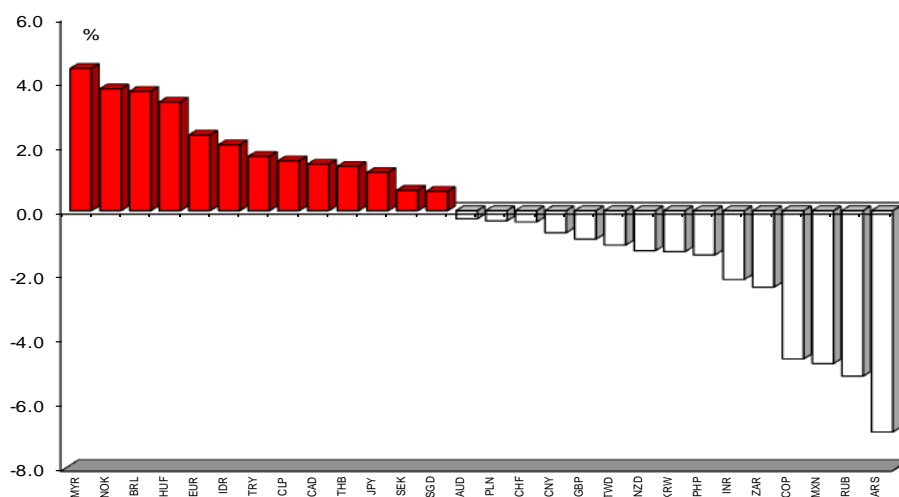
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1046	1.1053	1.1087	1.1100	1.1146
GBP-USD	1.4091	1.4500	1.4584	1.4600	1.4621
AUD-USD	0.7100	0.7137	0.7171	0.7175	0.7200
NZD-USD	0.6600	0.6638	0.6666	0.6700	0.6707
USD-CAD	1.3721	1.3727	1.3733	1.3800	1.3922
USD-JPY	115.99	118.00	118.04	119.00	120.06
USD-SGD	1.4028	1.4100	1.4150	1.4154	1.4181
EUR-SGD	1.5435	1.5600	1.5692	1.5700	1.5763
JPY-SGD	1.1815	1.1900	1.1998	1.2000	1.2417
GBP-SGD	2.0185	2.0600	2.0647	2.0700	2.0839
AUD-SGD	1.0100	1.0119	1.0136	1.0170	1.0173
Gold	1100.00	1131.71	1142.40	1143.52	1146.00
Silver	14.30	14.50	14.70	14.75	14.82

Source: OCBC Bank

FX performance: 1-month change agst USD



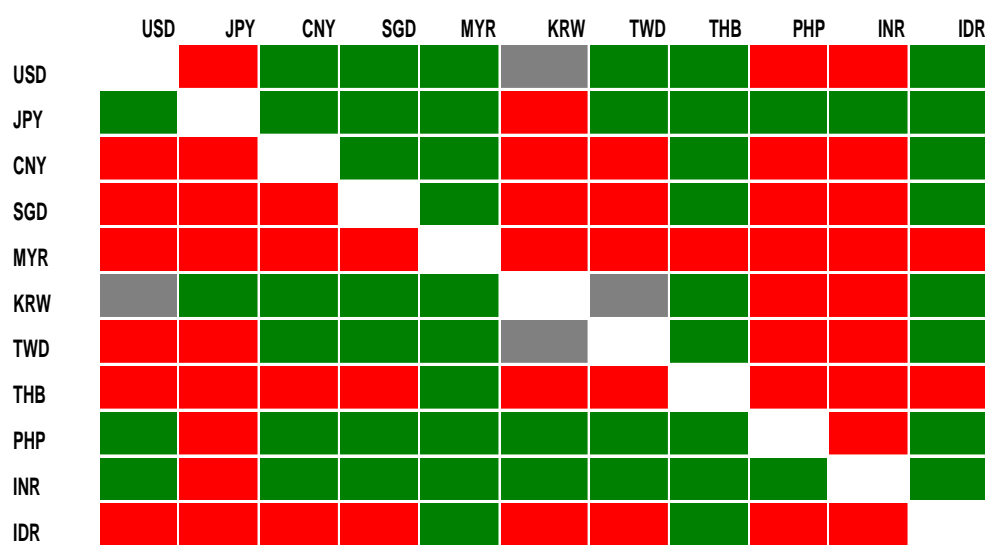
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD		Red	Red	Red	Red	Green	Red	Grey
NZD	Green		Green	Green	Grey	Green	Green	Green
EUR	Green	Red		Grey	Red	Green	Red	Grey
GBP	Green	Red	Grey		Red	Green	Red	Grey
JPY	Green	Grey	Green	Green		Green	Green	Green
CAD	Red	Red	Red	Red	Red		Red	Red
USD	Green	Red	Green	Green	Red	Green		Green
SGD	Grey	Red	Grey	Grey	Red	Green	Red	

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	08-Jan-16		B	EUR-USD	1.0888	1.1220	1.0720	Risk of Fed/dollar "disappointment"
	STRUCTURAL							
	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
3	03-Mar-16		S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation
	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
7	21-Dec-15	02-Feb-16	S	GBP-USD	1.4917	1.4409	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness	+3.56

Source: OCBC Bank

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