

Wednesday, May 04, 2016

FX Themes/Strategy/Trading Ideas – Revised forecasts

- Risk aversion bit into markets on Tuesday with the dollar and JPY clawing higher against across the board while the cyclicals fell against their peers. With commodities and equities in negative space overnight, the **FXSI (FX Sentiment Index)** continued to creep higher within Risk-Neutral territory on Tuesday.
- In our newly refreshed **central tendency FX forecasts**, we continue to pencil in near term USD vulnerability (barring protracted risk aversion) pending the next move from Yellen. Our structural back story remains largely intact however, with the greenback expected to gain some traction on a 12m horizon.
- Our 3 Feb 16 idea to be structurally short **GBP-USD** (spot ref: 1.4401) was stopped out on Tuesday at 1.4755 for an implied -2.36% loss as Brexit concerns abated and broad dollar weakness deepened in the intervening period.

Asian FX

- Expect another day of reckoning for Asia currencies with shades of risk aversion, a firmer USD, and a significantly higher than expected USD-CNY mid-point (note USD-CNH reclaimed the 6.5000 handle overnight). As such, we look for USD-Asia and the **Asian Currency Index (ACI)** to continue to gain ground. To this end, the MYR may also be additionally burdened falling crude.
- The **SGD NEER** this morning is floating around its perceived parity (1.3510) at +0.02% with NEER-implied USD-SGD thresholds noticeable higher on the day following overnight price action in the majors. If market sentiment remains fragile intra-day and despite the better than expected April PMIs, expect a tendency for the NEER to search south of parity. At current levels, the +0.50% threshold corresponds to 1.3443 while the -0.50% threshold is seen at 1.3578.

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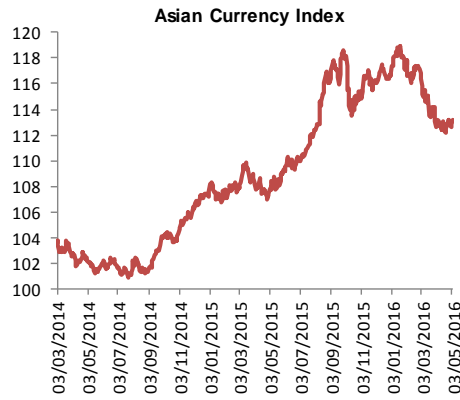
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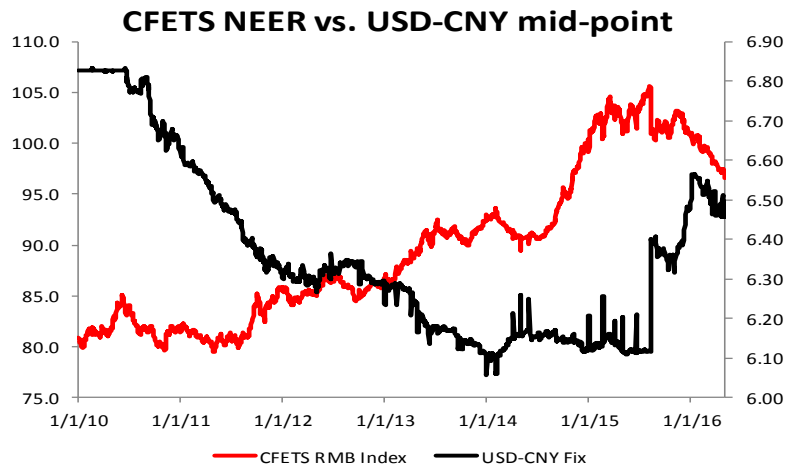
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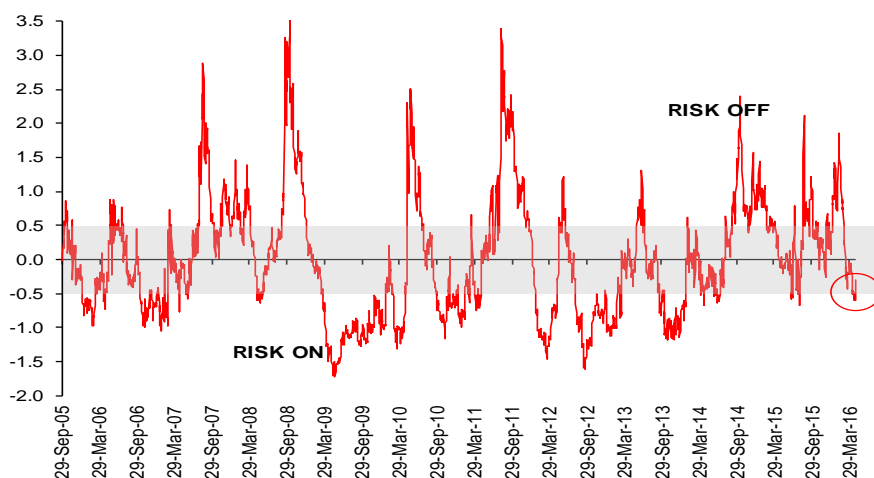


Source: OCBC Bank

- The **USD-CNY mid-point** this morning jumped to 6.4943 from 6.4565 on Tuesday, representing the largest daily percentage change since early January at +0.59%. Essentially this was a function of a relatively static CFETS RMB Index reading at 96.56 (compared to 96.54 to yesterday) despite overnight movements in the constituent currencies pressuring the implied Index higher.
- The asymmetric reaction function of the PBOC (to keep the Index suppressed) is especially stark today and as we have warned on numerous occasions previously, expect upwards surprises in the USD-CNY mid-points in an environment of dollar strength.



FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	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

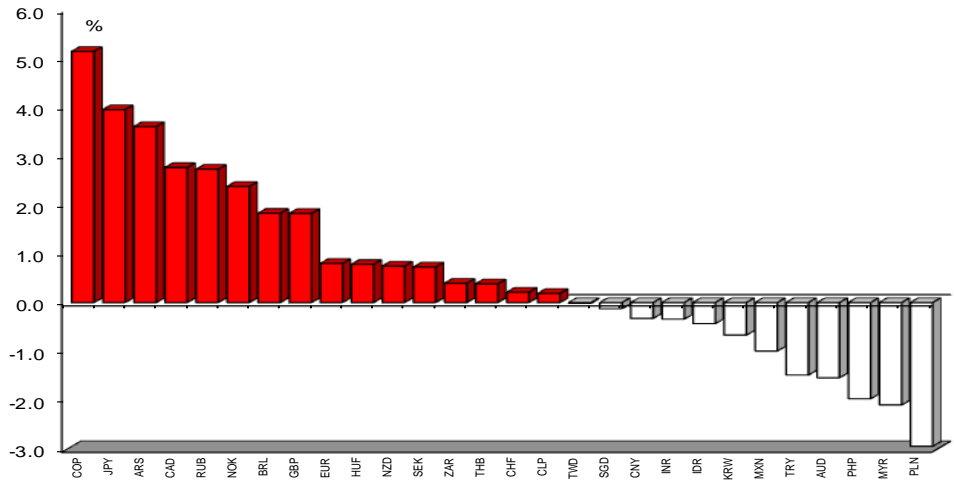
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1234	1.1400	1.1481	1.1500	1.1522
GBP-USD	1.4277	1.4500	1.4524	1.4600	1.4736
AUD-USD	0.7462	0.7467	0.7486	0.7500	0.7553
NZD-USD	0.6800	0.6805	0.6882	0.6900	0.7039
USD-CAD	1.2461	1.2700	1.2707	1.2800	1.3030
USD-JPY	105.70	107.00	107.11	108.00	111.17
USD-SGD	1.3363	1.3500	1.3535	1.3600	1.3604
EUR-SGD	1.5450	1.5485	1.5500	1.5519	1.5608
JPY-SGD	1.2258	1.2600	1.2678	1.2700	1.2737
GBP-SGD	1.9445	1.9700	1.9749	1.9796	1.9800
AUD-SGD	1.0117	1.0136	1.0168	1.0200	1.0287
Gold	1211.90	1245.91	1282.10	1295.51	1300.00
Silver	15.89	17.20	17.25	17.30	18.03
Crude	40.18	43.60	43.63	43.70	46.78

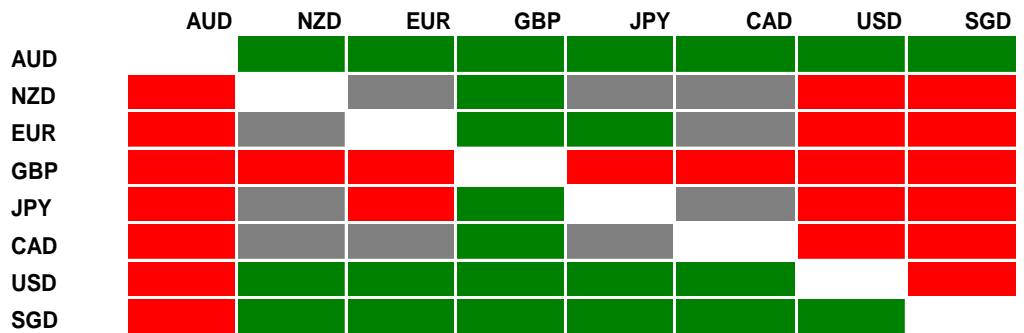
Source: OCBC Bank

FX performance: 1-month change agst USD



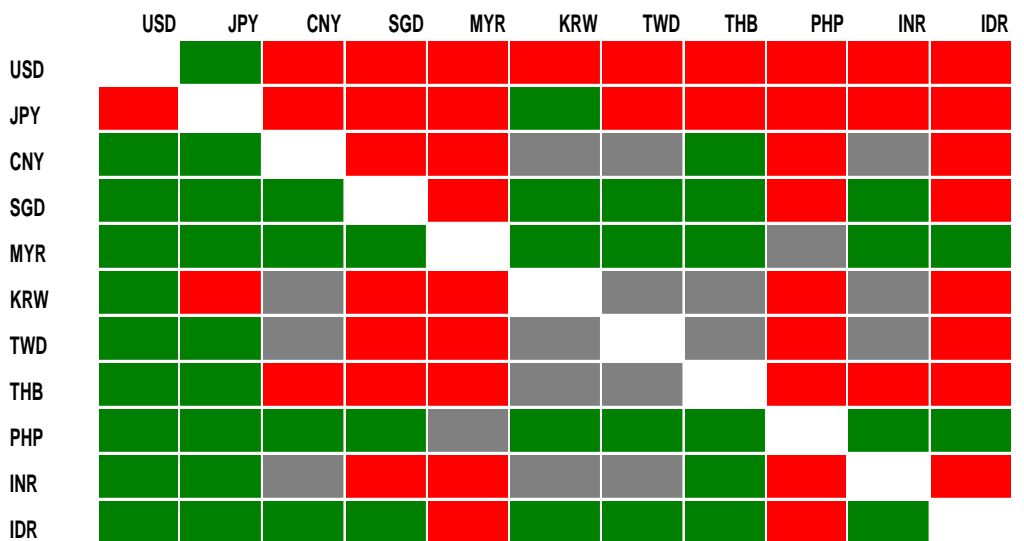
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts

03-May-16	Spot	Jun-16	Sep-16	Dec-16	Mar-17
USD-JPY	105.81	103.48	105.63	109.64	113.66
EUR-USD	1.1557	1.1683	1.1564	1.1322	1.1081
GBP-USD	1.4725	1.5000	1.4833	1.4433	1.4033
AUD-USD	0.7581	0.7678	0.7645	0.7390	0.7135
NZD-USD	0.6998	0.7100	0.7023	0.6863	0.6703
USD-CAD	1.2488	1.2163	1.2368	1.2853	1.3338
USD-CHF	0.9529	0.9405	0.9491	0.9688	0.9884
USD-SGD	1.3411	1.3280	1.3347	1.3627	1.3907
USD-CNY	6.4719	6.4773	6.5256	6.5789	6.6322
USD-THB	34.853	34.63	34.82	35.22	35.62
USD-IDR	13169	13118	13194	13411	13628
USD-MYR	3.9235	3.8660	3.8889	4.0222	4.1556
USD-KRW	1140	1123	1129	1166	1203
USD-TWD	32.189	31.965	32.083	32.583	33.083
USD-HKD	7.7592	7.7636	7.7745	7.7855	7.7964
USD-PHP	46.945	46.90	46.99	47.51	48.03
USD-INR	66.26	66.11	66.38	67.16	67.94
EUR-JPY	122.28	120.88	122.15	124.14	125.94
EUR-GBP	0.7849	0.7788	0.7796	0.7844	0.7896
EUR-CHF	1.1013	1.0987	1.0975	1.0969	1.0953
EUR-SGD	1.5499	1.5514	1.5434	1.5428	1.5409
GBP-SGD	1.9748	1.9920	1.9798	1.9668	1.9516
AUD-SGD	1.0167	1.0196	1.0204	1.0070	0.9922
NZD-SGD	0.9385	0.9429	0.9374	0.9352	0.9322
CHF-SGD	1.4074	1.4120	1.4062	1.4066	1.4069
JPY-SGD	1.2675	1.2834	1.2636	1.2428	1.2235
SGD-MYR	2.9256	2.9111	2.9138	2.9517	2.9882
SGD-CNY	4.8258	4.8774	4.8893	4.8280	4.7691

Source: OCBC Bank

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale		
1	14-Apr-16	S	USD-CAD	1.2832	1.2425	1.3040	Bottoming crude prices		
2	20-Apr-16	B	GBP-USD	1.4374	1.4785	1.4165	Moderating Brexit concerns, weak dollar, positive risk		
3	29-Apr-16	S	AUD-USD	0.7626	0.7355	0.7765	Negativity post 1Q CPI numbers		
STRUCTURAL									
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate		
5	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries		
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	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC		
8	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield		
9	19-Apr-16	S	USD-SGD	1.3439	1.2835	1.3740	Potential for further broad USD decay, positive risk appetite		
RECENTLY CLOSED									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	18-Feb-16	31-Mar-16	S	USD-SGD	1.4034	1.3435	USD vulnerability, stabilization in RMB, equities/commodities	+4.54	
2	03-Mar-16	08-Apr-16	B	AUD-USD	0.7284	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie	+3.19	
3	29-Feb-16	07-Apr-16	S	USD-CAD	1.3533	1.3139	Bottoming crude	+2.98	
4	11-Apr-16	14-Apr-16	S	USD-JPY	107.72	109.50	JPY still not drastically overvalued, endemic USD weakness	-1.63	
5	04-Mar-16	14-Apr-16	S	USD-SGD	1.3881	1.3634	Brightening risk appetite, vulnerable broad dollar	+1.81	
6	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05	
7	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65	
8	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36

Source: OCBC Bank

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