

Thursday, August 04, 2016

FX Themes/Strategy/Trading Ideas – Revised forecasts

- The **BOE MPC** will be expected to be a major focal point of the markets today with investors loaded for a 25bps rate cut despite officials still in a state of denial at their last outing. Watch also for policy signals from the accompanying **BOE Inflation Report**.
- Elsewhere, US data points overnight proved mixed with the weaker than expected non-manufacturing ISM (55.5) balanced out by the better than expected July ADP (+179k). Although the UST curve was softer (Fed's Evans offering hardly any encouragement), the broad dollar managed to draw marginal strength from the data with FF futures retreating overnight.
- With risk appetite levels on the mend this morning (note **FXSI** stable within Risk-Neutral territory on Wednesday) and Asian equities clocking a positive start, global FX may attempt recover from its overnight retreat.
- We undertake a tactical long **EUR-USD** with the FOMC remaining non-committal and likely to result in generalized USD vulnerability in the interim. The EUR is also expected to remain underpinned at the margins with the Brexit-related hit still relatively contained and with the ECB likely to remain static till September. With a spot ref at 1.1149 on Thursday, we target 1.1460 with a stop placed at 1.0990.

Asian FX

- As alluded to above, regional pairs may hover with a top heavy tone today with the **Asian Currency Index (ACI)** expected to tilt slightly lower after firming on Wednesday. On other fronts, the **Bank of Thailand** remained static at 1.50% as widely expected. Ensuing official comments however echoed sentiments (or market action) expressed by the neighboring central banks in warning against an excessive appreciation of its currency.
- This morning, the **SGD NEER** is a touch firmer around +1.16% above its perceived parity (1.3564) despite a slightly firmer USD environment, indicating the reluctance to push higher in the spot. NEER-implied USD-SGD thresholds are firmer on the day with the +1.50% estimated at 1.3364. As has been the case of late, expect market caution to manifest on dips below 1.3400 towards this threshold.

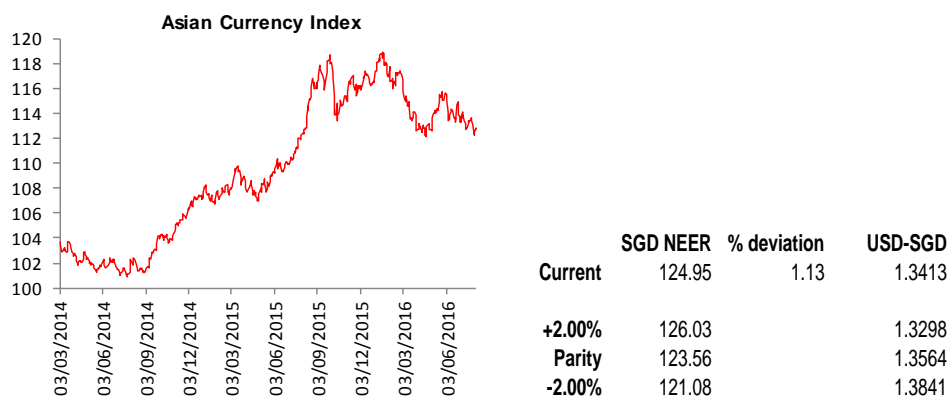
Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

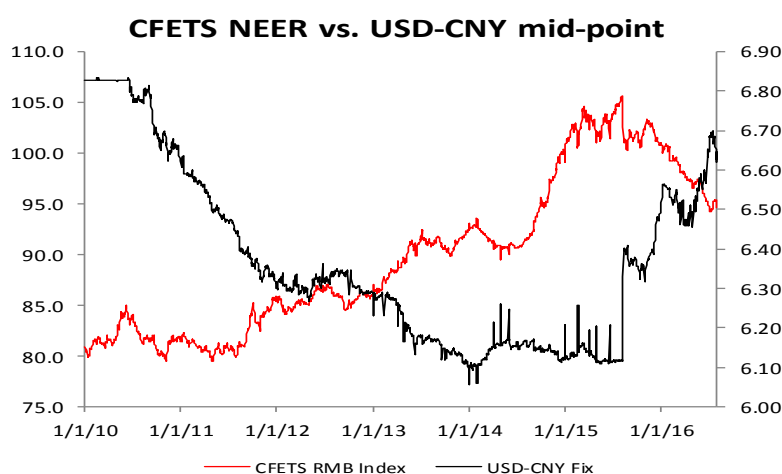
Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com



Source: OCBC Bank

- Today, the USD-CNY mid-point rose to 6.6444 from 6.6195 on Wednesday, pulling the **CFETS RMB Index** lower to 94.68 from 94.83 a day ago. Central bank behavior in recent weeks has remained fairly consistent, with the mid-points continuing to be a byproduct of the guidance imposed on the Index. By our estimates, the Index is running at an approximate -11% p.a. and its ex-post behavior seems to indicate that official intentions to depreciate the basket remain in play (despite conflicting calls between the NDRC and the PBOC with respect to monetary policy). Note that our revised forecasts continue to impute this estimated rate of decay in the CFETS RMB Index in the coming months.



Source: OCBC Bank, Bloomberg

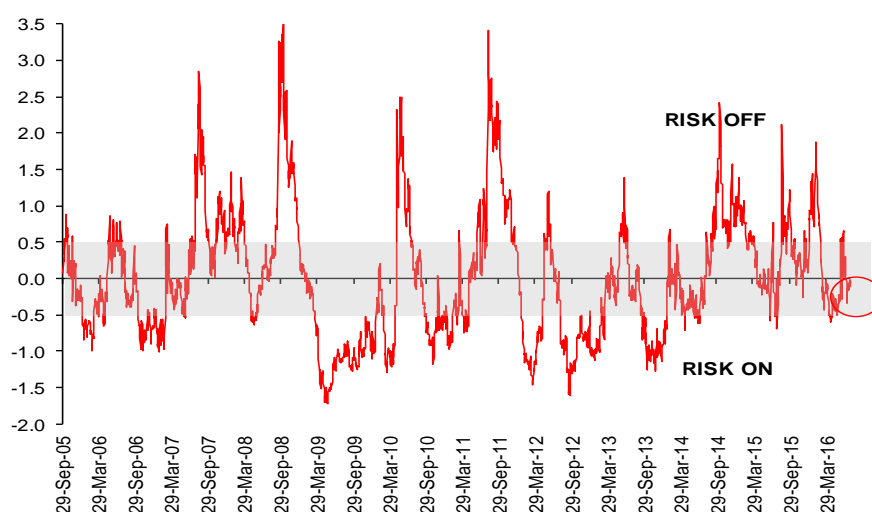
G7

- EUR-USD** The pair may continue to hover around its 55-day MA (1.1158) ahead of the BOE MPC and the US NFP tomorrow likely to impart additional directionality from here. We look to base building behavior with an eye on the 100-day MA (1.1235).
- USD-JPY** Despite official jawboning, we continue to be heavy on the USD-JPY on the back of broad dollar vulnerability and continued proclivity by Japanese officials to “disappoint” market expectations. Risks towards 100.00

as a first stop remain apparent.

- AUD-USD** The pair is expected to continue to defy gravity on the back of the soggy greenback and the sustained search for yield. Expect investors to collect on dips within 0.7550-0.7650.
- GBP-USD** It remains to be seen if the GBP-USD can stage a range break out of 1.3100-1.3400 as a result of the BOE MPC and Inflation Report today. Any disappointment out of the BOE today may see a relapse back to the 1.3200 neighborhood.

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

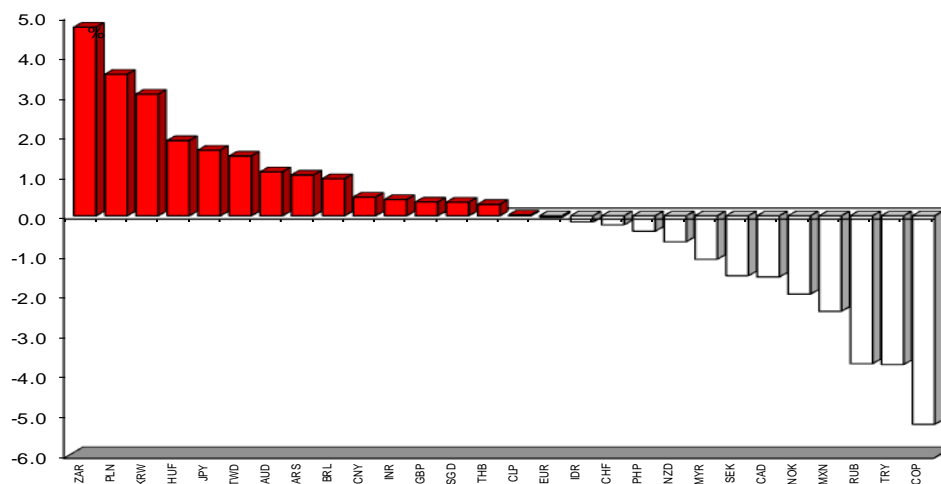
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1078	1.1100	1.1151	1.1154	1.1200
GBP-USD	1.2985	1.3300	1.3337	1.3400	1.3402
AUD-USD	0.7458	0.7600	0.7626	0.7662	0.7676
NZD-USD	0.7068	0.7100	0.7180	0.7200	0.7325
USD-CAD	1.2975	1.3000	1.3043	1.3100	1.3236
USD-JPY	100.00	100.08	100.95	101.00	104.87
USD-SGD	1.3335	1.3358	1.3398	1.3400	1.3515
EUR-SGD	1.4844	1.4900	1.4939	1.5000	1.5014
JPY-SGD	1.2898	1.3200	1.3275	1.3300	1.3374
GBP-SGD	1.7531	1.7800	1.7868	1.7900	1.8040
AUD-SGD	1.0129	1.0200	1.0217	1.0260	1.0300
Gold	1304.38	1309.68	1354.40	1366.66	1377.50
Silver	19.52	20.30	20.36	20.40	20.73
Crude	41.19	41.20	46.30	47.61	48.73

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

Source: OCBC Bank

Asia FX Heat Map

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

Source: OCBC Bank

FX Trade Ideas

FX Trade Room								
	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
	TACTICAL							
1	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit	
2	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
	STRUCTURAL							
3	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
4	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
5	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield	
6	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
7	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
8	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	104.50	Potential for further risk aversion	-2.25
2	05-Jul-16	28-Jul-16	B	AUD-USD	0.7528	0.7523	Search for yield amidst potential FOMC disappointment	+0.03
3	22-Jul-16	28-Jul-16	B	USD-JPY	105.83	103.45	Contrasting policy postures going into the next FOM/BOJ meetings	-2.28
4	21-Jul-16	29-Jul-16	B	USD-SGD	1.3579	1.3445	Potential for broad USD traction, NEER deemed rich	-1.00
5	28-Jun-16	01-Aug-16	S	EUR-USD	1.1057	1.1215	Brexit uncertainty coupled with Euroskepticism	-0.90
6	28-Jun-16	01-Aug-16	S	GBP-USD	1.3306	1.3204	Epicenter of Brexit concerns	+0.78

Source: OCBC Bank

Revised central tendency forecasts

	Spot	Sep-16	Dec-16	Mar-17	Jun-17
USD-JPY	100.94	98.43	100.22	103.56	106.89
EUR-USD	1.1215	1.1318	1.1250	1.1100	1.0950
GBP-USD	1.3326	1.3058	1.2506	1.2268	1.2029
AUD-USD	0.7597	0.7690	0.7608	0.7433	0.7258
NZD-USD	0.7202	0.7340	0.7259	0.7077	0.6896
USD-CAD	1.3121	1.3238	1.3317	1.3417	1.3517
USD-CHF	0.9657	0.9560	0.9649	0.9806	0.9963
USD-SGD	1.3406	1.3310	1.3381	1.3539	1.3697
USD-CNY	6.6288	6.7019	6.7461	6.7649	6.7837
USD-THB	34.79	34.58	34.72	35.06	35.39
USD-IDR	13123	13055	13076	13279	13482
USD-MYR	4.064	4.1100	4.1450	4.1900	4.2350
USD-KRW	1113.89	1095.00	1107.78	1134.44	1161.11
USD-TWD	31.706	31.450	31.600	31.900	32.200
USD-HKD	7.7584	7.7550	7.7544	7.7611	7.7678
USD-PHP	47.04	47.13	47.51	47.68	47.84
USD-INR	66.7725	66.48	66.71	67.18	67.64
EUR-JPY	113.20	111.39	112.75	114.95	117.04
EUR-GBP	0.8416	0.8667	0.8996	0.9048	0.9103
EUR-CHF	1.0830	1.0820	1.0856	1.0885	1.0909
EUR-SGD	1.5035	1.5064	1.5053	1.5028	1.4998
GBP-SGD	1.7865	1.7380	1.6734	1.6609	1.6477
AUD-SGD	1.0185	1.0235	1.0180	1.0064	0.9942
NZD-SGD	0.9655	0.9770	0.9713	0.9582	0.9445
CHF-SGD	1.3882	1.3923	1.3867	1.3807	1.3748
JPY-SGD	1.3281	1.3523	1.3351	1.3074	1.2814
SGD-MYR	3.0315	3.0879	3.0978	3.0948	3.0919
SGD-CNY	4.9447	5.0352	5.0417	4.9966	4.9526

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.
