

Friday, February 05, 2016

## FX Themes/Strategy/Trading Ideas – Dollar in retreat

- The broad dollar continued to flame out on Thursday and may remain vulnerable going into today's NFP numbers (mkts: +190k). On the data front, US Dec durable goods orders came in below prior market expectations while Fed rhetoric (from Kaplan, Mester) and will do little to underpin the greenback. Note however an underlying sense of caution, with the EUR, JPY and the CHF outperforming across the board yesterday. On this front, note that the **FXSI (FX Sentiment Index)** ticked higher again within Risk-Off territory on Thursday.
- Our 08 Jan 16 idea to be long **EUR-USD** (spot ref: 1.0888) bore fruit as the 1.1220 objective was reached overnight. With the current episode of dollar uncertainty still likely to play out, we extend our target to 1.1560, trailing the stop to 1.1045. At this juncture, main risk to this view would of course be ECB discomfort towards the EUR's broad valuation.
- We undertook a tactical short **USD-SGD** on the premise that the broad dollar may stumble further if investor skepticism towards the Fed heightens multisession. With a spot ref at 1.4158 on Thursday, we target 1.3915 while placing a stop at 1.4280.
- With the broad dollar likely to remain under threat in the near term, the CAD may also continue to benefit from the secondary effects of stabilizing oil prices. From a Thursday **USD-CAD** spot ref at 1.3760, we look for a 1.3390 target with a stop placed at 1.3950.

## Asian FX

- In the current dollar environment, expect the **ACI (Asian Currency Index)** to seek lower ground in sympathy with the DXY and with near-term market implied Asian currency depreciation expectations still moderating. Note our **Asian Heat Map** also continues to denote a fading greenback in the near term.
- This morning, the **USD-CNY mid-point** was pulled lower again to 6.5314 from 6.5419 on Thursday. This brought the estimated **CFETS RMB Index** lower to 99.23 from 99.60 yesterday. We reiterate that the Index has continued to be fairly responsive to its basket constituents of late and in the current environment, the USD-CNY mid-points have had to adjust lower. As a result, the now familiar implication of greater volatility in the fix is expected to increasingly become a mainstay.

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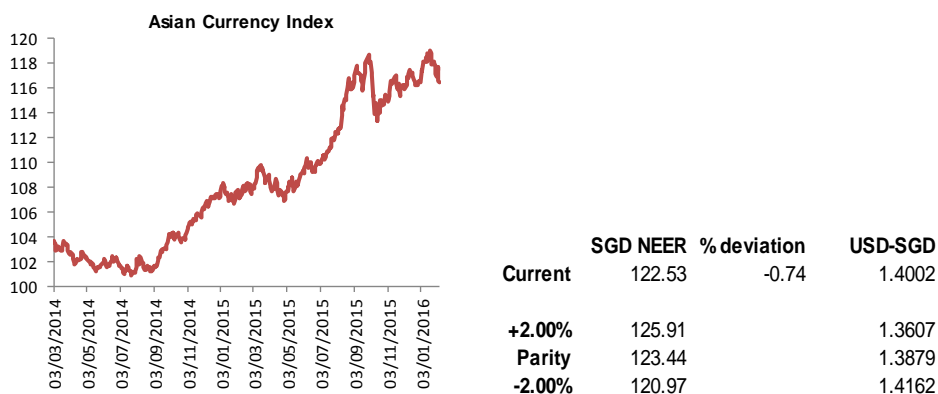
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- In addition, the less obvious implication is that the previous day's **USD-CNY** onshore close may continue to abate in relevance – a strengthening phenomenon in the year to date. Structurally, as noted previously, the implicit pressure from macro fundamentals continue to point to room for continued adjustments lower in the Index (already -1.69% ytd) and a controlled drift towards 97.00 cannot be ruled out. **In sum, we think the PBOC has already granted greater latitude to the USD-CNY spot and going ahead, watch for China's January's foreign reserves numbers to be released over the weekend.**
- With USD-SGD crashing through 1.4000 overnight, the **SGD NEER** is currently -0.62% below its perceived parity (1.3879), compared to -1.47% yesterday. NEER-implied USD-SGD thresholds are also markedly lower with the -2.00% lower boundary of the NEER fluctuation band estimated at 1.4162. The USD-SGD may remain heavy into the end of the week although some hesitation may kick in on approach of the NEER parity with the 200-day MA (1.3906) an intermediate support.



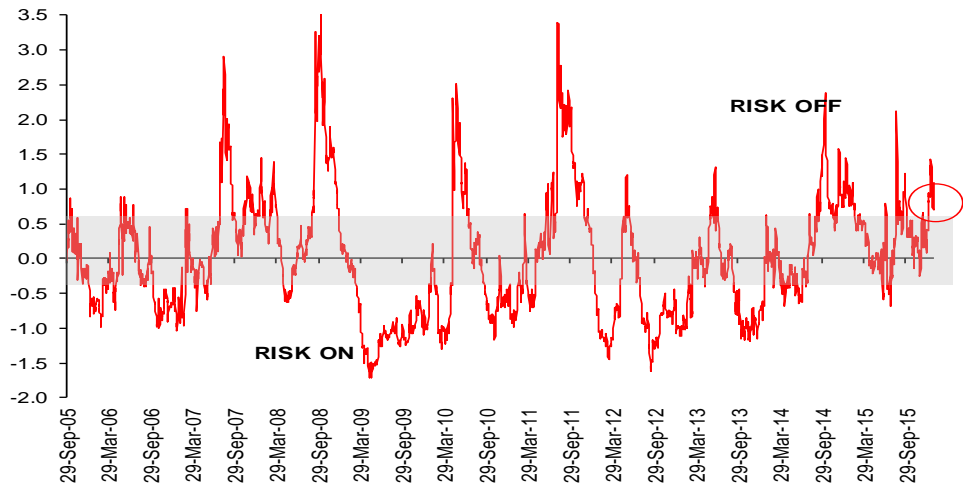
Source: OCBC Bank

**G7**

- **EUR-USD** We look for the EUR-USD to remain supported into today's US NFP numbers with little of consequence in terms of meaningful resistance until 1.1300. Market positioning remains in favor of the EUR at this juncture with the ECB doing little to engender expectations of further QE at this juncture.
- **USD-JPY** The USD-JPY may not rest until the floor at 116.00 (where we expect some consolidation) if dollar strength expectations continue to be defused. Key risk into the end of the week of course may be expected from the US NFP numbers.
- **AUD-USD** Although December 15 retail sales came in below expectations this morning, broad dollar cues may continue to dictate near term directionality. Beyond the short term, note that the RBA's Monetary Policy Statement this morning reiterated more scope for lower rates if necessary. At this juncture, the pair may continue to contemplate a breach of 0.7200 towards 0.7250 with immediate support expected at 0.7150.

- GBP-USD** The GBP failed to capitalize significantly on broad dollar weakness on Thursday as the BOE MPC showed a unanimous vote to leave rates on hold (with McCafferty finally relenting and no longer dissenting). The BOE's Carney provided some damage control however, noting that the next move for rates was still expected to be a hike. Overall, the pair may still garner support from a broad dollar downdraft in the near term, with 1.4500 an initial floor.

**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

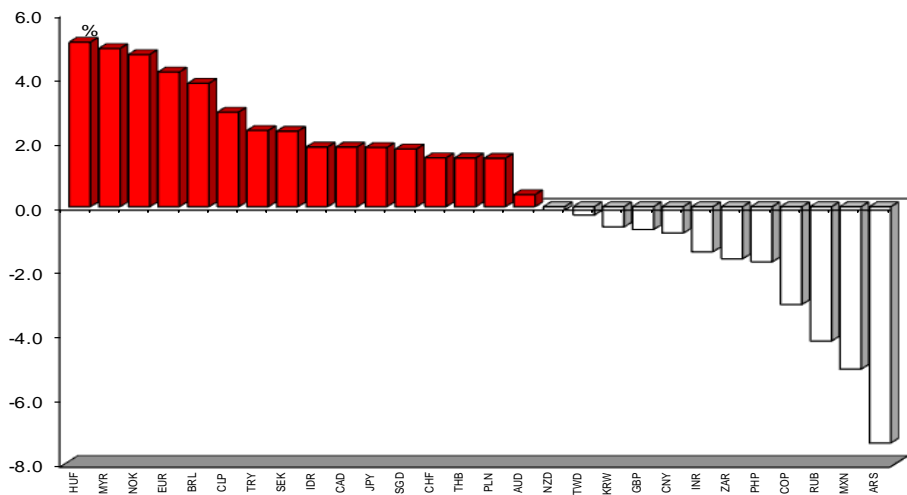
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1142	1.1198	1.1200	1.1239
GBP-USD	1.4086	1.4500	1.4571	1.4600	1.4632
AUD-USD	0.7100	0.7138	0.7187	0.7200	0.7209
NZD-USD	0.6643	0.6684	0.6696	0.6700	0.6703
USD-CAD	1.3665	1.3700	1.3739	1.3800	1.3930
USD-JPY	115.98	116.00	116.91	117.00	119.92
USD-SGD	1.3950	1.4000	1.4004	1.4045	1.4100
EUR-SGD	1.5449	1.5600	1.5682	1.5700	1.5757
JPY-SGD	1.1824	1.1900	1.1977	1.2000	1.2390
GBP-SGD	2.0190	2.0400	2.0404	2.0500	2.0811
AUD-SGD	0.9867	1.0000	1.0063	1.0100	1.0116
Gold	1131.63	1155.08	1155.20	1157.30	1200.00
Silver	14.13	14.80	14.87	14.88	14.90

Source: OCBC Bank

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



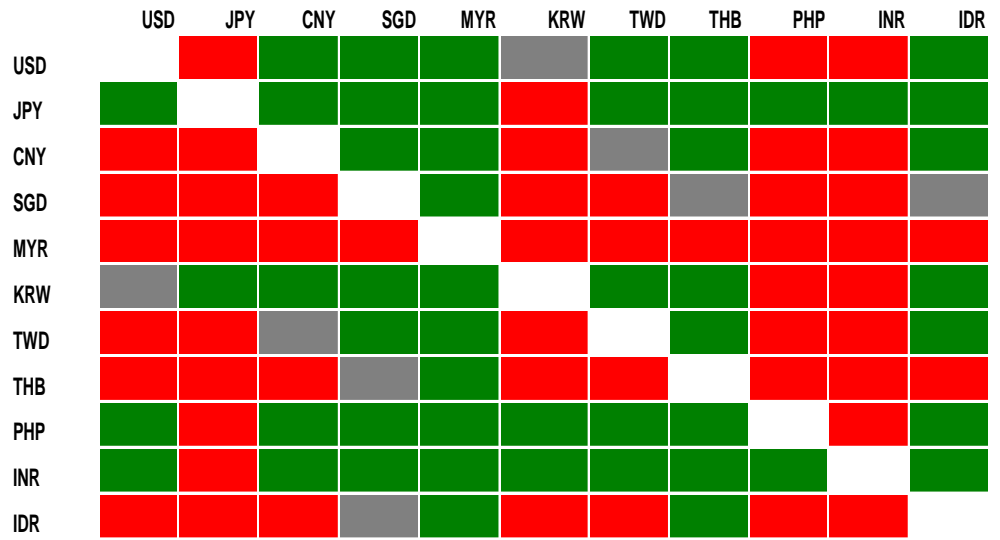
Source: Bloomberg

**G10 FX Heat Map**

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

Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### FX Trade Ideas

Inception	B/S	Currency	Spot	Target Stop/Trailing stop	Rationale		
1	08-Jan-16	B	EUR-USD	1.0888 1.1560 1.1045	Risk of Fed/dollar "disappointment"		
2	04-Feb-16	S	USD-SGD	1.4158 1.3915 1.4280	Dollar may stumble further post-Dudley		
3	04-Feb-16	S	USD-CAD	1.3760 1.3390 1.3950	Dollar on the defensive, stabilizing crude		
STRUCTURAL							
4	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		
5	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 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
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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