

Tuesday, April 05, 2016

FX Themes/Strategy/Trading Ideas

- With commodities flaming out, the commodity bloc currencies fell across the board with the JPY benefitting against its peers as risk appetite eased slightly. Expect this dynamic to spill over into Tuesday dealings with the **FXSI (FX Sentiment Index)** inching higher again within Risk-Neutral territory.
- Elsewhere, any Fed-driven strong dollar rhetoric may remain on the backburner despite supportive comments from the Fed's Rosengren (dove) overnight. Note also disappointing Feb factory orders and durable goods data points.
- For today, apart from the global data flow of services/composite PMIs, look to the RBA policy meeting with markets expecting no change in the benchmark rate but on the lookout for AUD-related comments. . In Asia, the **RBI** is expected to cut its benchmark repo and reverse repo rates by 25bps to 6.50% and 5.50% respectively.

Asian FX

- A soft start to Asian equities on Tuesday should see USD-Asia lifting higher into the session (with the firmer USD-CNY mid-point) adding further buoyancy. As such, the **ACI (Asian Currency Index)** should firm (i.e., stronger dollar) for the third consecutive session today.
- Despite the better than expected March PMI reading of 49.4 (prev: 48.5), the **SGD NEER** is softer relative to its perceived mid-point (1.3556) at around +0.12% on the back of uneasy risk appetite. NEER-implied USD-SGD thresholds are slightly higher on the day and risks for the pair may be oriented higher instead for the Asian session. At current levels, the +0.50% threshold is estimated at 1.3490 with some resistance expected into 1.3580 if 1.3550 is breached.
- This morning, the **USD-CNY mid-point** was set at a higher than expected 6.4663 (Fri: 6.4585). Instead of a slightly higher implied **CFETS RMB Index**, the higher than expected USD-CNY mid-point has brought the index to 97.94 (98.01 on Friday). This is fairly significant given the Index has finally been discretely set **below 98.00**. As surmised previously, the official comfort zone may extend to the 97.00 level. The implication then is that upside headroom for the mid-point remains apparent if broad dollar conditions so dictate.

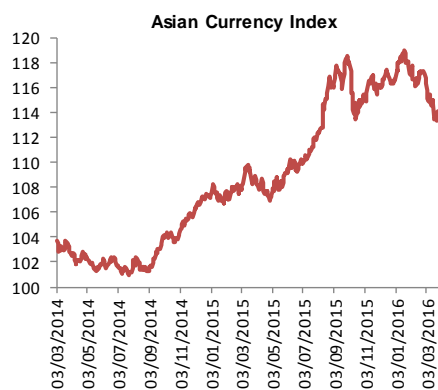
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Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com



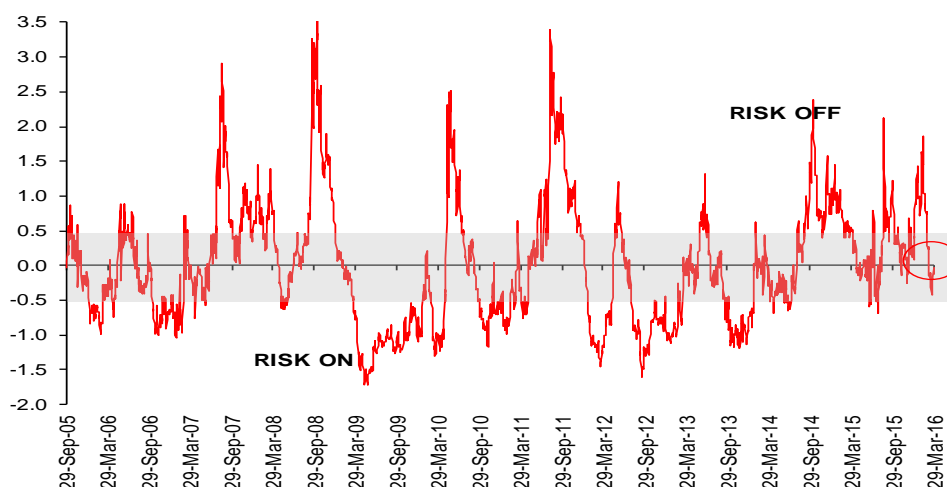
	SGD NEER	% deviation	USD-SGD
Current	123.57	0.02	1.3554
+2.00%	126.01		1.3290
Parity	123.54		1.3556
-2.00%	121.07		1.3832

Source: OCBC Bank

G7

- EUR-USD** The EUR-USD managed to end relatively flat despite dovish comments from the ECB's Praet, Greek-IMF tensions, and implicit dollar strength from souring risk appetite on Monday. In the near term, barring a significant meltdown in global risk appetite levels, the EUR-USD may continue to contemplate a sustained breach of the 1.1400 handle towards 1.1495 multi-session.
- USD-JPY** Dovish comments from the BOJ's Kuroda this morning may continue to be a secondary consideration in the near term with investors still seen slightly skittish. Expect the pair to remain heavy towards 110.00 (with implicit pressure from the JPY-crosses) if the flight from risk deepens although official jawboning may begin to materialize again.
- AUD-USD** AUD-USD continues to fade lower in early trade with market caution building ahead of the RBA meeting (0430 GMT). Note also the weaker AiG services index of 49.5 for March. Immediate supports are expected at 0.7535 and then at 0.7500 ahead of the RBA.
- GBP-USD** GBP-USD managed to step higher on Monday as EUR-GBP relapsed below 0.8000 with Brexit concerns taking a breather. The pair may however fail at the 55-day MA (1.4278) and backtrack to 1.4200 and then 1.4150 if risk appetite sours further on the back of the services/composite PMIs later in the session.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	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

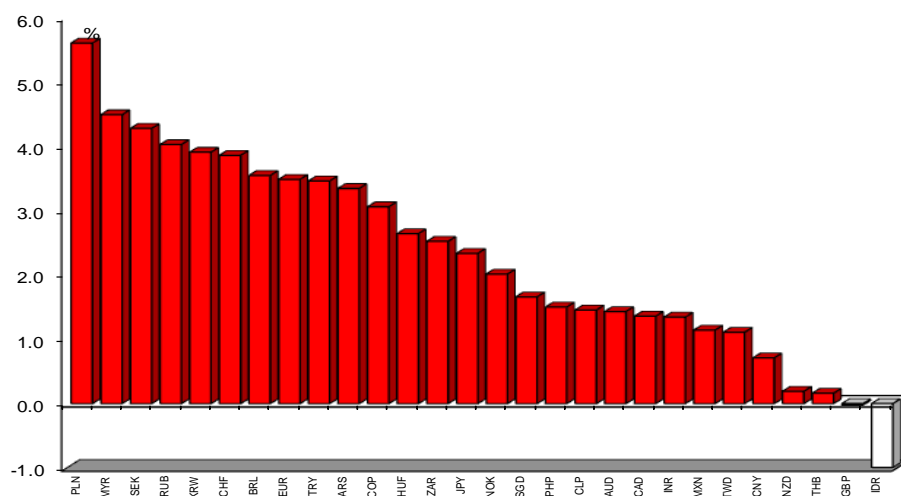
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1125	1.1300	1.1397	1.1400	1.1438
GBP-USD	1.4073	1.4200	1.4262	1.4279	1.4300
AUD-USD	0.7436	0.7500	0.7576	0.7600	0.7700
NZD-USD	0.6684	0.6800	0.6813	0.6900	0.6936
USD-CAD	1.2901	1.3000	1.3089	1.3100	1.3378
USD-JPY	110.50	110.67	110.86	111.00	113.96
USD-SGD	1.3415	1.3500	1.3556	1.3600	1.3850
EUR-SGD	1.5428	1.5444	1.5451	1.5500	1.5541
JPY-SGD	1.2173	1.2200	1.2228	1.2249	1.2300
GBP-SGD	1.9157	1.9300	1.9334	1.9400	1.9772
AUD-SGD	1.0200	1.0256	1.0269	1.0300	1.0374
Gold	1206.42	1213.34	1225.90	1273.50	1287.80
Silver	14.89	15.00	15.09	15.10	15.17

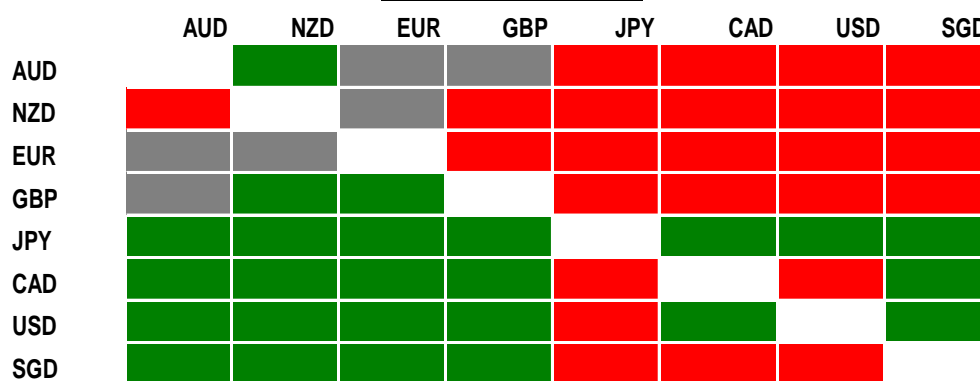
Source: OCBC Bank

FX performance: 1-month change agst USD



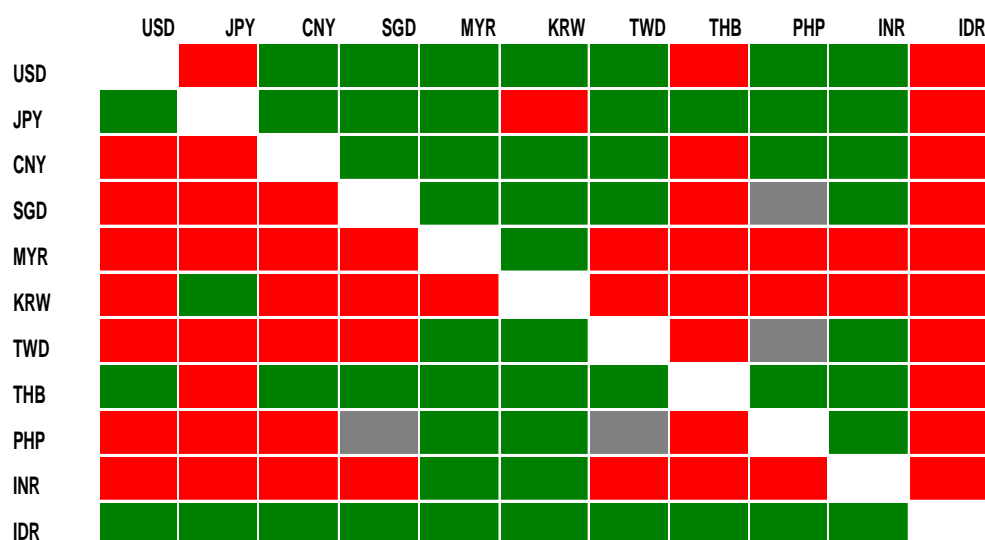
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

FX Trade Road								
	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
1	29-Feb-16	S	USD-CAD	1.3533	1.2745	1.3330	Bottoming crude	
2	03-Mar-16	B	AUD-USD	0.7284	0.7835	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
3	04-Mar-16	S	USD-SGD	1.3881	1.3380	1.3755	Brightening risk appetite, vulnerable broad dollar	
4	30-Mar-16	B	EUR-USD	1.1297	1.1630	1.1130	Dollar negativity post-Yellen	
	STRUCTURAL							
5	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
8	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	26-Feb-16	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
2	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45
3	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29
4	14-Mar-16	15-Mar-16	B	GBP-USD	1.4380	1.4180	Abating Brexit concerns, potential for Yellen to underwhelm	-1.41
5	18-Mar-16	24-Mar-16	B	EUR-USD	1.1321	1.1150	Tilt in policy balance after ECB and FOMC	-1.53
6	18-Feb-16	31-Mar-16	S	USD-SGD	1.4034	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	+4.54
	Year-to-date performance (1Q 16)							+30.72

Source: OCBC Bank

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