

Thursday, October 06, 2016

FX Themes/Strategy/Trading Ideas

- The greenback on Wednesday garnered underlying support following the run of outperforming data points (Sep non-manufacturing ISM, Aug factory orders, Aug durable goods orders; Sep ADP came in mildly below expectations) and as the UST curve continued to firm. Elsewhere, global risk appetite levels remain essentially sanguine, with the **FXSI (FX Sentiment Index)** dipping further within Risk-Neutral territory towards the Risk-On zone.
- The USD remains underpinned into early Asian trade on Thursday (with rate supportive comments from the Fed's Evans, Fischer, and Lacker) and markets may retain this demeanor into tomorrow's US labor market report.
- From a structural perspective however, we have noted previously that global manufacturing activity (and outlook) proxied by global manufacturing PMIs are in the process of bottoming. In addition, with crude essentially back at the 50 handle and defusing somewhat global stagflation/deflation concerns, any hint of any taper (ECB being the latest case in point) from a major central bank will be expected to catalyze a potential collision with the strong dollar narrative, resulting in heightened volatility ahead.
- We fade any taper-talk inspired EUR resilience in the short term given that any eventual taper remains early days yet for the ECB. Coupled with underlying USD support in the near term, we undertake a tactical short **EUR-USD**. With a spot ref of 1.1222 on Wednesday, we target 1.1025 and place a stop at 1.1325.
- We go tactically long **USD-JPY** ahead of the US NFP tomorrow on our longstanding premise that the pair remains relatively more responsive to FOMC-centric dollar dynamics. Meanwhile, generally supportive global risk appetite levels and the Japanese curve moving counter to its G7 counterparts essentially dovetails with a suppressed JPY outlook in the near term. With a spot ref of 103.48 on Thursday, we look for a 106.95 objective, while placing a stop at 101.70.

Asian FX

- On a multi-session horizon, continue to look towards broad dollar prospects, with risk appetite considerations sidelined barring another bout of risk aversion. Note that the **ACI (Asian Currency Index)** is well off its mid-August lows.
- The **SGD NEER** is a touch higher at -0.23% below its perceived parity

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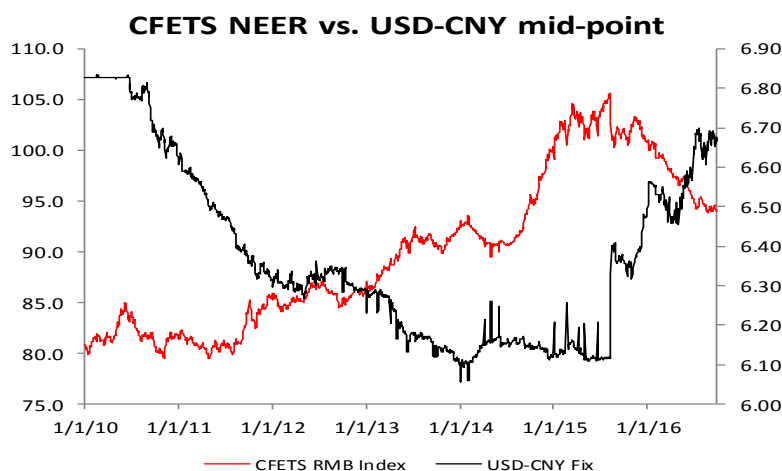
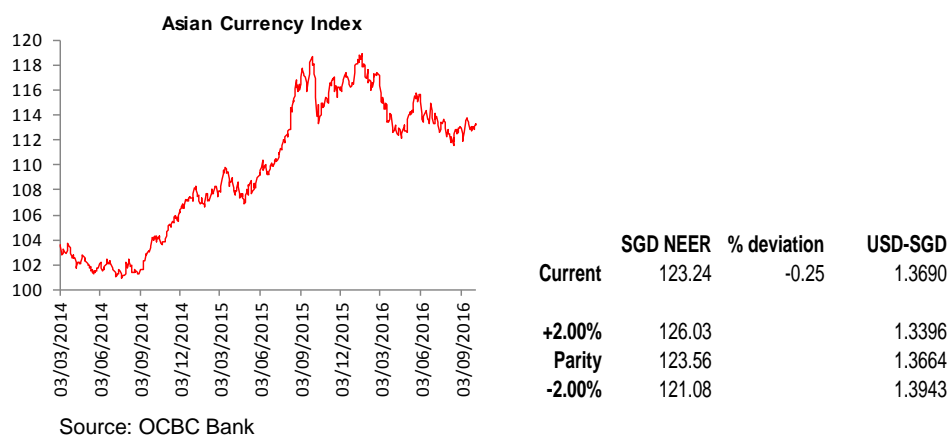
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(1.3664) with NEER-implied USD-SGD thresholds slightly lower on the day as the USD stabilized overnight. At current levels, the -0.50% threshold is estimated at 1.3733 and the risk for the basket may remain tilted south given expected reluctance to push above parity significantly in the coming sessions. For the USD-SGD, the 200-day MA (1.3706) continues to remain secure with the pair failing to establish a clean break over the last two sessions. Beyond this level, 1.3735 may provide further resistance. On the downside, any approach towards parity for the NEER may see the USD-SGD attempting to bottom out.



Source: OCBC Bank, Bloomberg

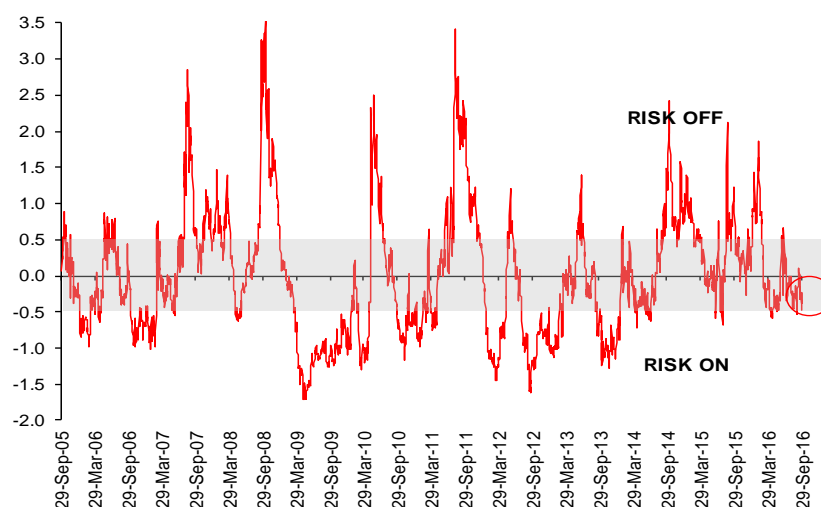
G7

- EUR-USD** The EUR continued to benefit against its G10 counterparts on the back of firming bund yields again on Wednesday but against the USD, the pair may remain hostage to more immediate USD undercurrents. Expect some drift towards the 200-day MA (1.1166) if 1.1200 is breached.
- USD-JPY** Please refer to the tactical long USD-JPY trade idea above. Technically, the 104.00 handle bears watching into the end of the week.
- AUD-USD** With the broad dollar holding sway in the near term and

despite yield differentials in recent sessions arguing otherwise, the AUD-USD may continue to eye the 0.7600 floor as well as the 55-day MA (0.7598), with little to cushion till 0.7565 thereafter.

- GBP-USD** GBP-USD downside may take a near term hiatus if 'hard' Brexit headlines quieten down although a supported USD environment may continue to facilitate downside probes. Meanwhile, GBP bears also have the comfort of recent yield differential movements moving in favor of a softer sterling profile.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

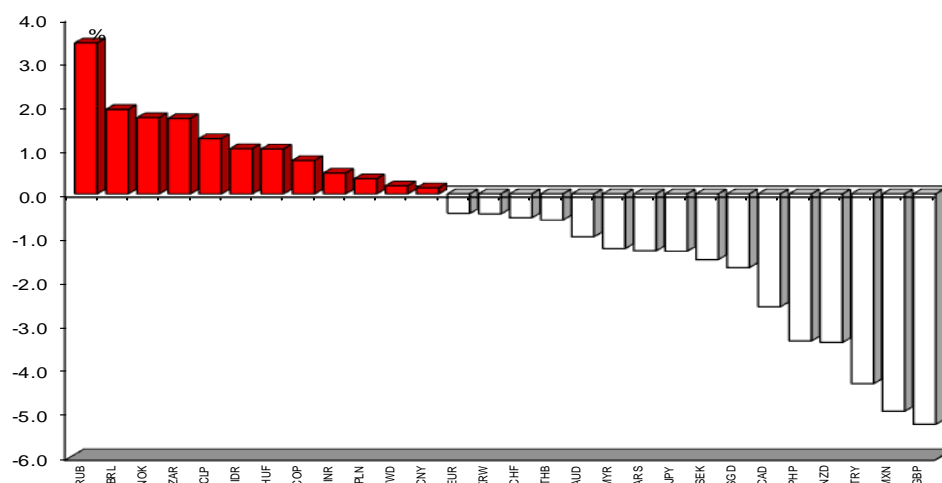
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1165	1.1200	1.1205	1.1207	1.1265
GBP-USD	1.2686	1.2700	1.2734	1.2800	1.3097
AUD-USD	0.7600	0.7607	0.7613	0.7700	0.7725
NZD-USD	0.7100	0.7149	0.7164	0.7174	0.7200
USD-CAD	1.3053	1.3100	1.3184	1.3200	1.3213
USD-JPY	101.67	103.00	103.36	103.67	104.00
USD-SGD	1.3534	1.3600	1.3691	1.3697	1.3700
EUR-SGD	1.5288	1.5300	1.5340	1.5385	1.5398
JPY-SGD	1.3190	1.3200	1.3246	1.3300	1.3315
GBP-SGD	1.7399	1.7400	1.7433	1.7500	1.7725
AUD-SGD	1.0294	1.0400	1.0423	1.0500	1.0510
Gold	1257.31	1261.30	1265.30	1269.21	1300.00
Silver	17.58	17.70	17.76	17.78	17.80
Crude	45.79	49.50	49.55	49.60	49.97

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

Source: OCBC Bank

Asia FX Heat Map

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

Source: OCBC Bank

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
	TACTICAL							
1	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
2	29-Sep-16	B	AUD-USD	0.7685	0.7895	0.7575	Position for sustained positive risk appetite	
3	04-Oct-16	S	GBP-USD	1.2814	1.2420	1.3015	Article 50 jitters coupled with pre-NFP USD resilience	
4	05-Oct-16	S	EUR-USD	1.1222	1.1025	1.1325	Fade ECB-taper talk, potential US resilience	
5	06-Oct-16	B	USD-JPY	103.48	106.95	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	
	STRUCTURAL							
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to wiegh on the pair, esp if Fed hesitates	
10	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
11	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclical, search for yield	8.37
2	04-Aug-16	19-Sep-16	B	EUR-USD	1.1149	1.1157	Static Fed vs. ECB	-0.80
3	01-Sep-16	21-Sep-16	B	USD-JPY	103.33	100.90	Ahead of NFP numbers and BOJ MPC	-2.33
4	15-Sep-16	22-Sep-16	B	USD-CAD	1.3202	1.3030	Fading crude, soft macro outlook, ahead of FOMC	-1.36
5	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
6	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
	Jan-Aug 2016 Return							+7.80

Source: OCBC Bank

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