

Monday, March 07, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite firmer UST yields, the dollar retreated against the majors post-NFP as investors dwelled on the surprise Feb -0.1% mom contraction in average hourly earnings and ignored the better than expected headline NFP of +242k. This mood may prevail at the onset of the week with positive investor sentiment (note positive US equities and commodities) channeling interest towards the other majors instead. However, China's slightly lower growth projection of 6.5-7.0% over the next five years and less aggressive than expected 3% fiscal deficit target may see risk taking behavior hesitate slightly.
- Meanwhile, markets may continue to be driven by a better risk complexion, with the US NFP numbers on balance deemed to be a net positive indication of the underlying US labor market. Elsewhere on the CFTC front, implied net large non-commercial as well as leveraged dollar longs increased in the latest week although we note that these numbers pre-dated last Fri's NFP numbers. Overall, investors may attempt to trade on the risk appetite dynamic in the short term. Note that the **FXSI (FX Sentiment Index)** stayed within Risk-Neutral territory for the 3rd consecutive session on Friday after dipping lower from Risk-Off territory in the earlier part of last week.
- This week, expect attention to be drawn towards the EUR with the **ECB** widely expected to enact further QE at its Thursday meeting via a further cut in its benchmark deposit rate and/or a further increase in its asset purchase program. Meanwhile, the **Bank of Canada** is expected to stand pat at 0.50% on Wednesday, while the **RBNZ** is also expected to keep its policy rate unchanged at 2.50% late Wednesday. In Asia, **China** is also expected to release its February foreign reserves number today. On the central bank front, **BNM** is not expected to alter its benchmark rate at 3.25% on Wednesday while the **BOK** is also expected to be static at 1.50% on Thursday.

Asian FX

- Asian currencies may attempt to benefit further from the vulnerable broad dollar with the **ACI (Asian Currency Index)** expected to continue heading south for the 7th consecutive session with our Asian FX Heat Map concurring. Notably, the softer USD-CNY mid-points may also engender marginal positivity towards the regional currencies.
- Today, the **USD-CNY mid-point** was fixed lower at 6.5113 compared to 6.5284 last Friday. This essentially leaves the CFETS RMB Index unchanged on the day at 99.16, slightly firmer than implied by movements in the basket's

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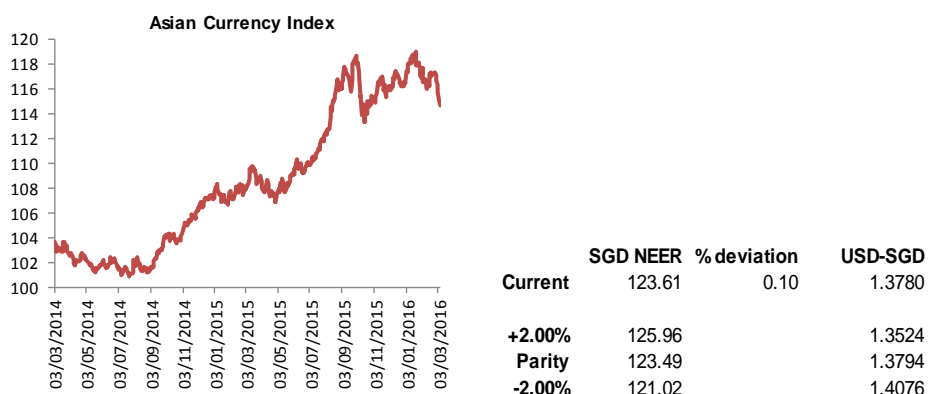
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constituent currencies.

- This morning, the **SGD NEER** is still circulating above its perceived parity (1.3794) at around +0.15%. Note that the recent firming of the SGD NEER has been primarily a reaction to overall USD and the JPY weakness and not borne out of any renewed discretionary optimism towards the SGD. NEER-implied USD-SGD thresholds are lower on the day and at current levels, expect some support for the USD-SGD corresponding to +0.5% at 1.3659.

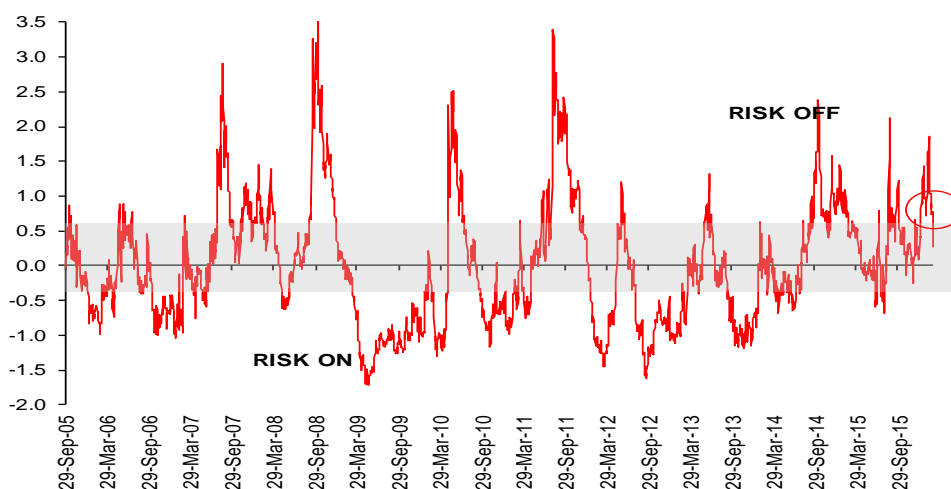


Source: OCBC Bank

G7

- **EUR-USD** The EUR-USD may remain tensioned by dovish expectations towards the ECB this week and background broad dollar vulnerability in the coming sessions. In the interim, the pair may remain top heavy with the 200-day MA (1.1047) providing a useful cap while initial support is seen towards the 55-day MA (1.0973).
- **USD-JPY** The JPY may continue to be disadvantaged if investor sentiment levels continue to improve, keeping the USD-JPY supported on dips. Support at 113.00 is expected in the near term while 114.55 may be expected to book end the upper resistance pending further news flow.
- **AUD-USD** Expect the AUD-USD to remain supported on the back of the brighter global risk appetite environment in the near term. Some pullback towards the 0.7370 area cannot be discounted given the slightly stretched price action in recent sessions while the 200-day MA (0.7252) is now serving as a key psychological support.
- **GBP-USD** Range to supported price action may be expected for the GBP-USD pending January industrial production numbers on Wednesday and the ECB on Thursday. Needless to say, expect Brexit news flow to continue to exert significant influence on the pound. In the interim, the 55-day MA (1.4409) is expected to be a fairly solid ceiling multi-session.

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

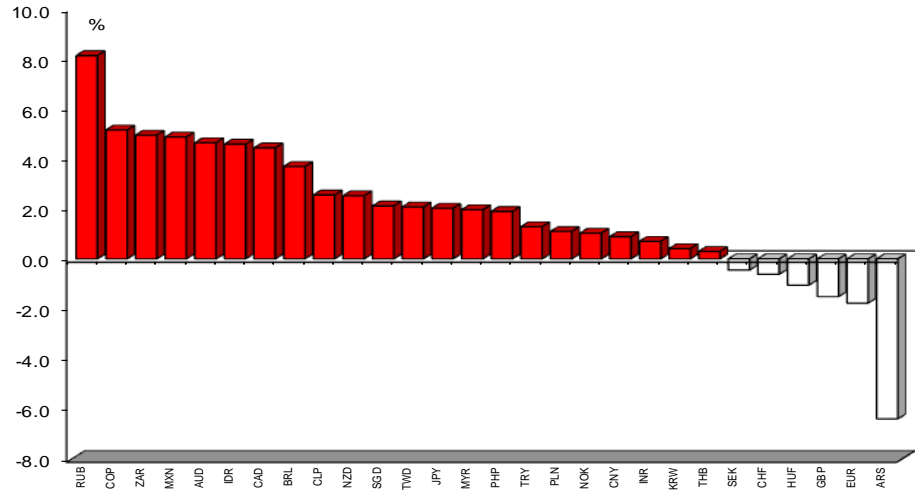
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0900	1.0975	1.0996	1.1000	1.1046
GBP-USD	1.3836	1.4200	1.4215	1.4300	1.4361
AUD-USD	0.7398	0.7400	0.7416	0.7443	0.7500
NZD-USD	0.6700	0.6780	0.6792	0.6800	0.6821
USD-CAD	1.3313	1.3400	1.3415	1.3500	1.3929
USD-JPY	111.86	113.00	113.54	114.00	114.94
USD-SGD	1.3700	1.3734	1.3758	1.3788	1.3800
EUR-SGD	1.5073	1.5100	1.5193	1.5200	1.5424
JPY-SGD	1.2150	1.2200	1.2231	1.2300	1.2578
GBP-SGD	1.9455	1.9600	1.9669	1.9700	2.0306
AUD-SGD	1.0118	1.0200	1.0216	1.0247	1.0270
Gold	1186.36	1200.00	1267.10	1272.24	1280.70
Silver	14.98	15.60	15.69	15.70	15.91

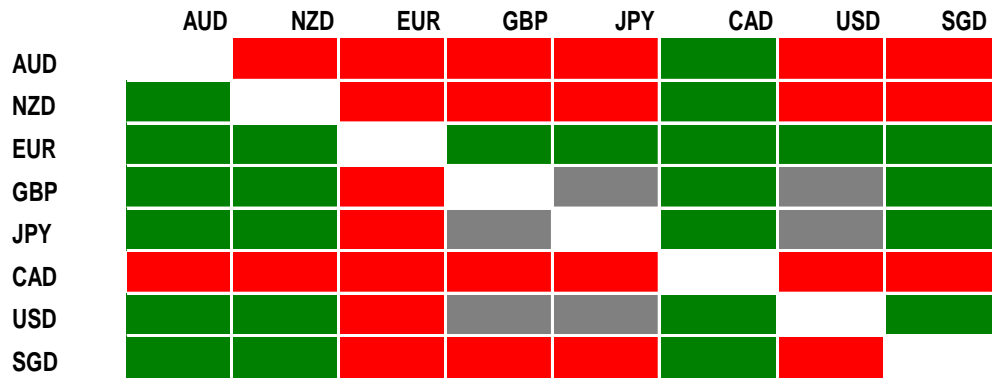
Source: OCBC Bank

FX performance: 1-month change agst USD



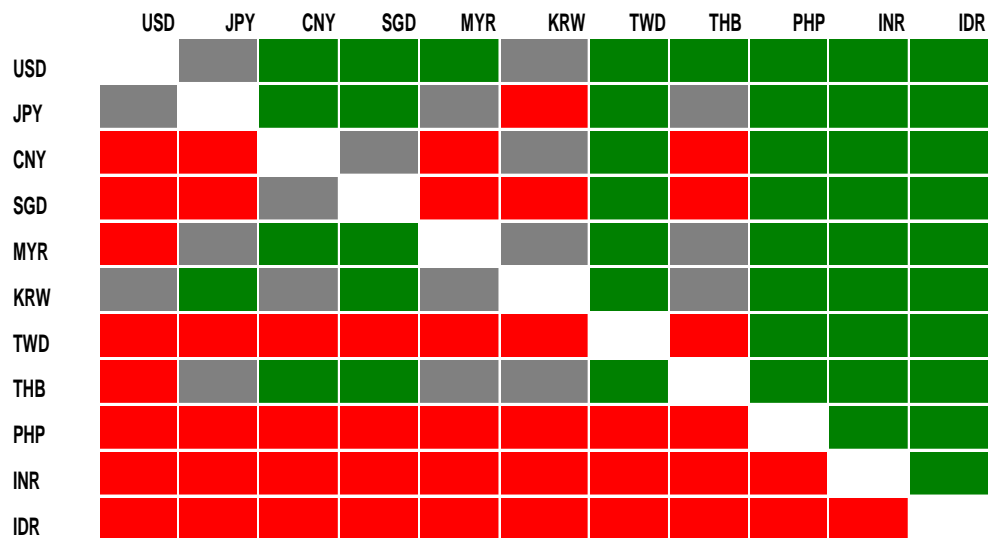
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
1	19-Feb-16	S	USD-JPY	112.84	109.30	114.65	Iffy FOMC & background risk aversion	
2	29-Feb-16	S	EUR-USD	1.0923	1.0640	1.1070	Contrasting short term data streams between EZ and US	
3	29-Feb-16	S	USD-CAD	1.3533	1.3135	1.3735	Bottoming crude	
	03-Mar-16	B	AUD-USD	0.7284	0.7555	0.7145	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
5	04-Mar-16	S	USD-SGD	1.3881	1.3630	1.4010	Brightening risk appetite, vulnerable broad dollar	
STRUCTURAL								
6	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
7	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
8	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
9	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	05-Feb-16	08-Feb-16	B	AUD-USD	0.7188	0.7060	Dollar in retreat, consolidating commodities	-1.81
2	04-Feb-16	08-Feb-16	S	USD-CAD	1.3760	1.3950	Dollar on the defensive, stabilizing crude	-1.36
3	29-Dec-15	10-Feb-16	S	USD-JPY	120.25	113.45	Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY	+5.86
4	10-Feb-16	11-Feb-16	S	USD-JPY	114.50	112.62	Risk aversion + weakened dollar narrative	+1.67
5	04-Feb-16	16-Feb-16	S	USD-SGD	1.4158	1.4035	Dollar may stumble further post-Dudley	+0.85
6	08-Jan-16	22-Feb-16	B	EUR-USD	1.0888	1.1045	Risk of Fed/dollar "disappointment"	+1.42
7	18-Feb-16	24-Feb-16	S	USD-CAD	1.3655	1.3855	Potential for crude to consolidate higher	-1.45
8	26-Feb-16		S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31

Source: OCBC Bank

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