

Tuesday, June 07, 2016

FX Themes/Strategy/Trading Ideas – June is buried

- With the Fed's Yellen not trying very hard to talk her way out of the negativity from last Friday's NFP and conspicuously avoiding a specific time frame of reference (in contrast to her previous appearance), expect the dollar to remain on the defensive in the near term. Notably, the Fed's Lockhart and Bullard earlier in the session had also all but doused expectations of a hike next week, with markets also heavily pricing out any July move at this juncture.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** continued to tick higher within Risk-Neutral territory on Monday with little impact on general global risk appetite levels or the JPY crosses.
- Apart from one last appearance by Rosengren, markets will have little additional cues from Fed rhetoric as the blackout period ahead of next week's FOMC kicks in. As such, continued de-gassing of recently built up USD longs may continue to ensue.
- For today, expect potential sources of distraction to come from the **RBA** (0430 GMT) and any perceived neutrality may lift the aussie further in the current dollar environment. Elsewhere in Asia, the **RBI** (0530 GMT) is expected to remain static although expectations are still running for another cut in the coming months.

Asian FX

- With Asian equities taking a shine to Yellen's perceived hesitation, we look for the **Asian Currency Index (ACI)** to continue to seek out the downside. On this front, the KRW is expected to continue shadow the JPY while the IDR is also expected to find favor from yield differential arguments.
- This morning, the **SGD NEER** is hovering around +0.55% above its perceived parity (1.3633), largely unchanged from a day ago but we note that NEER-implied USD-SGD thresholds are slightly softer. At current levels, the +1.00% threshold is estimated at around 1.3498 while caution should materialize towards +0.80% (1.3525/30).
- Nonetheless, we continue to caution that volatility indicators for the NEER and the USD-SGD are continuing to light up. As such, excessive near term downside for the USD-SGD may be tempered in the absence of further cues from the broad dollar.

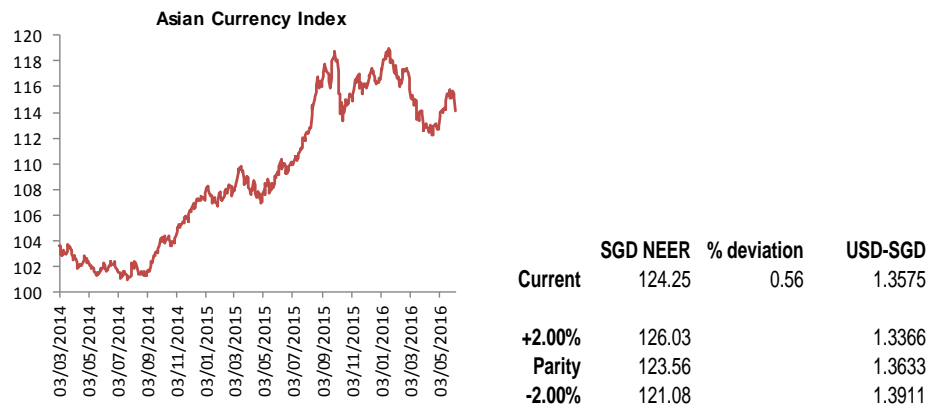
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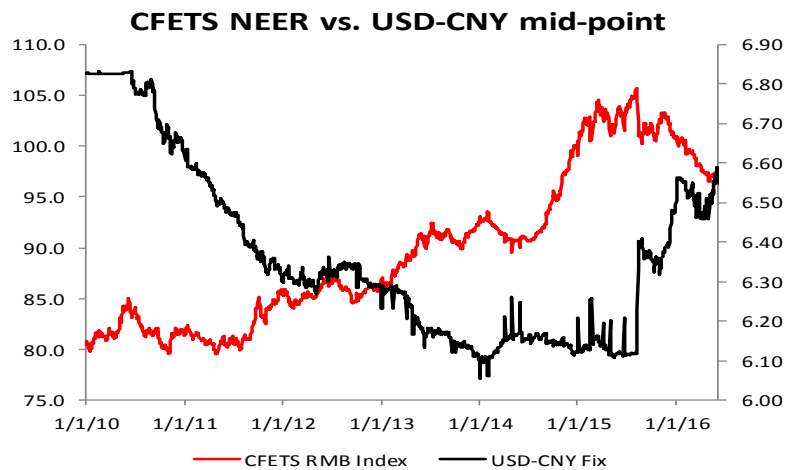
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Source: OCBC Bank

- The authorities took the opportunity to pull the **CFETS RMB Index** lower to 96.22 from 96.43 on Tuesday following overnight moves in the constituent currency. This saw the USD-CNY mid-point rising to 6.5618 (compared to a 6.5648 close) from a 6.5947 mid-point yesterday. At this juncture, the perceived policy slant remains intact and 96.00 9 (ahead of 95.00) on the CFETS RMB Index remains fair game.



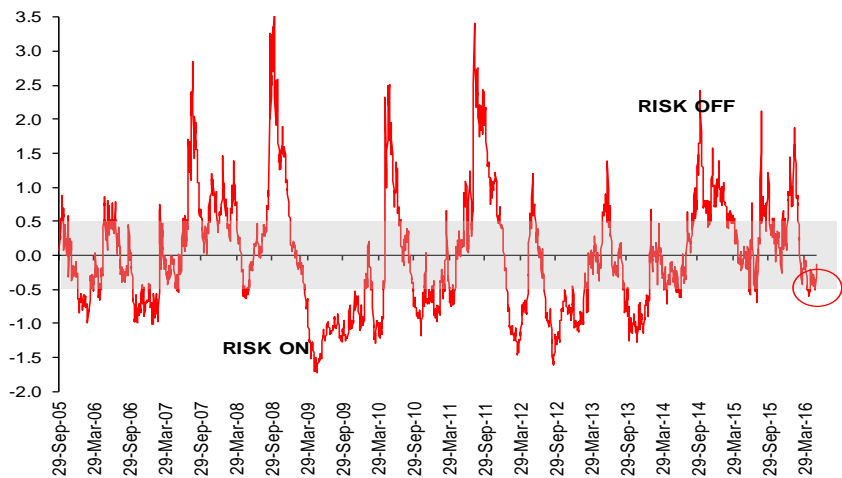
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** The EUR-USD continues to subsist above its 55-day MA (1.1306) if the pair is able to lift past 1.1360 on a sustained basis, a test towards the 1.1500 neighborhood multi-session cannot be ruled out. The ascent however may be measured, given that implied inflation expectations have continued to soften. As such, the EUR-USD may have to continue to look towards the greenback for further buoyancy. On the data front, look to 1Q EZ GDP and German April industrial production later today.
- **USD-JPY** Expect official Japanese rhetoric surrounding the yen to keep investors cautious towards excessive downside for the USD-JPY in the very short term. On the topside, however, the 55-day MA (109.61) may be expected to provide a good ceiling given how dollar prospects have been materially damaged in the near term.

- AUD-USD** The RBA meeting today may provide further near term cues while we note that the vol surface is attempting to impute further resilience for the pair in the short term. A sustained break of 0.7400 set the pair up for an attempt towards the 55-day MA (0.7480).
- GBP-USD** Our near term view remains unchanged and the pound may continue to be buffeted by Brexit poll headlines with the vol surface remaining loaded for a negative eventuality. A 1.4300-1.4600 may persist bearing further headline-induced volatility.

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

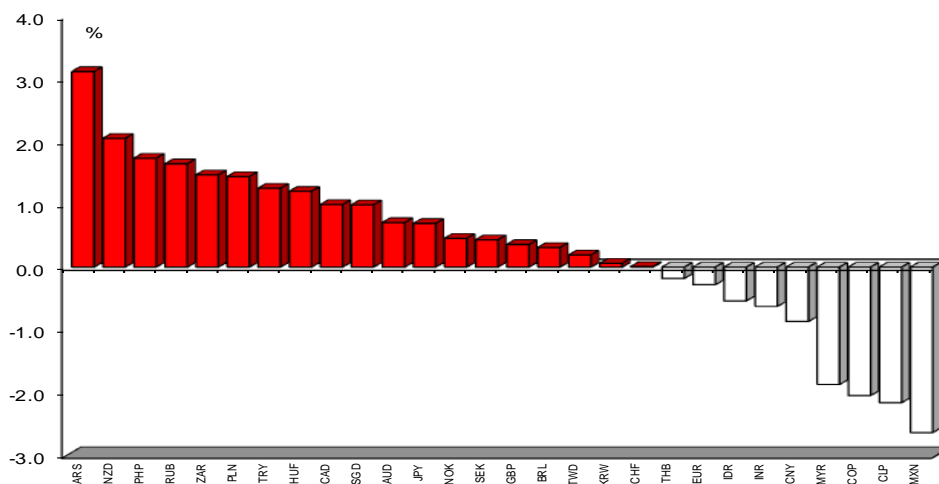
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1316	1.1352	1.1400	1.1435
GBP-USD	1.4400	1.4422	1.4460	1.4500	1.4712
AUD-USD	0.7257	0.7300	0.7366	0.7394	0.7400
NZD-USD	0.6841	0.6900	0.6905	0.6925	0.7000
USD-CAD	1.2785	1.2800	1.2818	1.2894	1.2900
USD-JPY	107.00	107.06	107.60	108.00	109.28
USD-SGD	1.3500	1.3560	1.3578	1.3597	1.3600
EUR-SGD	1.5384	1.5400	1.5414	1.5470	1.5500
JPY-SGD	1.2447	1.2600	1.2621	1.2696	1.2700
GBP-SGD	1.9600	1.9608	1.9634	1.9700	2.0313
AUD-SGD	0.9884	1.0000	1.0002	1.0056	1.0100
Gold	1199.00	1200.00	1244.60	1247.69	1295.42
Silver	15.83	16.40	16.45	16.50	16.50
Crude	44.15	45.57	49.50	49.58	49.60

Source: OCBC Bank

FX performance: 1-month change agst USD



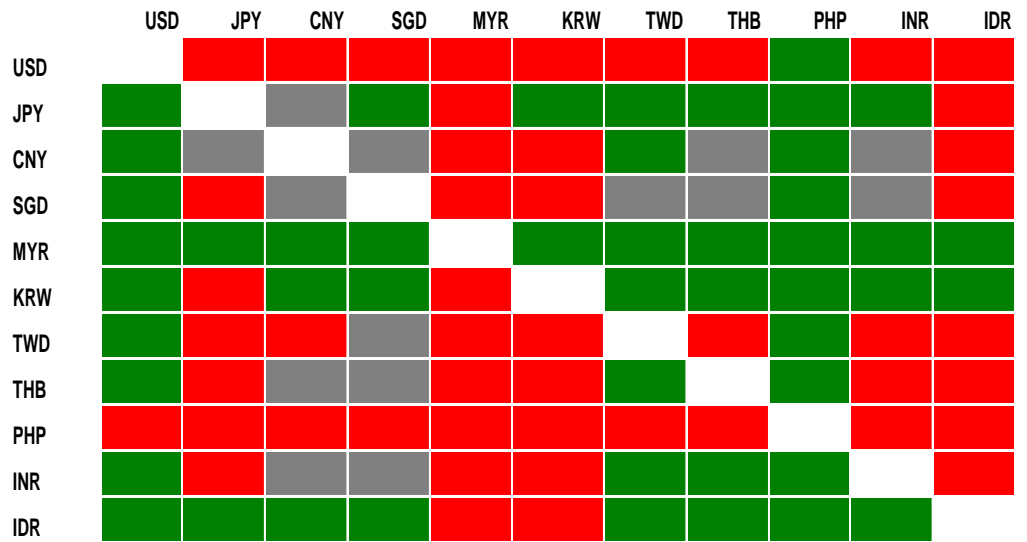
Source: Bloomberg

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	29-Apr-16	S	AUD-USD	0.7626	0.7095	0.7490	Negativity post 1Q CPI numbers	
2	09-May-16	B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak	
3	09-May-16	B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook	
STRUCTURAL								
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
7	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
8	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39
2	04-May-16	10-May-16	S	USD-JPY	107.21	109.00	USD vulnerability pre-NFP, potential risk aversion	-1.66
3	04-May-16	11-May-16	B	EUR-USD	1.1482	1.1372	Rate differentials in the EUR's favor	-0.99
4	19-Apr-16	13-May-16	S	USD-SGD	1.3439	1.3740	Potential for further broad USD decay, positive risk appetite	-2.17
5	18-May-16	03-Jun-16	B	GBP-USD	1.4438	1.4414	Potential for bounce post-referendum	-0.17
6	19-May-16	03-Jun-16	S	EUR-USD	1.1224	1.1370	Policy dichotomy play, especially after FOMC minutes	-1.24
7	19-May-16	03-Jun-16	B	USD-JPY	110.01	108.25	Policy dichotomy play, especially after FOMC minutes	-1.59

Source: OCBC Bank

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