

Thursday, July 07, 2016

FX Themes/Strategy/Trading Ideas – London has fallen

- Going ahead, expect uncertainty surrounding the pound (GBP-USD perforated 1.3000 on Wednesday) may continue to dominate investor's screens in the near term. While the yen may benefit from prevailing uncertainty, investor caution remains compartmentalized for now, with the AUD still benefitting (but probably blunted by the S&P rating move this morning) from the search for yield. On the risk appetite front, note that the **FXSI (FX Sentiment Index)** ticked higher within Risk Neutral territory on Wednesday.
- Elsewhere, note that the largely neutral/dovish FOMC minutes and comments from the Fed's Tarullo on Wednesday (on the heels of guarded comments from Dudley on Tuesday) countered the better than expected non-manufacturing ISM reading of 56.5. **Overall, the dollar we think remains disadvantaged after filtering out risk appetite fluctuations.**
- We see potential for AUD to continue to gain on the USD if Brexit-related uncertainty remains confined to the European complex in the face for the search for yield. Potential disappointment towards the FOMC may also further bolster the **AUD-USD**. With a spot ref at 0.7528 on Tuesday, we target 0.7815 and place a stop at 0.7380.
- With yield differentials continuing to weigh in favor of a structurally lower **USD-JPY**, we think the pair remains structurally under threat. Even if risk aversion remains under wraps amid the Brexit-related static in the coming months, a dawning realization that the Fed's rate trajectory remains in danger of being put in suspension may continue to pressure the USD-JPY lower beyond the short term. With a spot ref of 102.58 on Monday, we target 91.85 and place a stop at 107.95.

Asian FX

- For as long as risk aversion volatility does not become endemic, the regional pars are expected to remain top heavy on the vulnerable broad dollar outlook. As such, the **Asian Currency Index (ACI)** is poised to continue to test lower intra-day. On other fronts, watch for foreign reserve numbers out of China later today with a further monthly decline expected.
- This morning, the **SGD NEER** is still in familiar territory at around +1.00% above its perceived parity (1.3630). Structurally, markets may continue to perceive the NEER as being slightly rich, especially in light of the current economic landscape. Intra-day, expect the USD-SGD to be slightly

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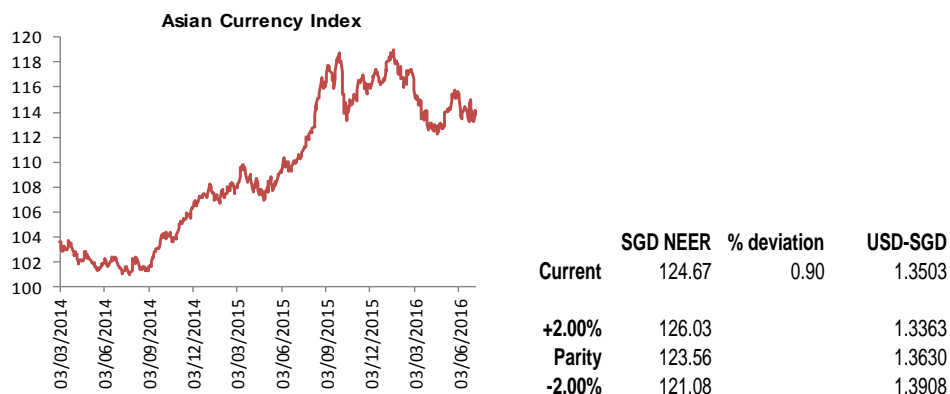
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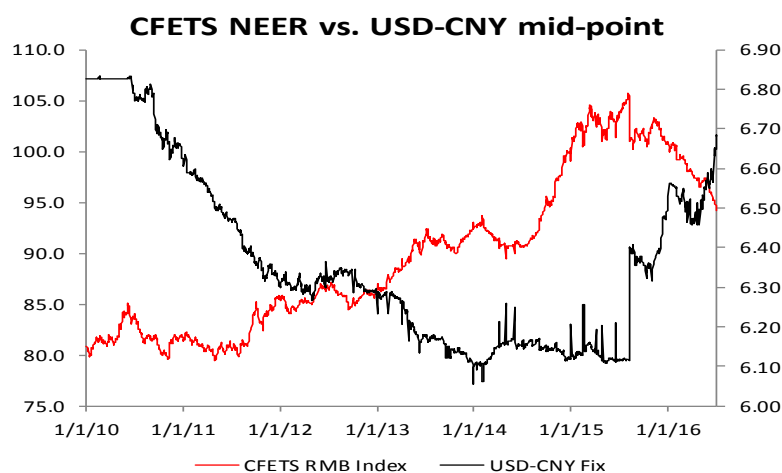
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conflicted, with NEER-implied USD-SGD thresholds higher compared to Tuesday but at the same time, the broad dollar remains under implicit downward pressure. At current levels, the +1.00% threshold is estimated at around 1.3495 and +1.50% at 1.3429. On the upside, the 55-day MA (1.3593) continues to serve as a multi-session cap for now.



Source: OCBC Bank

- This morning, the **CFETS RMB Index** dropped further to 94.25 from 94.42 on Wednesday, with the USD-CNY mid-point edging slightly lower to 6.6820 from 6.6857 yesterday. The Index's descent in recent sessions has caught us partially by surprise but this only underscores our belief that the official intention to guide the NEER lower remains unabated. To reiterate, we therefore expect potential for the Index to continue to fall to the 93.00 handle before a reassessment.



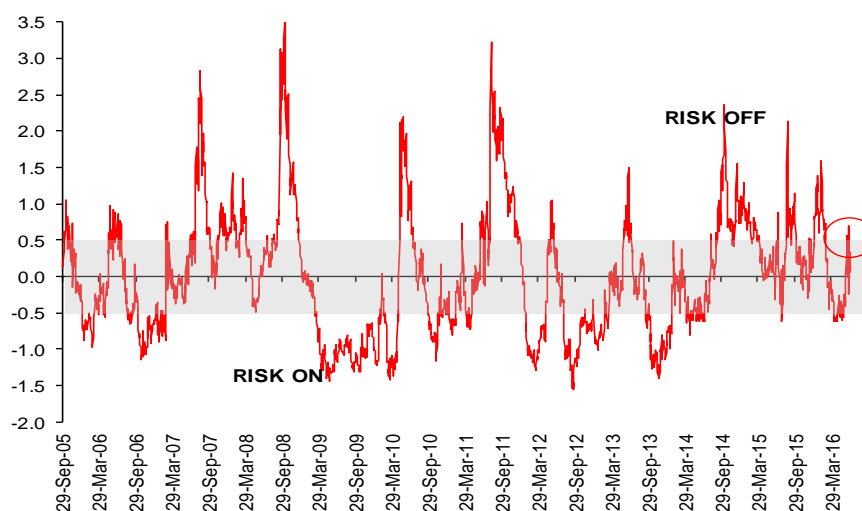
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** Negative static about the European banking sector (Italian for now) and continued negativity towards EZ macro/inflation prospects (not least from the Brexit mess) but keep the EUR-USD under downside pressure in the near term. As such, the pair's hold on its 200-day MA (1.1094) looks increasingly tenuous and 1.1020 may attract instead.

- USD-JPY** Jawboning from the MOF continues unabated but fairly widespread investor nervousness may keep the JPY underpinned across the board. As noted previously, the pair may remain responsive to US yield dynamics even as the influence of risk aversion fades. At this juncture, USD-JPY may continue to succumb to gravity with 100.00 the next obvious junction.
- AUD-USD** This morning, S&P revised Australia's sovereign credit outlook to Negative from Stable dragged the AUD-USD lower through 0.7500. This may see the AUD stall in the immediate term although the 100-day MA (0.7452) and the 55-day MA (0.7405) are expected to cushion on near term dips.
- GBP-USD** Despite the BOE's Carney putting on a brave front, negative news flow surrounding UK property funds is expected to continue to exert implicit negative pressure on the cable. In the near term, expect investors to continue to fade upticks with the pair now having surpassed post-Lehman lows, effectively putting it in (recent) uncharted territory.

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

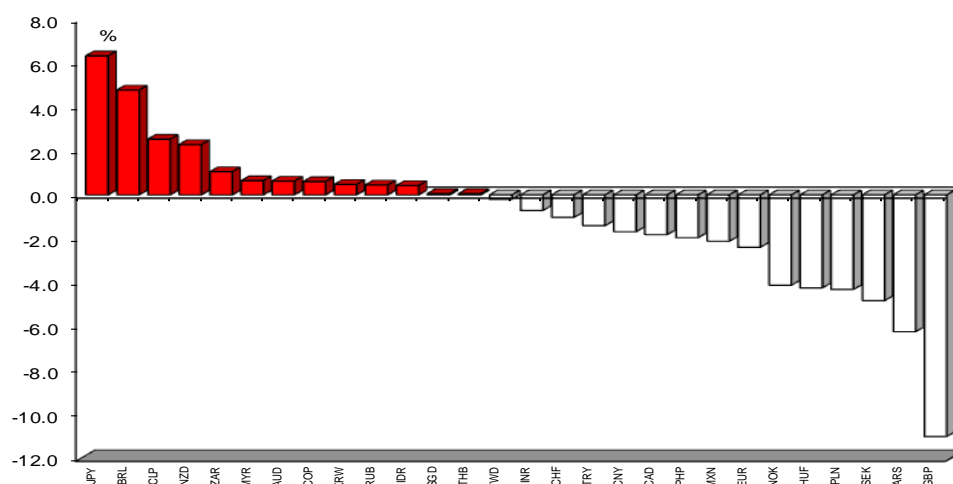
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0991	1.1000	1.1088	1.1094	1.1100
GBP-USD	1.2798	1.2900	1.2943	1.3000	1.4244
AUD-USD	0.7375	0.7500	0.7504	0.7581	0.7600
NZD-USD	0.6962	0.7100	0.7136	0.7200	0.7234
USD-CAD	1.2900	1.2912	1.2968	1.3000	1.3072
USD-JPY	100.00	100.19	100.97	101.00	106.66
USD-SGD	1.3358	1.3500	1.3505	1.3593	1.3600
EUR-SGD	1.4876	1.4900	1.4974	1.5000	1.5298
JPY-SGD	1.2753	1.3300	1.3375	1.3400	1.3467
GBP-SGD	1.7371	1.7400	1.7479	1.7500	1.9358
AUD-SGD	1.0100	1.0121	1.0134	1.0166	1.0200
Gold	1278.33	1300.00	1370.50	1371.88	1377.50
Silver	20.07	20.20	20.22	20.30	21.09
Crude	47.66	47.70	48.73	51.53	52.67

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								
NZD								
EUR								
GBP								
JPY								
CAD								
USD								
SGD								

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

Source: OCBC Bank

FX Trade Ideas

FX Trade Room								
	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
	TACTICAL							
1	28-Jun-16	S	EUR-USD	1.1057	1.0745	1.1215	Brexit uncertainty coupled with Euroskepticism	
2	28-Jun-16	S	USD-JPY	102.19	97.60	104.50	Potential for further risk aversion	
3	28-Jun-16	S	GBP-USD	1.3306	1.2525	1.3700	Epicenter of Brexit concerns	
4	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit	
5	05-Jul-16	B	AUD-USD	0.7528	0.7815	0.7380	Search for yield amidst potential FOMC disappointment	
	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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield	
9	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
10	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	09-May-16	07-Jun-16	B	USD-CAD	1.2929	1.2735	Weak labor market numbers, deteriorating growth outlook	-1.53
2	09-May-16	08-Jun-16	B	USD-SGD	1.3623	1.3520	Potential for USD strength ahead of Fed-speak	-0.83
3	29-Apr-16	08-Jun-16	S	AUD-USD	0.7626	0.7490	Negativity post 1Q CPI numbers	1.64
4	01-Mar-16	16-Jun-16	S	USD-JPY	112.91	105.00	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	+7.18
5	14-Jun-16	17-Jun-16	S	GBP-USD	1.4153	1.4340	Potential for further downside going into EU referendum	-1.30
6	17-Jun-16	19-Jun-16	S	EUR-USD	1.1232	1.1350	Potential for negative spillover from the UK referendum	-1.03
7	10-Jun-16	23-Jun-16	S	USD-JPY	107.16	105.50	Potential for USD weakness going into and post-FOMC	+1.57
8	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74
9	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91
10	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98

Source: OCBC Bank

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