

Tuesday, March 08, 2016

FX Themes/Strategy/Trading Ideas

- With comments from the Fed's Fischer evenly balanced, markets may continue to busy themselves with risk-on trades (while ignoring USD support from recent movements in implied interest rate differentials) if global commodities and equities manage to retain their recent gains. Note that the **FXSI (FX Sentiment Index)** dipped further into Risk-Neutral territory on Monday.
- With global risk appetite levels potentially recuperating further on the back of recovering commodities/equities and abating global growth concerns, the **AUD-USD** may have space to chop higher barring a jumpstart in Fed rate hike prospects. With a spot ref at 0.7412, we target 0.7955 on a structural horizon with a stop placed at 0.7135.
- With risk aversion doused for now, we exit our 19 Feb 16 idea to be short **USD-JPY** (spot ref: 112.84) at 113.35 for an implied -0.45% loss.

Asian FX

- Sentiment towards Asian currencies may remain intact in light of the continued softness in the greenback, especially with China's foreign reserves dipping less than expected in February. Look towards China's February trade numbers due later today for immediate regional cues. In the interim, the **ACI (Asian Currency Index)** may continue to remain top heavy.
- This morning, the **USD-CNY mid-point** was fixed yet lower at 6.5041 from 6.5113 on Monday. This brings the CFETS RMB Index down to 99.03 from 99.16 yesterday and we continue to detect an attempt to slow the descent of the basket in the current environment. We believe there may be further scope for the index to bleed lower going ahead, despite falling -4.2% yoy currently.
- The **SGD NEER** is currently around -0.17% below its perceived parity (1.3776) with NEER-implied USD-SGD thresholds lower on the day. In the current environment, the index is likely to remain supported although it is not expected to depart significantly above its parity. At current levels, the +0.5% threshold for USD-SGD is estimated at around 1.3708.

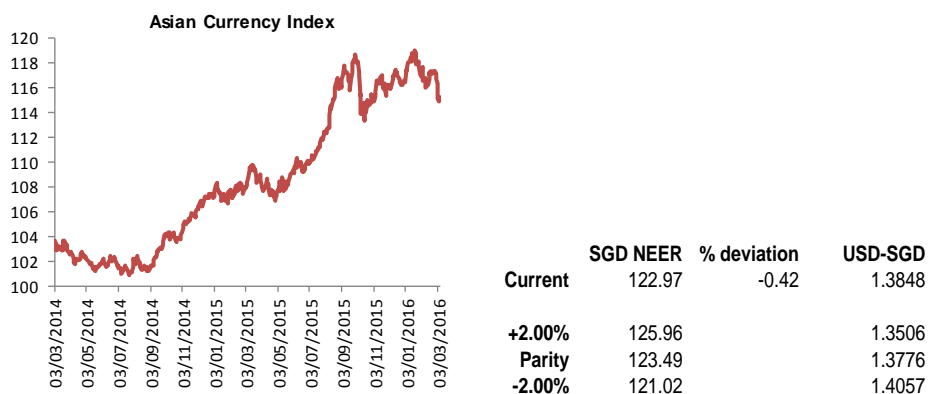
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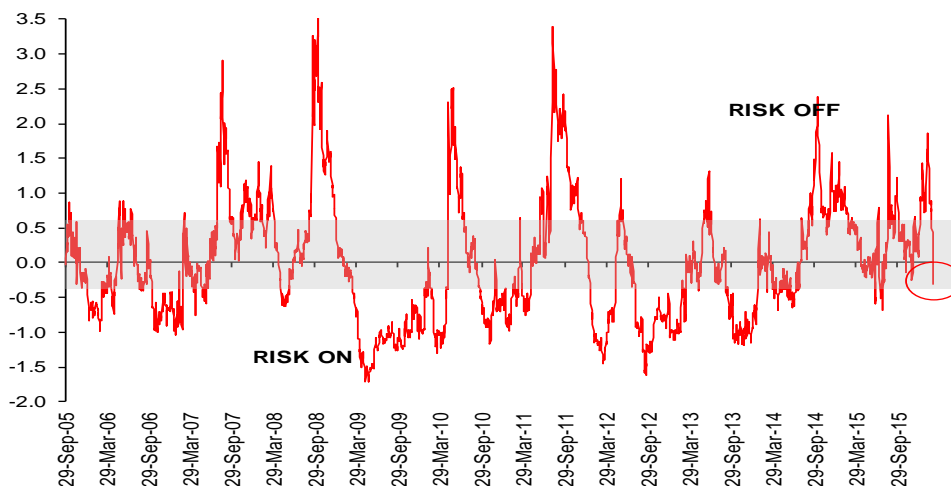


Source: OCBC Bank

G7

- **EUR-USD** The EUR-USD may be fraught with data-risks today ahead of the ECB meeting on Thursday. In the interim, the pair may continue to be range bound stymied by the 200-day MA (1.1046) on the top side with the 55-day MA (1.0975) providing an initial floor on dips.
- **USD-JPY** With the BOJ's Kuroda not telegraphing any urgency for further QQE at this juncture, the pair may continue to remain responsive to risk appetite fluctuations, given also that Fed-drive USD impetus remains somewhat absent for now. Expect a 112.00-114.55 range to prevail pending further headline risks.
- **AUD-USD** Verbal guidance from the RBA's Lowe this morning may take some shine off the AUD-USD but as long as the positive commodity/equity/risk appetite dynamic remains intact. As noted yesterday, some pullback (towards 0.7370/00) cannot be discounted in the wake of the recent run up in the pair.
- **GBP-USD** The data calendar is fairly dry for the pound today and it may take its cues from offshore instead. The pair has come off Monday's intra-day highs to pause for breath ahead of the BOE Carney's and Weale's public appearances later in the session. Pending further news flow, we expect exhaustion towards the 55-day MA (1.4399) while some consolidation may be expected into 1.4085.

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

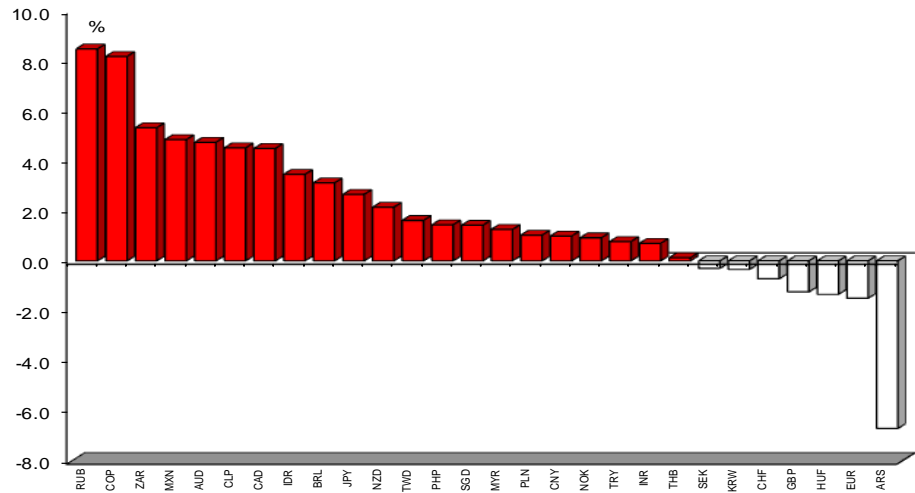
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0978	1.1000	1.1026	1.1046	1.1100
GBP-USD	1.3836	1.4200	1.4253	1.4300	1.4351
AUD-USD	0.7248	0.7400	0.7422	0.7443	0.7485
NZD-USD	0.6627	0.6700	0.6766	0.6796	0.6800
USD-CAD	1.3205	1.3262	1.3294	1.3300	1.3302
USD-JPY	111.94	112.00	112.86	113.00	114.63
USD-SGD	1.3781	1.3800	1.3847	1.3900	1.3966
EUR-SGD	1.5073	1.5200	1.5268	1.5300	1.5425
JPY-SGD	1.2161	1.2200	1.2268	1.2300	1.2567
GBP-SGD	1.9455	1.9700	1.9736	1.9800	2.0286
AUD-SGD	1.0118	1.0200	1.0278	1.0300	1.0312
Gold	1189.04	1200.00	1272.50	1276.70	1280.70
Silver	14.98	15.60	15.69	15.70	15.93

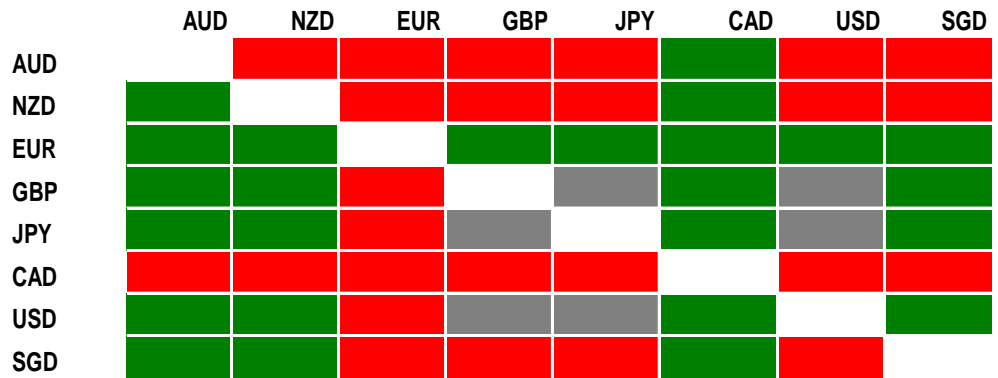
Source: OCBC Bank

FX performance: 1-month change agst USD



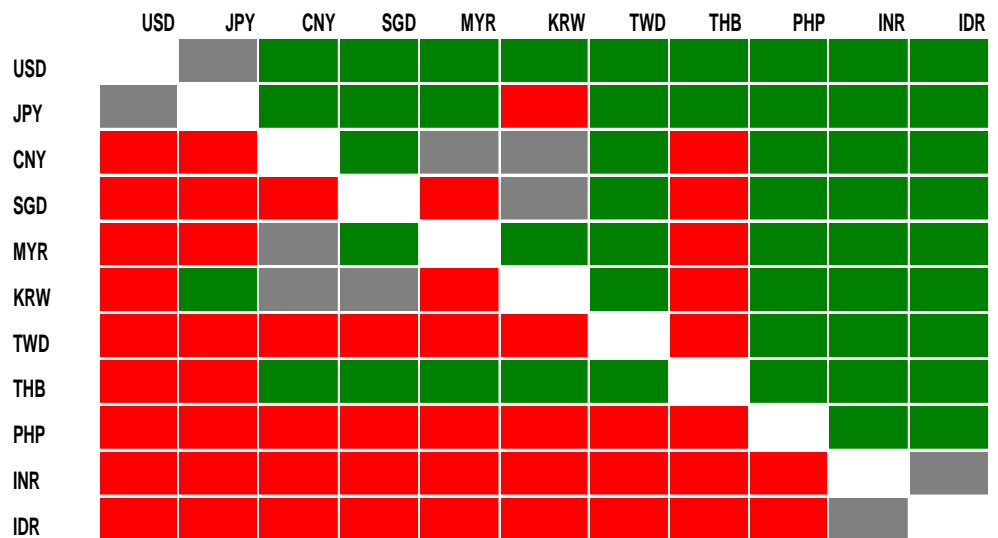
Source: Bloomberg

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-Feb-16	S	EUR-USD	1.0923	1.0640	1.1070	Contrasting short term data streams between EZ and US	
2	29-Feb-16	S	USD-CAD	1.3533	1.3135	1.3735	Bottoming crude	
3	03-Mar-16	B	AUD-USD	0.7284	0.7555	0.7145	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
4	04-Mar-16	S	USD-SGD	1.3881	1.3630	1.4010	Brightening risk appetite, vulnerable broad dollar	
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	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
8	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
9	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	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	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
9	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45

Source: OCBC Bank

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