

Wednesday, June 08, 2016

FX Themes/Strategy/Trading Ideas

- The USD retreated broadly amid softer UST yields on Tuesday while the AUD stole the limelight following the RBA policy meeting (see below). Going ahead, a supportive commodity complex and supportive risk appetite levels (note the **FXSI (FX Sentiment Index)** edging lower within Risk-Neutral territory) should keep markets sitting against the dollar in the near term. In a nutshell, diminished implied odds (1Q nonfarm productivity dipped -0.6%) of the next Fed rate hike have been fueling the cyclical in particular.
- Next up on the central bank front, markets largely expect the **RBNZ** to stand pat at its policy meeting (2100 GMT) although the risks of another cut cannot be ruled out. In Asia, **China's** May trade numbers are due (note expectations for a further deterioration of exports) and may impart further flavor for the region.
- On other fronts, the failure by the **RBA** on Tuesday to provide dovish forward guidance sent the AUD-USD appreciably higher on Tuesday. In the wake of the May rate cut, the question we had put forth then was whether the policy action had simply been a precautionary move or signaled a more dovish slant (a course of action which markets had previously attempted to price in) ahead.
- With the latest meeting in the bag, the RBA is now perceived to be largely neutral, and we note that the meeting statement contained an adequate amount of cautious optimism despite reiterating a potential discomfort with a sharply higher exchange rate.
- With broad dollar dynamics shaken out in the near term, we scuttled our 09 May 16 idea to be tactically long **USD SGD** (spot ref: 1.3623) and closed out at 1.3520 for an implied -0.83% loss.

Asian FX

- With EM currencies continuing to benefit from the beleaguered dollar overnight, look for the **Asian Currency Index (ACI)** to sink intra-day. Elsewhere, the RBI stood pat on its policy parameters as expected at its policy meeting on Tuesday. While the latest batch of foreign reserve numbers from Asia imply some outflows for the month of May, investors are not expected to be unduly perturbed, given the hitherto strong dollar environment. However, we note that macro underpinnings for the region remain lackluster, and the latest episode of regional currency strength has been on the back of the broad dollar stumble instead.

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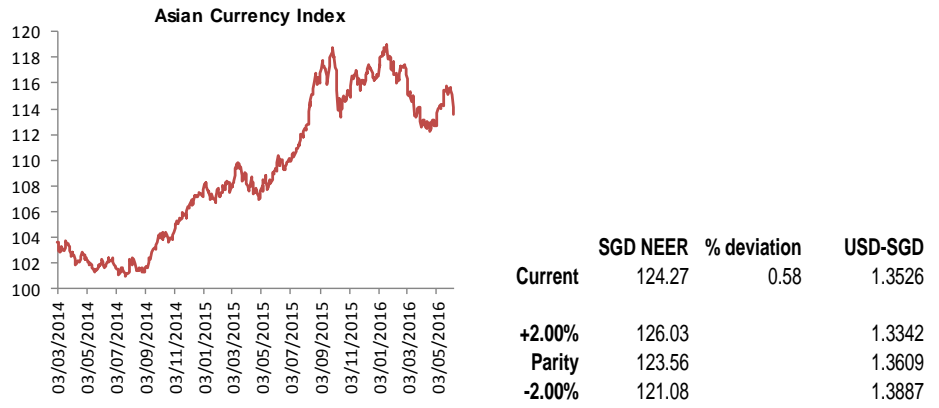
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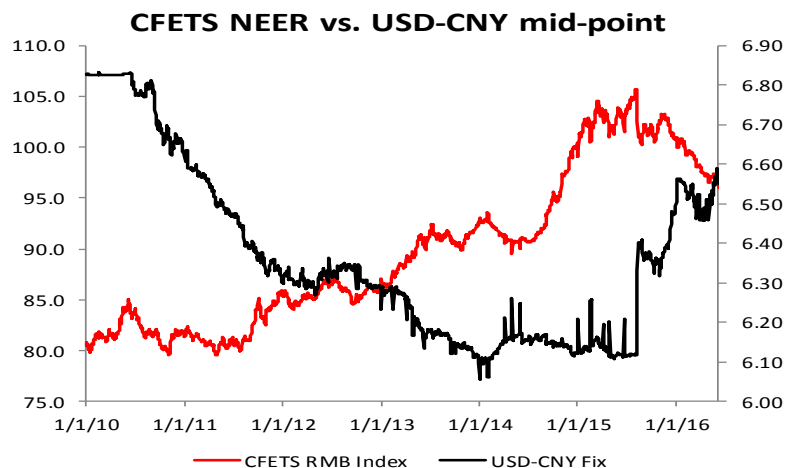
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- The **SGD NEER** is a touch higher relative to its perceived parity (1.3609) at +0.68% with NEER-implied USD-SGD thresholds lower on the day – indicating discretionary heaviness for the pair. At current levels, the +1.00% NEER threshold is estimated at 1.3474 but we expect some caution into 1.3500 (circa +0.80% on the NEER). Elsewhere, we continue to note that volatility measures for the NEER and the USD-SGD remain lit and indicate some measure of caution ahead.



Source: OCBC Bank

- Following overnight moves, the PBOC this morning took the opportunity to lower the **CFETS RMB Index** to 96.00 from 96.22 on Tuesday. This saw the USD-CNY mid-point softening further to 6.5593 from 6.5618 yesterday. With the latest May foreign reserves numbers continuing to moderate, we note that implicit pressure for a further downward consolidation for the Index remains. Next stop 95.00.



Source: OCBC Bank, Bloomberg

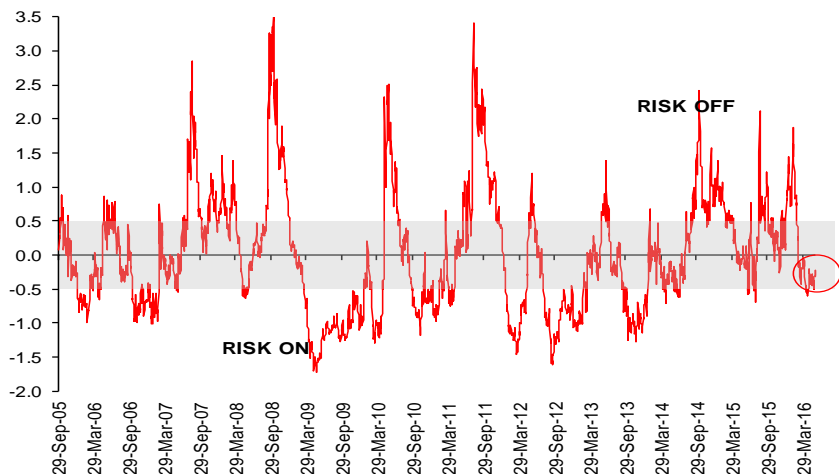
G7

- **EUR-USD** EUR-USD remains trapped in a narrow groove post-NFP although what is encouraging for EUR bulls is that the pair remains north of its 55-day MA (1.1310). 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 and long end yields have continued to soften.

- USD-JPY** Despite still slight unease from Japanese officials, the USD-JPY we think remains ready to react to further US-centric dollar cues. If the 107.00 handle is lost, a test towards 106.00 is expected to materialize ahead of 105.50.
- AUD-USD** The AUD-USD may remain subject to commodity/risk appetite cues, not to mention the implicit boost from the RBA on Tuesday. The pair may continue to brush up against its 55-day MA (0.7480) before 0.7550.
- GBP-USD** Despite ongoing Brexit uncertainty, broad dollar vulnerability may provide an interim floor towards 1.4440/50. Range trading behavior is expected to persist with the 200-day MA (1.4728) expected to cap. On the data front, look to April industrial production numbers at 0830 GMT.

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

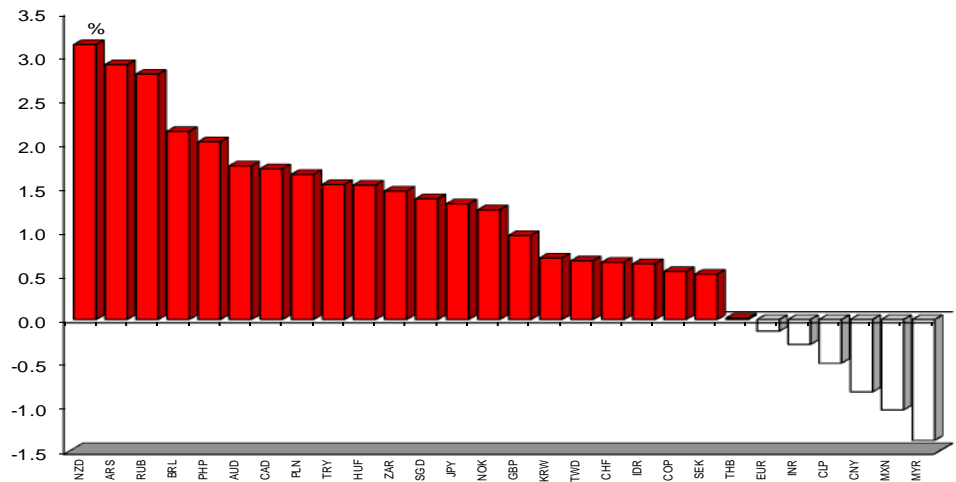
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1317	1.1369	1.1400	1.1424
GBP-USD	1.4427	1.4500	1.4545	1.4600	1.4717
AUD-USD	0.7400	0.7433	0.7443	0.7468	0.7500
NZD-USD	0.6900	0.6972	0.6979	0.7000	0.7054
USD-CAD	1.2700	1.2737	1.2746	1.2800	1.2887
USD-JPY	106.00	106.72	106.89	107.00	109.16
USD-SGD	1.3500	1.3520	1.3526	1.3596	1.3600
EUR-SGD	1.5271	1.5300	1.5379	1.5384	1.5400
JPY-SGD	1.2459	1.2600	1.2656	1.2700	1.2701
GBP-SGD	1.9600	1.9614	1.9674	1.9700	2.0313
AUD-SGD	0.9876	1.0000	1.0067	1.0073	1.0100
Gold	1199.00	1200.00	1247.40	1248.41	1291.85
Silver	15.83	16.40	16.46	16.50	16.52
Crude	44.40	46.19	50.30	50.38	50.40

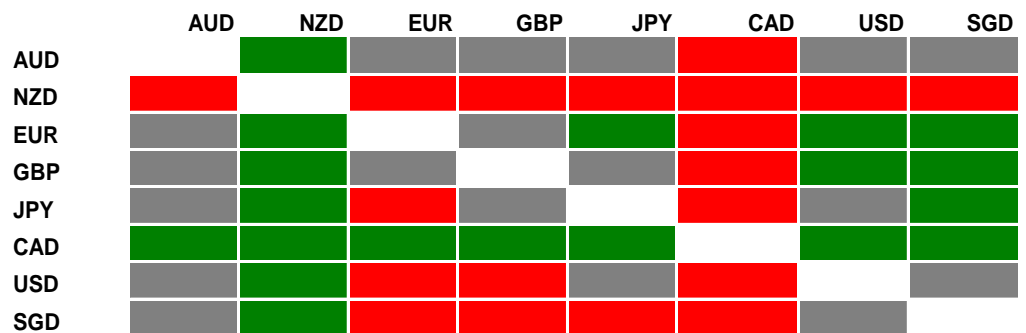
Source: OCBC Bank

FX performance: 1-month change agst USD



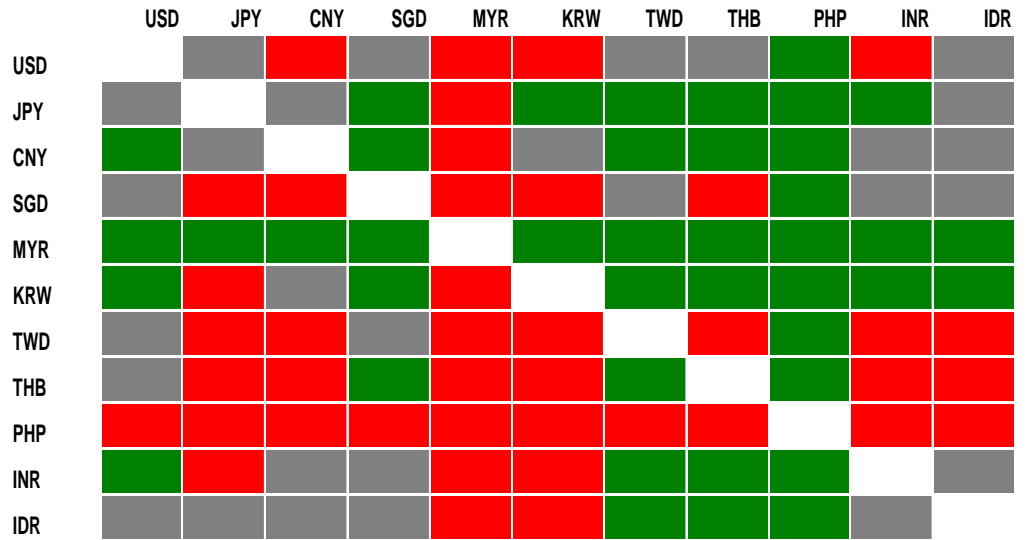
Source: Bloomberg

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-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook	
STRUCTURAL								
3	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
4	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
5	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
6	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
7	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
8	09-May-16	08-Jun-16	B	USD-SGD	1.3623	1.3520	Potential for USD strength ahead of Fed-speak	-0.83

Source: OCBC Bank

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