

Monday, August 08, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar (and UST yields) stepped higher across the board on the significantly better than expected NFP headlines (+255k with June also revised higher to +292k)) and despite the improvement in investor sentiment, dollar resilience intra-day may persist with implied rate hike odds (Fed Fund futures) shading closer to even for the December FOMC and with the UST underperformance on Friday led by the 5y sector.
- The calendar this week includes the **RBNZ** policy meeting on Wednesday (mkts: -25bps to 2.00%) while Asia, the **RBI** is expected to remain static on Tuesday. In addition, the **BSP** and **BOK** are expected to stand pat on Thursday. We do expect however, a healthy dose of cautious rhetoric with respect to growth prospects from the regional central banks this week.
- Look also to the slew of China economic releases starting with Jul trade numbers today and Jul CPI readings on Tuesday with monetary aggregates expected sometime during the course of the coming week.
- **Overall, it remains to be seen if this is the inflection point for the much heralded regime of greenback strength in the wake of the latest NFP numbers. We think not, given that the search for yield largely remains intact at this juncture.**
- The **FXSI (FX Sentiment Index)** inched lower within **Risk-Neutral** territory on Friday in tandem with positive global equities with the Index demonstrating a net improvement in global risk appetite levels on the week.
- On the **CFTC** front, net large non-commercial USD longs were pared in aggregate but net leveraged USD longs in aggregate increased in the latest week ahead of last Friday's NFP numbers.
- In the face of a flight to yield/EM and an endemic USD, we initiate a tactical short **USD-SGD**. With a spot ref at 1.3409 on Friday, we target 1.3155 and place a stop at 1.3540.

Asian FX

- Positive Asian equities this morning may prove secondary to broad dollar resilience at the onset of the week with the **Asian Currency Index (ACI)** likely led higher. Elsewhere, the formal move towards inflation targeting by the **RBI** is expected to prove net positive for INR underpinnings.

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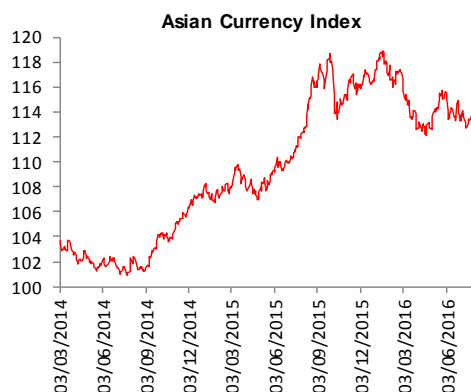
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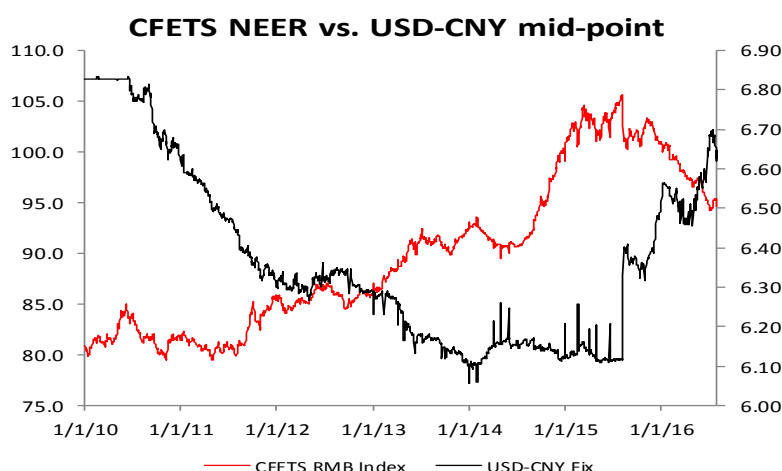
- With the USD climbing across the board post-NFP, the **SGD NEER** is softer on the day at around +0.86% above its perceived parity (1.3594) with NEER-implied USD-SGD thresholds moving higher. At current levels, the +1.00% threshold is estimated at around 1.3459 although intra-day risks may be skewed somewhat towards +0.50% (1.3527). Technically, expect resistance to kick in towards the 55-day MA (1.3538) with 1.3430/50 likely to cushion.



	SGD NEER	% deviation	USD-SGD
Current	124.99	1.16	1.3417
+2.00%	126.03		1.3298
Parity	123.56		1.3564
-2.00%	121.08		1.3841

Source: OCBC Bank

- This morning, the **CFETS RMB Index** was held relatively static at 94.72 (essentially changed from Friday) with the USD-CNY mid-point shouldering the burden of adjustment (from post-NFP USD strength) instead. As a consequence, the USD-CNY mid-point rose to 6.6615 from 6.6406 on Friday.
- On the macro front, **China's** July foreign reserves came in at a largely as expected USD3.20tn, sustaining the stabilization witnessed since February. Note however that the PBOC continues to walk a tightrope with respect to macro management, with the central bank noting on Friday that a cut to reserve requirements would add surplus liquidity and heighten yuan depreciation expectations.



Source: OCBC Bank, Bloomberg

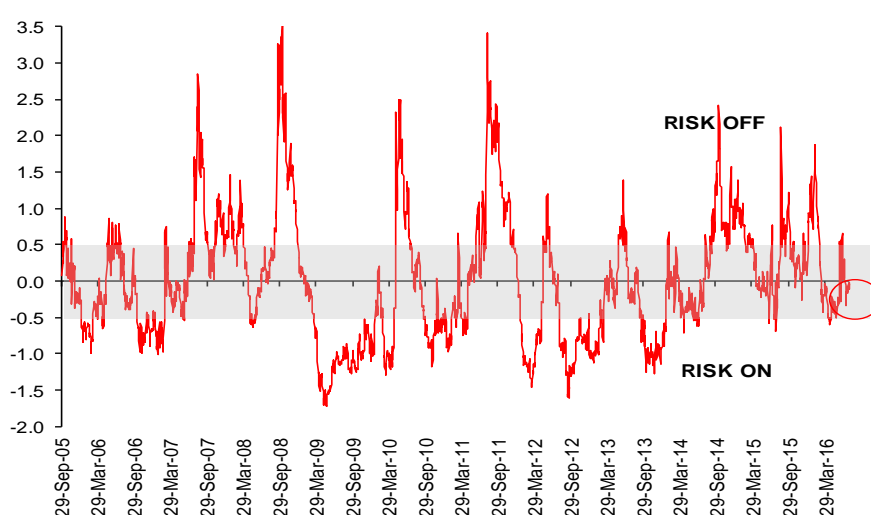
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- EUR-USD** The EUR-USD has sunk to its 200-day MA (1.1079)

following the USD's broad climb while EZ/German growth numbers and the EU Commission's revised growth forecasts (both on Friday) may impart potential volatility. Risks of a move towards 1.1000 may persist in the near term but any fading of USD strength may see a reversion to the 55-day MA (1.1152) ahead of 1.1200. On the CFTC front, net leveraged EUR shorts were pared ever so slightly in the latest week with said positioning as a percentage of open interest at elevated levels (portending an unwind?).

- USD-JPY** Internal discord within the BOJ as revealed by the minutes of the July MPC may keep the markets guessing ahead of the next BOJ meeting in September. In the near term, 102.60/80 may present itself as a first resistance zone. On the CFTC front, net leveraged JPY longs were cut significantly in the latest week, facilitating perhaps some near term upside for the pair.
- AUD-USD** Despite the relatively "sanguine" RBA Statement on Monetary Policy on Friday, the AUD still proved to be a casualty of USD strength. On the CFTC front, note that net leveraged AUD longs were reduced perceptibly in the latest week as positioning as a percentage of open interest deflated from elevated levels. Positioning flows aside, it remains to be seen if USD resilience can turn the table on yield seeking behavior. Our preference at this juncture continues to lie with the latter dynamic and expect base building behavior to emerge towards 0.7560.
- GBP-USD** GBP-USD ploughed below 1.3100 post-NFP on Friday and with weakened internal UK dynamics, expect the pound to remain vulnerable to USD resilience. On the CFTC front, net leveraged GBP shorts increased in the latest week and we note that as a percentage of open interest, outstanding net leveraged shorts are by no means at extreme levels. On the downside, 1.3000 remains an eventuality we feel.

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

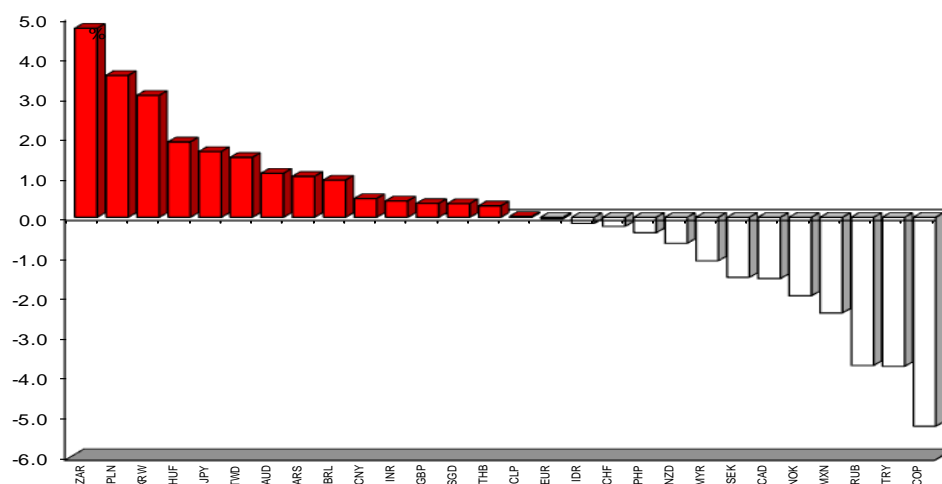
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1078	1.1100	1.1151	1.1154	1.1200
GBP-USD	1.2985	1.3300	1.3337	1.3400	1.3402
AUD-USD	0.7458	0.7600	0.7626	0.7662	0.7676
NZD-USD	0.7068	0.7100	0.7180	0.7200	0.7325
USD-CAD	1.2975	1.3000	1.3043	1.3100	1.3236
USD-JPY	100.00	100.08	100.95	101.00	104.87
USD-SGD	1.3335	1.3358	1.3398	1.3400	1.3515
EUR-SGD	1.4844	1.4900	1.4939	1.5000	1.5014
JPY-SGD	1.2898	1.3200	1.3275	1.3300	1.3374
GBP-SGD	1.7531	1.7800	1.7868	1.7900	1.8040
AUD-SGD	1.0129	1.0200	1.0217	1.0260	1.0300
Gold	1304.38	1309.68	1354.40	1366.66	1377.50
Silver	19.52	20.30	20.36	20.40	20.73
Crude	41.19	41.20	46.30	47.61	48.73

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		Red	Green	Green	Red	Red	Red	Red
NZD	Green		Green	Green	Green	Green	Green	Green
EUR	Red	Red		Green	Red	Red	Red	Red
GBP	Red	Red	Red		Red	Red	Red	Red
JPY	Green	Red	Green	Green		Red	Grey	Grey
CAD	Green	Red	Green	Green	Green		Green	Green
USD	Green	Red	Green	Green	Grey	Red		Grey
SGD	Green	Red	Green	Green	Grey	Red	Grey	

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Grey	Green	Grey	Red	Green	Green	Green	Grey	Green	Grey
JPY	Grey		Green	Grey	Grey	Red	Green	Grey	Grey	Green	Grey
CNY	Red	Red		Red	Red	Green	Red	Red	Red	Red	Red
SGD	Grey	Grey	Green		Red	Green	Green	Green	Grey	Green	Grey
MYR	Green	Grey	Green	Green		Green	Green	Green	Green	Green	Green
KRW	Red	Green	Red	Red	Red		Red	Red	Red	Red	Red
TWD	Red	Red	Green	Red	Red	Green		Red	Red	Red	Red
THB	Red	Grey	Green	Red	Red	Green	Green		Red	Green	Red
PHP	Grey	Grey	Green	Grey	Red	Green	Green	Green		Green	Grey
INR	Red	Red	Green	Red	Red	Green	Green	Red	Red		Red
IDR	Grey	Grey	Green	Grey	Red	Green	Green	Green	Grey	Green	

Source: OCBC Bank

FX Trade Ideas

Tactical Moves								
	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
	TACTICAL							
1	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit	
2	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
3	05-Aug-16	S	USD-SGD	1.3409	1.3155	1.3540	Flight to yield/EM vs. weak dollar	
	STRUCTURAL							
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
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	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield	
7	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
8	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to wiegh on the pair, esp if Fed hesitates	
9	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	104.50	Potential for further risk aversion	-2.25
2	05-Jul-16	28-Jul-16	B	AUD-USD	0.7528	0.7523	Search for yield amidst potential FOMC disappointment	+0.03
3	22-Jul-16	28-Jul-16	B	USD-JPY	105.83	103.45	Contrasting policy postures going into the next FOM/BOJ meetings	-2.28
4	21-Jul-16	29-Jul-16	B	USD-SGD	1.3579	1.3445	Potential for broad USD traction, NEER deemed rich	-1.00
5	28-Jun-16	01-Aug-16	S	EUR-USD	1.1057	1.1215	Brexit uncertainty coupled with Euroskepticism	-0.90
6	28-Jun-16	01-Aug-16	S	GBP-USD	1.3306	1.3204	Epicenter of Brexit concerns	+0.78
	Jan- Jul 2016 Return							+13.75

Source: OCBC Bank

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