

Monday, May 09, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite the US NFP headline missing prior expectations at +160k (although hourly earnings rose a better than expected +2.5% yoy), the dollar found widespread support following hawkish comments from the Fed's Dudley (two rate hikes remain a "reasonable expectation") amid a firmer and steeper UST curve.
- Going ahead, we expect to see Fed guidance attempting to align market-implied expectations of rate hikes with the FOMC's expected trajectory, with a bevy of Fed speakers this week starting with Evans (0910 GMT) and Kashkari (1700 GMT) today. As such commentary from this front may offer partial support to the USD in the coming sessions.
- **Overall, investors may continue to be distracted by Fed-specific dollar dynamics as opposed to growth/risk appetite considerations, especially with counterpart central banks remaining decidedly guarded and dovish.**
- On the risk appetite front, the **FXSI (FX Sentiment Index)** managed to ease lower within Risk-Neutral territory partially on positive US equities although we note that the Index ended firmer on the week.
- Meanwhile, investor positioning on the **CFTC** front came in mixed in the latest week. Large non-commercial accounts extended their implied short dollar bias in aggregate but leveraged accounts reduced their implied net long dollar positioning. Regarding the latter (leveraged accounts), net positioning excluding JPY positions saw a further paring of a long dollar bias to effectively neutral levels in the latest week, demonstrating a largely uncommitted market with respect to broad dollar expectations.
- With investors likely to grow increasingly antsy towards headline risks, we have closed out our 20 Apr 16 idea to be tactically long **GBP-USD** (spot ref: 1.4374) at 1.4430 early Monday for an implied +0.39% gain.
- Elsewhere, our 0.7355 target from our 29 Apr 16 idea to be tactically short **AUD-USD** (spot ref: 0.7626) was reached on Friday. With negativity towards the RBA likely to persist, we extend our objective to 0.7095, trailing the stop to 0.7490.

Asian FX

- Over the weekend, disappointing China April trade numbers came in on the

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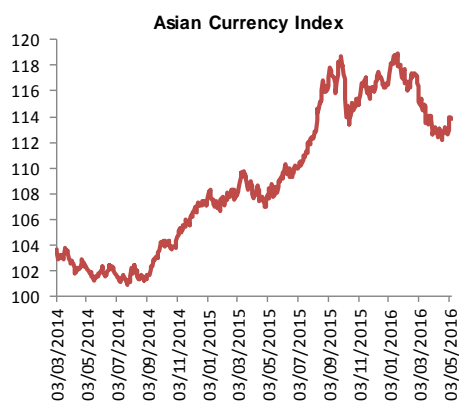
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wrong end of expectations (exports -1.8% yoy) and this may set the tone for the region at the onset of the week. Nonetheless, the **Asian Currency Index (ACI)** may pause intra-day after firming over the past week, especially with the softer USD-CNY mid-point this morning.

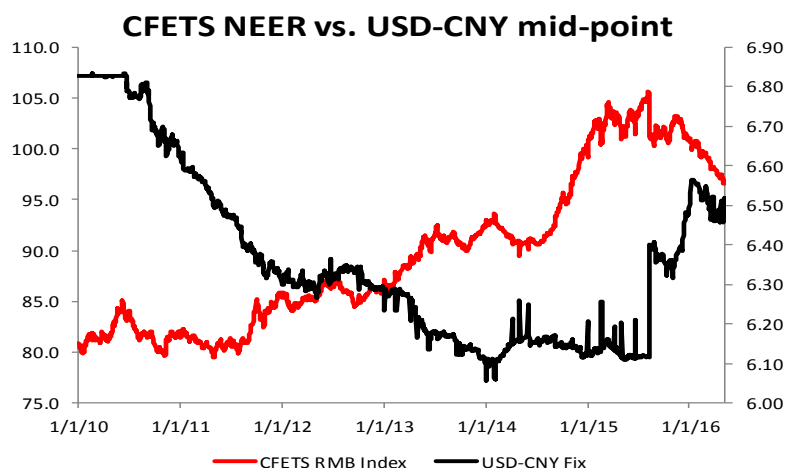
- Also this week, look also to the slew of April China data releases (CPI, PPI, monetary aggregates, industrial production urban fixed asset investment, retail sales) for further cues. Elsewhere, the **Bank of Thailand** is expected to stand pat at 1.50% on Wednesday with the **BSP** similarly expected to remain static on Thursday. The **Bank of Korea** is also expected to keep its benchmark 1.50% rate unchanged on Friday.
- The **SGD NEER** begins the week slightly softer at -0.27% below its perceived parity (1.3586). Following the broad dollar's move post-NFP, NEER-implied USD-SGD thresholds are higher on the day with the +0.50% threshold estimated at 1.3519 and -0.50% seen at 1.3655. At this juncture, a break above the 55-day MA (1.3646) may pave the way towards the -1.00% NEER threshold at 1.3723.



	SGD NEER	% deviation	USD-SGD
Current	123.13	-0.34	1.3626
+2.00%	126.03		1.3320
Parity	123.56		1.3586
-2.00%	121.08		1.3864

Source: OCBC Bank

- This morning, the PBOC finally loosened the reins on the **CFETS RMB Index** with the Index coming in at 96.89 (broadly in line with the basket's constituent currencies) from 96.61 on Friday. This saw the USD-CNY mid-point softening to 6.5105 (from 6.5202 previously) as a result.

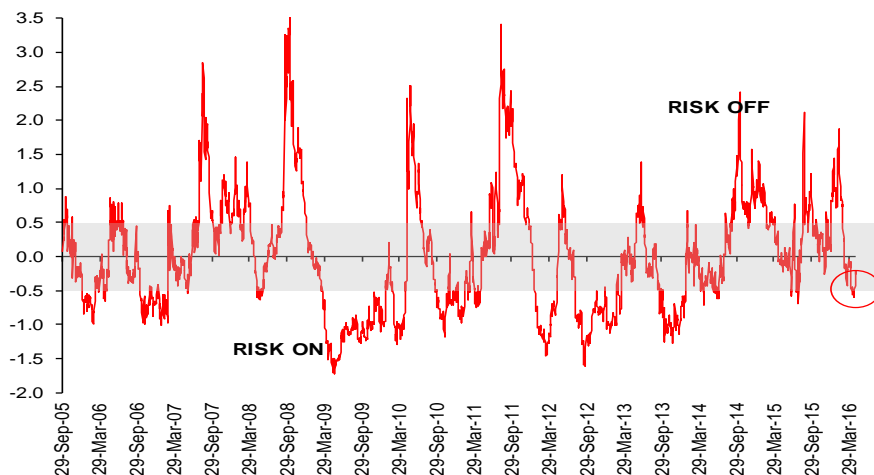


Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** The EUR-USD may potentially fade further in the near term, especially if the broad dollar continues to garner traction this week. Investors may also have to juggle between Fed and ECB rhetoric this week, with the ECB's Constancio scheduled to speak this week, while Coeure, Nowotny and Constancio are also slated to make appearances during the week. On the CFTC front, net leveraged EUR shorts were pared in the latest week, although we feel that this may not be sufficient to stem further softness in the pair. In the near term, a sustained breach of 1.1400 risks a drop to 1.1365 before 1.1300.
- **USD-JPY** Dovish overtones from the BOJ MPC minutes released this morning lent interim support to the pair although we think USD-specific cues (barring jolts on the risk appetite front) may guide the pair this week. On the CFTC front, net leveraged JPY longs were reduced significantly in the latest week, and this may serve to put a floor under the pair in the near term. Overall, given the perceived policy contrasts between the BOJ and the Fed, look to the USD-JPY to continue to manifest shifting FOMC expectations. We look for a 106.00-108.00 range to prevail in the interim.
- **AUD-USD** The AUD-USD may continue to digest the negative RBA shocks over the past week and remain under downside pressure. On the CFTC front, AUD longs were cut significantly in the latest week and this may have been aggravated post-RBA on Friday. If the 100-day MA (0.7338) is violated, risks to 0.7300 and the 200-day MA (0.7262) may heighten.
- **GBP-USD** The BOE MPC and Inflation Report this week on Thursday in addition to Finance Minister Osborne's comments on EU membership scheduled for Wednesday are likely to pose significant headline risks. On the CFTC front, net leveraged GBP shorts were pared in the latest week but background Brexit chatter coupled with expected Fed commentary this week may draw the pair lower towards the 100-day MA (1.4373) before 1.4300 and the 55-day MA (1.4275).

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

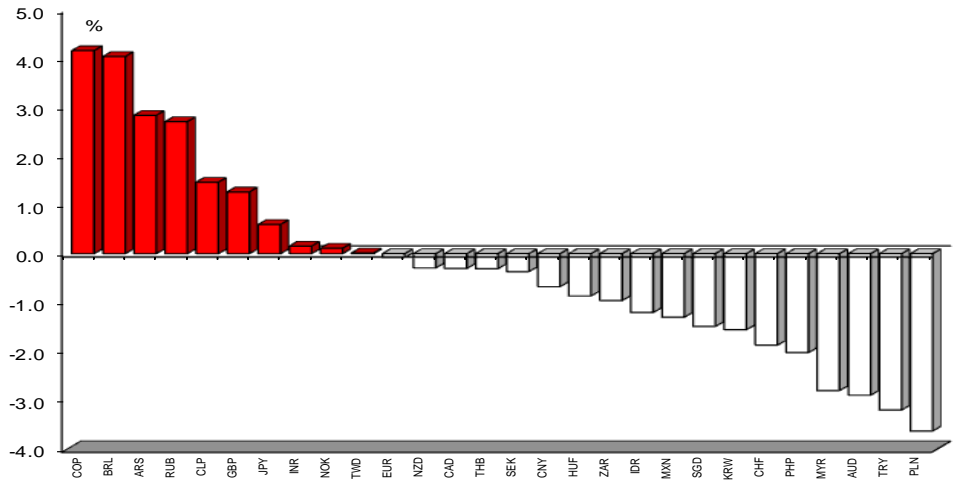
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1262	1.1300	1.1399	1.1400	1.1525
GBP-USD	1.4308	1.4400	1.4420	1.4500	1.4714
AUD-USD	0.7338	0.7365	0.7374	0.7400	0.7566
NZD-USD	0.6800	0.6817	0.6837	0.6900	0.7031
USD-CAD	1.2486	1.2900	1.2937	1.2970	1.2995
USD-JPY	105.55	107.00	107.31	108.00	110.81
USD-SGD	1.3595	1.3600	1.3626	1.3651	1.3700
EUR-SGD	1.5450	1.5470	1.5500	1.5600	1.5627
JPY-SGD	1.2276	1.2600	1.2678	1.2700	1.2788
GBP-SGD	1.9451	1.9700	1.9749	1.9796	1.9800
AUD-SGD	1.0100	1.0137	1.0168	1.0200	1.0286
Gold	1213.53	1248.90	1288.40	1300.00	1305.03
Silver	16.03	17.40	17.48	17.50	18.03
Crude	40.11	45.40	45.47	45.50	46.78

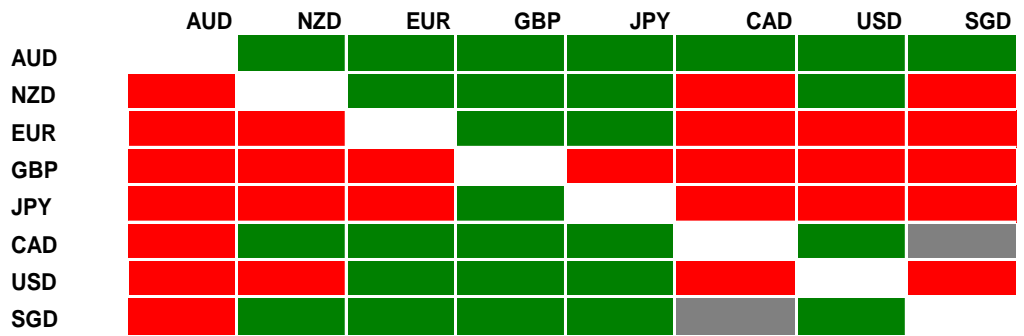
Source: OCBC Bank

FX performance: 1-month change agst USD



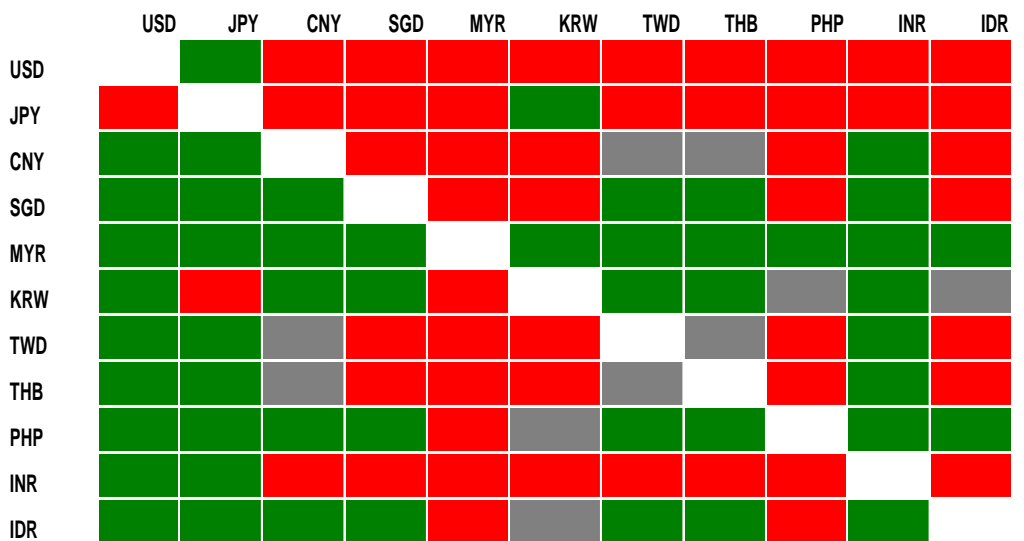
Source: Bloomberg

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		
STRUCTURAL									
2	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate		
3	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries		
4	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations		
5	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC		
6	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield		
7	19-Apr-16	S	USD-SGD	1.3439	1.2835	1.3740	Potential for further broad USD decay, positive risk appetite		
RECENTLY CLOSED									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	11-Apr-16	14-Apr-16	S	USD-JPY	107.72	109.50	JPY still not drastically overvalued, endemic USD weakness	-1.63	
2	04-Mar-16	14-Apr-16	S	USD-SGD	1.3881	1.3634	Brightening risk appetite, vulnerable broad dollar	+1.81	
3	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05	
4	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65	
5	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
6	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.2425	1.3040	Bottoming crude prices	-0.24
7	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4785	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39

Source: OCBC Bank

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