

Thursday, June 09, 2016

FX Themes/Strategy/Trading Ideas

- More pain for the dollar on Wednesday as skepticism towards the Fed continued to accumulate. Late Wednesday, an essentially less dovish than expected RBNZ (including comments from Wheeler) gave the NZD and additional boost. Improving risk appetite levels meanwhile also further bolstered the cyclicals, with the **FXSI (FX Sentiment Index)** dipping into Risk-On territory on Wednesday.
- Going ahead, markets may remain on the same page of its playbook with the less dovish than expected RBA and RBNZ this week set against a damaged dollar (from the NFP and Yellen). Meanwhile, the EUR and the JPY may remain in the periphery but nevertheless continue to benefit from the greenback retreat in the current environment.
- Additionally, the diminished threat of higher US rates in recent sessions has had the effect of fueling risk appetite (immediate beneficiary being global equities/commodities) as well as refocusing investors on the search for yield – both of which add another layer of negativity for the USD.
- Amid the latest bout of dollar weakness, our prior tactical long USD ideas have continued to be exited. The long **USD-CAD** recommendation from 09 May 16 (spot ref: 1.2929) was stopped out late Wednesday at 1.2735 for an implied -1.53% loss.
- Meanwhile, our 29 Apr 16 idea to be short **AUD-USD** (spot ref: 0.7626) was hit its profit stop at 0.7490 on Wednesday for an implied +1.64% gain.

Asian FX

- The **Asian Currency Index (ACI)** remains very reactive to the broad dollar indices at this juncture with investors sidelining ongoing regional macro concerns in the interim. To this end, we note that the Index has yet to retrace fully its run up experienced in May.
- This morning, the **Bank of Korea** surprised (at least relative to prior market expectations) with a 25bps rate cut to 1.25% but this is not likely to unhinge the recent heaviness in the USD-KRW.
- Elsewhere, we note that Asian currencies have had the added benefit of a bottoming out of net outflows of portfolio capital preceding the latest dollar episode of dollar weakness. In addition, the potential renewed interest in the search for yield (see above) may also impart further positivity to the likes of

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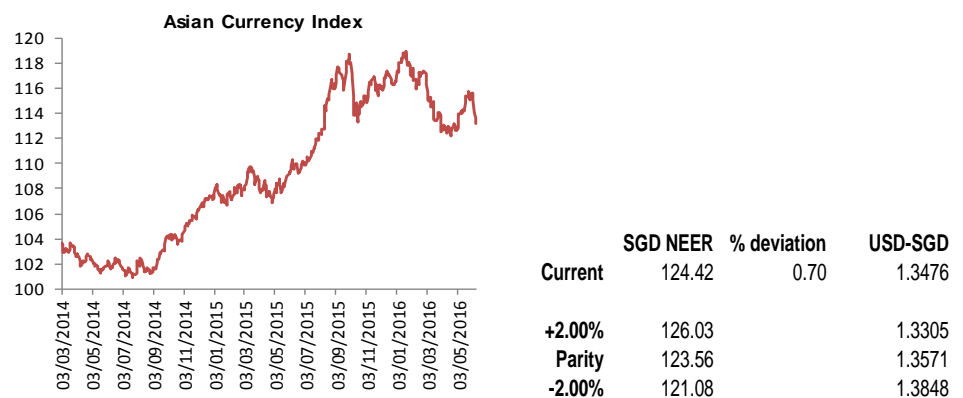
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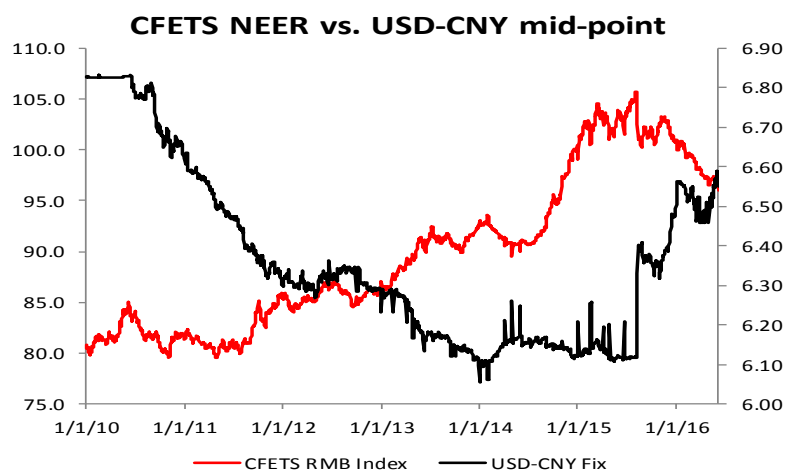
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the **IDR**. On other fronts, the **MYR** may also be afforded further support from firmer crude.

- With the broad dollar continuing to melt, the lower USD-SGD has pushed the **SGD NEER** to +0.80% above its perceived parity (1.3571) this morning (+0.68% yesterday). NEER-implied USD-SGD thresholds are also lower on the day with the +1.00% threshold estimated at 1.3437.
- Meanwhile, although the current dollar affliction is global, we continue to preach caution towards excessive and discretionary downside for the USD-SGD given that estimated volatility thresholds (for the NEER and the USD-SGD) continue to look elevated. However, further downside for the pair multi-session cannot be ruled out if the greenback continues to retreat across the board. A technical floor at 1.3400 may continue to beckon in the interim.



Source: OCBC Bank



Source: OCBC Bank, Bloomberg

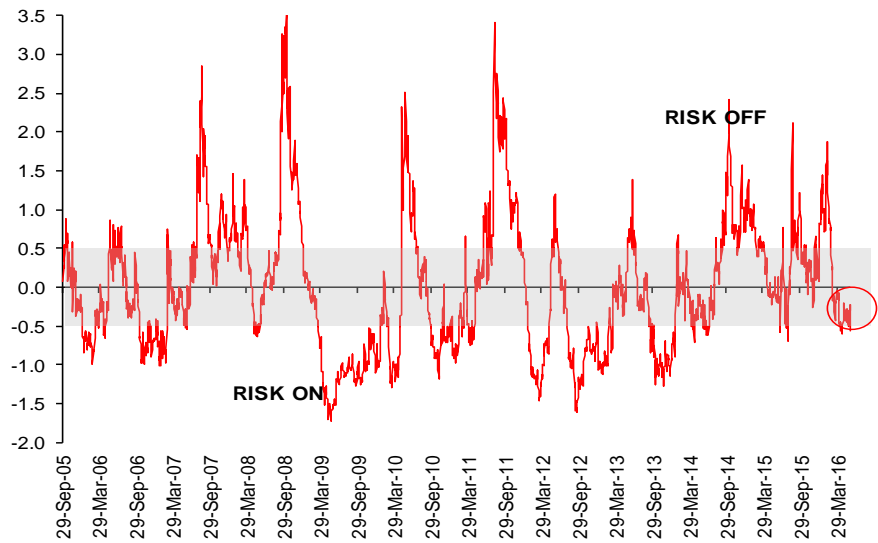
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- **EUR-USD** The ECB kick started its corporate bond buying program on Wednesday but this failed to detract from the generalized weak dollar tone for the EUR-USD. As noted previously, prospects for 1.1500 remain in play, especially if 1.1430/50 is breached. For today, the ECB's Draghi is scheduled

to make an appearance at 0700 GMT.

- USD-JPY** Despite April machinery orders surprising significantly on the downside at -8.2% yoy this morning and somewhat accommodative comments from the BOJ's Nakaso, the USD-JPY may remain intrinsically more responsive dollar dynamics at this juncture. With 107.00 now serving as a near term ceiling, we continue to eye 105.50 for the pair.
- AUD-USD** The positive spillover from the RBNZ meeting late Wednesday will likely keep the AUD-USD buoyed intra-day. With the antipodeans garnering lift from their respective central banks this week, the AUD-USD is expected to contemplate a sustained breach of its 55-day MA (0.7479). Resistance levels thereafter we think are fairly porous until 0.7600.
- GBP-USD** Despite better than expected industrial production data, the GBP parted way with its G10 counterparts with the GBP-USD settling lower instead. In the current USD environment however, we would expect partial support on dips towards 1.4450 while realized volatility is expected to remain palpable on the back of Brexit-related headlines.

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

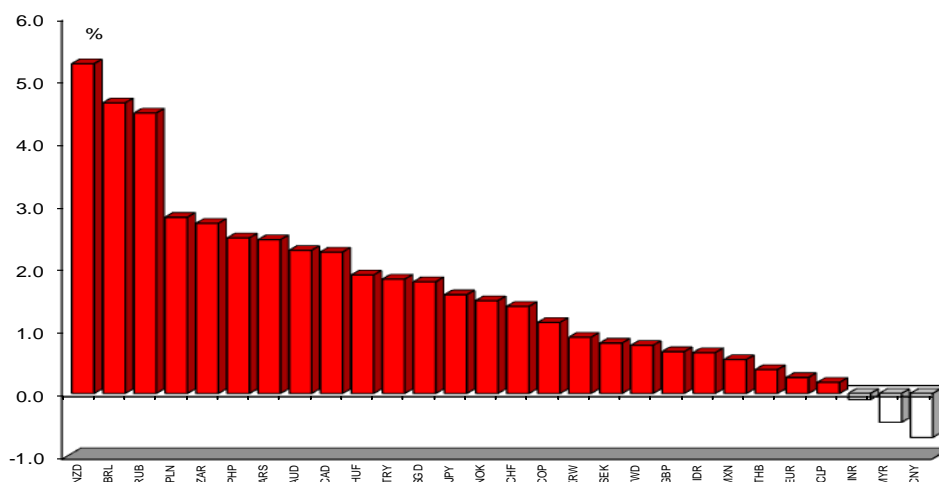
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1318	1.1400	1.1412	1.1436	1.1500
GBP-USD	1.4429	1.4500	1.4503	1.4600	1.4714
AUD-USD	0.7465	0.7471	0.7481	0.7500	0.7719
NZD-USD	0.7039	0.7100	0.7122	0.7139	0.7200
USD-CAD	1.2461	1.2600	1.2677	1.2689	1.2700
USD-JPY	106.00	106.39	106.65	107.00	109.05
USD-SGD	1.3400	1.3466	1.3473	1.3500	1.3595
EUR-SGD	1.5282	1.5300	1.5376	1.5384	1.5400
JPY-SGD	1.2471	1.2600	1.2634	1.2697	1.2700
GBP-SGD	1.9500	1.9501	1.9541	1.9600	1.9614
AUD-SGD	1.0000	1.0075	1.0080	1.0100	1.0116
Gold	1200.00	1249.39	1263.60	1291.07	1300.00
Silver	16.57	17.10	17.16	17.20	17.43
Crude	46.25	51.44	51.60	51.62	51.67

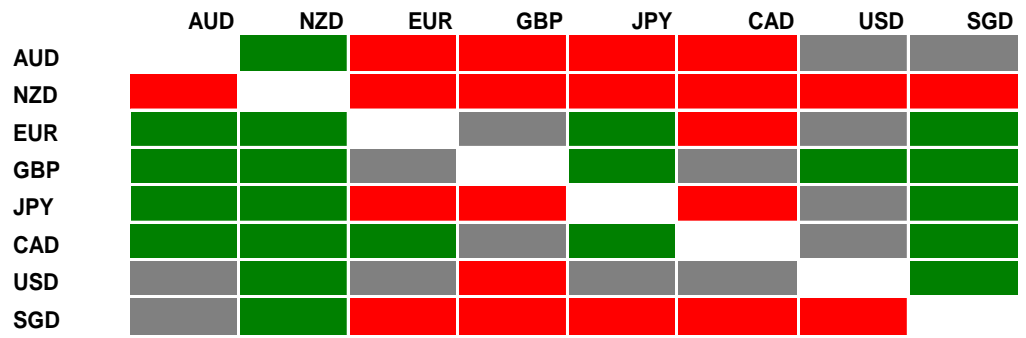
Source: OCBC Bank

FX performance: 1-month change agst USD



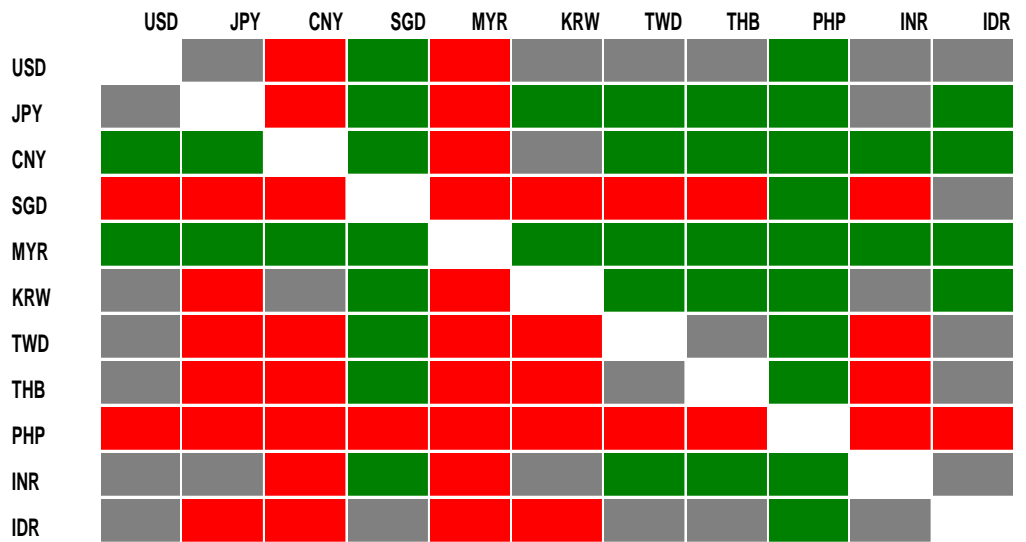
Source: Bloomberg

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	
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
9	09-May-16	07-Jun-16	B	USD-CAD	1.2929	1.2735	Weak labor market numbers, deteriorating growth outlook	-1.53
10	29-Apr-16	08-Jun-16	S	AUD-USD	0.7626	0.7490	Negativity post 1Q CPI numbers	1.64

Source: OCBC Bank

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