

Friday, September 09, 2016

FX Themes/Strategy/Trading Ideas

- Except against the EUR, the dollar firmed across G10 space on Thursday on the back of firmer UST yields (attributed to a similar move in bund yields, firmer oil, and lower than expected weekly initial claims) and slightly more elevated Fed hike expectations (implied from the FF futures).
- Meanwhile, the ECB's Draghi "disappointed" the markets by noting that there had been no discussions on any expansion of the asset purchase program. This bumped bund yields higher down the curve and saw the EUR-USD jumping to a 1.1326 high before the pair retraced lower but still ended firmer on the day.
- Despite the slightly wobbly US data-flow, the primary risk to dollar volatility may continue to stem from Fed-rhetoric before the black-out period ahead of the FOMC. The Fed's Rosengren and Kaplan are due to speak later today (Kaplan again on Saturday) with Lockhart, Kashkari and Brainard scheduled for Monday. At this juncture, it remains to be seen if ensuing Fed rhetoric results in a September FOMC rate hike being eventually perceived as more than a tail risk.
- Elsewhere, risk appetite considerations may take a slight backseat as investors increasingly focus on central bank intentions. Note the **FXSI (FX Sentiment Index)** dipping into Risk-On territory for the first time since late May 2016 but this failed to offer any support to the cyclicals overnight.

Asian FX

- Asian currencies we think are still not above being susceptible to dollar strength with a slightly negative tone to Asian equities early on Friday also likely to keep the regional pairs eyeing the upside into the end of the week. As such, expect the **Asian Currency Index (ACI)** to head higher for a second consecutive session.
- The **SGD NEER** is softer on the day at +0.38% above its perceived parity (1.3556) with NEER-implied USD-SGD thresholds also firmer. At current levels, the +0.50% threshold is estimated at around 1.3489 although the NEER may continue to veer towards parity if the USD continues to gain traction during the Asian session. Technically, note that the USD-SGD is not sitting atop its 55-day MA (1.3500) with the 100-day MA (1.3550) overhead.

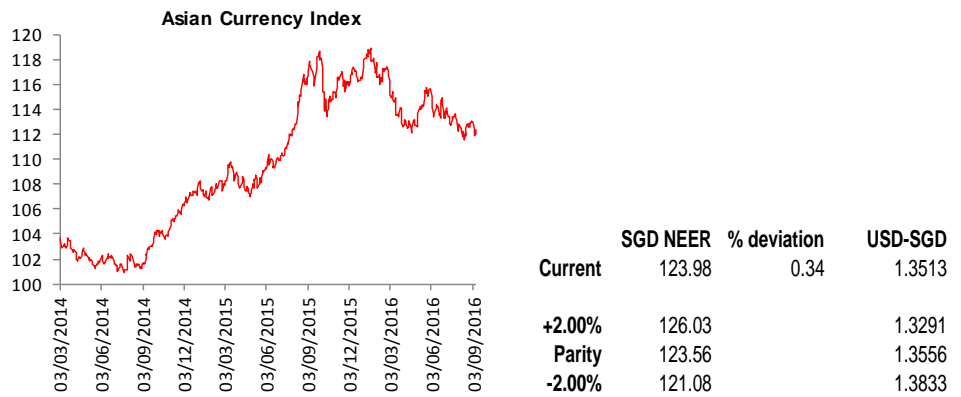
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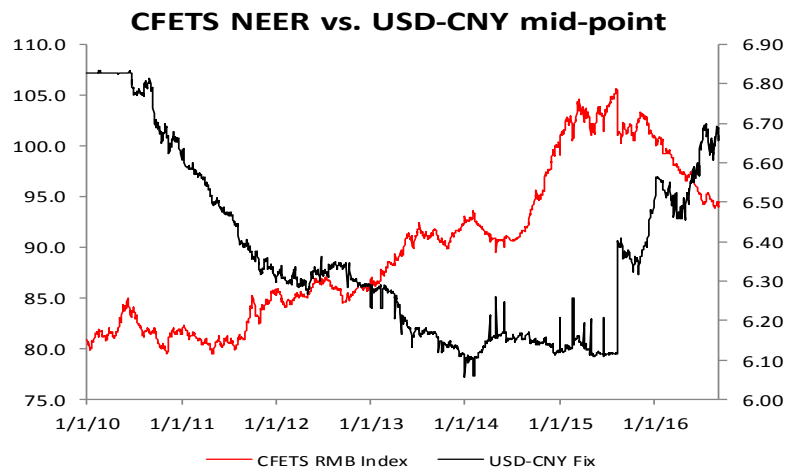
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Source: OCBC Bank

- China's August trade momentum (both exports and imports) clocked better than expected headlines and resulted in a smaller than expected trade surplus of USD52.05bn. However, the jump in the O/N CNH Hibor has also sparked chatter of official intentions to contain CNY depreciation expectations (with CNH forwards leaning right of late). This morning, the **CFETS RMB Index** remained largely steady at 94.04 from 94.03 on Thursday, with the USD-CNY mid-point coming in at 6.6684 compared to 6.6620 yesterday.



Source: OCBC Bank, Bloomberg

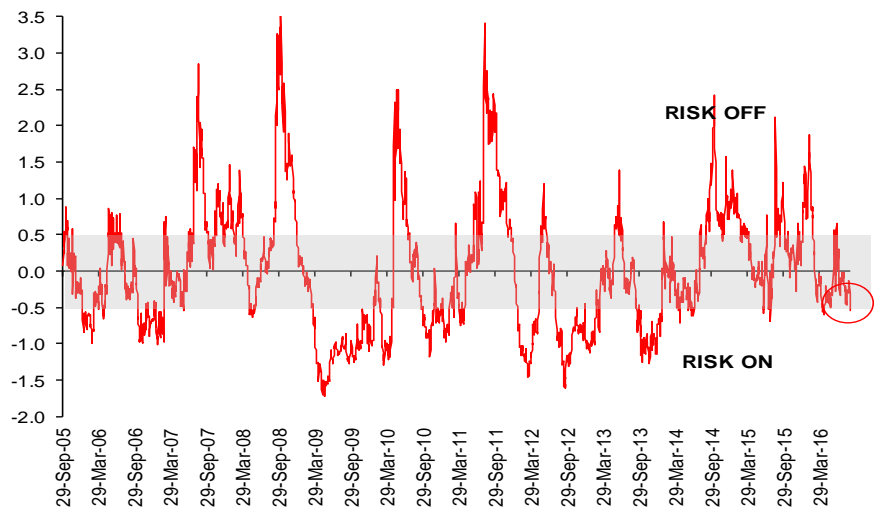
G7

- EUR-USD** Although investors still expect an eventual tweak to the ECB's asset purchase program, Draghi's lack of urgency yesterday may serve to keep the EUR slightly aloft into the end of the week. In the interim, with interest rate differentials supportive of the pair, the 100-day MA (1.1212) may serve as an interim base with risk towards the 1.1330 still expected to be present.
- USD-JPY** The USD-JPY left early USD-JPY heaviness (brought about by less dovish than expected comments from the BOJ's Nakaso) retraced above 102.00 (and briefly above 102.50) as broad USD strength took a hold on Thursday. An immediate cap is seen at the 55-day MA (102.65) with a

corresponding floor seen at 101.25. Rate differentials at the shorter end of the term curve remain supportive of the pair although much will rest on Fed rhetoric in the next few days.

- AUD-USD** After the rejection of the 0.7700 handle, the AUD-USD may search towards 0.7600 ahead of the 55-day MA (0.7571). This near term risk is that broad dollar dynamics begin to take center stage in the next one and a half weeks while relegating the search for yield (and perhaps brining the spotlight back towards the structurally compressing rate differentials over the past 5 months) on approach of the FOMC/BOJ MPC. We are neutral in the interim.
- GBP-USD** In the near term, GBP-USD may remain caught between in position adjustments (re-pricing of near term negativity post Brexit-vote), a firmer EUR-GBP profile post ECB, and broad dollar dynamics. Our sense is that the 55-day MA (1.3165) and 1.3480 may continue to book-end the cable multi-session, with a preference to collect into dips.

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

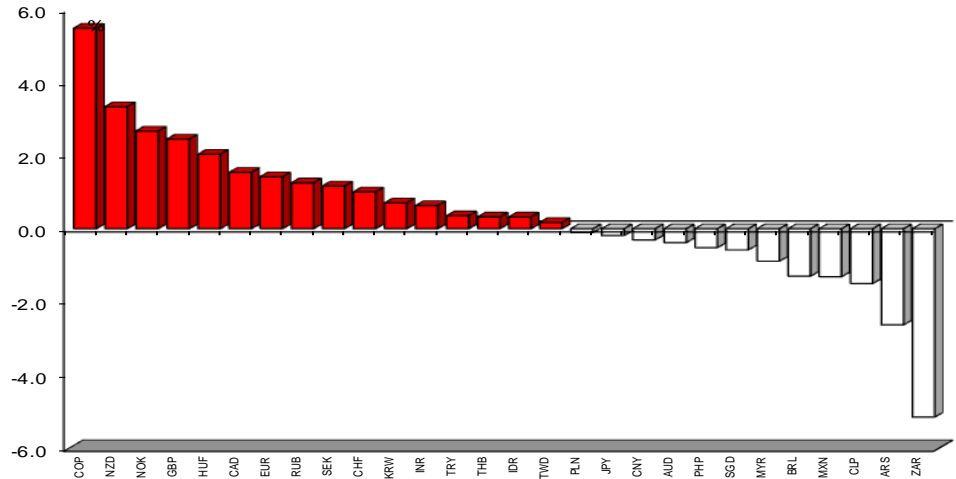
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1149	1.1200	1.1274	1.1300	1.1366
GBP-USD	1.3149	1.3300	1.3322	1.3400	1.3439
AUD-USD	0.7584	0.7600	0.7644	0.7700	0.7724
NZD-USD	0.7204	0.7400	0.7402	0.7428	0.7486
USD-CAD	1.2768	1.2900	1.2921	1.3000	1.3008
USD-JPY	99.54	102.00	102.07	102.64	103.00
USD-SGD	1.3489	1.3500	1.3513	1.3600	1.3658
EUR-SGD	1.5059	1.5200	1.5235	1.5250	1.5300
JPY-SGD	1.3149	1.3200	1.3238	1.3300	1.3517
GBP-SGD	1.7737	1.8000	1.8002	1.8100	1.8155
AUD-SGD	1.0230	1.0300	1.0329	1.0348	1.0400
Gold	1307.03	1338.04	1338.20	1359.68	1366.80
Silver	18.37	19.60	19.62	19.70	19.70
Crude	45.44	47.20	47.23	47.30	49.11

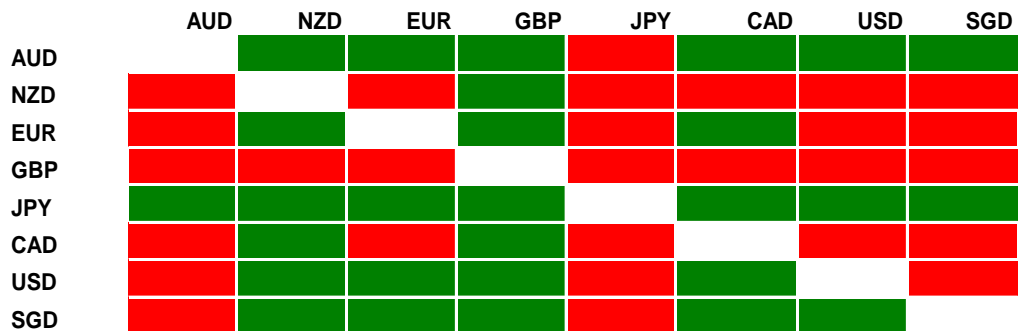
Source: OCBC Bank

FX performance: 1-month change agst USD



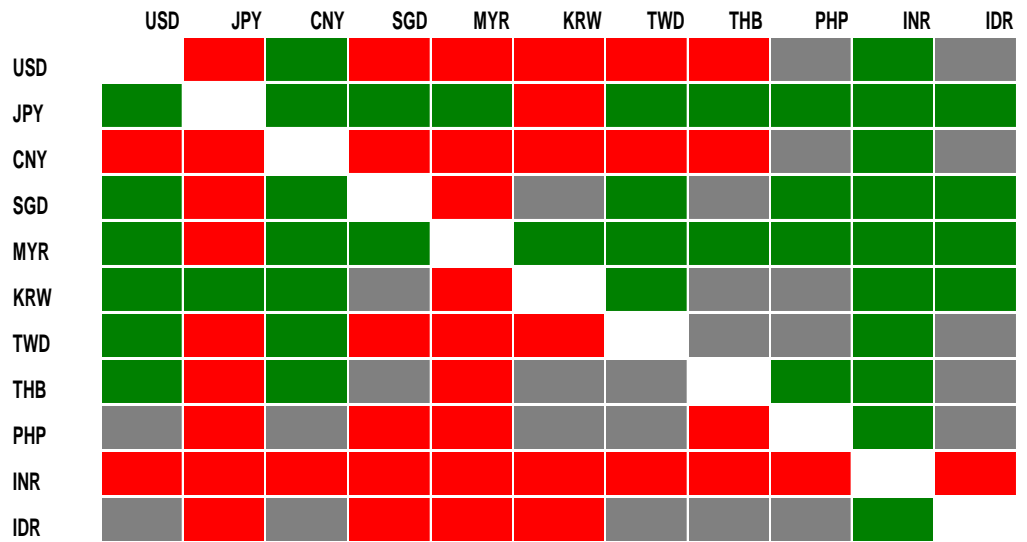
Source: Bloomberg

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	
TACTICAL								
1	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
3	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
4	01-Sep-16	B	USD-JPY	103.33	108.15	100.90	Ahead of NFP numbers and BOJ MPC	
STRUCTURAL								
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
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 weigh 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	
10	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	15-Aug-16	B	USD-CAD	1.2991	1.2805	Concerns over the global deflationary impact from Brexit	-0.23
2	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
3	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
4	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
5	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
6	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclicals, search for yield	8.37
Jan-Aug 2016 Return								+7.80

Source: OCBC Bank

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