

Wednesday, August 10, 2016

FX Themes/Strategy/Trading Ideas

- Greenback weakness may continue to prevail intra-day after the negative reading from US 2Q productivity (-0.50%) and with investors chipping away significantly at post-NFP inspired gains in UST yields. Elsewhere, the **RBNZ** is widely expected to deliver a 25bps cut to 2.00% late Wed (2100 GMT).
- The **FXSI (FX Sentiment Index)** fell for the 5th consecutive session on Tuesday within Risk-Neutral territory with the improvement in risk appetite levels dovetailing with current dollar softness.
- We use the latest NFP-inspired pull back in the **AUD-USD** as an opportunity to go tactically long AUD-USD. With its fairly neutral stance, the RBA we think remains relatively on firmer ground compared to its G7 peers. With a Monday spot ref at 0.7611, we target 0.7880 with a stop placed at 0.7475.

Asian FX

- Asian currencies, much like their EM counterparts, may continue to benefit from the search for yield, sanguine risk appetite levels, and dollar sogginess. To this end, the **Asian Currency Index (ACI)** is also expected to decline for the 5th consecutive session with the North Asians (KRW, TWD) continuing to derive implicit support from soft USD-JPY and the stabilization in the renminbi complex.
- On the central bank front, the **RBI** left its policy parameters untouched as expected on Tuesday with Rajan presiding over his last meeting before his departure in September.
- The **SGD NEER** is trading slightly firmer compared to the beginning of the week at around +0.99% above its perceived parity this morning with the dollar's softness overnight (and this morning in Asia) proving supportive. At current levels, the +1.00% threshold is estimated at around 1.3421 with +1.50% seen at around 1.3355. Investors may however be expected to exercise caution on the downside towards the technical floor at around 1.3360. Overall, the demeanor for the pair remains tilted south in the near term.

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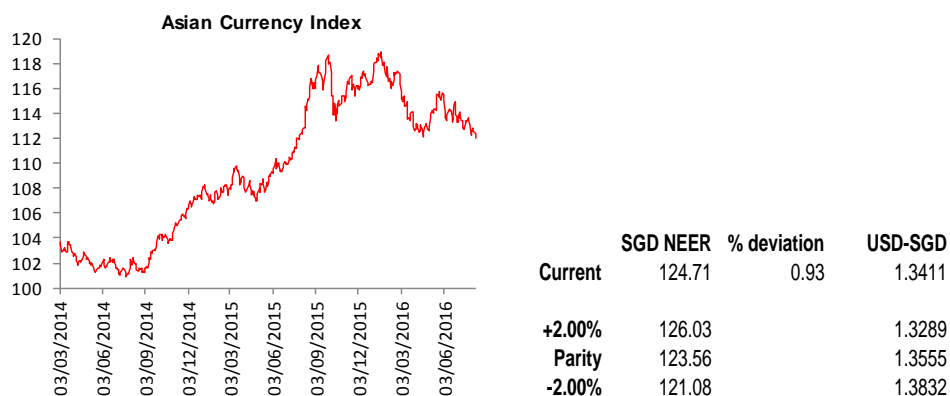
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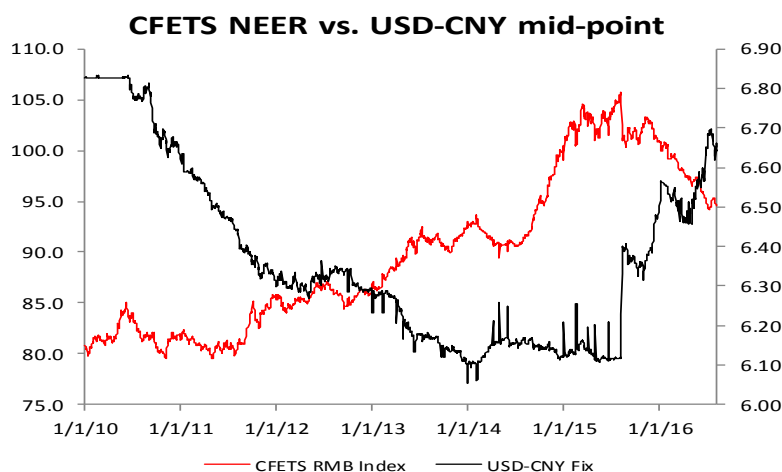
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Source: OCBC Bank

- Today, the **CFETS RMB Index** fell further to 94.56 from 94.66 on Tuesday with the USD-CNY mid-point falling to 6.6530 compared to 6.6594 yesterday. With some semblance of stabilization in policy overtures (rate curves however continue to portend monetary accommodation), implied renminbi depreciation expectations have moderated of late, although we note that the Index remains essentially on a gentle negative gradient.



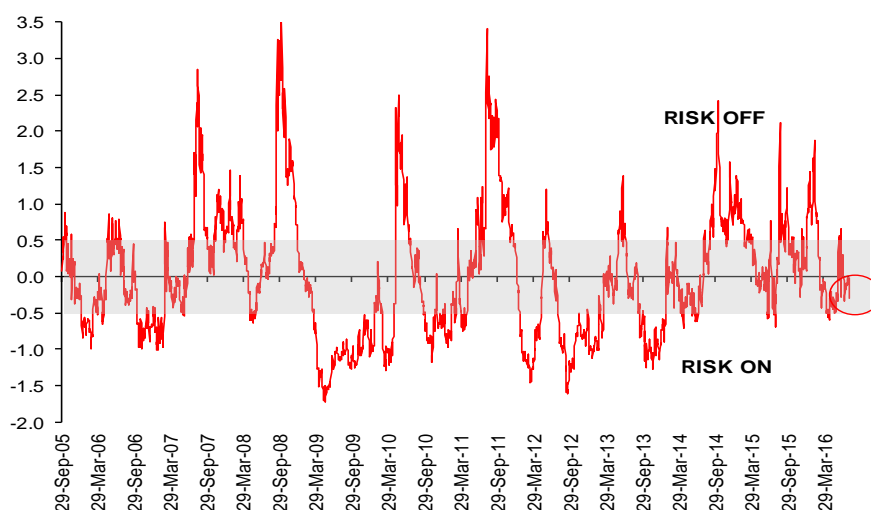
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** The EUR-USD may be expected to attempt to base build off its 200-day MA (1.1081) in the current dollar environment with the 55-day MA (1.1152) expected to be a first upside pit stop. The EZ data calendar is dry today, with the pair likely to look to the greenback for near term cues.
- **USD-JPY** The next significant waypoint at 100.00 for USD-JPY may grow increasingly conspicuous if the US data stream continues to disappoint in the near term.
- **AUD-USD** The AUD-USD may continue to be led higher amid the positive mix of sanguine risk appetite levels, a threatened dollar, and a lack of unduly negative headlines out of the China complex. Intra-day, the pair may see a bounce on any dips towards 0.7650.

- GBP-USD** GBP-USD was weighed on Tuesday after the BOE's McCafferty (previously a hawk) left the door open for further rate cuts and QE but near term dollar vulnerability may over ride intra-day. Nonetheless, the failure of the BOE's reverse auction for gilts on Tuesday only keeps the spotlight on the central bank's dovish stance – net negative over the medium term. The floor at 1.3000 continues to remain tenuous.

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

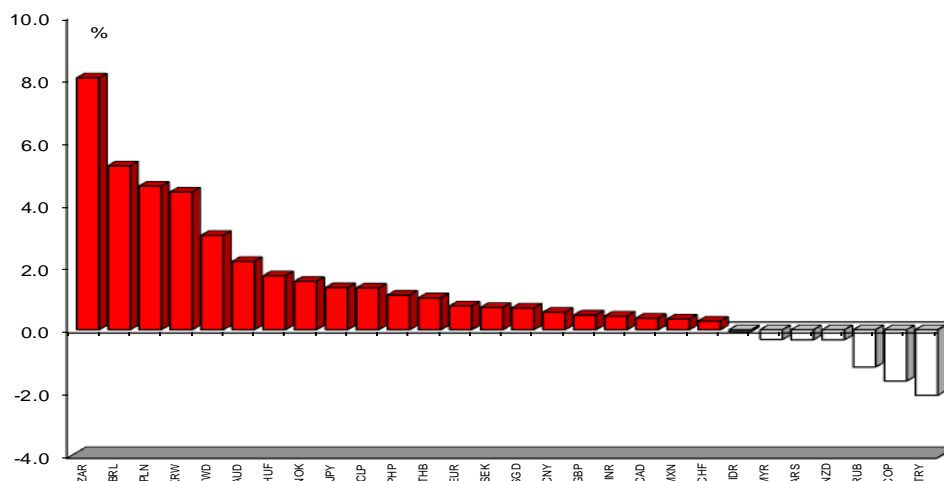
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1081	1.1100	1.1141	1.1151	1.1200
GBP-USD	1.2979	1.3000	1.3059	1.3100	1.3368
AUD-USD	0.7494	0.7600	0.7696	0.7700	0.7703
NZD-USD	0.7100	0.7101	0.7194	0.7200	0.7259
USD-CAD	1.2980	1.3000	1.3070	1.3100	1.3253
USD-JPY	100.00	101.00	101.45	102.00	104.19
USD-SGD	1.3358	1.3400	1.3416	1.3488	1.3500
EUR-SGD	1.4860	1.4900	1.4947	1.5000	1.5006
JPY-SGD	1.2954	1.3200	1.3224	1.3300	1.3394
GBP-SGD	1.7475	1.7500	1.7520	1.7600	1.8035
AUD-SGD	1.0300	1.0319	1.0324	1.0345	1.0400
Gold	1310.70	1313.89	1345.20	1362.65	1377.50
Silver	19.42	19.90	19.98	20.00	20.68
Crude	39.19	42.70	42.71	42.80	46.01

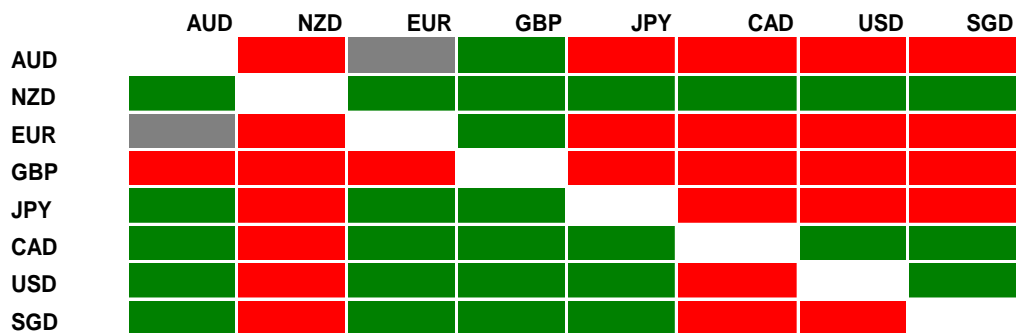
Source: OCBC Bank

FX performance: 1-month change agst USD



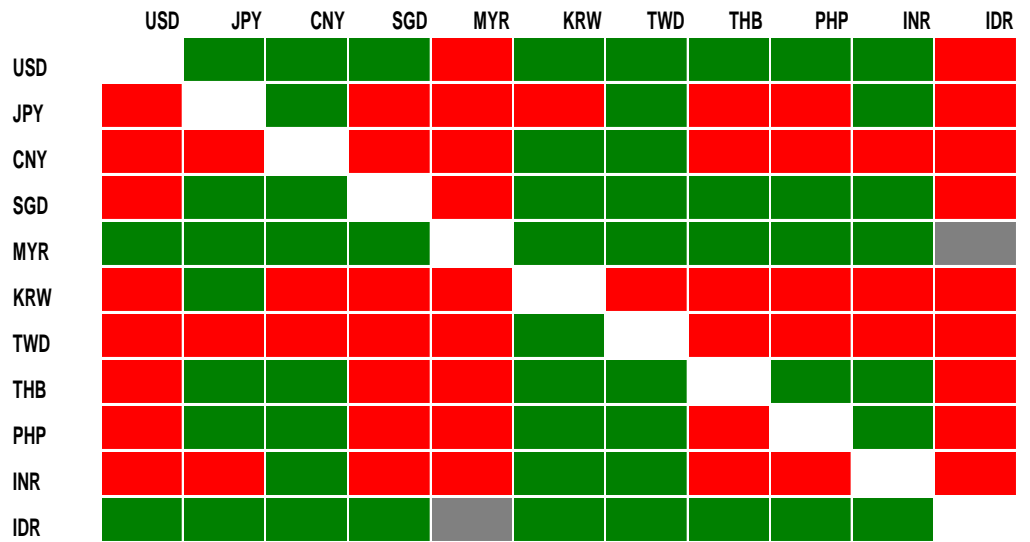
Source: Bloomberg

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	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	
4	08-Aug-16	B	AUD-USD	0.7611	0.7880	0.7475	Opportunity for a tactical long on assumption of transient USD	
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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield	
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
10	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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