

Monday, October 10, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- The greenback on Friday ended mixed to softer (softer UST curve from the back-end) following the slightly disappointing NFP headlines (+156 vs. mkt: +172k) while widespread GBP weakness continued to pervade markets. Elsewhere, negative EZ/US equities helped the **FXSI (FX Sentiment Index)** higher on the day although the Index managed to end easier on the week.
- This week, expect potential for some USD volatility with the second Presidential debate at 0100 GMT on Monday while we note a somewhat hawkish tone from the Fed's Mester being balanced subsequently by more measured comments from the Fed's Fischer.
- On the calendar, look towards FOMC minutes on Wednesday, while a bevy of Fed speak is expected throughout the week, starting with Evans on Tuesday. In Asia, look to China's September monetary aggregates this week (trade data on Thursday) while on the central bank front, the **BOK** is expected to remain static at 1.25% on Thursday.
- On the **CFTC** front, net leveraged implied USD longs in aggregate increased in the latest week with the **DXY** also managing to end firmer on the week. Note that despite the slight setback from last Friday's NFP, FF-implied odds (64.25%) of a December FOMC rate hike have been firming and are at its highest since late August. Similarly, implied dollar 'bullishness' from CFTC leveraged positioning is also back to late-Aug levels.
- Our structural soft dollar outlook narrative is fraying at the margins for selected currencies and this we think may be indicative of the tide turning slightly in favor of the greenback. The longevity of this move remains in question but nevertheless, we close out our structural short **USD-CAD** idea from 25 Aug 16 (spot ref: 1.2918) at 1.3230 on Monday for an implied -2.36% dip.
- On a similar note, we also close out our 14 Jun 16 idea to be structurally short **USD-SGD** (spot ref: 1.3542) at 1.3718 on Monday for an implied -1.08% loss.
- With short-term inverse correlations between the CAD and crude breaking down and with the USD continuing to derive near term support from rate hike expectations, we undertake a tactical long **USD-CAD**. From a spot ref of 1.3256 on Friday, we target 1.3535 and place a stop at 1.3155.

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Asian FX

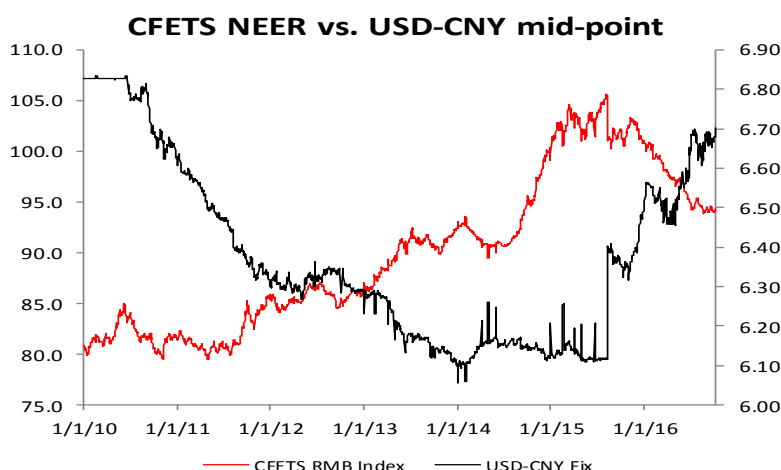
- The **ACI (Asian Currency Index)** continued to gain last Friday, capping a week of daily gains to end higher on the week and mirroring DXY gains. With the broad dollar likely to retain a modicum of traction on the back of an expected rate hike, expect the regional currencies to bend lower in sympathy at this juncture.
- Post-NFP and ahead of the US Presidential debate headlines, the **SGD NEER** is softer on the day at around -0.38% below its perceived parity (1.3679). NEER-implied USD-SGD thresholds are softer on the day with -0.50% estimated at 1.3748 and -1.00% at 1.3817. Although the slightly wobbly dollar may support the NEER on the downside, USD-SGD is also expected to find partial support into the 200-day MA (1.3702). The **MAS MPS** is scheduled for this Friday and our base case remains for no change in policy parameters.



	SGD NEER	% deviation	USD-SGD
Current	123.11	-0.36	1.3734
+2.00%	126.03		1.3411
Parity	123.56		1.3679
-2.00%	121.08		1.3958

Source: OCBC Bank

- After a week-long break, the **CFETS RMB Index** rose to 94.32 on Monday from 94.07 last with the USD-CNY mid-point rising (largely as expected) to 6.7008 against 6.6778 previous. The Index is running at an approximately -8.4% depreciation on an annualized basis amidst mounting evidence that the discretionary depreciation posture may have ceased. We will continue to monitor its behavior in the coming sessions for further confirmation.

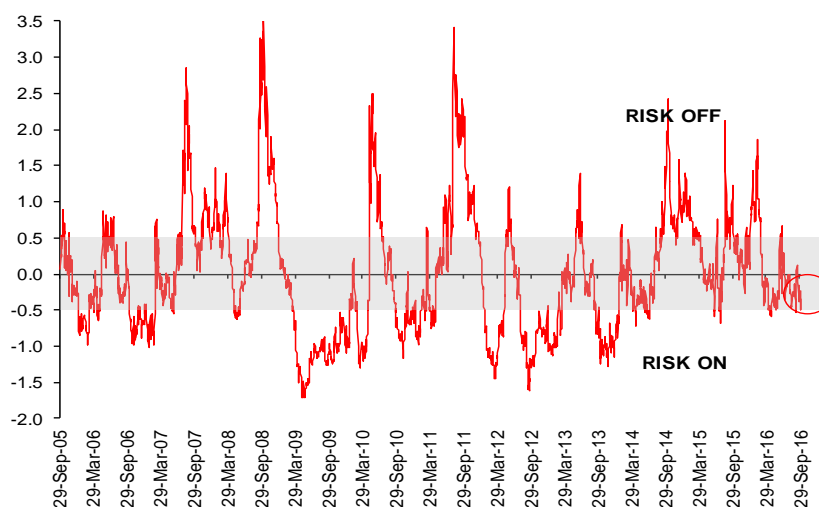


Source: OCBC Bank, Bloomberg

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- **EUR-USD** The pair may remain biased to the downside in deference to dollar dynamics while CFTC leveraged positioning show an increase in net EUR shorts in the latest week. Notable floor on the downside is expected at the 200-day MA (1.1169) with the 55-day MA (1.1198) and 1.1200 now functioning as near term resistance levels.
- **USD-JPY** TKY is away on holiday today and we note that Kuroda's latest dovish comments have done little to incite additional JPY underperformance. On the CFTC front, net leveraged JPY longs were also pared in the latest week, setting up for a more supported tone in the pair. In our view, USD-JPY remains relatively more responsive to dollar-induced volatility with the pair likely to attempt to stay north within 102.00-104.00 ahead of the FOMC minutes this week.
- **AUD-USD** The Treasurer's somewhat hawkish comments over the weekend may serve to temper the downside but otherwise underscore the sense of neutrality being attached to the RBA. On the CFTC front, net leveraged AUD longs were increased in the latest week, and this is likely to put a drag on potential AUD-USD heaviness in the current environment. If the foothold at 0.7600 is lost, supports at 0.7550 and then at the 100-day MA (0.7523) are expected to materialize.
- **GBP-USD** Expect sentiment towards the pound to remain fragile to say the least, with the BCC's Quarterly Economic Survey late Sunday turning in mostly downbeat headlines. Cable continues to eye the 1.2400 at the onset of the week.

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

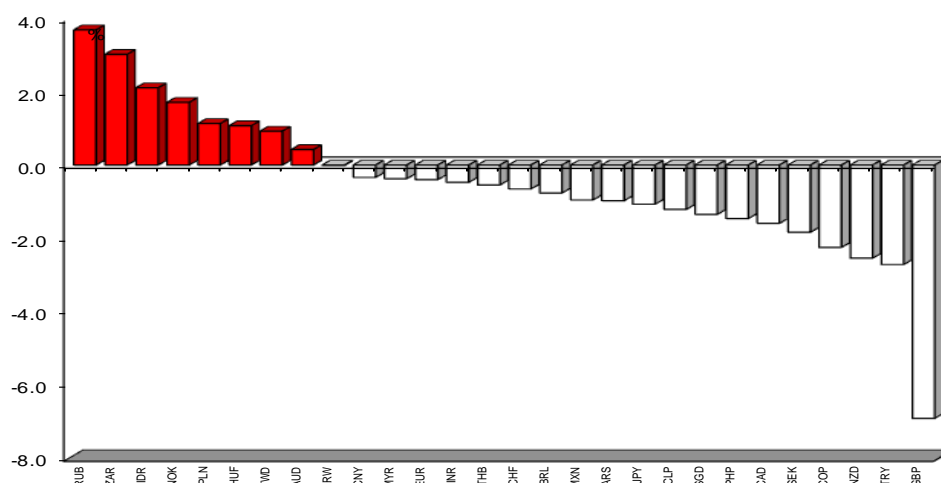
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1145	1.1169	1.1191	1.1200	1.1207
GBP-USD	1.1841	1.2400	1.2415	1.2466	1.2500
AUD-USD	0.7457	0.7500	0.7596	0.7600	0.7607
NZD-USD	0.7110	0.7141	0.7165	0.7200	0.7255
USD-CAD	1.3200	1.3207	1.3259	1.3287	1.3300
USD-JPY	101.70	102.00	102.95	103.00	103.94
USD-SGD	1.3693	1.3700	1.3735	1.3746	1.3760
EUR-SGD	1.5288	1.5300	1.5370	1.5400	1.5406
JPY-SGD	1.3300	1.3323	1.3342	1.3400	1.3584
GBP-SGD	1.6093	1.7000	1.7052	1.7094	1.7100
AUD-SGD	1.0305	1.0400	1.0433	1.0500	1.0510
Gold	1249.50	1259.10	1259.40	1300.00	1324.57
Silver	17.25	17.60	17.69	17.70	19.29
Crude	46.09	49.20	49.26	49.30	50.74

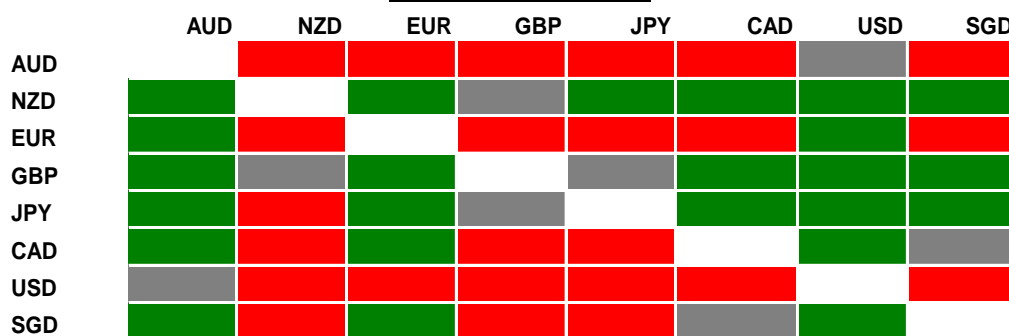
Source: OCBC Bank

FX performance: 1-month change agst USD



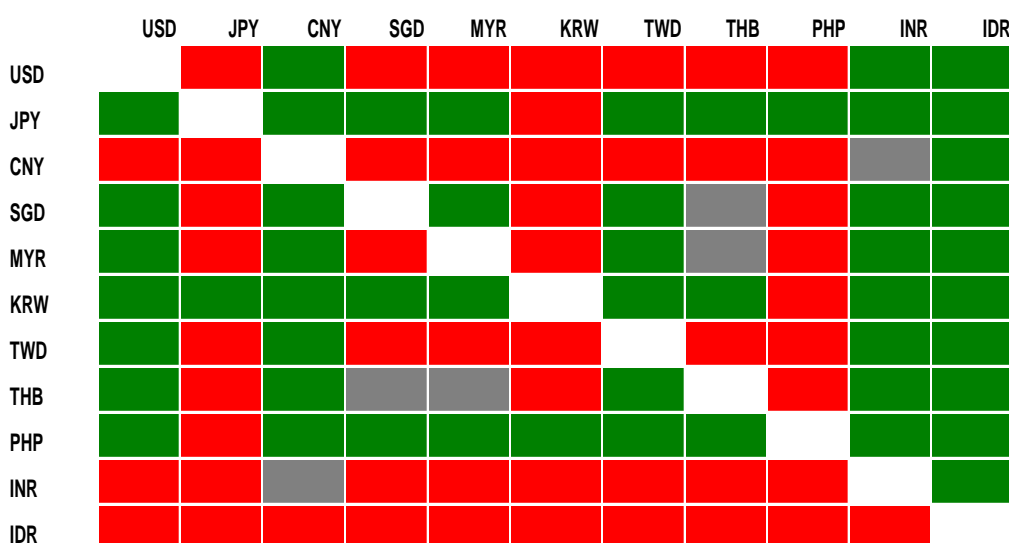
Source: Bloomberg

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	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
2	05-Oct-16	S	EUR-USD	1.1222	1.1025	1.1325	Fade ECB-taper talk, potential US resilience	
3	06-Oct-16	B	USD-JPY	103.48	106.95	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	
4	07-Oct-16	B	USD-CAD	1.3256	1.3535	1.3155	Correlation breakdown between CAD and crude, USD support	
	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	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
8	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	04-Aug-16	19-Sep-16	B	EUR-USD	1.1149	1.1157	Static Fed vs. ECB	-0.80
2	01-Sep-16	21-Sep-16	B	USD-JPY	103.33	100.90	Ahead of NFP numbers and BOJ MPC	-2.33
3	15-Sep-16	22-Sep-16	B	USD-CAD	1.3202	1.3030	Fading crude, soft macro outlook, ahead of FOMC	-1.36
4	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
5	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
6	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
7	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
8	14-Jun-16	10-Oct-16	S	USD-SGD	1.3542	1.3718	USD expected to disappoint on the back of the summer FOMCs	-1.08
9	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
	Jan-Sep 2016 Return							+8.27

Source: OCBC Bank

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