

Friday, March 11, 2016

FX Themes/Strategy/Trading Ideas – Draghi’s mic drop

- After Draghi’s comments implying that the window for further rate cuts was shuttered despite the ECB’s more generous than expected easing moves on Thursday, the near term downside impetus for the EUR we think has evaporated for now.
- Structurally, the policy dichotomy narrative (with respect to the Fed) across the different currency pairs may increasingly become heterogeneous (note the surprise RBNZ cut earlier this week) and perhaps shift going ahead, portending sustained volatility in FX and rates markets. Meanwhile, prospects for the Fed’s rate trajectory remain very much in a flux, with the next significant event risk expected at next week’s **FOMC**. In the near term, we remain cautious despite the continued dip in the **FXSI (FX Sentiment Index)** on Thursday within Risk-Neutral territory.
- The whipsaw in the **EUR-USD** on Thursday stopped out our 29 Feb idea to be short EUR-USD (spot ref: 1.0923) at 1.1070 for an implied -1.29% loss.

Asian FX

- An unsteady greenback in concert with positive overflow from the CNY (CNH) may keep USD-Asia heavy despite a negative start to Asian equities. Nonetheless, we think investors would be well served to remain cognizant of the slight dip in risk appetite levels and the currently heavy **ACI (Asian Currency Index)** may well have a limited shelf life.
- The **SGD NEER** is approximately -0.32% below its perceived parity (1.3767) this morning with NEER-implied USD-SGD thresholds a touch lower on the day. Note that despite the USD-SGD edging higher over the course of the past week, the SGD NEER has instead slipped slightly in the same period, weighed significantly by the EUR’s relative outperformance overnight as opposed to any underperformance against the USD. Overall, broad dollar dynamics for the USD-SGD remains less than concrete at this juncture we feel. Intra-day, the pair may remain tentative into the end of the week following the overnight volatility in global markets while we continue to favor a top heavy posture within 1.3770-1.3900.
- The **USD-CNY mid-point** was fixed significantly lower than expected at 6.4905 this morning from 6.5127 on Thursday, implying a CFETS RMB Index of 98.82 from 99.00 the previous day. Given the overnight moves in the basket’s constituent currencies (i.e., EUR), today’s USD-CNY fix (and the cross fixes) leaves the index higher than expected, implying perhaps official

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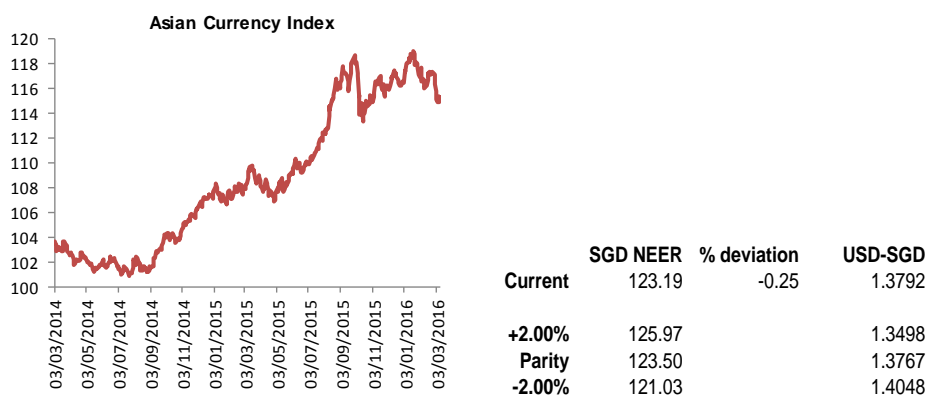
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intent to temper volatility in the NEER. As noted previously, this would necessitate greater implied volatility in the USD-CNY.

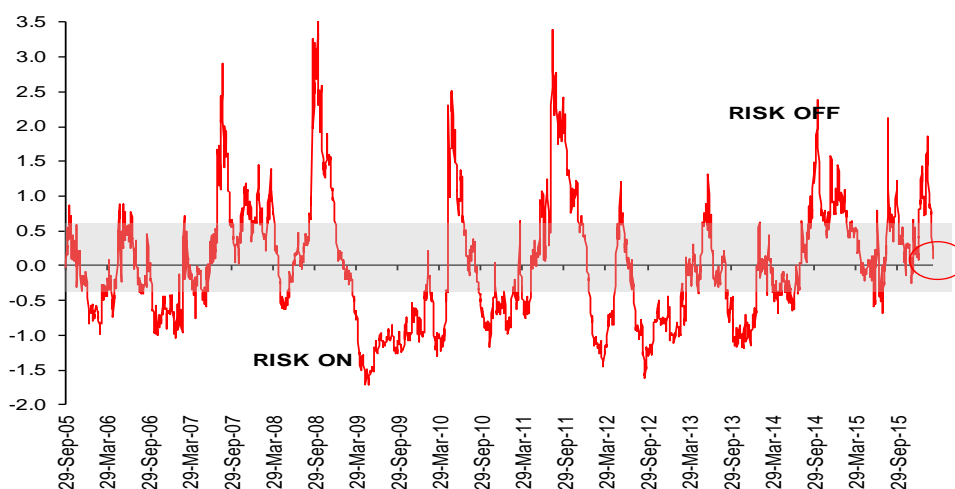


Source: OCBC Bank

G7

- **EUR-USD** Post Draghi, the EUR-USD may have space to stretch upwards towards 1.1300 before a reassessment with yield differential movements (in spite of the sell-off in USTs and bunds overnight) continuing to lend support to the pair. On the downside, 1.1100 may be expected to offer initial support on dips.
- **USD-JPY** USD-JPY may be in for greater volatility next week with the BOJ and the FOMC on tap. In the interim, the 112.00-114.00 range may continue to prevail.
- **AUD-USD** With little in the way of domestic headline risk till the RBA's meeting minutes next Tuesday and China monetary aggregates in the coming week, investors may continue to trade the AUD off fluctuations in commodities and global risk appetite levels. As noted previously, initial support is seen towards 0.7400 while the pair may contemplate the 0.7500 resistance pending another external push.
- **GBP-USD** The BOE MPC looms next Thursday and the GBP-USD may continue to derive background support from the EUR (i.e., via the EUR-GBP as market participants reassess the BOE-ECB policy divergence play) into the end of the week. Our near term view remains unchanged and the GBP-USD may look to retrace on any near term dips. The 55-day MA (1.4364) should cap for now with a probable near term floor expected into 1.4200.

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

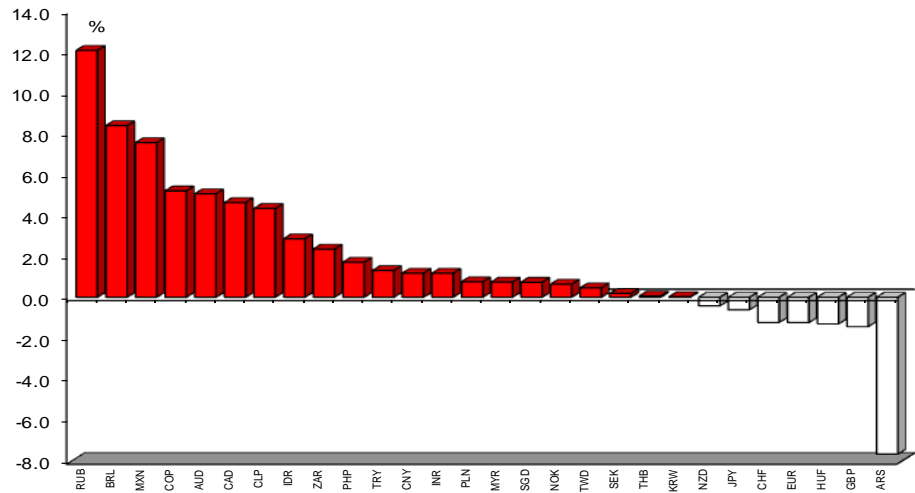
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1044	1.1100	1.1183	1.1200	1.1228
GBP-USD	1.3836	1.4200	1.4269	1.4300	1.4319
AUD-USD	0.7245	0.7400	0.7467	0.7500	0.7528
NZD-USD	0.6600	0.6621	0.6686	0.6700	0.6787
USD-CAD	1.3200	1.3229	1.3294	1.3300	1.3315
USD-JPY	112.00	113.00	113.12	114.00	114.61
USD-SGD	1.3729	1.3734	1.3794	1.3800	1.3971
EUR-SGD	1.5048	1.5400	1.5427	1.5428	1.5500
JPY-SGD	1.2100	1.2191	1.2193	1.2200	1.2567
GBP-SGD	1.9455	1.9600	1.9683	1.9700	2.0219
AUD-SGD	1.0117	1.0300	1.0301	1.0367	1.0384
Gold	1198.06	1200.00	1278.10	1283.44	1287.80
Silver	14.96	15.60	15.61	15.70	15.87

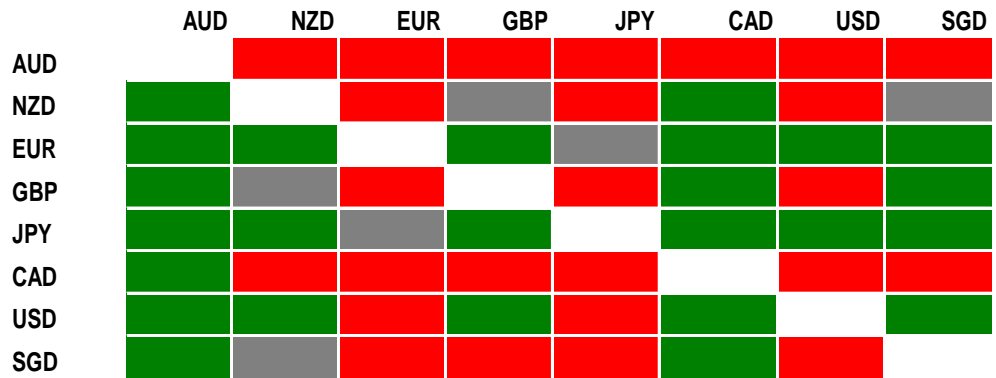
Source: OCBC Bank

FX performance: 1-month change agst USD



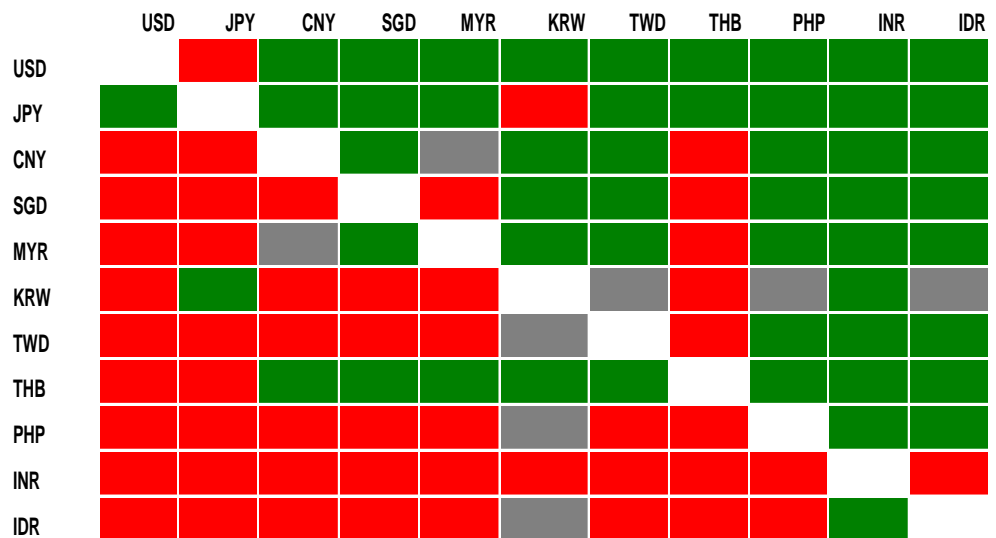
Source: Bloomberg

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-Feb-16	S	USD-CAD	1.3533	1.3135	1.3735	Bottoming crude	
2	03-Mar-16	B	AUD-USD	0.7284	0.7555	0.7145	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
3	04-Mar-16	S	USD-SGD	1.3881	1.3630	1.4010	Brightening risk appetite, vulnerable broad dollar	
STRUCTURAL								
4	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
6	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
7	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
8	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	10-Feb-16	11-Feb-16	S	USD-JPY	114.50	112.62	Risk aversion + weakened dollar narrative	+1.67
2	04-Feb-16	16-Feb-16	S	USD-SGD	1.4158	1.4035	Dollar may stumble further post-Dudley	+0.85
3	08-Jan-16	22-Feb-16	B	EUR-USD	1.0888	1.1045	Risk of Fed/dollar "disappointment"	+1.42
4	18-Feb-16	24-Feb-16	S	USD-CAD	1.3655	1.3855	Potential for crude to consolidate higher	-1.45
5	26-Feb-16	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
6	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45
7	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29

Source: OCBC Bank

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