

Tuesday, January 12, 2016

FX Themes/Strategy/Trading Ideas

- With some semblance of stability returning to the markets on Monday, the antipodeans may retain some traction against the USD although the CAD is expected to remain vulnerable on the back of weak crude prices. All round yen strength may also be more tempered but this would have to be predicated on a stable global equity environment. Overall, expect some corrective price action to ensue in the short term.
- With equities still unsteady and commodities continuing to flame out, note however that the **FXSI (FX Sentiment Index)** pushed deeper into Risk-Off territory on Monday. Expect some consolidation on the risk appetite front today pending the lead from Chinese equities. We think caution is still warranted with short-end CNH vols at elevated levels.
- Our 10 Nov 15 idea to be long **USD-CAD** (spot ref: 1.3276) met its 1.4230 objective on Monday. Given the state of the oil complex, we extend our target to 1.4565, trailing the stop to 1.4060.

Asian FX

- The **ACI's (Asian Currency Index)** recent uptrend may pause in the interim with risk aversion levels in Asia down a notch following another rather "stable" USD-CNY mid-point.
- This morning, the **USD-CNY mid-point** was kept relatively steady at 6.5628 compared to 6.5626 on Monday. We estimate that the resultant CFETS RMB Index is at 100.18 this morning, slightly firmer from the estimated 99.99 reading on Monday. We continue to discern an underlying logic behind the fixings. Given that the broad USD was flat to firmer overnight, the implication is that the implied CFETS RMB Index would have experienced upside pressure. By allowing the Index to firm slightly in partial reaction to movements in the basket's constituent currencies, this would have necessitated a mildly firmer USD-CNY mid-point.
- Going ahead, the source of perceived policy uncertainty would therefore stem from the desired directionality of the Index as well as the degree of responsiveness to its constituent currencies. We reiterate that fears of an official and discretionary intent to weaken the CFETS RMB Index without giving due consideration to implications from the movements of the constituent currencies may continue to abate. In the near term, the "apparent stabilization" of the USD-CNY mid-point coupled with cited official presence (including vocal guidance from officials on Monday) and the resultant

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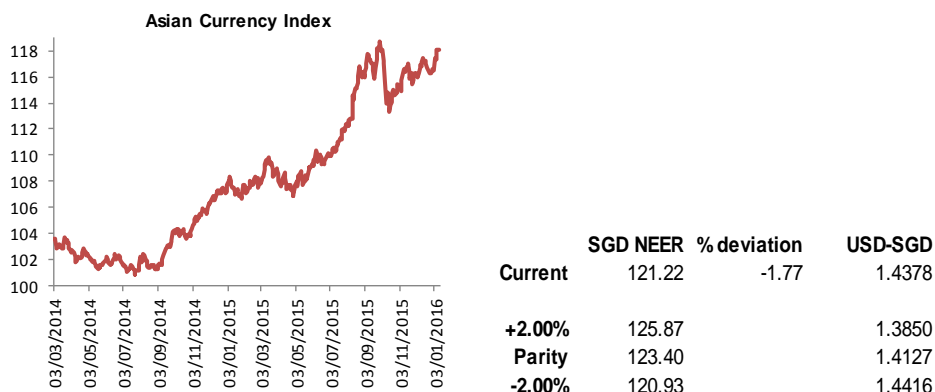
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squeeze in liquidity (CNH HIBOR) may continue to put a lid on undue CNH weakness.

- The **SGD NEER** is firmer on the day relative to its estimated extreme lower boundary this morning at around -1.55%. At current levels, parity is estimated at around 1.4127 with the -2.00% lower extreme corresponding to 1.4416. NEER-implied USD-SGD thresholds are a touch softer on the day while we continue to expect the -2.00% threshold to remain in force. In the interim, expect some consolidative behavior around the 1.4350 neighborhood pending further head line risks.

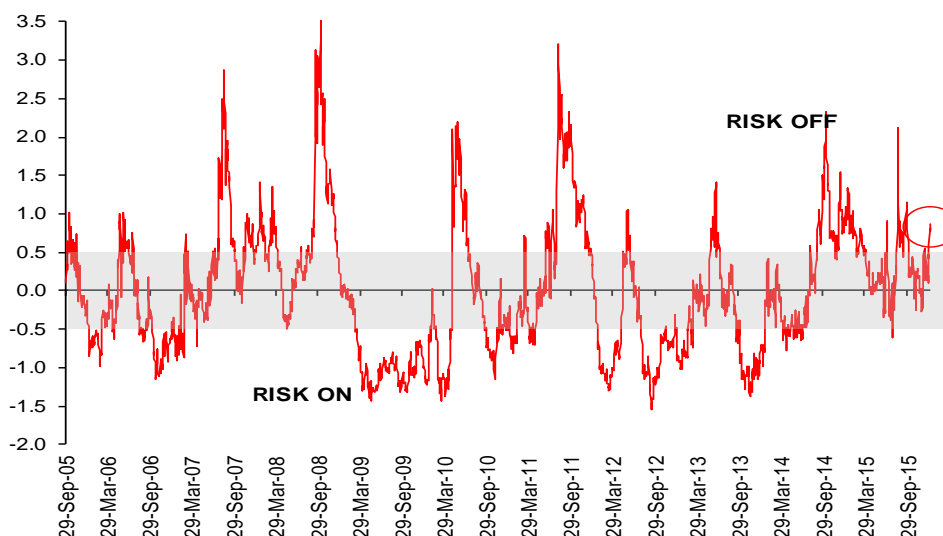


Source: OCBC Bank

G7

- **EUR-USD** The calendar on both sides of the Atlantic is fairly sparse today and the pair may consolidate around its 55-day MA (1.0831) after its recent volatility and the latest failure to challenge the 1.1000 handle.
- **USD-JPY** With little in the way of US-centric cues in the near term, the pair may be buoyed slightly by some recovery in investor sentiment. Expect an anchor around the vicinity of 117.60-118.00 in the short term.
- **AUD-USD** The AUD-USD may be pulled in opposing directions by a partial recovery in sentiment set against a still soft commodity landscape. Some consolidative upticks towards 0.7020 cannot be ruled out but the lure of 0.6950 remains visible we feel.
- **GBP-USD** The pair may be reduced to data watching on the UK front today but baggage from soggy BOE rate hike expectations may continue to discourage significant upside retracements. Expect a 1.4500-1.4600 range to prevail in the interim.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658
JPY	0.537	-0.135	-0.823	0.460	0.272	0.541	1.000	0.483	-0.279	-0.681
SGD	0.339	-0.346	0.480	-0.307	-0.237	-0.558	-0.195	-0.568	0.344	0.269
AUD	0.054	0.298	-0.478	0.694	0.621	0.833	0.153	0.804	-0.582	-0.630
PHP	-0.042	-0.266	0.129	-0.635	-0.650	-0.587	0.083	-0.442	0.646	0.593
IDR	-0.155	-0.110	-0.188	-0.370	-0.710	-0.208	0.342	-0.313	0.724	0.199
TWD	-0.263	0.063	0.703	-0.490	-0.106	-0.626	-0.676	-0.656	0.228	0.407
GBP	-0.264	-0.275	-0.684	-0.049	-0.334	0.450	0.454	0.293	0.435	-0.238
CAD	-0.270	0.095	0.972	-0.574	-0.382	-0.910	-0.763	-0.837	0.290	0.813
CNH	-0.279	0.107	0.957	-0.496	-0.450	-0.842	-0.802	-0.763	0.345	0.808
CNY	-0.289	0.208	1.000	-0.467	-0.338	-0.857	-0.823	-0.745	0.233	0.806
CCN12M	-0.319	0.066	0.784	-0.395	-0.273	-0.582	-0.801	-0.567	0.258	0.566
INR	-0.319	-0.111	-0.460	-0.126	-0.558	0.185	0.330	0.083	0.547	0.004
THB	-0.330	-0.068	0.850	-0.728	-0.499	-0.854	-0.727	-0.849	0.520	0.788
KRW	-0.339	-0.098	0.462	-0.761	-0.846	-0.736	-0.319	-0.786	0.792	0.679
USGG10	-0.374	1.000	0.208	0.249	0.076	-0.022	-0.135	0.072	-0.285	0.057
MYR	-0.377	0.101	0.882	-0.527	-0.571	-0.854	-0.725	-0.734	0.442	0.892
NZD	-0.465	0.486	0.793	-0.068	-0.118	-0.434	-0.851	-0.328	-0.069	0.573
EUR	-0.949	0.366	0.483	-0.523	-0.574	-0.446	-0.638	-0.498	0.466	0.606

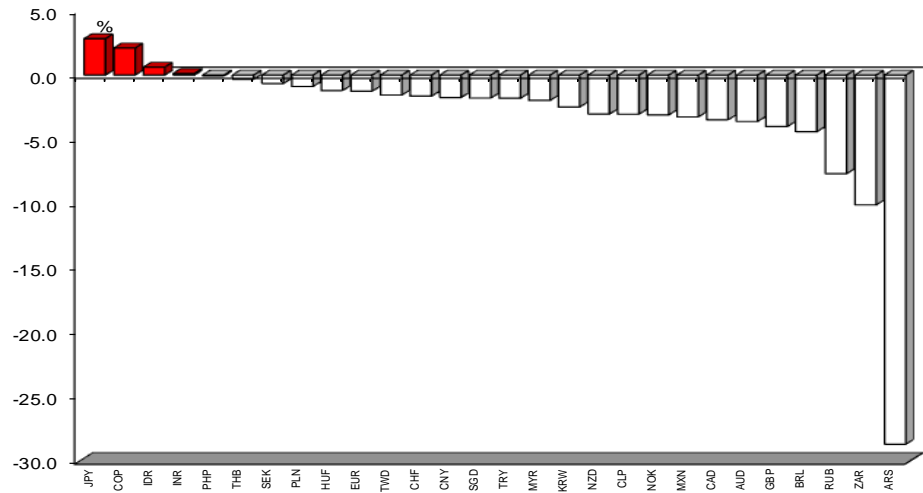
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0800	1.0818	1.0856	1.0900	1.1013
GBP-USD	1.4500	1.4514	1.4538	1.4600	1.5013
AUD-USD	0.6928	0.6950	0.6982	0.7000	0.7190
NZD-USD	0.6500	0.6509	0.6555	0.6563	0.6600
USD-CAD	1.4184	1.4200	1.4230	1.4246	1.4300
USD-JPY	117.00	117.30	117.70	118.00	121.59
USD-SGD	1.4136	1.4300	1.4349	1.4400	1.4405
EUR-SGD	1.5299	1.5500	1.5578	1.5600	1.5684
JPY-SGD	1.1626	1.2100	1.2191	1.2200	1.2255
GBP-SGD	2.0780	2.0800	2.0860	2.0900	2.1138
AUD-SGD	1.0000	1.0008	1.0018	1.0100	1.0163
Gold	1047.93	1081.07	1095.20	1100.00	1105.72
Silver	13.64	13.80	13.87	13.90	14.24

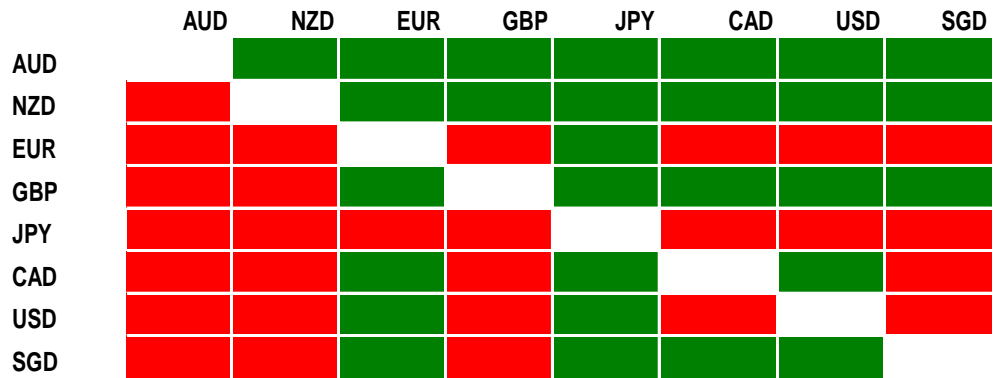
Source: OCBC Bank

FX performance: 1-month change agst USD



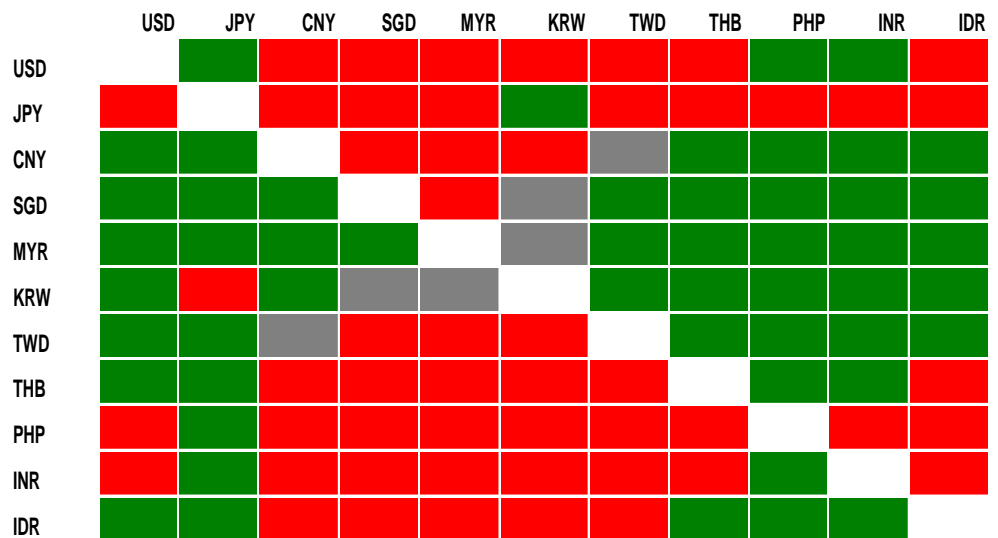
Source: Bloomberg

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	10-Nov-15	B	USD-CAD	1.3276	1.4565	1.4060	USD strength vs. weak crude
2	21-Dec-15	S	USD-JPY	121.15	116.20	119.90	Disappointment towards a less dovish than expected BOJ
3	21-Dec-15	S	GBP-USD	1.4917	1.4330	1.4770	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness
4	04-Jan-16	B	USD-SGD	1.4229	1.4485	1.4100	Asian FX weakness, RMB jitters
5	08-Jan-16	B	EUR-USD	1.0888	1.1220	1.0720	Risk of Fed/dollar "disappointment"
6	08-Jan-16	S	AUD-USD	0.7056	0.6845	0.7165	Fragile global/equity/commodity/RMB backdrop
STRUCTURAL							
7	18-Dec-15	S	GBP-USD	1.4909	1.4195	1.5270	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP
8	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY profile
9	29-Dec-15	B	USD-CAD	1.3886	1.4520	1.3565	Central bank policy dichotomy in addition to structurally soft crude

Source: OCBC Bank

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