

Tuesday, July 12, 2016

FX Themes/Strategy/Trading Ideas

- JPY weakening may continue to dominate FX markets in the near term post Upper House elections and after PM Abe revealed intentions for additional fiscal stimulus (for as much as JPY10tn - JPY-negative). In addition to swirling speculation of further additional BOJ easing on the cards, net leveraged JPY longs (at slightly elevated levels in the latest week) may be susceptible to some unwind – leaving the pair susceptible to some upside consolidation in the near term.
- Meanwhile, look also towards **Fed speak** today, with Mester (0130 GMT), Tarullo (1315 GMT), Bullard (1335 GMT) and Kashkari (2130) scheduled for appearances. Outside of the yen, markets may however remain in a flux in the intervening period, attempting to balance dollar prospects with slightly improving risk appetite levels (not least due to expectations of further accommodation from global monetary authorities). We note that the **FXSI (FX Sentiment Index)** dipped for a third consecutive session on Monday within Risk-Neutral territory.

Asian FX

- Regional equities (led by the N225) are off to a positive start this morning as positivity from LDN/ NY equities carried over into Asia. Regional currencies meanwhile may have to tread the line between better looking risk appetite levels and a supported USD-JPY, with the **Asian Currency Index (ACI)** looking supported in early trade.
- This **SGD NEER** is yet softer (but perhaps at more comfortable levels) at +0.85% above its perceived parity (1.3626) this morning with NEER-implied USD-SGD thresholds higher on the day. At current levels, the +1.00% threshold is estimated at 1.3491 and +1.50% at 1.3425. In the interim and ahead of the GDP numbers on Thursday, the USD-SGD may remain partially supported on dips within 1.3450-1.3550, especially if the USD-JPY remains underpinned in the near term.

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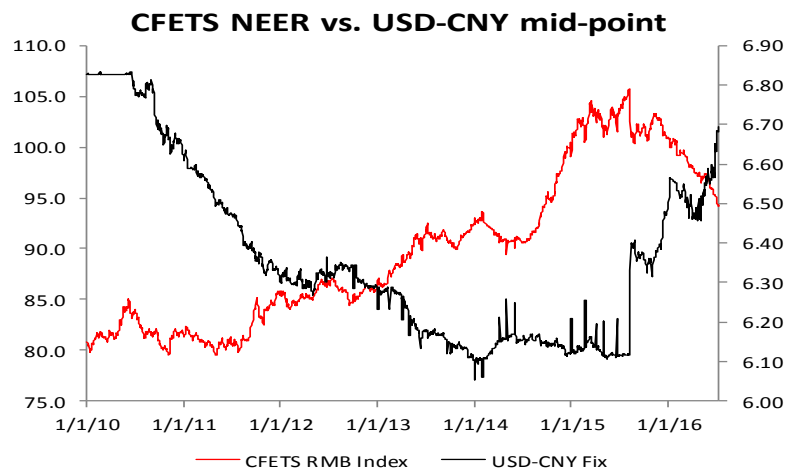
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	SGD NEER	% deviation	USD-SGD
Current	124.73	0.95	1.3491
+2.00%	126.03		1.3359
Parity	123.56		1.3626
-2.00%	121.08		1.3904

Source: OCBC Bank

- The PBOC this morning did not break the mold despite the JPY's latest weakening with fixing behavior still within the confines of estimated parameters. The **CFETS RMB Index** firmed slightly to 94.27 from 94.20 on Monday and this saw the USD-CNY mid-point rising to (a largely as expected) 6.6950 from 6.6843 yesterday. At this juncture, expect little additional instability from the CNY front despite slightly heightened JPY uncertainty.



Source: OCBC Bank, Bloomberg

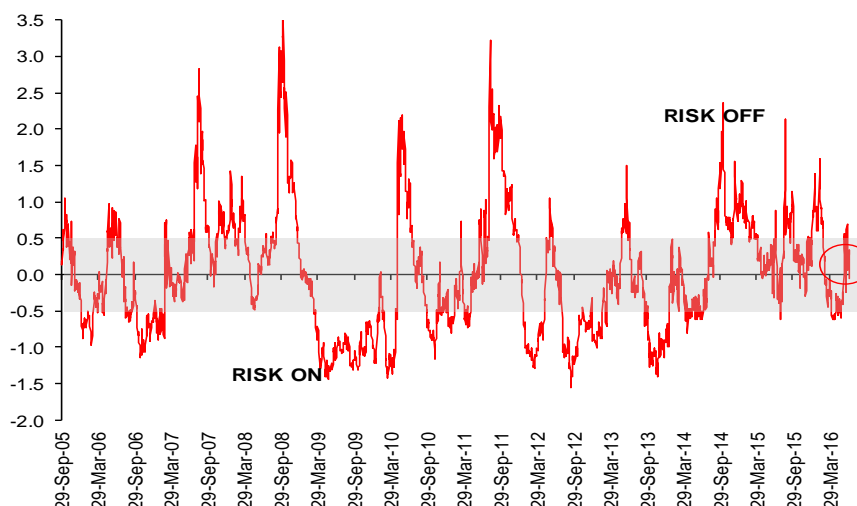
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- **EUR-USD** EUR-USD may remain capped (if not heavy) by its 200-day MA (1.1092) with the fallout from the pound still perceived to be a threat. Downside prospects may however be supported (circa 1.1000 for now) by general expectations that the ECB would still be expected to remain static next week at its policy meeting despite the European Commission cutting its economic forecasts yesterday.
- **USD-JPY** Former Fed chairman Bernanke is expected to meet with PM Abe (after meeting with the BOJ's Kuroda on Monday) and investors may continue to focus on JPY prospects at this juncture. It remains to be seen if the Abe-inspired rally in the USD-JPY would be further bolstered by scheduled Fed rhetoric today (note dollar positive comments from the Fed's

Esther George on Monday). Technically, if the pair cannot overcome the 103.50-105.00 zone, downside prospects for the USD-JPY may remain in force beyond the short term.

- AUD-USD** Positive investor sentiment (potential for sustained/greater global liquidity always helps) may continue to underpin the AUD-USD. Pending China macro numbers this week and Australian June labor market numbers on Thursday, a pitch towards 0.7630 cannot be ruled out barring a risk appetite meltdown.
- GBP-USD** Home Secretary Theresa May will assume the helm as PM of Britain on Wednesday with incumbent Cameron chairing his last Cabinet meeting on Tuesday. Meanwhile, the BOE's Carney is also expected to speak at 0900 GMT with investors on the lookout for any dovish overtones. In the interim, expectations for a BOE rate cut on Thursday may continue to hobble the sterling with 1.3130 likely to cap.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	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

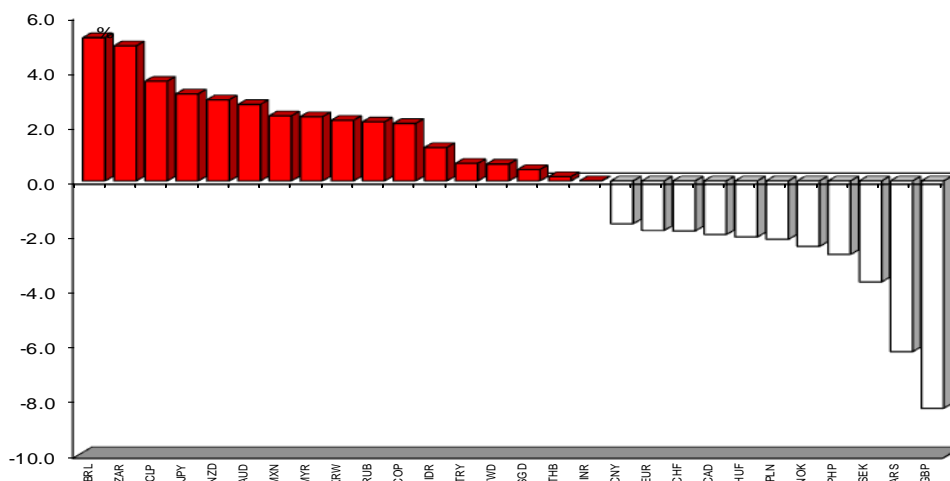
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0953	1.1000	1.1088	1.1091	1.1100
GBP-USD	1.2798	1.3000	1.3087	1.3100	1.4148
AUD-USD	0.7374	0.7500	0.7591	0.7600	0.7617
NZD-USD	0.6969	0.7200	0.7268	0.7300	0.7306
USD-CAD	1.2941	1.3100	1.3126	1.3140	1.3144
USD-JPY	100.08	102.00	102.99	103.00	106.10
USD-SGD	1.3361	1.3400	1.3492	1.3500	1.3579
EUR-SGD	1.4844	1.4900	1.4960	1.5000	1.5238
JPY-SGD	1.2788	1.3100	1.3101	1.3200	1.3507
GBP-SGD	1.7344	1.7600	1.7656	1.7700	1.9230
AUD-SGD	1.0200	1.0226	1.0242	1.0300	1.0330
Gold	1283.32	1300.00	1358.00	1377.50	1385.22
Silver	17.50	20.30	20.32	20.40	20.81
Crude	44.95	45.00	46.83	48.53	51.45

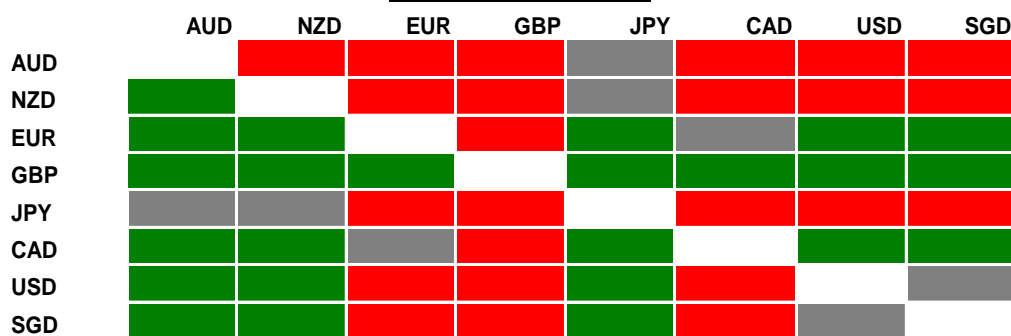
Source: OCBC Bank

FX performance: 1-month change agst USD



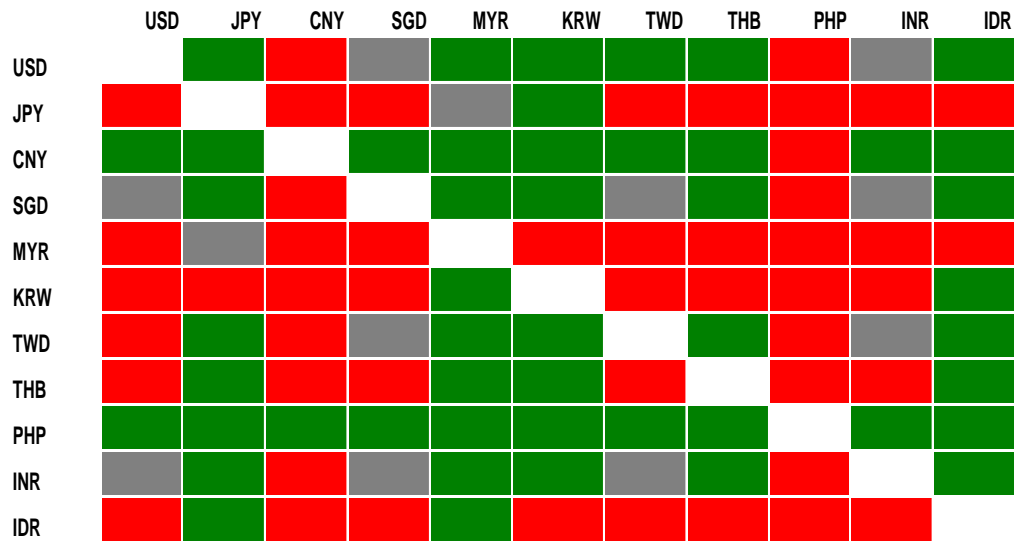
Source: Bloomberg

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	S	EUR-USD	1.1057	1.0745	1.1215	Brexit uncertainty coupled with Euroskepticism	
2	28-Jun-16	S	USD-JPY	102.19	97.60	104.50	Potential for further risk aversion	
3	28-Jun-16	S	GBP-USD	1.3306	1.2525	1.3700	Epicenter of Brexit concerns	
4	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit	
5	05-Jul-16	B	AUD-USD	0.7528	0.7815	0.7380	Search for yield amidst potential FOMC disappointment	
STRUCTURAL								
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
8	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
9	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
10	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	09-May-16	07-Jun-16	B	USD-CAD	1.2929	1.2735	Weak labor market numbers, deteriorating growth outlook	-1.53
2	09-May-16	08-Jun-16	B	USD-SGD	1.3623	1.3520	Potential for USD strength ahead of Fed-speak	-0.83
3	29-Apr-16	08-Jun-16	S	AUD-USD	0.7626	0.7490	Negativity post 1Q CPI numbers	1.64
4	01-Mar-16	16-Jun-16	S	USD-JPY	112.91	105.00	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	+7.18
5	14-Jun-16	17-Jun-16	S	GBP-USD	1.4153	1.4340	Potential for further downside going into EU referendum	-1.30
6	17-Jun-16	19-Jun-16	S	EUR-USD	1.1232	1.1350	Potential for negative spillover from the UK referendum	-1.03
7	10-Jun-16	23-Jun-16	S	USD-JPY	107.16	105.50	Potential for USD weakness going into and post-FOMC	+1.57
8	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74
9	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91
10	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98

Source: OCBC Bank

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