

Wednesday, January 13, 2016

FX Themes/Strategy/Trading Ideas

- The currency markets may attempt to stabilize further intra-day pending RMB and global equity cues, although the drag from commodities may continue to manifest at the margins. Note the UST curve flattening from the long end overnight.
- Overall, our core views remain unchanged, and we are negative on the cyclicals (including the Asians) while also maintaining a bearish view on the GBP. Elsewhere, with the JPY not perceived to be out of alignment, the risk for a potential structural descent in the USD-JPY remains on the cards (Please refer to table below).
- Positive EZ/US equities were neutralized by the continued weakness in commodities on Tuesday but the **FXSI (FX Sentiment Index)** still managed to edge down within Risk-Off territory.

Asian FX

- EM currencies were mixed overnight as investor appetite brightened but the continued ‘stability’ of the USD-CNY mid-point in recent sessions in addition to the positive equity backdrop this morning should work to weigh on the regional pairs. On the macro front, note that China’s December 2015 trade surplus also came in at a better than expected USD382.05bn. We therefore look for a softer **ACI’s (Asian Currency Index)** after the index strengthened on Tuesday.
- Regarding the **oil** complex, we are approaching or approximately at similar magnitudes of decline (in terms of percentage change from last high) experienced in late 2014 that precipitated a renewed round of global central bank easing witnessed in Dec 2014/Jan 2015.
- The fear then is that if oil does not see a bounce back to the 40 region but instead continues to decay down to 20-25 for an extended period of time, global central banks’ inflation forecasts will be out of sync once again. This may potentially result in a fresh reassessment on their (especially the regional central banks) part, further deepening market expectations of interest rate cuts.
- This invariably would further endanger the outlook for regional currencies. The logic is that the negative impact on rate differentials would be expected to outweigh whatever net positive impact from lower oil prices. Remember, Asia is in its current state because of a lack of external/domestic demand.

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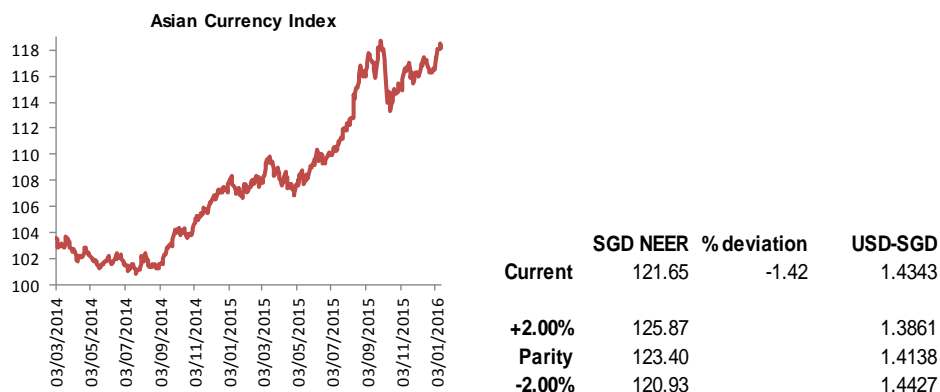
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Lower oil prices are not expected to make much of a positive dent on the current state of pessimism or lack of economic momentum.

- This morning, the **USD-CNY mid-point** was fixed incrementally higher at 6.5630, compared to 6.5628 on Tuesday. This implies a CFETS RMB Index of 100.43, from 100.18 yesterday.
- Note that this firmer Index level is in line with the implications from a slightly stronger broad dollar (or relative weaker constituent currencies) compared to a day ago, further confirming our suspicion that the PBOC is willing to grant partial upside flexibility to its **CFETS RMB Index**. However, this flexibility is expected to be asymmetric going ahead, with the Index likely to be less elastic on the upside relative to implied basket signals while perhaps a little more willing to track lower (given that the macro backdrop continues to imply structural downward pressure) when necessary. Elsewhere, the CNH convergence (with CNH spot potentially at a premium on the tightness) with onshore CNY finally materialized on the back of the liquidity squeeze.
- This morning, the **SGD NEER** slightly firmer relative to its perceived parity (1.4138) at around -1.55%. NEER-implied USD-SGD thresholds are a touch firmer on the day with the -2.00% boundary of the NEER fluctuation band at approximately 1.4427. Markets may continue to collect into dips towards 1.4320 while consolidating around the 1.4365 neighborhood.



Source: OCBC Bank

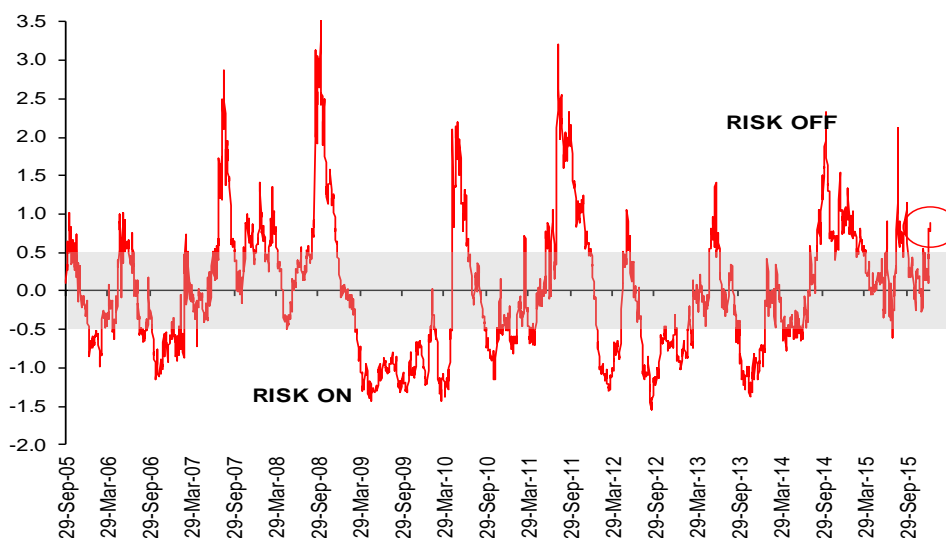
G7

- **EUR-USD** The EUR-USD may continue to attempt to base build around the 1.0800 region pending news flow with the EZ Nov industrial production on tap later today. Meanwhile, the 55-day MA (1.0829) may also provide a near term focal point.
- **USD-JPY** Look to the Fed's Beige Book for potential US-centric cues and the USD-JPY may continue to bottom out for now around 117.60 in line with the improvement in global risk appetite levels.
- **AUD-USD** The AUD-USD is expected to orbit the 0.7015 area in the near term and a retracement towards 0.7100 cannot be discounted if the risk

appetite landscape continues to brighten in the short term. Upside momentum may however prove fleeting if the commodity environment continues to remain in the doldrums.

- GBP-USD** The GBP was sabotaged by disappointing industrial production readings for November 2015 and the pair is expected to remain on a slippery slope (especially with EUR-GBP continuing to float higher) even if global investor sentiment stabilizes.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX
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	1.0760	1.0800	1.0814	1.0900	1.1007
GBP-USD	1.4400	1.4435	1.4470	1.4500	1.4974
AUD-USD	0.6939	0.7000	0.7045	0.7100	0.7181
NZD-USD	0.6508	0.6509	0.6582	0.6600	0.6653
USD-CAD	1.3696	1.4200	1.4240	1.4263	1.4300
USD-JPY	116.88	118.00	118.28	119.00	121.48
USD-SGD	1.4139	1.4300	1.4336	1.4400	1.4444
EUR-SGD	1.5297	1.5500	1.5503	1.5600	1.5692
JPY-SGD	1.1642	1.2100	1.2120	1.2200	1.2337
GBP-SGD	2.0636	2.0700	2.0744	2.0800	2.1136
AUD-SGD	0.9993	1.0000	1.0099	1.0100	1.0151
Gold	1049.70	1078.70	1084.80	1100.00	1104.96
Silver	13.64	13.70	13.80	13.80	14.17

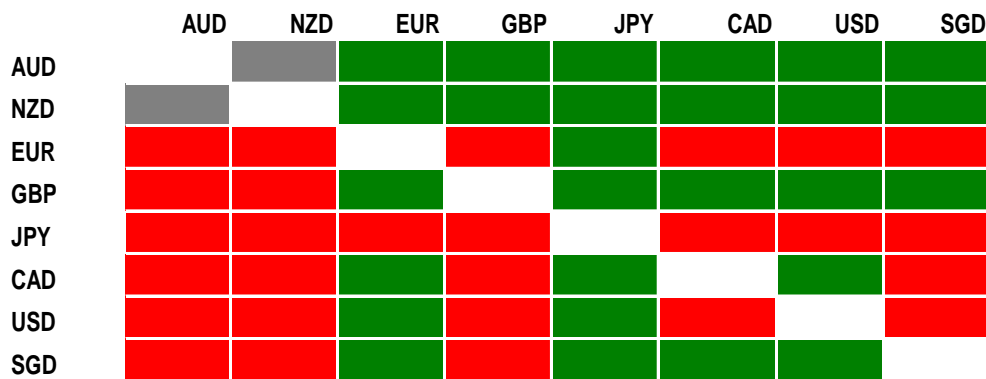
Source: OCBC Bank

FX performance: 1-month change agst USD



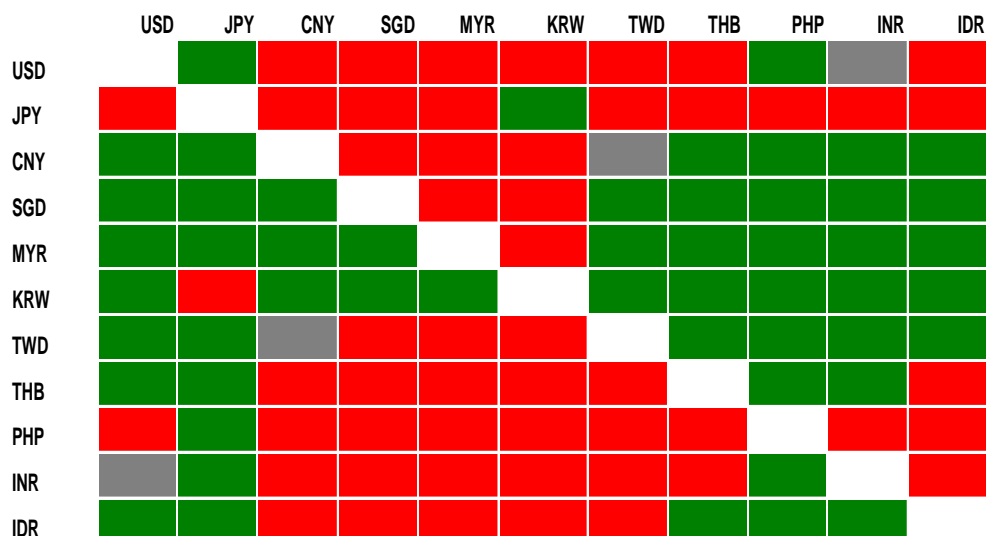
Source: Bloomberg

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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