

Monday, August 15, 2016

FX Themes/Strategy/Trading Ideas – Longer term considerations

- The greenback may continue to be eroded by softening UST yields in the wake of the disappointing July retail sales and PPI readings. Note Fed Fund-implied odds of a December hike (now at 42.3%) have also relinquished significantly post-NFP gains. Meanwhile, nascent global growth worries (especially after the discouraging string of July China data points released last Friday) may prove to be a drag on the growth-linked companies.
- One to watch this week include **RBA** meeting minutes on Tuesday, **FOMC minutes** on Wednesday, and Australia's July labor market numbers on Thursday. In Asia, we expect **Bank Indonesia** to stand pat on its policy parameters on Friday.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** fell within Risk-Neutral territory on Friday and also ended softer on the week. If global growth worries continue to resurface, look towards some upside consolidation for the Index – negative for cyclicals and EM/Asia.
- On the **CFTC** front, net large non-commercial as well as leveraged positioning saw a reduction of net long dollar positioning in aggregate in the latest week.
- We close out >>>

Longer term considerations in the coming 12 months

- With the Fed rate hike cycle effectively de-fanged, structural dollar strength will continue to remain highly questionable.
- However, reverse policy dichotomy may impart marginal resilience to the dollar with the Fed's counterparts (e.g. ECB, BOJ, BOE) still expected to be on a dovish path.
- If the low global /inflation interest rate environment persists, yield seeking behavior may continue to underpin the cyclicals and EM/Asian currencies.
- As such, broad dollar strength may remain episodic and centered around future Fed rate hikes, for as long as US yields remain tepid and/or Fed rate hikes remain widely interspaced. Implication then is that local equilibria may remain focused on short term dollar vulnerability.
- China has achieved a degree of macro/policy stabilization and we expect an

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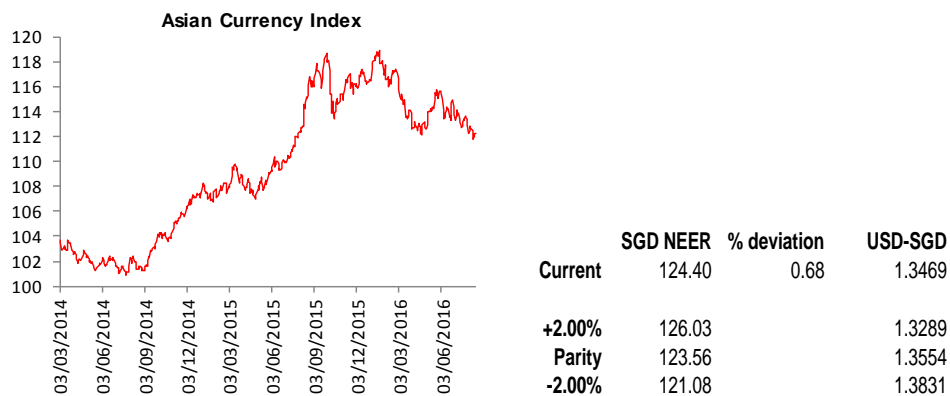
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

eventual graduation from its current stance of NEER depreciation in due course.

- As such, asymmetric CNY weakness (either on a bilateral basis against the USD or on an effective basis) may no longer be purely driven by the PBOC and the renminbi may resume responding to balance of payments dynamics.
- SGD NEER policy is expected to remain de facto neutral if lackluster growth and inflation dynamics persist.

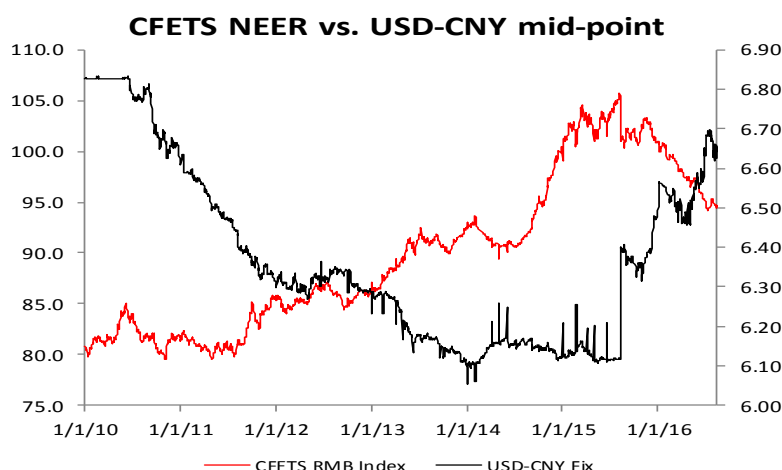
Asian FX

- Slightly unsettled Asian equities this morning may result in the **Asian Currency Index (ACI)** looking supported intra-day after firming on Friday.
- The **SGD NEER** is yet lower on the day at around +0.67% above its perceived parity (1.3554) with NEER-implied USD-SGD thresholds higher on the day. A slightly supported tone for the dollar in Asia may see the NEER gravitate towards the +0.50% threshold (1.3487) and then some while the +1.00% threshold (1.3420) may support on initial dips. Meanwhile, the 55-day MA (1.3507) may also provide an upside pit stop. The NEER is noticeable softer on the week with SGD underperformance across most of its basket and expect more of the same if risk appetite in the region continues to scatter.



Source: OCBC Bank

- The **CFETS RMB Index** inched higher to 94.63 on Monday from 94.49 on Friday as the USD-CNY fell as expected to 6.6430 from 6.6543. Meanwhile, in the wake of market ‘disappointment’ with the latest batch of Jul economic readings, note that the PBOC’s Ma Jun stated on Sunday that the slowing money supply growth has not affected the economy and the fundamental’s support a stable exchange rate. As noted previously, we will continue to attempt to search for signs of a cessation of the basket’s depreciation trend.



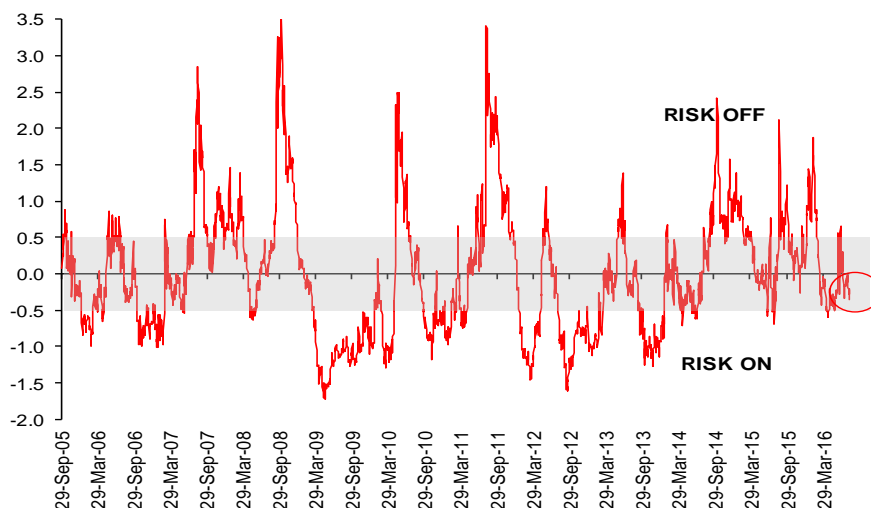
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** Investors may be cued into the ECB's meeting minutes on Thursday while the EUR may remain mildly reactive to implicit USD vulnerability in the interim. On the CFTC front, note also the net leveraged EUR shorts were pared in the latest week while said positioning as a percentage of open interest remains at elevated levels. The pair may therefore continue to attempt to base build off its 55-day MA (1.1152), with the 200-day MA (1.1087) also expected to buffer on any deeper downside probes.
- **USD-JPY** Disappointing Japanese 2Q GDP numbers early Monday may do little to dissuade an inherently heavy USD-JPY with US CPI (Tuesday) and FOMC minutes (Wednesday) expected to be more of a crowd puller in terms of determining USD-JPY directionality. On the CFTC front, net leveraged JPY longs were increased in the latest week and this may continue to throw shade on the USD-JPY. With US retail sales disappointing, we reiterate that the 100.00 level may continue to loom.
- **AUD-USD** Apart from headline risks emanating from the labor market numbers and RBA meeting minutes this week, any further deterioration of global risk appetite may continue to cap the upside for the pair in the near term. On the CFTC front, net leverage AUD longs were increased ever so slightly in the latest week, perhaps a reminder that beyond short term risk appetite volatility, the search for yield may remain very much in play, albeit slightly relegated to the background at the onset of this week. Expect initial support on approach of 0.7600.
- **GBP-USD** As forewarned previously, the raft of post-Brexit vote UK macro readings expected this week may continue to see the risk/reward tilted to the downside for the GBP-USD. Dovish comments from the BOE's Haldene on Sunday ("...monetary policy can offer no more than a short-term balm for the economy...") may only serve to underscore the structural negativity attached to the pound at this juncture. On the CFTC front, net leveraged GBP shorts continued to accumulate in the latest week and we note that such positioning remains well off historical extreme highs.

Continued persistence below 1.3000 this week could potentially oil the way to 1.2800.

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

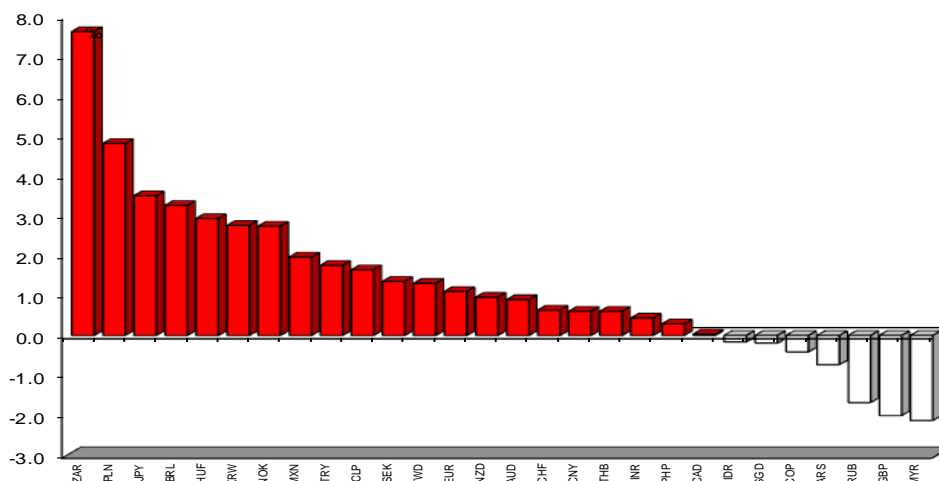
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1143	1.1156	1.1200	1.1234
GBP-USD	1.2882	1.2900	1.2926	1.3000	1.3361
AUD-USD	0.7515	0.7600	0.7643	0.7700	0.7733
NZD-USD	0.7100	0.7119	0.7171	0.7200	0.7271
USD-CAD	1.2900	1.2940	1.2974	1.2982	1.3000
USD-JPY	100.00	101.00	101.34	102.00	103.82
USD-SGD	1.3358	1.3400	1.3470	1.3477	1.3500
EUR-SGD	1.5014	1.5020	1.5028	1.5080	1.5100
JPY-SGD	1.2990	1.3200	1.3293	1.3300	1.3457
GBP-SGD	1.7344	1.7400	1.7413	1.7500	1.8063
AUD-SGD	1.0139	1.0200	1.0296	1.0300	1.0354
Gold	1311.38	1318.90	1335.80	1363.19	1377.50
Silver	19.37	19.70	19.80	19.80	20.66
Crude	39.32	44.90	44.91	45.00	45.82

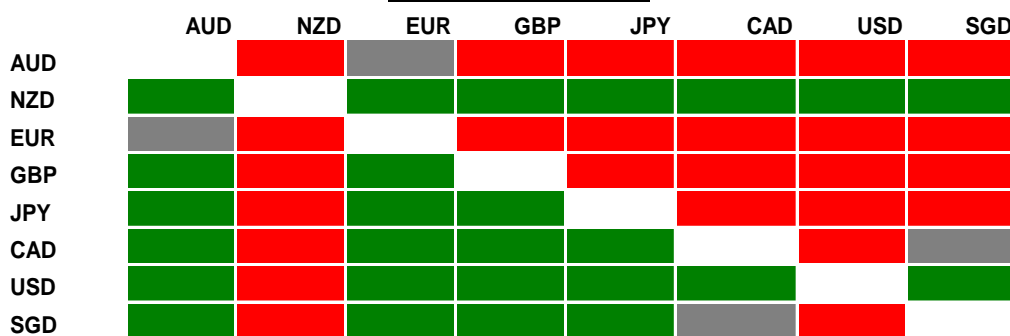
Source: OCBC Bank

FX performance: 1-month change agst USD



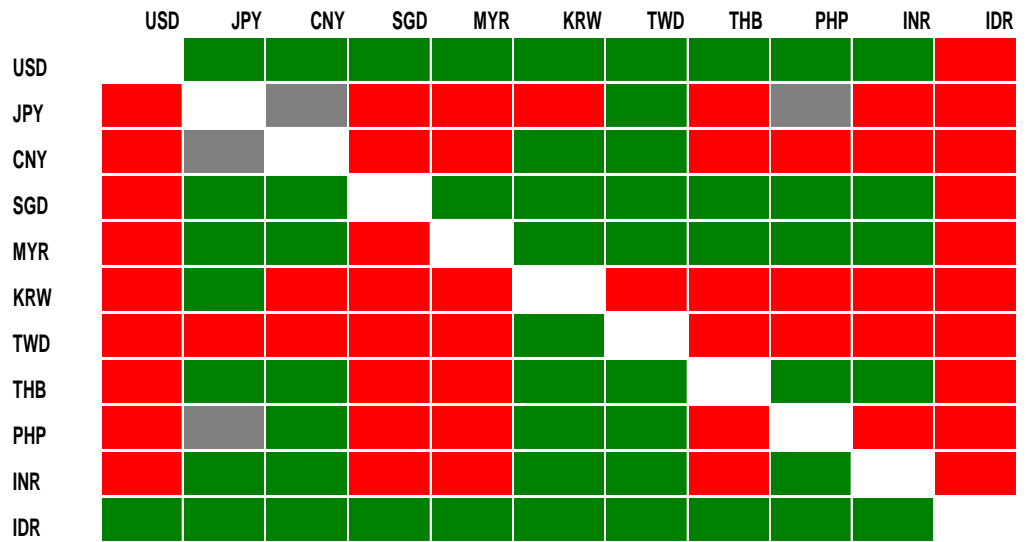
Source: Bloomberg

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	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB		
2	05-Aug-16	S	USD-SGD	1.3409	1.3155	1.3540	Flight to yield/EM vs. weak dollar		
3	08-Aug-16	B	AUD-USD	0.7611	0.7880	0.7475	Opportunity for a tactical long on assumption of transient USD		
4	11-Aug-16	S	USD-JPY	101.22	96.45	103.61	Fading dollar coupled with potential risk aversion		
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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield		
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs		
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
10	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	05-Jul-16	28-Jul-16	B	AUD-USD	0.7528	0.7523	Search for yield amidst potential FOMC disappointment	+0.03	
2	22-Jul-16	28-Jul-16	B	USD-JPY	105.83	103.45	Contrasting policy postures going into the next FOM/BOJ meetings	-2.28	
3	21-Jul-16	29-Jul-16	B	USD-SGD	1.3579	1.3445	Potential for broad USD traction, NEER deemed rich	-1.00	
4	28-Jun-16	01-Aug-16	S	EUR-USD	1.1057	1.1215	Brexit uncertainty coupled with Euroskepticism	-0.90	
5	28-Jun-16	01-Aug-16	S	GBP-USD	1.3306	1.3204	Epicenter of Brexit concerns	+0.78	
6	28-Jun-16	15-Aug-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit	-0.23
							Jan- Jul 2016 Return	+13.75	

Source: OCBC Bank

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