

Monday, May 16, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite positioning data and softer UST yields suggesting otherwise, the dollar follow through from last Friday and should start the week on a firm footing following last Friday's price action (note better than expected Apr retail sales and May Michigan sentiment index). Meanwhile, the JPY may continue to find favor (at the expense of the cyclicals) from last Friday if risk appetite continues to waver. To this end, note that the **FXSI (FX Sentiment Index)** inched higher within Risk-Neutral territory on Friday. Overall, any further deterioration in investor sentiment will play right into the dollar's hands for now.
- On the **CFTC** front, large-non-commercial positioning saw a paring of implied aggregate dollar shorts in the latest week. Net of JPY positioning, large non-commercial accounts moved into a small net short dollar balance, a phenomenon not seen since May 2014. Meanwhile, leveraged accounts in aggregate also increased their implied net long USD positioning in the latest week. Net of JPY positioning, leveraged accounts also flipped to a net short bias in the latest week, a first since Aug 2014. As noted above, the change in sentiment in favor of the dollar into late last week dilutes the CFTC data implications.
- Our 19 Apr 16 idea to be structurally short **USD-SGD** (spot ref: 1.3439) was stopped out at 1.3740 on Friday for an implied -2.17% loss as the broad dollar continued to gain traction across the board and risk aversion in Asia spread.

Asian FX

- The string of disappointing China data releases over the weekend (industrial production, retail sales, urban fixed asset investments), on top of the soft April monetary aggregates released on Friday and a strong USD backdrop, should continue to lift the **Asian Currency Index (ACI)** at the onset of the week. Later this week, BNM and BI are expected to stay static on Thursday at their respective policy meetings.
- This morning, the **SGD NEER** is around -0.56% below its perceived parity (1.3660) this morning with NEER-implied USD-SGD thresholds higher on the day. At current levels, the -1.00% threshold is estimated to correspond to 1.3798. An underpinned broad USD may keep the USD-SGD on the lookout towards the upside, although we note the failure last Friday to overcome the .382 Fibon retracement level at 1.3769. As such, the 1.3770/00 may cap pending moves from the basket's constituent currencies. On the downside

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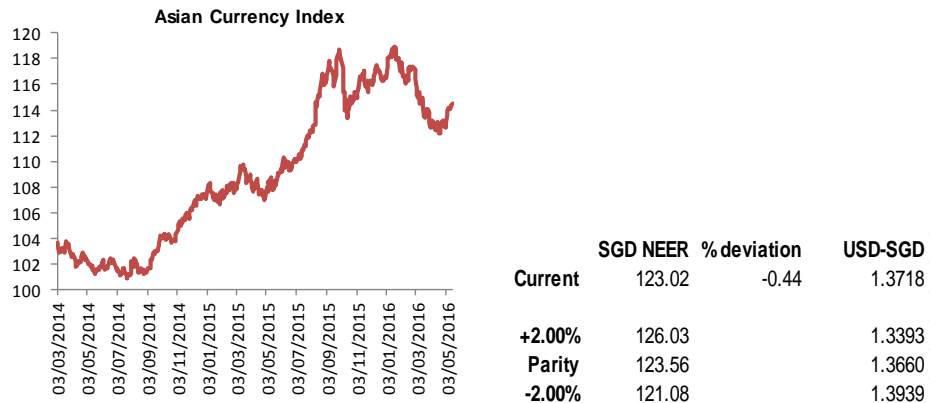
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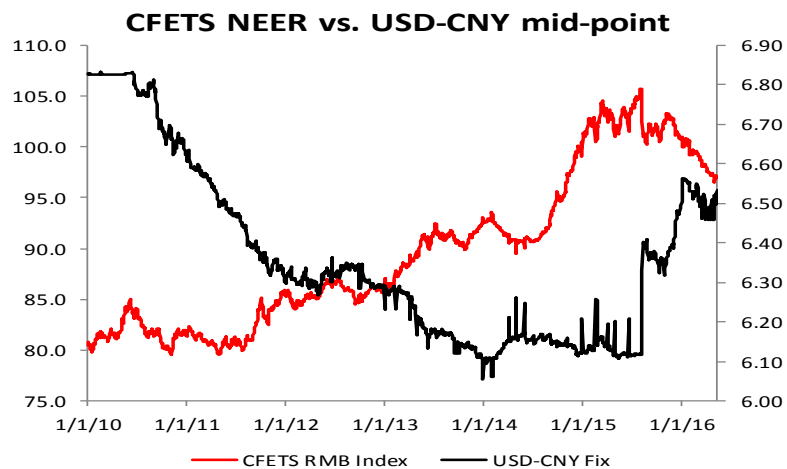
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1.3655 and the 55-day MA (1.3615) should cushion for now.



Source: OCBC Bank

- Despite implicit pressure to inch higher from the basket constituents, the **CFETS RMB Index** rose by a less than expected degree to 97.04 this morning from 96.97 last Friday. This pushed the USD-CNY mid-point to 6.5343 from 6.5246 last Friday. And the previous close of 6.5202. Going ahead, the implicit suppression of the Index is see persisting for now (not least from the soft stream of domestic data releases), and this should continue to manifest via the CNH spot, forwards, and vol surface.



Source: OCBC Bank, Bloomberg

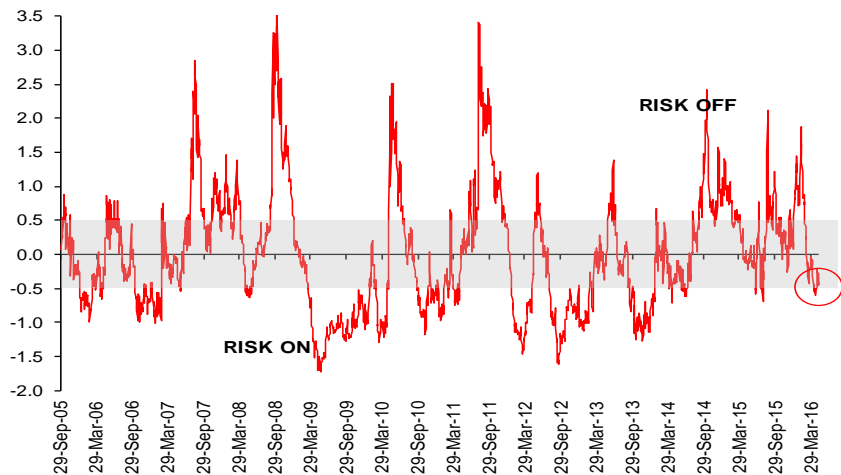
G7

- **EUR-USD** The pair continues to be left out in the cold in terms of near term directionality although a slight bias to gravitate towards its 55-day MA (1.1271) may continue to develop. Initial top side resistance is expected at 1.1400. EZ Apr CPI readings are due on Wednesday while rhetoric from the ECB appearances today may bear watching.
- **USD-JPY** Despite background expectations of further BOJ monetary policy accommodation, risk appetite fluctuations in the short term may instead continue to sway the USD-JPY with investors not seen expressing

any strong preferences at this juncture. On the topside, 109.80 may be expected to cap with 108.00/30 seen providing near term support.

- AUD-USD** RBA meeting minutes on Tuesday and April labor market numbers on Thursday may provide ample room for volatility (read: potential weakness). In the interim, the external backdrop remains decidedly unfriendly for the AUD. Note that a sustained breach of the 200-day MA (0.7260) risks a move to the .618 Fibo retracement of 0.7213 ahead of 0.7200.
- GBP-USD** Background Brexit concerns and the dollar landscape may continue to see the GBP-USD melt towards the 55-day MA (1.4318) while resistance towards 1.4485 grows increasingly distant. Data headline risks may be fairly abundant this week with the BOE's Haldane on tap on Wednesday and investors may elect to fade upticks in the interim.

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

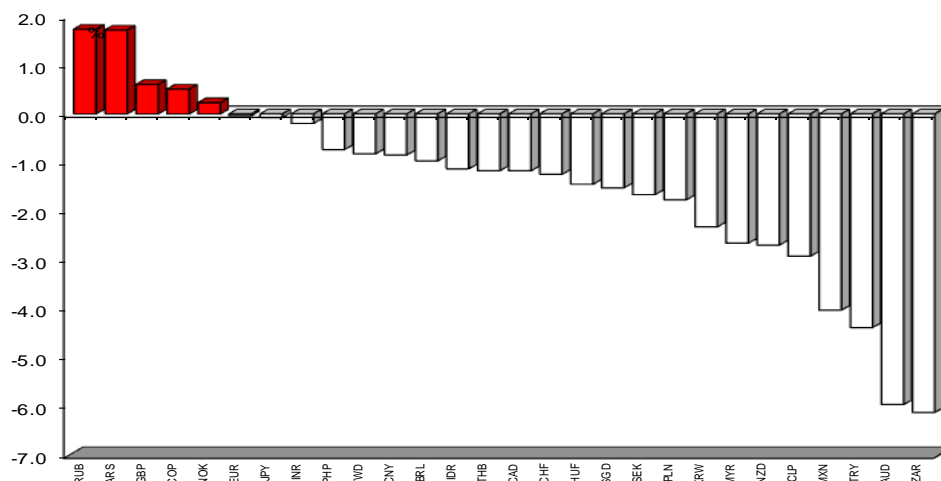
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1303	1.1311	1.1400	1.1528
GBP-USD	1.4300	1.4336	1.4368	1.4400	1.4659
AUD-USD	0.7237	0.7257	0.7286	0.7300	0.7563
NZD-USD	0.6700	0.6716	0.6761	0.6800	0.6821
USD-CAD	1.2900	1.2948	1.2959	1.3000	1.3037
USD-JPY	105.55	108.00	108.88	109.00	110.34
USD-SGD	1.3579	1.3700	1.3717	1.3760	1.3778
EUR-SGD	1.5499	1.5500	1.5516	1.5600	1.5650
JPY-SGD	1.2550	1.2570	1.2600	1.2788	1.2899
GBP-SGD	1.9465	1.9700	1.9710	1.9800	1.9900
AUD-SGD	0.9900	0.9939	0.9995	1.0000	1.0133
Gold	1229.12	1251.01	1279.00	1300.00	1303.81
Silver	16.75	16.90	16.99	17.00	17.72
Crude	41.48	46.90	46.97	47.00	47.02

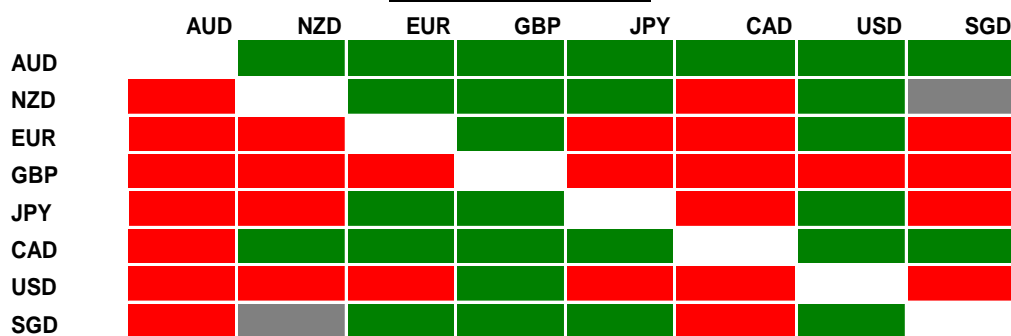
Source: OCBC Bank

FX performance: 1-month change agst USD



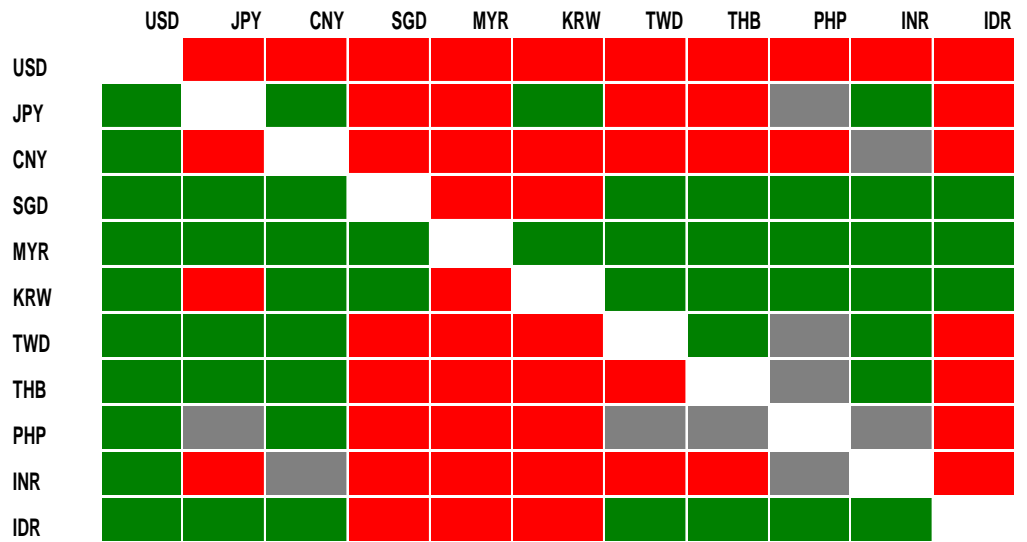
Source: Bloomberg

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-Apr-16	S	AUD-USD	0.7626	0.7095	0.7490	Negativity post 1Q CPI numbers	
2	09-May-16	B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak	
3	09-May-16	B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook	
STRUCTURAL								
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
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	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
8	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05
2	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65
3	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
4	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.3040	Bottoming crude prices	-0.24
5	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39
6	04-May-16	10-May-16	S	USD-JPY	107.21	109.00	USD vulnerability pre-NFP, potential risk aversion	-1.66
7	04-May-16	11-May-16	B	EUR-USD	1.1482	1.1372	Rate differentials in the EUR's favor	-0.99
8	19-Apr-16	13-May-16	S	USD-SGD	1.3439	1.3740	Potential for further broad USD decay, positive risk appetite	-2.17

Source: OCBC Bank

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