

Tuesday, August 16, 2016

FX Themes/Strategy/Trading Ideas

- The markets may remain entrenched in yield seeking mode with the dollar once again deteriorating on Monday despite improving yield support. The improvement in risk appetite levels with the **FXSI (FX Sentiment Index)** slipping significantly within Risk-Neutral territory is also expected to infuse further support for risk-sensitive FX.
- Ones to watch today include **RBA** meeting minutes although investors expect little surprises following the Statement on Monetary Policy in early August. **US July CPI** numbers are also due and any downside disappointment may further weigh on the greenback with underlying US inflation expectations still moribund. Note the Fed's **Williams** stating that central banks should consider new tools in light of the new realities of lower growth and lower neutral interest rates. For today, the Fed's **Lockhart** is also due to make an appearance at 1630 GMT.
- On other fronts, July data points out of the **UK** later in the global session are expected to pose a further hazard to the GBP. Overall, we continue to remain positioned against the greenback at this juncture (please refer to Table at the back).

Asian FX

- Expect a reversion to USD weakness intra-day in Asia amid positive equities and skepticism towards USD strength across most of G10 and EM space. To this end, expect the **Asian Currency Index (ACI)** to continue to make new year-to-date lows (i.e., USD weakness) at this juncture.
- The **SGD NEER** may continue to bounce around within +0.50% (1.3460) and +1.00% (1.3393) above its perceived parity (1.3527) today with the basket a touch firmer on the day at around +0.75% following broad based dollar softness in LDN/NY. NEER-implied USD-SGD thresholds are lower on the day (imparting downside bias to the pair) and a drift sub-1.3400 towards 1.3380 cannot be ruled out intra-day.

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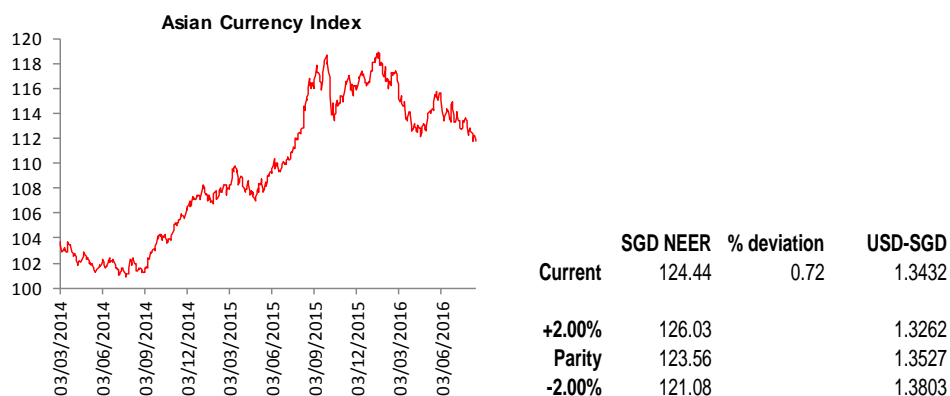
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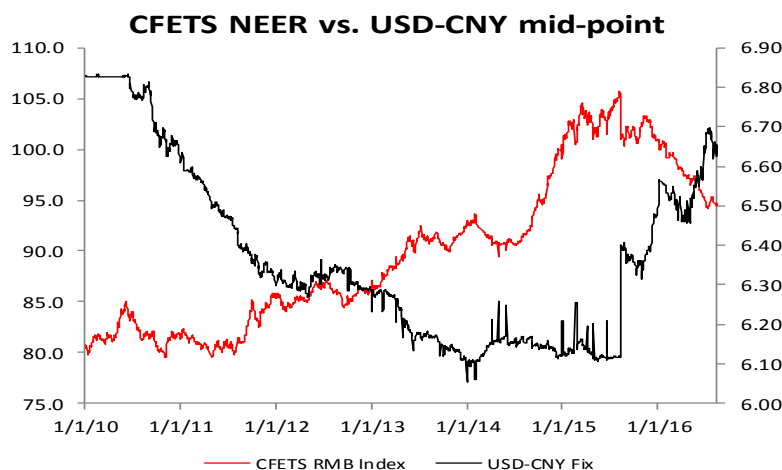
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Source: OCBC Bank

- This morning, the **CFETS RMB Index** dropped to 94.58 from 94.63 on Monday with the USD-CNY easing roughly as expected to 6.6305 from 6.6430.



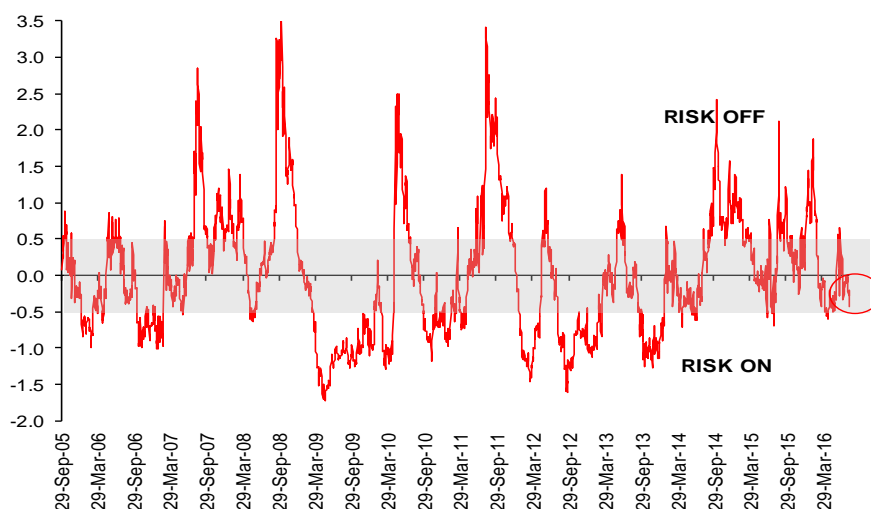
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** The near term prognosis remains unchanged with the EUR-USD still expected to base build off its 55-day MA (1.1154) and the pair may set its sights on 1.1235 if USD negativity deepens and EZ yields continue to attempt to stabilize in the near term.
- **USD-JPY** As noted numerous times previously, USD-JPY may remain responsive to USD dynamics (negative for now) with the 100.00 way point continuing to be conspicuous.
- **AUD-USD** The AUD may have to continue to contend with the competing forces of global growth worries (note the PBOC attempting damage control with respect to latest dovish data points) and inherent USD vulnerability. Expect investors to collect into dips within 0.7600-0.7700.
- **GBP-USD** All eyes remain on the 1.2798 low for the GBP-USD with investors on the lookout for dovish cues from the macro front. Meanwhile,

yield support continues to be eroded and the pound we think remains under threat despite the broad valuation of the GBP having exorcised its appreciation chalked up since between mid-2013 to end-2015.

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

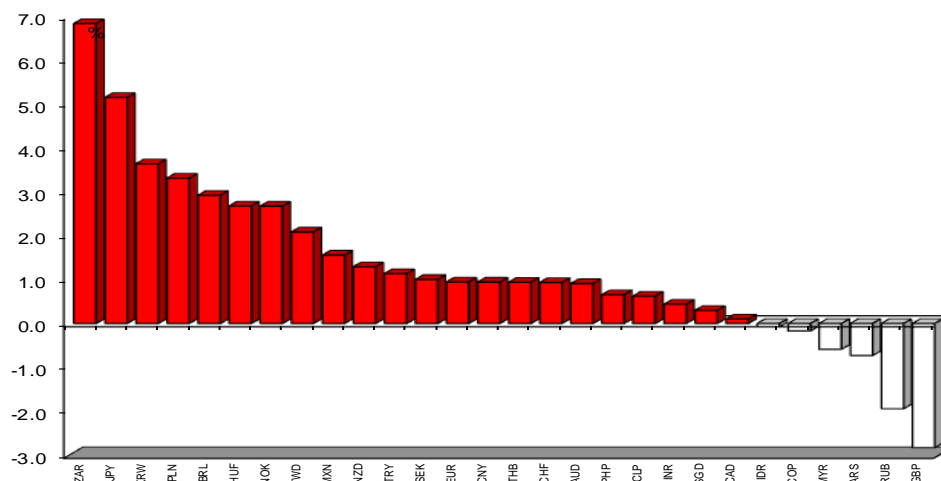
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1140	1.1180	1.1200	1.1234
GBP-USD	1.2800	1.2839	1.2881	1.2900	1.3377
AUD-USD	0.7519	0.7600	0.7659	0.7700	0.7746
NZD-USD	0.7124	0.7200	0.7206	0.7285	0.7300
USD-CAD	1.2900	1.2912	1.2932	1.2985	1.3000
USD-JPY	99.50	100.00	100.96	101.00	103.69
USD-SGD	1.3358	1.3400	1.3434	1.3475	1.3500
EUR-SGD	1.5000	1.5007	1.5019	1.5026	1.5080
JPY-SGD	1.3004	1.3300	1.3307	1.3400	1.3470
GBP-SGD	1.7270	1.7300	1.7304	1.7400	1.8086
AUD-SGD	1.0141	1.0200	1.0289	1.0300	1.0365
Gold	1312.17	1320.85	1340.30	1363.51	1377.50
Silver	19.37	19.90	19.91	20.00	20.65
Crude	39.23	45.50	45.52	45.60	45.77

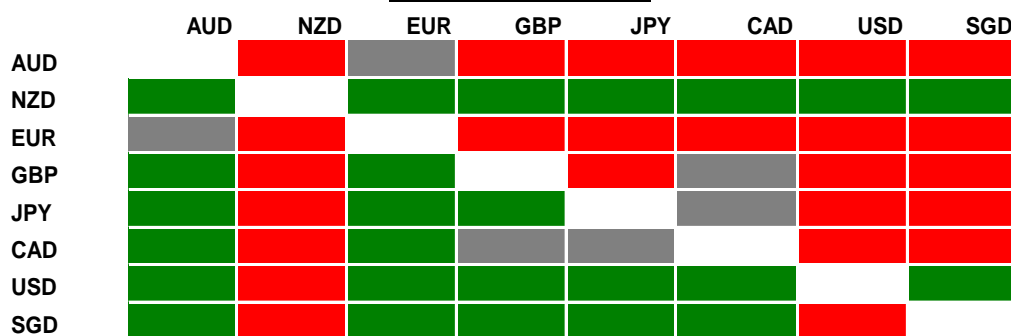
Source: OCBC Bank

FX performance: 1-month change agst USD



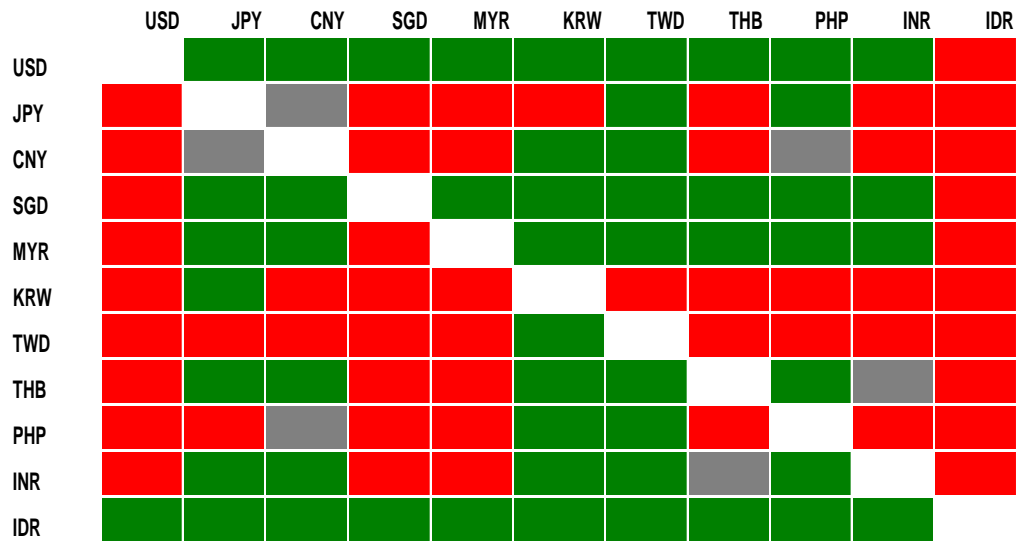
Source: Bloomberg

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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