

Friday, September 16, 2016

FX Themes/Strategy/Trading Ideas

- Despite the specter of the FOMC next week, the search for yield remains alive and kicking with FOMC expectations being chipped away during the course of this week. With the UST curve continuing to bull steepen from the front end in the wake of disappointing prints from US Aug retail sales and industrial production, the dollar retreated across G10 space on Thursday while the antipodeans in turn outperformed across the board.
- Elsewhere, the SNB and the BOE remained static as expected. With risk appetite levels supported by a positive equity environment, the **FXSI (FX Sentiment Index)** also eased slightly within Risk-Neutral territory. For today, look towards US Aug CPI and Sep U of Michigan consumer sentiment for further pointers.
- With crude fading, the BOC's Wilkins forewarning of slower growth, and potential USD resilience into next week's FOMC, we look to a tactical long **USD-CAD**. With a spot ref at 1.3202 on Thursday, we target 1.3535 and place a stop at 1.3030.

Asian FX

- A positive Asian equity complexion and soggy dollar early in Asia on Friday should see the **ACI (Asian Currency Index)** softer during the Asian session. However, EM risk premiums have also been supported of late and this we think would deter excessive downside for the regional pairs. To this end, we note the short-end EM FX vols have been outpacing their G7 counterparts (with this relative outperformance at elevated levels), signaling relative nervousness in the background.
- This morning, the **SGD NEER** is a touch firmer at around +0.10% above its perceived parity (1.3634) with NEER-implied USD-SGD thresholds slightly lower on the day following the greenback's overnight slip. Following mixed August retail sales numbers, August NODX came in at a better than expected 0.0% yoy (mkts: -3.3%) but external USD dynamics we think would continue to exert a greater influence. The NEER is still expected to be bordered by -0.50% (1.3703) and +0.50% (1.3567) in the near term.
- In the current environment (tepid macro conditions, potential USD strength), we reiterate that the NEER may exhibit little tendency to venture too far north of parity. From a technical perspective, the 100-day MA (1.3558) is expected to support on any break below 1.3600. Meanwhile, 1.3650-1.3685 may attract on any broad dollar uptick.

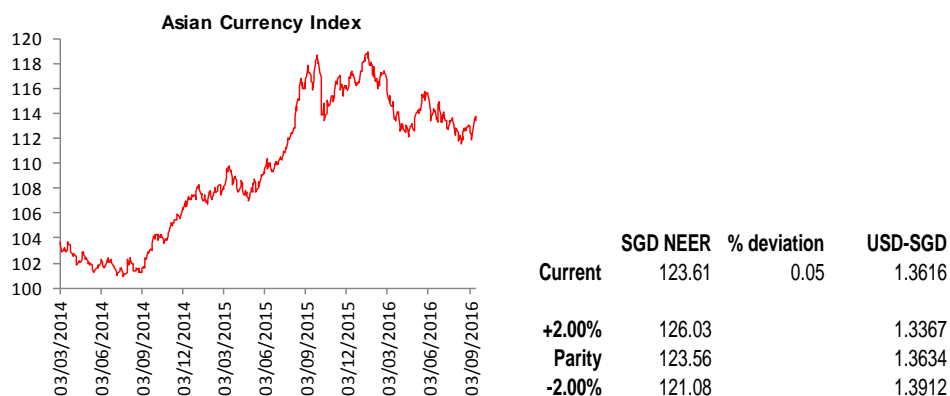
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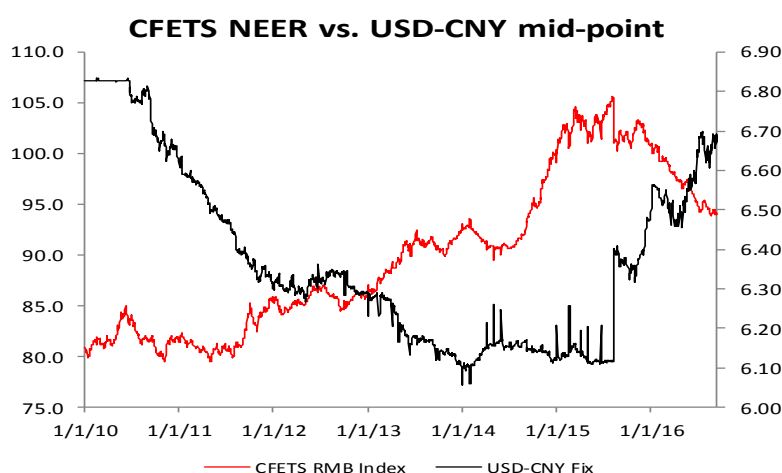
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Source: OCBC Bank



Source: OCBC Bank, Bloomberg

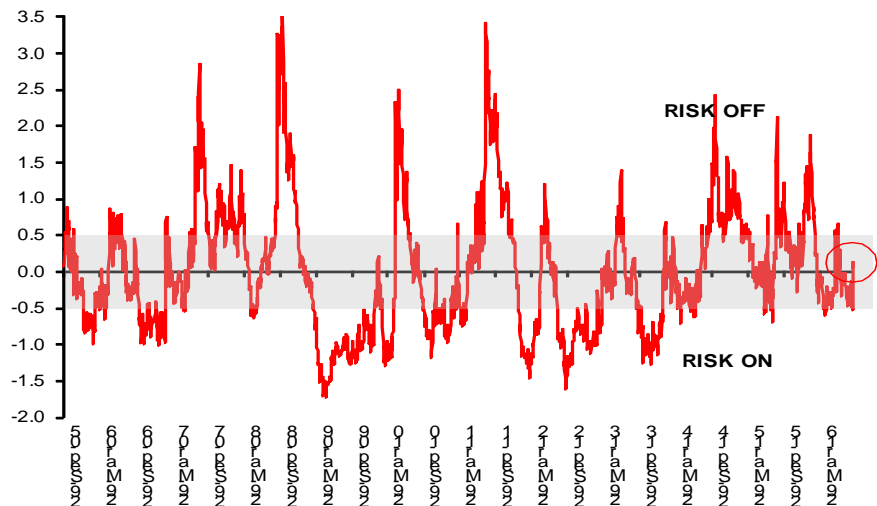
G7

- EUR-USD** Our near term attitude towards the pair remains unchanged and we expect good support at the 1.1200 handle ahead of 1.1170 and then at the 55-day MA (1.1157). Investors banking on Fed/BOJ volatility we think would channel their resources elsewhere, leaving the pair likely to end the week within 1.1200-1.1300.
- USD-JPY** USD-JPY continued to sag on Thursday with market doubts surrounding the BOJ continuing to circulate. In the latest development, note that a WSJ article indicated that Board members are split on how to proceed with further monetary easing. Ignoring the actual efficacy of the BOE's program to incite higher inflation (or inflation expectations), fluctuating market expectations surrounding the BOJ MPC (in addition to the FOMC) next week are expected to continue to exert often contrasting forces on the USD-JPY in the short term. With the 55-day MA (102.62) still serving as a short term ceiling, risks towards 101.40 remain apparent if the broad dollar continues to retreat. Specifically, we watch for any range break beyond the 55-day MA (102.63) and 101.40.
- AUD-USD** Apart from FOMC/BOJ dynamics, note that the RBA's Lowe will appear before a parliamentary economics committee (also on 22 Sep 16)

with some attendant headline risks expected.. Meanwhile, Aug labor market numbers came in mixed (indicating continued slack) on Thursday but eventual USD softness steered the AUD-USD to end firmer on the day. In the interim, we look for a top-heavy posture under the 55-day MA (0.7577) with 0.7480 a likely initial support before the 200-day MA (0.7401).

- GBP-USD** After initial softness post the BOE MPC, GBP-USD managed to bounce and ended largely flat on the day on Thursday. Overall, the BOE was expectedly dovish by portending room for further rate cuts (next MPC 3 Nov 16) despite recognizing that near term economic indicators had been somewhat stronger than expected. In the near term, expect supported to range bound behavior with the 55-day MA (1.3158) lending support and 1.3350 capping.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

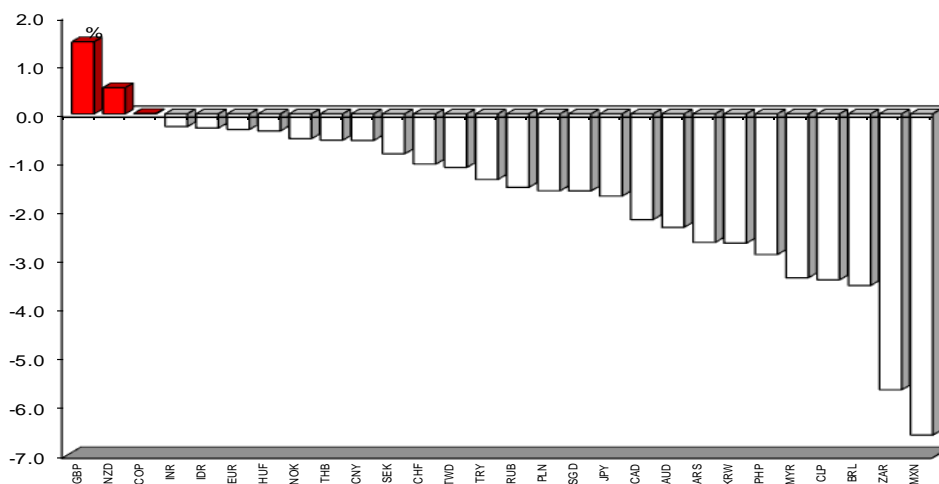
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1163	1.1200	1.1243	1.1300	1.1326
GBP-USD	1.3171	1.3200	1.3239	1.3300	1.3407
AUD-USD	0.7447	0.7500	0.7516	0.7581	0.7600
NZD-USD	0.7212	0.7300	0.7316	0.7400	0.7422
USD-CAD	1.3029	1.3100	1.3147	1.3200	1.3225
USD-JPY	100.02	102.00	102.02	102.74	103.00
USD-SGD	1.3504	1.3600	1.3612	1.3678	1.3698
EUR-SGD	1.5298	1.5300	1.5304	1.5351	1.5398
JPY-SGD	1.3151	1.3300	1.3342	1.3400	1.3517
GBP-SGD	1.7786	1.8000	1.8021	1.8100	1.8155
AUD-SGD	1.0178	1.0200	1.0232	1.0237	1.0300
Gold	1302.10	1302.64	1314.50	1334.69	1350.04
Silver	18.37	19.00	19.04	19.10	19.63
Crude	42.61	43.60	43.67	43.70	45.02

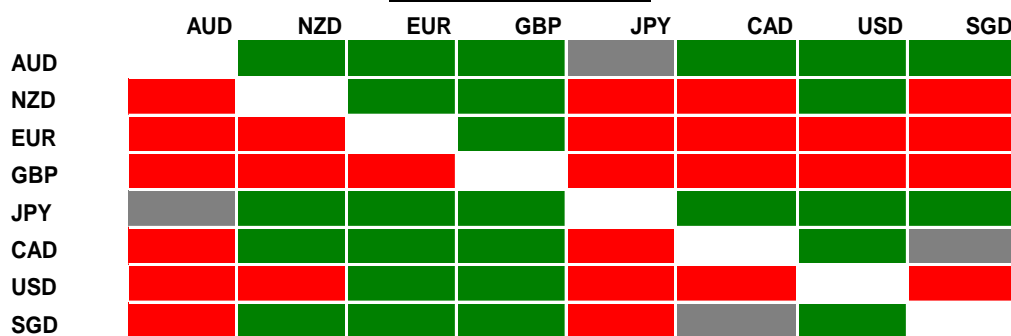
Source: OCBC Bank

FX performance: 1-month change agst USD



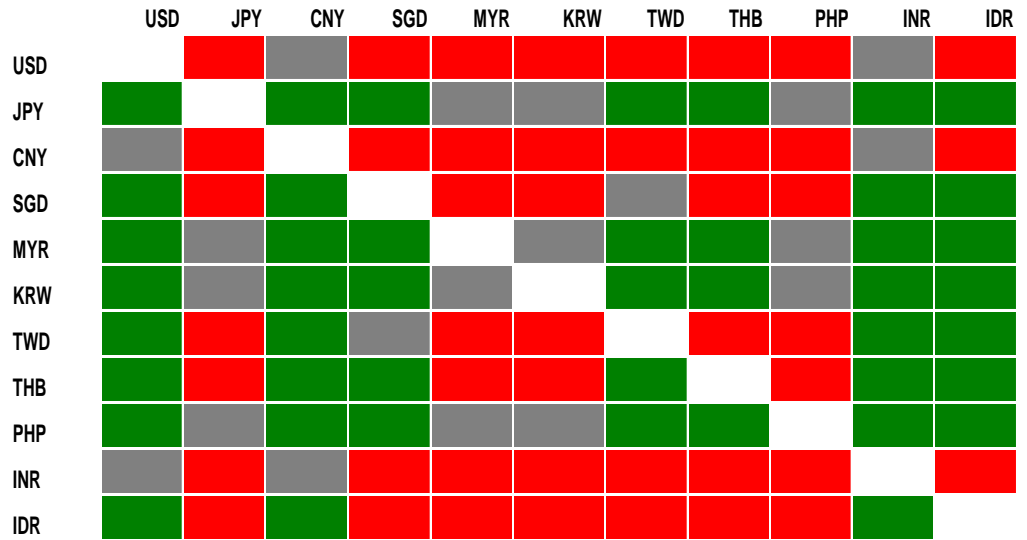
Source: Bloomberg

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	
TACTICAL								
1	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
3	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
4	01-Sep-16	B	USD-JPY	103.33	108.15	100.90	Ahead of NFP numbers and BOJ MPC	
5	15-Sep-16	B	USD-CAD	1.3202	1.3535	1.3030	Fading crude, soft macro outlook, ahead of FOMC	
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	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	
11	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
2	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
3	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
4	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
5	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclicals, search for yield	8.37
Jan-Aug 2016 Return								+7.80

Source: OCBC Bank

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