

Friday, March 18, 2016

FX Themes/Strategy/Trading Ideas

- The broad dollar continued to crumble across G10 and EM space overnight and expect this to persist into the end of the week. Note that amid positive equities and commodities, the **FXSI (FX Sentiment Index)** continued to push lower within Risk-Neutral territory – a sustained positive signal for the cyclicals and EM FX.
- As we noted yesterday, the outcomes of the latest ECB meeting last week and FOMC overnight continue to set the stage for further upside potential for the **EUR-USD**. With a spot ref of 1.1321 on Friday, we target 1.1660 and place a stop at 1.1150.
- Our 04 Mar 16 idea to be tactically short **USD-SGD** (spot ref: 1.3881) filled its 1.3630 objective on Thursday. Despite the **SGD NEER** looking a tad rich, broad dollar dynamics remain negative and we extend our target to 1.3380, trailing the stop to 1.3755. **(Please refer to the FX Trade Ideas Table on the last page).**

Asian FX

- With the EM complex making the most out of broad USD weakness on Thursday post-FOMC, note that the **ACI (Asian Currency Index)** has continued to soften, not least with additional guidance from the CNY. At current levels, note that the index is at its lowest point in the year-to-date (never mind that **Bank Indonesia** eased as expected on Thursday), putting a serious dent for now on a stronger dollar narrative by the year-end.
- This morning, the **SGD NEER** is around +0.69% above its perceived parity (1.3624), compared to around +0.72% late Asia on Thursday. Note that with the majors continuing to surge overnight, NEER-implied USD-SGD thresholds are also significantly lower on the day by about 100bps. At current levels, the +1.00% threshold roughly equates to 1.3490 with 1.3500 a major psychological line in the sand.
- The **USD-CNY** mid-point was set at 6.4628 from 6.4961 on Thursday. This effectively places the **CFETS RMB Index** slightly higher than expected at 98.04 on Friday, relative to 98.32 yesterday. It remains to be seen if 98.00 is indeed a line in the sand as we surmise (given that overnight movements in the basket's currencies effectively took the index to sub-98.00 levels).
- In the current environment of broad USD vulnerability, expect the USD-CNY fix to remain under pressure, especially if the CFETS RMB Index attempts to

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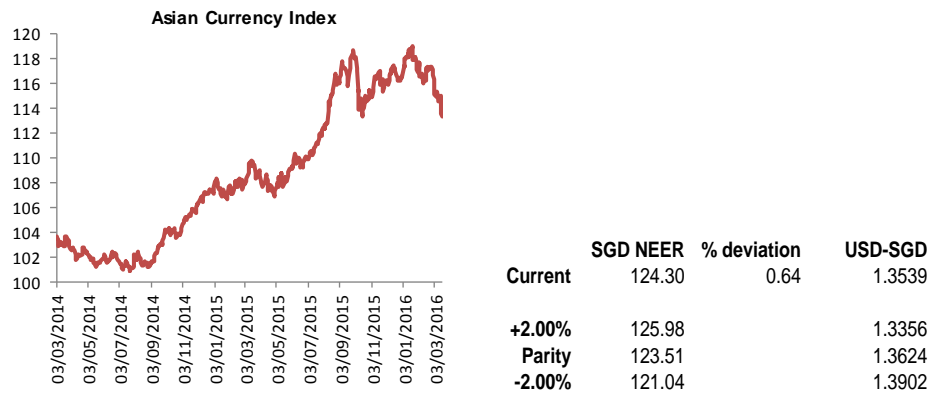
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bottom. Elsewhere, as we had noted previously, the official intent to keep the index relatively stable has resulted in the realized volatility of the fix climbing since February.

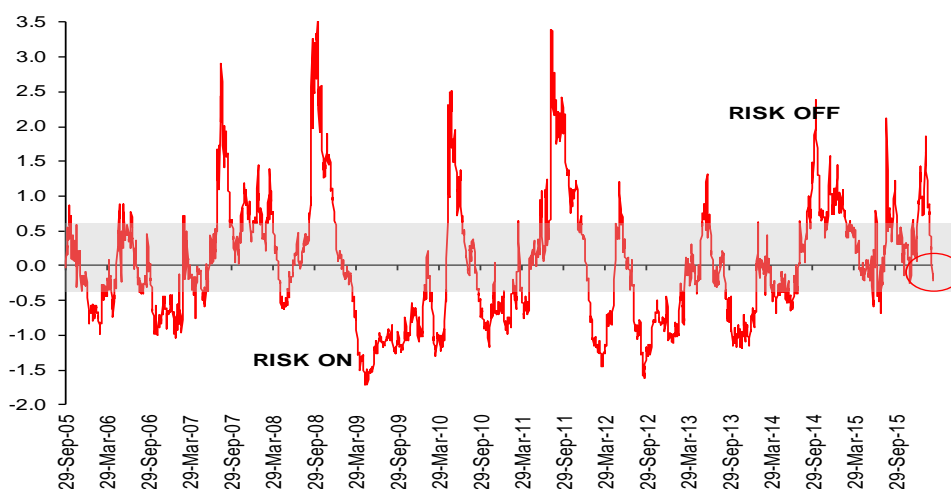


Source: OCBC Bank

G7

- EUR-USD** In the near term, the markets may continue to digest the material negative shock (note the deteriorating interest rate differentials moving in favor of the EUR) to the dollar from the FOMC, potentially tempting the EUR-USD towards 1.1400 at this juncture.
- USD-JPY** BOJ MPC minutes this morning showed little inclination nor urgency to effect further QQE in a hurry while rate differential support for the dollar has also been weakened at this juncture. However, USD-JPY price action overnight suggests that the MOF/BOJ may remain watchful with regards to the JPY's valuation. Into the end of the week, expect market caution to surface on any descent towards the 110.00 neighborhood.
- AUD-USD** The AUD-USD may be looking slightly over extended in the short term but the ongoing positive lift from equities/commodities (not to mention the domestic positive from the labor markets this week) may keep dips shallow into the end of the week.
- GBP-USD** In addition to the beleaguered dollar, the GBP was further lifted on Thursday after the BOE MPC with the minutes not entertaining thoughts of a rate cut (in contrast to scattered market expectations) while remaining fairly sanguine on economic prospects. Note however that the MPC minutes also acknowledged the potential drag on growth from Brexit uncertainty. In the interim, expect the 55-day MA (1.4323) to now serve as a base on any pullbacks in the pair while 1.4530 is expected to present as a near term resistance.

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

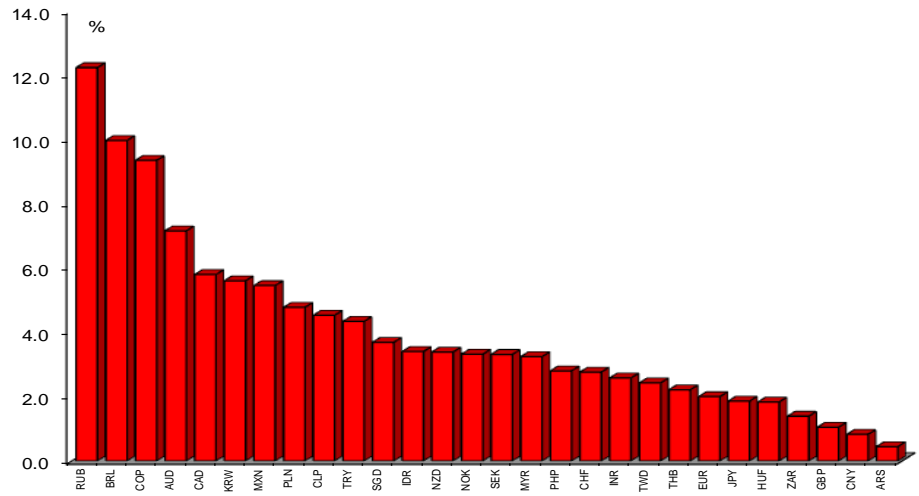
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1313	1.1329	1.1376	1.1400
GBP-USD	1.4292	1.4400	1.4487	1.4500	1.4521
AUD-USD	0.7242	0.7600	0.7669	0.7680	0.7700
NZD-USD	0.6800	0.6856	0.6869	0.6873	0.6900
USD-CAD	1.3300	1.3334	1.3358	1.3400	1.3791
USD-JPY	110.67	111.00	111.17	111.41	112.00
USD-SGD	1.3500	1.3507	1.3528	1.3600	1.3975
EUR-SGD	1.5089	1.5300	1.5325	1.5400	1.5430
JPY-SGD	1.1964	1.2100	1.2169	1.2192	1.2200
GBP-SGD	1.9443	1.9500	1.9597	1.9600	1.9792
AUD-SGD	1.0115	1.0300	1.0375	1.0400	1.0423
Gold	1200.00	1209.37	1265.50	1282.43	1287.80
Silver	15.93	16.00	16.02	16.03	16.10

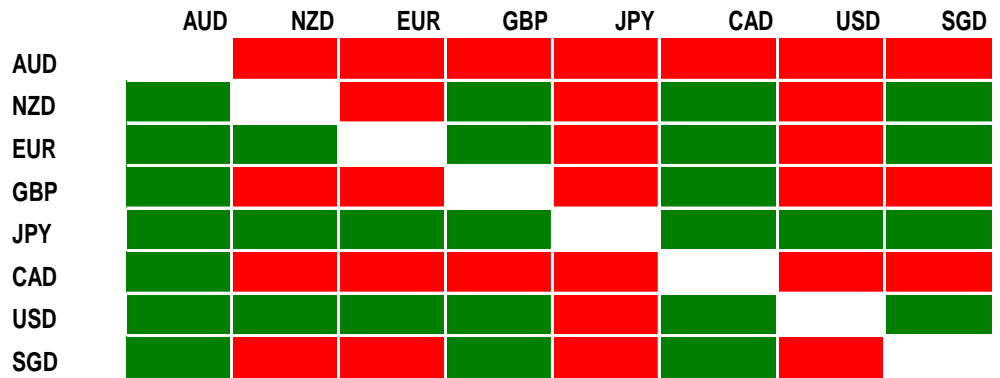
Source: OCBC Bank

FX performance: 1-month change agst USD



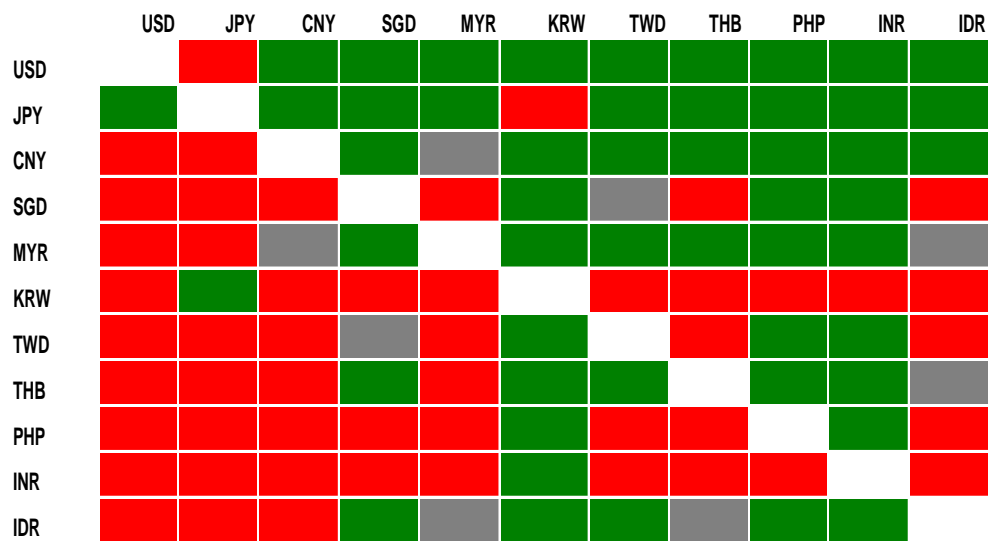
Source: Bloomberg

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-Feb-16	S	USD-CAD	1.3533	1.2745	1.3330	Bottoming crude	
2	03-Mar-16	B	AUD-USD	0.7284	0.7835	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
3	04-Mar-16	S	USD-SGD	1.3881	1.3380	1.3755	Brightening risk appetite, vulnerable broad dollar	
4	18-Mar-16	B	EUR-USD	1.1321	1.1660	1.1150	Tilt in policy balance after ECB and FOMC	
STRUCTURAL								
5	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
8	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
9	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	08-Jan-16	22-Feb-16	B	EUR-USD	1.0888	1.1045	Risk of Fed/dollar "disappointment"	+1.42
2	18-Feb-16	24-Feb-16	S	USD-CAD	1.3655	1.3855	Potential for crude to consolidate higher	-1.45
3	26-Feb-16	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
4	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45
5	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29
6	14-Mar-16	15-Mar-16	B	GBP-USD	1.4380	1.4180	Abating Brexit concerns, potential for Yellen to underwhelm	-1.41

Source: OCBC Bank

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