

Friday, August 19, 2016

FX Themes/Strategy/Trading Ideas

- Widespread dollar vulnerability may prevail into the end of the week with negativity from Wed's FOMC minutes continuing to weigh and despite an attempt at hawkishness by the Fed's Dudley and Williams. With FOMC expectations continuing to be pared, note the middle sector of the UST curve outperformed amidst a softer curve.
- Elsewhere risk appetite developments remain supportive of the cyclicals ((including EM/Asia), with the **FXSI (FX Sentiment Index)** dipping lower again within Risk-Neutral territory.
- With oil on the mend in the short term and FOMC rate hike prospects deteriorating, we initiate a tactical short **USD-CAD**. With a spot ref at 1.2813, we target 1.2480 and place a stop at 1.2985.

Asian FX

- A positive spin from the equity front and a heavy greenback should keep USD-Asia inherently heavy with the **Asian Currency Index (ACI)** edging lower again on Thursday. Meanwhile, the Philippines reported a set of better than expected 2Q GDP numbers (headline:+7.0% yoy) and today, Bank Indonesia is expected to remain static on its policy parameters when it convenes.
- **USD-SGD**: Third time a charm? The **SGD NEER** is a touch softer on the day at +0.59% above its perceived parity (1.3479) with NEER-implied USD-SGD thresholds also shading lower. Reluctance on the downside for the USD-SGD may continue to put a lid on the NEER in the near term but it remains how long the pair can hold out, given that this is the third attempt by the pair this year to sink below the 1.3400 handle on a sustained basis. We look potentially to Yellen next weekend for a potential USD catalyst. At current levels, the +0.50% threshold is estimated at 1.3412 and +1.00% at 1.3345. In the interim, we have a preference for a top heavy tone within 1.3350-1.3450.

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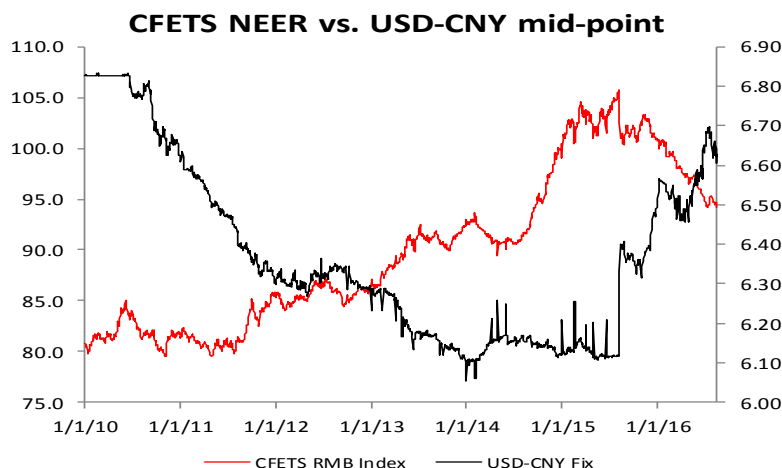
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	SGD NEER	% deviation	USD-SGD
Current	124.20	0.52	1.3428
+2.00%	126.03		1.3215
Parity	123.56		1.3479
-2.00%	121.08		1.3754

Source: OCBC Bank

- Today, the **CFETS RMB Index** softened (as expected) to 94.11 from 94.21 on Thursday, with the USD-CNY mid-point easing to 6.6211 from 6.6273. At current levels, note that the Index is at its lowest year-to-date level, and its depreciation bias may have legs yet at this juncture.



Source: OCBC Bank, Bloomberg

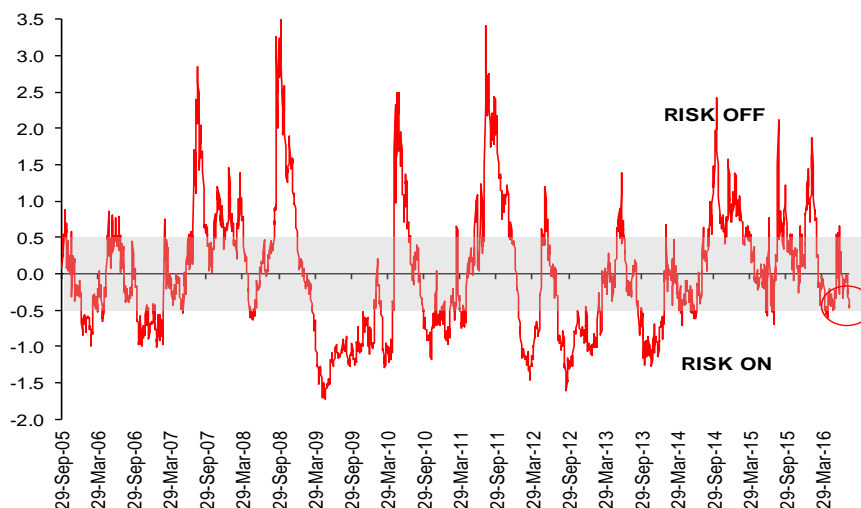
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- **EUR-USD** The EUR also garnered marginal support from ECB minutes revealing little urgency to consider additional easing measures at the July meeting while also cautioning against "...fostering undue expectations about the future course of monetary policy". In the current environment, the pair may remain supported on dips within 1.1290-1.1385 with no data scheduled to be released on either side of the Atlantic today.
- **USD-JPY** Official jawboning aside, USD-JPY may continue to rest along the 100.00 floor given the prevailing skepticism towards the broad dollar. With the technical picture also heavy on multiple fronts, risks towards 99.00 remain apparent.
- **AUD-USD** AUD-USD may remain consolidative to firmer into the end of the week with global risk appetite levels supportive and local news flow this week (RBA minutes and labor market numbers) generating lift for the pair.

We look for a 0.7620-0.7720 range intra-day.

- GBP-USD** GBP-USD received a boost in the wake of the better than expected July retail sales numbers although it remains to be seen if the pair can stage a decent recovery back above 1.3200 on a multi-session horizon.

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

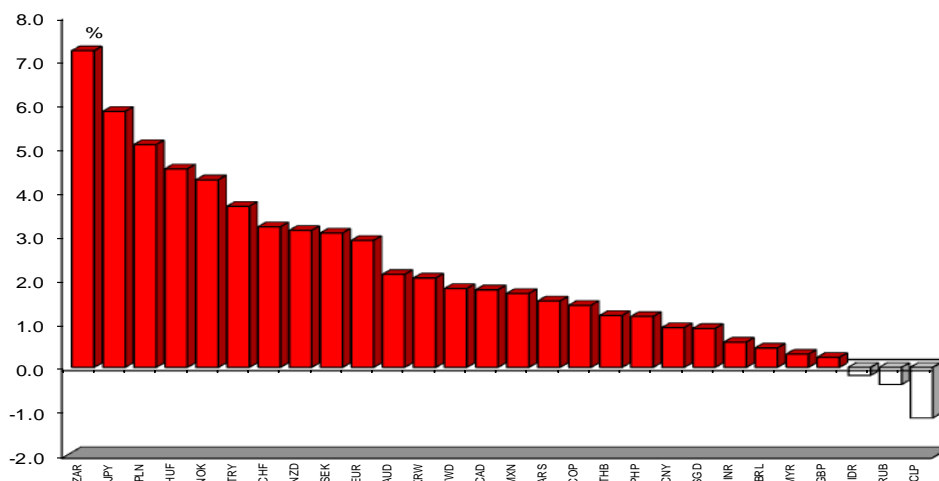
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1143	1.1300	1.1339	1.1355	1.1366
GBP-USD	1.2863	1.3100	1.3140	1.3200	1.3350
AUD-USD	0.7535	0.7600	0.7663	0.7700	0.7756
NZD-USD	0.7139	0.7200	0.7275	0.7300	0.7323
USD-CAD	1.2764	1.2769	1.2795	1.2800	1.2988
USD-JPY	99.54	100.00	100.28	101.00	103.27
USD-SGD	1.3348	1.3400	1.3413	1.3467	1.3500
EUR-SGD	1.5177	1.5200	1.5210	1.5219	1.5289
JPY-SGD	1.3050	1.3300	1.3376	1.3400	1.3448
GBP-SGD	1.7270	1.7600	1.7626	1.7700	1.7990
AUD-SGD	1.0148	1.0200	1.0279	1.0300	1.0375
Gold	1318.65	1328.15	1350.10	1365.87	1376.50
Silver	19.36	19.60	19.65	19.70	20.65
Crude	46.16	48.30	48.31	48.34	48.38

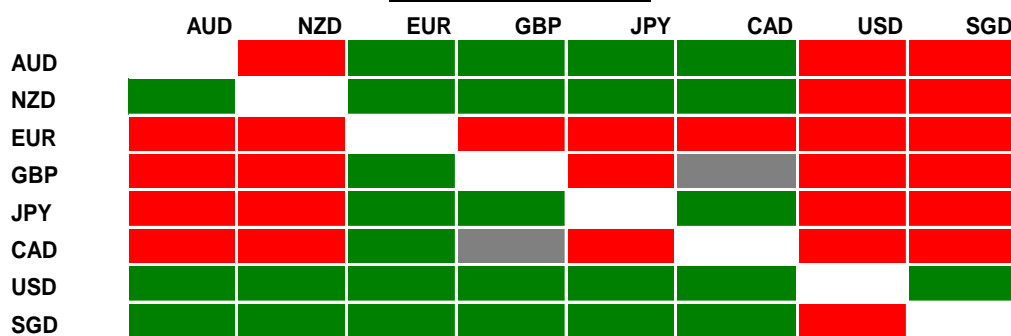
Source: OCBC Bank

FX performance: 1-month change agst USD



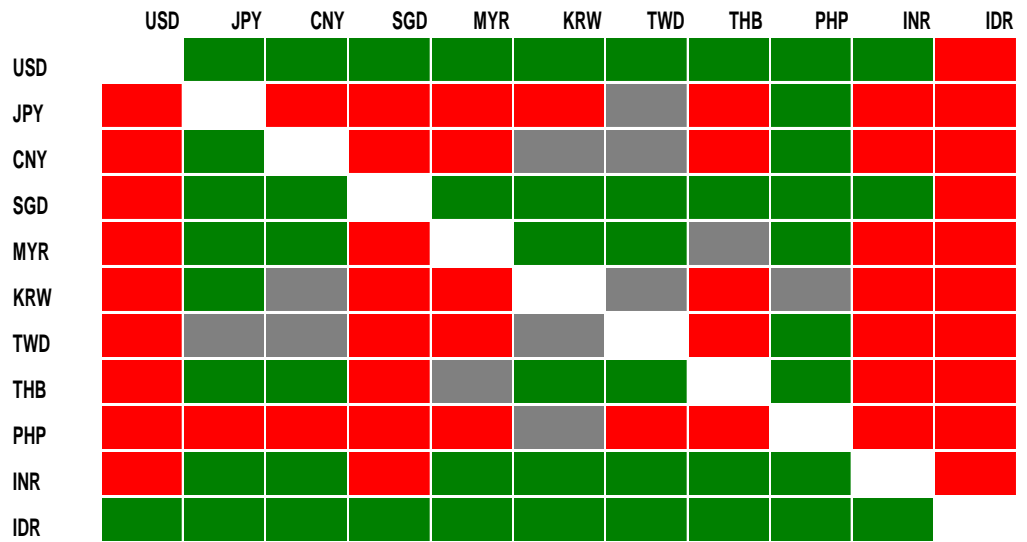
Source: Bloomberg

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		
5	18-Aug-16	S	USD-CAD	1.2813	1.2480	1.2985	Recovering oil vs fading FOMC prospects		
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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield		
9	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs		
10	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
11	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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