

Wednesday, April 20, 2016

FX Themes/Strategy/Trading Ideas

- The broad dollar was stung by the dollar-commodity-dollar feedback loop as the soft greenback encouraged firmer commodities (WTI briefly above 41.00) which in turn drove the cyclical currencies higher. While the greenback was partially undermined by disappointing March housing starts (-8.8% mom), risk appetite was also boosted by positive global equities with the **FXSI (FX Sentiment Index)** slipping further within Risk-Neutral territory and brushing up against Risk-On territory. As such, the greenback may remain a victim of rising positive risk appetite levels and defused FOMC expectations in the near term.
- Ahead of the FOMC next week, we again look for the **USD-JPY** to potentially search lower on the back of Fed-related 'disappointment'. The only caveat to this view is that sustained positive risk appetite levels may however slow any expected descent of the pair. With a spot ref of 108.93, we go tactical short USD-JPY and target 105.40 and place a stop at 110.75.
- Despite the **MAS's** policy shift to a neutral policy last week, we think the **USD-SGD's** trajectory will continue to be dictated by broader dynamics going ahead. With the broad dollar (DXY or the Fed's dollar indices) potentially looking to take another step lower (ostensibly on disappointment towards the FOMC), USD-Asia will likely track lower in sympathy. Secondly, yield seeking behavior gaining traction on the back of sanguine investor appetite will also likely continue to sustain appetite for EM assets. As such, we think there may be potential scope for the USD-SGD to break lower. From a spot ref of 1.3439 on Tuesday, we target 1.2835 and place a stop at 1.3740.

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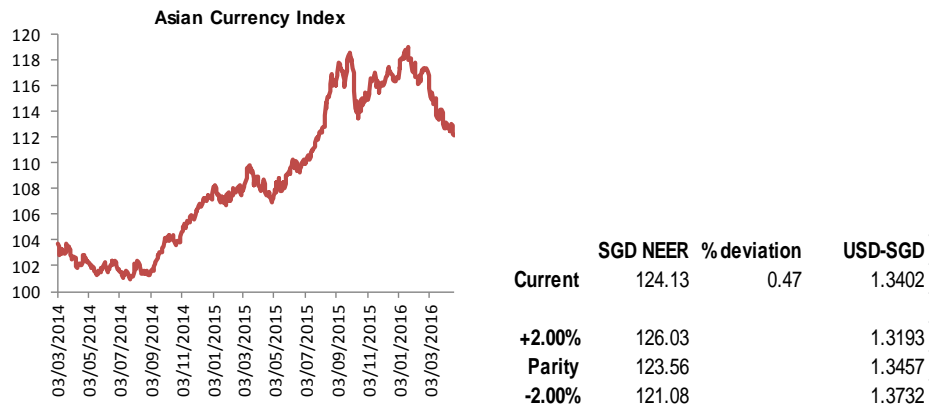
Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcvemmanuel@ocbc.com

Asian FX

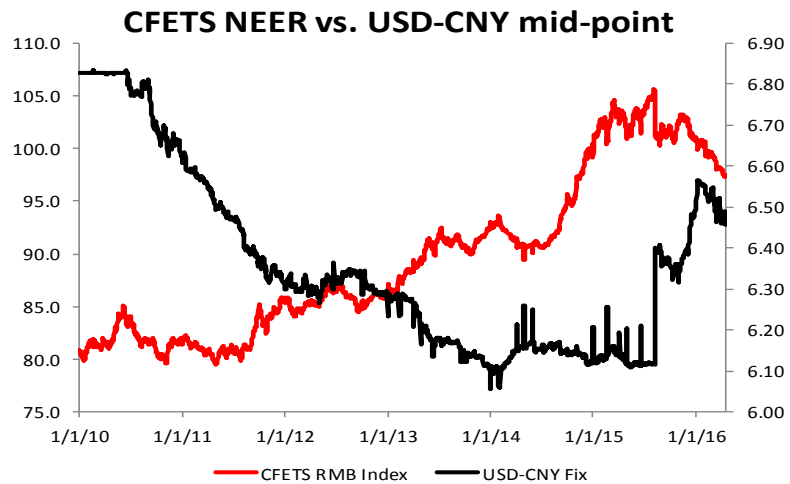
- A soggy broad dollar and positive Asian equities in early trade should continue to keep USD-Asia heavy in the current session. Meanwhile, relative Asian FX performance against the USD has been mixed with the KRW leading the way higher in recent sessions (note slightly less dovish comments from the BOK's Lee Ju-yeol) after the BOK kept remained static at 1.50% on Tuesday. Note that the **ACI (Asian Currency Index)** is again at its lowest level year-to-date, demonstrating the ongoing negativity being attached to the USD.
- The **SGD NEER** is roughly around +0.40% above its perceived parity (1.3457) this morning with NEER-implied USD-SGD thresholds lower on the day following overnight broad dollar decay. At current levels, the +1.00%

NEER threshold corresponds to around 1.3324. We look for the pair to remain top heavy if the crucial 1.3400 level is not re-taken.



Source: OCBC Bank

- This morning, the **USD-CNY mid-point** was set at 6.4579 from 6.4700 on Tuesday. As a result, the **CFETS RMB Index** crept slightly lower (albeit not as low as implied by overnight movements in the constituent currencies) to 97.30 (lowest year-to-date) from 97.37 yesterday. In the near term therefore, there may be an attempt to temper the downward pressure on the Index (forestalling a move towards 97.20), although we think inherent depreciation pressure remains on the cards.



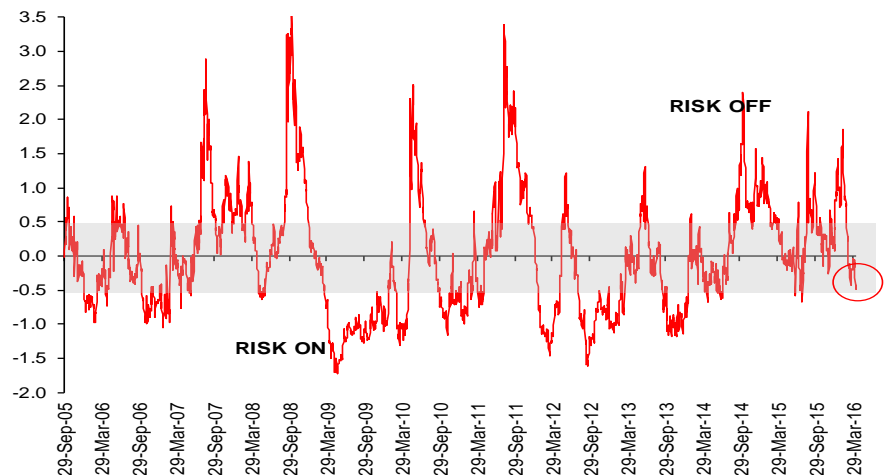
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- **EUR-USD** Markets may be angling for a firmer EUR-USD profile into the ECB meeting tomorrow amid fading expectations of another dovish surprise from Draghi (who is slated to speak at 1000 GMT today). Notably, the German Apr ZEW also clocked mixed to positive prints. In the interim, EUR-USD may remain partially supported on dips into 1.1300 while 1.1430 is expected to cap.
- **USD-JPY** The recent stream of rhetoric from the BOJ's Kuroda can be

construed as being adequately accommodative while the ongoing positive risk appetite levels may also offer marginal support to the pair. We however remain cautious towards Fed-induced dynamics, and continue to expect range bound behavior within 108.00-110.00 intra-day.

- AUD-USD** The AUD-USD has been characteristically responsive to the recovery in risk appetite and commodities although some temporary cause for pause may materialize towards 0.7860 with the pair seen consolidating around the 0.7800 neighborhood pending further external cues.
- GBP-USD** GBP-USD managed to float above 1.4400 before settling slightly lower by late NY on the back of widespread USD weakness. On the domestic front, latest polls also indicated a slight edge by respondents indicating 'Nay' to Brexit. Note the BOE's Carney on Tuesday continuing to caution about the economic costs of a Brexit. Look to UK labor market numbers for further cues today with 1.4400/30 likely to resist pending further external cues.

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

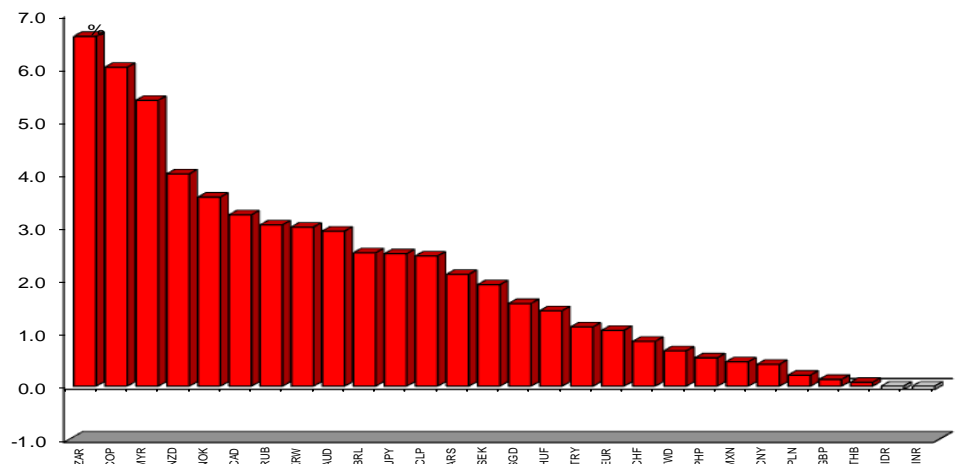
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1187	1.1300	1.1364	1.1400	1.1465
GBP-USD	1.4230	1.4300	1.4382	1.4400	1.4437
AUD-USD	0.7458	0.7700	0.7793	0.7800	0.7813
NZD-USD	0.6753	0.7000	0.7020	0.7046	0.7054
USD-CAD	1.2622	1.2631	1.2691	1.2700	1.3260
USD-JPY	107.63	109.00	109.10	110.00	111.98
USD-SGD	1.3352	1.3400	1.3402	1.3500	1.3702
EUR-SGD	1.5191	1.5200	1.5230	1.5300	1.5351
JPY-SGD	1.2200	1.2259	1.2285	1.2300	1.2597
GBP-SGD	1.8966	1.9200	1.9274	1.9300	1.9527
AUD-SGD	1.0233	1.0400	1.0444	1.0500	1.0518
Gold	1208.86	1237.02	1255.60	1260.70	1287.80
Silver	17.00	17.10	17.16	17.20	17.21

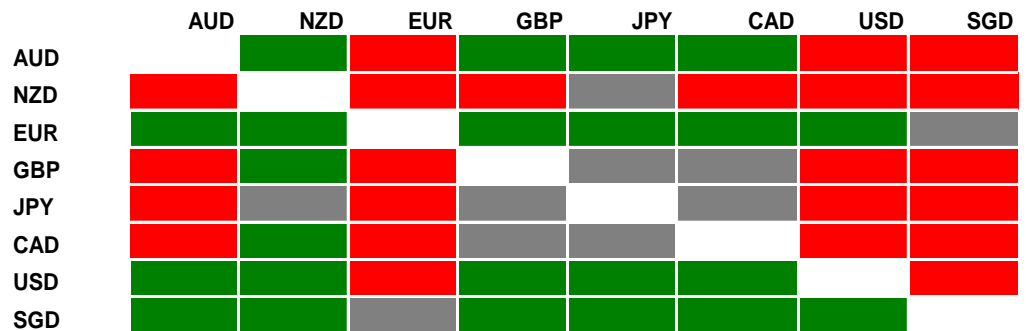
Source: OCBC Bank

FX performance: 1-month change agst USD



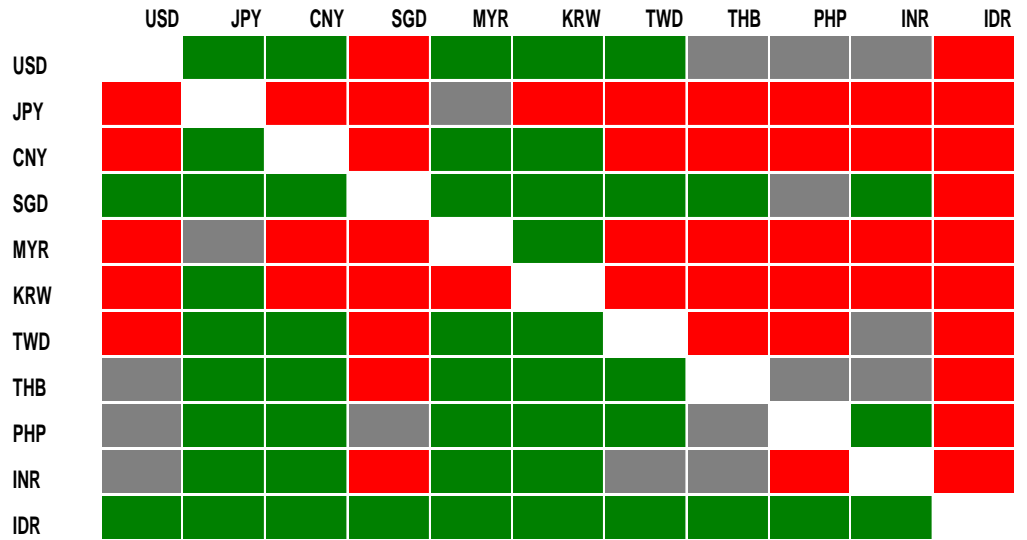
Source: Bloomberg

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	
14-Apr-16	S	USD-CAD	1.2832	1.2425	1.3040	Bottoming crude prices	
19-Apr-16	S	USD-JPY	108.93	105.40	110.75	Potential for FOMC to disappoint	
STRUCTURAL							
03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
19-Apr-16	S	USD-SGD	1.3439	1.2835	1.3740	Potential for further broad USD decay, positive risk appetite	
RECENTLY CLOSED							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
18-Mar-16	24-Mar-16	B	EUR-USD	1.1321	1.1150	Tilt in policy balance after ECB and FOMC	-1.53
18-Feb-16	31-Mar-16	S	USD-SGD	1.4034	1.3435	USD vulnerability, stabilization in RMB, equities/commodities	+4.54
03-Mar-16	08-Apr-16	B	AUD-USD	0.7284	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie	+3.19
29-Feb-16	07-Apr-16	S	USD-CAD	1.3533	1.3139	Bottoming crude	+2.98
11-Apr-16	14-Apr-16	S	USD-JPY	107.72	109.50	JPY still not drastically overvalued, endemic USD weakness	-1.63
04-Mar-16	14-Apr-16	S	USD-SGD	1.3881	1.3634	Brightening risk appetite, vulnerable broad dollar	+1.81
30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05

Source: OCBC Bank

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