

Wednesday, September 21, 2016

FX Themes/Strategy/Trading Ideas – Will Yellen bring it home?

- Against a backdrop of softer UST yields, G10 currencies diverged on Tuesday ahead of Wednesday's FOMC with the antipodeans gaining across the board on still firm commodities while the European complex trailed the greenback. Risk appetite levels meanwhile remained sanguine with the **FXSI (FX Sentiment Index)** inching lower again within Risk-Neutral territory.
- Today, the FOMC rate decision is at 1800 GMT with Yellen scheduled for 1830 GMT. At this juncture, the increasingly conspicuous (and glaring) tail risk tonight of course would be if the Fed delivers a rate hike tonight. Barring this, we watch for any explicit telegraphing in the statement from Yellen's subsequent comments with regards to the coming meetings.
- As noted previously, look also to the revised economic forecasts, especially the dot plots (specifically, for 2017). The median dot plots for 2017 have been reduced at every quarterly update and a further expected reduction from the June median of 1.625% (note that the mode was actually at 1.375% in June compared to 1.875% in March) we think would continue to chip away at the structural dollar resilience narrative.

Asian FX

- Despite the **ACI (Asian Currency Index)** softening slightly on Tuesday, risks from the greenback may be fairly acute today in view of the FOMC tonight, especially in the event of a hawkish surprise. To this end, the THB and SGD we think would remain relatively more susceptible to USD volatility, while the North Asians (KRW, TWD) and SGD are expected to be relatively more reactive to JPY volatility.
- The **SGD NEER** is still loitering north of its parity (1.3641) although it is a touch firmer on the day given the relatively less responsive USD-SGD overnight to USD resilience. NEER-implied USD-SGD thresholds are unchanged on the day with +0.50% estimated at 1.3574 and -0.50% at 1.3710. Note that in the month to date a significant and specific dollar influence on the NEER has been largely absent, although risks on this front may be heightened going into tonight's FOMC.
- In fact, a major contributor to the NEER's robustness in this period has been MYR underperformance, as opposed to any overall richness of the SGD across swath of its constituent currencies – clouding the case for weaker SGD NEER. For today, any 'disappointment' from the BOJ may pull the NEER south via JPY resilience. In the interim, the USD-SGD may remain

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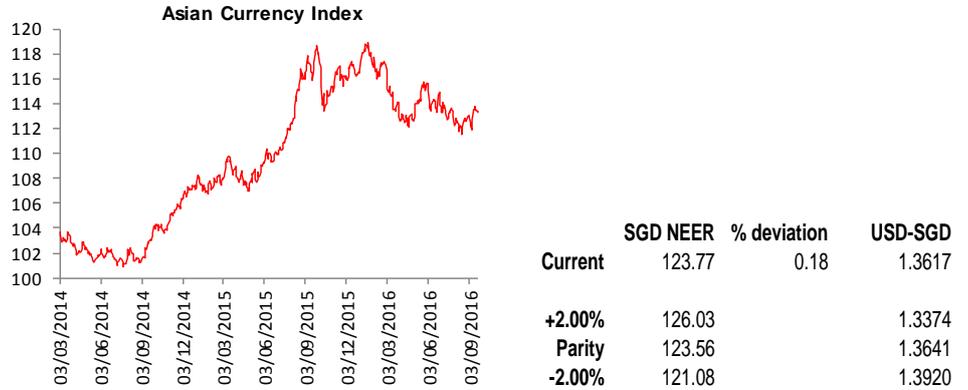
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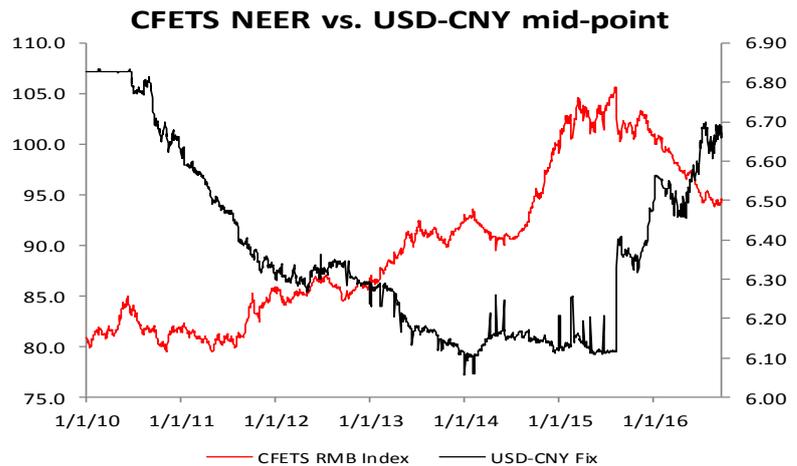
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bordered by its 100-day MA (1.3562) and 1.3700, with inherent risks towards the upside.



Source: OCBC Bank

- Today, the **CFETS RMB Index** slipped to 94.48 from 94.63 on Tuesday with the USD-CNY mid-point gaining (broadly in line with expectations) to 6.6738 from 6.6595 yesterday.



Source: OCBC Bank, Bloomberg

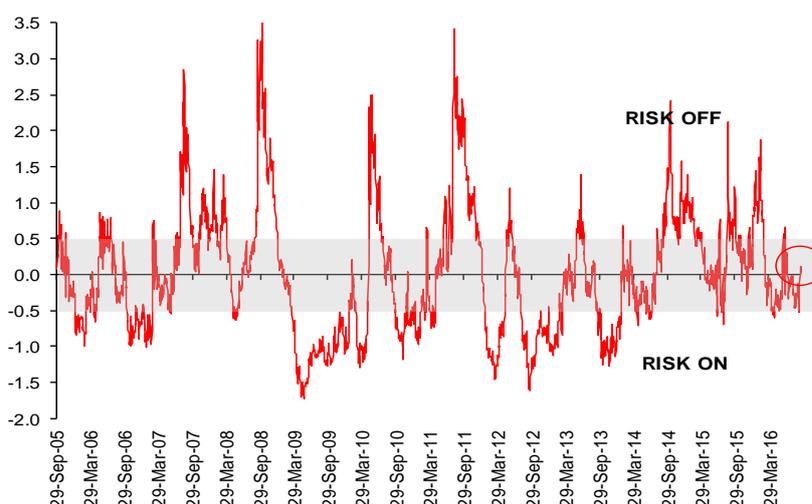
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- **EUR-USD** Dynamics for the pair will continue to defer to USD-specific influences for today, with the 200-day MA (1.1149) currently being threatened. Deeper risks towards 1.1100 may emerge if the FOMC outcome is in anyway more hawkish than expected. An initial ceiling meanwhile can be expected at 1.1200.
- **USD-JPY** With regards to the **BOJ MPC** today, Meeting headlines are expected between 0300-0400 GMT onwards, with Kuroda’s press conference at 0630 GMT. Market reckoning (including the short end of the vol surface) is for further inaction by the BOJ on the QQE front (apart from potentially tilting deeper into negative rate territory), with the USD-JPY continuing to fade for the better part of the last two weeks. However, with

risks also emanating from the FOMC later in the global day, the potential for two-way volatility remains high. A wide 101.00-103.00 range may be at play in the current session.

- AUD-USD** Whether the AUD-USD (and the rest of the cyclicals) initiates a range break (0.7400-0.7700) on a multi-session horizon would be predicated on how strong a message the FOMC sends tonight. A less than explicit tone from Yellen may well see investors jumping back on the yield hunt train once again beyond the short term, especially if global risk appetite levels remain sanguine.
- GBP-USD** Apart from some USD underpinnings, the GBP was also undermined by headlines quoting the head of the Bundesbank as saying that UK banks may lose passporting rights in the EU, tripping the GBP-USD back below 1.3000. Outlier risks for USD strength in the current session may continue to keep cable top heavy ahead of the headline risks. At this juncture, the recent low at around 1.2866 remains the floor to watch.

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

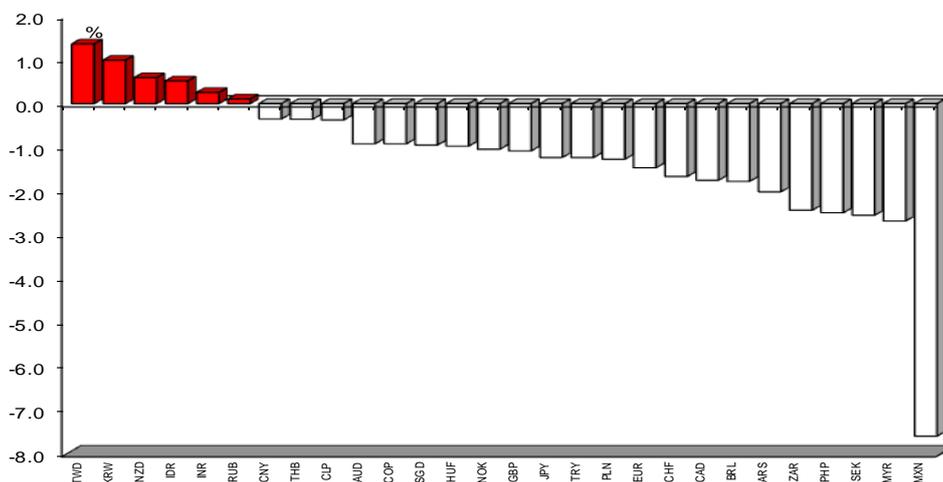
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1123	1.1149	1.1151	1.1167	1.1200
GBP-USD	1.2900	1.2937	1.2982	1.3000	1.3159
AUD-USD	0.7442	0.7500	0.7553	0.7578	0.7600
NZD-USD	0.7213	0.7300	0.7310	0.7400	0.7422
USD-CAD	1.3038	1.3100	1.3178	1.3200	1.3248
USD-JPY	100.79	101.00	101.58	102.00	102.61
USD-SGD	1.3513	1.3600	1.3618	1.3695	1.3698
EUR-SGD	1.5092	1.5100	1.5185	1.5200	1.5295
JPY-SGD	1.3177	1.3400	1.3405	1.3479	1.3500
GBP-SGD	1.7600	1.7650	1.7679	1.7700	1.7781
AUD-SGD	1.0200	1.0240	1.0286	1.0300	1.0348
Gold	1300.00	1302.10	1313.80	1332.33	1344.55
Silver	18.37	19.10	19.14	19.20	19.56
Crude	42.74	44.80	44.84	44.90	45.42

Source: OCBC Bank

FX performance: 1-month change agst USD



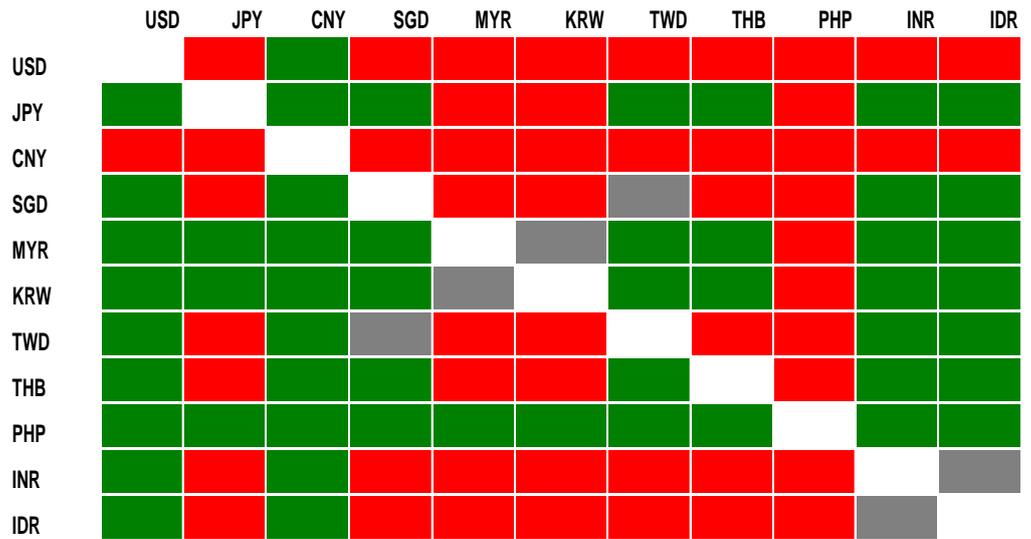
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD		Green						
NZD	Red		Green	Green	Red	Red	Green	Red
EUR	Red	Red		Green	Red	Green	Green	Green
GBP	Red	Red	Red		Red	Red	Red	Red
JPY	Red	Green	Green	Green		Green	Green	Green
CAD	Red	Green	Green	Green	Red		Green	Green
USD	Red	Red	Red	Green	Red	Red		Red
SGD	Red	Green	Green	Green	Red	Red	Green	

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	25-Aug-16	B	GBP-USD	1.3210	1.4055 1.2785	Moderating short term pessimism	
2	25-Aug-16	B	USD-SGD	1.3527	1.3780 1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
3	01-Sep-16	B	USD-JPY	103.33	108.15 100.90	Ahead of NFP numbers and BOJ MPC	
4	15-Sep-16	B	USD-CAD	1.3202	1.3535 1.3030	Fading crude, soft macro outlook, ahead of FOMC	
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	14-Jun-16	S	USD-SGD	1.3542	1.2815 1.3910	USD expected to disappoint on the back of the summer FOMCs	
8	04-Jul-16	S	USD-JPY	102.58	91.85 107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
9	26-Jul-16	S	GBP-USD	1.3120	1.1555 1.3905	Macro pain of a potential Brexit	
10	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
6	04-Aug-16 19-Sep-16	B	EUR-USD	1.1149	1.1157	Static Fed vs. ECB	-0.80
Jan-Aug 2016 Return							+7.80

Source: OCBC Bank

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