

Friday, July 22, 2016

**FX Themes/Strategy/Trading Ideas**

- The greenback was marginally softer across most of G10 space on Thursday with the JPY the mover of the day after the BOJ's Kuroda dispelled talk of "helicopter money" in a BBC radio interview. The BBC later clarified that the interview had been conducted in mid-June (before Bernanke's visit to TKY), allowing the USD-JPY to partially retrace its initial slump.
- Expect uncertainty surrounding the USD-JPY to persist going into next week amid expectations of further BOJ accommodation and with the speculation over the planned fiscal stimulus package growing by the day. Note a report by the Nikkei indicated that the package could potentially be as large as JPY30tn all in, following an earlier Kyodo report eyeballing JPY20tn.
- Elsewhere, global risk appetite levels remained fairly steady with the **FXSI (FX Sentiment Index)** ticking higher slightly within Risk-Neutral territory as global equities stuttered. With risk appetite volatility fairly stable, expect investors to continue to trade off differing and perceived central bank expectations.
- **Model Update:** Our short term **USD-JPY** model indicates potential for the pair to seek further upside multi-session (despite Kuroda's comments on Thursday). Although it is still early to conclude that the USD-JPY is set to break out of its multi-month downtrend, the pair is still slightly south of its implied confidence interval and despite bouncing off its recent lows from mid-last week in line with the model's exogenous variables.
- Given the above and ahead of the FOMC/BOJ next week, we therefore undertake a tactical long **USD-JPY** (spot ref: 105.83) targeting 110.55 with a stop placed at 103.45.

**Asian FX**

- The **Asian Currency Index (ACI)** may be slightly range bound into the end of the week after softening on the back of the broad dollar on Thursday. Elsewhere, **Bank Indonesia** remained static as expected although an official noted that room for further easing remained.
- The **SGD NEER** starts the day slightly firmer at around +1.02% above its perceived parity (1.3686) with NEER-implied thresholds retreating slightly lower on the day. The +1.50% threshold is estimated at 1.3484, +1.00% at 1.3551 and +0.50% at 1.3618. Technically, the 55-day MA (1.3589) and 100-day MA (1.3584) may continue to cap intra-day while initial support is seen

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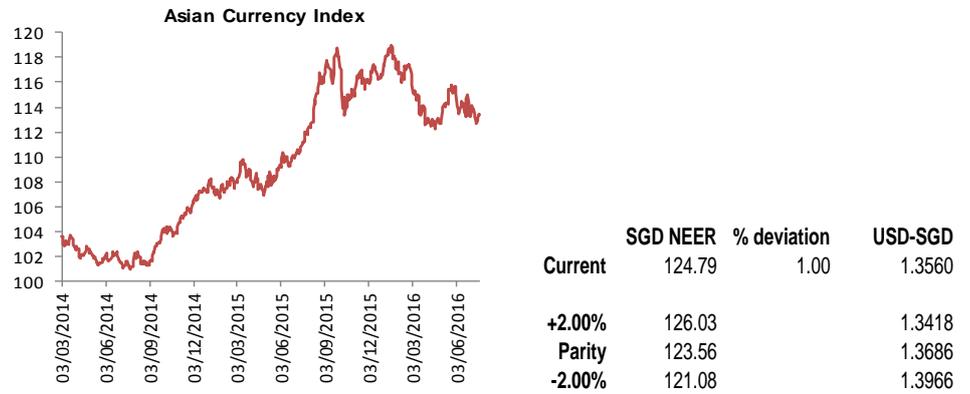
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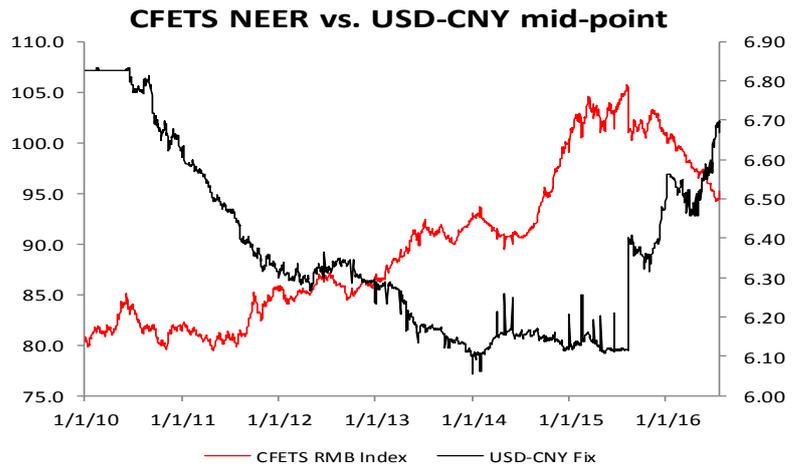
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towards 1.3510/15.



Source: OCBC Bank

- This morning, the **CFETS RMB Index** rose to 95.19 from 95.11 on Thursday, with the USD-CNY mid-point falling largely as expected to 6.6669 compared to 6.6872 yesterday. Watch for any associated news flow from the weekend G20 meeting.



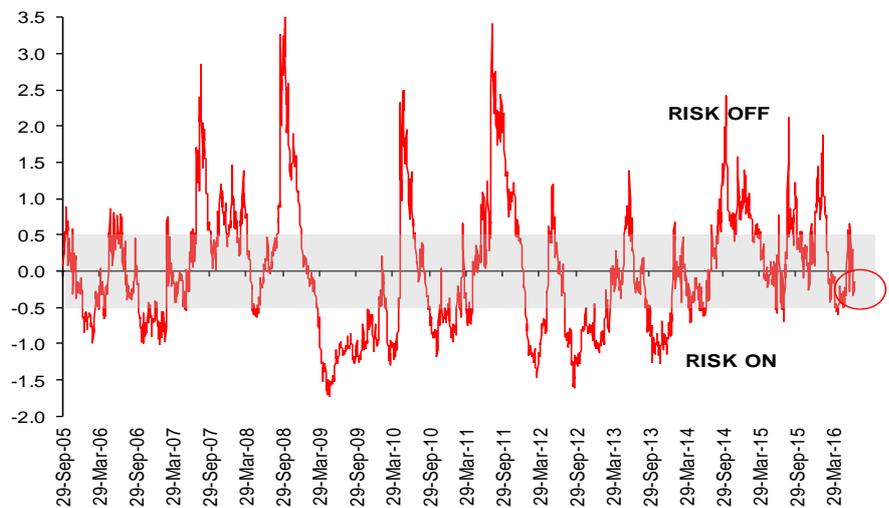
Source: OCBC Bank, Bloomberg

**G7**

- **EUR-USD** The ECB meeting on Thursday was a non-event as largely expected with Draghi stalling for time and awaiting revised economic projections in September. Into the end of the week, we expect the pair to be bookended by 1.0930 on the downside and the 200-day MA (1.1079) up top with investors we think still inclined to fade upticks..
- **USD-JPY** As alluded to above, we think prospects for the pair may remain tilted to the upside at this juncture, with the FOMC next week also not likely to explicitly abandon its intentions to normalize monetary policy in the wake of the Brexit-vote. Near term, obstacles on the upside continue to emanate from the 55-day MA (106.29) before 107.00.

- AUD-USD** For a variety of technical reasons, if the AUD-USD is able to base build off the 0.7470/90 region the pair may reach towards 0.7700 multi-session. Failure to do so may however invite a relapse back towards the 55-day MA (0.7398). Structurally, the pair would also potentially continue to be hampered by negative market expectations surrounding the RBA and the RBNZ.
- GBP-USD** UK June retails sales disappointed yesterday and look potentially towards more sobering data points today in the form of July preliminary PMIs. Pending further cues, we look for a 1.3000-1.3500 range to persist.

**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

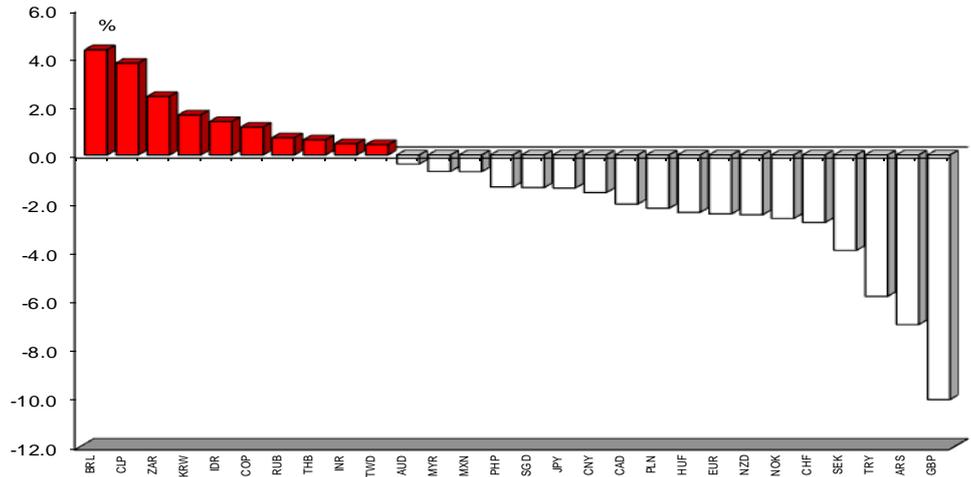
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0989	1.1000	1.1022	1.1079	1.1100
GBP-USD	1.2891	1.3200	1.3228	1.3300	1.3471
AUD-USD	0.7400	0.7403	0.7472	0.7500	0.7660
NZD-USD	0.6938	0.6952	0.6980	0.7000	0.7001
USD-CAD	1.2959	1.3000	1.3084	1.3100	1.3140
USD-JPY	99.83	105.00	105.85	106.00	106.04
USD-SGD	1.3389	1.3500	1.3561	1.3569	1.3595
EUR-SGD	1.4844	1.4900	1.4947	1.5000	1.5024
JPY-SGD	1.2800	1.2806	1.2811	1.2900	1.3499
GBP-SGD	1.7380	1.7900	1.7938	1.8000	1.8184
AUD-SGD	1.0100	1.0124	1.0133	1.0200	1.0292
Gold	1300.00	1306.48	1329.70	1367.03	1377.50
Silver	17.91	19.50	19.54	19.60	21.09
Crude	44.85	44.90	47.15	49.19	50.30

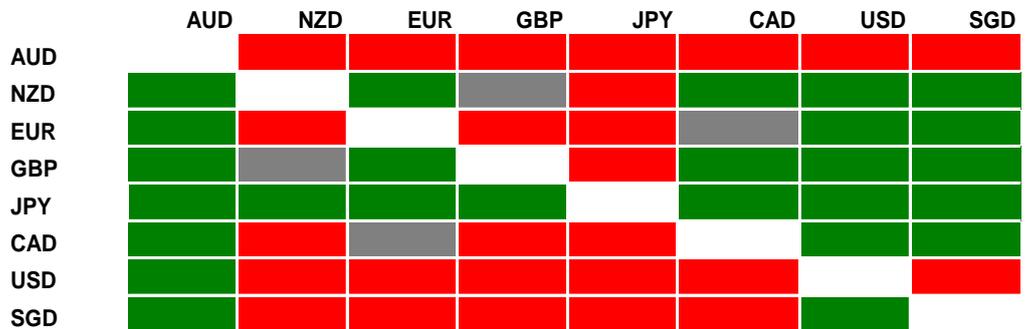
Source: OCBC Bank

**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		
<b>TACTICAL</b>									
1	28-Jun-16	S	EUR-USD	1.1057	1.0745	1.1215	Brexit uncertainty coupled with Euroskepticism		
2	28-Jun-16	S	GBP-USD	1.3306	1.2525	1.3700	Epicenter of Brexit concerns		
3	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit		
4	05-Jul-16	B	AUD-USD	0.7528	0.7815	0.7380	Search for yield amidst potential FOMC disappointment		
5	21-Jul-16	B	USD-SGD	1.3579	1.3840	1.3445	Potential for broad USD traction, NEER deemed rich		
6	22-Jul-16	B	USD-JPY	105.83	110.55	103.45	Contrasting policy postures going into the next FOM/BOJ meetings		
<b>STRUCTURAL</b>									
7	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate		
8	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations		
9	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield		
10	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs		
11	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
<b>RECENTLY CLOSED</b>									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	10-Jun-16	23-Jun-16	S	USD-JPY	107.16	105.50	Potential for USD weakness going into and post-FOMC	+1.57	
2	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74	
3	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91	
4	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98	
5	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	97.60	104.50	Potential for further risk aversion	-2.25

Source: OCBC Bank

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