

**Monday, August 22, 2016**

### **FX Themes/Strategy/Trading Ideas – The week ahead**

- The dollar stepped higher across the board on Friday as markets took stock of hawkish comments from the Fed's Williams (from Thursday) while note that Fed vice chairman Fischer on Sunday stating that "We are close to our targets".
- Thus, markets start the week with a reminder of policy dichotomy (Fischer vs. Kuroda) and the dollar's near term prospects may all come down to **Yellen's** comments on Friday at Jackson Hole. In a nutshell, investors would be on the lookout for whether Yellen signs off on the recent raft of Fed commentary attempting to solidify expectations for the next rate hike. This may well be the case although, we feel that it may be a stretch to telegraph a hike for September. Note that Fed-Fund futures implied odds of a December rate hike are also perceptibly higher on the week at just above even and this may continue to underpin the USD in the short term.
- On the **CFTC** front, net large non-commercial and as well as leveraged accounts pared their implied long dollar bias in the latest week but note that these data points essentially pre-dated the chorus of mildly USD supportive Fed rhetoric in subsequent sessions. **Overall, the markets may continue to unload hitherto USD negativity as Friday approaches.**

### **Asian FX**

- In line with G10 space, expect the USD to be in the driver's seat in Asia at the onset of the week, with slightly wobbly regional equities not helping matters. As such, expect the **Asian Currency Index (ACI)** to climb for a second consecutive session. Elsewhere, **Bank Indonesia** kept its new benchmark rate unchanged as expected at 5.25% on Friday while Urjit Patel has been named to succeed Rajan as the new **RBI** governor.
- The **SGD NEER** starts the week softer on the day (and on the week) at around +0.30% above its perceived parity (1.3534) with NEER-implied USD-SGD thresholds higher from Friday. With market caution towards Yellen this Friday, the Index may be expected to be heavy and bounce around within parity and +0.50% (1.3467) and with the 100-day MA (1.3542) under threat in the near term.

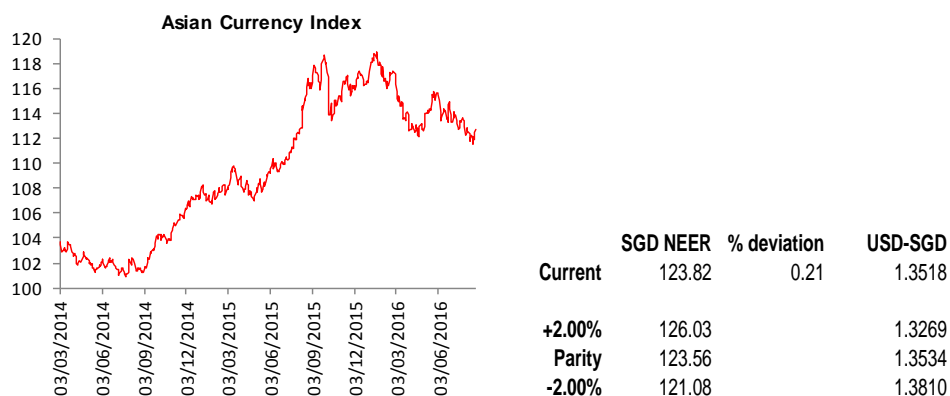
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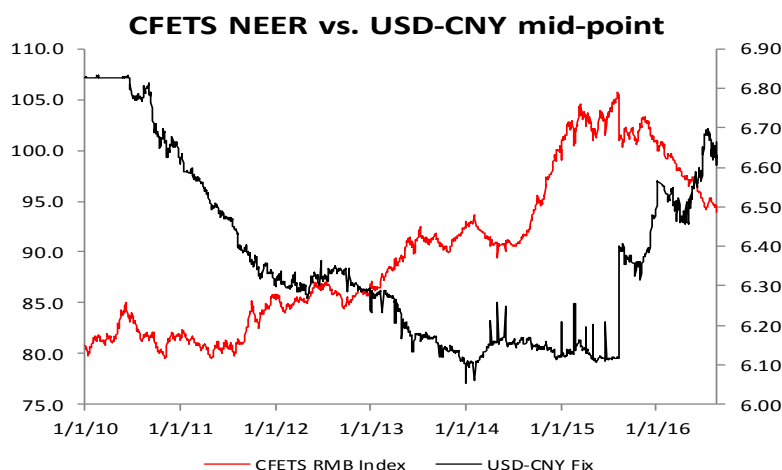
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Source: OCBC Bank

- In reaction to broad-based USD strength, the USD-CNY mid-point rose to 6.6552 this morning (largest percentage on-day change since 27 Jun 16) from 6.6211 on Friday, with the **CFETS RMB Index** finally breaking below **94.00** to 93.89. At this juncture, the Index we think remains on a controlled descent with the USD-CNY mid-points still shouldering the burden of adjustment.



Source: OCBC Bank, Bloomberg

## G7

- EUR-USD** Preliminary EZ PMIs and the German Ifo this week may prove secondary to broader dollar dynamics in the near term and risks to sustain below 1.1300 for the EUR-USD may be inherent. On the CFTC front, net leveraged EUR shorts were pared in the latest week but the capitulation of recent USD weakness may see the EUR-USD slightly heavy for now despite the fairly extreme levels of leveraged positioning (as a percentage of open interest). Barring an outsized positive surprise from Yellen, the 100-day MA (1.1227) and the 55-day MA (1.1159) may cushion.
- USD-JPY** The BOJ's Kuroda on Saturday warned of a "significant chance" for further easing next month and this may put an interim floor on the USD-JPY at the beginning of the week. On the CFTC front, net leveraged JPY longs increased significantly in the latest week but again, the implication

of these numbers may be diluted with the recent broad USD resilience. If skepticism towards the Fed prevails beyond the short term (i.e., re-emerge post-Yellen on Friday), we expect the USD-JPY to be a laggard on the upside with continual risks of a relapse back below 100.00.

- **AUD-USD** The AUD was undermined on Friday after Moody's on Thursday cut its outlook on Australian banks to negative from stable and with the USD's latest comeback, the AUD-USD may continue to be confronted by technical headwinds on the upside for now. On the CFTC front, net leveraged AUD longs were bumped higher perceptibly in the latest week but we expect such positioning to have been pared in recent sessions. Note that a sustained breach below 0.7600 may be short-term pivotal, leaving the way to the 55-day MA (0.7530).
- **GBP-USD** Apart from broad USD resilience, the pound was also weighed by chatter that Article 50 could be triggered early next year. On the CFTC front, net leveraged GBP shorts increased in the latest week and GBP vulnerability plays right into USD traction this week. As such, the 1.3000 support remains under imminent threat with 1.2870 on the horizon.

### FX Trade Ideas

FX Trade Room									
	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 cyclical, 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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