

Tuesday, May 24, 2016

FX Themes/Strategy/Trading Ideas

- Despite bullish comments from the Fed's Williams and Bullard, the dollar ended mostly flat to a touch stronger. The JPY was an exception however, with the USD-JPY falling through 110.00 (and dragging the JPY-crosses along) following the US discomfort with Japanese intervention intentions during the weekend G7 meeting. The larger than expected Japanese April trade surplus (third consecutive surplus) provided a further excuse for JPY strength despite the fact that the surplus was on the back of collapsing exports.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** managed to inch lower within Risk-Neutral territory on Monday although we note a slightly shaky commodity/equity backdrop. This may potentially impinge on the cyclical and EM intra-day.
- Fed-speak takes a break today until Wednesday when Harker, Kashkari, and Kaplan are scheduled for appearances. Nonetheless, FOMC re-pricing may continue to ensue with (front end) yield differential arguments continuing to lend support to the dollar – a near term view that we continue to ascribe to. Apart from the global (US) data stream today, the **RBA's** Stevens is due to speak at 0305 GMT.

Asian FX

- As alluded to above, expect regional pairs to remain buoyant on Tuesday with the **Asian Currency Index (ACI)** still expected to head higher. With little in the way of macro/flow underpinnings, vulnerability to stronger dollar dynamics and/or risk aversion remains significant.
- The **SGD NEER** is slightly firmer relative to its perceived parity (1.3730) at around -0.45% early Tuesday morning in Asia. NEER-implied USD-SGD thresholds are essentially unchanged on the day with the -1.00% threshold estimated at around 1.3869 – setting out the intra-day ceiling. In the interim, the USD-SGD may remain inclined to continue to base build around the 1.3770 floor but a failure to hold may see a probe towards 1.3730.

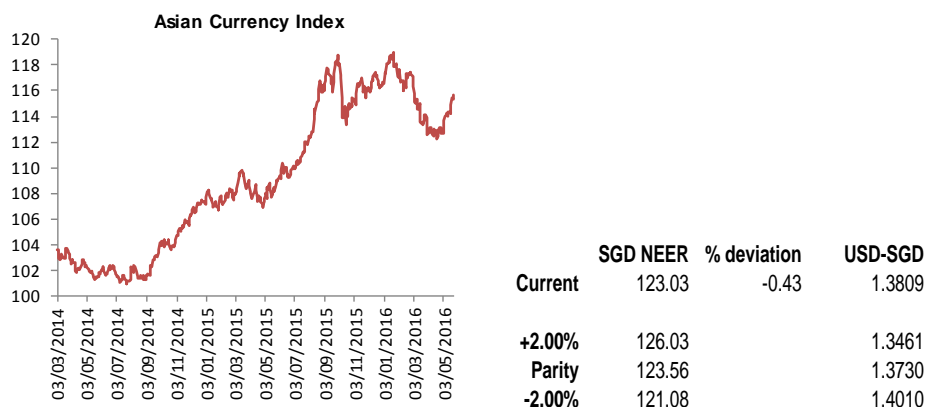
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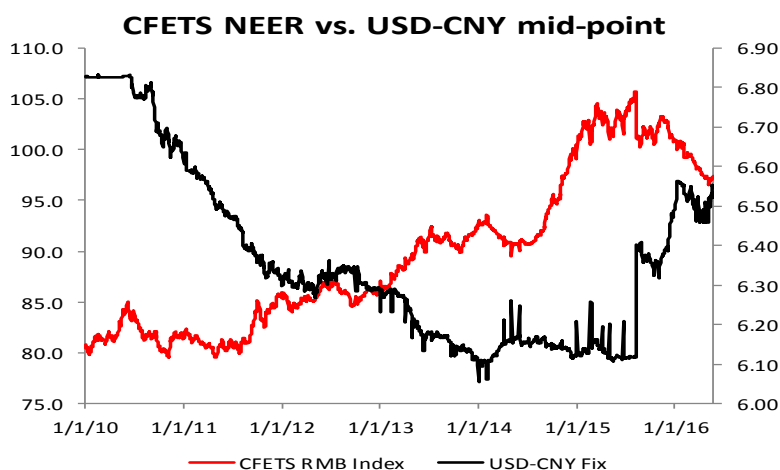
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Source: OCBC Bank

- The USD-CNY mid-point rose slightly to 6.5468 on Tuesday from 6.5455 on Monday, resulting in the **CFETS RMB Index** easing (expectedly) to 97.34 from 97.41 yesterday. Asymmetric behavior on the part of the authorities remains visible at this juncture, with the net effect still implying upside risks for the USD-CNY mid-points in the current environment.



Source: OCBC Bank, Bloomberg

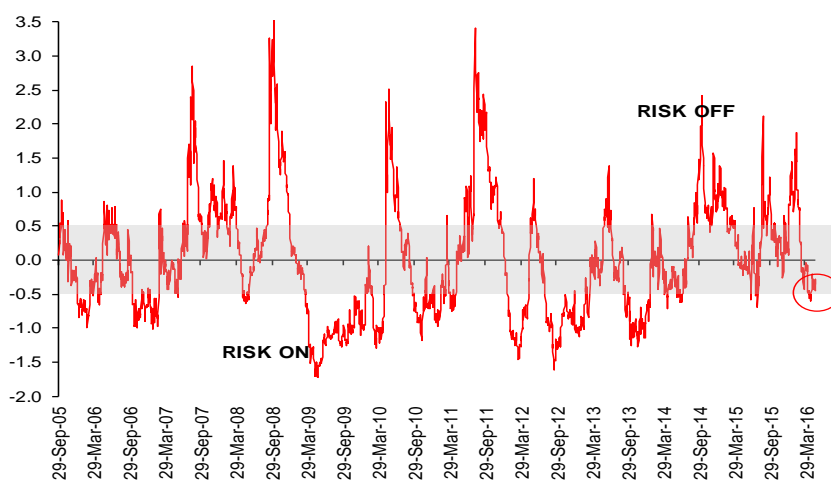
G7

- EUR-USD** May EZ PMIs in aggregate were a mixed bag on Monday although German and French indicators proved resilient. Our near term view remains unchanged and risks remain tilted towards 1.1180 ahead of the 100-day MA (1.1162).
- USD-JPY** Tension between BOJ/MOF rhetoric and US discomfort over intervention may discourage upside tests in the very short term, with the 55-day MA (110.24) proving to be a useful ceiling for now. However, we reckon that the 108.50/85 region may cushion if the dollar continues to find favor within G7 space.
- AUD-USD** Headline risks for the pair may emanate from the RBA's Stevens at 0305 GMT and the .618 Fibo retracement support at 0.7213 is looking increasingly precarious. A sustained breach may invite a slide

towards 0.7150 in a hurry in the current environment of slight nervousness.

- GBP-USD** GBP-USD succumbed to the broad dollar and background Brexit concerns as Cameron and Osborne continued to warn against a Brexit. Better than expected April retail sales numbers only managed to provide a temporary base for the pair. As noted previously, the GBP-USD may have to continue to contend with contrasting forces of Brexit-related swings and broad dollar undercurrents. As such, a consolidation back towards the 1.4400 region we think cannot be discounted.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX1	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DX1	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

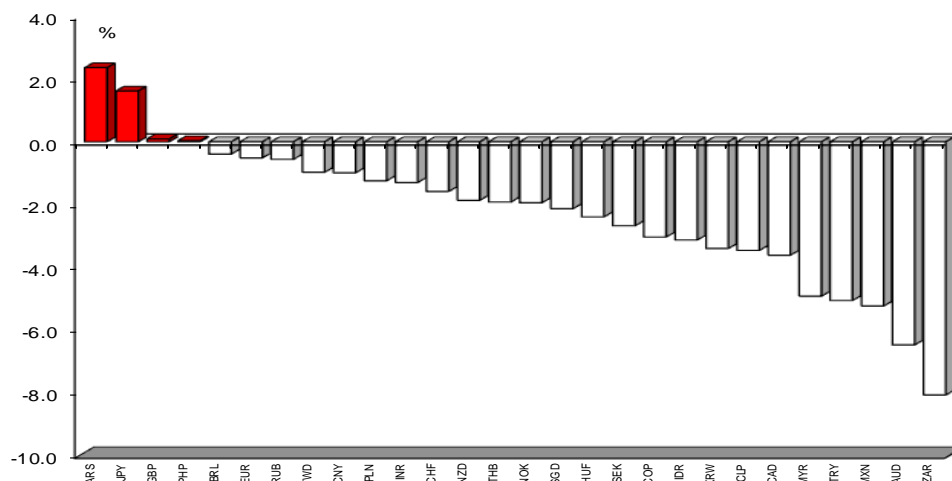
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1180	1.1200	1.1209	1.1300	1.1320
GBP-USD	1.4368	1.4400	1.4495	1.4500	1.4664
AUD-USD	0.7176	0.7200	0.7213	0.7254	0.7300
NZD-USD	0.6700	0.6711	0.6724	0.6800	0.6831
USD-CAD	1.2920	1.3100	1.3155	1.3174	1.3200
USD-JPY	105.83	109.00	109.44	109.91	110.00
USD-SGD	1.3578	1.3800	1.3810	1.3829	1.3900
EUR-SGD	1.5368	1.5400	1.5481	1.5497	1.5500
JPY-SGD	1.2361	1.2600	1.2619	1.2700	1.2788
GBP-SGD	1.9508	2.0000	2.0018	2.0100	2.0134
AUD-SGD	0.9900	0.9914	0.9962	1.0000	1.0123
Gold	1224.50	1242.29	1248.20	1250.86	1299.52
Silver	16.37	16.40	16.44	16.50	17.93
Crude	42.79	47.90	47.93	48.00	48.95

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								
NZD								
EUR								
GBP								
JPY								
CAD								
USD								
SGD								

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
JPY	Green		Green	Red	Red	Green	Green	Green	Green	Green	Grey
CNY	Green	Red		Red	Red	Red	Red	Red	Green	Red	Red
SGD	Green	Green	Green		Red	Red	Green	Green	Green	Green	Grey
MYR	Green	Green	Green	Green		Green	Green	Green	Green	Green	Green
KRW	Green	Red	Green	Green	Red		Green	Green	Green	Green	Green
TWD	Green	Red	Green	Red	Red	Red		Red	Green	Grey	Red
THB	Green	Red	Green	Red	Red	Red	Green		Green	Green	Red
PHP	Green	Red	Red	Red	Red	Red	Red	Red		Red	Red
INR	Green	Red	Green	Red	Red	Red	Grey	Red	Green		Red
IDR	Green	Grey	Green	Grey	Red	Red	Green	Green	Green	Green	

Source: OCBC Bank

FX Trade Ideas

FX Trade Table								
	Inception		B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale
1	29-Apr-16		S	AUD-USD	0.7626	0.7095	0.7490	Negativity post 1Q CPI numbers
2	09-May-16		B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak
3	09-May-16		B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook
4	18-May-16		B	GBP-USD	1.4438	1.4805	1.4255	Potential for bounce post-referendum
5	19-May-16		S	EUR-USD	1.1224	1.0935	1.1370	Policy dichotomy play, especially after FOMC minutes
6	19-May-16		B	USD-JPY	110.01	113.50	108.25	Policy dichotomy play, especially after FOMC minutes
	STRUCTURAL							
7	18-Feb-16		B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate
8	01-Mar-16		S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries
9	07-Mar-16		B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations
10	12-Apr-16		S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC
11	12-Apr-16		B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield
	RECENTLY CLOSED							
	Inception	Close	B/S	Currency	Spot		Close	Rationale
1	03-Feb-16	03-May-16	S	GBP-USD	1.4401		1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation
2	14-Apr-16	05-May-16	S	USD-CAD	1.2832		1.3040	Bottoming crude prices
3	20-Apr-16	09-May-16	B	GBP-USD	1.4374		1.4165	Moderating Brexit concerns, weak dollar, positive risk
4	04-May-16	10-May-16	S	USD-JPY	107.21		109.00	USD vulnerability pre-NFP, potential risk aversion
5	04-May-16	11-May-16	B	EUR-USD	1.1482		1.1372	Rate differentials in the EUR's favor
6	19-Apr-16	13-May-16	S	USD-SGD	1.3439		1.3740	Potential for further broad USD decav, positive risk appetite

Source: OCBC Bank

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