

Wednesday, May 25, 2016

### FX Themes/Strategy/Trading Ideas

- Dollar resilience (note the firmer UST curve) on the back of evolving FOMC expectations may remain in play today with significantly better than expected April new home sales making the dollar an easier buy. Going ahead, look to Fed commentary from Harker (1300 GMT), Kashkari (1540 GMT), and Kaplan (1730 GMT).
- Elsewhere, risk appetite considerations may take a back seat to the USD narrative as the policy dichotomy playbook continues to gain traction. The **FXSI (FX Sentiment Index)** inched lower within Risk-Neutral territory on Tuesday but this did little for the cyclical.

### Asian FX

- Positive Asian equities early Wednesday may do little to mitigate broad dollar strength, with additional upside guidance for USD-Asia from the USD-CNY mid-point. We reiterate that little in the way of macro/flow underpinnings, vulnerability to stronger dollar dynamics and/or risk aversion remains significant. As such, expect the **Asian Currency Index (ACI)** to bounce on any weakness in the near term.
- The **SGD NEER** is firmer on the day relative to its perceived parity (1.3767) at -0.35% early on Wednesday. NEER-implied USD-SGD thresholds are higher on the day with -0.50% estimated at 1.3837 and -1.00% at 1.3906 – essentially slightly more topside leeway for the USD-SGD. Meanwhile, NEER volatility measures are warming up slightly but remain at a distance away from uncomfortable levels.
- This morning, the 1Q GDP numbers disappointed with no upward revision from the initial flash estimate of +1.80% yoy and in the current environment, should keep the USD-SGD supported to higher. Key resistance levels include the 100-day MA (1.3841), 1.3850, the 50% retracement at 1.3898, and the -1.00% NEER threshold.

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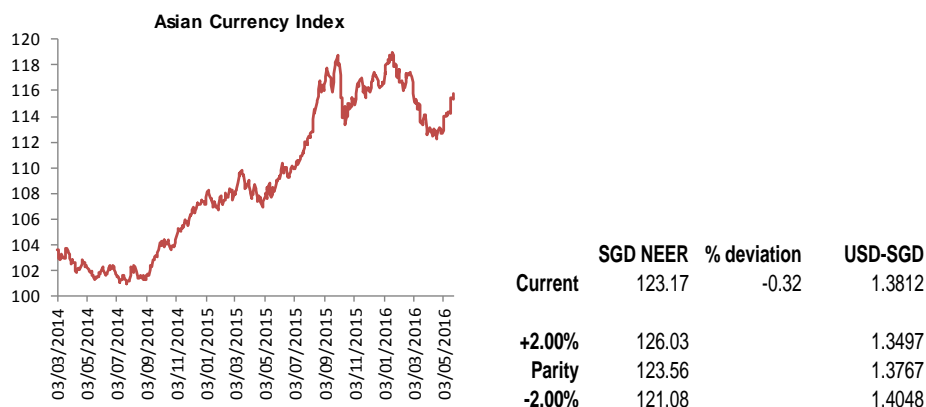
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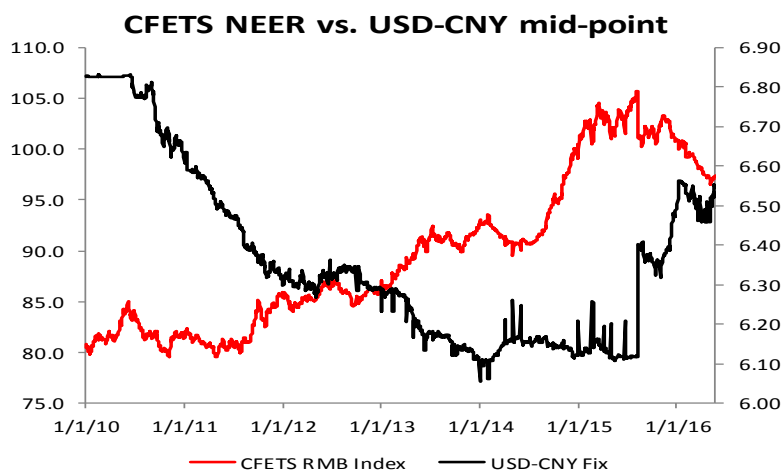
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Source: OCBC Bank

- The **CFETS RMB Index** fell further to 97.29 from 97.34 on Monday, in contrast to a slight firming as suggested by movements in the basket's constituent currencies. This resulted in the USD-CNY mid-point firming to 6.5693 from 6.5468 yesterday, and we note that the mid-point this morning remains within its perceived boundary constraints. Overall, the official reaction function for the CFETS RMB Index remains asymmetric and non-linear. Specifically, PBOC remains intent on keeping the CFETS RMB Index suppressed (in line with macro conditions) and this would inherently place upside risks on the USD-CNY mid-points.



Source: OCBC Bank, Bloomberg

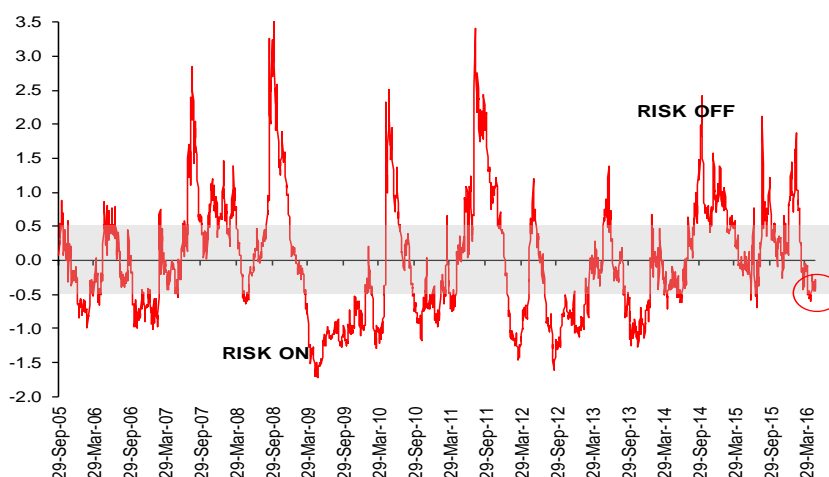
## G7

- EUR-USD** Positive Greece-related news flow failed to significantly stem USD strength with the EUR-USD and the common currency may remain vulnerable with an entire bevy of appearances by ECB members later today. Near term risks for the pair may remain skewed to the downside and a breach of 1.1130/40 may be pivotal and paves the way to the 200-day MA (1.1103) as a first rest stop.
- USD-JPY** Although chatter surrounding the planned sales tax hike continues to circulate, the JPY may now fade any post-G7 strength and instead increasingly respond to broad dollar undertones once again. If the

55-day MA (100.19) is tested successfully, we look for upside room towards the 112.50 neighborhood.

- AUD-USD** Comments by the RBA's Stevens were perceived to be sufficiently dovish (i.e., "the AUD is doing what it is expected to do", "True that inflation is very low, technically it is below our announced target") and coupled with the current dollar environment, the AUD we think remains on a precarious slope. If the pair continues to persist below 0.7213, markets may be drawn towards 0.7125 ahead of 0.7100.
- GBP-USD** More positive indications from Brexit-related poll results boosted the pound on Tuesday and a reassessment of prior market negativity may remain underway in the near term. In the near term, the sterling may remain a significant standout and continue to lean against the greenback, with a 1.4450-1.4725 range likely to prevail in the short term.

### 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

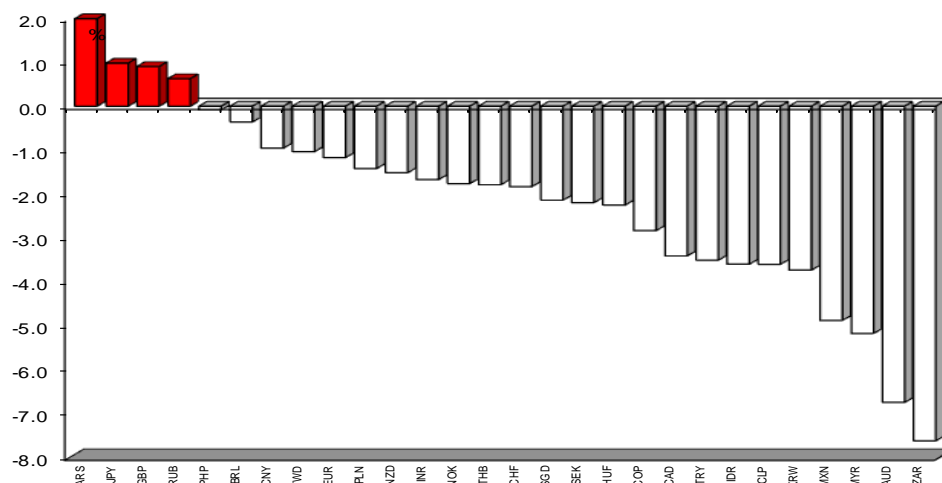
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.1111	1.1133	1.1145	1.1200	1.1317
<b>GBP-USD</b>	1.4378	1.4600	1.4609	1.4689	1.4700
<b>AUD-USD</b>	0.7100	0.7145	0.7187	0.7200	0.7253
<b>NZD-USD</b>	0.6700	0.6706	0.6755	0.6800	0.6832
<b>USD-CAD</b>	1.2920	1.3100	1.3118	1.3188	1.3200
<b>USD-JPY</b>	109.87	110.00	110.15	111.00	111.08
<b>USD-SGD</b>	1.3581	1.3800	1.3816	1.3842	1.3900
<b>EUR-SGD</b>	1.5315	1.5368	1.5399	1.5400	1.5496
<b>JPY-SGD</b>	1.2460	1.2500	1.2543	1.2600	1.2723
<b>GBP-SGD</b>	1.9526	2.0100	2.0184	2.0200	2.0230
<b>AUD-SGD</b>	0.9885	0.9900	0.9930	1.0000	1.0120
<b>Gold</b>	1200.00	1223.40	1227.70	1232.46	1250.41
<b>Silver</b>	16.18	16.20	16.25	16.30	16.39
<b>Crude</b>	42.62	42.69	49.20	49.22	49.30

Source: OCBC Bank

### FX performance: 1-month change agst USD



Source: Bloomberg

### G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
<b>AUD</b>								
<b>NZD</b>								
<b>EUR</b>								
<b>GBP</b>								
<b>JPY</b>								
<b>CAD</b>								
<b>USD</b>								
<b>SGD</b>								

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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