

Tuesday, July 26, 2016

FX Themes/Strategy/Trading Ideas – SGD Outlook

- Intra-day, global FX price action may continue to revolve around the vacillating investor expectations surrounding the FOMC on Wed and BOJ on Friday. A hint of risk aversion in early trade may also keep the JPY underpinned with global equities stuttering overnight and the **FXSI (FX Sentiment Index)** firming slightly within Risk-Neutral territory overnight as crude continue to decay.
- **Model Update – AUD-USD:** Our short term AUD-USD model indicates little perceived misalignment with the pair trading along the bottom of its estimated confidence intervals. Interestingly, the expected slight upside bias going ahead remains intact despite Brexit-related worries and crumbling RBA expectations – a testament perhaps to yield seeking behavior.

Asian FX

- Asian currencies are expected to take the cue from overnight EM FX with the slight wobble in global risk appetite and firmer dollar expected to lead the regional pairs higher. The **Asian Currency Index (ACI)** is thus expected to climb for a third consecutive session today.
- The **SGD NEER** is markedly lower at around +0.65% above its perceived parity (1.3715) with NEER-implied USD-SGD thresholds slightly higher on the day. Despite official comments yesterday indicating little inclination to alter monetary policy at this juncture, we retain our view that near term risks continue to favor a yet softer SGD NEER and potentially higher USD-SGD.
- At current levels, the +1.00% NEER threshold is estimated at 1.3513, +1.00% at 1.3579, although we continue to maintain that risk/reward continues to favor a descent towards +0.50% at 1.3647 in the near term with a technical resistance expected into 1.3685. Technical supports meanwhile are also expected on approach of 1.3600 and thereafter, the 55-day MA (1.3587).

SGD Outlook

- The outlook for the USD-SGD may remain conflicted until further clarity emerges from the Fed via another rate hike deeper into 2H 16. The House view currently is for a December hike. In the near term (going into and around this week's FOMC), the dollar may hold the upper hand, and we are tactically long USD-SGD.

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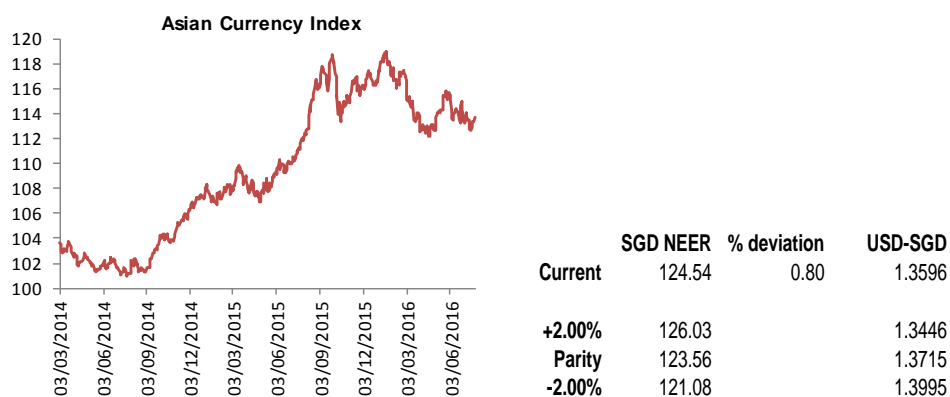
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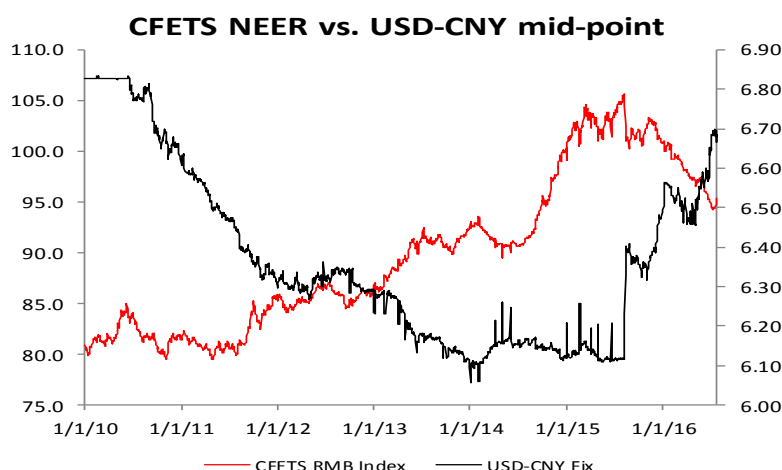
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- Barring an overly hawkish surprise from this week’s FOMC, and beyond the short term, we fear that markets may ultimately revert to yield seeking behavior in the absence of any acute risk aversion – potentially keeping the USD-SGD top heavy until the next Fed rate hike materializes.
- On an NEER basis, we note anecdotal talk that the authorities have been on hand to limit an overly strong SGD NEER at levels well before the perceived extreme boundary of the estimated fluctuation band. Currently, the NEER is residing around +0.90% above its parity, below its recent highs around +1.20 to +1.30%.
- However, the MAS on Monday explicitly noted that “Unless there is a marked deterioration in the global economy or significant shift to the inflation outlook, there is no need to change the monetary policy stance”.
- This we think is an attempt to douse recent market commentary suggesting a heightened possibility of further easing at the October MAS Monetary Policy Statement (MPS) and accompanying market research suggesting short-SGD/long NEER trade ideas.
- Overall, while recent cited official presence in curtailing the downside for the USD-SGD suggests a slight discomfort towards an unduly strong SGD NEER in view of the fundamental backdrop, the authorities are also keen not to encourage SGD weakening expectations, especially if the eventual FOMC rate hike catalyzes a bout of USD strength.
- Overall, USD-SGD may remain confined to a 1.3400-1.3800 range around 1.3600 (as has been the case since Mar 2016) before lifting higher into the end of the year on the back of a FOMC rate hike.



Source: OCBC Bank

- Today, the **CFETS RMB Index** gained further to 95.32 from 95.29 on Monday, with the USD-CNY mid-point falling to 6.6778 compared to 6.6860 yesterday.

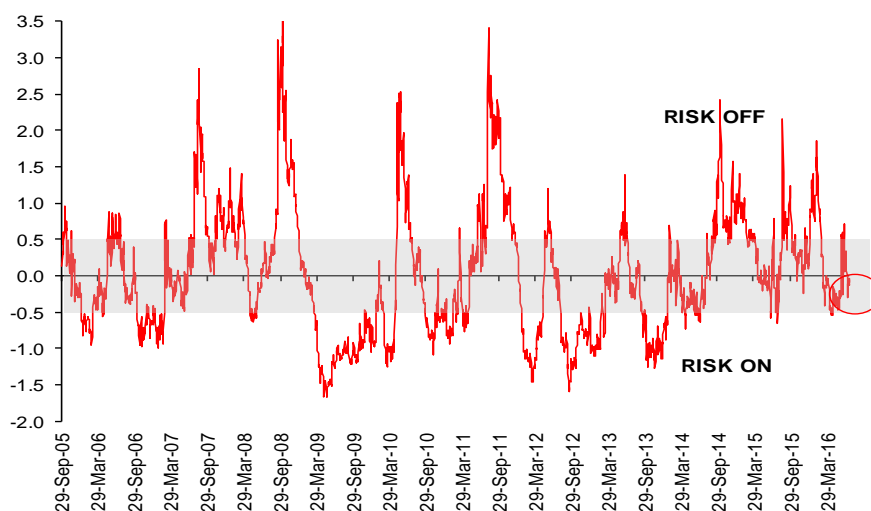


Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** The EUR-USD was partially supported by the better than expected German July Ifo (108.3) on Monday while European bank stress results due Friday may impart further directionality outside of the FOMC's outcome on Wednesday. We continue to stay heavy on the common currency at this juncture, favoring a move towards 1.0900 as opposed to the 200-day MA (1.1076).
- **USD-JPY** USD-JPY slumped past 105.00 early Tuesday with no distinct catalyst and on a mixture of stops, risk aversion (N225 -1.53%), and increasing skepticism towards eventual fiscal stimulus after a Nikkei report indicated that the government had only penciled in direct fiscal stimulus of "only" JPY6tn over the next few years (hardly a big bang) while the eventual package could exceed JPY20tn, well below earlier speculation of up to JPY30tn. Going ahead, expectations surrounding the BOJ MPC on Friday are also increasingly diffused and expect price action to be choppy. The 55-day MA (106.17) may cap for now, although investors may collect into 104.70 pending headline risks.
- **AUD-USD** As mentioned previously, the 2Q 16 CPI numbers tomorrow may prove pivotal for the pair, although its intra-day trajectory may be determined more by risk appetite fluctuations. If the AUD-USD becomes unhinged at 0.7490, 0.7450 and the 55-day MA (0.7403) may beckon.
- **GBP-USD** Late Monday/early Tuesday, the GBP-USD fell following a FT report revealing that the BOE's Weale had dropped his opposition to easing and now favored immediate stimulus. Our view remains unchanged and the 1.3000 support continues to loom larger.

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

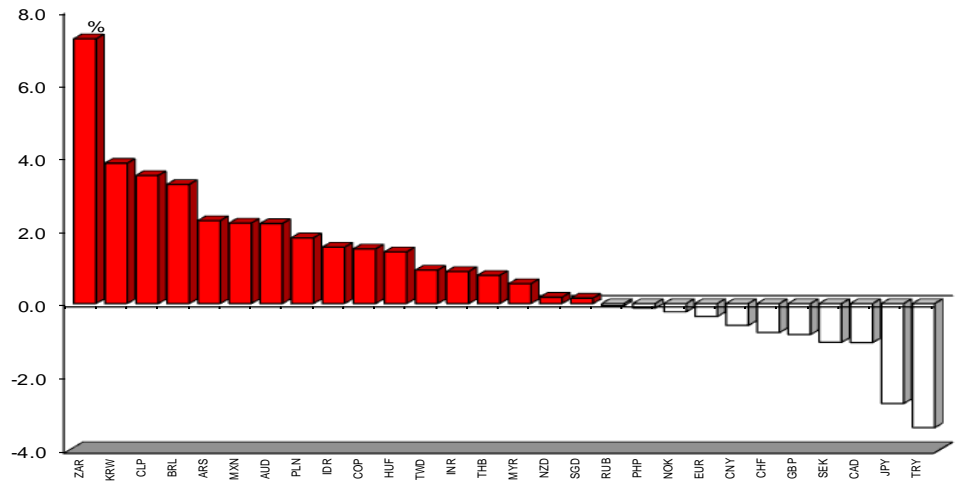
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0913	1.0964	1.0986	1.1000	1.1075
GBP-USD	1.2879	1.3100	1.3112	1.3200	1.3440
AUD-USD	0.7402	0.7409	0.7486	0.7500	0.7636
NZD-USD	0.6952	0.7000	0.7006	0.7009	0.7100
USD-CAD	1.3200	1.3209	1.3210	1.3242	1.3300
USD-JPY	100.10	104.00	104.85	105.00	105.90
USD-SGD	1.3550	1.3570	1.3600	1.3608	1.3722
EUR-SGD	1.4844	1.4900	1.4941	1.5000	1.5014
JPY-SGD	1.2821	1.2900	1.2971	1.3000	1.3439
GBP-SGD	1.7392	1.7800	1.7833	1.7900	1.8124
AUD-SGD	1.0100	1.0124	1.0181	1.0200	1.0279
Gold	1300.00	1303.63	1314.00	1367.86	1377.50
Silver	18.37	19.60	19.63	19.70	20.99
Crude	43.19	43.20	46.96	48.94	50.53

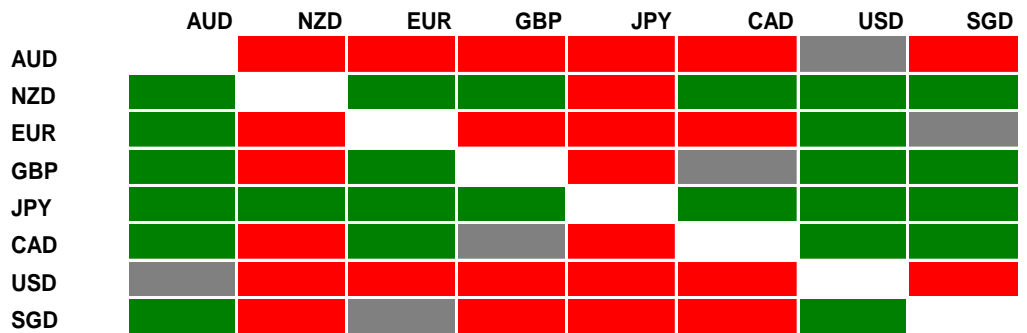
Source: OCBC Bank

FX performance: 1-month change agst USD



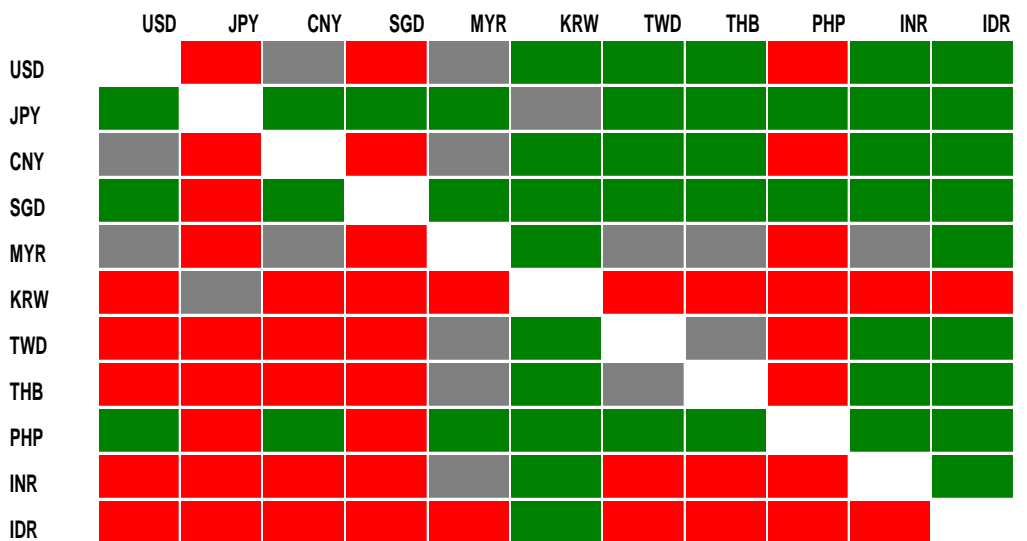
Source: Bloomberg

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		
TACTICAL									
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		
STRUCTURAL									
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		
RECENTLY CLOSED									
	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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