

Friday, August 26, 2016

FX Themes/Strategy/Trading Ideas

- Despite supportive remarks from the Fed's Kaplan and George, the dollar ended mixed against its G10 counterparts on Thursday despite firmer UST yields and outperforming July durable goods orders (Cap nondef ex Air +1.6%). Going into tonight, investors will be on alert with regards to Yellen (1400 GMT) given the still significant gulf between market-implied expectations and the perceived FOMC stance.
- Given prevailing market skepticism, any reference to phrases like "the next meeting" being "live" would undoubtedly precipitate a USD surge. While recent Fed speak has been attempting to veer towards a more hawkish tone and bring markets into alignment with some success (odds of a Dec hike have improved to 57.4% from a trough of less than 8% in late June – back to square one, actually), the current consensus we think continues to revolve around a largely noncommittal (but sufficiently hawkish without being chronologically explicit) outcome from Yellen.
- On other fronts, the **FXSI (FX Sentiment Index)** managed to ease slightly within Risk-Neutral territory on Thursday despite a negative taint from global equities.
- With global macro conditions stabilizing, oil regaining some semblance of traction, inherent suspicion towards the broad dollar, and a Bank of Canada preoccupied by steady core inflation and a potential housing bubble, we see scope for **USD-CAD** to test potentially lower. We look to a structural short USD-CAD (spot ref: 1.2918) targeting 1.1960 and place a stop at 1.3400.
- With near term economic pessimism abating slightly, the **GBP-USD** may have the head room to flesh out its near term upside ceiling (especially if short term players continue to pare their shorts) before succumbing once again to medium term Brexit-related concerns. With a spot ref at 1.3210, we look for a potential drift towards 1.4055 with a stop placed at 1.2785.
- With potential upside risks surrounding the broad dollar in the near term coupled with a slight moderation in net portfolio inflows into the region, USD-SGD may look to seek out the upper reached of its trading range. We look to a tactical long **USD-SGD** (spot ref: 1.3527) targeting 1.3780 and place a stop at 1.3395.

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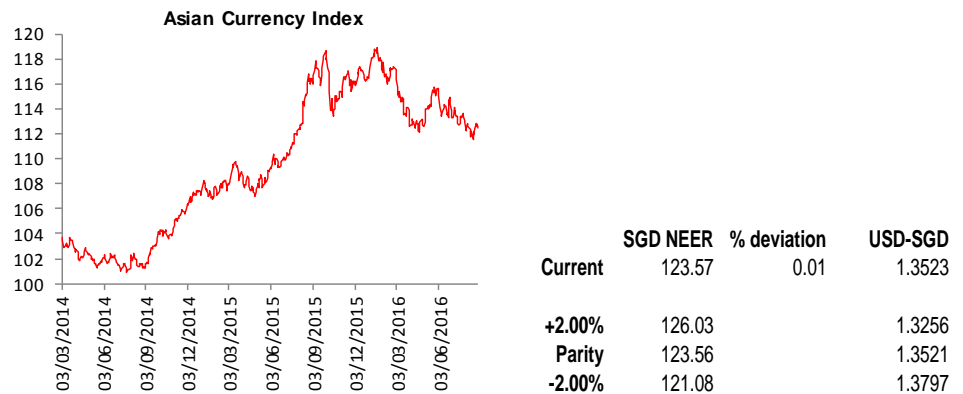
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Asian FX

- Regional currency pairs are expected to be trapped ahead of Yellen with

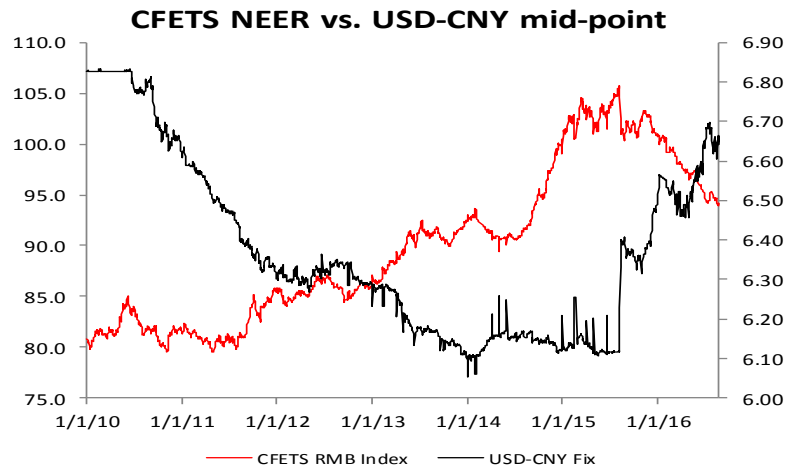
skepticism towards the dollar still fairly apparent. Note that despite recent Fed commentary managing to lift implied rate hike expectations, the USD has continued to flail against the Asian currencies in aggregate in recent weeks, indicating that the hunt of yield remains a key mover for the region going ahead. For today, the **Asian Currency Index (ACI)** may be slightly heavy in the 12 hours ahead of Yellen.

- The **SGD NEER** is hovering around parity (1.3521) early Friday in Asia with NEER-implied USD-SGD thresholds softer on the day. The basket may continue to bound between +0.50% (1.3454) and -0.50% (1.3589) although ahead of Yellen, the USD-SGD may trawl a narrower range traced out by the 55-day MA (1.3481) and the 100-day MA (1.3543) in spite of the recent increase in short-end vol premiums.



Source: OCBC Bank

- The **CFETS RMB Index** was held relatively static at 94.06 this morning from 94.01 on Thursday, with the USD-CNY mid-point easing (as largely expected) to 6.6488 from 6.6602.



Source: OCBC Bank, Bloomberg

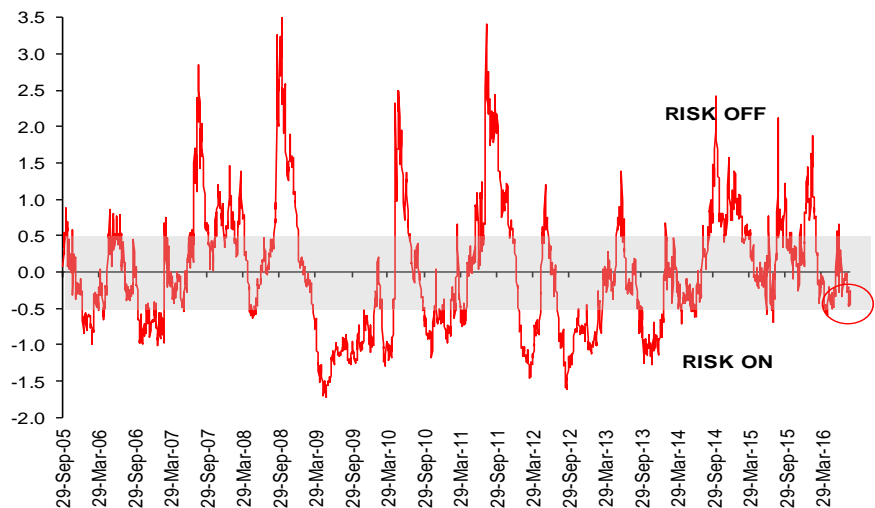
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- **EUR-USD** The EUR-USD managed to float higher despite a disappointing German August Ifo but our near term view remains largely

unaltered. Expect the 100-day MA (1.1223) to be likely a near term focal point while 1.1360/00 should cap going into Yellen's appearance on Friday.

- USD-JPY** Softer than expected July core CPI numbers for Japan this morning only heightens expectations of further BOJ easing next month. However, key near term headline risk later in the global session may hamper excessive moves in either direction in the interim. The short-term vol surface meanwhile has been skewed (pun intended) away from excessive downside in the pair and any 'disappointment' out of Yellen tonight may result in markets pulling the pair lower significantly.
- AUD-USD** The AUD-USD is also expected to be in a holding pattern with the floor at 0.7600 still holding. As noted yesterday, the antipodeans have benefitted significantly from the search for yield in the year to date and investors may likely resume doing so multi-session (0.7655 a first stop) pending the verdict on Yellen's appearance. In the short term, if 0.7600 is punctured, look towards 0.7565 as a first support before the 55-day MA (0.7544).
- GBP-USD** The GBP-USD may remain anchored around the 1.3200 handle pending further news flow from Jackson Hole. Risks for the pair remains asymmetric in the event of a hawkish surprise from Yellen, with the pound obviously crippled by underlying medium term Brexit-related concerns.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

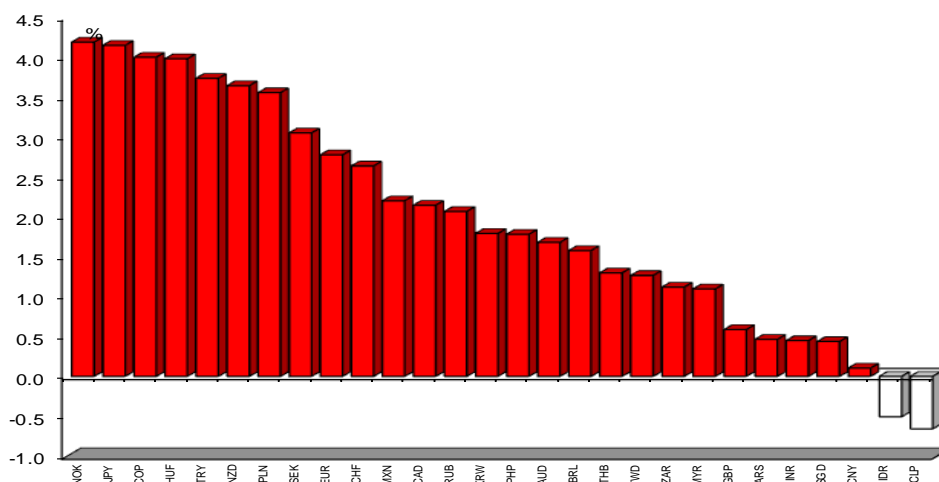
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1147	1.1200	1.1291	1.1300	1.1366
GBP-USD	1.2866	1.3200	1.3207	1.3283	1.3300
AUD-USD	0.7558	0.7600	0.7627	0.7700	0.7719
NZD-USD	0.7165	0.7300	0.7309	0.7338	0.7344
USD-CAD	1.2764	1.2900	1.2912	1.2992	1.3000
USD-JPY	99.54	100.00	100.49	101.00	102.53
USD-SGD	1.3469	1.3500	1.3524	1.3542	1.3600
EUR-SGD	1.5008	1.5200	1.5270	1.5292	1.5300
JPY-SGD	1.3115	1.3400	1.3458	1.3500	1.3517
GBP-SGD	1.7270	1.7800	1.7861	1.7886	1.7900
AUD-SGD	1.0179	1.0300	1.0315	1.0381	1.0400
Gold	1300.00	1310.70	1320.10	1321.82	1331.62
Silver	18.44	18.50	18.59	18.60	19.42
Crude	47.00	47.30	47.30	49.11	50.54

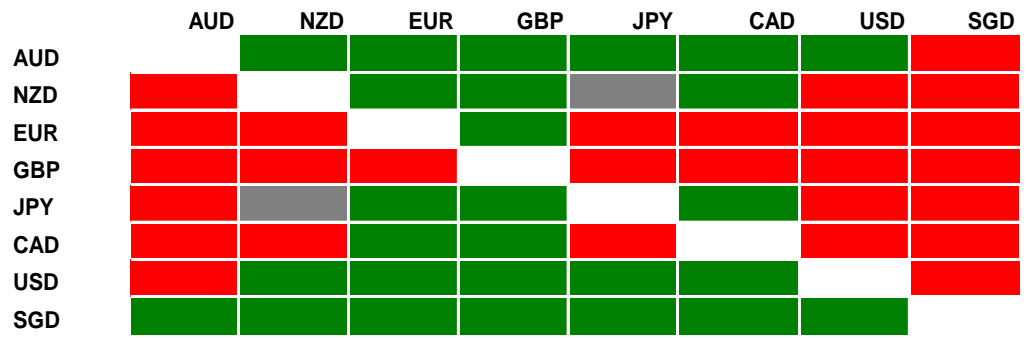
Source: OCBC Bank

FX performance: 1-month change agst USD



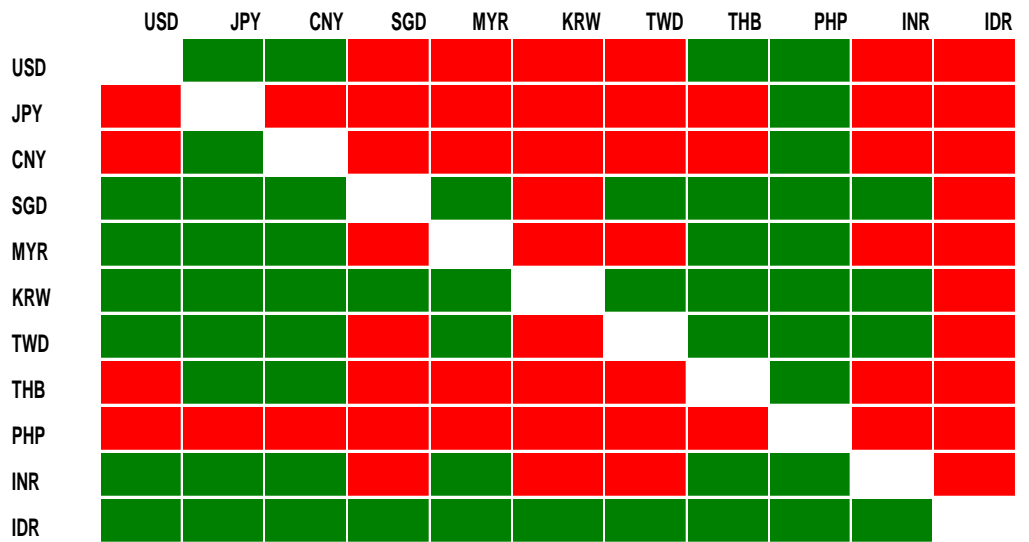
Source: Bloomberg

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	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	11-Aug-16	S	USD-JPY	101.22	96.45	103.61	Fading dollar coupled with potential risk aversion	
3	18-Aug-16	S	USD-CAD	1.2813	1.2480	1.2985	Recovering oil vs fading FOMC prospects	
4	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
5	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
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 cyclicals, 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	
12	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
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	1.2805	Concerns over the global deflationary impact from Brexit	-0.23
7	05-Aug-16		S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
8	08-Aug-16		B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
Jan- Jul 2016 Return								+13.75

Source: OCBC Bank

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