

Wednesday, July 27, 2016

FX Themes/Strategy/Trading Ideas

- Expect headline risk to be concentrated around the FOMC statement later in the global day (1800 GMT) with FF futures shading lower on Tuesday. Overall, we expect the FOMC statement to largely shrug off Brexit-related concerns (or at least indicate that these concerns would not have material impact on its decision making metrics currently), leaving space for potential USD resilience in the short term.
- Elsewhere, the improvement in risk appetite levels with the **FXSI (FX Sentiment Index)** climbing may however underpin the cyclical, EM/Asia ahead of the FOMC.
- Medium term prospects for the pound remain dour to say the least post Brexit vote. While the BOE is still somewhat in denial (although Weale is finally coming around), the GBP's broad valuation we think has to exercise its appreciation in 2013-2015, let alone impute the economic drag from an actual Brexit. On the other side of the equation, we also continue to expect room for broad USD resilience (however fleeting perhaps) when the next FOMC rate hike eventually materializes. With a Tuesday **GBP-USD** spot ref at 1.3120, we see space for a decline to a 1.1555 target (stop placed at 1.3905) on a multi-month horizon.

Asian FX

- The positive start to Asian equities this morning (taking the lead from global equities yesterday) may keep USD-Asia relatively suppressed and despite the FOMC later in the global day. If the Fed manages to sufficiently infuse economic optimism, EM/Asia may well benefit from supported risk appetite. In the interim, the **Asian Currency Index (ACI)** may lean lower.
- The **SGD NEER** is slightly firmer around +0.86% above its perceived parity (1.3689) with NEER-implied USD-SGD thresholds slightly lower on the day following overnight price action. At current levels, the +0.50% threshold is estimated at 1.3621, +1.00% at 1.3554, and +1.50% at 1.3487. Recent data points have been mixed with June CPI readings warmer than expected but with industrial production released yesterday chalking up a disappointing -0.30% yoy contraction. Ahead of the FOMC, the USD-SGD may loiter in the vicinity of its 55-day MA (1.3585) and 100-day MA (1.3578). Elsewhere, although the pair may intrinsically remain hostage to USD volatility, the short term implied skew (based on its recent leading properties) potentially portends downside latitude for the pair going ahead.

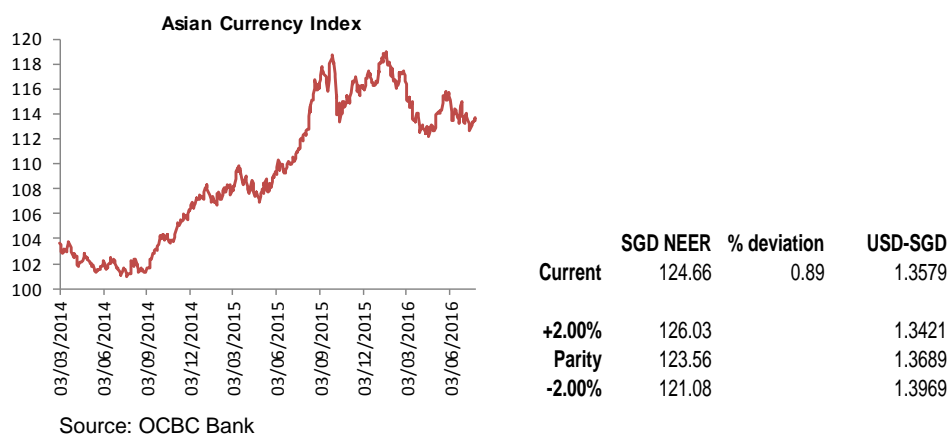
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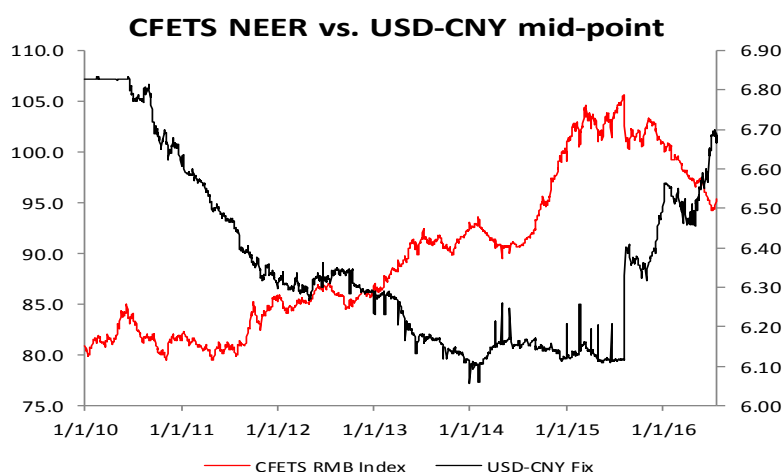
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Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com



- This morning, the **CFETS RMB Index** firmed (as opposed to an implied softening) again to 95.34 from 95.32 on Tuesday, although the USD-CNY mid-point softened more than expected to 6.6671 from 6.6778 and versus the previous close of 6.6766.



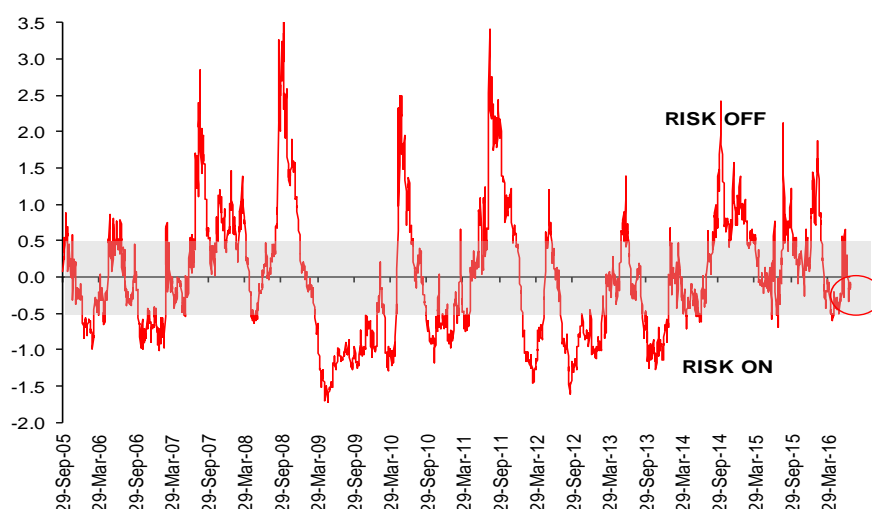
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** FOMC-related and EZ bank stress test results on Friday may align to keep the EUR-USD top heavy in the near term. Our near term view remains unchanged and preference would be to continue to stay heavy favoring a move towards 1.0900 as opposed to the 200-day MA (1.1074).
- **USD-JPY** After slumping on Tuesday, the USD-JPY has managed to lift back above 105.00 in the Asian morning on Wednesday, partially due to a Nikkei report indicating that the BOJ is not averse to further monetary accommodation. Market's we think remain heavily laden with possible BOJ easing measures on Friday. Price action is still expected to be choppy, although in the near term, we would be more inclined towards the 55-day AM (106.11) versus the 104.00 floor.

- AUD-USD** This morning, the AUD-USD blipped higher temporarily following warmer than expected 2Q CPI readings while supportive investor sentiment may put a floor on the pair towards the 100-day MA (0.7488). Potential for FOMC-induced volatility remains significant intra-day.
- GBP-USD** After an early Tuesday dip, GBP-USD managed to recover and end largely flat on the day but prevalent market expectations for an August rate cut may continue to guide the pair towards the 1.3000 floor in the near term. In particular, look to July CBI data points today for immediate risks.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DX1	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	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

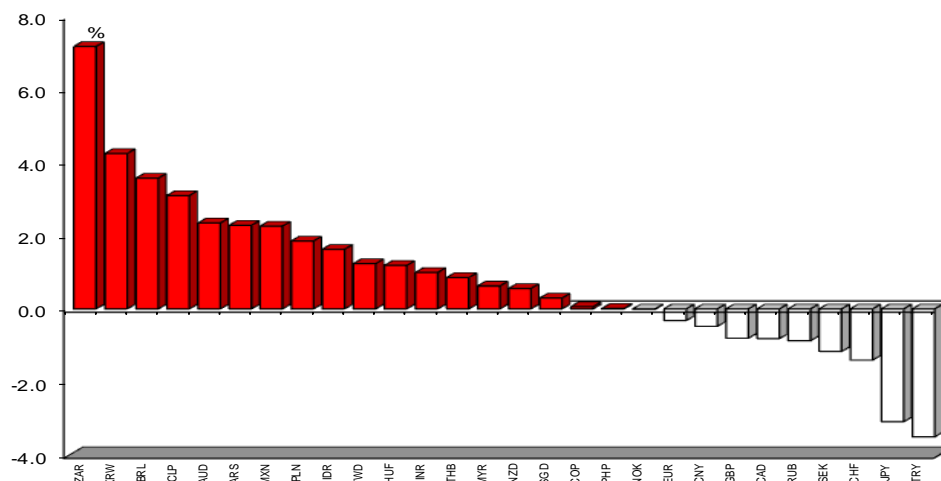
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0913	1.0956	1.0990	1.1000	1.1073
GBP-USD	1.2893	1.3100	1.3119	1.3200	1.3397
AUD-USD	0.7410	0.7415	0.7499	0.7500	0.7634
NZD-USD	0.7000	0.7016	0.7032	0.7100	0.7325
USD-CAD	1.2974	1.3100	1.3172	1.3200	1.3225
USD-JPY	100.21	105.00	105.25	105.79	106.00
USD-SGD	1.3500	1.3560	1.3580	1.3600	1.3615
EUR-SGD	1.4844	1.4900	1.4924	1.5000	1.5005
JPY-SGD	1.2828	1.2900	1.2902	1.3000	1.3427
GBP-SGD	1.7410	1.7800	1.7815	1.7900	1.8078
AUD-SGD	1.0100	1.0125	1.0184	1.0200	1.0278
Gold	1300.00	1304.76	1318.20	1367.41	1377.50
Silver	18.77	19.60	19.66	19.70	20.78
Crude	42.87	42.90	46.86	48.79	50.44

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		Red	Red	Red	Red	Red	Grey	Red
NZD	Green		Green	Green	Red	Green	Green	Green
EUR	Green	Red		Grey	Red	Red	Green	Red
GBP	Green	Red	Grey		Red	Red	Green	Grey
JPY	Green	Green	Green	Green		Green	Green	Green
CAD	Green	Red	Green	Green	Red		Green	Green
USD	Grey	Red	Red	Red	Red	Red		Red
SGD	Green	Red	Green	Grey	Red	Red	Green	

Source: OCBC Bank

Asia FX Heat Map

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

Source: OCBC Bank

FX Trade Ideas

FX Trade Room									
	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	
12	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 (%)	
3	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98	
4	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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