

Thursday, October 27, 2016

FX Themes/Strategy/Trading Ideas

- The greenback ended mixed to softer across G10 space on Wednesday with a steeper UST curve (from the back-end) managing to buoy the USD-JPY but failing to reverse completely intra-day losses against the likes of the EUR and GBP as Bunds and Gilts sold off. US data releases were partially supportive with the market services/composite PMIs and Sep new home sales outstripping prior expectations.
- Elsewhere, negative EZ/US equities, suppressed commodities and wider EM risk premiums saw the **FXSI (FX Sentiment Index)** ticking higher into Risk-Neutral territory on Wednesday.
- For today, US data points include US Sep durable goods orders, initial claims, and Sep pending home sales. The ECB's Nowotny (1200 GMT) and Mersch (1700 GMT) also bear watching today. In the interim, the DXY may continue to bide its time barring a collapse back below the 98.50 level towards 98.00.
- With crude oil losing altitude, dovish expectations being attached to the Bank of Canada, and potential USD resilience continuing to lurk in the background, we undertake a tactical long **USD-CAD**. From a spot ref at 1.3356 on Wednesday, we target 1.3635 and place a stop at 1.3210.

Asian FX

- Asian equities are mixed in early morning trade on Thursday imply that the **ACI (Asian Currency Index)** may see limited downside latitude intra-day with potential USD resilience continuing to lurk on a multi-session horizon.
- **SGD NEER:** The **SGD NEER** is a touch lower on the day at around -0.46% below its perceived parity (1.3844). NEER-implied USD-SGD thresholds are a touch firmer on the day amid a mixed broad dollar performance overnight with -0.50% at 1.3914 and -1.00% at 1.3984. In the near term, the upper bound for the NEER is still estimated at around -0.35% to -0.40% below its parity and the USD-SGD may continue to range in a 1.3880-1.3950 range pending further external cues and despite the better than expected Sep industrial production numbers (+6.7% yoy).

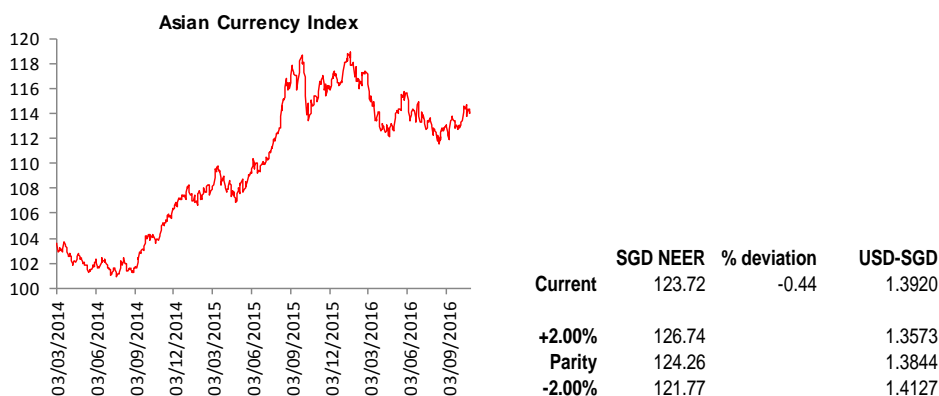
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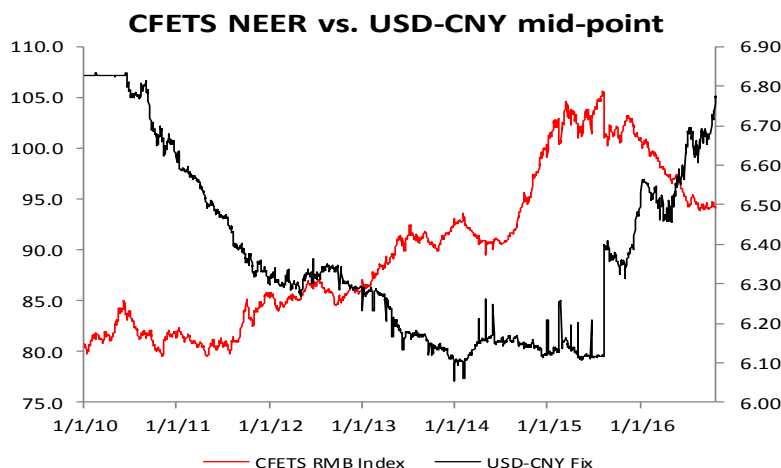
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Source: OCBC Bank

- CFETS RMB Index:** The **CFETS RMB Index** bounced higher to 94.16 from 94.09 on Wednesday, in line with recent official rhetoric seeking to dissuade expectations of undue depreciation. This saw the USD-CNY mid-point coming in at (a higher than expected) 6.7736 from 6.7705 yesterday.



Source: OCBC Bank, Bloomberg

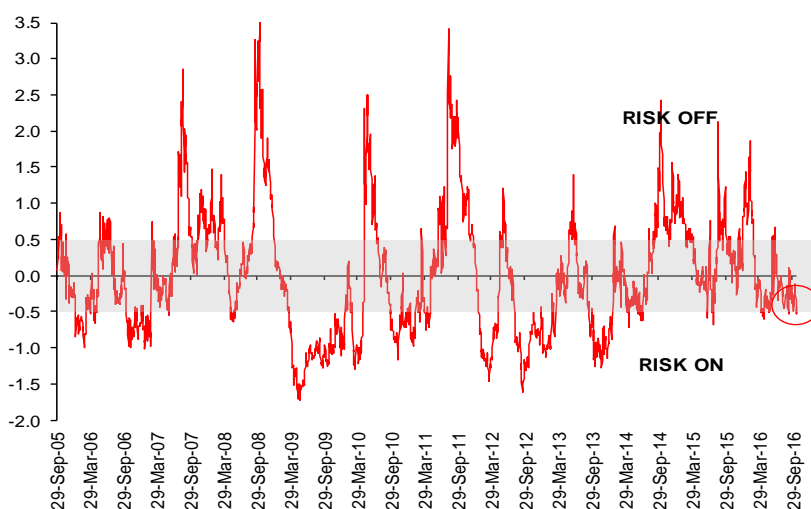
G7

- EUR-USD** The EUR-USD came off intra-day highs but managed to end higher on the day as rate differentials (at the longer end) continued to prove supportive. Note however inherent vulnerability for the pair with wire reports yesterday indicating that the ECB would in all likelihood extend/expand its asset purchase program beyond March 2017. The 1.0800 floor remains on the table for now.
- USD-JPY** Despite generalized expectations of a static BOJ next week, USD-JPY may continue to face towards 105.00 in the near term on the back of FOMC rate hike narrative and rate differentials pointing in a similar direction.
- AUD-USD** Support for the AUD-USD from the warmer than expected 3Q CPI numbers fizzled out by LDN/NY on Wednesday with rate differentials also sending mixed signals. Barring a renewed positive push from the USD

front, the AUD-USD may continue to be repelled by its 55-day MA (0.7608) on downside dips with 0.7700 book-ending an expected near term range.

- GBP-USD** GBP-USD managed to surface back above 1.2200 on Wednesday and outperformed across the board as it continued to benefit from Carney’s comments on Tuesday. However, Brexit-related headlines remain very near the surface, with “passporting” chatter re-surfacing. For today, expect significant headline risk from UK 3Q GDP numbers (0830 GMT) today (mkt: +2.1% yoy).

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

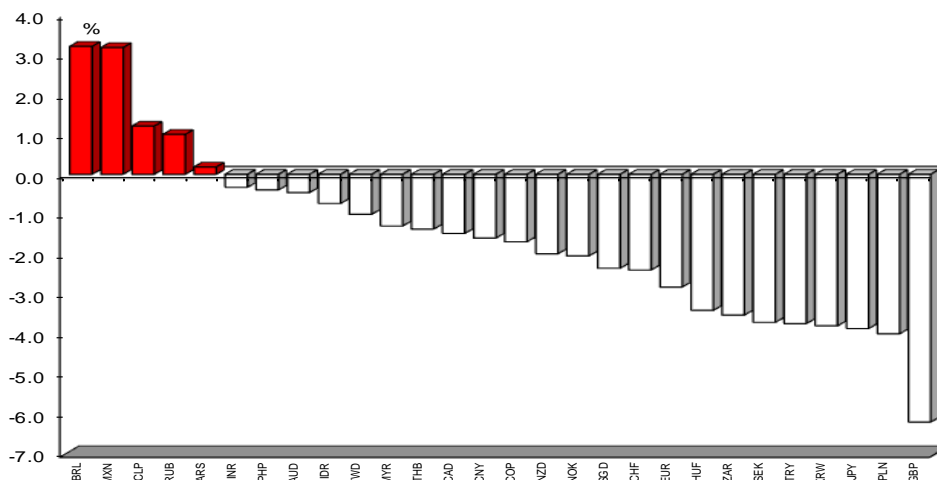
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0800	1.0851	1.0894	1.0900	1.1146
GBP-USD	1.1881	1.2200	1.2215	1.2300	1.2841
AUD-USD	0.7598	0.7600	0.7631	0.7700	0.7702
NZD-USD	0.7036	0.7100	0.7154	0.7200	0.7238
USD-CAD	1.3138	1.3300	1.3391	1.3398	1.3400
USD-JPY	102.43	104.00	104.44	104.87	105.00
USD-SGD	1.3667	1.3900	1.3921	1.3960	1.4000
EUR-SGD	1.5103	1.5105	1.5166	1.5200	1.5230
JPY-SGD	1.3210	1.3300	1.3329	1.3343	1.3400
GBP-SGD	1.6613	1.7000	1.7004	1.7100	1.7544
AUD-SGD	1.0383	1.0600	1.0623	1.0700	1.0715
Gold	1226.28	1249.50	1264.80	1269.65	1300.00
Silver	17.41	17.50	17.58	17.60	18.62
Crude	48.47	49.10	49.16	49.20	51.91

Source: OCBC Bank

FX performance: 1-month change agst USD



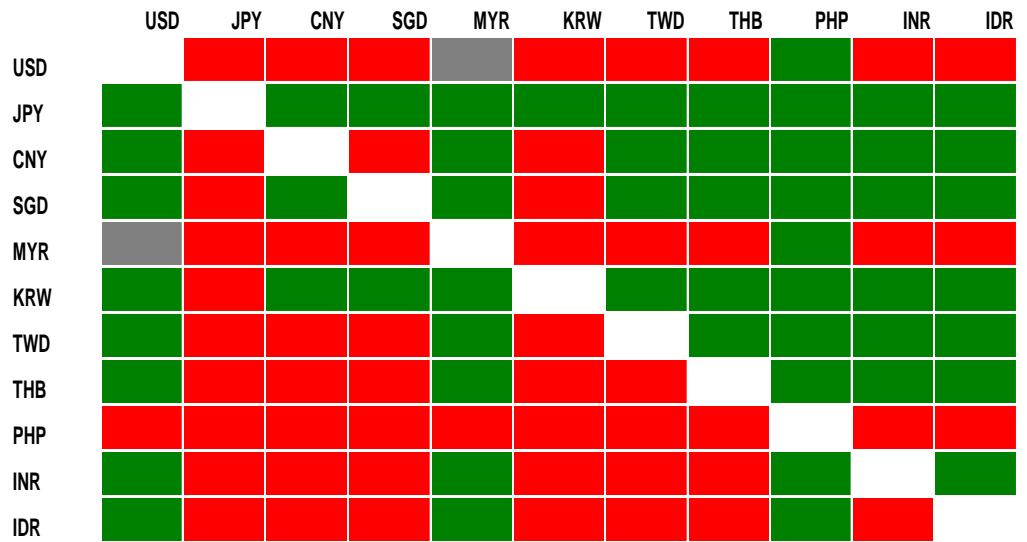
Source: Bloomberg

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	25-Aug-16	B	USD-SGD	1.3527	1.4040	1.3645	Moderating net inflows in Asia, potential for broad USD uptick	
2	05-Oct-16	S	EUR-USD	1.1222	1.0830	1.1125	Fade ECB-taper talk, potential US resilience	
3	06-Oct-16	B	USD-JPY	103.48	106.95	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	
4	12-Oct-16	S	GBP-USD	1.2271	1.1815	1.2505	Fade GBP-USD upticks	
5	26-Oct-16	B	USD-CAD	1.3356	1.3635	1.3210	Softening crude, dovish BOC, potential USD strength	
STRUCTURAL								
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
7	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
8	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr prospects, negative space for SGD NEER	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
2	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
3	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
4	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
5	14-Jun-16	10-Oct-16	S	USD-SGD	1.3542	1.3718	USD expected to disappoint on the back of the summer FOMCs	-1.08
6	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
7	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
8	04-Jul-16	19-Oct-16	S	USD-JPY	102.58	103.88	Yield differentials to weigh on the pair, esp if Fed hesitates	-1.59
9	12-Oct-16	19-Oct-16	S	AUD-USD	0.7585	0.7690	"Yield" may be subjugated by dollar	-1.38
10	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
Jan-Sep 2016 Return								+8.27

Source: OCBC Bank

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