

Thursday, July 28, 2016

FX Themes/Strategy/Trading Ideas

- While the Fed performed as we expected overnight by shrugging off any Brexit-related concerns and acknowledging the mild improvement in the economy, while also not telegraphing any explicit and undue zealotry for a September hike. Although we had expected some short term USD resilience as a result, the markets however chose to buy-the-rumor and sell-the-fact (disappointing June durable goods numbers didn't help matters either), dragging the broad dollar lower across the board with the UST curve bull flattening from the back end.
- Expect markets to continue to run with this theme of **dollar vulnerability** intra-day with JPY-specific news flow ahead of the BOJ MPC tomorrow to continue to impart volatility on the USD-JPY. In the interim, the mild improvement in investor sentiment with the **FXSI (FX Sentiment Index)** dipping on Wednesday may also disadvantage the greenback. Overall, we remain positioned against the greenback on a structural horizon.
- This morning, we closed out our 05 Jul 16 idea to be tactically long **AUD-USD** (spot ref: 0.7528) at 0.7523 with the resulting position essentially flat. While USD weakness may threaten to be endemic in the short term post-RBA, the AUD may however suffer from the baggage of prevailing RBA rate cut expectations.

Asian FX

- With the guidance from the USD-CNY mid-point, expect regional currencies to ride the weak dollar bandwagon intraday, with the **Asian Currency Index (ACI)** likely lower for the third consecutive session. Elsewhere, the appointment of Sri Mulyani as Finance Minister was perceived as market friendly and should impart additional positivity towards the **IDR**.
- Widespread USD weakness post FOMC and a further slump in early Asia Thursday puts the **SGD NEER** significantly stronger on the day at around +1.25% above its perceived parity. NEER-implied USD-SGD thresholds are softer on the day and we would expect market wariness towards excessive downside in the USD-SGD within +1.00% (1.3526) and +1.50% (1.3460). As noted yesterday, the "heavy" short term implied skew may continue to lead the pair. Technically, the 55-day MA (1.3580) now serves as a near term cap while intra-day downside for the USD-SGD is expected to be a function of official comfort levels and broad dollar moves.
- From a more **structural viewpoint**, we note that the **SGD NEER's** recent

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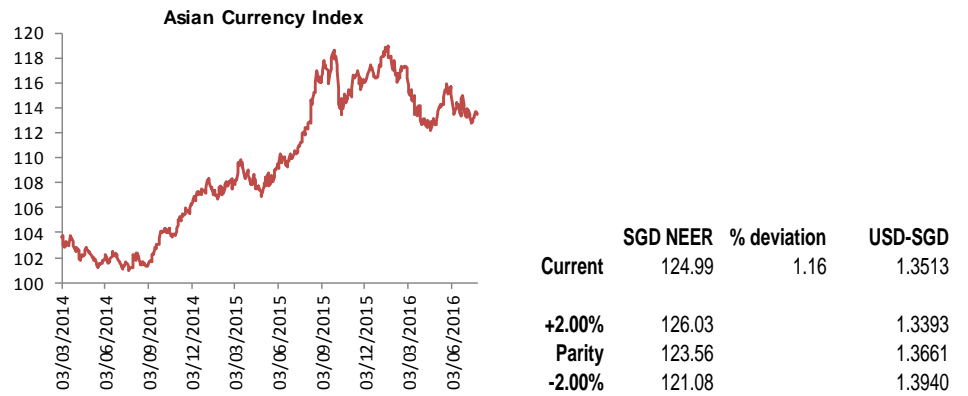
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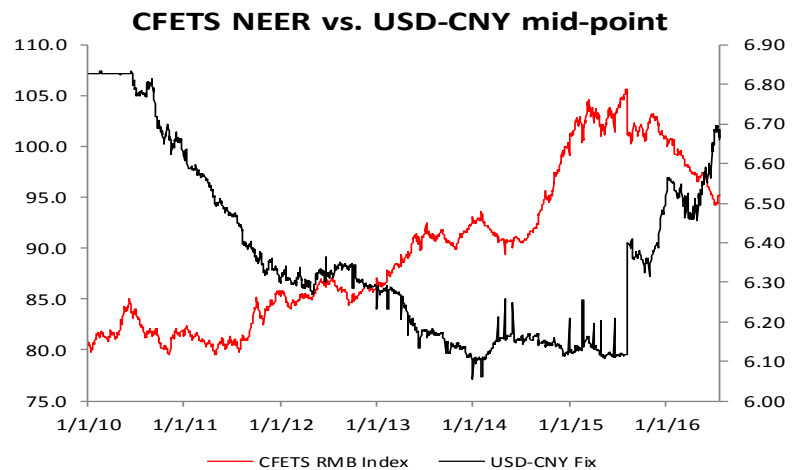
fairly “elevated” status in excess of +1.00% has continued to be largely due to GBP (and to a lesser extent, EUR) underperformance since the UK’s Brexit vote.

- In the same period, the SGD has in fact underperformed most of its NEER constituent currencies amid the static from the USD, JPY, and CNY, exerting a negative impact on the NEER. From this perspective, the NEER can hardly be deemed as broadly overvalued.
- By our estimates, if the impact of the GBP is filtered out, the SGD NEER would essentially be at a more “benign” +0.50% above its perceived parity. This may go some way towards demystifying official comments earlier this week demonstrating little inclination to ease monetary policy further at this juncture. On the flip side, recent cited official presence to cap the NEER (well before its extreme boundary) we feel can perhaps be attributed to an attempt to temper the GBP-induced (and artificial) buoyancy of the NEER.



Source: OCBC Bank

- This morning and post FOMC price action in the global markets, the **CFETS RMB Index** weakened (as largely expected) and dipped to 95.28 from 95.34. Meanwhile, the USD-CNY mid-point fell further to 6.6597 from 6.6671 on Wednesday, and compared to the previous close of 6.6697.

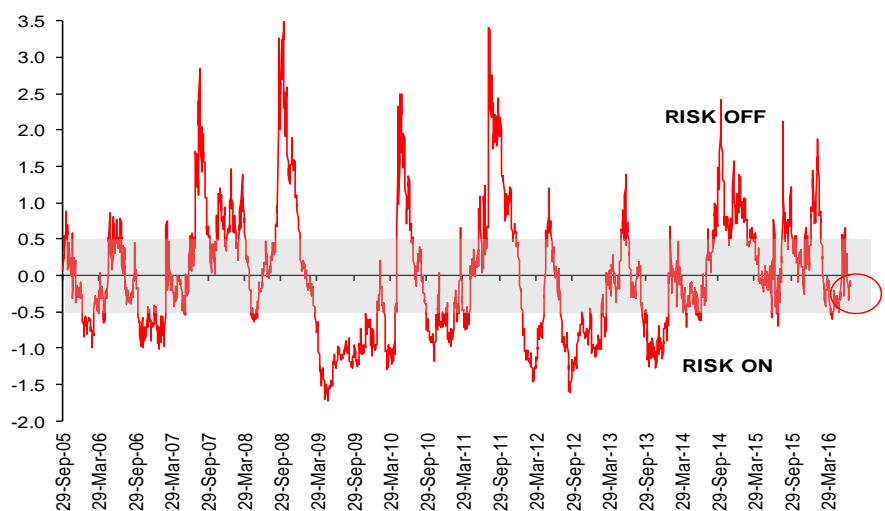


Source: OCBC Bank, Bloomberg

G7

- EUR-USD** With EZ yields also softening over the past week and ahead of the EZ bank stress test results tomorrow, the 200-day MA (1.1074) may attempt to cap ahead of 1.1100 for the EUR-USD. For macro cues today, look to the string of July confidence indicators later today. Despite the post-FOMC reaction higher, risks for a relapse back to 1.1000 we think remain visible.
- USD-JPY** USD-JPY was whipsawed by a plethora of JPY-centric headlines on Wednesday but the FOMC had the final say with the pair continuing to push lower in Asia on Thursday. Going into the BOJ MPC tomorrow and in the wake of the FOMC, resultant JPY strength from a soft greenback may be limited with the announcement of a larger than expected fiscal stimulus package of more than JPY28tn and pregnant expectations of further monetary accommodation by the BOJ on Friday. Expect good two-way volatility in the next 24-36 hours with initial resistance seen at the 55-day MA (106.04) before 106.95 and the 100-day MA (107.93). Downside for the pair may kick in towards 103.50 and 104.00.
- AUD-USD** Despite the warmer than expected timed inflation readings, market expectations with regards to a potential RBA rate cut may continue to hive off upside potential for the AUD-USD in the short term. Nonetheless, post-FOMC dollar sogginess may put a near term floor at 0.7450 ahead of the 55-day MA (0.7409). On the upside, the pair may be expected to run out of gas on approach of 0.7540/50.
- GBP-USD** Expect the GBP to continue to feel the heat as post-Brexit vote data points to deterioration (e.g. July CBI numbers on Wednesday) of macro readings in the coming weeks. Investors may attempt to fade upticks to 1.3260 in the interim.

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

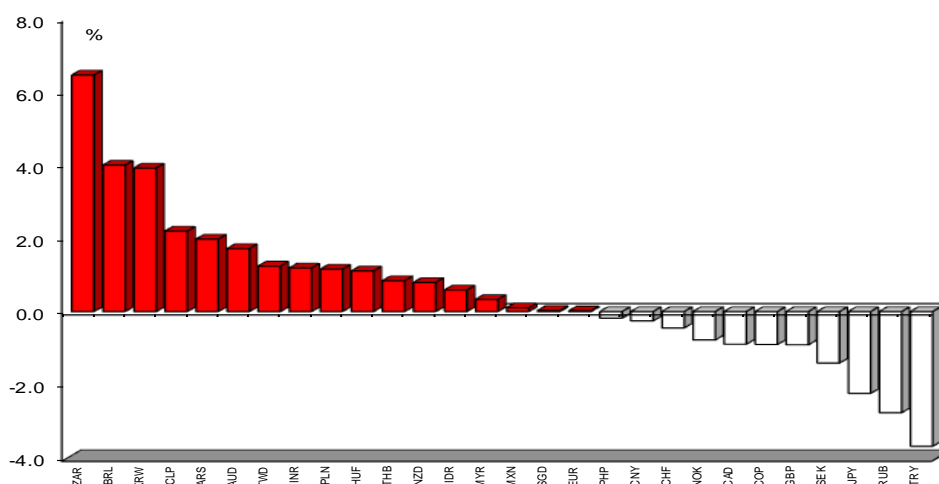
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0965	1.1000	1.1067	1.1074	1.1100
GBP-USD	1.2900	1.3200	1.3222	1.3300	1.3391
AUD-USD	0.7421	0.7500	0.7511	0.7600	0.7633
NZD-USD	0.7000	0.7024	0.7098	0.7100	0.7325
USD-CAD	1.2975	1.3100	1.3136	1.3200	1.3238
USD-JPY	100.31	105.00	105.10	105.70	106.00
USD-SGD	1.3390	1.3500	1.3518	1.3554	1.3600
EUR-SGD	1.4844	1.4900	1.4961	1.5000	1.5008
JPY-SGD	1.2800	1.2833	1.2862	1.2900	1.3419
GBP-SGD	1.7412	1.7800	1.7875	1.7900	1.8078
AUD-SGD	1.0100	1.0125	1.0154	1.0200	1.0268
Gold	1300.00	1306.74	1336.50	1367.24	1377.50
Silver	19.14	20.20	20.28	20.30	20.69
Crude	42.05	42.10	46.77	48.60	49.97

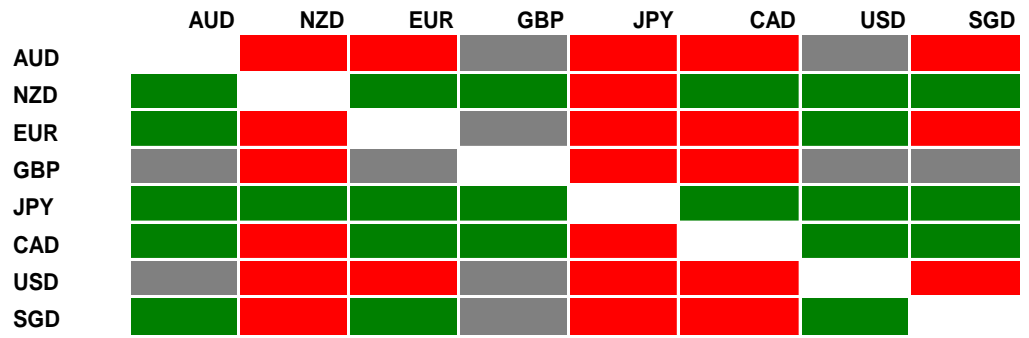
Source: OCBC Bank

FX performance: 1-month change agst USD



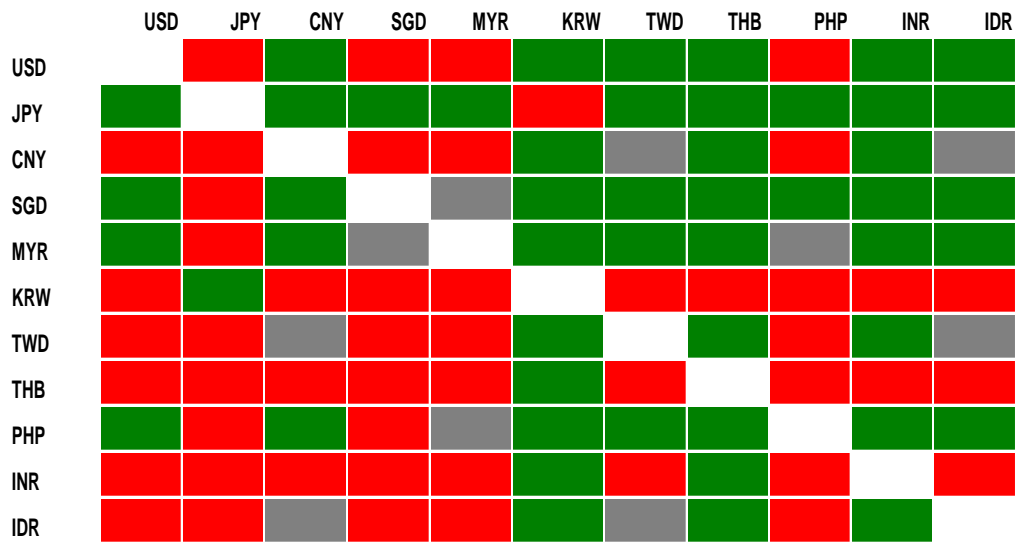
Source: Bloomberg

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	21-Jul-16	B	USD-SGD	1.3579	1.3840	1.3445	Potential for broad USD traction, NEER deemed rich	
5	22-Jul-16	B	USD-JPY	105.83	110.55	103.45	Contrasting policy postures going into the next FOM/BOJ meetings	
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	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	104.50	Potential for further risk aversion	-2.25
2	05-Jul-16	28-Jul-16	B	AUD-USD	0.7528	0.7523	Search for yield amidst potential FOMC disappointment	+0.03

Source: OCBC Bank

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