

Friday, October 28, 2016

FX Themes/Strategy/Trading Ideas

- Despite disappointing US Sep durable goods orders and mixed weekly claims numbers, steeper global bond curves from the back-end (including for US Treasuries) on Thursday ultimately boosted the dollar across G10 space. The bond market sell-off was initially attributed to the gilt curve following the better than expected UK GDP headlines while on other fronts, the SEK led the way lower following dovish remarks from the Riksbank.
- The market at large may attempt to build on a strong dollar narrative (amidst continued firming of implied odds of a Fed rate hike in December) into the end of the week despite rate differential movements overnight offering less than compelling arguments. For today, look to US 3Q GDP numbers (including the ECI and core PCE) while the ECB's Coeure (0730 GMT) and Lane (0800 GMT) are scheduled to speak.
- Negative US equities typified the slight pull back in risk appetite levels on Thursday with the **FXSI (FX Sentiment Index)** shrinking higher within **Risk-Neutral** territory. Apart from USD strength, the other developing story is that a rapid firming of global yield curves may unnerve rate-sensitive assets and impinge on risk appetite levels.

Asian FX

- In the current environment, expect the **ACI (Asian Currency Index)** to seek higher ground, with the KRW and TWD taking its cue from the JPY 9and or renminbi complex), while the SGD continues to remain disadvantaged post-MAS MPC.
- **SGD NEER:** Despite a firmer broad dollar, the **SGD NEER** is flat to slightly firmer on the day at -0.43% below its perceived parity (1.3889). NEER-implied USD-SGD thresholds are understandably higher on the day with -0.50% estimated at 1.3957 and -1.00% at 1.4027. We continue to expect that the -0.35% to -0.40% zone remains a near term upper bound for the SGD NEER and would prefer to angle for a drift back towards -0.50% and beyond, especially if momentum for broad USD resilience continues to accumulate or risk appetite dissolves.

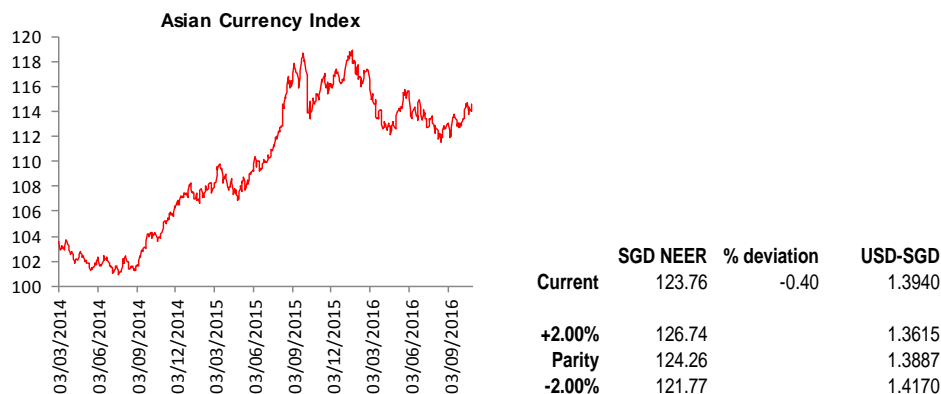
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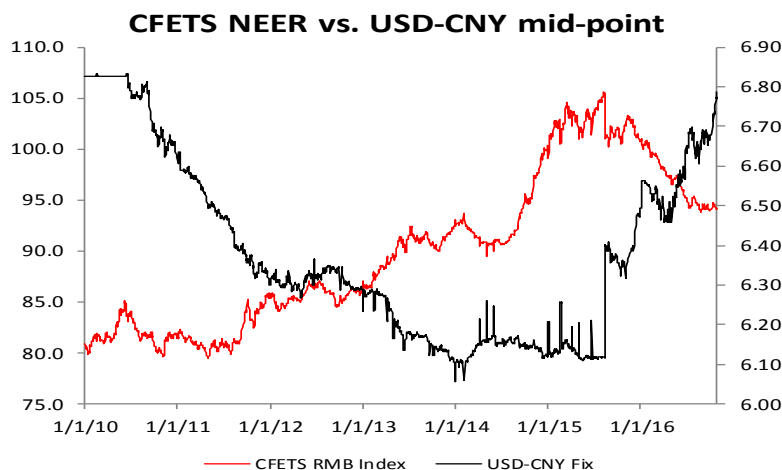
Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com



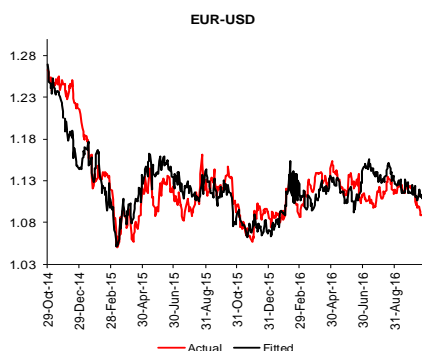
Source: OCBC Bank

- CFETS RMB Index:** Despite overnight moves in the constituent currencies, the **CFETS RMB Index** came in relatively static at 94.15 from 94.16 on Thursday. This saw the USD-CNY mid-point at a lower than expected 6.7858, from 6.7736 yesterday. The line in the sand at 94.00 remains intact for now with stability seemingly a priority in the near term.



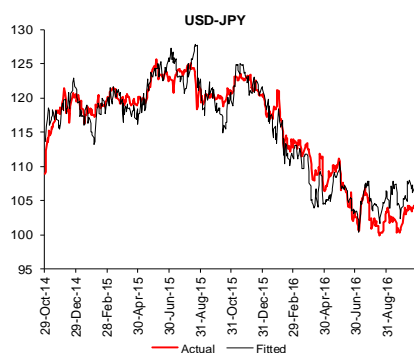
Source: OCBC Bank, Bloomberg

G7

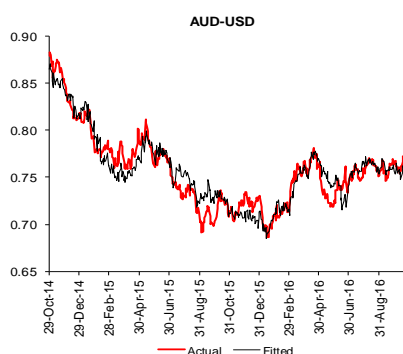


Source: OCBC Bank

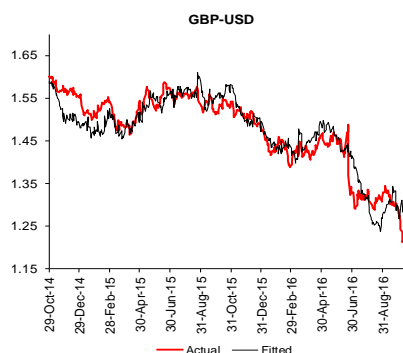
- EUR-USD** The EZ data calendar is fairly busy today in addition to the scheduled ECB appearances while the EUR-USD is still expected to be top heavy within 1.0850-1.0950. Note our short-term model continues to paint a heavy posture on a multi-session horizon.



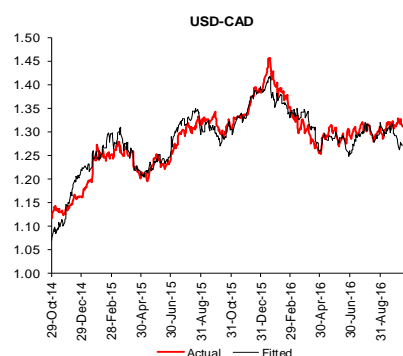
Source: OCBC Bank



Source: OCBC Bank



Source: OCBC Bank



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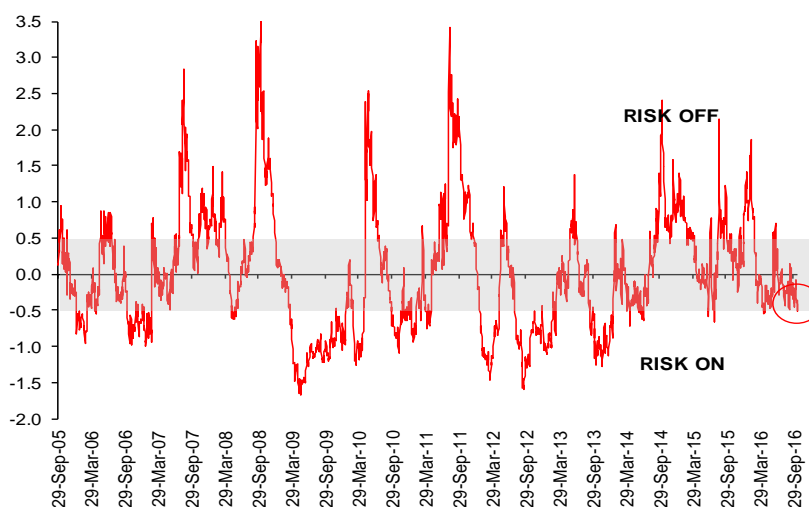
- USD-JPY** As noted previously, expect the USD-JPY to remain relatively more responsive to FOMC-centric dollar dynamics, especially with the 105.00 ceiling having now been cracked. On the data front, Oct CPI numbers this morning were flat to softer relative to prior expectations. On the top side, the 200-day MA (107.26) may limit in the coming sessions pending further cues.

- AUD-USD** Warmer than expected 3Q PPI (+0.3% qoq) numbers this morning provided a base for the AUD-USD in early trade although the pair may be trapped (and range bound) between USD resilience and the yield hunt. The latter may begin to fade if FOMC-related chatter intensifies. In the interim, the 55-day MA (0.7606) may provide an anchor.

- GBP-USD** Despite the better than expected UK 3Q GDP readings (+2.3% yoy), the GBP eventually succumbed to a stronger broad dollar. The pair may remain a victim of negative sentiment/expectations despite firmer short term valuation estimates and with 1.2100 on the downside still fair game.

- USD-CAD** With crude back below 50.00 and dollar resilience attempting another come back, the USD-CAD may continue to tilt higher despite running slightly rich relative to short term valuation. Expect 1.3400 to be a temporary pit stop for now.

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

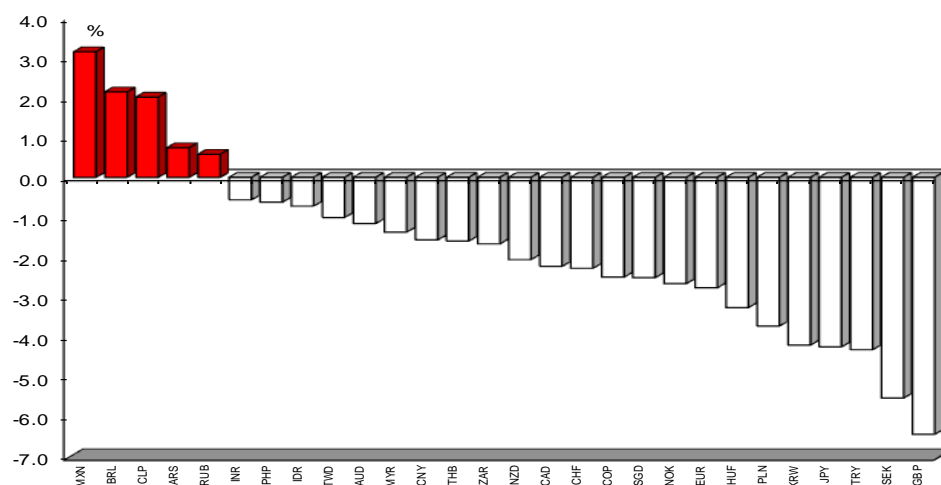
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0851	1.0900	1.0906	1.1000	1.1138
GBP-USD	1.1908	1.2100	1.2179	1.2200	1.2758
AUD-USD	0.7597	0.7600	0.7603	0.7696	0.7700
NZD-USD	0.7040	0.7100	0.7133	0.7200	0.7235
USD-CAD	1.3134	1.3300	1.3385	1.3400	1.3407
USD-JPY	102.54	105.00	105.14	105.33	105.35
USD-SGD	1.3677	1.3900	1.3939	1.3964	1.4000
EUR-SGD	1.5105	1.5200	1.5203	1.5230	1.5260
JPY-SGD	1.3198	1.3200	1.3258	1.3300	1.3338
GBP-SGD	1.6646	1.6900	1.6976	1.7000	1.7469
AUD-SGD	1.0389	1.0500	1.0598	1.0600	1.0715
Gold	1239.26	1251.10	1271.80	1273.09	1289.97
Silver	17.43	17.60	17.66	17.70	18.25
Crude	48.81	49.70	49.77	49.80	51.76

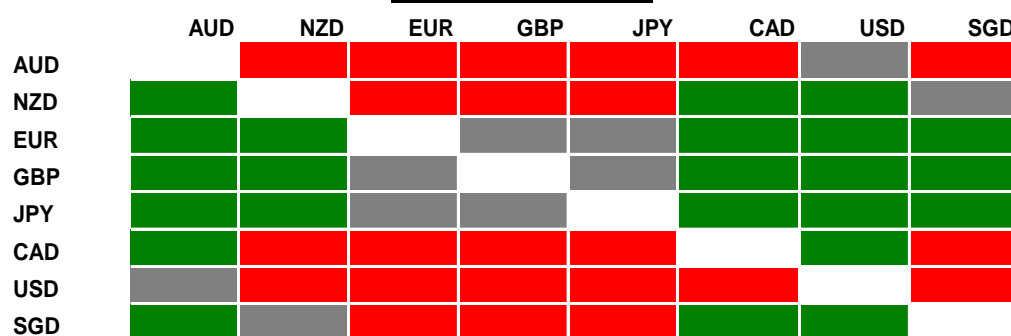
Source: OCBC Bank

FX performance: 1-month change agst USD



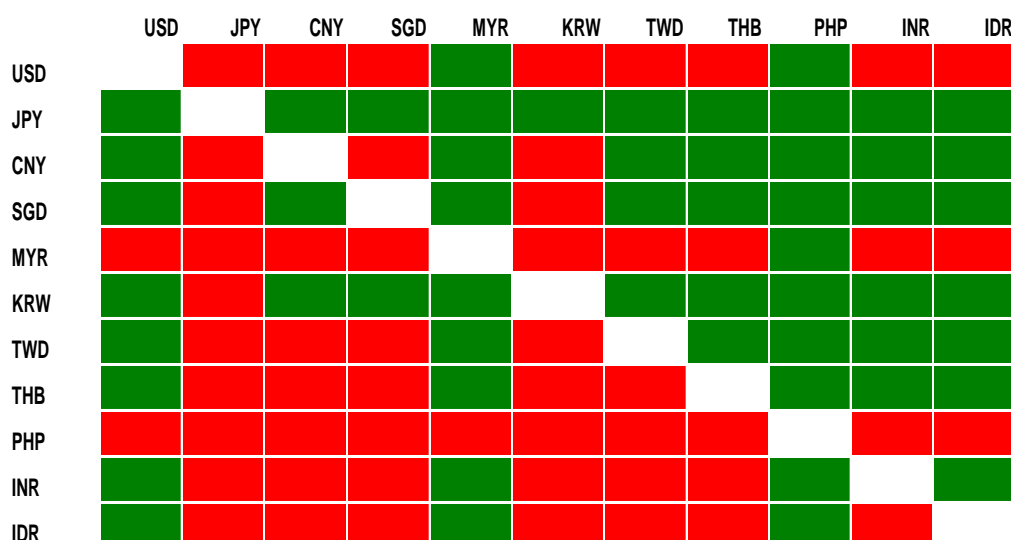
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

FX Trade Road								
	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	
6	27-Oct-16	B	AUD-USD	0.7618	0.7805	0.7520	Supportive risk appetite, metals, positioning, and positoning	
	STRUCTURAL							
7	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
8	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
9	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	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
2	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
3	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
4	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
5	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
6	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
7	04-Jul-16	19-Oct-16	S	USD-JPY	102.58	103.88	Yield differentials to wiegh on the pair, esp if Fed hesitates	-1.59
8	12-Oct-16	19-Oct-16	S	AUD-USD	0.7585	0.7690	"Yield" may be subjugated by dollar	-1.38
9	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
10	27-Oct-16	28-Oct-16	B	AUD-USD	0.7618	0.7587	Supportive risk appetite, metals, positioning, and positoning	-0.38
	Jan-Sep 2016 Return							+8.27

Source: OCBC Bank

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