

Wednesday, March 30, 2016

FX Themes/Strategy/Trading Ideas – The Fed’s head fake

- With Yellen’s remarks on Tuesday heavily laced with caveats, the USD (accompanied by a flatter UST curve from the back-end) washed out against the majors and EM currencies overnight and expect >>>
- We note that Yellen has effectively unraveled the attempted damage control by her colleagues since the FOMC and the dollar may have to swallow another near term setback going ahead. Fed Fund futures now only imply a 5% probability of a rate hike at the April FOMC.
- In the short term, expect this dynamic to be augmented by the improvement in investor sentiment. Meanwhile, the **FXSI (FX Sentiment Index)** edged a smudge higher within Risk-Neutral territory on Tuesday but may be expected to tilt lower if positivity builds.
- In the wake of Yellen’s performance overnight, disappointment towards the dollar may continue to accumulate in the near term. We re-initiate a tactical long **EUR-USD**. With a spot ref at 1.1297, we target 1.1630 and place a stop at 1.1130.

Asian FX

- Dollar weakness coupled with positive equities and the softer USD-CNY fix today should continue to funnel USD-Asia lower intra-day with the **ACI (Asian Currency Index)** approaching its year-to-date lows once again.
- With the **SGD NEER’s** constituent currencies jumping against the USD overnight, the NEER is looking slightly rich relative to its perceived midpoint (1.3629) at around +0.66%. Not surprisingly, NEER-implied USD-SGD thresholds are lower on the day, with the +0.50% threshold at approximately 1.3562 and the 1.00% mark at 1.3495. Ahead of the latter, expect also a psychological 1.3500 support amidst a heavy tone for the pair.
- The authorities essentially held the line for the **CFETS RMB Index** with this morning’s fixing of 6.4841 (6.5060 yesterday) resulting in an Index reading of 97.99, from 98.25 on Tuesday. We will pay particular attention to any official tendency to let the Index slip below the 98.00 threshold in the coming sessions.
- The **USD-CNY** mid-point was set markedly lower than expected this morning at 6.5060 from 6.5232 on Monday. This can be attributed to the Index being essentially pegged at 98.25 (unchanged from Monday), in contrast to prior

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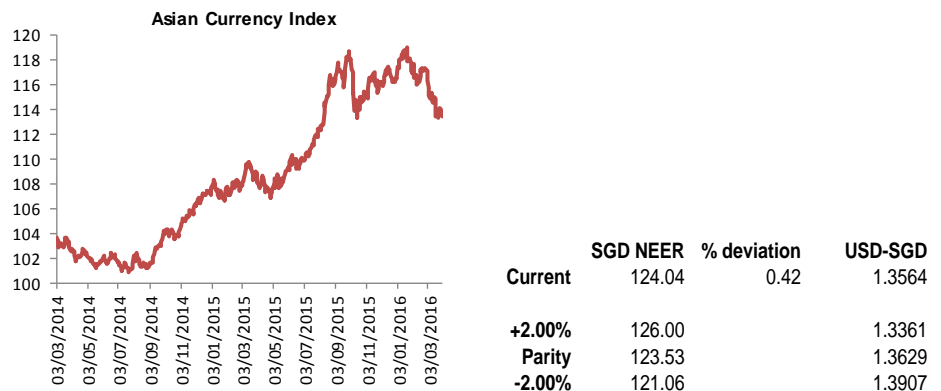
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expectations for a slight nudge lower.

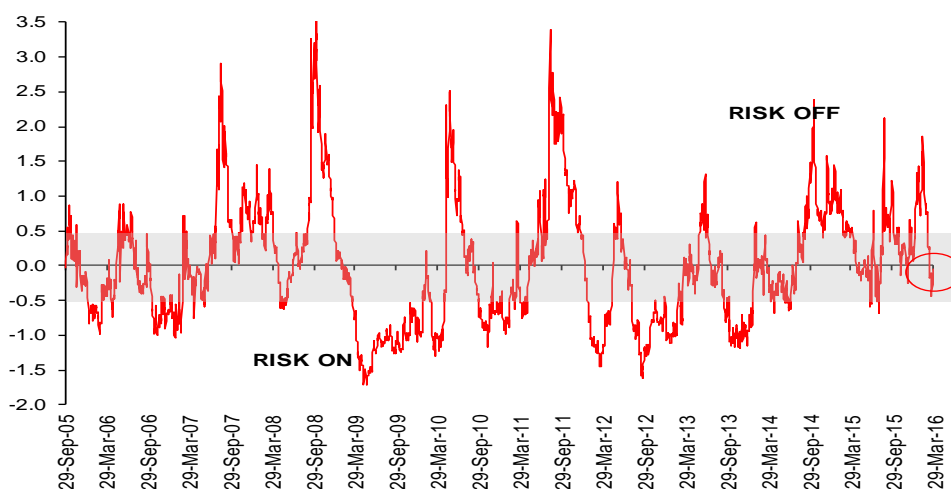


Source: OCBC Bank

G7

- EUR-USD** In addition to the flailing dollar, EZ March PMIs clocked better than expected numbers on Tuesday and the EUR-USD may attempt to test the upper bounds of its recent range towards 1.1340/50.
- USD-JPY** In spite official rhetoric warnings against excessive volatility in the USD-JPY, the pair may tilt lower and eye the 112.00 support. However, market caution towards official discomfort may continue to confine the pair on approach of the 111.00 floor.
- AUD-USD** In the current environment, the recent high of 0.7680 may be within striking distance for the AUD-USD if the China PMIs at the end of the week do not disappoint significantly. In the interim, the pair may attempt to base build off the 0.7600 floor.
- GBP-USD** With Brexit fears receding slightly (despite cautionary comments from the BOE) and USD weakness in play, the GBP-USD may continue to hover above its 55-day MA (1.4277) although a sustained break above the 1.4450 resistance may require further impetus.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	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

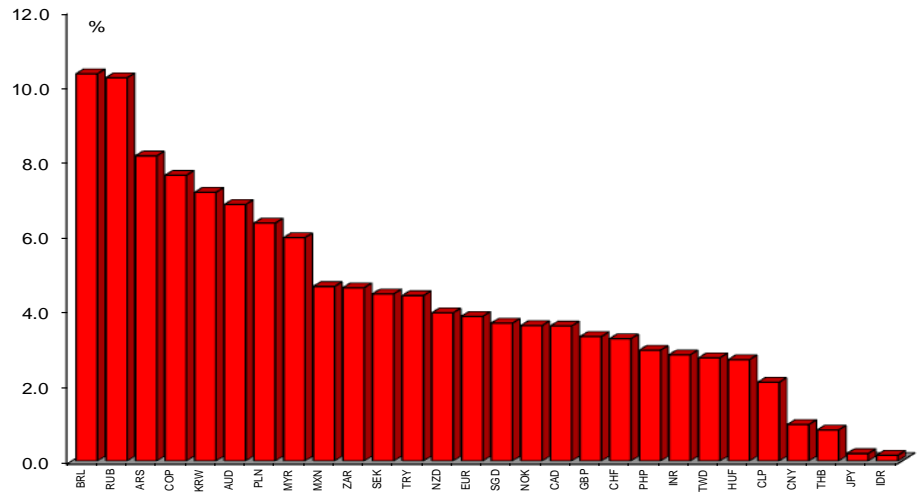
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1081	1.1200	1.1291	1.1300	1.1342
GBP-USD	1.4278	1.4300	1.4378	1.4400	1.4483
AUD-USD	0.7372	0.7600	0.7628	0.7678	0.7680
NZD-USD	0.6653	0.6800	0.6849	0.6869	0.6884
USD-CAD	1.2949	1.3000	1.3062	1.3100	1.3369
USD-JPY	111.46	112.00	112.48	113.00	114.30
USD-SGD	1.3480	1.3500	1.3565	1.3600	1.3910
EUR-SGD	1.5145	1.5300	1.5316	1.5397	1.5400
JPY-SGD	1.2001	1.2004	1.2061	1.2100	1.2172
GBP-SGD	1.9274	1.9500	1.9503	1.9600	1.9806
AUD-SGD	1.0222	1.0300	1.0347	1.0386	1.0400
Gold	1203.35	1214.88	1237.90	1279.58	1287.80
Silver	15.09	15.30	15.31	15.40	16.01

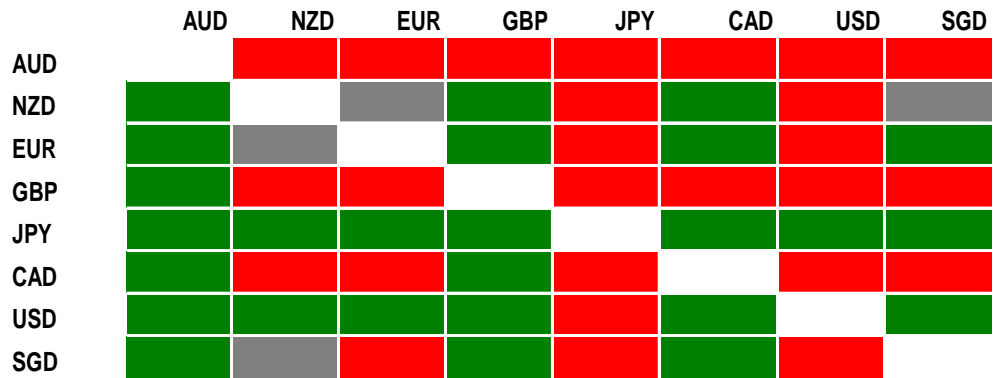
Source: OCBC Bank

FX performance: 1-month change agst USD



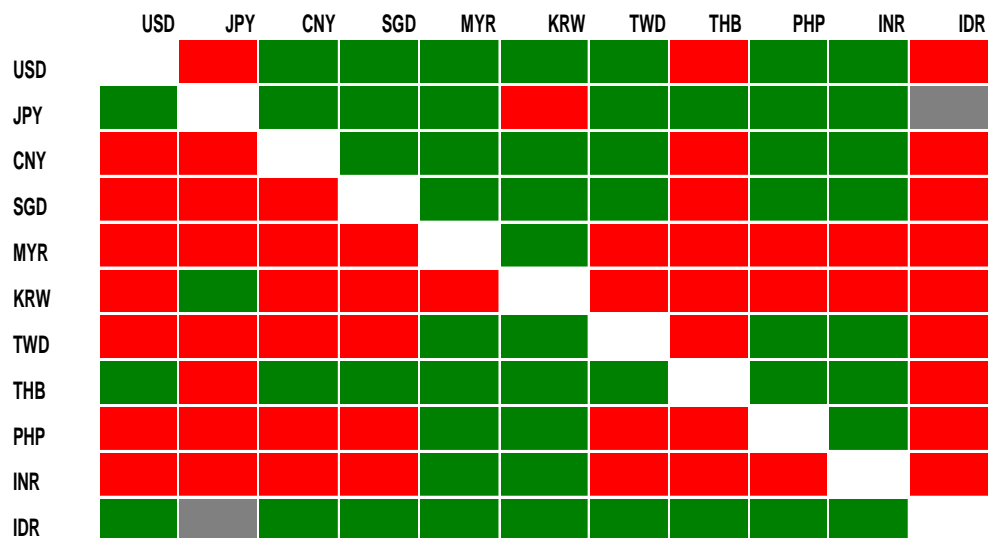
Source: Bloomberg

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	
1	29-Feb-16	S	USD-CAD	1.3533	1.2745	1.3330	Bottoming crude	
2	03-Mar-16	B	AUD-USD	0.7284	0.7835	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
3	04-Mar-16	S	USD-SGD	1.3881	1.3380	1.3755	Brightening risk appetite, vulnerable broad dollar	
4	30-Mar-16	B	EUR-USD	1.1297	1.1630	1.1130	Dollar negativity post-Yellen	
STRUCTURAL								
5	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
8	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
9	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	26-Feb-16	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
2	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45
3	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29
4	14-Mar-16	15-Mar-16	B	GBP-USD	1.4380	1.4180	Abating Brexit concerns, potential for Yellen to underwhelm	-1.41
5	18-Mar-16	24-Mar-16	B	EUR-USD	1.1321	1.1150	Tilt in policy balance after ECB and FOMC	-1.53

Source: OCBC Bank

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