

Monday, October 31, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- Despite firmer than expected US 3Q GDP headlines, FBI-Hillary news flow dragged the dollar through the mud on Friday as it underperformed across G10 space with the UST curve bull steepening.
- Negative EZ/US equities saw the **FXSI (FX Sentiment Index)** continuing to climb for the third consecutive session on Friday to end higher on the week (i.e. increased nervousness) within Risk-Neutral territory. On this front, we note continued widening of EM risk premiums in the past week.
- On the **CFTC** front, large non-commercial and leveraged accounts increased their net implied long dollar bias in aggregate in the latest week. With market alignment across different segments in progress, asset managers slashed their net implied short dollar bias in aggregate in the latest week. This alignment we think presents a double-edged sword for volatility, as any further USD vulnerability in the coming sessions may be heightened instead.
- This week, the **greenback** may start the week on a defensive note while the heavy data/event calendar is also expected to keep investors on their toes. Given the start of a new month, look towards the slew of global PMIs (China manufacturing PMIs in particular) starting tomorrow and culminating with the US labor market report (NFP) for October on Friday.
- Meanwhile, expect investor screens this week to be also be dominated by central bank meetings, not least from the **FOMC** on Wednesday. While the Fed is expected to be static this week, any hints in the accompanying statement telegraphing a potential December rate hike would prove crucial.
- Elsewhere, the **RBA** policy meeting is on Tuesday (mkts; unchanged at 1.50%) while the **BOJ** MPC also on Tuesday is also expected to see no change in policy parameters. The **BOE** MPC and Inflation Report are on Thursday with markets on the lookout for sustained dovishness. The **RBA** Statement on Monetary Policy on Friday will be parsed for policy neutrality. In a nutshell, if the tide of expected central bank rhetoric this week continues to underpin the policy dichotomy between the Fed and its peers, expect the USD to regain some traction.

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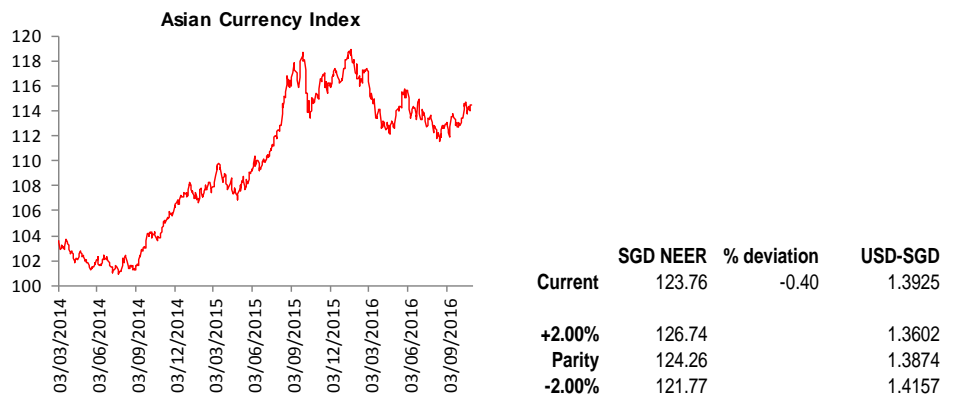
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Asian FX

- Asian equities have started the week on a softer footing and despite the USD underperforming within G10 space, the regional currencies in aggregate we think may take its cues from broader EM (i.e., MXN) and be

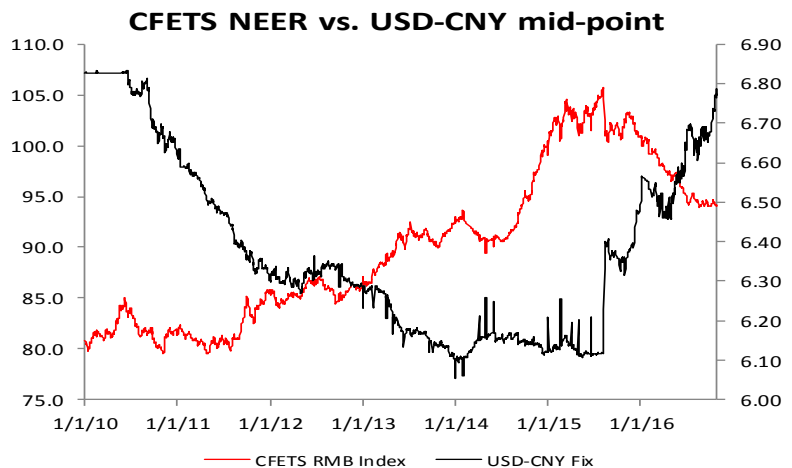
susceptible to dollar strength instead. On other fronts, look also for relatively higher vulnerability with regards to the MYR (crude) and KRW (political concerns). Overall, we expect the **ACI (Asian Currency Index)** to see limited downside at the onset of the week and potentially look higher.

- SGD NEER:** With the dollar pretty much falling across the board, the **SGD NEER** is higher on the day at around -0.37% below its perceived parity (1.3874). NEER-implied USD-SGD thresholds are lower on the day with -0.50% at 1.3944 and -1.00% at 1.4014. If broad USD vulnerability extends, it remains to be seen if the NEER can lift above -0.30% towards -0.20%. Pending the expected global volatility this week, the pair may range within 1.3865-1.3965 in the interim.



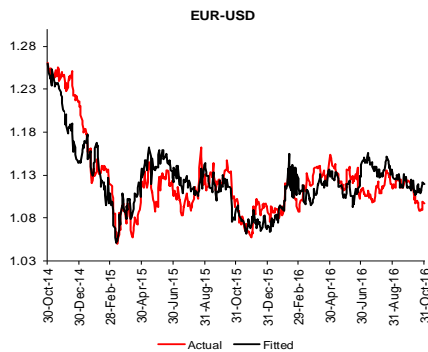
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (largely as expected) to 6.7641 from 6.7858 on Friday. This lifted the **CFETS RMB Index** higher to 94.22 at the fix from 94.15 on Friday. In our view, the line in the sand at 94.00 for the Index remains untouched for now.



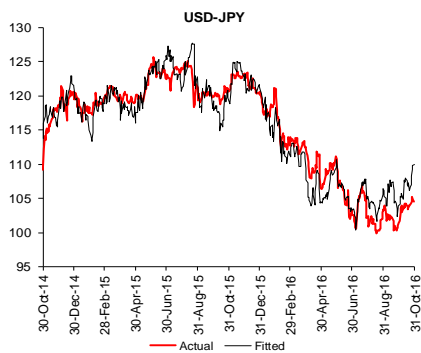
Source: OCBC Bank, Bloomberg

G7



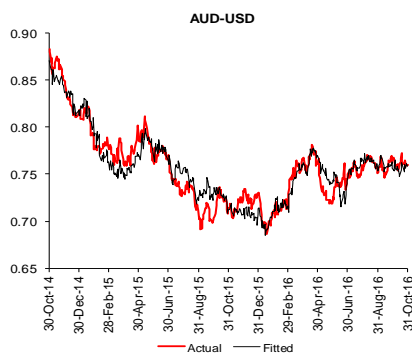
Source: OCBC Bank

- EUR-USD** The EUR-USD continues to skid along the bottom of its short-term (top-heavy) valuation band with some potential to tick higher in the near term. Meanwhile, leveraged accounts on the CFTC front further accumulated net short EUR positioning in the latest week. Expect the pair to remain ring-fenced by 1.0900-1.10330 pending global headlines this week.



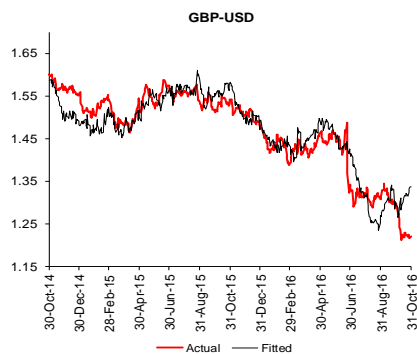
Source: OCBC Bank

- USD-JPY** USD-JPY may continue to play catch on the upside multi-session if USD resilience re-emerges. On the CFTC front, leveraged accounts increased slightly implied JPY longs in the latest week but net positioning with respect to open interest is not perceived to be overly loaded, leaving the pair susceptible to swings. A test towards 105.25/45 cannot be discounted if the USD digs in again.



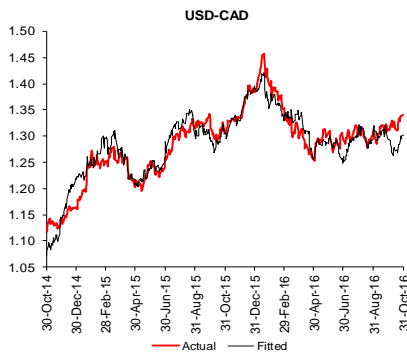
Source: OCBC Bank

- AUD-USD** On the CFTC front, net leveraged AUD longs increased slightly in the latest week although we would look to the China PMIs and RBA news flow this week for further cues. In the interim, the AUD-USD may remain relatively more stubborn on the downside with the 55-day MA (0.7605) and 0.7610 capping while first support is expected into 0.7570. Preference to fade upticks at this juncture.



Source: OCBC Bank

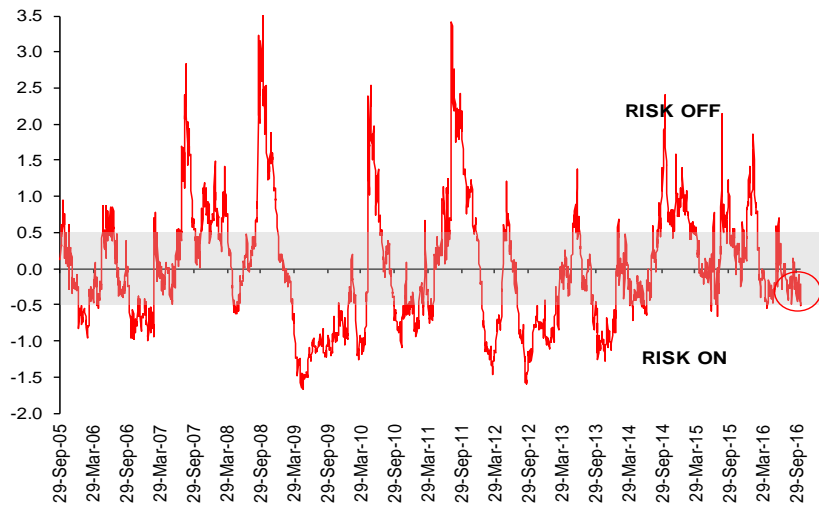
- GBP-USD** Speculation surrounding the Carney's tenure at the BOE may remain a principle focus for investors, apart from the statements from the MPC and the Inflation Report this week. The pair we think remains under a heavy pall of negative sentiment (leveraged CFTC shorts grew further in the latest week) despite short-term fair valuation attempting to pull the pair higher. Expect the pair to remain in the vicinity of 1.2200 in the interim.



- USD-CAD** USD-CAD may continue to face north in the near term if crude remains soggy. Meanwhile, net leveraged CFTC shorts were pared while the pair remains slightly rich relative to short-term fair valuation, potential brakes on excessive up moves in the pair. Expect some consolidation around the 1.3400 neighborhood in the interim.

Source: OCBC Bank

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

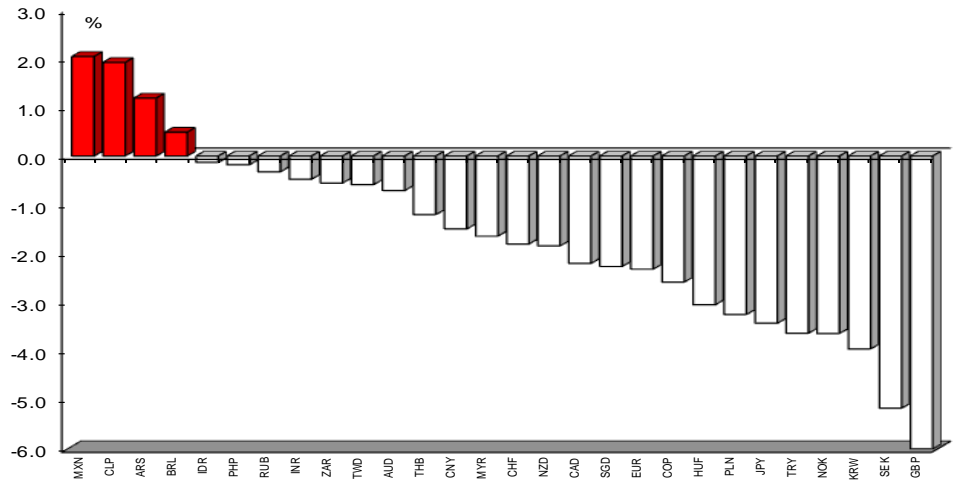
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0851	1.0900	1.0963	1.1000	1.1132
GBP-USD	1.1936	1.2100	1.2181	1.2200	1.2661
AUD-USD	0.7527	0.7596	0.7599	0.7600	0.7689
NZD-USD	0.7051	0.7100	0.7145	0.7200	0.7231
USD-CAD	1.3141	1.3400	1.3414	1.3433	1.3445
USD-JPY	102.73	104.00	104.88	105.00	105.11
USD-SGD	1.3685	1.3900	1.3928	1.3964	1.4000
EUR-SGD	1.5231	1.5259	1.5269	1.5300	1.5372
JPY-SGD	1.3200	1.3202	1.3280	1.3300	1.3335
GBP-SGD	1.6670	1.6900	1.6966	1.7000	1.7382
AUD-SGD	1.0394	1.0500	1.0583	1.0600	1.0715
Gold	1251.10	1274.02	1278.10	1279.62	1300.00
Silver	17.45	17.80	17.88	17.88	17.90
Crude	47.93	48.30	48.38	48.40	48.47

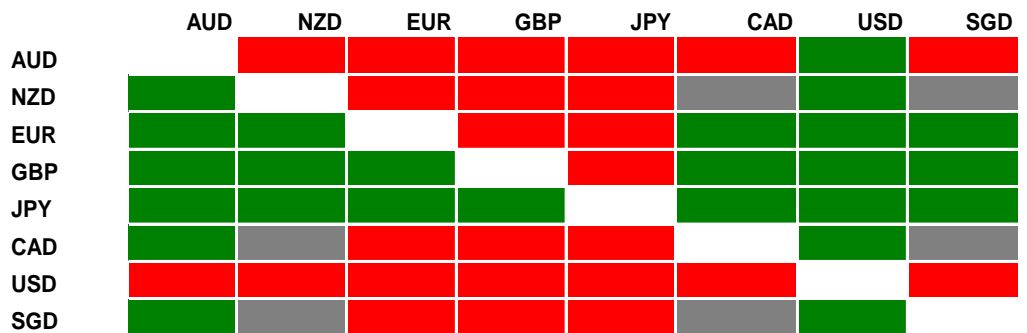
Source: OCBC Bank

FX performance: 1-month change agst USD



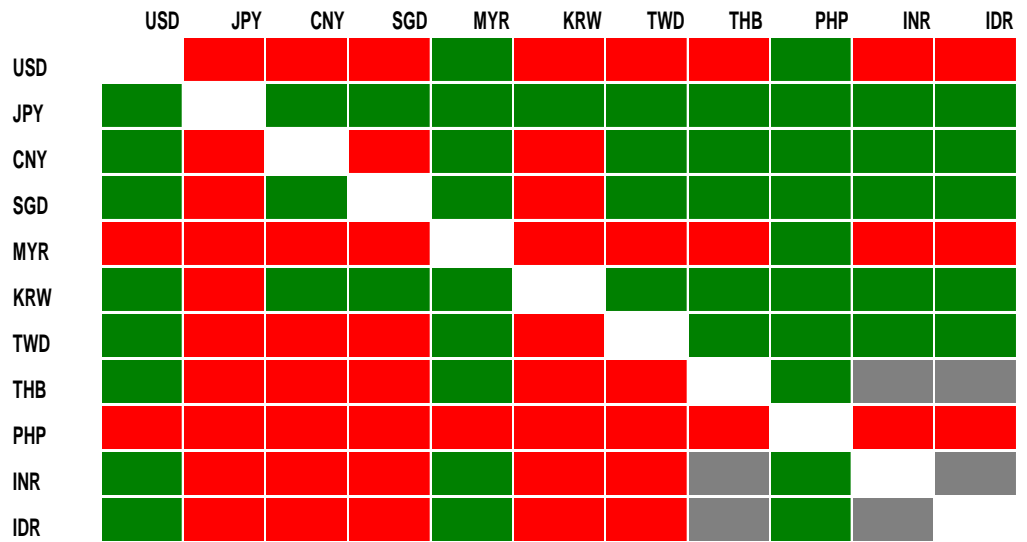
Source: Bloomberg

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	
6	27-Oct-16	B	AUD-USD	0.7618	0.7805	0.7520	Supportive risk appetite, metals, positioning, and positioning	
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 weigh 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 positioning	-0.38
Jan-Sep 2016 Return								+8.27

Source: OCBC Bank

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