

Monday, April 04, 2016

FX Themes/Strategy/Trading Ideas – Revised forecasts

- The slightly better than expected readings from the **US March NFP** (headline +2.15k and hourly earnings +0.3% mom) and the March ISM saw the greenback bounce although it subsequently relinquished its knee jerk gains by end-NY.
- Although these numbers may partially soothe out post-Yellen dollar negativity (not slightly firmer UST curve) at the margins, market participants are unlikely to view it as a watershed in terms of Fed posturing (despite slightly hawkish comments from the Fed's Mester) given that Yellen's latest hesitation is not borne out of any intrinsic vulnerability in the US labor markets.
- To this end, space for ambiguity remains on the cards, with macro economists looking for two rate hikes this year, aligning themselves with the Fed's dot plots, although market implied pricing remains less than enthusiastic.
- On the **CFTC** front, implied net large non-commercial as well as leveraged "long" dollar positioning was pared further in the latest week and investors may disperse, seeking to trade off risk appetite developments, data headlines, and currency-specific factors instead. On the sentiment front, the **FXSI (FX Sentiment Index)** edged slightly lower within Risk-neutral territory on Friday but ended higher on the week.
- This week, the **RBA** is expected to be static at 2.00% on Tuesday, with **FOMC minutes** due on Wednesday. In Asia, the **RBI** is expected to cut its benchmark repo and reverse repo rates by 25bps to 6.50% and 5.50% respectively.

Asian FX

- With supportive China PMIs from Friday (China markets away for a long weekend today) and Asian equities got off to a positive start early Monday (note potential drag from softer crude), the **ACI (Asian Currency Index)** may trade slightly heavier intra-day despite ending Friday. Note that the Asian currency pairs continue to take its cues from the broad dollar over the past week, belying the potential to bounce higher going ahead.
- The **SGD NEER** starts the week at around +0.40% above its perceived parity (1.3537) with the index's relative position slightly firmer on the week. NEER-implied USD-SGD thresholds are essentially unchanged on the day but a

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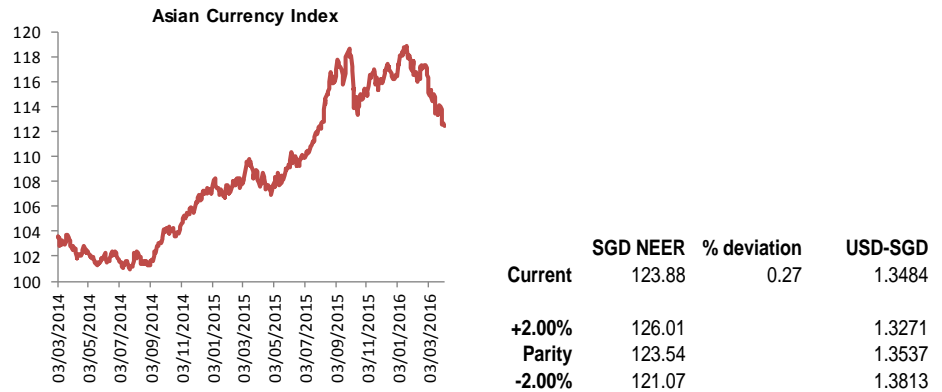
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touch firmer on the week. At current levels, the +0.50% threshold is estimated at 1.3471 while the +1.00% threshold is seen at 1.3404. We look for a consolidative 1.3420/30-1.3550 range in the interim.

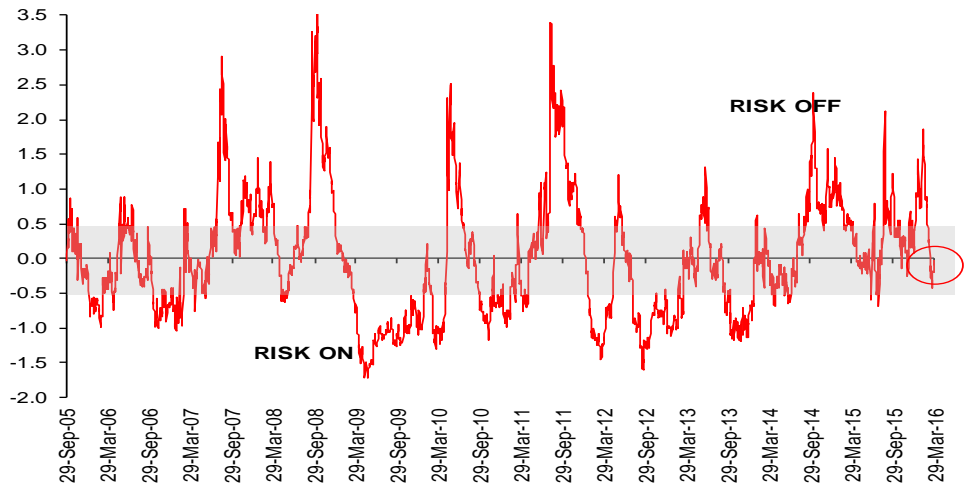


Source: OCBC Bank

G7

- EUR-USD** The EZ's March manufacturing PMI came in slightly better than its flash reading at 51.6 and saw the EUR-USD ending higher on the day despite the US NFP numbers. On the CFTC front, net leveraged EUR shorts were pared again in the latest week and investors may continue to mull a sustained upside breach above 1.1400 towards 1.1495 multi-session.
- USD-JPY** USD-JPY may remain trapped in a range with the pair heavy Friday despite a weak 1Q Tankan and supportive US NFP numbers. Fed intentions towards the rate hike trajectory remain suspect and the USD-JPY may instead look to test towards the 111.00 handle despite CFTC data showing net leveraged JPY longs being pared in the latest week.
- AUD-USD** Note scattered expectations for a dovish slant from the RBA meeting minutes this week but this may be counter balanced by CFTC data showing an increase in net leveraged AUD longs in the latest week. IN the near term, we continue to expect 0.7600 to cushion while a test towards 0.7730 may remain on the cards if investor appetite continues to improve.
- GBP-USD** GBP-USD may be expected to start the week top heavy with a slightly disappointing UK manufacturing PMI (51.0) and supportive US NFP numbers working against the pound. On the CFTC front, note that net leveraged GBP shorts increased in the latest week. With Brexit concerns remaining just under the surface, expect the 55-day MA (1.4275) to now serve as a resistance with risks towards 1.4150 still apparent.

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

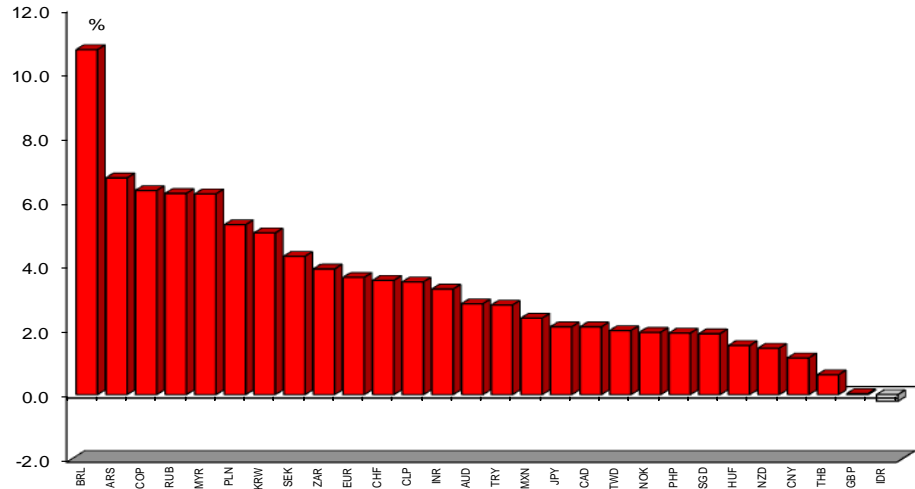
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1115	1.1400	1.1405	1.1438	1.1442
GBP-USD	1.4066	1.4200	1.4234	1.4280	1.4300
AUD-USD	0.7416	0.7600	0.7644	0.7700	0.7710
NZD-USD	0.6678	0.6800	0.6891	0.6900	0.6940
USD-CAD	1.2884	1.3000	1.3032	1.3100	1.3378
USD-JPY	111.00	111.15	111.41	112.00	114.09
USD-SGD	1.3401	1.3415	1.3486	1.3500	1.3530
EUR-SGD	1.5197	1.5300	1.5369	1.5385	1.5400
JPY-SGD	1.1970	1.2000	1.2077	1.2100	1.2169
GBP-SGD	1.9127	1.9151	1.9190	1.9200	1.9805
AUD-SGD	1.0265	1.0300	1.0344	1.0371	1.0400
Gold	1207.19	1210.73	1216.80	1276.42	1287.80
Silver	14.50	14.75	15.00	15.15	16.00

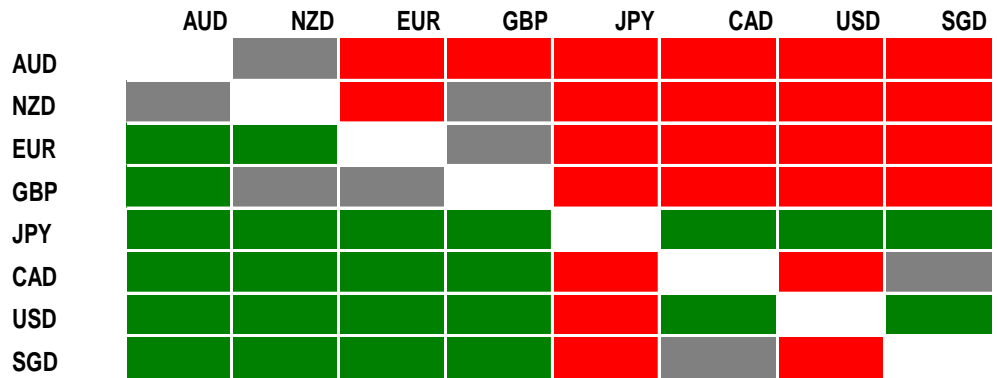
Source: OCBC Bank

FX performance: 1-month change agst USD



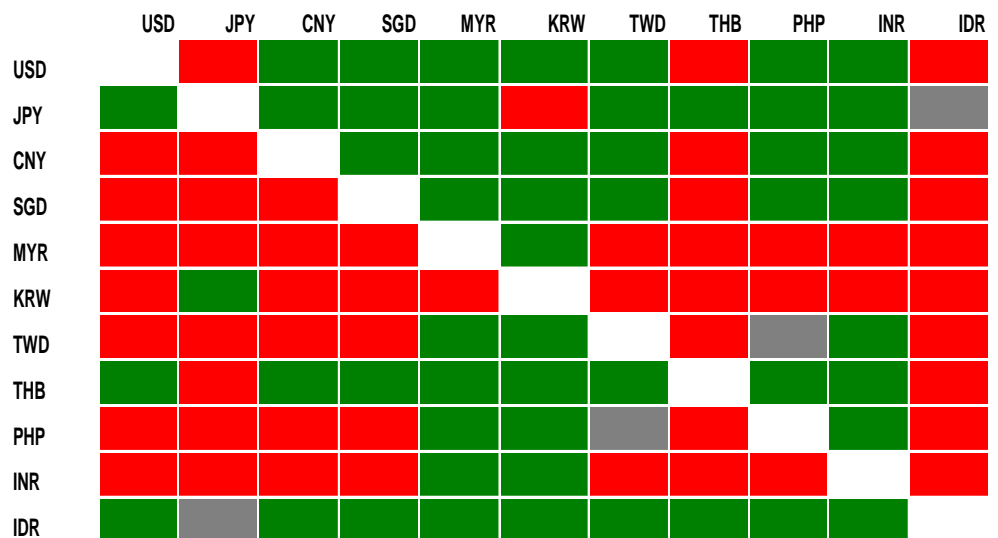
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts

	1 Apr 16 Spot	Jun-16	Sep-16	Dec-16	Mar-17
USD-JPY	112.20	109.00	112.67	116.33	120.00
EUR-USD	1.1379	1.1550	1.1333	1.1117	1.0900
GBP-USD	1.4338	1.4200	1.4000	1.3800	1.3600
AUD-USD	0.7649	0.7885	0.7623	0.7362	0.7100
NZD-USD	0.6897	0.7030	0.6887	0.6743	0.6600
USD-CAD	1.3033	1.2585	1.3090	1.3595	1.4100
USD-CHF	0.9605	0.9450	0.9633	0.9817	1.0000
USD-SGD	1.3516	1.3235	1.3547	1.3858	1.4170
USD-CNY	6.4642	6.4260	6.5140	6.6020	6.6900
USD-THB	35.148	34.75	35.33	35.92	36.50
USD-IDR	13204	12900	13200	13500	13800
USD-MYR	3.906	3.7750	3.9558	4.1367	4.3175
USD-KRW	1152.26	1120	1153	1187	1220
USD-TWD	32.300	31.900	32.350	32.800	33.250
USD-HKD	7.7545	7.7500	7.7667	7.7833	7.8000
USD-PHP	46.12	45.55	46.10	46.65	47.20
USD-INR	66.25	65.60	66.38	67.17	67.95
EUR-JPY	127.67	125.90	127.69	129.32	130.80
EUR-GBP	0.7936	0.8134	0.8095	0.8056	0.8015
EUR-CHF	1.0930	1.0915	1.0918	1.0913	1.0900
EUR-SGD	1.5380	1.5286	1.5353	1.5406	1.5445
GBP-SGD	1.9379	1.8794	1.8965	1.9125	1.9271
AUD-SGD	1.0338	1.0436	1.0327	1.0202	1.0061
NZD-SGD	0.9322	0.9304	0.9329	0.9345	0.9352
CHF-SGD	1.4072	1.4005	1.4062	1.4117	1.4170
JPY-SGD	1.2046	1.2142	1.2024	1.1913	1.1808
SGD-MYR	2.8899	2.8523	2.9202	2.9850	3.0469
SGD-CNY	4.7826	4.8553	4.8086	4.7639	4.7212

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	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
8	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
6	18-Feb-16	31-Mar-16	S	USD-SGD	1.4034	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	+4.54
Year-to-date performance (1Q 16)								+30.72

Source: OCBC Bank

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