

Friday, April 01, 2016

FX Themes/Strategy/Trading Ideas

- The broad dollar continued to ease on Thursday but managed to bounce off intra-day lows by late NY. Ahead of the USD NFP (mkts: +205k) later in the global day, dollar bears may hit the pause button (note the Fed's Evans entertaining the prospect of 2 rate hikes this year on Thursday) and loiter in a holding pattern in the interim ahead of the deluge of global PMIs and the US labor market report.
- Meanwhile, slightly unsteady global equities/commodities accompanied by softer UST yields (bull flattening) saw the **FXSI (FX Sentiment Index)** remaining largely static despite edging a touch lower within Risk-Neutral territory. Any further negative vibes from the risk appetite front may also defuse intra-day dollar softness.
- Our 18 Feb 16 recommendation to be short **USD-SGD** (spot ref: 1.4034) arrived at its 1.3435 target on Thursday, yielding an implied 4.54% profit. We will continue to reassess the situation before re-committing with the greenback still seen in a vulnerable spot in the near term.

Asian FX

- Shaky Asian equities on Friday are expected to put a drag on regional currency resilience pending the US NFP with the **ACI (Asian Currency Index)** likely to bottom out during the Asian session. This should also afford regional central banks some breathing space after the recent fairly sharp appreciation of their domestic currencies.
- The **SGD NEER** is trading around +0.47% above its perceived parity (1.3538) this morning with NEER-implied USD-SGD thresholds yet lower on the day. At current levels, the +0.50% threshold is estimated to correspond to 1.3472, with the +1.00% level at 1.3406. The pair may remain intrinsically top heavy into the US NFP tonight.
- The authorities continue to hold the line at 98.00 for the **CFETS RMB Index** despite implicit downward pressure from the NEER's constituent currencies. This morning, the USD-CNY mid-point was fixed in the expected neighborhood at 6.4585 (6.4612 on Thursday), yielding an Index reading of 98.00, compared to 98.14 yesterday.
- Our near term views remain unchanged for now and in the current weak dollar current environment, risks for the entire renminbi complex remains tilted to the upside. Elsewhere, the revelation of the **PBOC's** (smaller than

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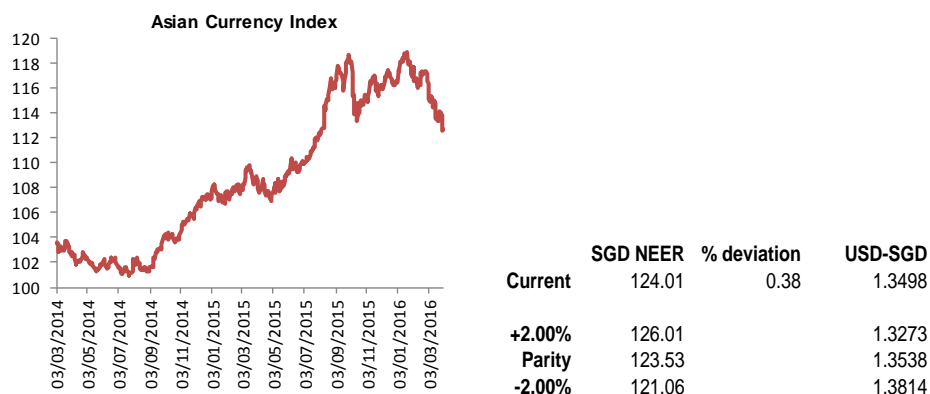
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expected) forward book and the better than expected China March PMI readings this morning should continue to keep market-implied CNH depreciation expectations at bay.

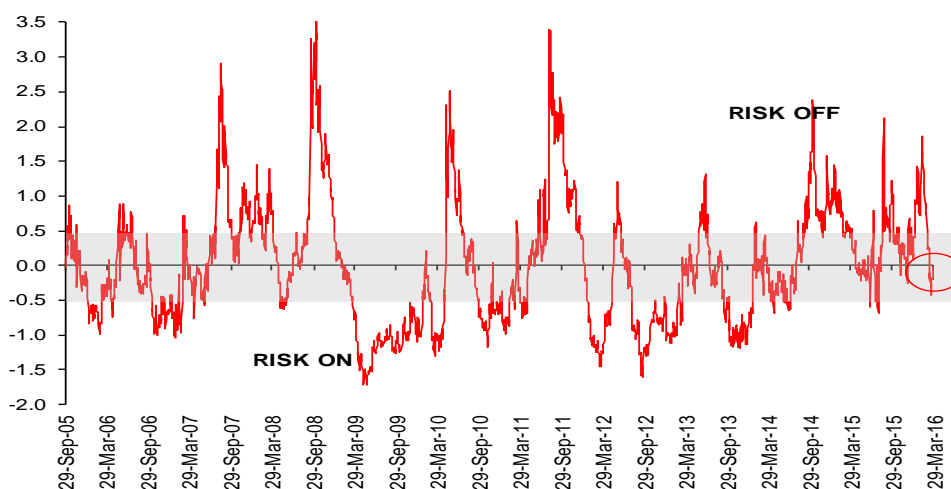


Source: OCBC Bank

G7

- **EUR-USD** Slightly better than expected March EZ core inflation (1.0% yoy) may have plausibly added another layer of support to the EUR-USD but a sustained break above the 1.1400 handle (with little of consequence thereafter till 1.1495) may have to be predicated on US-centric drivers.
- **USD-JPY** Readings from the 1Q Tankan proved disappointing early on Friday in Asia and this may continue to engender dovish expectations towards the BOJ. Any implied JPY impact from these numbers may have to be put on ice in the near term, especially with USD vulnerability and or risk appetite volatility still front and center in the markets. Additionally, note that the that the Tankan also revealed that large manufacturers expect the 117.46 in the current fiscal year as opposed to a firmer market “consensus”. Investors may continue to trawl recent ranges before the US NFP tonight.
- **AUD-USD** The AUD-USD may refrain from breaching 0.7700 pending the US labor market report, especially with investor sentiment wobbling slightly into Friday. Note however that any NFP-induced dollar bearishness may open the way to 0.7780. On the downside, 0.7600 is still expected to support barring an aggravation of negative investor sentiment.
- **GBP-USD** The larger than expected 4Q current account deficit (-GBP32.7bn) eclipsed the better than expected 4Q GDP data points (2.1% yoy) and provided an excuse to take the GBP-USD off intra-day highs on Thursday. As noted yesterday, we continue to not expect the GBP to fully partake in the current broad dollar vulnerability in view of its domestic baggage. Expect investors to pick bottoms towards the 55-day MA (1.4277) instead.

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

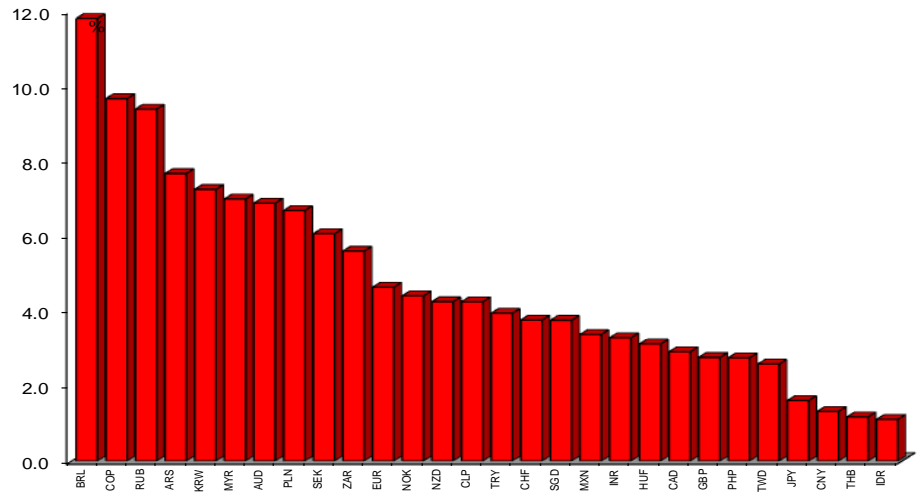
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1104	1.1300	1.1370	1.1400	1.1412
GBP-USD	1.4283	1.4300	1.4336	1.4400	1.4497
AUD-USD	0.7407	0.7600	0.7666	0.7700	0.7702
NZD-USD	0.6670	0.6900	0.6903	0.6930	0.6966
USD-CAD	1.2899	1.3000	1.3062	1.3100	1.3375
USD-JPY	111.41	112.00	112.20	113.00	114.09
USD-SGD	1.3415	1.3420	1.3498	1.3500	1.3893
EUR-SGD	1.5182	1.5300	1.5346	1.5393	1.5400
JPY-SGD	1.1964	1.2000	1.2030	1.2100	1.2167
GBP-SGD	1.9258	1.9300	1.9350	1.9400	1.9793
AUD-SGD	1.0263	1.0300	1.0348	1.0370	1.0400
Gold	1208.52	1210.98	1230.30	1278.84	1287.80
Silver	15.14	15.30	15.40	15.40	15.99

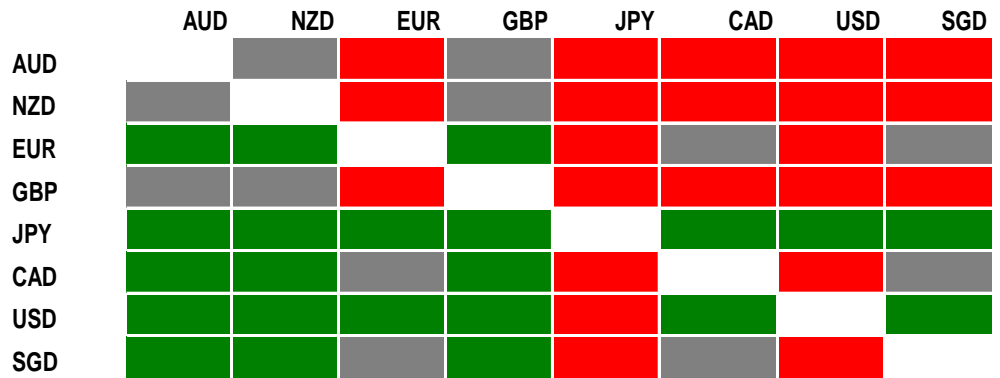
Source: OCBC Bank

FX performance: 1-month change agst USD



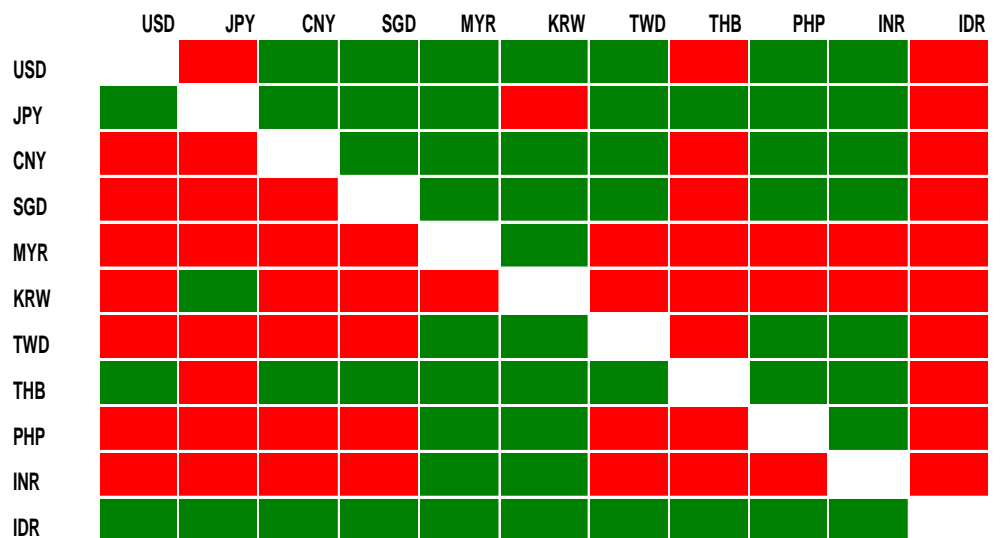
Source: Bloomberg

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	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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