

**Monday, August 01, 2016**

**FX Themes/Strategy/Trading Ideas – The week ahead**

- The greenback was trounced on Friday (with 10y UST yield clocking a low of 1.451%) in the wake of a markedly disappointing US GDP headline (+1.2% saar), with the dollar already injured in the wake of the disappointing BOJ earlier in the global day. Needless to say, the disappointing GDP numbers pushed the odds of a Sep (and December) FOMC hike further off the table despite attempted conciliatory remarks by the Fed's Kaplan and Williams.
- With the FOMC risks last week finally out of the way and dollar weakness likely entrenched in the short term. As noted last week, we were wrong footed in expecting a short term episode of dollar resilience surrounding last week's FOMC with investors eventually underwhelmed by the FOMC statement. **Instead, expect markets to revert to trading off a structurally beleaguered dollar outlook (in line with our long standing bearish dollar ideas).** Risk appetite levels meanwhile remain hospitable enough to support the search for yield, with the **FXSI (FX Sentiment Index)** dipping on Friday within Risk-Neutral territory.
- This week, expect more headline risks with the US NFP (mkts: +175k) rounding off an event/data ridden week starting with global PMIs due in the first half of this week. On the central bank front, expectations are rife for **RBA** (Tue) and **BOE** (Thu) rate cuts this week while the **Bank of Thailand** is expected to remain static on Wednesday at its MPC.
- On the **CFTC** front, net large non-commercial as well as leveraged positioning in aggregate saw an increase in implied short dollar positioning in the latest week. Leveraged accounts were particularly prescient given that the data pre-dated the FOMC and the BOJ meetings last week. Meanwhile, large non-commercial accounts saw a significant increase in net short dollar positioning (net of JPY positioning, which saw implied longs being pared).

**Asian FX**

- Given the state of affairs surrounding broad dollar prospects, we look for the **Asian Currency Index (ACI)** to continue to slip for the 5th consecutive session today and possibly deeper into the week.
- With the dollar slumping across the from Friday in NY, the **SGD NEER** is firmer from late last week at +1.21% above its perceived parity (1.3580) with NEER-implied USD-SGD thresholds perceptibly down on the day. At current levels, the +1.50% threshold is estimated at 1.3380, leaving very limited downside room for the USD-SGD intra-day. Meanwhile, the +1.00%

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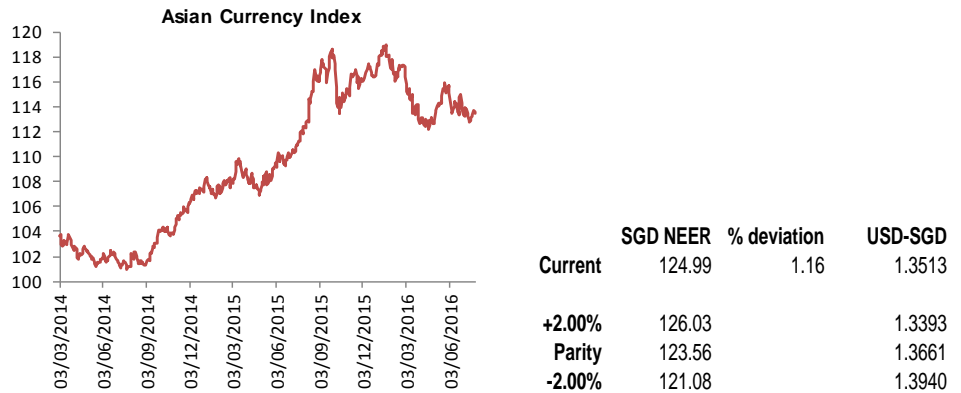
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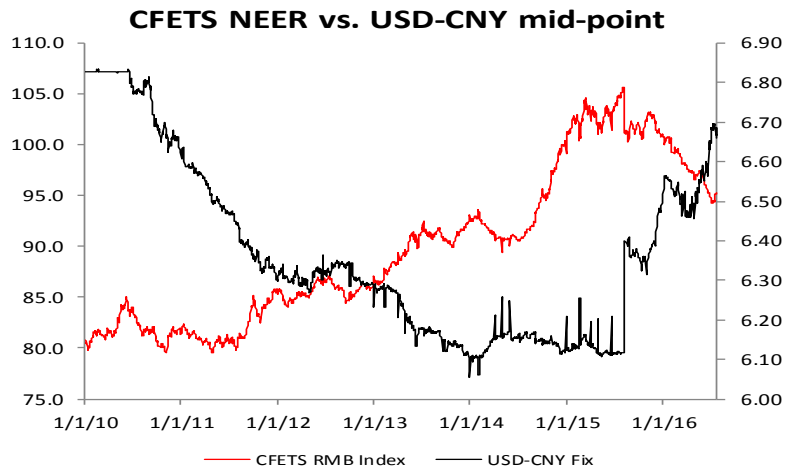
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threshold is estimated at 1.3446, where the NEER would be deemed at slightly more comfortable levels. Overall, the pair is invariably seen heavy in the short term with near term technical supports seen at 1.3380 and 1.3400.



Source: OCBC Bank

- This morning, the mix of the CFLP and Caixin PMIs for July provided for a mixed to sanguine environment and should not re-ignite undue pessimism towards China’s macro prospects. Meanwhile, the **CFETS RMB Index**, eased slightly on the day to 94.99 from 95.35 on Friday. As has been the case for the proportion of observations this year, with the implicit stability in the Index (i.e., within its implied boundary constraints), the USD-CNY shouldered the adjustment impact from the broad dollar’s Friday retreat, with the mid-point falling to 6.6277 from 6.6511 on Friday.



Source: OCBC Bank, Bloomberg

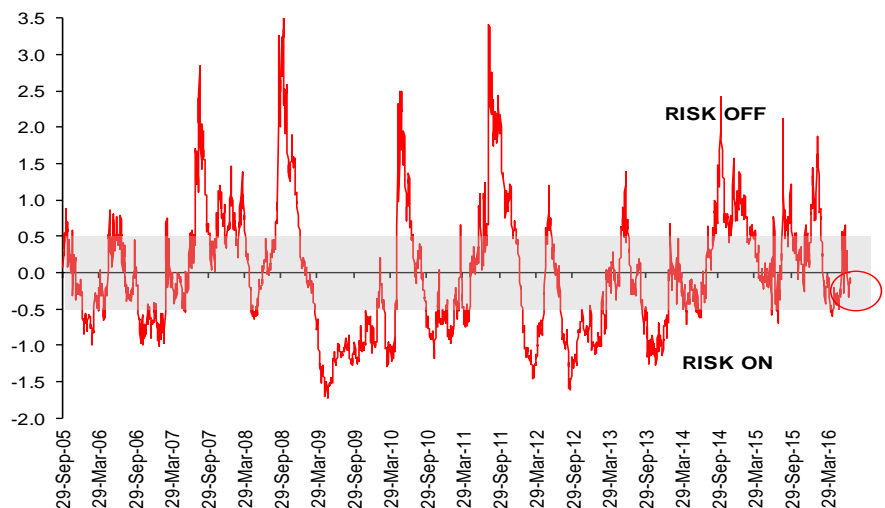
**G7**

- **EUR-USD** EU bank stress test results on Friday did not spring any undue negative surprises permitted the EUR-USD to climb on the back of the vulnerable dollar. On the CFTC front, although net leveraged EUR shorts were pared in the latest week, these numbers pre-dated the FOMC and we look potentially for further upside in the EUR-USD multi-session, especially if the pair manages to launch off its 55-day MA (1.1162).
- **USD-JPY** In the wake of pent up market expectations for further

monetary easing, the BOJ's move to “only” double ETF purchases at its MPC on Friday saw the USD-JPY collapsing to an intra-day low of 101.97. Conspicuously absent were any tweaks to its benchmark interest rates, monetary base target, and the scope and scale of its asset purchase program. While the BOJ indicated potentially more initiatives after a review at its next MPC in September, we think the may now resume trading off endemic dollar weakness. On the CFTC front, net leveraged JPY longs were pared in the latest week before the FOMC/BOJ, with these accounts wrong footed post FOMC/BOJ – perhaps explaining the fairly violent downside USD-JPY correction on Friday. At current levels, the 55-day MA (105.81) continues to serve as a resistance with risks skewed to 100.60 instead.

- AUD-USD** This morning, the AiG manufacturing index came in above expectations at 56.4 although significant headline risks may be attached to the RBA policy meeting on Tuesday and the RBA Statement on Monetary Policy on Friday. On the CFTC front, net leveraged AUD longs were accumulated further in the latest week and investors may continue to build on this perspective despite RBA risks this week as the search for yield strengthens. Technically, the AUD-USD has managed to bounce off an upward trend line established since late May 2016 and potential for a further bounce to 0.7640/75 remains apparent intra-day.
- GBP-USD** The GBP may be dogged by BOE rate cut expectations this week while we note that net leveraged CFTC shorts deepened further in the latest week. Given the prevailing investor psyche currently, any inaction by the BOE this week would only be postponing the inevitable. We expect investors to continue to fade upticks in the cable within 1.3100-1.3300.

**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

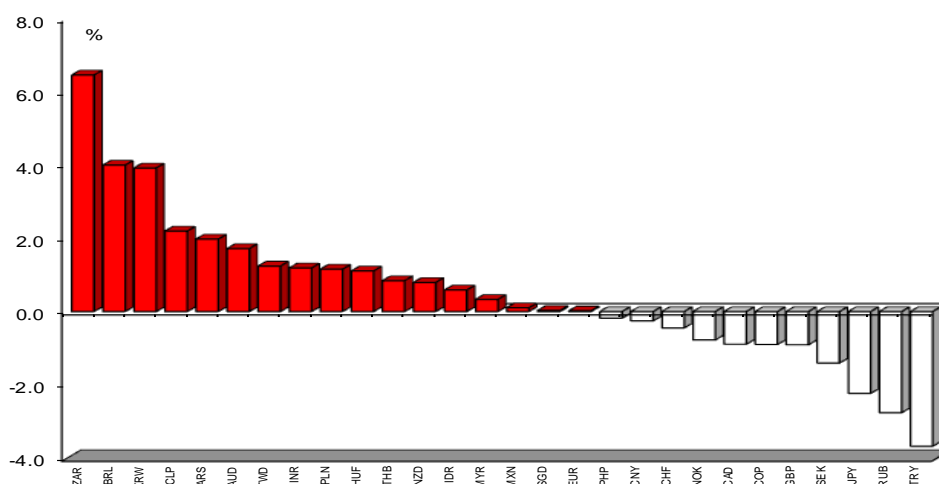
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0965	1.1000	1.1067	1.1074	1.1100
GBP-USD	1.2900	1.3200	1.3222	1.3300	1.3391
AUD-USD	0.7421	0.7500	0.7511	0.7600	0.7633
NZD-USD	0.7000	0.7024	0.7098	0.7100	0.7325
USD-CAD	1.2975	1.3100	1.3136	1.3200	1.3238
USD-JPY	100.31	105.00	105.10	105.70	106.00
USD-SGD	1.3390	1.3500	1.3518	1.3554	1.3600
EUR-SGD	1.4844	1.4900	1.4961	1.5000	1.5008
JPY-SGD	1.2800	1.2833	1.2862	1.2900	1.3419
GBP-SGD	1.7412	1.7800	1.7875	1.7900	1.8078
AUD-SGD	1.0100	1.0125	1.0154	1.0200	1.0268
Gold	1300.00	1306.74	1336.50	1367.24	1377.50
Silver	19.14	20.20	20.28	20.30	20.69
Crude	42.05	42.10	46.77	48.60	49.97

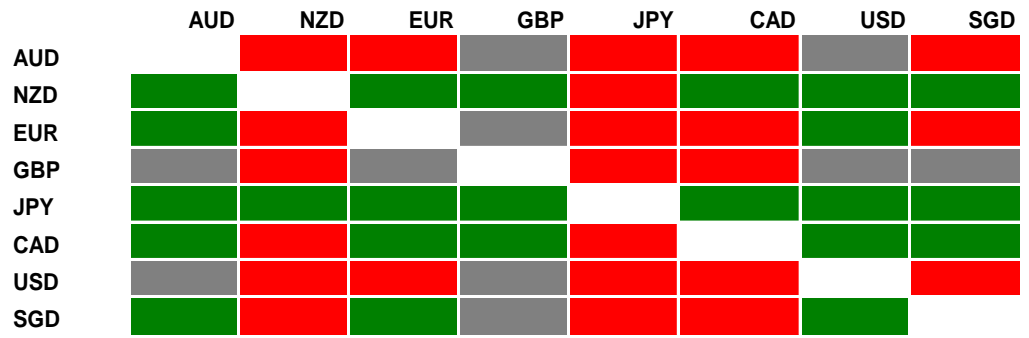
Source: OCBC Bank

### FX performance: 1-month change agst USD



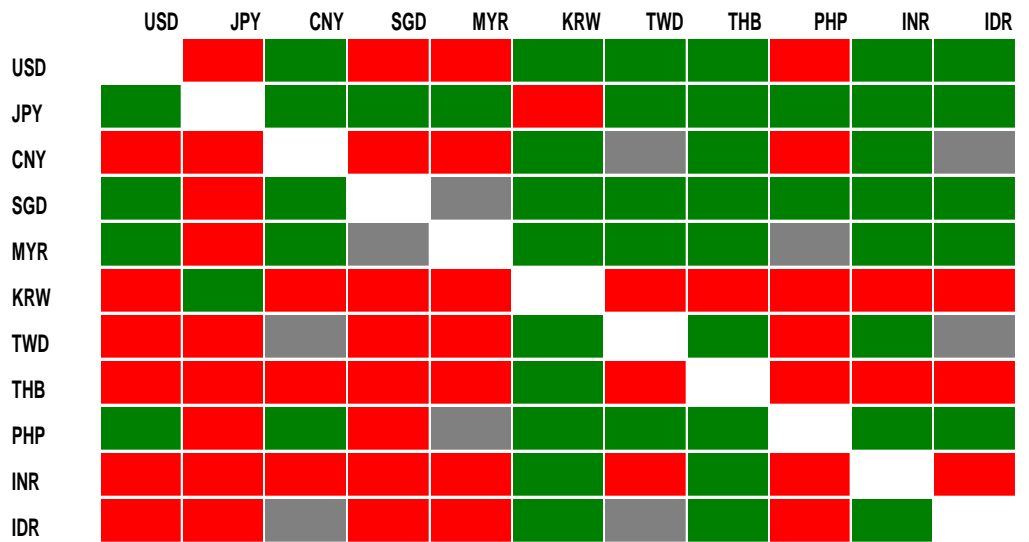
Source: Bloomberg

**G10 FX Heat Map**



Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

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