

Thursday, June 02, 2016

### FX Themes/Strategy/Trading Ideas – Revised forecasts

- Despite a better than expected ISM (51.3 vs. 50.8 prev) and firmer front-end UST yields, the dollar tapped out on Wednesday against the majors as US specific factors continued to run thin. Today, an appearance by the Fed's Kaplan (1700 GMT) may turn the attention once again towards FOMC rate hike prospects, with the Beige Book (little discernible market impact) overnight noting that "Tight labor markets were widely noted in most districts". On other fronts, the ECB meeting today (1145 GMT) and Draghi's press conference (1230 GMT) will be closely watched. In the interim, investors may remain content to trade off non-FOMC specific cues ahead of Fed-speak today and the US NFP tomorrow.
- Elsewhere, the **FXSI (FX Sentiment Index)** shrank higher within Risk-Neutral territory for the second consecutive session as global risk appetite wavered slightly.

### Asian FX

- Despite chatter of risk aversion, Asian currencies have remained fairly restrained despite the **Asian Currency Index (ACI)** continuing to seek higher ground (i.e., stronger broad dollar). We continue to remain wary towards further upside potential for the regional pairs from here, especially if risk aversion deepens.
- The **SGD NEER** starts the day relatively unchanged on the day at +0.06% above its perceived parity (1.3773) with NEER-implied USD-SGD thresholds a touch lower. At current levels, the -0.05% NEER threshold is estimated to correspond to 1.3842 and with -1.00% seen at 1.3912. Volatility measures meanwhile remain benign. With the broad dollar in stasis (for now), the USD-SGD may fade approaches to 1.3805 while first support is expected towards 1.3735.
- On a structural basis, the SGD NEER has managed to bounce off lows in May and is now fairly static if not a touch softer from a month ago. We note however that the NEER is still aloft primarily on the back of the underperforming MYR, without which, the basket would invariably be further south of parity and plausibly a closer representation of underlying macro conditions.

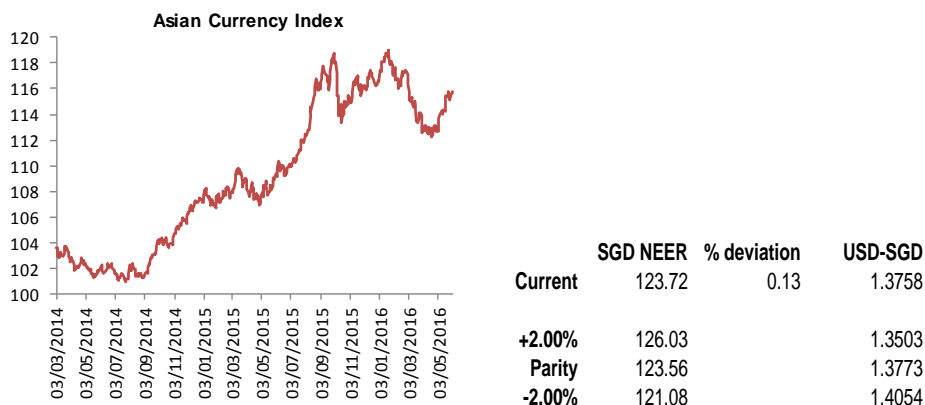
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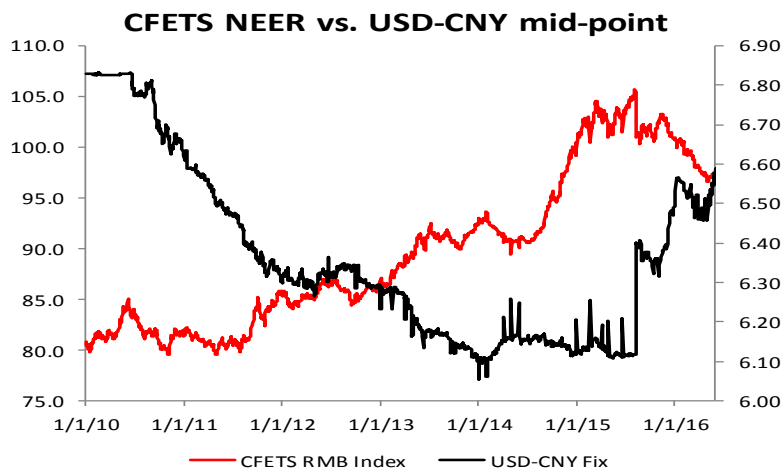
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Source: OCBC Bank

- This morning, the PBOC nudged the **CFETS RMB Index** higher to 97.11 from 97.08 on Wednesday, pushing the USD-CNY mid-point sharply lower to 6.5688 from 6.5889 yesterday.



Source: OCBC Bank, Bloomberg

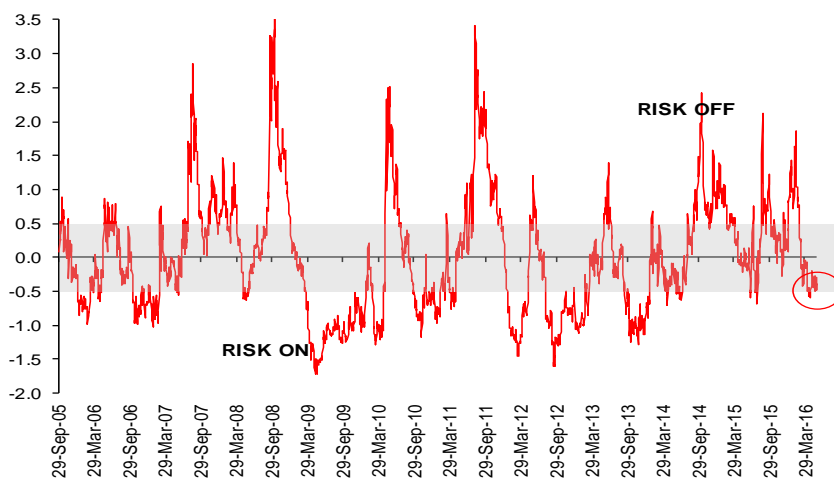
**G7**

- **EUR-USD** The ECB is expected to stand pat at its policy meeting later today with sustained dovishness and readiness to act further mixed in with an expected hike in inflation forecasts. Meanwhile, fallout from Brexit related jitters. In the intervening period, the EUR-USD may continue to anchor itself in the vicinity of 1.1200.
- **USD-JPY** USD-JPY collapsed on Wednesday (low of 109.06) after PM Abe’s announcement of the deferment of the sales tax hike with position adjustment and cited risk aversion (attributed to the lack of official clues regarding a supplementary budget) weighing on the pair. After violating the 55-day MA (109.87), the pair looks poised to keel over towards 108.30 before 108.00 if investors continue to prep for potential global event risks in the coming weeks.
- **AUD-USD** The AUD received an initial boost from the better than expected 1Q 16 GDP numbers but the pair faded most of its gains by late NY

to end slightly firmer on the day. The AUD-USD may have to contend with the 200-day MA (0.7256) if it is to make further upside progress from current levels. Markets may however be increasingly hesitant if investor sentiment continues to remain fragile pending further USD cues..

- GBP-USD** Despite a better than expected May manufacturing PMI, sterling continued to underperform across the board on Wednesday as Brexit concerns mounted. Expect more of the same in the current session. From a technical perspective, any sustained violation would prove pivotal and may portend further deterioration towards the 1.4200 neighborhood. Intra-day, the BOE's Carney is scheduled to make an appearance at 1300 GMT.

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	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

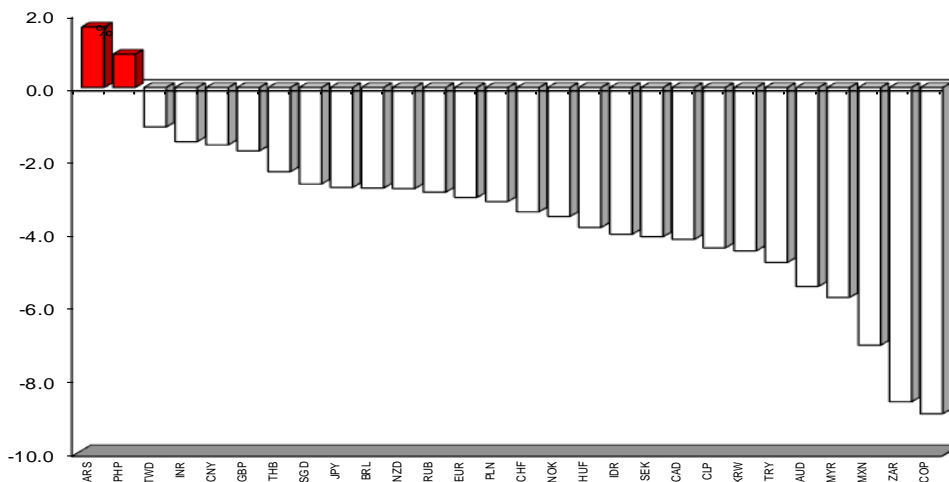
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1098	1.1100	1.1187	1.1200	1.1308
GBP-USD	1.4400	1.4409	1.4417	1.4500	1.4713
AUD-USD	0.7145	0.7200	0.7248	0.7253	0.7300
NZD-USD	0.6682	0.6800	0.6824	0.6831	0.6844
USD-CAD	1.2912	1.3000	1.3072	1.3100	1.3185
USD-JPY	107.66	109.00	109.39	109.64	110.00
USD-SGD	1.3624	1.3700	1.3767	1.3800	1.3842
EUR-SGD	1.5285	1.5300	1.5329	1.5379	1.5400
JPY-SGD	1.2428	1.2500	1.2521	1.2600	1.2686
GBP-SGD	1.9598	1.9900	1.9960	2.0000	2.0313
AUD-SGD	0.9880	1.0000	1.0028	1.0077	1.0100
Gold	1199.00	1200.00	1211.90	1246.95	1300.00
Silver	15.83	15.90	15.95	16.00	16.42
Crude	43.55	43.74	48.70	48.74	48.80

Source: OCBC Bank

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



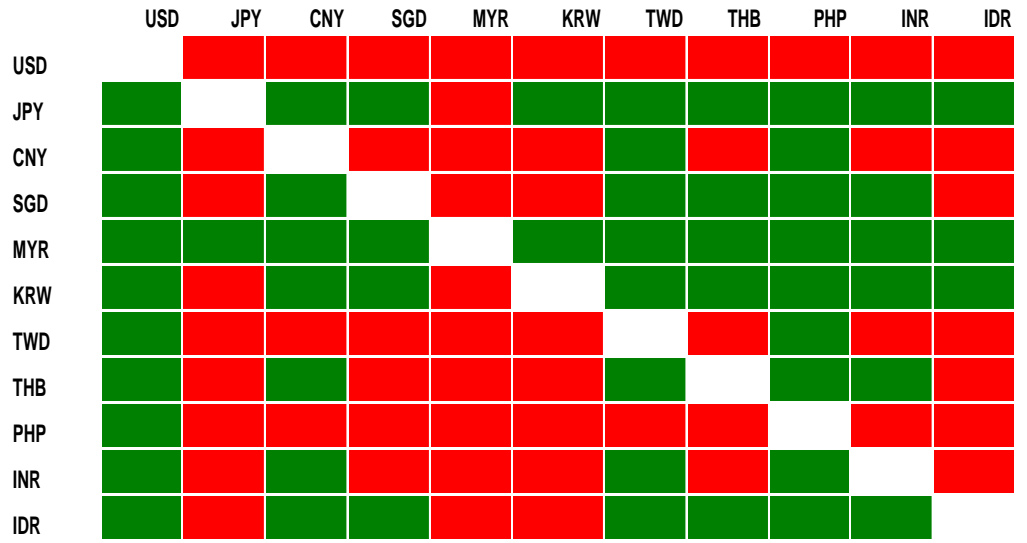
Source: Bloomberg

**G10 FX Heat Map**

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD		Green	Green	Green	Green	Grey	Green	Green
NZD	Red		Red	Green	Red	Red	Green	Grey
EUR	Red	Green		Green	Red	Red	Green	Green
GBP	Red	Red	Red		Red	Red	Grey	Red
JPY	Red	Green	Green	Green		Red	Green	Green
CAD	Grey	Green	Green	Green	Green		Green	Green
USD	Red	Red	Red	Grey	Red	Red		Red
SGD	Red	Grey	Red	Green	Red	Red	Green	

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-Apr-16	S	AUD-USD	0.7626	0.7095	0.7490	Negativity post 1Q CPI numbers	
2	09-May-16	B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak	
3	09-May-16	B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook	
4	18-May-16	B	GBP-USD	1.4438	1.4805	1.4255	Potential for bounce post-referendum	
5	19-May-16	S	EUR-USD	1.1224	1.0935	1.1370	Policy dichotomy play, especially after FOMC minutes	
6	19-May-16	B	USD-JPY	110.01	113.50	108.25	Policy dichotomy play, especially after FOMC minutes	
<b>STRUCTURAL</b>								
7	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
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	
10	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
11	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
<b>RECENTLY CLOSED</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
2	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.3040	Bottoming crude prices	-0.24
3	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39
4	04-May-16	10-May-16	S	USD-JPY	107.21	109.00	USD vulnerability pre-NFP, potential risk aversion	-1.66
5	04-May-16	11-May-16	B	EUR-USD	1.1482	1.1372	Rate differentials in the EUR's favor	-0.99
6	19-Apr-16	13-May-16	S	USD-SGD	1.3439	1.3740	Potential for further broad USD decay, positive risk appetite	-2.17

Source: OCBC Bank

### Revised central tendency forecasts

	<b>Spot</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>	<b>Mar-17</b>
<b>USD-JPY</b>	110.05	111.50	111.11	114.44	117.78
<b>EUR-USD</b>	1.1122	1.1050	1.0978	1.0911	1.0844
<b>GBP-USD</b>	1.4483	1.4435	1.4504	1.4291	1.4077
<b>AUD-USD</b>	0.7276	0.7345	0.7132	0.6989	0.6846
<b>NZD-USD</b>	0.6792	0.6835	0.6788	0.6631	0.6474
<b>USD-CAD</b>	1.3057	1.3140	1.3063	1.3430	1.3798
<b>USD-CHF</b>	0.9943	1.0015	1.0067	1.0117	1.0167
<b>USD-SGD</b>	1.3782	1.3845	1.3903	1.4033	1.4163
<b>USD-CNY</b>	6.592	6.6178	6.6611	6.6944	6.7278
<b>USD-THB</b>	35.69	35.85	35.96	36.12	36.29
<b>USD-IDR</b>	13672	13850	13956	14122	14289
<b>USD-MYR</b>	4.1340	4.1975	4.2400	4.3000	4.3600
<b>USD-KRW</b>	1194	1210	1224	1236	1247
<b>USD-TWD</b>	32.617	32.700	32.817	33.167	33.517
<b>USD-HKD</b>	7.7701	7.7726	7.7801	7.7875	7.7950
<b>USD-PHP</b>	46.66	46.75	46.64	47.06	47.47
<b>USD-INR</b>	67.13	67.35	67.53	68.08	68.63
<b>EUR-JPY</b>	122.4	123.21	121.98	124.87	127.72
<b>EUR-GBP</b>	0.7680	0.7655	0.7569	0.7635	0.7704
<b>EUR-CHF</b>	1.1058	1.1067	1.1051	1.1038	1.1025
<b>EUR-SGD</b>	1.5329	1.5299	1.5263	1.5312	1.5359
<b>GBP-SGD</b>	1.9960	1.9985	2.0165	2.0054	1.9938
<b>AUD-SGD</b>	1.0028	1.0169	0.9916	0.9808	0.9696
<b>NZD-SGD</b>	0.9360	0.9463	0.9437	0.9306	0.9170
<b>CHF-SGD</b>	1.3861	1.3824	1.3811	1.3871	1.3931
<b>JPY-SGD</b>	1.2521	1.2417	1.2513	1.2262	1.2025
<b>SGD-MYR</b>	2.9994	3.0318	3.0496	3.0641	3.0784
<b>SGD-CNY</b>	4.7830	4.7799	4.7910	4.7704	4.7501

Source: OCBC Bank

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