

Wednesday, February 03, 2016

FX Themes/Strategy/Trading Ideas – Revised forecasts

- With global growth worries at the forefront, the stain from negative global equities/commodities (note softer UST/bund yields) will be expected to put the shade on the cyclicals and EM FX today with the JPY and the EUR benefitting from safe haven bids once again. Note that the **FXSI (FX Sentiment Index)** crept higher for the second consecutive session within Risk-Off territory on Tuesday.
- The **RBA** meeting statement on Tuesday remained relatively sanguine with regards to local economic/inflation conditions and also reiterated that “The exchange rate has continued its adjustment to the evolving economic outlook”. Note however an entirely new paragraph devoted to recent financial market volatility. In ending the statement, the central bank noted that it would assess “whether the recent improvement in labour market conditions is continuing and whether the recent financial turbulence portends weaker global and domestic demand”. The RBA also reiterated that “Continued low inflation may provide scope for easier monetary policy, should that be appropriate to lend support to demand”. Overall, the statement is more cognizant of global market volatility risks with the door perhaps swinging a little more freely towards a rate cut if necessary. Expect no new positive leverage for the AUD from the latest meeting.
- We have cashed out our prior 10 Nov 15 idea to be short **GBP-USD** (spot ref: 1.4917) at 1.4390 for an implied +3.56% gain. The outlook for the pound we think continues to remain under threat although we look for better levels to re-engage.
- Overall, we have lightened up considerably in terms of tactical trade ideas pending a re-assessment and in the interim, we expect investors to trade in and out of the risk appetite dynamic.

Asian FX

- In light of the negative investor attitude towards EM, look for the dollar to hold the upper hand in Asia today with the **ACI (Asian Currency Index)** expected to push higher in the current environment.
- The **USD-CNY mid-point** was fixed higher this morning at 6.5521 compared to 6.5510. This brings the estimated CFETS RMB Index higher (as expected) to 100.63, from an estimated 100.48 on Tuesday. Despite the relative stability in the fix and the index, note that RMB depreciation expectations remain in force, although the basis between CNH and onshore we think have

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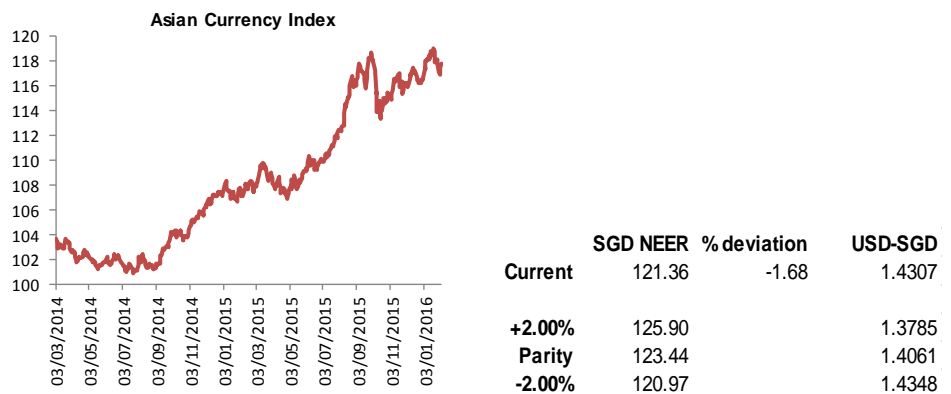
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not reached official policy tolerances.

- This morning, the **SGD NEER** is approximately -1.70% below its perceived parity (1.4061), relatively softer on the day with respect to its parity. NEER-implied USD-SGD thresholds are also higher on the day following overnight moves in global currencies with the -2.00% lower boundary of the NEER fluctuation band estimated at 1.4348 currently. Note that Singapore's Jan PMI readings (headline: 49.0, prev: 49.5) disappointed and with risk appetite receding, the pair may seek higher intra-day. Downside support is expected at 1.4250 and 1.4225 thereafter.



Source: OCBC Bank

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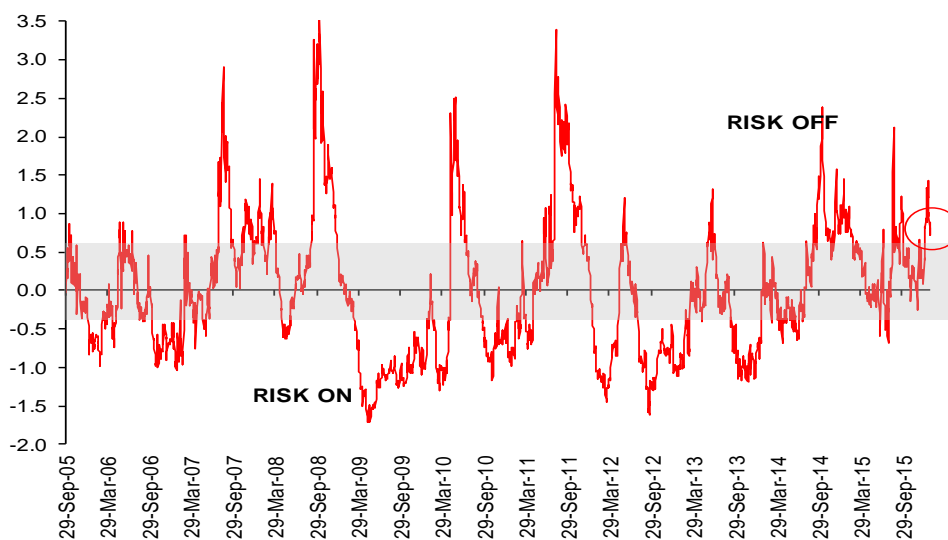
- **EUR-USD** Dovish expectations towards the ECB may remain in motion after Draghi stated that inflation dynamics have weakened relative to end-2015. In the near term however, souring risk appetite may float the EUR-USD towards 1.0960 with immediate support at 1.0900.
- **USD-JPY** Despite hawkish comments from the Fed's George on Tuesday, the USD-JPY may continue to respond to risk aversion in the near term. The BOJ's Kuroda meanwhile remains dovish in his comments (threatening further QQE if necessary) but this is not likely to whittle away at the yen intra-day. The pairs risks slipping towards 119.00 with the 55-day MA (120.43) now serving as a resistance.
- **AUD-USD** Post-RBA, the darkened global market landscape may claw the AUD-USD back below 0.7000 in the near term towards 0.6950, with the wider than expected Dec 15 trade deficit an added negative.
- **GBP-USD** Risk appetite dynamics aside, look to the UK services/composite PMIs for further cues today. Quasi-positive news flow from the Brexit front may also help to keep the pair aloft in the near term. Nonetheless, with investors jittery at this juncture, the 1.4435 resistance may continue to repel with 1.4345 a first support.

Revised central tendency forecasts

	Spot	Mar-16	Jun-16	Sep-16	Dec-16
USD-JPY	120.65	121.38	121.78	122.94	124.11
EUR-USD	1.0901	1.0943	1.0789	1.0622	1.0456
GBP-USD	1.4385	1.4320	1.4107	1.3997	1.3887
AUD-USD	0.7078	0.7113	0.7038	0.6914	0.6791
NZD-USD	0.6524	0.6573	0.6466	0.6288	0.6109
USD-CAD	1.4015	1.4125	1.4405	1.4510	1.4615
USD-CHF	1.0196	1.0338	1.0433	1.0483	1.0533
USD-SGD	1.4239	1.4213	1.4350	1.4500	1.4650
USD-CNY	6.5795	6.5877	6.6064	6.6251	6.6438
USD-THB	35.66	35.55	35.87	36.36	36.84
USD-IDR	13636	13518	13687	13892	14097
USD-MYR	4.2050	4.1723	4.2457	4.3547	4.4637
USD-KRW	1207	1218	1242	1261	1279
USD-TWD	33.386	33.425	33.656	33.889	34.122
USD-HKD	7.7784	7.7800	7.7844	7.7911	7.7978
USD-PHP	47.735	47.78	48.12	48.46	48.79
USD-INR	67.82	68.28	68.75	69.05	69.35
EUR-JPY	131.52	132.81	131.38	130.59	129.77
EUR-GBP	0.7578	0.7641	0.7648	0.7589	0.7529
EUR-CHF	1.1115	1.1312	1.1256	1.1136	1.1013
EUR-SGD	1.5522	1.5552	1.5482	1.5402	1.5317
GBP-SGD	2.0483	2.0352	2.0243	2.0295	2.0344
AUD-SGD	1.0078	1.0109	1.0099	1.0026	0.9949
NZD-SGD	0.9290	0.9341	0.9279	0.9117	0.8950
CHF-SGD	1.3965	1.3748	1.3754	1.3831	1.3908
JPY-SGD	1.1802	1.1710	1.1784	1.1794	1.1804
SGD-MYR	2.9532	2.9356	2.9587	3.0032	3.0469
SGD-CNY	4.6208	4.6351	4.6037	4.5690	4.5350

Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658
JPY	0.537	-0.135	-0.823	0.460	0.272	0.541	1.000	0.483	-0.279	-0.681
SGD	0.339	-0.346	0.480	-0.307	-0.237	-0.558	-0.195	-0.568	0.344	0.269
AUD	0.054	0.298	-0.478	0.694	0.621	0.833	0.153	0.804	-0.582	-0.630
PHP	-0.042	-0.266	0.129	-0.635	-0.650	-0.587	0.083	-0.442	0.646	0.593
IDR	-0.155	-0.110	-0.188	-0.370	-0.710	-0.208	0.342	-0.313	0.724	0.199
TWD	-0.263	0.063	0.703	-0.490	-0.106	-0.626	-0.676	-0.656	0.228	0.407
GBP	-0.264	-0.275	-0.684	-0.049	-0.334	0.450	0.454	0.293	0.435	-0.238
CAD	-0.270	0.095	0.972	-0.574	-0.382	-0.910	-0.763	-0.837	0.290	0.813
CNH	-0.279	0.107	0.957	-0.496	-0.450	-0.842	-0.802	-0.763	0.345	0.808
CNY	-0.289	0.208	1.000	-0.467	-0.338	-0.857	-0.823	-0.745	0.233	0.806
CCN12M	-0.319	0.066	0.784	-0.395	-0.273	-0.582	-0.801	-0.567	0.258	0.566
INR	-0.319	-0.111	-0.460	-0.126	-0.558	0.185	0.330	0.083	0.547	0.004
THB	-0.330	-0.068	0.850	-0.728	-0.499	-0.854	-0.727	-0.849	0.520	0.788
KRW	-0.339	-0.098	0.462	-0.761	-0.846	-0.736	-0.319	-0.786	0.792	0.679
USGG10	-0.374	1.000	0.208	0.249	0.076	-0.022	-0.135	0.072	-0.285	0.057
MYR	-0.377	0.101	0.882	-0.527	-0.571	-0.854	-0.725	-0.734	0.442	0.892
NZD	-0.465	0.486	0.793	-0.068	-0.118	-0.434	-0.851	-0.328	-0.069	0.573
EUR	-0.949	0.366	0.483	-0.523	-0.574	-0.446	-0.638	-0.498	0.466	0.606

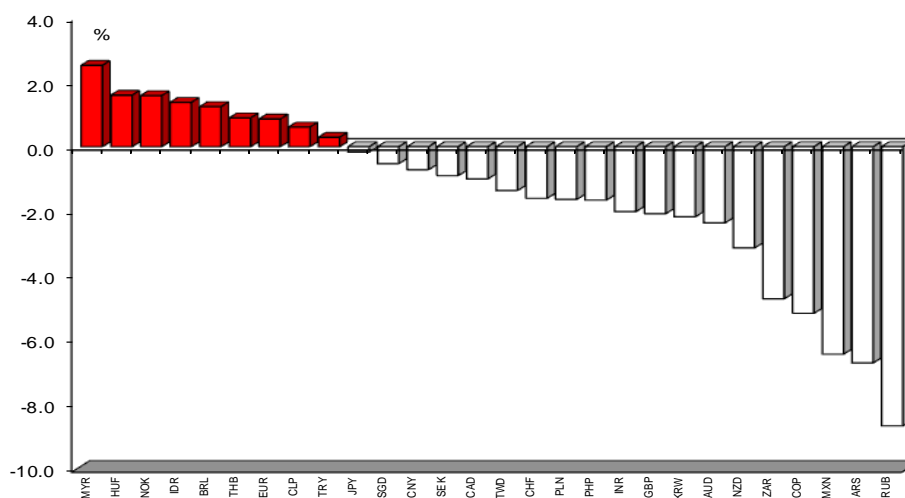
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0867	1.0900	1.0925	1.0956	1.1000
GBP-USD	1.4100	1.4400	1.4410	1.4500	1.4596
AUD-USD	0.6852	0.7000	0.7020	0.7100	0.7120
NZD-USD	0.6391	0.6500	0.6538	0.6597	0.6600
USD-CAD	1.3919	1.4000	1.4094	1.4100	1.4615
USD-JPY	115.98	119.00	119.65	120.00	120.19
USD-SGD	1.4219	1.4300	1.4310	1.4400	1.4431
EUR-SGD	1.5424	1.5500	1.5522	1.5600	1.5752
JPY-SGD	1.1782	1.1800	1.1801	1.1804	1.1900
GBP-SGD	2.0160	2.0400	2.0483	2.0500	2.0851
AUD-SGD	0.9872	1.0000	1.0079	1.0100	1.0118
Gold	1083.56	1100.00	1128.50	1131.40	1131.95
Silver	14.09	14.30	14.31	14.40	14.58

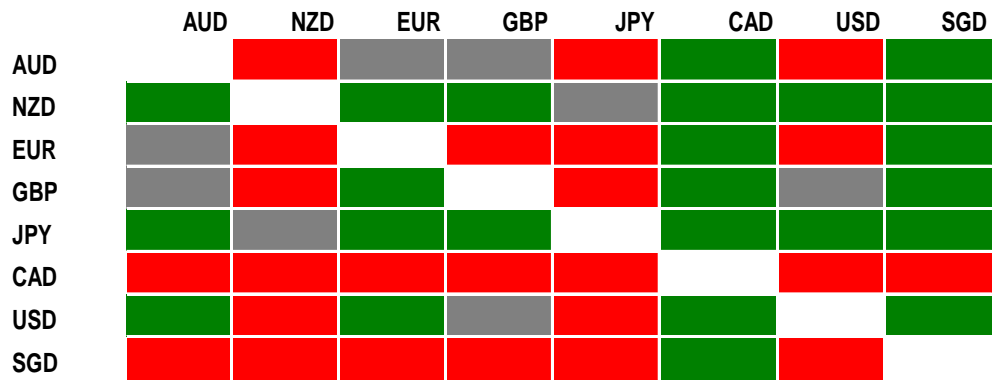
Source: OCBC Bank

FX performance: 1-month change agst USD



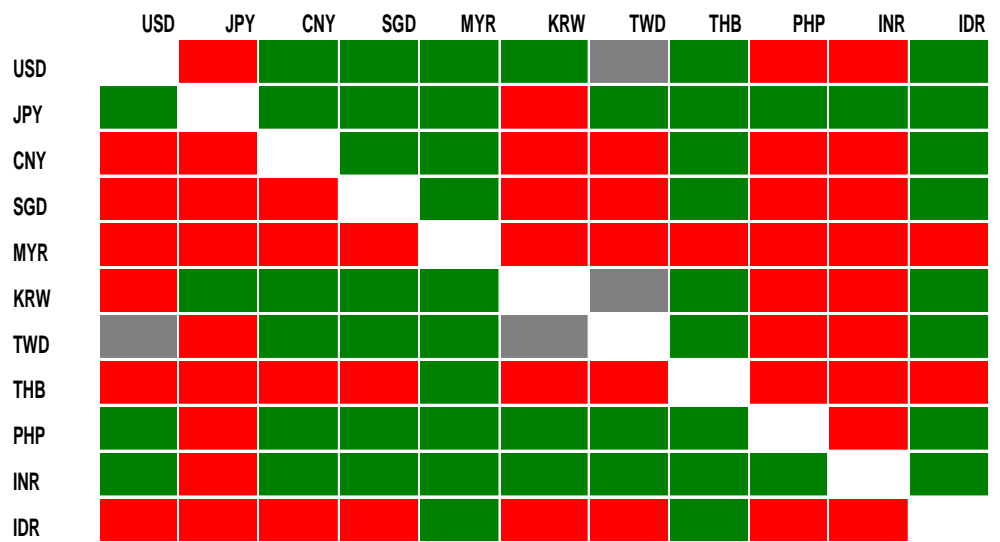
Source: Bloomberg

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	08-Jan-16	B	EUR-USD	1.0888	1.1220	1.0720	Risk of Fed/dollar "disappointment"	
STRUCTURAL								
2	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY	
RECENTLY CLOSED								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	29-Dec-15	15-Jan-16	B	USD-CAD	1.3886	1.4520	Central bank policy dichotomy in addition to structurally soft crude	+4.38
2	08-Jan-16	19-Jan-16	S	AUD-USD	0.7056	0.6950	Fragile global/equity/commodity/RMB backdrop	+1.47
3	18-Dec-15	19-Jan-16	S	GBP-USD	1.4909	1.4195	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP	+5.03
4	21-Dec-15	21-Jan-16	S	USD-JPY	121.15	117.45	Disappointment towards a less dovish than expected BOJ	+3.06
5	10-Nov-15	21-Jan-16	B	USD-CAD	1.3276	1.4390	USD strength vs. weak crude	+7.75
6	04-Jan-16	01-Feb-16	B	USD-SGD	1.4229	1.4240	Asian FX weakness, RMB jitters	+0.01
7	21-Dec-15	02-Feb-16	S	GBP-USD	1.4917	1.4409	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness	+3.56

Source: OCBC Bank

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