

Tuesday, May 03, 2016

**FX Themes/Strategy/Trading Ideas**

- The broad dollar may be expected to remain under implicit downside pressure despite firmer UST yields with FOMC expectations continuing to be diffused (note a disappointing April ISM reading of 50.8 from 51.87 prev). Fed rhetoric meanwhile has also been mixed, with Kaplan's hawkish tone subsequently neutralized by even-handed comments by Williams.
- However, price action is not expected to be linear ahead of Friday's US labor market numbers. For example, investor sentiment levels may be instructive despite stronger US equities overnight, with the **FXSI (FX Sentiment Index)** shrinking higher for the 3<sup>rd</sup> consecutive session on Monday with the Index also back in Risk-Neutral territory for the 2<sup>nd</sup> consecutive session. **Overall, our preference to lean on the USD remains in play.**

**Asian FX**

- The global macro backdrop remains lackluster judging by the latest stream of global PMIs with the April Caixin manufacturing PMI this morning also disappointing at 49.4 from 49.7 in March. As such, we note that the near term heaviness in the **Asian Currency Index (ACI)** and USD-Asia has been afforded more by broad USD vulnerability than to any widespread economic optimism.
- Post long weekend, the **SGD NEER** is around +0.25% above its perceived parity (1.3437) this morning. NEER-implied USD-SGD thresholds are slightly softer from late last week with the broad dollar still under implicit downside pressure. At current levels, the +0.50% NEER threshold is expected to correspond to around 1.3370 while -0.50% is seen at approximately at 1.3505. Technically, the pair may continue to list over gradually and if 1.3400 is breached with conviction, next support is expected towards the recent low around 1.3352.

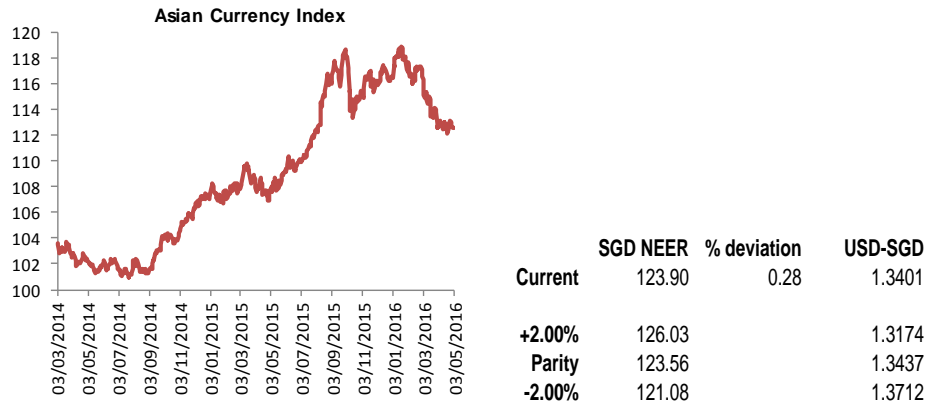
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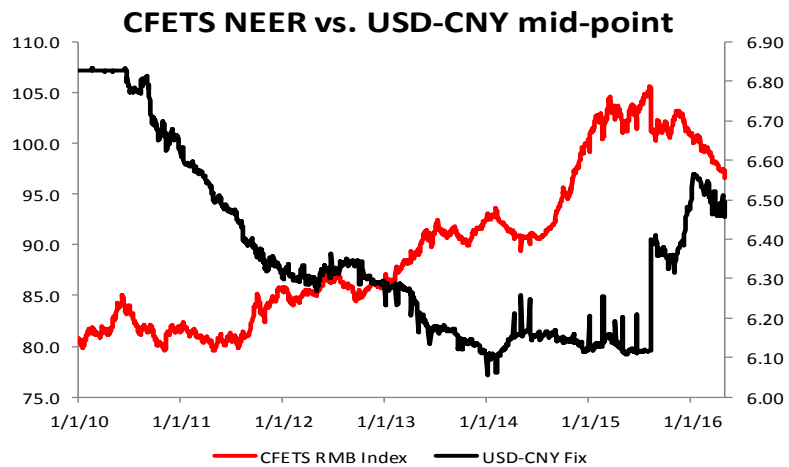
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Source: OCBC Bank

- The **CFETS RMB Index** dislocated lower to 96.54 this morning (slightly more than implied) after the long weekend. This was brought about by a static **USD-CNY mid-point** at 6.4565 (compared to 6.4589 on Friday) despite constituent basket currencies strengthening against the USD in the intervening period. Despite continued stabilization in the April PMIs, signaling behavior by the authorities is stark, with the CFETS RMB Index finally caving and being set below 97.00. As noted previously, 95.00 remains fair game going ahead.



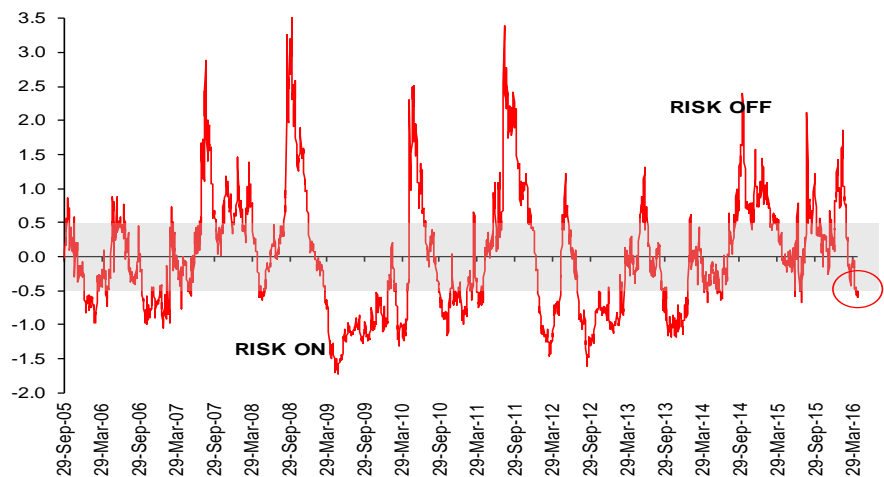
**G7**

- **EUR-USD** The latest supportive and accommodative remarks from the ECB's Draghi may do little to deter buoyancy in the EUR-USD if the greenback remains on the defensive. We look for some consolidative behavior at current levels but 1.1600 is now in plain sight.
- **USD-JPY** TKY is away today (and Wed-Thu) on a public holiday today but expect official jawboning against untoward yen strength to persist. Japanese authorities however may be in a slightly uncomfortable position, with the US Treasury last Friday putting five countries (China, Japan, Korea, Taiwan, and Germany) under a new monitoring list in its semi-annual report to Congress. At this juncture, the path of least resistance we believe remains

oriented south, although it descent (in line with the near term vol surface) may slow to a creep as investor caution sets in.

- AUD-USD** Near term directionality for the AUD-USD may be determined by the RBA meeting today (0430 GMT). Despite some nagging concerns about a tail risk for a rate cut today (after the latest disappointing CPI numbers last week), we believe the AUD-USD has been buffered by a supportive commodity complex and a weak greenback backdrop. As such, price action in the pair has been northbound of late with the pair also having been repelled off the 0.7600 floor. Prepare for potential for volatility if the RBA surprises on the dovish side later today.
- GBP-USD** Despite the UK away for the long weekend, the GBP-USD continued to float higher on Monday as Brexit concerns continued to abate. In the current environment, GBP-USD may attempt to creep higher incrementally with the region between 1.4700 and 1.4800 largely bereft of key resistance levels.

### 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

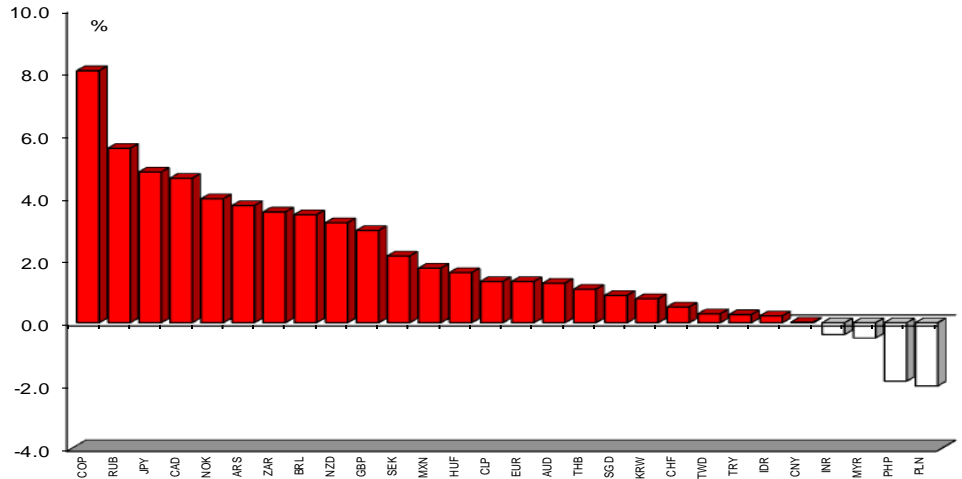
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
<b>EUR-USD</b>	1.1500	1.1520	1.1540	1.1542	1.1600
<b>GBP-USD</b>	1.4268	1.4600	1.4684	1.4696	1.4700
<b>AUD-USD</b>	0.7650	0.7670	0.7700	0.7830	0.7835
<b>NZD-USD</b>	0.6803	0.7000	0.7049	0.7054	0.7062
<b>USD-CAD</b>	1.2499	1.2500	1.2520	1.2600	1.3045
<b>USD-JPY</b>	106.00	106.05	106.21	107.00	111.26
<b>USD-SGD</b>	1.3352	1.3400	1.3402	1.3500	1.3596
<b>EUR-SGD</b>	1.5400	1.5460	1.5466	1.5478	1.5481
<b>JPY-SGD</b>	1.2254	1.2600	1.2619	1.2674	1.2689
<b>GBP-SGD</b>	1.9443	1.9600	1.9679	1.9700	1.9777
<b>AUD-SGD</b>	1.0290	1.0300	1.0320	1.0400	1.0532
<b>Gold</b>	1244.81	1293.68	1296.40	1300.00	1306.00
<b>Silver</b>	15.85	17.60	17.68	17.70	18.03
<b>Crude</b>	40.22	44.90	44.99	45.00	46.78

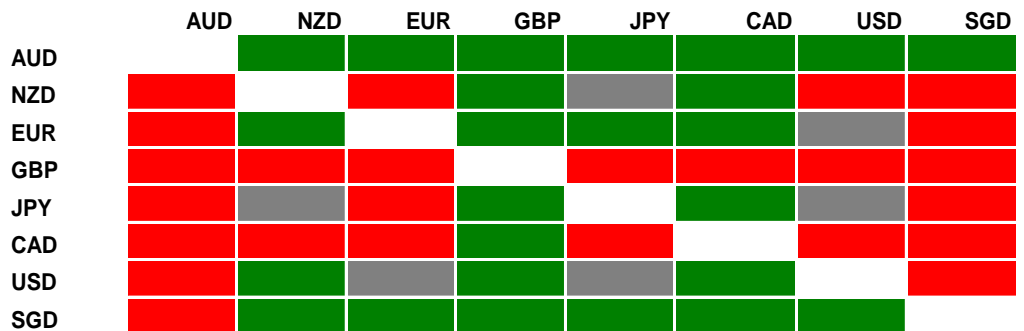
Source: OCBC Bank

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



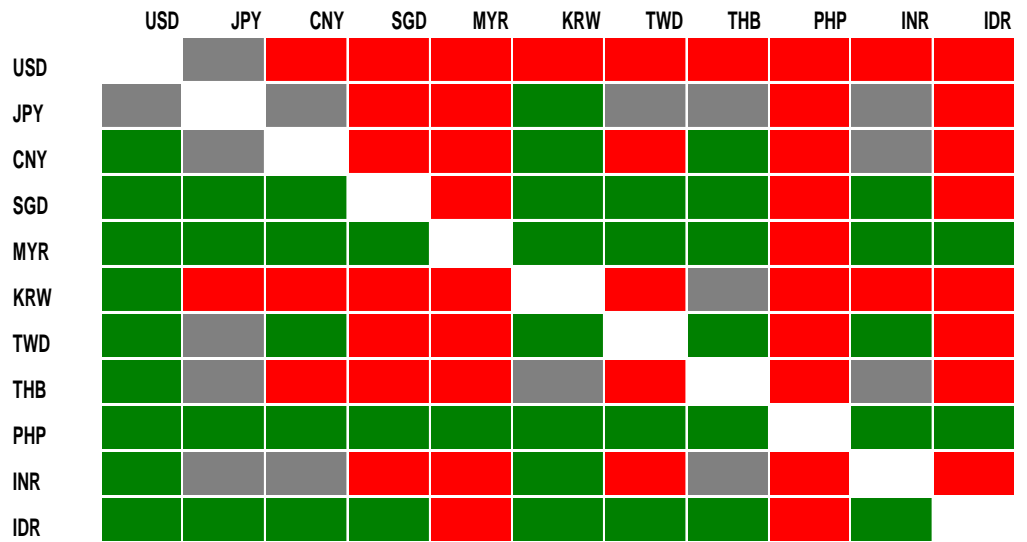
Source: Bloomberg

**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	14-Apr-16	S	USD-CAD	1.2832	1.2425	1.3040	Bottoming crude prices	
2	20-Apr-16	B	GBP-USD	1.4374	1.4785	1.4165	Moderating Brexit concerns, weak dollar, positive risk	
3	29-Apr-16	S	AUD-USD	0.7626	0.7355	0.7765	Negativity post 1Q CPI numbers	
STRUCTURAL								
4	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
6	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
7	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
8	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
9	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
10	19-Apr-16	S	USD-SGD	1.3439	1.2835	1.3740	Potential for further broad USD decay, positive risk appetite	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	18-Feb-16	31-Mar-16	S	USD-SGD	1.4034	1.3435	USD vulnerability, stabilization in RMB, equities/commodities	+4.54
2	03-Mar-16	08-Apr-16	B	AUD-USD	0.7284	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie	+3.19
3	29-Feb-16	07-Apr-16	S	USD-CAD	1.3533	1.3139	Bottoming crude	+2.98
4	11-Apr-16	14-Apr-16	S	USD-JPY	107.72	109.50	JPY still not drastically overvalued, endemic USD weakness	-1.63
5	04-Mar-16	14-Apr-16	S	USD-SGD	1.3881	1.3634	Brightening risk appetite, vulnerable broad dollar	+1.81
6	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05
7	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65

Source: OCBC Bank

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