

Friday, June 03, 2016

FX Themes/Strategy/Trading Ideas

- Except against the JPY, the USD (note softer UST yields) retreated against the majors on Thursday ahead of Friday's NFP (mkts:+160 to 164k). Meanwhile, the ECB meeting was essentially a non-mover with central bank raising its inflation forecasts by a less than expected degree.
- Tonight's NFP readings may prove pivotal for markets with our preference to be on the side of the greenback in the near term. Elsewhere, the JPY may attempt to continue to outperform with markets in the process of re-pricing BOJ prospects.
- On other fronts, the **FXSI (FX Sentiment Index)** continued to consolidate higher within Risk-Neutral territory for the third consecutive session on Thursday, manifesting the prevailing caution across markets.
- With the EU referendum drawing near amidst increased nervousness, we square out our previous 18 May 16 idea to be tactically long **GBP-USD** (spot ref: 1.4438) at 1.4414 for an implied -0.17% loss.

Asian FX

- The EM complex ended mixed against the USD on Thursday and the **Asian Currency Index (ACI)** may remain slightly heavy while awaiting the US labor market report on Friday. Going ahead, the regional pairs may remain reactive to broad dollar cues later in NY while ones to watch for the region today include the May Caixin PMIs out of China.
- This morning, the **SGD NEER** is relatively firmer on the day at +0.15% above its perceived parity (1.3772) with NEER-implied USD-SGD thresholds largely unchanged on the day. At current levels, the +0.50% threshold is estimated at around 1.3704 while the -0.50% threshold is estimated at 1.3842. Technically, 1.3735 may be expected to offer support ahead of the US labor market numbers.

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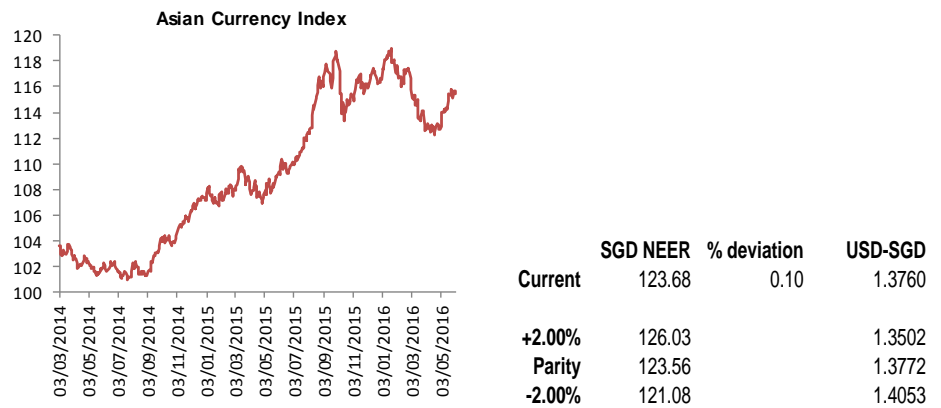
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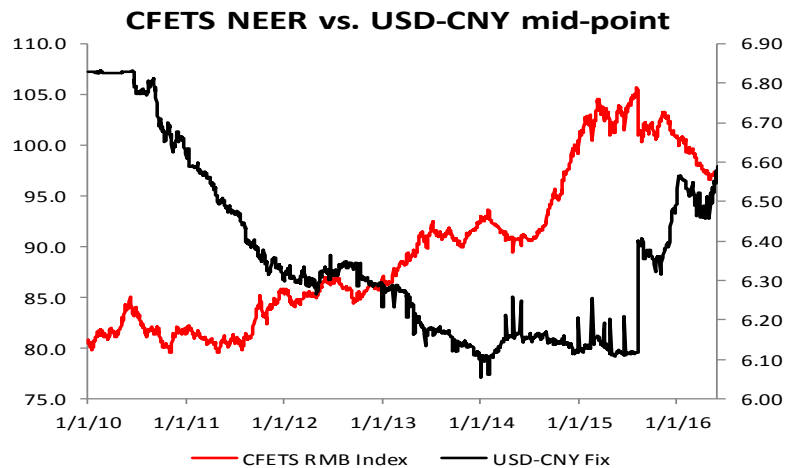
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Source: OCBC Bank

- Today, the PBOC shifted the **CFETS RMB Index** lower to 97.00 from 97.11 on Thursday. This saw the USD-CNY mid-point firming to 6.5793 from 6.5688 yesterday.



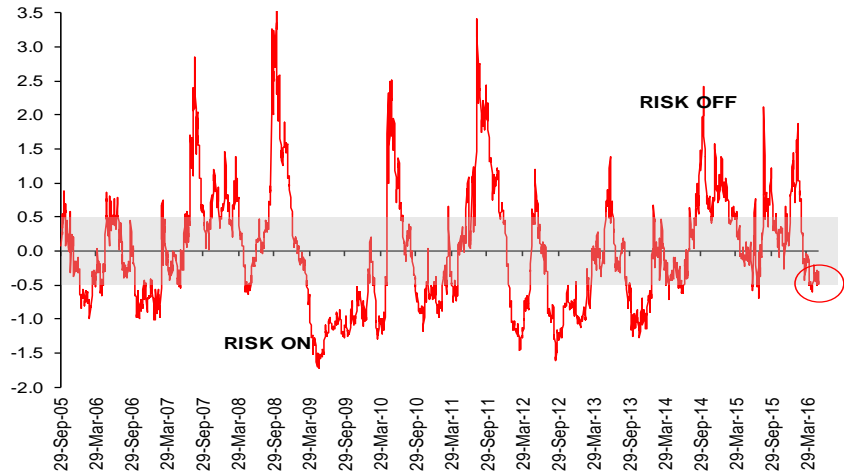
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** The EUR-USD may remain rudderless if not top heavy post-ECB ahead of the US NFP later in the global session with little in the way of upside surprises from Draghi. Any NFP-inspired USD resilience we think risks a move towards the 200-day MA (1.1095).
- **USD-JPY** The USD-JPY may continue to smart from BOJ Sato's comments from Thursday and the pair may continue to succumb to gravity towards 108.00 in the absence of a significant upside surprise in the US NFP.
- **AUD-USD** We note that the AUD-USD has relinquished GDP-inspired gains and if the 200-day MA (0.7256) is not challenged successfully, odds are for a further relapse towards 0.7145 if FOMC probabilities are heightened in the wake of the US NFP.
- **GBP-USD** GBP-USD may be expected to remain top heavy into the

end of the week on the back of underlying Brexit concerns. Any sustained violation of 1.4400 would prove pivotal and may portend further deterioration towards the 1.4200 neighborhood.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	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

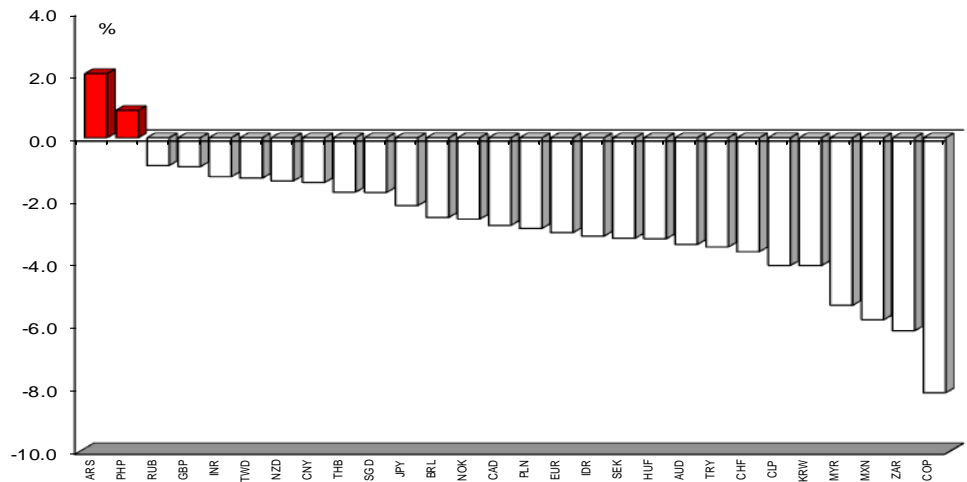
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1098	1.1100	1.1149	1.1200	1.1307
GBP-USD	1.4333	1.4400	1.4401	1.4414	1.4500
AUD-USD	0.7145	0.7200	0.7229	0.7254	0.7300
NZD-USD	0.6683	0.6800	0.6816	0.6833	0.6842
USD-CAD	1.2909	1.3000	1.3090	1.3100	1.3188
USD-JPY	108.00	108.03	108.97	109.00	109.55
USD-SGD	1.3654	1.3700	1.3761	1.3800	1.3842
EUR-SGD	1.5263	1.5300	1.5329	1.5379	1.5400
JPY-SGD	1.2435	1.2500	1.2521	1.2600	1.2676
GBP-SGD	1.9607	1.9900	1.9960	2.0000	2.0313
AUD-SGD	0.9874	1.0000	1.0028	1.0073	1.0100
Gold	1199.00	1200.00	1207.80	1246.59	1300.00
Silver	15.83	15.90	15.99	16.00	16.44
Crude	43.75	44.18	49.20	49.24	49.30

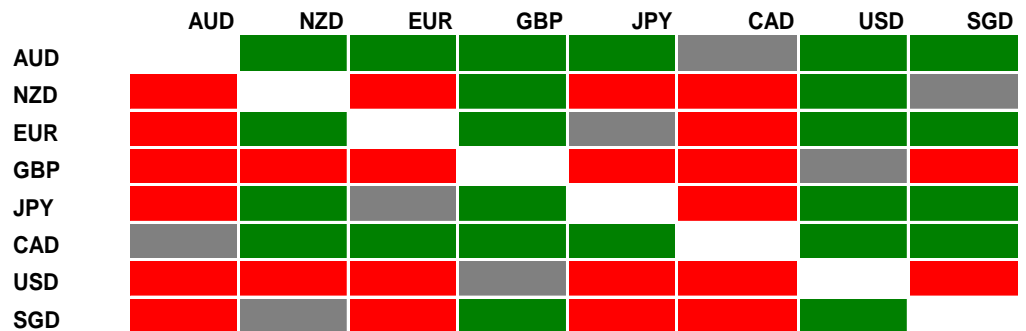
Source: OCBC Bank

FX performance: 1-month change agst USD



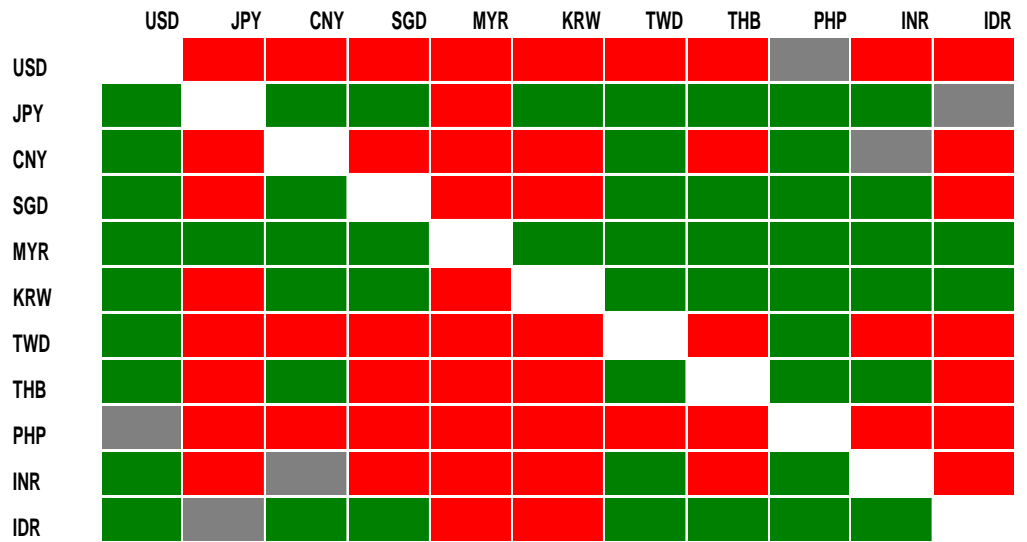
Source: Bloomberg

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-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	19-May-16	S	EUR-USD	1.1224	1.0935	1.1370	Policy dichotomy play, especially after FOMC minutes	
5	19-May-16	B	USD-JPY	110.01	113.50	108.25	Policy dichotomy play, especially after FOMC minutes	
STRUCTURAL								
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	
9	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
10	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
RECENTLY CLOSED								
	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
7	18-May-16	03-Jun-16	B	GBP-USD	1.4438	1.4414	Potential for bounce post-referendum	-0.17

Source: OCBC Bank

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