

Monday, October 03, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- The broad dollar softened into late NY on Friday as Deutsche bank news flow turned slightly positive and concerns dissipated slightly. With risk aversion alleviating slightly and US equities chalking up gains (and USTs and bunds easing), the JPY and CHF underperformed across the board. On the risk appetite front, the **FXSI (FX Sentiment Index)** strengthened again (despite friendlier global headlines) within Risk-Neutral territory and also ended firmer on the week (i.e., slightly more nervousness).
- On the **CFTC** front, leveraged accounts (as well as large non-commercial accounts) increased their implied net dollar longs in the latest week. Note however that such leveraged positioning is still significantly milder compared to the previous peak of dollar bullishness in early August.
- This week, global manufacturing **PMIs** start off a data-filled week with the global data stream culminating in the **US September labor market numbers** on Friday. On the central bank front, the **RBA** is expected to remain static at 1.50% on Tuesday, with the **RBI** also expected to remain static on its policy parameters earlier in Asia on the same day (note however tail risks of an eventual loosening).
- Overall, global data releases are not expected to disrupt market sentiment unduly with broad dollar dynamics perhaps continuing to hinge on the US labor market numbers at the end of the week. Prevailing skepticism towards dollar strength may however be interrupted by potential episodes of risk aversion, with the yield hunt expected to remain a counterbalance to any USD strength.

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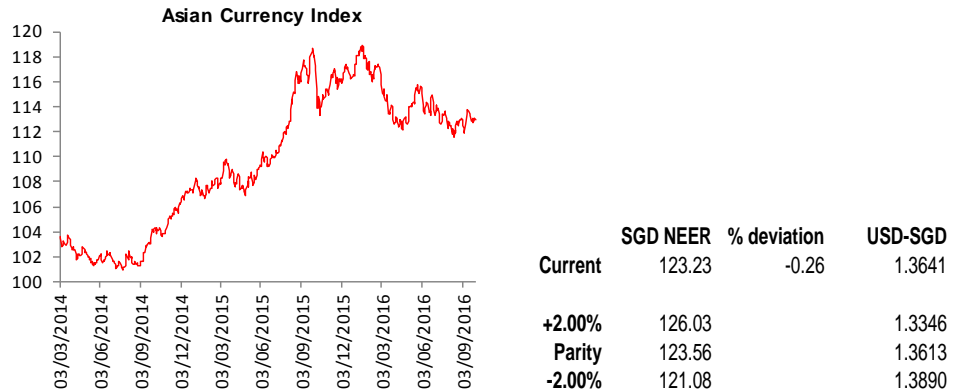
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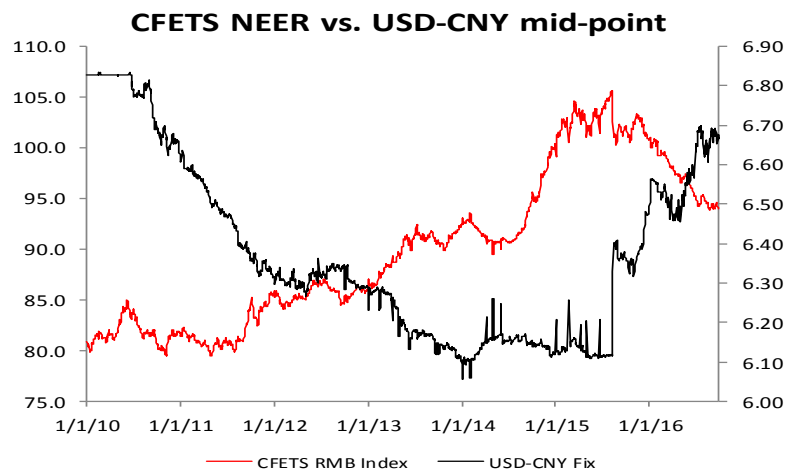
Asian FX

- China's official manufacturing PMI remained steady at 50.4 in September, affording some degree of comfort on the macro front. If investor nervousness continues to moderate at the onset of the week, expect the **ACI (Asian Currency Index)** to continue to search lower after firming last week.
- The **SGD NEER** slightly firmer on the day this morning at -0.21% below its perceived parity (1.3613) with NEER-implied USD-SGD thresholds slightly higher on the day. The broad dollar is starting on a supported footing early in Asia on Monday with risks for the NEER to further inch towards -0.50% (1.3681). Thereafter, the 200-day MA (1.3713) may serve to limit short term upticks. On the data front, look to the release (1300 GMT) of Singapore's September PMI with markets looking for a minor improvement to 49.9 from

49.8 in August.



Source: OCBC Bank



Source: OCBC Bank, Bloomberg

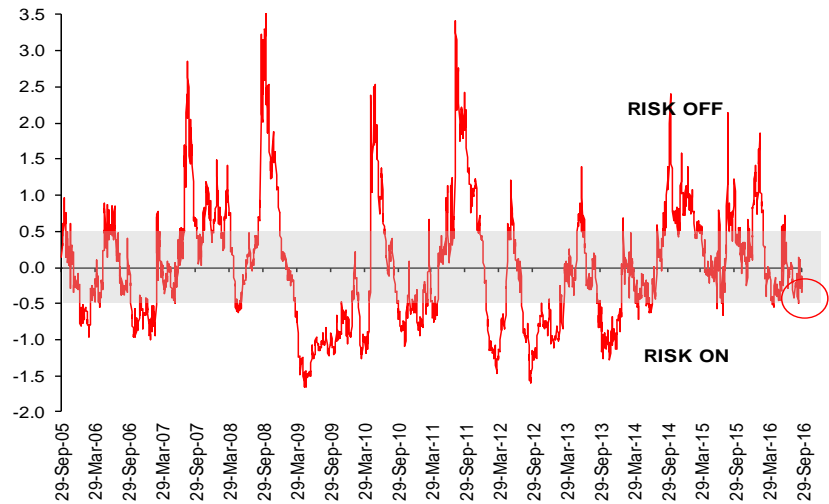
G7

- EUR-USD** Background investor jitters may remain just under the surface for the EUR-USD with September CPI numbers coming in largely as expected last Friday at 0.4% yoy. In the interim, the pair may attempt to float towards the 1.1250 handle with dips into the 1.1150/75 area expected to be cushioned for now.
- USD-JPY** September Tankan numbers released this morning were none too encouraging (blipping the USD-JPY briefly above 101.50) although we continue to see a more significant influence from the US data calendar. Note the slightly disappointing US Aug personal spending print of 0.0% last Friday. On the JPY front, this morning's Tankan also revealed large manufacturers expecting the USD-JPY to average 107.92 in the current fiscal year. In the near term, any further pickup in risk appetite levels may encourage the pair towards the 55-day MA (102.18).
- AUD-USD** A supported commodity complex ahead of the RBA policy meeting tomorrow may limit the downside for the AUD-USD in the near term.

Any implied neutrality from the RBA at tomorrow's meeting may also facilitate a test beyond 0.7700 towards 0.7750, risk aversion permitting.

- GBP-USD** GBP-USD spilled below 1.2950 early Monday in Asia after British PM Theresa May said on Sunday that Article 50 would be triggered by the end of March 2017. This just got a little more real for the pound at large and near term risks we think may be tilted towards 1.2800.

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

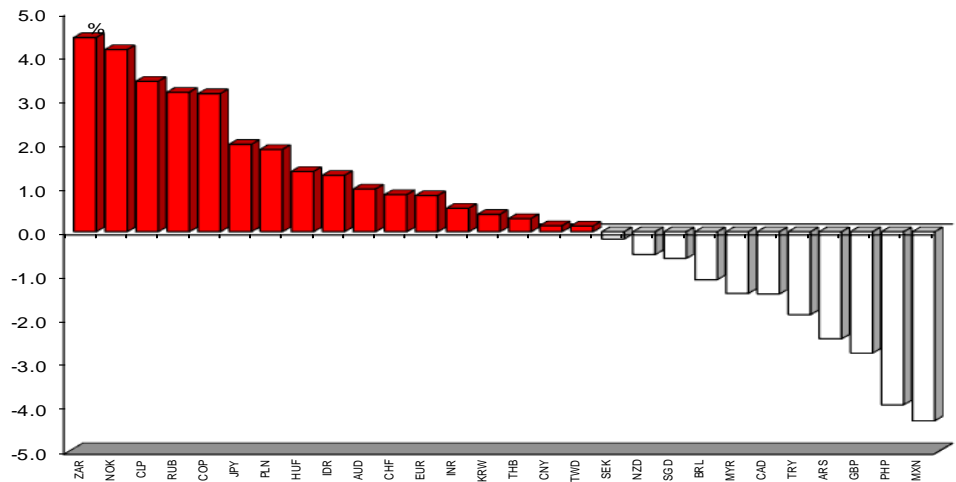
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1198	1.1200	1.1239	1.1281	1.1300
GBP-USD	1.2900	1.2902	1.2936	1.3000	1.3126
AUD-USD	0.7570	0.7600	0.7656	0.7700	0.7732
NZD-USD	0.7205	0.7249	0.7266	0.7300	0.7420
USD-CAD	1.3052	1.3100	1.3113	1.3200	1.3223
USD-JPY	100.00	101.00	101.40	101.77	102.00
USD-SGD	1.3525	1.3600	1.3641	1.3698	1.3699
EUR-SGD	1.5289	1.5300	1.5331	1.5368	1.5398
JPY-SGD	1.3293	1.3400	1.3452	1.3500	1.3601
GBP-SGD	1.7558	1.7600	1.7646	1.7700	1.7751
AUD-SGD	1.0277	1.0400	1.0443	1.0485	1.0492
Gold	1302.10	1302.53	1313.30	1332.13	1349.90
Silver	18.65	19.30	19.34	19.40	19.55
Crude	45.60	47.90	47.99	48.00	48.79

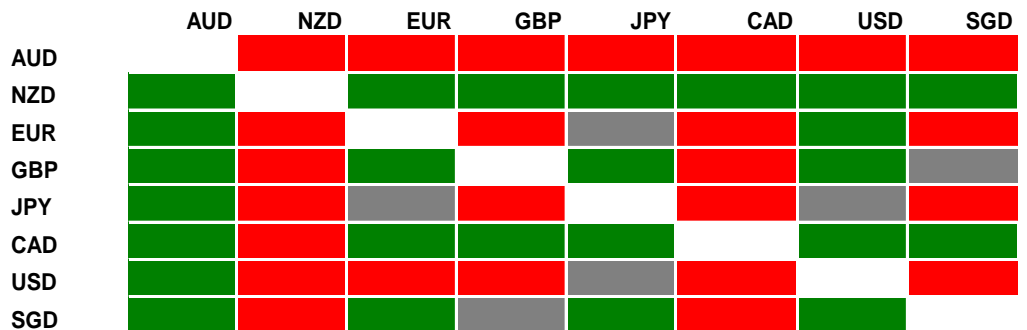
Source: OCBC Bank

FX performance: 1-month change agst USD



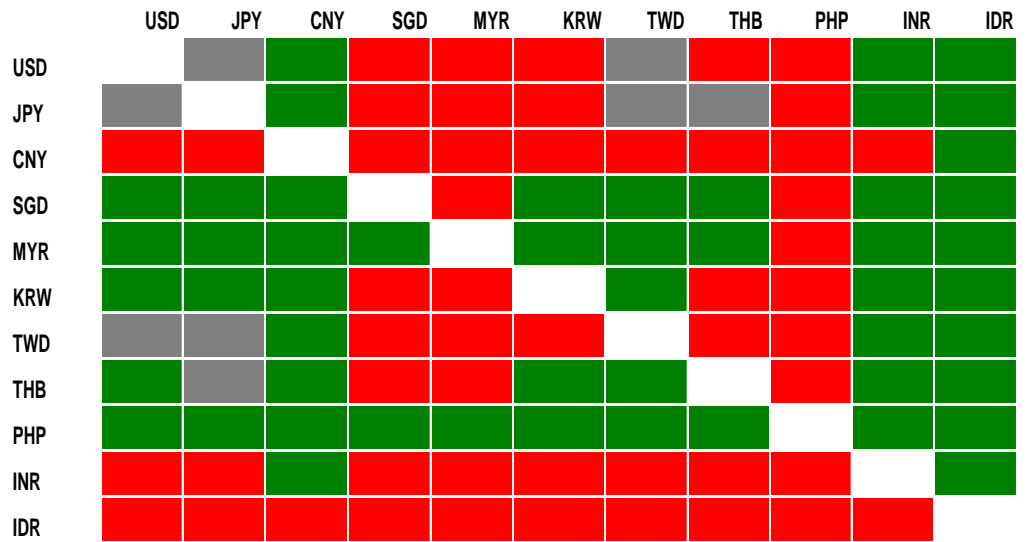
Source: Bloomberg

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		
TACTICAL								
1	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
2	29-Sep-16	B	AUD-USD	0.7685	0.7895	0.7575	Position for sustained positive risk appetite	
3	29-Sep-16	S	USD-JPY	101.65	98.05	103.50	Skepticism towards Fed/BOJ	
STRUCTURAL								
3	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
4	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
5	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
6	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
7	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
8	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
RECENTLY CLOSED								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclicals, search for yield	8.37
2	04-Aug-16	19-Sep-16	B	EUR-USD	1.1149	1.1157	Static Fed vs. ECB	-0.80
3	01-Sep-16	21-Sep-16	B	USD-JPY	103.33	100.90	Ahead of NFP numbers and BOJ MPC	-2.33
4	15-Sep-16	22-Sep-16	B	USD-CAD	1.3202	1.3030	Fading crude, soft macro outlook, ahead of FOMC	-1.36
5	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
Jan-Aug 2016 Return							+7.80	

Source: OCBC Bank

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