

Thursday, November 03, 2016

FX Themes/Strategy/Trading Ideas

- The dollar may be forced to remain on the defensive ahead of next week's US elections and with the FOMC overnight continuing to pave the way for a December rate hike (essentially fully priced in at this juncture) but with investors increasingly distracted by the potential for a Trump win (note a stumbling MXN and bull flattening UST curve overnight) instead.
- With global equities in the red and EM risk premiums continuing to push wider, the **FXSI (FX Sentiment Index)** ticked higher for the fifth consecutive session within Risk-Neutral territory with the JPY-crosses broadly lower. However, this deterioration of investor sentiment may not translate uniformly to broad dollar strength (just yet) given potential US election concerns undermining the greenback.

Asian FX

- The negative taint in Asian equities early on Thursday may put the drag on the downside for the regional currency pairs pending further broad dollar cues. However, regional sentiment may also be buffered slightly following the better than expected Caixin China services/composite PMI readings this morning. Overall, the **ACI (Asian Currency Index)** is expected to trade in a lower range intra-day.
- **SGD NEER:** The NEER is firmer on the day at around -0.37% above its perceived parity (1.3804). NEER-implied USD-SGD thresholds are softer on the day after the broad dollar's retreat overnight. At current levels, the -0.50% threshold is estimated at 1.3873 and -1.00% at 1.3943. Overnight, note a firm ceiling at -0.20% on the upside for the basket (circa 1.3820, which is incidentally also a Fibon support). Expect downside for the pair to be tempered pending further broad dollar cues with overnight lows expected to yield support ahead of 1.3800.

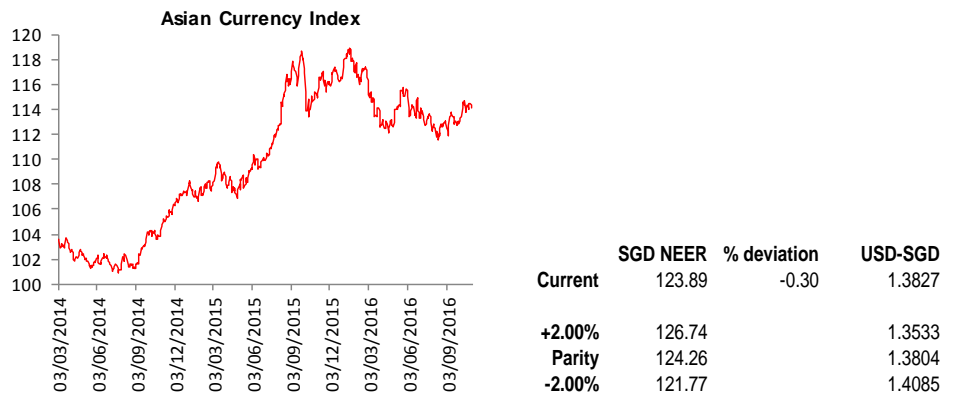
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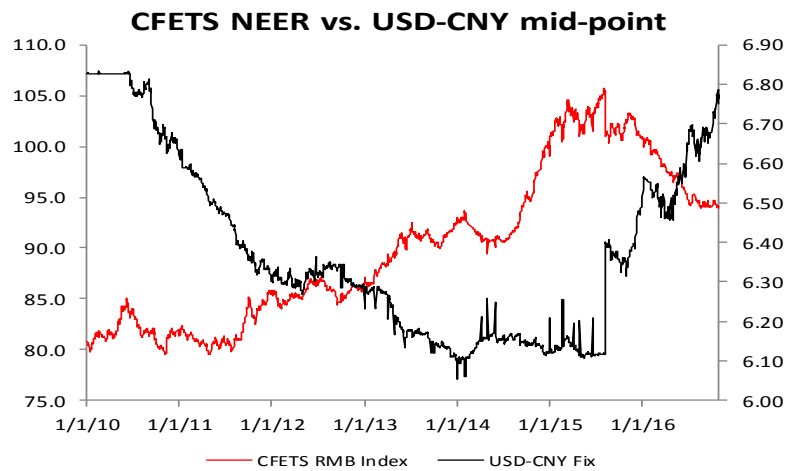
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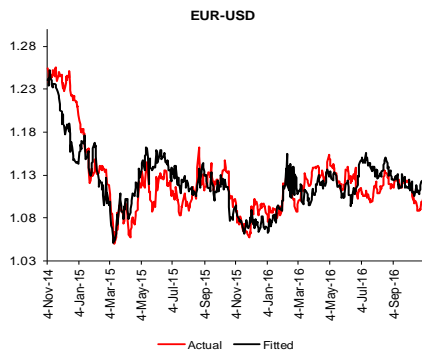
Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point was a touch lower than expected at 6.7491 compared to 6.7562 on Wednesday. The basket is softer today with a first break below 94.00 (to around 93.93) since 23 Aug 16. A gradual depreciation intent may be still in play if we continue to bleed below 94.00 consistently in the coming sessions. If the broad dollar continues to stumble in the coming week, the PBOC would be able to guide spot (USD-CNY, USD-CNH) lower and avert the psychological impact of a breach above 6.79 and 6.80 respectively if the slow drip lower in the basket is sustained.



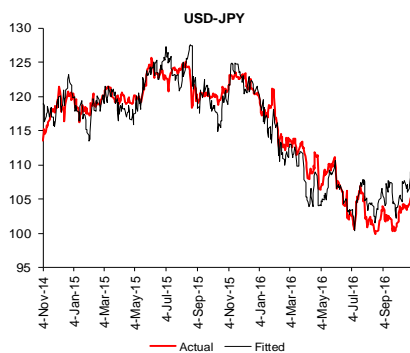
Source: OCBC Bank, Bloomberg

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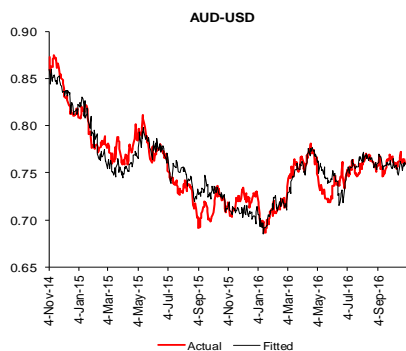
Source: OCBC Bank

- EUR-USD** If caution towards the greenback continues to deepen, the EUR-USD may persist in hiking upwards (as hazarded earlier this week) as the pair attempts to play catch up with implied short-term valuation. Near term top side resistance is expected at the 55-day MA (1.139) before 1.1150.



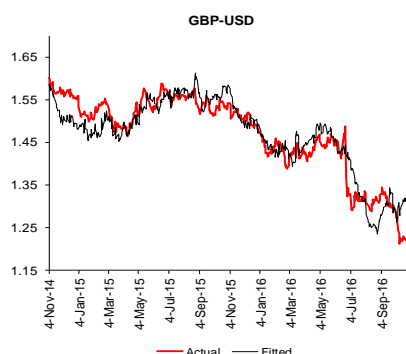
Source: OCBC Bank

- USD-JPY** TKY is away for a holiday today and FOMC rate hike expectations may continue to prove secondary to US election jitters, potentially leaving the USD-JPY temporarily depressed (especially if the JPY-crosses remain heavy) relative to near term valuation. Expect initial support levels to kick in toward the 100-day MA (102.84) and the 55-day MA (102.61) if 103.00 is punctured.



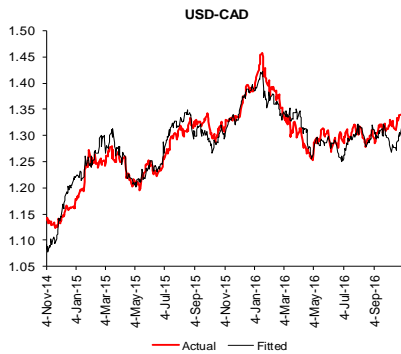
Source: OCBC Bank

- AUD-USD** The AUD-USD remains relatively well behaved and barring an acute risk aversion episode, may continue to derive support from broad USD vulnerability. On the domestic front, look towards the RBA Statement on Monetary Policy for the next potential rudder. In the near term, investors may attempt to collect on dips with 0.7700 seen as a temporary ceiling.



- GBP-USD** Headline risks may run high for this pair intra-day with the High Court ruling (1000 GMT) on whether lawmakers would be required to trigger Article 50. The BOE MPC and Inflation Report is also due at 1200 GMT, with investors on the lookout for the BOE's stance/tolerance towards GBP depreciation and the expected impact on inflation. Amidst potential broad dollar jitters, even the pound may be responsive on the upside although 1.2400 may limit.

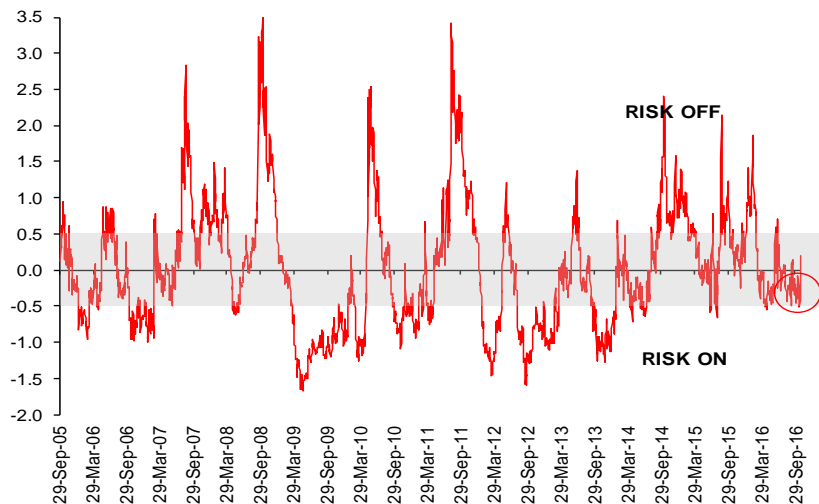
Source: OCBC Bank



- USD-CAD** Meanwhile, we expect the USD-CAD to continue to hover at elevated levels with crude flailing and despite US election jitters. Preference to pick bottoms within 1.3350-1.3450.

Source: OCBC Bank

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

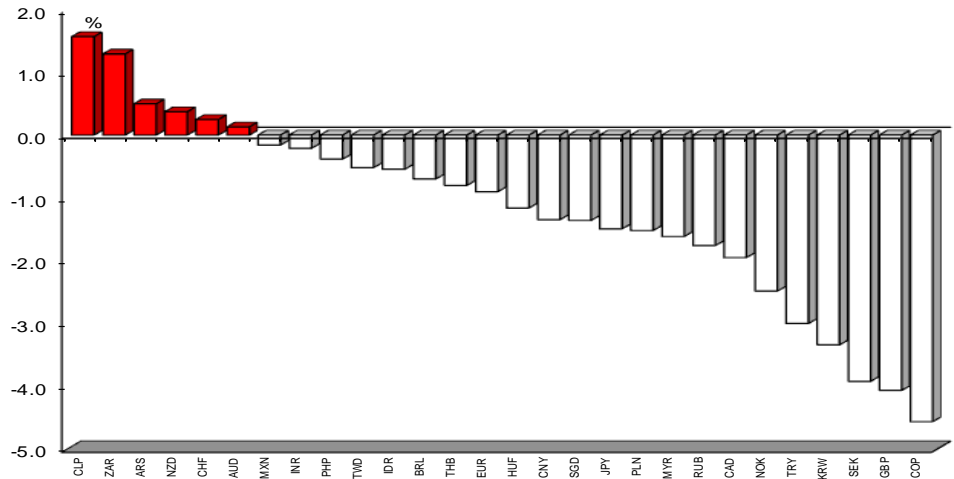
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0851	1.1100	1.1110	1.1121	1.1175
GBP-USD	1.2097	1.2300	1.2318	1.2384	1.2400
AUD-USD	0.7599	0.7600	0.7676	0.7700	0.7706
NZD-USD	0.7230	0.7278	0.7298	0.7300	0.7331
USD-CAD	1.3169	1.3300	1.3390	1.3400	1.3433
USD-JPY	102.81	103.00	103.18	104.00	105.09
USD-SGD	1.3741	1.3800	1.3836	1.3900	1.3964
EUR-SGD	1.5256	1.5300	1.5371	1.5390	1.5400
JPY-SGD	1.3329	1.3400	1.3408	1.3437	1.3500
GBP-SGD	1.6804	1.7000	1.7042	1.7100	1.7139
AUD-SGD	1.0413	1.0600	1.0620	1.0700	1.0718
Gold	1298.69	1300.00	1300.80	1343.40	1400.00
Silver	18.20	18.50	18.60	19.93	20.00
Crude	44.39	45.80	45.85	45.87	45.90

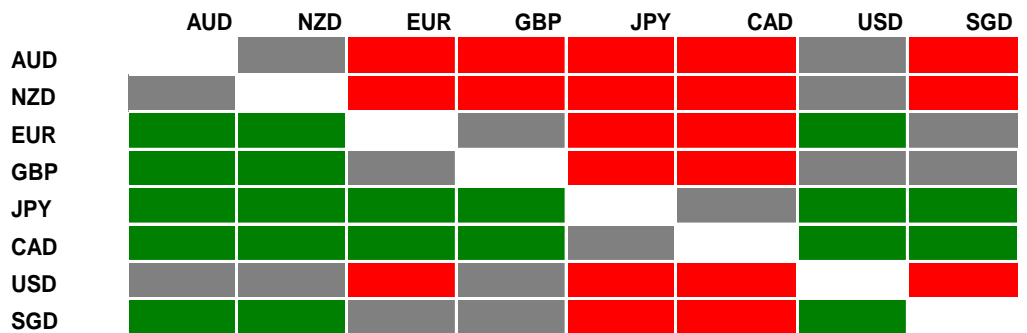
Source: OCBC Bank

FX performance: 1-month change agst USD



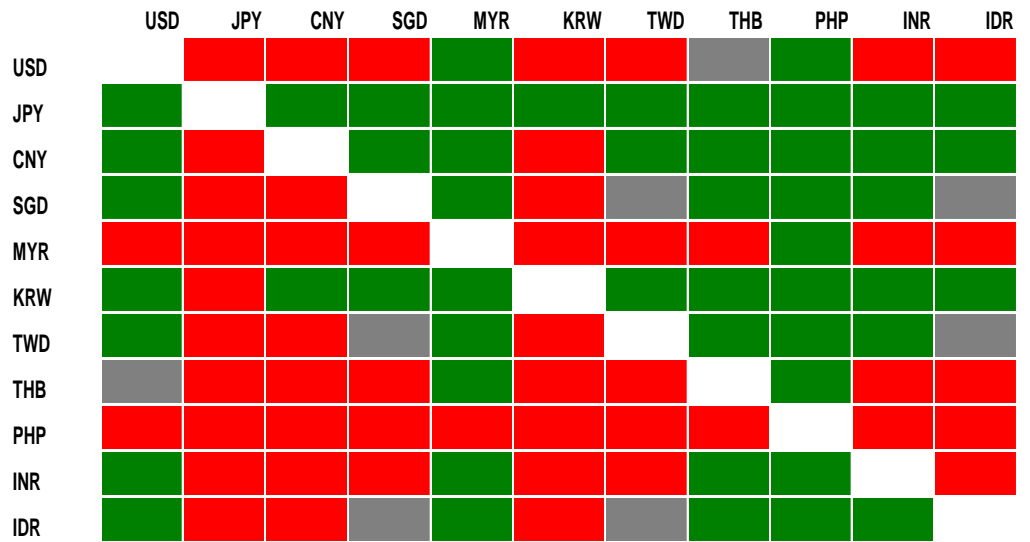
Source: Bloomberg

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	1.4040	1.3645	Moderating net inflows in Asia, potential for broad USD uptick	
2	05-Oct-16	S	EUR-USD	1.1222	1.0830	1.1125	Fade ECB-taper talk, potential US resilience	
3	06-Oct-16	B	USD-JPY	103.48	106.95	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	
4	12-Oct-16	S	GBP-USD	1.2271	1.1815	1.2505	Fade GBP-USD upticks	
5	26-Oct-16	B	USD-CAD	1.3356	1.3635	1.3210	Softening crude, dovish BOC, potential USD strength	
6	27-Oct-16	B	AUD-USD	0.7618	0.7805	0.7520	Supportive risk appetite, metals, positioning, and positioning	
STRUCTURAL								
7	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
8	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
9	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr prospects, negative space for SGD NEER	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
2	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
3	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
4	14-Jun-16	10-Oct-16	S	USD-SGD	1.3542	1.3718	USD expected to disappoint on the back of the summer FOMCs	-1.08
5	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
6	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
7	04-Jul-16	19-Oct-16	S	USD-JPY	102.58	103.88	Yield differentials to weigh on the pair, esp if Fed hesitates	-1.59
8	12-Oct-16	19-Oct-16	S	AUD-USD	0.7585	0.7690	"Yield" may be subjugated by dollar	-1.38
9	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
10	27-Oct-16	28-Oct-16	B	AUD-USD	0.7618	0.7587	Supportive risk appetite, metals, positioning, and positioning	-0.38
Jan-Sep 2016 Return								+8.27

Source: OCBC Bank

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