

Monday, January 04, 2016

## FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar may kick off the week on a supported note pending further cues and despite the disparity between market-implied odds and perceived official expectations for Fed rate hikes this year.
- On other fronts, it remains to be seen if the partial stabilization in commodities (including crude) from the latter part of Dec 15 has further legs into the start of the year, failing which, expect resultant and renewed weakness in the cyclical currencies.
- Meanwhile, look to the very busy global data cues this week for further directionality with the slew of global manufacturing PMIs (Caixin China manufacturing PMI at 0145 GMT) starting today and culminating in the US Dec payrolls numbers on Friday. On the US front, look also to the FOMC minutes from the 15-16 Dec meeting on Wednesday for better clarity surrounding the Fed's intentions.
- Elsewhere, background investor jitters may be expected if Saudi-Iran tensions persist, impinging further on investor sentiment. In the current environment therefore, expect the **FXSI (FX Sentiment Index)** to float higher.

## Asian FX

- Expect regional currencies to remain vulnerable on broad dollar dynamics, slight risk aversion, as well as negative cues from the renminbi. As such, expect the **ACI (Asian Currency Index)** to point invariably point upwards at the onset of the year.
- By our estimates, the **CFETS RMB Index** ended 2015 at around 100.94, implying a +0.94% appreciation of the CNY NEER. In our view, the risk remains for the index to remain under downward pressure if the underlying macro fundamentals (including net capital flows) remain less than supportive. To this end, although this may continue to imply an upward drift in the USD-CNY mid-point, expect the authorities to remain cognizant of the fact that the CNH discount to the CNY is hovering at extreme levels. Despite this morning's USD-CNY mid-point (6.5032), we estimate that the CNY NEER is still registering an approximate +1.30% appreciation on a year-on-year basis, leaving ample headroom for the mid-point going ahead.
- This morning, Singapore's flash 4Q 15 GDP came in at a better than expected 2.0% yoy (5.7% qoq saar). However, note that the **SGD NEER**

Corporate FX &  
Structured Products  
Tel: 6349-1888 / 1881  
Fixed Income &  
Structured Products  
Tel: 6349-1810

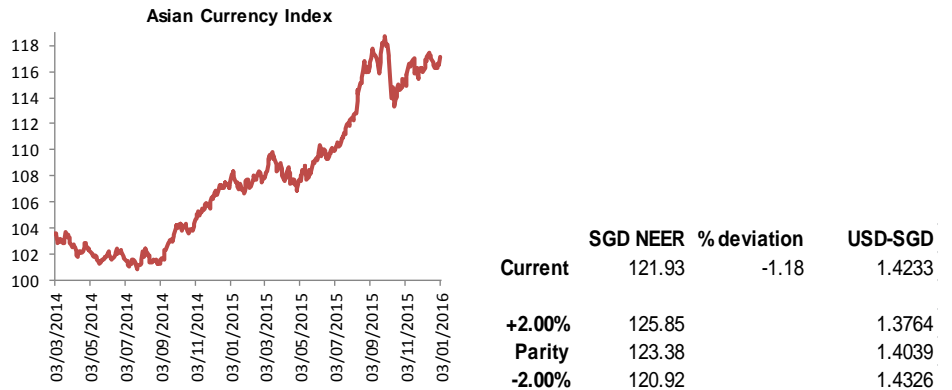
Investments &  
Structured Product  
Tel: 6349-1886

Interest Rate Derivatives  
Tel: 6349-1899

Treasury Research &  
Strategy  
Tel: 6530-4887

**Emmanuel Ng**  
+65 6530 4073  
[ngcvemmanuel@ocbc.com](mailto:ngcvemmanuel@ocbc.com)

remains at -1.00% below its perceived parity (1.4040) this morning with NEER-implies USD-SGD thresholds a touch firmer compared to end-2015. At current levels, the -2.00% lower extreme of the NEER fluctuation band is estimated at around 1.4325. Despite the GDP numbers, expect USD-SGD to remain supported on dips in tandem with the rest of the region, with 1.4220/30 the next visible resistance before 1.4270. Elsewhere on the data front, Singapore's Dec 15 PMIs are due at 1300 GMT.

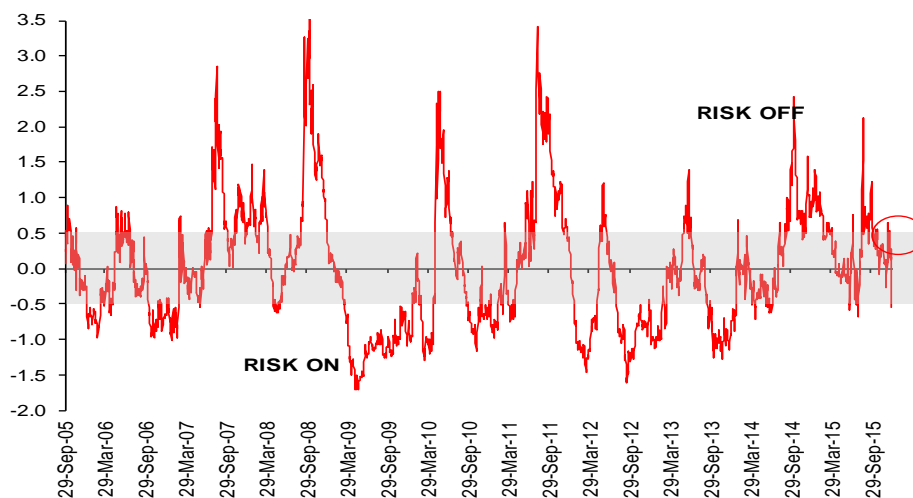


Source: OCBC Bank

**G7**

- EUR-USD** The EUR-USD may shadow its 55-day MA (1.0864) lower at the onset of the week pending further data releases on both sides of the Atlantic.
- USD-JPY** The pair may look south towards 120.00 on investor jitters although it may not venture far beyond 119.50 at this juncture barring further headlines.
- AUD-USD** The Dec AiG performance of manufacturing index clocked a weaker 51.9 (52.5 prev) while sour sentiment across the Asia Pacific may undermine the AUD intra-day towards its 55-day MA (0.7203)
- GBP-USD** Central bank policy dichotomy may continue to keep the GBP-USD under water with risk towards 1.46530 if 1.4700 is breached with enough intensity on the back of broad dollar strength.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX
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

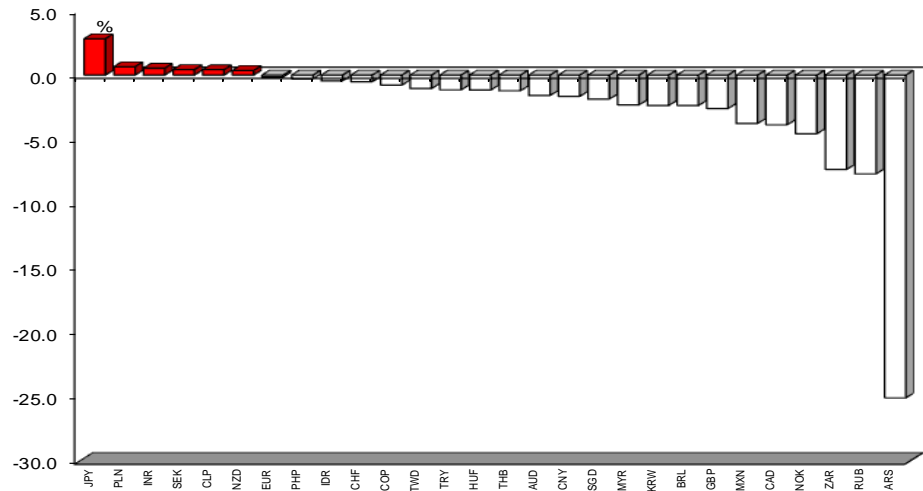
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0822	1.0833	1.0856	1.0900	1.1026
GBP-USD	1.4694	1.4700	1.4716	1.4800	1.5087
AUD-USD	0.7150	0.7200	0.7225	0.7300	0.7326
NZD-USD	0.6675	0.6700	0.6766	0.6800	0.6835
USD-CAD	1.3589	1.3800	1.3896	1.3900	1.4001
USD-JPY	120.00	120.01	120.10	121.00	121.63
USD-SGD	1.4200	1.4208	1.4230	1.4246	1.4300
EUR-SGD	1.5283	1.5400	1.5449	1.5500	1.5572
JPY-SGD	1.1800	1.1830	1.1850	1.1900	1.1950
GBP-SGD	2.0720	2.0900	2.0940	2.1000	2.1154
AUD-SGD	1.0200	1.0225	1.0281	1.0300	1.0331
Gold	1046.20	1054.02	1062.00	1088.05	1088.18
Silver	13.64	13.80	13.85	13.90	14.44

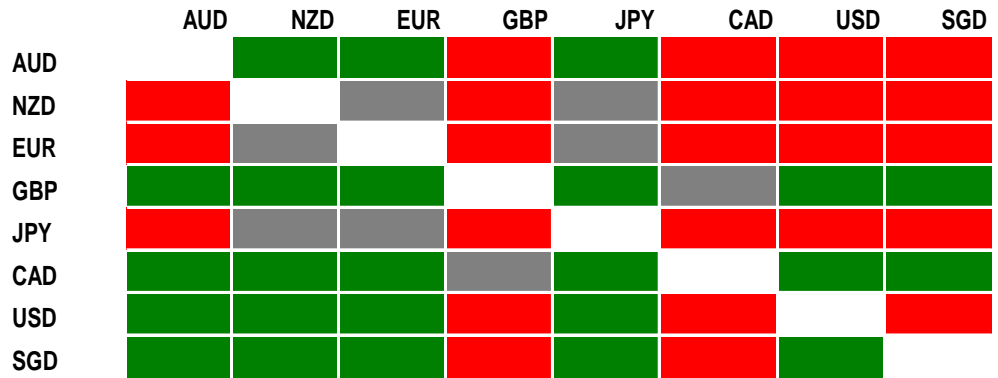
Source: OCBC Bank

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



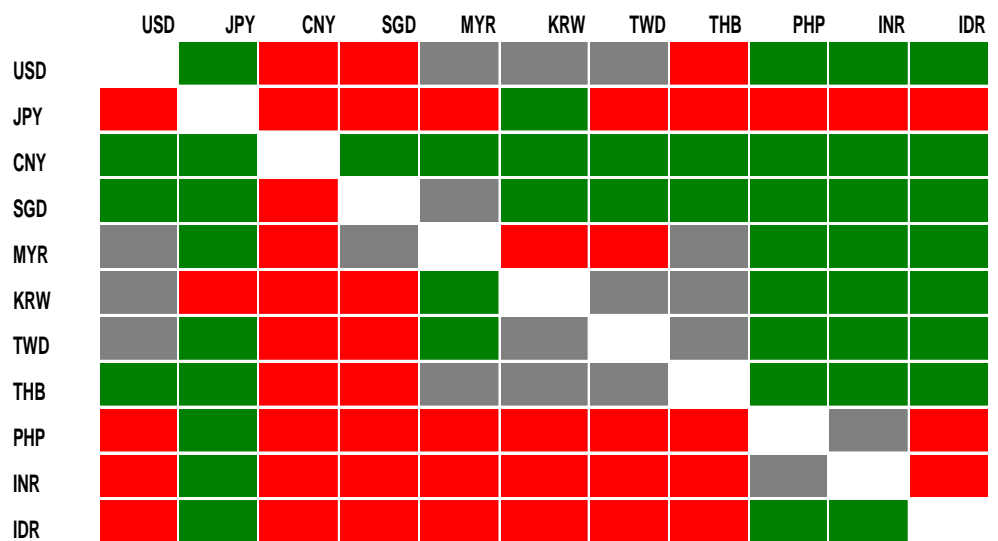
Source: Bloomberg

**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	10-Nov-15	B	USD-CAD	1.3276	1.4230	1.3740	USD strength vs. weak crude
2	21-Dec-15	S	USD-JPY	121.15	118.65	122.45	Disappointment towards a less dovish than expected BOJ
3	21-Dec-15	S	GBP-USD	1.4917	1.4620	1.5070	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness
4	30-Dec-15	B	AUD-USD	0.7287	0.7550	0.7150	Stabilizing commodities/equities into year-end coupled with diffused USD strength
STRUCTURAL							
5	18-Dec-15	S	GBP-USD	1.4909	1.4195	1.5270	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP
6	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 profile
7	29-Dec-15	B	USD-CAD	1.3886	1.4520	1.3565	Central bank policy dichotomy in addition to structurally soft crude

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.