

**Tuesday, October 04, 2016**

### FX Themes/Strategy/Trading Ideas

- Despite the UST curve lifting higher, the broad dollar turned in a mixed performance on Monday with the GBP weighed by Article 50 news flow and the EUR in tow, while an outperforming Sep ISM (51.5) pulled the USD-JPY higher. Elsewhere, the AUD-USD was lifted higher as the **FXSI (FX Sentiment Index)** slipped within Risk-Neutral territory.
- Overall, a unified theme remains conspicuously absent at this juncture. Note however that Sep global manufacturing PMIs in aggregate (and even for large EM economies) continued to depict a sustained bottoming out in economic activity (by our estimates), potentially providing a counter weight to any FOMC-inspired USD resilience in the coming months.
- In terms of Fed rhetoric, dovish comments from Dudley were balanced out by Mester, who noted that the Nov meeting was also 'live'. In sum, the recent continued firming implied odds of a FOMC rate hike will continue to generate tension within markets, portending further volatility.
- With the USD increasingly responsive to firming implied FOMC expectations, we close out our 29 Sep 16 idea to be tactically short **USD-JPY** (spot ref: 101.65) at 101.77 for an implied -0.14% loss.

### Asian FX

- A supportive risk appetite environment (and equities) this morning in Asia may provide underlying support to the Asian units during the session, with the **ACI (Asian Currency Index)** likely to be top heavy. On the central bank front, the **RBI** is expected to keep its policy parameters unchanged although certain segments of the market continue to angle for a loosening.
- Despite a better than expected September PMI reading of 50.1, the **SGD NEER** is softer again at -0.38% below its perceived parity (1.3614) with NEER-implied USD-SGD thresholds largely unchanged on the day but with spot lifting higher in early trade on Tuesday.
- Intra-day, any background US resilience (either from risk aversion or otherwise) may continue to pressure the NEER towards -0.50% (or beyond), which is currently estimated at 1.3683. Above this, expect way points at 1.3700 and then at the 200-day MA (1.3711). Elsewhere, we continue to expect the MAS to stand pat at next week's MPS and for further details, please refer to our latest **FX Viewpoint: MAS and the NEER, 03 Oct 16**.

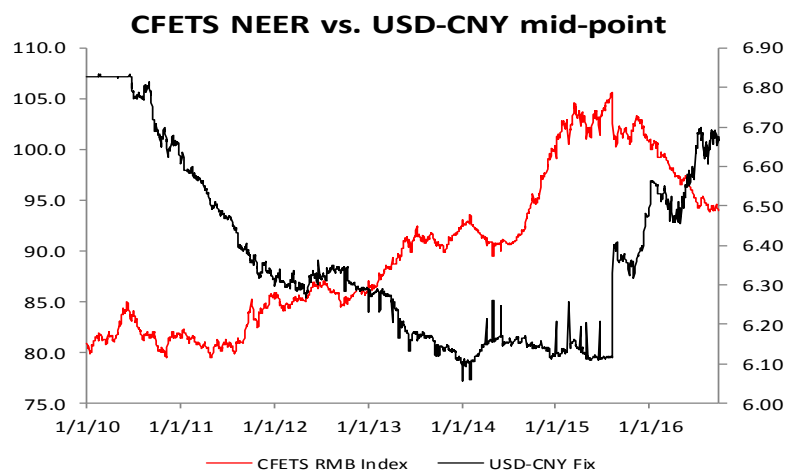
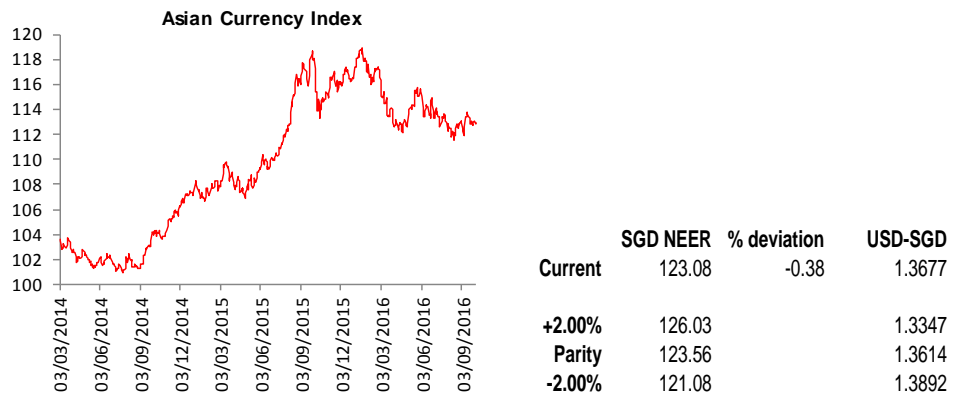
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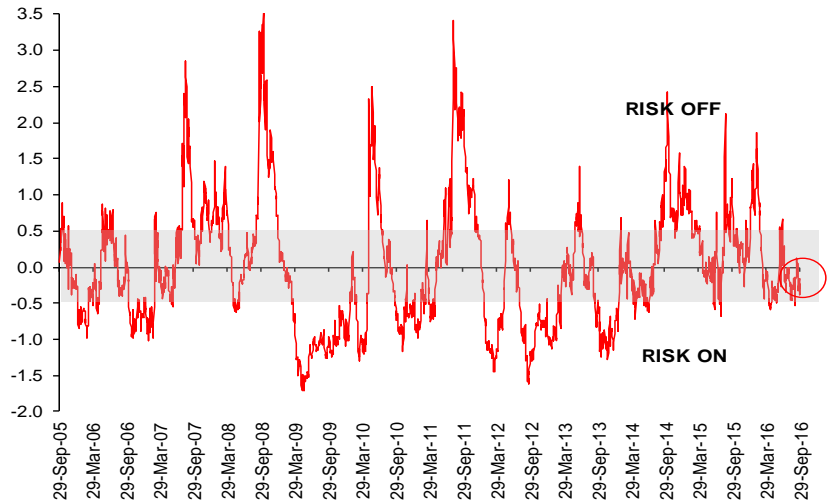
Source: OCBC Bank, Bloomberg

**G7**

- **EUR-USD** EUR-USD bled lower despite EUR-GBP bouncing higher, the EZ manufacturing PMI coming in as expected at 52.6, and the ECB's Mersch cautioning against further rate cuts. As such, the pair may remain vulnerable to any USD strength, potential fallout from the GBP, and any potential EZ banking sector jitters. If 1.1200 is violated with any conviction, the 200-day MA (1.1163) may attract.
- **USD-JPY** As noted previously, USD-JPY may remain relatively responsive to US-centric dynamics for the USD and if the 55-day MA (102.12) is breached with any momentum, an eventual test towards 103.30 cannot be discounted if US-centric traction for the dollar continues to accumulate.
- **AUD-USD** Today's RBA policy meeting (0330 GMT) will be Lowe's first outing as RBA governor and a sustained neutral tone may be sufficient to breed further AUD resilience. The 0.7700 ceiling (ahead of 0.7750) remains on the watch list in the interim.
- **GBP-USD** The GBP may continue to limp under the weight of Brexit

concerns. With our previously stated 1.2800 target just about overrun, the pair remains on the verge on uncharted territory. Note that unfortunately, near term dollar resilience would only serve to exacerbate the pair's heaviness.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

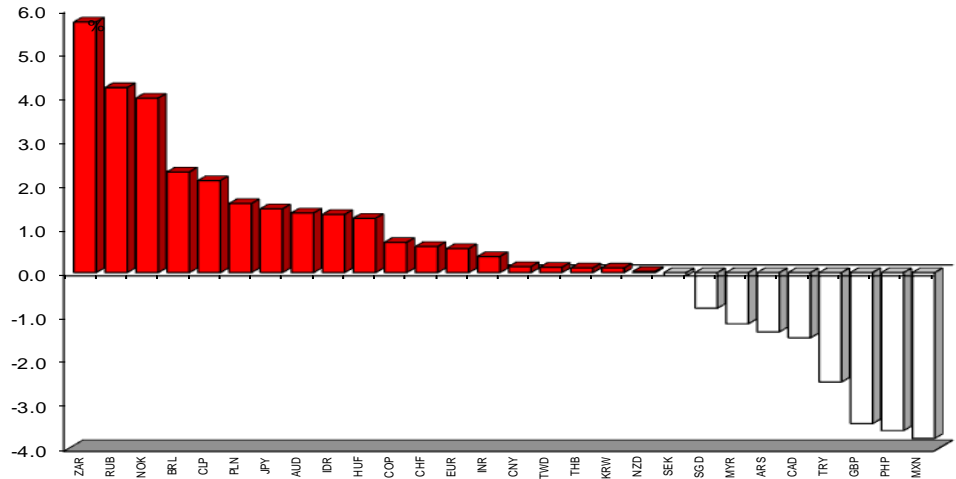
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1202	1.1208	1.1275	1.1300
GBP-USD	1.2800	1.2818	1.2846	1.2900	1.3118
AUD-USD	0.7600	0.7604	0.7684	0.7700	0.7732
NZD-USD	0.7254	0.7300	0.7306	0.7400	0.7403
USD-CAD	1.3051	1.3100	1.3123	1.3200	1.3220
USD-JPY	101.00	101.72	101.95	102.00	103.08
USD-SGD	1.3527	1.3600	1.3669	1.3698	1.3700
EUR-SGD	1.5289	1.5300	1.5320	1.5369	1.5398
JPY-SGD	1.3301	1.3400	1.3406	1.3500	1.3596
GBP-SGD	1.7500	1.7508	1.7559	1.7600	1.7743
AUD-SGD	1.0284	1.0500	1.0503	1.0510	1.0516
Gold	1300.67	1302.10	1309.00	1331.82	1350.33
Silver	18.58	18.80	18.88	18.90	19.52
Crude	45.61	48.50	48.51	48.60	49.07

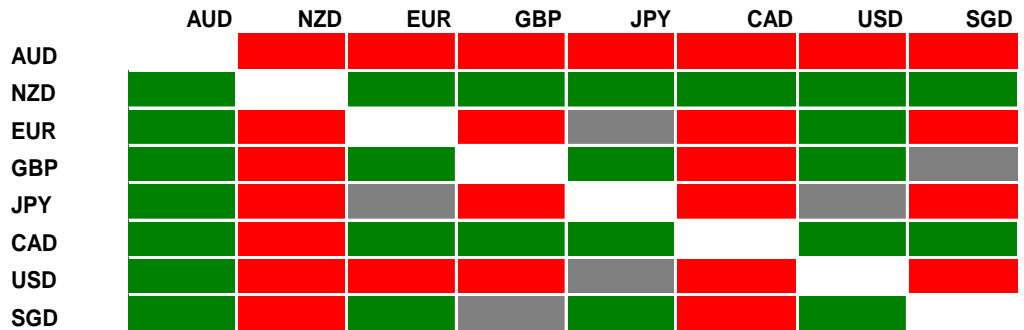
Source: OCBC Bank

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



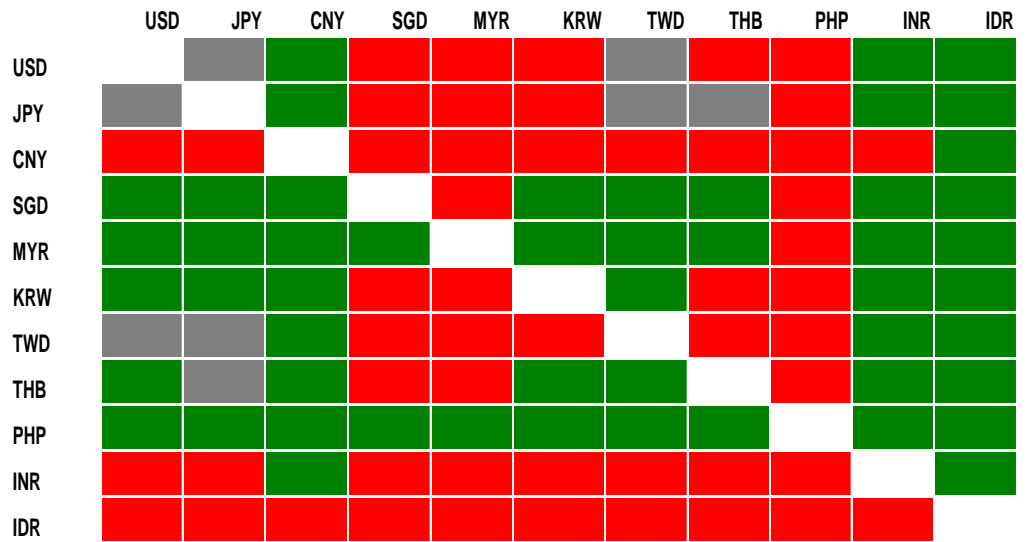
Source: Bloomberg

**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		
<b>TACTICAL</b>								
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	
<b>STRUCTURAL</b>								
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	
<b>RECENTLY CLOSED</b>								
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
6	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
<b>Jan-Aug 2016 Return</b>							<b>+7.80</b>	

Source: OCBC Bank

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