

Tuesday, January 05, 2016

FX Themes/Strategy/Trading Ideas - Forecasts

- Look to across the board USD and JPY outperformance to persist if risk appetite remains unsteady with the cyclicals (AUD, NZD, CAD) expected to continue to underperform.
- Expect investor sentiment to remain somewhat sour on the back of the unfriendly equity/commodity backdrop, especially if Chinese equities continue to set the tone for global markets. Unsurprisingly, our **FXSI (FX Sentiment Index)** jumped higher on Monday within Risk-Neutral territory and the index may be in danger of spilling over into Risk-Off territory multi-session.
- Overall, In terms of our **trade recommendations** (please refer to the table below), we step into the year primarily focused on dollar strength, especially where complimented by weakness in the cyclicals and EM currencies.
- On Monday, we instituted a long **USD-SGD** (spot ref: 1.4229) on Monday as the year kicked off with a mixture of broad dollar resilience, RMB jitters, and generalized risk aversion. We target 1.4485 with a stop placed at 1.4100.

Asian FX

- With a stinging reminder of anemic growth from China's PMIs, EM currencies trailed the USD on the first trading day of the year and expect regional Asian currencies to remain in the hot seat in the near term with the **ACI (Asian Currency Index)** looking to resume its uptrend. On this front, contagion from CNH jitters may potentially continue to undermine the regional units.
- At this juncture, short-end EM FX vols remain a laggard with respect to recent G7 vols, implying that thus far, Asian FX may have additional downside potential in the event of further infection from risk aversion.
- As noted yesterday, the **CFETS RMB Index** ended 2015 at 100.94, implying a +0.94% appreciation of the CNY NEER. With this morning's USD-CNY mid-point of 6.5169 (6.5032 on Monday), the estimated CFETS RMB Index is around 100.73, effectively implying a -0.13% on a year-on-year basis and -0.21% year-to-date. As noted previously, we may well be at an inflexion point, with investors watching for any official guidance towards a secular depreciating trend of the CNY NEER. On a related note, expect the USD-CNY mid-point to continue to exhibit relative elasticity towards the upside during episodes of broad dollar strength against the NEER's constituent currencies. Elsewhere, the discount between the CNH and the CNY remains

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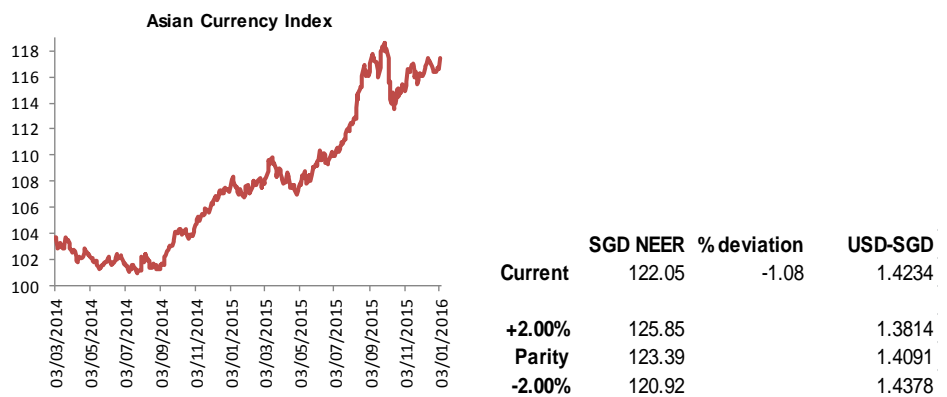
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at elevated levels with markets looking for any lines in the sand with **short-end CNH vols** having been paid up in a hurry in recent sessions.

- Today, the **SGD NEER** is approximately -1.15% below its perceived parity (1.4090) although we note inherent upside pressure on the spot is still expected to persist given that NEER-implied USD-SGD thresholds are higher on the day. At current levels, the -2.00% lower boundary of the NEER fluctuation band is estimated at around 1.4380. With December PMIs a mixed bag, the USD-SGD may be expected to continue to eye the 1.4300 threshold.



Source: OCBC Bank

G7

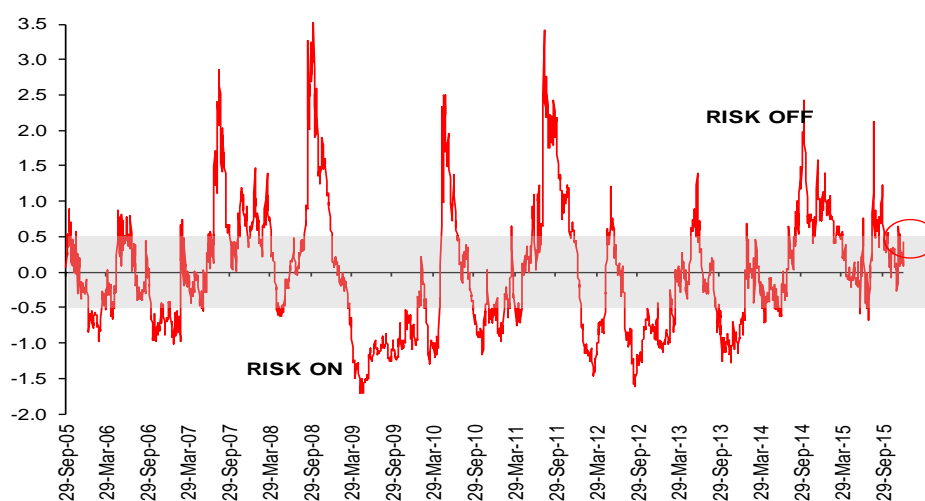
- **EUR-USD** Latest supportive comments from the Fed's Williams may continue to weigh on the majors despite the weaker than expected December ISM readings. At current levels, the pair is trading on the wrong side of its 55-day MA (1.0854) with risks towards 1.0800 and 1.0735 we think still evident.
- **USD-JPY** USD-JPY directionality may continue to be dictated by risk appetite deterioration in the near term although we expect some consolidation in the current vicinity pending further headline risks. At this juncture, next key support is expected into 119.00.
- **AUD-USD** Note that in a single session on Monday, the AUD-USD effectively almost unwound completely its gains chalked in the latter half of the December 2015. The current confluence of global negatives may risk a southward departure from the 0.7200 neighborhood towards 0.7150.
- **GBP-USD** GBP-USD may continue to succumb to gravity as we suspect that BOE rate hike expectations may continue to prove ephemeral going ahead. With the disappointing December manufacturing PMI and Brexit concerns serving as a backdrop, we look for continued heaviness to threaten the 1.4700 floor.

Revised central tendency forecasts

	Spot	Mar-16 3M	Jun-16 6M	Sep-16 9M	Dec-16 12M
USD-JPY	118.83	117.50	118.67	119.83	121.00
EUR-USD	1.0929	1.1170	1.0913	1.0657	1.0400
GBP-USD	1.4765	1.4560	1.4507	1.4453	1.4400
AUD-USD	0.7210	0.7230	0.7103	0.6977	0.6850
NZD-USD	0.6764	0.6750	0.6600	0.6450	0.6300
USD-CAD	1.3931	1.4250	1.4350	1.4450	1.4550
USD-CHF	0.9940	0.9950	1.0100	1.0250	1.0400
USD-SGD	1.4224	1.4330	1.4443	1.4557	1.4670
USD-CNY	6.5139	6.5734	6.5500	6.4750	6.4000
USD-THB	36.14	36.25	36.73	37.22	37.70
USD-IDR	13914	14150	14250	14350	14450
USD-MYR	4.3335	4.3700	4.4433	4.5167	4.5900
USD-KRW	1188	1210	1223	1237	1250
USD-TWD	33.058	33.250	33.667	34.083	34.500
USD-HKD	7.7509	7.7600	7.7563	7.7525	7.7500
USD-PHP	47.098	47.57	47.91	48.26	48.60
USD-INR	66.551	67.29	67.71	68.12	68.54
EUR-JPY	129.87	131.25	129.50	127.70	125.84
EUR-GBP	0.7402	0.7672	0.7523	0.7373	0.7222
EUR-CHF	1.0863	1.1114	1.1022	1.0923	1.0816
EUR-SGD	1.5545	1.6007	1.5762	1.5513	1.5257
GBP-SGD	2.1002	2.0864	2.0952	2.1039	2.1125
AUD-SGD	1.0256	1.0361	1.0260	1.0156	1.0049
NZD-SGD	0.9621	0.9673	0.9533	0.9389	0.9242
CHF-SGD	1.4310	1.4402	1.4300	1.4202	1.4106
JPY-SGD	1.1970	1.2196	1.2171	1.2147	1.2124
SGD-MYR	3.0466	3.0495	3.0764	3.1028	3.1288
SGD-CNY	4.5795	4.5871	4.5350	4.4481	4.3626

Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX
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

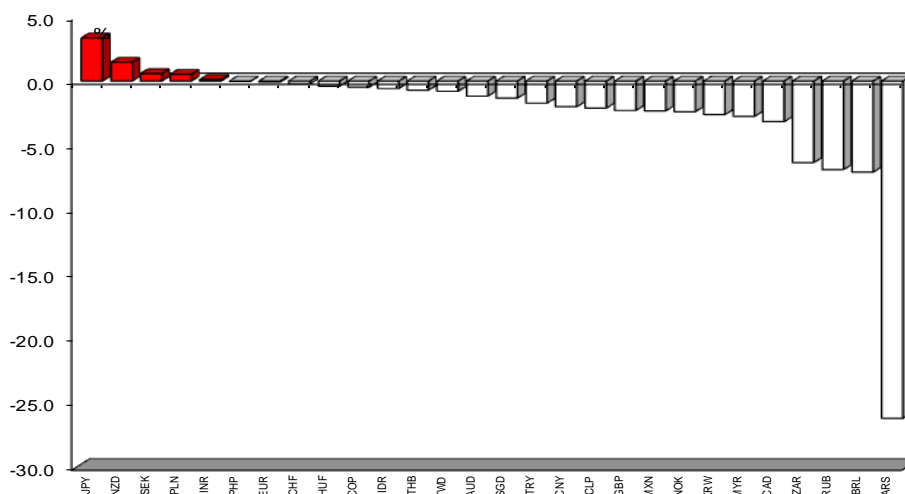
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0806	1.0828	1.0829	1.0900	1.1032
GBP-USD	1.4663	1.4700	1.4713	1.4800	1.5076
AUD-USD	0.7100	0.7139	0.7182	0.7199	0.7200
NZD-USD	0.6682	0.6700	0.6742	0.6800	0.6832
USD-CAD	1.3625	1.3900	1.3938	1.4000	1.4001
USD-JPY	119.00	119.31	119.36	120.00	121.63
USD-SGD	1.4200	1.4238	1.4253	1.4280	1.4300
EUR-SGD	1.5283	1.5400	1.5434	1.5500	1.5571
JPY-SGD	1.1894	1.1900	1.1940	1.1995	1.2000
GBP-SGD	2.0720	2.0900	2.0970	2.1000	2.1158
AUD-SGD	1.0200	1.0224	1.0237	1.0300	1.0329
Gold	1046.20	1055.59	1072.90	1086.57	1086.64
Silver	13.64	13.80	13.86	13.90	14.40

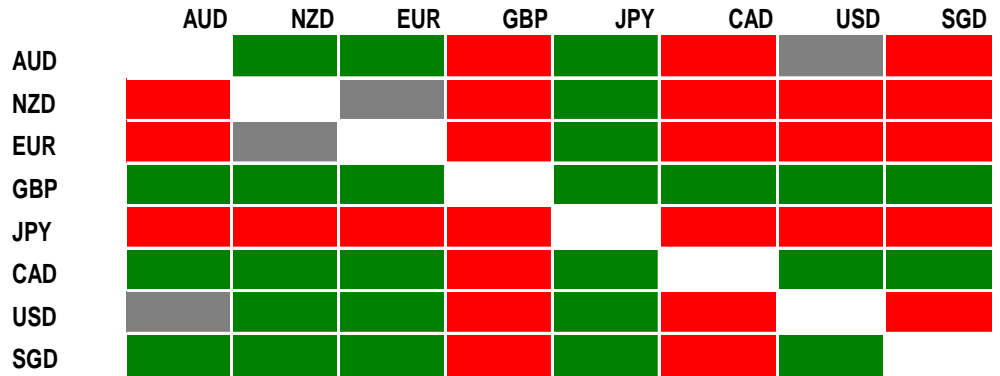
Source: OCBC Bank

FX performance: 1-month change agst USD



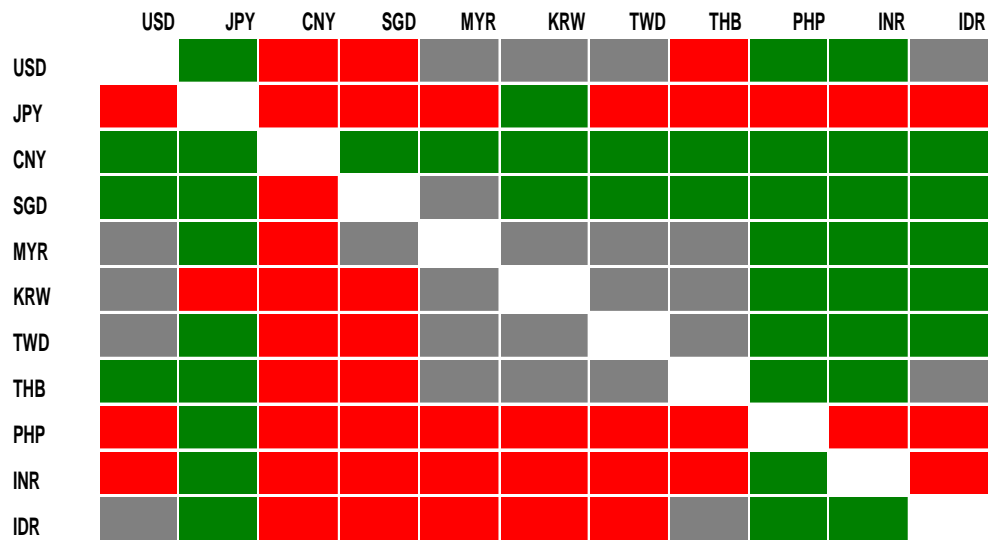
Source: Bloomberg

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
5	04-Jan-16	B	USD-SGD	1.4229	1.4485	1.4100	Asian FX weakness, RMB jitters
STRUCTURAL							
6	18-Dec-15	S	GBP-USD	1.4909	1.4195	1.5270	Broad dollar strength post-liftoff may
7	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow
8	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

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