

Thursday, May 05, 2016

## FX Themes/Strategy/Trading Ideas

- The majors edged lower overnight against the USD with the US data stream (non-manufacturing ISM, factory orders, durable goods orders) largely on point save for the disappointing April ADP. Meanwhile, whiffs of risk aversion (note softer UST yields) chipped away at the greenback's counterparts.
- Against the backdrop soft global equities/commodities, risk appetite meanwhile continued to curdle with the **FXSI (FX Sentiment Index)** firming for the 6<sup>th</sup> consecutive session on Wednesday with various risk premiums heightening. **Our previous skepticism towards the recent reflation trade in global markets continues to have some mileage with materializing market caution translating into an implicit flight to the greenback in the last couple of sessions.**
- Amid recent weakness in crude and significantly larger than expected March trade deficit of -CAD3.41bn, we closed out our prior 14 Apr 16 idea to be tactically short **USD-CAD** (spot ref: 1.2832) at 1.2863 for an implied -0.24% loss.

## Asian FX

- Near term prospects for Asian FX remain negative, with downward pressure on EM FX from overnight, disappointing Caixin April PMIs, a firmer USD-CNY mid-point, and generalized nervousness in global markets. On the macro front, slightly softer than expected 1Q GDP readings (+4.92% yoy) and a deterioration of April PMIs out of India will do no favors for macroeconomic confidence in the near term. In sum, expect the **Asian Currency Index (ACI)** to continue to bounce higher.
- The **SGD NEER** is slightly softer relative to its perceived parity (1.3554) this morning at around -0.22%. With the broad USD creeping higher across the board overnight, NEER-implied USD-SGD thresholds are also higher on the day while the NEER is expected to loiter sub-parity if investor sentiment remains skittish. At current levels, the +0.50% NEER threshold is seen at 1.3487 while -0.50% corresponds to approximately 1.3623, with potential for the NEER to drift below -0.50%.

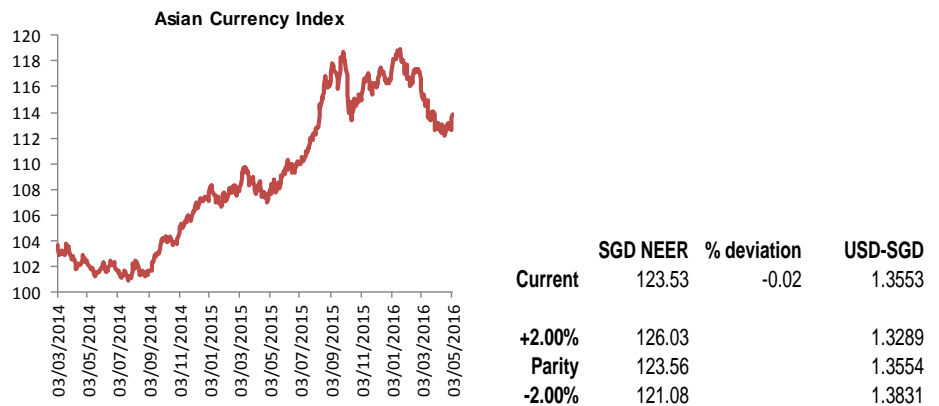
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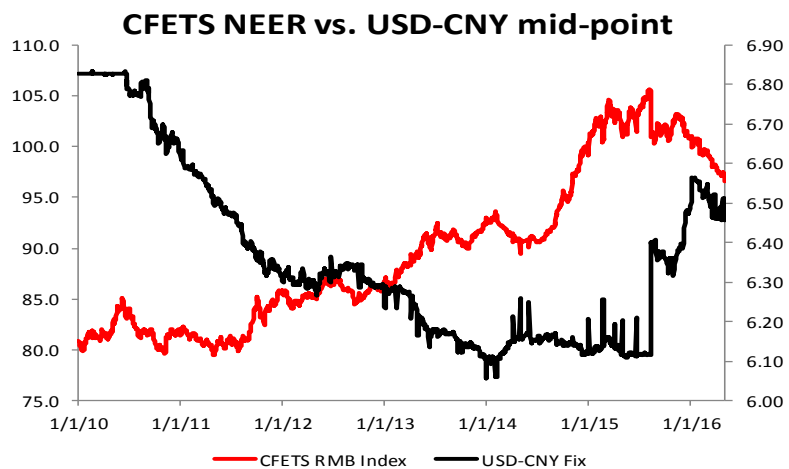
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Source: OCBC Bank

- Despite implicit pressure from movements in the constituent currencies, the PBOC nailed the **CFETS RMB Index** to the floor this morning at 96.55 from 96.56 on Wednesday. This saw the USD-CNY mid-point shouldering the entire burden of adjustment, rising to 6.5128 from 6.4943 yesterday. At this juncture, policy signals from the PBOC remain unambiguous, with the Index searching lower regardless of DYX movements. Notably, realized volatility of the USD-CNY mid-point has surpassed that of the CFETS RMB Index.



Source: OCBC Bank, Bloomberg

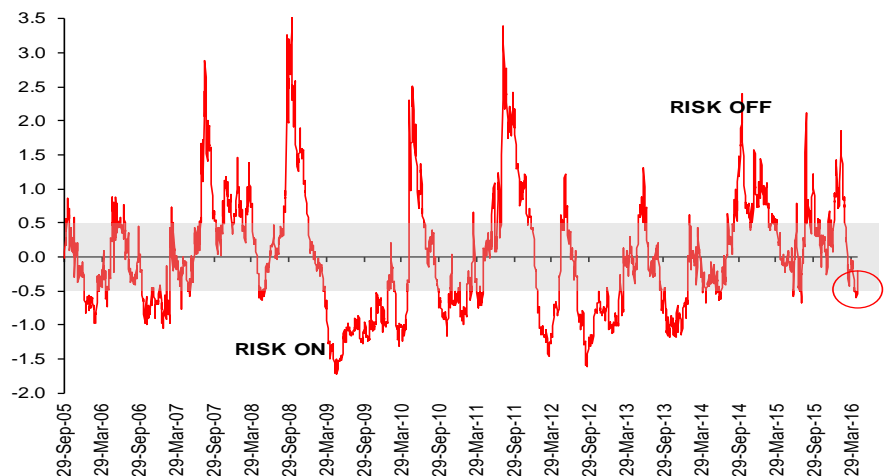
**G7**

- **EUR-USD** Despite largely uneventful April EZ PMIs released yesterday, the EUR-USD may be on the verge of launching higher in the absence of a significant upside surprise from tomorrow's US NFP numbers. In the interim, the pair may continue to consolidate around the 1.1500 neighborhood pending further cues with 1.1465 seen offering support on initial dips.
- **USD-JPY** The USD-JPY may continue to track a 106.00-108.00 range in the near term with background risk aversion likely to cap the upside. Meanwhile, official jawboning (e.g., from PM Abe on Wednesday) may also

continue to police the downside. Elsewhere uneven risk appetite levels may also serve to weigh on the pair.

- AUD-USD** Flailing base metals may continue to add to the baggage from the RBA's 'surprise' rate cut this week although the better than expected readings from the March trade deficit and retail sales numbers may offer near term support. Look to the RBA's Monetary Policy Statement on Friday for further domestic cues. After violating its 55-day MA (0.7528) earlier this week, the downside may continue to attract if risk appetite sours further.
- GBP-USD** Look to the April services/composite PMI readings today for further domestic cues, with the disappointing construction PMI on Wednesday providing a further excuse for sterling underperformance (GBP-USD tested tentatively below 1.4500). A near term range of 1.4450-1.4600 may persist although our preference for a buy dips posture remains intact.

### 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

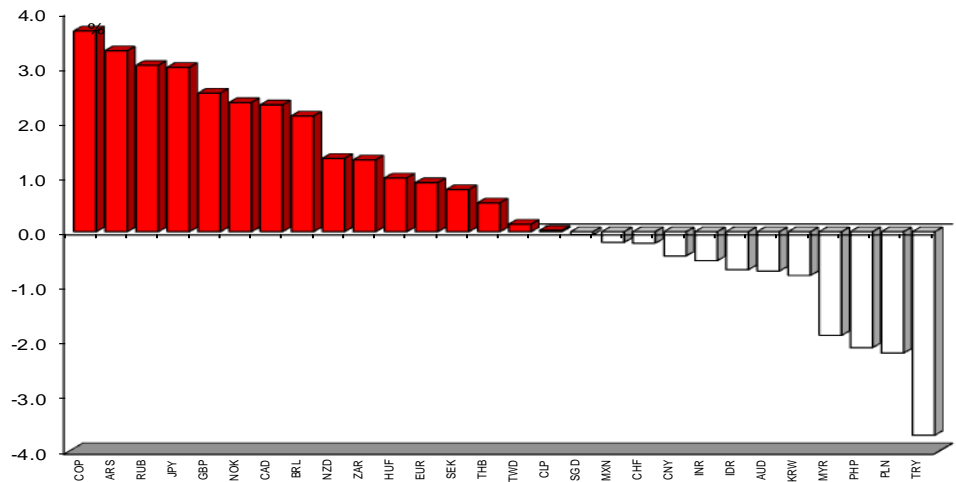
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1243	1.1400	1.1486	1.1500	1.1538
GBP-USD	1.4288	1.4500	1.4519	1.4600	1.4728
AUD-USD	0.7447	0.7451	0.7489	0.7500	0.7558
NZD-USD	0.6800	0.6808	0.6894	0.6900	0.7033
USD-CAD	1.2481	1.2800	1.2864	1.2900	1.2978
USD-JPY	105.55	107.00	107.13	108.00	111.05
USD-SGD	1.3359	1.3500	1.3554	1.3600	1.3613
EUR-SGD	1.5450	1.5465	1.5500	1.5570	1.5627
JPY-SGD	1.2264	1.2600	1.2678	1.2700	1.2748
GBP-SGD	1.9447	1.9700	1.9749	1.9796	1.9800
AUD-SGD	1.0115	1.0137	1.0168	1.0200	1.0287
Gold	1213.67	1246.63	1282.40	1297.59	1300.00
Silver	15.93	17.30	17.37	17.40	18.03
Crude	40.15	44.70	44.74	44.80	46.73

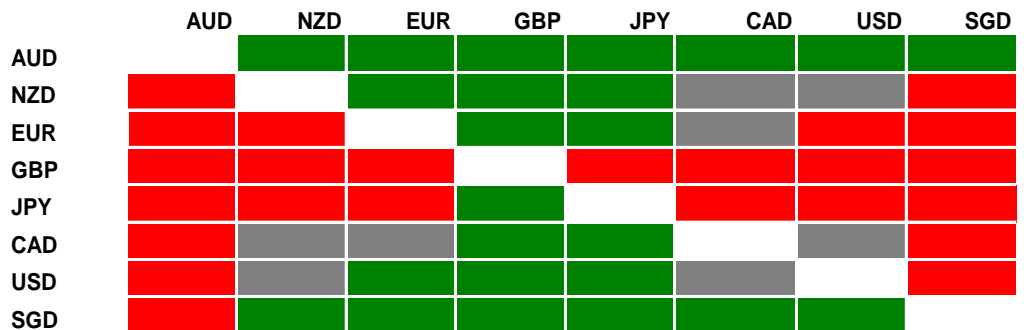
Source: OCBC Bank

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



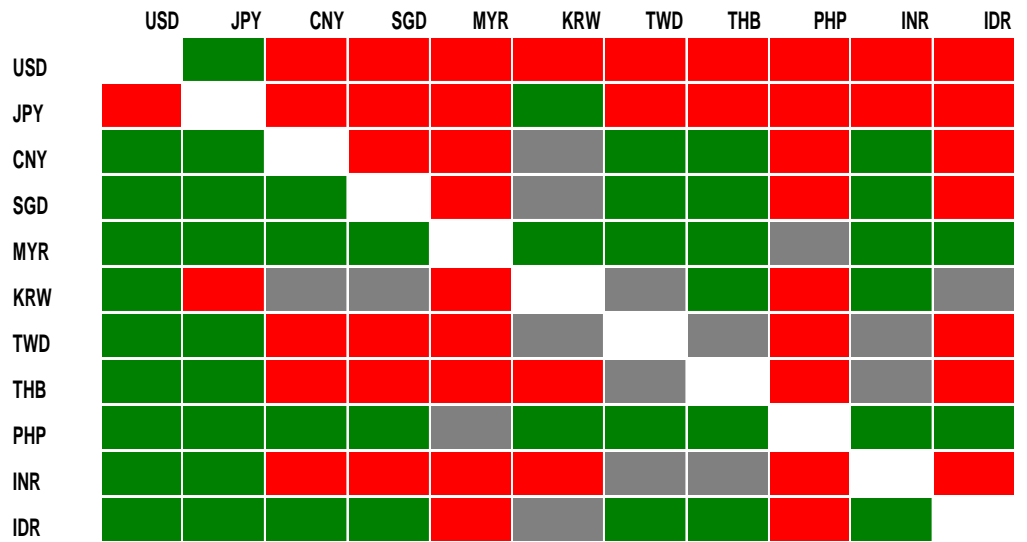
Source: Bloomberg

**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	20-Apr-16	B	GBP-USD	1.4374	1.4785	1.4165	Moderating Brexit concerns, weak dollar, positive risk		
2	29-Apr-16	S	AUD-USD	0.7626	0.7355	0.7765	Negativity post 1Q CPI numbers		
<b>STRUCTURAL</b>									
3	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate		
4	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries		
5	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations		
6	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC		
7	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield		
8	19-Apr-16	S	USD-SGD	1.3439	1.2835	1.3740	Potential for further broad USD decay, positive risk appetite		
<b>RECENTLY CLOSED</b>									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	03-Mar-16	08-Apr-16	B	AUD-USD	0.7284	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie	+3.19	
2	29-Feb-16	07-Apr-16	S	USD-CAD	1.3533	1.3139	Bottoming crude	+2.98	
3	11-Apr-16	14-Apr-16	S	USD-JPY	107.72	109.50	JPY still not drastically overvalued, endemic USD weakness	-1.63	
4	04-Mar-16	14-Apr-16	S	USD-SGD	1.3881	1.3634	Brightening risk appetite, vulnerable broad dollar	+1.81	
5	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05	
6	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65	
7	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
8	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.2425	1.3040	Bottoming crude prices	-0.24

Source: OCBC Bank

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