

Friday, August 05, 2016

FX Themes/Strategy/Trading Ideas - Sledgehammer

- The sterling flamed out across the board in the wake of the more dovish than expected **BOE** (25bps cut and re-initiated massive QE) on Thursday, underscoring our ongoing structural bearish outlook for cable (please see Table on the last page).
- Meanwhile, with the UST curve flattening (note also softer bund and gilts yields) in sympathy from the back-end, note that re-circulation of flows may continue to encourage the search for yield, with the antipodeans outperforming overnight. This of course would be contingent upon stability in global risk appetite levels, with the **FXSI (FX Sentiment Index)** ticking lower and remaining in Risk-Neutral territory on Thursday.
- With regards to the dollar per se, the US NFP (mkt: +180k) at 1230 GMT may provide a potential swing factor although implied odds of a rate hike remain depressed and the greenback may require a hefty positive headline number out of the NFP to generate meaningful lift. **In the interim, our de facto stance of for the greenback remains one of inherent vulnerability.**

Asian FX

- Similarly, expect the **Asian Currency Index (ACI)** to continue to slant lower into the end of the week with Asian equities also providing intrinsic support for the regional units.
- The **SGD NEER** is largely static this morning post-BOE and broad dollar softness at around +1.15% above its perceived parity (1.3565). NEER-implied USD-SGD thresholds are also largely unchanged on the day and expect caution on approach of the +1.50% threshold estimated at 1.3365. Barring an outsized positive US NFP surprise tonight, we are heavy on the pair multi-session.

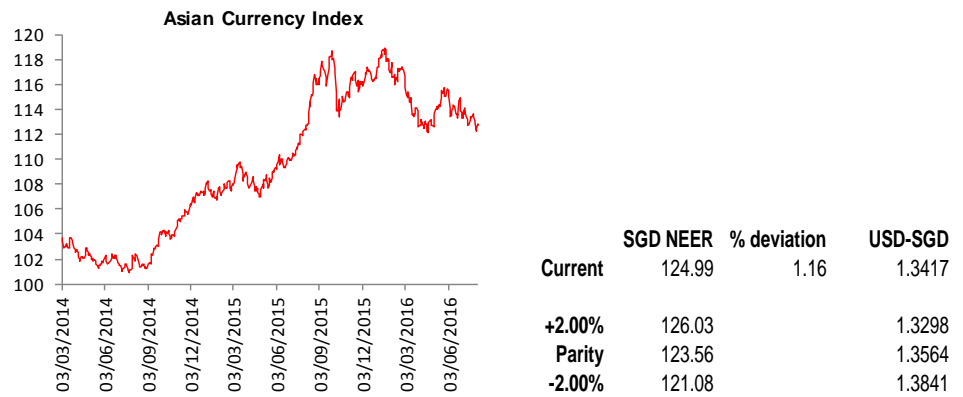
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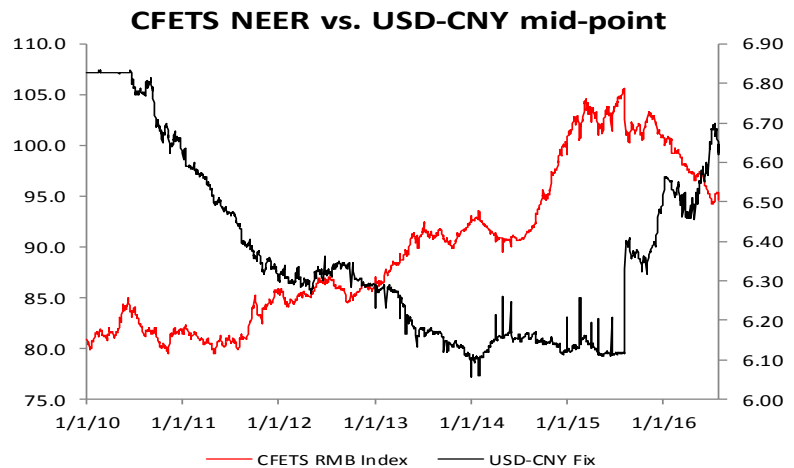
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Source: OCBC Bank

- The USD-CNY mid-point on Friday fell slightly (and largely as expected) to 6.6406 from 6.6444 on Thursday. This saw the **CFETS RMB Index** inching higher slightly to 94.72 from 94.70 a day earlier.



Source: OCBC Bank, Bloomberg

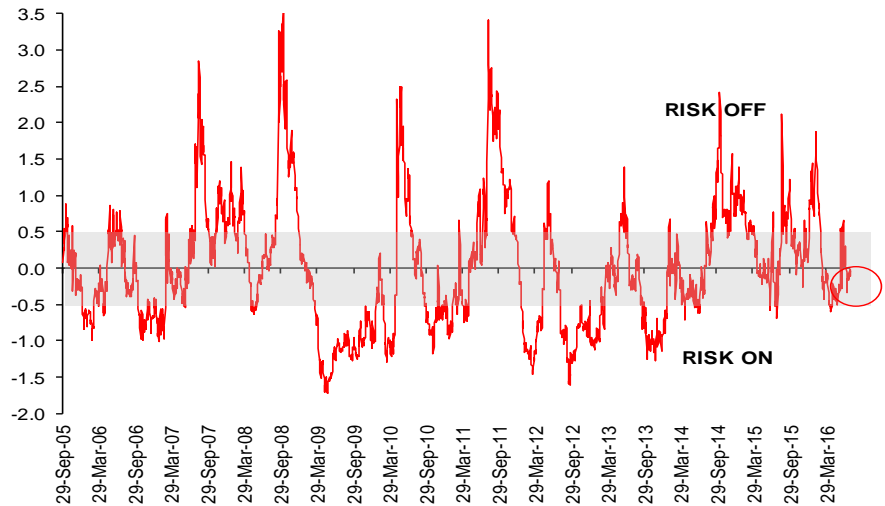
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- **EUR-USD** The slump in the pound on Thursday lifted the EUR-GBP while the knock-on effects saw the EUR-USD suppressed below 1.1150. Going ahead, yield differential arguments (especially from the shorter end) may also continue to prove supportive for the EUR. We look for support to kick in towards the 200-day MA (1.1079) with the 55-day MA (1.1156) resistance expected to be fragile if the US NFP tonight disappoints.
- **USD-JPY** Our posture towards the USD-JPY remains unchanged and we continue to be heavy on the pair on the back of broad dollar vulnerability plus continued proclivity by Japanese officials to “disappoint” market expectations. From a yield differential perspective, the pair is also seen southbound, and risks towards 100.00 as a first stop remain apparent.
- **AUD-USD** This morning, the RBA’s Statement on Monetary Policy remained somewhat sanguine and this should continue to feed appetite for the aussie. Despite yield differentials leaning against the pair, the search for

yield may continue to override. Intra-day, 0.7675 may attract pending the US NFP numbers.

- GBP-USD** The BOE “surprise” dovishness yesterday undermined the pound across the board and GBP vulnerability may persist with board members looking towards a horizon of zero interest rates. Post-BOE, yield differential arguments are expected to (and already have) exact a further toll on the pound with the temptation to seek out 1.3000 mounting.

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

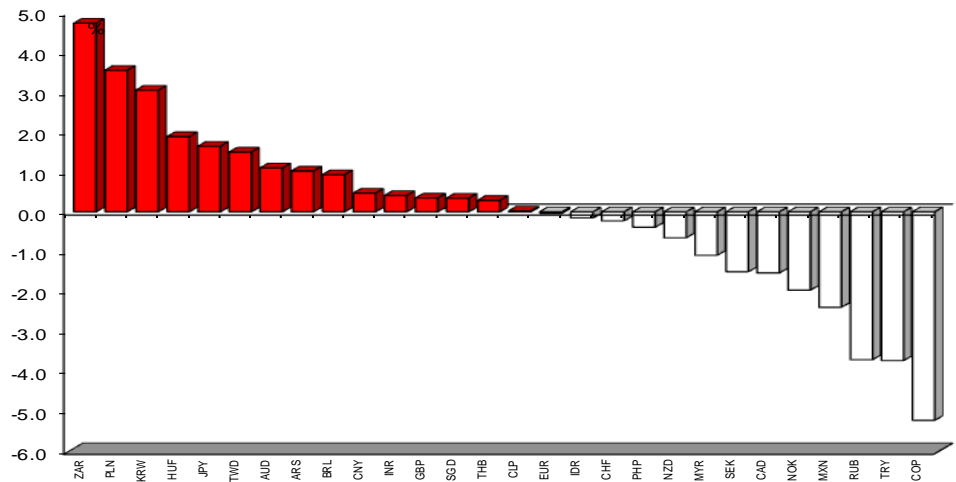
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1078	1.1100	1.1151	1.1154	1.1200
GBP-USD	1.2985	1.3300	1.3337	1.3400	1.3402
AUD-USD	0.7458	0.7600	0.7626	0.7662	0.7676
NZD-USD	0.7068	0.7100	0.7180	0.7200	0.7325
USD-CAD	1.2975	1.3000	1.3043	1.3100	1.3236
USD-JPY	100.00	100.08	100.95	101.00	104.87
USD-SGD	1.3335	1.3358	1.3398	1.3400	1.3515
EUR-SGD	1.4844	1.4900	1.4939	1.5000	1.5014
JPY-SGD	1.2898	1.3200	1.3275	1.3300	1.3374
GBP-SGD	1.7531	1.7800	1.7868	1.7900	1.8040
AUD-SGD	1.0129	1.0200	1.0217	1.0260	1.0300
Gold	1304.38	1309.68	1354.40	1366.66	1377.50
Silver	19.52	20.30	20.36	20.40	20.73
Crude	41.19	41.20	46.30	47.61	48.73

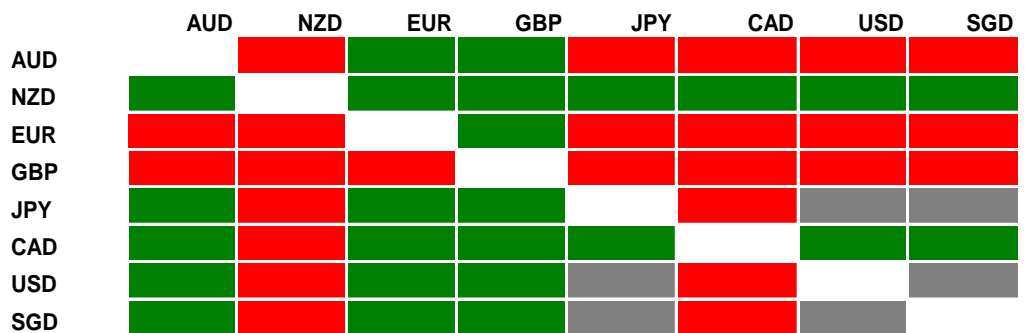
Source: OCBC Bank

FX performance: 1-month change agst USD



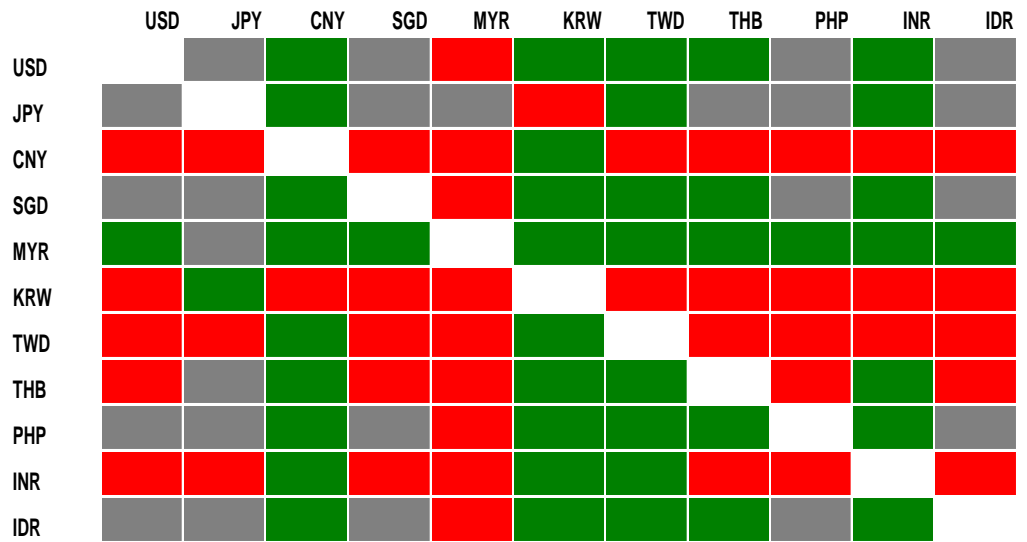
Source: Bloomberg

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	
TACTICAL								
1	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit	
2	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
STRUCTURAL								
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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
6	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
7	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
8	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	104.50	Potential for further risk aversion	-2.25
2	05-Jul-16	28-Jul-16	B	AUD-USD	0.7528	0.7523	Search for yield amidst potential FOMC disappointment	+0.03
3	22-Jul-16	28-Jul-16	B	USD-JPY	105.83	103.45	Contrasting policy postures going into the next FOM/BOJ meetings	-2.28
4	21-Jul-16	29-Jul-16	B	USD-SGD	1.3579	1.3445	Potential for broad USD traction, NEER deemed rich	-1.00
5	28-Jun-16	01-Aug-16	S	EUR-USD	1.1057	1.1215	Brexit uncertainty coupled with Euroskepticism	-0.90
6	28-Jun-16	01-Aug-16	S	GBP-USD	1.3306	1.3204	Epicenter of Brexit concerns	+0.78
							Jan- Jul 2016 Return	+13.75

Source: OCBC Bank

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