

Wednesday, October 05, 2016

FX Themes/Strategy/Trading Ideas – Revised forecasts

- With the UST curve bear steepening and the Fed's Lacker (hawk) fueling dollar support with hawkish comments, the greenback continued to pull higher across G10 space on Tuesday although the EUR managed to recoup intra-day losses against the USD (and outperformed across the board) after a wire report cited ECB sources as saying that the central bank would taper bond purchases before terminating QE. On the risk appetite front, the **FXSI (FX Sentiment Index)** slipped within Risk-Neutral territory.
- In the near term, the focus may continue swing from yield to expected central bank behavior (Fed, ECB) and actual macro considerations (GBP). In the interim, with FF futures continuing to incrementally imply strengthening odds of a December rate hike and despite more balanced comments from the Fed's Evans early Wednesday in Asia, expect the broad dollar to retain the upper hand.
- Elsewhere, look also to the slew of global services PMIs for further macro cues while US data points include the US Sep ADP, non-manufacturing ISM, Aug factory orders and durable goods orders. Given the prevailing market mood, neutral to mildly positive reads from US data points may continue to engender greenback strength.
- With Brexit related concerns being potentially brought back to a boil and the broad USD gaining traction at the margins ahead of this Friday's NFP, we undertake a tactical short **GBP-USD**. With a spot ref at 1.2814 on Tuesday, we target 1.2420 and place a stop at 1.3015.

Asian FX

- Going ahead, any further hints of tapering (or hawkishness) of the surfeit of excess global liquidity (latest from yesterday's ECB taper headlines) would continue to be anathemic for EM/Asian FX resilience. With Asian equities slightly wobbly this morning, expect the **ACI (Asian Currency Index)** to be on higher ground today.
- On a brighter note, the **RBI** surprised the markets slightly by cutting its benchmark repo and reverse repo rates by 25bps to 6.25% and 5.75% respectively – net positive for the INR.
- The **SGD NEER** continues to creep lower and is around -0.47% below its perceived parity (1.3648) with NEER-implied USD-SGD thresholds higher on the day. In the current environment, the NEER continues to run the risk of a

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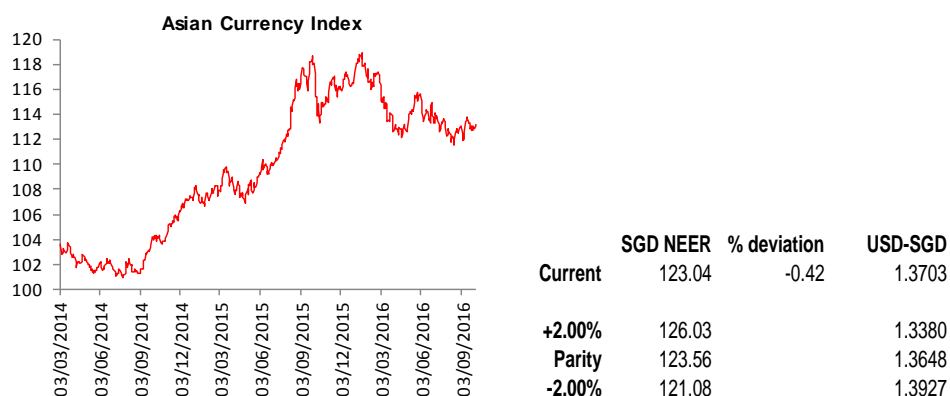
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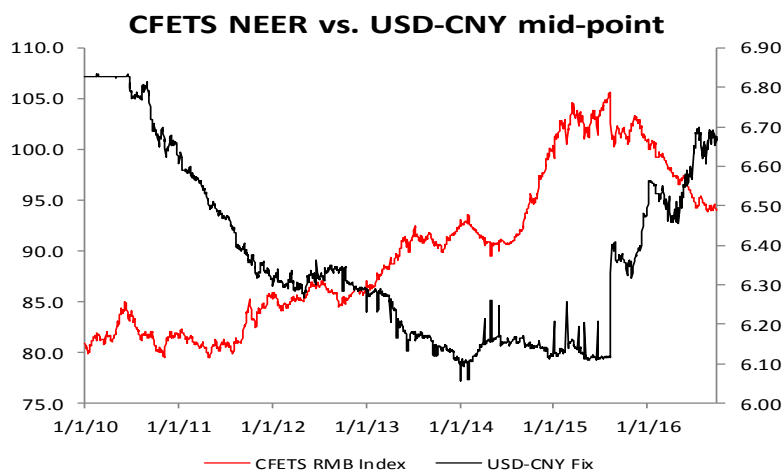
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further decay towards -0.50% (1.3717) and reach for -1.00% (1.3786). Technically, if the 200-day MA (1.3709) is taken out convincingly, we look for 1.3730 up next, although we note some of our vol measures for spot are beginning to light up.

- As has been the case historically, expect investors to closely scrutinize the potential implied 'signaling' behavior of the NEER in the sessions preceding the actual MAS MPS (Monetary Policy Statement) expected next week. Although our base case is for policy to remain static, if sustained "guidance" results in the NEER sitting yet lower and in the vicinity of its lower bound immediately before the meeting, the consensus calling for no change in policy parameters may begin to shift uncomfortably in their seats.



Source: OCBC Bank



Source: OCBC Bank, Bloomberg

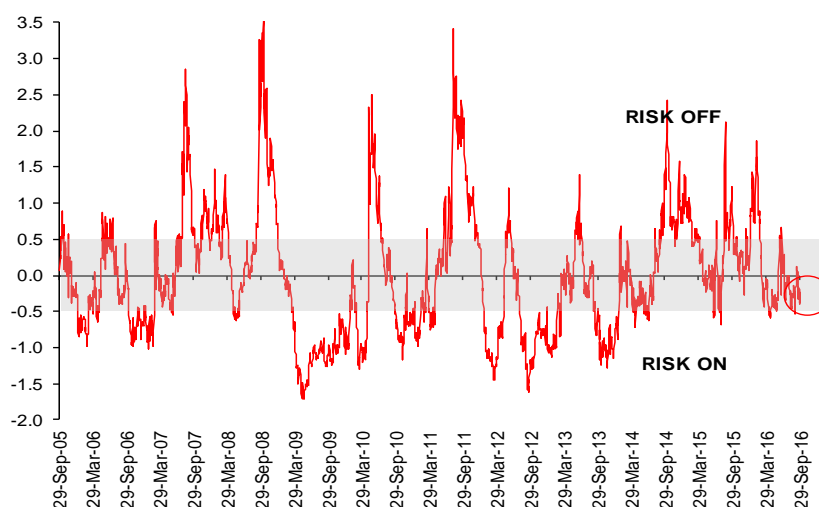
G7

- EUR-USD** Despite the wire report yesterday on the ECB's intended plans to taper (eventually), note that an ECB media official refuted the report via a tweet while ECB economist Praet reiterated that rates are slated to stay low until inflation fulfills its targeted level. Watch for further comments from the ECB's Draghi this coming weekend at the IMF/World Bank meetings for more definitive cues. In the interim, the 1.1200 support may hold, although

we retain a bias for downside probes towards the 200-day MA (1.1165) given that any prospects of an ECB taper may continue to be put on ice amid ongoing expectations of an extension of the QE program beyond march 2017.

- USD-JPY** Our near term view remains unaltered, and we look to Fed-centric dynamics to continue to guide the USD-JPY. With the 55-dya MA (102.05) having been breached effortlessly, the next potential upside waypoint is expected to kick in towards 103.25 before 103.75.
- AUD-USD** The RBA on Tuesday left its benchmark rate unchanged as expected with new governor Lowe remaining neutral (somewhat sanguine) as largely expected without exhibiting any bias towards undue dovishness. Nonetheless, the aussie may defer to near term dollar robustness and the AUD-USD may slant toward the 0.7600 floor intra-day ahead of 0.7565.
- GBP-USD** Go hard. With talk swirling of a potential 'hard exit' (including for the UK financial sector) from the EU, expect the path of least resistance for the GBP-USD to be angled southwards for now.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

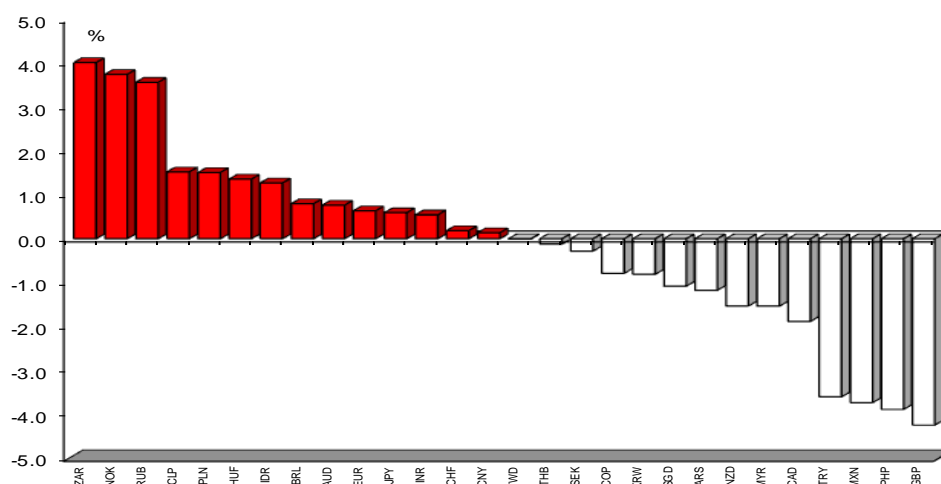
	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	CNH	EUR
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462	-0.279	-0.949
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658	-0.565	-0.968
JPY	0.537	-0.135	-0.823	0.460	0.272	0.541	1.000	0.483	-0.279	-0.681	-0.802	-0.638
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	1.1205	1.1218	1.1272	1.1300
GBP-USD	1.2707	1.2720	1.2738	1.2800	1.3106
AUD-USD	0.7600	0.7605	0.7640	0.7700	0.7730
NZD-USD	0.7177	0.7190	0.7193	0.7200	0.7254
USD-CAD	1.3052	1.3100	1.3175	1.3200	1.3217
USD-JPY	101.69	102.00	102.81	103.00	103.37
USD-SGD	1.3699	1.3700	1.3706	1.3711	1.3720
EUR-SGD	1.5200	1.5288	1.5297	1.5300	1.5384
JPY-SGD	1.3300	1.3309	1.3368	1.3400	1.3588
GBP-SGD	1.7400	1.7427	1.7488	1.7500	1.7732
AUD-SGD	1.0289	1.0400	1.0485	1.0500	1.0510
Gold	1200.00	1255.35	1266.30	1266.30	1287.79
Silver	17.75	17.90	17.91	18.00	18.06
Crude	45.64	49.20	49.25	49.30	49.30

Source: OCBC Bank

FX performance: 1-month change agst USD

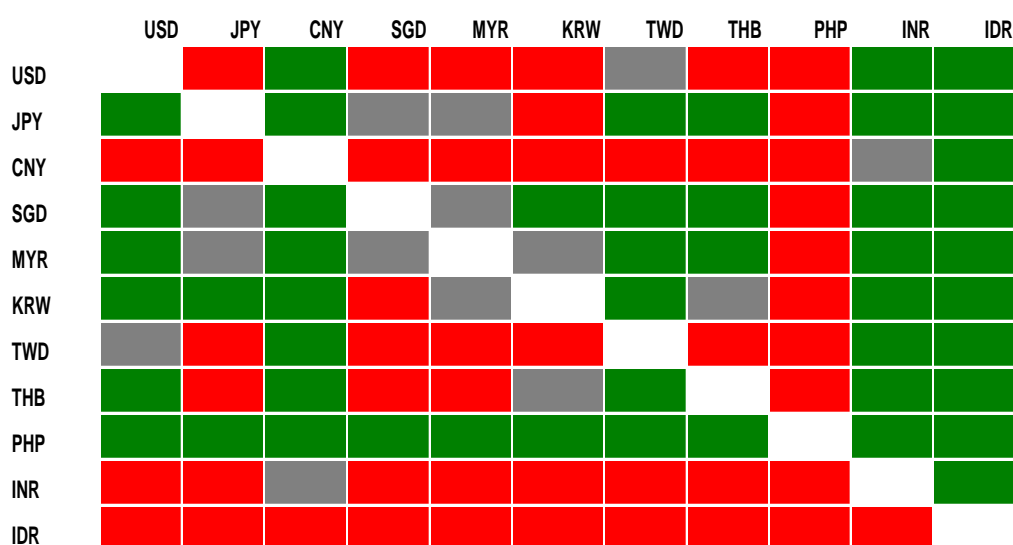
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Revised central tendency forecasts

	Spot	Oct-16	Dec-16	Mar-17	Jun-17	Sep-17
USD-JPY	102.39	103.50	103.75	105.70	107.65	109.60
EUR-USD	1.1174	1.1090	1.1285	1.1178	1.1072	1.0965
GBP-USD	1.2774	1.2655	1.2155	1.2115	1.2075	1.2035
AUD-USD	0.7659	0.7715	0.7780	0.7663	0.7547	0.7430
NZD-USD	0.7282	0.7220	0.7370	0.7253	0.7137	0.7020
USD-CAD	1.3166	1.3220	1.3290	1.3392	1.3493	1.3595
USD-CHF	0.9781	0.9865	0.9865	0.9897	0.9928	0.9960
USD-SGD	1.369	1.3765	1.3785	1.3857	1.3928	1.4000
USD-CNY	6.6718	6.6800	6.7500	6.7783	6.8066	6.8350
USD-THB	34.695	34.85	34.40	34.65	34.90	35.15
USD-IDR	12987	12930	12850	13032	13213	13395
USD-MYR	4.1272	4.1055	4.1833	4.2142	4.2451	4.2760
USD-KRW	1107.75	1120.00	1080.00	1100.00	1120.00	1140.00
USD-TWD	31.342	31.150	30.950	31.250	31.550	31.850
USD-HKD	7.7555	7.7500	7.7611	7.7644	7.7678	7.7711
USD-PHP	48.265	48.55	48.65	48.68	48.72	48.75
USD-INR	66.53	66.35	66.20	66.58	66.97	67.35
EUR-JPY	114.41	114.78	117.08	118.15	119.19	120.18
EUR-GBP	0.8747	0.8763	0.9284	0.9227	0.9169	0.9111
EUR-CHF	1.0929	1.0940	1.1133	1.1063	1.0992	1.0921
EUR-SGD	1.5297	1.5265	1.5556	1.5489	1.5421	1.5351
GBP-SGD	1.7488	1.7420	1.6756	1.6787	1.6818	1.6849
AUD-SGD	1.0485	1.0620	1.0725	1.0619	1.0511	1.0402
NZD-SGD	0.9969	0.9938	1.0160	1.0051	0.9940	0.9828
CHF-SGD	1.3997	1.3953	1.3974	1.4001	1.4029	1.4056
JPY-SGD	1.3370	1.3300	1.3287	1.3109	1.2939	1.2774
SGD-MYR	3.0148	2.9826	3.0347	3.0413	3.0478	3.0543
SGD-CNY	4.8735	4.8529	4.8966	4.8917	4.8869	4.8821

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
	TACTICAL							
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	
3	04-Oct-16	S	GBP-USD	1.2814	1.2420	1.3015	Article 50 jitters coupled with pre-NFP USD resilience	
	STRUCTURAL							
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
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	
9	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
	RECENTLY CLOSED							
	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 cyclical, 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
	Jan-Aug 2016 Return							+7.80

Source: OCBC Bank

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