

Wednesday, January 06, 2016

FX Themes/Strategy/Trading Ideas

- The dollar and the JPY may continue to hold the upper hand if investor nerves remain frayed while the market may be reduced to data watching today for further cues. Look to the slew of global services/composite PMIs (including the non-manufacturing ISM) with the Caixin China PMIs due at 0145 GMT. The FOMC minutes (1900 GMT) meanwhile may provide further color with regards to the Fed's conviction towards the intended speed of monetary policy normalization.
- The **FXSI (FX Sentiment Index)** ticked slightly lower within Risk-Neutral territory on Tuesday partially on the recovery in EZ/US equities but expect investors to remain somewhat jumpy on the back of the still soggy commodity and China equity landscape. In the interim, any aggravation of investor pessimism will likely further underpin the USD.
- Flight from the cyclicals since the onset of the week stymied our 30 Dec 15 idea to be tactically long **AUD-USD**, with the trade idea tripped out at 0.7150 on Tuesday, yielding an implied -1.89% loss.

Asian FX

- Sentiment across EM remained mixed to unsteady overnight and we would remain wary towards the regional currencies despite the **ACI (Asian Currency Index)** consolidating slightly lower on Tuesday. On this front, we note the SGD, TWD, THB and MYR exhibiting significant short-term correlations with the CNH while broad dollar fluctuations may also be expected to dominate.
- Going ahead, regional sentiment may to stabilize further if the Chinese authorities continue to contain stability in the reverse repos, equity and FX markets. Nonetheless, data flow from the region remains less than encouraging, with **South Korea** printing another dip in foreign reserves in Dec 15 to USD367.96bn.
- The significantly higher USD-CNY mid-point of 6.5314 takes the **CFETS RMB Index** down to 100.80, effectively down -0.13% in the year to date. However, note that the index is effectively higher on the day, with Tuesday's reading at 100.72. As noted previously, if the basket's constituents continue to deflate against the USD, the PBOC would be hard pressed to contain the appreciation pressure on its CNY NEER. In the current broad dollar environment therefore, expect scope for the USD-CNY mid-points to continue to surprise on the upside. Meanwhile, the CNH's discount to the

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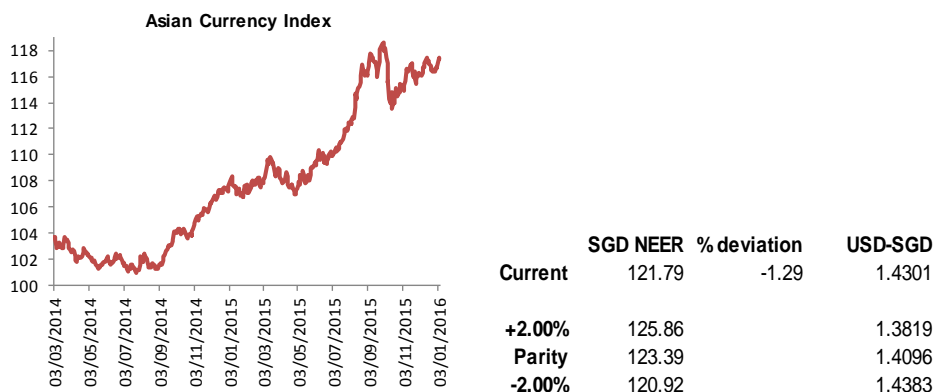
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CNY is at its widest with the corresponding ratio also at 2011 extremes.

- The **SGD NEER** starts the day relatively firmer within its perceived parity (1.4095) at around -1.08%. Note however that NEER-implied USD-SGD threshold are slightly higher on the day with the -2.00% lower extreme of the NEER fluctuation band estimated at around 1.4385. Some base building behavior towards 1.4200 may be expected in the short term with 1.4300 on the upside still expected to be fair game ahead of 1.4370.

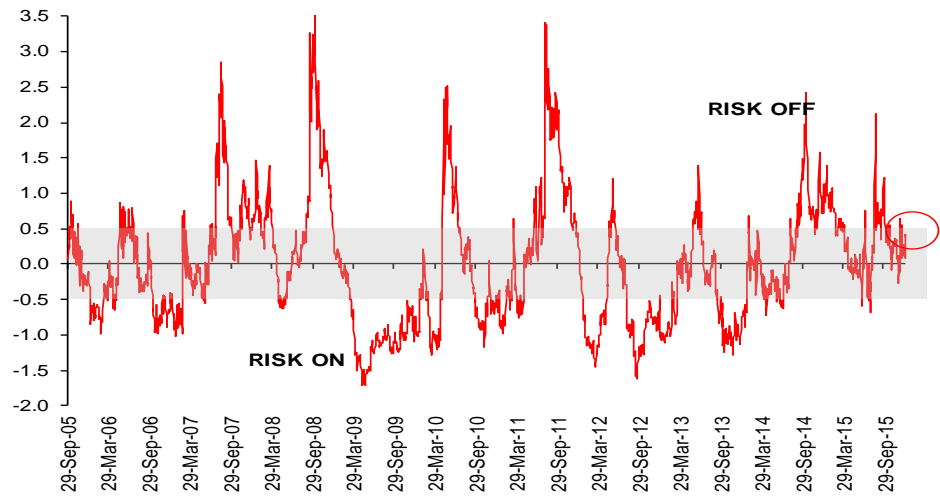


Source: OCBC Bank

G7

- **EUR-USD** The softer German curve and softer Dec EZ core CPI reading of 0.9% yoy may keep downside pressure on the EUR-USD (and the EUR-JPY). Pending the EZ data flow today, the risk to test towards 1.0700 remains on the table we think.
- **USD-JPY** Skittish markets may continue to drive the JPY higher with the USD-JPY looking towards the 118.00 floor. Note that broad USD resilience this week has been a byproduct of risk aversion (not least from the volatility in the RMB) with the JPY a concomitant beneficiary.
- **AUD-USD** The Dec AiG services index deteriorated to 46.3 from 48.2 the previous month and continued dissipation of investor confidence will draw the AUD-USD towards the 0.7100 floor.
- **GBP-USD** Brexit concerns may continue to weigh on the pair going ahead while on the data front, note that the BRC shop price index registered another -2.0% yoy contraction in December. With 1.4700 giving way, investors may vie for 1.4670 before 1.4600.

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

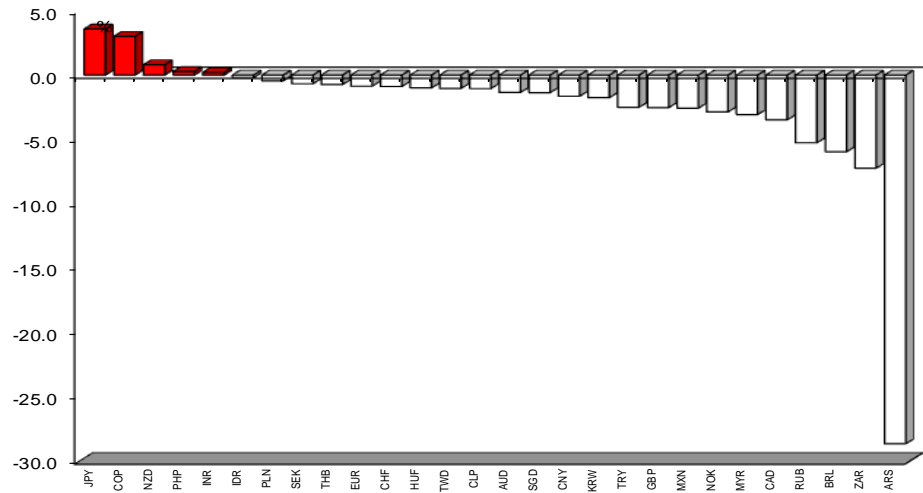
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0524	1.0700	1.0756	1.0764	1.0800
GBP-USD	1.4600	1.4638	1.4677	1.4700	1.5063
AUD-USD	0.7100	0.7128	0.7164	0.7170	0.7200
NZD-USD	0.6673	0.6700	0.6702	0.6800	0.6828
USD-CAD	1.3667	1.3900	1.3983	1.4000	1.4019
USD-JPY	118.98	119.00	119.14	120.00	121.62
USD-SGD	1.4113	1.4200	1.4259	1.4262	1.4285
EUR-SGD	1.5281	1.5300	1.5337	1.5400	1.5564
JPY-SGD	1.1900	1.1953	1.1970	1.2000	1.2019
GBP-SGD	2.0720	2.0900	2.0928	2.1000	2.1161
AUD-SGD	1.0160	1.0200	1.0215	1.0223	1.0300
Gold	1046.20	1055.54	1077.40	1084.96	1087.34
Silver	13.64	13.90	13.98	14.00	14.36

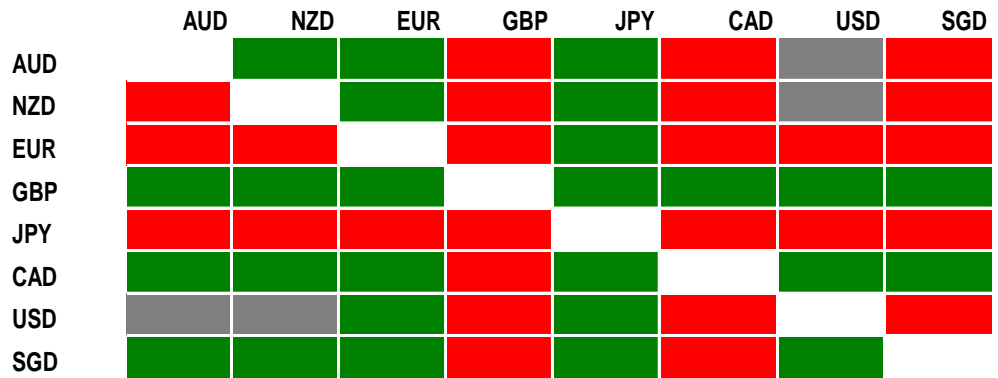
Source: OCBC Bank

FX performance: 1-month change agst USD



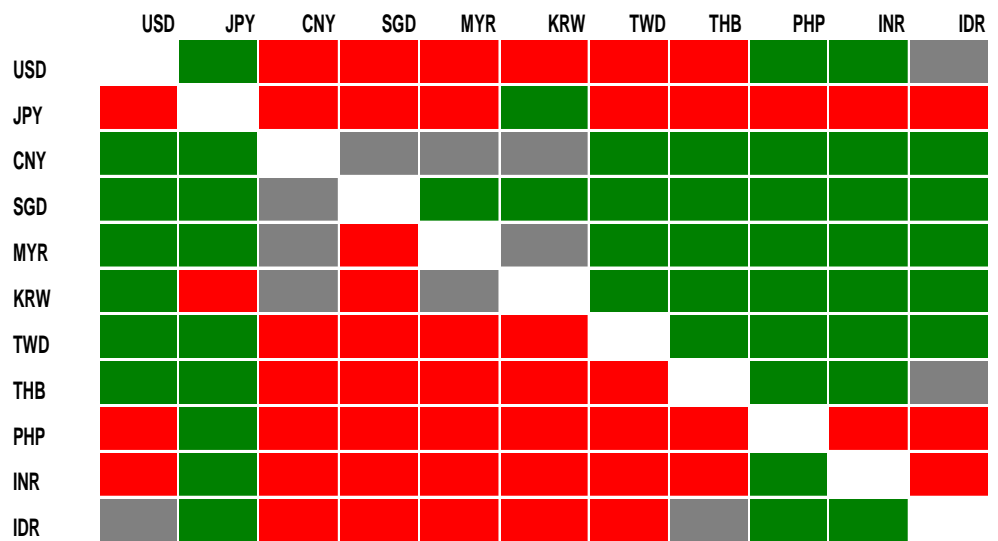
Source: Bloomberg

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	04-Jan-16	B	USD-SGD	1.4229	1.4485	1.4100	Asian FX weakness, RMB jitters	
STRUCTURAL								
5	18-Dec-15	S	GBP-USD	1.4909	1.4195	1.5270	Broad dollar strength post-liftoff may	
6	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow	
7	29-Dec-15	B	USD-CAD	1.3886	1.4520	1.3565	Central bank policy dichotomy in addition to structurally soft crude	
Recently Closed								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	30-Dec-15	05-Jan-16	S	AUD-USD	0.7287	0.7150	Stabilizing commodities/equities into year-end coupled with diffused USD strength	-1.89

Source: OCBC Bank

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