

Monday, November 07, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar received an early boost (USD-MXN plunged) early Monday in Asia after the FBI on Sunday stated that the FBI told Congress that newly discovered emails did not change the conclusion made in July that no new charges were warranted (against Hillary). Note that US NFP numbers last Friday were generally USD-supportive but this proved short-lived with US election uncertainty overtaking the dollar again by late NY.
- Despite the latest NBC-WSJ poll showing Clinton holding a slight lead over Trump, heightened two-way volatility may be expected in the coming sessions. Elsewhere, note that markets remain on edge with the **FXSI (FX Sentiment Index)** moving higher yet again within Risk-Neutral territory on Friday to near the Risk-Off zone. We continue to look to the MXN and CHF as key barometers for election-related volatility.
- On the **CFTC** front, net large non-commercial as well as leveraged accounts in aggregate increased their implied long dollar bias in the latest week. However, asset managers increased slightly their implied short dollar bias in the same week.
- This week, expect price action to be dominated by US election headlines, while a flurry of Fed appearances to potentially add to headline volatility for the USD. For all intents and purposes, FF futures continue to “fully” price in a hike in December. Elsewhere, the **RBNZ** is also expected to cut its benchmark interest rate by 25bps to 1.75% on Friday. In Asia, the bank of Thailand is expected to stand pat at 1.50% on Wednesday, as is the **BSP** on Thursday. On Friday, the **Bank of Korea** is also expected to keep its benchmark rate unchanged at 1.25%.
- Ahead of the US elections tomorrow, we take profit on our 25 Aug 16 idea to be tactically long **USD-SGD** (spot ref: 1.3527) at 1.3866 this morning for an implied +2.39% gain.

Asian FX

- Expect the regional currency pairs to continue to be buffeted by US election/FOMC-related dynamics, with regional central banks expected to remain static on the policy front this week. Overall, downside for the **ACI (Asian Currency Index)** is expected to be limited, especially if risk appetite levels continue to be impinged.
- **SGD NEER**: The **SGD NEER** this morning is slightly softer at -0.44% below

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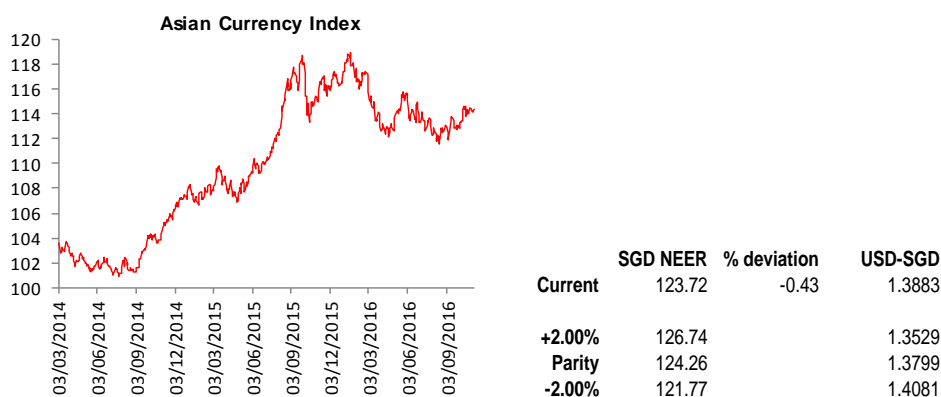
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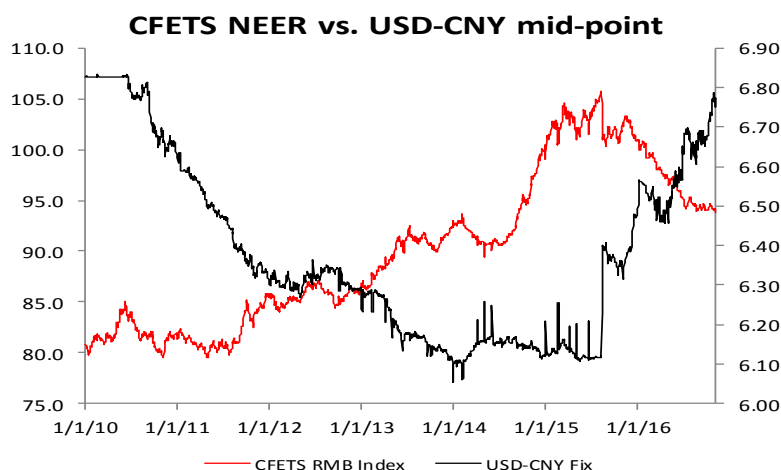
Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

its perceived parity (1.3799) with NEER-implied USD-SGD thresholds higher on the day. At current levels, -0.50% is estimated at 1.3869 and -1.00% at 1.3939, with the NEER still expected to shy away from venturing above -0.30% and potentially gravitate towards -0.50% if early USD resilience persists. Technically, the Fibo retracement at 1.3818 has continued to hold and risks may remain tilted towards 1.3900 instead.

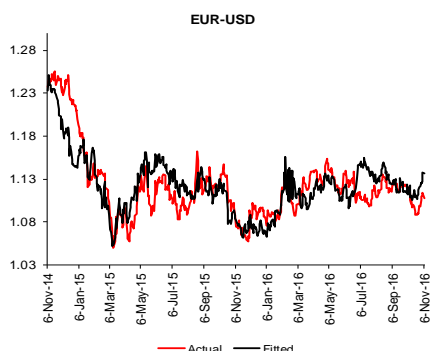


Source: OCBC Bank

- CFETS RMB Index:** The **CFETS RMB Index** fell further (expectedly) to 93.74 this morning from 93.78 on Friday, with the USD-CNY mid-point gaining from 6.7514 to 6.7725. With the Index continuing to subsist below 94.00, expectations for renewed guidance lower may be expected to mount in the coming sessions/weeks.

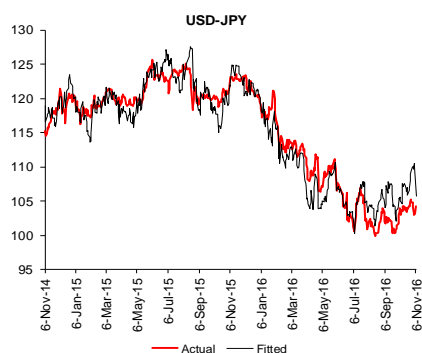


Source: OCBC Bank, Bloomberg

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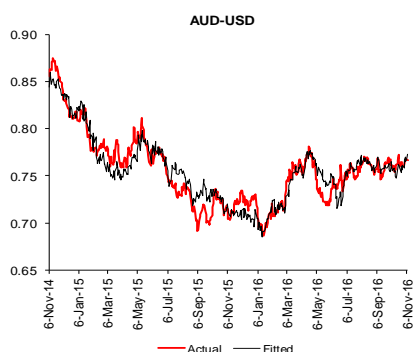
Source: OCBC Bank

- **EUR-USD** ECB rhetoric this week (Constancio at 0915 GMT today) may add an additional layer of uncertainty to the EUR-USD this week. On the CFTC front, net leveraged EUR shorts were increased in the latest week although US-centric influence this week may be expected to dominate. Our preference remains to collect on dips at this juncture with the 200-day MA (1.1182) still holding.



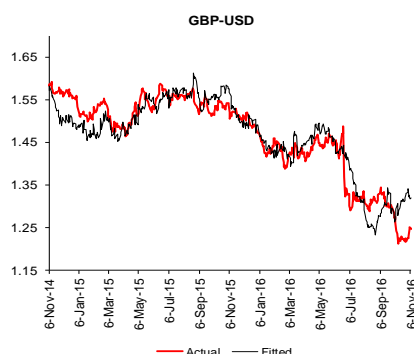
Source: OCBC Bank

- **USD-JPY** Amid the US-election related uncertainty, we continue to expect the USD-JPY to remain relatively more responsive to FOMC prospects. On the CFTC front, net leveraged JPY longs were trimmed ever so slightly in the latest week and in the absence of a risk appetite melt down, USD-JPY may remain reluctant towards excessive downside probes. Expect the 55-day MA (102.73) to cushion while key resistance is expected towards 105.50.



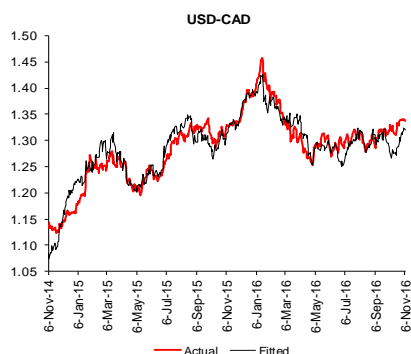
Source: OCBC Bank

- **AUD-USD** The RBA's Ryan (Tues) and Debelle (Fri) may impart further implicit support if resulting comments continue to remain fairly neutral (in the same vein as last Friday's Statement on Monetary Policy). On the CFTC front, net leveraged AUD longs were increased in the latest week. Short-term implied valuation remains on a slight uptrend although the 0.7700 ceiling remains a key resistance in the near term with initial support expected to kick in towards 0.7630.



- **GBP-USD** The BOE's chief economist Haldene is scheduled to make several appearances this week and it remains to be seen if he will echo recent (GBP-supportive) rhetoric from the monetary authority. On the CFTC front, net leveraged GBP shorts were accumulated further in the latest week but the pound more continue to garner relatively less mileage from any potential USD weakness this week and some near term capitulation lower cannot be discounted entirely.

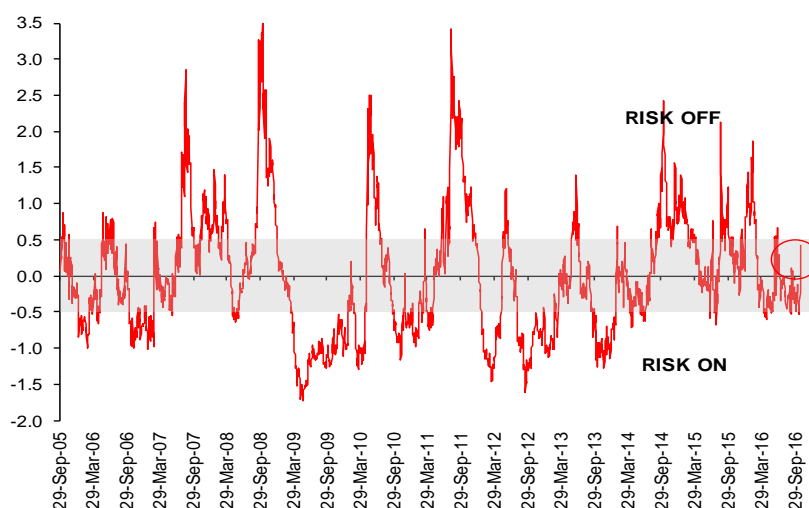
Source: OCBC Bank



Source: OCBC Bank

- USD-CAD** The BOC's Poloz is scheduled to make an appearance on Friday but in the interim, the CAD is expected to remain a function of US election volatility and OPEC related headlines. On the CFTC front, net leveraged CAD shorts jumped in the latest week, indicating that dips in the pair may be slightly shallow despite running somewhat rich relative to near term valuation. Expect support towards 1.3300 to materialize on initial dips.

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

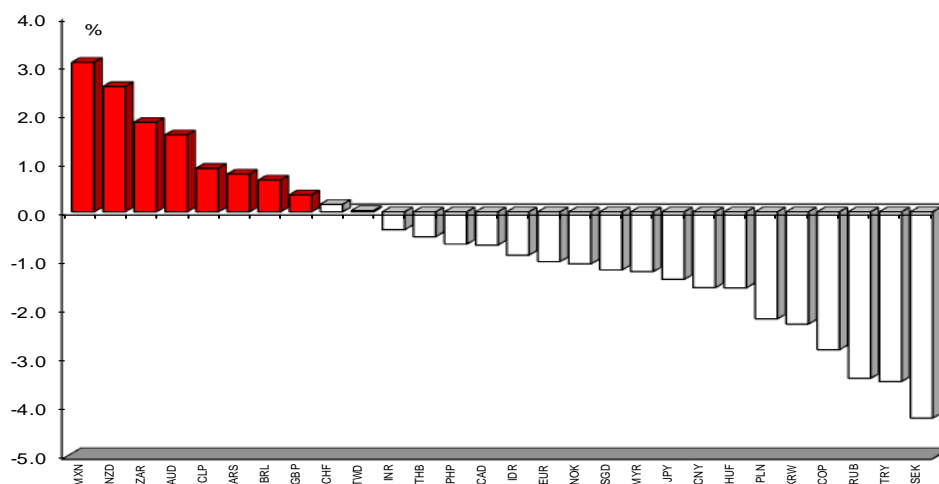
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0851	1.1000	1.1080	1.1100	1.1117
GBP-USD	1.2049	1.2400	1.2463	1.2465	1.2500
AUD-USD	0.7600	0.7603	0.7676	0.7700	0.7716
NZD-USD	0.7234	0.7300	0.7319	0.7338	0.7360
USD-CAD	1.3185	1.3300	1.3379	1.3400	1.3465
USD-JPY	102.88	104.00	104.21	105.00	105.10
USD-SGD	1.3788	1.3800	1.3884	1.3900	1.3962
EUR-SGD	1.5256	1.5300	1.5383	1.5400	1.5408
JPY-SGD	1.3237	1.3300	1.3323	1.3331	1.3400
GBP-SGD	1.7289	1.7300	1.7304	1.7400	1.7448
AUD-SGD	1.0437	1.0600	1.0657	1.0700	1.0718
Gold	1251.10	1278.83	1293.10	1297.77	1300.00
Silver	17.56	18.20	18.21	18.30	18.51
Crude	43.97	44.50	44.53	44.60	46.45

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD		Green	Grey	Green	Red	Red	Red	Red
NZD	Red		Red	Grey	Red	Red	Red	Red
EUR	Grey	Green		Green	Red	Red	Grey	Red
GBP	Red	Grey	Red		Red	Red	Red	Red
JPY	Green	Green	Green	Green		Red	Green	Green
CAD	Green	Green	Green	Green	Green		Green	Green
USD	Green	Green	Grey	Green	Red	Red		Grey
SGD	Green	Green	Green	Green	Red	Red	Grey	

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Red	Red	Grey	Green	Red	Red	Green	Green	Red	Red
JPY	Green		Green	Green	Green	Green	Green	Green	Green	Grey	Grey
CNY	Green	Red		Green	Green	Red	Green	Green	Green	Green	Red
SGD	Grey	Red	Red		Green	Red	Red	Grey	Green	Grey	Red
MYR	Red	Red	Red	Red		Red	Red	Red	Green	Red	Red
KRW	Green	Red	Green	Green	Green		Green	Green	Green	Green	Green
TWD	Green	Red	Red	Green	Green	Red		Green	Green	Green	Red
THB	Red	Red	Red	Grey	Green	Red	Red		Green	Red	Red
PHP	Red	Red	Red	Red	Red	Red	Red	Red		Red	Red
INR	Green	Grey	Red	Grey	Green	Red	Red	Green	Green		Red
IDR	Green	Grey	Green	Green	Green	Red	Green	Green	Green	Green	

Source: OCBC Bank

FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
TACTICAL								
1	06-Oct-16	B	USD-JPY	103.48	106.95	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	
2	26-Oct-16	B	USD-CAD	1.3356	1.3635	1.3210	Softening crude, dovish BOC, potential USD strength	
3	27-Oct-16	B	AUD-USD	0.7618	0.7805	0.7520	Supportive risk appetite, metals, positioning, and positioning	
STRUCTURAL								
4	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
5	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
6	25-Oct-16	B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollar prospects, negative space for SGD NEER	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	14-Jun-16	10-Oct-16	S	USD-SGD	1.3542	1.3718	USD expected to disappoint on the back of the summer FOMCs	-1.08
2	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
3	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
4	04-Jul-16	19-Oct-16	S	USD-JPY	102.58	103.88	Yield differentials to weigh on the pair, esp if Fed hesitates	-1.59
5	12-Oct-16	19-Oct-16	S	AUD-USD	0.7585	0.7690	"Yield" may be subjugated by dollar	-1.38
6	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
7	27-Oct-16	28-Oct-16	B	AUD-USD	0.7618	0.7587	Supportive risk appetite, metals, positioning, and positioning	-0.38
8	05-Oct-16	03-Nov-16	S	EUR-USD	1.1222	1.1125	Fade ECB-taper talk, potential US resilience	+1.00
9	12-Oct-16	04-Nov-16	S	GBP-USD	1.2271	1.2464	Fade GBP-USD upticks	-1.50
10	25-Aug-16	07-Nov-16	B	USD-SGD	1.3527	1.3866	Moderating net inflows in Asia, potential for broad USD uptick	+2.39
	Jan-Sep 2016 Return							+8.27

Source: OCBC Bank

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