

Friday, January 08, 2016

FX Themes/Strategy/Trading Ideas

- Markets may continue to trade on two streams, with the USD likely hesitating against selected majors like the EUR as market suspicions (note dovish comments from the Fed's Evans and the softer UST curve) towards the Fed's rate hike intentions intensify. Meanwhile, beyond the dollar narrative, expect the cyclicals to continue to underperform across the board and the JPY to continue to benefit with the markets still in the throes of global economic concerns. To this end, China concerns are expected to continue to hog the spotlight into the end of the week ahead of the
- With global equities/commodities still scrapping the bottom of the barrel with yet another day of weakness, **FXSI (FX Sentiment Index)** bled further into **Risk-Off** territory on Thursday but the more stable USD-CNY mid-point may impart some relatively calmer conditions ahead of the US nonfarm numbers tonight (1330 GMT). Overall, we think participants may choose to view the calmer conditions at this juncture as a temporary lull.

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

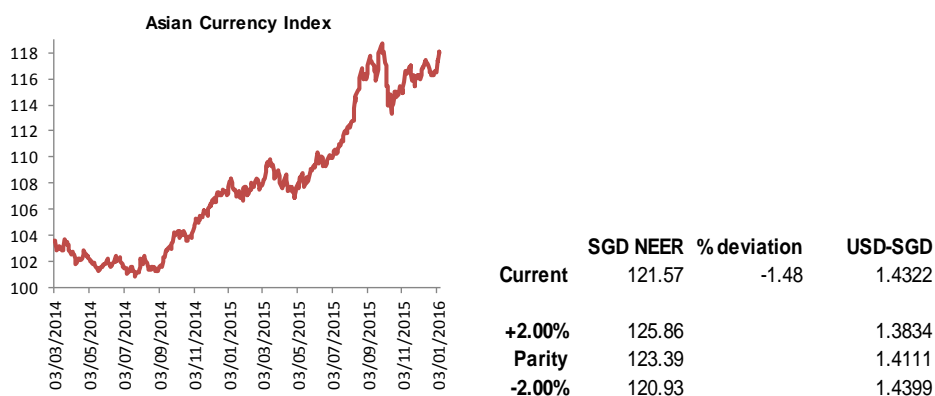
Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

Asian FX

- Sentiment in Asia remains fragile to say the least although this may be mitigated by steadier Chinese and regional equities early Friday. After climbing higher again on Thursday, the **ACI (Asian Currency Index)** may look to consolidate pending the US labor market numbers during the NY session.
- The USD-CNY mid-point was fixed at 6.5636 (6.5646 on Thursday). This should impart some stability to global and regional markets intra-day. However, beyond the headlines our estimated **CFETS RMB Index** is registering 99.96, a drop from an implied 100.53 on Thursday. Note that the softer broad dollar overnight would have softened the implied CFETS RMB Index, implying that the Chinese authorities would not have to lean against the wind, allowing a relatively static mid-point compared to Thursday.
- Structurally, we continue to think that the **CNY NEER** may continue to be guided lower to reflect underlying macro/balance of payments fundamentals (note the continued drop in foreign reserves in December 2015). Going ahead therefore, investors are expected to be prepped for a resumption of upside surprises in the USD-CNY mid-points if broad dollar strength regains traction.
- This morning, the **SGD NEER** slightly "firmer" relative to its perceived parity at around -1.54% below its perceived parity (1.4110). NEER-implied USD-

SGD thresholds are softer on the day in the wake of broad dollar moves overnight and the -2.00% lower extreme of the fluctuation band is estimated at 1.4400 currently. The NEER skated near its extreme weak-end boundary during the Asian morning on Thursday but pressure was subsequently alleviated as the USD-CNH retraced lower. Nevertheless, any resumption of risk aversion or CNY-related concerns may pull the NEER lower once again. Pending further headline risk, USD-SGD may base out towards 1.4300.

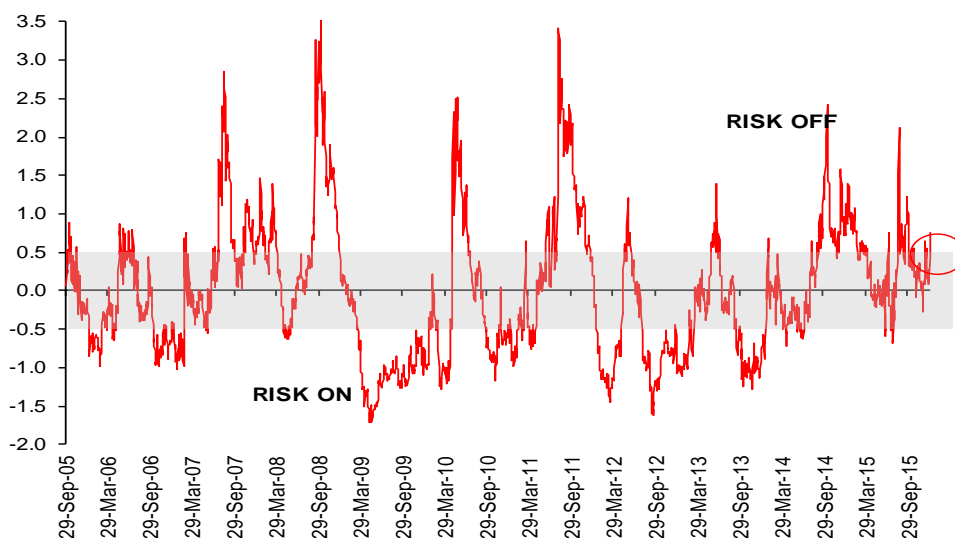


Source: OCBC Bank

G7

- EUR-USD** Broad dollar hesitation and better than expected December EZ confidence indicators and unemployment rate (mixed with suspected short covering) pushed the EUR-USD higher on Thursday and the pair may continue to base build pending the US NFP numbers. The 55-day MA (1.0837) may provide interim support with 1.1000 capping for now.
- USD-JPY** Some capitulation higher in the pair may be expected if risk aversion alleviates slightly. Expect a locus around 118.50 to prevail intra-day while 117.50 may remain on the table if the US NFP disappoints or risk aversion heightens once again.
- AUD-USD** The pair may remain anchored in the vicinity of 0.7050/70 pending risk appetite fluctuations. We note that a generally downbeat macro/commodity landscape may still be in play, limiting upside for the pair to 0.7100 in the short term and investors may fade excessive upticks.
- GBP-USD** Given prevailing BOE/Brexit concerns, the pound may continue to exhibit discretionary vulnerability, with the GBP-USD unable to capitalize significantly on the selective dollar pullback overnight. As noted yesterday, stay heavy on the pair and at this juncture, 1.4600 remains in sight.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX
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

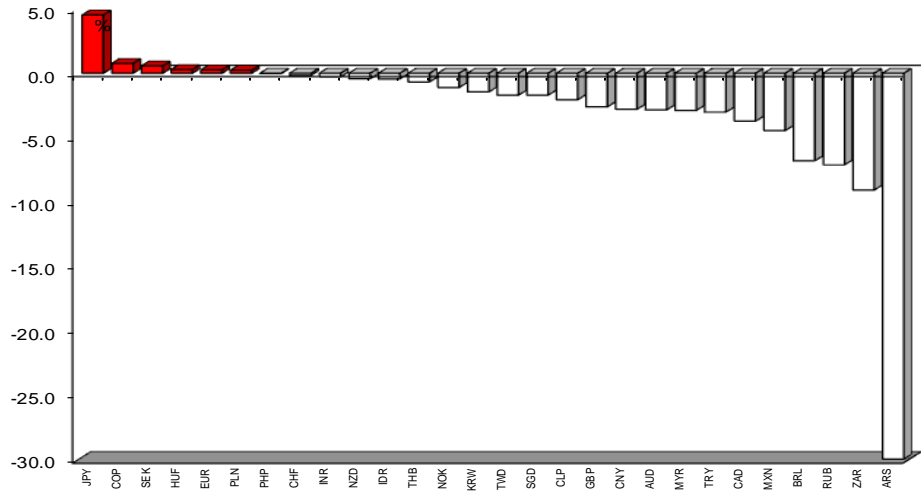
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0821	1.0900	1.0920	1.1000	1.1026
GBP-USD	1.4555	1.4600	1.4618	1.4700	1.5032
AUD-USD	0.6981	0.7000	0.7011	0.7030	0.7100
NZD-USD	0.6600	0.6615	0.6619	0.6667	0.6700
USD-CAD	1.3687	1.4100	1.4110	1.4121	1.4170
USD-JPY	117.00	117.33	117.63	117.76	118.00
USD-SGD	1.4127	1.4300	1.4334	1.4355	1.4400
EUR-SGD	1.5600	1.5646	1.5653	1.5700	1.5703
JPY-SGD	1.2100	1.2163	1.2186	1.2200	1.2247
GBP-SGD	2.0746	2.0900	2.0953	2.1000	2.1170
AUD-SGD	1.0020	1.0034	1.0049	1.0100	1.0162
Gold	1100.00	1103.78	1109.40	1109.90	1140.11
Silver	13.64	14.20	14.29	14.30	14.30

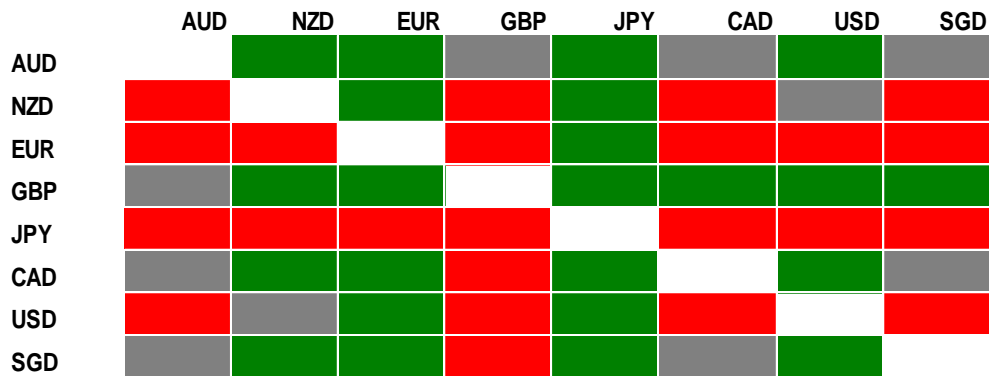
Source: OCBC Bank

FX performance: 1-month change agst USD



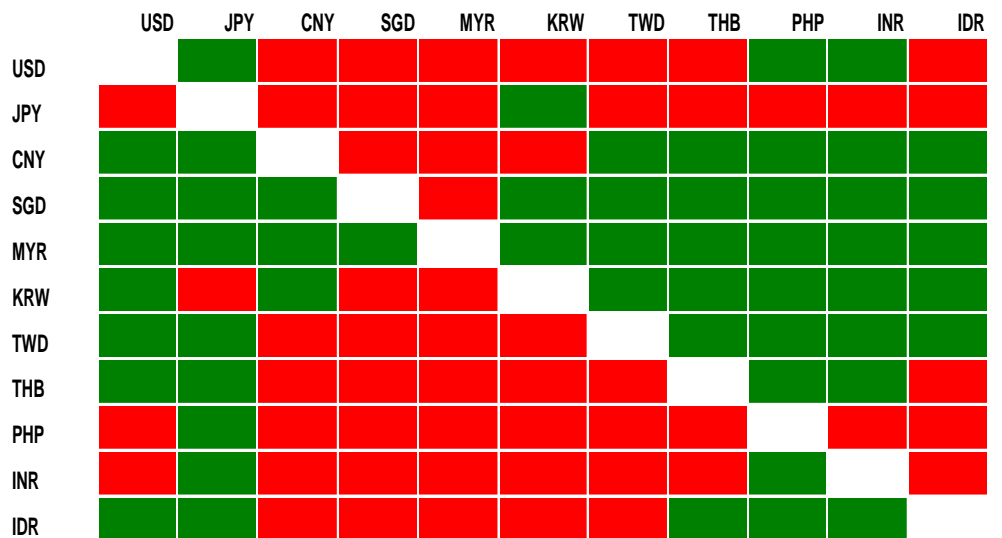
Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

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	116.20	119.90	Disappointment towards a less dovish than expected BOJ	
3	21-Dec-15	S	GBP-USD	1.4917	1.4330	1.4770	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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W