

Friday, April 08, 2016

FX Themes/Strategy/Trading Ideas

- Amid increasingly nervous global sentiment, expect the USD and the JPY to hold the upper hand against the likes of the commodity/cyclically linked currencies in the current session. Note that the **FXSI (FX Sentiment Index)** inched higher within Risk-Neutral territory on Thursday as EZ/US equities slid. Outside of the risk appetite dynamic, slight more sanguine comments from Yellen (and Williams) overnight may also grant the dollar marginal background support although these comments failed to prevent the US10y UST yield from slipping to 1.6906%.
- On the back of evaporating risk appetite, we took profit on our 03 Mar 16 idea to be tactically long **AUD-USD** (spot ref: 0.7284) at 0.7512 for an implied profit of +3.19% (Please refer to table **FX Trade Ideas**).
- With the downside pressure on the cyclicals gaining traction, we also took profit on our 29 Feb 16 idea to be tactically short **USD-CAD** (spot ref: 1.3533) at 1.3139 for an implied +2.98% profit.

Asian FX

- The positive dollar backdrop and negative Asian equities early on Friday should work to put a floor under USD-Asia today, with the **ACI (Asian Currency Index)** back above the 113.00 handle after dipping below in Asia on Thursday. Expect near term negative regional sentiment to outweigh the improvement in Asian foreign reserves numbers for the month of March.
- This morning, the **SGD NEER** is around +0.15% above its perceived parity (1.3554) with the +0.50% threshold estimated at around 1.3488. Risks for the index may be to remain heavy given the slightly sour sentiment across markets. The **MAS Monetary Policy Statement (MPS)** will be announced on **Thursday 14 Apr 16**, concurrently with the flash GDP numbers.
- To reiterate, our base case scenario is for no change in the current policy stance, with current parameters at +0.50% pa and a +/-2.00% band. With the inflation gauntlet not likely to be wholly abandoned by the authorities, we also do not expect a move to a neutral gradient (i.e., zero percent slope).
- We however entertain the probability for a tail risk event like a re-centering lower to below prevailing while maintaining the +0.50% gradient. Such a move we think would not materially dislocate the trajectory of the SGD NEER while it would also continue to demonstrate the authorities' vigilance towards a potential pickup in inflation pressures over their policy horizon. In this latter

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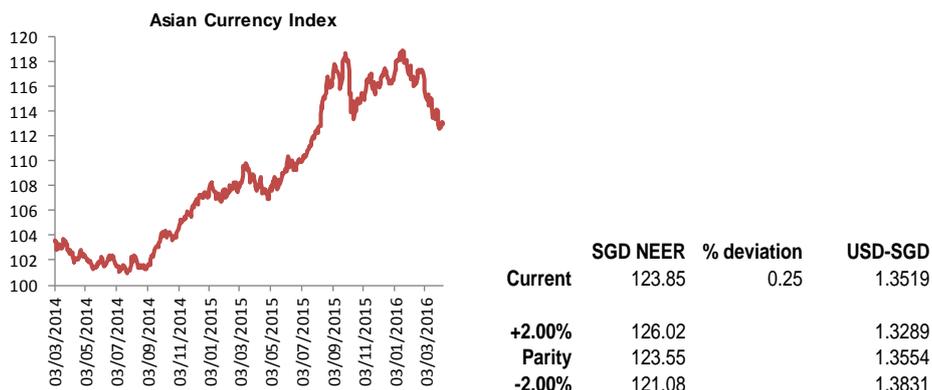
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scenario , expect short-end FX implied rates (not to mention the USD-SGD) to ratchet higher in a knee jerk reaction. Note that a 1% re-centering lower would translate into an immediate approximate 133 pips move in the perceived parity for the USD-SGD.

- The **USD-CNY mid-point** was set slightly higher at 6.4733 (6.4707 on Thursday), lifting the CFETS RMB Index higher (as expected) to 97.64 from 97.58 yesterday. Despite March 16 foreign reserves coming in at a better than expected USD3.21tn, we note that prevailing structural pressures for the Index to continue to undergo gradual depreciation remains intact.

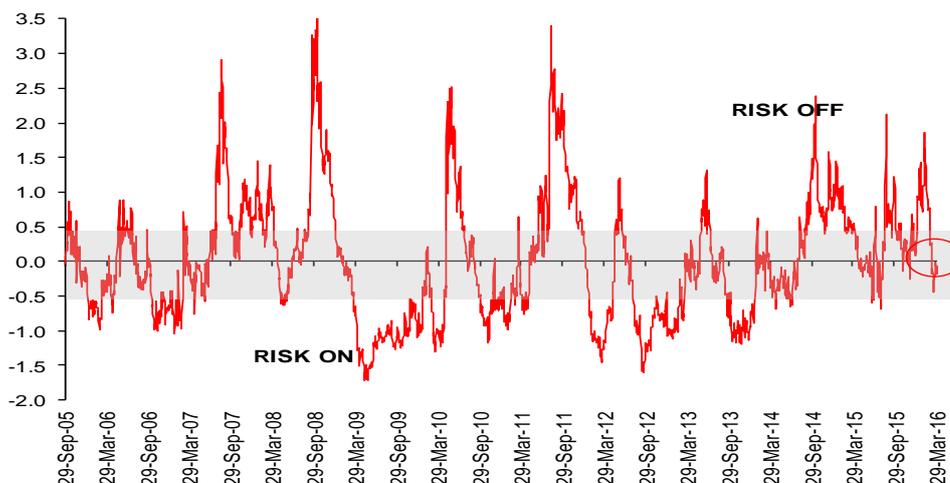


Source: OCBC Bank

G7

- **EUR-USD** The EUR-USD has continued to remain largely unfazed amid the slight jitters on the risk appetite front and renewed dovish commentary out of the ECB. We attribute this partially to underlying skepticism towards discretionary dollar outperformance and expect the pair to remain trapped in 1.1300-1.1450 range pending further catalysts.
- **USD-JPY** Japan’s Fin Min Aso and the government’s chief spokesman Suga stepped up the level of official jawboning against yen volatility early this morning and expect investor caution to rise in the near term. At this juncture, the line in the sand as perceived by the markets is expected to be at 105.00.
- **AUD-USD** The AUD-USD may continue to feel the heat from shades of risk aversion, keeping the pair clear of the 0.7600 ceiling. If 0.7500 is breached, expect further capitulation towards 0.7465.
- **GBP-USD** With negative news flow surrounding the Dutch referendum and EUR-GBP lifting higher again, expect GBP-USD to remain tempted towards 1.4000 into the end of the week.

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

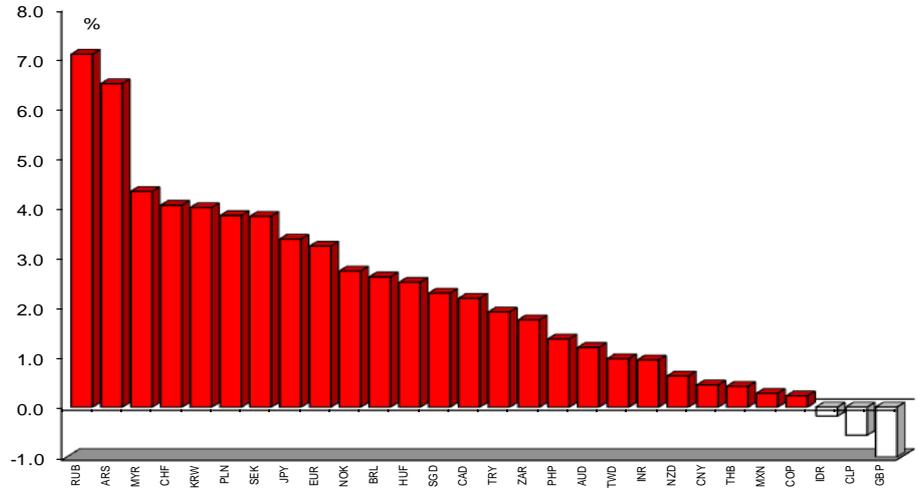
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1155	1.1300	1.1361	1.1400	1.1454
GBP-USD	1.3994	1.4000	1.4067	1.4100	1.4265
AUD-USD	0.7451	0.7500	0.7531	0.7600	0.7695
NZD-USD	0.6700	0.6704	0.6789	0.6800	0.6939
USD-CAD	1.2909	1.3100	1.3142	1.3200	1.3328
USD-JPY	107.67	108.00	108.87	108.90	109.00
USD-SGD	1.3415	1.3500	1.3518	1.3600	1.3780
EUR-SGD	1.5223	1.5300	1.5357	1.5400	1.5411
JPY-SGD	1.2400	1.2407	1.2416	1.2500	1.2553
GBP-SGD	1.8971	1.9000	1.9016	1.9100	1.9718
AUD-SGD	1.0170	1.0179	1.0181	1.0200	1.0401
Gold	1208.68	1220.50	1238.00	1261.85	1287.80
Silver	14.88	15.10	15.20	15.20	15.22

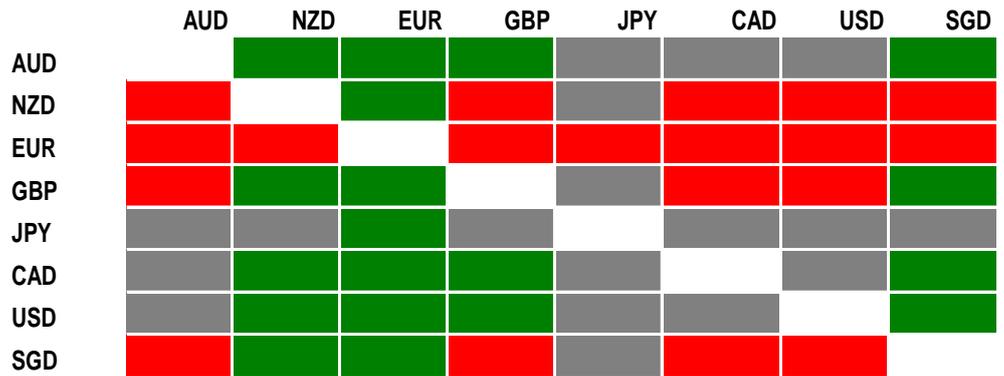
Source: OCBC Bank

FX performance: 1-month change agst USD



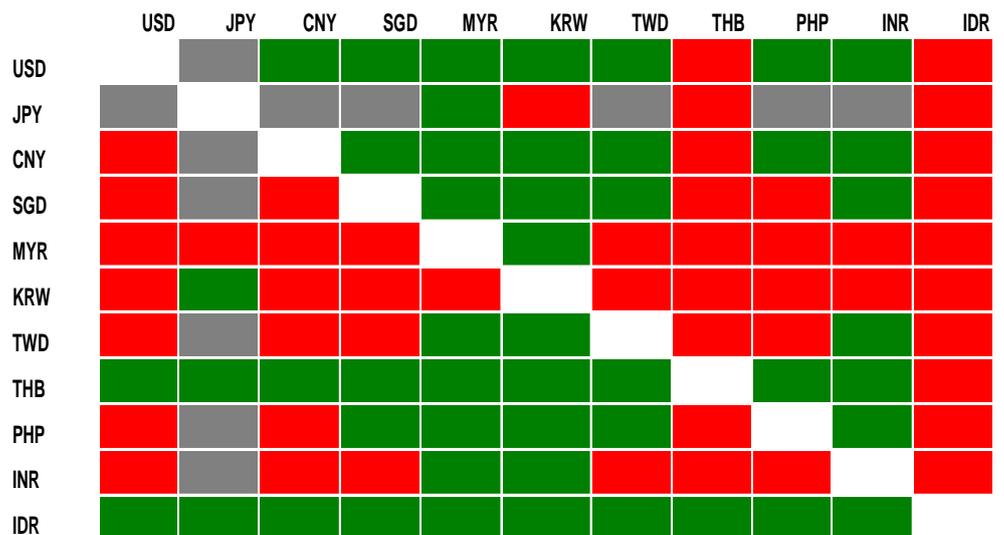
Source: Bloomberg

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	04-Mar-16	S	USD-SGD	1.3881	1.3380	1.3755	Brightening risk appetite, vulnerable broad dollar	
2	30-Mar-16	B	EUR-USD	1.1297	1.1630	1.1130	Dollar negativity post-Yellen	
STRUCTURAL								
3	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29
2	14-Mar-16	15-Mar-16	B	GBP-USD	1.4380	1.4180	Abating Brexit concerns, potential for Yellen to underwhelm	-1.41
3	18-Mar-16	24-Mar-16	B	EUR-USD	1.1321	1.1150	Tilt in policy balance after ECB and FOMC	-1.53
4	18-Feb-16	31-Mar-16	S	USD-SGD	1.4034	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	+4.54
5	03-Mar-16	08-Apr-16	B	AUD-USD	0.7284	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie	+3.19
6	29-Feb-16	08-Apr-16	S	USD-CAD	1.3533	1.3139	Bottoming crude	+2.98

Source: OCBC Bank

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