

Thursday, September 08, 2016

FX Themes/Strategy/Trading Ideas

- The broad dollar continued to look its wounds on Wednesday after its drubbing on Tuesday with the majors exhibiting minor reactions to domestic headlines instead. The dollar also found little respite from a somewhat supportive Beige Book report and comments from the Fed's Lacker (case for Sep hike remains strong) and Esther George ("at or near full employment"), although UST yields remained supported. FF futures meanwhile still remained sufficiently skeptical.
- The **Bank of Canada** remained static at 0.50% as expected. On other fronts, amid supportive EZ/US equities, risk appetite levels continued improve with the **FXSI (FX Sentiment Index)** inching lower for the fourth consecutive session within Risk-Neutral territory. In Asian hours, look also towards the August trade numbers for **China**, although we note that August foreign reserve numbers had already dipped slightly to USD3.185tn from USD3.201tn the previous month.
- Today, the highlight is expected to be the **ECB's** policy meeting (1145 GMT) and although no change to the policy parameters are expected, investors may be bracing for a more dovish than expected tone from Draghi (1230 GMT), who is already widely tipped to elaborate further on prospects for an extension of the asset purchase program.
- Our 12 Apr 16 idea to be structurally long **NZD-USD** (spot ref: 0.6885) was closed out at the designated level of 0.7450 on Wednesday for an implied +8.37% gain.

Asian FX

- USD-Asia may remain inherently top heavy in the current dollar environment with the **Asian Currency Index (ACI)** still looking generally suppressed on a multi-session horizon. Outside of the North Asian (KRW, TWD) remaining soft in tandem with the USD-JPY, the SGD and IDR we think remain relatively more attentive to dollar vulnerability.
- The **SGD NEER** is still conspicuously north of its perceived parity (1.3543) at around +0.57%, albeit a touch softer on the day. NEER-implied USD-SGD thresholds are firmer on the day, with the +0.50% threshold corresponding to 1.3476 and +1.00% at 1.3409. Technically, the 55-day MA (1.3500) resides overhead while the psychological 1.3400 floor may support on initial dips pending further external cues.

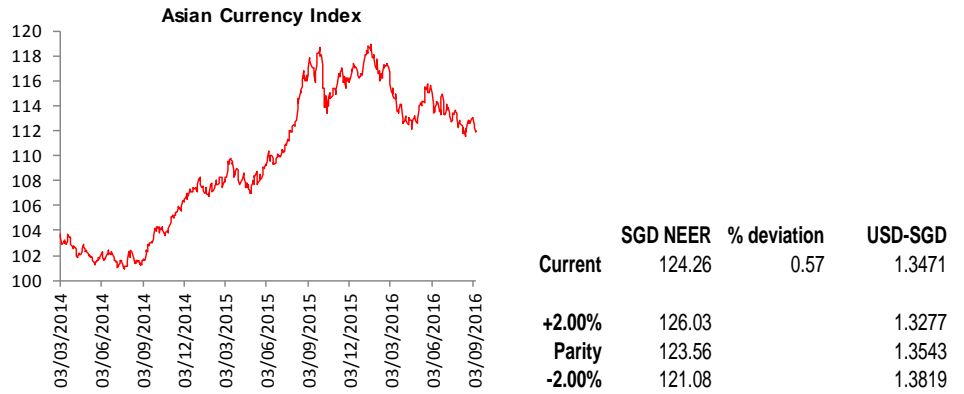
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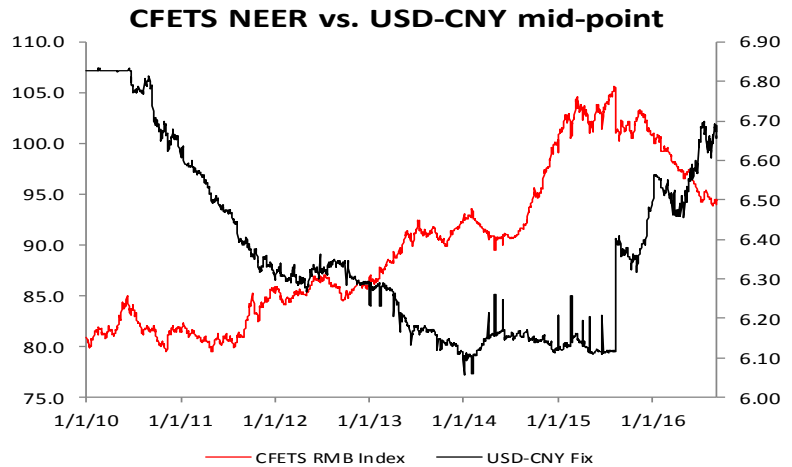
Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com



Source: OCBC Bank

- After the notable drop in the **CFETS RMB Index** on Wednesday, the Index dipped further to 94.03 on Thursday, with the USD-CNY midpoint gaining to 6.6620 from 6.6555 the previous day. Suffice to say that evidence of any cessation of a depreciation policy of the Index remains fairly lacking at this juncture.



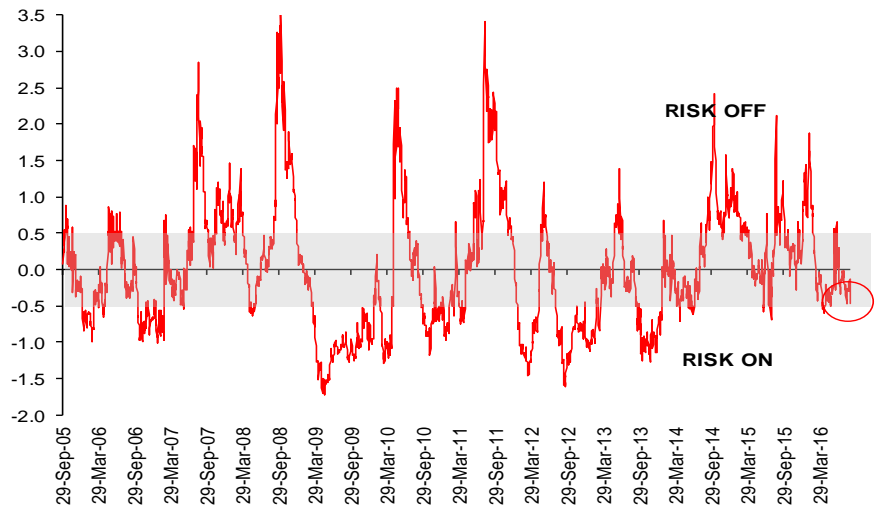
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** The EUR-USD remained largely range bound despite soft EZ bond yields while the ECB meeting later today may set multi-session directionality. In the interim, 1.1200 and the 55-day MA (1.1141) may put a floor on near term dips with 1.1300 expected to be a good interim resistance.
- **USD-JPY** USD-JPY tested yet lower below 101.50 in early trade on Wednesday on a report of internal discord within the BOJ although the pair managed to retrace partially by late NY. Investors will be keyed into the BOJ Nakaso’s appearance at 0430 GMT for further clues. In the interim, the USD-JPY may remain trapped by 101.00 below while the 55-day MA (102.63) is expected to limit on near term tests higher. Fed-speak is absent today till Friday when Rosengren and Kaplan are scheduled to make appearances.

- AUD-USD** The AUD has been a beneficiary of broad-based USD weakness while the smaller than expected July trade deficit reported this morning may also underpin the pair in the near term. With risk appetite levels also on the mend, expect the 0.7600 floor and the 55-day MA (0.7569) to buffer on the downside. At this juncture, any move above 0.7700 may require fresh dollar vulnerability.
- GBP-USD** GBP-USD slipped lower on disappointing July manufacturing numbers and with the BOE's Carney remaining sufficiently dovish on Wednesday. With little in the way of domestic data points today, the ECB meeting may be expected to exert some influence. Barring undue negativity from the EUR, GBP-USD may continue to contemplate the 1.3500 resistance, especially if the EUR-GBP remains top heavy.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXX	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

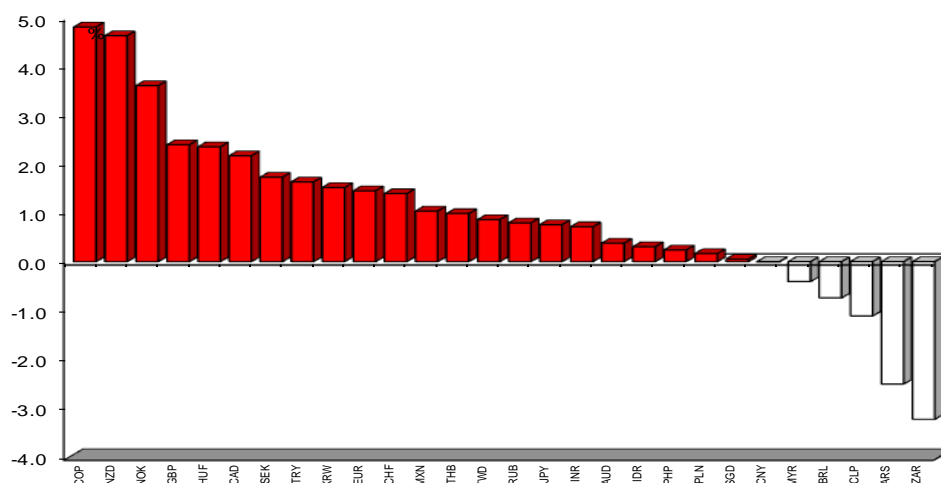
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1146	1.1200	1.1249	1.1300	1.1364
GBP-USD	1.3149	1.3300	1.3353	1.3400	1.3450
AUD-USD	0.7582	0.7600	0.7680	0.7700	0.7730
NZD-USD	0.7400	0.7433	0.7466	0.7486	0.7500
USD-CAD	1.2764	1.2800	1.2875	1.2900	1.3007
USD-JPY	99.54	101.00	101.67	102.00	102.64
USD-SGD	1.3353	1.3400	1.3457	1.3486	1.3500
EUR-SGD	1.5028	1.5100	1.5139	1.5200	1.5300
JPY-SGD	1.3147	1.3200	1.3237	1.3300	1.3517
GBP-SGD	1.7733	1.7900	1.7970	1.8000	1.8155
AUD-SGD	1.0225	1.0300	1.0336	1.0345	1.0400
Gold	1306.93	1337.99	1345.80	1361.09	1366.80
Silver	19.68	19.70	19.80	19.80	20.37
Crude	45.70	46.00	46.40	49.11	49.39

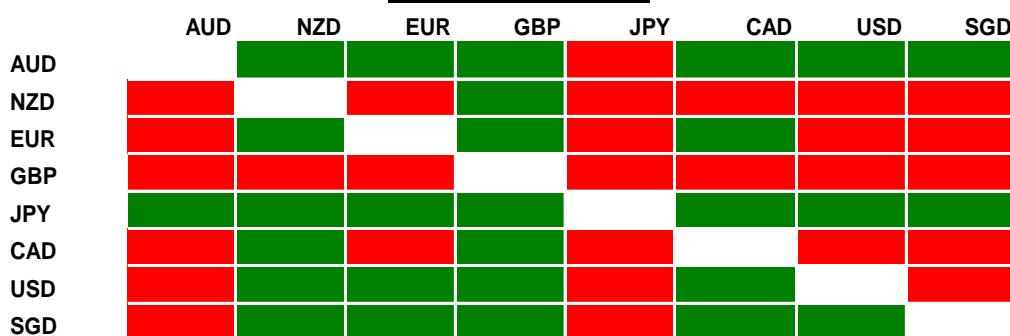
Source: OCBC Bank

FX performance: 1-month change agst USD



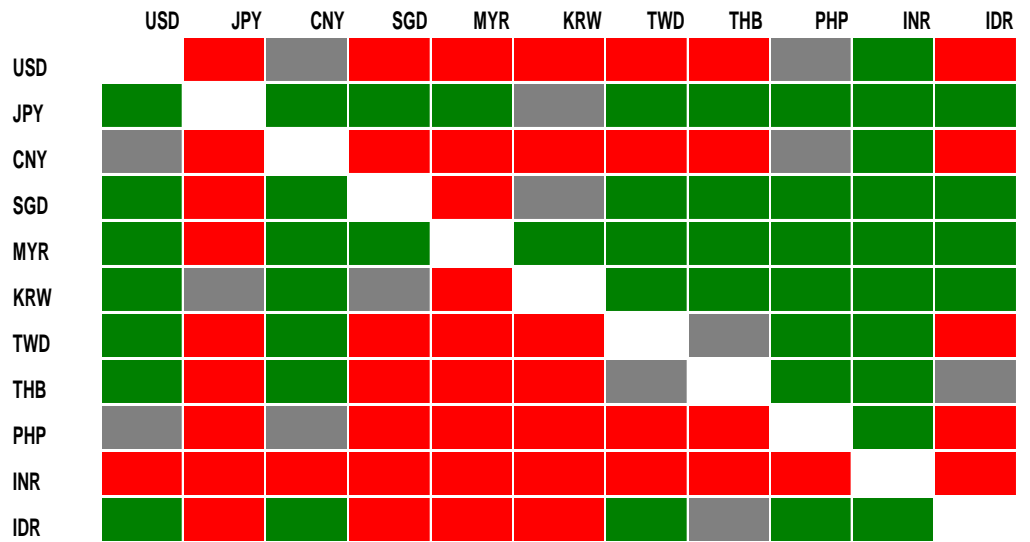
Source: Bloomberg

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	
TACTICAL								
1	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
3	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
4	01-Sep-16	B	USD-JPY	103.33	108.15	100.90	Ahead of NFP numbers and BOJ MPC	
STRUCTURAL								
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
7	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
8	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
9	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
10	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	28-Jun-16	15-Aug-16	B	USD-CAD	1.2991	1.2805	Concerns over the global deflationary impact from Brexit	-0.23
2	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
3	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
4	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
5	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
6	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclicals, search for yield	8.37
Jan-Aug 2016 Return								+7.80

Source: OCBC Bank

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