

Tuesday, May 10, 2016

FX Themes/Strategy/Trading Ideas

- The dollar climbed across the board on Monday on dissolving risk appetite, especially against the cyclicals as well as the JPY. The JPY also underperformed against its peers with particularly strident intervention warnings from Fin Min Aso (reiterated again on Tues morning) spooked an already jittery market.
- Overall, the unwind of the prior reflation trade and investors increasing cautious towards Fed rhetoric may continue to underpin the dollar in the coming sessions. As noted previously, we think Fed members may take this opportunity to attempt to realign market implied expectations of further rate hikes.
- Following the hawkish comments from Dudley on Friday, the Fed's Kashkari and Evans on Monday came across as even handed although the former left the door open for a June rate hike. Stay tuned for more Fed commentary with Dudley scheduled at 0715 GMT today.
- With regards to risk appetite, expect a healthy degree of caution (yet softer commodities/UST yields with a flattening from the back-end) to persist despite the **FXSI (FX Sentiment Index)** edging a touch lower on Monday within Risk-Neutral territory.
- With investors likely to remain nervous towards the region ahead of Fed-speak this week, we look to a tactical long **USD-SGD** on Monday. With a spot ref at 1.3623, we target 1.3885 and place a stop at 1.3490.
- Disappointing Canadian April labor market numbers on Friday and the deteriorating growth outlook (note markets implicitly pricing in a dovish Bank of Canada) may pull the **USD-CAD** higher in the near term, especially if the broad dollar also bounces higher across G7 space. From a spot ref of 1.2929 on Monday, we target 1.3310 with a stop placed at 1.2735.

Asian FX

- With EM FX feeling the heat from the dollar on Monday and USD-CNH continuing to climb overnight, expect regional currencies to remain vulnerable to the greenback with the **Asian Currency Index (ACI)** to continue to test higher (inherent USD strength).
- The **SGD NEER** is trading around -0.61% below its perceived parity (1.3640) this morning with the basket's relative position weaker from a day ago. To

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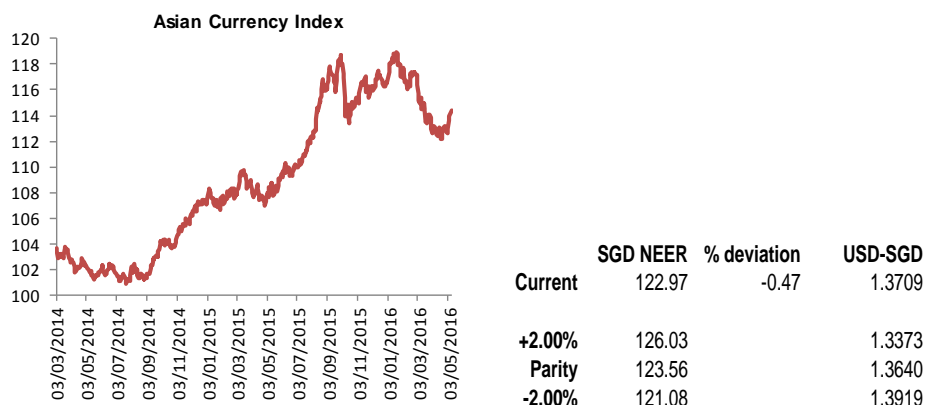
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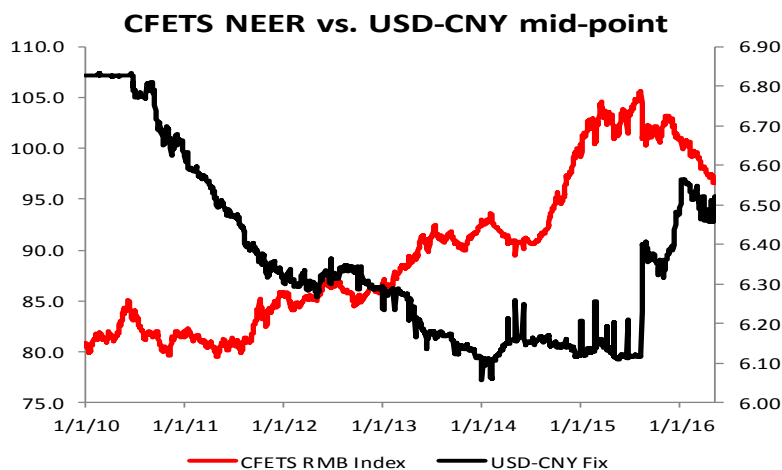
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boot, NEER-implied USD-SGD thresholds are also noticeable firmer on the day with the (fast closing) -1.00% level estimated at around 1.3778. Risk for the USD-SGD remains tilted towards the upside, with the 55-day MA (1.3641) now serving as a support of sorts after being violated without much hesitation yesterday.



Source: OCBC Bank

- The **CFETS RMB Index** firmed slightly to 97.02 on Tuesday from 96.89 on Monday, with the Index firming partially (not fully) in reaction to overnight moves in the constituent currencies. This brought the USD-CNY mid-point to 6.5233 (roughly in line with expectations) compared to 6.5105 on Monday.



Source: OCBC Bank, Bloomberg

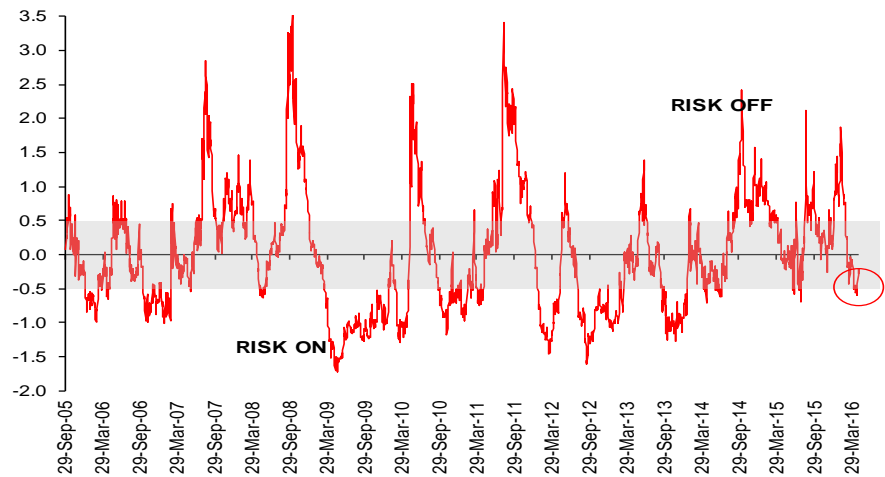
G7

- **EUR-USD** Despite the significantly better than expected German March factory orders (+1.9% mom) on Monday, the EUR-USD may continue to fade in the face of a firming broad dollar in the near term. In the near term, a sustained break of 1.1400 risks a drop to 1.1365 before 1.1300.
- **USD-JPY** Investor caution in the wake of increasingly vocal Japanese official jawboning may play into the hands of a firming broad dollar backdrop. Near term risks for the USD-JPY remain oriented towards the upside at this

junction after the violation of 108.00 and 109.40 cannot be discounted.

- AUD-USD** Underlying softness in the pair may continue to prevail given the current dollar/commodity backdrop. Further decay towards the 200-day MA (0.7261) cannot be ruled out if the 0.7300 floor is punctured. On the upside, the 100-day MA (0.7339) now serves as an interim ceiling.
- GBP-USD** A supported USD backdrop and re-emerging Brexit worries (conflicting results from YouGov and ICM polls) worked to suppress the GBP-USD on Monday and risks remain on the downside in the session ahead. The BOE MPC and Inflation Report this week on Thursday in addition to Finance Minister Osborne’s comments on EU membership scheduled for Wednesday are likely to pose significant headline risks. A violation of 1.4400 paves the way to the 100-day MA (1.4368) ahead of the 55-day MA (1.4282).

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

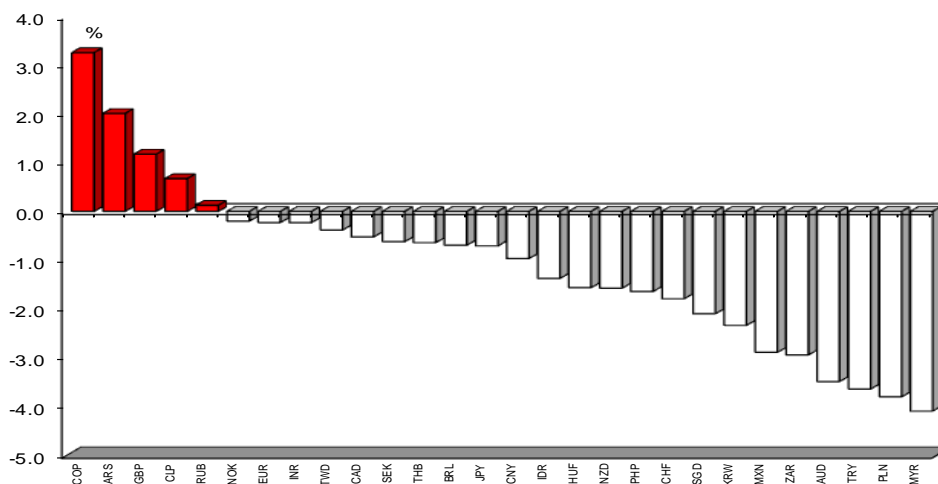
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1272	1.1300	1.1381	1.1400	1.1523
GBP-USD	1.4317	1.4400	1.4407	1.4500	1.4712
AUD-USD	0.7300	0.7304	0.7327	0.7400	0.7568
NZD-USD	0.6733	0.6742	0.6749	0.6800	0.6818
USD-CAD	1.2473	1.2900	1.2975	1.2986	1.3000
USD-JPY	105.55	108.00	108.72	109.00	110.72
USD-SGD	1.3700	1.3705	1.3710	1.3730	1.3800
EUR-SGD	1.5450	1.5470	1.5500	1.5629	1.5655
JPY-SGD	1.2282	1.2600	1.2678	1.2700	1.2788
GBP-SGD	1.9457	1.9700	1.9749	1.9796	1.9800
AUD-SGD	1.0100	1.0136	1.0168	1.0200	1.0286
Gold	1214.44	1249.08	1264.80	1300.00	1302.49
Silver	16.14	16.90	16.96	17.00	17.98
Crude	40.13	43.00	43.30	43.30	46.67

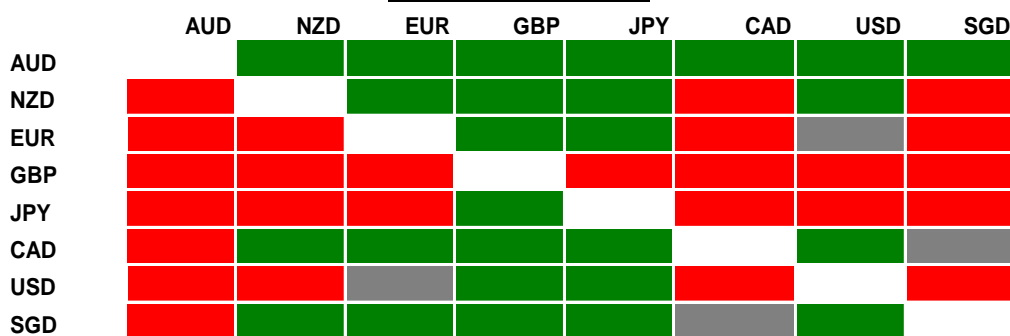
Source: OCBC Bank

FX performance: 1-month change agst USD



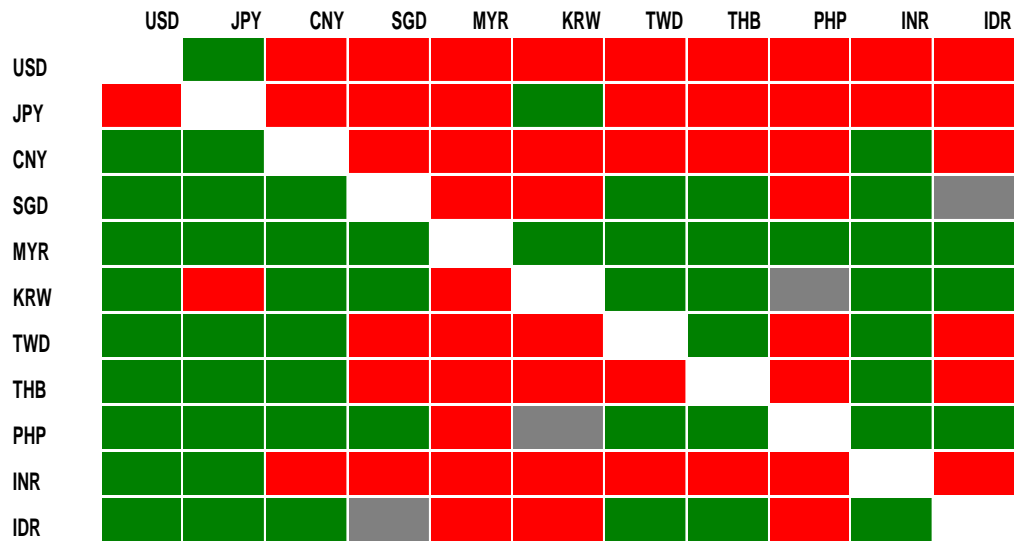
Source: Bloomberg

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	29-Apr-16	S	AUD-USD	0.7626	0.7095	0.7490	Negativity post 1Q CPI numbers		
2	04-May-16	S	USD-JPY	107.21	103.60	109.00	USD vulnerability pre-NFP, potential risk aversion		
3	04-May-16	B	EUR-USD	1.1482	1.1785	1.1325	Rate differentials in the EUR's favor		
4	09-May-16	B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak		
5	09-May-16	B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook		
STRUCTURAL									
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate		
7	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries		
8	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations		
9	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC		
10	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield		
11	19-Apr-16	S	USD-SGD	1.3439	1.2835	1.3740	Potential for further broad USD decay, positive risk appetite		
RECENTLY CLOSED									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	11-Apr-16	14-Apr-16	S	USD-JPY	107.72	109.50	JPY still not drastically overvalued, endemic USD weakness	-1.63	
2	04-Mar-16	14-Apr-16	S	USD-SGD	1.3881	1.3634	Brightening risk appetite, vulnerable broad dollar	+1.81	
3	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05	
4	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65	
5	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
6	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.2425	1.3040	Bottoming crude prices	-0.24
7	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4785	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39

Source: OCBC Bank

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