

Wednesday, May 11, 2016

FX Themes/Strategy/Trading Ideas

- With little in the way of a unified fundamental driver, the dollar ended mixed against the majors with a slight bounce in risk appetite underpinning the AUD and the CAD. Late Tues/early Wed, the NZD-USD also bounced higher to the 0.6800 handle after the RBNZ failed to unveil further housing measures as some had earlier expected.
- Elsewhere, the USD-JPY surfaced above 109.00 on background jitters towards the MOF (latest jawboning from PM advisor Hamada) while slightly more positive risk appetite levels also pressured the JPY lower against the majors. On this front, positive global equities/commodities and tighter EM risk premiums saw the **FXSI (FX Sentiment Index)** soften within Risk-Neutral territory on Tuesday.
- Intra-day, markets may remain bereft of strong Fed cues, with Mester, Rosengren, and George scheduled to make appearances tomorrow. In the interim, the JPY may continue to hold the market's attention while reacting to risk appetite fluctuations.
- Our 04 May 16 idea to be tactically short **USD-JPY** (spot ref: 107.21) was stopped out on Tuesday at 109.00 for an implied -1.66% loss as the pair continued to climb in the wake of USD position adjustments and background caution towards the MOF/BOJ.
- With the USD still looking potentially to regain traction in the near term after firming since inception, we close out our 04 May 16 idea to be tactically long **EUR-USD** (spot ref: 1.1482) at 1.1372 for an implied -0.99% loss.

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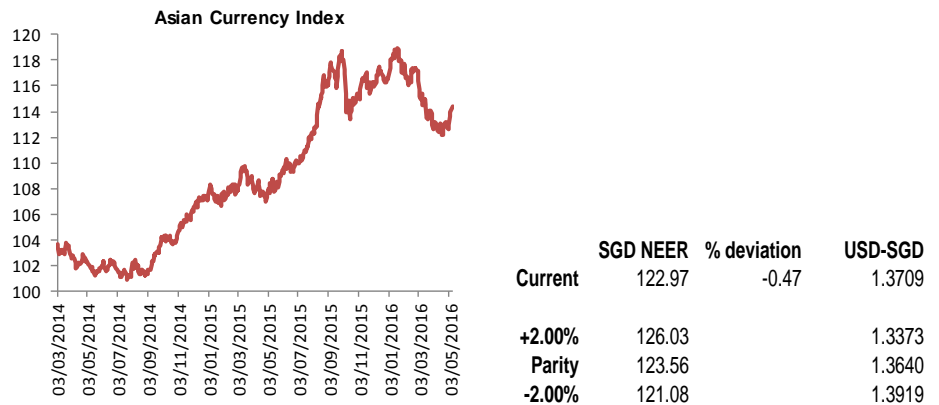
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Asian FX

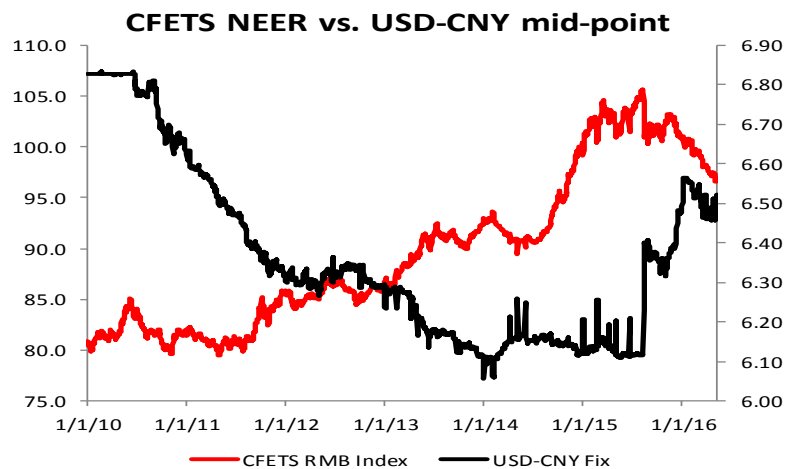
- The complexion for EM FX looked slightly rosier overnight and with Asian equities taking positive cues off Wall Street early on Wednesday, the **Asian Currency Index (ACI)** should seek lower ground intra-day. Ahead, the **Bank of Thailand** is expected by the markets to remain static at 1.50% although we note markets in general have overlaid a more dovish outlook for regional central banks in recent months. Look also to China's monetary aggregates in the latter half of this week to be a potential headline mover.
- With the risk appetite environment slightly less hostile and the broad dollar wavering, the **SGD NEER** is slightly firmer relative to its perceived mid-point (1.3631) at around -0.31% this morning. NEER-implied USD-SGD thresholds are also slightly easier on the day with +0.50% estimated at 1.3563 and -

0.50% at 1.3700. In the near term, support is expected at parity and the 55-day MA (1.3634) with 1.3730 likely to cap pending further external cues.



Source: OCBC Bank

- This morning, the **CFETS RMB Index** ticked higher slightly (in line with movements in the basket constituents) to 97.08 from 97.02 on Tuesday. This saw the USD-CNY mid-point softening slightly to 6.5209 compared to Tuesday's fix of 6.5233. Official fixing behavior has been slightly mechanical in the past two sessions, perhaps indicating a slight pause in discretionary guidance.



Source: OCBC Bank, Bloomberg

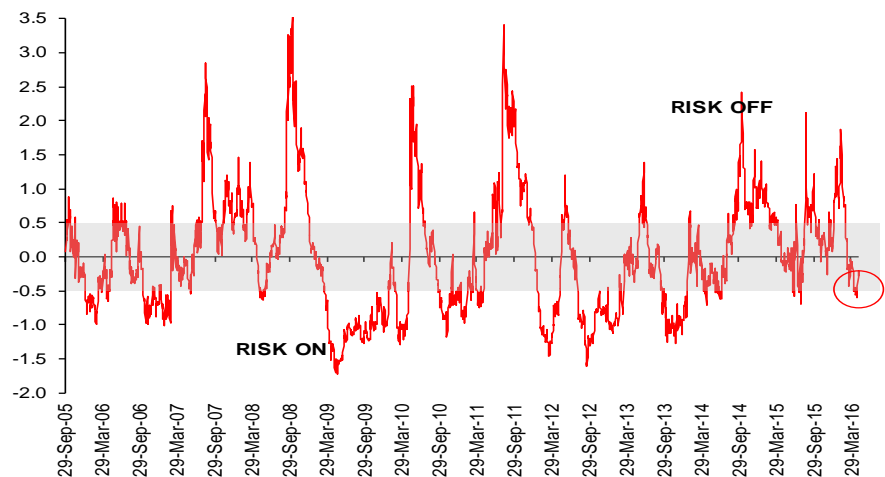
G7

- **EUR-USD** Slightly positive Greek-related news flow failed to boost the EUR-USD on Tuesday although we would point to weak German trade numbers for March. After failing to break new ground on the upside in the last few sessions, the pair may be content to revisit the 1.1300-1.1400 with the near term option surface also abandoning upside risks at this juncture.
- **USD-JPY** Although the bar for eventual intervention in the USD-JPY is perceived to be distance away (either in terms of valuation but more likely on volatility considerations), investors may attempt to map out the near term

topside towards 110.00 with the 55-day MA (110.90) a subsequent resistance.

- AUD-USD** A more benign risk appetite backdrop, the 0.7300 floor may prevail in the near term with the pair potentially contemplating the next psychological ceiling at 0.7400. We would however continue to monitor China equity/commodity news flow for near term cues.
- GBP-USD** GBP-USD chopped gently higher on Tuesday as broad dollar resilience took a hiatus. Expect markets to be reduced to headline watching in the near term with the two-day BOE MPC commencing today. For today, look towards March industrial production numbers but more importantly, comments from the Osborne with respect to Brexit. In the interim, the 100-day MA (1.4365) should cushion with 1.4540 book-ending the topside. Like the EUR-USD, the GBP-USD had also failed to achieve a range break on the upside in recent sessions, although outright USD strength may remain on hold pending further event risks.

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

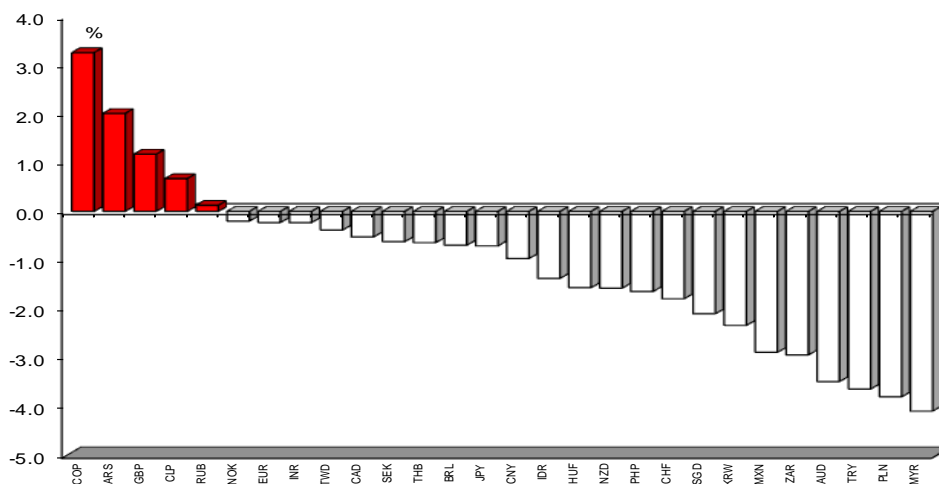
Source: Bloomberg

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

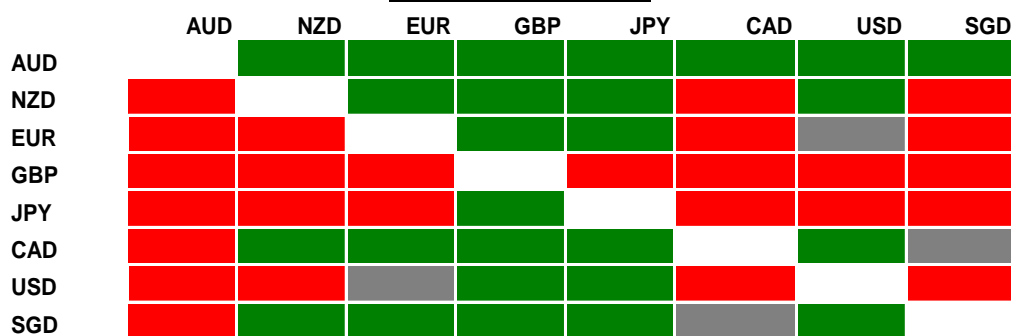
Source: OCBC Bank

FX performance: 1-month change agst USD



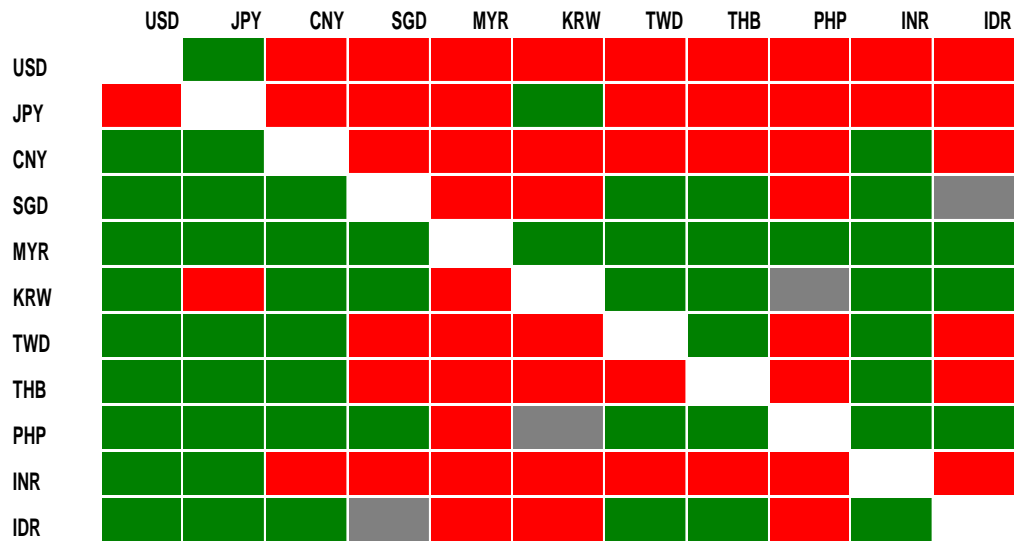
Source: Bloomberg

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	09-May-16	B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak	
3	09-May-16	B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook	
STRUCTURAL								
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	
7	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
8	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
9	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	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
6	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.3040	Bottoming crude prices	-0.24
7	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39
8	04-May-16	10-May-16	S	USD-JPY	107.21	109.00	USD vulnerability pre-NFP, potential risk aversion	-1.66
9	04-May-16	11-May-16	B	EUR-USD	1.1482	1.1372	Rate differentials in the EUR's favor	-0.99

Source: OCBC Bank

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