

Friday, February 12, 2016

FX Themes/Strategy/Trading Ideas

- Despite a weaned strong dollar dynamic (note Yellen's non-committal tone over the last two sessions), markets may trade with a slightly more introspective tone into the end of the week with Fin Min/BOJ jawboning nothing less than explicit this morning and yesterday. However, oil prices in the doldrums and shaky global equities mimicking global long yields (note Riksbank cut its benchmark rate to -0.50% from -0.35% on Thu) imply that risk aversion dynamics remain prevalent, especially for EM/Asia.
- Amid the plunge in the **USD-JPY** and its subsequent bounce on Thursday, we took profit on our 10 Feb 16 idea to be tactically short USD-JPY (spot ref: 114.50) at 112.62 for an implied +1.67% gain. The steep descent of the pair in the month to date may prompt over valuation concerns may continue to instigate official jawboning/market presence despite a weak broad dollar backdrop.
- With the USD continuing to soften in Asia on Wednesday, our 04 Feb 16 idea to be tactically short **USD-SGD** (spot ref: 1.4158) reached its 1.3915 objective on Wednesday. Ahead of Yellen's testimony to the House Financial Services committee, we extended our target to 1.3680, trailing the stop to 1.4035.
- On a more structural note, our 29 Dec 15 idea to be bearish **USD-JPY** (spot ref: 120.25) paid off on 10 Feb 16 when the pair arrived at its 113.45 objective, yielding an implied +5.86% gain (Please see Table at the end of the report). Damage to the broad USD narrative is increasingly apparent although it remains to be seen if this is irrevocable at this juncture.

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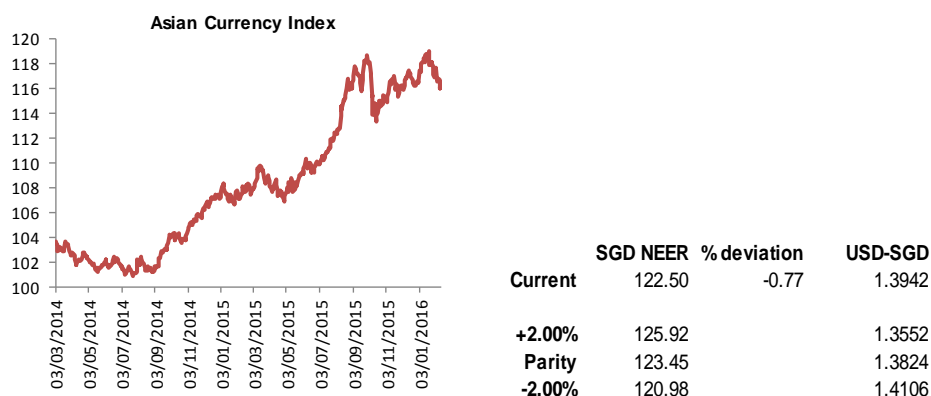
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Asian FX

- The tug of war between soggy regional equities, risk aversion lurking in the background, and a vulnerable broad dollar may imply that downside potential for the **ACI (Asian Currency Index)** may be limited into the end of the week.
- This morning, the **SGD NEER** is approximately -0.54% below its perceived parity (1.3819). Currently, the -2.00% lower boundary of the NEER fluctuation band is estimated at 1.4101, although market attention may be more focused on the parity instead, where a natural interim floor for the USD-SGD may be expected. In the month to date, the SGD NEER has been buoyed significantly by SGD outperformance against the USD (and MYR) while the broadly stronger JPY has been a drag on the SGD against the basket. Going ahead, broad dollar and JPY volatility may continue to push

the index around, although still weak growth dynamics and inflation prospects may continue to limit the upside potential for the basket.



Source: OCBC Bank

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- EUR-USD** Dovish inflation comments from the ECB's Nowotny on Thursday may take a back seat in the near term if jittery investors continue to be diverted into haven currencies. Coupled with the potential that the strong dollar narrative may remain at risk of being further undermined, the EUR-USD may potentially seek out the upper reaches of its trading range at around 115.00 multi-session.
- USD-JPY** Official jawboning from Japanese officials is increasingly vocal at this juncture and the USD-JPY is not likely to re-visit its overnight low of 110.98 in a hurry despite still shaky global sentiment. Further capitulation back towards the 114.00 neighborhood cannot be ruled out for now, with investors likely to adopt a sell-rally posture for now.
- AUD-USD** Wide ranging comments from the RBA's Stevens this morning have left investors undecided with the central bank maintaining a flat to neutral stance. We continue to stand aside with regards to the pair in the near term, with further potential volatility expected next week as China markets come online again after the long break while Jan Australian labor market readings are also due next Thursday. In the interim, the 55-day MA (0.7134) may remain a near term junction for the AUD-USD.
- GBP-USD** A buy-dips attitude may prevail despite the GBP-USD decaying lower on Thursday and ignoring the generally weak greenback. Scattered expectations for BOE rate cut and ongoing Brexit concerns ahead of a summit in Brussels next Thu-Fri. Expect the pair to continue to orbit 1.4500 pending further headline risks.

FX Trade Ideas

Inception	B/S	Currency	Spot	Target Stop/Trailing stop	Rationale		
1	08-Jan-16	B	EUR-USD	1.0888 1.1560 1.1045	Risk of Fed/dollar "disappointment"		
2	04-Feb-16	S	USD-SGD	1.4158 1.3680 1.4035	Dollar may stumble further post-Dudley		
STRUCTURAL							
3	03-Feb-16	S	GBP-USD	1.4401 1.3700 1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation		
RECENTLY CLOSED							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	29-Dec-15 15-Jan-16	B	USD-CAD	1.3886	1.4520	Central bank policy dichotomy in addition to structurally soft crude	+4.38
2	08-Jan-16 19-Jan-16	S	AUD-USD	0.7056	0.6950	Fragile global/equity/commodity/RMB backdrop	+1.47
3	18-Dec-15 19-Jan-16	S	GBP-USD	1.4909	1.4195	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP	+5.03
4	21-Dec-15 21-Jan-16	S	USD-JPY	121.15	117.45	Disappointment towards a less dovish than expected BOJ	+3.06
5	10-Nov-15 21-Jan-16	B	USD-CAD	1.3276	1.4390	USD strength vs. weak crude	+7.75
6	04-Jan-16 01-Feb-16	B	USD-SGD	1.4229	1.4240	Asian FX weakness, RMB jitters	+0.01
7	21-Dec-15 02-Feb-16	S	GBP-USD	1.4917	1.4409	Negative chatter surrounding BREXIT and sustained dissipation towards BOE hawkishness	+3.56
8	05-Feb-16 08-Feb-16	B	AUD-USD	0.7188	0.7060	Dollar in retreat, consolidating commodities	-1.81
9	04-Feb-16 08-Feb-16	S	USD-CAD	1.3760	1.3950	Dollar on the defensive, stabilizing crude	-1.36
10	29-Dec-15 10-Feb-16	S	USD-JPY	120.25	113.45	Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY	+5.86
11	10-Feb-16 11-Feb-16	S	USD-JPY	114.50	112.62	Risk aversion + weakened dollar narrative	+1.67

Source: OCBC Bank

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