

Thursday, May 12, 2016

FX Themes/Strategy/Trading Ideas

- The dollar was pushed back on Wednesday despite a slight hesitation in risk appetite as investors. Risk appetite was mixed despite firmer commodities, with US equities weakening and the 10y UST yield easing to 1.735% (strong 10y auction). Meanwhile, the **FXSI (FX Sentiment Index)** eased lower within Risk-Neutral territory. Position adjustments seemed to be the order of the day as longs fled the USD-JPY and the JPY gained across the board while the ADU and CAD were underpinned by positive commodities.
- Look potentially towards Fed-inspired cues for FX today with Mester, Rosengren, and George scheduled to make appearances. On other fronts, the BOE MPC (growth and inflation forecasts to be updated) expected to remain static at tis MPC, although Carney's press conference (1130 GMT) will be closely scrutinized for Brexit-related comments. In the interim, markets may remain in a flux and any further deterioration in risk appetite levels on the back of growth concerns may instead underpin the greenback.

Asian FX

- An unsteady start to Asian equities on Thursday may be expected to lay a good floor for USD-Asia intra-day with the **Asian Currency Index (ACI)** softer this morning but likely keeping an eye on the upside. Elsewhere, the **Bank of Thailand** kept its benchmark rate unchanged at 1.50% as widely expected (note central bank discomfort with THB strength) on Wednesday, with the **BSP** today also not expected to alter its policy parameters at its policy meeting.
- USD-SGD is slightly reluctant on the downside despite overnight G7 moves with the **SGD NEER** currently softer relative to its parity (1.3602) at -0.49% compared to -0.31% on Wednesday. NEER-implied USD-SGD thresholds are softer on the day with +0.50% estimated at 1.3535, -0.50% at 1.3671, and -1.00% at 1.3740. From a technical perspective, the pair may remain confined between the 55-day MA (1.3627) down south and topside resistance at 1.3730.

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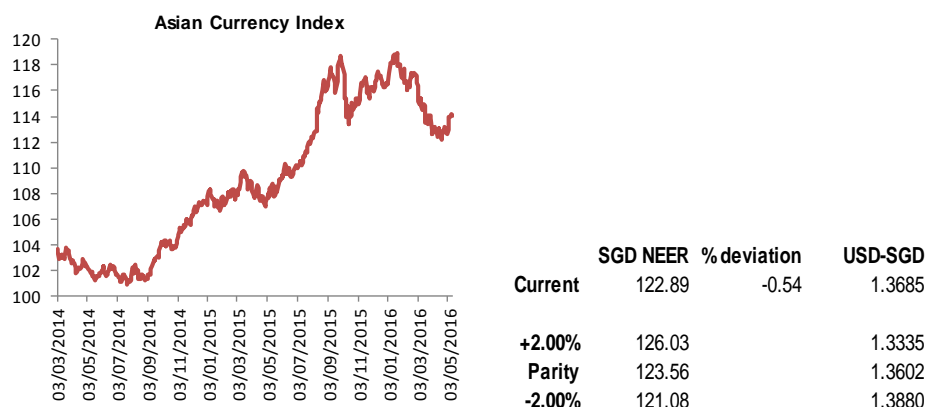
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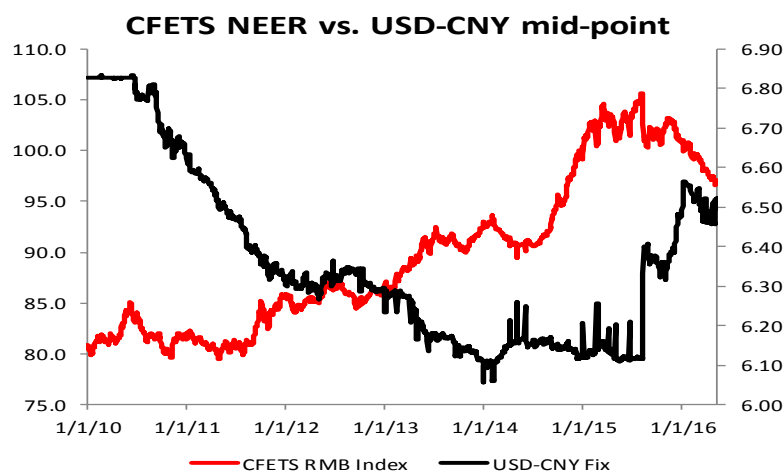
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Source: OCBC Bank

- The **CFETS RMB Index** was pushed slightly higher this morning (as opposed to reacting lower in line with its constituent currencies) to 97.12 from 97.08 on Thursday. This resulted in the USD-CNY mid-point falling to 6.4959 from 6.5209 yesterday. As we noted yesterday, a pause in discretionary guidance lower for the Index may be in play in the short term. We note however that volatility behavior of the fix remains within its boundary constraints.



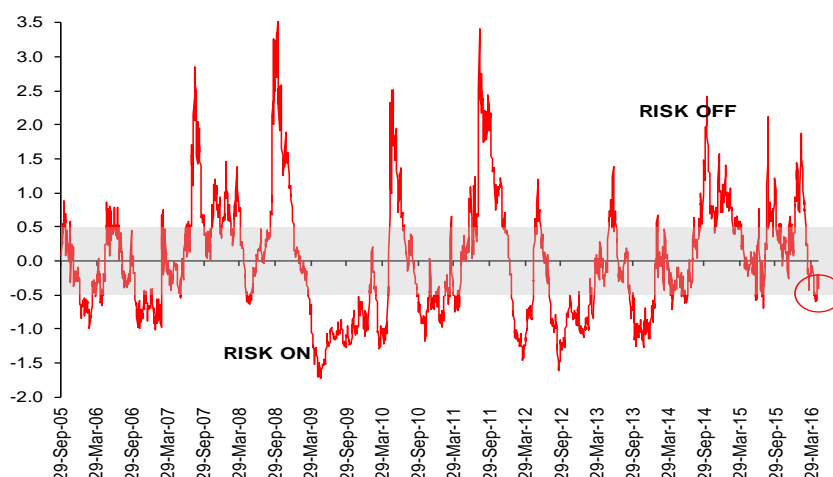
Source: OCBC Bank, Bloomberg

G7

- EUR-USD** The ECB's Weidmann warned against "over-extending" an "ultra-loose" monetary stance on Wednesday but this may not distract the EUR-USD from its current range bound behavior. In the interim, we look for a 1.1360-1.1470 corridor pending further cues.
- USD-JPY** BOJ MPC minutes released this morning demonstrated a willingness by some members to ease further if necessary. The BOJ's Kuroda also echoed these sentiments in his remarks also on Thursday morning potentially keeping the USD-JPY supported on dips. In the near term, investors may trawl a neutral 108.00-109.40 band while awaiting US-specific dollar cues.

- AUD-USD** We would prefer to fade any excessive upticks with the 0.7400 ceiling still in force and with risks we think still oriented towards 0.7300. Structurally, despite dovish expectations being attached to the RBA, short end vols remain at a significant discount to realized vols, perhaps indicating a certain degree of complacency at this juncture.
- GBP-USD** GBP-USD ended essentially flat on Wednesday despite Osborne warning as expected about the pitfalls of Brexit and somewhat disappointing March industrial production numbers. Look towards headline/event risks from the BOE/Carney later in the global session. On the downside, initial support is expected into the 100-day MA (1.4360) while 1.4540 may limit on initial spikes.

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

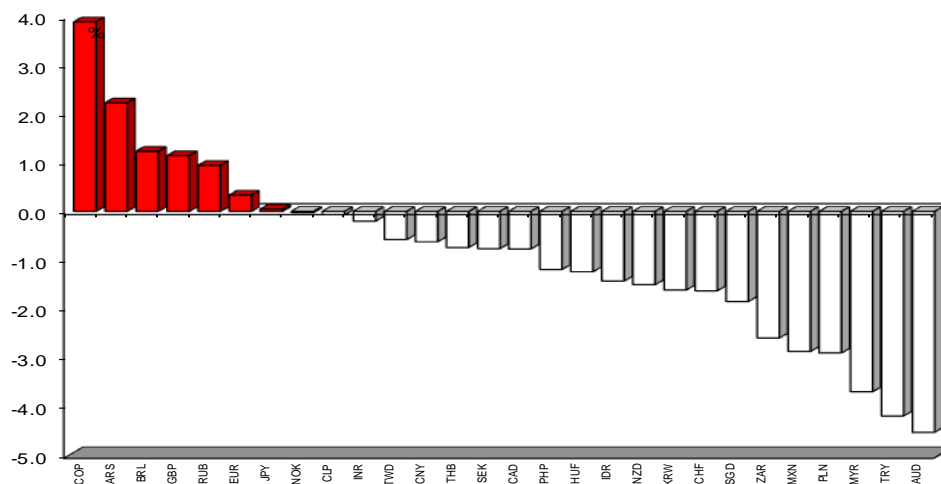
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1292	1.1400	1.1423	1.1500	1.1533
GBP-USD	1.4331	1.4400	1.4437	1.4500	1.4686
AUD-USD	0.7270	0.7300	0.7333	0.7400	0.7570
NZD-USD	0.6732	0.6800	0.6818	0.6823	0.6900
USD-CAD	1.2477	1.2800	1.2859	1.2900	1.2963
USD-JPY	105.55	108.00	108.51	109.00	110.53
USD-SGD	1.3580	1.3600	1.3686	1.3700	1.3723
EUR-SGD	1.5496	1.5600	1.5634	1.5638	1.5700
JPY-SGD	1.2294	1.2600	1.2612	1.2700	1.2788
GBP-SGD	1.9460	1.9700	1.9758	1.9800	1.9814
AUD-SGD	0.9968	1.0000	1.0036	1.0100	1.0135
Gold	1220.70	1250.65	1275.90	1300.00	1304.18
Silver	16.42	17.40	17.42	17.50	17.93
Crude	40.63	46.00	46.02	46.10	46.78

Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD								
NZD								
EUR								
GBP								
JPY								
CAD								
USD								
SGD								

Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
JPY	Green		Red	Red	Red	Green	Red	Red	Red	Red	Red
CNY	Green	Green		Red	Red	Red	Red	Red	Red	Grey	Red
SGD	Green	Green	Green		Red	Red	Green	Green	Grey	Green	Green
MYR	Green	Green	Green	Green		Green	Green	Green	Green	Green	Green
KRW	Green	Red	Green	Green	Red		Green	Green	Green	Green	Green
TWD	Green	Green	Green	Red	Red	Red		Green	Red	Green	Red
THB	Green	Green	Green	Red	Red	Red	Red		Red	Green	Red
PHP	Green	Green	Green	Grey	Red	Red	Green	Green		Green	Grey
INR	Green	Green	Grey	Red	Red	Red	Red	Red	Red		Red
IDR	Green	Green	Green	Red	Red	Red	Green	Green	Grey	Green	

Source: OCBC Bank

FX Trade Ideas

FX Trade Radar								
	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 gorwth 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
1	11-Apr-16	14-Apr-16	S	USD-JPY	107.72		109.50	JPY still not drastically overvalued, endemic USD weakness
2	04-Mar-16	14-Apr-16	S	USD-SGD	1.3881		1.3634	Brightening risk appetite, vulnerable broad dollar
3	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297		1.1310	Dollar negativity post-Yellen
4	19-Apr-16	22-Apr-16	S	USD-JPY	108.93		110.75	Potential for FOMC to disappoint
5	03-Feb-16	03-May-16	S	GBP-USD	1.4401		1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation
6	14-Apr-16	05-May-16	S	USD-CAD	1.2832		1.3040	Bottoming crude prices
7	20-Apr-16	09-May-16	B	GBP-USD	1.4374		1.4165	Moderating Brexit concerns, weak dollar, positive risk
8	04-May-16	10-May-16	S	USD-JPY	107.21		109.00	USD vulnerability pre-NFP, potential risk aversion
9	04-May-16	11-May-16	B	EUR-USD	1.1482		1.1372	Rate differentials in the EUR's favor

Source: OCBC Bank

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