

Wednesday, October 12, 2016

FX Themes/Strategy/Trading Ideas

- Despite neutral comments from the Fed's Kashkari, the majors faded against the dollar on Tuesday as implied probabilities of an FOMC rate hike remain underpinned and with the UST curve lifting further. Meanwhile, slight investor jitters from negative US equities (Alcoa, Illumina headlines) also saw the JPY outperforming across G10 space. On this front, note that the **FXSI (FX Sentiment Index)** reacted higher within Risk-Neutral territory.
- Today, the **FOMC minutes (1800 GMT)** and markets may attempt to collect into any broad dollar dips in the intervening hours while multi-session, expect potential for further headline-induced volatility as the US earnings season gets underway.
- Our 25 Aug 16 idea to be tactically long **USD-SGD** (spot ref: 1.3527) reached its 1.3780 objective on Tuesday. Ahead of the attendant risks surrounding the **MAS MPS** on Friday and broad dollar backdrop, we extend our target to 1.4040, trailing the stop to 1.3645.

Asian FX

- A rocky start to Asian equities on Wednesday may put a good floor on the regional pairs despite a slightly undecided broad dollar. Overall risks may be still for the **ACI (Asian Currency Index)** to seek out higher ground.
- **SGD NEER:** The **SGD NEER** is slightly firmer on the day at around -0.14% below its perceived parity (1.3764) in early Asian trade with the broad dollar retreating slightly following it's across the board gains overnight. The basket is still expected to remain top heavy and we note that NEER-implied USD-SGD thresholds are still firmer on the day. At current levels, the -0.50% threshold is estimated at 1.3833, with -1.00% seen at 1.3903. In the interim, the USD-SGD may be expected to patrol a 1.3750-1.3850 range.

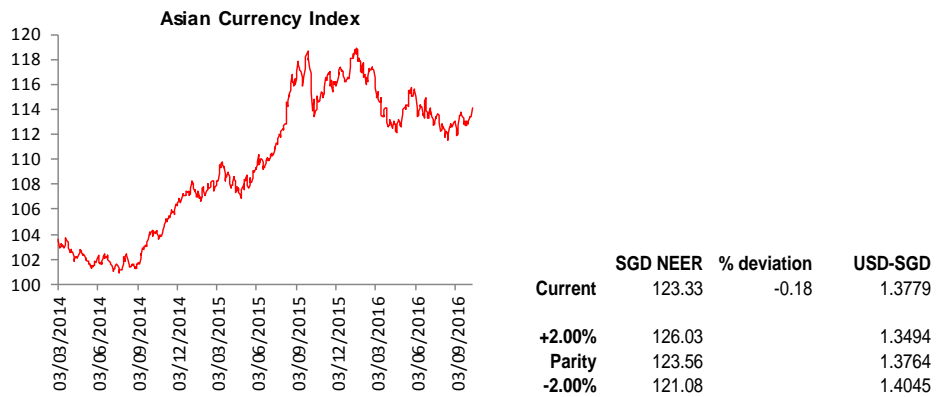
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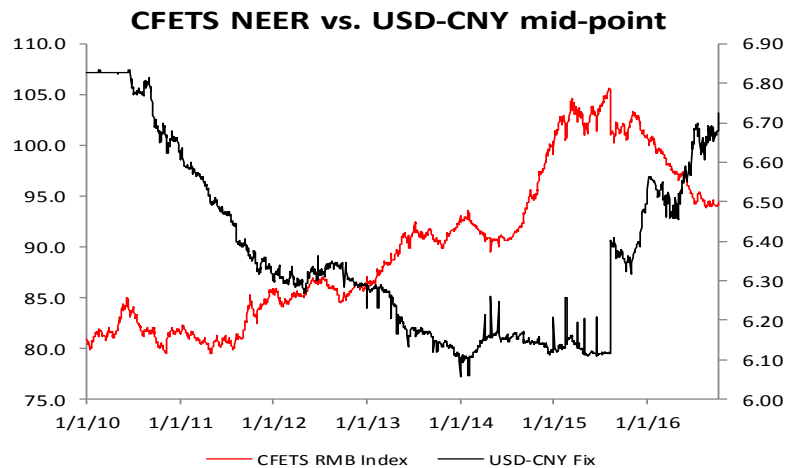
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Source: OCBC Bank

- CFETS RMB Index:** This morning, the **CFETS RMB Index** rose to 94.39 from 94.31 on Tuesday, with the USD-CNY mid-point coming at a lower than expected 6.7258. We continue to lean against consensus (which is expecting renewed and significant discretionary renminbi weakness) and reiterate that Index stability may dominate in the near term. Essentially, this would also square with the latest slight short-end squeeze in the CNH.



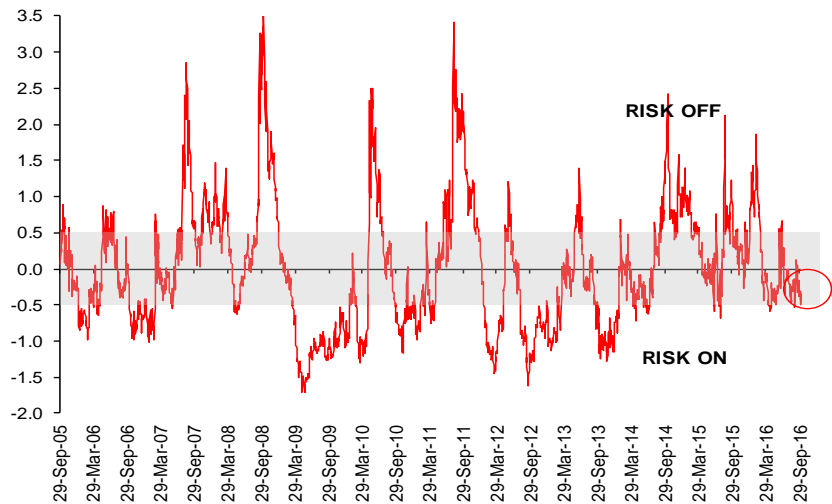
Source: OCBC Bank, Bloomberg

G7

- EUR-USD** The pair punctured the 1.1100 floor on Tuesday amidst broad dollar resilience and the 1.1000 support may continue to beckon ahead of the FOPMC minutes later in the global day despite slightly rapid moves in the previous two sessions.
- USD-JPY** Comments this morning from the BOJ's Kuroda and Harada were sufficiently dovish but is doing little to cite fresh JPY weakness while rhetoric from the Fed's Kashkari and Evans were also fairly even handed to neutral. In the interim, the interplay between background investor jitter and FOMC expectations may lock the USD-JPY in a tight range in the short term. Expect 104.35 to cap while initial support may be expected into 102.90.

- AUD-USD** AUD-USD may remain sidelined and remain a function of dollar/risk appetite with domestic considerations on the backburner for now. In this environment, the 55-day MA (0.7605) may serve as a near term resistance with the pair likely to contemplate a breach of the 100-day MA (0.7531).
- GBP-USD** GBP-USD continued to slip lower past 1.2200 on Tuesday but a late Tue headline indicating that PM Theresa May has relented and accepted that Parliament would vote on her Brexit plan – alleviating somewhat concerns over a “hard” exit. Negative space for the GBP we think may remain apparent with the BOE’s Saunders stating that he would not be surprised if the sterling fell further. A 1.2000-1.2400 range may prevail pending further swings in sentiment.

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

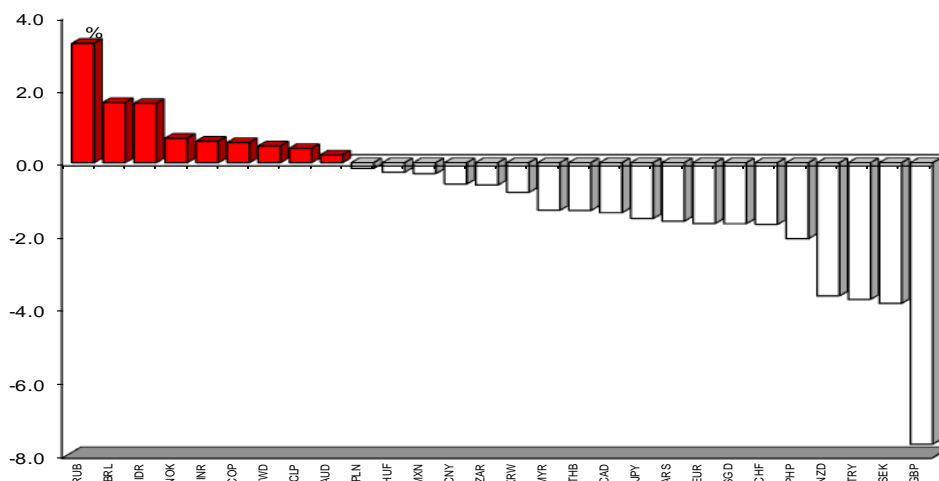
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1000	1.1041	1.1048	1.1075	1.1100
GBP-USD	1.2230	1.2300	1.2310	1.2400	1.3017
AUD-USD	0.7492	0.7500	0.7581	0.7600	0.7606
NZD-USD	0.7047	0.7071	0.7084	0.7100	0.7249
USD-CAD	1.3199	1.3200	1.3222	1.3292	1.3300
USD-JPY	101.81	103.00	103.42	104.00	104.32
USD-SGD	1.3688	1.3700	1.3779	1.3793	1.3799
EUR-SGD	1.5189	1.5200	1.5224	1.5286	1.5300
JPY-SGD	1.3192	1.3300	1.3320	1.3324	1.3400
GBP-SGD	1.6849	1.6900	1.6963	1.7000	1.7654
AUD-SGD	1.0315	1.0400	1.0446	1.0500	1.0510
Gold	1233.05	1249.50	1251.70	1260.91	1300.00
Silver	17.22	17.50	17.57	17.60	19.17
Crude	46.54	50.80	50.89	50.90	51.60

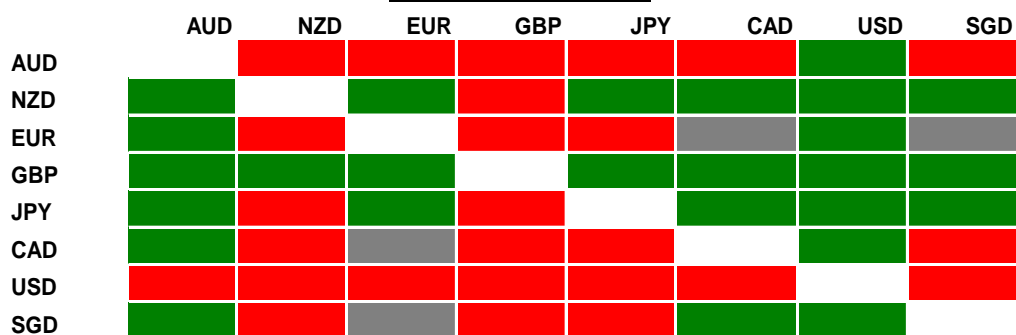
Source: OCBC Bank

FX performance: 1-month change agst USD



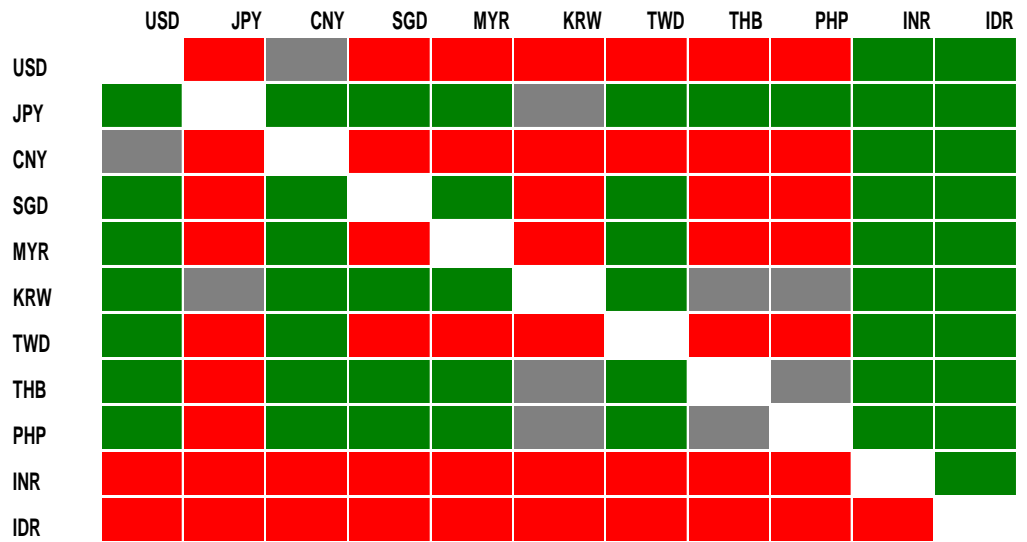
Source: Bloomberg

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	25-Aug-16	B	USD-SGD	1.3527	1.4040	1.3645	Moderating net inflows in Asia, potential for broad USD uptick	
2	05-Oct-16	S	EUR-USD	1.1222	1.1025	1.1325	Fade ECB-taper talk, potential US resilience	
3	06-Oct-16	B	USD-JPY	103.48	106.95	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	
4	07-Oct-16	B	USD-CAD	1.3256	1.3535	1.3115	Correlation breakdown between CAD and crude, USD support	
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	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
8	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	04-Aug-16	19-Sep-16	B	EUR-USD	1.1149	1.1157	Static Fed vs. ECB	-0.80
2	01-Sep-16	21-Sep-16	B	USD-JPY	103.33	100.90	Ahead of NFP numbers and BOJ MPC	-2.33
3	15-Sep-16	22-Sep-16	B	USD-CAD	1.3202	1.3030	Fading crude, soft macro outlook, ahead of FOMC	-1.36
4	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
5	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
6	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
7	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
8	14-Jun-16	10-Oct-16	S	USD-SGD	1.3542	1.3718	USD expected to disappoint on the back of the summer FOMCs	-1.08
9	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
Jan-Sep 2016 Return								+8.27

Source: OCBC Bank

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