

Friday, May 13, 2016

FX Themes/Strategy/Trading Ideas

- The dollar managed to garner underlying support (note firmer UST yields) from essentially neutral to quasi hawkish comments out of Mester (dove) and Rosengren. Meanwhile, the JPY fell against its cohorts on expectations of further monetary easing (following a wire report citing an ex MOF official with close ties to the BOJ governor) with the USD-JPY sailing past 109.00 to 109.39 before ending near 109.06. Elsewhere, the AUD also continued to underperform on dovish RBA expectations, China concerns (stumbling iron ore), and softening risk appetite levels. Elsewhere, the slight softening in the **FXSI (FX Sentiment Index)** on Thursday we think belies the general air of caution in global markets and markets may still prefer to trade on the short side of risk appetite.
- For today, markets may look towards US data points including April retail sales figures. In the interim, a re-pricing of Fed odds may remain underway while perceived policy dichotomies with global central banks (the RBA and BOJ being the most visible suspects at this juncture) may continue to grant the dollar traction into the end of the week. In addition, any further deterioration in global risk appetite levels would only serve to underpin the greenback further. Note that the possible release of China April monetary aggregates/industrial production/urban fixed asset investment numbers ahead may sour investor risk appetite further on any 'disappointments'.

Asian FX

- With Asian equities looking slippery (weighed by Apple news flow), expect USD-Asia to take cues from the broad dollar and RMB complex, with the **Asian Currency Index (ACI)** expected to continue to climb (broad USD strength). This morning, the **Bank of Korea** remained static at 1.50% as widely expected with the central bank still citing uncertainties despite noting that the economy continues to show modest improvement. Ahead, look also to Malaysia's 1Q GDP (and balance of payments) scheduled for release at 0400 GMT.
- The **SGD NEER** is hovering around -0.82% below its perceived parity (1.3634) in the wake of the USD-SGD's climb in the past 24 hours. With the broad dollar firming, NEER-implied USD-SGD thresholds are yet higher on the day with the -1.00% threshold estimated at 1.3772. Nervous sentiment in Asia may potentially tempt upside tests towards 1.3800 and a breach of the -1.00% threshold cannot be ruled out.

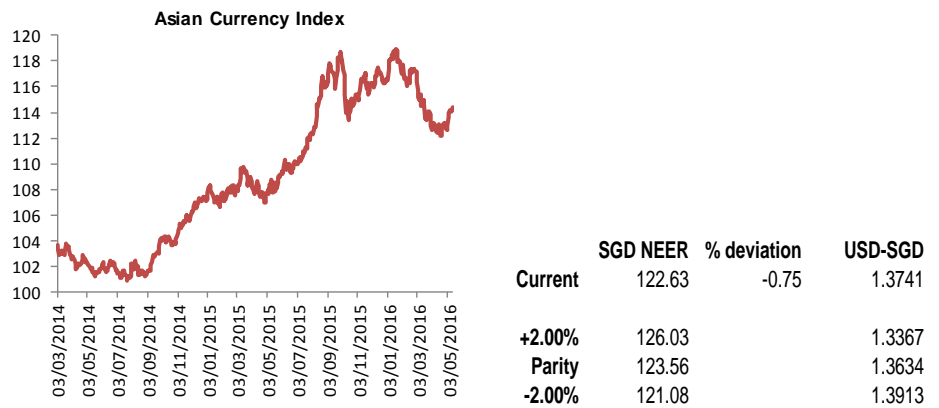
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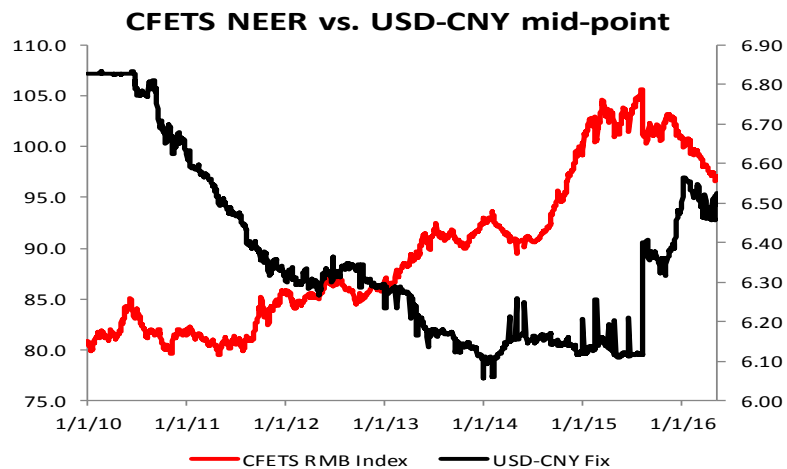
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Source: OCBC Bank

- The authorities reverted back into depreciation mode on Friday with the **CFETS RMB Index** softening (instead of firming on the back of implied) to 96.97. This boosted the USD-CNY fix to 6.5246 from 6.4959 on Thursday. Elsewhere, we note that CNH and CNY differential has indeed been widening of late on the back of bearish expectations, , although we would argue that the spread at current levels would not elicit official action just yet.



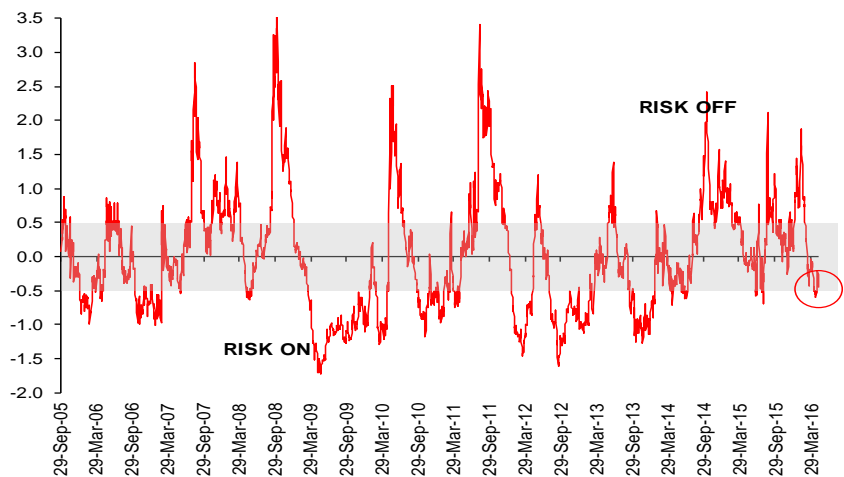
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** EZ/German GDP numbers and German CPI data points may provide a minor distraction ahead of the US data stream and the EUR-USD may continue to trade on both ends of 1.1400 in the interim. If 1.1367 is breached, decay towards 1.1350 and subsequently towards 1.1300 may be expected.
- **USD-JPY** The BOJ's Kuroda on Thursday also fueled speculation of further monetary easing although it remains to be seen if market skepticism will set in once again, diluting JPY bearishness. We would prefer to continue to take our cues of Fed-specific dynamics. If the pair fails to base build around 109.00 expect a relapse back towards 108.00.

- AUD-USD** Even despite a discretionary USD driver, RBA/China/commodity/risk appetite considerations we think continue to provide ample fuel for AUD bearishness at this juncture. Look potentially for risks to melt further towards the 200-day MA (0.7261) in the near term.
- GBP-USD** GBP-USD received an initial boost to 1.4532 following a unanimous decision to keep rates unchanged at the BOE MPC (some elements of the market were expecting a break in the ranks) but the pair subsequently retraced to end largely flat on the day despite cautionary BOE comments regarding Brexit. Pending further Brexit-related headlines, the pair may attempt to settle towards the 1.4400 handle in the current dollar environment.

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

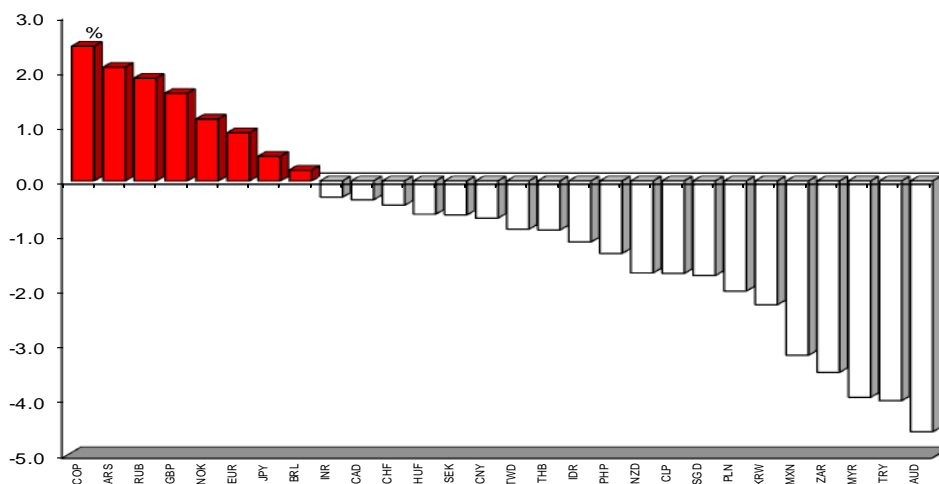
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1299	1.1300	1.1373	1.1400	1.1529
GBP-USD	1.4335	1.4400	1.4433	1.4500	1.4667
AUD-USD	0.7287	0.7300	0.7303	0.7400	0.7567
NZD-USD	0.6723	0.6800	0.6803	0.6823	0.6900
USD-CAD	1.2476	1.2800	1.2845	1.2900	1.2954
USD-JPY	105.55	108.00	108.84	109.00	110.44
USD-SGD	1.3581	1.3700	1.3736	1.3759	1.3760
EUR-SGD	1.5499	1.5600	1.5623	1.5650	1.5700
JPY-SGD	1.2304	1.2600	1.2620	1.2700	1.2788
GBP-SGD	1.9467	1.9800	1.9826	1.9900	1.9935
AUD-SGD	0.9968	1.0000	1.0032	1.0100	1.0134
Gold	1224.62	1250.75	1267.90	1300.00	1303.28
Silver	16.41	17.00	17.09	17.10	17.90
Crude	40.87	46.10	46.14	46.20	47.02

Source: OCBC Bank

FX performance: 1-month change agst USD



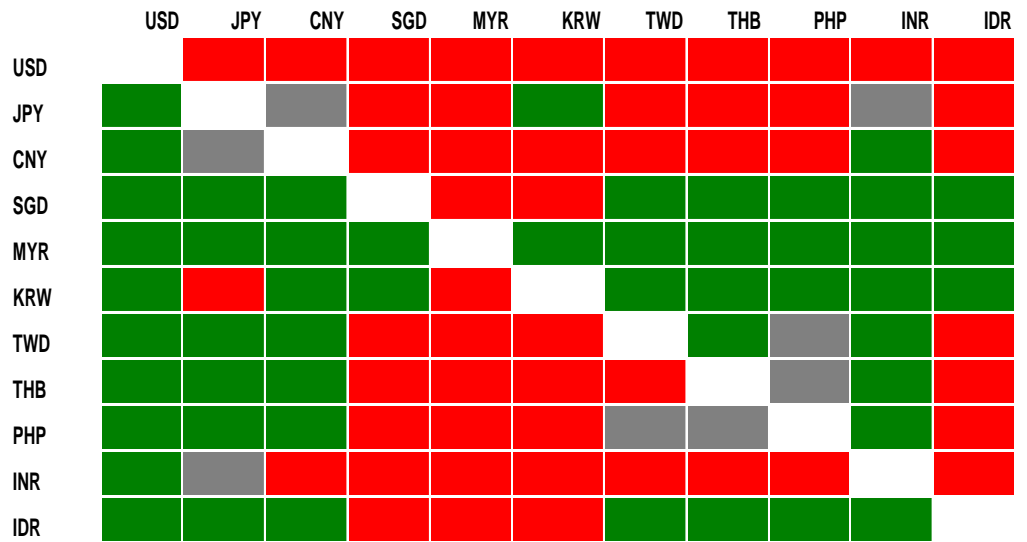
Source: Bloomberg

G10 FX Heat Map

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

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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