

Wednesday, July 13, 2016

FX Themes/Strategy/Trading Ideas

- Going ahead, we think 3 short term themes will continue to prevail:
 1. Dollar ambiguity: Uncertainty, or more aptly, skepticism towards Fed rate hikes may continue to keep the broad dollar at a disadvantage. Note less than hawkish comments from the Fed's Bullard on Tuesday.
 2. Search for yield: This theme had run unabated despite the recent uncertainty surrounding the UK referendum vote. With depressed global yields and economic uncertainty now confined (still largely) to the European complex, we would continue to expect investor interest continually being channeled into yield (antipodeans for e.g.), as well as benefiting selected EM/Asia.
 3. Risk appetite volatility: Risk aversion has abated significantly (for now) with the **FXSI (FX Sentiment Index)** falling for the fourth consecutive session within Risk-Neutral territory on Tuesday, especially with the fuss over Abe/Kuroda and the resultant boost to investor sentiment. The boost to the commodity/equity complex from the notion of further global central bank accommodation may continue to engender investor interest towards yield/EM, primarily at the expense of the dollar. In the short term, watch for any tapering off in JPY and CHF outperformance when the unwind approaches satiation.
- Ones to watch today include the Bank of Canada rate decision (mkts: unchanged at +0.50%) with dovish overtones expected while in Asia, China June trade numbers are also scheduled to be released.
- With risk aversion evaporating and crystallizing an unwind of prior short JPY positions, our 28 Jun 16 tactical short **USD-JPY** (spot ref: 102.19) was stopped out on Tuesday at 104.50 for an implied -2.25% loss.

Asian FX

- In the current environment, expect USD-Asia to continue to test lower, with the **Asian Currency Index (ACI)** essentially back at pre-UK referendum levels.
- This **SGD NEER** is relatively firmer this morning at around +1.10% above its perceived parity (1.3625). This has been on the back of the heavy USD-

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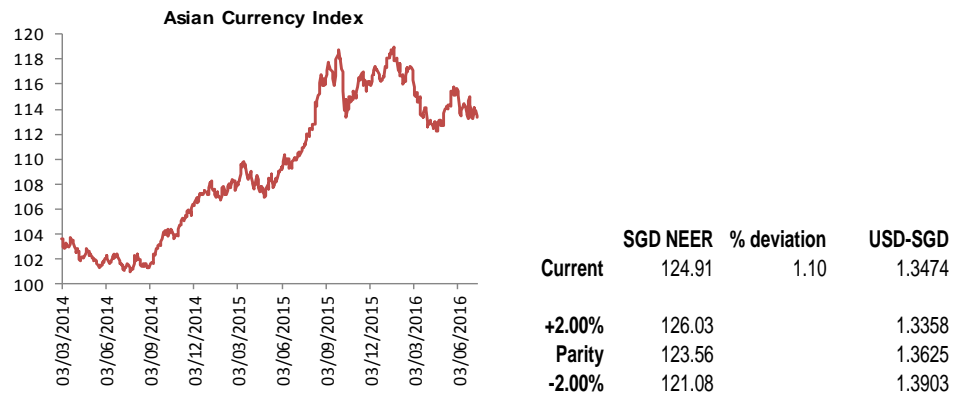
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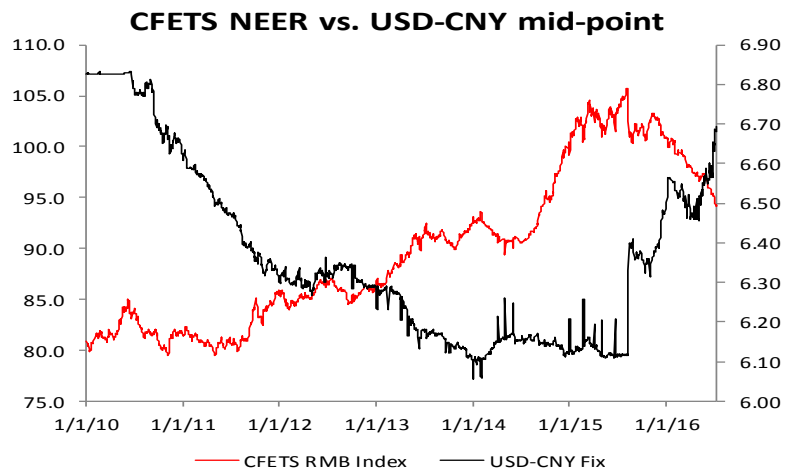
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SGD, with NEER-implied USD-SGD thresholds largely unchanged on the day. At current levels, the +1.00% threshold is estimated at 1.3490, although we would expect some degree of caution on approach of the +1.50% threshold at 1.3424. For today, a positive equity spin from overnight and generally improved investor sentiment may continue to keep the USD-SGD in negative space. On a short term horizon, we have remained uncommitted directionally on the USD-SGD since late June 2016 and the pair may continue to toy with a 1.3400-1.3600 range in the near term.



Source: OCBC Bank

- Despite the continued retracement of the JPY globally, we saw no surprises from the USD-CNY mid-point this morning with the fix coming in at 6.6891 from 6.6950 on Tuesday. This saw the **CFETS RMB Index** gaining slightly as expected to 94.47 from 94.27 yesterday.



Source: OCBC Bank, Bloomberg

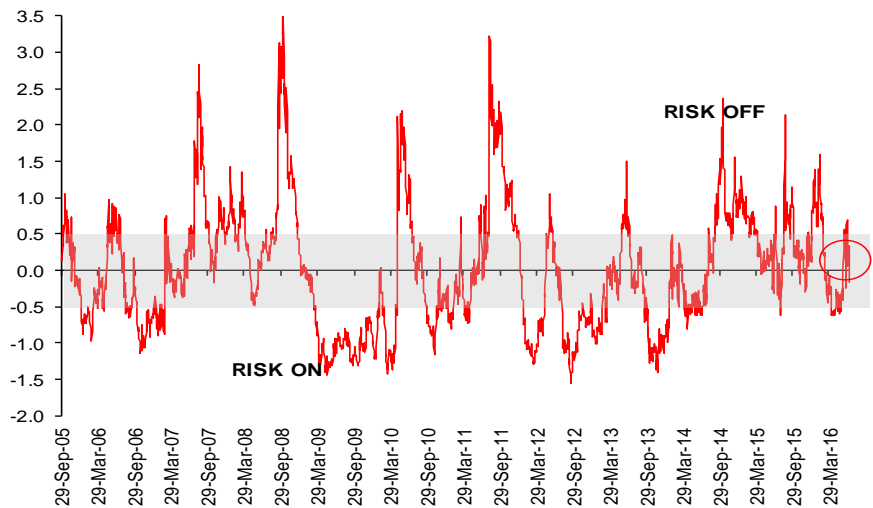
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- **EUR-USD** EUR-USD relinquished intra-day highs on Tuesday and the pair may continue to fade excessive up moves in spite of any further recovery in global risk appetite levels. We reiterate that the pair may remain capped (if not heavy) by its 200-day MA (1.1091) with the fallout from the pound still perceived to be a threat. Downside prospects may however be supported (circa 1.1000 for now) by general expectations that the ECB would

still be expected to remain static next week at its policy meeting.

- USD-JPY** In the near term, chatter about the potential for helicopter money by the BOJ (after Bernanke’s visit to Japan), speculation towards further BOJ easing on 29 Jul 16, and imminent enlarged fiscal surplus (package to be revealed by the month-end) may continue to underpin the USD-JPY. A firmer UST curve overnight may also be an additional contributory factor. Intra-day, it remains to be seen if 105.00 can be breached successfully with any relapse expected to find support into 103.30. Technically, if the pair cannot overcome the 103.50-105.00 zone, downside prospects for the USD-JPY may remain in force beyond the short term.
- AUD-USD** Given the current risk complexion, we remain structurally long the antipodeans despite scattered expectations of a potential RBA rate cut. In the near term, expect some consolidation towards 0.76050.
- GBP-USD** The perception of decreased political uncertainty may support the GBP-USD in the near term with Theresa May expected to assume the helm as PM today. Expect investors to be keyed into her political posture towards Brexit and the possibility of a general election. In the interim, the pair may remain cautious towards excessive upside ahead of the BOE MPC meeting tomorrow (note dovish remarks from the BOE’s Carney yesterday), where expectations of a rate cut are rife.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

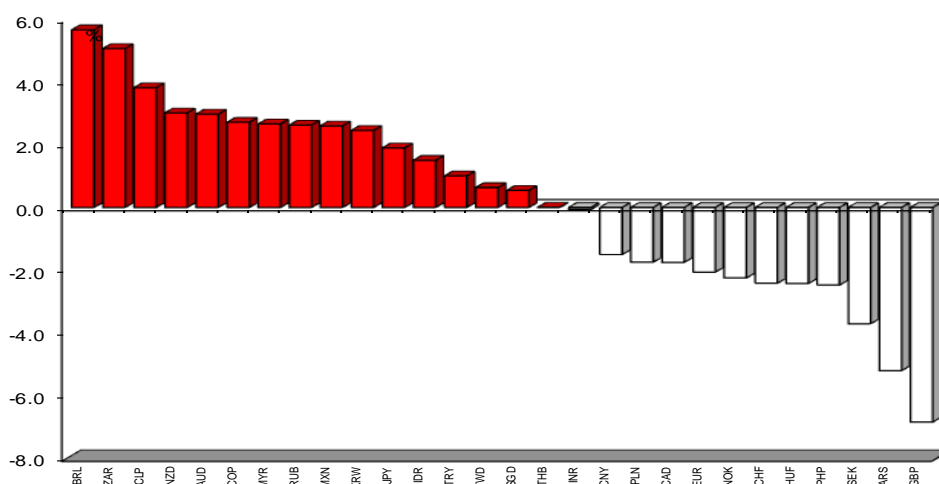
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0941	1.1000	1.1060	1.1090	1.1100
GBP-USD	1.2798	1.3200	1.3295	1.3300	1.4127
AUD-USD	0.7377	0.7600	0.7606	0.7642	0.7658
NZD-USD	0.6976	0.7200	0.7272	0.7300	0.7325
USD-CAD	1.2944	1.3000	1.3074	1.3100	1.3144
USD-JPY	100.23	104.00	104.30	105.00	105.95
USD-SGD	1.3360	1.3400	1.3475	1.3500	1.3572
EUR-SGD	1.4844	1.4900	1.4903	1.5000	1.5210
JPY-SGD	1.2787	1.2900	1.2919	1.3000	1.3496
GBP-SGD	1.7344	1.7900	1.7915	1.8000	1.9198
AUD-SGD	1.0123	1.0200	1.0249	1.0258	1.0300
Gold	1283.53	1300.00	1331.70	1377.50	1383.05
Silver	17.55	20.10	20.19	20.20	20.97
Crude	46.42	46.50	46.79	48.57	51.15

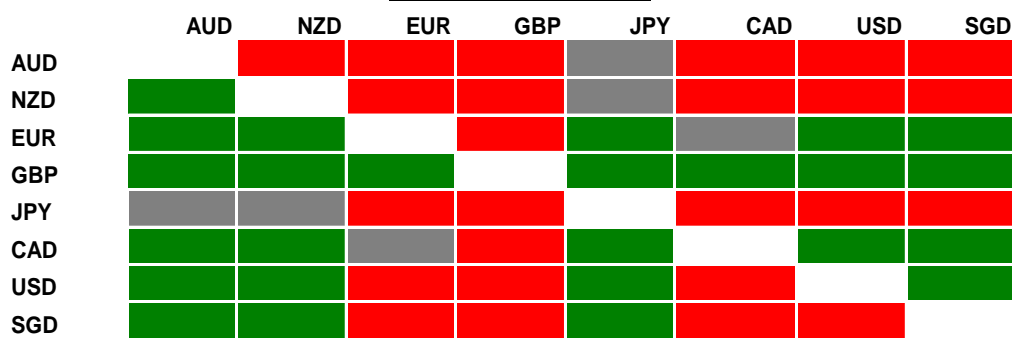
Source: OCBC Bank

FX performance: 1-month change agst USD



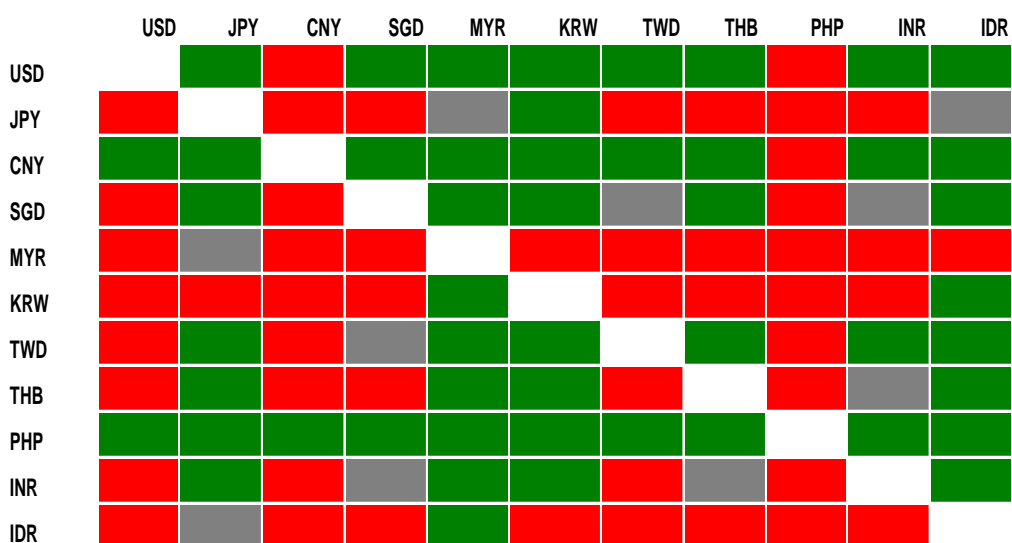
Source: Bloomberg

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	28-Jun-16	S	EUR-USD	1.1057	1.0745	1.1215	Brexit uncertainty coupled with Euroskepticism		
2	28-Jun-16	S	GBP-USD	1.3306	1.2525	1.3700	Epicenter of Brexit concerns		
3	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit		
4	05-Jul-16	B	AUD-USD	0.7528	0.7815	0.7380	Search for yield amidst potential FOMC disappointment		
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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield		
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs		
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
RECENTLY CLOSED									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	01-Mar-16	16-Jun-16	S	USD-JPY	112.91	105.00	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	+7.18	
2	14-Jun-16	17-Jun-16	S	GBP-USD	1.4153	1.4340	Potential for further downside going into EU referendum	-1.30	
3	17-Jun-16	19-Jun-16	S	EUR-USD	1.1232	1.1350	Potential for negative spillover from the UK referendum	-1.03	
4	10-Jun-16	23-Jun-16	S	USD-JPY	107.16	105.50	Potential for USD weakness going into and post-FOMC	+1.57	
5	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74	
6	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91	
7	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98	
8	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	97.60	104.50	Potential for further risk aversion	-2.25

Source: OCBC Bank

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