

Thursday, October 13, 2016

### FX Themes/Strategy/Trading Ideas – Relatively soon?

- With the FOMC minutes reinforcing the view that the next rate hike remains imminent (December?), near term USD resilience is expected to persist despite measured comments from the Fed's Dudley on Wednesday. Risk appetite levels meanwhile remain fairly sanguine, with the **FXSI (FX Sentiment Index)** easing slightly within Risk-Neutral territory on Wednesday.
- The 05 Oct 16 idea to be tactically short **EUR-USD** (spot ref: 1.1222) hit its 1.1025 target on Wednesday. With the dollar still likely to flex higher in the near term, we extend our objective to 1.0830, trailing the stop 1.1125.
- With the latest blip higher in the **GBP-USD**, we take the opportunity to fade this move via a tactical short. With a spot ref at 1.2271 on Wednesday, we target an eventual fall to 1.1815 while placing a stop at 1.2505.
- Given the current wiliness to attach strength to the USD on the back of implied FOMC expectations, we feel that even the likes of the AUD may not be spared. From an **AUD-USD** spot ref of 0.7585 on Wednesday, we look for a 0.7385 objective, with a stop placed at 0.7690.

### Asia – Net portfolio capital inflow update

- The net capital inflow situation for the region in aggregate continues to deteriorate on a short term horizon.
- Near term prospects for INR and IDR have weakened on the back of waning net inflow momentum.
- PHP weakness looking overdone on a short term horizon with net outflows continuing to moderate.
- The net inflow environment for KRW is perceived to be relatively stable with the currency deemed fairly valued within this metric.
- Net flows for the TWD remain very sparse, leaving the unit vulnerable to externally induced swings.
- Net inflows for the THB environment had been largely supportive although this would leave the local unit vulnerable to pullbacks on any potential negative headlines surrounding the monarchy.

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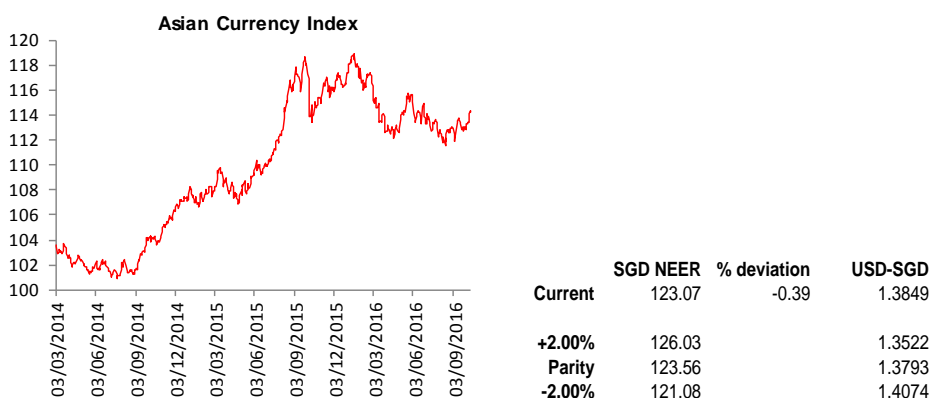
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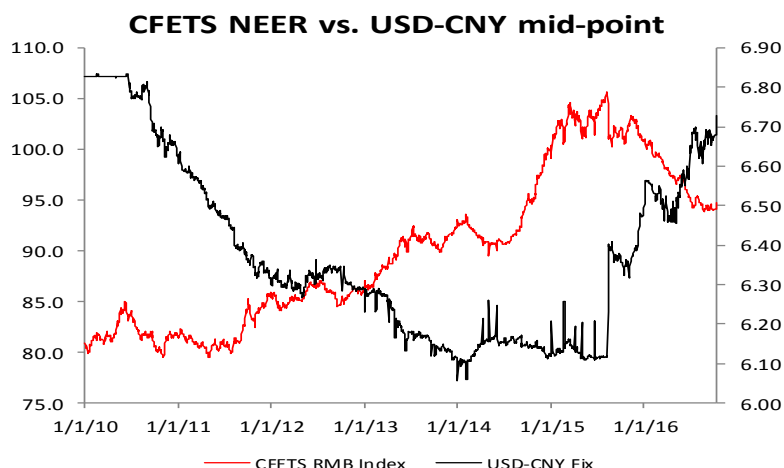
### Asian FX

- In the current environment, expect the regional pairs to remain supported on dips and we note that amid the broad dollar's broad ascent in the month to date, the KRW, SGD, MYR, and THB have been relatively more responsive. Overall, we look for the **ACI (Asian Currency Index)** to continue to exhibit upside risks in the near term. Meanwhile, the BOK remained static at 1.25% this morning as expected.
- **SGD NEER:** On the eve of the MAS MPS, the **SGD NEER** is softer on the day (for the third consecutive session) at around -0.41% below its perceived parity (1.3793). In the wake of overnight price action in the broad dollar, NEER-implied USD-SGD thresholds are higher on the day with -0.50% estimated at 1.3863 and -1.00% at 1.3932.
- Elsewhere, USD-SGD is looking slightly overbought while our volatility indicators for the spot are beginning to warm up following the moves in recent sessions although we are by no means at elevated levels just yet. Barring externally induced volatility, USD-SGD may range trade a 1.3800-1.3900 range ahead of the MAS MPS.



Source: OCBC Bank

- **CFETS RMB Index:** This morning, the USD-CNY mid-point came in largely as expected at 6.7296 from 6.7258 on Wednesday. Essentially this bumps the **CFETS RMB Index** higher **significantly** to 94.71 from 94.39. Our view remains unchanged: Stability on the FX front (on an NEER basis) may remain a major consideration, plausibly in an attempt defuse market expectations of renewed depreciation pressures.

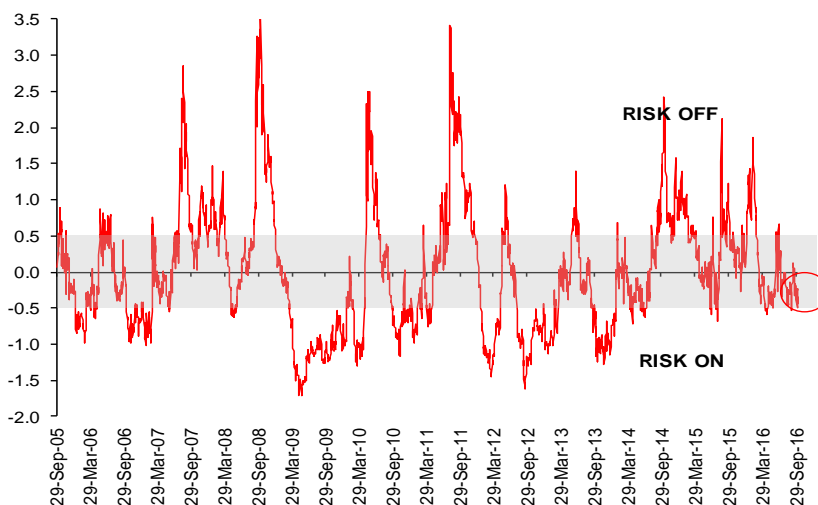


Source: OCBC Bank, Bloomberg

## G7

- **EUR-USD** The EUR-USD continued to drip lower towards 1.1000 on Wednesday on a mixture of dollar resilience, dovish rhetoric from the ECB, and renewed chatter about the ECB's options for expanding/extending its asset purchase program. In the near term, the pair may remain contained within 1.0950-1.1070 and our bias would be to remain top heavy.
- **USD-JPY** Contrasting forces from USD support and any hints of risk aversion (China's disappointing trade data to provide today's excuse) may keep the USD-JPY trapped in a zone in the near term. Investors may collect into dips within 103.50 and 104.70.
- **AUD-USD** Disappointing China trade data reported this morning may encourage a test of the 100-day MA (0.7534) into 0.7500 before 0.7475. As noted previously, the aussie continues to run the risk of yielding to a firmer greenback given current market conditions.
- **GBP-USD** GBP-USD may continue to be subject to political headline risks as markets vacillate between a 'hard' and 'soft' Brexit. As noted previously, a 1.2000-1.2400 range may continue to 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

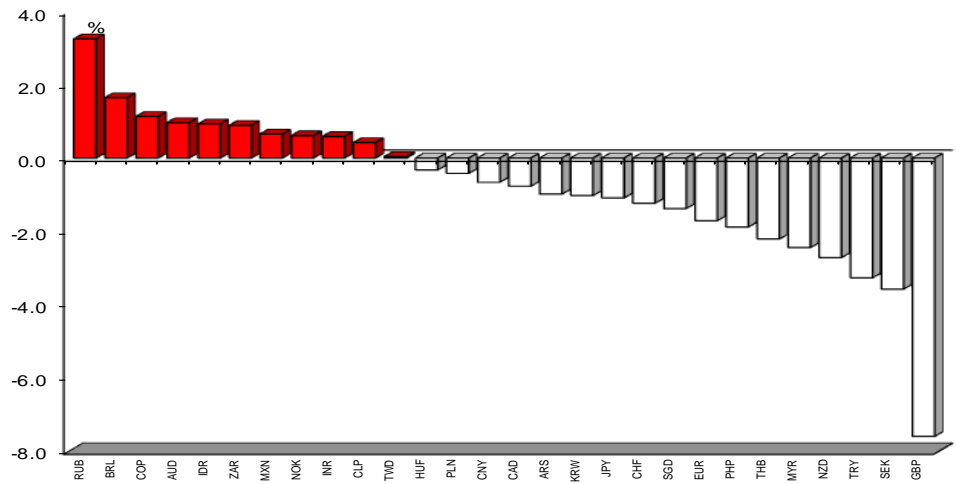
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1000	1.1002	1.1029	1.1037	1.1100
GBP-USD	1.2100	1.2127	1.2195	1.2200	1.2997
AUD-USD	0.7493	0.7500	0.7535	0.7600	0.7603
NZD-USD	0.7037	0.7040	0.7054	0.7100	0.7246
USD-CAD	1.3195	1.3200	1.3281	1.3300	1.3313
USD-JPY	101.88	103.00	103.68	104.00	104.64
USD-SGD	1.3800	1.3838	1.3848	1.3867	1.3900
EUR-SGD	1.5196	1.5200	1.5273	1.5284	1.5300
JPY-SGD	1.3300	1.3325	1.3356	1.3400	1.3589
GBP-SGD	1.6770	1.6800	1.6889	1.6900	1.7638
AUD-SGD	1.0319	1.0400	1.0434	1.0500	1.0510
Gold	1228.35	1249.50	1258.70	1261.84	1300.00
Silver	17.24	17.50	17.58	17.60	19.10
Crude	46.68	49.60	49.66	49.70	51.60

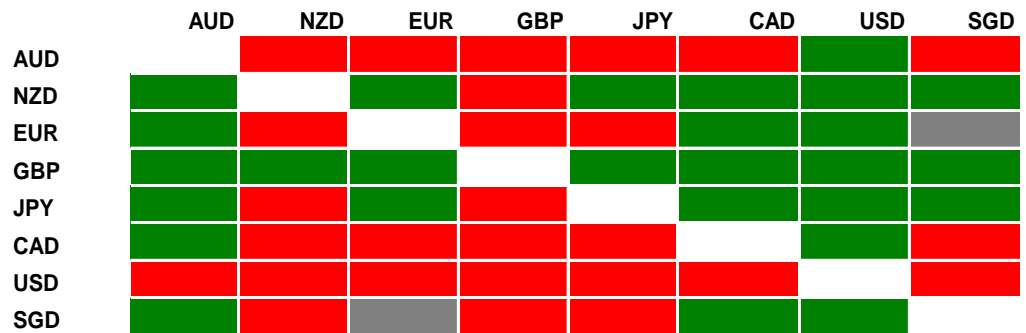
Source: OCBC Bank

**FX performance: 1-month change agst USD**



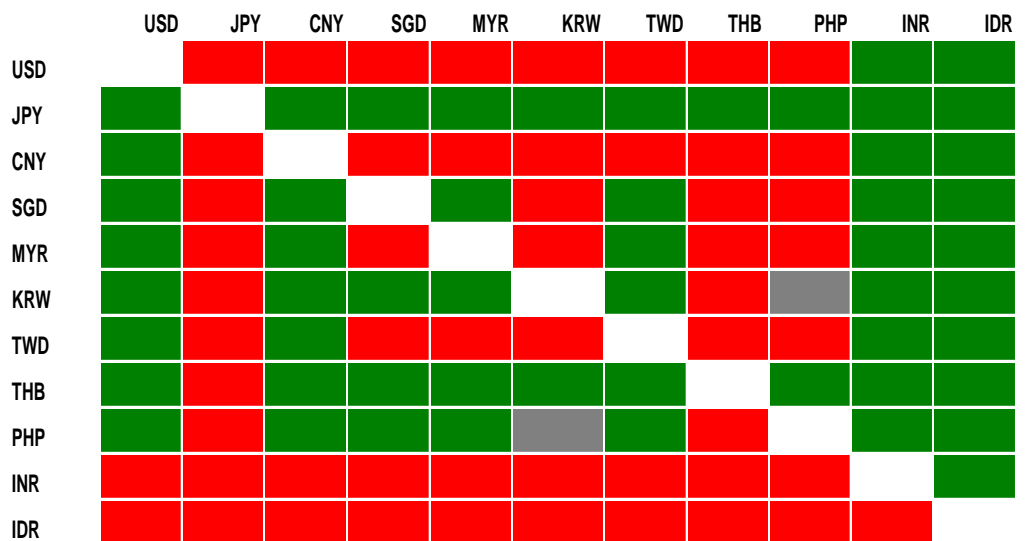
Source: Bloomberg

**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	
<b>TACTICAL</b>								
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	1.0830	1.1125	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	
5	12-Oct-16	S	GBP-USD	1.2271	1.1815	1.2505	Fade GBP-USD upticks	
6	12-Oct-16	S	AUD-USD	0.7585	0.7385	0.7690	"Yield" may be subjugated by dollar	
<b>STRUCTURAL</b>								
7	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
8	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
10	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
<b>RECENTLY CLOSED</b>								
	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
<b>Jan-Sep 2016 Return</b>								<b>+8.27</b>

Source: OCBC Bank

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