

Thursday, January 14, 2016

FX Themes/Strategy/Trading Ideas

- Investor sentiment may continue to darken into Asia on the back of weak crude and global equities with the cyclicals expected to bear the brunt of any potential negativity. Meanwhile, the JPY is expected to be an all-round beneficiary (USD-JPY sub-117.50 in early Asia) with the EUR also assuming partial safe haven status (or more accurately, strengthen on the back of further unwinding).
- The **FXSI (FX Sentiment Index)** still managed to tick lower within Risk-Off territory (note softer UST yields) despite another leg lower in US equities and souring commodities into the NY close although we expect a slight rebound into today's session if investor sentiment continues to deteriorate.

Asian FX

- EM FX clocked mixed to positive performances against the USD but with risk appetite fluctuations a continually developing story (note the brief dip by Brent below 30.0), expect risks for the regional pairs to remain skewed to the upside. On the central bank front, the BOK and Bank Indonesia are expected to stand pat today but expect a healthy dose of caution with regards to macro headwinds. Overall, expect the **ACI's (Asian Currency Index)** to head higher after easing a touch on Wednesday.
- This morning, the **USD-CNY mid-point** was fixed incrementally lower at **6.5616** compared to 6.5630 on Wednesday. We estimate that this puts the **CFETS RMB Index** a touch higher at 100.44 compared to an estimated 100.43 yesterday. Compared to a day ago, the broad dollar (within the CFETS context) is essentially flat to marginally slightly softer against the major currencies, theoretically necessitating a lower USD-CNY mid-point. In addition, the implicit presumption would also be that the CNY's overall valuation is also likely flat to firmer relative to its basket (given the current risk off environment, again implying a flat to higher Index and thereby a lower USD-CNY midpoint).
- As we have reiterated previously, the willingness of the authorities to allow some degree of flex in the CFETS RMB Index in reaction to movements in the basket's constituent currencies (and an assessment of the CNY's overall valuation) should further allay fears of a discretionary and concerted move to weaken the CNY's overall valuation.
- Today, the **SGD NEER** starts the Asian session lower relative to its perceived mid-point (1.4136) at around -1.68%. NEER-implied USD-SGD

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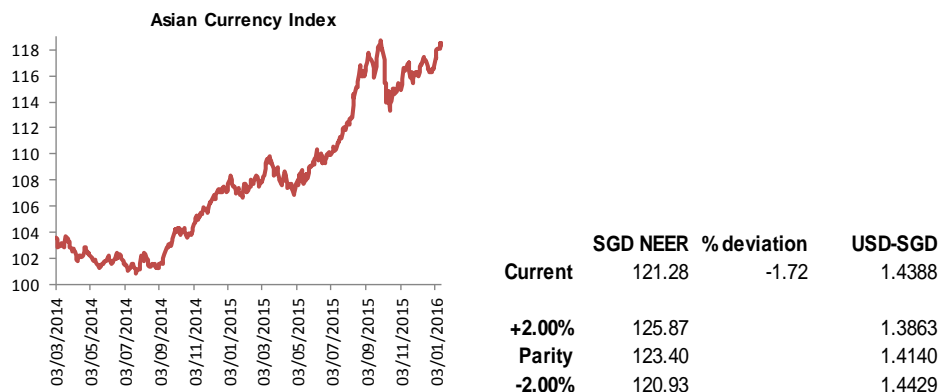
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Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

thresholds are largely unchanged on the day with the -2.00% lower boundary of the estimated NEER fluctuation band estimated at around 1.4425. Given the fragile environment at this juncture, this lower boundary may bear watching with the recent high around 1.4445 also in close proximity.

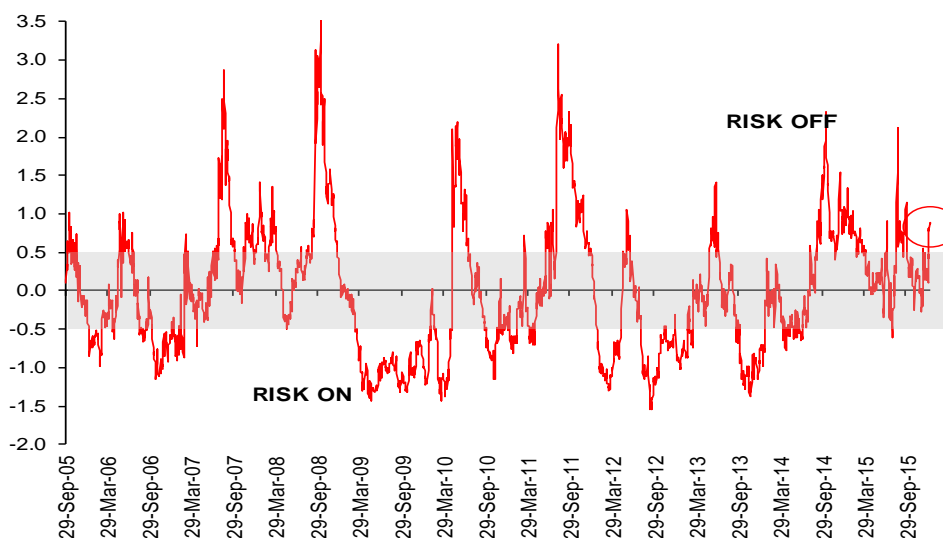


Source: OCBC Bank

G7

- **EUR-USD** Less than hawkish comments from the Fed's Rosengren may keep the pair elevated despite the potential for risk aversion to remain visible. We look for a supported 1.4330-1.4440 range to persist in the near term, especially if the common currency continues to exhibit safe haven characteristics.
- **USD-JPY** If global equities continue to register declines into LDN/NY, the USD-JPY may be expected to continue to lose altitude to 116.60 with 118.00 a near term cap at this juncture.
- **AUD-USD** This morning, the December 2014 Australian labor market numbers (headline -1.0k vs. -10.0k expected) registered better than expected readings but expect investors to fade any upticks amidst the current risk appetite environment. The key psychological 0.6900 floor may continue to beckon in the interim.
- **GBP-USD** Ahead of the BOE MPC later today, expect the pair to remain top heavy given weakened rate hike expectations and with the USD underpinned by risk aversion. At this juncture, the 1.4400 support is in imminent danger and with little in the way of intervening support thereafter till 1.4230.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

| | DXY | USGG10 | CNY | SPX | MSELCA | CRY | JPY | CL1 | VIX | ITRSEX |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | -0.374 | -0.289 | 0.409 | 0.517 | 0.240 | 0.537 | 0.313 | -0.458 | -0.462 |
| CHF | 0.879 | -0.330 | -0.568 | 0.604 | 0.623 | 0.584 | 0.636 | 0.643 | -0.522 | -0.658 |
| JPY | 0.537 | -0.135 | -0.823 | 0.460 | 0.272 | 0.541 | 1.000 | 0.483 | -0.279 | -0.681 |
| SGD | 0.339 | -0.346 | 0.480 | -0.307 | -0.237 | -0.558 | -0.195 | -0.568 | 0.344 | 0.269 |
| AUD | 0.054 | 0.298 | -0.478 | 0.694 | 0.621 | 0.833 | 0.153 | 0.804 | -0.582 | -0.630 |
| PHP | -0.042 | -0.266 | 0.129 | -0.635 | -0.650 | -0.587 | 0.083 | -0.442 | 0.646 | 0.593 |
| IDR | -0.155 | -0.110 | -0.188 | -0.370 | -0.710 | -0.208 | 0.342 | -0.313 | 0.724 | 0.199 |
| TWD | -0.263 | 0.063 | 0.703 | -0.490 | -0.106 | -0.626 | -0.676 | -0.656 | 0.228 | 0.407 |
| GBP | -0.264 | -0.275 | -0.684 | -0.049 | -0.334 | 0.450 | 0.454 | 0.293 | 0.435 | -0.238 |
| CAD | -0.270 | 0.095 | 0.972 | -0.574 | -0.382 | -0.910 | -0.763 | -0.837 | 0.290 | 0.813 |
| CNH | -0.279 | 0.107 | 0.957 | -0.496 | -0.450 | -0.842 | -0.802 | -0.763 | 0.345 | 0.808 |
| CNY | -0.289 | 0.208 | 1.000 | -0.467 | -0.338 | -0.857 | -0.823 | -0.745 | 0.233 | 0.806 |
| CCN12M | -0.319 | 0.066 | 0.784 | -0.395 | -0.273 | -0.582 | -0.801 | -0.567 | 0.258 | 0.566 |
| INR | -0.319 | -0.111 | -0.460 | -0.126 | -0.558 | 0.185 | 0.330 | 0.083 | 0.547 | 0.004 |
| THB | -0.330 | -0.068 | 0.850 | -0.728 | -0.499 | -0.854 | -0.727 | -0.849 | 0.520 | 0.788 |
| KRW | -0.339 | -0.098 | 0.462 | -0.761 | -0.846 | -0.736 | -0.319 | -0.786 | 0.792 | 0.679 |
| USGG10 | -0.374 | 1.000 | 0.208 | 0.249 | 0.076 | -0.022 | -0.135 | 0.072 | -0.285 | 0.057 |
| MYR | -0.377 | 0.101 | 0.882 | -0.527 | -0.571 | -0.854 | -0.725 | -0.734 | 0.442 | 0.892 |
| NZD | -0.465 | 0.486 | 0.793 | -0.068 | -0.118 | -0.434 | -0.851 | -0.328 | -0.069 | 0.573 |
| EUR | -0.949 | 0.366 | 0.483 | -0.523 | -0.574 | -0.446 | -0.638 | -0.498 | 0.466 | 0.606 |

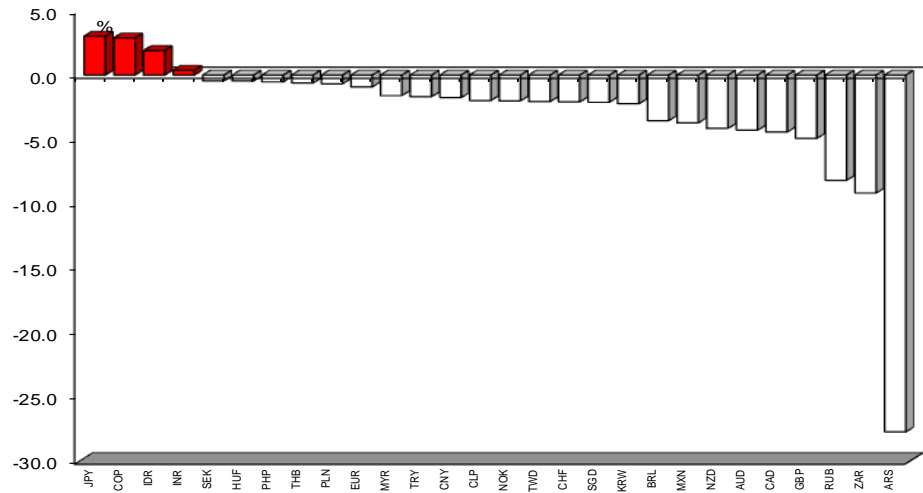
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0800 | 1.0816 | 1.0889 | 1.0900 | 1.1006 |
| GBP-USD | 1.4374 | 1.4400 | 1.4410 | 1.4500 | 1.4957 |
| AUD-USD | 0.6900 | 0.6926 | 0.6928 | 0.7000 | 0.7175 |
| NZD-USD | 0.6457 | 0.6472 | 0.6473 | 0.6500 | 0.6648 |
| USD-CAD | 1.3661 | 1.4200 | 1.4255 | 1.4300 | 1.4354 |
| USD-JPY | 116.70 | 117.00 | 117.36 | 118.00 | 121.38 |
| USD-SGD | 1.4145 | 1.4300 | 1.4385 | 1.4400 | 1.4444 |
| EUR-SGD | 1.5307 | 1.5600 | 1.5666 | 1.5700 | 1.5736 |
| JPY-SGD | 1.1657 | 1.2200 | 1.2251 | 1.2300 | 1.2363 |
| GBP-SGD | 2.0623 | 2.0700 | 2.0729 | 2.0800 | 2.1103 |
| AUD-SGD | 0.9941 | 0.9964 | 0.9965 | 1.0000 | 1.0147 |
| Gold | 1051.16 | 1077.91 | 1094.20 | 1100.00 | 1106.86 |
| Silver | 13.64 | 14.10 | 14.14 | 14.16 | 14.20 |

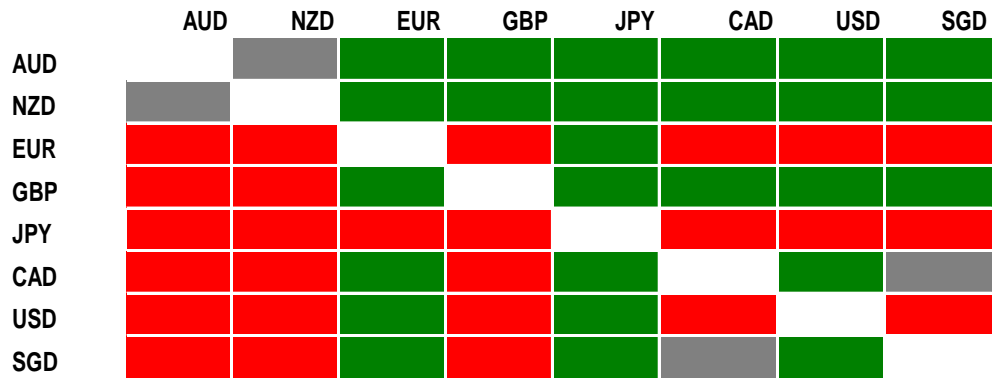
Source: OCBC Bank

FX performance: 1-month change agst USD



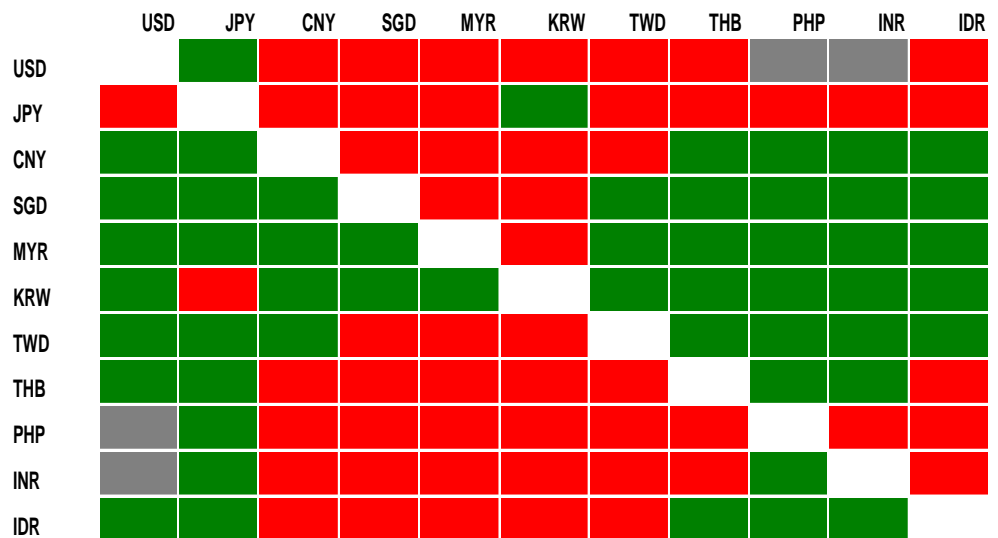
Source: Bloomberg

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 |
|------------|-----------|-----|----------|--------|--------|--------------------|---|
| 1 | 10-Nov-15 | B | USD-CAD | 1.3276 | 1.4565 | 1.4060 | USD strength vs. weak crude |
| 2 | 21-Dec-15 | S | USD-JPY | 121.15 | 116.20 | 119.90 | Disappointment towards a less dovish than expected BOJ |
| 3 | 21-Dec-15 | S | GBP-USD | 1.4917 | 1.4330 | 1.4770 | Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness |
| 4 | 04-Jan-16 | B | USD-SGD | 1.4229 | 1.4485 | 1.4100 | Asian FX weakness, RMB jitters |
| 5 | 08-Jan-16 | B | EUR-USD | 1.0888 | 1.1220 | 1.0720 | Risk of Fed/dollar "disappointment" |
| 6 | 08-Jan-16 | S | AUD-USD | 0.7056 | 0.6845 | 0.7165 | Fragile global/equity/commodity/RMB backdrop |
| STRUCTURAL | | | | | | | |
| 7 | 18-Dec-15 | S | GBP-USD | 1.4909 | 1.4195 | 1.5270 | Broad dollar strength post-liftoff may be expected to continue to have traction against GBP |
| 8 | 29-Dec-15 | S | USD-JPY | 120.25 | 113.45 | 123.70 | Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY profile |
| 9 | 29-Dec-15 | B | USD-CAD | 1.3886 | 1.4520 | 1.3565 | Central bank policy dichotomy in addition to structurally soft crude |

Source: OCBC Bank

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