

Monday, March 14, 2016

FX Themes/Strategy/Trading Ideas –The week ahead

- The largely disappointing swath of data points out of China on Fri-Sat (note that further policy easing is still widely expected) may put a slight damper on global risk appetite levels but we note that the improvement in risk appetite levels over the past week has been unmistakable with the **FXSI (FX Sentiment Index)** inching lower on the back of equities/commodities.
- With caution towards the FOMC this week, the lack of strong dollar buying interest (despite investors attempting to price in greater odds of rate hikes in recent weeks) in the interim may continue to underpin the rest of the majors (especially the cyclicals).
- On the **CFTC** front, net implied “long” dollar positioning was pared in the latest week by large non-commercial players but leveraged positioning in contrast saw a stronger aggregate “long” dollar bias. We chalk up the latter to investors loading up on EUR shorts ahead of last week’s ECB meeting.
- The spotlight this week is expected to be on the **FOMC** on Wednesday and crucially, investors will be watching the degree of convergence between the ‘forward guidance’ and market expectations. Look also to the other major central banks for cues, with **RBA** meeting minutes and the BOJ MPC on Tuesday, while the **SNB** and **BOE** MPC is scheduled for Thursday.
- Our 3 Mar 16 idea to be tactically long **AUD-USD** (spot ref: 0.7284) achieved its 0.7555 target on Friday as the pair continued its ascent. We extend our objective to 0.7835, trailing the stop to 0.7410.
- Ahead of the BOE MPC (and Osborne’s budget speech) this week and tapering Brexit concerns (at this juncture), the **GBP-USD** may attempt to inch higher into and post-FOMC if Yellen fails to surprise significantly on the upside. With a spot ref at 1.4380, we target 1.4770 and place a stop at 1.4180.

Asian FX

- EM currencies may start the week mixed to supported against the greenback in view of the still sanguine levels of investor sentiment. On the latter, note that short-term EM FX vols remain relatively suppressed to their G7 counterparts. Note that the heavy **ACI (Asian Currency Index)** is lower on the week. On the central bank front, **Bank Indonesia** is expected to cut its benchmark rates on Thursday.

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

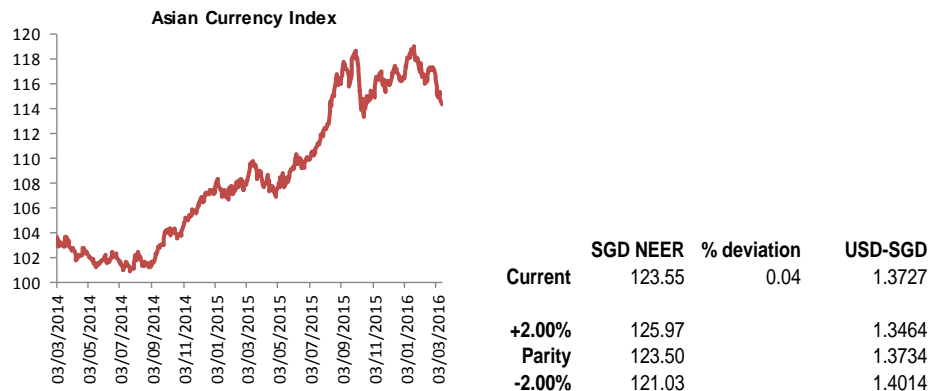
Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

- With the broad USD beating a retreat, the **SGD NEER** is essentially at parity this morning at around -0.03% with parity tagged at approximately 1.3734. NEER-implied USD-SGD levels are lower on the day with the pair seen in a 1.3700-1.3800 range intra-day. At current levels, note that the +0.50% threshold is estimated at around 1.3666.
- The **USD-CNY mid-point** was fixed slightly higher on Monday at 6.4913 compared to 6.4905 last Friday. This brings the CFETS RMB Index to 98.73, down from 98.82 on Friday. The USD-CNY midpoint continues to be at a discount to USD-CNY spot with the Index softer lower than expected but perhaps in line with the string of disappointing data points over the weekend.

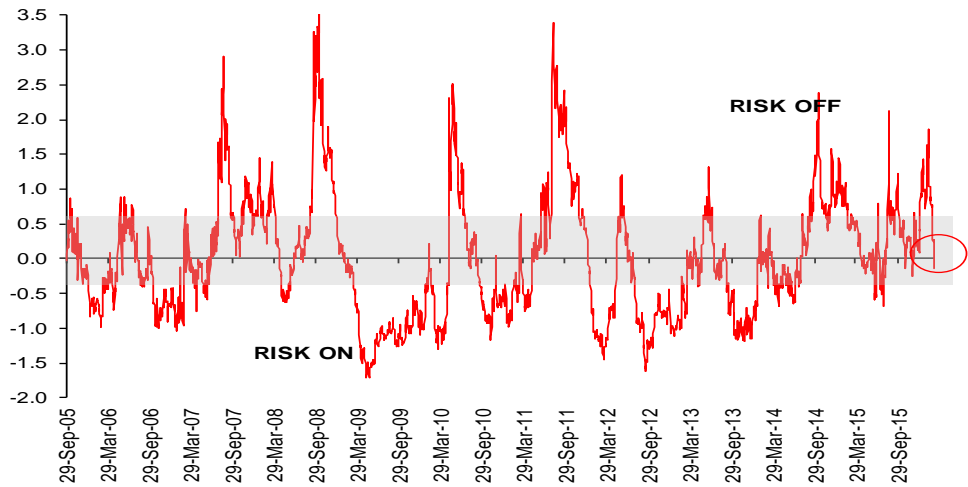


Source: OCBC Bank

G7

- **EUR-USD** The EUR-USD may continue to remain somewhat supported ahead of the FOMC this week. We expect leveraged CFTC shorts in the EUR to have been pared significantly post-ECB last week. Multi-session, the 200-day MA (1.1044) is expected to yield good support for now.
- **USD-JPY** Look to the interplay between the BOJ MPC and the FOMC this week for further cues. On the CFTC front, net leveraged JPY longs increased in the latest week and the pair may remain trapped in a 112.60-114.60 range in the interim.
- **AUD-USD** Apart from RBA meeting minutes on Tuesday, February labor market numbers on Thursday may prove significant for ensuing price action. In the interim, the AUD-USD may remain somewhat buoyant on the back of positive sentiment with leveraged positioning on the CFTC front flipping to a net long AUD balance in the latest week. Markets may bounce in a 0.7500-0.7600 range pending further headline risks.
- **GBP-USD** The GBP may also be subject to global central bank rhetoric this week despite leveraged CFTC positioning indicating an increase in net GBP shorts in the latest week. If the pair is able to subsist above its 55-day MA (1.4357), 1.4435 may be in within reach. A failure on his front may however see a relapse back towards 1.4300/30.

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

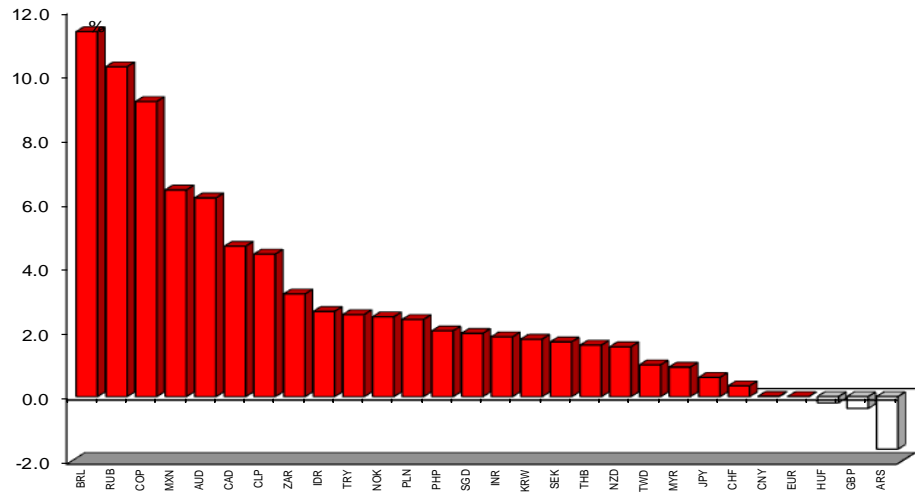
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1043	1.1100	1.1156	1.1200	1.1223
GBP-USD	1.4300	1.4315	1.4382	1.4400	1.4505
AUD-USD	0.7245	0.7500	0.7577	0.7584	0.7600
NZD-USD	0.6619	0.6700	0.6750	0.6800	0.6802
USD-CAD	1.3168	1.3200	1.3294	1.3300	1.3318
USD-JPY	112.08	113.00	113.92	114.00	114.53
USD-SGD	1.3699	1.3700	1.3726	1.3800	1.3972
EUR-SGD	1.5038	1.5300	1.5312	1.5400	1.5428
JPY-SGD	1.2000	1.2002	1.2049	1.2100	1.2191
GBP-SGD	1.9455	1.9700	1.9740	1.9800	2.0154
AUD-SGD	1.0350	1.0370	1.0400	1.0411	1.0417
Gold	1199.97	1200.00	1255.30	1281.26	1287.80
Silver	14.95	15.50	15.56	15.60	15.83

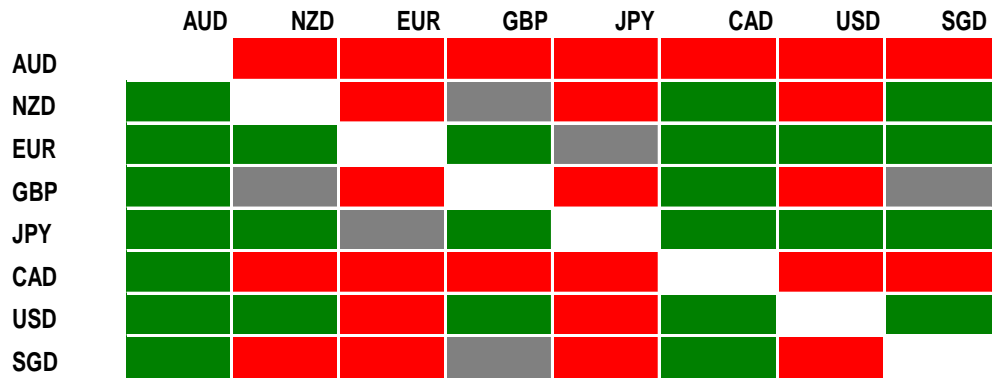
Source: OCBC Bank

FX performance: 1-month change agst USD



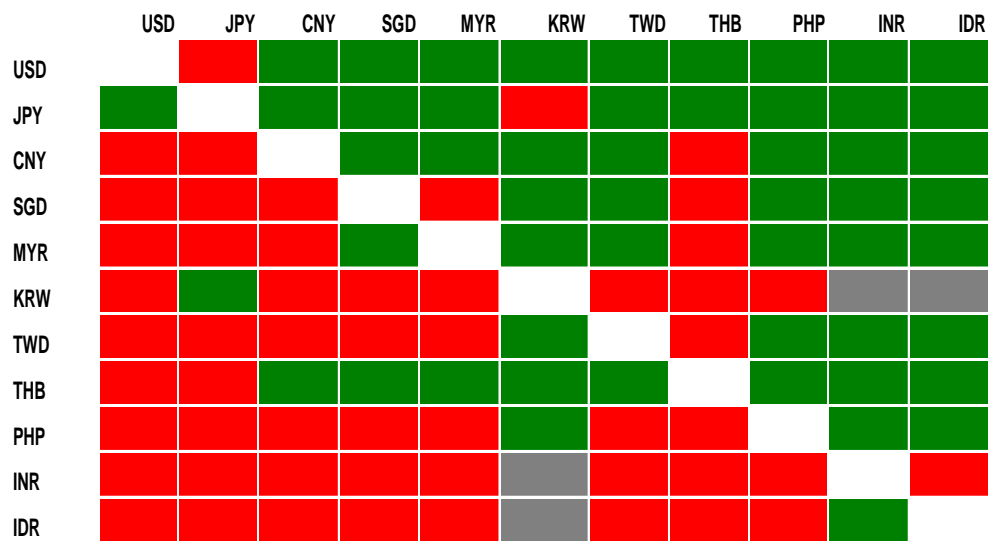
Source: Bloomberg

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	29-Feb-16	S	USD-CAD	1.3533	1.3135	1.3735	Bottoming crude	
2	03-Mar-16	B	AUD-USD	0.7284	0.7835	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
3	04-Mar-16	S	USD-SGD	1.3881	1.3630	1.4010	Brightening risk appetite, vulnerable broad dollar	
4	14-Mar-16	B	GBP-USD	1.4380	1.4770	1.4180	Abating Brexit concerns, potential for Yellen to underwhelm	
STRUCTURAL								
5	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
8	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
9	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	04-Feb-16	16-Feb-16	S	USD-SGD	1.4158	1.4035	Dollar may stumble further post-Dudley	+0.85
2	08-Jan-16	22-Feb-16	B	EUR-USD	1.0888	1.1045	Risk of Fed/dollar "disappointment"	+1.42
3	18-Feb-16	24-Feb-16	S	USD-CAD	1.3655	1.3855	Potential for crude to consolidate higher	-1.45
4	26-Feb-16	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
5	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45
6	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
