

Thursday, April 14, 2016

FX Themes/Strategy/Trading Ideas

- Despite a positive global equity backdrop (note better than expected March China trade numbers) and softer than expected US March retail sales and PPI data points, the USD continued to retrace higher against the majors on Wednesday. The greenback (prodded along by slightly more hawkish rhetoric from Fed-speak this week) may be expected to potentially capitulate higher following its recent slide but this may be tempered somewhat if global equities continue to push firmer.
- **At this juncture, markets may continue to be slightly Fed-centric, preferring to trade off any implications on the FOMC's projected trajectory, as opposed to reacting to risk appetite developments.** On the latter, note that the **FXSI (FX Sentiment Index)** continued to dip lower for the 4th consecutive session on Wednesday within Risk-Neutral territory, with the index potentially seen brushing up against Risk-On territory.

Asian FX

- Intra-day in Asia, despite the positive start to Asian equities, expect USD-Asia to potentially higher on the back of the broad dollar, the surprise MAS move, and the higher than expected USD-CNY mid-point. As such, look for the **ACI (Asian Currency Index)** to continue to bounce higher intra-day.

MAS Monetary Policy Statement: Quick thoughts

- Today, the **MAS** "set the rate of appreciation of the S\$NEER policy band at zero percent", while maintaining the width of the policy band and the location at which the parity is centered.
- From an operational perspective, the NEER-implied **USD-SGD** thresholds are essentially unchanged (for today), with the estimated parity estimated at 1.3525 and -2.00% is approximately at 1.3800. Additionally, the -1.00% threshold is around 1.3663. The index is currently trading around -0.57% currently compared to around +0.13% immediately before the policy announcement.
- Immediate implications include a tentative test by the market towards the -1.00% threshold into the end of the week, especially if the broad dollar backdrop is conducive. Forwards points have also reacted to the right as a result given the removal of the appreciation bias for the NEER.

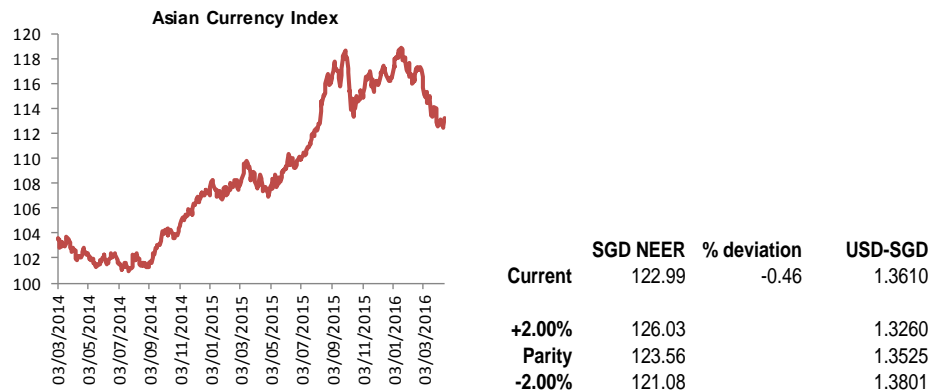
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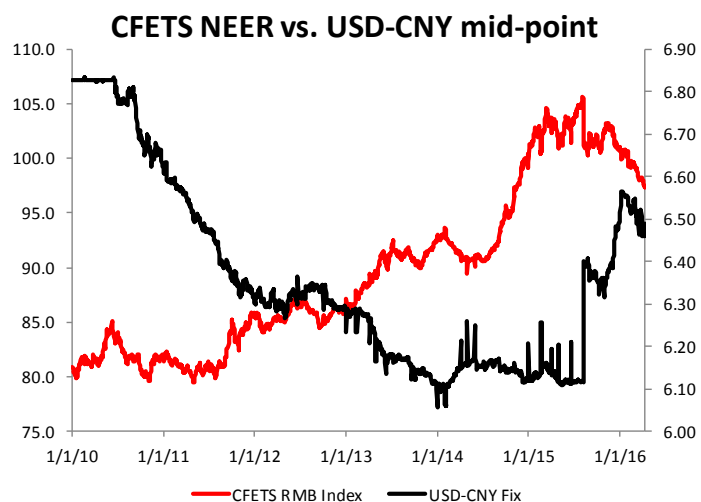
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Source: OCBC Bank

- The **USD-CNY mid-point** was set significantly higher than expected at 6.4891 compared to 6.4591 on Wednesday. Despite overnight moves in the basket's constituent currencies, today's USD-CNY mid-point leaves the CFETS RMB Index at a lower than expected 97.41 today, relative to 97.35 yesterday.
- At the risk of generalization, today's suppression of the CFETS RMB Index may imply an official intent to guide and maintain the index at soft levels (reflecting the current fundamental picture). As we have warned previously, this policy posture, coupled with any bounce in the broad dollar, will see the USD-CNY continuing to surprise on the upside. To illustrate, the USD-CNY mid-point has not witnessed such a significant day-on-day change since 7 Jan 16, when the mid-point jumped to 6.5646 from 6.5314 on the previous day.

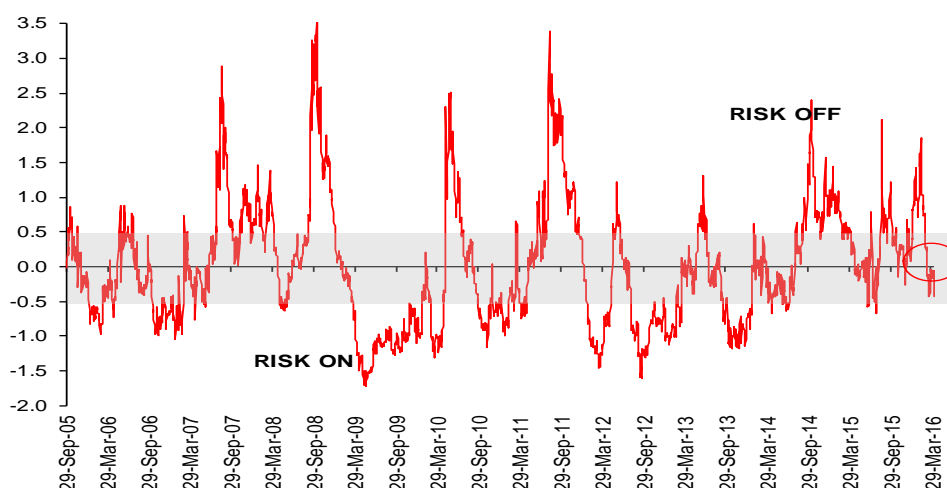
**G7**

- **EUR-USD** The EUR-USD seeped lower on Wednesday in tandem with the major currency pairs despite the ECB's Nowotny warning against overplaying the low inflation environment. Stay tuned for EZ inflation number later today with risks towards 1.1200 increasing if the broad dollar continues

to garner traction.

- USD-JPY** Japanese officials are likely to be slightly comforted with the latest creep higher in the USD-PY, with the BOJ's Kuroda also peppering the screens with prospects dovish comments with respect to further QQE. Intra-day, the pair may look to test beyond 109.50 towards 110.00.
- AUD-USD** This morning, the Australian March employment numbers surprised on the upside (employment change +26.1k) and this should put a drag on broader based USD strength with respect to the AUD-USD. Encouraging China trade numbers are also perceived to provide marginal support. As such, a floor around 0.7600 may materialize in the short term.
- GBP-USD** GBP-USD also succumbed to a firmer broad dollar on Wednesday and in this environment, any renewed Brexit concerns may pave the way lower for the pair ahead of the BOE MPC later today. In the interim, expect a range bound pair with the 55-day MA (1.4263) seen capping while risks towards 1.4100 remain evident.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

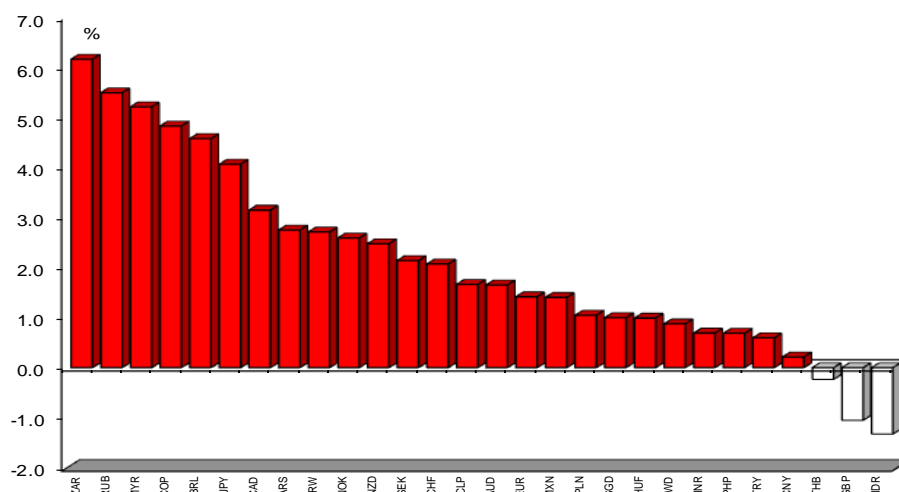
| | DXY | USGG10 | CNY | SPX | MSELCA | CRY | JPY | CL1 | VIX | ITRSEX | CNH | EUR |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| DXY | 1.000 | -0.374 | -0.289 | 0.409 | 0.517 | 0.240 | 0.537 | 0.313 | -0.458 | -0.462 | -0.279 | -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 | 1.1179 | 1.1200 | 1.1260 | 1.1300 | 1.1465 |
| GBP-USD | 1.4014 | 1.4100 | 1.4153 | 1.4200 | 1.4243 |
| AUD-USD | 0.7481 | 0.7600 | 0.7638 | 0.7700 | 0.7706 |
| NZD-USD | 0.6725 | 0.6800 | 0.6840 | 0.6900 | 0.6961 |
| USD-CAD | 1.2773 | 1.3100 | 1.3142 | 1.3200 | 1.3315 |
| USD-JPY | 107.63 | 109.00 | 109.39 | 110.00 | 112.49 |
| USD-SGD | 1.3415 | 1.3600 | 1.3616 | 1.3700 | 1.3713 |
| EUR-SGD | 1.5217 | 1.5300 | 1.5355 | 1.5389 | 1.5400 |
| JPY-SGD | 1.2242 | 1.2400 | 1.2430 | 1.2500 | 1.2536 |
| GBP-SGD | 1.8950 | 1.8970 | 1.9000 | 1.9610 | 1.9628 |
| AUD-SGD | 1.0130 | 1.0158 | 1.0174 | 1.0187 | 1.0200 |
| Gold | 1208.88 | 1230.78 | 1233.50 | 1265.21 | 1287.80 |
| Silver | 15.37 | 16.00 | 16.08 | 16.10 | 16.34 |

Source: OCBC Bank

FX performance: 1-month change agst USD

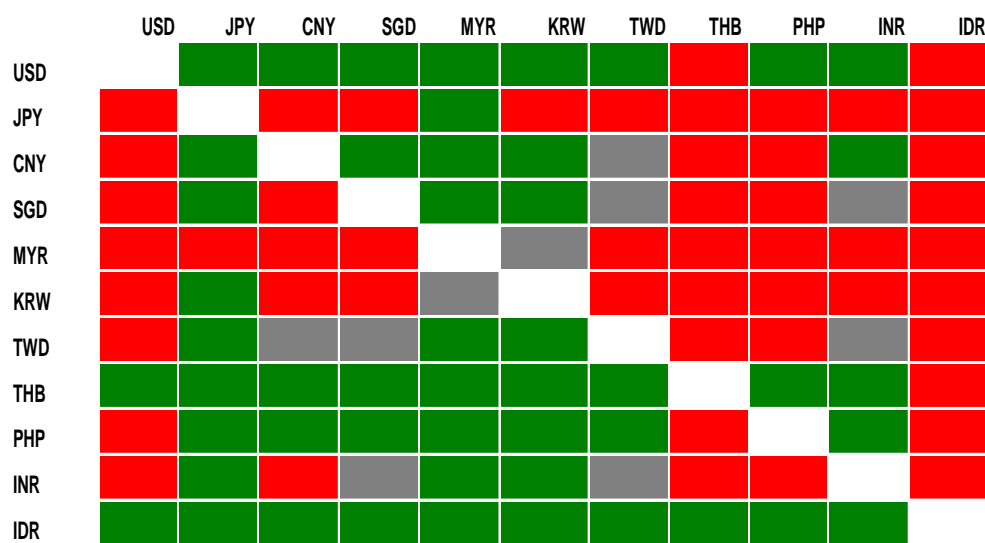
Source: Bloomberg

G10 FX Heat Map

| | AUD | NZD | EUR | GBP | JPY | CAD | USD | SGD |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| AUD | | | | | | | | |
| NZD | | | | | | | | |
| EUR | | | | | | | | |
| GBP | | | | | | | | |
| JPY | | | | | | | | |
| CAD | | | | | | | | |
| USD | | | | | | | | |
| SGD | | | | | | | | |

Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

FX Trade Ideas

| FX Trade Room | | | | | | | | | |
|---------------|-----------------|-----------|-----|----------|--------|--------|--------------------|--|---------|
| | Inception | | B/S | Currency | Spot | Target | Stop/Trailing stop | Rationale | |
| 1 | 04-Mar-16 | | S | USD-SGD | 1.3881 | 1.3380 | 1.3755 | Brightening risk appetite, vulnerable broad dollar | |
| 2 | 30-Mar-16 | | B | EUR-USD | 1.1297 | 1.1630 | 1.1130 | Dollar negativity post-Yellen | |
| 3 | 11-Apr-16 | | S | USD-JPY | 107.72 | 104.15 | 109.50 | JPY still not drastically overvalued, endemic USD weakness | |
| | STRUCTURAL | | | | | | | | |
| 4 | 03-Feb-16 | | S | GBP-USD | 1.4401 | 1.3700 | 1.4755 | Policy dichotomy, Brexit concerns, and space for further NEER depreciation | |
| 5 | 18-Feb-16 | | B | EUR-USD | 1.1137 | 1.1825 | 1.0790 | Growing suspicion that the Fed will hesitate | |
| 6 | 01-Mar-16 | | S | USD-JPY | 112.91 | 105.00 | 116.90 | Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries | |
| 7 | 07-Mar-16 | | B | AUD-USD | 0.7412 | 0.7955 | 0.7135 | Potential risk appetite, abating global growth concerns, static Fed expectations | |
| 8 | 12-Apr-16 | | S | USD-CAD | 1.2895 | 1.2045 | 1.3325 | Stabilizing crude, soft USD, sanguine BOC | |
| 9 | 12-Apr-16 | | B | NZD-USD | 0.6885 | 0.7450 | 0.6600 | Recovery in cyclicals, search for yield | |
| | RECENTLY CLOSED | | | | | | | | |
| | Inception | Close | B/S | Currency | Spot | | Close | Rationale | P/L (%) |
| 1 | 14-Mar-16 | 15-Mar-16 | B | GBP-USD | 1.4380 | | 1.4180 | Abating Brexit concerns, potential for Yellen to underwhelm | -1.41 |
| 2 | 18-Mar-16 | 24-Mar-16 | B | EUR-USD | 1.1321 | | 1.1150 | Tilt in policy balance after ECB and FOMC | -1.53 |
| 3 | 18-Feb-16 | 31-Mar-16 | S | USD-SGD | 1.4034 | | 1.4335 | USD vulnerability, stabilization in RMB, equities/commodities | +4.54 |
| 4 | 03-Mar-16 | 08-Apr-16 | B | AUD-USD | 0.7284 | | 0.7410 | Stabilizing commodities/equities, coupled with recent upside aussie | +3.19 |
| 5 | 29-Feb-16 | 08-Apr-16 | S | USD-CAD | 1.3533 | | 1.3139 | Bottoming crude | +2.98 |

Source: OCBC Bank

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