

Wednesday, September 14, 2016

### FX Themes/Strategy/Trading Ideas

- With the UST curve bear steepening from the long end, markets suffered a reflux from carry with the antipodeans leading the way lower as the dollar climbed across G10 space, including the JPY. Meanwhile, the cyclicals and EM currencies were also weighed further by falling crude and the negative taint in global equities.
- Going ahead, the markets may continue to vacillate with respect to the USD in the coming sessions ahead of next week's FOMC although we note a near term soft profile for crude and gold (typical counter-dollar trades).
- On the risk appetite front, note also that positivity may also be in danger of crumbling as investors grow increasingly skittish, with the **FXSI (FX Sentiment Index)** jumping overnight although still staying in Risk-Neutral territory.
- In essence, while the (atypical) positive correlation between equity and bond markets had been tolerated previously while sentiment had been sanguine, this same co-movement on the way down we think potentially may aggravate the market volatility and risk aversion instead.

### Asian FX

- Despite China data points largely on point yesterday, an unpleasant mix of negative equities and a firmer broad dollar tone may continue to present hostile conditions for Asian currencies at this juncture. In addition, implied net portfolio capital inflows in the short term continue to be less than encouraging. As such, the **Asian Currency Index (ACI)** is expected to remain tilted higher intra-day for the fifth consecutive session. Elsewhere, the Bank of Thailand is expected to stand pat at 1.50% today.
- With the dollar marching higher overnight, the **SGD NEER** has dipped below its perceived parity (1.3659) to around -0.12% as the USD-SGD lifted above 1.3650. In the current environment, expect little inclination to depart significantly north of parity with risks instead skewed towards -0.50% (1.3728). Beyond 1.3700, the 200-day MA (1.3744) hovers above and may serve as a technical resistance in the interim while the 100-day MA (1.3555) now functions as a support level instead. We hang tight with respect to our tactical long USD-SGD idea from 25 Aug 16 targeting 1.3780.

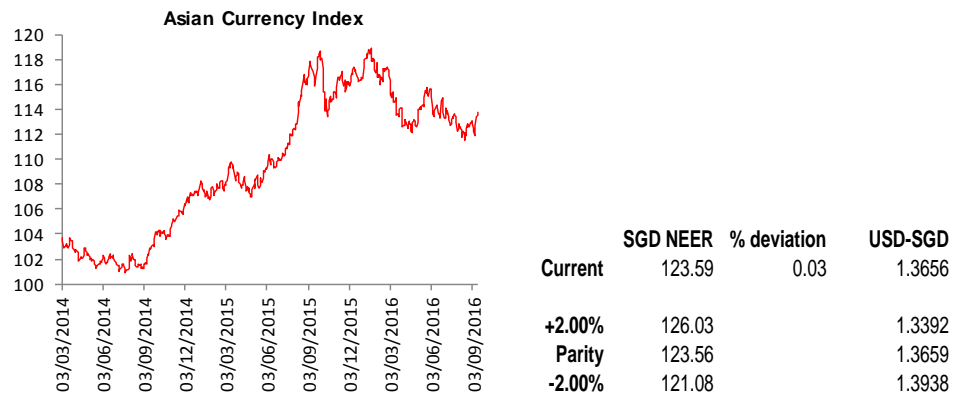
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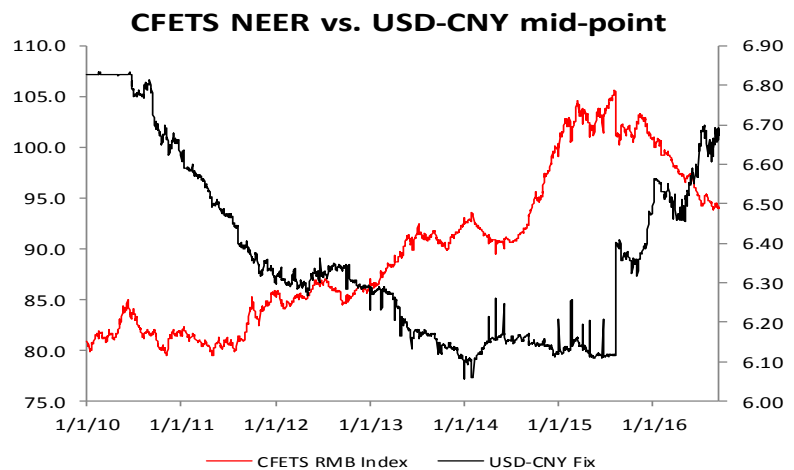
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Source: OCBC Bank

- In the wake of overnight dollar price action across the board, the **CFETS RMB Index** firmed further to 94.28 this morning from 94.15 on Tuesday. The USD-CNY mid-point meanwhile rose (as largely expected) to 6.6895 from 6.6726 yesterday. Overall, we think the behavior of the Index and the fixes remain largely within their perceived theoretical limits on a day-to-day basis although the former is back at its estimated upper bound.



Source: OCBC Bank, Bloomberg

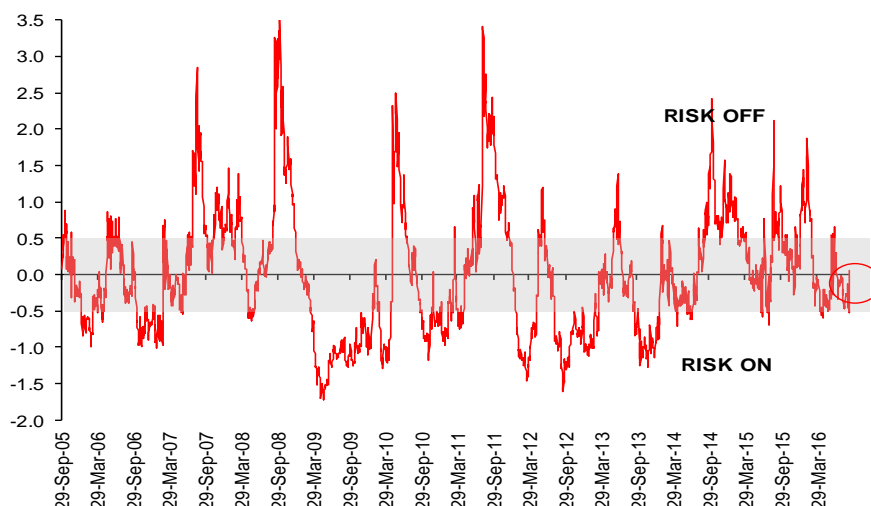
**G7**

- **EUR-USD** After the “disappointment” from the ECB last week and despite higher bund yields, the EUR-USD may remain confined to the sidelines in the near term as markets attempt to position elsewhere (i.e., BOJ vs. Fed). In the interim, the EUR-USD may remain top heavy and in close proximity to its 100-day MA (1.1209) with key supports on the downside expected at 1.1170 and then at the 55-day MA (1.1152). For today, look towards the potential for headline risk when the European Commission’s Juncker makes his state of the union address.
- **USD-JPY** Media reports late Tues/early Wed have been decidedly negative for the JPY with the Nikkei reporting that the BOJ may consider taking rates deeper into negative territory while steepening the curve and that negative rates would serve as the centerpiece of future monetary easing.

Coupled with USD resilience at this juncture, the USD-JPY may continue to use the 55-day MA (102.66) as a base to seek out higher ground.

- AUD-USD** We would prefer to stay neutral to heavy on the pair despite fairly neutral comments from the RBA's Kent on Tuesday and with the yield hunt undergoing some capitulation in the near term. Expect initial support towards 0.7445 ahead of the 200-day MA (0.7398) while 0.7500 may fail if risk appetite remains fragile.
- GBP-USD** Amid some Brexit-related headlines in the last few sessions, the GBP-USD was also sabotaged by cooler than expected August CPI/PPI readings with the pair weighed further by subsequent USD strength. Ahead of the BOE MPC outcome on Thursday, look to the July/August labor market numbers later today and any violation of the 55-day MA (1.3159) may lead the pair towards 1.3100.

### 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

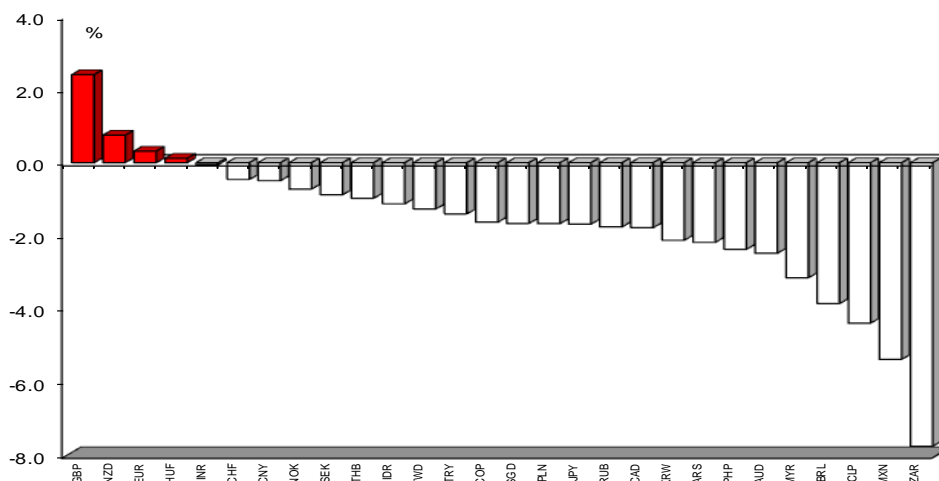
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1155	1.1200	1.1219	1.1300	1.1355
GBP-USD	1.3100	1.3158	1.3189	1.3200	1.3408
AUD-USD	0.7442	0.7458	0.7482	0.7500	0.7582
NZD-USD	0.7200	0.7210	0.7264	0.7300	0.7419
USD-CAD	1.3023	1.3100	1.3161	1.3194	1.3200
USD-JPY	102.00	102.69	102.98	103.00	104.32
USD-SGD	1.3498	1.3600	1.3657	1.3686	1.3687
EUR-SGD	1.5299	1.5300	1.5321	1.5328	1.5368
JPY-SGD	1.3152	1.3200	1.3262	1.3300	1.3517
GBP-SGD	1.7761	1.8000	1.8012	1.8100	1.8155
AUD-SGD	1.0194	1.0200	1.0218	1.0234	1.0300
Gold	1302.10	1303.79	1318.50	1336.67	1355.24
Silver	18.37	18.80	18.89	18.90	19.69
Crude	43.40	45.00	45.09	45.10	45.19

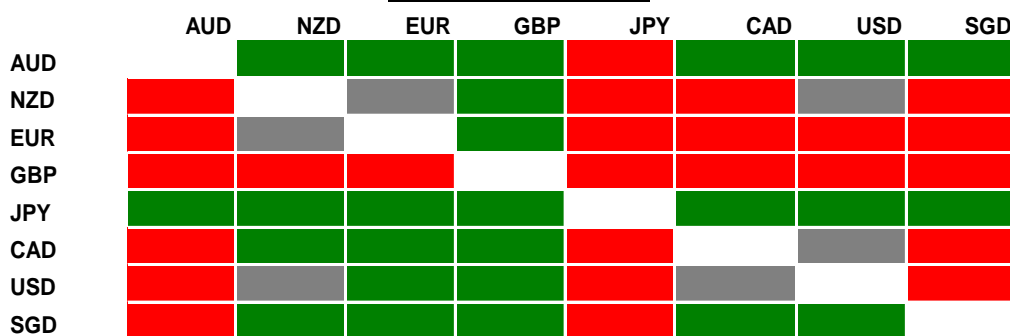
Source: OCBC Bank

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



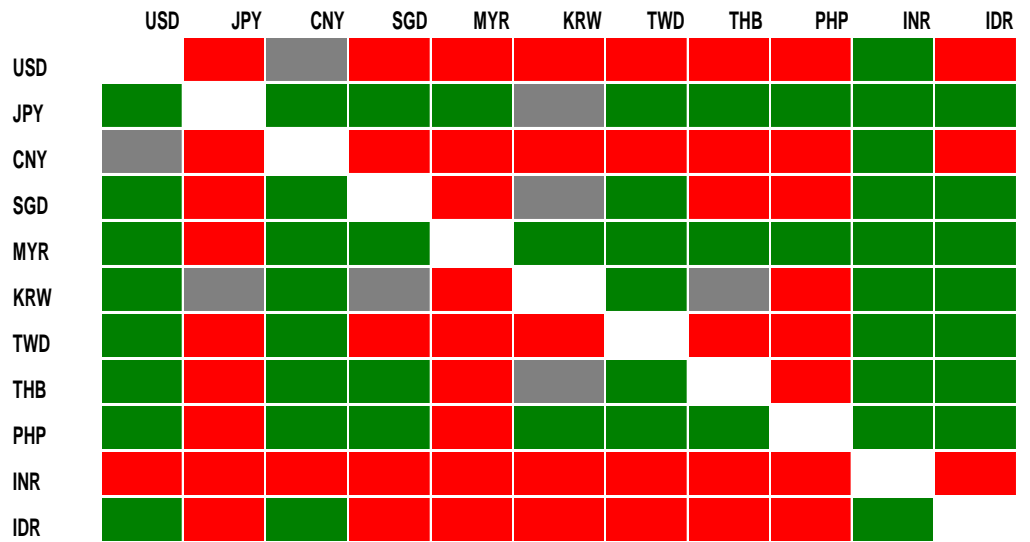
Source: Bloomberg

**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	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
3	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
4	01-Sep-16	B	USD-JPY	103.33	108.15	100.90	Ahead of NFP numbers and BOJ MPC	
<b>STRUCTURAL</b>								
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	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
8	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
9	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
10	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
<b>RECENTLY CLOSED</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	15-Aug-16	B	USD-CAD	1.2991	1.2805	Concerns over the global deflationary impact from Brexit	-0.23
2	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
3	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
4	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
5	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
6	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclicals, search for yield	8.37
<b>Jan-Aug 2016 Return</b>								<b>+7.80</b>

Source: OCBC Bank

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