

Friday, October 14, 2016

### FX Themes/Strategy/Trading Ideas - MAS: Neutral but dovish

- The dollar retreated across G10 space on Thursday on cited position adjustments following disappointing China trade numbers and associated global growth concerns. Amid EZ/US equity weakness (note softer UST curve), the **FXSI (FX Sentiment Index)** ticked higher within Risk-Neutral territory on Thursday although we note that risk aversion remain largely contained and did not translate into typical JPY outperformance.
- In addition to the US September retail sales numbers, the Fed's Rosengren (1230 GMT) and Yellen (1730 GMT) are due to make appearances later in the global day while headline risks from the US reporting season (US financials) remain potential sources of volatility. In the interim, the greenback may continue to remain on the defensive.

### Asian FX

- Regional currency pairs are expected to sync lower in line with the broad dollar's capitulation at this juncture while the lower USD-CNY fix and warmer than expected China CPI/PPI data points may dilute some negativity from yesterday's trade numbers. As such, the **ACI (Asian Currency Index)** is expected to be on softer ground today pending further cues.
- **SGD NEER:** The MAS this morning kept its policy parameters unchanged as widely expected. In a nutshell, MAS referred to the emerging slack in the labor market on 3 instances in the accompanying statement; growth prospects are expected to essentially flat line, although core inflation is expected to trough from mid-2016 and "only rise gradually". The statement also noted that "a neutral policy stance will be needed for an extended period ..." and that "The current policy band provides some flexibility for the S\$NEER to accommodate the near-term weakness in inflation and growth."
- On our part, it will be crucial to monitor if the NEER continues to be guided towards its lower bound in the next 6 months. If global macro/price pressures deteriorate precipitously in the intervening months to April 2017, we would lean towards a re-centering lower. In the short term, MAS has essentially underscored a "low for long" stance, running smack into FOMC expectations for December, leaving the SGD vulnerable to the greenback.
- Currently, the **SGD NEER** is approximately -0.48% below its perceived parity (1.3778), compared to -0.24% pre-announcement and -0.41% a day earlier. Expect the -1.00% (1.3917 currently) to gradually be brought into sharper relief going ahead despite NEER-implied USD-SGD thresholds a touch softer

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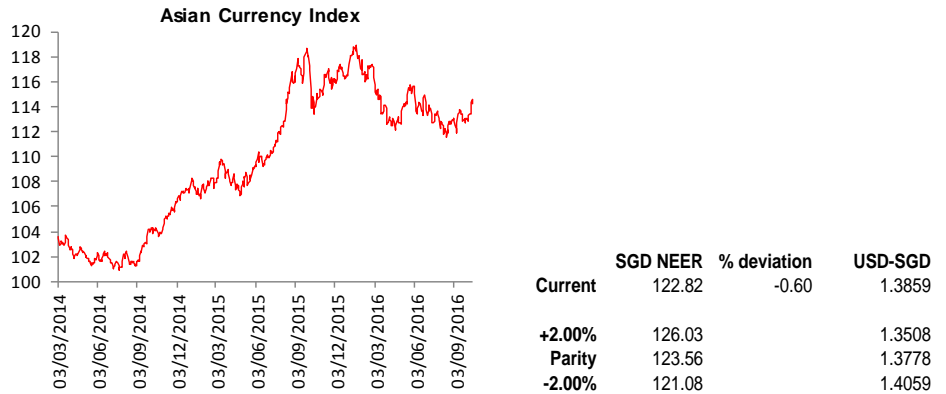
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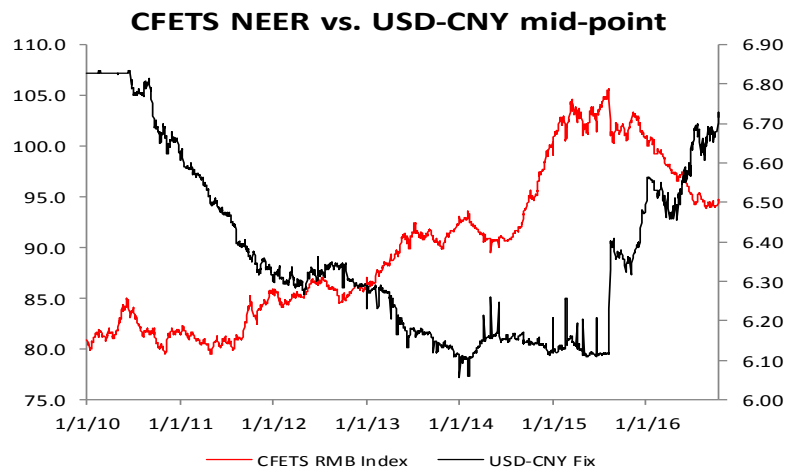
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on the day. Overall, the disappointing 3Q flash GDP headline (+0.6% yoy) and the somewhat dovish overtones in the MAS MPS may leave the USD-SGD looking for further headroom on the upside if broad USD resilience re-emerges. We retain our tactical objective for the pair at 1.4040.



Source: OCBC Bank

- CFETS RMB Index:** This morning, the USD-CNY mid-point fell (largely as expected) to 6.7157 from 6.7296 yesterday, in line with the broad dollar's slight retreat. The **CFETS RMB Index** meanwhile, eased to 94.64 from 94.71 and the Index may continue to be confined within 94.00-95.00 in the near term with the USD-CNY absorbing movements in the constituent currencies instead.



Source: OCBC Bank, Bloomberg

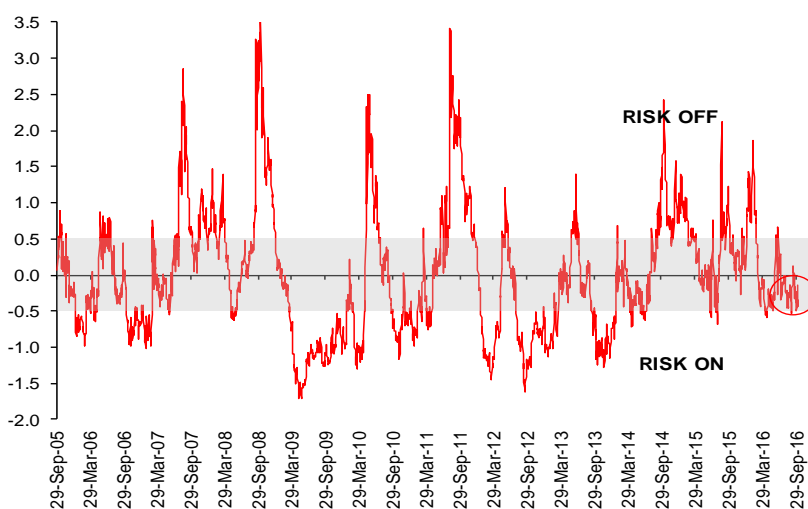
**G7**

- EUR-USD** The EUR-USD managed to retrieve itself from sub-1.1000 levels posted intra-day as the broad dollar wavered. Despite scattered murmurings of an eventual ECB taper, a wire poll indicated a general expectation for the ECB to announce in December an extension of its asset purchase program. Expect consolidative price action ahead of the US session tonight while another probe towards and below the 1.1000 floor

cannot be discounted.

- USD-JPY**      Outright USD strength may be tempered in the near term with the Fed’s Harker (non-voter) noting on Thursday that the FOMC may hold fire till after the US Presidential elections. In the short term, some base building behavior may be expected towards 103.30/50 while the topside may be fenced in by 104.60 in the interim.
- AUD-USD**      The AUD-USD may remain bounded by its 100-day MA (0.7538) and its 55-day MA (0.7606) and 0.7635 thereafter with markets searching for new impetus. Look towards the September labor market numbers next Thursday for further domestic cues.
- GBP-USD**      Expect the pair to continue to exhibit potential for swings (albeit with a downside bias we believe). Rhetoric from the EU has been less than sympathetic with regards to Brexit while on the domestic front, uncertainty over the constitutionality of the referendum vote and whether parliament would eventually be required to vote on Article 50 provides noticeable space for uncertainty in the asset markets. Expect a lot of free play within 1.2000-1.2500 multi-session.

**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

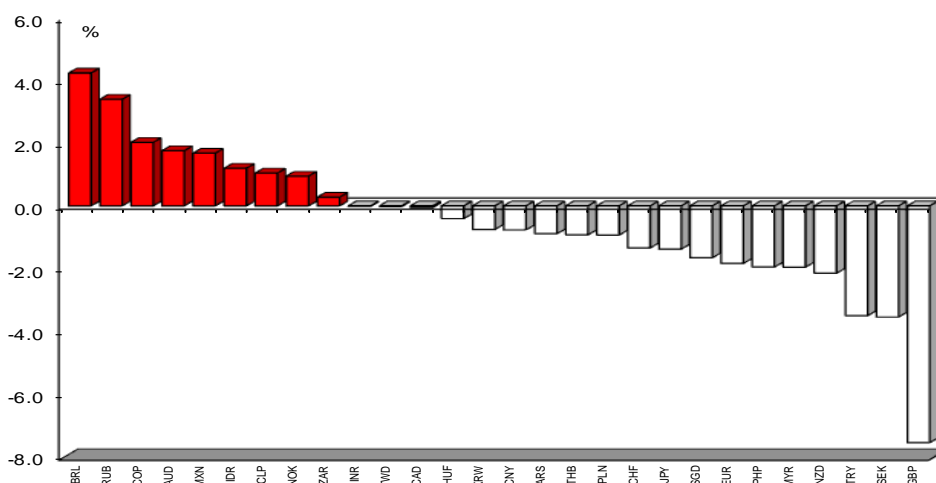
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1000	1.1027	1.1044	1.1100	1.1172
GBP-USD	1.2073	1.2200	1.2243	1.2300	1.2981
AUD-USD	0.7519	0.7600	0.7601	0.7604	0.7696
NZD-USD	0.7038	0.7100	0.7125	0.7200	0.7247
USD-CAD	1.3071	1.3100	1.3189	1.3190	1.3200
USD-JPY	101.92	103.00	103.87	104.00	104.64
USD-SGD	1.3800	1.3859	1.3861	1.3869	1.3900
EUR-SGD	1.5282	1.5300	1.5307	1.5384	1.5400
JPY-SGD	1.3300	1.3327	1.3343	1.3400	1.3588
GBP-SGD	1.6724	1.6900	1.6970	1.7000	1.7626
AUD-SGD	1.0325	1.0500	1.0535	1.0536	1.0538
Gold	1227.73	1249.50	1255.00	1261.82	1300.00
Silver	17.25	17.40	17.47	17.50	19.04
Crude	46.85	50.50	50.58	50.60	51.60

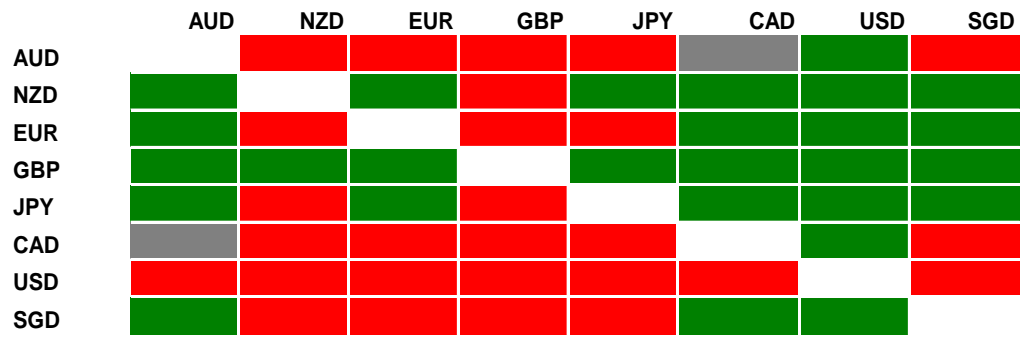
Source: OCBC Bank

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



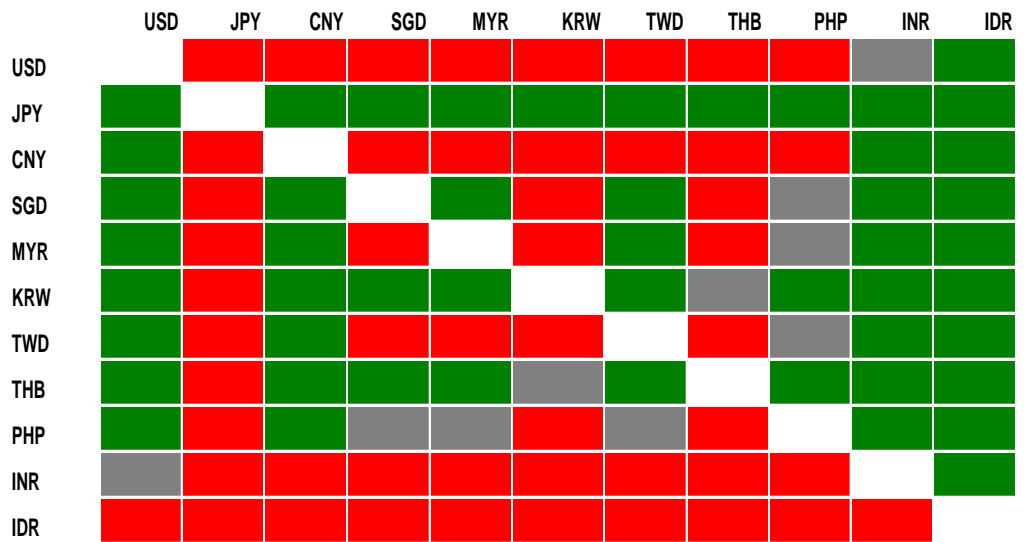
Source: Bloomberg

**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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