

Friday, July 15, 2016

FX Themes/Strategy/Trading Ideas

- The JPY and the GBP may continue to hog the spotlight into the end of the week. The JPY is expected to remain underpinned by unwinding and the prospect of further policy accommodation while the GBP may continue to achieve limited buoyancy on the back of the BOE's inaction yesterday.
- The **broad dollar** meanwhile is still not expected to garner meaningful traction despite USDT yield backing up and supportive initial claims and PPI numbers on Thursday. The Fed's Lockhart also stated that the Fed has time to consider its next move with Bullard sounding undecidedly unhurried. These comments are expected to overshadow slightly more hawkish rhetoric from Esther George and Kaplan. On this front, note that essentially half the street expects no rate hike till December, according to a WSJ survey.
- For today, look for potential US-specific drivers later in the global session with a chockfull of US data on tap including June retail sales, CPI industrial manufacturing, Empire manufacturing, as well as U of Michigan consumer confidence.
- Elsewhere, despite the Thursday attack in Niece, general risk appetite levels may remain largely sanguine with Asian equities off to a positive start early on Friday with the **FXSI (FX Sentiment Index)** dipping yet lower within Risk-Neutral territory and approaching its Risk-On zone. Overall, outside of the JPY and GBP static, the vulnerable broad dollar and the search for yield may be expected to persist into the end of the week.

Asian FX

- This morning, China's 2Q GDP came in at a slightly better than expected +6.7% yoy (mkts: +6.6%) and coupled with the softer USD-CNY mid-point and generally positive risk appetite levels, we would expect the regional pairs to remain soggy in light of the vulnerable broad dollar. As such, expect the **Asian Currency Index (ACI)** to test lower for the fifth consecutive session.
- With USD-SGD continuing to sink on Thursday, this **SGD NEER** is relatively stronger (and tad strong in fact) on the day at around +1.20% above its perceived parity (1.3590). At current levels, the +1.50% threshold is estimated at around 1.3390 although we expect market caution towards excessive downside in the USD-SGD to prevail.

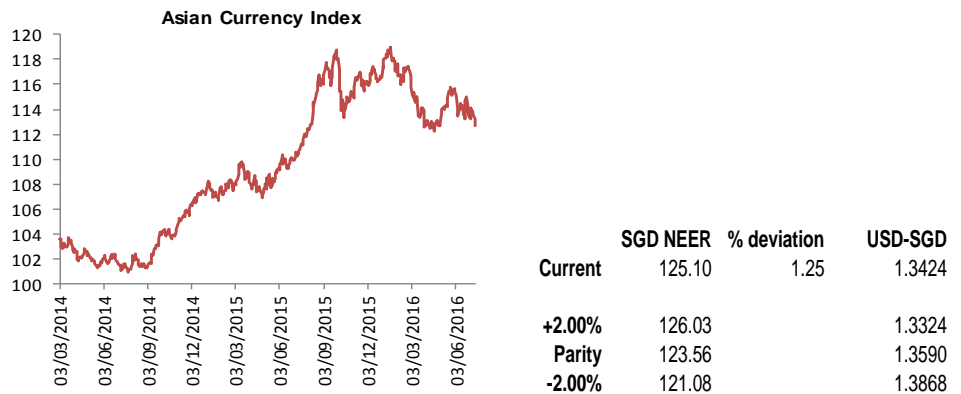
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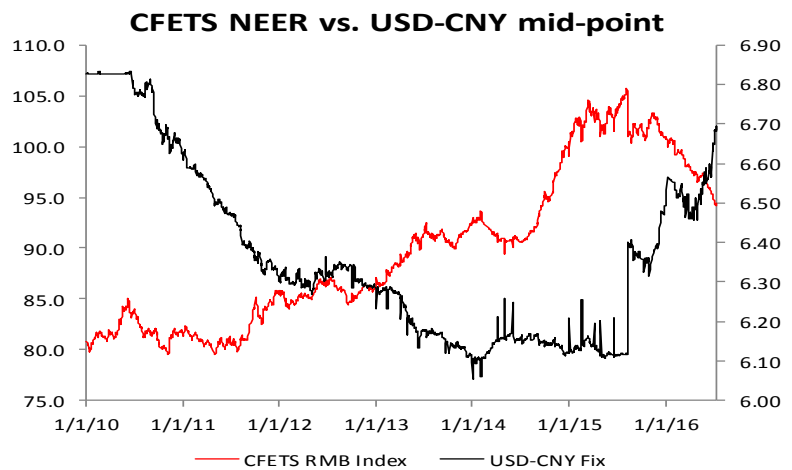
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Source: OCBC Bank

- The PBOC guided the **CFETS RMB Index** lower to 94.38 in line with implieds on Friday, with the USD-CNY mid-point softening (largely as expected) to 6.6805 from 6.6846 on Thursday. Depreciation pressure on the CNY's broad valuation is not about to let up abruptly as yet, with the central bank estimated to have sold CNY97.7bn worth of foreign exchange, from – CNY537mn in May.



Source: OCBC Bank, Bloomberg

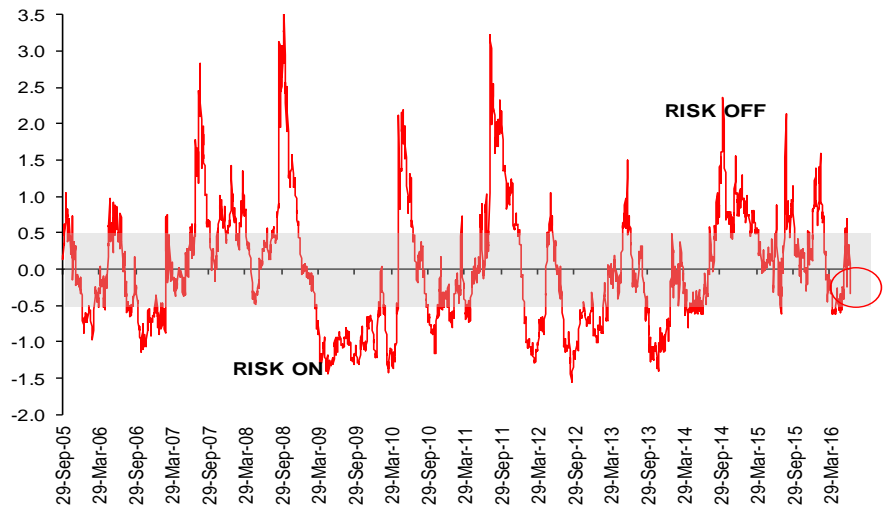
G7

- **EUR-USD** Despite a soft dollar on selected fronts, EUR-USD is not likely to head any fast into the end of the week, with the ECB policy meeting looming next week. In the interim, the pair may display little compunction to depart significantly from its 200-day MA (1.1089).
- **USD-JPY** Despite Hamada (advisor to PM Abe) refuting press reports of potential helicopter money by the BOJ, USD-JPY may remain poised to test higher in the near term and we would begin to expect some hesitation to set in towards 106.60.
- **AUD-USD** Australian June labor market numbers release on Thursday came in mixed/supportive and the pair may attempt to reach towards 0.7670 before a reassessment in view of supportive investor sentiment. Collect on

dips in the interim.

- GBP-USD** The BOE's failure to cut rates on Thursday blipped the GBP-USD higher past 1.3400 briefly and again this morning but with the BOE telegraphing a softening in August via a "package of measures". In the near term, 1.3500/60 may present itself as a fairly hard ceiling and our preference would be to fade any excessive up moves from a structural horizon.

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

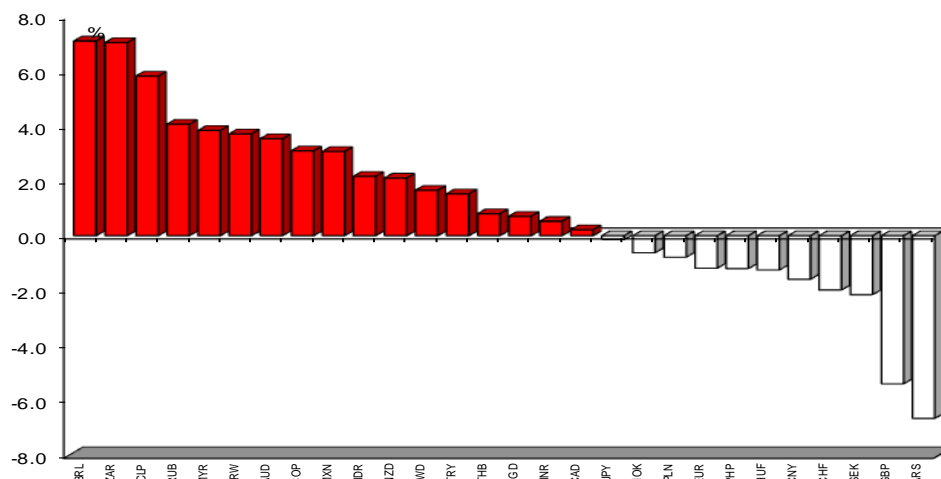
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1088	1.1100	1.1128	1.1200	1.1211
GBP-USD	1.2798	1.3400	1.3437	1.3500	1.4081
AUD-USD	0.7387	0.7600	0.7668	0.7669	0.7680
NZD-USD	0.7010	0.7100	0.7180	0.7200	0.7323
USD-CAD	1.2751	1.2900	1.2904	1.2943	1.3000
USD-JPY	100.01	106.00	106.18	106.32	106.51
USD-SGD	1.3352	1.3400	1.3426	1.3500	1.3569
EUR-SGD	1.4844	1.4900	1.4941	1.5000	1.5170
JPY-SGD	1.2564	1.2600	1.2644	1.2700	1.2787
GBP-SGD	1.7344	1.8000	1.8041	1.8100	1.9127
AUD-SGD	1.0123	1.0200	1.0296	1.0297	1.0300
Gold	1285.55	1300.00	1328.10	1377.50	1385.34
Silver	17.67	20.20	20.30	20.30	21.09
Crude	45.32	45.40	46.67	48.54	51.21

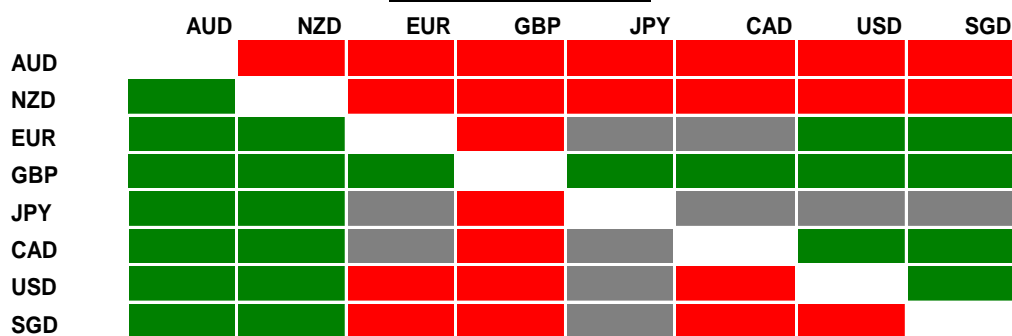
Source: OCBC Bank

FX performance: 1-month change agst USD



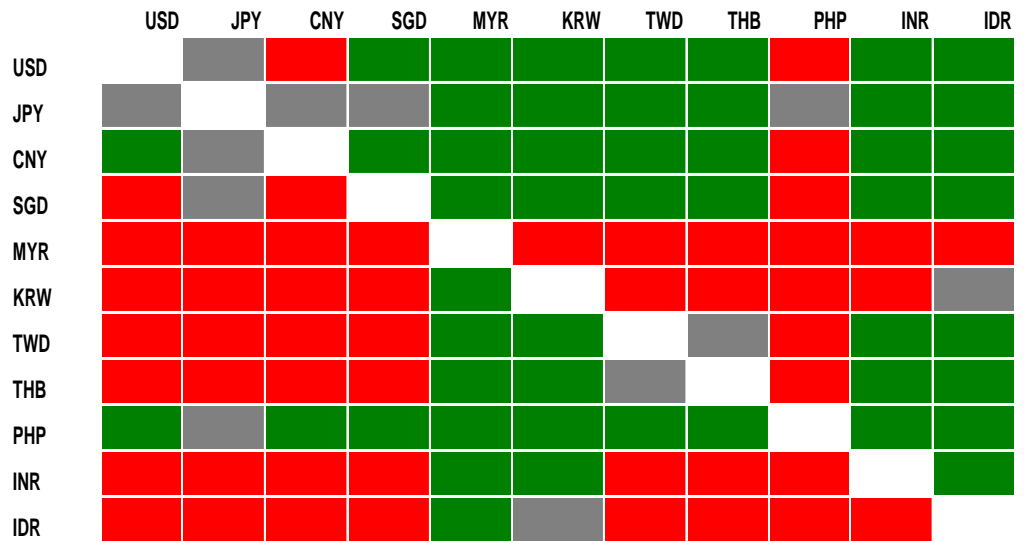
Source: Bloomberg

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		
TACTICAL									
1	28-Jun-16	S	EUR-USD	1.1057	1.0745	1.1215	Brexit uncertainty coupled with Euroskepticism		
2	28-Jun-16	S	GBP-USD	1.3306	1.2525	1.3700	Epicenter of Brexit concerns		
3	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit		
4	05-Jul-16	B	AUD-USD	0.7528	0.7815	0.7380	Search for yield amidst potential FOMC disappointment		
STRUCTURAL									
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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield		
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs		
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
RECENTLY CLOSED									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	01-Mar-16	16-Jun-16	S	USD-JPY	112.91	105.00	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	+7.18	
2	14-Jun-16	17-Jun-16	S	GBP-USD	1.4153	1.4340	Potential for further downside going into EU referendum	-1.30	
3	17-Jun-16	19-Jun-16	S	EUR-USD	1.1232	1.1350	Potential for negative spillover from the UK referendum	-1.03	
4	10-Jun-16	23-Jun-16	S	USD-JPY	107.16	105.50	Potential for USD weakness going into and post-FOMC	+1.57	
5	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74	
6	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91	
7	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98	
8	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	97.60	104.50	Potential for further risk aversion	-2.25

Source: OCBC Bank

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