

Tuesday, May 17, 2016

FX Themes/Strategy/Trading Ideas

- For the most part, the majors were locked in a range with slightly better US equities/global commodities undermining the JPY in favor of the cyclicals while the USD also retreated slightly (note weak May Empire manufacturing) despite firmer UST yields and hawkish comments from the Fed's Lacker (non-voter). We note however that the **FXSI (FX Sentiment Index)** ticked higher on Monday within Risk-Neutral territory, partially on the back of firmer short-end FX vols.
- Going ahead, markets may continue to searching for leads ahead of the weekend G7 meeting while riding on improved investor sentiment in the interim, putting the dollar on the defensive. On a more structural note, if crude continues to consolidate higher on a protracted basis, stabilizing inflation expectations may tilt global central banks away from being excessively accommodative, diluting the strong dollar narrative in the coming months barring a decidedly more hawkish Fed.

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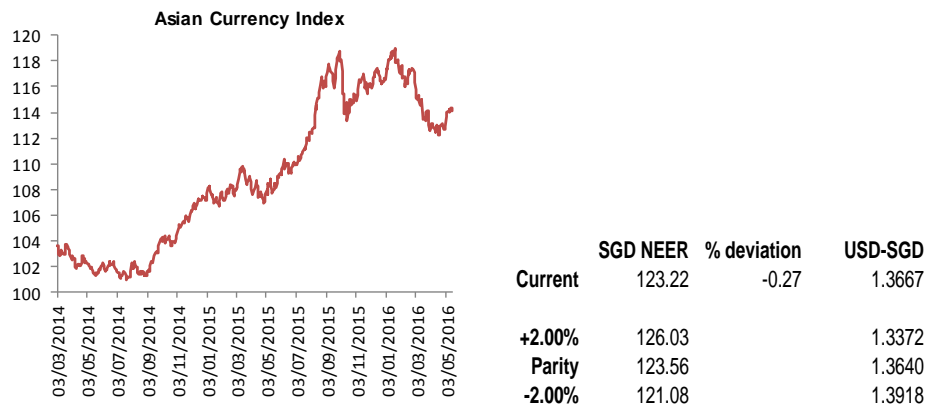
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Asian FX

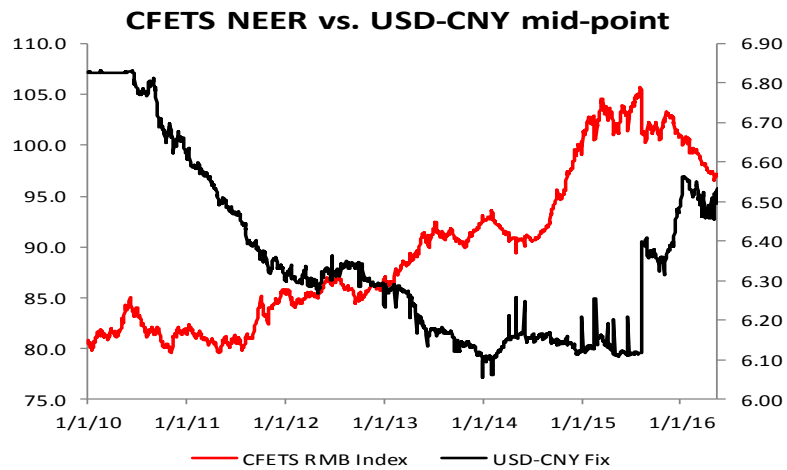
- Positive Asian equities and a soft dollar backdrop should see the **Asian Currency Index (ACI)** head lower instead after rising on Monday. Macro concerns (note OECD lowered its growth forecasts for South Korea) may be put on ice for now as risk appetite improvements override.
- The **SGD NEER** is slightly firmer relative to its parity (1.3640) this morning at around -0.34% with NEER-implied thresholds a touch lower on the day. At current levels, the -0.50% threshold is estimated at around 1.3709 with -1.00% seen at around 1.3777. Basket location considerations aside, volatility measures meanwhile indicate little expected discomfort from the authorities at this juncture. From a technical perspective, USD-SGD is seen supported towards 1.3650 ahead of the 55-day MA (1.3609), while the topside should be capped on approach of 1.3760.

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Source: OCBC Bank

- Today, the USD-CNY mid-point was fixed markedly lower at 6.5200 from 6.5343 on Monday with the resultant **CFETS RMB Index** at a higher than expected 97.15 from 97.04 yesterday.



Source: OCBC Bank, Bloomberg

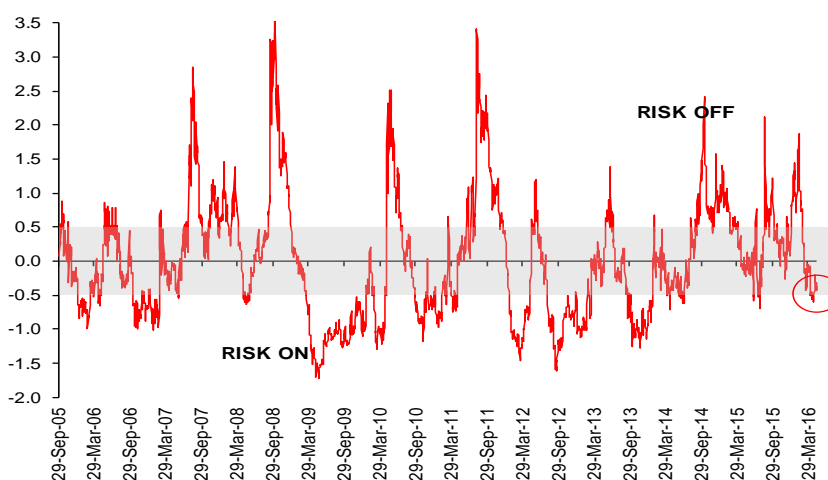
G7

- **EUR-USD** EUR-USD may continue to float above its 55-day MA (1.1279) amidst a weakened dollar environment while awaiting an expected stream of ECB rhetoric later in the global session. On the topside, investors may pick tops near 1.1380/00 pending fresh cues.
- **USD-JPY** Japanese officials are still not letting up on their intervention warnings but the looming weekend G7 meeting may continue to keep intervention expectations at bay. Meanwhile, expectations of further monetary easing remain on the cards, and this may keep the USD-JPY supported within a 108.30-109.65 range.
- **AUD-USD** The AUD-USD bounced smartly higher this morning after the RBA meeting minutes in early trade came in decidedly less dovish than expected. In a nutshell, the minutes revealed a discussion on whether to “cut” or “wait”, as opposed to an outright move to cut. In addition, markets also latched on to a comment indicating that labor costs could pick up sooner

as the job market improves. Overall, the rate cut in May came across in the minutes as more pre-emptive and an attempt to provide additional insurance, as opposed to portending a string of additional cuts down the road. In light of this expect the AUD-USD to trade a firmer 0.7300-0.7400 range intra-day.

- GBP-USD** GBP-USD managed to pull higher with the dollar on the defensive and with the latest ICM poll revealing the “remain” camp significantly ahead of the “leave camp”. In the near term, 1.4550 may limit on the upside ahead of the April CPI readings today.

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

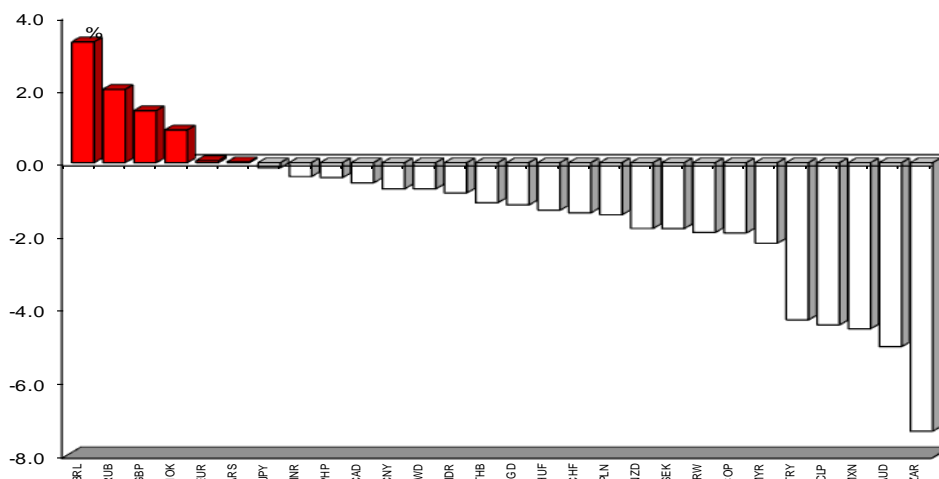
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1310	1.1319	1.1400	1.1527
GBP-USD	1.4342	1.4400	1.4482	1.4500	1.4659
AUD-USD	0.7257	0.7300	0.7358	0.7400	0.7562
NZD-USD	0.6716	0.6800	0.6822	0.6823	0.6900
USD-CAD	1.2478	1.2900	1.2911	1.2936	1.3000
USD-JPY	105.55	108.00	108.97	109.00	110.27
USD-SGD	1.3575	1.3600	1.3667	1.3700	1.3760
EUR-SGD	1.5351	1.5400	1.5470	1.5499	1.5500
JPY-SGD	1.2318	1.2500	1.2542	1.2600	1.2788
GBP-SGD	1.9467	1.9700	1.9792	1.9800	1.9900
AUD-SGD	0.9939	1.0000	1.0057	1.0100	1.0132
Gold	1230.53	1251.26	1281.00	1300.00	1304.71
Silver	16.80	17.10	17.17	17.20	17.71
Crude	41.76	48.03	48.20	48.26	48.28

Source: OCBC Bank

FX performance: 1-month change agst USD



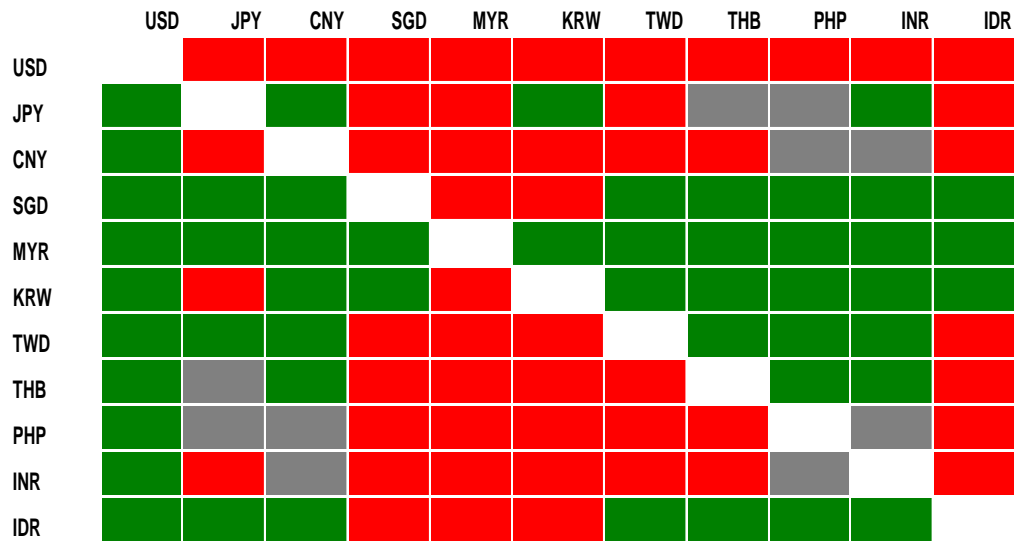
Source: Bloomberg

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD		Green	Green	Green	Green	Green	Green	Green
NZD	Red		Green	Green	Green	Red	Green	Grey
EUR	Red	Red		Green	Red	Red	Green	Red
GBP	Red	Red	Red		Red	Red	Red	Red
JPY	Red	Red	Green	Green		Red	Green	Red
CAD	Red	Green	Green	Green	Green		Green	Green
USD	Red	Red	Red	Red	Red	Red		Red
SGD	Red	Grey	Green	Green	Green	Red	Green	

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-Apr-16	S	AUD-USD	0.7626	0.7095	0.7490	Negativity post 1Q CPI numbers	
2	09-May-16	B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak	
3	09-May-16	B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook	
STRUCTURAL								
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
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	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
8	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	30-Mar-16	18-Apr-16	B	EUR-USD	1.1297	1.1310	Dollar negativity post-Yellen	+0.05
2	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65
3	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
4	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.3040	Bottoming crude prices	-0.24
5	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39
6	04-May-16	10-May-16	S	USD-JPY	107.21	109.00	USD vulnerability pre-NFP, potential risk aversion	-1.66
7	04-May-16	11-May-16	B	EUR-USD	1.1482	1.1372	Rate differentials in the EUR's favor	-0.99
8	19-Apr-16	13-May-16	S	USD-SGD	1.3439	1.3740	Potential for further broad USD decay, positive risk appetite	-2.17

Source: OCBC Bank

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