

Monday, January 18, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- With risk aversion front and center, expect the cyclicals to remain underperformers across the board at the onset of the week, with the USD (despite disappointing Dec US retail sales and Jan Empire manufacturing numbers), EUR, and JPY the usual beneficiaries.
- Amid a Risk-Off environment and with global equities/commodities continuing to crumble, the **FXSI (FX Sentiment Index)** jumped higher into Risk-Off territory to levels not witnessed since Aug 2015. Going ahead, expect any disappointments/dovishness from the macro front (China GDP due on Tuesday, Bank of Canada meeting on Wednesday, global PMIs on Friday) likely to aggravate global negativity.
- Our 08 Jan 16 idea to be short **AUD-USD** (spot ref: 0.7056) filled its 0.6845 target on Friday. Given the current state of affairs, we extend our objective to 0.6640, trailing the stop to 0.6950.
- The view to be short **GBP-USD** (1.4917) from 21 Dec 15 bore further fruit with the 1.4330 objective being hit on Friday. With the GBP likely to continue to decay, we look towards the next target of 1.4045, with the stop trailed to 1.4475.
- On a more tactical front, our 10 Nov 15 idea to be long **USD-CAD** (spot ref: 1.3276) reached its 1.4565 target in early Asia on Monday. We drift our target higher to 1.4905, with the stop trailed to 1.4390.
- Our 29 Dec 15 idea to be **structurally long USD-CAD** (spot ref: 1.3886) hit its 1.4520 objective on Friday, yielding an implied +4.38%. The loonie is expected to remain on the wane for as long as the oil complex continues to stumble and we will reassess in the coming weeks before committing.

Asian FX

- A dismal start to Asian equities early on Monday is expected to keep regional currencies under the weather against the USD. The **ACI's (Asian Currency Index)** has surpassed Sep 15 levels with little lasting respite expected for now despite the “stabilization” of the CNH. Note that in the face of withering risk appetite levels, even the relatively more resilient INR is caving. Meanwhile, China data points released last Friday were a mixed bag (money supply growth was lower than expected but aggregate financing outperformed prior expectations). This week, further dovishness from regional central banks may not be unexpected, with BNM on Thursday

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

expected to stand pat at 3.25%.

- The **USD-CNY mid-point** was fixed noticeable lower this morning at 6.5590 from 6.5637 on Friday. This brings the estimated CFETS RMB Index higher to 100.62 from 100.39. This morning's fix affirms our view that the authorities are not averse to granting upside latitude to the index in reaction to the behavior of the basket's constituent currencies. Elsewhere, expect speculative behavior to be tempered somewhat following weekend revelations that reserve requirement ratios would be imposed on some banks involved in the CNH market.
- The **SGD NEER** is currently at around -1.67% below its perceived parity (1.4164). With global risk appetite still fragile and Dec 2015 NODX disappointing at -7.2% yoy, the NEER may be expected to retain a tendency to test lower within its band. NEER-implied USD-SGD thresholds are higher on the day with the -2.00% lower extreme of the NEER fluctuation band estimated at 1.4453. In the interim, the pair may continue to stage another attempt to close above 1.4400 in the current environment.



	SGD NEER	% deviation	USD-SGD
Current	121.41	-1.62	1.4391
+2.00%	125.88		1.3886
Parity	123.41		1.4164
-2.00%	120.94		1.4453

Source: OCBC Bank

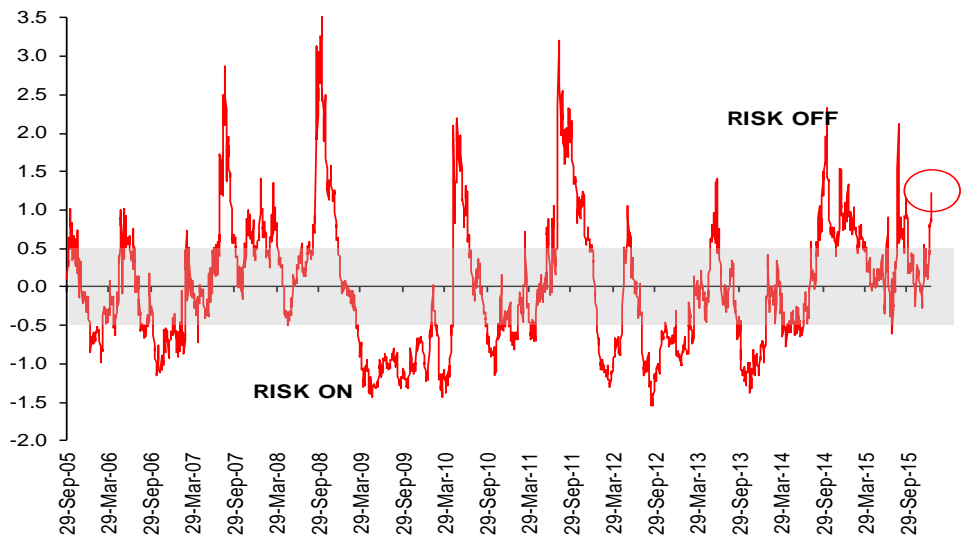
G7

- **EUR-USD** We continue to see support for the pair in the current skittish risk environment, with the 55-day MA (1.0824) offering support on the downside while the key psychological 1.1000 resistance remains visible. On the CFTC front, note that net leverage EUR shorts were pared in the latest week.
- **USD-JPY** USD-JPY may continue to probe the downside given current market conditions as investors fell risk-related assets/currencies with 116.50 expected to be the next downside way point. CFTC positioning meanwhile also showed net leveraged JPY shorts slashed significantly in the latest week to near neutral levels.
- **AUD-USD** Expect the AUD-USD to remain responsive to risk/equity/commodity dynamics in the near term. While a retracement back towards 0.6930 cannot be discounted, support at 0.6800 may remain at risk multi-session. On the CFTC front, net leveraged AUD shorts jumped in the

latest week.

- GBP-USD** The GBP-USD remains under downside pressure we feel but investors may sell into rallies given the fairly significant down moves since the onset of the year. To this end, markets may fade any upticks towards 1.4340-1.4400 on the coming sessions. To add to the pessimism, note that CFTC positioning showed net leveraged GBP shorts increasing significantly in the latest week.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658
JPY	0.537	-0.135	-0.823	0.460	0.272	0.541	1.000	0.483	-0.279	-0.681
SGD	0.339	-0.346	0.480	-0.307	-0.237	-0.558	-0.195	-0.568	0.344	0.269
AUD	0.054	0.298	-0.478	0.694	0.621	0.833	0.153	0.804	-0.582	-0.630
PHP	-0.042	-0.266	0.129	-0.635	-0.650	-0.587	0.083	-0.442	0.646	0.593
IDR	-0.155	-0.110	-0.188	-0.370	-0.710	-0.208	0.342	-0.313	0.724	0.199
TWD	-0.263	0.063	0.703	-0.490	-0.106	-0.626	-0.676	-0.656	0.228	0.407
GBP	-0.264	-0.275	-0.684	-0.049	-0.334	0.450	0.454	0.293	0.435	-0.238
CAD	-0.270	0.095	0.972	-0.574	-0.382	-0.910	-0.763	-0.837	0.290	0.813
CNH	-0.279	0.107	0.957	-0.496	-0.450	-0.842	-0.802	-0.763	0.345	0.808
CNY	-0.289	0.208	1.000	-0.467	-0.338	-0.857	-0.823	-0.745	0.233	0.806
CCN12M	-0.319	0.066	0.784	-0.395	-0.273	-0.582	-0.801	-0.567	0.258	0.566
INR	-0.319	-0.111	-0.460	-0.126	-0.558	0.185	0.330	0.083	0.547	0.004
THB	-0.330	-0.068	0.850	-0.728	-0.499	-0.854	-0.727	-0.849	0.520	0.788
KRW	-0.339	-0.098	0.462	-0.761	-0.846	-0.736	-0.319	-0.786	0.792	0.679
USGG10	-0.374	1.000	0.208	0.249	0.076	-0.022	-0.135	0.072	-0.285	0.057
MYR	-0.377	0.101	0.882	-0.527	-0.571	-0.854	-0.725	-0.734	0.442	0.892
NZD	-0.465	0.486	0.793	-0.068	-0.118	-0.434	-0.851	-0.328	-0.069	0.573
EUR	-0.949	0.366	0.483	-0.523	-0.574	-0.446	-0.638	-0.498	0.466	0.606

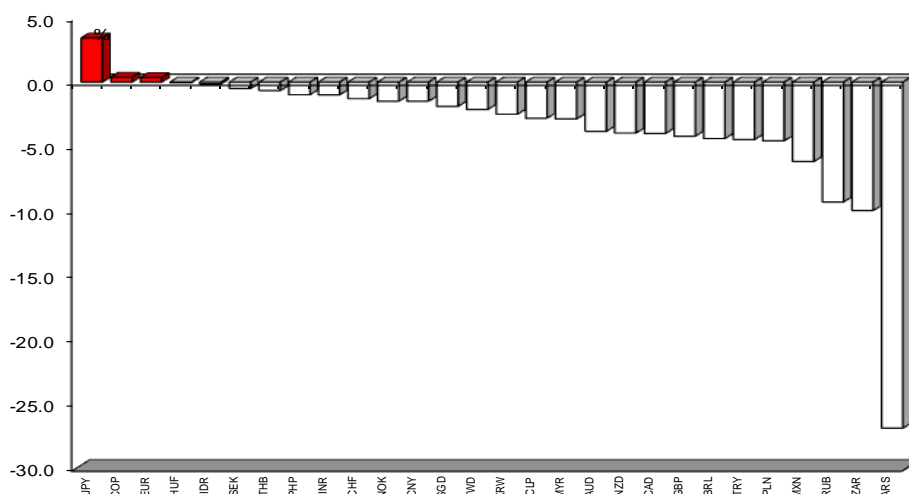
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0822	1.0900	1.0905	1.1000	1.1007
GBP-USD	1.4241	1.4251	1.4268	1.4300	1.4924
AUD-USD	0.6822	0.6827	0.6892	0.6900	0.7169
NZD-USD	0.6386	0.6400	0.6454	0.6500	0.6646
USD-CAD	1.3711	1.4400	1.4463	1.4500	1.4534
USD-JPY	116.51	117.00	117.14	118.00	121.15
USD-SGD	1.4153	1.4300	1.4394	1.4400	1.4444
EUR-SGD	1.5323	1.5600	1.5697	1.5700	1.5780
JPY-SGD	1.1686	1.2200	1.2290	1.2300	1.2372
GBP-SGD	2.0516	2.0517	2.0537	2.0600	2.1113
AUD-SGD	0.9879	0.9900	0.9921	1.0000	1.0144
Gold	1055.67	1076.74	1091.70	1100.00	1105.65
Silver	13.64	13.90	13.94	14.00	14.10

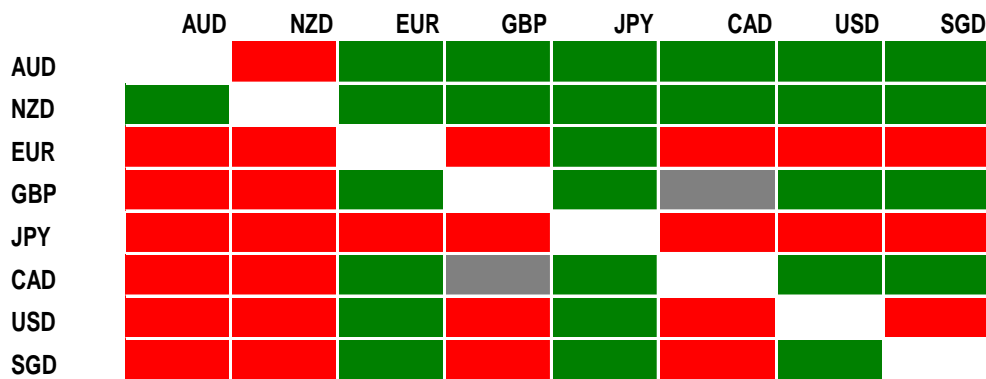
Source: OCBC Bank

FX performance: 1-month change agst USD



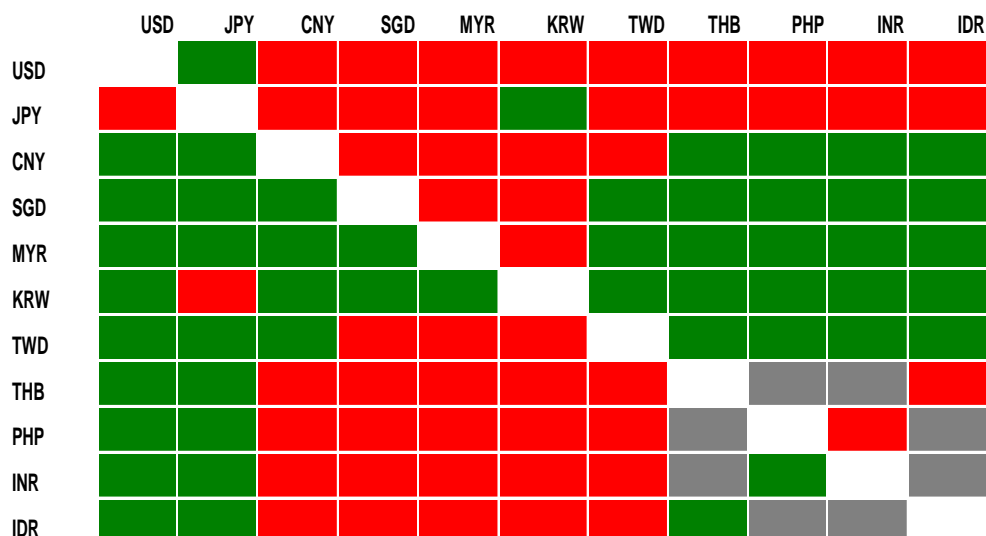
Source: Bloomberg

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	
1	10-Nov-15	B	USD-CAD	1.3276	1.4905	1.4390	USD strength vs. weak crude	
2	21-Dec-15	S	USD-JPY	121.15	116.20	119.90	Disappointment towards a less dovish than expected BOJ	
3	21-Dec-15	S	GBP-USD	1.4917	1.4045	1.4475	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness	
4	04-Jan-16	B	USD-SGD	1.4229	1.4485	1.4100	Asian FX weakness, RMB jitters	
5	08-Jan-16	B	EUR-USD	1.0888	1.1220	1.0720	Risk of Fed/dollar "disappointment"	
6	08-Jan-16	S	AUD-USD	0.7056	0.6640	0.6950	Fragile global/equity/commodity/RMB backdrop	
STRUCTURAL								
7	18-Dec-15	S	GBP-USD	1.4909	1.4195	1.5270	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP	
8	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY profile	
Recently Closed								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	29-Dec-15	15-Jan-16	B	USD-CAD	1.3886	1.4520	Central bank policy dichotomy in addition to structurally soft crude	+4.38

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
