

Wednesday, May 18, 2016

## FX Themes/Strategy/Trading Ideas – Fed dialing up its rhetoric?

- Despite hawkish Fed rhetoric and supportive US data releases (April industrial production and housing starts), the greenback ended mixed against the majors on Tuesday with investors looking to the counterpart currencies for cues instead.
- The AUD-USD hogging the limelight and jumping after RBA meeting minutes came in less dovish than expected while the GBP also found support on poll news flow indicating increasing support for the “remain” camp. This morning, better than expected GDP numbers pulled the USD-JPY below 109.00. Elsewhere, UST yields were firmer in tandem with commodities, with the **FXSI (FX Sentiment Index)** managing to inch lower within Risk-Neutral territory.
- On the Fed front, public comments (from Kaplan, Lockhart, and Williams overnight) have continued to lean towards brining market expectations more in line with the committee’s inclinations with interest rate futures adjusting slightly as a result on Tuesday. For today, the release of the FOMC minutes (1800 GMT) may refocus the market on Fed-specific USD factors and whether the June FOMC would be remotely “live”.

## Asian FX

- A negative Asian equity backdrop in early trade on Wednesday and Fed rate hike expectations awakening slightly may continue to keep the regional pairs buoyant mid-week. As such, the **Asian Currency Index (ACI)** looks poised to lift higher from the 114.00 handle.
- This morning, the **SGD NEER** is softer again relative to its perceived parity (1.3643) at -0.51% with NEER-implied USD-SGD thresholds marginally firmer on the day. At current levels, the -1.00% threshold is estimated at around 1.3781 and the pair may be supported within a 1.3650-1.3770 range in the interim.
- From a structural viewpoint, the softening of the SGD NEER post MAS MPS has been largely a function of SGD underperformance against the EUR, JPY and USD, tempered only by the MYR’s underperformance. Going ahead however, Fed-related dollar dynamics may dominate heading into next month’s FOMC, with basket related trades perhaps losing its attractiveness.

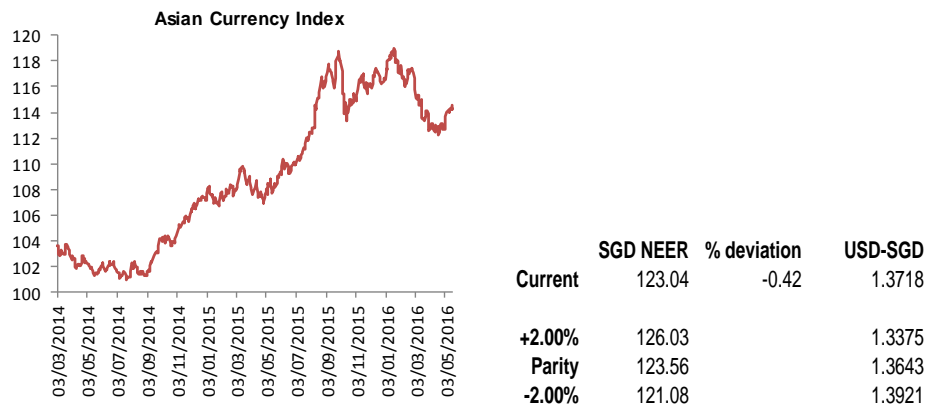
Corporate FX &  
Structured Products  
Tel: 6349-1888 / 1881  
Fixed Income &  
Structured Products  
Tel: 6349-1810

Investments &  
Structured Product  
Tel: 6349-1886

Interest Rate Derivatives  
Tel: 6349-1899

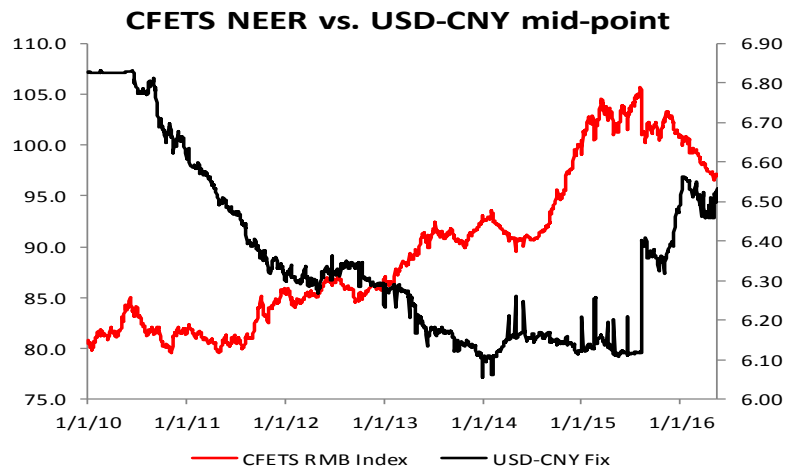
Treasury Research &  
Strategy  
Tel: 6530-4887

**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)



Source: OCBC Bank

- The USD-CNY mid-point was slightly higher at 6.5216 from 6.5200 on Tuesday, leaving the **CFETS RMB Index** relatively unchanged as expected at 97.14 from 97.15 yesterday.



Source: OCBC Bank, Bloomberg

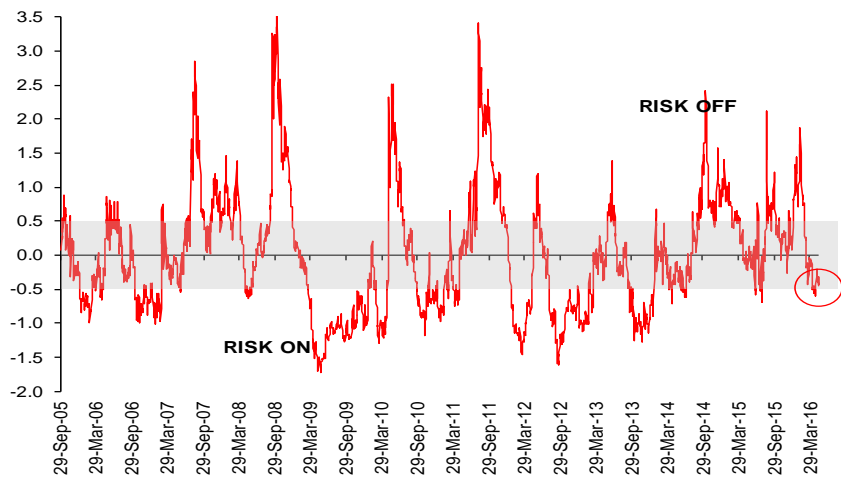
**G7**

- **EUR-USD** The EUR-USD may remain heavy heading into the FOMC minutes later in the global session, with the pair likely to test the 55-day MA (1.1287). Thereafter, the next visible support only materializes towards 1.1215. Meanwhile, the Bundesbank on Tuesday cautioned that growth would likely lose momentum going ahead, keeping a lid on macro prognosis for the broader EZ.
- **USD-JPY** 1Q GDP came in at a better than expected +1.7% qoq saar but the near term outlook for the USD-JPY remains muddled by speculation surround a potential deferment of the sales tax (slated for next April). Pending risk appetite developments, Investors may resist prolonged near term downside dips in the USD-JPY in view of the potential flux in US rate hike expectations. Key topside resistance is expected into 109.50 while 108.40 should support ahead of headline risks.
- **AUD-USD** As noted previously, the AUD-USD bounced smartly in the

wake of the less dovish than expected RBA meeting minutes on Tuesday and the pair has since relinquished all its gains. In our view, we would remain suspicious towards trading off the perception that the RBA had been less dovish than expected, given that prior market expectations ahead of the minutes had been purely market-induced. Essentially, we think that the minutes in fact contained a more than healthy dose of caution. Intra-day, resistance is expected around 0.7335 ahead of 0.7350 while risks towards a relapse back in front of the 200-day MA (0.7259) remain visible.

- GBP-USD** Softer than expected CPI readings capped a GBP boosted earlier by Brexit poll new headlines on Tuesday and going ahead, expect volatility to remain a staple as we head into June. In the near term, given that prior negativity may already been too perfectly priced in, any further positive Brexit chatter may egg the pair to potentially test higher within a 1.4400-1.4500 range.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	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

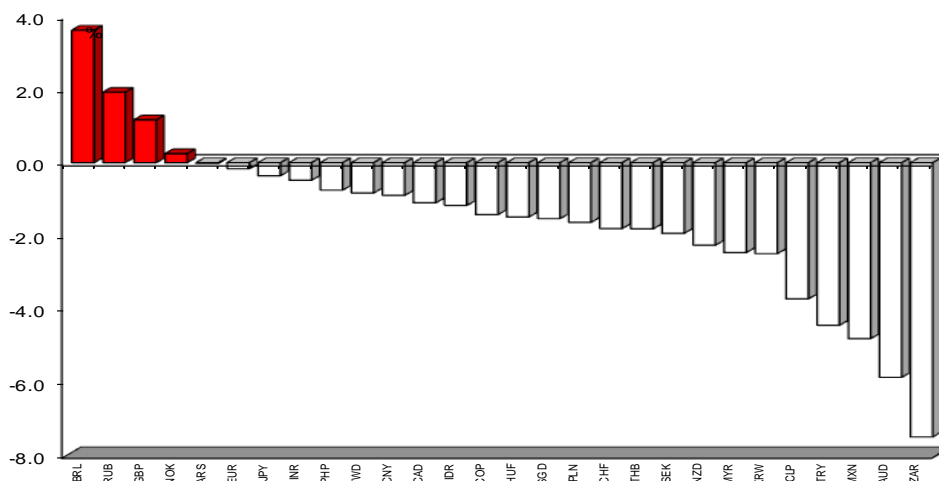
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1204	1.1217	1.1294	1.1300	1.1315
GBP-USD	1.4346	1.4400	1.4446	1.4500	1.4653
AUD-USD	0.7237	0.7257	0.7293	0.7300	0.7557
NZD-USD	0.6707	0.6716	0.6791	0.6800	0.6826
USD-CAD	1.2485	1.2900	1.2917	1.2931	1.3000
USD-JPY	105.55	109.00	109.22	110.00	110.19
USD-SGD	1.3574	1.3700	1.3720	1.3760	1.3793
EUR-SGD	1.5357	1.5400	1.5495	1.5499	1.5500
JPY-SGD	1.2325	1.2500	1.2562	1.2600	1.2788
GBP-SGD	1.9471	1.9800	1.9820	1.9892	1.9900
AUD-SGD	0.9939	1.0000	1.0005	1.0100	1.0130
Gold	1232.14	1251.50	1279.10	1300.00	1305.28
Silver	16.81	17.20	17.26	17.30	17.71
Crude	41.86	48.40	48.45	48.50	48.52

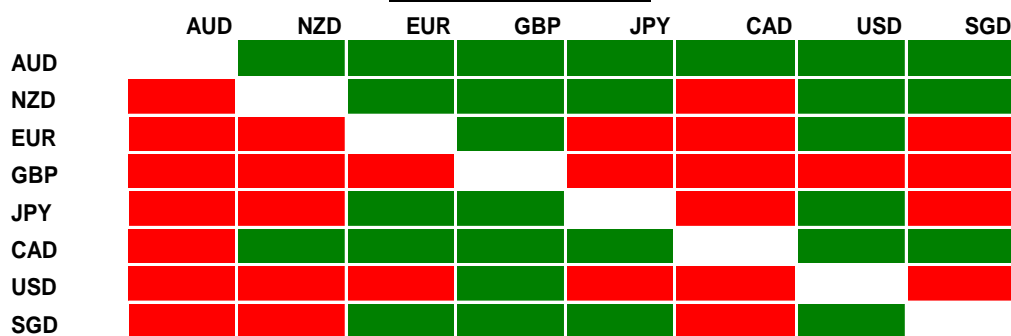
Source: OCBC Bank

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



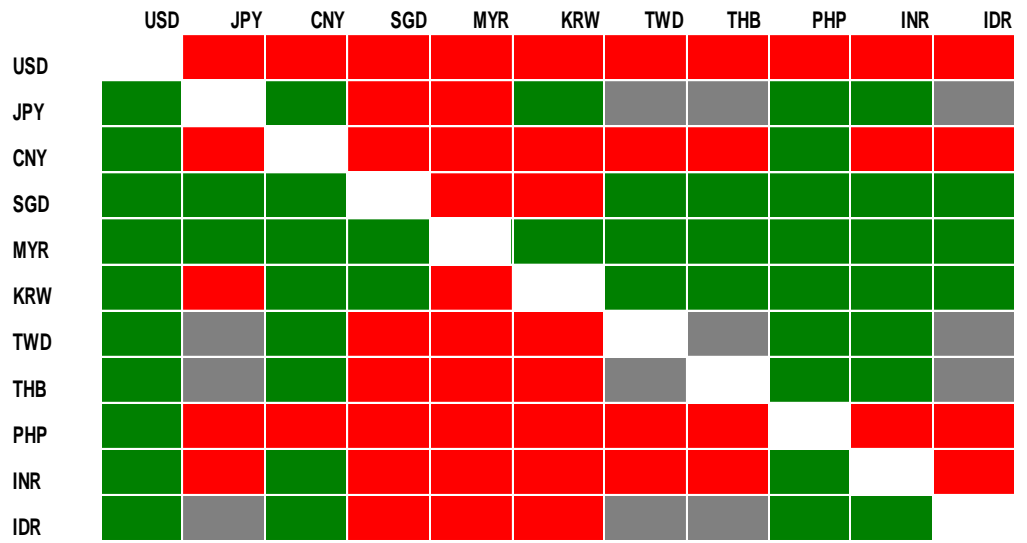
Source: Bloomberg

**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	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	
<b>STRUCTURAL</b>								
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	
<b>RECENTLY CLOSED</b>								
	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

---

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.

---