DAILY FX OUTLOOK

Thursday, May 19, 2016

FX Themes/Strategy/Trading Ideas

- Save for the pound, the greenback bit into the majors on Wednesday after the FOMC minutes were decidedly more hawkish than expected (with Fed fund futures falling across the calendar in reaction). Risk appetite levels meanwhile remained benign with **FXSI (FX Sentiment Index)** slipping further within Risk-Neutral territory on Wednesday and continuing to edge towards Risk-On territory for the third consecutive session.

- With regards to the **FOMC minutes**, most members deemed it "appropriate" to hike in June if the data remains on an improving trend, with risks now judged to be "roughly balanced". In addition, global and economic financial system risks were perceived to be "having diminished", with a few members deeming it appropriate to hike at the April FOMC.

- For today, look to comments from the **Fed's Fischer (1315 GMT)** and **Dudley (1430 GMT)** for confirmation of any hawkish rhetoric. In the interim, markets may remain in favor of the dollar, following hawkish comments from the Fed's Kaplan, Lockhart, and Williams on Tuesday and last night's FOMC minutes. In addition, the G7 meeting commences today and lasts till Saturday and may also potentially provide volatility fodder.

- With market positioning perceived to be heavily weighed against the pound ahead of the 23 Jun 16 referendum, we are of the view that a positive outcome would see cable recoil higher. From a **GBP-USD** spot ref at 1.4438 on Wednesday, we target 1.4805 and place a stop at 1.4255.

Asian FX

- EM FX retreated against the USD in the wake of the FOMC minutes and we continue to look for a higher profile for the **Asian Currency Index (ACI**) intra-day with the Index firming for the fourth consecutive session. With regards to net portfolio flows in the region, we also add that Asian currencies had already been underperforming on this front, and the added weight of a stronger dollar dynamic is expected to further impinge on the regional units. On the central bank front, BNM and BI are expected to remain static at their respective policy meetings later today.

- The **SGD NEER** is softer relative to its parity (1.3716) at -0.67% this morning with NEER-implied thresholds markedly higher on the day post-FOMC minutes. At current levels, the -1.00% NEER threshold is estimated at around 1.3855 although some hesitation may creep in ahead of this level. Technically, the USD-SGD has taken out the Fibo retracement at 1.3769,

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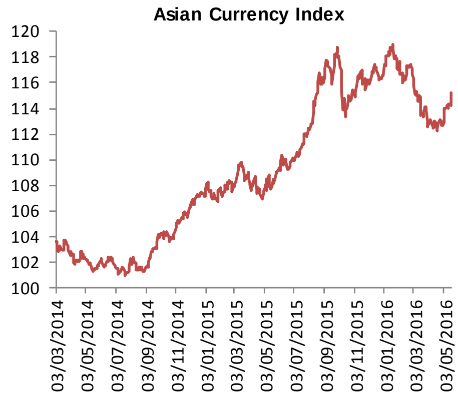
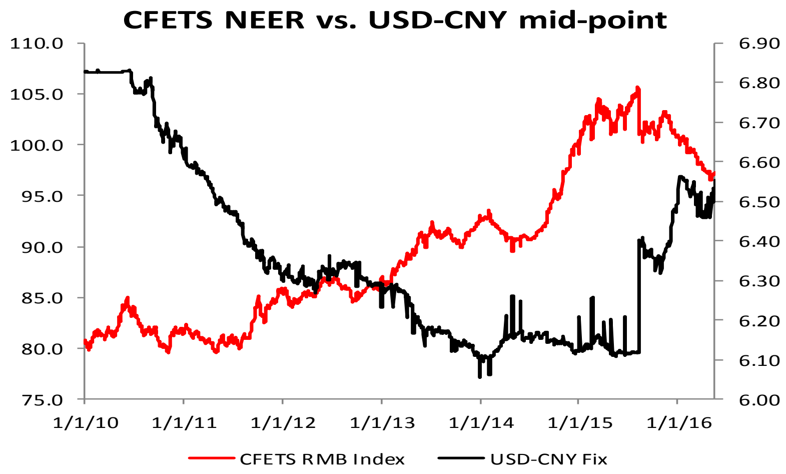
leaving the way open to the 50% retracement at 1.3898. Elsewhere, volatility measures for the SGD NEER and USD-SGD remain largely benign at this juncture.



	SGD NEER	% deviation	USD-SGD
Current	122.77	-0.64	1.3811
+2.00%	126.03		1.3447
Parity	123.56		1.3716
-2.00%	121.08		1.3996

Source: OCBC Bank

- As largely expected, the PBOC locked down the **CFETS RMB Index** on Thursday at 97.23 (from 97.14 on Wednesday) despite movements in the basket's constituent currencies. This saw the USD-CNY mid-point soaring to 6.5531 from 6.5216 on Wednesday.



Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** EZ April CPI readings were a non-mover on Wednesday and the pair reacted lower to the FOMC minutes instead. As a result, the pair has descended below its 55-day MA (1.1290) with the next key support levels likely to attract in the current environment. We look potentially for a further consolidation towards 1.1180-1.1200 if policy dichotomy arguments continue to see a revival.

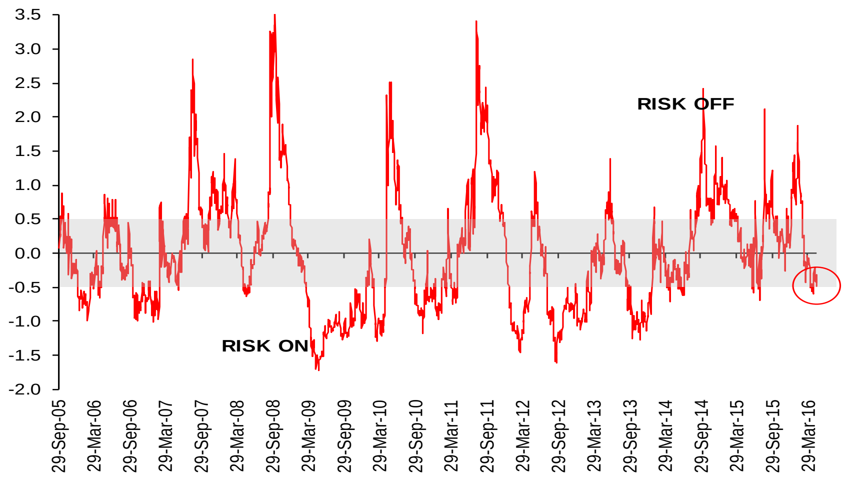
- **USD-JPY** USD-JPY surfaced above the 110.00 level on Wednesday and the pair may continue to test higher, especially if intervention rhetoric is watered down as the G7 meeting gets underway. We note that the USD-JPY has breached a key resistance around 109.50, diluting its recent downtrend.

Going ahead, a sustained violation of the 55-day MA (110.44) risks a probe towards 111.00.

- **AUD-USD** April labor market numbers out of Australia came in on the wrong side of expectations this morning. The AUD-USD remains on a slippery slope (note our caution yesterday) having violated its 200-day MA (0.7258) and the last line of support is expected towards the .618 Fibo retracement at 0.7213.

- **GBP-USD** The GBP defied general dollar strength on Wednesday as more polls showed increasing support for “remain” with respect to the 23 Jun 16 referendum. For today, April retail sales figures may provide some macro distraction and the pair may attempt to consolidate towards 1.4685 if Brexit concerns continue to ebb. Broad dollar resilience meanwhile may however temper too rapid an ascent for the cable.

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

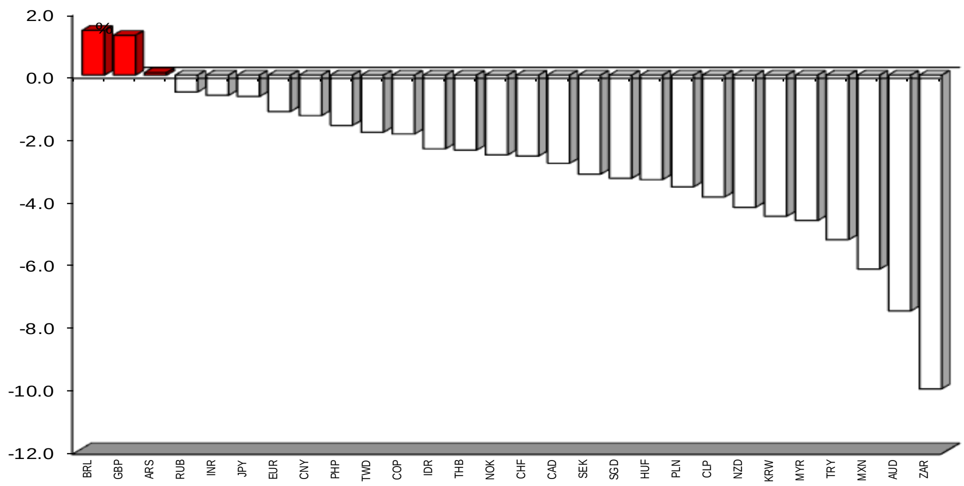
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1214	1.1226	1.1300	1.1315
GBP-USD	1.4355	1.4500	1.4581	1.4600	1.4668
AUD-USD	0.7200	0.7209	0.7225	0.7256	0.7300
NZD-USD	0.6700	0.6716	0.6744	0.6800	0.6826
USD-CAD	1.2927	1.3000	1.3031	1.3100	1.3120
USD-JPY	105.55	109.00	109.94	110.00	110.15
USD-SGD	1.3576	1.3800	1.3811	1.3829	1.3844
EUR-SGD	1.5499	1.5500	1.5504	1.5600	1.5650
JPY-SGD	1.2332	1.2500	1.2563	1.2600	1.2788
GBP-SGD	2.0046	2.0100	2.0139	2.0180	2.0200
AUD-SGD	0.9900	0.9939	0.9979	1.0000	1.0128
Gold	1233.35	1251.42	1258.20	1300.00	1304.52
Silver	16.00	16.50	16.80	17.73	18.03
Crude	47.40	47.46	47.50	48.68	48.95

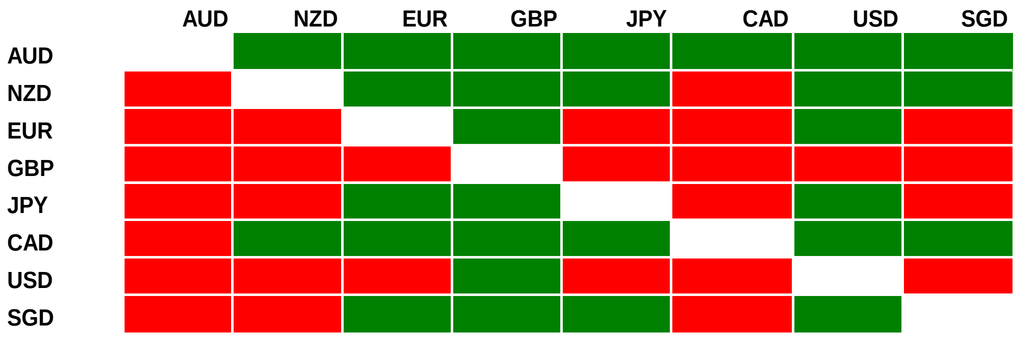
Source: OCBC Bank

FX performance: 1-month change agst USD



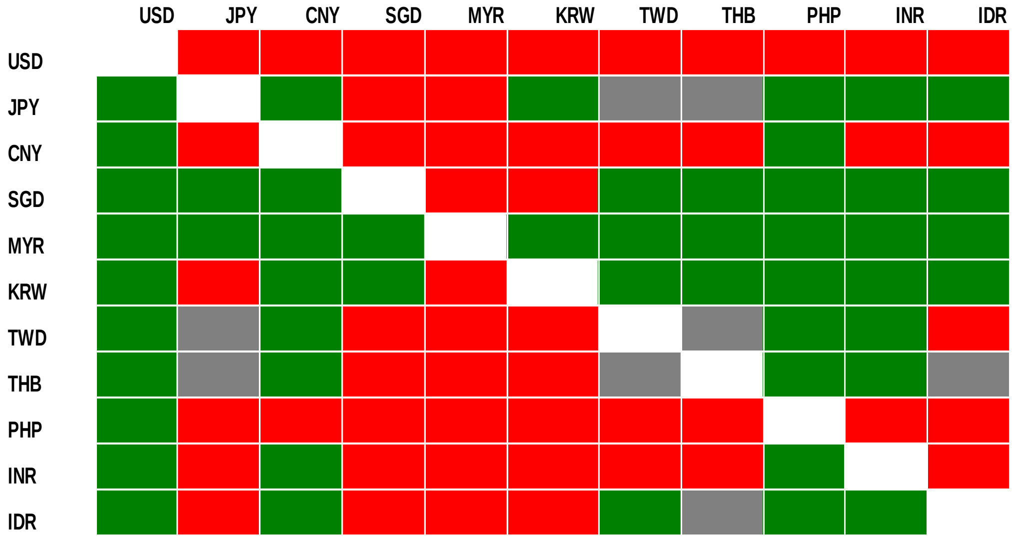
Source: Bloomberg

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, detriorating growth outlook
4	18-May-16	B	GBP-USD	1.4438	1.4805	1.4255	Potential for bounce post-referendum
	STRUCTURAL						
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate
6	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries
7	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations
8	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC
9	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	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65
2	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
3	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.3040	Bottoming crude prices	-0.24
4	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39
5	04-May-16	10-May-16	S	USD-JPY	107.21	109.00	USD vulnerability pre-NFP, potential risk aversion	-1.66
6	04-May-16	11-May-16	B	EUR-USD	1.1482	1.1372	Rate differentials in the EUR's favor	-0.99
7	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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