

Monday, September 19, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- Firmer than expected US August CPI readings (ex food & energy: +0.3% mom) on Friday pulled the USD higher across the board as the UST curve bear flattened from the front end and FF futures also dipped in tandem.
- This week, a rate hike by the **FOMC** (on Wednesday) is perceived to be an outside tail risk and what may be crucial would be whether the Fed explicitly lays the groundwork for a year-end hike or leave the heavy lifting to the sheer weight of subsequent rhetoric in the coming months. Also of consequence, the revised economic projections and dot plots may also impart further volatility. At this juncture, there seems to be some convergence between market-implied odds and macroeconomists calling for a December hike.
- Elsewhere, the other main stage for markets this week is expected to be the **BOJ MPC** (also Wednesday but before the FOMC later in the global day) with investors still poised to play the policy dichotomy card vis-à-vis the Fed.
- On other fronts, with US equities tipping into negative territory, the **FXSI (FX Sentiment Index)** continued to inch higher within Risk Neutral territory on Friday to end higher on the week (i.e., slight retraction of positive sentiment).
- On the **CFTC** front, the implied “long” dollar bias by both large non-commercial and leveraged accounts moderated in the latest week. Suffice to say, such long dollar positioning in aggregate is significantly less (just a fraction, in fact) compared to levels witnessed in the weeks ahead of last December’s FOMC rate hike.
- With little progress in the intervening weeks and ahead of the FOMC this week, we have closed out our 04 Aug 16 idea to be tactically long **EUR-USD** (spot ref: 1.1149) at 1.1157 for an implied -0.80% loss.

Asian FX

- Implied signals from fund flow data remain less than supportive for regional currencies, especially with the potential for USD-induced volatility this week. As such, the **ACI (Asian Currency Index)** may continue to remain supported on dips pending the outcome of the FOMC. On the central bank front, the **BSP** is expected to stand pat on Thursday while **Bank Indonesia** is expected by the market to reduce its 7-day reverse repo rate by 25bps to 5.00%.
- Following broad dollar strength against the constituent currencies, the **SGD**

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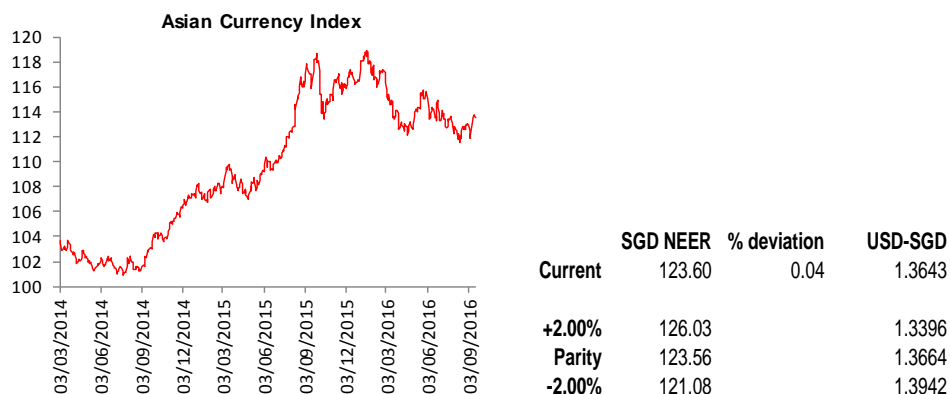
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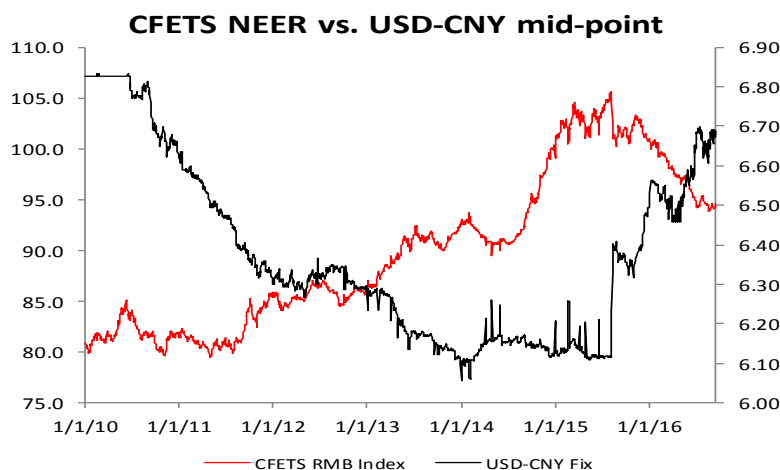
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NEER has dipped below parity (1.3664) once again and is around -0.14% early Monday in Asia. At this juncture, risks for the NEER to continue to gravitate towards -0.50% (1.3733) and -1.00% (1.3802) remain a possibility if broad-based dollar strength prevails into this week's FOMC. Post-FOMC, Singapore's August CPI headlines are due on Friday, and downside disappointment may fuel easing expectations by the MAS next month. From a technical perspective, the 200-day MA (1.3737) would be the key ceiling to watch this week. On the downside, the +0.50% threshold for the NEER is estimated at 1.3596.



Source: OCBC Bank

- After the long weekend break and associated dollar volatility, the **CFETS RMB Index** this morning rose (largely as expected) to 94.56 from 94.28 last Wednesday. The USD-CNY mid-point meanwhile dipped to 6.6786 from 6.6895.



Source: OCBC Bank, Bloomberg

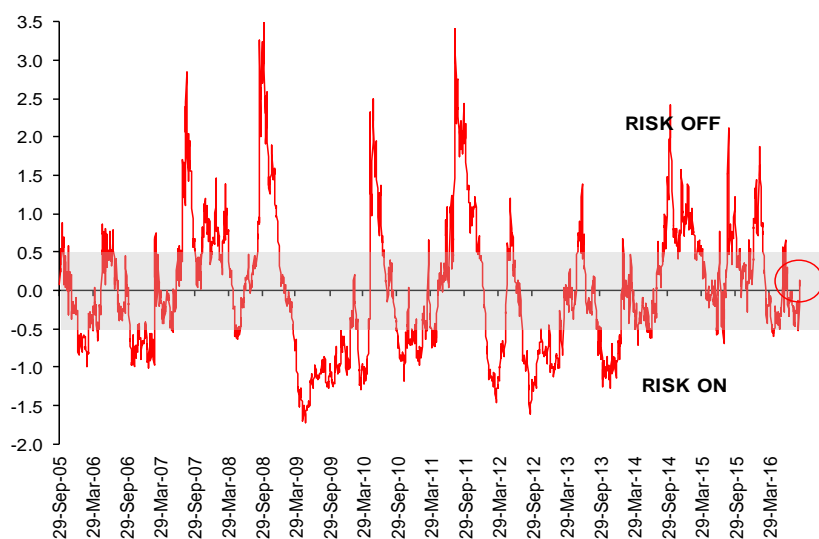
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- **EUR-USD** The common currency may remain watching from the sidelines in the coming sessions but nonetheless responsive to any FOMC-induced dollar volatility. With the 100dya MA (1.1202) perforated, the 200-day MA (1.1147) looks increasingly tenuous in the current environment with risks towards 1.1125 and 1.1100 materializing. Note that last Friday's dump

in the EUR-USD would have neutralized any implications from the paring of CFTC net leveraged EUR shorts earlier in the week.

- USD-JPY** Expect two-way risk for the pair this week to be palpable to say the least, with the confluence of the FOMC and BPJ MPC. On the CFTC front, net leveraged JPY longs were increased in the latest week but market participants may remain wary of any dollar bounce. Initial support at this juncture is expected towards 100.50 while the topside may remain capped at 103.50 ahead of the mid-week headline risks.
- AUD-USD** RBA meeting minuets are due on Tuesday and the pair is expected to remain a byproduct of risk appetite and USD dynamics in the interim. On the CFTC front, net leveraged AUD longs were reduced in the latest week, perhaps in anticipation of the attendant risks of the FOMC this week. Apart from FOMC/BOJ dynamics, note that the RBA's Lowe will appear before a parliamentary economics committee (on 22 Sep 16) with some attendant headline risks expected. In the interim, the 55-day MA (0.7577) may prove a fairly difficult resistance to overcome barring and outright "disappointment" out of the FOMC, while 0.7440 may support on initial dips.
- GBP-USD** The pound came under additional pressure on Friday in the wake of Brexit-related headlines (dovish remarks from Finance Minister Hammond). Latest reports over the weekend meanwhile quote PM May as saying that Article 50 may not be triggered in Jan-Feb 2017. Meanwhile, the pound may also look to dollar gyrations for implicit cues this week, with 1.2900 seen as the next support in the event of a break below 1.3000. On the CFTC front, net leveraged GBP shorts were reduced slightly in the latest week.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

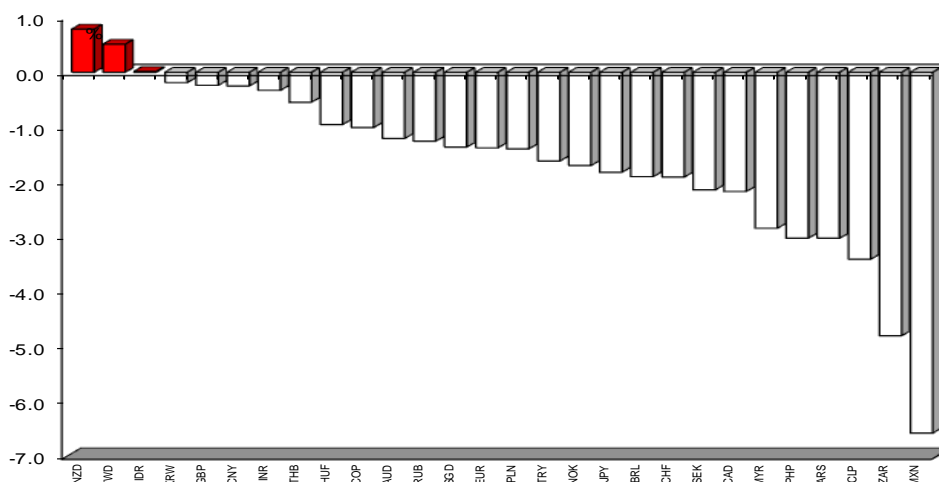
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1147	1.1163	1.1168	1.1200	1.1311
GBP-USD	1.3000	1.3004	1.3044	1.3100	1.3167
AUD-USD	0.7442	0.7500	0.7535	0.7581	0.7600
NZD-USD	0.7213	0.7300	0.7304	0.7400	0.7422
USD-CAD	1.3031	1.3100	1.3158	1.3200	1.3248
USD-JPY	100.29	102.00	102.07	102.73	103.00
USD-SGD	1.3508	1.3600	1.3645	1.3694	1.3698
EUR-SGD	1.5101	1.5200	1.5239	1.5296	1.5300
JPY-SGD	1.3157	1.3300	1.3367	1.3400	1.3514
GBP-SGD	1.7731	1.7786	1.7798	1.7800	1.8148
AUD-SGD	1.0200	1.0239	1.0281	1.0300	1.0353
Gold	1300.34	1302.10	1314.20	1333.63	1348.81
Silver	18.37	18.80	18.89	18.90	19.60
Crude	42.42	43.80	43.86	43.90	44.95

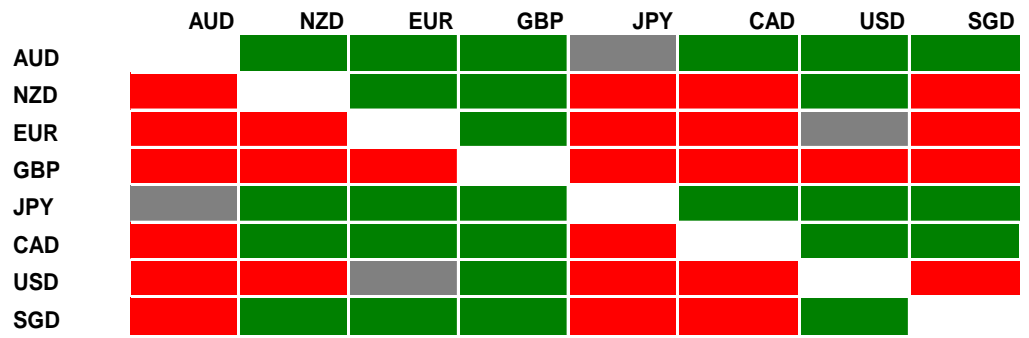
Source: OCBC Bank

FX performance: 1-month change agst USD



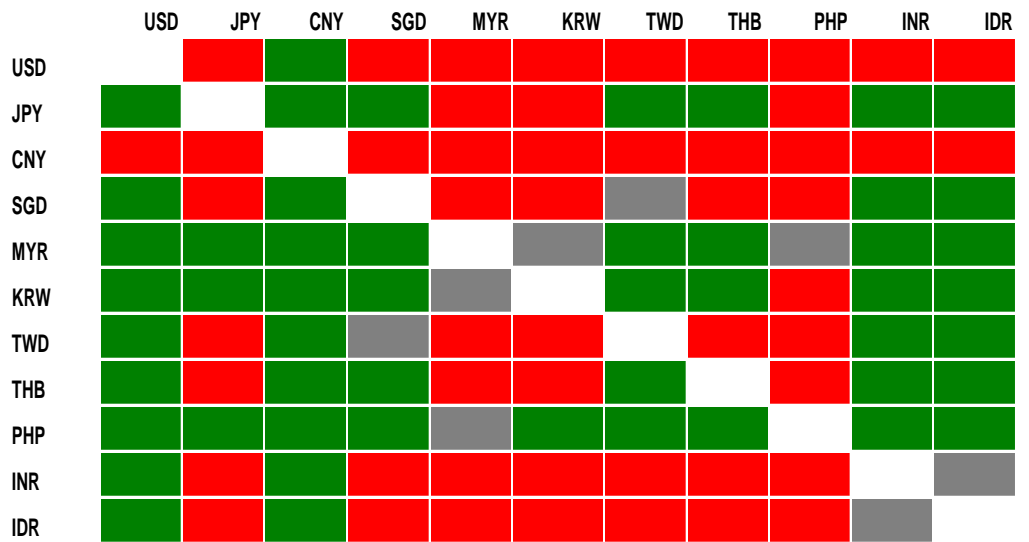
Source: Bloomberg

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		
TACTICAL								
1	25-Aug-16	B	GBP-USD	1.3210	1.4055 1.2785	Moderating short term pessimism		
2	25-Aug-16	B	USD-SGD	1.3527	1.3780 1.3395	Moderating net inflows in Asia, potential for broad USD uptick		
3	01-Sep-16	B	USD-JPY	103.33	108.15 100.90	Ahead of NFP numbers and BOJ MPC		
4	15-Sep-16	B	USD-CAD	1.3202	1.3535 1.3030	Fading crude, soft macro outlook, ahead of FOMC		
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	14-Jun-16	S	USD-SGD	1.3542	1.2815 1.3910	USD expected to disappoint on the back of the summer FOMCs		
8	04-Jul-16	S	USD-JPY	102.58	91.85 107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
9	26-Jul-16	S	GBP-USD	1.3120	1.1555 1.3905	Macro pain of a potential Brexit		
10	25-Aug-16	S	USD-CAD	1.2918	1.1960 1.3400	Stabilizing global macro, potential traction for oil		
RECENTLY CLOSED								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
2	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
3	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
4	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
5	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclicals, search for yield	8.37
6	04-Aug-16	19-Sep-16	B	EUR-USD	1.1149	1.1157	Static Fed vs. ECB	-0.80
Jan-Aug 2016 Return							+7.80	

Source: OCBC Bank

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