

Wednesday, October 19, 2016

FX Themes/Strategy/Trading Ideas

- The USD retreated slightly on Tuesday following softer than expected US Sep core CPI readings (+0.1% mom) with UST curve also easier on the day. The short term correlation between the 10y UST yield and the DXY is running at its highest since 2013 and we would continue to watch this space in the coming weeks. For today, headline risks can be expected from the Fed's Williams, Kaplan, and Dudley.
- Elsewhere, positive risk appetite levels also whittled away at the greenback, with the **FXSI (FX Sentiment Index)** inching lower within Risk-Neutral territory on Tuesday.
- With crude maintaining some degree of resilience and the greenback hesitating in the near term, we exit our 07 Oct 16 idea to be tactically long **USD-CAD** (spot ref: 1.3256) at 1.3104 on Wednesday for an implied -1.15% loss (excl carry).
- One of our pet themes of a soft structural horizon for the **USD-JPY** (from as early as late 2015) we think has finally run its course with Fed rate hike prospects continuing to crystallize. We close out our 04 Jul 16 idea to be structurally short the pair (spot ref: 102.58) at 103.88 on Wednesday for an implied -1.59% dip.

Asian FX

- With Asian equities taking its cue from EZ/US stocks, expect regional parings to be slightly more consolidative in tandem with the pause in broad dollar strength. With China's 2Q GDP and Sep data points essentially in line with expectations this morning, the regional currencies may continue to remain buffered against the USD. Overall, the **ACI (Asian Currency Index)** is expected to be top heavy pending further dollar cues.
- **SGD NEER:** The SGD NEER is softer on the day at around -0.34% below its perceived parity (1.3813). Essentially, NEER-implied USD-SGD thresholds are softer in line with the soggy greenback from overnight but the relative reluctance of the USD-SGD on the downside has left the NEER slightly weaker. At current levels, the -0.50% threshold is estimated at 1.3883 with -1.0% seen at 1.3953. Near term, 1.3875 on the upside may limit pending external cues with first support expected into 1.3835.

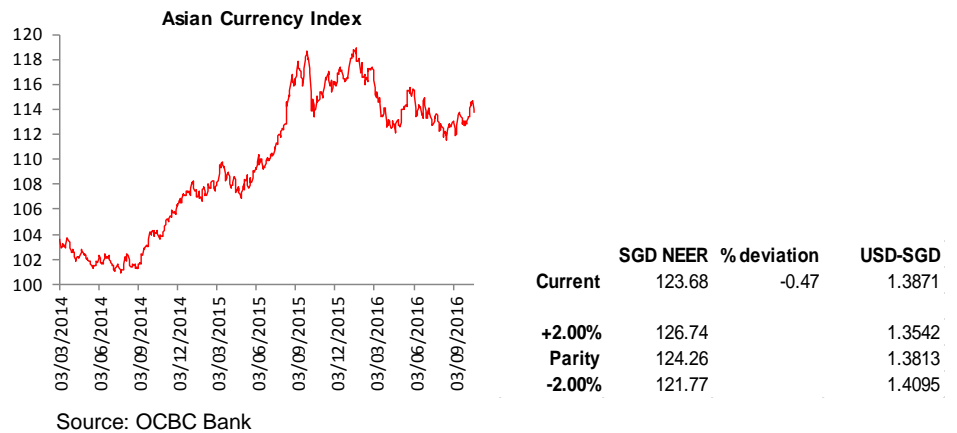
Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

Investments &
Structured Product
Tel: 6349-1886

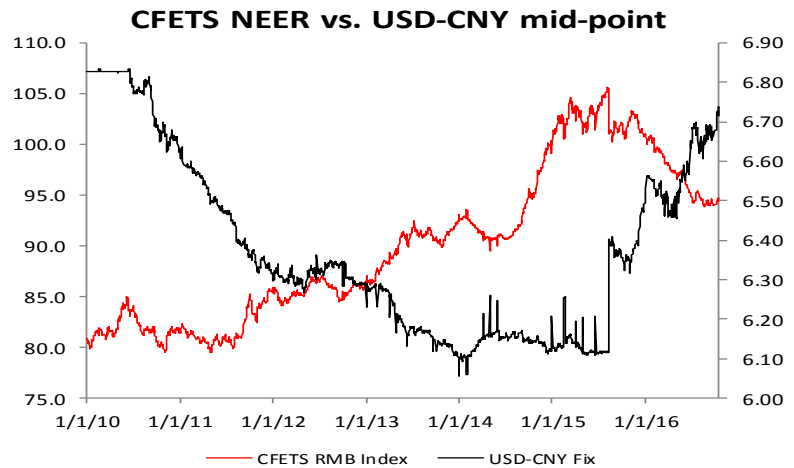
Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com



- CFETS RMB Index:** Today, the USD-CNY mid-point rose slightly (not as much as expected) to 6.7326 from 6.7303 on Tuesday, pulling the **CFETS RMB Index** lower to 94.38 from 94.48 yesterday.



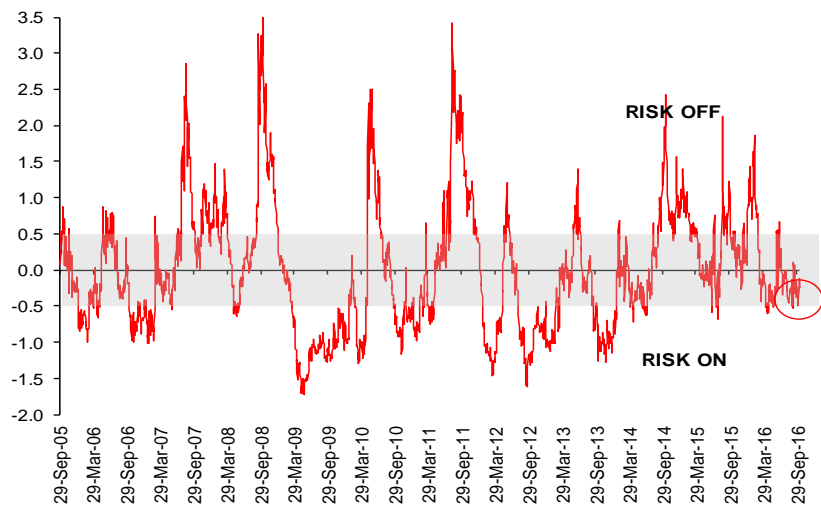
G7

- EUR-USD** The ECB meeting tomorrow may continue to check upside potential for the EUR-USD with Draghi by and large still expected to remain on a dovish slant despite sporadic market chatter about potential taper intentions. Coupled with potential risks from Fed rhetoric later in the global day, investors may attempt to fade upticks within 1.0950-1.1005 in the interim.
- USD-JPY** USD-JPY may continue to consolidate in the near term given the slight hesitation in the broad dollar while we remain conscious of upside risks if Fed rate hike expectations regain traction. Yield differential arguments meanwhile arguably remain biased to the upside for the pair. Initial support is seen on approach of 103.50 with 104.65 a first resistance.
- AUD-USD** The AUD-USD was lifted higher on Tuesday after the RBA's Lowe came across as fairly sanguine in his remarks and essentially risk-supportive China data points this morning in Asia may make the 55-day MA

(0.7610) a hard floor while 0.7715 may continue to cap in the near term.

- GBP-USD** The pound found some leverage against the USD on the back of firmer than expected CPI numbers and after a government lawyer stated that MPs would probably have to ratify any Brexit agreement. Going ahead, expect potential negative headline risk for the pound as PM Theresa May attends the 2-day EU Summit from Thursday. A narrower 1.220-1.2400 range may remain in play in the interim.

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

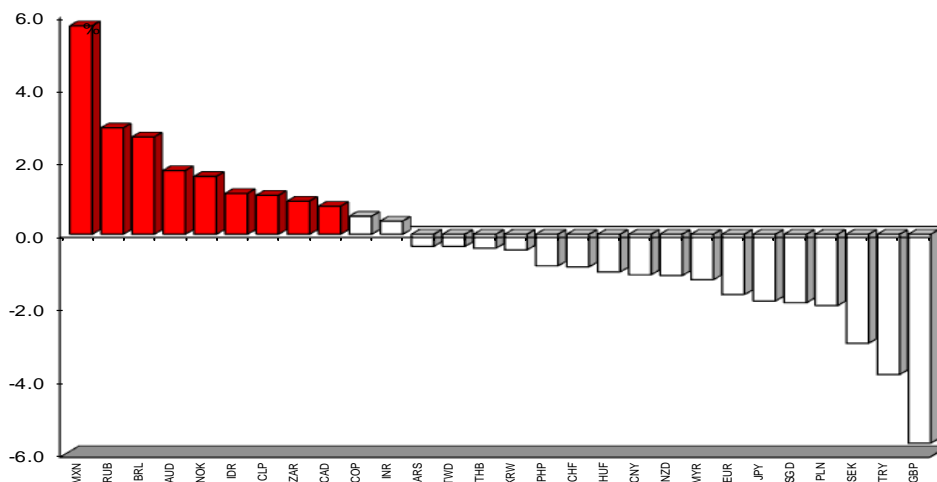
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0938	1.0964	1.0990	1.1000	1.1174
GBP-USD	1.1923	1.2200	1.2288	1.2300	1.2934
AUD-USD	0.7600	0.7603	0.7664	0.7700	0.7703
NZD-USD	0.7035	0.7200	0.7209	0.7247	0.7300
USD-CAD	1.3038	1.3070	1.3092	1.3100	1.3172
USD-JPY	102.04	103.00	103.81	104.00	104.64
USD-SGD	1.3675	1.3800	1.3872	1.3900	1.3930
EUR-SGD	1.5200	1.5219	1.5246	1.5276	1.5300
JPY-SGD	1.3300	1.3337	1.3363	1.3400	1.3575
GBP-SGD	1.6610	1.7000	1.7047	1.7100	1.7595
AUD-SGD	1.0600	1.0613	1.0632	1.0665	1.0700
Gold	1214.16	1249.50	1262.90	1265.50	1300.00
Silver	17.31	17.60	17.66	17.70	18.90
Crude	50.50	50.80	50.80	51.60	52.92

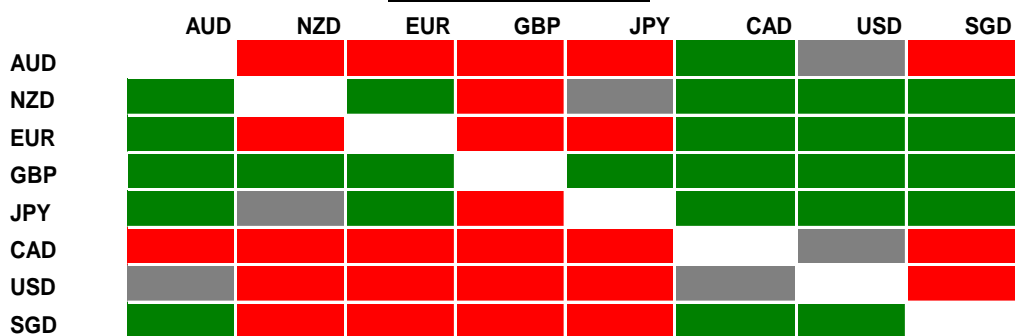
Source: OCBC Bank

FX performance: 1-month change agst USD



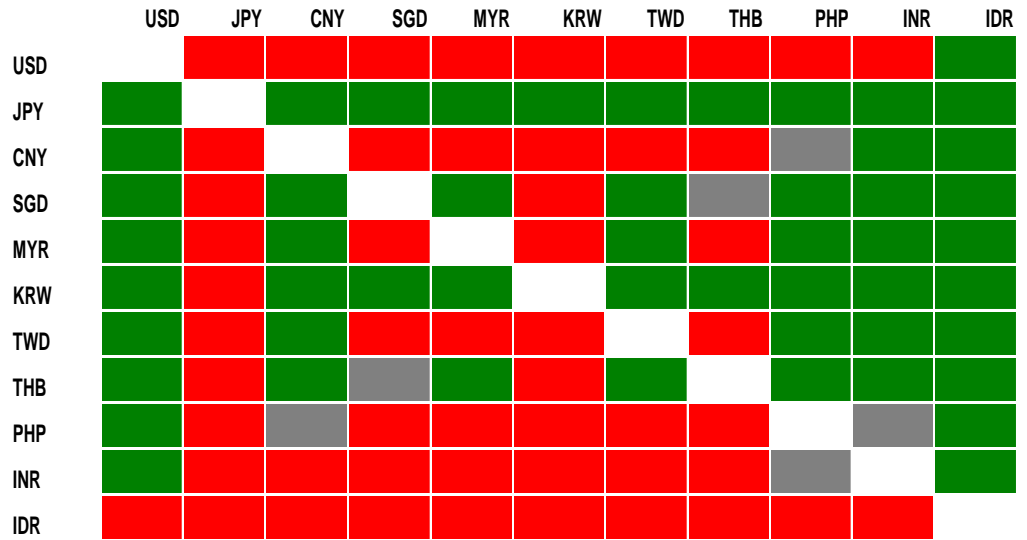
Source: Bloomberg

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	USD-SGD	1.3527	1.4040	1.3645	Moderating net inflows in Asia, potential for broad USD uptick	
2	05-Oct-16	S	EUR-USD	1.1222	1.0830	1.1125	Fade ECB-taper talk, potential US resilience	
3	06-Oct-16	B	USD-JPY	103.48	106.95	101.70	Sensitivity to USD dynamics, yield differentials, sanguine risk	
4	12-Oct-16	S	GBP-USD	1.2271	1.1815	1.2505	Fade GBP-USD upticks	
5	12-Oct-16	S	AUD-USD	0.7585	0.7385	0.7690	"Yield' mya be subjugated by dollar	
STRUCTURAL								
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
8	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	01-Sep-16	21-Sep-16	B	USD-JPY	103.33	100.90	Ahead of NFP numbers and BOJ MPC	-2.33
2	15-Sep-16	22-Sep-16	B	USD-CAD	1.3202	1.3030	Fading crude, soft macro outlook, ahead of FOMC	-1.36
3	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
4	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
5	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
6	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
7	14-Jun-16	10-Oct-16	S	USD-SGD	1.3542	1.3718	USD expected to disappoint on the back of the summer FOMCs	-1.08
8	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
9	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
10	04-Jul-16	19-Oct-16	S	USD-JPY	102.58	103.88	Yield differentials to weigh on the pair, esp if Fed hesitates	-1.59
Jan-Sep 2016 Return								+8.27

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.
