

Wednesday, January 20, 2016

FX Themes/Strategy/Trading Ideas

- After stabilizing somewhat in Asia/LDN on Tuesday, global sentiment curdled into late NY and is expected to remain fragile early Wednesday in Asia as crude (and commodity) prices have taken a turn for the worse again. As such, look for the antipodeans (note NZD wiped out late Tuesday following softer than expected CPI readings) to underperform once again while the EUR and JPY ride higher by default if investors flee risk assets. On the central bank front, the Bank of Canada is expected to remain unchanged at its policy meeting although the Monetary Policy Report is expected to come under scrutiny for additional hints of dovishness.
- The **FXSI (FX Sentiment Index)** managed to tick lower within Risk-Off territory on Tuesday but is expected to bounce if global markets unravel again under the weight of crude prices. Note that the later downward revision of global growth forecasts by the IMF will do little favors for investor sentiment. **Overall, investors are expected to stay nimble and skittish, especially if the dovish oil price dynamic continues to permeate central bank rhetoric going ahead.**
- On Tuesday, our 08 Jan 16 idea to be short **AUD-USD** (spot ref: 0.7056) was closed out at the designated level of 0.6950 for an implied profit of +1.47%.
- On a more structural note, we took profit on our short **GBP-USD** idea from 18 Dec 15 (spot ref: 1.4909) at 1.4195 on Tuesday for an implied +5.03% profit.

Asian FX

- Expect implicit pressure on EM/Asia to remain visible into Wednesday's session given the prevailing global uncertainty and with China data releases from Tuesday missing the mark slightly. Elsewhere, headlines indicting an injection of liquidity to the tune of CNY600bn into the banking system by the authorities have not had a discernible impact on current market nervousness. Negative headline pressure from the HKD front meanwhile will also be expected to cast a pall on regional markets despite containment on the CNH front (spot, forwards and vols). Overall, we look for the **ACI (Asian Currency Index)** to tick higher on the day.
- This morning, the **USD-CNY mid-point** was fixed at 6.5578, slightly lower from yesterday's 6.5596. We estimate that this brings the CFET RMB Index incrementally higher to 100.75 today from an estimated 100.7418, roughly in

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line with a priori expectations that the basket was implicitly pressured higher in view of overnight price action in the basket's constituent currencies.

- This **SGD NEER** is approximately around -1.64% below its perceived parity (1.4142) this morning and any further deterioration of investor sentiment may pressure the index yet lower intra-day. Meanwhile, NEER-implied USD-SGD thresholds are slightly softer on the day with the -2.00% lower extreme of the NEER fluctuation band estimated to translate to 1.4430. Meanwhile, the downside floor at 1.4330 is expected hold for now.



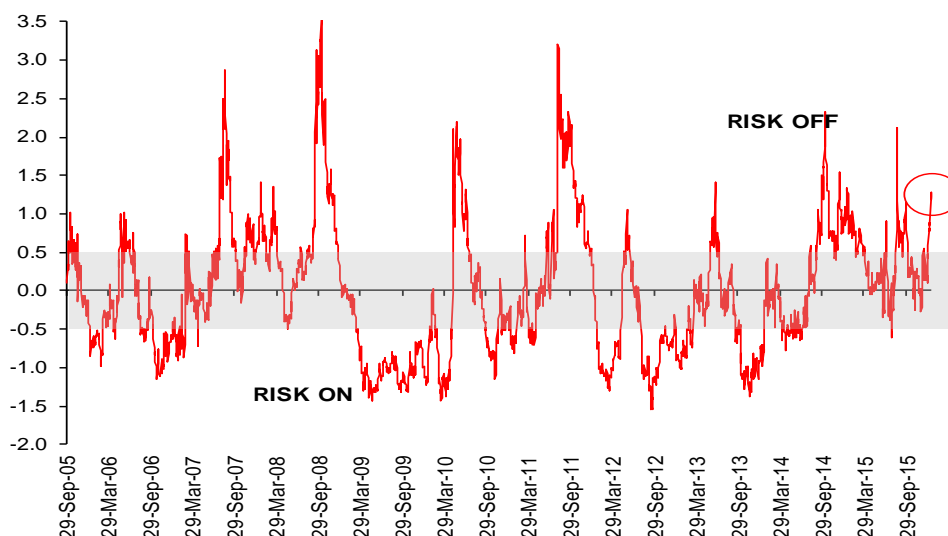
	SGD NEER	% deviation	USD-SGD
Current	121.45	-1.59	1.4371
+2.00%	125.88		1.3865
Parity	123.41		1.4142
-2.00%	120.94		1.4430

Source: OCBC Bank

G7

- **EUR-USD** The German Jan ZEW posted better than expected readings on Tuesday while EZ Dec CPI (+0.2% yoy) did not yield any surprises relative to prior market expectations but markets may instead continue to focus on the global risk appetite backdrop in the near term. In the near term, the pair may reach towards 1.0960 on safe haven/unwinding flows with 1.0860 a probable near term support.
- **USD-JPY** US CPI releases later today may re-channel some focus towards the Fed if the numbers depart materially from prior market expectations. If global equities continue to be roiled, expect the USD-JPY to fade any test towards 118.00 and eye 117.00 before 116.40.
- **AUD-USD** The AUD-USD is expected to remain a function of risk appetite volatility and respond accordingly. We look for some consolidation around the 0.6880 neighborhood with a risk towards the recent low of 0.6827 a significant risk at this juncture. Elsewhere, the NZD was trashed after the lower than expected 4Q CPI reading of +0.1% yoy (-0.5% qoq).
- **GBP-USD** UK Dec CPI prints were largely in line with prior expectations but the pound was undermined after the BOE's Carney noted that he had no set timetable for a rate hike. For today, look to Nov/Dec labor market indicators for further domestic cues. Technically, with sentiment towards the pound increasingly sour, any retracement towards 1.4220 may stall, with risks instead oriented towards 1.4100.

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

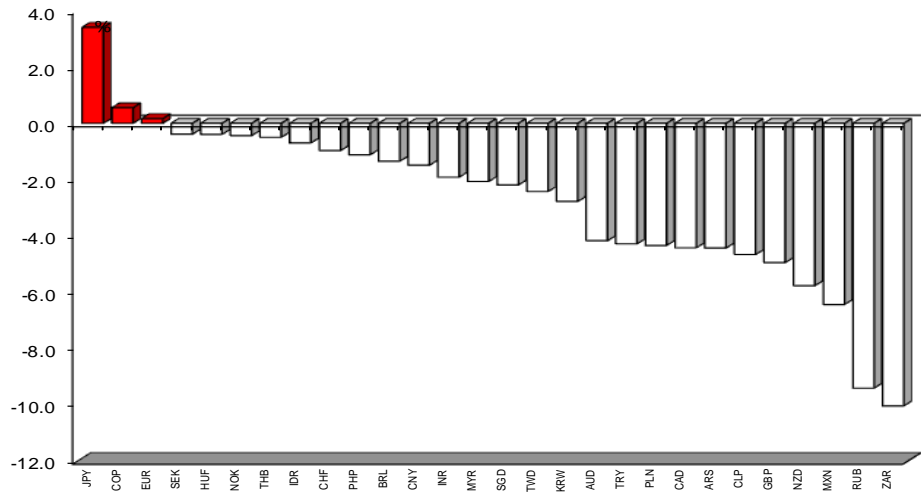
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0829	1.0900	1.0932	1.1000	1.1002
GBP-USD	1.4100	1.4130	1.4147	1.4200	1.4883
AUD-USD	0.6800	0.6827	0.6889	0.6900	0.7162
NZD-USD	0.6309	0.6366	0.6371	0.6400	0.6639
USD-CAD	1.3765	1.4400	1.4463	1.4500	1.4660
USD-JPY	116.51	117.00	117.18	118.00	120.93
USD-SGD	1.4159	1.4300	1.4386	1.4400	1.4444
EUR-SGD	1.5340	1.5700	1.5726	1.5800	1.5812
JPY-SGD	1.1713	1.2200	1.2276	1.2300	1.2372
GBP-SGD	2.0304	2.0350	2.0351	2.0400	2.1064
AUD-SGD	0.9839	0.9900	0.9911	1.0000	1.0140
Gold	1057.50	1076.43	1091.10	1100.00	1106.05
Silver	13.64	14.00	14.05	14.08	14.10

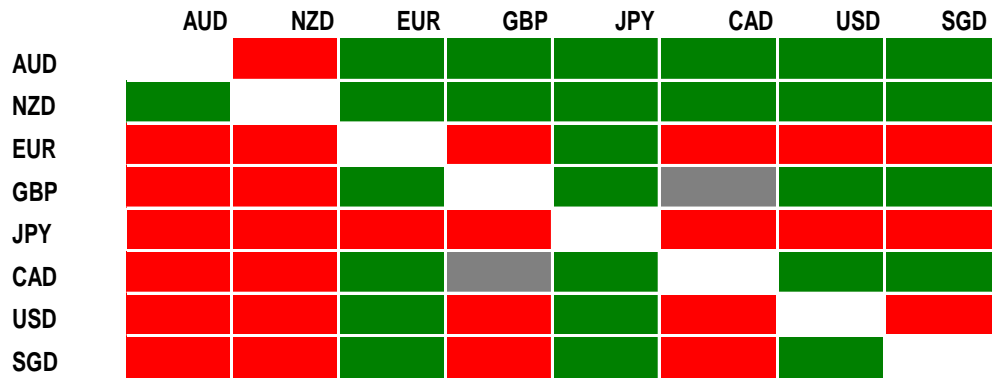
Source: OCBC Bank

FX performance: 1-month change agst USD



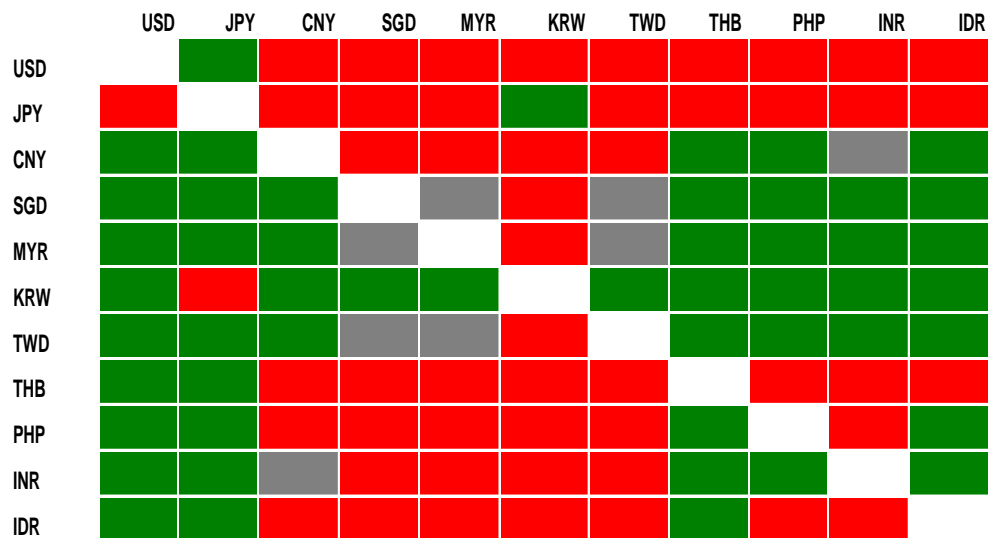
Source: Bloomberg

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"	
STRUCTURAL								
6	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
2	08-Jan-16	19-Jan-16	S	AUD-USD	0.7056	0.6950	Fragile global/equity/commodity/RMB backdrop	+1.47
3	18-Dec-15	19-Jan-16	S	GBP-USD	1.4909	1.4195	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP	+5.03

Source: OCBC Bank

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