

Wednesday, July 20, 2016

FX Themes/Strategy/Trading Ideas – Growth concerns and the USD

- The USD was prodded higher across the board by better than expected June housing starts (+4.8% mom) while cloudy global economic (note downward growth revisions by the IMF again while crude crumbled past 45.00) and dovish G7 central bank prospects also exacted a toll on the majors.
- Global risk appetite also frayed slightly at the edges (note softer UST yields, gold attempting to inch higher) despite the **FXSI (FX Sentiment Index)** edging lower within Risk-Neutral territory. Elsewhere, the USD-JPY's relative stability on Tuesday was belied by the JPY's outperformance in the crosses. **Going ahead, the greenback may garner near term traction in the near term on a mixture of risk appetite jitters, shaky macro global macro prospects and at the margins, recent positive US data points.**

Asian FX

- Refreshing our net actual capital flow monitor (on a 3M rolling basis), we find the thirst for yield alive and kicking in Asia and this has been underpinning the regional currencies. What is encouraging for Asian currencies is that the recent resilience against the USD is still not deemed to be excessive by historical standards. In fact, if the broad dollar continues to flail in the coming weeks, we fully expect USD-Asia to react lower accordingly if global risk appetite levels remain sanguine.
- Intra-day however, the dollar may retain its resilience and the **Asian Currency Index (ACI)** may continue to base build for a second day running following the retreat by G7/EM FX overnight. With crude threatening to unhinge from the 45.00 handle and markets receiving downbeat global macro/central bank reminders, the **MYR** may continue to underperform (as has been the case so far this week).
- The **SGD NEER** yet softer around +0.97% above its perceived parity (1.3678) this morning with the SGD weakening a touch faster against the USD compared to its basket constituents from overnight. NEER-implied USD-SGD thresholds are higher on the day with +1.50% threshold estimated at around 1.3476 and +1.00% at 1.3543. As noted yesterday, NEER-implied thresholds may continue to edge higher, lifting the USD-SGD and brining the 55-day MA (1.3591) into clearer focus. This would imply a NEER backing away from the +1.20%-1.50% region in the near term, while also giving credence to the short SGD-long basket trades.

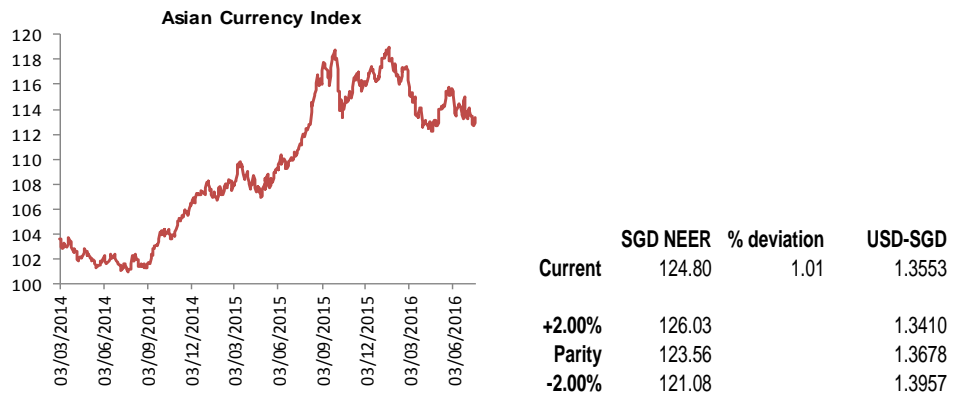
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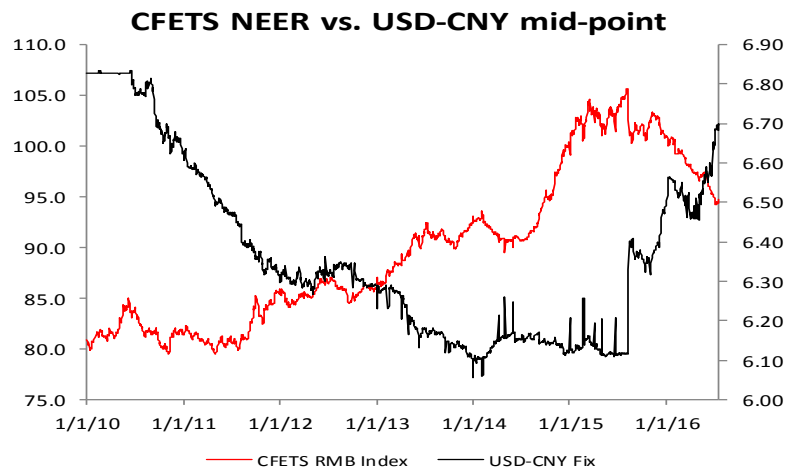
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Source: OCBC Bank

- This morning, **CFETS RMB Index** rose more than expected to 94.73 from 94.44 on Tuesday, with the resultant USD-CNY mid-point softening (in contrast to a higher expected implied) to 6.6946 from 6.6971 yesterday. Near term, 6.70 onshore remains off limits (note CNH forwards still leaning right) amidst official discomfort towards undue depreciation expectations, especially amidst official presence being strongly cited onshore on Tuesday. Investors looking for conspiracy theories can also look to the G20 meeting in Chengdu this weekend.



Source: OCBC Bank, Bloomberg

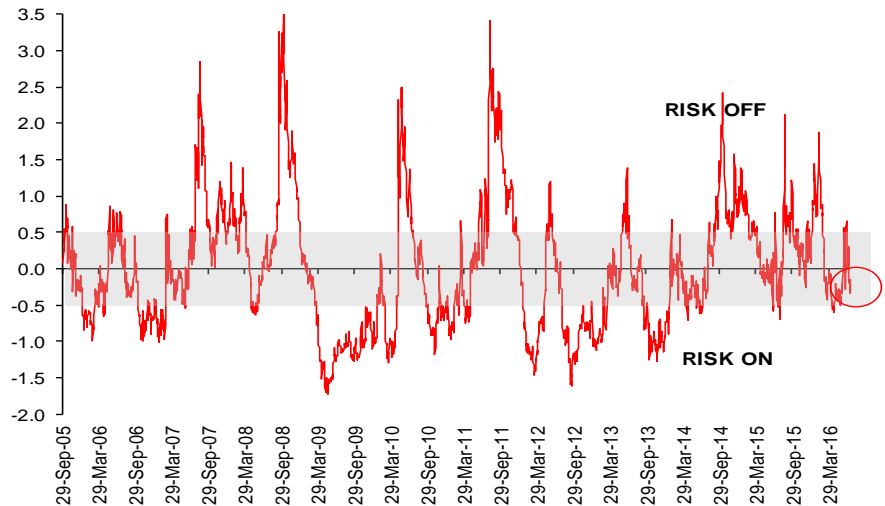
G7

- **EUR-USD** Contrasting EZ-US date releases (Jul German ZEW disappointed) paved the way for a test towards 1.1000 and background caution towards this Thursday's ECB meeting would be expected to keep the pair top heavy. At this juncture, we think risks remain skewed towards 1.0945.
- **USD-JPY** If risk appetite does not crack too significantly, we favor buying dips in USD-JPY for now on the back of the imminent BOJ MPC next week, and with the pair expected to remain relatively more responsive to the broad dollar at this juncture. To this end, yield differentials continue to float the pair. Expect another leg higher towards 106.95 if the 55-day MA (106.32)

is violated.

- AUD-USD** The antipodeans were sabotaged by their respective central banks on Tuesday (NZD by mortgage measures and the AUD by less than hawkish policy meeting minutes paving the way for an Aug rate cut) while subsequent greenback resilience during NY imparted further heaviness. With yield differentials also weighing, the AUD-USD may remain soggy intra-day and a break below the 0.7485/00 zone threatens a relapse to 0.7450 ahead of the 55-day MA (0.7396)
- GBP-USD** Investors looked past the warmer than expected June CPI readings and dragged the GBP-USD lower on Tuesday in tandem with the other majors. Broad dollar support (underpinned further against the pound by yield differentials) may tempt a move back to the 1.3000 neighborhood, with investors likely to disregard UK May/Jun labor market numbers today.

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

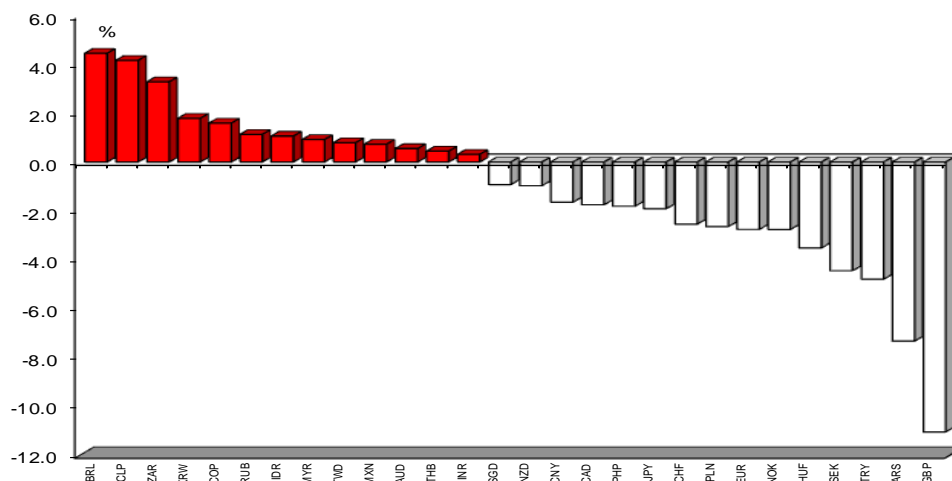
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0937	1.1000	1.1003	1.1082	1.1100
GBP-USD	1.2798	1.3000	1.3074	1.3100	1.3999
AUD-USD	0.7396	0.7400	0.7495	0.7500	0.7672
NZD-USD	0.6994	0.7000	0.7048	0.7100	0.7325
USD-CAD	1.2950	1.3000	1.3023	1.3100	1.3134
USD-JPY	99.81	105.00	105.97	106.00	106.14
USD-SGD	1.3372	1.3500	1.3553	1.3575	1.3584
EUR-SGD	1.4844	1.4900	1.4912	1.5000	1.5096
JPY-SGD	1.2551	1.2700	1.2789	1.2800	1.2830
GBP-SGD	1.7344	1.7700	1.7719	1.7800	1.8872
AUD-SGD	1.0100	1.0123	1.0158	1.0200	1.0293
Gold	1288.60	1300.00	1332.70	1377.50	1382.63
Silver	17.82	19.90	19.96	20.00	21.09
Crude	44.50	44.60	46.49	48.50	50.30

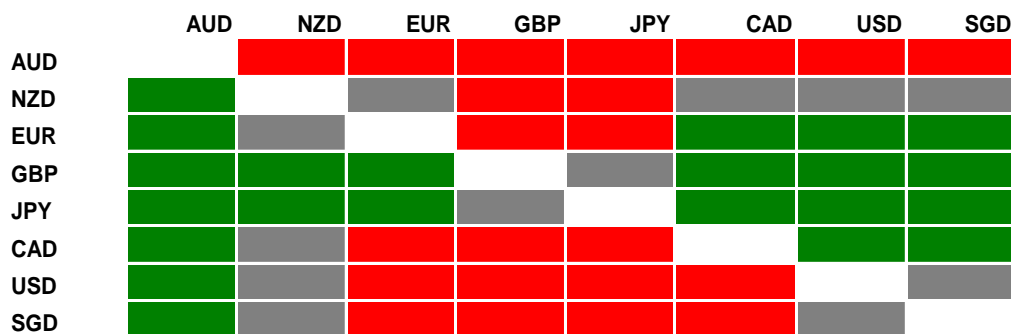
Source: OCBC Bank

FX performance: 1-month change agst USD



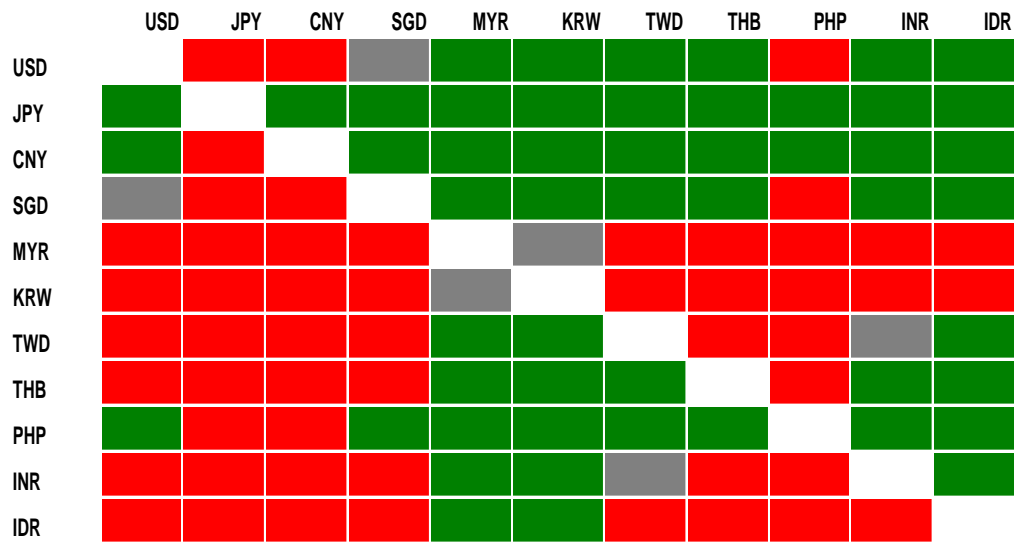
Source: Bloomberg

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	28-Jun-16	S	EUR-USD	1.1057	1.0745	1.1215	Brexit uncertainty coupled with Euroskepticism		
2	28-Jun-16	S	GBP-USD	1.3306	1.2525	1.3700	Epicenter of Brexit concerns		
3	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit		
4	05-Jul-16	B	AUD-USD	0.7528	0.7815	0.7380	Search for yield amidst potential FOMC disappointment		
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	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield		
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs		
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
RECENTLY CLOSED									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	10-Jun-16	23-Jun-16	S	USD-JPY	107.16	105.50	Potential for USD weakness going into and post-FOMC	+1.57	
2	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74	
3	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91	
4	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98	
5	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	97.60	104.50	Potential for further risk aversion	-2.25

Source: OCBC Bank

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