

Friday, October 21, 2016

**FX Themes/Strategy/Trading Ideas**

- The dollar firmed across G10 space on Thursday as the EUR-USD slid following dovish rhetoric from the ECB's Draghi after the central bank's policy meeting. Elsewhere, despite the **FXSI (FX Sentiment Index)** dipping within **Risk-Neutral** territory on Thursday, a soggy commodity complex exerted additional downside pressure on the AUD-USD, which had been undermined earlier in the global session by disappointing Aussie Sep labor market numbers. However, given that the JPY-crosses did not sink universally, shades of risk aversion remained fairly well contained.
- The dollar also found marginal support following slightly hawkish comments from the Fed's Dudley late Wednesday and somewhat supportive US economic releases on Thursday. On the data front, weekly initial claims came in a touch higher than expected but the Oct Philly Fed and Sep existing home sales numbers outstripped prior expectations. **Overall, we stay with a supported tone for the USD given the bear flattening of the UST curve and heightened FF-implied odds of a December FOMC rate hike.**

**Asian FX**

- A supported broad dollar and slightly shaky Asian equities should see the Asian currency pairs tilt higher into the end of the week. As such, the **ACI (Asian Currency Index)** is expected to tick higher its recent dips. On the central bank front, **Bank Indonesia** to cut its benchmark 7-day reverse repo by 25bps to 4.75% today as we had expected.
- **SGD NEER:** The **SGD NEER** is lower on the day at -0.64% below its perceived parity (1.3833) this morning with NEER-implied USD-SGD thresholds noticeably higher on the day in the wake of overnight moves in the constituent currencies. At current levels, the -0.50% threshold is estimated at 1.3903 and -1.00% at 1.3973. Into the end of the week, the bias may be for a drift towards the vicinity of -0.80%. Technically, we would also favor a fairly supported posture within 1.3850-1.3950 pending further external cues.

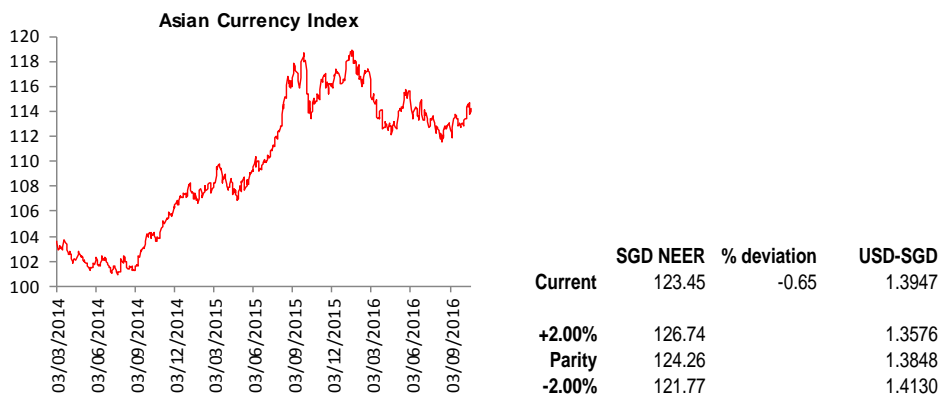
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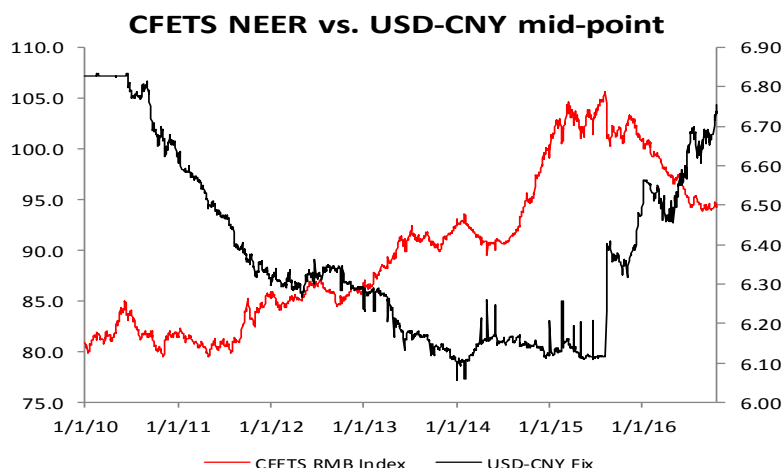
Treasury Research &  
Strategy  
Tel: 6530-4887

**Emmanuel Ng**  
+65 6530 4073  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)



Source: OCBC Bank

- CFETS RMB Index:** The **CFETS RMB Index** ticked higher to 94.30 on Friday from 94.28 on Thursday. The relative stability of the Index despite movements in the constituent currencies saw the USD-CNY mid-point firming (as largely expected) to 6.7558 from 6.7311 yesterday. As noted previously, policy induced broad stability of the Index may remain in play for now.



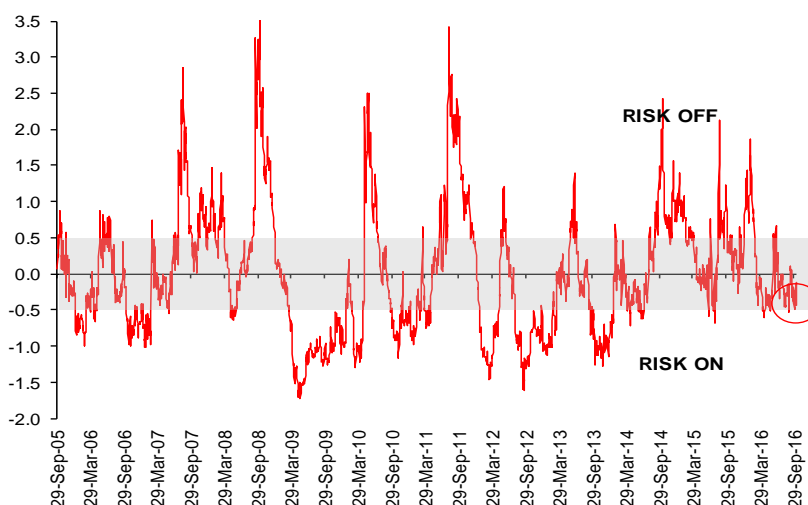
Source: OCBC Bank, Bloomberg

**G7**

- EUR-USD** We find ECB Draghi’s comments overnight essentially explicit and dovish enough to ensure persistent near term downside risks for the EUR-USD while concentration risks for potential volatility at the December ECB meeting will invariably heighten. The pair may pose a serious threat to the 1.0900 floor, with little of consequence thereafter till the 1.0830 neighborhood.
- USD-JPY** A firmer impetus from the broad USD may continue to buoy the USD-JPY while comments from the BOJ’s Kuroda regarding yield curve targeting and the asset purchase target remained sufficiently ambiguous and dovish, leaving room for the pair to trail higher. If the pair continues to base build off the 101.00 floor, expect a potential drift towards 104.65.

- AUD-USD** With external conditions (dollar, risk appetite, commodities) looking slightly less hospitable in addition to the disappointing labor market numbers yesterday, the AUD-USD may seek refuge towards its 55-day MA (0.7611) ahead of 3Q CPI numbers due next week.
- GBP-USD** The GBP-USD may continue to gravitate towards 1.2200 with EU officials continuing to take a less than charitable stance towards Brexit. On the domestic front, note the disappointing (but not entirely surprising) Sep retail sales numbers.

### 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

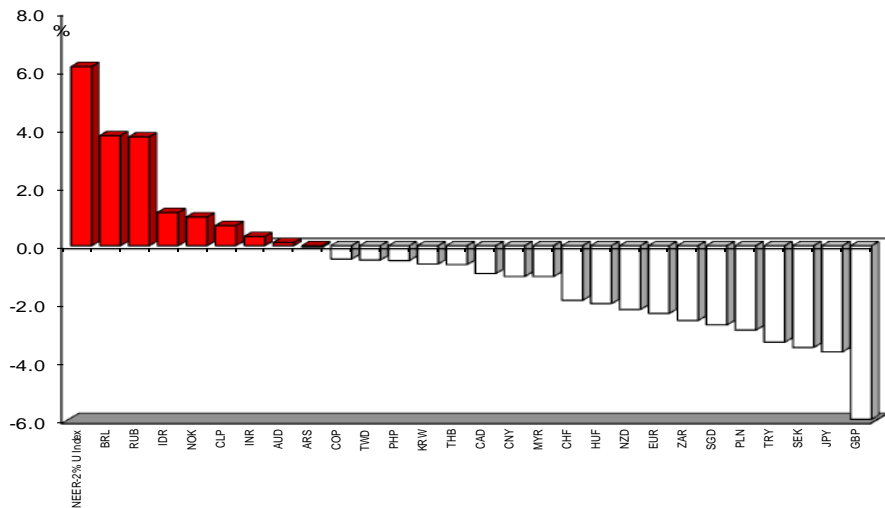
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0900	1.0902	1.0907	1.1000	1.1174
GBP-USD	1.1873	1.2200	1.2241	1.2300	1.2906
AUD-USD	0.7600	0.7602	0.7624	0.7700	0.7714
NZD-USD	0.7035	0.7100	0.7177	0.7200	0.7247
USD-CAD	1.3160	1.3200	1.3241	#N/A	1.3300
USD-JPY	102.13	104.00	104.09	104.64	105.00
USD-SGD	1.3671	1.3900	1.3936	1.3940	1.3978
EUR-SGD	1.5167	1.5200	1.5201	1.5228	1.5271
JPY-SGD	1.3300	1.3344	1.3389	1.3400	1.3565
GBP-SGD	1.6581	1.7000	1.7059	1.7100	1.7582
AUD-SGD	1.0358	1.0600	1.0626	1.0668	1.0700
Gold	1215.48	1249.50	1265.60	1266.37	1300.00
Silver	17.34	17.40	17.47	17.50	18.80
Crude	47.74	50.30	50.39	50.40	52.13

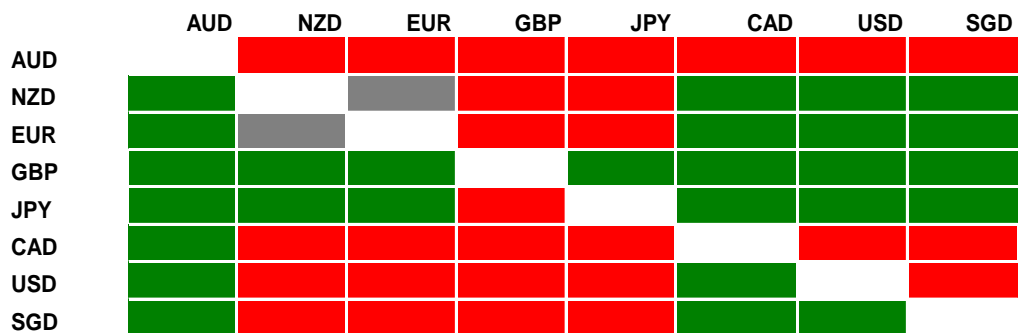
Source: OCBC Bank

**FX performance: 1-month change agst USD**



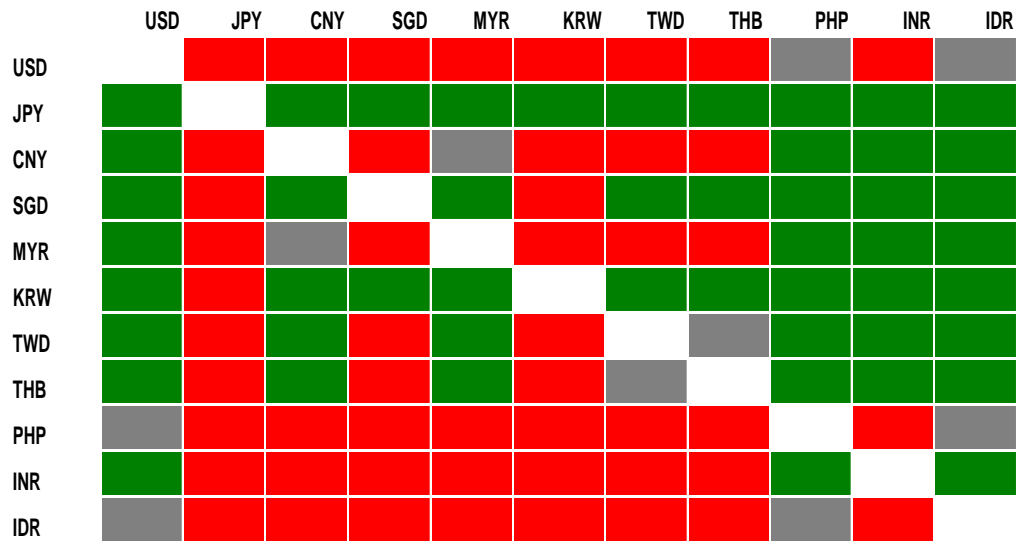
Source: Bloomberg

**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	
<b>TACTICAL</b>								
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	
<b>STRUCTURAL</b>								
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	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
<b>RECENTLY CLOSED</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	15-Sep-16	22-Sep-16	B	USD-CAD	1.3202	1.3030	Fading crude, soft macro outlook, ahead of FOMC	-1.36
2	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
3	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
4	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
5	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
6	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
7	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
8	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
9	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
10	12-Oct-16	19-Oct-16	S	AUD-USD	0.7585	0.7690	"Yield" may be subjugated by dollar	-1.38
<b>Jan-Sep 2016 Return</b>								<b>+8.27</b>

Source: OCBC Bank

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