

Friday, April 22, 2016

FX Themes/Strategy/Trading Ideas – ECB stands pat

- The majors ended the day slightly bruised against the USD (slightly firmer UST yields with lower than expected weekly initial claims) on Thursday amid negative EZ/US equities and post-ECB. The JPY also benefitted across the board from slightly shaky investor sentiment while the cyclicals reversed lower. This was despite the **FXSI (FX Sentiment Index)** edging lower within Risk-On territory.
- Overall, markets may continue to display little conviction in FX space into the end of the week and ahead of the FOMC next week, with bond bulls also pulling back of late.

Asian FX

- Negative Asian equity vibes this morning and a supported broad dollar undertone are expected to guide the **ACI (Asian Currency Index)** and USD-Asia higher into the end of the week. Elsewhere, **Bank Indonesia** remained static as expected at its policy meeting.
- The **SGD NEER** is around +0.24% (largely steady on the day) above its perceived parity (1.3520). Note however that NEER-implied USD-SGD thresholds are firmer on the day with the +1.00% threshold estimated at around 1.3386. Prevailing market conditions from overnight may however keep the NEER top heavy towards its parity intra-day, with the USD-SGD potentially testing above 1.3500 and beyond again. At current levels, the -0.50% NEER threshold corresponds to around 1.3589.

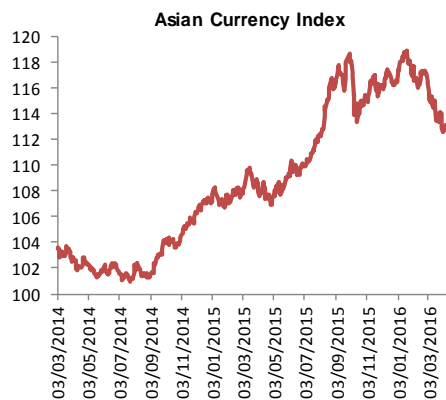
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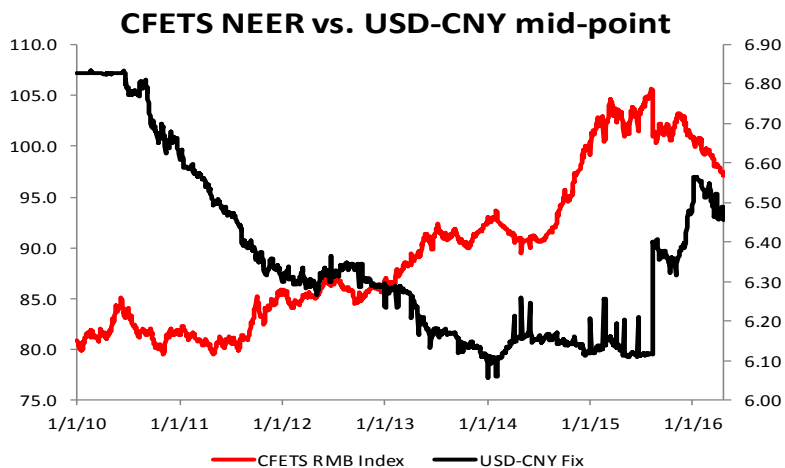
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| | SGD NEER | % deviation | USD-SGD |
|----------------|----------|-------------|---------|
| Current | 123.90 | 0.28 | 1.3473 |
| +2.00% | 126.03 | | 1.3255 |
| Parity | 123.56 | | 1.3520 |
| -2.00% | 121.08 | | 1.3796 |

Source: OCBC Bank

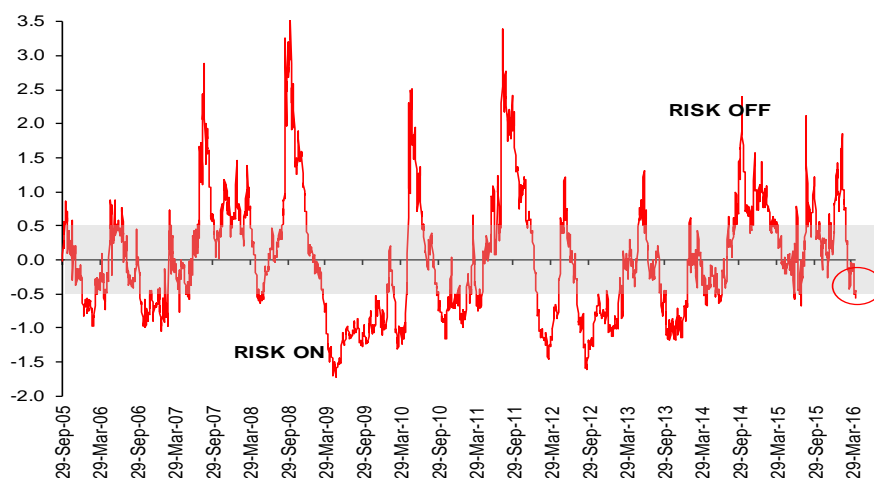
- The **USD-CNY mid-point** was set at 6.4898 this morning (within our estimated ballpark) from 6.4803 on Thursday. This left the **CFETS RMB Index** at 97.22 (lower than implicitly suggested by overnight movements in the constituent currencies), compared to 97.16 yesterday. As noted yesterday, official structural guidance for a suppressed CFETS RMB Index remains very much in play. Elsewhere, note that comments from SAFE on Thursday regarding the stability of the Index are on point, reflecting the recent fall in the realized volatility of the basket with the realized vol of the mid-points taking up the slack in adjustment.



G7

- **EUR-USD** After the initial jump higher to near 1.1400, the EUR-USD relapsed lower after the ECB's Draghi spoke out against criticisms directed at the ECB's easy monetary policies while reiterating that the ECB stood ready to act further and "for as long as needed". Intra-day, we look for a top heavy posture for the EUR-USD ahead of the FOMC next week. Support is seen towards 1.1267 before 1.1250.
- **USD-JPY** The USD-JPY may continue to remain locked in a range given the mix of inherent dollar stabilization at this juncture and a hint of risk aversion. Initial topside ceiling is expected at 110.47 with 109.00 seen to support on initial dips ahead of 108.75.
- **AUD-USD** As noted previously, AUD-USD may continue to remain consolidative in the near term, with a 0.7700-0.7800 range likely to prevail intra-session.
- **GBP-USD** Following the volatility imposed by the EUR intra-day, the GBP-USD eventually settled lower, weighed by discouraging fiscal numbers and retail sales numbers. On a related note, continued exhaustion by EUR-GBP bulls may also lend partial support to the GBP-USD, with the latter expected to see support materializing towards 1.4300 and thereafter at the 55-day MA (1.4247). Meanwhile, 1.4400 may limit on initial upticks.

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 |

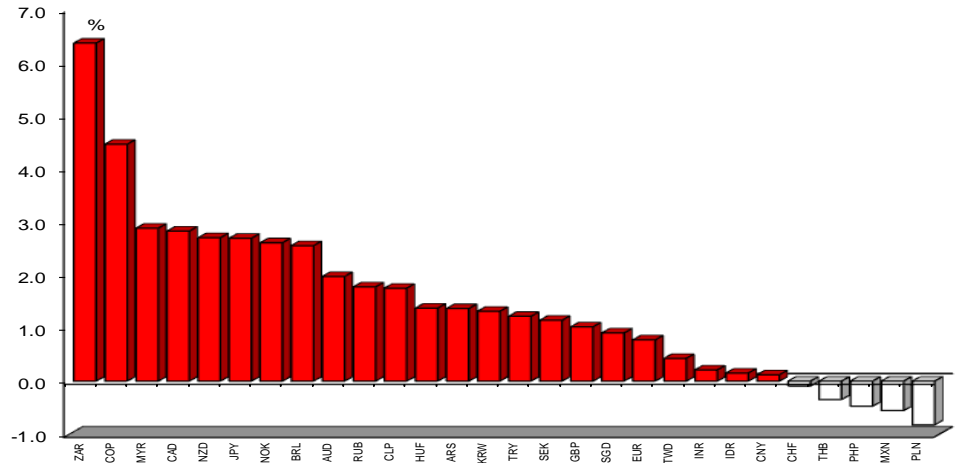
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1221 | 1.1300 | 1.1305 | 1.1400 | 1.1451 |
| GBP-USD | 1.4223 | 1.4300 | 1.4353 | 1.4400 | 1.4446 |
| AUD-USD | 0.7486 | 0.7700 | 0.7769 | 0.7800 | 0.7830 |
| NZD-USD | 0.6762 | 0.6900 | 0.6930 | 0.7000 | 0.7024 |
| USD-CAD | 1.2593 | 1.2700 | 1.2711 | 1.2800 | 1.3212 |
| USD-JPY | 107.63 | 109.00 | 109.42 | 110.00 | 111.86 |
| USD-SGD | 1.3360 | 1.3400 | 1.3474 | 1.3500 | 1.3642 |
| EUR-SGD | 1.5171 | 1.5200 | 1.5232 | 1.5300 | 1.5331 |
| JPY-SGD | 1.2257 | 1.2300 | 1.2315 | 1.2400 | 1.2604 |
| GBP-SGD | 1.8968 | 1.9300 | 1.9338 | 1.9400 | 1.9495 |
| AUD-SGD | 1.0255 | 1.0400 | 1.0468 | 1.0500 | 1.0532 |
| Gold | 1210.12 | 1237.98 | 1249.00 | 1261.70 | 1287.80 |
| Silver | 15.58 | 17.10 | 17.15 | 17.20 | 17.40 |
| Crude | 40.47 | 43.80 | 43.84 | 43.90 | 44.37 |

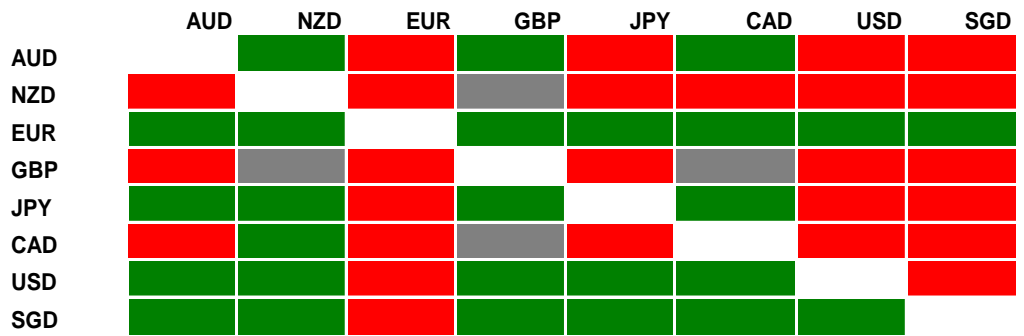
Source: OCBC Bank

FX performance: 1-month change agst USD



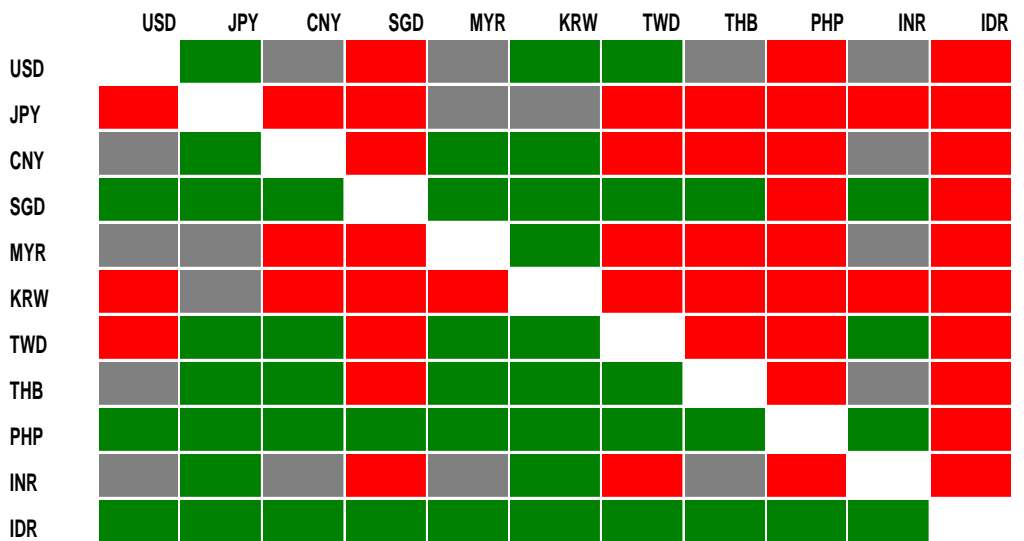
Source: Bloomberg

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 | 14-Apr-16 | S | USD-CAD | 1.2832 | 1.2425 | 1.3040 | Bottoming crude prices | |
| 2 | 19-Apr-16 | S | USD-JPY | 108.93 | 105.40 | 110.75 | Potential for FOMC to disappoint | |
| 3 | 20-Apr-16 | B | GBP-USD | 1.4374 | 1.4785 | 1.4165 | Moderating Brexit concerns, weak dollar, positive risk | |
| STRUCTURAL | | | | | | | | |
| 4 | 03-Feb-16 | S | GBP-USD | 1.4401 | 1.3700 | 1.4755 | Policy dichotomy, Brexit concerns, and space for further NEER depreciation | |
| 5 | 18-Feb-16 | B | EUR-USD | 1.1137 | 1.1825 | 1.0790 | Growing suspicion that the Fed will hesitate | |
| 6 | 01-Mar-16 | S | USD-JPY | 112.91 | 105.00 | 116.90 | Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries | |
| 7 | 07-Mar-16 | B | AUD-USD | 0.7412 | 0.7955 | 0.7135 | Potential risk appetite, abating global growth concerns, static Fed expectations | |
| 8 | 12-Apr-16 | S | USD-CAD | 1.2895 | 1.2045 | 1.3325 | Stabilizing crude, soft USD, sanguine BOC | |
| 9 | 12-Apr-16 | B | NZD-USD | 0.6885 | 0.7450 | 0.6600 | Recovery in cyclicals, search for yield | |
| 10 | 19-Apr-16 | S | USD-SGD | 1.3439 | 1.2835 | 1.3740 | Potential for further broad USD decay, positive risk appetite | |
| RECENTLY CLOSED | | | | | | | | |
| | Inception | Close | B/S | Currency | Spot | Close | Rationale | P/L (%) |
| 1 | 18-Mar-16 | 24-Mar-16 | B | EUR-USD | 1.1321 | 1.1150 | Tilt in policy balance after ECB and FOMC | -1.53 |
| 2 | 18-Feb-16 | 31-Mar-16 | S | USD-SGD | 1.4034 | 1.3435 | USD vulnerability, stabilization in RMB, equities/commodities | +4.54 |
| 3 | 03-Mar-16 | 08-Apr-16 | B | AUD-USD | 0.7284 | 0.7410 | Stabilizing commodities/equities, coupled with recent upside aussie | +3.19 |
| 4 | 29-Feb-16 | 07-Apr-16 | S | USD-CAD | 1.3533 | 1.3139 | Bottoming crude | +2.98 |
| 5 | 11-Apr-16 | 14-Apr-16 | S | USD-JPY | 107.72 | 109.50 | JPY still not drastically overvalued, endemic USD weakness | -1.63 |
| 6 | 04-Mar-16 | 14-Apr-16 | S | USD-SGD | 1.3881 | 1.3634 | Brightening risk appetite, vulnerable broad dollar | +1.81 |
| 7 | 30-Mar-16 | 18-Apr-16 | B | EUR-USD | 1.1297 | 1.1310 | Dollar negativity post-Yellen | +0.05 |

Source: OCBC Bank

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