

Thursday, September 22, 2016

FX Themes/Strategy/Trading Ideas

- With the FOMC standing pat, the markets reacted in typical fashion with the dollar softer across the board (including the CHF) and the cyclicals (CAD and AUD) outperforming across the board. Meanwhile, the UST curve flattened from the back-end (as opposed to steepening from the front –plausibly with expectations for a hike now being channeled towards December (FF-implied odds rose to 61% from 58% a day earlier), with the statement and Yellen’s subsequent comments being perceived as a “hawkish hold”. Note that the three dissenters (George, Mester, Rosengren) overnight were looking for a hike. Elsewhere, global equities and commodities (crude) also picked higher, sending the **FXSI (FX Sentiment Index)** lower within Risk-Neutral territory.
- In the near term, the broad dollar may continue to wobble slightly with investors perhaps picking gingerly at yield, although we expect some caution given that Yellen has effectively telegraphed a December rate hike. **Overall, overnight developments essentially put a damper on our previous tactical dollar longs while underpinning our long standing structural short dollar recommendations. In a nutshell, expect market participants to revert back to risk in the short term.** To this end, note the softer 2017 dot plots (as expected) with the median dropping significantly from 1.625% to 1.125% while the mode also dropped from 1.375% to 1.125%.
- Thoughts on **BOJ**: Despite some “disappointment” after no move on the policy rate and abandoning a hard commitment to a monetary base target, markets seem to be taking a positive read from the future latitude for monetary base adjustments, a long term interest rate target, a hands on approach to yield curve dynamics (which the markets had been expecting), and desire for an inflation overshoot above 2% (removal of the 2% timetable notwithstanding). Overall, arguably net negative for the JPY on a theoretical basis although this is hardly expected to be a catalyst for a structural turnaround in the USD-JPY.
- Following the BOJ MPC, our 01 Sep 16 idea to be tactically long **USD-JPY** (spot ref: 103.33) was stopped out at 100.90 on Wednesday, yielding an implied -2.33% loss.

Asian FX

- With Asian equities also taking a shine to the Fed’s inaction, the weaker broad dollar is expected to weigh on the regional pairs with the **ACI (Asian Currency Index)** expected to soften for a second consecutive session. On a related note, in addition to the Fed overnight, EM risk premiums have also

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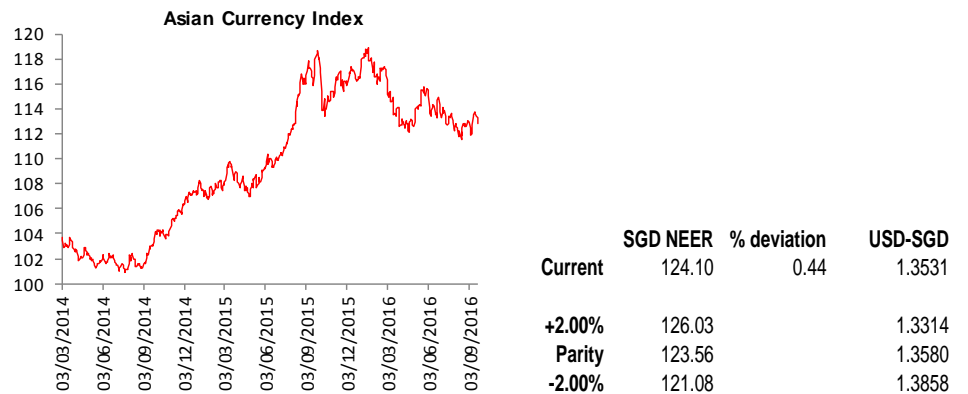
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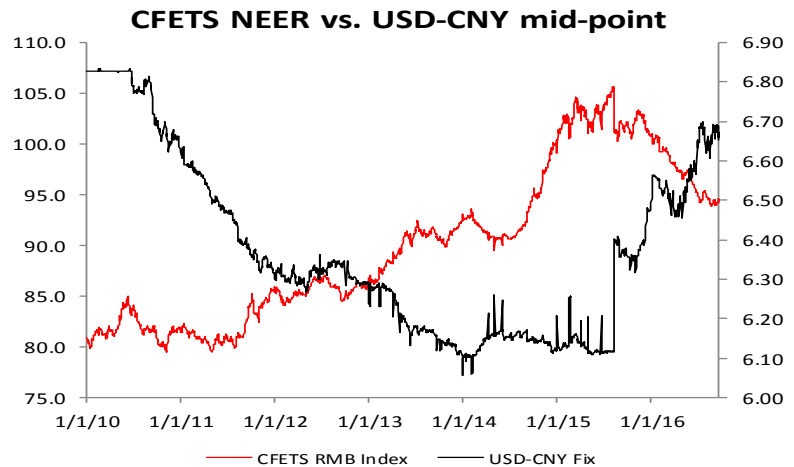
been compressing this week, tempering the caution expressed in our FX Viewpoint: Asia – Net portfolio capital inflow update, 21 Sep 16. On the calendar, we expect **Bank Indonesia** to stand pat today at 5.25% today while the **BSP** is expected to also remain static at its policy meeting.

- The authorities may not be too pleased with the **SGD NEER** firmer at +0.48% above its perceived parity (1.3580) in the wake of the FOMC. SGD outperformance yesterday has been significantly on the back of USD weakness, although we also not relative SGD strength over the EUR and CNY. At current levels, +0.50% corresponds to 1.3513 and +1.00% 1.3446 although market participants may be wary of chasing the pair lower excessively. From a technical perspective, the 55-day MA (1.3518) sits at 1.3518 and a sustained break may light the way to 1.3500 and then 1.3460.



Source: OCBC Bank

- In the aftermath (or lack of) of the FOMC, the **CFETS RMB Index** fell further to 94.28 from 94.48 on Wednesday, with the USD-CNY mid-point easing (less than expected) to 6.6513 from 6.7838.



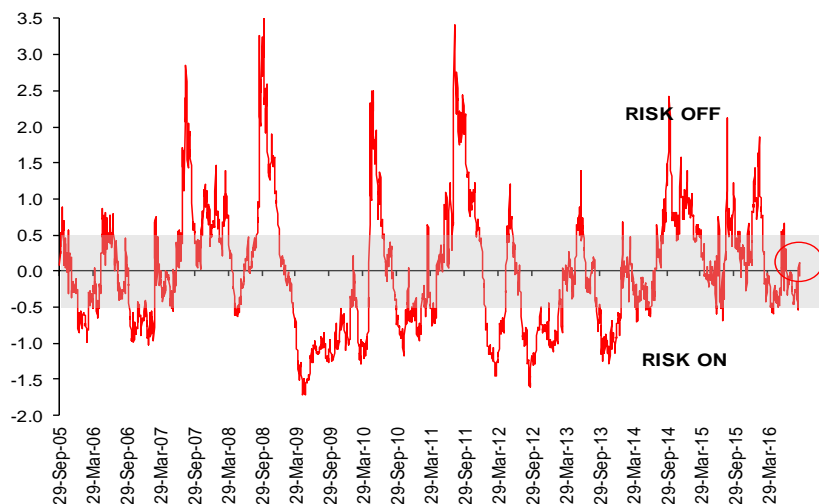
Source: OCBC Bank, Bloomberg

G7

EUR-USD The pair lifted higher after the FOMC and resistance levels at 1.1200 and 1.1250 now come into play with resultant yield differential arguments also weighing on the pair. On the downside, pressure on the 55-day MA (1.1161) and the 200-day MA (1.1151) has been alleviated for now and should serve as good interim supports.

- USD-JPY** After the BOJ and FOMC, the expected tone for the pair (aided by yield differentials) is expected to be unambiguously heavy in the short term with the 100.00 floor under imminent threat. Beyond this key threshold, 99.50 is also expected to loom.
- AUD-USD** Supportive comments from the RBA's Lowe this morning coupled with the vulnerable dollar tilt the short term bias for the AUD-USD, potentially back towards the upper reaches of its range. With the 55-day MA (0.7583) and 0.7600 now serving as supports, risks towards 0.7690 may heighten at this juncture. The **RBNZ** remained static as expected late Wednesday but remained characteristically dovish, leaving the door open for further rate cuts, capping the AUD-NZD.
- GBP-USD** The wavering broad dollar may grant the GBP a respite in the near term while investors may once again revert to watching UK data points while keeping a lookout for Brexit-related headlines. In the short term, 1.3000 once again may function as a near term support with the next key resistance expected towards 1.3100.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRTEX	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

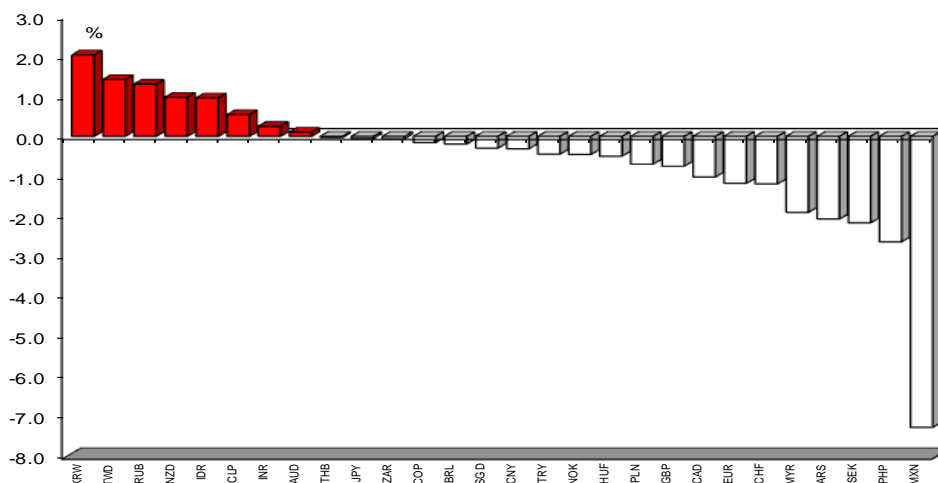
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1151	1.1169	1.1187	1.1200	1.1277
GBP-USD	1.2930	1.3000	1.3038	1.3100	1.3153
AUD-USD	0.7580	0.7600	0.7632	0.7685	0.7700
NZD-USD	0.7217	0.7300	0.7338	0.7400	0.7428
USD-CAD	1.3000	1.3041	1.3077	1.3100	1.3248
USD-JPY	99.54	100.00	100.37	100.47	101.00
USD-SGD	1.3500	1.3514	1.3531	1.3600	1.3692
EUR-SGD	1.5090	1.5100	1.5137	1.5200	1.5293
JPY-SGD	1.3194	1.3400	1.3481	1.3500	1.3502
GBP-SGD	1.7600	1.7603	1.7643	1.7700	1.7775
AUD-SGD	1.0241	1.0300	1.0327	1.0351	1.0400
Gold	1302.10	1332.35	1333.10	1345.87	1355.80
Silver	19.57	19.60	19.69	19.70	19.92
Crude	45.64	45.80	45.84	45.90	48.71

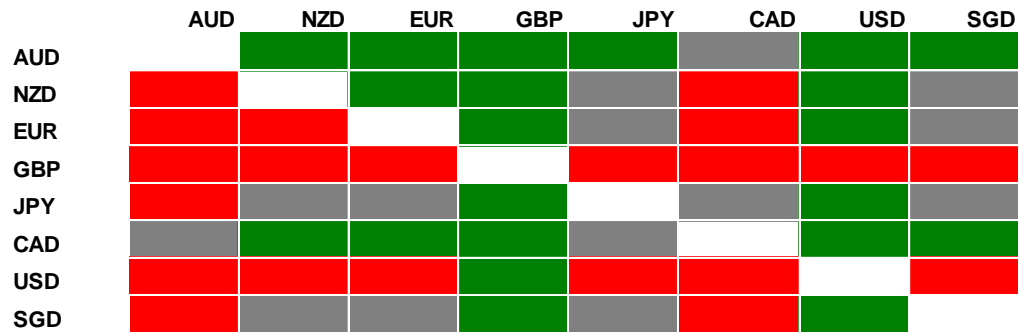
Source: OCBC Bank

FX performance: 1-month change agst USD



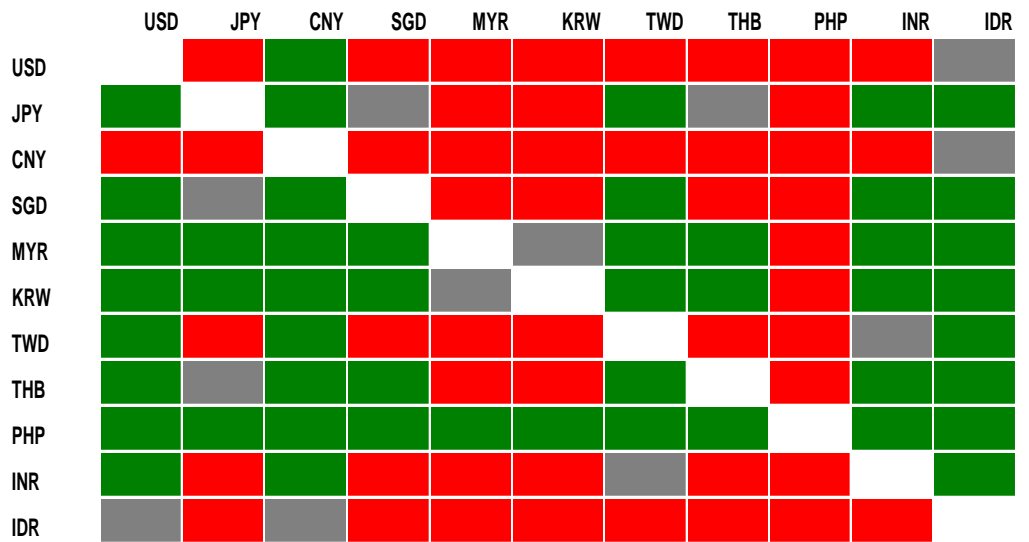
Source: Bloomberg

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	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
2	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
3	15-Sep-16	B	USD-CAD	1.3202	1.3535	1.3030	Fading crude, soft macro outlook, ahead of FOMC	
STRUCTURAL								
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
6	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
7	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
8	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
9	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
2	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
3	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
4	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
5	12-Apr-16	07-Sep-16	B	NZD-USD	0.6885	0.7450	Recovery in cyclicals, search for yield	8.37
6	04-Aug-16	19-Sep-16	B	EUR-USD	1.1149	1.1157	Static Fed vs. ECB	-0.80
7	01-Sep-16	21-Sep-16	B	USD-JPY	103.33	100.90	Ahead of NFP numbers and BOJ MPC	-2.33
Jan-Aug 2016 Return								+7.80

Source: OCBC Bank

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