

Thursday, March 24, 2016

FX Themes/Strategy/Trading Ideas

- The majors were stung by hawkish comments from the Fed's Bullard (echoing recent comments from his colleagues in recent days and the April FOMC remains "live") while the slide in commodities/equities (note the flatter UST curve from the back-end) weighed further on the cyclicals and benefitted the JPY across the board.
- Overall, damage control from Fed-speak post-FOMC has managed to significantly undo the greenback's losses against the majors in the immediate aftermath of the dot plots and Yellen's press conference. Meanwhile, deteriorating risk appetite may impose more gravity on the majors, especially the cyclicals.
- On this front, note that the **FXSI (FX Sentiment Index)** may also be attempting to bottom out, with the index edging higher again overnight within Risk-Neutral territory, with markets wary of taking the index into Risk-On territory thus far this year.

Asian FX

- Expect USD-Asia to respond higher into the end of the shortened week in tandem with their EM counterparts on a mixture of soggy global sentiment and background dollar strength. Note that the **ACI (Asian Currency Index)** at this juncture continues to have significant headroom on the upside (i.e., USD strength) before it fully re-coups its post-FOMC slide.
- As such, a further deterioration of global risk appetite would continue float the regional pairs higher. On this front, expect the **KRW** to be relatively more vulnerable, given that it may have over reacted to recent net capital inflows. On the central bank front, the **BSP** and **BOT** remained static as expected on Wednesday while the **CBC** is expected to ease its benchmark rate by 125bps to 1.5000%.
- The **SGD NEER** is essentially back at its parity (1.3686) this morning at around +0.05% with NEER-implied USD-SGD thresholds higher on the day. At current levels, the +0.50% threshold is estimated at 1.3619 and the 1.3600/20 zone may be expected to cushion intra-day. On the top side, markets may be more inclined towards 1.3735 if broad USD strength continues to breed.
- Official policy response with respect to the **CFETS RMB Index** we think remains asymmetric. This morning, the **USD-CNY** mid-point was set higher

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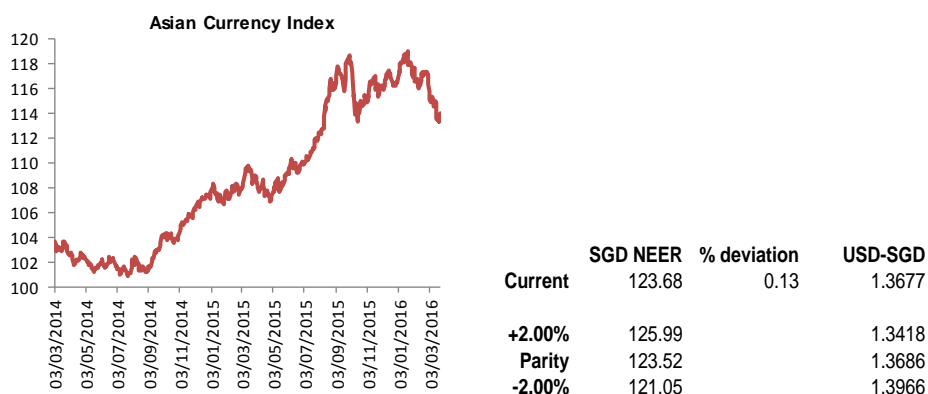
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than expected at 6.5150 (6.4936 on Wednesday), leaving the estimated CFETS RMB Index at a lower than expected 98.17 (98.07 yesterday). As noted previously, this relative “stability” of the Index would necessarily imply greater volatility in the fix (and hence spot) as the nominal exchange rate bears the burden of adjustment.

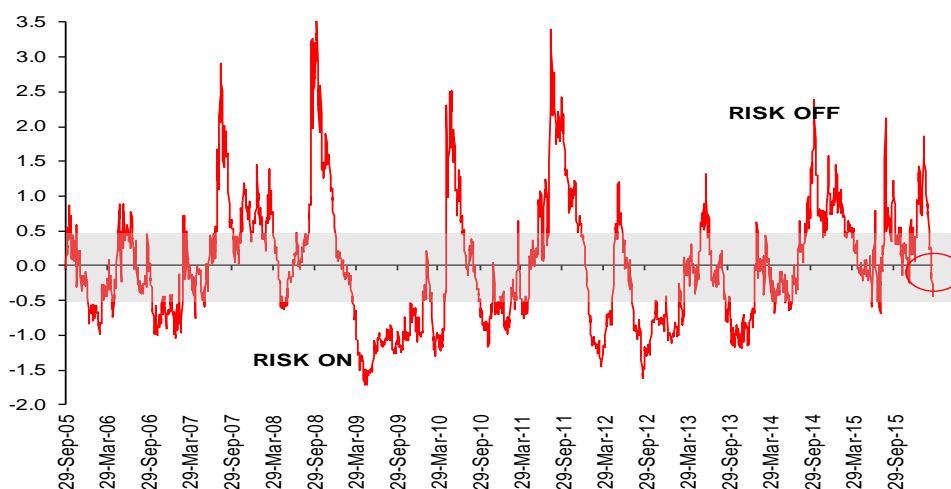


Source: OCBC Bank

G7

- EUR-USD** Dollar and option/risk dynamics may dominate and overshadow dollar friendly rate differential developments (already diluting in recent sessions) into the end of the week, pressuring the EUR-USD to test south below 1.1150.
- USD-JPY** In the near term, the interplay between background USD resilience and a slight wavering in investor sentiment has yielded a slightly firmer USD-JPY profile in recent sessions. A further aggravation of risk aversion may however tip the scales in favor of the JPY, we believe. Overall, range bound behavior for the USD-JPY is expected to persist at this juncture although the pull of the greenback is gradually manifesting.
- AUD-USD** Investor jitters we think remain very close to the surface (not least from implied pricing) and with rate differential arguments continuing to weigh on the pair. Expect the support at 0.7465 to be a pivotal support, with any violation opening the way to 0.7400.
- GBP-USD** The volatility surface remains decidedly bearish on the GBP on the back of Brexit concerns with downside supports for the pair now looking increasingly fragile. If 1.4100 is breached, a descent towards 1.4000 would beckon.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	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

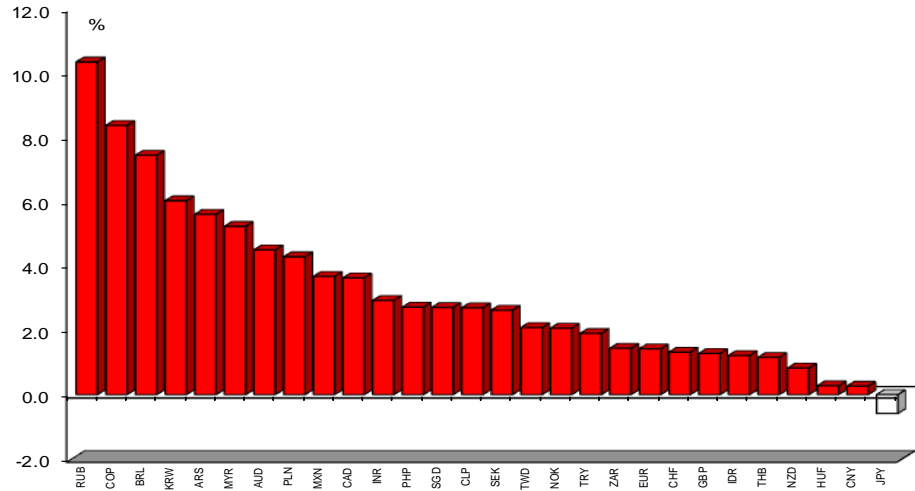
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1054	1.1100	1.1171	1.1200	1.1342
GBP-USD	1.3877	1.4100	1.4103	1.4200	1.4272
AUD-USD	0.7237	0.7500	0.7519	0.7600	0.7680
NZD-USD	0.6626	0.6700	0.6709	0.6800	0.6846
USD-CAD	1.2951	1.3200	1.3230	1.3300	1.3352
USD-JPY	111.44	112.00	112.81	113.00	114.56
USD-SGD	1.3480	1.3600	1.3677	1.3700	1.3980
EUR-SGD	1.5124	1.5200	1.5278	1.5300	1.5400
JPY-SGD	1.2036	1.2100	1.2125	1.2188	1.2200
GBP-SGD	1.9258	1.9288	1.9289	1.9300	1.9825
AUD-SGD	1.0113	1.0200	1.0284	1.0300	1.0423
Gold	1200.00	1212.91	1217.10	1280.29	1287.80
Silver	15.02	15.20	15.30	15.30	16.12

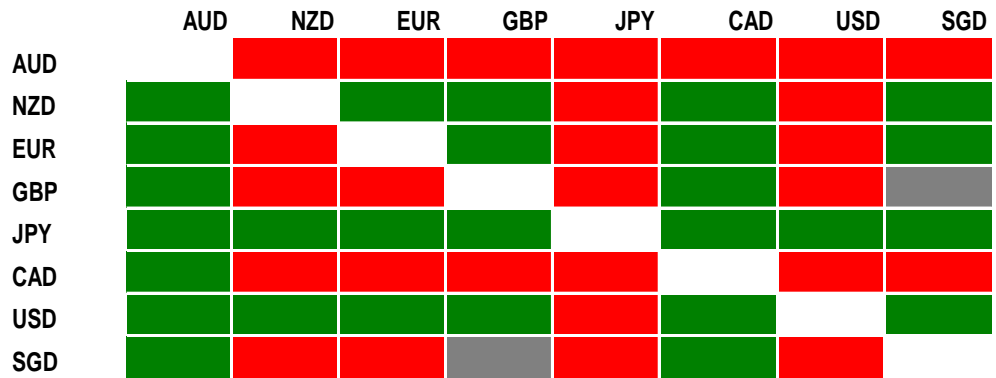
Source: OCBC Bank

FX performance: 1-month change agst USD



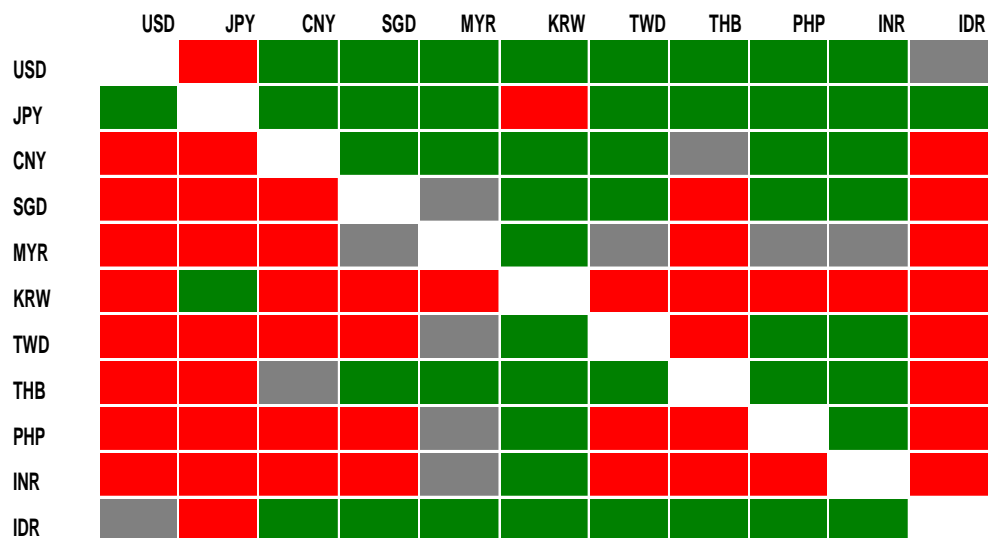
Source: Bloomberg

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	29-Feb-16	S	USD-CAD	1.3533	1.2745	1.3330	Bottoming crude	
2	03-Mar-16	B	AUD-USD	0.7284	0.7835	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
3	04-Mar-16	S	USD-SGD	1.3881	1.3380	1.3755	Brightening risk appetite, vulnerable broad dollar	
4	18-Mar-16	B	EUR-USD	1.1321	1.1660	1.1150	Tilt in policy balance after ECB and FOMC	
STRUCTURAL								
5	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
6	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
7	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
8	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
9	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	18-Feb-16	24-Feb-16	S	USD-CAD	1.3655	1.3855	Potential for crude to consolidate higher	-1.45
2	26-Feb-16	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
3	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45
4	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29
5	14-Mar-16	15-Mar-16	B	GBP-USD	1.4380	1.4180	Abating Brexit concerns, potential for Yellen to underwhelm	-1.41

Source: OCBC Bank

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