

Wednesday, August 24, 2016

FX Themes/Strategy/Trading Ideas

- The dollar managed to bounce off intra-day lows to end mixed on the day in G10 space on Tuesday with the upside surprise in July new home sales (+12.4% mom) providing partial support. Greenback strength continues to seep into the markets early Asia on Wednesday as position adjustments ensue ahead of Yellen on Friday.
- **At this juncture, the consensus (always a dangerous thing) is coalescing around the view that Yellen will bait the market enough to sustain further rate normalization expectations for this year without telegraphing a September hike.**
- On the risk appetite front, the **FXSI (FX Sentiment Index)** inched higher again but continued to remain in Risk-Neutral territory.

Short-term model update

- **AUD-USD** The AUD-USD is comfortably within its implied fair value band with upside potential likely fading somewhat into the event risk on Friday from Yellen.
- **EUR-USD** After correcting higher from oversold territory in mid to late July, the EUR-USD is back within its implied valuation confidence interval, with the latter still oriented northwards beyond the short term.
- **USD-JPY** The USD-JPY continues to look decidedly heavy although it is trading just slightly south of its lower boundary.
- **GBP-USD** After the trauma of the referendum vote, the GBP-USD is remarkably in close proximity of its implied short term fair value in the context of the model. Bias for the pair remains inherently slanted south.

Asian FX

- Expect regional currency pairs to remain reactive to a slightly firmer dollar tone intra-day with the **Asian Currency Index (ACI)** likely headed higher for the day.
- The **SGD NEER** is yet softer on the day and is essentially at parity (1.3533) with a reading of around +0.03%. NEER-implied USD-SGD thresholds are also higher on the day and it may take very little to tip the basket into the lower half of its fluctuation band. At current levels, the -0.50% threshold is

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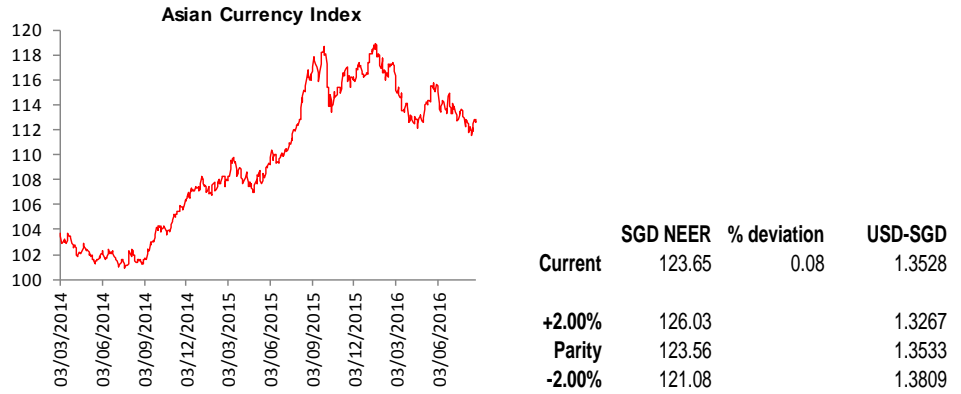
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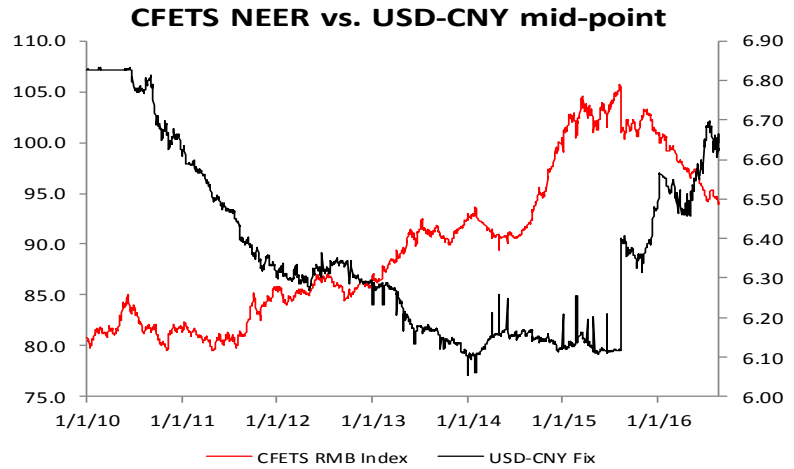
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estimated at around 1.3601 with +0.50% at 1.3466. Technically, the 55-day MA (1.3484) is expected to provide a base to bounce on any dips with the 100-day MA (1.3543) expected to attract instead despite the latest CPI readings. Note that the July headline number came in at a softer than expected -0.70% yoy but core came in at an expected 1.0% yoy (from +1.1% in June), with officials seeing little latitude for further significant downside.



Source: OCBC Bank

- Today, the **CFETS RMB Index** bounced higher (largely expected) to 94.12 from 93.86 on Tuesday with the USD-CNY mid-point easing to 6.6420 from 6.6586.



Source: OCBC Bank, Bloomberg

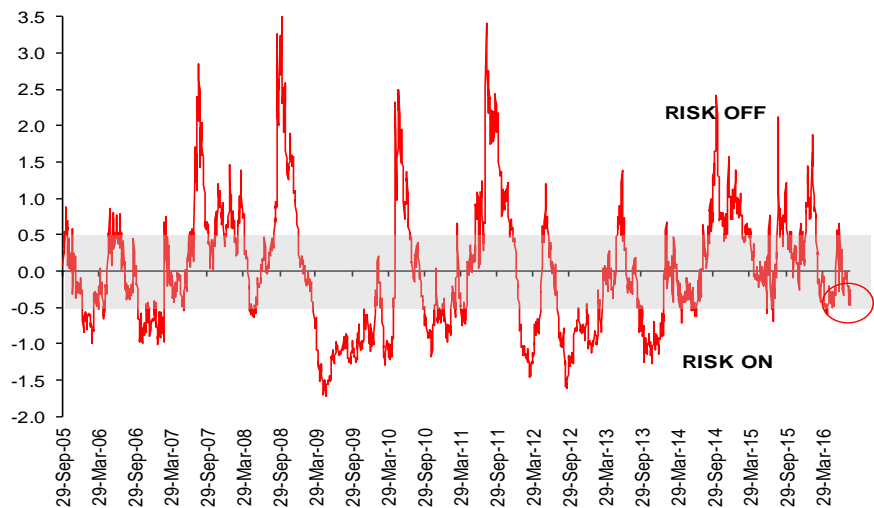
G7

- **EUR-USD** The generally supportive read from the August PMIs out of the EZ on Tuesday may temper excessive downside for the EUR-USD ahead of Friday with the 100-day MA (1.1226) a key support. On the top side, look also for the 1.1360/00 region to shelter pending further news flow. Suffice to say, investors seem to be in the camp rooting for no outsized hawkish surprises from Yellen, implying a market prepared to collect on dips in the pair.
- **USD-JPY** In the intervening period, expect the USD-JPY to continue to sulk around the 100.00 floor and we reiterate that the pair remains

susceptible to USD-specific cues (in this instance, Yellen).

- AUD-USD** With the domestic calendar dry this week, the AUD-USD is expected to remain principally a function of risk appetite and dollar dynamics. Price action in the past week has indicated a reluctance to push the envelope on the upside, preferring to base build instead. In the interim, the AUD-USD may be content to consolidate towards 0.7560 if the broad dollar continues to garner marginal traction.
- GBP-USD** August CBI Trends order data came in at a better than expected -5 on Tuesday, underscoring the recent data stream suggesting that the T+1 (or +2) impact of the Brexit vote was not as calamitous as initially expected. Structurally, eroding yield support against both the EUR and the USD (note sharply lower offer-to-cover ratio at Tuesday's BOE gilt buyback) we think would continue to suppress the GBP-USD multi-session. Intra-day, expect consolidative trade around the 1.3200 handle.

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

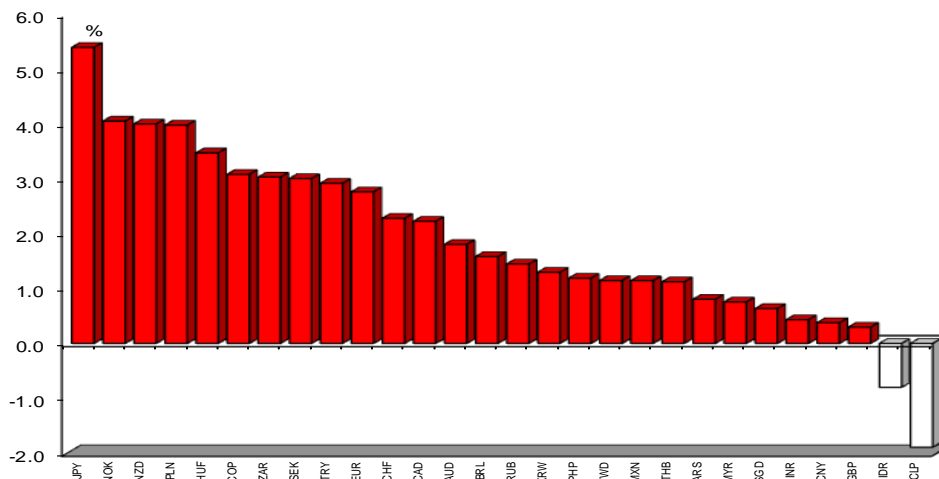
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	#N/A	#N/A	1.1300	1.1366	1.1376
GBP-USD	1.2866	1.3100	1.3179	1.3200	1.3325
AUD-USD	0.7548	0.7600	0.7605	0.7700	0.7732
NZD-USD	0.7153	0.7200	0.7274	0.7300	0.7321
USD-CAD	1.2773	1.2900	1.2930	1.2992	1.3000
USD-JPY	99.54	100.00	100.38	101.00	102.92
USD-SGD	1.3466	1.3500	1.3528	1.3532	1.3600
EUR-SGD	1.5004	1.5200	1.5287	1.5291	1.5300
JPY-SGD	1.3094	1.3400	1.3476	1.3495	1.3500
GBP-SGD	1.7270	1.7800	1.7829	1.7900	1.7940
AUD-SGD	1.0164	1.0200	1.0288	1.0300	1.0377
Gold	1326.85	1331.22	1336.20	1361.45	1366.00
Silver	18.81	18.90	18.91	19.00	19.38
Crude	46.33	47.60	47.65	47.70	49.11

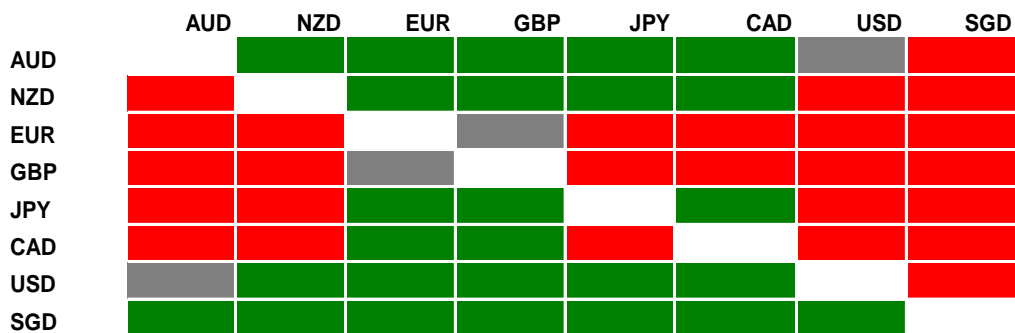
Source: OCBC Bank

FX performance: 1-month change agst USD



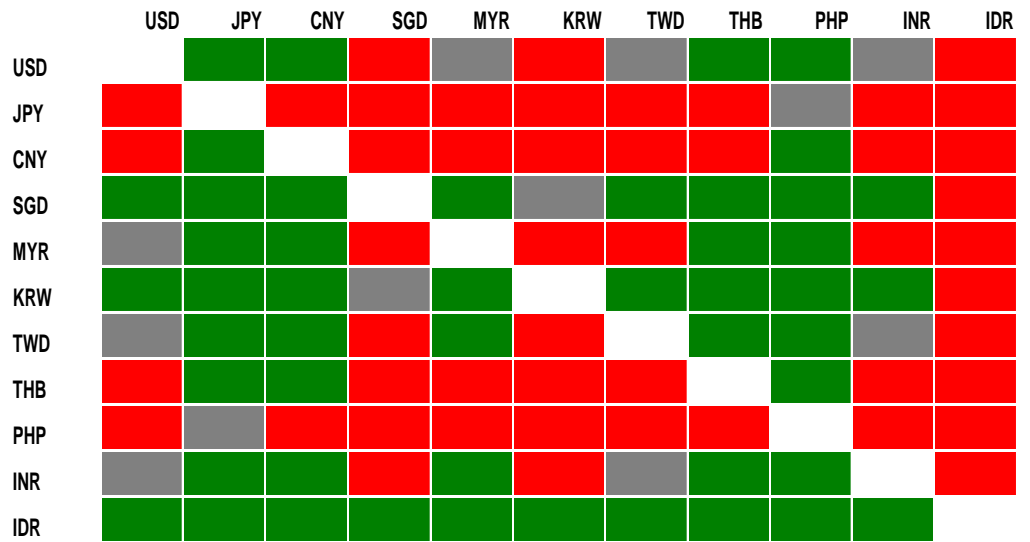
Source: Bloomberg

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	04-Aug-16		B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	08-Aug-16		B	AUD-USD	0.7611	0.7880	0.7475	Opportunity for a tactical long on assumption of transient USD	
3	11-Aug-16		S	USD-JPY	101.22	96.45	103.61	Fading dollar coupled with potential risk aversion	
4	18-Aug-16		S	USD-CAD	1.2813	1.2480	1.2985	Recovering oil vs fading FOMC prospects	
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	
10	26-Jul-16		S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
RECENTLY CLOSED									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	05-Jul-16	28-Jul-16	B	AUD-USD	0.7528	0.7523	Search for yield amidst potential FOMC disappointment	+0.03	
2	22-Jul-16	28-Jul-16	B	USD-JPY	105.83	103.45	Contrasting policy postures going into the next FOM/BOJ meetings	-2.28	
3	21-Jul-16	29-Jul-16	B	USD-SGD	1.3579	1.3445	Potential for broad USD traction, NEER deemed rich	-1.00	
4	28-Jun-16	01-Aug-16	S	EUR-USD	1.1057	1.1215	Brexit uncertainty coupled with Euroskepticism	-0.90	
5	28-Jun-16	01-Aug-16	S	GBP-USD	1.3306	1.3204	Epicenter of Brexit concerns	+0.78	
6	28-Jun-16	15-Aug-16	B	USD-CAD	1.2991	1.2805	Concerns over the global deflationary impact from Brexit	-0.23	
7	05-Aug-16		S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66	
Jan- Jul 2016 Return								+13.75	

Source: OCBC Bank

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