

Monday, October 24, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar continued to climb across the board on Friday with the EUR continuing to remain fragile post-ECB with the greenback garnering background support from supportive remarks by the Fed's Williams.
- Apart from the fairly packed global data calendar this week, FOMC rate hike expectations may continue to coalesce at the onset of the week with Fed rhetoric for the week concentrated on Monday with Dudley, Bullard, Evans, and Powell scheduled to make appearances. Elsewhere, if risk appetite fluctuations remain staid, investors make continue to build incrementally on the USD narrative. The **FXSI (FX Sentiment Index)** sank further within **Risk-Neutral** territory on Friday to end noticeable softer on the week.
- On the **CFTC** front major groupings are aligning themselves for greenback resilience. Net large non-commercial as well as leveraged accounts increased their respective long dollar bias in the latest week while asset managers also reduced their net implied short dollar bias in aggregate.
- Broad dollar undercurrents continue to shift into the end of the year as we abandon our structural long **EUR-USD** recommendation from 18 Feb 16 (spot ref: 1.1137) at 1.0880 this morning for an implied -3.14% loss.

Asian FX

- Regional currency pairs may remain vulnerable to the pull of a potentially firmer dollar despite the **ACI (Asian Currency Index)** managing to end lower on the week last Friday. To this end, note that implied net capital inflows from fund data indicate continued deterioration in the latest week.
- **SGD NEER:** The **SGD NEER** is a touch firmer on the day at -0.57% below its perceived parity (1.3853) despite a firmer broad dollar from Friday. NEER-implied USD-SGD thresholds are slightly lower on the day with -0.50% at 1.3923 and -1.00% at 1.3993. September CPI numbers are due at 0500 GMT and any neutral/soft undertones may continue to exert downside pressure on the NEER. Broad dollar resilience may remain in play at the onset of the week and in the current environment, it may take very little to nudge the NEER towards -0.80% and/or the USD-SGD to reach beyond 1.3950.

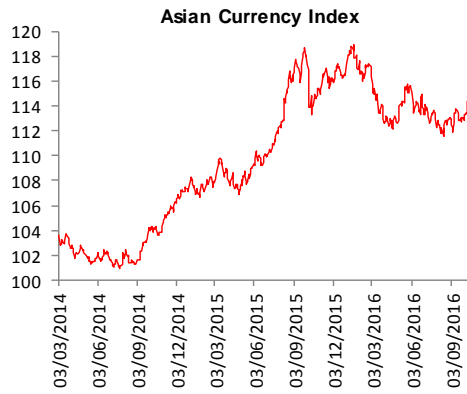
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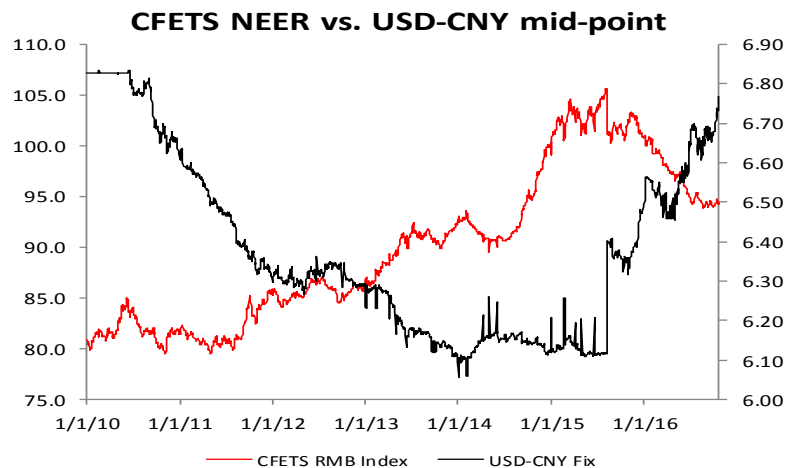
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	SGD NEER	% deviation	USD-SGD
Current	123.59	-0.54	1.3932
+2.00%	126.74		1.3582
Parity	124.26		1.3853
-2.00%	121.77		1.4136

Source: OCBC Bank

- CFETS RMB Index:** This morning, the **CFETS RMB Index** fell to 94.21 from 94.30 on Friday, with the USD-CNY mid-point gaining (largely as expected) to 6.7690 from 6.7558 the previous session. On a multi-session horizon, we will watch for any sustained breach of the 94.00 handle, with such an eventuality likely to exacerbate depreciation expectations. Thus far, we feel that the authorities have been particularly cautious in not citing renewed market jitters, keeping the Index and the mid-points within their estimated boundary conditions.



Source: OCBC Bank, Bloomberg

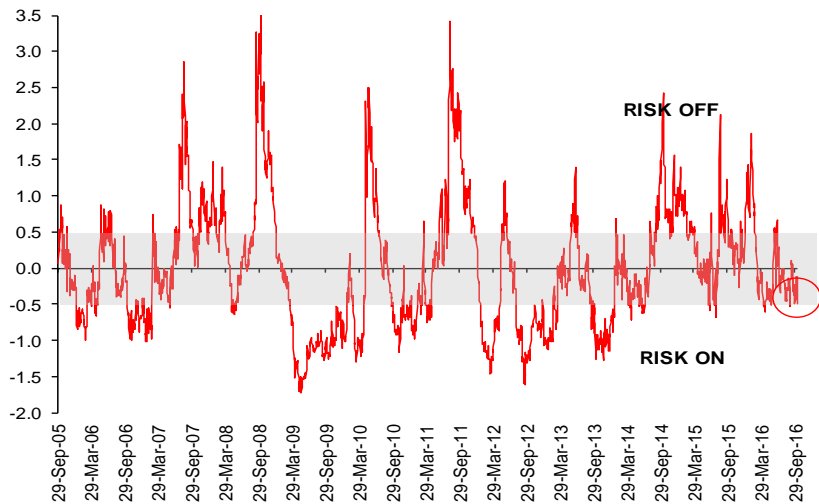
G7

- EUR-USD** EUR bears may continue to congregate if the ECB's Nowotny (16 15 GMT) echoes the dovish sentiment from Draghi witnessed last week. On the CFTC front, note that leveraged EUR shorts increased in the latest week for the third consecutive week. Elsewhere, although asset managers continued to build net EUR longs in the latest week, such positioning has reached fairly elevated levels (given that these data points also pre-dated the ECB last Thursday). As noted previously, with 1.0900 now perforated, we see little of consequence in terms of support till 1.0820/30.
- USD-JPY** USD-JPY may continue to keep its head generally below the

104.00 ceiling and within 103.50-104.65 pending external dollar cues. On the CFTC front, net leveraged JPY longs were pared in the latest week, potentially generating lift for the pair.

- AUD-USD** Australian 3Q CPI numbers are due to be released on Wednesday although we note some quarters of the market continuing to latch on to the fairly neutral vibes from the RBA in recent weeks. On the CFTC front, net leveraged AUD longs jumped significantly in the latest week although some drag on the AUD may be had with asset managers paring their net longs. We stay short term neutral to heavy for the pair in the short term with any sustained drift below the 55-day MA (0.7610) likely to be steered towards 0.7570.
- GBP-USD** The pound may be susceptible to negative sticker shock from the run of economic releases this week (including 3Q GDP on Thursday). BOE Chief economist Haldene is also expected on the wires at 0315 GMT with Shafik at 0630 GMT. On the CFTC front, net leveraged GBP shorts were pared in the latest week although asset managers accumulated further net GBP shorts. Note both categorizations of investors continue to sit behind significant short positioning with respect to the GBP. Any break of 1.2200 this week may lay the ground for a test towards 1.2000.

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

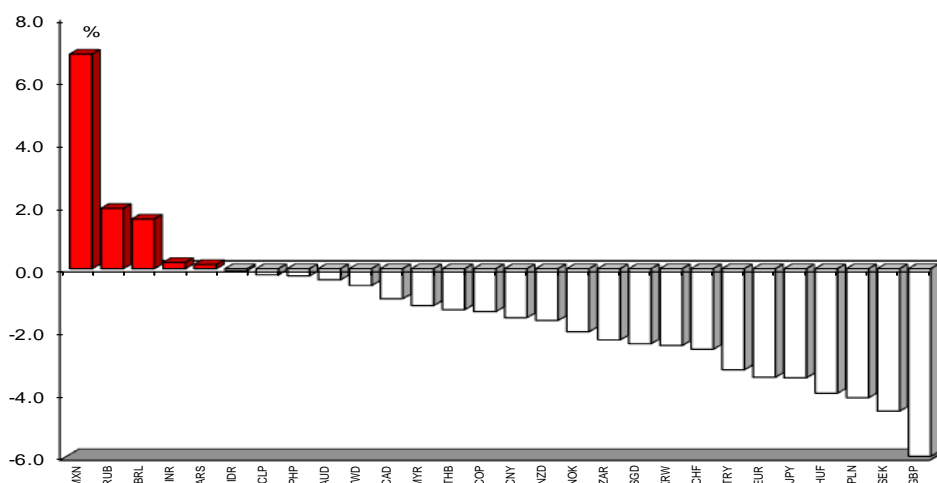
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0837	1.0859	1.0864	1.0900	1.1171
GBP-USD	1.1850	1.2100	1.2199	1.2200	1.2892
AUD-USD	0.7570	0.7600	0.7609	0.7700	0.7712
NZD-USD	0.7035	0.7100	0.7153	0.7200	0.7245
USD-CAD	1.3300	1.3341	1.3354	1.3379	1.3400
USD-JPY	102.17	103.00	103.92	104.00	104.64
USD-SGD	1.3669	1.3900	1.3933	1.3960	1.3996
EUR-SGD	1.5123	1.5135	1.5137	1.5200	1.5229
JPY-SGD	1.3348	1.3400	1.3407	1.3500	1.3542
GBP-SGD	1.6569	1.6900	1.6997	1.7000	1.7576
AUD-SGD	1.0363	1.0600	1.0601	1.0674	1.0700
Gold	1217.09	1249.50	1265.90	1267.14	1300.00
Silver	16.80	17.00	17.50	18.75	19.31
Crude	47.85	50.50	50.55	50.60	52.13

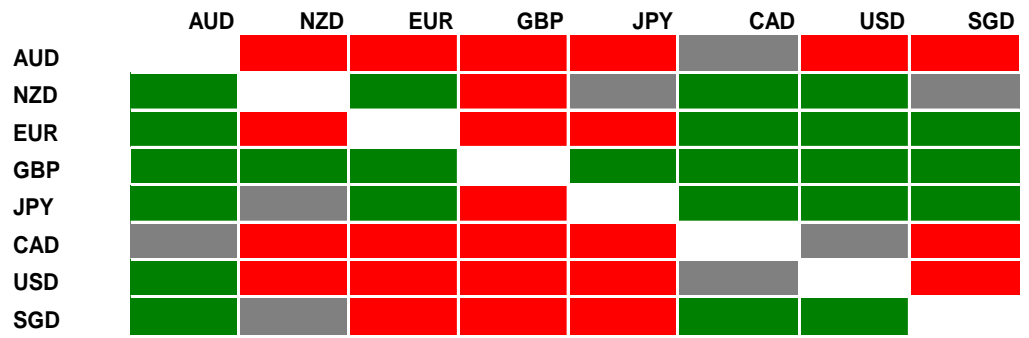
Source: OCBC Bank

FX performance: 1-month change agst USD



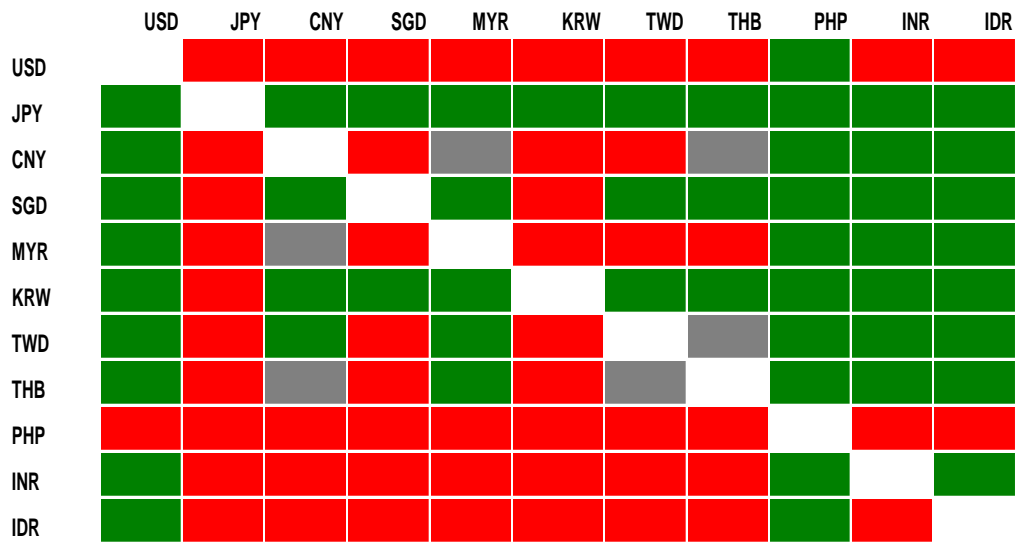
Source: Bloomberg

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	
TACTICAL								
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	
STRUCTURAL								
5	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
6	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	25-Aug-16	29-Sep-16	B	GBP-USD	1.3210	1.3040	Moderating short term pessimism	-1.32
2	29-Sep-16	04-Oct-16	S	USD-JPY	101.65	101.77	Skepticism towards Fed/BOJ	-0.14
3	29-Sep-16	06-Oct-16	B	AUD-USD	0.7685	0.7575	Position for sustained positive risk appetite	-1.44
4	04-Oct-16	07-Oct-16	S	GBP-USD	1.2814	1.2393	Article 50 jitters coupled with pre-NFP USD resilience	3.52
5	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
6	25-Aug-16	10-Oct-16	S	USD-CAD	1.2918	1.3230	Stabilizing global macro, potential traction for oil	-2.36
7	07-Oct-16	19-Oct-16	B	USD-CAD	1.3256	1.3104	Correlation breakdown between CAD and crude, USD support	-1.15
8	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
9	12-Oct-16	19-Oct-16	S	AUD-USD	0.7585	0.7690	"Yield" may be subjugated by dollar	-1.38
10	18-Feb-16	24-Oct-16	B	EUR-USD	1.1137	1.0880	Growing suspicion that the Fed will hesitate	-3.14
Jan-Sep 2016 Return								+8.27

Source: OCBC Bank

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