

Monday, April 25, 2016

FX Themes/Strategy/Trading Ideas – The week ahead

- The dollar may attempt to round the corner and continue to consolidate higher heading into the **FOMC** this week on Wednesday. Specifically, markets will be looking for any nuanced change in the accompanying statement. We do not think that the FOMC would provide much clarity in terms of forward guidance with respect to the June meeting given the fairly guarded tone at the previous meeting in March and the low likelihood that the Committee would turn on a dime in terms of the economic outlook.
- Nonetheless, investors may seek out the path of least resistance in FX space, with expectations running rife that the **BOJ** would ease further on Thursday following a wire report last Friday. On other fronts, the **RBNZ** is expected to remain static at 2.25% late Wednesday.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** continued to bleed further into Risk-On territory on Friday to end lower on the day and on the week. We caution that the recent improvement in investor sentiment (and the resultant spillover across asset markets) remains fragile, especially ahead of the event risks this week.
- On the CFTC front, implied net large non-commercial dollar positioning in aggregate flipped to a net long balance in the latest week, a first in almost 2 years. Meanwhile, net leveraged dollar shorts in aggregate were pared further in the latest week, effectively leaving the overall balance at neutral. In the coming sessions however, the greenback may continue to gather positive traction running into the FOMC.
- Our 19 Apr 16 idea to be tactically short **USD-JPY** (spot ref:108.93) was stopped out on Friday at 110.75 for an implied -1.65% loss as expectations for further BOJ easing at its policy meeting this week mounted.

Asian FX

- The broad dollar dynamic in the coming few sessions may override any positive vibes from the risk appetite front in Asia with the **ACI (Asian Currency Index)** expected to likely continuing to bottoming out into the FOMC.
- The **SGD NEER** starts the week at around +0.20% above its perceived parity (1.3570) with NEER-implied USD-SGD thresholds higher on the day. Given the prevailing dollar environment, the NEER may display a top heavy tendency, with the -0.50% threshold estimated at around 1.3639. On the flip

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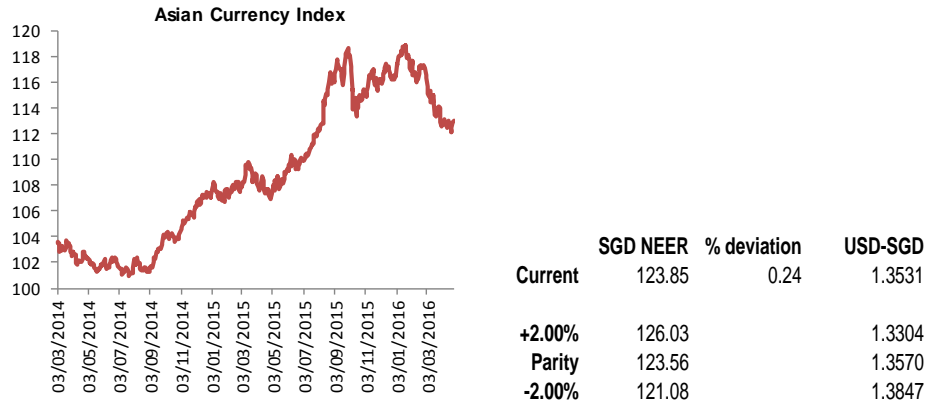
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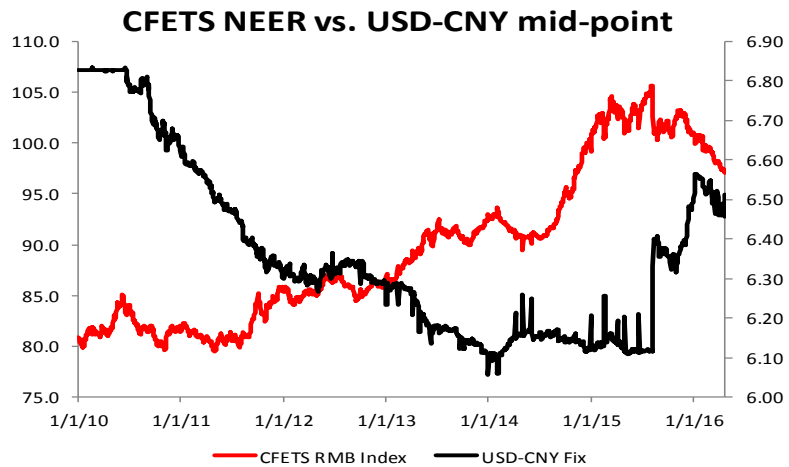
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side, the +0.50% threshold is expected at 1.3503. These thresholds may be expected to keep the USD-SGD bounded in the near term.



Source: OCBC Bank

- The **USD-CNY mid-point** was lifted higher to 6.5120 on Monday from 6.4898 on Friday, leaving the CFETS RMB Index at 97.30 compared to 97.22 previously. We continue to note a degree of suppression with regards to the Index, given that overnight movements in the constituent currencies had implied a slightly higher Index reading.



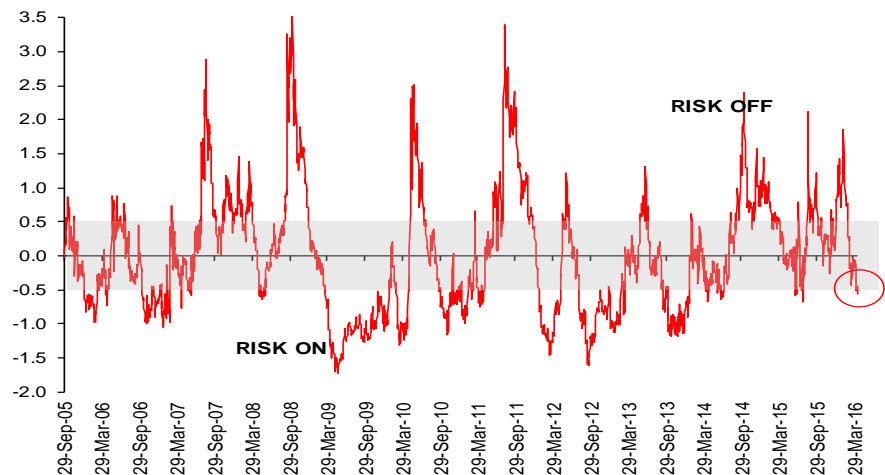
G7

- **EUR-USD** The EUR-USD may attempt to gravitate towards its 55-day MA (1.1194), with net leveraged EUR shorts on the CFTC front increasing in the latest week. Near term resistance is expected towards 1.1270 before 1.1300. On the macro front, note that April PMIs released last Friday were slightly weaker than expected with EZ data risks this week can be expected from the April CPI numbers on Thursday.
- **USD-JPY** Speculation surrounding the BOJ MPC this week is expected to dominate near term price action for the USD-JPY, especially if leveraged accounts continue to pare long-JPY positioning. Following Friday's

spike, the pair may consolidate in the vicinity of its 55-day MA (112.02) with 110.50 likely to support on dips.

- AUD-USD** Sydney is away for a long weekend today and the AUD-USD may remain tensioned by a firmer dollar on the one hand and fairly sanguine risk appetite levels on the other. On the CFTC front, although net leveraged AUD longs increased in the latest week, firmer dollar dynamics may hold sway in the very near term with risks likely towards 0.7675. On the domestic front, potential volatility may be had from the 1Q CPI numbers due on Wednesday.
- GBP-USD** Containment of Brexit concerns (for the moment) may permit the pound some resilience against the broad dollar in the short term although some hesitation may kick in on approach of 1.4500 while any breach of 1.4400 may invite a drift back towards 1.4360. Notably, on the CFTC front, net leveraged GBP shorts increased in the latest week. Meanwhile, the data calendar of the UK is fairly busy this week, in addition to potential FOMC-induced volatility.

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

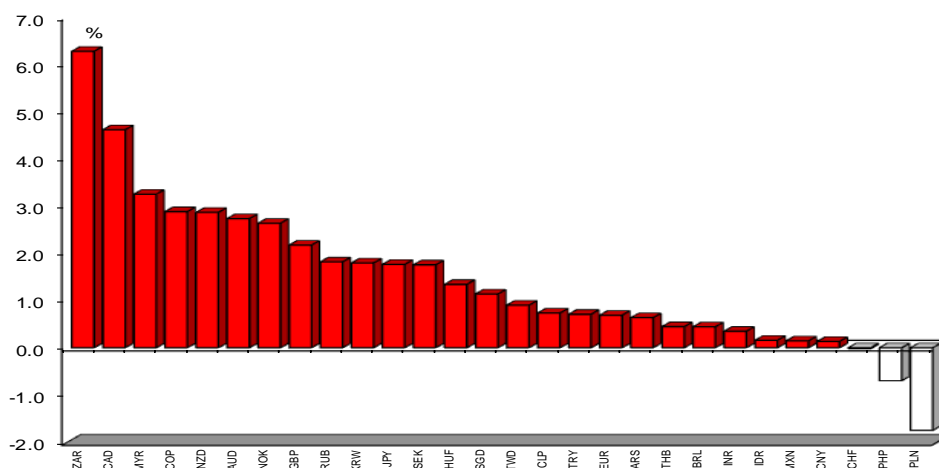
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1218	1.1243	1.1300	1.1450
GBP-USD	1.4224	1.4400	1.4439	1.4479	1.4500
AUD-USD	0.7503	0.7700	0.7705	0.7800	0.7822
NZD-USD	0.6765	0.6800	0.6860	0.6900	0.7008
USD-CAD	1.2593	1.2600	1.2679	1.2700	1.3188
USD-JPY	107.63	111.00	111.13	111.84	112.00
USD-SGD	1.3384	1.3500	1.3533	1.3600	1.3608
EUR-SGD	1.5153	1.5200	1.5215	1.5300	1.5322
JPY-SGD	1.1943	1.2100	1.2176	1.2200	1.2252
GBP-SGD	1.9485	1.9500	1.9540	1.9546	1.9600
AUD-SGD	1.0263	1.0400	1.0427	1.0500	1.0532
Gold	1206.00	1212.66	1231.60	1238.33	1261.02
Silver	15.60	17.00	17.01	17.10	17.49
Crude	40.42	43.10	43.17	43.20	44.49

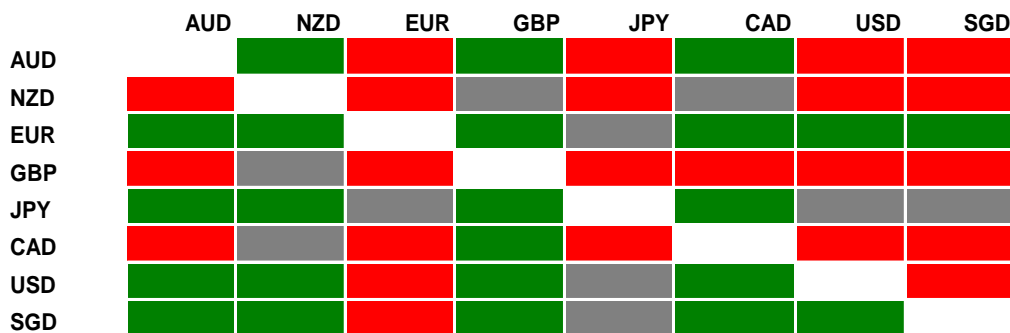
Source: OCBC Bank

FX performance: 1-month change agst USD



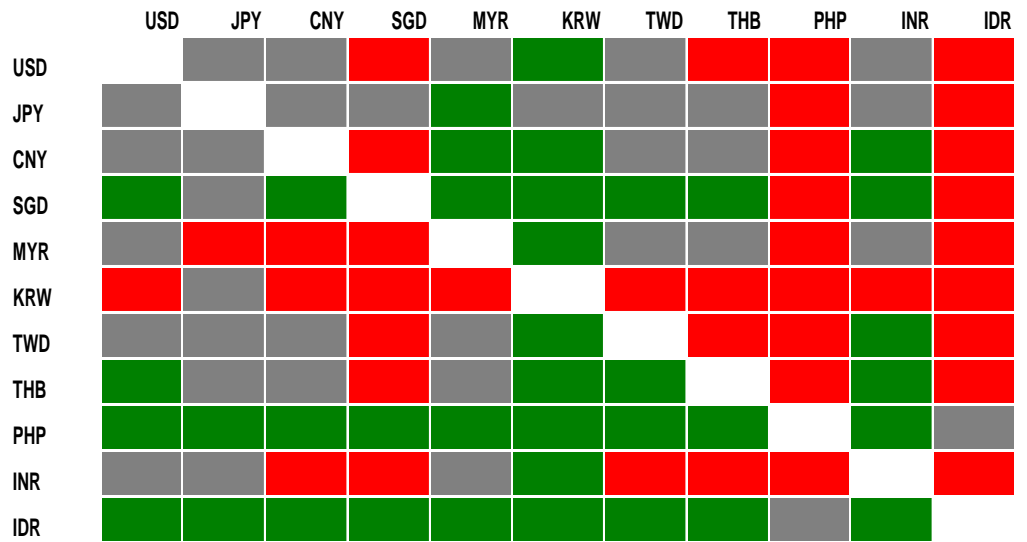
Source: Bloomberg

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	20-Apr-16	B	GBP-USD	1.4374	1.4785	1.4165	Moderating Brexit concerns, weak dollar, positive risk	
STRUCTURAL								
3	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
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	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
8	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
9	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
8	19-Apr-16	22-Apr-16	S	USD-JPY	108.93	110.75	Potential for FOMC to disappoint	-1.65

Source: OCBC Bank

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