

**Monday, July 25, 2016**

**FX Themes/Strategy/Trading Ideas – The week ahead**

- Price action this week may be binary (to say the least) with the weekend G20 meeting providing little to chew on and with investors look to the FOMC and BOJ MPC.
- Regarding the BOJ MPC (Fri), the market is thick with expectations for further policy easing although governor Kuroda said little to encourage this suspicion over the weekend. Any disappointment on the front may instead drive the JPY firmer once again.
- Elsewhere, the FOMC (Wed) would have to balance between the somewhat supportive run of data releases of late and the negative macro tilt on global economy post the UK Brexit-vote. Our feel is that the overall slant of the FOMC statement may continue to leave the door open for a hike in the fall (market implied odds attempting to push towards even for a December hike), but without sounding unduly hawkish.
- Meanwhile, on the **CFTC** front, large non-commercial as well as leveraged accounts further accumulated their net implied and aggregated long dollar positioning for the third consecutive week last week.
- Risk appetite considerations meanwhile may continue to take a backseat, with the **FXSI (FX Sentiment Index)** capitulating slightly higher in the past week but staying entrenched in Risk-Neutral territory. However, some caution we think may be warranted on this front, with cyclical currencies (note depressed crude) shouldering the brunt of dollar resilience in the past week. **Overall, the greenback may be expected to continue to hold the upper hand across the board pending headline risks.**

**Asian FX**

- Expect the broad dollar to hold sway at the onset of the week with the **Asian Currency Index (ACI)** expected to search higher again for a second consecutive session.
- The **SGD NEER** is softer at around +0.85% above its perceived parity (1.3711) early Mon morning with NEER-implied thresholds continuing to climb incrementally. We continue to see risks for the Index to bleed towards the +0.50% threshold (1.3643) as a first stop. At current levels, the +1.00% threshold is estimated at 1.3575 and +1.50% at 1.3508, with USD-SGD likely to find a floor somewhere in the middle around 1.3535. In the current environment, the USD-SGD may be at risk of finally breaching its 55-day MA

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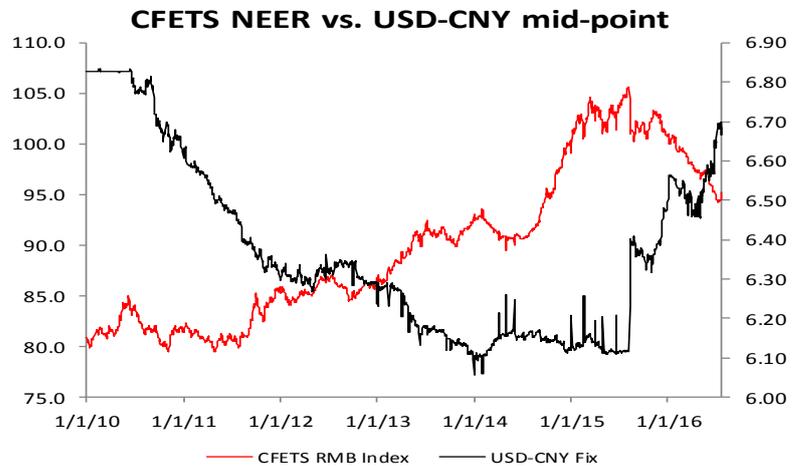
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(1.3588) on a sustained basis, potentially paving the way to 1.3655/60. Look towards June CPI readings today (mkt: -1.1% yoy), and any disappointment on the downside may further breed expectations of further monetary easing by the MAS.



Source: OCBC Bank

- Today, the **CFETS RMB Index** rose (a less than implied degree) to 95.29 from 95.19 on Friday, with the USD-CNY mid-point rising more than expected to 6.6860. We think this may be a near term attempt to temper near term volatility (both for the Index as well as for the mid-points), although investors may remain on the lookout for a basket-implied break of 6.7000 on a multi-session basis (with CNH forwards still attempting to lean right amid a more subdued USD-CNH in recent sessions).



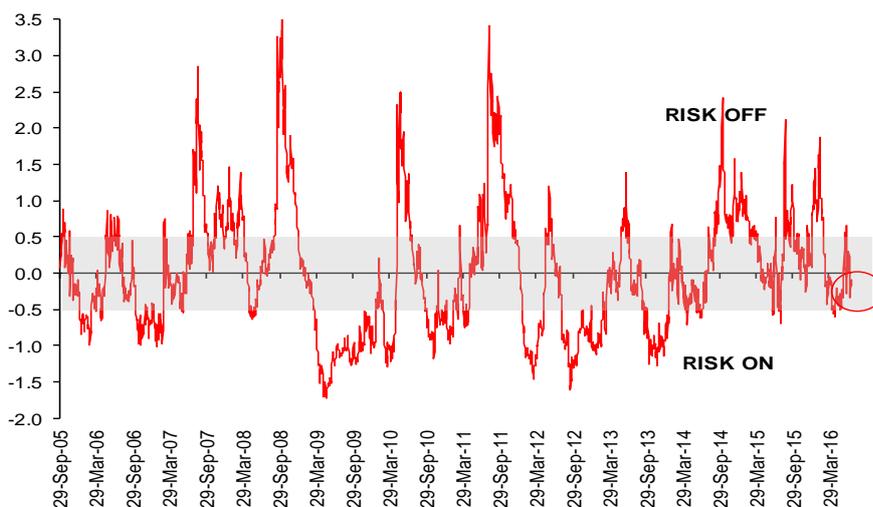
Source: OCBC Bank, Bloomberg

**G7**

- **EUR-USD** Mixed to supportive preliminary July EZ PMIs failed to support the EUR-USD on Friday while the German July Ifo may provide some distraction today. On the policy front, comments from the ECB's Nowotny on Friday imply little urgency for the central bank to tweak its asset purchase program till 4Q 16. In addition, net leveraged EUR shorts on the CFTC front increased in the latest week and immediate risks for the pair continue to point towards 1.0900, especially if 1.1000 is not re-taken.

- USD-JPY** On the CFTC front, net leveraged JPY longs were pared in the latest week and potential for the USD-JPY to break higher from its 55-day MA (106.26) towards 107.00 remain palpable in the current mix of expectations surrounding the FOMC/BOJ.
- AUD-USD** 2Q CPI data on Wednesday will be pivotal for the AUD-USD especially amidst lingering expectations for potential RBA easing down the road. On the CFTC front, net leveraged AUD longs increased in the latest week but the significance of this data point may be suspect given the accumulating macro caution on a global scale. From our perspective, if 0.7470 is perforated with conviction, the 55-day MA (0.7401) is expected to attract instead.
- GBP-USD** Largely Underwhelming preliminary July UK PMIs and dovish comments from Finance Minister Hammond only underscore the implicit macroeconomic negativity attached to the pound. Note that in the latest week, net leveraged GBP short jumped significantly and risks for cable remain orientated towards 1.3000.

**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

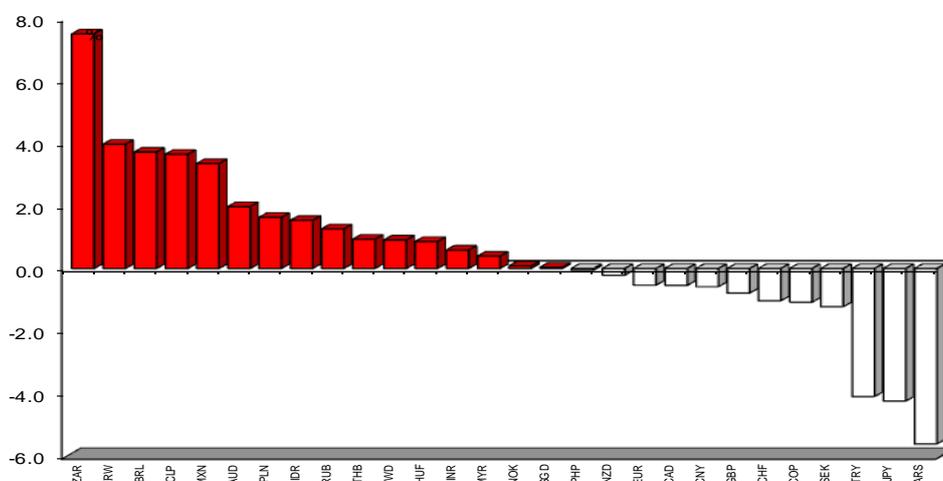
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0900	1.0913	1.0965	1.0967	1.1000
GBP-USD	1.2879	1.3100	1.3120	1.3200	1.3461
AUD-USD	0.7400	0.7406	0.7471	0.7500	0.7644
NZD-USD	0.6935	0.6952	0.6979	0.7000	0.7005
USD-CAD	1.2964	1.3100	1.3139	1.3158	1.3185
USD-JPY	105.70	106.00	106.51	107.00	107.49
USD-SGD	1.3595	1.3600	1.3615	1.3700	1.3722
EUR-SGD	1.4844	1.4900	1.4929	1.5000	1.5013
JPY-SGD	1.2533	1.2700	1.2783	1.2800	1.2810
GBP-SGD	1.7384	1.7800	1.7864	1.7900	1.8152
AUD-SGD	1.0100	1.0124	1.0172	1.0200	1.0286
Gold	1300.00	1304.81	1316.70	1367.47	1377.50
Silver	18.75	19.00	19.40	21.09	21.14
Crude	44.20	47.06	49.08	50.30	51.35

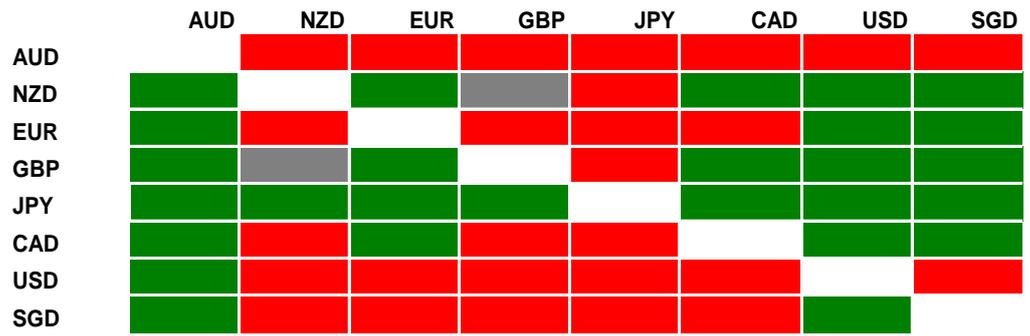
Source: OCBC Bank

### FX performance: 1-month change agst USD



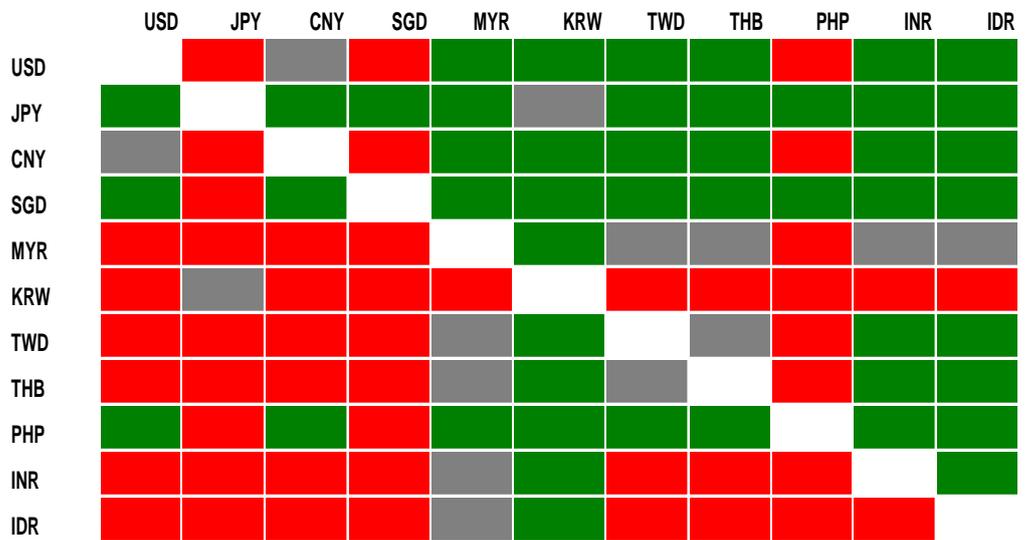
Source: Bloomberg

**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		
<b>TACTICAL</b>									
1	28-Jun-16	S	EUR-USD	1.1057	1.0745	1.1215	Brexit uncertainty coupled with Euroskepticism		
2	28-Jun-16	S	GBP-USD	1.3306	1.2525	1.3700	Epicenter of Brexit concerns		
3	28-Jun-16	B	USD-CAD	1.2991	1.3355	1.2805	Concerns over the global deflationary impact from Brexit		
4	05-Jul-16	B	AUD-USD	0.7528	0.7815	0.7380	Search for yield amidst potential FOMC disappointment		
5	21-Jul-16	B	USD-SGD	1.3579	1.3840	1.3445	Potential for broad USD traction, NEER deemed rich		
6	22-Jul-16	B	USD-JPY	105.83	110.55	103.45	Contrasting policy postures going into the next FOM/BOJ meetings		
<b>STRUCTURAL</b>									
7	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate		
8	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations		
9	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield		
10	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs		
11	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates		
<b>RECENTLY CLOSED</b>									
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)	
1	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74	
2	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91	
3	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98	
4	28-Jun-16	12-Jul-16	S	USD-JPY	102.19	97.60	104.50	Potential for further risk aversion	-2.25

Source: OCBC Bank

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