

Tuesday, October 25, 2016

FX Themes/Strategy/Trading Ideas

- The USD was mixed to firmer on Monday as firmer than expected Markit manufacturing PMI and comments from the Fed's Evans and Bullard continued to breed FOMC rate hike expectations while the UST curve also steepened from the back-end. On other fronts, the CAD was a mover of the day after the pair crashed below 1.3300 briefly following neutral comments from the Bank of Canada's Poloz.
- Positive global equities and generally sanguine conditions saw the **FXSI (FX Sentiment Index)** dipping into **Risk-On** territory, a first since early September. In essence, typical negative market correlations governing investor sentiment and dollar behavior may be put on ice in the near term as we expect Fed rate hike expectations to continue to dominate price action in the near term.

Asian FX

- A positive spin to Asian equities this morning may partially shield the regional units from inherent USD resilience and ensure a certain degree of stasis. As such, the **ACI (Asian Currency Index)** is expected to be stuck in recent ranges.
- We however that the implied net capital flow environment remains less than overwhelmingly positive. To boot, the net improvement in net bond and equity flows in recent weeks (within Asia) we think remain insufficient to stave off completely another bout of potential dollar strength.
- To this end, expect relative vulnerability to USD resilience from the INR, SGD, KRW, TWD, THB, while the MYR and the IDR are seen as slightly more underpinned. Elsewhere, negativity towards the PHP seems to have stabilized in this context, with the PHP weakness expected to bottom out in the near term.
- **SGD NEER:** The **SGD NEER** is softer on the day at -0.62% below its perceived parity (1.3858) with NEER-implied USD-SGD thresholds also slightly firmer on the day at despite a seemingly mixed USD overnight. At current levels, the -0.50% threshold is estimated at 1.3928 and -1.00% at 1.3998. If USD conditions permit, first stop on the way down for the NEER is expected at -0.80%. Technically, the hurdle at 1.3950, if overcome, may pave the way towards 1.4000.

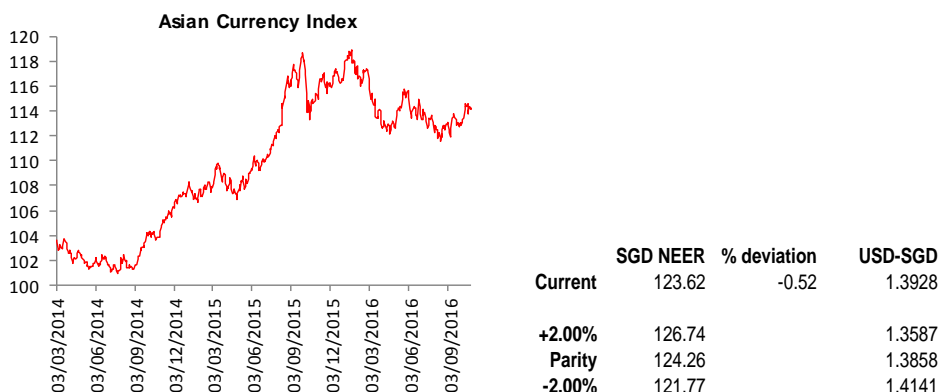
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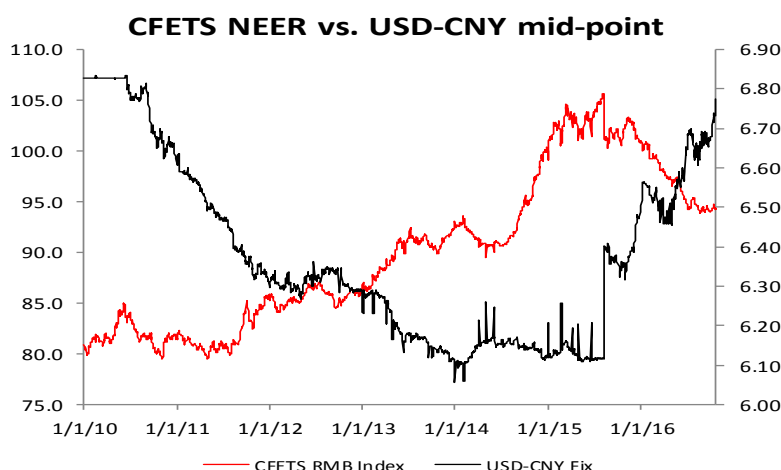
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Source: OCBC Bank

- CFETS RMB Index:** Today, the **CFETS RMB Index** fell for the third consecutive session 94.18 from 94.21 on Monday in light of the overnight moves in the basket's constituent currencies. The USD-CNY mid-point meanwhile rose (largely as expected) to 6.7744 from 6.7690. Elsewhere, implied expectations for undue depreciation continue to remain under wraps despite spot moves (CNY and CNH) although we will continue to monitor for a persistent break below 94.00 for the Index in the coming sessions.



Source: OCBC Bank, Bloomberg

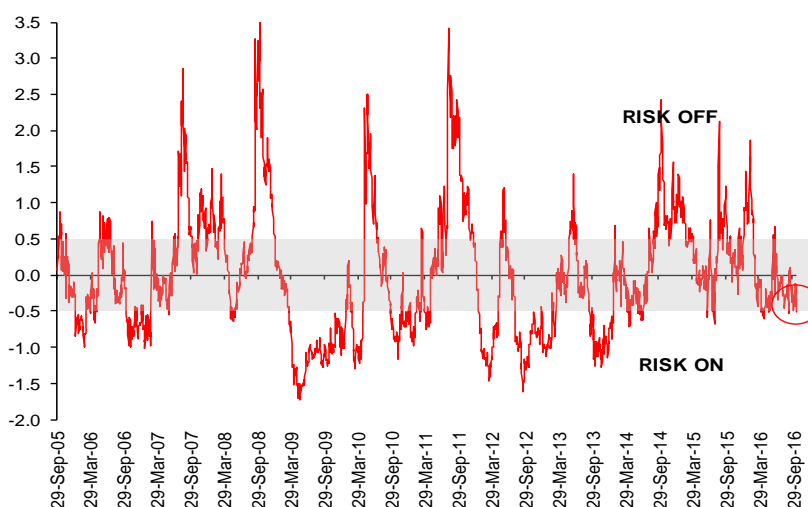
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- EUR-USD** Better than expected October PMI readings failed to ensure lasting support for the EUR-USD on Monday and the pair may continue to sit heavy ahead of Draghi (1530 GMT) and Lockhart (1700 GMT). As noted previously, with 1.0900 now perforated, we see little of consequence in terms of support till 1.0820/30. We continue to stay tactically short the pair.
- USD-JPY** USD-JPY proved the most responsive to US-centric dollar dynamics again on Monday. After breaching 104.00, prospects to approach the 105.00 handle may continue to accumulate barring a risk appetite meltdown.
- AUD-USD** A strong metals complex may prove inadequate in lifting the

AUD-USD appreciably in the current USD environment and ahead of the Australian 3Q CPI readings tomorrow. If the pair manages to detach from its 55-day MA (0.7609), 0.7570 may beckon and we remain top heavy on the pair in the interim.

- GBP-USD** GBP-USD may continue to hover in the vicinity of 1.2200 within 1.2100-1.2350 ahead of the 3Q GDP numbers on Thursday. October CBI numbers continued to show deterioration and also did no favors for the pound. Meanwhile, a (firmer?) broad dollar dynamic may continue to exert a downward pull despite PM May attempting to downplay prospects of a “hard” exit.

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 |

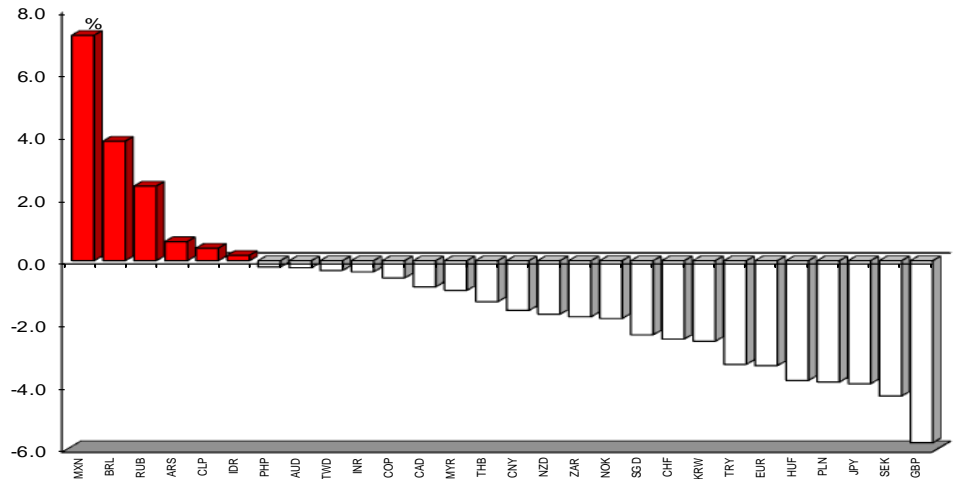
Source: Bloomberg

Immediate technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|----------------|---------|---------|---------|---------|---------|
| EUR-USD | 1.0816 | 1.0859 | 1.0878 | 1.0900 | 1.1163 |
| GBP-USD | 1.1853 | 1.2200 | 1.2222 | 1.2300 | 1.2877 |
| AUD-USD | 0.7599 | 0.7600 | 0.7620 | 0.7700 | 0.7707 |
| NZD-USD | 0.7035 | 0.7100 | 0.7149 | 0.7200 | 0.7242 |
| USD-CAD | 1.3300 | 1.3330 | 1.3346 | 1.3398 | 1.3400 |
| USD-JPY | 102.26 | 104.00 | 104.39 | 104.64 | 105.00 |
| USD-SGD | 1.3666 | 1.3900 | 1.3929 | 1.3960 | 1.4000 |
| EUR-SGD | 1.5123 | 1.5126 | 1.5152 | 1.5200 | 1.5230 |
| JPY-SGD | 1.3197 | 1.3300 | 1.3343 | 1.3347 | 1.3400 |
| GBP-SGD | 1.6580 | 1.7000 | 1.7025 | 1.7100 | 1.7568 |
| AUD-SGD | 1.0369 | 1.0600 | 1.0614 | 1.0687 | 1.0700 |
| Gold | 1220.26 | 1249.50 | 1262.00 | 1267.93 | 1300.00 |
| Silver | 17.38 | 17.60 | 17.63 | 17.70 | 18.71 |
| Crude | 47.92 | 50.40 | 50.42 | 50.50 | 52.13 |

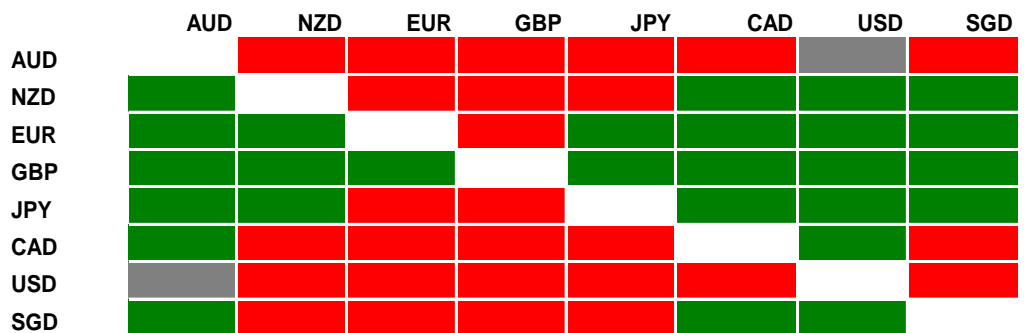
Source: OCBC Bank

FX performance: 1-month change agst USD



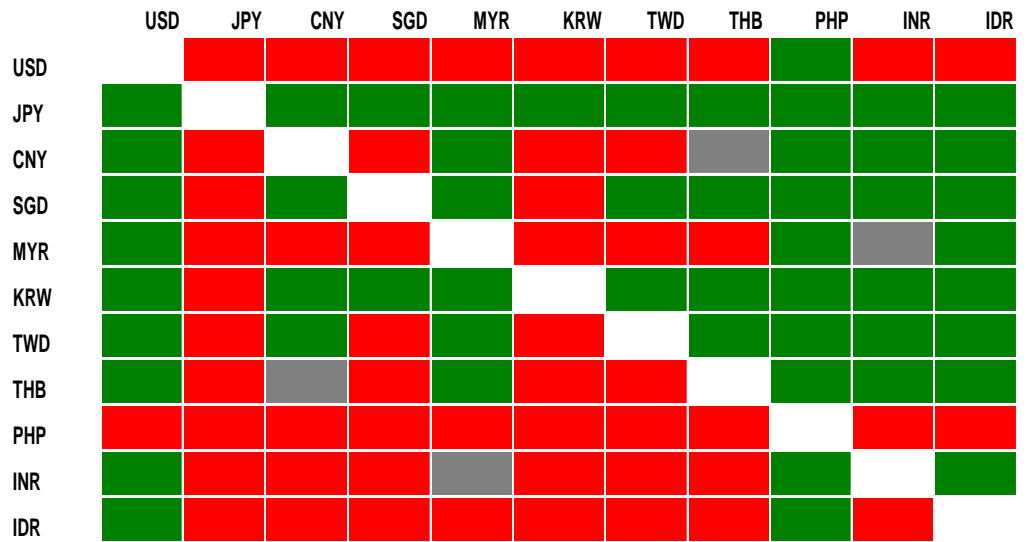
Source: Bloomberg

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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