

Thursday, May 26, 2016

FX Themes/Strategy/Trading Ideas

- Outright dollar buying continued to peter out on Wednesday and markets may continue to hover going into Yellen's appearance on Friday (1715 GMT). Meanwhile, the G7 leaders' summit gets underway in Japan today, with investors likely on the lookout for comments pertaining to currency manipulation.
- A positive equity/commodity complex meanwhile may buffer global risk appetite levels, with the **FXSI (FX Sentiment Index)** edging gingerly into Risk-On territory on Wednesday. However, Fed-specific dynamics may continue to have a larger bearing on the markets into the end of the week.
- Overall, the verdict on whether the recent USD up move marks a watershed remains open and we continue to have nagging suspicions that the recent FOMC/dollar re-pricing would eventually hit its sell-by date. Yellen on Friday remains a major key alert.

Asian FX

- Broad dollar strength in Asia may stall in line with the EM FX complex overnight with the **Asian Currency Index (ACI)** seen a touch softer. Investor caution towards dollar strength may however continue to lurk in the background into the end of the week with Yellen likely to have the last say on Friday. Overall, the outlook for the regionals we think continues to remain fragile with price action in the last two sessions likely a mere respite.
- The **SGD NEER's** relative position is stronger again this morning at -0.23% below its perceived parity (1.3743). NEER-implied USD-SGD thresholds are softer on the day following overnight price action in the majors with -0.50% seen at 1.3813 and -1.00% at 1.3882. Given the domestic backdrop, we see little justification for persistence above parity. For today, April industrial production numbers are on tap and the pair may potential consolidate lower in line with a hesitant broad dollar from overnight. Downside supports are expected into 1.3720/30 with 1.3830 seen capping pending further external cues.

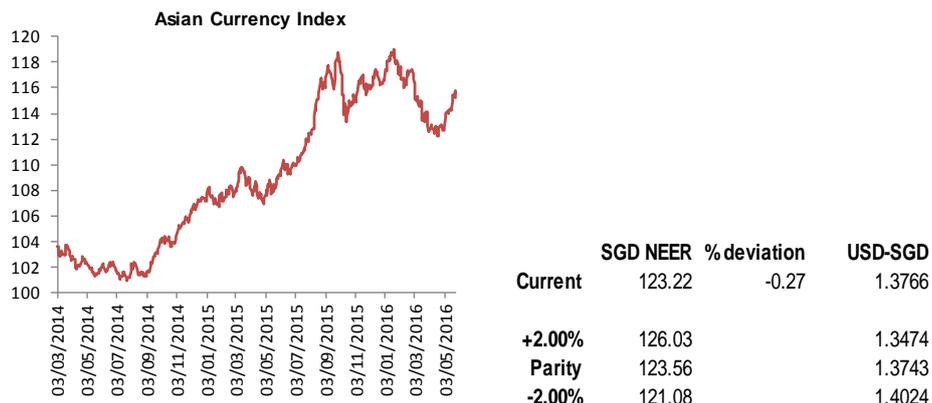
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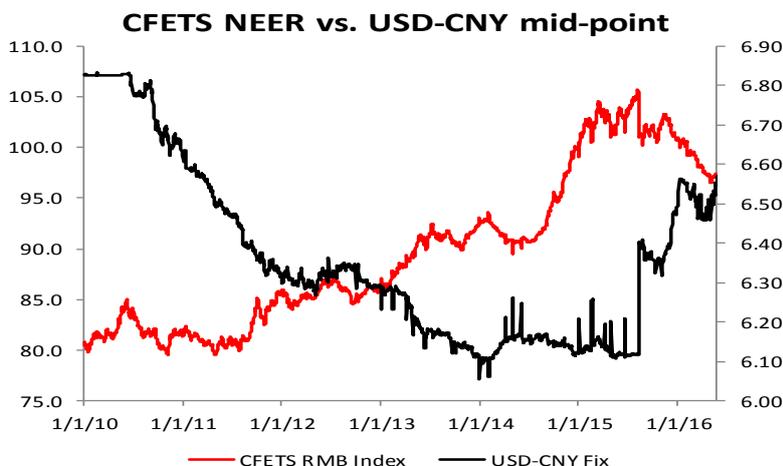
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Source: OCBC Bank

- The **CFETS RMB Index** was held relatively stable this morning and dipped slightly to 97.28 compared to 97.29 on Wednesday. We note that the Index is a touch more supported than implied, with the USD-CNY mid-point falling to 6.5552 from 6.5693 a day ago. As noted previously, the increasing relative stability of the Index would imply that the fix continues to bear the burden of adjustment. To illustrate, the 3M realized vol of the mid-points has risen to around 3.87% from 1.68% in early February. In contrast, the realized vol of the Index has fallen from 3.52% to 2.32% in the same period.



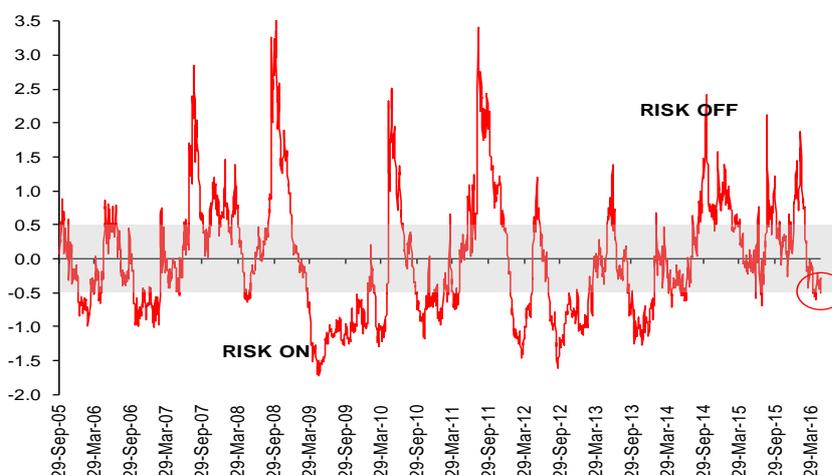
Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** Apart from the hesitating greenback, a better than expected German May Ifo and positive Greece-related news flow also aided in the stabilization of the EUR-USD on Wednesday. A holding pattern in the vicinity of 1.1150 may persist in the near term although risks towards the 200-day MA (1.1102) remain evident.
- **USD-JPY** Markets may remain skittish and conflicted in the near term amidst the G7 summit, chatter surrounding the planned sales tax hike, as well more benign risk appetite levels. Intra-day, USD-JPY may look to trawl a range with the 55-day MA (110.13) attempting to cap while 109.00 is seen providing support on dips.

- AUD-USD** Intra-day, the antipodeans may remain vulnerable and ignore the broad dollar with the Australian 1Q private capital expenditure disappointing at -5.2%. We continue to entertain downside potential for the pair in the near term towards 0.7110. On the top side, the 200-day MA (0.7255) may continue to limit.
- GBP-USD** Continued unwinding of prior Brexit caution on Wednesday continued to float the GBP-USD and 1Q GDP today numbers may provide some macro distraction. The stalling of the broad dollar meanwhile may bring the next upside resistance at the 200-day MA (1.4772) into focus.

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

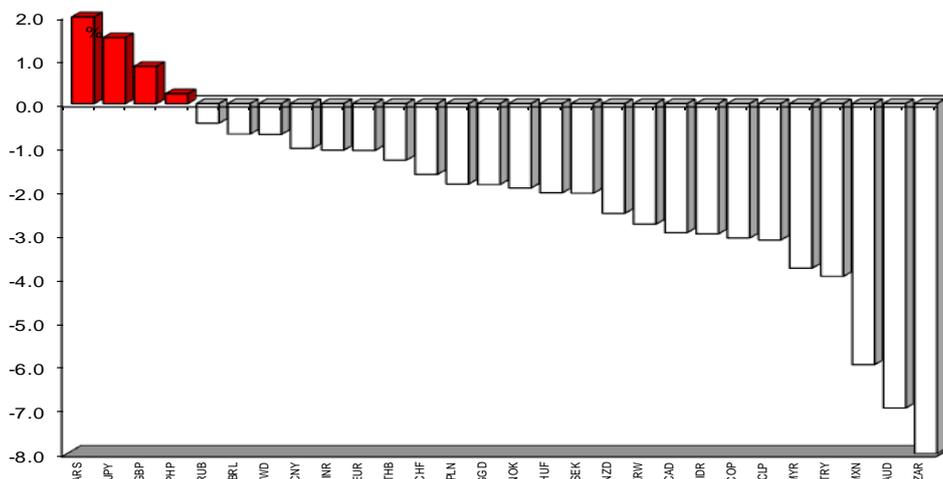
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1102	1.1129	1.1176	1.1200	1.1314
GBP-USD	1.4384	1.4700	1.4706	1.4725	1.4770
AUD-USD	0.7145	0.7200	0.7207	0.7252	0.7300
NZD-USD	0.6697	0.6700	0.6720	0.6800	0.6829
USD-CAD	1.2900	1.2918	1.2987	1.3000	1.3188
USD-JPY	106.00	109.00	109.65	109.84	110.00
USD-SGD	1.3586	1.3700	1.3769	1.3800	1.3842
EUR-SGD	1.5343	1.5370	1.5373	1.5400	1.5494
JPY-SGD	1.2478	1.2500	1.2508	1.2600	1.2713
GBP-SGD	1.9542	2.0200	2.0258	2.0300	2.0304
AUD-SGD	0.9869	0.9900	0.9906	1.0000	1.0119
Gold	1217.70	1226.48	1232.60	1250.39	1300.00
Silver	16.11	16.20	16.28	16.30	16.41
Crude	42.55	42.86	49.80	49.84	49.88

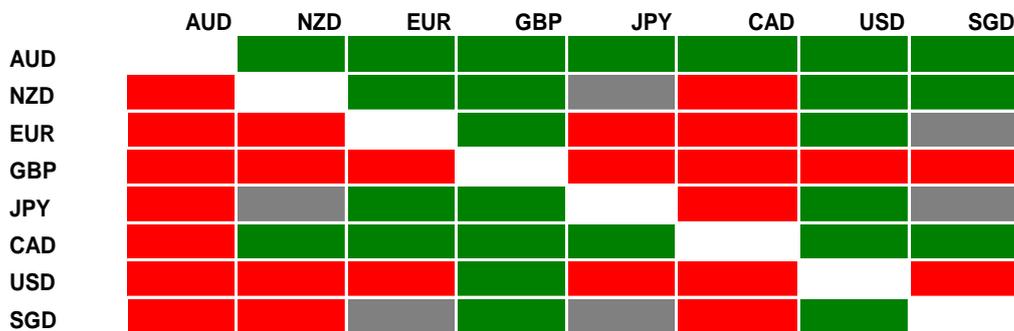
Source: OCBC Bank

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	29-Apr-16	S	AUD-USD	0.7626	0.7095	0.7490	Negativity post 1Q CPI numbers	
2	09-May-16	B	USD-SGD	1.3623	1.3885	1.3490	Potential for USD strength ahead of Fed-speak	
3	09-May-16	B	USD-CAD	1.2929	1.3310	1.2735	Weak labor market numbers, deteriorating growth outlook	
4	18-May-16	B	GBP-USD	1.4438	1.4805	1.4255	Potential for bounce post-referendum	
5	19-May-16	S	EUR-USD	1.1224	1.0935	1.1370	Policy dichotomy play, especially after FOMC minutes	
6	19-May-16	B	USD-JPY	110.01	113.50	108.25	Policy dichotomy play, especially after FOMC minutes	
STRUCTURAL								
7	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
8	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
9	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
10	12-Apr-16	S	USD-CAD	1.2895	1.2045	1.3325	Stabilizing crude, soft USD, sanguine BOC	
11	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	03-Feb-16	03-May-16	S	GBP-USD	1.4401	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	-2.36
2	14-Apr-16	05-May-16	S	USD-CAD	1.2832	1.3040	Bottoming crude prices	-0.24
3	20-Apr-16	09-May-16	B	GBP-USD	1.4374	1.4165	Moderating Brexit concerns, weak dollar, positive risk	+0.39
4	04-May-16	10-May-16	S	USD-JPY	107.21	109.00	USD vulnerability pre-NFP, potential risk aversion	-1.66
5	04-May-16	11-May-16	B	EUR-USD	1.1482	1.1372	Rate differentials in the EUR's favor	-0.99
6	19-Apr-16	13-May-16	S	USD-SGD	1.3439	1.3740	Potential for further broad USD decay, positive risk appetite	-2.17

Source: OCBC Bank

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