

Wednesday, October 26, 2016

FX Themes/Strategy/Trading Ideas

- A confluence of secondary headlines (including softer than expected Conference Board Oct consumer confidence) and possible long fatigue took the dollar off its intra-day highs with the G10 crowd ending mixed by late NY. For today, the antipodeans may continue to stand tall against the greenback following the slightly warmer than expected Aussie 3Q CPI headlines. For today, look to the US Market services and composite PMIs and Sep new home sales for data cues while no Fed speakers are scheduled. The **DXY** continues to hold at month-to-date highs in the interim, bolstered by FOMC expectations.
- On the risk appetite front, negative EZ/US equities from overnight is bleeding into Asia today while the commodity complex is mixed (supported metals vs. shaky crude). To this end, the **FXSI (FX Sentiment Index)** shrank higher back into Risk-Neutral territory on Tuesday.
- With rate hike expectations continuing to brew and underpin the broad dollar, regional currency pairs may remain susceptible to the upside in the coming months. Meanwhile, we continue to expect the SGD NEER to explore the lower half of its fluctuation band given the rather moribund outlook for growth/inflation as well as the MAS' forward guidance in its latest MPS (Monetary Policy Statement). With a spot ref at 1.3919 on Tuesday, we undertake a structural long **USD-SGD** targeting 1.4630 while placing a stop at 1.3560.

Asian FX

- The **ACI (Asian Currency Index)** may remain on softer ground in the current session in view of the broad dollar landscape and with EM risk premiums (including short-end FX vols) perceived to be fairly sanguine. Downside for the regional pairs may be limited if equity weakness deepens.
- **SGD NEER:** The **SGD NEER** is firmer on the day at -0.42% below its perceived parity (1.3824) on the back of a softer broad dollar. NEER-implied USD-SGD thresholds are essentially lower on the day with -0.50% at 1.3894) and -1.00% at 1.3964. USD-SGD likely seen top heavy intra-day within 1.3850-1.3950. The NEER meanwhile may see a range of -0.30% to -0.50% pending further external cues. On other fronts, NEER volatility indicators remain at safe levels (but not strictly Brownian in nature) while realized vol indicators for USD-SGD have come off highs posted in the immediate sessions post MAS-MPS.

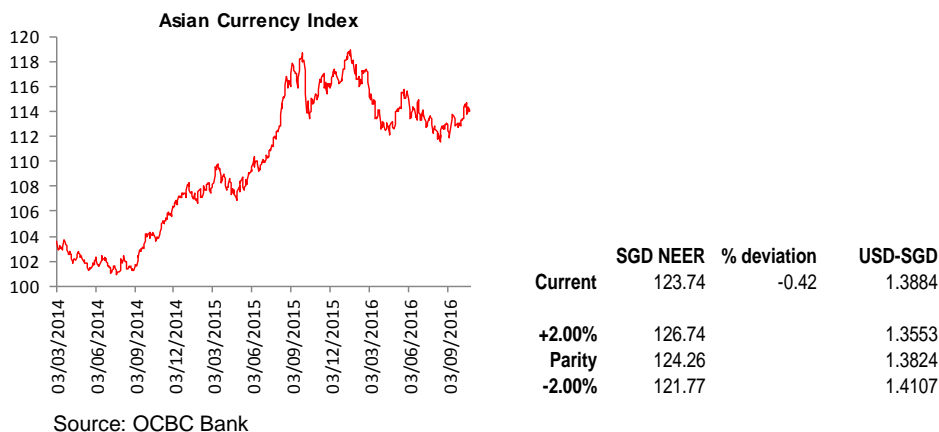
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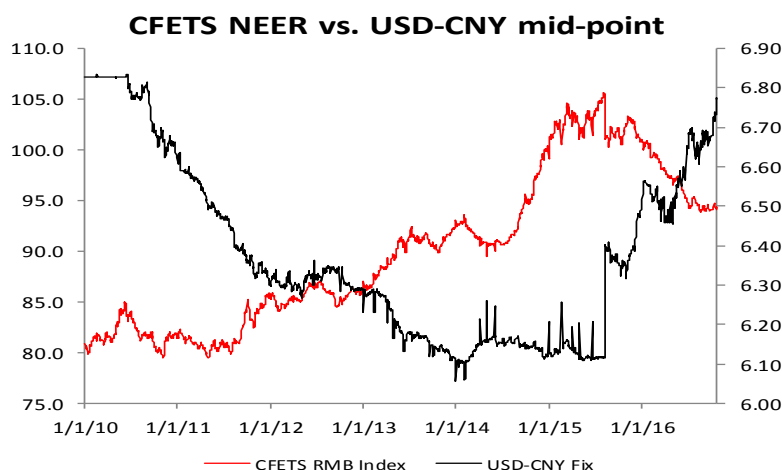
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- CFETS RMB Index:** Today, the **CFETS RMB Index** continued to ease to 94.09 from 94.18 on Tuesday, largely in line with expectations. This saw the USD-CNY mid-point easing 6.7705 from 6.7744 yesterday. Hints of a slight paradigm shift in the daily mid-points coupled with indications that the daily changes in the Index are beginning to look non-stochastic once again may continue to keep investors on their toes going ahead. As noted previously, we will continue to monitor for a persistent break below 94.00 for the Index in the coming sessions.



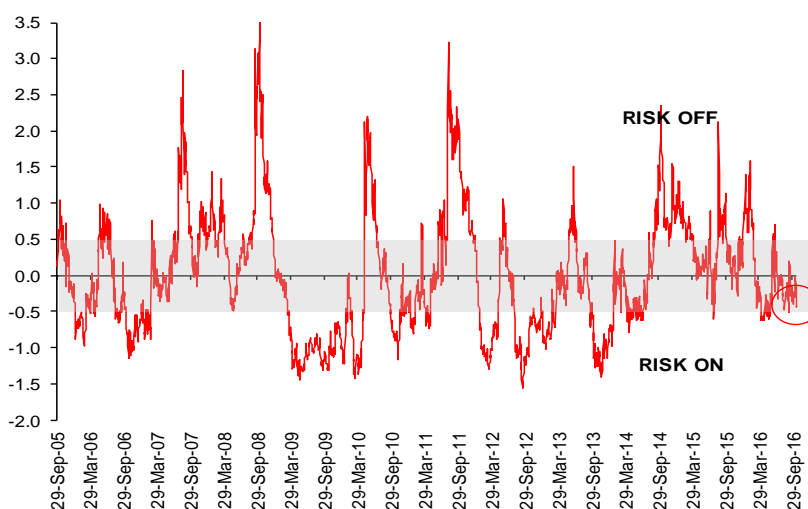
Source: OCBC Bank, Bloomberg

G7

- EUR-USD** The better than expected turnout for German October IFO numbers lent some support to the EUR-USD on Tuesday. Meanwhile, with the ECB’s Draghi acknowledging the negative impact of excessively interest rates on banks’ balance sheets, the EUR-USD remain trapped (but still top heavy) within a 1.0850-1.0935 range in the short term.
- USD-JPY** The BOJ is widely expected to stand pat on its policy parameters next week at its MPC although we continue to see a willingness for the pair to react higher if a positive USD impetus re-emerges. A supported 103.50-105.15 range may prevail in the interim.

- AUD-USD** The better than expected 3Q CPI numbers may provide the AUD with a second wind against the USD in the near term with implied odds of a rate cut being shaved further this morning. If the pair continues to base build off the 55-day MA (0.7610), 0.7730/50 may be well within reach.
- GBP-USD** Comments from the BOE's Carney on Tuesday doused some dovishness towards the GBP on Tuesday but still saw the GBP-USD ending lower on the day. While the BOE continues to grapple with the impact of the significantly weaker sterling on their monetary decisions, investors may take a half a step backwards in expecting another rate cut next week. Nonetheless, our preference to fade rallies remains intact.

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

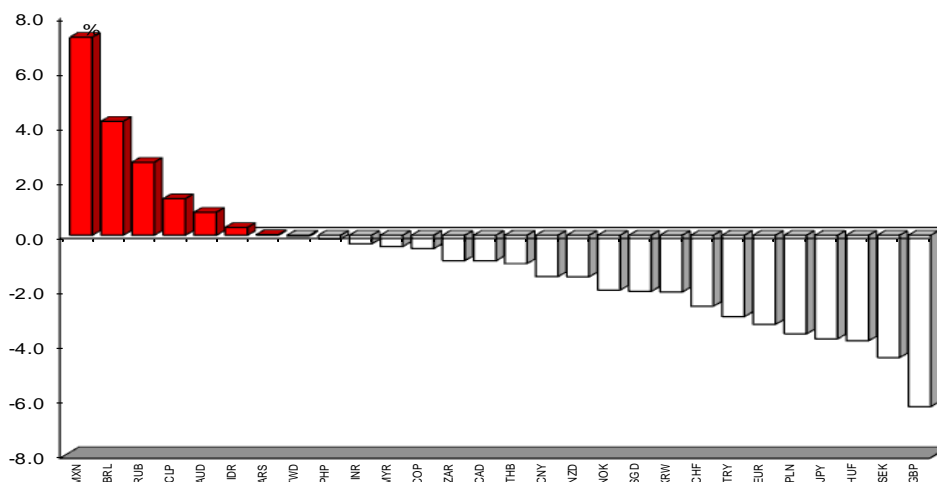
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0800	1.0851	1.0889	1.0900	1.1155
GBP-USD	1.1852	1.2100	1.2165	1.2200	1.2858
AUD-USD	0.7650	0.7670	0.7700	0.7711	0.7734
NZD-USD	0.7035	0.7100	0.7163	0.7200	0.7240
USD-CAD	1.3142	1.3300	1.3347	1.3367	1.3398
USD-JPY	102.33	104.00	104.26	104.87	105.00
USD-SGD	1.3664	1.3800	1.3884	1.3900	1.3960
EUR-SGD	1.5102	1.5105	1.5118	1.5200	1.5229
JPY-SGD	1.3201	1.3300	1.3316	1.3345	1.3400
GBP-SGD	1.6570	1.6800	1.6891	1.6900	1.7554
AUD-SGD	1.0377	1.0600	1.0690	1.0700	1.0716
Gold	1249.50	1268.78	1271.90	1300.00	1305.52
Silver	17.40	17.80	17.84	17.90	18.67
Crude	48.25	49.30	49.37	49.40	52.05

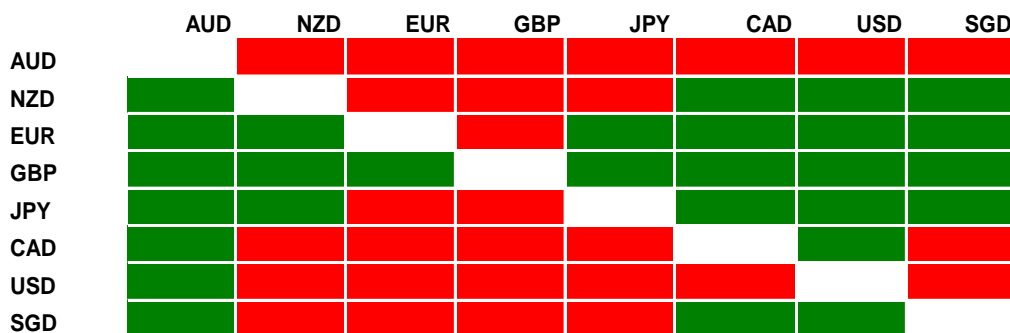
Source: OCBC Bank

FX performance: 1-month change agst USD



Source: Bloomberg

G10 FX Heat Map



Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		Red	Red	Red	Grey	Red	Red	Red	Green	Red	Red
JPY	Green		Green	Green	Green	Green	Green	Green	Green	Green	Green
CNY	Green	Red		Red	Green	Red	Grey	Green	Green	Green	Green
SGD	Green	Red	Green		Green	Red	Green	Green	Green	Green	Green
MYR	Grey	Red	Red	Red		Red	Red	Red	Green	Grey	Grey
KRW	Green	Red	Green	Green	Green		Green	Green	Green	Green	Green
TWD	Green	Red	Grey	Red	Green	Red		Green	Green	Green	Green
THB	Green	Red	Red	Red	Green	Red	Red		Green	Green	Green
PHP	Red	Red	Red	Red	Red	Red	Red	Red		Red	Red
INR	Green	Red	Red	Red	Grey	Red	Red	Red	Green		Green
IDR	Green	Red	Red	Red	Grey	Red	Red	Red	Green	Red	

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	
7	25-Oct-16		B	USD-SGD	1.3919	1.4630	1.3560	Bullish dollr prospects, negative space for SGD NEER	
	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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