

Monday, June 27, 2016

### FX Themes/Strategy/Trading Ideas

- The fallout from the Brexit vote is expected to continue to reverberate into this week with GBP weakening across the board once again in early trade on Monday in Asia. Investor nervousness is still running high with the JPY and USD also gaining on the crosses. Note the **FXSI (FX Sentiment Index)** unsurprisingly edged into Risk-Off territory on Friday.
- With regards to the **GBP**, expect the pound to continue to underperform not just against the USD and the JPY, but also with respect to the EUR and the AUD.
- While the nexus of uncertainty will continue to surround the GBP and the EUR, speculation towards a material negative impact on global growth will continue to circulate. As a result, GBP uncertainty will continue to draw blood from EM/Asia. First round effects have already been witnessed via the crude oil channel (down another -0.93% on Monday), with the NOK and MYR still reacting lower again early Monday in Asia.
- Meanwhile, expected secondary impacts via growth and potential deflationary conditions may also continue to exact a toll on broader EM/Asia in general. For our initial thoughts, please refer to our **FX Viewpoint, 24 Jun 16**.
- In the interim, expect markets to remain particularly sensitive to headline risks, with UK Chancellor Osborne expected to make an address at 0600 GMT while PM Cameron is scheduled to address the Parliament. Elsewhere, watch also for ensuing statements after a meeting between German Chancellor Merkel, French President Hollande and Italian PM Renzi.

### Asian FX

- Apart from the obvious impact from a firmer dollar (and softer crude), the imputed second round effects on Asian economies are expected to afflict currency units with relatively higher sensitivity to global cyclical. To this end, the MYR and KRW would remain under relatively higher downward pressure. Meanwhile, pending a further implosion of risk appetite, the IDR and INR would bear watching. In the interim, we note that the **Asian Currency Index (ACI)** is pushing higher for the 4<sup>th</sup> consecutive session today.
- The **SGD** NEER is around still around +0.71% above its perceived parity (1.3669) with NEER-implied thresholds markedly higher. In the current

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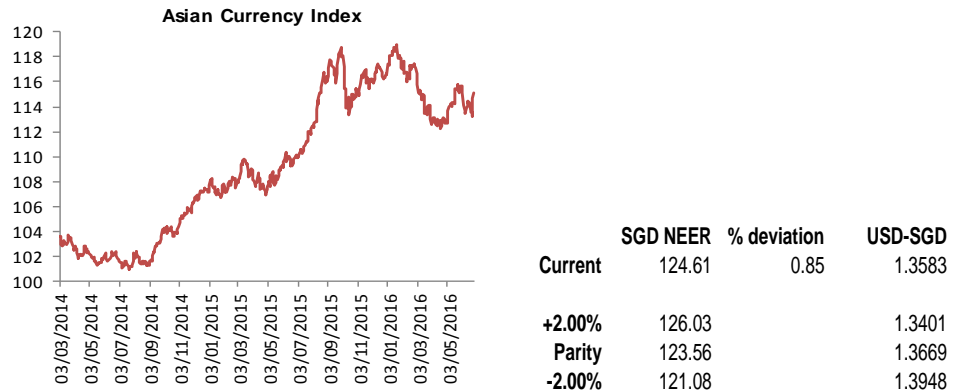
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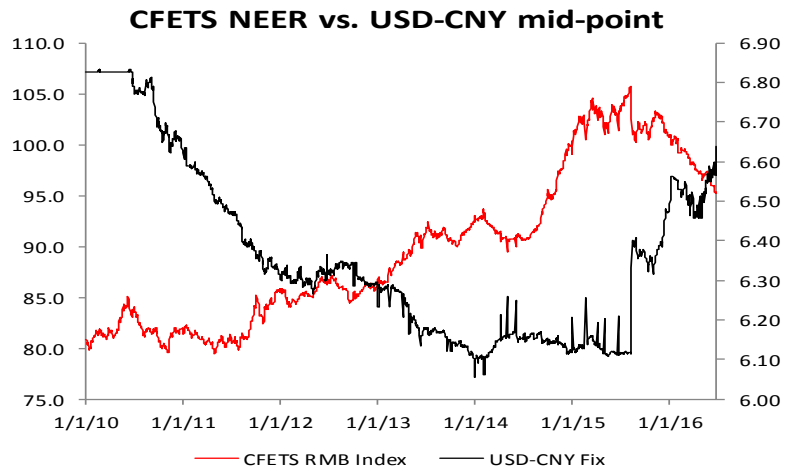
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environment, risk-reward for the NEER may be tilted to the downside (significant drag expected from the USD and the JPY) towards parity, especially if global sentiment continues to unravel.



Source: OCBC Bank

- Today, the PBOC chose to appeal to stability amidst the global market turmoil and held the **CFETS RMB Index** relatively steady at 95.29, essentially unchanged from Friday. As a result, the USD-CNY mid-point jumped to 6.6375 from 6.5776 last Friday. We will continue to monitor the mid-points in the coming sessions to discern the authority's intentions.



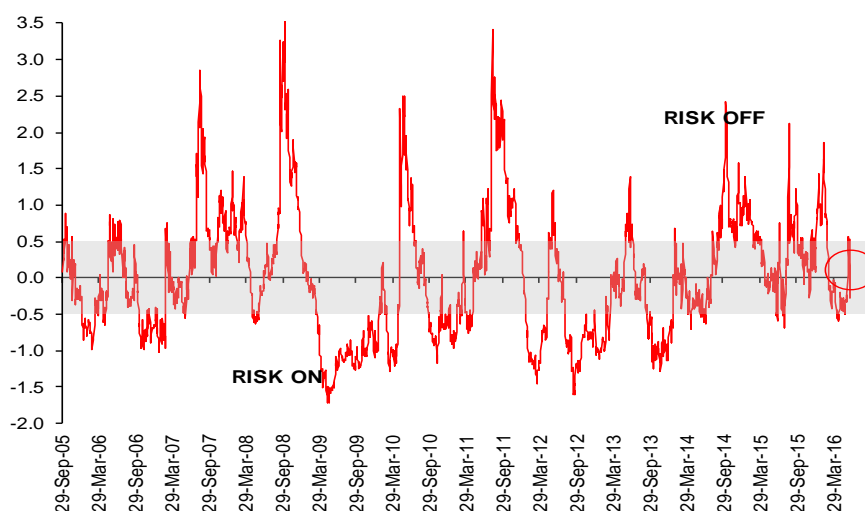
Source: OCBC Bank, Bloomberg

**G7**

- **EUR-USD** Market's fear of heightened Euroskepticism will likely continue to keep the EUR under the (British) weather going ahead. Watch for UK/EU centric headlines in the intraday and a break of 1.1000 opens the way to 1.0800 in a hurry.
- **USD-JPY** Expect Japanese official rhetoric to be fairly vocal but the weight of the JPY-crosses in the current environment may complicate matters further. At this juncture, the 10.00 handle we think remains fair game with investors still expected to be very skittish.

- AUD-USD** AUD-USD remains a casualty of global market concerns and now dovish RBA expectations. In the near term, the 55-day MA (0.7444) may cap with 0.7360 likely if global sentiment unravels further. On the downside, the 200-day MA (0.7285) is expected to cushion for now.
- GBP-USD** Uncertainty surrounding the GBP is expected to remain elevated to say the least with gravity expected to dominate. In the interim, the pair may remain anchored in the vicinity of 1.3400-1.3500. As noted in our latest **FX Viewpoint**, risk-rewards favors the downside for the pair if the GBP (NEER/REER) expunges its appreciation chalked up in the last few years.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRXEX	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

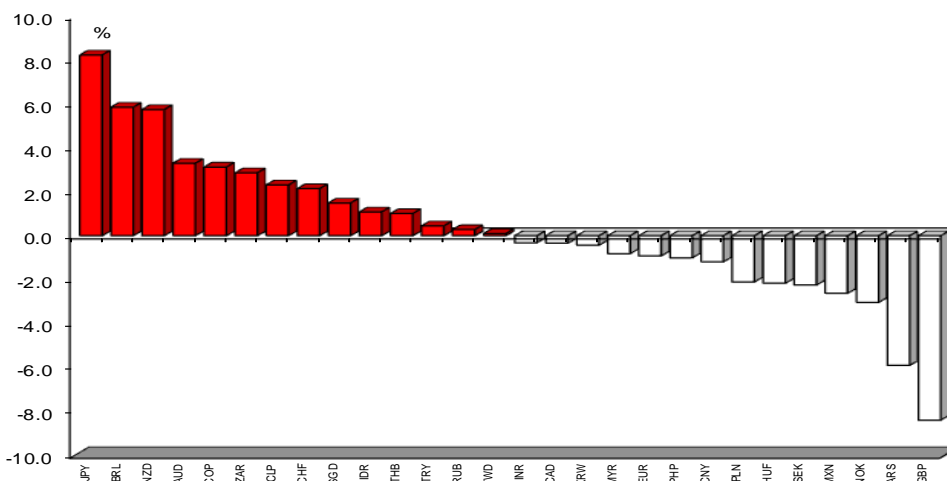
Source: Bloomberg

**Immediate technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.0913	1.1000	1.1011	1.1060	1.1097
GBP-USD	1.3229	1.3400	1.3401	1.3500	1.3694
AUD-USD	0.7283	0.7400	0.7413	0.7416	0.7500
NZD-USD	0.6902	0.7000	0.7063	0.7100	0.7248
USD-CAD	1.2864	1.3000	1.3058	1.3100	1.3136
USD-JPY	101.00	101.69	101.91	102.00	107.95
USD-SGD	1.3313	1.3500	1.3583	1.3590	1.3600
EUR-SGD	1.4900	1.4955	1.4956	1.5000	1.5337
JPY-SGD	1.3192	1.3300	1.3329	1.3400	1.3709
GBP-SGD	1.8021	1.8200	1.8202	1.8300	1.8553
AUD-SGD	0.9905	1.0000	1.0069	1.0077	1.0100
Gold	1262.18	1300.00	1330.00	1332.02	1355.60
Silver	17.02	17.70	17.72	17.80	18.26
Crude	46.94	47.40	47.42	47.50	51.21

Source: OCBC Bank

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



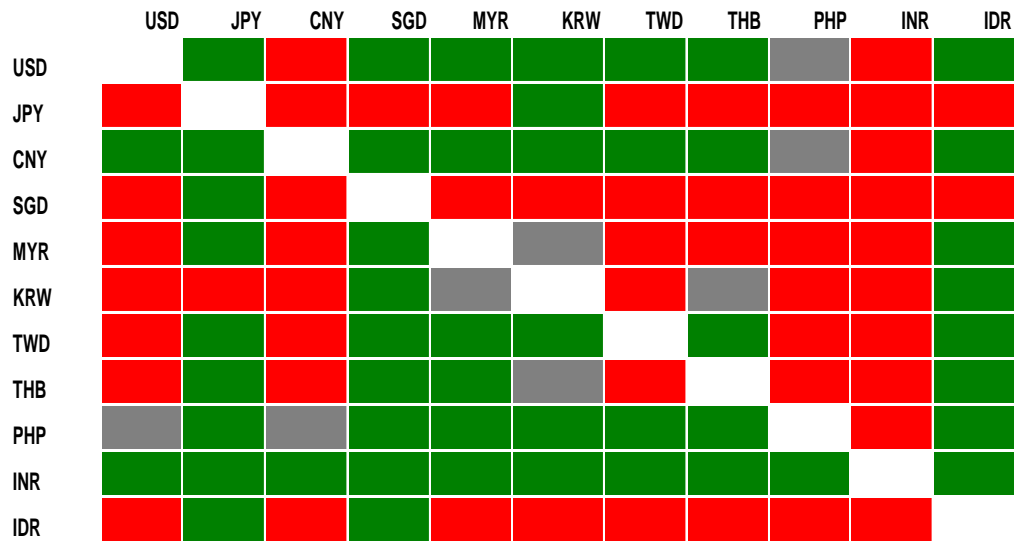
Source: Bloomberg

**G10 FX Heat Map**

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD
AUD		Green	Red	Red	Grey	Red	Red	Red
NZD	Red		Red	Red	Grey	Red	Red	Red
EUR	Green	Green		Grey	Green	Grey	Grey	Green
GBP	Green	Green	Grey		Green	Grey	Grey	Green
JPY	Grey	Grey	Red	Red		Red	Red	Red
CAD	Green	Green	Grey	Grey	Green		Grey	Green
USD	Green	Green	Grey	Grey	Green	Grey		Green
SGD	Green	Green	Red	Red	Green	Red	Red	

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>								
	-	-	-	-	-	-	-	
<b>STRUCTURAL</b>								
1	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
2	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
3	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield	
4	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
<b>RECENTLY CLOSED</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	09-May-16	07-Jun-16	B	USD-CAD	1.2929	1.2735	Weak labor market numbers, deteriorating growth outlook	-1.53
2	09-May-16	08-Jun-16	B	USD-SGD	1.3623	1.3520	Potential for USD strength ahead of Fed-speak	-0.83
3	29-Apr-16	08-Jun-16	S	AUD-USD	0.7626	0.7490	Negativity post 1Q CPI numbers	1.64
4	01-Mar-16	16-Jun-16	S	USD-JPY	112.91	105.00	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	+7.18
5	14-Jun-16	17-Jun-16	S	GBP-USD	1.4153	1.4340	Potential for further downside going into EU referendum	-1.30
6	17-Jun-16	19-Jun-16	S	EUR-USD	1.1232	1.1350	Potential for negative spillover from the UK referendum	-1.03
7	10-Jun-16	23-Jun-16	S	USD-JPY	107.16	105.50	Potential for USD weakness going into and post-FOMC	+1.57
8	22-Jun-16	24-Jun-16	B	AUD-USD	0.7463	0.7335	Prep for relief rally post UK EU referendum	-1.74
9	10-Jun-16	24-Jun-16	S	USD-SGD	1.3546	1.3670	SGD remains reactive to potential USD vulnerability	-0.91
10	12-Apr-16	27-Jun-16	S	USD-CAD	1.2895	1.3025	Stabilizing crude, soft USD, sanguine BOC	-0.98

Source: OCBC Bank

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