

Friday, January 29, 2016

FX Themes/Strategy/Trading Ideas

- With the UST curve continuing to soften (note disappointing Dec durable goods orders at -5.1%) in the footsteps of the FOMC, expect the broad dollar to remain on the defensive barring another risk appetite relapse. In the near term, the EUR also seems to be ditching its safe haven status somewhat and instead latching on to a weaker broad USD foundation.
- With positive US equities and commodities attempting to bottom out, the **FXSI (FX Sentiment Index)** eased further within Risk-Off territory on Thursday. As such, the antipodeans may attempt to garner further traction with the JPY seen underperforming across the board.
- Today, apart from the US data points (ECI, GDP, Chicago PMI, U of Michigan Sentiment) the other focus is expected to be on the **BOJ MPC** (press conference at 0630 GMT) amid expectations that the central bank may extend the timeframe for achieving its inflation target. Note that markets are also divided on whether the BOJ would enact further monetary easing (net negative for JPY).

Asian FX

- The **ACI (Asian Currency Index)** may search lower in the near term given the current dollar/risk appetite environment. Elsewhere, the MYR may find partial support from the continued stabilization in crude (given that the MYR remain structurally undervalued). Meanwhile, the better than expected 4Q GDP numbers may also be expected to underpin the PHP at the margins. Structurally however, reports indicate negative implications from net portfolio flows across EM, and this we think may continue to put a floor on USD-Asia.
- This morning, the **USD-CNY mid-point** was fixed lower again at 6.5516 compared 6.5528 on Thursday. We estimate that the CFETS RMB Index is lower today at 100.15, compared to an estimated 100.45. This came as expected and would essentially be in line with the implied strengthening of the basket's constituent currencies against the CNY in the preceding 24 hours. Structurally, we also note (and reiterate) the willingness of the PBOC to permit basket-implied flexibility for the Index (albeit within their internal boundary constraints).
- The **SGD NEER** this morning is approximately -1.80% below its perceived parity (1.4021), relatively lower compared to yesterday. We think that this may be partially due to the reluctance of the USD-SGD to testing lower despite generalized dollar weakness across the basket. Note that NEER-

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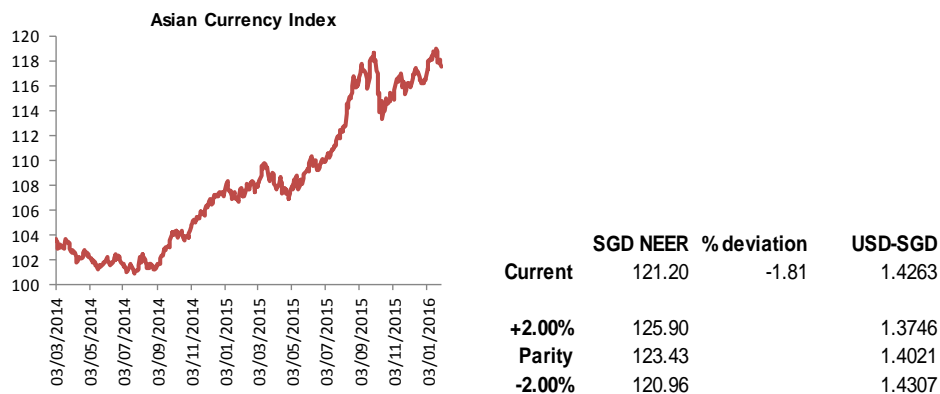
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implied USD-SGD thresholds are lower on the day with the -2.00% lower boundary of the estimated NEER fluctuation band estimated at around 1.4307. The pair is expected to be top heavy in tandem with the region with initial support seen at 1.4220 ahead of the 55-day MA (1.4185).

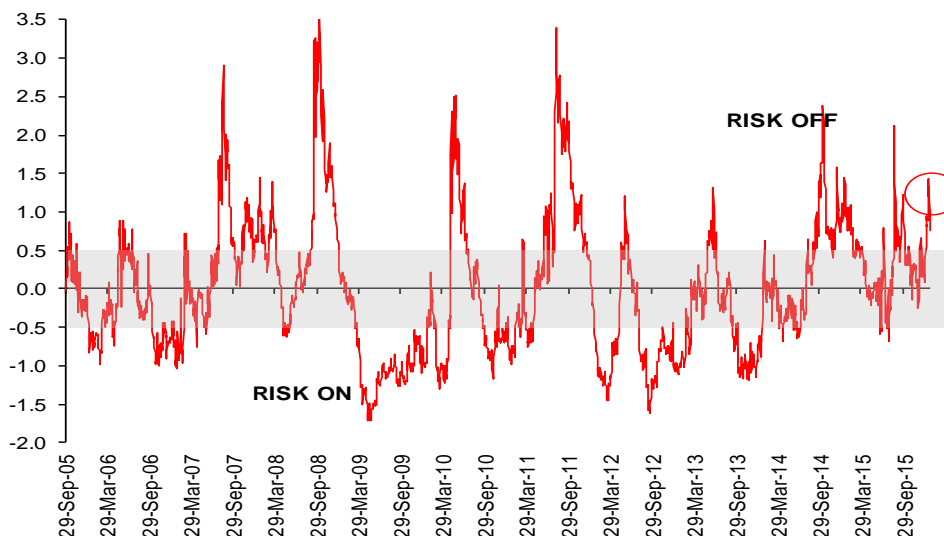


Source: OCBC Bank

G7

- EUR-USD** EZ Jan confidence indicators were mixed on Thursday while German Jan CPI readings were flat to slightly warmer than expected. Although the EUR was essentially driven by broad USD vulnerability and partially on a firmer EUR-CHF (on the back of jawboning from the SNB). Into the end of the week, the EUR-USD may seek to clear the 1.0960 hurdle.
- USD-JPY** With the resignation of Economy Minister Amari and soft core CPI numbers for December, risk reward for the pair may be tilted slightly higher ahead of the BOJ MPC later in the session. The 55-day MA resides at 120.56 beyond 120.00 while initial support is seen into 118.00.
- AUD-USD** December private sector credit data points were softer than expected this morning but the pair may potentially reach towards 0.7150 if USD, BOJ and risk appetite headlines pave the way. Support meanwhile is expected on approach of 0.7050 before the key 0.7000.
- GBP-USD** UK 4Q GDP numbers were largely in line with prior expectations on Thursday although generalized USD softness and the improvement in global risk appetite levels egged the pair higher. Expect 1.4435 to cap for now with 1.4200 seen supporting on near term dips.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658
JPY	0.537	-0.135	-0.823	0.460	0.272	0.541	1.000	0.483	-0.279	-0.681
SGD	0.339	-0.346	0.480	-0.307	-0.237	-0.558	-0.195	-0.568	0.344	0.269
AUD	0.054	0.298	-0.478	0.694	0.621	0.833	0.153	0.804	-0.582	-0.630
PHP	-0.042	-0.266	0.129	-0.635	-0.650	-0.587	0.083	-0.442	0.646	0.593
IDR	-0.155	-0.110	-0.188	-0.370	-0.710	-0.208	0.342	-0.313	0.724	0.199
TWD	-0.263	0.063	0.703	-0.490	-0.106	-0.626	-0.676	-0.656	0.228	0.407
GBP	-0.264	-0.275	-0.684	-0.049	-0.334	0.450	0.454	0.293	0.435	-0.238
CAD	-0.270	0.095	0.972	-0.574	-0.382	-0.910	-0.763	-0.837	0.290	0.813
CNH	-0.279	0.107	0.957	-0.496	-0.450	-0.842	-0.802	-0.763	0.345	0.808
CNY	-0.289	0.208	1.000	-0.467	-0.338	-0.857	-0.823	-0.745	0.233	0.806
CCN12M	-0.319	0.066	0.784	-0.395	-0.273	-0.582	-0.801	-0.567	0.258	0.566
INR	-0.319	-0.111	-0.460	-0.126	-0.558	0.185	0.330	0.083	0.547	0.004
THB	-0.330	-0.068	0.850	-0.728	-0.499	-0.854	-0.727	-0.849	0.520	0.788
KRW	-0.339	-0.098	0.462	-0.761	-0.846	-0.736	-0.319	-0.786	0.792	0.679
USGG10	-0.374	1.000	0.208	0.249	0.076	-0.022	-0.135	0.072	-0.285	0.057
MYR	-0.377	0.101	0.882	-0.527	-0.571	-0.854	-0.725	-0.734	0.442	0.892
NZD	-0.465	0.486	0.793	-0.068	-0.118	-0.434	-0.851	-0.328	-0.069	0.573
EUR	-0.949	0.366	0.483	-0.523	-0.574	-0.446	-0.638	-0.498	0.466	0.606

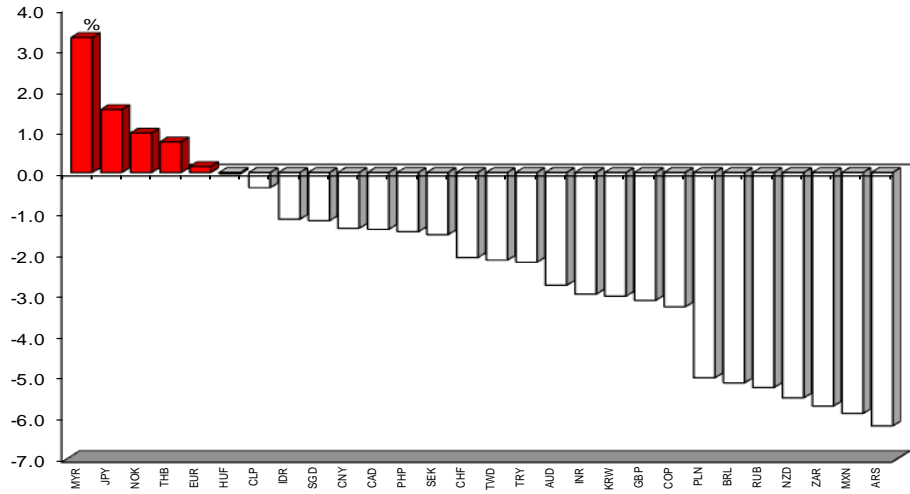
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0852	1.0900	1.0936	1.0973	1.1000
GBP-USD	1.4080	1.4300	1.4355	1.4400	1.4728
AUD-USD	0.6827	0.7000	0.7095	0.7100	0.7146
NZD-USD	0.6348	0.6400	0.6489	0.6500	0.6635
USD-CAD	1.3878	1.4400	1.4463	1.4500	1.4614
USD-JPY	116.68	118.00	118.64	119.00	119.44
USD-SGD	1.4200	1.4225	1.4264	1.4300	1.4431
EUR-SGD	1.5388	1.5500	1.5599	1.5600	1.5774
JPY-SGD	1.1914	1.2000	1.2024	1.2100	1.2359
GBP-SGD	2.0254	2.0400	2.0477	2.0500	2.0899
AUD-SGD	0.9839	1.0100	1.0121	1.0126	1.0178
Gold	1080.19	1100.00	1116.30	1126.72	1128.00
Silver	14.08	14.20	14.27	14.30	14.53

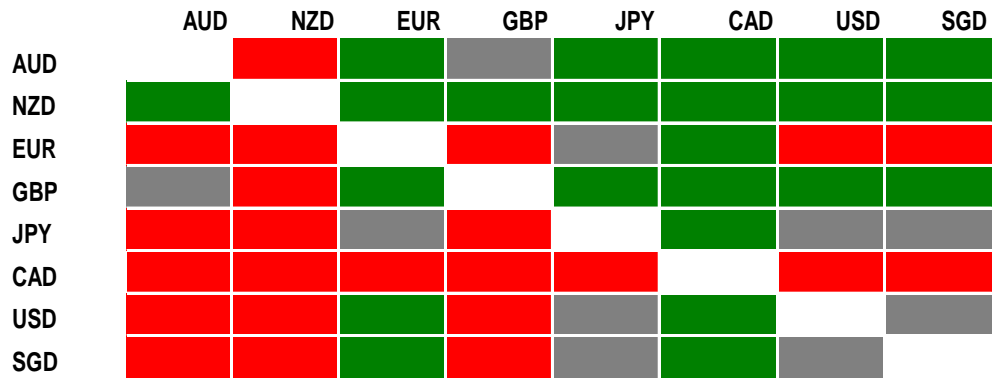
Source: OCBC Bank

FX performance: 1-month change agst USD



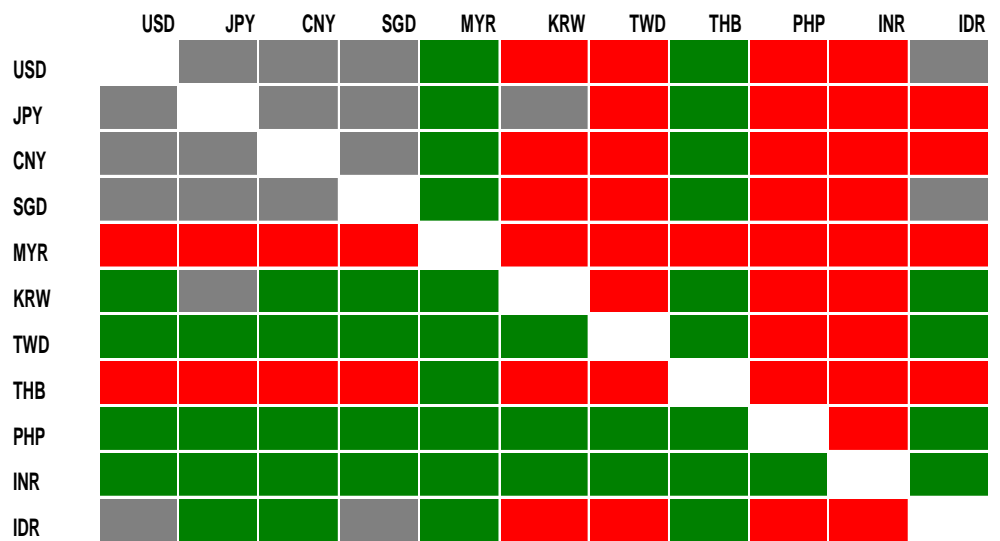
Source: Bloomberg

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	21-Dec-15	S	GBP-USD	1.4917	1.4045	1.4475	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness	
2	04-Jan-16	B	USD-SGD	1.4229	1.4485	1.4100	Asian FX weakness, RMB jitters	
3	08-Jan-16	B	EUR-USD	1.0888	1.1220	1.0720	Risk of Fed/dollar "disappointment"	
STRUCTURAL								
4	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow fundamentals may continue to argue for a flat to softer USD-JPY	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	29-Dec-15	15-Jan-16	B	USD-CAD	1.3886	1.4520	Central bank policy dichotomy in addition to structurally soft crude	+4.38
2	08-Jan-16	19-Jan-16	S	AUD-USD	0.7056	0.6950	Fragile global/equity/commodity/RMB backdrop	+1.47
3	18-Dec-15	19-Jan-16	S	GBP-USD	1.4909	1.4195	Broad dollar strength post-liftoff may be expected to continue to have traction against GBP	+5.03
4	21-Dec-15	21-Jan-16	S	USD-JPY	121.15	117.45	Disappointment towards a less dovish than expected BOJ	+3.06
5	10-Nov-15	21-Jan-16	B	USD-CAD	1.3276	1.4390	USD strength vs. weak crude	+7.75

Source: OCBC Bank

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