

Tuesday, March 29, 2016

FX Themes/Strategy/Trading Ideas

- The greenback may remain slightly on the defensive in the wake of the disappointing US Feb US core PCE (+0.1% mom) and significant downward revisions to January personal spending data, not to mention the rather cautious (dovish) remarks from the Fed's Williams (non-voter). The slight improvement in investor appetite with the **FXSI (FX Sentiment Index)** slipping slightly may also provide a further crutch of support for the majors.
- Going ahead, look towards the Fed's Yellen for further dollar cues tonight (1620 GMT) and markets may remain in a stasis in the interim. The market's implied reckoning for the Fed Fund's trajectory remains less than aggressive to say the least with a high degree of uncertainty still being imputed. As such, investors may continue to pick the tops for the dollar if Yellen does not over deliver today.

Asian FX

- Wobbly Asian equities early Tuesday may serve as a partial counter balance to the dollar's soft undertone in Asia although the regional pairs and the **ACI (Asian Currency Index)** may still be expected to remain top heavy.
- Despite the softer broad dollar tone overnight, the **SGD NEER** is largely static relative to its perceived parity (1.3686) at around +0.01%. NEER-implied USD-SGD thresholds are a touch softer on the day currently with the +0.50% threshold residing at around 1.3620.
- The vol surface at the short-end remains somewhat cautious, plausibly as we approach the MAS MPS (Monetary Policy Statement) in early April. Currently, with the index anchored at or around parity, our base case (with the budget not perceived to be significantly counter cyclical or stimulative) remains for no change in the current gradual and modest appreciation policy, with the index already running a very flat +0.50% pa gradient.
- Tail risks may however come in the form of a re-centering lower to below prevailing levels (for the mid-pint) but with the prognosis for headline and core inflation largely unchanged (note that crude has bounced smartly off its February lows) and with the authorities not likely to wholly abandon the narrative surrounding the potential for domestic wage-driven price pressures, we deem this as a low probability event.
- The **USD-CNY** mid-point was set markedly lower than expected this morning at 6.5060 from 6.5232 on Monday. This can be attributed to the Index being

Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Fixed Income &
Structured Products
Tel: 6349-1810

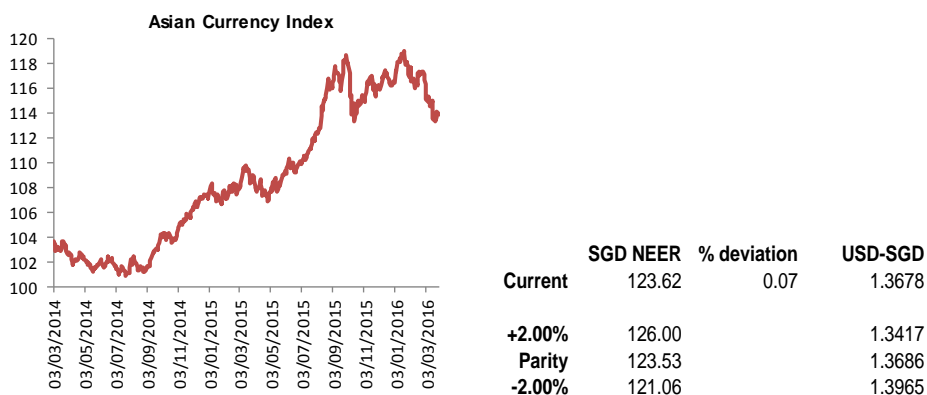
Investments &
Structured Product
Tel: 6349-1886

Interest Rate Derivatives
Tel: 6349-1899

Treasury Research &
Strategy
Tel: 6530-4887

Emmanuel Ng
+65 6530 4073
ngcyemmanuel@ocbc.com

essentially pegged at 98.25 (unchanged from Monday), in contrast to prior expectations for a slight nudge lower.

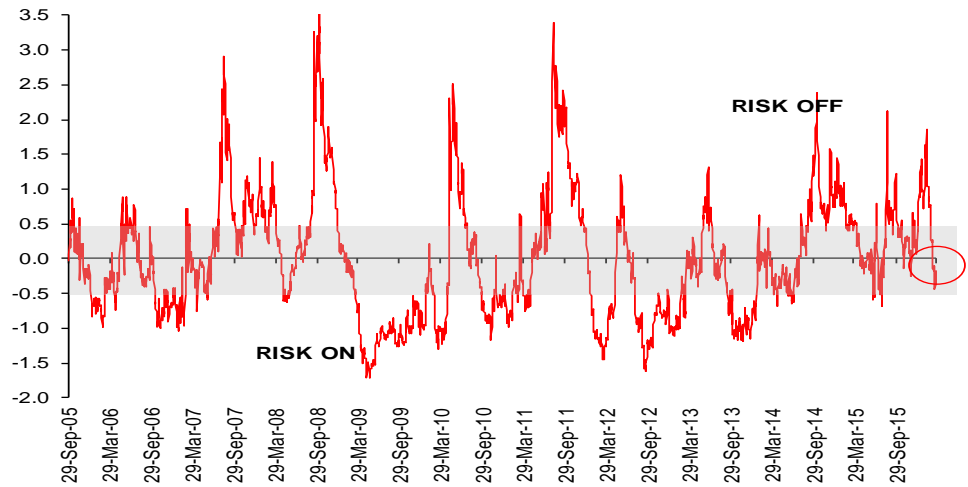


Source: OCBC Bank

G7

- EUR-USD** We see little change to our near term view for range bound behavior ahead of Yellen’s appearance later today with the pair seen bouncing in a 1.1150-1.1250 range in the interim.
- USD-JPY** Despite near term dollar vulnerability, the JPY may remain under pressure on speculation that the sales tax may be delayed. As noted yesterday, the pair has continued to exhibit little discernible drift within its 111.00-114.55 range in recent weeks and it may attempt to reach for the upper reaches of this band (buoyed by shorter term rate differentials) in the interim.
- AUD-USD** The AUD-USD may continue to trade on both sides of 0.7600 within a 0.7465-0.7690 range pending further global data cues in the latter part of this week. Market implied positioning meanwhile demonstrates an interest to test higher.
- GBP-USD** Markets remain perceptibly positioned against the GBP at this juncture with rate differential movements also perceived to be an additional drag on the pound. The 55-day MA (1.4275) and 1.4300 resistance may see offers materialize while the lower end may be bounded by 1.4120 in the interim.

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

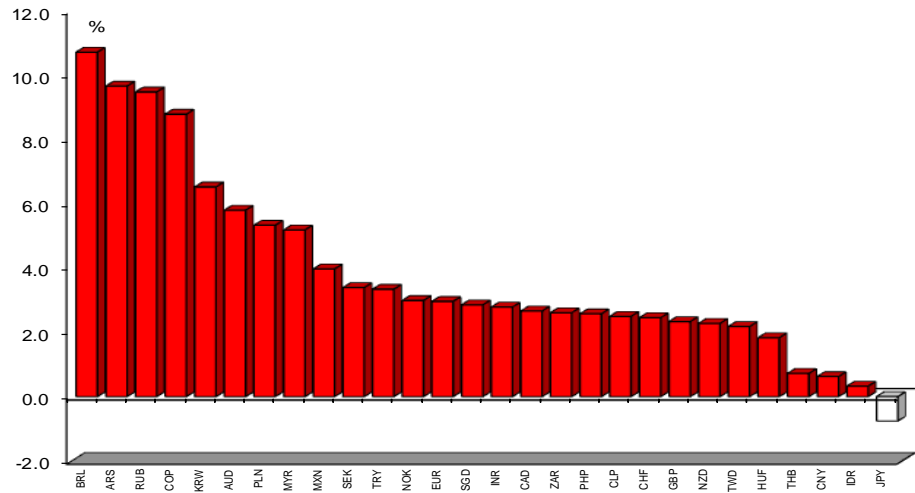
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1071	1.1100	1.1195	1.1200	1.1342
GBP-USD	1.4034	1.4200	1.4242	1.4272	1.4300
AUD-USD	0.7336	0.7500	0.7555	0.7600	0.7674
NZD-USD	0.6642	0.6700	0.6739	0.6800	0.6835
USD-CAD	1.2972	1.3100	1.3186	1.3200	1.3366
USD-JPY	111.52	113.00	113.54	114.00	114.42
USD-SGD	1.3491	1.3600	1.3674	1.3700	1.3947
EUR-SGD	1.5134	1.5300	1.5307	1.5396	1.5400
JPY-SGD	1.2007	1.2036	1.2044	1.2100	1.2177
GBP-SGD	1.9278	1.9400	1.9475	1.9500	1.9818
AUD-SGD	1.0201	1.0300	1.0330	1.0391	1.0400
Gold	1200.11	1211.57	1220.60	1280.66	1287.80
Silver	14.50	15.00	15.20	16.06	16.15

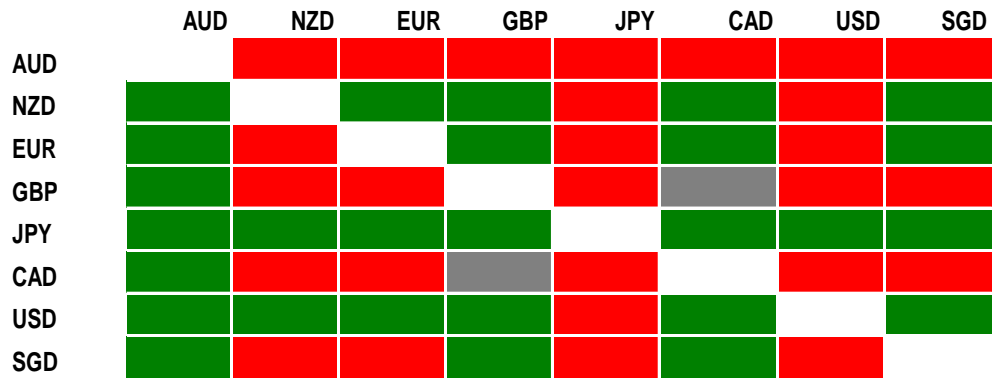
Source: OCBC Bank

FX performance: 1-month change agst USD



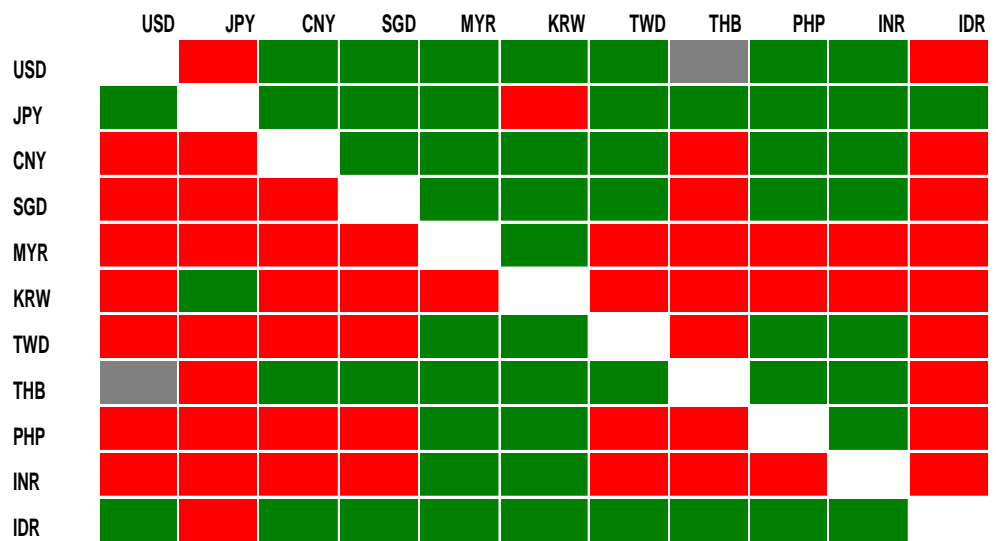
Source: Bloomberg

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-Feb-16	S	USD-CAD	1.3533	1.2745	1.3330	Bottoming crude	
2	03-Mar-16	B	AUD-USD	0.7284	0.7835	0.7410	Stabilizing commodities/equities, coupled with recent upside aussie data surprises.	
3	04-Mar-16	S	USD-SGD	1.3881	1.3380	1.3755	Brightening risk appetite, vulnerable broad dollar	
STRUCTURAL								
4	03-Feb-16	S	GBP-USD	1.4401	1.3700	1.4755	Policy dichotomy, Brexit concerns, and space for further NEER depreciation	
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
6	18-Feb-16	S	USD-SGD	1.4034	1.3435	1.4335	USD vulnerability, stabilization in RMB, equities/commodities	
7	01-Mar-16	S	USD-JPY	112.91	105.00	116.90	Inconsequential G20, dented FOMC prospects, risk aversion, global growth worries	
8	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	26-Feb-16	03-Mar-16	S	GBP-USD	1.3985	1.4170	Slightly dovish BOE stance, referendum concerns.	-1.31
2	19-Feb-16	07-Mar-16	S	USD-JPY	112.84	113.35	Iffy FOMC & background risk aversion	-0.45
3	29-Feb-16	10-Mar-16	S	EUR-USD	1.0923	1.1070	Contrasting short term data streams between EZ and US	-1.29
4	14-Mar-16	15-Mar-16	B	GBP-USD	1.4380	1.4180	Abating Brexit concerns, potential for Yellen to underwhelm	-1.41
5	18-Mar-16	24-Mar-16	B	EUR-USD	1.1321	1.1150	Tilt in policy balance after ECB and FOMC	-1.53

Source: OCBC Bank

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.
