

Monday, August 29, 2016

FX Themes/Strategy/Trading Ideas – The choppy week ahead

- **Fischer, not Yellen:** It was the Fed's Fischer who provided the kicker for the dollar on Friday after he stated that Yellen's earlier comments left the door open to a hike in September and also potentially two rate hikes this year, although he reiterated that the Fed remains data dependent. Earlier, Fed chair Yellen noted that "...the case for an increase in the federal funds rate has strengthened in recent months" and that the economy is close to meeting its goals of maximum employment and stable prices.
- Market-implied odds of a rate hike jumped on Friday (odds for a Dec hike at 64.7%) although we note that what the Fed has achieved is return market expectations to levels witnessed in the middle of this year – effectively a re-alignment despite the still visible gulf between market-implieds and the Fed's intentions. Nonetheless, yield developments may underpin the greenback at the onset of the week. Note that the belly of the UST curve is firmer post Yellen and also compared to post-NFP levels in early Aug.
- Risk appetite considerations may take a backseat to the dollar in the short term, with the **FXSI (FX Sentiment Index)** dipping within Risk-Neutral territory on Friday. On the **CFTC** front, large non-commercial as well as leveraged accounts pared their implied long dollar bias in the latest week. Given that the data predated Yellen/Fischer on Friday, expect the re-adjustment to potentially give the greenback additional near term lift.
- This Friday's **NFP** may assume a greater than normal importance with the Fed's Fischer on Friday also stating that "...the big numbers are better than they have been for some time".
- In the interim, expect more **Fed-speak** this week, with Rosengren, Evans, and Kashkari scheduled on Wednesday, Mester on Thursday and Williams on Friday. If the chorus of Fed rhetoric continues to take a harder line à la Fischer, expect the USD to continue to gain traction. However, a more measured tone (i.e., in the same vein as Yellen) may well serve to defuse outright USD resilience multi-session.
- On other fronts, expect investors to be particularly sensitive to hints of further **policy dichotomy** with ECB appearances expected Wed-Fri and the RBA's Debelle on Wednesday, while the **G20** meetings (including central bankers) in Hangzhou from Thursday may see concentrations risks on this front. In addition, markets will also have to contend with the deluge of global manufacturing PMIs on Thursday.

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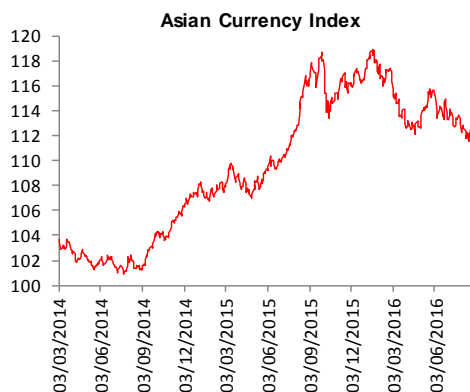
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Asian FX

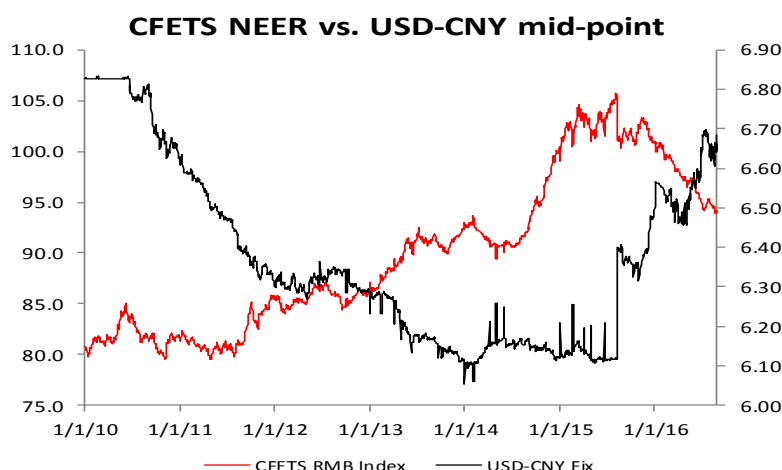
- Asian equities (save for the N225) have not taken too well this morning to the prospect of a Fed rate hike with the **Asian Currency Index (ACI)** likely higher for the second consecutive session. As noted previously, some capitulation of net portfolio capital flows would leave the regional units susceptible a USD attempting to claw higher. To this end, the USD-JPY will essentially lead USD-KRW and USD-TWD, while the SGD also retains significant sensitivity to dollar dynamics.
- Broad dollar strength has sunk the **SGD NEER** to -0.24% below its perceived parity (1.3590) with NEER-implied USD-SDG thresholds significantly higher on the day. Note that post-Yellen, SGD weakness against the USD has been an important component (accounting for about half) of the NEER's dip and expect this to potentially persist in the coming sessions. At current levels, the -0.50% threshold is estimated at 1.3658 and this may continue to attract intra-day.



	SGD NEER	% deviation	USD-SGD
Current	123.46	-0.08	1.3605
+2.00%	126.03		1.3323
Parity	123.56		1.3590
-2.00%	121.08		1.3867

Source: OCBC Bank

- The **CFETS RMB Index** was again held relatively static this morning despite the fallout from Yellen/Fischer, with the Index coming in at 94.09 compared to 94.06 on Friday. As a result, the USD-CNY mid-point jumped to 6.6856 from 6.6488. With little indication that the discretionary depreciation of the Index is terminating in the short term, expect CNH forward points to continue to lean right and short-end vols to continue to bottom out.

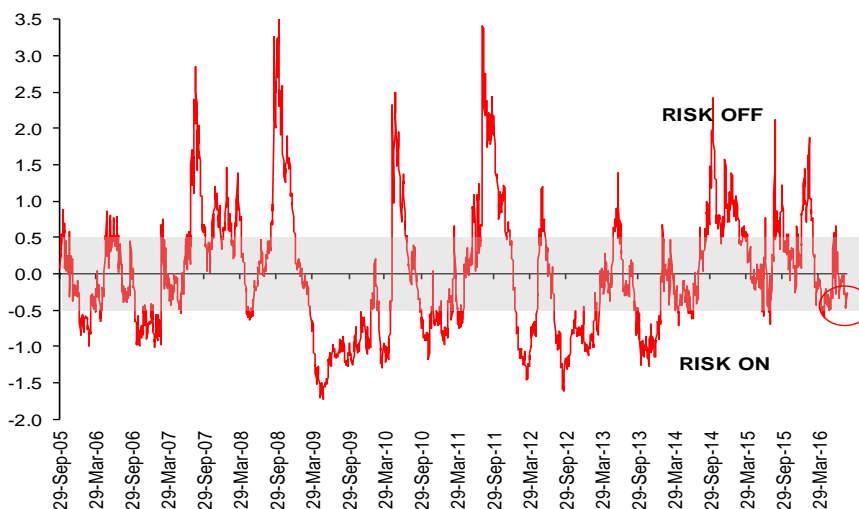


Source: OCBC Bank, Bloomberg

G7

- **EUR-USD** EUR-USD may seek out its 55-day MA (1.1153) if the 1.1170 support is punctured given the USD's newfound resilience. Beyond this, the pair may search out the 200-day MA (1.1113), although it would still be within its well-worn ranges. Look towards ECB rhetoric this week for further EZ-specific influences on the pair and expect a more neutral tone in the interim. Yield differentials meanwhile would be expected to impart additional weight on the EUR.
- **USD-JPY** USD-JPY may well abandon its near term heaviness this week and a test of the 55-day MA (102.96) cannot be ruled out, especially if expectations of further BOJ easing continue to breed. Yield differential arguments meanwhile may finally bite and buoy the pair.
- **AUD-USD** The AUD-USD may continue to flail with the 55-day MA (0.7546) under serious threat with 0.7500 beckoning. As noted above, the yield hunt may prove secondary in the near term as markets attempt to internalize the latest comments from Yellen/Fischer. As such, the continued compressing yield advantage over the USD may become all the more apparent at this juncture.
- **GBP-USD** Risk for a relapse towards the 1.3000 neighborhood cannot be discounted after the latest Fed comments, especially with yield differentials adding further deadweight. Also this week, look to further indications from the post Brexit vote economy, with a slew of data releases expected and culminating with the Markit manufacturing PMI on Thursday and the Aug Markit/CIPS construction PMI on Friday.

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

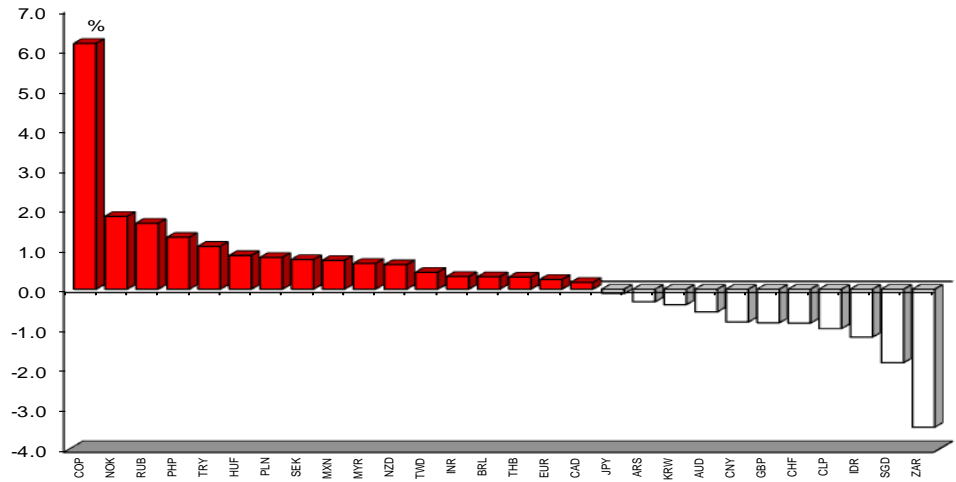
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1142	1.1200	1.1201	1.1300	1.1366
GBP-USD	1.2866	1.3100	1.3119	1.3200	1.3250
AUD-USD	0.7421	0.7500	0.7543	0.7548	0.7558
NZD-USD	0.7165	0.7200	0.7223	0.7300	0.7327
USD-CAD	1.2998	1.3000	1.3007	1.3100	1.3191
USD-JPY	99.58	102.00	102.15	102.57	102.76
USD-SGD	1.3581	1.3600	1.3607	1.3639	1.3700
EUR-SGD	1.5008	1.5200	1.5241	1.5293	1.5300
JPY-SGD	1.3121	1.3300	1.3319	1.3400	1.3517
GBP-SGD	1.7800	1.7848	1.7851	1.7900	1.8012
AUD-SGD	1.0187	1.0200	1.0263	1.0300	1.0358
Gold	1310.70	1314.61	1315.00	1332.47	1364.90
Silver	18.37	18.40	18.43	18.50	19.44
Crude	46.18	47.00	47.05	47.10	49.11

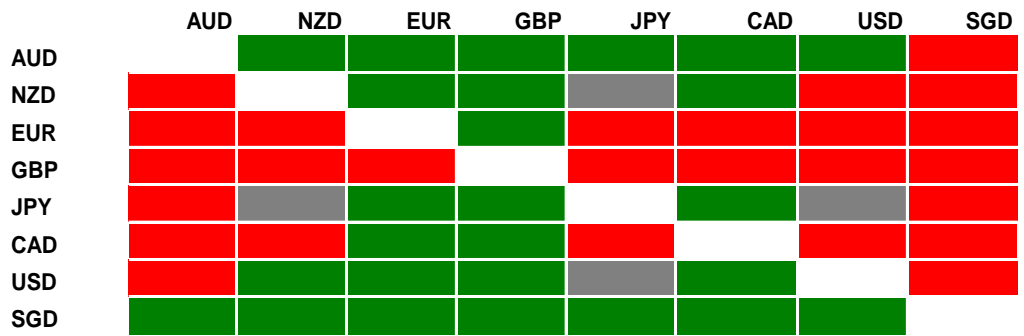
Source: OCBC Bank

FX performance: 1-month change agst USD



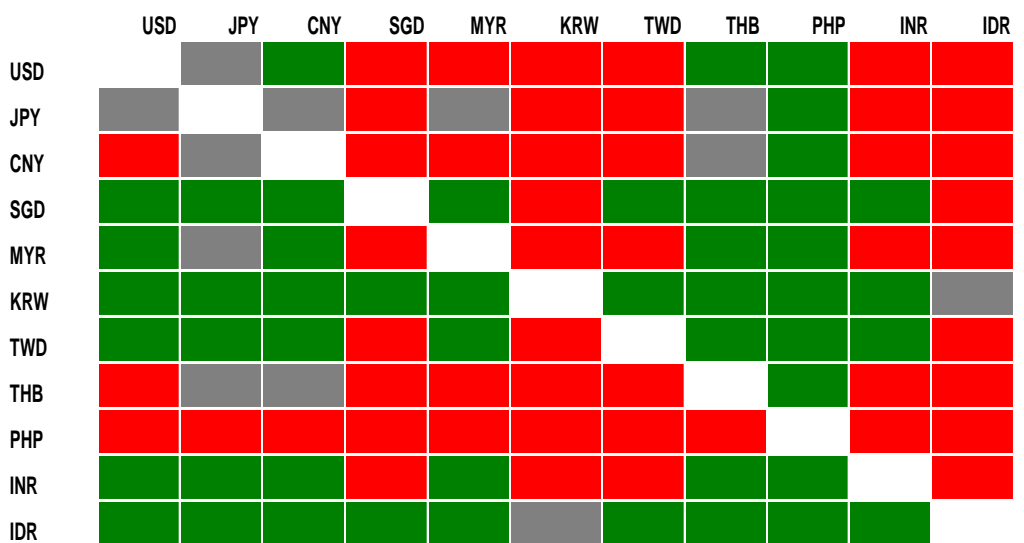
Source: Bloomberg

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	
TACTICAL								
1	04-Aug-16	B	EUR-USD	1.1149	1.1460	1.0990	Static Fed vs. ECB	
2	11-Aug-16	S	USD-JPY	101.22	96.45	103.61	Fading dollar coupled with potential risk aversion	
3	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
4	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
STRUCTURAL								
5	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
6	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
7	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclical, search for yield	
8	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
9	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
10	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
11	25-Aug-16	S	USD-CAD	1.2918	1.1960	1.3400	Stabilizing global macro, potential traction for oil	
RECENTLY CLOSED								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	28-Jun-16	01-Aug-16	S	EUR-USD	1.1057	1.1215	Brexit uncertainty coupled with Euroskepticism	-0.90
2	28-Jun-16	01-Aug-16	S	GBP-USD	1.3306	1.3204	Epicenter of Brexit concerns	+0.78
3	28-Jun-16	15-Aug-16	B	USD-CAD	1.2991	1.2805	Concerns over the global deflationary impact from Brexit	-0.23
4	05-Aug-16	23-Aug-16	S	USD-SGD	1.3409	1.3498	Flight to yield/EM vs. weak dollar	-0.66
5	08-Aug-16	25-Aug-16	B	AUD-USD	0.7611	0.7610	Opportunity for a tactical long on assumption of transient USD	0.01
6	18-Aug-16	26-Aug-16	S	USD-CAD	1.2813	1.2985	Recovering oil vs fading FOMC prospects	-1.33
Jan- Jul 2016 Return								+13.75

Source: OCBC Bank

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