

Tuesday, August 30, 2016

FX Themes/Strategy/Trading Ideas

- Dollar strength saw some follow through on Monday but begin to retrace slightly into the end of NY with yield seeking behavior started to seep through once again. Meanwhile, 10y UST yields collapsed lower while the July core PCE deflator came in largely as expected at +0.1%, underscoring a paper by the San Francisco Fed suggesting a shallower than expected time path for rates. Nonetheless, we note that the 2/10s continue to compress on the back of the 2y in recent weeks – typically dollar supportive.
- For today look towards more Fed-specific cues with Fischer scheduled for an appearance at 1030 GMT. In the interim, investors may continue to vacillate between policy dichotomy and the search for yield with the **FXSI (FX Sentiment Index)** ticking higher on Monday but remaining in Risk-Neutral territory.

Asian FX

- Expect the regional pairs to be slightly more consolidative today in the back of the hesitating broad dollar and a positive start to Asian equities. As such, the **Asian Currency Index (ACI)** will likely more contained on the upside after climbing on Monday post-Fischer/Yellen.
- The **SGD NEER** is slightly higher on the day at around -0.05% below its perceived parity (1.3585) with NEER-implied thresholds slightly softer as the USD stabilized overnight. From an NEER perspective, the basket may continue to ply a +0.50% (1.3518) and -0.50% (1.3654) range.
- In the interim, USD-SGD may anchor itself around the 1.3600 handle with an initial floor expected into 1.3575 before the 100-day MA (1.3547). Risks however towards 1.3620/30 may persist pending USD-specific headlines. We reiterate that the SGD remains relatively sensitive to the greenback within the region with the USD component constituting a significant portion of the recent decline in the NEER.

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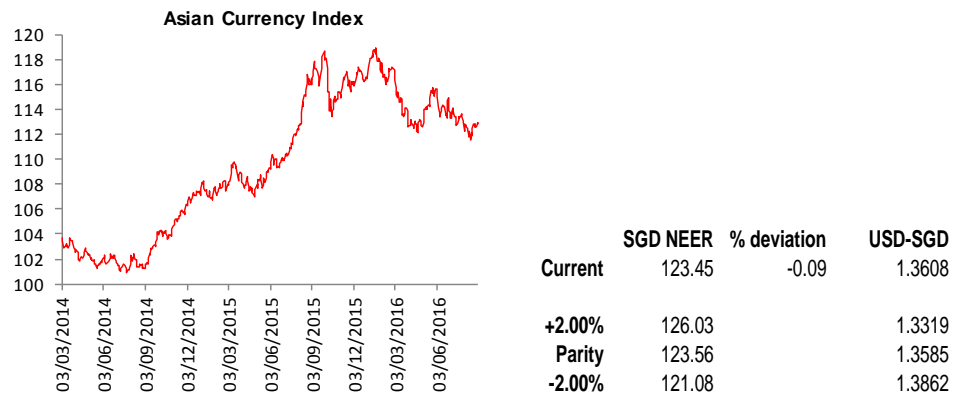
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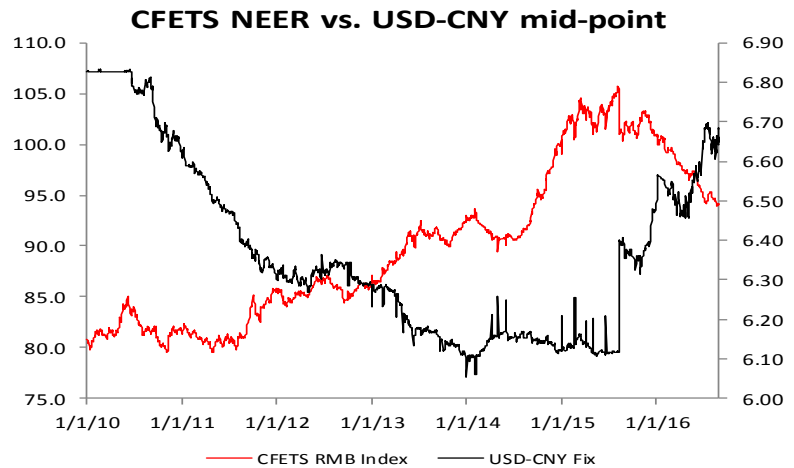
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Source: OCBC Bank

- Little surprises from the USD-CNY mid-point today with the fix coming in at 6.6812 from 6.6856 on Monday. Meanwhile, the **CFETS RMB Index** ticked higher slightly to 94.13 from 94.09 yesterday.



Source: OCBC Bank, Bloomberg

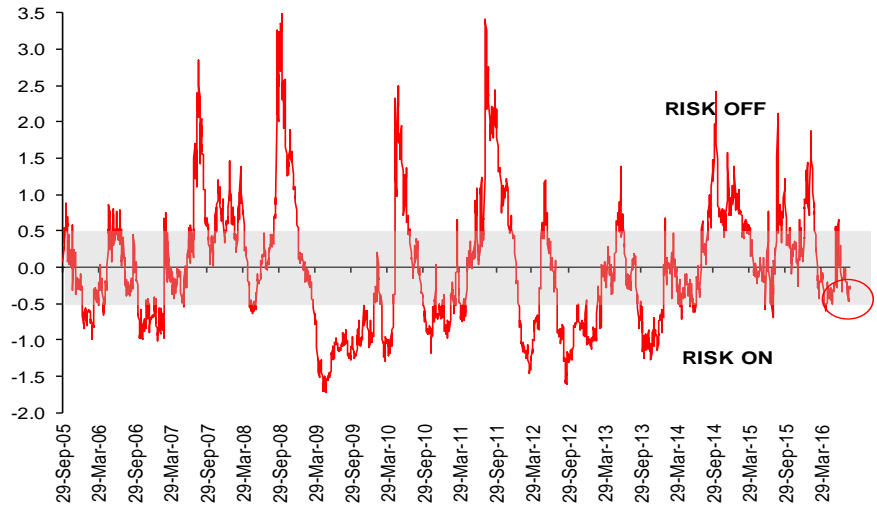
G7

- **EUR-USD** The near term view for the pair remains unchanged with the 55-day MA (1.1152) and the 200-day MA (1.1118) a likely draw given background dollar resilience. EZ cues may emanate from the August confidence indicators due later in the day although any potential comments from the Fed’s Fischer may impart greater potential volatility.
- **USD-JPY** Japanese July retail sales and overall household spending numbers this morning outperformed prior expectations but the JPY may remain burdened in the near term by perceived policy dichotomy between the Fed and the BOJ. A near term locus is expected in the vicinity of 102.00 with the 55-day MA (102.88) expected to present initial resistance.
- **AUD-USD** Still sanguine risk appetite levels and some capitulation of broad USD strength may see a holding pattern around current levels although the pair we think continues to run the risk of decaying towards the

55-day MA (0.7550) before the psychological 0.7500 in the near term.

- GBP-USD** More July data points are on tap today in the form of lending and monetary aggregates with any downside disappointments expected to threaten downside supports (1.3030 and then 1.3000) for the GBP-USD. Overall risks remain skewed to the downside.

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX	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

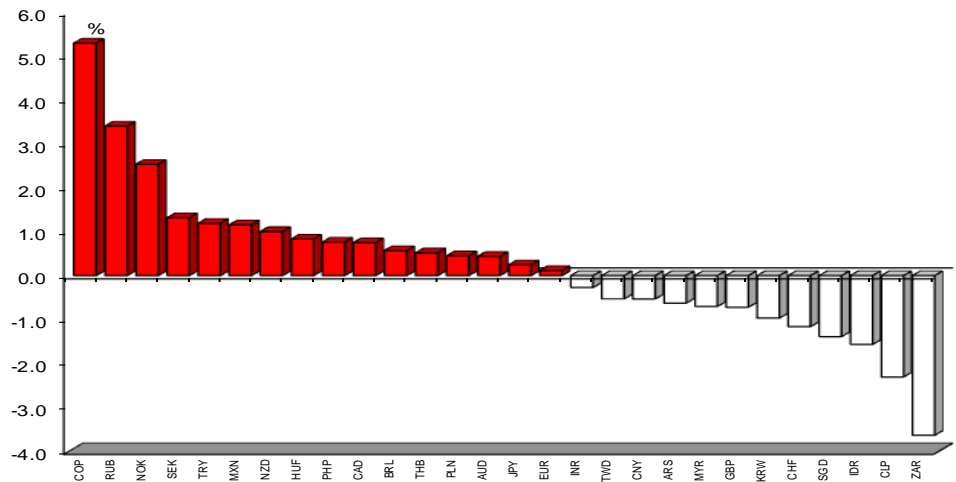
Source: Bloomberg

Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1118	1.1141	1.1175	1.1200	1.1366
GBP-USD	1.2876	1.3000	1.3084	1.3100	1.3218
AUD-USD	0.7548	0.7561	0.7568	0.7600	0.7720
NZD-USD	0.7168	0.7200	0.7242	0.7300	0.7329
USD-CAD	1.3000	1.3002	1.3026	1.3100	1.3180
USD-JPY	99.59	102.00	102.15	102.66	102.70
USD-SGD	1.3599	1.3600	1.3609	1.3639	1.3700
EUR-SGD	1.5009	1.5200	1.5209	1.5294	1.5300
JPY-SGD	1.3131	1.3300	1.3322	1.3400	1.3517
GBP-SGD	1.7270	1.7800	1.7806	1.7810	1.7900
AUD-SGD	1.0250	1.0270	1.0300	1.0353	1.0409
Gold	1311.50	1316.59	1323.00	1334.02	1361.09
Silver	18.37	18.70	18.75	18.80	19.47
Crude	46.09	47.10	47.11	47.20	49.11

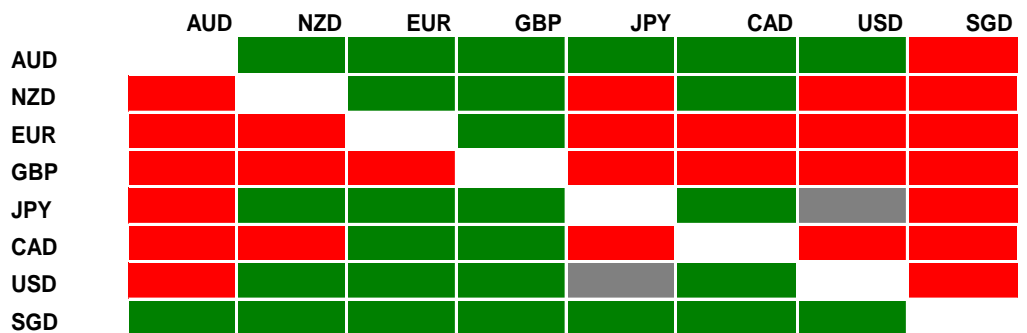
Source: OCBC Bank

FX performance: 1-month change agst USD



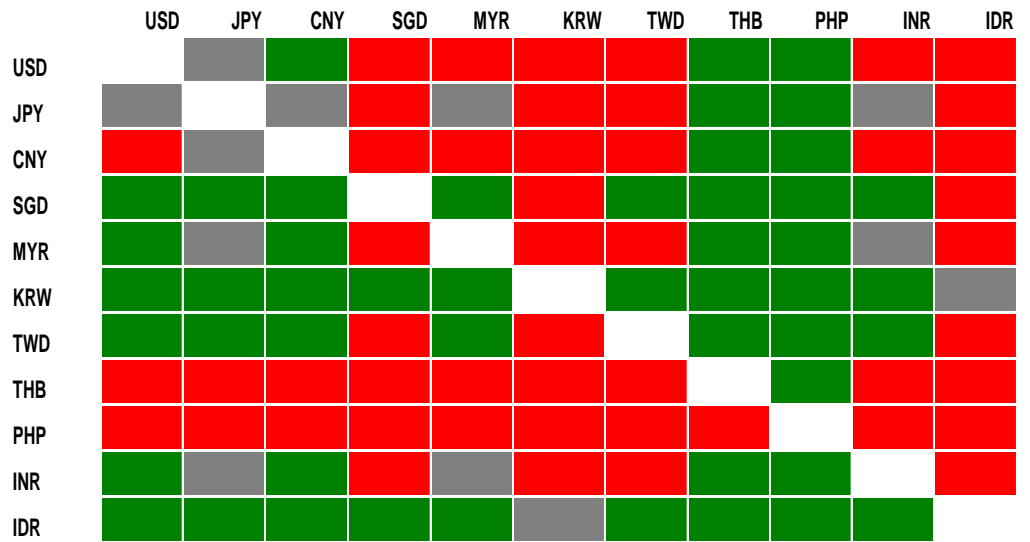
Source: Bloomberg

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	25-Aug-16	B	GBP-USD	1.3210	1.4055	1.2785	Moderating short term pessimism	
3	25-Aug-16	B	USD-SGD	1.3527	1.3780	1.3395	Moderating net inflows in Asia, potential for broad USD uptick	
STRUCTURAL								
4	18-Feb-16	B	EUR-USD	1.1137	1.1825	1.0790	Growing suspicion that the Fed will hesitate	
5	07-Mar-16	B	AUD-USD	0.7412	0.7955	0.7135	Potential risk appetite, abating global growth concerns, static Fed expectations	
6	12-Apr-16	B	NZD-USD	0.6885	0.7450	0.6600	Recovery in cyclicals, search for yield	
7	14-Jun-16	S	USD-SGD	1.3542	1.2815	1.3910	USD expected to disappoint on the back of the summer FOMCs	
8	04-Jul-16	S	USD-JPY	102.58	91.85	107.95	Yield differentials to weigh on the pair, esp if Fed hesitates	
9	26-Jul-16	S	GBP-USD	1.3120	1.1555	1.3905	Macro pain of a potential Brexit	
10	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
7	11-Aug-16	30-Aug-16	S	USD-JPY	101.22	101.96	Fading dollar coupled with potential risk aversion	-0.80
							Jan- Jul 2016 Return	+13.75

Source: OCBC Bank

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