

Monday, June 03, 2019

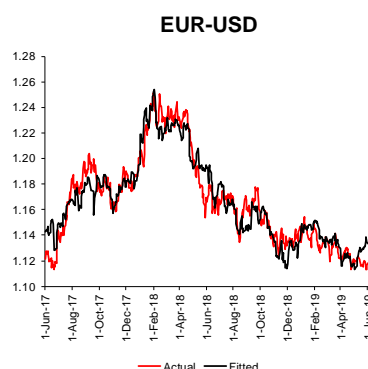
Market Themes/Strategy/Trading Ideas

- Investors essentially fled the dollar last Friday, with the greenback in the red against all G10 counterparts save the CAD. The JPY and CHF outperformed as further Trump-tariff sparked off risk-off sentiments. The US Treasury rally further extended, sinking the 10y yields to 2.12% and the US3/10s curve deeper into inversion territory. The **FXSI (FX Sentiment Index)** spiked higher to reach the Risk-Off boundary, as bond-related indicators within the Index continued to flash red.
- Investor discomfort to persist.** Sino-US trade issues swirls in the background, as the net of the Trump-driven trade war spreads globally. Expect the dollar to be pulled on both sides at the start of week, with the haven aspects of the dollar squaring with Fed rate cut expectations and rate differential arguments. Expect some consolidation for the dollar in the interim, pending headline data releases later today. Meanwhile, stay heavy on the USD-JPY and JPY-crosses as the cleanest play for risk aversion and the slumping in UST yields.
- US data will remain in focus**, as investors contemplate whether the recent dislocation in UST yields is justifiable by macro-fundamentals. Watch Markit PMI and ISM manufacturing prints later today (1345 GMT and 1400 GMT), and a slew of labour market prints, headlined by the NFP, later in the week. Any signs of further softening, especially in the labour market, may further entrench Fed rate cut expectations, and continue to cut down the dollar on rate differential arguments.
- Elsewhere on the calendar, keep tabs on the **RBA** (Tue) and **ECB** (Thu) meetings. Watch for any shifts in their inclinations, especially under the soft economic prints and the ongoing trade war. The RBA, in particular, may open the door for rate cuts.

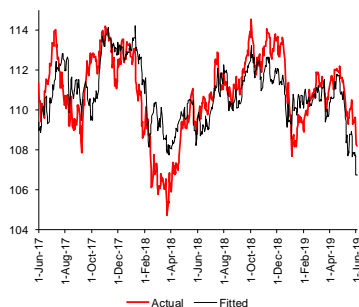
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

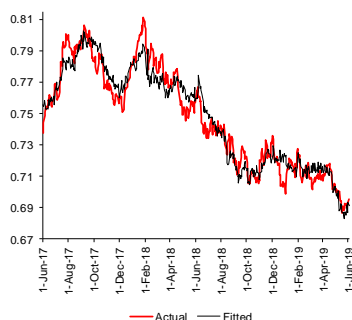
Terence Wu
+65 6530 4367
TerenceWu@ocbc.com



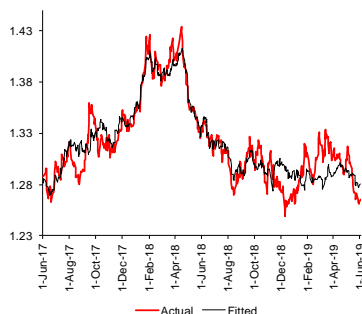
Heavy setup still in play. The EUR-USD bounced on broad dollar concerns, but the posture continues to be heavy for now. Short term implied valuations dipped slightly. Intraday, prefer to sell on bounces towards 1.1200, targeting 1.1140.

USD-JPY

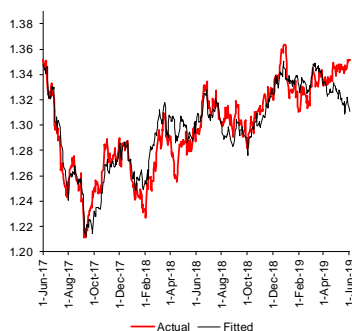
Accelerating lower. Stay heavy on the USD-JPY for now, as the JPY remain the main beneficiary for heightened risk and softer US yields. Note that short term implied valuations dislocated lower, strengthening the pull lower for the pair. Any bounces should be capped at 109.00, while 107.70 may be the next target on the downside if 108.00 is taken out.

AUD-USD

Risk of testing lower. Despite ongoing rejection of 0.6900, and supportive short term implied valuations, it may be too early to rule out the downside bias for this pair. Expect resistance at 0.6960 in the interim, but keep an eye on further downside possibility towards 0.6820.

GBP-USD

The sinking feeling. Near term political uncertainties will not see a resolution, and will continue to stack against the GBP-USD. With short term implied valuations also not providing much support, prefer to sell on rallies towards 1.2670 for now, targeting 1.2600 then 1.2560.

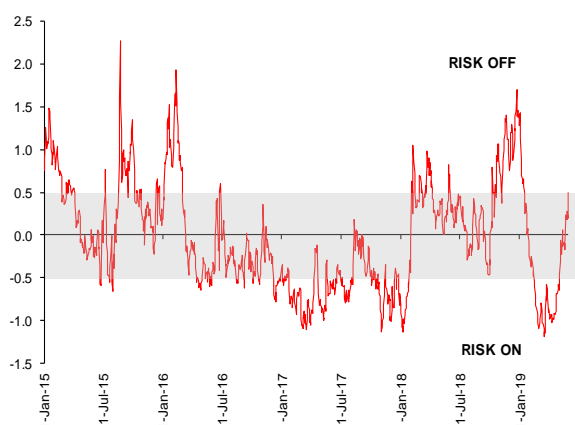
USD-CAD

Upside bias. The CAD may still be on the back-foot due to fallout from US-Mexico trade issues and a softer crude complex. Expect any dips to be limited by 1.3500 for now.

Asian Markets

- USD-Asia: Tracking the broad dollar for now.** Despite trade jitters and softer global equities, EM FX remains supported on Friday. Inherent dollar weakness may depress USD-Asia at the start of the week, with the USD-CNH (and USD-IDR) leading the way lower. Overall, expect USD-Asia to take cues from the dollar front in the immediate horizon. Nevertheless, the spectre of worsening Sino-US trade war cannot be discounted. On this front, note that the latest White Paper from China regarding trade retains a firm tone, although it comes across as less aggressive than the recent rhetoric on state media.
- Asia flow environment: Implied equity outflows abating.** Latest EPFR readings reveal that the bleeding of implied equity flows from Asia (ex. JP, CN) may be slowing. In particular, implied equity outflows from South Korea and Taiwan flipped into a slight net inflow balance. Nevertheless, note that this runs in contradiction to actual equity flows tracked on a daily basis, which continues to show a worsening outflow momentum. An easing of implied bond outflows was also noted.
- USD-SGD: Downside may be cushioned at 1.3700.** The USD-SGD tracked the broad dollar lower on Friday, swiftly taking out support at 1.3780. Nevertheless, we do not think the upside bias is negated for now, and prefer to buy on dips to 1.3700/20 levels. Meanwhile, the SGD NEER spiked higher to +1.23% above the perceived parity (1.3883), with NEER-implied USD-SGD thresholds significantly softer.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1107	1.1126	1.1185	1.1200	1.1209
GBP-USD	1.2559	1.2600	1.2650	1.2700	1.2942
AUD-USD	0.6865	0.6900	0.6952	0.7000	0.7011
NZD-USD	0.6485	0.6500	0.6552	0.6600	0.6608
USD-CAD	1.3403	1.3419	1.3497	1.3500	1.3527
USD-JPY	108.00	108.15	108.17	108.49	109.00
USD-SGD	1.3656	1.3700	1.3713	1.3800	1.3837
EUR-SGD	1.5280	1.5300	1.5339	1.5400	1.5440
JPY-SGD	1.2343	1.2600	1.2678	1.2700	1.2701
GBP-SGD	1.7300	1.7323	1.7348	1.7400	1.7641
AUD-SGD	0.9460	0.9500	0.9533	0.9572	0.9583
Gold	1300.00	1307.42	1310.90	1311.40	1400.00
Silver	14.25	14.60	14.64	14.70	14.85
Crude	52.11	52.80	52.85	52.90	54.32

Source: OCBC Bank

Trade Ideas

Inception		B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale		
	TACTICAL							
1	14-May-19	S	AUD-JPY	76.12	73.90 77.20	Escalating Sino-US trade tensions		
STRUCTURAL								
2	19-Mar-19	Long 2M USD-SGD 25-delta strangle Spot ref: 1.3508; Strikes: 1.3618, 1.3371; Exp: 16/05/19; Cost: 0.41%				Relatively depressed vol surface ahead of imminent global headline risks		
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	15-Apr-19	24-Apr-19	B	AUD-USD	0.7167	0.7055	Near term recovery in global macro sentiment	-1.61
2	24-Apr-19	03-May-19	S	GBP-USD	1.2933	1.3155	Sustained Brexit uncertainty and pressure to oust PM May	-1.64

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.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
