

Tuesday, June 04, 2019

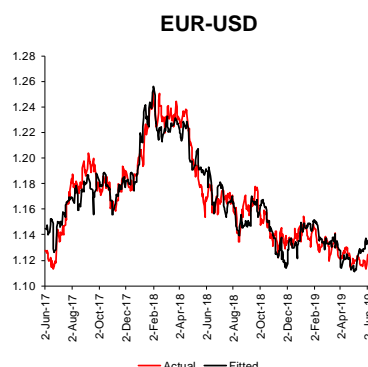
Market Themes/Strategy/Trading Ideas – Refreshed FX forecasts

- The dollar sank again on Monday as yield support continued to be whittled away (2/10s bull steepened as the 2y outperformed, 10y <2.10%, 3/10s inverted further) with the Fed's Bullard (voter; dove) indicating that a rate cut may be "warranted soon" given heightening trade tensions. On the data front, note that the May ISM also disappointed prior expectations.
- **The conversation has now shifted to heightened odds of Fed rate cuts and this reassessment may dominate in the very near term.** Mounting implied expectations for a Fed rate cut (odds greater than even for July) will likely keep the dollar under negative pressure ahead of an appearance by the **Fed's Powell** at 1355 GMT. In addition, Williams (1230 GMT) and Brainard (1945 GMT) are also scheduled. During the Asian session, the **RBA** (0430 GMT) is all but expected to cut its benchmark **Cash Target Rate** by 25bps to 1.25% and this may temper AUD-USD upside intra-day.
- **Risk-Off but weak dollar for now.** Overall, the USD may remain afflicted by rate cut expectations and this may overshadow structural concerns surrounding escalating global trade tensions at this juncture. On the latter, note that the **FXSI (FX Sentiment Index)** has seeped into **Risk-Off** territory for the **first time since mid-January 2019** with cross-asset as well as EM indicators flashing warning signs while crude oil continues to sink lower. **In the interim, we see good clarity for a still top heavy USD-JPY and a flat to firmer trajectory for the EUR-GBP (EUR being better equipped to respond to USD weakness).**

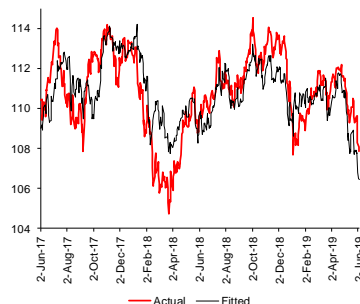
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

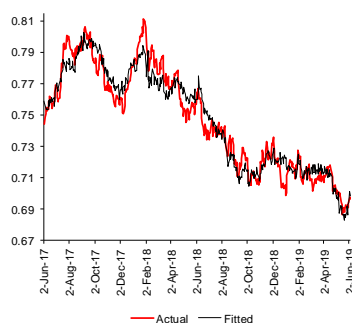
Terence Wu
+65 6530 4367
TerenceWu@ocbc.com



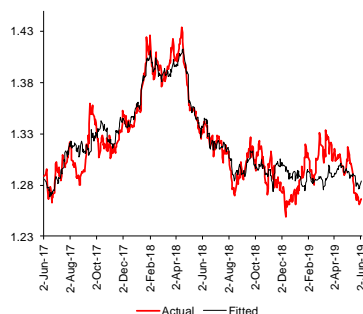
Bottoming. The EUR-USD may latch onto the USD's new found vulnerability and align with short term implied valuations that have been shifting higher in the last few sessions. First stop on the upside is expected at 1.1280 with the 55-day MA (1.1221) seen supporting.

USD-JPY

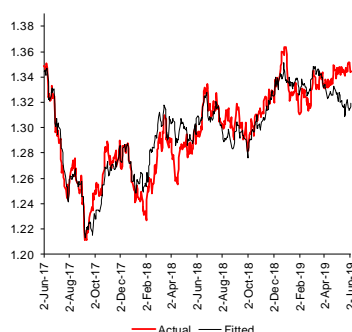
Heavy but consolidating for now. Near term view remains unchanged and USD-JPY may remain the most responsive to heightened expectations of a dovish Fed. However, after the fairly rapid moves lower in the preceding few sessions, expect some consolidation at the 108.00 neighborhood.

AUD-USD

Downside nullified pending RBA. Short term implied valuations have been bouncing higher but pending the accompanying rhetoric from the RBA meeting today (rate cut fully priced in), the AUD-USD may remain range bound within 0.6940-0.7000..

GBP-USD

Laggard. GBP-USD may remain a laggard with respect to the current weak dollar complex on the back of Brexit concerns. This despite some base building in short term implied valuations, a strong bounce in the pair is not currently expected. Continue to expect a generally heavy posture within 1.2600-1.2700.

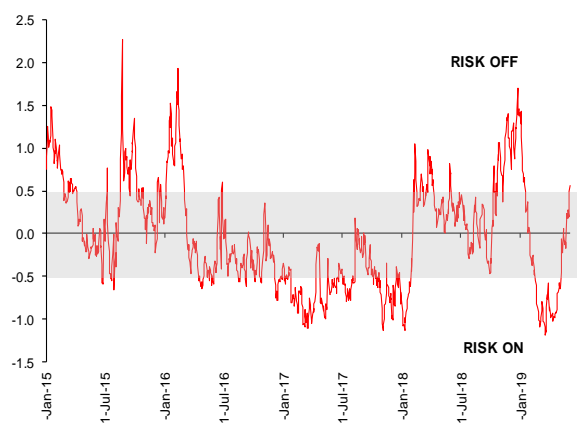
USD-CAD

Flatten out. Despite weak crude, USD-CAD has also responded to a softer USD profile and the pair may finally attempt to synchronize lower with its depressed short term implied valuations. Expect scope to capitulate lower towards its 55-day MA (1.3415).

Asian Markets

- **USD-Asia: Slippery for now.** A weak dollar and a positive EM equity performance from overnight are expected to greet Asian markets this morning, although caution from negative US (and tech) equities may still linger in the background. Mixed to softer Asian PMI prints (SK, TW and MY in contraction zone, also the China Caixin gauge outperformed slightly) may also cast further negativity on the longer term horizon.
- **Overall, expect USD-Asia to have an easing bias for now, with the weaker dollar likely to prevail.** However, with the fundamental picture of trade tensions and economic slowdown still unchanged, we may not want to chase USD-Asia lower on a multi-session horizon. Asian bond yields meanwhile may continue to drill lower with the economic chill.
- **Asia flow environment: Inflow momentum building in India and Thailand.** India and Thailand continued to see healthy inflows into their bonds and equities, with overall inflow momentum pulling higher away from neutral zone. Meanwhile, bond inflows into South Korea may find further momentum, as rate cut expectations at the Bank of Korea swirls after its latest meeting. The picture in equity-dominant economies, Taiwan, Philippines and Malaysia, remains depressed.
- **USD-SGD: Tracking the dollar lower.** The USD-SGD slipped further overnight, though the descent was cushioned at the 200-day MA (1.3653). Expect the pair to track external cues, and adopt a heavy posture for now. Look for initial downside support at the 200-day MA (1.3653), while any bounce may be limited by the 1.3700 level. With NEER-implied USD-SGD thresholds softening further in-line with broad dollar, the SGD NEER continued to push higher, hitting north of +1.50% above the perceived parity (1.3862), before easing slightly to +1.35% this morning.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1210	1.1247	1.1254	1.1265
GBP-USD	1.2559	1.2600	1.2664	1.2700	1.2931
AUD-USD	0.6865	0.6900	0.6964	0.7000	0.7005
NZD-USD	0.6485	0.6500	0.6582	0.6600	0.6610
USD-CAD	1.3400	1.3419	1.3445	1.3500	1.3522
USD-JPY	107.00	107.86	107.89	108.00	108.15
USD-SGD	1.3635	1.3656	1.3682	1.3700	1.3837
EUR-SGD	1.5284	1.5300	1.5389	1.5400	1.5440
JPY-SGD	1.2365	1.2600	1.2682	1.2700	1.2707
GBP-SGD	1.7269	1.7300	1.7328	1.7400	1.7630
AUD-SGD	0.9462	0.9500	0.9529	0.9568	0.9581
Gold	1300.00	1318.18	1324.80	1327.80	1400.00
Silver	14.25	14.70	14.76	14.80	14.84
Crude	52.11	53.10	53.12	53.20	53.29

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

Refreshed FX Forecasts (correct as of 31 May)

	Spot	Jun-19	Sep-19	Dec-19	Mar-20
USD-JPY	108.83	108.18	107.59	107.26	106.93
EUR-USD	1.1139	1.1071	1.1068	1.1205	1.1341
GBP-USD	1.2612	1.2503	1.2486	1.2678	1.2871
AUD-USD	0.6914	0.6914	0.6858	0.6960	0.7061
NZD-USD	0.6513	0.6513	0.6441	0.6557	0.6673
USD-CAD	1.3546	1.3628	1.3632	1.3508	1.3383
USD-CHF	1.0054	1.0022	0.9986	0.9935	0.9884
USD-SGD	1.3782	1.3808	1.3835	1.3740	1.3645
USD-CNY	6.9042	6.9237	6.9150	6.8359	6.7568
USD-THB	31.71	31.53	31.46	31.27	31.08
USD-IDR	14262	14,198	14,211	14,057	13,903
USD-MYR	4.1923	4.2096	4.2112	4.1641	4.1170
USD-KRW	1190.91	1190.91	1198.16	1186.07	1173.98
USD-TWD	31.603	31.71	31.70	31.47	31.24
USD-HKD	7.8461	7.8401	7.8291	7.8182	7.8073
USD-PHP	52.19	52.06	52.07	51.73	51.38
USD-INR	69.82	70.10	69.08	68.45	67.82
EUR-JPY	121.23	119.76	119.08	120.18	121.28
EUR-GBP	0.8832	0.8854	0.8865	0.8838	0.8811
EUR-CHF	1.1199	1.1095	1.1053	1.1132	1.1210
EUR-SGD	1.5352	1.5286	1.5313	1.5396	1.5475
GBP-SGD	1.7382	1.7264	1.7274	1.7421	1.7563
AUD-SGD	0.9530	0.9547	0.9489	0.9563	0.9635
NZD-SGD	0.8977	0.8993	0.8912	0.9010	0.9105
CHF-SGD	1.3708	1.3778	1.3855	1.3830	1.3805
JPY-SGD	1.2664	1.2764	1.2860	1.2810	1.2760
SGD-MYR	3.0417	3.0486	3.0438	3.0306	3.0172
SGD-CNY	5.0092	5.0142	4.9980	4.9750	4.9517

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