

Thursday, June 06, 2019

Market Themes/Strategy/Trading Ideas

- The greenback still managed to strengthen against the majors despite the mixed data releases on Wednesday. On this front, the drastically disappointing May US ADP reading of +27k was balanced by the better than expected May non-manufacturing ISM print of 56.9. Nonetheless, the UST curve continued to bull-steepen (as did several of the other core curves) with the Fed's Brainard noting that the Fed is ready to "adjust policy to sustain the expansion". On other fronts, the NZD outperformed across the board after the RBNZ's assistant governor Hawkesby dampened rate cut expectations.
- Despite positive EZ/US equities, note that the **FXSI (FX Sentiment Index)** inched back into Risk-Off territory again after slipping into Risk-Neutral territory on Tuesday. From a macro-structural perspective, note that crude continued to dribble lower on Wednesday.
- **Balancing between USD weakness and trade tensions.** The **ECB meeting** today (1145 GMT) and Draghi's press conference (1230 GMT) may provide further impetus for the EUR and further details on the planned TLTRO. Following Fed chair **Powell's** (not so) subtle shift in posture on Tuesday, if the Fed's **Kaplan** (1240 GMT) and **Williams** (1700 GMT) continue to echo what their colleagues have communicated this week, expect rate cut expectations to heighten and the USD to stay implicitly vulnerable in the near term.
- As widely expected, the **RBA** cut its benchmark rate by 25bps to 1.25% on Tuesday, citing the potential negative hit from (international) trade disputes and particularly, the need to reduce to further reduce the slack in the improving labor market. Notably, today's statement omitted the projection decline of the unemployment rate to around 4.75% by 2021. Elsewhere, the central bank noted the softer than expected March inflation reading but did not alter its inflation projections. Going ahead, the statement left the door open for further rate cuts but did not express undue urgency. **As such, the rate cut may not stand in the way of a supported AUD-USD in the face of immediate USD vulnerability.**

Treasury Research &
Strategy

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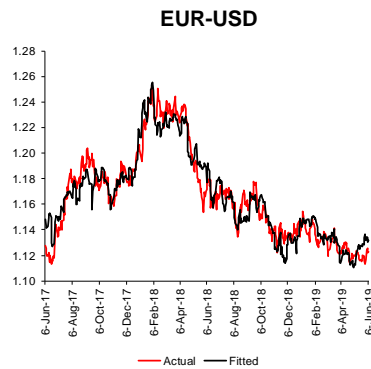
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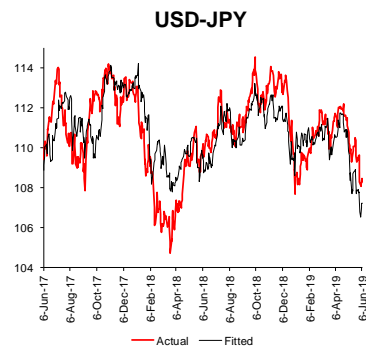
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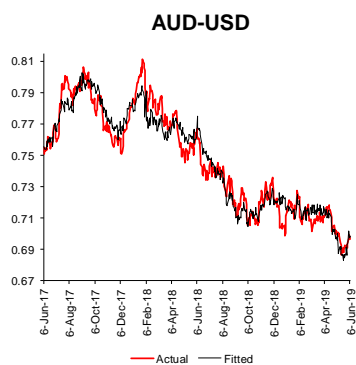
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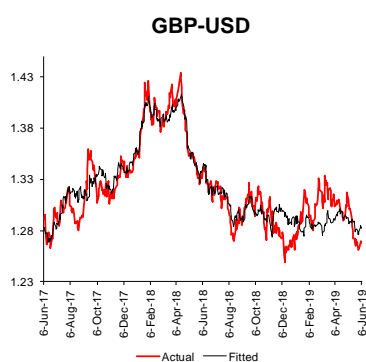
Consolidate but collect dips? May EZ services/composite PMIs were better than expected on Wednesday but the ECB meeting today we think will provide a more enduring lead for the EUR-USD. The upside push in short term implied valuations for the EUR-USD has stalled in the interim but the pair may find implicit support at the 55-day MA (1.1215) pending the ECB today.



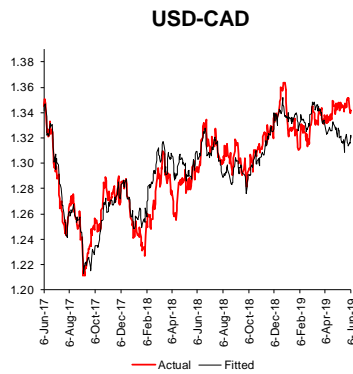
Heavy but consolidating for now. Short term implied valuations have stabilized at this juncture but ahead of the crucial US NFP numbers tomorrow, USD-JPY may not venture too far above the 108.50 area. Preference to fade rallies in the interim.



Downside nullified despite RBA. The market's preoccupation with Fed rate cut prospects we think may continue to override and dovish implications from the RBA's rate cut earlier this week. Expect 0.6950 to continue to cushion barring further external headlines.



Laggard. Given the large Brexit overhang, markets may continue to greet GBP-USD upside with a healthy dose of skepticism and we continue to expect a top-heavy posture within 1.2550-1.2800.

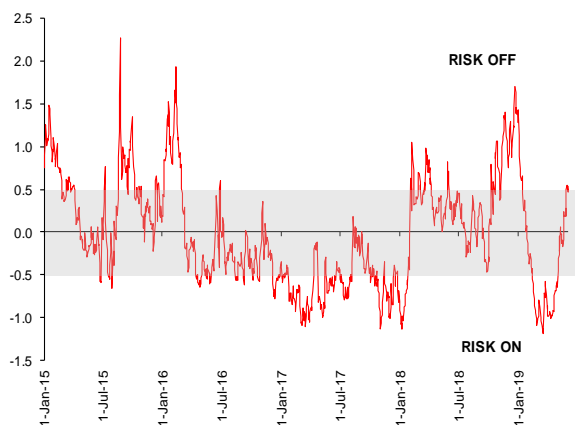


Flatten out. USD-CAD may remain biased south despite soft crude and the US-Mexico static while short term implied valuations for the pair are looking to consolidate from here. We think broad USD vulnerability may prevail and USD-CAD may attempt to depart south from its 55-day MA (1.3417) again within a 1.3380-1.3450 range.

Asian Markets

- USD-Asia: Flattish for now.** Weak EM equities from Wednesday, and an ongoing risk-off environment due to the trade tensions may hamper the Asian currencies, although USD-Asia upside may still be limited by remnant dollar skepticism. At this point, the RMB complex is also not expected to provide support the Asian currencies. Despite the damaged dollar this week, the CFETS RMB Index still on a softening bias. Thus, we do not expect the USD-CNH and USD-CNY to participate in dollar weakness in a big way. On the calendar, the **RBI** is all but expected to ease its policy rates today at its policy meeting.
- Asia flow environment: Positions looking extended in North Asia.** The flow environment for South Korea (bond inflows) and Taiwan (equity outflows) continue to diverge, with both positions looking extended on a historical perspective. At current levels, there might be a possibility of a reversal. Meanwhile, inflow momentum into India and Thailand continues to build.
- USD-SGD: Still soggy.** The USD-SGD retains a heavy tone despite bouncing off lows yesterday. Continue to watch the 200-day MA (1.3656) as the key focal point for now, with the 1.3700 level still expected to cap on the topside. NEER-implied USD-SGD thresholds ended the day largely static, although the SGD NEER rose to +1.45% above the perceived parity (1.3864).

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1210	1.1226	1.1259	1.1300
GBP-USD	1.2559	1.2600	1.2685	1.2700	1.2915
AUD-USD	0.6865	0.6900	0.6966	0.7000	0.7002
NZD-USD	0.6482	0.6600	0.6624	0.6630	0.6638
USD-CAD	1.3400	1.3418	1.3421	1.3500	1.3522
USD-JPY	107.93	108.00	108.27	109.00	110.61
USD-SGD	1.3638	1.3656	1.3665	1.3700	1.3837
EUR-SGD	1.5300	1.5305	1.5340	1.5400	1.5424
JPY-SGD	1.2413	1.2600	1.2621	1.2697	1.2700
GBP-SGD	1.7269	1.7300	1.7333	1.7400	1.7612
AUD-SGD	0.9460	0.9500	0.9518	0.9570	0.9578
Gold	1288.90	1300.00	1327.50	1329.94	1343.30
Silver	14.25	14.70	14.78	14.80	14.81
Crude	50.93	51.70	51.71	51.80	59.94

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

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