

Wednesday, May 08, 2019

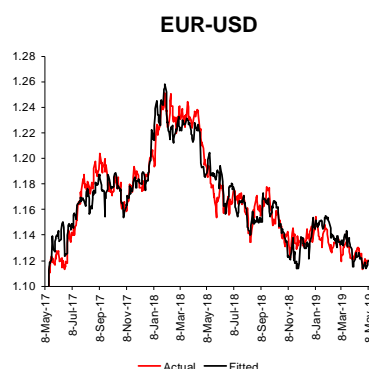
Market Themes/Strategy/Trading Ideas

- Amid sustained Sino-US uncertainty, continued investor jitters saw the USD (and the JPY) gaining against most of the majors. Elsewhere, the AUD managed to outperform against its peers and the (mildly) against the USD after the **RBA** left its benchmark policy rate unchanged (wrong footing half the community) and retained a neutral bias.
- **Risky much?** Losses in EZ/US equities (note VIX > 20.0 and XAU higher on Tuesday) pushed the **FXSI (FX Sentiment Index)** higher again within Risk-Neutral territory. **Short end FX vols are waking up and EM vols are outpacing (on a relative Z-score basis) their G7 counterparts in the current environment.** On other fronts, UST yields eased again on a haven bid.
- **Structurally** (as we had noted previously), given the Fed's latest neutrality, global central banks remain cautious in trying not to incite unduly dovish expectations, with the RBA being a case in point yesterday and the Riksbank sending mixed messages yesterday. We also expect the bank of Thailand to remain static at its policy meeting today.
- **USD resilience.** In the interim, a risk-off undercurrent may continue to prevail, favoring the USD and the JPY at the expense of the cyclicals and EM/Asia. The RBNZ this morning cut by 25bps as expected to 1.50% and the press conference is scheduled at 0300 GMT. Elsewhere central bank appearances include the ECB's Draghi at 1130 GMT and the Fed's Brainard at 1230 GMT. Meanwhile, headlines from Sino-US trade talks are only expected on Thursday-Friday and investors may continue to stew in uncertainty given the 0400 GMT deadline for higher US tariffs on Friday.

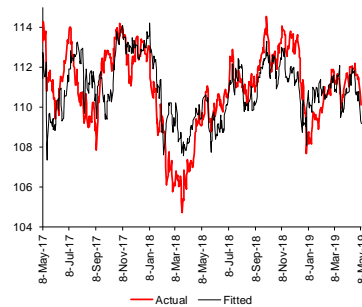
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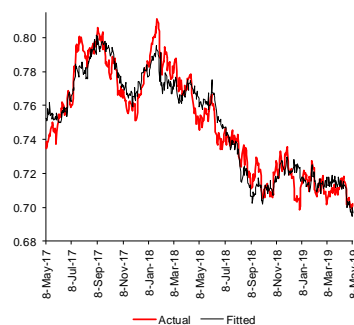
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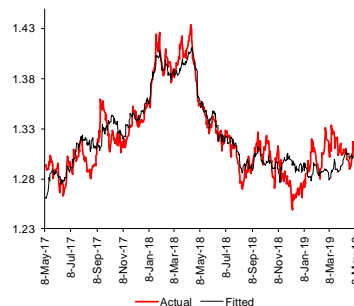
Stabilizing. Short term implied valuations are stabilizing from the EUR-USD despite the the EC lowering its growth forecasts for the EU (note the sharp downward revision for Germany) and the current jittery market environment. However, we continue to expect the commomcurrency to remain under the weather with 1.1200/20 capping in the near term and 1.1150 providing initial support.

USD-JPY

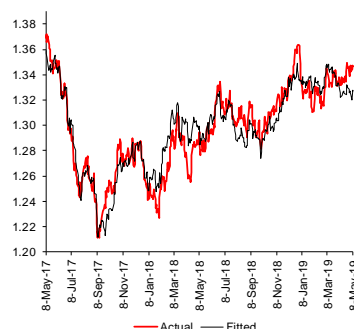
Southbound. BOJ MPC minutes this morning remained sufficiently dovish but risk appetite considerations currentl may continue to dictate directionality for the USD-JPY. Note that short term implied valuations for USD-JPY remain slippery and the 110.00 support is now under imminent threat (subsequent support at 109.70).

AUD-USD

Interim respite. The RBA's inaction may provide some buffer for the AUD in the short term but we note that short term implied valuations remain downcast (albeit stabilizing a touch). The resistance at 0.7050 may cap pending further external headline risks with support seen at 0.6985.

GBP-USD

Trapped. GBP-USD also dropped lower on Tuesday as prospects for cross party deal on Brexit remained dim. PM May appears before Parliament today and note short term implied vlauations are a tad softer this morning. Pending further headlines from the UK parliament, GBP-USD may continue to orbit its 55-day MA (1.3105) and be book-ended by a 1.3030-1.3160 range.

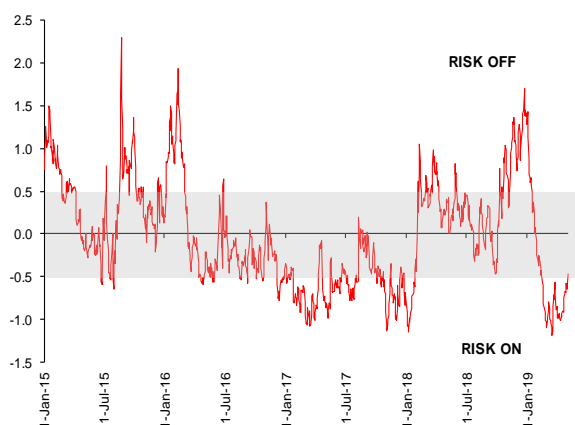
USD-CAD

Rangy. Short term implied valuations for USD-CAD are holding steady with little discernible drift in recent sessions. However, slightly softer cruded and prevailing investor uncertainty may lay a near term floor at around 1.3420, with upside head room towards 1.3520 still evident.

Asian Markets

- **USD-Asia** Further EM FX/equity weakness overnight and the USD-CNH brushing against 6.8000 again may keep Asian markets suitably nervous into Wednesday. Expect the **Bank of Thailand** to remain static at its policy meeting today at 1.75%.
- **Regional central bank outlook.** **BNM** on Tuesday delivered a 25bps cut to its benchmark OPR to 3.00% on Tuesday, in line with the consensus. We also look to the **BSP** to ease monetary policy on Thursday. Both these central banks are/were prime candidates for an easing based on macro/real rates/rate differential metrics, and the other companion central banks in Asia we think would not be compelled as much. To boot, both the **RBI** and the **PBOC** have already elected to utilize a more selective monetary policy approach instead.
- **Portfolio flow deterioration.** On the portfolio flow front, overall net inflows for South Korea and Taiwan are still holding up relatively well but things continue to look discouraging down south. Net flows for India have dipped into an outflow balance on a deepening bond outflows and continued deterioration in net equity inflows. In Indonesia, net bond flows have also slipped into outflow territory while elsewhere in Thailand, net equity flows are neutral but net bond outflows continue to deepen.
- **USD-SGD –** USD-SGD may hold in familiar ranges (for now) with the 200-day MA (1.3652) still holding up and 1.3600 expected to cushion. The SGD NEER is slightly firmer at +1.55% relative to its perceived parity (1.3825) with NEER-implied USD-SGD thresholds a touch softer on the day.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1121	1.1200	1.1202	1.1258	1.1300
GBP-USD	1.2958	1.3000	1.3078	1.3100	1.3101
AUD-USD	0.6963	0.7000	0.7021	0.7087	0.7100
NZD-USD	0.6527	0.6556	0.6578	0.6600	0.6722
USD-CAD	1.3378	1.3400	1.3463	1.3500	1.3520
USD-JPY	109.97	110.00	110.01	110.38	111.00
USD-SGD	1.3560	1.3600	1.3610	1.3652	1.3677
EUR-SGD	1.5179	1.5200	1.5246	1.5266	1.5300
JPY-SGD	1.2300	1.2357	1.2372	1.2383	1.2400
GBP-SGD	1.7640	1.7722	1.7800	1.7893	1.7964
AUD-SGD	0.9485	0.9500	0.9555	0.9600	0.9610
Gold	1263.46	1266.00	1288.00	1292.39	1299.83
Silver	14.61	14.80	14.86	14.90	14.95
Crude	61.00	61.80	61.88	61.90	66.41

Source: OCBC Bank

Trade Ideas

	Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale		
	TACTICAL							
1	24-Apr-19	S	GBP-USD	1.2933	1.2495 1.3155	Sustained Brexit uncertainty and pressure to oust PM May		
	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	01-Apr-19	02-Apr-19	S	GBP-AUD	1.8336	1.8600	Bounce in China PMI vs. Brexit uncertainty	-1.42
2	02-Apr-19	05-Apr-19	S	EUR-CAD	1.4923	1.5045	Dovish ECB vs. relatively more sanguine BOC	-0.79
3	05-Mar-19	11-Apr-19	S	AUD-USD	0.7074	0.7159	Potentially dovish RBA, macro conditions soggy	-1.13
4	15-Apr-19	24-Apr-19	B	AUD-USD	0.7167	0.7055	Near term recovery in global macro sentiment	-1.61

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