Daily Market Outlook

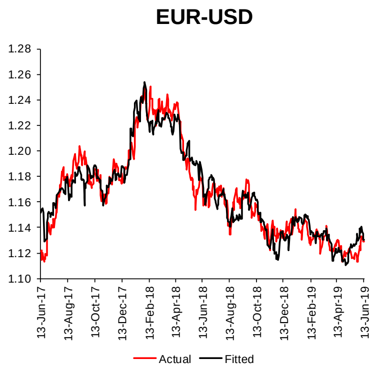
Thursday, June 13, 2019

Market Themes/Strategy/Trading Ideas

- The USD (and JPY) climbed against the majors on Wednesday as investor sentiment remained nervous in the face of sustained Sino-US trade worries and even static surrounding Trump's warning on sanctions relating to Russia's Nord Stream 2 natural gas pipeline. AUD (soft China monetary aggregates) and CAD (sliding crude) also underperformed across the board. On the US data front, US May core CPI came softer than expectations at +0.1% mom (consensus: +0.2% mom).

- Global yield curves softened, and against a backdrop of negative global equities, slumping crude and higher gold, the **FXSI (FX Sentiment Index)** inched higher within Risk-Neutral territory.

- **In a flux.** Global market unease may continue to permeate intra-day, imparting negative stress on the cyclicals but with market-implied odds for a FOMC rate cut in July pretty much in the bag, high conviction directionality may prove lacking. **In the interim, expect the AUD-USD to search lower in view of the latest labor market numbers.**



Firming stance. Ahead of the German May CPI and EC April industrial production readings as well as the EU finance ministers' meeting today, expect the EUR-USD to remain consolidative. With short term implied valuations also coming off recent highs, expect some base building around the 100-day MA (1.1273).

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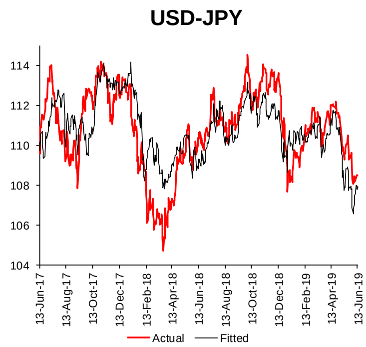
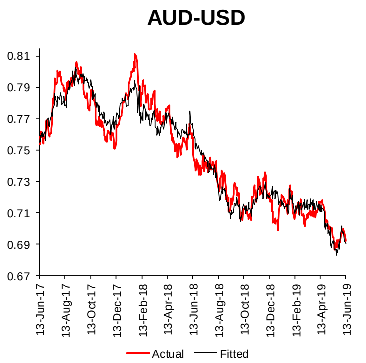
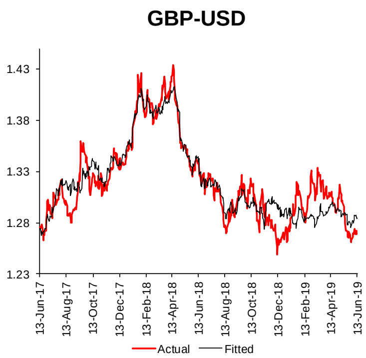


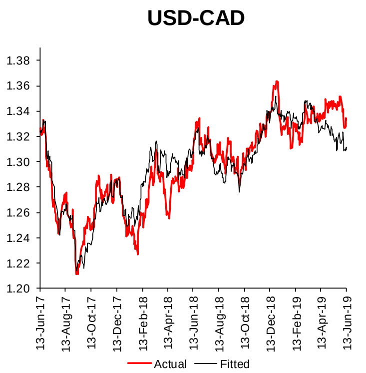
Neutral but risk to downside. Risk aversion notwithstanding, short term implied valuations for the USD-JPY remain range consolidative after from the beginning of the month. Pending further headline risk, expect a nexus at the 108.50 neighborhood with risk towards 108.00.



Neutral/heavy. Negative read on the May labor market data despite the headline number topping expectations at +42.3k this morning. The unemployment rate was static at 5.2% (mkts were expecting a drop to 5.1%). Meanwhile, full time employment change was still minimal at +2.4k. These numbers we think underscore the RBA's view of the need to further reduce the slack in the labor market. Shadow the softening short term implied valuations towards 0.6900.



Stabilizing. With a no-deal Brexit scenario still in play (Parliament defeated a measure to block a no-deal Brexit on Wednesday), the GBP sank below 1.2700. The Conservative Party leadership ballot today may keep investors on their toes and erode upside potential with short term implied valuations also topping off slightly. Expect an anchor at 1.2700 within 1.2615-1.2755.



Consolidate. Short term implied valuations for USD-CAD are attempting to bottom out and the recent downside impetus may stall in the near term. As such, expect good support towards the 200-day MA (1.3277) for now with 1.3380 seen capping.

Asian Markets

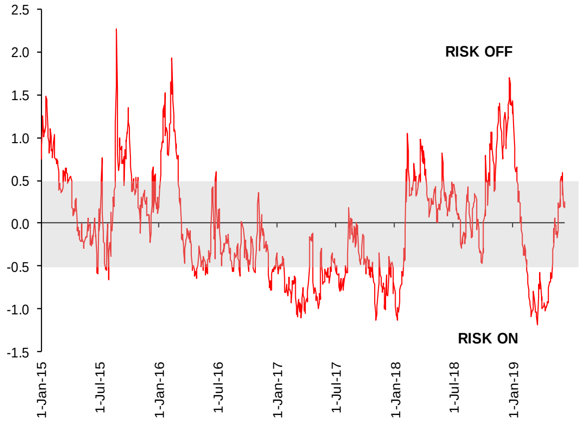
- **USD-Asia: Refocusing back on risk aversion.** A retreat in EM FX/equities overnight, and a deluge of negative trade-related headlines gave Asia an overall risk-off tone to start the day. Chinese data also did not provide much cheer, with May CPI/PPI readings came in largely in line with expectations but monetary aggregates (including new yuan loans) were weaker than expected. With the dollar regaining its footing somewhat, the bias is for the USD-Asia to edge higher on an intraday basis. **Nevertheless, we remain somewhat skeptical about a return of dollar strength for now, and expect any rebound in USD-Asia to have limited shelf-life.**

- With the Fed moving to a softer posture on rate cuts, we think Asian central banks that had been holding out previously may finally be acquiescing. Latest comments out of the **Bank of Korea** and **Indonesia's Finance Minister** appear validate this view. On Indonesia, recent comments from BI Governor and Deputy Governor also indicate room for considering a more accommodative policy but volatility considerations may curb BI's enthusiasm for aggressive cuts.

- **Asia flow environment: Bond inflows may be given a further boost.** With Asian central banks adopting an easing posture, and risk aversion not explicitly boiling over for now, the background conditions for bond inflows are shifting more positive. This may give the (already strong) bond inflow momentum a further boost. Apart from South Korea, bond inflows are also picking up strongly in India and Thailand. Overall equity outflow momentum, on the other hand, is showing some initial signs of compression from deep outflow situation.

- **USD-SGD: May have bottomed in the near term.** The USD-SGD tracked the broad dollar higher, rejecting support levels at the 55-day MA (1.3639). Near-term downside support moved higher to the 200-day MA (1.3654). Expect the pair to make another push for 1.3680, before 1.3700. Meanwhile, SGD NEER eased lower as expected, standing at +1.40% above its perceived parity (1.3855), with NEER-implied USD-SGD thresholds firmer. Note that retail sales contracted for the third consecutive month, and coming in below expectations (-1.80% vs. consensus -0.20%). We think this is in-line with the recent soft macro outlook.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1220	1.1296	1.1300	1.1348
GBP-USD	1.2600	1.2613	1.2695	1.2700	1.2753
AUD-USD	0.6865	0.6900	0.6916	0.7000	0.7007
NZD-USD	0.6482	0.6500	0.6578	0.6600	0.6620
USD-CAD	1.3277	1.3300	1.3330	1.3400	1.3412
USD-JPY	107.82	108.00	108.22	109.00	110.31
USD-SGD	1.3648	1.3654	1.3666	1.3700	1.3837
EUR-SGD	1.5322	1.5400	1.5437	1.5463	1.5478
JPY-SGD	1.2479	1.2600	1.2629	1.2687	1.2700
GBP-SGD	1.7266	1.7300	1.7350	1.7400	1.7545
AUD-SGD	0.9400	0.9442	0.9452	0.9455	0.9500
Gold	1292.78	1300.00	1331.60	1347.70	1353.26
Silver	14.25	14.70	14.78	14.78	14.80
Crude	50.60	51.00	51.08	51.10	59.55

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
2	07-Jun-19	B	EUR-USD	1.1266	1.1465	1.1165	Pitting the ECB against the FOMC
	STRUCTURAL						
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	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
	RECENTLY CLOSED TRADE IDEAS							
1	19-Mar-19	16-May-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	0.06

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