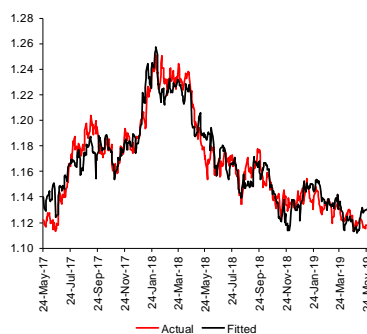


Friday, May 24, 2019

Market Themes/Strategy/Trading Ideas

- The dollar was sabotaged by weaker than expected preliminary May PMI and April new home sales readings on Thursday. This toppled the greenback from intra-day highs and it ended mostly lower against the majors despite jittery investor sentiment and negative EM/EZ/US equities (crude also tumbled). Meanwhile, note that global core govie curves also softened (led by the back-end) while the UST curve also softened but bull steepened instead as Fed rate cut expectations mounted.
- **USD vs. Risk-Off.** Into the end of the week, investors will have to balance between discretionary dollar vulnerability and trade war-inspired jitters undermining the rest of the majors and EM). The former may be expected to dominate into Asia/LDN as souring sentiment rotates into the USD temporarily. On other fronts, expect bond bulls to remain on the hunt as negative prospects for the global (and US) economy accumulate.
- On the trade war front, a wire report also indicated that the Trump administration is exploring tariffs on countries with currencies that are deemed **undervalued**. As we noted yesterday, the potential enlargement of the area of engagement in the global trade war may keep deceleration concerns as the dominant driver in global asset markets.

EUR-USD

Consolidate. The string of German/EZ data releases on Thursday also disappointed prior expectations with investors expected to eye developments from the EU Parliamentary elections into the weekend. Short term implied valuations are however holding steady and the EUR-USD may continue to hesitate on the downside after overnight price action. Expect a consolidative 1.1140-1.1200 intra-day pending further news flow.

Treasury Research &
Strategy

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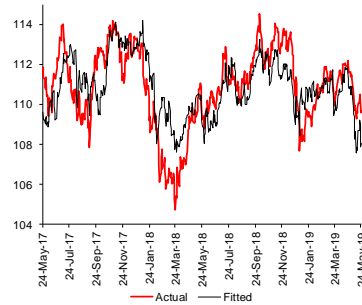
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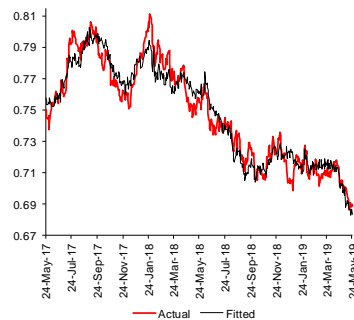
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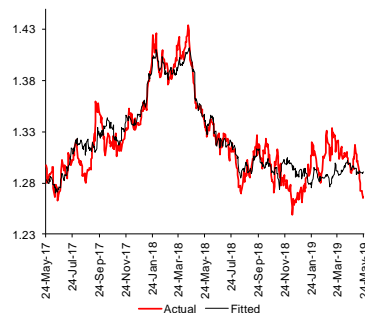
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USD-JPY

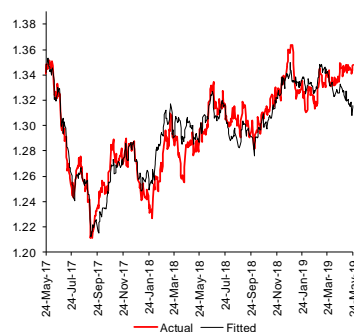
Range. USD-JPY may be expected to display less ambiguity, with USD sogginess and/or risk aversion compelling reasons to be dovish. Short term implied valuations meanwhile remain suppressed and odds may remain tilted towards the 109.00 support zone with 110.50 seen capping.

AUD-USD

Stay negative. Broad based global negativity, coupled with RBA rate cut expectations, may be expected to trump (no pun intended) temporary USD weakness. Given heavy short term implied valuations, investors may continue to eye the downside at 0.6850.

GBP-USD

Still slippery. PM May is expected to detail plans for her resignation today and despite stabilizing short term implied valuations. However, with the pair looking slightly over extended on the downside, look to fade near term upticks within 1.2600-1.2725 instead.

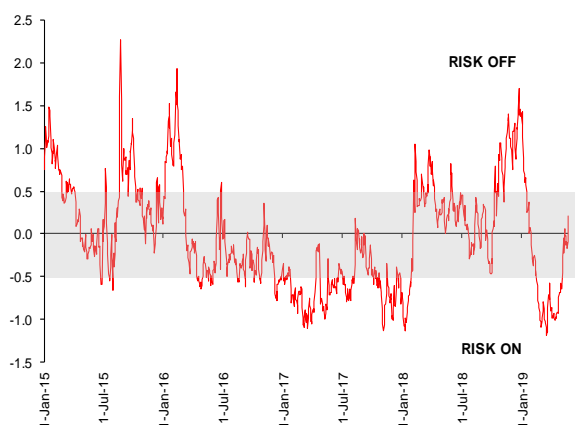
USD-CAD

Range. Further softness in crude continued to buoy the USD-CAD on Thursday despite slightly supportive domestic data points. Expect the pair to still remain trapped within 1.3400-1.3500 into the weekend.

Asian Markets

- USD-Asia: Taking a breather?** The dollar's overnight weakness, coupled with the still-restrained renminbi (USD-CNY mid-points again systematically below prior market expectations) may continue to provide a buffer against excessive Asian FX weakness. In this context, USD-Asia may be primed for a breather into the end of the week. With the global economic pulse also increasingly being threatened, also expect Asian govt bond yields to remain pressured south. Nevertheless, we think sentiment towards EM will still dicey. Beyond the immediate term, note that the **FXSI (FX Sentiment Index)** saw a significant blip higher on Thursday with prime contributors from EM/Asian sub-indices.
- Asia flow environment: Equities main casualty, govies still attractive.** We note some divergence between equity and bond flows in Asia, with equity being the main casualty from renewed trade tensions. In contrast, aggregate bond flow momentum actually improved across most of the tracked Asian economies (apart from Indonesia) since early-May. With the trade war essentially evolving into a tech struggle, expect equity outflows from tech-heavy North Asian economies to persist. In this context, expect the **USD-TWD** to see continued upside pressure in the coming sessions. Meanwhile, a potential RBI rate cut may attract further bond inflows into India.
- USD-SGD: Consolidation into end of the week.** Even though the USD-SGD eased on overnight USD weakness, the SGD continued to weaken on the NEER basis. The SGD NEER stood at +1.05% above its perceived parity (1.3939) this morning. Overall, the USD-SGD pair may take a breather intra-day alongside the rest of USD-Asia, with 1.3760 perhaps cushioning near term dips. With April CPI in-line with expectations yesterday, the attention shifts to industrial production prints later today (0500 GMT).

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1107	1.1147	1.1183	1.1200	1.1231
GBP-USD	1.2600	1.2606	1.2663	1.2700	1.2956
AUD-USD	0.6840	0.6865	0.6890	0.6900	0.7051
NZD-USD	0.6482	0.6500	0.6518	0.6600	0.6682
USD-CAD	1.3400	1.3403	1.3476	1.3500	1.3502
USD-JPY	109.00	109.02	109.63	110.00	110.95
USD-SGD	1.3732	1.3760	1.3800	1.3830	1.3878
EUR-SGD	1.5275	1.5400	1.5432	1.5440	1.5447
JPY-SGD	1.2260	1.2500	1.2587	1.2600	1.2605
GBP-SGD	1.7400	1.7408	1.7474	1.7500	1.7689
AUD-SGD	0.9448	0.9500	0.9508	0.9589	0.9598
Gold	1266.00	1268.56	1282.10	1289.20	1299.26
Silver	14.33	14.50	14.55	14.60	14.89
Crude	57.33	58.40	58.49	58.50	58.99

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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