

Monday, July 01, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- The Xi-Trump meeting outcome came in largely within market expectations, although the lifting of Huawei restrictions and the comment that additional tariffs will be put off provided a slightly positive tone overall. The unplanned Trump-Kim meeting on Sunday also added to the feel-good factor in Asia. Notwithstanding that, the **FXSI (FX Sentiment Index)** nudged higher within the Risk-Neutral zone.
- **Relief.** Initial reactions were largely expected, with the USD-JPY lifted higher and the cyclicals supported. A slight risk positive tone should prevail for now. Nevertheless, the shelf-life may be short lived as no major surprises came through over the weekend. **Moving forward, expect markets to turn less reactive to trade headlines until we hit another major breakthrough (or breakdown).**
- **Move on to fundamentals.** Overall, within the G10 space, we expect the JPY-crosses to stay supported at least for today. Beyond the immediate session, attention should shift back to easing expectations at the Fed and other central banks, perhaps as early as **RBA** on Tuesday. The Xi-Trump outcome will have limited bearing on the Fed. **Thus, near term USD prospects may still be up in the air for now, pending shifts in rate cut expectations at the Fed, and relative to other central banks' postures.**
- On the data front, PCE data-prints on Friday were in-line to firmer than expected, and will not be enough to re-ignite another round of growing Fed rate cut expectations for now. Nevertheless, remain on the watch for ISM manufacturing (1400 GMT) and Clarida's comments (0615 GMT) scheduled today. Global PMIs will also be on tap today (starting 0700 GMT). On the central bank front, the **RBA** policy decision scheduled is on Tuesday, where a second consecutive cut cannot be ruled out. The statement and press conference will be screened for the depth of this rate cut cycle.

Treasury Research &
Strategy

Emmanuel Ng

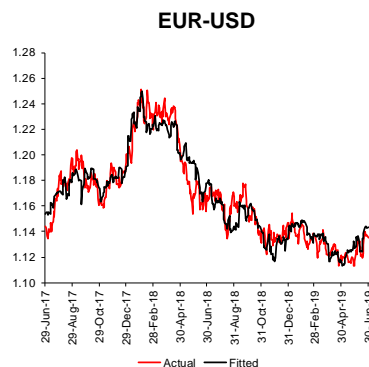
+65 6530 4037

ngcyemmanuel@ocbc.com

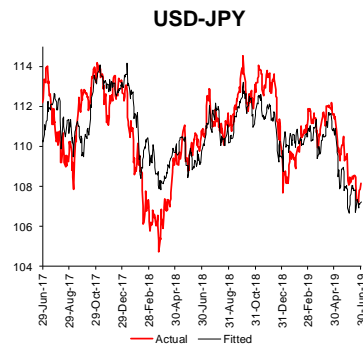
Terence Wu

+65 6530 4367

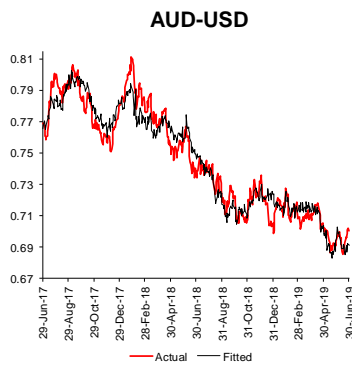
TerenceWu@ocbc.com



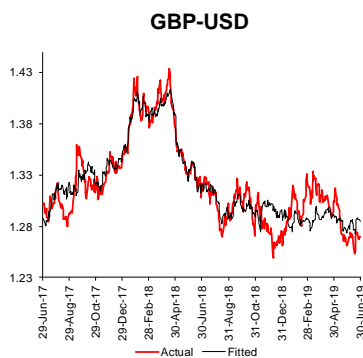
Flat-lining. Short term implied valuations continued to consolidate, while upside momentum stalls. Market attention coming back to central bank dynamics may shake the pair out of its range-bound stance, but in the interim, expect the 200-day MA (1.1341) to cushion at the downside, and 1.1400 to cap.



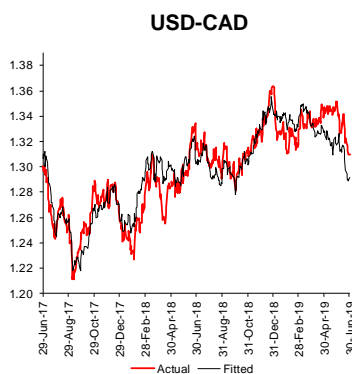
Bottomed for now? The Xi-Trump outcome should keep sentiments in Asia buoyant for now, and this pair supported. Short term implied valuations may also be finding the bottom. Nevertheless, 108.80 should be a firm resistance for now.



Topped out? With the RBA meeting (Tue) coming into view, any further upside from positive risk sentiments post Xi-Trump may be short lived. The 100-day MA (0.7036), and the 55-day MA (0.6977) should form a neat corridor for now, but the risk-reward beyond the immediate session may be for the pair to drip lower.



Sideways. Limited directional leads coming from short term implied valuations and technicals may leave this pair sideways pending further drivers. Despite a positive economic outlook by the BOE, expect the Brexit politics to dominate.

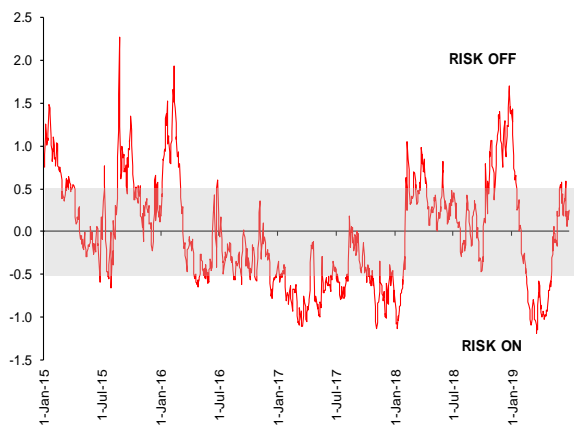


Not reaching the bottom just yet. Near term downside momentum may still persist, with short term implied valuations and technicals pointing lower for this pair. Continue to look for the 1.3080 to be a near term target.

Asian Markets

- USD-Asia: Declines not sustained.** The USD-CNH gapped lower at the open today on the Xi-Trump outcome, but the reversal since have been equally sharp. Watch, in particular, if the down-drift in the CFETS RMB Index can be arrested post Xi-Trump. Nevertheless, we don't attribute much hope on this front, as RMB optimism seems to be continually dented by the still-weak fundamentals on the Chinese domestic economy. Note that the Chinese official PMIs and Caixin manufacturing PMI came in softer than expected. At this juncture, we expect any declines in USD-Asia to be shallow, and may instead track the USD-CNH reversal higher.
- Asia flow picture: Chinese implied equity outflows reversed?** From the latest EPFR print, implied bond inflows into Asia (ex CN and JP) continued to pick up in the latest week, although implied equity outflows deepened further. Implied equity flows into China, on the other hand, has rebounded into net inflow territory after five consecutive weeks of outflows. We may expect some recovery in the flow environment now that the Xi-Trump uncertainty is (at least temporarily) lifted. Asian equities should benefit on the risk-on sentiment, while Asian bonds should remain attractive as the major central banks retain an easing stance.
- USD-SGD: Rebound.** The USD-SGD dipped to levels just above the 1.3500 handle early today, but has since tracked the USD-CNH reversal higher. We think the USD-CNH cues should continue to dominate today. In the interim, the 1.3500 should remain intact, while 1.3560 may cap on an intraday basis. The SGD NEER is softer on the day, standing at +1.68% above its perceived parity (1.3759) this morning, with the NEER-implied USD-SGD thresholds again softer.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1341	1.1353	1.1400	1.1412
GBP-USD	1.2567	1.2700	1.2704	1.2783	1.2787
AUD-USD	0.6959	0.7000	0.7003	0.7036	0.7046
NZD-USD	0.6590	0.6700	0.6706	0.6711	0.6730
USD-CAD	1.3045	1.3060	1.3099	1.3100	1.3289
USD-JPY	107.15	108.00	108.19	108.99	109.00
USD-SGD	1.3500	1.3503	1.3535	1.3600	1.3646
EUR-SGD	1.5300	1.5340	1.5366	1.5400	1.5475
JPY-SGD	1.2489	1.2500	1.2511	1.2531	1.2600
GBP-SGD	1.7120	1.7123	1.7196	1.7200	1.7400
AUD-SGD	0.9361	0.9400	0.9479	0.9500	0.9505
Gold	1300.00	1316.11	1394.70	1400.00	1433.30
Silver	14.94	15.10	15.17	15.20	15.52
Crude	58.93	59.60	59.67	59.70	60.76

Source: OCBC Bank

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