

Tuesday, July 02, 2019

Market Themes/Strategy/Trading Ideas – Refreshed FX forecasts

- Overnight, USD outperformed against G10 counterparts on the back of relatively firmer data-prints and a shift in market focus back to fundamentals. The EUR was cut down by softer than expected manufacturing PMI prints, while the JPY was also softer on the back of better risk sentiments post-G20. Positive global/US contributed to the **FX Sentiment Index (FXSI)** slipping lower within the Risk-Neutral zone.
- The round of global manufacturing PMI prints yesterday provided the platform for market attention to shift back to fundamentals. In this context, the US essentially emerged as the least ugly of the lot, with only the US ISM manufacturing and PMI outperforming expectations (even though the ISM print is the weakest since Oct 2016). PMI releases in Europe and Asia were broadly weaker than expected, or contracted from previous months. Watch next for US ISM non-manufacturing and services PMI (Wed), and nonfarm payrolls (Fri).
- Meanwhile, the latest round of Fed-speak also did not incite further rate cut expectations, with Clarida and Barkin both alluding that the baseline outlook for the US economy is still positive. Elsewhere, OPEC agreed to extend production curbs by 9 months, with the follow-on question being whether this will form the basis of a sustained crude oil rally. If so, this may have follow-through impact on inflation and therefore central bank reaction functions.
- **USD supported on data.** Fed rate cut expectations will not go away for some time, but relatively stronger US data-prints have kept it under wraps for now. Thus, we think the USD may stay supported in the coming sessions. We continue to keep a close watch on US data-prints for now. Meanwhile, the AUD may be taken lower if the RBA signals further rate cuts on the way.

Treasury Research &
Strategy

Emmanuel Ng

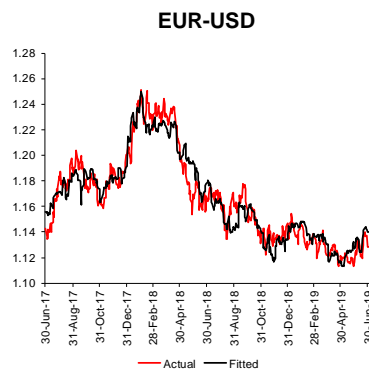
+65 6530 4037

ngcyemmanuel@ocbc.com

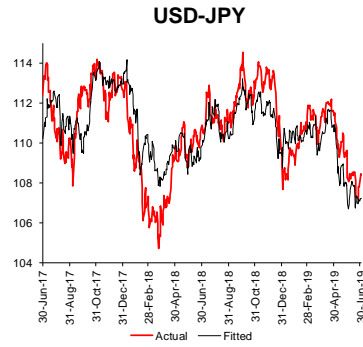
Terence Wu

+65 6530 4367

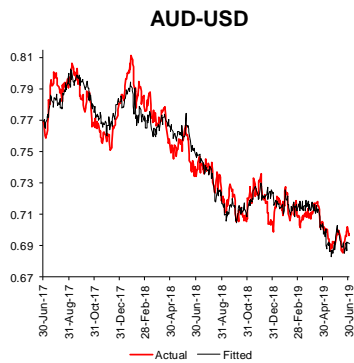
TerenceWu@ocbc.com



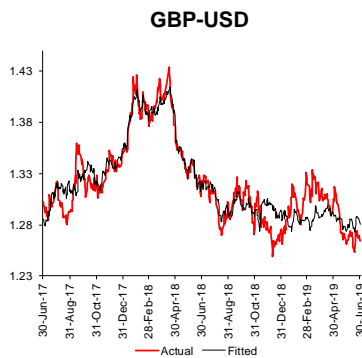
Reverting lower. Soft macro outlook (man PMIs this time round) continues to weigh on the EUR-USD. Short term implied valuations have also turned decisively lower, with shorter term technicals following suit. Expect the 100-day MA (1.1261), then 55-day MA (1.1232) to attract for now, while the 1.1300 may cap any rebound.



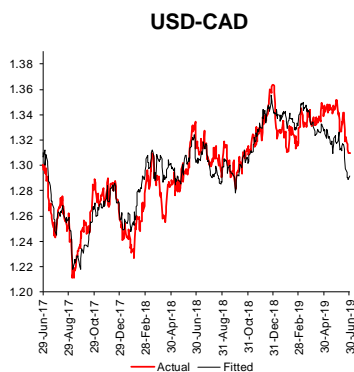
Bottomed for now? The USD-JPY may continue its search higher on the back of positive risk appetite, even as short term implied valuations remain sideways. Nevertheless, we still expect the air to be scarce above 108.80 for now, while the 108.00 provides downside cushion.



Topped out? Ongoing rate cut expectations at the RBA should continue to weigh on the AUD-USD for now, as the short term implied valuations and technicals start to turn south. The 55-day MA (0.6973) should be the near term pivot, pending further guides from the RBA today (0430 GMT).



Slow slide. Short term implied valuation for this pair turned south again, as the remaining PM candidates both embraced no-deal Brexit. Meanwhile, risk reversals point to further downside ahead of the Oct 31 Brexit deadline. 1.2600 may attract for now.

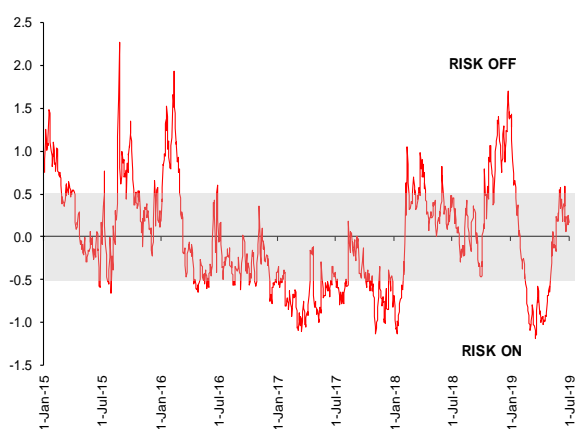


Not reaching the bottom just yet. Near term pivot for this pair may reside at the 200-week MA (1.3120), as long term technicals appear to suggest a firm floor around 1.3080/00.

Asian Markets

- USD-Asia: Round-tripped.** The after-glow of the Xi-Trump outcome fizzled out within the global day, with the RMB complex and USD-Asia essentially round-tripping to close near Friday’s levels. With the USD-CNH back above the 6.8600 handle, we are not looking for the RMB complex to impart a positive lead for Asian currencies. Instead, with the USD gaining ground again, we watch for any asymmetric upside reaction from USD-CNH and USD-Asia.
- Asia flow picture: Staying firm.** The flow environment continues to improve for Asia. Bond inflow momentum may be tapering off at elevated levels in South Korea, but it is supplemented by growing equity inflows. Equity inflow momentum is also recovering strongly in Taiwan. In South Asia, Indonesia continues to be supported by strong bond inflows, while Thailand sees good inflow momentum on both the equity and bond fronts. Equity flows also pushed into positive territory for Malaysia. Overall, we continue to see some background support for Asian currencies from the flow perspective.
- USD-SGD: On the march higher again?** The USD-SGD tracked the broader USD-Asia higher yesterday, bouncing off the 100-week MA (1.3528) support level. There may room for the pair to search higher in the coming sessions, perhaps with 1.3580/00 as a near-term target. Meanwhile, expect the 100-week MA (1.3528) to support on the downside. Despite the higher USD-SGD, the SGD NEER is effectively static, standing at +1.69% above its perceived parity (1.3785) this morning. NEER-implied USD-SGD thresholds printed firmer on the recovering USD.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1230	1.1277	1.1300	1.1338
GBP-USD	1.2560	1.2600	1.2640	1.2700	1.2776
AUD-USD	0.6900	0.6955	0.6975	0.7000	0.7036
NZD-USD	0.6590	0.6600	0.6675	0.6700	0.6711
USD-CAD	1.3060	1.3100	1.3132	1.3200	1.3290
USD-JPY	107.15	108.00	108.42	109.00	109.04
USD-SGD	1.3500	1.3503	1.3569	1.3600	1.3646
EUR-SGD	1.5289	1.5300	1.5302	1.5340	1.5400
JPY-SGD	1.2500	1.2515	1.2516	1.2600	1.2669
GBP-SGD	1.7100	1.7106	1.7152	1.7200	1.7395
AUD-SGD	0.9361	0.9400	0.9464	0.9500	0.9501
Gold	1300.00	1318.38	1392.70	1400.00	1433.30
Silver	14.94	15.10	15.12	15.20	15.52
Crude	58.78	58.80	58.85	58.90	61.11

Source: OCBC Bank

Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale			
TACTICAL								
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STRUCTURAL								
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RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
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	
2	07-Jun-19	18-Jun-19	B	EUR-USD	1.1266	1.1186	Pitting the ECB against the FOMC	-0.72
3	14-May-19	26-Jun-19	S	AUD-JPY	76.12	75.28	Escalating Sino-US trade tensions	0.86

Refreshed FX Forecasts (correct as of 1 July 2019)

	Spot	Jul-19	Sep-19	Dec-19	Mar-20
USD-JPY	108.27	108.91	107.15	106.84	106.52
EUR-USD	1.1325	1.1325	1.1224	1.1352	1.1479
GBP-USD	1.264	1.2640	1.2461	1.2644	1.2827
AUD-USD	0.6997	0.7028	0.6909	0.7009	0.7110
NZD-USD	0.6702	0.6735	0.6597	0.6702	0.6807
USD-CAD	1.3105	1.3017	1.2914	1.2862	1.2811
USD-CHF	0.9836	0.9803	0.9739	0.9712	0.9685
USD-SGD	1.3548	1.3492	1.3548	1.3484	1.3421
USD-CNY	6.8456	6.8258	6.8849	6.8075	6.7300
USD-THB	30.59	30.37	30.21	30.10	29.98
USD-IDR	14113	13,986	13,903	13,832	13,760
USD-MYR	4.1385	4.1202	4.1214	4.0944	4.0674
USD-KRW	1158.70	1146.44	1139.99	1134.07	1128.15
USD-TWD	30.995	30.832	30.745	30.581	30.417
USD-HKD	7.8085	7.8000	7.7950	7.7850	7.7750
USD-PHP	51.05	50.78	50.65	50.48	50.31
USD-INR	69.06	68.52	68.06	67.62	67.17
EUR-JPY	122.61	123.34	120.27	121.28	122.27
EUR-GBP	0.8960	0.8960	0.9008	0.8978	0.8949
EUR-CHF	1.1140	1.1101	1.0931	1.1024	1.1117
EUR-SGD	1.5343	1.5280	1.5207	1.5307	1.5405
GBP-SGD	1.7125	1.7054	1.6882	1.7050	1.7215
AUD-SGD	0.9480	0.9482	0.9360	0.9452	0.9542
NZD-SGD	0.9081	0.9087	0.8938	0.9037	0.9135
CHF-SGD	1.3773	1.3764	1.3911	1.3885	1.3858
JPY-SGD	1.2514	1.2388	1.2644	1.2622	1.2599
SGD-MYR	3.0532	3.0538	3.0420	3.0364	3.0307
SGD-CNY	5.0522	5.0592	5.0819	5.0484	5.0146

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