

Wednesday, July 03, 2019

Market Themes/Strategy/Trading Ideas

- Except against the EUR and GBP, the dollar lost altitude against most of the majors on Tuesday as euphoria from the weekend G20 headlines faded. The Fed's Mester left the markets with fairly balanced comments but Trump's intention to nominate Waller and Shelton to the Board of Governors was perceived as dovish. Meanwhile, the EUR received a (temporary) blip following a report indicating that the ECB was in no rush to cut in July (with officials eyeing September instead). Elsewhere, the **RBA** delivered a second consecutive 25bps cut as widely expected but the AUD gained instead after the central bank exhibited little haste in delivering a 3rd cut.
- Although the **FX Sentiment Index (FXSI)** slipped on Tuesday (EZ/US equities were mildly firmer) but we note that XAU surged while crude stumbled lower. While global markets may still be digesting the dour outlook from the latest global PMIs (softer govie yields on Tuesday with the 10y UST back below 2.00%), expect an air of caution to persist.
- On the data front, look to the heavy flow of global June services/composite PMIs today with the China Caixin indices at 0145 GMT kicking off the day. In the US, watch also for labour data-prints (starting at 1215 GMT for ADP), durable goods and factory orders (1400 GMT).
- **Underlying jitters.** An undercurrent of caution may continue to grant the USD implicit support with US markets to be truncated today ahead of Independence Day tomorrow.



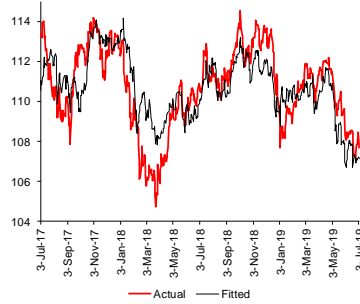
Reverting lower. The potential for additional US tariffs on the EU and Lagarde's nomination (as opposed to the Bundesbank's Weidmann) as the next President of the ECB may continue to hobble the EUR. The pair may continue to tip lower in line with its short term implied valuations with the 100-day MA (1.1261) seen attracting while the 200-day MA (1.1336) now seen capping.

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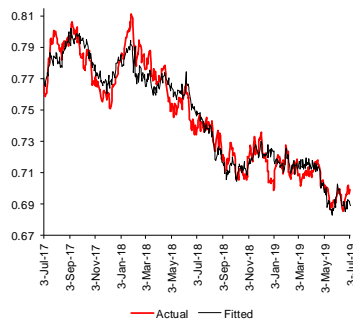
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USD-JPY



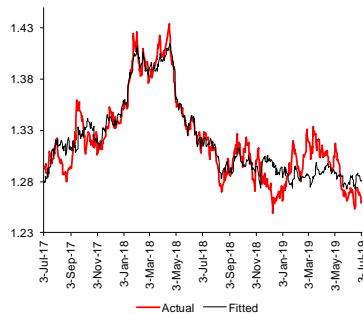
Neutral/lower. Short term implied valuations remain static but relatively suppressed and in light of the background caution, risk for the pair is skewed to the downside intra-day. The zone around the 107.00 floor is seen as fair game if global risk appetite continues to curdle.

AUD-USD



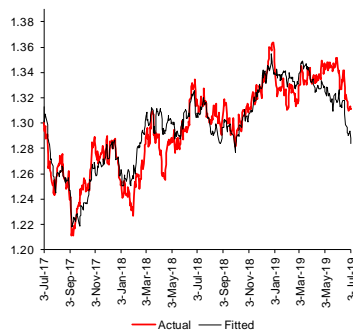
Topped out? The deteriorating June AiG services index and the services/composite PMIs released late Tuesday will do little for the AUD. Short term implied valuations are also slipping at this juncture and the AUD-USD may fade upticks towards 0.7030 while the 55-day MA (0.6969) and 0.6950 may attract instead.

GBP-USD



Slow slide. GBP underperformed across the board on Tuesday with the BOE's Carney offering dovish comments. The pound is unlikely to shake off near term negativity with short term implied valuations also heading south. Expect interim supports to be tested in the current environment ahead of the 1.2550 floor.

USD-CAD

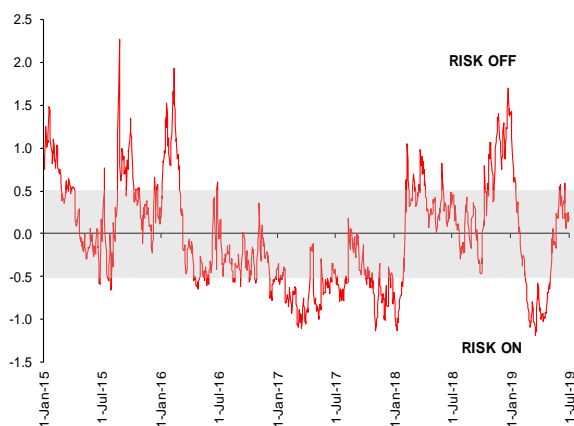


Stay top heavy. Despite crude slipping overnight, USD-CAD eased slightly. Markets may continue to trade off the BOC vs. the Fed with short term implied valuations for the pair also drilling lower of late. Preference to remain top heavy within 1.3050-1.3150.

Asian Markets

- USD-Asia: Fundamentally buoyant.** The USD-CNH up-move continues unabated on the back of corporate demand, while measures of the CFETS RMB Index slipped. USD-North was essentially dragged higher in tow. We reiterate the view that barriers for sustained USD-Asia downside remain significant given the RMB posture and macro environment. If the broad dollar remains supported, upside for USD-Asia (especially USD-North) should be more forthcoming.
- Elsewhere, South Korean growth (2.4-2.5% from 2.6-2.7%) and inflation (0.9% from 1.6%) forecasts were downgraded by the government, on the back of soft exports. The **Bank of Thailand MPC** minutes is scheduled today (0200 GMT). We will be on the look-out for further insights on their concerns over **THB** strength, and any indications for a potential rate cut. At this juncture, we continue to see strong inflows into Thai bonds and equities as the fundamental driver for the THB.
- USD-SGD: Supported within range.** There may be limited drivers for the USD-SGD for now, with the downside support at 1.3520 firm on the back of a still-resilient USD. The slight bias is for the pair to drift higher, but aggressive topside impetus also looks scarce for now. Expect 1.3580 to still cap for now. The SGD NEER also retains a sideways posture, standing at +1.67% above its perceived parity (1.3781) this morning, while NEER-implied USD-SGD thresholds eased marginally. On the macro front, Markit June PMI softened to 50.6 (from 52.1 prior), and also keep a close watch on the official manufacturing PMI print coming up later today (1300 GMT).

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								
	--			--			--	
STRUCTURAL								
	--			--			--	
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

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