

Monday, May 06, 2019

**Market Themes/Strategy/Trading Ideas – The week ahead; revised forecasts**

- Despite better than expected April NFP numbers, the USD seeped lower and UST yields were sapped (note dovish overtones from the Fed's Evans, Bullard, and Williams) as investors focused instead on the neutral average hourly readings and softer participation rate. Elsewhere, the April non-manufacturing ISM also clocked a lower than expected reading. Positive EZ/US equities on Friday aided the **FXSI (FX Sentiment Index)** lower on Friday but expect the Index to turn higher once again on Monday as Sino-US trade tensions flare up again.
- **Renewed Sino-US tensions.** Early morning Monday in Asia, the USD jumped (and equity futures slumped) after **US President Trump** threatened (via tweets) to raise (and impose new) tariffs on Chinese imports by this Friday. Note that a China trade delegation (fronted by Vice Premier Liu He) is scheduled to meet with US officials in Washington DC on Wednesday. However, another headline early Monday also indicated that China may be considering canceling this week's talks.
- **Position alignment.** On the **CFTC** front, large non-commercial accounts and leveraged accounts increased their net implied long dollar bias in aggregate in the latest week. Meanwhile, asset manager accounts continued to reduce their net implied short dollar balance in the same period.
- **Dollar supremacy.** Expect a risk environment to prevail at the onset of the week to favor the USD (and the JPY) at the expenses of the cyclical/EM/Asian currencies. On other fronts, expect GBP to remain relatively stoic despite the latest Sino-US volatility and the pound may prove a useful partial hedge for USD vulnerability.
- The slew of global services/composite PMIs this week will likely be eclipsed by static from the current Sino-US trade "spat". Beyond Monday, the **RBA** meeting (Tuesday) and the **RBNZ** policy meeting (Wednesday) will be watched for dovish cues, given the Fed's new-found neutrality last week.

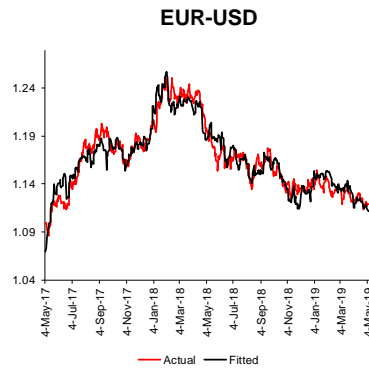
Treasury Research &  
Strategy**Emmanuel Ng**

+65 6530 4037

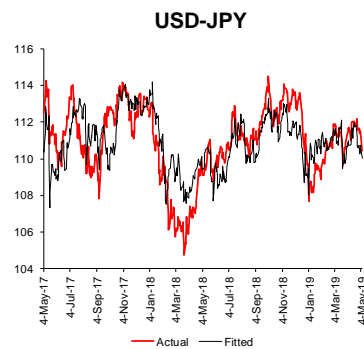
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)**Terence Wu**

+65 6530 4367

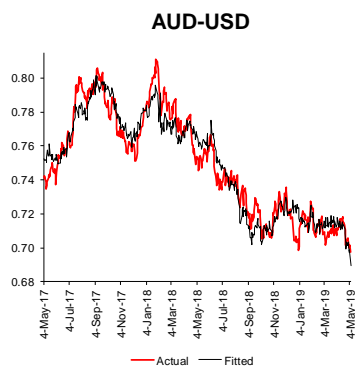
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)



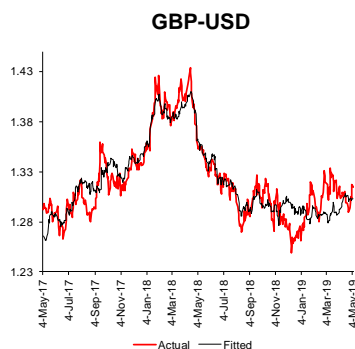
**Heavy.** Warmer than expected EZ core inflation readings may provide little defense for the EUR at this juncture, with short term implied valuations also tilted lower. Fade upticks towards 1.1215 for 1.1140 instead. Expect market attention to be focused also on ECB rhetoric this week, with Draghi scheduled for Wednesday and Lautenschlaeger and Preat due today.



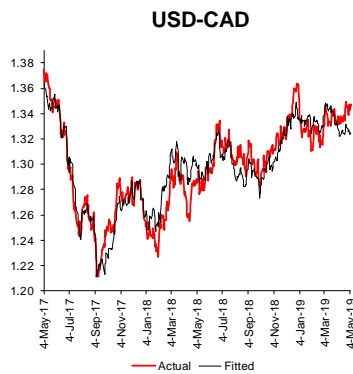
**Drive lower.** Expect implicit support for the JPY in the current environment with short term implied valuations for the USD-JPY already factoring lower. Ahead of the BOJ MPC minutes on Tuesday, USD-JPY is at risk of losing its foothold at its 100-day MA (110.62) and testing lower towards 110.00 instead.



**Hunt lower.** AUD-USD may continue to decompose lower if Sino-US trade tensions remain elevated. The pair may thus attempt to chase its short term implied valuations lower. Expect some consolidation around 0.6950 after detaching lower early in Asia on Monday.



**Steady as she goes.** The UK April services/composite PMIs came in warmer than expected on Friday permitted the pound to capitalize on subsequent USD vulnerability. The pair may remain slightly distanced from the Sino-US static with short term implied valuations holding static despite the current market jitters. Expect range bound behavior with support at 1.3100 and top side expected at 1.3200 ahead of BOE appearances this week.

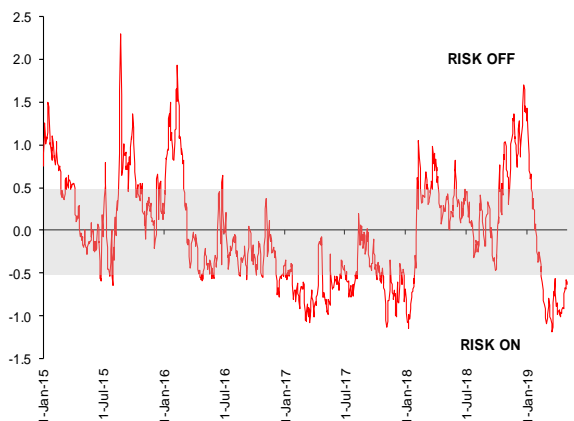


**Supported range.** USD-CAD may continue to remain noticeably north of its short term implied valuation given the current risk appetite environment. Short term implied valuations meanwhile remain steady (and supported) ahead of an appearance by the **BOC's Poloz** today (1745 GMT). Expect an anchor at 1.3450 in the interim.

### Asian Markets

- USD-Asia to pull higher.** China markets return today after the long hiatus only to be greeted with renewed Sino-US trade tensions. USD-CNH burst above 6.8000 to near 6.8200 before consolidating lower to more “comfortable” levels around 6.8006 – **to this end, expect the CNH-CNY basis to remain a constraint for USD-CNH upside.**
- Elsewhere, if risk appetite continues to unravel, hitherto regional outperformers like the INR and PHP may find increasingly less shelter from the USD. This week, look to policy meetings from **BNM** (Tuesday), **BOT** (Wednesday), and the **BSP** on Thursday – where we do not expect unduly dovish rhetoric to emerge. On the **EPFR** front, implied net outflows out of Asia (excl Japan and China) were reduced significantly in the latest week while net implied bond flows flipped to an inflow balance in the latest week.
- USD-SGD – Upside buoyancy.** April PMI readings disappointed on Friday and amid the early week negativity, the 200-day MA (1.3652) was breached briefly. The SGD NEER is significantly softer at +1.46% above its perceived parity (1.3845). NEER –implied USD-SGD thresholds are relatively unchanged but risk for the pair may remain skewed higher.

### FX Sentiment Index



Source: OCBC Bank

### Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1118	1.1130	1.1136	1.1200
GBP-USD	1.2866	1.2881	1.2890	1.2900	1.2961
AUD-USD	0.7000	0.7015	0.7019	0.7100	0.7107
NZD-USD	0.6600	0.6607	0.6636	0.6700	0.6728
USD-CAD	1.3337	1.3400	1.3477	1.3483	1.3500
USD-JPY	111.31	111.51	111.68	112.00	112.35
USD-SGD	1.3543	1.3600	1.3616	1.3617	1.3652
EUR-SGD	1.5150	1.5153	1.5154	1.5200	1.5280
JPY-SGD	1.2100	1.2167	1.2191	1.2200	1.2212
GBP-SGD	1.7521	1.7547	1.7551	1.7600	1.7694
AUD-SGD	0.9542	0.9546	0.9557	0.9600	0.9625
Gold	1264.23	1266.00	1275.80	1299.97	1300.00
Silver	14.77	14.90	14.94	14.98	15.00
Crude	61.11	64.70	64.79	64.80	66.60

Source: OCBC Bank

### Trade Ideas

	Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	24-Apr-19	S	GBP-USD	1.2933	1.2495 1.3155	Sustained Brexit uncertainty and pressure to oust PM May		
<b>STRUCTURAL</b>								
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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	01-Apr-19	02-Apr-19	S	GBP-AUD	1.8336	1.8600	Bounce in China PMI vs. Brexit uncertainty	-1.42
2	02-Apr-19	05-Apr-19	S	EUR-CAD	1.4923	1.5045	Dovish ECB vs. relatively more sanguine BOC	-0.79
3	05-Mar-19	11-Apr-19	S	AUD-USD	0.7074	0.7159	Potentially dovish RBA, macro conditions soggy	-1.13
4	15-Apr-19	24-Apr-19	B	AUD-USD	0.7167	0.7055	Near term recovery in global macro sentiment	-1.61

**Revised central tendency FX forecasts (03 May 2019)**

	<b>SPOT</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>
<b>USD-JPY</b>	111.50	111.14	110.83	109.83	108.83
<b>EUR-USD</b>	1.1165	1.1084	1.1138	1.1282	1.1425
<b>GBP-USD</b>	1.3025	1.3073	1.3190	1.3293	1.3396
<b>AUD-USD</b>	0.6992	0.6935	0.7005	0.7092	0.7179
<b>NZD-USD</b>	0.6618	0.6526	0.6581	0.6690	0.6798
<b>USD-CAD</b>	1.3466	1.3532	1.3515	1.3388	1.3262
<b>USD-CHF</b>	1.0203	1.0275	1.0244	1.0139	1.0035
<b>USD-SGD</b>	1.3638	1.3672	1.3624	1.3540	1.3456
<b>USD-CNY</b>	6.7347	6.7336	6.6600	6.6000	6.5400
<b>USD-THB</b>	32.045	32.22	31.96	31.55	31.14
<b>USD-IDR</b>	14280	14,392	14,231	14,003	13,776
<b>USD-MYR</b>	4.1425	4.1586	4.1298	4.0861	4.0425
<b>USD-KRW</b>	1169.85	1,178	1,172	1,160	1,148
<b>USD-TWD</b>	30.895	30.98	30.84	30.64	30.44
<b>USD-HKD</b>	7.8446	7.8478	7.8278	7.7944	7.7611
<b>USD-PHP</b>	51.933	51.83	51.55	51.27	50.99
<b>USD-INR</b>	69.29	68.86	68.28	67.61	66.93
<b>EUR-JPY</b>	124.86	123.19	123.45	123.91	124.34
<b>EUR-GBP</b>	0.8595	0.8479	0.8445	0.8487	0.8529
<b>EUR-CHF</b>	1.1186	1.1390	1.1410	1.1439	1.1465
<b>EUR-SGD</b>	1.5221	1.5154	1.5175	1.5275	1.5373
<b>GBP-SGD</b>	1.7742	1.7873	1.7970	1.7999	1.8026
<b>AUD-SGD</b>	0.9545	0.9482	0.9543	0.9602	0.9660
<b>NZD-SGD</b>	0.9026	0.8922	0.8966	0.9058	0.9148
<b>CHF-SGD</b>	1.3366	1.3305	1.3300	1.3354	1.3409
<b>JPY-SGD</b>	1.2236	1.2301	1.2292	1.2328	1.2364
<b>SGD-MYR</b>	3.0384	3.0417	3.0313	3.0179	3.0042
<b>SGD-CNY</b>	4.9363	4.9252	4.8885	4.8745	4.8603

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

---