

Friday, June 07, 2019

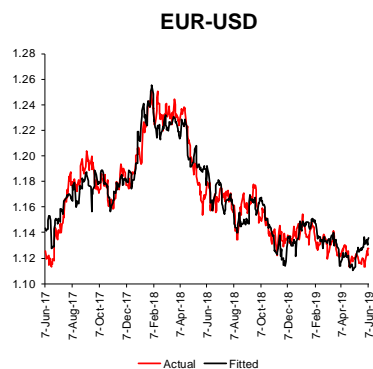
Market Themes/Strategy/Trading Ideas

- Weak dollar but watch risk appetite levels.** The dollar ended on a largely softer footing on Thursday despite stabilizing US yields (2/10s and 3/10s paring its inversion). The **FXSI (FX Sentiment Index)** meanwhile managed to ease back into Risk-Neutral territory from Risk-Off on the back of positive EZ/US (but mixed EM) equities on Thursday. Going out ahead, risk appetite gyrations may continue to manifest via global equities and on this front, note that EM and US equities are still struggling to stabilize.
- ECB disappoints the doves.** Meanwhile, the **EUR** outperformed (EUR-USD jumped briefly above 1.1300) across the board after the **ECB** disappointed the doves out there and pushed out the horizon for static rate from the end of the year to at least 1H 20. The ECB 's Draghi also saw no probability of deflation – note that following the disappointing May EZ CPI data points earlier in the day, 5y/5y inflation swaps had collapsed further. Note that some quarters of the market had been angling for the ECB to explicitly shift the policy stance to potential rate cuts.
- NFP and trade wars.** Markets may remain cautious ahead of the May NFP numbers later today at 1230 GMT (mkts:+185k), especially after the disappointing ADP numbers earlier this week. Trade tension risks meanwhile may also continue to abound, keeping market participants hamstrung. Note that US Treasury Secretary Mnuchin is due to meet with Japanese Finance Minister Aso this weekend in Fukuoka, Japan, for the G20 finance ministers meeting. Further headlines risks from attending finance ministers and central bank governors cannot be ruled out. Elsewhere, US-Mexico headline risks are expected to persist with US VP Pence warning of tariffs on Mexico next week ahead of extended talks in Washington on Friday. US President Trump also noted that he would likely make a decision on further tariffs on China after the G20 meeting. **Overall, we retain a preference for a vulnerable dollar in the interim.**

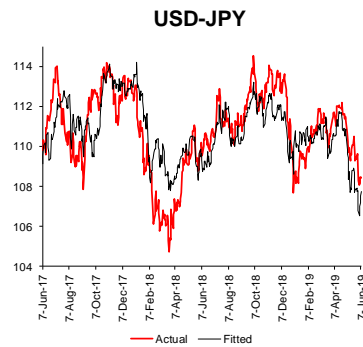
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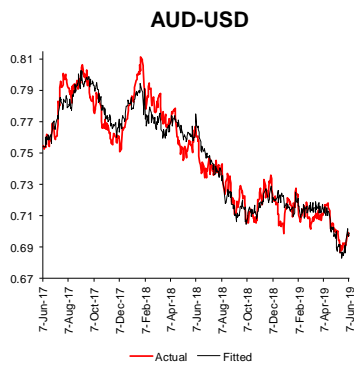
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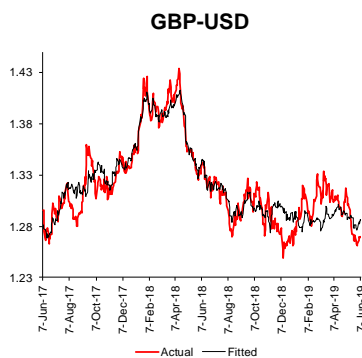
Consolidate but collect dips? Post-ECB, markets may continue to accumulate on weakness in the EUR-USD as it finally plays catch up with its short term implied valuations. With the latter holding steady, expect an intra-day base at 1.1250 with 1.1310 seen capping ahead of the NFP.



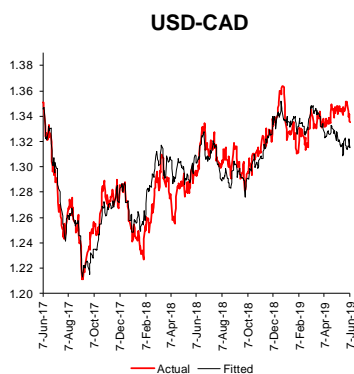
Heavy but consolidating for now. Paradoxically, the JPY may be influenced by the MXN news flow in the near term. Expect some consolidation to persist with short term implied valuations for the pair also attempting to base build. Risks may however remain skewed towards the 107.85 floor pending further NFP headlines and global trade tensions.



Supported. Relative calm from the Sino-US front (for now) and the slight improvement in investor sentiment may serve to underpin the AUD-USD at this juncture. Look to bounce dips within 0.6950-0.7000.



Top heavy. PM May is scheduled to step down as leader of the Conservative Party today and uncertainty surrounding the potential pick for her successor may keep investors on edge. Thus, although short term implied valuations for the GBP-USD are attempting to stabilize, we'd prefer to fade up moves within 1.2650-1.2750.

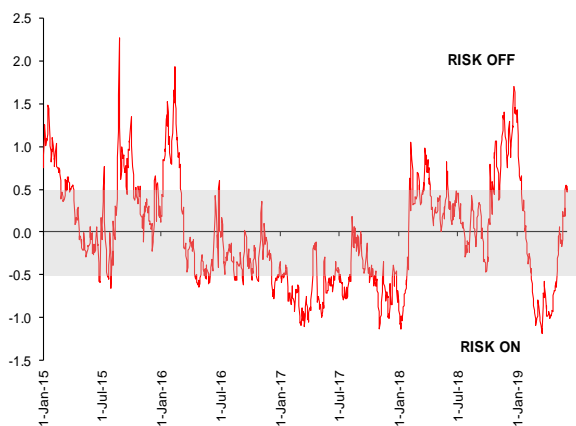


Softer. Despite the static surrounding potential US tariffs on Mexico, risk for the pair may remain angled lower ahead of the US and Canadian labor market numbers tonight. After its recent descent, the pair has finally converged with its implied confidence intervals, prompted by encouraging trade numbers overnight. A breach of 1.3350 opens the way to 1.3315.

Asian Markets

- **USD-Asia:** The USD-Asian complex may continue to fade on rallies into the NFP numbers tonight given sufficient skepticism towards the USD as FOMC rate cut expectations continue to circulate. Post-RBI, also expect regional govie yields in general to continue to search lower.
- **RBI delivers 3rd rate cut for 2019.** As widely expected, the Reserve Bank of India voted unanimously cut its benchmark repurchase rate by another 25bps (for the third time this year) to 5.75% on Thursday. Similarly, the benchmark reverse repo rate was also concurrently cut by 25bps (for the third time this year) to 5.50%. The decision was motivated by growth concerns (official growth forecast lowered to 7.00% from 7.20%) with inflation concerns proving secondary. While the 10y govie yield dipped below 7.00% to 6.91%, we note that the belly of the curve has outperformed in the past month, putting paid to underlying growth concerns. Going ahead, with the global prognosis still soggy and crude on a renewed dovish trajectory for now, real interest rate levels in India we think remain north of neutral, and further rate cuts by the RBI cannot be ruled out.
- **USD-SGD: Heavy.** With the 200-day MA (1.3655) now functioning as a resistance, risk towards the 55-day MA (1.3631) persist, with 1.3620 up next. The SGD NEER is a touch firmer at +1.49% above its perceived parity (1.3845) with NEER-implied thresholds firmer on the day.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1210	1.1226	1.1259	1.1300
GBP-USD	1.2559	1.2600	1.2685	1.2700	1.2915
AUD-USD	0.6865	0.6900	0.6966	0.7000	0.7002
NZD-USD	0.6482	0.6600	0.6624	0.6630	0.6638
USD-CAD	1.3400	1.3418	1.3421	1.3500	1.3522
USD-JPY	107.93	108.00	108.27	109.00	110.61
USD-SGD	1.3638	1.3656	1.3665	1.3700	1.3837
EUR-SGD	1.5300	1.5305	1.5340	1.5400	1.5424
JPY-SGD	1.2413	1.2600	1.2621	1.2697	1.2700
GBP-SGD	1.7269	1.7300	1.7333	1.7400	1.7612
AUD-SGD	0.9460	0.9500	0.9518	0.9570	0.9578
Gold	1288.90	1300.00	1327.50	1329.94	1343.30
Silver	14.25	14.70	14.78	14.80	14.81
Crude	50.93	51.70	51.71	51.80	59.94

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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