OCBC TREASURY RESEARCH

OCBC Bank

Daily Market Outlook

8 August 2019

Market Themes/Strategy/Trading Ideas

- Amid slightly firmer front-end UST yields (10y dipped below 1.6000% before rebounding to end flat on the day), the greenback shaded slightly higher against most of the majors with the **JPY** and **CHF** outperforming across the board on a whiff of investor caution surrounding global growth prospects. Lower crude also dragged the NOK and CAD lower. Needless to say, the **NZD** significantly underperformed its peers following the **RBNZ's** larger than expected - 50bps cut to its benchmark rate to 1% and even left the door open to negative interest rates. Elsewhere, the Fed's Evans also remained sufficiently dovish.

- Positive global equities on Wednesday were neutered by sliding crude and climbing XAU, lifting the **FX Sentiment Index (FXSI)** higher into **Risk-Off** territory.

- On the calendar today, the **ECB** publishes its Economic Bulletin (0800 GMT) while **RBA Lowe's** testimony to the House Economic Committee is scheduled at 2330 GMT. Look also to **China** July trade numbers later today for further macro cues. Note that **Taiwan's** July trade numbers reported on Wednesday clocked drastically disappointing readouts with surprise contractions.

- **Carry under threat**. While global govie yields may be expected to continue to hunt lower (and global central banks deepen their dovish postures), the current environment is not translating into improved risk appetite (as in previous episodes). We think this may be traced to continued and heightened uncertainty surrounding Sino-US trade relations, the potential for further escalation of tensions, and the resultant deepening of the global economic trough. On the latter, note that US 10y breakevens are at multi-year lows.

- The corollary is that with "'carry" central banks throwing in the towel, the **carry trade as a strategy** (both in G10 as well as in Asia) is fast coming under negative pressure and should continue to underperform at this juncture. As note previously, stay positioned for further potential risk-off episodes.

Treasury Research
Tel: 6530-8384

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

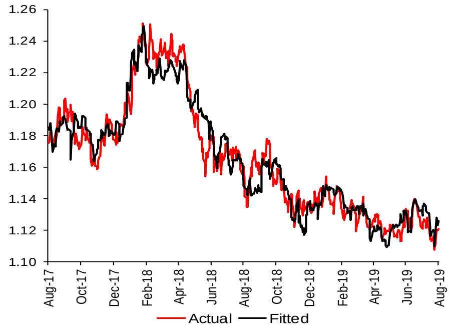
Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Daily Market Outlook

8 August 2019

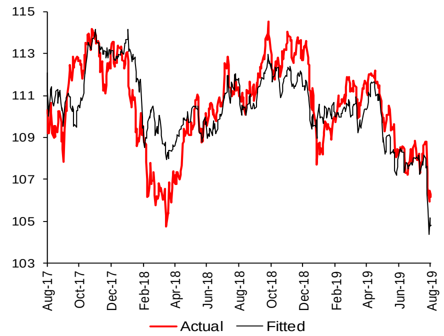
EUR-USD

Consolidate but supported. EUR-USD flat lined for a second day running despite significantly disappointing German June industrial production numbers (-1.5% mom sa) and a softer bund curve. Near term view remains unchanged pending further cues from the ECB and the pair may remain neutral for now. Expect resistance towards the 55-day MA (1.1233) with support expected at 1.1160.



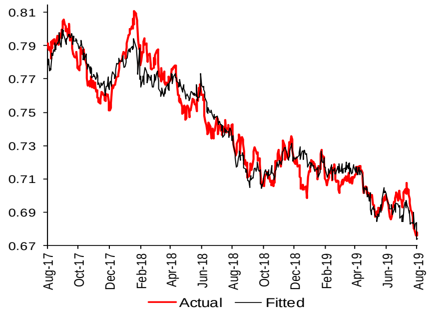
USD-JPY

Southbound. Yield differential dynamics and a nervous market may compel the USD-JPY to dig lower in line with its short term implied valuations. A violation of 106.00 risks 105.50.



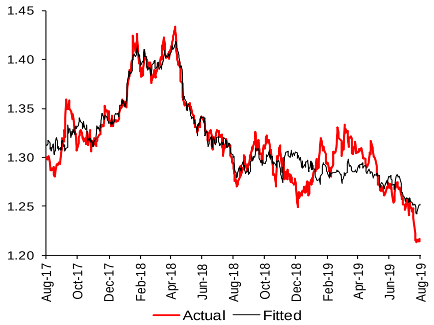
AUD-USD

Bearish territory. The larger than expected rate cut by the RBNZ has spooked the market, which has in turn hyped up expectations for the next RBA rate cut. AUD-USD may continue to angle for the 0.6700 floor in the current environment with short term implied valuations also tanking.



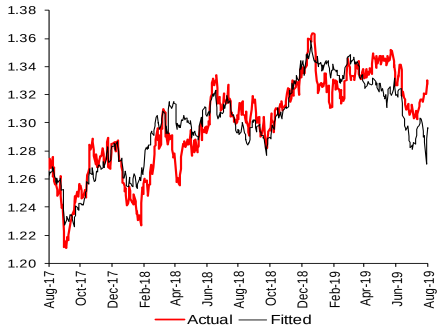
GBP-USD

Heavy range. GBP-USD may remain fenced in by a top heavy 1.2080-1.2200 range with short term implied valuations still base building. No shortage of potential negatives remains on the horizon, ranging from a no-confidence vote to a snap election.



USD-CAD

Consolidate but firmer. With the global macro backdrop crumbling, near term view for USD-CAD also remains unchanged and the pair should continue to pitch higher. Short term implied valuations have also finally capitulated higher. A breach above the 200-day MA (1.3306) paves the way to 1.3350/60.



Asian Markets – The writing is on the wall

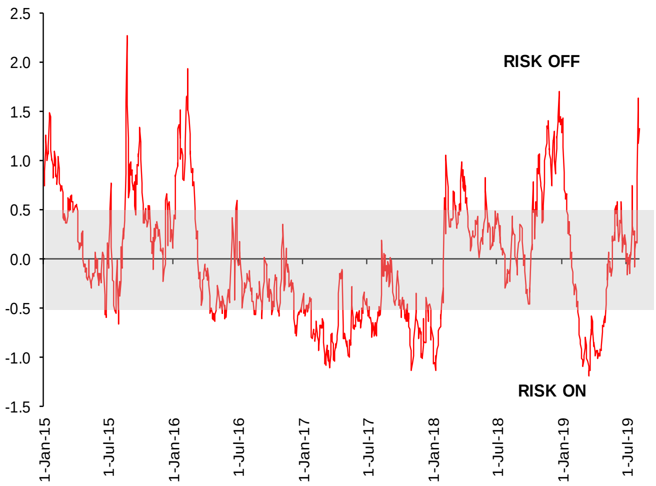
- **USD-Asia: Ongoing focus on the RMB front.** The USD-CNY morning fix this morning came in at 7.0039, and the corresponding CFETS RMB Index at 91.99, both moving through their respective cap/floor at 7.0000 and 92.00. The USD-CNH and USD-CNY appears rather nonplussed at this point, and this may allow USD-Asia to continue its consolidation lower intraday.

- **However, the bounce for the Asian currencies may have a short shelf-life.** Fundamental headwinds for the Asian currencies remain in place. The crumbling crude/base metal complex highlights further global growth concerns. Broad risk-off sentiments also do not help the cause. **Overall, we continue to expect implicit lift for USD-Asia pairs, and for Asian curves to search lower on a multi-session horizon**.

- The Asian theater saw a spat of larger than expected rate cuts from the regional central banks on Wednesday. The **RBI** surprised with larger than expected 35bps cuts to its benchmark reverse repo rate (to 5.15%) and its repo rate (to 5.40%). The **BOT** served up with a surprise of its own, with a -25bps cut to 1.50%, against a prior consensus of no cut. **Weighing the current macro performance/outlook against the long-end real rates, the typical central bank reaction function should still point to further downside room for policy rates.** We will hear from the **BSP** today (0800 GMT), with another rate cut expected.

- **USD-SGD: Upside risks.** The implicit lift in the USD-SGD asserted itself again, with the pair pressing higher close to 1.3850 mark yesterday. 1.3850 remains the immediate target for now, before 1.3900. The SGD NEER softened to +0.70% above parity (1.3923) this morning, with NEER-implied USD-SGD thresholds picking up again. The SGD NEER decline may take a pause with the USD taking a slight backfoot, but the structural downtrend should continue to persist.

FX Sentiment Index



Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1068	1.1200	1.1209	1.1240	1.1294
GBP-USD	1.2080	1.2100	1.2165	1.2200	1.2514
AUD-USD	0.6697	0.6700	0.6772	0.6800	0.6941
NZD-USD	0.6400	0.6435	0.6459	0.6500	0.6624
USD-CAD	1.3150	1.3200	1.3283	1.3300	1.3306
USD-JPY	105.87	106.00	106.18	107.00	107.96
USD-SGD	1.3643	1.3800	1.3818	1.3869	1.3875
EUR-SGD	1.5397	1.5400	1.5491	1.5499	1.5500
JPY-SGD	1.2637	1.3000	1.3015	1.3062	1.3100
GBP-SGD	1.6625	1.6800	1.6811	1.6900	1.7073
AUD-SGD	0.9291	0.9300	0.9357	0.9400	0.9470
Gold	1400.00	1490.21	1498.90	1500.00	1509.90
Silver	15.50	17.10	17.15	17.20	17.23
Crude	51.72	52.50	52.56	52.60	55.84

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Alan Lau
Malaysia & Indonesia
AlanLau@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbc.local

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W