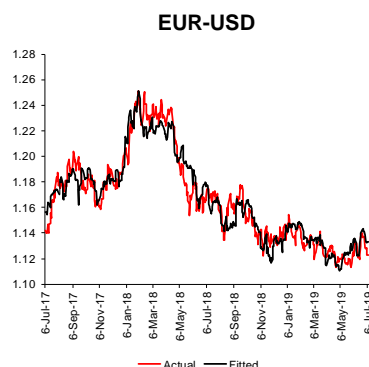


Monday, July 08, 2019

### Market Themes/Strategy/Trading Ideas – The week ahead

- The better than expected June NFP headline number (+224k) on Friday pulled the USD (and global yields) higher across the board. As a result, the **DXY** surfaced back above the 97.00 level to close near 97.24 while the 10y UST yield firmed past 2.00% once again to 2.03%. Negative EZ/US equities did not deter the **FX Sentiment Index (FXSI)** from easing within Risk-Neutral territory.
- This week, the **FOMC minutes** and **Powell's** testimony to the House are scheduled for Wednesday, before Powell's other testimony to the Senate Banking Committee on Thursday. Apart from Powell, the calendar is also populated with numerous Fed appearances this week (starting with Bullard and Bostic on Tuesday).
- Other ones to watch include the Bank of Canada's policy meeting on Wednesday, and ECB meeting minutes on Thursday. Meanwhile, the next round of Sino-US trade talks may take place sometime this week – another potential swing factor for global sentiment.
- **Supported USD for now.** Structurally, the euphoria in global equities in recent weeks that had been powered by the premise of concerted global monetary easing may pause in the near term, pending the raft of scheduled central bank rhetoric this week. If the Fed's dovish rhetoric is unshaken, expect outright NFP-inspired USD resilience to stall. **In the interim, dollar traction against the EUR, GBP, and JPY may manifest relatively better at the onset of the week.**



**Reverting lower.** Significantly disappointing German May factory orders also weighed on the EUR on Friday with the US NFP triggering the pair lower. The EZ calendar is also peppered with ECB appearances this week and with short term implied valuations suppressed, a meaningful recovery back above the 55-day MA (1.1232) may prove elusive, with risks likely skewed towards 1.1180 instead.

Treasury Research &  
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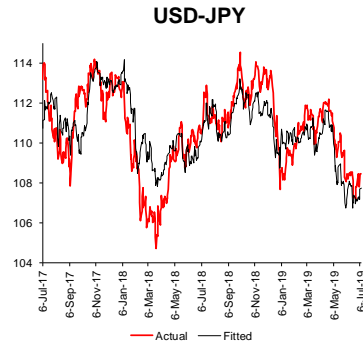
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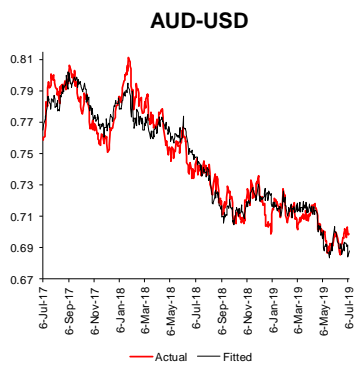
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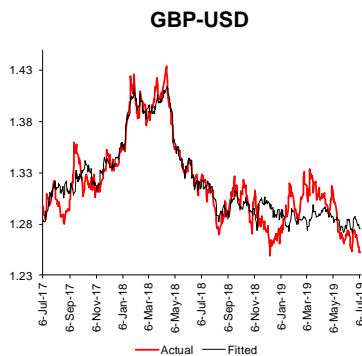
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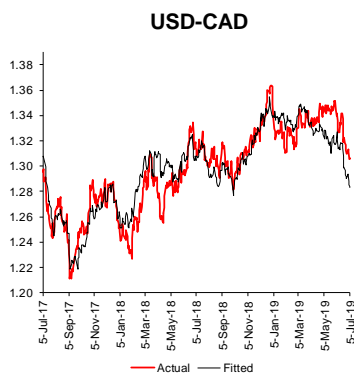
**Bottomed for now.** Expect USD-JPY to remain relatively more responsive to firmer US yields with short term implied valuations also bouncing in the wake of last Friday's NFP numbers. Immediate way points on the upside are expected at 108.80 before 109.00. On the downside, 108.00/30 may elicit bidding interest.



**Likely supported.** The RBA's DeBelle is due to speak on Thursday but barring an undue deterioration of global risk appetite levels, the 0.6950 and 55-day MA (0.6962) may cushion on dips. Note that despite the US NFP outcome, short term implied valuations for the pair did not dislocate lower materially.



**Still slippery.** The BOE's Financial Stability Report on Thursday may present some headline risk but the GBP meanwhile has to continue to contend with a poor data feed and Brexit uncertainty. Short term implied valuations continue to deteriorate and expect a heavy posture within 1.2450-1.2550.

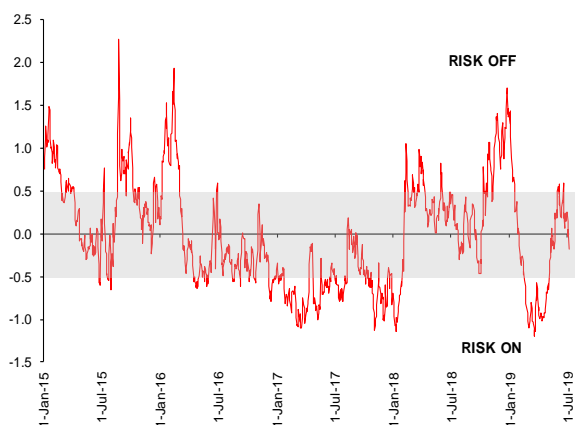


**Consolidate.** USD-CAD was boosted briefly above 1.3100 on the back of better than expected US NFP headlines contrasted with softer than expected Canadian labor market numbers. The **Bank of Canada's policy meeting** on Wednesday may see investors holding off in the interim despite still weak short term implied valuations for the pair. Preference to fade rallies within 1.3010-1.3100.

### Asian Markets

- USD-Asia: Revert to buoyant posture on USD prospects.** The pre-conditions for a higher USD-Asia re-emerged swiftly post-NFP, with any hope of USD-Asia consolidation last week up in smoke. Note that EM FX had also retreated against the USD on Friday. The RMB complex will be key determinant again, especially with a deluge of Chinese data scheduled, and the USD-CNH potentially settling into a higher profile near the 6.9000 handle. In this context, **we expect the USD-Asia have a supported stance early week (at least up till Powell and FOMC minutes on Wed), though the INR may stay relatively resilient on the back of domestic drivers.**
- In India, a lower-than-expected fiscal gap target (3.3% vs. 3.4% prior) provided the fuel for the Indian govie bond and INR rally on Friday. Going ahead we expect this fiscal conservatism and swirling **RBI** rate cut expectations to undergird demand for Indian govies, providing the basis for outperformance on this front. In this context also, expect the **INR** to be one of the more resilient currencies in the face of any bouts of USD strength.
- Asia flow environment** – On the **EPFR** front, net implied equity outflows from Asia (excl Japan, China) shrank to almost neutral levels in the latest week while net implied bond inflows moderated slightly. Structurally, on a 4-week rolling basis, net bond inflow momentum continued to pick up, while the net equity flows remain in outflow territory.
- The Asian calendar focuses on China this week, with June monetary aggregates scheduled (this week), CPI/PPI (Wed) and trade numbers (Fri). Watch also for trade prints across Asia, and the **Bank Negara Malaysia** policy decision on Tuesday (no change expected).
- USD-SGD: Break higher.** Alongside the rest of USD-North, the USD-SGD was taken higher on the surprise US NFP print. The 1.3600 level may be the near-term pivot, with downside limited to 1.3570 and the upside capped at 1.3630. The SGD NEER also eased in response, standing at +1.51% above its perceived parity (1.3813) this morning, with NEER-implied USD-SGD thresholds turning higher. This week, we await the 2Q GDP print (Fri), with investors primed for a weak print. A soft showing here may further spark further rumblings for an easing of the MAS policy stance.

#### FX Sentiment Index



Source: OCBC Bank

#### Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1167	1.1200	1.1225	1.1238	1.1300
GBP-USD	1.2495	1.2500	1.2523	1.2600	1.2746
AUD-USD	0.6900	0.6954	0.6987	0.7000	0.7048
NZD-USD	0.6592	0.6600	0.6637	0.6700	0.6712
USD-CAD	1.3000	1.3038	1.3075	1.3100	1.3293
USD-JPY	107.09	108.00	108.46	108.96	109.00
USD-SGD	1.3503	1.3600	1.3609	1.3644	1.3657
EUR-SGD	1.5239	1.5260	1.5276	1.5300	1.5347
JPY-SGD	1.2510	1.2527	1.2548	1.2600	1.2664
GBP-SGD	1.6980	1.7000	1.7042	1.7100	1.7381
AUD-SGD	0.9496	0.9500	0.9508	0.9548	0.9573
Gold	1326.71	1400.00	1400.60	1441.00	1448.87
Silver	14.82	14.90	14.93	14.95	15.00
Crude	50.60	57.60	57.68	57.70	58.24

Source: OCBC Bank

### Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale			
<b>TACTICAL</b>								
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<b>STRUCTURAL</b>								
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<b>RECENTLY CLOSED TRADE IDEAS</b>								
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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