

Thursday, July 11, 2019

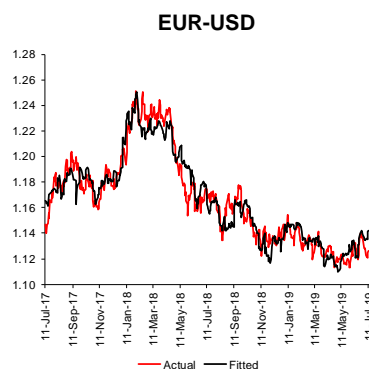
**Market Themes/Strategy/Trading Ideas**

- Sufficiently dovish comments from the **Fed's Powell** (specifically referencing trade tensions, global weakness, and muted inflation) on Wednesday drove the dollar lower universally (DXY back down to 97.10 while XAU climbed), pulled US yields lower (UST curve bull steepened) and powered US equities higher. The subsequent release of the **FOMC minutes** also echoed Powell's comments, with multiple members looking for lower rate to "cushion the effects" of a trade war. Meanwhile, the Fed's Bullard also noted that a 25bps cut wouldn't be expected to have a "huge impact".
- Positive US equities overnight, and the prospect of looser monetary conditions ahead lifted overall risk sentiments, with our **FX Sentiment Index (FXSI)** inching towards the Risk-On zone, while staying within Risk-Neutral territory.
- **Near-term USD view:** With expectations for a July FOMC 25bps rate cut securely in the bag (odds for 50bps also back on the table), the **dollar smile** will likely be put on hold as markets focus on the Powell put (Fed rate cut prospects) instead. In the immediate term, the cyclicals (AUD, CAD) may be expected to outperform intrinsically weaker counterparts like the EUR, GBP. Given that the current environment is a Fed-centric dynamic, the USD-JPY (and USD-CHF) will be expected to manifest USD frailty most effectively at this juncture.
- The calendar today continues to be packed with central bank speakers. The Fed schedule starts with Powell's Senate testimony (1400 GMT), and followed by a string of members, including Bostic (1615 GMT) and Williams (1730 GMT). On the ECB front, expect comments from Coeure (1015 GMT) and ECB June meeting minutes (1130 GMT). BOE's Carney also scheduled at 1000 GMT.

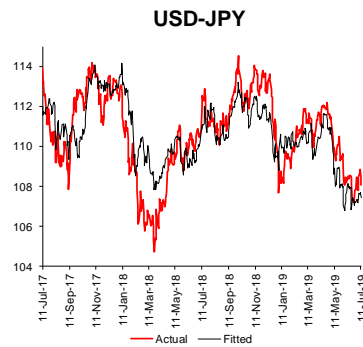
Treasury Research &  
Strategy

**Emmanuel Ng**  
+65 6530 4037  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

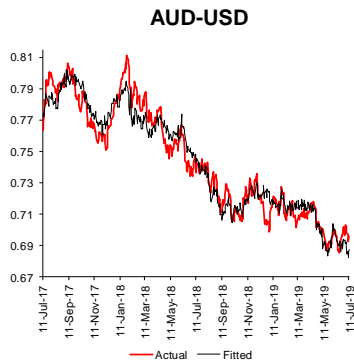
**Terence Wu**  
+65 6530 4367  
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)



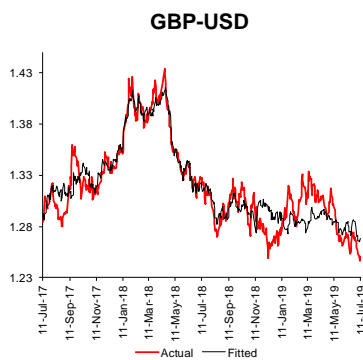
**Bottomed but tentative.** Short term implied valuations have blipped higher post-Powell and near term prospects may be looking slightly more constructive pending the ECB minutes and Coeure later in the day. Supports expected towards the 55-day MA (1.1236) but any extension beyond 1.1280 may have to be predicated on a less dovish than expected ECB (note lowered growth projections from the EU).



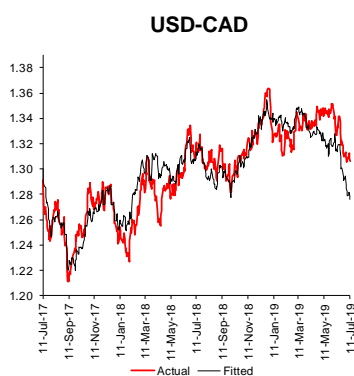
**Neutral to lower.** Short term implied valuations for USD-JPY are mildly lower and market participants may look to sell rallies. As noted above, if discretionary USD weakness deepens, expect the pair to explore lower, with 107.50 now fair game.



**Range bound.** AUD-USD may continue to hug its 55-day MA (0.6957) albeit in a slightly supported tone. This would be in line with the slight rebound in short term implied valuations post-Powell. An up-move back above 0.7000 may require another shot in the arm for global risk appetite levels ahead of the speech by the RBA's Debelle at 1255 GMT.



**Stay heavy.** The GBP continued to underperform its peers and GBP-USD may continue to be feeble on the upside ahead of the BOE's Financial Stability Report (0930 GMT) and the BOE's Carney (1000 GMT). Favor a revisit of the 1.2450 region.

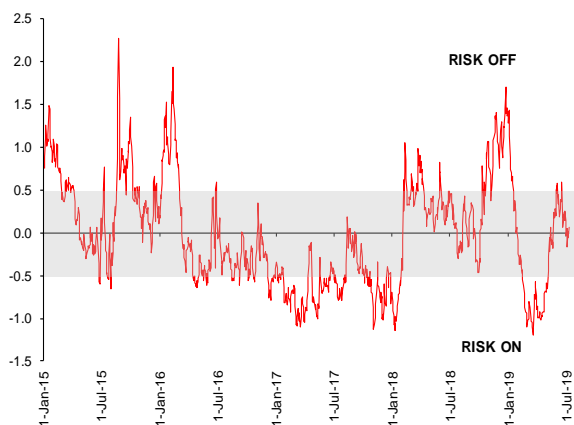


**Fade rallies.** Although the Bank of Canada highlighted risks from trade tensions at its policy meeting, the central bank's policy inclination remained in stark contrast to the Fed's posture overnight. Policy dichotomy between the BOC and the Fed may continue to weigh the pair towards 1.3000 – in line with the pair's short term implied valuations.

## Asian Markets

- USD-Asia: Fed-sized anchor attached.** An aura of optimism from overnight and USD vulnerability may see USD-Asia stepping lower today, with USD-CNH now down to the 6.8700 handle. Looking forward, EM/Asia expected to be at the front and centre of central bank inspired optimism. If this persists, expect some room for USD-Asia to search lower.
- Asia flow environment: Revitalized?** Portfolio inflow momentum in Asia continued to ease off in the latest read, with South Korean and Thai bond inflows, in particular, taking a breather. Going forward, bond inflows into Asian high-yielders may potentially be revitalized if the Fed's latest confirmation of its dovish inclination spurs Asian central banks to come on board. In particular, watch for any uptick in demand for Indian bonds, which have another positive nudge from a more prudent fiscal stance. Meanwhile, positive risk appetite from a more accommodative global monetary policy posture should also encourage inflows into the equity space.
- USD-SGD: Tracking the USD lower.** The USD-SGD was not spared from the USD weakness post-Powell. Going forward, expect a depressed posture for the pair, with the 1.3500/20 possibly attracting in the upcoming sessions. Expect any bounce may be capped at 1.3602 (100-week MA) for now. Nevertheless, the SGD may underperform the Asian high-yielders in this round of USD weakness. The SGD NEER inched on the day to +1.62% above its perceived parity (1.3789), with the NEER-implied USD-SGD thresholds slipping.

### FX Sentiment Index



Source: OCBC Bank

### Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1241	1.1268	1.1300	1.1326
GBP-USD	1.2442	1.2500	1.2520	1.2600	1.2713
AUD-USD	0.6900	0.6949	0.6970	0.7000	0.7048
NZD-USD	0.6592	0.6600	0.6660	0.6700	0.6714
USD-CAD	1.3000	1.3038	1.3056	1.3100	1.3296
USD-JPY	107.00	107.04	107.98	108.00	108.85
USD-SGD	1.3500	1.3503	1.3556	1.3600	1.3641
EUR-SGD	1.5218	1.5238	1.5275	1.5300	1.5349
JPY-SGD	1.2500	1.2545	1.2553	1.2600	1.2667
GBP-SGD	1.6900	1.6933	1.6971	1.7000	1.7327
AUD-SGD	0.9361	0.9400	0.9448	0.9488	0.9500
Gold	1334.40	1400.00	1424.20	1441.00	1450.45
Silver	14.97	15.20	15.21	15.30	15.50
Crude	60.00	60.20	60.60	60.70	62.10

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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