Daily Market Outlook

OCBC Bank

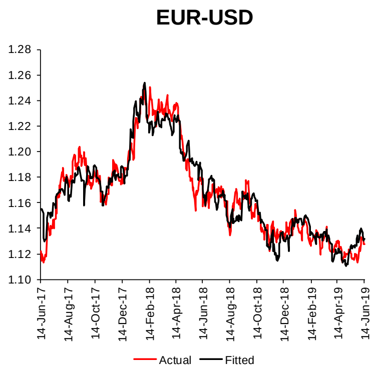
Friday, June 14, 2019

Market Themes/Strategy/Trading Ideas

- The USD and JPY continued to hold the upper hand on Thursday although most pairs held within narrow recent ranges ahead of next week's FOMC and tonight's US May retail sales numbers (1230 GMT). Except for bunds, UST yields (and most other core govie curves) inched lower on the day. On the US front, higher than expected weekly initial claims also played into the bull steepening of the UST curve as Fed rate cut expectations continued to solidify.

- Despite a positive Wall Street, note weakness in EM equities on Thursday, with the **FXSI (FX Sentiment Index)** climbing for a second consecutive session within Risk-Neutral territory. On this front, expect investors to keep their finger

- **Uneasy calm.** On the calendar today, look to the string of Chinese May data points at 0700 GMT for further cues but investors may remain on edge, standing ready to flock to the JPY and CHF if risk aversion flares up again. Elsewhere, markets will have to continue to triangulate between the FOMC, global trade tensions, and a global macro deceleration. **To this end, we'd prefer to be top heavy on the USD-JPY and AUD-USD.**



Stalling slightly. The EUR was additionally weighed after the IMF's Lagarde cautioned that growth has slowed, inflation is low, and that this requires policy coordination. While short term implied valuations are holding steady, expect the EUR-USD to consolidate around its 100-day MA (1.1271) pending further headline risks and trawl within a 1.1260-1.1320 range.

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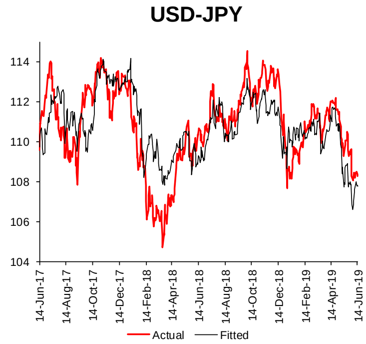
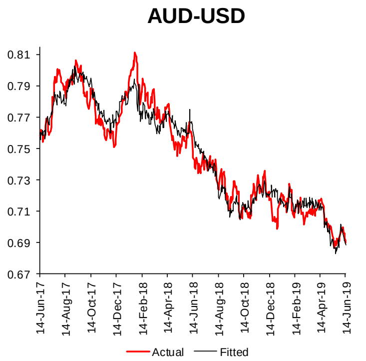
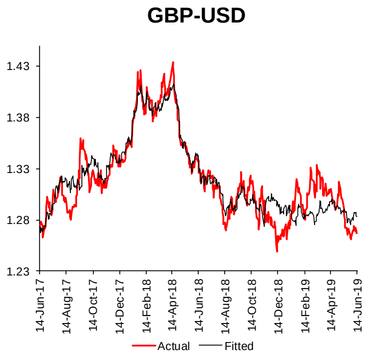


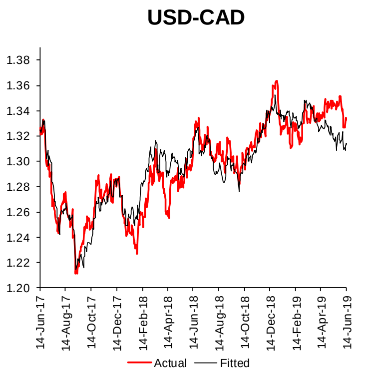
Top heavy. USD-JPY may remain laden by FOMC expectations and the potential for risk appetite flashpoints. Note also that short term implied valuations are also looking soggy at this juncture.



Neutral/heavy. AUD-USD may continue to smart from the negative sting from the latest Australian labor market readings. With short tern implied valuations also probing lower, a drip towards 0.6865 may remain on the cards into the end of the week.



Stabilizing. The BOE's Carney is due to speak at 1255 GMT but the pair may remain range bound in the interim in line with its short term implied valuations. Meanwhile, the political opera will continue to play out with Boris Johnson taking the lead in initial party polls. At this juncture, risk/rewards may favor 1.2615 as opposed to 1.2750.



Consolidate. The CAD was partially supported by the bounce in crude (attacks on 2 tankers in the Gulf of Oman). Barring a further blow up on this front, top side for the pair may fizzle out towards 1.3350 while 1.3300 should support into the end of the week.

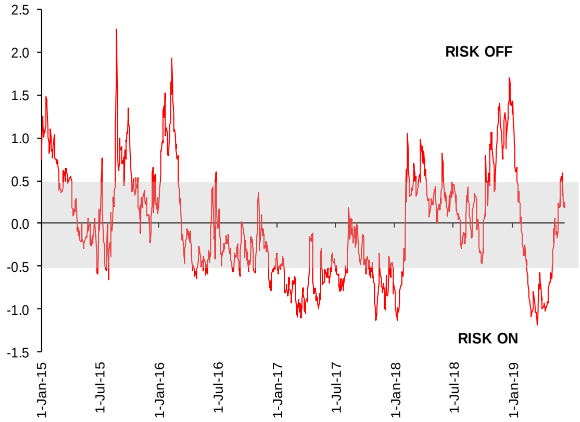
Asian Markets

- **USD-Asia:** Short-end EM FX vols remain relatively subdued despite the background static across the global asset market landscape. This implicit expectation for relativity calm we think will be crucial for sustained net bond inflows into the region (see below). **Nevertheless, differentiation remains key in Asian FX, with the KRW, TWD, and SGD, slightly more vulnerable relative to the likes of the southern currencies like the IDR, INR, PHP, THB – i.e., conducive environment for carry for now barring another spike in risk aversion.**

- **Asia flow environment:** Rate cut expectations across Asia continue to manifest via the bond flow landscape. Net bond inflows for South Korea and Thailand remain exceptionally strong while net bond inflow momentum for India (note softening core inflation) continues to strengthen. Notably, the net bond outflow environment for Indonesia continues to compress. **On an aggregated basis, the disparity of flows is telling, with bond inflows in the region rising strongly since the beginning of May, while net equity flows have continued to be mired in an outflow situation in the same period.**

- **USD-SGD: May have bottomed in the near term.** The SGD NEER this morning is flat to higher at around +1.41% above its perceived parity (1.3865). NEER-implied USD-SGD thresholds are firmer on the day and the pair may pay heed to the slightly more cautious tone in global markets. As such, expect the 200-day MA (1.3653) to cushion with latitude seen towards 1.3700.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1220	1.1296	1.1300	1.1348
GBP-USD	1.2600	1.2613	1.2695	1.2700	1.2753
AUD-USD	0.6865	0.6900	0.6916	0.7000	0.7007
NZD-USD	0.6482	0.6500	0.6578	0.6600	0.6620
USD-CAD	1.3277	1.3300	1.3330	1.3400	1.3412
USD-JPY	107.82	108.00	108.22	109.00	110.31
USD-SGD	1.3648	1.3654	1.3666	1.3700	1.3837
EUR-SGD	1.5322	1.5400	1.5437	1.5463	1.5478
JPY-SGD	1.2479	1.2600	1.2629	1.2687	1.2700
GBP-SGD	1.7266	1.7300	1.7350	1.7400	1.7545
AUD-SGD	0.9400	0.9442	0.9452	0.9455	0.9500
Gold	1292.78	1300.00	1331.60	1347.70	1353.26
Silver	14.25	14.70	14.78	14.78	14.80
Crude	50.60	51.00	51.08	51.10	59.55

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
2	07-Jun-19	B	EUR-USD	1.1266	1.1465	1.1165	Pitting the ECB against the FOMC
	STRUCTURAL						
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	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
	RECENTLY CLOSED TRADE IDEAS							
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

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