

Friday, June 14, 2019

Market Themes/Strategy/Trading Ideas

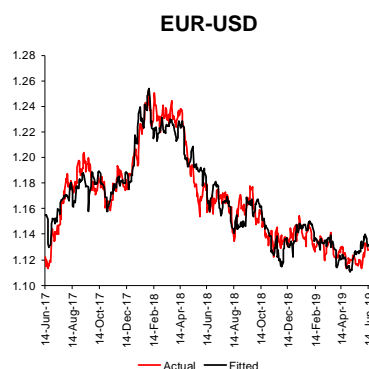
- The USD and JPY continued to hold the upper hand on Thursday although most pairs held within narrow recent ranges ahead of next week's FOMC and tonight's US May retail sales numbers (1230 GMT). Except for bunds, UST yields (and most other core govie curves) inched lower on the day. On the US front, 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.**

Treasury Research &
Strategy**Emmanuel Ng**

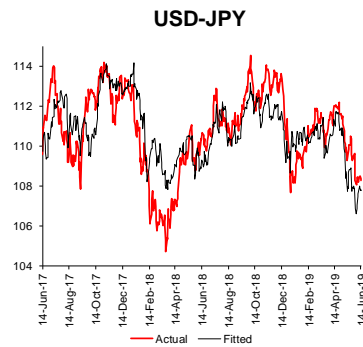
+65 6530 4037

ngcyemmanuel@ocbc.com**Terence Wu**

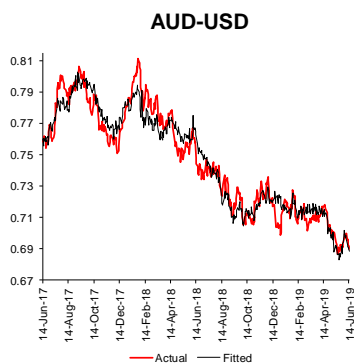
+65 6530 4367

TerenceWu@ocbc.com

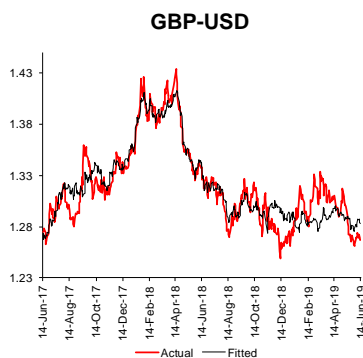
Stalling slightly. The EUR was additionally weighed after the IMF's Lagarde cautioned that growth has slowed, inflation is low, and that this requires policy coordination. While short term implied valuations are holding steady, expect the EUR-USD to consolidate around its 100-day MA (1.1271) pending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



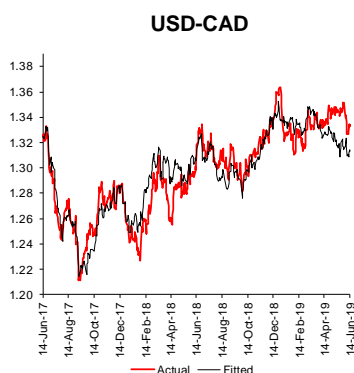
Top heavy. USD-JPY may remain laden by FOMC expectations and the potential for risk appetite flashpoints. Note also that short term implied valuations are also looking soggy at this juncture.



Neutral/heavy. AUD-USD may continue to smart from the negative sting from the latest Australian labor market readings. With short term 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.

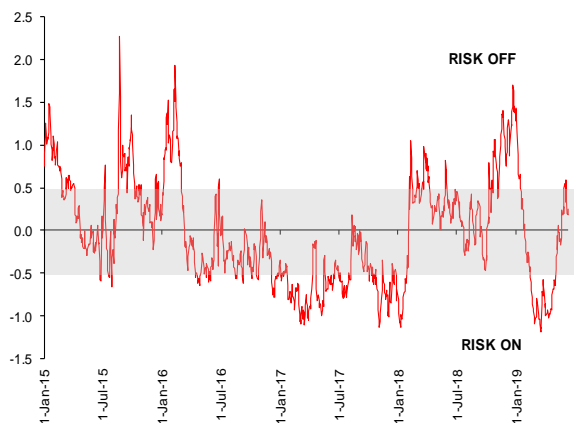


Consolidate. The CAD was partially supported by the bounce in crude (attacks on 2 tankers in the Gulf of Oman). Barring a further blow up on this front, top side for the pair may fizzle out towards 1.3350 while 1.3300 should support into the end of the week.

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 relative 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 | | | | | | | |
| | -- | | -- | | | -- | |
| RECENTLY CLOSED TRADE IDEAS | | | | | | | |
| 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 |

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
