

Monday, July 15, 2019

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

- Amid dovish comments from the Fed's Evans and Barkin, the UST curve continued to bull steepen (despite slightly warmer than expected June PPI numbers), sending the dollar lower again across G10 space including against the CHF, JPY, and the especially the cyclicals. Elsewhere, the **FXSI (FX Sentiment Index)** ticked higher within Risk-Neutral territory.
- **Positioning is still sitting against the USD.** CFTC data (which predated Powell last week) showed large non-commercial accounts increasing slightly their net long dollar bias in the latest week but note that such aggregate longs had been slashed significantly in the previous week. Meanwhile, leveraged accounts also increased slightly their net implied long dollar bias in the latest week but note also that long positioning had already been slashed significantly in late June. On other fronts, asset manager accounts pared slightly their net implied short dollar bias in the latest week but again, these accounts had materially boosted their net short dollar bias at the end of June.
- **Fed watching.** Apart from the US earnings season, the calendar is littered with Fed appearances this week, including Powell on Tues and starting with Williams today (1250 GMT). RBA minutes on Tuesday also bear watching. In the interim, markets may continue to dwell on the Fed's rate cut trajectory.
- As noted previously, dollar price action of late has been more a function of discretionary Fed-based weakness as opposed to implicit strength in the other majors. Note that the weave of the current weak dollar narrative is premised on the large EM economies (i.e., China) also stepping up to the plate in terms of accompanying monetary accommodation, thereby keeping risk appetite afloat and in turn buoying the cyclicals and EM/Asia. **In the interim, relative plays (and carry considerations) may continue to keep the EUR and GBP heavy against the likes of the AUD and CAD.**

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4037

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

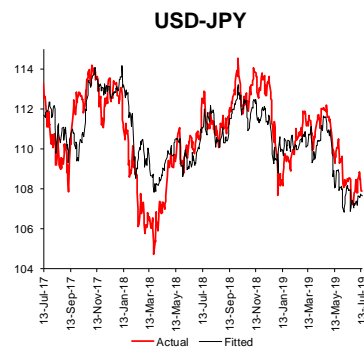
**Terence Wu**

+65 6530 4367

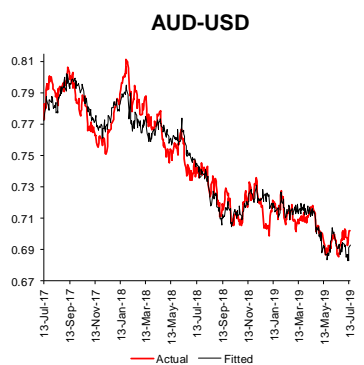
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)



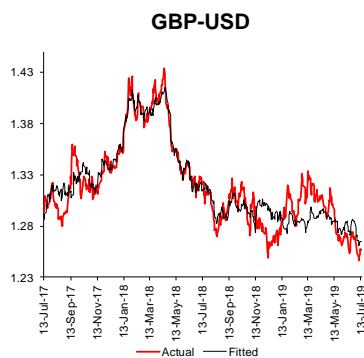
**Bottomed but tentative.** Dovish comments from the ECB's Visco may keep the EUR-USD lead footed towards the upside. AS such, expect headway towards 1.1280/00 to be slow going despite underpinned short term implied valuations while support towards the 1.1240 is expected to materialize.



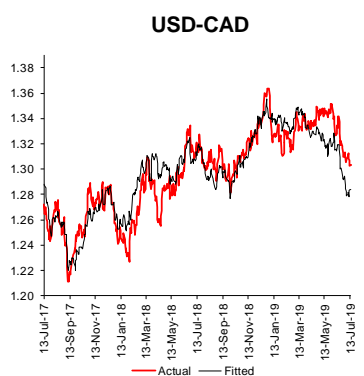
**Fade upside.** Expect USD-JPY to fade upticks at the onset of the week with short term implied valuations for the pair also topping out. We look for a heavy posture within 107.40-108.50.



**Supported on dips.** Look for the AUD-USD to trade off the China data flow, RBA minutes, as well as Australian labor market numbers this week. In the interim, accumulate on dips for as long as risk appetite holds up with short term implied valuations also ticking higher. Good support is expected at the 55-day MA (0.6956) with 0.7060 an initial resistance.



**Laggard.** Cautionary comments from the BOE's Vleighe regarding the GBP and a no-deal Brexit may keep investors nervous despite the current weak USD environment. Preference to collect within 1.2500-1.2600 instead despite slightly more supported short term implied valuations.

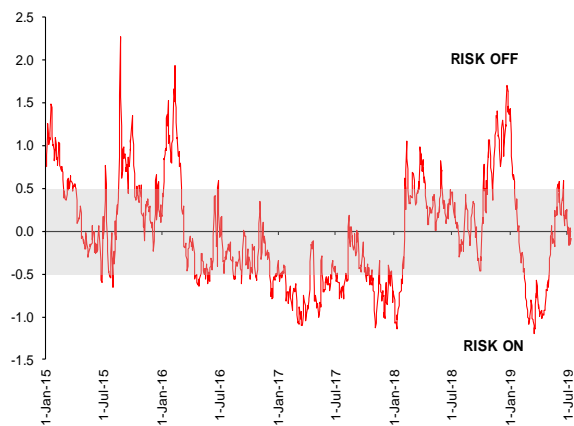


**Heavy range.** With investors still bouncing off the BOC against the FOMC, an inherently heavy environment for the USD-CAD may be expected to prevail with the 1.2950 neighborhood to attract if 1.3000 is breached.

### Asian Markets

- USD-Asia: China cues.** USD-CNH floated higher on Friday despite the weaker dollar complex within G10 (keeping the other Asians in check against the USD), belying the intrinsic caution towards a decelerating Chinese economy in light of ongoing Sino-US trade tensions. Note that China’s June trade (note imports undershooting prior expectations) and monetary aggregates released on Friday continued to paint a slowing macro environment. The China June data dump this morning, including 2Q GDP may set the tone going ahead for sentiment towards EM/Asia. **EPFR data** meanwhile indicate an increased implied outflow from Asian (excl Japan, China) equities in the latest week while net implied bond flows into the region flipped to a net outflow balance.
- North-South divide.** The **Bank of Thailand** continues to attempt to stave off undue baht strength with measures to limit net inflows on Friday but a north-south divide may prevail in Asia this week. This week, the **Bank of Korea** and **Bank Indonesia** hold their policy meetings on Thursday with the latter expected to ease (note continued telegraphing from officials) while expectations surrounding the BOK are largely balanced between a cut and staying pat but note that implicit pressure for a BOK cut continues to mount. **Overall, the IDR is seen largely impervious if a rate cut is instituted this week, while the KRW is perceived to be relatively more vulnerable.**
- USD-SGD:** The SGD NEER is softer at +1.40% above its perceived parity (1.3765) on Monday with NEER-implied USD-SGD thresholds higher on the day. **Structurally, we see room for the basket to drift towards its parity to nullify the slope steepenings enacted in April and October 2018.** June NODX numbers are due on Wednesday but in the wake of the 2Q GDP numbers last week, expect little positive traction.

#### FX Sentiment Index



Source: OCBC Bank

#### Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1243	1.1267	1.1300	1.1323
GBP-USD	1.2445	1.2500	1.2563	1.2600	1.2691
AUD-USD	0.6950	0.7000	0.7029	0.7048	0.7060
NZD-USD	0.6700	0.6716	0.6718	0.6730	0.6754
USD-CAD	1.3000	1.3018	1.3036	1.3100	1.3297
USD-JPY	107.04	108.00	108.04	108.74	108.96
USD-SGD	1.3503	1.3505	1.3576	1.3600	1.3638
EUR-SGD	1.5213	1.5238	1.5296	1.5300	1.5350
JPY-SGD	1.2500	1.2556	1.2568	1.2600	1.2655
GBP-SGD	1.6933	1.7000	1.7056	1.7100	1.7301
AUD-SGD	0.9489	0.9500	0.9542	0.9561	0.9572
Gold	1349.19	1400.00	1413.10	1441.00	1445.69
Silver	14.97	15.10	15.16	15.20	15.49
Crude	58.26	59.90	59.92	60.00	60.94

Source: OCBC Bank

### Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale			
<b>TACTICAL</b>								
--		--			--			
<b>STRUCTURAL</b>								
--		--			--			
<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

---

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).

---