

Monday, June 17, 2019

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

- The USD was given a boost on Friday following better than expected May retail sales and industrial production numbers. The UST curve flattened but negative EZ/US/EM equities contributed to the **FXSI (FX Sentiment Index)** firming for the 3<sup>rd</sup> consecutive session, albeit still in Risk-Neutral territory. Sino-US trade tensions may continue to prove intractable with US officials playing down odds of an actual trade deal at the G-20 Summit in 2 weeks.
- On the **CFTC** front, large non-commercial accounts pared their net implied long dollar bias in the latest week but leveraged accounts went the other way and increased their net long dollar bias. Meanwhile, asset manager accounts also increased their net implied short dollar bias during the same period.
- The highlight of this week is expected to be the **FOMC** on 18-19 Jun 19 and whether the Fed paves the way for a cut in July and equally important, its roadmap for the rest of the year (watch dot plots and forecasts etc). Apart from the FOMC, forward guidance from the other core central banks are also expected to be crucial. The **BOJ's MPC** on Thursday will be followed by the **BOE MPC** and Carney's speech later in the session. On other fronts, the **RBA** minutes are due on Tuesday and the RBA's Lowe is due on Thursday. Meanwhile, the **ECB's Draghi** and BOE's Carney are also scheduled to speak on Tuesday. The European Commission's Juncker and Draghi are also scheduled for Wednesday. **In FX space therefore, the interplay between the respective central bank postures and the Fed will determine broader USD direction.**

Treasury Research &  
Strategy

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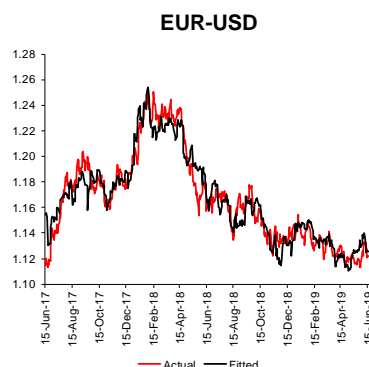
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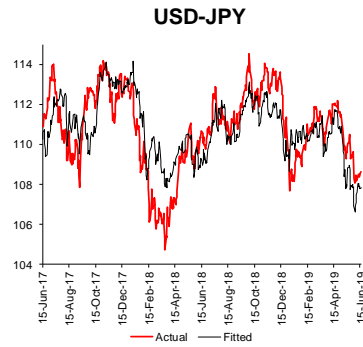
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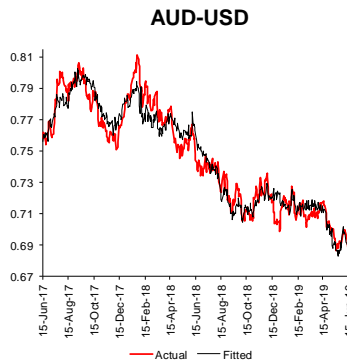
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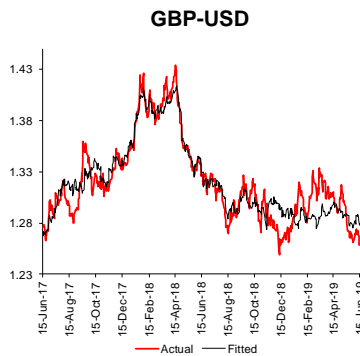
**Stalling before resuming higher?** EUR-USD short term implied valuations have consolidated lower in the past few sessions and the pair may orbit its 55-day MA (1.1219) ahead of Powell and Draghi this week. Downside support meanwhile is expected to emerge towards 1.1165.



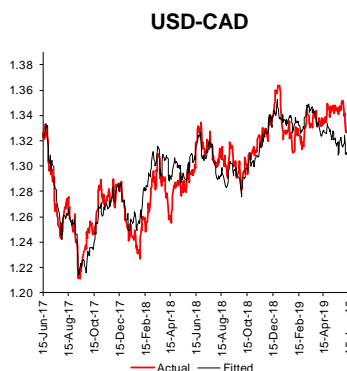
**Basing for now.** The base case may be for the BOJ to remain sufficiently dovish this week at policy meeting, leaving the impetus to the FOMC. Short term implied valuations are holding steady and the USD-JPY may remain bordered by 108.00-109.00 in the interim.



**Southbound.** All eyes will also be on the RBA this week but the damage control for the AUD will prove daunting given the global backdrop. Short term implied valuations have also collapsed and 0.6850 looks tenuous at this juncture.



**Heavy.** The better US data flow set against the domestic UK political backdrop may continue to usher the GBP-USD lower. Short term implied valuations are also easing and a breach of 1.2600 opens the way to 1.2560 and 1.2480 thereafter.

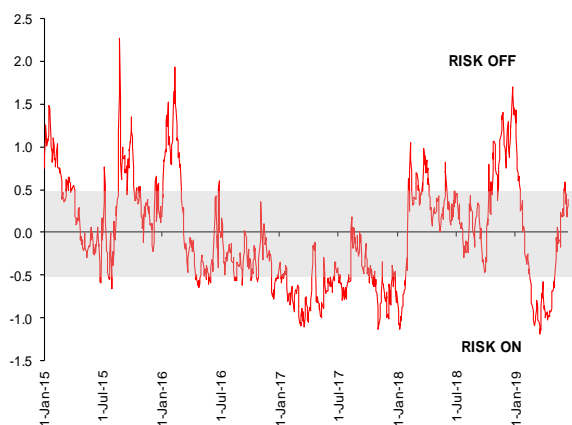


**Consolidate.** Despite crude holding steady, USD-CAD bounced higher on Friday following the US data feed and the pair may continue attempt to inch past its 55-day MA (1.3409) towards 1.3430 in the interim.

### Asian Markets

- USD-Asia: Tailwinds again.** China’s weaker than expected industrial production release on Friday served another reminder for the soft macro outlook in Asia. Juxtapose this with the soft opening in Asian equities, we may expect USD-Asia to see some back-lift intraday. With the RMB complex still static within the range, expect the dollar to take the lead in terms of directionality. In FX space, we continue to favor the South Asian currencies over the North at this juncture. With the global macro prognosis still dim, we expect Asian bond yields to remain pressured on ongoing foreign inflows (see EPFR flows below) and the downdraft in yields remain immutable at this juncture.
- Meanwhile, **Asian central banks** may also set the tone this week with **Bank Indonesia, CBC** and the **BSP** scheduled for policy meetings on Thursday (pre-FOMC) with the BSP expected to ease policy further.
- On the **EPFR** front, implied net equity outflows from Asia (excl Japan, China) were pared in the latest week while net implied bond inflows surged. On the China front, implied net equity outflows from China also compressed significantly for the 2<sup>nd</sup> consecutive week while implied net bond inflows jumped from the previous week and printed at the highest level in 6 weeks.
- USD-SGD: Choppy sessions early week.** Overnight dollar strength took the USD-SGD north of the 1.3700 handle. With near-term greenback prospects lacking clarity until the FOMC, we think the USD-SGD may see some choppy trading ahead. The air is likely scarce above the 200-week MA (1.3727), and we expect that level to cap for now. Meanwhile, downside may be limited to the 200-day MA (1.3653). The SGD NEER is softer this morning at +1.35% above its perceived parity (1.3890), with NEER-implied USD-SGD thresholds also firmer on the day. On the macro front, NODX slumped -15.9% yoy (consensus: -16.5% n yoy), with the electronics sector taking a big hit from trade issues (-31.4% yoy vs. consensus: -19.3%). At this juncture, continue to expect the weak macro outlook to exert downside pressure on the SGD NEER.

#### FX Sentiment Index



Source: OCBC Bank

#### Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1218	1.1221	1.1300	1.1347
GBP-USD	1.2559	1.2587	1.2595	1.2600	1.2750
AUD-USD	0.6856	0.6861	0.6880	0.6900	0.6999
NZD-USD	0.6482	0.6500	0.6505	0.6600	0.6610
USD-CAD	1.3279	1.3400	1.3409	1.3415	1.3500
USD-JPY	107.82	108.00	108.59	109.00	110.20
USD-SGD	1.3655	1.3700	1.3705	1.3800	1.3837
EUR-SGD	1.5318	1.5324	1.5377	1.5400	1.5460
JPY-SGD	1.2499	1.2600	1.2621	1.2688	1.2700
GBP-SGD	1.7234	1.7244	1.7261	1.7300	1.7519
AUD-SGD	0.9400	0.9412	0.9429	0.9431	0.9500
Gold	1293.94	1300.00	1340.10	1355.40	1358.91
Silver	14.77	14.80	14.84	14.88	14.90
Crude	50.60	52.60	52.69	52.70	59.39

Source: OCBC Bank

### Trade Ideas

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

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