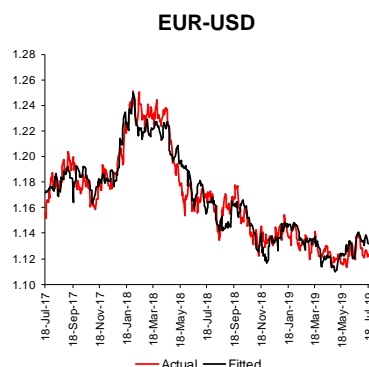


Thursday, July 18, 2019

Market Themes/Strategy/Trading Ideas

- Weighed by softer UST yields (note weaker than expected US June housing starts and building permits), the dollar ended marginally weaker against most of the majors on Wednesday. The Fed's George also remained largely neutral but sufficiently cautious. Meanwhile, the **IMF** also stated that the USD, based on near-term economic fundamentals, was 6-12% overvalued on a real effective exchange rate (REER) basis. Going ahead, this may play into (unfounded) fears of intervention risks surrounding the dollar.
- **Risk appetite wobbles.** Elsewhere, negative global equities (including in EM) were accompanied by sliding crude. Meanwhile, in addition to softer UST yields, other core global govie yields were also softer on the day on Wednesday and this we think may be a manifestation of the dour macro outlook as well as the slight hesitation in risk appetite levels. Overall, the **FXSI (FX Sentiment Index)** jumped higher (firmer for the 4th consecutive session) and the Index may run the risk of bleeding into **Risk-Off** territory from Risk-Neutral territory currently.
- On the calendar, watch for US Philly Fed and initial jobless claims (1230 GMT). Meanwhile, the 2-day G7 meeting of Finance ministers and central bank officials in Chantilly, France, concludes today. Fed's Bostic (1330 GMT) and Williams (1815 GMT) also scheduled.
- Overall, broad dollar fragility from overnight may vanish if risk appetite continues to deteriorate. On a relative basis, continue to favor the cyclicals over the likes of the GBP and EUR for now.



Heavy again. Although the IMF also stated yesterday that the EUR's valuation was appropriate, we note that short term implied valuations for the EUR-USD are softening. As such, resistance levels are layered at the 55-day MA (1.1240) and the 100-day MA (1.1251). With potential risks skewed instead towards 1.1200/10 today.

Treasury Research & Strategy

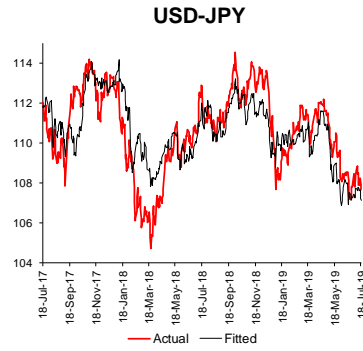
Emmanuel Ng

+65 6530 4037

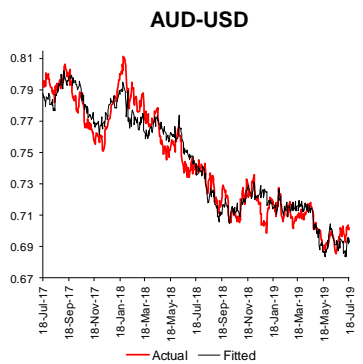
ngcyemmanuel@ocbc.com**Terence Wu**

+65 6530 4367

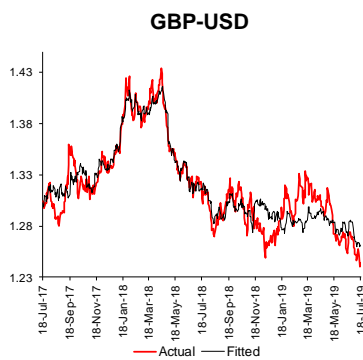
TerenceWu@ocbc.com



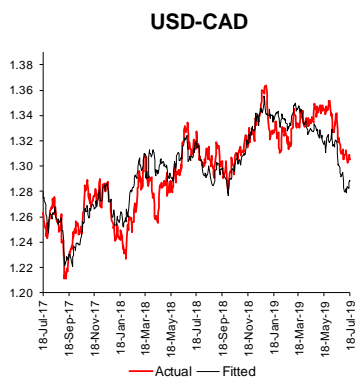
Range to lower. Soft US yields and tentative risk appetite levels are expected to limit the upside for the USD-JPY with short term implied valuations for the pair also edging lower. Expect a challenge to the 107.50 floor with an intra-day ceiling expected at 108.10/15.



Buy dips. Despite broad-based USD weakness, the AUD still underperformed across the board on Wednesday (a telling sign). Given the current tentative investor appetite but mixed June labor market numbers this morning, an aggressive upside extension may prove elusive at this juncture. Prefer to accumulate on any dips towards 0.6995 for 0.7050 with short term implied valuations holding relatively static.



Still bearish. GBP-USD plumbed 27-month lows on Wednesday but managed to recover after the House of Lords passed an amendment to prevent a no-deal (Brexit). Note that this still has to pass in the House of Commons and in the interim, short term implied valuations for the pair remain under water. Another test of the 1.2400 floor towards 1.2380 remains on the cards despite the pair riding the rails of the lower bound of its confidence intervals.

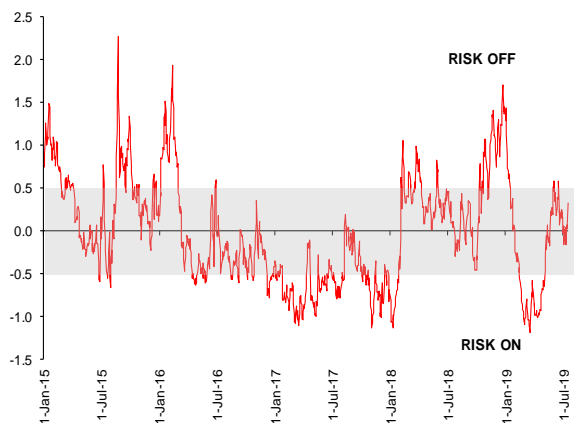


Base building for now. Despite mixed June Canadian CPI readings, soggy crude may continue to offer implicit support for the USD-CAD with short term implied valuations for the pair still attempting to correct higher. Overall, expect base building behavior to persist within 1.3000-1.3100.

Asian Markets

- USD-Asia: Hampered by risk appetite concerns?** USD-CNH on Wednesday shrugged off negative Sino-US trade headlines and eventually rode lower on the back of the vulnerable broad dollar. Nevertheless, expect Asian currencies to be held back by rising risk aversion, with any dips in USD-Asia due to a softer USD overnight limited in depth. In addition, expect Asian govie yields to seek lower ground amidst risk aversion and building expectations for future rate cuts by Asian central banks.
- The **Bank of Korea (BOK)** cut its policy rate by 25 bps to 1.50% this morning. The urgency was a slight surprise, given that there has been an easing of monetary conditions already seen from a softer KRW NEER year-to-date and a falling real interest rate from May. The Japan-Korea trade spat may have featured more strongly in BOK considerations than expected. With the BOK (thought to be more reluctant, together with the **BOT**) already moved, the attention will shift to **Bank Indonesia (BI)** later today, with a 25 bps rate cut to 5.75% expected.
- The IMF External Sector Report meanwhile described China as in a balanced trade environment and that “China’s real effective exchange rate would be at the same level as warranted by fundamentals and desirable policies”.
- USD-SGD:** The USD-SGD lifted higher on Wednesday on the back of a soft NODX print yesterday, but reversed on broad USD weakness later on. Expect USD-SGD to bounce on dips towards 1.3585 with the 100-day MA (1.3607) providing a near term locus. Up top, the 200-day MA (1.3635) is expected to attract. The SGD NEER stumped lower to +1.26% above its perceived parity (1.3776) this morning, with NEER-implied USD-SGD thresholds softening.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1181	1.1200	1.1235	1.1245	1.1300
GBP-USD	1.2382	1.2400	1.2436	1.2500	1.2653
AUD-USD	0.6951	0.7000	0.7024	0.7048	0.7054
NZD-USD	0.6700	0.6720	0.6734	0.6747	0.6756
USD-CAD	1.3002	1.3018	1.3053	1.3100	1.3195
USD-JPY	107.00	107.09	107.70	108.00	108.61
USD-SGD	1.3503	1.3519	1.3599	1.3600	1.3619
EUR-SGD	1.5200	1.5218	1.5279	1.5300	1.5350
JPY-SGD	1.2569	1.2600	1.2627	1.2648	1.2682
GBP-SGD	1.6838	1.6900	1.6912	1.7000	1.7274
AUD-SGD	0.9489	0.9500	0.9551	0.9560	0.9576
Gold	1390.07	1400.00	1424.10	1427.72	1441.00
Silver	15.79	15.80	15.89	16.00	16.20
Crude	55.72	56.80	56.88	56.90	57.59

Source: OCBC Bank

Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale			
TACTICAL								
--		--			--			
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	
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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