

Wednesday, June 19, 2019

Market Themes/Strategy/Trading Ideas – Softer global yields

- The majors diverged with respect to the dollar on Tuesday with the cyclicals lifted after Trump stated that both sides would hold preparatory talks ahead of a Xi-Trump meeting (confirmed by China) at the G20. USD-CNH meanwhile dived to the 6.9000 area in the wake of the news while USD-JPY bounced off intra-day lows to end relatively unchanged.
- The news also saw UST yields bouncing off intra-day lows although the curve still bull flattened. **Global govie bond yields** were also weighed by the dovish turnaround of the ECB (note also **dovish RBA meeting minutes** earlier in the day). Dovish comments (additional stimulus if necessary) from the **ECB's Draghi** saw any residual EUR-resilience from the less dovish than expected ECB meeting on 06 Jun 19 totally erased with the pair ending at sub-1.1200 levels. Generalized risk appetite levels improved following the Trump/Draghi news flow, resulting in positive global equities and crude also jumped. Note however that the **FXSI (FX Sentiment Index)** moved into **Risk-Off** territory.
- **Powell and Draghi.** The **ECB's Draghi** speaks again today at 1400 GMT and a further affirmation of his comments from yesterday may continue to pressure the EUR (and European yields) lower across the board. **The FOMC meeting tonight (1800 GMT) and Powell's press conference (1830 GMT) are however expected to be the primary focus.** Specifically, markets will be looking for the Fed (Powell) to lay the groundwork for rate cuts, although at this juncture, the Fed's demeanor is deemed to be relatively less urgent than the ECB's. In addition, look for any dislocation (or merely a shift lower) in the accompanying dot plots and macro forecasts. **It remains to be seen how long the current kneejerk positivity will persist but in the interim, expect the EUR to be heavy on the crosses especially for the likes of the EUR-AUD and EUR-CNH.**
- **Abandoning the tactical long EUR-USD.** Ahead of the FOMC and with upside EUR prospects dissolving slightly, we closed out our 07 Jun 19 idea to be tactically long **EUR-USD** (spot ref: 1.1266) at 1.1186 on Tuesday for an implied -0.72% loss.

Treasury Research &
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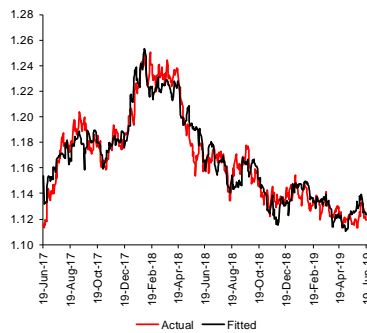
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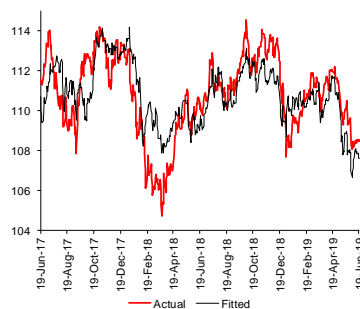
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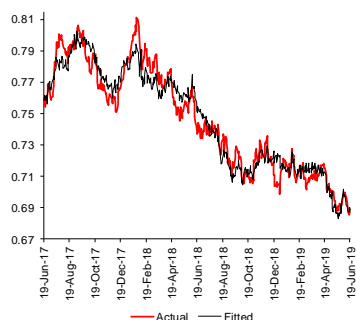
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EUR-USD

Stalling. With the reversal of policy posture by the ECB, expect EUR-USD to stay top heavy in line with its short term implied valuations. Expect the 55-day MA (1.1218) to cap with risks now skewed towards 1.1165.

USD-JPY

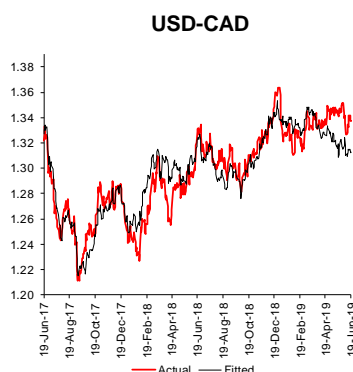
Range bound. The FOMC tonight will likely have a larger bearing on the pair than the BOJ MPC tomorrow. Expect range bound behavior to persist intra-day although we note that short term implied valuations remain capped. Expect USD-JPY to continue to orbit 108.50.

AUD-USD

Pause. The AUD will have to strike a balance between a dovish RBA and the (latest) improvement in Sino-US sentiment. Given the kneejerk pickup in global risk appetite levels from overnight, expect a 0.6840-0.6900 range to hold pending the FOMC.

GBP-USD

Heavy. Boris Johnson continued to tally up further support at the 2nd party polls on Tuesday. Meanwhile, the GBP may only partially benefit from the improvement in global risk appetite levels given the prevailing Brexit uncertainty. Prefer to fade up moves within 1.2500-1.2600.

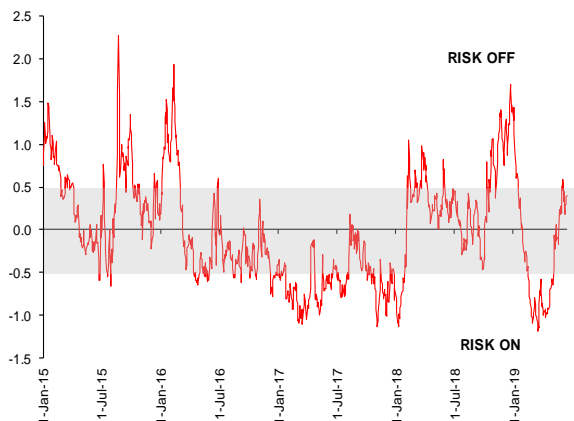


Supported range. The moderation in global trade tensions at this juncture and firmer crude from overnight may be expected to weigh on the USD-CAD in the near term. Structurally, this may permit the pair to attempt to re-converge with its heavy short term implied valuations again.

Asian Markets

- **USD-Asia: DOWNDRAFT.** Expect Asian FX to take cues from the renminbi complex (and positive EM equities) with the USD-CNH briefly south of 6.9000 early Wednesday in Asia. Expect the likes of the KRW, TWD, (and even SGD) to outperform although the generalized improvement in global risk appetite levels should see the regional pairs lower in general.
- **Asian central banks turning increasingly accommodative.** Latest rhetoric out of the **Bank of Thailand** and **Bank of Korea** (meeting minutes saw 2 members arguing for a rate, although the vote only saw 1 dissenter) thus far this week indicate that Asian monetary policy posture may be increasingly pliable to the downside.
- **Asian flow environment:** Significantly strong net bond inflows in South Korea, Thailand, and India have reached saturation point for now just ahead of the FOMC but a resumption of net bond inflows cannot be ruled out if investors continue to pay heed to the dovish guidance from global central banks. In the near term, expect also a further compression of net equity outflows (India and Thailand may in fact see a further strengthening in net equity inflows) on the back of the latest alleviation in Sino-US tensions.
- **USD-SGD: Soft.** The SGD NEER is firmer on the day at +1.53% above its perceived parity (1.3884) with NEER-implied USD-SGD thresholds softer on the day. Intra-day, expect the pair to remain drawn to its 200-day MA (1.3652).

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1218	1.1233	1.1300	1.1347
GBP-USD	1.2500	1.2512	1.2528	1.2546	1.2600
AUD-USD	0.6840	0.6842	0.6845	0.6900	0.6993
NZD-USD	0.6457	0.6482	0.6497	0.6500	0.6605
USD-CAD	1.3281	1.3400	1.3403	1.3416	1.3500
USD-JPY	107.82	108.00	108.35	109.00	110.09
USD-SGD	1.3650	1.3670	1.3700	1.3835	1.3837
EUR-SGD	1.5321	1.5326	1.5389	1.5400	1.5460
JPY-SGD	1.2527	1.2600	1.2644	1.2679	1.2700
GBP-SGD	1.7100	1.7141	1.7163	1.7183	1.7200
AUD-SGD	0.9300	0.9373	0.9378	0.9400	0.9400
Gold	1294.93	1300.00	1338.70	1355.40	1361.77
Silver	14.77	14.80	14.84	14.88	14.90
Crude	50.60	51.80	51.82	51.90	59.30

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	
	STRUCTURAL							
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	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

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