

Thursday, June 20, 2019

Market Themes/Strategy/Trading Ideas – A capitulating Fed

- The USD weakened across the board and UST yields tumbled (bull steepened as 2/10s pushed wider) as the FOMC, citing trade tensions and subdued wage pressures, laid the groundwork (note significant move in the dot plots) for potential rate cuts this year. Note that the 10y UST yield this morning also printed briefly below 2.0000%. Positive US/EM equities and improved risk appetite saw the **FXSI (FX Sentiment Index)** easing back into **Risk-Neutral** territory from Risk-Off territory.
- **Weak USD.** The metaphorical circle is now complete with the Fed's change in stance slightly more abrupt than expected with a July cut now seen as pretty much live. As mentioned previously, classic asset class behavior in this environment may prevail for now, with a bullish impetus for equities and (bull steepening) bond markets. Expect the USD to remain vulnerable (our rate differential indices have fractured lower - weighing against the USD) into the end of the week with investors still expected to remain vigilant with respect to Sino-US headlines.
- In the interim, expect USD weakness to manifest particularly against currencies with central banks perceived to be relatively less pliant or with little remaining latitude on the dovish spectrum. **To this end, apart from XAU, look to the CHF and JPY, while the NZD may also continue to outperform following better than expected 1Q GDP numbers reported early on Thursday.**
- Today's news feed is also expected to be fairly noisy with central bank meetings and appearances, especially given the outcome of the FOMC overnight. On this front, look to the BOJ MPC (0230 GMT), the RBA's Lowe at 0235 GMT, while ECB appearances include Rehn at 0630 GMT and Guindos 0730 GMT. In addition, the BOE MPC (1100 GMT) and Carney's speech at 1600 GMT will also be closely watched.

Treasury Research &
Strategy

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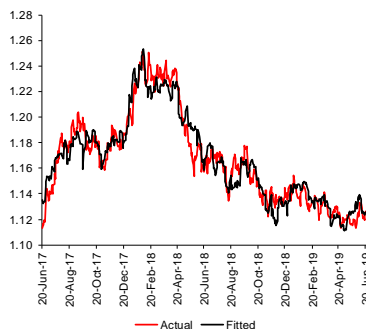
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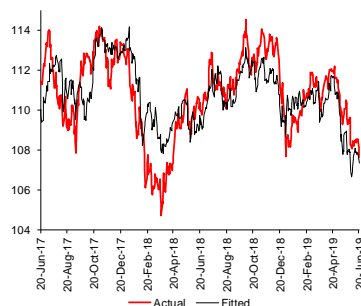
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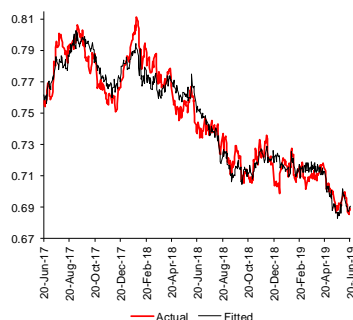
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EUR-USD

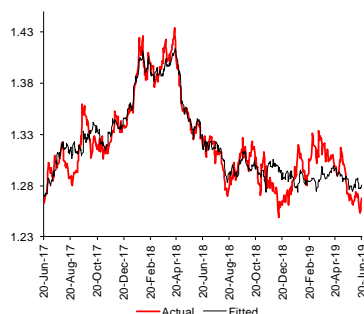
Supported. Short term implied valuations for the EUR-USD are looking supported post-FOMC. The 55-day MA (1.1220) may be expected to support for now pending further ECB appearances today. Topside, at the 100-day MA (1.1262) may also discourage for now, given also the ECB's dovish turn this week.

USD-JPY

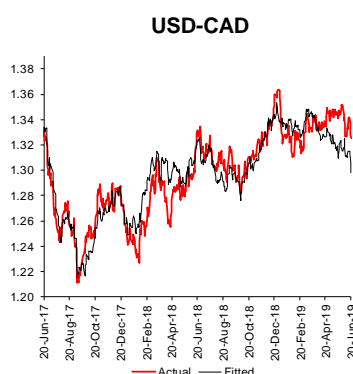
Drip lower. With 108.00 now perforated after the FOMC and short term implied valuations for USD-JPY slipping, look towards 107.20 in the near term even as markets await the BOJ MPC today.

AUD-USD

Pause. Dovish overtones from the RBA will be diluted by the latest FOMC in the near term. Amid countervailing influences therefore, expect further consolidative price action in the near term despite the still top heavy medium term outlook. Look for 0.6930 to cap with initial support expected towards 0.6865.

GBP-USD

Heavy. Ahead of the BOE MPC today, the pound may continue to ride off the back of the beleaguered dollar, especially with residual hawkish expectations still being attached to the BOE. Expect a supported 1.2600-1.2730 range.

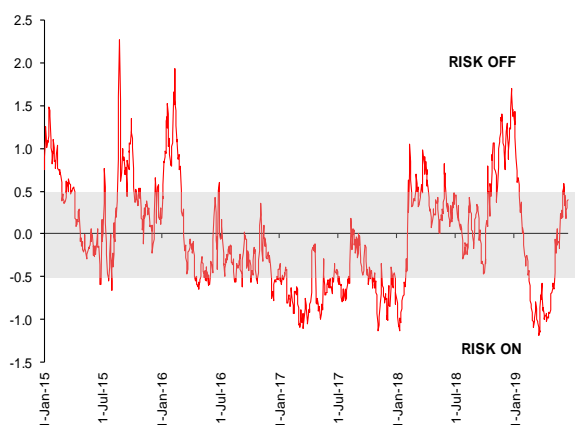


Southbound. Apart from the FOMC, the CAD was further underpinned by warmer than expected May core inflation. Notably, short term implied valuations for the USD-CAD have also ratcheted lower post-FOMC with the pair still trying to play catch up. Prospects for a further descent towards 1.3220 remain on the table at this juncture.

Asian Markets

- **USD-Asia: Dwindraft.** With the DXY and renminbi (USD-CNH printed briefly below 6.8900) aligning amid an environment of improving risk appetite, expect USD-Asia to continue to drive lower. Meanwhile, Asian govie yields are also expected to track global yields lower.
- Today, central policy meetings in Asia include **Bank Indonesia** at 0700 GMT, the **CBC** at 0800 GMT, and the **BSP** at 0800 GMT. The BSP is expected to ease further and while BI is expected to stand pat, the latest FOMC certainly would afford more policy latitude for Indonesia going ahead.
- **USD-SGD: Soft.** The SGD NEER this morning is firmer again at +1.65% above its perceived parity (1.3840) with NEER-implied USD-SGD thresholds also softer on the day. With the 200-day MA (1.3652) taken clean out, expect initial support now at the 100-day MA (1.3601). **Given the current policy stance, expect the basket to remain drawn towards the upper boundary of its fluctuation band.**

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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