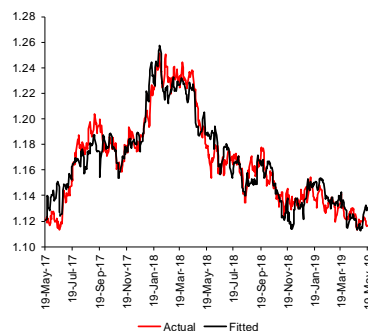


Tuesday, May 21, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- The dollar ended largely flat to slightly weaker against the majors in the wake of the Huawei news-flow. Comments from the Fed's Bullard and Bostic proved inconclusive with UST (and global bond) yields firming on the day. The AUD however stood out and outperformed across the board following the surprise election win by the (incumbent) Liberal-National coalition. EZ/US equities ended in the red as tech softened although the **FXSI (FX Sentiment Index)** slipped slightly within Risk-Neutral territory.
- **Staying wary on risk, central banks eyed.** Going ahead, Sino-US trade tensions may continue to dominate the landscape in the interim with the Chinese reaction increasingly taking on a hardline stance in response to more pointed approach by the US. If the temperature continues to rise, expect central banks to increasingly highlight the negative impact on growth prospects.
- This week, apart from Sino-US tensions, guidance from Fed-speak (Evans and Rosengren today) and ECB rhetoric may also provide more flavor. FOMC meeting minutes on Wednesday may provide a central focus for USD arguments while in the EZ front, Draghi is scheduled on Wednesday with ECB minutes on Thursday, and with EU parliament elections on Thursday. In the interim, we'd prefer to remain wary of further risk aversion.

EUR-USD



Fade upticks. Despite underpinned short term implied valuations, the EUR-USD may remain oriented south on broad dollar resilience. Expect a top heavy posture within 1.1130-1.1200

Treasury Research &
Strategy

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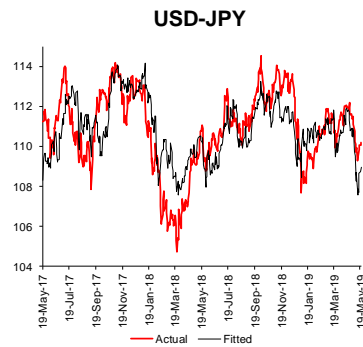
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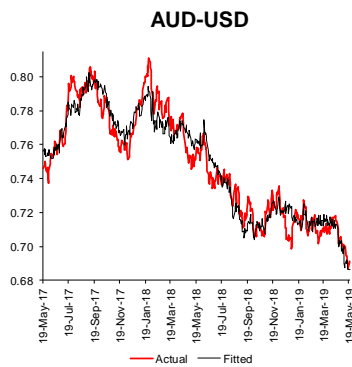
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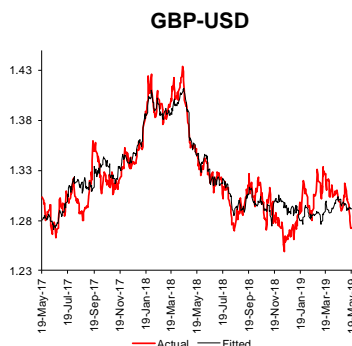
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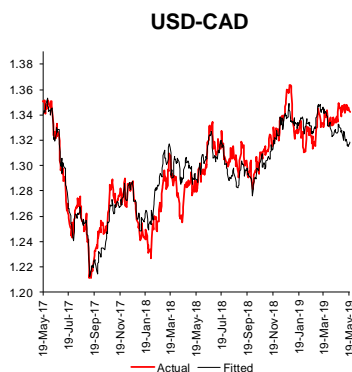
Underpinned for now. The USD-JPY remains trapped within flight to the USD and a market sitting on the edge of broader-based risk aversion. Short term implied valuations are however looking supported in the interim and 110.00 may serve as a near term anchor (for now) pending further news flow.



Dovish. RBA meeting minutes this morning entertaining prospects of a potential rate cut, election-related AUD resilience is not likely to persist. Look to Lowe's speech (0310 GMT) this morning for further cues but note very heavy short term implied valuations.



Slippery. Little redemption in sight is expected for the GBP-USD in the near term with PM May heading back to Parliament on Tuesday. Short term implied valuations remain soggy and the pair may continue to gravitate towards 1.2700.

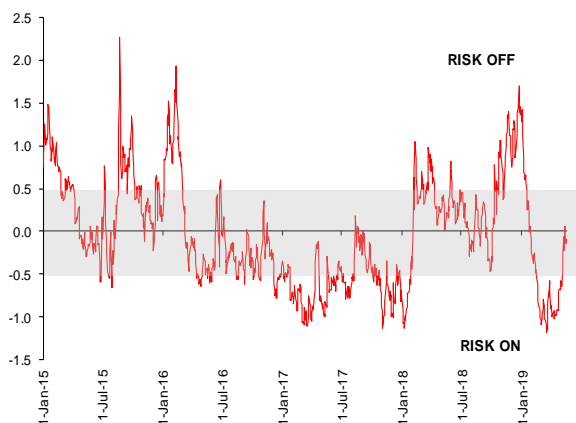


Topping out? With the crude complex looking supported, the USD-CAD may finally relent and consider aligning itself with still heavy short term implied valuations. Expect an attempt to consolidate lower towards the 55-day MA (1.3397).

Asian Markets

- USD-Asia: Eyes still on the RMB.** The USD-CNH was more suppressed on Monday, after hitting a high beyond 6.9500. Expect some consolidation at current levels to slow the ascent (with the authorities unlikely to relinquish the 7.0000 level in the near term). However, we think this level is by no means sacrosanct and for a more detailed view on the RMB complex, see [FX Viewpoint: Renminbi – “Flexibility”](#).
- On other fronts, the **INR** (and equities and bonds) shone on Monday after exit polls indicated a win for PM Modi’s coalition (vote count on 23 May) and investor goodwill may persist in the coming sessions.
- Asia flow environment: Equity inflow momentum continues to sink.** On an aggregate basis, equity inflow momentum on a rolling 20-day basis has retreated to neutral levels, in just three weeks after marking a high on 29 April. With the tech sector under pressure from the Huawei headlines, equity outflows from North Asia may continue to build. In South Korea, the overall situation is somewhat buffered by bond inflows. Meanwhile, shaky risk sentiments may not bode well for equity flows in South Asia in the upcoming sessions.
- USD-SGD: Path of least resistance may still be higher.** The SGD NEER continued on an easing path, standing at +1.28% above its perceived parity (1.3929), as NEER-implied USD-SGD thresholds continued its upward march. The USD-SGD sustained above the 200-week MA (1.3731) on Monday, and we think this level may turn into a near term support intra-day. Expect some consolidation for now, before eyeing 1.3780/00 levels if the trade war continues to see no resolution. Meanwhile, 1Q 2019 GDP came in at a softer than expected +1.2% yoy, although the saar qoq print at +3.8% outperformed.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1112	1.1135	1.1166	1.1200	1.1238
GBP-USD	1.2700	1.2715	1.2729	1.2800	1.2957
AUD-USD	0.6873	0.6900	0.6912	0.7000	0.7063
NZD-USD	0.6506	0.6514	0.6535	0.6600	0.6686
USD-CAD	1.3400	1.3401	1.3425	1.3500	1.3506
USD-JPY	109.02	110.00	110.14	111.00	111.04
USD-SGD	1.3653	1.3700	1.3754	1.3769	1.3790
EUR-SGD	1.5270	1.5300	1.5359	1.5400	1.5408
JPY-SGD	1.2253	1.2400	1.2488	1.2500	1.2563
GBP-SGD	1.7441	1.7500	1.7507	1.7600	1.7689
AUD-SGD	0.9456	0.9500	0.9507	0.9595	0.9600
Gold	1266.00	1268.52	1276.00	1290.48	1299.02
Silver	14.00	14.20	14.40	14.90	14.97
Crude	62.04	63.00	63.40	65.22	66.60

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								
2	19-Mar-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			
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	15-Apr-19	24-Apr-19	B	AUD-USD	0.7167	0.7055	Near term recovery in global macro sentiment	-1.61
2	24-Apr-19	03-May-19	S	GBP-USD	1.2933	1.3155	Sustained Brexit uncertainty and pressure to oust PM May	-1.64

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