Daily Market Outlook

Monday, July 22, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- Backed by slightly firmer US yields, the dollar climbed across the board on Friday as expectations of a 50bps rate cut receded. On this front, the WSJ article indicated that Fed officials were looking at a 25bps cut, while the Fed's Bullard noted that a 50bps rate cut would be excessive.

- Our **FXSI (FX Sentiment Index)** dipped back into the Risk-Neutral territory after one session in the Risk-Off zone. However, with Iran boarding and seizing a British oil tanker in the Straits of Hormuz last Friday, the overall risk outlook may still be jittery in the coming sessions, pending global political developments.

- On the **CFTC** front, large non-commercial accounts pared slightly their net implied long dollar bias in the latest week while leveraged accounts essentially maintained their net long dollar bias in the same period. Meanwhile, **asset manager accounts** increased their net implied short dollar bias in the latest week.

- **Tale of the two meetings.** No visibility from **Fed-speak** this week in view of the **blackout period** ahead of the 31 Jul 19 FOMC. With the Fed on lockdown, markets will instead be focused on the **ECB policy meeting** on Thursday, where risks may be skewed to a more dovish than expected outcome. With FOMC tail risks for a bullish cut at the end of the month, expect investors to remain top heavy on the **EUR-USD**.

- Elsewhere, the **RBA's Kent** is scheduled for 2230 GMT and **Lowe** also on Thursday and AUD-USD (and the other cyclicals) may be beholden to risk appetite gyrations in the coming sessions. **Overall, expect investors to remain hard pressed to trade off a unified theme, and expect instead a focus on idiosyncratic factors (ECB, risk appetite, China-related headlines) to drive the currency pair.**

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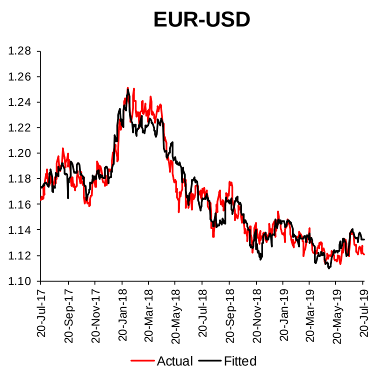
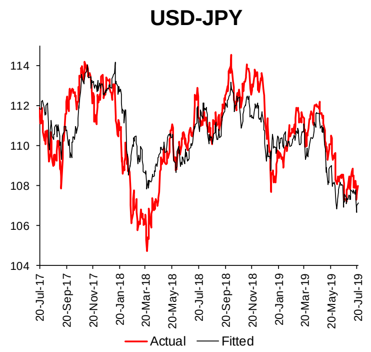
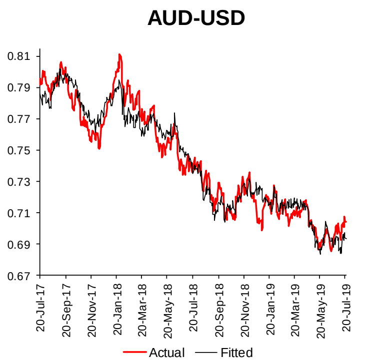


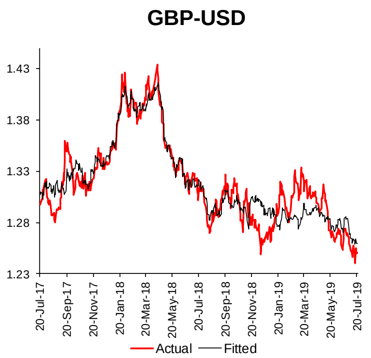
Heavy range. The EUR-USD was also weighed by Italian political uncertainty on Friday and with short term implied valuations under implicit pressure, expect the pair to continue eyeing the 1.1200 support ahead of 1.1160. In the interim, the 55-day MA (1.1242) and 1.1250 may be expected to defeat upticks.



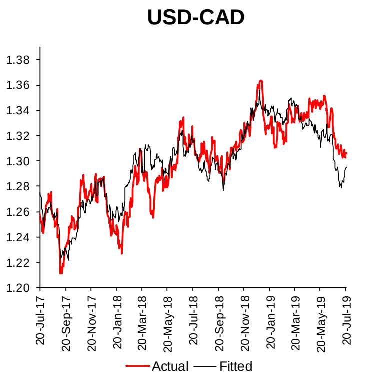
Trapped. Expect the 107.20/40 region to cushion with the USD seen maintaining some near term traction with the 55-day MA (108.66) also expected to cap for now. Abe's victory in the weekend Upper House Election (October sales tax to remain a focus) is not expected to disrupt the pair in the short term, with US-centric dollar prospects still expected to be a relatively significant influence instead.



Accumulate on dips. Pending further guidance from RBA rhetoric this week, AUD-USD may continue to bounce on dips (on the week, short term implied valuations have been relatively static) pending risk appetite gyrations. At this juncture 0.7000/20 is expected to support and investors may eye the 200-day MA (0.7090) instead.



Still bearish. The announcement of the new PM (expected to be Boris Johnson) is scheduled for Tuesday, with the Chancellor of the Exchequer threatening to resign if Johnson becomes PM. Layered with current USD resilience, upside resistances at the 1.2600 and the 55-day MA (1.2671) may continue to turn back GBP bulls while 1.2400/ may offer initial (if fragile) support in the coming sessions.



Rangy. Despite a structurally heavy posture, base building behavior in the USD-CAD may persist in the near term in line with short term valuations for the pair. Expect investors to ply a 1.3020-1.3100 range in the interim with the Canadian calendar relatively quiet this week.

Asian Markets

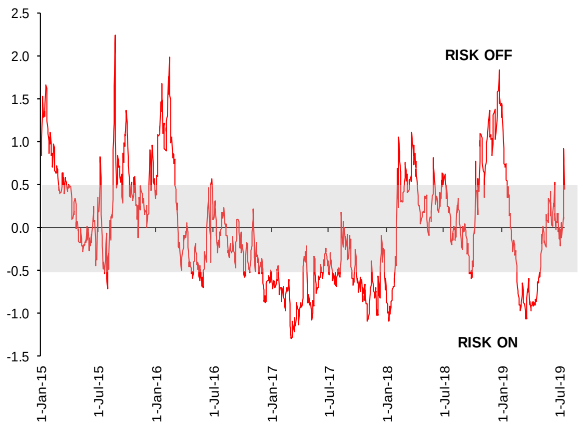
- **USD-Asia: Broadly supported, prefer South to North.** With the USD bounce on Friday, coupled by negative US/EM equities, USD-Asia may see some lift. Expect the USD to hold the upper hand in Asia at the onset of the week, and any expected FOMC-induced USD weakness may not translate into Asia at this juncture. A jittery risk environment (Iran issues) may further impinge on the Asian currencies. **Look to the RMB complex for potentially some stabilizing effects**, with the USD-CNH relatively unresponsive to the USD strength (as it was against USD weakness last week), and the CFETS RMB Index also effectively static around 93.00. We continue to prefer the South Asian currencies over the North on the back of better inflow dynamics.

- **Asian portfolio flows:** On the EPFR front, net implied outflows from Asian equities (excl Japan, China) increased slightly in the latest week but net implied bond inflows surged during the same period. In China, however, implied equity outflows have eased to near neutral levels. In the current context, continue to expect Asian bonds to be implicitly more attractive than equities.

- On the calendar, focus on Thailand's customs trade data (0330 GMT) and South Korea's 2Q GDP is due on Wednesday. In China, do not rule out possible headline risks from the July Politburo meeting.

- **USD-SGD: Domestic concerns in focus for now.** Data points this week include June CPI (Tue) and June industrial production numbers (Fri) and further significant disappointments may continue to cement expectations of a slope flattening the October MAS MPS (Monetary Policy Statement). In the interim, risks are skewed towards the 200-day MA (1.3633) and the 55-day MA (1.3648). On the SGD NEER front, we stand at +1.16% above its perceived parity (1.3768) this morning. At this juncture, continue to expect the +1.00% and +0.50% above parity levels to attract, with the pace of descent also bear watching.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1181	1.1200	1.1215	1.1245	1.1300
GBP-USD	1.2391	1.2500	1.2504	1.2600	1.2637
AUD-USD	0.6955	0.7000	0.7040	0.7072	0.7082
NZD-USD	0.6700	0.6722	0.6767	0.6785	0.6791
USD-CAD	1.3011	1.3016	1.3064	1.3100	1.3155
USD-JPY	107.00	107.18	107.96	108.00	108.53
USD-SGD	1.3523	1.3600	1.3613	1.3624	1.3633
EUR-SGD	1.5200	1.5218	1.5268	1.5300	1.5347
JPY-SGD	1.2575	1.2600	1.2609	1.2651	1.2682
GBP-SGD	1.6870	1.7000	1.7022	1.7100	1.7221
AUD-SGD	0.9492	0.9500	0.9583	0.9600	0.9603
Gold	1392.87	1400.00	1426.50	1431.73	1454.40
Silver	16.00	16.10	16.12	16.20	16.51
Crude	53.01	54.00	56.10	57.32	57.81

Source: OCBC Bank

Trade Ideas

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