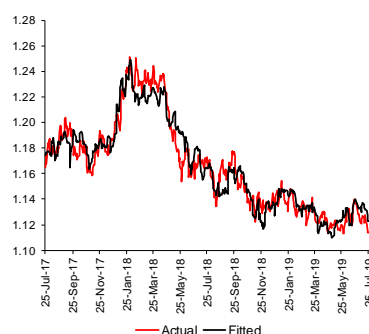


Thursday, July 25, 2019

Market Themes/Strategy/Trading Ideas

- Despite the US Treasury Secretary stating that a strong dollar was good for the US economy, the USD ended mixed against the majors on Wednesday, with the AUD undermined by heightened rate cut expectations, the EUR unsteady ahead of the ECB on Thursday and disappointing data releases, but the GBP retracing slightly higher on cited EUR-GBP selling and ostensibly on some profit taking in the GBP-USD. Elsewhere, the US data feed also disappointed (July PMIs and June new home sales) and UST yields fell on the day, taking its cue from bunds.
- Positive global equities kept global investor appetite afloat on Wednesday, with the **FXSI (FX Sentiment Index)** still loitering in Risk-Neutral territory (albeit ticking slightly higher).
- **For today, continue to expect inherent vulnerability in the EUR and the GBP, while the upside for the cyclicals may have been neutralized for now.** Specifically, the **ECB policy meeting** (1145 GMT) and Draghi's press conference (1230 GMT) will be closely scrutinized today. Base case is for the ECB's forward guidance to soften, laying the groundwork for a September rate cut. If however, the ECB delivers a 10bps rate cut (as expected by some quarters in the market), expect the EUR to continue to melt. **On a relative structural basis, we'd also continue to expect the EUR-CNH to grind lower towards the 7.6000 region.**

EUR-USD

Bearish. Disappointing July EZ and German flash PMIs on Wednesday sank the EUR-USD on Wednesday. With short term implied valuations for the pair still heavy and ahead of the ECB later today, expect an implicit bias towards 1.1100 to persist.

Treasury Research &
Strategy

Emmanuel Ng

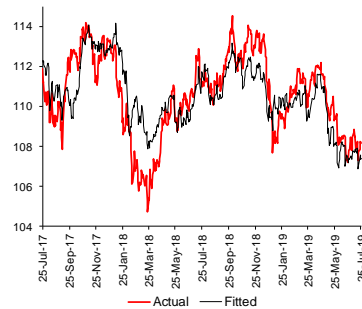
+65 6530 4037

ngcyemmanuel@ocbc.com

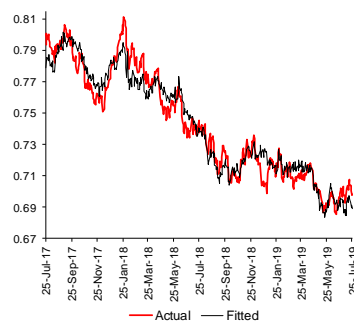
Terence Wu

+65 6530 4367

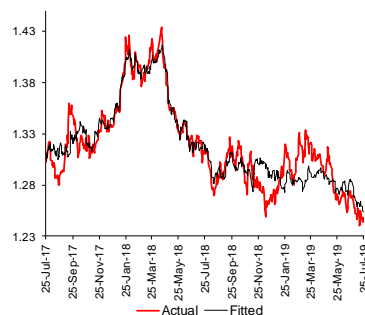
TerenceWu@ocbc.com

USD-JPY

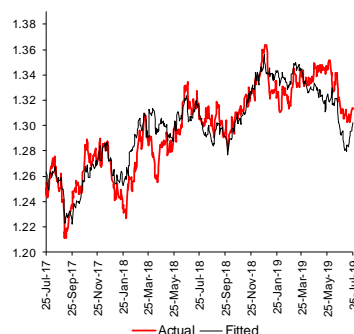
Neutral. USD-JPY may remain slightly supported on dips with short term implied valuations holding steady. Look towards generalized risk appetite levels and US yield for further cues. In the interim, continue to expect an orbit around 108.00 with the 55-day MA (108.55) seen capping and 107.50 offering initial support.

AUD-USD

Stall and reassess. A speech by the RBA's Lowe at 0305 GMT may set the tone for the rest of the global session. In the interim, the AUD-USD may continue to be under water with short term implied valuations continually rejecting the upside. The 55-day MA (0.6957) remains fair game.

GBP-USD

Keep Calm & Stay Bearish. With the new Cabinet staffed by pro-Brexiteers, markets will be watching to see if the EU will relent and re-negotiate the Withdrawal Agreement, with UK PM Johnson apparently now calling their bluff. In the interim, expect some base building behavior around the 1.2400 floor with 1.2550 seen limiting pending further headline risks despite short term implied valuations still decaying.

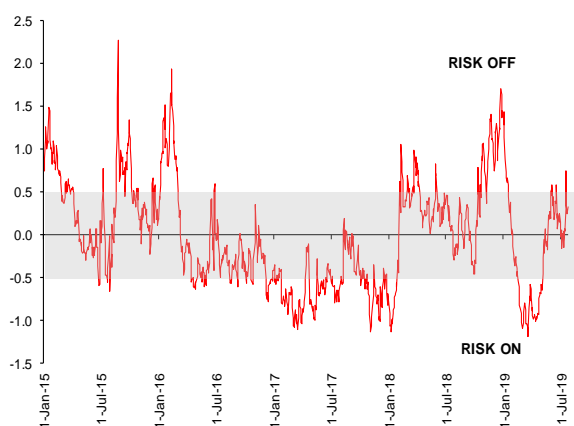
USD-CAD

Bottomed out. Core near term view remains unchanged and the USD-CAD may continue to reassess higher, buoyed by its short term implied valuations. Look for potential to reach towards 1.3175 before 1.3200 as differing monetary postures (BOC vs. FOMC) are sidelined at this juncture.

Asian Markets

- **USD-Asia:** A supported equity sentiment and a softer USD-CNH from overnight (anchor of stability for the region) may serve to temper undue USD strength in the near term. Continue to watch for volatility in the risk appetite environment, with the **Turkish central bank** policy decision (under the new governor) today to be closely watched. **In the interim, we find that carry, either in broader EM or within Asia, has continued to perform in the month to date.**
- **PBOC governor Yi Gang** downplayed outright rate cut prospects on Wednesday although investors continue to believe that the authorities would utilize its fairly comprehensive toolkit to manage liquidity and growth risks. Expect a slight heavy tone for the **USD-CNH**, with negative pressure from cross selling in the **EUR-CNH** front and investors perhaps looking for some easy positives for next week upon the resumption of Sino-US trade meetings. Meanwhile, **South Korea's** positive surprise in the **2Q GDP** numbers (+2.1% yoy) may not bring much cheer given the dour prognosis.
- **Asian portfolio flows:** Bond flow momentum has continued to deteriorate quickly for South Korea and Thailand. In particular, the Thai bond flows have nudged into a slight outflow territory. In contrast, bond flows into high-yielders, Indonesia and India remain relative resilient. With overall inflow momentum for South Korea capitulating lower, Indonesia is the only economy with positive traction on the inflow front. For now, expect no significant background support for the Asian currencies from the flows front.
- **USD-SGD: Upside risks.** The locus around 1.3650 (55-week MA) held for the USD-SGD though the upside bias remains. Risks towards 1.3680 may remain non-trivial in the near term given the change in the market's tilt towards the October MAS MPS (Monetary Policy Statement). Short term vols have picked up of late but the vol surface remains less than convinced at this juncture. On the SGD NEER front, we sit now at +1.12% above its perceived parity (1.3798), slightly firmer compared to the previous session. NEER-implied USD-SGD thresholds eased slightly on the day.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1127	1.1128	1.1138	1.1200	1.1242
GBP-USD	1.2385	1.2400	1.2483	1.2500	1.2613
AUD-USD	0.6934	0.6959	0.6983	0.7000	0.7070
NZD-USD	0.6619	0.6700	0.6706	0.6725	0.6786
USD-CAD	1.3016	1.3100	1.3134	1.3159	1.3200
USD-JPY	107.37	108.00	108.13	108.44	108.85
USD-SGD	1.3600	1.3631	1.3644	1.3645	1.3654
EUR-SGD	1.5189	1.5191	1.5197	1.5200	1.5339
JPY-SGD	1.2583	1.2600	1.2619	1.2659	1.2682
GBP-SGD	1.6881	1.7000	1.7033	1.7100	1.7158
AUD-SGD	0.9495	0.9500	0.9528	0.9600	0.9604
Gold	1392.80	1400.00	1423.30	1434.62	1454.40
Silver	16.51	16.53	16.55	16.60	16.80
Crude	54.51	56.00	56.03	56.10	57.00

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
