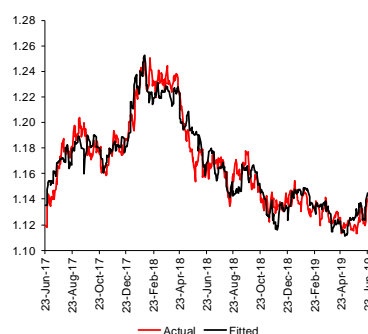


Tuesday, June 25, 2019

Market Themes/Strategy/Trading Ideas

- Despite some cautionary comments (regarding rate cuts) from the Fed's Kaplan, Monday saw yet more broad USD vulnerability amidst softer UST yields (10y yield just a whisker above 2.000%) and as FOMC rate cut expectations continued to circulate (note further criticism of the Fed by Trump). Although not wholly representative, note that the DXY closed below 96.00 on Monday following a clean technical break of a trend line from Sep 18, with the 2019 low at 95.03 now within sight. Global equities were lackluster at the start of the week while the **FXSI (FX Sentiment Index)** ticked higher within **Risk-Neutral** territory.
- **Watch headline risks.** Watch for headline risks today, with the lineup today including the RBA's Bullock (0705 GMT), the ECB's Guindos (0715 GMT), Fed's Williams (1245 GMT) and Bostic (1600 GMT). Fed chair Powell's scheduled appearance at 1700 GMT will be closely scrutinized, and following that, look also to the ECB's Coeure (1715 GMT), and the Fed's Barkin (1930 GMT) and Bullard (2230 GMT).
- **USD negativity.** With key technical levels violated on several fronts, USD weakness may yet prevail (continue to watch the **CHF, XAU, and TU/TY**) while markets bounce between the upcoming G20 meeting in Osaka (USTR Lighthizer spoke with China VP Liu He on Monday), Japan, imminent Fed rate cuts, and still simmering US-Iran tensions (note new US sanctions on Monday).

EUR-USD



Firming. The June German Ifo proved mixed but note that the EUR-USD has closed above its 200-day MA (1.1348). While some pause at 1.1420-1.1435 may be expected in the near term, short term implied valuations continue to push higher.

Treasury Research &
Strategy

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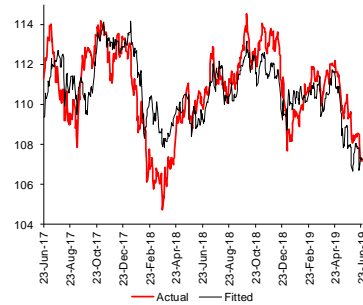
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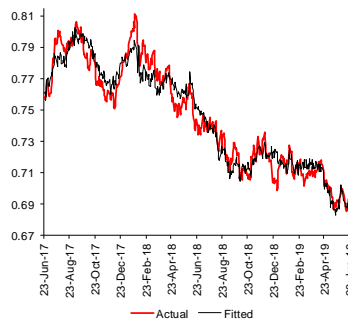
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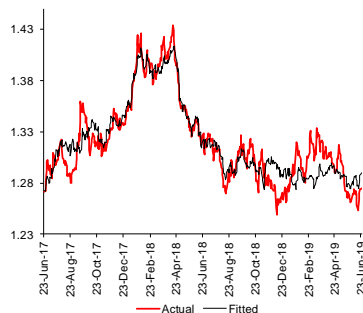
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USD-JPY

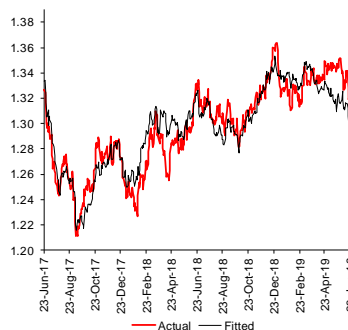
Drip lower. USD-JPY may continue to remain under the weather (i.e., top heavy) although short term implied valuations are attempting to consolidate. Expect some base building in the 106.90/00 neighborhood.

AUD-USD

Collect dips. AUD-USD may attempt to search higher in the current environment with the 55-day MA (0.6988) expected to cap in the near term. Note that short term implied valuations are also basing out.

GBP-USD

Limited upside. Given the negative overhang from the Conservative Party leadership race, expect upside for the GBP-USD to remain limited, with a tangle of resistance levels on approach of the 1.2800 zone. Bouncing short term implied valuations meanwhile may indicate support towards the 1.2700 area.

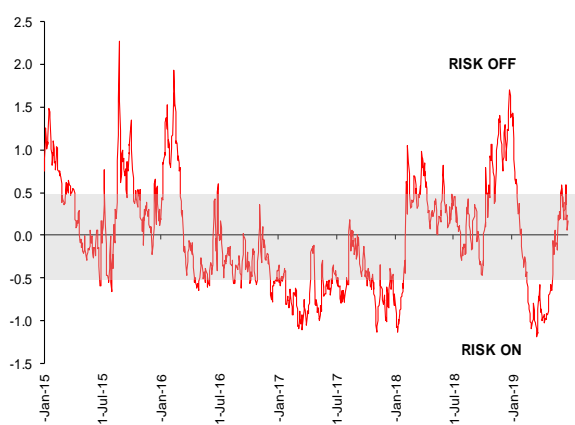
USD-CAD

Southbound. USD-CAD is expected to continue to shadow its short term implied valuations lower although some base building may occur towards 1.1330/50 at this juncture. Initial resistance meanwhile is expected on upticks towards 1.3215.

Asian Markets

- **USD-Asia: Heavy from portfolio flows for Asian FX and bonds.** USD-Asia diverged from the RMB complex on Monday, with the Asian currencies seeing background support from a good run of equity and bond inflows. In contrast, the USD-CNH looked flat-to-higher and the CFETS RMB Index turned lower ahead of the G20 meeting. With the USD still on the back-foot, continue to expect a lower USD-Asia for now.
- The **RBI** lost its Deputy Governor Acharya, who resigned citing “unavoidable personal circumstances”. Considered as a policy hawk, this departure may further tilt the balance at the RBI towards the dovish end of the spectrum (and raise questions on central bank independence), perhaps heralding further rate cuts to come. In the near term, Indian govie bonds continue to attract inflows, and we expect yields to be further biased lower.
- **Asian flow environment: Supportive.** On the flow front, net bond inflows for South Korea remain underpinned while net equity outflows continue to compress. Net equity outflows in Taiwan have also narrowed to almost neutral levels. In India, net bond inflows are persisting despite some consolidation in net equity inflows. For Indonesia, aggregate net flows have flipped to an inflow environment with a sharp pick up in net bond inflows while equity flows are neutral. Elsewhere in Thailand, net bond inflows remain at significantly strong levels while net equity inflow momentum has been accelerating. In Malaysia and the Philippines, the compression in net equity outflows has brought the balance back to almost neutral levels.
- **USD-SGD: Bottoming soon?** The USD-SGD continued to shade lower on Monday in the face of broad USD weakness but note that the SGD NEER has remained effectively static at +1.73% above its perceived parity (1.3762). NEER-implied USD-SGD thresholds, meanwhile, is still pointing south. Nevertheless, with the 100-week MA (1.3529) taken out, we think the 1.3500 floor may serve as a stronger support level in the interim. Any bounce may be capped at 1.3660 for now.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1348 | 1.1400 | 1.1408 | 1.1410 | 1.1419 |
| GBP-USD | 1.2547 | 1.2700 | 1.2752 | 1.2790 | 1.2800 |
| AUD-USD | 0.6853 | 0.6900 | 0.6966 | 0.6971 | 0.7000 |
| NZD-USD | 0.6589 | 0.6600 | 0.6645 | 0.6674 | 0.6682 |
| USD-CAD | 1.3132 | 1.3151 | 1.3175 | 1.3200 | 1.3286 |
| USD-JPY | 107.00 | 107.05 | 107.12 | 108.00 | 109.54 |
| USD-SGD | 1.3507 | 1.3521 | 1.3523 | 1.3600 | 1.3649 |
| EUR-SGD | 1.5330 | 1.5400 | 1.5427 | 1.5475 | 1.5478 |
| JPY-SGD | 1.2564 | 1.2600 | 1.2624 | 1.2665 | 1.2700 |
| GBP-SGD | 1.7165 | 1.7200 | 1.7245 | 1.7300 | 1.7438 |
| AUD-SGD | 0.9361 | 0.9400 | 0.9420 | 0.9500 | 0.9522 |
| Gold | 1400.00 | 1416.02 | 1424.00 | 1424.10 | 1500.00 |
| Silver | 14.91 | 15.40 | 15.48 | 15.50 | 15.50 |
| Crude | 50.60 | 57.80 | 57.86 | 57.90 | 58.86 |

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 | | | | | | | | |
| | --- | | | | | | | |
| 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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