

Friday, July 26, 2019

Market Themes/Strategy/Trading Ideas

- **Draghi disappoints.** US June durable goods order numbers released overnight strongly outperformed prior expectations and pulled UST yields higher, with the curve bear flattening. This saw the dollar gaining ground against most of the majors. Bund yields also moved higher in tandem after comments from the ECB's Draghi were not excessively dovish.
- Meanwhile, the **ECB** remained static and disappointed pockets of the market expecting a 10bps rate cut, allowing the EUR-USD toned flat on the day after some intra-day volatility. The ECB's Draghi all but laid the groundwork for a September cut (including restarting asset purchases and a tiered deposit system) and noted that the outlook was "getting worse and worse" but added that risks of a EZ recession was "pretty low". Markets were however disappointed with the lack of clarity, allowing the EUR-USD to bounce off intra-day lows.
- On the risk appetite front, the **FXSI (FX Sentiment Index)** fell within Risk-Neutral territory, with global investor appetite picking up in the wake of the ECB and US data feed.
- **USD resilience.** The current optics indicate that the USD may be expected to retain the upper hand into the end of the week, with the consensus (among analysts) settling on insurance cuts (as opposed to a full blown and urgent rate cutting cycle). **Meanwhile, in the wake of Draghi's comments, hitherto heavy EUR-crosses are now expected to be taken off the table in the short term.**



Still bearish. A less dovish than expected outcome from the ECB meeting on Thursday may stave off undue downside in the short term. While a 1.1100-1.1200 range may hold today, we think the common currency however remains inherently fragile (note the disappointing German July Ifo) beyond the short term with short term implied valuations for the EUR-USD still depressed post-Draghi.

Treasury Research &
Strategy

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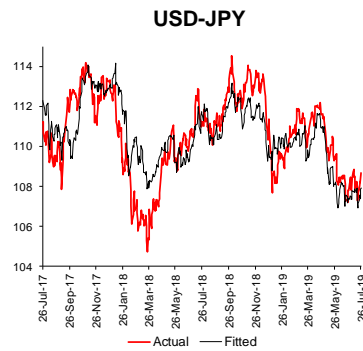
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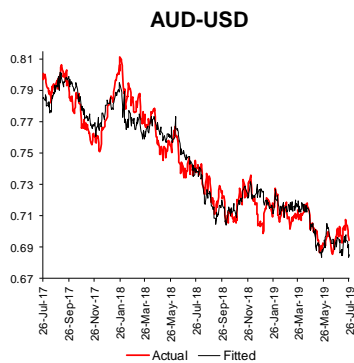
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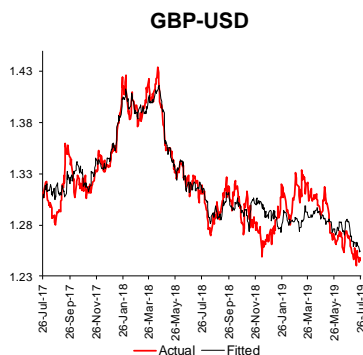
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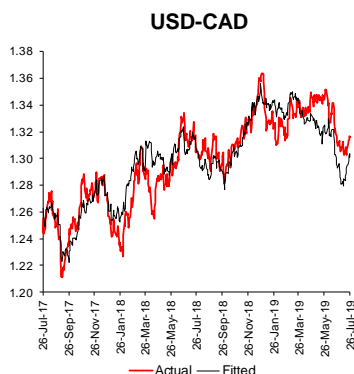
Tipping higher. Firmer US yields would dictate a firmer profile for the USD-JPY with short term implied valuations also tipping higher following overnight developments. After surfacing above its 55-day MA (108.54), USD-JPY may now contemplate 108.80 before 109.00.



Descend. The RBA's Lowe remained sufficiently bearish on Thursday and juxtaposed with the FOMC view for next week, the AUD-USD is seen progressively heavier. Short term implied valuations have inched lower and after dipping below the 55-day MA (0.6956), 0.6910 may now attract.



Keep Calm & Stay Bearish. The GBP-USD was also guided lower by the broad dollar climb overnight. Into the end of the week, expect the pair to continue to base build around the 1.2400 floor with short term implied valuations sitting incrementally softer over the past week. Elsewhere, note that the EU has rejected the UK's demand that the Irish backstop be struck off the Brexit deal.

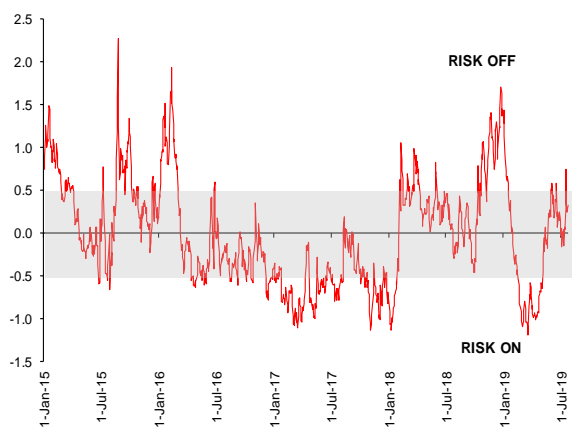


Bottomed out. USD-CAD may resist downside probes at this juncture within 1.3120-1.3200 given the recent retracement higher in the short term implied valuations for the pair.

Asian Markets

- USD-Asia: Implicit lift.** USD-CNH still shaded lower overnight but the buoyancy of the broad dollar may continue to float the regional pairs higher. Going forward, the **USD-KRW** (limited positive traction from 2Q GDP print) and **USD-THB** (pushing the key 31.00 handle) are expected to be more reactive on the upside, given the recent sharp moderation in their inflow momentum. In contrast, the **USD-IDR** may be relatively more anchored.
- USD-SGD: Upside risks.** Investors will be on the lookout for data again, with June IPI numbers scheduled at 0500 GMT. Overnight USD resilience took the USD-SGD towards the 1.3680, with further upside still expected. The next upside targets may be the 1.3700, and the 1.3713 (200-week MA). The SGD NEER hit sub +1.00% above parity levels this morning, standing at around +0.99% above its perceived parity (1.3813), with NEER-implied thresholds also higher. **At this juncture, a further extension towards the +0.50% above parity (1.3744) and parity levels in the coming weeks is a real prospect.**

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								
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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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