Daily Market Outlook

OCBC Bank

Thursday, June 27, 2019

Market Themes/Strategy/Trading Ideas

- Despite a pause in market expectations for an excessively dovish Fed (note underlying backwash with XAU and CHF softer), the dollar traded softer against most of its peers on Wednesday, with the cyclicals outperforming across the board while the JPY also lagged its peers. This was also despite further criticism of Powell by Trump. Elsewhere, the NZD led the way higher within G10 space as although the **RBNZ** adopted a dovish tilt, accompanying rhetoric was not concrete enough to imply an August rate cut.

- UST yields were slightly firmer (note supportive May durable goods orders numbers) with core global govie curves also in tow. Uneven global equities and background caution saw the **FXSI (FX Sentiment Index)** essentially holding steady within within **Risk-Neutral** territory.

- **CNH-JPY a key barometer.** Expect **Sino-US headlines** to continue to bounce the markets around today with the mis-intepreted comments from US Treasury Secretary Mnuchin providing mild volatility yesterday. Market caution may continue to prevail despite Trump indicating that he may impose lower tariffs of 10% (instead of 25%) in a no-deal situation. **On this front, look to a potentially higher CNH-JPY (target zone around 15.80) if headlines continue to point to a compromise between the US and China.**

- **Taking profit on short AUD-JPY.** In a similar vein, we closed out our 14 May 2019 idea to be tactically short AUD-JPY (spot ref: 76.120) this morning at 75.284 for an implied +0.86% gain.

- The central bank calendar quietens down today with the ECB's Nowotny at 1600 GMT while notable data releases include EZ Jun confidence indicators (0900 GMT), German June CPI (1200 GMT). US data point include weekly initial claims (1230 GMT), May pending home sales (1400 GMT), and the June Kansas Fed (1500 GMT).

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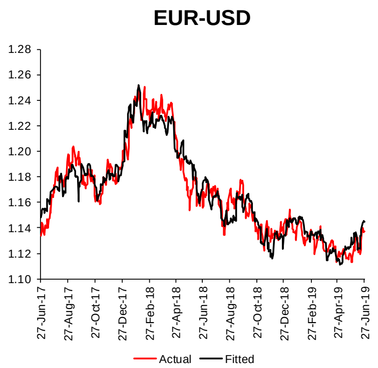
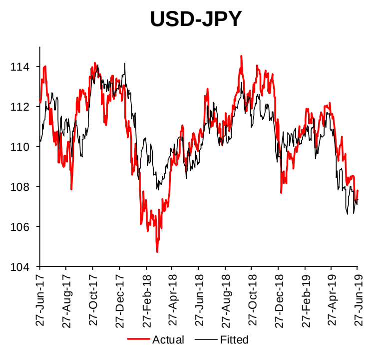
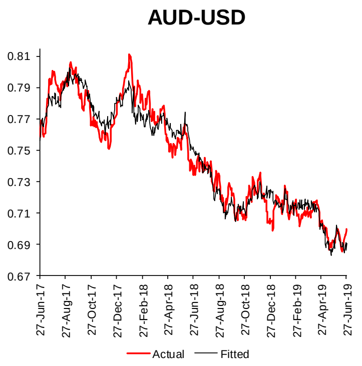


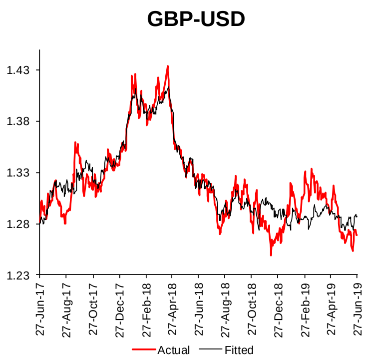
Pit stop. In the current environment, EUR-USD may remain slightly lead footed despite firm short term implied valuations. As noted previously, look to bounce any dips to the 200-day MA (1.1344) while 1.1400 should cap intra-day.



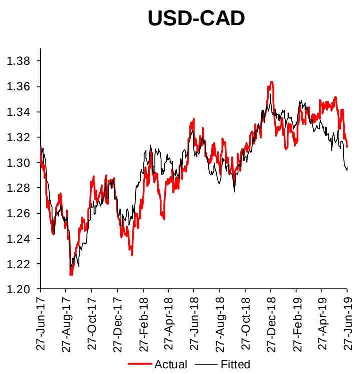
Bottom for now? Short term implied valuations for USD-JPY are pausing slightly after the recent slide and the pair may find a near term locus around the 108.00 neighborhood at this juncture. Expect a cap towards 108.40.



Collect dips. Although short term valuations for AUD-USD are exhibiting little drift currently, the pair may continue to be lifted incrementally higher if investors continue to attempt to impute optimism towards the G20 meeting (note SCMP headlines on Thursday). Expect some room to inch away and north from the 55-day MA (0.6982) but expect the pair to gas out on approach of the 0.7035 region.



Topping out? Given the current Brexit-related arc, prospects for the GBP-USD may continue to remain dim despite supported looking short term implied valuations. Expect a top heavy range within 1.2640-1.2750.



Southbound. Short term implied valuations remain suppressed for USD-CAD and investors may continue to take the pair lower if FOMC rate cut expectations remain substantial and resultant G20 headlines from this week are not unduly negative. Technically, the USD-CAD is already riding the rails of its near term envelope and may base out intra-day near 1.3770/80.

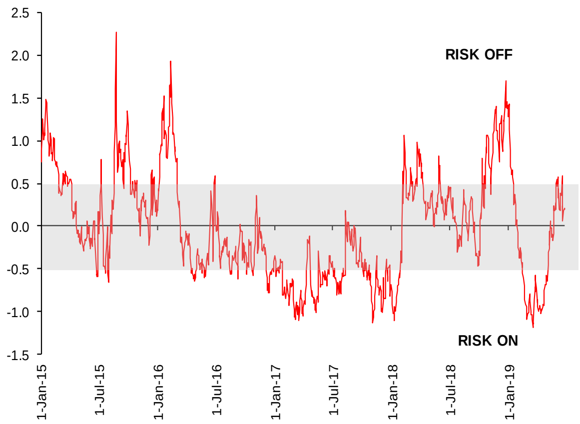
Asian Markets

- **USD-Asia: Twiddling thumbs until Xi-Trump meeting.** Slightly firming EM equities/FX from overnight provides a marginal risk-positive tone at the start of the Asian session today, despite a deluge of Trump headlines. This may perhaps give USD-Asia some downside pressure intraday, but we think any dip will be shallow. Overall, the playbook remains basically unchanged as we inch closer to the G20 meeting, and expect USD-Asia to bide time ahead of the outcome of the Xi-Trump meeting.

- The **Bank of Thailand** kept rates unchanged at 1.75%, although a softening stance may be detected from a shift in the statement itself. Downgrades were also made in terms of GDP and exports growth forecasts, underlying the worsening macro outlook. The BOT also strongly referenced capital inflows and THB strength. We note that the THB has outperformed Asian counterparts on NEER term year-to-date. Note also, that the BOT's rate hike cycle had been shallow (one 25 bps hike in Nov 2018). On net, while we think the BOT may fall in-line with the easing bandwagon, we think their scope to cut rates may be limited.

- **USD-SGD: Consolidation.** The USD-SGD stayed within a tight range on Wednesday. Investors may stay on the sidelines ahead of the G20 meeting, so we look for this pair to continue trading sideways into the end of the week, with support at 1.3520 and resistance at 1.3580. The SGD NEER eased overnight to stand +1.73% above its perceived parity (1.3776) this morning, after hitting a high of +1.85%. NEER-implied USD-SGD thresholds also eased on the day. Meanwhile, May industrial production contracted -2.4% yoy, underperforming expectations of -1.8%.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1344	1.1363	1.1400	1.1412
GBP-USD	1.2561	1.2600	1.2683	1.2700	1.2783
AUD-USD	0.6900	0.6964	0.6995	0.7000	0.7023
NZD-USD	0.6588	0.6600	0.6679	0.6693	0.6698
USD-CAD	1.3100	1.3107	1.3127	1.3200	1.3288
USD-JPY	107.00	107.19	107.97	108.00	109.01
USD-SGD	1.3508	1.3521	1.3543	1.3600	1.3647
EUR-SGD	1.5300	1.5335	1.5388	1.5400	1.5474
JPY-SGD	1.2472	1.2500	1.2542	1.2550	1.2600
GBP-SGD	1.7123	1.7140	1.7176	1.7200	1.7412
AUD-SGD	0.9361	0.9400	0.9473	0.9500	0.9512
Gold	1310.77	1400.00	1409.30	1425.57	1433.30
Silver	14.93	15.20	15.21	15.30	15.49
Crude	59.10	59.12	59.17	59.20	59.50

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						
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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

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