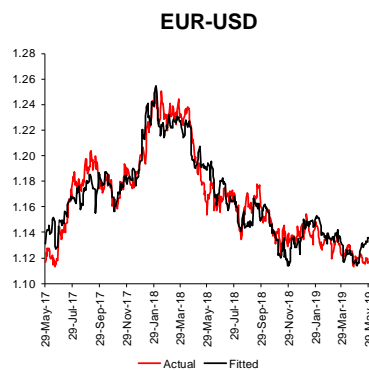


Wednesday, May 29, 2019

### Market Themes/Strategy/Trading Ideas

- The dollar benefited from a safety bid and stronger-than-expected data-prints overnight to close firmer against the majors, with the exception of the JPY and AUD. The EUR underperformed on renewed Italian-EU fiscal tensions, while the JPY rose on haven demand. The 10y UST yields slipping to 2.26%, deeper inversion on the 3m10y curve and negative EU/US equities all conspired to push our the **FXSI (FX Sentiment Index)** higher towards the Risk-off boundary, while staying within Risk-Neutral territory.
- Trade tensions and the prospect of softer global growth are still the main themes weighing on the market, although we saw no new catalyst on these fronts. Even as the Treasury market primes itself further for a Fed rate cut, the FX market appeared to trade on risk appetite gyrations for now. This dynamic may persist in the interim, with the data calendar light in the US today. Elsewhere, the **Bank of Canada** is expected to be unchanged later today (1400 GMT). Investors would probably want to focus more on the RBA and ECB next week.
- **Risk sentiments back on the centre stage.** With the market shifting back to trading on risk appetite cues, we think dollar negativity may have run its course for now. Nevertheless, we cast a watchful eye on the PCE inflation and GDP prints in the upcoming sessions, as downside surprises on this front may re-instate USD negativity. In the interim, we prefer to back the broad dollar against the majors, and also be negative on the JPY-crosses.



**Pop fizzled.** The post-EU elections pop continued to fizzle, as EU-Italian fiscal issues stayed on the headlines. Short term implied valuations point higher, but is providing little support for the EUR-USD. Look for 1.1150 to support the pair in the interim, while the 55-day MA (1.1231) should cap any bounce.

Treasury Research &  
Strategy

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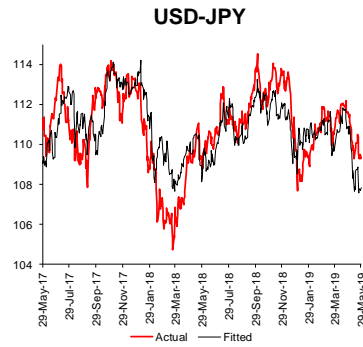
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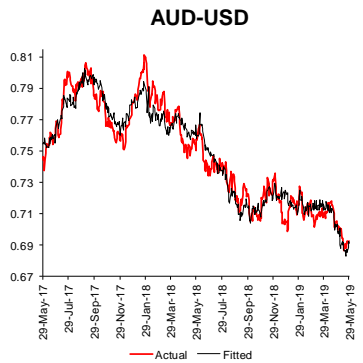
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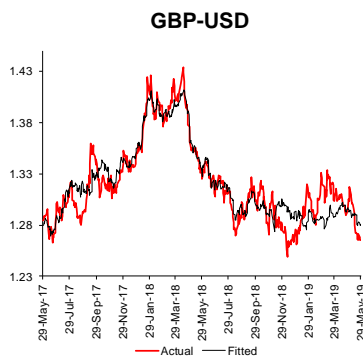
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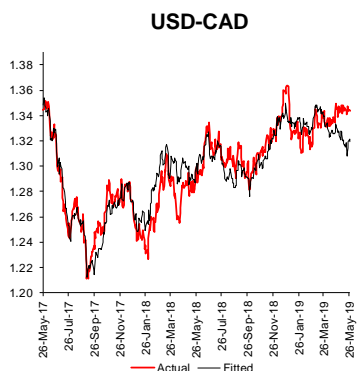
**Heavy posture.** Expect the USD-JPY to retain a heavy posture on the back of slumping US yields, and with short term implied valuations pointing lower still. 109.00 will now be in sight, and further failure at that level should open up the possibility of a deeper extension lower. Resistance at 109.80.



**Looking towards next week.** Short term implied valuations ticked higher, perhaps providing some support for the AUD-USD in the near term. Nevertheless, it remains difficult to build a case for sustained AUD recovery, and up-moves are likely to be kept under 0.6950 for now. Structural impediments continue to persist, with investors likely to keep a close watch on the RBA meeting next week.



**No cause for optimism.** Odds of a no-deal Brexit continue to grow for now, with the EU not looking to re-negotiate the divorce deal. Precious little seems to be going well for the GBP-USD at this point. Expect the pair to be biased lower still, although the pace of decline may ease towards 1.2600.

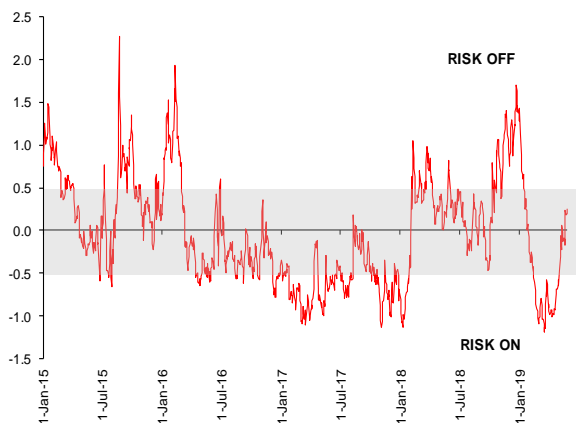


**Range bound.** The top band of the recent 1.3400-1.3500 range may be at risk, pending the Bank of Canada meeting later. Short term implied valuations ticked higher in the interim.

## Asian Markets

- USD-Asia: Back on the (long) march higher?** The USD-CNH pushed higher again on Tuesday, with USD-KRW largely in tow. The USD-CNY midpoint fix this morning continued to signal PBoC intentions, but a slow drift higher by the USD-CNY (and USD-CNH) within the 6.9000-6.9500 range cannot be ruled out at this stage. Overnight, firmer EM equities did not provide support for EM FX, while a soft opening for Asian equities also provide buoyancy for USD-Asia. Overall, we think the recent consolidation in USD-Asia on the back of USD weakness and jawboning may have run its course. Expect USD-Asia to re-engage a move higher.
- Asia flow environment: Recovery in bond flows, equity flows still depressed.** Net flow balance improved in India and Thailand on the back of bond inflow momentum. India is still near neutral territory, but Thailand has since nudged into a net inflow momentum situation. In South Korea as well, net bond inflows turned higher after a brief dip, pushing overall inflow momentum yet higher. On the other hand, the economies with a larger equity focus, Taiwan, Philippines and Malaysia, continue to see their net flow balance deepen in outflow territory.
- USD-SGD: Pushing higher again.** The SGD NEER slumped below the +1.00% mark, as we opined last week, standing at +0.88% above its perceived parity (1.3828) this morning. In line with the softening on the NEER front, the USD-SGD rose through the 1.3800 level. If the pair is sustained above 1.3800, we think the path to 1.3830, and then 1.3850 may be opened. Look for dips to be cushioned by 1.3760. Note that Singapore has been added to the US monitoring list for currency manipulation. At this juncture, we think this development should have limited structural impact on the USD-SGD trajectory.

### FX Sentiment Index



Source: OCBC Bank

### Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1107	1.1147	1.1182	1.1200	1.1225
GBP-USD	1.2600	1.2606	1.2674	1.2700	1.2955
AUD-USD	0.6865	0.6900	0.6922	0.7000	0.7044
NZD-USD	0.6484	0.6500	0.6547	0.6600	0.6649
USD-CAD	1.3406	1.3407	1.3442	1.3493	1.3500
USD-JPY	109.00	109.02	109.48	110.00	110.86
USD-SGD	1.3654	1.3700	1.3772	1.3800	1.3830
EUR-SGD	1.5350	1.5380	1.5400	1.5440	1.5457
JPY-SGD	1.2278	1.2500	1.2579	1.2600	1.2605
GBP-SGD	1.7400	1.7407	1.7454	1.7500	1.7673
AUD-SGD	0.9460	0.9500	0.9534	0.9572	0.9587
Gold	1266.00	1268.73	1282.50	1288.83	1299.33
Silver	14.33	14.50	14.52	14.60	14.89
Crude	58.69	59.20	59.25	59.30	60.36

Source: OCBC Bank

### Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	14-May-19	S	AUD-JPY	76.12	73.90 77.20	Escalating Sino-US trade tensions		
<b>STRUCTURAL</b>								
2	19-Mar-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		
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	15-Apr-19	24-Apr-19	B	AUD-USD	0.7167	0.7055	Near term recovery in global macro sentiment	-1.61
2	24-Apr-19	03-May-19	S	GBP-USD	1.2933	1.3155	Sustained Brexit uncertainty and pressure to oust PM May	-1.64

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