

Thursday, May 30, 2019

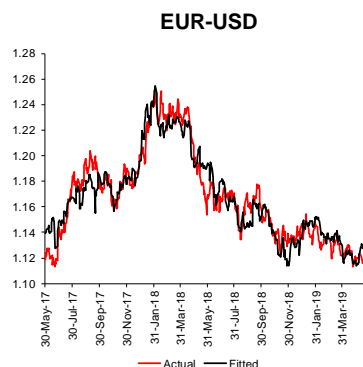
Market Themes/Strategy/Trading Ideas

- Risk aversion continues to be the focus for investors, as the dollar remained on the ascendant overnight. **At this point, expect the FX market to take the lead from equity and bond markets, with the S&P 500 and UST yields threatening to extend their declines further.** Meanwhile, the **FXSI (FX Sentiment Index)** continues to push towards the Risk-off boundary, underlying the decline in overall risk sentiments.
- Overnight, the **Bank of Canada** kept its policy rate unchanged at 1.75%, delivering an arguably positive message of (1) the slowdown being temporary, (2) a pick-up is expected in Q2, and (3) patience on future rate moves. Trade uncertainty was highlighted as *one* of the risks under consideration (rather than the *main* consideration). We think this position essentially summed up the stance of global central banks towards the trade war at this stage, pending further escalation. More importantly, the message of patience remains loud and clear amongst the North American central banks, even as traders continue pit themselves against policy-makers over rate cut expectations.
- On the calendar today, watch for more Fed cues from Clarida and comments from BOC's Wilkins. The data front is headlined by US 1Q GDP (1230 GMT).
- **Staying with the USD for now.** Overall, expect investors to continue to weigh the Fed rate cut expectations and the resultant loss of rate differential support for the USD on one hand, and the negative impact of risk aversion and idiosyncratic factors on the other majors on the other. In the interim, we think the latter should still come up tops, pending further data releases in the US.

Treasury Research &
Strategy

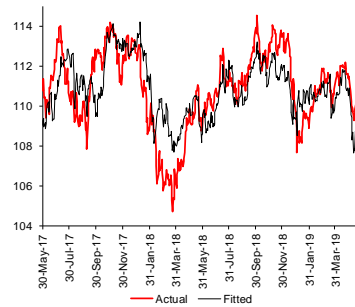
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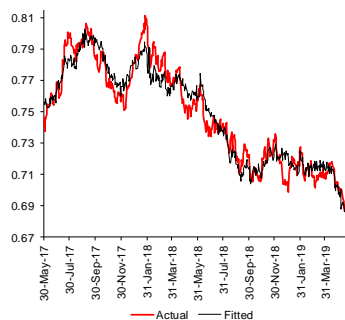
Heavy posture. The EU confirmed disciplinary action against Italy, putting negative pressure on the EUR-USD. The pair continues to diverge from short-term implied valuations, but technicals point lower still. Some cushioning may be had at 1.1120/00 levels.

USD-JPY



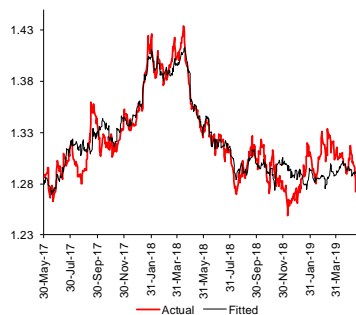
Support holding firm. The 109.20 support held firm before the rebound in UST yields lifted the pair. Expect the USD-JPY to track UST yields for now, with a break lower in yields probably needed for this pair to move south of 109.00. In the interim, continue to see support at 109.20 and resistance at 109.80.

AUD-USD



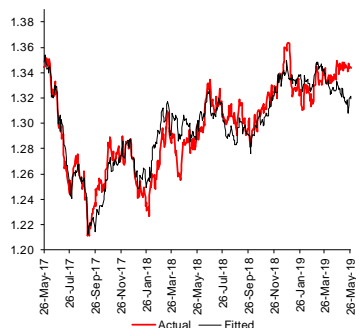
Steady for now. AUD-USD spot is tracking short term implied valuations for now, as the 0.6900 level continues to cushion declines. Upside also looks limited, with 0.6950 looking to cap. Expect some sideways movement for now, pending further catalysts on the trade front and/or the RBA expectations.

GBP-USD



The sinking feeling. Political horse-trading to dominate headlines for now, with Brexit progress in stasis (if not retrograding). Expect 1.2600 to be the first waypoint on the downside, before contemplating Dec 2018 lows. Bounces may be capped at 1.2670.

USD-CAD

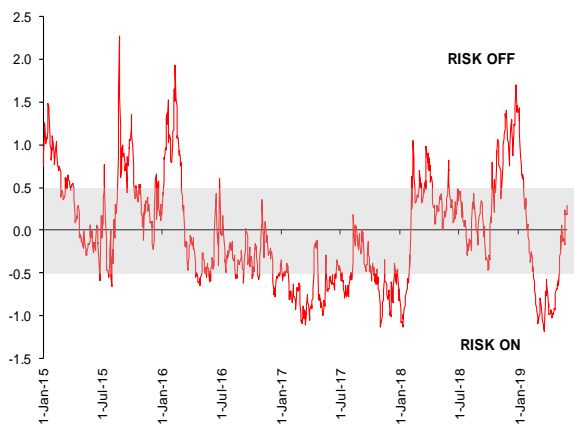


Finally breaking higher? The top band of the recent range at 1.3500 was breached despite the BOC putting in a rather optimistic shift. Expect this pair to drift higher, with the short-term implied valuations also turning higher now.

Asian Markets

- USD-Asia: Have to look hard for idiosyncratic positives.** The USD-CNH continued to edge higher despite PBOC’s intentions, settling near the 6.9300 zone. The trade war continues to see an expansion in scope, with the talk of using rare earths as a weapon for the Chinese really picking up momentum over the past two sessions. This sets a negative backdrop for Asian currencies as a whole, and we will have to drill deeper for idiosyncratic factors for any positives. In this context, we look for the **THB** to perhaps outperform Asian counterparts on the market chatter of Thailand benefiting from an MSCI EM Index rebalancing.
- Asia flow environment: Thai equity inflows dominate.** Inflow momentum into Thai equities on the back of index rebalancing continues to build. Net inflow momentum for India is also turning higher, albeit slowly, as bond inflows offset equity outflows. Elsewhere, the picture remains largely static, with inflow momentum remaining healthy in South Korea, inflow compression in Indonesia, and deepening outflows in Taiwan, Philippines and Malaysia.
- USD-SGD: Turned abruptly.** The USD-SGD turned abruptly after hitting a high of 1.3837 (and the SGD NEER at +0.72% above perceived parity), and settled near 1.3800 level for now. The 1.3800 level will remain a pivot point for now, pending further catalysts. In the interim, expect the pair to track broad USD movements, with downside support at 1.3780. The SGD NEER stood at +1.02% above its perceived parity (1.3838), as the NEER-implied thresholds continued to march higher.

FX Sentiment Index



Source: OCBC Bank

Technical Support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1107	1.1129	1.1137	1.1200	1.1214
GBP-USD	1.2600	1.2606	1.2623	1.2700	1.2952
AUD-USD	0.6865	0.6900	0.6921	0.7000	0.7028
NZD-USD	0.6482	0.6500	0.6515	0.6600	0.6635
USD-CAD	1.3415	1.3500	1.3516	1.3519	1.3547
USD-JPY	109.00	109.02	109.55	110.00	110.82
USD-SGD	1.3655	1.3700	1.3798	1.3800	1.3837
EUR-SGD	1.5278	1.5300	1.5366	1.5400	1.5440
JPY-SGD	1.2296	1.2500	1.2595	1.2600	1.2671
GBP-SGD	1.7400	1.7407	1.7417	1.7500	1.7661
AUD-SGD	0.9459	0.9500	0.9549	0.9577	0.9586
Gold	1266.00	1267.36	1277.40	1287.73	1299.01
Silver	14.25	14.30	14.36	14.40	14.87
Crude	58.11	59.00	59.08	59.10	60.28

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								
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			
RECENTLY CLOSED TRADE IDEAS								
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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