

Monday, March 04, 2019

Market Themes/Strategy/Trading Ideas – The week ahead; revised FX forecasts

- Buoyed by firmer US yields, the greenback climbed against the majors on Friday with the DXY gaining above 96.40. The US data flow meanwhile proved mixed on Friday but this did not deter broad USD strength. Slipping crude also and weaker than expected 4Q GDP prints also lifted the USD-CAD past 1.3300.
- Positive global equities pushed the **FX Sentiment Index (FXSI)** lower into Risk-On territory on Friday to end lower on the day (and on the week).
- Over the weekend however, reports indicating an imminent Sino-US trade deal (and a Xi-Trump meeting) this month lifted risk-sensitive currencies in early Asia on Monday, extinguishing significantly the dollar's late Fri gains.
- Expect positive risk appetite drivers to have a slight edge at the onset of the week, (equity futures also posting gains) but this may be counterbalanced by prevailing soggy global macro undercurrents.
- On this front, note that latest February global PMIs continuing to present a mixed picture. While the China Caixin and Nikkei India manufacturing PMIs improved from the previous month, note that PMIs for Asia (including from South Korea and Taiwan this morning) largely continued to denote a deterioration. Meanwhile, the manufacturing PMIs for Japan and the EZ showed signs of stabilization (but remained in contraction territory), the Feb ISM deteriorated from the previous month.
- **Where the dollar may continue to derive traction from rate differentials would be via the USD-JPY (especially with Trump taking another swipe at Powell and the dollar), with the 200-day MA (111.35) and the 100-day MA (11.39) now serving as supports. If 112.00 is breached, expect the 200-week MA (112.33) to provide an initial cap.**
- This week, in addition to the US NFP and slew of scheduled appearances and testimonies by global central bankers, the **RBA** is expected to remain static at 1.50% on Tuesday, with the **Bank of Canada** also expected to be static on Wednesday. Crucially for the EUR, the **ECB** meeting on Thursday (and Draghi's press conference) will be closely scrutinized.

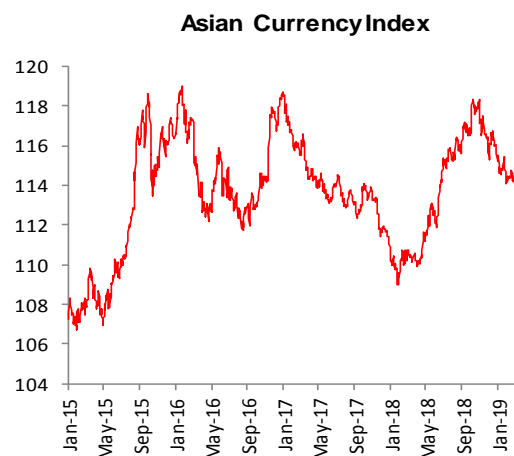
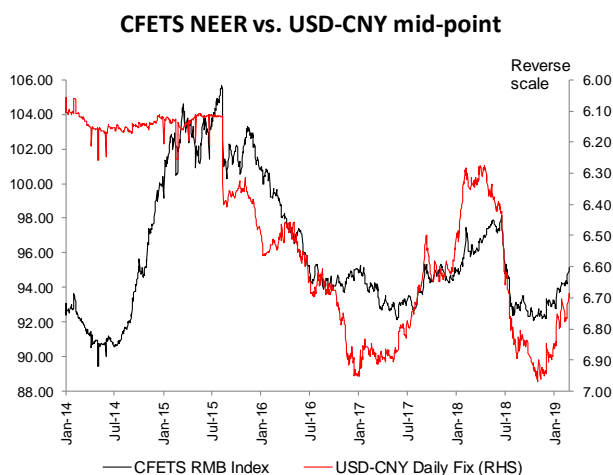
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Asian Markets

- Pending news flow from **China's NPC (National People's Congress)** and February trade numbers this week, look for a top heavy USD-CNH (note also **MSCI-China headlines** from late last week) at the beginning of the week, primarily on the back of weekend Sino-US news flow. Unbridled optimism may pause however ahead of headline risks this week, with the **EUR-CNH** bottoming in recent sessions.
- On the central bank front, **BNM** is expected to remain unchanged at 3.25% on Tuesday. **For the rest of Asia, the USD bid may persist in the background amid firm US rates, with the latest "improvement" in global risk appetite levels no panacea just yet to soggy global macro conditions.**
- On the **EPFR** front, net implied flows for Asian equities flipped to a net outflow balance in the latest week while net implied bond outflows also deepened in the latest week. It remains to be seen if fund-implied appetite for Asia will turn for the better in the current week.
- SGD NEER:** February PMIs for Singapore are due later today (1300 GMT) and the USD-SGD may remain largely supported but range bound within 1.3520-1.3570 intra-day. The SGD NEER meanwhile is softer on the day at around +1.76% above its perceived parity (1.3777), with NEER-implied USD-SGD thresholds higher on the day.
- CFETS RMB Index:** The USD-CNY midpoint firmed largely in line with expectations to 6.7049 on Monday from 6.6957 on Friday. This saw the CFETS RMB Index easing slightly to 95.13 from 95.14. The basket has continued to ascend since Dec 2018 and the next key resistance is expected towards the 95.35 area.



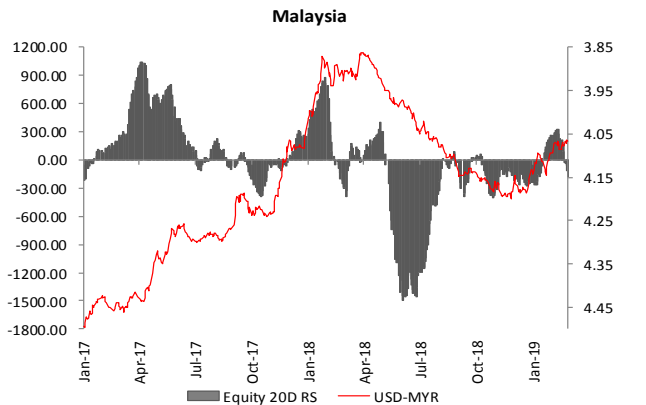
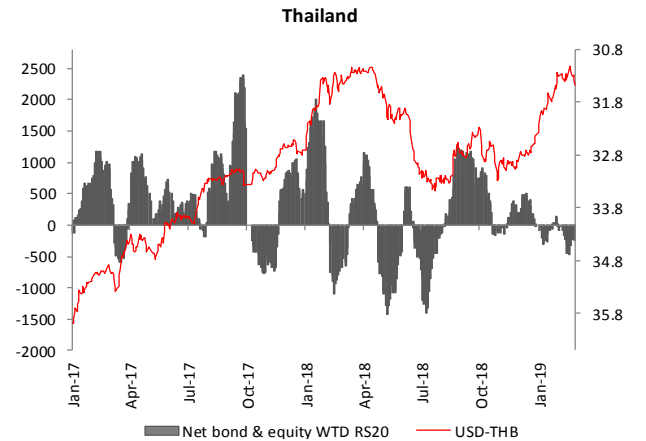
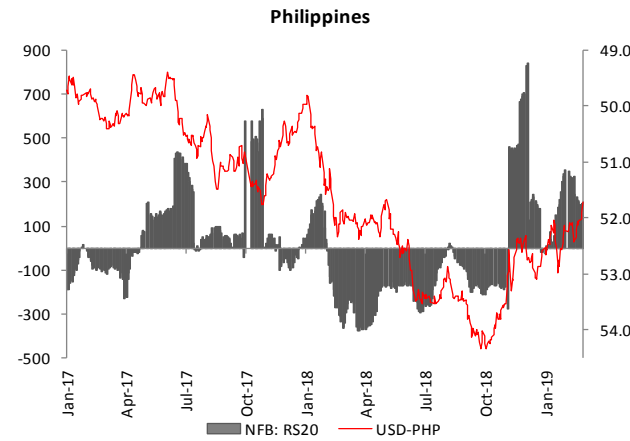
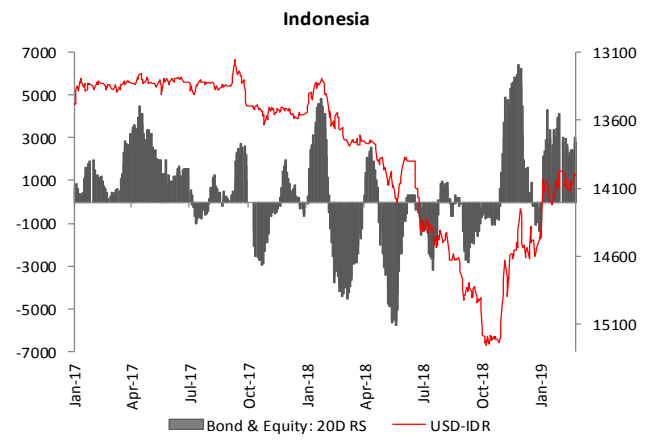
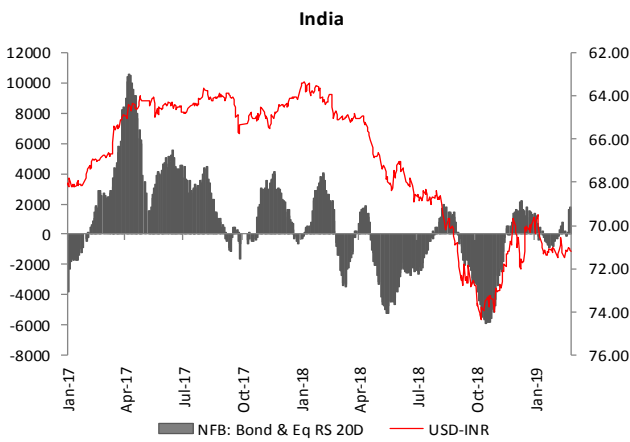
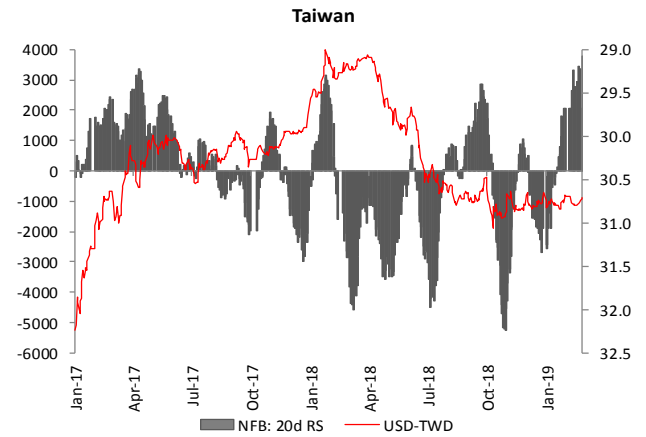
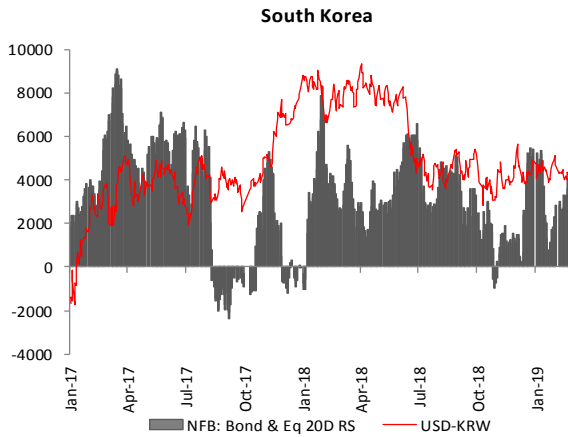
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↔/↑	7-day repo rate consolidating higher, bond yields firming as equities strengthen. While further rate cuts cannot be ruled out, recent comments on flushed interbank liquidity by senior officials may reduce those odds in the near term. 4Q GDP as expected at 6.4% yoy. Dec new yuan loans and aggregate financing beat expectations. Jan CPI/PPI surprise on the downside. Dec industrial profits deteriorate further at -1.9% yoy. Dec retail sales and industrial production in-line to stronger than expected. Jan official PMIs softer than expected. Jan trade momentum surprises on the upside; await Feb figures for better clarity.
S. Korea	↔	↔	BOK unchanged at 1.75% in Feb. Central bank retains an accommodative stance and continues to rule out a rate cut for now. Jan CPI (headline and core) softer than expected again. Dec exports go into contraction at -1.2% yoy. Jan manufacturing PMI deteriorates further to 48.3. 4Q GDP higher than expected at +3.1% yoy on the back of fiscal support. Jan unemployment jumps to 4.4%.
Taiwan	↔	↔	4Q GDP disappoints at +1.78% yoy. CBC static at 1.375% in Dec 2018. CBC governor ambivalent on the benchmark rate. Some CBC members looking towards policy normalization to afford the authority eventual downside wiggle room. Jan manufacturing PMI drops to 47.5. Jan CPI readings surprise on the soft side. Dec exports orders slump -10.5% yoy. Jan exports contract less than expected.
India	↔	↑	4Q GDP disappoints at 6.6% yoy, continuing to fuel rate cut expectations. RBI delivered a surprise 25 bps cut in Feb and shifted to neutral. Room to bull steepen in the near term on possibility of further cuts, while the back-end remains constrained by fiscal slippage concerns. Jan CPI (including core) was cooler than expected, although RBI sees core inflation sticky at a high 6%. 3Q GDP weaker than expected. Jan manufacturing PMI improves to 53.9. Dec merchandise trade deficit wider than expected on firmer crude. On the political front, elections due Apr/May 2019, and ongoing India-Pakistan tensions.
Singapore	↔/↓	↑	Expect the USD-SGD to track the broad USD and USD-CNH. 4Q GDP surprises on the downside at 1.6% saar. Jan NODX disappoints at -10.1% yoy. Jan 19 CPI readings cooler than expected. Jan IPI flat to weaker than expected, Dec numbers revised lower. Monetary policy thought to be "appropriate", and "no need for stimulus" for now.
Malaysia	↔	↔	BNM static at 3.25% in Jan 2019 and is expected to be static through 2019. Jan CPI pined a deeper than expected -0.7% yoy. Dec manufacturing PMI falls to 47.7 from 48.4. Dec exports and industrial production numbers outperformed. Jan CPI shows stronger than expected negative price pressures. 4Q GDP surprises on the upside at +4.7% yoy.
Indonesia	↔	↔/↓	BI static at Feb meeting, refrained from reiterating previous "hawkish" intent, replaced with an emphasis on external stability (ie. containing current account deficit and maintaining a sufficient yield buffer) while exploring further macroprudential measures. IDR still seen as undervalued. Jan CPI mixed, export/import performance mixed and trade deficit slightly wider than expected. 4Q18 CA deficit widened more than expected. 4Q GDP better than expected. Elections slated for 17 April 2019.
Thailand	↑	↑	Accommodative policy "still appropriate" in Feb BOT meeting, 2 of 7 members voted to hike. Minutes reveal that policy is still tilted towards hikes. Jan customs exports underperformed. Jan current account surplus contracts by more than expected. 4Q GDP at a better than expected +3.7% yoy. Jan headline and core inflation in-line with expectations. Elections scheduled on 24 March, with uncertainties heightening.
Philippines	↓	---	BSP warns against premature easing and remains on the hawkish side despite being static in Feb. 4Q GDP below expectations at 6.1% yoy. Dec exports underperformed expectations at -12.3% yoy. Dec manufacturing PMI weakens to 53.2 from 54.2. Dec CPI softer than expected at +5.1% yoy. 2018 fiscal deficit likely widened to 3.1%.

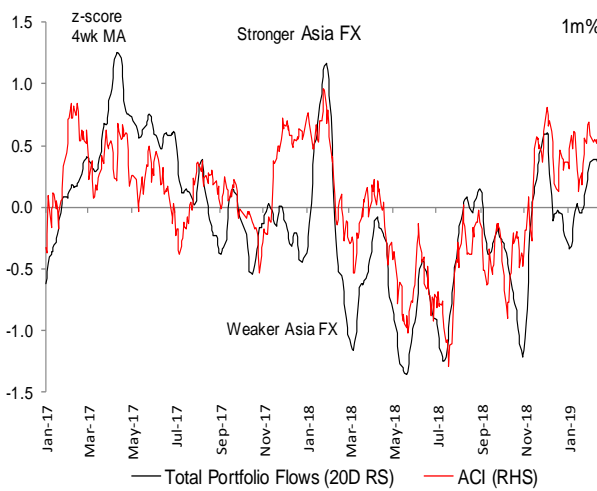
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



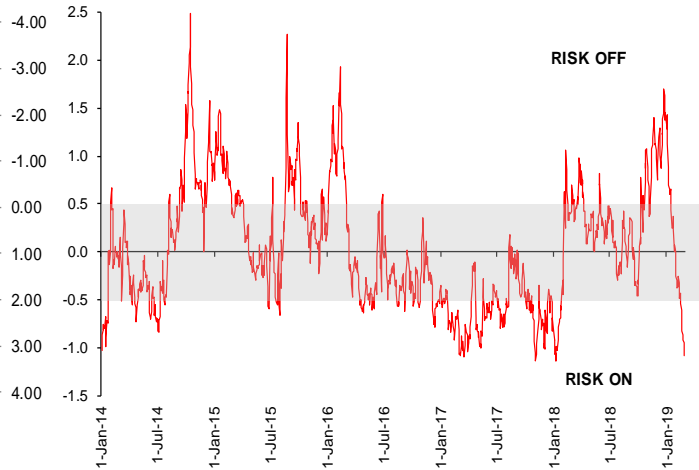
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.24	0.864	-0.214	-0.288	-0.455	0.035	-0.331	0.185	0.413	0.516	-0.966
SGD	0.864	-0.333	1	-0.846	-0.943	-0.749	-0.634	-0.741	0.623	0.925	0.976	-0.856
IDR	0.816	-0.226	0.783	-0.243	-0.336	-0.517	-0.137	-0.437	0.376	0.421	0.548	-0.814
MYR	0.81	0.056	0.827	-0.632	-0.643	-0.737	-0.177	-0.639	0.49	0.714	0.822	-0.717
JPY	0.728	-0.114	0.744	-0.356	-0.774	-0.19	-0.397	-0.173	0.062	0.666	0.731	-0.67
CAD	0.713	0.037	0.552	-0.363	-0.259	-0.613	0.141	-0.436	0.338	0.389	0.397	-0.635
CHF	0.516	-0.162	0.976	-0.877	-0.919	-0.806	-0.664	-0.81	0.713	0.929	1	-0.434
CNH	0.478	-0.035	0.561	-0.19	-0.64	-0.019	-0.143	0.014	-0.042	0.398	0.468	-0.399
PHP	0.429	0.24	0.312	0.524	0.106	0.247	0.662	0.427	-0.414	-0.295	-0.181	-0.361
CNY	0.309	-0.466	0.776	-0.516	-0.75	-0.339	-0.748	-0.416	0.552	0.657	0.704	-0.258
THB	0.035	0.53	-0.634	0.809	0.725	0.502	1	0.621	-0.674	-0.78	-0.664	-0.019
KRW	0.022	0.062	0.586	-0.173	-0.547	0.003	-0.337	-0.052	0.05	0.317	0.414	0.139
USGG10	-0.059	0.635	-0.286	0.126	0.214	-0.136	0.603	0.073	-0.143	-0.227	-0.241	0.138
TWD	-0.24	1	-0.333	0.095	0.085	0.08	0.53	0.151	-0.181	-0.18	-0.162	0.372
INR	-0.343	-0.056	0.108	-0.495	-0.491	-0.064	-0.716	-0.23	0.322	0.397	0.349	0.416
GBP	-0.467	-0.078	-0.379	0.536	0.24	0.577	0.09	0.524	-0.292	-0.449	-0.424	0.465
NZD	-0.63	-0.161	-0.282	0.165	-0.026	0.312	-0.315	0.154	-0.029	-0.14	-0.169	0.626
AUD	-0.683	0.333	-0.902	0.681	0.739	0.693	0.599	0.689	-0.577	-0.873	-0.883	0.616
EUR	-0.966	0.372	-0.856	0.158	0.208	0.381	-0.019	0.259	-0.164	-0.342	-0.434	1

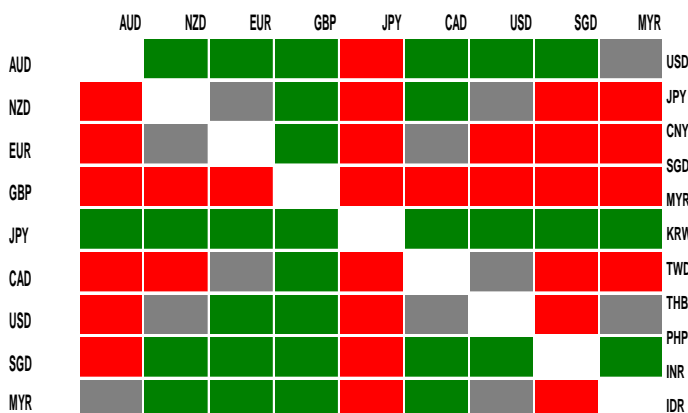
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1266	1.1300	1.1364	1.1388	1.1400
GBP-USD	1.2990	1.3200	1.3236	1.3300	1.3330
AUD-USD	0.7038	0.7054	0.7083	0.7100	0.7133
NZD-USD	0.6795	0.6800	0.6809	0.6900	0.6924
USD-CAD	1.3166	1.3200	1.3293	1.3297	1.3300
USD-JPY	111.35	111.87	111.99	112.00	112.08
USD-SGD	1.3472	1.3500	1.3544	1.3566	1.3600
EUR-SGD	1.5294	1.5300	1.5391	1.5400	1.5416
JPY-SGD	1.2078	1.2081	1.2094	1.2100	1.2260
GBP-SGD	1.7730	1.7900	1.7927	1.7986	1.8000
AUD-SGD	0.9556	0.9577	0.9593	0.9600	0.9676
Gold	1275.30	1293.88	1298.10	1298.94	1300.00
Silver	15.14	15.17	15.20	15.22	15.26
Crude	52.04	56.10	56.13	56.20	57.88

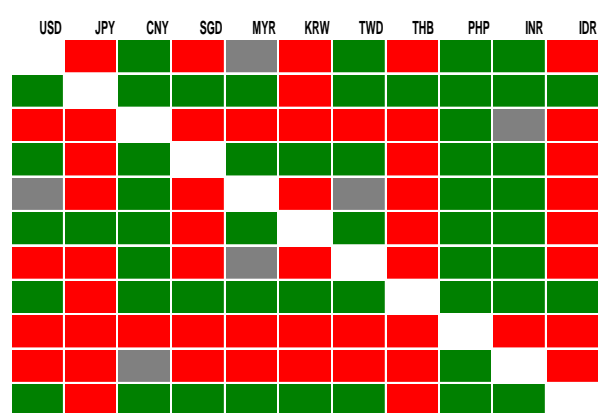
Source: OCBC Bank

G10 FX Heat Map



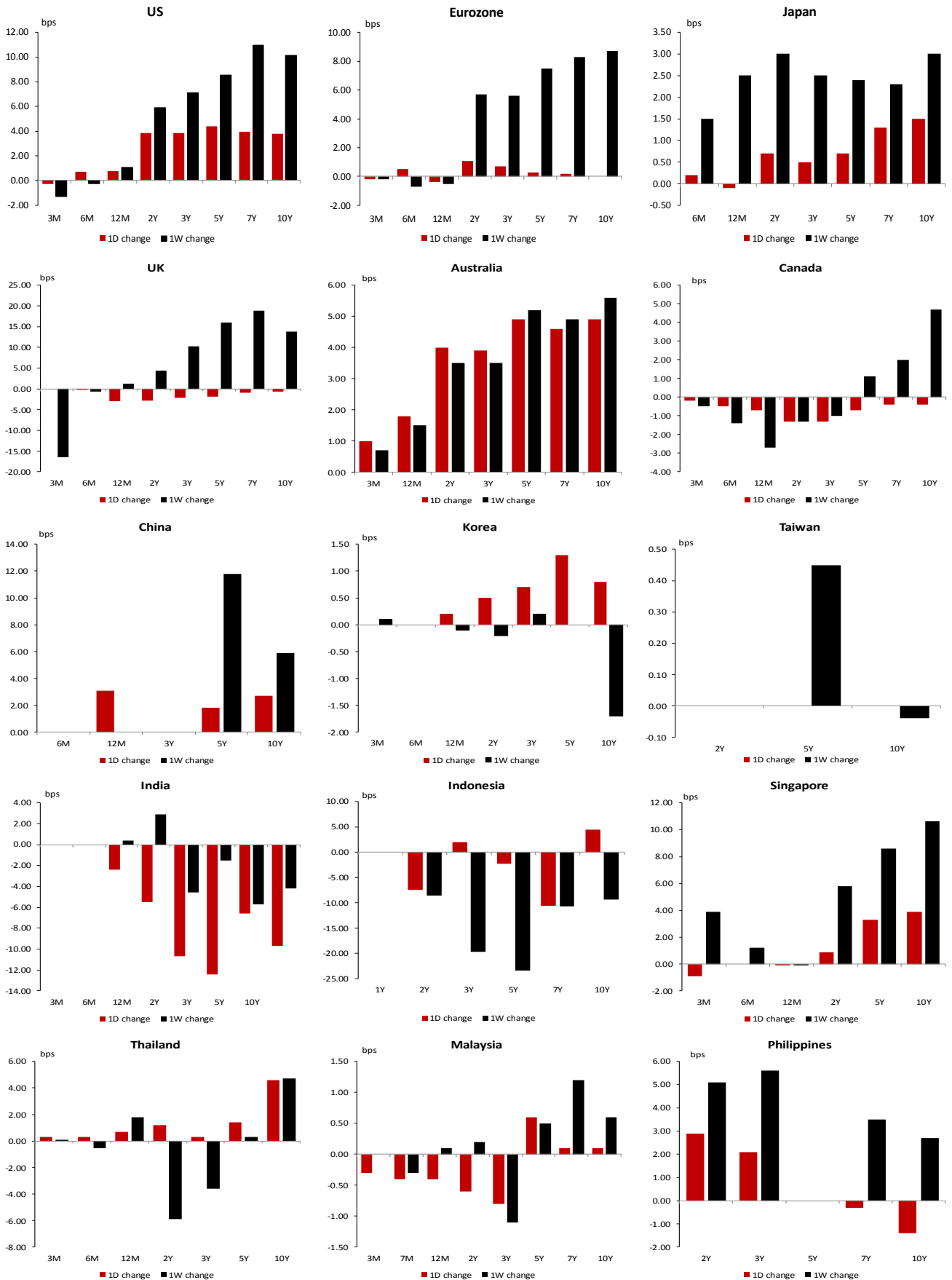
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale			
TACTICAL								
1	23-Jan-19	B	GBP-AUD	1.8159 1.8745 1.7865	Contrasting risk profiles in the near term			
2	14-Feb-19	B	USD-JPY	111.00 113.50 109.70	Dollar resilience, revival in risk appetite levels			
3	27-Feb-19	S	1M THB-PHP	1.6536 1.6130 1.6750	Contrasting flow dynamics			
STRUCTURAL								
4	28-Feb-19	S	3M USD-CNH	6.6861 6.5800 6.7350	Renminbi stability, PboC policy backstop, conducive inflow environment			
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	31-Jan-19	07-Feb-19	S	USD-CAD	1.3131	1.3250	Improvement in risk appetite, supportive crude	-0.91
2	31-Jan-19	07-Feb-19	B	XAU-USD	1,320.09	1,304.00	Improvement in risk appetite, supportive crude	-1.29
3	11-Feb-19	27-Feb-19	S	EUR-USD	1.1325	1.1120 1.1393	Darkening EZ macro outlook	-0.46

Revised FX Forecasts (correct as of 1 March 2019)

	Spot	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
USD-JPY	111.73	112.50	112.58	110.98	109.37	107.76
EUR-USD	1.1373	1.1430	1.1400	1.1549	1.1673	1.1776
GBP-USD	1.3255	1.3380	1.3470	1.3560	1.3650	1.3740
AUD-USD	0.7093	0.7058	0.7132	0.7199	0.7266	0.7332
NZD-USD	0.6817	0.6845	0.6844	0.6918	0.6991	0.7064
USD-CAD	1.3152	1.3048	1.2980	1.2913	1.2845	1.2777
USD-CHF	0.9986	0.9941	0.9923	0.9809	0.9696	0.9582
USD-SGD	1.3516	1.3470	1.3400	1.3357	1.3314	1.3272
USD-CNY	6.6971	6.6690	6.6229	6.5768	6.5307	6.4846
USD-THB	31.64	31.85	31.34	30.88	30.41	29.94
USD-IDR	14114	14150	13867	13767	13667	13567
USD-MYR	4.0728	4.0570	4.0244	3.9928	3.9611	3.9294
USD-KRW	1124.4	1128.90	1122.44	1110.28	1098.11	1085.94
USD-TWD	30.77	30.700	30.562	30.389	30.216	30.0422
USD-HKD	7.8497	7.8456	7.8331	7.8207	7.8083	7.7959
USD-PHP	51.765	51.53	51.25	50.97	50.69	50.41
USD-INR	70.90	70.60	69.80	69.20	68.60	68.00
EUR-JPY	127.07	128.59	128.34	128.16	127.67	126.91
EUR-GBP	0.8580	0.8543	0.8463	0.8517	0.8552	0.8571
EUR-CHF	1.1357	1.1363	1.1312	1.1329	1.1318	1.1284
EUR-SGD	1.5372	1.5396	1.5275	1.5426	1.5542	1.5629
GBP-SGD	1.7916	1.8023	1.8050	1.8112	1.8174	1.8235
AUD-SGD	0.9587	0.9507	0.9557	0.9616	0.9674	0.9731
NZD-SGD	0.9214	0.9220	0.9171	0.9240	0.9308	0.9376
CHF-SGD	1.3536	1.3550	1.3504	1.3617	1.3732	1.3851
JPY-SGD	1.2098	1.1973	1.1902	1.2036	1.2174	1.2316
SGD-MYR	3.0132	3.0119	3.0034	2.9893	2.9750	2.9608
SGD-CNY	4.9547	4.9510	4.9426	4.9238	4.9050	4.8860

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