

Monday, February 11, 2019

Market Themes/Strategy/Trading Ideas – The Week Ahead

- Amid a gloomier global macro outlook, the greenback edged marginally higher against most of the majors on Friday with the antipodeans continuing to trail their counterparts while the JPY and CHF benefitted as investors sought refuge. Meanwhile, the UST curve softened and bull flattened, with major global govie curves including bunds also following suit. On the risk appetite front, the **FX Sentiment Index (FXSI)** responded higher but still remained in Risk-Neutral territory on Friday.
- Specifically, the AUD continued to be weighed on the heels of a dovish statement on monetary policy from the **RBA** (note significant downgrade to growth forecasts with the central bank shifting towards neutral from hawkish). **Expect risks for the AUD-USD to lose its foothold at 0.7100 to remain significant in the current environment.**
- Going ahead, the **DXY** (underpinned by aggregated rate differentials) may continue to search higher towards 96.80-97.00 in the coming sessions if global investor jitters remain near a boil.
- On this front, there will be no shortage of potential trip wires this week. Chinese Vice-Premier Liu He's will meet with US Treasury Secretary Mnuchin and USTR Lighthizer this week in Beijing. In addition, with negotiations still deadlocked over the weekend, the prospect of another partial US government shutdown may continue to distract ahead of the deadline on Friday.
- Brexit will also be on the frontline this week, with PM May having until Wednesday to secure new concessions from the EU. If May fails, a parliamentary vote will be held on Thursday, 14 Feb on possible "Plan B" options. Meanwhile, another deadline was set at 27 Feb for a new deal to be presented to the UK Parliament.
- **To kick off the week, we are now negative on the EUR-USD with the 1.1300 floor a first stop ahead of 1.1260 and especially with the 200-week MA (1.1335) having been breached and now serving as a resistance.**
- Watch for Eurozone industrial production (Wed) and 4Q GDP (Thu) prints this week. Meanwhile, a swathe of UK indicators, including trade, industrial production and manufacturing, is also scheduled today (0930 GMT).

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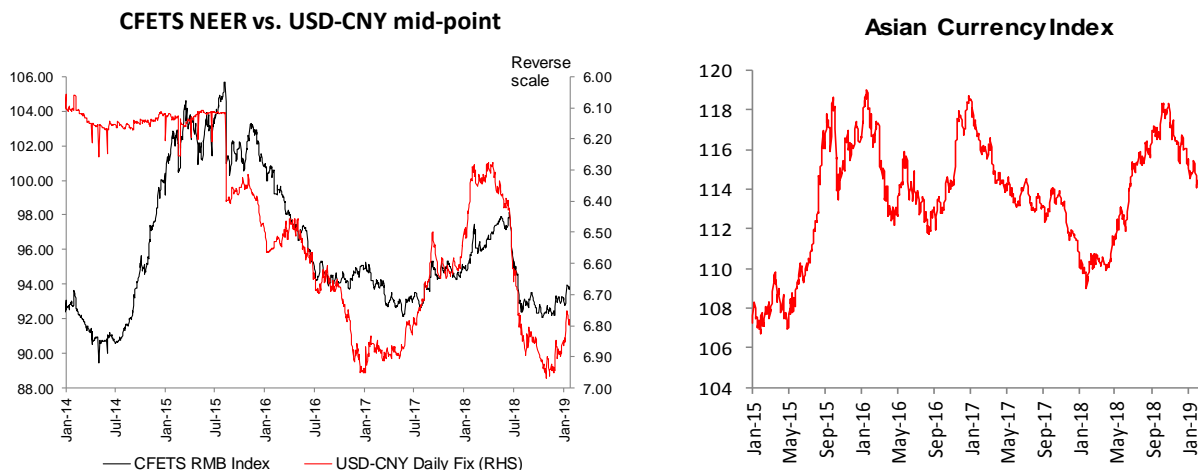
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Asian Markets

- **Expect investors to take cues from the renminbi complex (including onshore yields) as Chinese markets return from the Lunar New Year hiatus. On the rates front, expect the regional govie curves in general to continue to outperform at the back-end.**
- **EPFR** data showed a drop in net implied inflows into Asian equities in the latest week while net bond flows flipped from a net outflow to a net inflow balance (primarily on the back of implied renewed inflows into the southern markets, especially **Indonesia**).
- In terms of **actual net portfolio flows**, South Korea and Taiwan are still enjoying a healthy net inflow balance, largely on the back of net equity inflows. Overall net inflows for Indonesia remain robust, although net bond/equity inflows are capitulating slightly. Elsewhere, net outflows in India are widening as bond outflows deepen despite minor net equity inflows. Meanwhile, the net flow environment in Thailand is essentially neutral at this juncture, with net equity inflows balanced by net bond outflows.
- **SGD NEER:** The SGD NEER is marginally firmer at around +1.54% above its parity level (1.3768), with implied USD-SGD thresholds again softening. **At the onset of the week, expect the USD-SGD to continue to orbit (albeit on a supported tone) the 1.3550 region pending external news flow. Given also the fairly dramatic shift in global central bank rhetoric, expect also the SGD NEER to keep the extreme strong end of its fluctuation band at arm's length.**
- **CFETS RMB Index:** The USD-CNY midpoint came in lower than expected after the Lunar New Year holidays at 6.7495 (keeping a lid on the spot CNH-CNY basis). The CFETS RMB Index is marginally firmer at 94.25, compared to 94.21 pre-LNY.
- On the data front, China's aggregate financing and money supply data are scheduled for release this week. Watch for any nascent signs of stabilization in Chinese growth.



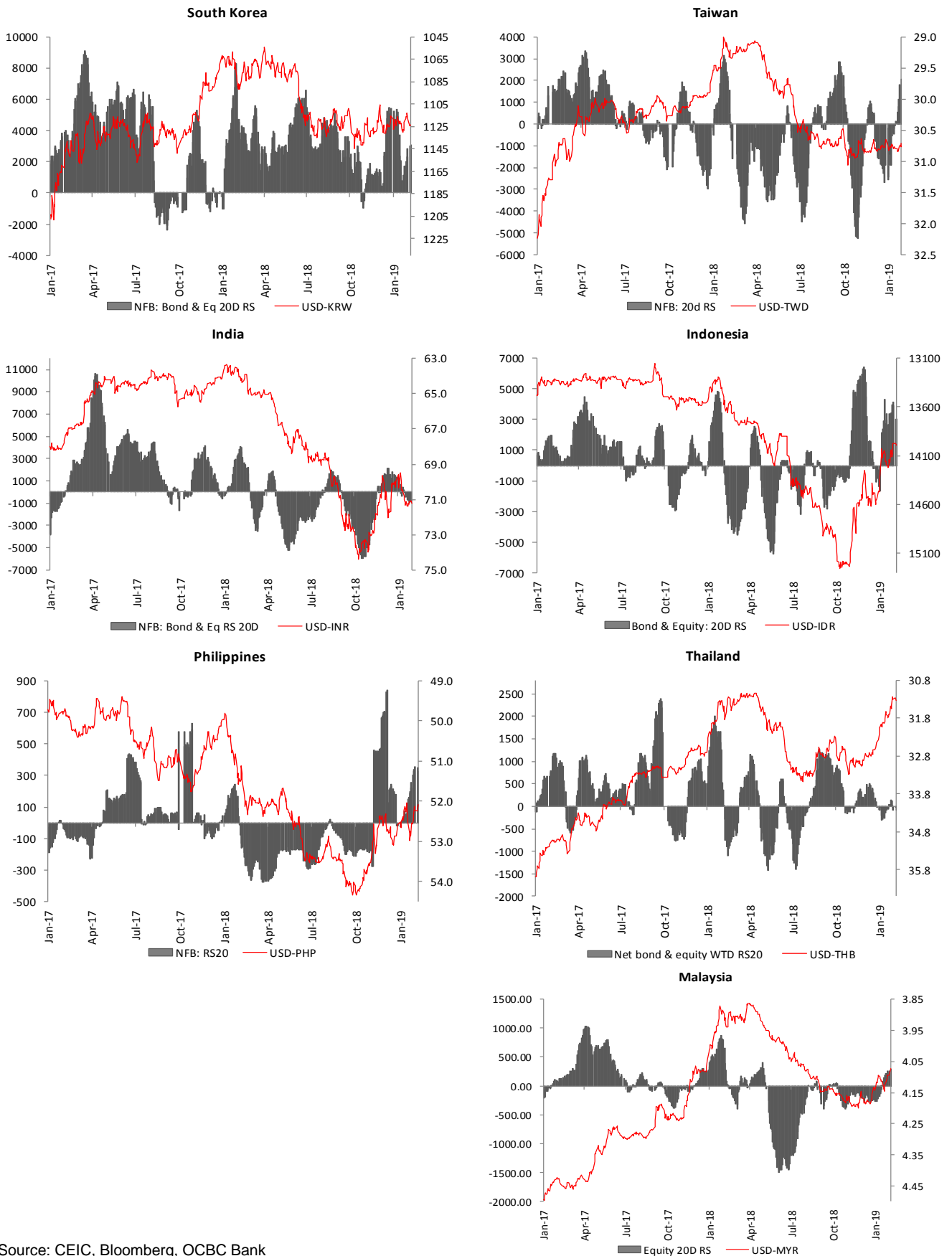
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔	↔	Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. Officials on 15 Jan indicate that taxes will be cut "on a larger scale" and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments. PBOC announces RRR cut on 04 Jan. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Dec CPI/PPI decelerate further, Dec exports and imports surprised with a contraction, industrial profits deteriorate further at -1.9% yoy. Dec retail sales and industrial production in-line to stronger than expected. Jan PMIs improve but Caixin PMIs weaken further.
S. Korea	↔/↑	↔	BOK static in January, but downgraded 2019 growth and inflation forecasts further. BOK expected to retain accommodative stance, but the governor noted that a rate cut is not in the pipeline. 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. Nov current account surplus shrank to lowest level since April. 4Q GDP higher than expected at +3.1% yoy on the back of fiscal support.
Taiwan	↔	↔/↓	4Q GDP disapoints at +1.76%. 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. Price pressures soften and Dec CPI surprises with a -0.05% contraction. Political premium being built in. Dec exports orders slump -10.5% yoy.
India	↔	↔	RBI delivered a surprise 25 bps cut in Feb and shifted back to neutral stance. Room for govie curve to bull steepen in the near term as the possibility of further cuts are being priced in at the front-end, while the back-end remains constrained by fiscal slippage concerns. Jan CPI 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 came in lower than expected. Elections due Apr/May 2019.
Singapore	↔/↑	↔	SGD NEER veering away from the extreme end of its fluctuation band. Expect movements in the USD-SGD to track broad USD prospects. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar. Dec 2018 CPI readings came in a touch warmer than expected. Dec IPI disappoints at +2.7% yoy.
Malaysia	↓	↓	BNM static at 3.25% in Jan 2019 and is expected to be static through 2019. Dec CPI cooler than expected +0.2% yoy. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit). Dec manufacturing PMI falls to 47.7 from 48.4. Nov export growth decelerates to +1.6% yoy.
Indonesia	↔/↓	↓	Note sustained positive investor response to bond auctions. BI remained static on its policy rate in Jan. Primary policy focus remains centred on current account deficit containment and maintaining a sufficient yield buffer. BI governor reiterates that the benchmark rate is already near its peak although stance is still characterized as "hawkish". If the Fed is in fact static in March, BI may relent and turn neutral. Jan CPI mixed, export (contraction)/import performance weakens. 4Q18 CA deficit widened more than expected. 4Q GDP better than expected. Elections slated for 17 April 2019.
Thailand	↔	↔	BOT kept rates unchanged in Feb. Accomodative policy "still appropriate", although 2 of 7 committee members voting to hike rates further is a slight surprise. BOT comments on recent THB appreciation also softened. Trade momentum deteriorated in Dec 18. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3. Elections scheduled on 24 March, with uncertainties heightening.
Philippines	↓	---	BSP remained static in Feb as expected, with inflation forecasts downgraded. 4Q GDP below expectations at 6.1% 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%.

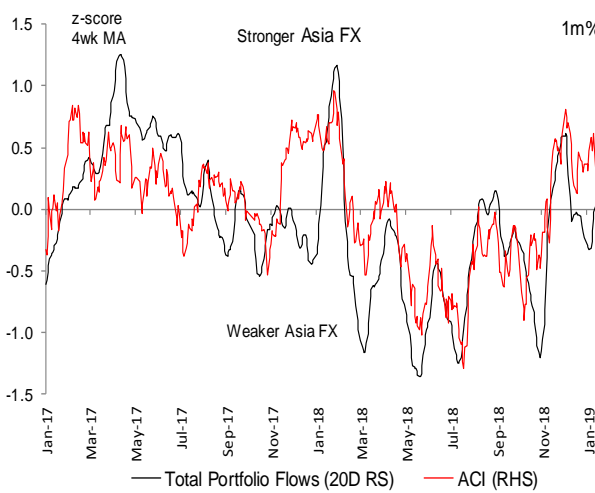
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



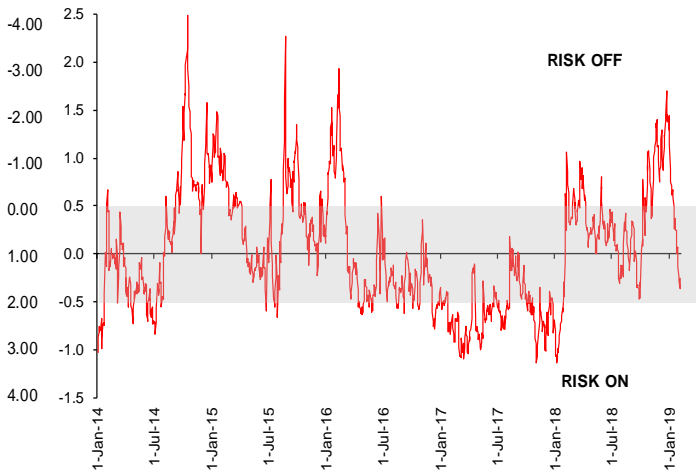
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1	0.122	0.801	0.179	0.157	-0.034	0.605	-0.119	-0.062	-0.11	0.762	-0.973
SGD	0.801	0.711	1	-0.502	-0.552	-0.11	0.302	-0.399	0.664	0.42	0.966	-0.711
IDR	0.793	0.528	0.944	-0.301	-0.331	-0.098	0.309	-0.353	0.398	0.336	0.937	-0.772
MYR	0.791	0.643	0.88	-0.542	-0.589	-0.136	0.261	-0.458	0.784	0.559	0.83	-0.749
JPY	0.762	0.501	0.966	-0.104	-0.185	-0.007	0.42	-0.205	0.227	0.142	1	-0.709
CAD	0.741	0.41	0.92	-0.154	-0.195	-0.123	0.423	-0.235	0.399	0.189	0.881	-0.741
CHF	0.605	0.153	0.302	0.749	0.72	0.426	1	0.58	-0.471	-0.707	0.42	-0.631
CNH	0.594	-0.132	0.132	0.828	0.82	0.333	0.919	0.59	-0.525	-0.793	0.289	-0.626
PHP	0.572	0.342	0.831	-0.621	-0.542	-0.499	-0.068	-0.683	0.691	0.648	0.64	-0.581
CNY	0.375	-0.001	0.25	0.72	0.663	0.347	0.774	0.531	-0.437	-0.688	0.316	-0.362
THB	0.286	0.635	0.646	-0.136	-0.142	0.075	0.383	0.054	0.55	0.099	0.514	-0.38
KRW	0.122	1	0.711	-0.397	-0.442	0.334	0.153	-0.121	0.503	0.322	0.501	-0.145
USGG10	0.122	0.704	0.756	-0.694	-0.693	-0.005	-0.164	-0.408	0.86	0.632	0.362	-0.18
TWD	0.056	0.547	0.732	-0.921	-0.937	-0.302	-0.556	-0.732	0.783	0.911	0.382	-0.033
INR	0.02	0.671	0.642	-0.425	-0.442	0.248	0.068	0.049	0.73	0.384	0.246	-0.151
GBP	-0.387	-0.068	-0.477	0.279	0.399	0.1	0.197	0.467	-0.044	-0.278	-0.463	0.21
NZD	-0.813	-0.361	-0.881	0.291	0.269	0.186	-0.248	0.453	-0.335	-0.316	-0.769	0.799
AUD	-0.853	-0.116	-0.751	0.059	-0.042	0.285	-0.449	0.277	-0.189	-0.125	-0.663	0.857
EUR	-0.973	-0.145	-0.711	-0.181	-0.182	-0.005	-0.631	0.06	0.008	0.117	-0.709	1

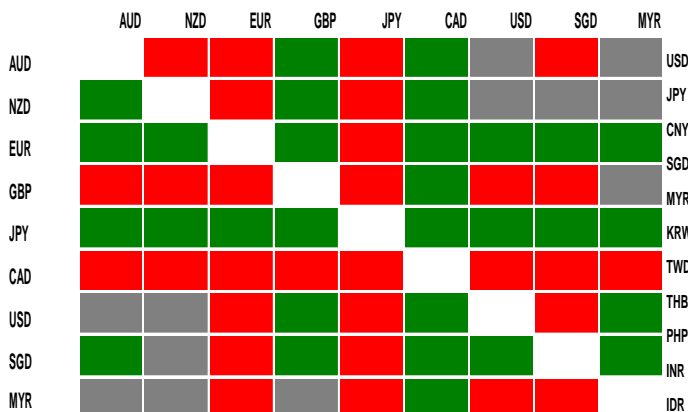
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1296	1.1300	1.1323	1.1397	1.1400
GBP-USD	1.2813	1.2900	1.2931	1.3000	1.3020
AUD-USD	0.7000	0.7057	0.7098	0.7100	0.7151
NZD-USD	0.6700	0.6756	0.6758	0.6795	0.6800
USD-CAD	1.3138	1.3200	1.3287	1.3300	1.3356
USD-JPY	108.79	109.00	109.92	110.00	110.16
USD-SGD	1.3468	1.3500	1.3568	1.3600	1.3619
EUR-SGD	1.5349	1.5359	1.5363	1.5400	1.5506
JPY-SGD	1.2227	1.2285	1.2344	1.2400	1.2460
GBP-SGD	1.7449	1.7500	1.7544	1.7600	1.7758
AUD-SGD	0.9546	0.9600	0.9630	0.9700	0.9738
Gold	1276.63	1300.00	1313.40	1325.40	1327.15
Silver	15.28	15.70	15.77	15.80	16.11
Crude	50.91	52.10	52.11	52.20	55.20

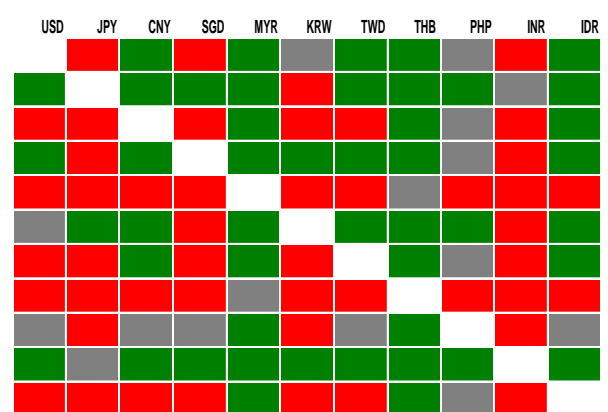
Source: OCBC Bank

G10 FX Heat Map



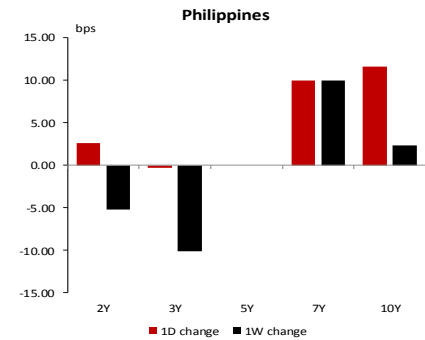
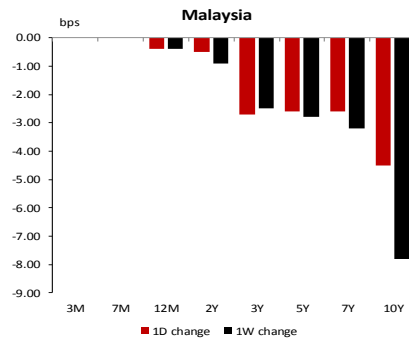
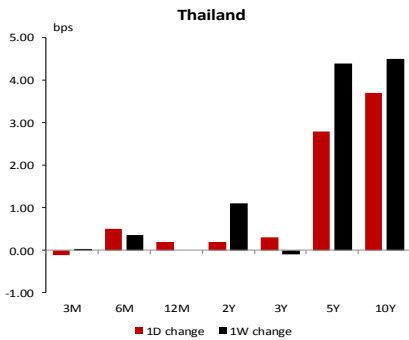
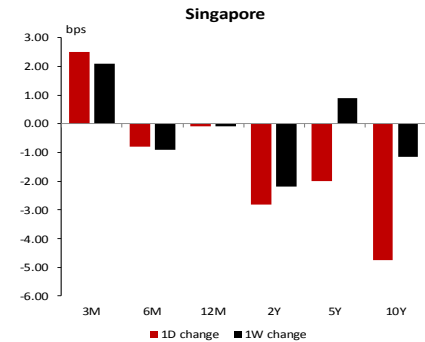
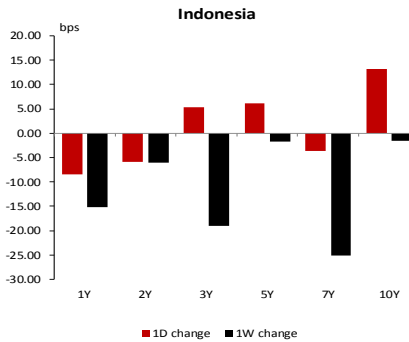
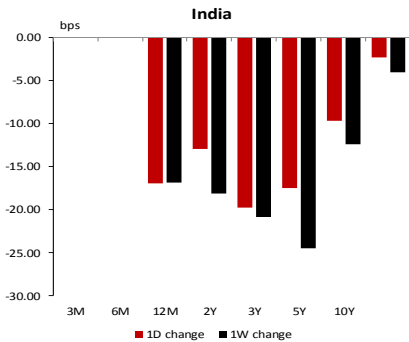
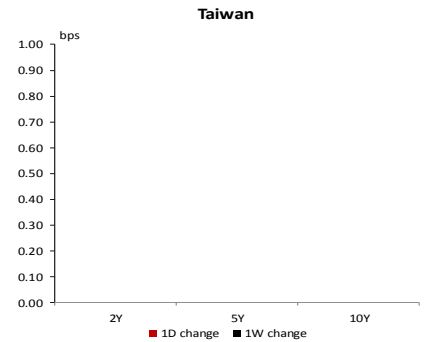
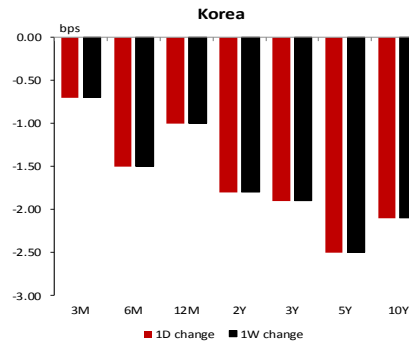
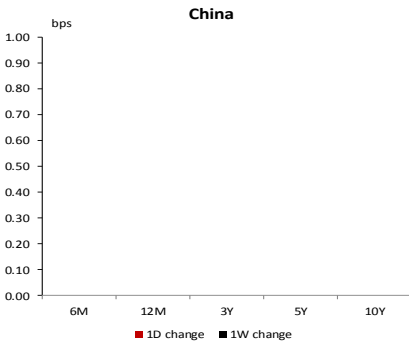
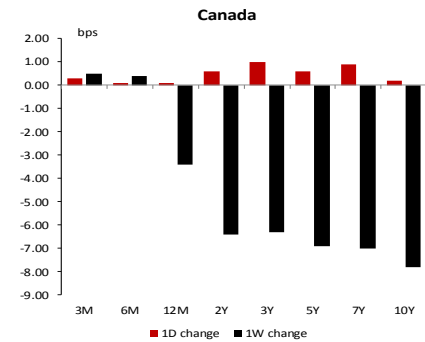
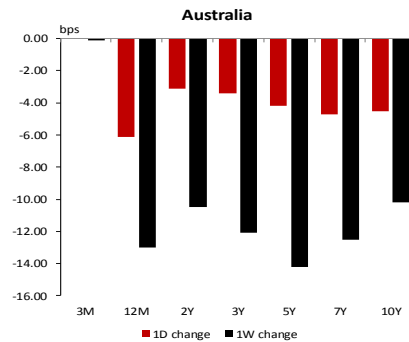
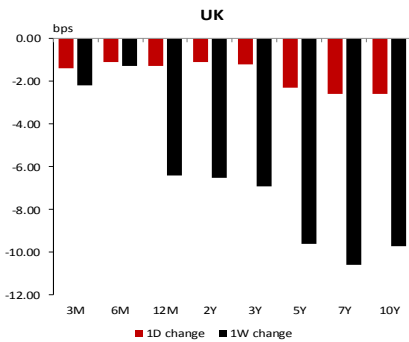
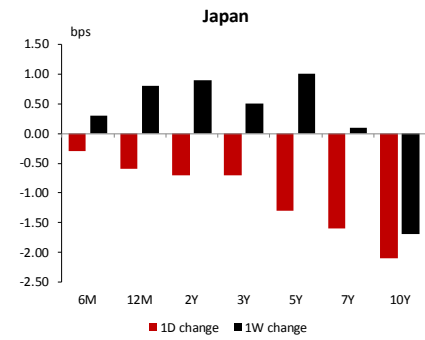
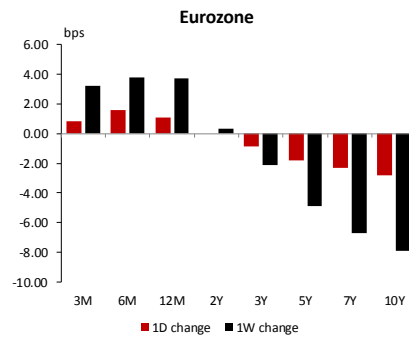
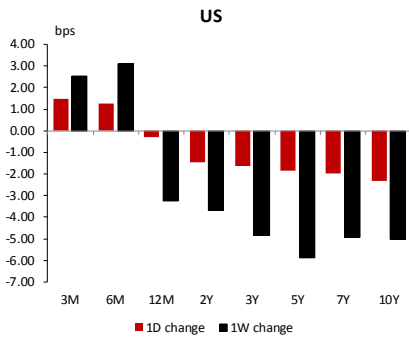
Source: OCBC Bank

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	
STRUCTURAL								
	-		-	-	-	-	-	-
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	25-Jan-19	28-Jan-19	S	EUR-USD	1.1327	1.1435	Dovish overtones from ECB's Draghi	-0.92
2	31-Jan-19	07-Feb-19	S	USD-CAD	1.3131	1.3250	Improvement in risk appetite, supportive crude	-0.91
3	31-Jan-19	07-Feb-19	B	XAU-USD	1,320.09	1,304.00	Improvement in risk appetite, supportive crude	-1.29

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