

Monday, March 11, 2019

Market Themes/Strategy/Trading Views – The week ahead

- The broad dollar drifted lower after Feb headline NFP numbers (+20k vs +180k expected) although the warmer than expected average hourly earnings (+0.4% mom), two-month revision (+12k), and softer than expected unemployment rate (+3.8%) staved off excessive USD weakness. UST yields eased further while on the risk appetite front, the **FXSI (FX Sentiment Index) (FXSI)** ticked higher for the 4th consecutive day (i.e., deteriorating sentiment) as positive risk appetite continued to dilute within Risk-On territory.
- Expect significant headline risks for the **GBP** this week over Brexit developments, as PM May look to table another Brexit deal (largely similarly to the previously rejected deal) to Parliament for approval. If this fails, the Parliament will vote on motions that will rule out a no-deal Brexit and an extension. Note that GBP-USD risk reversals are pointing for further south and the floor at the 55-day MA (1.2947) looks increasingly porous.
- On the **CFTC** front, large non-commercial accounts increased their implied net long dollar bias in aggregate in the latest week while asset manager accounts reduced their net implied short dollar bias. However, leveraged accounts instead reduced their long dollar bias with the subsequent USD strengthening through the week leaving these accounts wrong footed.
- **This week, expect de facto US resilience (classic case of the prettiest of the uglies) to prevail if global macro fragility continues to pervade markets.** On this front, note that the Riksbank on Friday also joined the fray with a dovish overtone. As such, the **DXY** may remain supported within 97.20-97.75.
- **To this end, we think key market levels, for e.g., 1.1200 for the EUR-USD and 0.7000 for the AUD-USD, remain under threat of a violation.** USD-JPY meanwhile remains a different animal given the complication from risk appetite dynamics. For this pair, the balance of risks any instead point to a violation of 111.00, with the 55-day MA sitting squarely at 110.00 currently.
- The central bank calendar is quieter this week, with only the Bank of Japan MPC (Fri) and a light line-up of speakers scheduled. On the data front, watch for US CPI (Tue), German (0700 GMT) and Eurozone (Wed) industrial production prints.

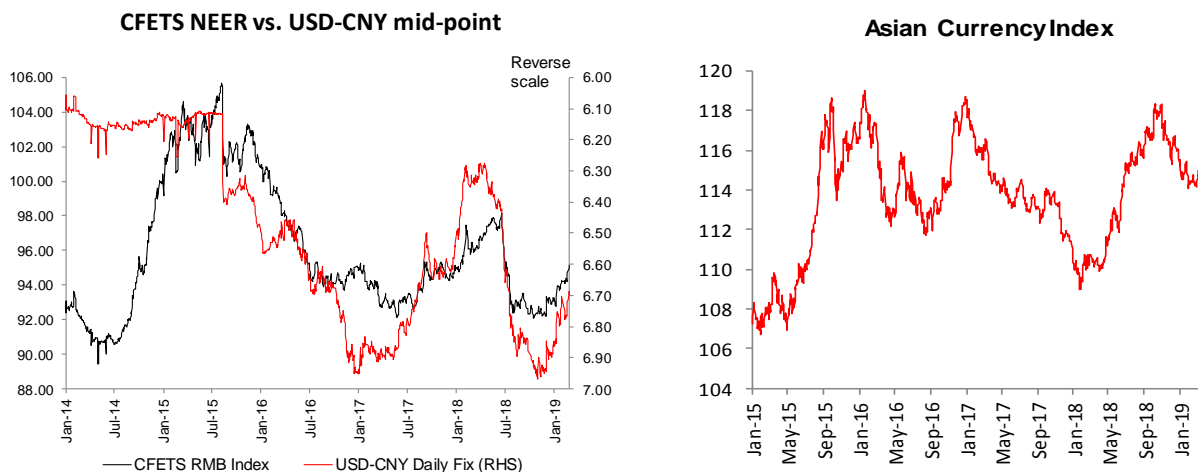
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Asian Markets

- EM equities fell again on Friday and also ended lower on the week and with investor sentiment still cautious, expect the USD to continue to hold the upper hand in Asia at the onset of the week. Note also that headlines relating to Sino-US trade talks remain non-committal.
- Over the weekend, comments from the PBOC's Yi Gang and the latest data points out of **China** imply an ongoing soft spot in the economy at large, an official posture of sustained policy accommodation, and no intent to radically alter the FX regime.
- On the **EPFR** front, net implied bond and equity flows for Asia (excl Japan, China) flipped to a small positive respectively in the latest week. However, on a 4-week rolling sum basis, net bond and equity flows have deteriorated to a near neutral balance. This dynamic has also been played out in implied EPFR flows for China where net inflow momentum has also moderated to neutrality.
- As in the EPFR flows, **actual net portfolio flows** in Asia continue to slip on aggregate, led by a decline in overall equity inflows. Net inflows for South Korea and Taiwan continue to consolidate lower are moderating. The slow bleed in terms of outflows continues to plague Thailand, while India is the only bright spot for now, with inflow momentum still holding up on the back of equity inflows.
- **SGD NEER:** The SGD NEER is firmer this morning at around +1.66% above its perceived parity (1.3818), as NEER-implied USD-SGD thresholds softened. Continue to expect an upside bias on the USD-SGD, especially if it can retake the 1.3600 handle. Upside resistance points at 1.3630 before the 200-day MA (1.3655) should remain in play this week.
- **CFETS RMB Index:** This morning, the USD-CNY midpoint came in softer, in line with expectations, at 6.7202, compared to 6.7235 on Friday. Nevertheless, the CFETS RMB Index eased to 95.36 from 95.42. Expect consolidation north of the 95.00 handle, before a more concerted move towards 96.00.



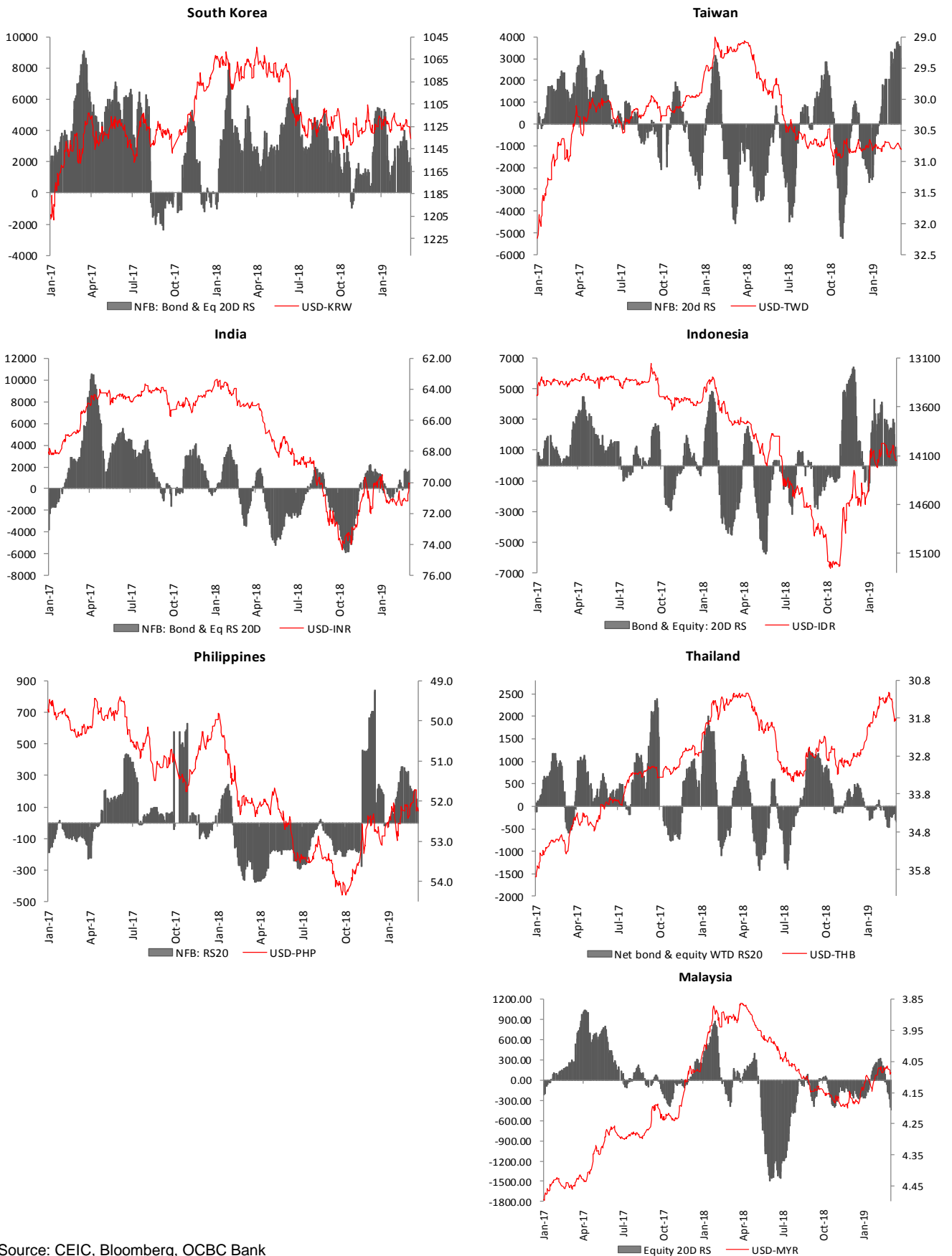
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔	↔/↑	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. Feb official PMIs softer than expected again; Feb Caixin manufacturing PMI better than expected (49.9) but services and composite PMIs deteriorate. 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. Feb headline CPI softer than expected (0.5% yoy) but core ticks higher to 1.3% yoy. Feb exports at a worse than expected -11.1% yoy. Feb manufacturing PMI deteriorates further to 47.2. 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. Feb manufacturing PMI drops further to 46.3. 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. Jan CPI (including core) was cooler than expected, although RBI sees core inflation sticky at a high 6%. 3Q GDP weaker than expected. Feb manufacturing/services/composite PMIs improve from previous month. 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	↑	↔/↑	Feb PMI weakens further to 50.4. 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 Feb; expected to be static through 2019. Jan CPI pined a deeper than expected -0.7% yoy. Dec manufacturing PMI falls to 47.6. Jan exports better than expected at 3.1% yoy, Dec 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, absent 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. Policy rate seen near its peak by BI, IDR still seen as undervalued. Feb headline CPI cooler than expected (2.57%), core steady at 3.06%. 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. Feb headline inflation warmer than expected at 0.73%, core cooler than expected at 0.60%. Elections scheduled on 24 March, with uncertainties heightening.
Philippines	↔	---	New BSP governor deemed accommodative, looking towards RRR cuts while remaining data dependant. 4Q GDP below expectations at 6.1% yoy. Dec exports underperformed expectations at -12.3% yoy. Feb CPI softer than expected at +3.8% yoy. 2018 fiscal deficit likely widened to 3.1%.

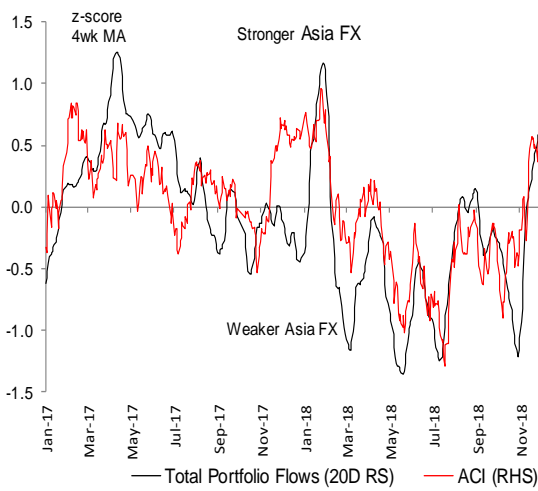
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



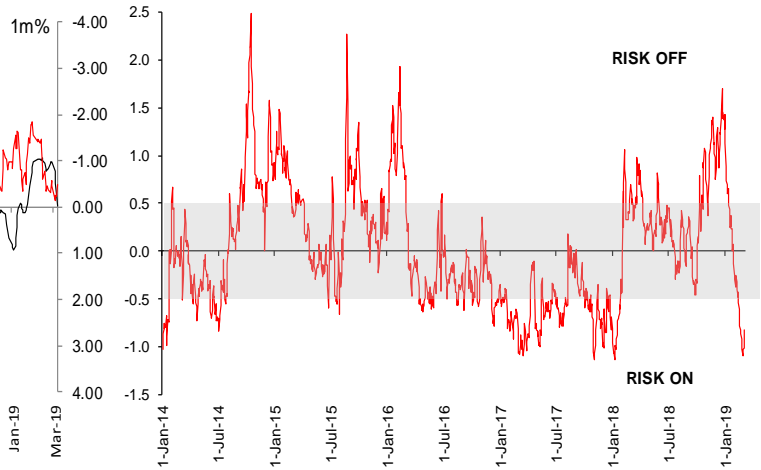
Source: CEIC, Bloomberg, OCBC Bank

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	-0.258	0.414	-0.694	-0.348	-0.529	0.118	-0.243	0.667	0.408	0.563	-0.975
SGD	0.922	-0.042	0.574	-0.777	-0.462	-0.698	0.105	-0.442	0.646	0.512	0.728	-0.865
IDR	0.884	-0.334	0.419	-0.696	-0.389	-0.561	-0.034	-0.344	0.763	0.435	0.55	-0.908
MYR	0.825	-0.218	0.183	-0.404	-0.306	-0.148	0.297	0.139	0.404	0.132	0.304	-0.804
JPY	0.823	-0.042	0.06	-0.451	0.058	-0.397	0.492	-0.058	0.619	-0.055	0.204	-0.772
CAD	0.719	-0.153	0.033	-0.2	-0.198	-0.066	0.298	0.182	0.252	-0.056	0.116	-0.712
CHF	0.701	-0.345	0.175	-0.374	-0.312	-0.065	0.194	0.158	0.341	0.105	0.248	-0.698
CNH	0.66	-0.316	0.232	-0.283	-0.208	-0.089	0.107	0.109	0.369	0.066	0.264	-0.61
PHP	0.563	-0.182	0.966	-0.817	-0.864	-0.771	-0.508	-0.753	0.502	0.902	1	-0.514
CNY	0.539	-0.592	0.604	-0.483	-0.569	-0.277	-0.462	-0.266	0.494	0.531	0.567	-0.543
THB	0.42	0.286	-0.344	0.012	0.447	-0.087	0.812	0.228	0.252	-0.506	-0.225	-0.366
KRW	0.414	-0.25	1	-0.737	-0.902	-0.71	-0.639	-0.76	0.407	0.919	0.966	-0.364
USGG10	0.118	0.591	-0.639	0.384	0.692	0.231	1	0.461	-0.112	-0.734	-0.508	-0.06
TWD	-0.258	1	-0.25	0.36	0.364	0.036	0.591	0.056	-0.387	-0.337	-0.182	0.38
INR	-0.531	-0.022	0.254	0.238	-0.28	0.157	-0.663	-0.117	-0.504	0.303	0.12	0.566
GBP	-0.551	-0.286	-0.226	0.631	0.065	0.543	-0.282	0.376	-0.424	-0.224	-0.372	0.514
NZD	-0.584	0.35	-0.882	0.731	0.802	0.661	0.602	0.672	-0.42	-0.952	-0.902	0.548
AUD	-0.745	-0.172	-0.035	0.524	-0.071	0.375	-0.49	0.068	-0.498	-0.003	-0.229	0.713
EUR	-0.975	0.38	-0.364	0.721	0.354	0.476	-0.06	0.198	-0.709	-0.395	-0.514	1

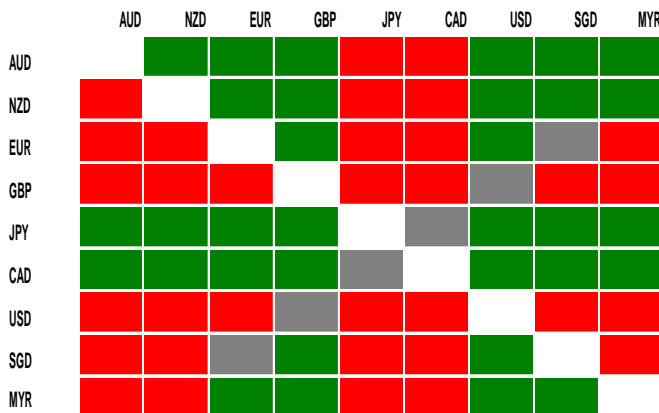
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1214	1.1230	1.1300	1.1371
GBP-USD	1.2780	1.2900	1.2964	1.2974	1.2984
AUD-USD	0.7003	0.7009	0.7033	0.7100	0.7133
NZD-USD	0.6737	0.6744	0.6794	0.6800	0.6801
USD-CAD	1.3278	1.3400	1.3431	1.3467	1.3468
USD-JPY	110.09	111.00	111.09	111.41	112.00
USD-SGD	1.3500	1.3555	1.3594	1.3600	1.3614
EUR-SGD	1.5208	1.5254	1.5266	1.5300	1.5406
JPY-SGD	1.2087	1.2200	1.2237	1.2258	1.2300
GBP-SGD	1.7586	1.7600	1.7623	1.7700	1.7729
AUD-SGD	0.9524	0.9531	0.9561	0.9600	0.9668
Gold	1276.79	1280.80	1297.40	1300.00	1301.71
Silver	15.19	15.20	15.27	15.30	15.61
Crude	53.15	56.30	56.34	56.40	57.88

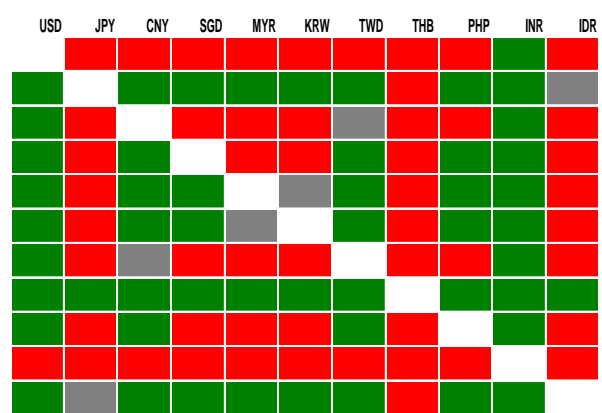
Source: OCBC Bank

G10 FX Heat Map



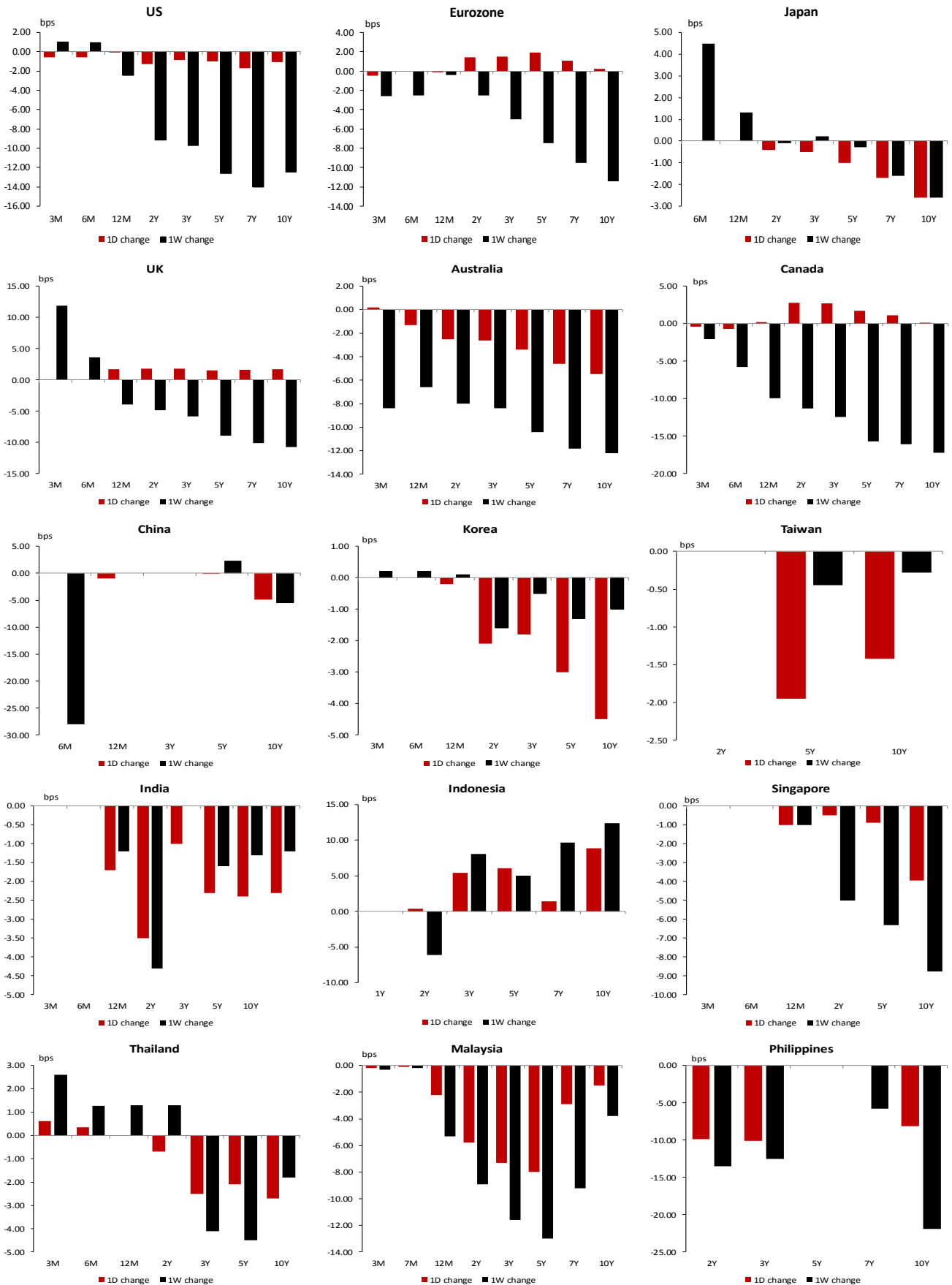
Source: OCBC Bank

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	
4	05-Mar-19	S	AUD-USD	0.7074	0.6870	0.7175	Potentially dovish RBA, macro conditions soggy	
5	07-Mar-19	B	USD-CAD	1.3430	1.3655	1.3315	BOC stalls in its tightening bias	
STRUCTURAL								
RECENTLY CLOSED TRADE IDEAS								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	11-Feb-19	27-Feb-19	S	EUR-USD	1.1325	1.1393	Darkening EZ macro outlook	-0.46
2	28-Feb-19	08-Mar-19	S	3M USD-CNH	6.6861	6.7350	Renminbi stability, PBOC policy backstop, conducive inflow environment	-0.73

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