

Tuesday, March 12, 2019

Market Themes/Strategy/Trading Views

- Despite mixed US retail sales data, spillover from positive US equities and positive Brexit headlines sent the GBP and the majors higher against the USD on Monday. The JPY and CHF meanwhile also underperformed on the crosses in reaction to an improvement in risk sentiments.
- Overall sentiment was lifted somewhat by rising global equities, with the **FXSI (FX Sentiment Index)** dipping again on Monday, breaking the spell of the previous increases over the previous 6 sessions. Nevertheless, we expect sentiments to remain shifty, and beholden to geopolitical developments.
- Ahead of the **UK parliament** vote on Tuesday, **GBP-USD** continues to lift on news of a **May-Juncker** compromise (reportedly, potential backdoor out of the backstop) this morning in Asia and resultant short covering in the pair has virtually erased its month-to-date recent losing streak. Intra-day, much will depend on the outcomes of the vote in the House of Commons, and while the GBP-USD is deemed overbought relative to short term implied valuations, sentiment and positioning may override intra-day. In the interim, we caution against getting too caught up in the latest euphoria, with Juncker's latest comments belying a sense of finality in terms of how much the EU is willing to compromise. Note that beyond the very short end, the riskies remain less than impressed.
- Elsewhere, **EUR-USD** may ride along with the GBP-USD but this may prove to be a choppy ride in the coming 24 hours. Short term fair value is a touch more supported but the multi-session profile we think remains top heavy.
- On the cyclicals, the **AUD-USD** may continue base building if positive risk appetite levels continue to accumulate as it veers away from oversold territory. Short term implied valuations are however holding largely steady at this juncture.
- For data highlights today, watch a series of releases from the UK, including industrial production and trade data (0930 GMT), and US CPI (1100 GMT).

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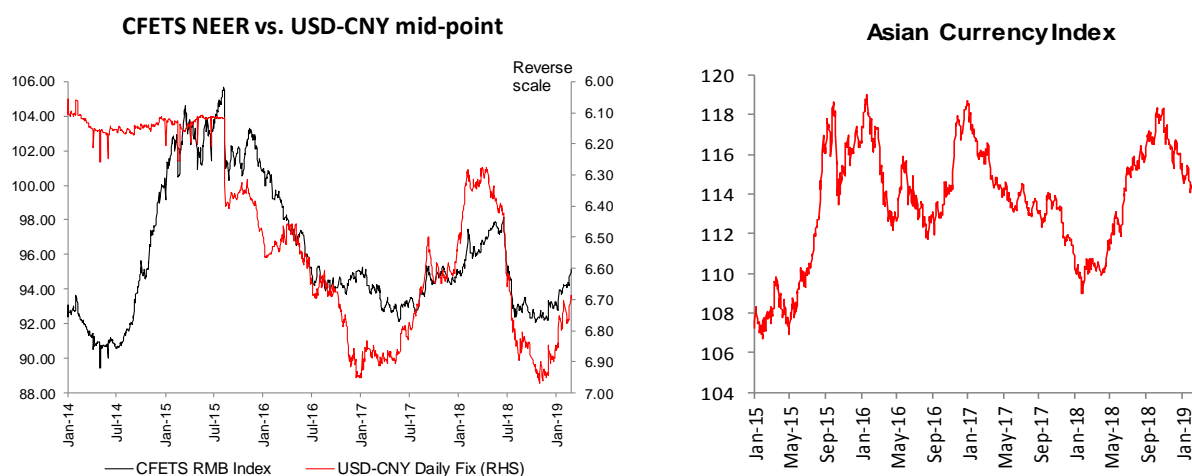
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Asian Markets

- The improvement in global sentiment (including in EM equities and FX) should pressure USD-Asia south during the Asian session with China equities and generalized risk appetite to guide.
- On the flow front, net inflows for South Korea have blipped higher on the continued recovery in net bond inflows eclipsing net equity outflows. Meanwhile, net equity inflows for Taiwan have been deteriorating. India meanwhile has also registered a blip higher in overall net inflows on strengthening net equity inflows and compressing net bond outflows. Pending a data refresh, net bond inflows for Indonesia have been moderating while net equity flows remain in a small net deficit. Thailand is still sitting on a minor net negative balance with respect to its overall flow environment.
- **SGD NEER:** The SGD NEER is effectively static at around +1.66% above its perceived parity (1.3795), as NEER-implied USD-SGD thresholds softened further alongside the broad USD. USD-SGD meanwhile is expected to contemplate a floor at its 55-day MA (1.3564).
- **CFETS RMB Index:** This morning, the USD-CNY midpoint came in lower as expected at 6.7128, compared to 6.7202 on Monday. The CFET RMB Index eased further to 95.26 from 95.36.



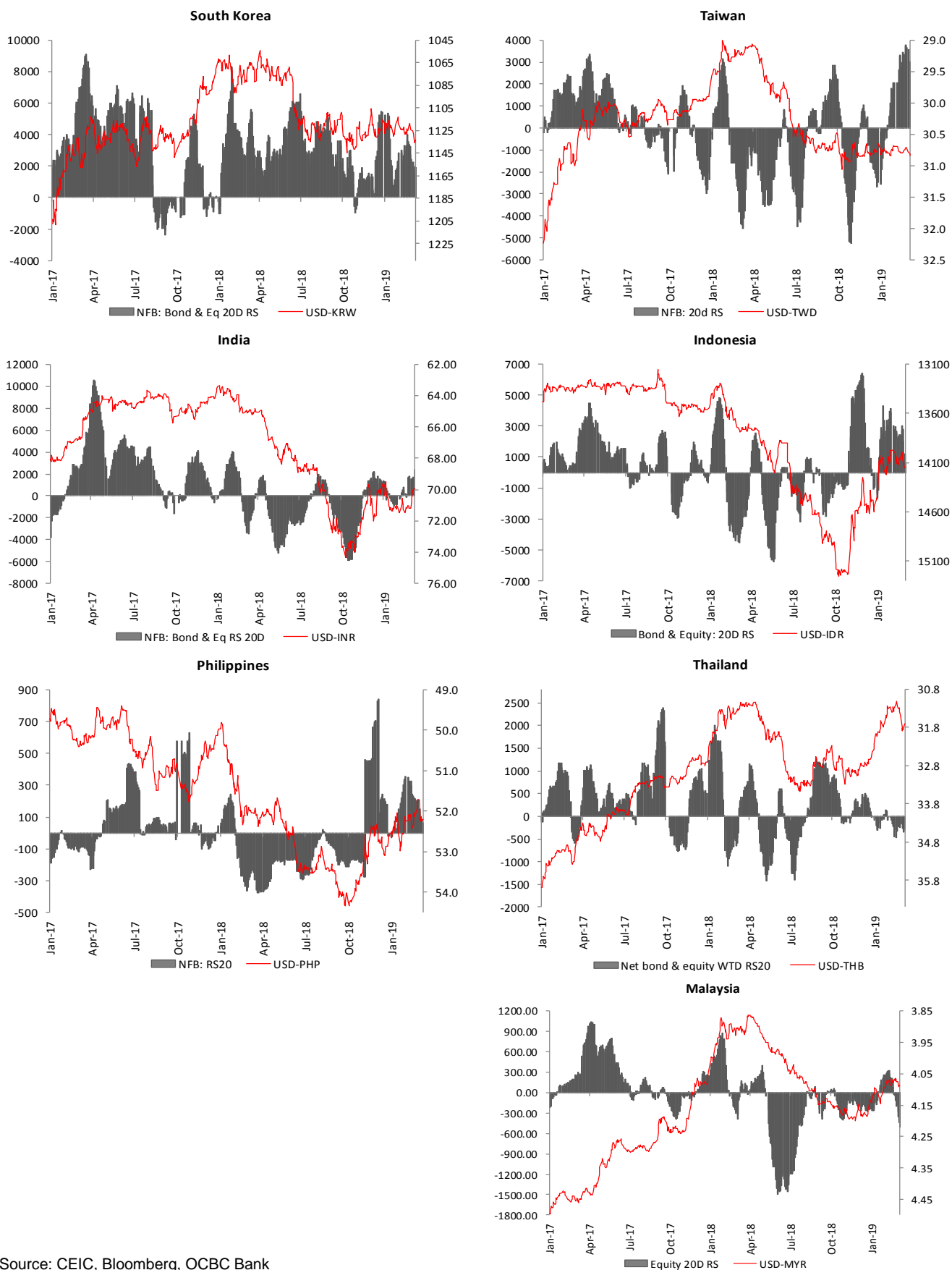
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

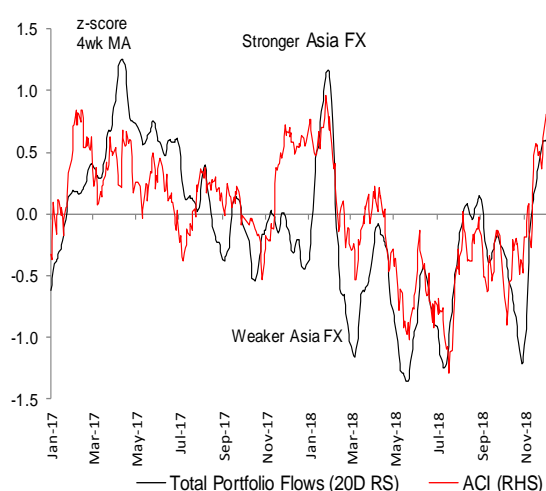
	USD-Asia	10y govie (%)	Rationale
China	↔	↔/↑	4Q GDP as expected at 6.4% yoy. Dec new yuan loans and aggregate financing beat expectations. Feb CPI in-line with expectations, but PPI surprised on the downside. Jan industrial profits deteriorate further at -1.9% yoy. Jan retail sales and industrial production 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. Feb trade numbers, especially exports, contracted on a yoy basis, significantly underperforming consensus and Jan. Feb aggregate financing, new yuan loans and M2 aggregate all lower than expected.
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. Feb CPI continues to print in the soft side. Feb exports decline 8.80% yoy, worse 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 CPI readings cooler than expected. Jan IPI flat to weaker than expected. 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 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

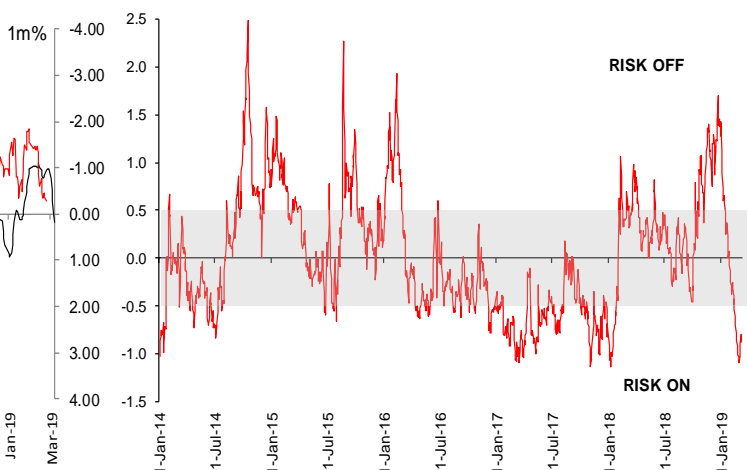
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

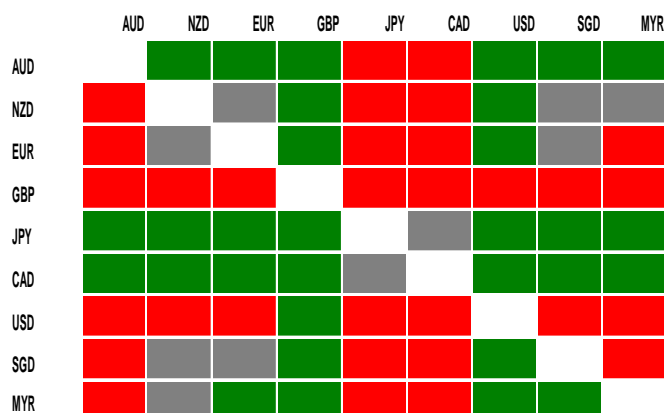
	DXY	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.244	0.412	-0.639	-0.344	-0.532	0.156	-0.197	0.58	0.368	0.556	-0.971
SGD	0.918	-0.025	0.578	-0.743	-0.461	-0.7	0.125	-0.413	0.59	0.486	0.728	-0.851
IDR	0.865	-0.341	0.343	-0.589	-0.367	-0.546	0.05	-0.193	0.603	0.358	0.465	-0.907
MYR	0.815	-0.033	0.04	-0.4	0.046	-0.404	0.536	0.011	0.526	-0.079	0.178	-0.775
JPY	0.783	-0.205	0.123	-0.274	-0.272	-0.166	0.371	0.243	0.212	0.049	0.236	-0.793
CAD	0.7	-0.149	0.002	-0.116	-0.178	-0.105	0.374	0.279	0.105	-0.1	0.078	-0.724
CHF	0.686	-0.338	0.165	-0.281	-0.291	-0.096	0.242	0.212	0.199	0.049	0.231	-0.693
CNH	0.654	-0.321	0.223	-0.223	-0.206	-0.116	0.136	0.154	0.265	0.029	0.25	-0.61
PHP	0.557	-0.596	0.576	-0.459	-0.567	-0.285	-0.417	-0.211	0.453	0.513	0.541	-0.563
CNY	0.556	-0.176	0.967	-0.811	-0.864	-0.769	-0.511	-0.742	0.49	0.898	1	-0.491
THB	0.43	0.266	-0.347	0.037	0.421	-0.104	0.825	0.27	0.193	-0.51	-0.233	-0.39
KRW	0.412	-0.248	1	-0.734	-0.901	-0.706	-0.643	-0.752	0.401	0.917	0.967	-0.346
USGG10	0.156	0.561	-0.643	0.389	0.687	0.223	1	0.481	-0.124	-0.736	-0.511	-0.111
TWD	-0.244	1	-0.248	0.326	0.361	0.056	0.561	0.027	-0.327	-0.307	-0.176	0.371
INR	-0.461	0.266	-0.888	0.734	0.791	0.642	0.627	0.715	-0.433	-0.952	-0.894	0.391
GBP	-0.491	-0.333	-0.24	0.633	0.063	0.534	-0.257	0.404	-0.428	-0.228	-0.378	0.432
NZD	-0.573	0.101	0.231	0.146	-0.225	0.177	-0.62	-0.189	-0.327	0.312	0.105	0.62
AUD	-0.728	-0.214	-0.031	0.499	-0.064	0.383	-0.526	0.043	-0.452	0.012	-0.222	0.693
EUR	-0.971	0.371	-0.346	0.649	0.345	0.477	-0.111	0.129	-0.6	-0.344	-0.491	1

Source: Bloomberg

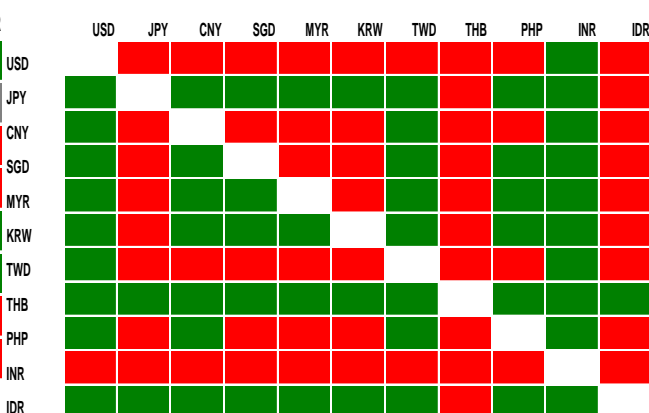
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1211	1.1259	1.1300	1.1367
GBP-USD	1.2987	1.3200	1.3216	1.3300	1.3350
AUD-USD	0.7003	0.7012	0.7069	0.7100	0.7134
NZD-USD	0.6800	0.6804	0.6837	0.6900	0.6902
USD-CAD	1.3273	1.3300	1.3398	1.3400	1.3468
USD-JPY	110.16	111.00	111.39	111.42	112.00
USD-SGD	1.3500	1.3554	1.3565	1.3600	1.3614
EUR-SGD	1.5208	1.5248	1.5273	1.5300	1.5404
JPY-SGD	1.2087	1.2100	1.2178	1.2200	1.2258
GBP-SGD	1.7730	1.7900	1.7927	1.8000	1.8043
AUD-SGD	0.9524	0.9533	0.9589	0.9600	0.9669
Gold	1274.55	1280.80	1294.50	1300.00	1301.93
Silver	15.10	15.18	15.20	15.20	15.61
Crude	53.84	57.00	57.05	57.10	57.88

Source: OCBC Bank

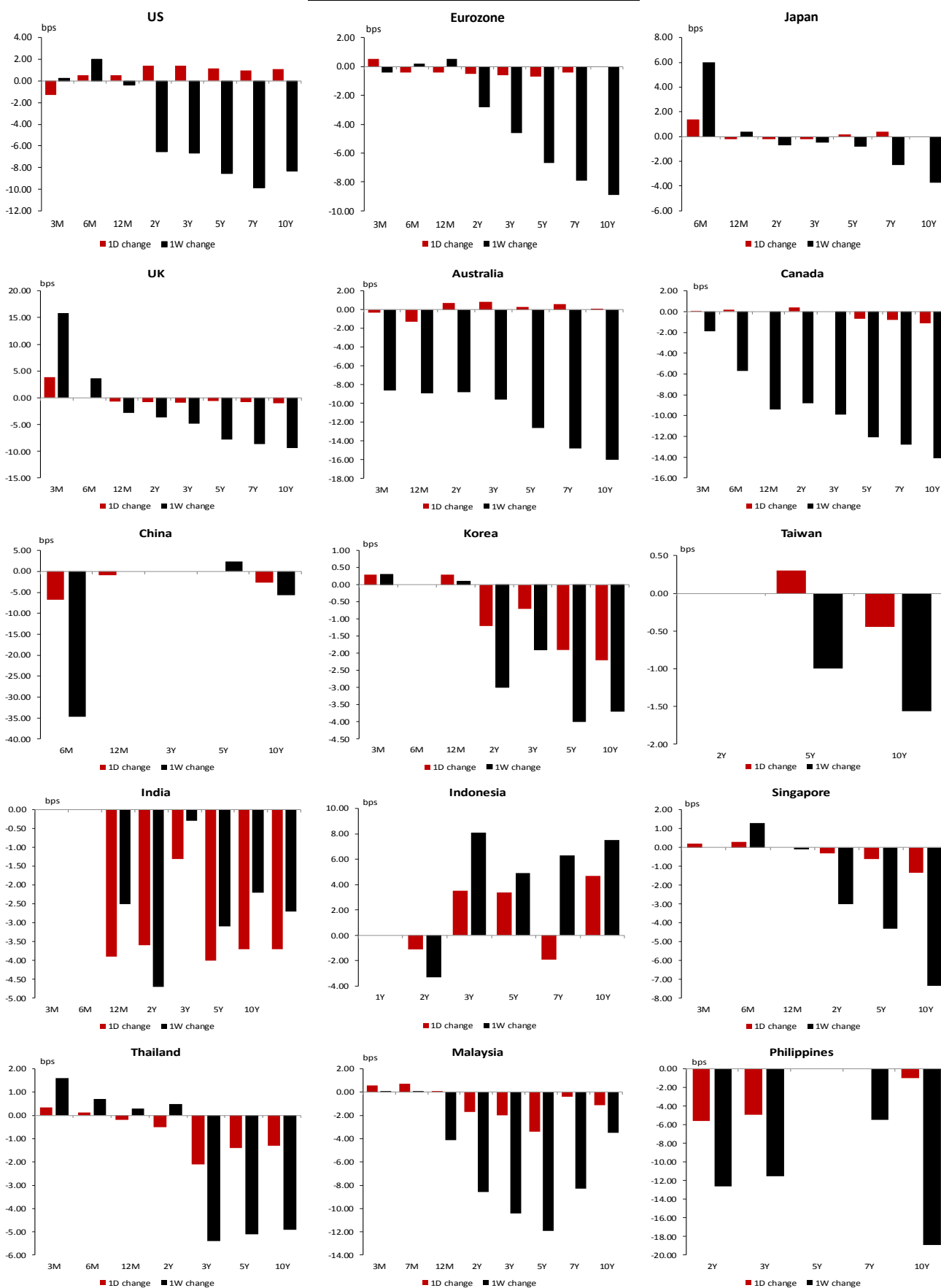
G10 FX Heat Map

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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