

Wednesday, March 13, 2019

Market Themes/Strategy/Trading Views

- Except against the GBP, the USD weakened across G10 space on Tuesday following soft US Feb CPI readings. UST yields relapsed lower and ultimately left the USD weaker from the perspective of aggregated rate differentials.
- GBP meanwhile underperformed across the board after Parliament overwhelmingly rejected PM May's version of the Brexit agreement. For today, look to the "no-deal" vote (1900 GMT), although we continue to warn that the EU's response to the UK Parliamentary votes may prove more of a swing factor.
- EZ/US equities closed largely in positive territory, helping the **FXSI (FX Sentiment Index)** to again dip lower within the Risk-On zone, after the blip last week.
- In the near term, we think the **DX** may attempt to mean revert towards its 96.74 and on a multi-session horizon, towards its 100-day MA (96.565).
- The **EUR-USD** may attempt to track its short term implied valuations higher intra-day with the closest resistance seen towards 1.1320/30 before the 100-day MA located at 1.1368.
- Short term implied valuations for the **GBP-USD** continue to ease with the pair still in overbought territory despite the overnight retracement. Pending today's vote the pair may remain top heavy with the 55-day MA (1.2966) seen capping and with 1.3115 limiting on the upside.
- Upside impetus for the **USD-JPY** may remain somewhat lacking with initial resistance at the 100-day MA (111.32) and any violation of 111.14 risks 110.70. Short term implied valuations are also a tad heavier for the pair.
- For the **AUD-USD**, short term implied valuations remain supported on dips (disappointing March consumer confidence readings notwithstanding) and on balance, the pair may reject dips within 0.7020-0.7100 pending risk appetite gyrations intra-day.
- On the data calendar, the highlights of a relatively light schedule are the Eurozone industrial production (1000 GMT) and US PPI (1230 GMT) prints.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

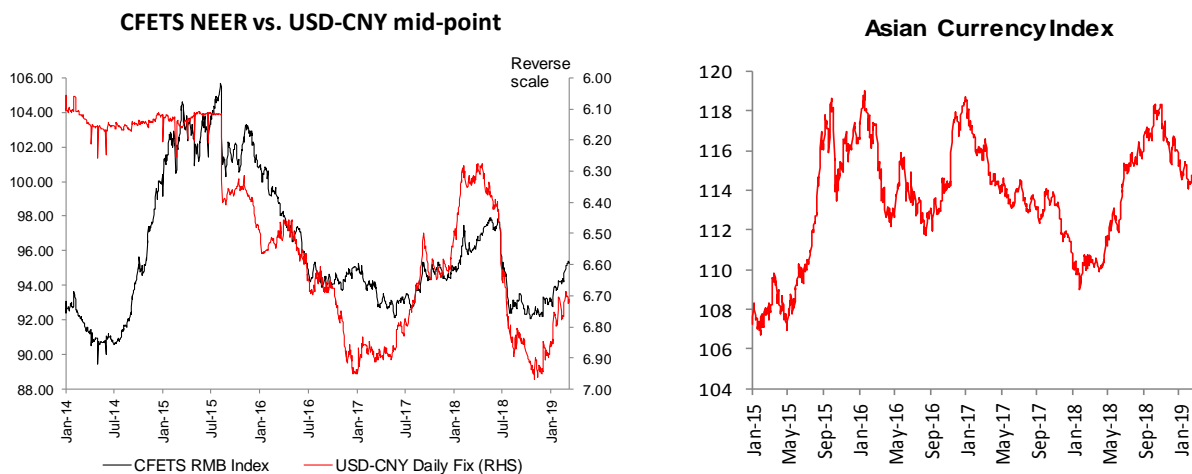
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian Markets

- USD-CNH reacted lower to the weakened USD on Tuesday but the negative equity vibes in Asia this morning may stymie excessive positivity towards the regional currencies.
- **On the PHP, BSP governor Diokno’s comments on the PHP and monetary policy, coupled with moderating inflows, may continue to keep the PHP in a negative light in the short term after the pair’s jump higher on Tuesday.**
- On the **portfolio flows** front, a recovery in risk appetite may have contributed to a further uptick in inflow momentum for South Korea and India. However, this optimism has not spread to other South Asian economies, with Thailand still experiencing a slow bleed in terms of outflows, and Malaysia seeing an acceleration of outflow momentum. Elsewhere, inflow momentum also continued to ease in Taiwan.
- **SGD NEER:** The SGD NEER is anchored at around +1.66% above its perceived parity (1.3793), as NEER-implied USD-SGD thresholds remain effectively static. At this juncture, we think the USD-SGD should remain tethered to its 55-day MA (1.3562) and trapped within 1.3530 and 1.3580/00.
- **CFETS RMB Index:** This morning, the USD-CNY midpoint came in lower again at 6.7114, compared to 6.7128 on Tuesday. The CFETS RMB Index eased slightly to 95.25 from 95.26. Going ahead, we continue to expect the USD-CNH to be reflective of any potential broad USD.



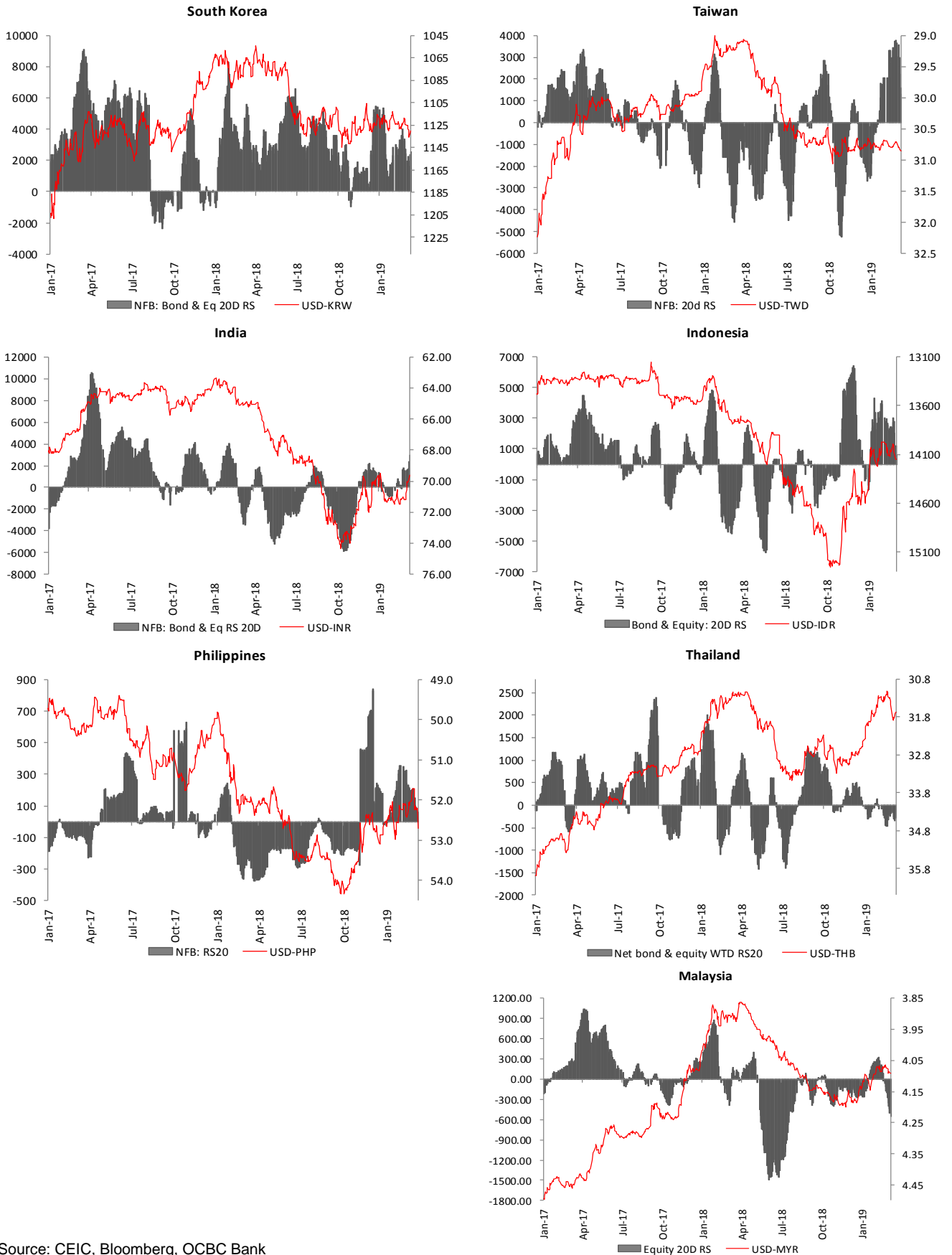
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔	↔/↑	NPC portends further accommodation in the pipeline. 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 numbers. 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. 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	↔/↓	↔	Feb CPI warmer than expected at +2.57% (below the RBI's 4% target) but Jan revised lower. Core CPI readings also continue to moderate. Jan industrial production disappoints at +1.7% yoy. RBI delivered a surprise 25 bps cut in Feb and shifted to neutral. Feb manufacturing/services/composite PMIs improve from previous month. Dec merchandise trade deficit wider than expected on firmer crude. Elections due Apr/May 2019 (results due 23 May).
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 sees inflation suppressed; 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. Curve has been attempting to price in a rate cut. 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% (target range:1-4%), core cooler than expected at 0.60%. Elections scheduled on 24 March, with uncertainties heightening.
Philippines	↔	---	BSP governor continues to herald a rate cut – markets are now gunning for rate and RRR cuts, potentially in May. 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 (back within the 2-4% range). 2018 fiscal deficit likely widened to 3.1%.

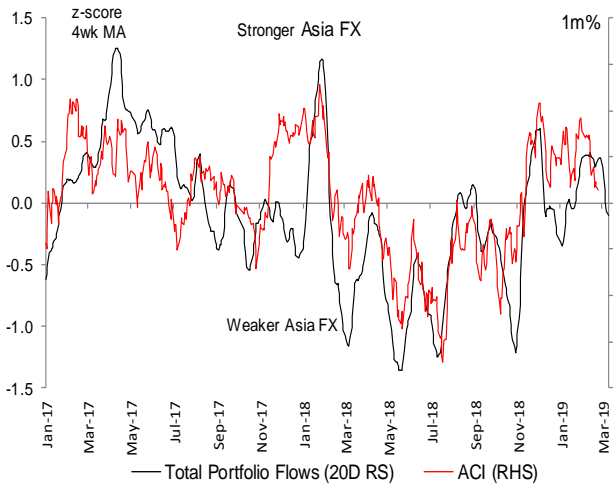
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



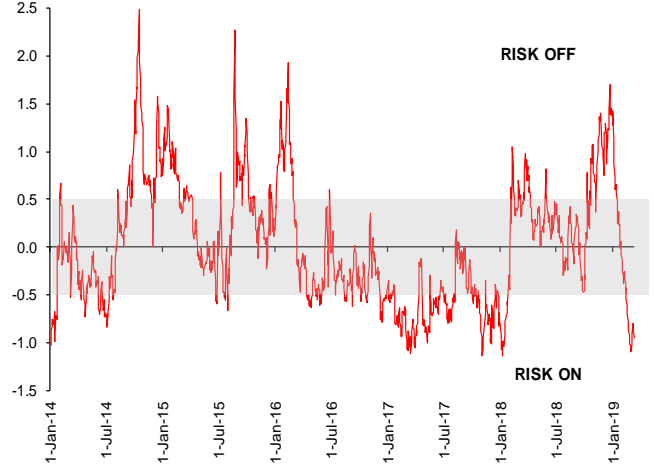
Source: CEIC, Bloomberg, OCBC Bank

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	-0.282	0.394	-0.608	-0.325	-0.528	0.152	-0.184	0.515	0.342	0.535	-0.973
SGD	0.92	-0.067	0.558	-0.721	-0.448	-0.698	0.126	-0.394	0.542	0.468	0.706	-0.859
IDR	0.871	-0.432	0.324	-0.527	-0.324	-0.528	0.038	-0.186	0.487	0.302	0.442	-0.903
MYR	0.814	-0.15	0.017	-0.356	0.07	-0.395	0.533	0.027	0.433	-0.111	0.15	-0.766
JPY	0.731	-0.454	0.028	-0.155	-0.176	-0.138	0.376	0.296	0.02	-0.051	0.132	-0.726
CAD	0.682	-0.377	-0.066	-0.039	-0.102	-0.091	0.369	0.324	-0.042	-0.167	0.005	-0.691
CHF	0.679	-0.455	0.094	-0.231	-0.252	-0.091	0.262	0.265	0.11	0.007	0.162	-0.683
CNH	0.661	-0.412	0.159	-0.187	-0.179	-0.112	0.158	0.213	0.192	-0.001	0.19	-0.62
PHP	0.535	-0.063	0.968	-0.815	-0.867	-0.763	-0.52	-0.75	0.506	0.9	1	-0.48
CNY	0.494	-0.721	0.277	-0.265	-0.38	-0.224	-0.222	0.01	0.173	0.317	0.259	-0.498
THB	0.431	0.126	-0.362	0.06	0.432	-0.1	0.822	0.283	0.137	-0.523	-0.251	-0.384
KRW	0.394	-0.12	1	-0.739	-0.903	-0.702	-0.648	-0.761	0.419	0.919	0.968	-0.338
USGG10	0.152	0.416	-0.648	0.402	0.693	0.222	1	0.479	-0.158	-0.742	-0.52	-0.099
TWD	-0.282	1	-0.12	0.223	0.27	0.045	0.416	-0.097	-0.154	-0.2	-0.063	0.395
INR	-0.466	-0.381	-0.262	0.645	0.088	0.526	-0.233	0.424	-0.461	-0.255	-0.397	0.418
GBP	-0.504	0.23	-0.882	0.725	0.786	0.642	0.612	0.684	-0.414	-0.939	-0.892	0.453
NZD	-0.543	0.294	0.269	0.034	-0.265	0.144	-0.612	-0.25	-0.112	0.362	0.169	0.588
AUD	-0.729	-0.08	-0.004	0.473	-0.077	0.38	-0.522	0.013	-0.397	0.031	-0.192	0.692
EUR	-0.973	0.395	-0.338	0.617	0.325	0.473	-0.099	0.132	-0.531	-0.316	-0.48	1

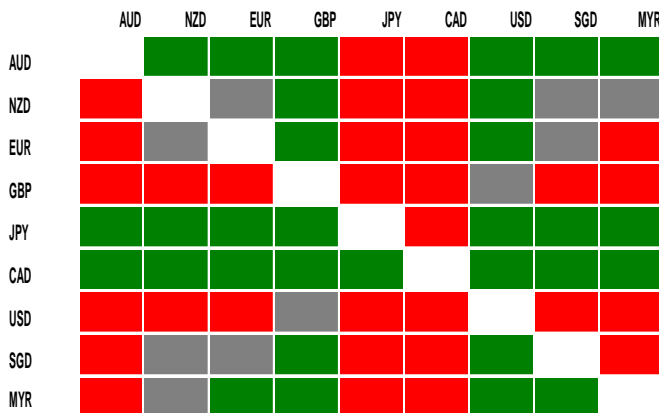
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1218	1.1284	1.1300	1.1367
GBP-USD	1.2994	1.3000	1.3083	1.3100	1.3341
AUD-USD	0.7003	0.7010	0.7056	0.7100	0.7135
NZD-USD	0.6800	0.6809	0.6840	0.6900	0.6906
USD-CAD	1.3268	1.3300	1.3365	1.3400	1.3468
USD-JPY	110.18	111.00	111.21	111.42	112.00
USD-SGD	1.3500	1.3552	1.3567	1.3600	1.3614
EUR-SGD	1.5253	1.5300	1.5308	1.5400	1.5402
JPY-SGD	1.2088	1.2100	1.2199	1.2200	1.2258
GBP-SGD	1.7700	1.7728	1.7750	1.7800	1.8040
AUD-SGD	0.9524	0.9529	0.9573	0.9600	0.9669
Gold	1300.00	1302.45	1305.40	1344.00	1345.45
Silver	15.18	15.30	15.34	15.40	15.62
Crude	56.27	56.74	57.10	57.88	58.03

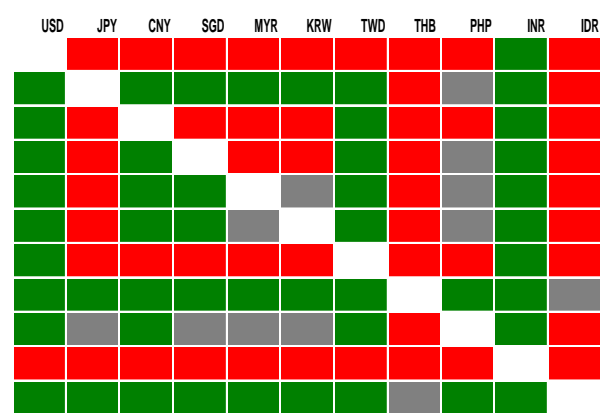
Source: OCBC Bank

G10 FX Heat Map



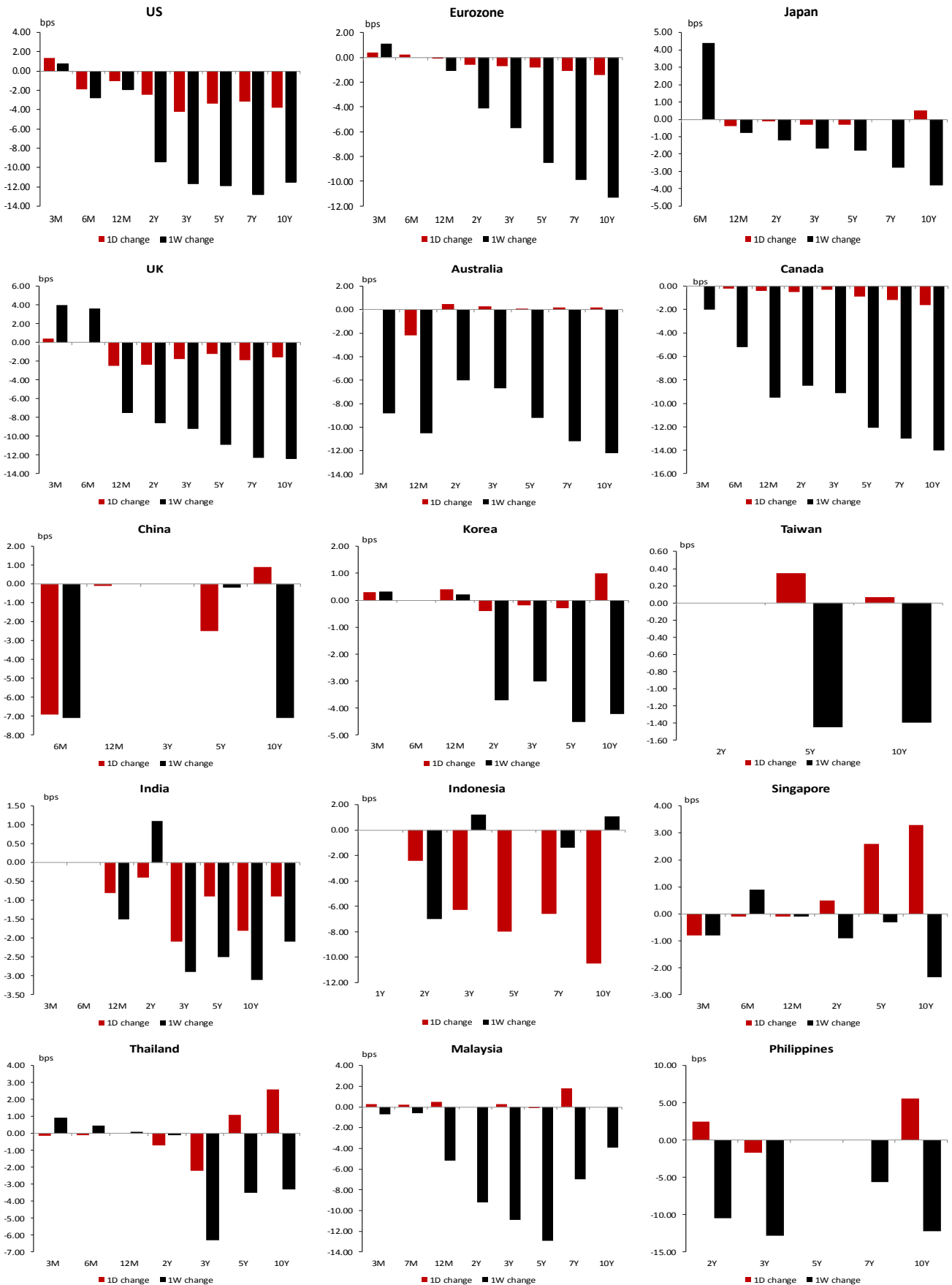
Source: OCBC Bank

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).
