

Thursday, March 14, 2019

Market Themes/Strategy/Trading Views

- The pound led the way higher against the USD on Wednesday as the UK Parliament voted to reject a no-deal Brexit. Next up, the UK parliament is scheduled to vote for an extension of the Brexit deadline later today. Apart from the shenanigans in UK side, keep an eye on the EU's rhetoric as well, which has sounded less than enthusiastic about the recent developments. Any deadline extension will require the EU to play ball. As it stands, if the EU refuses to grant an extension, the UK will be out on March 29 without a deal.
- UST yields were firmer (Feb PPI softer than expected but Jan durable goods printed some positive surprises) with core global curves also higher in tandem while EZ/US equities also managed to print gains. Meanwhile, risk appetite improved significantly with the **FXSI (FX Sentiment Index)** ticking lower within Risk-On territory for the 3rd consecutive session.
- As hazarded previously, the **DXY** has continued to ease and is in the vicinity of its 100-day MA (96.56). Immediate tone for the Index may remain heavy, with the 55-day MA (96.333) and the 200-day MA (95.775) likely to attract.
- Specifically, **EUR-USD** seems to be underpinned by both short term implied valuations as well as technicals, with the 100-day MA (1.1368) looking tenable at this juncture. Meanwhile, positioning and positive sentiment may continue to buffer the **GBP-USD** (despite the pair still looking overly rich relative to short term implied valuations). Cable may straddle the 1.3300 neighborhood pending another parliamentary vote today. On other fronts, both short term implied valuations and technicals are somewhat uncommitted with respect to the **AUD-USD** but the pair may remain supported on dips towards 0.7050 given the improved risk appetite environment. Lastly, patience may be needed for the **USD-JPY**, with short term implied valuations and positive risk appetite levels conducive to further upside potential. Preference to collect on dips towards 111.00 while the 200-day MA (111.43) may cap pending further headline risks.
- With PHP (and portfolio flow) dynamics rapidly shifting in the wake of the new BSP governor, our 27 Feb 19 idea to be short 1M **THB-PHP** was stopped out on Wednesday for an implied -1.29% loss.
- Meanwhile, our 23 Jan 19 idea to be tactically long **GBP-AUD** (spot ref: 1.8159) fulfilled its 1.8745 objective on 12 Mar 19. We continue to pursue this idea and now shift our target to 1.9350, trailing the stop to 1.8440.

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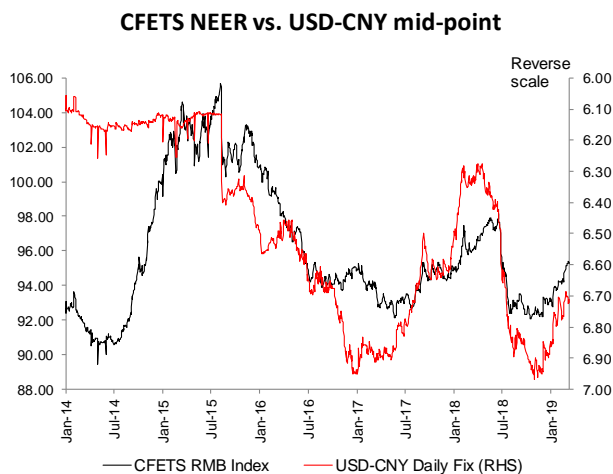
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Asian Markets

- EM equities held steady on Wednesday but the **USD-CNH** settled lower in reaction to the weakened broad dollar. **While carry has performed within Asia in the month-to-date, increasing differentiation within the region may whittle away at this dynamic. To this end, flow considerations imply potential outperformance for the KRW and the INR at the expense of IDR (INR-IDR likely has more headroom in the near term).**
- Net inflows in South Korea are picking up significantly on the back of net bond inflows while net equity inflow momentum for Taiwan continues to wane. India meanwhile is also enjoying a significant jump in overall net inflows as net equity inflows surge.
- For Indonesia, net bond flow momentum has flipped to a net outflow balance (20-day rolling sum). In Thailand, net equity outflows are still deepening with net bond flows at a slight net negative balance. On other fronts, net equity outflows for Malaysia are still deepening with net equity inflows for the Philippines steadily depleting to a near neutral balance.
- **SGD NEER:** The SGD NEER lurched higher to around +1.75% above its perceived parity (1.3771). NEER-implied USD-SGD thresholds softened further alongside the broad USD. For now, the 1.3500/30 floor for the USD-SGD should remain intact, unless we see deepened USD capitulation. Look towards 1.3470 if that occurs.
- **CFETS RMB Index:** The USD-CNY midpoint came in lower again at 6.7009, compared to 6.7114 on Wednesday. The CFETS RMB Index is effectively static at 95.26. Continue to expect the CFETS RMB Index to consolidate north of 95.00 for now.
- On the Chinese data front, note that Feb retail sales printed in line with expectations, while industrial production came in weaker than expected. While the Chinese domestic economy may not have found the bottom yet, we take heart from the recent accommodative rhetoric from the NPC.



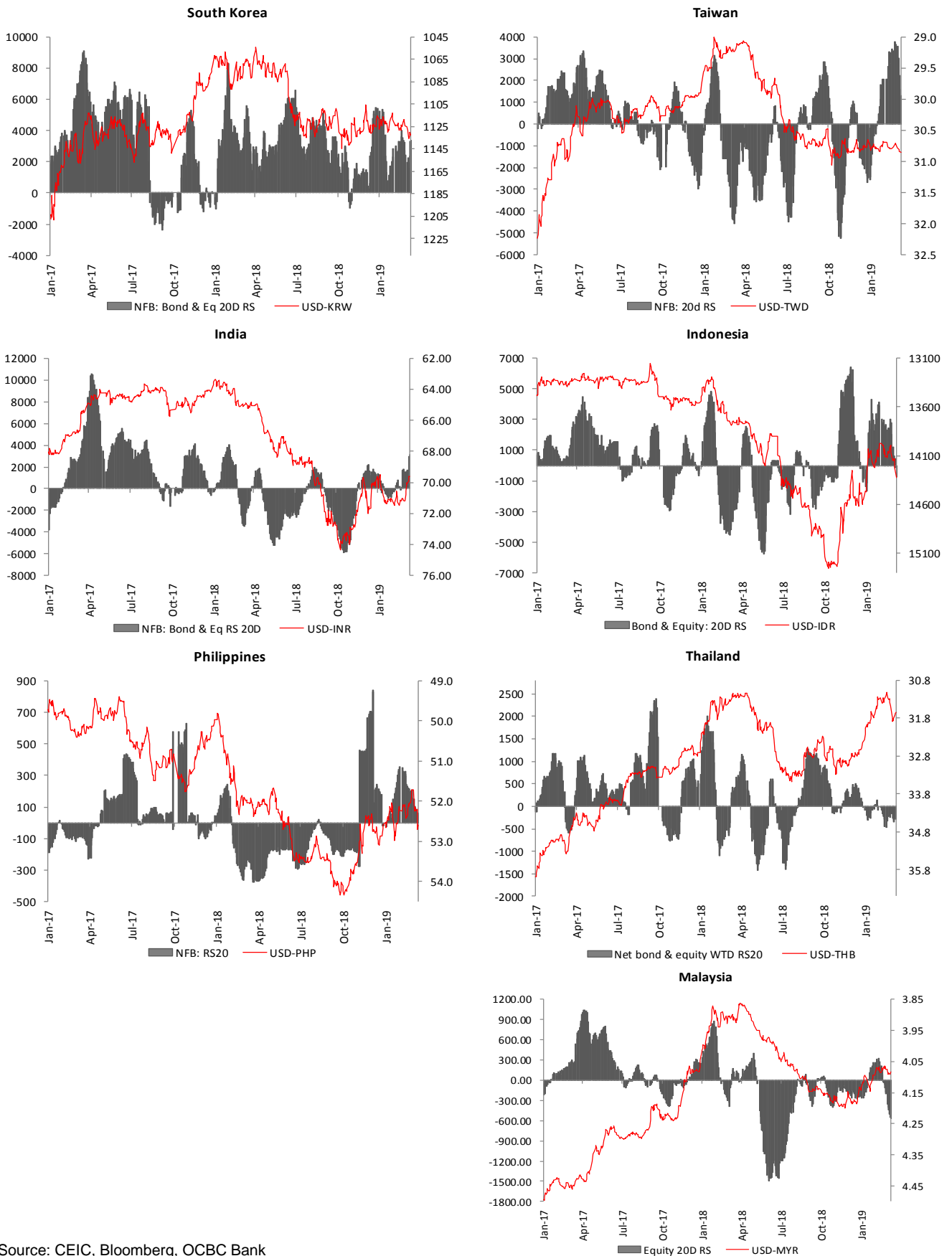
Source: OCBC Bank, Bloomberg

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. Feb retail sales and industrial production in-line to weaker than estimates. Feb official PMIs softer than expected. 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%.

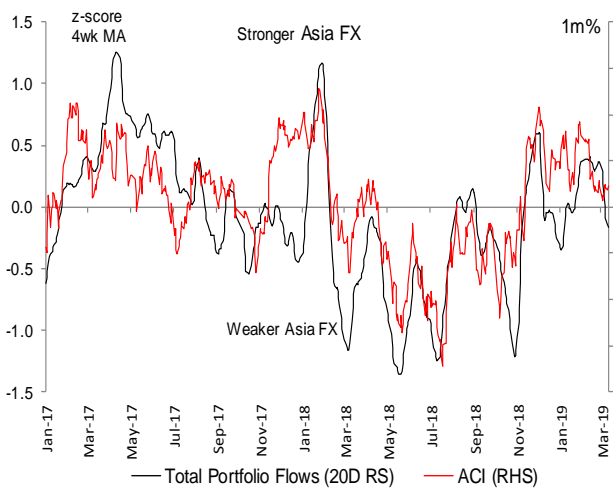
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



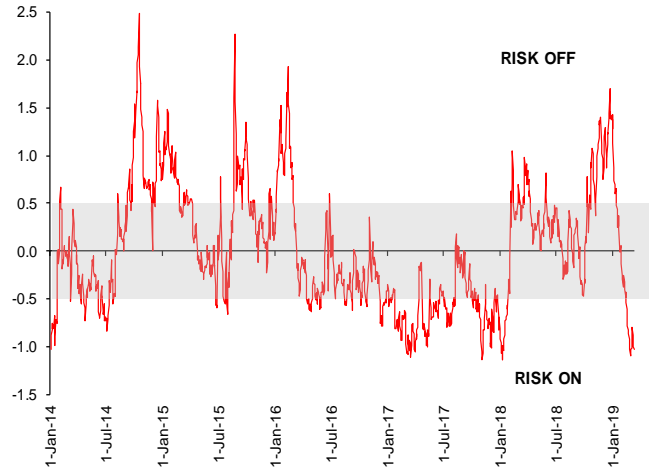
Source: CEIC, Bloomberg, OCBC Bank

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	-0.178	0.403	-0.633	-0.296	-0.524	0.184	-0.19	0.493	0.317	0.553	-0.97
SGD	0.932	0.049	0.516	-0.681	-0.385	-0.651	0.225	-0.317	0.392	0.685	-0.863	
IDR	0.871	-0.374	0.39	-0.605	-0.337	-0.583	0.029	-0.232	0.46	0.316	0.51	-0.911
MYR	0.791	-0.111	-0.002	-0.352	0.101	-0.391	0.58	0.069	0.38	-0.171	0.14	-0.752
JPY	0.618	-0.434	0.223	-0.214	-0.211	-0.127	0.146	0.256	0.126	-0.005	0.242	-0.599
CAD	0.605	-0.426	-0.025	-0.05	-0.131	-0.105	0.363	0.399	-0.121	-0.192	0.036	-0.652
CHF	0.605	-0.493	0.059	-0.131	-0.192	-0.125	0.375	0.388	-0.099	-0.1	0.151	-0.634
CNH	0.581	-0.481	0.099	-0.178	-0.245	-0.045	0.28	0.377	-0.015	-0.062	0.155	-0.61
PHP	0.553	0.01	0.96	-0.755	-0.85	-0.697	-0.459	-0.648	0.471	0.875	1	-0.483
CNY	0.414	0.11	-0.363	0.028	0.43	-0.149	0.837	0.276	0.123	-0.548	-0.243	-0.379
THB	0.403	-0.066	1	-0.641	-0.895	-0.611	-0.609	-0.654	0.364	0.89	0.96	-0.331
KRW	0.368	-0.731	0.287	-0.132	-0.335	-0.119	-0.2	0.171	0.01	0.203	0.24	-0.406
USGG10	0.184	0.375	-0.609	0.274	0.662	0.08	1	0.391	-0.088	-0.694	-0.459	-0.136
TWD	-0.178	1	-0.066	0.085	0.223	-0.083	0.375	-0.278	-0.019	-0.081	0.01	0.316
INR	-0.467	0.407	0.246	-0.009	-0.227	0.123	-0.545	-0.323	0.03	0.411	0.168	0.528
GBP	-0.476	-0.498	-0.117	0.557	-0.044	0.422	-0.379	0.307	-0.428	-0.118	-0.283	0.413
NZD	-0.496	0.041	-0.853	0.738	0.73	0.619	0.559	0.725	-0.445	-0.944	-0.864	0.424
AUD	-0.684	-0.131	0.088	0.408	-0.156	0.307	-0.628	-0.124	-0.323	0.15	-0.121	0.657
EUR	-0.97	0.316	-0.331	0.633	0.293	0.454	-0.136	0.108	-0.496	-0.276	-0.483	1

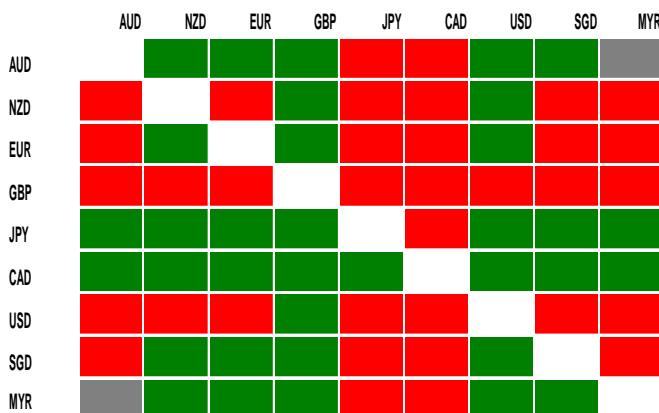
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1223	1.1300	1.1329	1.1366	1.1400
GBP-USD	1.3012	1.3200	1.3269	1.3300	1.3368
AUD-USD	0.7003	0.7012	0.7075	0.7100	0.7137
NZD-USD	0.6800	0.6812	0.6854	0.6900	0.6909
USD-CAD	1.3263	1.3300	1.3303	1.3400	1.3468
USD-JPY	111.00	111.43	111.44	112.00	112.06
USD-SGD	1.3473	1.3500	1.3535	1.3549	1.3600
EUR-SGD	1.5253	1.5300	1.5335	1.5368	1.5400
JPY-SGD	1.2088	1.2100	1.2146	1.2200	1.2258
GBP-SGD	1.7730	1.7900	1.7960	1.8000	1.8076
AUD-SGD	0.9524	0.9527	0.9577	0.9600	0.9670
Gold	1300.00	1303.03	1306.60	1344.00	1345.41
Silver	15.17	15.30	15.38	15.40	15.61
Crude	58.36	58.40	58.41	58.48	58.50

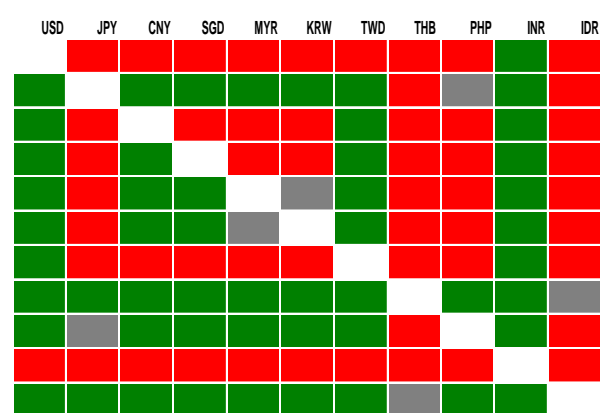
Source: OCBC Bank

G10 FX Heat Map



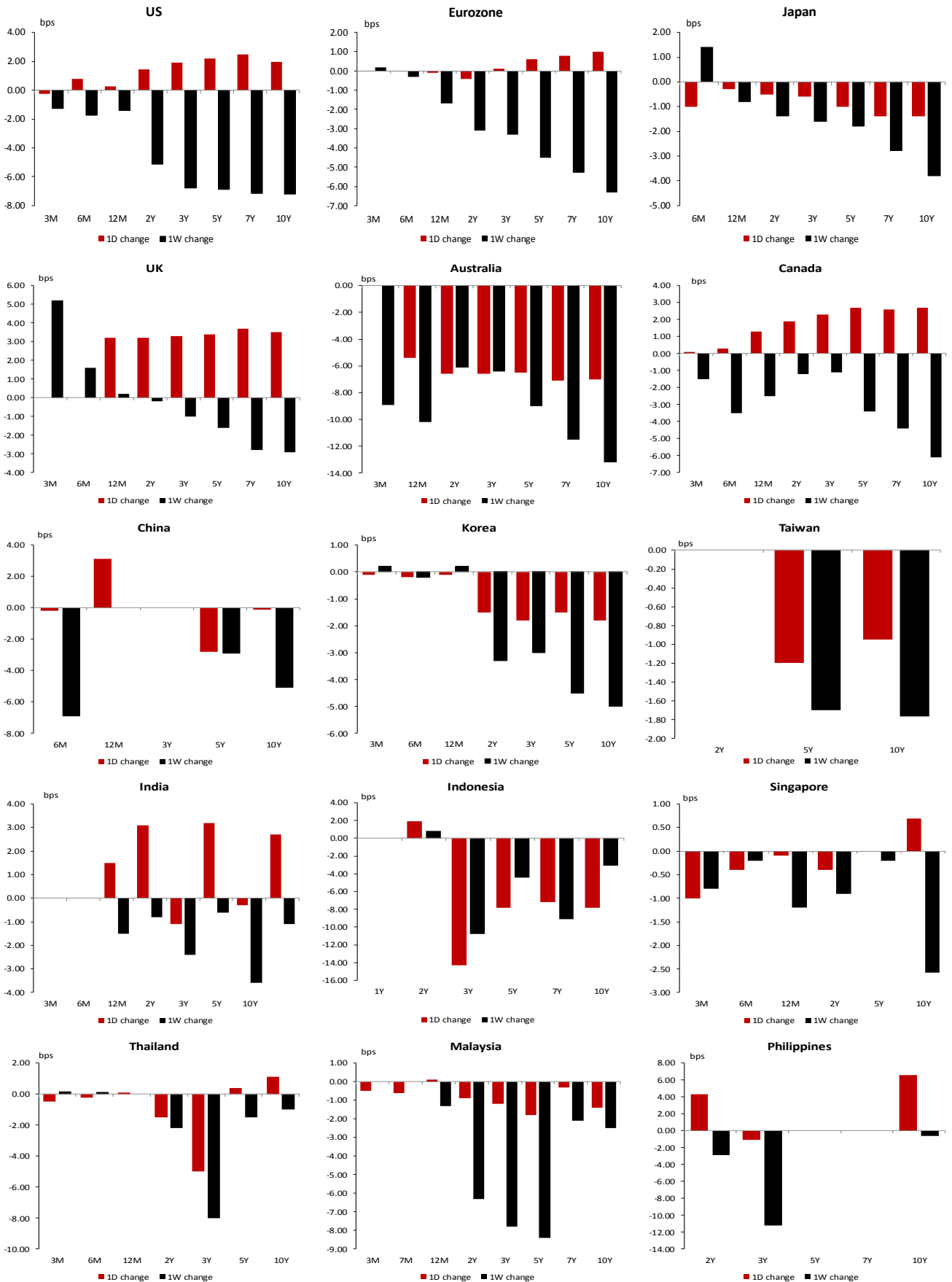
Source: OCBC Bank

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	1.9350	1.8440	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	05-Mar-19	S	AUD-USD	0.7074	0.6870	0.7175	Potentially dovish RBA, macro conditions soggy	
4	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
3	27-Feb-19	13-Mar-19	S	1M THB-PHP	1.6536	1.6750	Contrasting flow dynamics	-1.29

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