

Friday, February 15, 2019

Market Themes/Strategy/Trading Ideas

- Undermined by weaker than expected Dec retail sales data (surprise contractions; deepest since 2009), the greenback ended mixed to weaker on Thursday with the DXY gravitating towards 97.00. UST yields meanwhile stepped lower although this was also mirrored by core curves on Thursday.
- Despite German 4Q GDP coming softer than expected, the EUR-USD still managed to drag itself higher toward the 1.1300 handle on USD vulnerability. The AUD-USD also failed to capitalize significantly on better than expected Chinese trade numbers, although the pair eked out minor gains by late NY on USD vulnerability.
- The CAD and GBP however weakened against the buck and also underperformed across the board. USD-CAD ended higher on the day following a drastic surprise contraction in Dec manufacturing sales. Meanwhile, GBP-USD also trade lower to sub-1.2800 levels after Parliament rejected a motion to renegotiate the Brexit deal. Expect 27 Feb to be the next key date, where the Parliament is expected to rule out a no-deal Brexit by voting on a motion that will compel PM May to extend the Brexit deadline if no sufficient progress is made. While PM May is increasingly being painted into a corner, the BOE's Vlieghe also came across as dovish on Thursday.
- For today, Trump is also expected to sign off on a spending bill today to avert another partial government shutdown. However, note the potential for off-axis volatility from proposed US sanctions on Russia.
- **We retain our bias in favor of the USD in the near term pending further headline risks.** In the interim, investors will continue to take cues off headlines surrounding Sino-US trade talks (note contradicting chatter of an extension of the 01 March deadline), with President Xi expected to meet the US delegation.
- On the risk appetite front, the **FX Sentiment Index (FXSI)** ticked higher but remained in Risk-Neutral territory. On a related note, implied short-end FX vols remain depressed at this juncture (from a Z-score perspective). EM vols are however relatively (but marginally) more depressed compared to G7 vols, indicating subdued expectations of risk aversion in the near term.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

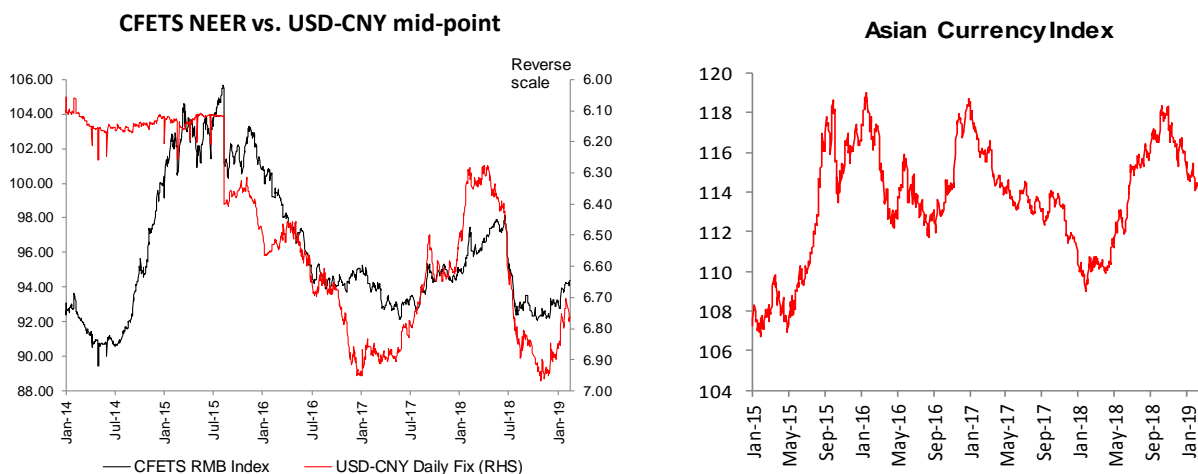
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian Markets

- Global EM equities managed to rebound higher on Thursday but generally remained in recent ranges. Expect regional pairs to continue to track the DXY and renminbi complex in the interim. The USD-CNH ended roughly unchanged after a choppy session whipsawed by headlines on the Sino-US trade talks and US data prints. Chinese trade data came in stronger than expected yesterday, while CPI prints early this morning underperformed. With the 10y CGB yields and 7-day repo rate still taken lower, we continue to think that it is premature to expect an upturn in the Chinese domestic economy. Expect aggregate financing and money supply data later today.
- On the **net portfolio flow** front, the uptick in inflow momentum into South Korea continues to persist, while inflow momentum into Taiwan equities eased slightly. In South Asia, note that inflow momentum into India is starting to build up on the back of equity inflows, while Indonesia is also still registering good inflows. The relative laggard on this front remains Thailand, which slipped further into net outflow territory on persistent leakage on the bond front.
- **SGD NEER:** The SGD NEER stood at around +1.65% above its parity level (1.3810), with implied USD-SGD thresholds firming marginally. 4Q GDP numbers came in below initial flash estimates this morning (+1.9% yoy compared to a flash estimate of 2.2% yoy). The SGD NEER has been populating the +1.50% to +1.70% range in our estimated model. In response to the soft 4Q GDP print, the SGD NEER may ease lower within this range, especially if expectations for further policy tightening are dialed back. **Elsewhere, the compressing basis (not least from the rightward shift in fwd points) may continue to take the shine off local govies.**
- **CFETS RMB Index:** The USD-CNY midpoint turned lower again, in line with our expectations, at 6.7623, compared to 6.7744 on Thursday. The CFETS RMB Index continued to tick higher to 94.38, from 94.30. Overall, we expect the renminbi complex to be reactive to USD movements in the interim as we await further clarity on the trade talks. Elsewhere, note that 12M CNH points have already (and finally) fallen into a discount, joining the rest of the curve.



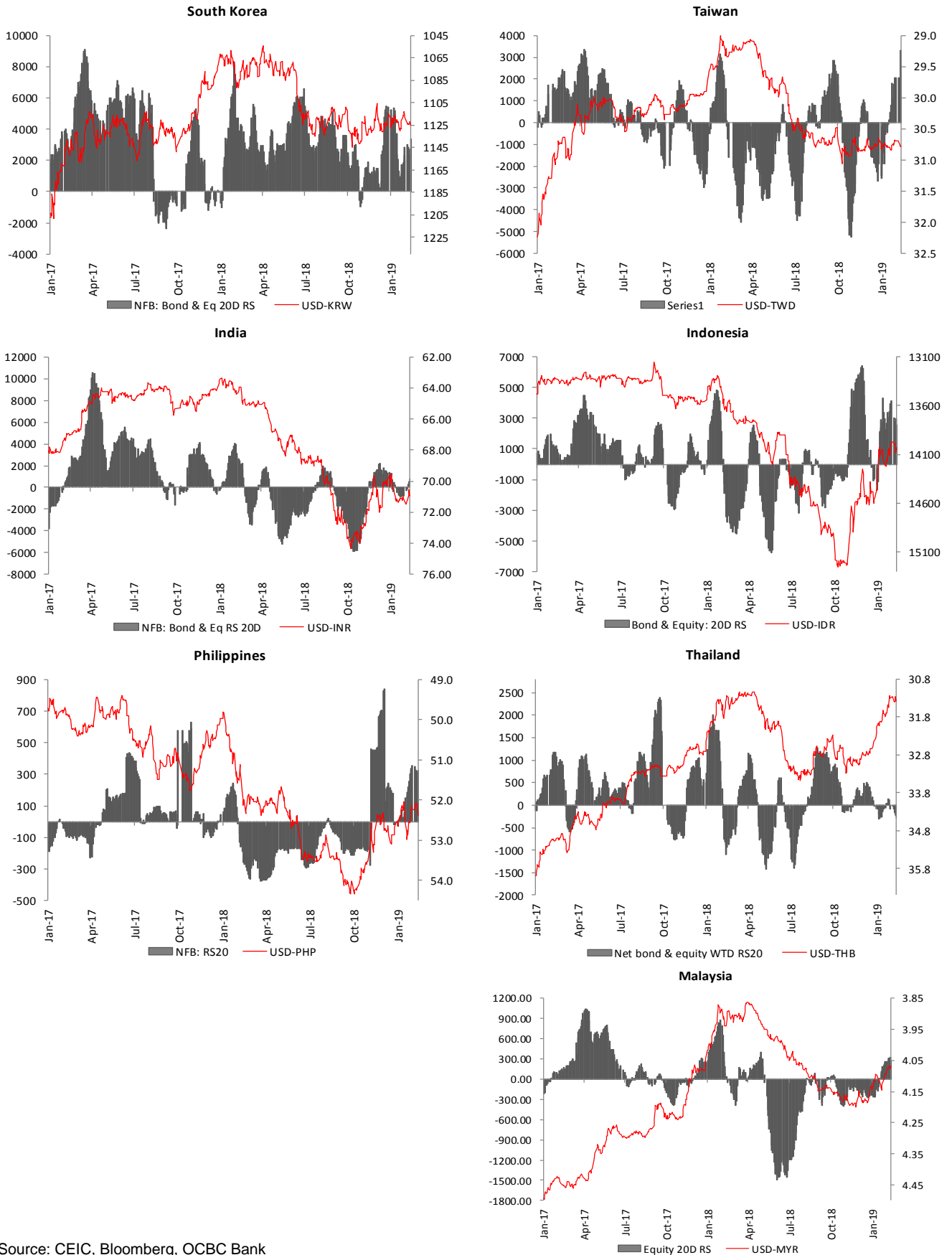
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔/↑	↔	7-day repo rate continues to slip. Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 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 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. Jan trade momentum surprises on the upside; await Feb figures for better clarity.
S. Korea	↔/↑	↔	BOK static in January, but downgraded 2019 growth and inflation forecasts further. BOK to retain accommodative stance, but has ruled out a rate cut for now. 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. 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. Jan manufacturing PMI drops to 47.5. Jan CPI readings surprise on the soft side. 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 (including core) 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. Dec manufacturing PMI falls to 47.7 from 48.4. Dec exports and industrial production numbers better than expected. 4Q GDP surprises on the upside at +4.7% yoy.
Indonesia	↔/↑	↔	Note sustained positive investor response to bond auctions. BI static at Jan policy meeting, official stance is still characterized as "hawkish". Primary policy focus (via exchange rate stability) remains centred on containing current account deficit and maintaining a sufficient yield buffer. Jan CPI mixed, export/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%.

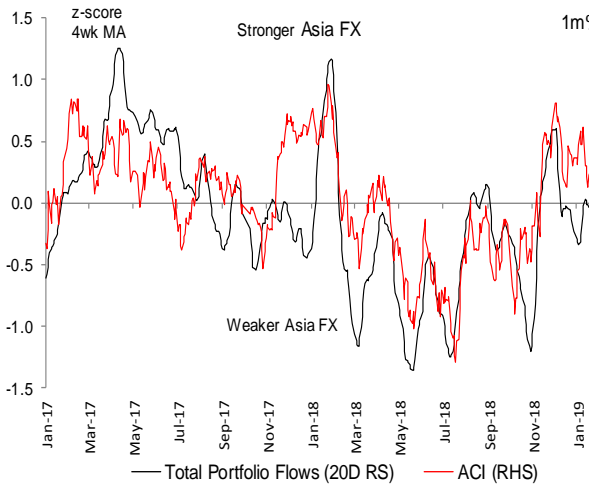
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



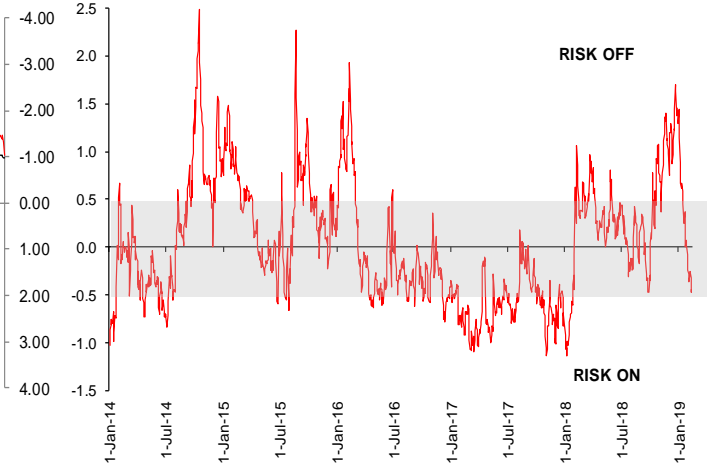
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.259	0.652	0.408	0.371	-0.46	0.827	-0.078	-0.305	-0.251	0.695	-0.986
SGD	0.827	-0.218	0.427	0.719	0.662	-0.275	1	0.246	-0.586	-0.586	0.494	-0.775
IDR	0.823	-0.477	0.336	0.81	0.773	-0.365	0.918	0.262	-0.663	-0.693	0.388	-0.763
MYR	0.818	0.239	0.928	-0.065	-0.141	-0.314	0.564	-0.317	0.158	0.215	0.928	-0.847
JPY	0.695	0.306	0.968	-0.027	-0.143	-0.175	0.494	-0.245	0.116	0.141	1	-0.696
CAD	0.653	0.199	0.945	-0.061	-0.176	-0.264	0.425	-0.18	0.211	0.201	0.888	-0.677
CHF	0.652	0.389	1	-0.14	-0.274	-0.242	0.427	-0.335	0.261	0.258	0.968	-0.67
CNH	0.598	0.18	0.828	-0.429	-0.375	-0.5	0.191	-0.576	0.522	0.556	0.683	-0.657
PHP	0.508	0.497	0.838	-0.366	-0.487	-0.111	0.25	-0.421	0.521	0.526	0.797	-0.556
CNY	0.054	0.628	0.626	-0.675	-0.762	0.058	-0.172	-0.357	0.786	0.725	0.33	-0.105
THB	-0.103	0.753	0.535	-0.852	-0.892	0.092	-0.393	-0.547	0.847	0.868	0.386	0.015
KRW	-0.125	0.638	0.515	-0.613	-0.645	0.141	-0.257	-0.144	0.772	0.594	0.393	0.072
USGG10	-0.226	0.054	0.25	0.021	-0.004	0.282	-0.183	0.163	-0.044	-0.102	0.193	0.279
TWD	-0.259	1	0.389	-0.572	-0.685	0.45	-0.218	-0.249	0.568	0.531	0.306	0.217
INR	-0.512	0.699	0.154	-0.833	-0.868	0.397	-0.604	-0.228	0.857	0.827	0.013	0.425
GBP	-0.615	-0.237	-0.846	0.197	0.226	0.359	-0.269	0.62	-0.172	-0.332	-0.741	0.656
NZD	-0.817	0.199	-0.542	-0.43	-0.279	0.162	-0.668	-0.061	0.342	0.335	-0.582	0.744
AUD	-0.877	0.165	-0.715	-0.117	-0.2	0.578	-0.64	0.316	0.04	-0.04	-0.684	0.894
EUR	-0.986	0.217	-0.67	-0.315	-0.293	0.465	-0.775	0.146	0.223	0.155	-0.696	1

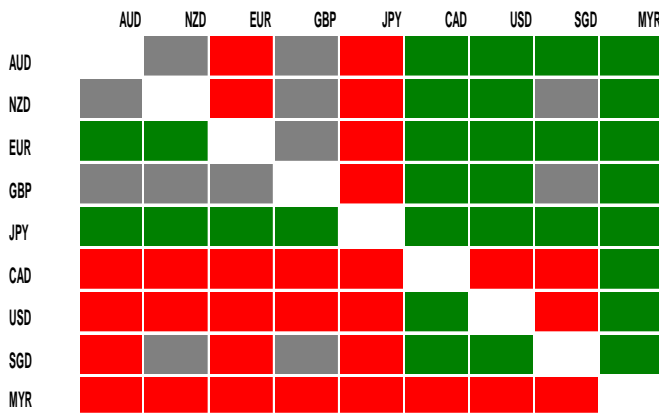
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1240	1.1250	1.1288	1.1300	1.1391
GBP-USD	1.2700	1.2752	1.2793	1.2800	1.2819
AUD-USD	0.7022	0.7054	0.7087	0.7100	0.7137
NZD-USD	0.6787	0.6800	0.6818	0.6900	0.6936
USD-CAD	1.3147	1.3300	1.3307	1.3352	1.3391
USD-JPY	110.00	110.18	110.31	110.83	111.00
USD-SGD	1.3466	1.3500	1.3590	1.3600	1.3612
EUR-SGD	1.5300	1.5306	1.5340	1.5400	1.5505
JPY-SGD	1.2260	1.2300	1.2319	1.2357	1.2400
GBP-SGD	1.7300	1.7336	1.7386	1.7400	1.7448
AUD-SGD	0.9587	0.9600	0.9631	0.9700	0.9714
Gold	1281.53	1300.00	1309.80	1325.40	1328.29
Silver	15.35	15.50	15.54	15.60	16.10
Crude	53.65	54.18	54.70	55.23	55.75

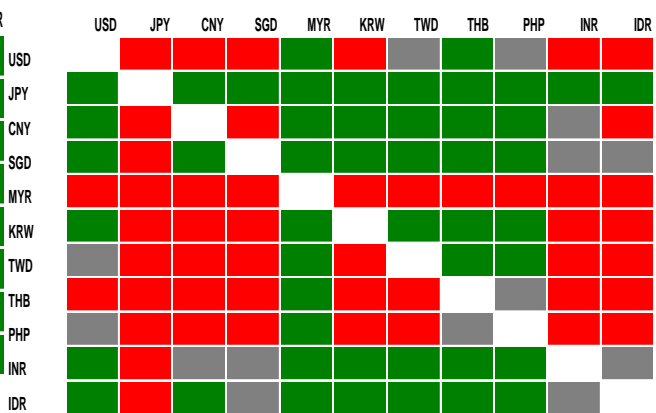
Source: OCBC Bank

G10 FX Heat Map



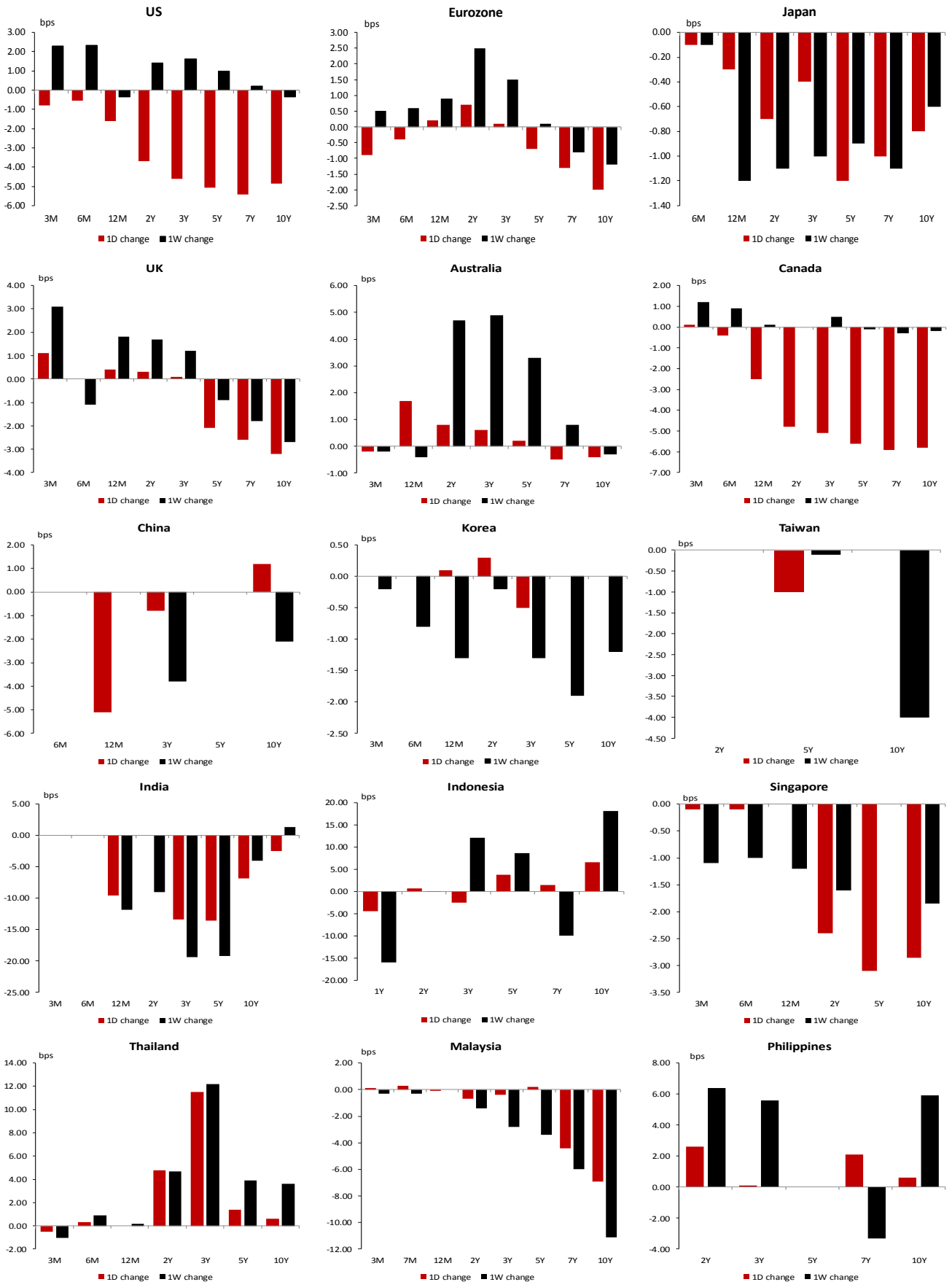
Source: OCBC Bank

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	11-Feb-19	S	EUR-USD	1.1325	1.1120 1.1430	Darkening EZ macro outlook		
3	14-Feb-19	B	USD-JPY	111.00	113.50 109.70	Dollar resilience, revival in risk appetite levels		
STRUCTURAL								
	-	-	-	-	-	-	-	
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	31-Jan-19	07-Feb-19	S	USD-CAD	1.3131	1.3250	Improvement in risk appetite, supportive crude	-0.91
2	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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