

Tuesday, February 19, 2019

Market Themes/Strategy/Trading Ideas

- With slightly more visible optimism surrounding Sino-US trade talks, the USD put in a mixed performance on Monday amidst the Presidents' Day long weekend. While the EUR (despite dovish comments from the ECB's Villeroy and Praet) and GBP managed to edge higher, AUD-USD meanwhile relapsed from intra-day highs to end lower on the day ahead of the RBA meeting minutes early on Tuesday. Overall, this left the DXY still relatively suppressed around 96.80.
- **RBA meeting minutes** this morning saw choppy price action immediately after its release but ultimately left the AUD-USD lower. In a nutshell, the RBA remained sufficiently concerned towards growth prospects but refrained from going dovish.
- The **FX Sentiment Index (FXSI)** slipped lower within Risk-On territory on Monday amidst a pickup in global sentiment. Asian bourses printed strong gains with Chinese equities leading the way higher as sentiment continued to improve from encouraging weekend headlines pertaining to Sino-US talks. On the risk appetite front, we'd continue to watch for headlines out of Washington this week, where further **Sino-US trade talks** are scheduled.
- For today, look towards further rhetoric from the ECB's Guindos (1015 GMT), the Fed's Mester (1350 GMT), and the ECB's Praet (1500 GMT).
- **In the interim, we continue to stay with the USD, given that the current risk-reward balance may remain tipped towards further dovishness from the central banks apart from the Fed. On this front, the bar may already have been raised, and any discretionary move higher in the majors we think would require significantly positive comments.**

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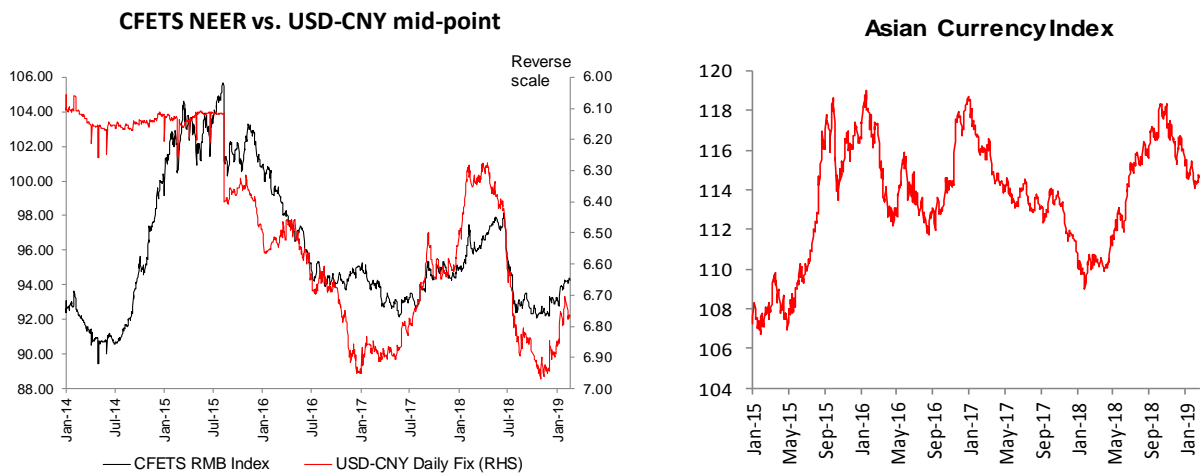
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Asian Markets

- USD-CNH ended flat to mildly higher on Monday and continues to push firmer early Tuesday in Asia. **Despite still mildly positive Asian equities, the USD may continue to hold sway during the current session with the INR, IDR, and SGD seen slightly more sensitive to any USD impetus.**
- **Net portfolio flows in Asia** depict a North-South divide and point to flow underpinnings for South Korea and Taiwan, while minor net inflows for India are threatening to dip into a net outflow situation again. Elsewhere, note that net equity inflows have pared significantly in Indonesia. As noted previously, net outflows in Thailand are seen deepening.
- **SGD NEER:** The SGD NEER is a slip softer on the day at around +1.67% above its perceived parity (1.3799) with NEER-implied USD-SGD thresholds slightly higher on the day. The budget announcement on Monday meanwhile yielded a projected -0.7% budget deficit for 2019, a first in 3 years. **Intra-day, maintain a preference to collect any dips in the USD-SGD towards 1.3530 pending further external news flow.**
- **CFETS RMB Index:** The USD-CNY midpoint came in at a higher than expected 6.7642 from 6.7659 yesterday. This still saw the CFETS RMB Index strengthening to 94.27 from 94.26 on Monday. **On a related note, expect the USD-CNH to continue to bounce on any dips.**



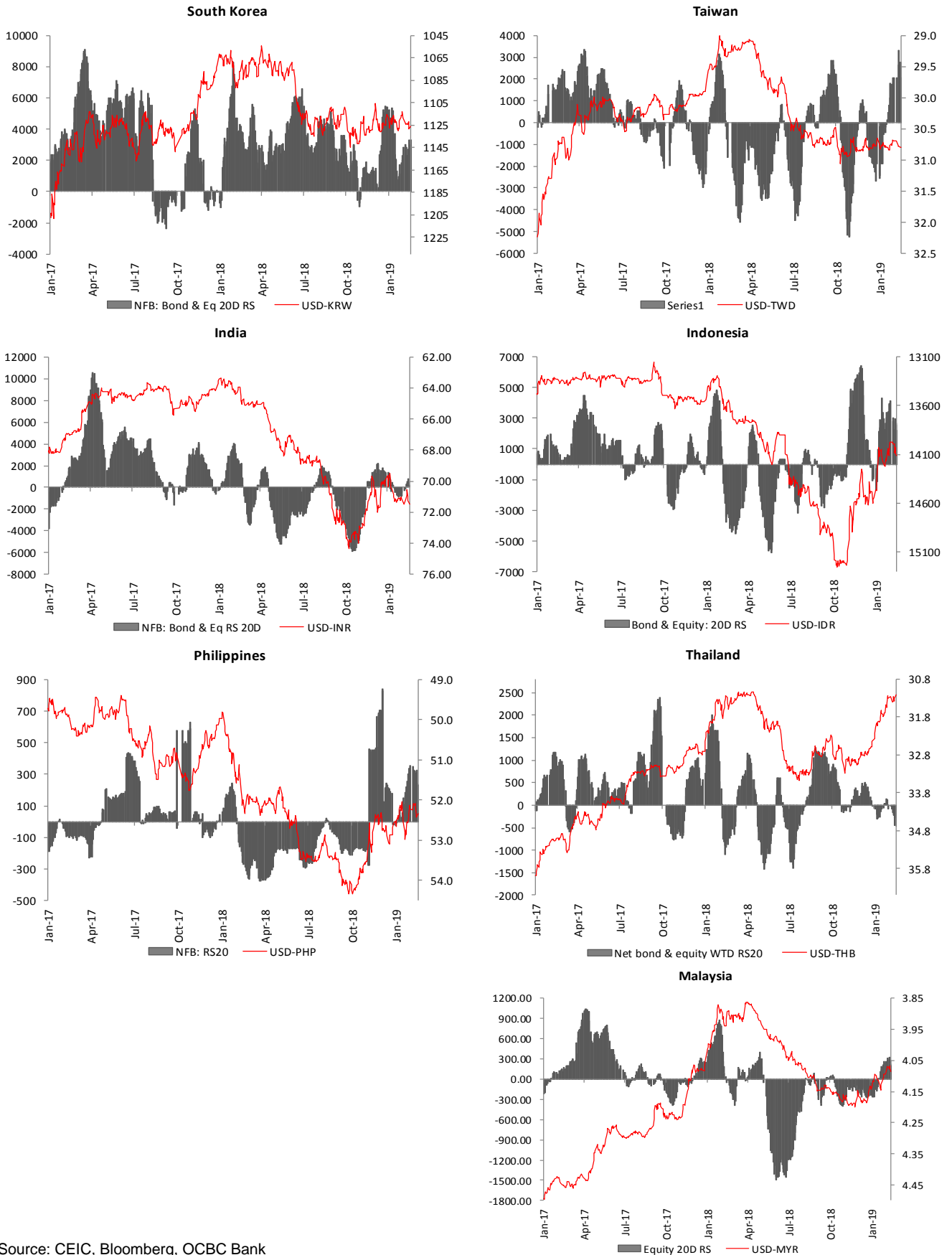
Source: OCBC Bank, Bloomberg

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. 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. 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. Jan exports contract less than expected.
India	↔	↔	RBI delivered a surprise 25 bps cut in Feb and shifted back to neutral stance. Room to bull steepen in the near term on possibility of further cuts, 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 wider than expected on firmer crude. 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". Central bank expected to be static in Feb. 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 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	↔	↔/↑	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. 4Q GDP at a better than expected +3.7% yoy.
Philippines	↔	---	BSP remained static in Feb as expected, with inflation forecasts downgraded. 4Q GDP below expectations at 6.1% yoy. Dec exports drastically underperformed expectations at -12.3% 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%.

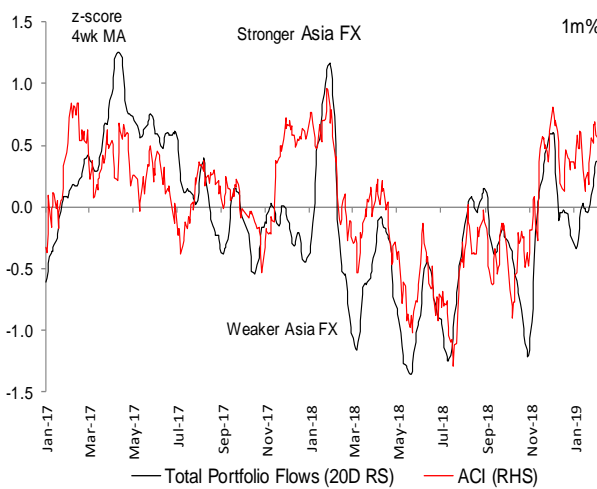
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



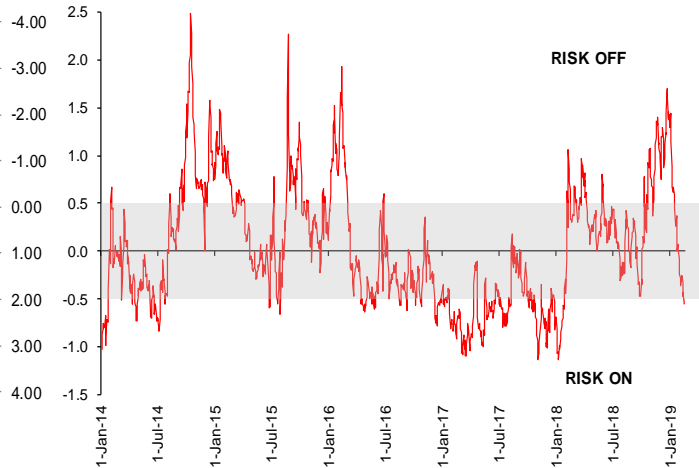
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.305	0.644	0.481	0.441	-0.381	0.868	0.026	-0.353	-0.388	0.66	-0.987
SGD	0.879	-0.456	0.371	0.788	0.737	-0.168	0.932	0.275	-0.651	-0.688	0.403	-0.822
IDR	0.868	-0.244	0.44	0.71	0.653	-0.148	1	0.287	-0.584	-0.632	0.462	-0.814
MYR	0.806	0.199	0.931	0.004	-0.083	-0.429	0.583	-0.258	0.112	0.115	0.925	-0.838
JPY	0.673	0.213	0.936	0.055	-0.183	-0.097	0.477	0.01	0.109	0.019	0.876	-0.697
CAD	0.66	0.276	0.976	-0.018	-0.123	-0.361	0.462	-0.268	0.111	0.118	1	-0.668
CHF	0.644	0.365	1	-0.052	-0.237	-0.338	0.44	-0.224	0.2	0.148	0.976	-0.667
CNH	0.553	0.427	0.837	-0.227	-0.4	-0.164	0.344	-0.232	0.418	0.285	0.802	-0.597
PHP	0.549	0.202	0.817	-0.39	-0.374	-0.589	0.184	-0.527	0.495	0.475	0.694	-0.615
CNY	0.144	0.505	0.631	-0.455	-0.653	-0.061	-0.001	-0.1	0.669	0.435	0.297	-0.19
THB	-0.127	0.729	0.524	-0.827	-0.876	-0.214	-0.381	-0.513	0.865	0.836	0.407	0.032
KRW	-0.183	0.742	0.504	-0.704	-0.857	0.123	-0.352	-0.216	0.827	0.625	0.365	0.123
USGG10	-0.202	0.103	0.278	-0.03	-0.064	0.346	-0.182	0.109	-0.021	-0.088	0.219	0.259
TWD	-0.305	1	0.365	-0.568	-0.664	0.138	-0.244	-0.254	0.597	0.533	0.276	0.263
INR	-0.523	0.73	0.123	-0.83	-0.946	0.269	-0.603	-0.224	0.85	0.749	-0.005	0.435
GBP	-0.533	-0.178	-0.809	0.16	0.138	0.661	-0.219	0.628	-0.155	-0.329	-0.734	0.579
NZD	-0.841	0.098	-0.759	-0.072	-0.163	0.572	-0.604	0.341	0.016	-0.046	-0.724	0.866
AUD	-0.855	0.34	-0.561	-0.678	-0.541	0.256	-0.794	-0.169	0.504	0.538	-0.57	0.785
EUR	-0.987	0.263	-0.667	-0.391	-0.355	0.392	-0.814	0.026	0.274	0.284	-0.668	1

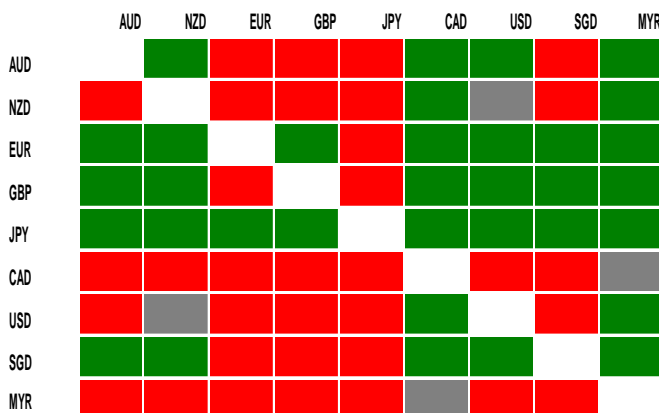
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1234	1.1300	1.1301	1.1390	1.1400
GBP-USD	1.2800	1.2836	1.2899	1.2900	1.3000
AUD-USD	0.7054	0.7100	0.7119	0.7135	0.7200
NZD-USD	0.6786	0.6800	0.6833	0.6900	0.6941
USD-CAD	1.3151	1.3200	1.3253	1.3300	1.3345
USD-JPY	110.00	110.07	110.52	111.00	111.02
USD-SGD	1.3467	1.3500	1.3573	1.3600	1.3605
EUR-SGD	1.5289	1.5300	1.5338	1.5400	1.5496
JPY-SGD	1.2238	1.2260	1.2281	1.2300	1.2362
GBP-SGD	1.7462	1.7500	1.7508	1.7600	1.7738
AUD-SGD	0.9587	0.9600	0.9662	0.9700	0.9707
Gold	1284.82	1300.00	1324.20	1326.10	1330.86
Silver	15.38	15.70	15.76	15.80	16.10
Crude	54.98	55.29	55.70	55.74	56.33

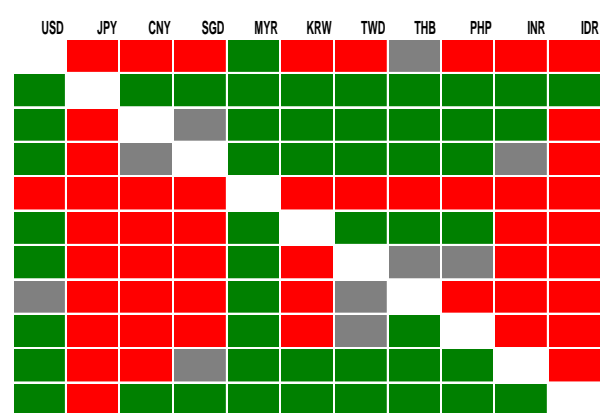
Source: OCBC Bank

G10 FX Heat Map



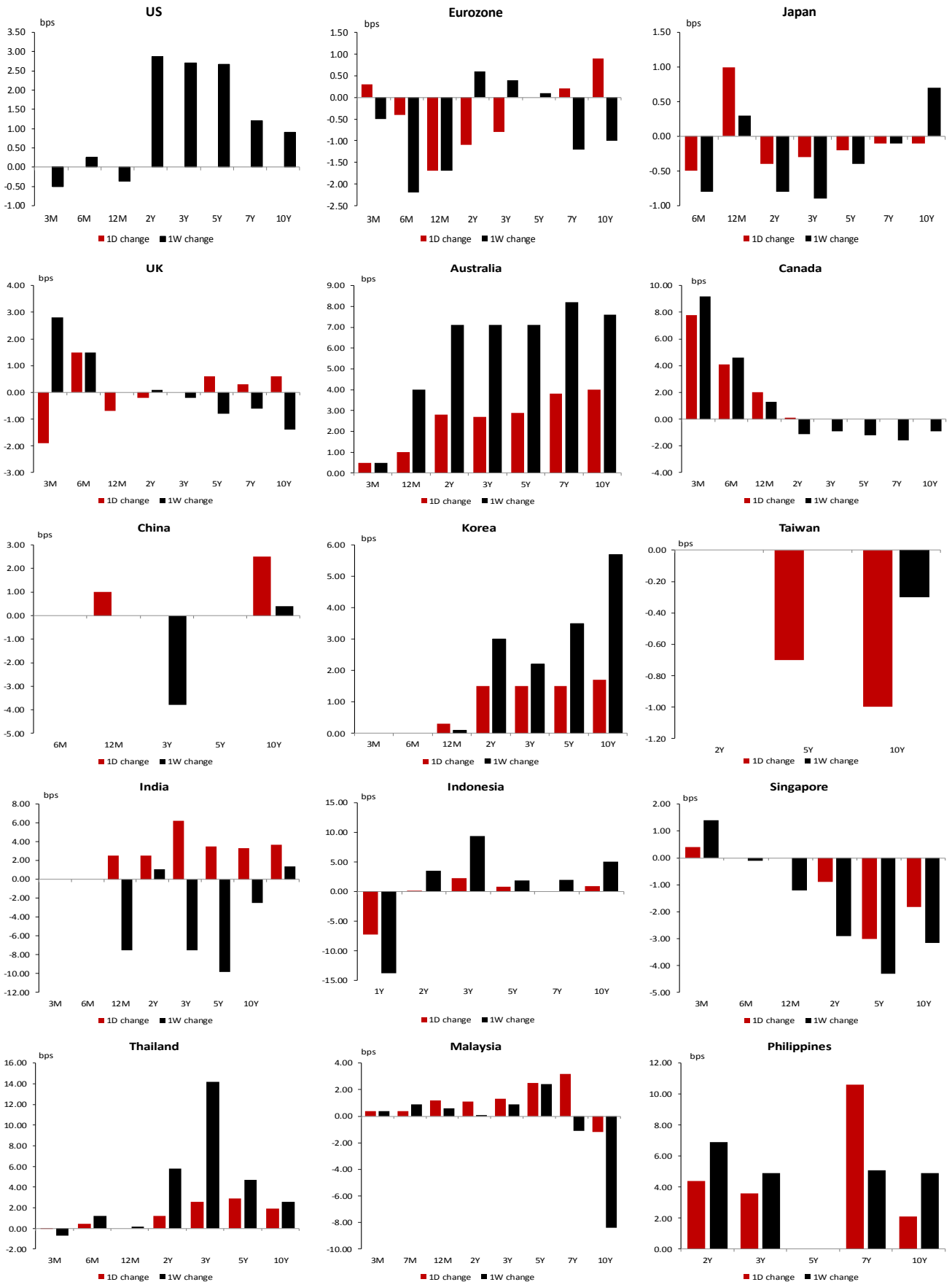
Source: OCBC Bank

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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