

Tuesday, March 19, 2019

Market Themes/Strategy/Trading Views

- Despite firmer UST yields, the USD continued to trade mixed to slightly softer on Monday in the preamble to this week's FOMC and amidst positive global equities.
- **GBP-USD** however wobbled eased briefly below 1.3200 after the Speaker of the House ruled out another Brexit vote in its current form. As noted yesterday, expect relative GBP outperformance to begin taper off as the Brexit calendar approaches its (next) day of reckoning at the EU Summit at the end of this week and the UK Parliament remains in disarray.
- Positive global equities continued to support underlying risk sentiments. The **FXSI (FX Sentiment Index)** dipped further into the Risk-On zone, to year-to-date lows. This reflects the most buoyant sentiments so far this year.
- For today, **risk for the DXY may remain tilted south towards its 55-day MA (96.349) ahead of 96.30 as positive risk appetite levels divert attention away from the USD.**
- Stay constructive on the **EUR-USD** with a tailwind from short term implied valuations and technicals. Continue to angle for the 100-day MA (1.1367) with an initial intra-day base at 1.1325. **USD-JPY** meanwhile may remain torn better a soft USD complex and supported JPY-crosses, keeping the pair pinned near its 200-day MA (111.45) and 100-day MA (111.28) with short term implied valuations still offering intrinsic support on dips.
- In the current risk appetite environment, both technical and short term implied valuations for the **AUD-USD** attempting to base build and the pair may continue to shade towards its 55-day MA (0.7130). As noted previously, **GBP-USD** remains overbought relative to its short term implied valuations with the 1.3200 floor seen under threat ahead of 1.3175. Elsewhere, **USD-CAD** may continue to traverse recent ranges within 1.3300-1.3370 with short term implied valuations remaining underpinned ahead of the budget announcement later today.

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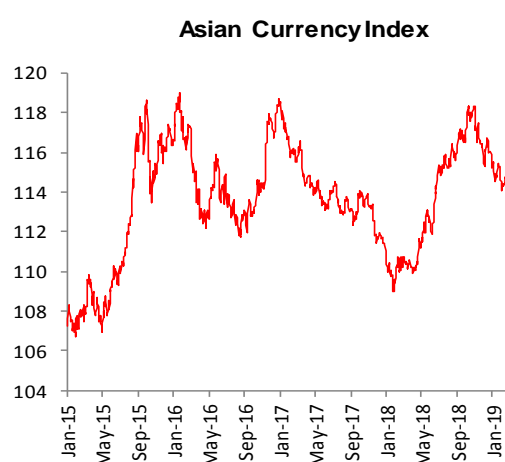
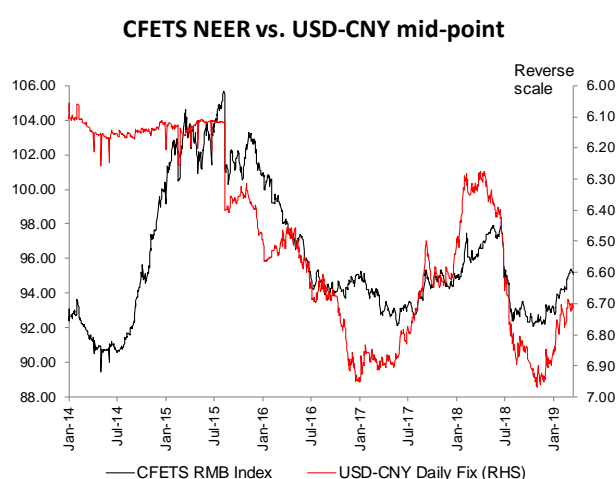
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Asian Markets

- Positive EM equities overnight and renewed heaviness in the USD-CNH, coupled with positive risk appetite levels, may continue to keep USD-Asia top heavy.
- **On the flow front, look towards the KRW and INR for inspiration.** South Korea remains a beneficiary of strong net inflows (net bond inflows) but net equity inflow momentum for Taiwan continues to moderate. Indonesia is still staining on a minor net outflow balance with hitherto strong net bond inflows having now evaporated. India is also registering strong net equity inflows although net bond flows remain anemic at this juncture. Thailand's net portfolio balance remains at a small negative although we note some compression of net bond outflows to neutral. On other fronts, recent deep net equity outflows are attempting to stabilize in Malaysia while net equity inflows for the Philippines are attempting to consolidate higher.
- **SGD NEER:** The SGD NEER firmed to around +1.81% above its perceived parity (1.3755), having populated the +1.75% to +1.85% zone on Monday. NEER-implied USD-SGD thresholds continued to slip to near-term USD weakness. Retain a top-heavy stance for the USD-SGD and the 1.3500 support may well be challenged with the next waypoint expected towards 1.3480.
- **CFETS RMB Index:** The USD-CNY midpoint turned softer again, as we expected, standing at 6.7062, compared to 6.7088 on Monday. The CFETS RMB Index eased again to 95.11, from 95.19 previously. At this juncture, the USD-CNH appears resilient against USD weakness, going some way in providing support for the wider USD-Asia complex.



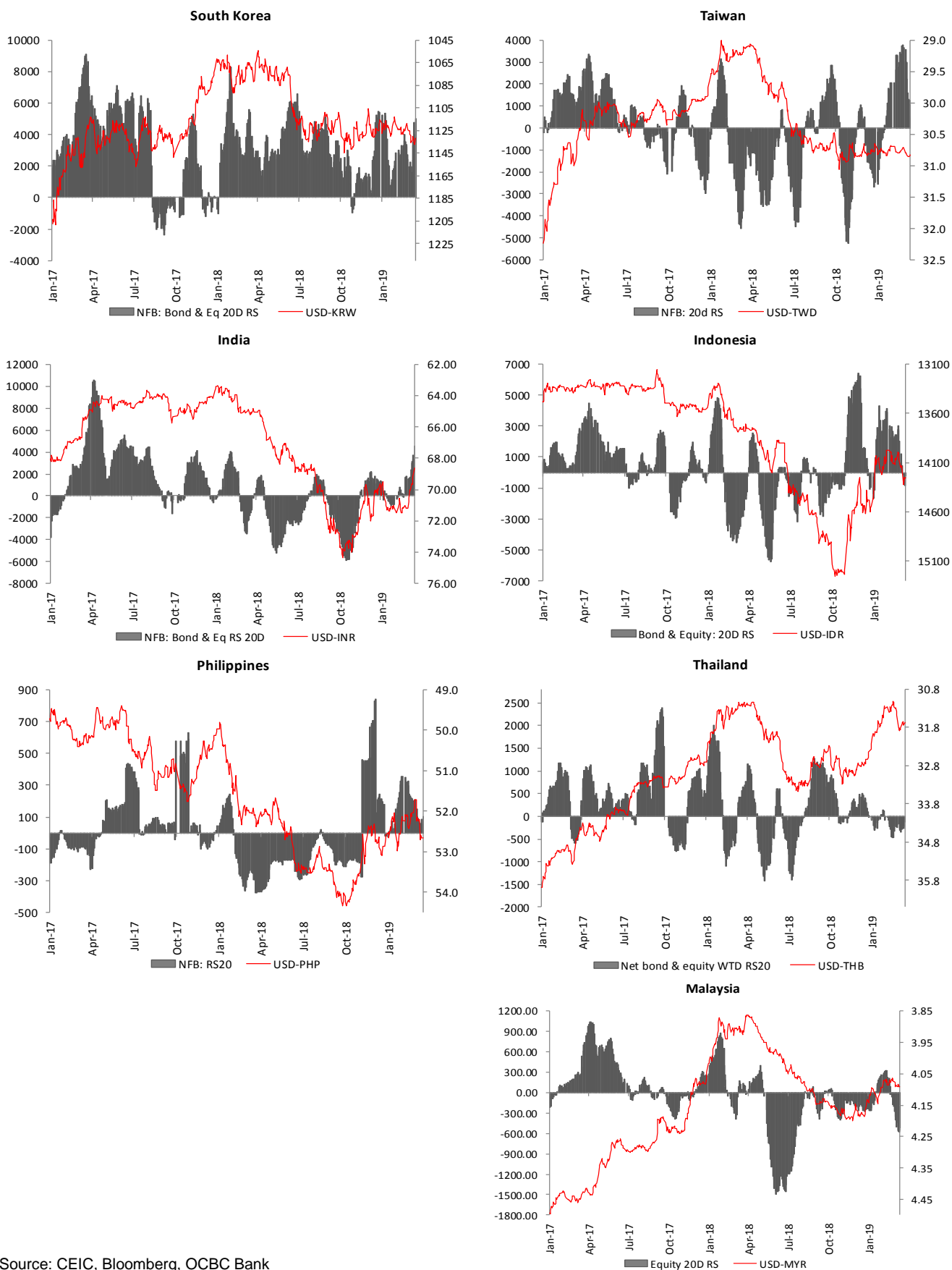
Source: OCBC Bank, Bloomberg

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. Look for signs of a bottoming out of the domestic economy.
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. Feb trade deficit smaller than expected. Note that the recent USD-INR decline may sit rather uncomfortably with the rise in 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 CPI readings cooler than expected. Jan IPI flat to weaker than expected. Feb NODX outperform expectations at 4.90% yoy. Monetary policy thought to be "appropriate", and "no need for stimulus" for now.
Malaysia	↔/↑	↔/↓	BNM static at 3.25%, although rumblings for a rate cut this year is building. Jan CPI pined a deeper than expected -0.7% yoy. Feb manufacturing PMI falls to 47.6. Jan exports better than expected at 3.1% yoy, Jan industrial production numbers outperform expectations. 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%. Feb exports and imports both slumped more than expected, but the net result was a surprise trade surplus. 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	↑	---	New 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%.

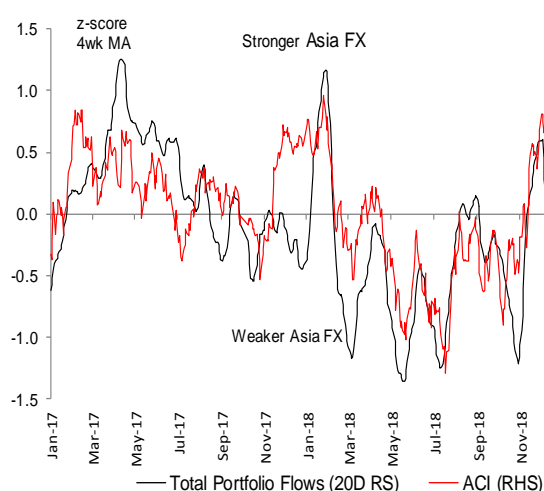
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



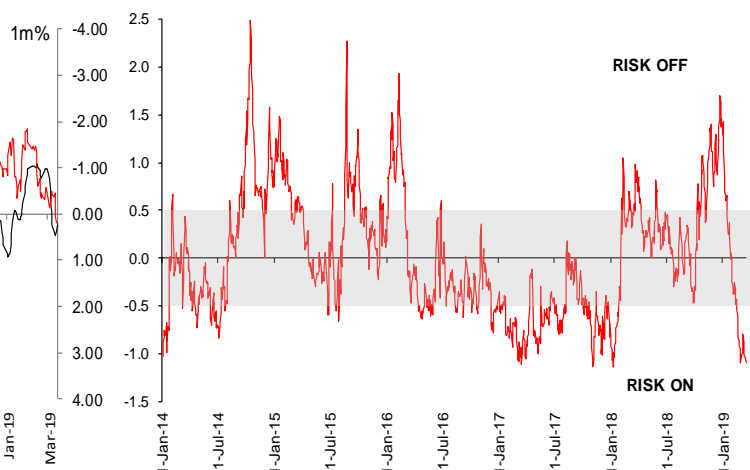
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.142	0.363	-0.544	-0.24	-0.504	0.332	-0.059	0.396	0.215	0.565	-0.97
SGD	0.932	0.087	0.386	-0.536	-0.285	-0.553	0.468	-0.117	0.374	0.167	0.606	-0.863
IDR	0.886	-0.333	0.256	-0.472	-0.232	-0.485	0.172	-0.041	0.366	0.109	0.406	-0.931
MYR	0.804	-0.191	0.111	-0.255	-0.101	-0.449	0.652	0.155	0.253	-0.269	0.325	-0.768
JPY	0.729	-0.381	0.482	-0.156	-0.255	-0.215	0.243	0.209	0.023	-0.023	0.553	-0.714
CAD	0.687	-0.352	0.281	-0.085	-0.291	-0.188	0.394	0.243	-0.163	-0.141	0.384	-0.706
CHF	0.683	-0.523	0.197	0.112	-0.116	-0.076	0.423	0.532	-0.285	-0.335	0.318	-0.739
CNH	0.565	-0.156	0.927	-0.362	-0.712	-0.118	-0.153	0.156	0.13	0.522	1	-0.5
PHP	0.546	-0.582	0.319	0.089	-0.191	0.042	0.396	0.554	-0.271	-0.235	0.431	-0.575
CNY	0.514	-0.001	-0.099	-0.04	0.303	-0.397	0.85	0.174	0.13	-0.554	0.082	-0.47
THB	0.363	-0.228	1	-0.22	-0.785	-0.013	-0.363	0.092	-0.001	0.585	0.927	-0.304
KRW	0.332	0.303	-0.363	0.133	0.519	-0.242	1	0.151	-0.024	-0.647	-0.153	-0.247
USGG10	0.222	-0.822	0.252	0.358	-0.013	0.313	0.014	0.695	-0.396	-0.265	0.213	-0.272
TWD	-0.142	1	-0.228	-0.188	0.159	-0.265	0.303	-0.523	0.242	0.075	-0.156	0.281
INR	-0.329	0.632	-0.009	-0.41	-0.275	-0.191	-0.528	-0.709	0.354	0.665	-0.094	0.376
GBP	-0.462	-0.06	-0.596	0.655	0.575	0.334	0.401	0.51	-0.384	-0.896	-0.6	0.393
NZD	-0.587	-0.483	0.075	0.497	-0.128	0.315	-0.618	0.093	-0.442	0.071	-0.21	0.523
AUD	-0.741	-0.068	0.032	0.325	-0.121	0.308	-0.701	-0.191	-0.23	0.266	-0.253	0.71
EUR	-0.97	0.281	-0.304	0.562	0.261	0.447	-0.247	-0.005	-0.407	-0.186	-0.5	1

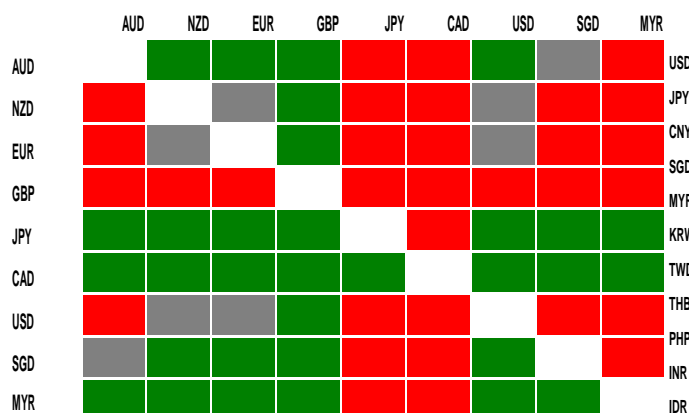
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1225	1.1300	1.1341	1.1360	1.1400
GBP-USD	1.3043	1.3200	1.3275	1.3300	1.3372
AUD-USD	0.7011	0.7100	0.7102	0.7135	0.7181
NZD-USD	0.6800	0.6818	0.6854	0.6900	0.6900
USD-CAD	1.3264	1.3300	1.3333	1.3400	1.3468
USD-JPY	110.51	111.00	111.21	111.45	112.00
USD-SGD	1.3471	1.3500	1.3509	1.3545	1.3600
EUR-SGD	1.5251	1.5300	1.5321	1.5388	1.5398
JPY-SGD	1.2091	1.2100	1.2148	1.2200	1.2235
GBP-SGD	1.7731	1.7900	1.7933	1.8000	1.8079
AUD-SGD	0.9524	0.9531	0.9594	0.9600	0.9665
Gold	1300.00	1303.71	1306.00	1339.46	1344.00
Silver	15.15	15.20	15.25	15.30	15.59
Crude	54.92	59.00	59.05	59.10	59.22

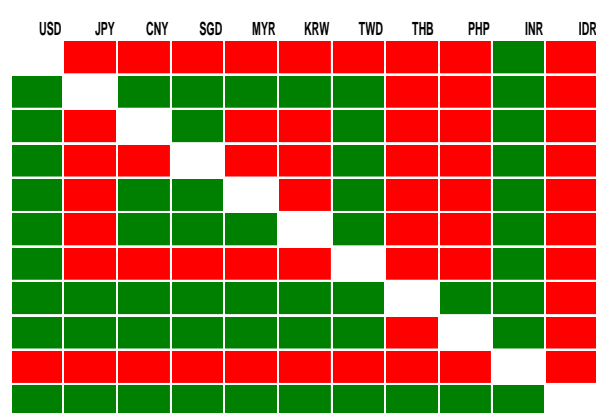
Source: OCBC Bank

G10 FX Heat Map



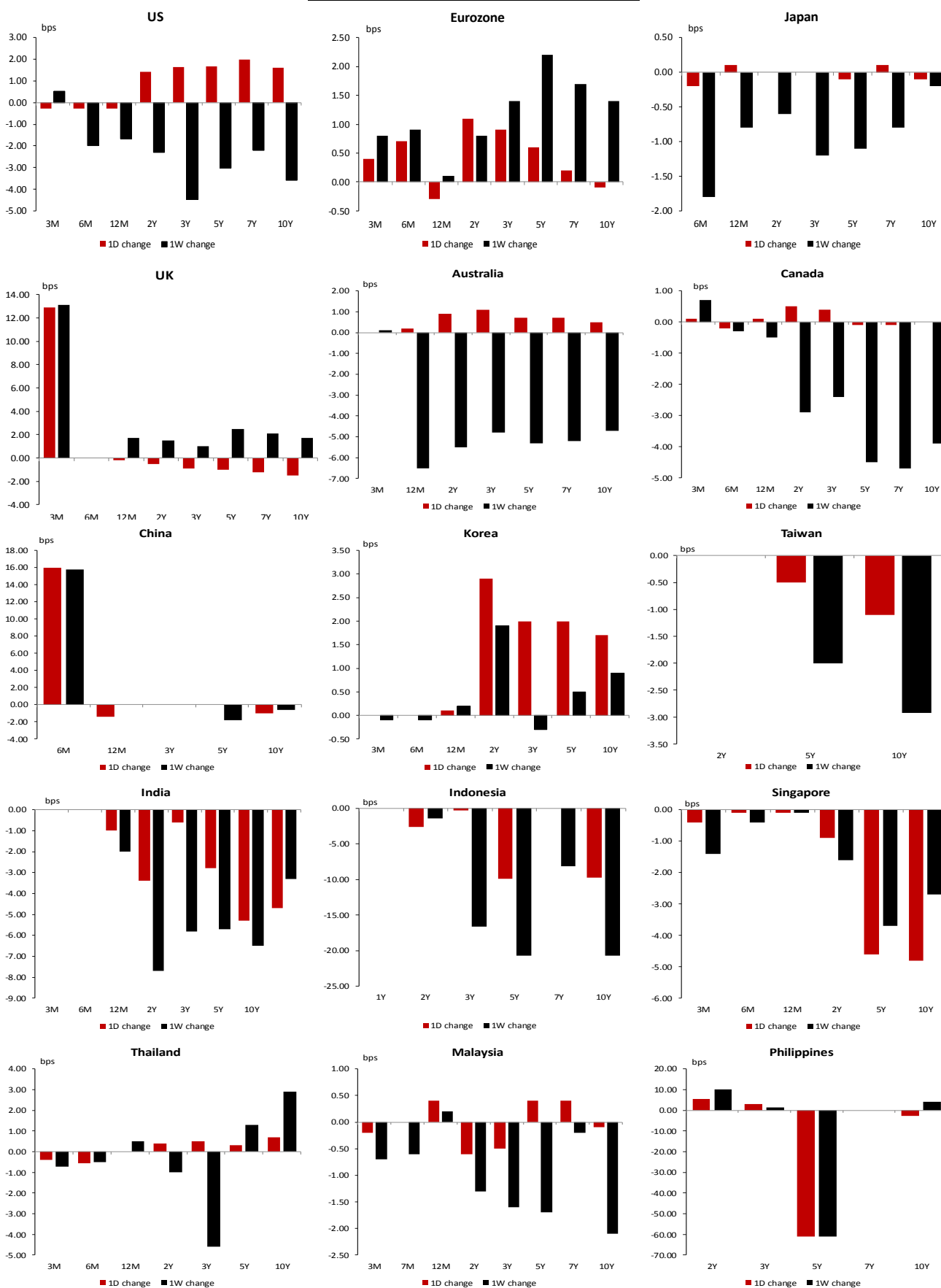
Source: OCBC Bank

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	
	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
4	07-Mar-19	13-Mar-19	B	USD-CAD	1.3430	1.3315	BOC stalls in its tightening bias	-0.85

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