

Wednesday, February 20, 2019

Market Themes/Strategy/Trading Ideas

- The USD dropped against its peers on Tuesday and the JPY (note continued dovishness from the BOJ's Kuroda) underperformed as optimism surrounding Sino-US trade talks continued to accumulate. **Meanwhile, UST yields also fell (3-5y outperforming), denting the USD from the perspective of rate differentials.**
- Notably, dovish commentary from the Fed's Mester and Williams undermined the greenback. Meanwhile, news also filtered through that an imminent MOU from the latest trade talks would include an undertaking by China to keep the yuan stable.
- GBP proved resilient on the back of supportive Dec/Jan labor market numbers but look towards headlines from the May-Juncker meeting later on Wednesday for further cues. Note however that Juncker has also downplayed any hopes for a quick breakthrough. On a related note, the SEK weakened significantly (especially against the EUR) following a softer than expected inflation print.
- **On the DXY, look to key supports at the 55-day MA (96.411) and the 100-day MA (96.391) and if these are perforated, expect a foray towards 96.20 before 96.00. Structurally, our internal modelling suggests that risks of heightened neutrality (dare we say dovishness) from the Fed may heighten in the coming weeks, potentially pressuring the front-end further.**
- Elsewhere, EM equities were slightly firmer on the day and with EM risk premiums across asset classes continuing to compress, the **FX Sentiment Index (FXSI)** continued to drive deeper into Risk-On territory. This may continue to engender risk-taking behavior into the **Liu He-Lighthizer-Mnuchin talks** on 21-22 Feb. Comments from Trump overnight also continue to underscore the expectation that the 01 March deadline would likely be extended - risk positive. **Coupled with the overnight CNY news flow, remain partial towards the cyclical (AUD) as well as EM/Asia. Outside of the dollar narrative, this may continue to keep EUR-AUD and EUR-Asia heavy for example.**
- **FOMC minutes** are due today (1900 GMT) but the Fed's Kaplan (1810 GMT) is also scheduled, while the ECB's Praet is due at 0700 GNMT. In Asia, the Bank of Thailand's MPC minutes are also scheduled to be released (0200 GMT).

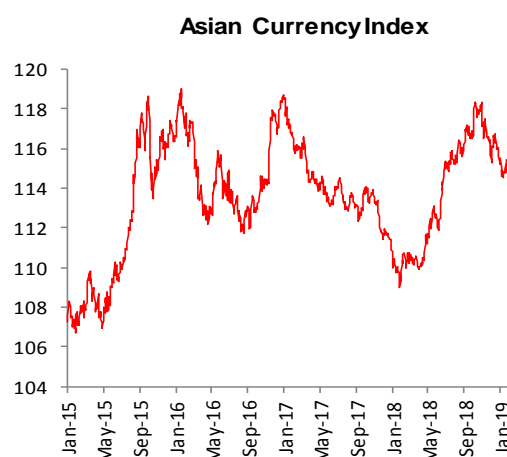
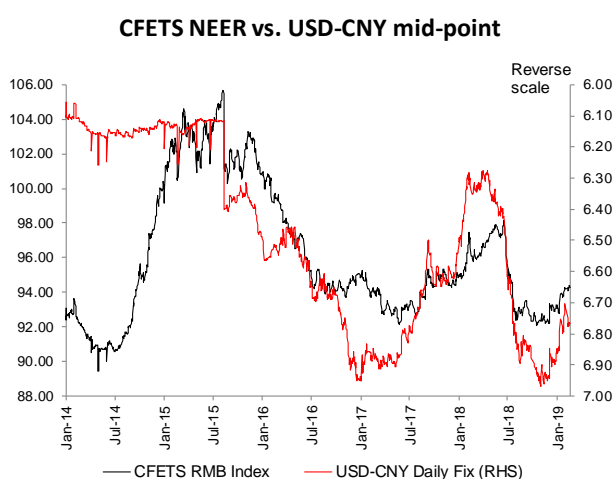
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Asian Markets

- With the broad dollar crumbling overnight (aided by the overnight CNY news), USD-CNH slipped below 6.7500 and then 6.7400 this morning and expect USD-Asia to follow suit intra-day.
- **Net portfolio flows in Asia** continue to indicate strong inflow momentum for South Korea, some moderation for still strong net inflows for Taiwan, while net outflows for Thailand are seen deepening. Meanwhile, the net flow balance of India is at neutral levels for all intents and purposes. **Expect an improvement in net flows for the south if global risk appetite levels continue to climb into the end of the week.**
- **SGD NEER:** Given the broad USD down move, the SGD NEER is firmer on the day at +1.72% above its perceived parity (1.3758). NEER-implied USD-SGD thresholds are softer this morning and the pair may attempt to gravitate towards 1.3500 in the current environment.
- **CFETS RMB Index:** The USD-CNY midpoint printed a touch higher than expected at 6.7558 from 6.7642 yesterday. The CFETS RMB Index meanwhile fell slightly to 94.22 from 94.27 on Tuesday.
- **The latest alleged call by the US for CNY stability we think should not ruffle current market expectations (and in the current environment, underpin the CNH further).** Note that the CFETS RMB Index has been strengthening since Dec 2018 without undue market disruption. Meanwhile, the DF curve (including the 12m) remains comfortably south of par with the term structure of CNH riskies also having already leaned away from the USD since late 2018. As we had noted previously, the structural stability of the CFETS RMB Index remains a corner stone of foreign exchange policy, with volatility of the USD-CNY fixings realizing significantly above that of the basket's.



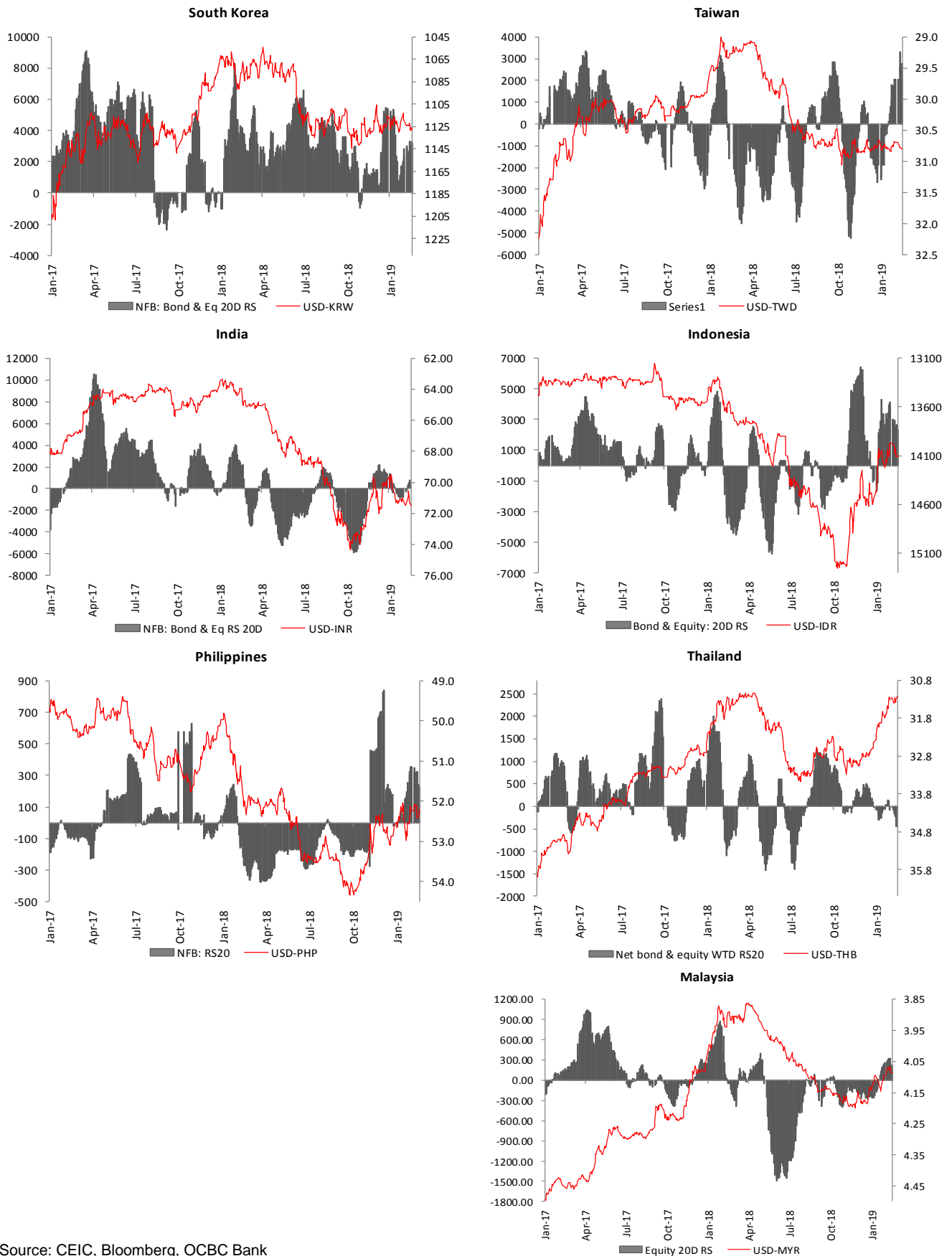
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

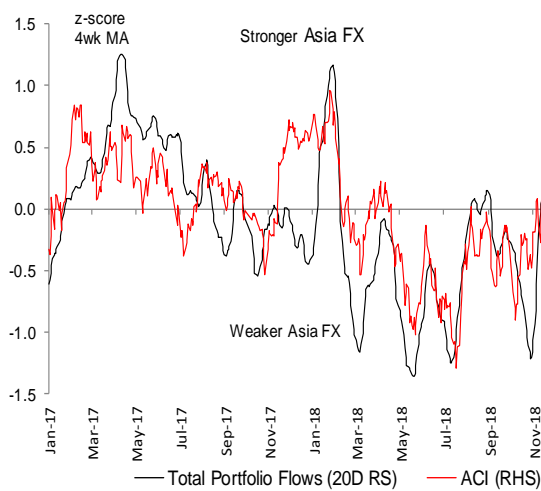
	USD-Asia	10y govie (%)	Rationale
China	↔/↓	↔	7-day repo rate continues to slip. Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan.. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Jan CPI/PPI 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

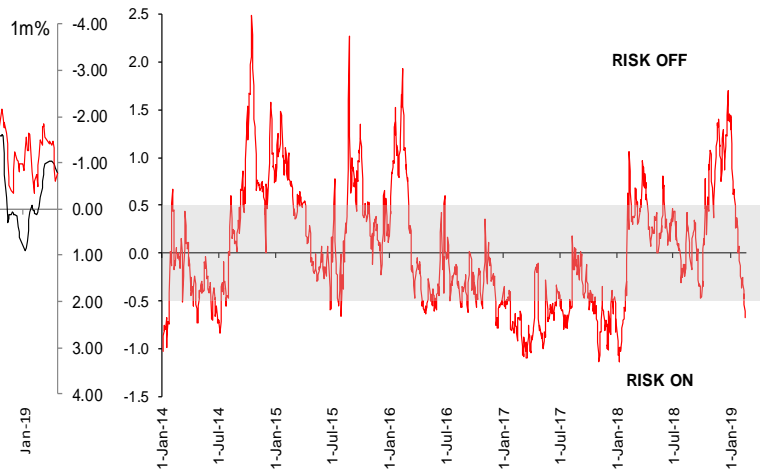
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

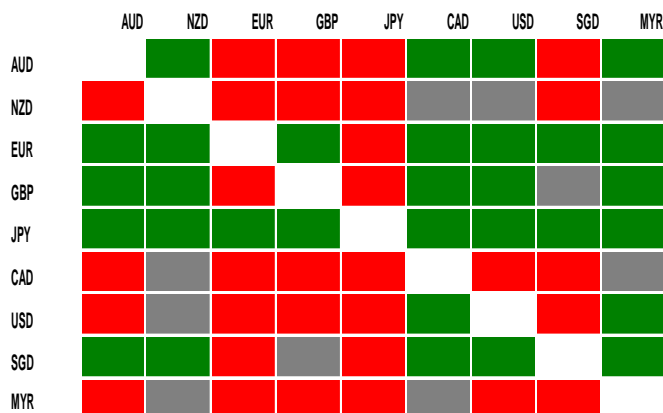
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.305	0.644	0.481	0.441	-0.381	0.868	0.026	-0.353	-0.388	0.66	-0.987
SGD	0.879	-0.456	0.371	0.788	0.737	-0.168	0.932	0.275	-0.651	-0.688	0.403	-0.822
IDR	0.868	-0.244	0.44	0.71	0.653	-0.148	1	0.287	-0.584	-0.632	0.462	-0.814
MYR	0.806	0.199	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

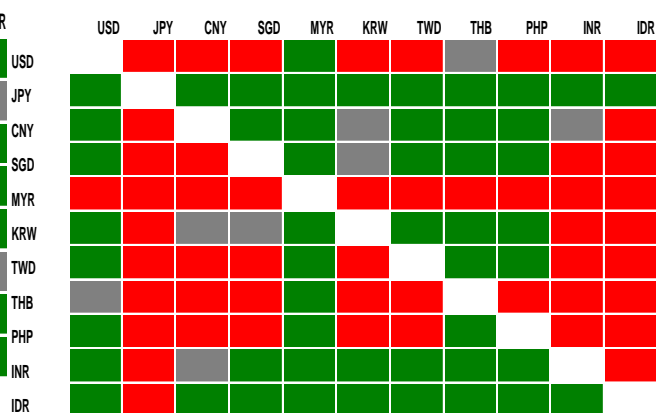
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1234	1.1300	1.1348	1.1390	1.1400
GBP-USD	1.2999	1.3000	1.3064	1.3100	1.3216
AUD-USD	0.7100	0.7135	0.7170	0.7200	0.7267
NZD-USD	0.6788	0.6800	0.6874	0.6900	0.6942
USD-CAD	1.3100	1.3152	1.3189	1.3200	1.3341
USD-JPY	110.00	110.02	110.85	111.00	111.13
USD-SGD	1.3463	1.3500	1.3517	1.3559	1.3600
EUR-SGD	1.5286	1.5300	1.5340	1.5400	1.5490
JPY-SGD	1.2100	1.2186	1.2194	1.2200	1.2208
GBP-SGD	1.7472	1.7600	1.7659	1.7700	1.7736
AUD-SGD	0.9587	0.9600	0.9691	0.9700	0.9703
Gold	1339.12	1342.20	1342.20	1400.00	1401.54
Silver	15.42	16.00	16.04	16.10	16.14
Crude	56.30	56.37	56.37	56.40	63.20

Source: OCBC Bank

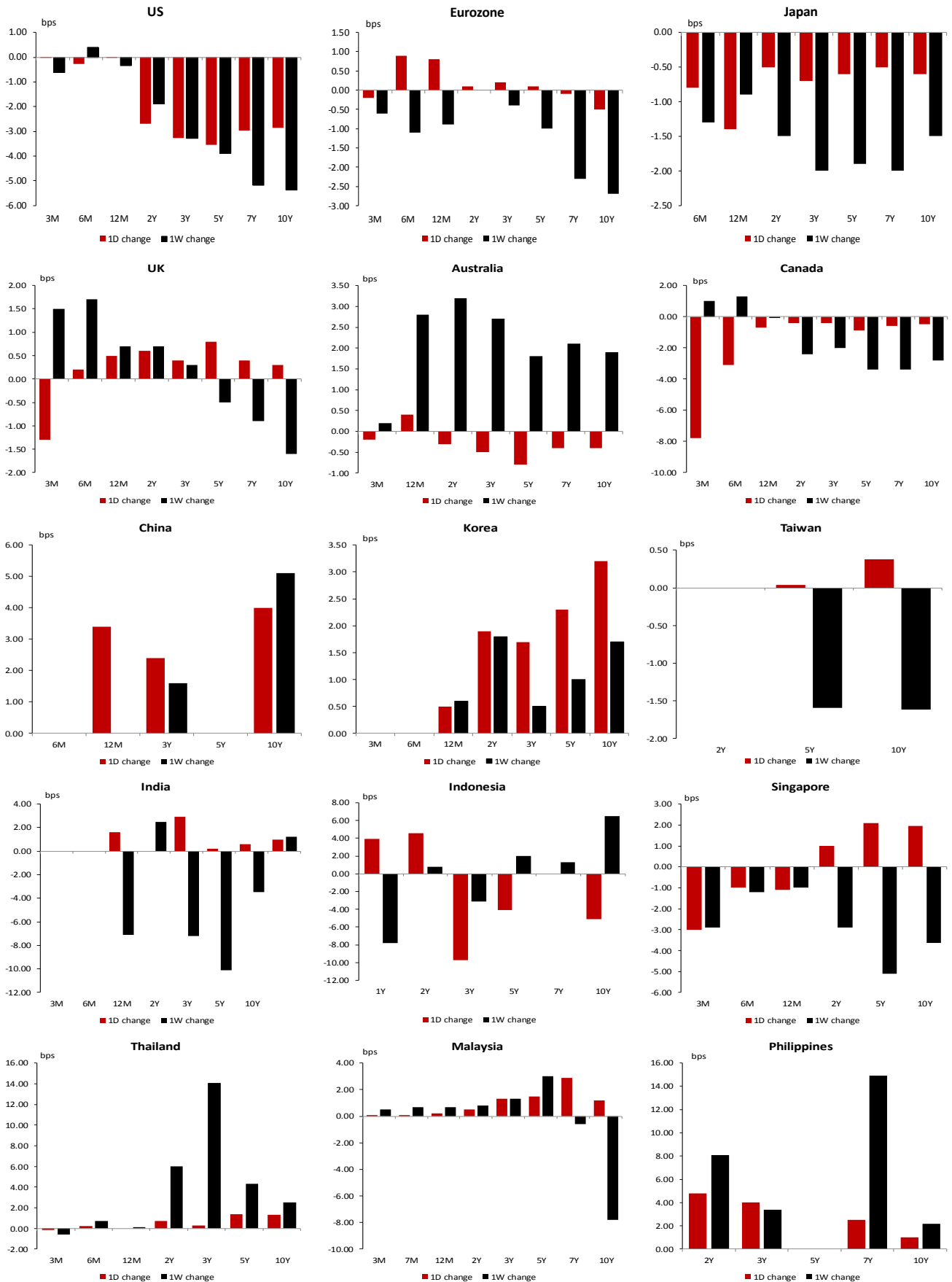
G10 FX Heat Map

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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