

Wednesday, March 20, 2019

Market Themes/Strategy/Trading Views

- With the exception of the AUD, all G10 currencies were stronger against the USD overnight. Firmer UST yields provided limited support as investors continued to focus on soft Fed expectations ahead of the FOMC today (1800 GMT).
- An unconfirmed report on China dialing back on its position in the Sino-US trade negotiations provided a brief risk-off overtone early this morning. It wasn't sufficient to stump the **FXSI (FX Sentiment Index)**, which continued to dive within the Risk-On zone. By this measure, **market sentiments are the most risk positive compared to any time in the past 5 years.**
- Ahead of the FOMC today, **we retain a slightly negative view on the broad USD, expecting the DXY index to further test the 55-day MA (96.348). We keep a close watch on whether the DXY can keep that level beyond the FOMC. If the 55-day MA support is punctured, we expect to see further declines towards 96.00/20.**
- In the interim, we continue to favour the **EUR-USD** on both the short term implied valuations and technical basis, pending the FOMC policy outcome. Interim target at the 100-day MA (1.1367). The **GBP-USD** is still running too hot relative to its short term implied valuations, with technicals favouring a consolidative pattern. Nevertheless, expect this pair to be driven by Brexit headlines ahead of the EU Summit on Thursday. Meanwhile, short term implied valuations and positive risk sentiments continue to support the **USD-JPY** in the near term. Any dips may be shallow, with supports at the 200-day MA (111.46) and 100-day MA (111.27) levels.
- Both the short term implied valuations and the current risk environment favour a firmer **AUD-USD**. However, negative Sino-US trade headlines may take it lower for now. Near-term support near 0.7040. For the **USD-CAD**, short term implied valuations remain marginally supportive. A swift recovery from a break below 1.3300 may keep it within recently established ranges, with 1.3300 still serving as a floor for now.
- **Looking for heightened volatility** - Ahead of the impending global event/headline risks and potential implied shifts (or potential inaction in the case of the MAS) in central bank postures in the coming months, we think something like the **USD-SGD** may once again be headed into choppy waters. We think the topology of the vol surface is sitting at pretty depressed levels (including at the wings) and therefore look to a long 2M 25-delta straddle (spot ref: 1.3508) on Tuesday costing an approximate +0.41%.

Treasury Research &
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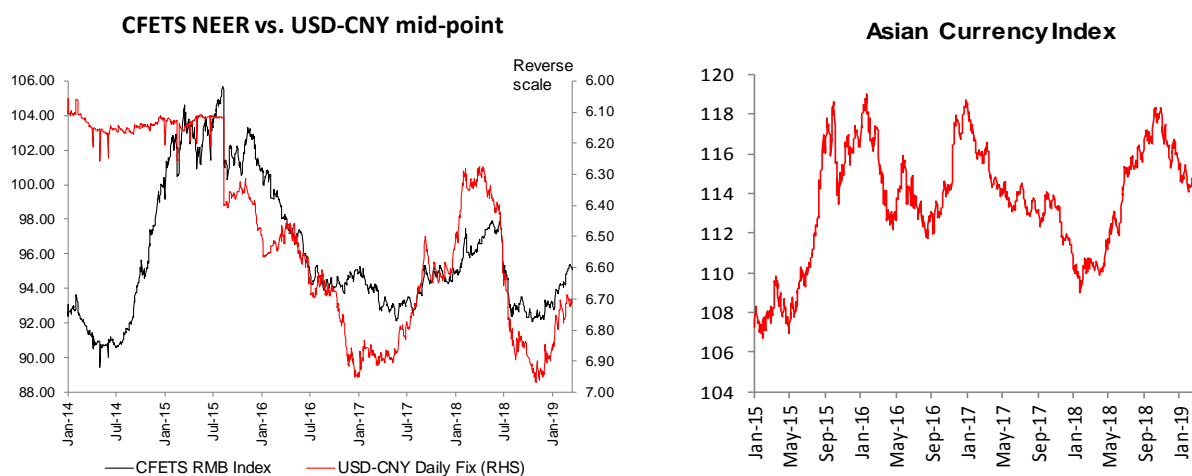
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Asian Markets

- The USD-CNH still did not participate significantly in the ongoing USD weakness. Overlay that will negative headlines on the Sino-US trade front, **we expect USD-Asia to remain flat to firmer ahead of the FOMC decision today.**
- **In terms of portfolio flows, note an ongoing improvement in inflow momentum for Asia on aggregate.** Bond inflow momentum into South Korea continues unabated. Similarly in India, where equity inflow momentum continues to accelerate higher. Bond inflows into India are also joining in the party, with momentum on a rolling 20-day basis improving to a small net inflow. Elsewhere, outflow momentum in Thailand is compressing, while the decline in equity inflow momentum in Taiwan appears to be moderating.
- **Bank of Thailand policy decision – Watch for shift in statement rhetoric and voting patterns.** The BOT policy decision is scheduled today (0705 GMT), with no change in the policy rate expected. Signs of any shift in policy posture may be had in the statement rhetoric (if reference to policy space is omitted), or in voting patterns (if the two hawkish committee members change their votes).
- **SGD – Consolidative mode against the USD in the interim.** The SGD NEER eased slightly to around +1.78% above its perceived parity (1.3767), after having stayed above +1.80% for most of Tuesday. NEER-implied USD-SGD thresholds turned higher after successive sessions of declines. The USD-SGD to be in consolidative mood ahead of event risks for now, with the 1.3500 support still looking to hold. Topside resistance may come in around 1.3530.
- **CFETS RMB Index:** The USD-CNY midpoint firmed up this morning, as we expected, to 6.7101, compared to 6.7062 on Tuesday. The CFETS RMB Index eased again to 95.03, from 95.11 previously. The USD-CNH continues to exhibit buoyancy in the face of USD weakness, perhaps an indication of skepticism over the Sino-US trade progress.



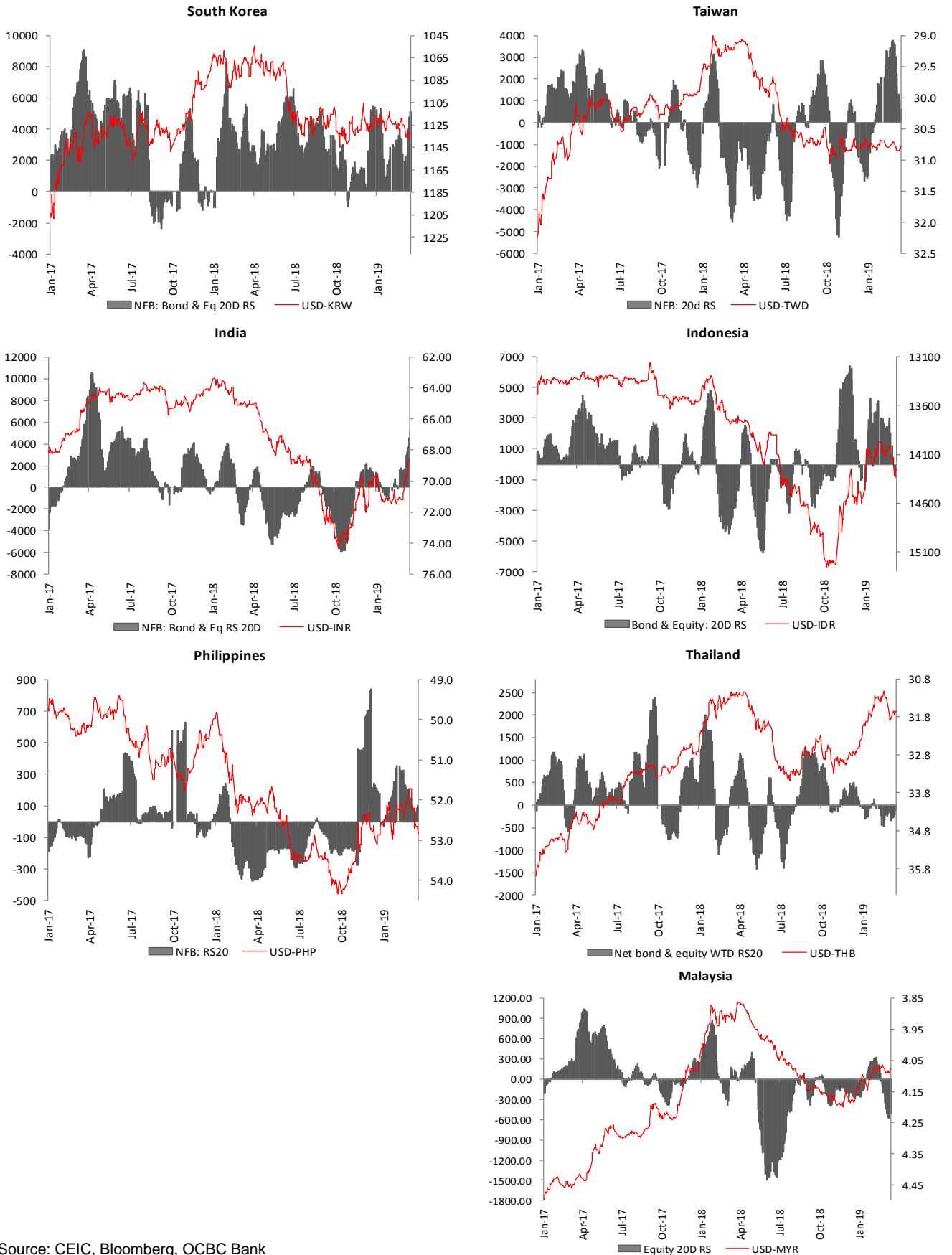
Source: OCBC Bank, Bloomberg

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%.

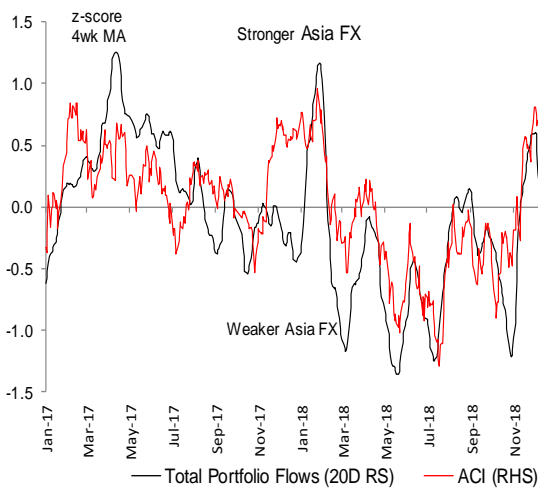
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



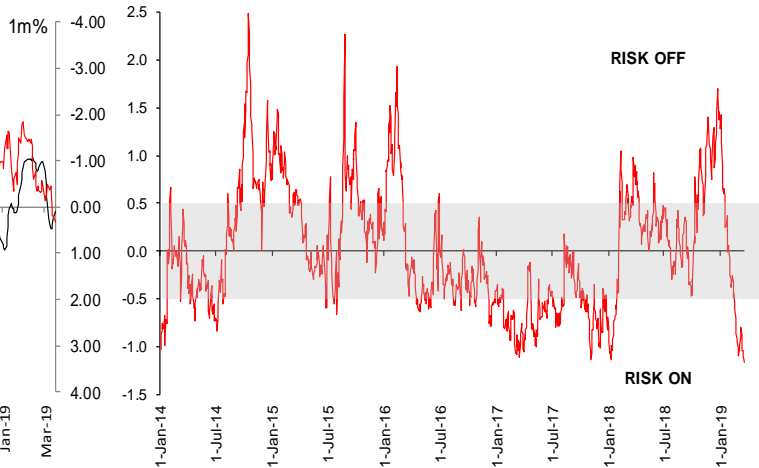
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.113	0.367	-0.554	-0.277	-0.515	0.289	-0.11	0.414	0.263	0.558	-0.971
SGD	0.936	0.091	0.395	-0.552	-0.324	-0.563	0.424	-0.136	0.394	0.227	0.606	-0.868
IDR	0.887	-0.274	0.26	-0.509	-0.287	-0.519	0.114	-0.13	0.392	0.194	0.392	-0.93
MYR	0.782	-0.196	0.106	-0.203	0.12	-0.367	0.661	0.163	0.233	-0.273	0.323	-0.746
JPY	0.733	-0.361	0.486	-0.186	-0.277	-0.239	0.206	0.161	0.044	0.032	0.55	-0.719
CAD	0.684	-0.381	0.291	-0.105	-0.296	-0.197	0.354	0.249	-0.146	-0.094	0.394	-0.707
CHF	0.64	-0.534	0.183	0.176	-0.046	0.014	0.454	0.545	-0.309	-0.376	0.314	-0.693
CNH	0.558	-0.152	0.925	-0.304	-0.664	-0.076	-0.148	0.156	0.115	0.455	1	-0.493
PHP	0.525	-0.582	0.311	0.127	-0.139	0.088	0.415	0.54	-0.287	-0.261	0.429	-0.551
CNY	0.482	-0.025	-0.102	0.001	0.318	-0.311	0.858	0.206	0.11	-0.535	0.083	-0.439
THB	0.367	-0.212	1	-0.204	-0.75	-0.014	-0.361	0.068	0	0.536	0.925	-0.308
KRW	0.289	0.236	-0.361	0.148	0.513	-0.186	1	0.235	-0.036	-0.609	-0.148	-0.207
USGG10	0.132	-0.808	0.198	0.469	0.137	0.442	0.116	0.738	-0.432	-0.403	0.185	-0.175
TWD	-0.113	1	-0.212	-0.257	0.072	-0.33	0.236	-0.534	0.274	0.166	-0.152	0.247
INR	-0.244	0.655	-0.003	-0.496	-0.371	-0.321	-0.52	-0.751	0.392	0.716	-0.1	0.291
GBP	-0.479	-0.08	-0.6	0.673	0.602	0.391	0.439	0.531	-0.411	-0.877	-0.593	0.413
NZD	-0.588	-0.475	0.068	0.506	-0.074	0.341	-0.59	0.097	-0.457	0.001	-0.21	0.525
AUD	-0.7	-0.023	0.036	0.274	-0.134	0.25	-0.708	-0.247	-0.214	0.263	-0.253	0.671
EUR	-0.971	0.247	-0.308	0.566	0.291	0.459	-0.207	0.053	-0.423	-0.229	-0.493	1

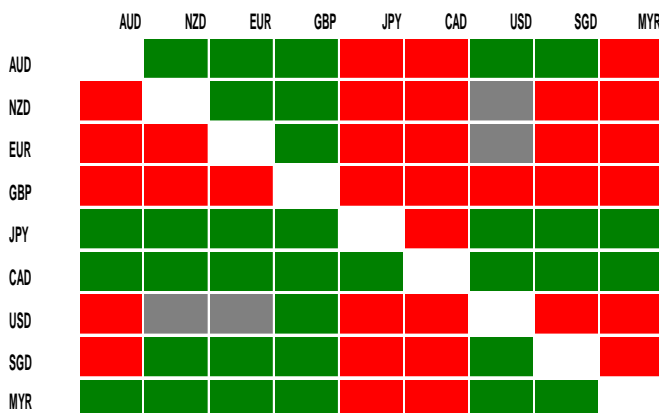
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1225	1.1300	1.1348	1.1356	1.1400
GBP-USD	1.3052	1.3200	1.3259	1.3300	1.3375
AUD-USD	0.7003	0.7011	0.7072	0.7100	0.7133
NZD-USD	0.6800	0.6819	0.6836	0.6898	0.6900
USD-CAD	1.3267	1.3300	1.3328	1.3400	1.3468
USD-JPY	111.00	111.46	111.63	112.00	112.11
USD-SGD	1.3471	1.3500	1.3522	1.3545	1.3600
EUR-SGD	1.5253	1.5300	1.5344	1.5382	1.5428
JPY-SGD	1.2083	1.2100	1.2112	1.2200	1.2232
GBP-SGD	1.7731	1.7900	1.7928	1.8000	1.8078
AUD-SGD	0.9524	0.9530	0.9563	0.9600	0.9661
Gold	1300.00	1304.02	1304.70	1332.92	1344.00
Silver	15.15	15.30	15.30	15.40	15.58
Crude	54.88	58.80	58.86	58.90	59.45

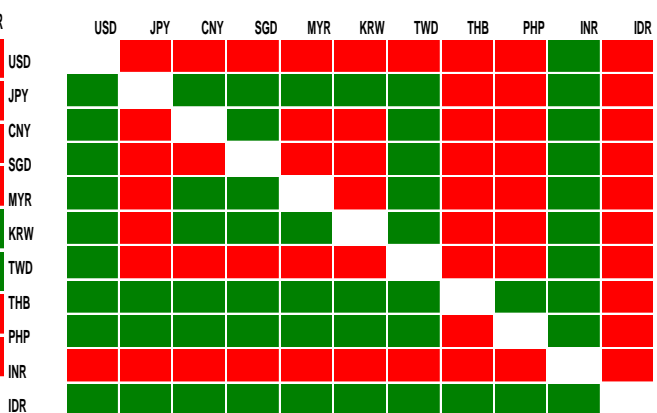
Source: OCBC Bank

G10 FX Heat Map



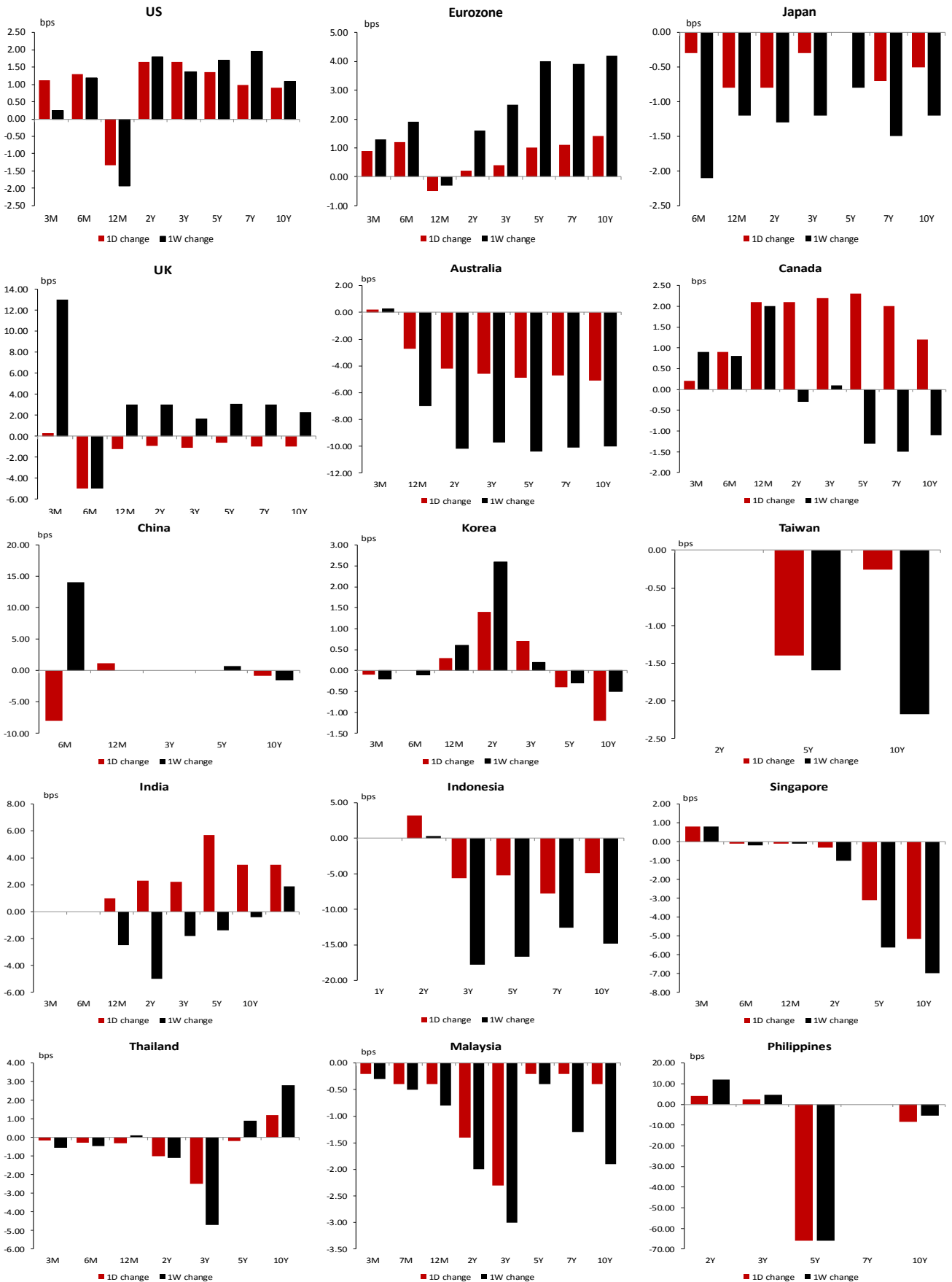
Source: OCBC Bank

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								
4	19-Mar-19		Long 2M USD-SGD 25-delta straddle Spot ref: 1.3508; Strikes: 1.3618, 1.3371; Exp: 16/05/19; Cost: 0.41%			Relatively depressed vol surface ahead of imminent global headline risks		
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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