

Friday, February 22, 2019

Market Themes/Strategy/Trading Ideas

- Despite mixed to soft US data prints (Feb Philly Fed and durable goods orders disappointed), the dollar managed to end higher on the day with negative attention centered on the AUD instead. On the risk appetite front, negative global equities (including in EM) saw the **FX Sentiment Index (FXSI)** ticking higher a smudge but still remaining in Risk-On territory.
- Despite news flow portending 6 MOUs between China and the US, **AUD-USD** dislocated lower and had an extremely volatile session on Thursday. The pair was first pummeled after a market report called for 2 rate cuts this year, while another wire report subsequently indicated that China had banned Australian coal imports. Late Thursday, the RBA's Lowe reiterated that the chances of a rate hike or a cut are more evenly balanced.
- Elsewhere, mixed PMIs (better than expected services/composite readings balanced with disappointing manufacturing PMIs) out of the EZ kept the **EUR-USD** in a range although the pair still eased slightly on the day. ECB minutes, while tackling the reality of the economic slowdown, also indicated that further clarity on TLTROs will be had at the March Council Meeting.
- The **BOC's Poloz** noted that the path of higher interest rates is "highly uncertain", but effectively denying any dovish impetus that some investors had been angling for. This however still could not shield the CAD from the negative weight on the cyclicals on Thursday.
- While US Treasury and bund yields firmed, relative aggregated rate differential movements imparted further support to the **DXY**, which surfaced above 96.60. **Ahead of the (potentially positive) headlines from the Sino-US trade talks, expect the DXY to continue to hover above its 100-day MA (96.407) and 55-day MA (96.397). A swathe of Fed speakers today (Bostic, Williams, Daly, Clarida, Potter, Bullard, Harker, and Quarles) has the potential to further impart volatility.**
- In the interim, the EUR is seen trapped in a range and investors will be on the lookout for the rating review from Fitch on Italy as well as Draghi (1530 GMT) today. Elsewhere, **AUD-USD** is still seen bruised and relatively more vulnerable ahead of imminent Sino-US headlines (including from a possible Trump-Liu He meeting).

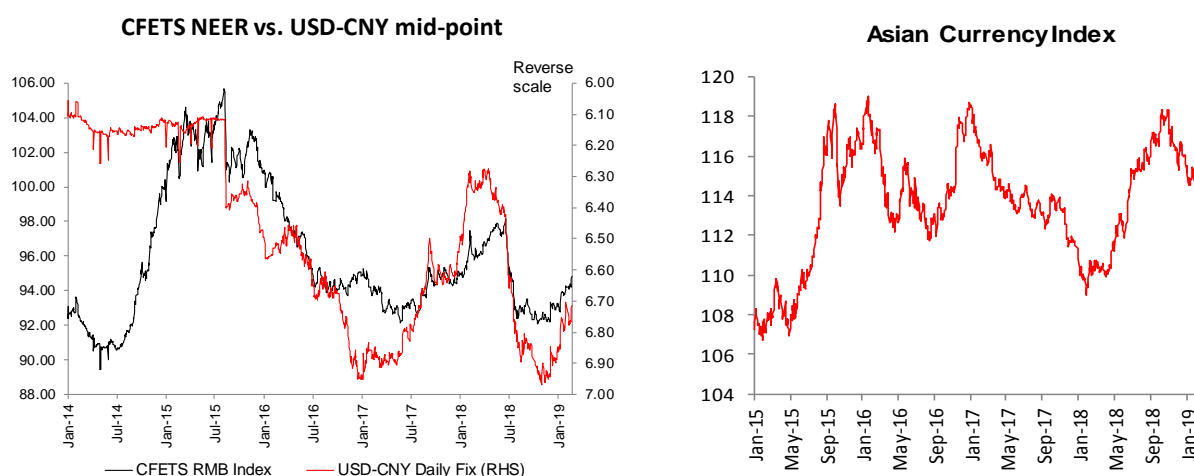
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Asian Markets

- USD-CNH bounced off intra-day lows and recovered past 6.7200 and should remain supported pending further external news flow. USD-Asia is also expected to be range bound given the high degree of uncertainty stemming from headline risks today.
- **RBI Feb meeting** (where rate cuts were delivered) minutes confirmed a dovish bias (not just from the governor but also from hitherto hawks), leaving the door open for further rate cuts.
- On the **portfolio flow front**, note a slight dichotomy between the North and South Asia. Inflow momentum into South Korea (on the back a recovery in bond flows) and Taiwan (equities) continued to extend. Meanwhile, inflow momentum into Indonesia compressed as equity inflows dried up. Overall flow environment also deteriorated in India and Thailand, with Thailand of a greater concern as outflow momentum deepens.
- **Bank Indonesia's** emphasis on external stability at its policy meeting should continue to instill confidence in foreign investors. This official policy intent for currency stability may continue to keep realized vol at a discount to the implieds, continuing to bolster the IDR's relative attractiveness from a vol/carry-adjusted perspective.
- **SGD NEER:** The SGD NEER eased to around +1.68% above its perceived parity (1.3774), as implied USD-SGD thresholds stepped higher. Expect the USD-SGD to stay largely range-bound, pending catalysts on the broad USD front.
- **CFETS RMB Index:** The USD-CNY midpoint came in lower again, within expectations, at 6.7151, compared to 6.7220 yesterday. The CFETS RMB Index continued its up-move, printing 94.85 from 94.68 on Thursday. At this juncture, RMB appreciation from positive newsflow may be better reflected on the basket perspective, rather than the USD-CNY.



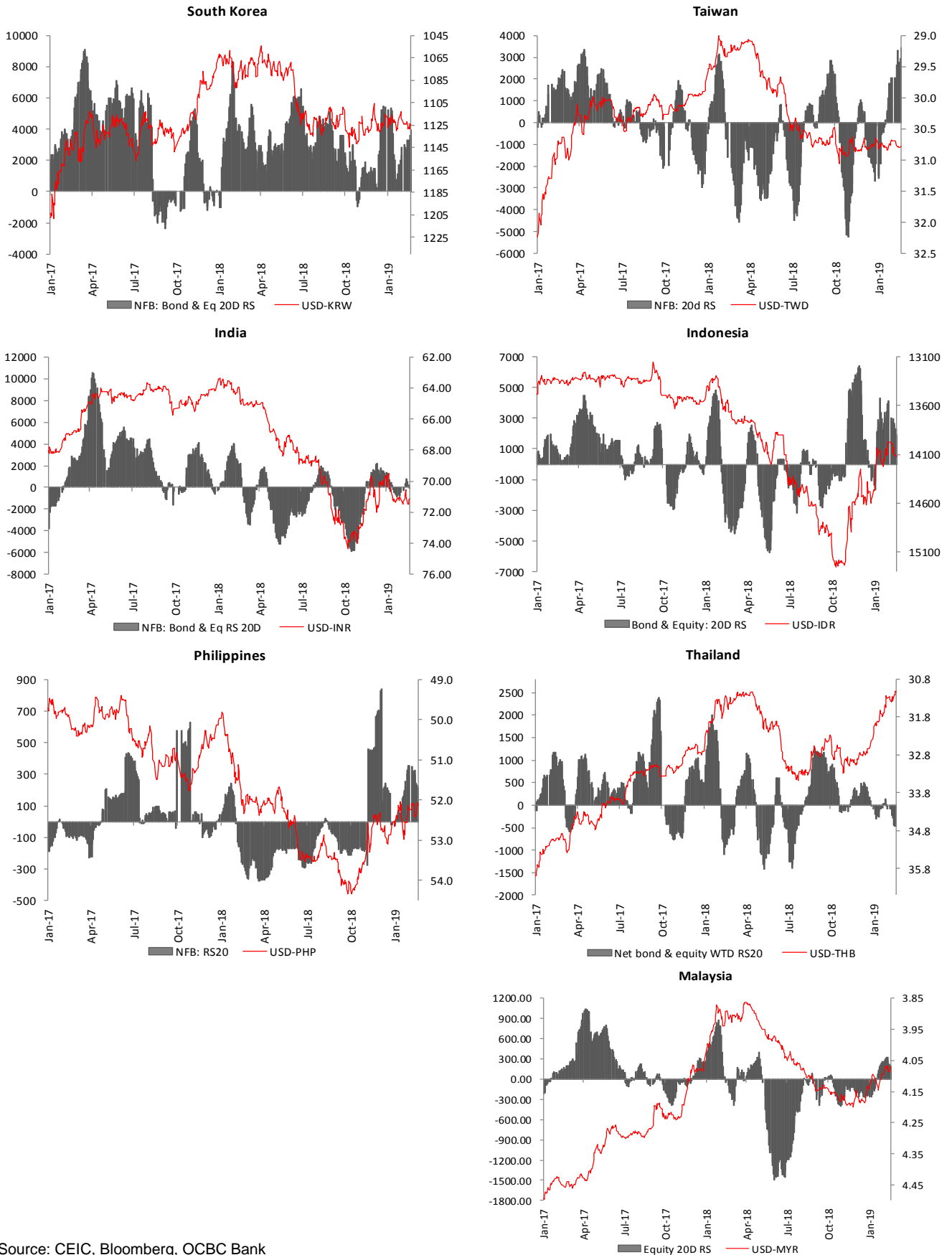
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔/↓	↔	7-day repo rate continues to slip, unnamed PBOC official noted that further cuts in amrket rates and RRRs may be in store. 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	↔	↔/↓	BI static at Feb meeting, refrained from reiterating previous "hawkish" intent, replaced with an emphasis on external stability (ie. containing current account deficit and maintaining a sufficient yield buffer) while exploring further macroprudential measures; still sees IDR as undervalued. 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", 2 of 7 members voted to hike; subsequent minutes reveal that policy is still tilted towards hikes. BOT comments on recent THB appreciation may recur if the THB continues to strengthen. 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 warns against premature easing, static in Feb. 2019 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%.

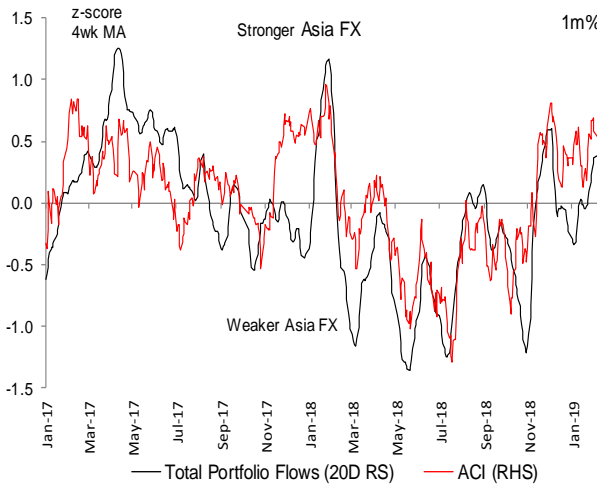
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



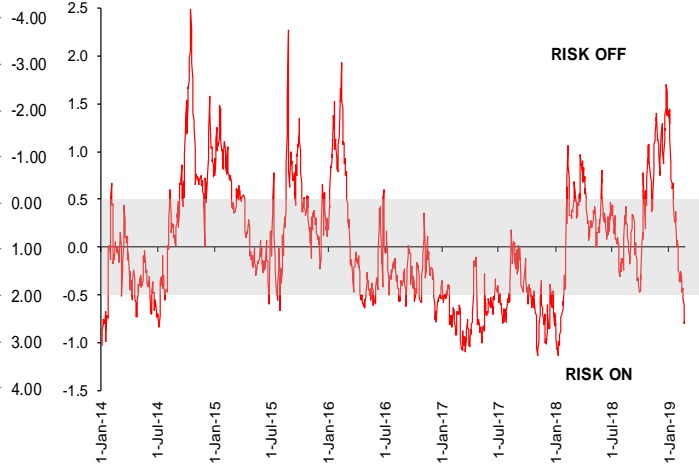
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1	-0.352	0.569	0.519	0.512	-0.109	0.825	0.117	-0.449	-0.404	0.497	-0.985
SGD	0.882	-0.427	0.388	0.724	0.704	-0.031	0.831	0.198	-0.664	-0.576	0.378	-0.824
IDR	0.825	-0.271	0.259	0.788	0.73	0.315	1	0.538	-0.696	-0.722	0.14	-0.78
MYR	0.794	0.121	0.879	-0.017	-0.006	-0.412	0.483	-0.306	0.063	0.139	0.84	-0.821
JPY	0.742	-0.075	0.672	0.359	0.176	0.166	0.65	0.238	-0.282	-0.281	0.518	-0.761
CAD	0.599	0.278	0.68	0.014	-0.134	0.02	0.447	-0.055	0.11	0.044	0.585	-0.647
CHF	0.569	0.21	1	-0.117	-0.216	-0.482	0.259	-0.462	0.179	0.237	0.962	-0.6
CNH	0.565	0.113	0.746	-0.322	-0.257	-0.482	0.177	-0.413	0.401	0.388	0.577	-0.623
PHP	0.497	0.196	0.962	-0.181	-0.167	-0.599	0.14	-0.59	0.165	0.313	1	-0.503
CNY	0.16	0.278	0.476	-0.231	-0.413	0.03	0.122	0.024	0.436	0.214	0.012	-0.208
THB	-0.207	0.071	0.006	0.008	-0.001	0.208	-0.162	0.07	-0.103	-0.092	0.168	0.272
KRW	-0.214	0.63	0.486	-0.846	-0.857	-0.473	-0.489	-0.628	0.857	0.892	0.398	0.123
USGG10	-0.263	0.665	0.432	-0.697	-0.82	-0.172	-0.429	-0.366	0.786	0.646	0.317	0.199
TWD	-0.352	1	0.21	-0.576	-0.563	-0.125	-0.271	-0.297	0.585	0.551	0.196	0.316
INR	-0.549	0.699	0.177	-0.804	-0.914	-0.103	-0.636	-0.354	0.844	0.712	0.068	0.468
GBP	-0.576	-0.05	-0.569	0.149	-0.02	0.508	-0.266	0.373	-0.088	-0.277	-0.542	0.608
NZD	-0.8	0.42	-0.518	-0.516	-0.538	0.29	-0.601	0.075	0.466	0.346	-0.557	0.732
AUD	-0.835	0.07	-0.595	-0.128	-0.249	0.291	-0.587	0.103	0.108	0.028	-0.522	0.847
EUR	-0.985	0.316	-0.6	-0.45	-0.438	0.114	-0.78	-0.077	0.384	0.332	-0.503	1

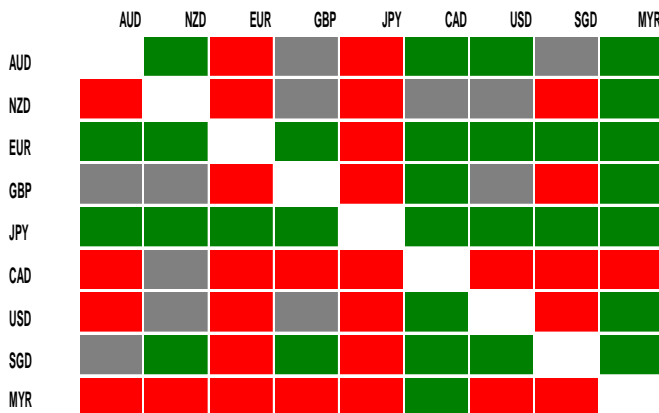
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1234	1.1300	1.1340	1.1390	1.1400
GBP-USD	1.2994	1.3000	1.3036	1.3100	1.3185
AUD-USD	0.7023	0.7054	0.7093	0.7100	0.7130
NZD-USD	0.6709	0.6751	0.6776	0.6786	0.6800
USD-CAD	1.3156	1.3200	1.3235	1.3300	1.3335
USD-JPY	109.91	110.00	110.74	111.00	111.13
USD-SGD	1.3466	1.3500	1.3544	1.3592	1.3600
EUR-SGD	1.5277	1.5300	1.5358	1.5400	1.5481
JPY-SGD	1.2194	1.2200	1.2231	1.2262	1.2300
GBP-SGD	1.7485	1.7600	1.7656	1.7700	1.7732
AUD-SGD	0.9577	0.9600	0.9606	0.9691	0.9700
Gold	1288.77	1300.00	1323.50	1339.01	1344.00
Silver	15.52	15.70	15.79	15.80	16.11
Crude	51.34	56.80	56.85	56.90	57.28

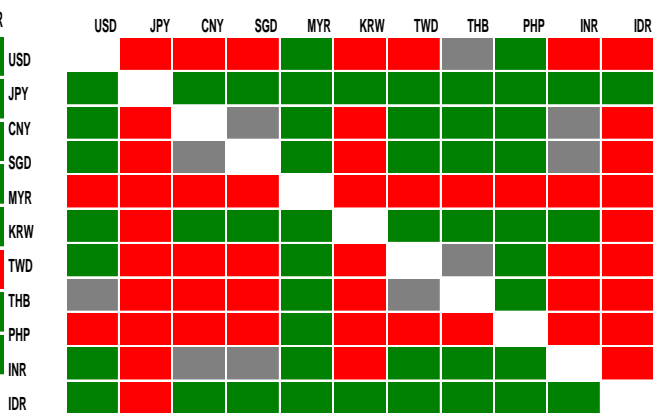
Source: OCBC Bank

G10 FX Heat Map



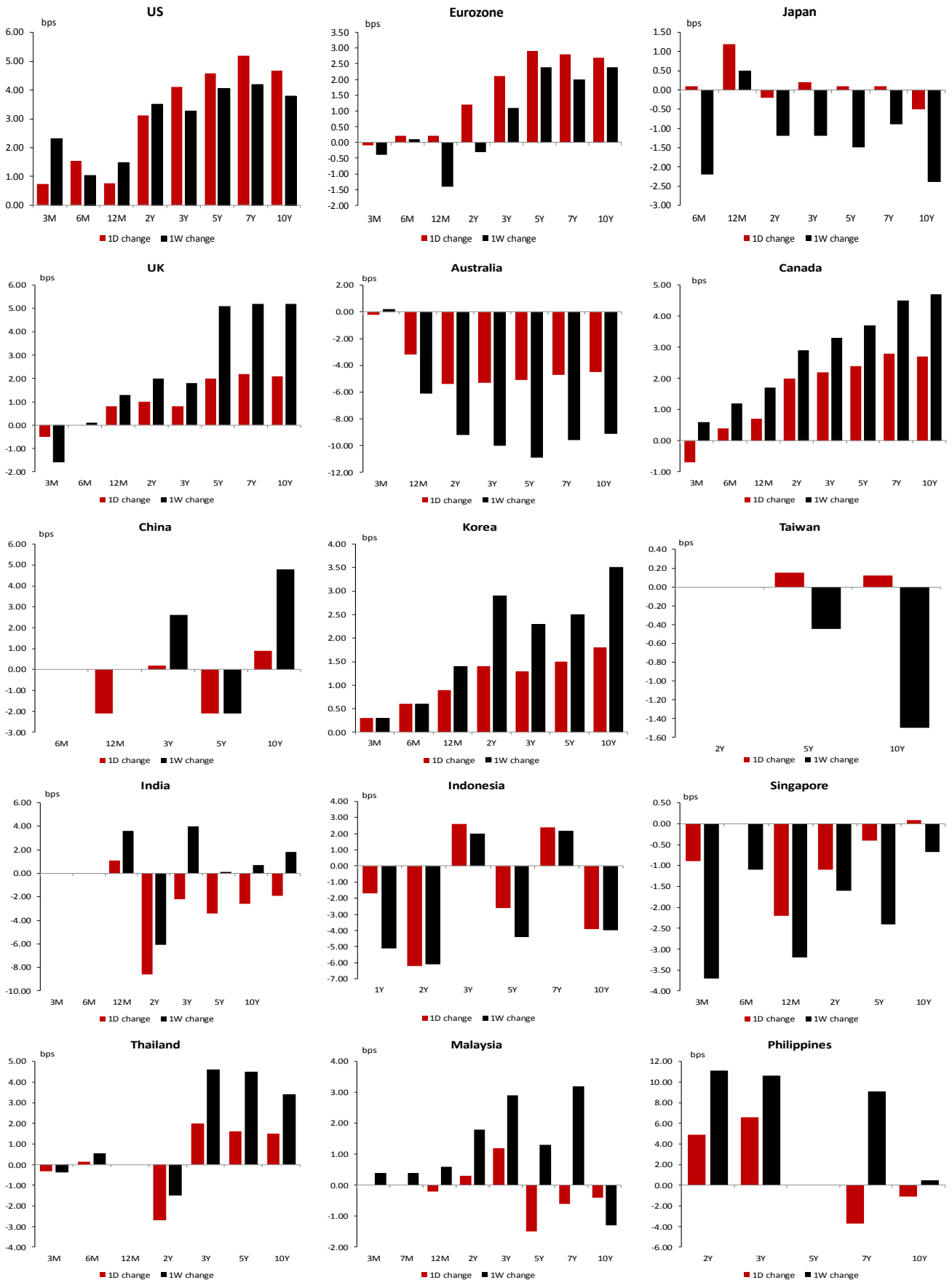
Source: OCBC Bank

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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