

Monday, February 25, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- Expect risk appetite to be on a positive footing at the onset of the week with Trump giving the strongest indication yet that 01 March tariff deadline may be extended. Note that a Trump-Xi meeting is tentatively being scheduled for late March.
- Amid softer UST yields on the back of dovish Fed rhetoric (from Clarida, Williams and Daly), the USD slipped against the majors (especially against the cyclicals) on Friday as Sino-US trade tensions continued to dissipate.
- AUD-USD managed to stage a recovery after China denied reports that it had banned coal imports from Australia. NZD-USD tripped lower on Friday after the **RBNZ** suggested that higher bank capital requirements, if it results in tighter monetary conditions, may see an OCR cut. However, the pair eventually latched on to the broader weak dollar tone to end higher on the day.
- In the UK, PM May has postponed a Parliamentary vote originally scheduled for this week to 12 March, while reports indicate that the EU may in fact be mulling up to a 21-month delay for Brexit.
- Amidst the Fed-speak calendar this week, look especially to Fed chair Powell's semi-annual testimony to the Senate Banking Committee on Tuesday and the House Financial Services Committee on Wednesday. On the global data flow front, China PMIs are due on Thursday/Friday, with the slew of global PMIs also due on Friday.
- Stronger global equities, including in EM, pulled the **FX Sentiment Index (FXSI)** yet lower and deeper into Risk-On territory on Friday. Expect this to continue to engender risk-taking behavior, especially with respect to the cyclicals and EM/Asia, while the JPY is seen on the defensive on the crosses. On other fronts, expect the EUR and GBP to remain laggards in the current revival in risk appetite, with the German Feb Ifo disappointing on Friday.
- In the near term, with a neutral/dovish Fed set against the improvement in global risk appetite levels as Sino-US trade tensions ease, the **DX** may attempt to gravitate towards its 100-day MA (96.423) and 55-day MA (96.383).

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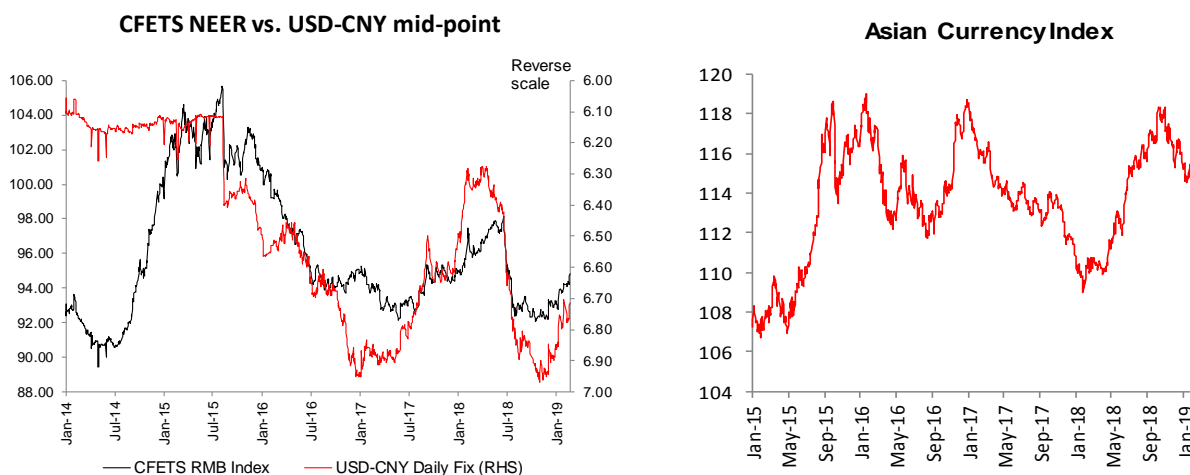
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Asian Markets

- **USD-CNH** dripped lower again on Friday and is trading sub-6.7000 early in Asia on Monday. Expect the renminbi complex to remain underpinned after USTR Lighthizer noted that both sides had reached a “strong agreement” on currency. With Asian (and **Chinese**) equities starting strongly on Monday, expect USD-Asia to be similarly heavy at the beginning of the week. On the central bank front, the **BOK** is expected to remain static at 1.75% on Thursday.
- **EPFR** data show implied net equity inflows into Asia (excl Japan, China dropping off significantly in the latest week, primarily from implied outflows for India and Taiwan. Meanwhile, net implied bond flows into Asia also flipped to an outflow balance in the latest week, with a significant negative drain for Thailand. On the Chinese front, note a flip to an outflow environment for both equities and bonds in the latest week. If positive risk appetite levels continue to accumulate, expect brighter implied flows this week.
- On the **portfolio flow front**, note a slight dip in inflow momentum into South Korea, although overall levels remain healthy. Taiwan equities continue to be favoured, as it registered the strongest inflow momentum in two years. Meanwhile, some improvements were also seen in South Asia, with India, Indonesia and Thailand all showing improvements (albeit marginal for Thailand) in the latest readings.
- **SGD NEER**: The SGD NEER firmed to around +1.83% above its perceived parity (1.3746), with the SGD NEER reaching an overnight high of above +1.90%. Implied USD-SGD thresholds stepped lower amid negative pressure on the broad USD. At this juncture, expect the USD-SGD to stay heavy on the lead from the RMB complex, with the 1.3500 support looking tenuous. If that is breached convincingly, look to 1.3443 for the next support level. CPI prints scheduled today (0500 GMT), as the market continues to look for cues regarding the MAS's posture in its April policy meeting.
- **CFETS RMB Index**: The USD-CNY midpoint eased slightly, within expectations, to 6.7131, compared to 6.7151 Friday. However, the CFETS RMB Index also dipped to 94.81, from 94.85 from 94.68 last week.



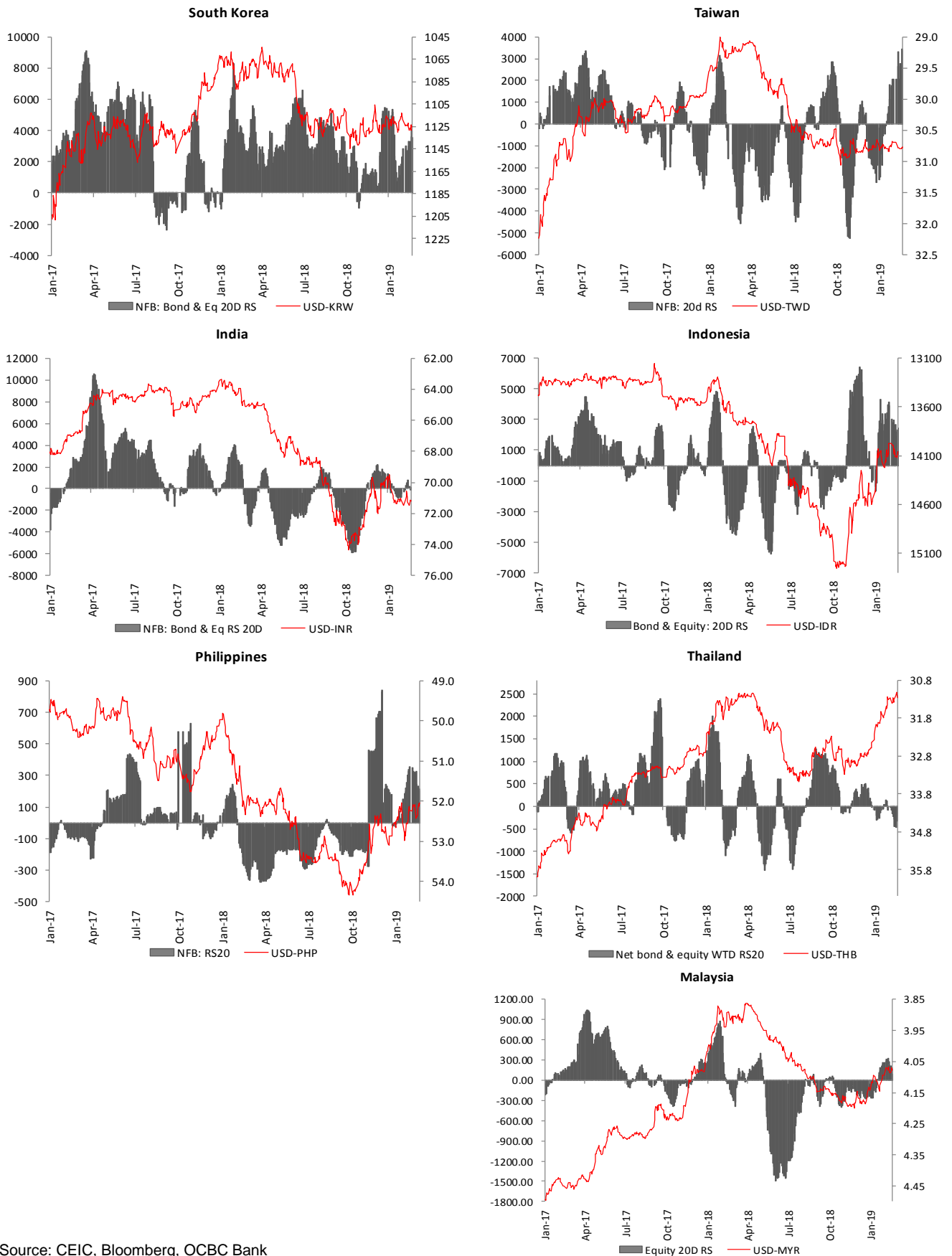
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

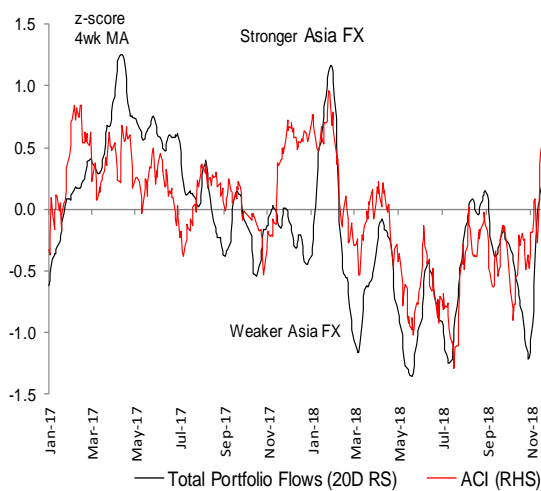
	USD-Asia	10y govie (%)	Rationale
China	↔/↓	↔	7-day repo rate continues to slip, unnamed PBOC official noted that further cuts in amrket rates and RRRs may be in store. Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. 4Q GDP as expected at 6.4% yoy. Dec monetary 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 manufactuirng 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 mechandise 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. Jan NODX disappoints at -10.1% yoy. 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. Jan CPI pinte a deeptr than expected -0.7% yoy. Dec manufacturing PMI falls to 47.7 from 48.4. Dec exports and industrial production numbers outperformed. 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, 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. Jan customs exports underperformed. 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

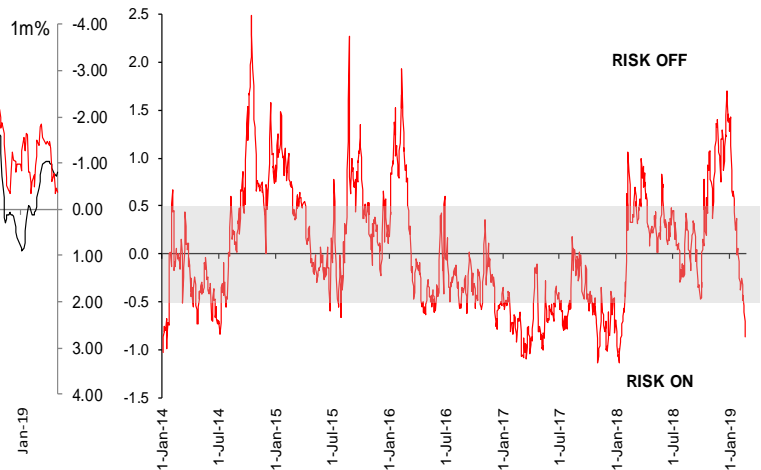
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

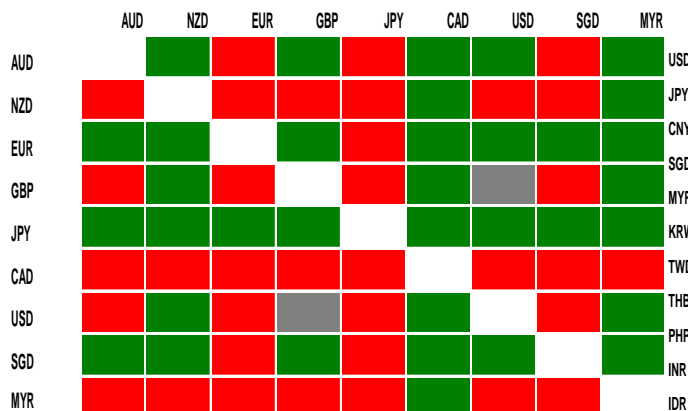
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.385	0.648	0.618	0.643	-0.06	0.837	0.13	-0.561	-0.477	0.427	-0.99
SGD	0.922	-0.356	0.618	0.672	0.635	-0.062	0.792	0.107	-0.602	-0.498	0.471	-0.891
IDR	0.837	-0.252	0.417	0.828	0.807	0.366	1	0.555	-0.75	-0.75	0.063	-0.83
MYR	0.816	-0.009	0.875	0.19	0.269	-0.417	0.518	-0.345	-0.17	-0.035	0.821	-0.801
JPY	0.806	-0.309	0.561	0.722	0.63	0.299	0.815	0.394	-0.697	-0.617	0.388	-0.805
CAD	0.779	0.011	0.504	0.511	0.448	0.216	0.797	0.253	-0.408	-0.424	0.38	-0.784
CHF	0.648	0.067	1	0.058	-0.023	-0.531	0.417	-0.399	-0.003	0.081	0.954	-0.625
CNH	0.572	-0.052	0.714	-0.162	-0.016	-0.529	0.176	-0.501	0.23	0.244	0.601	-0.582
PHP	0.427	0.13	0.954	-0.12	-0.097	-0.663	0.063	-0.658	0.09	0.265	1	-0.384
CNY	0.186	0.082	0.278	0.078	-0.058	0.155	0.268	0.196	0.133	-0.084	-0.216	-0.199
THB	-0.193	0.083	-0.116	-0.026	-0.044	0.156	-0.183	0.037	-0.088	-0.062	0.209	0.254
KRW	-0.294	0.552	0.188	-0.738	-0.649	-0.457	-0.458	-0.561	0.712	0.802	0.171	0.255
USGG10	-0.385	1	0.067	-0.51	-0.466	-0.14	-0.252	-0.286	0.507	0.475	0.13	0.384
TWD	-0.399	0.651	0.178	-0.608	-0.711	-0.216	-0.432	-0.315	0.704	0.531	0.144	0.418
INR	-0.565	0.041	-0.572	0.032	-0.219	0.463	-0.243	0.444	0.057	-0.175	-0.547	0.579
GBP	-0.789	0.674	-0.262	-0.728	-0.794	-0.06	-0.705	-0.26	0.742	0.591	-0.284	0.778
NZD	-0.808	0.356	-0.699	-0.425	-0.426	0.343	-0.523	0.187	0.363	0.233	-0.663	0.754
AUD	-0.84	0.146	-0.619	-0.271	-0.465	0.204	-0.606	0.104	0.27	0.154	-0.46	0.847
EUR	-0.99	0.384	-0.625	-0.602	-0.64	0.043	-0.83	-0.137	0.555	0.458	-0.384	1

Source: Bloomberg

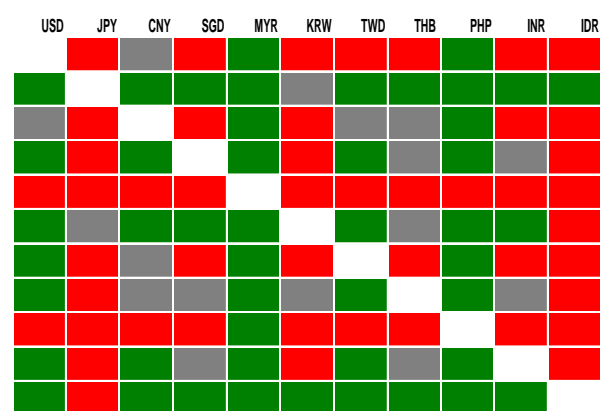
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1234	1.1300	1.1342	1.1390	1.1400
GBP-USD	1.2992	1.3000	1.3065	1.3100	1.3169
AUD-USD	0.7100	0.7130	0.7145	0.7200	0.7261
NZD-USD	0.6788	0.6800	0.6869	0.6900	0.6942
USD-CAD	1.3073	1.3100	1.3137	1.3157	1.3200
USD-JPY	109.87	110.00	110.66	111.00	111.13
USD-SGD	1.3461	1.3500	1.3506	1.3587	1.3600
EUR-SGD	1.5267	1.5300	1.5319	1.5400	1.5475
JPY-SGD	1.2178	1.2200	1.2204	1.2262	1.2300
GBP-SGD	1.7491	1.7600	1.7646	1.7700	1.7730
AUD-SGD	0.9577	0.9600	0.9650	0.9687	0.9700
Gold	1295.66	1300.00	1329.20	1338.32	1344.00
Silver	15.53	15.90	15.93	16.00	16.13
Crude	51.46	57.20	57.25	57.30	57.79

Source: OCBC Bank

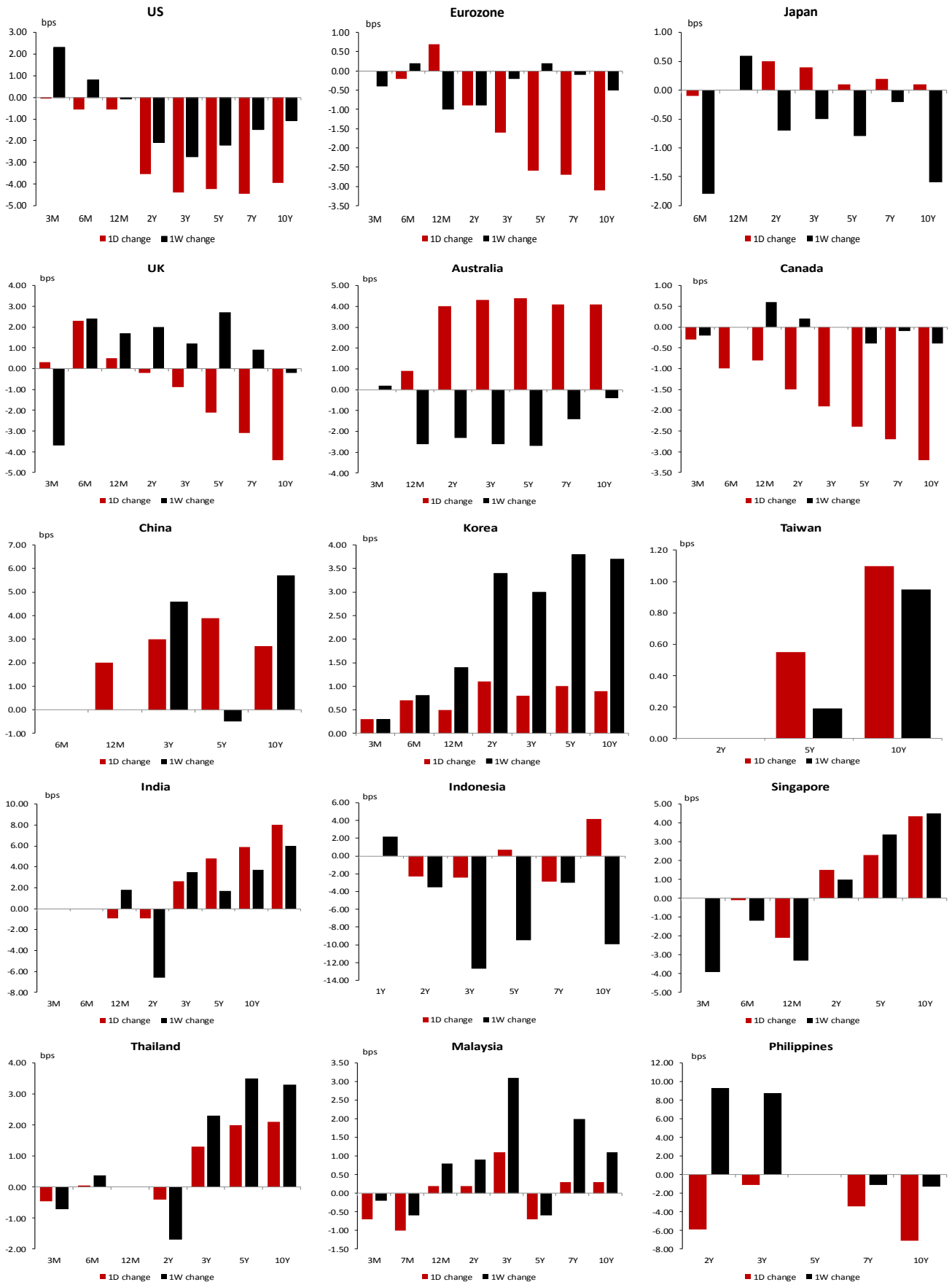
G10 FX Heat Map

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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