

Tuesday, February 26, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- With President Trump promising another summit with Chinese President Xi Jinping, markets performed in classic fashion with positive investor sentiment pulling the dollar (and JPY) lower against most of the majors on Monday. Not surprisingly, the AUD (and NZD) outperformed against their peers. USD-CAD however rose towards the 1.3200 handle as crude dived (WTI < 56.00). Elsewhere, UST yields ended the day firmer with most of other core curves in tow.
- Late Monday/early Tuesday, the GBP-USD spiked higher after news emerged that PM May is considering a delay to Brexit and crucially, potentially avoiding a no-deal crash out of the EU. Expect headline risks for the pound on Tue-Wed to run particularly high as the UK parliament discusses and votes on several Brexit-related motions. **Note that the front-end of the vol surface has already been attempting to imbue background positivity for the GBP.**
- With regards to the Korean peninsula, the 27-28 Feb summit in Hanoi may provide scope for distraction and a positive news feed may further fuel USD vulnerability.
- The **FX Sentiment Index (FXSI)** ticked slightly higher but remained entrenched in Risk-On mode with cross-asset EM risk premiums compressing in recent sessions. With much positivity baked in for now, **we would remain watchful for any fading euphoria pending further news flow.**
- In the current environment, expect the **DX** to remain top heavy with the 100-day MA (96.422) and the 55-day MA (96.382) still acting as crucial supports. Risk appetite drivers however may remain more relevant at this juncture and for US-centric cues, look to Powell's testimony before the Senate Banking Committee at 1445 GMT.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

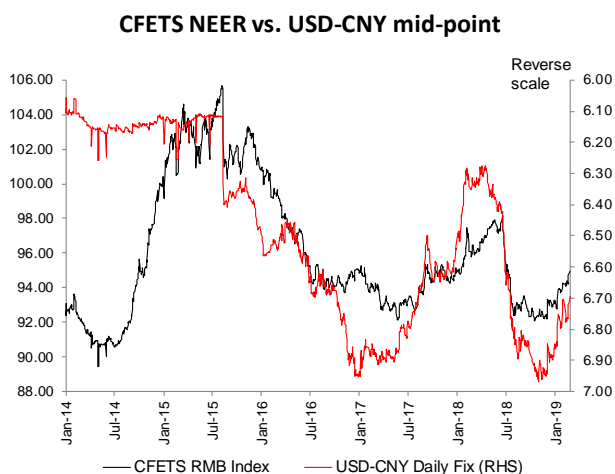
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian Markets

- EM equities (notably China-related equities) popped higher on Monday while the USD-CNH also settled lower around the 6.6800 neighborhood. After grinding lower on Monday, USD-Asia may continue to take the lead from resilient EM FX (see the ZAR) and prevailing positive sentiment.
- Investor positivity is expected to continue to radiate from the Chinese front in the near term with the renminbi complex now uncharacteristically leading the other regional FX against the USD in the current episode. **We look for levels to be tactically engaged for a negative USD-CNH gradient in the near term, especially with the DF curve having resurfaced back above par.**
- On the **portfolio flow front**, net inflows for South Korea and Taiwan are still holding up at significantly positive levels. Meanwhile, net inflows for India may be recovering smartly on the back of a jump in net equity inflows. On other fronts, net portfolio flows for Thailand are compressing with net equity inflows showing signs of a revival.
- **SGD NEER:** The SGD NEER stood at around +1.82% above its perceived parity (1.3737), with implied USD-SGD thresholds staying depressed. Jan CPI readings (headline and core) came in softer than expected, while the MAS/MTI 2019 headline inflation forecast was cut to 0.5%-1.5% from 1.0%-2.0%. Nevertheless, generalized USD vulnerability and a heavy USD-CNH may keep the SGD NEER pinned around the +1.80% handle at this juncture. Industrial production data scheduled today (0500 GMT).
- **CFETS RMB Index:** The USD-CNY midpoint came in below the 6.7000 mark and within expectations, at 6.6952 this morning, compared to 6.7131 on Monday. The CFETS RMB Index's appreciation continues unabated, with the latest print at 94.98 from 94.81 previously.



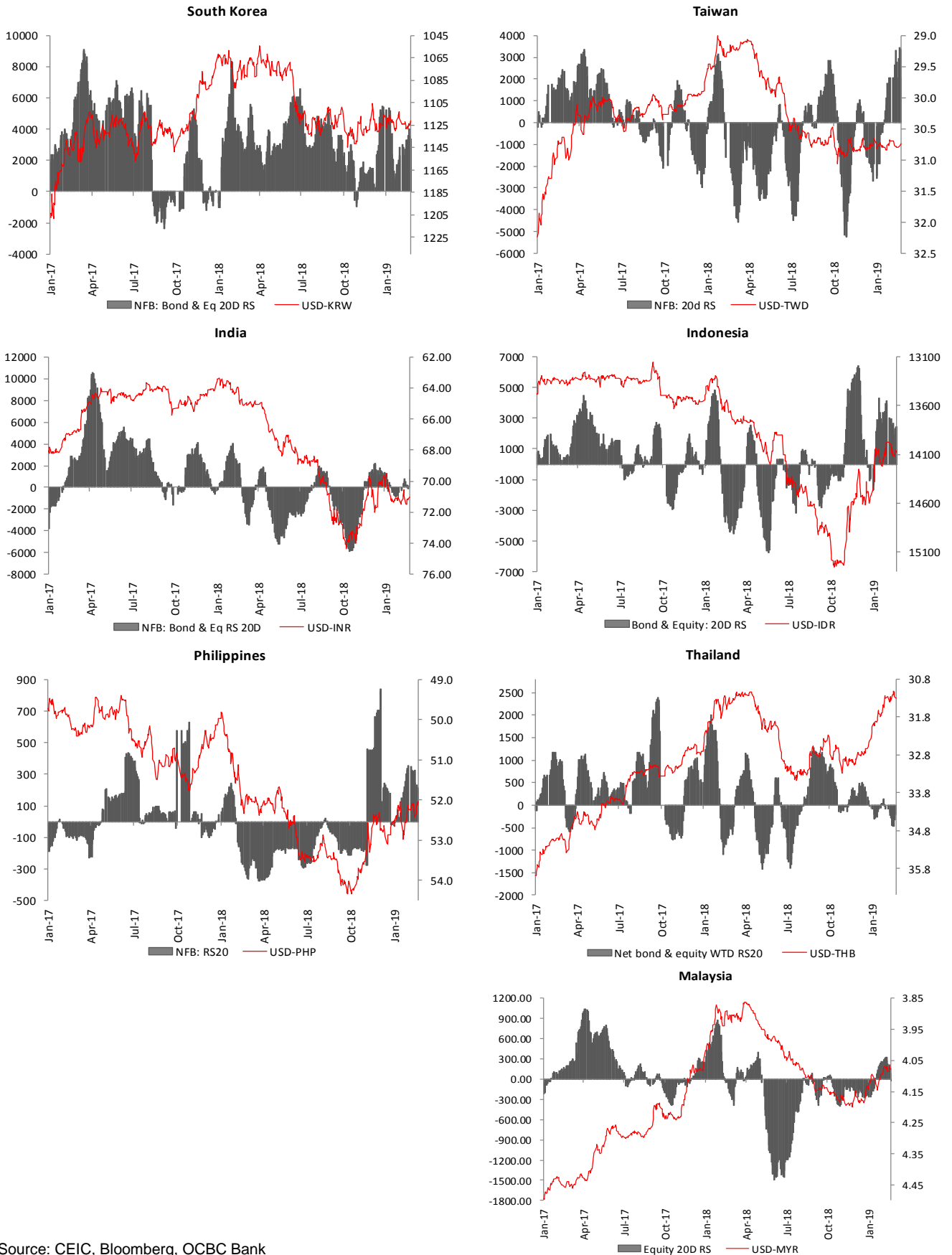
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↔/↑	7-day repo rate stabilizing. While further rate cuts cannot be ruled out, recent comments on flushed interbank liquidity by senior officials may reduce those odds in the near term. 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	↔/↓	↔	Geopolitical tensions easing with CDS on govies nearing historical lows. 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. Jan NODX disappoints at -10.1% yoy. Jan 19 CPI readings cooler 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 pined a deeper 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. Accommodative 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. Jan headline and core inflation in-line with expectations. Elections scheduled on 24 March, with uncertainties heightening. 4Q GDP at a better than expected +3.7% yoy.
Philippines	↓	---	BSP warns against premature easing and remains on the hawkish side despite being static in Feb. 4Q GDP below expectations at 6.1% yoy. Dec exports 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%.

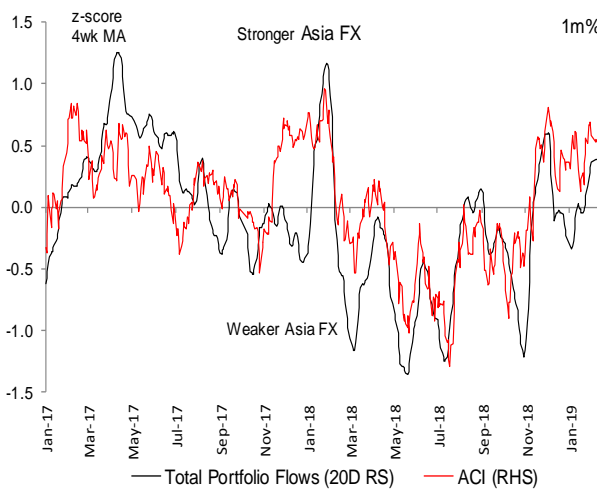
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



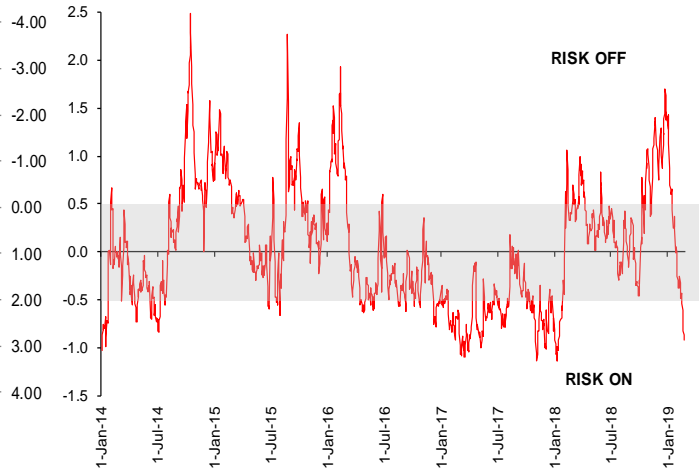
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1	-0.313	0.553	0.569	0.532	-0.039	0.78	0.093	-0.534	-0.403	0.412	-0.993
SGD	0.922	-0.236	0.542	0.608	0.509	-0.039	0.746	0.091	-0.569	-0.406	0.44	-0.901
IDR	0.823	0.064	0.851	0.102	0.1	-0.441	0.418	-0.336	-0.125	0.079	0.815	-0.8
MYR	0.805	0.004	0.543	0.51	0.352	0.186	0.669	0.232	-0.418	-0.373	0.444	-0.791
JPY	0.799	-0.272	0.561	0.674	0.498	0.285	0.663	0.34	-0.678	-0.524	0.427	-0.79
CAD	0.78	-0.232	0.119	0.845	0.814	0.419	1	0.529	-0.742	-0.772	-0.084	-0.774
CHF	0.626	-0.05	0.655	-0.182	-0.057	-0.536	0.202	-0.46	0.242	0.263	0.508	-0.628
CNH	0.553	0.164	1	-0.093	-0.269	-0.543	0.119	-0.404	0.074	0.272	0.97	-0.528
PHP	0.412	0.242	0.97	-0.275	-0.352	-0.656	-0.084	-0.577	0.167	0.445	1	-0.372
CNY	0.234	0.029	0.422	0.112	-0.051	0.128	0.221	0.186	0.106	-0.09	-0.067	-0.23
THB	-0.207	0.377	0.233	-0.69	-0.536	-0.612	-0.432	-0.626	0.723	0.734	0.236	0.21
KRW	-0.209	0.142	-0.011	-0.11	-0.164	0.111	-0.251	-0.004	-0.042	0.055	0.282	0.261
USGG10	-0.313	1	0.164	-0.432	-0.361	-0.215	-0.232	-0.3	0.47	0.389	0.242	0.354
TWD	-0.317	0.585	0.312	-0.554	-0.673	-0.268	-0.441	-0.319	0.686	0.471	0.293	0.366
INR	-0.565	-0.02	-0.614	0.105	-0.081	0.482	-0.152	0.465	0.018	-0.253	-0.586	0.574
GBP	-0.749	0.545	-0.04	-0.726	-0.782	-0.168	-0.758	-0.293	0.77	0.583	-0.058	0.773
NZD	-0.766	0.095	-0.789	-0.238	-0.156	0.373	-0.342	0.257	0.251	0.007	-0.765	0.731
AUD	-0.843	0.096	-0.558	-0.223	-0.357	0.205	-0.543	0.133	0.244	0.093	-0.455	0.845
EUR	-0.993	0.354	-0.528	-0.567	-0.539	0.029	-0.774	-0.104	0.538	0.399	-0.372	1

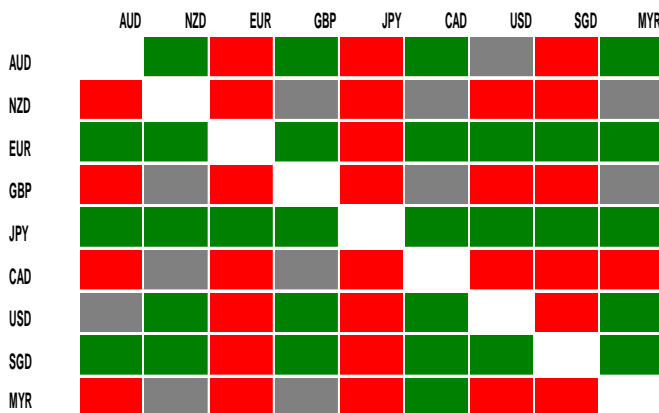
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1235	1.1300	1.1363	1.1390	1.1400
GBP-USD	1.2991	1.3100	1.3141	1.3187	1.3200
AUD-USD	0.7100	0.7131	0.7166	0.7200	0.7259
NZD-USD	0.6789	0.6800	0.6885	0.6900	0.6942
USD-CAD	1.3100	1.3160	1.3196	1.3200	1.3323
USD-JPY	109.84	110.00	110.80	111.00	111.24
USD-SGD	1.3457	1.3500	1.3501	1.3582	1.3600
EUR-SGD	1.5269	1.5300	1.5342	1.5400	1.5437
JPY-SGD	1.2136	1.2153	1.2185	1.2200	1.2262
GBP-SGD	1.7700	1.7729	1.7742	1.7763	1.7800
AUD-SGD	0.9577	0.9600	0.9674	0.9685	0.9700
Gold	1295.83	1300.00	1325.90	1337.82	1344.00
Silver	15.54	15.80	15.88	15.90	16.12
Crude	51.70	55.20	55.21	55.30	57.45

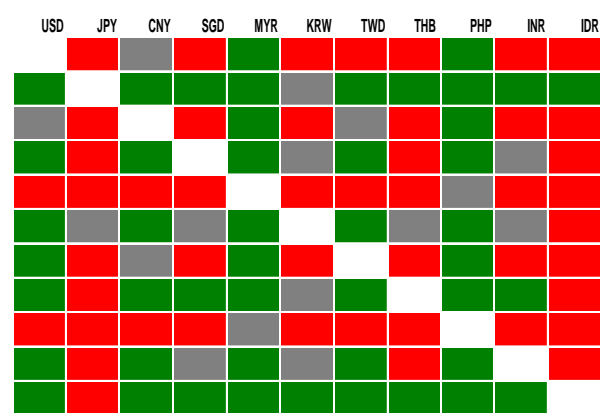
Source: OCBC Bank

G10 FX Heat Map



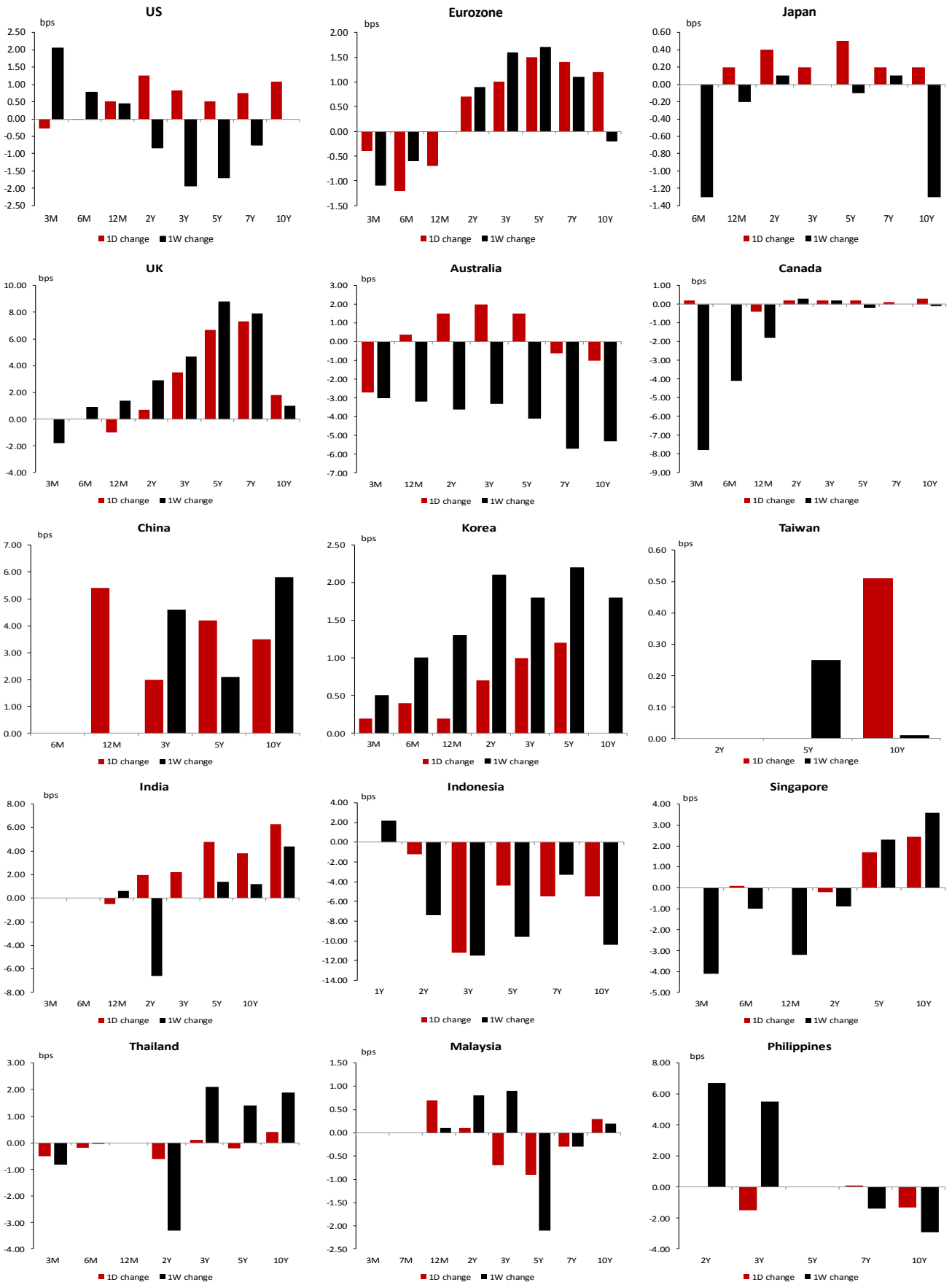
Source: OCBC Bank

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	1.8745 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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