

Tuesday, March 26, 2019

### Market Themes/Strategy/Trading Views

- Amidst mixed Fed rhetoric and despite softer UST yields (3y-5y outperformed), the USD consolidated lower against most of the majors as global risk appetite stabilized. GBP-USD also stabilized as PM May was voted out of the driver's seat of the Brexit process by Parliament. The USD-JPY remained suppressed as US yields stayed under negative pressure. The **FXSI (FX Sentiment Index)** continued to consolidate higher (within Risk-On zone) on Monday as sentiment remained fragile. **On this front, note that our measure of short-end EM FX vols are finally bouncing off extreme lows (on a z-score basis).**
- Overall, with most of the global curves taking their cues from the UST curve (and its inversion) and 10y bunds at sub-zero, expect global deceleration concerns to potentially continue to play out in the near term, implicitly lending support to the greenback. Note however that on a valuation basis, only the USD-JPY's implied valuation dislocated significantly post FOMC, with the other majors still largely unperturbed.
- With the German March Ifo turning in better than expected readings on Monday but look to fade the **EUR-USD** if bund yields continue to probe lower. Short term implied valuations meanwhile are still looking supported however, with technicals rangy. Look to ply a 1.1250-1.1350 range with little conviction. **USD-JPY** continues to make for a compelling directional play with short term implied valuations and technicals tilted south for the pair. Expect resistance at the 55-day MA (110.27) with scope to explore lower towards 109.70.
- Two-way risks for the **GBP-USD** may persist with possible time paths increasingly binary from here. Short term implied valuations and technical remain depressed headline risks leave upside potential open. Expect an anchor at 1.3200 in the interim. **AUD-USD** may remain flat to top heavy on lingering growth worries despite still fairly resilient short term implied valuations. Look to collect on dips instead towards 0.7080 instead of gunning for a break above the 55-day MA (0.7132) at this juncture. **USD-CAD** meanwhile may continue to bounce on dips towards 1.3365 in line with its short term implied valuations with initial resistance seen towards 1.3470.
- Our 23 Jan 19 idea to be long **GBP-AUD** (spot ref: 1.8159) was closed out at the profit stop of 1.8440 on 21 Mar 19 at 1.8440 for an implied +1.35% gain as sentiment towards the GBP became increasingly jittery.
- With US yields crashing out, we also close out our 14 Feb 19 recommendation to be long **USD-JPY** (spot ref: 111.00) at 109.98 on Monday for an implied -0.61% loss.

Treasury Research &  
Strategy

#### Emmanuel Ng

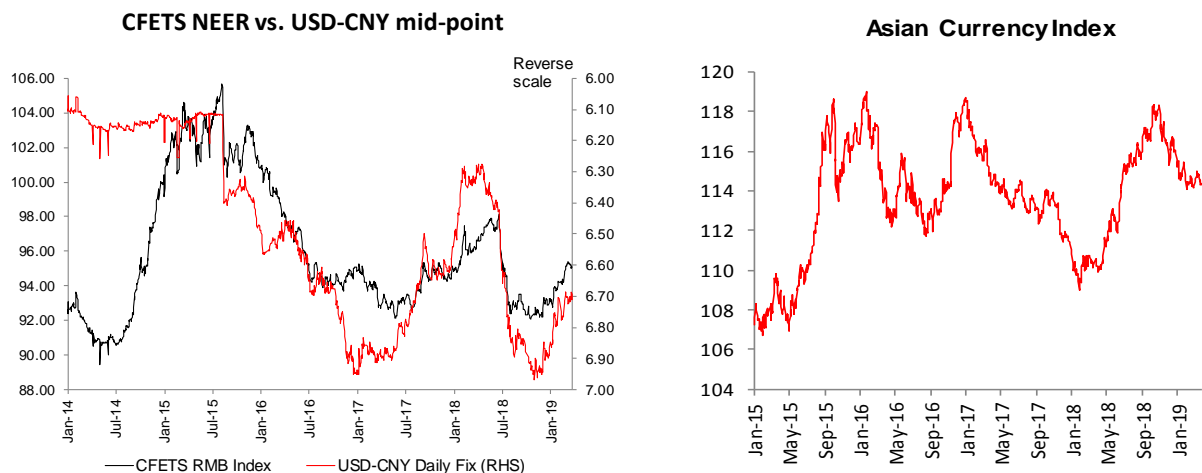
+65 6530 4037  
[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

#### Terence Wu

+65 6530 4367  
[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

### Asian Markets

- EM equities remained shaky on Monday, while the recovery in US equities into NY closing provided some wriggle room for the Asian equities to firm at the open. USD-CNH slipped below 6.7200 as the broad USD capitulated from its gains late last week. **Overall, expect a stable to slightly heavy posture for USD-Asia in the interim. Expect also implicit pressure on Asian curves to persist as core curves continue to remain soggy (in terms of yields) despite Asian central banks reluctant to jump wholly onto the bearish train.**
- Asian portfolio flows – Not translating well into FX, more so for bonds,** as markets attempt to imbue rate cut expectations amongst Asian central banks. South Korea continues to register strong net bond inflows (equities are now neutral) while Taiwan’s net equity inflows remain subdued. Indonesia meanwhile continues to sit on a blip higher in net bond inflows while India’s surge in net equity inflows we think are reaching near term extremes. For Thailand has also seen a fairly strong net inbound bond flows (but equities remain neutral).
- USD-SGD – Flat to heavy on RMB cues.** The SGD NEER spiked higher to +1.74% above its perceived parity (1.3728) this morning, with NEER-implied USD-SGD thresholds easing. The USD-SGD may stay in consolidative mode in the interim, pending headlines from the Sino-US trade talks at the end of the week, and resultant RMB cues. Feb headline and core CPI prints softer than expected, potentially giving room for patience at the upcoming April MAS meeting. Industrial production prints on tap today (0500 GMT).
- CFETS RMB Index:** The USD-CNY midpoint eased this morning, as expected, to 6.7042, compared to 6.7098 on Monday. The CFETS RMB Index dipped to 95.02, compared to 95.08 previously. Latest comments from the PBOC suggest that it may reduce its visible hand in driving the RMB movements, and allow the markets to play a bigger role.



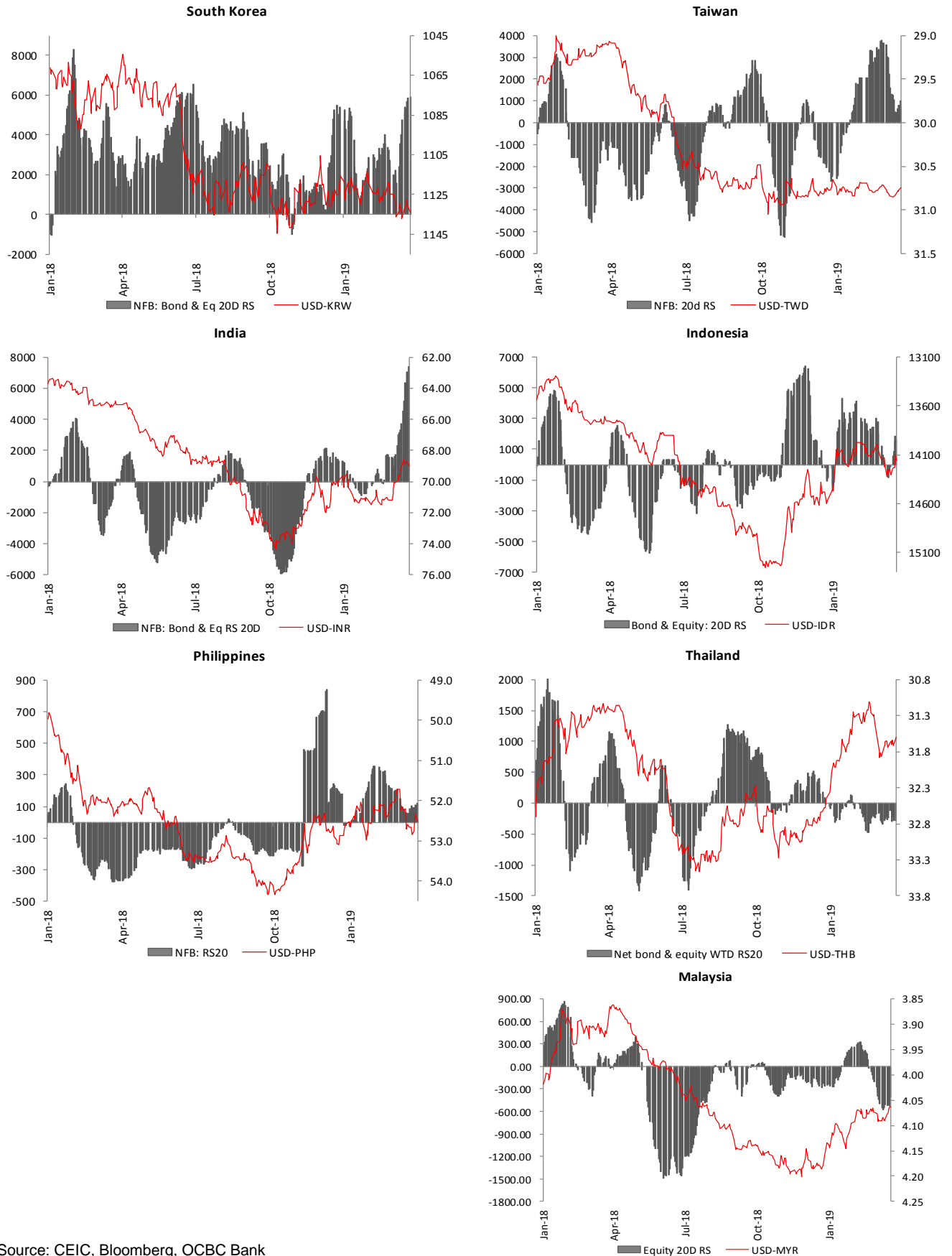
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↔	↔	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, underperforming consensus. Feb aggregate financing, new yuan loans and M2 aggregate all lower than expected. Look for signs of a bottoming out of the domestic economy in Q2.
<b>S. Korea</b>	↔/↑	↔	BOK unchanged at 1.75% in Feb. Policy stance remains accommodative (but not unduly dovish), but rate cuts still not in the picture. BOK Feb minutes reveal downbeat assessment for domestic economy. 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.
<b>Taiwan</b>	↔	↔/↓	CBC static at 1.375% in March 2019. GDP growth and inflation forecasts downgraded and policy viewed as neutral/accommodative. Feb manufacturing PMI drops further to 46.3. Feb CPI continues to print in the soft side. Feb exports worse than expected.
<b>India</b>	↓	↔	Feb CPI warmer than expected at +2.57% (but below the 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 PMIs improve from previous month. Feb trade deficit smaller than expected. Recent INR appreciation driven by strong inflow momentum, but may sit rather uncomfortably with the rise in crude. Elections due Apr/May 2019 (results due 23 May).
<b>Singapore</b>	↔	↔	Feb PMI weakens further to 50.4. 4Q GDP surprises on the downside at 1.6% saar. Feb headline and core CPI softer than expected at +0.50% yoy and +1.5% yoy. 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.
<b>Malaysia</b>	↔/↑	↓	BNM static at 3.25%, although rumblings for a rate cut this year is building. Feb CPI prints again show deeper than expected deflationary pressures at -0.4% yoy. Feb manufacturing PMI falls to 47.6. Jan exports better than expected at 3.1% yoy, Jan industrial production numbers outperform expectations. 4Q GDP surprises on the upside at +4.7% yoy.
<b>Indonesia</b>	↔/↑	↓	BI unchanged in March meeting. Policy focus still on external stability, but may undertake accommodative macroprudential policies to push domestic demand. Macroprudential tweaks to increase liquidity in the banking system. IDR seen as in line with fundamentals. 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. Elections slated for 17 April 2019.
<b>Thailand</b>	↔/↑	↑	BOT unchanged in Mar, unanimous decision. GDP, export growth and core CPI forecasts downgraded. Reference to creating policy space dropped from statement. Feb customs exports above expectations, but mainly due to one-off factors. Jan current account surplus contracts by more than expected. Feb headline inflation warmer than expected at 0.73% (target range:1-4%), core cooler than expected at 0.60%. Possible positive market reaction to election result, with pro-junta party expected to retain control.
<b>Philippines</b>	↑	---	BSP unchanged in March (not as dovish as feared), but RRR cut remains on the table, potentially in May. Excessive price pressures seen in 2018 easing off. 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%.

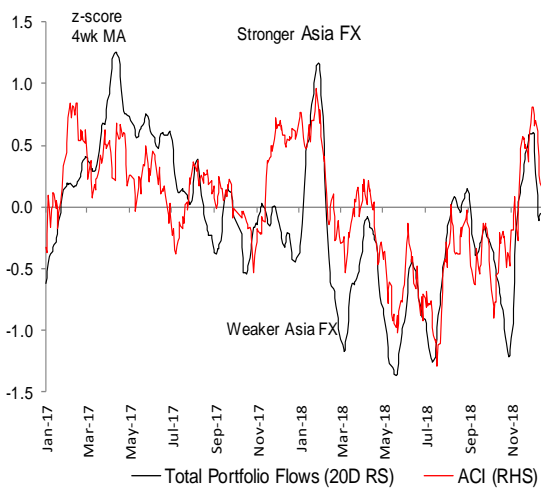
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



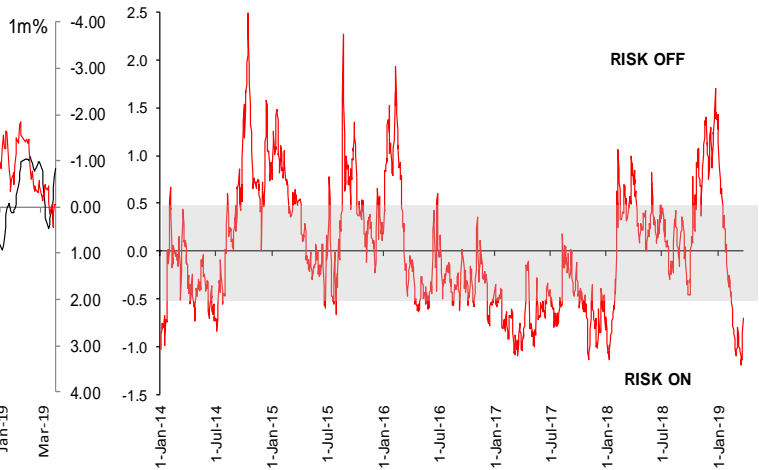
Source: CEIC, Bloomberg, OCBC Bank

### 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	0.115	0.715	-0.597	-0.461	-0.572	0.327	-0.29	0.352	0.555	0.779	-0.957
SGD	0.91	0.389	0.687	-0.664	-0.489	-0.669	0.577	-0.426	0.262	0.512	0.73	-0.842
CNH	0.779	-0.153	0.9	-0.281	-0.35	-0.17	0.149	0.128	0.21	0.231	1	-0.781
CHF	0.715	-0.151	1	-0.229	-0.376	-0.204	0.144	0.092	0.09	0.192	0.9	-0.739
CAD	0.711	0.563	0.442	-0.632	-0.506	-0.712	0.631	-0.583	0.051	0.446	0.369	-0.684
CNY	0.708	-0.417	0.75	-0.206	-0.127	-0.054	-0.068	0.276	0.311	0.183	0.812	-0.71
MYR	0.682	0.314	0.705	-0.413	-0.491	-0.479	0.564	-0.282	-0.091	0.232	0.559	-0.661
TWD	0.632	0.156	0.69	-0.247	-0.61	-0.29	0.459	-0.022	-0.252	0.144	0.58	-0.628
IDR	0.604	-0.259	0.784	0.034	-0.379	0.109	0.129	0.391	-0.292	-0.087	0.734	-0.662
THB	0.547	0.064	0.647	-0.102	-0.06	-0.055	0.42	0.196	-0.015	-0.08	0.69	-0.458
KRW	0.421	-0.443	0.751	0.076	-0.355	0.213	-0.022	0.495	-0.184	-0.069	0.721	-0.481
JPY	0.327	0.863	0.144	-0.167	-0.054	-0.416	1	-0.437	-0.398	-0.085	0.149	-0.144
USGG10	0.115	1	-0.151	-0.323	-0.101	-0.598	0.863	-0.708	-0.212	0.125	-0.153	0.047
PHP	-0.049	0.717	-0.496	-0.514	-0.206	-0.683	0.258	-0.885	0.229	0.48	-0.436	0.131
INR	-0.05	-0.587	0.226	0.559	0.269	0.644	-0.243	0.741	-0.385	-0.544	0.113	-0.001
GBP	-0.584	-0.726	-0.303	0.593	0.256	0.576	-0.804	0.501	-0.181	-0.261	-0.416	0.467
NZD	-0.586	0.027	-0.194	0.461	0.232	0.469	-0.028	0.313	-0.423	-0.591	-0.311	0.511
AUD	-0.77	-0.169	-0.685	0.432	0.313	0.275	-0.473	0.026	-0.192	-0.179	-0.803	0.727
EUR	-0.957	0.047	-0.739	0.659	0.539	0.522	-0.144	0.216	-0.446	-0.585	-0.781	1

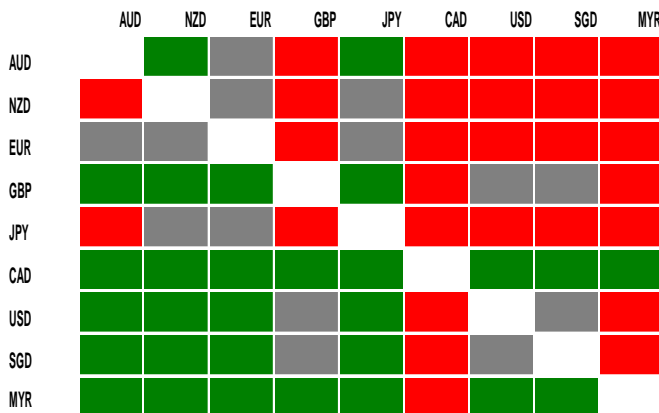
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1218	1.1300	1.1316	1.1346	1.1400
GBP-USD	1.3079	1.3100	1.3194	1.3200	1.3356
AUD-USD	0.7027	0.7100	0.7121	0.7126	0.7144
NZD-USD	0.6827	0.6900	0.6915	0.6924	0.6939
USD-CAD	1.3277	1.3300	1.3392	1.3400	1.3468
USD-JPY	109.99	110.00	110.05	110.46	111.00
USD-SGD	1.3454	1.3461	1.3496	1.3500	1.3541
EUR-SGD	1.5208	1.5236	1.5273	1.5300	1.5365
JPY-SGD	1.2241	1.2259	1.2264	1.2284	1.2300
GBP-SGD	1.7729	1.7800	1.7807	1.7900	1.8046
AUD-SGD	0.9551	0.9600	0.9611	0.9630	0.9650
Gold	1300.00	1306.11	1320.10	1325.70	1344.00
Silver	15.12	15.50	15.51	15.55	15.60
Crude	55.45	59.10	59.18	59.20	60.39

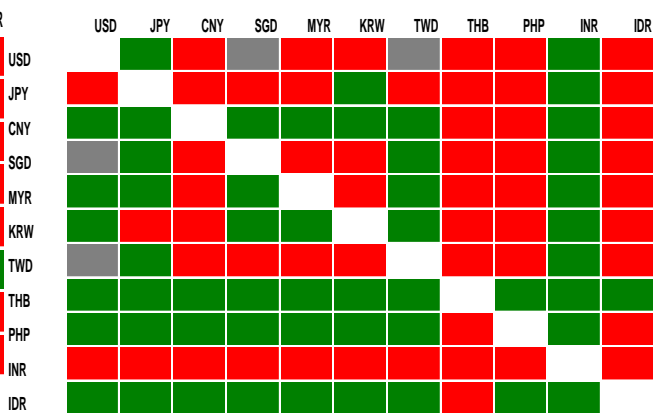
Source: OCBC Bank

### G10 FX Heat Map



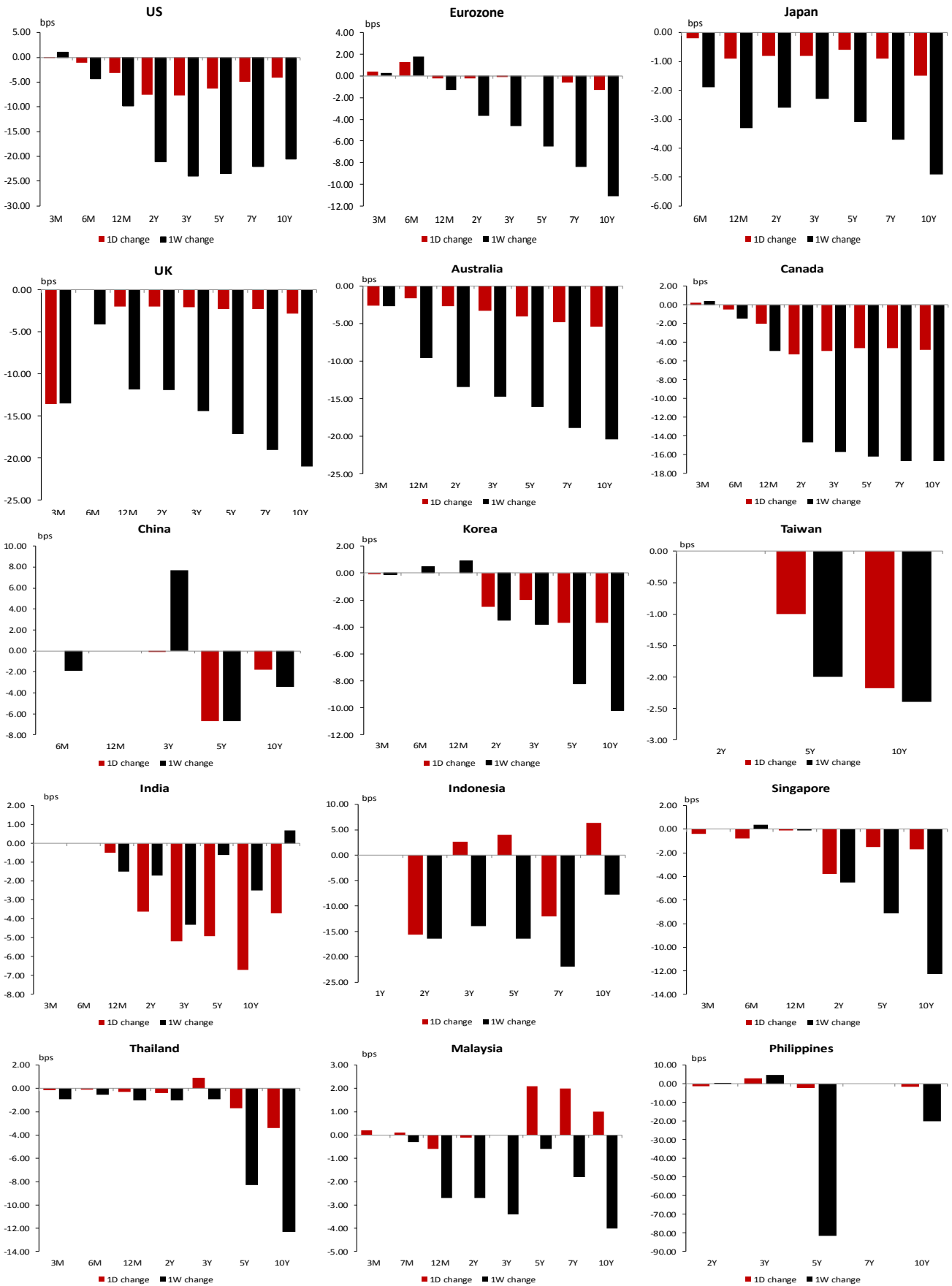
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

**Government bond yield changes**



### Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale	
<b>TACTICAL</b>							
1	05-Mar-19	S	AUD-USD	0.7074	0.6870 0.7175	Potentially dovish RBA, macro conditions soggy	
<b>STRUCTURAL</b>							
2	19-Mar-19		Long 2M USD-SGD 25-delta strangle 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	
<b>RECENTLY CLOSED TRADE IDEAS</b>							
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
5	23-Jan-19 21-Mar-19	B	GBP-AUD	1.8159	1.8440	Contrasting risk profiles in the near term	+1.35
6	14-Feb-19 25-Mar-19	B	USD-JPY	111.00	109.98	Dollar resilience, revival in risk appetite levels	-0.61

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

---