

Wednesday, March 27, 2019

Market Themes/Strategy/Trading Views

- Despite slightly firmer UST (and other global core) yields by the end of the global day, the dollar traded mixed again on Tuesday as the global recovery in EZ/US equities underpinned cyclical FX but undermined the JPY on the crosses while the EUR underperformed across the board. Overall, the DXY retook the 96.80 level and the pair may remain in the vicinity of its 100-day MA (96.554).
- **RBNZ tilts** - The **RBNZ** this morning shifted its monetary policy posture materially by stating that the balance of risks has shifted to the downside and that the more likely direction of the next rate move is down. If the kiwi is able to stay submerged below its 55-day MA (0.6825), expect the pair to fill the bottom of its recent range, heading towards the 200-day MA (0.6737). Expect also for the AUD-NZD to mean revert towards 1.0500 with 1.0300 now a solid floor multi-session.
- Ahead of further Sino-US trade talks in Beijing from tomorrow, the global calendar today includes a series of “indicative” Brexit votes in the UK parliament (from 1500 GMT) with results due after 2100 GMT.
- **EUR-USD** has relinquished Ifo-inspired gains (and then some) and may remain top heavy going ahead despite slightly supported short term implied valuations. Prefer to angle for 1.1200 within 1.1200-1.1300.
- Preference to sell rallies in the **USD-JPY** on any approach towards 111.00 with the 55-day MA (110.33) despite the near term stabilization of short term implied valuations for the pair after the recent dislocation lower. The 55-day MA (110.33) remains at risk of a violation ahead of 109.90/00.
- Short term implied valuations for the **GBP-USD** continue to remain suppressed at this juncture and the pair may remain anchored at 1.3200 ahead of the headline risks later in the global day.
- In the wake of the **RBNZ** this morning, the AUD-USD may be capped at its 55-day MA (0.7131) as further uncomfortable questions will be asked about the RBA’s policy trajectory this year. Positive risk appetite considerations may be sidelined in the interim, grounding the pair around 0.7100 instead and with nearest support expected into 0.7080. While short term implied valuations for the **USD-CAD** may be peaking in the short term, slightly nervous sentiment may also put a floor at 1.3350/70 in the short term. Look to accumulate for 1.3450 instead.

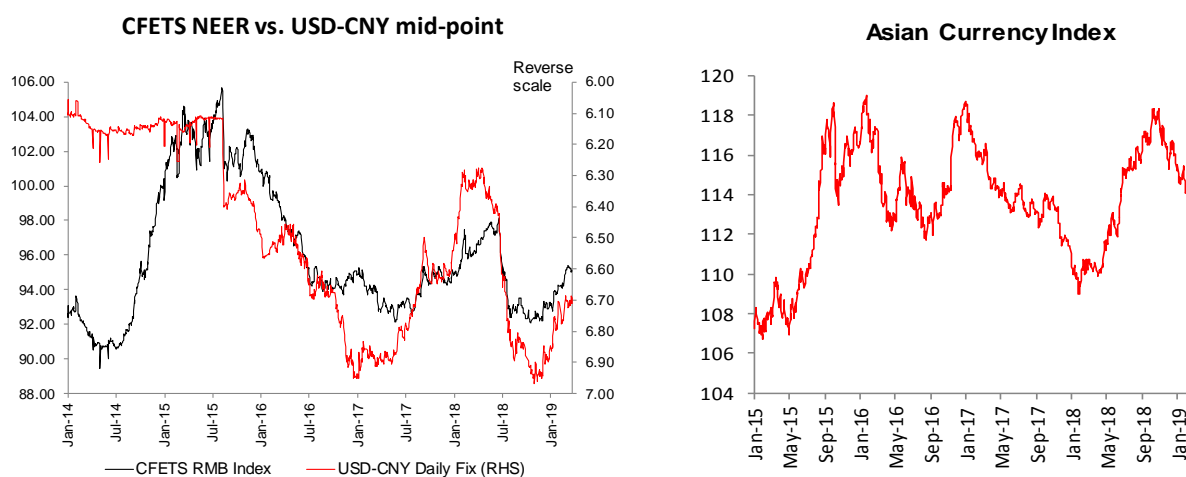
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Asian Markets

- In a nutshell, broader based EM concerns may prevail while the renminbi complex at this juncture is also deferring to the USD.** Thus, the USD may remain slightly resilient in the Asian complex with sentiment towards EM space still relatively cautious. The **FXSI (FX Sentiment Index) slipped** on Tuesday but an unsteady start to Asian equities on Wednesday may continue to see USD-Asia being supported on dips.
- Asian portfolio flows - imparting traction only for the INR.** South Korea continues to print strong net portfolio inflows (on the bond front) but net equity inflows for Taiwan continue to moderate. India also continues to receive significant net equity inflows with net bond inflows also climbing. Overall net flows Thailand meanwhile continue to remain moribund with net equity outflows for Malaysia attempting to compress.
- USD-SGD – Supported on dips.** The SGD NEER is softer this morning at +1.69% above its perceived parity (1.3755) despite NEER-implied USD-SGD thresholds being softer on the day. Given the current market backdrop, we cannot rule out a drift towards +1.50% for the NEER with the 55-day MA (1.3541) likely to attract ahead of 1.3450.
- CFETS RMB Index:** The USD-CNY midpoint came in largely in line with expectations at 6.7141 from 6.7042 yesterday. The CFETS RMB Index meanwhile fell to 95.00 from 95.02 on Tuesday.



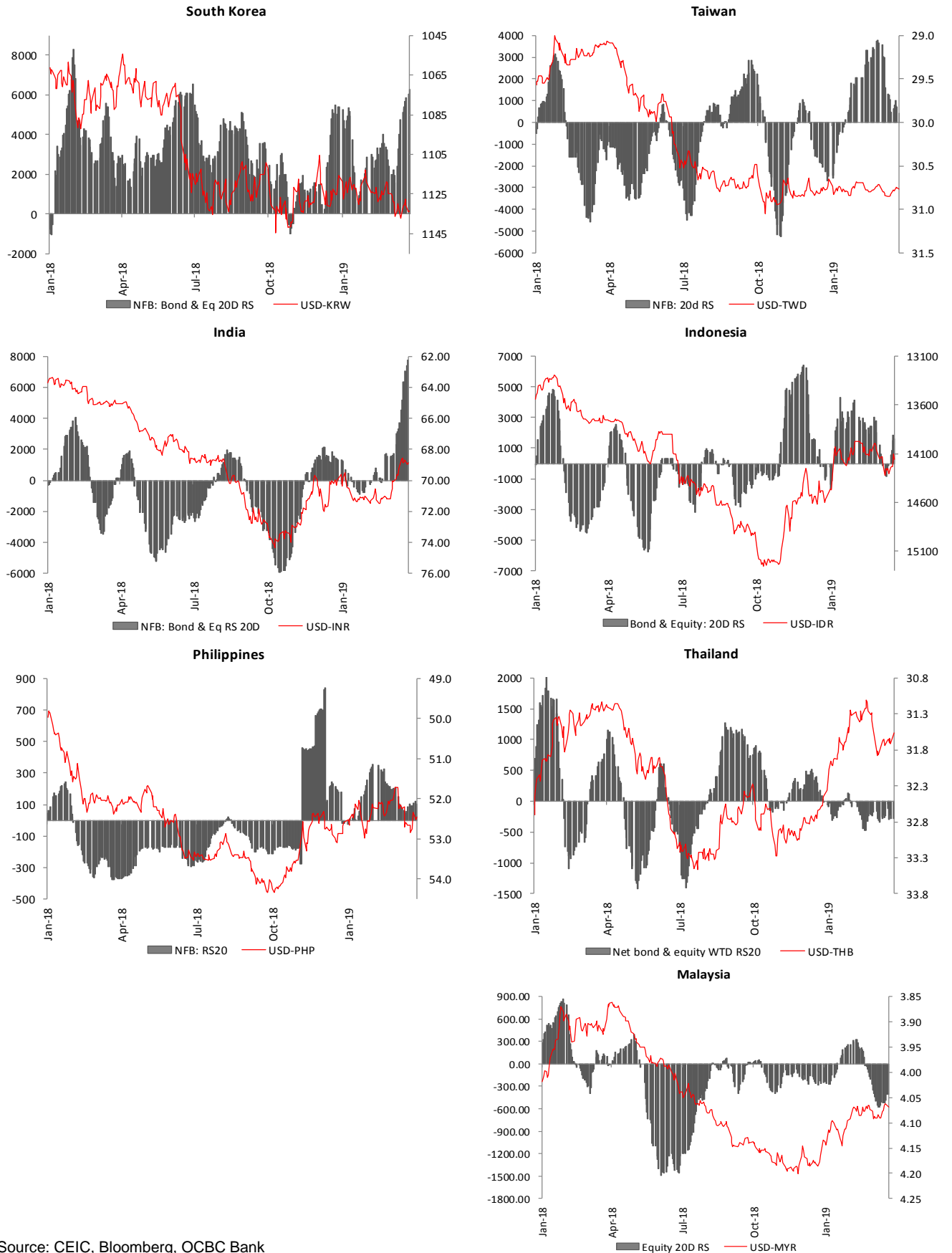
Source: OCBC Bank, Bloomberg

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, 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.
S. Korea	↔/↑	↔	BOK unchanged at 1.75% in Feb. Policy stance remains accommodative (but not unduly dovish). Rate cuts still considered premature. 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.
Taiwan	↔	↔/↓	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.
India	↓	↔	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).
Singapore	↔	↔	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. Feb industrial production numbers mixed. Feb NODX outperformed 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. 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.
Indonesia	↔/↑	↓	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.
Thailand	↔/↑	↑	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.
Philippines	↑	---	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%.

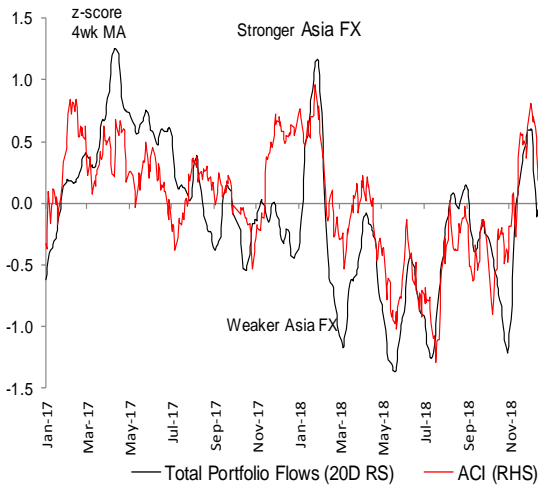
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



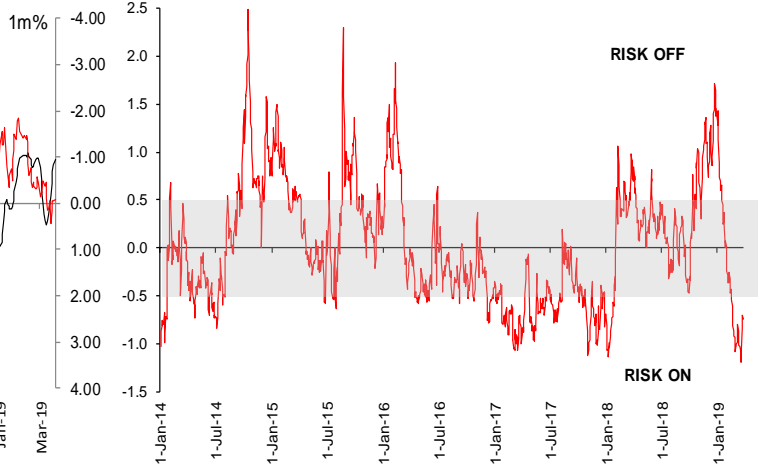
Source: CEIC, Bloomberg, OCBC Bank

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	0.01	0.719	-0.579	-0.463	-0.528	0.274	-0.193	0.353	0.556	0.782	-0.94
SGD	0.906	0.3	0.67	-0.663	-0.477	-0.652	0.537	-0.367	0.261	0.508	0.719	-0.804
CNH	0.782	-0.261	0.906	-0.243	-0.366	-0.104	0.088	0.217	0.211	0.235	1	-0.794
CHF	0.732	-0.432	0.774	-0.18	-0.144	-0.011	-0.066	0.309	0.311	0.187	0.826	-0.727
CAD	0.719	-0.271	1	-0.198	-0.39	-0.145	0.066	0.191	0.092	0.197	0.906	-0.755
CNY	0.668	0.258	0.674	-0.424	-0.466	-0.489	0.535	-0.255	-0.093	0.224	0.535	-0.61
MYR	0.65	0.568	0.352	-0.644	-0.449	-0.734	0.618	-0.608	0.043	0.418	0.291	-0.548
TWD	0.625	0.102	0.67	-0.253	-0.593	-0.294	0.433	0	-0.252	0.14	0.565	-0.596
IDR	0.605	-0.268	0.773	0.033	-0.375	0.104	0.117	0.383	-0.292	-0.087	0.718	-0.622
THB	0.552	-0.04	0.649	-0.099	-0.06	-0.05	0.358	0.248	-0.015	-0.079	0.693	-0.468
KRW	0.446	-0.505	0.772	0.104	-0.372	0.254	-0.059	0.541	-0.178	-0.058	0.74	-0.529
JPY	0.274	0.83	0.066	-0.195	-0.022	-0.452	1	-0.464	-0.394	-0.093	0.088	-0.049
USGG10	0.01	1	-0.271	-0.357	-0.029	-0.645	0.83	-0.764	-0.201	0.091	-0.261	0.22
PHP	-0.024	-0.595	0.254	0.561	0.257	0.633	-0.275	0.728	-0.383	-0.538	0.143	-0.051
INR	-0.061	0.736	-0.513	-0.539	-0.163	-0.709	0.3	-0.889	0.217	0.453	-0.461	0.182
GBP	-0.563	-0.561	-0.268	0.605	0.193	0.618	-0.695	0.413	-0.163	-0.23	-0.385	0.427
NZD	-0.581	0.015	-0.186	0.462	0.223	0.46	-0.034	0.294	-0.421	-0.588	-0.297	0.476
AUD	-0.723	-0.209	-0.607	0.452	0.27	0.324	-0.484	0.085	-0.182	-0.163	-0.719	0.61
EUR	-0.94	0.22	-0.755	0.596	0.552	0.414	-0.049	0.039	-0.439	-0.579	-0.794	1

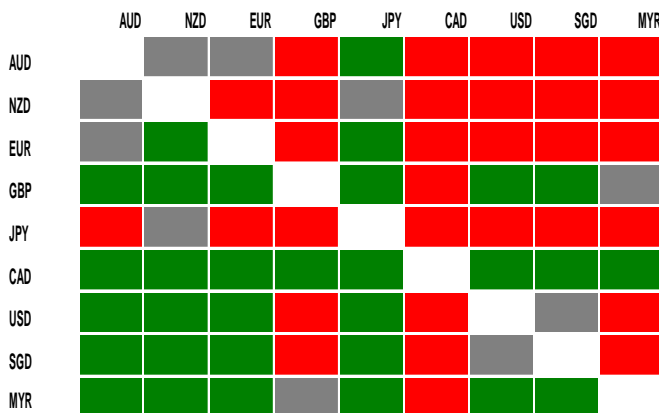
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1207	1.1256	1.1300	1.1343
GBP-USD	1.3085	1.3100	1.3185	1.3200	1.3343
AUD-USD	0.7028	0.7100	0.7106	0.7125	0.7141
NZD-USD	0.6668	0.6728	0.6800	0.6827	0.6921
USD-CAD	1.3279	1.3300	1.3393	1.3400	1.3468
USD-JPY	110.05	110.50	110.55	111.00	111.45
USD-SGD	1.3471	1.3500	1.3532	1.3541	1.3600
EUR-SGD	1.5208	1.5216	1.5232	1.5300	1.5360
JPY-SGD	1.2081	1.2200	1.2240	1.2255	1.2258
GBP-SGD	1.7729	1.7800	1.7842	1.7900	1.8038
AUD-SGD	0.9547	0.9600	0.9616	0.9636	0.9649
Gold	1300.00	1306.51	1316.30	1323.79	1344.00
Silver	15.12	15.30	15.37	15.40	15.54
Crude	55.66	59.90	59.99	60.00	60.39

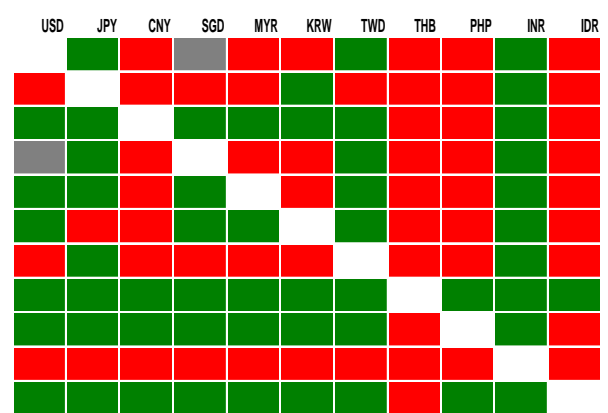
Source: OCBC Bank

G10 FX Heat Map



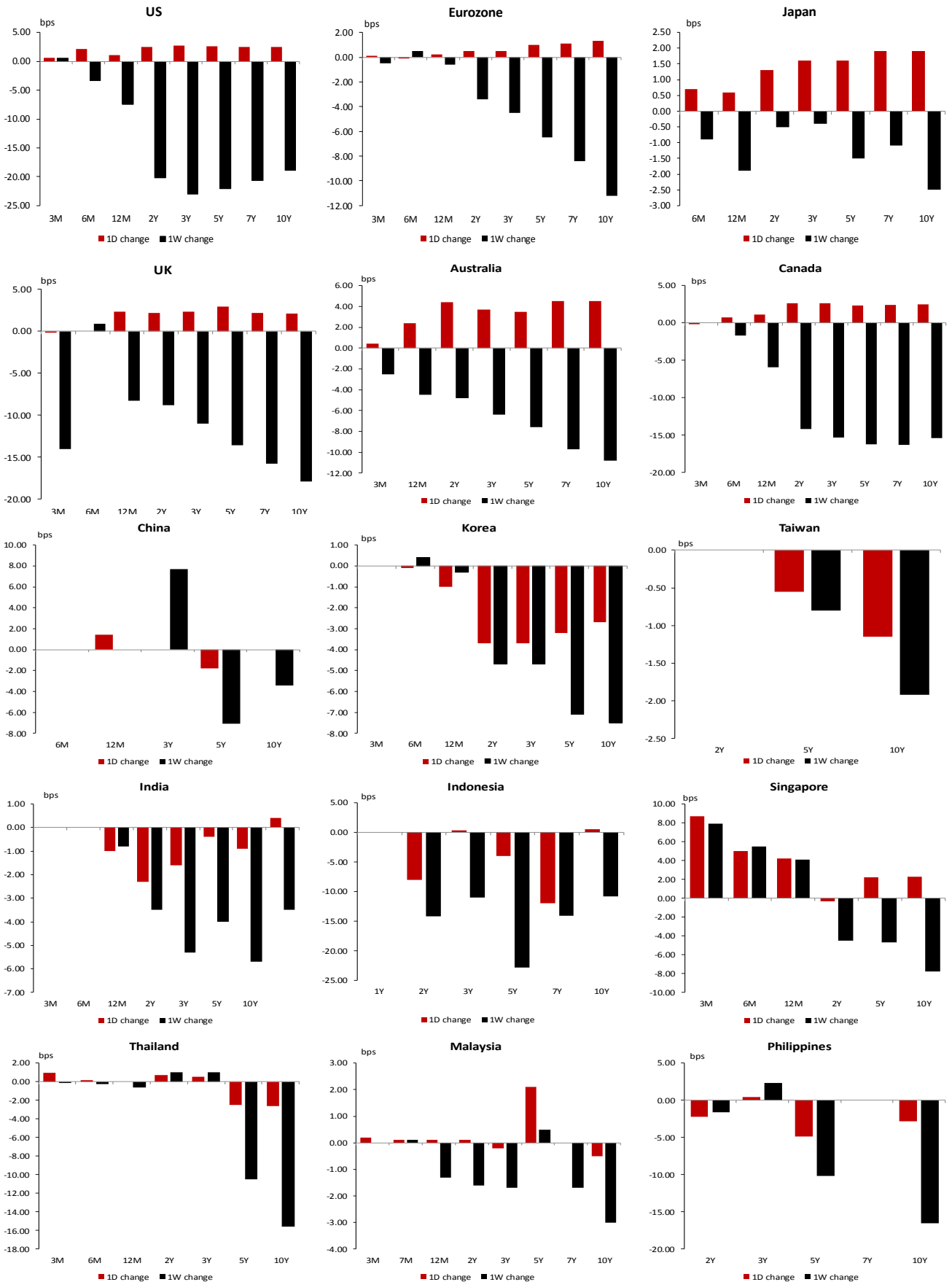
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale	
TACTICAL							
1	05-Mar-19	S	AUD-USD	0.7074	0.6870 0.7175	Potentially dovish RBA, macro conditions soggy	
STRUCTURAL							
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	
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
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

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