

Thursday, February 28, 2019

Market Themes/Strategy/Trading Ideas

- With euphoria towards Sino-US trade talks subsiding (see Lighthizer's comments in Congress), the antipodeans fell across the board while the USD also flexed higher slightly against the EUR and the JPY as UST yields bounced higher (7y underperforming), tracking bund yields. Elsewhere firmer crude saw implicit support for the CAD and the NOK.
- The GBP-USD surfaced above 1.3300 as the UK government and parliament appeared to close ranks after PM May agreed to rule out a no-deal Brexit, and leading Brexiteers dropped demands over the Irish backstop. The **FX Sentiment Index (FXSI) still managed to edge lower despite** global equities stalling and India-Pakistan tensions. However, pending further headline risks, expect investors to fade risk-sensitive FX.
- On other fronts, the Cohen testimony did not yield any market moving tidbits while Powell's testimony also did not shed new flavor apart from confirming plans to end the balance sheet run-off this year. Note that the balance sheet is expected to settle at around 16-17% of GDP.
- Overall, the **DX** managed to claw back above intra-day lows below 96.00 to end mildly higher on the day. Intra-day, expect rangy behavior with risk appetite levels expected to be slightly cautious. AUD-USD popped higher early Thursday on the back of better than expected 4Q capex numbers but quickly reversed lower as China's Feb manufacturing and non-manufacturing PMIs deteriorated more than expected. **Outside of dollar space, continue to stay with a bullish GBP-AUD.**
- Heavy calendar of Fed speakers today, with Clarida (1300 GMT) probably warranting the most attention. Prior to that, look also towards Trump-Kim headlines out of Hanoi in the Asian afternoon. On the data front, watch for 4Q GDP and core PCE prints (1300 GMT) in the US, while a whole slew of 4Q GDP and CPI numbers in Europe also on tap (from 0600 GMT).
- In Asia, we look to a **short 1M THB-PHP** from 1.6536 targeting 1.6130 and with a stop placed at 1.6750. This relative value idea is premised on contrasting prevailing portfolio flow dynamics. Declining attractiveness of local govies and political risk premiums also impart additional negative baggage for the THB.

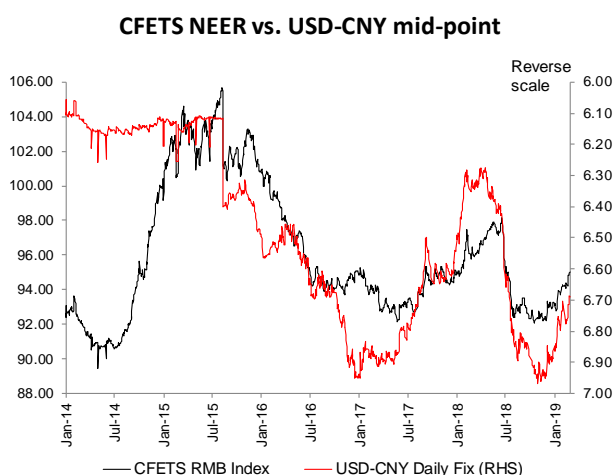
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Asian Markets

- EM equities fell again on Wednesday and a supported USD tone may permeate during Asian hours. However, expect the renminbi complex to remain a vanguard of optimism (for e.g., surrounding Sino-US trade relations) and a mirror image of any inherent USD vulnerability. **USD-CNH is sub-6.6800 once again with points consolidating lower again and riskies still looking pliant on the downside. Stay structurally bearish on the pair.**
- The **Bank of Korea** kept policy rates unchanged at 1.75% at its MPC this morning, while reiterating that a rate cut is still not under consideration.
- **Net portfolio flows** in Asia meanwhile continue to denote a positive and healthy position for South Korea and Taiwan. In line with anecdotal reports, net inflows for Indonesia are improving on net bond inflows while on the other hand, net outflows for Thailand are deepening slightly again. Elsewhere, geopolitical tensions may potentially impinge on the flow situation for India.
- **SGD NEER:** The SGD NEER firmed to around +1.85% above its perceived parity (1.3733) this morning, although implied USD-SGD thresholds firmed slightly in light of a rebound in the broad USD. **At this juncture, expect the USD-SGD to stay top heavy between 1.3450 and 1.3500.**
- **CFETS RMB Index:** The USD-CNY midpoint turned higher this morning, as expected, to 6.6901 this morning, from 6.6857 on Wednesday. Nevertheless, the CFETS RMB Index still surfaced above the 95.00 mark, printing 95.02 this morning, compared to 94.94 previously.
- Note that the USD-CNH has effectively shrugged off USTR Lighthizer's latest concerns over the Sino-US trade progress, and softer-than-expected official PMI prints to trade lower. Watch Caixin PMI prints early tomorrow.



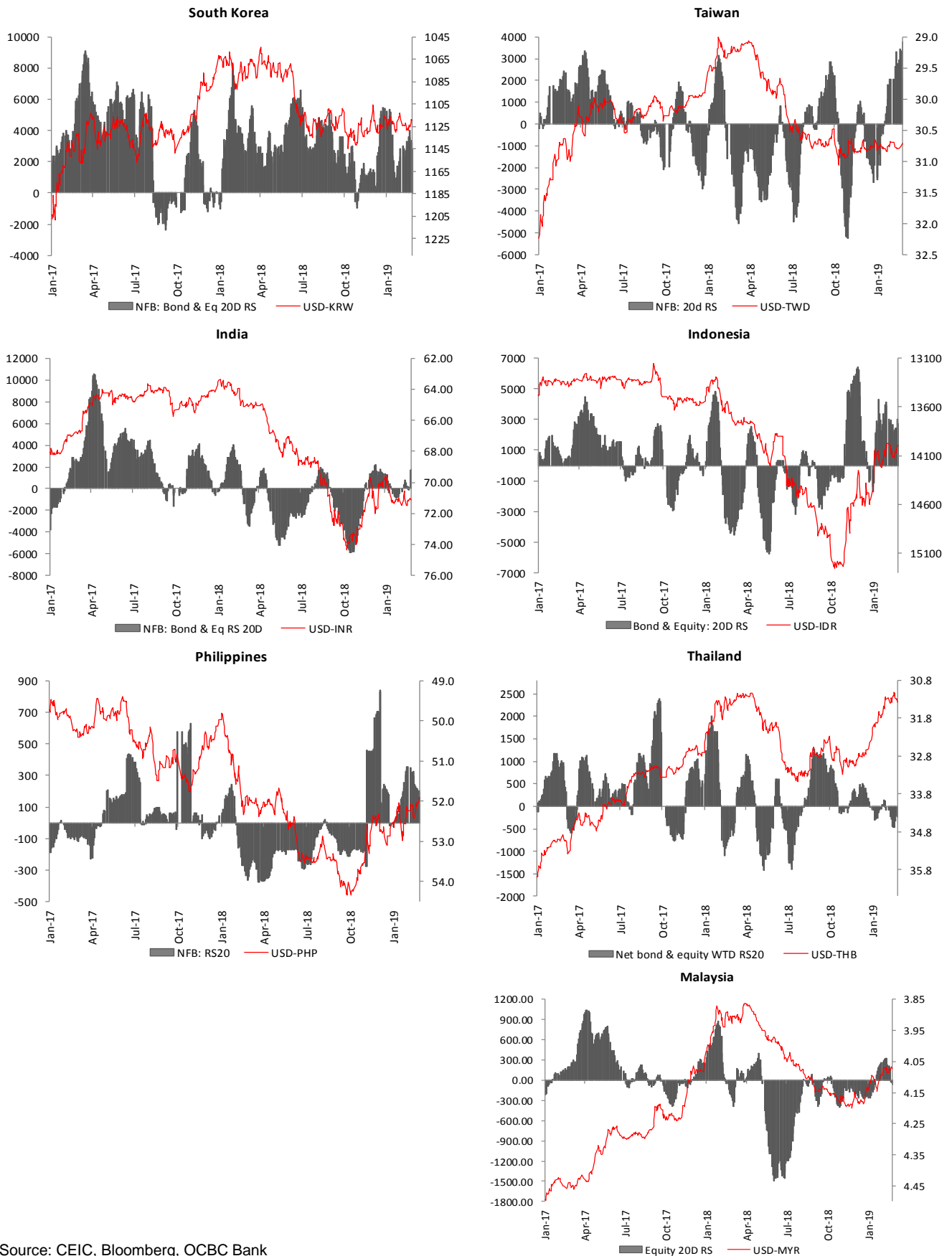
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

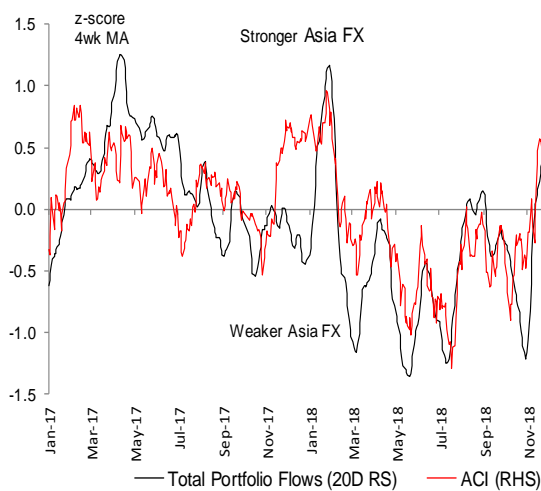
	USD-Asia	10y govie (%)	Rationale
China	↓	↔/↑	7-day repo rate consolidating higher, bond yields firming as equities strengthen. While further rate cuts cannot be ruled out, recent comments on flushed interbank liquidity by senior officials may reduce those odds in the near term. 4Q GDP as expected at 6.4% yoy. Dec new yuan loans and aggregate financing beat 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 official PMIs softer than expected. Jan trade momentum surprises on the upside; await Feb figures for better clarity.
S. Korea	↔/↓	↔	CDS on govies nearing historical lows. Background positivity with Trump-Kim summit. BOK unchanged in Feb. Accommodative stance retained, but rate cut ruled out 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. 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. On the political front, elections due Apr/May 2019, and also watch escalating border tensions with Pakistan.
Singapore	↔/↓	↔	Expect the USD-SGD to track the broad USD and USD-CNH. 4Q GDP surprises on the downside at 1.6% saar. Jan NODX disappoints at -10.1% yoy. Jan 19 CPI readings cooler than expected. Jan IPI flat to weaker than expected, Dec numbers revised lower. Monetary policy thought to be "appropriate", and "no need for stimulus" for now.
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. IDR still seen 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	↔/↑	↑	Accommodative policy "still appropriate" in Feb BOT meeting, 2 of 7 members voted to hike. Minutes reveal that policy is still tilted towards hikes. 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

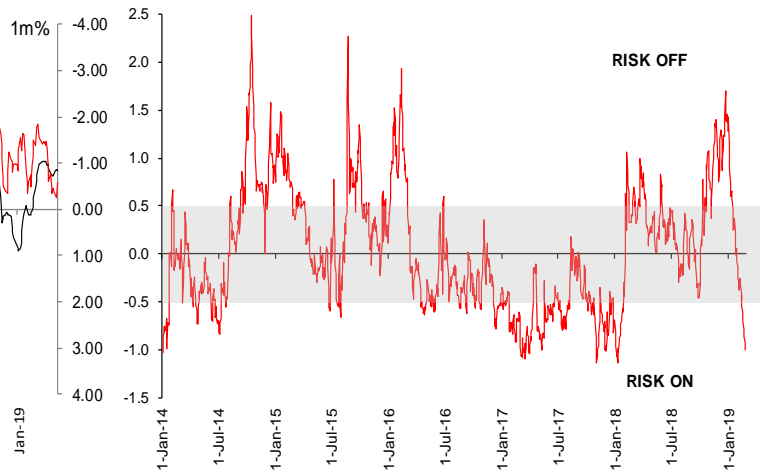
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

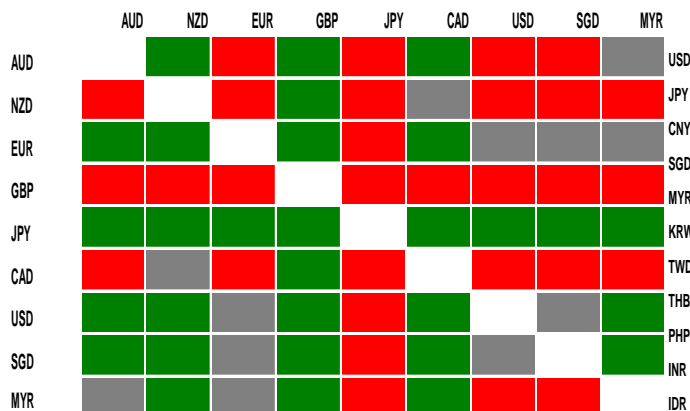
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.173	0.624	0.404	0.318	-0.168	0.645	-0.081	-0.435	-0.141	0.485	-0.988
SGD	0.918	-0.002	0.567	0.461	0.348	-0.186	0.681	-0.083	-0.441	-0.207	0.446	-0.911
IDR	0.841	0.116	0.873	-0.083	-0.139	-0.527	0.25	-0.472	-0.033	0.333	0.853	-0.786
MYR	0.825	0.084	0.586	0.332	0.102	0.036	0.594	0.093	-0.317	-0.039	0.505	-0.796
JPY	0.813	-0.176	0.597	0.468	0.23	0.121	0.546	0.144	-0.566	-0.174	0.492	-0.793
CAD	0.721	-0.147	0.719	-0.185	-0.105	-0.541	0.159	-0.485	0.213	0.3	0.57	-0.699
CHF	0.645	-0.067	-0.008	0.85	0.798	0.432	1	0.557	-0.738	-0.736	-0.214	-0.684
CNH	0.624	0.093	1	-0.247	-0.452	-0.617	-0.008	-0.564	0.147	0.507	0.975	-0.558
PHP	0.485	0.217	0.975	-0.446	-0.545	-0.709	-0.214	-0.701	0.254	0.655	1	-0.398
CNY	0.282	-0.02	0.384	0.123	-0.082	0.142	0.275	0.246	0.067	-0.024	-0.076	-0.274
THB	-0.029	0.291	0.588	-0.54	-0.719	-0.288	-0.466	-0.402	0.588	0.576	0.564	0.144
KRW	-0.139	0.157	-0.025	-0.495	-0.324	-0.458	-0.187	-0.295	0.584	0.423	0.011	0.131
USGG10	-0.173	1	0.093	-0.28	-0.254	-0.063	-0.067	-0.106	0.276	0.253	0.217	0.246
TWD	-0.219	0.254	-0.076	-0.179	-0.216	0.079	-0.282	-0.041	0.007	0.114	0.271	0.276
INR	-0.583	0.318	0.088	-0.68	-0.765	-0.122	-0.749	-0.243	0.709	0.561	0.07	0.663
GBP	-0.61	-0.024	-0.527	0.167	0.007	0.5	-0.156	0.466	0.002	-0.303	-0.527	0.611
NZD	-0.658	-0.084	-0.887	0.215	0.328	0.599	0.041	0.585	-0.076	-0.526	-0.879	0.574
AUD	-0.844	0.05	-0.465	-0.187	-0.281	0.213	-0.539	0.125	0.245	0.031	-0.38	0.853
EUR	-0.988	0.246	-0.558	-0.449	-0.376	0.124	-0.684	0.02	0.473	0.199	-0.398	1

Source: Bloomberg

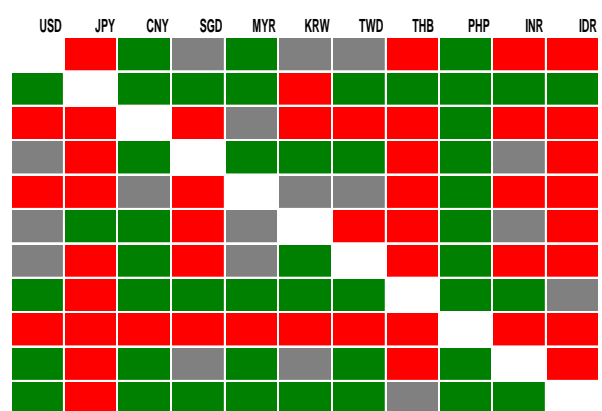
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1249	1.1300	1.1378	1.1389	1.1400
GBP-USD	1.3297	1.3300	1.3305	1.3350	1.3400
AUD-USD	0.7100	0.7132	0.7143	0.7200	0.7243
NZD-USD	0.6792	0.6800	0.6843	0.6900	0.6942
USD-CAD	1.3081	1.3100	1.3154	1.3162	1.3200
USD-JPY	109.80	110.00	110.86	111.00	111.24
USD-SGD	1.3443	1.3462	1.3487	1.3500	1.3573
EUR-SGD	1.5271	1.5300	1.5346	1.5400	1.5451
JPY-SGD	1.2127	1.2136	1.2166	1.2200	1.2262
GBP-SGD	1.7900	1.7915	1.7945	1.8000	1.8005
AUD-SGD	0.9577	0.9600	0.9633	0.9680	0.9700
Gold	1299.55	1300.00	1320.60	1338.60	1344.00
Silver	15.56	15.60	15.69	15.70	16.11
Crude	51.77	56.90	56.92	57.00	57.81

Source: OCBC Bank

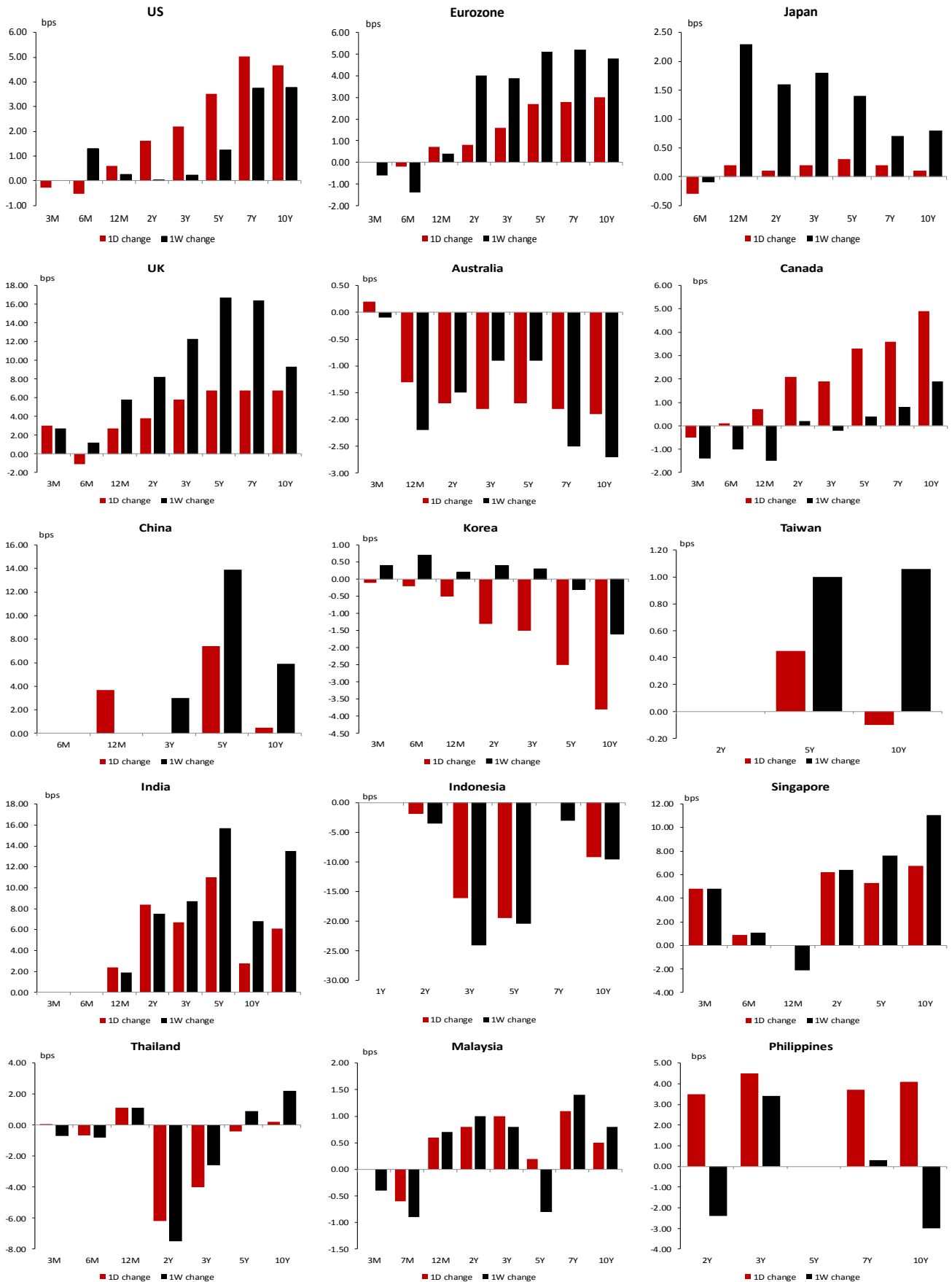
G10 FX Heat Map

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	14-Feb-19	B	USD-JPY	111.00	113.50	109.70	Dollar resilience, revival in risk appetite levels		
3	27-Feb-19	S	1M THB-PHP	1.6536	1.6130	1.6750	Contrasting flow dynamics		
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	
3	11-Feb-19	27-Feb-19	S	EUR-USD	1.1325	1.1120	1.1393	Darkening EZ macro outlook	-0.46

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