

Thursday, March 28, 2019

Market Themes/Strategy/Trading Views

- With the NZD leading the way lower post-RBNZ, the USD gained across G10 space on Wednesday. Meanwhile, the JPY firmed on the crosses as risk appetite weakened (not flight to core govies) while the GBP-USD also drilled below 1.3150 late Wed/early Thu after the UK parliament failed to deliver any majority votes for any Brexit option. In the current environment, look for the DXY to creep towards 97.50.
- Sufficiently neutral/dovish comments from the ECB's Draghi and heavier short term implied valuations confirm underscore our view that a further drift lower towards 1.1200 remains on the cards for the **EUR-USD**. Pivotaly, a sustained break of EUR-CHF below 1.1200 may only embolden EUR bears.
- Short term implied valuations for the **USD-JPY** continue to decay in tandem with still heavy technicals. If risk aversion deepens, the pair's hold on its 55-day MA (110.36) will be increasingly tenuous and 109.70 may continue to attract.
- We reiterate that short term implied valuations for the **GBP-USD** remain suppressed amidst the stalemate in the UK parliament. Prefer to position for a test towards the 55-day MA (1.3071) instead of the upside resistance at 1.3310.
- With the damage wrought by the RBNZ on the cyclical on Wednesday and increasingly negative metrics for the RBA (i.e., note the market's flair for imputing rate cuts), expect the 55-day MA (0.7129) to serve as a solid resistance for the **AUD-USD** as it drips towards out the lower boundaries of its short term implied confidence intervals. At current levels, this kicks in towards 0.7050/65.
- In the same vein, with risk appetite levels moderating and global growth prospects increasingly being called into question, **USD-CAD** may attempt to float toward 1.3450/70 (with support seen at 1.3365) despite laden short term implied valuations for the pair.
- On the calendar today, watch for US GDP and qoq PCE inflation prints later today (1230 GMT). In Europe, the German CPI (1300 GMT) and Eurozone aggregate confidence surveys will be closely watched (1000 GMT). A heavy central bank calendar of speakers as well, with the ECB's Guindos (0910 GMT), and Fed's Quarles (1115 GMT) and Clarida (1330 GMT), the main picks for the day.

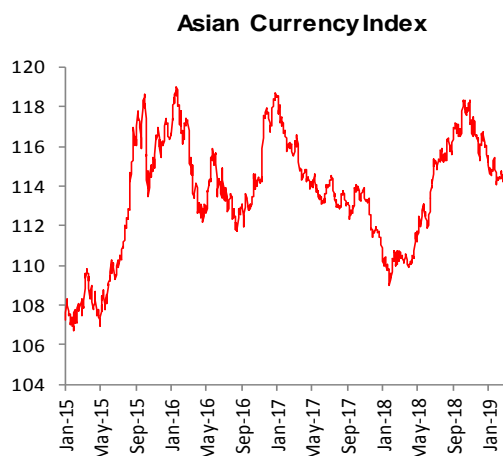
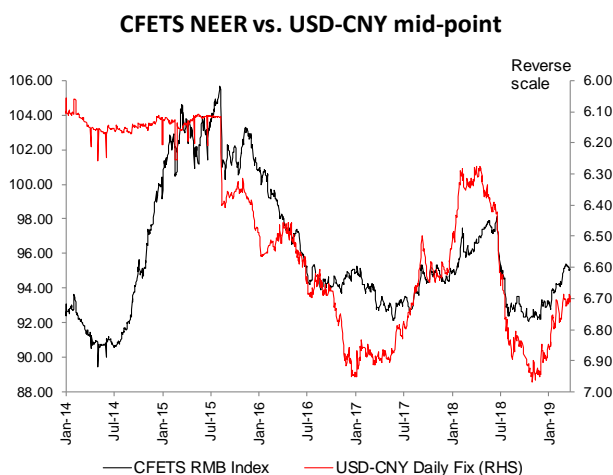
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian Markets

- Less friction for USD-Asia upside?** As noted previously, stress across EM space may continue to permeate (TRY still under the spotlight) with EM equities on Wednesday continuing to pick lower. In the Asian context, the USD-CNH has been increasingly reflective of the DXY in recent weeks (both on a levels as well as daily change basis) and the implication then is that Asian FX has had less of a firebreak against broad dollar strength. In addition, negative US equities and widening EM risk premiums also saw the **FXSI (FX Sentiment Index) inching higher again this morning**. Note that equity cash and futures remain in the red early Thursday.
- On the govie yields front, Asian long end yields continue to dislocate lower** (save India) as markets are still trying to impute rate cuts from selected Asian central banks. At this juncture, despite the barriers to turning dovish being lower now, note that Asian central banks remain reluctant to explicitly tilt towards that end of the spectrum. Meanwhile, for the **THB**, political jostling undermines near term prospects with both pro- and anti-junta camps claiming the ability to form a majority coalition ahead of the final tally on Friday.
- Asian portfolio flows – near term correlations stronger in INR and IDR.** Inflow momentum for South Korea and India stepped lower in the latest reading, but remains at healthy levels. Meanwhile, Thailand continues to show a slow bleed in terms of outflows, with the circus surrounding the election results not likely to be beneficial on this front.
- USD-SGD – To fill the upper end of its recent range?** The SGD NEER dislocated lower this morning to +1.56% above its perceived parity (1.3766), as NEER-implied USD-SGD thresholds continued to climb. Expect the USD-SGD to stay buoyant, with a bias for it to drift higher to the top of its recent range, while the 55-day MA (1.3543) acts as an interim support. Technically, a sustained breach above 1.3570 sets the pair up for 1.3620.
- CFETS RMB Index:** The USD-CNY midpoint came in higher again, largely in line with expectations, at 6.7263 from 6.7141 yesterday. Despite the higher fix, the CFETS RMB Index edged higher to 95.05 from 95.00 on Tuesday.



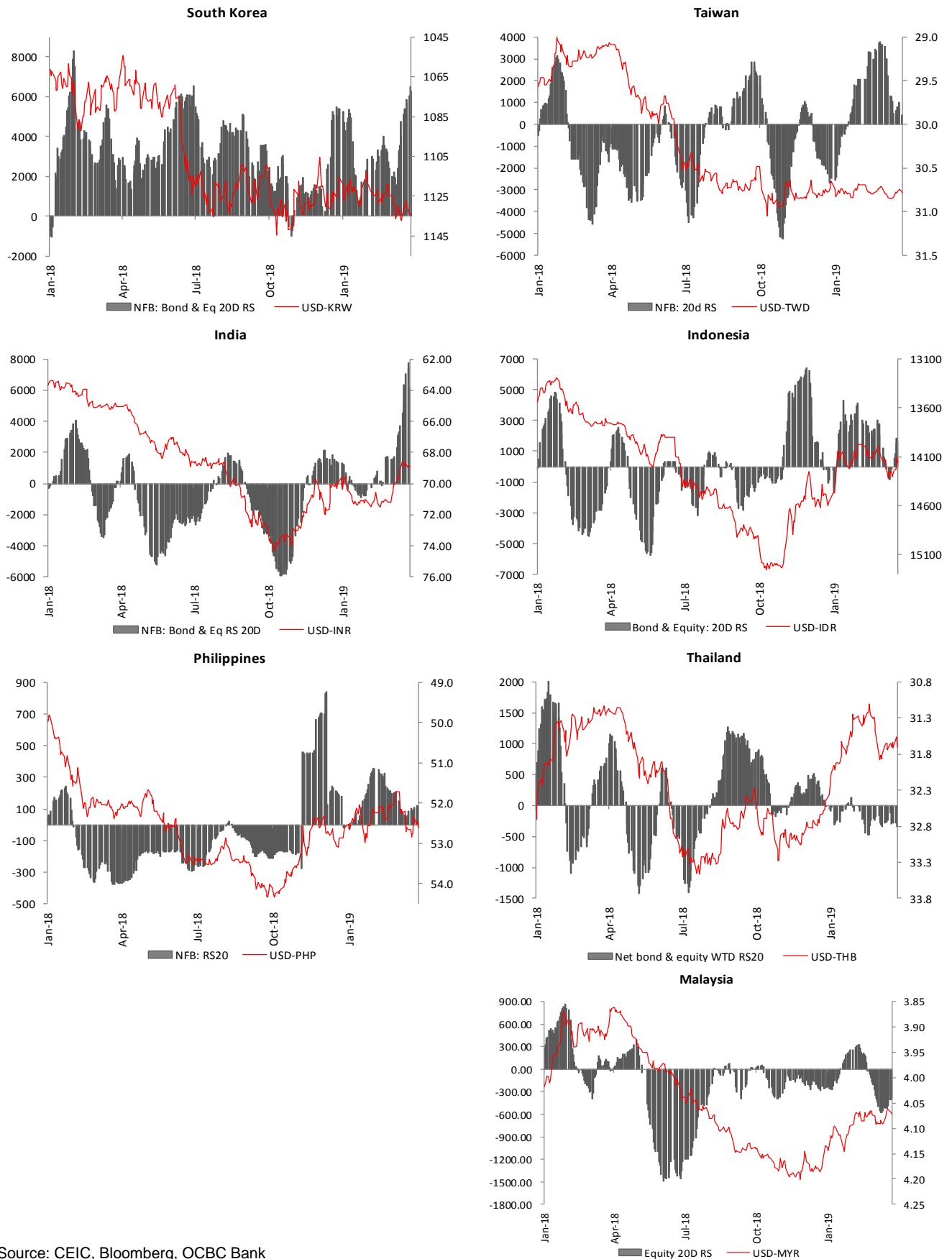
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

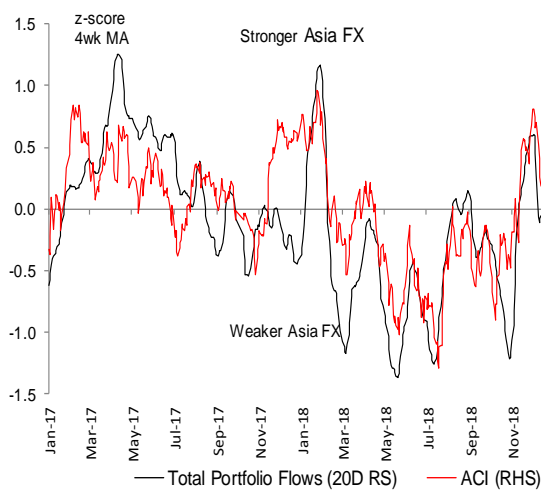
	USD-Asia	10y govie (%)	Rationale
China	↔	↔	Jan-Feb industrial profits decline -14% yoy. NPC portends further accommodation in the pipeline. Feb CPI in-line with expectations, but PPI surprised on the downside. Jan industrial profits deteriorate further at -1.9% yoy. Feb retail sales and industrial production 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 by the central bank but its resolve may be softening (front-end bond yields driving lower – note recent strong net bond inflows). 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 downgrades 2019 GDP forecasts in March. BNM static at 3.25% in March, 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. IDR perceived as as undervalued by BI, including on an REER basis. 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

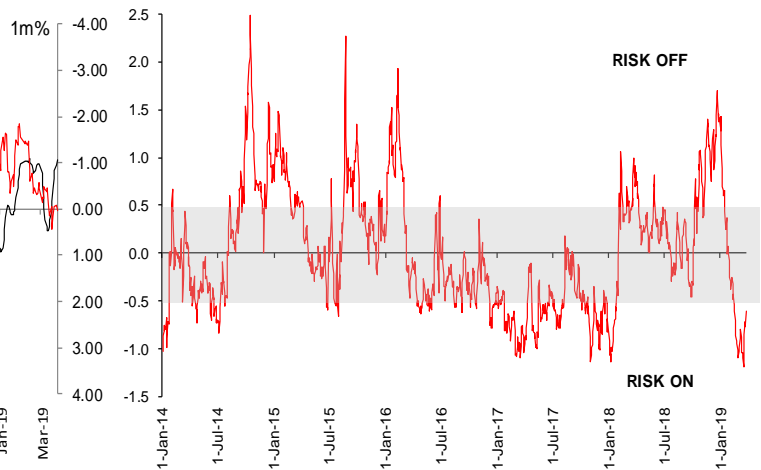
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

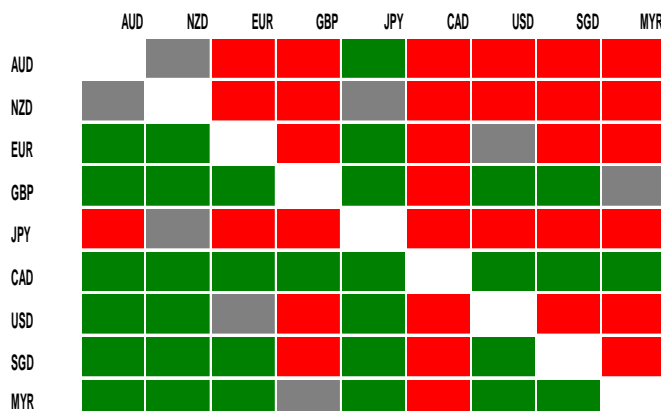
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRSEX	CNH	EUR
DXY	1	-0.018	0.685	-0.582	-0.456	-0.54	0.226	-0.247	0.366	0.613	0.757	-0.919
SGD	0.914	0.191	0.636	-0.672	-0.463	-0.677	0.44	-0.412	0.287	0.594	0.694	-0.815
CNH	0.757	-0.433	0.914	-0.244	-0.334	-0.121	-0.107	0.198	0.277	0.38	1	-0.83
CHF	0.742	-0.46	0.732	-0.193	-0.099	-0.043	-0.149	0.248	0.367	0.317	0.794	-0.742
CAD	0.685	-0.46	1	-0.198	-0.358	-0.163	-0.147	0.178	0.158	0.341	0.914	-0.788
CNY	0.659	0.268	0.548	-0.443	-0.429	-0.544	0.506	-0.36	-0.093	0.29	0.426	-0.558
MYR	0.624	0.08	0.586	-0.274	-0.573	-0.353	0.379	-0.094	-0.243	0.239	0.495	-0.58
TWD	0.622	-0.267	0.686	0.013	-0.335	0.049	0.058	0.311	-0.274	0.026	0.632	-0.612
IDR	0.622	0.595	0.187	-0.638	-0.42	-0.746	0.641	-0.655	0.017	0.411	0.15	-0.458
THB	0.583	-0.132	0.617	-0.126	0.031	-0.126	0.244	0.155	0.036	0.081	0.663	-0.506
KRW	0.439	-0.55	0.765	0.107	-0.343	0.233	-0.168	0.496	-0.146	0.053	0.735	-0.545
JPY	0.226	0.852	-0.147	-0.202	0.013	-0.477	1	-0.521	-0.406	-0.096	-0.107	0.052
USGG10	0.001	-0.624	0.35	0.56	0.235	0.64	-0.339	0.746	-0.356	-0.519	0.248	-0.117
PHP	-0.018	1	-0.46	-0.334	0.001	-0.616	0.852	-0.742	-0.237	0.026	-0.433	0.31
INR	-0.041	0.741	-0.486	-0.563	-0.222	-0.71	0.37	-0.884	0.18	0.38	-0.434	0.196
GBP	-0.554	-0.418	-0.288	0.601	0.175	0.624	-0.585	0.496	-0.199	-0.309	-0.396	0.438
NZD	-0.64	0.061	-0.304	0.469	0.291	0.435	-0.029	0.229	-0.422	-0.557	-0.42	0.53
AUD	-0.758	-0.199	-0.479	0.506	0.216	0.416	-0.453	0.208	-0.228	-0.308	-0.612	0.617
EUR	-0.919	0.31	-0.788	0.567	0.542	0.387	0.052	0.057	-0.464	-0.637	-0.83	1

Source: Bloomberg

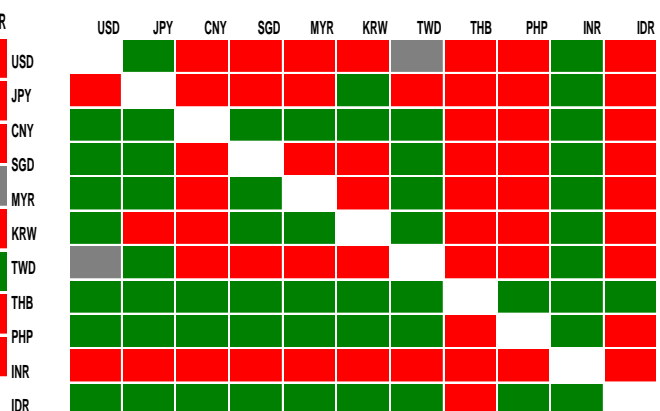
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1158	1.1200	1.1255	1.1300	1.1340
GBP-USD	1.3089	1.3100	1.3184	1.3200	1.3335
AUD-USD	0.7003	0.7028	0.7093	0.7100	0.7123
NZD-USD	0.6751	0.6800	0.6809	0.6828	0.6900
USD-CAD	1.3282	1.3400	1.3409	1.3465	1.3468
USD-JPY	109.91	110.00	110.21	110.52	111.00
USD-SGD	1.3500	1.3542	1.3552	1.3600	1.3608
EUR-SGD	1.5208	1.5213	1.5253	1.5300	1.5356
JPY-SGD	1.2253	1.2258	1.2296	1.2300	1.2307
GBP-SGD	1.7728	1.7800	1.7867	1.7900	1.8033
AUD-SGD	0.9547	0.9600	0.9612	0.9636	0.9645
Gold	1300.00	1306.80	1308.70	1321.72	1344.00
Silver	15.10	15.20	15.28	15.30	15.52
Crude	55.79	59.10	59.14	59.20	60.39

Source: OCBC Bank

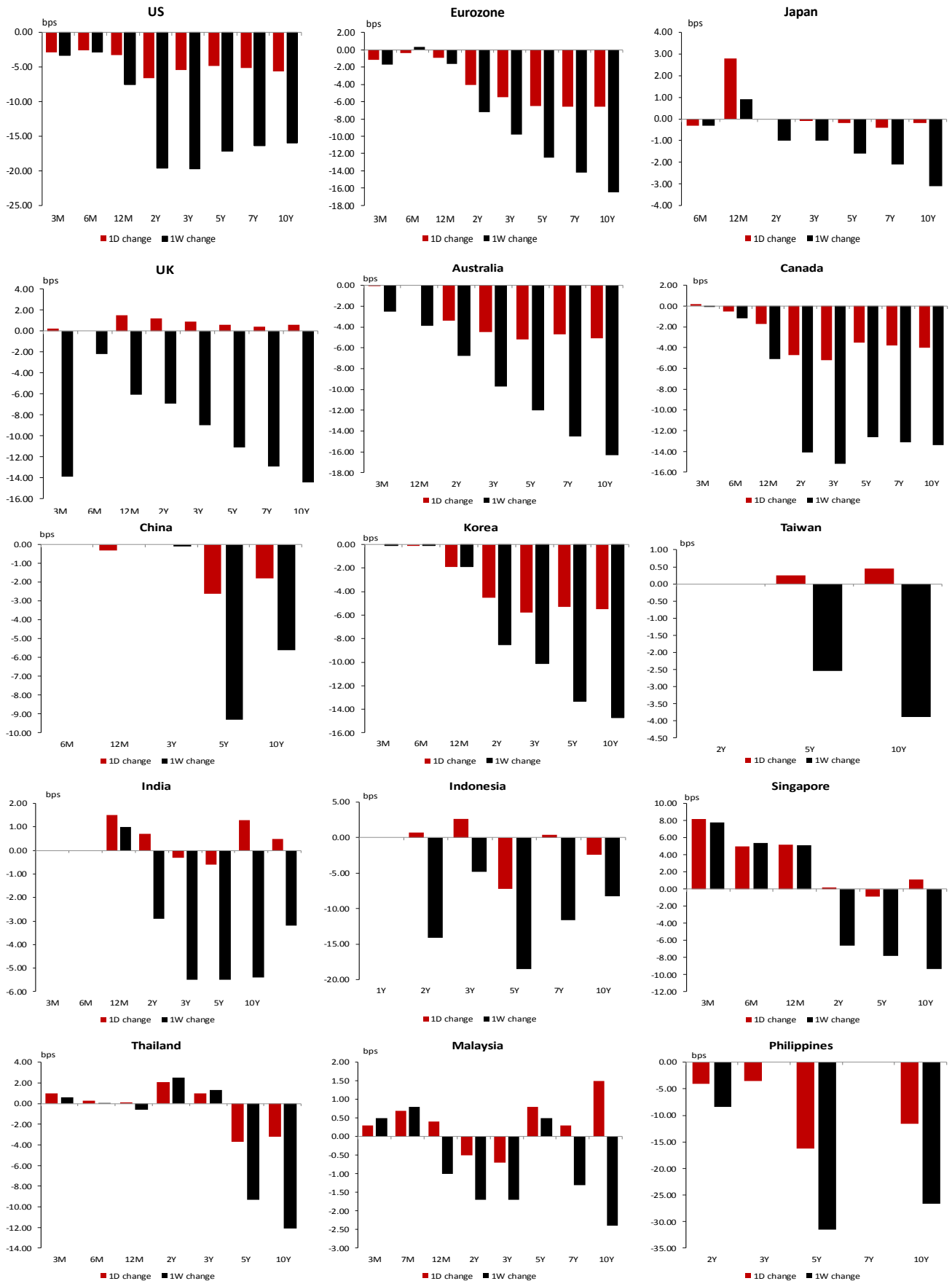
G10 FX Heat Map

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	
	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

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).
