

Friday, March 01, 2019

Market Themes/Strategy/Trading Ideas

- Stronger than expected US 4Q GDP (including the core PCE qoq) and the Feb Chicago PMI readings lifted the USD against most of the majors on Thursday with the UST curve also lifting (7Y underperforming) as a consequence of the positive data feed.
- While global companion core curves also shadowed the UST curve, aggregated rate differentials ultimately moved in favor of the greenback, permitting the DXY to bounce off intra-day lows to re-take the 96.00 area and close a touch higher on the day.
- On the risk appetite front, shaky global equities (including in EM), softer than expected China official PMIs, and the anticlimax to the Trump-Kim meeting were balanced by an apparent de-escalation of India-Pakistan tensions. The **FX Sentiment Index (FXSI)** remained static deep within the Risk-On zone.
- On the **Sino-US** trade front, investors may continue to look to an expected Xi-Trump meeting expected as early as mid-March, although Lighthizer and Mnuchin continue add a dose of reality to the progress. Nevertheless, developments here look to be coming to a head soon.
- Into the Asian session, expect the USD to attempt to ride higher we think this would be primarily via the **USD-JPY**. On this front, the 200-day MA (111.34) and the 100-day MA (111.39) are expected to act as supports with while 111.65 should attract ahead of 112.00.
- Investors looking to express a strong dollar and weak sentiment/macro view may instead look to a potentially softer **AUD-USD**. With the 55-day MA (0.7132) now serving as first resistance, a further deterioration in global sentiment may see the pair succumbing to gravity towards 0.7060/65 intra-day.
- Structurally, we undertake a **short 3M USDCNH** from Thursday (outright: 6.6861) targeting 6.5800 with a stop placed at 6.7350. This view is predicated on positive implied portfolio inflows (note also Index inclusion chatter), investors searching for a possible macro bottoming, and a renminbi complex bereft of depreciation expectations while continuing to reflect any potential USD vulnerability.
- On the US calendar today, expect comments from the Fed's Powell (0115 GMT) and Bostic (1750 GMT), and PCE inflation prints (1330 GMT). More global PMI prints also on tap.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

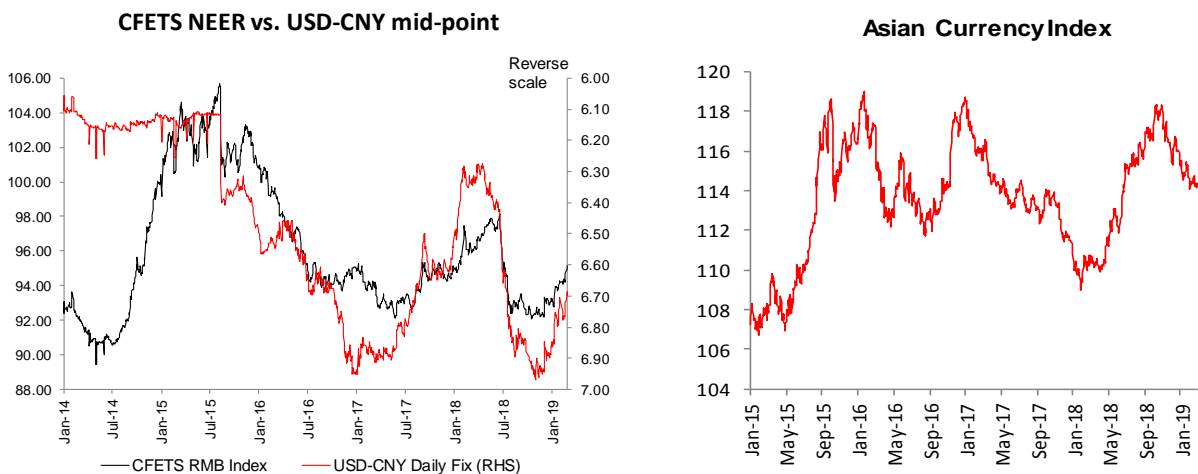
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian Markets

- Expect USD-Asia to be on a firmer ledge on Friday following overnight USD moves, as the USD-CNH flirts with the 6.7000 mark again. Meanwhile, USD-INR collapsed overnight as cross-border tensions were defused, with Pakistan looking to return the captured Indian pilot today.
- **Net portfolio flows** in Asia continues to print a familiar picture, with healthy inflow momentum for South Korea and Taiwan. In South Asia, we may be starting to see the initial impacts of border tensions on Indian equity inflows, with overall momentum starting to edge lower. In Indonesia, we still await official data to reflect the strong bond auction earlier this week.
- **SGD NEER:** The SGD NEER stands at around +1.81% above its perceived parity (1.3759) this morning, as implied USD-SGD thresholds continued to firm. Look for **USD-SGD** to remain supported on dips into the end of the week with risks likely tilted towards 1.3540/50 instead.
- **CFETS RMB Index:** The USD-CNY midpoint continued to move higher this morning, as we expected, to 6.6957 this morning, from 6.6901 on Thursday. The CFETS RMB Index, on the other hand, added further to 95.14, pulling away from 95.00 handle. Caixin manufacturing PMI this morning was stronger than expected at 49.90, although it remained within contraction territory. In the near term, expect the Sino-US trade talks to remain the main event risk.



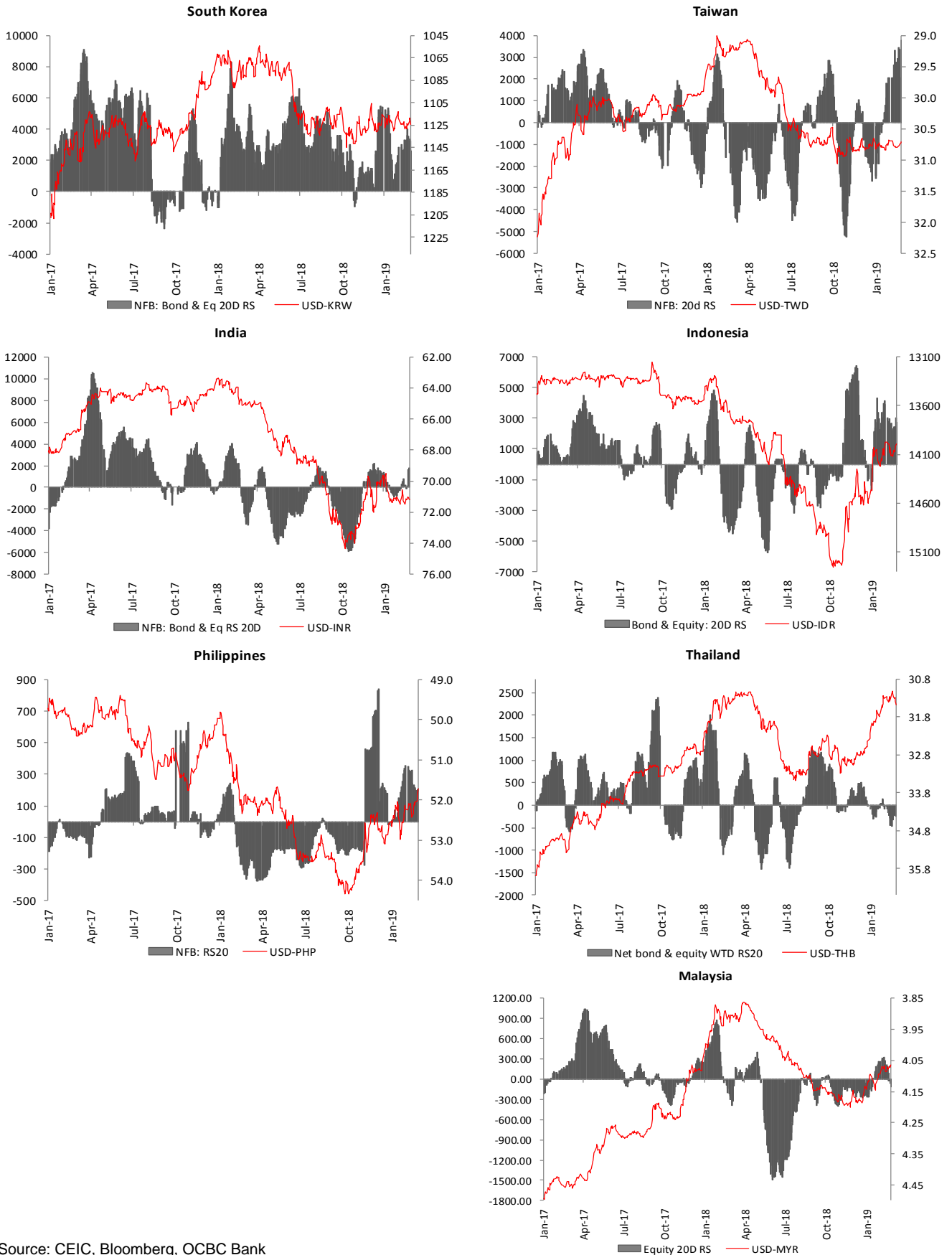
Source: OCBC Bank, Bloomberg

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	↔	↔	BOK unchanged at 1.75% in Feb. Central bank retains an accommodative stance and continues to rule 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. 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	↔	↑	4Q GDP disappoints at 6.6% yoy, continuing to fuel rate cut expectations. RBI delivered a surprise 25 bps cut in Feb and shifted to neutral. 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 ongoing India-Pakistan tensions.
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 current account surplus contracts by more than expected. 4Q GDP at a better than expected +3.7% yoy. Jan headline and core inflation in-line with expectations. Elections scheduled on 24 March, with uncertainties heightening.
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%.

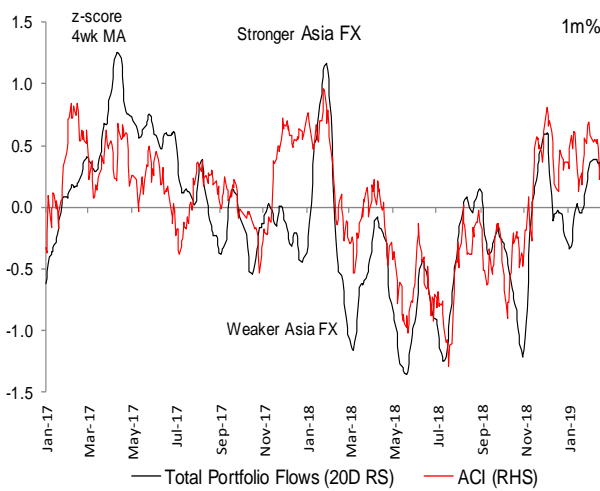
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



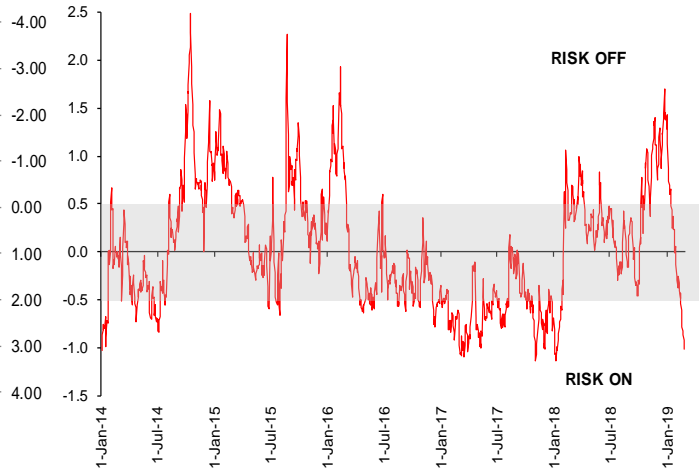
Source: CEIC, Bloomberg, OCBC Bank

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	-0.138	0.641	0.308	0.215	-0.227	0.508	-0.134	-0.362	-0.013	0.497	-0.988
SGD	0.913	0.007	0.648	0.295	0.186	-0.285	0.447	-0.228	-0.264	-0.013	0.516	-0.895
IDR	0.862	0.083	0.586	0.452	0.127	0.045	0.644	0.112	-0.471	-0.054	0.504	-0.844
MYR	0.855	0.098	0.826	-0.141	-0.19	-0.538	0.222	-0.435	0.01	0.373	0.823	-0.81
JPY	0.813	-0.272	0.738	-0.095	-0.04	-0.532	0.164	-0.445	0.102	0.262	0.575	-0.805
CAD	0.769	0.035	0.56	0.375	0.116	0.099	0.541	0.158	-0.499	-0.087	0.477	-0.752
CHF	0.641	-0.133	1	-0.347	-0.544	-0.651	-0.141	-0.613	0.227	0.618	0.974	-0.584
CNH	0.508	0.274	-0.141	0.862	0.789	0.458	1	0.618	-0.753	-0.749	-0.304	-0.551
PHP	0.497	0.048	0.974	-0.548	-0.62	-0.732	-0.304	-0.721	0.35	0.721	1	-0.414
CNY	0.325	0.045	0.311	0.322	0.033	0.208	0.428	0.375	-0.13	-0.147	-0.132	-0.329
THB	0.07	-0.186	0.65	-0.471	-0.68	-0.341	-0.585	-0.468	0.471	0.624	0.594	0.033
KRW	-0.051	0.329	-0.18	-0.136	-0.001	-0.259	0.289	0.073	0.244	0.031	-0.121	0.021
USGG10	-0.138	1	-0.133	-0.036	-0.036	0.073	0.274	0.174	0.02	-0.019	0.048	0.18
TWD	-0.192	0.121	0.072	-0.332	-0.341	-0.033	-0.419	-0.183	0.14	0.289	0.337	0.27
INR	-0.505	-0.017	0.146	-0.544	-0.711	-0.096	-0.703	-0.197	0.542	0.502	0.091	0.589
GBP	-0.608	-0.087	-0.43	0.162	-0.024	0.462	-0.222	0.369	0.03	-0.247	-0.47	0.622
NZD	-0.636	0.134	-0.887	0.369	0.456	0.648	0.245	0.66	-0.225	-0.667	-0.873	0.555
AUD	-0.806	-0.095	-0.33	-0.253	-0.337	0.158	-0.611	-0.005	0.341	0.106	-0.284	0.831
EUR	-0.988	0.18	-0.584	-0.358	-0.281	0.177	-0.551	0.077	0.4	0.082	-0.414	1

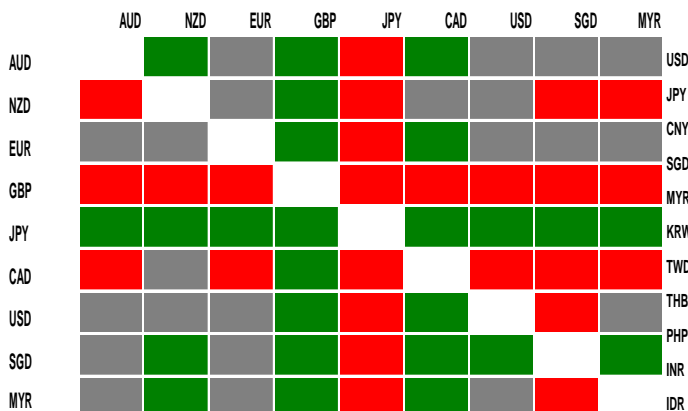
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1258	1.1300	1.1368	1.1389	1.1400
GBP-USD	1.2990	1.3200	1.3259	1.3300	1.3315
AUD-USD	0.7037	0.7054	0.7088	0.7100	0.7132
NZD-USD	0.6793	0.6800	0.6812	0.6900	0.6934
USD-CAD	1.3100	1.3163	1.3171	1.3200	1.3301
USD-JPY	111.34	111.60	111.72	111.74	112.00
USD-SGD	1.3469	1.3500	1.3524	1.3569	1.3600
EUR-SGD	1.5281	1.5300	1.5374	1.5400	1.5434
JPY-SGD	1.2099	1.2100	1.2105	1.2200	1.2261
GBP-SGD	1.7730	1.7900	1.7932	1.7956	1.8000
AUD-SGD	0.9550	0.9577	0.9585	0.9600	0.9677
Gold	1298.95	1300.00	1314.40	1338.22	1344.00
Silver	15.46	15.50	15.56	15.58	15.60
Crude	51.87	57.30	57.36	57.40	57.81

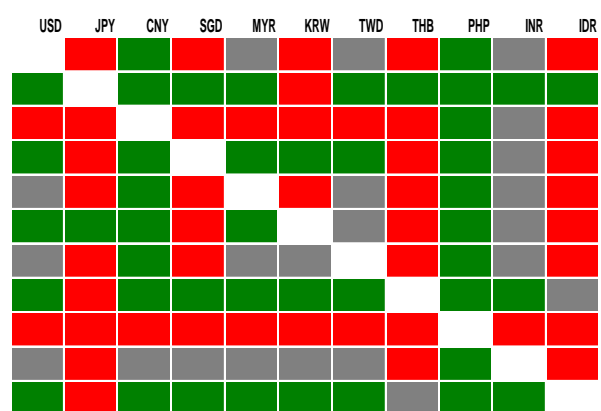
Source: OCBC Bank

G10 FX Heat Map



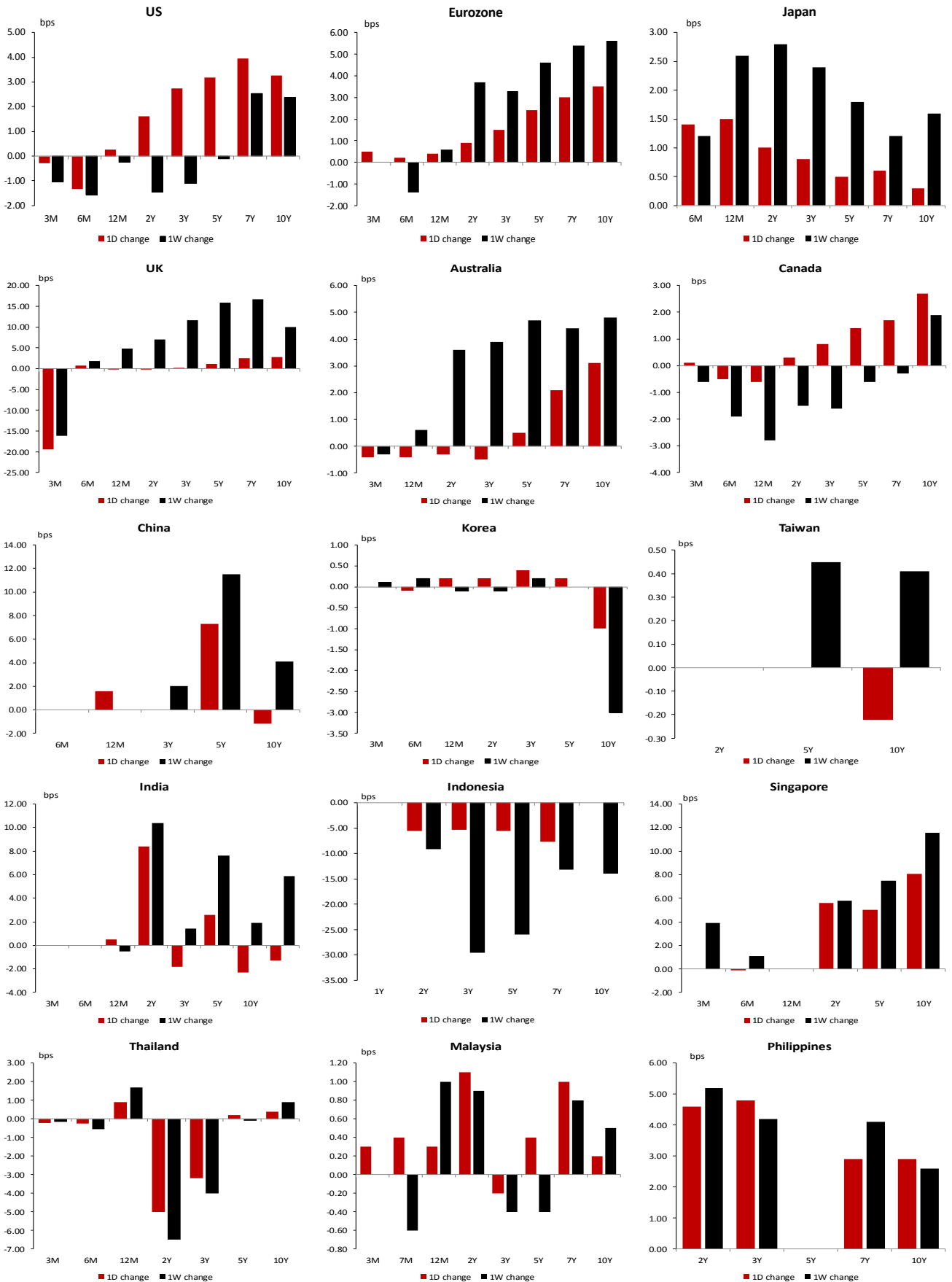
Source: OCBC Bank

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								
4	28-Feb-19	S	3M USD-CNH	6.6861	6.5800 6.7350	Renminbi stability, PBOC policy backstop, conducive inflow environment		
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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