

Wednesday, March 06, 2019

Market Themes/Strategy/Trading

- Greenback strength continued to prevail on Tuesday with the Feb ISM non-manufacturing Index surprising on the upside at 59.7 from 56.7. US Dec new home sales also surprised on the upside at 621k but note that the previous reading was revised lower. Overall, the slightly positive overtones from the data feed saw front-end UST yields ticking higher.
- The EUR-USD slipped below 1.1300 ahead of the ECB meeting on Thursday while the CAD underperformed across the board was also undermined by benign expectations going into the Bank of Canada meeting on Wednesday (1500 GMT).
- Early on Wednesday, Australian 4Q GDP readings disappointed prior expectations at +2.3% yoy Aussie 4Q GDP numbers this morning, sending the AUD-USD briefly below 0.7060 (please refer to trade idea below). Note also flatly neutral from the RBA's Lowe late Tuesday.
- EM equities put in a positive performance on Tuesday but the **FX Sentiment Index (FXSI)** still ticked slightly higher within Risk-On territory with wobbly US equities in NY keeping investors sidelined.
- The Fed schedule today includes Williams (1700 GMT) and Mester (1700 GMT) while the Beige Book is due at 1900 GMT.
- Still a fair amount of back scatter in markets ahead of the ECB on Thursday and the US NFP on Friday but USD resilience may well persist in the interim. **Overall, the DXY brushed up against 97.00 overnight and odds may remain tilted towards 97.20.**
- **Despite the RBA still putting on a brave face on Tuesday at its policy meeting, we think the AUD-USD may have further downside scope in the near term if the global macro backdrop continues to remain uncertain and market suspicions towards a potential RBA rate cut continue to circulate and accumulate. From a spot ref of 0.7074 on Tuesday, we target 0.6870 and leave a stop at 0.7175.**

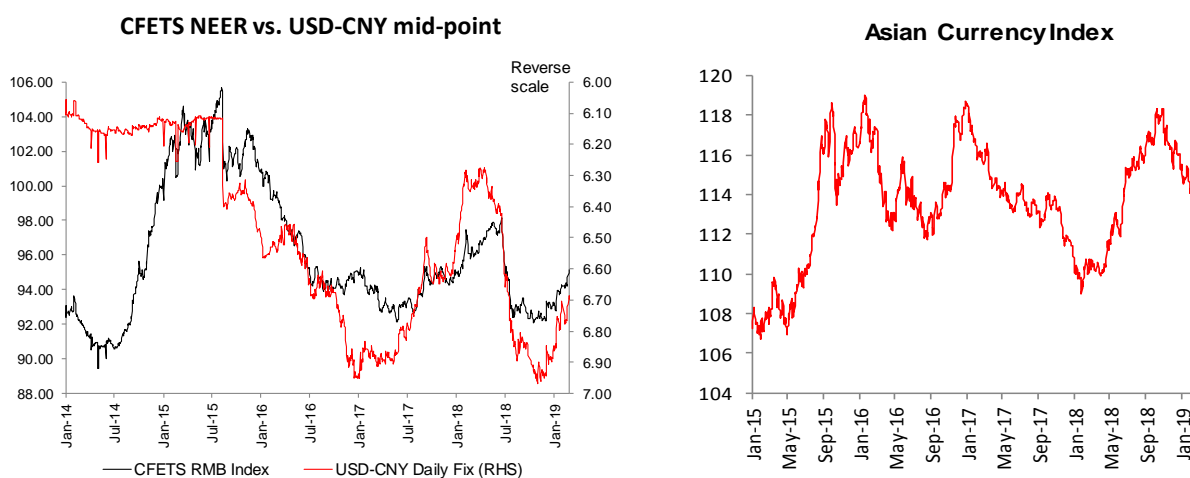
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Asian Markets

- The Feb China Caixin composite/services PMIs softened from the previous month (especially the latter) while the Nikkei India Feb services/composite PMIs improved instead from the month before. **Despite these mixed signals, and with USD-CNH stabilizing (note riskies topping out after the recent blip, vols are softer, while points are top heavy) in the near term, USD-Asia may instead look to broad USD cues and maintain an underpinned tone.**
- On the flow front, the moderation in net inflows for South Korea and Taiwan is attempting to stabilize while in the south, India continues to print minor net inflows. Thailand meanwhile is still in the process of compressing its minor net outflow balance.
- The **PHP** on Tuesday did not react well to the surprise appointment of budget secretary Benjamin Diokno (known dove with respect to monetary and currency policy) as the new BSP governor. **We look to exit our short THB-PHP recommendation if the PHP continues to dissolve (on dovish comments from the new governor) in the near term and the USD-THB continues to plateau.**
- **BNM** on Tuesday remained static at 3.25% as expected with the central bank still looking for “a steady growth path” amidst a benign inflation outlook and despite external uncertainties.
- **SGD NEER:** The SGD NEER is a touch lower on the day at +1.67% above its perceived parity (1.0791). NEER-implied USD-SGD thresholds are relatively unchanged on the day and look potentially for USD-SGD to challenge its 55-day MA (1.3574) towards 1.3600 if the USD continues to gain traction multi-session.
- **CFETS RMB Index:** The USD-CNY midpoint gained as expected to 6.7053 this morning compared to 6.6998 yesterday. The CFETS RMB Index meanwhile firmed slightly to 95.28 from 95.27 on Tuesday.



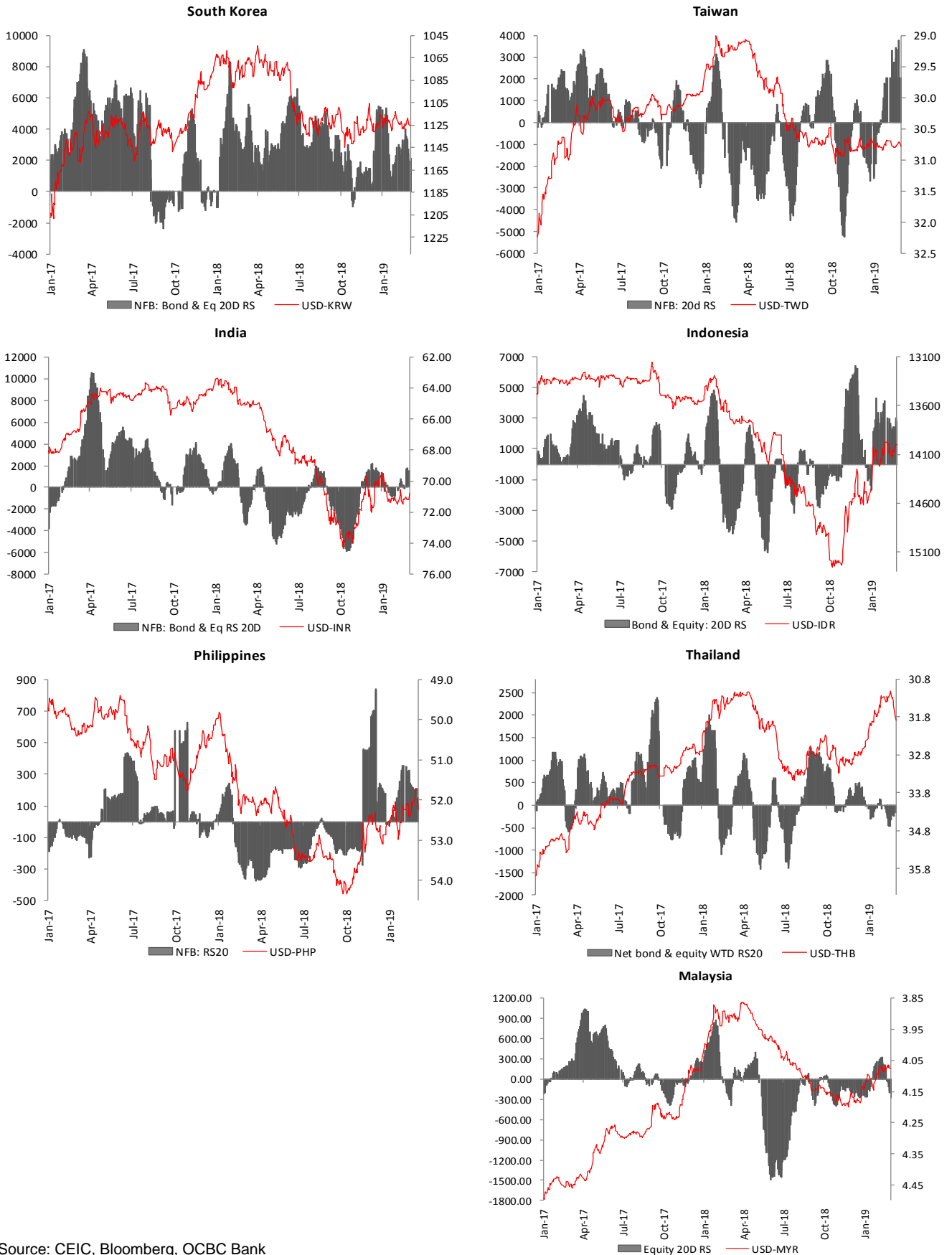
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔/↓	↑	Bond yields bottoming as equities strengthen. 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. Feb official PMIs softer than expected again; Feb Caixin manufacturing PMI better than expected (49.9) but services and composite PMIs deteriorate. 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. 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. 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. Feb manufacturing PMI drops further to 46.3. 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. Jan CPI (including core) was cooler than expected, although RBI sees core inflation sticky at a high 6%. 3Q GDP weaker than expected. Feb manufacturing/services/composite PMIs improve from previous month. 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	↔/↑	↑	Feb PMI weakens further to 50.4. 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 Feb; expected to be static through 2019. Jan CPI pined a deeper than expected -0.7% yoy. Dec manufacturing PMI falls to 47.6. Jan exports better than expected at 3.1% yoy, Dec 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, absent 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. Policy rate seen near its peak by BI, IDR still seen as undervalued. Feb headline CPI cooler than expected (2.57%), core steady at 3.06%. 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. Feb headline inflation warmer than expected at 0.73%, core cooler than expected at 0.60%. 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. Feb CPI softer than expected at +3.8% yoy. 2018 fiscal deficit likely widened to 3.1%.

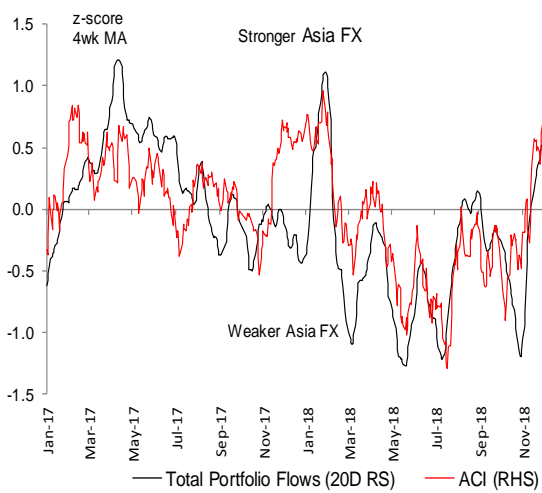
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



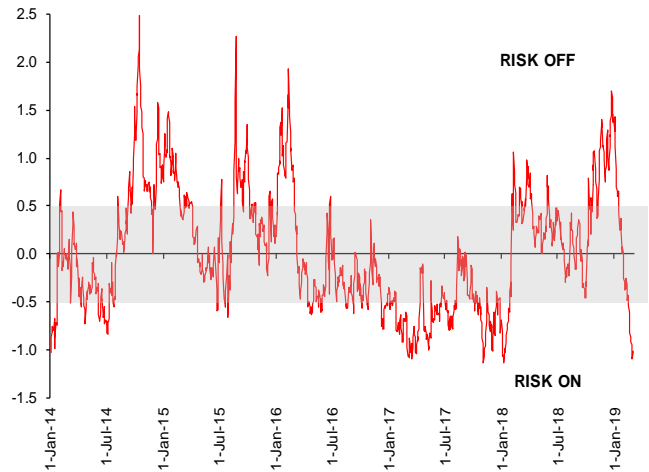
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1	-0.135	0.77	-0.133	-0.161	-0.408	0.186	-0.237	0.142	0.273	0.416	-0.964
SGD	0.81	0.088	0.792	-0.574	-0.538	-0.715	-0.074	-0.566	0.466	0.604	0.743	-0.727
IDR	0.784	-0.148	0.733	-0.235	-0.309	-0.479	0.028	-0.354	0.366	0.378	0.436	-0.803
MYR	0.77	-0.337	1	-0.855	-0.936	-0.732	-0.634	-0.756	0.621	0.921	0.977	-0.788
JPY	0.754	0.09	0.385	-0.165	0.005	-0.471	0.386	-0.202	0.215	0.101	0.168	-0.679
CAD	0.727	0.234	0.57	-0.235	-0.531	-0.147	0.055	-0.053	0.018	0.407	0.572	-0.642
CHF	0.519	0.226	0.272	0.575	0.263	0.263	0.682	0.471	-0.434	-0.416	-0.213	-0.446
CNH	0.509	-0.012	0.529	-0.133	-0.497	0	-0.072	0.044	-0.07	0.287	0.434	-0.437
PHP	0.416	-0.155	0.977	-0.887	-0.92	-0.796	-0.688	-0.826	0.719	0.93	1	-0.309
CNY	0.256	-0.384	0.691	-0.504	-0.684	-0.296	-0.616	-0.391	0.526	0.609	0.634	-0.225
THB	0.186	0.504	-0.634	0.798	0.783	0.47	1	0.662	-0.635	-0.823	-0.688	-0.203
KRW	0.134	0.58	-0.312	0.302	0.448	-0.008	0.712	0.242	-0.217	-0.453	-0.346	-0.101
USGG10	0.033	0.125	0.535	-0.137	-0.462	0.015	-0.249	-0.017	0.035	0.256	0.373	0.137
TWD	-0.135	1	-0.337	0.195	0.24	0.112	0.504	0.187	-0.227	-0.315	-0.155	0.281
INR	-0.394	-0.178	0.195	-0.526	-0.564	-0.118	-0.781	-0.302	0.331	0.49	0.407	0.443
GBP	-0.485	-0.091	-0.348	0.481	0.168	0.553	0.01	0.465	-0.272	-0.355	-0.369	0.495
NZD	-0.578	0.309	-0.905	0.709	0.77	0.685	0.615	0.718	-0.591	-0.885	-0.891	0.484
AUD	-0.677	-0.159	-0.25	0.079	-0.136	0.27	-0.381	0.077	0.013	-0.011	-0.098	0.685
EUR	-0.964	0.281	-0.788	0.111	0.129	0.35	-0.203	0.161	-0.139	-0.248	-0.309	1

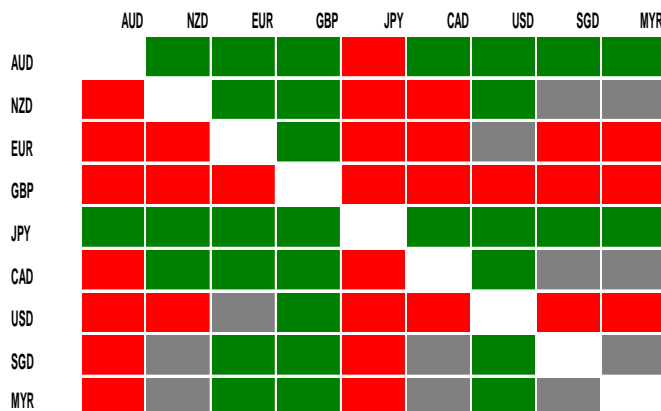
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1234	1.1263	1.1294	1.1300	1.1385
GBP-USD	1.2988	1.3100	1.3139	1.3200	1.3346
AUD-USD	0.6960	0.6992	0.7035	0.7036	0.7100
NZD-USD	0.6720	0.6747	0.6764	0.6797	0.6800
USD-CAD	1.3289	1.3300	1.3373	1.3375	1.3376
USD-JPY	111.00	111.38	111.79	112.00	112.08
USD-SGD	1.3500	1.3560	1.3580	1.3600	1.3616
EUR-SGD	1.5300	1.5301	1.5337	1.5390	1.5400
JPY-SGD	1.2081	1.2100	1.2147	1.2200	1.2258
GBP-SGD	1.7730	1.7800	1.7842	1.7900	1.8005
AUD-SGD	0.9502	0.9525	0.9554	0.9559	0.9600
Gold	1275.30	1282.50	1287.50	1299.86	1300.00
Silver	15.00	15.01	15.02	15.09	15.10
Crude	52.44	56.00	56.06	56.10	57.88

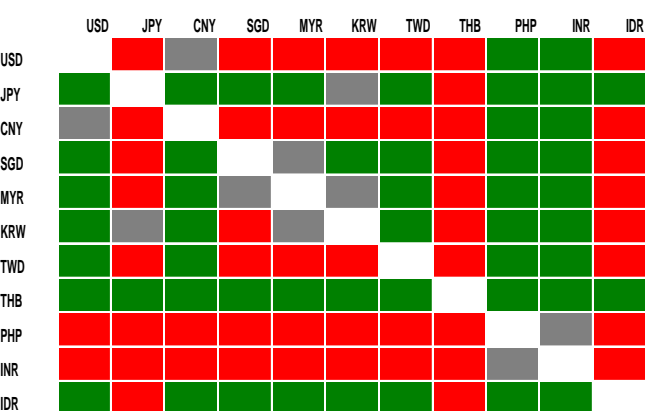
Source: OCBC Bank

G10 FX Heat Map



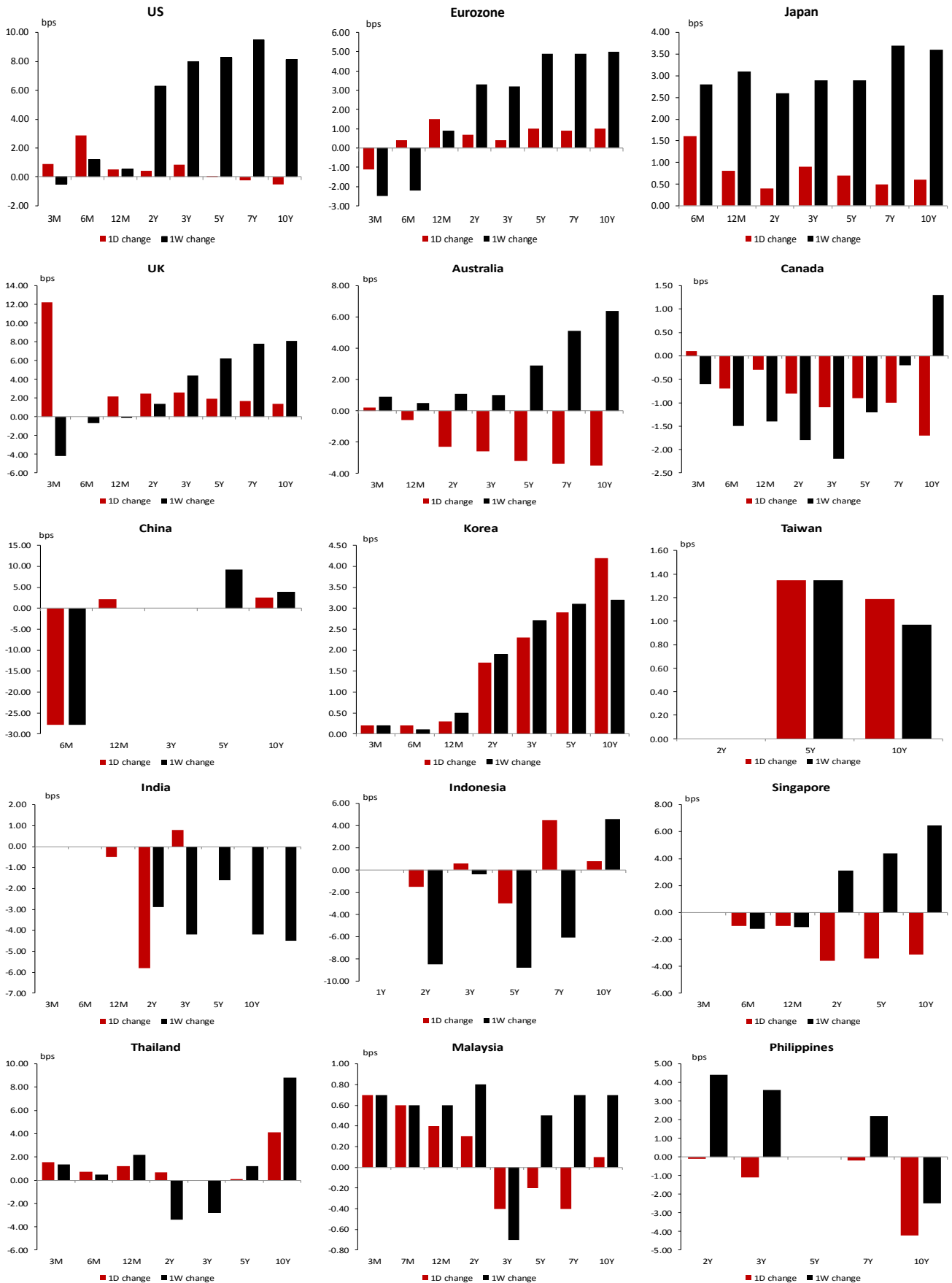
Source: OCBC Bank

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		
4	05-Mar-19	S	AUD-USD	0.7074	0.6870	0.7175	Potentially dovish RBA, macro conditions soggy		
STRUCTURAL									
5	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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