

Thursday, March 07, 2019

Market Themes/Strategy/Trading

- Growth currencies (AUD, CAD) bore the brunt of USD strength on Wednesday following the dovish undertones from the Bank of Canada meeting (implied have flipped to odds of a cut this year) and disappointing 4Q GDP number out of Australia early in the global day. With risk appetite moderating, the JPY also outperformed on the crosses.
- Negative US and EM equities helped the **FX Sentiment Index (FXSI)** bottom out on Wednesday, although the Index remained in Risk-Off territory. **At current levels, note that the FXSI is at its typical extremity, potentially inviting mean reverting behavior i.e., markets may be increasingly susceptible to episodes of nervousness ahead.**
- Today, the **ECB** (1245 GMT) and **Draghi's** press conference (1330 GMT) will be expected to be in the spotlight with markets anticipating downward revisions to macro forecasts and for Draghi to shed further light on prospects for additional TLTROs.
- **Going ahead, with wobbly global macro prospects at the forefront, expect the cyclicals to remain under threat and the DXY to continue to test the 97.00 handle on the upside with the next stop still at 97.20. Stay in favor of the greenback intra-day, especially with respect to the cyclicals.** While core global curves softened overnight, the net effect continued to leave the broad USD on a firmer footing from the rate differential perspective.
- Specifically, we look for **EUR-USD** to gravitate towards 1.1260 on any hint of overly dovish overtones from the ECB today. **USD-JPY** meanwhile may continue to find good support at the 100-day MA (111.37) and the 200-day MA (111.39) despite shaky investor appetite. **AUD-USD** may be looking a tad overdistended on the downside in the very short term but ongoing fragility may imply a quick move down to 0.7000 on any dovish catalyst.
- Structurally, market positioning has also been in favor of the greenback. **CFTC positioning data** is finally up to speed and note that both large commercial as well as leveraged accounts had stocked up on shorts with respect to the majors in the latter half of February – implicitly strengthening the long dollar bias.

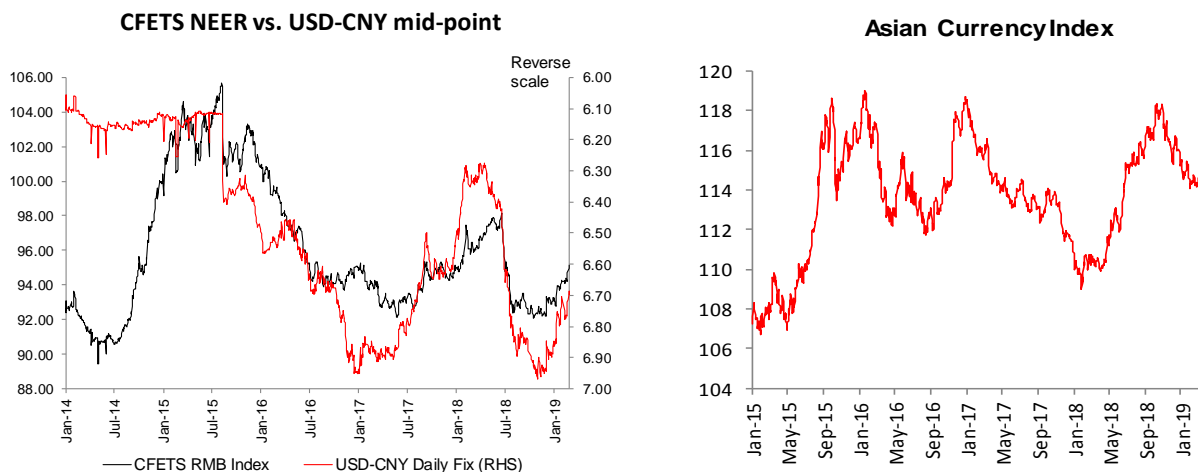
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian Markets

- EM FX (especially ZAR and TRY) softened overnight against the USD and this may continue to keep sentiment in Asia relatively cautious and potentially keep dips in USD-Asia shallow, especially with the net portfolio flow situation in the south (IDR, INR, THB) looking increasingly dicey (see below).**
- Despite assurances of more stimulatory measures from the NDRC on Wednesday, note also that **USD-CNH** still settled higher on the day, albeit off intra-day highs above 6.7200 earlier in the global day. On the macro front, 10y China govie yields may also continue to top out and search lower as market participants await official guidance for looser monetary conditions. Elsewhere, continue to monitor headline flow with respect to the imminent Xi-Trump meeting.
- On the Asian net portfolio flow front**, as noted previously, the moderation in net inflow momentum for South Korea and Taiwan is still attempting to stabilize. Indonesia however has registered a precipitous drop in net inflows, largely on the back of a deterioration in net bond inflows. India is still chalking up minor net inflows in aggregate but note that net bond outflows have been deepening while net equity inflows may be peaking. Lastly, net outflows for Thailand seem to be deepening once again as net equity outflows drill lower.
- SGD NEER:** The SGD NEER is softer on the day again at +1.66% above its perceived parity (1.3795) with NEER-implied USD-SGD thresholds also having shaded higher. **Near term view remains unchanged and look potentially for USD-SGD to challenge its 55-day MA (1.3572) towards 1.3600/20 if the USD continues to gain traction multi-session.**
- CFETS RMB Index:** The USD-CNY midpoint came in largely as expected at 6.7110 from 6.7053 on Wednesday. This saw the CFET RMB Index firming slightly to 95.29 from 95.28 yesterday. **Perhaps as a nod to ongoing Sino-US trade negotiations, we note that the realized vols of both the fix and the basket have tipped lower noticeably of late. Short term CNH bulls may have to wait out for a bit.**



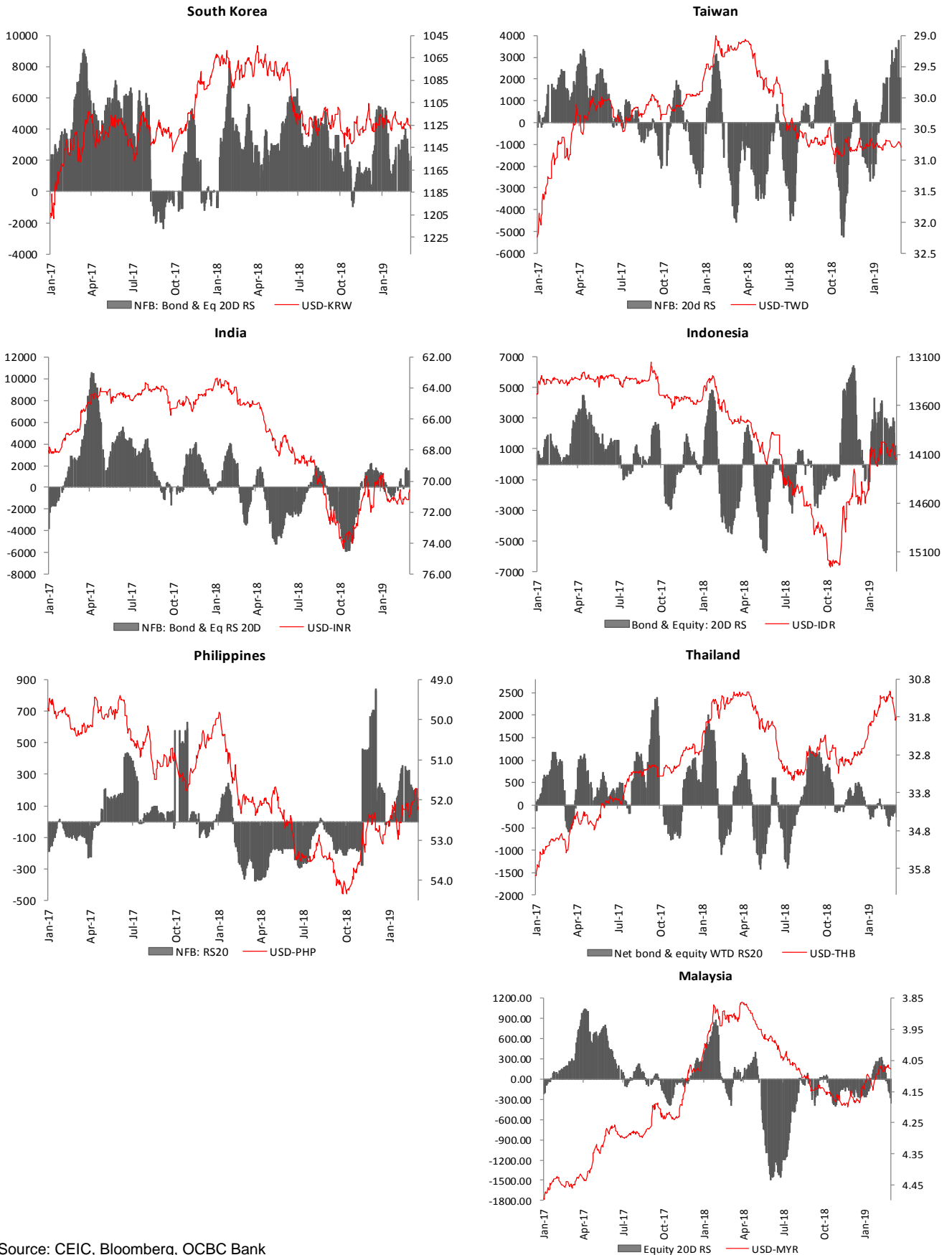
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔	↔/↑	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	↔	---	New BSP governor deemed accommodative, looking towards RRR cuts. 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%.

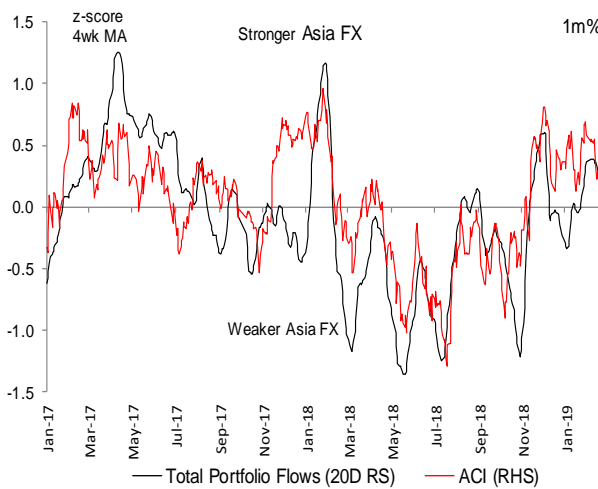
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



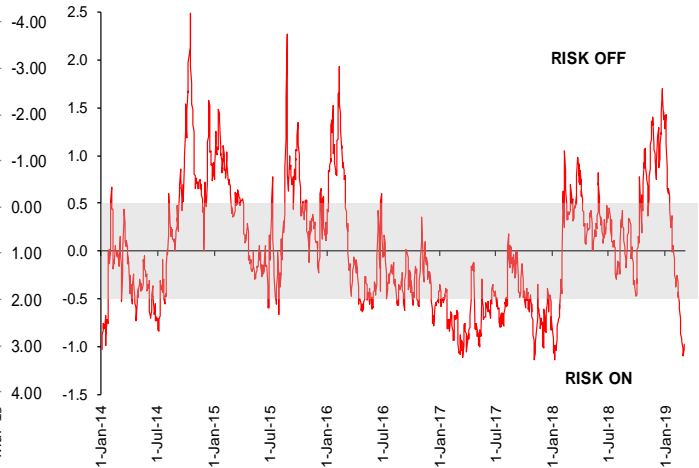
Source: CEIC, Bloomberg, OCBC Bank

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	0.025	0.682	-0.275	-0.262	-0.45	0.173	-0.233	0.292	0.361	0.495	-0.961
SGD	0.869	0.146	0.693	-0.599	-0.495	-0.697	-0.027	-0.52	0.514	0.567	0.733	-0.808
IDR	0.773	-0.028	0.648	-0.328	-0.35	-0.491	-0.016	-0.363	0.483	0.411	0.515	-0.794
MYR	0.721	0.303	0.356	-0.229	-0.38	-0.137	0.307	0.045	0.107	0.289	0.406	-0.638
JPY	0.682	-0.35	1	-0.841	-0.925	-0.725	-0.645	-0.762	0.553	0.92	0.975	-0.709
CAD	0.666	0.246	0.097	-0.218	0.085	-0.401	0.432	-0.097	0.372	0.024	0.131	-0.576
CHF	0.548	0.082	0.37	-0.106	-0.308	0.014	0.157	0.119	0.02	0.158	0.304	-0.472
CNH	0.504	-0.511	0.637	-0.446	-0.576	-0.299	-0.474	-0.352	0.504	0.538	0.576	-0.543
PHP	0.495	-0.245	0.975	-0.879	-0.907	-0.806	-0.665	-0.833	0.663	0.923	1	-0.481
CNY	0.489	0.032	0.289	0.073	-0.105	0.058	0.214	0.167	0.027	-0.017	0.133	-0.373
THB	0.463	0.381	0.201	0.515	0.253	0.264	0.683	0.481	-0.3	-0.412	-0.186	-0.358
KRW	0.244	0.558	-0.362	0.282	0.525	0.014	0.741	0.279	-0.086	-0.502	-0.342	-0.136
USGG10	0.173	0.624	-0.645	0.75	0.789	0.466	1	0.677	-0.501	-0.823	-0.665	-0.104
TWD	0.025	1	-0.35	0.298	0.376	0.129	0.624	0.237	-0.274	-0.424	-0.245	0.124
INR	-0.239	-0.396	0.241	-0.431	-0.576	-0.131	-0.8	-0.341	0.125	0.507	0.381	0.304
GBP	-0.444	-0.22	-0.257	0.594	0.202	0.571	0.029	0.471	-0.383	-0.386	-0.424	0.436
NZD	-0.523	0.338	-0.909	0.73	0.817	0.68	0.664	0.727	-0.542	-0.914	-0.909	0.514
AUD	-0.624	-0.364	-0.078	0.202	0.277	-0.415	0.039	-0.164	-0.022	-0.13	0.594	0.594
EUR	-0.961	0.124	-0.709	0.292	0.281	0.414	-0.104	0.215	-0.315	-0.385	-0.481	1

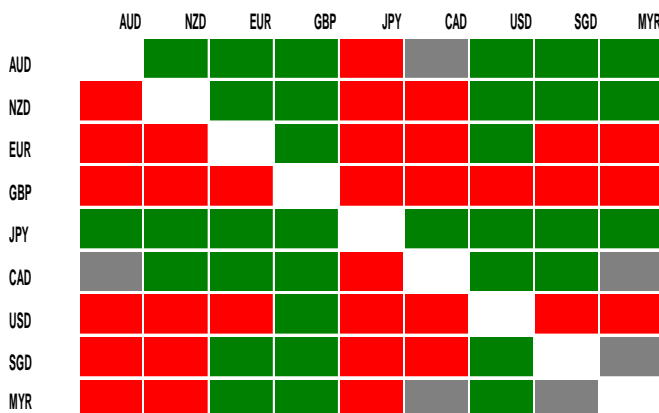
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1263	1.1300	1.1307	1.1382	1.1393
GBP-USD	1.2988	1.3100	1.3185	1.3200	1.3350
AUD-USD	0.7021	0.7027	0.7045	0.7100	0.7133
NZD-USD	0.6722	0.6746	0.6789	0.6799	0.6800
USD-CAD	1.3400	1.3422	1.3438	1.3457	1.3500
USD-JPY	111.00	111.39	111.66	112.00	112.11
USD-SGD	1.3500	1.3557	1.3569	1.3600	1.3615
EUR-SGD	1.5300	1.5303	1.5343	1.5385	1.5400
JPY-SGD	1.2081	1.2100	1.2153	1.2200	1.2257
GBP-SGD	1.7731	1.7800	1.7891	1.7900	1.8005
AUD-SGD	0.9530	0.9546	0.9559	0.9600	0.9670
Gold	1275.30	1279.43	1287.50	1300.00	1300.54
Silver	14.98	15.00	15.03	15.10	15.20
Crude	52.66	56.30	56.38	56.40	57.88

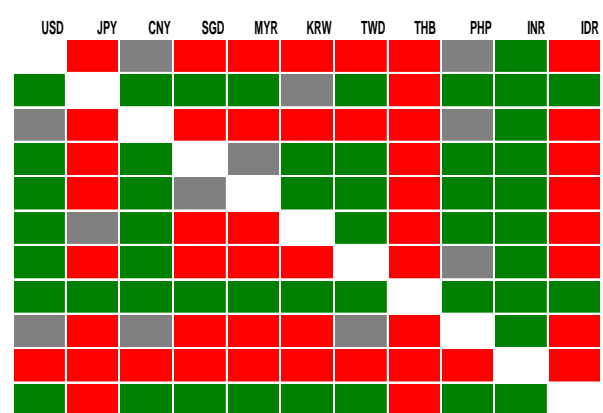
Source: OCBC Bank

G10 FX Heat Map



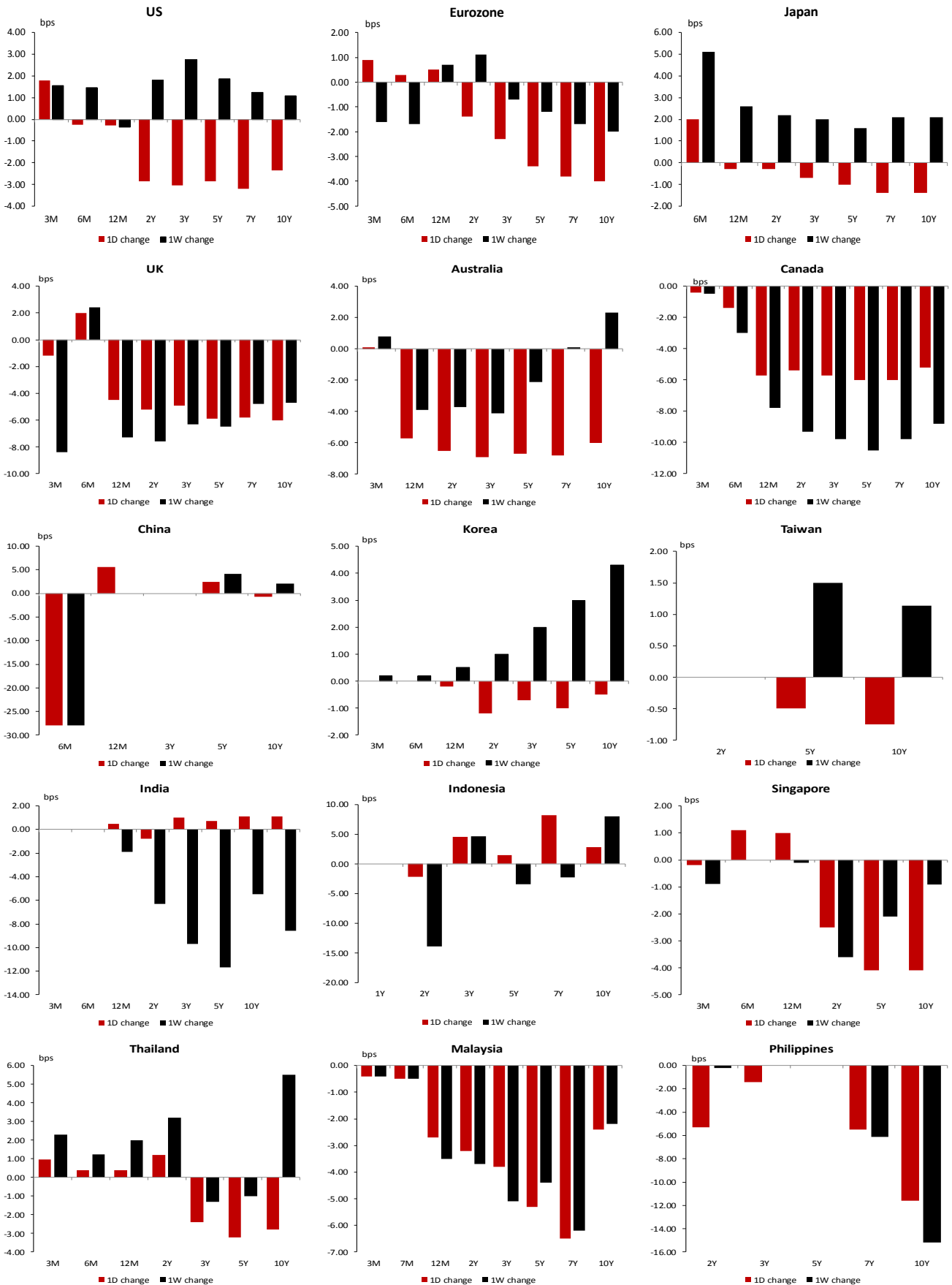
Source: OCBC Bank

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

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).
