

Friday, March 08, 2019

Market Themes/Strategy/Trading Views

- Post the ECB meeting, the USD continued to climb against the majors (EUR-USD sank below 1.1200) on Thursday while the JPY gained on the crosses as risk appetite wavered. Overall, this flicked the DXY above 97.50. Elsewhere, global core curves also softened, with the 10y UST yield falling below 2.5000%. Again, this still had the net effect of leaving the USD on higher ground from the rate differential perspective.
- With China/EM/EZ/US equities in the red, the **FXSI (FX Sentiment Index) (FXSI)** climbed for the 3rd consecutive session on Thursday within Risk-On territory.
- In a nutshell, the **ECB** flattened its forward guidance (with rates expected to be static at least for the rest of the year), re-initiated its TLTRO program earlier than expected, and lowered its growth and inflation forecasts significantly. **Near term, prospects for the EUR-USD remain bearish with supports all the way to 1.1000 largely vacant, especially if the 1.1200 handle is lost on a sustained basis.**
- Markets may continue to be fraught with headline risks today. Ahead of the US NFP (mkts: +180k), look towards China's Feb trade numbers and the ECB Nowotny's appearance at 0800 GMT. After the outcome of last night's ECB meeting, Nowotny's comments will be closely scrutinized.
- Structurally, if the weekly Fibo retracement level of 97.873 for the **DXY** is taken out, the path back towards 100.00 is rather uncluttered. In the interim, immediate resistance is seen at 98.00 amid a bullish outlook in the near term.
- **Tactical Long USD-CAD** - With the **Bank of Canada** this week taking its foot off the pedal with respect to policy normalization, we think the USD-CAD may have further head room on the upside, especially if the cyclical currencies continue to be weighed by negative global macro sentiment. We note that **USD-CAD** has simply been tracking its implied valuation higher and the pair may continue to travel higher to the upper end of its recent ranges. From a spot ref of 1.3430 on Thursday, we target 1.3655 with a stop placed at 1.3315.

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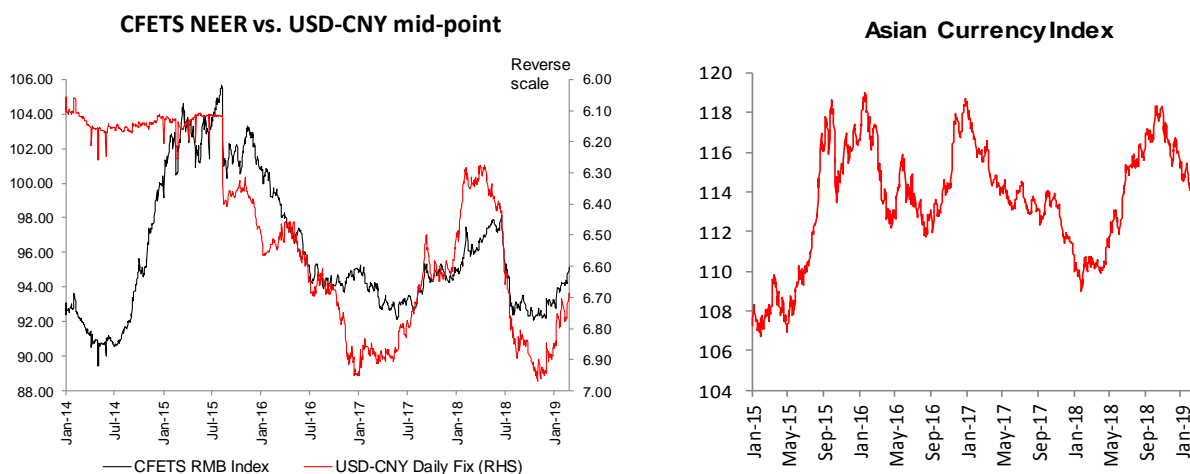
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Asian Markets

- USD-CNH marked above 6.7300 on Thursday while selected EM FX (PLN, ZAR) also printed significant losses. With investors increasingly wary, expect USD-Asia to continue to look to the broad dollar for directionality.
- The **net portfolio flow environment** in Asia meanwhile continues to weaken. Net inflows for South Korea and Taiwan are moderating while in the south, net inflows for India seem to be stabilizing. Pending further data points, net inflows for Indonesia have consolidated sharply lower while in Thailand, net outflows are deepening.
- **SGD NEER:** The SGD NEER is weaker on the day at around +1.59% above its perceived parity (1.3825) while NEER-implied USD-SGD thresholds are also higher on the day. Prospects for the pair remain tilted to the upside at this juncture after having surpassed 1.3600. Key junctions on the upside are expected at 1.3630 before the 200-day MA (1.3654).
- **CFETS RMB Index:** This morning, the USD-CNY midpoint printed roughly in line with expectations at 6.7235 from 6.7110 on Thursday. This had the effect of lifting the CFETS RMB Index even higher to 95.42. Next key pivot is expected towards 96.00. **However, note that the short end vol surface of the USD-CNH and the DF curve are leaning slightly away from undue CNH optimism in the current dollar environment.**



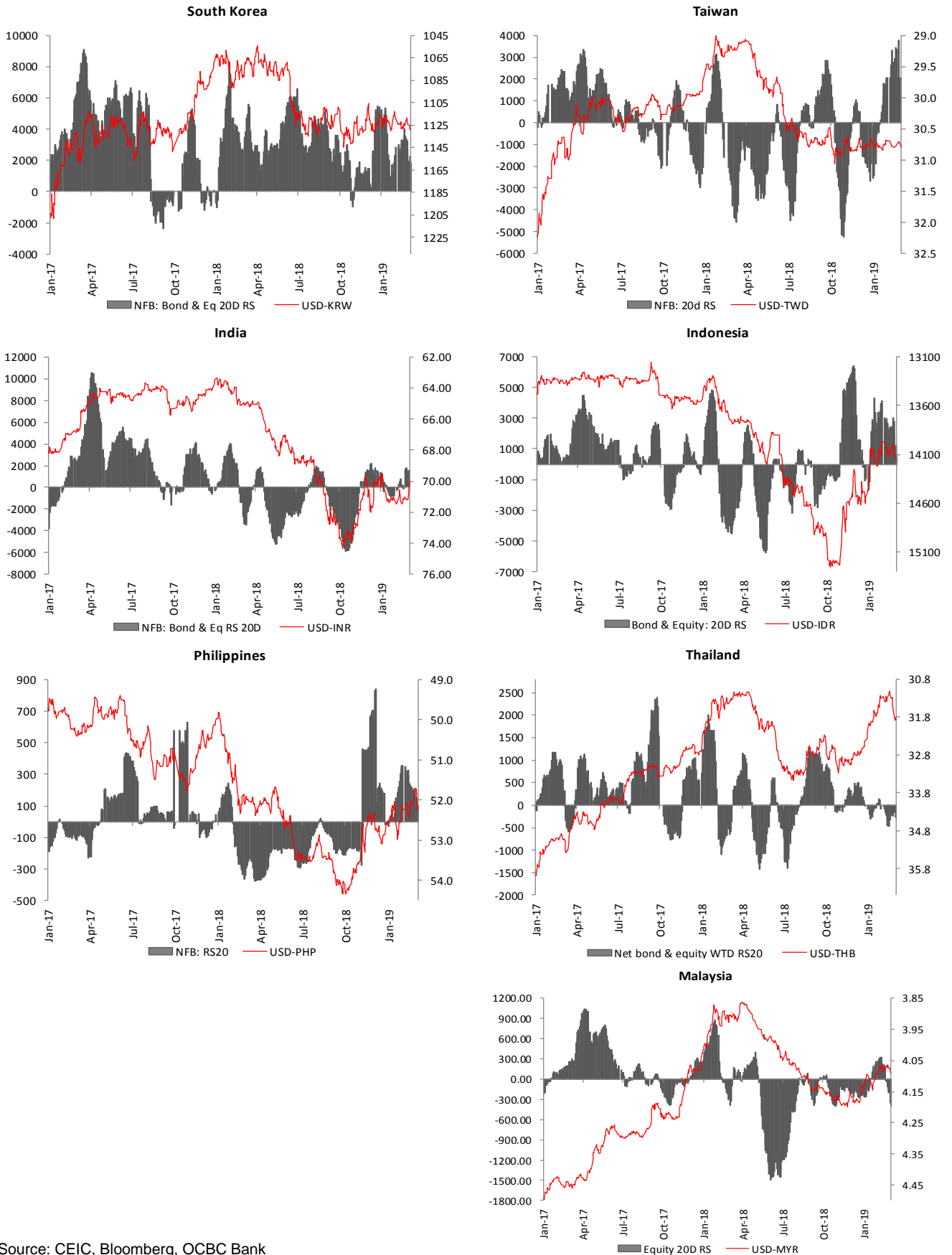
Source: OCBC Bank, Bloomberg

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 while remaining data dependant. 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%.

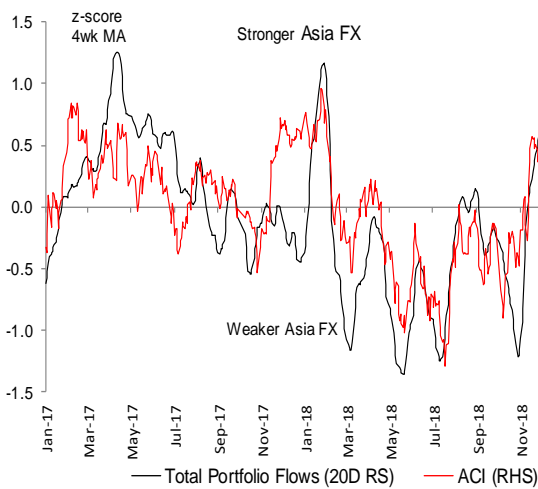
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



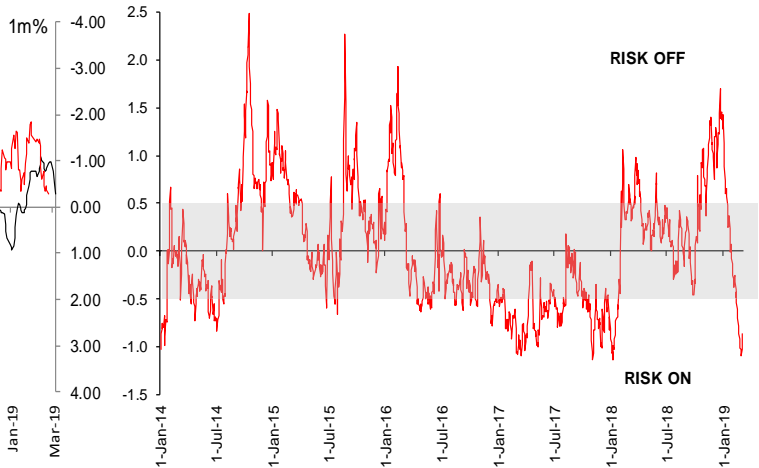
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1	-0.131	0.51	-0.286	-0.11	-0.362	0.252	-0.101	0.449	0.2	0.413	-0.972
SGD	0.868	0.037	0.636	-0.594	-0.392	-0.648	0.104	-0.363	0.585	0.466	0.656	-0.82
IDR	0.844	-0.167	0.501	-0.33	-0.189	-0.402	0.196	-0.116	0.589	0.249	0.367	-0.892
MYR	0.788	0.117	0.37	-0.309	-0.27	-0.139	0.3	0.07	0.305	0.187	0.455	-0.72
JPY	0.769	0.083	0.113	-0.243	0.159	-0.346	0.477	0.001	0.495	-0.059	0.146	-0.768
CAD	0.608	-0.034	0.355	-0.145	-0.225	0.011	0.181	0.145	0.167	0.092	0.318	-0.55
CHF	0.563	-0.076	0.305	0.012	-0.042	0.05	0.206	0.182	0.181	-0.066	0.172	-0.478
CNH	0.51	-0.303	1	-0.784	-0.926	-0.716	-0.638	-0.76	0.439	0.921	0.969	-0.473
PHP	0.463	0.381	0.201	0.515	0.253	0.264	0.683	0.481	-0.3	-0.412	-0.186	-0.358
CNY	0.439	-0.514	0.642	-0.45	-0.552	-0.298	-0.474	-0.344	0.492	0.52	0.587	-0.44
THB	0.413	-0.224	0.969	-0.871	-0.899	-0.806	-0.634	-0.815	0.599	0.917	1	-0.3
KRW	0.358	0.438	-0.347	0.222	0.542	0.015	0.738	0.287	0.068	-0.518	-0.305	-0.289
USGG10	0.252	0.533	-0.638	0.693	0.795	0.451	1	0.691	-0.346	-0.826	-0.634	-0.303
TWD	-0.131	1	-0.303	0.315	0.318	0.125	0.533	0.175	-0.342	-0.368	-0.224	0.258
INR	-0.43	0.307	-0.905	0.718	0.814	0.679	0.636	0.717	-0.474	-0.912	-0.908	0.298
GBP	-0.486	-0.141	-0.238	0.6	0.151	0.554	-0.055	0.383	-0.437	-0.33	-0.408	0.504
NZD	-0.534	-0.158	0.256	-0.294	-0.568	-0.111	-0.79	-0.391	-0.129	0.508	0.335	0.559
AUD	-0.696	-0.216	-0.073	0.229	-0.181	0.252	-0.47	-0.049	-0.303	0.046	-0.13	0.724
EUR	-0.972	0.258	-0.473	0.293	0.103	0.316	-0.303	-0.023	-0.475	-0.192	-0.3	1

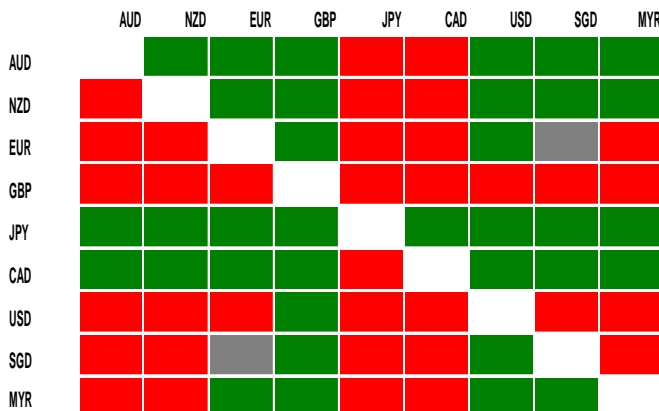
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1100	1.1177	1.1199	1.1200	1.1213
GBP-USD	1.2986	1.3000	1.3093	1.3100	1.3350
AUD-USD	0.7005	0.7009	0.7020	0.7100	0.7132
NZD-USD	0.6721	0.6745	0.6765	0.6799	0.6800
USD-CAD	1.3283	1.3400	1.3452	1.3456	1.3468
USD-JPY	111.00	111.40	111.44	112.00	112.06
USD-SGD	1.3500	1.3556	1.3598	1.3600	1.3614
EUR-SGD	1.5200	1.5208	1.5229	1.5254	1.5300
JPY-SGD	1.2081	1.2200	1.2203	1.2257	1.2300
GBP-SGD	1.7730	1.7800	1.7805	1.7900	1.8005
AUD-SGD	0.9530	0.9533	0.9546	0.9600	0.9669
Gold	1276.31	1278.90	1287.40	1300.00	1300.91
Silver	14.90	14.92	14.96	15.00	15.20
Crude	52.94	56.30	56.36	56.40	57.88

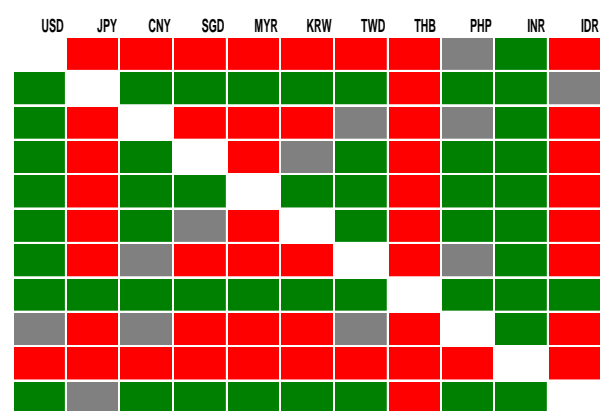
Source: OCBC Bank

G10 FX Heat Map



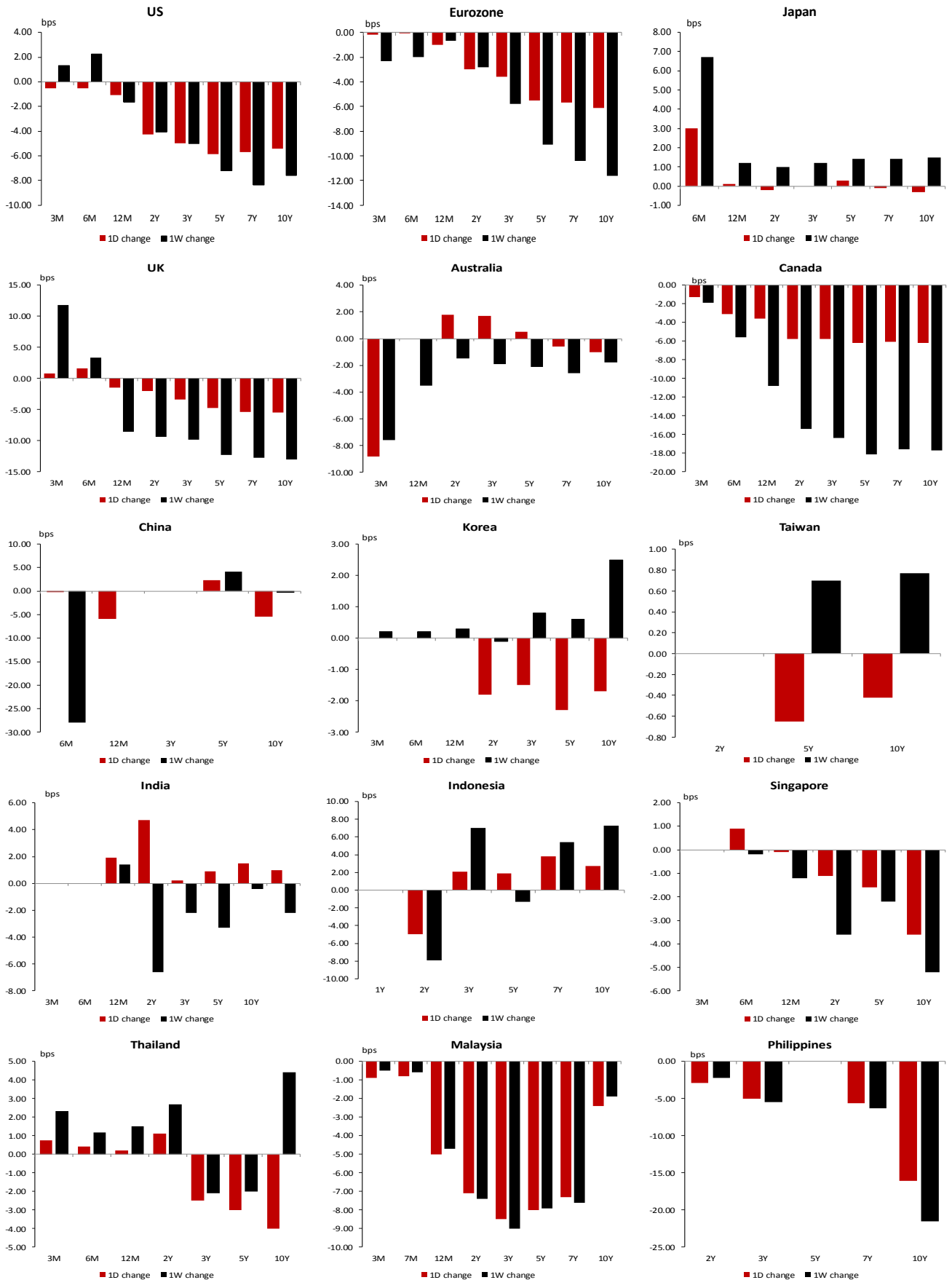
Source: OCBC Bank

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		
5	07-Mar-19	B	USD-CAD	1.3430	1.3655	1.3315	BOC stalls in its tightening bias		
STRUCTURAL									
6	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	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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