

Tuesday, February 12, 2019

Market Themes/Strategy/Trading Ideas

- The DXY climbed for the 8th consecutive session on Monday to end above 97.00 as Sino-US uncertainty (now compounded by South China Sea tensions) and global macro concerns continued to worry investors. EUR-USD slipped below 1.1300 and GBP-USD relapsed below 1.2900 while the AUD-USD was repelled from the 0.7100 area and retraced to end lower on the day. Meanwhile, USD-JPY also lifted past 110.40. The GBP was a note under performer across G10 space with Brexit uncertainty still a sweltering mess.
- Despite positive EZ/US equities, the commodity complex wavered lower but this did not prevent the **FX Sentiment Index (FXSI)** from ticking lower within Risk-Neutral territory. In the interim, in addition to US government shutdown-related news flow, investors may continue to trade off headlines pertaining to evolving Sino-US trade talks and Brexit developments.
- **In the near term, although DXY strength continues to be largely a byproduct of the other flailing majors and investors seeking refuge, we now see scope to test 97.50/60 for the Index. Notably, riskier for the EUR-USD have slid and for the USD-JPY have continued to float higher.**
- **Intra-day, stay negative on the EUR-USD, GBP-USD, and positive on the USD-JPY (watch the 55-day MA at 110.59), while markets may attempt to fade uptick in the AUD-USD towards 0.7100.**
- Amidst the darkening EZ macro outlook, we re-initiate a tactical short **EUR-USD** at 1.1325 on Monday, targeting 1.1120 and leaving a stop at 1.1430.
- Apart from the EU finance ministers meeting today, watch also for central bank rhetoric this week with a full schedule today. Look to the ECB's Lane (0330 GMT), Weidmann (0800 GMT), and Lautenschlaeger (2330 GMT), as well as the BOE's Carney (1300 GMT) and the RBA's Heat (2050 GMT). In the US, the Fed's Powell is scheduled for 1745 GMT, while Mester is due at 2330 GMT.

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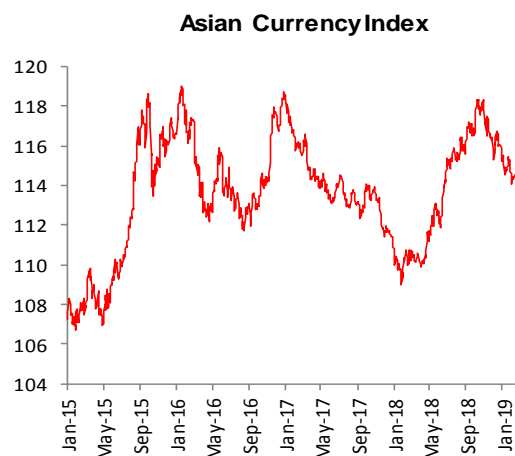
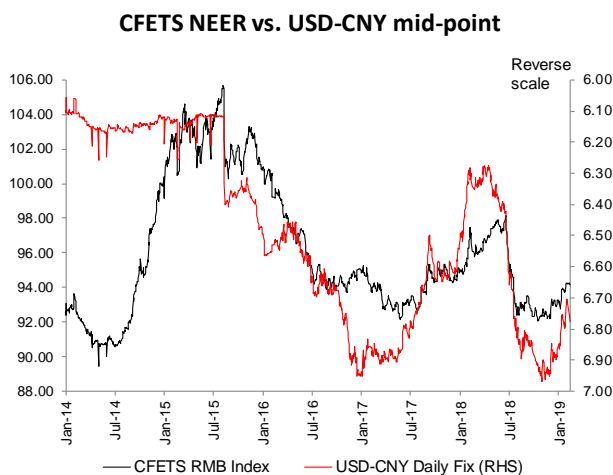
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Asian Markets

- The current environment these few sessions may not be the best of times to preach unbridled optimism towards EM/Asia. EM equities inched lower in aggregate on Monday (despite positive China equities) and we remain conscious of brewing unease towards EM/Asia given the cloudier global macro prognosis over the past week.
- USD-CNH re-took 6.8000 on Monday and with Asian NDFs reacting in kind overnight, expect USD-Asia to trade on a more supported tone intra-day. To this end, mounting political risks for India and Thailand also may present cause for pause.
- On the flow front, net inflows for South Korea are capitulating lower with net equity inflows consolidating lower. Indonesia meanwhile is also witnessing moderation as net equity inflows consolidate lower. India meanwhile has been printing a slight pickup in net equity inflows while net bond outflows are attempting to compress. Elsewhere, net equity inflows for Thailand have are also correcting lower while net bond outflows are attempting to deepen.
- **SGD NEER:** The SGD NEER stands at around +1.58% above its parity level (1.3816), with implied USD-SGD thresholds pushing higher on the back of broad USD strength and global slowdown concerns. As the USD-SGD surfaced above 1.3600 overnight, we retain an upward bias on the pair, with the 55-day MA (1.3626) and the 200-day MA (1.3642) the next interim targets.
- **CFETS RMB Index:** The USD-CNY midpoint came in lower than our expectation again at 6.7765, compared to 6.7495 on Monday. The CFETS RMB Index eased slightly to 94.21, from 94.25 on Monday. Expect the USD-CNY to retain a biddish tone ahead of new flow from the Sino-US talks this week.



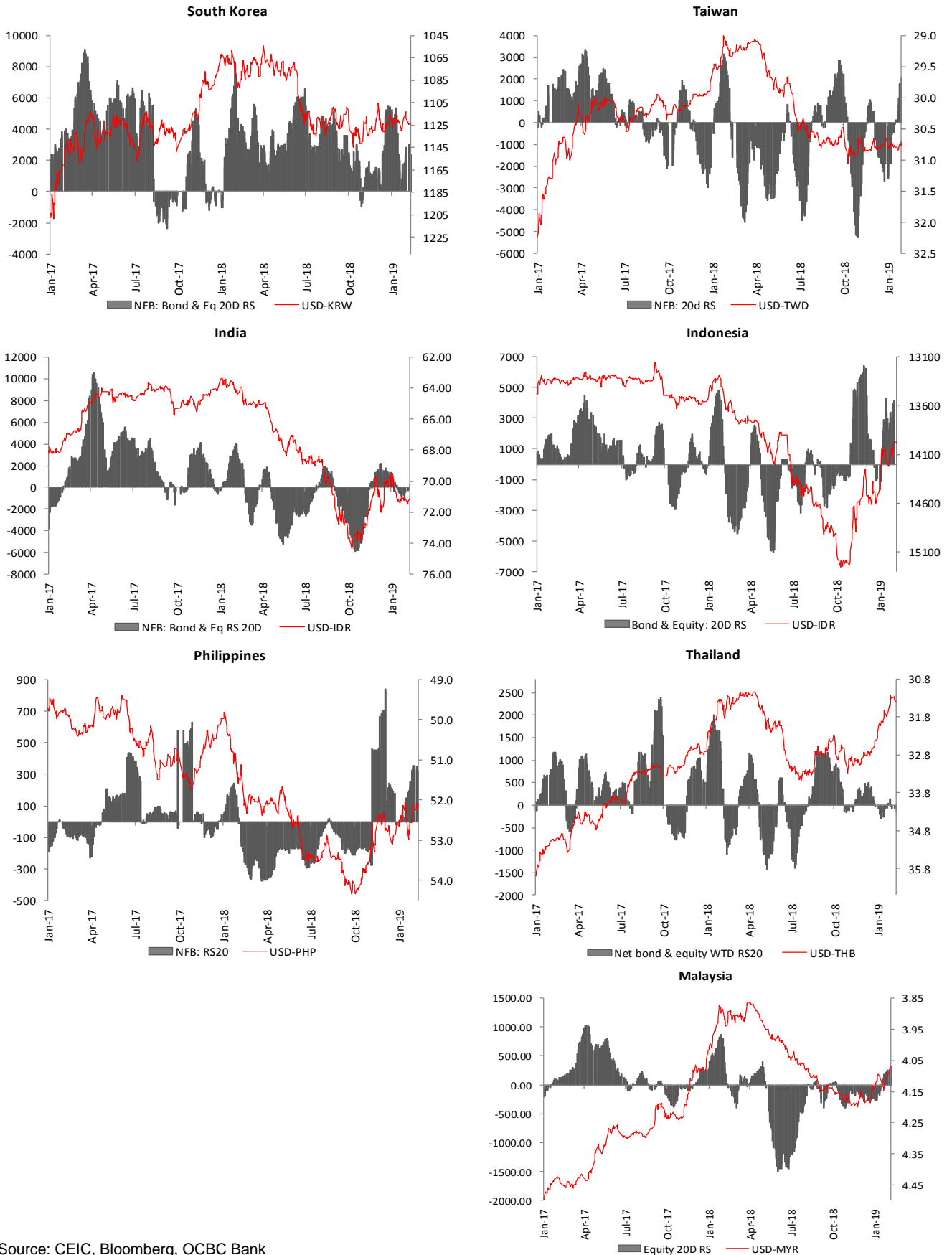
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔	↔	Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. The PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments.. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Dec CPI/PPI decelerate further, Dec exports and imports surprised with a contraction, industrial profits deteriorate further at -1.9% yoy. Dec retail sales and industrial production in-line to stronger than expected. Jan PMIs improve but Caixin PMIs weaken further.
S. Korea	↔/↑	↔	BOK static in January, but downgraded 2019 growth and inflation forecasts further. BOK expected to retain accommodative stance, but the governor noted that a rate cut is not in the pipeline. 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. Nov current account surplus shrank to lowest level since April. 4Q GDP higher than expected at +3.1% yoy on the back of fiscal support.
Taiwan	↔	↔/↓	4Q GDP disapoints at +1.76%. 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. Price pressures soften and Dec CPI surprises with a -0.05% contraction. Political premium being built in. Dec exports orders slump -10.5% yoy.
India	↔	↔	RBI delivered a surprise 25 bps cut in Feb and shifted back to neutral stance. Room for govie curve to bull steepen in the near term as the possibility of further cuts are being priced in at the front-end, while the back-end remains constrained by fiscal slippage concerns. Jan CPI 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 mechandise trade deficit came in lower than expected. Elections due Apr/May 2019.
Singapore	↔/↑	↔	SGD NEER veering away from the extreme end of its fluctuation band. Expect movements in the USD-SGD to track broad USD prospects. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar. Dec 2018 CPI readings came in a touch warmer than expected. Dec IPI disappoints at +2.7% yoy.
Malaysia	↓	↓	BNM static at 3.25% in Jan 2019 and is expected to be static through 2019. Dec CPI cooler than expected +0.2% yoy. Dec manufacturing PMI falls to 47.7 from 48.4. Dec exports and industrial production numbers better than expected.
Indonesia	↔/↓	↓	Note sustained positive investor response to bond auctions. BI remained static on its policy rate in Jan, although the official stance is still characterized as "hawkish". If the Fed is in fact static in March, BI may relent and turn neutral. Primary policy focus remains centred on containing current account deficit and maintaining a sufficient yield buffer. Jan CPI mixed, export/import performance weakens. 4Q18 CA deficit widened more than expected. 4Q GDP better than expected. Elections slated for 17 April 2019.
Thailand	↔	↔	BOT kept rates unchanged in Feb. Accomodative policy "still appropriate", although 2 of 7 committee members voting to hike rates further is a slight surprise. BOT comments on recent THB appreciation also softened. Trade momentum deteriorated in Dec 18. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3. Elections scheduled on 24 March, with uncertainties heightening.
Philippines	↓	---	BSP remained static in Feb as expected, with inflation forecasts downgraded. 4Q GDP below expectations at 6.1% 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%.

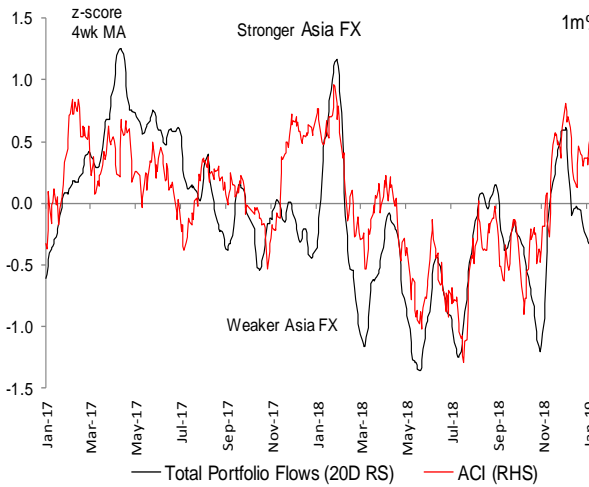
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



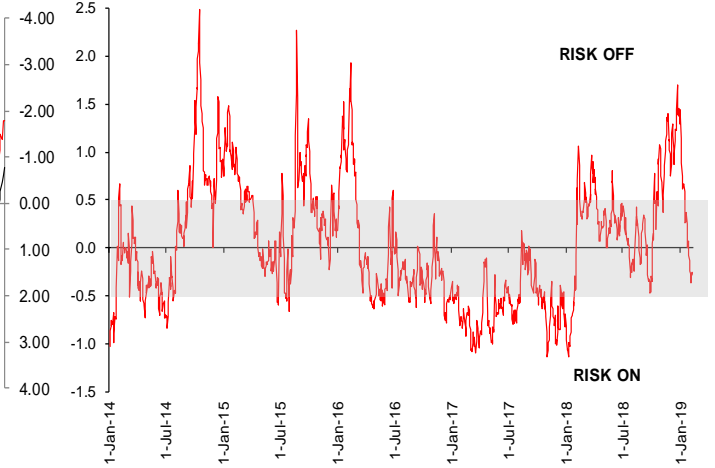
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.133	0.754	0.209	0.216	-0.297	0.711	-0.232	-0.169	-0.113	0.77	-0.982
SGD	0.826	0.329	0.951	-0.239	-0.255	-0.245	0.436	-0.413	0.282	0.306	0.939	-0.826
IDR	0.77	0.353	0.972	-0.075	-0.148	-0.132	0.495	-0.272	0.156	0.137	1	-0.744
MYR	0.754	0.465	1	-0.327	-0.38	-0.224	0.445	-0.424	0.426	0.33	0.972	-0.736
JPY	0.711	-0.073	0.445	0.718	0.704	0.119	1	0.368	-0.53	-0.659	0.495	-0.704
CAD	0.68	-0.311	0.321	0.808	0.811	0.051	0.923	0.41	-0.592	-0.76	0.373	-0.678
CHF	0.635	0.327	0.95	-0.209	-0.252	-0.246	0.358	-0.354	0.331	0.265	0.89	-0.65
CNH	0.59	0.251	0.836	-0.574	-0.48	-0.518	0.061	-0.701	0.617	0.623	0.668	-0.624
PHP	0.485	0.594	0.823	-0.605	-0.646	-0.129	0.126	-0.509	0.724	0.637	0.766	-0.506
CNY	0.224	-0.025	0.427	0.655	0.563	0.254	0.62	0.466	-0.465	-0.638	0.307	-0.158
THB	0.019	0.691	0.624	-0.766	-0.766	0.017	-0.231	-0.43	0.858	0.705	0.311	-0.071
KRW	-0.002	0.672	0.493	-0.277	-0.294	0.112	0.087	0.032	0.604	0.221	0.387	-0.083
USGG10	-0.058	0.625	0.53	-0.914	-0.928	-0.143	-0.532	-0.636	0.812	0.903	0.332	0.034
TWD	-0.133	1	0.465	-0.473	-0.536	0.414	-0.073	-0.075	0.543	0.385	0.353	0.101
INR	-0.347	0.719	0.201	-0.581	-0.604	0.345	-0.31	0.06	0.778	0.524	0.045	0.239
GBP	-0.583	0.045	-0.564	0.105	0.218	0.142	-0.127	0.429	0.056	-0.143	-0.566	0.461
NZD	-0.816	-0.197	-0.894	0.247	0.217	0.306	-0.361	0.507	-0.243	-0.303	-0.793	0.823
AUD	-0.871	0.078	-0.763	0.021	-0.098	0.458	-0.552	0.367	-0.079	-0.111	-0.705	0.883
EUR	-0.982	0.101	-0.736	-0.178	-0.204	0.272	-0.704	0.206	0.109	0.088	-0.744	1

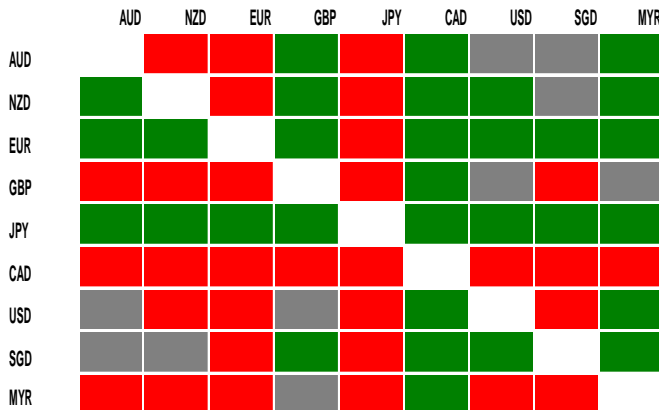
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1267	1.1270	1.1283	1.1300	1.1395
GBP-USD	1.2800	1.2814	1.2869	1.2900	1.3016
AUD-USD	0.7000	0.7040	0.7083	0.7100	0.7145
NZD-USD	0.6674	0.6700	0.6736	0.6755	0.6790
USD-CAD	1.3140	1.3200	1.3293	1.3300	1.3357
USD-JPY	110.31	110.41	110.47	110.54	111.00
USD-SGD	1.3466	1.3500	1.3590	1.3600	1.3618
EUR-SGD	1.5300	1.5328	1.5333	1.5340	1.5400
JPY-SGD	1.2285	1.2300	1.2301	1.2348	1.2400
GBP-SGD	1.7400	1.7450	1.7488	1.7500	1.7754
AUD-SGD	0.9586	0.9600	0.9625	0.9700	0.9730
Gold	1276.50	1300.00	1307.00	1325.40	1326.37
Silver	15.27	15.70	15.71	15.80	16.10
Crude	51.33	52.80	52.80	54.96	55.75

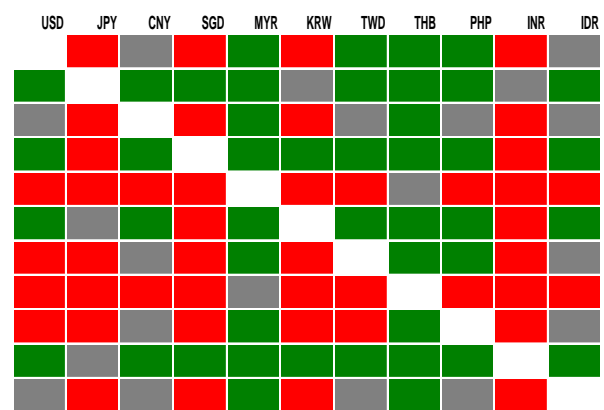
Source: OCBC Bank

G10 FX Heat Map



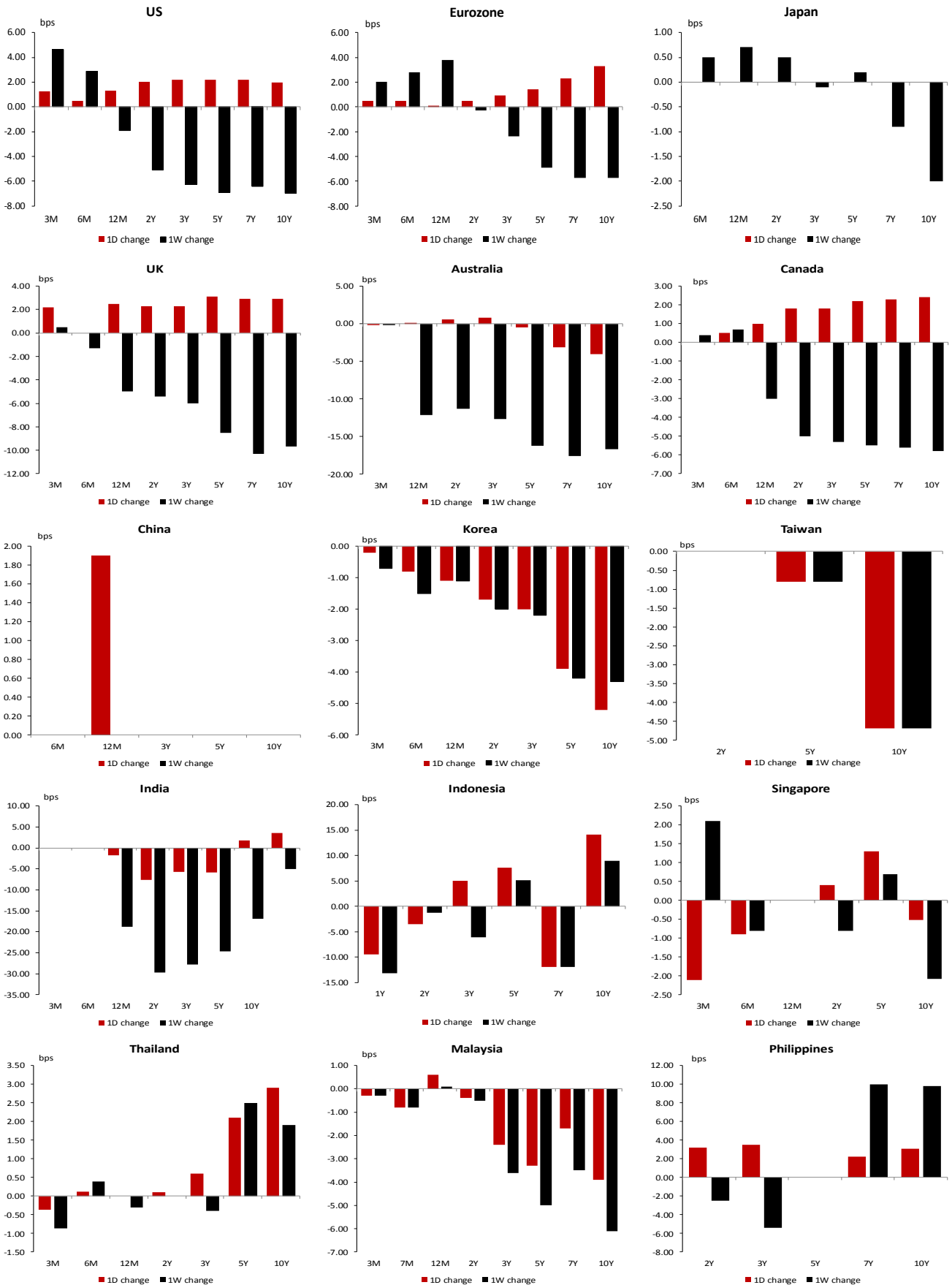
Source: OCBC Bank

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	11-Feb-19		B	EUR-USD	1.1325	1.1120 1.1430	Darkening EZ macro outlook	
STRUCTURAL								
	-		-	-	-	-	-	-
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	25-Jan-19	28-Jan-19	S	EUR-USD	1.1327	1.1435	Dovish overtones from ECB's Draghi	-0.92
2	31-Jan-19	07-Feb-19	S	USD-CAD	1.3131	1.3250	Improvement in risk appetite, supportive crude	-0.91
3	31-Jan-19	07-Feb-19	B	XAU-USD	1,320.09	1,304.00	Improvement in risk appetite, supportive crude	-1.29

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