

Wednesday, February 13, 2019

Market Themes/Strategy/Trading Ideas

- An overall improvement in global risk appetite levels pulled the broad dollar lower on Tuesday with the JPY and CHF also underperforming across the board. Global govie curves also reacted higher in unison.
- Sentiment brightened on reports indicating that Trump is open to extending the 01 March 2019 deadline for Sino-US trade talks. Earlier in the global session, headlines also indicated that an interim deal had been reached by Congressional negotiators late Monday, potentially averting another partial government shutdown from this Friday. Trump subsequently also indicated that he did not expect another shutdown. Elsewhere, the Fed's Powell also downplayed odds of a recession.
- Global equities (including in EM) and commodities (WTI printed above 54.00 briefly) were encouraged higher by more positive Sino-US headlines. Our **FX Sentiment Index (FXSI)** moved lower within Risk-Neutral, and is now near the boundary of the Risk-On zone.
- Comments from the **ECB** officials on Tuesday sought to strike a more balanced tone and likely also helped to stave off excessive EUR negativity in the near term. The **BOE's** Carney noted that the faster than expected slowdown in the UK economy in 4Q 18 underscores the need for Brexit certainty. Comments from **RBA's** Heath also avoided undue pessimism late Tuesday.
- **No doves at the RBNZ** - This morning, the **RBNZ** was static as expected at 1.75% but the NZD-USD surged after the central bank failed to portend rate cuts as some had expected and noted that it expects to keep the OCR at this level through 2019 and 2020. Nevertheless, the timetable for an improvement in the inflation trajectory was pushed back, with the inflation target of 2% only expected to be achieved in 4Q 20 from 4Q 18 previously. Rates are now also officially seen rising in 1Q 21 from 3Q 20 previously.
- In the near term, with investors reduced to headline watching and global central banks easing off on their downbeat rhetoric, the **DX** may trade on a slightly more consolidative to heavy note, potentially retracing to its 55-day MA (96.42). **Structurally, the USD remains intrinsically supported by aggregated rate differentials while the unpleasant reality of a decelerating global economy imply that the majors may have to contend with gravity again if jitters resurface.**
- On the data front, watch UK and US Jan CPI readings today (0930 GMT and 1330 GMT) respectively.

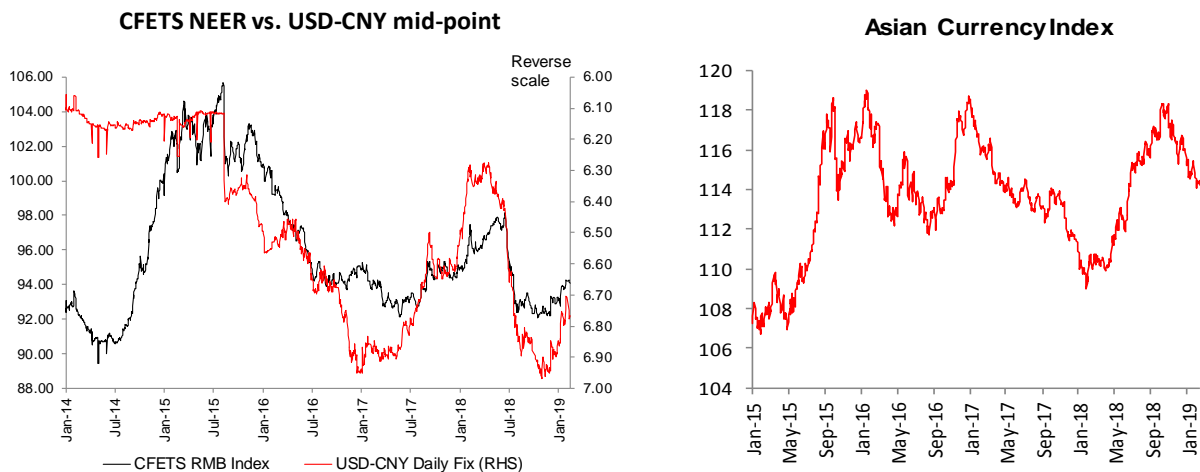
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Asian Markets

- USD-CNH slumped below 6.7800 overnight (key support at the 200-day MA of 6.7726) in line with the majors and expect USD-Asia to ease lower in tandem intra-day. The INR meanwhile was also allegedly aided by M&A related inflows with spot while investor appetite for bond auctions in Indonesia on Tuesday remained significant.
- In terms of portfolio flows, the latest print revealed some attempt at stemming the compression in inflow momentum in South Korea seen in the last three sessions. First data prints post-LNY also showed an extension in equity inflow momentum in Taiwan. Meanwhile, India (slight positive) and Thailand (slight negative) continue to struggle near neutral levels in terms of flow momentum.
- **SGD NEER:** The SGD NEER softened this morning to +1.61% above its parity level (1.3778), after notching above the +1.70% level overnight. Implied USD-SGD thresholds eased with the broad USD's decline. In the near term, expect the USD-SGD to return to a consolidative posture, with the 1.3600 handle serving again as an interim resistance.
- **CFETS RMB Index:** The USD-CNY midpoint came in lower, within our expectations, at 6.7675, compared to 6.7765 on Tuesday. The CFETS RMB Index eased slightly to 94.11, from 94.15 previously. **Expect realized volatility for CNY (or CNH) to continue to outpace that of the CFETS RMB Index as the authorities continue to keep the basket relatively stable.**



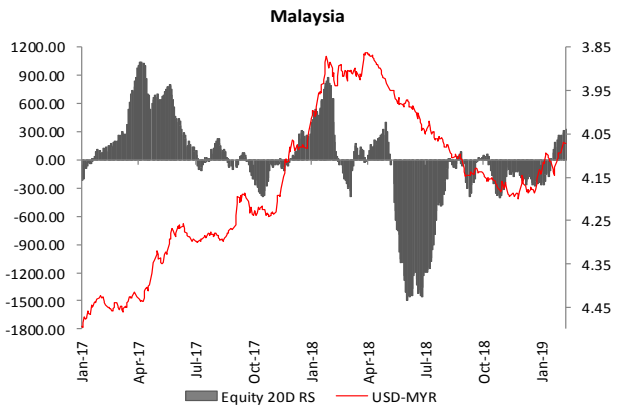
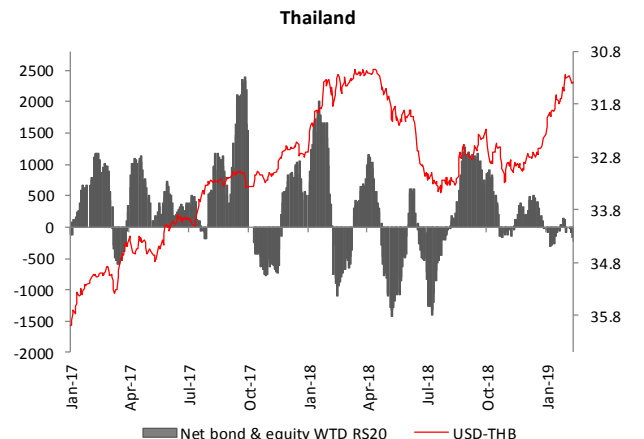
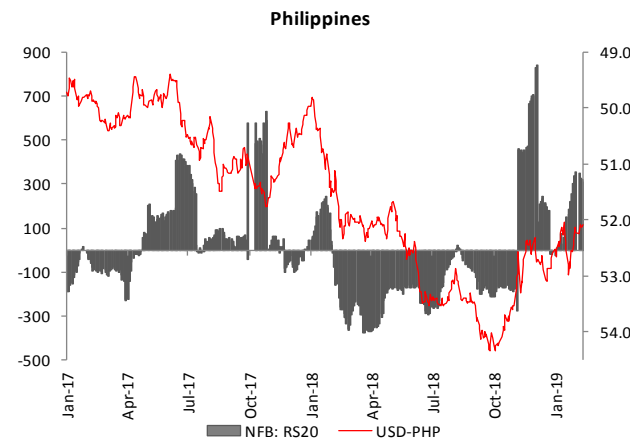
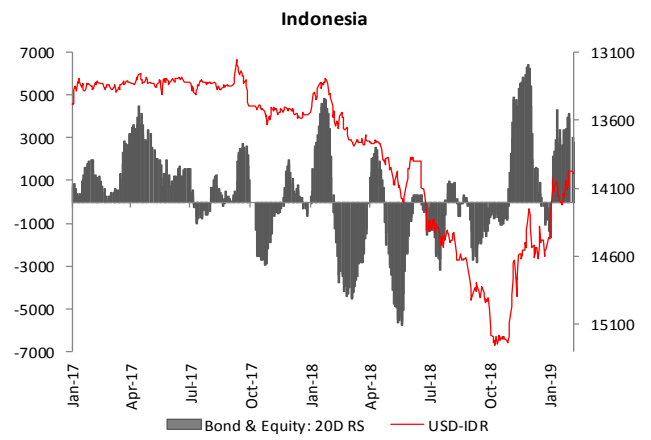
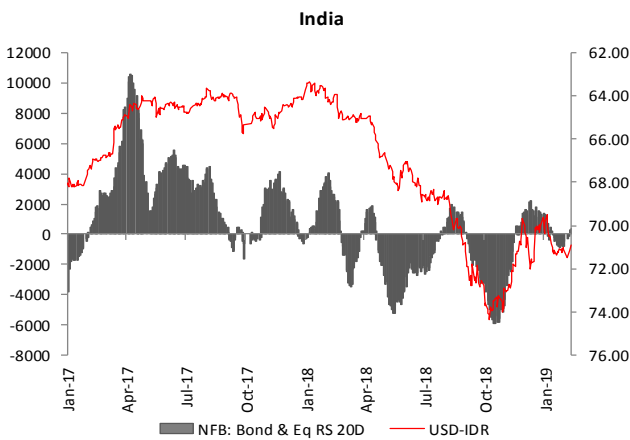
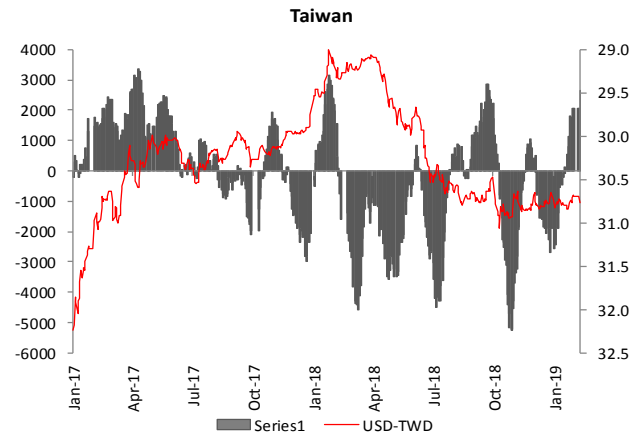
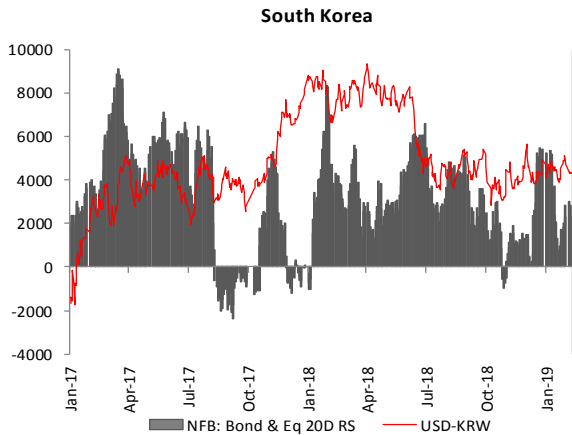
Source: OCBC Bank, Bloomberg

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 to retain accommodative stance, but has ruled 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. 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. Jan unemployment jumps to 4.4%.
Taiwan	↔	↓	4Q GDP disappoints 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. Jan CPI readings surprise on the soft side. 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 (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 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 static at Jan policy meeting, official stance is still characterized as “hawkish”. Primary policy focus (via exchange rate stability) 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%.

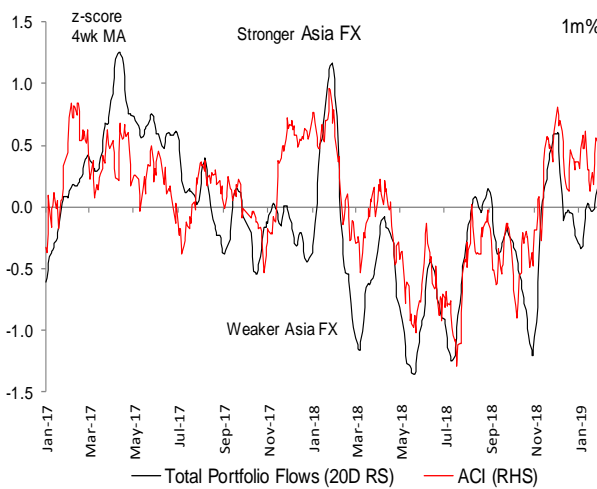
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



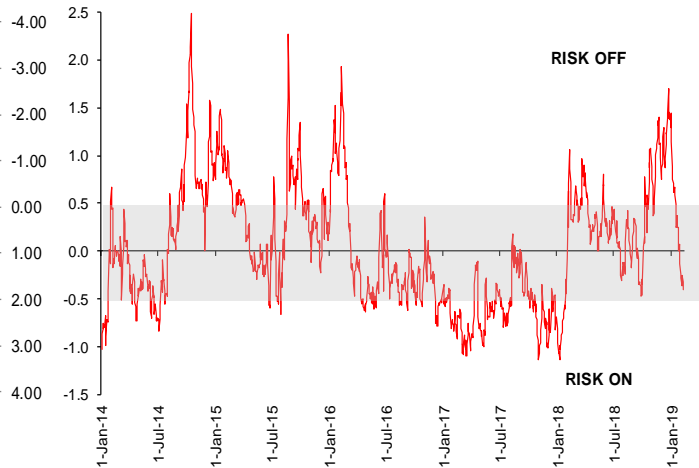
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.095	0.756	0.296	0.285	-0.339	0.688	-0.202	-0.246	-0.181	0.755	-0.98
SGD	0.815	0.359	0.949	-0.196	-0.225	-0.255	0.385	-0.392	0.246	0.28	0.935	-0.812
IDR	0.756	0.508	1	-0.212	-0.3	-0.242	0.405	-0.413	0.317	0.266	0.97	-0.736
MYR	0.755	0.386	0.97	-0.06	-0.138	-0.135	0.41	-0.258	0.141	0.129	1	-0.713
JPY	0.688	-0.074	0.405	0.757	0.733	0.024	1	0.411	-0.583	-0.685	0.41	-0.692
CAD	0.668	-0.3	0.276	0.834	0.825	-0.042	0.937	0.43	-0.637	-0.772	0.296	-0.677
CHF	0.666	0.334	0.954	-0.132	-0.204	-0.26	0.318	-0.342	0.261	0.215	0.89	-0.655
CNH	0.563	0.282	0.823	-0.542	-0.466	-0.505	-0.013	-0.697	0.594	0.608	0.66	-0.581
PHP	0.534	0.597	0.836	-0.487	-0.566	-0.134	0.141	-0.507	0.617	0.572	0.779	-0.551
CNY	0.026	0.036	0.241	0.346	0.316	0.316	0.276	0.397	-0.231	-0.401	0.255	0.001
THB	0.02	0.698	0.64	-0.713	-0.739	0.021	-0.237	-0.432	0.819	0.685	0.318	-0.075
KRW	0.001	0.665	0.501	-0.343	-0.347	0.154	0.052	0.015	0.633	0.275	0.41	-0.095
USGG10	-0.041	0.619	0.556	-0.907	-0.928	-0.099	-0.574	-0.652	0.818	0.907	0.349	0.064
TWD	-0.095	1	0.508	-0.476	-0.542	0.424	-0.074	-0.097	0.546	0.398	0.386	0.077
INR	-0.312	0.707	0.255	-0.632	-0.646	0.378	-0.305	0.024	0.801	0.577	0.097	0.193
GBP	-0.57	0.039	-0.548	0.02	0.147	0.18	-0.173	0.381	0.116	-0.085	-0.532	0.461
NZD	-0.826	-0.19	-0.879	0.131	0.133	0.341	-0.409	0.448	-0.148	-0.224	-0.751	0.837
AUD	-0.874	0.074	-0.745	-0.074	-0.166	0.486	-0.576	0.312	0.005	-0.038	-0.66	0.888
EUR	-0.98	0.077	-0.736	-0.253	-0.262	0.31	-0.692	0.153	0.178	0.147	-0.713	1

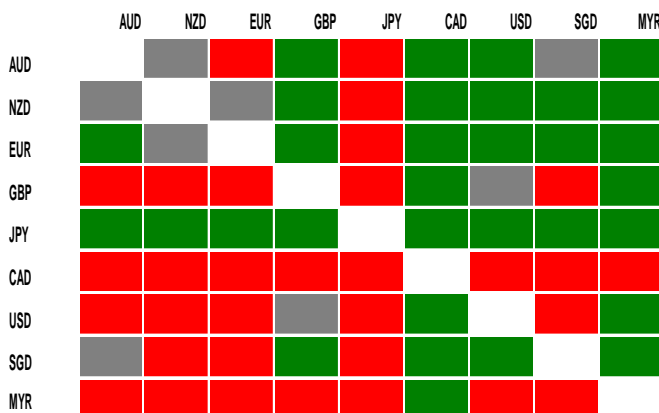
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1273	1.1300	1.1335	1.1396	1.1400
GBP-USD	1.2802	1.2818	1.2897	1.2900	1.3013
AUD-USD	0.7038	0.7100	0.7122	0.7142	0.7200
NZD-USD	0.6789	0.6800	0.6846	0.6900	0.6936
USD-CAD	1.3141	1.3200	1.3209	1.3300	1.3353
USD-JPY	110.26	110.57	110.62	110.65	111.00
USD-SGD	1.3466	1.3500	1.3553	1.3600	1.3616
EUR-SGD	1.5307	1.5338	1.5362	1.5400	1.5505
JPY-SGD	1.2244	1.2248	1.2252	1.2259	1.2261
GBP-SGD	1.7400	1.7451	1.7478	1.7500	1.7750
AUD-SGD	0.9580	0.9600	0.9652	0.9700	0.9724
Gold	1278.20	1300.00	1309.20	1325.40	1327.10
Silver	15.31	15.70	15.71	15.80	16.11
Crude	51.57	53.50	53.57	53.60	54.97

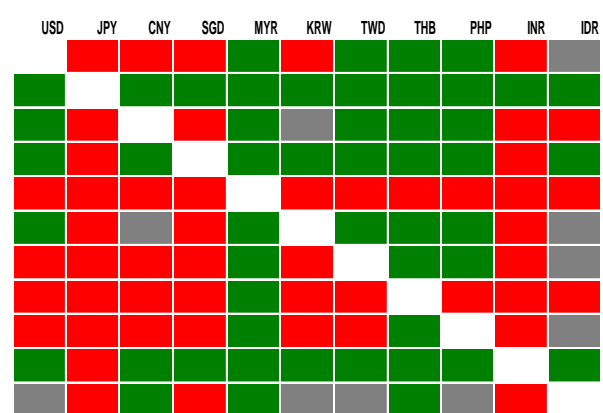
Source: OCBC Bank

G10 FX Heat Map



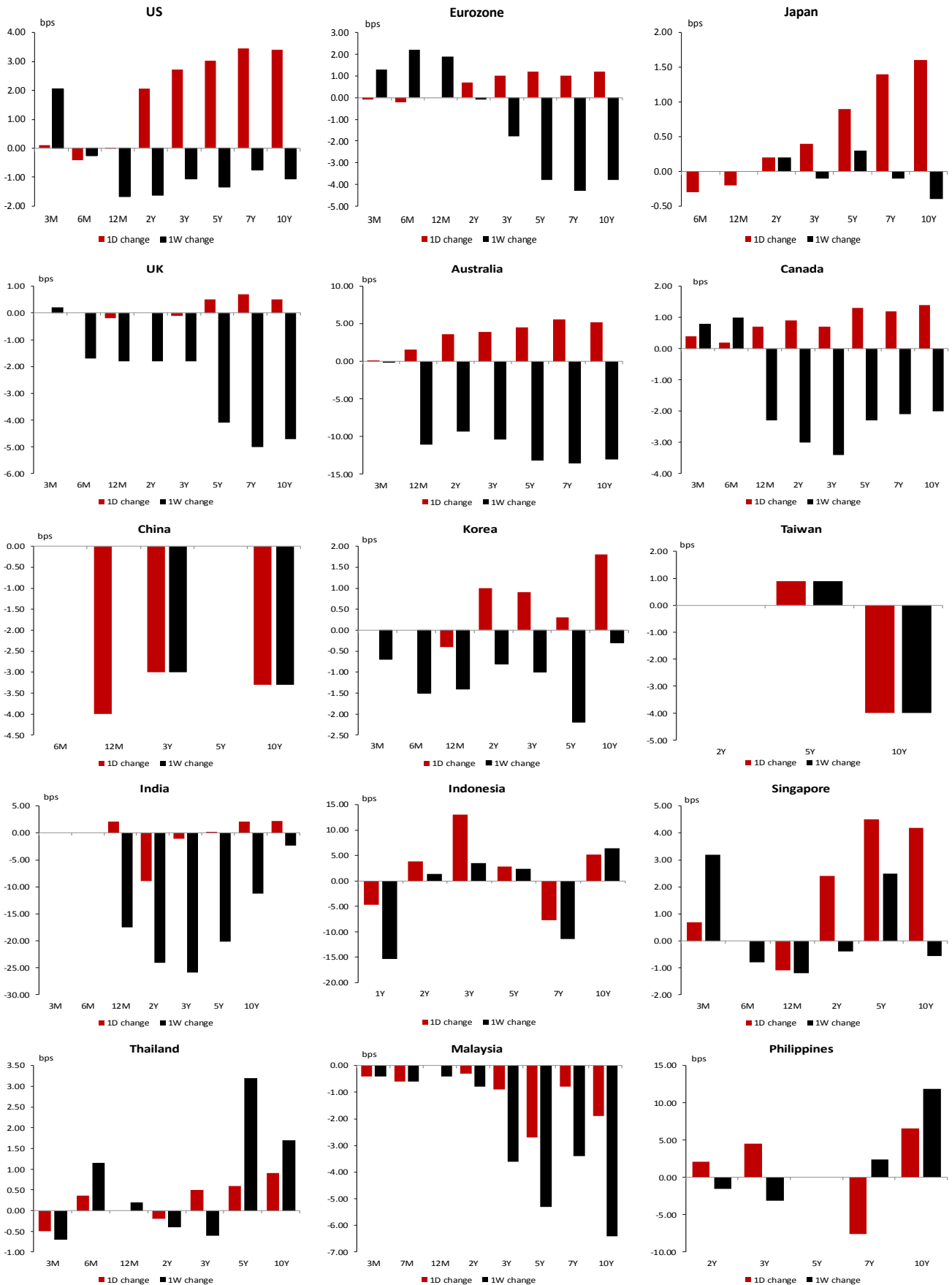
Source: OCBC Bank

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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