

Thursday, February 14, 2019

Market Themes/Strategy/Trading Ideas

- A confluence of factors from background optimism towards Sino-US trade relations, to supportive US Jan core CPI readings (note higher UST yields as the curve bear flattened on FOMC expectations), and negative reads from the data feed outside of the US, paved the way for the to resume its ascent on Wednesday. Meanwhile, a series of Fed speakers overnight also painted a rosy picture of the US economy (despite retaining the patient stance towards rate hikes), with Harker and Bostic expecting one hike in 2019.
- **This resulted in the DXY re-taking the 97.00 handle and the Index may continue to base build in the short term, especially with rate differential dynamics giving the USD an added boost yesterday.**
- Meanwhile, the EUR-USD was also weighed by disappointing Dec industrial production while flat to cooler than expected UK Jan CPI/PPI readings also pushed the GBP-USD lower. On other fronts, the Swedish central bank maintained its neutral/hawkish bias at its policy meeting, echoing the RBNZ's non-dovish signals from early Wednesday.
- Global equities (including in EM) mostly registered gains, further feeding into positive risk sentiments. Our **FX Sentiment Index (FXSI)** continued to edge lower within Risk-Neutral territory, standing near the threshold of the outright Risk-On zone. **Notably, EM risk premiums across different asset classes continue to compress.**
- The UK parliament votes today (1700 GMT) on a set of Brexit-related motions. With no significant developments on the table and another round of votes scheduled for 27 Feb, the immediate headline risk from today's session may have been shaved. Nevertheless, keep a lookout for the parliament's stance towards a no-deal outcome and a delay of the Brexit deadline.
- China's Jan trade numbers are due today while high-level Sino-US trade negotiations are also scheduled to commence. German/EZ GDP due today (0700 GMT) may be particularly sensitive given the beleaguered state of the EUR in recent weeks. On the US front, Dec retail sales (1300 GMT) may also garner market attention.
- With USD resilience still expected to be fashionable in the near term amidst the improvement in risk appetite levels, we look to a tactical long **USD-JPY**. From a spot ref of 111.00 on Thursday, we target 113.50 and leave a stop at 109.70.

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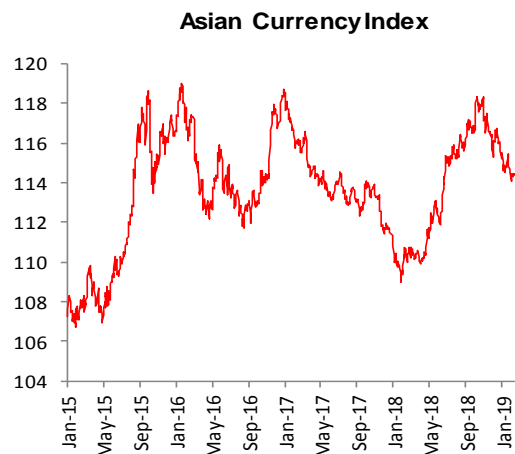
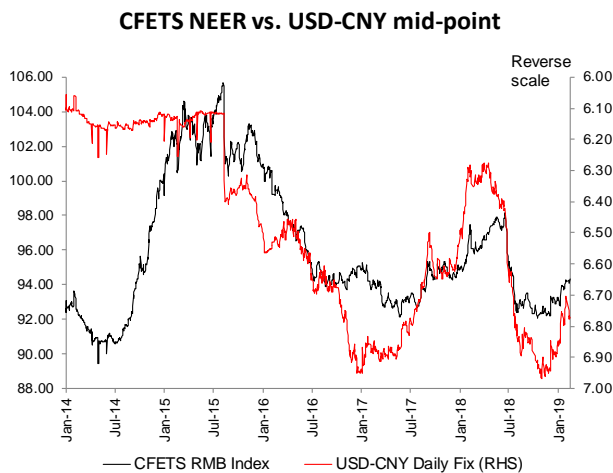
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Asian Markets

- USD-CNH shadowed the DXY higher on Wednesday while EM equities in aggregate still dipped despite the perceived improvement in global risk appetite levels, perhaps a manifestation of some nascent concern that the long EM trade may be getting crowded.
- However, appetite in Asia remains fairly upbeat at this juncture. On the **net portfolio flow** front, South Korea is printing a pickup in net positive inflows (compression in net equity outflows) while Taiwan is also experiencing sharp net equity inflows. Net positive inflows for Indonesia are still holding up, largely on the back of net bond inflows. Elsewhere, minor net outflows for Thailand may be in danger of seeping lower as net equity inflows tank. In India, we are seeing a minor pick up in the net flow environment as net equity inflows strengthen although steady net bond outflows persist.
- **SGD NEER:** The SGD NEER stood at around +1.61% above its parity level (1.3803), firming this morning after easing below the +1.50% level overnight. Implied USD-SGD thresholds also recovered. **Meanwhile, as we noted previously, the SGD retains significant correlations with both the DXY and the renminbi, and with the SGD NEER continuing to keep the strong end of its fluctuation band at arm’s length, expect potential headroom for the USD-SGD to persist.**
- **CFETS RMB Index:** The USD-CNY midpoint reverted higher, in line with our expectations, at 6.7744, compared to 6.7675 on Wednesday. Despite the weaker fix, the CFETS RMB Index picked up to 94.30, from 94.11 previously.



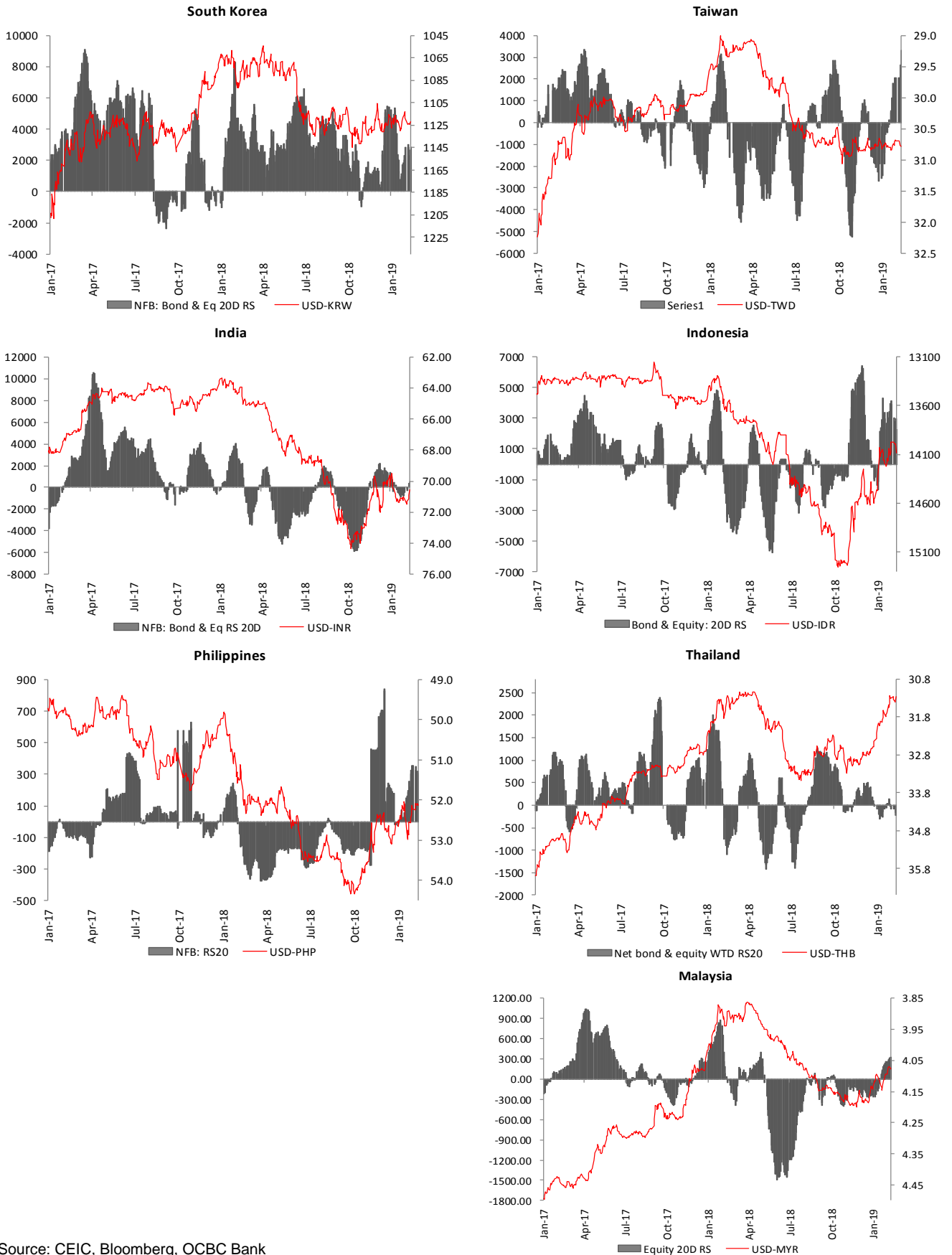
Source: OCBC Bank, Bloomberg

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 +1.78%. 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%.

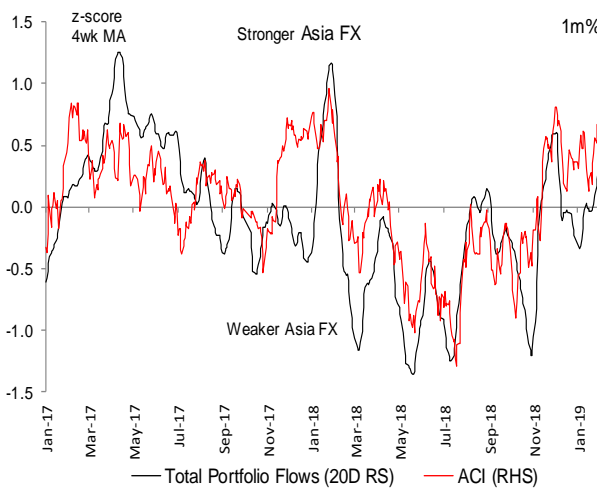
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



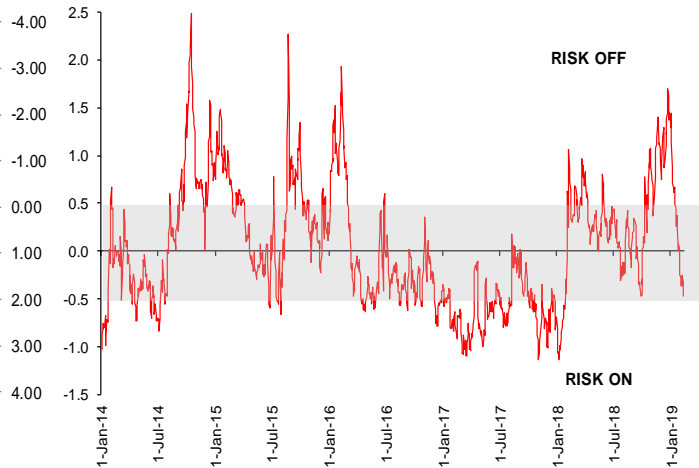
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	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	-0.085	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

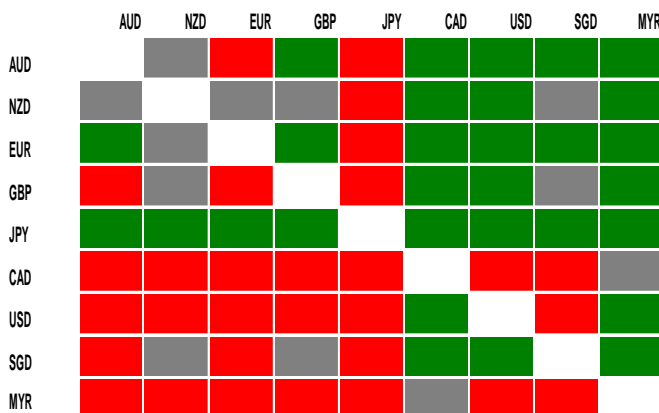
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1246	1.1250	1.1277	1.1300	1.1392
GBP-USD	1.2800	1.2819	1.2859	1.2900	1.3010
AUD-USD	0.7029	0.7100	0.7108	0.7139	0.7200
NZD-USD	0.6787	0.6800	0.6820	0.6900	0.6934
USD-CAD	1.3144	1.3200	1.3254	1.3300	1.3352
USD-JPY	110.23	110.89	110.97	111.00	111.06
USD-SGD	1.3466	1.3500	1.3582	1.3600	1.3614
EUR-SGD	1.5300	1.5311	1.5317	1.5400	1.5510
JPY-SGD	1.2200	1.2230	1.2239	1.2243	1.2259
GBP-SGD	1.7400	1.7450	1.7465	1.7500	1.7747
AUD-SGD	0.9575	0.9600	0.9654	0.9700	0.9719
Gold	1280.02	1300.00	1310.80	1325.40	1327.70
Silver	15.33	15.60	15.61	15.70	16.10
Crude	51.69	54.00	54.07	54.10	55.07

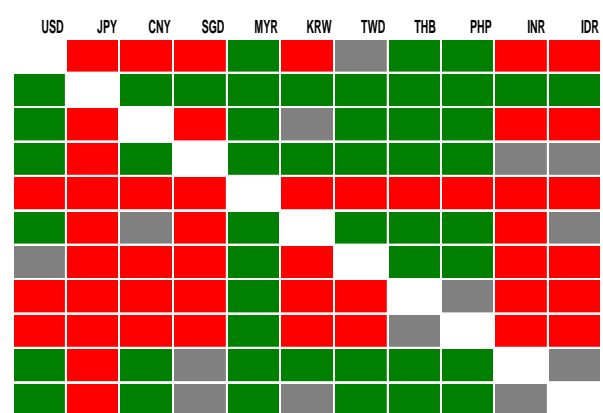
Source: OCBC Bank

G10 FX Heat Map



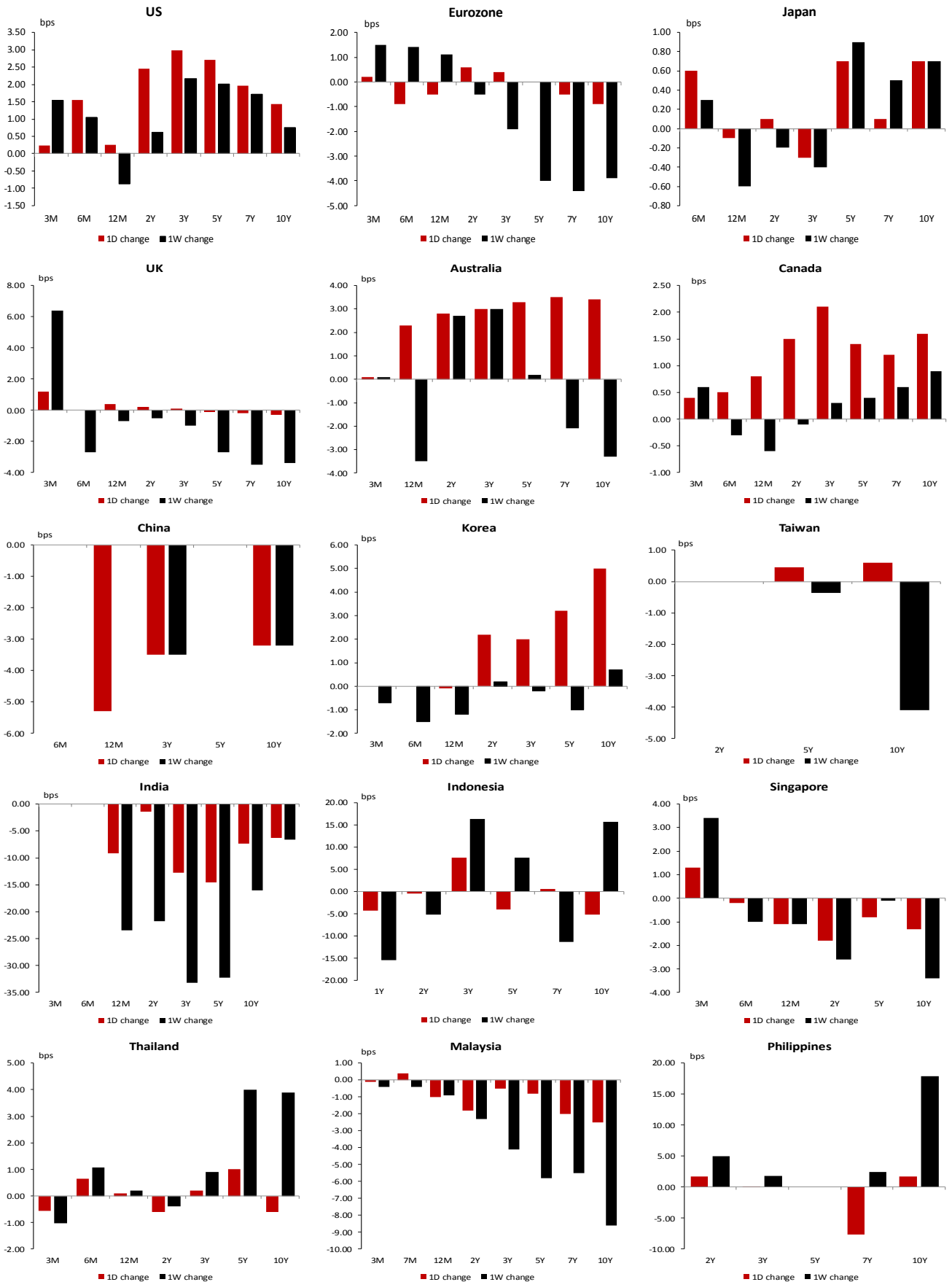
Source: OCBC Bank

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	S	EUR-USD	1.1325	1.1120 1.1430	Darkening EZ macro outlook		
3	14-Feb-19	B	USD-JPY	111.00	113.50 109.70	Dollar resilience, revival in risk appetite levels		
STRUCTURAL								
	-	-	-	-	-	-	-	
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

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