

Monday, February 18, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- The USD was pulled lower against most of the majors despite higher UST yields as after the Fed's Daly indicated that the case for a rate hike isn't there this year if the economy clocks 2% growth and 1.9% inflation as expected.
- Although Daly's comments spared positive risk appetite price action, all is still not well on the global macro front. Note that the EUR-USD has dipped briefly below 1.1250 on Friday following dovish comments from the ECB's Coeure (including the prospect for further TLTROs).
- Positive EZ/US equities and encouraging headlines from the Sino-US talks(XI-Lighthizer/Mnuchin meeting) saw the **FX Sentiment Index (FXSI)** softening into Risk-On territory on Friday.
- On the Sino-US front, continue to watch for emerging headlines from further high level talks (between the Chinese Vice Premier Liu He and USTR Lighthizer) in Washington this week. Apart from any potential mutual compromise, investors are also pinning hopes on a potential extension of the 01 March deadline.
- **The DXY tripped below 97.00 on Friday but we think it may require further catalysts to jolt the Index out of a 96.50-97.50 range on a multi-session horizon. Any further improvement in risk appetite levels stemming from the Sino-US front may be limited to the cyclicals and EM/Asia, although soggy global macro undercurrents may remain potential threats to investor sentiment. To this end, a heavy EUR-AUD or EUR-Asia (selectively) may prove more fruitful from a tactical viewpoint instead.**
- On the **calendar**, expect significant headline risks to emanate from global central banks this week, with the release of meeting minutes from the RBA (Tue), FOMC (Wed) and ECB (Thu). A heavy schedule of speakers will add to the rhetoric, with the ECB's Draghi (Fri) and Praet (Tue, Wed, Thu), RBA's Lowe (late Thu), BOC's Poloz (Thu) and the Fed's Williams (Fri) being the picks of the week.

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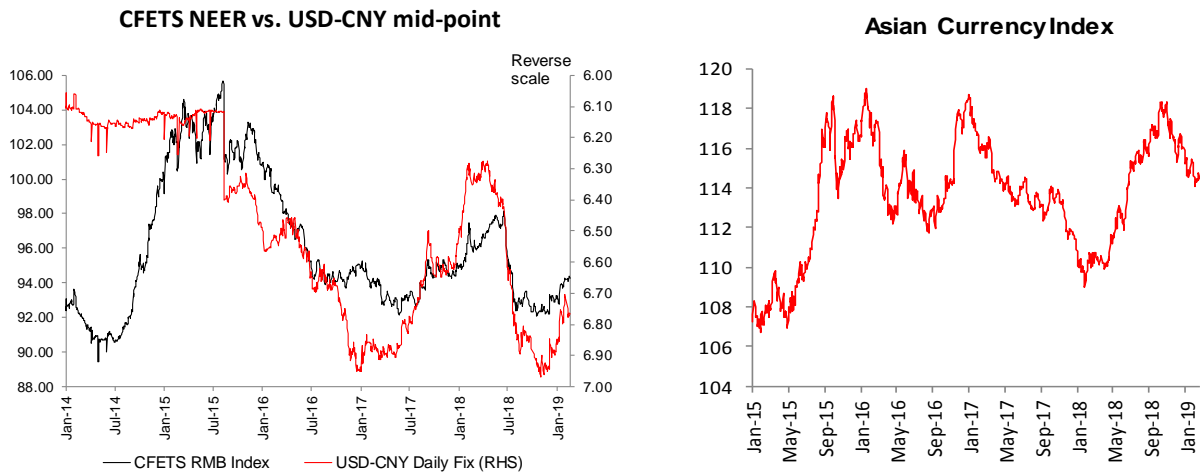
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Asian Markets

- EM equities in aggregate on Friday ended a touch lower on the day and essentially flat on the week. On the **EPFR** front, net implied equity/bond inflows into Asia (excl Japan, China) dropped significantly in the latest week. Implied equity/bond inflows into China also halved from the previous week.
- Coupled with positive hopes attached to Sino-US trade talks, China’s better than expected January monetary and lending aggregates released on Friday may continue to underpin background market sentiment at the onset of the week.
- This week, look also to **BOT MPC minutes** (Wed) and **Bank Indonesia’s** policy meeting (Thu) for further policy guidance, although we continue to expect an air of caution from the regional central banks.
- **SGD NEER:** The SGD NEER stood firmer at around +1.69% above its parity level (1.3785), while implied USD-SGD thresholds eased over the weekend. At this juncture, expect the USD-SGD to trudge along within the 1.3500-1.3600 range pending further catalysts. This morning, **Jan NODX** numbers saw a big miss, slipping 10.1% on a yoy basis and -5.7% on a mom basis (consensus estimates: -3.2% yoy and +7.0% mom). Watch also for the Budget announcement later this afternoon.
- **CFETS RMB Index:** The USD-CNY midpoint firmed slightly, within our expectations, at 6.7659, compared to 6.7523 before the weekend. The CFETS RMB Index eased to 94.26, from 94.38.



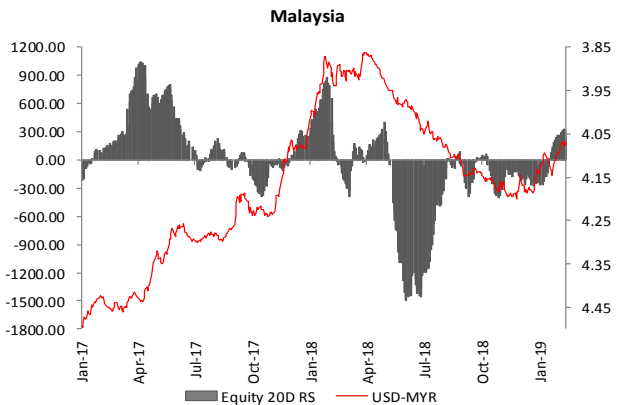
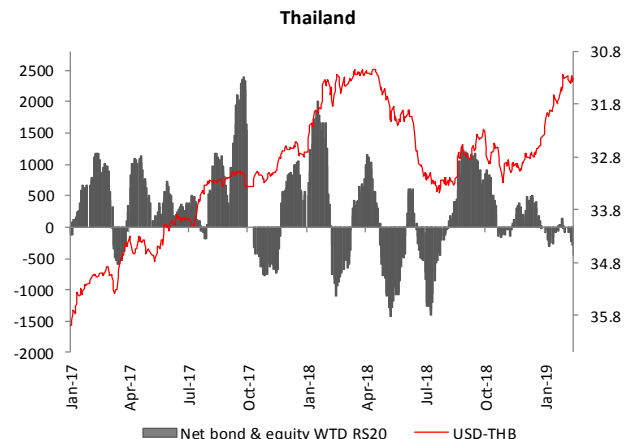
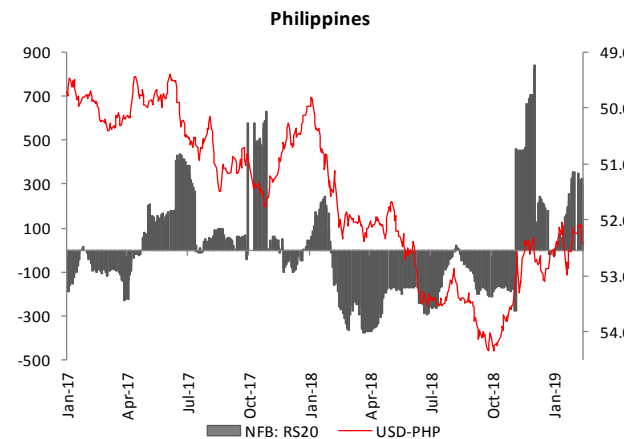
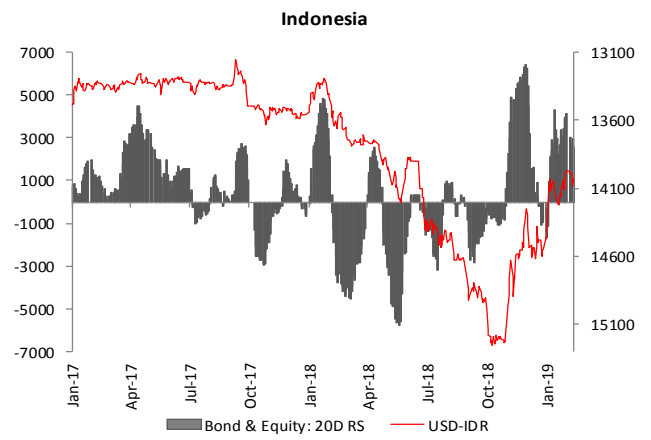
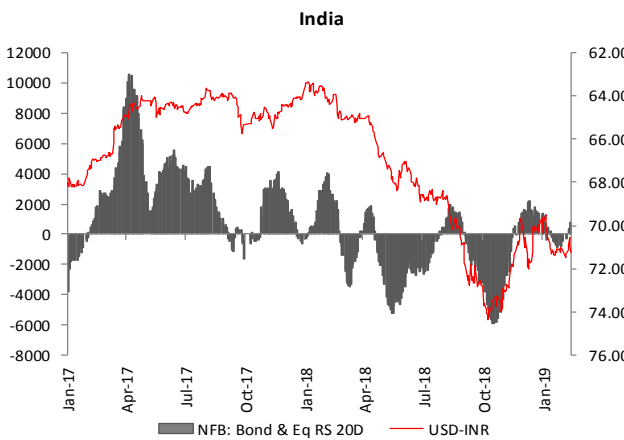
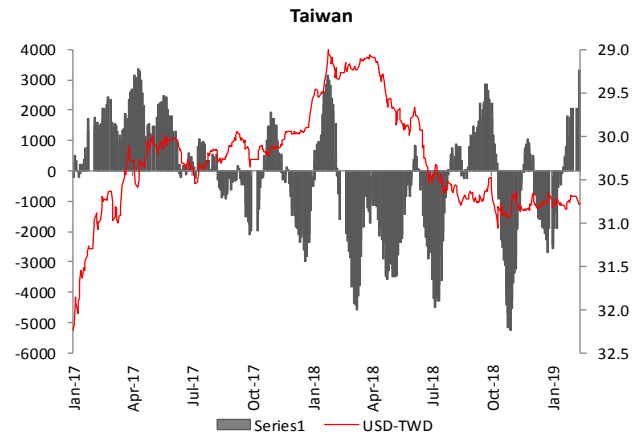
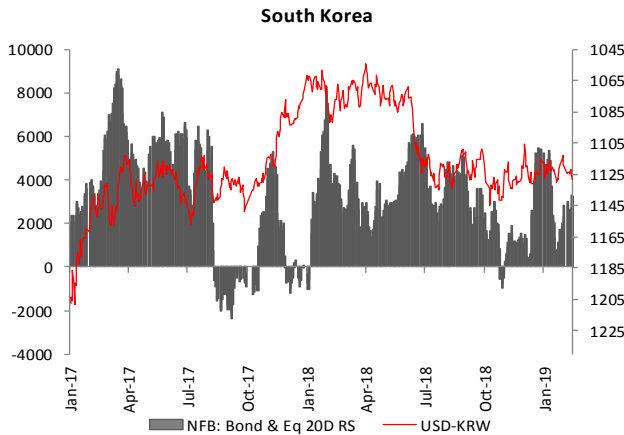
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↔/↑	↔	7-day repo rate continues to slip. Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan.. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating 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. Jan PMIs improve but Caixin PMIs weaken further. Jan trade momentum surprises on the upside; await Feb figures for better clarity.
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% 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. Jan manufacturing PMI drops to 47.5. Jan CPI readings surprise on the soft side. Dec exports orders slump -10.5% yoy. Jan exports contract less than expected.
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 wider than expected on firmer crude. 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. 4Q GDP surprises on the upside at +4.7% yoy.
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 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	↔	↔/↑	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. 4Q GDP at a better than expected +3.7% yoy.
Philippines	↔	---	BSP remained static in Feb as expected, with inflation forecasts downgraded. 4Q GDP below expectations at 6.1% yoy. Dec exports drastically underperformed expectations at -12.3% 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%.

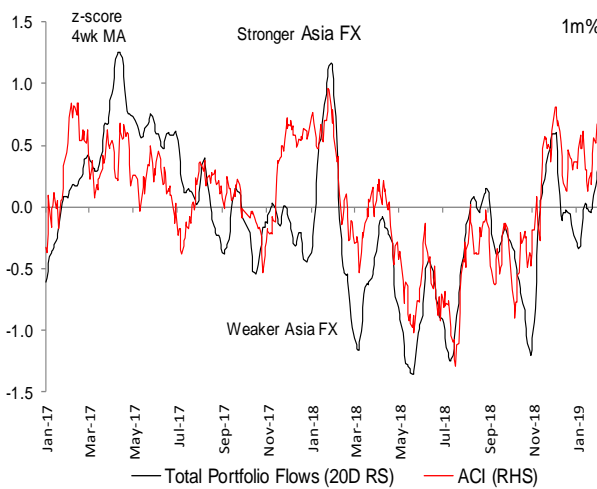
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



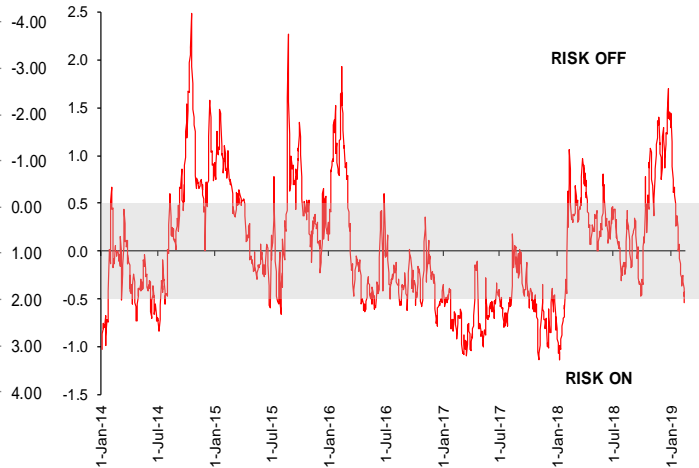
Source: CEIC, Bloomberg, OCBC Bank

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	-0.251	0.659	0.481	0.408	-0.381	0.85	-0.098	-0.353	-0.317	0.682	-0.987
SGD	0.864	-0.44	0.368	0.788	0.722	-0.168	0.928	0.272	-0.651	-0.665	0.401	-0.816
IDR	0.85	-0.216	0.448	0.71	0.631	-0.148	1	0.299	-0.584	-0.576	0.466	-0.812
MYR	0.819	0.215	0.931	0.004	-0.1	-0.429	0.583	-0.266	0.112	0.164	0.925	-0.833
JPY	0.682	0.288	0.976	-0.018	-0.13	-0.361	0.466	-0.285	0.111	0.141	1	-0.664
CAD	0.659	0.406	1	-0.052	-0.256	-0.338	0.448	-0.323	0.2	0.19	0.976	-0.674
CHF	0.652	0.244	0.947	0.055	-0.224	-0.097	0.452	-0.021	0.109	0.098	0.882	-0.684
CNH	0.577	0.206	0.823	-0.39	-0.383	-0.589	0.186	-0.528	0.495	0.53	0.694	-0.617
PHP	0.539	0.496	0.837	-0.227	-0.451	-0.164	0.313	-0.34	0.418	0.396	0.802	-0.584
CNY	0.104	0.555	0.629	-0.455	-0.695	-0.061	-0.063	-0.191	0.669	0.543	0.293	-0.158
THB	-0.075	0.718	0.558	-0.827	-0.87	-0.214	-0.335	-0.513	0.865	0.846	0.421	-0.011
KRW	-0.163	0.744	0.525	-0.704	-0.868	0.123	-0.347	-0.213	0.827	0.68	0.372	0.102
USGG10	-0.234	0.122	0.28	-0.03	-0.087	0.346	-0.225	0.109	-0.021	-0.052	0.219	0.284
TWD	-0.251	1	0.406	-0.568	-0.65	0.138	-0.216	-0.274	0.597	0.514	0.288	0.249
INR	-0.508	0.723	0.149	-0.83	-0.952	0.269	-0.601	-0.208	0.85	0.808	0.004	0.417
GBP	-0.621	-0.179	-0.835	0.16	0.116	0.661	-0.236	0.656	-0.155	-0.312	-0.736	0.579
NZD	-0.853	0.331	-0.558	-0.678	-0.53	0.256	-0.799	-0.173	0.504	0.543	-0.565	0.782
AUD	-0.853	0.075	-0.757	-0.072	-0.15	0.572	-0.589	0.374	0.016	-0.09	-0.723	0.851
EUR	-0.987	0.249	-0.674	-0.391	-0.327	0.392	-0.812	0.004	0.274	0.224	-0.664	1

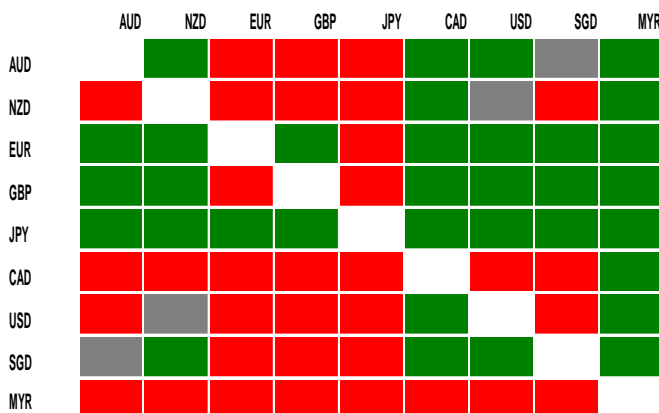
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1238	1.1300	1.1321	1.1390	1.1400
GBP-USD	1.2828	1.2900	1.2918	1.3000	1.3003
AUD-USD	0.7100	0.7137	0.7157	0.7200	0.7271
NZD-USD	0.6788	0.6800	0.6889	0.6900	0.6942
USD-CAD	1.3149	1.3200	1.3227	1.3300	1.3347
USD-JPY	110.00	110.12	110.53	110.94	111.00
USD-SGD	1.3466	1.3500	1.3551	1.3600	1.3608
EUR-SGD	1.5296	1.5300	1.5342	1.5400	1.5500
JPY-SGD	1.2158	1.2207	1.2260	1.2300	1.2359
GBP-SGD	1.7455	1.7500	1.7505	1.7600	1.7741
AUD-SGD	0.9587	0.9600	0.9698	0.9700	0.9712
Gold	1284.75	1300.00	1320.90	1325.40	1330.26
Silver	15.38	15.70	15.78	15.80	16.11
Crude	55.78	55.80	55.83	55.87	55.90

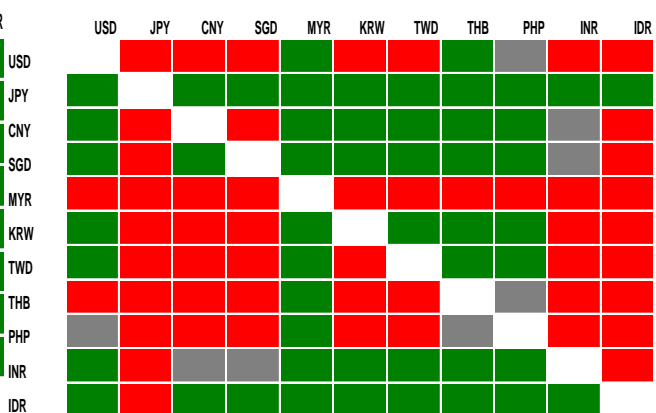
Source: OCBC Bank

G10 FX Heat Map



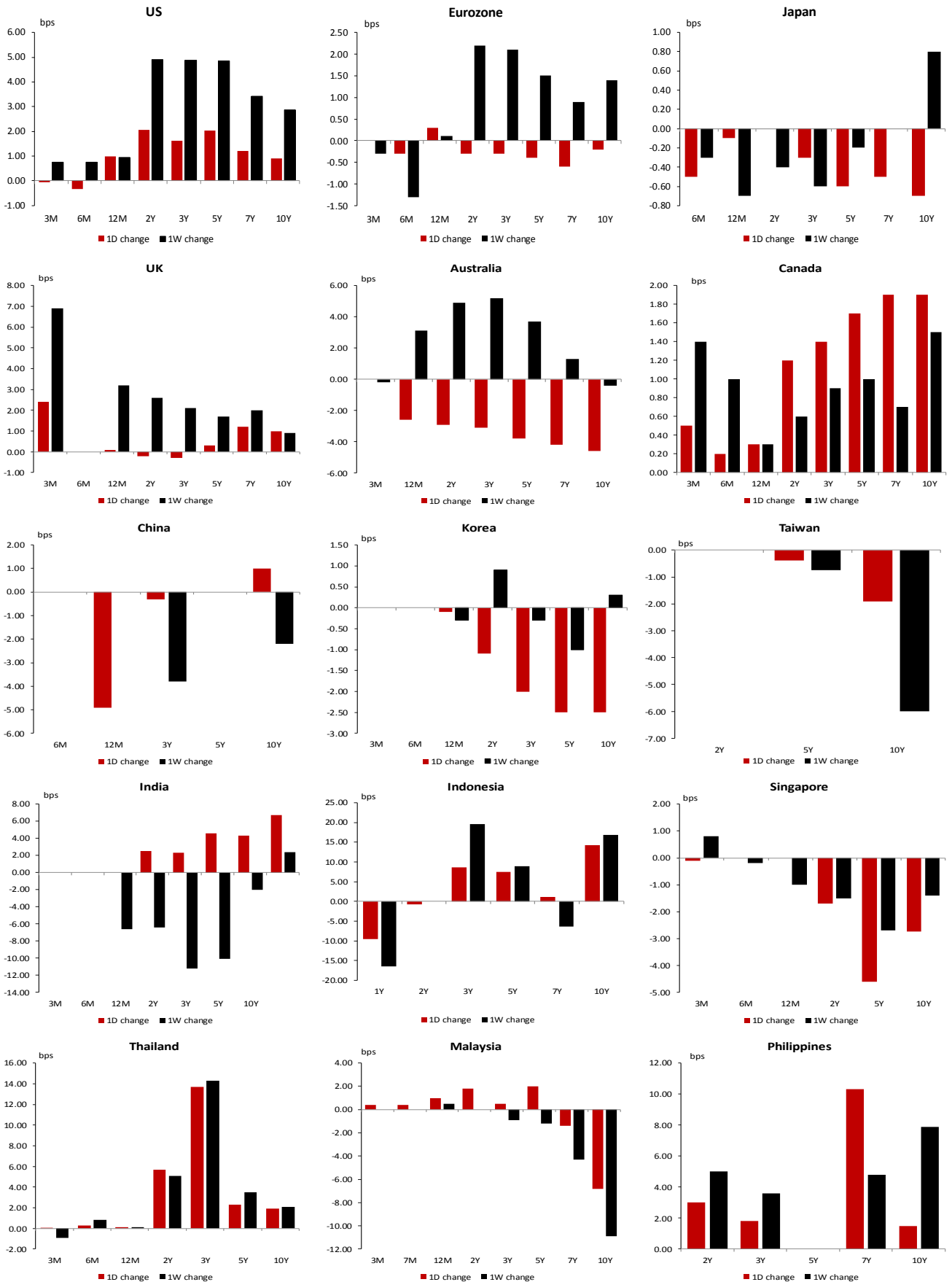
Source: OCBC Bank

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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