

Monday, March 18, 2019

## Market Themes/Strategy/Trading Views – The week ahead

- The USD ended weaker against most of the majors on Friday on a soft data turnout (Feb industrial production and Mar Empire manufacturing) and with US yields slipping. The **FXSI (FX Sentiment Index)** ticked lower to end softer on the day and on the week on Friday, denoting a continued improvement in risk appetite levels.
- On the **CFTC** front, large non-commercial accounts and leveraged accounts increased slightly their long dollar bias in the latest week while asset manager accounts pared their short dollar bias during the same period.
- This week, **RBA** and **BOJ** minutes on Tuesday pre-date the **FOMC** on Wednesday while the BOE MPC is also due on Thursday.
- Short term implied valuations and technicals for the **EUR-USD** remain supportive of EUR-USD but the 100-day MA (1.1367) may continue to shelter multi-session. Despite the latest US data stream and after the BOJ MPC last Friday, **USD-JPY** may continue to attempt to grind higher with the pair attempting to stay north of its 200-day MA (111.45) within a 111.00-112.00 range. Buffered by positive risk appetite levels, 0.7040 may continue serve as a floor for the **AUD-USD** with short term implied valuations and technicals looking slightly supported. Risks may remain skewed towards 0.7100/10 at this juncture.
- On the **GBP**, political risks may come to a head this week with risks increasingly binary. Short term implied valuations for the GBP-USD have ticked higher slightly but the pair remains grossly overbought by this metric. Thus, despite a supportive technical backdrop, Expect the GBP-USD to stall at 1.3400.
- **Overall, the dollar may start the week rangy** to slightly unsteady footing ahead of this week's FOMC. Prevailing expectations we think remain stacked against the Fed and the USD, with investors awaiting cues from the dot plots, macro forecasts, as well as forward guidance relating to the Fed's balance sheet.

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4037

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

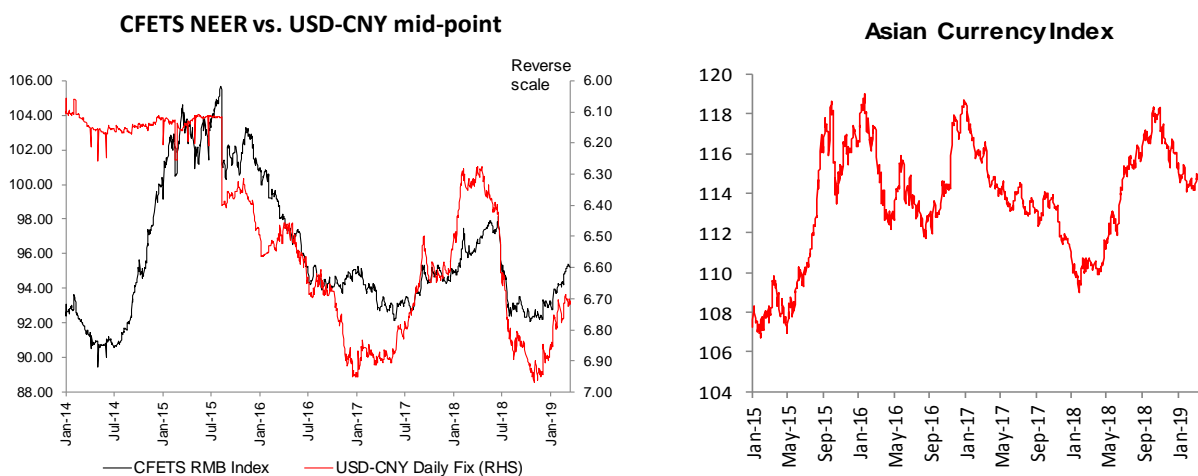
**Terence Wu**

+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## Asian Markets

- Background uncertainty (for e.g., Pyongyang headlines, Xi-Trump delay) and anemic Asian portfolio flows, may take a backseat to a softer dollar complex at the start to the week. We caution that this seemingly calm in Asian FX may remain fragile and expect dips in the regional pairs to be shallow.
- On the **EPFR** front, implied net equity flows into Asia (excl Japan, China) flipped to an outflow balance in the latest week, while implied net bond inflows into the region also deteriorated significantly. Net implied flows into China equities also registered outflows in the latest week, but implied bond inflows actually strengthened. On the **portfolio flows** front, South Korea (bonds) and India (equities) continue to be the main attraction for foreign inflows. In Taiwan, the decline in inflow momentum continues unabated. Elsewhere, there appears to be some consolidation in terms inflow compression in Philippines and outflow momentum in Indonesia. However, there are still no signs of bottoming in outflow momentum for Thailand and Malaysia.
- Regional central bank meetings this week include the **Bank of Thailand** on Wednesday, the **CBC, BSP, and Bank Indonesia (BI)** on Thursday. We expect BI to remain largely resolute in terms of policy posture while visibly more dovish overtones may be expected from the other regional central banks.
- **SGD NEER:** The SGD NEER eased to around +1.77% above its perceived parity (1.3772), after hitting a high of above +1.85% on Friday. NEER-implied USD-SGD thresholds turned lower. February NODX outperformed prior expectations significantly at +16% sa mom (+4.9% yoy) and may keep the USD-SGD top heavy. Expect the 55-day MA (1.3554) to cap, with risks towards 1.3500 instead intra-day.
- **CFETS RMB Index:** The USD-CNY midpoint turned softer, within expectations, at 6.7088, compared to 6.7167 on Friday. The CFETS RMB Index nudged marginally lower to 95.19, from 95.20. Stray, unconfirmed reports that the potential Xi-Trump meeting may be postponed further to June may prevent the USD-CNH from submerging below the 6.7000 handle for now.



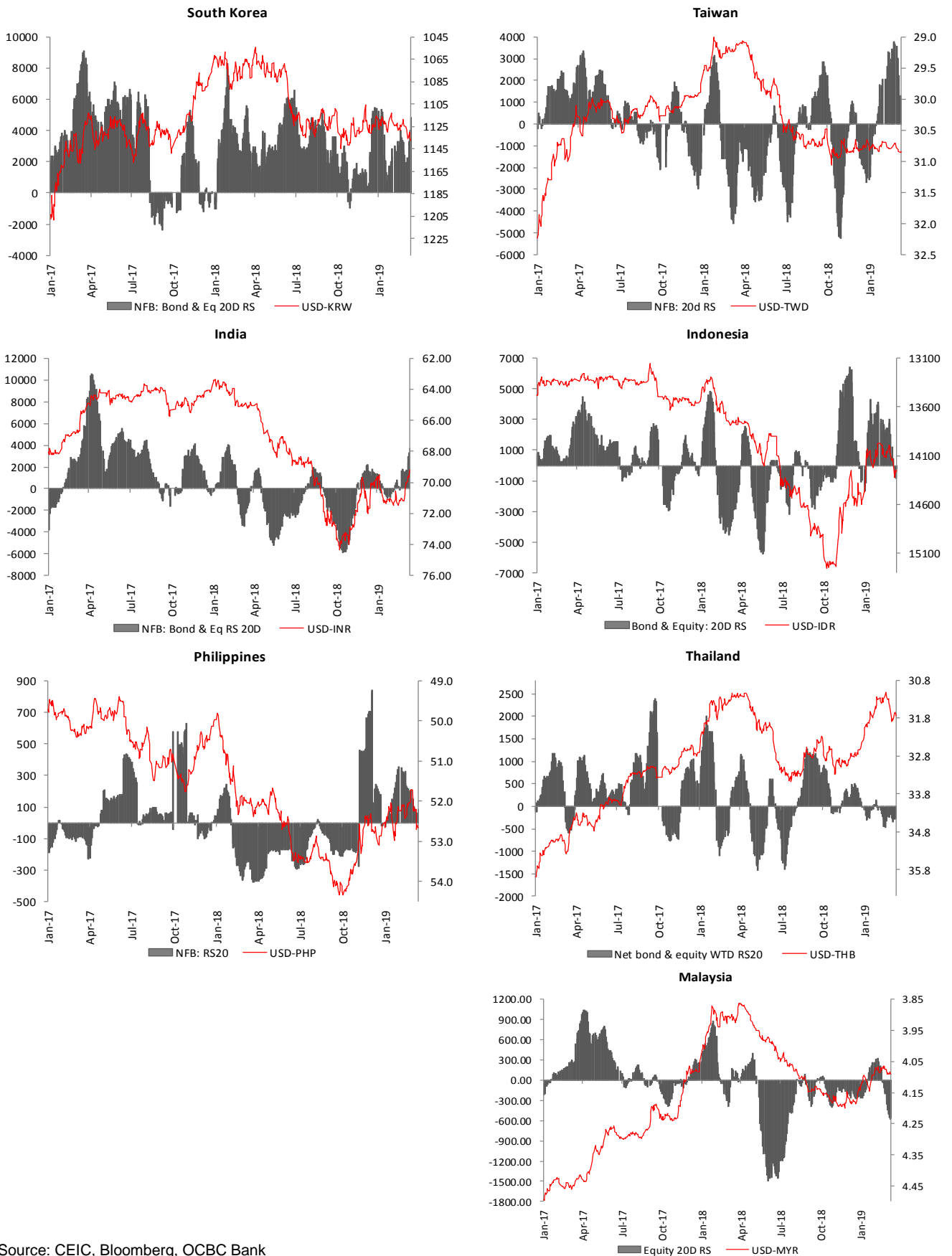
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↔	↔	NPC portends further accommodation in the pipeline. Feb CPI in-line with expectations, but PPI surprised on the downside. Jan industrial profits deteriorate further at -1.9% yoy. Feb retail sales and industrial production in-line to weaker than estimates. Feb official PMIs softer than expected. Feb Caixin manufacturing PMI better than expected (49.9) but services and composite PMIs deteriorate. Feb trade numbers, especially exports, contracted on a yoy basis, significantly underperforming consensus and Jan numbers. Feb aggregate financing, new yuan loans and M2 aggregate all lower than expected.
<b>S. Korea</b>	↔/↑	↔	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%.
<b>Taiwan</b>	↔/↑	↔/↓	4Q GDP disappoints at +1.78% yoy. CBC static at 1.375% in Dec 2018. CBC governor ambivalent on the benchmark rate. Feb manufacturing PMI drops further to 46.3. Feb CPI continues to print in the soft side. Feb exports decline 8.80% yoy, worse than expected.
<b>India</b>	↓	↔	Feb CPI warmer than expected at +2.57% (below the RBI's 4% target) but Jan revised lower. Core CPI readings also continue to moderate. Jan industrial production disappoints at +1.7% yoy. RBI delivered a surprise 25 bps cut in Feb and shifted to neutral. Feb manufacturing/services/composite PMIs improve from previous month. Feb trade deficit smaller than expected. Elections due Apr/May 2019 (results due 23 May).
<b>Singapore</b>	↔/↑	↔/↑	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 CPI readings cooler than expected. Jan IPI flat to weaker than expected. Feb NODX outperform expectations at 4.90% yoy. Monetary policy thought to be "appropriate", and "no need for stimulus" for now.
<b>Malaysia</b>	↔/↑	↔/↓	BNM static at 3.25%, although rumblings for a rate cut this year is building. Jan CPI pined a deeper than expected -0.7% yoy. Feb manufacturing PMI falls to 47.6. Jan exports better than expected at 3.1% yoy, Jan industrial production numbers outperform expectations. Jan CPI shows stronger than expected negative price pressures. 4Q GDP surprises on the upside at +4.7% yoy.
<b>Indonesia</b>	↔/↑	↔	BI static at Feb meeting, absent previous "hawkish" intent, replaced with an emphasis on external stability while exploring further macroprudential measures. Policy rate seen near its peak by BI, IDR still seen as undervalued. Curve has been attempting to price in a rate cut. Feb headline CPI cooler than expected (2.57%), core steady at 3.06%. Feb exports and imports both slumped more than expected, but the net result was a surprise trade surplus. 4Q18 CA deficit widened more than expected. 4Q GDP better than expected. Elections slated for 17 April 2019.
<b>Thailand</b>	↔/↑	↔/↑	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% (target range:1-4%), core cooler than expected at 0.60%. Elections scheduled on 24 March, with uncertainties heightening.
<b>Philippines</b>	↑	---	BSP governor continues to herald a rate cut – markets are now gunning for rate and RRR cuts, potentially in May. 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 (back within the 2-4% range). 2018 fiscal deficit likely widened to 3.1%.

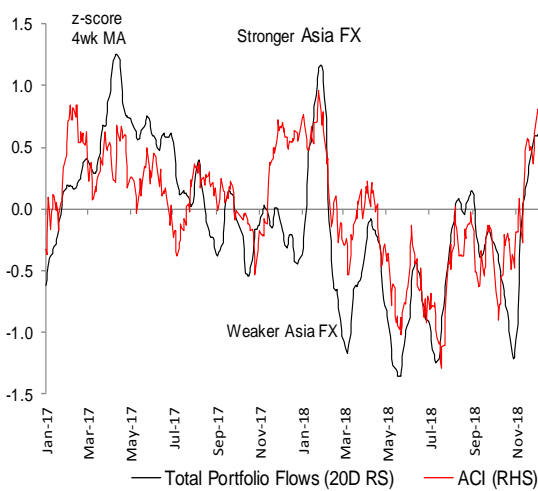
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



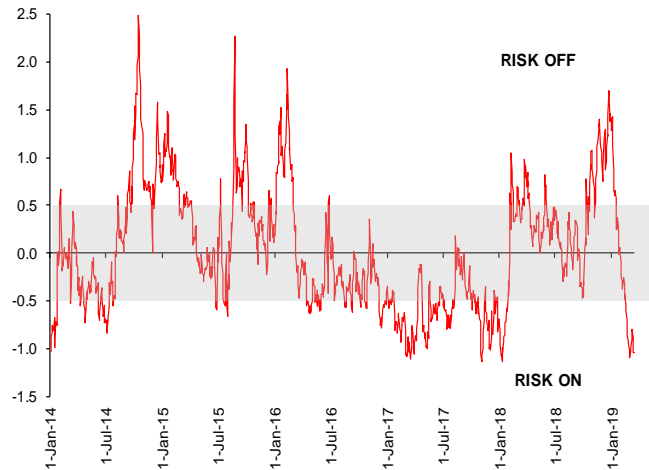
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.182	0.366	-0.575	-0.224	-0.527	0.325	0.004	0.391	0.197	0.579	-0.97
SGD	0.937	0.009	0.398	-0.522	-0.241	-0.541	0.479	0.022	0.341	0.111	0.643	-0.866
IDR	0.884	-0.398	0.259	-0.487	-0.212	-0.499	0.17	0.05	0.355	0.078	0.421	-0.93
MYR	0.828	-0.17	0.112	-0.35	0.067	-0.566	0.657	0.114	0.304	-0.247	0.318	-0.792
JPY	0.721	-0.503	0.2	0.008	-0.205	-0.199	0.443	0.516	-0.233	-0.285	0.304	-0.779
CAD	0.684	-0.519	0.472	-0.137	-0.242	-0.204	0.285	0.426	0	-0.057	0.551	-0.679
CHF	0.664	-0.506	0.281	-0.036	-0.273	-0.156	0.432	0.507	-0.213	-0.197	0.406	-0.69
CNH	0.579	-0.136	0.93	-0.475	-0.779	-0.192	-0.158	0.102	0.175	0.583	1	-0.511
PHP	0.564	-0.584	0.319	-0.001	-0.279	-0.049	0.417	0.577	-0.226	-0.182	0.416	-0.597
CNY	0.539	0.035	-0.103	-0.11	0.277	-0.514	0.854	0.13	0.178	-0.549	0.07	-0.494
THB	0.366	-0.234	1	-0.256	-0.827	-0.019	-0.359	0.086	0.002	0.619	0.93	-0.306
KRW	0.325	0.275	-0.359	0.103	0.518	-0.322	1	0.204	0.005	-0.658	-0.158	-0.245
USGG10	0.298	-0.808	0.278	0.234	-0.158	0.186	0.05	0.62	-0.323	-0.164	0.205	-0.355
TWD	-0.182	1	-0.234	-0.064	0.285	-0.158	0.275	-0.455	0.167	-0.031	-0.136	0.329
INR	-0.446	-0.024	-0.604	0.645	0.548	0.273	0.432	0.483	-0.343	-0.9	-0.626	0.373
GBP	-0.45	0.588	-0.012	-0.208	-0.094	0.078	-0.558	-0.604	0.232	0.593	-0.067	0.503
NZD	-0.579	-0.459	0.076	0.495	-0.186	0.286	-0.613	0.005	-0.425	0.128	-0.224	0.514
AUD	-0.743	-0.056	0.033	0.357	-0.135	0.335	-0.698	-0.253	-0.234	0.292	-0.255	0.712
EUR	-0.97	0.329	-0.306	0.599	0.249	0.465	-0.245	-0.08	-0.405	-0.169	-0.511	1

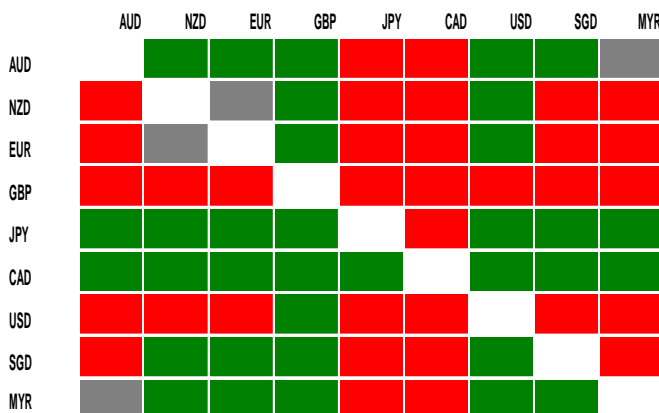
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1225	1.1300	1.1329	1.1362	1.1400
GBP-USD	1.3033	1.3200	1.3291	1.3300	1.3367
AUD-USD	0.7003	0.7008	0.7096	0.7100	0.7136
NZD-USD	0.6800	0.6816	0.6848	0.6900	0.6904
USD-CAD	1.3263	1.3300	1.3329	1.3400	1.3468
USD-JPY	111.00	111.45	111.61	112.00	112.12
USD-SGD	1.3472	1.3500	1.3528	1.3547	1.3600
EUR-SGD	1.5253	1.5300	1.5326	1.5392	1.5429
JPY-SGD	1.2089	1.2100	1.2121	1.2200	1.2244
GBP-SGD	1.7731	1.7900	1.7980	1.8000	1.8081
AUD-SGD	0.9512	0.9559	0.9600	0.9667	0.9695
Gold	1272.14	1280.80	1298.50	1300.00	1303.25
Silver	15.16	15.20	15.25	15.30	15.60
Crude	55.04	58.30	58.33	58.40	58.72

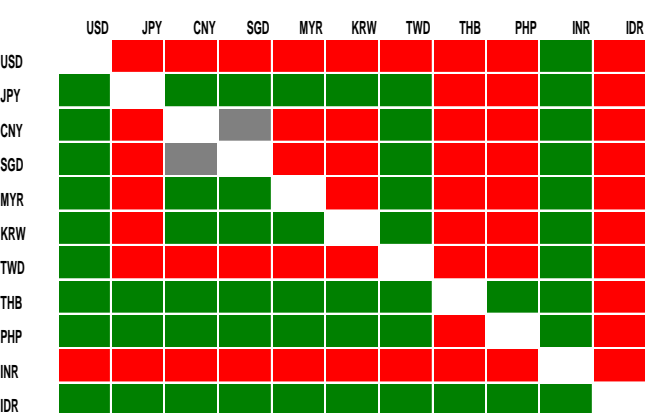
Source: OCBC Bank

### G10 FX Heat Map



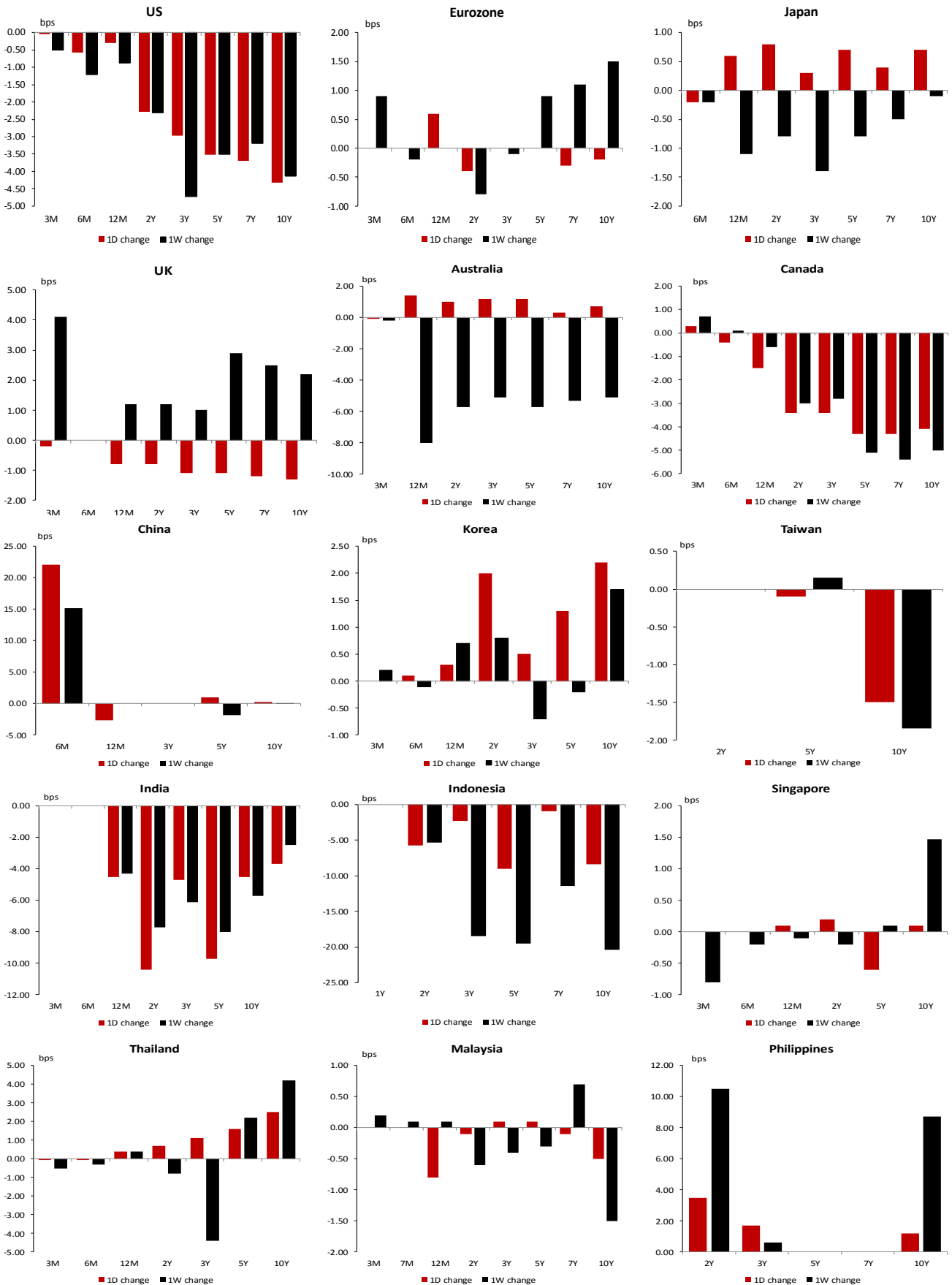
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes



### Trade Ideas

Inception	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale		
<b>TACTICAL</b>								
1	23-Jan-19	B	GBP-AUD	1.8159	1.9350 1.8440	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	05-Mar-19	S	AUD-USD	0.7074	0.6870 0.7175	Potentially dovish RBA, macro conditions soggy		
<b>STRUCTURAL</b>								
<b>RECENTLY CLOSED TRADE IDEAS</b>								
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*	
1	11-Feb-19	27-Feb-19	S	EUR-USD	1.1325	1.1393	Darkening EZ macro outlook	-0.46
2	28-Feb-19	08-Mar-19	S	3M USD-CNH	6.6861	6.7350	Renminbi stability, PBOC policy backstop, conducive inflow environment	-0.73
3	27-Feb-19	13-Mar-19	S	1M THB-PHP	1.6536	1.6750	Contrasting flow dynamics	-1.29
4	07-Mar-19	13-Mar-19	B	USD-CAD	1.3430	1.3315	BOC stalls in its tightening bias	-0.85

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

---