

Thursday, February 21, 2019

**Market Themes/Strategy/Trading Ideas**

- Post-FOMC minutes, the USD bounced off intra-day lows against the majors to end relatively unchanged as the Fed retained a modicum of hawkishness despite increasing global growth uncertainties while continuing to preach patience. Overall, the minutes came across as more balanced than the Jan FOMC statement itself, and we continue to watch inflation as the paramount indicator of the Fed's stance. While prospects for another hike remain up in the air, the minutes continued to suggest an imminent announcement of a cessation of the balance sheet roll off this year.
- This **AUD** this morning was given a temporary boost following the upside surprise from January labor market numbers. Aussie strength was however doused after a market report called for 2 rate cuts by the RBA this year. On other fronts, the CAD however firmed on higher crude while USD-JPY ended on a higher ledge following a dismal Jan export disappointment (-8.4% yoy) and some confusion over comments from the BOJ's Kuroda. Overall, the **DX** still managed to end the day relatively unchanged with investors not ruling out another hike this year. UST yields meanwhile a slightly firmer on the day but did little to reverse the downtrend over the past few weeks.
- Global equities (including in EM) put in a positive performance on Wednesday continued to weigh on the **FX Sentiment Index (FXSI)**, which continued sink deeper into **Risk-On territory**. **On our part, the near term view remains unchanged and we'd continue to favor the cyclical (and selected Asians) on a relative basis against the likes of the EUR and GBP.**
- Potential headlines from Sino-US talks in Washington today and tomorrow will be closely monitored. In the interim, investors may remain on the sidelines pending the heavy calendar today. On this front, expect comments from the Fed's Bostic (1250 GMT), the ECB's Praet (0800 and 1330 GMT), BOC's Poloz (1745 GMT) and RBA's Lowe (2230 GMT). Watch also for the release of the ECB Governing Council Jan meeting minutes (1230 GMT)

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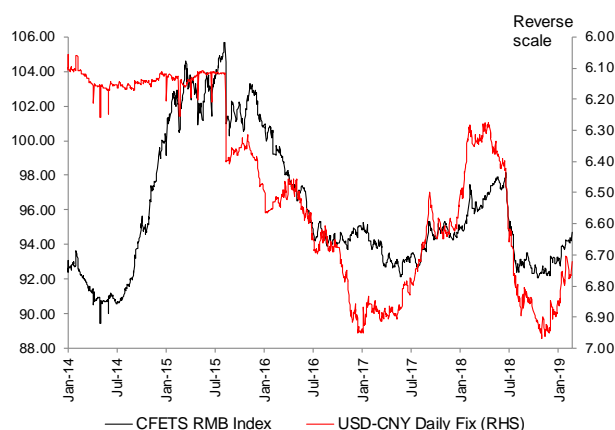
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## Asian Markets

- USD-CNH continued to plumb lower down past 6.7200 (6.7078 low) on Wednesday and coupled with positive risk appetite levels, may continue to keep USD-Asia suppressed. Elsewhere, watch for the release of the **RBI** Feb meeting minutes later today.
- On the **flow front**, net positive momentum continues to be maintained for South Korea (net bond inflows compensating for moderating net equity inflows) with net equity inflows for Taiwan still at significantly strong levels. In Indonesia, net inflows in aggregate have moderated but are attempting to stabilize (strong net bond inflows holding the fort while net equity inflows have vanished). For Thailand, latest date prints indicate a blip in net bond and equity inflows but the overall net outflow environment may continue to persist. Net portfolio flows for India meanwhile remain in a largely neutral balance (net bond outflows compressing while minor net equity inflows continue to weaken).
- **Bank Indonesia** (BI) is expected to remain static at 6.00% in its policy decision today. Watch instead for any hints of an impending softening in policy stance, which is still officially labelled as “hawkish”.
- Meanwhile, the **Bank of Thailand** (BOT) may be going against the grain of other Asian central banks. Despite external concerns, the BOT focused on the still resilient domestic demand, and its latest MPC minutes on released Wednesday revealed a bias for further rate hike increases.
- **SGD NEER**: The SGD NEER softened to around +1.72% above its perceived parity (1.3744), after hitting a high of +1.82% overnight. With the USD still pressured in the near term, the NEER-implied USD-SGD thresholds are softer again this morning. The 1.3500 level may continue to attract, with 1.3540 serving as a near term resistant level.
- **CFETS RMB Index**: The USD-CNY midpoint came in lower than expected at 6.7220, compared to 6.7558 yesterday. The CFETS RMB Index jumped higher to 94.68 from 94.22 on Wednesday.

CFETS NEER vs. USD-CNY mid-point



Asian Currency Index



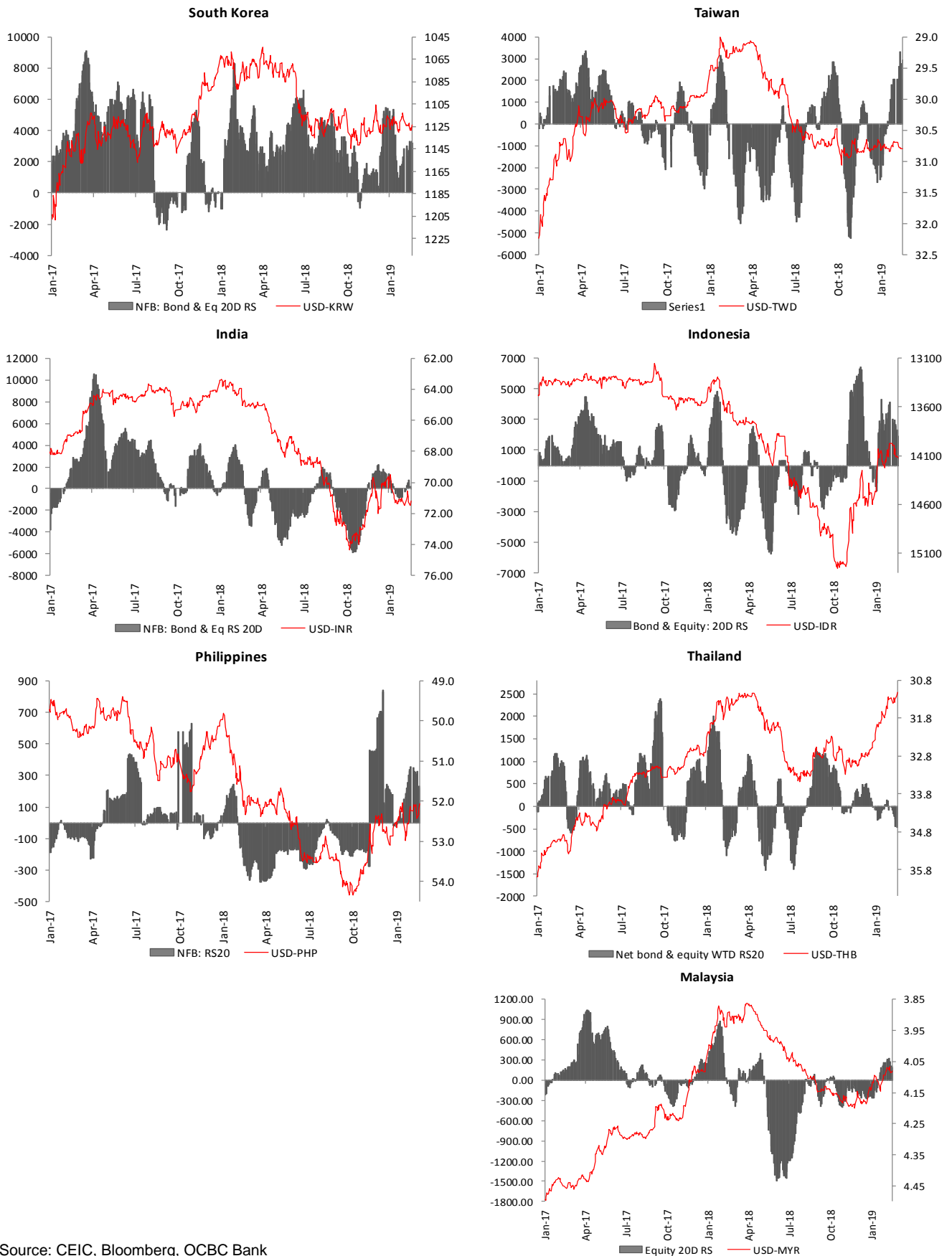
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

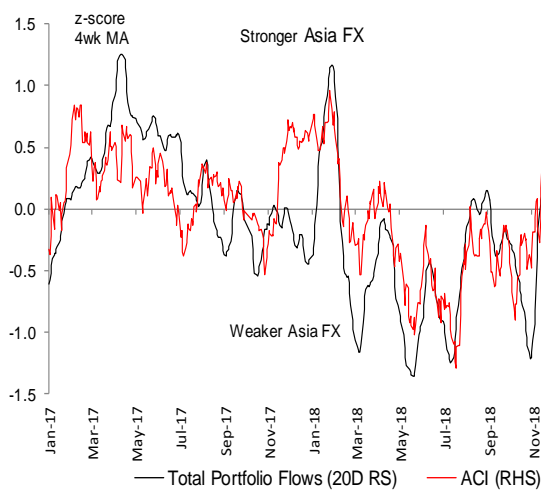
	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↔/↓	↔	7-day repo rate continues to slip. Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Jan 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.
<b>S. Korea</b>	↔/↓	↔	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%.
<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. 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.
<b>India</b>	↔	↔/↑	RBI delivered a surprise 25 bps cut in Feb and shifted back to neutral stance. Room to bull steepen in the near term on possibility of further cuts, 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.
<b>Singapore</b>	↔/↓	↔	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.
<b>Malaysia</b>	↔/↓	↓	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.
<b>Indonesia</b>	↔	↔/↓	Note sustained positive investor response to bond auctions. BI static at Jan policy meeting, official stance is still characterized as "hawkish". Central bank expected to be static in Feb. 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.
<b>Thailand</b>	↔/↓	↔/↑	BOT kept rates unchanged in Feb. Accommodative policy "still appropriate", 2 of 7 members voted to hike; subsequent minutes reveal that policy is still tilted towards hikes. BOT comments on recent THB appreciation may recur if the THB continues to strengthen. 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.
<b>Philippines</b>	↔/↓	---	BSP warns against premature easing, static in Feb. 2019 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

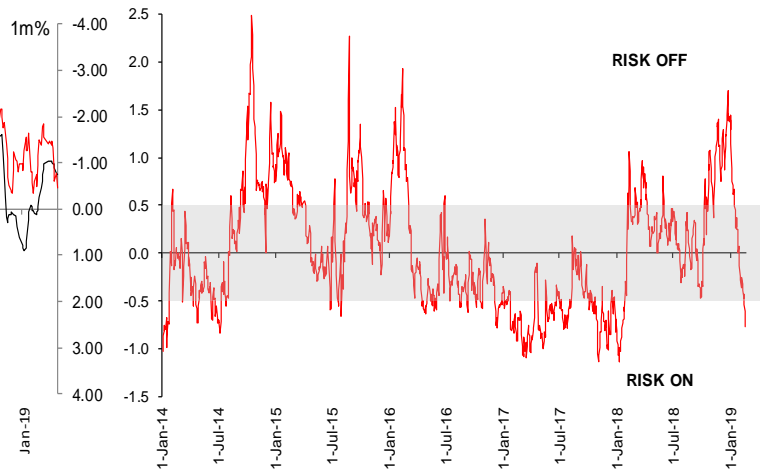
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

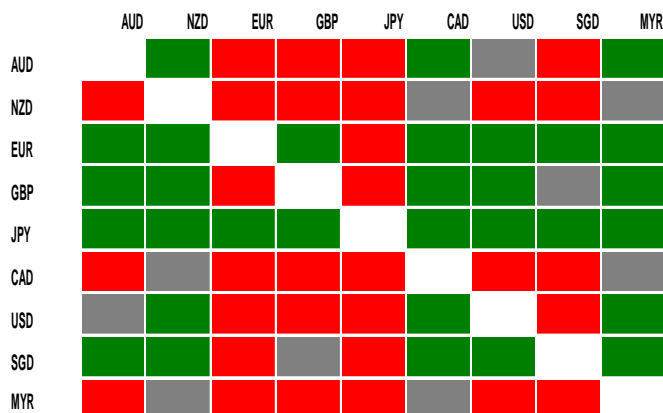
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.35	0.517	0.474	0.463	-0.194	0.797	0.052	-0.367	-0.378	0.468	-0.986
SGD	0.879	-0.442	0.305	0.721	0.708	-0.064	0.834	0.191	-0.622	-0.6	0.304	-0.817
IDR	0.797	-0.357	0.12	0.778	0.715	0.23	1	0.527	-0.667	-0.714	0.039	-0.753
MYR	0.754	0.211	0.897	-0.094	-0.097	-0.44	0.363	-0.421	0.182	0.19	0.867	-0.783
JPY	0.67	0.051	0.765	0.16	-0.047	0.076	0.464	0.033	0.002	-0.121	0.634	-0.699
CAD	0.53	0.381	0.772	-0.146	-0.316	-0.06	0.262	-0.247	0.322	0.18	0.695	-0.581
CHF	0.517	0.357	1	-0.175	-0.273	-0.412	0.12	-0.54	0.3	0.249	0.971	-0.542
CNH	0.509	0.221	0.829	-0.419	-0.388	-0.546	0.033	-0.565	0.518	0.477	0.682	-0.571
PHP	0.468	0.328	0.971	-0.22	-0.21	-0.526	0.039	-0.636	0.271	0.306	1	-0.472
CNY	0.13	0.369	0.591	-0.366	-0.563	-0.029	-0.008	-0.122	0.587	0.334	0.195	-0.185
THB	-0.171	0.695	0.611	-0.854	-0.884	-0.4	-0.525	-0.67	0.884	0.892	0.527	0.085
KRW	-0.212	0.717	0.58	-0.724	-0.857	-0.121	-0.475	-0.443	0.839	0.66	0.478	0.151
USGG10	-0.217	0.145	0.284	-0.07	-0.091	0.206	-0.254	-0.091	0.02	-0.03	0.302	0.272
TWD	-0.35	1	0.357	-0.652	-0.669	-0.178	-0.357	-0.415	0.66	0.642	0.328	0.306
INR	-0.512	0.748	0.319	-0.827	-0.946	-0.053	-0.669	-0.418	0.858	0.742	0.221	0.431
GBP	-0.532	-0.135	-0.737	0.258	0.131	0.627	-0.109	0.59	-0.235	-0.388	-0.674	0.576
NZD	-0.816	0.357	-0.504	-0.493	-0.518	0.294	-0.589	0.086	0.381	0.362	-0.531	0.743
AUD	-0.823	0.039	-0.723	-0.029	-0.123	0.46	-0.467	0.336	-0.012	-0.08	-0.643	0.845
EUR	-0.986	0.306	-0.542	-0.405	-0.388	0.187	-0.753	-0.024	0.305	0.304	-0.472	1

Source: Bloomberg

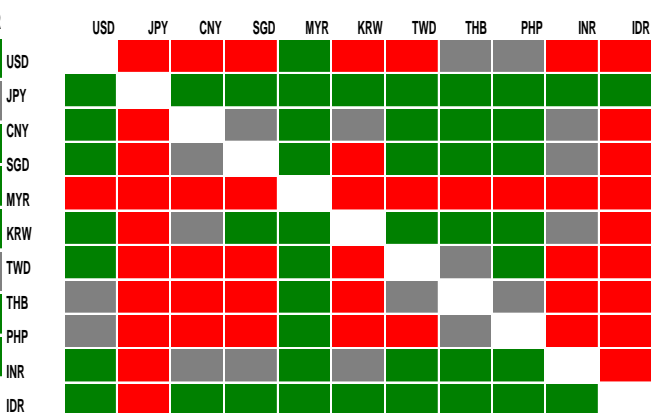
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1237	1.1300	1.1350	1.1390	1.1400
GBP-USD	1.2996	1.3000	1.3050	1.3100	1.3213
AUD-USD	0.7100	0.7134	0.7167	0.7200	0.7265
NZD-USD	0.6787	0.6800	0.6854	0.6900	0.6942
USD-CAD	1.3100	1.3154	1.3165	1.3200	1.3337
USD-JPY	109.97	110.00	110.80	111.00	111.13
USD-SGD	1.3463	1.3500	1.3509	1.3596	1.3600
EUR-SGD	1.5278	1.5300	1.5332	1.5400	1.5485
JPY-SGD	1.2100	1.2183	1.2192	1.2194	1.2200
GBP-SGD	1.7477	1.7600	1.7628	1.7700	1.7734
AUD-SGD	0.9587	0.9600	0.9682	0.9698	0.9700
Gold	1300.00	1339.42	1343.30	1344.00	1400.00
Silver	15.45	16.00	16.01	16.10	16.18
Crude	57.00	57.30	57.38	57.40	57.55

Source: OCBC Bank

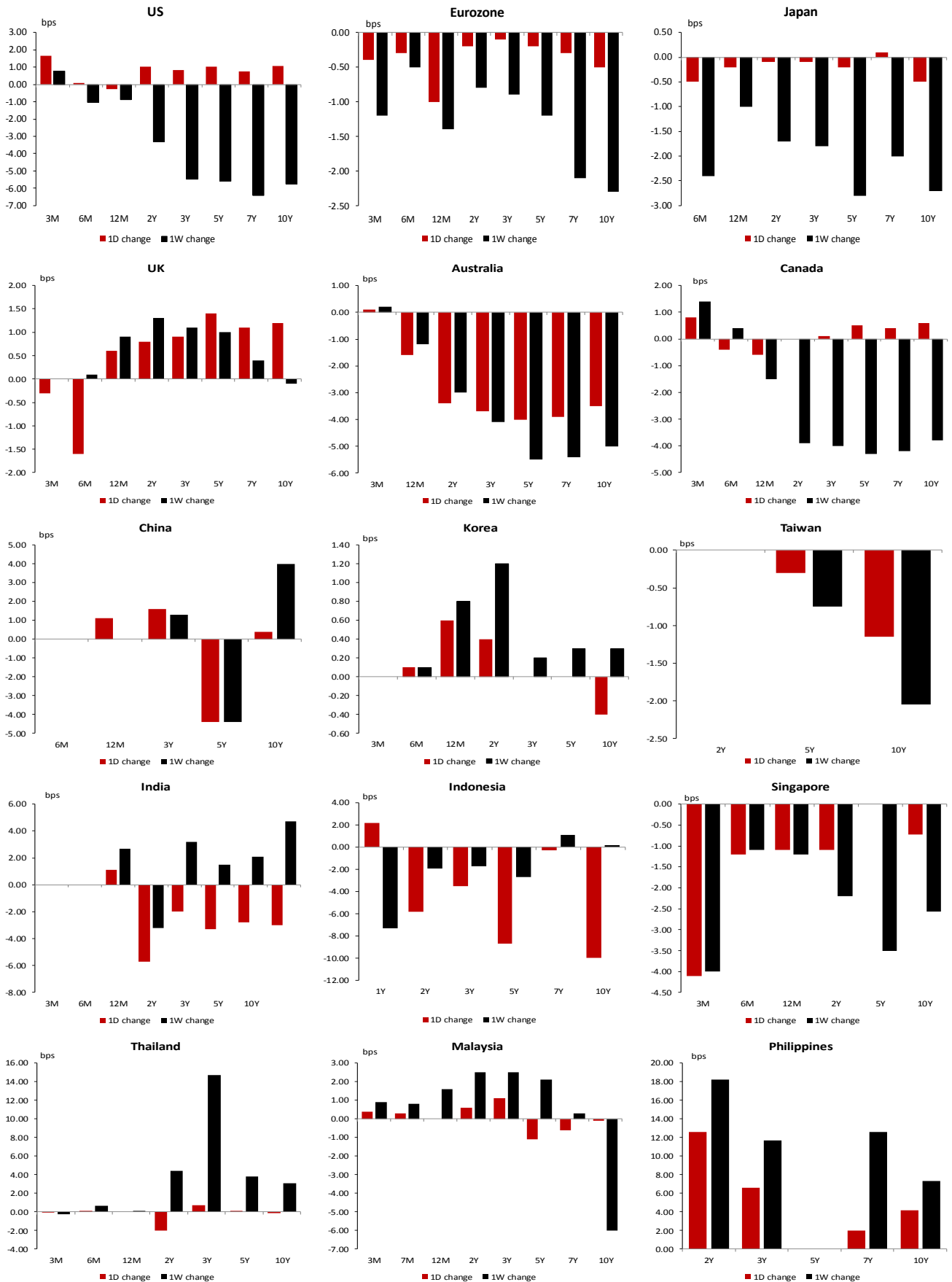
**G10 FX Heat Map**

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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