

Thursday, March 21, 2019

## Market Themes/Strategy/Trading Views

- **The March FOMC delivered a shock to the broad USD's system, with an unexpectedly cautious outlook on the economy and dovish prognosis of the rate trajectory ahead.** The DXY submerged below 96.00 to a low of 95.74. The UST yield curve also dived lower, with the 2y and 10y yield slumping more than 6 and 10 bps respectively.
- Mixed to negative EU/US/EM equities and somewhat combative rhetoric from Trump on Sino-US trade developments also stumped risk sentiments slightly. Our **FXSI (FX Sentiment Index)** ticked higher within Risk-On in response.
- **With the broad USD damaged by the FOMC, we think the odds to be stacked against the buck into the end of the week.** Expect the immediate support at 95.85 (200-day MA) for the DXY index, before further support coming in at the 95.48 area. We continue to see the **EUR-USD** as the favoured way to express USD weakness, with 1.1480 (200-day MA) attracting in the interim. **Looking forward, expect investors to contemplate the postures of the other major central banks. This dovish shift by the Fed may ease the path for similar tilts by the RBA and ECB in April. In that circumstance, expect some implicit support USD for the USD instead.**
- The **EUR-USD** now looks fairly valued in terms of the short term implied valuations after the spike overnight, although technicals continue to favour further upside. The **GBP-USD** stays overbought in short term implied valuation terms, while technicals point to a flat to lower trajectory. Expect the pair to trade heavy as PM May attempts a 3-month extension on the Brexit deadline. Short term implied valuations and technicals may depress the **USD-JPY** in the upcoming sessions, with the pair moving through the 100-day and 200-day MA levels overnight. Watch for support at 110.20 (55-day MA).
- For the **AUD-USD**, short term implied valuations and technicals remain supportive of a search higher, especially if the pair can persist north of 0.7161 levels. Nevertheless, less positive headlines from the Sino-US trade talks may cap the pair. Meanwhile, expect the **USD-CAD** to retain a flat to heavier posture in the interim, with short term implied valuations pointing lower. Immediate support level at 1.3268.

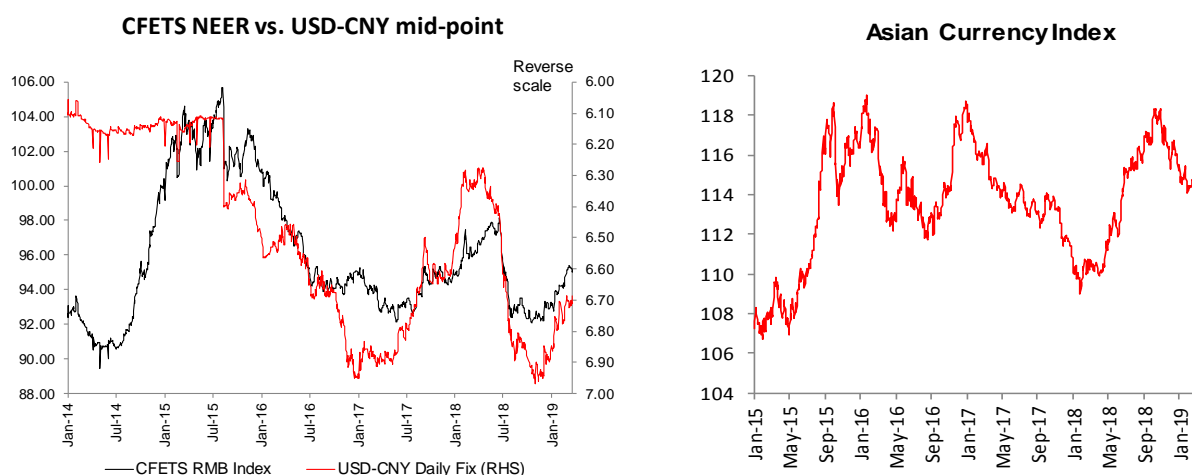
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## Asian Markets

- The USD-CNH submerged below 6.6900 on broad USD weakness overnight, leading USD-Asia lower at the morning. Overall, we expect USD-Asia to be heavy intra-day.** Combative rhetoric from Trump on keeping tariffs on China for a “substantial period of time” seemed to be shrugged off by markets. Nevertheless, watch for further progress next week as Lighthizer and Mnuchin heads to Beijing to continue negotiations next week.
- India continues to be the main attraction** – on the flows front, bond inflow momentum into India are climbing alongside equity inflows. In this respect, we continue to favour the INR amongst Asian currencies. Elsewhere, equity outflow momentum seemed to have bottomed in Malaysia.
- BOT unchanged, more Asian central bank decisions upcoming** – The Bank of Thailand (BOT) kept the policy rate unchanged at 1.75%, but may have shifted away from the hawkish end of the spectrum as seen from the voting patterns, official statement and forecast downgrades. Bank Indonesia (BI), CBC (0800 GMT) and BSP (0800 GMT) scheduled today.
- USD-SGD – Step lower on the back of broad USD weakness.** The SGD NEER dived back to +1.78% above its perceived parity (1.3710) this morning, after pushing close to the estimated extreme strong end of the tolerance band overnight amid broad USD weakness. NEER-implied USD-SGD thresholds slumped lower. The USD-SGD may attempt to consolidate around 1.3440/50 in the interim.
- CFETS RMB Index:** The USD-CNY midpoint came in lower this morning, as we expected, at 6.6850, compared to 6.7101 on Wednesday. The CFETS RMB Index firmed again, after a consistent slide since early March, to 95.06, from 95.03 previously.



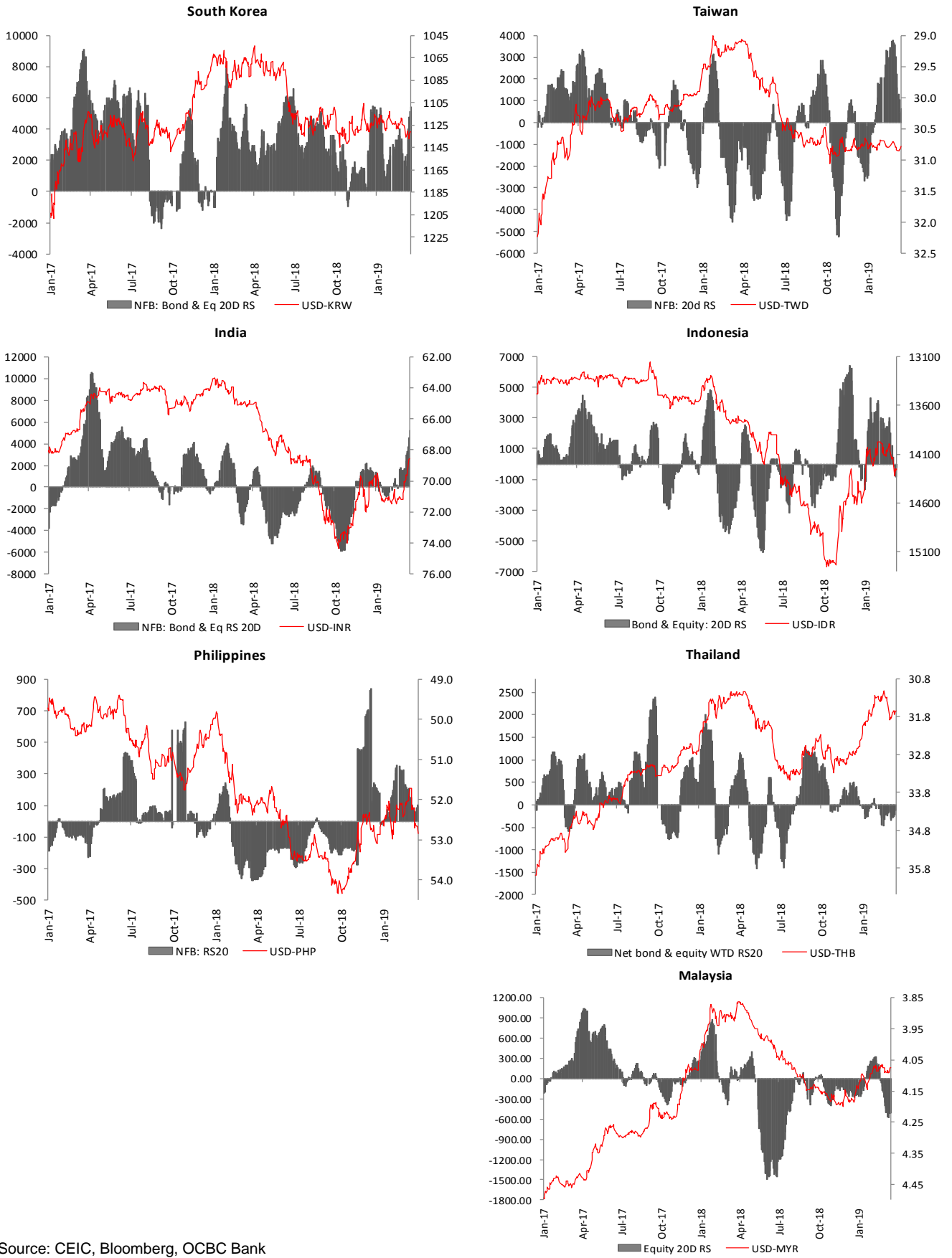
Source: OCBC Bank, Bloomberg

### 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. Look for signs of a bottoming out of the domestic economy in Q2.
<b>S. Korea</b>	↔/↑	↔	BOK unchanged at 1.75% in Feb. Policy stance remains accommodative, but rate cuts still not in the picture. BOK Feb minutes reveal downbeat assessment for domestic economy. 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.
<b>Taiwan</b>	↔	↔/↓	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% (but below the 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 PMIs improve from previous month. Feb trade deficit smaller than expected. Recent INR appreciation driven by strong inflow momentum, but may sit rather uncomfortably with the rise in crude. 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 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>	↔/↑	↑	BOT unchanged in Mar, unanimous decision. GDP growth, export growth and core CPI forecasts downgraded by BOT. Reference to creating policy space dropped from statement. Jan customs exports underperformed. Jan current account surplus contracts by more than expected. 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>	↑	---	New 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%.

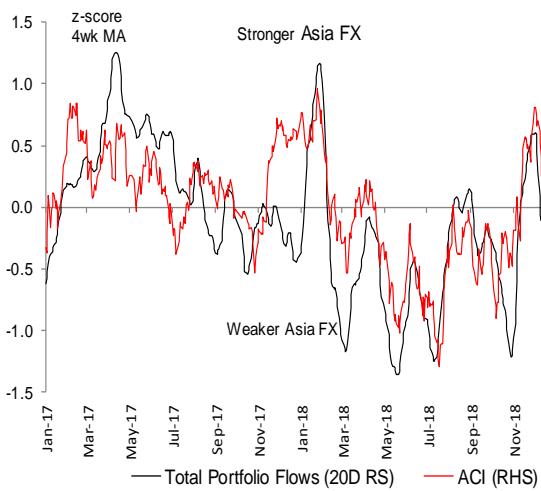
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



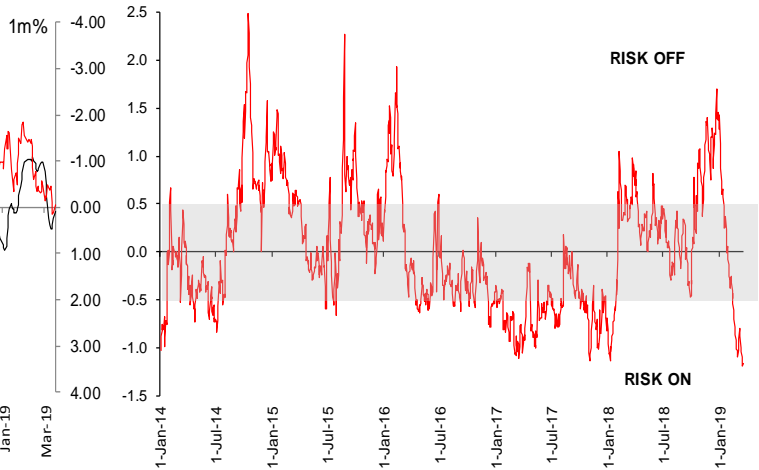
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.122	0.498	-0.605	-0.325	-0.609	0.514	-0.39	0.416	0.339	0.701	-0.978
SGD	0.951	0.258	0.505	-0.601	-0.345	-0.637	0.642	-0.402	0.403	0.279	0.726	-0.908
CHF	0.911	0.022	0.45	-0.569	-0.349	-0.624	0.412	-0.463	0.391	0.296	0.576	-0.943
MYR	0.785	-0.168	0.604	-0.26	-0.292	-0.34	0.441	-0.157	0.075	0.073	0.674	-0.787
CNH	0.701	-0.013	0.899	-0.369	-0.58	-0.204	0.241	-0.178	0.142	0.38	1	-0.689
CAD	0.682	-0.17	0.191	-0.183	0.086	-0.315	0.593	0.126	0.228	-0.25	0.441	-0.646
TWD	0.67	-0.285	0.449	-0.131	-0.362	-0.222	0.456	0.101	-0.132	-0.048	0.564	-0.69
IDR	0.551	-0.478	0.287	0.19	-0.078	0.046	0.388	0.416	-0.314	-0.372	0.441	-0.591
JPY	0.514	0.409	0.001	0.05	0.329	-0.286	1	-0.131	-0.004	-0.411	0.241	-0.422
CNY	0.498	-0.119	1	-0.262	-0.691	-0.123	0.001	-0.231	0.026	0.466	0.899	-0.499
KRW	0.469	-0.529	0.446	0.151	-0.172	0.122	0.37	0.398	-0.295	-0.261	0.571	-0.494
THB	0.385	-0.073	0.091	0.047	0.225	-0.207	0.663	0.24	0.092	-0.493	0.282	-0.33
USGG10	0.122	1	-0.119	-0.365	-0.055	-0.484	0.409	-0.629	0.288	0.305	-0.013	0.022
INR	-0.092	0.717	-0.203	-0.547	-0.342	-0.425	-0.303	-0.786	0.4	0.722	-0.247	0.136
PHP	-0.109	-0.827	-0.03	0.522	0.266	0.524	-0.131	0.769	-0.439	-0.524	-0.062	0.063
GBP	-0.45	-0.055	-0.46	0.66	0.49	0.377	0.239	0.464	-0.414	-0.829	-0.452	0.425
NZD	-0.7	-0.549	-0.231	0.548	0.04	0.419	-0.684	0.396	-0.466	-0.126	-0.494	0.66
AUD	-0.743	-0.094	-0.191	0.286	-0.051	0.261	-0.719	0.006	-0.221	0.186	-0.504	0.719
EUR	-0.978	0.022	-0.499	0.612	0.368	0.548	-0.422	0.344	-0.43	-0.322	-0.689	1

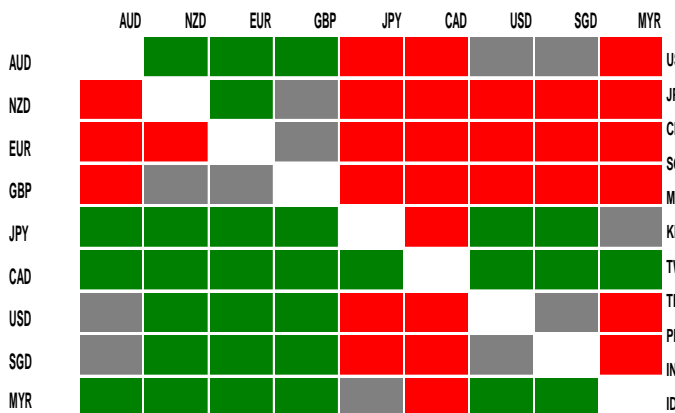
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1356	1.1400	1.1429	1.1443	1.1448
GBP-USD	1.3061	1.3200	1.3222	1.3300	1.3368
AUD-USD	0.7100	0.7133	0.7162	0.7182	0.7200
NZD-USD	0.6900	0.6922	0.6934	0.6939	0.7000
USD-CAD	1.3200	1.3267	1.3290	1.3300	1.3468
USD-JPY	110.37	110.47	110.60	111.00	111.46
USD-SGD	1.3451	1.3454	1.3465	1.3500	1.3543
EUR-SGD	1.5300	1.5380	1.5389	1.5400	1.5411
JPY-SGD	1.2093	1.2100	1.2174	1.2200	1.2223
GBP-SGD	1.7730	1.7800	1.7803	1.7900	1.8061
AUD-SGD	0.9533	0.9600	0.9643	0.9660	0.9671
Gold	1300.00	1304.62	1318.90	1332.02	1344.00
Silver	15.14	15.20	15.25	15.30	15.57
Crude	60.10	60.14	60.16	60.19	60.20

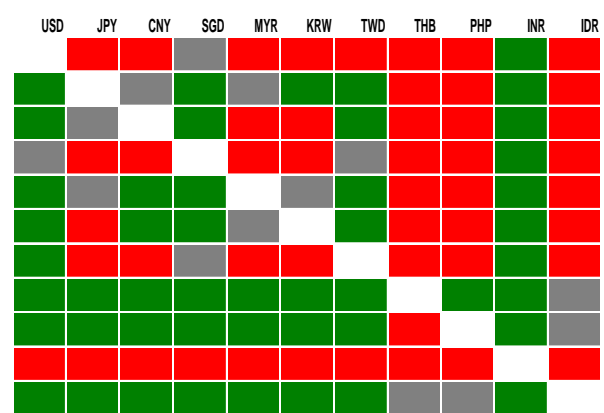
Source: OCBC Bank

**G10 FX Heat Map**



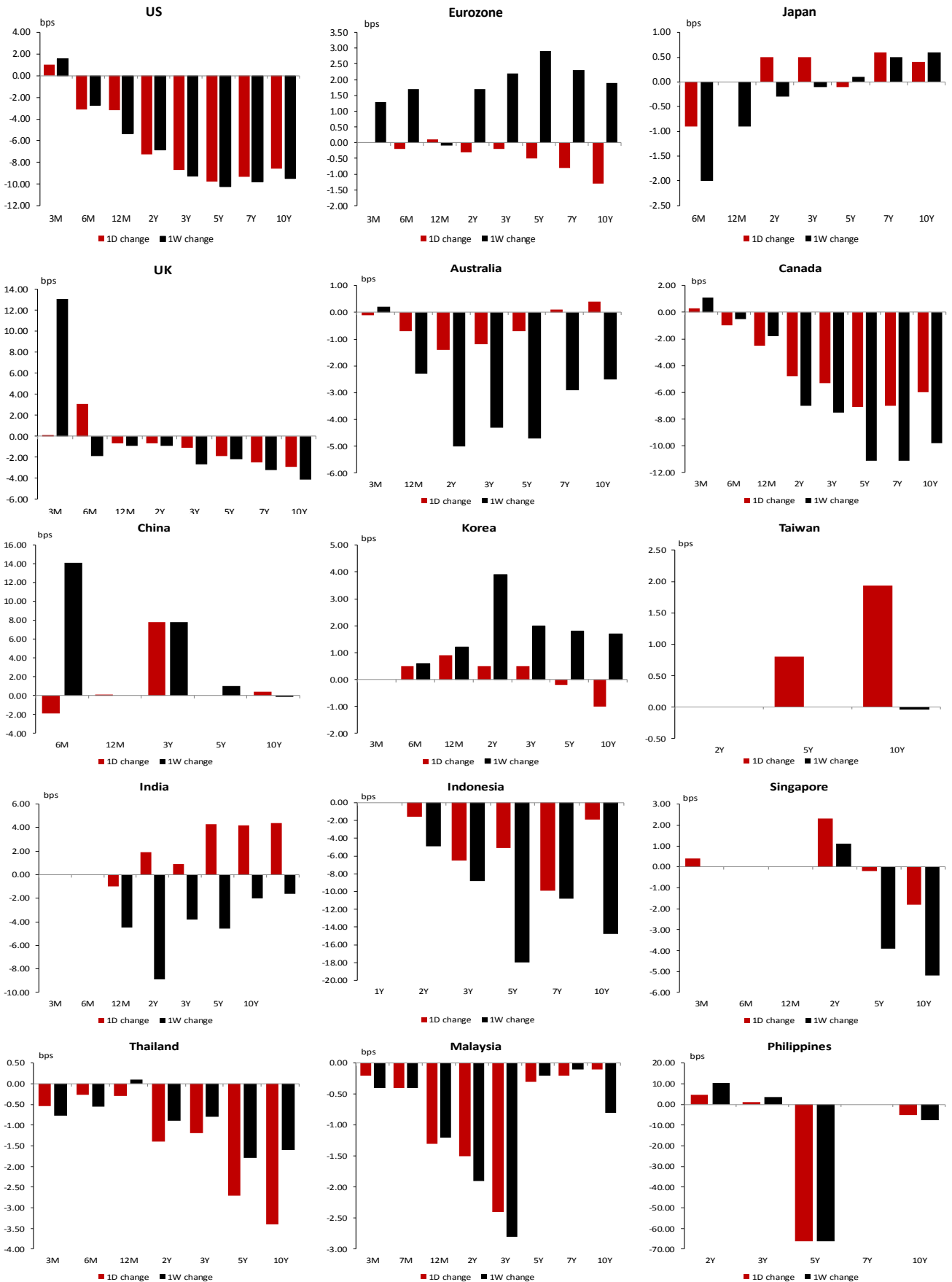
Source: OCBC Bank

**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>								
4	19-Mar-19		Long 2M USD-SGD 25-delta straddle Spot ref: 1.3508; Strikes: 1.3618, 1.3371; Exp: 16/05/19; Cost: 0.41%			Relatively depressed vol surface ahead of imminent global headline risks		
<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

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