

Friday, March 22, 2019

**Market Themes/Strategy/Trading Views**

- The broad USD rebounded from the lows in the aftermath of the FOMC, while UST yields also stabilized and ticked higher. **The EUR-USD and AUD-USD flexed against the strong end of recent trend channels, but failed to see significant follow through.** The GBP underperformed on Brexit headlines.
- Risk sentiments remained largely sanguine, even though our **FXSI (FX Sentiment Index)** ticked higher within the Risk-On zone. With the dovish Fed expected to support US equities and keep vols low, we expect to see risk sentiments staying positive into next week.
- With the DXY index bouncing firmly off its 200-day MA (95.861), **we think the broad USD may enter a consolidative stance ahead of Sino-US trade talks next week. Overall, expect the broad USD stay ranged, with a marginal bias on the downside. On the data front, watch for preliminary PMI prints in Europe (from 0815 GMT) and US (1345 GMT) – a chance to evaluate the global macro fundamentals. A stronger showing on the US side may result in a firmer bottom in the DXY index next week.**
- Both implied valuations and technicals still favour a firmer **EUR-USD** for now, although a new catalyst (stronger than expected German PMI perhaps?) may be needed to push it beyond recent ranges. The story remains unchanged for the **GBP-USD** – still looking expensive on short term implied valuation terms even after the decline yesterday. Expect the GBP-USD to remain a Brexit headline-driven play in the coming weeks.
- The **USD-JPY** may stay ranged into the end of the week, with no significant support from implied valuations or technicals for now. For the **AUD-USD**, short term implied valuations remain supportive, but the failure to make significant headway north of 0.7150 yesterday may keep the pair heavy for now.

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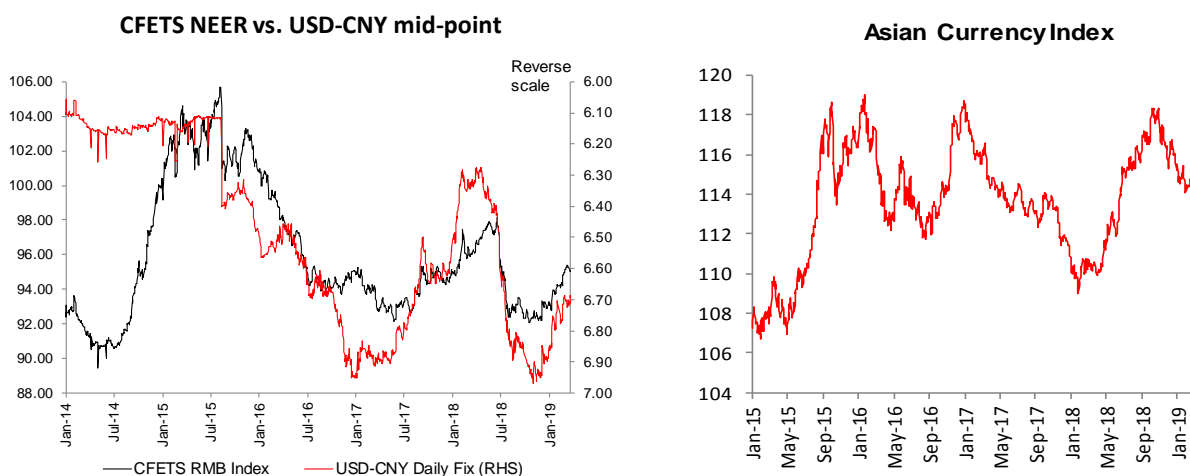
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## Asian Markets

- The focus will switch back to Asia next week, with the Sino-US trade talks back in full swing.** Note that the pace of talks seemed to be faster than market expected, despite the combative comments from the US side earlier in the week. Lighthizer and Mnuchin are scheduled in Beijing on 29-29 March, with Liu He expected to visit Washington the week after. **Progress on this front may keep the USD-CNH heavy in the coming sessions. In the interim, expect USD-Asia to remain ranged into the end of the week.**
- Strong inflows in Indonesian bonds** – on the portfolio flows front, inflow momentum into Indonesia is accelerating higher, driven by bond inflows from recent government bond auctions. Meanwhile, the decline in equity inflows into Taiwan and Philippines may have bottomed and are looking to turn higher. Overall, with DM yields depressed and global central banks (Asian central banks included) on the dovish tilt, expect EM Asian assets to remain in vogue and attractive to foreign investors.
- Neutral to dovish holds from Asian central banks** – A trio of Asian central banks, BI, BSP and CBC, all held policy rates unchanged yesterday. Nevertheless, the overall dovish tilt is noticeable. An RRR cut still explicitly on the table for the BSP. The BI, meanwhile, continued to espouse external stability, but highlighted that it will undertake accommodative policies to support the domestic economy. The barrier for a rate cut by BI has been lowered, although it might be too early to contemplate that move in the immediate horizon.
- USD-SGD – Back within range.** The SGD NEER stayed around to +1.80% above its perceived parity (1.3736) this morning, with NEER-implied USD-SGD thresholds turning higher on the back of a USD rebound. Expect 1.3450 to support for now, with near term resistance at 1.3530.
- CFETS RMB Index:** The USD-CNY midpoint was set higher at 6.6944, compared to 6.6850 on Thursday, as we have expected. The CFETS RMB Index was static at 95.06.



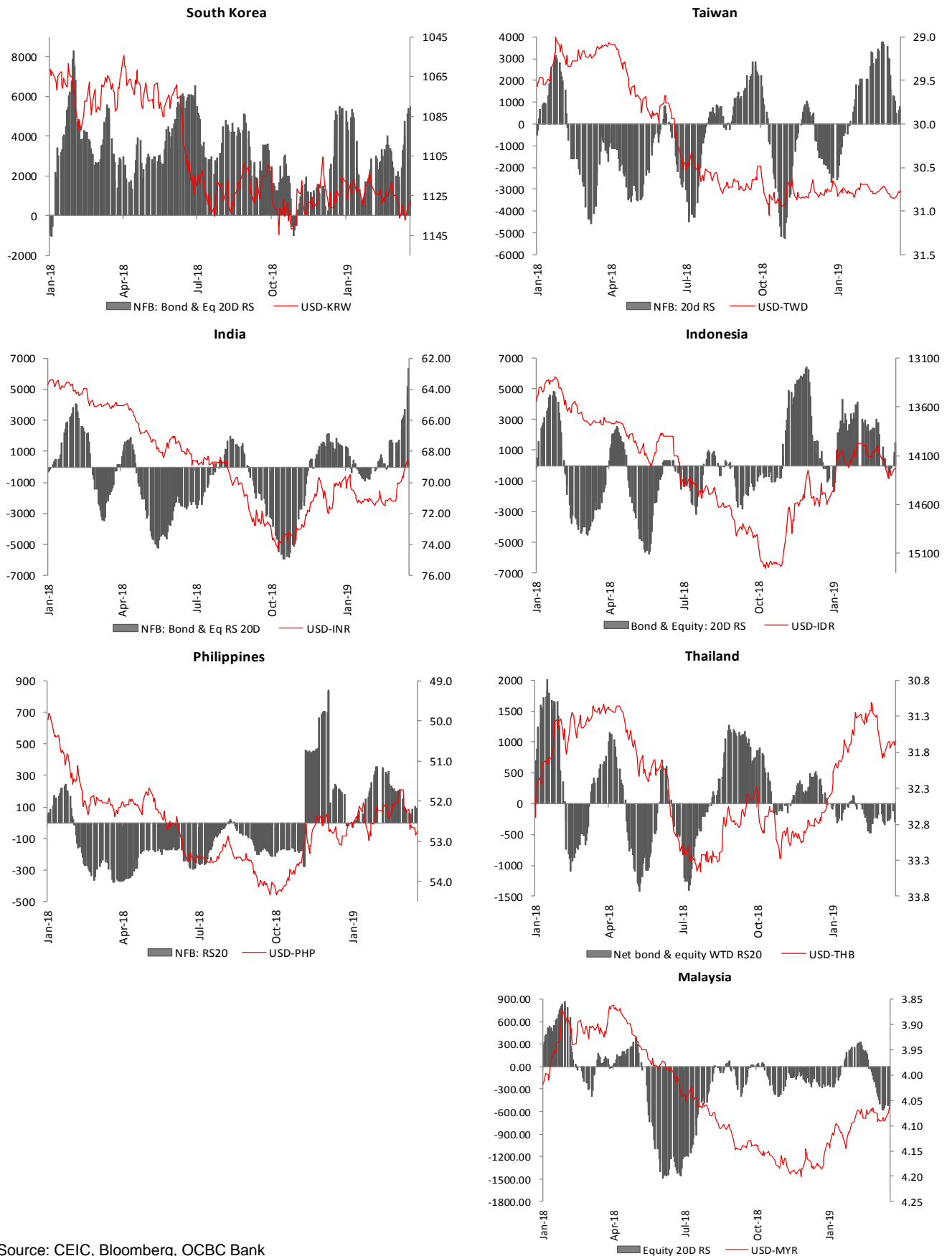
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

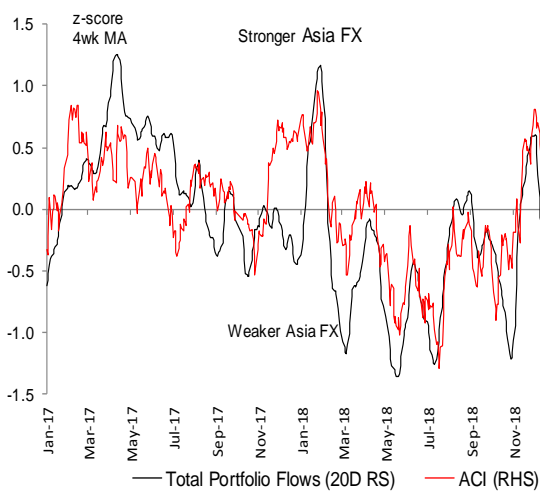
	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↔	↔	NPC portends further accommodation in the pipeline. Feb CPI in-line with expectations, but PPI surprised on the downside. Jan industrial profits deteriorate further at -1.9% yoy. Feb retail sales and industrial production in-line to weaker than estimates. 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, underperforming consensus. 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 March 2019. GDP growth and inflation forecasts downgraded. 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 unchanged in March meeting. Policy focus still on external stability, but may undertake accommodative policies to push domestic demand. Macroprudential tweaks to increase liquidity in the banking system. IDR seen as in line with fundamentals. 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. Feb customs exports above expectations, but mainly due to one-off factors. 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>	↑	---	BSP unchanged in March, but RRR cut remains on the table, potentially in May. Excessive price pressures seen in 2018 easing off. 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

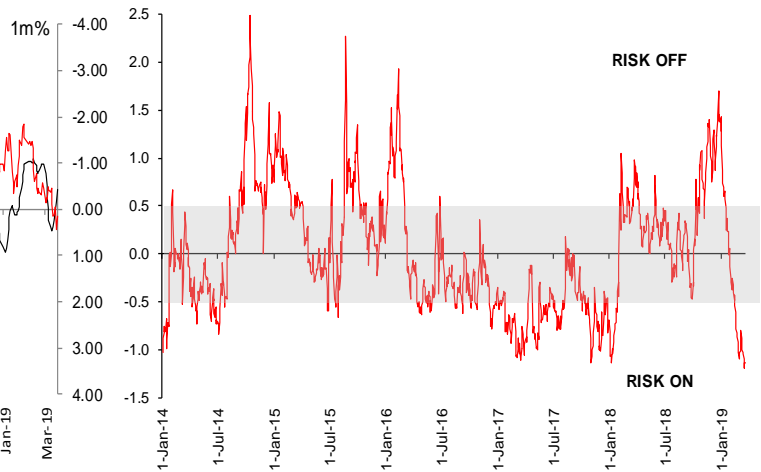
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

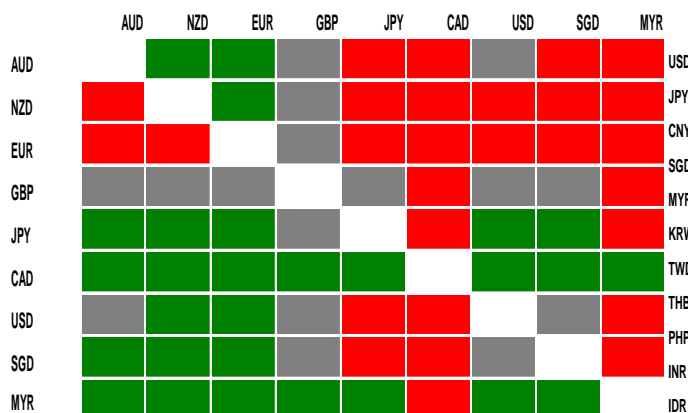
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.178	0.644	-0.567	-0.417	-0.593	0.483	-0.32	0.429	0.382	0.764	-0.967
SGD	0.928	0.383	0.645	-0.636	-0.467	-0.668	0.662	-0.41	0.431	0.354	0.761	-0.9
CHF	0.82	0.326	0.551	-0.677	-0.518	-0.687	0.43	-0.534	0.426	0.416	0.533	-0.895
CNH	0.764	0.06	0.888	-0.327	-0.449	-0.203	0.353	0.008	0.107	0.271	1	-0.741
MYR	0.723	0.154	0.706	-0.389	-0.382	-0.426	0.501	-0.244	0.122	0.152	0.626	-0.765
CAD	0.671	-0.275	0.395	-0.107	0.029	-0.249	0.48	0.212	0.225	-0.234	0.584	-0.603
TWD	0.663	-0.078	0.651	-0.204	-0.488	-0.27	0.474	0.043	-0.095	0.015	0.622	-0.701
CNY	0.644	0.051	1	-0.299	-0.545	-0.177	0.203	-0.055	-0.046	0.366	0.888	-0.658
IDR	0.565	-0.397	0.508	0.13	-0.17	0.023	0.358	0.399	-0.292	-0.335	0.573	-0.611
JPY	0.483	0.512	0.203	-0.108	0.116	-0.376	1	-0.228	0.072	-0.252	0.353	-0.4
KRW	0.433	-0.467	0.558	0.124	-0.195	0.108	0.324	0.476	-0.29	-0.267	0.611	-0.45
THB	0.406	-0.143	0.105	0.079	0.237	-0.165	0.631	0.27	0.078	-0.494	0.313	-0.337
USGG10	0.178	1	0.051	-0.506	-0.211	-0.565	0.512	-0.762	0.334	0.42	0.06	-0.128
PHP	-0.042	-0.827	0.091	0.576	0.355	0.57	-0.149	0.767	-0.459	-0.583	0.047	0.021
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
GBP	-0.436	0.03	-0.347	0.487	0.372	0.291	0.265	0.272	-0.366	-0.737	-0.365	0.383
NZD	-0.666	-0.633	-0.422	0.644	0.294	0.502	-0.656	0.429	-0.541	-0.302	-0.6	0.626
AUD	-0.739	-0.1	-0.476	0.345	0.175	0.304	-0.634	-0.039	-0.286	0.056	-0.704	0.698
EUR	-0.967	-0.128	-0.658	0.633	0.506	0.577	-0.4	0.321	-0.458	-0.401	-0.741	1

Source: Bloomberg

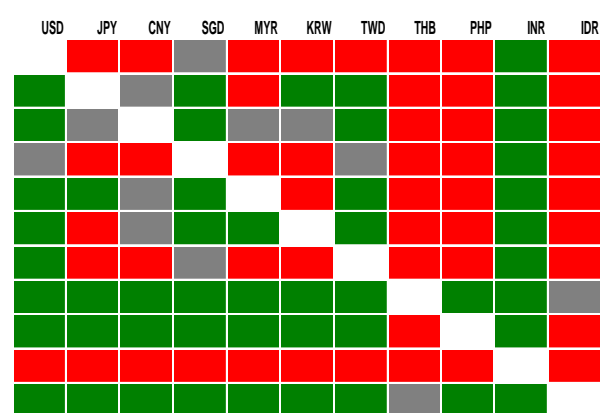
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1353	1.1373	1.1400	1.1437
GBP-USD	1.3064	1.3100	1.3138	1.3200	1.3360
AUD-USD	0.7020	0.7070	0.7100	0.7130	0.7171
NZD-USD	0.6800	0.6823	0.6885	0.6900	0.6914
USD-CAD	1.3271	1.3300	1.3370	1.3400	1.3468
USD-JPY	110.41	110.52	110.71	111.00	111.46
USD-SGD	1.3453	1.3454	1.3492	1.3500	1.3543
EUR-SGD	1.5253	1.5300	1.5345	1.5375	1.5400
JPY-SGD	1.2094	1.2100	1.2187	1.2200	1.2220
GBP-SGD	1.7692	1.7700	1.7726	1.7729	1.7800
AUD-SGD	0.9524	0.9531	0.9580	0.9600	0.9656
Gold	1300.00	1304.72	1308.50	1327.12	1344.00
Silver	15.14	15.30	15.37	15.40	15.56
Crude	59.30	59.50	59.80	60.39	60.42

Source: OCBC Bank

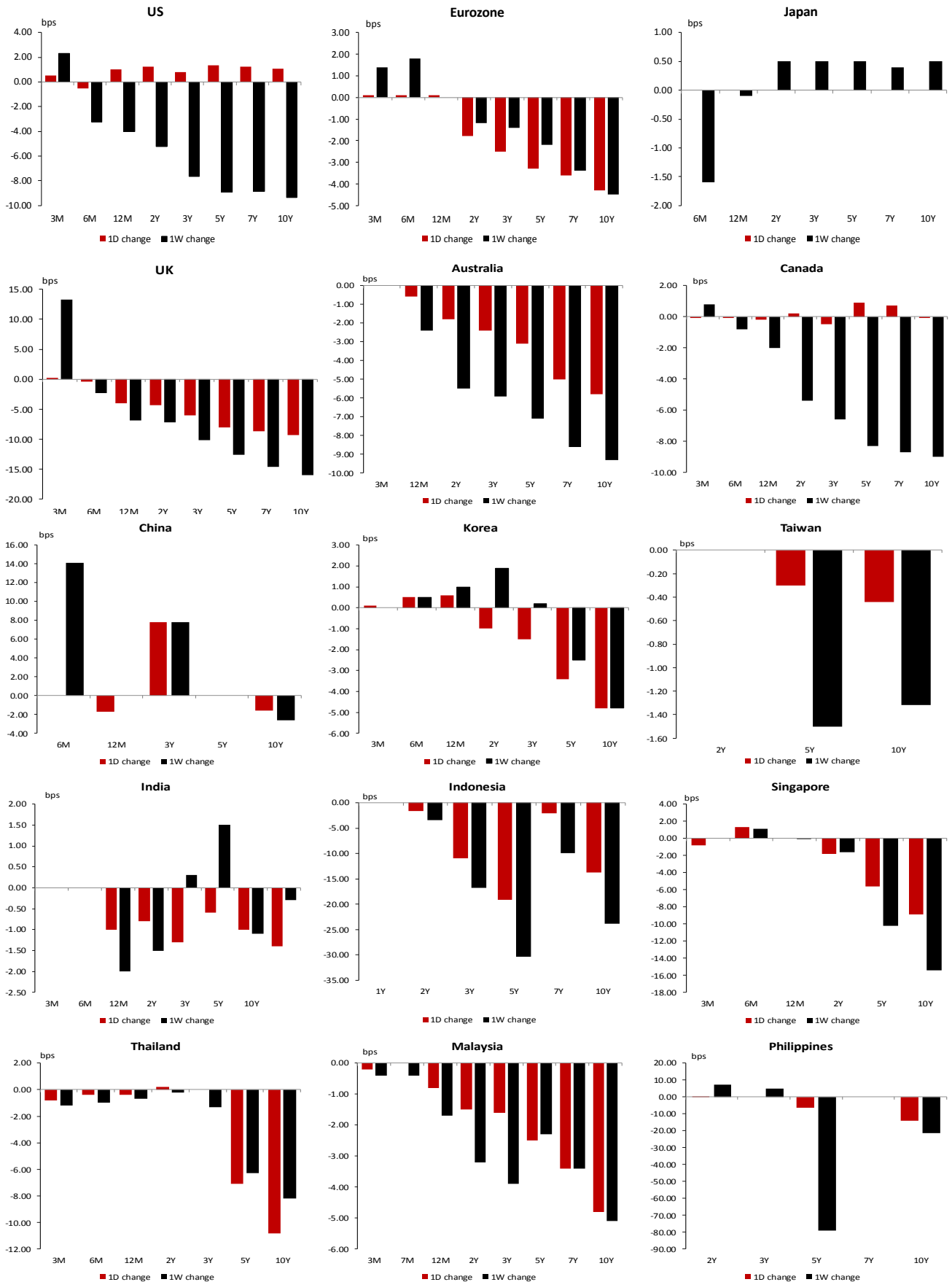
**G10 FX Heat Map**

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	1.9350	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	
STRUCTURAL								
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	
RECENTLY CLOSED TRADE IDEAS								
	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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