

Monday, March 25, 2019

Market Themes/Strategy/Trading Views – The week ahead

- The USD parted way within G10 space as it strengthened against the cyclicals (AUD, NZD, CAD) and the EUR but softened against the JPY (rate differential compression) and GBP. A shift in market focus to growth concerns, and distinctly negative global equities saw the **FXSI (FX Sentiment Index)** jump higher on Friday.
- On the **CFTC** front, large non-commercial accounts and leveraged accounts increased their implied net long dollar bias in the latest week but asset manager accounts increased their net short dollar bias instead.
- **At the onset of the week, enveloping concerns about the weakness of the global economy may be expected to outweigh a more benign Fed, keeping the USD supported against most currencies, especially against the cyclicals and EM currencies.**
- **Structural considerations meanwhile may be suspended as negative global risk appetite overrides.** Major bond curves have also dislocated lower (in terms of yields) but with US bonds still outperforming, note that rate differentials in fact have moved against the greenback in aggregate.
- After the negative burn from the German PMI on Friday, expect **EUR-USD** to continue to eye the lower bound of its implied short term confidence intervals towards 1.1250/60 with 1.1330 seen capping at this juncture. For the **GBP-USD**, PM May's position in Parliament remains precarious this week, with headline risks continuing to dominate. Short term implied valuations and technicals for the pair are heavy and 1.3090/00 may continue to attract this week, with the 55-day MA (1.3047) seen providing some interim support.
- **USD-JPY is an exception** and remains unambiguously weighted to the downside with the 55-day MA (110.25) capping and risks to 109.30 remain apparent. Note that short term implied valuations and technicals for the pair have detached lower post-FOMC. Meanwhile, expect **AUD-USD** to remain suppressed in the current environment with 0.7050 a likely beacon for growth bears in the near term. Similarly, **USD-CAD** may be expected to reach for the 1.3600 neighborhood (1.3400 to support) if global growth concerns and bullish global bonds remain a fixture in the coming sessions.
- Watch for the restart of Fedspeak this week, with a heavy schedule lined up. Any signs of an attempt to downplay the dots may be USD-supportive in the near term. Elsewhere, watch for German Ifo survey (0900 GMT).

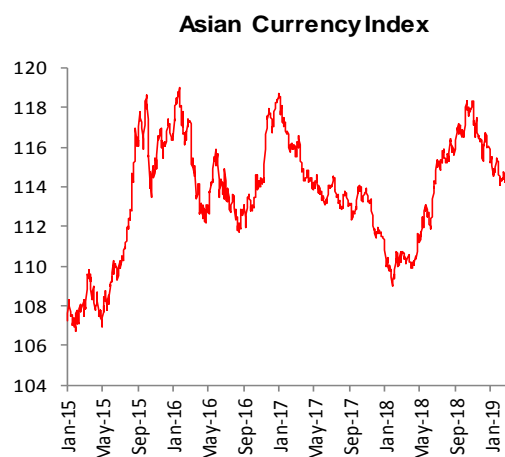
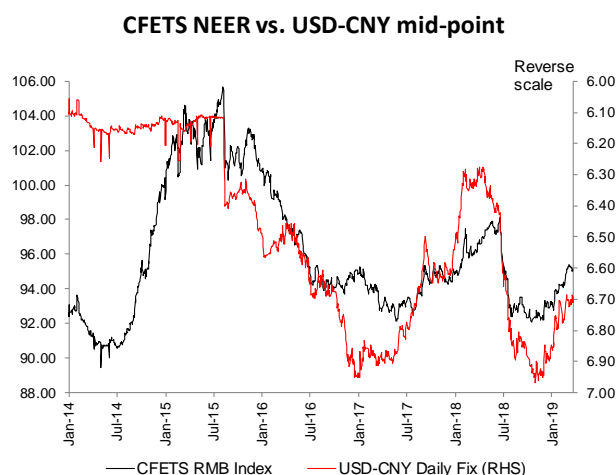
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Asian Markets

- Sino-US trade talks** will again be the focus in Asia this week, with Lighthizer and Mnuchin are scheduled in Beijing on 29-29 March. **In the interim, with the USD-CNH staying supported above the 6.7200 mark, and risk sentiments sagging, we prefer to stay defensive on the Asian currencies early week.** More opportunities may come later in the week, especially if we have positive newsflow from the Sino-US talks.
- Asian portfolio flows – Still providing background support for Asian currencies, but may turn on risk sentiments.** Inflow momentum continues to accelerate higher for India, with Taiwan also showing some good uptick, although from a lower base. Inflow momentum also staying at a stable, high level for South Korea. Interest elsewhere in South Asia (except Indonesia) is softer. Looking forward, we caution that inflows may be fickle, especially if growth concerns take hold and risk sentiments continue to sag.
- USD-SGD – Bias higher.** The SGD NEER took a dip lower to +1.65% above its perceived parity (1.3748) this morning, as NEER-implied USD-SGD thresholds continued to push higher with the ongoing USD rebound. In the interim, expect the USD-SGD to stay buoyant as global growth concerns underpin the broad USD, with the 55-day MA (1.3543) possibly attracting. CPI prints scheduled later (0500 GMT).
- CFETS RMB Index:** The USD-CNY midpoint was set higher this morning, as expected, at 6.7098, compared to 6.6944 on Friday. The CFETS RMB Index inched higher to 95.08 from 95.06 last week.



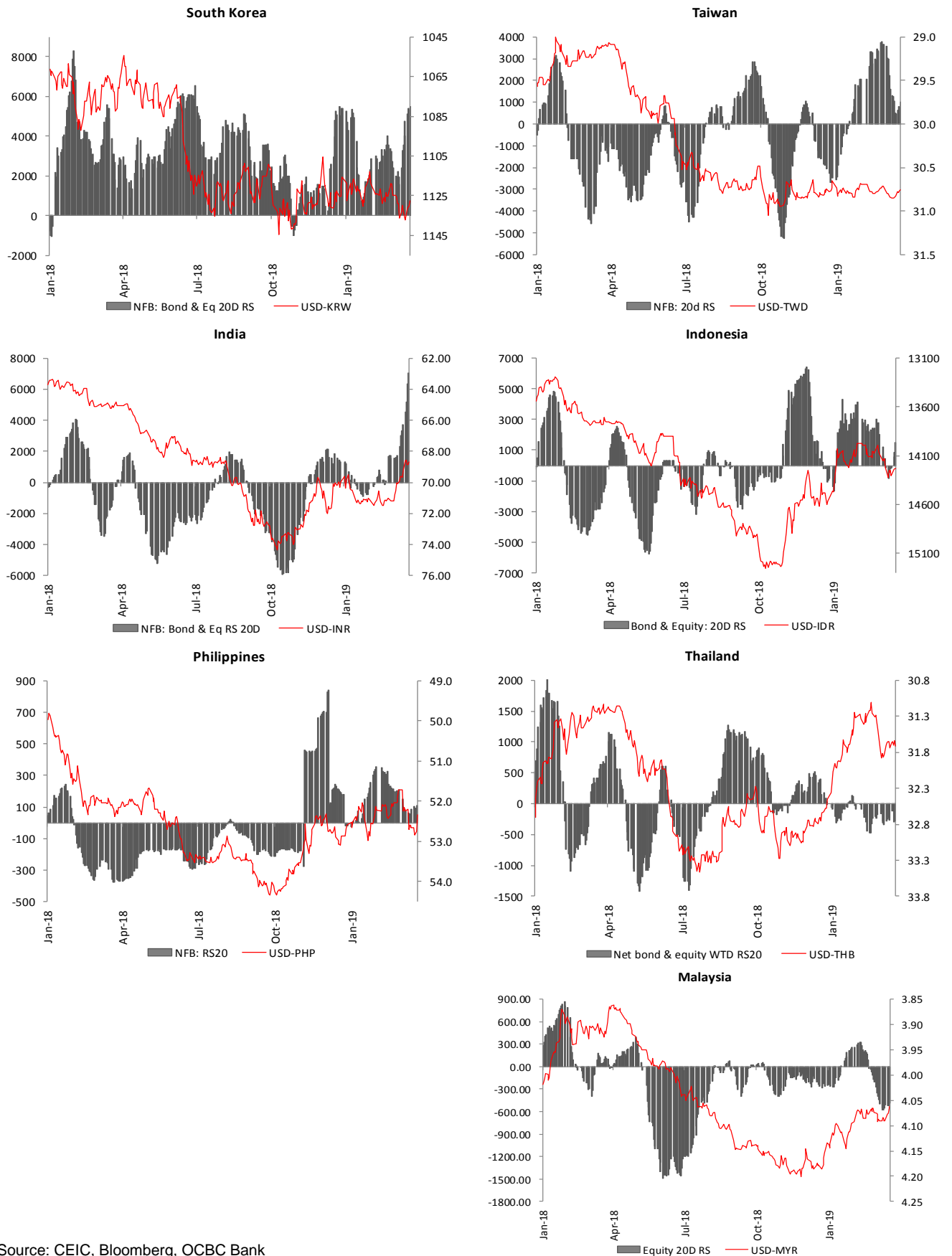
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

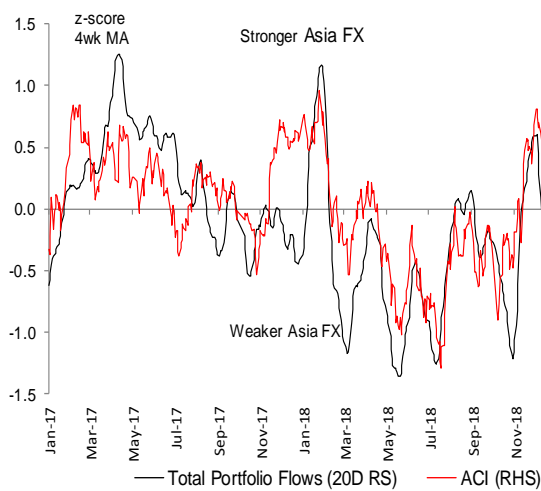
	USD-Asia	10y govie (%)	Rationale
China	↔	↔	NPC portends further accommodation in the pipeline. Feb CPI in-line with expectations, but PPI surprised on the downside. Jan industrial profits deteriorate further at -1.9% yoy. Feb retail sales and industrial production in-line to weaker than estimates. Feb 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.
S. Korea	↔/↑	↔	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.
Taiwan	↔	↔/↓	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.
India	↓	↔	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).
Singapore	↔	↔	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.
Malaysia	↔/↑	↓	BNM static at 3.25%, although rumblings for a rate cut this year is building. Feb CPI prints again show deeper than expected deflationary pressures. 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.
Indonesia	↔/↑	↓	BI unchanged in March meeting. Policy focus still on external stability, but may undertake accommodative policies to push domestic demand. Macprudential 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. Elections slated for 17 April 2019.
Thailand	↔/↑	↑	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%. Possible positive market reaction to election result, with the pro-junta party expected to retain control.
Philippines	↑	---	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

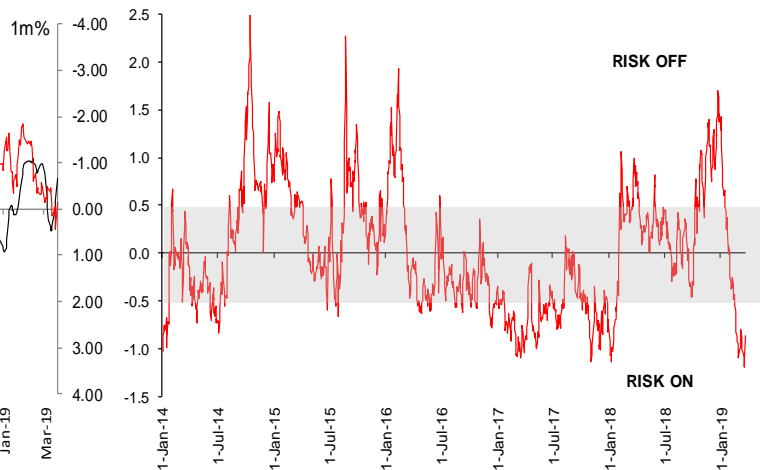
USD-Asia VS. Net Capital Flows



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	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.089	0.71	-0.597	-0.482	-0.579	0.309	-0.284	0.388	0.574	0.782	-0.959
SGD	0.924	0.301	0.695	-0.676	-0.558	-0.656	0.502	-0.382	0.355	0.571	0.763	-0.873
CNH	0.782	-0.171	0.904	-0.282	-0.337	-0.196	0.144	0.124	0.187	0.215	1	-0.784
CHF	0.738	0.468	0.441	-0.679	-0.653	-0.699	0.559	-0.533	0.203	0.569	0.402	-0.732
CAD	0.723	-0.418	0.771	-0.21	-0.083	-0.1	-0.05	0.242	0.261	0.147	0.818	-0.719
CNY	0.71	-0.225	1	-0.229	-0.38	-0.217	0.092	0.11	0.082	0.189	0.904	-0.742
MYR	0.685	0.237	0.704	-0.421	-0.558	-0.459	0.514	-0.233	-0.031	0.279	0.577	-0.677
TWD	0.628	0.095	0.681	-0.25	-0.666	-0.274	0.428	0.019	-0.227	0.174	0.588	-0.63
IDR	0.605	-0.332	0.786	0.035	-0.384	0.105	0.095	0.413	-0.334	-0.096	0.74	-0.668
THB	0.54	0.04	0.626	-0.103	-0.082	-0.04	0.434	0.231	0.014	-0.065	0.679	-0.449
KRW	0.437	-0.448	0.772	0.079	-0.318	0.175	0.003	0.475	-0.289	-0.123	0.727	-0.492
JPY	0.309	0.834	0.092	-0.197	-0.209	-0.369	1	-0.348	-0.272	0.023	0.144	-0.131
USGG10	0.089	1	-0.225	-0.398	-0.3	-0.599	0.834	-0.678	-0.012	0.303	-0.171	0.061
PHP	-0.043	-0.651	0.238	0.564	0.307	0.637	-0.249	0.753	-0.461	-0.591	0.118	-0.008
INR	-0.059	0.727	-0.507	-0.527	-0.284	-0.663	0.145	-0.877	0.356	0.564	-0.427	0.125
GBP	-0.587	0.028	-0.191	0.461	0.239	0.479	-0.033	0.327	-0.453	-0.605	-0.31	0.508
NZD	-0.628	-0.62	-0.319	0.643	0.387	0.55	-0.709	0.435	-0.364	-0.375	-0.493	0.538
AUD	-0.771	-0.008	-0.701	0.436	0.352	0.259	-0.334	-0.048	-0.249	-0.207	-0.839	0.755
EUR	-0.959	0.061	-0.742	0.66	0.543	0.545	-0.131	0.229	-0.457	-0.587	-0.784	1

Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1200	1.1216	1.1297	1.1300	1.1348
GBP-USD	1.3072	1.3100	1.3197	1.3200	1.3361
AUD-USD	0.7003	0.7016	0.7074	0.7100	0.7127
NZD-USD	0.6800	0.6824	0.6876	0.6900	0.6912
USD-CAD	1.3275	1.3400	1.3430	1.3468	1.3500
USD-JPY	109.00	109.71	109.78	110.00	110.04
USD-SGD	1.3459	1.3500	1.3518	1.3543	1.3600
EUR-SGD	1.5208	1.5242	1.5272	1.5300	1.5369
JPY-SGD	1.2282	1.2300	1.2315	1.2331	1.2400
GBP-SGD	1.7729	1.7800	1.7840	1.7900	1.8047
AUD-SGD	0.9524	0.9535	0.9563	0.9600	0.9649
Gold	1300.00	1305.35	1315.00	1325.37	1344.00
Silver	15.13	15.30	15.35	15.40	15.55
Crude	57.50	58.00	58.40	60.30	60.39

Source: OCBC Bank

G10 FX Heat Map

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD									
NZD									
EUR									
GBP									
JPY									
CAD									
USD									
SGD									
MYR									

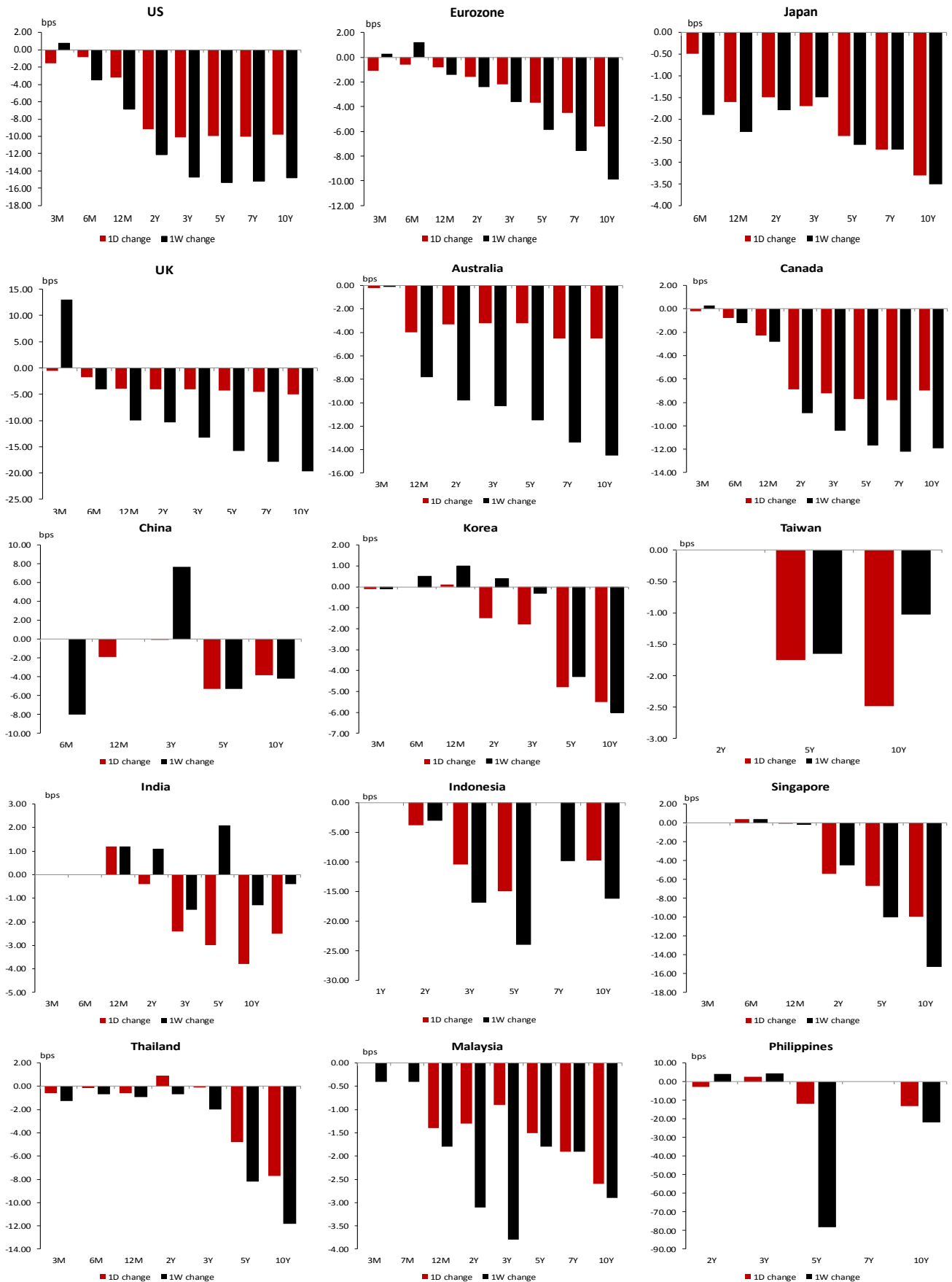
Source: OCBC Bank

Asia FX Heat Map

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		9	2	2	2	2	9	2	2	1	2
JPY	9		1	9	2	2	9	2	2	1	2
CNY	2	1		2	2	9	1	2	2	1	2
SGD	2	9	2		2	2	9	2	2	1	2
MYR	2	2	2	2		2	1	2	2	1	2
KRW	2	2	9	2	2		2	1	1	2	2
TWD	9	9	1	9	1	2		2	2	1	2
THB	2	2	2	2	2	1	2		1	1	1
PHP	2	2	2	2	2	1	2	1		1	2
INR	1	1	1	1	1	2	1	1	1		2
IDR	2	2	2	2	2	2	2	1	2	2	

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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