DAILY MARKET OUTLOOK

OCBC Bank

Wednesday, February 27, 2019

Market Themes/Strategy/Trading Ideas

- Despite the better than expected US Feb consumer confidence readings, UST yields fell (5y outperforming) and the DXY slipped briefly below 96.00 on Tuesday following Fed chair **Powell's** testimony as he continued to preach patience. Note that he came across as quite balanced, with no obvious bias towards a rate hike or rate cut.

- GBP meanwhile outperformed across the board as prospects of a hard Brexit continued to be tempered, with PM May relenting on her previously firm stance. For now, a no-deal Brexit may be effectively ruled out, with a possible delay in the Brexit deadline (up till June) also in play. Apart from this week, expect the next round of key votes to come in 12-13 March.

- With global equities taking a slight breather, the **FX Sentiment Index (FXSI)** firmed slightly but remained in Risk-On territory.

- Going ahead, apart from another appearance by Powell today (1500 GMT), the schedule for Fed speakers remains heavy for the rest of the week (and they are not expected to deviate from Powell's line). As such, we think the market attention may still be on the neutral-to-dovish Fed for now, putting downside pressure on the broad USD.

- Overall, we think upside impetus for the **DXY** has been extinguished for now with both the 55-day MA (96.34) and 100-day MA (96.43) now serving as resistance levels instead. The imminent violation of the 96.00 handle paves the way for further decay to the 200-day MA (95.64). On a structural note, **aggregated rate differentials** tanked (moving against the USD) on Tuesday and would be expected to continuing weighing on the broad dollar.

- Amidst deepening USD weakness, we closed out our 11 Feb 19 idea to be tactically shorty **EUR-USD** (spot ref: 1.1325) at 1.1393 on Wednesday for an implied -0.46% loss. On a related note, we stay with our 23 Jan 19 idea to be tactically long **GBP-AUD** (spot ref: 1.8159). We continue to target 1.8745 with the stop residing at 1.7865.

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Asian Markets

- EM stocks consolidated lower on Tuesday but USD-CNH may remain top heavy in the current USD environment, with most of USD-Asia trading in a similar fashion. **USD-INR** may however continue to be supported on dips in light of the border tensions with Pakistan.

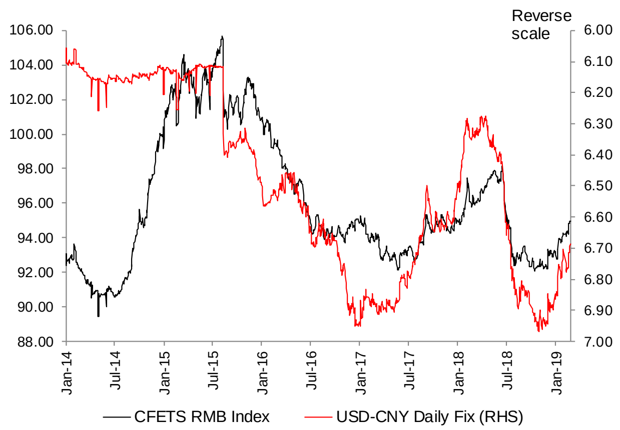
- **USD-IDR** finally slipped below 14,000 on Tuesday and with strong investor interest in the bond auction on Tuesday, Indonesia continues to remain our poster boy for EM appetite. On the FX front, note a BI official stating that the central bank will allow the rupiah to strengthen further as it is still deemed undervalued.

- On the **portfolio flow front**, net inflow momentum for South Korea and Taiwan dipped slightly, but nevertheless remained at healthy levels. However, the flow picture for Indonesia and Thailand deteriorated slightly are still holding up at significantly positive levels. India, on the other hand, continues to enjoy increasing inflow momentum on back of equity inflows. Nevertheless, this improvement may prove to be short-lived if the risk-off sentiments in India continue to build on the back of border tensions.

- **SGD NEER**: The SGD NEER stood at around +1.80% above its perceived parity (1.3725) this morning. Implied USD-SGD thresholds were taken lower again on broad US weakness. At this juncture, we expect the USD-SGD to track the USD-CNH lower, effectively shaking off the in-line to softer industrial production prints (and inflation prints earlier in the week). Meanwhile, note comments by MAS's Menon this morning that the economy has progressed "as expected" and monetary policy "remains appropriate". **Overall, expect 1.3450 to attract in the current environment.**

- **CFETS RMB Index**: The USD-CNY midpoint eased further this morning, within expectations, to 6.6857 this morning, from 6.6952 on Tuesday. The CFETS RMB Index eased slightly ahead of the 95.00 mark, dropping to 94.94 from 94.98 previously. Going forward, the 95.00 handle may become a near term locus for the Index.

CFETS NEER vs. USD-CNY mid-point



Asian Currency Index

Source: OCBC Bank, Bloomberg

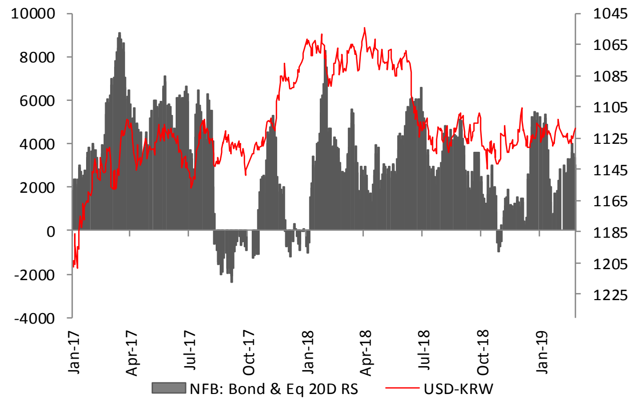
Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↔/↑	7-day repo rate consolidating higher, bond yields firming as equities strengthen. While further rate cuts cannot be ruled out, recent comments on flushed interbank liquidity by senior officials may reduce those odds in the near term. 4Q GDP as expected at 6.4% yoy. Dec new yuan loans and aggregate financing beat 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.
S. Korea	↔/↓	↔	Geopolitical tensions easing with CDS on govies nearing historical lows. BOK static in Jan, 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 manufactuirng PMI deteriorates further to 48.3. 4Q GDP higher than expected at +3.1% yoy on the back of fiscal support. Jan unemployment jumps to 4.4%.
Taiwan	↔/↓	↔/↓	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.
India	↔/↓	↔/↑	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 mechandise trade deficit wider than expected on firmer crude. On the political front, elections due Apr/May 2019, and also watch escalating border tensions with Pakistan.
Singapore	↔/↓	↔	Expect the USD-SGD to track the broad USD and USD-CNH. 4Q GDP surprises on the downside at 1.6% saar. Jan NODX disappoints at -10.1% yoy. Jan 19 CPI readings cooler than expected. Jan IPI flat to weaker than expected, Dec numbers revised lower.
Malaysia	↔/↓	↓	BNM static at 3.25% in Jan 2019 and is expected to be static through 2019. Jan CPI pinted a deepr than expected -0.7% yoy. Dec manufacturing PMI falls to 47.7 from 48.4. Dec exports and industrial production numbers outperformed. Jan CPI shows stronger than expected negative price pressures. 4Q GDP surprises on the upside at +4.7% yoy.
Indonesia	↔/↓	↔/↓	BI static at Feb meeting, refrained from reiterating previous "hawkish" intent, replaced with an emphasis on external stability (ie. containing current account deficit and maintaining a sufficient yield buffer) while exploring further macroprudential measures. IDR still seen as undervalued. 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.
Thailand	↔	↑	Accomodative 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 headline and core inflation in-line with expectations. Elections scheduled on 24 March, with uncertainties heightening. 4Q GDP at a better than expected +3.7% yoy.
Philippines	↓	---	BSP warns against premature easing and remains on the hawkish side despite being static in Feb. 4Q GDP below expectations at 6.1% yoy. Dec exports 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%.

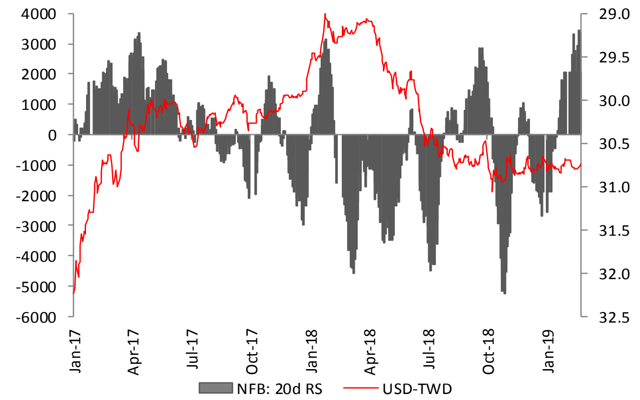
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

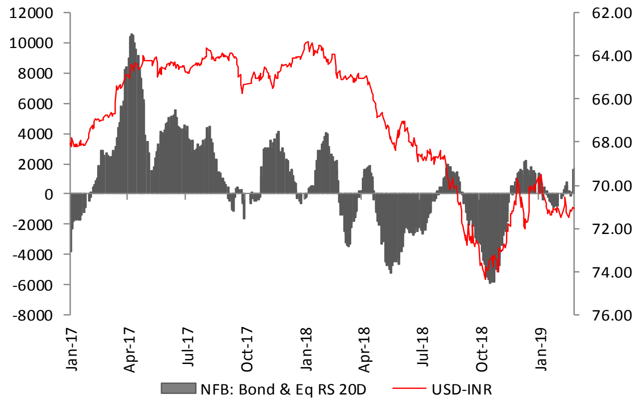
South Korea



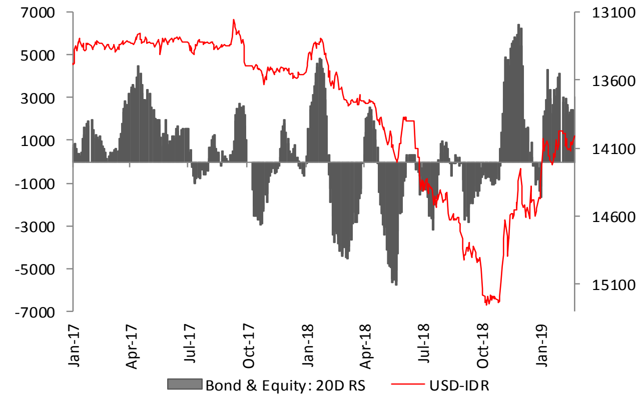
Taiwan



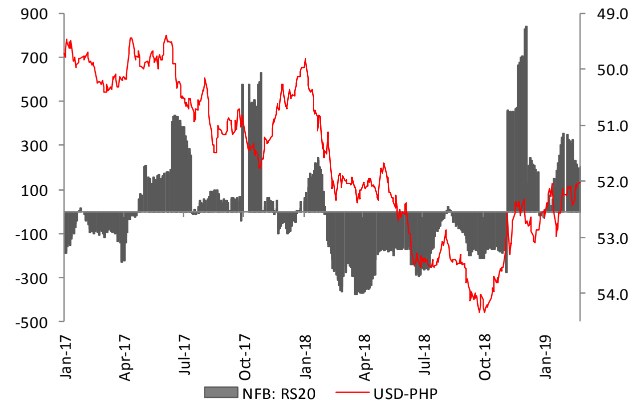
India



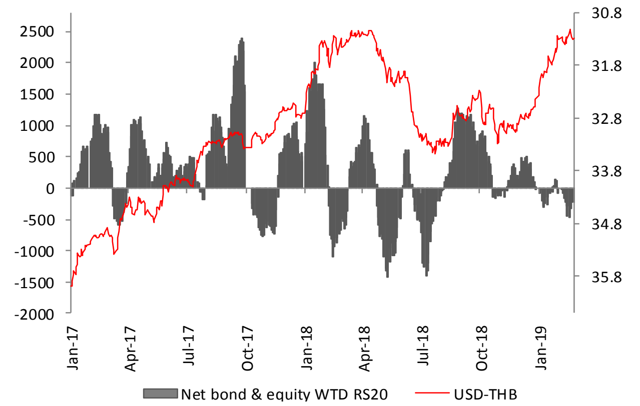
Indonesia



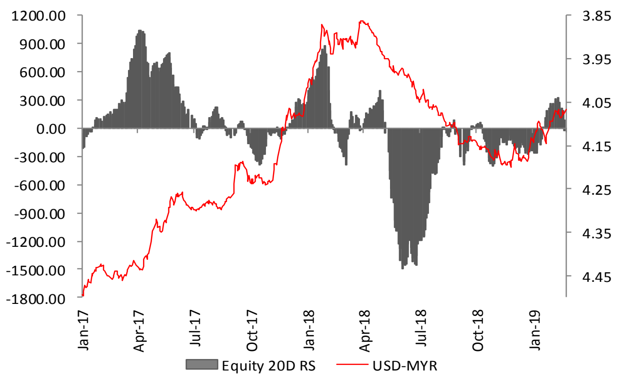
Philippines



Thailand

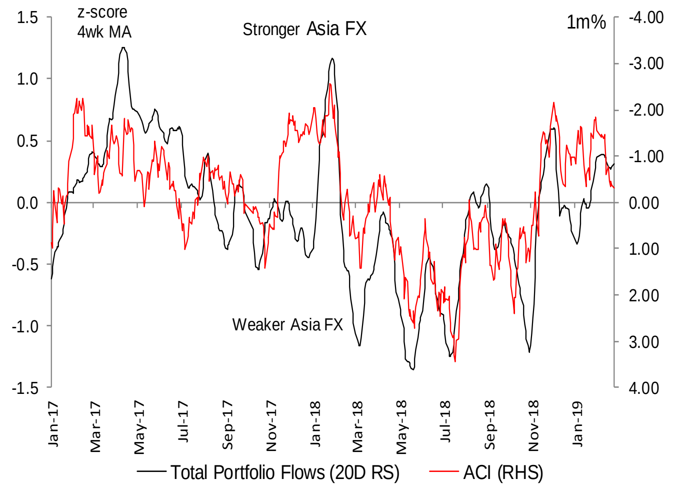


Malaysia



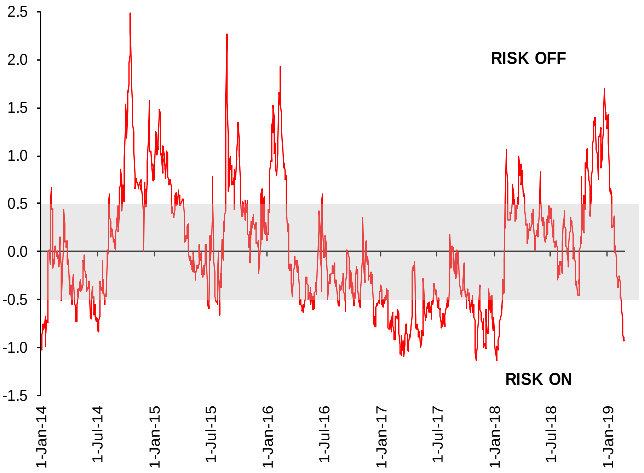
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXEX	CNH	EUR
DXY	1	-0.23	0.593	0.498	0.427	-0.058	0.738	0.049	-0.511	-0.28	0.461	-0.991
SGD	0.913	-0.217	0.513	0.572	0.451	-0.043	0.748	0.087	-0.562	-0.336	0.411	-0.898
IDR	0.822	0.178	0.878	-0.006	-0.045	-0.457	0.343	-0.388	-0.081	0.226	0.852	-0.785
MYR	0.82	0.1	0.583	0.424	0.238	0.158	0.636	0.158	-0.384	-0.221	0.493	-0.799
JPY	0.819	-0.179	0.583	0.578	0.373	0.25	0.644	0.273	-0.639	-0.358	0.463	-0.805
CAD	0.738	-0.256	0.101	0.844	0.8	0.432	1	0.546	-0.746	-0.742	-0.106	-0.748
CHF	0.639	0.015	0.692	-0.212	-0.107	-0.545	0.172	-0.482	0.253	0.296	0.542	-0.636
CNH	0.593	0.275	1	-0.176	-0.363	-0.548	0.101	-0.456	0.107	0.385	0.971	-0.553
PHP	0.461	0.344	0.971	-0.36	-0.457	-0.648	-0.106	-0.613	0.196	0.554	1	-0.401
CNY	0.258	0.062	0.448	0.059	-0.111	0.104	0.221	0.159	0.121	0.002	-0.029	-0.248
THB	-0.187	0.17	0.006	-0.14	-0.198	0.091	-0.266	-0.024	-0.028	0.108	0.305	0.247
KRW	-0.213	0.302	0.141	-0.666	-0.504	-0.61	-0.396	-0.565	0.722	0.65	0.147	0.215
USGG10	-0.224	0.634	0.396	-0.598	-0.711	-0.297	-0.445	-0.376	0.685	0.544	0.384	0.294
TWD	-0.23	1	0.275	-0.476	-0.423	-0.242	-0.256	-0.353	0.479	0.455	0.344	0.29
INR	-0.59	-0.087	-0.638	0.155	0.003	0.495	-0.135	0.493	-0.004	-0.31	-0.607	0.589
GBP	-0.655	0.578	0.052	-0.735	-0.779	-0.189	-0.756	-0.334	0.773	0.59	0.036	0.7
NZD	-0.731	-0.104	-0.827	-0.059	0.063	0.39	-0.219	0.337	0.167	-0.225	-0.818	0.676
AUD	-0.847	0.042	-0.581	-0.178	-0.28	0.217	-0.519	0.161	0.228	0.024	-0.477	0.848
EUR	-0.991	0.29	-0.553	-0.515	-0.458	0.041	-0.748	-0.073	0.523	0.304	-0.401	1

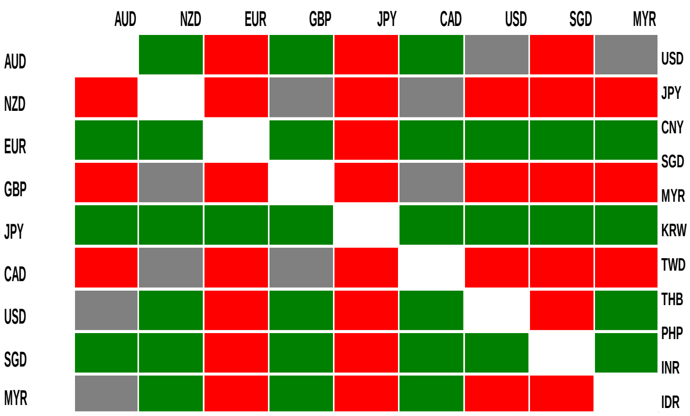
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1244	1.1300	1.1380	1.1391	1.1400
GBP-USD	1.3200	1.3241	1.3246	1.3288	1.3300
AUD-USD	0.7100	0.7132	0.7178	0.7200	0.7257
NZD-USD	0.6792	0.6800	0.6890	0.6900	0.6942
USD-CAD	1.3100	1.3161	1.3173	1.3200	1.3317
USD-JPY	109.80	110.00	110.58	111.00	111.24
USD-SGD	1.3443	1.3454	1.3484	1.3500	1.3577
EUR-SGD	1.5273	1.5300	1.5345	1.5400	1.5455
JPY-SGD	1.2136	1.2145	1.2193	1.2200	1.2262
GBP-SGD	1.7800	1.7833	1.7861	1.7900	1.7907
AUD-SGD	0.9577	0.9600	0.9679	0.9683	0.9700
Gold	1298.40	1300.00	1331.20	1339.68	1344.00
Silver	15.54	15.80	15.88	15.90	16.12
Crude	51.83	56.00	56.02	56.10	57.62

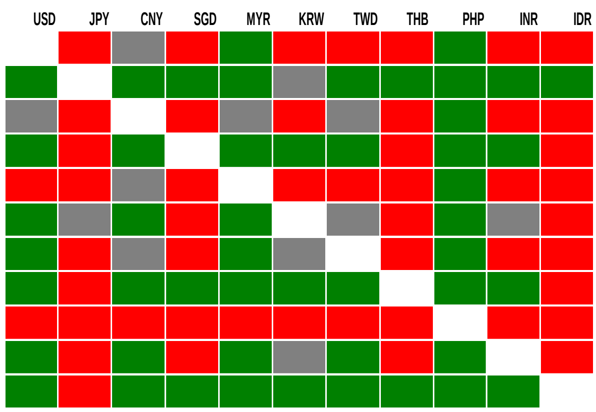
Source: OCBC Bank

G10 FX Heat Map



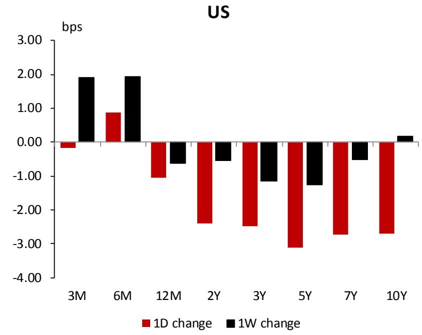
Source: OCBC Bank

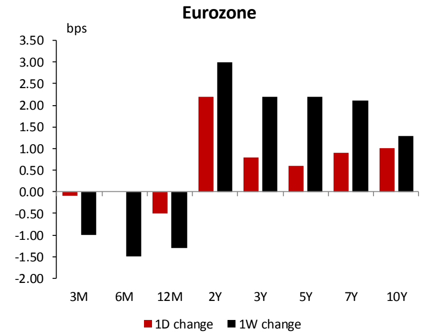
Asia FX Heat Map

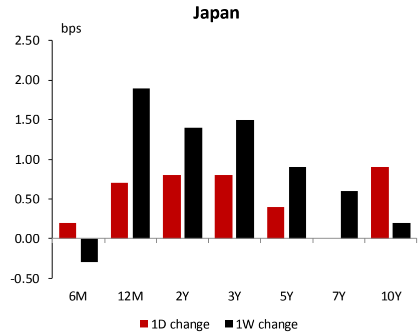


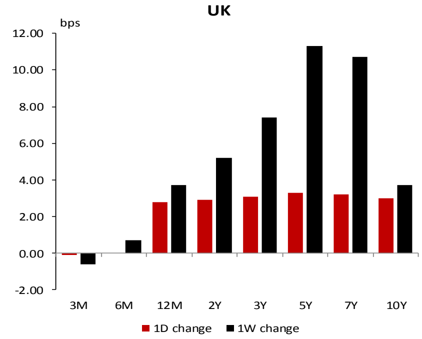
Source: OCBC Bank

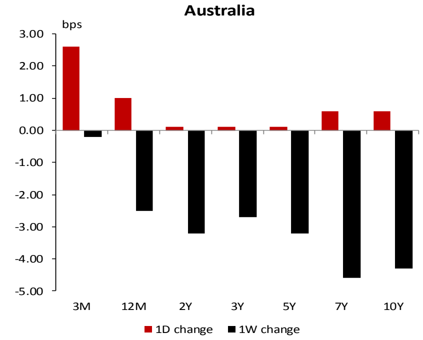
Government bond yield changes

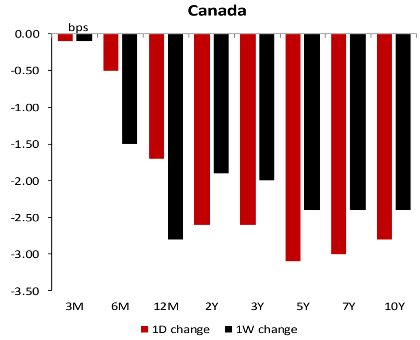


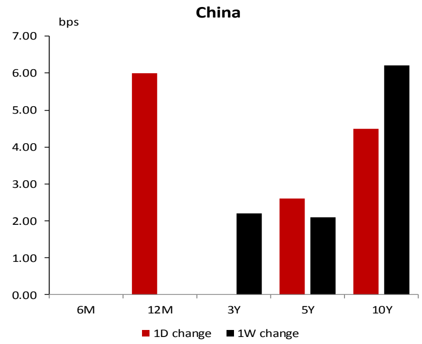


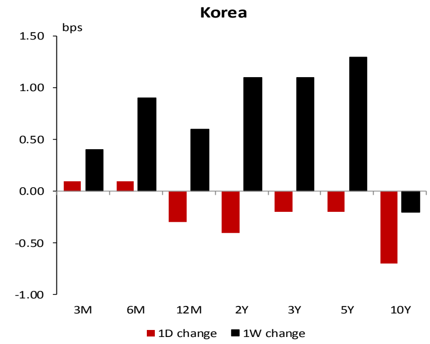


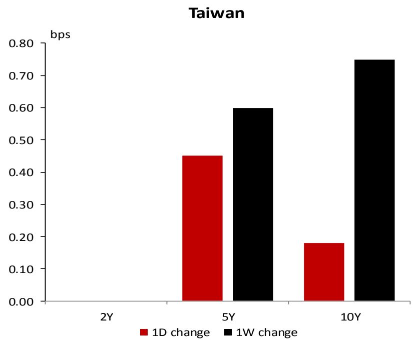


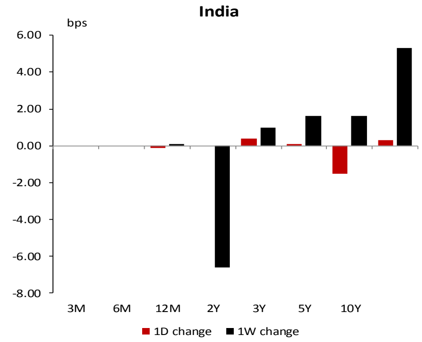


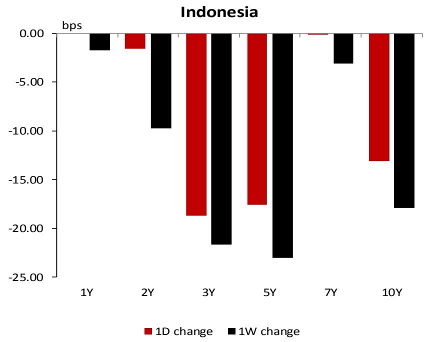


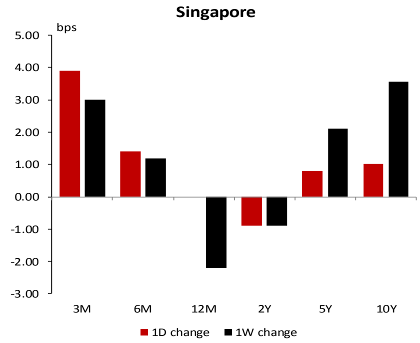


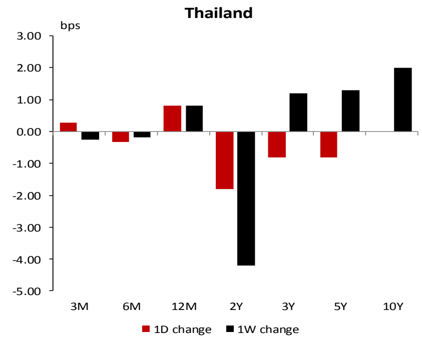


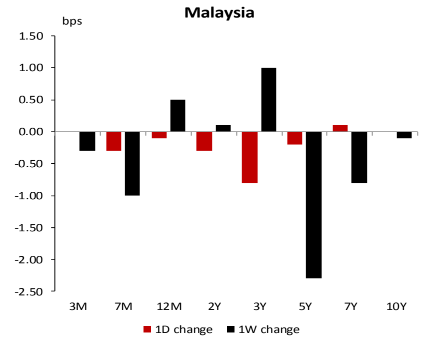


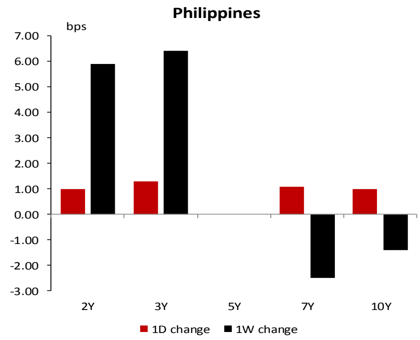












Trade Ideas

	Inception	Close	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale	P/L (%)*
	TACTICAL								
1	23-Jan-19		B	GBP-AUD	1.8159	1.8745	1.7865	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	
	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
3	11-Feb-19	27-Feb-19	S	EUR-USD	1.1325	1.1120	1.1393	Darkening EZ macro outlook	-0.46

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