

Friday, March 29, 2019

**Market Themes/Strategy/Trading Views**

- Buoyed by firmer UST yields (5y outperformed), the USD continued to grind higher against the majors on Thursday despite some improvement in risk appetite levels. GBP-USD in particular continued to sink as the UK parliament remained deadlocked and with yet another vote scheduled for Friday. Note however that the JPY and CHF still continued to outperform on the crosses with the **FXSI (FX Sentiment Index)** ticking lower despite positive US equities.
- **USD supremacy** - The Fed's Bullard and Williams attempted to play down prospects of a rate cut but we think chatter surrounding the US 3/10s and 5/30s will continue to echo across asset markets, potentially fueling the global bond market rally further. **In the immediate term however, we think this may continue to translate into de facto USD resilience.** Elsewhere, reported progress in Sino-US talks (Kudlow comments) may not grant significant positivity with a 2<sup>nd</sup> day of talks on Friday in Beijing. Notably, China's Vice Premier Liu He is also scheduled in Washington next week for further talks and the Liu He-Trump meeting.
- Despite supportive comments from the ECB's Villeroy, headlines about a tiered deposit rate structure for banks and soggy German March CPI readings and March EZ confidence indicators should keep the **EUR-USD** sufficiently heavy. Expect the pair to attempt to test towards 1.1200 before 1.1177 in line with short term valuations and technicals.
- Despite looking rather supported in recent sessions, 111.00 may cap intra-day for the **USD-JPY** and the 55-day MA (110.41) may once again be approached (ahead of 110.00) pending the Jan core PCE numbers tonight (1230 GMT).
- The near term vol surface of the **GBP-USD** remains nervous with short term implied valuations and technicals also still looking laden. Preference to fade upticks towards 1.3100 for the 200-day MA (1.2977).
- For the **AUD-USD**, short term implied valuations appear to be stalling with any strong technical upside impetus conspicuously absent pending further headline risks. Expect a top heavy tone with the 55-day MA (0.7127) sheltering and with 0.7050/65 still compelling in our opinion.
- With short term implied valuations largely static, **USD-CAD** may continue to bounce off the 1.3365 neighborhood and risk-reward may continue to be biased towards 1.3475/90 into the end of the week.

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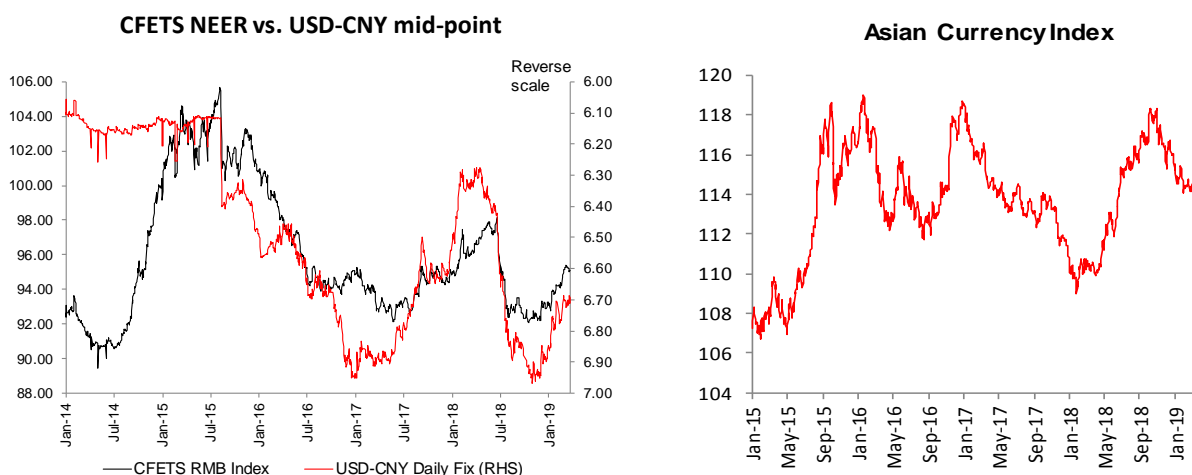
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### Asian Markets

- EM FX (TRY still a hotspot) remained vulnerable against the USD overnight but some stabilization of investor appetite in Asia on Friday may serve to temper USD-Asia upside in the interim. **Investors are still trying to impute rate cuts across Asia but SE Asian central banks may not relent just yet (BI, BOT), especially if EM nervousness continues to flare up periodically.**
- **Asian portfolio flows – INR to stay relatively resilient on inflow momentum.** Inflow momentum for South Korean bonds remains strong, while there is a slight dip inflow momentum for Indian equities. Meanwhile, nascent inflow momentum reversed back to neutral levels and outflows continued at a sustained pace in Thailand.
- **USD-SGD** The SGD NEER firmed up this morning to +1.72% above its perceived parity (1.3789), despite NEER-implied USD-SGD thresholds climbing higher. **Look to reload on any dips towards the 55-day MA (1.3543) for 1.3560/70 again if USD/risk dynamics permit.**
- **CFETS RMB Index:** The USD-CNY midpoint came in higher, as expected, at 6.7335 from 6.7263 yesterday. The CFETS RMB Index eased marginally to 95.04 from 95.05 on Thursday.



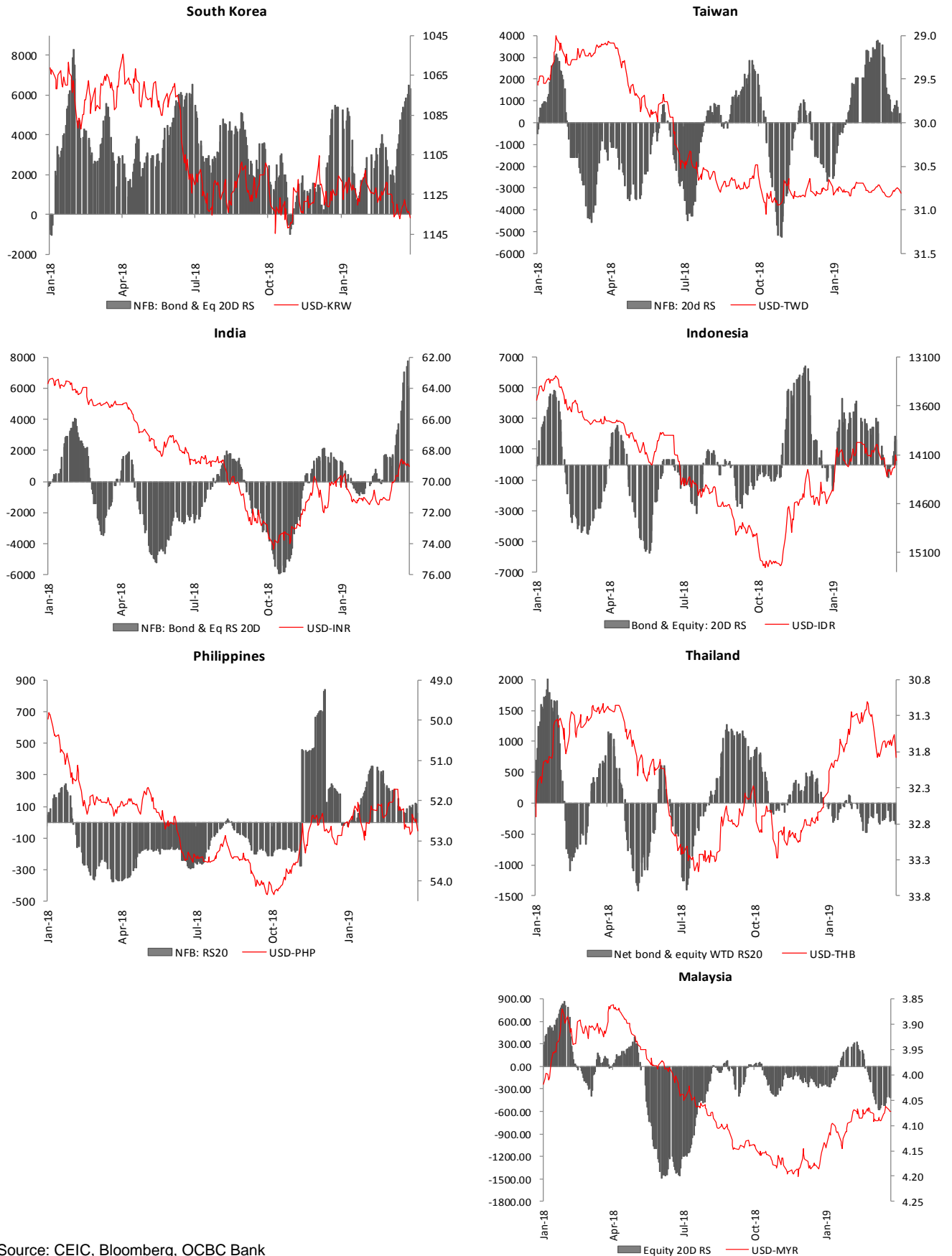
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↔	↔	Jan-Feb industrial profits decline -14% yoy. 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 not unduly dovish). Rate cuts still considered premature by the central bank but its resolve may be softening (front-end bond yields driving lower – note recent strong net bond inflows). 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.
<b>Taiwan</b>	↔	↔/↓	CBC static at 1.375% in March 2019. GDP growth and inflation forecasts downgraded and policy viewed as neutral/accommodative. Feb manufacturing PMI drops further to 46.3. Feb CPI continues to print in the soft side. Feb exports 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. Feb headline and core CPI softer than expected at +0.50% yoy and +1.5% yoy. Feb industrial production numbers mixed. Feb NODX outperformed expectations at 4.90% yoy. Monetary policy thought to be “appropriate”, and “no need for stimulus” for now.
<b>Malaysia</b>	↔/↑	↓	BNM downgrades 2019 GDP forecasts in March – expectations of a rate cut heighten despite the governor stating that deflationary pressures are supply-side driven, not demand-side driven. BNM static at 3.25% in March. Feb CPI prints again show deeper than expected deflationary pressures at -0.4% yoy. Feb manufacturing PMI falls to 47.6. Jan exports better than expected at 3.1% yoy, Jan industrial production numbers outperform expectations. 4Q GDP surprises on the upside at +4.7% yoy.
<b>Indonesia</b>	↔/↑	↓	BI pledges to stabilize FX and bond markets if necessary. Policy parameters unchanged at March meeting. Policy focus still on external stability, but may undertake accommodative macroprudential policies to push domestic demand. IDR perceived as undervalued by BI, including on an REER basis. Feb headline CPI cooler than expected (2.57%), core steady at 3.06%. 4Q18 CA deficit widened more than expected. Elections slated for 17 April 2019.
<b>Thailand</b>	↔/↑	↑	BOT unchanged in Mar, and reiterated that they have not abandoned the hiking cycle. Official GDP, export growth and core CPI forecasts downgraded. 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%.
<b>Philippines</b>	↑	---	BSP unchanged in March (not as dovish as feared), 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%.

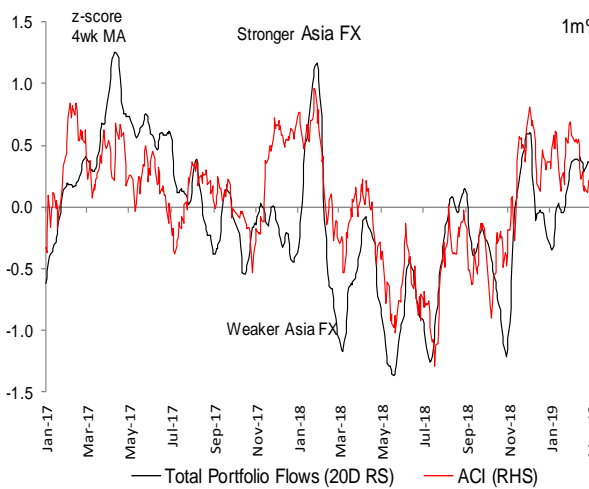
Source: OCBC Bank

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



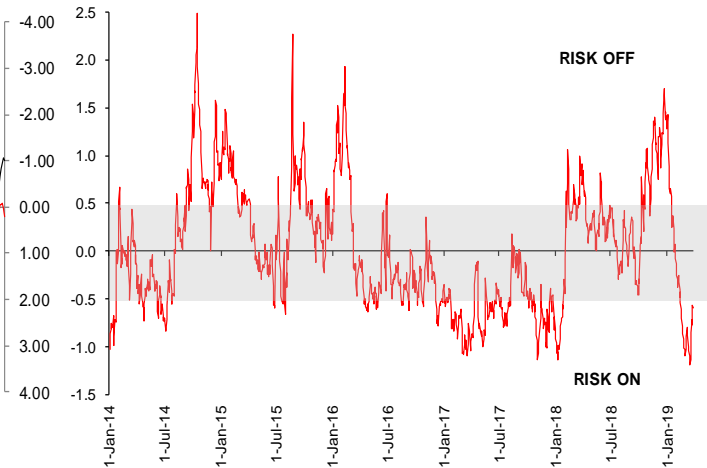
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	-0.114	0.728	-0.578	-0.457	-0.627	0.123	-0.284	0.412	0.682	0.776	-0.925
SGD	0.894	0.177	0.629	-0.707	-0.476	-0.807	0.398	-0.548	0.348	0.674	0.669	-0.789
CNH	0.776	-0.464	0.919	-0.225	-0.329	-0.198	-0.171	0.139	0.323	0.457	1	-0.843
CHF	0.731	-0.523	0.753	-0.202	-0.091	-0.14	-0.281	0.169	0.451	0.408	0.782	-0.74
CAD	0.728	-0.499	1	-0.12	-0.318	-0.167	-0.177	0.197	0.15	0.375	0.919	-0.815
CNY	0.642	0.258	0.512	-0.445	-0.427	-0.584	0.512	-0.403	-0.081	0.306	0.414	-0.53
MYR	0.557	-0.277	0.673	-0.016	-0.362	-0.073	-0.032	0.186	-0.231	0.102	0.56	-0.557
TWD	0.538	-0.074	0.589	-0.181	0.071	-0.321	0.241	-0.062	0.135	0.178	0.566	-0.443
IDR	0.534	0.614	0.11	-0.648	-0.407	-0.764	0.65	-0.723	0.026	0.382	0.108	-0.36
THB	0.489	0.216	0.431	-0.32	-0.606	-0.488	0.401	-0.326	-0.218	0.292	0.324	-0.424
KRW	0.404	-0.594	0.778	0.124	-0.361	0.146	-0.281	0.421	-0.11	0.141	0.694	-0.526
JPY	0.123	0.859	-0.177	-0.238	0.027	-0.541	1	-0.65	-0.379	-0.105	-0.171	0.139
USGG10	0.071	0.741	-0.424	-0.596	-0.266	-0.694	0.506	-0.859	0.153	0.37	-0.342	0.112
PHP	0.006	-0.631	0.353	0.57	0.238	0.615	-0.383	0.747	-0.338	-0.47	0.215	-0.128
INR	-0.114	1	-0.499	-0.35	0.006	-0.584	0.859	-0.792	-0.222	-0.027	-0.464	0.388
GBP	-0.569	-0.315	-0.354	0.569	0.169	0.673	-0.522	0.507	-0.221	-0.359	-0.407	0.468
NZD	-0.69	0.253	-0.478	0.396	0.275	0.431	0.103	0.119	-0.405	-0.575	-0.535	0.62
AUD	-0.705	-0.269	-0.458	0.647	0.235	0.67	-0.419	0.511	-0.365	-0.441	-0.533	0.554
EUR	-0.925	0.388	-0.815	0.526	0.526	0.436	0.139	0.061	-0.483	-0.685	-0.843	1

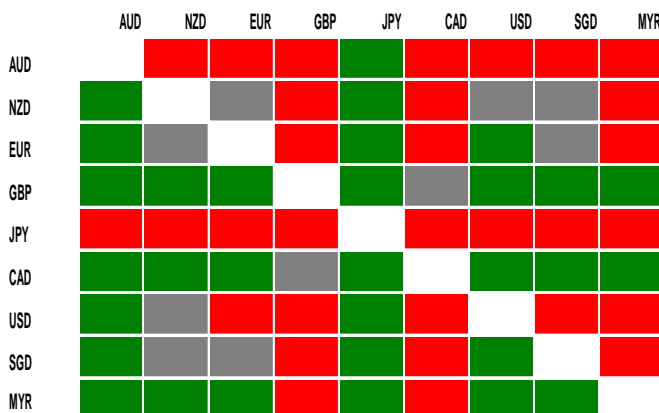
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1187	1.1200	1.1229	1.1300	1.1336
GBP-USD	1.3000	1.3005	1.3066	1.3091	1.3100
AUD-USD	0.7003	0.7028	0.7088	0.7100	0.7121
NZD-USD	0.6744	0.6745	0.6785	0.6800	0.6828
USD-CAD	1.3286	1.3400	1.3427	1.3468	1.3474
USD-JPY	110.00	110.55	110.80	111.00	111.46
USD-SGD	1.3500	1.3541	1.3556	1.3600	1.3610
EUR-SGD	1.5202	1.5208	1.5222	1.5300	1.5351
JPY-SGD	1.2081	1.2200	1.2234	1.2250	1.2257
GBP-SGD	1.7640	1.7700	1.7711	1.7719	1.7726
AUD-SGD	0.9547	0.9600	0.9609	0.9636	0.9643
Gold	1278.75	1280.80	1289.80	1300.00	1306.34
Silver	14.92	15.00	15.01	15.09	15.10
Crude	55.94	59.50	59.59	59.60	60.39

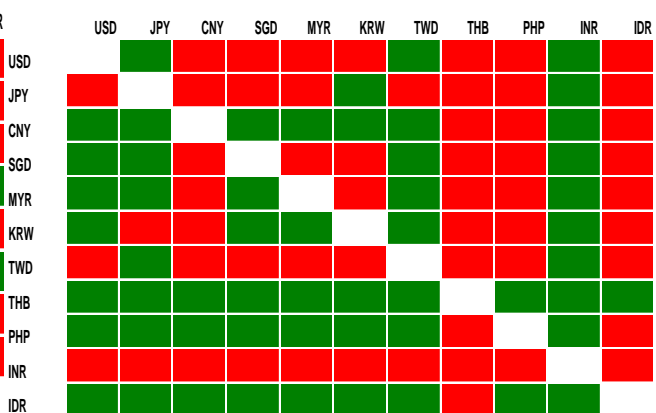
Source: OCBC Bank

### G10 FX Heat Map



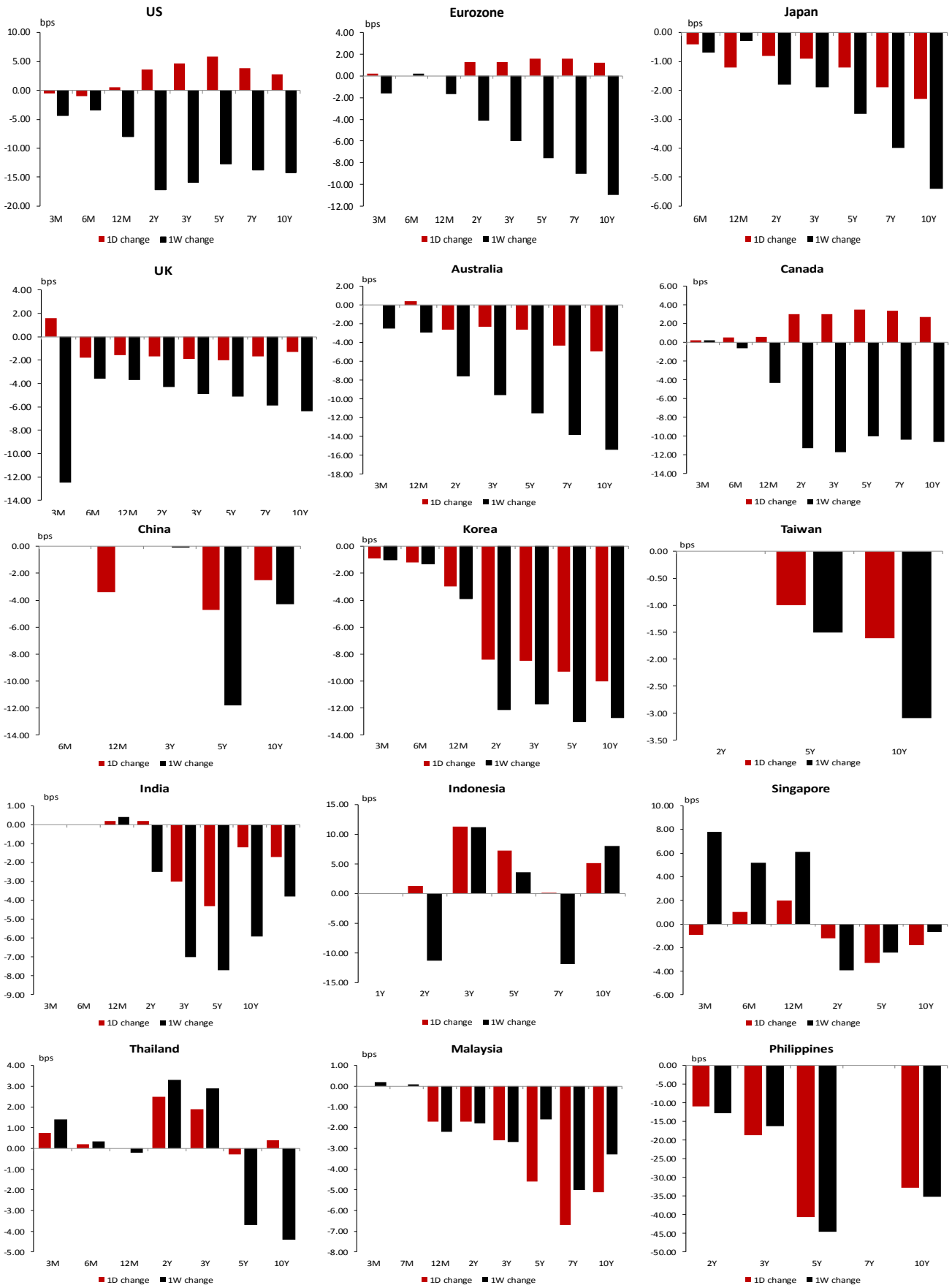
Source: OCBC Bank

### 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	05-Mar-19	S	AUD-USD	0.7074	0.6870 0.7175	Potentially dovish RBA, macro conditions soggy	
<b>STRUCTURAL</b>							
2	19-Mar-19		Long 2M USD-SGD 25-delta strangle 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
5	23-Jan-19 21-Mar-19	B	GBP-AUD	1.8159	1.8440	Contrasting risk profiles in the near term	+1.35
6	14-Feb-19 25-Mar-19	B	USD-JPY	111.00	109.98	Dollar resilience, revival in risk appetite levels	-0.61

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