



NUS INVESTMENT SOCIETY

GLOBAL MACRO AY2018/2019 SEMESTER 2 RESEARCH REPORT

GLOBAL MACRO RESEARCH TEAM – AY 2018/2019 SEMESTER 2

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[All information accurate as of 29th April 2019]

MALAYSIA

We see a slight recovery of the Malaysia economy given the recent data that suggest a marginal 4Q GDP Growth pick-up which is likely from the rebound in its mining industry due to supply stabilization and normalization of import duties.

A thing to also would be that Malaysia's headline inflation in March became positive, to 0.2% year-on-year from -0.4% in the previous month, ending two consecutive months of negative headline inflation. This is largely contributed to rising oil prices. On this note, Bank Negara Malaysia has kept its Overnight Policy Rate (OPR) on hold as expected at 3.25% during the latest March meeting.

Another important development to note for Malaysia markets would be FTSE's announcement that it will review Malaysia's market accessibility level in its World Government Bond Index due to market liquidity concerns. Should a downgrade be made into a reality in September 2019, this could potentially result in Malaysia government debt becoming ineligible for inclusion in FTSE WGBI, one of the most widely tracked indexes for global fixed income investors. If this becomes a reality, Malaysia's equity and bond markets stand at high risk as they will be subjected to significant outflows. In our opinion, without a material receding of key risks in the economy such as trade and politics, market liquidity concerns could become a reality.

FX Trade Idea: Short USDMYR



Figure 1: USDMYR Chart (Source: Tradingview.com)

On a technical front, we observe that the USDMYR has been trading in a tight price channel between 4.0524 and 4.1437 since the start of 2019. As such, for our medium-term call period, we establish these 2 levels as the key support and resistance levels for further upside/downside momentum.

Beyond the technical, the recent bullishness the USDMYR has been largely due to the recovery in USD strength since the start of 2019. However, it is uncertain if the overall bullishness in the global markets as the bellwether S&P500 (which recently closed at new highs at 2930) has indicated is truly sustainable in the long term. As such, we maintain a more conservative approach and recommend a short on the USDMYR as we expect the potential weakness from MYR due to the removal of Malaysia from the FTSE WGBI to outweigh any positive spillover strength in USD.

Entry: 4.140
Take Profit: 4.070
Stop Loss: 4.170

ETF Trade Idea: Short KLSE

Published on TradingView.com, April 28, 2019 08:08:43 UTC

INDEX:KLSE, D 1638.38 ▲ +2.70 (+0.17%) O:1638.66 H:1639.18 L:1632.58 C:1638.38



Created with TradingView

Figure 2: KLSE Chart (Source: Tradingview.com)

From the comparison between the 100-DMA (red) and 200-DMA (blue) lines, it is apparent that there has been a sustained downward momentum and weakness in Malaysia's equity market. Furthermore, it is supported by how the recent trend line from March to May has indicated that the KLSE is currently on a downward trend. We see a key support level at 1627.01 which the KLSE has been very near and testing in the recent term. If we were to observe the KLSE, to close below this key level, we should expect further near-term downside. Furthermore, RSI indicates that the KLSE has yet to reach oversold levels as well which indicates there could be further room for a downside.

Looking at the Malaysia equity market from a fundamental point of view, the lack of positive catalysts in the near term with the presence of upcoming negative externalities from both economic and political fronts reinforces our short call on the KLSE Index.

Entry: 1640.0
Take Profit: 1615.0
Stop Loss: 1660.0

JAPAN

Maintaining the Status Quo in Rates

We remain status quo and we expect Japan to maintain interest rates at -0.1% as mentioned in our previous report. Japan continues to see a difficulty in achieving its 2% target inflation goals given increasing geopolitical risks and the global growth slowdown that is expected for 2019. While there were talks of the possibility of lowering rates, it is unlikely to happen given that Japan's domestic banks are already being stretched very thin. The banks are already faced with very thin lending margins given the nation's ultra-low interest rates. Furthermore, this also puts financial institutions at more risk as they have to turn to riskier investments to boost returns, as mentioned by Takashima, CEO of SMBC. Given that a significant boost to the Japanese economy is unlikely in the near term, we expect BoJ to maintain its current pace of stimulus policy.

Hurdles Ahead for Labour Reforms

Japan's bid to boost domestic spending through labor reforms has yet to bear fruits as Japan household spending MoM remains poor, coming in poorer than expectations at -2.0% vs consensus of -0.5% and even worse than prior of +0.7%. However, we also acknowledge that the revisions to Japan's immigration control law was only approved in Dec 2018 and had just come into effect in April 2019. The goal remains to attract 345,000 foreign workers over the next 5 years. However, significant hurdles to overcome lay ahead given that Japan's workplace is one with a distinct work culture as well as a strong language barrier that may deter the influx of foreign workers. Furthermore, with the rise of many other ASEAN countries nearby, Japan may also come across as a less attractive place to work in as compared to its hay days in the past.

Reigniting the Threat of Tariffs

In the month of April, Prime Minister Shinzo Abe and President Trump came back to the negotiating table to discuss trade relations. As we head to the end of April, it appears that the talks are 'moving along very nicely' if we were to quote the media. However, the key concern of auto tariffs on Japanese cars remains as one of the key pointers to keep an eye on. Should the auto tariffs become a reality for Japan, a tariff of 10% on Japanese Car Exports is expected to bring about a 9 – 14% decline in auto exports. Despite production volume in Japan's auto industry accounting for only 3% of GDP, the tariff will lead to a ripple effect and hit Japan hard. Japan Auto industry supply chains all stand at risk and this will eventually lead to an amplified and knock-on effects on the Japan economy as well.

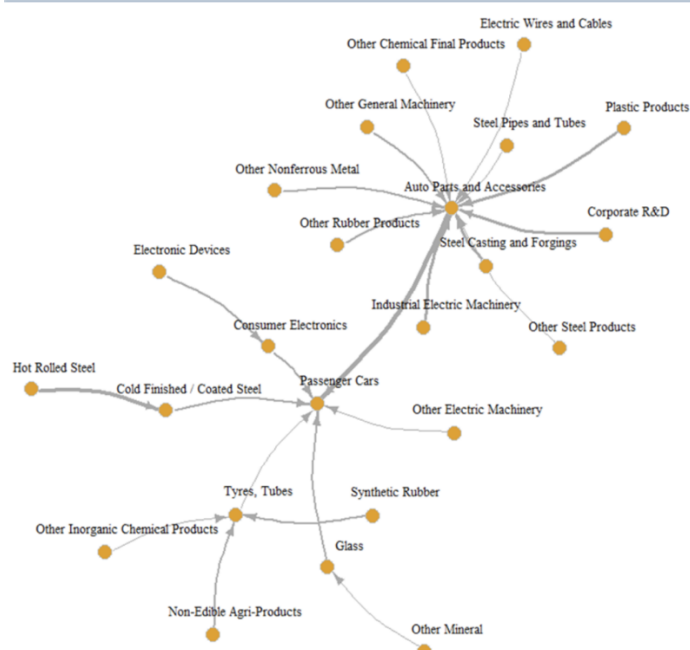


Figure 3: Japan Automotive Industry Supply Chain (Source: Goldman Research, Bloomberg)

FX Trade Idea: Neutral USDJPY

In our previous issue, our target had been hit albeit it may have been due to both idiosyncratic factors and fundamental drivers. Heading into the year-end of 2018, widespread weakness in the global markets drove flows back into JPY as a safe haven asset while the dollar weakened. However, heading into 2019, we saw strong recovery which has led to the USDJPY pair trading in a tight range after bouncing off its low at the very start of 2019.

Looking at the moving averages, they do not seem to be giving any clear indicators of direction for now despite short-term momentum looking strong as the 50-DMA has crossed over the 100-DMA. We look towards 112.195 as a key resistance level and expect to see further upside on a technical front should the USDJPY pair break beyond this level. Otherwise, we remain neutral on the pair for now.

Published on TradingView.com, April 27, 2019 17:15:57 UTC

FX:USDJPY, D 111.536 ▼ -0.063 (-0.06%) O: 111.599 H: 112.030 L: 111.428 C: 111.536



Created with TradingView

Figure 4: USDJPY Chart (Source: Tradingview.com)

ETF Trade Idea: Long Japan 225 CFD

Given the weakness in JPY since the start of the year, we witnessed a broad recovery in the equity market of Japan. As we can see from the chart below, Japan 225 CFD appears to be trading in a sustained and tight upwards price channel. Furthermore, this is supported by how the 50-DMA is seen to be crossing over 200-DMA in the near term, indicating strong momentum in the short term. However, it is to note from the RSI that we are currently near 70 levels which serve as a warning that it could be reaching overbought levels as well.

While our technical analysis point towards bullish signals in the near term, we look for confirmation with our fundamental drivers ultimately. One of the key upside catalysts to look out for will be a lack of or delayed Auto Tariffs from the U.S. once the trade negotiations come to a settlement.



Figure 5: Japan 225 OANDA Chart (Source: Tradingview.com)

CHINA

Despite the ongoing trade war negotiations and other vulnerabilities, the Chinese economy advanced 6.4% YOY in Q1 2019, matching with the previous quarter but is slightly above market expectation of 6.3%. The Q1 growth is within the government target of between 6.0% to 6.5% growth rate for 2019. We are now faster growth in retail sales and falling unemployment in Q1 with comparatively lower inflationary pressure and gains in disposable income. Economic growth stabilizes as the government launched multiple policy stimulus such as spurring growth in fixed-asset investment since the beginning of the year. Moreover, we note that there could be a possible upside catalyst with inflows of investment in 5G technology which expected to be an important driver of investment growth in the rest of 2019. On this point, it is also to note that there is a lot of adoption headwinds with regards to China's development of 5G with the rest of the world.

To mitigate the slowdown, the China government was trying to loosen financial conditions to shore up businesses in weakening. Chinese banks unleashed 1.69 trillion yuan (approximately US\$251.5 billion) of new yuan loans in March alone to encourage more bank lending and the government lowered taxes for both households and firms to spur consumption and investment. Exports performance stabilized at a 14.2% growth rate in March despite sharp declines in both January and February. With various policies to stimulate the economy in place, we could be expecting a steadier or even stronger economic growth in the following months, providing the Chinese Yuan a healthy condition with much optimism to strengthen.

On the other hand, the Federal Reserve now expects no further U.S. interest rate hikes in 2019, a surprising sign that the U.S. economy may slow down and this may exert downward pressure on the dollar. Regarding the ongoing trade war talks, we could expect the U.S. and China to agree on a deal soon. China has already agreed to increase imports of U.S. agricultural, energy and industrial products and services as an effort to minimize its trade imbalance with the U.S. Nonetheless, the deal would exert downward pressure on Yuan while giving USD a stimulus to strengthen.

FX Trade Idea: Neutral USDCNH



Figure 6: USDCNH Chart (Source: Tradingview.com)

CNH has been flat against the USD since late February this year. The current trend has a support region of 6.25732 and a resistance region of 6.97834. Reviewing the previous analysis, the pair is now on the downtrend as what was predicted. In the short run, the MACD shows that the pair could be displaying a bullish signal as the MACD line is having uptrend momentum and about to cross over the signal line. However, the pair is rather volatile and both still downtrend and uptrend are possible given the slow recovery of the Chinese economy and a slowing U.S. economy. The ongoing trade negotiations will only introduce more uncertainty and volatility into this pair. Nonetheless, we expect USDCNH to continue trading sideways and recommend traders should still be cautious and patient by observing closely before taking further actions.

ETF Trade Idea: Long iShares China Large-Cap ETF

Listed on: Hong Kong Stock Exchange

Ticker NYSEARCA: FXI

Reviewing the iShares China Large-Cap ETF, in contrast to the bearish trend predicted last year, the FXI gained bullish momentum since the start of 2019. As the bullish market has been building since Lunar New Year and the Chinese stocks are actively seeking to build on previous successes, we expect uptrend of FXI.

Entry level: 38.00

Exit level: 52.00

Stop loss: 34.00



Figure 7: ISHARES Trust China Large-Cap ETF Chart (Source: Tradingview.com)

HONG KONG

Hong Kong is one of the world's leading international financial centres, with strategic advantages of low taxation, almost free port trade and firmly established presence in the international financial market. Its currency, the Hong Kong dollar, had been pegged to the U.S. dollar at the rate of 7.8 since October 1983, backed by Hong Kong Monetary Authority's foreign currency reserves amounting to US\$426.4 billion as of September 2018.

Hong Kong is the most service-oriented economy in the world, with over 90% of GDP being service-oriented. It's four key industries are namely trade, financial services, tourism, and professional services. It has the highest degree of economic freedom in the world and is highly dependent on international trade and finance.

Hong Kong's Trade Concerns

The impact of the U.S.-China trade tensions along with easing global economic growth has caused a widening of Hong Kong's trade deficit in February 2019 to HKD 48.8 billion, up from HKD 42.7 billion a year earlier. Both imports and exports declined on a year-on-year basis, by 3.8% and 6.9% respectively. Given that Hong Kong's economy is highly trade-driven, with most of its imports being re-exports, significant declines in both imports and exports would inevitably affect the overall economy. Businesses in Hong Kong are facing tough times due to cited reasons for U.S.-China trade tensions and increased competitiveness. With business confidence falling sharply to -12 in Q1 of 2019, the worst ever since Q2 of 2009, we expect businesses to remain cautious in their operations until a clear resolution has been put forth in the U.S.-China trade war.

Is Hong Kong's Property Price Decline Over?

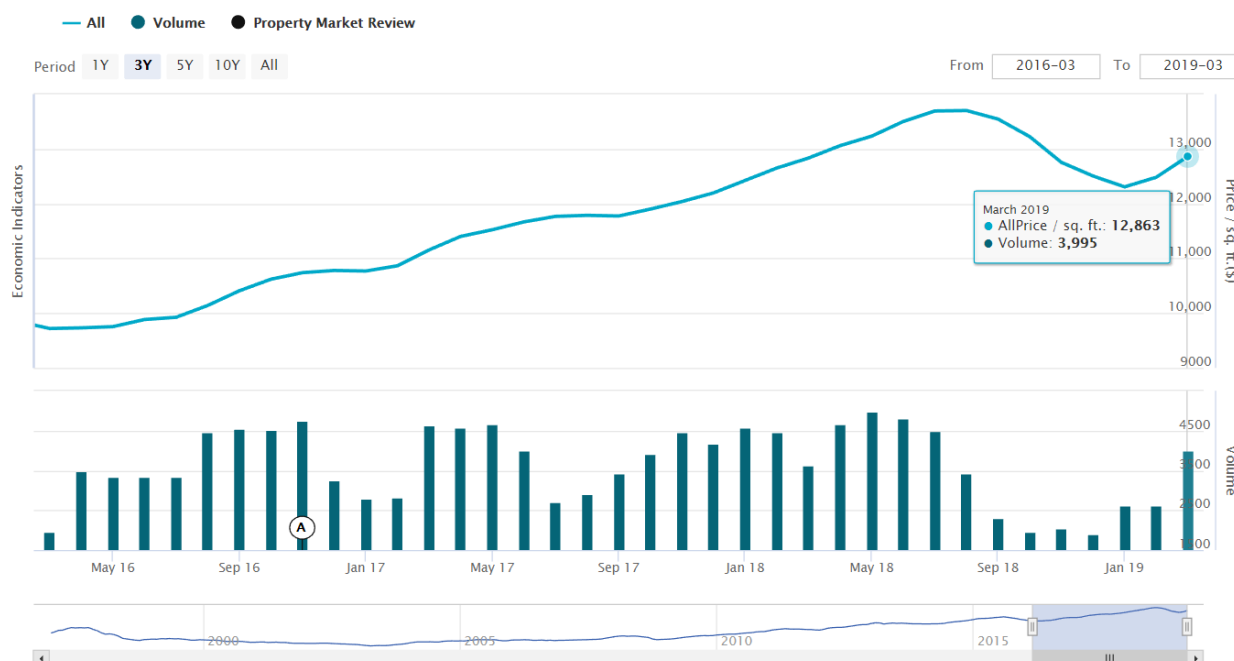


Figure 8: 3-Year Hong Kong Property Price Chart (Source: Midland Realty)

The recent decline in property prices left investors worried that a bear market might descend upon Hong Kong properties, as we saw prices fell for the first time in 28 months in September 2018. It continued to drop to a low in January 2019 as volumes shrunk to extreme lows. However, as interest rate hikes halted and further fiscal stimulus by the Government continued to support the economy, we saw prices and volumes climb back up in February 2019 and March 2019. We expect to see the uptrend continue in the absence of major risks ahead, with a modest increase in property prices of 10% for 2019.

FX Trade Idea: Short USDKD

marcus ONG404 published on TradingView.com, April 21, 2019 23:01:08 +08
FX:USDKD, 1D 7.84337 ▼ -0.00248 (-0.03%) O:7.84585 H:7.84587 L:7.84311 C:7.84337



Figure 9: USDKD chart (Source: Tradingview.com)

With both HKD-positive and HKD-negative factors in play, we view the HKD with a relatively neutral fundamental outlook, and thus decided to have a greater focus on technical analysis for our strategy.

The unique characteristic of USDKD is that the HKMA maintains a dollar peg of 7.75-7.85 HKD to 1 USD. As a result, we tend to see the USDKD being attracted to and bouncing off of key levels around 7.75, 7.80 and 7.85, providing an opportunity for traders to take advantage of this phenomenon.

USDKD has managed to rise and test the 7.85 level in Q1 of 2019, playing out in line with our previous forecast. It then remained in a very tight range just below the 7.85 level for both February and March, before breaking down and expanding in volatility again in April. As price has rebounded upon testing the 7.85 level, short-term traders may look for shorts on the lower timeframes, playing out the short-term bearish volatility.

Longer-term traders can look to short the USDKD at 7.85000 and target 7.80000. As the 7.85 level is protected by the peg, we may seek to enter a tight stop loss just above the 7.85 level at 7.85200.

ETF Trade Idea: LONG HIS

marcus ONG404 published on TradingView.com, April 21, 2019 23:21:26 +08

INDEX:HSI, 1D 29963.26 ▼ -161.42 (-0.54%) O:30088.65 H:30101.83 L:29896.86 C:29963.26



Created with TradingView

Figure 10: HSI Chart (Source: Tradingview.com)

With price breaking out of the major year-long bearish channel and crossing above the 20, 50 and 200 MA, we expect HSI to be bullish for at least Q2 of 2019. This is supported by de-escalating tensions from US-China trade wars, and fiscal stimulus from the Hong Kong Government.

We propose a long on HIS with an entry around 29000 on a retest of trendline support and 50 MA, with a primary target of 31575 around a horizontal resistance level. A stop can be placed just below the previous swing low at 28250, providing an attractive reward-to-risk of 3.4. More aggressive traders can seek to target the previous peak high around 33300, providing an excellent reward-to-risk of 5.3.

Conclusion

As U.S.-China trade tensions de-escalate, the impact on trade will likely be muted. The market will be looking for signs of favorable outcomes from the trade war, which can potentially stimulate global economic growth. Being a major trade partner of both the U.S. and China, Hong Kong will stand to benefit from such a scenario. Previous concerns on rising rates and declining property prices have also been alleviated as rate hikes are put on a halt and property prices have rebounded since the start of 2019. As a result, our stance on Hong Kong is slightly overweight.

THAILAND

The Slowing Giant in SEA

Thailand is a country located in Southeast Asia and its capital city is Bangkok. Over the last 4 decades, the country has made incredible economic progress, moving from a low-income to upper-income country in less than a generation.

Thailand annual inflation rate rose to 1.24% in March 2019 from 0.73% in February, above the market consensus of 0.93% according to World Bank. This has fallen into the central bank's target range of 1-4%. Last month saw the central bank leave its interest rates unchanged at 1.75% after tightening it in December 2018. The central bank has taken a hawkish stance and will meet again in May to decide if rates should stay or should increase.

Thailand's unemployment rate stands at an impressive 0.8% which is comparable to many developed countries. However, the Bank of Thailand explained that the unemployment rate is low because of structural problems where the agricultural sector absorbs laborers or people go into the informal sector if they cannot find a job. The Thai government is looking to improve this situation through retraining as well as increasing job creation.

General Prayut Tightens His Grip

Thailand is a constitutional monarchy that is ruled by King Vajiralongkorn who will be coronated on the 4th of May this year. The country has shifted between democratic and military rule with the latest coup happening in 2014. The country held its first general election on March 24, its first time since General Prayut Chan-o-cha overthrew the previous Prime Minister Yingluck Shinatra. The pro-military parties led by the General and the anti-Junta parties led by Sudarat Keyuraphan (a member of the famed Thaksin's party) are tussling to form a majority to form a government.

Composition of new parliament after Thai election

(all members of parliament vote to decide prime minister)

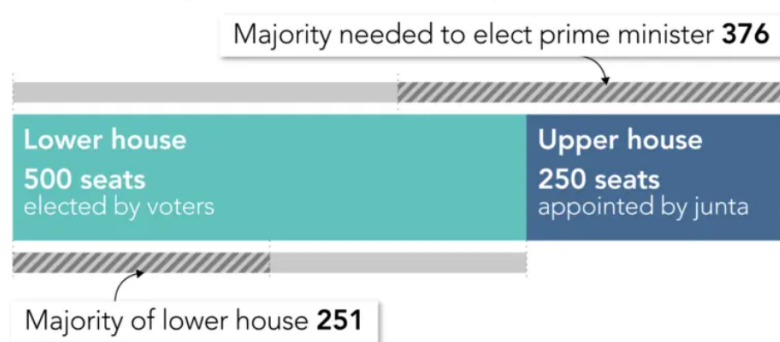


Figure 11: Composition of New Parliament (*Source: Asian Nikkei Review*)

Under the constitution that the Junta handed down in 2017, the new prime minister will be elected by a joint session between the lower and upper house. Unfortunately, all 250 seats in the upper house were appointed by the Junta hence it is highly likely that the General Prayut would remain PM. A Prayut led government coalition would signal policy continuity as well as reduced uncertainty for the business community. This would ensure continuity and the people's mandate to carry on the 20-year national strategy that was put forth by the army previously. The plan aims to improve the economic, social, environmental and political future of Thailand. It aims to use its six strategies of security, competitiveness enhancements, human resource development, creation of opportunities and social equality, environmentally friendly growth, and public-sector readjustment to achieve the goals set. Critics argue that the plan would put the military in power for decades, but it would bring about stability to a country who has been in political turmoil in the last decade.

The short-term challenges that this election brings could cause a lot of uncertainty in the Thai market. There would be an increase in risk premiums attached to all Thai assets. The long term could be bright for Thailand, but investors have to weather this storm and should search for opportunities to buy at the dip.

Worsening Trade Balance

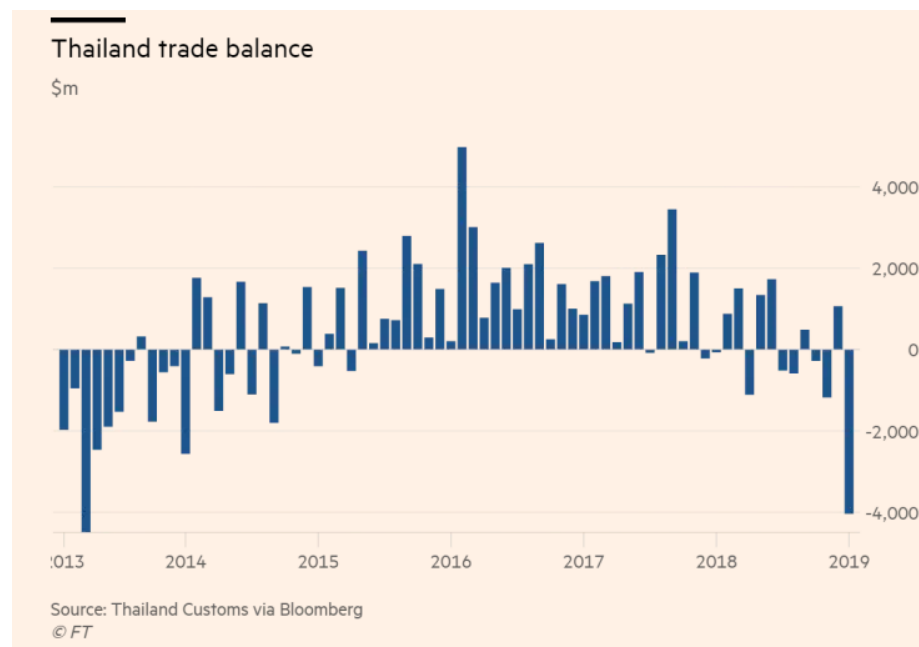


Figure 12: Thailand Trade Balance (Source: ft.com)


Exports act as Thailand's main engine of growth with electronics, machinery, and vehicles being their main goods. Their export destinations include the U.S., China, EU, Japan, and Hong Kong. Unfortunately, this year has been rather challenging for Thailand where exports have shrunk 5.7% in January with Imports jumping 14% which create a trade deficit of \$4.03 billion. This has been the biggest deficit since April 2013 according to the Financial Times.

The Thailand commerce ministry blames the ongoing trade war between the U.S. and China as the main cause for the slowdown. Analysts previously hypothesized that the U.S.-China trade war could bring about "winners" in South East Asia with Bain & Co suggesting that changing supply chains could unlock \$1 trillion worth of opportunities for the region. However, this has failed to materialize due to capacity constraints ranging from red-tape, skilled labour, and limited infrastructure. China's sophistication in areas such as automation meant that no one country could replace them as a manufacturing destination. There have been instances where Thai companies have won deals like SVI Pcl (\$100 million worth of electronics and manufacturing solutions) but the overall economy is still reeling from the trade wars as shown by the economic data. All these factors have negatively affected the Thai Baht.

With the trade wars coming to a close conclusion, Thailand's trade balance would improve. However, it could still take some time for the economy to get back on its feet and restart its engine of growth as tariffs slowly come down.

Economic Growth Feeling the Heat

World Bank has revised its forecast for Thailand's economic growth from 3.9% to 3.8% due to the impact of the trade war between China and the United States. This is due to the impact of the trade war as well as the election as mentioned above. According to World Bank economist Kiatipong Ariyapratya, the economy this year was dependent on expenditure by the government and the business sector. However, this has been disrupted due to the elections and the trade war. He suggested that the present levels of public debt and policy rate could allow for the government to provide a stimulus package, however, it could still be too early to determine that.



The period before the Asian financial crisis saw Thailand's GDP grow at an average rate of 7.5% per year. Subsequently, Thailand's economy began to stutter with growth dipping to an average of 2.3% in 2014 and 2016 due to political turmoil. In 2018 however, the economy has posted its highest growth rate in the last 6 years at 4.1% according to World Bank. Even though it is the second-largest economy in South East Asia, it lagged behind other countries like Cambodia (6.9%), the Philippines (6.2%), Indonesia (5.17%) and Malaysia 4.7%). Thailand's current GDP growth projections are also lower than the average of the rest of the emerging ASEAN nations this year.

Thailand slowing down could provide investors with the insight that this emerging economy might be slowing down for good. For investors who are more interested in looking for rapid economic growth in the South East Asian region, they could begin to divest from Thailand and look at other countries like Vietnam or the Philippines for new opportunities.

FX Trade Idea: Long USDTHB



Figure 13: USDTHB Chart (Source: *Tradingview.com*)

The Thai Baht has fallen through the psychological support of 32.0 and it was the first time it fell through the 100-day moving average since Mid-December. The Baht rallied in the first 3 months of 2019 by 2.5% against the dollar but has since weakened this quarter. The Baht has a seasonal weakness in the second quarter where it has fallen for 7 out of 10 years foreign repatriation of Thai dividend payments as well as the start of its low traffic tourism period. Tourism numbers begin to decrease in April and dividend payments begin to peak by May.

Entry Level: 32.00

Exit Level: 32.90

Stop Loss: 31.75

This investment thesis is to long the USDTHB currency trading pair. The Thai economy's inherent weakness might cause the Thai government to consider a stimulus plan to prop up the economy. Thailand is caught in a dilemma at the moment with rising inflation as well as slowing growth. The Thai Central Bank who last rose interest rates in December could be pressured to reduce it in their upcoming meetings in May and June. Even though inflation rose more than anticipated (1.24% instead of 1.1%), it is still within the target range of 1-4%. GDP growth would be a bigger concern for them as they are closing in on their 3.5% target. The worsening current account also contributes to an outflow of Baht from the country. Investors can look to enter the psychological support of 32.00. The currency could enter into a free fall with Citi bank predicted that it would hit 32.9 by September 2019. A stop loss of 31.75 is put as it was the optimistic estimate provided by the Thai Central bank.

ETF Trade Idea: Short TMB Property Income Plus Fund



Figure 14: Thailand Housing Price Index (Source: Tradingeconomics)

Real estate has always been lucrative in Asia with condominium prices in Thailand rising by 4.9% (3.6% in real terms) in 2018 Q2. Real estate investment trusts (REITs) have become a popular investment vehicle in Asia. The Thailand exchange currently hosts 60 different REITs and property funds. Pearly Yap, a Singapore based portfolio manager with Eastspring shared that REITs provide investors with recurring income which also reduces portfolio volatility. There have been strong long term returns for REITs in Singapore, Hong Kong, Australia, and Japan. Thailand would be no different.

There are current short-term risks associated with the Thailand property market in 2019 including tighter mortgage regulations, new property tax laws as well as a new Bangkok City Plan. These are all expected to come into effect in 2020. These measures will mostly affect the residential market but there will be spillovers into the retail and office space. Cooling measures into the Bangkok housing market will cause a ripple effect and could cause a short-term decrease in prices and a reduction in occupancy rate for the properties. There is potential that the cooling measures could cause the real estate bubble to burst with an oversupply expected in 2020 according to CBRE Thailand.

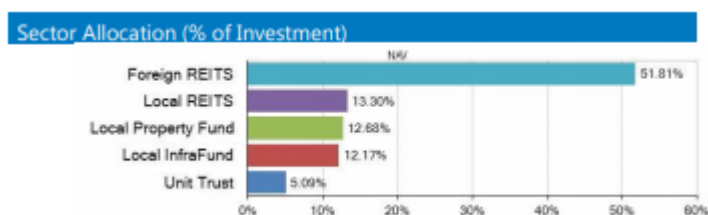


Figure 15: Sector Allocation (Source: TMB Property Income Plus Fund Prospectus)

The TMB Property Income Plus Fund is a Thai Baht denominated fund that focuses on investing in Singapore and Thailand REITs. The TMB fund is the biggest property fund in Thailand with THB 30.3 Billion of assets at the end of June 2018. The fund has a composition of 38.15% which is exposed to Thai REITs, Property Funds and InfraFunds.

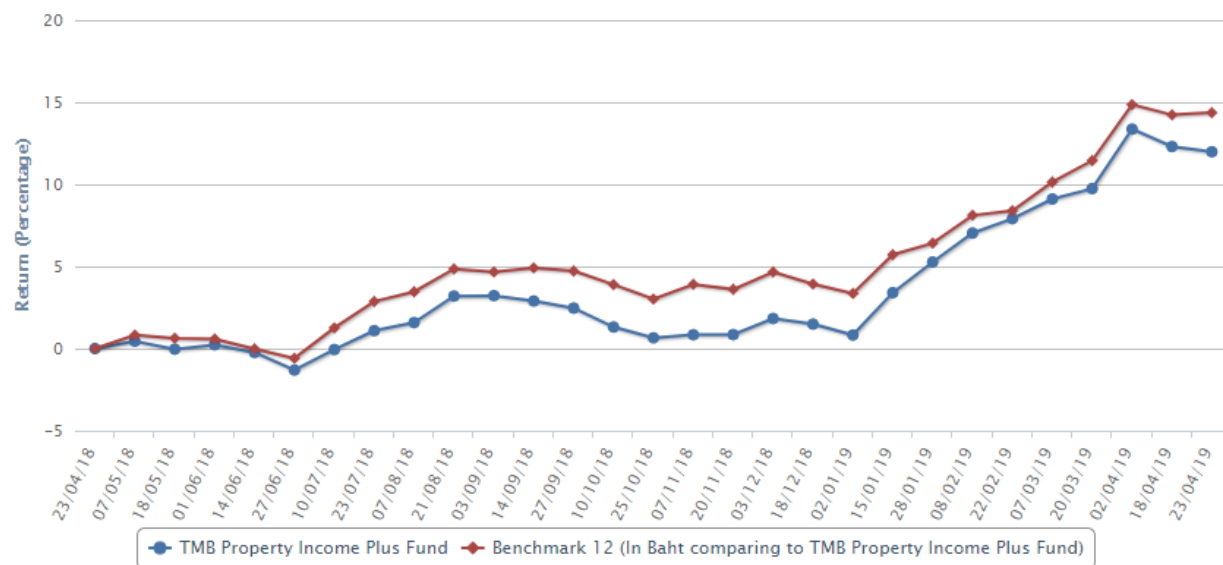


Figure 16: Fund performance (Source: TMB Property Income Plus Fund Prospectus)

The fund has unfortunately recently underperformed against its benchmark. The benchmark composes of the Thailand Property Fund & REITs index (50%) and the FTSE Strait Times REIT index (50%).

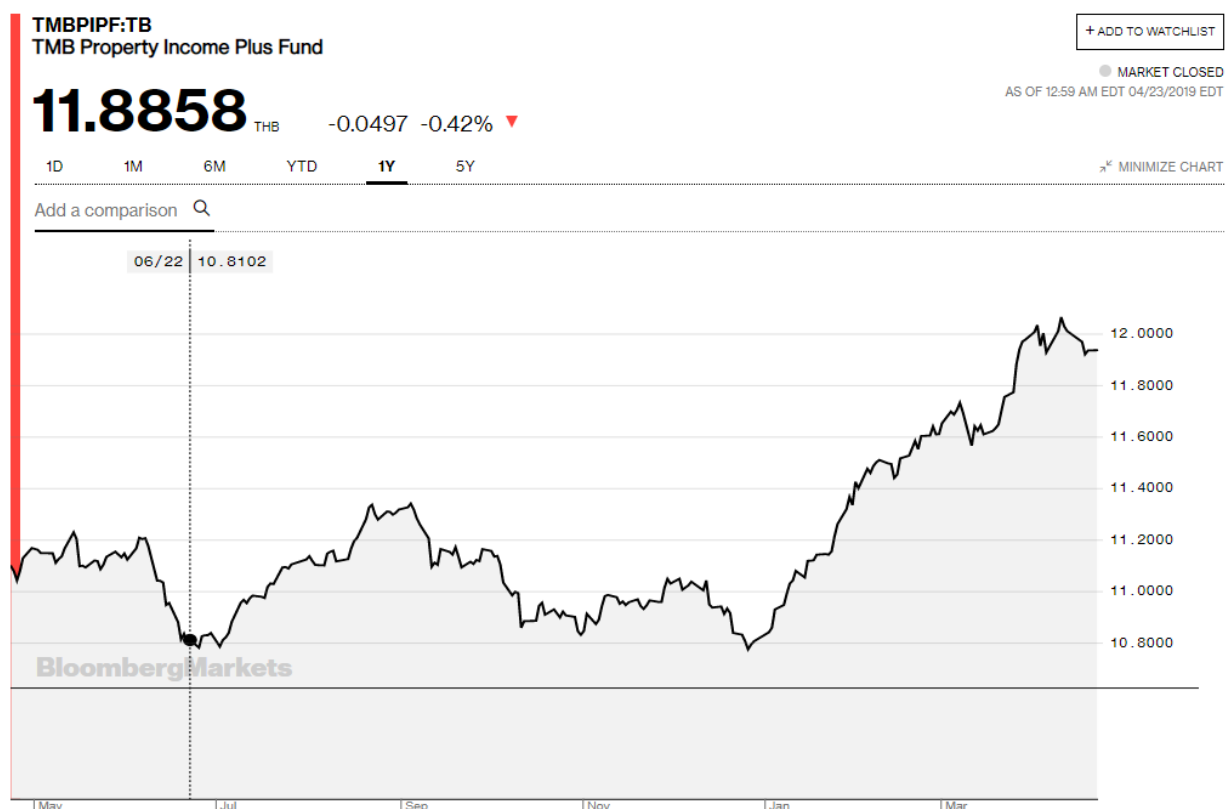



Figure 17: TMB Property Income Plus Fund Chart (Source: Bloomberg)

Entry Level: 12.00
Exit Level: 11.60
Stop Loss: 12.20



Investors could look to short this fund due to the upcoming cooling measures in the property market as well as the generally weakened economy. Investors can look to enter at 12.00 and exit at 11.60. The risk for this trade is the performance of Singapore's property market outweighing the drop in the Thai market. Economic growth has never looked better in the last few years of political instability. However, General Prayut's led government could be a source of renewed political and social conflicts which could produce more uncertainties that drag investment over the medium term. Investors can continue to look to Thai business to do well in the short term but could look to other emerging South East Asia economies like Indonesia and Vietnam to pivot to should the situation worsen over the coming years.

SINGAPORE

Singapore's STI tracks the performance of the 30 largest companies by full market capitalization and is used to gauge the mood of the Singapore stock market. The STI has increased 309 points or 10.16% since the beginning of 2019. The annual GDP growth in Singapore has been the weakest since 2015, with economic growth of only 1.3% YOY in the first quarter of 2019, missing the market expectations of 1.5%. This is largely due to the poor manufacturing activity, which contracted 1.9% after expanding 5.1% in the previous quarter. The poor output levels in the precision engineering and electronics clusters also offset the increase seen in biomedical manufacturing and transport engineering clusters.

Progress of U.S.-China Trade War Better than Expected, but Tensions Linger On

Signs of progress in U.S.-China Trade War signals room for STI to tread higher, with a trade deal appearing near. China has agreed in principle to increase imports of U.S. agricultural products, along with energy, industrial products and services, as part of a path to eliminate the imbalance in trade with the U.S. This promise forms the basis of a preliminary agreement, hopefully signaling that they are very close to the final round. However, China still denies allegations of misbehavior that include forcing foreign companies to hand over their technology. Protection of intellectual property remains as one of the U.S.' main priority. The widening U.S. government crackdown on Huawei Technologies Co. also signals deepening tensions that will persist beyond the trade war.

Currently, U.S. and Chinese officials are scheduling two more rounds of face-to-face trade talks to reach a deal. An end to the trade war can be observed within the next few months, with progress going better than expected. With China being the largest importer and Singapore sitting in the middle of the global supply chain, positive spillover effects will show in the general manufacturing and electronics sector in particular. While headlines have been crowding around the possibilities of an end to the U.S.-China Trade War, this does not signal a clean resolution and rivalry between both countries are only just beginning. Uncertainty towards whether tensions will continue to linger on is expected to reduce global consumer confidence in the upcoming quarters.


Singapore-Malaysia Maritime Dispute

Although Singapore enjoyed friendly ties with Malaysia during the former premier Najib Razak, the return of Mahathir in 2018 has turned the relationship sour. Bilateral disagreements over airspace, price of water supplies and borderline of waters have arisen and caused strains in the Singapore-Malaysia relationship. Given the above situation, Singapore and Malaysia have begun negotiations to delimit their maritime boundaries in a month, as both countries have suspended the extensions of their overlapping port limits and ceased anchoring government vessels in the area.

We hold onto our stance that the conflicts between Singapore and Malaysia will be resolved amicably in the months to come as both countries have been each other's second-largest trading partner. Both countries have pledged to resolve the matter amicably. In recent water talks, both leaders have noted the differing opinions of both sides on the right to review prices of water under the 1962 agreement but agree that the respective attorneys-general should continue their dialogue to seek more understanding regarding each other's concerns. With both countries agreeing to meet face-to-face to resolve disagreements, we see issues arising from time to time as simply an expected occurrence and there is tremendous potential for both countries to move ahead cooperatively.

MAS to Pause At Bi-Annual Policy Review, Maintaining Monetary Policy as Expected

Amidst the backdrop of weaker gross domestic product (GDP) growth in the first quarter of 2019, the Monetary Authority of Singapore (MAS) announced that it will be maintaining its monetary policy as expected on 12th April 2019, striking a dovish tone. This move came as Singapore's economy grew 1.3% y-o-y in the first quarter of 2019, missing the market expectations of 1.5%. February's core inflation reading was 1.5% y-o-y, down from January's 1.7%. The lower-than-expected figures cement the case for a pause in the interest rate hikes that were initially planned out.



At its first biannual meeting on 12th April 2019, the MAS would maintain the undisclosed rate of appreciation of the Singapore dollar nominal effective exchange rate (S\$NEER) policy band. The width of the policy band and the level at which it is centered will also be kept unchanged. The MAS' commitment to hold follows a slight increase in the slope of the S\$NEER policy band at the previous meeting held on October 2018.

Despite speculation that the lack of further tightening in April might not just be a pause but rather a shift towards easing policies, we still postulate that the Singapore economy will be firm on maintaining their interest rates in the quarters ahead. Much of the MAS's monetary policy decisions are also tied to the Fed's stance on interest rates, who stress that they want to remain patient for now, before they even consider another increase in interest rates if the strong labor market can boost economic growth in the months ahead.

FX Trade Idea: Short USDSGD

Published on TradingView.com, April 26, 2019 20:21:32 UTC

OANDA:USDSGD, D 1.36196 ▼ -0.00112 (-0.08%) O:1.36308 H:1.36432 L:1.35996 C:1.36196



Created with [TradingView](#)

Figure 18: USDSGD Chart (Source: Tradingview.com)

Amidst the ongoing trade war, the U.S. economy is slowing, mostly due to a manufacturing downturn in the first quarter that has persisted into April. Growth in the service sector has also slumped to a two-year low, showing further signs that slowdowns are spreading beyond the factory sector. This is in line with the Fed's decision to put a halt to interest rate hikes and reinforced by the inversion of the Treasury yield curve that happened in March. On 22nd March, the 3-month Treasury bill rate exceeded the yield on the 10-year Note for the first time since 2007, a shift that is considered a sign that an economic contraction is near although not necessarily imminent.

Entry: 1.35200

Exit: 1.34576

Stop Loss: 1.34576

We can observe a downtrend in the USDSGD pair since Nov 2018, and the pair is currently trading sideways. For Q1, MACD remained below the zero line with the initial cross occurring in Nov 2018, indicating that the 12-day EMA is moving slower than the 26-day EMA and reiterates bearish signals. Based on a 6 to 12 months horizon for this currency pair, the key level of resistance identified is at 1.35713 at which the currency pair has been bouncing off but yet to breakthrough. The key level of support is also at 1.34576, which is also our stop loss level.

We believe that given the global macroeconomic condition, the outlook on USD remains poor and a short on USDSGD is recommended.

SOUTH KOREA

Bank of Korea Holds Interest Rate for the First Quarter

Bank of Korea maintains its interest rate at the current level, against the backdrop of a very recent contraction of 0.3% in GDP since the last quarter and inflation sinking below BoK's target in March. This is largely attributed to a sharp decline in investments and government spending which became a burden to the overall economic growth rate. Subdued demand has also been observed to be coming from China and Europe in particular, with manufacturing levels having yet to rise above the crucial 50-point threshold separating contraction from expansion. The Bank of Korea also did not seem to suggest a hawkish monetary policy move in the near-term horizon, hinting at poor expectations for South Korea's economy.

With subdued demand coming from China and Europe in particular due to economic slowdowns in the first quarter, manufacturing levels have yet to rise above the crucial 50-point threshold separating contraction from expansion. Looking forward, China's economy seems to be stabilizing on the back of strong industrial output, thus translating into higher demand for manufactured goods from Korea. South Korea's economy is therefore still expected to recover in the coming quarters of the year.

The Next Lost Decade?

Exports fell 8.2% in March, a less pronounced drop than February's revised 11.4% fall. Imports also decreased by 6.7%, a slight recovery from February's sharp 12.6% fall. The unemployment rate stood at 4.3% in March, down 0.2% year-on-year. However, this is in relation to a rise in the number of jobs concentrated in sectors such as health and public administration, rather than in Korea's key industries. Improving unemployment results are unlikely to ease the pressures on President Moon Jae-In since the improvement in unemployment rates did not offset the weakness in manufacturing nor improve wages. Disappointing employment data coupled with contraction in manufacturing output in February signals a less than positive vision for South Korea's economy, in line with what we have forecasted earlier for the quarters to come.

Inter-Korean Economic Vision Falling Apart

The second Trump-Kim summit in Hanoi ended abruptly with no significant developments due to talks falling apart and ending prematurely since both sides refused to budge or produce any agreement. The U.S. demanded North Korea to offer something bigger than just the dismantling of its main Yongbyon nuclear facility, while North Korea wanted all sanctions to be lifted rather than just a partial removal. As long as sanctions remain in place, Moon's inter-Korean economic vision will remain nothing more than a fantasy. Due to South Korea's current position as a neutral middleman between Trump and Kim Jong Un, Moon is unable to fully endorse either side's position to improve the situation.

North Korea has also pulled out of a liaison office with South Korea that was supposed to improve communications between both countries. The better economic cooperation as one Korea that was predicted earlier seems to be showing signs of cracks. On the overall, we believe that the end goal is achievable in years to come even though cooperation between North and South Korea has always been unexpected and a shock to the world. For the end goal of denuclearization to be attained, South Korea needs to step up more as an active participant, otherwise, it would potentially erase all progress in the relations of both Koreas made earlier.

FX Trade Idea: Long USDKRW

sohkailli published on TradingView.com, April 27, 2019 03:15:56 UTC

FX_IDC:USDKRW, 1D 1158.25 ▼ -1.75 (-0.15%) O:1160.40 H:1161.30 L:1158.25 C:1158.25



Created with TradingView

Figure 19: USDKRW Chart (Source: Tradingview.com)

With a decrease in global trade, failing economic relations with North Korea as well as general slowdown in economic growth that is expected to be prolonged, the outlook for South Korean companies are generally unfavorable. We foresee the U.S. appreciating against KRW based on the potential end of US-China Trade War in the upcoming quarters as well. The 20SMA remains above the 50SMA and 200SMA since March 2019, suggesting an uptrend of the USDKRW currency pair in the near future. The MACD also crossed above the zero line in March, in line with the bullish trend that we observe. As the uptrend begins, the MACD histogram has also been getting bigger, which is a good indication of a strong trend likely to persist. The channel between the black trend lines also suggests that an uptrend is closing in, hence, indicating a buy signal soon.

Entry: 1138.00

Exit: 1110.77

Stop-Loss: 1107.51

The key level of resistance is at 1143.74, which the currency pair has been bouncing off several times but unable to breakthrough. The key level of support identified is at 1110.77, with a stop loss position slightly below the support line at 1107.51.

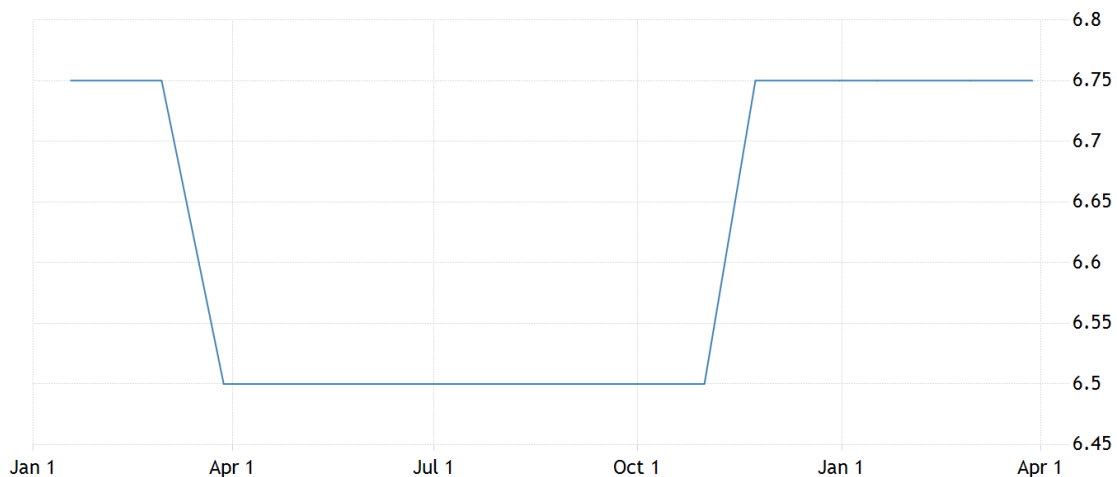
Therefore, assuming the current circumstance, we stand with our previous stance that the USD is projected to appreciate against KRW, and this reiterates a buy signal in the following months.

SOUTH AFRICA

Constant Interest Rate Sufficient to Tackle Inflation Levels

Previously, our views were in line with a Reuters poll that the South African Reserve Bank (SARB) will not raise interest rates until May 2019 due to a favourable inflation rate.

This prediction was accurate as the SARB decided to hold its benchmark repo rate at 6.75% on 28th March 2019. The primary reason why the repo rate has remained at a steady rate is that the inflation rate has remained within SARB's targeted range of between 3% and 6%. As a result, there is no need for the interest rate to change.



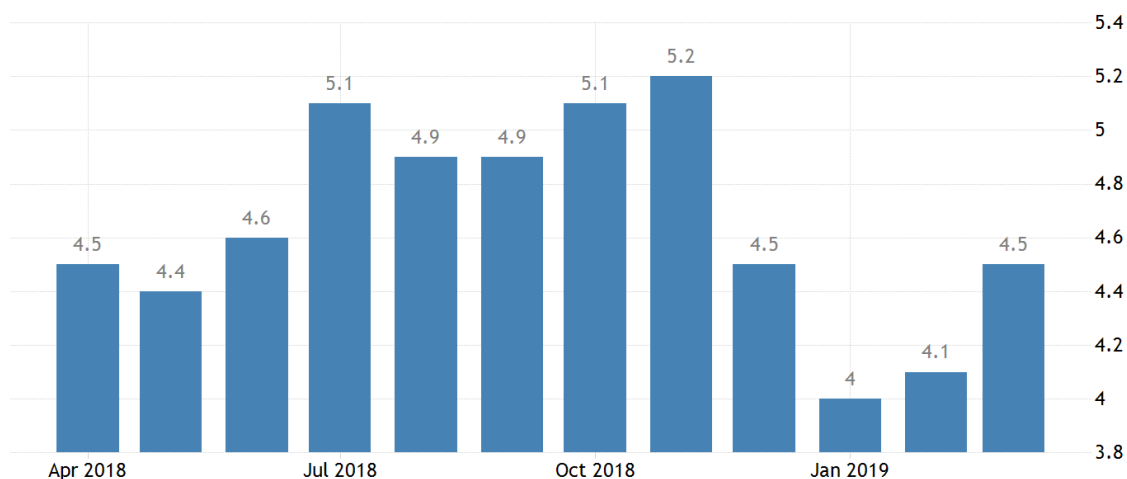
SOURCE: TRADINGECONOMICS.COM | SOUTH AFRICAN RESERVE BANK

Figure 20: Constant interest rate at 7.5% (*Source: TradingEconomics.com*)

Falling Inflation Rate

We believed that the 25 basis points increase in the interest rate to 6.75% on 23th November 2018 by SARB would be sufficient to result in a lower inflation rate over the next few months.

There has however been a mixed response. While the inflation rate has lowered from 5.2% in November 2018 to 4% in January 2019, there has been a recent rise in inflationary levels. The inflation rate rose to 4.5% in March 2019. The sharp rise in fuel prices has been the main factor driving the inflation rate up. The retail price of petrol rose by nearly 9% while the price of diesel rose by 6% from 3rd April 2019. The reason behind this surge was higher fuel and road taxes.



SOURCE: TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA

Figure 21: Recent rise in inflation rate (Source: TradingEconomics.com)

Eskom's Escalating Woes

Eskom, South Africa's electricity public utility, produces about 95 percent of the nation's power. However, corruption and mismanagement in Eskom has resulted in one of the worst blackouts this year. Eskom is currently deemed by the National Treasury as the biggest risk to South Africa's economy. Despite South African president Cyril Ramaphosa promising to secure stable electricity, Eskom's struggles have remained as the nation's biggest economic problem.

The government decided to split Eskom into three new state-owned entities — generation, transmission and distribution. This split would make each entity more competitive and reduce corruption. With fears of job losses and a surge in electricity costs arising from Eskom's unbundling, the Congress of South African Trade Unions (Cosatu) organised a strike to address these issues. A more pressing problem surfaced when Eskom required an emergency \$355 million bailout to prevent a debt default from occurring in April 2019. With over \$30 billion of debts under their belts, the government has agreed for a \$5 billion bailout for Eskom in the next three years. Other than affecting every sector in the economy with the occasional blackouts, the power cuts implemented by Eskom have cost the National Treasury as much as \$770 billion in lost revenue.

Boosting SMEs in South Africa

A \$95 million capital fund that would invest in Small and Medium Scale Enterprises (SMEs) and start-ups has been initiated by President Ramaphosa. Headed by the Chief Executive Officers (CEOs) of major businesses, the goal of the fund is to improve economic growth. 200 SMEs with turnover between \$1.40 million to \$35.23 million are expected to be the beneficiaries of this fund and would be mentored in the next five years. Since the SME sector generates more than 20% of South Africa's gross domestic product (GDP) and employs 47% of the country's workforce, we believe that SMEs play a crucial role in growing the economy.

Our stance is that more structural changes are needed for the SME sector to be developed further. SMEs have little access to markets and do not have the necessary skills to flourish. In addition, the regulatory frameworks in South Africa remain uncompetitive. We believe that the National Development Plan's envision of an SME sector that would be responsible for 90% of job creation by 2030 would only materialise if the above-mentioned issues get resolved.

Interest Rates Expected to Remain Constant

Although South Africa's inflation rate has been fluctuating in SARB's target band of 3-6% for the past years and is currently at the midpoint of the range at 4.5%, we still believe that interest rate would remain at 6.75%. While the SARB ideally wants the inflation rate to be maintained at 4.5%, it is premature to assume that the current rate will not change. Furthermore, the SARB predicts that the inflation forecast for 2019 is expected to be at 4.8%. Therefore, it would be impractical to lower interest rates just because the inflation rate is at an ideal level. In addition, an interest rate hike would dampen investor and business confidence.

Various Factors to Push Inflationary Levels

Our stance is that inflation is expected to rise over the next few months. Firstly, a surge in international oil prices will likely cause gas prices in South Africa to rise. Secondly, petrol prices have risen further in April, resulting in a total increase of 11.4%. Thirdly, with the drought season ending, food inflation is expected to rise. Furthermore, the prices of imported goods have increased due to the volatility of the South African Rand. Although the Rand has strengthened 2.3% against the U.S. dollar in 2019, the SARB has stated that import prices have not lowered, highlighting the structural problems and corruption in South Africa.

Falling Consumer Confidence Weakens Rand

According to Bloomberg Business Day, the Rand is currently reported to be the worst-performing emerging market currency. The Rand slipped to a three-week low of 14.4000 on 24th April 2019. One of the significant factors is the decline in the consumer confidence index. Consumer confidence fell from +7 in the fourth quarter of 2018 to +2 in the first quarter of 2019. The rising cost of living in South Africa and unconfident consumers led to negative sentiment towards the currency, resulting in the weakening of the Rand.

U.S. Economic Data Boosts Dollar

The U.S. dollar strengthened against the Rand on 24th April 2019, resulting in the Rand's worst one-day performance in a month. Economic data revealed sales of single-family homes surged to a one and a half year high in March 2019. The S&P 500 closed on 24th April 2019 with an all-time closing high at 2933. Furthermore, bond yield differentials have widened in favour of the U.S. dollar and Gold is at four-month lows. As a result, the U.S. dollar has strengthened, with investors rushing to purchase U.S. dollars.

FX Trade Idea: Short USDZAR



Figure 22: USDZAR chart (Source: Tradingview.com)

Entry: 14.2168
Take Profit: 13.3800
Stop Loss: 14.6000

South Africa's economy is among one of the worst performers in sub-Saharan Africa after the International Monetary Fund (IMF) lowered the country's estimated GDP growth rate for 2019 from 1.4% to 1.2%. However, South Africa's economic growth for 2019 would still be above the 0.8% level at which the economy expanded in 2018. In the short term, the economic outlook looks bleak for South Africa. Increasing oil prices, surging petrol prices and food prices have all dampened consumer confidence. Moreover, Eskom's mounting problems such as the occasional blackouts and huge debts have negatively affected the economy. With uncertainty over the upcoming South African General Elections, the Rand is expected to weaken.

However, in the long run, the Rand is expected to strengthen against the U.S. dollar. The most significant factor that would cause the resurgence in the Rand is forecasted victory of the current governing African National Congress (ANC) party. ANC is expected to win a majority during the General Elections. According to Standard Chartered Bank, this would cause a rebound in the Rand. Therefore, with this expected victory, current President Ramaphosa would implement economic reforms to improve the economy and the Rand.

Based on the chart of USDZAR, the currency has been volatile, reaching a high of 14.7624 and a low of 13.2281 in a span of four months. From the technical perspective, investors could wait until the price touches the nearest support at 14.2168 and prepare for a breakout. Furthermore, a recent death cross between the 20-day Moving Average and 200-day Moving Average signifies a bearish trend. Stochastic is steadily headed towards the overbought area. Hence, investors can go short on USDZAR in the long run. An entry point should be taken at the nearest support line, **14.2168**. The long term take profit level should be at **13.3800**, slightly above the lower support line. In the event of a trend reversal, a stop loss should be at **14.6000**, slightly above the resistance line. This would result in a risk to reward ratio of 2.18.

Global Events Impacting Economy

International volatility poses a concern to South Africa's domestic growth. The Brexit uncertainty, trade tensions between the U.S. and China as well as the uncertainty of emerging markets have negatively impacted the economy. A slowing global demand would be detrimental to South Africa's exports. If any of the above-mentioned events escalates, it would slow economic growth in South Africa and in the sub-Saharan African region. A slower growth in China, escalating trade tensions between the U.S. and China as well as tighter global financial conditions would dampen growth in the sub-Saharan African region by 2 percentage points in 2019 and 1.5 percentage points in 2020.

Growing Debt, a Major Concern

Ratings agency Moody's Investors Service has declared that rising government debt linked to bailouts of South African firms would add pressure to the country's current investment-grade status. This surge in government debt is particularly concerning. Moody's is expected to announce a credit-rating downgrade in November 2019 if the problem is not resolved. The rising debt would not only lower consumer and business confidence but would cause the Rand to weaken against the U.S. dollar. Eskom's debts amount to 8% of the country's GDP and despite South Africa's National Treasury granting Eskom a 69 billion Rand bailout over the next three years to service its 420 billion Rand debt, the firm has requested for more funds. Eskom's frequent need for more cash coupled with the blackouts caused by the state-owned utility has plagued first-quarter economic growth.

TURKEY

No Rise in Interest Rates

Previously, we stated that it would not make sense for interest rates to be lowered as that would result in the Lira depreciating and would detrimentally affect investor's concerns about financial stability. Hence, we do not forecast a rise in interest rates over the next 4-6 months.

Our forecast was accurate as interest rates continued to be held at 24% and has not changed since 13th September 2018. Turkey's central bank has pledged to keep its monetary policy tight following the Lira currency crisis in 2018. As a result, interest rates have not been adjusted.



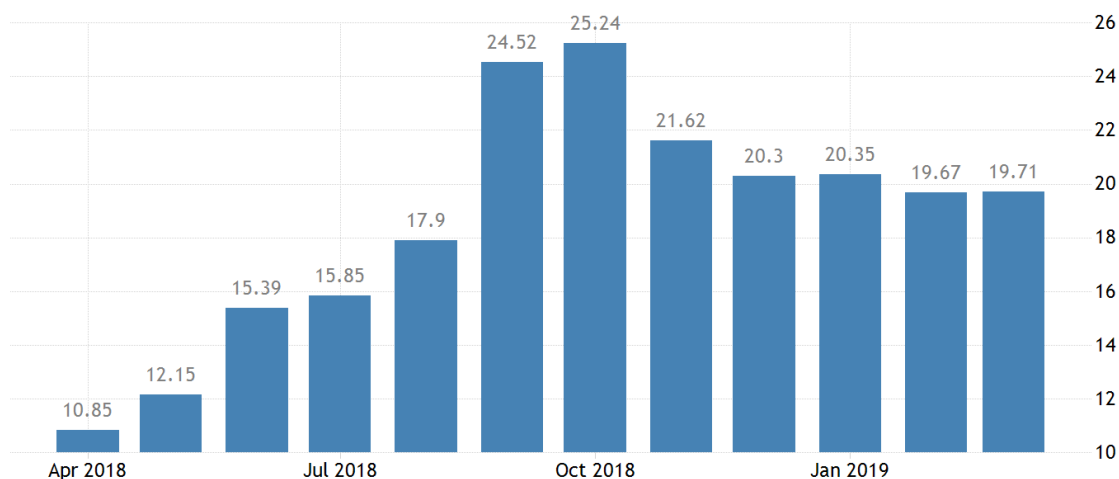
SOURCE: TRADINGECONOMICS.COM | CENTRAL BANK OF THE REPUBLIC OF TURKEY

Figure 23: Constant interest rate at 24% (Source: TradingEconomics.com)

Government to the Rescue to Bring Down Food Prices

We had forecasted that a consensus between President Erdogan and the Central Bank of the Republic of Turkey on the severity of the current economic crisis would lead to a greater potential for success for the medium-term economic program to lower inflation. Furthermore, success in the "Full-scale Fight against Inflation" campaign which offers discounts in the retail sector and lowers interest rates for bank loans, would help to continue to ease inflation.

This prediction played outright as inflation rates have generally declined since December 2018, even though there was a slight rise in the inflation rate in March 2019. The constant interest rate held at a high 24% has helped to lower the inflation rate. In addition, the Turkish government has stepped in to lower prices, especially food prices.



SOURCE: TRADINGECONOMICS.COM | TURKISH STATISTICAL INSTITUTE

Figure 24: Inflation rate declining (Source: TradingEconomics.com)

Erdogan Loses Key Cities in Elections

The Turkish local elections were held on 31st March 2019. While Turkish President Recep Erdogan's ruling coalition won over 50% of the national vote, his Justice and Development Party (AKP) lost grip of major cities Ankara and Istanbul to the main opposition party, Republican People's Party (CHP). President Erdogan stated that the margin between the two-party candidates was too small for CHP to be able to claim victory and AKP has requested a recount for Istanbul.

Following the results of the elections, the Turkish Lira weakened by 2.5% to 5.6939 on 1st April 2019. However, the currency bounced back to 5.5520 on the same day. We believe that the Lira strengthened due to changing sentiment towards President Erdogan's party defeat. On 8th April 2019, the Lira weakened by more than 1% against the U.S. dollar after fears of a recount in Istanbul. After suffering electoral losses, we anticipate President Erdogan to adopt populist policies at the expense of the Lira.

Turkey's Purchase of Russian Missiles

On 6th March 2019, Turkey purchased an S-400 anti-aircraft missile system from Russia. The U.S. and the North Atlantic Treaty Organisation (NATO) strongly opposed this purchase, stating that the U.S. would implement sanctions on Turkey if the Turkish government failed to cooperate on this matter. The S-400 is crucial for Turkey to withstand threats from Kurdish rebels and Islamist militants. However, the U.S. government states that this missile system would be a threat to U.S. F-35 fighter jets. This has led to a souring of ties between the U.S. and Turkey, increasing political tensions.

With the U.S.-Turkey relationship set to deteriorate once again; this has weighed in on Turkish assets. The Lira weakened by 1.5% to 5.8235 against the U.S. dollar on 11th April 2019, nearly reaching a key support level of 5.845, the lowest since Turkey emerged from the 2018 Lira currency crisis. One of the significant reasons for the weakening was attributed to investors and local holders of Lira selling the currency over political instability. We believe that this political instability would continue since Turkey's diplomatic ties with Russia have improved despite Turkey being a NATO member.

Interest Rates Expected to Remain Constant

We believe that interest rates would remain at 24%. The Turkish Lira has been volatile of late, fluctuating more than 4% on 22nd March 2019 after the Turkish Central Bank's net foreign exchange reserves fell \$6.3 billion to \$28.5 billion. Ankara's escalating tensions with Washington over the country's decision to buy Russian S-400 missile systems has led to increased political instability. As a result, we believe it is important

that monetary policy remains as tight as possible to prevent the Lira from further weakening as well as to lower inflation. Therefore, over the next four to six months, we foresee interest rates remaining at 24%.

Tax Cuts Key to Lowering Inflation

In our opinion, Turkey's inflation rate should continue to fall, albeit at a slow rate. The tax cuts on goods introduced by the government at the end of 2018 coupled with the Central Bank's tight monetary stance have been the key drivers behind the falling inflation. Although the tax cuts have resulted in a 9 billion Lira decrease in government expenditure, one of the main goals of the government is to lower inflation. With the Central Bank expected to maintain its interest rates, we would be able to observe a lower inflation rate in Turkey over the next six months.

Foreign Currency Reserves Boosted

With the Lira devaluing, the Turkish central bank has increased its foreign currency reserves with billions of dollars of short-term borrowed money. In April 2019, the net foreign reserves were reported to be \$28.1 billion, a figure that is deemed insufficient by investors given Turkey's heavy debt. Without short-term borrowing, the reserves are less than \$16 billion. In the next 12 months, Turkey is expected to repay \$177 billion of short-term debt. Borrowing money from commercial lenders to improve the foreign reserve balance sheet is a matter of concern for investors. It highlights the inability of the country's foreign exchange reserves to maintain a credible defence of the Lira given how volatile the currency is. Furthermore, we are unsure how Turkey would be able to restructure a mounting debt amidst an economic recession.

Prospect of New Elections

After narrowly losing for the city of Istanbul in the March 2019 local elections, President Erdogan's AK Party intends to hold a rerun of mayoral elections. Other than threatening more economic instability, fresh elections would bring uncertainty to a country already plagued with political tensions and currency volatility. Moreover, it would add pressure on the Lira. New elections would raise questions about Erdogan's priorities since he is more focused on regaining power in Istanbul instead of improving sentiment around Turkey.

FX Trade Idea: Long USDTRY



Figure 25: USDTRY chart (Source: Tradingview.com)

Entry: 5.7222
Take Profit: 6.5711
Stop Loss: 5.3300

The Turkish economy has experienced two consecutive quarters of negative growth, a sign of recession. A recent Reuters poll median predicted that the economy would expand by a meagre 0.2% in 2019, below the government's lowered forecast of 2.3%. Furthermore, the Organisation for Economic Co-Operation and Development (OECD) reduced Turkey's growth to -1.8% from -1.4%. A fall in household consumption and fixed investment, as well as a minimal rise in government spending, contributed to the negative growth. Furthermore, the Turkish central bank's decision to stick to its decision of a tight monetary policy has played a part in Turkey's negative economic growth.

The worsening foreign reserves has exposed Turkey's weak defence of the Lira. The Lira is vulnerable to external pressure, illustrated by its sharp devaluation after escalating tensions between the U.S. and Turkey after Turkey's purchase of a Russian S-400 missile system. Uncertainty around the possibility of another mayoral election for the city of Istanbul has also contributed to the weakening of the Lira. Coupled with the strengthening U.S. dollar due to strong economic data, we believe that the Lira would continue its bearish stance.

The price level of the USDTRY currency pair has been steadily moving within an upward trend channel for the past three months. A golden cross formed by the 20-day and 200-day Moving Averages signifies that the bullish trend will continue. However, we believe that it is not a good time to enter. The currency pair has just surpassed its critical resistance level of 5.82664. Furthermore, RSI is currently at the overbought level.

The overall structure remains strongly bullish hence we recommend longing the USDTRY pair. We recommend waiting for the price level to fall to slightly below the resistance line. The entry point should be taken at **5.7222**. The long term take profit level should be below the next resistance line at **6.5711**. A stop loss should be placed below the support line at **5.3300**, generating a risk-reward ratio of 2.16.

ETF Trade Idea: Short iShares MSCI Turkey ETF

Ticker: TUR
Listed on: NASDAQ
YTD return: -3.93%

iShares MSCI Turkey ETF is an exchange-traded fund listed on the NASDAQ. The ETF seeks investment results that correspond to the performance of the MSCI Turkey Investable Market Index. Financials at 28.79%, Industrials at 22.76% and Consumer Staples at 14.05% make up for the 3 largest industries. The top 3 constituents are TURKIYE GARANTI BANKASI A 9.29%, AKBANK A 8.57% and BIM BIRLESIK MAGAZALAR 8.02%. As of 29th March 2019, its Year to Date (YTD) return is -3.93%, 1-month SEC yield at 3.62% and 1-year trailing yield at 4.16%. The ETF trades at an average price/earnings ratio of 6.36 as of 24th April 2019, compared with 12.3 for global emerging markets, indicating that investors are anticipating lower growth in Turkey.



Figure 26: iShares MSCI Turkey ETF chart (Source: Tradingview.com)

Entry: 24.35

Take Profit: 19.95

Stop Loss: 26.00

From the end of January 2019, the iShares MSCI Turkey ETF has been trending steadily downwards throughout the year. On 27th March 2019, the ETF fell 7.8%, following the weakening of the Lira against the U.S. dollars ahead of the General Elections on 31st March 2019. The ETF's downtrend is attributed mainly to the Lira's devaluation, high inflation and rising U.S. interest rates. The increase in rates would make Turkey's dollar-denominated debt burden more expensive in terms of Lira.

We have adopted a bearish stance towards the iShares MSCI Turkey ETF, shorting it. The fundamental analysis complements the technical view as a death cross is formed between the 20-day and 200-day Moving Averages. However, we believe that it is currently not the right time to short the ETF as Stochastic lines are significantly below 20, indicating oversold markets. We would wait for a price reversal and make an entry point at **24.35**. The long-term profit would be at **19.95** on the lower support line. A stop loss in the event of a price reversal would be placed above the death cross at **26.00**, leading to a risk-reward ratio of 2.67.

Surging Oil Prices Could Increase Cost Inflation

The Organisation of the Petroleum Exporting Countries (OPEC) and Russia have cut oil production, resulting in the recent increase in oil prices. Moreover, the U.S. has decided to end sanctions waivers, which had previously allowed eight major economies, including Turkey to purchase crude oil from Iran. This interference has led to a surge in oil prices to \$74 a barrel. Since Turkey is unable to produce the majority of its crude oil needs, it has to import crude oil. This would put upward pressure on Turkey's current account deficit and would increase producer prices and consumer prices for crude oil. This would increase pressure on energy costs and could increase cost inflation in Turkey. Furthermore, high oil prices would lower the purchasing power of consumers and could lead to a lower domestic demand, which contributes to weaker GDP growth.



Immense Debt Dampens Investor Sentiment

On 29th January 2019, Turkish banks were reported to have had \$57 billion of short-term debt outstanding and non-financial corporations had \$68.2 billion of debt maturing within one year. Despite the heavy debt that amounts to 40% of the country's GDP, external financing requirements remain high. As a result, Moody's has upgraded Turkey's external vulnerability risk to High + from High. Turkey's sensitivity to changes in global markets coupled with the mounting debt has lowered investor sentiment.

INDIA

Interest Rates Reversed Amid New Dovish Stance

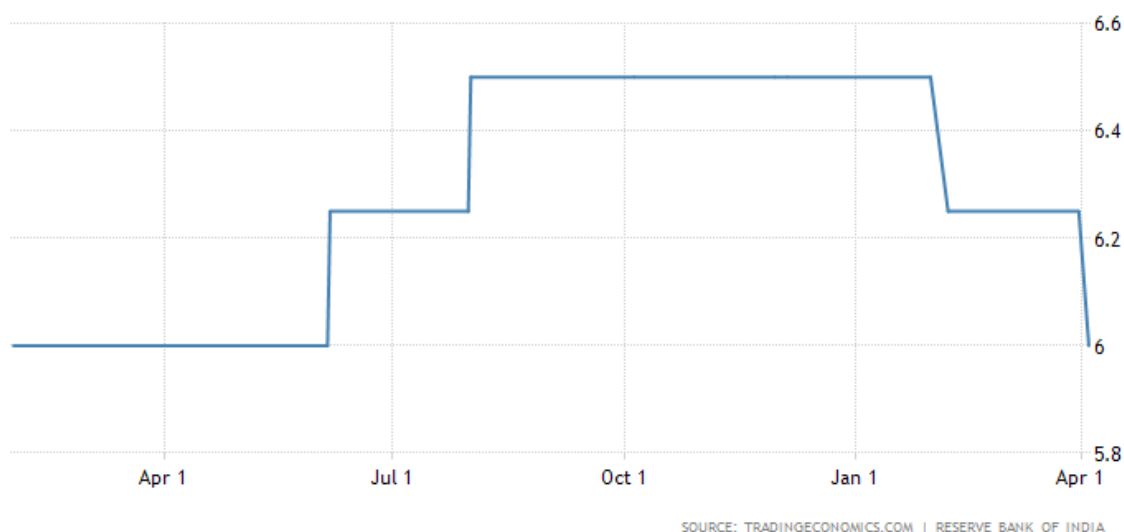


Figure 27: India's annual interest rate (Source: Tradingeconomics.com)

As reported by Fitch Ratings, India was the first Asia-Pacific nation to enter an explicit easing cycle thanks to benign food inflation and a more accommodating global financial situation led by the Fed's decision to suspend rate hikes for the year 2019, down from previously forecasted 2 rate hikes in 2019. The RBI has already cut rates twice this year in 2019, a 25-basis point cut in both February and April citing moderated inflation figures.

RBI's New Governor Shaktikanta Das more Dovish than Expected

Shaktikanta Das took over as governor in late 2018 and was expected to be less hawkish than former governor Urjit Patel. Though what was unexpected was the direct change from a hawkish sentiment to a bearish sentiment so quickly, despite India's core inflation still high at more than 5%. The 7th February rate cut also saw Shaktikanta Das said in a statement that "there is room to cut", signalling further rate cuts to come, a distinct change from expectations of reduced, albeit continued rate hikes in 2019 under the previous governor Urjit Patel. As we look to the future, interest rate projections are to be adjusted downwards under the leadership of Shaktikanta Das.

Projected Rupee Weakness Amidst Backdrop of Rate Cuts from Weakening Economy

In February, the RBI's monetary policy committee unveiled that potential output growth for the economy was revised upwards from 7-7.5% to 8-8.5%. In the same month, economic growth dropped to 6.6%, less than analyst expectation of 6.9% and its lowest in 5 quarters. As such, the output gap in India is widening, a sign of weakness in the economy. This is coupled with rising oil prices from Iran sanctions that are seen to reduce the purchasing power of Indian consumers moving forward. This is at best negated by India policy moves aimed at shoring up rural and farm sector spending in the interim budget ahead of the elections but will result in a decrease in investment support from the government. Thus, it is our view that the weakness in the Indian economy is showing and the cracks are appearing in its sluggish growth figures.

Further Election Uncertainty with BJP party potentially losing votes

Pre-election uncertainty has already dealt a blow to FDI in India, dropping 7% to US\$33.5 billion in the nine months between April and December 2018. If the BJP party loses its control over the government, a coalition government could take shape and include the opposition Congress party and regional parties, resulting in challenges over the formation of policy in the future. As we move closer to the end of the

election season, the latest opinion polls in April have deteriorated compared to its peak in January earlier this year. This raises the possibility of further FDI reductions in the coming months as election results take shape.

FX Trade Idea: Long USDINR



Figure 28: USDINR daily chart (Source: Tradingview.com)

We maintain our long position on the USDINR pair based on our view that the Rupee will continue its decline over medium to long term based on rate cut outlooks and the uncertain political outlook in India's 2019 general election.

Entry: Dynamic

Take Profit: 72.4383

Stop Loss: 63.3918

We suggest going long the USDINR pair with a dynamic entry price when the 20-day SMA forms a golden cross with the 100-day SMA and stochastic RSI lowers from current overbought conditions, with take profit at **72.4383**, slightly below the previous high established in December. The stop loss will be at the double bottom support level at **63.3918**.

One key risk we see is that core inflation remains slightly elevated in India, coming in at slightly above 5% in the months YTD. Even though this strips out volatile oil prices that are seen to rise in the coming months but continue inflation pressures may force the RBI to suspend rate cuts even with core inflation remaining unchanged. However, given our view on the poor consumer spending and investment outlook in the medium to long term, we do not feel that this situation would play out.

ETF Trade Idea: Short iShares MSCI India ETF

Ticker: INDIA

Listed on NYSE: ARCA

YTD Returns: 6.60%

The iShares MSCI India ETF tracks the MSCI India Index comprising large and mid-cap segments of the Indian market. Financials at 22.52%, Information Technology at 17.35% and Energy at 13.81% make up for the 3 largest industries. The top 3 constituents are RELIANCE INDUSTRIES LTD at 11.56%, HOUSING DEVELOPMENT FINANCE CORPOR at 9.44% and INFOSYS LTD at 7.51%. As of 31st March 2019, it's YTD return is 6.60% 1-year return at 6.00% and 3-year compounded annual return at 10.53%.



Figure 29: iShares MSCI India ETF daily chart (Source: Tradingview.com)

Given our pessimistic outlook of India's domestic economy with sluggish spending and growth going forward coupled with lowered FDI in the coming months due to political uncertainty, we maintain a bearish stance on the broader stock market of India. India's VIX also spiked to 3-year highs on 22nd April, further propagating a risk-off sentiment and adds to the bearish tone.

Entry: 34.58

Take Profit: 33.2

Stop Loss: 35.49

A double top has formed at 35.96 level, with the proposed entry at the neckline **34.58** confirming the break of the support level. The stop loss is slightly above the entry price at the support level **35.49**. This gives the trade a 1.52 risk to reward ratio.

MACD currently signals a bearish confirmation, with the MACD crossing below the signal line and lower highs forming, supporting our bearish view on the ETF.

As per a UN report published on February 2019, India is one of the few countries that can potentially benefit from the U.S. and China trade tensions. Though trade talk tensions have simmered, and progress has been made on this front, an escalation could see investments into India's manufacturing sector increase. However, it is in our view that this would be marginal at best given that Indian exports will slow too should trade tensions further escalate.

RUSSIA

Rising Exports from Higher Oil Prices Have Yet to Materialise

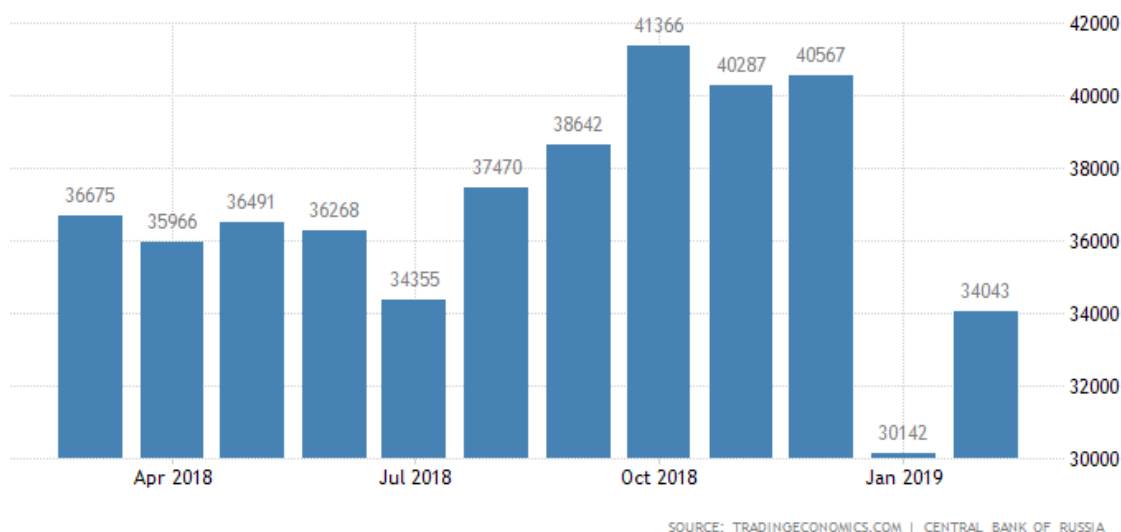


Figure 30: Russian Export Figures (Source: TradingEconomics.com)

We forecasted rising exports from October mainly thanks to increased oil revenues from higher prices and output. However, this has yet to materialise, with oil prices falling significantly since October due to increased output from the U.S.



Figure 31: Brent Crude Oil Prices in USD (Source: Tradingview.com)

U.S. Sanctions for Countries Who Import Iranian Oil

On 22nd April 2019, it was announced that the U.S. was ending waivers on all countries importing Iranian oil starting in May, with the “decision is intended to bring Iran’s oil exports to zero, denying the regime its principal source of revenue” as quoted from the White House press secretary Sarah Sanders. Given that Iran is the 8th largest oil exporter globally accounting for 4% of crude oil exports, this is a massive adverse supply shock to the crude market and sent oil prices up 3.4% to hit \$74 a barrel after the statement was issued.

Russia Exports Still Set to Rise

With Russia still having spare capacity to increase crude oil production further to mitigate the lack of supply in the global market, we see the combination of rising oil prices and rising Russian oil volume exports to further contribute to Russia's export figures in the long term.

Sanction Acceptance from China and India

China and India are the largest importers of Iranian oil. Though immediately China rebutted the U.S. decision to impose sanctions, given that they are still engaged in the trade war negotiations, China might be willing to negotiate certain issues such as this in order to support the broader resolution of trade tensions. Also, India has already said that they would be able to offset the reduction of exports from Iran, which will reduce the likelihood of them fighting back as hard against the Iran sanctions. This will help Russia in being able to help fill the Iranian oil gap.

OPEC Meeting to Reverse and Raise Output

The next OPEC meeting will be on 25th June 2019. Should the OPEC be reversing their decision to cut output by 1.2 million BPD. in light of Iran sanctions, it would allow for a further increase in Russian oil volume exports but should not negatively affect oil prices too much given the supply shortages that persist in the market. Furthermore, Saudi Arabia's Energy Minister Khalid al-Falih said on 24th April 2019 that for now "Our intent is to remain within our voluntary (OPEC) production limit". This should also be supportive of short-term oil prices.


FX Trade Idea: Short USDRUB



Figure 32: USDRUB daily chart (Source: Tradingview.com)

The combination of rising oil prices and rising oil export volumes should result in an uptick in Russian exports over both the short and medium to long term. Rising Russian exports will have a positive impact on the Rouble and should support its appreciation against the U.S. dollar. As such, we propose shorting the USDRUB pair.

As we can see, the USDRUB pair has fallen into a Three Falling Peaks pattern which is a bearish indicator. The peaks have been labelled as 1,2,3 accordingly and we can see that it is currently in a downtrend as seen by the 20-day SMA in orange.



Entry: 63.648
Take Profit: 60.261
Stop Loss: 64.786

We suggest shorting the USDRUB slightly below the second valley as the confirmation price at **63.648**, with take profit at **60.261**, the relative difference between the highest peak at 1 and the lowest valley in 2 to arrive at the take profit price. The stop loss will be slightly above the most recent peak at 3 at **64.786**. This will bring a risk to reward ratio of 2.97.

However, there are also risks to this trade. Firstly, China, India and other Iran oil-importing countries may choose to sidestep U.S. sanctions which will not allow for a further increase in Russian oil exports. However, the elevated macro uncertainty about oil should still see support for higher oil prices that will still boost Russian exports and support the Rouble.

Secondly, further U.S. sanctions on Russia. The U.S. just renewed travel bans and asset freezes into 2020 arising from Moscow's annexation of Crimea back in 2014. Given an increase in the appetite of the U.S. government to impose sanctions, as evident in the Iran example, this could be a possible risk to the strength of the Rouble. However, given that this has been a long-standing issue, we do not foresee further even harder-hitting sanctions that should derail the Rouble's ascent too much.

CHILE

Through the reorientation of the Chilean economy through economic liberalization, privatization of state-owned companies and stabilization of inflation in what was known as the “Miracle of Chile”, Chile has been one of Latin America’s fastest-growing economies in recent decades, with a GDP growth rate of 4% in 2018 and is expected to grow 3.4% in 2019. Furthermore, Chile is leading Latin American nations in terms of competitiveness, income per capita, globalization, economic freedom, and low perception of corruption and is ranked as South America’s most stable and prosperous nation.

Chile has a market-oriented economy characterized by a high level of foreign trade and a reputation for strong financial institutions and sound policy that have given it the strongest sovereign bond rating in South America. Their key activity sectors include mining (copper, coal and nitrate), manufactured products (food processing, chemicals, wood) and agriculture (fishing, viticulture and fruit). The services sector is the largest in Chile, contributing to 57.59% of its GDP and is followed closely by the industrial sector that contributes 29.86% to Chile’s GDP. Exports of goods and services account for approximately one-third of GDP, with copper production representing 50% of the country’s exports.

Central Bank Holding Interest Rates

Chile’s central bank decided to hold its benchmark interest rate at 3.00% at its latest policy meeting in March. The Bank’s highlighted the weaker-than-expected inflation rate as the key consideration in keeping rates unchanged. With target inflation rates being set at 3.00% and inflation rates in Chile slipping below the Bank’s 1.00% plus or minus 3.00% tolerance range in January. With inflation rates currently standing at 2% as of March 2019, it signals the necessity for keeping the monetary stimulus for a longer time. In turn, the Bank now expects inflation to end the year at 2.6% and to converge at the 3.0% target in the first half of 2020. This decision was in line with analyst expectations and came on the heels of a rate hike of 25 basis points from 2.75% in the previous meeting in January.

Notwithstanding, it still estimates that towards the medium term it will be necessary to resume the normalization of the monetary policy rate, estimated at 4.00-5.00% to assure the convergence of inflation in the policy horizon. With this, the Board reaffirms that it will proceed gradually and cautiously as has been stated and reiterates its commitment to conduct monetary policy with flexibility so that projected inflation stands at 3% over the two-year horizon.

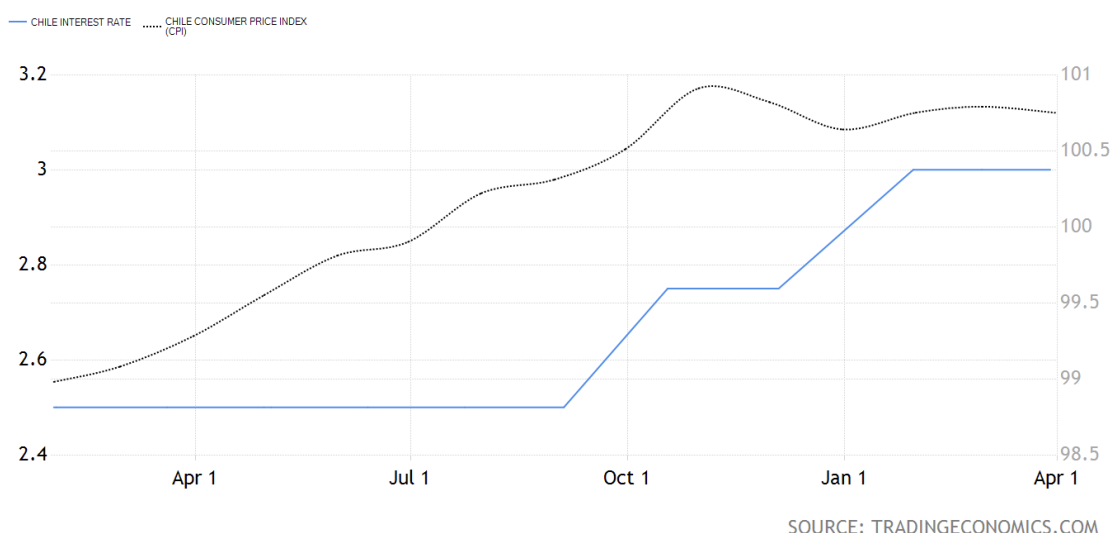


Figure 33: Correlation Between Chilean interest rates and forecasted inflation rates (Source: TradingEconomics.com)

Copper is Key

With copper making up 50% of the country's exports and 10% of overall GDP, Chile's economy moves closely with the price of copper on the world market. This is due to the fact that a number of other sectors, at least in part revolve around natural resources in the country. Much of Chile's industrial manufacturing output, for example, is simply the processing and refining of raw metals. Companies in sectors from logistics, business services, and utilities among others oftentimes count mining companies as their largest customers and a major source of revenues demonstrating the sensitive relationship. Therefore, with increased demand from China, Chile's largest importer of copper at \$7.66B as well as increased copper production in Chile, it sets the country up well to take advantage of the increased copper prices expected in 2019.

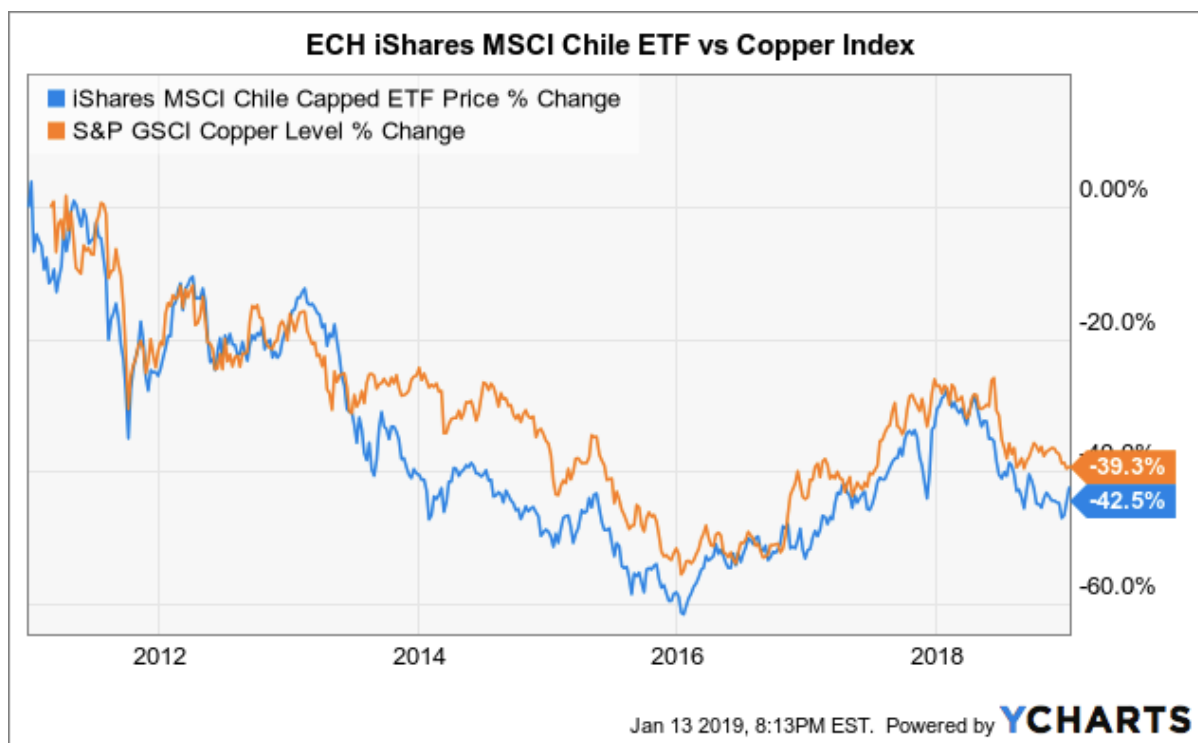


Figure 34: High Correlation Between Chilean economy and copper prices (Source: SeekingAlpha)

In line with President Xi's 14th 5-year plan for the nation, which includes the Belt and Road Initiatives and building a cleaner China, this has resulted in a subsequent increase in demand for copper to aid in the construction of these new projects. Furthermore, with the resolution of the U.S.-China trade war on the horizon that potentially positively impacts the demand for copper, China's demand is set to increase from 23.6mnt in 2018 to 29.8mnt by 2027 - at 2.6% annual growth.

With Chile achieving record copper production of 5.83 million tonnes, 6% more than 2017 numbers, Chile has increased its market share to 27.7% of global production in 2018 from 26.7% in 2017. Furthermore, with expansion projects expected at Escondida, Codelco and Spence as well as at KGHM's Sierra Gorda operation, Chile's production is set to grow even more in the coming years, with copper output expected to exceed 6 million tonnes for the first time in 2019 and continue to rise by about 30% over the next 10 years, according to the country's state copper agency, Cochilco.

Fulfilling Political Promises

With President Sebastián Piñera beginning the second year of his four-year term, signs of waning government support are starting to show after initial high approval ratings. This is largely attributed to the fact that the economic and social promises the Piñera government campaigned on have not been showing

results, making 2019 a crucial year for the government to present concrete results. These promises include tax, pension and migration reform as well as the fostering of relationships with different countries.

Through the tax reform, the Piñera government aims to “modernize” Chile’s revenue system and stimulate investment by local and foreign companies by returning Chile to the single integrated corporate tax system, increase expensing for investments in capital assets, implementing rules regarding taxation of the digital economy as well as make changes to international tax provisions. The pension reform aims to improve the country’s pension system that has failed to provide decent pensions to many Chileans upon retirement by increase pension contributions by employers, introduce competition to the pension provider system in an effort to reduce fees, and cover those whose private pensions are insufficient. However, with the ruling CV coalition holds 72 of 155 seats in the Chamber of Deputies (the lower house of Congress) and 19 of 43 in the Senate (the upper house), reforms will be in for a long-haul approval process and are likely subject to changes due to this lack of majority. Notwithstanding, we take reference from the success story of migration reforms in 2018 that not only helped change Chile’s outdated immigration system but also guarantee safe, orderly, and regular immigration. This measure garnered strong public support and proved to be a legislative triumph.

Amid substantial work on the structural reform front, Chile under Mr. Piñera also fostered stronger and deeper commercial relationships, particularly with regional partners and Asia-Pacific economies, to aid its slowing economy via increased investment and export growth. Chile recently deepened its ties with Mercosur (the Southern Cone customs union, comprising Argentina, Brazil, Paraguay and Uruguay) on 24th March 2019 through the approval of the Agreement of Economic Complementation, promoting the exchange of goods, services and investments as well as improving connectivity through eliminating roaming. Chile also signed a new trade continuity agreement with the UK on 31st January 2019 that will see British businesses and consumers benefiting from preferential trading agreements with Chile with post Brexit in mind. A free-trade agreement (FTA) signed with Brazil that scraps red tape and tariffs also looks to boost regional integration between the two countries. Furthermore, Chile signed a cooperation agreement with China, its largest trade partner on 4th November 2018 on China’s Belt and Road Initiative as well as numerous customs and trade agreements.

FX Trade Idea: Short USDCLP

With U.S. economic growth expected to decelerate from current levels, the likely pause in U.S. interest rate hikes by the dovish Fed coupled by a rebound in copper prices and dissipating concerns over China’s growth and trade tensions, we foresee the USD depreciating against the CLP.



Figure 35: USDCLP Daily Chart (Source: Tradingview.com)

Entry: 673.25
Take Profit: 654.3
Stop Loss: 697.39

After violating the support line in early November 2018, the currency pair forms a head and shoulder, indicating a reversal towards a bearish trend. We will be looking to open the trade, shorting the currency pair at 673.25, where it meets both the new resistance as well as the Fibonacci 0.786 level. At the same time, the RSI with a period of 10 is also showing that the currency pair is overheating, indicating a potential reversal in trend. Our take profit will be at 654.30, where it meets the Fibonacci 0.618 level, and that area has shown structure earlier in February 2019. Our stop loss will be at 697.39, where it has shown very strong resistance previously.

One key risk to consider is the uncertainty regarding the U.S.-China Trade war. While the resolution is starting to look more likely, the unpredictability of the Trump administration, as well as issues regarding intellectual property, continue to be an area of contention between the two countries serves as a potential risk that needs to be closely monitored by investors.

ETF Trade Idea: Long iShares MSCI Chile ETF

iShares MSCI Chile ETF (ECH) is an exchange-traded fund incorporated in the U.S. The ETF seeks investment results that correspond to the MSCI Chile IMI 25/50 Index. Utilities at 22.38%, Financial services at 20.33% and Consumer Cyclical at 15.22% make up for the 3 largest industries. The fund's top 3 holdings are SACI Falabella 8.27%, Empresas COPEC SA 7.85% and Enel Americas SA 7.72%. As of 24th April 2019, it's Year to Date (YTD) return is 7.87%. The expense ratio of 0.59% is overall in line with similar exchange-traded funds in the same category, notably iShares MSCI Brazil ETF.

Most firms in the fund look to benefit from continued dynamic economic growth through 2019 as a result of low inflation rates, low interest rates and the stability of the Chilean economy. Therefore, we are bullish on Chilean equities and propose bucking the trend to long the ECH.

josurfff published on TradingView.com, April 25, 2019 07:02:06 UTC
 BATS:ECH, 1D 43.02 ▼ -0.59 (-1.35%) O:43.40 H:43.66 L:42.85 C:43.02



Created with TradingView

Figure 36: iShares MSCI Chile ETF Daily Chart (Source: Tradingview.com)

Entry: 43.02

Take Profit: 46.75

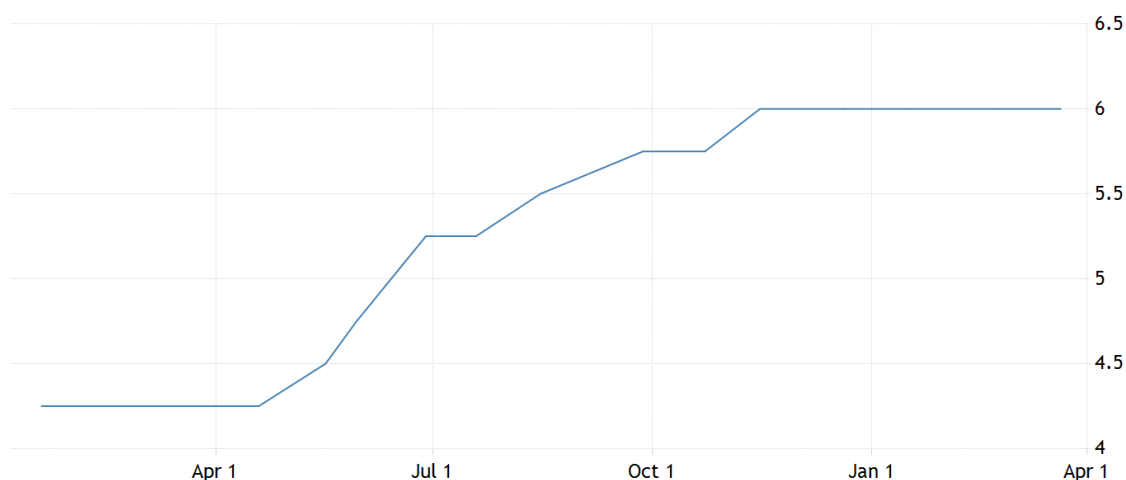
Stop Loss: 40.68

The ECH looks like a strong buy at the time of writing, as it is testing the support line (red line). It does seem like it is in a period of consolidation following a rounded top that was formed. We are looking to enter the trade now, taking up a long position. Our take profit level will be at 46.75, as indicated by the Fibonacci 0.382 level. It does seem that the level has provided some form of resistance in September 2018. The stop loss we are looking at will be at 40.68, where it would mean that the current support line has been violated, and the ETF will likely begin a bear run.

Investors should, however, monitor developments in ongoing reform legislation including possible cuts to the corporate tax rate and a pending pension legislation that could provide upside to government fiscal position. The white elephant in the room will continue to be questions regarding global growth and its importance to commodity prices particularly copper. An extended slowdown in China if the trade war drags on could potentially lower copper prices, representing the main risk to Chile as emerging market risk sentiment would suffer.

INDONESIA

U.S. Slows Down Rate Hikes



SOURCE: TRADINGECONOMICS.COM | BANK INDONESIA

Figure 37: Interest Rate (Source: TradingEconomics.com)

The U.S. was expected to increase interest rates twice this year, and we could expect Bank Indonesia to be less aggressive in increasing interest rates too. This is not very accurate. Previously, it was believed that the U.S. inflation rate would remain at a desirable rate of 2% as a result of low unemployment rate. Hence, the Fed would still have room for more interest rate hikes. However, the latest data from March this year shows that the current inflation rate stands at 1.9% year on year. Coupled with other factors such as slower growth in China and weak manufacturing data from Europe, this would only weaken U.S. growth prospects this year (2.5% vs 3.1% last year), leaving limited scope for the Fed to increase interest rates. Consequently, the Fed has kept interest rates steady at 2.5% since December 2018 and is expected to remain so for the rest of 2019.

Indonesia's interest rate policy is driven more by currency stability instead of domestic growth and is largely affected by the Fed's interest rate policy. Given that the Fed is no longer hawkish and that the Indonesian rupiah is having a bullish rally against the U.S. dollar since November 2018 (accurately forecasted in the previous report), Bank Indonesia no longer had a reason to increase interest rates and thus decided to keep it at 6%.

Current President Joko Widodo Wins the Election

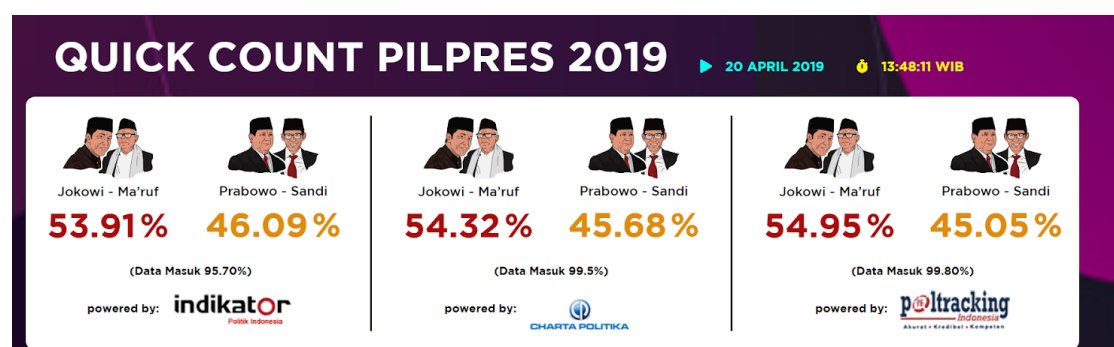


Figure 38: Quick Count Results (Source: bisnis.com)

Indonesia just had its general election on Wednesday, 17th April 2019. Although the official outcome will only be known one month later, quick counts done by various independent polling companies indicate that

Mr. Widodo has won the election with around 53.91%-54.95% of total votes. Historical data suggests that the numbers given by these polling companies are accurate and it is thus safe to assume that the official result will produce the same winner.

Prior to the election, the opposing candidate hinted that he would adopt protectionist measures such as limiting imports and certain trade deals should he get elected as the president. Such a policy would potentially result in slower economic growth in the future, similar to what happened to the U.S. and China last year.

Past election cases suggest that the event could contribute to annual economic growth by anywhere between 0.1%-0.5%. We believe that the effect of this year's elections would be at the lower end of the range. This is because this time, both the parliamentary and presidential elections were held simultaneously, and also because the election only lasted 1 round. Thus, there would be relatively less spending incurred by the government and participating candidates. The government itself allocated US\$1.8 billion for the election, while one of the vice president candidates admitted that he has spent over US\$100 million for campaigning purposes.

Markets seemed to react positively to the election outcome. Jakarta Composite Index rose by 0.4% and the rupiah strengthened by 0.3% a day after the election. Without a change in leadership, there will not be any drastic changes in the policies and consequently less risk as we are more certain of what the future plans would be.

In his second stint as a president, Mr. Widodo is expected to continue his infrastructure development programme, while focusing more on human capital development at the same time. His main objective would be to increase productivity in the manufacturing and service sectors as previously Indonesia had one of the most expensive logistics costs in the world.

Indonesia - Australia Comprehensive Economic Partnership Agreement (IA - CEPA)

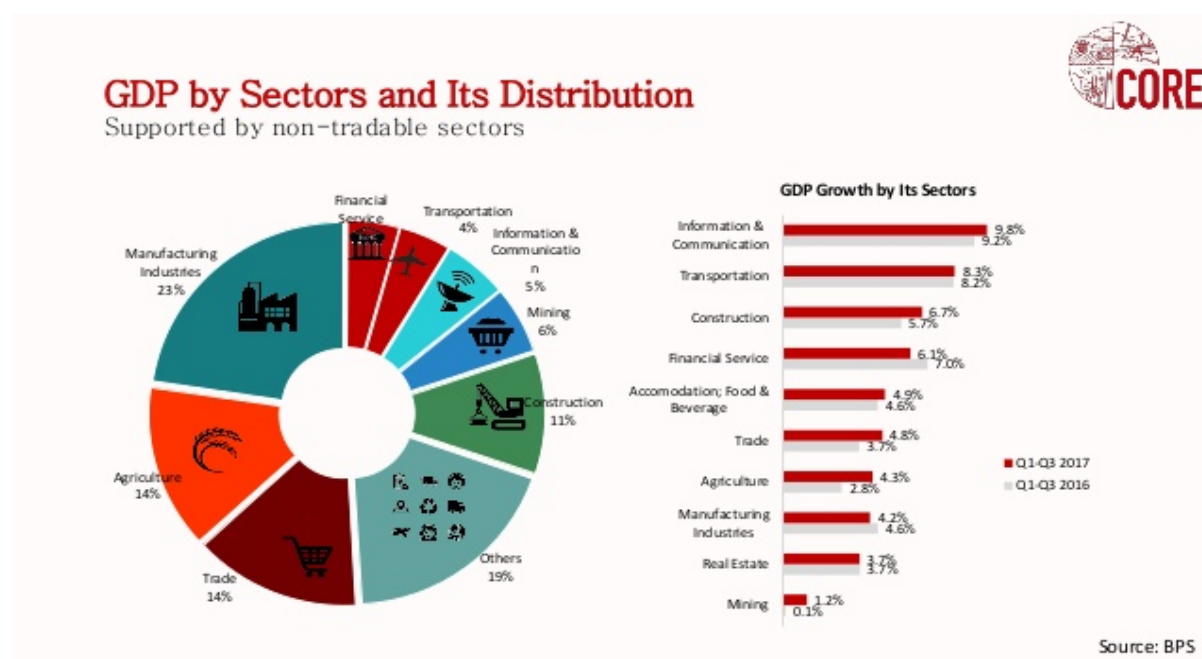


Figure 39: Economy by Sector (Source: BPS)

Indonesia and Australia signed a trade deal on 4th March 2019. The deal will reduce import tariffs on Indonesian goods to 0%, including tariffs on hybrid cars, furniture, textiles, tires, communication devices, machinery and pharmaceutical products. It is estimated that the deal will allow the manufacturing sector to grow by 5.4% this year. Given that the manufacturing sector is the biggest GDP contributor (23% of overall GDP), the rise in this sector may support economic growth substantially in the long run.

In terms of trade volume between the two countries, reports suggest that the deal would increase annual trade volume by 17%-19%. However, as this is a two-way deal, we believe that the deal would have a limited effect on improving Indonesia's current account deficit, which stood at US\$31.1 billion or 2.98% of GDP last year. The limited effect is supported by the fact that Australia is only ranked 17th in terms of export destination.

The deal will also give better market access to Indonesia. The annual quota for work visas will be increased from 1000 to 4100. Indonesians will also be granted 200 internship visas in various sectors, including education, tourism, infrastructure development, health and financial services, and information technology. This will promote greater transfer of knowledge and increase productivity, which align with Mr. Widodo's mission to develop human capital in his second term as president.

Another benefit that Indonesia may enjoy from the deal is that the country's net exports is now less exposed to the risks arising from uncertainties caused by the ongoing trade war between the U.S. and China as well as the global economic slowdown. With a more diversified export destinations, Indonesia's net export will be less affected by any unexpected protectionism moves.

Interest Rate Remains at 6%. Economic Growth to Slightly Miss the 5.2% Target

We believe that the Central Bank will not decrease interest rates to keep the rupiah stable in the near future and considering that the current inflation rate and economic growth are still close to the targeted ranges. A premature fall in interest rates will only decrease short term bond yield, which may cause massive capital outflow and weaken the rupiah given that other countries have not started decreasing their interest rates. It is more likely that Bank Indonesia will start decreasing interest rates during the second half of the year if they decide to do so. Otherwise, we believe that interest rates will remain at 6% for the rest of 2019.

Net exports are likely to suffer due to the economic slowdown faced by many countries worldwide. As such, net exports are likely to suffer this year and Indonesia will have to rely on domestic consumptions and investments to drive economic growth. However, with high interest rates, we believe it will be difficult for Indonesia to hit its economic growth target of 5.2% this year. Despite this, Bank Indonesia is trying to mitigate the negative effect of high interest rates by ensuring commercial banks have sufficient liquidity to extend loans to support small and medium businesses' investment activities as well as household consumption. Term repo will be done more regularly, up to three times a week with a fixed schedule that runs until September 2019. Previously, the term repo is only done when needed. Hence, banks have a readily available source of short-term financing now and are more able to extend credits. To further increase credit growth, Bank Indonesia has also increased the macroprudential intermediation ratio from 80%-90% to 84%-94%. These changes in policy aim to increase annual credit growth to 12% to support domestic consumptions and investments.

Although the election has a positive effect on government and private spending, we expect a negative effect on investment due to uncertainties to be more significant. Moreover, the impact from IA - CEPA is more of a long term one and we believe there would be no substantial effect on this year's economic growth. As such, we conclude that this year's economic growth forecast is at 5%-5.1%, missing the 5.2% target by 0.1%-0.2%.

Investors Wait and See Following Uncertainty Surrounding Formation of the New Cabinet

Before election results are out and the new cabinet is announced, investors and other stakeholders will usually withhold investment plans. This is especially true in Indonesia's strategic industries such as mining, oil & gas, and agriculture. These industries are highly affected by government policies such as export tariffs, mining permits and environmental regulations. If the chosen ministers are considered to be "pro-business", investors will be more confident to take up investments since they are more certain of the return.

However, the formation of a new cabinet will only take place on October 2019, and until then we expect many investors to wait and see. This would result in a lower investment level. For instance, investment in

the oil and gas industry was US\$2.22 billion in Q1 2019 - only 15% of this year's target. With the continuing wait and see attitude, we can expect slower annual growth in investment, thus reaching the economic growth target of 5.2% may be proven to be difficult.

FX Trade Idea: Short USDIDR



Figure 40: USDIDR Daily Chart (Source: Tradingview.com)

USDIDR is having a bearish trend since late October 2018. Indonesia's economic data such as the inflation rate has been constantly beating market expectations since January 2019, fuelling positive sentiment. The U.S. and China have also made significant progress in their trade talk and thus risk is reduced. Coupled with the Fed's decision to pause interest rate hikes and unsurprising Indonesian election results, there has been a shift of capital from the U.S. to Indonesia.

Indonesia's 10-year bond yield has been falling since late 2018, which is a good indication of investors' optimism towards Indonesia's economic outlook. Moreover, judging from The Fed's statements in the last few meetings, it is safe to assume that the Fed is getting more and more dovish. This is further supported by the fact that U.S. core inflation has been falling and 2019 & 2020 economic growth forecasts are cut.

The U.S. and China are also expected to reach an agreement soon, with the next meeting falling on 30th April 2019. However, even if an agreement is reached, it is reported that the U.S. will not lift the existing US\$250 billion tariff immediately to ensure that China complies with the agreement. Moreover, we believe that the issue regarding intellectual property matters would be hard to resolve. Nonetheless, any form of significant progress or agreement would be a positive sentiment to support USDIDR bearish trend.

Entry: Current price

Take profit: 13900

Stop loss: 14200

The price level of this currency pair has been moving nicely within the trend lines for the past five months. Furthermore, there was a death cross formed by 20-day and 50-day moving averages which indicates that the bearish trend will continue. With the current price being close to the resistance line, it is a good time to enter. The nearest profit taking level would be between 13900 to 13970 which is the nearest support.

However, we must take note that stochastic lines recently left the oversold area with a golden cross, which could indicate a trend reversal. Thus, if the price move beyond the resistance line, that is when the price reach 14200, stop loss should be applied.

ETF Trade Idea: Long Premier ETF

Ticker: R-LQ45X: IJ

Listed on: Indonesia Stock Exchange

YTD return: 0.77%

The Reksa Dana Premier ETF LQ-45 is an open-ended exchange traded fund registered in Indonesia. Its goal is to produce results closely related to the LQ45 index - an index consisting of Indonesia's 45 most liquid stocks. It manages approximately US\$81 million worth of assets and the fund invests at least 80% of it on the LQ45 stocks and at most 20% on money-market instruments.



Figure 41: R-LQ45X Daily Chart (Source: Investing.com)

Entry: Current price


Take profit: 1090

Stop loss: 1020

As can be seen from the chart above, LQ45X is consolidating between 1035-1092. During consolidation, indicators like moving averages and stochastic are giving mixed signals and thus they are rather unreliable. The latest price is close to the support line, making it a good entry point. Profit-taking can be done when the price reaches the resistance line at about 1090. If it successfully breaks out from the resistance, it will test the next resistance at 1165. Stop-loss should be applied if the price goes below 1020.

EU Is Considering Banning Indonesian Crude Palm Oil

Through the Delegated Regulation Supplementing Directive of The EU Renewable Energy Directive II (RED II), the European Union has decided to stop using non-sustainable ingredients to make biodiesel. Crude palm oil (CPO) is seen as unsustainable due to the issue of massive deforestation and thus The European Union is considering the idea of banning Indonesian CPO. This is a serious threat to Indonesia's economy. Firstly, CPO is Indonesia's second-biggest export commodities, making up 9.6% of total export values. Furthermore, Europe is the second biggest CPO export destination. 4.78 million tonnes of CPO worth US\$2.67 billion were exported to Europe last year and 60% of it was for biofuel ingredient.



The CPO industry employs 20 million Indonesians, which is almost 10% of the total population. A sudden drastic fall in demand for CPO has the potential to shake the economy through a rise in unemployment and a fall in purchasing power, which will slow down economic growth.

Indonesia is currently preparing to bring this issue to the WTO to solve it through diplomacy. Retaliation in the form of import tariffs on European products like cars, wine and aircrafts is not out of the picture as well. This could result in an economic slowdown for both parties like what happened with China and the U.S. last year.

Possibility of U.S.-EU Trade War

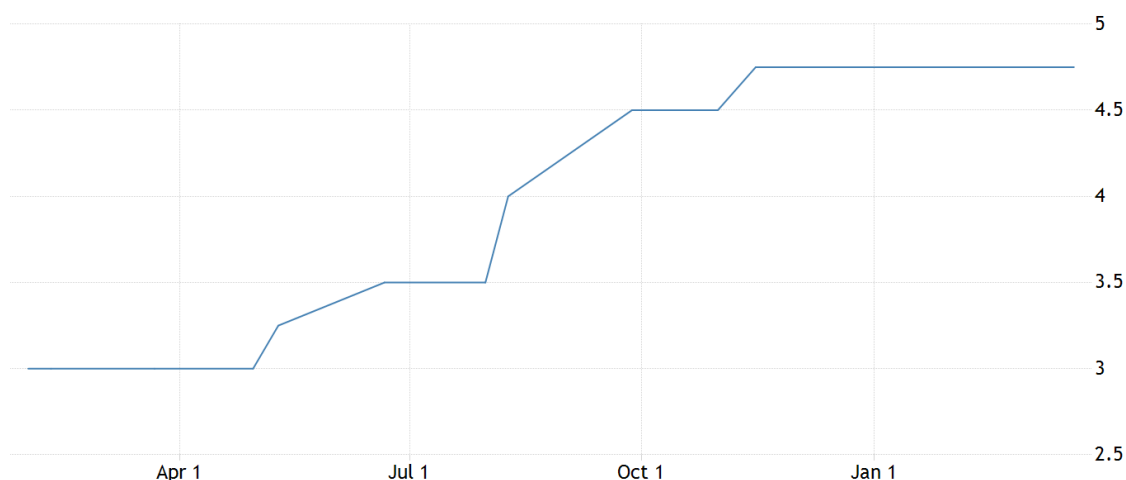
After China, it seems like U.S. President Donald Trump is turning his attention to the EU. The dispute between the two economic giants stems from the never-ending battle between Boeing and Airbus. Trump, through his tweets, accused EU of giving too much subsidies to Airbus, which gave it an unfair advantage at the expense of Boeing in terms of market share. He was then planning to impose a US\$11 billion tariffs on EU products. The situation escalated even more when Trump expressed his unhappiness following a 27% drop in Harley Davidson's net profit due to a 31% import tariff imposed on their products.

With Brexit remains unresolved, the EU is still facing the risk of no-deal Brexit, which means there would be much more restrictions on trade between the EU and UK. The U.S. and the UK are the EU's main trading partners, and thus deteriorating trade conditions with the two countries could cause even more slowdown in the EU's economy, not to mention that their latest manufacturing data is already weak.

We believe that if the situation gets worse, there will be a negative impact on Indonesia's economy though not severe. EU is outside Indonesia's top five export destinations; hence net exports will not be affected significantly. However, the effect on Indonesian rupiah could be quite serious. Another trade war will only re-ignite uncertainties and thus recover U.S. dollar's status as a safe haven. Hence, we can expect to see a similar effect on Indonesian rupiah, like what happened in 2018, in which there was a massive capital flow from emerging market countries to the U.S.

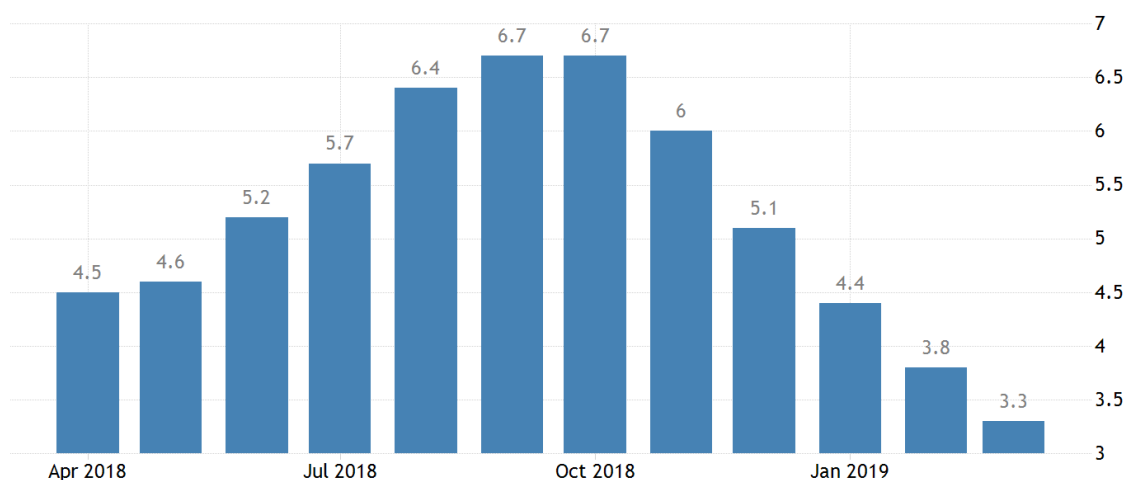
PHILIPPINES

BSP Slows Down Rate Hikes



SOURCE: TRADINGECONOMICS.COM | BANGKO SENTRAL NG PILIPINAS

Figure 42: Interest Rate (Source: TradingEconomics.com)



SOURCE: TRADINGECONOMICS.COM | PHILIPPINE STATISTICS AUTHORITY

Figure 43: Inflation Rate Year on Year (Source: TradingEconomics.com)

It was forecasted that Bangko Sentral Ng Pilipinas (BSP) would continue its interest rate hike at least once every quarter this year in order to curb high inflation rate, which stood at 5.1% percent last year and was way above the desired level of 4%. This was based on the belief that the inflation rate will not fall so quickly. However, data shows that year on year inflation rate has been falling continuously since reaching its peak in October 2018. The latest update that was published in early April showed that current year on year interest level stands at 3.3%, beating market expectation of 3.5%. Prices fell across most commodity groups, in particular food and non-alcoholic beverages. The main drivers include lower oil prices compared to last year, strengthening peso and the recently signed Rice Tariffication Law. As such, further interest rate hike was not deemed necessary and BSP decided to keep the interest rate at 4.75% since December 2018.

President Duterte Signed Rice Tariffication Law

President Rodrigo Duterte signed the Rice Tariffication Law on 14th February 2019. The law lifted import tariffs that were previously imposed on imported rice. There was a 35% tariff imposed on rice from South

East Asian Countries and a 50% tariff for the rest of the world. Without tariff, cheaper rice from Thailand and Vietnam flooded the local market, resulting in a cheaper price for rice. The move was made to cool down inflationary pressure and it was successful, with current year on year inflation at 3.3%.

However, we believe that such a measure has only short-term effect with a number of possible drawbacks. Without tariff, local rice farmers are now directly competing with cheaper imported rice. Fall in market price will result in a number of farmers exiting the industry which will reduce the total local rice output. There are several businesses in other industries that could be affected by this situation. First is the rice milling industry, valued at around 300 billion pesos and employs 55000 people. These rice millers will not operate with a drop-in rice supply. Other businesses use rice by-products as raw materials. For example, rice bran is used to produce animal feeds and “binlid” is widely used in breweries. Lastly, rice hull is a fuel for biomass furnaces, which is a common source of electricity in The Philippines. The domino effect of this law can go as far as a rise in electricity prices in the country.

Economic Growth to Hit 6.4% Target, BSP Will Increase Liquidity to Make Up for High Interest Rate

With the easing inflation rate, President Duterte has more room to continue his “build, build, build” programme. This year, the government is set to spend 910 billion pesos (US\$17.6 billion) on infrastructure. If the inflation rate remains in check, the figure will double by 2022. The ambitious programme, which consists of 75 flagship projects, is halfway done. 44 of them are in various stages of implementation, 24 are under pre-investment study and the last 7 are under review. The massive government spending will be one of the key drivers to boost economic growth, which, at 6.2%, fell to its lowest in three years in 2018. The current economic growth forecast is at 6.4% for 2019 and 2020 with domestic consumption being the other key driver.

Meanwhile, judging from its latest statement, we believe that BSP will hold the interest rate at 4.75% for some time. With the inflation rate still at the upper bound of the targeted 2%-4% range and uncertainty surrounding the Fed’s next move, BSP will not be tempted to decrease interest rate any time soon. To support economic growth, ensuring sufficient liquidity is more prioritized than interest rate cut because the effect of the latter would be limited without the former. BSP is currently watching liquidity closely, especially with retail bond offering happening soon, which may tighten liquidity. The interest rate forecast for 2019 has been cut to 3.07% from 3.18% previously, and when the actual inflation rate approaches that figure, BSP will start executing plans to increase liquidity. One of them is cutting the reverse repo rate by 300 basis points to 15%, with the first 100 basis points cut likely to happen during the second quarter of 2019. The fall in reverse repo rate will make banks less incentivized to park their cash at BSP, thus increasing the level of money supply and consequently liquidity.

Philippines and South Korea are Pursuing a Free Trade Agreement

The Philippines and South Korea have agreed to work on a free trade agreement to improve economic relations between the two countries. Trade secretary Mr. Ramon Lopez said on 17th April 2019 that the agreement will be finalised by November 2019 during the Republic of Korea - ASEAN Commemorative Summit.

Although the details are still unknown, we believe that the deal would generate a significant effect on The Philippines’ economy. Trade volume between the two countries was US\$13.7 billion last year, making South Korea the fifth largest trading partner. The focus of this agreement would be to open greater market access for the Philippines’ agricultural products. Coincidentally, fruits and nuts are their fourth-largest exports, contributing US\$2.1 billion or 3.1% to total exports last year.

The agreement would also allow better innovations and more investments in electric vehicles and electronics, which is the Philippines’ largest exports (US\$32.9 billion or 48.7% of total exports last year). Overall, we expect the deal to be very beneficial for the Philippines as it would create a more conducive and foreseeable environment for investments in the long run. The removal of tariffs will also make the country a more profitable production base, which consequently will boost investments.

FX Trade Idea: Long USDPHP



Figure 44: USDPHP daily chart (Source: Tradingview.com)

USDPHP is having a bearish trend for the past six months. From the U.S. dollar side, the Fed's neutral-dovish stance and improvement on U.S.-China trade war that have been explained above will make investors less likely to put their capital on the U.S. market. The Philippines' economy, in particular in terms of inflation rate and economic growth prospect, is also improving compared to last year and has a positive outlook for the year ahead. Optimism will rise even more as progress is made on the free trade agreement between the country and South Korea.

Despite the positive outlook on the Philippines' economy, its positive effect may be slightly nullified by the fact that The Philippines is having a midterm election next month. Investors would generally wait and see until the results are out, hence the demand for peso will only increase by a limited extent.

Entry: 52.7

Take profit: 51.584

Stop loss: 53

Looking at the graph, USDPHP is moving nicely within the trend lines. The death cross that was recently formed by 20-day and 50-day moving average supports the bearish trend. Although there was a golden cross and stochastic lines left the oversold area, it was merely a technical rebound as the price touched the support line. Overall, technical analysis shows that USDPHP is still having a bearish trend. To enter, it is best to wait until the price touches the resistance line at around 52.7. Within the next few months, USDPHP will test the 51.584 support level, which can also be the exit point. Stop-loss should be done if the price breaks from the trend lines at 53.

Oil on Bullish Trend, Posing Risk on Inflation Rate and Peso



Figure 45: Oil Price Daily Chart (Source: Tradingview.com)

Oil is having a bullish rally after reaching its lowest point at the end of last year. The increase in price was mainly due to OPEC's decision to lower supply. Recently, the U.S. has decided to end sanction waivers on Iran. With this decision, all countries who purchase oil from Iran will be affected by the sanctions. Given Iran's status as the sixth biggest oil producer in the world, this decision effectively means a significant fall in world oil supply. The U.S. is also going hard on Venezuela. U.S. President Donald Trump seems to be trying to mitigate the effect of his own decision by repeatedly asking Saudi Arabia to increase oil production, although there has been no response since then. The U.S. is also reported to give military support to Libya's general Mr. Khalifa Haftar and his Libyan National Army (LNA) in a bid to secure control over Libya's oil terminals - another move to keep oil supply in check. However, with these moves yet to bear fruit, fundamentally oil price is expected to continue its bullish rally.

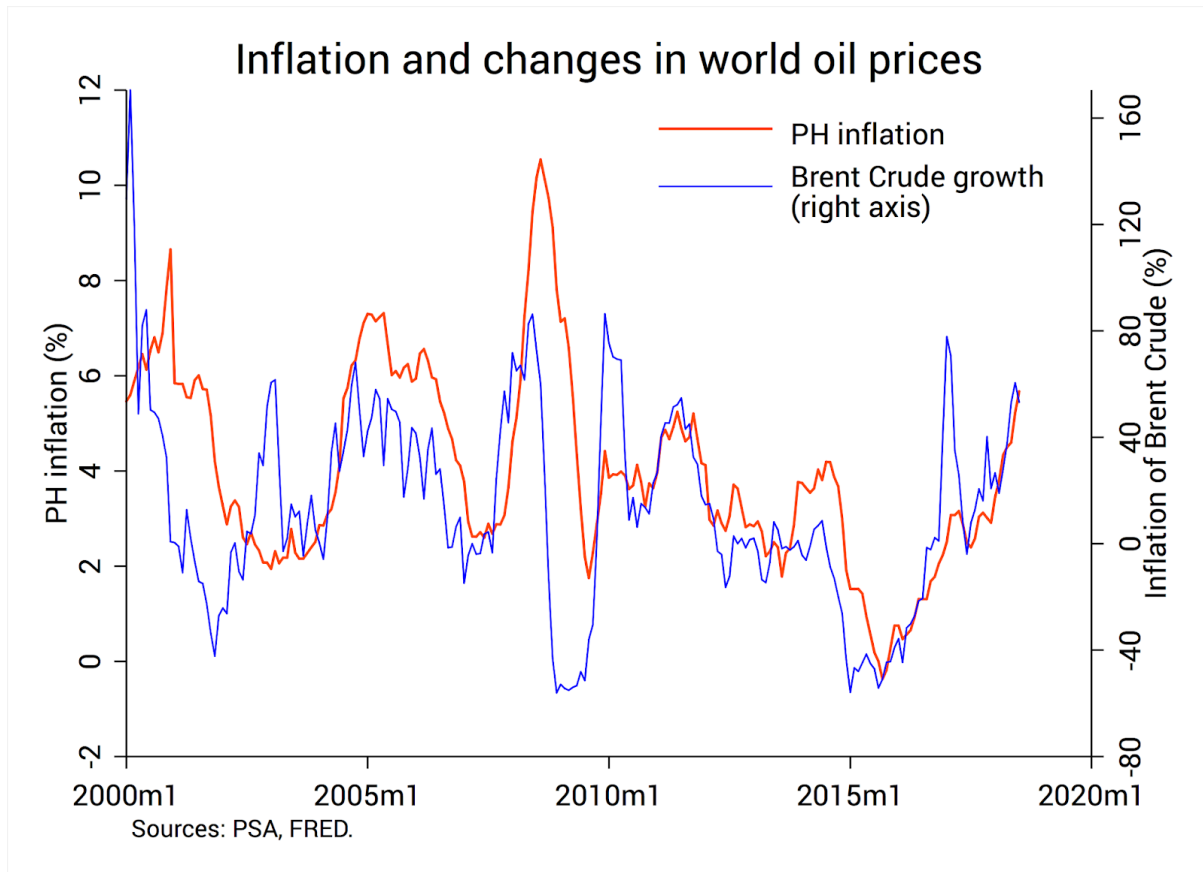


Figure 46: High Correlation Between Oil Price and Philippines Inflation Rate (Source: rappler.com)

As a non-oil producing country, crude oil and its derivatives are the Philippines' second-largest imports worth US\$2.3 billion last year. As such, the inflation rate is highly sensitive to oil prices. The current low inflation rate that the Philippines is enjoying right now may not last long if oil's bullish trend continues. It is quite possible that it bounces back to 4%-4.5% by the end of 2019. Furthermore, it may cut the economic growth forecast by 0.4% to 6% this year since high inflation will limit the government's ability to continue its infrastructure development programme.

BRAZIL

Interest Rates Continues to Hold at All-Time Low

Previously, we stated that the Central Bank of Brazil is unlikely to adjust its interest rates due to the political uncertainty and also slower than expected economic growth and inflation rate. We believed that the Central Bank will likely observe the progress of a Bolsonaro administration before making adjustments.

Our forecast has played out correctly as the Central Bank of Brazil has elected to hold interest rates steady at 6.5% in both their February and March meetings. Despite the turnover of stewardship from Ilan Goldfajn to Roberto Campos Neto, the Central Bank has maintained its slightly dovish outlook due to a lowered inflation risk and growth slowing down more than anticipated. Minutes from Copom's meetings have reaffirmed its patient approach and interest rate policy will be largely driven by the progress of the pension reforms in the coming months.

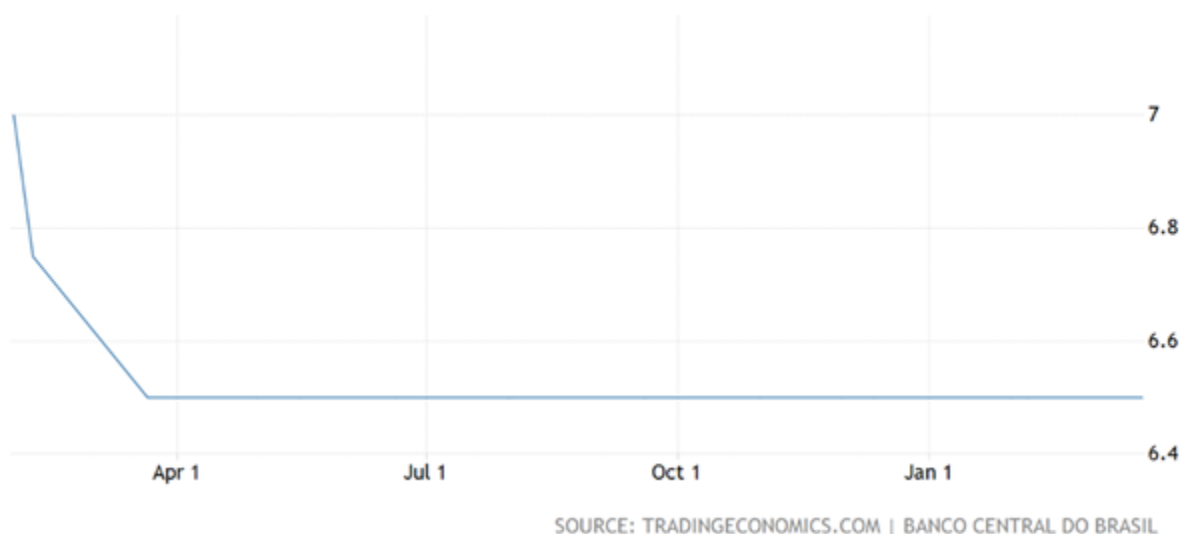


Figure 47: Constant interest rate at 6.5% (Source: Tradingeconomics.com)

Sluggish Economic Growth as Forecasted


We predicted that President Bolsonaro will face immense difficulty in pushing through his ambitious pension reforms due to his lack of political acumen and congressional support. We believe that a delay in the country fixing its problematic pension scheme will widen government debt further, affecting its ability to roll out government spending initiatives and also drive away foreign investors. We believed that these factors will lead to lowering forecasts of growth rate.

Our view played outright as analysts cut 2019 growth forecast to 1.71% from the previously forecasted 1.95%, and down from the 3% a year ago. The challenging political landscape and continuous uncertainty surrounding global growth has seen consumer and business spending to remain slow-moving. Brazilian economic activity index IBC-BR falls in February by 0.73% from January, the most in 9 months. Brazil's unemployment rate also rose in February for the second straight month to 12.4%. This signals negatively for investors as the unemployment rate has been mostly falling for the past 2 years after the recession.

Pension Reform Proposal Finally Passes First Legislative Test

After two months of contentious debate, Brazilian President Jair Bolsonaro's proposal to overhaul the country's pension scheme finally passes its first legislative test. On 23rd April 2019, a committee of the lower house of Congress delivers a substantial 48-to-18 vote agreeing to the bill.

While this may seem like a victory for President Bolsonaro and the first step forward for the economy, the delay underlines the bureaucratic nature of the political system and the even thornier path ahead for the



final approval. The bill, proposed in February, has lingered for months because oppositions kept delaying the vote. Furthermore, opposition lawmakers have already promised to go to the Supreme Court to try to reverse the committee's approval. Meanwhile, the bill will now go to a select committee that will take more months to prepare the bill for a floor vote in the House, before heading to the Senate for final approval. This drawn-out process highlights the structural issues in the political landscape in Brazil.

Global Powerhouses Ceasing Investments in Brazil Facilities

Signals of investors' pessimism has begun to mount following two multinational companies' withdrawal from Brazil. In February, global carmaker Ford's South America president announced that he had decided to shutter the Brazil-based facility as regulatory expenses left Ford unable to make a profit. Following suit, Swiss pharmaceutical company, Roche, announced its decision to shut down its manufacturing plants at its Rio de Janeiro unit in Brazil. Foreign investors are growing impatient with President Bolsonaro's administration and see the delay of the pension reform as an indication of the administration's inability to improve the business climate. The withdrawal of foreign investments adds to Brazil's economic woes and further exacerbates the weak growth and unemployment figures.

Brazil's Economy to Remain in Limbo and Experience Sluggish Growth.

We believe that the economy of Brazil will be heavily tied to the fate of the pension reform within the next two years. Brazil's fiscal imbalance is the most fragile aspect of the economy, and unfortunately, we believe that the much-needed reprieve will not be arriving anytime soon.

The failure to push through the proposal will lead to the further swelling of Brazil's debt past 80% of GDP. This will inhibit the government's ability to push forward a proposed \$2.5 billion state rescue plan and other government spending initiatives to boost the economy. In addition, diluted pension reform will also lead to a further decrease in the amount of foreign investments in Brazil as investors lose faith in an economy marred in bureaucracy, tax complexity, political uncertainty and low labour productivity. Therefore, we believe that the economy will remain in limbo for a few more months, with sluggish economic growth and moderate inflation levels.

Interest Rates to Hold for the Foreseeable Future

With the aforementioned sluggish economic growth and within target inflation levels, the Copom is likely to be in no rush to raise interest rates. Doubts about the progress of the pension reform and a precarious global outlook means that the Central Bank will be patiently assessing the economy and a rate hitch will not happen anytime soon. Compared to the minutes of the Copom meetings, the pension reforms play a bigger role in the future interest rate expectations. In addition, interest rate futures contracts imply that the market believes the benchmark Selic rate will stay at 6.5% for at least another year or even experience a cut.

Progress of Pension Reform Proposal at the House's Floor and Senate

All eyes will be on the progress of the pension reform proposal as it makes its way to the floor of the House and the Senate. We believe that the subsequent stages will take significantly more time due to the oppositions' efforts. As the proposal includes significant changes to Brazil's constitution, the bill has to be passed by a three-fifths majority in both chambers to obtain its final approval.

With a weak economy remaining in limbo, President Bolsonaro's government has ebbing support from the public and this, in turn, affects their ability to pressurise lawmakers. President Bolsonaro's approval ratings are the lowest ever recorded by a first-time president, standing at 35% in April 2019 compared to 64% in December 2018. Brazil is at risk of dropping into a vicious cycle whereby the longer the reform takes, the harder it is to be approved, and the slower any economic recovery will be.

FX Trade Idea: Long USDBRL



Figure 48: USDBRL daily chart (Source: Tradingview.com)

Entry: 3.9228

Take Profit: 4.1896

Stop Loss: 3.7894

Financial institutions have lowered Brazil's economic growth forecast for the eighth consecutive time this year. Along with, key industries such as steel has cut back output growth projections from 2.9% to 2.2%. The cornerstone of the Bolsonaro administration and the outlook of Brazil's economy lies with pension reform. The scale, scope and speed at which President Bolsonaro is able to achieve with his proposal will largely determine the Brazilian real in the next year. Given the complex political landscape that the proposal has to navigate through, we believe that any reform will be watered down and miss the market's expectations. Therefore, we believe that the Brazilian real will continue its bearish trend.

Comparing with our technical analysis, we can see that the price level of the currency pair has been moving steadily above the MA50 line. Furthermore, we believe that a golden cross will be forming with the 50-day moving average crossing above the 200-day moving average. This reaffirms our forecast that the bullish trend of USDBRL is here to stay.

The overall analysis supports a bullish outlook; hence we recommend longing the USDBRL currency pair. We recommend waiting for the price level to fall to slightly below the resistance line of 3.9329. Entry point should be taken at **3.9228**. The long term take profit level should be at **4.1896**, with a stop loss at **3.7894** to ensure a risk-reward ratio of 2.

ETF Trade Idea: Short iShares MSCI Brazil ETF

Ticker: EWZ

Listed on NYSE: ARCA

YTD Returns: 7.54%

iShares MSCI Brazil Capped ETF is the largest pure-play Brazilian ETF and tracks the MSCI Brazil 25/50 Index. EWZ invests in mid and large-cap companies in Brazil representing 85% of the Brazilian stock market. The ETF provides investors with comprehensive Brazilian coverage. As of 31st March 2019, the fund has a 3-month return of -6.25%, a 1-year return of 0.82% and a 3-year compounded annual return at 16.80%.



Figure 49: EWZ daily chart (Source: Tradingview.com)

Entry: 41.25
Take Profit: 38.81
Stop Loss: 42.39

Based on our fundamental analysis, we believe that the Bullsonaro wave has ended and the market is now paying for the over-optimism that lasted until February. Since February, the price level has generally been in a downward trend, with prices dropping below the 50-day moving average. The price level has also been moving nicely between trend lines. We recommend an entry point to be taken at **41.25**. The long term take profit level should be at **38.81**, with a stop loss at **42.39** to ensure a risk-reward ratio of 2.14.

One risk to look out for is the inflationary pressure in Brazil. Although minutes from the Copom meeting has stated that the inflationary risks have lowered from 'asymmetrical' to 'symmetrical', recent reports show that Brazil's consumer price inflation in mid-April rose to its highest in two years, led by prices in the transport and food and drinks sectors. This increase will soon put to test a forecast made by the Central Bank's policymakers that inflation will peak in April or May. While inflation is currently still within expected levels, any sustained inflation rises might see the Central Bank shift into a hawkish stance.

Another risk would be the progress of the U.S.-China talks. While the U.S. and China are two of Brazil's biggest import and export partners, international trade accounts for 15% of Brazil's total GDP. 85% of the GDP comes from Brazil's domestic consumption. In conclusion, we believe that the state of Brazil's economy in these 2 years will make or break with the pension reform proposal.

UNITED KINGDOM

May's Plan Voted Down, Down, Down

Since the report was first published, we noted the high chance of a Brexit without a deal and highlighted the possible risks come 29th March 2019. While we missed the mark on the UK crashing out of the EU on 29th March, it appears that our predictions of a deal not being concluded have played out.

Theresa May's hard-fought withdrawal agreement with the EU is currently dead in the water. The first vote in Parliament on 15th January was resoundingly defeated by a margin of 432-202, the largest ever defeat in Parliament in a bill brought forth by a Prime Minister. Alternative paths were put forward, but none received a majority, and the deal was tabled and rejected another two more times on 12th March and 29th March.

The impact on the GBPUSD pair has been mixed, owing to the turmoil present since the referendum. The pound dropped sharply immediately after the 1st vote, but quickly recovered its losses before close, and resumed its upward trend that began the start of the year. However, since a reversal on 25th January, the pound has been generally trading sideways, testing the 50 SMA resistance twice on 14th February and 11th March. We strongly attribute this to continued confusion over the deal. In fact, since the 2nd vote on 12th March when the pound briefly surged to a fresh year high at 1.3381, it has been trending downwards and converging in a descending triangle, having broken past the 50 SMA resistance. Since testing the bottom of the triangle thrice, there was finally a bearish breakout on 18th April. The Bank of England has signalled increased liquidity in an attempt to calm markets and is not expected to increase rates anytime soon. Thus, we look to trade the momentum as the pound continues to look for direction.



Figure 50: GBPUSD Chart (Source: Tradingview.com)

Entry: 1.29

Take Profit: 1.305

Stop Loss: 1.285

Strong Recovery Powers Equities Ahead

However, the FTSE 100 Index tells a somewhat different story as it has continued to reach fresh highs for 2019, since the sharp global sell-off at the end of 2018. The index is currently up 14.2% YTD. It is caught in a strong upward channel, mirroring many other major indexes around the world as fears of a recession

appear overblown, and investors pour back into the market. A golden cross was observed on 5th March, and the RSI has continued to hover around 60 and a brief breakout into overbought territory, signalling the strength of the recovery. Consumer sentiment remains strong, and positive earnings have restored a measure of confidence in the market.

Jake246 published on TradingView.com, April 24, 2019 07:11:20 UTC

TVC:UKX, D 7507.1 ▼ -16.0 (-0.21%) O:7523.1 H:7523.8 L:7505.5 C:7507.1



Created with TradingView

Figure 51: UK 100 Index (Source: Tradingview.com)

Inflation Down Faster Than Expected - but Remain Wary

It was pointed out in the previous report that inflation was one of the issues to keep an eye out for with the UK economy in 2019, but since then, it has continued to ease. A downtrend since the end of 2018 has been stronger than expected, and the latest data from the Consumer Prices Index put out by the ONS states a comfortable 1.9%. This has occurred faster than anticipated, which we felt would only come in 2020. We attribute this to the sharp fall in oil prices, which hit a year low at the end of 2018. As a result, food and transport costs have fallen dramatically, marking a positive temporary supply shock for the UK economy.

This relieves some of the pressure on the Bank of England we highlighted previously, as normalizing rates to combat inflation would jeopardize the fragile recovery of the UK. This dilemma has subsided for the meantime.

Yet, caution remains, as oil prices have begun to recover sharply, recording a rise of 43% YTD. Fuel prices have begun to rise in the UK, which has been offset by continued fall in food prices. While it will take a while for the impact of rising oil prices to work its way through the global economy, we note that inflation rose from 1.8% in January 2019 to 1.9%, and while not strictly a strong reversal, could be a hint that there may no longer be an easing of the kind seen for the most of 2018.

Inflation holds steady

Consumer Prices Index



Source: Office for National Statistics

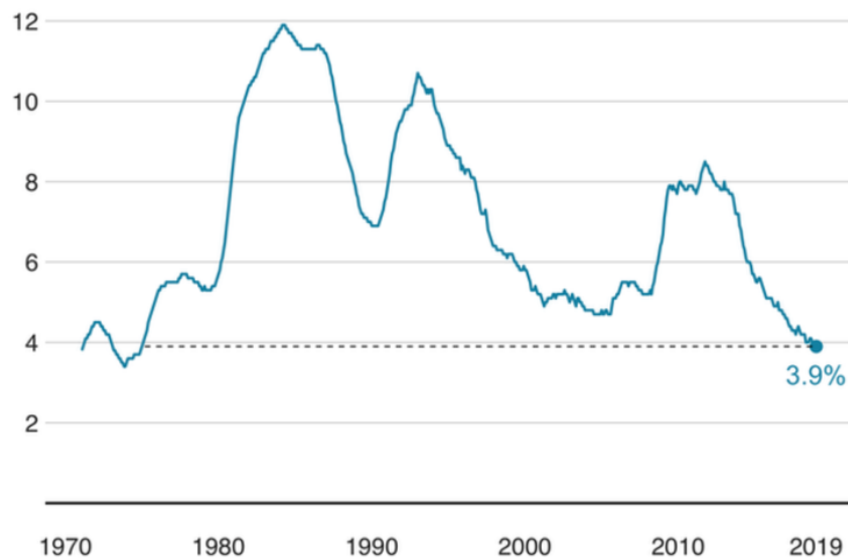
BBC

Figure 52: CPI (Source: Office for National Statistics)

While the UK economy remains hobbled over Brexit, employment has continued to surprise positively. The number of employed workers has remained at a record high of 32.7 million, with an increase in 179,000 in the three months to February. This puts the UK unemployment rate at 3.9%, lower than any time since the end of 1975.

UK unemployment remains low

Percentage of UK population aged 16-64 not in work



Source: Office for National Statistics. Margin of error: $\pm 0.2\%$

BBC

Figure 53: UK Unemployment (Source: Office for National Statistics)

However, with a tightening labour market, real wage still remains far below the levels seen before the crisis, which means workers are worse off now than before in real terms. Average wages are also below the levels from 10 years ago, which means nominal wages still have room to grow, and could pose an inflation threat.

Wage growth has outstripped inflation, putting pressure on the latter. Note that employment is a lagging factor as hiring decisions are made after managers assess changes in demand, and consumer spending does remain strong for now as will be discussed.

Real wage recovery continues

Average weekly wages, adjusted for inflation



Source: Office for National Statistics

BBC

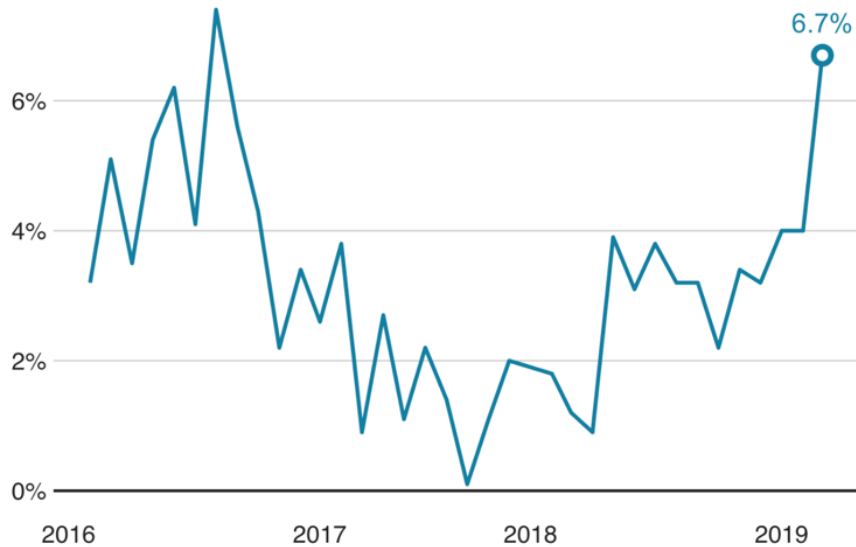
Figure 54: Average Weekly Wages, Inflation Adjusted (Source: Office for National Statistics)

Consumer Backbone of Growth, but Business Investment Down

One of the major drivers of the UK recovery has been a strong retail segment. Despite the turmoil caused by Brexit, consumer spending remains strong, and in fact has averaged 3.8% over the last 3 years. It has grown consistently, and the year-on-year growth hit the highest level at 6.7% since October 2016. Monthly sales increased 1.1%, while economists had been expecting a fall, providing a strong positive boost to sentiment. This has been attributed to milder weather which helped increase clothing sales and could provide a boost to GDP growth on aggregate. However, it remains to be seen if this is simply consumers bringing ahead purchasing decisions in anticipation of the breakaway date, or sustainably powered by real wage growth.

Retail sales

Annual rate of change, seasonally adjusted



Source: Office for National Statistics

BBC

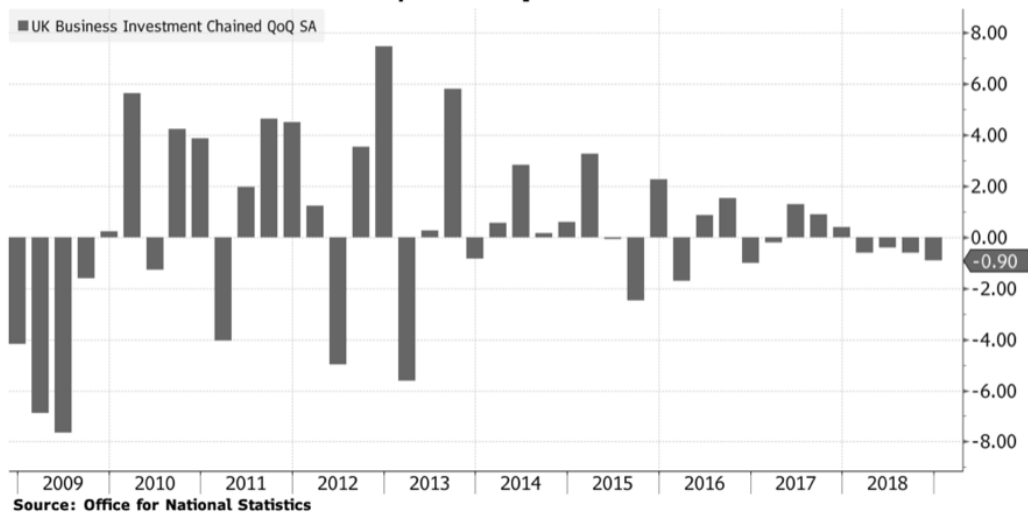
Figure 55: Annual Rate of Change, Seasonally Adjusted (Source: Office for National Statistics)

Business investment remains in the doldrums, as companies take a more cautious approach, as opposed to consumers. It is in the worst slump since the financial crisis, as businesses have spent collectively 2.5% less than in 2017, due to significant uncertainty over Brexit. The most important issue of the backstop remains unsolved, and some experts have pointed out that dropping out of the EU without agreeing to a deal could see devastating queues at customs.

With talks of a hard border between Northern Ireland and the Republic of Ireland, this could bring trade to a virtual standstill. Businesses recognize the possibility of such a reality and have either postponed investment plans, begun shifting operations out of the UK, (I.E Dyson) or stockpiling goods to prevent shortages.


Spending Slump

Business investment fell for the past four quarters



Source: Office for National Statistics

Figure 56: Business Investment (Source: Office for National Statistics)



Investment has dropped for 4 consecutive quarters since 2017, and it is tough to foresee a recovery of any sort until some fragment of certainty is restored to the UK's withdrawal from the EU. While employment can provide an indication of the immediate state of the economy, investment hints at the future potential of the UK economy due to productivity and technological gains that are no longer being put into service.

Brexit Deal Accepted by Parliament

This is a catalyst that remains highly unlikely for now, as Theresa May's deal has been struck down three for three as of now. However, despite the extension given to the UK, we maintain a deal of some form will be accepted by Parliament at some point, in the interest of the economy and the citizens. A continued dragging out of the withdrawal process has thinned the patience of the EU and the general public, who seem to continue to underestimate the economic consequences of a no-deal Brexit. There is the real risk of investor apathy to a potentially disastrous eventual exit, deal or no deal, which could dent the already fragile recovery. A deal acceptable to Parliament would go some way in restoring a measure of confidence.

Second Referendum

The idea of a second referendum has begun to receive increased scrutiny as a serious alternative, with the continued impasse in Parliament. With Theresa May's recent thawing of relations with Jeremy Corbyn, leader of the opposition, many have begun to seriously consider the possibility of another Brexit referendum for a few reasons.

First, any alterations to the final Brexit plans requires proper scrutiny by parliament. Of the 8 alternatives discussed and voted in the House of Commons, all were rife with legal issues and were without precedent. None received a majority in the subsequent voting.

Secondly, it appears that a second referendum is a popular option in Parliament, according to indicative voting. May has signalled that she will respect the will of Parliament, and if it comes to pass, she will have to commit.

Lastly, the EU has demanded a very good justification to grant a long extension to the withdrawal process. A referendum would certainly qualify and would provide much-needed clarity to a process that has remained mired in scandal.

Perennial Risk of Brexit

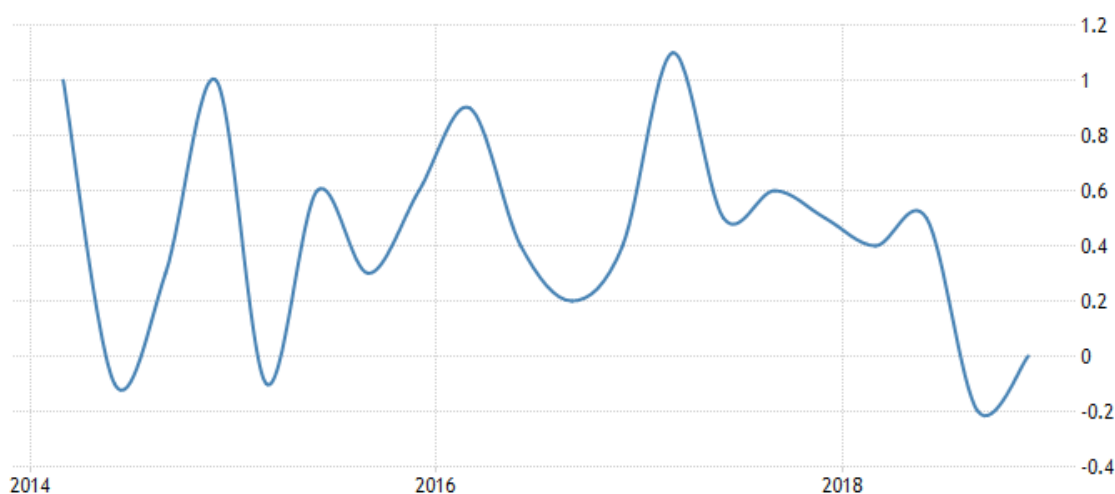
The situation has remained virtually unchanged, and progress has hardly been made with the deadlock in Parliament and wrangling over the terms of the deal. Fatigue and confusion appear to be causing investors to underestimate the potential impact and continue to push the FTSE to fresh yearly highs. The pound is likely to continue to trade sideways as clarity is sought, and as mentioned, any of the above triggers would likely have a material impact on both equities and currencies. We highlighted previously that Theresa May's promise of resignation could trigger a political crisis in the UK, and further depress the fragile economic recovery.

Change in Consumer Sentiment

Consumer confidence is about the only bright spot in the UK economy, which is a potential risk. A collective realization that leaving the EU with or without a deal will be more painful than anticipated, may lead to consumers to decide to curtail spending. A larger than expected decrease in retail sales growth may jeopardize GDP growth, and this could re-amplify concerns of a recession on the horizon.

GERMANY

Germany's Margin Escape from Recession



SOURCE: TRADINGECONOMICS.COM | FEDERAL STATISTICAL OFFICE

Figure 57: Germany Real GDP Growth (Source: Trading Economics)

Germany's Real GDP growth narrowly escaped a technical recession after it posted flat growth in the fourth quarter. With Europe's largest economy continuing to slow down, Germany's growth is much worse than analyst expectations with Brexit and global trade tensions clouding the outlook for Germany's economy. The year 2018, which started with expectations of the best growth performance since 2011, ended as a disappointment. After contracting by 0.2% in Q3, the first time GDP has shrunk since 2015, government spending was the greatest contribution towards growth, which rose sharply over the quarter. Household spending also accelerated after contracting in the three months approaching September. Net exports neither rose nor fell, as any gains were outweighed by a matching increase in imports. German companies struggled with a cooling of the global economy coupled with the tariff disputes triggered by Trump's "America First" policies.

Germany Manufacturing Sector Faces Headwinds



Figure 58: Germany Manufacture Demand Rate (Source: German Economy Ministry)


The Threat of Trade Wars and Hard Brexit

Additionally, the possibility of a hard Brexit and resulting trade barriers imposed could also spell trouble for Germany's export-driven economy. The German Economic Institute estimates an extra tariff of nearly \$3.8 billion that German exporters would have to face if the UK left the EU without a trade deal. With these exports taking 2.6% of Germany's GDP, the impact on the German economy is severe. German companies are especially worried about the disruptions to supply chains and movements of materials involved in the manufacture of complex products. Even in the case of a relatively smooth withdrawal from the European Union, permanently higher costs would still be expected, harming the German economy. With the European leaders granting the UK six months extension to Brexit, the possibility of a hard Brexit and the threat of trade wars is currently Germany's biggest unknown.

FX:EURGBP. 1D 0.86245 ▼ -0.00049 (-0.06%) O:0.86486 H:0.86486 L:0.86213 C:0.86287



NUS INVESTMENT SOCIETY AY18/19: GLOBAL MACRO REPORT (SEMESTER 2)



Entry: 0.89408
Take Profit: 0.84066;
Stop Loss: 0.90320
Current: 0.86486

EURGBP is trading in a short-term downward channel. With the clouded economic outlook on the German economy with its lack of stability in economic growth and employment rates, investors have lost confidence in them, weakening the Eurodollar. Ironically, the British economy isn't looking too good either with the UK economic growth at its slowest since 2012. Comparatively, Germany's disappointing performance in terms of GDP growth rates close to recession coupled with worries about the upcoming trade tariff as well as a hard Brexit threatening to thunder upon Germany, investors are inevitably turning away from the volatile Euro. As such, in the 6-months to 1-year lens, a short position on the EURGBP trade would be a safer option with potential returns over time.

Risks/Drawbacks

If things take an unexpected turn and no introduction of tariffs are imposed by Trump while Germany continues steadied growth higher than expected, there is the possibility of the euro strengthening against the dollar. Alternatively, we could see the same outcome if the British economy continues to see weakening economic growth more so than that of Germany. However, given the upcoming events such as the Hard Brexit and Trump's continued claims of German cars as a national threat, this is highly unlikely.

ITALY

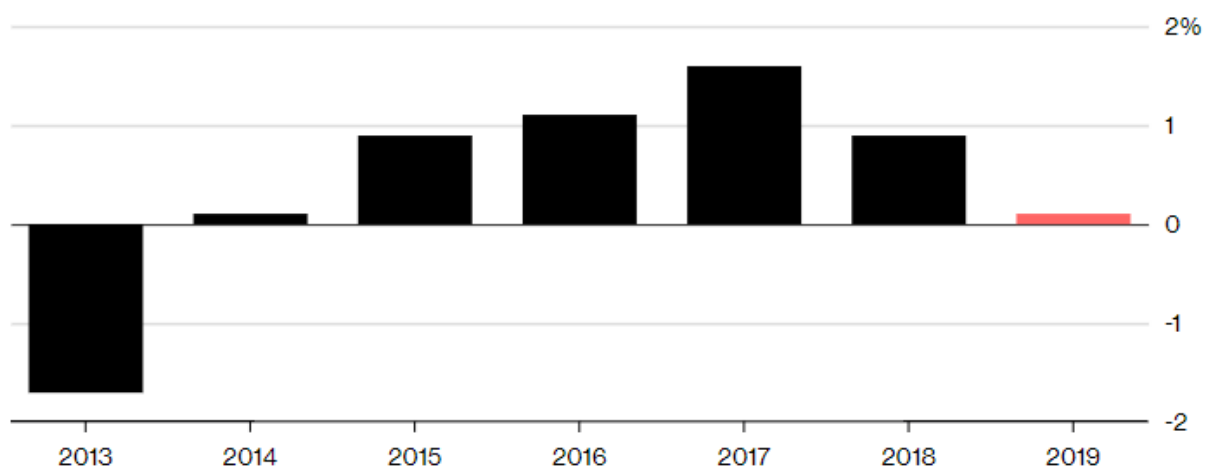
Economy Overview

Having a GDP of \$2 trillion, Italy stands as the 8th largest economy in the world and the 3rd largest in Europe. Initially projected at end 2018 to have GDP growth of 1%, this figure has since been revised downwards, with the European Union (EU) projecting a 0.2% increase, the International Monetary Fund projecting a 0.1%, and the OECD projecting a decrease of 0.2%. This is attributed to the greater cyclical slowdown, fall in external demand and decrease in business investments. Notably, Italy has been the most sluggish economy in the Eurozone since the monetary union, struggling to recover since the Great Financial Crisis more than a decade ago with its GDP at only 95% of what it was before the crisis.

Barely Growing

Italy's economy may effectively stagnate in 2019

■ Full-year GDP change



Source: Istat, Bloomberg

Figure 60: GDP Growth Over Time (Source: Bloomberg)

Italy's economy is mainly driven by household consumption (61%), followed by exports of goods and services (31.4%). Its GDP is also largely driven by services, constituting 73.9%. Industry makes up 24% and agriculture, 2.1%.

Gloomy Economic Outlook

Against a backdrop of slowing global growth and a technical recession in Italy in the last 2 quarters of 2018, an expansionary budget had been proposed to lift growth in 2019. This includes the removing of a planned Value-Added-Tax hike, lowering of retirement age, increasing public investment, and having a minimum income for the poor. Plans have also been made for the second half of 2019 to reduce taxes on investments, lower property taxes on factories and warehouses, and make public tender processes simpler.

However, the effects of the expansionary budget are likely to be limited by the slowing private consumption and increased household savings rate. Increasing energy prices have also contributed to inflation which had more than offset wage growth in the private sector. With lower job growth and rising inflation, real disposable income for households and hence consumption is decreasing. Furthermore, the unemployment rate in Italy is also high at 11%. Historically, increases in public investment had also been met with planning and execution delays.

The recovery has lost momentum

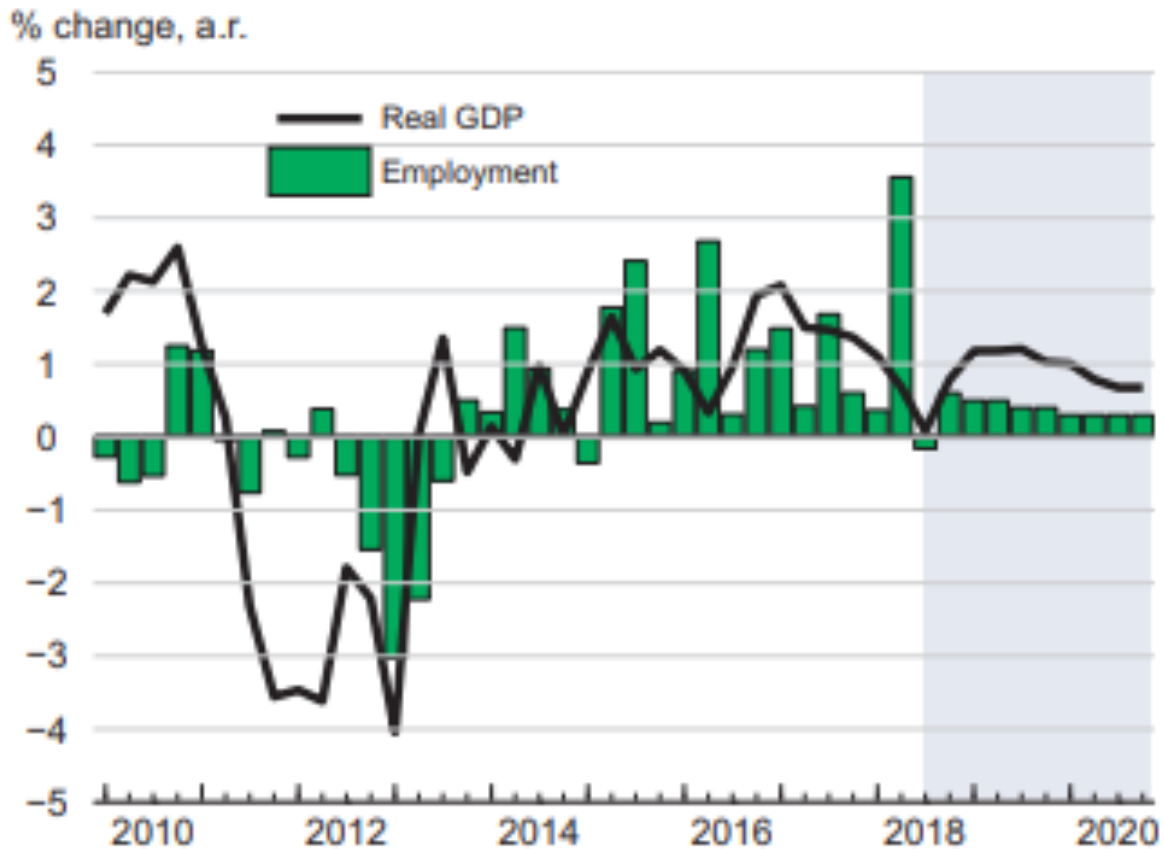


Figure 61: Slowing Real GDP and Employment Growth (Source: OECD Economic Outlook)

On a more positive note, business and private investments may be set on an increasing path as fiscal incentives are provided and there is renewed bank lending to corporations. However, there are considerable downside risks as trade tensions can result in decreases in global economic activity and greater financial volatility, which negatively affects businesses' expectations. Besides, increases in interest rates of private sector borrowing are expected in line with the increase in interest rates of sovereign bonds which is likely to negatively affect the level of investments of businesses and ultimately the GDP of the country.

Persistent Large Budget Deficit and High Public Debt

In 2018, Italy submitted a target budget deficit of 2.4% of GDP which the European Commission rejected as it was too high and does not comply with the Union's fiscal rules. Italy later revised its proposal and set the target deficit at 2.04% which the commission accepted. However, in April this year, Italy raised its budget deficit to 2.4% again, due to the planned expansionary fiscal policy which removes the Value-Added-Tax hikes and cuts income tax, worsening the deficit situation. This highlights the difficulties of Italy in controlling its budget deficits especially due to the expensive promises made by the government and may result in the European Commission putting sanctions on Italy for the breach of the EU's fiscal rules.

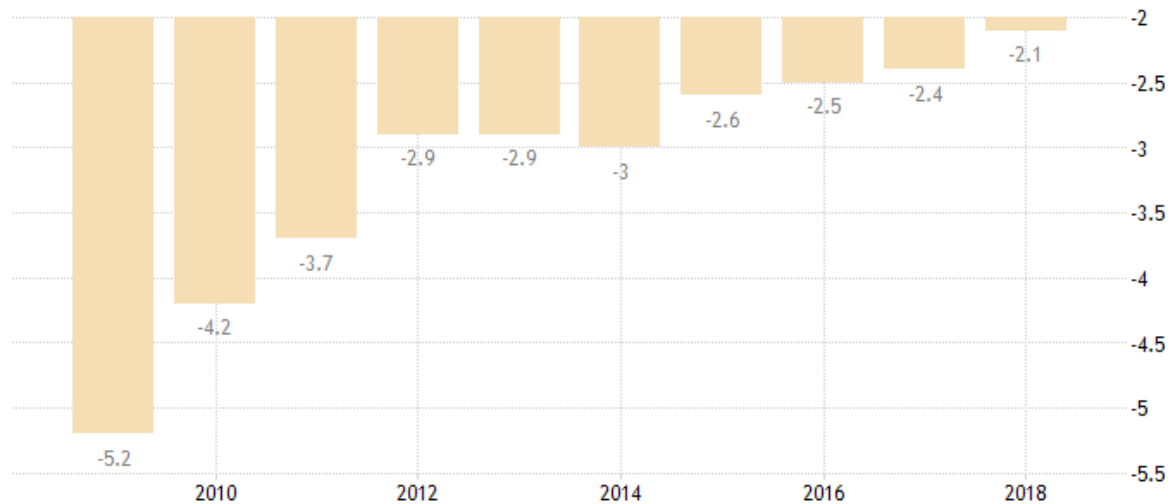


Figure 62: Persistent Budget Deficit (Source: Trading Economics)

Additionally, Italy's public debt is around 132% of its GDP (\$2.7 trillion), making it proportionally the highest in the Eurozone after Greece. It is difficult to be optimistic about Italy's ability to control the fiscal situation especially since the country experienced a technical recession in the second half of 2018 and is facing problems of stagnation, persistent budget deficits, and a high debt ratio. This poses a threat to the Eurozone and its currency.

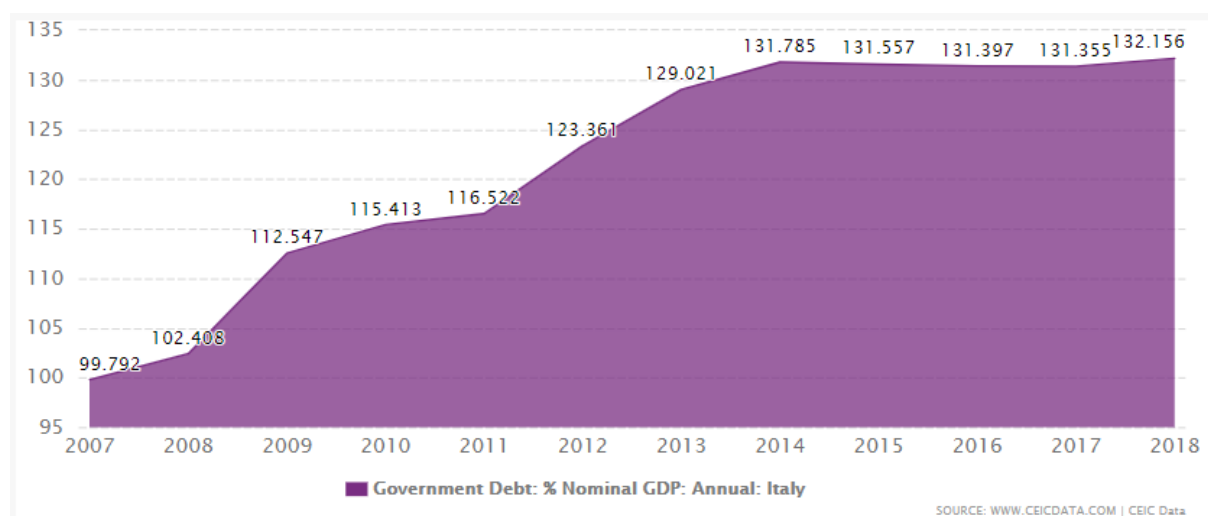


Figure 63: Persistent Government Debt (Source: CEIC Data)

The sluggish economy coupled with the large budget deficit can be detrimental to Italy's financial system and credit ratings. Fitch and S&P rated Italy two tiers above junk with a negative outlook, while Moody's rated it only a tier above junk. Any possibility of downgrades or further increases in budget deficits can result in higher bonds yields. Higher bond yields can be troubling for Italian banks which hold a lot of Italian bonds as the value of marked-to-market bonds will be lower and these banks will have to find ways to maintain their capital ratios either by raising new equity or selling assets. This will reduce lending and worsen the economic situation.

Accommodative Interest Rate Policy

As a member of the EU which has adopted the Euro, Italy's benchmark rate is determined by the European Central Bank (ECB). While the ECB planned to tighten monetary policy, the weak global economic landscape and reduced economic growth forecast for the Eurozone resulted in the ECB halting its plan. The ECB had

adopted a dovish tone and assured that there would be no interest rate hikes before 2020. It had also started a new wave of refinancing operations to encourage bank lending in the region.



Figure 64: Euro Area Interest Rates (Source: Trading Economics)

This is positive news for Italy as it helps with debt management since higher interest rates would translate to spending more to service debts. The ECB has been accommodative since 2011, considering that Italy is the Eurozone's third-largest economy and any financial troubles there would create spillover effects on other countries in the region and make it difficult for the ECB to reach its inflation target. Therefore, the ECB considers Italy's debt position in determining the magnitude and speed of raising interest rates. There have been intentions to explore ways to exploit the benefits of negative rates while reducing the negative effects on banks' bottom lines using a two-tiered system, although ECB President Draghi commented that it was too early for that at this point.

Trade Developments

Italy is a net exporter and has a current account surplus of around 2.5% of GDP. Its top export partners include Germany (12.6% of total exports), France (10.5%), United States (9.2%), Spain (5.2%), and the United Kingdom (5.1%), while its top import partners include Germany (15.4% of imports), France (8.6%), China (7%), Netherlands (5.5%), and Spain (4.8%). The largest deficits are incurred between China (\$20 Bil), Germany (\$14.4 Bil), and the Netherlands (13.3 Bil) while the largest surpluses are incurred between United States (\$31.2 Bil), United Kingdom (\$14.5 Bil), France (\$14 Bil). Top exports include machinery including computers (19.5% of total exports), vehicles (8.2%), electrical machinery, equipment (6.2%), and Pharmaceuticals (5.1%). Top imports include mineral fuels including oil (13.5% of total imports), vehicles (10.2%), machinery including computers (9.6%), electrical machinery, equipment (7.5%), and pharmaceuticals (5.3%).

Exports:

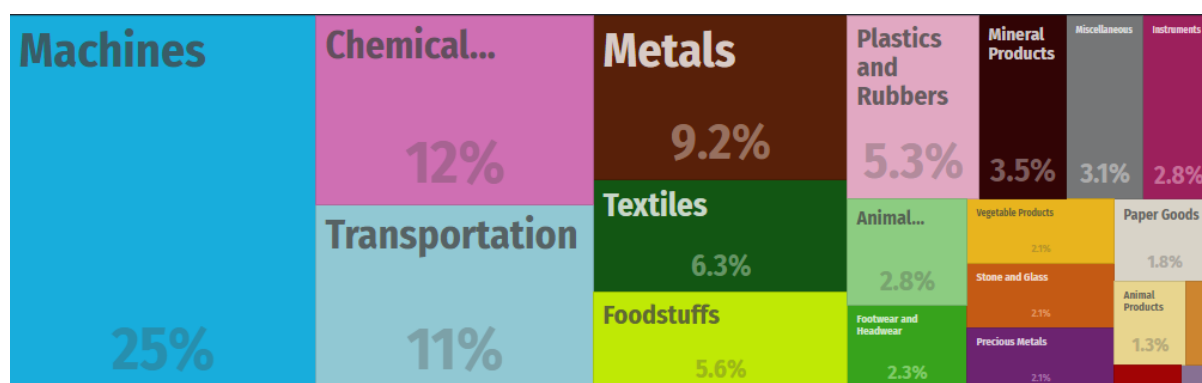


Figure 65: Overview of Exports by Sector - Italy (Source: Observatory of Economic Complexity, 2017)

Imports:

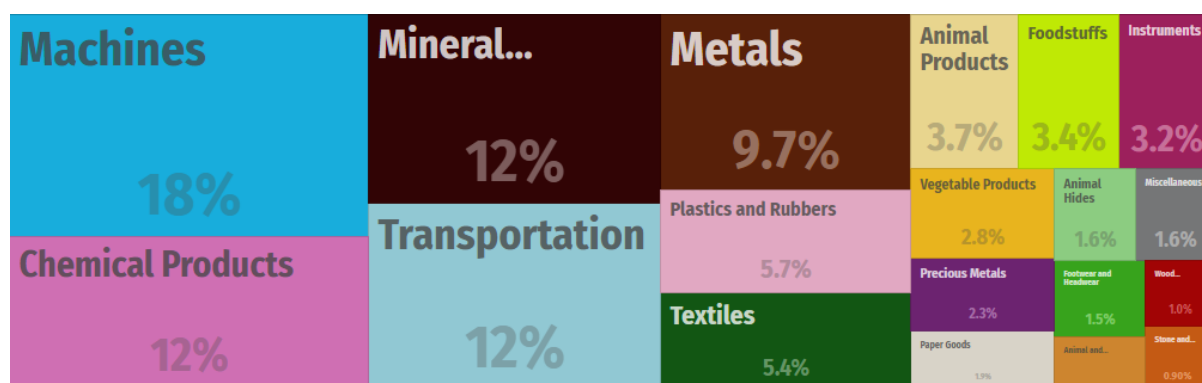


Figure 66: Overview of Imports by Sector - Italy (Source: Observatory of Economic Complexity, 2017)

With trade tensions and slowing growth in Italy's main trading partners, export growth is likely to be affected. This has motivated Italy to look for avenues to increase exports, one of which includes working with China to sell Italian goods in the Chinese market and reduce the deficit with China. Recently, Italy became the first EU heavyweight and G7 nation to be involved with China's Belt Road Initiative (BRI). While this is significant for China as it will potentially have access to the wealthiest markets in Europe, the EU and the U.S. have voiced their concerns and disappointments of Italy joining the BRI as they believe that the Belt Road Initiative will not be beneficial to Italy.

The EU sees China as a "systemic rival promoting alternative models of governance," according to an EU commission document. The EU has reservations about China because of its delay in liberalizing its economy and its acquisition of important EU sectors. Italy's involvement in the BRI also goes against EU policy that members should act cohesively and as unanimously as possible. It is also concerned that countries that take loans from China could end up in a debt trap.

The U.S. is also concerned that China will use the BRI to enhance its political and military influence to spy on others. They also voiced their dissatisfaction with a rare public rebuke that Italy should not have supported China in their project. This presents a real risk to Italy as any further involvement with China and the BRI may strain ties with the U.S., which is an ally and its third-largest trading partner.

Currently, Italy has signed a memorandum of understanding with China which document deals with Chinese parties worth 2.5 billion Euros and hopes that its involvement can help spur growth rates and boost the economy.

Political Uncertainty

In May 2018, League and Five Star Movement (M5S) became coalition partners and formed the government in Italy. League is a right-wing political party led by Matteo Salvini and M5S is an anti-establishment led by Luigi Di Maio. League won only 17% of the general election in March 2018 while the M5S won 32%. However, the popularity of the parties has since reversed, and a poll estimated that 32% now supports league while about 20% support M5S.

There had been disputes between the two parties on matters like migration, security, and projects since they formed the government. Reportedly, the relations between the coalition partners are at its worse since they formed the government. League and M5S came into conflict regarding a corruption scandal where a Senior Economic Adviser from League party was accused of corruption. This tension has been felt for a long time, with intensity increasing just before the European Parliament elections where both parties will be competing. This election could help strengthen or weaken their positions in the government. A strong performance for League could potentially allow it to rule Italy without the M5S while a strong performance for M5S could allow its popularity to stop dwindling further.

Political uncertainty has contributed to increases in Italian bond yields reaching a seven-week high and reflects its impact on the economy as well as confidence.

FX Trade Idea: Short EURUSD

Janicefooy published on TradingView.com, April 28, 2019 21:53:24 UTC

FX:EURUSD, D 1.11492 ▲+0.00100 (+0.09%) O:1.11450 H:1.11493 L:1.11449 C:1.11492



Created with TradingView

Figure 67: EURUSD Chart (Source: Trading View)

The overall economic outlook of the Eurozone is not very promising as the region started 2019 poorly with weak indicators. The EU revised the growth estimates downward significantly, citing trade tensions and domestic weakness as reasons. Particularly, with a negative outlook on Italy, underwhelming performance in Germany, and social troubles in France, it is likely that the EUR will continue to weaken. Besides, the uncertainty with Brexit will have huge implications on trade and presents a risk to the Eurozone. Looking at the MACD, there is a recent change from positive to negative, which supports a bearish view. Using the Fibonacci retracement, we can enter the trade at the 38.2% level, with an entry price of 1.12663 and exit when the price reaches 1.10814.

A key risk to this trade is that the Eurozone may be able to exceed growth targets given that the EU majorly revised the estimates downwards. To mitigate this risk, we can set a stop loss at 1.13234.

Entry: 1.12663

Exit: 1.10814

Stop Loss: 1.13234

ETF Trade Idea: Short iShares FTSE MIB UCITS ETF EUR (Dist.)

Listed on: Borsa Italiana, London Stock Exchange, SIX Swiss Exchange

Ticker: IMIB LN

Expense Ratio: 0.35%

Inception Date: 06 Jul 2007

The FTSE MIB UCITS ETF EUR consists of broadly diversified Italian companies tracking the FTSE MIB Index, providing exposure to the Italian economy. It has a net asset value of EUR 105 Billion and its top holdings include companies such as Enel, Eni, Intesa Sanpaolo, and Unicredit. The top exposure by sectors include financials at 35.33%, utilities at 17.16%, and energy at 17%. It has an annualized 1- year return of -2.36%, compared with the benchmark at -2.46%.



Figure 68: FTSE MIB Index vs FTSE MIB ETF (Source: Bloomberg)

Figure 69: iShares FTSE MIB (Source: TradingView)

Entry: 13.264
Exit: 11.268
Stop Loss: 14.018

FRANCE

Slower Growth Underpins Economic Outlook

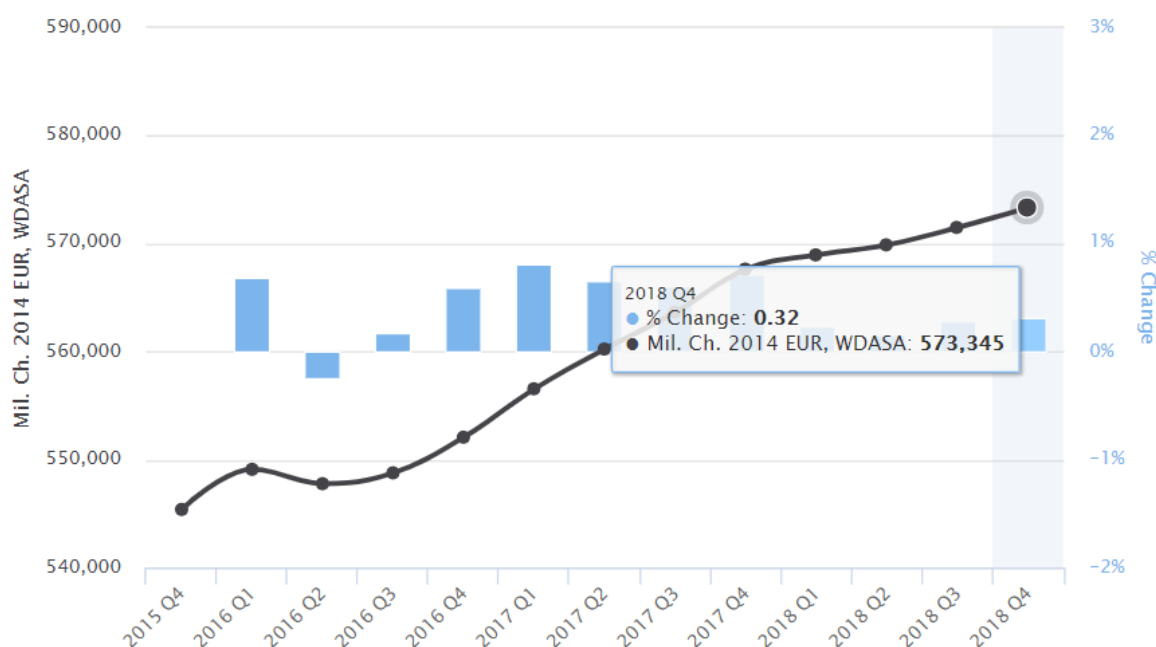


Figure 70: France Real GDP Growth (Source: Moody's Analytics)

France's Q4 growth was moderate but remained steady and is in line with analyst expectations. Real GDP is up 0.3% from the previous quarter despite the recent unrest of the 'gilets jaunes' protests. The demonstrations jolted domestic demand: Household spending stagnated and capital investments by businesses dropped off. However, external demand—an increase in heavy-equipment exports in particular— from beyond the Eurozone has helped offset some of the domestic troubles France is facing. Although public markets have been bullish —CAC 40 up 17.7% YTD— in the first quarter, fundamentals are starting to indicate more headwinds ahead. IHS Markit French Manufacturing PMI edged down to 49.7 in April, the second straight month that the index has been in contractionary territory (below 50). Moreover, the instability from Emmanuel Macron's run-in with protestors has weighed on the economy and the president's political agenda appears to be increasing untenable leading up to the European elections this May.

Bullish Market Amid Dovish ECB and Social Unrest

The ECB has backtracked on its plans to tighten monetary policy recently amid the deepening global economic gloom. It appears that there will be no changes to monetary policy until a new ECB head is elected in October. Current ECB head Mario Draghi has reiterated the ECB's long-standing policy of maintaining substantial stimulus to ensure a healthy rate of inflation domestically. The dovish policy should continue to stimulate growth in France and the EU collectively, albeit at a slower pace than previous years.

The 'gilets jaunes' protests that started last November have cast a shadow over the French economy; many businesses have put fixed-capital investments on hold Emmanuel Macron's compromises of reducing taxes for the lower and middle class, and pension increases for the poor have failed to end the protests.

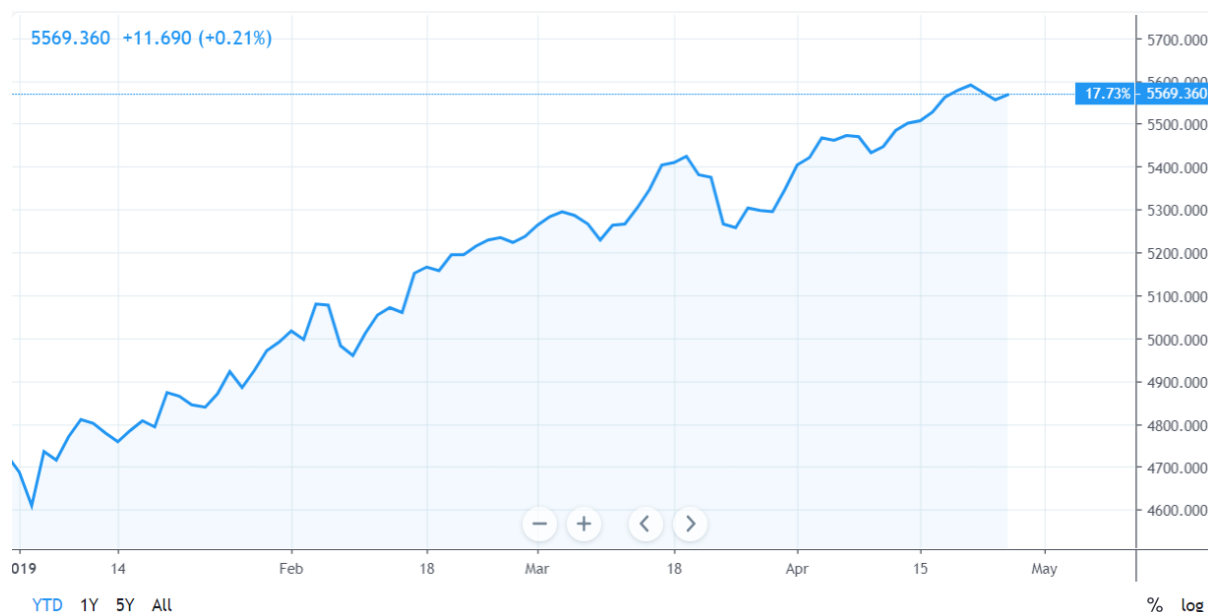


Figure 71: CAC 40 YTD Performance (Source: TradingView)

Despite the social instability, the equity market has seen record gains in Q1 as the dovish U.S federal reserve and ECB has restored some investor confidence after last year's bear market.

France Stands to Lose from Potential U.S Tariffs & U.S-China Trade Deal

The U.S accounts for 8% of France's total exports and runs a trade deficit with France, hence maintaining good trade relations with the U.S is important for economic growth. This is under threat recently due to the longstanding disputes over EU's aircraft subsidies and the Trump administration has threatened to impose \$11 billion worth of tariffs on European Union in retaliation. The proposed list of products includes aircraft, machinery, cheese, wine and luxury products, which make up a major part of France's GDP. The chances of a trade deal being reached are slim due to 2 reasons: France has a major influence in the EU and already voted against opening negotiations because of the U.S withdrawal from the 2015 Paris Climate Agreement; U.S Congress will only approve of tariff lists that include agricultural products — this will be difficult to resolve as EU countries are very protective over prices paid to their farmers.

Conversely, U.S and China are nearing a trade agreement which could see tariffs from both sides being removed. In this scenario, France's main exports such as machinery, aircraft, vehicles, agriculture will face stiffer price competition which can cause economic growth to hit the brakes due to a slower export market. If the U.S-EU fail to reach a trade deal and conversely a U.S-China trade agreement is reached, the French economic output will decline and given the already slow rate of growth, real GDP growth could stagnate.

FX Trade Idea: Short EURUSD

daohanlim95 published on TradingView.com, April 28, 2019 13:54:06 +08

FX:EURUSD, 1D 1.11392 ▲ +0.00083 (+0.07%) O: 1.11309 H: 1.11740 L: 1.11097 C: 1.11392



Created with TradingView

Figure 72: EURUSD Chart (Source: Trading View)

EURUSD followed the channel and trended down as initially predicted. The price movement in the first quarter of the year is due to the continued strong performance of the U.S economy, which has attracted investors back into the market for U.S denominated assets, thereby strengthening the dollar. Although the Federal Reserve has put a pause to rate hikes, the ECB made an equally dovish move by backtracking on their plan to end quantitative easing and downsize their balance sheet. As alluded to earlier, the possibility of U.S and China reaching a trade agreement is a catalyst for the weakening of the euro. In the 6-month to 1-year lens, the disparity in the U.S and EU economies and trade disputes will likely lead to the weakening of the EURUSD currency pair. Additionally, due to the positive interest rate differential between the USD and EUR, a short position on the EURUSD trade is a carry trade that will increase potential returns over longer periods.

Entry: 1.1337

Take Profit: 1.0850

Stop Loss: 1.1512

If the U.S and EU surprise with a swift trade agreement without introducing any tariffs, and EU economy sees higher than expected growth, we could see the euro strengthen against the dollar. The risks are limited as in the event of downturns, such as the 2008 financial crisis, the EURUSD depreciates significantly as assets move towards safe havens such as gold, the Swiss franc, the Japanese yen and the U.S dollar.

USA

Federal Reserve Pivots to Dovish Stance Due to Slowing Growth Narrative and Geopolitical Uncertainty

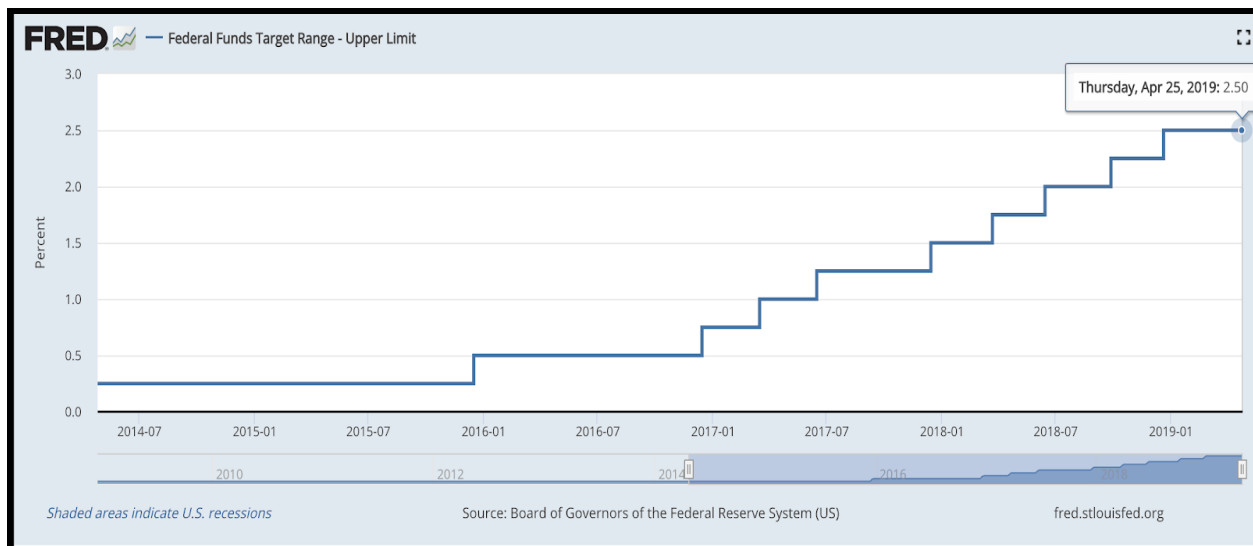


Figure 73: Federal Funds Target Range (Source: St Louis Fed, Board of Governors of the Federal Reserve System)

In 2018, the U.S. Fed went on a path of monetary tightening by hiking the Federal Funds Rates 4 times from 1.5% to 2.5% (Figure 73). This was driven by inflationary concerns over an economy approaching full employment and to normalize the Fed's balance sheet towards the pre-crisis level.

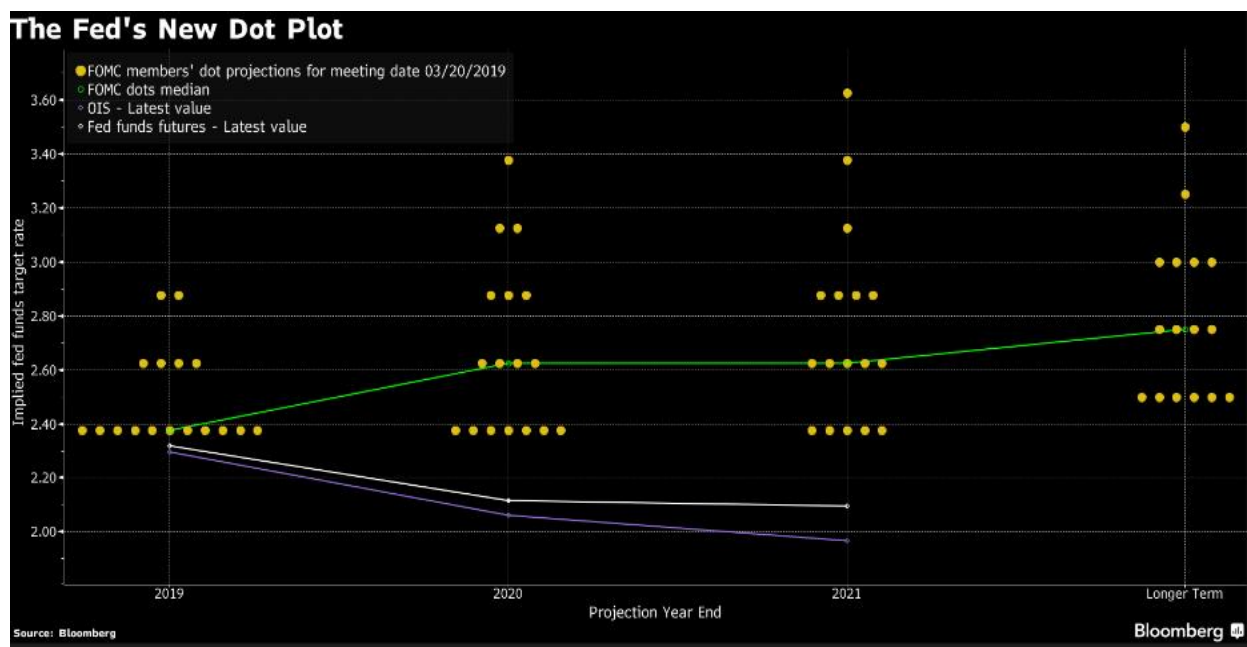


Figure 74: Federal Reserve Latest Dot Plot as of 20th March 2019 (Source: Bloomberg)

Since the hawkish stance in December 2018, the Fed has made a surprise U-turn on its monetary policy by pivoting towards a dovish outlook. They showed that the Fed funds rate will stay at the 2.25%-2.50% range. The Dot Plot also projects that rates will remain level for the foreseeable future in 2020 and 2021 (Figure 74).

This decision came on the backdrop of geopolitical uncertainties stemming from the U.S.-China trade war, Brexit, slowing global growth and bearish sentiments in the U.S. markets. Fed Chairman Powell remarked that the decision to pause any further rate hikes was in line with the FOMC's view that the U.S. economy still had room to run. He added that further tightening decisions should only be made in tandem with rising inflation data. He also backtracked on earlier comments by reassuring that the Feds will take into account financial market sentiment so that spillovers to the real economy would not be an imminent downside risk.

On another note, the Fed has also said that they will stop the unwinding of the balance sheet by September 2019, a move that would help hold down long-term interest rates. This has been seen as a positive signal to equity markets, with the S&P 500 surging to all-time highs of 2940.

Yield Curve Inversion Ignites Recessionary Fear in Markets



Figure 75: Inversion of US Treasury Yield Curve (Source: Bloomberg)

Shortly after the FOMC minutes revealed their dovish stance, the 3M/10Y yield curve inversion took place. This has sparked worry as it could mean that the U.S. economy is slowing down and has also been a strong indicator for past recessions. Janet Yellen, the former chair of the FOMC has indicated that this recent trigger of an economic recession could signal the need for rate cuts.

Historically, yield curve inversions have preceded recessions by 12 to 24 months. While it has been a fairly accurate predictor of past recessions, we should bear in mind that correlations do not always equate to causation. It is critical to monitor developments in credit conditions before making any conclusive judgment on whether recessionary fears are valid since the economic fundamentals such as sustained economic growth, robust labour market and stable inflation still underpin the U.S. economy.

U.S.-China Trade Dispute on the Brink of Amicable Settlement

Back in 2018, a big threat to the U.S. economy came from the potential escalation of the U.S. - China trade dispute. Under President Trump's leadership, the U.S. imposed tariffs on US\$250 billion worth of Chinese goods. China retaliated by imposing tariffs on US\$60 billion worth of American goods and specifically targeted politically sensitive industries like Soybean and Automobile.

While President Trump has threatened to impose tariffs on an additional \$267 billion worth of Chinese imports, he eventually agreed to a temporary truce to de-escalate trade tensions for 90 days (until 1st March



2019) following a meeting at the G20 Summit in December 2018. Since then, China has reduced its tariffs on US autos and resumed buying U.S. soybean exports.

In 2019, President Trump agreed to extend the 90-day truce on account that trade talks are still ongoing. U.S. and Chinese negotiators are currently holding trade talks in Washington and have already agreed on frameworks for structuring a trade deal and establishing a trade deal enforcement office.

While the specifics have yet to be released, it is clear that trade tensions have significantly de-escalated, and a trade deal is currently in the pipeline. A potential deal would include China's significant reforms to curb the theft of U.S. intellectual property and increased the purchase of US agricultural, energy and manufactured goods. With President Trump up for re-election in 2020 and China experiencing slowing economic growth, barring any fundamental disagreements it is likely that rationality will prevail in these trade talks and an amicable settlement would come out of it.

MEXICO

High Rates Despite Inflation Approaching Targets

Mexico's central bank has an inflation target of 3%. As of date, Mexico's 12-month inflation rate has dropped to 3.95% which is a fall from 2018's inflation at 4.83%. The fall in inflation can be attributed to 10-year high interest rates at 8.25% which were unchanged in the recent March monetary policy meeting. However, interest rates continue to be maintained at an all-time high despite expectations for the central bank to shift towards a more dovish monetary policy shift due to falling inflation. The root cause of inflation is that core inflation continues to increase and remains above the 3% target level. The central bank has stated that despite economic growth slowdown, they continue to remain hawkish on inflation for sustained economic growth.



Figure 76: Mexico Central Bank Interest Rate (Source: Trading Economics)

USMCA Trade Agreement Threatened if New Labour Law Fails to Meet Expectations

United States-Mexico-Canada Agreement (USMCA) was signed on 30th November 2018 and it focuses on the domestic production of cars and trucks. Given that domestic production of automobiles allows for Mexico to benefit due to their dependence on automobiles for growth, the USMCA had also imposed tariffs on steel and aluminium products from Mexico to the U.S. Amongst the trade deals, USMCA has also required for reformed labour bills from Mexico.

In February 2019, a wave of strikes at low wage plants in the border city threatened to spark increased labour strife in Mexico. This is in light of Mexico preparing to overhaul new labour laws to empower workers following the USMCA deal. Throughout February, workers are going on strike to demand a 20% wage increase and increased bonuses. Low wages have been attracting many global companies to set up their manufacturing hub in Mexico. The lack of unions prevents workers from getting a say in higher wages. As President Andres Obrador looks to promote higher wages and new labour laws, these strikes are seen as an avenue for the workers to sound out their demands to be put in place in the new laws. However, these strikers create uncertainty and risks for investments as, since the strikes, 4 firms have cancelled plans to open their manufacturing hub in the country.

The new legislation would look to increase workers' protection and rights with higher minimum wages of up to 16% increase. Mexico President Andres Obrador has since then amended laws to comply with the USMCA rules, specifically that workers vote for their unions and labour contracts to allow them to have basic rights and improved treatment of workers. The new legislation is expected to be passed in May 2019 which was demanded under the requirements for USMCA. However, since the signing of the USMCA, Mexico

has not drafted a satisfactory new labour bill which caused the U.S. Democrats to threaten to revert the USMCA back to the old NAFTA deal. Given that the newly amended bill continues to fail to meet the Democrats labour bill demands, they might look to use a stronger enforcement language in the forms of changing the deals that are already in place in the USMCA to force the Mexican government to meet the labour bill demands of the Democrats. These changes to the USMCA look to threaten the benefits that Mexico has been reaping from the increased production of automobiles.

Positive New Leadership to Increase Investors' Confidence

After a rough start last year, President Obrado's approval ratings rose to 67.1% after a survey done in March 2019. The positive outlook towards President Andres Obrador shows that he is actively taking steps to achieve his promises which allowed for a landslide victory last year. Some of the more distinct promises look to tackle corruption in Mexico's political system and help to reduce inequality in the country.

Return to Mexico

Foreign investors returned to Mexican local debt at the end of the year

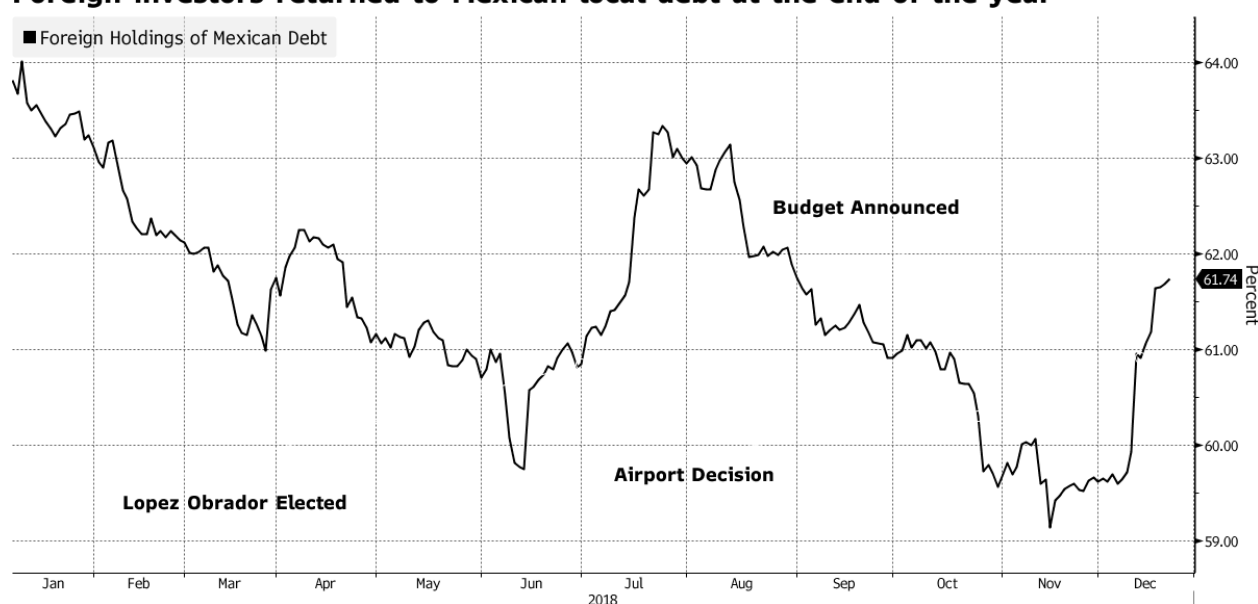


Figure 77: President Obrado shoring up confidence in Mexican local debt (Source: Bloomberg, Banxico)

In April 2019, President Andres Obrador revealed that he is looking to create an institute to tackle corruption in the country by returning ill-gotten wealth assets from corrupt politicians and gangsters to the people. Tackling corruption is crucial for economic growth as the Economic Cooperation and Development found out that Mexico losses 5% - 9% of its GDP to corruption annually. After taking office in December, he has actively cut salaries for top civil servants and increased welfare programs for the poor and elderly. These actions help to increase investors' confidence given the reliable government and help improve efficiency and growth for the economy.

Mexican Wall Disrupting Trade

U.S. President Trump has been threatening to close the U.S.-Mexico border since 2018. The threat of the border has even led to a parliament shutdown to resolve the dispute over President Trump's request to build the USD\$5.6 billion border. The shutdown was seen to be detrimental to the U.S. as it cost the government \$3 billion in terms of wages and a loss of \$2 billion in tax revenue. To end the shutdown, the parliament allocated USD\$1.375 billion for fencing on the U.S.-Mexico border and authorized more funding to increase security, customs officers and technology to detect drugs and weapons coming from Mexico.

However, the threat of a border shutdown looks to cause more than 10 million in losses where the agricultural and auto manufacturing industry will be hit the hardest. Throughout March and April 2019, vehicles and commercial trucks have experienced increasing wait times to enter the U.S. through the U.S.-Mexico border. The cause of the increased delays was due to the reallocation of U.S. Customs and Border Protection agents from managing commercial traffic flow to immigrant flow.

According to the chief executive of Borderplex Alliance, an average of U.S. \$ 1 million in terms of commercial goods and services flow across the U.S.- Mexico border every minute. With continuous delays hitting the supply chain of many automobile companies, it acts as headwinds for Mexico growth as automobiles contribute to a large percentage of Mexican GDP. Moreover, the cost to consumers is expected to rise which can affect core inflation as delays in the supply chain have forced many companies to look for alternative transportation or incurred more delivery costs.

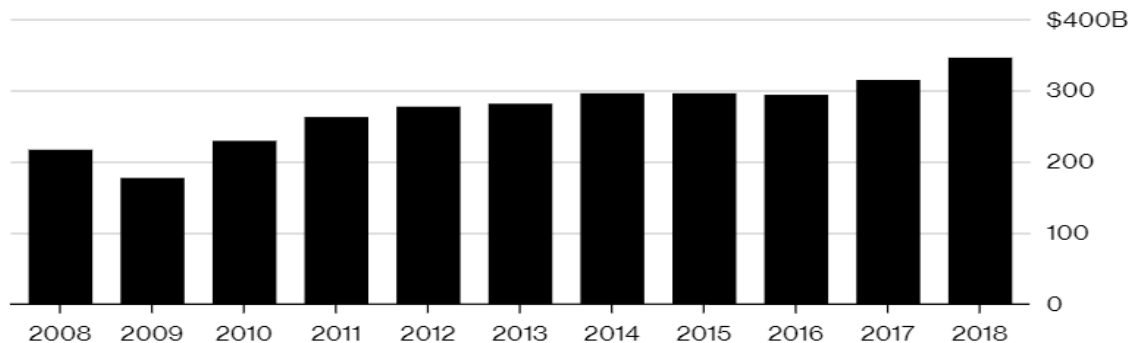
Mexico Benefiting in Terms of Trade from US-China Trade War, Brazil and Argentina

The USMCA imposed tariffs on Mexico steel and aluminium imports, which is one of the main key trade drivers for the country. Since then, Mexico has been trying to diversify its trade partners. In the past, they were heavily dependent on the U.S. with the U.S. taking up 80% of Mexico's exports and imports. In light of diversification, Mexico and Brazil reached an agreement on free trade of light vehicles, subjected to 40% regional content requirement. Free trade allows for increasing trade between the two largest Latin America economies. In 2018, Mexico and Brazil trade surplus for the automobile industry has even reached US\$868 million, 3 times of 2017 numbers. In the past, Brazil's auto industry has been protected by subsidies and import trade. This has driven many major companies out of the country as revenue generated would be diminished by high taxes imposed on them. In addition to the free trade agreement with Brazil, Mexico renewed trade quotas with Argentina for the next three years, followed by free trade after the three years. The quota allowed for increased trade between Argentina and Mexico by 10% in 2019, 5% in 2020 and another 5% in 2021. These agreements are beneficial for Mexico due to their heavy dependence on the auto sector in generating GDP growth. Their growth has been hindered by trade curbs imposed by countries such as Brazil and Argentina as they look to protect local producers. We forecast Mexico's GDP growth to increase in the upcoming year due to profits generated from the auto industry from these agreements. Thus, the imposed free trade and renewed trade quota act as tailwinds for Mexico's growth, allowing a bullish outlook for the country.

Due to the U.S.-China trade war, Chinese companies have turned to Mexico so as to meet demands from the U.S. due to their location. Mexico's strategic location has allowed China to avoid tariffs and continue to export into the U.S. Shipments to the U.S. from Mexico rose by 10% to 350 billion in 2018 as trade between the U.S. and China fell by 33%. Companies have started shifting their production plants from China to Mexico to continue to export to the U.S. Mexico gains from trade has benefited all sectors as they saw a 20% increase in sales to the U.S. from Mexico. The trade war has also allowed the U.S. to be dependent on Mexico for agriculture products that were previously imported from China such as peeled garlic cloves. Another notable industry that has gained from the trade war is the manufacturing industry. Due to the trade war, Mexico's shipments of silk yarn and fabrics skyrocketed to 290% growth. However, one potential headwind is if that U.S. and China manage to resolve their issues regarding tariffs, the gains that Mexico has been experiencing will be short-lived.

Trade Windfall

U.S. imports of Mexican goods rose 10% in 2018, most in seven years



Source: U.S. Census Bureau

Figure 78: U.S. Import of Mexican Goods from 2008 to 2018 (Source: US Census Bureau)

PEMEX Collapse Threatening Sovereign Wealth

State-owned oil company Petroleos Mexicanos (PEMEX) has been experiencing a fall in crude oil production since 2018, where overall production for 2018 fell by 6.9%. The company is on the brink of bankruptcy due to a lack of production, forcing the government to deliver a rescue package of US \$5.2 billion. The rescue package is split into capital injection, reducing the PEMEX tax burden and preventing fuel theft to ensure increased profits. With government support for PEMEX, the company will not step back in their plans to issue up to US\$2.8 billion in debt. When President Lopez Obrador took out, PEMEX was noted to have US \$120 billion in debt, being the world's most indebted oil major.

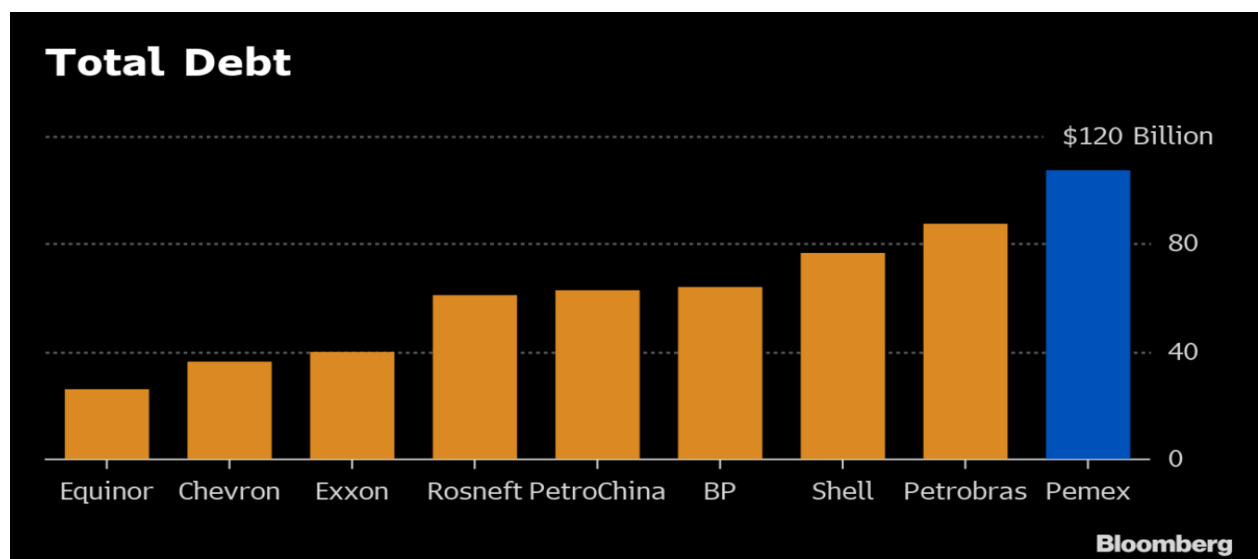


Figure 79: Total Debt of Pemex Relative to Competitors (Source: Bloomberg)

Fitch ratings have even downgraded PEMEX's debt to one level above junk. Their reasoning was that the company has been going through years of underinvestment and underproduction. Many investors feel that the government rescue package is insufficient to help the company to rise back to its feet and are wondering where the government would gain these extra funds given their fall in tax payments to tackle inequality in Mexico. Aberdeen Asset Management investment manager Mr. Andrew Stanners explained that if the government looks to borrow to finance future PEMEX capitalization, it would affect the surplus target for the sovereign, which may threaten sentiments towards the government. The poor financial situation that PEMEX creates a dovish outlook for Mexico where Mexico credit rating would be affected negatively. Given

that PEMEX fails to make use and benefit from the government's rescue package, the outlook for Mexico in the next year would look to be bearish.

Beating Forecast with Free Trade Agreements

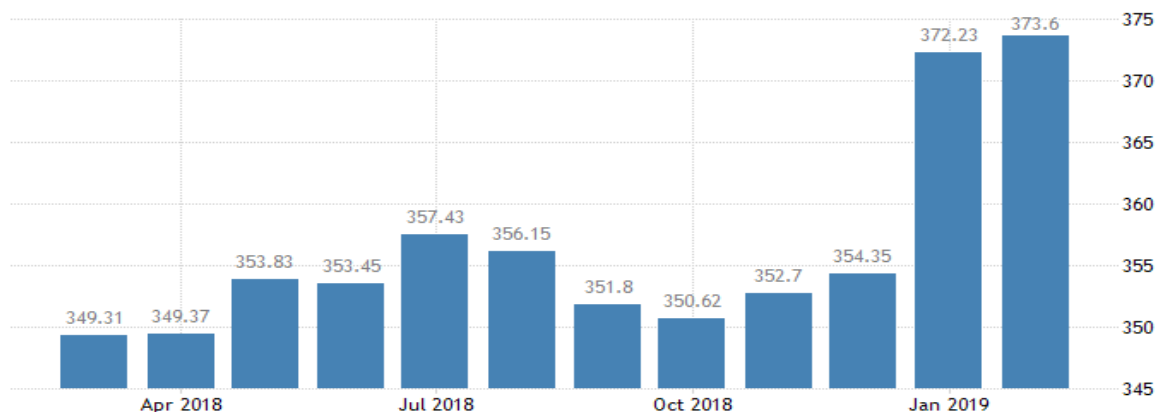
With forecasted GDP growth for 2019 is 2%, the benefits of trade deals with Latin America countries allows for tailwinds for Mexico's GDP growth to exceed analysts' forecast. This is because these trade deals such as the USMCA and free trade agreements help boost the automobile industry outlook. With more production from the automobile industry to facilitate increased demand from new trade deals, GDP growth is looking bullish as automobile industry contributes to 80% of Mexico's GDP. In the upcoming year, we believe that the benefits of the USMCA and Brazil free trade agreement would look to take its effect on the automobile sector and boost the USD\$101.7 billion in vehicles exports to a high number to contribute to the growth and exceed growth expectations.

U.S.-China Trade Deal to Have Little Impact on Mexico Gains

Looking forward, the U.S. and China are looking to come to terms with their disputes with continuous trade talks. Both of them have been looking towards a final trade deal by early May. Officials from both sides have reported for the deal to be very likely to end the 250 billion U.S. tariffs on China and 110 billion tariffs on U.S. products. Since the end of the 90-day truce, both parties have been working towards a new trade deal to allow both parties to benefit. However, many of the Chinese companies that have shifted to Mexico permanently to bypass these tariffs. As stated earlier, many of the Chinese manufacturers have found strategic locations in Mexico as they take advantage of low labour costs and strategic geographical location to reduce transportation cost in terms of trading with the U.S. Thus, the outcome of the trade deal would look to have little impact on Mexico trade with both U.S. and China and Mexico can continue to expect positive trade growth as they continue to benefit from the inflow of foreign companies setting up manufacturing plants in the country.

New Labour Laws and their Impact

Under the pressure from the Democrats, the Mexico government has been actively looking to push for a new labour bill to ensure that workers get a higher minimum wage and better rights through unions. If Mexico fails to deliver a satisfactory labour bill, benefits from the USMCA such as zero tariffs on agricultural products from Mexico will look to be revoked. In addition, tariffs on steel and aluminium might change that would hurt Mexico's growth. In the 12-month outlook, we believe that new labour laws will be passed and USMCA terms would not change. However, with higher minimum wages, it would mean a higher cost of production which causes Mexico to lose its advantage of having low production costs. This would deter foreign companies to set up production facilities which can act as a headwind towards GDP growth. Moreover, with the uncertainty of the labour force in Mexico, strikes can potentially happen again if the workers feel like their demands are not met with the new laws which can deter investors from entering Mexico. Thus, the uncertainty and increasing labour cost would create a bearish outlook for Mexico's GDP growth.



SOURCE: TRADINGECONOMICS.COM | SECRETARIAT OF LABOR & SOC WELF, MEXICO

Figure 80: Mexico Average Monthly Wages (Source: Trading Economics, Secretariat of Labour Mexico)

Positive Outlook for President Andres Obrador Looks to be Dampened by PEMEX

Since President Andres Obrador took over presidency, he has been receiving positive ratings due to his effort to curb corruption and redistribute wealth. The crackdown on drugs and corruption is looking to benefit the country in terms of growth as investors are starting to gain confidence in his leadership. This looks towards a hawkish outlook for Mexico due to better expectations of leadership. However, PEMEX looks to hinder positive expectations of sovereign debt as many investors believe that if PEMEX fails to recover despite the \$5.2 billion care package, the government would need to borrow to keep PEMEX afloat, which can cause a bearish outlook for Mexico's sovereign debt.

Junk Jitters

Pemex bond yields surge amid downgrade concern



Figure 81: Pemex Bond Yields Surge Amid Downgrade Concern (Source: Bloomberg)

Inflation and Interest Rate Outlook

Inflation has been falling and meeting targets. However, core inflation continues to be sticky above the 3% level. As the central bank continues their wait and see approach, we believe that interest rates would remain at 8.25%. This is because rate hikes would look to dampen their growth and as forecasts have not been optimistic for the year, it is unlikely for the central bank to rate hikes. Inflation would most likely hover above the 3% level as oil prices look to continue their bullish run due to supply shortages, causing inflation to be unable to meet expectations in the 12-month outlook.

FX Trade Idea: Short IPC Index



Figure 82: IPC Index (Source: tradingview.com)

Entry: 45546.88


Take Profit: 41622.71

Stop loss: 393473.53

Firstly, we believe that even though overall inflation has been nearing targets at 3%, core inflation continues to remain above 3% and remains sticky. Oil prices have been peaking due to U.S. President Donald Trump looking to uphold his Iran sanctions and not extending his waivers on the 8 countries. In addition, the energy cost has been rising 1.08% in March due to a 1.58% rise in gasoline prices. Thus, inflation is forecasted to rise in the 6-12-month outlook with high energy prices and a potential wage increase. Wages are expected to increase with President Andres Obrador looking to increase the minimum wage and change labour laws due to labour strikes and pressure from the U.S. Democrats. The forecasted rise in inflation will cause interest rates to rise due to the hawkish stance from the central bank. Thus, we are bearish on the index due to higher inflation contributed by energy prices and wage increases.

Secondly, U.S. President Trump has been increasing security on the U.S.-Mexico border wall, which has caused a lack of manpower maintaining the vehicles entering the U.S. This has led to more than \$10 million in losses daily due to logistics delay. With U.S. President Trump looking to priorities security over trade and trying to gain more funding for increased border security, we believe that in the upcoming year, manufacturing companies, especially in the automobile and agricultural sector will continue to suffer losses due to the supply chain delays. With Mexico being heavily dependent on these two sectors for GDP growth, we believe that the bearish outlook for the IPC index is justified.

Lastly, with PEMEX barely recovering from the \$5.2 billion rescue package, we believe that the rescue package is merely just a temporary solution for the stated backed oil company. PEMEX has been unable to return to profitable production levels and with huge debt from previous ventures, we believe that the company would require much more effort than what President Andres Obrador is prepared to put in. PEMEX has suffered a \$665 million loss in 2017 and is in \$106 million in debt as they mismanaged a \$665 million fertilizer unit. President Andres Obrador is trying to revive the company by reducing overspending and corruption, but many rating agencies believe that trying to jumpstart oil production would affect government sovereign and finances. Thus, PEMEX's negative outlook is looking to dampen investors'



confidence in Mexico sovereign and companies, caused the IPC index to be negatively affected. This fall in confidence acts as headwinds for a bullish run, which supports our suggestion of selling the IPC index.

In conclusion, we believe that the market has already priced in the free trade agreements and benefits from the U.S.-China trade war together with positive confidence in new leadership as seen from the bull run the index faced. Therefore, with higher inflation expectations, the U.S. looking to prioritize security rather than trade and PEMEX instability, we believe that these factors are tailwinds for a weaker IPC index in the 6-12month outlook.

Since March 2019, the IPC index has been experiencing a bull run in prices, however, it has tested the major resistance level at 45546 which has been tested twice over the last month. We suggest entering the market at the resistance level at 45546.88 and take profit at the major support level at 41622. Support level has been tested several times since Q3 2018 which has been broken only twice in 2018.

Using technical indicators, there has been an RSI divergence at the 45473-price point as prices were the highest in 2019. However, the RSI fails to peak as it fell short of the year high at 68.8. With prices hitting a new high and RSI failing to achieve a higher high, it signals for RSI bearish divergence which supports our thesis of selling. Moreover, using the 200-day SMA as a resistance, the index has recently tested this resistance level in April, and therefore, we believe that the index will start its downward trend.

From the price chart, we believe that the broadening top would suggest for a potential reversal. Prices have already tested the bottom line 3 times and we believe that after the top is being tested again, prices would expect a potential reversal in their uptrend and support our thesis.

One major risk is the U.S.-China trade deal that is currently ongoing. Looking in the 6-12-month outlook, if the U.S. and China fail to negotiate a trade deal, Mexico will look to benefit from the failure. The failure to reach a trade deal would mean that more Chinese companies will set up manufacturing plants in Mexico to benefit from the strategic location as these companies continue to trade with the U.S. This would create a bullish outlook for the index and cause our thesis to be incorrect. In addition, U.S. and Mexico officials have been in talks to tackle the issue regarding the border wall as it has created huge losses for many companies. If the two parties manage to come up with a solution to the issue and continue to maintain border security on immigrants, it would create a more positive outlook towards Mexico, creating opportunities for a potential bull run for the index.

In summary, we believe in our thesis of shorting the IPC index due to the major factors discussed above. However, the potential risks would create a positive outlook for the index, causing us to be underweight in the projected 1-year period. This is because government officials have been actively trying to resolve these factors to ensure GDP growth. On the flipside, GDP growth estimates have been revised to a lower level of 1.6% by Fitch ratings and the government has also lowered estimates to 2% for 2019. We believe in the 1-year outlook, the factors that support a lower IPC index would continue to be unresolved, thus, taking on a bearish stance for the projected period.

CRUDE OIL

OPEC Cuts Oil Supply

In Dec 2018, OPEC had announced oil production cuts. OPEC, together with its allies had agreed to cut output by 1.2million barrels per day. This decision came about due to oil prices tanking, hurting producers. Oil production has continued in 2019, with production plunging to a four-year low in March this year. The supply cuts have been successful in preventing oversupply, resulting in downward pressure on prices, resulting in the recovery of oil prices ever since. However, in April, there have been reports of non-compliance from the allies, stemming largely from Russia as oil. Putin had stated then that Russia was comfortable with the current oil prices (around USD\$64 per barrel) and did not want to support an uncontrollable increase in the oil prices. As oil prices continue to rally, the production cuts by OPEC have also faced strong opposition from Trump.

The production cuts have been reinforced by crisis-stricken oil-rich member countries namely Venezuela and Libya. Libya currently faces the possibility of an all-out war as the Libyan National Army (LNA) attempts to capture Tripoli. The political chaos in Libya has threatened to disrupt oil supplies. The agreement is due for discussion during the OPEC meeting on 25th June to decide whether to extend the agreement beyond June as Saudi Energy Minister Khalid al-Falih stated that the consensus for an extension remains unclear. While Saudi Arabia remains firm on the production cuts, Russia have indicated their interest in raising output beyond June. FACTS Global Energy group estimated that OPEC and its allies need to raise output by 1.2 million to 1.4 million in the coming quarter in order to prevent a heavy global shortage. Although the oil policy remains uncertain beyond June, in the interim, Saudi Arabia is committed to adhering to the policy cut of 1.2 million barrels per day, and oil prices would remain bullish until then. Since the start of the year, oil prices have rallied, largely attributed to OPEC's successful production cuts. In June, expect outlook on prices to turn bearish if OPEC changes its stance.

U.S. Ends Sanction Waivers on Iranian Oil

In late 2018, the U.S. had ordered its allies to stop importing Iranian oil which saw Iranian oil production to drop by a million barrels a day. Although the U.S. wanted to enforce these sanctions, they extended waivers to 8 countries to allow them to continue importing oil from Iran. However, on 22nd April 2019, the U.S. announced the end of all waivers on oil imports from Iran. The U.S. threatened to impose sanctions on any country that continues to buy after from Iran after 2nd May with the intention to wipe out all of Tehran's oil exports. According to the Platts' estimates, the decision to end the waivers could mean removing 1.33 million barrels of Iranian exports. The end of sanction waivers meant that the supply of Iranian oil is choked off entirely, putting a strain on global supply.

Russia, an oil exporter has expressed that there is no need for them to immediately raise output following the U.S.' decision to end the waivers. It remains unclear if Saudi Arabia will raise output to compensate for the loss of Iranian oil. Analysts from Platts remain confident that oil markets are still sufficiently well supplied next year and amidst the uncertainty of OPEC's policy in June, it is unlikely that the end of these waivers will pose a significant threat. However, as supply continues to decline, oil prices face a potential bearish outlook.

U.S. Shale Record Production

It has been 5 years since the shale revolution in 2014. The shale oil revolution in the U.S. has allowed the country to enjoy its status as becoming the world's largest crude oil producer, contributing about 15.6% of the world's crude oil supply. With decreased reliance on other oil-rich countries, the U.S. has now become a net exporter of oil.

Amidst the backdrop of OPEC's production cuts, U.S. shale production remains at record high levels and stockpiles have increased. According to the U.S. Energy Information Administration's (EIA) monthly drilling productivity report, shale production is expected to rise to a record level of 8.46 million BPD in May, with Permian accounting for most of the growth. The rig count, used as a predictor of future oil outputs, remain comparatively higher than a year ago. As of 24th April, U.S. stockpiles recorded its highest

since October 2017, soaring by 5.5 million barrels. This points to the fact that oil markets remain well supplied and demand remains weak, which resulted in the excess stockpiles.

While the U.S. continues to produce oil at record high levels, it has been reported that oil well productivity in Permian, U.S.' largest oil field, has slowed. This served as an indication that U.S. oil record oil production may not be sustainable in the long run and production levels are very likely to plateau. In the 6-12 month interim, U.S. production levels and increasing stockpile are expected to increase, although at a decreasing rate, which would offset the effects of OPEC's production cuts.

Slowing Global Demand of Oil

Since the beginning of the year, the global economy has shown signs of a slowdown, amidst economic gloom and uncertainty looming over Brexit and the Sino-US trade war. The International Monetary Fund had lowered its outlook for global growth down by 2.2 percentage points to 3.3%. The U.S.-China trade war has dragged on for months and while there is optimism about a resolution, the trade war has had a detrimental impact on one of the major economies – China, ultimately hurting global economic growth. Although recent trade talks progression pointed towards a resolution, Trump indicated their plan to keep tariffs on \$250 billion of Chinese goods for the time being. A Morningstar report has revealed that they expect China's long-term to fall between 3.25 and 3.5%. China being one of the major consumers of oil, their slowing economy growth equates to a slowing demand for crude oil and does not bode well for global demand.

The continuous rally of oil prices, with prices soaring above the levels of \$70 per barrel on certain days are further dampening global demand for oil, according to the IEA. The surge in oil prices weighed down demand, especially for the key consumers. With prices high above \$70 per barrel, demand is likely to remain weak. The U.S. is also a victim of the global growth slowdown, with the Fed resorting to zero interest rate hikes for the rest of the year and ending their balance sheet roll-off.

Trade Idea: Short WTI Futures




Figure 83: WTI Futures Chart (Source: tradingview.com)

Entry: 62.00

Stop Loss: 62.80

Take Profit: 60.90

The MACD has crossed the signal line, signalling a possible bearish reversal. The key support level has been established at 62.00. Currently, prices have broken the upward trend line. We can expect prices to test the



key support levels at 62.00 if the downward pressure on prices continues. Failing a breakout below the key support level, expect prices to retrace to test the blue trend line at 62.80.

One of the risks involved would be OPEC and their allies' decision during their meeting this coming June. The rally of oil prices has largely been supported by aggressive OPEC production cuts. One of the reasons why Saudi Arabia has been committing to the cuts and supporting the production cuts is because higher prices of crude would mean a better valuation of Aramco's IPO. While there are signs of non-compliance and reluctance from the allies to commit to the cuts, we cannot be sure of the consensus and the final decision on the oil policy until June.

With signs of a slowing global economy, especially from major oil-consuming countries like China and the U.S., we can continue to expect lacklustre demand for oil. As oil markets are seemingly considered to be well supplied, oil prices will not rise uncontrollably, as they do not face a strong upward pressure despite aggressive production cuts from OPEC. With the recent end to Iranian oil waivers, OPEC may have to make up for the loss of Iranian oil in the oil markets. Overall, we recommend a SELL for WTI futures.

CUBA

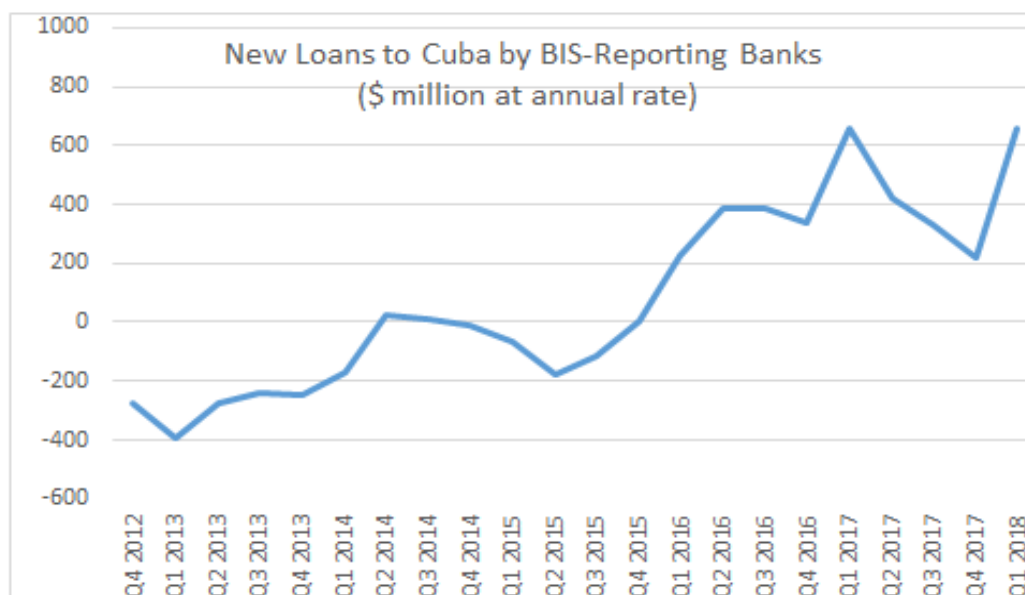


Figure 84: New Loans to Cuba (Source: Bank for International Settlements, Locational Statistics, Counterparties Resident in Cuba)

(*Cuba is one of the few countries for which the World Bank does not publish external debt data, and the government does not publish full accounts. Figures are estimates based on the available information from various sources.)


Impact of Venezuela Crisis on Cuba and Fears of a New Economic Crisis

As the World Bank does not publish external debt data and the Cuban government does not publish full accounts, the report will examine Cuba's restructuring agreements as shown by international bank loans reported by the Bank for International Settlements (BIS). According to Figure 84, new lending fluctuates and in the first quarter of 2018, it was higher by \$661 million as against the first quarter 2017 level. At this high point at the end of March 2018 total bank loans reached \$2.6 billion. This would cover 21% of total Cuban imports by 12-month loans if all lending is trade-related. However, in practice, many loans support working capital needs of foreign and Cuban firms on the island and do not finance imports of goods and services.

Earlier this year, Cuba is facing a potential economic crisis where shortages of food and medicine has become a serious problem. The agricultural sector is also in a state of chaos, requiring the help of the country to import most of its food. It is estimated that the government will have to spend around \$5 billion on food and petroleum products this year alone. In the past, Cuba has always been receiving financial support from Venezuela's socialist government, which has deep ties to Cuba and provides an estimated 100,000 barrels of oil daily for years. However, Venezuela's economic collapse along with deep cutbacks in the economic relationship across the board has led Cuba to lose a bulk of its financial support. Additionally, nickel production has dropped from 72,530 metric tons in 2011 to 50,000 last year and sugar harvest dropped nearly 44%, to a million tons. The number of tourists grew only 1%, with many coming on cruise ships, a relatively unprofitable type of visitor. Overall GDP growth has been stuck at 1% for the last three years. Thus, a cut in aid from Venezuela, the end of a medical services deal with Brazil and poor performances in nickel mining, sugar and tourism sector have left Cuba \$1.5 billion in debt to the suppliers of their food imports.

Sanctions from the U.S.

This comes after the recent Venezuela uprising crisis whereby Cuba has promised to never abandon its leftist ally Venezuela. In response, the Trump administration condemned and accused Cuba of being responsible for the survival of socialist Venezuelan President Nicholas Maduro and imposed new sanctions



on Cuba, which is already under a crippling trade embargo. The U.S. has also sanctioned Venezuela's oil industry and the shipping companies that move Venezuelan oil to Cuba. Thus, these sanctions along with its current economic crisis is making it even harder for cash-strapped Cuba to get credit from financial institutions.

As a result, Cuba's Economy Minister Alejandro Gil Fernandez has called for the government to tighten belts further and find alternatives to imports, as foreign exchange earnings decline and credit for supplies and investment become more difficult to find. This comes after exports are not growing as planned and levels of foreign investment that the economy demands are not materializing. Thus, the government forecasted that the import plan will not be fulfilled because the credits that the government needs cannot be finalized as a result of arrears of payments of debts. It is important to note that Cuba relies on imports directly or indirectly for much of what it produces and consumes, including fuel and food, and purchases the supplies with foreign currency it earns from exports and obtains through credits. Hence all these factors are legitimate concerns for a new economic crisis if the government fails to find a solution. Such concern is further worsened when Cuba stands firm in their support for Venezuela as Raúl Castro claims to "never abandon their duty of acting in solidarity with Venezuela and reject strongly all types of blackmail". However, their situation might be mitigated by Russia as according to Deputy Foreign Minister Sergei Ryabkov, Russia considers new U.S. sanctions against Venezuela and Cuba to be illegal and it plans to do everything to support its Cuban allies.

Lifting of Lawsuit Ban Over Seized Property

Additionally, as part of Trump's plan to threaten and condemn Cuba aiding the government of President Nicolás Maduro of Venezuela, the Trump administration has announced plans to enforce a controversial provision of the Helms-Burton Act signed into law by President Bill Clinton in 1996. Title III of the act, or the Libertad Act will permit U.S. citizens to file lawsuits in U.S. federal courts against businesses that operate on a property which the Cuban government appropriated after the 1959 revolution. Previously, all of the administrations before Trump's, has waived the enforcement of this title, mainly to prevent a scenario of trapping companies from many of the closest US allies in years of complicated litigation as well as to avoid a wave of retaliatory trade-related legal claims against the United States.

It is important to note that such a course of action might result in an outpouring of reparations claims against several major multinational companies doing business with Cuba. Billions of dollars could be at stake as many of the targeted Cuban properties identified by Trump administration officials last year include large multinational holding companies. In addition to claims against Canadian and European companies that have significant business holdings in Cuba, it could also affect some U.S. companies such as Delta, Jet Blue, and Marriott who have begun investing in the island since former President Barack Obama attempted to normalize relations with Cuba during his administration.

CANADA

Bank of Canada holds key overnight interest rate constant

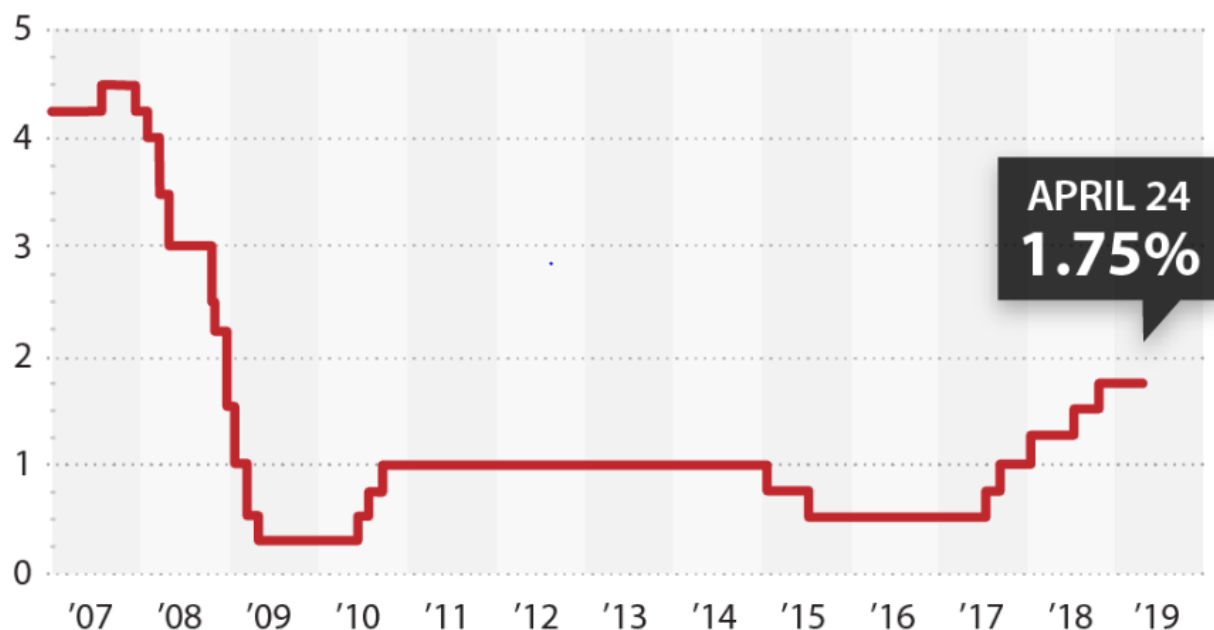


Figure 85: Canada Overnight Interest Rate (Source: Bank of Canada)

In terms of monetary policy, the Bank of Canada kept its interest rate constant at 1.75% on 24th April 2019. This was because growth during the 1st half of 2019 is now expected to be slower than was anticipated by the Bank of Canada in January 2019; hence, the central bank is keeping its interest rate low to help stimulate the economy.

In January, the central bank was expecting Canada's economy to grow by 1.7% this year, whilst on 24th April 2019, this lukewarm forecast was downgraded to a disappointing 1.2%. That being said, the BoC expects growth in the 2nd to 4th quarters to be better than it was in 1Q2019.

FX Trade Idea: Long USDCAD

haozlinz published on TradingView.com, April 28, 2019 23:46:13 +08

FX:USDCAD, D 1.34550 ▼ -0.00303 (-0.22%) O: 1.34853 H: 1.34980 L: 1.34518 C: 1.34550



Figure 86: USDCAD Chart (Source: tradingview.com)

Entry: 1.3380

Take profit: 1.3490

Stop loss: 1.3330

Moving forward, we remain overweight on USDCAD. We recommend entering the long USDCAD trade at 1.3380, right after the USDCAD has retested and bounced back up from the support level established by the lower band of the latest channel - confirming the upward trend. That being said, should USDCAD retest the support level and break it, we recommend closing the trade at 1.3330, right after support is broken to limit losses. After the trade is entered, a reasonable exit point - or take-profit level - will be at 1.3490.

AUSTRALIA

In our previous analysis on December 2018, we factored in 3 major reasons that governed our approach towards suggesting possible weakness in the Aussie in the following 6 months (December - May):

1. Possible Downward Revision of Cash-Rate
2. Weak Economic Growth and Inflation Outlook
3. Export Dependence and Ongoing Trade Tensions

Firstly, since December 2018, there have been no changes being made to the cash-rate as the Reserve Bank of Australia and it has been held at 1.5% as of 3rd April 2019. Reasons have been cited by Phillip Lowe, Governor of the RBA that current interest rate outlook is necessary to provide substantial liquidity in the markets and recent statements have suggested a slightly dovish tilt in terms of forward guidance which supports our stance of an increased interest rate differential between Australia and the U.S.

Secondly, economic growth has remained subdued in Australia. Data from tradingeconomics show that GDP growth has contracted from 2.7% to 2.3% as of 5th April 2019. Ongoing trade talks and proposed deals between China and the U.S. do not seem to be providing confidence in the markets, hence the outlook on Australia has generally been reserved and mostly reactive. While Financial Times has reported an expected 26,000 jobs to be added to the economy, unemployment data persists to disappoint and is reported to have reached 5% in March, up from 4.9%.

Lastly, Australia's trade data has been positive in the past 4 months. Data has shown a record of AUD4.801B trade surplus in March, up from AUD4.351B. Trade performance from Australia has shown to beat estimates since March. This introduces a significant amount of noise around the Aussie since markets may have been overpricing slowing global growth risks and have been overly bearish on the outlook for AUDUSD. This points to a potential risk of markets correcting against our favour upon the release of positive trade data and also Chinese manufacturing and economic activity.

In sum, our short (sell) recommendation for the AUDUSD has played out favourably and is reflected in the price action for the currency pair in the last quarter. The graph below shows that we achieved our take profit level late in December 2018. In addition, the AUDUSD has constantly tested our identified level of support at 0.70514 with 3 successful breakthroughs.



Figure 87: AUDUSD Chart, Revisiting Our Previous Short Recommendation (Source: tradingview.com)

In the first four months for 2019, we have identified two major economic events and occurrences that may impact our outlook on the Aussie:

Policy U-turn and More Dovish Fed

Due to tepid inflation data and GDP growth numbers in the U.S., the Federal Reserve has revised its stance towards interest rates and has signalled a wait-and-see approach regarding setting the targeted Fed Funds Rate. Markets have already begun pricing in the likelihood of potential rate cuts in from 2019-2020. A more dovish stance towards rates is likely to determine the strength of the USD. A potential unexpected rate cut from the Fed may signal potential strength for the Australian Dollar in the medium to long term.

Strong Growth Momentum in China a Case to Consider

Australia's resource-rich economy is highly dependent on its major exports such as iron ore, coal and petroleum gas. The fear of slowing growth in China has empowered the markets to take on more short positions against the Australian dollar in 2018 due to growing trade tensions. In more recent times, we do expect trade tensions to ease between the U.S. and China as trade talks begin to become more conclusive. While we still believe that we are far from reaching a trade deal in the shorter term, China's economy has proven to continue to be growing at an annual rate of 6.4%. In March, China saw a 1.3% increase in its Purchasing Managers Index and reported a bigger than expected rebound in exports of 14.2%. Positive news for China is likely to shore up confidence in the markets and would lead to an upward price pressure for the Australian dollar.

FX Trade Idea: Long AUDUSD

Entry: 0.703549

Take Profit: 0.72

Stop Loss: 0.69804

On the back of a strong Chinese market and momentum and also rising commodity prices we would like to revise our outlook towards AUDUSD and recommend a long position for the currency pair. In the past 4 months, we can see that the AUDUSD has been showing signs of consolidation. Given its current level near key support at 0.70, we believe that the Aussie is currently under-priced and is in a good setup for a long position given the current market conditions.

De-escalation in Trade Tensions Shows Room for Growth in Australia

As Beijing and Washington seek to craft a deal to limit protectionist measures on both ends, we believe that a trade deal in 2019 is likely to restore confidence in China and U.S. potential to drive global growth. Australia is likely to be a large beneficiary of a trade deal since commodity demand is likely to ramp up given an increase in production in both developed and emerging markets. The biggest roadblock for the two economic superpowers would be the ordeal on intellectual property. As the two countries seek to gain more clarity surrounding regulation and dispute around IP, we believe that ongoing trade talks and actions implemented towards ensuring compliance on both sides are sufficient to ease market fears about recession risks in 2019.

Reflationary Measures and Strong Chinese Data Likely to Impress

As Australia's largest export market and trade partner, positive news and economic data from China is likely to improve sentiment surrounding AUDUSD. China's economy continues to gain strength and GDP growth numbers are at a 6% level on an annual basis. We expect a loose fiscal policy to continue to spur growth for the region as China has increased its budget deficit target to 2.8% up from 2.6% in 2018. In addition, cuts to the Reserve Ratio Requirement (RRR) have been made this year to free up liquidity in the market. This enables corporates to meet obligations in interest payments as access to capital remains at an affordable level in the economy. In more recent news, positive trade data, retail sales and PMI data has provided comfort in the market. Surging industrial production in China and emerging markets such as

Vietnam that benefit from increased activity in China is likely to lead to an increased demand for raw materials and will provide a more positive outlook for commodities such as base metals and energy. We believe that these factors are likely to provide a new level of support for AUDUSD in 2019 and we hold a bullish view towards AUDUSD in the next 3-6 months. In the following months, we expect Chinese data to continue to outperform analyst expectations hence sparking more momentum for a bullish upturn for the AUDUSD.



Figure 88: AUDUSD Chart (Source: tradingview.com)

We recommend entering the trade at 0.69804 at the current spot price. Previously, AUDUSD has seen a rally closer towards a key level of support at 0.72 due to positive trade and PMI data from China. We expect this to continue to trend in upcoming news and data release in the following months of 2019. The current value for AUDUSD appears to be undervalued as markets enter a steep sell-off upon poor inflation data in Australia and a potential rate cut from the RBA. Nevertheless, we believe that such fears are unwarranted as fears are likely to be eased by other domestic data. The 200-day SMA acts as our dynamic support level and we believe that the Aussie is likely to trade above this level after a recovery in price. Based on the Relative Strength Index, we are able to confirm our view that the Aussie is under 30 which would indicate that the currency is currently being oversold in the market and we expect a recovery in prices.

We have identified the 0.69804 as our level of key support. AUDUSD is likely to trend lower if it breaks past this level, hence we have assigned the stop loss at this key level.

COPPER

Summary of the Previous Fundamental View:

1. Demand for copper is expected to grow but at a slower pace than 2018
2. Chinese demand for copper for infrastructure continued to be the main demand driver for 2019
3. Low supply of copper growth is driven by the lack of new projects and decreasing mining efficiency
4. Demand outstrips supply but the main risk of the view was the U.S.-China trade war
5. Trade idea was to long copper futures at 2.8980 on September Copper Future
6. The current price of September Copper Future is 2.9185. The Year-To-Date Gain is 12.36%.

Significant Events Played Out:

U.S.-China Trade War

Currently, the U.S. has applied USD250b tariffs on China while China applied USD110b tariffs on the U.S. The tit-for-tat tariff trade battle is one of the reasons for the slowing down of the global economy. China's PMI has been falling until February 2019 when it had reversed its trend.

Supply Concerns

International Wrought Copper Council (IWCC) has reported a further downward revision of copper mine production from 20.47m tonnes to 20.05m tonnes in April 2019. This is evident from lower expected production reports by various copper mines such as Grasberg mine in Indonesia (the world's second-largest copper mine). Mining companies are searching globally for new copper projects. In March, Rio Tinto has made a promising find in Western Australia while BHP identified potential new copper projects in Southern Australia. Despite positive reports on new copper projects, it would still take time before the mine is ready for the excavation of copper minerals.

Upward Demand Pressures

Electric vehicles (EV) will be an increasingly important driver for copper. EV policies helped the U.S. to pass 1 million total EV sales in 2018 while many other economies are pushing out new electric vehicle incentives.

Infrastructure spending increases steeply with many countries such as India, Thailand and Indonesia pledging to increase its infrastructure spending during their election speeches. Part of the spending will be focused on 4G and 5G infrastructure which will drive the demand for optical cables. Furthermore, although China's tier 1 cities are well developed, the tier 2 and 3 cities' digital infrastructure are not. Spending will be expected to increase in building digital infrastructure in the rural parts of China.

Future Outlook: Bullish

Chile is a mineral-driven economy, which one-third of its economy depends on copper production. While the economic performance is a good reflection of how the progress of the prices of copper, the political situation in the countries may have an influence on the prices as well.

In Q4 2018, Chile advanced a 3.6% YOY, beating the market expectations of 2.9%. This is mainly driven by a rebound in the mining activity. Total mining output increased by 3.1% in the 3-month period. The state-owned Codelco, the world's largest copper producer, is expected to grow its production in 2019 to 1730 million tonnes from 1677 million tonnes in 2018.

However, the tightening of environmental regulations such as regulating emissions from copper smelters may make new capacity harder to achieve. As a result, it may cause a short supply crunch, limiting the expected production, driving copper prices even higher.



Figure 89: Copper Futures Chart (Source: tradingview.com)

Entry price: 2.8545

Take profit: 2.9940

Stop loss: 2.7715

The support and resistance levels are 2.8545 and 2.9965 respectively. Currently, the commodity price is ranging between the support and resistance band. The 200 MA intersects the increasing 9 MA, which supports our fundamental analysis. RSI is on a downward trend, showing that the increasing strength of the bears.

We expect the price to retrace back to the support level. As the fundamentals have shown that demand outstrips supply, we expect a bullish trend. The temporary retracement can allow us to capture more profits.

Risk to Future Outlook:

- Strength of USD - Strong USD continues to be the headwind for copper prices. Early this year, FED has adopted a more dovish stance that possibly reduces the strength of USD. This may temporarily reduce the downwards pressure of copper prices. Should the U.S. economy slows down due to the effects of the trade war, the USD will reflect the weakness of the economy and copper prices might rally to take advantage of it. A full-blown trade war - While there is no clear sign of a full-blown trade war, the possibility of it occurring is not zero.
- A full-blown trade war will result in a downward pressure of demand for copper as global demand for goods will fall. It is evident from China's falling PMI in the 4th Quarter of 2018 of how badly the largest consumer of copper - China, would suffer under the unfolding of the trade war.

PALLADIUM

Palladium has been one of the hottest metals in 2019 where it had recorded new highs in 2019 alone and is now valued more than gold. The metal has jumped 15.2% in 2018, and hit a peak of \$1599.6 in 2019, before plunging 15.8% to 1347.03 on the 28th March 2019.

Approximately 85% of the precious metal is used for vehicle auto-catalyst, while the remaining metal is used by industrials and jewellery. The main demand from the metal comes predominantly from China (24.39%) followed by the United States (21.61%) and Europe (17.1%) while the metal is mainly supplied by United States (15.6%), Saudi Arabia (12.1%) and Russia (11.2%).

2019 to Make the 8th Year of Palladium Shortage

Over the last few years, a large part of Palladium's price has been driven by vehicle auto-catalyst. More stringent emission controls have left vehicle auto-catalyst manufacturers scrambling to get hold of more palladium in order to fulfil the demand for vehicles, particularly in China. In 2018, global demand for palladium was recorded at 10.9m ounce while only 9.7m ounce was produced according to Bloomberg indicating that supply is still lagging behind demand after 7 consecutive years.

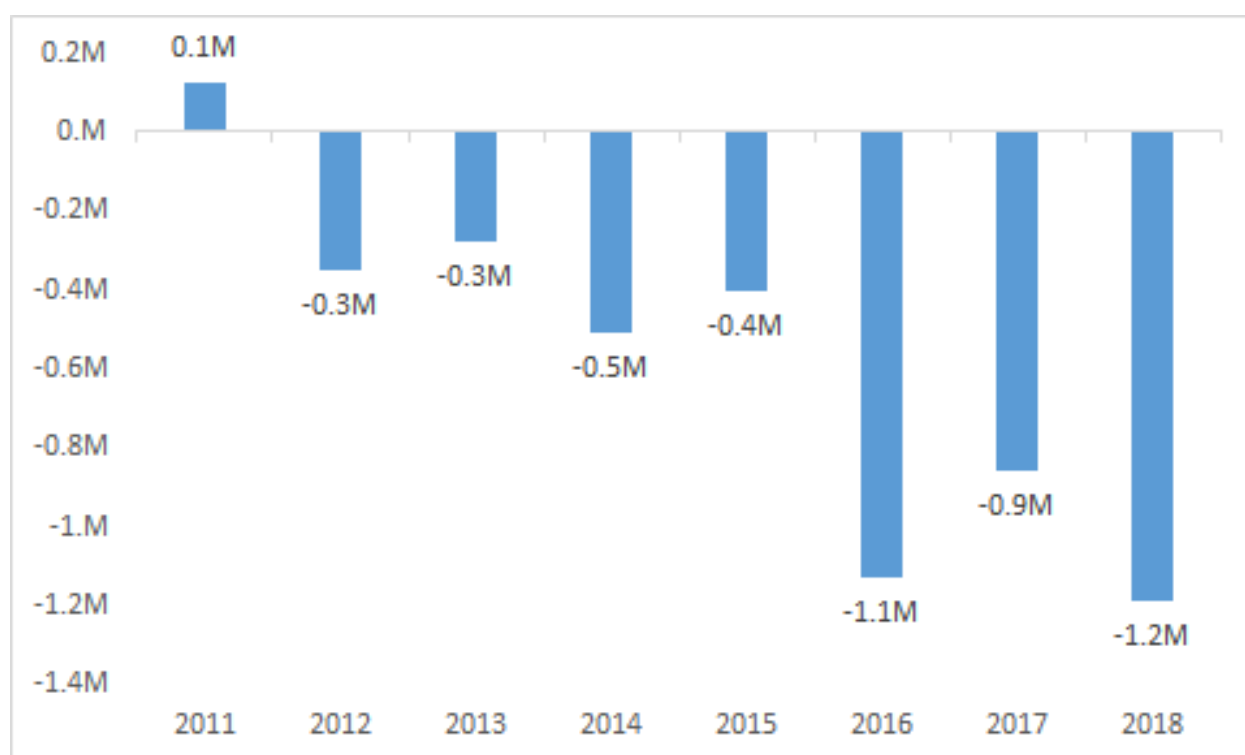


Figure 90: Palladium Deficit (Source: Bloomberg)

For China, stricter emissions standards in 2020 have led to strong auto-catalyst demand and support palladium prices. While China has historically prioritized economic growth over environmental production, Chinese leaders have been under intense pressure to rein in dangerous air pollution. As a result, the Chinese government has been giving incentives and setting regulations so that Chinese companies have a financial incentive to operate more cleanly. However, these incentives are set to decrease by 2020 to be replaced with the Chinese 6a standards, where regulated emission limits will be tighter and applied to gasoline and diesel vehicles. With China's new legislation for 2020, Morgan Stanley has forecasted that 30% more PGM will be required on each vehicle, providing stronger support for palladium prices. According to research from BASF, the world's leading supplier of catalysts, demand for palladium is expected to grow from 2.332 million ounces to 3.429 million ounces by 2022.

Emission standards have also gotten stricter in Europe with the Euro 6 legislation, further driving palladium prices. While only new passenger car models were affected when the legislation was passed in September 2017, this legislation will extend to cover all new light vehicles by 2020. With the new legislation, vehicles will be tested under a wider range of conditions. As a result, this has made emissions control significantly more challenging, and in turn drive increases in both the complexity and the palladium content of after-treatment systems.

Supply Unlikely to Make Up for Demand Shortfall

Primary supplies of palladium are also expected to be flat and hence unable to make up for the increase in demand from tightening emission regulations. In South Africa, the fall in production in South Africa last year, owing to job cuts and mineshaft closures, is likely to continue in 2019. However, we expect releases of palladium from pipeline inventories to offset the impact of shaft closures in South Africa. In Russia, palladium shipments from Norilsk Nickel will continue to benefit from the processing of palladium-rich surface materials, while we expect some further sales of primary metal from the Global Palladium Fund. Secondary supplies are forecasted to increase again, but it is likely that the rate of growth will moderate following two years of very rapid gains.

Correction in Palladium Amid Profit-Taking and Falling Car Sales Data

Palladium recorded its biggest drop of 15% to 1347.03 on 27 Mar 2019. This was largely fuelled by profit-taking as it the end of the first quarter of 2019 where contracts were expiring. Given that Palladium had rallied over 60% within the last 12 months, a correction was largely due as the first quarter of 2019 comes to an end.

In addition to profit-taking, prices were also dinged by poor car sales data in China and the U.S. which weighed on investors' sentiments. While vehicle sales in the U.S. fell for the second time in March, China's vehicle sales had fallen for the 9th month due to tax cuts, igniting fears that demand for palladium might be less than anticipated in 2019.


Trade Idea: Long XPDUSD Spot



Figure 91: XPDUSD Spot Chart (Source: tradingview.com)

The chart above shows that palladium has been on a steady increase since September last year on tighter regulation and a flat supply. The support level is at 1330.19 and the resistance level is at 1610.19. While profit-taking and poor car sales push prices down in March, palladium is still fundamentally expected to be at a deficit for 2019 providing support for palladium prices.

On the supply end, it is unlikely that there would be a sudden inflow of palladium metal to reverse the bull trend as there is no palladium producing mine scheduled to open this year that would be rich enough to



cover the deficit. As palladium is typically a by-product of nickel and platinum mining, it is also unlikely that there would be an announcement of a project that is large enough to cover the deficit that the metal is in given that both nickel and platinum are in a large surplus.

The key risk on the supply end is the chance that the Russians would release some of their state reserves into the market. Unknown quantities of palladium were produced during the Soviet years which have ended up in the ownership of Russian Central Bank. It is difficult to predict whether these reserves will be released into the market in 2019. However, in 2001 when the market ran into shortage, under Russian President Boris Yeltsin's leadership, the Russians were able and willing to bring physical supplies of palladium to the market which turned the market around.

On the demand end, despite a slowdown in car sales in China and the U.S., more PGM will be required on each vehicle as a result of regulation. As these regulations are carefully planned to be phased in periodically, it is also unlikely that governments would roll back their plans.

The key risk on the demand is a substitution of palladium to platinum in the production of vehicle auto-catalyst. Palladium has historically been a substitute to platinum in the production of auto-catalytic vehicles as it was a cheaper substitute in the past. As the spread between palladium and platinum rises, there is a mounting risk that automakers will substitute palladium for platinum, which at around \$900 an ounce, is trading at a \$550 discount to palladium. Although this risk has not materialized yet, it will happen slowly as the price of palladium continues to climb which would place a downward pressure on palladium prices.

IRON ORE

Our previous forecast was to long iron ore in 2018, for we believed that fundamentals would support a rally past USD70.0 USD/MT. Today, due to the catastrophic Vale incident, we have seen iron ore prices reaching a high of USD96.71/MT, a number unheard of since 2015, in a matter of days. Between February and April 2019, iron ore prices have been ranging, settling between USD80/MT and USD90/MT. While our initial trade idea was for a long, and one would have surely profited from this unexpected event, we believe that this rally would be short-lived.

Supply Shock Sapped of Strength

The combined output of Vale's mines in Brazil total 384.6 million tons, being the world's largest producer of iron ore. With the dam's collapse, several mines with tailing dams were ordered to be shut down, with production being estimated to fall by 40 million MT. The fear of shortages, as well as the lack of transparency on iron ore stockpiles, had led to the prices of iron ore to rally sharply. However, while prices have been bouncing past the USD80/MT support level, prices have been unable to break past the strong resistance of USD97.10. Over the past 3 months, mining and shipping operations have resumed, with Vitoria, Tubarao and Ilha Guaíba port and mining operations being notable examples. However, it must be acknowledged that Vale's competitors, such as BHP and Anglo American, have stated they would be unable to ramp up production to replace the loss of iron ore in the short-term. This may support iron ore prices somewhat in the next few months, but as Vale's mining operations regain momentum, uncertainty and fears would likely evaporate. A more confident market, with increased iron ore supply (Vale had stated it hoped to increase iron ore production to 400 million MT in 2019), would likely see iron ore prices fall back to the USD70/MT price range.

Does Grade Matter?

Our original forecast had looked specifically at 62% Iron Ore, which is noted to come primarily from Western Australia. For many years, 62% iron ores have been the industry benchmark, until Chinese regulations on pollution control kicked in, necessitating the use of higher-quality iron ores. 65% iron ores, primarily from Brazil, has seen an increase in demand over time, with China leading the charge with its focus on environmental issues. This demand is evident with several exchanges, such as SGX, which clears the majority of seaborne iron ore, had released a higher-grade iron ore future on December 2018, specifically 65% iron ores from Brazil. Many believe that 62% and 65% are distinct, with a premium existing between the two grades of iron ores, the two iron ores are close substitutes for one another. This is especially apparent during times of supply shocks, with the Vale incident sending 62% TSI Iron prices rallying to new highs. As the concept of higher-grade iron ores being more desirable becomes more established, the premiums will only widen as Chinese steel mills shift their demand to higher grade ores from Brazil. As such, it is likely that 62% Iron Ore would fall in demand. With supply remaining high, it is likely prices will fall.

The Curious Case of Iron Ores

Most commodities are in contango, where the future spot price is trading below the futures contract price. The forward curve for such commodities will be upward sloping, with futures contract further out being more expensive than closer months, with this being a reflection of fundamental reasons or carry cost. On the other hand, the iron forward curve has historically been backward dated, or downward sloping, except for the brief flip to contango in 2017. This implies that the market views that iron prices would fall over time, as iron ore being held now is more valuable than in the future. This unique trait could be due to the vast abundance of iron ore in supply, with mining companies limited mining operations to ensure sustainability and profitability over the long term. With prices reeling from a supply shock now, this backward dated forward curve would naturally be even steeper now. With this feature in mind, combined with a slowing world economy, it could be profitable to short Iron Ore while prices are still are elevated levels.

Trade Idea: Short 62% Iron Ore Futures

Entry: 93.16

Stop-Loss: 99.36

Take Profit: 79.56



Figure 92: 62% Iron Ore Futures Chart (Source: *tradingview.com*)

With prices hovering between the support (79.56) and resistance (95.01, 06.96), it appears that iron ore prices are ranging currently. Prices had been trying to break the 95.01 level since the Vale incident in January but have since been unsuccessful. We believe this is mere testing of the resistance lines, as there are no fundamental reasons to provide additional strength for iron ore to reach its 2014 levels again.

We have placed our stop-loss above the resistance lines at 99.36, near the highest price reached in 2014. Meanwhile, our take-profit will be a conservative one, above the support level established at 79.56, and only broken with supply shock that was the Vale Dam incident. We believe that demand will gradually fall as China's economy slows down, although no one knows when, while supply would reach pre-Vale levels or even higher. Even so, iron ore is a highly volatile commodity and a conservative take-profit would be prudent, in the event of future supply or demand shocks.

NEW ZEALAND

In the previous report published in December, we had a view of the NZD depreciating over the following months. The NZDUSD had indeed fallen to a low of 0.665 on 2nd Jan 2019, before rebounding strongly to a high of 0.694. Ever since then, the NZD had been ranging strongly, influenced by domestic economic factors and global risk sentiment.

The fundamentals of the New Zealand economy have been relatively poor. CPI (q-o-q) had hovered at 0.1%, from an unexpected 0.9% back in October 2018. GDP growth has been lacklustre, with Q1 2019 registering at 0.6%, although this has beaten both expectations and the previous quarter's growth rate. The unemployment rate has hovered around 4.3%, with a rise in q-o-q unemployment rate back in March by 0.1%. Even so, the RBNZ has stated that unemployment has been hovering near its maximum sustainable level. Trade balance has been fickle for the last quarter, bouncing between a surplus and deficit, although overall the balance is a net negative.

On the other hand, the NZD has reacted strongly to global economic sentiment. News of progress in trade talks had provided support to the NZD, while poor economic performance in the Chinese market had led to bulls taking control of the currency at times. Brexit news had continued to impact the NZD, with news of further delay till October providing some relief to an increasingly risk-averse global outlook.

As such, the NZDUSD had only managed to break its historical support of 0.6705 recently on 18th April, brought about by strong greenback growth backed by unexpected strong positive growth in retail and home sales in the U.S., as well as poor CPI data for both Australia and New Zealand. The bulls, for now, seem to be winning. However, it is uncertain if the momentum can be carried through to break past the previous low established at the start of 2019 by the flash-crash.

Birds of a Feather Flock Together

Despite lacklustre economic performance, the RBNZ has maintained its OCR of 1.75%, stating it would keep rates constant through 2019 and 2020 if economic conditions remain unchanged. With relatively poor fundamentals, a weak global economic outlook and reduced domestic demand, it appears that the RBNZ next move, if it makes one, would be a rate cut. If the NZ economy continues to deteriorate, we could see an increasingly dovish RBNZ bring forward a rate cut, especially recent CPI numbers indicating the economy has much room for growth without fears of inflation. Moreover, the RBA has also continued to keep rates constant, although some have also predicted a rate cut in the 3rd quarter of 2019, which may in turn induce the RBNZ to follow suit. The recent release of CPI data for Australia had worryingly shown no growth, sparking fears of weakness in both Comdoll.

Recession Fears... Again?

The NZD has historically been correlated to the performance of the Chinese economy, being the top importer of its goods (24.9% of total exports). The Chinese economy serves as a proxy for global economic health, due to its vast importation of raw materials, commodities and finished products. The Chinese economy slowed down in 2018, as evident by GDP growth falling to a low of 6.6% in 28 years. In February, Chinese exports had dropped by 20.7% YOY, in addition to both the Chinese Caixin PMI and NBS Manufacturing PMI falling short of expectations. However, the Chinese economy has seemed to make a come-back in March, with an improvement in both business sentiment and exports numbers. This is perhaps due to the back stimulus measures it has taken and is intending to implement. Notable examples are those targeted at commercial banks, namely the reduction of the Reserve Ratio and injection of funds via bonds repurchasing agreements. China also intends to implement additional measures to boost economic growth, via tax cuts and increased infrastructure expenditure, although structural constraints may limit the effectiveness of policies in stimulating growth.

With slowing inflation and economic growth, the U.S. Federal Reserve has appeared to adopt a more dovish stance in 2019, where it has announced that it would halt its previously planned rate hikes to hold interest rates at 2.5%. This potentially could stall the Greenback's path of appreciation over the past several months,

giving the Kiwi some room for growth. However, the prospect of a slowing U.S. economy and weakening Greenback would potentially lead to a fall in New Zealand exporters, with the U.S. being the 3rd largest importer of its good (9.6%). This could, in the longer run, place depreciationary pressures on the Kiwi.

Slowing global trade volumes, the inversion of the yield curve, as well as an increasingly risk-off business environment, point that a coming global recession is a real possibility, or hopefully the case of simply sluggish growth. Regardless, both scenarios would lead to further downside potential for the heavily export-reliant Kiwi.

All Quiet on the Domestic Front

New Zealand's private consumption accounts for 60% of its economy, and there are signs that it may falter despite interest rates remaining low.

Firstly, the affordability of housing in New Zealand remains a problem, with the real wage growth rate unable to compensate for similarly rising housing prices. Moreover, the government's banning of foreigners purchasing houses had led to many to predict a negligible positive impact on its housing issues, where rising prices can be primarily attributed to supply-side constraints. Moreover, subdued accessibility to credit due to increased lending rates, and the recent extension of the bright-line test for residential owners, would put further downward pressure on housing demand. Secondly, New Zealand's household debts have often been a matter of concern, peaking at 163.7% in 2018. This high level of debts in households reduce the propensity of households' consumption even with historically low interest rates. Lastly, consumer confidence has declined to 103.8, a 7.4-point drop from the previous year. All these factors, coupled with uncertainty in the global economy, would see private consumption to decline as households focus on servicing debt and saving. Poor private consumption could potentially lead to further downside for the Kiwi, as the RBNZ would be hard-pressed to push for export-growth via interest rate cuts.

FX Trade Idea: Short NZDUSD




Figure 93: NZDUSD Chart (Source: tradingview.com)

Entry: 0.6709

Stop Loss: 0.67242

Take Profit: 0.64757

NZDUSD broke out of the channel it was ranging between since 18th November, after the release of Australia's CPI being below expectations at 0.0. Ever since, it has been on a downward movement and is threatening to break past the previous low established at 0.6582. The RSI has supported this view, pushing through the RSI support at 40.451. However, we can anticipate a rebound and consolidation of positions



shortly, and as such will enter when retracement ends, by shorting when prices bounce off the middle band of the Bollinger bands.

Take profit (green) will be placed at 0.64757, a comfortable range above the historic low of 0.60915, while the stop-loss (red) will be placed slightly above the channel indicated by the support/resistance lines (blue). Despite the strong downward movement, momentum may wane when the RSI reaches 25.4722. As such, the expected rebound would be a suitable place to enter a short position. The purple line on the chart indicates an estimated price where we believe the bearish trend would resume.

Another cue that investors take in determining the direction of Comdolls would be the progress of the ongoing trade talks. The next discussion would be on the 30th April 2019, with both Washington and Beijing seem more determined to push for an end to the tariffs imposed on each other. The two sides have ramped up diplomatic efforts in recent months, and if the coming meeting is successful, it could bring about renewed risk appetite. The NZD had seen bouts of bullishness when progress in trade negotiation was made, and its conclusion could see the NZD gaining in strength in the coming months.