DAILY MARKET OUTLOOK

OCBC Bank

Wednesday, December 12, 2018

FX Themes/Strategy/Trading Ideas

- The apparent thawing of Sino-US trade tensions (call between Liu He, Lighthizer and Mnuchin; reports that China may be moving to lower auto tariffs) saw the USD gaining on the EUR and JPY but easing against the cyclicals (AUD, NZD, CAD). UST yields meanwhile firmed with the curve bear flattening on stabilizing equities and the apparent lowering of global trade tensions. Bund yields meanwhile continued to edge lower.

- The **GBP** meanwhile continued to tumble lower (gilts yet firmer) across the board as murmurings (from the BBC, no less) of a no confidence vote (threshold of 48 letters has apparently been reached) against PM continued to gather. Meanwhile, EU officials (reportedly, including Merkel) continue to indicate no room for renegotiation of the Brexit agreement.

- Elsewhere in the European theatre, the **EUR** may also have been spooked by the French situation, which may descend into an Italy-like budget deficit situation. On the sideline, it may also embolden Italian politicians to run the hardline against the EU on their budget dispute. A miss in the German ZEW survey also did not help.

- Positive Asian/EZ equities but flattish US stocks left the **FXSI (FX Sentiment Index)** easing lower within the Risk-Off zone.

- **In the immediate term, look to fade upticks in the EUR-USD (Italian and now French fiscal static), remain bearish on the GBP-USD and positive on the EUR-GBP. Meanwhile, bounce any dips in the USD-JPY on supportive US yields. Elsewhere, the AUD-USD may attempt to benefit slightly further (but topside may be limited) from the improvement in Sino-US trade relations (for now).**

- On the data front, watch for Eurozone industrial production (1000 GMT) and US CPI prints (1330 GMT)

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Asian Markets

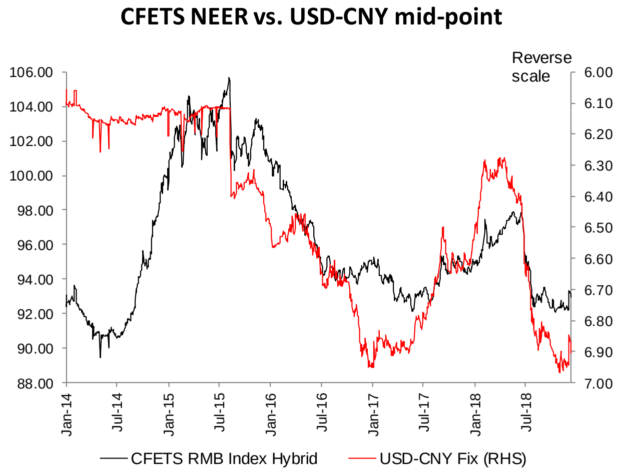
- Early Wednesday, USD-CNH eased on the back of positive news flow (Sino-US trade tensions, Huawei) and this may cap USD-Asia intra-day. Continue to use Asian equities as an immediate barometer of investor sentiment in the region intra-day.

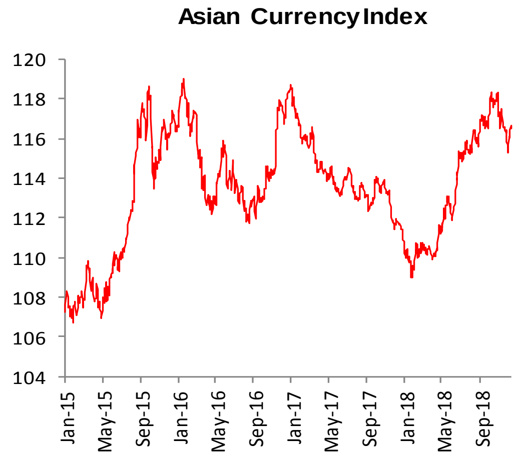
- **India:** The appointment of **Shaktikanta Das** (former bureaucrat) as the new **RBI governor** is likely to fuel more dovish expectations of the RBI's posture, and also of RBI independence, in the near term. Elsewhere however, political uncertainty may continue to circulate post the weekend state election results and put a near term floor on govie yields.

- **Asian portfolio flows** continue to soften, with South Korea and Taiwan equity flows leading the way lower. Outflow momentum in Taiwan, in particular, is accelerating. At this juncture, note a coordinated downshift in aggregated flow momentum on both the bond and equity fronts.

- **SGD NEER**: The SGD NEER remained elevated this morning, at around +1.96% above its perceived parity (1.3997), after briefly spiking pass the +2.00% mark overnight. NEER-implied USD-SGD thresholds are essentially static. With sentiments in Asia easing on perceived improvements in the Sino-US tensions, expect the USD-SGD to be somewhat heavy alongside its Asian counterparts. Immediate support level at the 100-day MA (1.3728), but we look to bounce any dips in the pair.

- **CFETS RMB Index**: The **USD-CNY** mid-point was set higher again, within expectations, at 6.9064 compared to 6.8996 on Tuesday. The CFETS RMB Index inched higher to 93.01, compared to 92.98 previously.





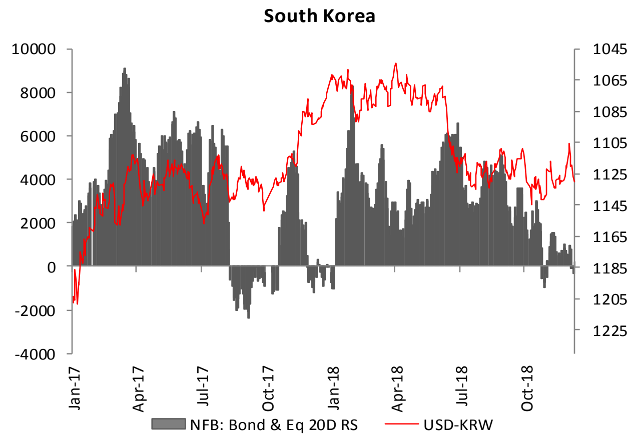
Source: OCBC Bank, Bloomberg

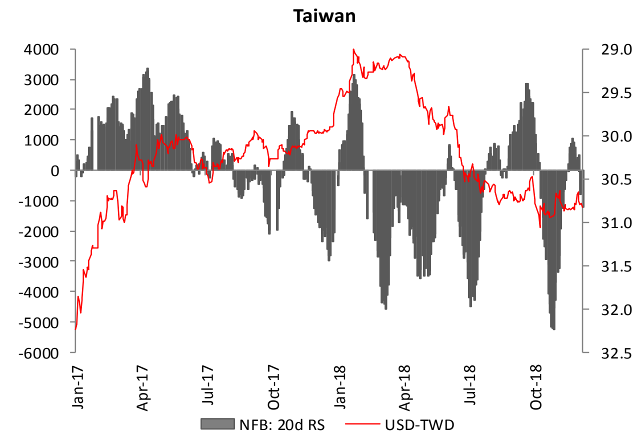
Short term Asian FX/bond market views

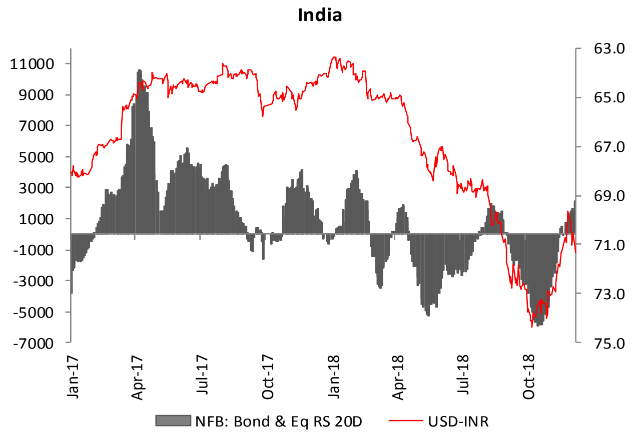
Currency	Bias	Rationale
USD-CNH	↔/↓	Beijing finally acknowledges latest Xi-Trump 90-day truce for tariffs, and starting to act on the deal. 3Q GDP numbers “disappointed ”. PBOC’s quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. Nov CPI/PPI and official PMI prints underperform. Nov monetary aggregates indicate some stabilization after the recent deterioration but govie and NDIRS curve may remain soggy.
USD-KRW	↔	BOK hiked 25bps as expected in November with the hike characterized as a one-off dovish hike by markets. 3Q GDP and Sep industrial production readings came in lower than expected. Nov CPI prints also in-line to softer. KTB and NDIRS (despite inversion at the fonrt-end) yields may continue deflating.
USD-TWD	↔/↓	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Some CBC members looking towards policy normalization to afford the authority eventual downside wiggle room.
USD-INR	↔	3Q GDP and Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance. RBI static in Dec, with accompanying rhetoric signaling a pull back of rate hike expectations if inflation does not materialise (inflation forecasts revised lower). Brewing political uncertainty, after the loss in three key state elections, ahead of the 2019 nationwide elections may weigh on the INR and bonds. Appointment of new RBI governor however portends a more dovish central bank posture ahead.
USD-SGD	↔	MAS steepens the NEER’s slope again in October. With the NEER remains near its upper boundary, expect declines in the pair to track downside in the broad USD, and not as a result of explicit SGD strength. 3Q GDP numbers disappoint. SGS and IRS yields continue to fluctuate with US yields.
USD-MYR	↔	The mid-term review of the 11th Malaysia Plan saw growth forecasts downgraded and with the previous plan to achieve a balanced budget by 2020 scuppered, replaced by an projected -3.0% deficit. BNM static in November,highlighting the drag from the fiscal front. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit penciled in).
USD-IDR	↔	Note recent outflow pressure for bonds, underpinning govie yields. The Nov hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, with the BI expected to stay pre-emptive and ahead of the curve in 2019. BI resumes intervention at the FX and bond markets.
USD-THB	↔/↓	BOT unchanged at Nov MPC, but shows an inclination towards a Dec hike, rather than Feb. Any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Latest global yield developments may however erode any urgency to normalize monetary policy. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Nov CPI dipped back below the BOT’s target range, potentially complicating the Dec rate hike outlook again. Govie yields touch softer but lag softening IRS yields. General elections scheduled for 24 Feb 2019.
USD-PHP	↔/↑	BSP hiked rates by another 25 bps in its Nov meeting, aiming to rein in on inflation and pre-empt second round effects. Official rhetoric continues to point towards lower inflation prints in the coming months (Nov CPI cooler than expected), although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending. BSP expected to stand pat in December.

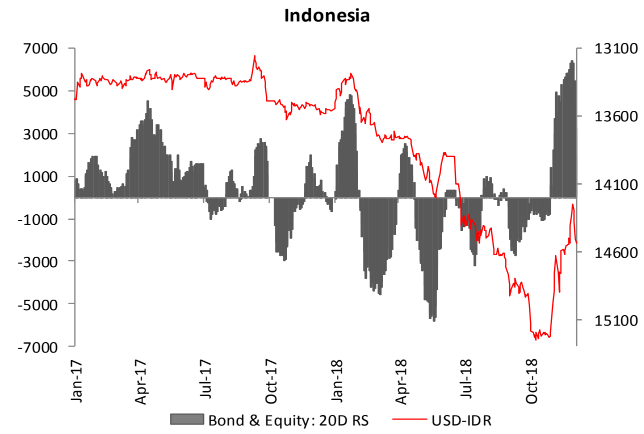
Source: OCBC Bank

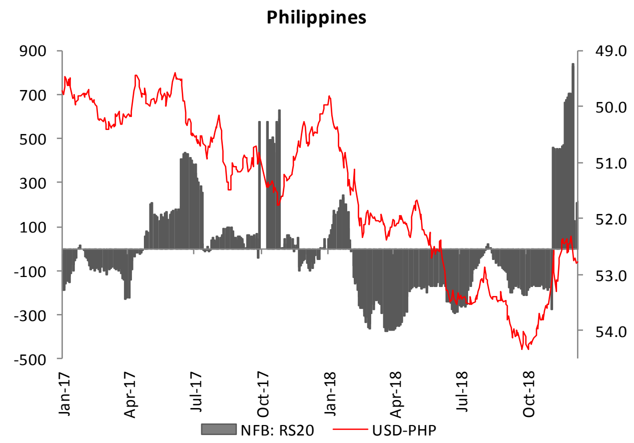
USD-Asia VS. Net Capital Flows

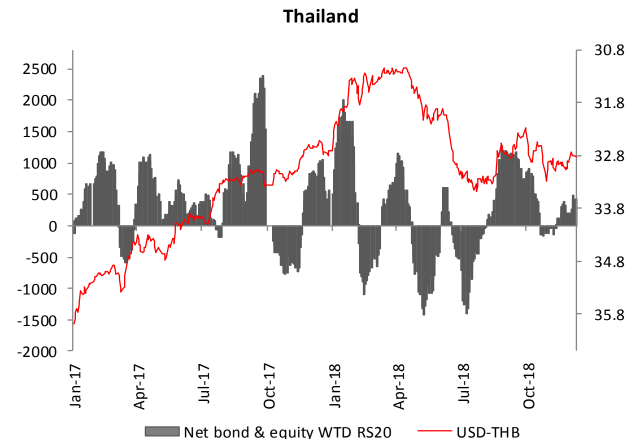


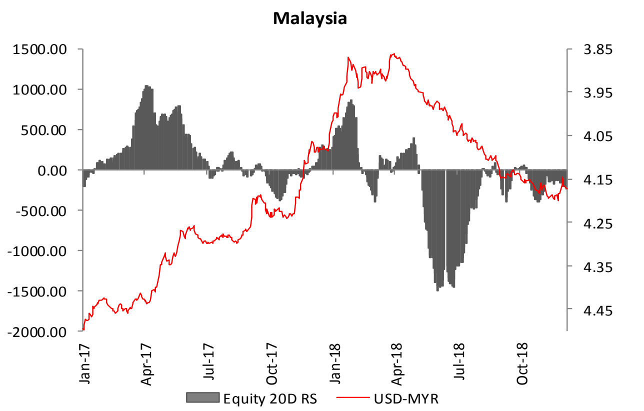








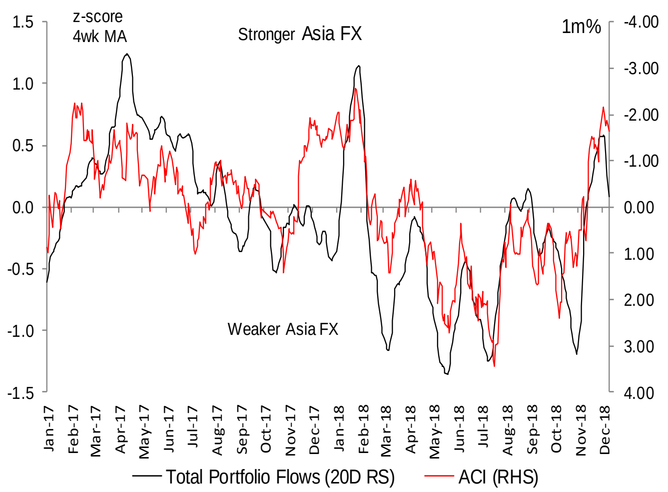




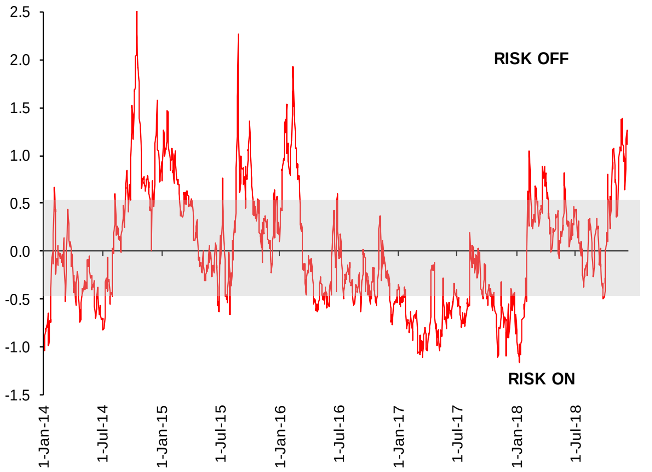
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

FX Sentiment Index



Source: OCBC Bank



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	**1**	0.06	0.124	0.174	0.03	-0.348	**0.695**	-0.09	-0.136	-0.176	0.196	**-0.865**
JPY	**0.695**	0.46	0.462	0.499	0.137	-0.141	**1**	0.082	-0.479	-0.383	0.456	**-0.722**
PHP	0.398	0.188	0.175	0.159	-0.267	0.482	0.343	**0.545**	0.244	**-0.576**	0.171	**-0.576**
SGD	0.395	**0.713**	**0.79**	-0.08	**-0.593**	0.239	**0.514**	0.487	0.131	**-0.647**	**0.831**	**-0.603**
CHF	0.375	**0.762**	0.405	0.392	0.002	0.457	**0.598**	**0.701**	-0.193	**-0.893**	0.384	**-0.693**
CAD	0.368	**-0.698**	-0.363	-0.411	-0.176	**-0.532**	-0.079	**-0.588**	0.497	**0.618**	-0.279	-0.132
THB	0.219	**0.828**	**0.878**	-0.14	**-0.628**	0.021	0.448	0.29	0.017	-0.435	**0.893**	-0.364
CNH	0.196	**0.73**	**0.979**	-0.022	**-0.511**	0.008	0.456	0.194	-0.103	-0.388	**1**	-0.312
CNY	0.124	**0.765**	**1**	0.118	-0.455	0.061	0.462	0.226	-0.213	-0.416	**0.979**	-0.239
INR	0.071	**0.593**	0.365	-0.15	**-0.51**	**0.674**	0.141	**0.831**	0.322	**-0.769**	0.363	-0.341
USGG10	0.06	**1**	**0.765**	0.276	-0.205	0.396	0.46	**0.614**	-0.284	**-0.794**	**0.73**	-0.336
IDR	0.056	**0.569**	**0.536**	-0.2	**-0.695**	**0.502**	0.189	**0.627**	0.372	**-0.674**	**0.542**	-0.295
KRW	0.05	**0.614**	**0.8**	-0.263	**-0.766**	0.215	0.252	0.362	0.191	-0.484	**0.812**	-0.205
MYR	-0.101	**0.751**	**0.919**	0.075	-0.487	0.133	0.362	0.243	-0.206	-0.419	**0.88**	-0.049
TWD	-0.128	**0.534**	**0.796**	-0.338	**-0.772**	0.102	0.103	0.181	0.221	-0.272	**0.8**	-0.018
GBP	-0.205	**0.794**	0.495	0.222	-0.177	0.431	0.197	**0.515**	-0.135	**-0.727**	0.449	-0.146
NZD	-0.301	**-0.727**	**-0.716**	0.29	**0.621**	-0.1	-0.35	-0.407	-0.235	**0.559**	**-0.796**	**0.526**
AUD	-0.382	-0.008	-0.221	**0.645**	**0.794**	0.076	-0.074	-0.068	**-0.683**	0.129	-0.351	0.429
EUR	**-0.865**	-0.336	-0.239	-0.143	0.044	0.09	**-0.722**	-0.217	0.019	0.457	-0.312	**1**

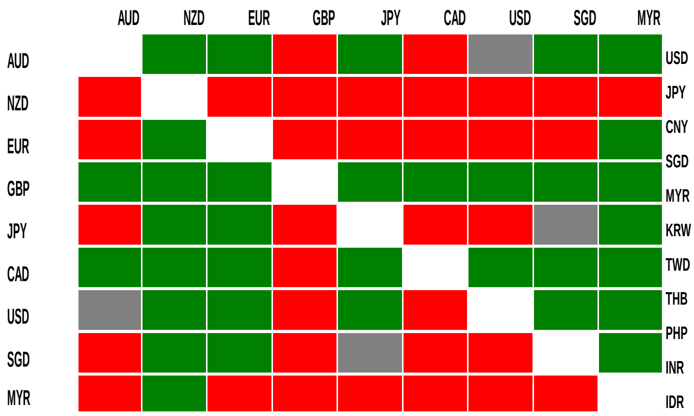
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1285	1.1300	1.1367	1.1400	1.1408
GBP-USD	1.2500	1.2507	1.2577	1.2589	1.2600
AUD-USD	0.7165	0.7184	0.7197	0.7200	0.7362
NZD-USD	0.6800	0.6853	0.6881	0.6900	0.6941
USD-CAD	1.3151	1.3300	1.3398	1.3400	1.3417
USD-JPY	112.39	113.00	113.02	113.04	113.99
USD-SGD	1.3658	1.3700	1.3732	1.3767	1.3792
EUR-SGD	1.5483	1.5600	1.5609	1.5700	1.5703
JPY-SGD	1.2039	1.2100	1.2149	1.2179	1.2200
GBP-SGD	1.7200	1.7236	1.7270	1.7300	1.7780
AUD-SGD	0.9800	0.9849	0.9882	0.9890	0.9900
Gold	1202.73	1221.46	1245.50	1249.80	1250.98
Silver	14.20	14.30	14.50	14.65	14.92
Crude	49.41	51.10	51.17	51.20	57.38

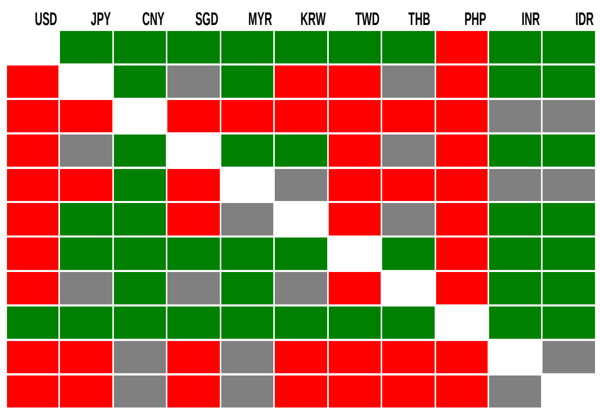
Source: OCBC Bank

G10 FX Heat Map



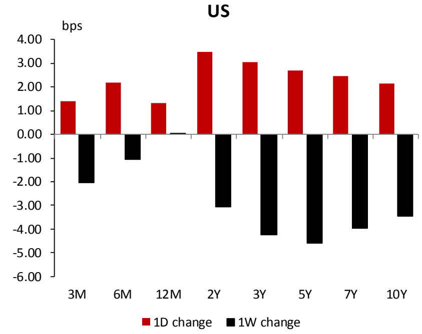
Source: OCBC Bank

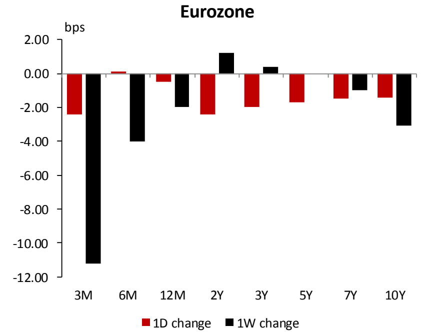
Asia FX Heat Map

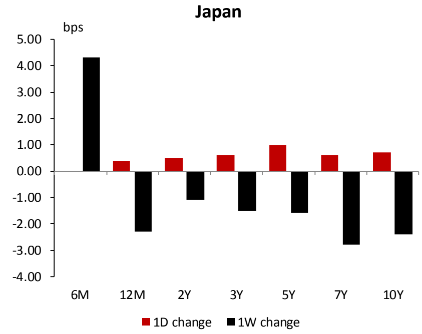


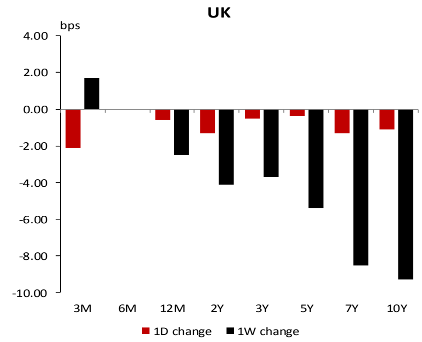
Source: OCBC Bank

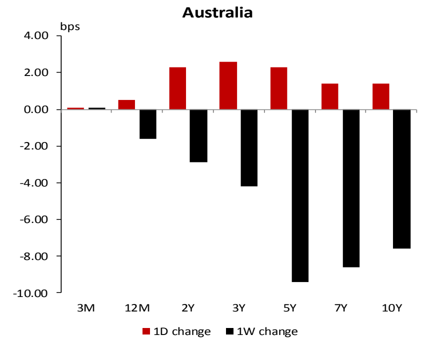
Government bond yield changes

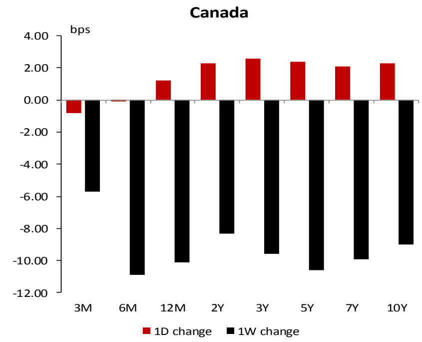


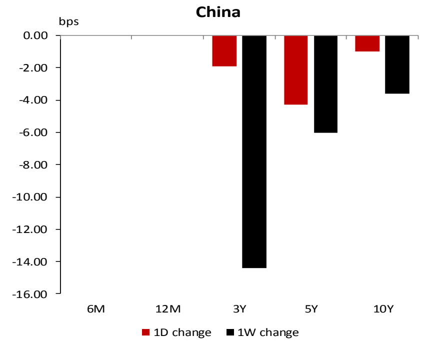


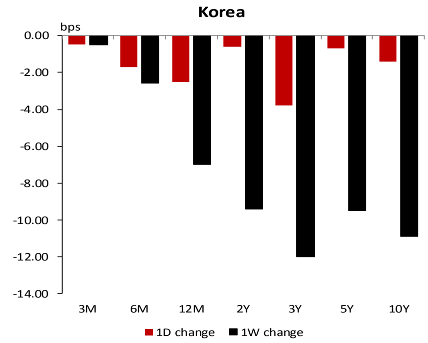


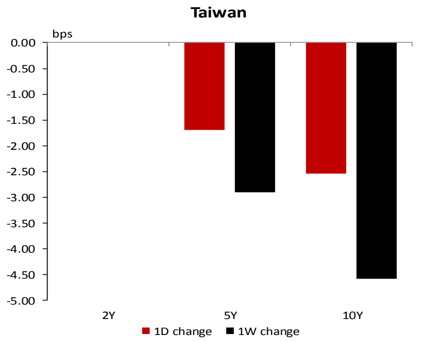


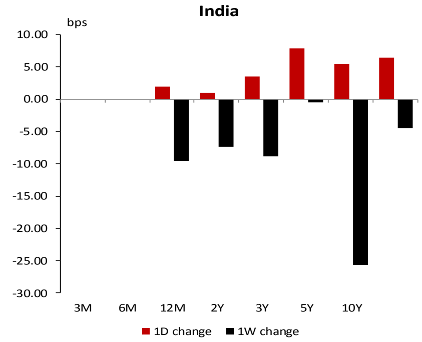


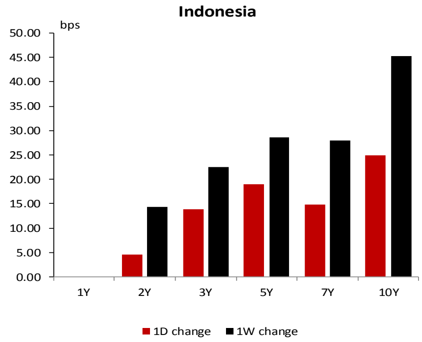


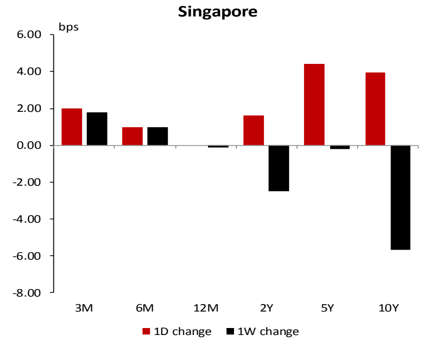


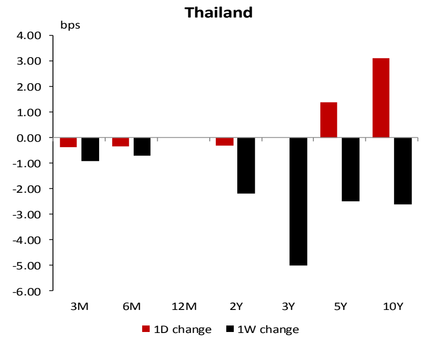


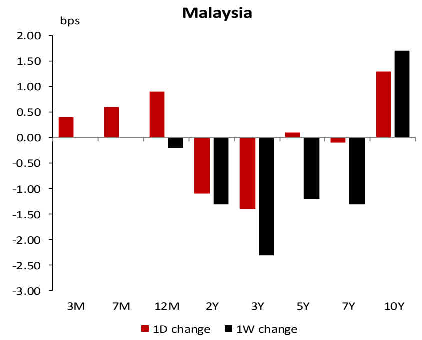


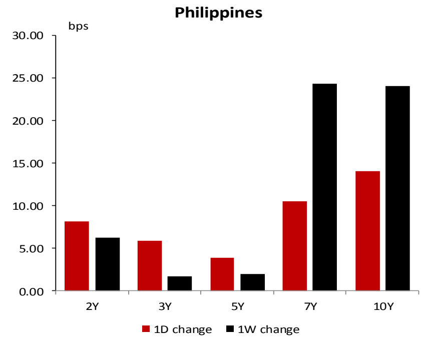












FX Trade Recommendations

	Inception	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale
	TACTICAL						
1	23-Oct-18	B	3M USD-THB	32.780	33.500	32.400	Vanishing net inflows, firmer USD, fragile risk appetite
	STRUCTURAL						
	-	-	-	-	-	-	-

RECENTLY CLOSED TRADE IDEAS

	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)*
1	08-Nov-18	12-Nov-18	B	AUD-USD	0.7286		0.7200	Improving risk appetite post US midterms	-1.18
2	13-Nov-18	14-Nov-18	S	EUR-USD	1.1230	1.1035	1.1330	Italian fiscal uncertainty, USD underpinned by FOMC prospects	-0.89
3	09-Nov-18	16-Nov-18	B	USD-JPY	113.88		113.00	Rate differential support for the USD, epecially post-FOMC	-0.77

* realized, excl carry

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