

Friday, February 01, 2019

Market Themes/Strategy/Trading Ideas

- **UST yields tripped lower again (10y crashed through 2.65% to 2.631%) a day after the dovish FOMC with the 2/10s holding steady but the 5/30s pushing higher. We believe front-end dynamics will continue to dominate in the near term as markets attempt to digest the Fed's latest policy signal. On the FX front, this has translated into a significant deterioration of aggregated rate differential support for the USD, especially at the front-end.**
- The USD however ended mixed on Thursday, with the antipodeans (and the CAD) buoyed by improved risk appetite levels while the JPY also responded to diminished rate support for the USD. The EUR and the GBP however lagged the pack. Meanwhile, the EUR-USD was also weighed after the Bundesbank's Weidmann noted that economic weakness carried into 2019 and will result in significantly slower growth than initially thought (extending the bull flattening in bunds).
- Meanwhile, stronger US equities and narrowing EM risk premiums saw the **FX Sentiment Index (FXSI)** moving lower within Risk-Neutral territory. **We also note that short-end EM FX vols in aggregate are at recent historical lows, hovering at levels not seen since December 2017.** Structurally, this may continue to engender risk/yield seeking behavior.
- **For today, pending residual headlines from Sino-US trade talks (Xi-Trump meeting in the works, likely mid-Feb), markets are likely to turn to the US NFP numbers at 1330 GMT (mkt: +165k) while China's Caixin PMIs will also garner attention during the Asian session. In the interim, sticker shock from the FOMC will likely continue to reverberate and expect investors to continue to favor the likes of the AUD and the JPY vs. the USD intra-day while also remaining bearish on yields.**
- With the dollar's near term prospects damaged post-FOMC and cyclical currencies given a boost by the resultant improvement in risk appetite and commodity dynamics, the **USD-CAD** may see further potential downside in the near term. From a spot ref of 1.3131 on Thursday, we target 1.2900 and leave a stop at 1.3250.
- On a related note, we utilize **XAU-USD** as a proxy trade for a soggy weak USD complex, with gold also expected to be supported by prevailing uncertainty across global markets. From a spot ref of 1,320.09 also on Thursday, we set an objective of 1,352.00 with a stop placed at 1,304.00.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

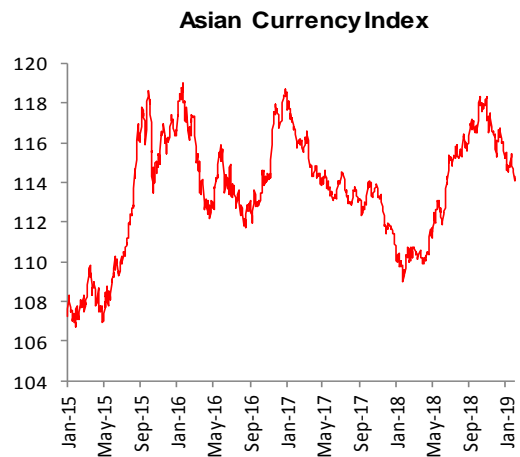
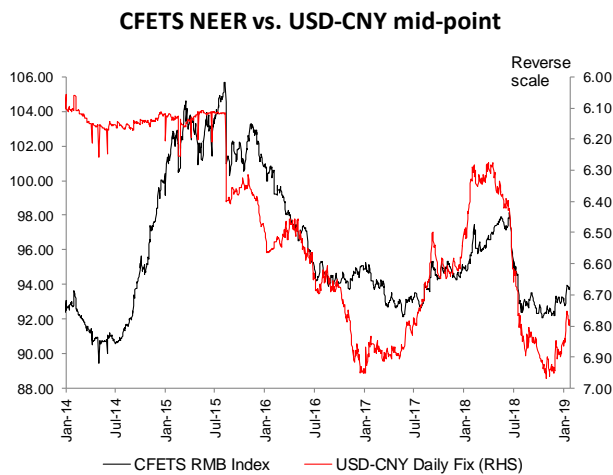
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian Markets

- Asian FX made the most of the weakened state of the USD on Thursday with the USD-IDR leading the way lower and notably (and finally) breaching the 14,000 support. On other fronts, the THB has outperformed significantly in the past two sessions with the official rhetoric now uncomfortable with undue baht strength. For today, expect some consolidative price action to take root (keeping eyes on the USD-CNH). Elsewhere look towards India’s budget announcement later today.
- **Asian central bank behavior in the coming weeks/months with regards to interest rate policy posture will be telling, especially with the Fed now expected to be off their backs for 2019.** If policy neutrality is gradually replaced by hints of dovishness, a moderating front end may soften the anchor for the back-end (predicated of course on core inflation developments). Meanwhile, given the still soft macro underpinnings in Asia (the Asian Macro Surprise Indices remain in negative territory with no sight of bottoming just yet), expect Asian central banks to attempt to resist undue appreciation of their domestic currencies).
- **SGD NEER:** The SGD NEER this morning is firmer on the day at +1.79% above its perceived parity (1.3723) with NEER-implied USD-SGD thresholds higher on the day. Continue to track CNH and DXY moves intra-day.
- **CFETS RMB Index:** The USD-CNY mid-point printed a largely as expected 6.7081 today from 6.7025. The CFETS RMB Index meanwhile eased slightly to 94.21 from 94.29.



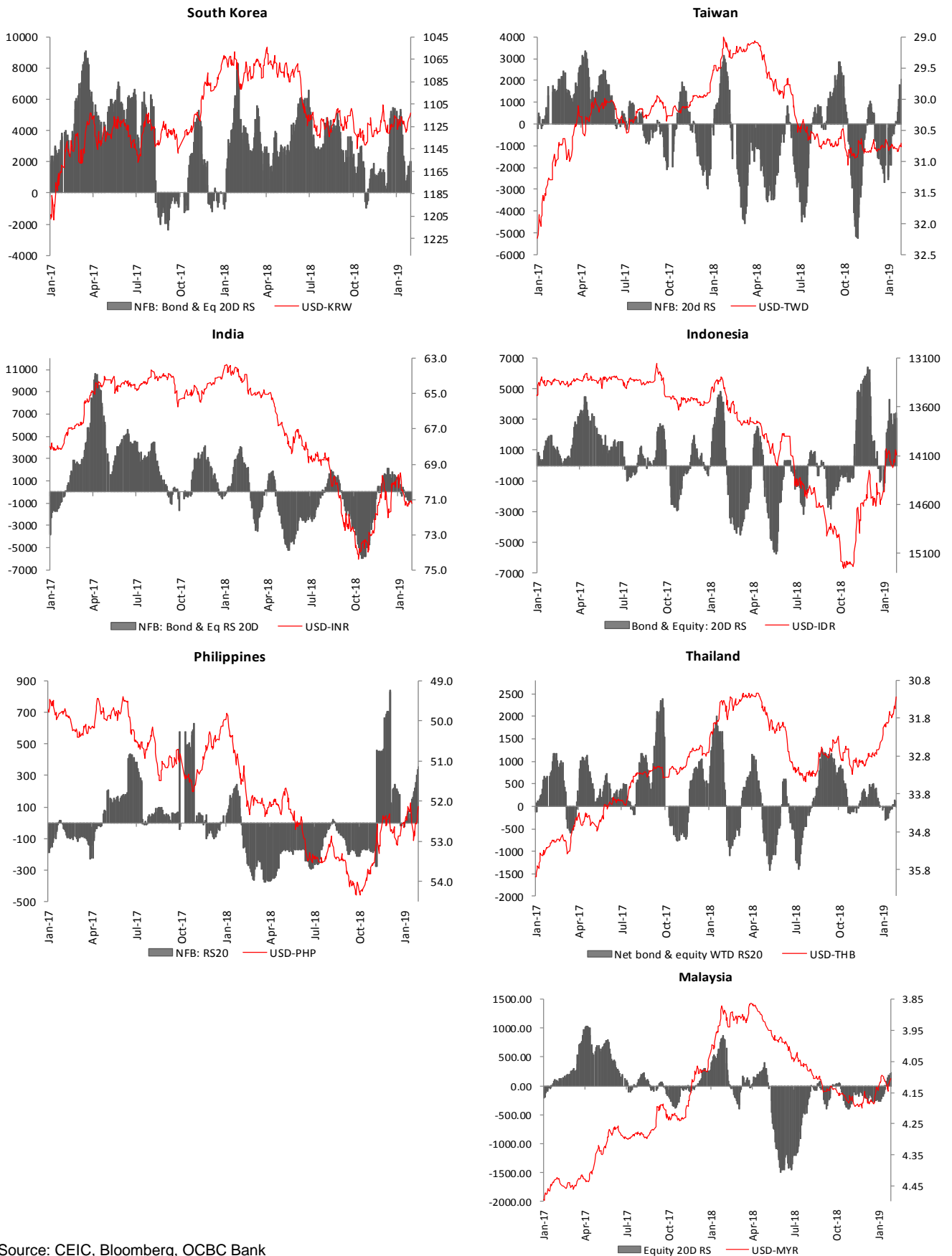
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↔	Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. Officials on 15 Jan indicate that taxes will be cut "on a larger scale" and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments. PBOC announces RRR cut on 04 Jan. NBS sees downside pressure on the economy in 2019. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Dec CPI/PPI decelerate further, Dec exports and imports surprised with a contraction, industrial profits deteriorate further at -1.9% yoy. Dec retail sales and industrial production in-line to stronger than expected. Jan PMIs improve but the Caixin manufacturing PMI deteriorates.
S. Korea	↔/↓	↔/↑	BOK static in January, but downgraded 2019 growth and inflation forecasts further. BOK expected to retain accommodative stance, but the governor noted that a rate cut is not in the pipeline. Jan CPI (headline and core) softer than expected again. Dec exports go into contraction at -1.2% yoy. Dec manufacturing PMI firms to 49.8 from 48.6. Nov current account surplus shrank to lowest level since April. 4Q GDP higher than expected at +3.1% yoy on the back of fiscal support.
Taiwan	↔/↓	↔	4Q GDP disappoints at +1.76%. CBC static at 1.375% in Dec 2018. CBC governor ambivalent on the benchmark rate. Some CBC members looking towards policy normalization to afford the authority eventual downside wiggle room. Dec manufacturing PMI drops to 47.7. Price pressures soften and Dec CPI surprises with a -0.05% contraction. Political premium being built in. Dec exports orders slump -10.5% yoy.
India	↔/↑	↔	Fiscal slippage concerns continue to circulate ahead of the 01 Feb budget announcement. Dec WPI significantly softer than expected while CPI was cooler than expected, although RBI governor sees core inflation remaining sticky at a high 6%. 3Q GDP weaker than expected. RBI static in Dec (new governor perceived to be more dovish). Dec manufacturing PMI slips to 53.2 from 54.0; Dec merchandise trade deficit came in lower than expected. Elections due Apr/May 2019.
Singapore	↓	↔	SGD NEER veering away from the extreme end of its fluctuation band. Expect movements in the USD-SGD to track broad USD prospects. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar. Dec 2018 CPI readings came in a touch warmer than expected. Dec IPI disappoints at +2.7% yoy.
Malaysia	↔/↓	↔	BNM static at 3.25% in Jan 2019 and is expected to be static through 2019. Dec CPI cooler than expected +0.2% yoy. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit). Dec manufacturing PMI falls to 47.7 from 48.4. Nov export growth decelerates to +1.6% yoy.
Indonesia	↔	↔/↑	BI views IDR as undervalued. Note sustained positive investor response to bond auctions. BI remained static on its policy rate in Jan. Primary policy focus remains centred on current account deficit containment and maintaining a sufficient yield buffer. BI governor reiterates that the benchmark rate is already near its peak although stance is still characterized as "hawkish". If the Fed is in fact static in March, BI may relent and turn neutral. Dec CPI readings came in mixed, export (contraction)/import performance weakens. Elections slated for 17 April 2019.
Thailand	↓	↔	BOT now uncomfortable with the baht's recent gains. RTrade momentum deteriorated in Dec 18. BOT governor reiterated accommodative policy is still important. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3. Elections scheduled on 24 March.
Philippines	↔	---	BSP remained static in Dec as expected. BSP governor open to RRR cut. 4Q GDP below expectations at 6.1% yoy. Dec manufacturing PMI weakens to 53.2 from 54.2. Dec CPI softer than expected at +5.1% yoy. 2018 fiscal deficit likely widened to 3.1%.

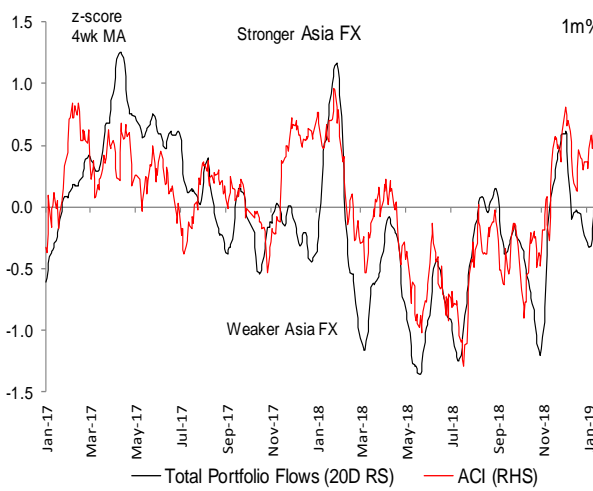
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



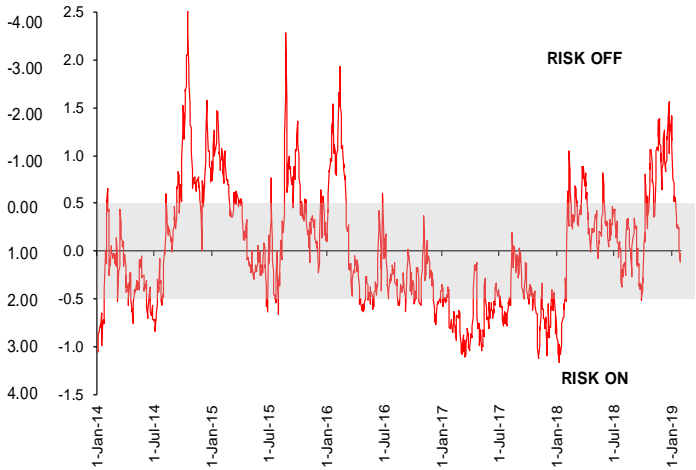
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	CNH	EUR
DXY	1	-0.012	0.466	-0.291	-0.27	-0.367	0.352	-0.4	0.434	0.251	0.547	-0.934
SGD	0.857	-0.05	0.805	-0.654	-0.631	-0.603	0.014	-0.67	0.745	0.616	0.849	-0.667
IDR	0.778	-0.304	0.763	-0.745	-0.71	-0.784	-0.146	-0.784	0.832	0.733	0.799	-0.563
MYR	0.736	-0.279	0.724	-0.669	-0.627	-0.686	-0.106	-0.696	0.788	0.624	0.756	-0.549
JPY	0.72	-0.232	0.622	-0.407	-0.382	-0.464	0.167	-0.416	0.616	0.426	0.648	-0.685
CAD	0.608	0.279	0.499	-0.244	-0.223	-0.08	0.191	-0.237	0.357	0.228	0.493	-0.595
CHF	0.577	0.202	0.391	-0.065	-0.009	-0.15	0.458	-0.114	0.363	-0.002	0.411	-0.62
CNH	0.577	0.22	0.555	-0.302	-0.245	-0.146	0.13	-0.243	0.445	0.226	0.548	-0.552
PHP	0.547	-0.219	0.988	-0.835	-0.868	-0.771	-0.316	-0.834	0.873	0.815	1	-0.28
CNY	0.466	-0.21	1	-0.853	-0.89	-0.779	-0.368	-0.848	0.864	0.833	0.988	-0.201
THB	0.455	0.187	-0.428	0.566	0.605	0.361	0.783	0.475	-0.318	-0.582	-0.354	-0.688
KRW	0.358	-0.144	0.892	-0.892	-0.924	-0.721	-0.519	-0.82	0.774	0.896	0.871	-0.052
USGG10	0.352	0.637	-0.368	0.717	0.684	0.55	1	0.566	-0.515	-0.7	-0.316	-0.572
TWD	0.057	0.503	-0.73	0.784	0.843	0.772	0.666	0.804	-0.63	-0.806	-0.684	-0.311
INR	-0.012	1	-0.21	0.601	0.539	0.715	0.637	0.521	-0.606	-0.582	-0.219	-0.096
GBP	-0.278	0.313	-0.815	0.859	0.907	0.698	0.631	0.797	-0.738	-0.833	-0.814	-0.06
NZD	-0.714	-0.015	-0.883	0.733	0.731	0.645	0.085	0.73	-0.789	-0.671	-0.911	0.473
AUD	-0.734	0.298	-0.796	0.736	0.682	0.752	0.124	0.735	-0.87	-0.714	-0.841	0.529
EUR	-0.934	-0.096	-0.201	-0.004	-0.026	0.111	-0.572	0.122	-0.174	0.028	-0.28	1

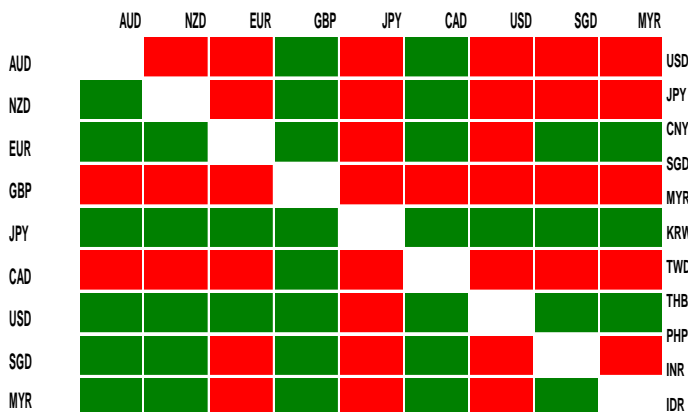
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1394	1.1400	1.1442	1.1500	1.1536
GBP-USD	1.3000	1.3040	1.3096	1.3100	1.3217
AUD-USD	0.7169	0.7200	0.7246	0.7263	0.7292
NZD-USD	0.6800	0.6900	0.6909	0.6914	0.6939
USD-CAD	1.3128	1.3133	1.3144	1.3200	1.3363
USD-JPY	108.00	108.06	108.91	109.00	110.03
USD-SGD	1.3443	1.3464	1.3484	1.3500	1.3628
EUR-SGD	1.5365	1.5400	1.5430	1.5500	1.5541
JPY-SGD	1.2315	1.2316	1.2381	1.2400	1.2528
GBP-SGD	1.7446	1.7600	1.7660	1.7700	1.7775
AUD-SGD	0.9653	0.9700	0.9770	0.9777	0.9794
Gold	1300.00	1317.00	1317.80	1325.40	1400.00
Silver	15.30	15.90	15.99	16.00	16.08
Crude	50.61	53.70	53.71	53.80	55.37

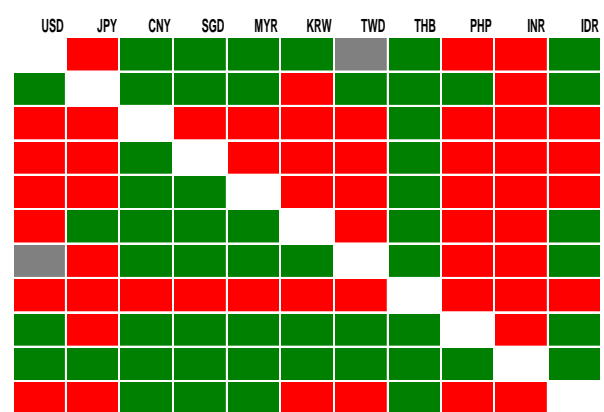
Source: OCBC Bank

G10 FX Heat Map



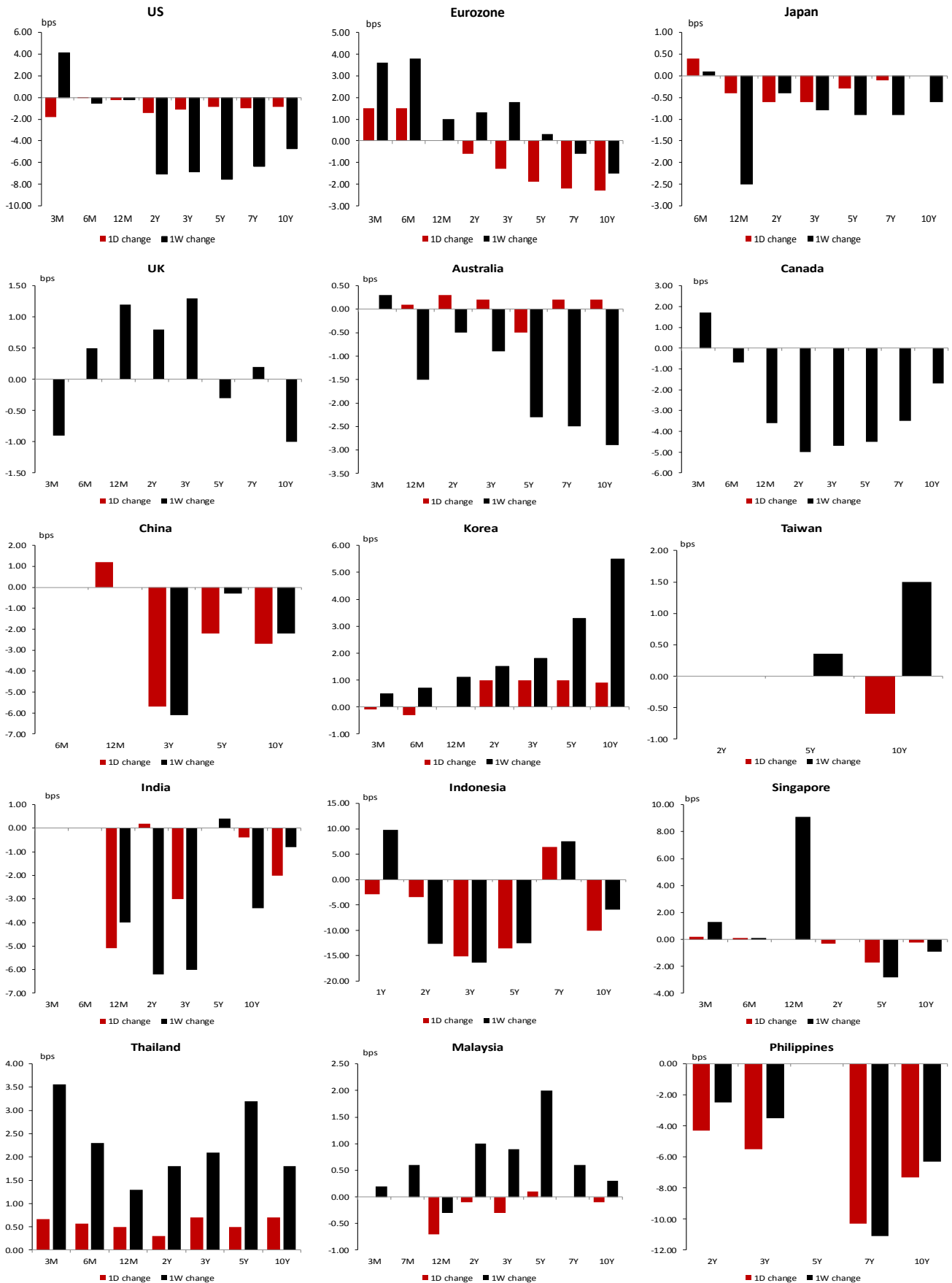
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Trade Ideas

Inception		B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale	
TACTICAL								
1	23-Jan-19	B	GBP-AUD	1.8159	1.8745	1.7865	Contrasting risk profiles in the near term	
2	31-Jan-19	S	USD-CAD	1.3131	1.2900	1.3250	Improvement in risk appetite, supportive crude	
3	31-Jan-19	B	XAU-USD	1,320.09	1,352.00	1,304.00	Improvement in risk appetite, supportive crude	
STRUCTURAL								
-								
RECENTLY CLOSED TRADE IDEAS								
Inception		Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	25-Jan-19	28-Jan-19	S	EUR-USD	1.1327	1.1435	Dovish overtones from ECB's Draghi	-0.92

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