

Friday, February 08, 2019

**Market Themes/Strategy/Trading Ideas**

- The **DXY** climbed again (despite the noted dip in Libor) for the 6<sup>th</sup> consecutive session on Thursday as risk appetite continued to waver. Market concerns surrounding Sino-US trade tensions resurfaced following less than encouraging signals from the US administration (no further Xi-Trump meetings planned before 01 March). The cyclicals continued to trail their counterparts and with the CAD hit particularly hard as crude fell briefly below 52.00. Meanwhile, the AUD tripped lower on early trade on Friday, as the RBA cut growth and inflation forecasts in its latest Statement of Monetary Policy.
- Meanwhile, UST yields led global companion curves lower, alongside declining EZ/US equities. In response, our **FX Sentiment Index (FXSI)** stepped higher within the Risk-Neutral zone, denoting a worsening of overall risk sentiments.
- EUR-USD slipped amid downgraded growth/inflation forecasts (note the significant growth downgrade for Germany) from the European Commission and with German Dec industrial output surprising with a contraction. Furthermore, ECB “minutes” for the January meeting highlighted that “incoming information has surprised on the downside”.
- Despite negative news flow, the **GBP-USD** popped higher before retracing to still end higher on the day after the BOE still maintained a quasi-hawkish stance at its MPC (and despite lower growth forecasts and Carney referring to the “fog of Brexit”). On the Brexit front however, PM May reportedly made zero headway with EU officials while further UK-EU talks are scheduled before the end of February. **Watch for evolving news flow this coming weekend all through to Monday as PM May and UK officials work with ground with EU officials.**
- **Although recent dollar strength has been on the back of weakness in the other majors as opposed to discretionary US-centric strength, the DXY may nonetheless attempt to tilt higher with the 55-day MA (96.436) having been tested and with 97.00 the next near term resistance if risk appetite continues to curdle. Notably, short-end FX vols (especially the cyclicals) are bouncing off recent lows with riskies also leaning towards USD resilience.** Structurally, and beyond the short term, we watch for any concerted and sustained departure from the 200-week MA (95.868). **Expect the DXY to stay on the bid in the near term.**
- As noted yesterday, the **EUR-USD** is expected to remain slippery with the 55-day MA (1.1393) now serving as a resistance and the 200-week MA (1.1333) looking increasingly pivotal.

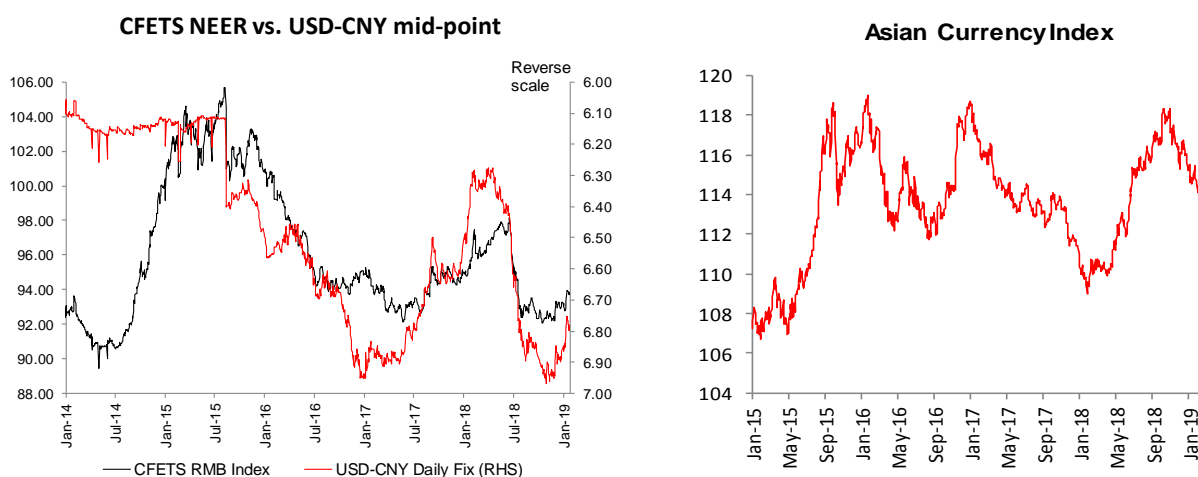
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## Asian Markets

- USD-CNH continued to correct higher on Thursday but markets may await the return of Chinese markets next week (China monetary aggregates may be due as early as Monday) for stronger cues from the renminbi complex. Expect Asian FX to continue to trade off the DXY and risk appetite gyrations intra-day. Meanwhile, the chilling effect of softer back-end yields in the majors is also expected to seep into Asian space. **In addition, if regional policy anchors (benchmark central bank rates/reserve ratios) continue capitulate lower (RBI yesterday hot on the heels of the PBOC) ahead, expect greater latitude for regional back-end yields to follow suit.**
- **Meanwhile, the INR managed to grind higher (with govie curve dipping and bull steepening) in the wake of the surprise RBI rate cut. To this end, expect the front-end to continue to outperform (given nascent expectations of further cuts), given that fiscal and supply concerns may continue to constraint the back-end.**
- Meanwhile, the BSP held its policy rate constant, as expected. At this juncture, domestic inflation is expected to ease off in 2019, perhaps giving the BSP room to adopt a more neutral stance going forward.
- On the **actual net portfolio flows** front, net inflow momentum into South Korea continues to recover. In India, net outflow momentum continues to compress, driven primarily by an uptick in equity inflows.
- **SGD NEER:** The SGD NEER eased further to around +1.50% above its parity level (1.3772), with implied USD-SGD thresholds slightly softer. USD-SGD may fill the upper reaches of its recent range in the current market environment. Expect 1.3600 as a first resistance, before the 200-day MA (1.3639).
- **CFETS RMB Index:** China on holiday today.



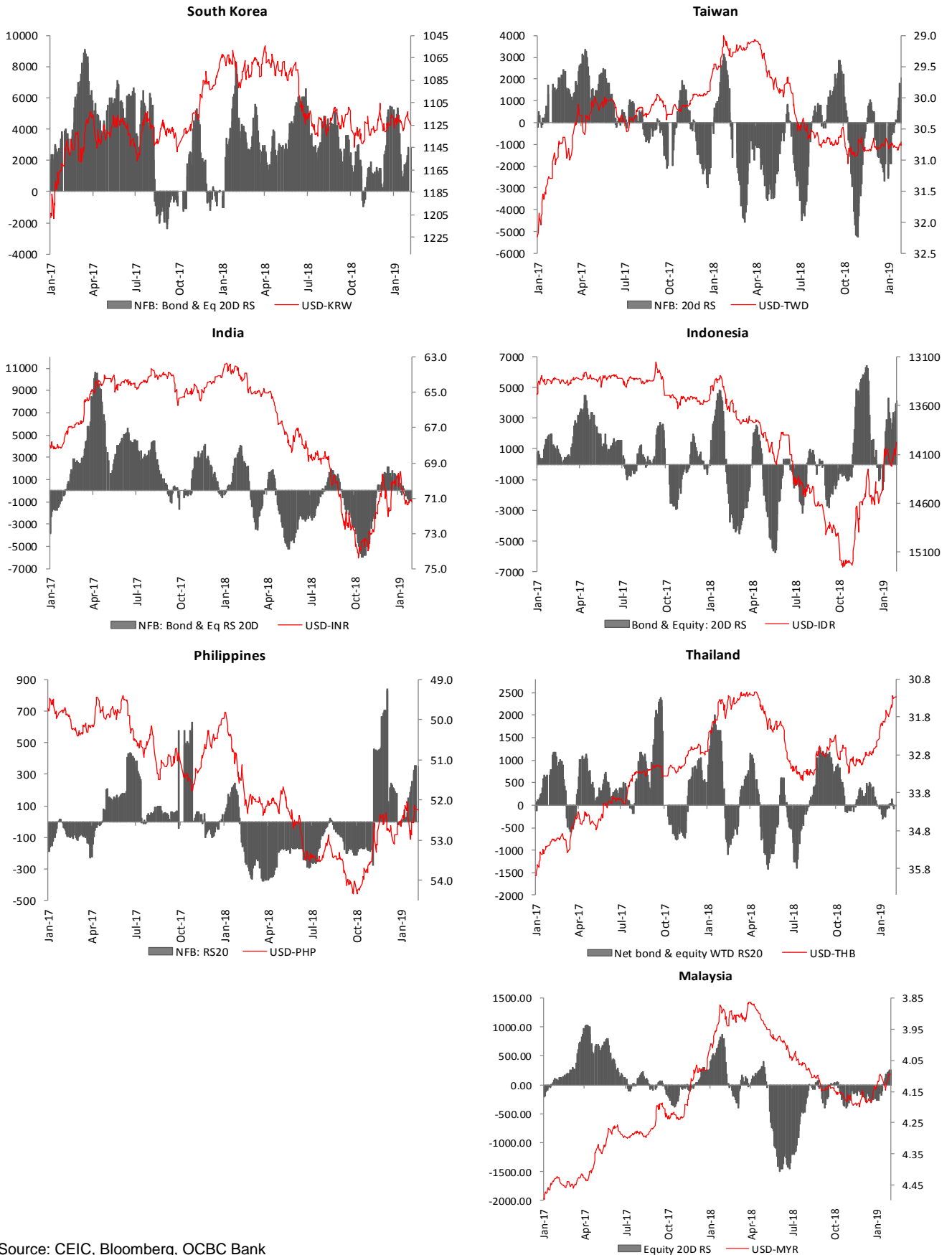
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↔	↔	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. 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 Caixin PMIs weaken further.
<b>S. Korea</b>	↔/↑	↔	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. Jan manufacturing PMI deteriorates further to 48.3. 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.
<b>Taiwan</b>	↔	↔	4Q GDP disapoints 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. Jan manufacturing PMI drops to 47.5. Price pressures soften and Dec CPI surprises with a -0.05% contraction. Political premium being built in. Dec exports orders slump -10.5% yoy.
<b>India</b>	↔/↑	↔	RBI delivered a surprise 25 bps cut in Feb and shifted back to neutral stance. If benign inflation prints persist, there may be room for further cuts as the RBI shift to prioritising growth. Budget announcement in Feb underscore fliscal slippage concerns. Jan CPI was cooler than expected, although RBI sees core inflation sticky at a high 6%. 3Q GDP weaker than expected. Jan manufacturing PMI improves to 53.9. Dec mechandise trade deficit came in lower than expected. Elections due Apr/May 2019.
<b>Singapore</b>	↔/↑	↔	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.
<b>Malaysia</b>	↔	↔/↓	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.
<b>Indonesia</b>	↔/↓	↓	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. Jan CPI mixed, export (contraction)/import performance weakens. 4Q GDP better than expected. Elections slated for 17 April 2019.
<b>Thailand</b>	↔/↓	↔/↓	BOT kept rates unchanged in Feb. Accomodative policy "still appropriate", although 2 of 7 committee members voting to hike rates further is a slight surprise. BOT comments on recent THB appreciation also softened. Trade momentum deteriorated in Dec 18. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3. Elections scheduled on 24 March.
<b>Philippines</b>	↔/↓	---	BSP remained static in Feb as expected, with inflation forecasts downgraded. 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%.

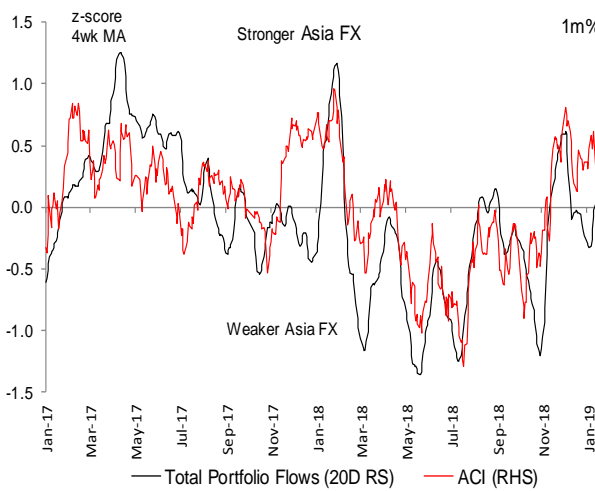
Source: OCBC Bank

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



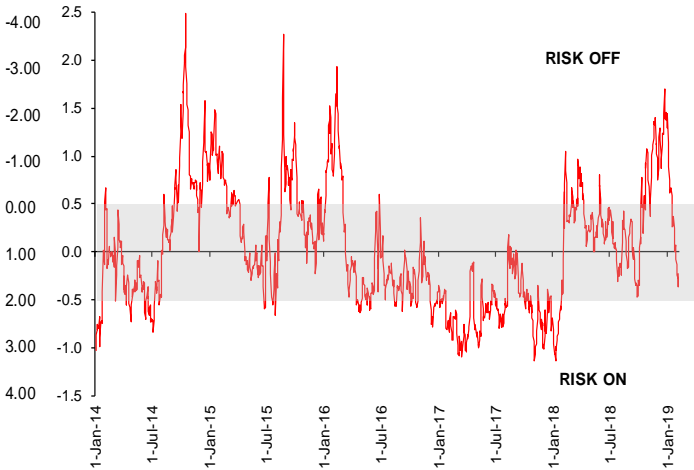
Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**



Source: OCBC Bank

**FX Sentiment Index**



Source: OCBC Bank

**1M Correlation Matrix**

	DXY	USGG10	CNY	SPX	MSELCPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.274	0.336	0.272	0.248	0.125	0.671	0.017	-0.12	-0.242	0.398	-0.963
SGD	0.77	0.607	0.751	-0.312	-0.33	-0.161	0.271	-0.385	0.428	0.317	0.79	-0.676
IDR	0.761	0.599	0.605	-0.375	-0.374	-0.124	0.311	-0.4	0.615	0.391	0.603	-0.686
MYR	0.677	0.479	0.729	-0.211	-0.215	-0.14	0.344	-0.266	0.478	0.185	0.724	-0.608
JPY	0.671	0.161	-0.115	0.797	0.766	0.511	1	0.586	-0.571	-0.76	0.007	-0.743
CAD	0.636	-0.056	-0.38	0.847	0.846	0.509	0.922	0.611	-0.624	-0.817	-0.207	-0.745
CHF	0.548	0.426	0.587	-0.567	-0.475	-0.449	-0.024	-0.603	0.673	0.566	0.518	-0.527
CNH	0.488	-0.054	-0.424	0.8	0.804	0.564	0.811	0.634	-0.61	-0.781	-0.277	-0.568
PHP	0.446	0.558	0.431	-0.025	-0.011	-0.014	0.443	0.011	0.412	0.014	0.432	-0.498
CNY	0.398	0.523	0.978	-0.41	-0.509	-0.324	0.007	-0.463	0.489	0.413	1	-0.229
THB	0.336	0.533	1	-0.68	-0.744	-0.441	-0.115	-0.592	0.759	0.617	0.978	-0.134
KRW	0.274	1	0.533	-0.353	-0.353	0.129	0.161	-0.193	0.431	0.319	0.523	-0.24
USGG10	0.262	0.531	0.442	-0.272	-0.276	0.073	0.184	-0.025	0.582	0.281	0.328	-0.341
TWD	0.21	0.643	0.581	-0.62	-0.575	-0.153	-0.124	-0.453	0.791	0.566	0.403	-0.223
INR	-0.01	-0.163	-0.669	0.545	0.654	0.348	0.479	0.574	-0.366	-0.527	-0.634	-0.215
GBP	-0.128	0.511	0.811	-0.948	-0.957	-0.487	-0.666	-0.764	0.847	0.932	0.577	0.23
NZD	-0.576	-0.54	-0.851	0.49	0.477	0.302	-0.044	0.545	-0.555	-0.458	-0.775	0.487
AUD	-0.683	-0.322	-0.685	0.2	0.131	0.263	-0.315	0.306	-0.362	-0.21	-0.611	0.641
EUR	-0.963	-0.24	-0.134	-0.347	-0.349	-0.205	-0.743	-0.105	0.159	0.317	-0.229	1

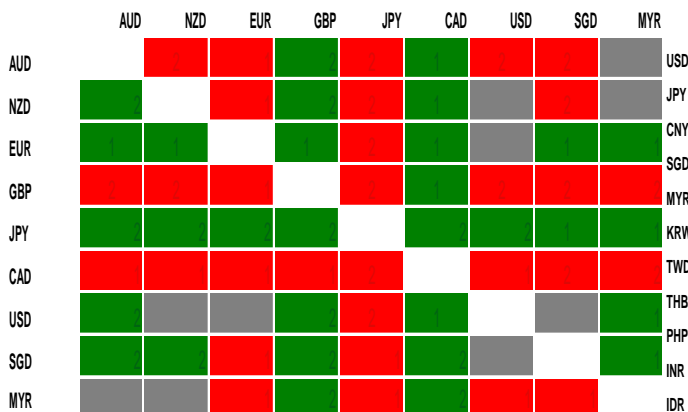
Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1306	1.1338	1.1398	1.1400
GBP-USD	1.2809	1.2900	1.2943	1.3000	1.3023
AUD-USD	0.7000	0.7064	0.7074	0.7100	0.7156
NZD-USD	0.6690	0.6700	0.6738	0.6757	0.6798
USD-CAD	1.3136	1.3300	1.3323	1.3355	1.3400
USD-JPY	108.52	109.00	109.74	110.00	110.32
USD-SGD	1.3467	1.3500	1.3564	1.3600	1.3621
EUR-SGD	1.5365	1.5369	1.5379	1.5400	1.5514
JPY-SGD	1.2300	1.2338	1.2360	1.2400	1.2488
GBP-SGD	1.7446	1.7500	1.7557	1.7600	1.7761
AUD-SGD	0.9242	0.9500	0.9595	0.9600	0.9606
Gold	1275.30	1300.00	1309.50	1325.23	1325.40
Silver	15.27	15.60	15.69	15.70	16.09
Crude	50.79	52.30	52.34	52.40	55.23

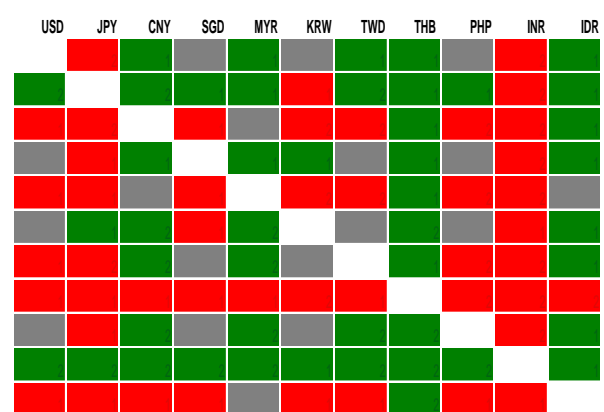
Source: OCBC Bank

**G10 FX Heat Map**



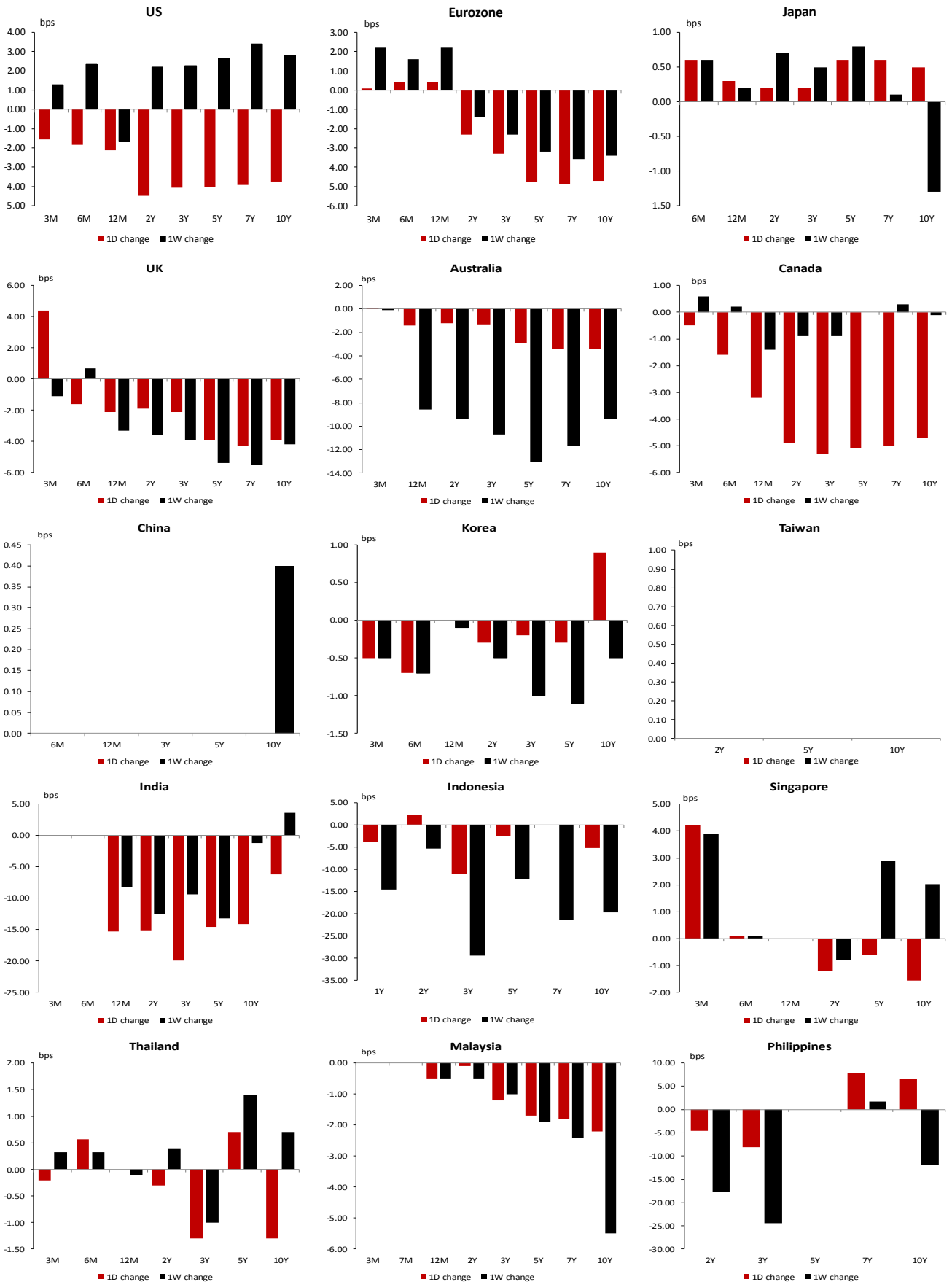
Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

**Government bond yield changes**



### Trade Ideas

	Inception		B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale	
<b>TACTICAL</b>								
1	23-Jan-19		B	GBP-AUD	1.8159	1.8745 1.7865	Contrasting risk profiles in the near term	
<b>STRUCTURAL</b>								
	-		-	-	-	-	-	-
<b>RECENTLY CLOSED TRADE IDEAS</b>								
	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
2	31-Jan-19	07-Feb-19	S	USD-CAD	1.3131	1.3250	Improvement in risk appetite, supportive crude	-0.91
3	31-Jan-19	07-Feb-19	B	XAU-USD	1,320.09	1,304.00	Improvement in risk appetite, supportive crude	-1.29

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