

Monday, January 14, 2019

## Market Themes/Strategy/Trading Ideas – The week ahead

- Despite softer UST yields (US Dec CPI readings were as expected at -0.1% mom), the majors ended mixed against the USD on Friday while the DXY managed to reclaim the 95.50 handle. The GBP-USD meanwhile managed to firm on media reports that the Brexit deadline may be delayed.
- Despite flattish EZ/US equities, the antipodeans still outperformed across the board. The **FXSI (FX Sentiment Index)** inched higher within Risk-Off territory, essentially reversing five consecutive sessions of improving risk sentiments.
- **We expect USD vulnerability to continue to serve as the background narrative at the onset of the week.** On this front, we look to a supported AUD-USD and a heavy USD-JPY as relatively more enduring themes to kick-start the week pending news flow in the coming sessions.
- For Fedspeak this week, watch in particular for voters George (Tue) and Williams (Fri), while the **ECB's Draghi** is due to present the ECB's 2017 Annual Report on Tuesday and his accompanying comments make shed more light on the EUR's near term prospects. On the data front, watch for US PPI later today (1330 GMT) and industrial production late week. **US earnings** (especially financials) are also in focus this week and investors will be on the lookout for any ripple effects from US equities.
- In vol space, markets have continued to take implied short term USD vulnerability (riskies) in its stride with short end (1M) implied vols for the AUD-USD and USD-JPY attempting to correct lower post the recent flash crash.
- The **GBP** however may remain under the spotlight with the Parliamentary vote on the Brexit bill all but expected to fail on Tuesday with myriad of potential subsequent outcomes at this stage including revoking Article 50 (i.e., no Brexit), delaying the Brexit deadline, holding a second referendum, not to mention a no confidence vote. Note that with vol premia along the entire curve is still elevated from late 2018 and the ATM curve still inverted.

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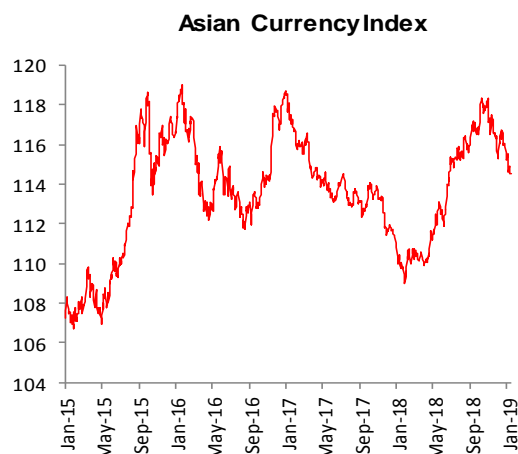
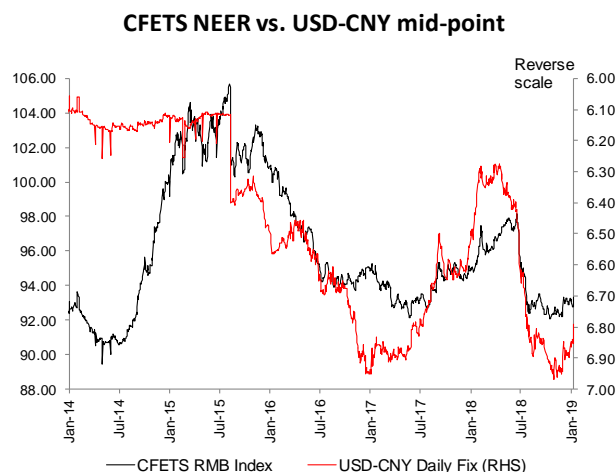
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## Asian Markets

- The RMB made gains on the USD throughout last week and despite a report indicating official discomfort with undue RMB strength, we expect the CNH to continue to set the pace for the region. Note also that short-end vols have picked up rapidly in the latter half of last week and we'd continue to monitor for further infection of the riskies out towards the 3M tenor. Meanwhile, expect that the **SGD, THB, and IDR** may remain more amenable to USD weakness.
- With the possible exception of India and Singapore, **long-end govie yields** in Asia meanwhile may also remain oriented south multi-session as global deceleration concerns continue to hum in the background.
- On the **EPFR** front, net implied equity inflows into Asia (excl Japan, China) surged in the latest week while net bond flows also flipped to a net inflow balance from an outflow the previous week. These moves were also mirrored in EM space at large. In terms of **actual portfolio**, South Korea continues to benefit from healthy (albeit moderating) net bond inflows, and an uptick in equity inflows. Taiwan continues to experience a contraction in net equity outflows. For India, net equity flows flipped to a net outflow balance, and coupled with a net small bond inflow environment, leaves the aggregate flows at neutral. Indonesia is sitting on a pile of net bond inflows, while Thailand continues to experience net bond outflows, with net equity flows still at a small negative.
- Looking ahead, **China's** December monetary aggregates are due this week. **Bank Indonesia** is expected to remain static at its policy meeting on Thursday.
- **SGD NEER**: The SGD NEER softened further to start the week, standing at 1.71% above its perceived parity (1.3750), with NEER-implied USD-SGD thresholds also marginally softer.
- **CFETS RMB Index**: The USD-CNY mid-point was fixed lower than expected at 6.7560, compared to 6.7979 last Friday. The CFETS RMB Index jumped higher again to 93.88 from 93.35 in response. The low fix this morning may have put to rest (for now, at least) any concerns over the pace of RMB appreciation.



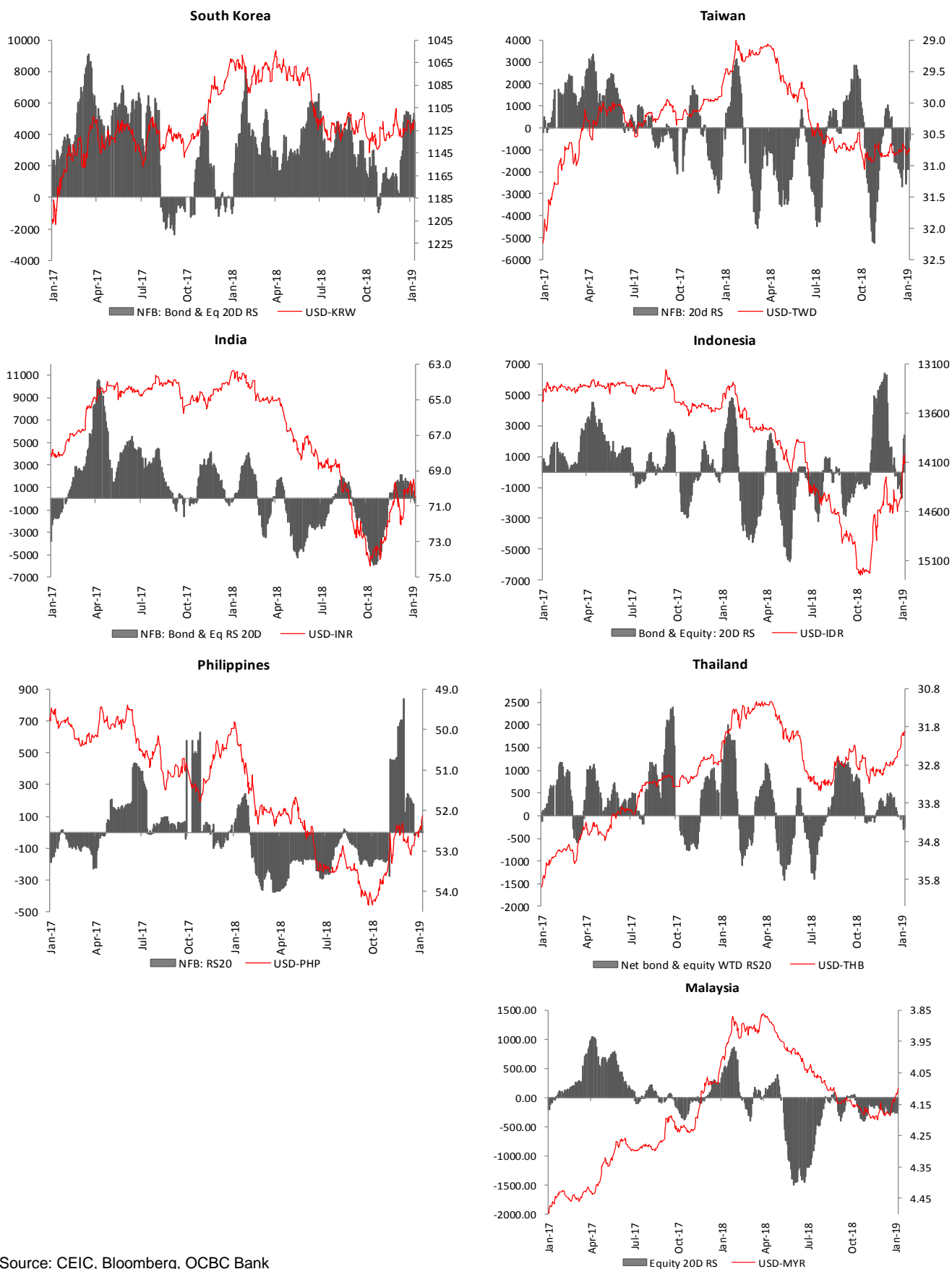
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↓	↓	Monetary and fiscal policy expected to be unambiguously accommodative. PBOC cuts RRR in Jan. Onshore 7-day repo stabilized in the latest week. Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accommodation in 2019. PBOC's quarterly monetary policy report sounded accommodative. Nov monetary aggregates indicate some stabilization after the recent deterioration. Official and Caixin Dec manufacturing PMIs dip into contraction territory. Dec CPI/PPI decelerate further.
<b>S. Korea</b>	↔/↓	↔	BOK hiked 25bps as expected in Nov; characterized as a one-off dovish hike by markets. 3Q GDP and Oct industrial production readings came in lower than expected. Dec CPI softer than expected at 1.3% yoy but core held at 1.3% yoy, BOK expects softer crude to impinge on price pressures. 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. Govie and NDIRS curves firmer on the week.
<b>Taiwan</b>	↔	↔	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.
<b>India</b>	↔	↔/↑	A miss on Nov CPI adds on to the softer than expected 3Q GDP print. RBI static in Dec, with accompanying rhetoric signaling a pull back of rate hike expectations if inflation does not materialise (inflation forecasts revised lower). Fiscal concerns may however continue to prop up bond yields. Dec manufacturing PMI slips to 53.2 from 54.0; Nov industrial production disappoints on the downside. General elections in Apr/May may increasingly come into focus. Rebound in crude adds negative pressure on the INR and govies.
<b>Singapore</b>	↓	↔/↑	With the SGD NEER remaining near its upper boundary, expect declines in the USD-SGD to track broad USD weakness, and not explicit SGD strength. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar.
<b>Malaysia</b>	↓	↓	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). Dec manufacturing PMI falls to 47.7 from 48.4. Nov export growth decelerates sharply to +1.6% yoy.
<b>Indonesia</b>	↓	↔	Nov 2018 hike was positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path. BI governor notes that the benchmark rate is already near its peak and we think this may continue to prove supportive for bonds. Dec CPI readings came in mixed with core firming slightly to 3.07% but headline subdued and softer at 3.13% yoy. Elections slated for 17 April 2019.
<b>Thailand</b>	↓	↔	BOT governor reiterates accommodative policy is still important, perhaps highlighting a shift back to a neutral stance after the 25bps hike in Dec 2018. Stronger than expected Oct exports offset weak 3Q GDP. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3. General elections scheduled for 24 Feb 2019.
<b>Philippines</b>	↓	---	BSP remained static in Dec as expected with the BSP highlighting receding inflation pressures (inflation forecast revised lower). 3Q GDP prints below expectation on slower consumer spending. BSP static in December. Dec manufacturing PMI weakens to 53.2 from 54.2. Dec CPI softer than expected at +5.1% yoy.

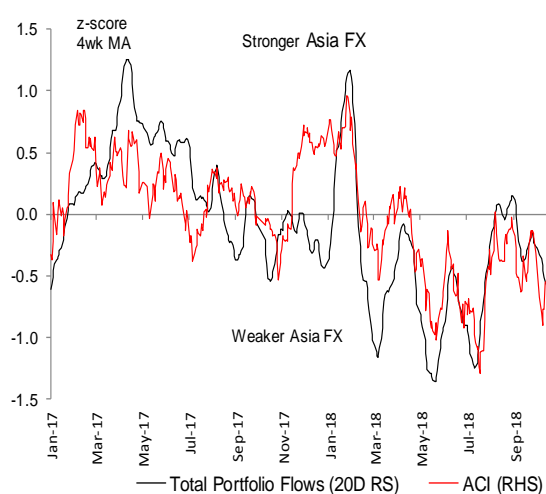
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



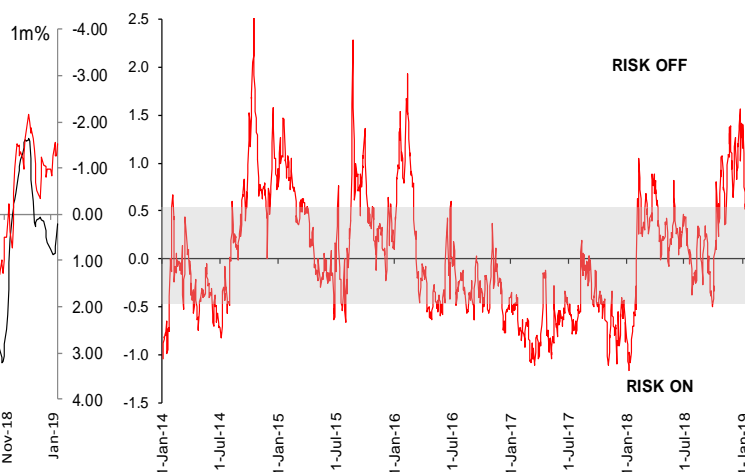
Source: CEIC, Bloomberg, OCBC Bank

### ACI VS. Net Capital Flows



Source: OCBC Bank

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.521	0.815	-0.328	-0.403	-0.158	0.839	-0.469	0.487	0.142	0.809	-0.936
JPY	0.918	0.552	0.654	-0.228	-0.288	-0.002	0.77	-0.278	0.363	0.022	0.611	-0.909
CAD	0.917	0.543	0.884	-0.554	-0.496	-0.312	0.84	-0.636	0.725	0.283	0.894	-0.785
PHP	0.874	0.429	0.847	-0.606	-0.536	-0.412	0.747	-0.654	0.809	0.429	0.867	-0.734
CHF	0.869	0.685	0.845	-0.416	-0.301	-0.201	0.928	-0.521	0.653	0.122	0.842	-0.685
SGD	0.866	0.584	0.91	-0.57	-0.456	-0.279	0.85	-0.584	0.746	0.229	0.903	-0.723
KRW	0.839	0.847	0.694	-0.129	-0.009	0.108	1	-0.301	0.424	-0.195	0.669	-0.658
INR	0.815	0.392	1	-0.562	-0.623	-0.405	0.694	-0.638	0.659	0.356	0.987	-0.74
NZD	0.809	0.332	0.987	-0.626	-0.674	-0.446	0.669	-0.708	0.7	0.413	1	-0.691
CNH	0.804	0.563	0.864	-0.457	-0.35	-0.162	0.843	-0.52	0.664	0.034	0.866	-0.656
IDR	0.567	0.468	0.631	-0.1	-0.175	0.152	0.569	-0.059	0.193	-0.125	0.579	-0.582
MYR	0.562	-0.03	0.676	-0.773	-0.7	-0.827	0.382	-0.908	0.827	0.733	0.712	-0.391
CNY	0.521	1	0.392	0.13	0.316	0.393	0.847	0.08	0.203	-0.446	0.332	-0.367
TWD	0.451	0.579	0.136	0.405	0.426	0.641	0.519	0.48	-0.22	-0.494	0.078	-0.472
THB	0.288	0.149	0.324	0.023	-0.134	0.175	0.212	0.08	-0.063	-0.147	0.268	-0.431
AUD	-0.101	0.579	-0.231	0.521	0.731	0.716	0.258	0.569	-0.35	-0.814	-0.418	0.121
USGG10	-0.309	0.454	-0.443	0.755	0.848	0.864	0.038	0.785	-0.626	-0.89	-0.587	0.256
GBP	-0.87	-0.362	-0.801	0.326	0.512	0.167	-0.675	0.457	-0.433	-0.248	-0.852	0.815
EUR	-0.936	-0.367	-0.74	0.246	0.456	0.104	-0.658	0.332	-0.317	-0.15	-0.691	1

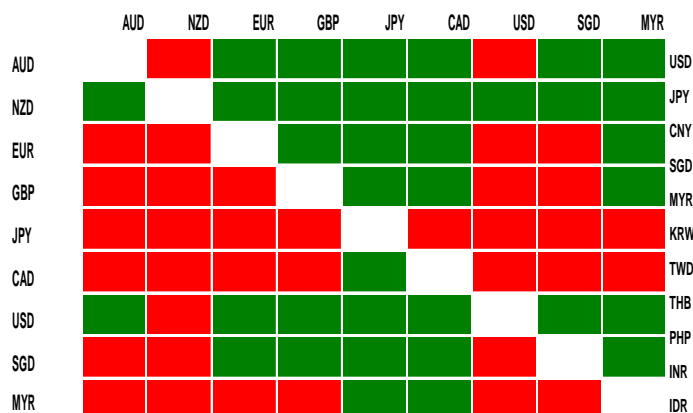
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1383	1.1400	1.1473	1.1500	1.1532
GBP-USD	1.2800	1.2849	1.2853	1.2868	1.2900
AUD-USD	0.7188	0.7200	0.7203	0.7233	0.7300
NZD-USD	0.6795	0.6800	0.6827	0.6843	0.6900
USD-CAD	1.3164	1.3200	1.3264	1.3300	1.3347
USD-JPY	106.92	108.00	108.22	109.00	111.16
USD-SGD	1.3499	1.3500	1.3523	1.3600	1.3607
EUR-SGD	1.5473	1.5500	1.5515	1.5593	1.5600
JPY-SGD	1.2243	1.2400	1.2496	1.2500	1.2651
GBP-SGD	1.7216	1.7300	1.7381	1.7400	1.7447
AUD-SGD	0.9541	0.9700	0.9741	0.9800	0.9821
Gold	1246.00	1250.94	1292.30	1300.00	1300.40
Silver	15.36	15.60	15.66	15.70	15.96
Crude	42.36	51.40	51.41	51.50	52.36

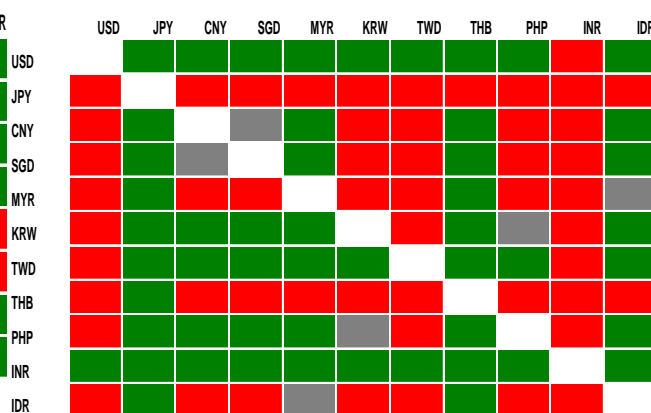
Source: OCBC Bank

### G10 FX Heat Map



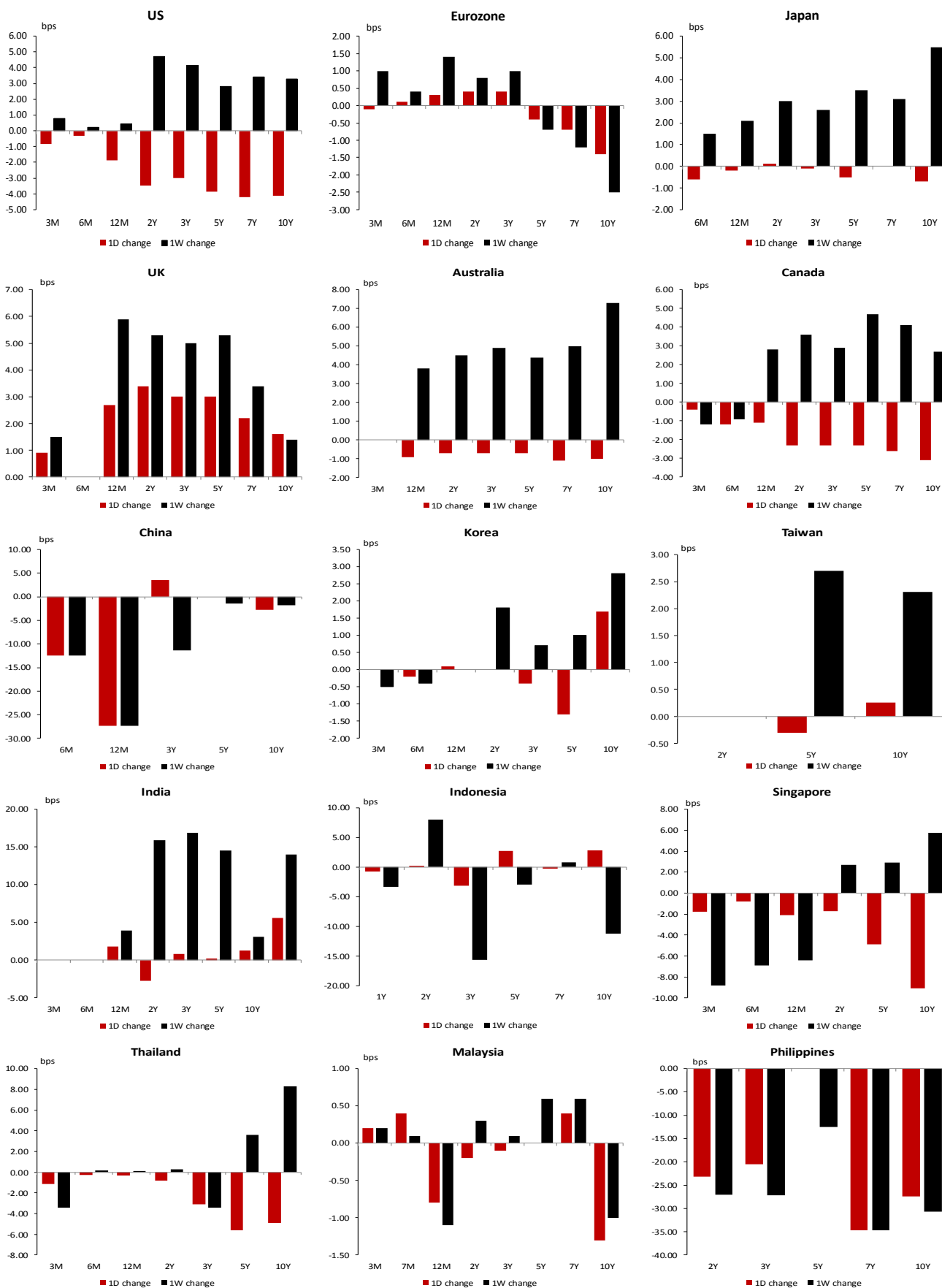
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes



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