

Tuesday, January 15, 2019

Market Themes/Strategy/Trading Ideas

- Soft trade numbers out of China took the wind out of the cyclical (AUD, NZD) on Monday while lower crude also dented the CAD and NOK. With investor sentiment already cautious, negative global equities also saw the JPY (and CHF) outperforming across the board.
- The EUR meanwhile was limited on the upside by disappointing November EZ industrial production, while the GBP-USD picked higher ahead of Tuesday's Parliamentary vote. Overall, the DXY managed to end relatively steady at 95.61. The UST curve was mixed as the front to belly softened while the 10y yield edged higher.
- Despite risk appetite weakening, the **FXSI (FX Sentiment Index)** still managed to edge a touch lower while remaining in Risk-Off territory.
- Chinese trade data on Monday we think serves as a timely reminder of the fragility of the Goldilocks environment for EM/Asia that has enveloped markets in the opening weeks of this year. Up till the closing months of 2018, China's trade performance had been middling but no unduly negative (with the rest of Asia actually underperforming), and we continue to watch for any sharper than expected deterioration in the coming months. China's December monetary aggregates are due today and may yield further short term cues.
- On the Fed front, Vice-Chair Clarida gave a tacit nod towards slowing global growth while continuing calls of patience on the rate hike front. Overlay this with softer cues from China, we think the softening global growth theme will hum along in the interim, amidst the broader USD vulnerability narrative. This should keep AUD-USD topside somewhat limited.
- Meanwhile, the highlight of the day is expected to be the British Parliaments vote on the Brexit bill and subsequent headlines to dictate. As it stands any indications of a delayed exit may continue to lift the pound but we remain conscious of significant two-way risks for the spot at this juncture. **Conviction view of the day would be to remain heavy on the USD-JPY within 107.60-108.80.**

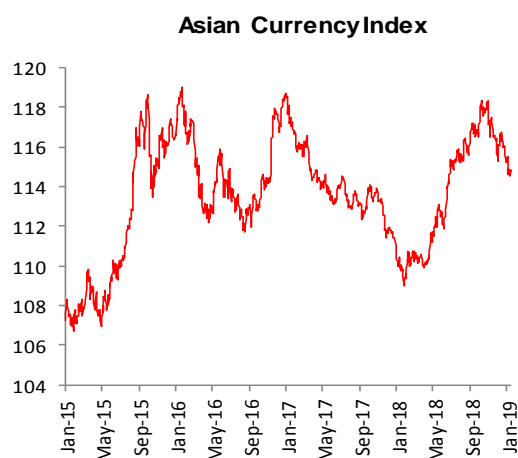
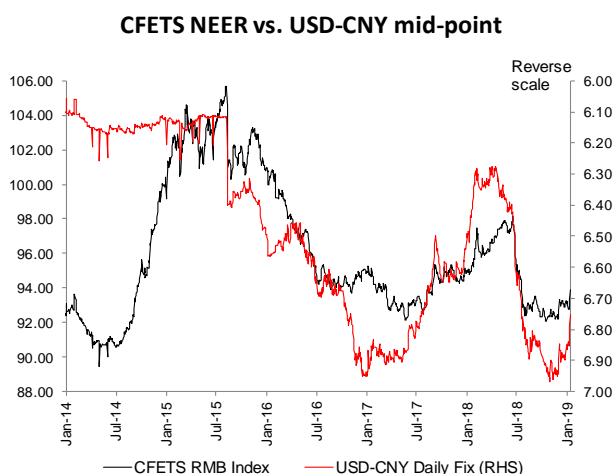
Treasury Research &
Strategy

Emmanuel Ng
+65 6530 4037
ngcyemmanuel@ocbc.com

Terence Wu
+65 6530 4367
TerenceWu@ocbc.com

Asian Markets

- EM equities wobbled lower on Monday and investors are likely to remain suitably cautious intra-day. USD-Asia may test gingerly lower pending any pick-up in investor appetite levels. Note however that back-end China and India GB yields were chipped lower on Monday. **Overall, outside of renminbi space, the SGD, IDR and THB may continue to outperform against the USD, with the INR still a likely casualty.**
- **CNH** was essentially unfazed by late NY and had recovered from prior Asian losses earlier on Monday. Given the wobble from the latest trade numbers, note that front-end vols have also consolidated slightly lower off recent highs (with riskies also bottoming). While we retain the view that renminbi valuation will continue to be reflective of broader USD fluctuations, some consolidation may be in order in the near term, especially with the CFETS RMB Index having already breached 93.80 neighborhood.
- On the **portfolio flow front**, South Korea's net inflows have stumbled lower on sharply moderating bond inflows but Taiwan's net equity outflows continue to compress. Net flows for India meanwhile remain fairly neutral on minor net equity outflows and minimal bond inflows. Elsewhere, bond inflows remain a staple for Indonesia while Thailand is may be facing a further degradation of bond outflows.
- **SGD NEER**: The SGD NEER started the morning slight firmer at around 1.78% above its perceived parity (1.3765). The NEER-implied USD-SGD thresholds edged higher. At this juncture, the downside momentum for the USD-SGD may have stalled north of the 1.3500 mark. The 55-week MA (1.3497) may serve as a support for now, pending further guides from the USD and/or RMB complex.
- **CFETS RMB Index**: The USD-CNY mid-point was fixed higher than we expected at 6.7542, compared to 6.7560 previously. The CFETS RMB Index is marginally lower at 93.87 compared to 93.88 yesterday. Beyond the immediate horizon, we retain a degree of skepticism over RMB appreciation on a basket basis given that Chinese data points remain uninspiring.



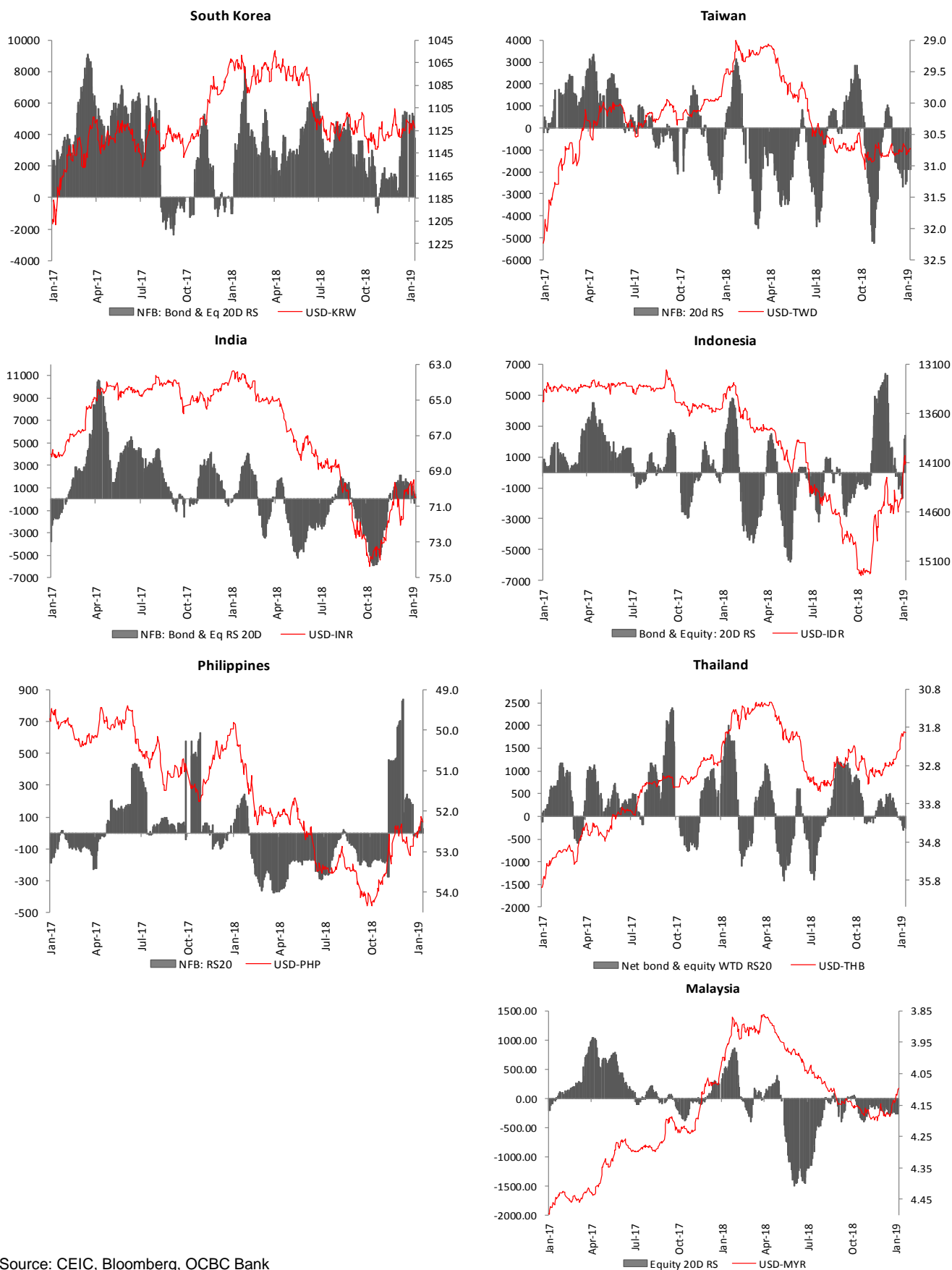
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↓	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, Dec exports and imports surprised with a contraction.
S. Korea	↔/↓	↔	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.
Taiwan	↔	↔	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.
India	↔	↔/↑	Dec WPI significantly softer than expected while CPI inflation was marginally cooler than expected – dragging bond yields lower. Meanwhile, movements in crude continues to influence both the INR and bond yields. 3Q GDP weaker than expected. RBI static in Dec, but latest macro readings are breeding dovish expectations despite background fiscal concerns. 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.
Singapore	↓	↔/↑	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.
Malaysia	↓	↓	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.
Indonesia	↓	↔	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. Expect BI to remain static, with the urgency for further hikes reduced due to a softening Fed stance and firmer IDR. BI governor notes that the benchmark rate is already near its peak and 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.
Thailand	↓	↔	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.
Philippines	↓	---	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.

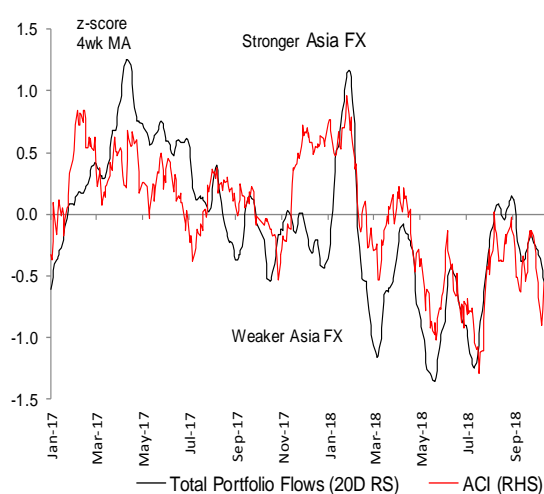
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



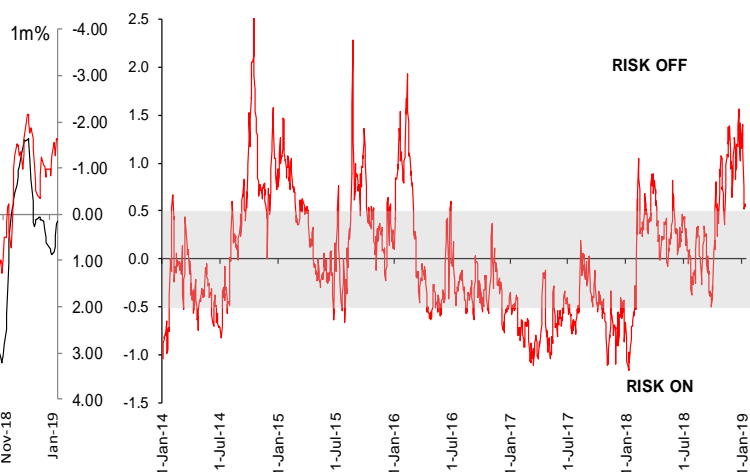
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXE	CNH	EUR
DXY	1	0.423	0.813	-0.554	-0.579	-0.444	0.811	-0.642	0.651	0.368	0.824	-0.926
JPY	0.916	0.455	0.651	-0.449	-0.459	-0.27	0.746	-0.493	0.524	0.238	0.661	-0.897
CAD	0.91	0.472	0.883	-0.754	-0.644	-0.574	0.837	-0.799	0.859	0.48	0.9	-0.771
PHP	0.882	0.373	0.834	-0.783	-0.649	-0.635	0.749	-0.809	0.906	0.591	0.855	-0.728
CHF	0.869	0.53	0.907	-0.744	-0.59	-0.512	0.851	-0.75	0.858	0.404	0.904	-0.707
SGD	0.869	0.644	0.838	-0.598	-0.444	-0.439	0.933	-0.695	0.777	0.297	0.843	-0.667
KRW	0.827	0.541	0.86	-0.605	-0.452	-0.345	0.868	-0.645	0.748	0.156	0.859	-0.664
INR	0.824	0.29	0.992	-0.739	-0.755	-0.629	0.698	-0.775	0.773	0.538	1	-0.7
NZD	0.813	0.329	1	-0.713	-0.737	-0.631	0.691	-0.77	0.76	0.514	0.992	-0.719
CNH	0.811	0.802	0.691	-0.352	-0.178	-0.156	1	-0.503	0.595	0.006	0.698	-0.605
IDR	0.665	0.056	0.745	-0.795	-0.718	-0.875	0.516	-0.923	0.839	0.752	0.755	-0.516
MYR	0.469	0.359	0.514	-0.237	-0.264	-0.01	0.47	-0.185	0.271	0.006	0.48	-0.491
CNY	0.423	1	0.329	-0.035	0.218	0.212	0.802	-0.085	0.333	-0.316	0.29	-0.23
TWD	0.142	0.361	-0.229	0.343	0.458	0.575	0.223	0.447	-0.23	-0.41	-0.227	-0.191
THB	0.138	0.014	0.139	-0.014	-0.134	0.117	0.057	0.047	-0.07	-0.094	0.101	-0.308
AUD	-0.205	0.483	-0.416	0.529	0.745	0.73	0.093	0.56	-0.389	-0.809	-0.536	0.283
USGG10	-0.439	0.348	-0.594	0.758	0.855	0.88	-0.133	0.778	-0.646	-0.888	-0.68	0.429
GBP	-0.854	-0.256	-0.842	0.534	0.672	0.446	-0.66	0.594	-0.589	-0.46	-0.886	0.78
EUR	-0.926	-0.23	-0.719	0.468	0.631	0.384	-0.605	0.536	-0.471	-0.38	-0.7	1

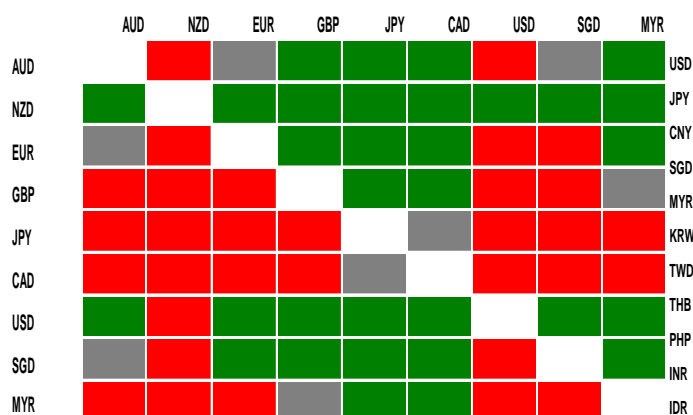
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1384	1.1400	1.1484	1.1500	1.1536
GBP-USD	1.2884	1.2900	1.2901	1.2930	1.3000
AUD-USD	0.7187	0.7200	0.7214	0.7238	0.7300
NZD-USD	0.6796	0.6800	0.6838	0.6840	0.6900
USD-CAD	1.3180	1.3200	1.3269	1.3300	1.3350
USD-JPY	106.95	108.00	108.53	109.00	111.17
USD-SGD	1.3499	1.3500	1.3520	1.3600	1.3609
EUR-SGD	1.5469	1.5500	1.5526	1.5590	1.5600
JPY-SGD	1.2250	1.2400	1.2457	1.2500	1.2637
GBP-SGD	1.7211	1.7400	1.7442	1.7467	1.7470
AUD-SGD	0.9552	0.9700	0.9753	0.9800	0.9801
Gold	1247.05	1250.68	1291.80	1300.00	1300.40
Silver	15.36	15.70	15.71	15.80	15.96
Crude	42.36	51.10	51.14	51.20	52.09

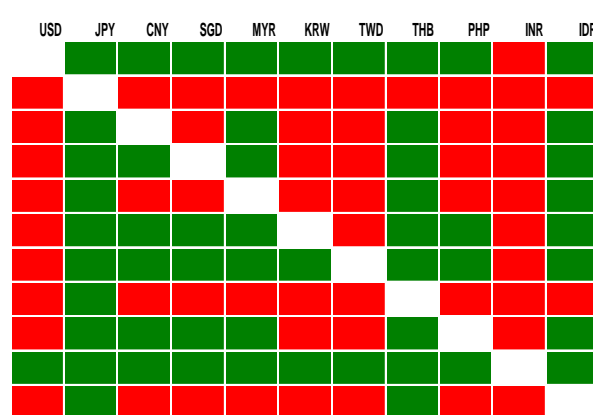
Source: OCBC Bank

G10 FX Heat Map



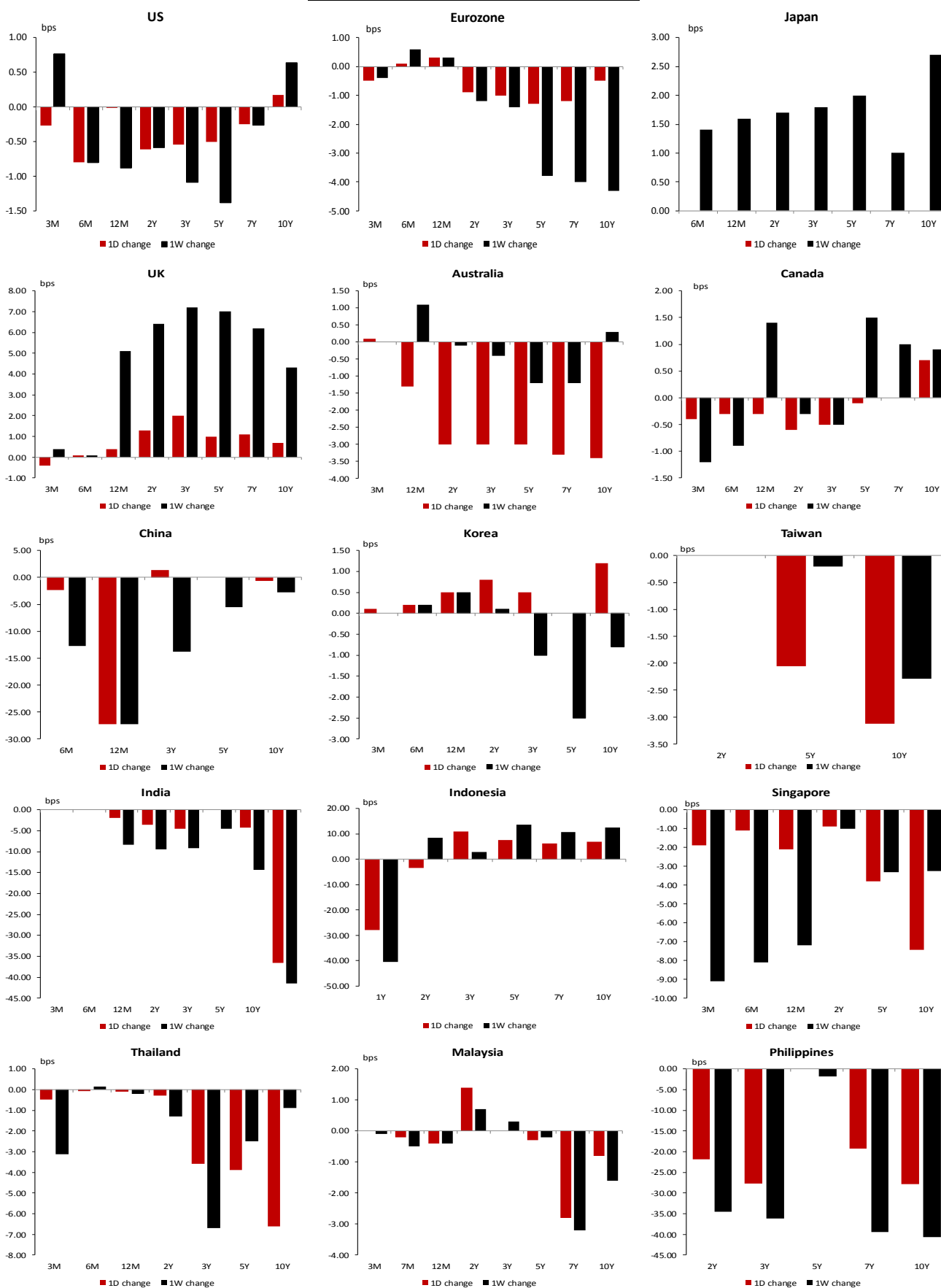
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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