

Friday, January 25, 2019

Market Themes/Strategy/Trading Ideas

- Despite softer US yields, the USD (supported partially by lower than expected initial claims and Jan PMIs) climbed across G10 space on Thursday as a confluence of negative news weighed on the majors. The EUR tripped lower post-ECB (bund curve bull flattened on the day and on the week) while Germany also significantly downgraded its 2019 GDP forecast to 1.0% from 1.8%.
- Elsewhere, mounting growth concerns dragged the likes of the AUD and CAD lower. US Commerce Secretary Ross also downplayed any hopes of a near term resolution of Sino-US trade tensions, putting a drag on overall risk sentiments. **This drove the DXY higher past 96.50 and a sustained breach above 55-day MA (96.613) towards 97.00 remains on the cards.**
- Market uncertainty may continue to mount in the coming week. Note that the partial US government shutdown continues to drag with the Senate on Thursday rejecting 2 bills on Thursday to reopen government funding. Key risk next week may also emanate from vice premier Liu He's visit to Washington on 30-31 Jan. On the risk appetite front, our **FX Sentiment Index (FXSI)** held near existing levels despite the negative Sino-US headlines and ongoing slowdown concerns.
- On the EZ, the ECB's Draghi highlighted increased downside risks on a host of uncertainties and near term growth is expected to be weaker than previously expected. With the window to hike rates closing, investors will now look to the March ECB meeting, where downside revisions to growth forecasts and the prospect of an extension of the TLTROs may be addressed. Crucially, he stated that, "When markets place the first rate hike in 2020, they are using the state contingent part of our forward guidance...and it shows that they have understood our reaction function". **Overall, on our part, we expect the near term downside bias for the EUR-USD to have increased with the 55-day MA (1.1380) now expected to be a ceiling.**
- Apart from a near term bearish **EUR-USD** outlook, the risk-reward for the **AUD-USD** may continue to decay lower, with 0.7050 beckoning intra-day. On other fronts, apparent positivity attached to the GBP may yet persist in the near term ahead of the 29 Jan Parliamentary vote on "Plan B", and we maintain a positive **GBP-AUD** outlook at this juncture.

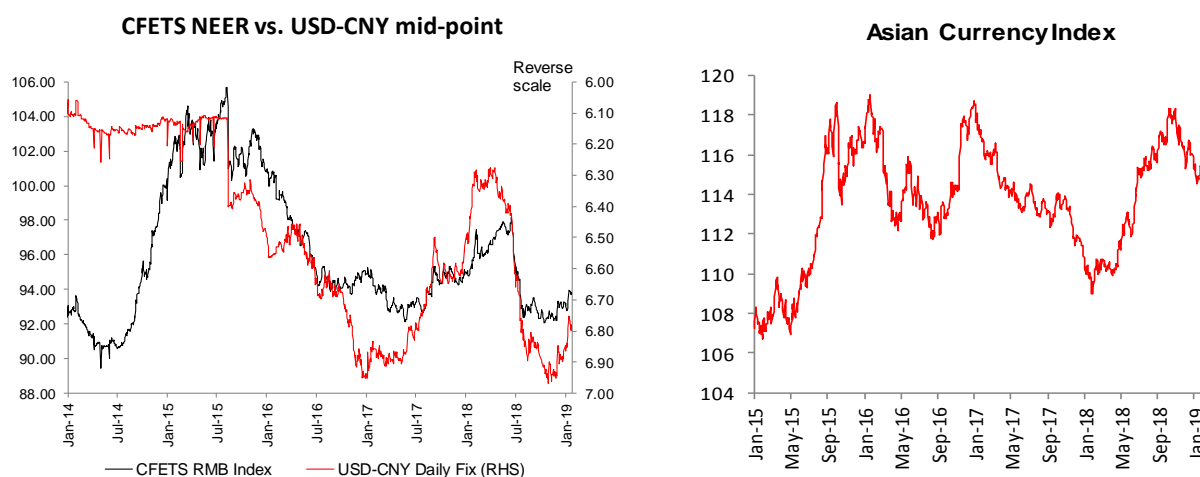
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Asian Markets

- USD-CNH held steady in a slightly firmer range on Thursday and given the broad dollar moves overnight, USD-Asia may remain relatively supported on downside dips. **Asian central banks this week have also joined the chorus of G7 central banks in preaching heightened caution (but stopped short of entertaining easing prospects) while paring macro forecasts.** While some consolidation has set in with regards to **China's** GBs (and NDIRS), we note that equivalent curves in **South Korea** and **Thailand** have synced lower.
- On the **portfolio flow front**, net inflow momentum for South Korea is trying to pick up again, with stronger equity inflows attempting to offset net bond outflows. Meanwhile, net equity inflows for Taiwan continue to improve. In South Asia, Indonesia continues to be the poster boy for net inflows, with equity inflows extending to offset the compressing bond inflows. Thailand and India continue to struggle at near-neutral levels, with Thailand perhaps in a better position, printing minor net inflows, while outflows from India continues to edge higher.
- **SGD NEER:** The SGD NEER stands at around +1.72% above its perceived parity (1.3822), persisting within the narrow range of +1.65% - +1.75% established in recent sessions. The NEER-implied USD-SGD thresholds pushed higher alongside the broad USD. We continue to expect the USD-SGD to bounce on dips within 1.3570 and 1.3628 (200-day MA).
- **CFETS RMB Index:** The USD-CNY mid-point was set higher this morning, as expected, at 6.7941, compared to 6.7802 previously. The CFETS RMB Index eased slightly to 93.78 from 93.80 yesterday.



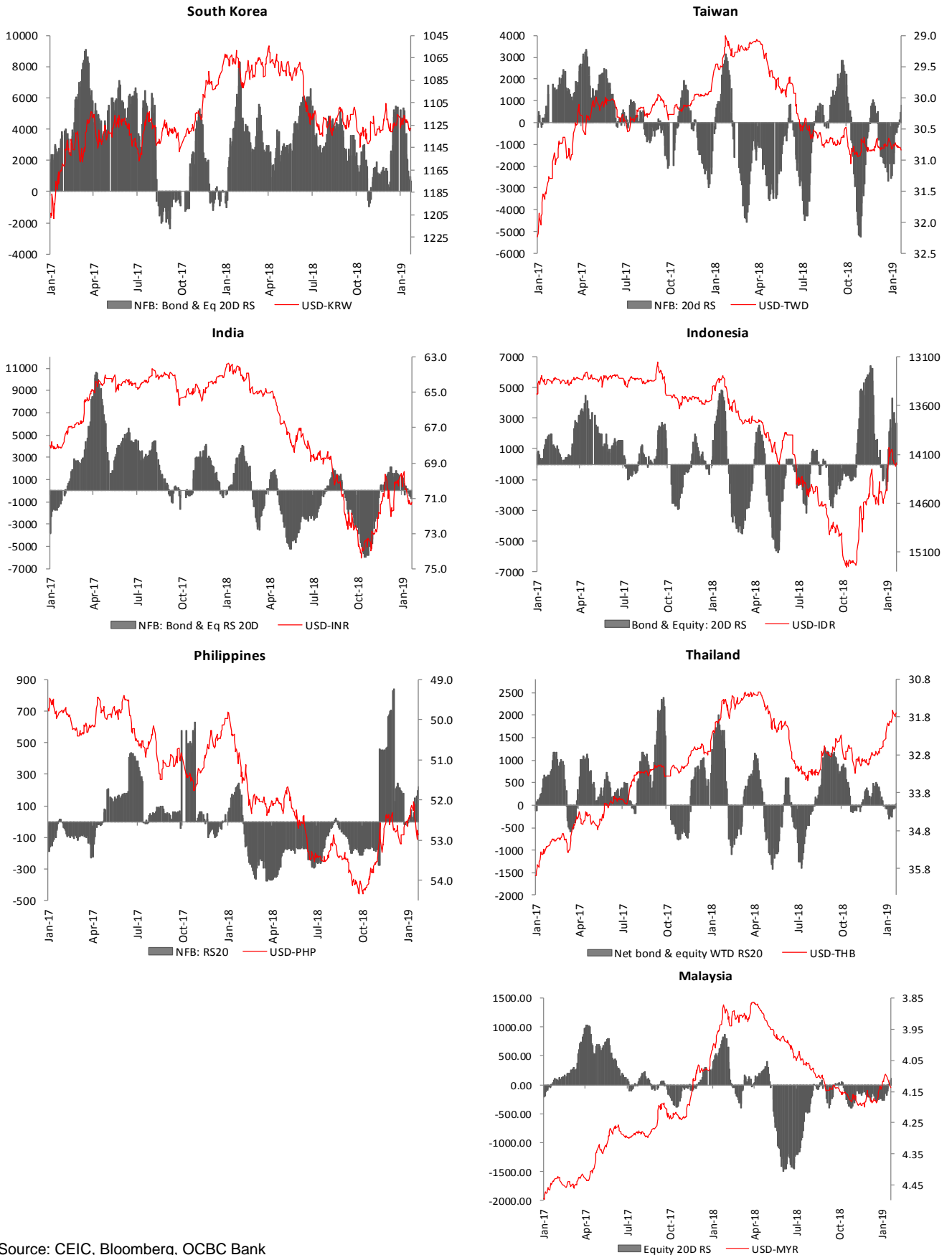
Source: OCBC Bank, Bloomberg

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. Dec retail sales and industrial production in-line to stronger than expected.
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. Dec CPI softer than expected at 1.3% yoy but core held at 1.3% yoy. 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	↔/↓	↔	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 may alleviate somewhat following indications that the farmer package maybe smaller than expected. 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. Budget to be tabled on 1 Feb, with govt spending expected to increase with the general elections in Apr/May in mind.
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.
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 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 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. BOT relatively unconcerned by the THB’s recent class topping gains. 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.

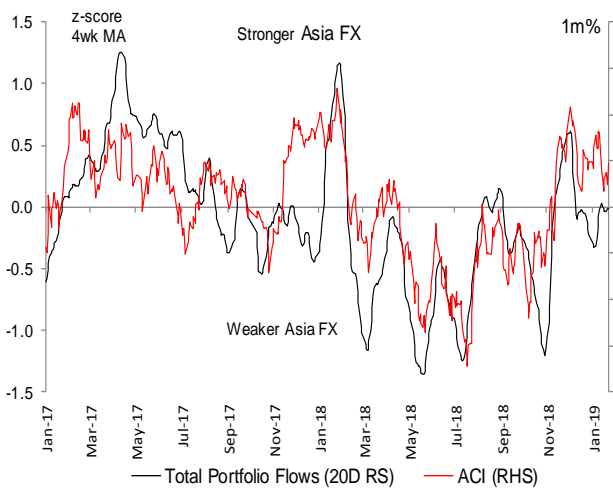
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



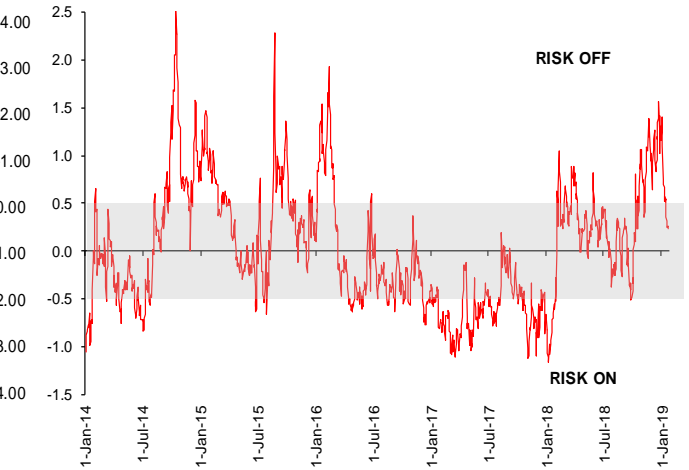
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXX	CNH	EUR
DXY	1	0.111	0.475	-0.355	-0.277	-0.429	0.688	-0.444	0.566	0.304	0.532	-0.811
SGD	0.836	0.038	0.771	-0.689	-0.62	-0.728	0.729	-0.731	0.885	0.66	0.812	-0.386
IDR	0.794	0.069	0.744	-0.613	-0.511	-0.635	0.709	-0.656	0.839	0.592	0.764	-0.466
MYR	0.744	-0.063	0.766	-0.777	-0.649	-0.796	0.628	-0.834	0.922	0.716	0.814	-0.286
JPY	0.688	0.639	0.34	-0.181	-0.091	-0.252	1	-0.325	0.604	0.165	0.392	-0.376
CAD	0.674	0.397	-0.152	0.303	0.43	0.239	0.451	0.275	-0.013	-0.412	-0.172	-0.9
CHF	0.644	-0.192	0.788	-0.785	-0.701	-0.882	0.582	-0.868	0.893	0.775	0.822	-0.107
CNH	0.604	0.084	0.395	-0.082	0.048	-0.228	0.477	-0.17	0.369	-0.022	0.42	-0.58
PHP	0.532	-0.242	0.987	-0.841	-0.853	-0.865	0.392	-0.856	0.843	0.828	1	-0.01
CNY	0.475	-0.215	1	-0.852	-0.869	-0.88	0.34	-0.867	0.826	0.833	0.987	-0.065
THB	0.43	-0.057	0.85	-0.904	-0.853	-0.881	0.432	-0.93	0.933	0.886	0.842	0.174
KRW	0.298	0.047	0.008	0.168	0.252	0.183	0.06	0.235	-0.058	-0.289	0.02	-0.552
USGG10	0.111	1	-0.215	0.411	0.476	0.421	0.639	0.283	-0.013	-0.465	-0.242	-0.123
TWD	0.069	-0.07	-0.31	0.429	0.403	0.411	-0.198	0.464	-0.411	-0.455	-0.3	-0.501
INR	0.001	0.412	-0.782	0.797	0.847	0.792	-0.021	0.781	-0.585	-0.805	-0.754	-0.439
GBP	-0.222	0.322	-0.768	0.862	0.897	0.769	-0.053	0.785	-0.698	-0.856	-0.748	-0.375
NZD	-0.638	0.272	-0.771	0.629	0.616	0.726	-0.341	0.68	-0.646	-0.584	-0.831	0.288
AUD	-0.681	0.391	-0.821	0.756	0.73	0.837	-0.405	0.733	-0.786	-0.766	-0.852	0.292
EUR	-0.811	-0.123	-0.065	-0.13	-0.18	-0.046	-0.376	-0.139	-0.044	0.188	-0.01	1

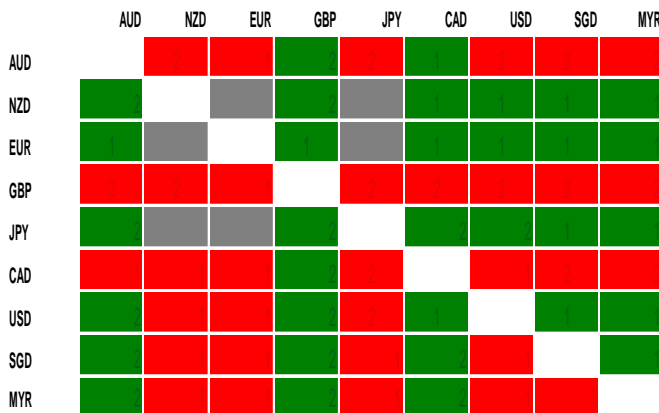
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1290	1.1300	1.1322	1.1386	1.1400
GBP-USD	1.3059	1.3100	1.3120	1.3122	1.3129
AUD-USD	0.7004	0.7100	0.7109	0.7171	0.7200
NZD-USD	0.6700	0.6768	0.6775	0.6793	0.6800
USD-CAD	1.3180	1.3300	1.3314	1.3368	1.3400
USD-JPY	107.74	109.00	109.84	110.00	110.27
USD-SGD	1.3500	1.3508	1.3590	1.3600	1.3628
EUR-SGD	1.5359	1.5371	1.5386	1.5400	1.5560
JPY-SGD	1.2300	1.2324	1.2373	1.2400	1.2599
GBP-SGD	1.7800	1.7811	1.7830	1.7860	1.7900
AUD-SGD	0.9561	0.9600	0.9661	0.9700	0.9798
Gold	1255.76	1276.65	1280.80	1296.09	1300.00
Silver	15.30	15.32	15.35	15.40	15.91
Crude	50.90	53.80	53.87	53.90	54.02

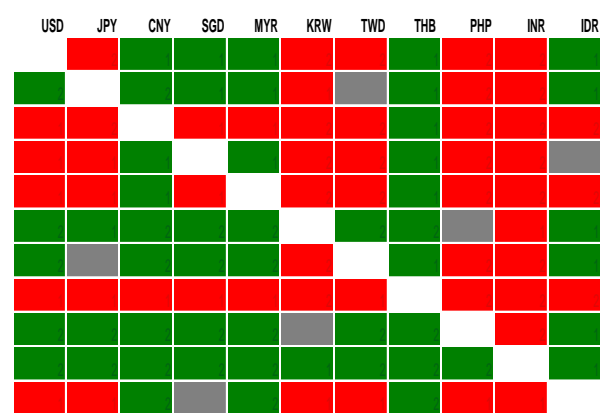
Source: OCBC Bank

G10 FX Heat Map



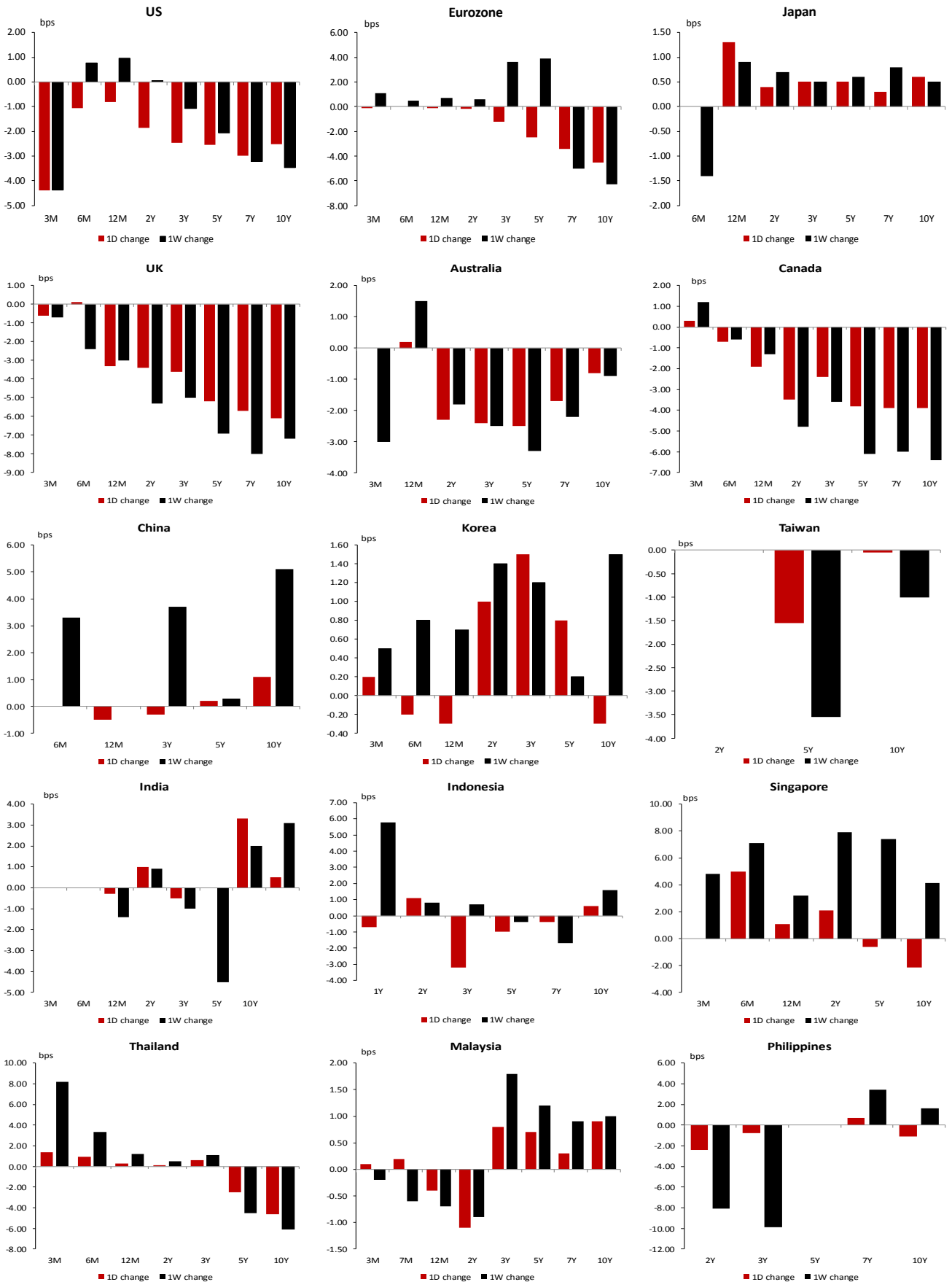
Source: OCBC Bank

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
STRUCTURAL							
-	-	-	-	-	-	-	
RECENTLY CLOSED TRADE IDEAS							
Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*

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