DAILY MARKET OUTLOOK

Monday, December 10, 2018

FX Themes/Strategy/Trading Ideas – The week ahead

- Disappointing US NFP numbers (headline as well as hourly earnings) saw the dollar retreat against the EUR and the JPY and CHF. GBP underperformed across the board as Brexit-related uncertainty continued to simmer. The antipodeans however shaded lower on Friday while also underperforming across G10 space. USD-CAD however dipped in the wake of significantly better than expected Nov labor market numbers.

- The UST curve detached lower (again led by the belly at 5y) and **we continue to view the outperformance by the 5y as a negative re-pricing of US macro prospects. Comments from the Fed's Brainard and Bullard on Friday indicate that Fed-speak in aggregate continues to attempt to shift markets towards a flatter FOMC trajectory ahead of next week's FOMC.** The **ECB** meeting this Thursday (note also crowded ECB appearances this week) also has the potential to rock the boat pending the ECB's economic forecasts and forward guidance.

- Markets will have no shortage of potential negative risks this week, ranging from the ongoing China-Canada/US diplomatic spate, to the White House advisor Navarro starting on Friday that the US would proceed to raise tariffs on China further if no compromise was reached after the 90-day period (01 Mar 2019). The UK parliament vote on 12 Dec 2018 holds further headline risks for markets with market all but writing off any positive outcomes (with PM May continuing to face an internal mutiny).

- In this context, expect investor sentiments to remain headline-driven and jittery across the week. Meanwhile, our **FXSI (FX Sentiment Index)** bounced higher in the Risk-Off zone to start the week, and we think it may persist within this zone during the week. The US10y UST yield ended sub-2.850% on Friday with Treasury futures early Monday continuing to push higher (and S&P E-minis dripping lower) while negative US equities from Friday has also bled onto Asia early Monday.

- **Overall, our short term posture remains unchanged and continue to remain positive on the EUR-USD (USD vulnerability trade) but fade the AUD-USD potentially lower (global growth concerns and Sino-US trade tensions). Lastly, continue to target USD-JPY lower on the twin negative of lower US rates and risk aversion.**

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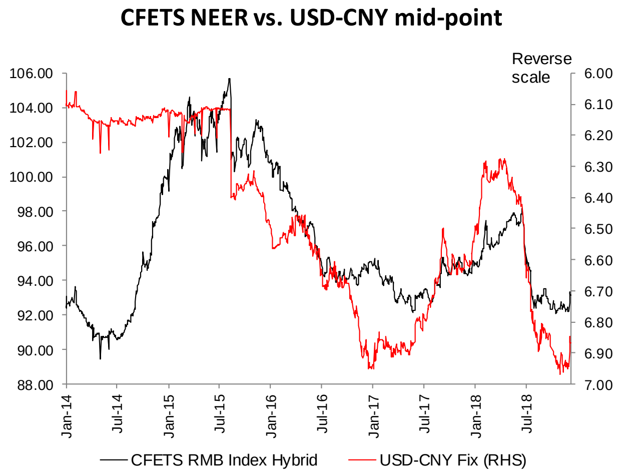
Asian FX

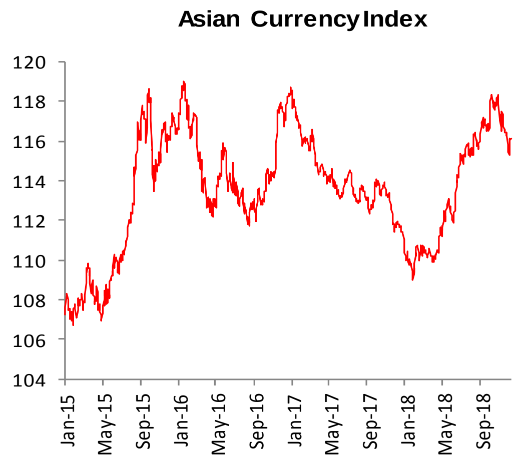
- To add fuel to fire of a global macro deceleration, China's Nov CPI/PPI numbers came in cooler than expected while Nov trade numbers also indicated slower than expected export and import momentum. This week, expect more cues from this front with China November monetary aggregates as well as industrial production, retail sales and urban fixed asset investment data points are due to be released. **In the interim, USD-Asia may attempt to drift a touch lower but downside is expected to be supported by fragile investor risk appetite.**

- Latest **EPFR** data reflected further easing of implied equity inflows into Asia (ex. CN, JY). Implied bond flows also slipped deeper into negative territory. In both cases, implied flows into South Korea showed the largest deterioration. On the **Asian portfolio flows** front, South Korea and Taiwan slipped deeper into net outflow territory in the latest reading, as equity outflows continue to pressure. Meanwhile, inflow momentum into India continues to hold up well, while inflow momentum into Thailand undergoes another attempt to push higher. Overall, barring a significant shift in EM sentiments, we should expect inflows into South Asia to remain more resilient than the North in the midst of a re-ignition in Sino-US tensions.

- **SGD NEER**: The SGD NEER is softer this morning, at around +1.83% above its perceived parity (1.3946), with NEER-implied USD-SGD thresholds also slightly softer. With Sino-US tensions flaring up again but set against flailing FOMC expectations, expect the USD-SGD to remain trapped in recent ranges. Nevertheless, expect the 100-day MA (1.3728) to cap any near term bounce.

- **CFETS RMB Index**: The **USD-CNY** mid-point was set higher again, as expected, at 6.8693 compared to 6.8664 on Friday. The CFETS RMB Index eased slightly to 93.15, compared to 93.18 previously. Going forward, expect the USD-CNY to drift higher again, with the 6.9000 providing some initial resistance, ahead of the 55-day MA (6.9205).





Source: OCBC Bank, Bloomberg

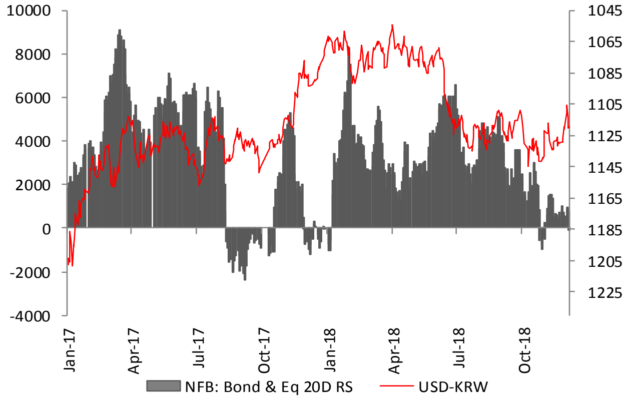
Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	Beijing finally acknowledges latest Xi-Trump 90-day truce for tariffs, and starting to act on the deal. 3Q GDP numbers "disappointed ". PBOC's quarterly monetary policy report sounding accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. October CPI/PPI prints remain subdued, with curves still seen suppressed. Latest aggregate financing numbers, after adjusting for the new methodology, do not protend aggressive monetary stimulus. November official PMIs disappoint. Oct trade and industrial production numbers outperformed, while retail sales underperformed. Softer goive yields continue to be a staple.
USD-KRW	↔/↓	BOK hiked 25bps as expected in November with the hike characterized as a one-off dovish hike by markets. 3Q GDP and Sep industrial production readings came in lower than expected. Nov CPI prints also in-line to softer. KTB and NDIRS yields continue deflating.
USD-TWD	↔/↓	CBC remained static at its policy meeting in September and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Some CBC members looking towards policy normalization to afford the authority eventual downside wiggle room.
USD-INR	↔/↓	3Q GDP and Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance. RBI static in Dec, with accompanying rhetoric signaling a pull back of rate hike expectations if inflation does not materialise (inflation forecasts revised lower). Govie and NDIRS curves extend declines post-RBI. A hesitant OPEC and softening crude may underpin the INR and govt bonds going forward.
USD-SGD	↔/↓	MAS steepens the NEER's slope again in October. With the NEER remains near its upper boundary, expect declines in the pair to track downside in the broad USD, and not as a result of explicit SGD strength. 3Q GDP numbers disappoint.
USD-MYR	↔/↓	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).
USD-IDR	↔/↓	Ongoing strong demand from foreigners for ID govt bonds, although profit-taking by onshore banks caused curves to turn firmer on the week. The Nov hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, with the BI expected to stay pre-emptive and ahead of the curve in 2019. Note equity inflows are also consistently picking up momentum alongside bond inflows. BI resumes intervention at the FX and bond markets.
USD-THB	↔/↓	BOT unchanged at Nov MPC, but shows an inclination towards a Dec hike, rather than Feb. Any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Latest global yield developments may however erode any urgency to normalize monetary policy. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Nov CPI dipped back below the BOT's target range, potentially complicating the Dec rate hike outlook again.
USD-PHP	↔	BSP hiked rates by another 25 bps in its Nov meeting, aiming to rein in on inflation and pre-empt second round effects. Official rhetoric continues to point towards lower inflation prints in the coming months (Nov CPI cooler than expected), although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending. BSP expected to stand pat in December.

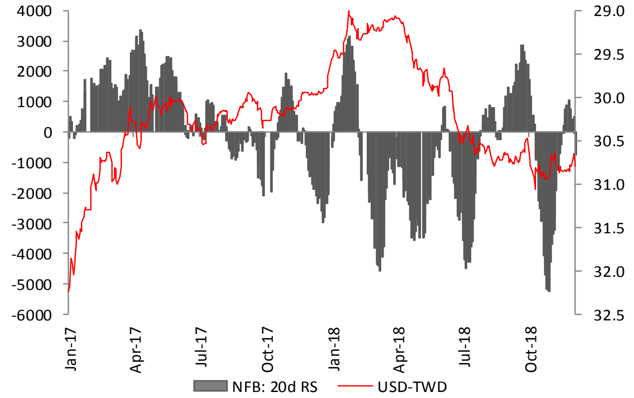
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

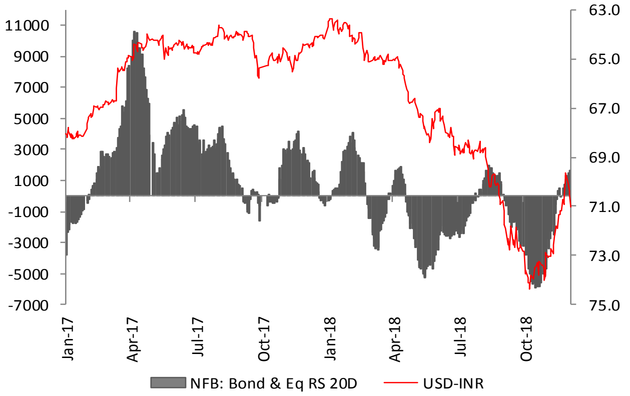
South Korea



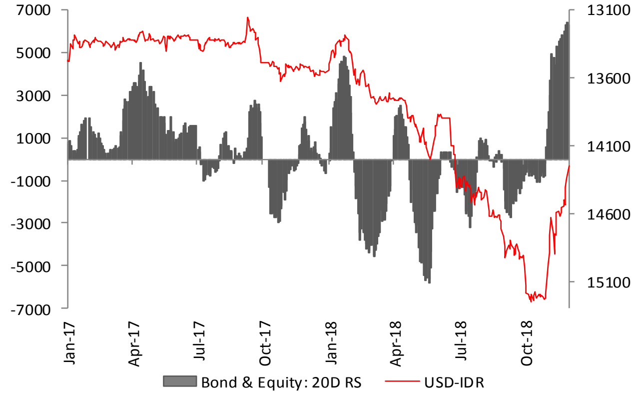
Taiwan



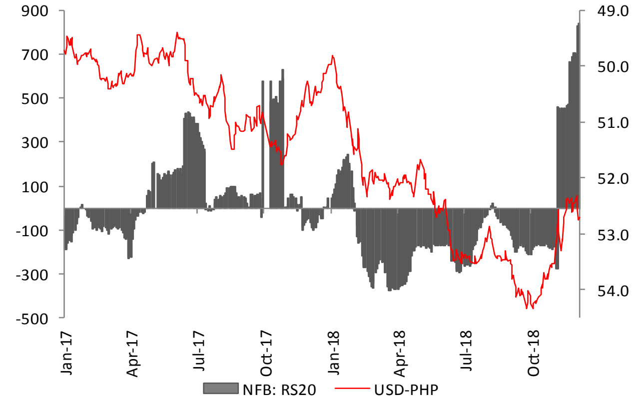
India



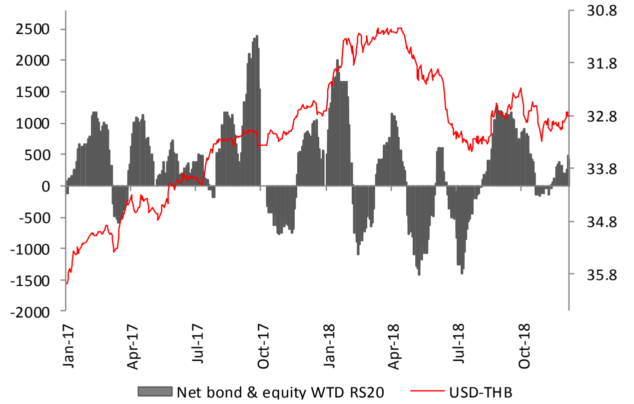
Indonesia



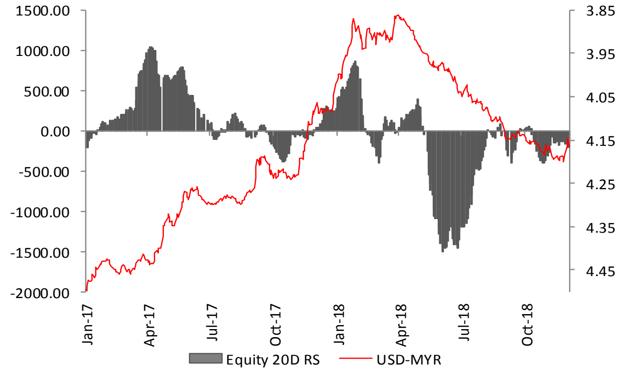
Philippines



Thailand

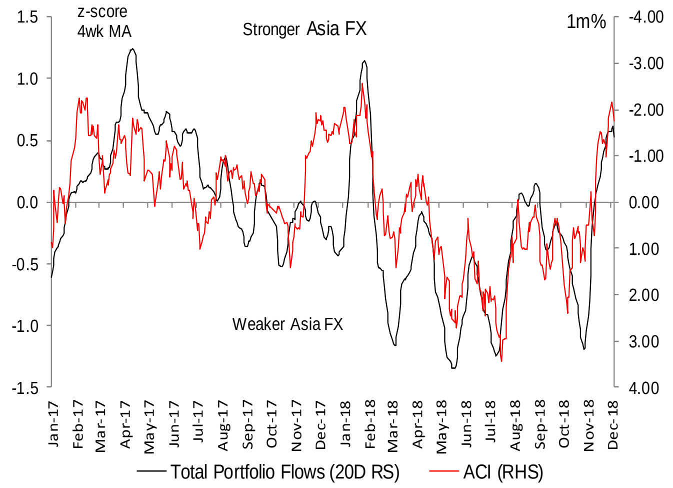


Malaysia



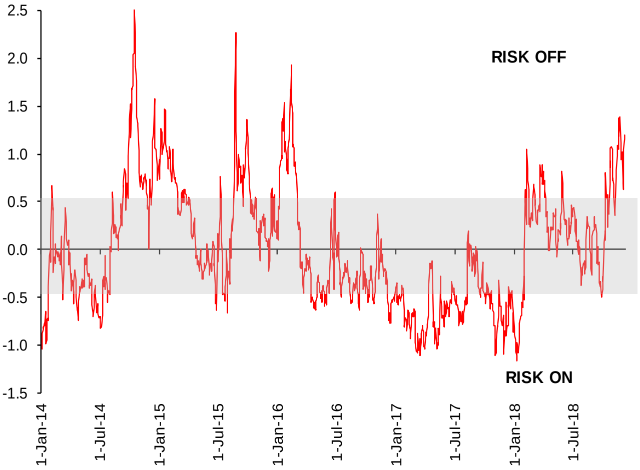
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXEX	CNH	EUR
DXY	1	0.335	0.221	0.264	0.12	-0.324	0.753	0.005	-0.23	-0.282	0.271	-0.919
JPY	0.753	0.612	0.508	0.536	0.162	-0.138	1	0.101	-0.521	-0.424	0.491	-0.759
CHF	0.617	0.741	0.443	0.318	-0.135	0.429	0.709	0.646	-0.087	-0.879	0.429	-0.783
SGD	0.438	0.827	0.806	-0.084	-0.631	0.246	0.539	0.514	0.14	-0.708	0.841	-0.623
USGG10	0.335	1	0.826	0.158	-0.422	0.361	0.612	0.544	-0.156	-0.757	0.799	-0.455
PHP	0.325	0.283	0.179	0.212	-0.238	0.518	0.292	0.636	0.215	-0.677	0.171	-0.536
CNH	0.271	0.799	0.98	-0.053	-0.574	-0.002	0.491	0.19	-0.078	-0.399	1	-0.353
THB	0.268	0.837	0.877	-0.14	-0.628	0.021	0.44	0.256	0.017	-0.435	0.897	-0.361
CNY	0.221	0.826	1	0.085	-0.527	0.047	0.508	0.212	-0.185	-0.417	0.98	-0.295
CAD	0.215	-0.573	-0.379	-0.303	-0.005	-0.517	-0.136	-0.546	0.396	0.538	-0.304	-0.131
INR	0.062	0.673	0.371	-0.148	-0.537	0.698	0.14	0.869	0.334	-0.856	0.367	-0.343
IDR	0.038	0.666	0.545	-0.205	-0.744	0.516	0.189	0.687	0.394	-0.739	0.548	-0.292
KRW	0.037	0.735	0.815	-0.263	-0.806	0.229	0.258	0.416	0.187	-0.544	0.823	-0.218
GBP	0.021	0.696	0.588	0.035	-0.526	0.412	0.299	0.467	0.102	-0.676	0.561	-0.202
MYR	0.003	0.801	0.926	0.004	-0.609	0.108	0.42	0.226	-0.142	-0.391	0.89	-0.113
TWD	-0.154	0.528	0.758	-0.351	-0.823	0.109	0.057	0.186	0.23	-0.307	0.766	0.012
AUD	-0.235	-0.141	-0.23	0.606	0.769	0.023	0.007	-0.18	-0.645	0.288	-0.356	0.378
NZD	-0.408	-0.735	-0.722	0.362	0.732	-0.079	-0.391	-0.379	-0.31	0.555	-0.806	0.551
EUR	-0.919	-0.455	-0.295	-0.138	0.058	0.098	-0.759	-0.219	0.006	0.481	-0.353	1

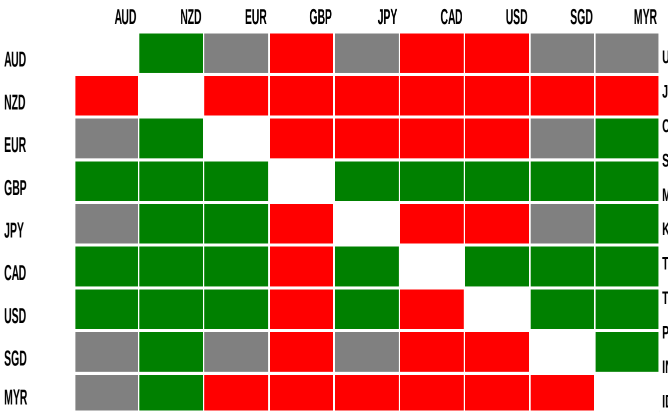
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1400	1.1413	1.1433	1.1449	1.1480
GBP-USD	1.2659	1.2700	1.2740	1.2800	1.2927
AUD-USD	0.7184	0.7200	0.7214	0.7300	0.7359
NZD-USD	0.6800	0.6855	0.6885	0.6900	0.6942
USD-CAD	1.3137	1.3300	1.3304	1.3379	1.3400
USD-JPY	112.24	112.26	112.35	113.00	113.04
USD-SGD	1.3627	1.3650	1.3693	1.3700	1.3766
EUR-SGD	1.5480	1.5600	1.5655	1.5700	1.5707
JPY-SGD	1.2100	1.2179	1.2189	1.2200	1.2218
GBP-SGD	1.7289	1.7400	1.7445	1.7500	1.7795
AUD-SGD	0.9800	0.9860	0.9878	0.9890	0.9900
Gold	1200.00	1220.39	1248.40	1249.80	1250.36
Silver	14.46	14.50	14.57	14.60	14.66
Crude	49.41	52.60	52.62	52.70	58.63

Source: OCBC Bank

G10 FX Heat Map



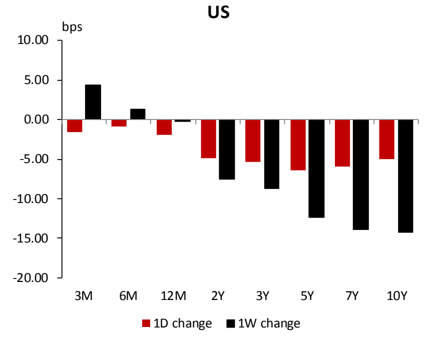
Source: OCBC Bank

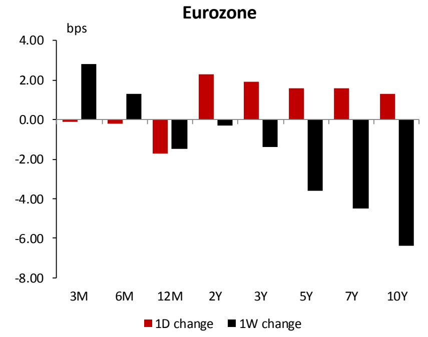
Asia FX Heat Map

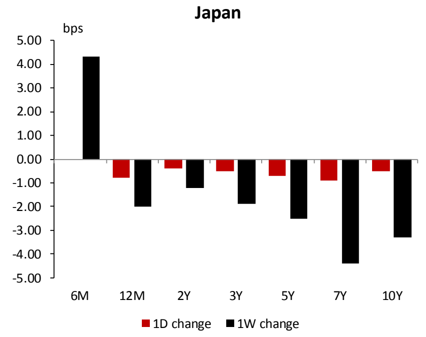
	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		1	1	1	1	1	1	1	9	1	1
JPY	1		2	9	1	1	1	9	2	1	1
CNY	1	2		1	1	9	2	2	2	1	1
SGD	1	9	1		1	1	2	2	2	1	1
MYR	1	1	1	1		1	2	2	2	1	1
KRW	1	1	9	1	1		1	1	1	2	1
TWD	1	1	2	2	2	1		1	2	1	1
THB	1	9	2	2	2	1	1		2	1	1
PHP	9	2	2	2	2	1	2	2		1	1
INR	1	1	1	1	1	2	1	1	1		2
IDR	1	1	1	1	1	1	1	1	1	2	

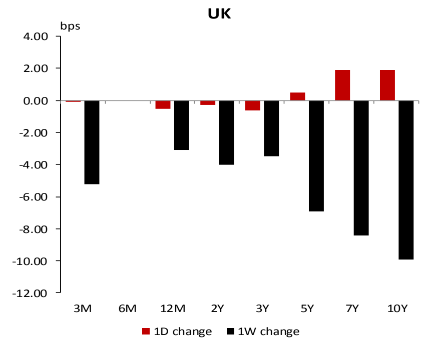
Source: OCBC Bank

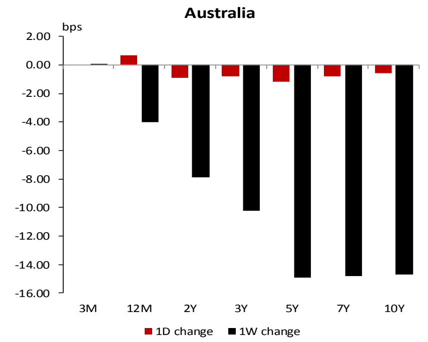
Government bond yield changes

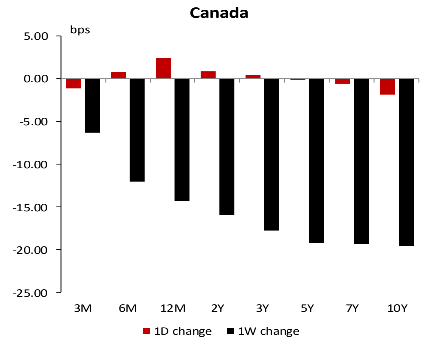


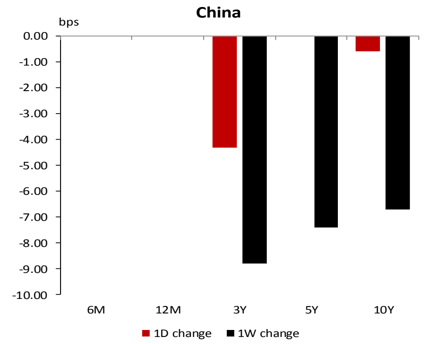


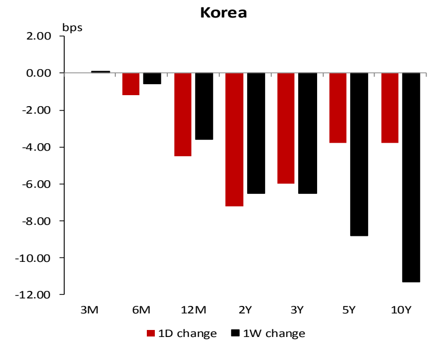


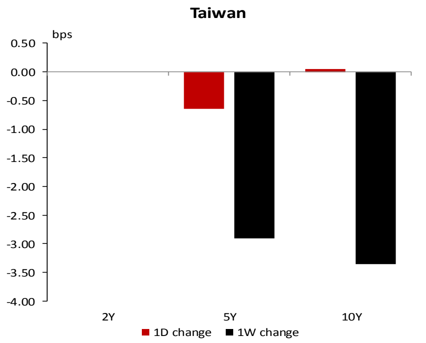


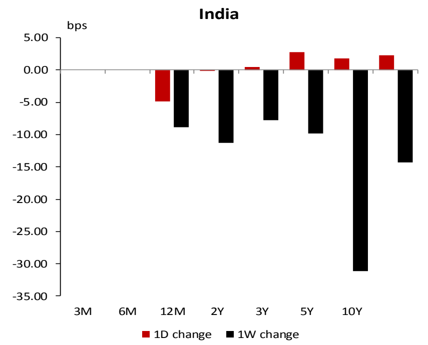


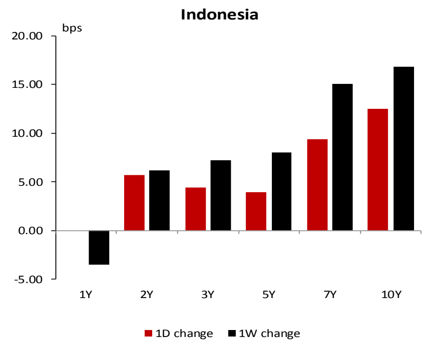


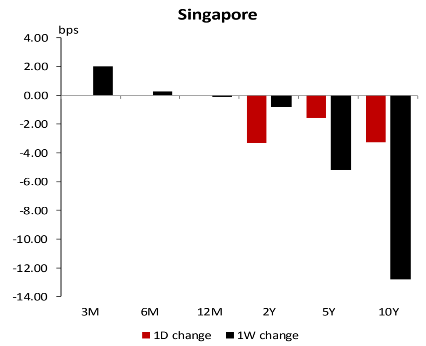


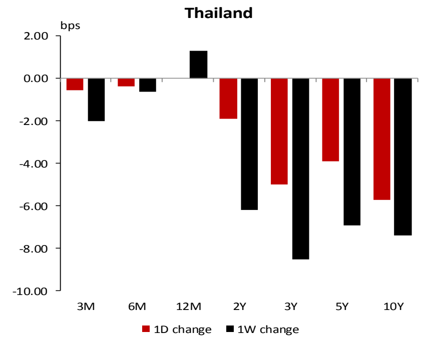


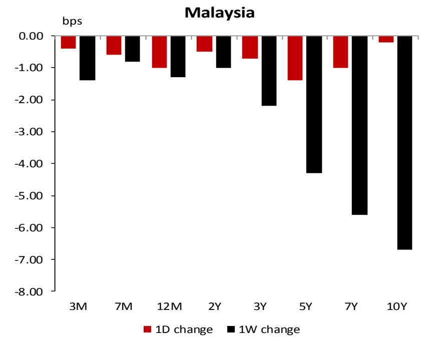


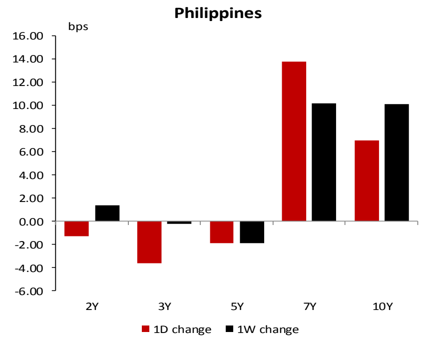












OCBC Bank

FX Trade Recommendations

	Inception	B/S	Currency	Spot/Outright	Target	Stop/Trailing Stop	Rationale
	TACTICAL						
1	23-Oct-18	B	3M USD-THB	32.780	33.500	32.400	Vanishing net inflows, firmer USD, fragile risk appetite
	STRUCTURAL						
	-	-	-	-	-	-	-

	Inception	Close	B/S	Currency	Spot		Close	Rationale	P/L (%)*
	RECENTLY CLOSED TRADE IDEAS								
1	08-Nov-18	12-Nov-18	B	AUD-USD	0.7286		0.7200	Improving risk appetite post US midterms	-1.18
2	13-Nov-18	14-Nov-18	S	EUR-USD	1.1230	1.1035	1.1330	Italian fiscal uncertainty, USD underpinned by FOMC prospects	-0.89
3	09-Nov-18	16-Nov-18	B	USD-JPY	113.88		113.00	Rate differential support for the USD, epecially post-FOMC	-0.77

* realized, excl carry

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