DAILY MARKET OUTLOOK

OCBC Bank

**Monday, November 26, 2018**

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

- The dollar continued to grind higher against the majors on Friday as risk appetite continued to sour. The EUR was additionally undermined by disappointing November PMIs while weekend headlines indicating some wiggle room for tweaks on the Italian fiscal front DPM Salvini failed to offer the common currency any implicit lift early Monday in Asia. UST yields softened on Friday (risk aversion and also underperforming Nov PMIs), led by the back-end with the other major global curves also behaving in a similar fashion as long-end yields eased and led the way lower.

- Negative US equities and slumping crude (WTI veered close to the 50.00 floor) sapped risk sentiments further. Our **FXSI** (**FX Sentiment Index)** pushed higher again within the Risk-Off zone, setting another year-to-date high.

- Over the weekend, EU leaders agreed to a **Brexit** deal with Britain but PM May still has to clear the hurdle that is the House of Commons in the coming weeks, beginning with a schedule appearance on Monday. Note almost non-existent follow through for the GBP-USD as the pair gapped higher in early Asia on Monday before quickly relapsing to Friday's closing levels (and then some). Market speculation centers around a potential UK Parliament vote on the 10th or 11th of December before the EU Summit 13-14 December.

- This week, all eyes will be watching the **G20** meeting starting Friday, specifically, the much touted Xi-Trump meeting. Needless to say, expect accompanying headlines this coming weekend to have a bearing on global perceptions on trade tensions and risk appetite. Expect the **DXY** to continue to hold within 96.00-98.00 multi-session as markets search for clues in the busy week ahead. **In the very short term, we'd prefer to stay with the greenback at the onset of the week.**

- While the **FOMC minutes** are only due on Thursday, the calendar is filled with central bank appearances this week (starting with the ECB's Draghi and the BOE's Carney today) and with the Fed's Clarida on Tuesday and Fed chair Powell on Wednesday. Given the recent shakeout in market-implied odds of central bank rate hikes, expect central bank speak to assume a greater significance this week.

- **Structurally, despite recent background macro uncertainty, the cyclicals (specifically, the AUD) have outperformed (in no small part due to the comfort from the China policy backstop) the EUR and the GBP in recent weeks and this dynamic may persist barring unduly negative Xi-Trump headlines from this coming weekend.**

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## Asian FX

- Expect USD-Asia to start the week on a supported note with domestic yields likely also taking the cue from softer global long-ends from last Friday. The Asian calendar this week includes **India's 3Q GDP** on Friday, while the **BOK MPC** is expected by the market to yield a 25bps hike**. China** also releases its official **November PMIs** on Friday.

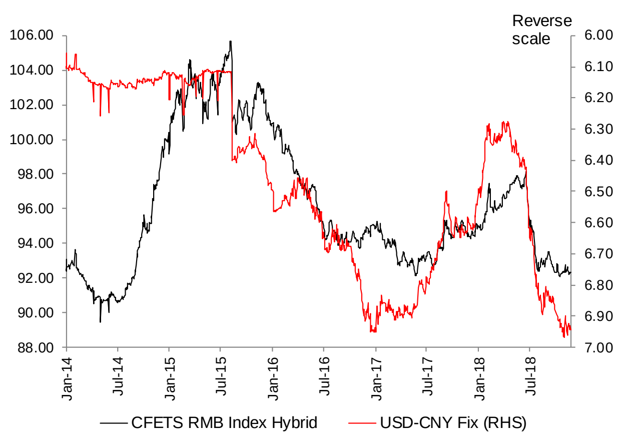
- **EPFR** data showed net implied equity inflows into Asia (excl. Japan, China) jumping higher significantly in the latest week while net implied bond inflows also moderated. From a broader context, implied inflows into EM equities remained healthy but moderated slightly in the latest week, while net outflows from EM bonds also shrank. On the **Asian portfolio flow** front, inflow momentum into Taiwan and Thailand is still attempting to edge higher. Meanwhile, inflow momentum into Korea is consolidating near neutral level.

- **From a medium term perspective, another layer of global uncertainty of late has been the emergence the market's notable (and abrupt) re-pricing of the Fed's rate hike trajectory for 2019. We think this will have significant ramifications on the topology of Asian asset markets in the coming months. If watered-down FOMC expectations do indeed stick, expect less impetus for Asian central banks to attempt to maintain implicit interest rate parity conditions, and if coupled with calmer risk appetite conditions, may well incite renewed inflows into Asian bond and equity markets, under shelter of a vulnerable USD.**

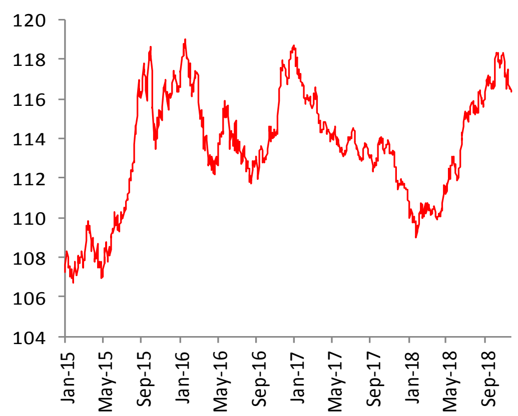
- **SGD NEER**: The SGD NEER stands firmer at around +1.52% above its perceived parity (1.3962), with NEER-implied USD-SGD thresholds are largely firmer. The USD-SGD remains stuck between the 55-day MA (1.3757) and the 100-day MA (1.3722), despite the firmer USD overnight. The inability to break through may disappoint the USD-SGD bulls. Expect the pair to retain its current range, ahead of further directionality stemming from the Xi-Trump summit.

- **CFETS RMB Index**: The **USD-CNY** mid-point was set higher, within expectations, at 6.9453 compared to 6.9306 on Friday. Despite the higher fix, the CFETS RMB Index stood static at 92.32.

**CFETS NEER vs. USD-CNY mid-point**




**Asian Currency Index**




Source: OCBC Bank, Bloomberg

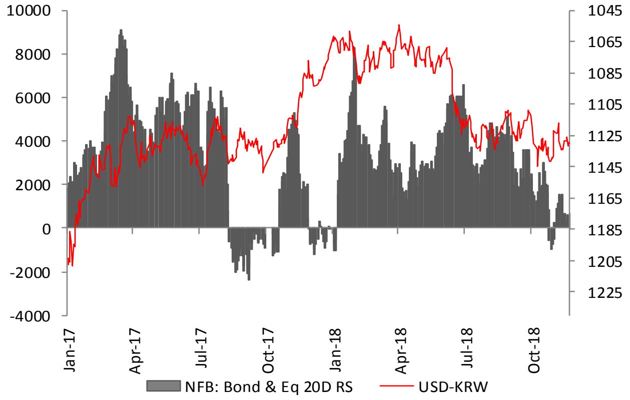
## Short term Asian FX/bond market views

| Currency | Bias | Rationale |
|---|---|---|
| **USD-CNH** | ↔/↓ | 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. PBOC states that the 7.00 level for USD-CNY “isn’t that crucial”. 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. October official PMIs disappoint, Caixin manufacturing PMI static, Oct trade and industrial production numbers outperformed, while retail sales underperformed. Govie and NDIRS yields remain soggy. |
| **USD-KRW** | ↔ | BOK remained static as expected in October with the official economic prognosis downgraded as expected. 3Q GDP and Sep industrial production readings came in lower than expected. BOK governor notes that further cuts are not appropriate and the Bank will consider a hike in its November meeting this week. Back-end of KTB and NDIRS leading the way lower in terms of yields. |
| **USD-TWD** | ↔ | CBC remained static at its policy meeting in Spetember and is expected to remain so into 2019. Govie (and NDIRS) yields slightly more underpinned. CBC governor ambivalent on the benchmark rate. Some CBRC members looking towards policy normalization to afford the authority eventual downside wiggle room. |
| **USD-INR** | ↓ | Political risk ahead with state elections scheduled for end-Nov and early Dec. Thawing relations between the RBI and govenrment expected to assuage markets. Oct CPI prints softer than expected, perhaps pushing the RBI back towards a neutral stance. In the interim, softer inflation and an RBI expected to be on hold supported demand for Indian govies. Expect curves (govie and NDIRS yields) to remain soft. |
| **USD-SGD** | ↔/↓ | MAS steepens the NEER’s slope again in October. NEER may remain afloat above +1.00% if risk appetite stays supported. 3Q GDP numbers disappoint. Curves at the front end remain supported. |
| **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. Sep CPI readings significantly softer than expected. 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). MGS yields remain underpinned. |
| **USD-IDR** | ↔/↓ | Ongoing strong demand from foreigners for ID govt bonds with govie yields easing again (bull flattening) despite the surprise BI rate hike in November. The hike is positioned as a pre-emptive move to keep pace with (or stay slightly ahead of) the Fed in terms of normalization path, in order to maintain the rate spread. New moves to ease foreign investment rules and tighten export revenue repatriation rules to shore up the CA. Note equity inflows are also consistently picking up momentum alongside bond inflows. |
| **USD-THB** | ↔ | BOT unchanged at Nov MPC, but saw 3 dissenters in favour of rate hike, suggesting an inclination towards a Dec hike, rather than Feb. Nevertheless, any rate hike should be viewed as a step back to neutrality, rather than a turn towards hawkishness. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Despite the BOT looking to downgrade 2018 growth forecast, the governor appears to be preparing the ground for a rate hike in his latest comments. Govie and NDIRS yields softer on the week. |
| **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 and a plateau with respect to policy tightening. 3Q GDP prints below expectation on slower consumer spending. |

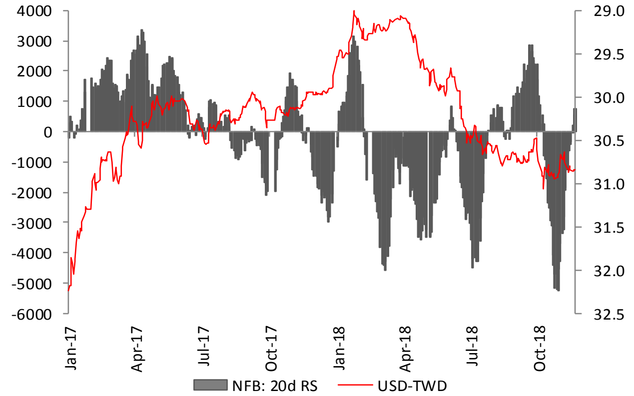
Source: OCBC Bank

## USD-Asia VS. Net Capital Flows

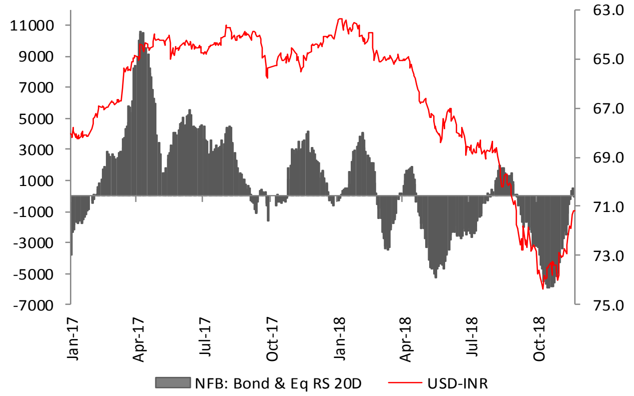
**South Korea**



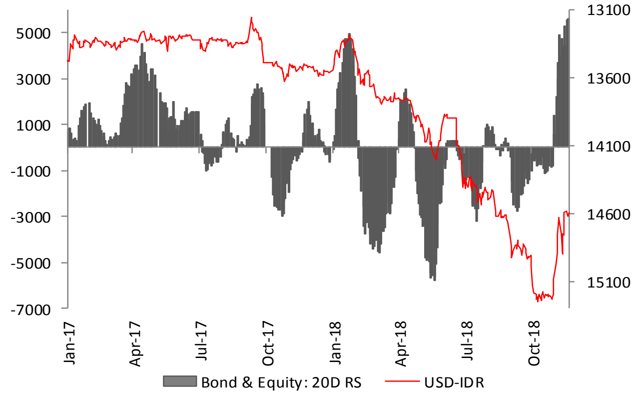

**Taiwan**



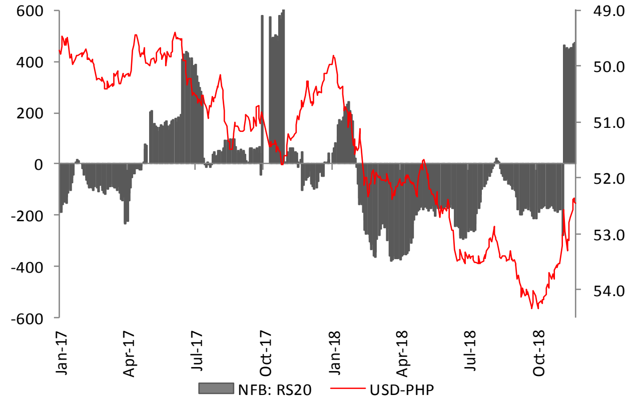

**India**



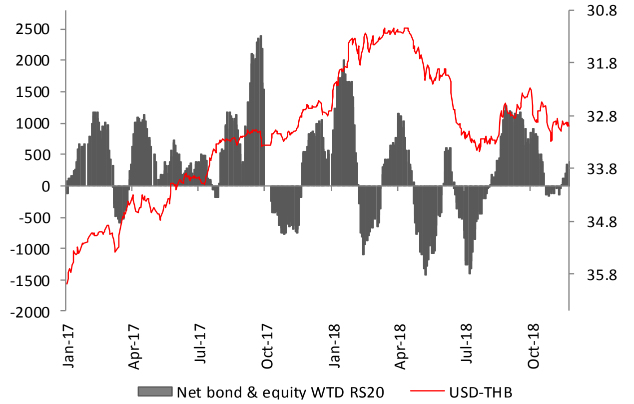

**Indonesia**



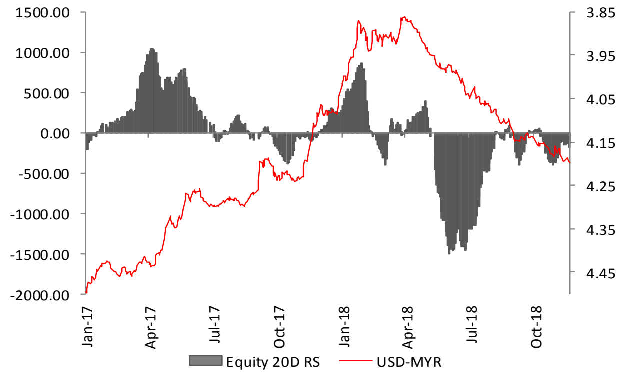

**Philippines**




**Thailand**

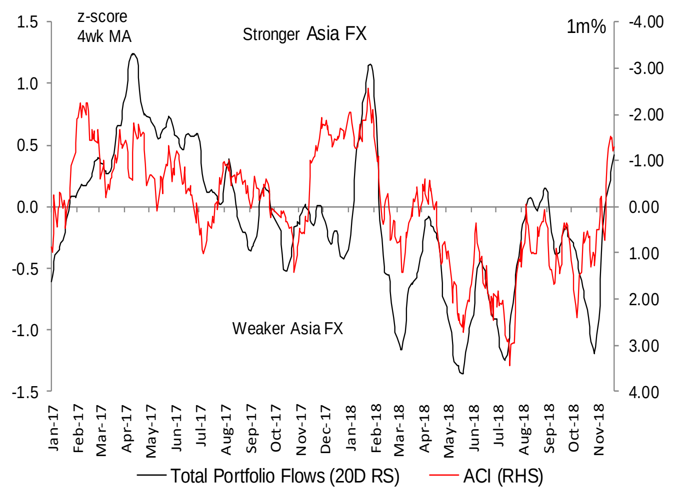



**Malaysia**



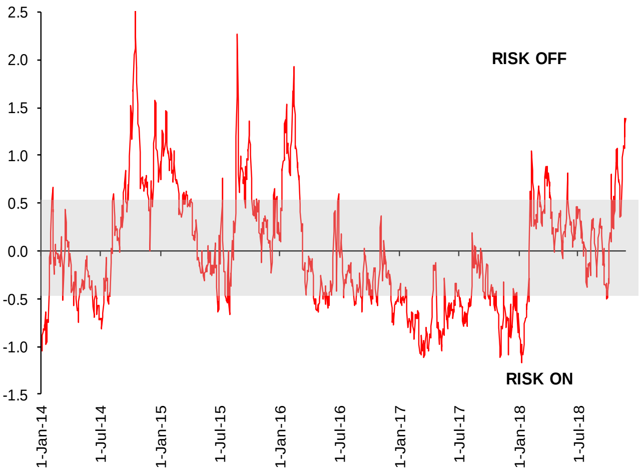

Source: CEIC, Bloomberg, OCBC Bank

## 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 | -0.184 | 0.66 | -0.263 | -0.356 | -0.428 | 0.381 | -0.244 | 0.323 | 0.103 | 0.642 | -0.927 |
| CNY | 0.66 | -0.318 | 1 | -0.314 | -0.688 | -0.196 | 0.004 | -0.001 | 0.461 | 0.148 | 0.936 | -0.625 |
| CNH | 0.642 | -0.207 | 0.936 | -0.353 | -0.75 | -0.058 | -0.021 | 0.15 | 0.56 | 0.037 | 1 | -0.611 |
| SGD | 0.626 | 0.115 | 0.735 | -0.189 | -0.67 | 0.259 | 0.083 | 0.506 | 0.51 | -0.255 | 0.814 | -0.682 |
| CAD | 0.614 | -0.454 | 0.395 | -0.429 | -0.085 | -0.8 | 0.19 | -0.748 | 0.211 | 0.415 | 0.321 | -0.538 |
| THB | 0.604 | -0.353 | 0.81 | -0.492 | -0.88 | 0.01 | -0.198 | 0.208 | 0.719 | 0.196 | 0.819 | -0.517 |
| MYR | 0.44 | -0.791 | 0.47 | -0.557 | -0.349 | -0.636 | -0.146 | -0.626 | 0.413 | 0.703 | 0.268 | -0.309 |
| CHF | 0.427 | 0.644 | 0.306 | 0.481 | 0.005 | 0.328 | 0.64 | 0.489 | -0.135 | -0.694 | 0.313 | -0.636 |
| JPY | 0.381 | 0.619 | 0.004 | 0.637 | 0.468 | -0.105 | 1 | -0.091 | -0.543 | -0.518 | -0.021 | -0.51 |
| KRW | 0.376 | -0.432 | 0.665 | -0.507 | -0.842 | 0.057 | -0.396 | 0.238 | 0.66 | 0.247 | 0.644 | -0.378 |
| TWD | 0.358 | -0.704 | 0.682 | -0.712 | -0.857 | -0.169 | -0.558 | -0.024 | 0.757 | 0.505 | 0.633 | -0.27 |
| PHP | 0.177 | 0.438 | 0.551 | 0.094 | -0.495 | 0.687 | 0.069 | 0.838 | 0.347 | -0.55 | 0.567 | -0.331 |
| INR | 0.129 | 0.501 | 0.307 | 0.075 | -0.427 | 0.705 | 0.021 | 0.879 | 0.318 | -0.686 | 0.408 | -0.261 |
| IDR | 0.068 | 0.184 | 0.261 | -0.254 | -0.623 | 0.634 | -0.331 | 0.804 | 0.611 | -0.349 | 0.372 | -0.125 |
| NZD | -0.136 | -0.282 | -0.319 | 0.122 | 0.582 | -0.625 | 0.212 | -0.799 | -0.473 | 0.404 | -0.492 | 0.188 |
| USGG10 | -0.184 | 1 | -0.318 | 0.815 | 0.503 | 0.579 | 0.619 | 0.583 | -0.56 | -0.924 | -0.207 | -0.015 |
| AUD | -0.358 | -0.086 | -0.506 | 0.343 | 0.74 | -0.411 | 0.226 | -0.623 | -0.661 | 0.245 | -0.683 | 0.384 |
| GBP | -0.502 | 0.75 | -0.548 | 0.743 | 0.665 | 0.343 | 0.455 | 0.217 | -0.673 | -0.68 | -0.52 | 0.301 |
| EUR | -0.927 | -0.015 | -0.625 | 0.122 | 0.272 | 0.323 | -0.51 | 0.153 | -0.233 | 0.103 | -0.611 | 1 |

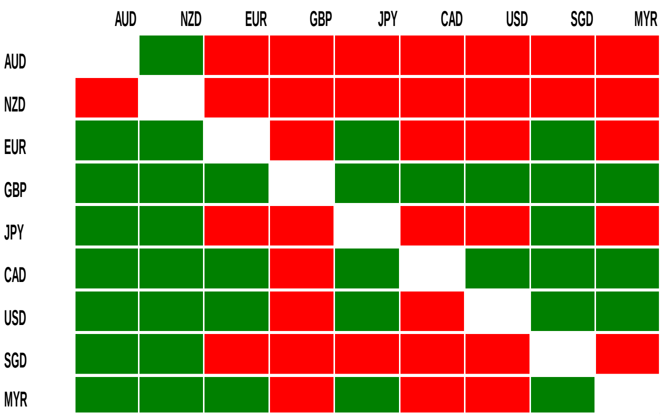
Source: Bloomberg

## Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---|---|---|---|---|---|
| EUR-USD | 1.1252 | 1.1300 | 1.1336 | 1.1400 | 1.1473 |
| GBP-USD | 1.2696 | 1.2800 | 1.2808 | 1.2900 | 1.3001 |
| AUD-USD | 0.7179 | 0.7200 | 0.7247 | 0.7300 | 0.7338 |
| NZD-USD | 0.6634 | 0.6700 | 0.6788 | 0.6800 | 0.6875 |
| USD-CAD | 1.3065 | 1.3200 | 1.3214 | 1.3297 | 1.3300 |
| USD-JPY | 112.98 | 113.00 | 113.25 | 114.00 | 114.11 |
| USD-SGD | 1.3685 | 1.3700 | 1.3745 | 1.3760 | 1.3800 |
| EUR-SGD | 1.5522 | 1.5538 | 1.5581 | 1.5600 | 1.5745 |
| JPY-SGD | 1.2053 | 1.2100 | 1.2136 | 1.2180 | 1.2200 |
| GBP-SGD | 1.7518 | 1.7600 | 1.7604 | 1.7700 | 1.7888 |
| AUD-SGD | 0.9878 | 0.9900 | 0.9961 | 1.0000 | 1.0040 |
| Gold | 1202.44 | 1213.36 | 1223.30 | 1239.30 | 1240.74 |
| Silver | 13.93 | 14.20 | 14.28 | 14.30 | 14.45 |
| Crude | 50.10 | 50.70 | 50.71 | 50.80 | 66.51 |

Source: OCBC Bank

## G10 FX Heat Map



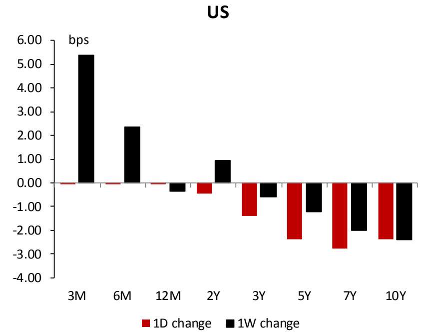

Source: OCBC Bank

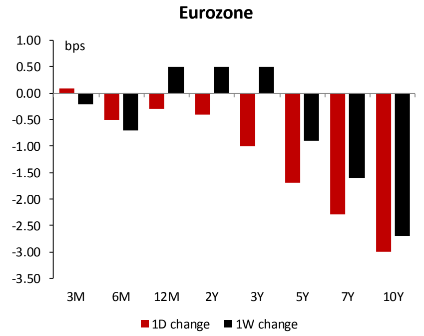
## Asia FX Heat Map

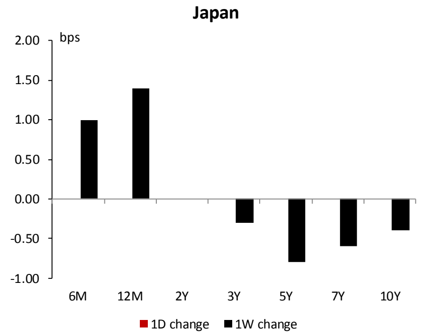
| | USD | JPY | CNY | SGD | MYR | KRW | TWD | THB | PHP | INR | IDR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| USD | | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 1 | 1 |
| JPY | 1 | | 2 | 1 | 2 | 1 | 1 | 2 | 1 | 1 | 1 |
| CNY | 1 | 2 | | 1 | 1 | 2 | 2 | 2 | 1 | 1 | 1 |
| SGD | 1 | 1 | 1 | | 2 | 2 | 2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

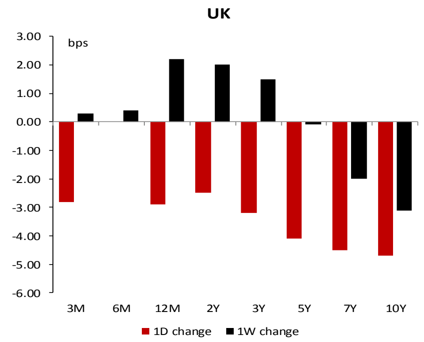
Source: OCBC Bank

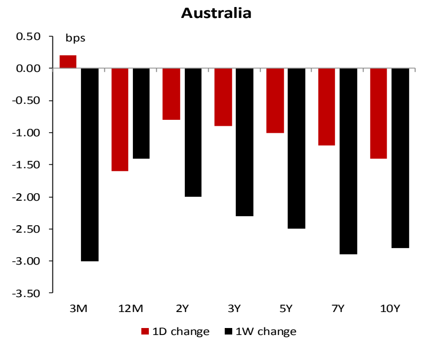
# Government bond yield changes

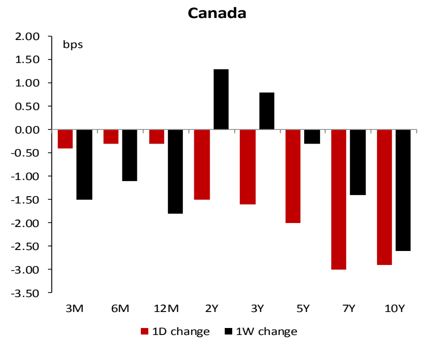


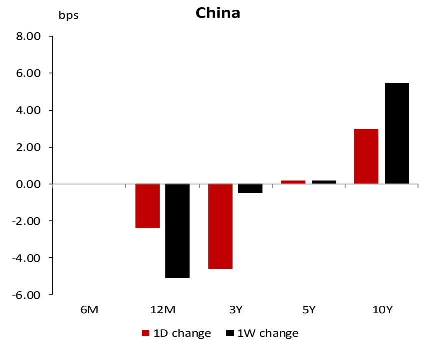



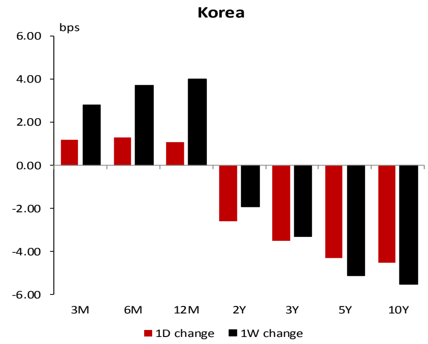



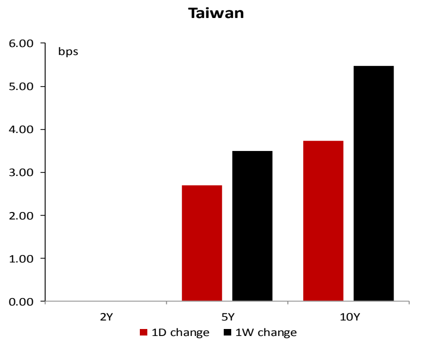



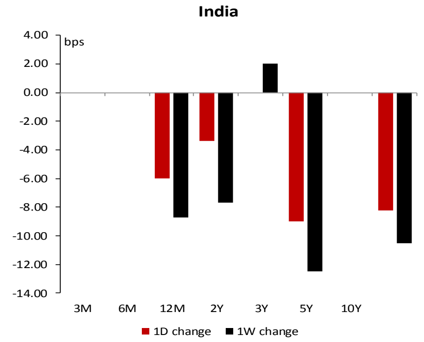



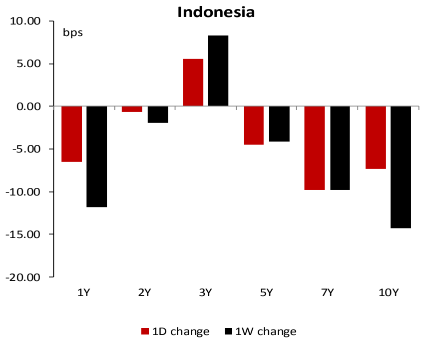



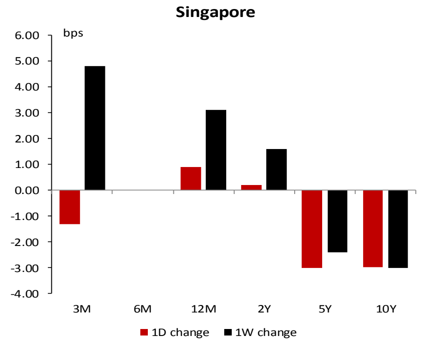



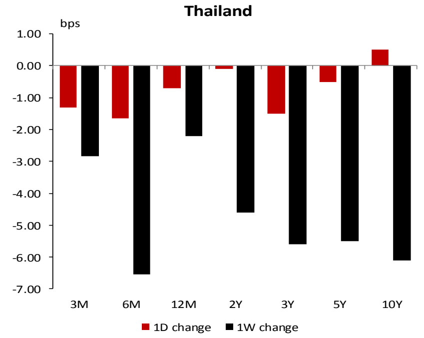



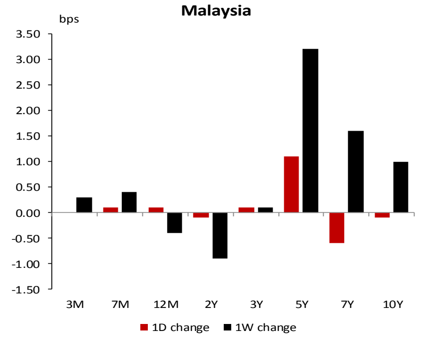



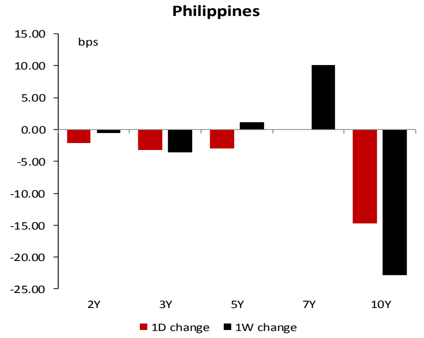



# FX Trade Recommendations

| | 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** | | | | | | |
| | - | - | - | - | - | - | - |

**RECENTLY CLOSED TRADE IDEAS**

| | Inception | Close | B/S | Currency | Spot | | Close | Rationale | P/L (%)* |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 11-Sep-18 | 24-Oct-18 | B | GBP-USD | 1.3056 | | 1.2920 | Positoning ahed of BOE MPC and positivty from Brexit news flow | -1.04 |
| 2 | 22-Oct-18 | 01-Nov-18 | S | EUR-USD | 1.1520 | | 1.1420 | Italian fiscal risks, ECB unlikely to surprise on the hawkish front | +0.87 |
| 3 | 30-Oct-18 | 02-Nov-18 | B | USD-SGD | 1.3840 | | 1.3750 | Resilient DXY, fragile risk appetite, proxy CNH trade | -0.65 |
| 4 | 08-Nov-18 | 12-Nov-18 | B | AUD-USD | 0.7286 | | 0.7200 | Improving risk appetite post US midterms | -1.18 |
| 5 | 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 |
| 6 | 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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