DAILY MARKET OUTLOOK

OCBC Bank

Wednesday, November 28, 2018

FX Themes/Strategy/Trading Ideas

- The dollar received a shot in the arm and strengthened against most of the majors after latest comments from the Fed's Clarida did not contain dovish overtones as some had expected and instead focused on being data dependent. He also gave little clue on the FOMC's rate hike intentions for 2019. Comments from the Fed's Bullard and Evans also proved inconclusive for markets.

- The European complex (EUR and GBP) meanwhile underperformed across G10 space with uncertainty still swirling around the UK Parliament's vote on 11 December 2018. US President Trump also noted that a Brexit deal may hinder US-UK trade. Watch for the **BOE's** assessment of the implications of Brexit later today at 1630 GMT while the BOE's Carney also speaks at 1645 GMT.

- Elsewhere, BTP-Bund spreads widened slightly, while EUR sentiment was also eroded after a report indicated that Trump may be considering auto tariffs. On this front the Italian PM is due to meet the EU's Barnier on Wednesday and may present further headline risks.

- Meanwhile, the AUD (WH's Kudlow noted that a trade deal was still possible but we note that his comments were generally laced with skepticism) and NZD still managed to outshine their counterparts despite heightened Sino-US trade tensions.

- Overall, the **DXY** trade briefly above 97.400. Beyond 97.50, look to the recent high of 97.693. Close on close, UST yields, bund and gilt yields edged lower on the day.

- US equities ended in positive territory while EM equities in aggregate also managed to firm on Tuesday. This helped our **FXSI** (**FX Sentiment Index)** to inch slightly lower, indicating a slight improvement in risk sentiments, while staying well within the Risk-Off zone. Equity-related components within the FXSI have largely eased this week, although the jitters appear to persist within the EM fixed income space.

- **At this juncture, the Fed policy debate continues to center around the location of neutral and just how far above neutral the eventual terminal rate would settle at.** To this end, look to the Fed's Powell today (1700 GMT) and the FOMC minutes on Thursday for further cues. **In the interim, prefer to fade upside in the EUR-USD, ride the GBP-USD lower, collect USD-JPY and AUD-USD on dips.**

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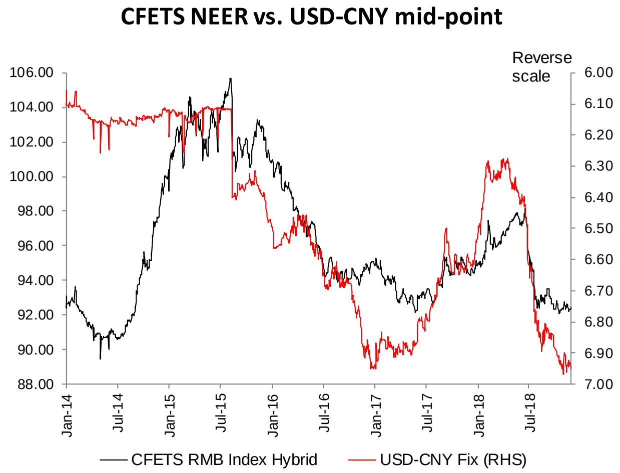
Asian FX

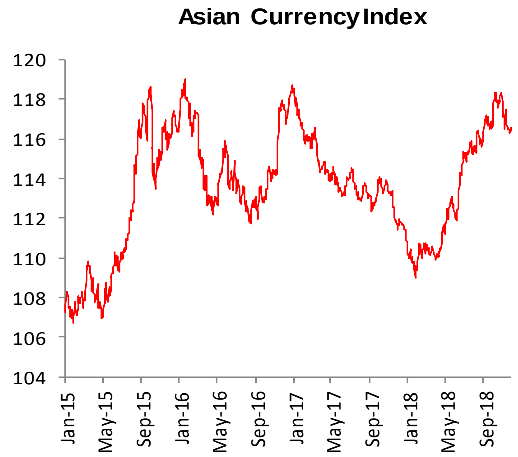
- EM equities climbed on Tuesday but a supported USD tone may continue to prevail during the Asian session despite the generally improving net portfolio flow environment (see below). **Meanwhile, the chilling effect from recent softening yield curves in the majors has not been lost on the region in recent weeks amid the dawning realization (long time coming, we feel) that the macroeconomic prognosis has indeed dimmed (and the specter of inflation effectively vaporware). Note that this has been also aided by the recent improvement in global risk appetite levels and despite selected central banks (BOK, BOT) attempting to ease back towards neutrality in terms of monetary posture.**

- **Actual net portfolio flows** in Asia remain positive in a continuation of recent trends. With the exception of Thailand, which is showing a slight moderation of inflow momentum, the tracked Asian economies are still showing a gradual improvement in inflow momentum. On an aggregate basis, note that equity flow momentum has nudged into positive after spending the last two month in outflow territory. Aggregate bond inflows, meanwhile, continued to push higher.

- **SGD NEER**: The SGD NEER eased to +1.54% above its perceived parity (1.3980) this morning, with NEER-implied USD-SGD thresholds also firmer. The SGD NEER recovered from a low of +1.32% overnight. Intra-day, the USD-SGD may be expected to make another concerted push towards the 1.3800 handle, with the 55-day MA (1.3758) now acting as an initial support.

- **CFETS RMB Index**: The **USD-CNY** mid-point was set higher, as expected, at 6.9500 compared to 6.9463 on Tuesday. Regardless, the CFETS RMB Index still pushed higher to 92.45, compared to 92.41 previously.





Source: OCBC Bank, Bloomberg

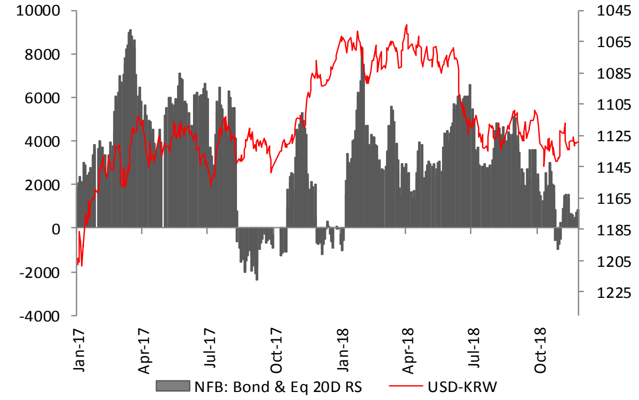
Short term Asian FX/bond market views

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 yields stabilizing in recent sessions.
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 (we concur), unperturbed by the prospect of a rate hike.
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 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. 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 bucking the trend to edge higher.
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 an attractive rate spread. BI’s intervention on the IDR and bond markets apparently ceased in the past couple of weeks. 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 mixed 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, although further rate hikes have not been ruled out yet. 3Q GDP prints below expectation on slower consumer spending.

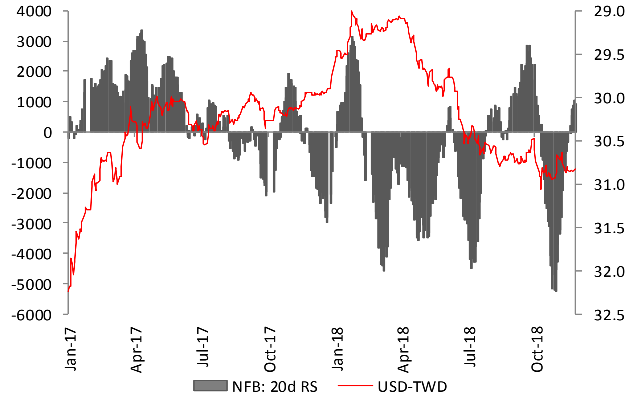
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

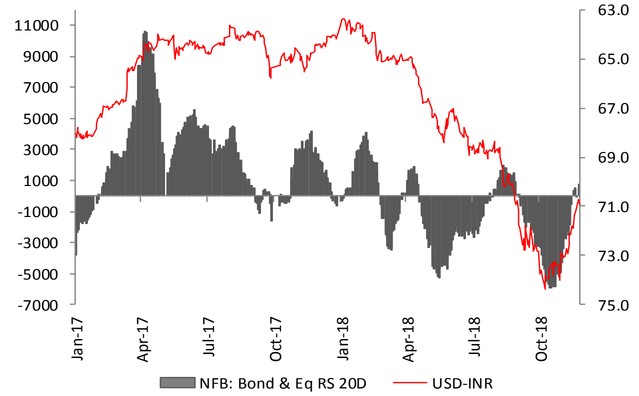
South Korea



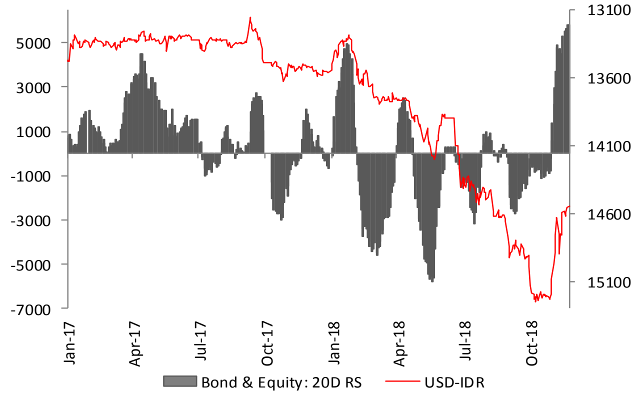
Taiwan



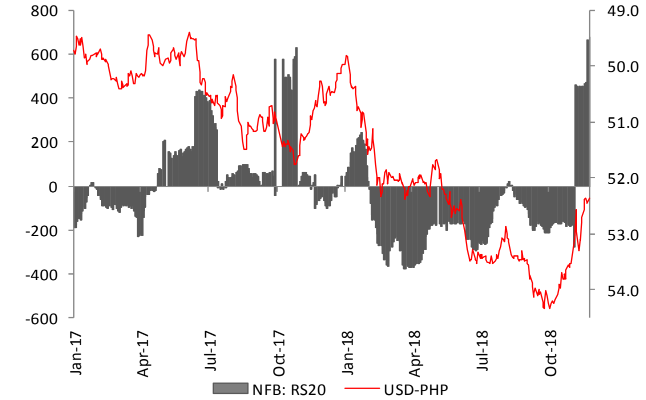
India



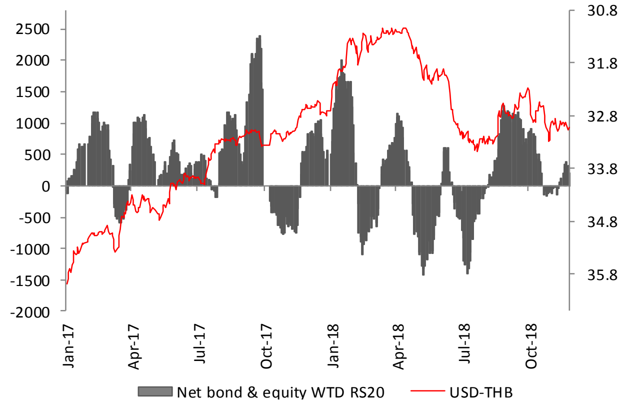
Indonesia



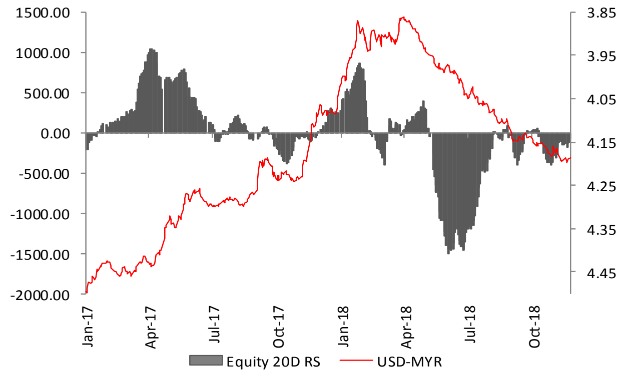
Philippines



Thailand

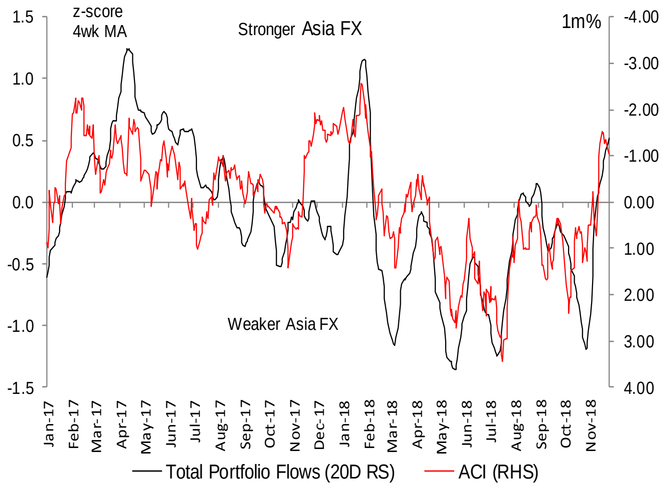


Malaysia



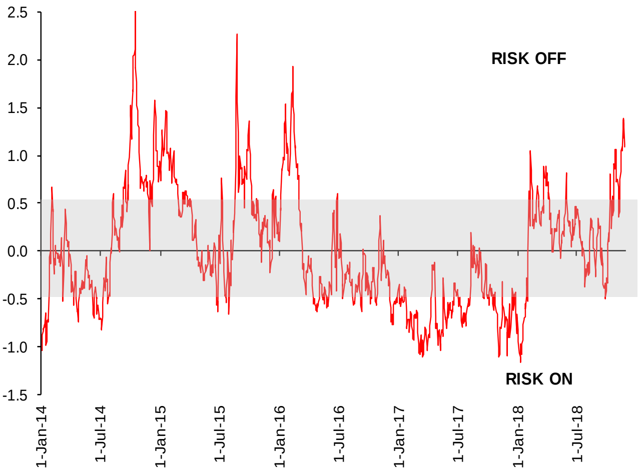
Source: CEIC, Bloomberg, OCBC Bank

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	-0.307	0.654	-0.318	-0.268	-0.541	0.493	-0.398	0.226	0.288	0.66	-0.936
CAD	0.712	-0.553	0.417	-0.472	-0.01	-0.841	0.353	-0.827	0.104	0.582	0.388	-0.624
CNH	0.66	-0.278	0.93	-0.379	-0.703	-0.154	0.067	0.022	0.509	0.134	1	-0.636
CNY	0.654	-0.347	1	-0.318	-0.662	-0.201	0.068	-0.065	0.439	0.173	0.93	-0.635
SGD	0.581	0.083	0.74	-0.163	-0.663	0.248	0.083	0.431	0.511	-0.243	0.795	-0.653
THB	0.556	-0.342	0.805	-0.489	-0.864	-0.02	-0.157	0.185	0.698	0.188	0.813	-0.497
JPY	0.493	0.404	0.068	0.531	0.484	-0.248	1	-0.269	-0.561	-0.269	0.067	-0.582
MYR	0.473	-0.776	0.497	-0.571	-0.322	-0.588	-0.046	-0.61	0.377	0.66	0.307	-0.357
TWD	0.365	-0.705	0.683	-0.709	-0.834	-0.186	-0.477	-0.075	0.727	0.474	0.637	-0.289
KRW	0.324	-0.404	0.652	-0.482	-0.838	0.071	-0.378	0.227	0.656	0.182	0.62	-0.343
CHF	0.276	0.66	0.266	0.513	-0.027	0.416	0.492	0.526	-0.079	-0.707	0.244	-0.5
PHP	0.051	0.47	0.51	0.167	-0.509	0.725	-0.047	0.837	0.386	-0.617	0.473	-0.218
NZD	-0.049	-0.306	-0.285	0.082	0.59	-0.588	0.26	-0.782	-0.487	0.419	-0.436	0.115
IDR	-0.104	0.28	0.189	-0.117	-0.62	0.702	-0.434	0.837	0.618	-0.471	0.247	0.02
INR	-0.122	0.613	0.223	0.266	-0.451	0.844	-0.178	0.921	0.414	-0.807	0.235	-0.043
USGG10	-0.307	1	-0.347	0.822	0.419	0.653	0.404	0.636	-0.445	-0.923	-0.278	0.111
AUD	-0.31	-0.074	-0.495	0.326	0.736	-0.351	0.225	-0.564	-0.657	0.222	-0.66	0.349
GBP	-0.58	0.774	-0.567	0.752	0.588	0.431	0.259	0.325	-0.584	-0.709	-0.557	0.395
EUR	-0.936	0.111	-0.635	0.176	0.212	0.419	-0.582	0.293	-0.169	-0.077	-0.636	1

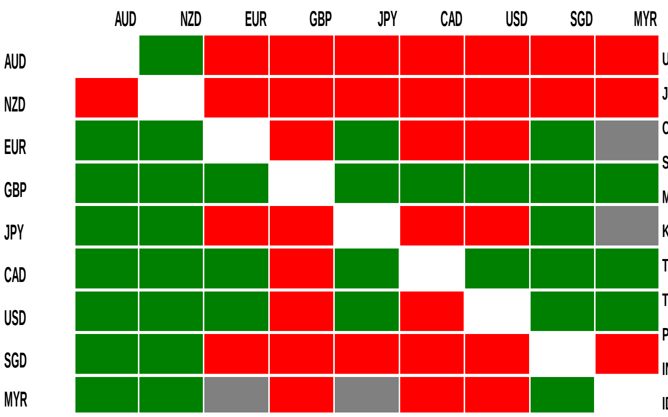
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1216	1.1241	1.1289	1.1300	1.1465
GBP-USD	1.2696	1.2700	1.2738	1.2800	1.2985
AUD-USD	0.7178	0.7200	0.7227	0.7300	0.7311
NZD-USD	0.6649	0.6700	0.6786	0.6800	0.6870
USD-CAD	1.3080	1.3300	1.3304	1.3328	1.3332
USD-JPY	113.00	113.04	113.78	114.00	114.21
USD-SGD	1.3700	1.3763	1.3781	1.3800	1.3818
EUR-SGD	1.5518	1.5522	1.5558	1.5600	1.5737
JPY-SGD	1.2061	1.2100	1.2112	1.2176	1.2200
GBP-SGD	1.7500	1.7518	1.7554	1.7600	1.7871
AUD-SGD	0.9880	0.9900	0.9960	1.0000	1.0036
Gold	1200.88	1213.89	1213.90	1239.30	1239.95
Silver	13.91	14.00	14.10	14.45	14.80
Crude	50.10	51.80	51.86	51.90	65.82

Source: OCBC Bank

G10 FX Heat Map



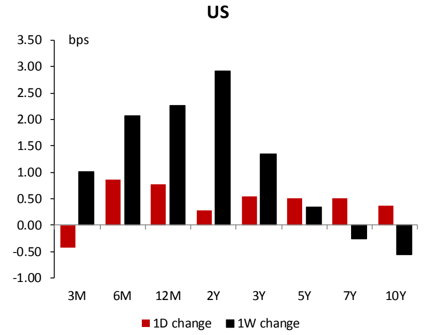
Source: OCBC Bank

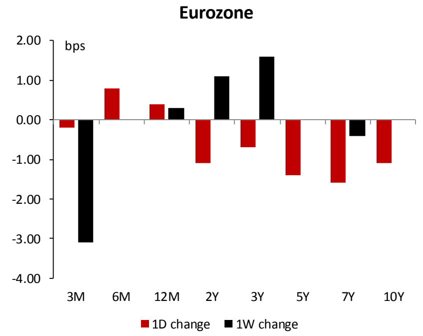
Asia FX Heat Map

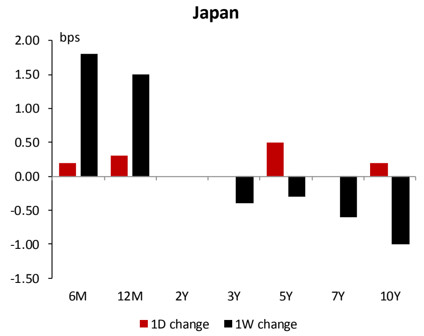
	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD		1	1	1	1	1	1	2	1	1	1
JPY	1		2	1	9	1	9	2	1	1	1
CNY	1	2		1	1	2	2	2	1	1	1
SGD	1	1	1		2	2	2	2	1	1	1
MYR	1	9	1	2		1	2	2	1	1	1
KRW	1	1	2	2	1		1	1	2	2	1
TWD	1	9	2	2	2	1		2	1	1	1
THB	2	2	2	2	2	1	2		1	1	1
PHP	1	1	1	1	1	2	1	1		1	1
INR	1	1	1	1	1	2	1	1	1		2
IDR	1	1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

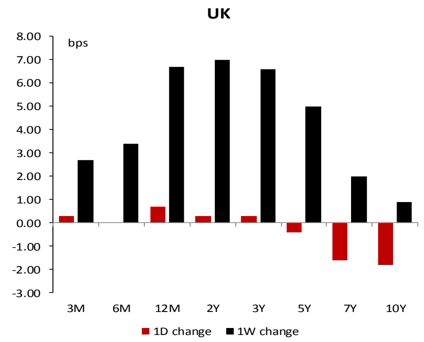
Source: OCBC Bank

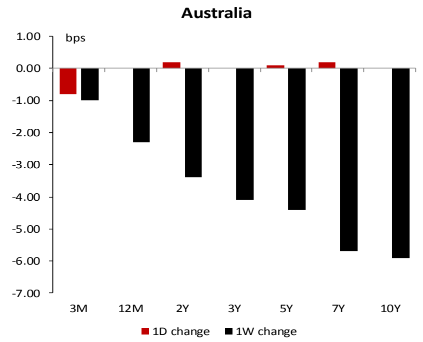
Government bond yield changes

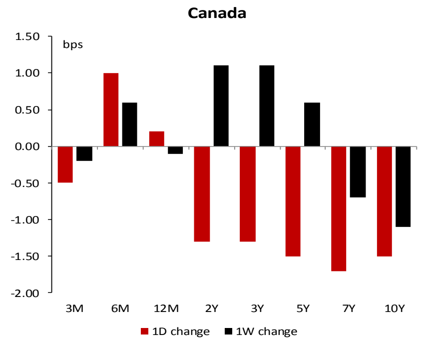


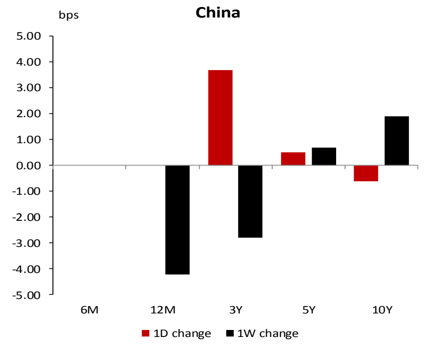


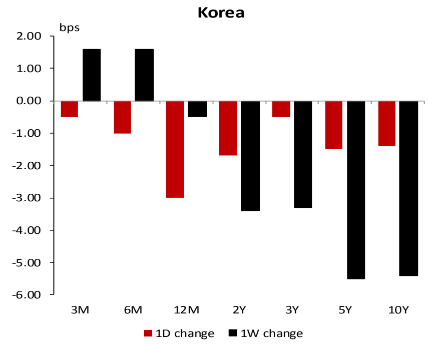


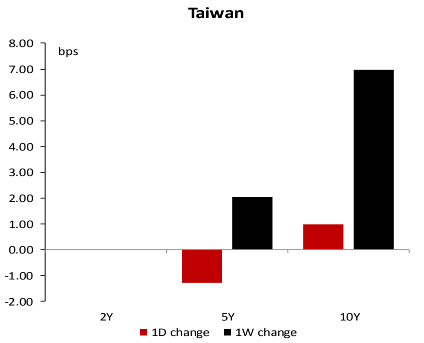


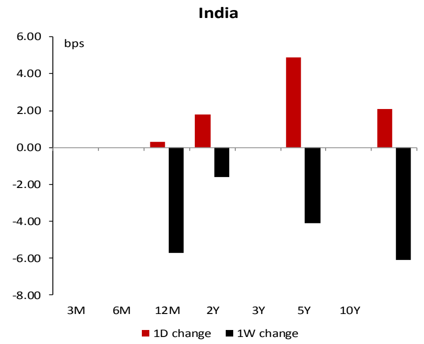


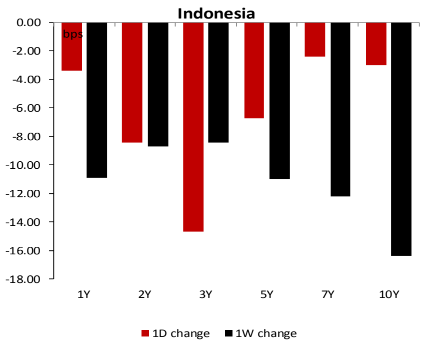


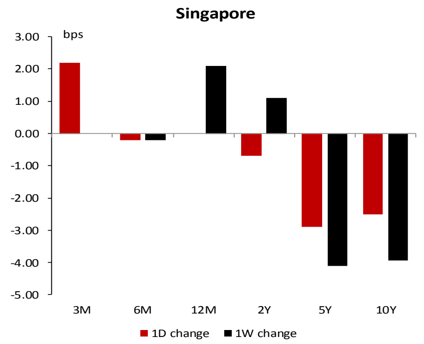


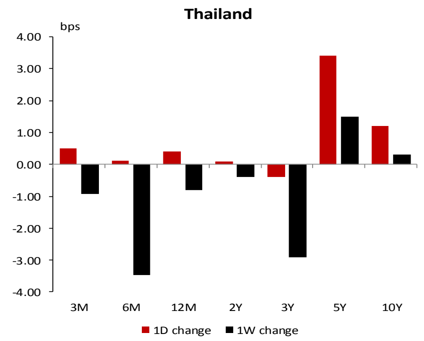


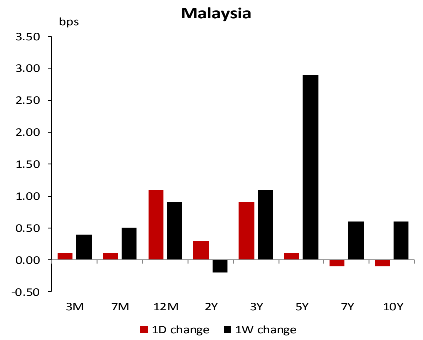


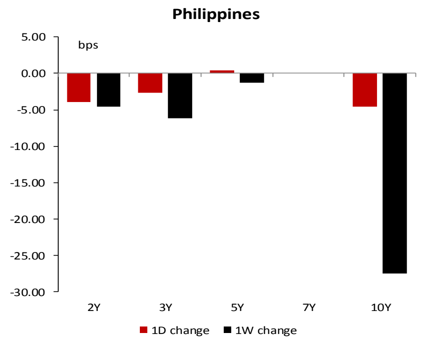












FX Trade Recommendations

	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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