DAILY MARKET OUTLOOK

OCBC Bank

Thursday, November 29, 2018

FX Themes/Strategy/Trading Ideas

- The dollar took a hit from Powell's comments overnight, and fell against all its G10 counterparts. After Clarida reverted to the usual script on Tuesday, the Powell comments were viewed as dovish and set the negative tone for the dollar against the other majors. Short-end UST yields knee-jerked lower, although the reaction is limited at the long-end.

- Even though Powell reiterated that the economic outlook remains strong and that the Fed will be data-dependent, markets caught on to Powell's label that the current Fed funds rate is "just below" a range of estimates of the so-called neutral level, with the corollary being that the Fed rate hike path may be slowed next year. **We note that this is not new information, given that the Sep dot plot has put the estimated range of the neutral rate at 2.5-3.5%, with the majority of dots between 2.5-3.0%. After the expected December rate hike, the upper bound of the Fed funds rate will already be at 2.5%.**

- The antipodeans (AUD, NZD) outperformed on more positive risk sentiments (driven by US equity gains), despite ongoing background growth concerns. Our **FXSI (FX Sentiment Index)** continued to edge lower within the Risk-Off territory.

- The EUR and GBP were supported as European uncertainties were temporarily put on the hold, as the Powell comments dominated trading. The BOE's assessment for a no-deal Brexit was dire (GDP drop 8%, commercial property prices half etc), but may not do PM May much favors. Latest developments on the possibility of a "meaningful vote" in the UK Parliament may give rise to other issues down the road. On net, it does not appear that the Brexit issue is any closer to a positive resolution.

- **Overall, the initial dollar decline may be an over-reaction to Powell's comments. Intra-day, expect the dollar to trade in a consolidative mode, with a slight bias towards the downside into the end of the week. Initial support for the DXY may come in near 96.50. Nevertheless, market sentiments may shift again pending the release of Fed meeting minutes (1900 GMT), and the Xi-Trump meeting ahead.**

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Asian FX

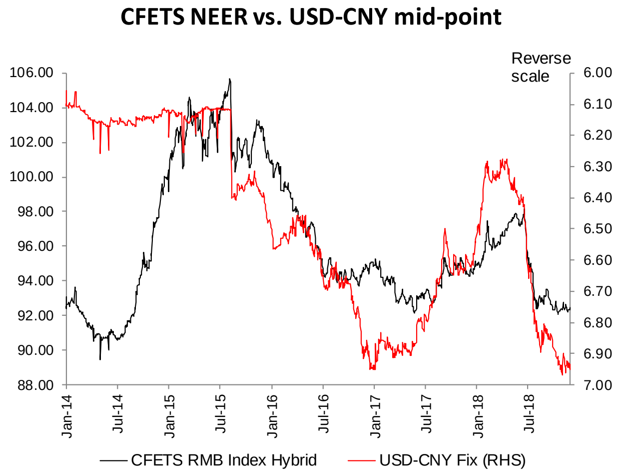
- The pre-conditions are present for USD-Asia to trade lower this morning, with the broad dollar largely on the back-foot. The tech-led rally in US equities also provided a further boost, with Asian bourses opening in the black. **Actual net portfolio flows** in Asia, as well, will continue to provide a still positive back-stop. In the latest reading, we note further equity inflows into Korea, Taiwan and India, and also bond inflows into Thailand.

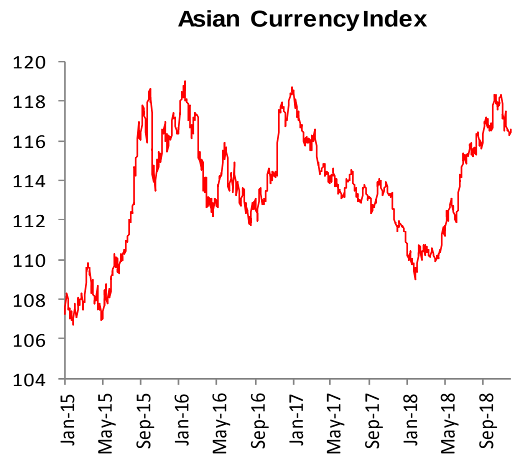
- As previously mentioned, if softer Fed expectations for 2019 persist and actualize going forward, we expect the Asian bond and equities to become relatively more attractive. In this context, the IDR and INR, and to a lesser extent THB, may be more favoured given the rising real yield environment in these economies.

- The **BOK** meets on Friday, and we expect them to restart their move towards neutrality in their monetary policy with a 25 bps rate hike.

- **SGD NEER**: The SGD NEER stands essentially static at +1.53% above its perceived parity (1.3925), with NEER-implied USD-SGD thresholds taking a large step lower alongside a weaker dollar. In the interim, expect the USD-SGD to trade heavy, with downside support coming in near 1.3700/10, barring further outright dollar capitulation.

- **CFETS RMB Index**: The **USD-CNY** mid-point was set lower, as expected, at 6.9353 compared to 6.9500 on Wednesday. Despite the firmer fix, the CFETS RMB Index eased lower to 92.34, compared to 92.45 previously.





Source: OCBC Bank, Bloomberg

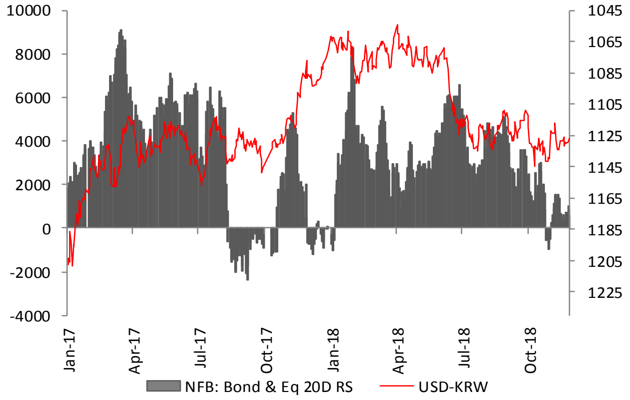
Short term Asian FX/bond market views

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, with the BI expected to stay pre-emptive and ahead of the curve in 2019. 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.

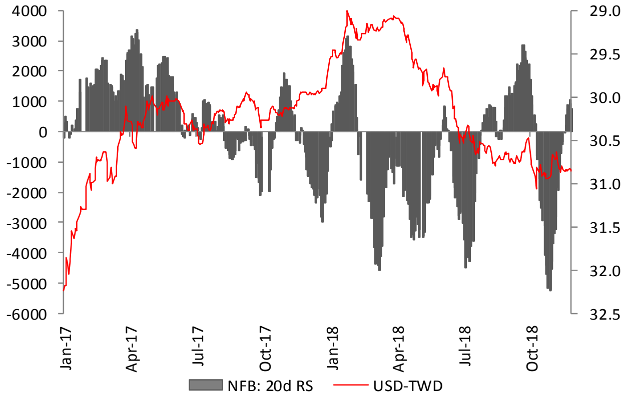
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

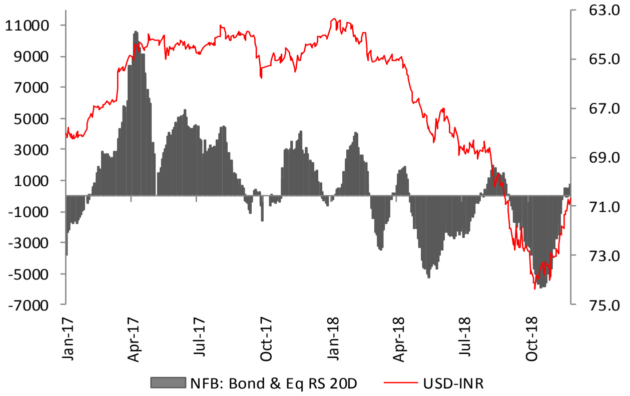
South Korea



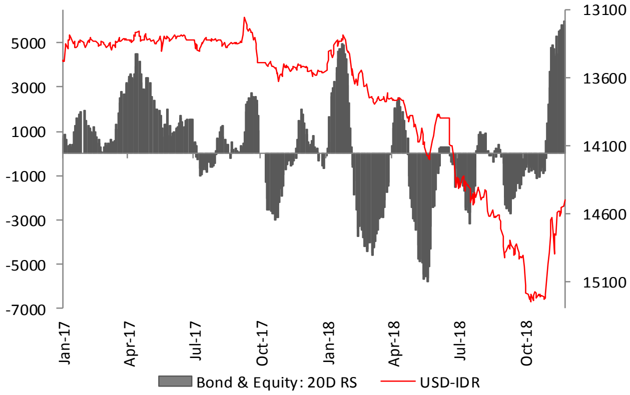
Taiwan



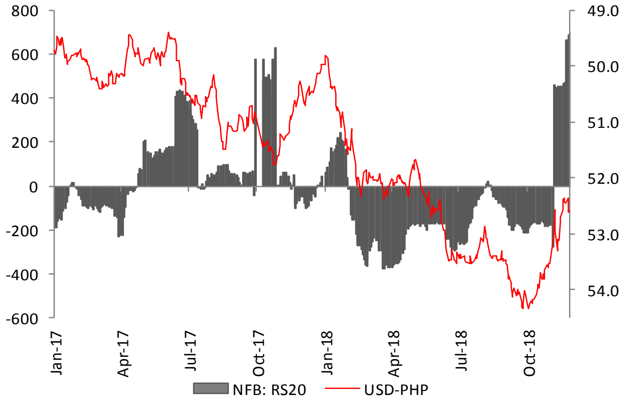
India



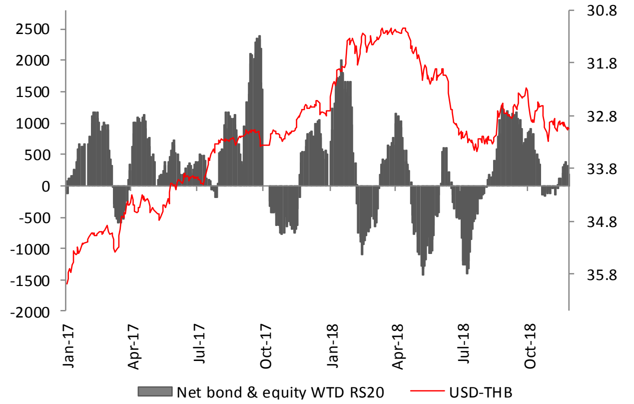
Indonesia



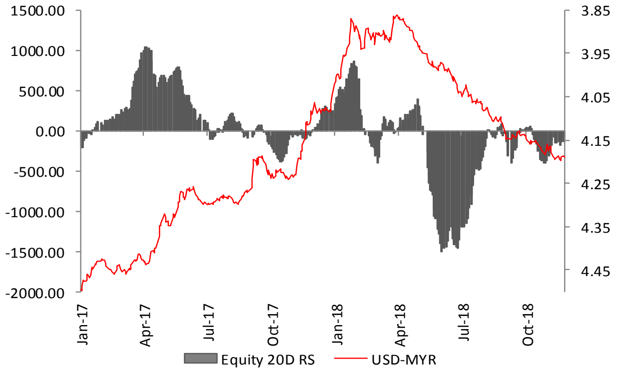
Philippines



Thailand

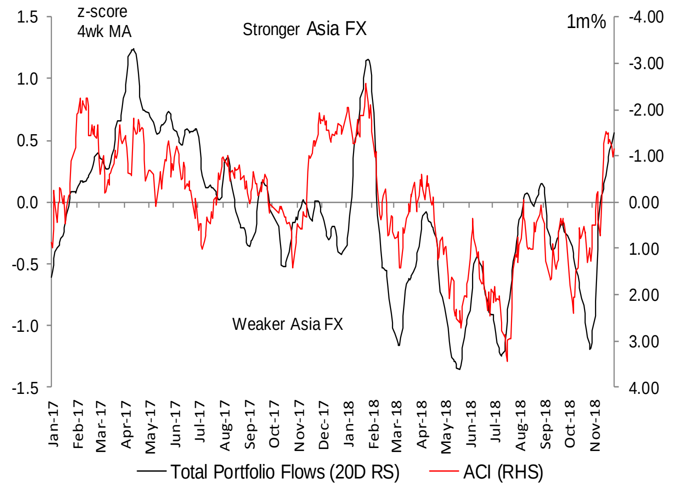


Malaysia



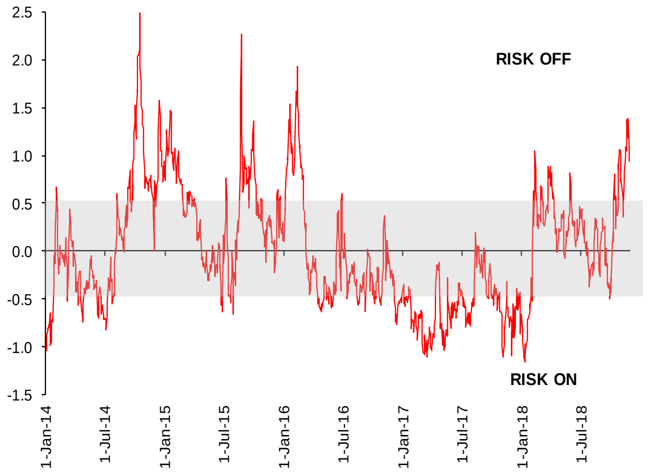
Source: CEIC, Bloomberg, OCBC Bank

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

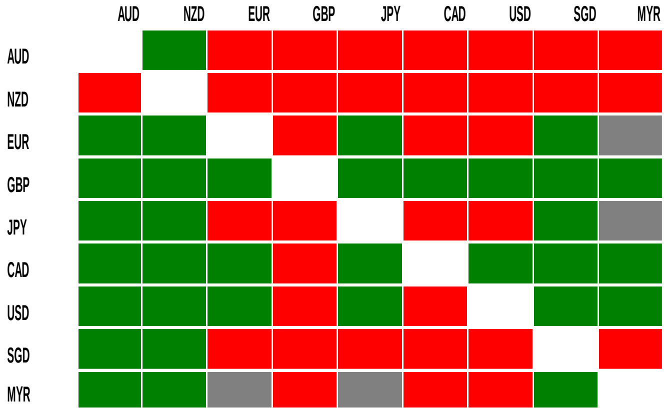
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1249	1.1300	1.1379	1.1400	1.1459
GBP-USD	1.2696	1.2800	1.2836	1.2900	1.2978
AUD-USD	0.7180	0.7300	0.7308	0.7328	0.7338
NZD-USD	0.6663	0.6800	0.6851	0.6867	0.6887
USD-CAD	1.3087	1.3200	1.3277	1.3300	1.3330
USD-JPY	113.00	113.06	113.39	114.00	114.20
USD-SGD	1.3691	1.3700	1.3715	1.3763	1.3800
EUR-SGD	1.5525	1.5600	1.5606	1.5700	1.5725
JPY-SGD	1.2045	1.2055	1.2095	1.2100	1.2174
GBP-SGD	1.7518	1.7600	1.7604	1.7700	1.7862
AUD-SGD	0.9882	1.0000	1.0022	1.0035	1.0054
Gold	1202.15	1214.48	1223.60	1239.30	1240.51
Silver	13.89	14.20	14.30	14.30	14.45
Crude	50.06	50.60	50.68	50.70	65.38

Source: OCBC Bank

G10 FX Heat Map



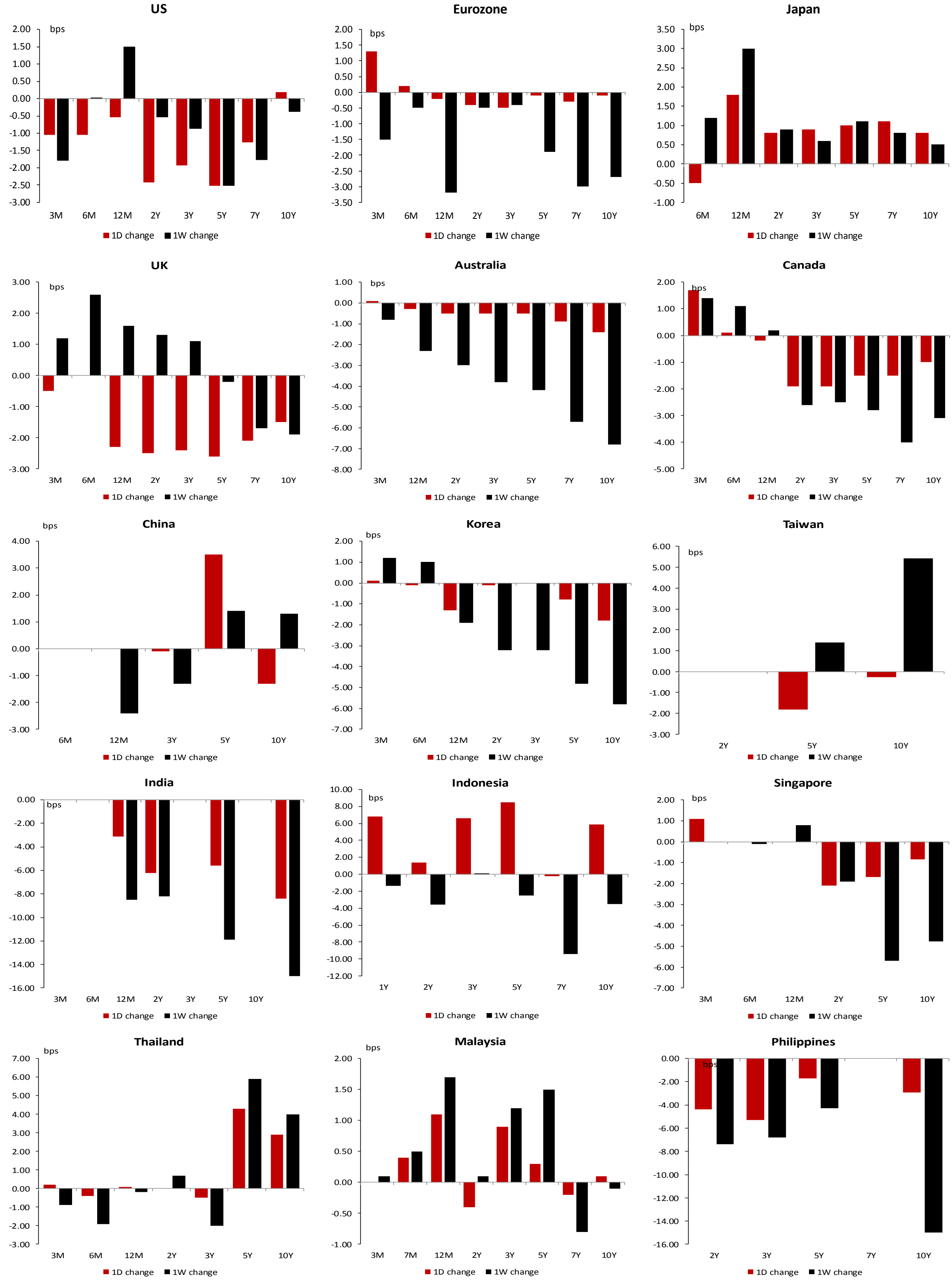
Source: OCBC Bank

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	Close	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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