

Thursday, January 03, 2019

Market Themes/Strategy/Trading Ideas – Revised FX forecasts

- The dollar and JPY started the year on a firm footing on Wednesday amid economic pessimism (global manufacturing PMIs generally flat to softer). With risk appetite already fragile (note Apple revenue warning after hours), the GBP, AUD, NZD, and CAD saw an additional bout of weakness against the USD early Thursday in Asia with the USD-JPY tumbling to a low of 105.23 before rebounding partially.
- On the risk appetite front, 10y UST yields dropped to around 2.6328% by late NY while negative Asian and EZ equities typified the deterioration of investor appetite. Notably, 10y bund yields also crashed lower and the **FXSI (FX Sentiment Index)** started the year higher and remained in **Risk-Off** territory.
- As an aside, the market's attempt to re-price the Fed (and impose a more dour outlook on the US economy) has seen the belly of the Treasury curve outperforming. In comparison, the bund curve continues to be led by the back-end.
- Elsewhere, US political uncertainty (partial government shutdown/border security) is expected to prevail with no conclusive headlines following the bi-partisan meeting on Wednesday and as the House convenes on Thursday. The partial government shutdown is expected to drag into the weekend. On other fronts, while global trade tensions may have ebbed slightly in recent sessions (judging by headline space), note that a US trade delegation next week is expected to arrive in Beijing.
- At this juncture, the nexus of market attention is expected to center around more mundane growth concerns (and associated risk aversion). Note that Apple's revenue warning referenced Greater China while China's manufacturing PMIs dipped into contraction territory.
- **Overall, expect USD-JPY and AUD-USD to remain heavy in the current environment. Notably, short-end G7 vols (especially JPY and AUD) are still outpacing EM vols. On other fronts, skepticism towards Brexit remains palpable with the GBP-USD also caught in the flash crash early Thursday in Asia and with gilt yields collapsing in tandem with bund yields.**

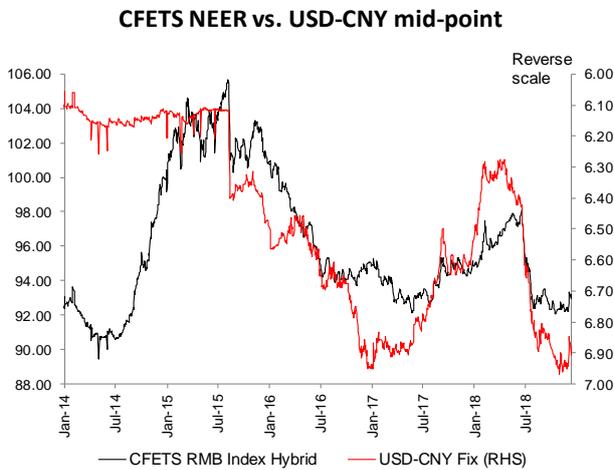
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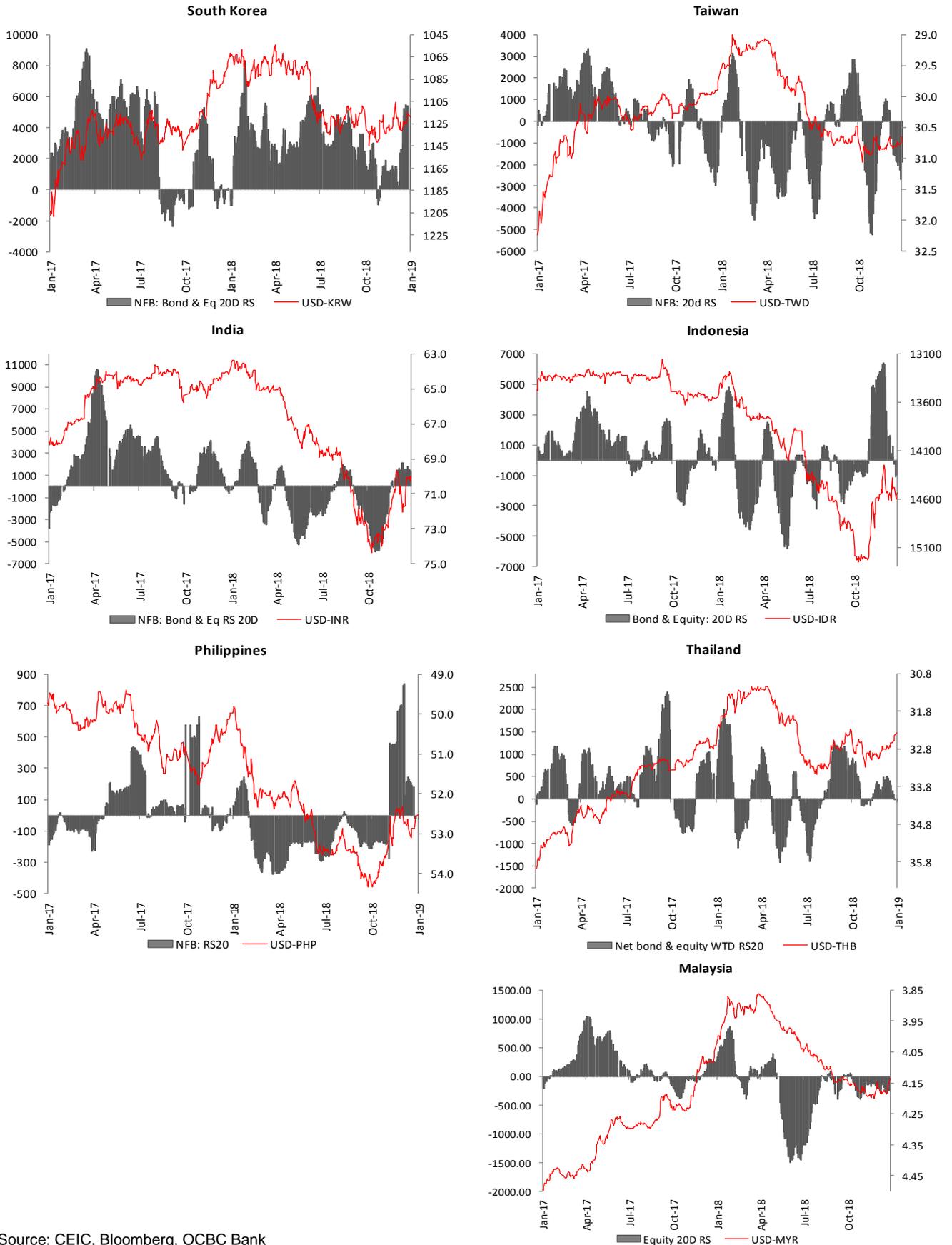
Asian Markets

- The Dec China Caixin manufacturing PMI slipped into contraction territory at 49.7, with the official manufacturing PMI (released last Monday) also dipping into contraction territory at 49.4. Elsewhere, Asian manufacturing PMIs released on Wednesday also proved to be a mixed bag.
- **Expect the USD to maintain the upper hand in Asia intra-day, with USD-KRW and USD-TWD taking cues from the USD-CNH. With investors skittish, expect Asian govies to remain bid in view of the higher UST futures and softer S&P futures. India started the year on a particularly sour note on Wednesday amid equity losses and a push higher in the USD-INR.**
- **SGD NEER:** Post the latest GDP readings and in the face of generalized risk aversion, the SGD NEER is relatively softer at around +1.74% above its perceived parity (1.3903). USD-SGD thresholds are also higher and the 200-day MA (1.3592) is expected to offer good support while 1.3700 may shelter for now.
- **CFETS RMB Index:** The USD-CNY mid-point printed as expected at 6.8631 from 6.8482 on Wednesday. The CFETS RMB Index rose to 93.18 from 93.11 a day earlier. Expect the Index to continue to range within 92.00-94.00 as the economy continues to grapple with its deceleration.



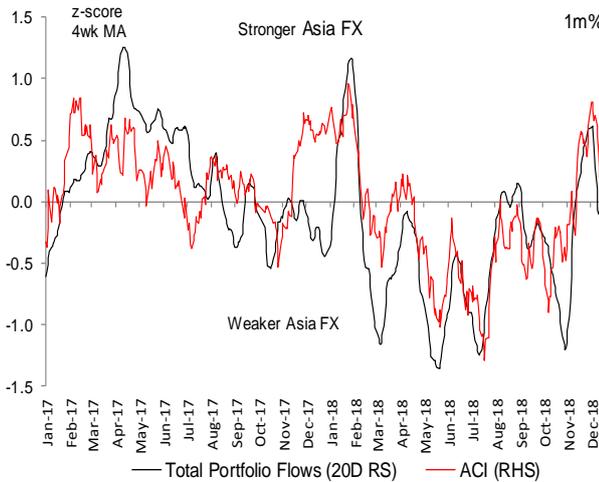
Source: OCBC Bank, Bloomberg

USD-Asia VS. Net Capital Flows



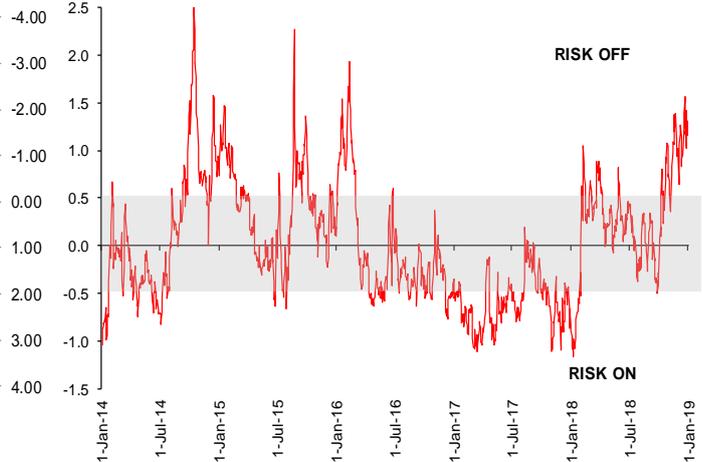
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXE	CNH	EUR
DXY	1	0.637	0.328	0.431	0.335	0.569	0.677	0.56	-0.468	-0.526	0.311	-0.91
JPY	0.839	0.768	-0.089	0.552	0.589	0.706	0.741	0.7	-0.535	-0.701	0.027	-0.817
CAD	0.744	0.651	0.301	0.547	0.335	0.654	0.761	0.65	-0.556	-0.509	0.194	-0.691
PHP	0.677	0.938	0.19	0.731	0.696	0.887	1	0.76	-0.633	-0.783	0.062	-0.477
CHF	0.637	1	-0.026	0.771	0.781	0.871	0.938	0.824	-0.621	-0.778	-0.101	-0.598
SGD	0.591	0.302	0.829	-0.168	-0.257	0.077	0.431	0.017	0.194	-0.029	0.766	-0.469
KRW	0.521	0.904	-0.077	0.859	0.841	0.918	0.898	0.847	-0.72	-0.789	-0.199	-0.417
INR	0.513	0.911	-0.154	0.895	0.923	0.913	0.883	0.863	-0.773	-0.855	-0.289	-0.422
NZD	0.478	0.394	0.759	-0.081	-0.118	0.15	0.557	0.082	0.159	-0.194	0.632	-0.258
CNH	0.424	0.843	0.346	0.545	0.597	0.726	0.922	0.623	-0.432	-0.666	0.103	-0.174
IDR	0.33	0.177	0.587	-0.007	-0.252	0.132	0.161	0.047	-0.035	-0.054	0.482	-0.306
MYR	0.328	-0.026	1	-0.244	-0.409	-0.17	0.19	-0.199	0.195	0.147	0.911	-0.081
CNY	0.311	-0.101	0.911	-0.424	-0.536	-0.252	0.062	-0.315	0.369	0.276	1	-0.193
TWD	0.246	-0.104	0.736	-0.327	-0.543	-0.221	-0.007	-0.276	0.233	0.174	0.677	-0.117
THB	0.205	-0.142	0.57	-0.409	-0.63	-0.236	0.024	-0.25	0.435	0.449	0.565	-0.065
AUD	0.117	-0.138	0.535	-0.522	-0.452	-0.254	0.185	-0.289	0.485	0.124	0.583	0.111
USGG10	-0.544	-0.064	-0.425	0.078	0.315	-0.003	-0.026	0.073	0.044	-0.034	-0.553	0.52
GBP	-0.599	-0.892	0.149	-0.898	-0.867	-0.945	-0.85	-0.927	0.821	0.868	0.216	0.583
EUR	-0.91	-0.598	-0.081	-0.474	-0.363	-0.618	-0.477	-0.587	0.514	0.518	-0.193	1

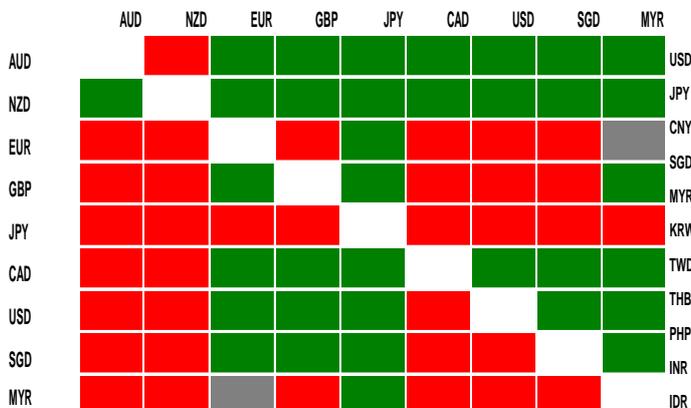
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1292	1.1300	1.1358	1.1369	1.1400
GBP-USD	1.2500	1.2511	1.2547	1.2600	1.2770
AUD-USD	0.6900	0.6936	0.6939	0.7000	0.7182
NZD-USD	0.6600	0.6623	0.6631	0.6700	0.6766
USD-CAD	1.3327	1.3600	1.3634	1.3665	1.3700
USD-JPY	104.87	107.00	107.13	107.98	108.00
USD-SGD	1.3607	1.3634	1.3662	1.3700	1.3734
EUR-SGD	1.5500	1.5505	1.5517	1.5600	1.5614
JPY-SGD	1.2648	1.2700	1.2751	1.2800	1.3002
GBP-SGD	1.7010	1.7100	1.7140	1.7169	1.7200
AUD-SGD	0.9400	0.9477	0.9479	0.9500	0.9864
Gold	1237.22	1252.52	1291.10	1292.40	1292.45
Silver	15.38	15.60	15.65	15.65	15.68
Crude	42.36	45.80	45.82	45.90	54.59

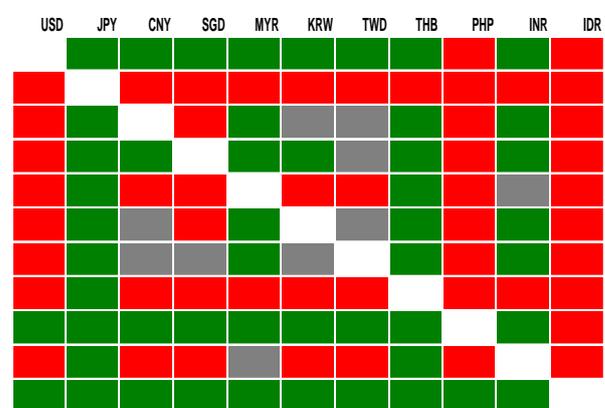
Source: OCBC Bank

G10 FX Heat Map



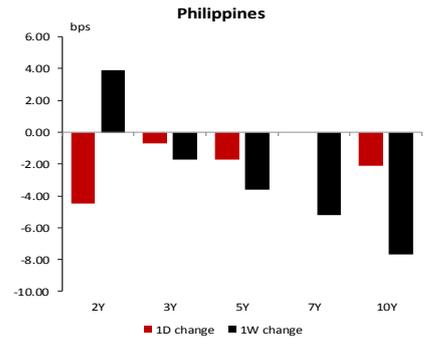
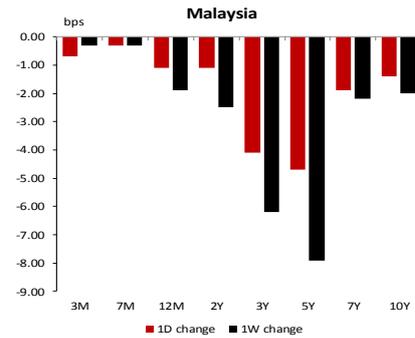
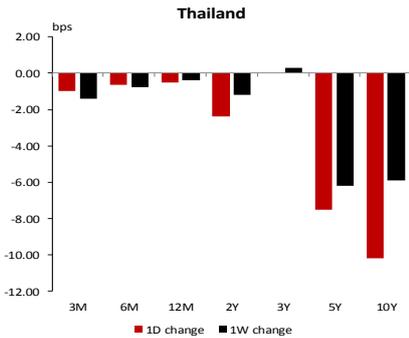
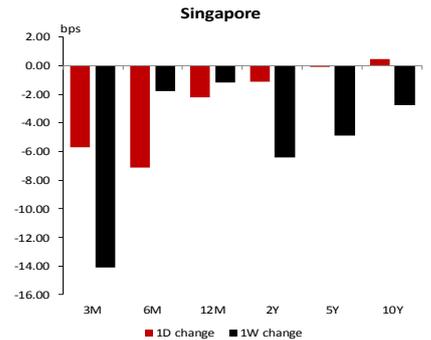
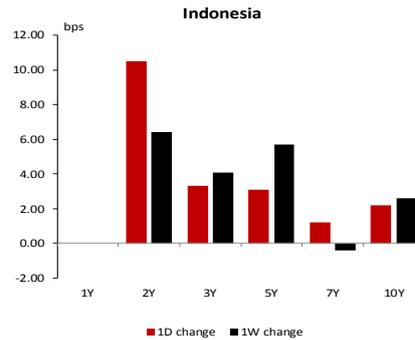
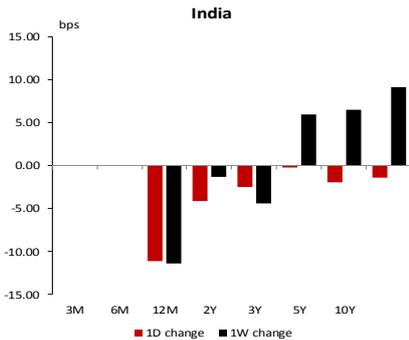
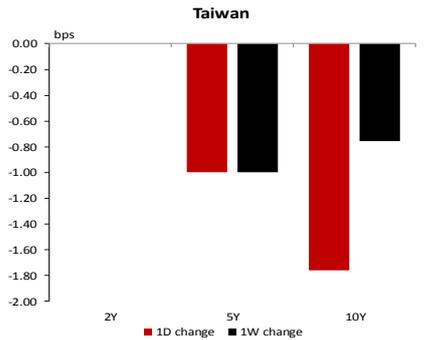
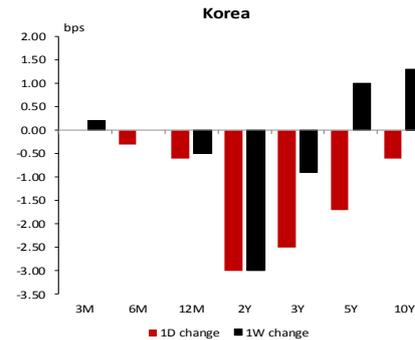
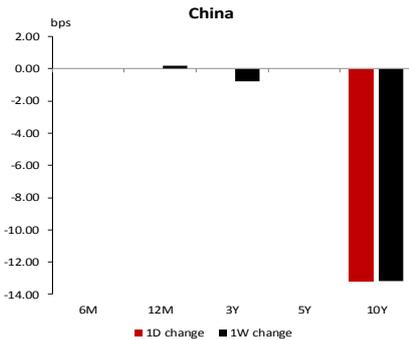
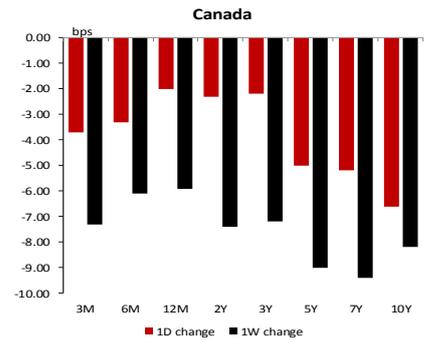
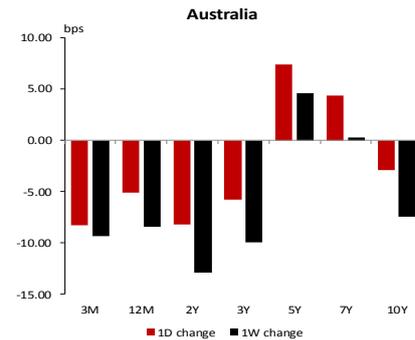
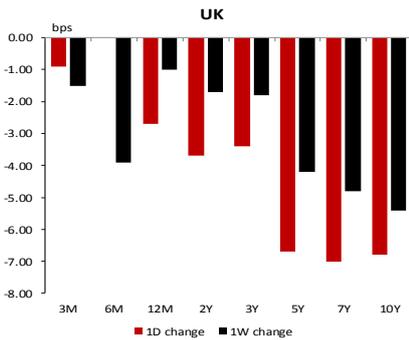
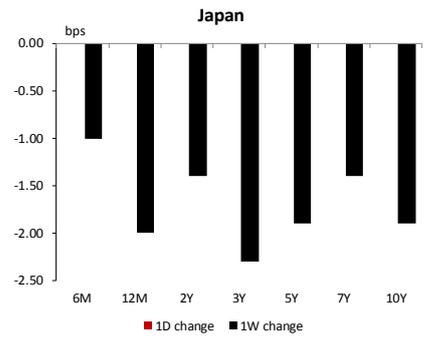
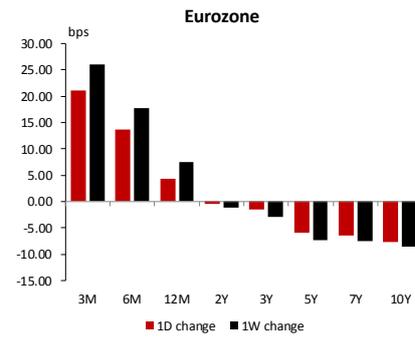
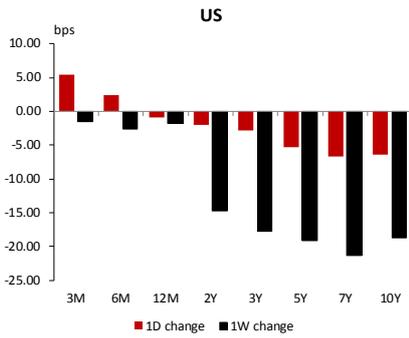
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Revised central tendency forecasts (as at 02 Jan 2019)

	Spot	Mar-19	Jun-19	Sep-19	Dec-19
USD-JPY	109.37	108.07	107.38	106.69	106.00
EUR-USD	1.1469	1.1550	1.1650	1.1750	1.1850
GBP-USD	1.275	1.2750	1.2892	1.3033	1.3175
AUD-USD	0.7027	0.6918	0.7023	0.7129	0.7235
NZD-USD	0.6707	0.6715	0.6820	0.6925	0.7030
USD-CAD	1.3600	1.3752	1.3598	1.3443	1.3289
USD-CHF	0.9824	0.9690	0.9630	0.9570	0.9510
USD-SGD	1.3646	1.3549	1.3502	1.3455	1.3409
USD-CNY	6.8539	6.8152	6.7435	6.6717	6.6000
USD-THB	32.334	31.95	31.80	31.64	31.49
USD-IDR	14490	14300	14217	14133	14050
USD-MYR	4.1375	4.1153	4.0782	4.0411	4.0039
USD-KRW	1119	1113	1104	1094	1085
USD-TWD	30.771	30.547	30.398	30.249	30.100
USD-HKD	7.8356	7.8450	7.8300	7.8150	7.8000
USD-PHP	52.565	52.31	51.91	51.50	51.10
USD-INR	69.62	69.12	68.31	67.51	66.70
EUR-JPY	128.97	124.82	125.09	125.36	125.61
EUR-GBP	0.8891	0.9059	0.9037	0.9015	0.8994
EUR-CHF	1.1336	1.1192	1.1219	1.1245	1.1269
EUR-SGD	1.5538	1.5649	1.5730	1.5810	1.5890
GBP-SGD	1.7475	1.7274	1.7406	1.7537	1.7666
AUD-SGD	1.0073	0.9372	0.9483	0.9593	0.9701
NZD-SGD	0.9453	0.9098	0.9208	0.9318	0.9426
CHF-SGD	1.3706	1.3982	1.4021	1.4060	1.4100
JPY-SGD	1.2047	1.2537	1.2574	1.2612	1.2650
SGD-MYR	3.0515	3.0374	3.0204	3.0033	2.9860
SGD-CNY	5.0453	5.0302	4.9944	4.9584	4.9221

Source: OCBC Bank

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