

Monday, February 04, 2019

Market Themes/Strategy/Trading Ideas – The week ahead and refreshed FX forecasts

- Better than expected January headline **NFP** numbers on Friday saw the USD firming against most of the majors (especially against the JPY) and boosted UST yields (5y outperforming). This was despite downward revisions to the previous month's reading, as well as a higher than expected 4.0% unemployment rate and a larger than expected deterioration in hourly earnings to 0.1% mom. Meanwhile, note that the headline Jan ISM clocked a better than expected 56.6 but this was accompanied by softer employment sub-index as well as significantly softer than expected prices paid sub-index.
- Elsewhere, the **AUD** underperformed after China's January Caixin manufacturing PMI disappointed with a larger than expected deterioration to 48.3. Note that over the weekend, the Caixin composite and services PMIs also deteriorated from the previous month. On other fronts, the USD-CAD fell through 1.3100 on the back of firmer crude.
- Sentiments this week may start on a slightly positive footing with encouraging comments about the Sino-US trade talks from President Trump. The **FX Sentiment Index (FXSI)** dipped further within Risk-Neutral territory on Friday.
- The calendar this week is expected to feature a raft of central bank guidance, with the **RBA** policy meeting on Tuesday (implied odds of a rate cut this year continue to climb), **BOE** on Thursday, and the RBA's Statement on Monetary Policy on Friday. In addition, a host of central bank appearances also present headline risks, including from the Fed's Powell on Thursday.
- **Ahead, the DXY may remain inherently top heavy with downside support seen at the 200-day MA (95.333). Structurally, markets may continue to attempt to strike a balance between the weakened state of the USD and the still soggy global macro complex (which typically incites flight to the USD).**

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

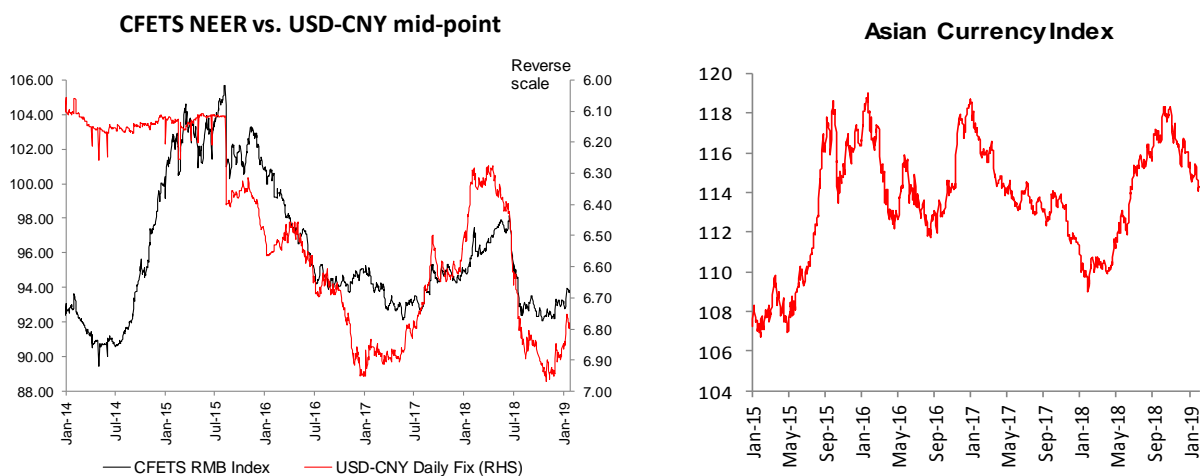
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian Markets

- We have a truncated week in Asia this week in light of the Lunar New Year holidays in the region. However, central bank policy rhetoric in Asia will be watched for a softening in the wake of the FOMC. On this front, look to the **Bank of Thailand MPC** on Wednesday, the **BSP** on Thursday, and the **RBI (market expectations for a rate cut have continued to accumulate)** also on Thursday. Apart from the disappointing China Caixin manufacturing PMI, the slew of Asian manufacturing PMIs released on Fri also continued to show degradation from the previous month.
- **India's budget announcement** left the INR weaker against the USD in line with its Asian peers with govies yields also tipping higher. In a nutshell, negative investor reactions dominated in the face of more optimistic than expected revenue projections and higher than expected borrowing plans, fueling fiscal slippage concerns.
- **EPFR** data meanwhile indicate another jump in net implied fund inflows for Asian (excl Japan, China) in the latest week but net implied flows for the region flipped to an outflow balance. **Actual net portfolio flows** meanwhile show a further pickup in net inflows for South Korea (largely on the back of equities) as well another jump higher in net equity inflows for Taiwan. Indonesia is also clocking firmer net inflows with net bond flows continuing to hold steady while net equity inflows have also picked up. The net flow environment for Thailand meanwhile has dipped into outflow territory with the pickup in net equity inflows eclipsed by deepening net bond outflows. For India, the minor net outflow environment may worsen if sentiment continues to deteriorate post the budget announcement.
- **SGD NEER**: The SGD NEER is softer this morning at +1.63% above parity (1.3729), implied USD-SGD thresholds largely stable. Watch for the January manufacturing PMI to be released today (1300 GMT).
- **CFETS RMB Index**: China on holiday today.



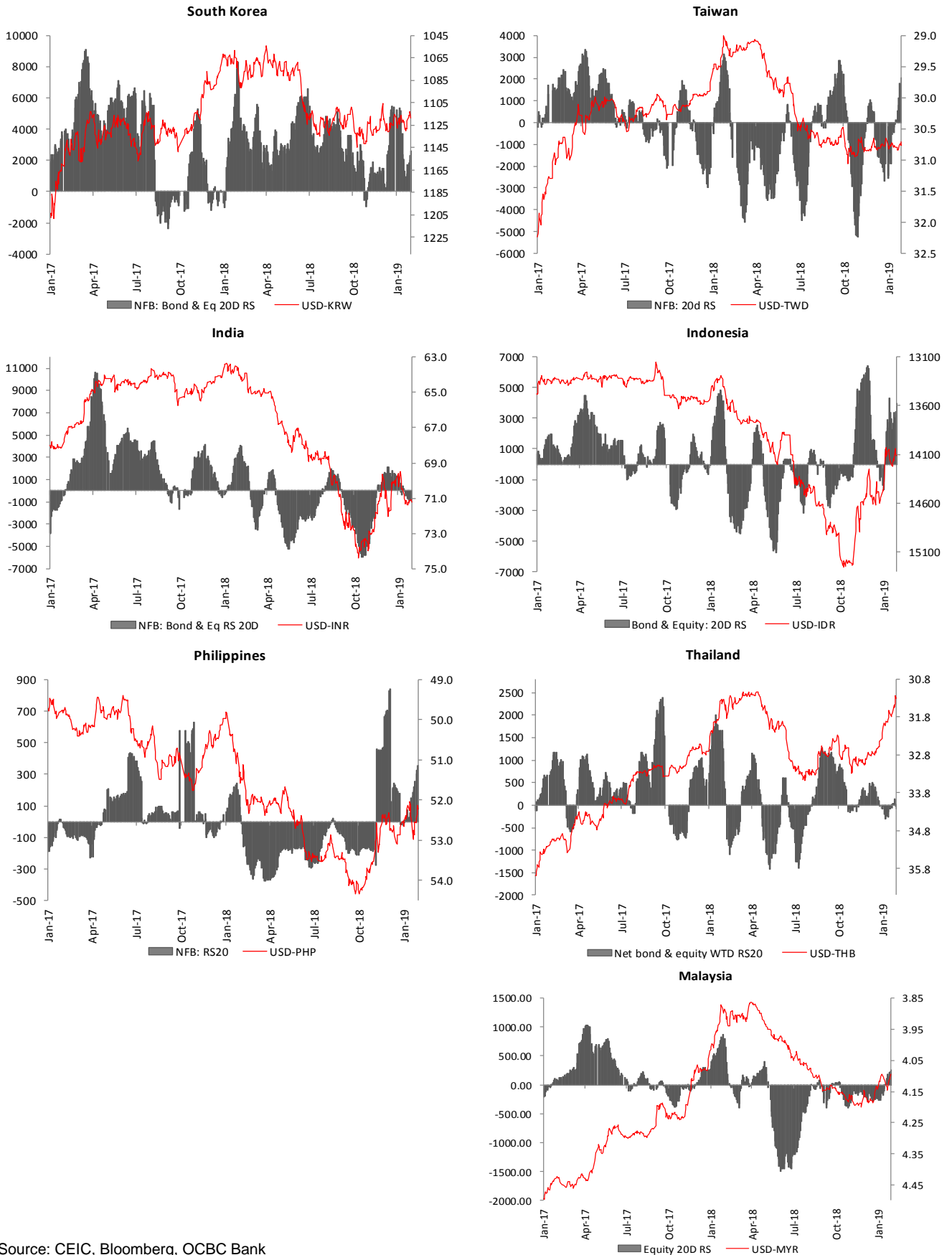
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↔	Record liquidity injection in open market operations on 16 Jan, inaugural TMLF on 23 Jan. Officials on 15 Jan indicate that taxes will be cut "on a larger scale" and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments. PBOC announces RRR cut on 04 Jan. 4Q GDP as expected at 6.4% yoy. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Dec CPI/PPI decelerate further, Dec exports and imports surprised with a contraction, industrial profits deteriorate further at -1.9% yoy. Dec retail sales and industrial production in-line to stronger than expected. Jan PMIs improve but Caixin PMIs weaken further.
S. Korea	↔/↓	↔/↑	BOK static in January, but downgraded 2019 growth and inflation forecasts further. BOK expected to retain accommodative stance, but the governor noted that a rate cut is not in the pipeline. Jan CPI (headline and core) softer than expected again. Dec exports go into contraction at -1.2% yoy. Jan manufacturing PMI deteriorates further to 48.3. Nov current account surplus shrank to lowest level since April. 4Q GDP higher than expected at +3.1% yoy on the back of fiscal support.
Taiwan	↔/↓	↔	4Q GDP disappoints at +1.76%. CBC static at 1.375% in Dec 2018. CBC governor ambivalent on the benchmark rate. Some CBC members looking towards policy normalization to afford the authority eventual downside wiggle room. Jan manufacturing PMI drops to 47.5. Price pressures soften and Dec CPI surprises with a -0.05% contraction. Political premium being built in. Dec exports orders slump -10.5% yoy.
India	↔/↑	↔	Budget announcement in Feb underscore fliscal slippage concerns. Dec WPI significantly softer than expected while CPI was cooler than expected, although RBI governor sees core inflation remaining sticky at a high 6%. 3Q GDP weaker than expected. RBI static in Dec (new governor perceived to be more dovish). Jan manufacturing PMI improves to 53.9. Dec merchandise trade deficit came in lower than expected. Elections due Apr/May 2019.
Singapore	↓	↔	SGD NEER veering away from the extreme end of its fluctuation band. Expect movements in the USD-SGD to track broad USD prospects. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar. Dec 2018 CPI readings came in a touch warmer than expected. Dec IPI disappoints at +2.7% yoy.
Malaysia	↔/↓	↔	BNM static at 3.25% in Jan 2019 and is expected to be static through 2019. Dec CPI cooler than expected +0.2% yoy. Frosty market reception to the latest budget announcement (significantly larger than expected 2018 budget deficit). Dec manufacturing PMI falls to 47.7 from 48.4. Nov export growth decelerates to +1.6% yoy.
Indonesia	↔	↔/↑	BI views IDR as undervalued. Note sustained positive investor response to bond auctions. BI remained static on its policy rate in Jan. Primary policy focus remains centred on current account deficit containment and maintaining a sufficient yield buffer. BI governor reiterates that the benchmark rate is already near its peak although stance is still characterized as "hawkish". If the Fed is in fact static in March, BI may relent and turn neutral. Dec CPI readings came in mixed, export (contraction)/import performance weakens. Elections slated for 17 April 2019.
Thailand	↓	↔	BOT now uncomfortable with the baht's recent gains. RTrade momentum deteriorated in Dec 18. BOT governor reiterated accommodative policy is still important. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3. Elections scheduled on 24 March.
Philippines	↔	---	BSP remained static in Dec as expected. BSP governor open to RRR cut. 4Q GDP below expectations at 6.1% yoy. Dec manufacturing PMI weakens to 53.2 from 54.2. Dec CPI softer than expected at +5.1% yoy. 2018 fiscal deficit likely widened to 3.1%.

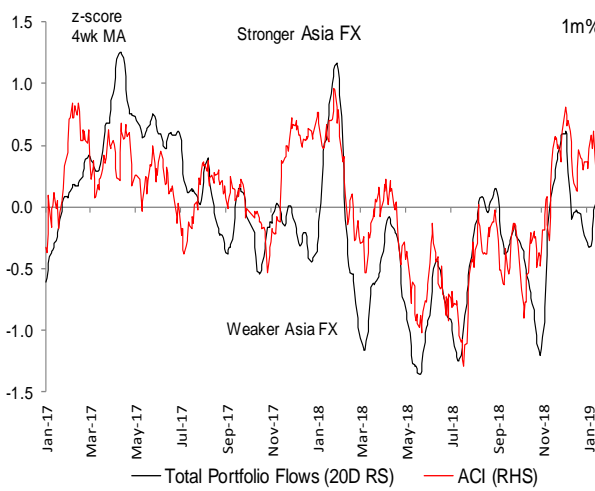
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



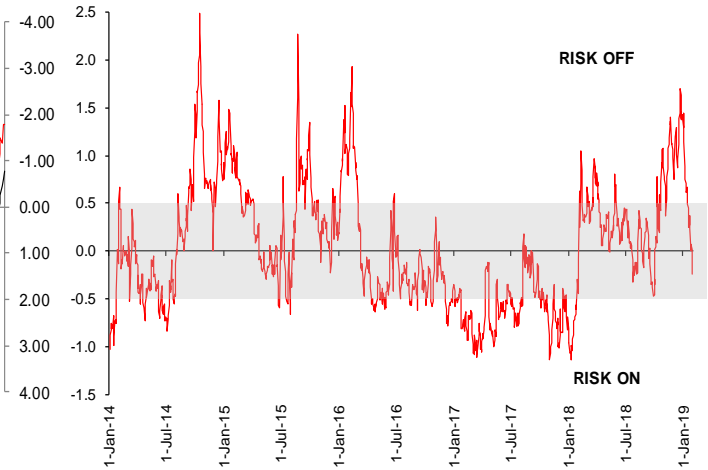
Source: CEIC, Bloomberg, OCBC Bank

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	ITRXXK	CNH	EUR
DXY	1	0.578	0.237	0.09	0.077	0.187	0.611	-0.037	0.138	-0.097	0.346	-0.959
SGD	0.818	0.702	0.706	-0.418	-0.41	-0.17	0.277	-0.409	0.579	0.38	0.761	-0.668
IDR	0.761	0.599	0.513	-0.314	-0.308	-0.07	0.315	-0.292	0.524	0.334	0.525	-0.682
MYR	0.69	0.581	0.582	-0.207	-0.204	-0.016	0.338	-0.14	0.464	0.161	0.597	-0.613
JPY	0.667	0.566	0.586	-0.538	-0.468	-0.37	0.04	-0.612	0.706	0.53	0.576	-0.536
CAD	0.65	0.467	0.397	0.088	0.078	0.042	0.472	-0.109	0.336	-0.036	0.439	-0.653
CHF	0.631	0.682	0.465	-0.267	-0.24	0.028	0.194	-0.355	0.515	0.238	0.471	-0.55
CNH	0.617	0.543	0.363	0.099	0.132	0.01	0.592	0.012	0.364	-0.118	0.4	-0.632
PHP	0.611	0.385	-0.176	0.662	0.641	0.497	1	0.564	-0.307	-0.637	-0.093	-0.74
CNY	0.578	1	0.393	-0.158	-0.102	0.186	0.385	-0.14	0.262	0.111	0.474	-0.489
THB	0.525	0.17	-0.478	0.822	0.807	0.623	0.89	0.707	-0.498	-0.785	-0.403	-0.694
KRW	0.428	0.203	-0.584	0.746	0.78	0.742	0.651	0.736	-0.519	-0.729	-0.514	-0.589
USGG10	0.346	0.474	0.981	-0.67	-0.731	-0.507	-0.093	-0.616	0.773	0.616	1	-0.13
TWD	0.237	0.393	1	-0.747	-0.797	-0.595	-0.176	-0.7	0.811	0.688	0.981	-0.026
INR	0.15	0.415	0.818	-0.922	-0.92	-0.556	-0.539	-0.805	0.76	0.901	0.757	0.08
GBP	0.022	-0.179	-0.7	0.796	0.862	0.453	0.622	0.654	-0.583	-0.728	-0.687	-0.289
NZD	-0.606	-0.72	-0.832	0.624	0.617	0.311	-0.018	0.626	-0.736	-0.539	-0.841	0.41
AUD	-0.642	-0.604	-0.677	0.46	0.389	0.309	-0.204	0.459	-0.733	-0.442	-0.711	0.523
EUR	-0.959	-0.489	-0.026	-0.315	-0.303	-0.316	-0.74	-0.14	0.054	0.282	-0.13	1

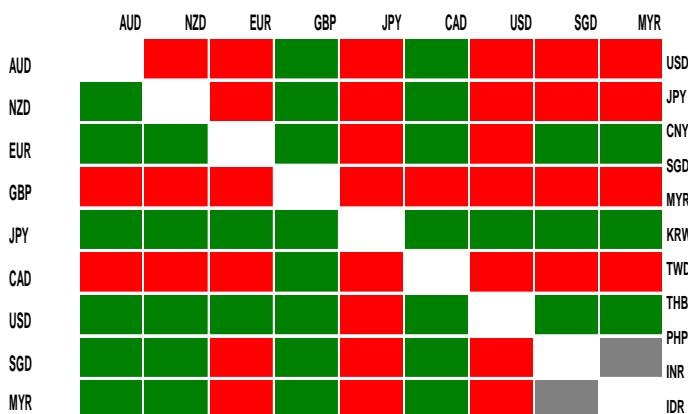
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1397	1.1400	1.1454	1.1500	1.1534
GBP-USD	1.3000	1.3036	1.3079	1.3100	1.3217
AUD-USD	0.7169	0.7200	0.7240	0.7272	0.7290
NZD-USD	0.6803	0.6900	0.6901	0.6925	0.6942
USD-CAD	1.3000	1.3069	1.3090	1.3095	1.3100
USD-JPY	108.11	109.00	109.55	110.00	110.12
USD-SGD	1.3463	1.3500	1.3513	1.3600	1.3625
EUR-SGD	1.5367	1.5400	1.5480	1.5500	1.5540
JPY-SGD	1.2311	1.2318	1.2336	1.2400	1.2528
GBP-SGD	1.7447	1.7600	1.7675	1.7700	1.7772
AUD-SGD	0.9700	0.9775	0.9784	0.9800	0.9805
Gold	1271.67	1300.00	1314.10	1319.43	1325.40
Silver	15.29	15.80	15.88	15.90	16.08
Crude	50.68	55.30	55.38	55.40	55.66

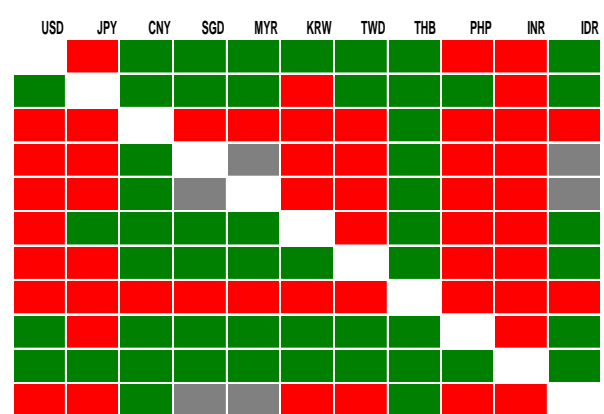
Source: OCBC Bank

G10 FX Heat Map



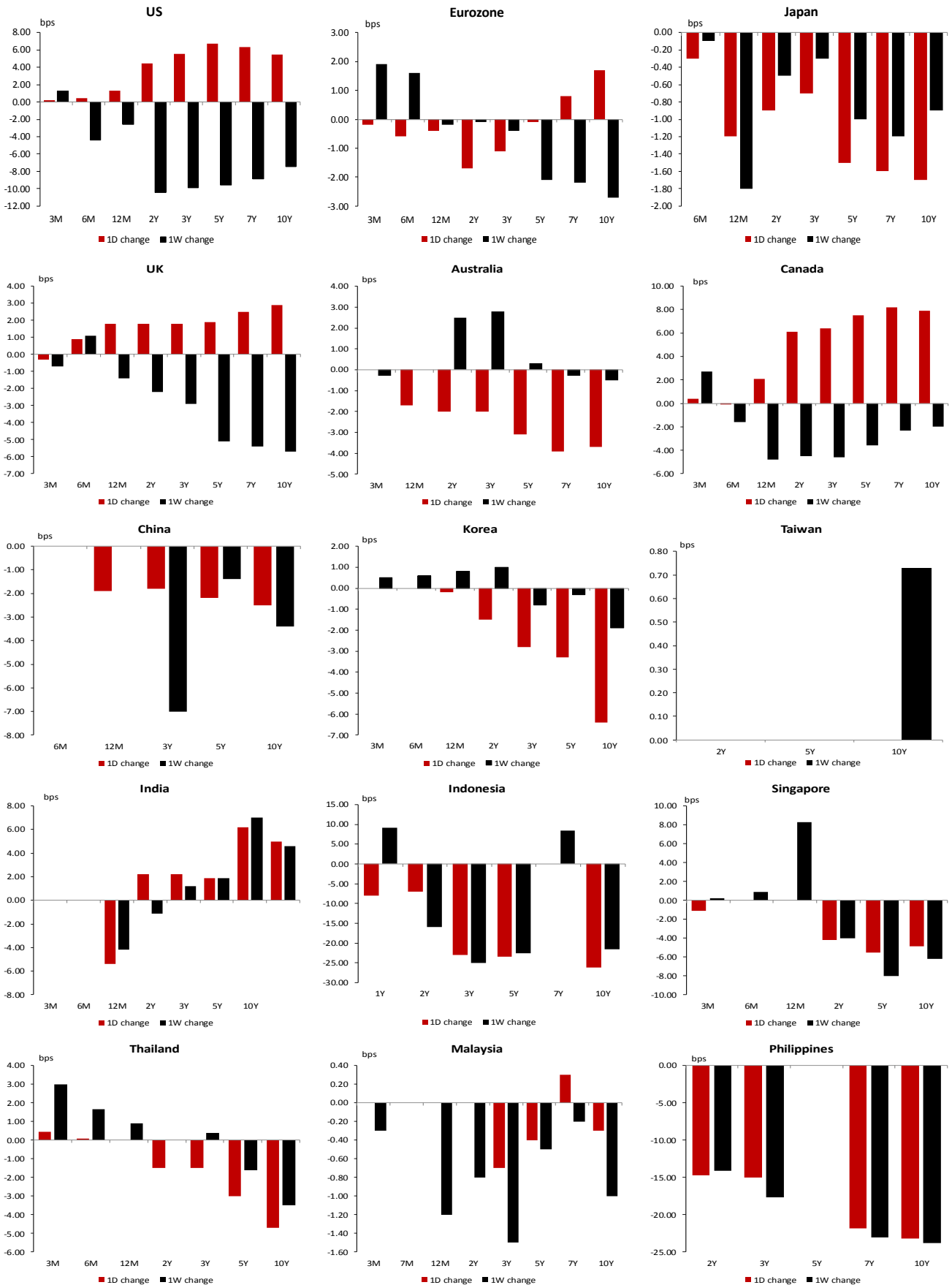
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Trade Ideas

	Inception	B/S	Currency	Spot/Outright	Target Stop/Trailing Stop	Rationale		
TACTICAL								
1	23-Jan-19	B	GBP-AUD	1.8159	1.8745 1.7865	Contrasting risk profiles in the near term		
2	31-Jan-19	S	USD-CAD	1.3131	1.2900 1.3250	Improvement in risk appetite, supportive crude		
3	31-Jan-19	B	XAU-USD	1,320.09	1,352.00 1,304.00	Improvement in risk appetite, supportive crude		
STRUCTURAL								
	-	-	-	-	-	-		
RECENTLY CLOSED TRADE IDEAS								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)*
1	25-Jan-19	28-Jan-19	S	EUR-USD	1.1327	1.1435	Dovish overtones from ECB's Draghi	-0.92

Refreshed FX Forecasts (correct as of 1 Feb)

	Spot	Mar-19	Jun-19	Sep-19	Dec-19
USD-JPY	108.84	108.13	106.91	106.09	105.27
EUR-USD	1.1441	1.1480	1.1551	1.1658	1.1764
GBP-USD	1.3096	1.3160	1.3247	1.3377	1.3507
AUD-USD	0.7238	0.7263	0.7299	0.7372	0.7446
NZD-USD	0.691	0.6975	0.7021	0.7098	0.7174
USD-CAD	1.3149	1.3055	1.3010	1.2920	1.2830
USD-CHF	0.9947	0.9968	0.9872	0.9756	0.9639
USD-SGD	1.3489	1.3413	1.3359	1.3312	1.3266
USD-CNY	6.7338	6.6853	6.6268	6.5853	6.5438
USD-THB	31.39	31.15	30.84	30.61	30.38
USD-IDR	13945	13793	13694	13611	13528
USD-MYR	4.0953	4.0768	4.0501	4.0128	3.9754
USD-KRW	1118.8	1114.00	1107.89	1100.22	1092.56
USD-TWD	30.776	30.613	30.458	30.304	30.151
USD-HKD	7.8459	7.8383	7.8268	7.8153	7.8038
USD-PHP	52.265	52.08	51.86	51.64	51.42
USD-INR	71.10	71.00	70.13	69.43	68.73
EUR-JPY	124.52	124.13	123.49	123.68	123.85
EUR-GBP	0.8736	0.8723	0.8720	0.8715	0.8710
EUR-CHF	1.1381	1.1443	1.1404	1.1373	1.1340
EUR-SGD	1.5435	1.5398	1.5431	1.5519	1.5606
GBP-SGD	1.7667	1.7651	1.7696	1.7807	1.7917
AUD-SGD	0.9764	0.9741	0.9751	0.9814	0.9877
NZD-SGD	0.9321	0.9355	0.9379	0.9449	0.9517
CHF-SGD	1.3562	1.3456	1.3532	1.3646	1.3763
JPY-SGD	1.2394	1.2405	1.2496	1.2548	1.2601
SGD-MYR	3.0360	3.0395	3.0318	3.0144	2.9968
SGD-CNY	4.9927	4.9843	4.9606	4.9468	4.9330

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