

Friday, January 04, 2019

**Market Themes/Strategy/Trading Ideas**

- Despite the flash crash in early Asia on Thursday, the USD eventually retraced lower across G10 space as the Dec ISM drastically disappointed (headline as well as its sub-indices) and resultant weakened yield support. Meanwhile, the JPY still outperformed against its peers despite the USD-JPY partially rebounding from its early plunge.
- Negative EZ/US equities and generalized market nervousness saw the **FXSI (FX Sentiment Index)** ticking yet higher within **Risk-Off** territory on Thursday.
- Market re-pricing of the Fed (and to a lesser degree, the ECB) may continue to persist in the near term. 10y UST and bund yields dipped on Thursday but both curves saw the front to belly leading the way lower. Ominously, the US curve inverted with the 2y UST yield dipping below 2.40% (the effective Fed Funds rate) and short-end futures effectively willing the Fed to cut.
- **Structurally, yield differential (both front and back-end) support with respect to the USD has been continually eroding since Dec 2018 and into the start of this year. While this may translate into USD vulnerability towards the EUR and JPY, global growth concerns may continue to dilute this dynamic when applied to the cyclical like the AUD.**
- **Ahead of the US NFP (1330 GMT) and the Powell/Yellen/Bernanke discussion (1515 GMT), we retain a preference to stay top heavy on the USD-JPY and AUD-USD (note flailing copper and the Aussie govie curve bull flattening).**

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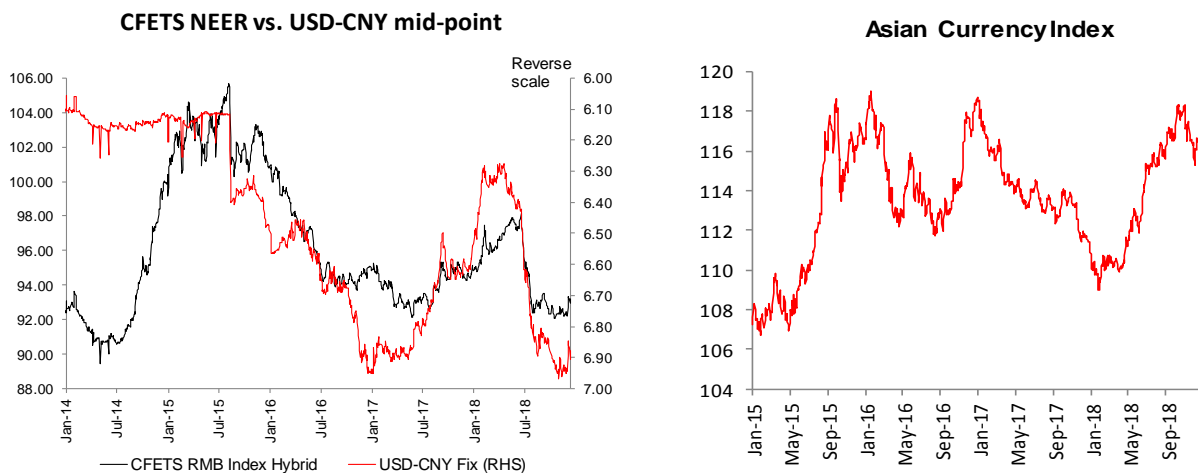
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## Asian Markets

- Despite the equity wobbly on the global front, USD-Asia may respond to the weaker broad dollar complex with foreign investor interest (note strong interest at Indonesia's first bond auction of the year) proving supportive for regional asset markets. **On this front, the SGD, THB, and IDR are seen better beneficiaries at this juncture. At the turn of the year, note that net short term portfolio flows in the region in aggregate meanwhile seem to be supportive of regional bonds, although equities continue to experience net outflows.** We await data points into the end of the week to further validate this view.
- **India** may however remain an exception at this juncture amidst fiscal concerns, with the INR and GBs under implicit pressure.
- **SGD NEER:** This morning, the SGD NEER is firmer on the day at around 1.84% above its perceived parity (1.3870), with NEER-implied USD-SGD thresholds softer. Expect the peer to eye its 200-day MA (1.3595) intra-day, as opposed to the initial resistance seen at 1.3670.
- **CFETS RMB Index:** The USD-CNY mid-point again came in as expected at 6.8586 this morning from 6.8631 yesterday, with the CFETS RMB Index easing slightly to 93.03 from 93.18.



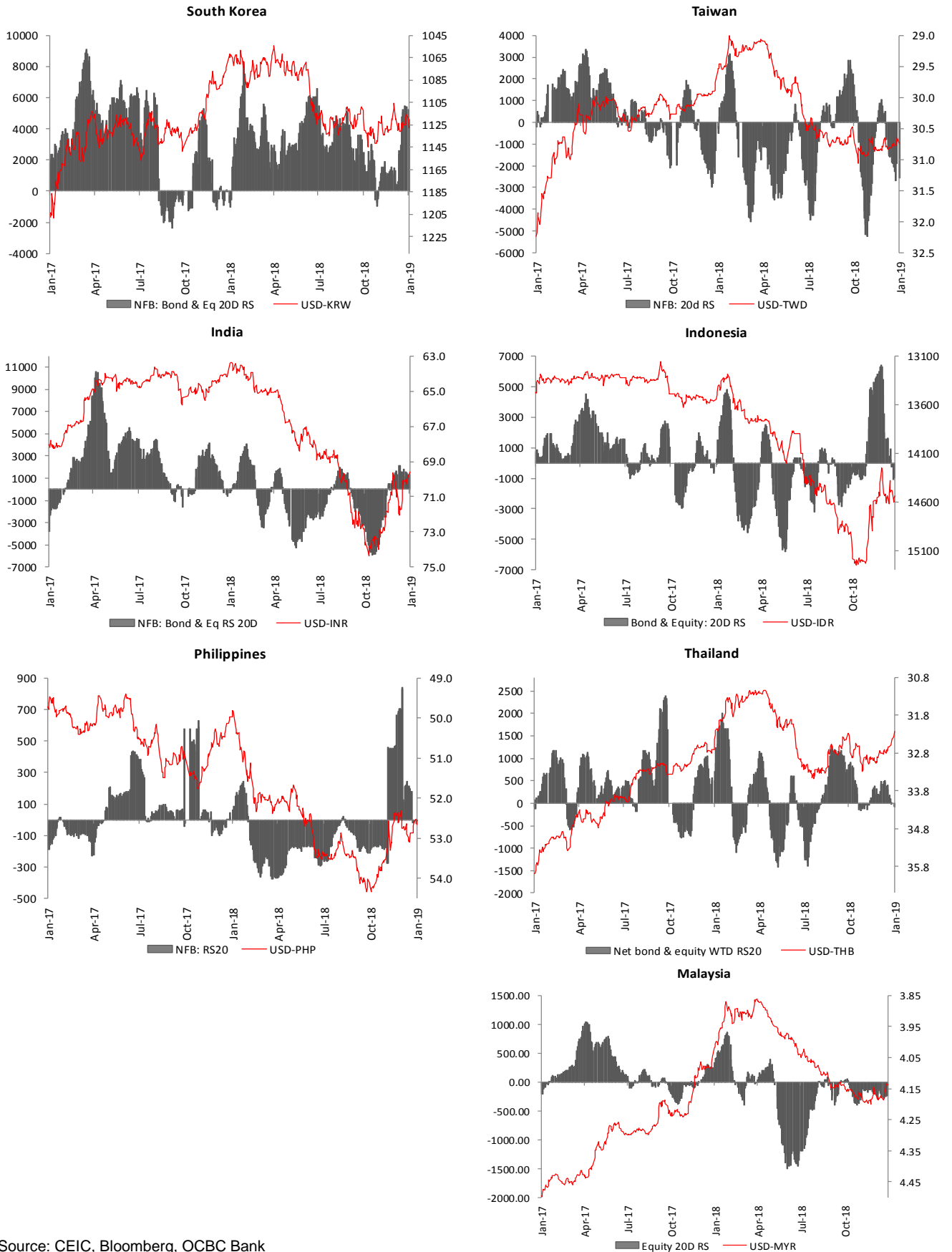
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accommodation in 2019. PBOC's quarterly monetary policy report sounded accommodative. Core view remains that the exchange rate mechanism may serve as an escape valve for trade-war and economic deceleration concerns. Nov monetary aggregates indicate some stabilization after the recent deterioration but govie and NDIRS curve may remain soggy. Official and Caixin Dec manufacturing PMIs dip into contraction territory.
USD-KRW	↔/↑	BOK hiked 25bps as expected in November with the hike characterized as a one-off dovish hike by markets. 3Q GDP and Oct industrial production readings came in lower than expected. Dec CPI softer than expected at 1.3% yoy but core held at 1.3% yoy, BOK expects softer crude to impinge on price pressures. Dec exports go into contraction at -1.2% yoy. Dec manufacturing PMI firms to 49.8 from 48.6.
USD-TWD	↔/↑	CBC static at i1.375% 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. Dec manufacturing PMI drops to 47.7 from 48.4.
USD-INR	↔/↓	A miss on Nov CPI adds on to the softer than expected 3Q GDP print. RBI static in Dec, with accompanying rhetoric signaling a pull back of rate hike expectations if inflation does not materialise (inflation forecasts revised lower). Brewing political uncertainty, after the loss in three key state elections, ahead of the 2019 nationwide elections. First comments by new RBI governor served to allay fears on RBI independence, but suggest some dovish inclinations. Dec manufacturing PMI slips to 53.2 from 54.0. General elections in Apr/May may increasingly come into focus.
USD-SGD	↓	MAS steepens the NEER's slope again in October. With the NEER remains near its upper boundary, expect declines in the pair to track downside in the broad USD, and not as a result of explicit SGD strength. 4Q GDP surprises on the downside at 1.6% saar although note that 3Q was revised higher to 3.5% saar.
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). Dec manufacturing PMI falls to 47.7 from 48.4.
USD-IDR	↔/↓	Nov 2018 hike was 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. Dec CPI readings came in mixed with core firming slightly to 3.07% but headline subdued and softer at 3.13% yoy. Elections slated for 17 April 2019.
USD-THB	↓	BOT hiked 25bps to 1.75% in Dec 2018. MPC minutes indicate that accommodative policy remains appropriate, sees further gradual hikes although risks to growth/inflation remain on the downside. Latest global yield developments may however erode any urgency to normalize monetary policy. Stronger than expected rebound in Oct exports offset weak 3Q GDP print. Dec headline and core inflation softer than expected while manufacturing PMI picked up to 50.3. General elections scheduled for 24 Feb 2019.
USD-PHP	↔	BSP remained static at their policy meeting in December as expected with the central bank highlighting receding inflation pressures (inflation forecast revised lower). 3Q GDP prints below expectation on slower consumer spending. BSP static in December. Dec manufacturing PMI weakens to 53.2 from 54.2.

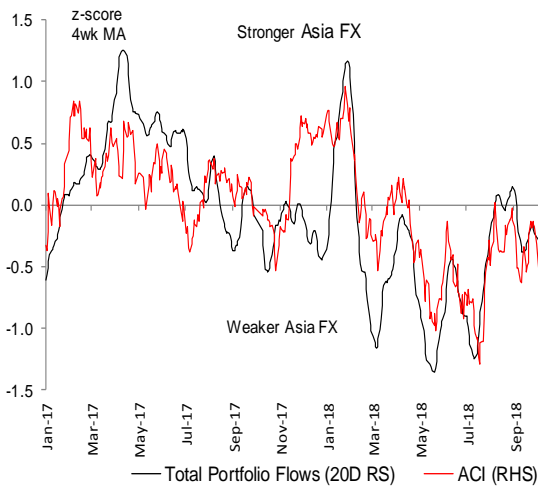
Source: OCBC Bank

**USD-Asia VS. Net Capital Flows**



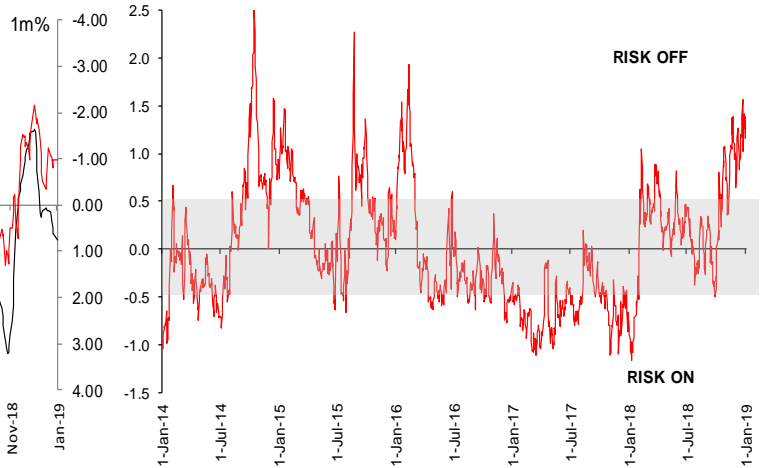
Source: CEIC, Bloomberg, OCBC Bank

**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	ITRXXE	CNH	EUR
DXY	1	0.706	0.346	0.477	0.385	0.59	0.777	0.549	-0.445	-0.575	0.359	-0.905
JPY	0.859	0.731	-0.082	0.515	0.568	0.699	0.742	0.663	-0.455	-0.685	0.105	-0.866
CAD	0.777	0.965	0.208	0.704	0.724	0.825	1	0.676	-0.492	-0.802	0.167	-0.582
PHP	0.755	0.67	0.319	0.682	0.44	0.707	0.739	0.703	-0.651	-0.59	0.194	-0.705
CHF	0.706	1	0.069	0.709	0.773	0.812	0.965	0.679	-0.447	-0.775	0.052	-0.536
SGD	0.692	0.586	0.818	0.037	-0.058	0.206	0.646	0.123	0.096	-0.226	0.73	-0.528
KRW	0.614	0.938	0.352	0.564	0.68	0.68	0.95	0.489	-0.317	-0.729	0.239	-0.346
INR	0.599	0.875	-0.194	0.871	0.911	0.923	0.855	0.86	-0.681	-0.835	-0.217	-0.543
NZD	0.595	0.863	-0.102	0.848	0.838	0.916	0.854	0.838	-0.643	-0.776	-0.126	-0.53
CNH	0.588	0.609	0.755	0.032	0.028	0.226	0.667	0.115	0.134	-0.337	0.641	-0.364
IDR	0.463	0.379	0.72	-0.036	-0.317	-0.041	0.419	-0.03	0.17	0.133	0.598	-0.236
MYR	0.359	0.052	0.924	-0.358	-0.493	-0.205	0.167	-0.268	0.328	0.204	1	-0.234
TWD	0.346	0.069	1	-0.208	-0.385	-0.133	0.208	-0.215	0.197	0.088	0.924	-0.118
CNY	0.288	0.275	0.627	-0.25	-0.138	-0.088	0.386	-0.169	0.272	-0.199	0.62	-0.037
THB	0.165	-0.124	0.786	-0.18	-0.452	-0.167	-0.013	-0.202	0.057	0.067	0.625	-0.091
AUD	0.161	-0.035	0.598	0.116	-0.183	0.166	0.059	0.113	-0.198	-0.109	0.376	-0.221
USGG10	-0.562	-0.048	-0.497	-0.027	0.269	-0.044	-0.186	-0.04	0.168	0.02	-0.563	0.525
GBP	-0.569	-0.669	0.204	-0.851	-0.787	-0.948	-0.682	-0.933	0.776	0.785	0.182	0.661
EUR	-0.905	-0.536	-0.118	-0.487	-0.355	-0.619	-0.582	-0.637	0.517	0.509	-0.234	1

Source: Bloomberg

**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1370	1.1400	1.1402	1.1476	1.1497
GBP-USD	1.2524	1.2600	1.2640	1.2700	1.2757
AUD-USD	0.6944	0.7000	0.7019	0.7100	0.7182
NZD-USD	0.6600	0.6631	0.6696	0.6700	0.6771
USD-CAD	1.3332	1.3400	1.3482	1.3500	1.3665
USD-JPY	107.00	107.62	107.96	108.00	111.11
USD-SGD	1.3607	1.3618	1.3622	1.3700	1.3730
EUR-SGD	1.5500	1.5502	1.5532	1.5600	1.5611
JPY-SGD	1.2236	1.2600	1.2619	1.2668	1.2700
GBP-SGD	1.7181	1.7200	1.7220	1.7300	1.7457
AUD-SGD	0.9474	0.9500	0.9561	0.9600	0.9861
Gold	1252.43	1299.59	1299.80	1300.00	1300.40
Silver	15.86	15.90	15.91	15.95	16.00
Crude	42.36	46.90	46.99	47.00	54.01

Source: OCBC Bank

**G10 FX Heat Map**

	AUD	NZD	EUR	GBP	JPY	CAD	USD	SGD	MYR
AUD		2	2	2	1	1	1	1	1
NZD			2	2	1	1	1	1	1
EUR				2	1	2	2	2	2
GBP					1	2	2	2	2
JPY						1	1	2	2
CAD							2	1	1
USD								1	1
SGD									1
MYR									

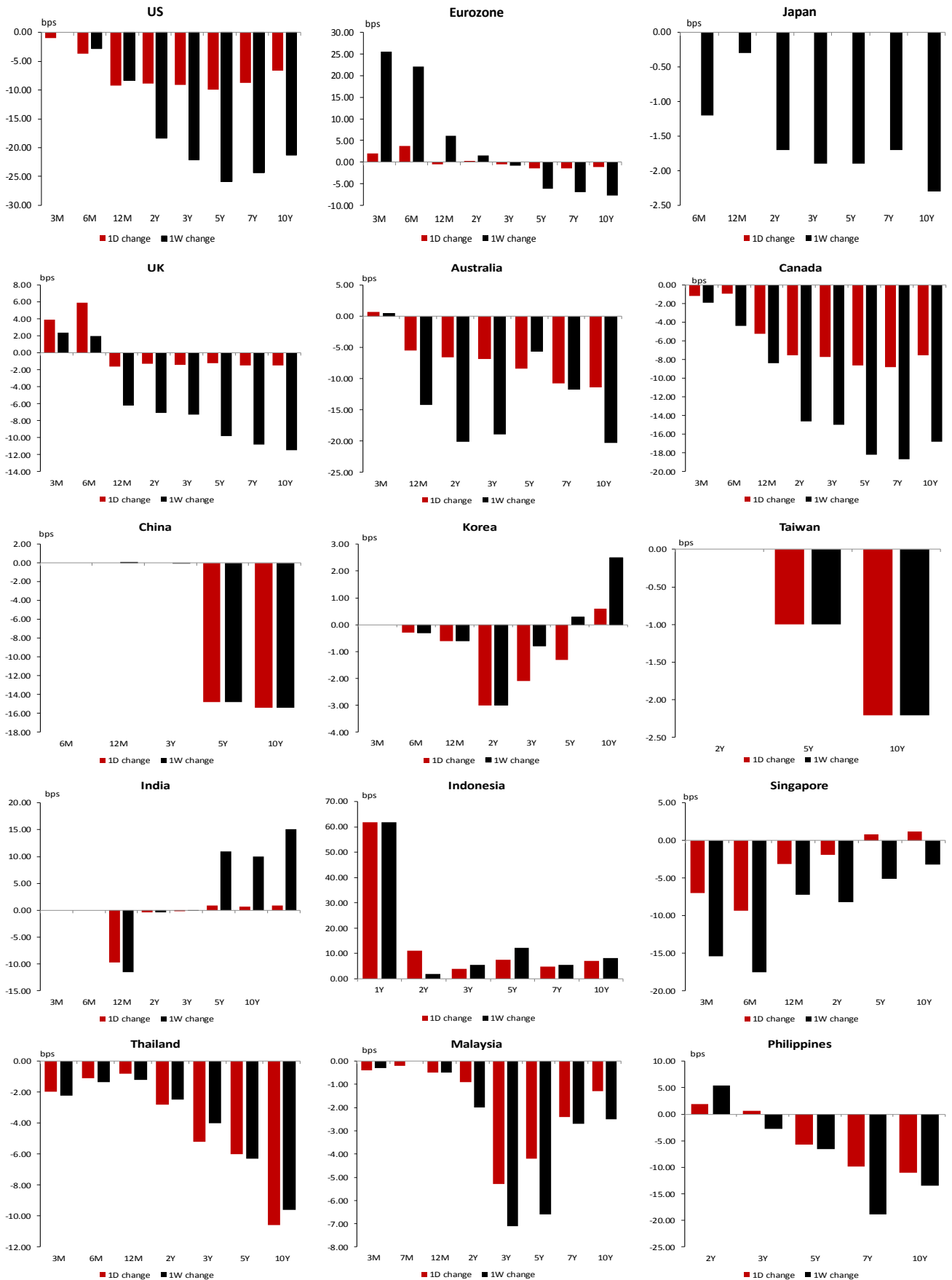
Source: OCBC Bank

**Asia FX Heat Map**

	USD	JPY	CNY	SGD	MYR	KRW	TWD	THB	PHP	INR	IDR
USD											
JPY											
CNY											
SGD											
MYR											
KRW											
TWD											
THB											
PHP											
INR											
IDR											

Source: OCBC Bank

### Government bond yield changes



**Revised central tendency FX forecasts (as at 02 Jan 2019)**

	<b>Spot</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>
<b>USD-JPY</b>	109.37	108.07	107.38	106.69	106.00
<b>EUR-USD</b>	1.1469	1.1550	1.1650	1.1750	1.1850
<b>GBP-USD</b>	1.275	1.2750	1.2892	1.3033	1.3175
<b>AUD-USD</b>	0.7027	0.6918	0.7023	0.7129	0.7235
<b>NZD-USD</b>	0.6707	0.6715	0.6820	0.6925	0.7030
<b>USD-CAD</b>	1.3600	1.3752	1.3598	1.3443	1.3289
<b>USD-CHF</b>	0.9824	0.9690	0.9630	0.9570	0.9510
<b>USD-SGD</b>	1.3646	1.3549	1.3502	1.3455	1.3409
<b>USD-CNY</b>	6.8539	6.8152	6.7435	6.6717	6.6000
<b>USD-THB</b>	32.334	31.95	31.80	31.64	31.49
<b>USD-IDR</b>	14490	14300	14217	14133	14050
<b>USD-MYR</b>	4.1375	4.1153	4.0782	4.0411	4.0039
<b>USD-KRW</b>	1119	1113	1104	1094	1085
<b>USD-TWD</b>	30.771	30.547	30.398	30.249	30.100
<b>USD-HKD</b>	7.8356	7.8450	7.8300	7.8150	7.8000
<b>USD-PHP</b>	52.565	52.31	51.91	51.50	51.10
<b>USD-INR</b>	69.62	69.12	68.31	67.51	66.70
<b>EUR-JPY</b>	125.44	124.82	125.09	125.36	125.61
<b>EUR-GBP</b>	0.8995	0.9059	0.9037	0.9015	0.8994
<b>EUR-CHF</b>	1.1267	1.1192	1.1219	1.1245	1.1269
<b>EUR-SGD</b>	1.5651	1.5649	1.5730	1.5810	1.5890
<b>GBP-SGD</b>	1.7399	1.7274	1.7406	1.7537	1.7666
<b>AUD-SGD</b>	0.9589	0.9372	0.9483	0.9593	0.9701
<b>NZD-SGD</b>	0.9152	0.9098	0.9208	0.9318	0.9426
<b>CHF-SGD</b>	1.3890	1.3982	1.4021	1.4060	1.4100
<b>JPY-SGD</b>	1.2477	1.2537	1.2574	1.2612	1.2650
<b>SGD-MYR</b>	3.0320	3.0374	3.0204	3.0033	2.9860
<b>SGD-CNY</b>	5.0226	5.0302	4.9944	4.9584	4.9221

Source: OCBC Bank

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