DAILY MARKET OUTLOOK

OCBC Bank

Thursday, February 07, 2019

Market Themes/Strategy/Trading Ideas

- The **DXY** continued to climb for the 5th consecutive session on Wednesday with the AUD leading the way lower. Appetite for the **AUD-USD** turned negative with the pair crashing below 0.7200 and settling near the 0.7100 floor after the **RBA's Lowe** effectively switched form a hawkish to a neutral stance on Wednesday. Note that markets received no inkling of this change in posture from the meeting statement on Tuesday, when the RBA left its benchmark rate unchanged. Early Thursday in Asia, the NZD-USD also collapsed below 0.6800 on disappointing 4Q labor market numbers.

- The **EUR** also felt the heat on IMF comments with respect to Italy, while on the data front, German Jan PMIs on Tue and Dec factory orders on Wed were soft. For today, look to the European Commission's update of macro forecasts (1000 GMT), German industrial production (0700 GMT) and ECB "minutes" (0900 GMT).

- **GBP-USD** also remained soggy amid chatter that the next UK parliamentary vote (on Brexit) on 14 Feb could be delayed. PM May is scheduled to be in Brussels today for talks with the EU's Tusk (note his tweet about the "special place in hell" for Brexit campaigners) and Juncker, with little expectations in the market for any sort of breakthrough. BOE MPC and Inflation Report (1220 GMT) and Carney's press conference (1230 GMT) today may however rein in GBP vulnerability in the interim.

- Despite wobbly EZ/US equities, overall risk sentiments remain broadly supported. Our **FX Sentiment Index (FXSI)** dipped further within Risk-Neutral territory on Friday, denoting a further improvement in sentiments.

- Tactically, odds are now stacked in favor of further **DXY** upside, with the 55-day MA (96.44) and 97.00 resistances now likely in the market's sights. Specifically, **EUR-USD** is looking increasingly slippery with the 55-day MA (1.1393) to cap while 1.1300 may continue to attract. Given the latest bad press, expect also for the antipodeans to underperform with the **AUD-USD** likely to seek out 0.7070. Expect also for the GBP-USD to decay with the 100-day MA (1.2891) now in the vicinity.

- Elsewhere, global trade tensions meanwhile may continue to recur in the coming sessions. On the Sino-US front, US Treasury Secretary Mnuchin and USTR Lighthizer are schedule to lead a trade delegation to Beijing next week for further talks.

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Asian Markets

- China, Hong Kong SAR, and Taiwan are still away for the Lunar New Year today but expect USD-Asia to trade on a supported tone in the session ahead given the broad dollar tone and the bounce in the USD-CNH on Monday.

- Although global central banks (including in EM/Asia) may now be expected to soften their monetary policy stance, the search for yield may in fact be energized, especially if risk aversion continues to be kept at bay. **To this end, we think Indonesia continues to remain the vanguard for EM/Asian positivity with respect to bonds and FX.**

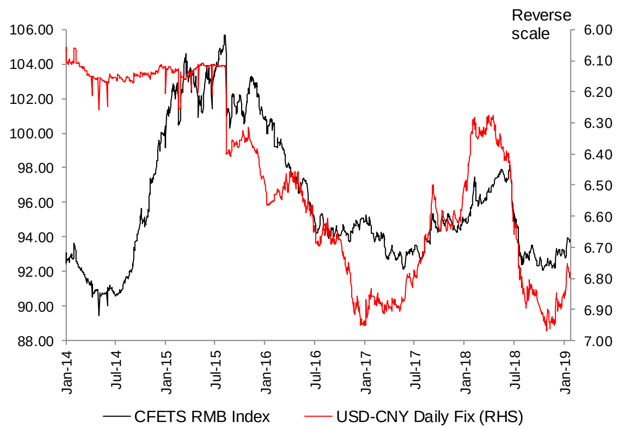
- The **Bank of Thailand** on Wednesday remained static at 1.75% as expected (2 votes for a hike) while maintaining its accommodative stance. For today, look towards further guidance from regional central banks. The **BSP** (already conscious of softening inflation) and the **RBI** (flip to neutral from hawkish?) will be closely watched for forward guidance.

- With most of Asia off (and some still out) due to Lunar New Year, not much action in terms of **actual net portfolio flows** were seen. Regardless, still note that bond inflows into Indonesia continue to power overall inflow momentum higher. Meanwhile, in India, an uptick in equity flows into positive territory is trying to compress overall outflow momentum.

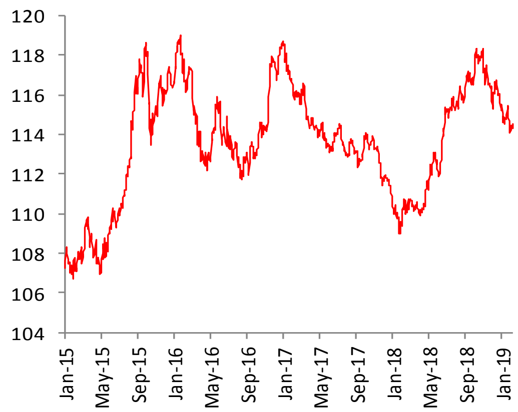
- **SGD NEER**: The SGD NEER is softer this morning at +1.62% above parity (1.3777). Implied USD-SGD thresholds stepped higher alongside the DXY. Overall, without guidance from the CNY, expect some spotty trading on the USD-SGD front.

- **CFETS RMB Index**: China on holiday today.

CFETS NEER vs. USD-CNY mid-point



Asian Currency Index



Source: OCBC Bank, Bloomberg

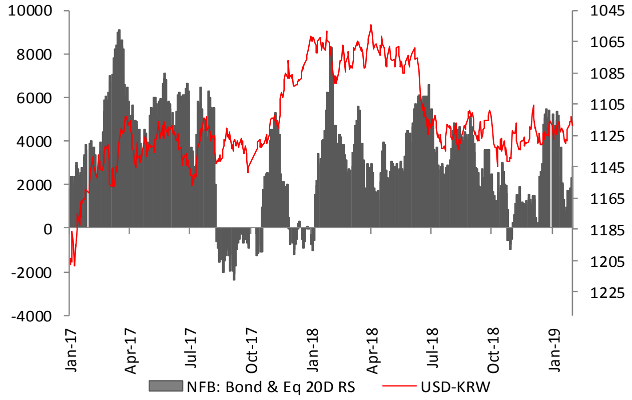
Short term Asian FX/bond market views

	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 manufactuirng 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 disapoints 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. Jan 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 mechandise 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	↔/↓	↓	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. Jan CPI mixed, export (contraction)/import performance weakens. 4Q GDP better than expected. Elections slated for 17 April 2019.
Thailand	↔/↓	↔/↓	BOT kept rates unchanged in Feb. Accomodative policy “still appropriate”, although 2 of 7 committee members voted to hike rates further is a surprise. BOT comments on recent THB appreciation also softened. Trade momentum deteriorated in Dec 18. 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%.

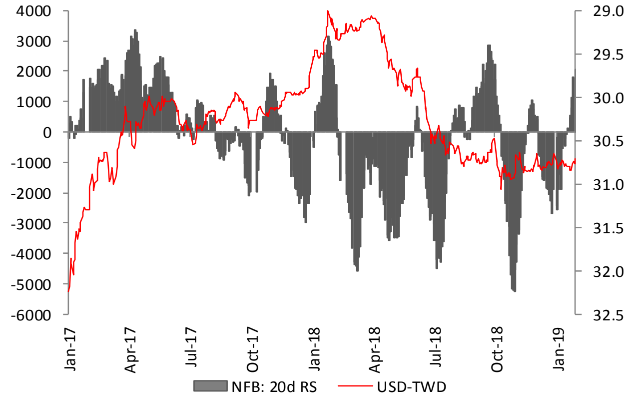
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

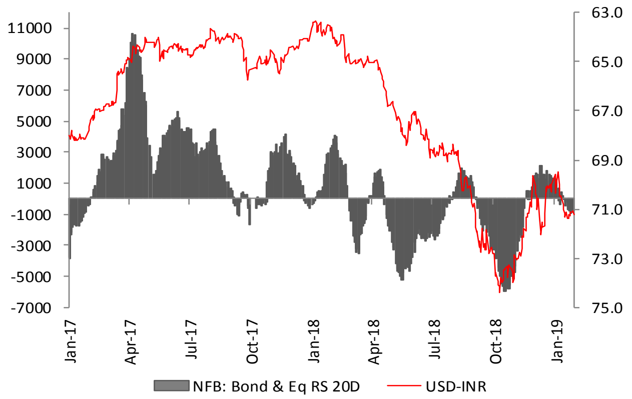
South Korea



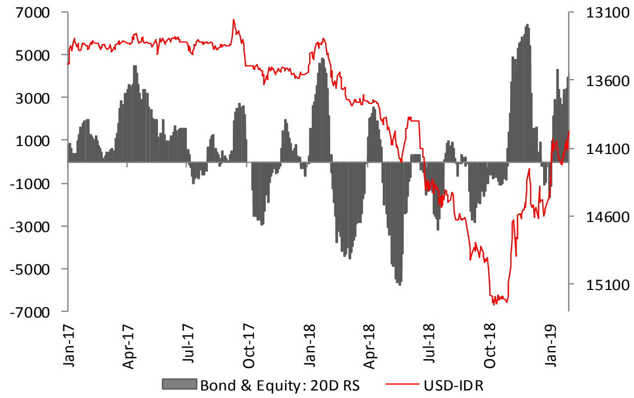
Taiwan



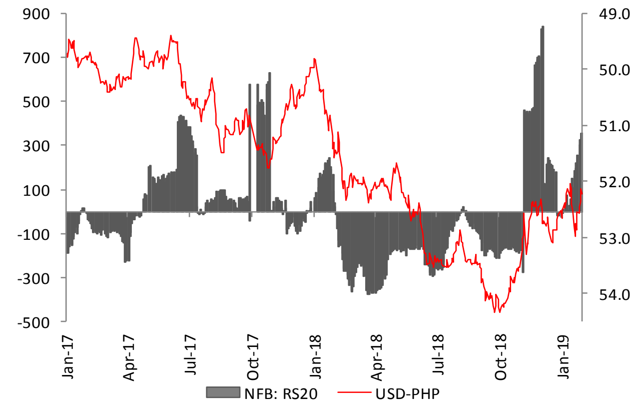
India



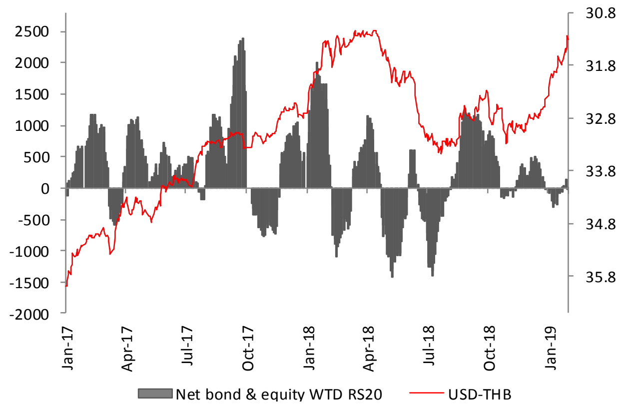
Indonesia



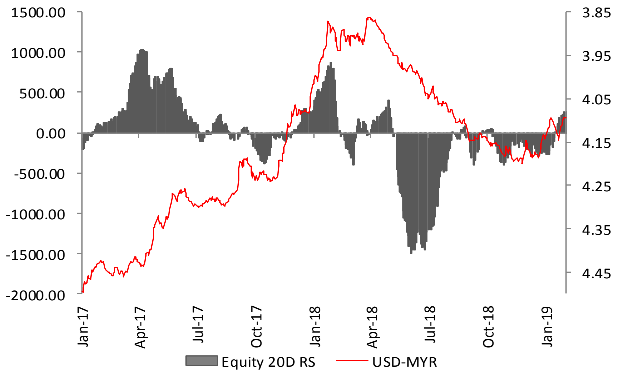
Philippines



Thailand

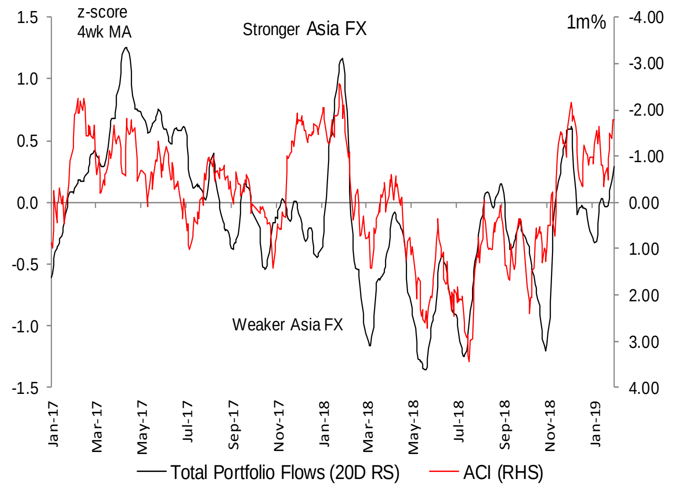


Malaysia



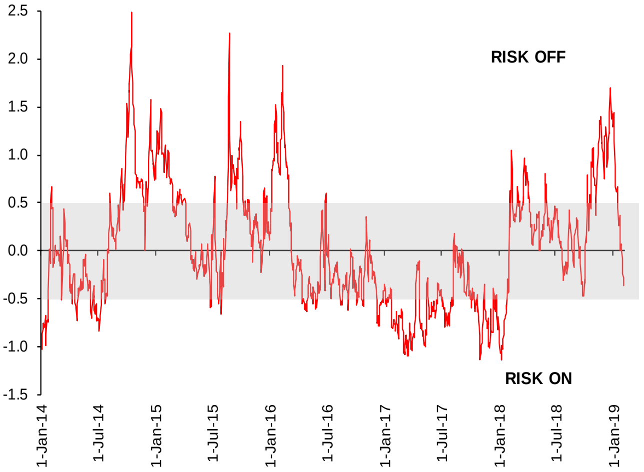
Source: CEIC, Bloomberg, OCBC Bank

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	0.354	0.336	0.206	0.156	0.212	0.67	0.074	-0.036	-0.189	0.396	-0.96
SGD	0.774	0.653	0.751	-0.354	-0.386	-0.141	0.25	-0.36	0.475	0.348	0.79	-0.675
IDR	0.761	0.599	0.605	-0.375	-0.374	-0.124	0.311	-0.4	0.615	0.391	0.603	-0.686
MYR	0.682	0.523	0.729	-0.295	-0.3	-0.117	0.342	-0.234	0.592	0.238	0.723	-0.61
JPY	0.67	0.203	-0.115	0.785	0.752	0.584	1	0.645	-0.545	-0.748	-0.008	-0.728
CAD	0.632	-0.017	-0.38	0.837	0.83	0.609	0.919	0.7	-0.594	-0.81	-0.237	-0.716
CHF	0.499	0.529	0.587	-0.648	-0.578	-0.427	-0.11	-0.606	0.761	0.63	0.516	-0.462
CNH	0.49	0.547	0.431	0.014	0.043	-0.041	0.469	0	0.393	-0.02	0.442	-0.541
PHP	0.482	0.441	0.442	-0.09	-0.049	-0.029	0.333	-0.078	0.482	0.117	0.408	-0.555
CNY	0.458	0.018	-0.424	0.79	0.799	0.627	0.803	0.655	-0.59	-0.772	-0.294	-0.545
THB	0.396	0.56	0.978	-0.44	-0.558	-0.317	-0.008	-0.448	0.522	0.435	1	-0.218
KRW	0.354	1	0.533	-0.292	-0.268	0.063	0.203	-0.247	0.378	0.269	0.56	-0.315
USGG10	0.336	0.533	1	-0.68	-0.744	-0.441	-0.115	-0.592	0.759	0.617	0.978	-0.134
TWD	0.223	0.629	0.581	-0.585	-0.527	-0.223	-0.126	-0.502	0.772	0.534	0.406	-0.242
INR	-0.019	-0.164	-0.669	0.567	0.697	0.351	0.486	0.558	-0.383	-0.542	-0.635	-0.227
GBP	-0.109	0.487	0.811	-0.946	-0.953	-0.583	-0.664	-0.812	0.836	0.933	0.588	0.209
NZD	-0.57	-0.605	-0.851	0.583	0.594	0.268	0.006	0.508	-0.653	-0.526	-0.783	0.445
AUD	-0.675	-0.388	-0.685	0.313	0.272	0.213	-0.268	0.243	-0.493	-0.304	-0.623	0.594
EUR	-0.96	-0.315	-0.134	-0.296	-0.281	-0.284	-0.728	-0.171	0.09	0.275	-0.218	1

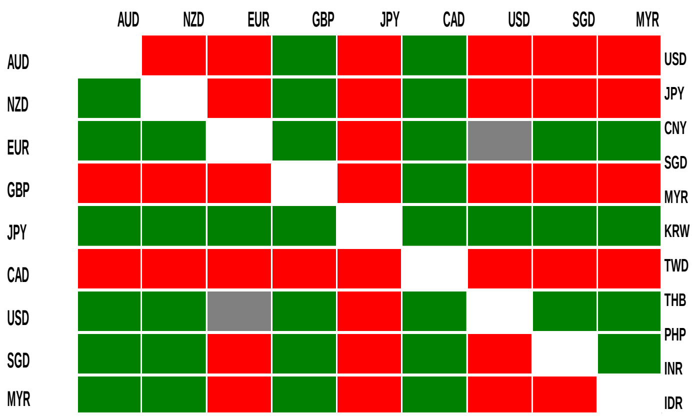
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1316	1.1361	1.1398	1.1400
GBP-USD	1.2804	1.2900	1.2929	1.3000	1.3026
AUD-USD	0.7081	0.7100	0.7111	0.7161	0.7200
NZD-USD	0.6701	0.6759	0.6760	0.6800	0.6801
USD-CAD	1.3134	1.3200	1.3237	1.3300	1.3353
USD-JPY	108.38	109.00	109.86	110.00	110.34
USD-SGD	1.3465	1.3500	1.3555	1.3600	1.3645
EUR-SGD	1.5378	1.5400	1.5401	1.5500	1.5521
JPY-SGD	1.2300	1.2332	1.2338	1.2400	1.2499
GBP-SGD	1.7444	1.7500	1.7527	1.7600	1.7763
AUD-SGD	0.9600	0.9630	0.9640	0.9700	0.9755
Gold	1272.81	1300.00	1309.50	1323.10	1325.40
Silver	15.28	15.60	15.67	15.70	16.09
Crude	50.86	53.80	53.84	53.90	55.31

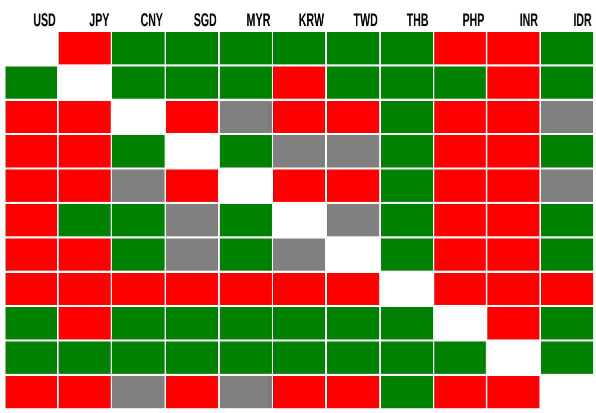
Source: OCBC Bank

G10 FX Heat Map



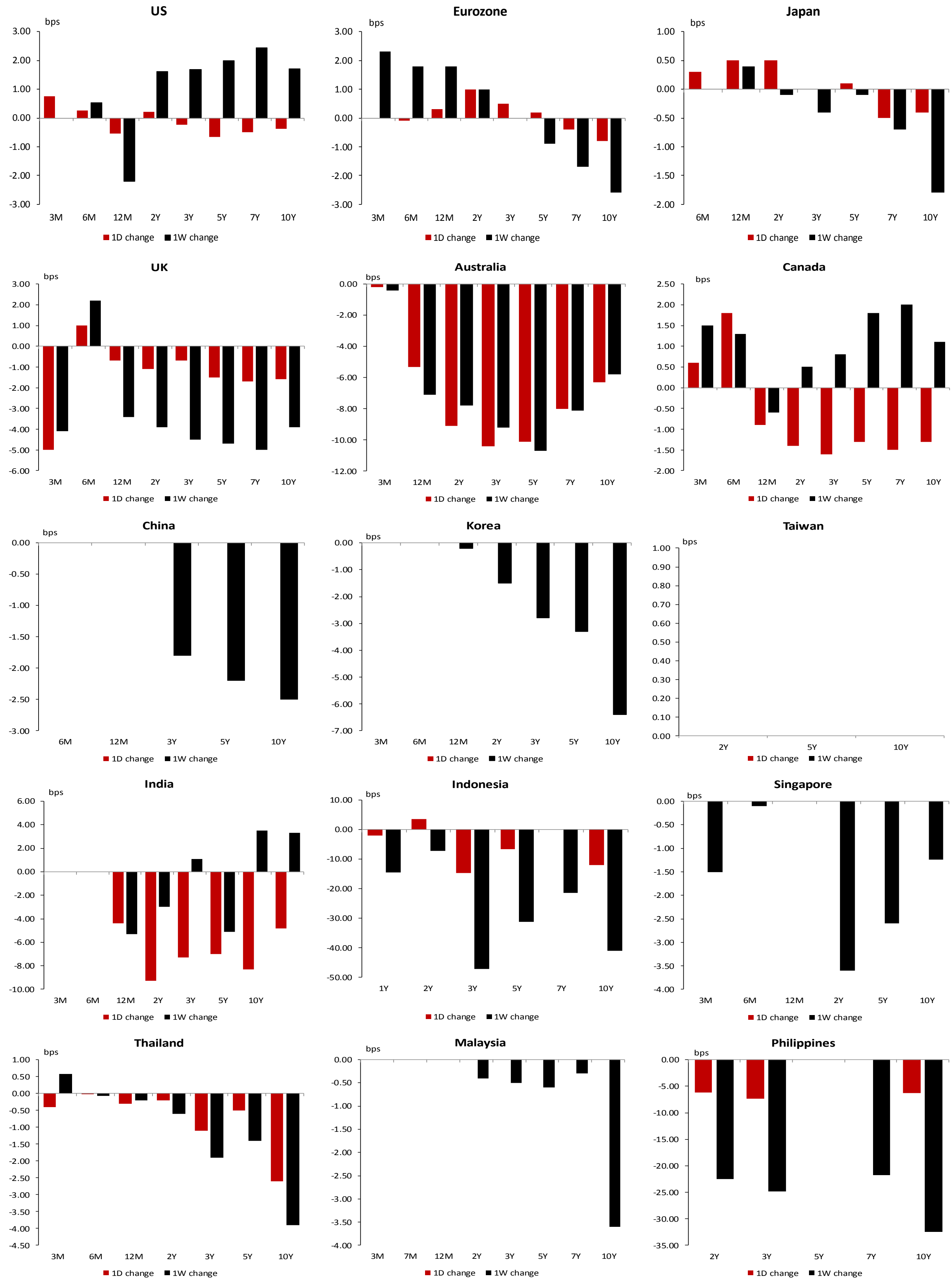
Source: OCBC Bank

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

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