DAILY MARKET OUTLOOK

OCBC Bank

Monday, January 07, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- Despite better than expected December NFP numbers (including average hourly earnings), the USD eventually softened across G10 space as Fed chair Powell's preached patience (as the Fed watches how the economy evolves) and noted that the Fed remained "…prepared to shift the stance of policy and to shift it significantly" if needed.

- Improving risk sentiment (with the PBOC significantly cutting its RRR for banks on Friday) also boosted the majors against the USD. **Going ahead, we continue to expect a positive market reaction to further expected stimulative measures out of China.**

- Despite Powell's comments, US yields (and other major yields) stepped higher on Friday with the UST curve bear flattening. Elsewhere, with crude climbing, the CAD and the NOK also strengthened.

- Positive global equities and the general brightening of global investor sentiment on Friday saw the **FXSI (FX Sentiment Index)** dipping lower within Risk-Off territory.

- Although the US government shutdown continues, all eyes may once again turn to **Sino-US** relations this week with talks scheduled for Monday and Tuesday in Beijing. Apart from the **FOMC minutes** due on Wednesday, Fed appearances will remain crucial this week, with **Powell** and Clarida scheduled for Thursday, while Bostic today kicks off a crowded Fed speak schedule. On other fronts, the **Bank of Canada** is expected to remain static at 1.75% on Wednesday while **ECB minutes** are due on Thursday.

- **Aggregate rate differential support for the USD improved on Friday but the improvement in risk appetite, together with Powell's latest comments, may continue to see the USD stall. Note that despite a slight uptick in rate differential support for the broad dollar on Friday, the vanishing support for the buck in recent months still remains apparent at this juncture with Fed Fund futures still looking for a rate cut. In addition to Powell on Friday, Kaplan, Mester and Barkin late last week also effectively doused any lingering hawkish expectations for the Fed. In the interim, expect investors to ride the cyclicals and EM FX higher on the back improved risk appetite.**

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Asian Markets

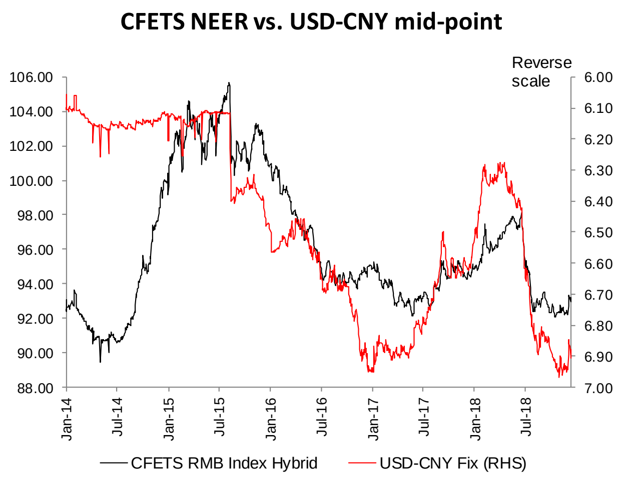
- EM and Asian FX firmed against the USD on Friday and expect a heavy USD tone to continue to greet markets in Asia on Monday. A heavy **USD-CNH** and a positive start to Asian equities on Monday should also exert additional downside pressure on the regional pairs (with local rates in general also expected to pick higher in sympathy with Treasury yields).

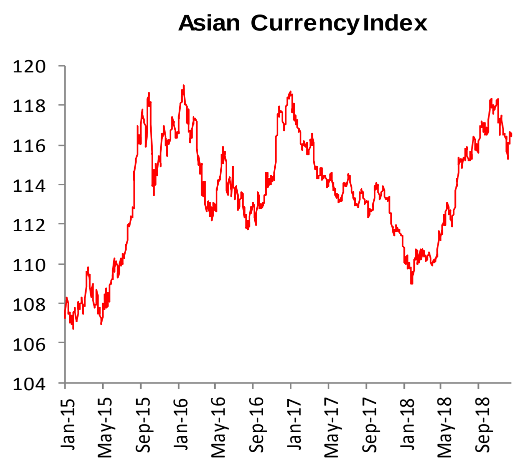
- **Structurally, a more benign Fed coupled with a pickup in risk appetite levels may engender further yield seeking behavior across EM/Asia. To this end, expect Indonesia to remain a favored recipient of net investor inflows in the region. The THB and IDR meanwhile also remain good candidates for outperformance.**

- **Actual net portfolio flows** in Asia meanwhile denote strong positive interest in South Korea but still a gaping hole in net equity flows for Taiwan. India is experiencing a modicum of net inflows while Indonesia is still experiencing slight net outflows. Elsewhere, Thailand is essentially neutral on this front. On the **EPFR** front, note that implied equity inflows (ex. CN, ex. JP) continued to step lower in the latest week. On a more positive note, though, the latest reading saw implied bond outflows compressing to near neutral levels.

- **SGD NEER**: The SGD NEER softened this morning to around 1.77% above its perceived parity (1.3814), with NEER-implied USD-SGD thresholds continuing to push lower. With near term USD prospects stalling, stay negative on the USD-SGD, especially with the 200-day MA (1.3597) now serving as a first resistance after being breached last Friday. Expect initial support into 1.3530.

- **CFETS RMB Index**: The USD-CNY mid-point again came in as expected at 6.8517 this morning from 6.8586 on Friday. The CFETS RMB Index eased further to 92.82 from 93.03.





Source: OCBC Bank, Bloomberg

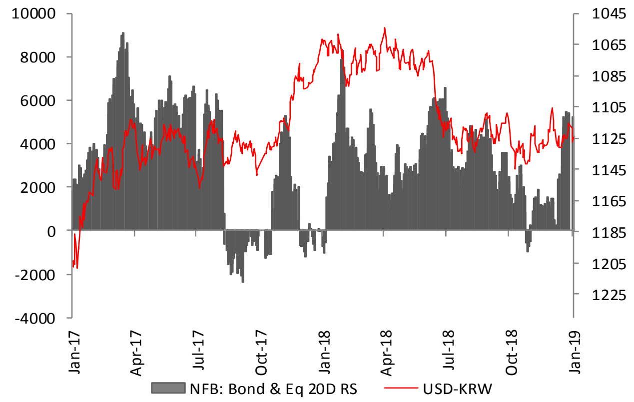
Short term Asian FX/bond market views

Currency	Bias	Rationale
USD-CNH	↔/↓	PBOC cuts RRR in January, Premier Li Keqiang portending further policy measures. Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accomodation 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 pirce pressures. Dec exports go into contraction at -1.2% yoy. Dec manufactuirng PMI firms to 49.8 from 48.6.
USD-TWD	↔/↑	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. 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). Dec manufcturing PMI slips to 53.2 from 54.0. General elections in Apr/May may increasingly come into focus.
USD-SGD	↓	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 manufaturing PMI falls to 47.7 from 48.4. Nov export growth decelerates sharply to +1.6% yoy.
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 accomodtive 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. Dec CPI softer than expected at +5.1% yoy.

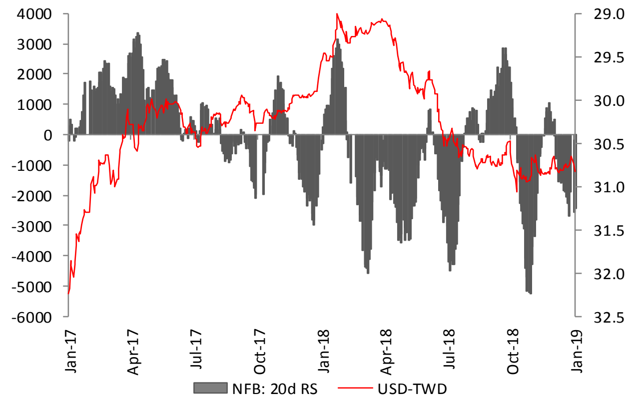
Source: OCBC Bank

USD-Asia VS. Net Capital Flows

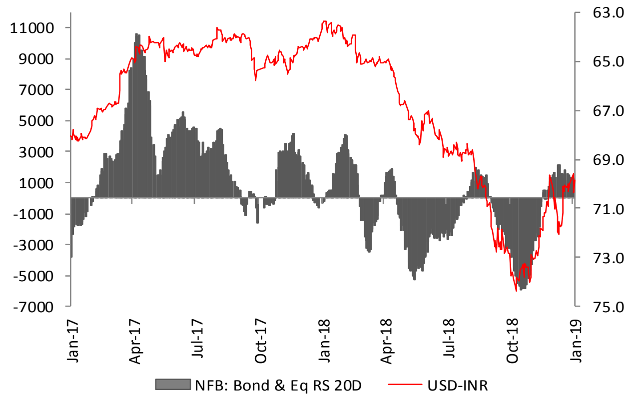
South Korea



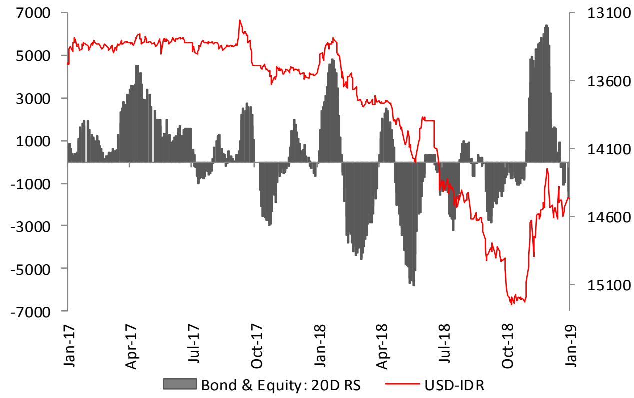
Taiwan



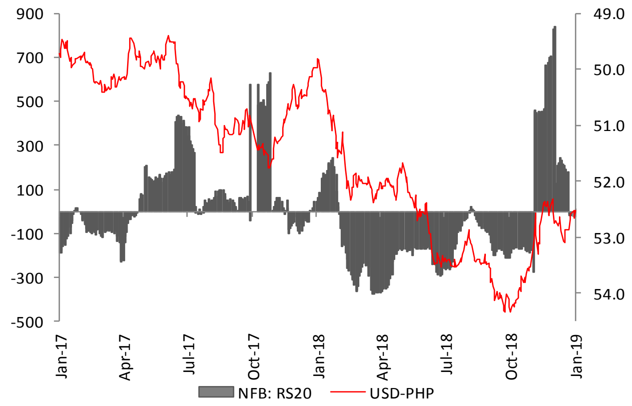
India



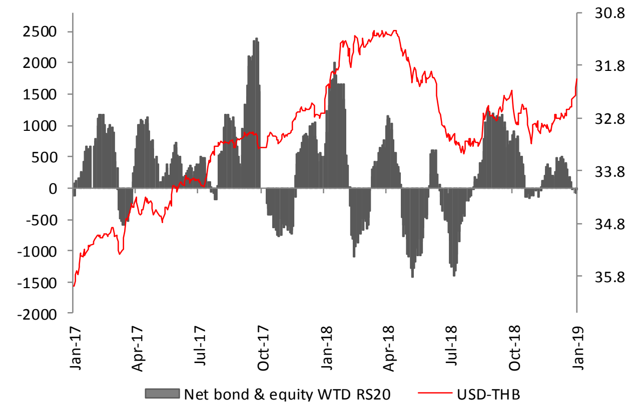
Indonesia



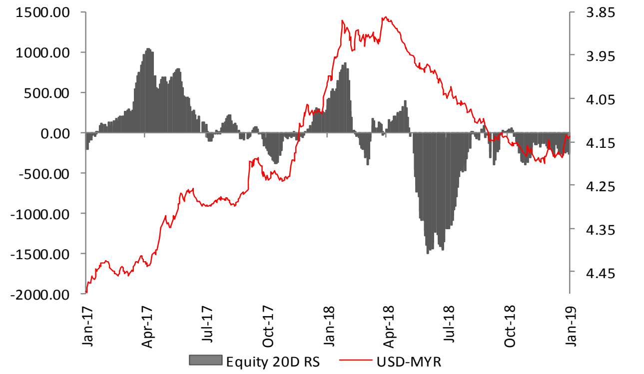
Philippines



Thailand

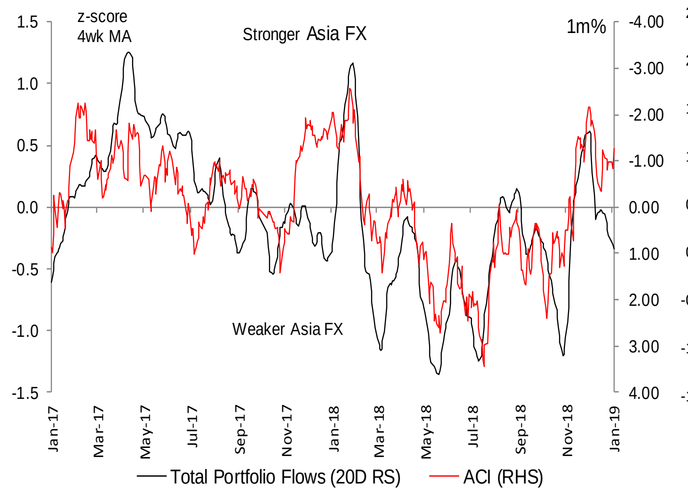


Malaysia



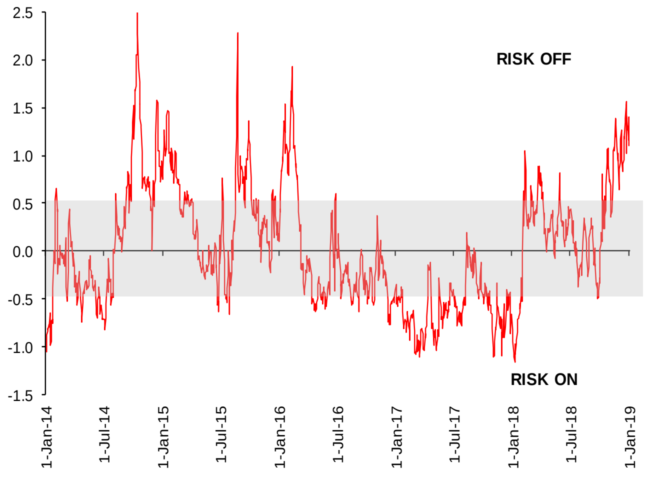
Source: CEIC, Bloomberg, OCBC Bank

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	0.724	0.729	0.495	0.423	0.604	0.806	0.461	-0.325	-0.562	0.669	-0.879
JPY	0.879	0.696	0.54	0.441	0.416	0.629	0.731	0.513	-0.329	-0.618	0.549	-0.869
CAD	0.806	0.736	0.824	0.188	0.332	0.447	0.798	0.194	0.139	-0.407	0.818	-0.586
PHP	0.806	0.956	0.658	0.659	0.794	0.796	1	0.574	-0.311	-0.773	0.539	-0.565
CHF	0.794	0.765	0.402	0.771	0.692	0.837	0.792	0.817	-0.584	-0.676	0.278	-0.736
SGD	0.744	0.786	0.811	0.188	0.484	0.479	0.829	0.199	0.144	-0.556	0.742	-0.489
KRW	0.729	0.579	1	0.074	0.249	0.298	0.658	0.109	0.088	-0.309	0.917	-0.497
INR	0.724	1	0.579	0.63	0.772	0.76	0.956	0.585	-0.27	-0.744	0.437	-0.518
NZD	0.717	0.626	0.687	0.258	0.344	0.354	0.693	0.143	0.169	-0.213	0.657	-0.437
CNH	0.715	0.85	0.754	0.427	0.736	0.609	0.923	0.295	-0.045	-0.674	0.655	-0.386
IDR	0.669	0.437	0.917	-0.142	-0.032	0.167	0.539	-0.005	0.27	-0.095	1	-0.5
MYR	0.576	0.451	0.636	0.238	0.208	0.326	0.475	0.268	-0.248	-0.396	0.462	-0.546
CNY	0.57	0.827	0.42	0.791	0.77	0.89	0.825	0.77	-0.514	-0.745	0.266	-0.477
TWD	0.512	0.799	0.279	0.835	0.841	0.909	0.766	0.828	-0.608	-0.829	0.098	-0.476
THB	0.511	0.479	0.73	-0.094	0.223	0.117	0.595	-0.064	0.26	-0.393	0.733	-0.228
AUD	0.427	0.387	0.383	0.454	0.296	0.531	0.399	0.517	-0.468	-0.421	0.216	-0.56
USGG10	-0.343	-0.486	0.03	-0.801	-0.628	-0.884	-0.443	-0.879	0.762	0.698	0.075	0.536
GBP	-0.831	-0.462	-0.554	-0.383	-0.094	-0.43	-0.564	-0.369	0.328	0.239	-0.605	0.768
EUR	-0.879	-0.518	-0.497	-0.486	-0.253	-0.599	-0.565	-0.583	0.465	0.456	-0.5	1

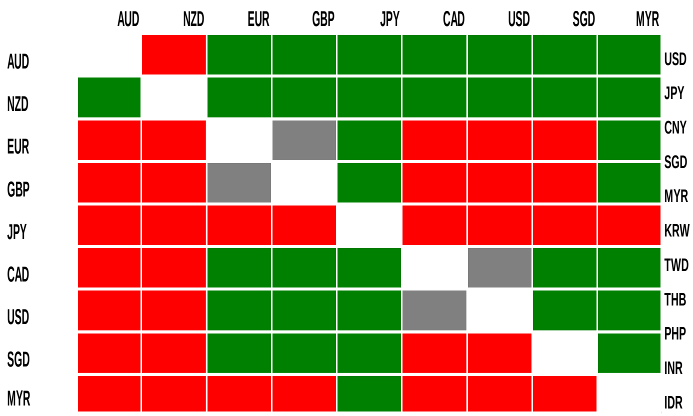
Source: Bloomberg

Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1371	1.1400	1.1421	1.1479	1.1497
GBP-USD	1.2530	1.2700	1.2745	1.2771	1.2777
AUD-USD	0.6954	0.7100	0.7128	0.7185	0.7200
NZD-USD	0.6639	0.6700	0.6751	0.6776	0.6800
USD-CAD	1.3300	1.3334	1.3361	1.3400	1.3665
USD-JPY	107.39	108.00	108.26	109.00	111.12
USD-SGD	1.3500	1.3569	1.3572	1.3588	1.3597
EUR-SGD	1.5480	1.5500	1.5501	1.5600	1.5605
JPY-SGD	1.2237	1.2500	1.2536	1.2600	1.2670
GBP-SGD	1.7197	1.7200	1.7297	1.7300	1.7453
AUD-SGD	0.9488	0.9600	0.9674	0.9700	0.9861
Gold	1239.59	1252.17	1290.00	1299.81	1300.00
Silver	15.38	15.80	15.84	15.90	15.96
Crude	42.36	48.60	48.63	48.70	53.69

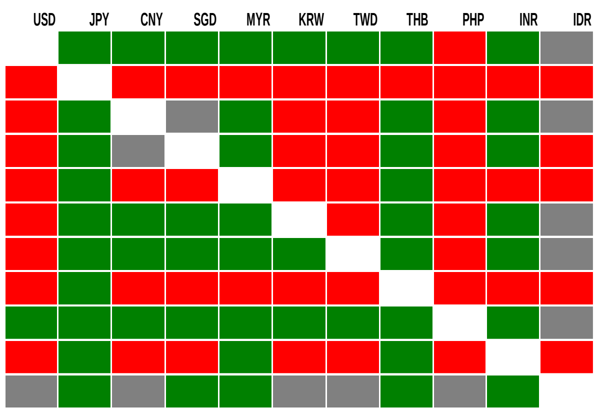
Source: OCBC Bank

G10 FX Heat Map



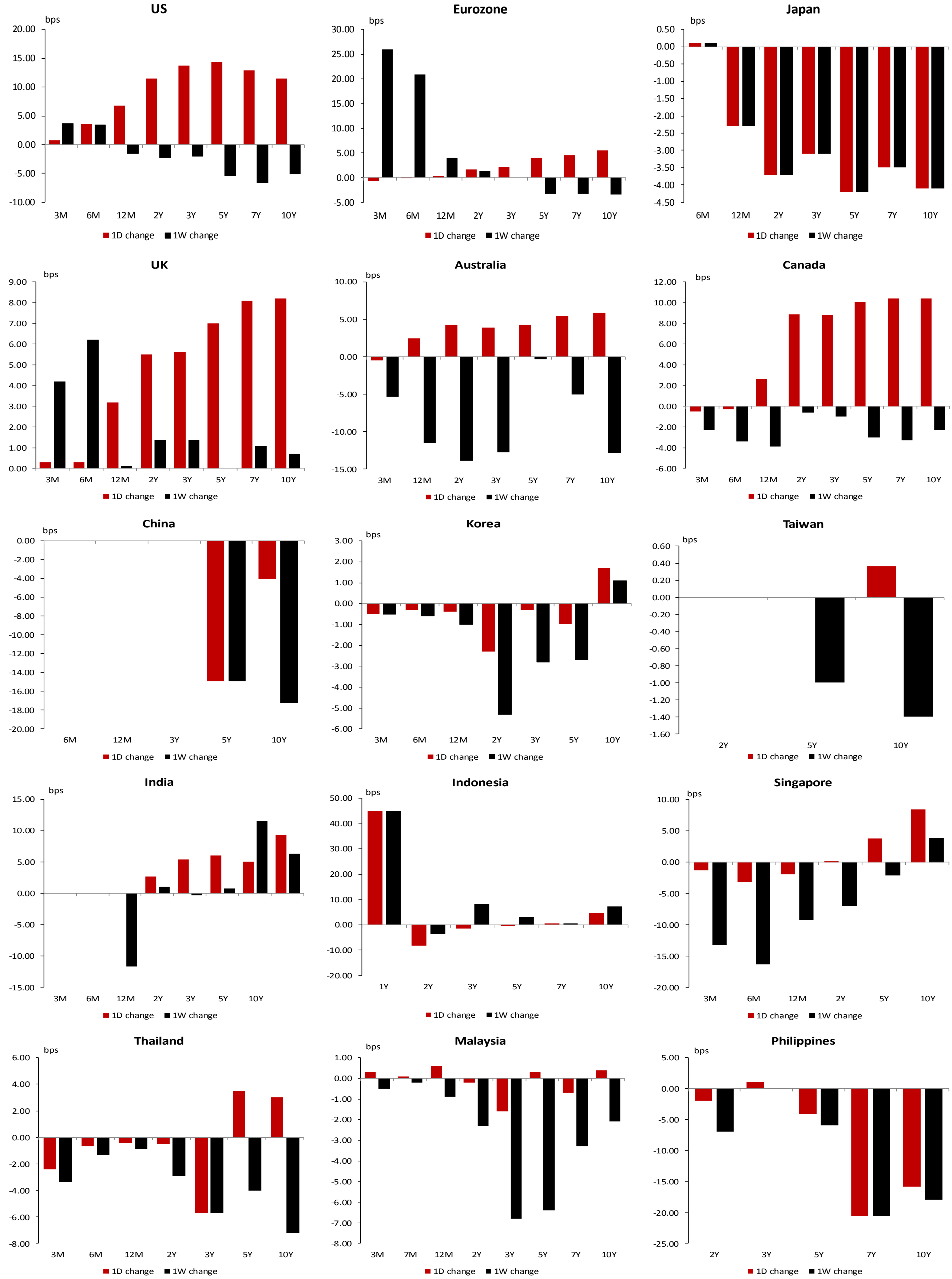
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



Revised central tendency FX 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	125.44	124.82	125.09	125.36	125.61
EUR-GBP	0.8995	0.9059	0.9037	0.9015	0.8994
EUR-CHF	1.1267	1.1192	1.1219	1.1245	1.1269
EUR-SGD	1.5651	1.5649	1.5730	1.5810	1.5890
GBP-SGD	1.7399	1.7274	1.7406	1.7537	1.7666
AUD-SGD	0.9589	0.9372	0.9483	0.9593	0.9701
NZD-SGD	0.9152	0.9098	0.9208	0.9318	0.9426
CHF-SGD	1.3890	1.3982	1.4021	1.4060	1.4100
JPY-SGD	1.2477	1.2537	1.2574	1.2612	1.2650
SGD-MYR	3.0320	3.0374	3.0204	3.0033	2.9860
SGD-CNY	5.0226	5.0302	4.9944	4.9584	4.9221

Source: OCBC Bank

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