

Tuesday, January 08, 2019

Market Themes/Strategy/Trading Ideas

- In the wake of Powell's comments on Friday (and the weaker than expected Dec non-manufacturing ISM), the dollar fell again across the board on Monday with the **DXY** falling through 96.00 to 95.67. Adding to the USD's burden, the Fed's Bostic (non-voter) also only called for a single hike this year.
- **Going ahead, we look for the DXY to continue to bleed lower in the short term.** The key 200-week MA for the DXY at 95.90 may remain a pivot point, while initial support is expected towards 95.55 before the crucial 200-day MA at 94.805.
- With investor appetite recovering and US equities chalking up gains, UST and bund yields also firmed, with the front to belly again leading the way higher in terms of yields.
- On the risk appetite front, **FXSI (FX Sentiment Index)** softened significantly for a 2nd consecutive session within Risk-Off territory as investor sentiment continued to brighten. This saw the JPY underperforming across the board.
- In the near term, look to headline emerging from Sino-US trade talks in Beijing, with Monday comments from US Commerce Secretary sounding somewhat optimistic.
- In the interim, we remain positioned for further USD weakness, with the **USD-CAD** expected to remain heavy on the back of recovering crude and the **USD-JPY** also seen to be soft on broad-based USD vulnerability.

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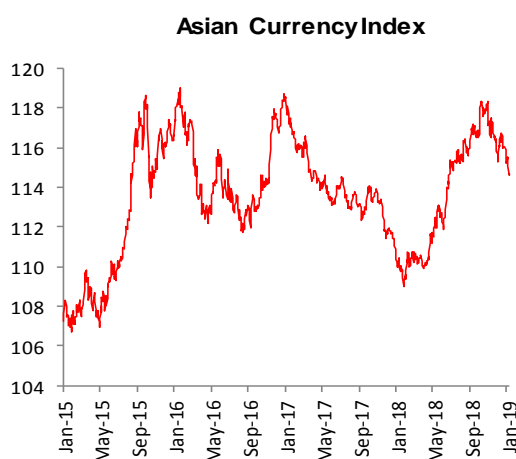
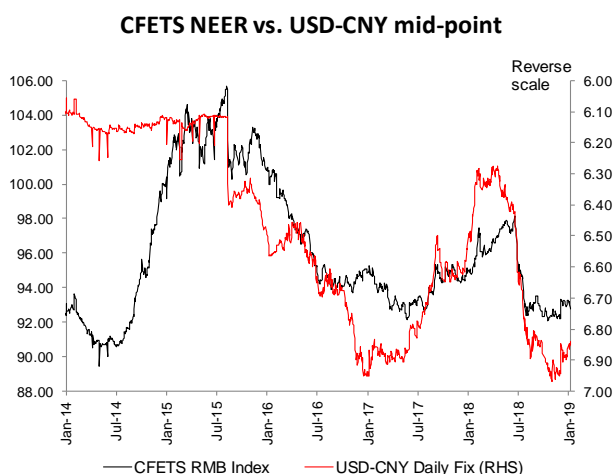
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Asian Markets

- EM FX and equities strengthened in the face of improving risk appetite levels and apart from the **CNH** and the **SGD**, we continue to look to the **IDR** (**note however short term overbought conditions**), **THB**, and potentially the **INR**, as relative outperformers in the region.
- **Actual net portfolio flows** in Asia continue to show healthy inflows into South Korea, supported by strong bond inflows. Meanwhile, we note a slight improvement in the net outflow situation in Taiwan, though it may be too early to call for a turn on this front. Note also, a slight deterioration in the overall flow environment in India and Thailand.
- **SGD NEER**: The SGD NEER is firmer this morning at around 1.82% above its perceived parity (1.3812), with NEER-implied USD-SGD thresholds effectively unchanged. Going ahead, with the 200-day MA (1.3599) support level broken through, look for possible further degradation of USD-SGD with the 55-week MA residing at 1.3495.
- **CFETS RMB Index**: The USD-CNY mid-point again came in softer, as expected, at 6.8402 this morning from 6.8517 previously. The CFETS RMB Index inched lower to 92.78 from 92.82. At this juncture, expect the Index to be kept within a narrow range, with the USD-CNY bearing most of the USD movements.



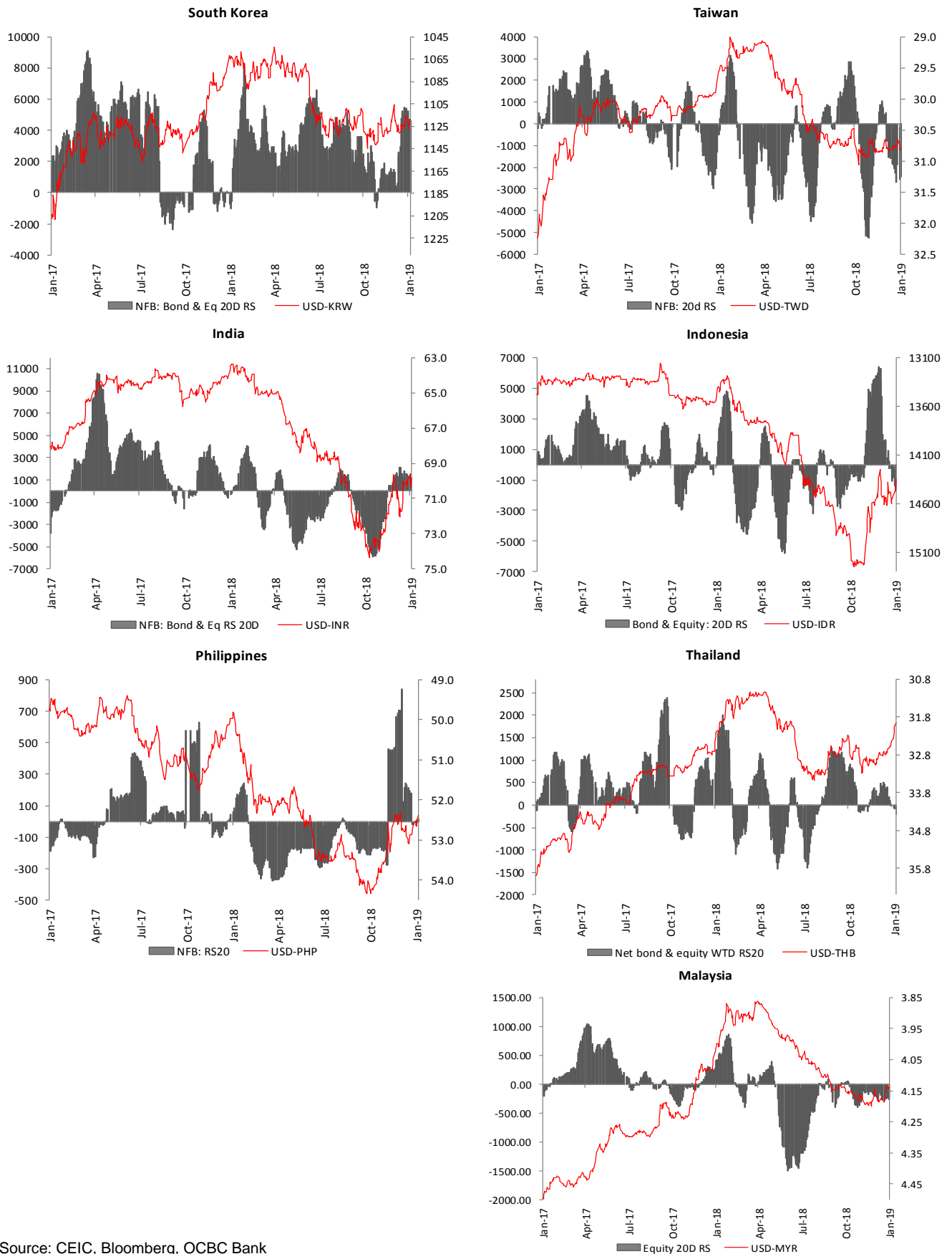
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

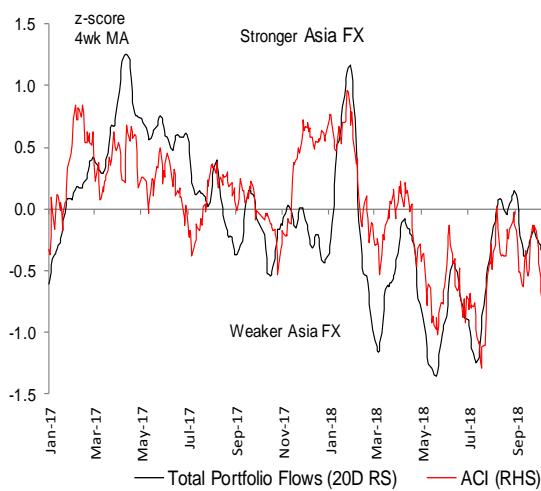
| Currency | Bias | Rationale |
|----------|------|---|
| USD-CNH | ↓ | PBOC cuts RRR in January, Premier Li Keqiang portending further policy measures. Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accommodation in 2019. PBOC's 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. Nov current account surplus shrank to lowest level since April. Govie and NDIRS curves firmer on the week. |
| 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). Fiscal concerns may however continue to prop up bond yields. Dec manufacturing PMI slips to 53.2 from 54.0. General elections in Apr/May may increasingly come into focus. |
| USD-SGD | ↓ | With the SGD NEER remaining 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. 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. BI governor notes that the benchmark rate is already near its peak and we think this may continue to prove supportive for bonds. 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. Govie and NDIRS curves firmer on the week. |
| 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

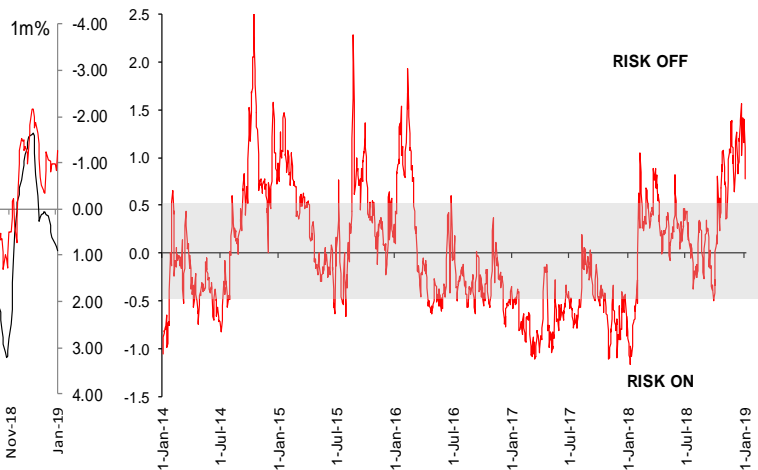
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

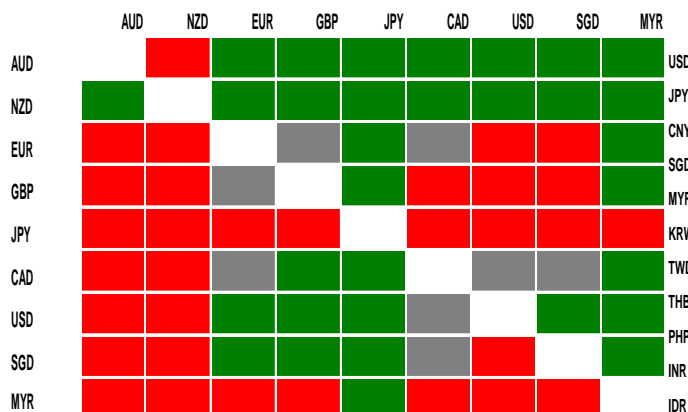
| | DX | USGG10 | CNY | SPX | MSELCAFP | CRY | JPY | CL1 | VIX | ITRXX | CNH | EUR |
|--------|--------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|
| DX | 1 | 0.718 | 0.79 | 0.445 | 0.393 | 0.636 | 0.841 | 0.421 | -0.163 | -0.483 | 0.748 | -0.916 |
| JPY | 0.927 | 0.673 | 0.683 | 0.339 | 0.333 | 0.571 | 0.757 | 0.383 | -0.145 | -0.516 | 0.674 | -0.897 |
| CAD | 0.866 | 0.696 | 0.856 | 0.12 | 0.252 | 0.408 | 0.799 | 0.13 | 0.249 | -0.305 | 0.856 | -0.696 |
| PHP | 0.841 | 0.948 | 0.719 | 0.589 | 0.733 | 0.772 | 1 | 0.522 | -0.195 | -0.709 | 0.587 | -0.629 |
| CHF | 0.835 | 0.817 | 0.835 | 0.272 | 0.56 | 0.494 | 0.917 | 0.18 | 0.128 | -0.527 | 0.742 | -0.571 |
| SGD | 0.825 | 0.745 | 0.842 | 0.127 | 0.391 | 0.449 | 0.829 | 0.14 | 0.249 | -0.435 | 0.794 | -0.635 |
| KRW | 0.816 | 0.57 | 0.733 | 0.159 | 0.218 | 0.308 | 0.69 | 0.081 | 0.297 | -0.115 | 0.734 | -0.626 |
| INR | 0.8 | 0.775 | 0.49 | 0.744 | 0.674 | 0.869 | 0.806 | 0.813 | -0.486 | -0.642 | 0.357 | -0.749 |
| NZD | 0.79 | 0.61 | 1 | 0.089 | 0.255 | 0.388 | 0.719 | 0.139 | 0.172 | -0.274 | 0.93 | -0.644 |
| CNH | 0.748 | 0.448 | 0.93 | -0.139 | -0.042 | 0.198 | 0.587 | -0.021 | 0.342 | -0.058 | 1 | -0.624 |
| IDR | 0.718 | 1 | 0.61 | 0.593 | 0.745 | 0.764 | 0.948 | 0.562 | -0.198 | -0.713 | 0.448 | -0.537 |
| MYR | 0.6 | 0.499 | 0.752 | -0.072 | 0.221 | 0.188 | 0.638 | -0.056 | 0.334 | -0.35 | 0.762 | -0.404 |
| CNY | 0.568 | 0.829 | 0.479 | 0.765 | 0.739 | 0.879 | 0.81 | 0.735 | -0.473 | -0.738 | 0.277 | -0.456 |
| TWD | 0.564 | 0.508 | 0.602 | 0.31 | 0.293 | 0.498 | 0.537 | 0.406 | -0.196 | -0.42 | 0.458 | -0.607 |
| THB | 0.414 | 0.768 | 0.258 | 0.821 | 0.826 | 0.899 | 0.696 | 0.814 | -0.605 | -0.828 | 0.037 | -0.368 |
| AUD | 0.331 | 0.345 | 0.291 | 0.451 | 0.287 | 0.568 | 0.333 | 0.563 | -0.42 | -0.41 | 0.129 | -0.475 |
| USGG10 | -0.081 | -0.349 | 0.184 | -0.742 | -0.559 | -0.788 | -0.237 | -0.801 | 0.781 | 0.663 | 0.26 | 0.245 |
| GBP | -0.872 | -0.529 | -0.643 | -0.429 | -0.151 | -0.583 | -0.673 | -0.426 | 0.227 | 0.242 | -0.696 | 0.847 |
| EUR | -0.916 | -0.537 | -0.644 | -0.421 | -0.209 | -0.593 | -0.629 | -0.501 | 0.301 | 0.393 | -0.624 | 1 |

Source: Bloomberg

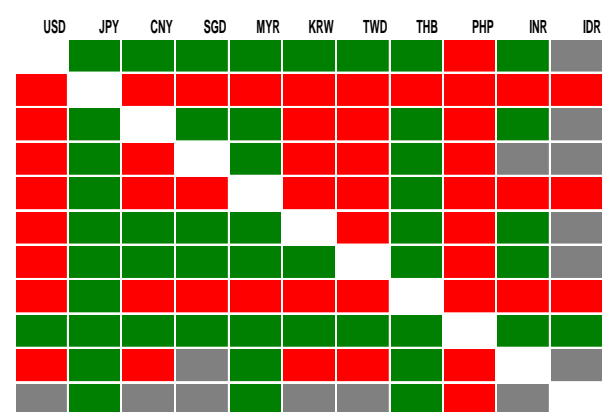
Technical support and resistance levels

| | S2 | S1 | Current | R1 | R2 |
|---------|---------|---------|---------|---------|---------|
| EUR-USD | 1.1374 | 1.1400 | 1.1451 | 1.1492 | 1.1497 |
| GBP-USD | 1.2556 | 1.2700 | 1.2771 | 1.2773 | 1.2782 |
| AUD-USD | 0.6958 | 0.7100 | 0.7142 | 0.7186 | 0.7200 |
| NZD-USD | 0.6645 | 0.6700 | 0.6751 | 0.6780 | 0.6800 |
| USD-CAD | 1.3200 | 1.3259 | 1.3293 | 1.3300 | 1.3337 |
| USD-JPY | 107.27 | 108.00 | 108.63 | 109.00 | 111.13 |
| USD-SGD | 1.3500 | 1.3555 | 1.3564 | 1.3565 | 1.3599 |
| EUR-SGD | 1.5487 | 1.5500 | 1.5532 | 1.5600 | 1.5603 |
| JPY-SGD | 1.2237 | 1.2400 | 1.2487 | 1.2500 | 1.2669 |
| GBP-SGD | 1.7235 | 1.7300 | 1.7323 | 1.7400 | 1.7435 |
| AUD-SGD | 0.9493 | 0.9600 | 0.9688 | 0.9700 | 0.9858 |
| Gold | 1240.75 | 1251.86 | 1287.40 | 1300.00 | 1300.40 |
| Silver | 15.37 | 15.60 | 15.68 | 15.70 | 15.96 |
| Crude | 42.43 | 48.50 | 48.59 | 48.60 | 53.09 |

Source: OCBC Bank

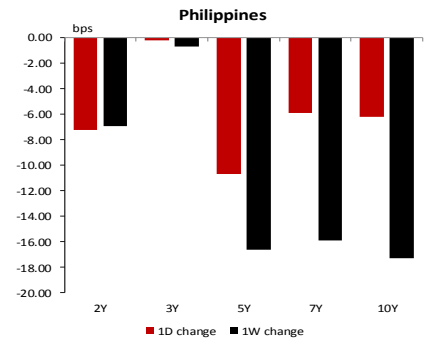
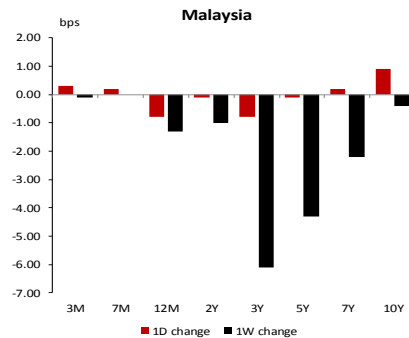
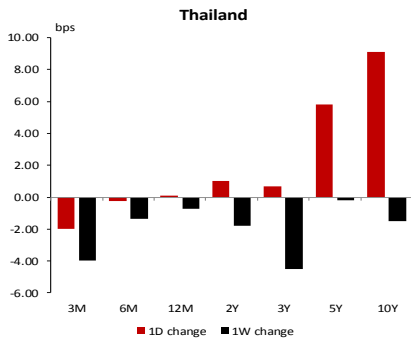
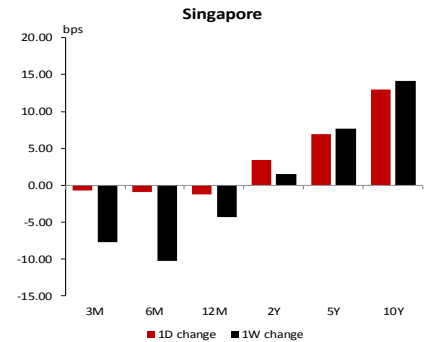
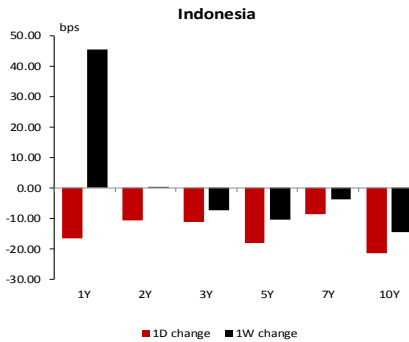
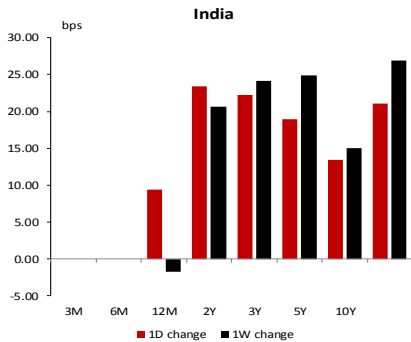
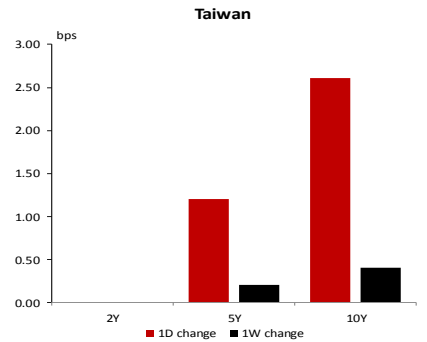
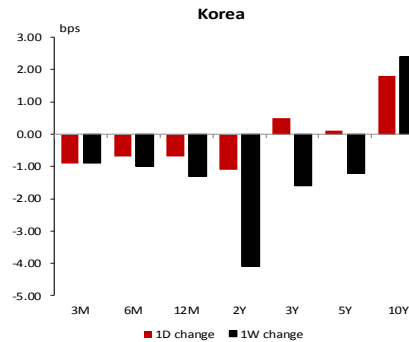
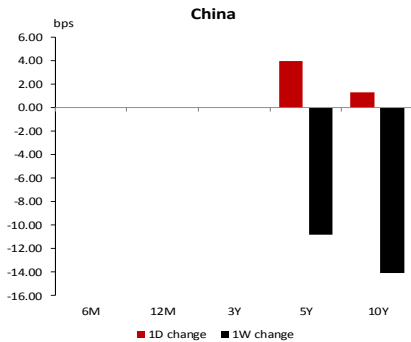
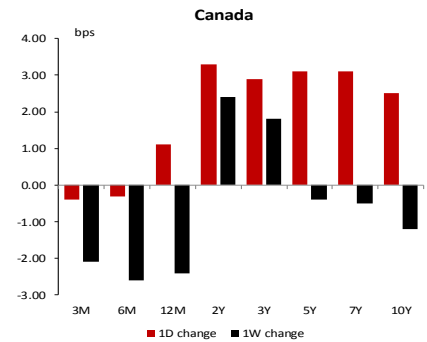
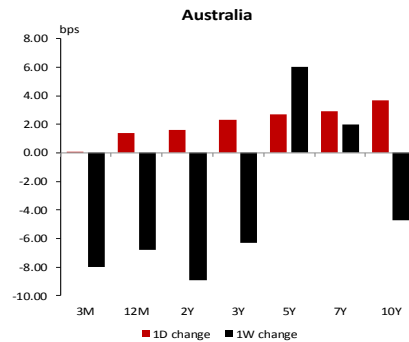
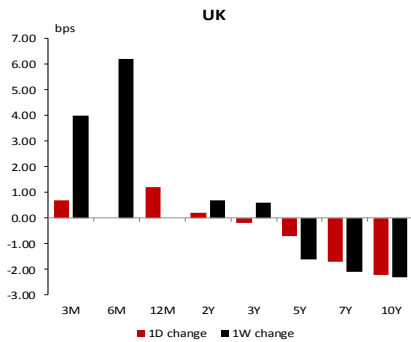
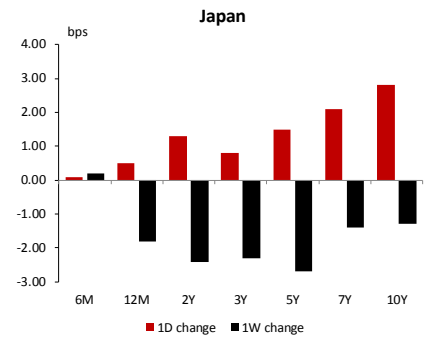
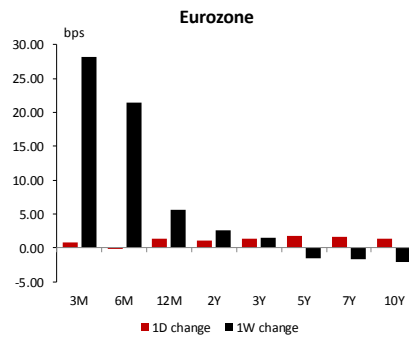
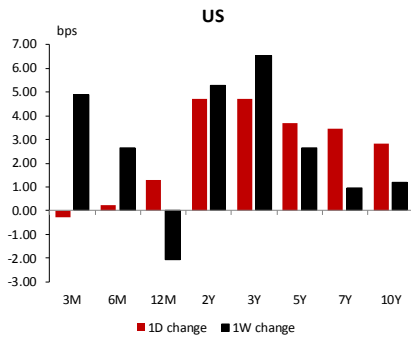
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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