

Wednesday, January 09, 2019

### Market Themes/Strategy/Trading Ideas

- The dollar retraced slightly higher on Wednesday on firmer UST yields (UST and bund curves continued to bear flatten) and amidst some optimism towards ongoing Sino-US trade talks (now extended to Wednesday). The EUR was also soft on deteriorating Dec confidence indicators and a significant negative surprise in German Nov industrial production.
- The CAD however continued to strengthen as WTI pushed towards 50.00 while the GBP underperformed across the board on mounting Brexit uncertainty ahead of a Parliamentary vote next Tuesday.
- Positive global equities saw the **FXSI (FX Sentiment Index)** dipping further on Tuesday and the Index may well venture into Risk-Neutral territory (from Risk-Off currently) for the first time since Nov 2018.
- Trump's televised speech this morning (0200 GMT) will be closely watched for Sino-US cues while the FOMC minutes (1900 GMT) may shed further light on the US dollar and rates. Watch also, for comments from Bostic, Evans (voter) and Rosengren (voter) later today (1320 GMT, 1400 GMT and 1630 GMT respectively).
- On other fronts, **UST yields** may remain consolidative and continue to base build in the near term after slumping in the closing weeks of 2018 as FOMC bearishness reaches near term satiation for now.
- In the very short term, we'd remain heavy on the **USD-CAD** (100-day MA at 1.3179) ahead of the Bank of Canada policy meeting (1500 GMT). Meanwhile, also attempt to bounce dips in the **AUD-USD** (0.7180 neighborhood to be potentially challenged).

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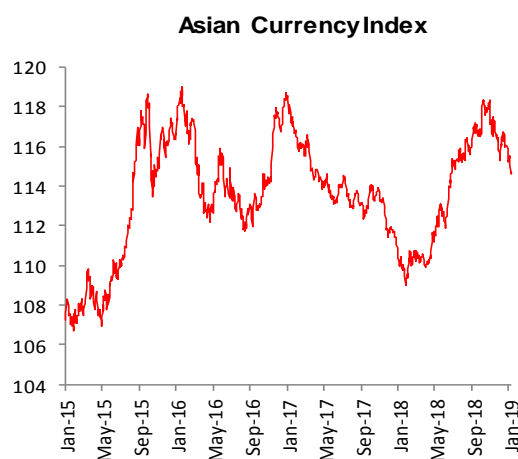
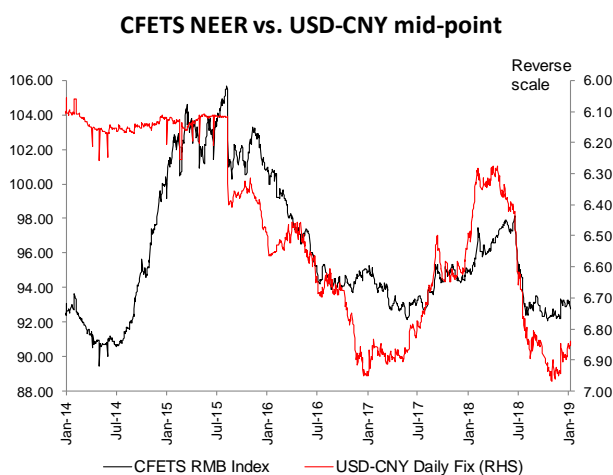
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## Asian Markets

- Any positive chatter out of the Sino-US trade discussions we think may continue to engender optimism towards Asia. To this end, **USD-CNH** (despite the collapse in the fws/fwds) may thus continue to fade lower with 6.8400 on the horizon.
- The net portfolio flow environment in Asia meanwhile remains sketchy with only selected pockets of positivity.** In South Korea, strong net bond inflows are moderating slightly while net equity outflows are compressing. India is experiencing moderating inflows in aggregate as equity flows turn negative and net bond inflows weaken. In line with anecdotal evidence, net bond inflows for Indonesia have picked up significantly. Meanwhile, the net flow situation for Thailand has turned to a net outflow balance with net bond inflows weakening significantly of late and net equity outflow deepening.
- SGD NEER:** The SGD NEER remains firm this morning at around 1.85% above its perceived parity (1.3817), with NEER-implied USD-SGD thresholds marginally higher. At this juncture, the **USD-SGD** may attempt to drip lower from current levels with the nearest significant support at the 55-week MA (1.3495) while the 200-day MA (1.3601) may continue to cap.
- CFETS RMB Index:** The USD-CNY mid-point came in higher, within expectations, at 6.8526 this morning from 6.8402 previously. The CFETS RMB Index stood static at 92.78.



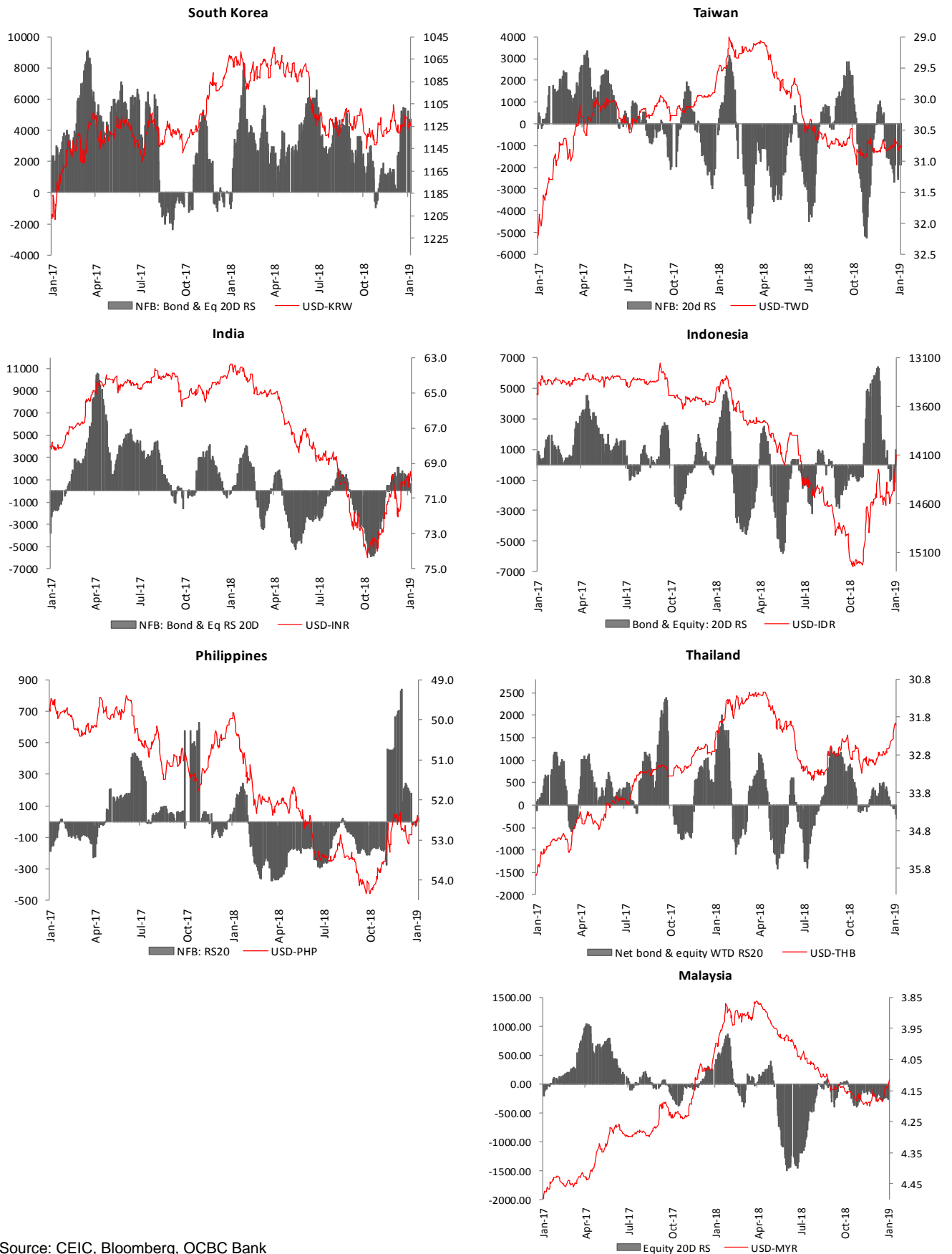
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

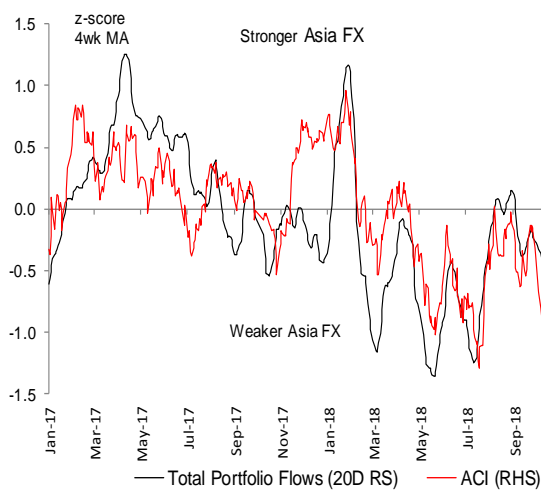
	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↓	↓	Monetary and fiscal policy expected to be unambiguously accommodative. PBOC cuts RRR in Jan (onshore 7-day repo collpases), Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accommodation in 2019. PBOC's quarterly monetary policy report sounded accommodative. The exchange rate mechanism remains an escape valve for trade-war and economic deceleration concerns. Nov monetary aggregates indicate some stabilization after the recent deterioration. Official and Caixin Dec manufacturing PMIs dip into contraction territory. CGB and IRS curves remain soggy.
<b>S. Korea</b>	↔/↓	↔	BOK hiked 25bps as expected in Nov; 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.
<b>Taiwan</b>	↔	↔	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. Price pressures soften and Dec CPI surprises with a -0.05% contraction.
<b>India</b>	↔/↓	↑	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. Govie and NDIRS curves softer on the week.
<b>Singapore</b>	↓	↔/↑	With the SGD NEER remaining near its upper boundary, expect declines in the USD-SGD to track broad USD weakness, and not explicit SGD strength. 4Q GDP surprises on the downside at 1.6% saar, though 3Q GDP was revised higher to 3.5% saar.
<b>Malaysia</b>	↓	↔/↓	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.
<b>Indonesia</b>	↓	↔/↓	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.
<b>Thailand</b>	↓	↔/↓	BOT hiked 25bps to 1.75% in Dec 2018. MPC minutes: accommodative policy remains appropriate, sees further gradual hikes; 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.
<b>Philippines</b>	↔/↓	---	BSP remained static in Dec as expected with the BSP 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

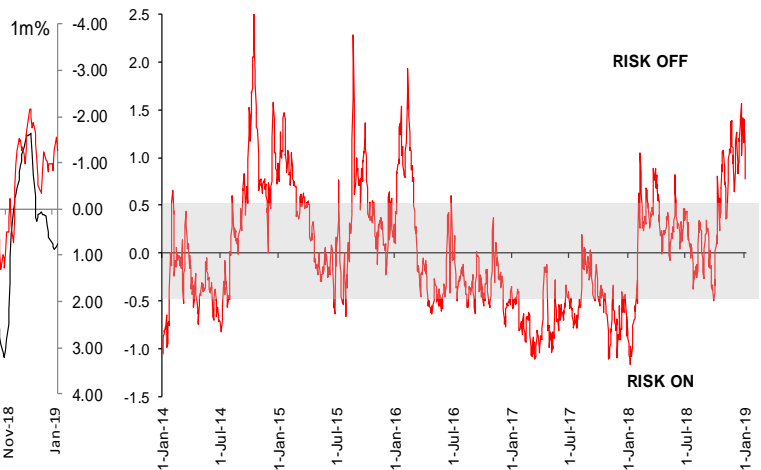
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

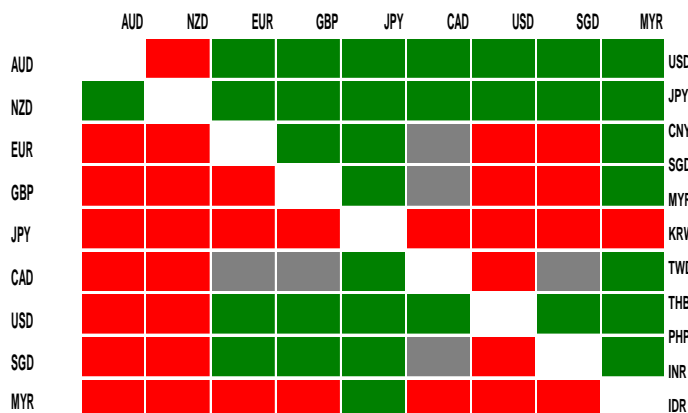
	DXY	USGG10	CNY	SPX	MSELCAFP	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1	0.704	0.784	0.36	0.336	0.571	0.842	0.397	-0.047	-0.413	0.742	-0.913
JPY	0.925	0.656	0.676	0.259	0.28	0.507	0.773	0.27	-0.026	-0.444	0.704	-0.898
CAD	0.863	0.683	0.852	0.049	0.19	0.346	0.813	0.029	0.332	-0.229	0.871	-0.71
PHP	0.842	0.937	0.719	0.521	0.676	0.723	1	0.428	-0.102	-0.648	0.617	-0.646
CHF	0.829	0.805	0.829	0.182	0.468	0.427	0.922	0.153	0.225	-0.438	0.733	-0.554
SGD	0.819	0.739	0.84	0.054	0.311	0.379	0.839	0.118	0.333	-0.342	0.789	-0.624
KRW	0.817	0.562	0.726	0.073	0.148	0.248	0.705	0.054	0.395	-0.05	0.731	-0.619
INR	0.784	0.588	1	0.027	0.191	0.338	0.719	0.108	0.26	-0.205	0.929	-0.632
NZD	0.778	0.776	0.493	0.72	0.662	0.858	0.795	0.78	-0.437	-0.627	0.362	-0.747
CNH	0.742	0.426	0.929	-0.178	-0.074	0.163	0.617	-0.104	0.407	-0.012	1	-0.643
IDR	0.704	1	0.588	0.571	0.73	0.753	0.937	0.559	-0.161	-0.695	0.426	-0.525
MYR	0.608	0.837	0.525	0.728	0.716	0.859	0.83	0.66	-0.408	-0.71	0.336	-0.491
CNY	0.59	0.481	0.747	-0.102	0.187	0.175	0.635	-0.085	0.397	-0.305	0.757	-0.388
TWD	0.529	0.494	0.565	0.299	0.286	0.494	0.509	0.412	-0.173	-0.411	0.418	-0.582
THB	0.43	0.785	0.27	0.822	0.827	0.899	0.652	0.812	-0.603	-0.83	0.009	-0.343
AUD	0.338	0.351	0.295	0.449	0.288	0.568	0.333	0.559	-0.409	-0.41	0.131	-0.483
USGG10	-0.09	-0.374	0.183	-0.728	-0.549	-0.744	-0.119	-0.813	0.797	0.65	0.351	0.145
GBP	-0.854	-0.517	-0.603	-0.381	-0.127	-0.553	-0.679	-0.378	0.149	0.211	-0.688	0.852
EUR	-0.913	-0.525	-0.632	-0.369	-0.182	-0.559	-0.646	-0.417	0.212	0.355	-0.643	1

Source: Bloomberg

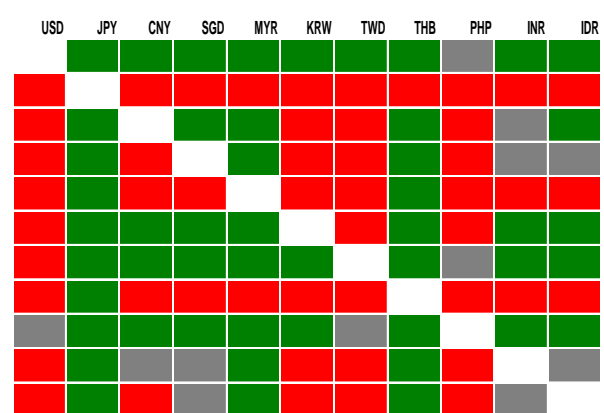
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1376	1.1400	1.1453	1.1496	1.1497
GBP-USD	1.2564	1.2700	1.2735	1.2771	1.2780
AUD-USD	0.6963	0.7100	0.7157	0.7188	0.7200
NZD-USD	0.6649	0.6700	0.6753	0.6784	0.6815
USD-CAD	1.3200	1.3230	1.3232	1.3300	1.3338
USD-JPY	107.17	108.00	108.90	109.00	111.15
USD-SGD	1.3553	1.3555	1.3571	1.3600	1.3601
EUR-SGD	1.5483	1.5500	1.5543	1.5572	1.5600
JPY-SGD	1.2238	1.2400	1.2463	1.2500	1.2670
GBP-SGD	1.7200	1.7224	1.7283	1.7300	1.7436
AUD-SGD	0.9503	0.9700	0.9713	0.9800	0.9857
Gold	1241.79	1251.51	1285.80	1300.00	1300.40
Silver	15.37	15.70	15.72	15.80	15.96
Crude	42.46	50.40	50.49	50.50	53.13

Source: OCBC Bank

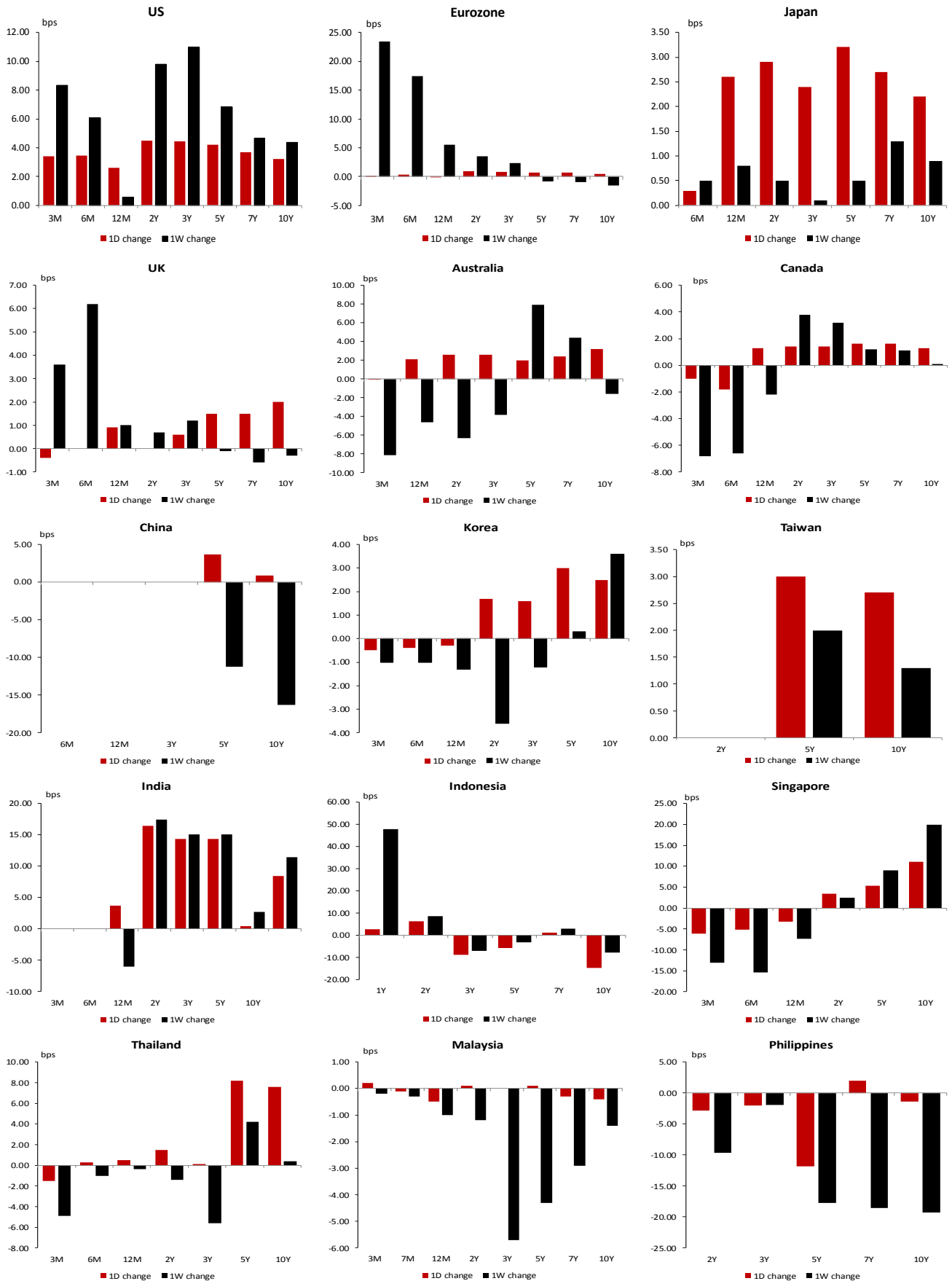
**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank

### Government bond yield changes



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