

Thursday, January 10, 2019

**Market Themes/Strategy/Trading Ideas – The Fed does it again**

- The dollar was dragged lower post FOMC minutes with UST yields easing in tandem (front to belly leading the way lower again). In a nutshell, the minutes indicated calls for patience in, and limited scope for, further policy tightening. Suggestions to tone down the forward guidance to reflect a more data dependent slant were also made. To add further weight on the USD, the Fed's Evans, Rosengren, Bostic, and Bullard on Wednesday also hinted at increased caution. The **DX** tripped below 95.50 to 95.219 by late NY.
- With global equities still in the green and background positivity towards Sino-US talks, the **FXSI (FX Sentiment Index)** slipped within the Risk-Off zone for the fourth consecutive session. Continued improvements in risk sentiments has brought the FXSI close to the Risk-Neutral threshold after populating deep in the Risk-Off zone at the start of the new year.
- Elsewhere, the **Bank of Canada** remained static as expected at its policy meeting. The central bank reiterated the need for firmer rates, but added the phrase "over time" in conjunction, an attempt, according to the BOC's Poloz, "meant to inject a degree of ambiguity into the timing". Nonetheless, USD-CAD still glided lower on USD weakness and firmer crude (WTI>52.00).
- Fed chair Powell speaks today with markets keen to seek out further affirmation of the Fed's change of tilt. The British parliament resumes the Brexit debate today and we expect the GBP-USD to remain relatively range bound. Cyclical like the AUD we think should also remain less than enthusiastic despite the weakened state of the USD, given that global growth concerns remain an underlying concern.
- With the Fed's rhetoric now pretty much unambiguously non-hawkish, we retain our bearish view on the **DX** with the next pit stop at the 200-day MA (94.831). On a more granular level, we are now looking for the **EUR-USD** to attempt to reach for its 200-day MA (1.1629). Likewise, despite the BOJ's Kuroda taking pains to sound dovish, we also look for **USD-JPY** continue to fade lower towards 107.65. Similarly, the current environment is expected to tempt the **USD-CAD** towards its 200-day MA (1.3083).

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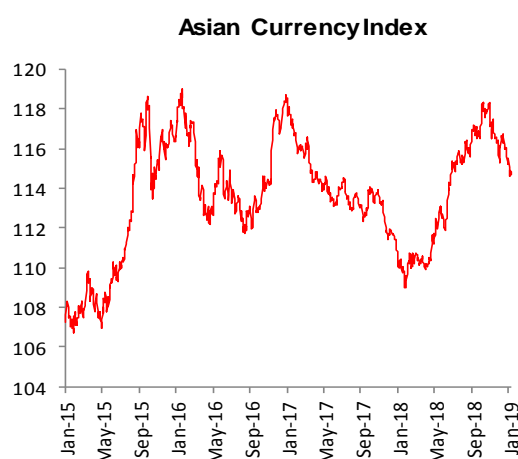
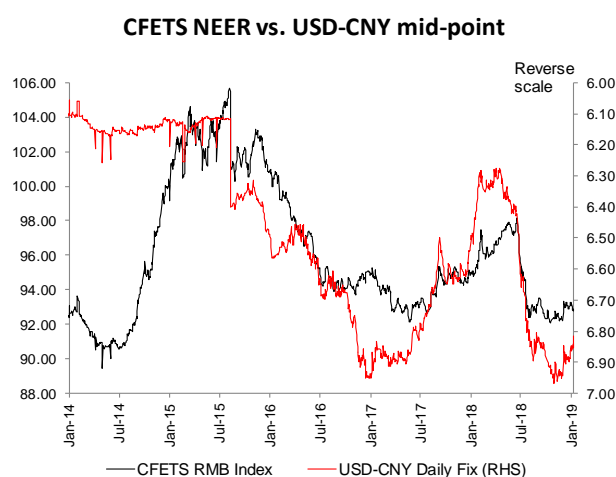
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## Asian Markets

- EM FX rode higher against the USD overnight but with equities off to a shaky start in Asia on Thursday, USD-Asia may be content to ply softer ranges.
- **USD-CNH** drilled below 6.8200 on Wednesday and we think the 6.8000 handle is now an increasingly viable target in the near term in the current environment. However, the **INR** (and local govies) may continue to sit out the current weak dollar party given firmer oil prices and ongoing fiscal concerns.
- **At this juncture, we are still awaiting a more concrete reflection of the improved sentiment surrounding Asia and China in the net portfolio flows front.** South Korea and India continues to enjoy a net inflow environment, although inflow momentum in both countries have faded somewhat. In Taiwan, outflow momentum has started to compress as well, though we are still some way off neutrality. Indonesia remains in a sweet spot (bond inflows conducive for govies), with inflow momentum continuing to build in the latest reading.
- **SGD NEER:** The SGD NEER continued to firm up this morning, standing at 1.92% above its perceived parity (1.3783). NEER-implied USD-SGD thresholds stepped lower alongside broad USD weakness. We retain our bearish view on the USD-SGD, with the 55-week MA (1.3494) remaining on the cards.
- **CFETS RMB Index:** The USD-CNY mid-point was fixed significantly lower, although within expectations, at 6.8160 this morning from 6.8526 previously. The CFETS RMB Index pushed higher to 92.91 from 92.78 previously. At this juncture, with the 6.8500 resistance level comfortably taken out, we think the 6.8000 mark may attract in the near term.



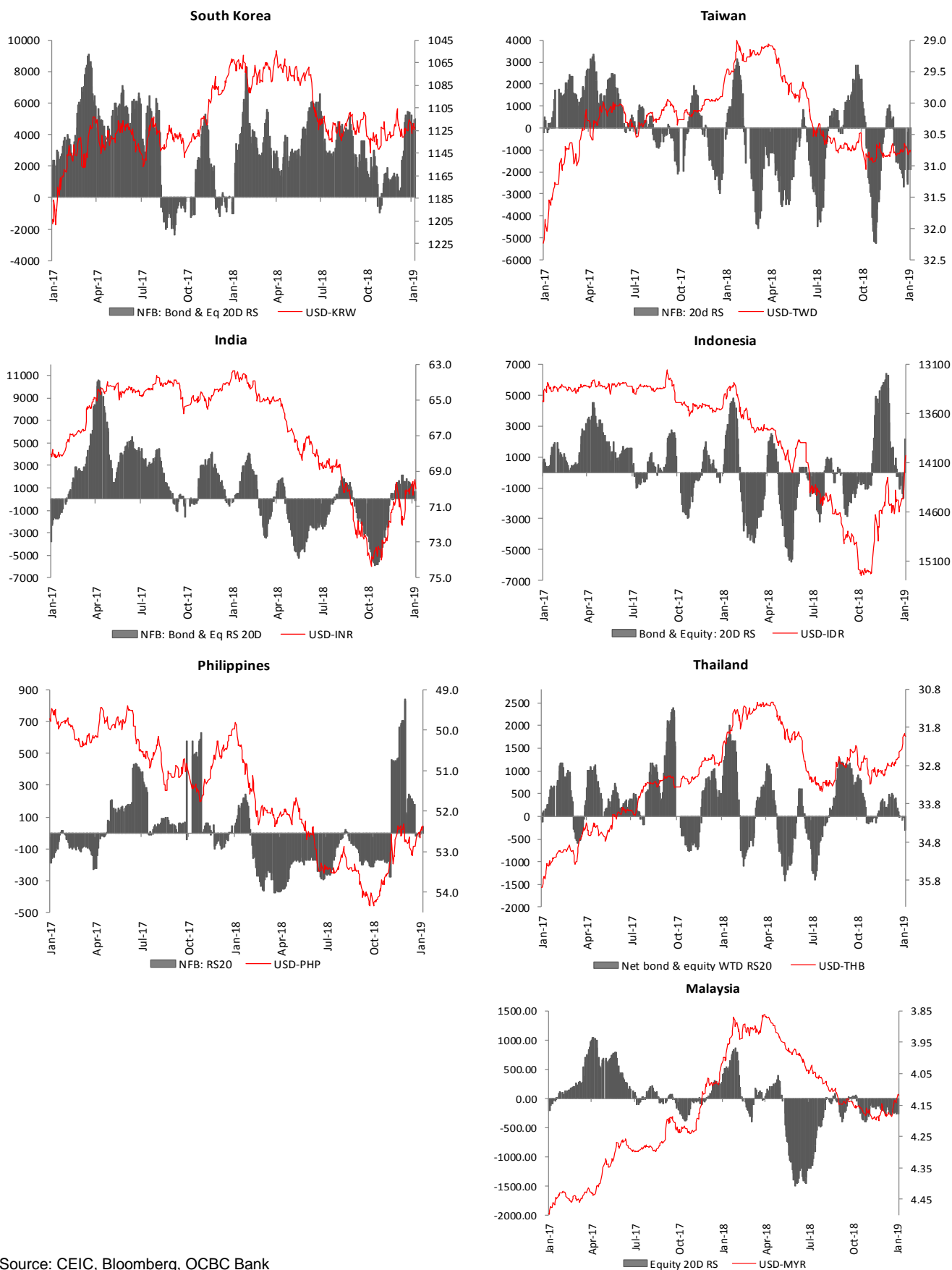
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

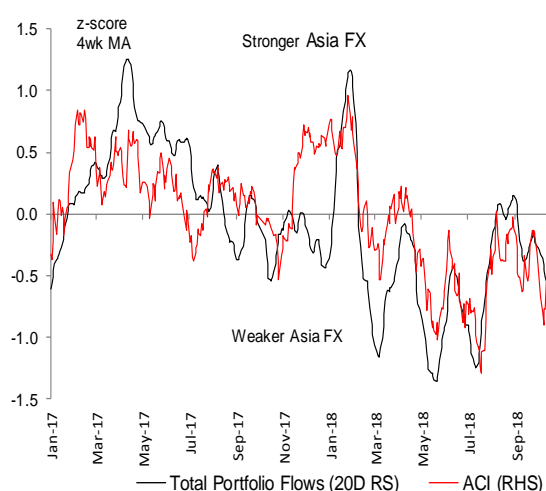
	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↓	↓	Monetary and fiscal policy expected to be unambiguously accommodative. PBOC cuts RRR in Jan (onshore 7-day repo collpases), Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accommodation 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. Rebound in crude adds negative pressure on the INR and govies.
<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

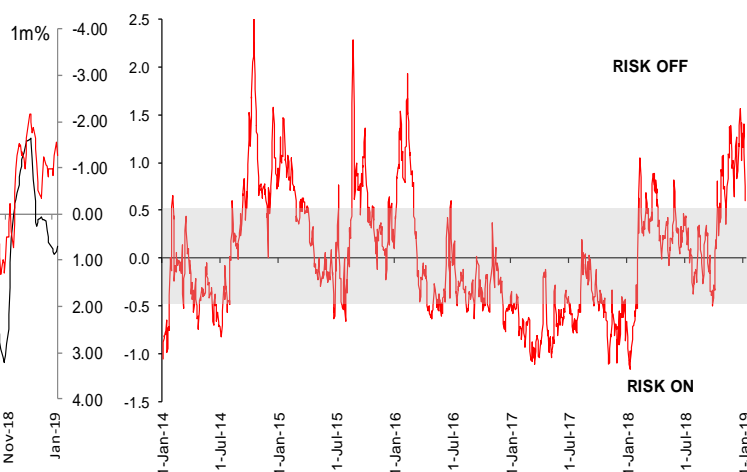
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

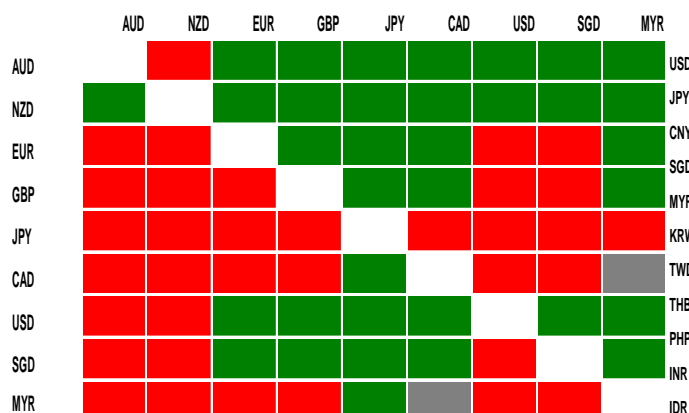
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.661	0.858	0.213	0.057	0.362	0.844	0.123	0.11	-0.199	0.822	-0.938
JPY	0.946	0.622	0.797	0.127	0.016	0.305	0.79	-0.074	0.129	-0.228	0.825	-0.94
CAD	0.898	0.65	0.894	-0.037	-0.043	0.192	0.828	-0.21	0.412	-0.06	0.906	-0.819
PHP	0.859	0.561	0.791	-0.004	-0.059	0.129	0.742	-0.121	0.472	0.074	0.792	-0.714
CHF	0.858	0.538	1	-0.078	-0.125	0.128	0.729	-0.147	0.365	0.02	0.959	-0.78
SGD	0.852	0.787	0.831	0.095	0.235	0.295	0.933	-0.133	0.309	-0.286	0.802	-0.71
KRW	0.851	0.724	0.86	-0.016	0.095	0.256	0.856	-0.043	0.404	-0.192	0.817	-0.704
INR	0.844	0.923	0.729	0.437	0.47	0.608	1	0.212	-0.006	-0.512	0.657	-0.694
NZD	0.822	0.406	0.959	-0.234	-0.301	-0.003	0.657	-0.369	0.473	0.159	1	-0.811
CNH	0.671	0.498	0.778	-0.147	0.002	0.088	0.683	-0.214	0.467	-0.174	0.785	-0.527
IDR	0.668	0.771	0.4	0.707	0.604	0.836	0.759	0.722	-0.414	-0.602	0.288	-0.631
MYR	0.661	1	0.538	0.536	0.617	0.704	0.923	0.471	-0.115	-0.632	0.406	-0.504
CNY	0.512	0.505	0.518	0.271	0.204	0.454	0.523	0.334	-0.127	-0.357	0.407	-0.54
TWD	0.471	0.816	0.351	0.728	0.689	0.854	0.708	0.665	-0.411	-0.705	0.117	-0.27
THB	0.367	0.367	0.327	0.411	0.197	0.517	0.364	0.458	-0.342	-0.348	0.204	-0.475
AUD	0.267	0.744	0.093	0.826	0.818	0.902	0.519	0.81	-0.617	-0.834	-0.16	-0.1
USGG10	0.162	-0.278	0.418	-0.713	-0.626	-0.74	0.054	-0.858	0.807	0.679	0.565	-0.227
GBP	-0.875	-0.521	-0.704	-0.276	-0.409	-0.726	-0.086	0.016	0.083	-0.765	0.882	0.882
EUR	-0.938	-0.504	-0.78	-0.207	0.076	-0.333	-0.694	0.01	0.01	0.141	-0.811	1

Source: Bloomberg

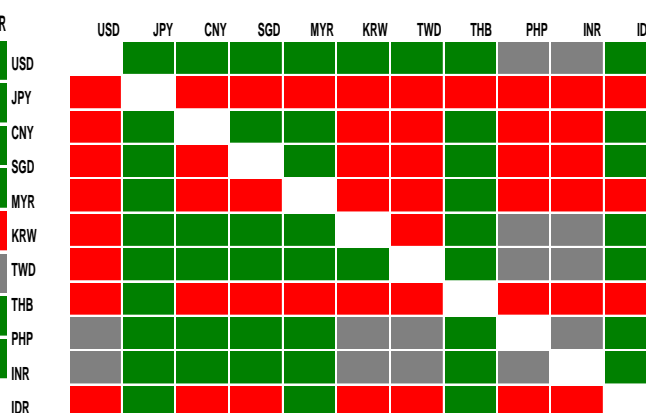
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1500	1.1542	1.1553	1.1561	1.1600
GBP-USD	1.2700	1.2768	1.2785	1.2800	1.2807
AUD-USD	0.6970	0.7100	0.7159	0.7187	0.7200
NZD-USD	0.6658	0.6700	0.6777	0.6788	0.6797
USD-CAD	1.3200	1.3201	1.3234	1.3300	1.3340
USD-JPY	106.89	107.00	107.94	108.00	111.14
USD-SGD	1.3524	1.3527	1.3538	1.3600	1.3603
EUR-SGD	1.5600	1.5601	1.5640	1.5700	1.5708
JPY-SGD	1.2240	1.2500	1.2541	1.2600	1.2674
GBP-SGD	1.7225	1.7300	1.7309	1.7400	1.7434
AUD-SGD	0.9516	0.9600	0.9692	0.9700	0.9852
Gold	1243.29	1251.30	1293.50	1300.00	1300.40
Silver	15.37	15.70	15.76	15.80	15.96
Crude	42.36	51.70	51.71	51.80	52.91

Source: OCBC Bank

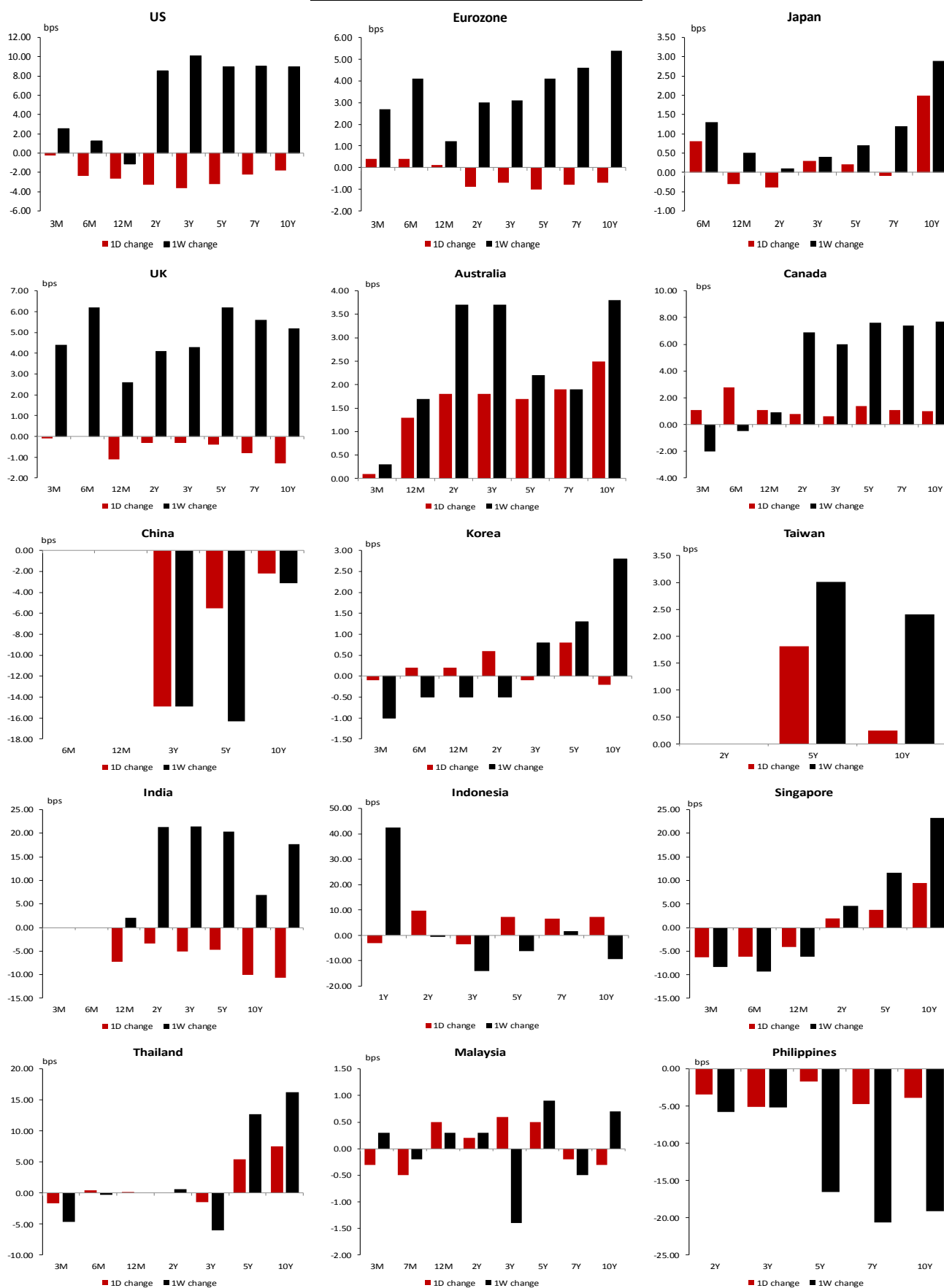
**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank

## Government bond yield changes



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