

Friday, January 11, 2019

**Market Themes/Strategy/Trading Ideas**

- The greenback regained some composure and firmed (especially against the CHF) across G10 space (except against the AUD) following Powell's latest comments, with the DXY veering away from the 95.00 floor. The Fed chair noted that the Fed has the ability to be patient but added that the Fed balance sheet would be "substantially smaller" than it is now. His latter comments gave the USD and UST yields (bear steepened – auction and issue related) a lift into late Thursday.
- Meanwhile, note sustained cautious remarks from the Fed's Bullard (who was particularly neutral), Evans, and Barkin. Comments from the Fed's Clarida early Friday also saw more headline space devoted to patience and neutrality rather than hawkishness.
- In the face of positive global equities, the **FXSI (FX Sentiment Index)** continued to shade lower within Risk-Off territory to within a hair of Risk-Neutral territory. **On this front, we note that short-end EM FX vols continue to remain subdued relative to their G7 counterparts.**
- Overall, we think any hawkish interpretations of Powell's latest comments (ED calendar spreads unimpressed) are not likely to disrupt the current weak dollar construct. To this end, despite soft November French industrial production numbers, collect **EUR-USD** into any dips, with the 200-day MA (1.1625) still enticing and the 100-day MA (1.1475) seen offering good support. If discretionary USD weakness persists, expect also the **USD-JPY** to stay heavy and mean revert lower to test below 108.00 once again.
- On other fronts, we remain less than enthusiastic about chasing excessive **AUD-USD** upside pending further news flow from the Sino-US front (China's Vice Premier Liu He reportedly to visit Washington in late January) and amidst prevailing global growth concerns. Accumulate only on dips towards the 100-day MA (0.7177) and 55-day MA (0.7182).

Treasury Research &  
Strategy

**Emmanuel Ng**

+65 6530 4037

[ngcyemmanuel@ocbc.com](mailto:ngcyemmanuel@ocbc.com)

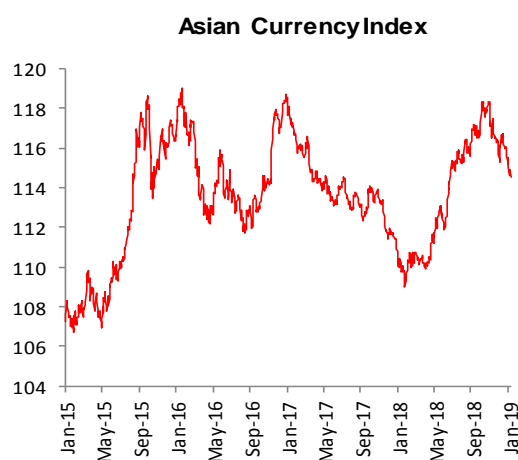
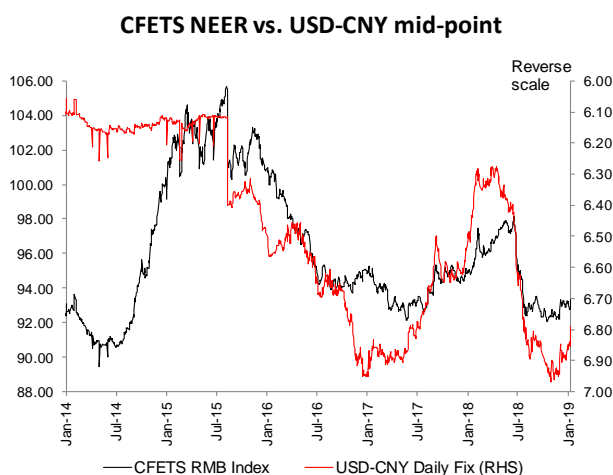
**Terence Wu**

+65 6530 4367

[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

## Asian Markets

- Despite deceleration signals from China's latest PPI/CPI readings, USD vulnerability and positive risk appetite signals may continue to be a staple for the region into the end of the week. With 1M riskies still below par and sliding (and the vol curve inverting at the short end), we expect **USD-CNH** to eye the 200-day MA (6.7197). The current RMB environment should also continue to set the pace for the rest of USD-Asia. Elsewhere, we'd continue to favor the **SGD** and **IDR** as relative outperformers as stated previously.
- On the flip side, we stay skeptical with respect to the **INR** and its govies. Elsewhere, **USD-THB** looks top heavy although we think this may be slightly incongruent with the lack of strong positive impetus on the net portfolio flow front. The Thai GB curve has been supported (in terms of yields) of late and this may also be slightly at odds with an increasingly neutral central bank.
- On the **portfolio flow front**, South Korea continues to register notable net inflows, with net equity inflows strengthening. Meanwhile, net equity outflows have been compressing in Taiwan. In the south, net flows for India have dipped into a net outflow balance (on a 20-day rolling balance) amid moribund net bond inflows and equity flows flipping to a net outflow. Meanwhile, Indonesia is still basking under significant bond inflows. Lastly, net bond/equity outflows for Thailand remain neutral to a slight net negative balance.
- **SGD NEER**: The SGD NEER softened this morning, standing at 1.78% above its perceived parity (1.3760), with NEER-implied USD-SGD thresholds again lower. Going forward, we continue to expect the USD-SGD to be lead lower by the RMB complex, with the immediate target at the 55-week MA (1.3494).
- **CFETS RMB Index**: The USD-CNY mid-point was fixed significantly lower again, as expected, at 6.7909 this morning from 6.8160 previously. The CFETS RMB Index jumped higher to 93.35 from 92.91 in response. We note that the recent appreciation in the RMB may have been met with official tolerance, with no signs of the PBOC looking to hold back the gains at this juncture.



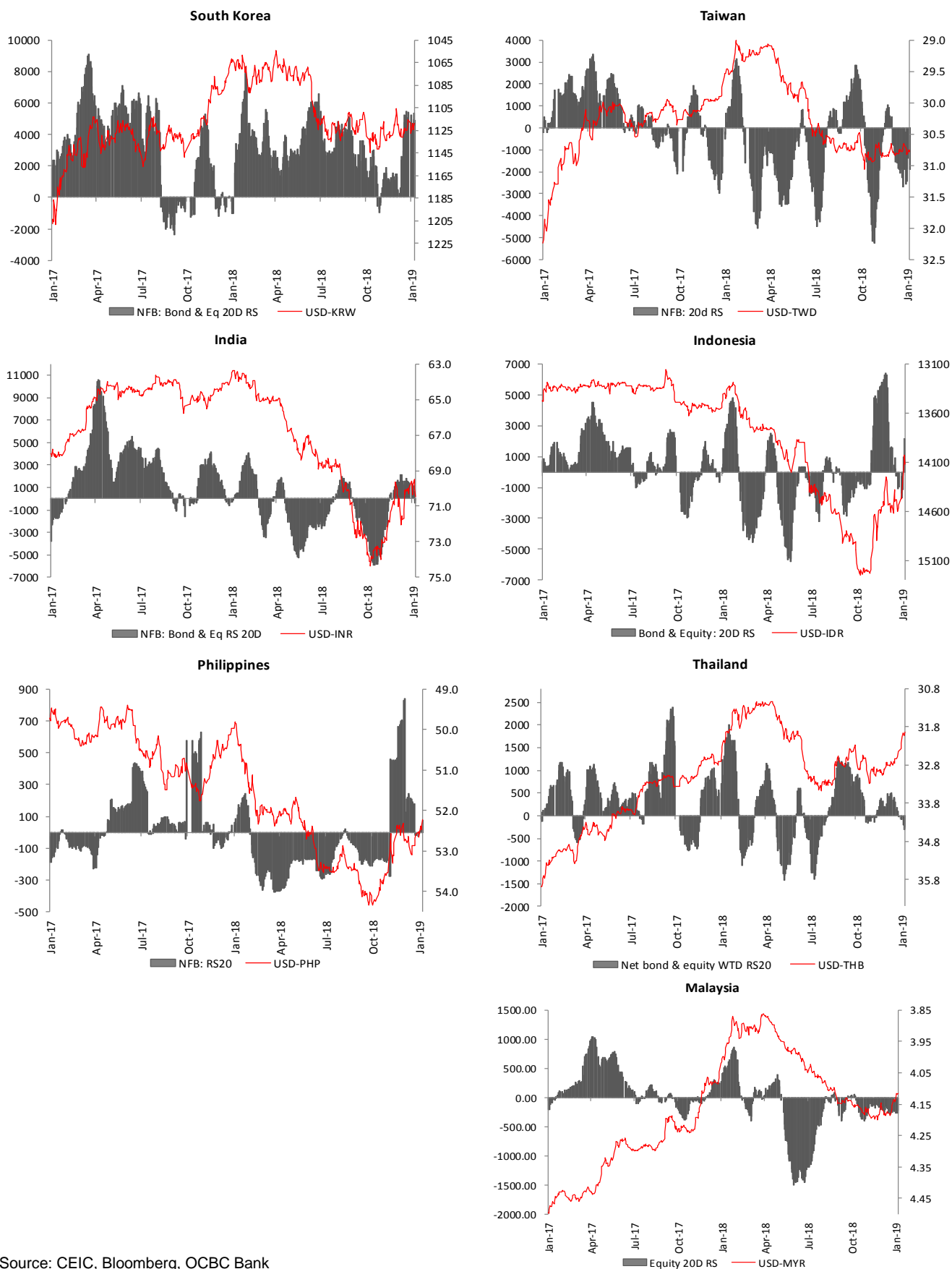
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

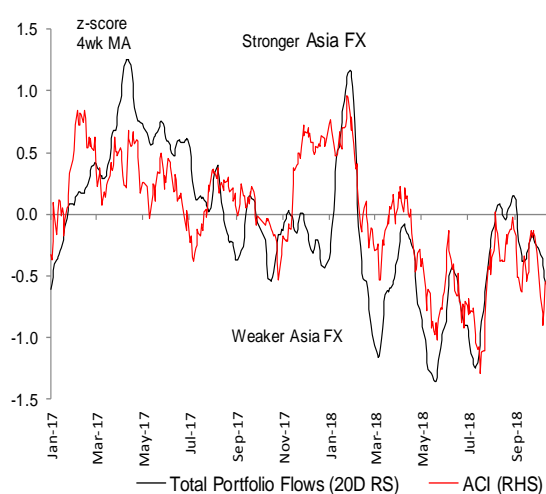
	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↓	↓	Monetary and fiscal policy expected to be unambiguously accommodative. PBOC cuts RRR in Jan (onshore 7-day repo collpases), Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accommodation in 2019. PBOC's quarterly monetary policy report sounded accommodative. Nov monetary aggregates indicate some stabilization after the recent deterioration. Official and Caixin Dec manufacturing PMIs dip into contraction territory. Dec CPI/PPI decelerate further.
<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 governor reiterates accommodative policy is still important, perhaps highlighting a shift back to a neutral stance after the 25bps hike in Dec 2018. Stronger than expected Oct exports offset weak 3Q GDP. 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

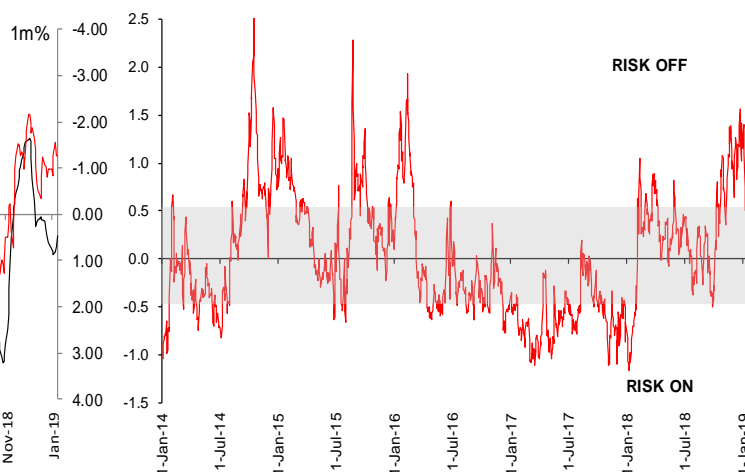
### USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

**ACI VS. Net Capital Flows**

Source: OCBC Bank

**FX Sentiment Index**

Source: OCBC Bank

**1M Correlation Matrix**

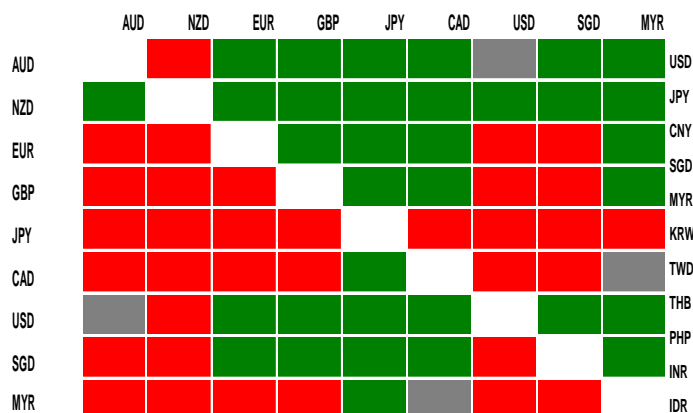
	DXY	USGG10	CNY	SPX	MSELCAPF	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.614	0.84	0.067	-0.092	0.215	0.845	-0.065	0.232	-0.137	0.817	-0.945
JPY	0.935	0.622	0.714	0.081	-0.04	0.265	0.794	-0.037	0.174	-0.201	0.665	-0.897
CAD	0.908	0.587	0.9	-0.179	-0.21	0.037	0.823	-0.362	0.51	0.019	0.912	-0.822
PHP	0.877	0.51	0.836	-0.145	-0.228	-0.012	0.753	-0.303	0.564	0.137	0.839	-0.753
CHF	0.876	0.664	0.895	-0.135	-0.101	0.12	0.863	-0.218	0.488	-0.088	0.862	-0.747
SGD	0.875	0.74	0.838	0.004	0.038	0.19	0.927	-0.154	0.385	-0.174	0.804	-0.703
KRW	0.845	0.899	0.685	0.312	0.332	0.49	1	0.074	0.101	-0.482	0.636	-0.706
INR	0.84	0.416	1	-0.271	-0.354	-0.102	0.685	-0.397	0.492	0.121	0.973	-0.793
NZD	0.817	0.316	0.973	-0.39	-0.468	-0.196	0.636	-0.536	0.574	0.231	1	-0.783
CNH	0.727	0.469	0.829	-0.246	-0.167	-0.017	0.715	-0.358	0.546	-0.089	0.837	-0.603
IDR	0.614	1	0.416	0.487	0.563	0.665	0.899	0.398	-0.073	-0.65	0.316	-0.471
MYR	0.611	0.76	0.293	0.668	0.565	0.807	0.722	0.652	-0.374	-0.632	0.199	-0.586
CNY	0.561	0.491	0.568	0.175	0.061	0.362	0.557	0.181	-0.02	-0.291	0.486	-0.587
TWD	0.399	0.342	0.373	0.304	0.078	0.416	0.374	0.302	-0.23	-0.312	0.279	-0.508
THB	0.37	0.807	0.155	0.693	0.705	0.831	0.649	0.625	-0.397	-0.801	-0.016	-0.23
AUD	0.302	-0.227	0.574	-0.728	-0.68	-0.755	0.142	-0.878	0.821	0.714	0.654	-0.272
USGG10	0.124	0.702	-0.127	0.824	0.839	0.903	0.406	0.813	-0.631	-0.893	-0.321	-0.016
GBP	-0.874	-0.485	-0.671	-0.14	0.144	-0.278	-0.711	0.018	-0.094	0.064	-0.694	0.88
EUR	-0.945	-0.471	-0.793	-0.083	0.202	-0.209	-0.706	0.105	-0.11	0.077	-0.783	1

Source: Bloomberg

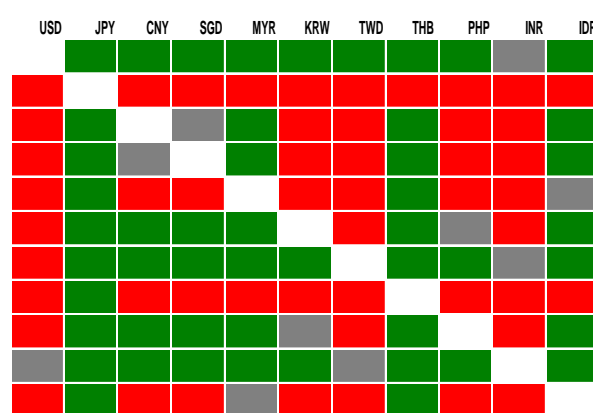
**Technical support and resistance levels**

	S2	S1	Current	R1	R2
EUR-USD	1.1383	1.1500	1.1526	1.1539	1.1570
GBP-USD	1.2573	1.2700	1.2756	1.2763	1.2800
AUD-USD	0.7188	0.7200	0.7201	0.7225	0.7300
NZD-USD	0.6612	0.6697	0.6800	0.6831	0.6970
USD-CAD	1.3172	1.3200	1.3212	1.3300	1.3342
USD-JPY	106.94	108.00	108.32	109.00	111.15
USD-SGD	1.3502	1.3503	1.3517	1.3600	1.3605
EUR-SGD	1.5488	1.5500	1.5579	1.5598	1.5600
JPY-SGD	1.2240	1.2400	1.2478	1.2500	1.2659
GBP-SGD	1.7200	1.7205	1.7242	1.7300	1.7439
AUD-SGD	0.9530	0.9700	0.9733	0.9800	0.9840
Gold	1244.51	1251.10	1292.00	1300.00	1300.40
Silver	15.21	15.45	15.70	15.96	16.20
Crude	42.36	52.50	52.53	52.60	52.66

Source: OCBC Bank

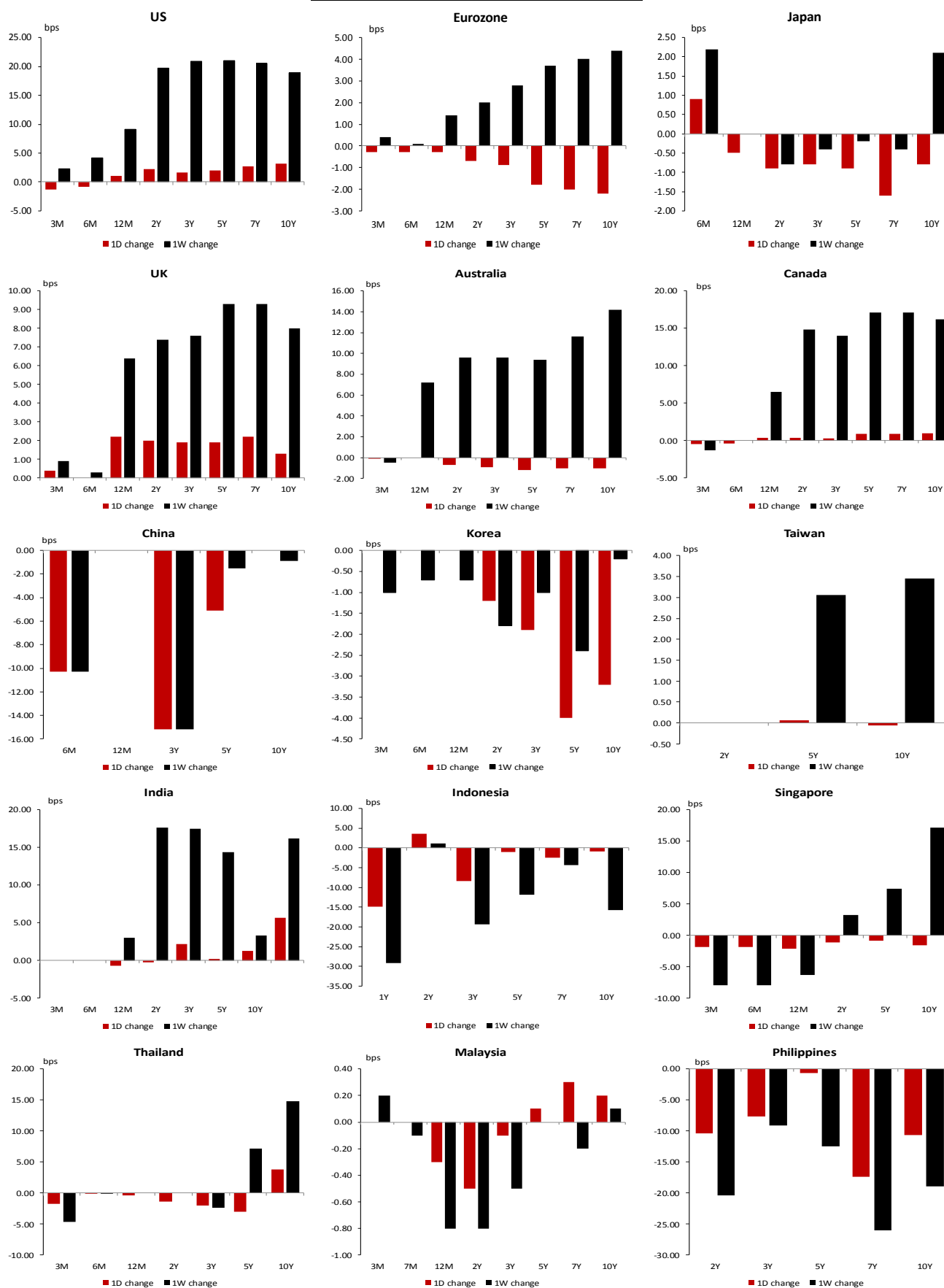
**G10 FX Heat Map**

Source: OCBC Bank

**Asia FX Heat Map**

Source: OCBC Bank

## Government bond yield changes



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