

Wednesday, January 16, 2019

Market Themes/Strategy/Trading Ideas

- The USD firmed against the EUR, JPY and CHF on Tuesday but eventually ended relatively flat against the AUD and CAD (crude firmer). UST yields were firmer on the day (despite soft Dec PPI and Jan Empire Man.) and contrasted with the concomitant drop in bund and gilt yields (ECB's Draghi noted that the slowdown could be longer than expected), sent the EUR-USD lower.
- GBP-USD meanwhile had a volatile session amidst the defeat (432-202) of the Brexit bill in Parliament, with the pair collapsing to 1.2670 before rebounding to end flat on the day around 1.2864. Overall, the DXY strengthened on the day despite the Fed's Kaplan and George, Kashkari preaching patience. Worth noting among the Fed speakers is the shift in rhetoric from George (voter), who is one of the most hawkish members in the FOMC. Her comments essentially put all the FOMC voters in 2019 on the same page in terms of forward guidance.
- The prospect of greater Chinese fiscal stimulus emboldened Asian equities on Tuesday and despite positive global equities by the end of the global day, the **FXSI (FX Sentiment Index)** ticked higher within Risk-Off territory.
- **Inherent DXY vulnerability may be blunted somewhat in the near term as it remains tethered to the 96.00 handle. Look to fade the AUD-USD with 0.7200 acting as a near term locus and the 100-day MA (0.7173) and 55-day MA (0.7189) near term supports. Stay top heavy on the EUR-USD with the 55-day MA (1.1385) likely under threat. Similarly, USD-CAD is expected to be laden within its 100-day MA (1.3193) and 55-day MA (1.3331). USD-JPY meanwhile may experience range trading conditions within 108.00-109.00.**
- On the GBP front, look to the no-confidence vote today. The debate on the motion will commence at 1300 GMT, with the actual vote scheduled at 1900 GMT. The EU's response to the ongoing political turmoil meanwhile has been less than sympathetic, noting zero prospects of a renegotiation. Nevertheless, the possibility of a "no Brexit" scenario has heightened, and this has essentially buoyed the GBP for now.
- On the calendar today, watch for German CPI (0700 GMT) for another confirmation of Draghi's comments that recent economic development in Europe is weaker than expected. Watch also for comments by the ECB's Nowotny (0840 GMT) and the BOE's Carney (0915 GMT).

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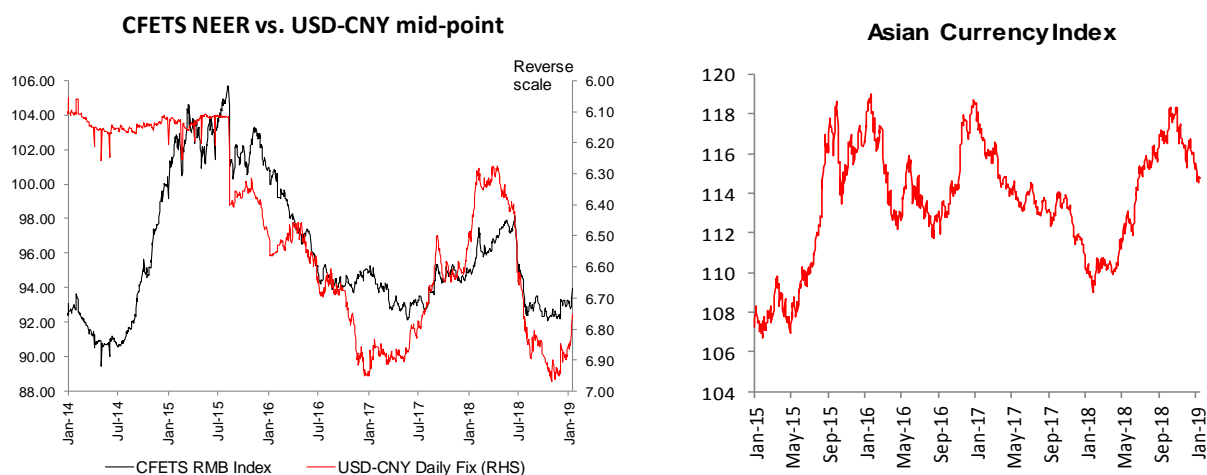
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Asian Markets

- USD-CNH ended higher on the day on Tuesday and may continue to retain a slightly more consolidative tone (as we ventured yesterday). Positivity from yesterday's Asian session has fizzled and expect USD-Asia to trade on a firmer ledge today.
- On the **portfolio flow front**, South Korea's stumbling net bond inflows are being offset, in part, by an increase in net equity inflows, keeping overall inflow momentum reasonably healthy. Meanwhile, net equity outflows for Taiwan has compressed consistently. Net bond inflows for Indonesia remains the mainstay, but net equity inflows are also picking higher. Elsewhere, India and Thailand remain largely neutral on the portfolio flows front.
- **SGD NEER**: The SGD NEER firmed up to around +1.72% above its perceived parity (1.3786), recovering from a low of +1.60% overnight. The NEER-implied USD-SGD thresholds again edged higher. Preference to collect into any dips intra-day within 1.3520-1.3600.
- **CFETS RMB Index**: The USD-CNY mid-point was fixed higher this morning, within expectations, at 6.7615, compared to 6.7542 previously. Nevertheless, the CFETS RMB Index printed higher to 93.94 from 93.87. Dec monetary data releases in-line to stronger than expected.



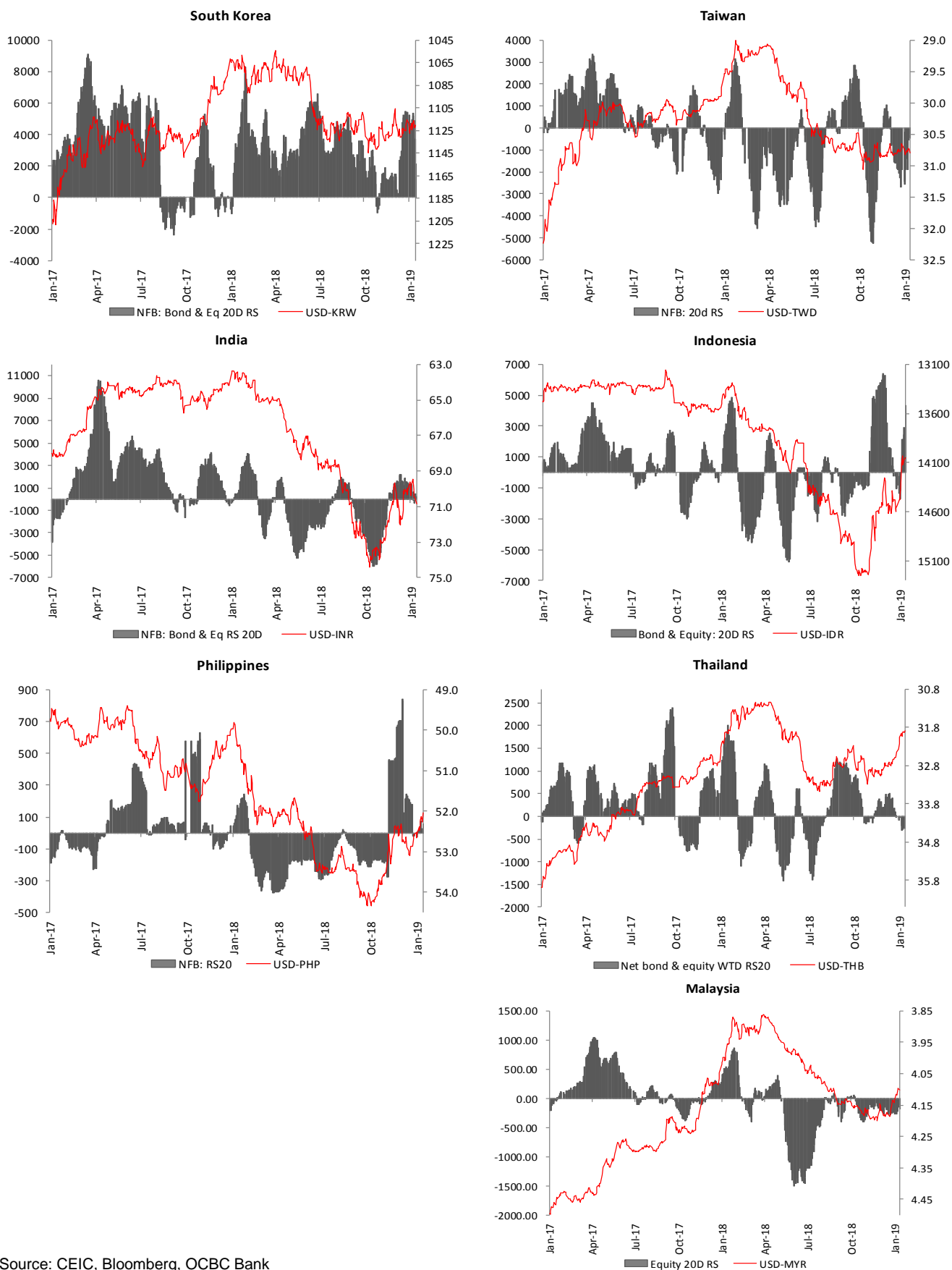
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

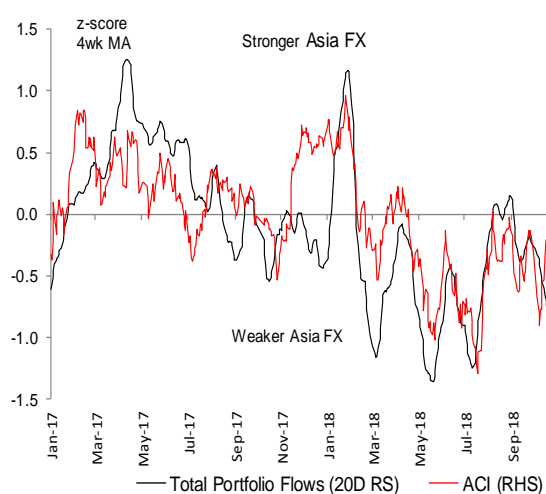
	USD-Asia	10y govie (%)	Rationale
China	↓	↓	Officials on 15 Jan indicate that taxes will be cut "on a larger scale" and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments. PBOC announces RRR cut on 04 Jan. Central Economic Work Conference in Dec 2018 and subsequent official communication indicate potential for increased policy accomodation in 2019. PBOC's quarterly monetary policy report accommodative. Dec monetary aggregates show new yuan loans and aggregate financing beating expectations. Official and Caixin Dec manufacturing PMIs dip into contraction territory. Dec CPI/PPI decelerate further, Dec exports and imports surprised with a contraction.
S. Korea	↔/↓	↔	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.
Taiwan	↔/↑	↔	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. Political premium being built in.
India	↑	↓	Dec WPI significantly softer than expected while CPI inflation was marginally cooler than expected core inched higher. 3Q GDP weaker than expected. RBI static in Dec (new governor perceived to be more dovish), but latest macro readings are breeding dovish expectations despite background fiscal concerns. Dec manufacturing PMI slips to 53.2 from 54.0; Dec merchandise trade deficit came in lower than expected. Budget to be tabled on 1 Feb, with govt spending expected to increase with the general elections in Apr/May in mind.
Singapore	↓	↔/↑	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.
Malaysia	↓	↓	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.
Indonesia	↓	↔	Nov 2018 hike was positioned as a pre-emptive move. Expect BI to remain static, with the urgency for further hikes reduced due to a softening Fed stance and firmer IDR. BI governor notes that the benchmark rate is already near its peak and this may continue to prove supportive for bonds. Dec CPI readings came in mixed, export (contraction)/import performance weakens. Elections slated for 17 April 2019.
Thailand	↓	↔	BOT governor reiterates accomodative 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.
Philippines	↓	---	BSP remained static in Dec as expected. BSP governor open to RRR cut. 3Q GDP prints below expectations. Dec manufacturing PMI weakens to 53.2 from 54.2. Dec CPI softer than expected at +5.1% yoy.

Source: OCBC Bank

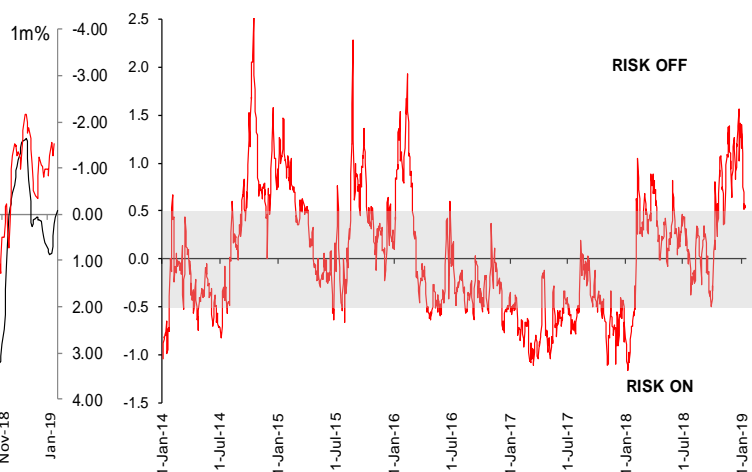
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

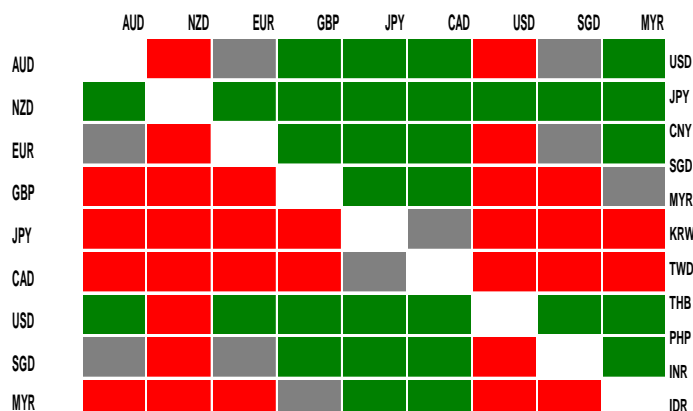
	DXY	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXXE	CNH	EUR
DXY	1	0.425	0.77	-0.556	-0.558	-0.452	0.813	-0.636	0.65	0.381	0.793	-0.915
JPY	0.906	0.471	0.869	-0.767	-0.658	-0.601	0.837	-0.806	0.866	0.515	0.891	-0.703
CAD	0.904	0.451	0.563	-0.411	-0.379	-0.24	0.694	-0.388	0.488	0.208	0.515	-0.894
PHP	0.869	0.373	0.842	-0.804	-0.685	-0.67	0.755	-0.827	0.914	0.629	0.866	-0.683
CHF	0.86	0.525	0.902	-0.766	-0.63	-0.555	0.854	-0.772	0.87	0.456	0.907	-0.668
SGD	0.855	0.631	0.851	-0.638	-0.52	-0.495	0.927	-0.727	0.796	0.368	0.859	-0.625
KRW	0.813	0.798	0.685	-0.384	-0.236	-0.202	1	-0.515	0.611	0.061	0.688	-0.556
INR	0.793	0.286	0.991	-0.77	-0.799	-0.675	0.688	-0.818	0.794	0.597	1	-0.565
NZD	0.786	0.512	0.886	-0.662	-0.56	-0.435	0.845	-0.695	0.776	0.264	0.882	-0.58
CNH	0.77	0.323	1	-0.747	-0.794	-0.68	0.685	-0.8	0.779	0.58	0.991	-0.628
IDR	0.665	0.069	0.761	-0.812	-0.739	-0.884	0.524	-0.928	0.851	0.774	0.78	-0.434
MYR	0.476	0.364	0.51	-0.262	-0.29	-0.05	0.481	-0.215	0.293	0.045	0.487	-0.483
CNY	0.425	1	0.323	-0.052	0.167	0.181	0.798	-0.099	0.335	-0.281	0.286	-0.227
TWD	0.136	0.013	0.119	-0.011	-0.113	0.113	0.054	0.046	-0.069	-0.092	0.088	-0.308
THB	0.095	0.317	-0.359	0.421	0.548	0.626	0.143	0.518	-0.312	-0.479	-0.338	-0.195
AUD	-0.225	0.447	-0.483	0.571	0.765	0.754	0.074	0.6	-0.439	-0.826	-0.564	0.2
USGG10	-0.448	0.316	-0.639	0.78	0.861	0.891	-0.155	0.801	-0.676	-0.898	-0.709	0.341
GBP	-0.815	-0.254	-0.873	0.594	0.736	0.521	-0.65	0.662	-0.633	-0.532	-0.897	0.633
EUR	-0.915	-0.227	-0.628	0.43	0.537	0.349	-0.556	0.434	-0.439	-0.345	-0.565	1

Source: Bloomberg

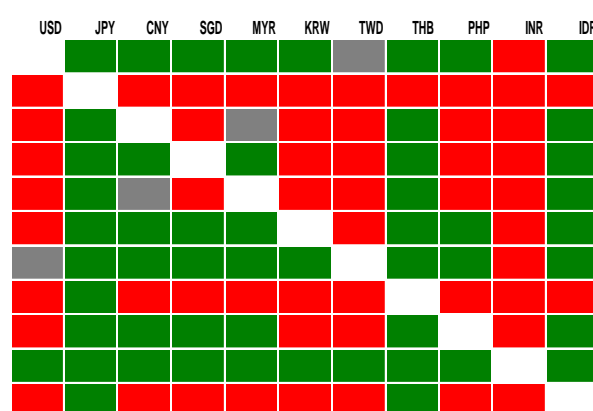
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1382	1.1400	1.1402	1.1500	1.1529
GBP-USD	1.2750	1.2800	1.2841	1.2887	1.2900
AUD-USD	0.7129	0.7166	0.7200	0.7247	0.7274
NZD-USD	0.6796	0.6800	0.6810	0.6841	0.6900
USD-CAD	1.3180	1.3200	1.3267	1.3300	1.3353
USD-JPY	107.08	108.00	108.49	109.00	111.18
USD-SGD	1.3499	1.3500	1.3553	1.3600	1.3612
EUR-SGD	1.5441	1.5443	1.5453	1.5500	1.5584
JPY-SGD	1.2293	1.2400	1.2492	1.2500	1.2620
GBP-SGD	1.7214	1.7400	1.7403	1.7458	1.7474
AUD-SGD	0.9551	0.9700	0.9759	0.9800	0.9805
Gold	1250.45	1250.77	1289.40	1300.00	1300.40
Silver	15.35	15.60	15.61	15.70	15.96
Crude	49.64	50.92	52.00	53.85	54.55

Source: OCBC Bank

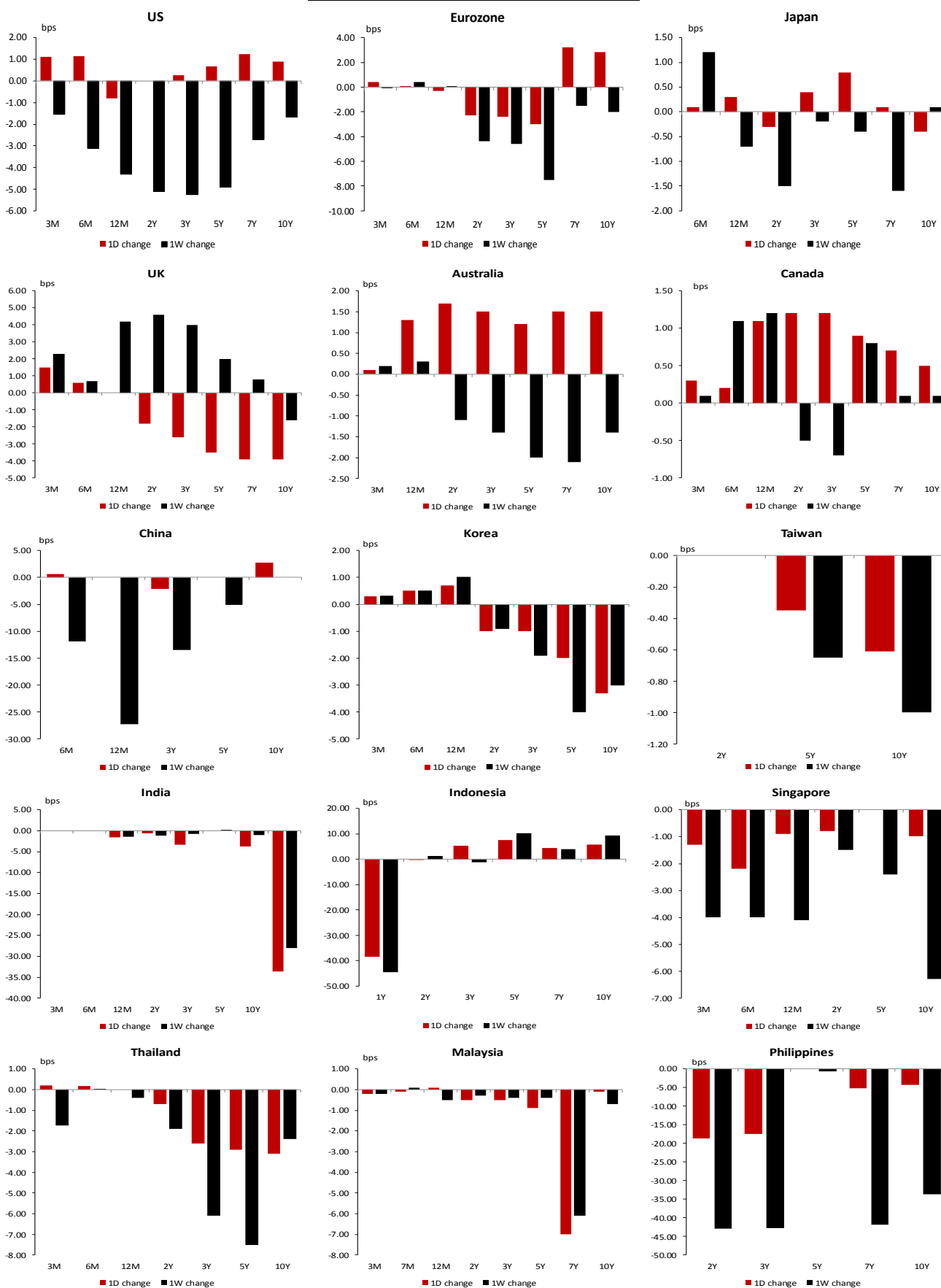
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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