

Thursday, January 17, 2019

**Market Themes/Strategy/Trading Ideas**

- The USD diverged within G10 on Wednesday, firming against the EUR, AUD, NZD and JPY, but slipping slightly against the GBP (incumbent government survived the no confidence vote with 325 vs.306) and CAD (firmer crude). This still left the DXY ending above the 96.00 handle amid firmer UST yields (gilt and bund yields were also firmer).
- On the macro front, the US Beige Book was perceived to be slightly less optimistic, and we note that the ongoing partial US government shutdown may add to underlying growth concerns if it becomes protracted.
- Positive global equities (especially US financials) on Wednesday finally saw the **FXSI (FX Sentiment Index)** descending into **Risk-Neutral** territory from Risk-Off on Wednesday, a first since early November 2018. However, we caution that investor sentiment may continue to remain fragile (antipodeans underperformed across the board on Wednesday) to say the least.
- Regarding the UK, no talks between May's government and Labour are scheduled and investors are still left with an open ended outcome horizon. With consensus building amongst MPs still a hurdle, the slightly diminished prospects of a no-deal Brexit may continue to be (partially) supportive of the GBP. May is expected to speak to EU leaders later today, with the EU said to be contemplating a delay of the Brexit deadline, although the length of extension (ranging from a few weeks to September 2019) is still up for debate. Going ahead, watch for any headlines from talks between May and the EU, and also if she can table a viable Plan B by next Monday. **In the interim, the GBP may be trading dangerously on fumes and we'd continue place a larger emphasis on the EU's demeanor and responses instead.**
- For today, expect markets to attempt to remain top heavy on the EUR-USD (key junction at the 55-day MA (1.1384), flat to lower on the AUD-USD with 55-day MA (0.7188) to limit (despite an apparent improvement in risk appetite levels), while continuing to bounce dips in the USD-JPY within 108.50-109.50.

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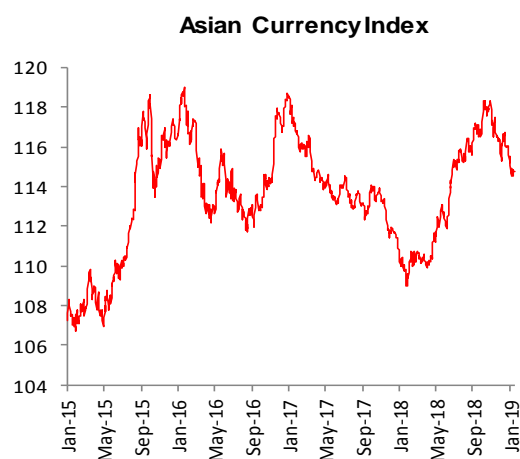
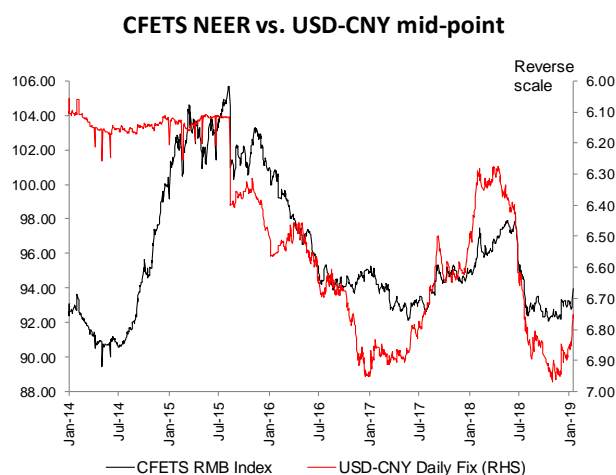
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## Asian Markets

- Despite short-end riskies continuing to climb (and short-end vols having capitulated lower), USD-CNH continued to drip lower on Wednesday. While global EM equities also inched higher yesterday, generalized USD resilience may continue to prevail intra-day in Asia. The **INR** may remain particularly vulnerable (govie and NDIRS yields also being paid up) on mounting fiscal slippage concerns. On the central bank front, **Bank Indonesia** is expected to remain static at its policy meeting today with governor Warjiyo reiterating that the benchmark interest rate has 'almost reached its peak'.
- On the flow front, South Korea may continue to creak under a fall-off in net inflows on the bond front. The hitherto compression in net equity outflows for Taiwan meanwhile may be pausing. In Indonesia, strong bond inflows may be taking a breather, although net equity inflows continue to improve incrementally. Thailand meanwhile is facing amid a minor net outflow environment on net bond outflows and neutral equity flows. In India, net equity outflows are deepening while net bond inflows continue to deteriorate.
- **SGD NEER**: The SGD NEER softened this morning to around +1.77% above its perceived parity (1.3783), after hitting a high of +1.82% overnight. The NEER-implied USD-SGD thresholds were marginally softer. Retain preference to collect into any dips intra-day within 1.3520-1.3600.
- **CFETS RMB Index**: The USD-CNY mid-point was fixed marginally softer this morning, within expectations, at 6.7592, compared to 6.7615 previously. The CFETS RMB Index stood static at 93.94. Expect the USD-CNY to be in a broadly consolidative mood just north of the 6.7500 level.



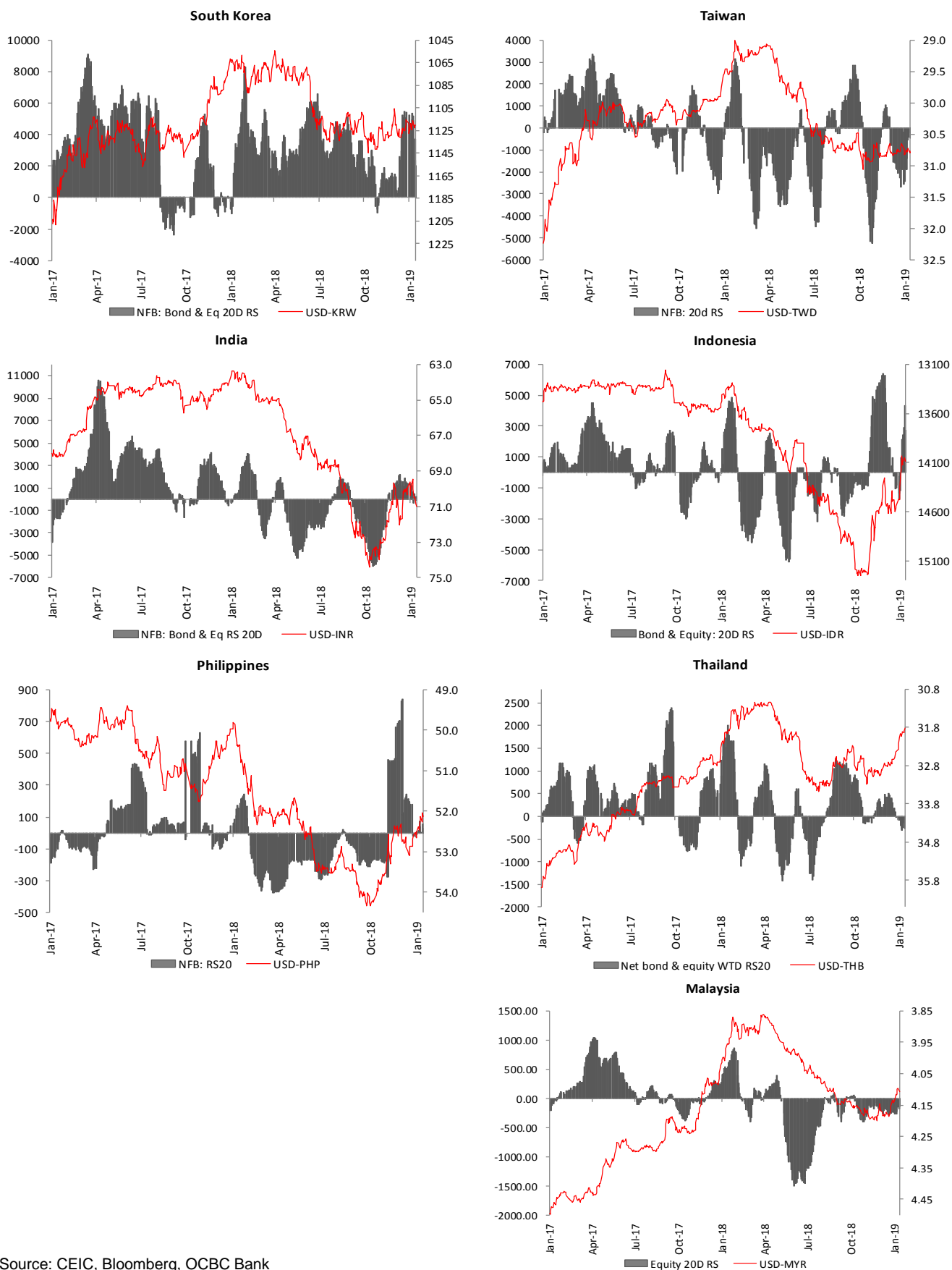
Source: OCBC Bank, Bloomberg

### Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
<b>China</b>	↓	↓	Record liquidity injection in open market operations on 16 Jan. 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 accommodation 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.
<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. Political premium being built in.
<b>India</b>	↑	↔/↓	Fiscal slippage concerns (latest hint from the BJP) are mounting despite soft macro readings. 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). 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.
<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. 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.
<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.
<b>Philippines</b>	↓	---	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.

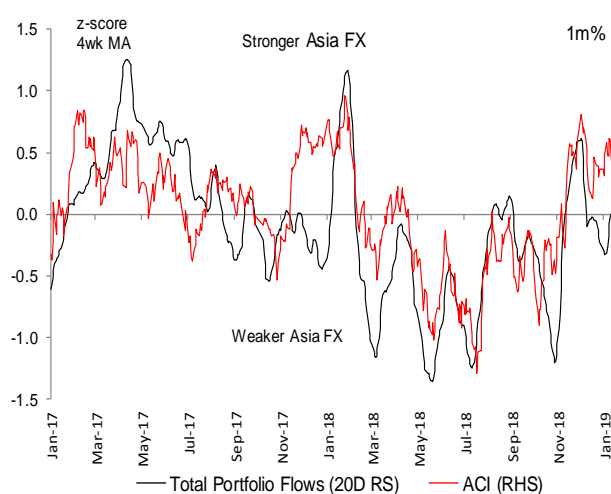
Source: OCBC Bank

### USD-Asia VS. Net Capital Flows



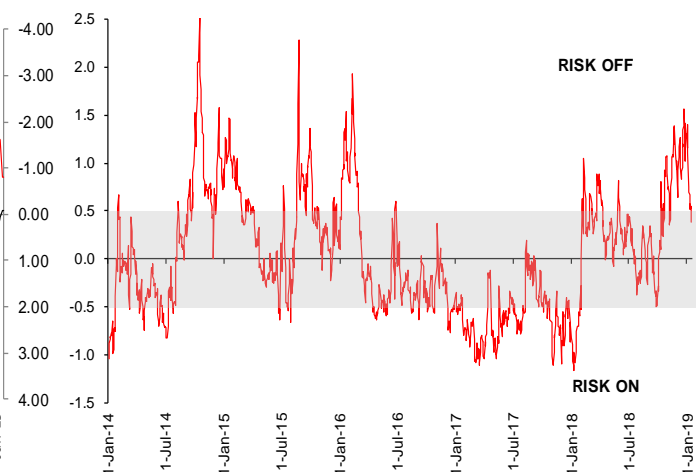
Source: CEIC, Bloomberg, OCBC Bank

### 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	0.336	0.726	-0.615	-0.609	-0.572	0.793	-0.709	0.684	0.449	0.729	-0.864
SGD	0.882	0.396	0.862	-0.836	-0.735	-0.734	0.823	-0.89	0.904	0.607	0.889	-0.603
IDR	0.845	0.278	0.83	-0.868	-0.76	-0.807	0.733	-0.917	0.947	0.714	0.857	-0.556
CHF	0.842	0.377	0.422	-0.375	-0.309	-0.246	0.629	-0.336	0.445	0.166	0.347	-0.888
MYR	0.836	0.451	0.891	-0.834	-0.709	-0.688	0.842	-0.869	0.908	0.551	0.899	-0.538
JPY	0.793	0.746	0.651	-0.473	-0.338	-0.36	1	-0.625	0.674	0.164	0.654	-0.471
THB	0.767	0.497	0.872	-0.747	-0.678	-0.687	0.847	-0.866	0.849	0.532	0.897	-0.399
PHP	0.731	0.4	0.887	-0.745	-0.673	-0.601	0.807	-0.818	0.81	0.396	0.892	-0.393
CNH	0.729	0.201	0.992	-0.829	-0.875	-0.797	0.654	-0.885	0.819	0.699	1	-0.42
CNY	0.726	0.246	1	-0.813	-0.879	-0.808	0.651	-0.879	0.806	0.69	0.992	-0.494
CAD	0.715	0.104	0.803	-0.826	-0.756	-0.907	0.599	-0.936	0.861	0.791	0.819	-0.403
KRW	0.402	0.204	0.485	-0.372	-0.421	-0.231	0.37	-0.37	0.353	0.167	0.475	-0.358
USGG10	0.336	1	0.246	-0.099	0.104	0.077	0.746	-0.175	0.361	-0.225	0.201	-0.107
TWD	0.022	-0.149	0.013	-0.014	-0.111	0.064	-0.111	0.046	-0.092	-0.082	-0.038	-0.247
INR	-0.153	0.073	-0.733	0.542	0.68	0.68	-0.179	0.611	-0.46	-0.598	-0.659	-0.078
NZD	-0.333	0.392	-0.541	0.566	0.721	0.724	0.004	0.558	-0.457	-0.793	-0.58	0.275
AUD	-0.571	0.235	-0.72	0.788	0.839	0.879	-0.272	0.792	-0.706	-0.885	-0.767	0.399
GBP	-0.735	-0.15	-0.891	0.682	0.839	0.673	-0.597	0.755	-0.677	-0.659	-0.911	0.47
EUR	-0.864	-0.107	-0.494	0.413	0.48	0.382	-0.471	0.415	-0.41	-0.319	-0.42	1

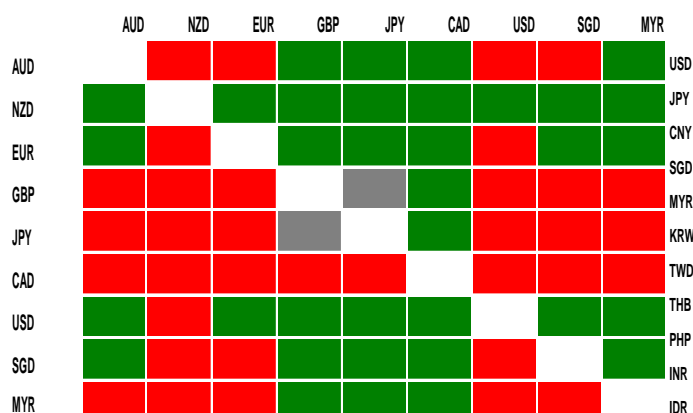
Source: Bloomberg

### Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1328	1.1383	1.1390	1.1400	1.1528
GBP-USD	1.2748	1.2800	1.2874	1.2900	1.2915
AUD-USD	0.6959	0.7100	0.7167	0.7183	0.7200
NZD-USD	0.6656	0.6700	0.6766	0.6784	0.6796
USD-CAD	1.3180	1.3200	1.3271	1.3300	1.3355
USD-JPY	107.18	108.00	108.95	109.00	111.19
USD-SGD	1.3499	1.3500	1.3561	1.3600	1.3614
EUR-SGD	1.5425	1.5427	1.5446	1.5500	1.5580
JPY-SGD	1.2309	1.2400	1.2448	1.2500	1.2610
GBP-SGD	1.7400	1.7449	1.7460	1.7499	1.7500
AUD-SGD	0.9554	0.9700	0.9719	0.9795	0.9800
Gold	1250.26	1255.68	1293.60	1300.00	1300.40
Silver	15.35	15.60	15.63	15.70	15.96
Crude	51.67	51.90	51.99	52.00	54.38

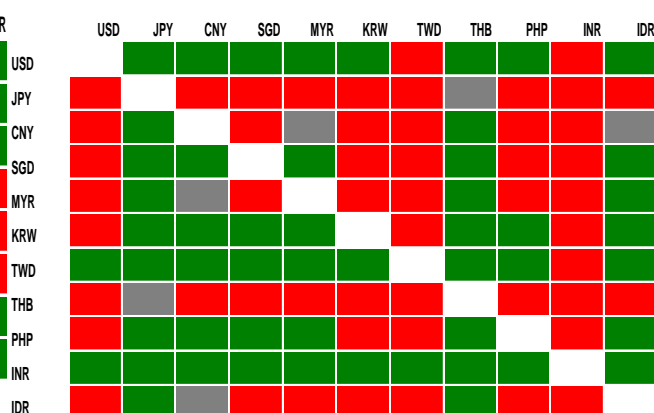
Source: OCBC Bank

### G10 FX Heat Map



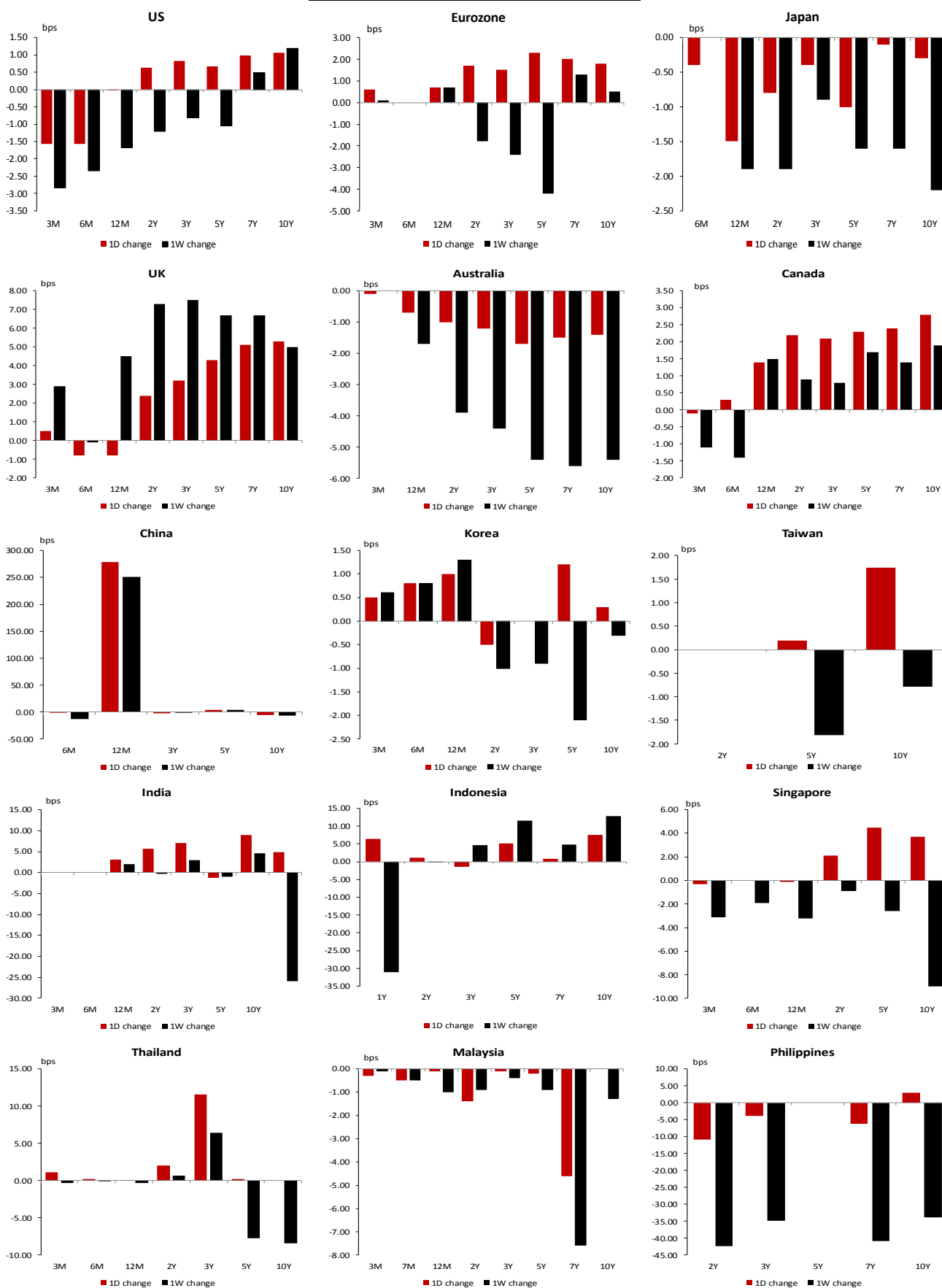
Source: OCBC Bank

### Asia FX Heat Map



Source: OCBC Bank

### Government bond yield changes



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