

Friday, January 18, 2019

Market Themes/Strategy/Trading Ideas

- A WSJ article indicating that US officials had sought a rollback on tariffs on Chinese products boosted the USD-JPY but lifted risk-related currencies, leaving the DXY largely flat on the day. The AUD-USD (and USD-JPY) jumped in late trade following the WSJ piece but a subsequent denial by the Treasury Department saw the pair retracing lower but still ending firmer on the day.
- While the EUR-USD EZ Dec readings as expected with core at (0.0% mom) remained largely range bound, the GBP-USD jumped to near 1.3000 on background hopes of a second referendum.
- The UST curve lifted on improved investor sentiment and a supportive US data feed (whatever that is still being released in the midst of the partial government shutdown). On this front, initial claims and the Jan Philly Fed came in above expectations. The Fed's Quarles also noted that the economy remained "very strong".
- On the Brexit front, the GBP was given a further lift as the odds for a second referendum (with a likely "Remain" outcome) is thought to be increased. Nevertheless, we note that PM May is still reluctant to consider this option. At this juncture, the second referendum and extension of the Brexit deadline are the main GBP-positive steps forward. Without concrete progress in either of these fronts, the recent gains in the GBP may be on shaky ground.
- US equities were given a shot in the arm by the WSJ article and the **FXSI (FX Sentiment Index)** dug deeper into **Risk-Neutral**.
- For today, continue to fade upside in the EUR-USD while collecting dips in the GBP-USD - effectively bearish on the EUR- GBP intra-day. This latter view may hold till the end of the week today, with PM May expected to present some form of "Plan B" next Monday. On other fronts, look also to pick up USD-JPY on dips on the back of improved risk appetite levels. AUD-USD meanwhile is expected to be range bound and may reach higher if the improvement in risk appetite continue to gain traction.

Treasury Research &
Strategy

Emmanuel Ng

+65 6530 4037

ngcyemmanuel@ocbc.com

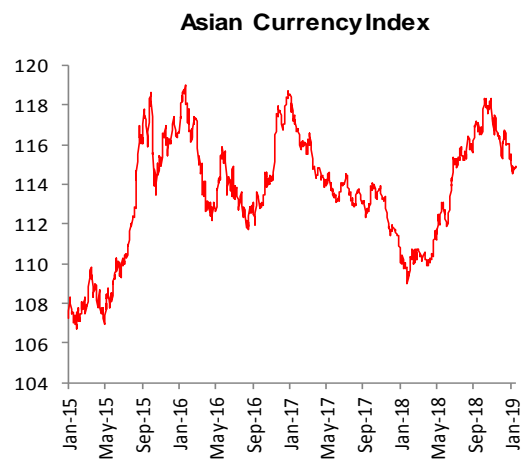
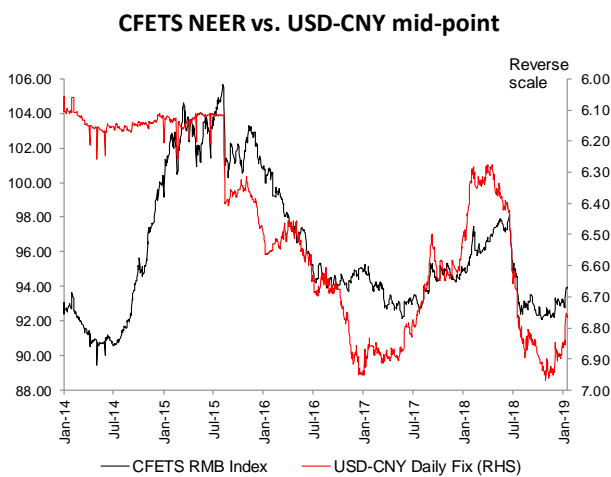
Terence Wu

+65 6530 4367

TerenceWu@ocbc.com

Asian Markets

- USD-CNH tripped lower on the back of the WSJ article to erase most of its intra-day gains before retracing slightly higher into end-NY to end higher on the day. For today, markets may try to feed off any positive vibes from an expected thawing of Sino-US relations (Chinese Vice-premier Liu He to visit the US on 30-31 Jan) with Asian equities/currencies/govie yields seen off to a supported start.
- **Bank Indonesia (BI)** kept its policy rate unchanged at 6.00%, as expected, in its meeting yesterday. Although the policy stance is still stated as “hawkish” by the governor, note that he also signaled that the policy rate is near its peak. With other major central bank appearing to ease off rate hike expectations, we think the BI will also exhibit less urgency for further tightening this year, barring any significant depreciation pressure on the IDR.
- On the flow front, inflow momentum into South Korea continued to eased off slightly, although it remains reasonably healthy. Flow momentum in Thailand has improved to effectively neutral levels. Meanwhile, Indonesia remains the poster boy for inflows for now. India, however, is the exception, with overall outflow momentum still deteriorating.
- **SGD NEER:** The SGD NEER stood at around +1.78% above its perceived parity (1.3790), with the NEER-implied USD-SGD thresholds were marginally firmer. With improving sentiments in Asia offsetting a broadly firmer USD, expect the USD-SGD to ply a narrow range into the end of the week.
- **CFETS RMB Index:** The USD-CNY mid-point was fixed higher this morning, within expectations, at 6.7665, compared to 6.7592 previously. The CFETS RMB Index eased lower to 93.87 from 93.94 yesterday. Retain the view that the USD-CNY to remain in a consolidative mood, pending more concrete developments in the Sino-US trade front.



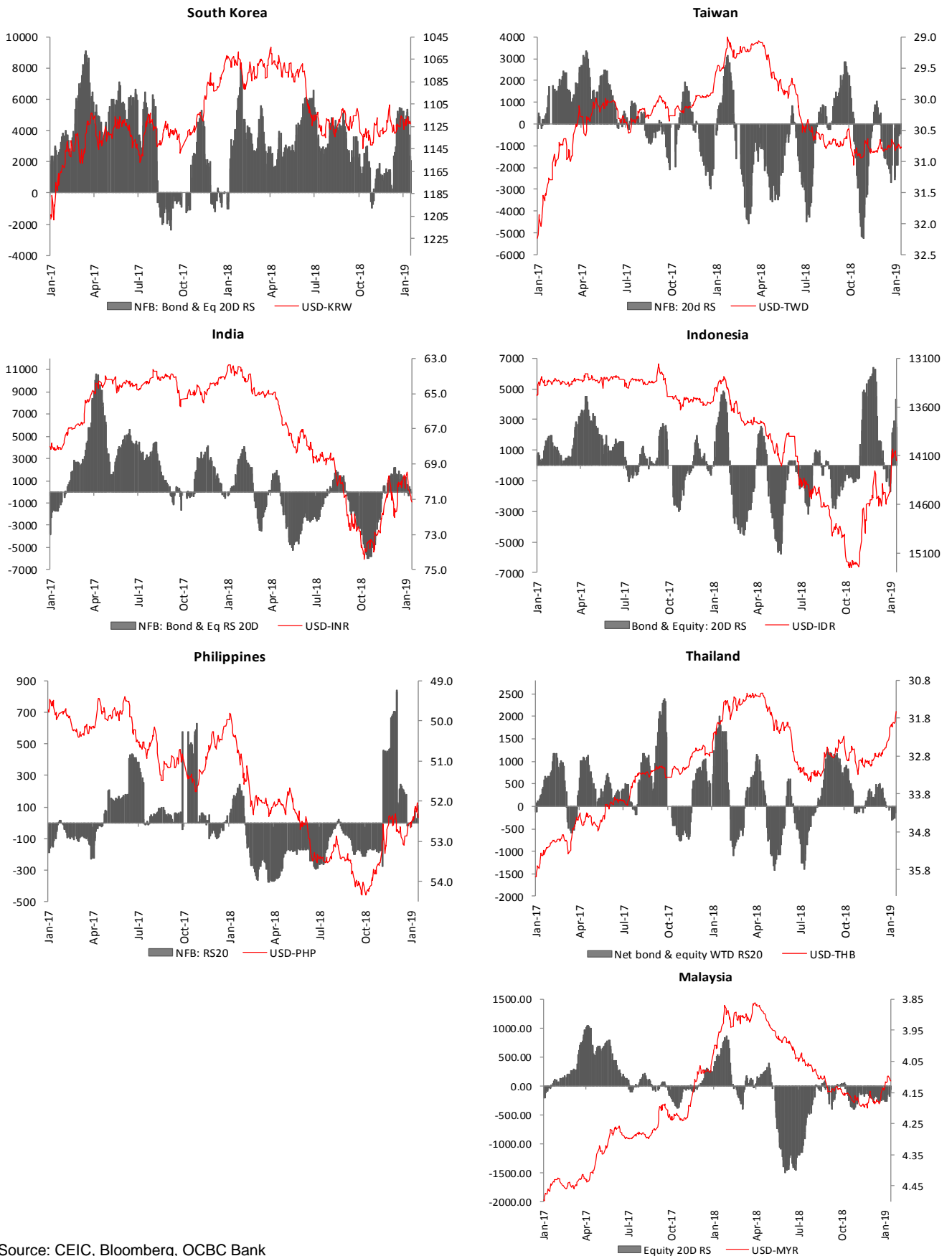
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

	USD-Asia	10y govie (%)	Rationale
China	↓	↓	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.
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	↑	↔/↓	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.
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	↔/↓	↔	BI remained static on its policy rate in January as expected after the pre-emptive Nov 18 hike. 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 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.
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.

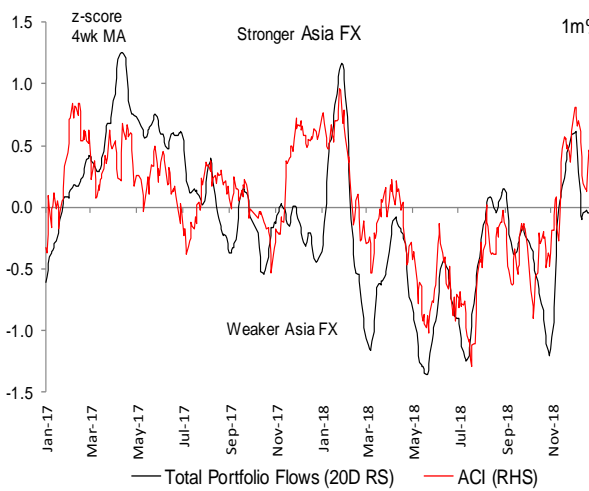
Source: OCBC Bank

USD-Asia VS. Net Capital Flows



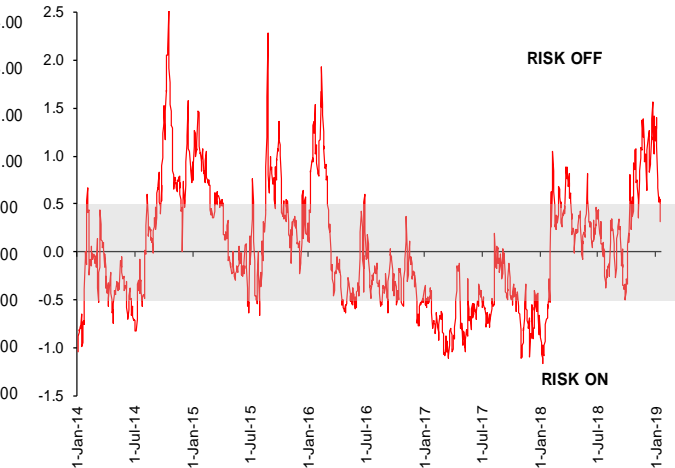
Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows



Source: OCBC Bank

FX Sentiment Index



Source: OCBC Bank

1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCPAF	CRY	JPY	CL1	VIX	ITRXXK	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

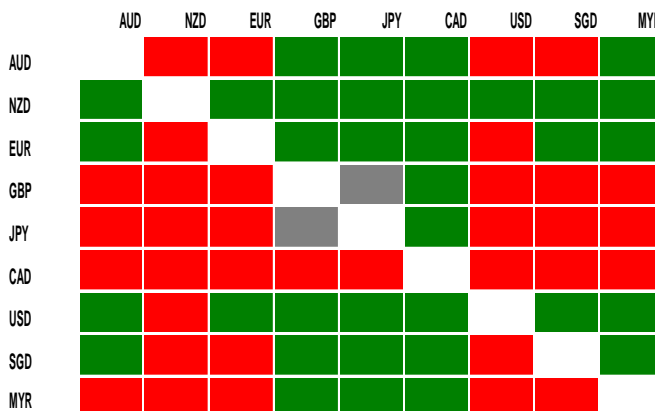
Source: Bloomberg

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

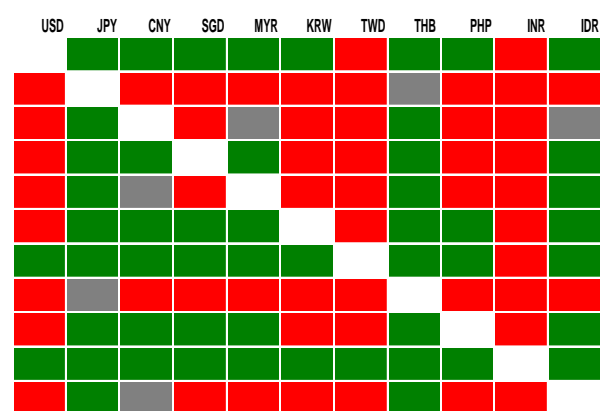
Source: OCBC Bank

G10 FX Heat Map



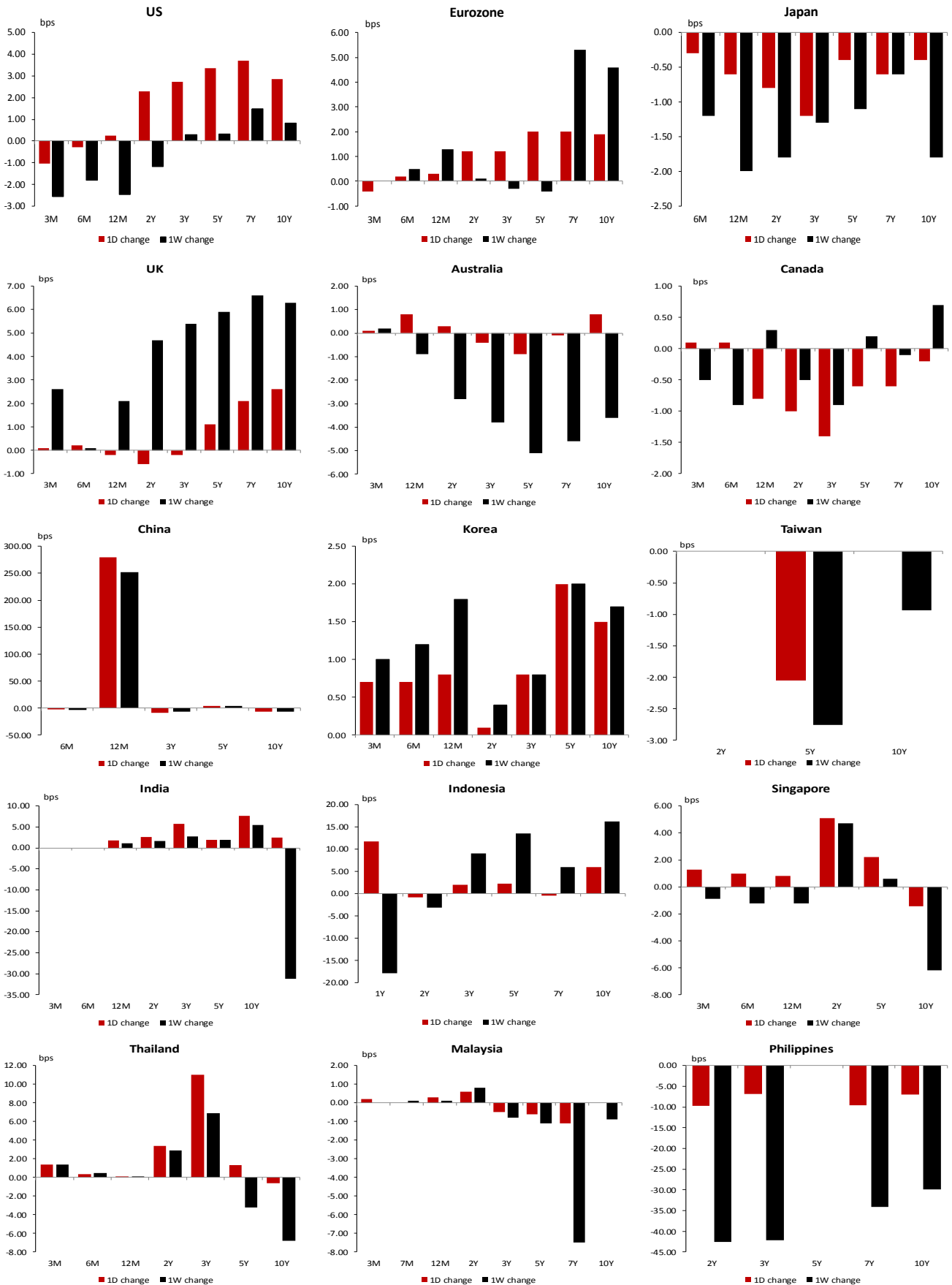
Source: OCBC Bank

Asia FX Heat Map



Source: OCBC Bank

Government bond yield changes



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