

Monday, January 21, 2019

Market Themes/Strategy/Trading Ideas – The week ahead

- Except against the CAD, the USD pulled higher against the majors on Friday on the back of firmer US yields (10y UST at 2.7878% while key global govie yield curves also lifted in tandem) and better than expected December US industrial production numbers.
- Further support for the USD was found on news that apparent progress was being made (China reportedly to increase imports from the US to reduce the trade surplus to zero by 2024) in talks ahead of Chinese vice premier Liu He's visit to Washington 30-31 Jan. Nice positive gains in global equities (including in EM) on Friday saw the **FXSI (FX Sentiment Index)** continue to sink deeper into **Risk-Neutral** territory.
- The GBP meanwhile underperformed across the board as PM May remains uncommitted to a second referendum. Note that PM May is scheduled to appear before Parliament today to present a "Plan B" detailing the next proposed steps ahead of a Parliamentary vote on 29 Jan 19.
- At the onset of the week, the **DX** may attempt to base build with the next upside objective at the 55-day MA (96.614). At this juncture, FX space will likely be driven by rate differential arguments imparting implicit support for the USD. Given the overhang from the global macro deceleration, the cyclical and Asian FX temporarily fail to partake in any improvements in risk appetite levels in the near term.
- On the central bank front, the **BOJ MPC** is on Wednesday, followed by the **ECB's Council Meeting** on Thursday, with forward guidance by the latter to hold particular interest for market participants, especially if the official economic prognosis continues to weaken. Highlights of the data calendar this week includes the World Economic Forum at Davos (22 – 25 Jan) and Jan preliminary PMIs (Thu).

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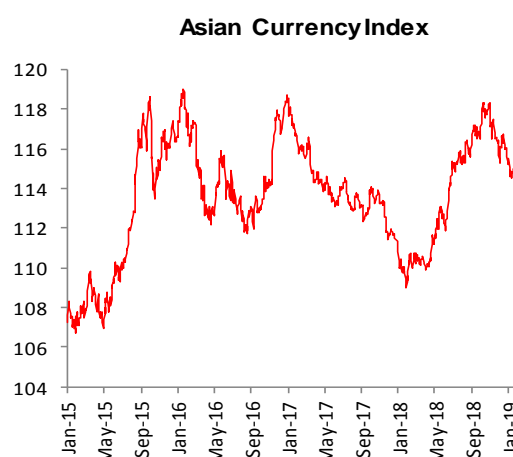
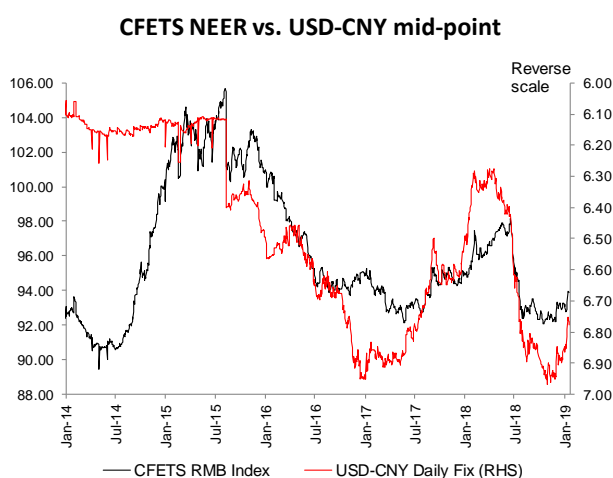
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Asian Markets

- USD-CNH firmed above 6.8000 on Friday on generalized USD strength and expect USD-Asia to also start the week on a higher plane on Monday. China 4Q GDP eased to 6.4% yoy, although retail sales and industrial production numbers were in-line to stronger than expected. This week on Thursday, both **BNM** and the **BOK** are expected to stand pat at their respective policy meetings.
- On the **EPFR** front, net implied inflows into Asia (ex. Japan, China) jumped in the latest week but bond flows remained moribund and in fact eased slightly from the previous week. At this juncture, it remains to be seen if this strong equity sentiment will translate effectively into actual inflows ahead.
- On the **actual net portfolio flow** front, South Korea continues to experience a falloff in reported flows as net bond inflows collapse while net equity inflows remain at a slight positive level. Taiwan meanwhile continues to see minor net equity inflows in recent sessions, enabling the recent compression of net flows on a 20-day rolling sum basis. India's net flows have flattened to neutral on minor net equity outflows balanced by small net equity inflows. We are seeing some satiation in previously strong net bond inflows for Indonesia, although net equity inflows are attempting to improve. On balance, Thailand is registering a minor outflow balance with net bond and equity flows in
- **SGD NEER:** The SGD NEER softened to +1.65% above its perceived parity (1.3812), with the NEER-implied USD-SGD thresholds firmer again. With a firmer USD lifting the USD-CNH and the rest of USD-Asia, we expect the USD-SGD to be biased higher as well, with the 200-day MA (1.3618) seen attracting. Given the near term USD environment, expect the SGD NEER to also refrain from drifting towards the extreme strong end of its fluctuation band.
- **CFETS RMB Index:** The USD-CNY mid-point was fixed higher this morning, as expected, at 6.7774, compared to 6.7665 previously. Nevertheless, the CFETS RMB Index inched higher to 93.88 from 93.87 yesterday.



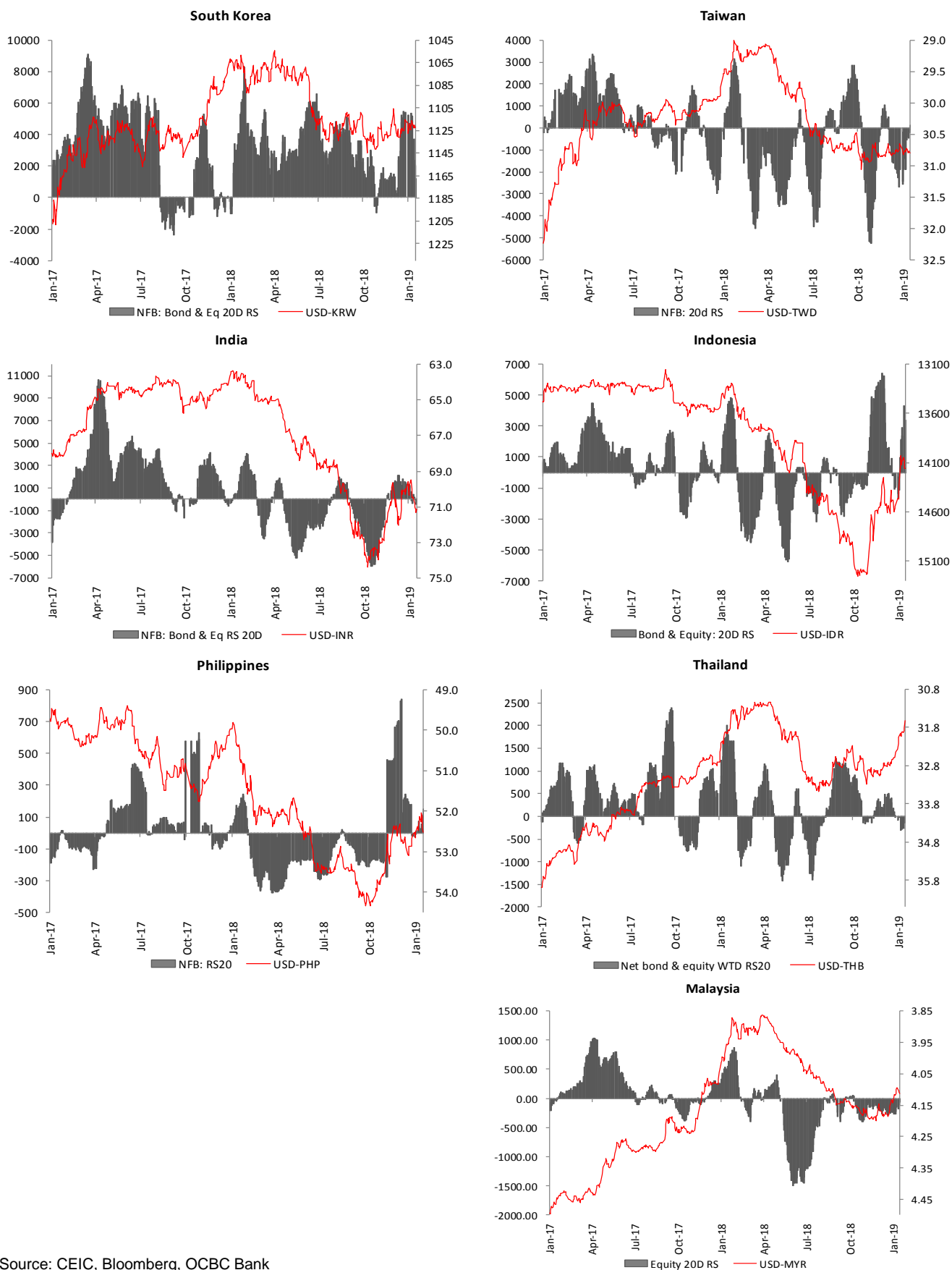
Source: OCBC Bank, Bloomberg

Short term Asian FX/bond market views

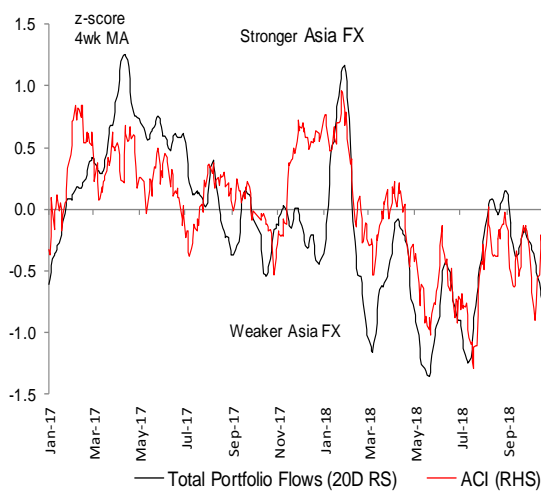
	USD-Asia	10y govie (%)	Rationale
China	↔	↔/↓	Record liquidity injection in open market operations on 16 Jan. Officials on 15 Jan indicate that taxes will be cut “on a larger scale” and the PBOC stated that it would guide funding costs lower and strengthen counter cyclical adjustments. PBOC announces 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. Dec CPI/PPI decelerate further, Dec exports and imports surprised with a contraction. Dec retail sales and industrial production in-line to stronger than expected.
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 was marginally cooler than expected, although RBI governor see core inflation remaining sticky at a high 6%. 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 Jan as expected after the pre-emptive Nov 18 hike. Primary policy focus remains centred on current account deficit containment and maintaining a sufficient yield buffer. BI governor reiterates that the benchmark rate is already near its peak although stance is still characterized as “hawkish”. If the Fed is in fact static in March, BI may relent and turn neutral. 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

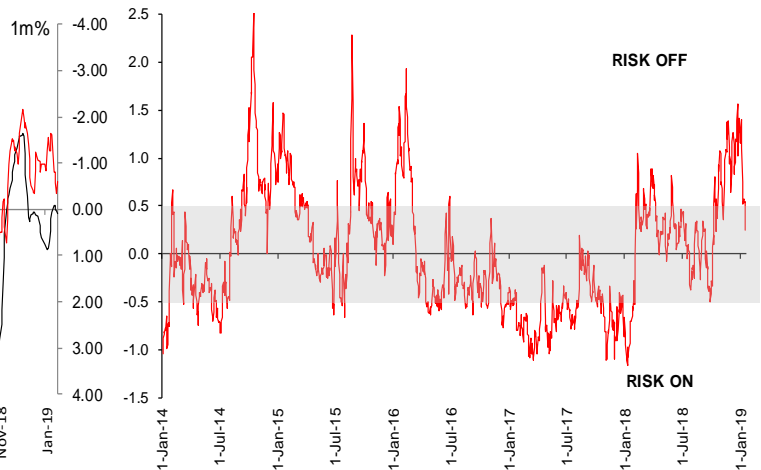
USD-Asia VS. Net Capital Flows



Source: CEIC, Bloomberg, OCBC Bank

ACI VS. Net Capital Flows

Source: OCBC Bank

FX Sentiment Index

Source: OCBC Bank

1M Correlation Matrix

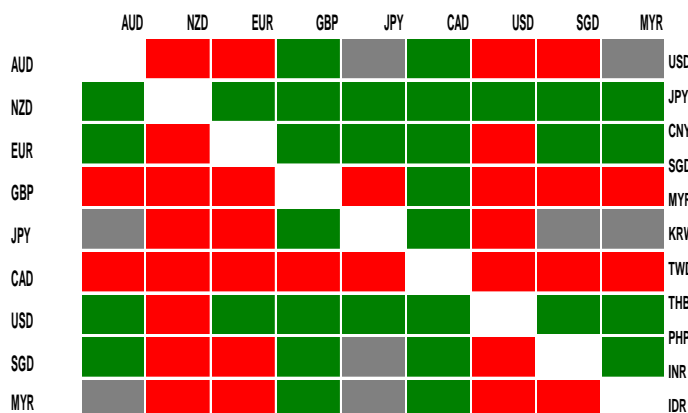
	DXY	USGG10	CNY	SPX	MSELCAPI	CRY	JPY	CL1	VIX	ITRXX	CNH	EUR
DXY	1	0.203	0.644	-0.611	-0.558	-0.593	0.75	-0.595	0.687	0.545	0.679	-0.831
SGD	0.869	0.203	0.839	-0.857	-0.74	-0.8	0.792	-0.852	0.929	0.747	0.873	-0.502
IDR	0.846	0.071	0.798	-0.833	-0.726	-0.807	0.723	-0.873	0.932	0.783	0.838	-0.486
CHF	0.812	0.209	0.877	-0.891	-0.747	-0.795	0.773	-0.876	0.956	0.752	0.889	-0.459
MYR	0.75	0.681	0.535	-0.496	-0.314	-0.433	1	-0.52	0.725	0.357	0.565	-0.426
JPY	0.719	0.382	0.089	-0.061	0.04	0.014	0.503	0.035	0.187	-0.058	0.07	-0.895
THB	0.717	-0.032	0.83	-0.834	-0.767	-0.91	0.656	-0.926	0.872	0.831	0.846	-0.266
PHP	0.682	0.018	0.86	-0.735	-0.685	-0.681	0.569	-0.743	0.793	0.637	0.889	-0.394
CNH	0.68	0.181	0.884	-0.9	-0.822	-0.879	0.709	-0.92	0.932	0.849	0.881	-0.241
CAD	0.679	-0.028	0.989	-0.864	-0.888	-0.865	0.565	-0.869	0.843	0.842	1	-0.277
CNY	0.644	-0.021	1	-0.877	-0.915	-0.89	0.535	-0.893	0.839	0.86	0.989	-0.304
KRW	0.254	-0.117	0.329	-0.344	-0.34	-0.178	0.005	-0.21	0.271	0.229	0.333	-0.339
USGG10	0.203	1	-0.021	0.101	0.31	0.251	0.681	0.082	0.17	-0.307	-0.028	-0.105
TWD	-0.083	-0.253	-0.192	0.135	0.095	0.231	-0.358	0.222	-0.242	-0.213	-0.189	-0.274
INR	-0.191	0.278	-0.821	0.648	0.774	0.769	-0.192	0.707	-0.536	-0.727	-0.743	-0.184
NZD	-0.55	0.179	-0.864	0.777	0.905	0.802	-0.346	0.769	-0.712	-0.884	-0.869	0.162
AUD	-0.669	0.238	-0.764	0.567	0.721	0.716	-0.387	0.632	-0.564	-0.693	-0.8	0.46
GBP	-0.715	0.25	-0.865	0.814	0.863	0.895	-0.474	0.859	-0.783	-0.875	-0.902	0.349
EUR	-0.831	-0.105	-0.304	0.231	0.231	0.204	-0.426	0.163	-0.27	-0.166	-0.277	1

Source: Bloomberg

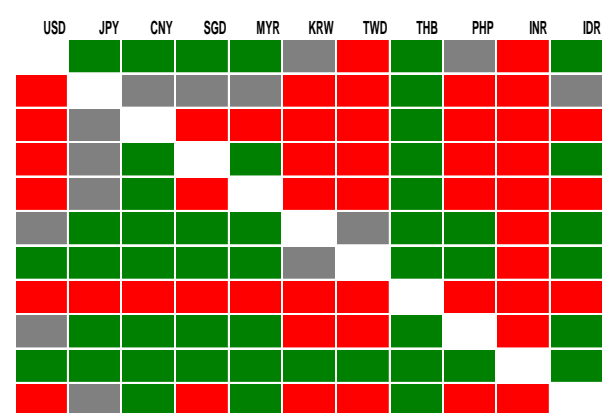
Technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.1300	1.1323	1.1379	1.1386	1.1400
GBP-USD	1.2748	1.2800	1.2866	1.2900	1.2968
AUD-USD	0.6972	0.7100	0.7172	0.7183	0.7200
NZD-USD	0.6658	0.6700	0.6735	0.6778	0.6797
USD-CAD	1.3180	1.3200	1.3257	1.3300	1.3356
USD-JPY	107.32	109.00	109.67	110.00	111.15
USD-SGD	1.3499	1.3500	1.3578	1.3600	1.3618
EUR-SGD	1.5400	1.5419	1.5451	1.5500	1.5575
JPY-SGD	1.2300	1.2302	1.2380	1.2400	1.2609
GBP-SGD	1.7400	1.7438	1.7469	1.7500	1.7556
AUD-SGD	0.9553	0.9700	0.9738	0.9800	0.9811
Gold	1251.59	1263.82	1282.40	1300.00	1300.40
Silver	15.30	15.34	15.37	15.40	15.96
Crude	51.35	53.80	53.87	53.90	54.22

Source: OCBC Bank

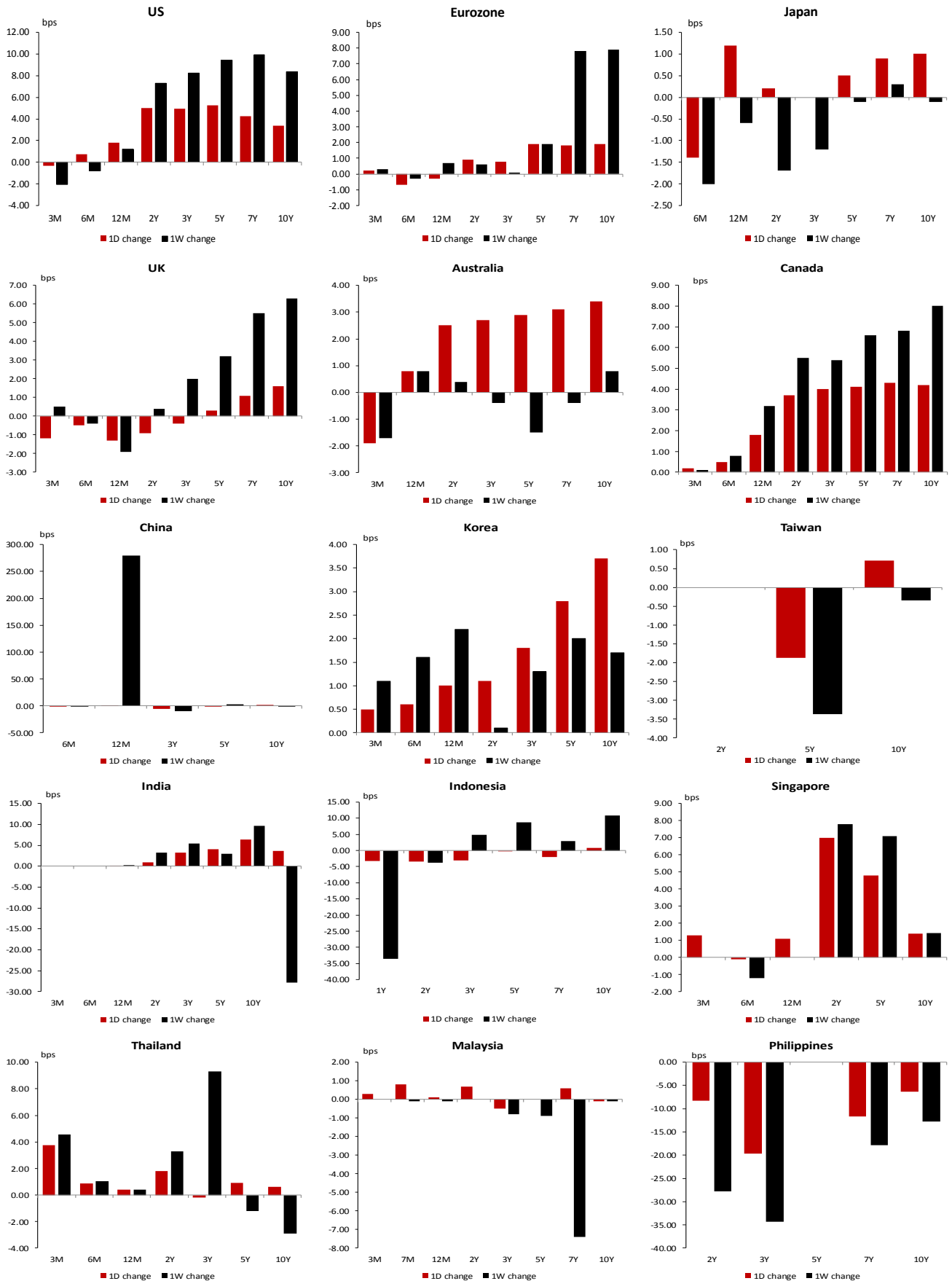
G10 FX Heat Map

Source: OCBC Bank

Asia FX Heat Map

Source: OCBC Bank

Government bond yield changes



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